

Economic commentary

The global economy

Communication from major central banks was more hawkish than expected in December as inflation remained elevated and persistent despite some encouraging recent data.

In the US, November consumer price inflation surprised to the downside for the second consecutive month, rising by 0.1% compared to the 0.3% expected by the market. The US Federal Reserve raised rates by an expected 50bps in December, following 75bps rises at its previous 4 meetings, yet commentary from the Fed after its meeting suggested that interest rates are likely to reach a higher level in 2023 than previously expected.

In Europe, consumer price inflation was broadly as expected in November. The European Central Bank (ECB) raised interest rates by 50bps at its December meeting following two previous 75bps increases. The ECB President was also hawkish, indicating that interest rates will need to rise significantly higher this year. In the UK, inflation eased in November and the Bank of England raised its policy rate by 50bps.

The Bank of Japan (BoJ) also surprised markets in December by adjusting its yield curve control policy and allowing 10-year government bond yields to rise to 0.5% from the previous limit of 0.25%. This policy change, combined with accelerating inflation in October, prompted speculation that the BoJ could increase interest rates in 2023.

In China, authorities abandoned the COVID-zero approach in December. The move away from targeted lockdowns during outbreaks has seen infections rise sharply. Authorities also announced that China's international borders will reopen on 8 January 2023, removing mandatory quarantine requirements for international arrivals and restrictions on the number of international flights.

The Australian economy

The Australian economy grew by 0.6% in the September quarter, a little slower than expected. Consumer spending, particularly on services such as travel, continued to drive growth. Housing construction rose slightly for the first time in just over a year, though conditions in the housing market more broadly remain weak and house prices have continued to fall. More recent indicators suggest that overall activity has eased in the December quarter and consumer and business confidence remains weak.

In contrast, the labour market remained very tight with the unemployment rate steady at 3.4% in November. Employment growth in the month was much stronger than expected and the labour force participation rate returned to a historically high level.

At its December meeting, The Reserve Bank of Australia (RBA) raised its policy rate by another 25bps to 3.10%. Although the RBA Board noted that it expects to raise interest rates further, it considered leaving the cash rate unchanged for the first time in this tightening cycle – interpreted by some analysts as a sign that the RBA is getting close to pausing hikes.

Financial market commentary

The prospect of central banks raising interest rates to higher levels than previously expected and concerns around weakening global economic activity saw long-term bond yields rise and equity prices fall. Concerns that China's abandonment of its COVID-zero policy will cause high global inflation to persist for longer also weighed on bond and equity prices. Bond yields also rose notably after the Bank of Japan's unexpected policy announcement.

Equity markets (performance in local currency, excluding dividends)

Most equity markets fell over December, retracting some of November's strong gains, with the MSCI World equity market index (excluding Australia) falling by 4.4%. Australia's ASX 200 fell by 3.4%. The US S&P 500 was particularly weak, falling by 5.9% in December, primarily reflecting more hawkish commentary from the US Federal Reserve. Japan's Nikkei index dropped by 6.7%, weighed down by the Bank of Japan's surprise policy change which also caused the Yen to appreciate.

There was also broad-based weakness across emerging markets, with the MSCI Emerging Markets index falling by 1.6%. The exception was Hong Kong, where the Hang Seng index rose by 6.4% on hopes that China's move away from its COVID-zero policy will provide a boost to Hong Kong's economy. China's Shanghai Composite fell by 2% in December as rising COVID infections weighed on sentiment.

Interest rates

Bond yields rose in December as hawkish commentary by central banks caused investors to expect interest rates to reach higher levels and remain higher for longer. Concerns that China's reopening will cause high inflation to linger also contributed to higher bond yields, as did the Bank of Japan's surprise policy announcement.

German bond yields rose most sharply, with both 10-year and 2-year bond yields rising by around 65bps in December. US 10-year bond yields rose by 27bps to 3.87% and Japanese 10-year bond yields rose by 17bps.

In Australia, 10-year bond yields rose by 52bps to 4.05% and 3-year yields rose by 34bps. TCorp bond yield moves were similar to those seen in Australian Commonwealth government bonds in December.

Currency and commodity markets

Oil prices were little changed in December after falling sharply in November. Fears of a global economic downturn and rising COVID cases in China, the world's largest oil importer, have weighed on prices over the month.

Iron ore prices rose by 19.3% in December, supported by hopes that demand in China will recover after easing its strict COVID restrictions.

The broad-based appreciation of the Japanese Yen following the Bank of Japan's policy announcement saw the Australian dollar depreciate by 4.7% against the Yen in December. It also fell by 2.4% against the Euro, but was little changed against the US dollar and the British pound.

Financial market performance

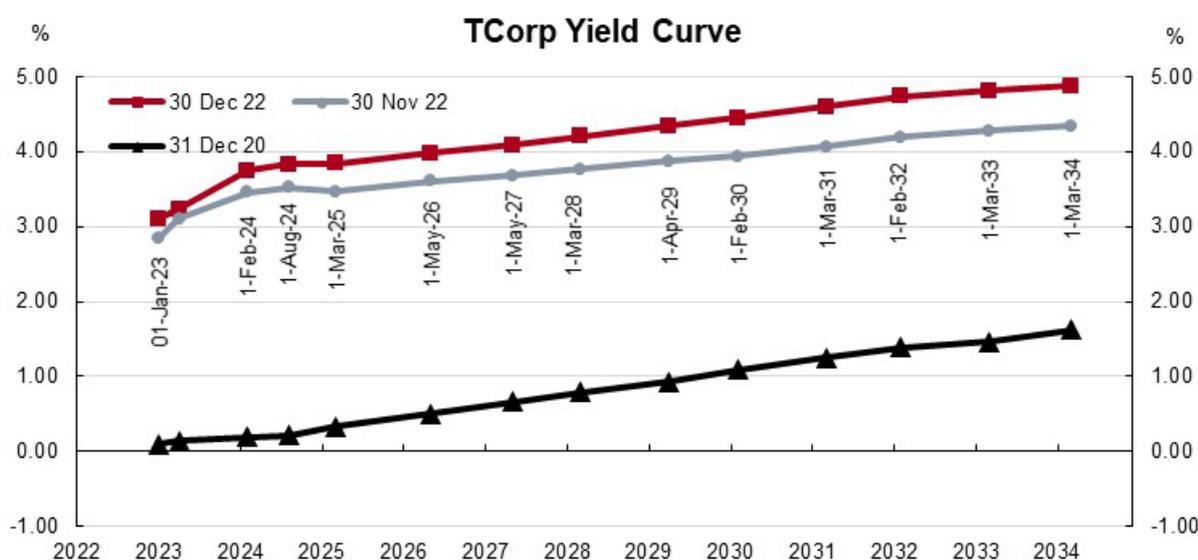
Currency markets December 2022	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.679	0.686	0.667	0.681	0.37% ▲
AUD/EUR	0.652	0.647	0.629	0.636	-2.44% ▼
AUD/JPY	93.72	92.99	87.97	89.33	-4.68% ▼
AUD/GBP	0.563	0.563	0.548	0.563	0.09% ▲
AUD/BRL	3.523	3.636	3.450	3.598	2.10% ▲
AUD/RUB	80.57	81.47	79.17	80.86	0.37% ▲
AUD/INR	55.27	56.76	54.79	56.37	1.98% ▲
AUD/CNY	4.814	4.804	4.649	4.700	-2.37% ▼

Equity markets* December 2022	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2783	2802	2631	2660	-4.4% ▼
MSCI Emerging Markets	972	984	951	956	-1.6% ▼
S&P/ASX200	7284	7354	7020	7039	-3.4% ▼
S&P/ASX Small Ordinaries	2914	2946	2758	2798	-4.0% ▼
S&P500 (US)	4080	4077	3783	3840	-5.9% ▼
FTSE 100 (UK)	7573	7568	7332	7452	-1.6% ▼
Stoxx600 (Europe)	440	444	424	425	-3.4% ▼
DAX (Germany)	14397	14529	13885	13924	-3.3% ▼
CAC 40 (France)	6739	6754	6450	6474	-3.9% ▼
Nikkei 225 (Japan)	27969	28226	26094	26095	-6.7% ▼
Hang Seng (HK)	18597	19901	18675	19781	6.4% ▲
Shanghai Composite (China)	3151	3213	3046	3089	-2.0% ▼
Bovespa (Brazil)	112486	111924	102856	109735	-2.4% ▼
IPC (Mexico)	51685	51458	48464	48464	-6.2% ▼
S&P/BSE Sensex (India)	63100	63284	59845	60841	-3.6% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) December 2022	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	2.85	3.10	2.85	3.10	0.25 ▲
90 Day Bank Bill	3.09	3.26	3.05	3.26	0.18 ▲
180 Day Bank Bill	3.56	3.77	3.47	3.77	0.21 ▲
1 Year Term Deposit Rate	2.70	2.85	2.70	2.85	0.15 ▲
3 Year CGS Bond	3.17	3.50	3.01	3.50	0.34 ▲
10 Year CGS Bond	3.53	4.05	3.30	4.05	0.52 ▲
10 Year US Bond	3.61	3.88	3.42	3.87	0.27 ▲
10 Year German Bond	1.93	2.57	1.78	2.57	0.64 ▲
10 Year Japanese Bond	0.25	0.48	0.25	0.42	0.17 ▲

TCorp bonds (%) December 2022	Previous month close	Month high	Month low	Month close	Month change
20-Apr-23	3.10	3.26	3.05	3.23	0.13 ▲
08-Feb-24	3.46	3.75	3.35	3.74	0.28 ▲
20-Aug-24	3.52	3.83	3.41	3.83	0.31 ▲
20-Mar-25	3.47	3.86	3.34	3.84	0.37 ▲
20-May-26	3.60	3.99	3.46	3.98	0.38 ▲
20-May-27	3.68	4.09	3.53	4.09	0.40 ▲
20-Mar-28	3.76	4.22	3.61	4.20	0.44 ▲
20-Apr-29	3.87	4.35	3.71	4.35	0.48 ▲
20-Feb-30	3.94	4.45	3.77	4.45	0.51 ▲
20-Mar-31	4.07	4.60	3.88	4.60	0.53 ▲
20-Feb-32	4.19	4.74	4.00	4.74	0.55 ▲
CIB 2.75% 20 Nov 25	0.31	0.91	0.14	0.91	0.60 ▲
CIB 2.50% 20 Nov 35	2.17	2.44	1.68	2.44	0.27 ▲



Source: TCorp

Commodity markets (US\$) December 2022	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	85.4	86.9	76.1	85.9	0.6% ▲
Iron Ore (per tonne)	93.3	111.3	102.9	111.3	19.3% ▲

TCorp forecasts	June-23	Dec-23	June-24	Dec-24
RBA Official Cash Rate	3.60	3.60	3.60	3.60
90 Day Bank Bill	3.85	3.85	3.85	3.85
10 Year CGS Bond	3.75	3.75	3.75	3.75

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