

Economic commentary

The global economy

Financial markets were more composed in April after the extreme volatility experienced in March on fears about the health of the US and Swiss banking sectors. However, the health of US regional banks re-emerged as a concern in late April with First Republic Bank reporting sizeable deposit outflows in the March quarter.

Economic activity appears to be slowing in major developed economies, but labour markets remain tight and core inflation has proved to be persistent. Many developed economy central banks appear to be getting close to the end of their tightening cycles and investors expect central banks to start cutting interest rates towards the end of this year. This is despite signals by central bank officials that more rate hikes are likely to be needed to bring down inflation, which remains well above target levels.

US data over the past month showed slower economic activity, while the labour market remained very tight and price pressures persisted. US GDP growth was weaker than expected in the March quarter, with notably weak business investment and inventories. March ISM indexes also indicated slowing momentum, particularly in the services sector. In contrast, non-farm payrolls surprised to the upside in March, and the unemployment rate fell to 3.5%.

While US inflation is gradually moderating, core inflation has remained persistent. The US Federal Reserve (Fed) preferred measure of inflation – the core Personal Consumption Expenditure (PCE) deflator – was in line with expectations in March but inflation remains well above the Fed's 2% target. Wage growth also remains uncomfortably strong, with the Employment Cost Index (ECI) rising by slightly more than expected in the March quarter. Financial markets expect the Fed to deliver a 25bps rate rise in May, the final tightening for this cycle.

Inflation in Europe remains higher than in the US and the European Central Bank plans to increase interest rates further. Like the US, GDP growth in the Eurozone and China was also weaker than expected in the March quarter.

The Bank of Canada and the Bank of Japan left their monetary policy settings unchanged in April, while the Reserve Bank of New Zealand and Sweden's Riksbank increased rates by 50bps.

The Australian economy

The Reserve Bank of Australia (RBA) left its policy interest rate unchanged in April, which marked the first pause since it began raising rates in May last year. The RBA noted that it wants to see additional data and an updated set of internal forecasts before assessing when – and by how much more – monetary policy needs to be tightened to return inflation to target.

A key piece of data received was March quarter consumer price inflation numbers, which confirmed that inflation peaked at the end of 2022 but remains elevated. Although headline inflation was slightly stronger than expected and underlying inflation was a little weaker, the data was broadly in line with the RBA's February inflation forecasts, predicated on the cash rate being 25bps higher than it is currently.

The labour market also remained very tight in March, with employment increasing by much more than expected and the unemployment rate unchanged at 3.5%. Despite the current inflation and employment conditions, financial markets do not expect any more rate rises from the RBA in this cycle and are pricing in rate cuts towards the end of the year.

Survey measures of business conditions remained resilient in March and consumer confidence improved in April but remains very weak. Overseas arrivals to Australia have continued to rebound strongly. Although building approvals are trending lower, auction clearance rates and property prices have increased over the past couple of months.

Financial market commentary

Sentiment in financial markets improved in April as concerns around the US and Swiss banking sectors diminished and investors refocused on the outlook for inflation and central bank policy rates. Most equity markets rose, and bond yields were little changed in April overall.

Equity markets (performance in local currency, excluding dividends)

Most developed economy equity markets rose in April as risk sentiment improved, with the MSCI World Index (excluding Australia) rising 1.6%. The ASX200 rose 1.8%, with all sectors gaining in April other than the resources sector. The S&P500 rose 1.5%, supported by some better-than-expected corporate earnings reports, particularly in the tech sector. European stocks rose 1.9%.

Equity markets have risen in 2023 to date, with Japanese and European equities outperforming at around 10% higher. The S&P500 is 8.6% higher, and the ASX200 has underperformed, increasing by only 3.8% since the start of this year.

Interest rates

Global bond yields were little changed in April, after falling sharply in March, though yields fluctuated throughout the month in response to economic data and developments. Investors continue to expect that central banks are close to the end of their tightening cycles and will start cutting interest rates towards the end of this year.

Australian 10-year bond yields are around 70bps lower since the start of this year, while US and German 10-year bond yields are 45bps and 26bps lower, respectively,

Similar to Australian government bond yields, TCorp bond yields were little changed in April.

Currency and commodity markets

The Brent crude oil price jumped higher in early April after OPEC+ unexpectedly announced a sizeable production cut, but oil prices trended lower throughout the second half of the month as concerns about slower global growth dominated.

The Australian dollar traded in a narrow range in April but ended the month 1% lower against the US dollar. The Australian dollar also fell against the euro and British pound but appreciated by 1.5% against the Japanese yen.

Financial market performance

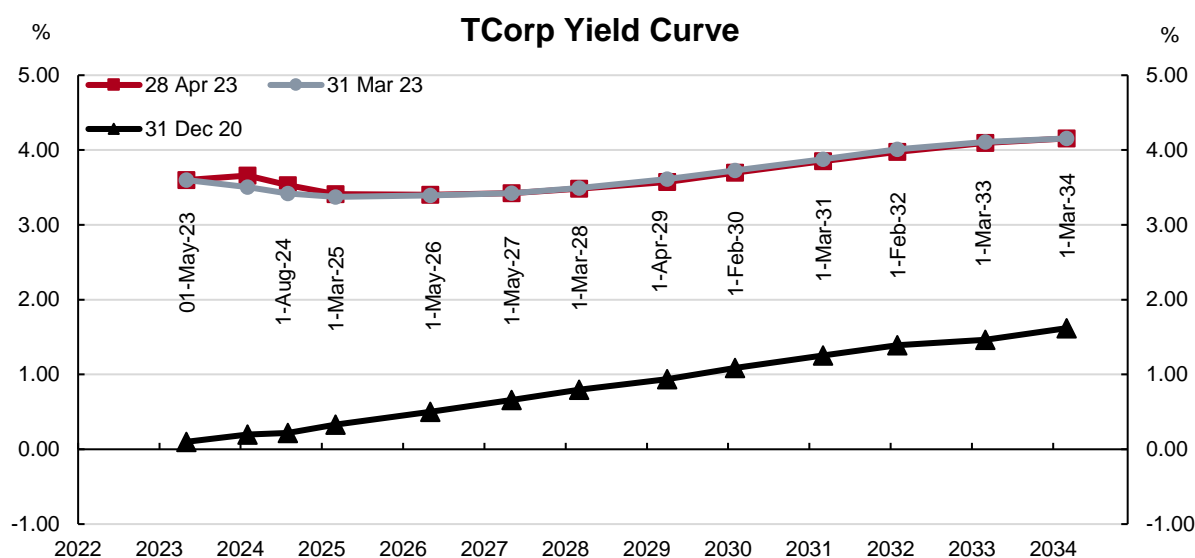
Currency markets April 2023	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.669	0.679	0.660	0.662	-1.0% ▼
AUD/EUR	0.617	0.623	0.598	0.600	-2.7% ▼
AUD/JPY	88.82	90.52	87.92	90.16	1.5% ▲
AUD/GBP	0.542	0.547	0.526	0.526	-2.9% ▼
AUD/BRL	3.385	3.437	3.291	3.300	-2.5% ▼
AUD/INR	54.94	55.87	53.99	54.13	-1.5% ▼
AUD/CNY	4.595	4.667	4.572	4.573	-0.5% ▼

Equity markets* April 2023	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2857	2904	2845	2904	1.6% ▲
MSCI Emerging Markets	990	1004	966	977	-1.3% ▼
S&P/ASX200	7178	7382	7219	7309	1.8% ▲
S&P/ASX Small Ordinaries	2823	2924	2841	2898	2.6% ▲
S&P500 (US)	4109	4169	4056	4169	1.5% ▲
FTSE 100 (UK)	7632	7914	7635	7871	3.1% ▲
Stoxx600 (Europe)	458	469	457	467	1.9% ▲
DAX (Germany)	15629	15922	15520	15922	1.9% ▲
CAC 40 (France)	7322	7577	7316	7492	2.3% ▲
Nikkei 225 (Japan)	28041	28856	27473	28856	2.9% ▲
Hang Seng (HK)	20400	20782	19618	19895	-2.5% ▼
Shanghai Composite (China)	3273	3393	3264	3323	1.5% ▲
Bovespa (Brazil)	101882	106890	100822	104432	2.5% ▲
IPC (Mexico)	53904	55121	53498	55121	2.3% ▲
S&P/BSE Sensex (India)	58992	61112	59106	61112	3.6% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) April 2023	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	3.60	3.60	3.60	3.60	0.00 –
90 Day Bank Bill	3.72	3.70	3.64	3.68	-0.04 ▼
180 Day Bank Bill	3.79	3.87	3.70	3.86	0.07 ▲
1 Year Term Deposit Rate	3.15	3.20	3.15	3.20	0.05 ▲
3 Year CGS Bond	2.94	3.18	2.82	3.00	0.06 ▲
10 Year CGS Bond	3.30	3.51	3.19	3.34	0.04 ▲
10 Year US Bond	3.47	3.60	3.31	3.42	-0.05 ▼
10 Year German Bond	2.29	2.52	2.18	2.31	0.02 ▲
10 Year Japanese Bond	0.35	0.49	0.39	0.39	0.04 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
April 2023					
08-Feb-24	3.51	3.80	3.43	3.66	0.15 ▲
20-Aug-24	3.42	3.69	3.29	3.53	0.11 ▲
20-Mar-25	3.37	3.60	3.23	3.41	0.04 ▲
20-May-26	3.39	3.59	3.24	3.40	0.01 ▲
20-May-27	3.42	3.62	3.27	3.42	0.00 ▼
20-Mar-28	3.49	3.69	3.32	3.48	-0.01 ▼
20-Apr-29	3.61	3.79	3.45	3.58	-0.04 ▼
20-Feb-30	3.73	3.90	3.56	3.70	-0.03 ▼
20-Mar-31	3.88	4.05	3.70	3.85	-0.02 ▼
20-Feb-32	4.01	4.16	3.83	3.97	-0.04 ▼
08-Mar-33	4.11	4.28	3.93	4.10	-0.01 ▼
CIB 2.75% 20 Nov 25	0.19	0.47	0.11	0.28	0.09 ▲
CIB 2.50% 20 Nov 35	1.72	1.92	1.67	1.79	0.08 ▲



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
April 2023					
Brent Oil (per barrel)	79.8	87.3	77.7	79.5	-0.3% ▼
Iron Ore (per tonne)	127.1	122.3	116.0	116.1	-8.6% ▼

TCorp forecasts	June-23	Dec-23	June-24	Dec-24
RBA Official Cash Rate	3.85	3.85	3.85	3.85
90 Day Bank Bill	4.00	4.00	4.00	4.00
10 Year CGS Bond	3.75	3.75	3.75	3.75

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