December 2021
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Economic commentary

The global economy

Global economic activity remained sound in December, as data releases suggested the economy was on a good footing when the Omicron COVID-19 variant began to surge worldwide. In the US, the ISM Manufacturing survey was strong in November, at 61.1, while the unemployment rate receded over November-December to 3.9%, wages growth was firm and labour force participation increased. In Europe, industrial production rose a brisk 1.1% in October, with production now almost completely recovered to its pre-COVID levels. Business purchasing managers' indexes (PMIs) for manufacturing and service sectors held at firm levels. Chinese data continued to point to softer activity, though the pace of the decline looks contained. PMI surveys were mixed, with the official manufacturing PMI holding around 50.0 over November-December. Growth in fixed asset investment and retail sales slowed in their most recent readings.

Meanwhile, inflation continued to accelerate in many economies. US consumer inflation rose by a very strong 0.8% in November, to be 6.8% higher than a year ago. Core inflation also accelerated, to 4.9% year-on-year, from 4.6%. Similarly in the UK, yearly headline CPI picked up to 5.1% and core inflation to 4.0%, the quickest readings in a decade. In Europe, headline consumer inflation climbed to 4.9% in November. The impact of supply chain disruptions and high energy costs on prices continued to be a major driver of higher inflation.

Persistent, elevated inflation started to feed into a hawkish shift from the major central banks. Federal Reserve Chairman Powell indicated that the term "transitory" should be retired. In the December FOMC meeting, the Federal Reserve announced it will double the pace of its asset purchase program taper, to US$30 billion per month. Fed projections released suggest three rate hikes in 2022. The Bank of England raised rates by 15 bps, to 0.25%, while the European Central Bank announced it is unwinding its pandemic support asset purchase program, expected to be complete by March. The Bank of Canada also removed reference to "transitory" inflation in its December meeting, bringing forward market expectations for tightening to early-2022. China's PBOC was a notable exception, announcing a 50bp cut to the Required Reserve Ratio (RRR).

The Australian economy

Australian economic data released in December pointed to an ongoing, solid rebound in activity in the final quarter. Business and consumer confidence readings, employment and weekly job ads were sound in the lead up to Christmas. Purchasing Manager Indices were also consistent with strong manufacturing and services sectors. There were, however, signs that that housing market is certainly cooling with housing finance dropping in its October release and weekly auction clearance rates coming off in the final weeks of 2021.

The Reserve Bank (RBA) sat tight as expected in its December meeting, with the cash rate unchanged at 0.1% and its bond buying program flagged to continue at a pace of A$4 billion per week until at least mid-February. The central bank signalled a more positive outlook for GDP and employment than in November, while its views on inflation and wages held. The RBA reiterated that sufficient inflation for the bank to hike rates will likely "take some time".

Financial market commentary

Solid economic data gave support to global markets in December, with confidence in the health of the global recovery ultimately coming out on top of investor fears on the impact of the Omicron variant. Markets received communications from the major central banks on forthcoming policy tightening as largely in-line with their expectations. Equities, government bond yields and commodities all rose in the final month of 2021.

Equity markets (performance in local currency, excluding dividends)

The MSCI World equity market index (excluding Australia) rose 4.2% in December, recovering its November decline. Almost all equity markets in both developed and emerging markets strengthened over the month. Hong Kong stocks were the one exception, with the Hang Seng down -0.3% for December, as regulatory crackdowns drove selling activity.

European equities stood out, with the Stoxx600 up 5.4%, and the FTSE100 up 4.6% for December. Relief on the lesser severity of the omicron COVID-19 variant, and of the “fourth wave” of European winter infections, was particularly supportive for the region. US equities were also firm, with the S&P500 up 4.4%.

The Australian market recorded a more modest gain, as the S&P:/ASX200 rose 2.6% in December. The combination of rising COVID-19 caseloads in Australian cities, slowing China growth and market expectations for near-term rate hikes all weighed on performance.

Interest rates

Longer-dated bond yields ticked largely higher in December, as investors pared back earlier concerns that forthcoming rate hikes will undermine growth. In the US, 10-year bond yields rose 7bps to 1.51%, after trading as low as 1.34% during the month. In Germany, 10-year yields rose 17bps to -0.18%. However, in Australia, 10-year yields closed down 2bps to 1.67%, as volatility remained high in the market. The yield on TCorp’s March 2031 bond fell accordingly by 5bps, to 1.95%.

The rise in yields at later maturities came as shorter-dated yields also rose, reflecting increasing market anticipation of interest rate hikes. The US 2-year yield was up 17bps, to 0.73%. In Australia, the 3-year Commonwealth Government bond yield increased 5bps to 0.91%, and traded as high as 0.97% in December.

Currency and commodity markets

The Australian dollar regained some ground against the US dollar in December, up almost 2% to 72.6 US cents. With investor expectations for near-term rate hikes from the Reserve Bank (RBA) unabating, broad-based appreciation in the AUD was seen in the month.

Brent crude oil prices firmed 10% in December, recovering some of the November losses. Receding market fears on the potential impact of the Omicron variant was a key factor in the recovery, with reported illnesses not as severe as first anticipated. This occurred even as OPEC+ countries agreed to stick with their proposed monthly supply increases.

Iron ore prices also recouped some of their November losses, up 18.4% to $121.1 per tonne. A softer landing for China, including with new policy easing, was likely supportive.

Financial market performance

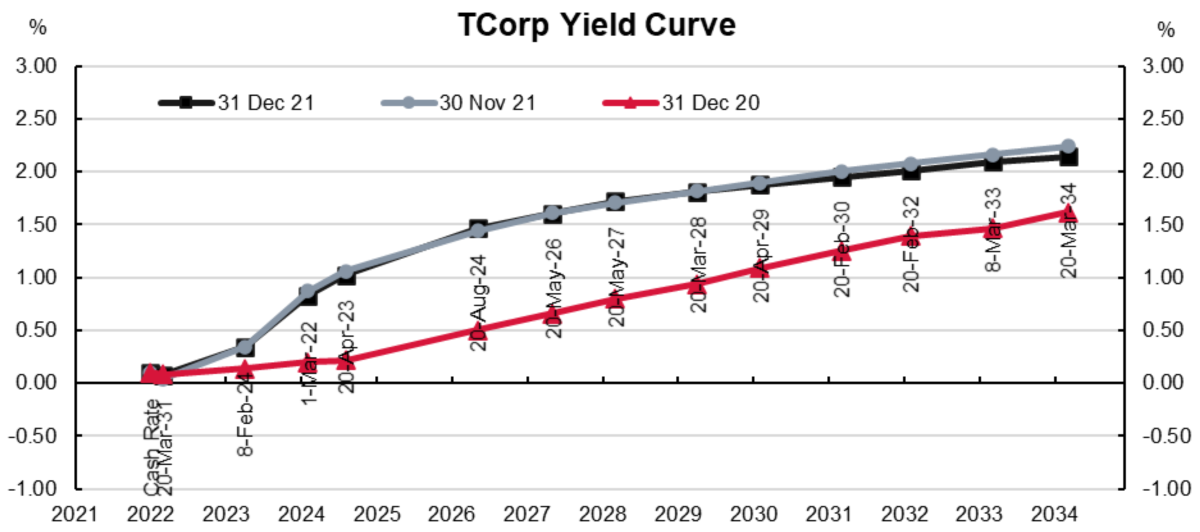
Currency markets December 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.713	0.726	0.700	**0.726**	1.91% ▲
AUD/EUR	0.629	0.641	0.619	**0.639**	1.62% ▲
AUD/JPY	80.66	83.58	78.97	**83.58**	3.63% ▲
AUD/GBP	0.536	0.543	0.529	**0.537**	0.24% ▲
AUD/BRL	4.008	4.128	3.957	**4.050**	1.04% ▲
AUD/RUB	52.80	54.24	51.73	**54.24**	2.73% ▲
AUD/INR	53.57	54.67	52.63	**53.99**	0.78% ▲
AUD/CNY	4.536	4.624	4.464	**4.616**	1.78% ▲

Equity markets* December 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3179	3324	3164	**3312**	4.2% ▲
MSCI Emerging Markets	1212	1248	1190	**1232**	1.6% ▲
S&P/ASX200	7256	7513	7225	**7445**	2.6% ▲
S&P/ASX Small Ordinaries	3489	3559	3329	**3529**	1.1% ▲
S&P500 (US)	4567	4793	4513	**4766**	4.4% ▲
FTSE 100 (UK)	7059	7421	7122	**7385**	4.6% ▲
Stoxx600 (Europe)	463	489	463	**488**	5.4% ▲
DAX (Germany)	15100	15964	15170	**15885**	5.2% ▲
CAC 40 (France)	6721	7181	6766	**7153**	6.4% ▲
Nikkei 225 (Japan)	27822	29069	27753	**28792**	3.5% ▲
Hang Seng (HK)	23475	24255	22745	**23398**	-0.3% ▼
Shanghai Composite (China)	3564	3681	3574	**3640**	2.1% ▲
Bovespa (Brazil)	101916	108326	100775	**104822**	2.9% ▲
IPC (Mexico)	49699	53272	50007	**53272**	7.2% ▲
S&P/BSE Sensex (India)	57065	58807	55822	**58254**	2.1% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) December 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	0.05	0.07	0.05	**0.07**	0.02 ▲
180 Day Bank Bill	0.14	0.22	0.14	**0.21**	0.07 ▲
1 Year Term Deposit Rate	0.30	0.30	0.30	**0.30**	0.00 –
3 Year CGS Bond	0.87	0.97	0.81	**0.91**	0.05 ▲
10 Year CGS Bond	1.69	1.73	1.53	**1.67**	-0.02 ▼
10 Year US Bond	1.44	1.55	1.34	**1.51**	0.07 ▲
10 Year German Bond	-0.35	-0.18	-0.39	**-0.18**	0.17 ▲
10 Year Japanese Bond	0.06	0.07	0.04	**0.07**	0.01 ▲

TCorp bonds (%) December 2021	Previous month close	Month high	Month low	Month close	Month change	
01-Mar-22	0.04	0.08	0.02	**0.08**	0.04	▲
20-Apr-23	0.35	0.40	0.31	**0.35**	0.00	–
08-Feb-24	0.87	0.92	0.75	**0.83**	-0.04	▼
20-Aug-24	1.06	1.13	0.94	**1.02**	-0.04	▼
20-May-26	1.44	1.52	1.37	**1.47**	0.02	▲
20-May-27	1.61	1.66	1.50	**1.61**	0.00	▼
20-Mar-28	1.71	1.75	1.59	**1.72**	0.01	▲
20-Apr-29	1.82	1.86	1.69	**1.81**	-0.01	▼
20-Feb-30	1.89	1.94	1.74	**1.88**	-0.02	▼
20-Mar-31	2.00	2.04	1.81	**1.95**	-0.05	▼
20-Feb-32	2.08	2.12	1.87	**2.01**	-0.07	▼
CIB 2.75% 20 Nov 25	-0.92	-0.73	-1.12	**-1.07**	-0.15	▼
CIB 2.50% 20 Nov 35	0.25	0.31	-0.03	**0.06**	-0.19	▼



Source: TCorp

Commodity markets (US$) December 2021	Previous month close	Month high	Month low	Month close	Month change	
Brent Oil (per barrel)	70.6	79.3	68.9	**77.8**	10.2%	▲
Iron Ore (per tonne)	102.3	127.4	101.1	**121.1**	18.4%	▲

TCorp forecasts	June-22	Dec-22	June-23	Dec-23
RBA Official Cash Rate	0.10	0.10	0.10	0.10
90 Day Bank Bill	0.10	0.10	0.10	0.25
10 Year CGS Bond	2.00	2.25	2.25	2.50

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$109 billion of assets under management, TCorp is a top 5 Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A$127 billion. It is rated Aaa (Stable) by Moody's and AA+ (Stable) by S&P.

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