January 2022
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Economic commentary

The global economy

Global economic data was solid overall in January, indicating resilient activity in the face of renewed growth in the number of COVID-19 infections. In the US, the ISM manufacturing survey remained firm at 58.7 in December (above 50 denotes rising activity). While US payrolls growth was unexpectedly slow in December, rising by 199,000 jobs, wages growth ticked up and labour force participation increased, as the unemployment rate dipped from 4.2% to 3.9%. However, US retail sales weakened, down -1.9% in December.

In Europe, the Eurozone manufacturing PMI held at 58.0 in December, unchanged from November, suggesting a robust ongoing pace of output. The European services PMI was also little changed at 53.1, and retail spending was surprisingly firm in its report for November. China remained one notable outlier, with signs activity is turning down significantly. Property investment and retail spending slowed in December, while GDP growth also decelerated in the December quarter. The private Caixin Manufacturing PMI dipped to 49.1 in January. This is below 50.0, consistent with a contraction in activity.

Recent inflation data point to ongoing, elevated price pressures in many major economies, which fanned fears high inflation is now entrenched. US consumer inflation grew 0.5% in December, to be 7.0% higher than a year ago. Core inflation also accelerated, to 5.5% year-on-year, from 4.9%. In Europe, headline consumer inflation climbed to 5.0% in December, from 4.9%. The impact of supply chain disruptions and high household energy costs on prices continued to be a major driver of higher inflation. US employment costs data for Q4, however, showed wages grew 1.0% for the quarter, down from 1.3% in Q3. While this failed to allay market concerns of persistent high inflation it could be a signal that price pressures may soon peak.

Central banks are readying to tighten policy near-term, spearheaded by the US Federal Reserve. In its January policy meeting, the Fed indicated it is full steam ahead for rate hikes and for quantitative tightening, with the first hike likely in March. As a result, markets moved swiftly to price more and faster rate hikes over the next 12 months. The US Federal Reserve is expected to hike rates five times in 2022, lifting the Fed Funds Rate to more than 1.10% by year-end.

The Australian economy

Australian economic data released in January reflected an impressive resilience in the economy before, and during, the Omicron wave of COVID-19 infections. The national unemployment rate fell from 4.6% in November to 4.2% for December, an extremely low level. The economy added 64,800 jobs last month, while the participation rate held steady at 66.1%. The Westpac consumer confidence survey showed sentiment held at a firm level in January. Credit card spending through January was strong, another encouraging sign. In the housing market, auction clearances picked up in January, after a weaker end to 2021.

Australian consumer prices rose by 1.3% in Q4 with core inflation growth at 1%. Higher construction costs and petrol prices were the key drivers. Still, market rate hike expectations were brought forward into 2022, to as early as May.

Financial market commentary

A general risk-off tone took hold of financial markets for the first month of 2022. As expectations for higher global interest rates escalated, equities sank, and bond yields rose. Geopolitical tensions also contributed to volatility later in the month. The Omicron wave of COVID-19 infections seemed secondary to market concern on rapid monetary tightening, even as surging caseloads drove renewed restrictions and high levels of hospitalisations worldwide.

Equity markets (performance in local currency, excluding dividends)

Equities globally slumped in January. The MSCI World equity market index (excluding Australia) dropped -7.0%. The ASX200 was down -6.4%, while the S&P500 fell -5.3% and the European Stoxx600 slid -3.9%. Emerging market equities also performed poorly, with the MSCI emerging markets index down -3.3%, though the decline was not as severe as developed markets.

Again, UK equities stood out, with the FTSE100 up 1.1% for the month. Relief on the lesser severity of the omicron COVID-19 variant, a peak in the wave of infections, and relatively large share of energy companies in the British stock market remained supportive.

The Shanghai Composite was also a notable index for the month, underperforming other major markets and emerging economies with a -7.6% drop. This reflected the worsening growth outlook, and the emergence of Omicron infections, in the zero-COVID system in place in China.

Interest rates

Longer-dated bond yields continued to rise in January, reflecting increasing expectation in the market for rate hikes, at the same time as still-solid economic growth. The US 10-year bond yield rose 27bps to 1.78%. Importantly, it was real yields driving the increase, which was also a key factor in waning risk appetite throughout the month. Similarly, in Australia, 10-year yields were up 23bps to 1.90%. In Germany, 10-year yields rose 19bps to 0.01%, pushing into positive territory. The yield on TCorp's March 2031 bond rose by 29bps, to 2.24%.

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 45bps to 1.18% In Australia, the 3-year Commonwealth Government bond yield increased to1.31%, from 0.91% at end-December 2021.

Currency and commodity markets

The Australian dollar weakened in January, to close -2.7% at US$0.707. Faltering global risk appetite, increasing expectations of Federal Reserve tightening and a weaker outlook for China all likely contributed to the softening.

In contrast, Brent crude oil prices continued to firm, up 17.3% by end-January, to US$91.2 per barrel. The resilient global economic picture as well as rising geopolitical tensions between Russia and the Ukraine propelled prices higher. There were also doubts in the market on the OPEC+ supply increases.

Iron ore prices also posted another solid month of gains, up 13.1% to US$136.90 per tonne. Hopes for stronger steel demand in China, reflecting pro-growth policy, was supportive. There was also likely restocking ahead of the Chinese Lunar New Year, which could have played a part.

Financial market performance

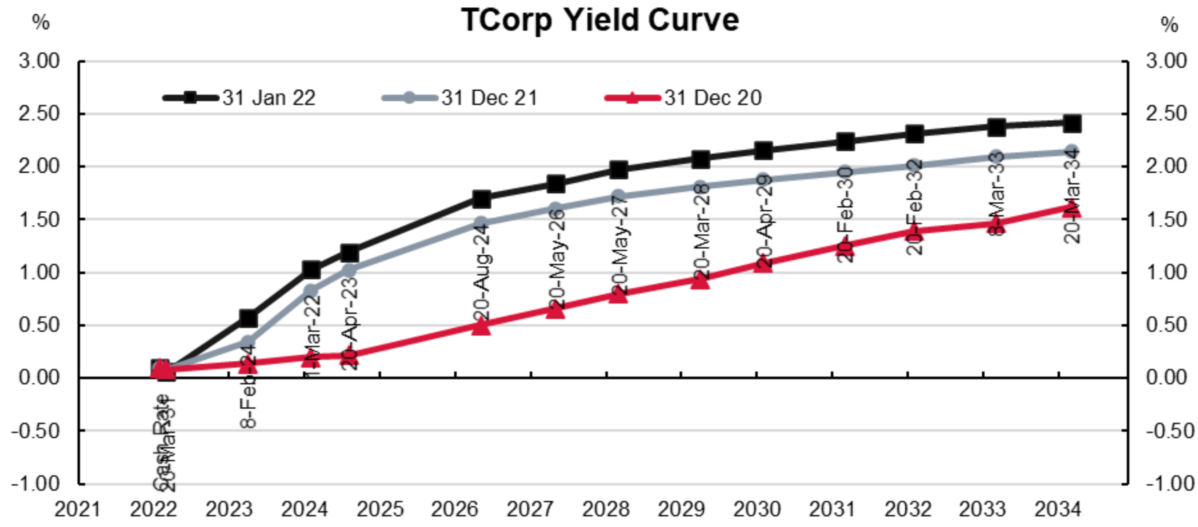
Currency markets **January 2022**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**	
AUD/USD	0.726	0.728	0.699	**0.707**	-2.68%	▼
AUD/EUR	0.639	0.641	0.627	**0.629**	-1.51%	▼
AUD/JPY	83.58	84.05	80.54	**81.37**	-2.65%	▼
AUD/GBP	0.537	0.535	0.521	**0.526**	-2.14%	▼
AUD/BRL	4.050	4.128	3.753	**3.753**	-7.32%	▼
AUD/RUB	54.24	56.57	53.60	**54.70**	0.85%	▲
AUD/INR	53.99	53.95	52.44	**52.74**	-2.31%	▼
AUD/CNY	4.616	4.632	4.445	**4.496**	-2.61%	▼

Equity markets* **January 2022**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**	
MSCI World ex Australia	3312	3328	3030	**3081**	-7.0%	▼
MSCI Emerging Markets	1232	1267	1191	**1191**	-3.3%	▼
S&P/ASX200	7445	7590	6838	**6972**	-6.4%	▼
S&P/ASX Small Ordinaries	3529	3594	3096	**3211**	-9.0%	▼
S&P500 (US)	4766	4797	4327	**4516**	-5.3%	▼
FTSE100 (UK)	7385	7611	7297	**7464**	1.1%	▲
Stoxx600 (Europe)	488	494	456	**469**	-3.9%	▼
DAX (Germany)	15885	16272	15011	**15471**	-2.6%	▼
CAC 40 (France)	7153	7376	6788	**6999**	-2.2%	▼
Nikkei 225 (Japan)	28792	29332	26170	**27002**	-6.2%	▼
Hang Seng (HK)	23398	24966	22907	**23802**	1.7%	▲
Shanghai Composite (China)	3640	3640	3361	**3361**	-7.6%	▼
Bovespa (Brazil)	104822	112612	101006	**112506**	7.3%	▲
IPC (Mexico)	53272	53973	50466	**51386**	-3.5%	▼
S&P/BSE Sensex (India)	58254	61309	57200	**58014**	-0.4%	▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **January 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	0.07	0.08	0.06	**0.08**	0.01	▲
180 Day Bank Bill	0.21	0.26	0.21	**0.25**	0.04	▲
1 Year Term Deposit Rate	0.30	0.30	0.30	**0.30**	0.00	–
3 Year CGS Bond	0.91	1.47	0.91	**1.31**	0.40	▲
10 Year CGS Bond	1.67	2.02	1.67	**1.90**	0.23	▲
10 Year US Bond	1.51	1.87	1.63	**1.78**	0.27	▲
10 Year German Bond	-0.18	0.01	-0.12	**0.01**	0.19	▲
10 Year Japanese Bond	0.07	0.18	0.07	**0.18**	0.11	▲

TCorp bonds (%) January 2022	Previous month close	Month high	Month low	Month close	Month change
01-Mar-22	0.08	0.13	0.05	**0.06**	-0.02 ▼
20-Apr-23	0.35	0.66	0.35	**0.57**	0.23 ▲
08-Feb-24	0.83	1.17	0.83	**1.03**	0.20 ▲
20-Aug-24	1.02	1.33	1.02	**1.19**	0.17 ▲
20-May-26	1.47	1.86	1.47	**1.70**	0.24 ▲
20-May-27	1.61	2.00	1.61	**1.84**	0.23 ▲
20-Mar-28	1.72	2.09	1.72	**1.98**	0.26 ▲
20-Apr-29	1.81	2.19	1.81	**2.08**	0.27 ▲
20-Feb-30	1.88	2.27	1.88	**2.16**	0.28 ▲
20-Mar-31	1.95	2.36	1.95	**2.24**	0.29 ▲
20-Feb-32	2.01	2.44	2.01	**2.31**	0.30 ▲
CIB 2.75% 20 Nov 25	-1.04	-0.75	-1.04	**-0.99**	0.04 ▲
CIB 2.50% 20 Nov 35	0.03	0.37	0.03	**0.20**	0.17 ▲



Source: TCorp

Commodity markets (US$) January 2022	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	77.8	91.2	79.0	**91.2**	17.3% ▲
Iron Ore (per tonne)	121.1	147.0	122.3	**136.9**	13.1% ▲

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$113 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$132 billion. It is rated Aaa (Stable) by Moody's and AA+ (Stable) by S&P.

TCorp

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