

## Monthly economic report

### The global economy

In December, investors became more confident that central banks will deliver sizeable rate cuts in 2024, expecting these to commence as early as March. This reflects a dovish shift by the US Federal Reserve (Fed) in response to a series of downside surprises for inflation. In particular, the prospect of rate cuts in 2024 and 2025 was raised at the Fed's December policy meeting for the first time in this tightening cycle.

Investors have consequently become more optimistic that a 'soft landing' is likely, with inflation falling back to central banks' targets without a sharp slowing in economic activity. This would, in turn, allow central banks to begin cutting interest rates. Although Fed policymakers expect to cut rates by 75bps by the end of 2024, investors are anticipating considerably more easing (around 150bps). Fed members also continue to push back on investor notions that rate cuts are imminent. Central bank officials in Europe and the UK have relayed similar messages and have retained a tightening bias in their communication.

The shift by central banks, particularly the Fed, reflects that inflationary pressures globally have receded more quickly than they had expected. The Fed's preferred inflation gauge – the core Personal Consumption Expenditure (PCE) deflator – is now close to the Fed's 2% inflation target on a 3-month and 6-month annualised basis. In addition, global economic activity and labour markets have been gradually cooling.

### The Australian economy

The Reserve Bank of Australia (RBA) kept interest rates unchanged in December but noted that it is prepared to raise rates further if upside risks to inflation increase. Inflationary pressures in Australia also continue to ease, with monthly inflation softer than expected in October for the second consecutive month. Investors expect the RBA to start cutting interest rates around the middle of this year and to deliver 50bps worth of cuts in 2024 – considerably less than what is expected from central banks in the US, Europe and the UK.

Similar to other advanced economies, the RBA's monetary policy tightening is clearly working to slow activity throughout the Australian economy. The economy grew by 0.2% in the September quarter, driven by government spending. Consumer spending was very weak, and households are saving incrementally less in response to higher interest rates and a rising cost of living. Strong population growth has resulted in even weaker spending on a per capita basis. More recent Purchasing Managers' Index (PMI) data suggests that activity weakened further in the December quarter.

The labour market remains tight, but conditions have continued to gradually loosen, consistent with slower economic activity. The unemployment rate has trended higher and total hours worked have fallen in recent months. Leading indicators, such as job advertisements, are pointing to a further cooling in the labour market and wages growth looks to have peaked.

Conditions in the established housing market have also eased in recent months. Nationwide house prices grew at a slower pace in November and a larger number of properties available for sale has seen auction clearance rates fall towards levels more consistent with a balanced market. A large pipeline of construction work continues to support building activity. However, weak building

approvals indicate that the construction sector is likely to weaken once the current pipeline of work is exhausted.

## Financial market commentary

December was another positive month for investors, with bond yields sharply lower and equity markets recording strong gains. The more positive sentiment reflected a strengthened conviction by investors that central banks will begin cutting interest rates in the first half of 2024.

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

Global equity markets rose strongly again in December, with the MSCI World (ex-Australia) index rising by 4.7% and the MSCI Emerging Markets index gaining 3.7%. The ASX200 outperformed and rose 7.1%, with gains broad-based across sectors. The S&P500 increased 4.4%, to be just below the historically high level reached at the start of 2022.

Many advanced economy equity markets recorded large gains in 2023, particularly in Japan (28%), and the US (S&P500 24%, Nasdaq 45%). The ASX200 ended the year 7.8% higher and European equities gained 12.7%.

### Interest rates

Global bond yields fell sharply in December, with yields in Australia, the US and Germany falling by 40-45bps across the curve. This follows large falls in November and reflects investors becoming more confident that central banks can deliver a soft landing and will soon start cutting interest rates. Australian and US 10-year yields have now retraced the sharp rises experienced in September and October when the prospect of interest rates remaining higher for longer led to a major sell-off in bond markets.

In Japan, 10-year yields fell slightly in December. The Bank of Japan (BoJ) kept its policy settings unchanged at its December meeting, amid heightened speculation about when the BoJ might raise rates and end its negative interest rate policy.

TCorp bond yields fell by similar amounts to those on Commonwealth Government bonds in December, with the 10-year TCorp bond spread narrowing by 3bps.

### Currency and commodity markets

Oil prices fell by 7% in December in response to concerns about an excess supply of oil in 2024. The ongoing conflict in the Middle East also impacted oil prices throughout the month.

The Australian dollar appreciated against a broad range of currencies in December, including by 3.1% against the US dollar. This reflected improved risk sentiment and investors' expectations that the Fed will start cutting interest rates sooner and more aggressively than the RBA.

## Financial market performance

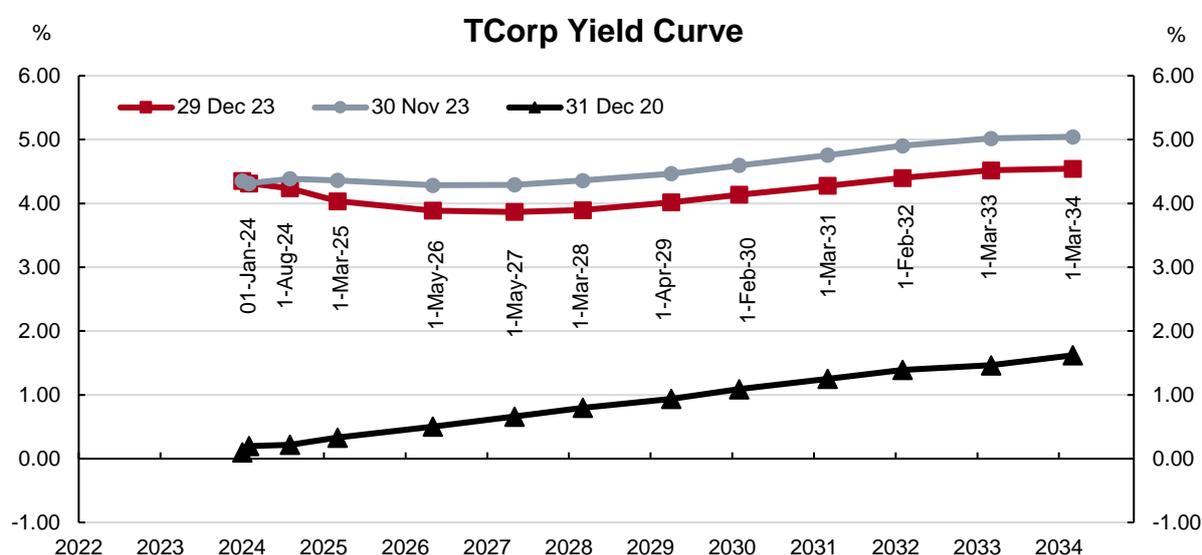
| Currency markets<br>December 2023 | Previous<br>month close | Month<br>high | Month<br>low | Month<br>close | Month<br>change |
|-----------------------------------|-------------------------|---------------|--------------|----------------|-----------------|
| AUD/USD                           | 0.661                   | 0.685         | 0.655        | <b>0.681</b>   | 3.1% ▲          |
| AUD/EUR                           | 0.607                   | 0.618         | 0.607        | <b>0.617</b>   | 1.7% ▲          |
| AUD/JPY                           | 97.89                   | 98.00         | 95.05        | <b>96.08</b>   | -1.8% ▼         |
| AUD/GBP                           | 0.523                   | 0.536         | 0.520        | <b>0.535</b>   | 2.2% ▲          |
| AUD/BRL                           | 3.249                   | 3.320         | 3.211        | <b>3.309</b>   | 1.8% ▲          |
| AUD/INR                           | 55.08                   | 57.07         | 54.57        | <b>56.68</b>   | 2.9% ▲          |
| AUD/CNY                           | 4.713                   | 4.891         | 4.683        | <b>4.837</b>   | 2.6% ▲          |

| Equity markets*<br>December 2023 | Previous<br>month close | Month<br>high | Month<br>low | Month<br>close | Month<br>change |
|----------------------------------|-------------------------|---------------|--------------|----------------|-----------------|
| MSCI World ex Australia          | 3101                    | 3256          | 3098         | <b>3247</b>    | 4.7% ▲          |
| MSCI Emerging Markets            | 987                     | 1024          | 970          | <b>1024</b>    | 3.7% ▲          |
| S&P/ASX200                       | 7087                    | 7614          | 7062         | <b>7591</b>    | 7.1% ▲          |
| S&P/ASX Small<br>Ordinaries      | 2739                    | 2944          | 2725         | <b>2930</b>    | 7.0% ▲          |
| S&P500 (US)                      | 4568                    | 4783          | 4549         | <b>4770</b>    | 4.4% ▲          |
| FTSE 100 (UK)                    | 7454                    | 7733          | 7490         | <b>7733</b>    | 3.7% ▲          |
| Stoxx600 (Europe)                | 462                     | 479           | 466          | <b>479</b>     | 3.8% ▲          |
| DAX (Germany)                    | 16215                   | 16794         | 16398        | <b>16752</b>   | 3.3% ▲          |
| CAC 40 (France)                  | 7311                    | 7597          | 7333         | <b>7543</b>    | 3.2% ▲          |
| Nikkei 225 (Japan)               | 33487                   | 33681         | 32308        | <b>33464</b>   | -0.1% ▼         |
| Hang Seng (HK)                   | 17043                   | 17047         | 16201        | <b>17047</b>   | 0.0% ▲          |
| Shanghai Composite<br>(China)    | 3030                    | 3032          | 2899         | <b>2975</b>    | -1.8% ▼         |
| Bovespa (Brazil)                 | 127331                  | 134194        | 125623       | <b>134185</b>  | 5.4% ▲          |
| IPC (Mexico)                     | 54060                   | 57746         | 53901        | <b>57386</b>   | 6.2% ▲          |
| S&P/BSE Sensex (India)           | 66988                   | 72410         | 67481        | <b>72240</b>   | 7.8% ▲          |

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

| Bond markets (%)<br>December 2023 | Previous<br>month close | Month<br>high | Month<br>low | Month<br>close | Month<br>change |
|-----------------------------------|-------------------------|---------------|--------------|----------------|-----------------|
| RBA Official Cash Rate            | 4.35                    | 4.35          | 4.35         | <b>4.35</b>    | 0.00 –          |
| 90 Day Bank Bill                  | 4.37                    | 4.38          | 4.34         | <b>4.36</b>    | -0.01 ▼         |
| 180 Day Bank Bill                 | 4.58                    | 4.59          | 4.44         | <b>4.45</b>    | -0.13 ▼         |
| New institutional term deposits   | 4.50                    | 4.70          | 4.50         | <b>4.70</b>    | 0.20 ▲          |
| 3 Year CGS Bond                   | 4.01                    | 4.07          | 3.57         | <b>3.61</b>    | -0.41 ▼         |
| 10 Year CGS Bond                  | 4.41                    | 4.49          | 3.89         | <b>3.96</b>    | -0.46 ▼         |
| 10 Year US Bond                   | 4.33                    | 4.25          | 3.79         | <b>3.88</b>    | -0.45 ▼         |
| 10 Year German Bond               | 2.45                    | 2.36          | 1.90         | <b>2.02</b>    | -0.42 ▼         |
| 10 Year Japanese Bond             | 0.67                    | 0.77          | 0.56         | <b>0.61</b>    | -0.06 ▼         |

| TCorp bonds (%)      | Previous month close | Month high | Month low | Month close | Month change |
|----------------------|----------------------|------------|-----------|-------------|--------------|
| <b>December 2023</b> |                      |            |           |             |              |
| 08-Feb-24            | 4.31                 | 4.36       | 4.25      | <b>4.31</b> | 0.00 ▲       |
| 20-Aug-24            | 4.38                 | 4.40       | 4.23      | <b>4.23</b> | -0.15 ▼      |
| 20-Mar-25            | 4.36                 | 4.40       | 4.01      | <b>4.03</b> | -0.33 ▼      |
| 20-May-26            | 4.28                 | 4.33       | 3.84      | <b>3.89</b> | -0.40 ▼      |
| 20-May-27            | 4.29                 | 4.34       | 3.82      | <b>3.87</b> | -0.43 ▼      |
| 20-Mar-28            | 4.36                 | 4.41       | 3.85      | <b>3.89</b> | -0.46 ▼      |
| 20-Apr-29            | 4.47                 | 4.52       | 3.97      | <b>4.02</b> | -0.45 ▼      |
| 20-Feb-30            | 4.60                 | 4.65       | 4.08      | <b>4.14</b> | -0.46 ▼      |
| 20-Mar-31            | 4.75                 | 4.81       | 4.22      | <b>4.28</b> | -0.48 ▼      |
| 20-Feb-32            | 4.90                 | 4.96       | 4.34      | <b>4.40</b> | -0.50 ▼      |
| 08-Mar-33            | 5.02                 | 5.07       | 4.46      | <b>4.52</b> | -0.50 ▼      |
| CIB 2.75% 20 Nov 25  | 1.40                 | 1.54       | 1.02      | <b>1.06</b> | -0.34 ▼      |
| CIB 2.50% 20 Nov 35  | 2.62                 | 2.72       | 2.00      | <b>2.07</b> | -0.55 ▼      |



Source: TCorp

| Commodity markets (US\$) | Previous month close | Month high | Month low | Month close  | Month change |
|--------------------------|----------------------|------------|-----------|--------------|--------------|
| <b>December 2023</b>     |                      |            |           |              |              |
| Brent Oil (per barrel)   | 82.8                 | 81.1       | 73.2      | <b>77.0</b>  | -7.0% ▼      |
| Iron Ore (per tonne)     | 130.5                | 136.7      | 130.4     | <b>136.4</b> | 4.5% ▲       |

| TCorp forecasts        | June-24 | Dec-24 | Jun-25 | Dec-25 |
|------------------------|---------|--------|--------|--------|
| RBA Official Cash Rate | 4.10    | 3.85   | 3.10   | 2.35   |
| 90 Day Bank Bill       | 4.10    | 3.10   | 3.10   | 2.50   |
| 10 Year CGS Bond       | 3.50    | 3.25   | 3.25   | 3.25   |

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## About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A\$106 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\$156 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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