

Economic commentary

Global economic recovery waiting on vaccine rollout

In January, prospects for recovery in the global economy in 2021 improved, but near-term momentum spluttered. The global economic environment continued to be shaped by the evolution of the COVID-19 pandemic and the resilience of nascent recoveries in the major economies.

The International Monetary Fund upgraded its forecasts, projecting strong global growth of 5.5% in 2021 and 4.2% in 2022, a sharp turnaround after a contraction of 3.5% in 2020.

The roll-out of COVID-19 vaccines slowly gathered momentum, at the same time as caseloads and deaths hit record levels in many countries. The benchmark for achieving 'herd immunity' to COVID-19 is around 70% of population level. At the end of January, however, only 7 countries had vaccinated at least 5% of their population – Israel, UAE, Seychelles, UK, Bahrain, USA and Malta.

The US economy grew by 1% in the December quarter. With Democrats achieving an effective majority in the US Senate, there is greater chance that President Biden will be able to implement his ambitious policy agenda. The centrepiece is a US\$1.9 trillion fiscal package to combat the pandemic and support US households and business. With hopes of more fiscal stimulus, analysts upgraded their forecasts for US growth. This initially supported equity market but also resulted in higher bond yields.

In Europe, many countries have extended lockdowns to combat the pandemic which may have pushed the Eurozone economy back into recession. In the December quarter, economic activity was flat or weaker in Germany, France and Spain. Regional lockdowns also slowed growth in China's economy.

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Government actions to prevent a resurgence of the pandemic in Australia continued to be largely effective, notably ensuring the outbreak in Sydney at the start of January was short-lived. Consequently, the Australian economy appears to be enjoying a stronger and more sustained recovery than many other countries.

In particular, government support policies have been effective in boosting household spending. Retail spending was 9.4% higher in December than a year earlier while home loan approvals rose by 31%. Firms rated conditions in December, the best since 2018. Employment rose by 50,000 and the unemployment rate decreased to 6.6% in December.

That said, the economy has not fully returned to pre-COVID levels of activity, with unemployment and underemployment elevated compared to early 2020 and some sectors of the economy – e.g. tourism – still struggling. The key question remains how these sectors will perform as government support measures are phased out in coming months.

Consumer prices rose by 0.9% in the year to December. The Reserve Bank of Australia's preferred measure of inflation – the trimmed inflation rate (which attempts to exclude transitory price moves) -- is currently 1.3% which is obviously still well below the RBA's target zone of 2 to 3%.

Financial market commentary

Equity Markets (Performance is in local currency and excludes dividends)

Equity markets entered January in a buoyant mood but finished on a negative note. Investors saw early gains eroded by softer economic data, delays to the rollout of COVID-19 vaccines, concerns about asset-price bubbles and the unprecedented impact of a group of small retail investors trading the US market.

In December, the MSCI World (ex Australia) Equity index fell 1.1%. The S&P500 index also lost 1.1%, while the European benchmark Stoxx600 index and UK's FTSE100 both ended 0.8% lower.

In late January, a group of small retail investors around the world co-ordinated their trading via the social media platform Reddit, to buy stocks - notably a video game retailer called GameStop - that some hedge funds were betting would fall in price. The hedge funds incurred large losses and were forced to sell other stocks they owned to cover their losses, precipitating further selling in global stock markets.

The relative strength of the Australian economy helped shore up local stock prices. Australia was one of the best performed equity markets; the S&P/ASX200 posted a small gain of 0.3%. Australian banks gained 4.1%, while Resources lost 0.6%.

China's resilient economy helped push up share prices towards record highs, before its central bank, the People's Bank of China, warned against asset-price bubbles creating problems if monetary policy support was maintained for too long. China's Shanghai Composite ended January 0.3% higher. Other major emerging markets fell, including Brazil (-3.3%) and India (-3.1%).

Interest rates

Central banks continued to hold down interest rates to support economic recovery. However, the longer end of the yield curve did steepen, as investors priced in central banks having a greater tolerance of higher inflation while waiting for a sustainable recovery to be established. The outcome of the US Senate elections also made it more likely that additional stimulatory fiscal packages will be passed.

The US 10-year bond yield rose 15bps to 1.07% and the Australian 10-year rose 16bps to 1.13%. However, the relative weakness of the Eurozone economies limited the increase in the 10-year German bond yield to 5bps.

The RBA's bond purchases kept interest rates on bonds out to the 3-year maturity to just above the 10bps monetary policy target rate. The yield on TCorp's 2031 bond rose by 9bps to 1.35%.

Currency and commodity markets

The Australian dollar returned a mixed performance in January, depreciating against the USD but rising against the euro and yen. The exchange rate rose to a 34-month high of US\$0.78, before falling back to US\$0.764.

Commodities also had mixed fortunes in January, and supply disruptions in some markets. The price of Brent crude oil rose 7.9% in the month, aided by Saudi production cuts. Iron ore prices also rose 7.9%, and nickel gained 4.5%, supported by solid Chinese demand for raw materials. Gold ended down 2.7%.

Financial market performance

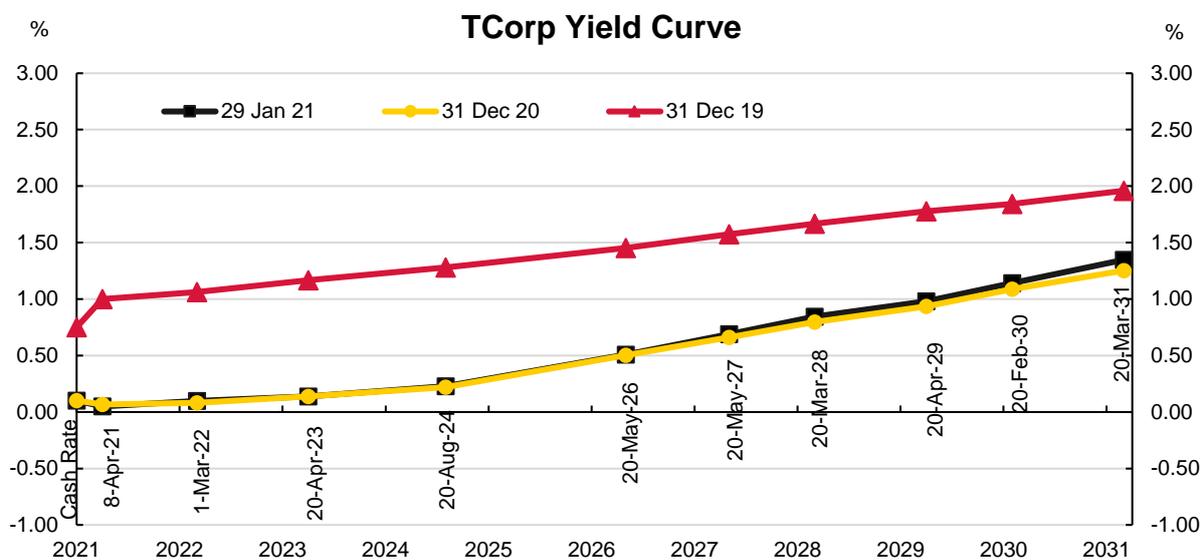
Currency markets January 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.769	0.780	0.764	0.764	-0.65% ▼
AUD/EUR	0.630	0.640	0.626	0.630	0.01% ▲
AUD/JPY	79.44	80.74	79.05	80.02	0.73% ▲
AUD/GBP	0.563	0.573	0.558	0.558	-0.90% ▼
AUD/BRL	4.000	4.239	4.000	4.183	4.57% ▲
AUD/RUB	57.25	58.36	56.70	57.90	1.13% ▲
AUD/INR	56.22	57.04	55.77	55.77	-0.81% ▼
AUD/CNY	5.022	5.042	4.914	4.914	-2.14% ▼

Equity markets* January 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2749	2825	2719	2719	-1.1% ▼
MSCI Emerging Markets	1291	1410	1292	1351	4.6% ▲
S&P/ASX200	6587	6825	6587	6607	0.3% ▲
S&P/ASX Small Ordinaries	3090	3181	3074	3081	-0.3% ▼
S&P500 (US)	3756	3855	3701	3714	-1.1% ▼
FTSE 100 (UK)	6461	6873	6407	6407	-0.8% ▼
Stoxx600 (Europe)	399	412	396	396	-0.8% ▼
DAX (Germany)	13719	14050	13433	13433	-2.1% ▼
CAC 40 (France)	5551	5707	5399	5399	-2.7% ▼
Nikkei 225 (Japan)	27444	28822	27056	27663	0.8% ▲
Hang Seng (HK)	27231	30159	27231	28284	3.9% ▲
Shanghai Composite (China)	3473	3624	3473	3483	0.3% ▲
Bovespa (Brazil)	119017	125077	115068	115068	-3.3% ▼
IPC (Mexico)	44067	46729	42986	42986	-2.5% ▼
S&P/BSE Sensex (India)	47751	49792	46286	46286	-3.1% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) January 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	0.01	0.02	0.01	0.01	0.00 –
180 Day Bank Bill	0.02	0.03	0.01	0.02	-0.01 ▼
1 Year Term Deposit Rate	0.40	0.40	0.35	0.35	-0.05 ▼
3 Year CGS Bond	0.11	0.11	0.10	0.11	0.01 ▲
10 Year CGS Bond	0.97	1.15	0.98	1.13	0.16 ▲
10 Year US Bond	0.91	1.15	0.91	1.07	0.15 ▲
10 Year German Bond	-0.57	-0.47	-0.60	-0.52	0.05 ▲
10 Year Japanese Bond	0.02	0.06	0.01	0.05	0.03 ▲

TCorp bonds (%) January 2021	Previous month close	Month high	Month low	Month close	Month change
08-Apr-21	0.07	0.08	0.02	0.05	-0.02 ▼
01-Mar-22	0.08	0.12	0.08	0.10	0.02 ▲
20-Apr-23	0.14	0.14	0.13	0.14	0.00 ▲
20-Aug-24	0.22	0.23	0.22	0.23	0.01 ▲
20-May-26	0.50	0.57	0.49	0.51	0.01 ▲
20-May-27	0.66	0.74	0.65	0.69	0.03 ▲
20-Mar-28	0.80	0.91	0.79	0.85	0.05 ▲
20-Apr-29	0.94	1.06	0.92	0.98	0.04 ▲
20-Feb-30	1.09	1.22	1.06	1.14	0.05 ▲
20-Mar-31	1.25	1.40	1.23	1.35	0.09 ▲
CIB 2.75% 20 Nov 25	-1.11	-1.11	-1.32	-1.32	-0.21 ▼
CIB 2.50% 20 Nov 35	-0.10	0.07	-0.10	0.07	0.16 ▲



Commodity markets (US\$) January 2021	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	51.8	56.6	51.1	55.9	7.9% ▲
Iron Ore (per tonne)	155.8	171.3	155.8	168.1	7.9% ▲

TCorp forecasts	Mar-21	Jun-21	Dec-21	Dec-22
RBA Official Cash Rate	0.10	0.10	0.10	0.10
90 Day Bank Bill	0.10	0.10	0.10	0.10
10 Year CGS Bond	1.00	1.00	1.00	1.00

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