Monthly Economic Report

The global economy

Investors remain hopeful that the global economy can avoid recession this year, although August economic data was a little underwhelming. While global manufacturing activity has been weak over 2023, the services sectors have tended to be much more resilient. In August, however, there was some evidence that this resilience might be starting to wane.

In Europe, the August manufacturing Purchasing Manager Index (PMI) remained firmly stuck in contractionary territory, at 43.7, while the services PMI declined from a slightly positive 50.9 reading in July to 48.3 in August. In the US and China, the services sectors continue to expand, albeit at a slower pace. As in Europe, however, manufacturing activity is still shrinking.

The US central bank also held its annual Economics Symposium in August which provides an opportunity for global economic policymakers to discuss recent economic developments and their response. This year, there was a widespread focus on how a range of structural changes including the transition to net zero, 'friend-shoring' global supply chains, and increased defence spending might affect growth, inflation and the required level of interest rates.

While no firm conclusions were drawn, it is interesting how these longer-term developments are increasingly weighing on the thoughts of policymakers. In the shorter term, the clear message from policymakers was that while they are pleased with the progress made on reducing inflation over the past year, it would be premature to declare victory and interest rates might have to remain high for a while yet.

The Australian economy

Australian economic data released over August was also consistently weaker than expected, although the slowdown remains gradual so far. As in Europe, Australia's PMIs for both the manufacturing and services sectors fell into contractionary territory in August. Employment also fell in July, pushing the unemployment rate up from 3.5% to 3.7%, and the quarterly wage price index grew by just 0.8% in the June quarter. The annual inflation rate also fell from 5.4% to 4.9% for the year to July, compared with the market expectation of 5.2%.

The signs of a loosening labour market and a quicker easing of inflation has encouraged investors to conclude that the Reserve Bank of Australia (RBA) has now reached the end of its tightening campaign. While RBA policymakers seem comfortable with recent developments, along with their colleagues overseas they continue to warn that it is too early to declare victory in the fight against inflation.

It is also worth noting that while the overall tone of the economic data was on the softer side, house prices continued to rise and retail sales were also surprisingly strong in July. Businesses have also increased investment over the last year and say that they plan to lift investment further over 2023-24. So, while the economic data doesn't suggest that there is any urgency for the RBA to tighten monetary policy further, nor does it present a pressing case for rate cuts in the near term.

Financial market commentary

US bond yields rose sharply over August as investors contemplated the possibility that interest rates there might remain high for longer. Higher bond yields, alongside signs of weakening growth, combined to put risk assets under pressure with equity markets recording moderate to large declines over the month.

Equity markets (performance in local currency, excluding dividends)

The MSCI World (ex-Australia) equity index fell by 2.5% in August. While US stocks ended August with a 1.8% decline, the S&P500 was down as much as 5% halfway through the month. Equity markets were weaker in Europe, with the German DAX falling by 3.4% and the French CAC declining by 2.4%

Australian equities were a little more resilient in August, with the ASX200 falling by 1.4%. While the Australian companies that reported earnings in August generally met sales targets, higher interest payments and other costs ensured that profits failed to meet expectations.

While all major equity markets pulled back in August, losses were particularly sharp in emerging markets. The MSCI Emerging Markets index declined by 6.4% in August. The Hong Kong equity market fell by 8.5% while the Shanghai Composite fell 5.2% as investors continued to fret about the Chinese economy and the willingness (or ability) of Chinese policymakers to stimulate growth.

Interest rates

Longer-dated global bond yields were mixed over August as investors weighed up the combination of weaker economic data together with central banks expressing a desire to keep interest rates high for longer. US 10-year bond yields closed the month up 15bps but were up as much as 40bps partway through the month. Japanese 10-year bond yields recorded a more modest 4bps increase.

In contrast, 10-year bond yields in Australia and Germany declined by 3bps. This is consistent with central banks in Australia and Europe not raising their policy rates as much as the US Federal Reserve. Indeed, in Australia, investors now expect that the RBA will not need to raise rates any further. While the RBA kept the policy rate at 4.1% at its August policy meeting, 3-year bond yields fell by 13bps to 3.74%.

TCorp's bond yields declined a little further than Commonwealth Government bond yields in August. The yield on TCorp's March 2025 bond fell by 17bps in August, while the March 2033 bond yield fell by 8bps.

Currency and commodity markets

Despite the growing angst about China's economic performance, commodity prices were relatively well-behaved during August. Oil prices rose 1.5% in the month, while the iron ore price fell by 2.7% but remains above $100 per tonne.

The Australian dollar, however, underperformed in August, falling by 3.6% against the US dollar. This reflected the 'risk-off' behaviour of investors as reflected in falling stock markets, as well as the relative decline in Australian bond yields which reduced the attractiveness of the local market for international investors.

Financial market performance

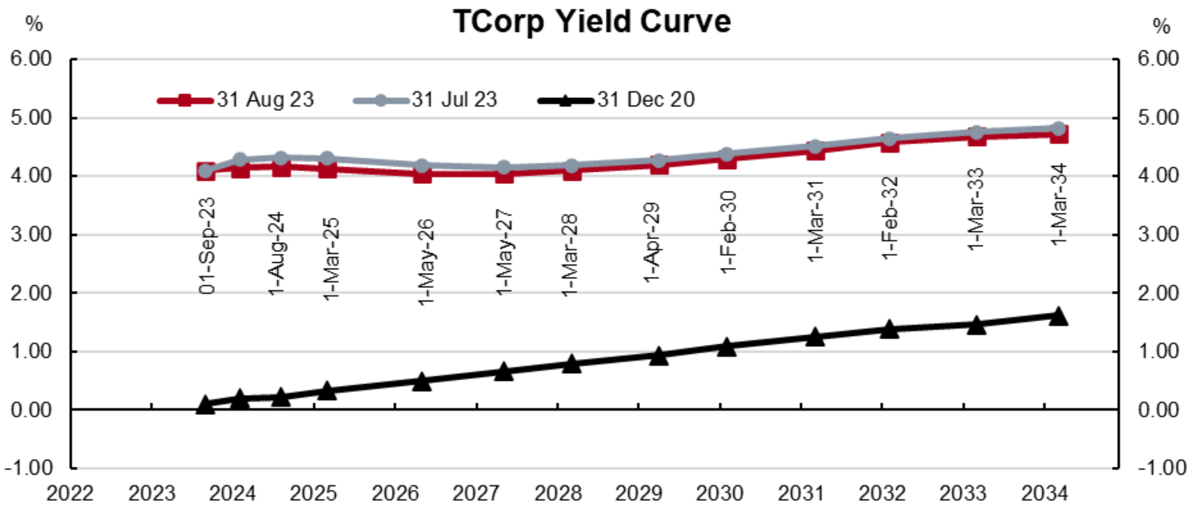
Currency markets **August 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
AUD/USD	0.671	0.663	0.640	**0.647**	-3.6% ▼
AUD/EUR	0.608	0.604	0.588	**0.595**	-2.1% ▼
AUD/JPY	95.41	94.69	93.14	**94.38**	-1.1% ▼
AUD/GBP	0.521	0.518	0.503	**0.510**	-2.1% ▼
AUD/BRL	3.170	3.225	3.116	**3.205**	1.1% ▲
AUD/INR	55.17	54.55	52.93	**53.55**	-2.9% ▼
AUD/CNY	4.791	4.760	4.665	**4.695**	-2.0% ▼

Equity markets* **August 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
MSCI World ex Australia	3140	3125	2971	**3062**	-2.5% ▼
MSCI Emerging Markets	1047	1043	960	**980**	-6.4% ▼
S&P/ASX200	7410	7451	7115	**7305**	-1.4% ▼
S&P/ASX Small Ordinaries	2893	2910	2804	**2847**	-1.6% ▼
S&P500 (US)	4589	4577	4370	**4508**	-1.8% ▼
FTSE 100 (UK)	7699	7666	7258	**7439**	-3.4% ▼
Stoxx600 (Europe)	471	467	448	**458**	-2.8% ▼
DAX (Germany)	16447	16240	15574	**15947**	-3.0% ▼
CAC 40 (France)	7498	7434	7164	**7317**	-2.4% ▼
Nikkei 225 (Japan)	33172	33477	31451	**32619**	-1.7% ▼
Hang Seng (HK)	20079	20011	17623	**18382**	-8.5% ▼
Shanghai Composite (China)	3291	3291	3064	**3120**	-5.2% ▼
Bovespa (Brazil)	121943	121248	114429	**115742**	-5.1% ▼
IPC (Mexico)	54819	54391	53021	**53021**	-3.3% ▼
S&P/BSE Sensex (India)	66528	66459	64831	**64831**	-2.5% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **August 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
RBA Official Cash Rate	4.10	4.10	4.10	**4.10**	0.00 –
90 Day Bank Bill	4.26	4.26	4.13	**4.13**	-0.13 ▼
180 Day Bank Bill	4.64	4.66	4.37	**4.37**	-0.27 ▼
1 Year Term Deposit Rate	3.35	3.60	3.35	**3.60**	0.25 ▲
3 Year CGS Bond	3.87	3.97	3.73	**3.74**	-0.13 ▼
10 Year CGS Bond	4.06	4.32	3.97	**4.03**	-0.03 ▼
10 Year US Bond	3.96	4.34	4.01	**4.11**	0.15 ▲
10 Year German Bond	2.49	2.71	2.47	**2.47**	-0.03 ▼
10 Year Japanese Bond	0.61	0.67	0.58	**0.65**	0.04 ▲

TCorp bonds (%) August 2023	Previous month close	Month high	Month low	Month close	Month change
08-Feb-24	4.28	4.25	4.13	**4.14**	-0.15 ▼
20-Aug-24	4.31	4.26	4.16	**4.16**	-0.15 ▼
20-Mar-25	4.31	4.31	4.11	**4.13**	-0.17 ▼
20-May-26	4.18	4.24	4.01	**4.04**	-0.14 ▼
20-May-27	4.15	4.23	3.99	**4.05**	-0.10 ▼
20-Mar-28	4.18	4.31	4.05	**4.09**	-0.09 ▼
20-Apr-29	4.27	4.43	4.15	**4.19**	-0.08 ▼
20-Feb-30	4.38	4.55	4.27	**4.29**	-0.08 ▼
20-Mar-31	4.51	4.71	4.42	**4.44**	-0.07 ▼
20-Feb-32	4.65	4.85	4.55	**4.57**	-0.07 ▼
08-Mar-33	4.76	4.97	4.67	**4.68**	-0.08 ▼
CIB 2.75% 20 Nov 25	1.30	1.35	1.16	**1.22**	-0.08 ▼
CIB 2.50% 20 Nov 35	2.29	2.29	2.29	**2.29**	0.00 –



Source: TCorp

Commodity markets (US$) August 2023	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	85.6	87.6	83.2	**86.9**	1.5% ▲
Iron Ore (per tonne)	112.5	109.6	103.2	**109.4**	-2.7% ▼

TCorp forecasts	Dec-23	June-24	Dec-24	Jun-25
RBA Official Cash Rate	4.35	3.85	3.10	2.35
90 Day Bank Bill	4.50	3.85	3.10	2.50
10 Year CGS Bond	3.75	3.50	3.25	3.50

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$108 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$154 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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