

## Monthly economic report

### The global economy

Financial markets experienced a significant bout of volatility at the start of August that impacted currency, equity and bond markets (for more information, see [Learning from the recent bout of financial market volatility](#)). The episode was short-lived and many of the sharp price moves that occurred were retraced by the end of the month.

Overall, the volatility was triggered by 2 developments that surprised investors. The first was the Bank of Japan (BoJ) pointing to a more aggressive increase in interest rates than expected. The second was surprisingly weak US employment and manufacturing surveys that suggested that the US Federal Reserve (Fed) might need to aggressively cut interest rates. This prospect of a rapid convergence in US and Japanese interest rates prompted investors to suddenly exit several popular trades. This created volatility as financial markets were unable to smoothly accommodate large and concentrated shifts in investor positioning.

Importantly, stronger US economic data released during August has alleviated investors' concerns that the US economy is heading for a recession. Consumer spending has remained resilient and contributed to strong GDP growth in the June quarter. Although the US economy and labour market are gradually weakening, it still looks to be on track for a relatively soft landing.

With the US labour market softening and inflation continuing to fall towards target, Fed Chair Jerome Powell has confirmed that the Fed will lower interest rates at its September meeting. Most investors expect a 25bps cut but think 50bps is possible if labour market data released before the Fed's meeting shows a sharp deterioration.

The Fed's September rate cut will see it join central banks in many other advanced economies that have started their easing cycles. Central banks in the UK and New Zealand delivered their first rate cut in August, with the latter signalling further rate cuts at upcoming meetings. The Swedish central bank cut rates for the second time and signalled 2 or 3 further rate cuts before the end of this year.

### The Australian economy

The Reserve Bank of Australia (RBA) Board left interest rates unchanged at its August meeting and its communication over the past month has been interpreted as hawkish. The RBA remains relatively more concerned about the prospect of inflation taking longer to return to target than the risk of a sharp deterioration in the labour market or economy.

Reflecting this, the RBA has signalled that based on current information, a rate cut in 2024 is unlikely. This contrasts with many other central banks that have already started cutting rates because they are more confident that inflation will continue falling and have become more concerned about a sharp rise in unemployment. Despite the RBA's guidance, investors think one 25bps rate cut by the RBA year is highly likely (compared to 100bps of cuts expected in the US).

Inflation in Australia has continued to fall and could fall more rapidly towards target than the RBA is expecting. Wages growth fell further in the June quarter and the labour market has continued to gradually loosen. Economic activity has remained weak, particularly household consumption and residential construction. Business surveys are pointing to weaker economic activity, a rising unemployment rate, and further falls in inflation.

# Financial market commentary

Following a volatile start to August, financial markets stabilised throughout the rest of the month. Most equity markets recovered their losses to end the month higher. US and Australian bond yields fell, while European bond yields were little changed.

## Equity markets (performance in local currency, excluding dividends)

After sharp falls at the start of August, equity markets in most advanced economies (except for Japan) retraced their losses throughout the remainder of the month. The US S&P500 rose by 2.3% in August, boosted by the prospect of larger rate cuts by the Fed this year and increased confidence that the US economy will avoid a hard landing.

The Australian ASX200 ended the month flat, underperforming most other advanced economies. The resources sector continues to drag down the ASX200 amid ongoing concerns about China's weak economy and future steel demand. Corporate earnings reports to date have also influenced share prices of individual companies, with better-than-expected earnings reported in many sectors.

Japan's equity market suffered the largest losses in early August and ended the month 1.2% lower. China's equity market fell further, while European equity markets rose.

## Bond yields

US bond yields fell sharply in the first few days of August as investors priced in more aggressive interest rate cuts by the Fed, though yields retraced about half of the initial fall throughout the remainder of the month. US 10-year yields ended the month 13bps lower and are now back to their levels at the start of this year (3.9%). With larger declines in 2-year yields (-34bps), the US yield curve is now relatively flat after being inverted for the past 2 years.

Australian bond yields followed US yields lower, with 10-year yields ending the month 15bps lower. TCorp bond yields fell by slightly more than Commonwealth Government bond yields in the month, with the 10-year spread narrowing 3bps to 73bps.

Japanese 10-year yields fell 16bps in August, with lower US yields seen as tempering the BoJ's willingness to raise Japanese interest rates as the BoJ wants to avoid financial market volatility. 10-year bond yields across Europe were little changed in August, with economic data and communication from central bankers not delivering any significant surprises in the month.

## Currency and commodity markets

The Australian dollar rose by 3.4% against the US dollar in August, more than reversing the fall in July, to be close to its highest level since the start of this year. The appreciation was driven by a broad-based weakening of the US dollar as investors increased their expectations for US interest rate cuts in 2024.

The strengthening in the Australian dollar also occurred despite further falls in iron ore and coking coal prices in the month. Prices of these key steel-making commodities have fallen sharply this year due to ongoing concerns about China's economy and a weaker outlook for steel demand.

Oil prices ended a volatile month 2.4% lower, weighed down by weak global manufacturing activity, including in China and the US.

## Financial market performance

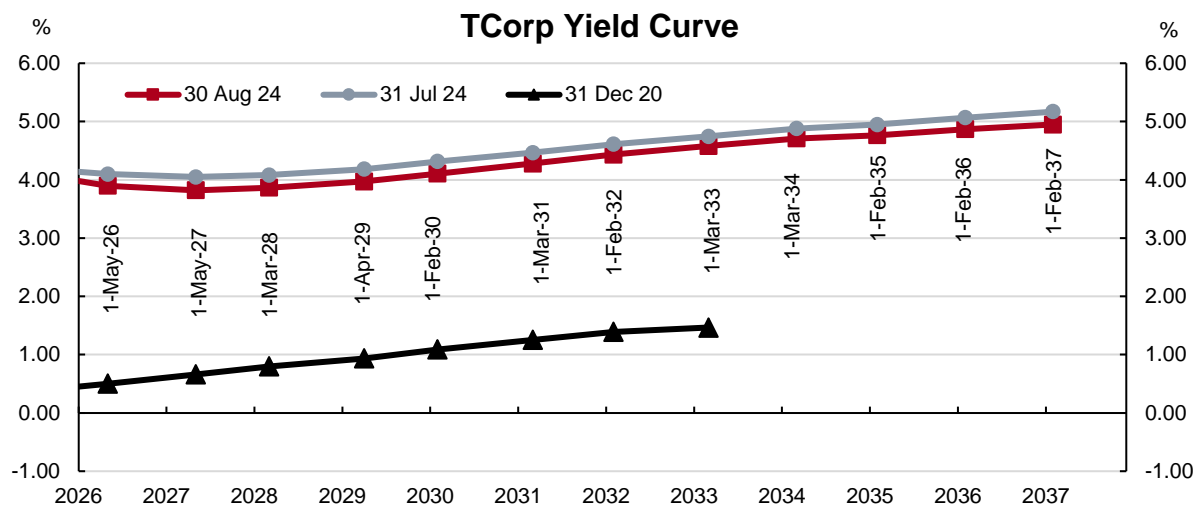
Currency markets August 2024	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.654	0.680	0.650	<b>0.677</b>	3.4% ▲
AUD/EUR	0.604	0.614	0.593	<b>0.612</b>	1.3% ▲
AUD/JPY	98.12	98.88	93.69	<b>98.88</b>	0.8% ▲
AUD/GBP	0.509	0.518	0.509	<b>0.515</b>	1.3% ▲
AUD/BRL	3.697	3.826	3.611	<b>3.793</b>	2.6% ▲
AUD/INR	54.78	57.01	54.43	<b>56.74</b>	3.6% ▲
AUD/CNY	4.728	4.839	4.639	<b>4.797</b>	1.5% ▲

Equity markets* August 2024	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3666	3757	3431	<b>3757</b>	2.5% ▲
MSCI Emerging Markets	1085	1104	1016	<b>1100</b>	1.4% ▲
S&P/ASX200	8092	8115	7650	<b>8092</b>	0.0% ▼
S&P/ASX Small Ordinaries	3075	3088	2873	<b>3006</b>	-2.2% ▼
S&P500 (US)	5522	5648	5186	<b>5648</b>	2.3% ▲
FTSE 100 (UK)	8368	8380	8008	<b>8377</b>	0.1% ▲
Stoxx600 (Europe)	518	525	487	<b>525</b>	1.3% ▲
DAX (Germany)	18509	18913	17339	<b>18907</b>	2.2% ▲
CAC 40 (France)	7531	7641	7130	<b>7631</b>	1.3% ▲
Nikkei 225 (Japan)	39102	38648	31458	<b>38648</b>	-1.2% ▼
Hang Seng (HK)	17345	17989	16647	<b>17989</b>	3.7% ▲
Shanghai Composite (China)	2939	2932	2823	<b>2842</b>	-3.3% ▼
Bovespa (Brazil)	127652	137344	125270	<b>136004</b>	6.5% ▲
IPC (Mexico)	53094	54265	51776	<b>51986</b>	-2.1% ▼
S&P/BSE Sensex (India)	81741	82366	78593	<b>82366</b>	0.8% ▲

\*Returns are in local currency, and exclude dividend payments

Bond markets (%) August 2024	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.35	4.35	4.35	<b>4.35</b>	0.00 –
90 Day Bank Bill	4.49	4.42	4.34	<b>4.39</b>	-0.10 ▼
180 Day Bank Bill	4.78	4.67	4.46	<b>4.53</b>	-0.26 ▼
New institutional term deposits	4.60	4.70	4.60	<b>4.70</b>	0.10 ▲
3 Year CGS Bond	3.76	3.74	3.45	<b>3.55</b>	-0.20 ▼
10 Year CGS Bond	4.12	4.09	3.85	<b>3.97</b>	-0.15 ▼
10 Year US Bond	4.03	3.99	3.79	<b>3.90</b>	-0.13 ▼
10 Year German Bond	2.30	2.30	2.17	<b>2.30</b>	0.00 ▼
10 Year Japanese Bond	1.06	1.04	0.79	<b>0.90</b>	-0.16 ▼

<b>TCorp bonds (%)</b>					
<b>August 2024</b>	<b>Previous month close</b>	<b>Month high</b>	<b>Month low</b>	<b>Month close</b>	<b>Month change</b>
20-May-26	4.10	4.08	3.81	<b>3.90</b>	-0.20 ▼
20-May-27	4.05	4.03	3.74	<b>3.82</b>	-0.23 ▼
20-Mar-28	4.08	4.05	3.79	<b>3.87</b>	-0.21 ▼
20-Apr-29	4.18	4.15	3.90	<b>3.97</b>	-0.21 ▼
20-Feb-30	4.32	4.29	4.04	<b>4.11</b>	-0.21 ▼
20-Mar-31	4.47	4.44	4.21	<b>4.28</b>	-0.19 ▼
20-Feb-32	4.61	4.59	4.36	<b>4.43</b>	-0.18 ▼
08-Mar-33	4.75	4.72	4.51	<b>4.58</b>	-0.16 ▼
20-Mar-34	4.88	4.86	4.64	<b>4.71</b>	-0.17 ▼
20-Feb-35	4.95	4.94	4.69	<b>4.77</b>	-0.18 ▼
20-Feb-36	5.07	5.06	4.80	<b>4.87</b>	-0.20 ▼
20-Feb-37	5.17	5.15	4.88	<b>4.95</b>	-0.22 ▼
CIB 2.75% 20 Nov 25	1.99	1.99	1.56	<b>1.56</b>	-0.43 ▼
CIB 2.50% 20 Nov 35	2.36	2.39	2.24	<b>2.36</b>	-0.01 ▼



Source: TCorp

<b>Commodity markets (US\$)</b>	<b>Previous month close</b>	<b>Month high</b>	<b>Month low</b>	<b>Month close</b>	<b>Month change</b>
<b>August 2024</b>					
Brent Oil (per barrel)	80.7	82.3	76.1	<b>78.8</b>	-2.4% ▼
Iron Ore (per tonne)	105.9	103.8	95.6	<b>98.7</b>	-6.8% ▼

<b>TCorp forecasts</b>	<b>Dec-24</b>	<b>Jun-25</b>	<b>Dec-25</b>	<b>Jun-26</b>
RBA Official Cash Rate	4.10	3.60	2.85	2.35
90 Day Bank Bill	4.00	3.10	2.50	2.50
10 Year CGS Bond	3.50	3.25	3.25	3.50

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