April 2024
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Monthly economic report

The global economy

US inflation surprised to the upside again in March, following stronger prints in January and February, leading investors to conclude that it will take longer for inflation to return to target. Stronger-than-expected wages growth in the March quarter further reinforced these concerns. This triggered a large repricing in bond markets in April, with investors foreseeing US interest rates to remain higher for longer, now expecting one rate cut by the US Federal Reserve (Fed) in 2024, compared to around 6 rate cuts anticipated at the start of this year.

The higher inflation outcomes have occurred alongside US economic data continuing to point to a resilient economy that grew at a solid pace in the March quarter. Household spending rose strongly, buoyed by ongoing tightness in the US labour market. Residential property investment also looks to be increasing off cyclical lows.

Rhetoric from central banks in advanced economies has begun to diverge, after sounding unified throughout this tightening cycle. While the Fed is expected to keep rates higher for longer, the European Central Bank (ECB) is signalling that a June rate cut is very likely. The Bank of England also remains dovish. The European and UK economies are noticeably weaker than the US economy and policymakers note that they are not facing the same stubborn inflationary pressures as the US, which gives them scope to cut rates sooner.

Interestingly, however, European policymakers appear divided about whether US rates remaining higher for longer would constrain the ECB's ability to cut rates. Some policymakers are concerned that the euro would depreciate against the US dollar if the ECB cuts rates, which would add to the price of imported goods and boost inflation. Others view this scenario as a US-led tightening of global financial conditions, bolstering the case for an ECB rate cut.

Elsewhere, China's economy grew more than expected in the March quarter – in line with the 5% growth target for 2024 – driven by exports and strong investment in manufacturing and infrastructure. However, property investment fell further, and consumer spending remains sluggish. More recent PMI data suggests that economic activity continued to expand at a moderate pace in April.

The Australian economy

Although inflation in Australia has continued to fall, an upside surprise in the March quarter has increased concern that the return to the Reserve Bank of Australia's (RBA) target band will be slower. Investors now think that the RBA could raise rates again this year, rather than lower them. This would be a significant shift in the RBA's thinking, as the minutes from the March Board meeting showed that it did not consider raising rates for the first time in this tightening cycle.

It is also questionable whether the RBA would view the details of the inflation data as supporting a further rate rise. Many of the price increases in the March quarter were not driven by strong consumer demand or elevated labour costs, including in health, education, and insurance. Higher price indexations applied in some sectors are also reacting to past high inflation and could reasonably be expected to decline going forward.

Importantly, while the labour market remains tight, a broad suite of indicators suggests that conditions are gradually loosening. Wages growth remains elevated but leading indicators are pointing to smaller wage rises ahead. Consumer spending also remains weak and house price growth has continued to slow this year.

Financial market commentary

Global bond yields rose sharply in April, and equity markets in most advanced economies fell, as markets responded to the likelihood that the Fed will keep interest rates higher for longer.

Equity markets (performance in local currency, excluding dividends)

Most advanced economy equity markets fell in April as investors expect central banks to deliver fewer rate cuts in 2024. Higher bond yields saw the US S&P500 decline by 4.2%, despite most companies that delivered corporate earnings reports meeting or exceeding expectations.

Japan's equity market underperformed in April, falling by almost 5%, despite the yen depreciating further in the month. The ASX200 declined 2.9%, with most sectors lower. Australia's equity market is little changed since the start of this year, underperforming equity markets in other advanced economies. Mining stocks are around 8% lower since the start of this year, weighed down by sizeable falls in the prices of iron ore and coal.

Interest rates

The prospect of the Fed delaying interest rate cuts pushed US bond yields higher, with 10-year yields rising 48bps to just under 4.7%. The prospect of higher-for-longer rates in the US also dragged up bond yields in Europe and the UK, as investors now see a likelihood of fewer rate cuts by both central banks in 2024. This might reflect investor concerns that these economies could also see stalling progress in lowering inflation, despite policymakers in Europe and the UK remaining dovish and reiterating that the drivers of inflation are different to the US, and economic conditions are much weaker.

Australian 10-year bond yields rose by 46bps in April, to around 4.4%. The sharp rise reflected the move higher in global bond yields and a reassessment of the interest rate outlook in Australia following the stronger-than-expected inflation data.

TCorp bond yields rose by around 10bps more than Commonwealth Government bond yields in April. This occurred alongside spreads also widening in other states and partly in response to TCorp announcing an additional $4-5bn of funding for FY24, relative to the amount originally forecast.

Currency and commodity markets

Currency markets have reflected the prospect of rates remaining higher for longer in the US while central banks in many other advanced economies start to lower rates. The Japanese yen has been most affected, depreciating by a further 4.3% in April against the US dollar, to be at its lowest level in around 35 years. Other Asian economies have also expressed concern about the recent sharp depreciation in their currencies, including South Korea and Indonesia.

In contrast, the Australian dollar was little changed against the US dollar in April, as expectations for interest rates in Australia and the US were revised up by similar amounts.

Oil prices were relatively stable in April but are 14% higher since the start of this year, partly reflecting concerns around the conflict in the Middle East.

Financial market performance

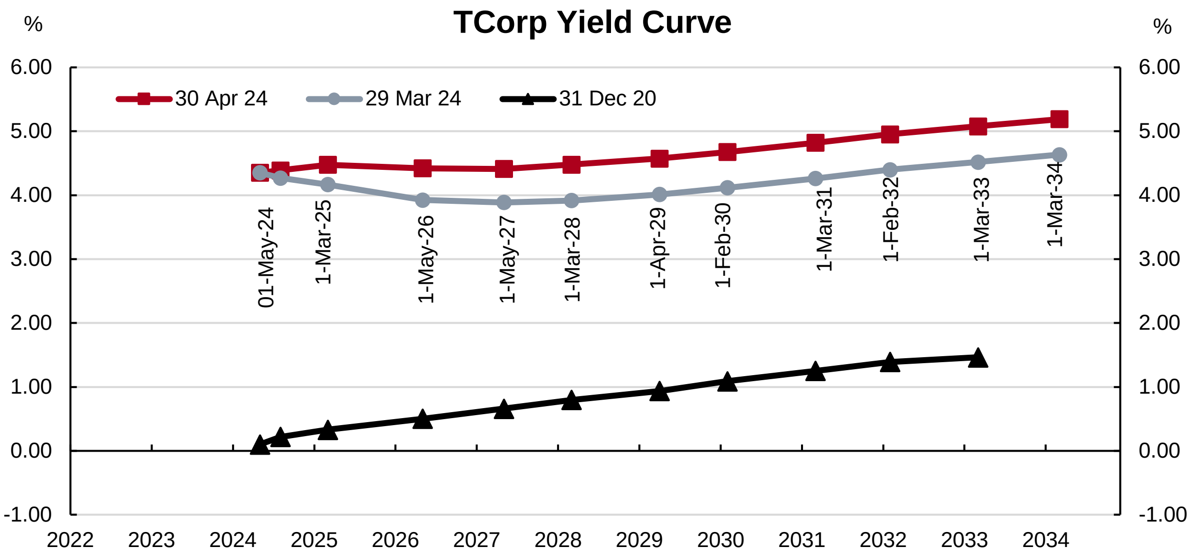
Currency markets **April 2024**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
AUD/USD	0.652	0.663	0.640	**0.647**	-0.7% ▼
AUD/EUR	0.604	0.613	0.602	**0.607**	0.4% ▲
AUD/JPY	98.70	102.68	98.41	**102.14**	3.5% ▲
AUD/GBP	0.517	0.523	0.515	**0.518**	0.3% ▲
AUD/BRL	3.270	3.382	3.280	**3.362**	2.8% ▲
AUD/INR	54.39	55.23	53.48	**54.01**	-0.7% ▼
AUD/CNY	4.710	4.794	4.634	**4.687**	-0.5% ▼

Equity markets* **April 2024**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
MSCI World ex Australia	3528	3515	3341	**3392**	-3.9% ▼
MSCI Emerging Markets	1043	1058	1004	**1046**	0.3% ▲
S&P/ASX200	7897	7897	7567	**7664**	-2.9% ▼
S&P/ASX Small Ordinaries	3124	3124	2965	**3025**	-3.1% ▼
S&P500 (US)	5254	5244	4967	**5036**	-4.2% ▼
FTSE 100 (UK)	7953	8147	7820	**8144**	2.4% ▲
Stoxx600 (Europe)	513	513	498	**505**	-1.5% ▼
DAX (Germany)	18492	18492	17737	**17932**	-3.0% ▼
CAC 40 (France)	8206	8206	7933	**7985**	-2.7% ▼
Nikkei 225 (Japan)	40369	39839	37068	**38406**	-4.9% ▼
Hang Seng (HK)	16541	17763	16224	**17763**	7.4% ▲
Shanghai Composite (China)	3041	3113	3007	**3105**	2.1% ▲
Bovespa (Brazil)	128106	129890	124171	**125924**	-1.7% ▼
IPC (Mexico)	57369	58092	55416	**56728**	-1.1% ▼
S&P/BSE Sensex (India)	73651	75038	72489	**74483**	1.1% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **April 2024**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
RBA Official Cash Rate	4.35	4.35	4.35	**4.35**	0.00 –
90 Day Bank Bill	4.34	4.41	4.34	**4.41**	0.06 ▲
180 Day Bank Bill	4.50	4.71	4.50	**4.70**	0.20 ▲
New institutional term deposits	4.70	4.70	4.70	**4.70**	0.00 –
3 Year CGS Bond	3.62	4.14	3.62	**4.04**	0.42 ▲
10 Year CGS Bond	3.96	4.52	3.96	**4.42**	0.46 ▲
10 Year US Bond	4.20	4.70	4.31	**4.68**	0.48 ▲
10 Year German Bond	2.30	2.63	2.30	**2.58**	0.29 ▲
10 Year Japanese Bond	0.73	0.91	0.74	**0.88**	0.15 ▲

TCorp bonds (%) **April 2024**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
20-Aug-24	4.27	4.39	4.27	**4.39**	0.12 ▲
20-Mar-25	4.17	4.53	4.17	**4.48**	0.31 ▲
20-May-26	3.92	4.50	3.92	**4.42**	0.50 ▲
20-May-27	3.89	4.50	3.89	**4.41**	0.52 ▲
20-Mar-28	3.92	4.56	3.92	**4.48**	0.56 ▲
20-Apr-29	4.01	4.66	4.01	**4.57**	0.56 ▲
20-Feb-30	4.12	4.76	4.12	**4.68**	0.56 ▲
20-Mar-31	4.26	4.90	4.26	**4.82**	0.56 ▲
20-Feb-32	4.40	5.03	4.40	**4.95**	0.55 ▲
08-Mar-33	4.52	5.16	4.52	**5.08**	0.56 ▲
20-Mar-34	4.63	5.27	4.63	5.19	0.56 ▲
CIB 2.75% 20 Nov 25	1.29	1.62	1.29	**1.55**	0.27 ▲
CIB 2.50% 20 Nov 35	2.18	2.56	2.18	**2.48**	0.30 ▲



Source: TCorp

Commodity markets (US$) **April 2024**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
Brent Oil (per barrel)	87.5	91.2	87.0	**87.9**	0.4% ▲
Iron Ore (per tonne)	100.1	111.2	98.4	**110.9**	10.8% ▲

TCorp forecasts	**June-24**	**Dec-24**	**Jun-25**	**Dec-25**
RBA Official Cash Rate	4.35	3.85	3.10	2.35
90 Day Bank Bill	4.35	3.60	2.85	2.50
10 Year CGS Bond	3.75	3.50	3.25	3.25

About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$113 billion of assets under management, TCorp is a top 10 Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A$172 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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