

Economic commentary

The global economy

Global economic data released over August was consistent with a solid recovery, indicating that activity is rebounding alongside easier restrictions and higher vaccination rates in major global economies. That said, indicators are starting to come off their recent highs, which is consistent with a tempering in the pace of growth, rather than a marked deterioration in momentum.

The most recent US payrolls report showed the economy added 943,000 jobs in July, well above expectations, while job openings have been high. Industrial production data was solid, and the underlying picture for consumer spending is sound, despite weaker reads on consumer confidence. US personal spending and incomes were also up at a respectable pace in July.

July Purchasing Managers' Indexes were robust for Europe, reaffirming the picture of a solid recovery, while the US indexes moderated albeit they are still at strong levels. However, Chinese activity is weakening, with investment, production and retail sales data for July all consistent with a declining pace of growth. Still, signs that China is gaining control of the recent COVID-19 Delta outbreak, and the potential for more policy support, should contain this recent weakness.

Investors also continued to monitor the impact of the COVID-19 Delta spread globally, with the initial surge in cases starting to fan out to rising hospitalisations and also deaths. The plateau in vaccination rates in the major economies, and the prevalence of low vaccination rates in some regions, such as Asia, drove increasing concern on the recovery in these economies, and globally.

With the re-opening boost to economic activity now running its course, and increasing Delta risks emerging, the outlook for monetary policy is all the more important for investors. At its annual Jackson Hole Policy Retreat, US Federal Reserve Chair Powell signalled that the Fed could begin reducing its monthly bond purchases this year, though it won't be in a hurry to begin raising interest rates thereafter. He also stated that ill-timed policy could be particularly harmful and that the Fed will continue to look at economic data to assess evolving risks.

The Australian economy

Australian economic data released during August provided initial evidence of the impact of the lockdowns in Greater Sydney, and other Australian cities and regions. Falling PMI surveys, business and consumer confidence, and depressed readings on mobility, suggest that economic activity in the September quarter will fall sharply.

How steep the decline, and how quickly activity can rebound are the critical issues. For now, the Reserve Bank of Australia (RBA) is signalling it is staying the course on plans to taper its own asset purchase programme, and its economic forecasts remain optimistic for a quick recovery by early 2022. The RBA expects the Australian economy will bounce back in the December quarter as restrictions are removed, although the potential for lockdowns to remain in place for much of 2021 suggest the risks to this forecast are skewed to the downside.

Financial market commentary

Ongoing signals from major central banks that policy will remain supportive for some time yet bolstered financial markets in August. Investor sentiment ran in a stop-start pattern in the month, with confidence running up on positive data and earnings releases in the first half, before the spread of the Delta variant of COVID-19 caused a mid-month wobble with confidence subsequently regaining its footing at month-end. Fed Chair Powell's comments at Jackson Hole were particularly reassuring for markets. Equities were higher and bond yields held at low levels during the month.

Equity markets (performance in local currency, excluding dividends)

The MSCI World equity market index (excluding Australia) rose 2.4% in August, extending its strong recent run. Equity markets in Australia, the US and Europe all recorded solid monthly gains, overcoming mid-month uncertainty to end the month higher.

The Australian S&P/ASX200 rose 1.9% for the month, despite the ongoing lockdowns. In the US, the S&P500 rose 2.9%, with economic data, earnings and the prospect of sustained policy support boosting returns. The European Stoxx600 index added 2.0%, with the same drivers supportive.

Emerging markets turned around some of their recent underperformance, with the MSCI Emerging Market index up by 2.4% over the month. Stronger risk sentiment globally, and receding investor focus on regulation in China, likely explained the move, with low vaccination rates and the spread of the Delta variant of Covid-19 still key concerns.

Interest rates

Bond yields held at very low levels in August, though longer-term yields did test higher ground during the month and closed slightly higher in several major markets. Investor focus on the potential for rising inflation, growth and policy tightening had some influence.

10-year bond yields in both the US and Germany rose in August, up 9bps and 8bps, to close at 1.31% and -0.38%. The US 10-year yield traded as high as 1.36%, and as low as 1.17%.

However, the Australian 10-year bond yield fell by 3bps, to 1.16%. The 3-year Commonwealth Government bond yield was little-changed, at 0.24%. Weaker economic prospects and the nationwide lockdowns likely had an impact. At the same time, TCorp bond yields rose in the month, partly reflecting rising spreads due to the impact of the Greater Sydney lockdown. The yield on the March 2031 bond rose 3bps, to 1.48%.

Currency and commodity markets

The Australian dollar fell by 0.38% against its US counterpart over August, closing at US\$0.732. Performance was mixed against other major currencies, with a decline against the Japanese Yen but gains against the Euro and British Pound. This suggests that US dollar strength, rather than solely Australian dollar weakness, was evident.

The stronger US dollar coincided with falling commodity prices. Brent crude oil prices fell by 4.4% over August. Iron ore prices fell further, down 15.4%, however at \$152.20 per tonne they continue to hold at a firm level, and did recover ground from lows of \$130.60 during the month.

Financial market performance

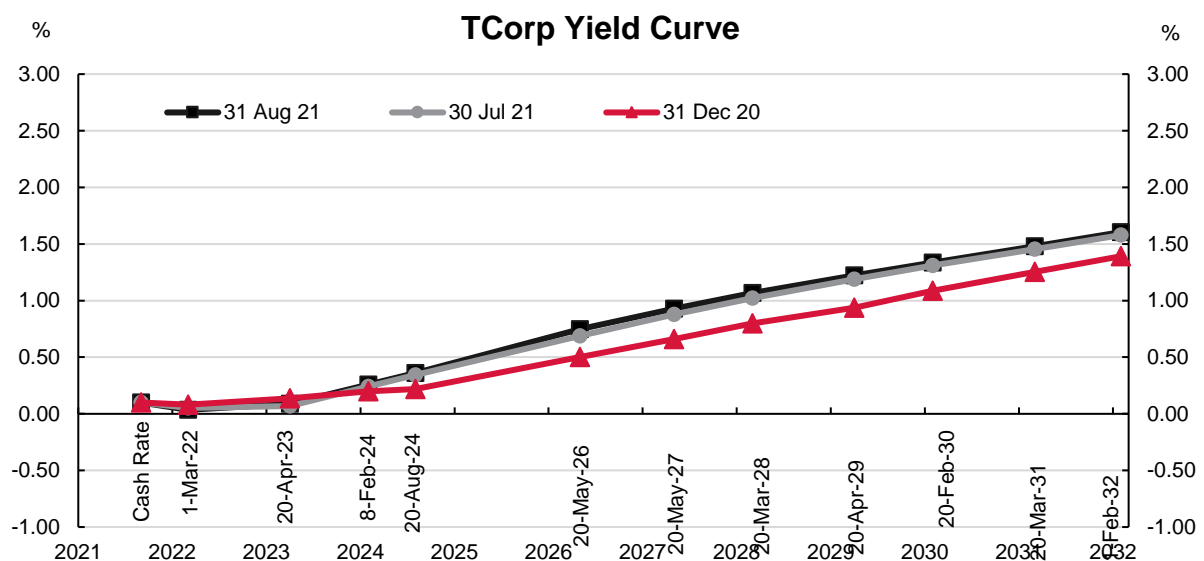
Currency markets August 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.734	0.741	0.713	0.732	-0.38% ▼
AUD/EUR	0.619	0.628	0.610	0.620	0.13% ▲
AUD/JPY	80.58	81.43	78.30	80.49	-0.11% ▼
AUD/GBP	0.528	0.532	0.524	0.532	0.70% ▲
AUD/BRL	3.828	3.898	3.770	3.770	-1.51% ▼
AUD/RUB	53.72	54.35	52.97	53.58	-0.25% ▼
AUD/INR	54.65	54.94	53.06	53.41	-2.27% ▼
AUD/CNY	4.745	4.785	4.637	4.727	-0.39% ▼

Equity markets* August 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3141	3221	3136	3216	2.4% ▲
MSCI Emerging Markets	1278	1309	1221	1309	2.4% ▲
S&P/ASX200	7393	7629	7461	7535	1.9% ▲
S&P/ASX Small Ordinaries	3406	3569	3441	3569	4.8% ▲
S&P500 (US)	4395	4529	4387	4523	2.9% ▲
FTSE 100 (UK)	7032	7220	7059	7120	1.2% ▲
Stoxx600 (Europe)	462	476	464	471	2.0% ▲
DAX (Germany)	15544	15977	15555	15835	1.9% ▲
CAC 40 (France)	6613	6896	6606	6680	1.0% ▲
Nikkei 225 (Japan)	27284	28090	27013	28090	3.0% ▲
Hang Seng (HK) Shanghai Composite (China)	25961	26660	24850	25879	-0.3% ▼
Bovespa (Brazil)	3397	3544	3427	3544	4.3% ▲
IPC (Mexico)	121801	123577	116643	118781	-2.5% ▼
S&P/BSE Sensex (India)	50868	53305	50869	53305	4.8% ▲
	52587	57552	52951	57552	9.4% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) August 2021	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	0.02	0.02	0.01	0.01	-0.01 ▼
180 Day Bank Bill	0.05	0.05	0.03	0.03	-0.02 ▼
1 Year Term Deposit Rate	0.30	0.30	0.30	0.30	0.00 –
3 Year CGS Bond	0.24	0.32	0.18	0.24	-0.01 ▼
10 Year CGS Bond	1.18	1.22	1.08	1.16	-0.03 ▼
10 Year US Bond	1.22	1.36	1.17	1.31	0.09 ▲
10 Year German Bond	-0.46	-0.38	-0.50	-0.38	0.08 ▲
10 Year Japanese Bond	0.02	0.04	0.01	0.03	0.00 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
August 2021					
01-Mar-22	0.05	0.06	0.03	0.04	-0.02 ▼
20-Apr-23	0.07	0.10	0.07	0.09	0.02 ▲
08-Feb-24	0.24	0.29	0.22	0.26	0.02 ▲
20-Aug-24	0.34	0.41	0.29	0.36	0.02 ▲
20-May-26	0.69	0.78	0.66	0.75	0.06 ▲
20-May-27	0.88	0.96	0.83	0.93	0.05 ▲
20-Mar-28	1.02	1.10	0.97	1.07	0.05 ▲
20-Apr-29	1.19	1.26	1.14	1.22	0.03 ▲
20-Feb-30	1.31	1.37	1.25	1.34	0.03 ▲
20-Mar-31	1.45	1.51	1.38	1.48	0.03 ▲
20-Feb-32	1.58	1.64	1.51	1.60	0.03 ▲
CIB 2.75% 20 Nov 25	-1.35	-1.21	-1.35	-1.28	0.08 ▲
CIB 2.50% 20 Nov 35	-0.21	-0.10	-0.21	-0.12	0.09 ▲



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
August 2021					
Brent Oil (per barrel)	76.3	73.4	65.2	73.0	-4.4% ▼
Iron Ore (per tonne)	179.8	179.2	130.6	152.2	-15.4% ▼
TCorp forecasts		Sep-21	Dec-21	June-22	June-23
RBA Official Cash Rate		0.10	0.10	0.10	0.10
90 Day Bank Bill		0.10	0.10	0.10	0.10
10 Year CGS Bond		1.50	1.75	2.00	2.25

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