

Economic Commentary

Global economic recovery disrupted by rising COVID cases

The OECD forecast global economic activity getting back to pre-pandemic levels by the end of 2021. Relative to their weight in the global economy, China is likely to contribute more to the recovery (around one third of global growth), and North America and Europe will contribute less.

Meanwhile, emergency approval and distribution of vaccines occurred in North America, Europe and elsewhere as COVID-19 cases climbed. By the end of the month, movement restrictions and lockdowns had been re-instated, disrupting and delaying economic recoveries in many countries.

Political positioning hindered efforts to combat the pandemic and stimulate the US economy, although a \$900 billion fiscal stimulus was eventually passed by Congress at the end of the month. Labour market indicators for November were weaker than expected (the unemployment rate stayed at 6.7%), as were retail sales and home sales. Inflation was a little higher than expected; excluding volatile food and energy components, the 'core' CPI rose 1.6% in the year to November.

China's economy continued its strong performance, reporting a pick-up in the pace of retail sales growth in November (from 4.3% to 5%), and industrial production up 7% from a year earlier. Despite this, deflation is an issue; in November the CPI was 0.5% lower than a year earlier. In the Eurozone, the November unemployment rate ticked up to 8.4%, while core inflation remained at just 0.2%.

Australian economy recovering faster than expected

Economic data released during December indicated the Australian economy was doing better than expected. Many forecasters upgraded their growth forecasts for 2020-2021, but emphasised they were assuming that there would be no new significant setbacks due to COVID or from the winding down of JobKeeper and other support measures.

The Commonwealth Treasury's Mid-Year Economic and Financial Outlook (MYEFO) showed the unemployment rate peaking in 2021 Q1 at 7.5%, a lower level than in the October Budget papers. The Reserve Bank of Australia's December board meeting minutes indicated the RBA would be upgrading its forecasts in time for the next monetary policy meeting, in February. Private sector forecasters, including some of the major banks, also issued upwardly-revised forecasts.

The economy bounced back in the September quarter, with gross domestic product increasing by 3.3%. Overall GDP was still 3.8% lower than a year earlier, although some states and industry sectors had recovered to near pre-COVID levels.

Retail sales jumped 7% in November, driven by a wave of pent-up spending being released at the end of the lockdown in Victoria. The rebound was also evident in the November labour force data, which showed 84,200 additional full-time jobs and the unemployment rate falling from 7.0% to 6.8%. New housing loan approvals reached a record high in October, with owner-occupier loans up 42% since May. Business conditions and confidence (for November) and consumer confidence (December) continued to improve. However, the ABS/ATO weekly payrolls data for November showed hiring by smaller enterprises continued to lag the broader recovery.

Financial Market Commentary

Equity Markets (Performance is in local currency and excludes dividends)

Equity markets rose around the world in December, with the US stock market finishing at record highs despite being down by around 35% in March. The passage of the US fiscal stimulus package and agreement between the UK and EU on Brexit conditions were welcomed by investors.

In December, the MSCI World (ex Australia) Equity index gained 3.9%, and the S&P500 index added 3.1% and broke through 3700 for the first time. The European benchmark Stoxx 600 index increased by 2.5% and UK's FTSE100 rose 3.1%.

The build-up in household savings witnessed in the US (and elsewhere) also appears to have found its way into riskier assets, with prices of assets that offer the chance of capital gains rising in December – e.g. US equities, US house prices, Bitcoin.

The Australian equity market posted a modest gain of 1.1%. Ongoing trade tensions with China were frequently cited as a reason for the Australian market not doing better. Information and technology stocks gained around 10% in the month, followed by materials (+3%, mainly iron ore miners) and consumer staples (+2%).

Emerging market equities jumped 7% overall, led by Brazil (+9.3%) and India (+8.2%).

Interest Rates

Central banks around the world re-affirmed their commitment to holding down interest rates along the yield curve until an economic recovery is well established, by maintaining low cash interest rate targets and purchasing government bonds. 10-year bond yields rose 7bps in the US as investors moved money to riskier assets. Yields ended the month unchanged in Germany and 1bp lower in Japan.

The 10-year Australian Commonwealth Government (CGS) bond yield increased by 7bps to 0.97%, maintaining a 6bps spread over the US 10-year. The RBA's ongoing bond-buying program ensured interest rates on bonds out to the 3-year maturity were essentially unchanged. The yield on TCorp's 2030 bond rose by 4bps to 1.09%.

Currency and Commodity Markets

The Australian dollar continued to appreciate against other currencies in December, gaining 5.0% against the US dollar and 2.4% against the Euro. The exchange rate's rise to a 32-month high of US 0.77 was supported by strong demand for iron ore, and investors leaving the 'safe haven' of the US dollar.

Commodity prices increased in December, reflecting investors' increased risk appetite and a weaker US dollar. The price of Brent crude oil rose 8.8% in December, but ended 2020 down 21.5% consistent with ongoing COVID-related restrictions on travel. Iron ore prices leapt 25.1% in December, finishing the year up 55.3%, boosted by strong Chinese demand for inputs into steel making.

Financial Market Performance

Currency Markets						
December 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change	
AUD/USD	0.734	0.771	0.737	0.771	4.98%	▲
AUD/EUR	0.616	0.631	0.611	0.631	2.44%	▲
AUD/JPY	76.61	79.61	76.90	79.61	3.93%	▲
AUD/GBP	0.551	0.570	0.549	0.564	2.28%	▲
AUD/BRL	3.936	4.008	3.782	4.008	1.83%	▲
AUD/RUB	56.10	57.37	54.49	57.37	2.26%	▲
AUD/INR	54.38	56.34	54.30	56.34	3.60%	▲
AUD/CNY	4.832	5.032	4.842	5.032	4.16%	▲

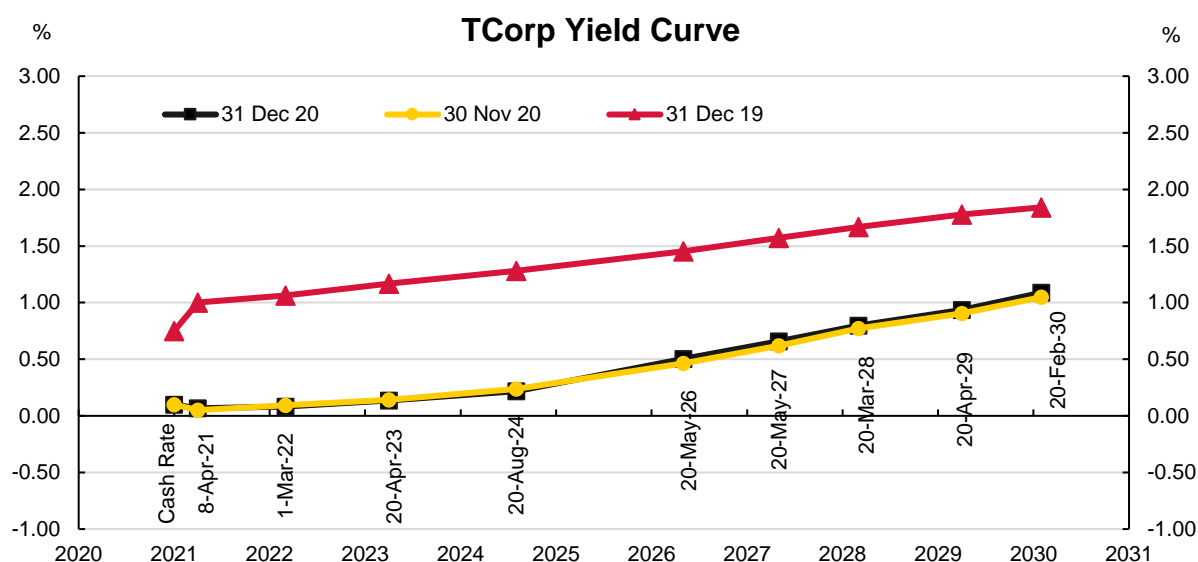
Equity Markets*						
December 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change	
MSCI World ex Australia	2641	2744	2667	2744	3.9%	▲
MSCI Emerging Markets	1205	1289	1224	1289	7.0%	▲
S&P/ASX 200	6518	6757	6587	6587	1.1%	▲
S&P/ASX Small Ordinaries	3016	3129	3035	3090	2.5%	▲
S&P 500 (US)	3622	3756	3647	3756	3.7%	▲
FTSE 100 (UK)	6266	6603	6385	6461	3.1%	▲
Stoxx 600 (Europe)	389	402	387	399	2.5%	▲
DAX (Germany)	13291	13790	13114	13719	3.2%	▲
CAC 40 (France)	5519	5612	5393	5551	0.6%	▲
Nikkei 225 (Japan)	26434	27568	26436	27444	3.8%	▲
Hang Seng (HK)	26341	27231	26119	27231	3.4%	▲
Shanghai Composite (China)	3392	3473	3347	3473	2.4%	▲
Bovespa (Brazil)	108893	119409	111400	119017	9.3%	▲
IPC (Mexico)	41779	44694	42602	44054	5.4%	▲
S&P/BSE Sensex (India)	44150	47751	44618	47751	8.2%	▲

*Returns are in local currency, and exclude dividend payments

Bond Markets (%)						
December 2020	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	0.02	0.03	0.02	0.02	0.00	▼
1 Year Term Deposit Rate	0.65	0.65	0.65	0.50	-0.15	▼
3 Year CGS Bond	0.11	0.14	0.10	0.11	-0.01	▼
10 Year CGS Bond	0.90	1.04	0.92	0.97	0.07	▲
10 Year US Bond	0.84	0.97	0.89	0.91	0.07	▲
10 Year German Bond	-0.57	-0.52	-0.64	-0.57	0.00	▲
10 Year Japanese Bond	0.03	0.03	0.01	0.02	-0.01	▼

TCorp Bonds (%)

December 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
08-Apr-21	0.05	0.07	0.04	0.07	0.02 ▲
01-Mar-22	0.09	0.12	0.06	0.08	-0.01 ▼
20-Apr-23	0.14	0.17	0.13	0.14	-0.01 ▼
20-Aug-24	0.24	0.24	0.21	0.22	-0.02 ▼
20-May-26	0.46	0.54	0.47	0.50	0.04 ▲
20-May-27	0.62	0.69	0.63	0.66	0.04 ▲
20-Mar-28	0.77	0.85	0.77	0.80	0.02 ▲
20-Apr-29	0.91	1.01	0.90	0.94	0.03 ▲
20-Feb-30	1.05	1.18	1.05	1.09	0.04 ▲
CIB 3.75% 20 Nov 20	1.60	1.60	1.60	1.60	0.00 —
CIB 2.75% 20 Nov 25	-0.87	-0.92	-1.11	-1.11	-0.24 ▼
CIB 2.50% 20 Nov 35	0.13	0.13	-0.11	-0.10	-0.23 ▼



Commodity Markets (US\$)

December 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
Brent Oil (per barrel)	47.6	52.3	47.4	51.8	8.8% ▲
Iron Ore (per tonne)	124.6	160.2	130.6	155.8	25.1% ▲

TCorp Forecasts

	Mar-21	Jun-21	Dec-21	Dec-22
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	0.75	1.00	1.00	1.00

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