# Economic commentary

## The global economy

While financial markets were roiled by inflation fears and geopolitical risks in February, economic data continued to point to resilience in most economies. In the US, January retail sales and industrial output figures were solid. The ISM manufacturing index came in at a robust 57.6 in the month, consistent with robust expansion (above 50.0 denotes rising activity). US non-farm payrolls grew 467,000 in January, with average earnings also up firmly. In Europe, activity was also sound in the face of COVID infection waves. PMI surveys for January pointed to an acceleration in activity at the start of 2022. The unemployment rate fell to a record low of 7.0% in December. Economic releases for China continued to signal activity is turning down. The private Caixin Manufacturing PMI fell from 50.9 in December to 49.1 in January. Still, credit data was more positive, suggesting recent easing from China's central bank is starting to have an impact.

Global inflation reports showed price pressures continued to surge. US consumer inflation grew 0.6% in January, with the yearly pace of inflation accelerating from 7.0% in December to 7.5%. The details showed persisting price pressures in key categories including rents and healthcare. Eurozone headline inflation hit 5.1% year-on-year in December, a new record high. Surging energy prices were the key driver, however core inflation also accelerated. Conviction firmed in the market that high inflation is going to last. This was despite evidence that some idiosyncratic items, like US used cars, are still responsible for a lot of price gains.

Markets aggressively repriced their expectations for monetary tightening through much of February, though did pullback as geopolitical risks rose. Following the US CPI report, market expectations hit a 50bps hike in the Fed funds rate in March, with 6 rate hikes in 2022. This also came as some key Federal Reserve policymakers suggested 50bps hikes, and out-of-session hikes, could be appropriate. Market expectations for ECB lift-off continued to come forward, to late-2022. At the same time, the Bank of England voted to raise the bank rate 25bps to 0.50%, with details for the meeting showing a larger 50bps increase was also debated. This run-up in expectations and central bank rhetoric cooled off later in the month, though not dramatically.

## The Australian economy

Activity in Australia remained solid. Employment rose 12,900 in January, pushing above pre-COVID levels, with the unemployment rate steady at 4.2%. Weekly card spending data indicated consumption held up well in February and has been quick to normalise. Auction clearance rates remained healthy, with the number of auctions also elevated in major cities, though price gains moderated. The December quarter capex release showed actual spending growth was muted, though businesses' investment expectations for this year firmed, up 10.8% on a year ago.

For the Reserve Bank of Australia (RBA), the December quarter Wage Price Index was the key release in the month. This showed wages grew 2.3% year-on-year, in line with the Bank's expectations and well-below market forecasts. The RBA continued to emphasize patience in its communications, reaffirming it is in no rush to raise rates, and will look for evidence of sustained wage price growth before commencing hikes. The market response was to press on with rate hike expectations. The cash rate is expected to hit 1.46% in 12 months' time, with estimates almost as high as 2% in the month.

# Financial market commentary

February was a choppy month for financial markets, as surging inflation readings and elevated expectations for central bank tightening kept risk appetite under pressure. Geopolitical tensions centred on Russia and Ukraine were also predominant and extended the risk-off tone in markets. This made for ongoing volatility for equities. The uncertainty around this conflict also fed into commodities, with oil and gas prices gyrating and jumping higher. Once again, the Omicron wave of COVID-19 infections seemed a secondary concern to interest rate hikes for markets. Caseloads and hospitalisations were on a declining trend in the month.

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

Equities slid in February. Surging expectations for tightening, followed by rising geopolitical risk, drove broad-based losses. The MSCI World equity market index (excluding Australia) dropped -2.7%. The S&P500 was down -3.1% and the European Stoxx600 lost -3.4%. The MSCI emerging markets index also lost -3.0%.

There were nonetheless several pockets of gains, which highlighted the overall resilience of equity markets, in spite of these key challenges. The ASX200 closed up 1.1%, supported by materials and energy stocks. The UK FTSE100 was also down only -0.1% at month-end, managing well with emerging risks and a rate hike from the Bank of England. China's Shanghai Composite also rallied 3.0%, supported by pro-growth policies to cushion the economic slowdown.

## Interest rates

Longer-dated bond yields kept rising in February, as markets consolidated expectations for rate hikes, and also their view that economic growth remained sound. However, the pace of gains cooled as the month went on, reflecting rising geopolitical risks. The US 10-year bond yield rose 4bps to 1.82%. In Germany, 10-year yields rose 12bps to 0.14%.

Australian 10-year benchmark yields were up 24bps to 2.14%. The outsized gains reflected very strong market pricing for RBA tightening, which also saw Australian 3-year benchmark yields jump 23bps, to 1.54%. The yield on TCorp's February 2032 bond rose 22bps to 2.54%.

## Currency and commodity markets

The Australian dollar rallied in February, to close up 2.8% to US$0.726. The dollar also appreciated across the board against other major currencies. Rising expectations for RBA rate hikes supported performance, with market pricing for the cash rate higher than the Fed funds rate for some of February. The extreme 30.2% gain against the Russian rouble reflected the hit to the rouble from financial sanctions.

Strong gains in commodities and energy prices in February also went hand-in-hand with the rising Australia dollar.  Brent crude oil prices rose 10.3% in the month, in what was a very volatile period. Crude finished the month at US$101 per barrel.

Iron ore prices also posted another solid month of gains, up 2.7% to $140.50 per tonne. Hopes for stronger steel demand in China, reflecting pro-growth policy and expectations for front-loaded infrastructure spending, remained supportive.

# Financial market performance

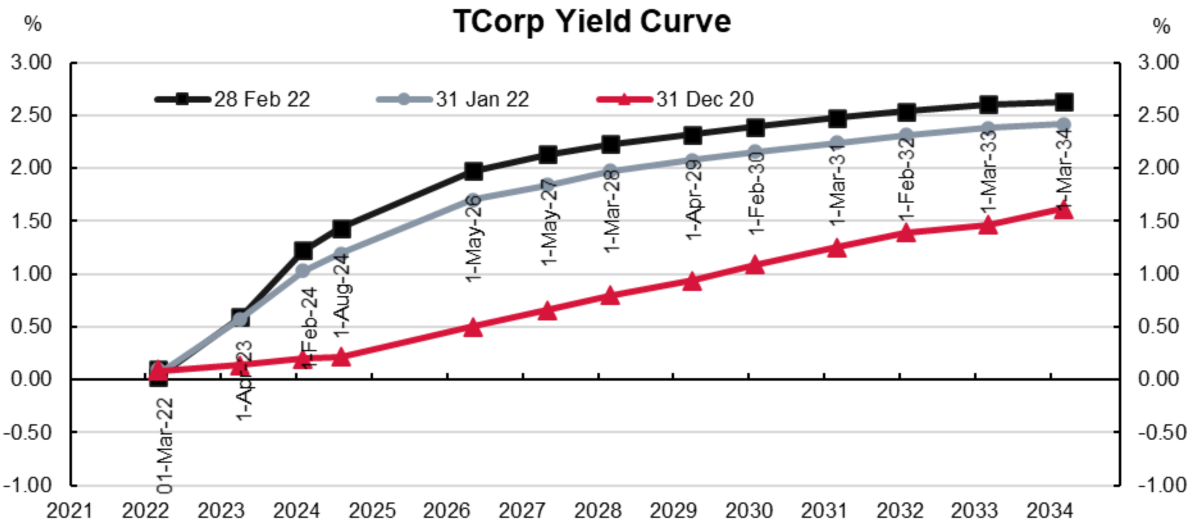
| Currency markets<br>February 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| AUD/USD | 0.707 | 0.726 | 0.707 | **0.726** | 2.77% ▲ |
| AUD/EUR | 0.629 | 0.648 | 0.618 | **0.648** | 2.96% ▲ |
| AUD/JPY | 81.35 | 83.50 | 81.51 | **83.46** | 2.59% ▲ |
| AUD/GBP | 0.525 | 0.541 | 0.523 | **0.541** | 3.02% ▲ |
| AUD/BRL | 3.753 | 3.776 | 3.622 | **3.742** | -0.28% ▼ |
| AUD/RUB | 54.69 | 71.22 | 53.60 | **71.22** | 30.23% ▲ |
| AUD/INR | 52.74 | 54.72 | 52.83 | **54.72** | 3.76% ▲ |
| AUD/CNY | 4.495 | 4.582 | 4.499 | **4.582** | 1.93% ▲ |

| Equity markets*<br>February 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| MSCI World ex Australia | 3137 | 3202 | 2976 | **3053** | -2.7% ▼ |
| MSCI Emerging Markets | 1208 | 1251 | 1155 | **1172** | -3.0% ▼ |
| S&P/ASX200 | 6972 | 7296 | 6991 | **7049** | 1.1% ▲ |
| S&P/ASX Small Ordinaries | 3211 | 3374 | 3150 | **3205** | -0.2% ▼ |
| S&P500 (US) | 4516 | 4589 | 4226 | **4374** | -3.1% ▼ |
| FTSE 100 (UK) | 7464 | 7672 | 7207 | **7458** | -0.1% ▼ |
| Stoxx600 (Europe) | 469 | 477 | 439 | **453** | -3.4% ▼ |
| DAX (Germany) | 15471 | 15619 | 14052 | **14461** | -6.5% ▼ |
| CAC 40 (France) | 6999 | 7131 | 6521 | **6659** | -4.9% ▼ |
| Nikkei 225 (Japan) | 27002 | 27696 | 25971 | **26527** | -1.8% ▼ |
| Hang Seng (HK) | 23802 | 24924 | 22713 | **22713** | -4.6% ▼ |
| Shanghai Composite (China) | 3361 | 3491 | 3361 | **3462** | 3.0% ▲ |
| Bovespa (Brazil) | 112144 | 115181 | 111592 | **113142** | 0.9% ▲ |
| IPC (Mexico) | 51331 | 53681 | 51145 | **53458** | 4.1% ▲ |
| S&P/BSE Sensex (India) | 58014 | 59558 | 54530 | **56247** | -3.0% ▼ |

*Returns are in local currency, and exclude dividend payments

| Bond markets (%)<br>February 2022 | 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 | 0.08 | 0.08 | 0.07 | **0.08** | 0.00 ▲ |
| 180 Day Bank Bill | 0.25 | 0.30 | 0.20 | **0.25** | 0.00 ▼ |
| 1 Year Term Deposit Rate | 0.30 | 0.30 | 0.30 | **0.30** | 0.00 – |
| 3 Year CGS Bond | 1.31 | 1.71 | 1.31 | **1.54** | 0.23 ▲ |
| 10 Year CGS Bond | 1.90 | 2.27 | 1.87 | **2.14** | 0.24 ▲ |
| 10 Year US Bond | 1.78 | 2.04 | 1.78 | **1.82** | 0.04 ▲ |
| 10 Year German Bond | 0.01 | 0.31 | 0.04 | **0.14** | 0.12 ▲ |
| 10 Year Japanese Bond | 0.18 | 0.23 | 0.18 | **0.19** | 0.01 ▲ |

| TCorp bonds (%) February 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| 01-Mar-22 | 0.06 | 0.11 | 0.03 | **0.03** | -0.03 ▼ |
| 20-Apr-23 | 0.57 | 0.75 | 0.52 | **0.59** | 0.02 ▲ |
| 08-Feb-24 | 1.03 | 1.38 | 0.99 | **1.22** | 0.19 ▲ |
| 20-Aug-24 | 1.19 | 1.60 | 1.17 | **1.44** | 0.24 ▲ |
| 20-May-26 | 1.70 | 2.13 | 1.70 | **1.97** | 0.27 ▲ |
| 20-May-27 | 1.84 | 2.28 | 1.83 | **2.13** | 0.30 ▲ |
| 20-Mar-28 | 1.98 | 2.36 | 1.93 | **2.23** | 0.25 ▲ |
| 20-Apr-29 | 2.08 | 2.45 | 2.03 | **2.32** | 0.25 ▲ |
| 20-Feb-30 | 2.16 | 2.53 | 2.10 | **2.39** | 0.24 ▲ |
| 20-Mar-31 | 2.24 | 2.60 | 2.19 | **2.48** | 0.24 ▲ |
| 20-Feb-32 | 2.31 | 2.66 | 2.26 | **2.54** | 0.22 ▲ |
| CIB 2.75% 20 Nov 25 | -0.99 | -0.72 | -1.14 | **-1.14** | -0.15 ▼ |
| CIB 2.50% 20 Nov 35 | 0.20 | 0.64 | 0.21 | **0.44** | 0.24 ▲ |




Source: TCorp

| Commodity markets (US$) February 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| Brent Oil (per barrel) | 91.2 | 101.0 | 89.2 | **101.0** | 10.7% ▲ |
| Iron Ore (per tonne) | 136.9 | 152.9 | 131.6 | **140.5** | 2.7% ▲ |

| 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$111.5 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$129 billion. It is rated Aaa (Stable) by Moody's and AA+ (Stable) by S&P.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