April 2022
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Economic commentary

The global economy

Overall global economic data released in April continued to hold up well. US non-farm payrolls added a solid 431,000 jobs in March and the unemployment rate fell slightly to an ultra-low 3.6%. The ISM manufacturing index came in at 57.1 for March (a reading above 50.0 denotes expansion in activity). These readings suggest momentum in the US has remained sound, though they are softening from their recent levels. In Europe, the PMIs and German IFO business survey performed better than expectations. The Euro area services PMI posted an increase, from 55.6 in February to 57.7 in March, pointing to resilient underlying activity, in spite of surging energy prices. China was the one dark spot, in an otherwise sound landscape for the major economies. The official manufacturing PMI fell from 50.2 in February to 49.5 in March, with the details suggesting weakening demand and production disruptions. The result suggests that the latest COVID lockdowns introduced in China were already taking their toll.

While the overall tone of economic reports was resilient, there are signs that the outlook is set to turn. The IMF World Economic Outlook biannual update suggested a weaker growth outlook for the global economy. In the report, the IMF cut its global GDP growth forecast for 2022 to 3.6%, from 4.4% in January. Its growth forecast for 2023 was reduced to 3.6%, from 3.8%. A key catalyst for the weaker outlook is high inflation, which is expected to prompt very aggressive monetary tightening. Data released in April underlined elevated prices, largely as a function of high energy and food costs. The US CPI came in at 8.5% year-on-year in March, and European CPI at 7.5%.

Central bank policy moves were closely watched throughout April. Major central banks took a hawkish tone, signposting aggressive rate hikes in the coming quarters. The minutes from the US Federal Reserve's Federal Open Market Committee (FOMC) meeting for March, were telling. These showed that "many" officials would have favoured raising rates by 50bps, rather than the 25bps put through, had there not been a crisis in Ukraine. Committee members also indicated that 50bps increases would be appropriate if inflation does not moderate. Elsewhere, the Bank of Canada and the Reserve Bank of New Zealand increased their policy rates by 50bps, citing elevated price pressures, and Sweden's Riksbank hiked rates by 25bps.

The Australian economy

In Australia, economic data remained sound. The manufacturing and services PMIs for March both held above 55.0, a robust level. Business confidence picked up significantly in March and household spending accelerated. While employment growth slowed, the unemployment rate held at 4.0%. At the same time, inflation has accelerated rapidly, with the March quarter CPI coming in at 5.1% year-on-year, and the core CPI at 3.7% year-on-year.

As a result, while Australia had been out of step with other central banks, the Reserve Bank of Australia (RBA) signalled a significant turn in its stance. The minutes from the April policy meeting showed that the RBA is no longer going to be "patient' in its assessment of price pressures. Instead, it noted a pickup in inflation and wages growth has brought forward the likely timing of an increase in interest rates. Markets now expect a first hike of either 15bps, or 40bps, in May.

Financial market commentary

Financial market volatility extended into April, with investor focus shifting to the outlook for interest rates and global growth. Chatter on aggressive rate hikes accelerated as commentary from central bank policymakers, particularly across the US Federal Reserve, ratcheted up market expectations for tightening. This was reinforced by inflation data, which pointed to persistent, elevated price pressures in many major economies. As a result, fears of central banks tightening too fast, and too high began to grow. Some analysts also started to forecast a US recession in 2023, and the US yield curve inverted temporarily in early April. The ongoing crisis in Ukraine and signs of a sharp slowdown in China also impacted risk appetite.

Equity markets (performance in local currency, excluding dividends)

With risk appetite decidedly weaker in April, equity market performance was poor. Slowing global growth concerns was behind the slide. This stemmed from a China slowdown and increasing risks that central bank tightening in several major economies will drive a hard landing for growth. These concerns outweighed an overall solid US corporate earnings season. The MSCI World equity market index (excluding Australia) slumped 8.5%. The S&P500 was down 8.8%.

Australia's ASX200 fell a comparably modest 0.9%, with strong commodity prices bolstering Australian materials and energy stocks. Losses in Europe were also relatively contained, with the German DAX down 2.2%, continuing its recent weak performance amid the ongoing Ukraine crisis.

The Shanghai Composite extended recent sizeable losses, down 6.3%, reflecting COVID outbreaks and the imposition of additional lockdowns as the Chinese Government continues to pursue a zero-COVID policy.

Interest rates

The run-up in market expectations for rate hikes showed no sign of abating in April. At month-end, markets were pricing a US rate hike of 50bps in the May FOMC meeting. Some market participants are expecting back-to-back hikes of 75bps, in the coming 2 Fed meetings.

Longer-dated bond yields strengthened. The US 10-year bond yield rose 60bps to 2.93%. German 10-year yields were up 39bps to 0.94%.

Australian 10-year benchmark yields gained 29bps, to 3.13%. While Australian benchmark yields sat above those of the US, the strong run-up in yields in prior months seemed to curb the gains for April. The yield on TCorp's February 2032 bond rose 32bps to 3.53%.

Currency and commodity markets

Commodity price gains, and volatility, cooled in April, following a very erratic March which reflected Russia's invasion of Ukraine. Brent crude oil prices rose 1.3%, to US$109.30 per barrel. Signs that additional oil supply is coming online, and indications of weakening demand, influenced global oil markets. Iron ore prices dropped 7.6%, to close at US$146.30 per tonne. The decline largely reflected China growth concerns.

The Australian dollar weakened, down 5.63% to US$0.706, as the boost from surging commodity prices, and interest rate hike expectations faded. With tightening seemingly priced in, the dollar depreciated across the board against most major currencies.

Financial market performance

Currency markets April 2022	Previous month close	Month high	Month low	Month close	Month change	
AUD/USD	0.748	0.758	0.706	**0.706**	-5.63%	▼
AUD/EUR	0.676	0.695	0.670	**0.670**	-0.96%	▼
AUD/JPY	91.06	95.26	90.63	**91.58**	0.58%	▲
AUD/GBP	0.569	0.580	0.562	**0.562**	-1.39%	▼
AUD/BRL	3.548	3.560	3.408	**3.511**	-1.04%	▼
AUD/RUB	88.80	89.95	83.81	**83.81**	-5.63%	▼
AUD/INR	56.71	57.10	53.97	**53.97**	-4.82%	▼
AUD/CNY	4.744	4.822	4.666	**4.666**	-1.63%	▼

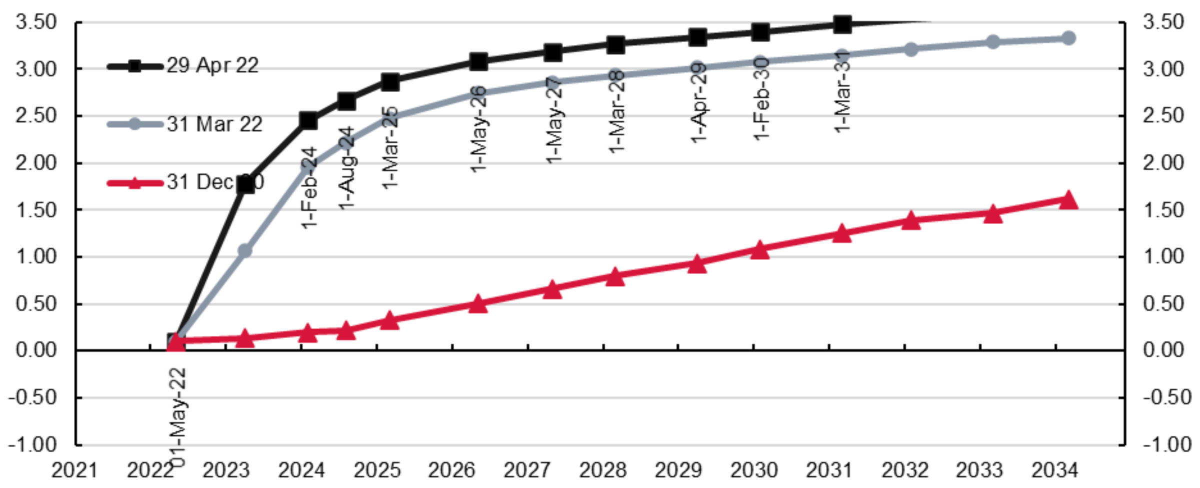
Equity markets* April 2022	Previous month close	Month high	Month low	Month close	Month change	
MSCI World ex Australia	3121	3150	2856	**2856**	-8.5%	▼
MSCI Emerging Markets	1142	1162	1044	**1076**	-5.7%	▼
S&P/ASX200	7500	7593	7261	**7435**	-0.9%	▼
S&P/ASX Small Ordinaries	3351	3399	3235	**3299**	-1.6%	▼
S&P500 (US)	4530	4583	4132	**4132**	-8.8%	▼
FTSE 100 (UK)	7516	7670	7381	**7545**	0.4%	▲
Stoxx600 (Europe)	456	463	441	**450**	-1.2%	▼
DAX (Germany)	14415	14518	13756	**14098**	-2.2%	▼
CAC 40 (France)	6660	6731	6415	**6534**	-1.9%	▼
Nikkei 225 (Japan)	27821	27788	26335	**26848**	-3.5%	▼
Hang Seng (HK)	21997	22502	19869	**21089**	-4.1%	▼
Shanghai Composite (China)	3252	3283	2886	**3047**	-6.3%	▼
Bovespa (Brazil)	119999	121570	107876	**107876**	-10.1%	▼
IPC (Mexico)	56537	56610	51418	**51418**	-9.1%	▼
S&P/BSE Sensex (India)	58569	60612	56463	**57061**	-2.6%	▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) April 2022	Previous month close	Month high	Month low	Month close	Month change	
RBA Official Cash Rate	0.10	0.10	0.10	**0.10**	0.00	–
90 Day Bank Bill	0.23	0.71	0.23	**0.71**	0.48	▲
180 Day Bank Bill	0.71	1.46	0.71	**1.45**	0.75	▲
1 Year Term Deposit Rate	0.25	0.25	0.25	**0.25**	0.00	–
3 Year CGS Bond	2.34	2.71	2.37	**2.71**	0.37	▲
10 Year CGS Bond	2.84	3.13	2.83	**3.13**	0.29	▲
10 Year US Bond	2.34	2.94	2.38	**2.93**	0.60	▲
10 Year German Bond	0.55	0.97	0.51	**0.94**	0.39	▲
10 Year Japanese Bond	0.22	0.25	0.21	**0.23**	0.01	▲

TCorp bonds (%) April 2022	Previous month close	Month high	Month low	Month close	Month change
20-Apr-23	1.06	1.78	1.09	**1.78**	0.72 ▲
08-Feb-24	1.96	2.46	1.99	**2.46**	0.50 ▲
20-Aug-24	2.22	2.67	2.25	**2.67**	0.45 ▲
20-Mar-25	2.48	2.87	2.50	**2.87**	0.39 ▲
20-May-26	2.74	3.09	2.73	**3.09**	0.34 ▲
20-May-27	2.86	3.19	2.87	**3.19**	0.33 ▲
20-Mar-28	2.93	3.27	2.93	**3.27**	0.33 ▲
20-Apr-29	3.02	3.34	3.01	**3.34**	0.33 ▲
20-Feb-30	3.07	3.40	3.06	**3.40**	0.32 ▲
20-Mar-31	3.15	3.48	3.13	**3.48**	0.33 ▲
20-Feb-32	3.21	3.53	3.19	**3.53**	0.32 ▲
CIB 2.75% 20 Nov 25	-0.37	-0.02	-0.31	**-0.07**	0.30 ▲
CIB 2.50% 20 Nov 35	0.89	1.17	0.92	**1.13**	0.24 ▲

TCorp Yield Curve



Source: TCorp

Commodity markets (US$) April 2022	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	107.9	113.2	98.5	**109.3**	1.3% ▲
Iron Ore (per tonne)	158.3	163.8	136.2	**146.3**	-7.6% ▼

TCorp forecasts	June-22	Dec-22	June-23	Dec-23
RBA Official Cash Rate	0.25	0.75	1.25	1.25
90 Day Bank Bill	0.50	1.00	1.25	1.25
10 Year CGS Bond	3.00	3.00	3.25	3.25

About New South Wales Treasury Corporation (TCorp)

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$107 billion of assets under management, TCorp is a top 5 Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A$120 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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