January 2023
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Economic commentary

The global economy

Encouraging data suggesting that global inflation has peaked fuelled hopes that central banks are nearing the end of this tightening cycle and that there will be a soft landing in major developed economies. However, financial markets remain more optimistic on their outlook for interest rates than central banks, with commentary by US Federal Reserve and European Central Bank (ECB) officials continuing to suggest that interest rates will stay higher for longer than investors expect.

In the US, measures of inflation were in line with expectations for December and although they remained elevated, annual inflation continued to slow. A key measure of wages growth also decelerated in the December quarter, providing further evidence that US inflation is on its way down. Commentary by Fed officials continued to signal an unwavering commitment to lower inflation to the 2% target.

Data on US economic activity was mixed. In the first half of January, weaker-than-expected retail sales and industrial production data magnified concerns of a US recession. However, more positive PMI data in the second half of the month strengthened investors' hopes that the US might avoid a hard landing.

There has also been increased optimism that economic growth in Europe will be more resilient than previously expected. This reflected stronger-than-expected preliminary GDP data for the December quarter and PMI data for January, as well as mild winter weather that has led to higher gas reserves and supported activity. CPI inflation falling more than expected in December was also a positive development. ECB officials have noted that interest rates must still rise significantly to return inflation to the 2% target. Despite the continued hawkish communication, investors expect monetary policy to be eased sooner than central bank officials suggest.

Attention has also focused on the Bank of Japan (BoJ), after it unexpectedly raised the top of its yield curve control (YCC) target for 10-year Japanese government bonds to 50bps in December. While the BoJ kept its YCC policy unchanged in January, it is expected to come under pressure to further increase the top of the target. Stronger-than-expected Tokyo CPI data, which has a good correlation with nationwide inflation, has strengthened expectations that the BoJ will need to tighten monetary policy.

In China, GDP growth in the December quarter was slightly stronger than expected, but still the second lowest annual growth rate since the 1970s. While growth last year was stifled by China's harsh COVID restrictions, the abandonment of the COVID-zero approach is expected to boost growth this year. China also experienced the first fall in its total population in 2022, reflecting a falling birth rate and an ageing population.

The Australian economy

Recent data suggests that the Australian economy is slowing. Building approvals continued to trend lower in November, surveyed business conditions deteriorated, and retail sales fell much more sharply-than-expected in December.

December quarter CPI data was stronger than markets expected, with annual headline and trimmed mean inflation rising by 7.6% and 6.5%, respectively. Part of the upside surprise came from larger-than-expected price rises for domestic and international travel. Even though the CPI data was broadly consistent with the RBA's inflation forecasts, investors nevertheless priced in a greater chance of a 25bps rate rise by the RBA in February and revised up their expectations for the peak level of the cash rate.

Despite a surprise fall in employment, the labour market remained very tight in December. The unemployment rate was unchanged at (an upwardly revised) 3.5% in the month.

Financial market commentary

Financial markets had a very strong month in January, with global equity markets rallying and bond yields falling, to broadly retrace the weakness experienced in December. The strength was concentrated in the first few weeks of January, with investors more optimistic that global inflation will come down quickly. Bond yields reversed some of their earlier declines towards the end of the month as global growth prospects were perceived to be more positive.

Equity markets (performance in local currency, excluding dividends)

Global equity markets rose strongly in January as investors became more optimistic that inflation will come down quickly and global growth will be more resilient than originally feared. The US S&P500 rose by 6.2%, with many technology stocks experiencing strong gains. Europe's Stoxx600 increased by 6.7%, buoyed by unusually warm weather that helped lower gas prices and maintain high gas reserves. European shares were also boosted by hopes that the reopening of China's economy and the return of Chinese tourists would benefit European producers of luxury goods. Optimism around China's reopening has also driven Hong Kong shares significantly higher, and to a lesser extent, Chinese stocks.

Australia's ASX200 rose alongside global share markets in January, increasing by 6.2%, with resources stocks rising particularly strongly as China's reopening is expected to boost demand for commodities. However, the appreciation of the Australian dollar over the past month has likely weighed on Australian stocks, as a higher Australian dollar reduces the earnings of Australian companies with overseas operations.

Interest rates

The increased optimism of investors about falling global inflation pushed yields notably lower in the first few weeks of January. However, yields partly retraced some of their earlier declines towards the end of January as investors upgraded their expectations for global growth. Overall in January, Australian 10-year government bond yields fell 50bps to 3.55%. US 10-year yields fell by 37bps to 3.51% and German 10-year yields declined by 29bps to 2.29%. Japanese 10-year bond yields were the exception, rising by 7bps to 0.50%, as the BoJ continued to intervene heavily in the bond market to keep yields from rising above the 0.5% upper bound of its yield curve control policy.

Currency and commodity markets

Commodity prices rose in January as the reopening of China's economy is expected to increase demand for a range of commodities. Iron ore and copper prices both rose by 10.9% over the month. Oil prices have been volatile so far this year, though the Brent crude oil price was little changed over the month.

Optimism around China's economy and the rise in commodity prices resulted in a broad-based appreciation of the Australian dollar in January, which is currently at little below US$0.71.

Financial market performance

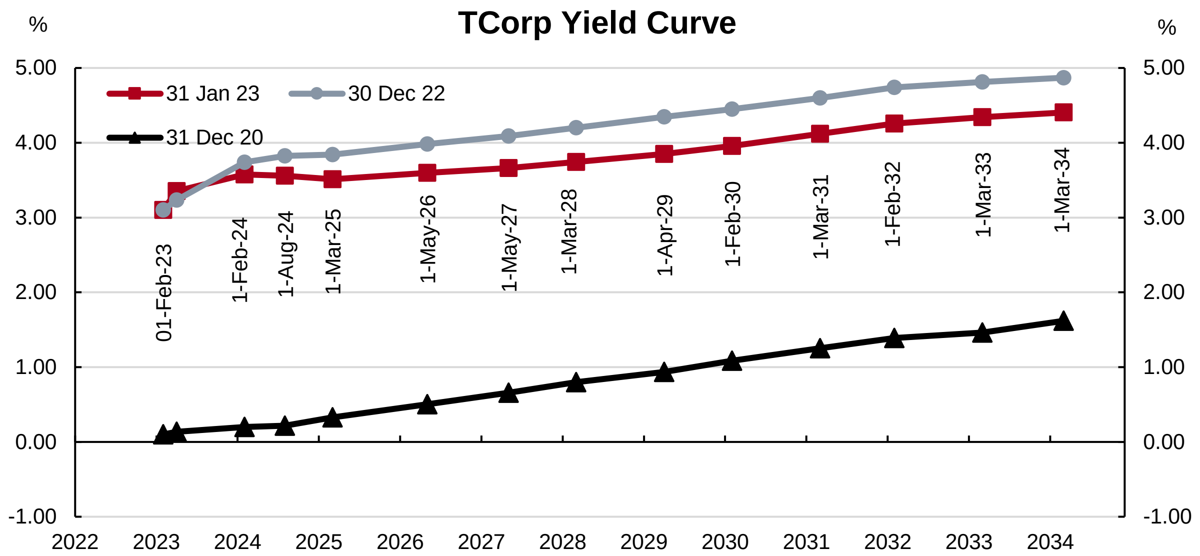
Currency markets January 2023	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.681	0.712	0.673	**0.706**	3.55% ▲
AUD/EUR	0.636	0.653	0.638	**0.649**	2.05% ▲
AUD/JPY	89.33	92.65	88.14	**91.78**	2.74% ▲
AUD/GBP	0.563	0.573	0.558	**0.573**	1.61% ▲
AUD/BRL	3.598	3.715	3.555	**3.581**	-0.46% ▼
AUD/INR	56.37	58.05	55.74	**57.80**	2.54% ▲
AUD/CNY	4.700	4.827	4.646	**4.766**	1.40% ▲

Equity markets* January 2023	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2660	2845	2652	**2845**	6.9% ▲
MSCI Emerging Markets	956	1052	956	**1032**	7.9% ▲
S&P/ASX200	7039	7494	6946	**7477**	6.2% ▲
S&P/ASX Small Ordinaries	2798	3022	2774	**2981**	6.5% ▲
S&P500 (US)	3840	4077	3808	**4077**	6.2% ▲
FTSE 100 (UK)	7452	7860	7452	**7772**	4.3% ▲
Stoxx600 (Europe)	425	458	429	**453**	6.7% ▲
DAX (Germany)	13924	15187	14069	**15128**	8.7% ▲
CAC 40 (France)	6474	7097	6595	**7082**	9.4% ▲
Nikkei 225 (Japan)	26095	27433	25717	**27327**	4.7% ▲
Hang Seng (HK)	19781	22689	19781	**21842**	10.4% ▲
Shanghai Composite (China)	3089	3269	3089	**3256**	5.4% ▲
Bovespa (Brazil)	109735	114270	104166	**113431**	3.4% ▲
IPC (Mexico)	48464	55164	48993	**54564**	12.6% ▲
S&P/BSE Sensex (India)	60841	61294	59331	**59550**	-2.1% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) January 2023	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	3.10	3.10	3.10	**3.10**	0.00 –
90 Day Bank Bill	3.26	3.38	3.26	**3.37**	0.11 ▲
180 Day Bank Bill	3.77	3.82	3.56	**3.72**	-0.04 ▼
1 Year Term Deposit Rate	2.85	2.85	2.85	**2.85**	0.00 –
3 Year CGS Bond	3.50	3.51	2.96	**3.18**	-0.32 ▼
10 Year CGS Bond	4.05	4.05	3.32	**3.55**	-0.50 ▼
10 Year US Bond	3.87	3.87	3.37	**3.51**	-0.37 ▼
10 Year German Bond	2.57	2.44	2.02	**2.29**	-0.29 ▼
10 Year Japanese Bond	0.42	0.53	0.39	**0.50**	0.07 ▲

TCorp bonds (%) **January 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
20-Apr-23	3.23	3.38	3.21	**3.35**	0.12 ▲
08-Feb-24	3.74	3.76	3.34	**3.58**	-0.16 ▼
20-Aug-24	3.83	3.82	3.35	**3.56**	-0.27 ▼
20-Mar-25	3.84	3.84	3.30	**3.51**	-0.33 ▼
20-May-26	3.98	3.98	3.39	**3.60**	-0.39 ▼
20-May-27	4.09	4.09	3.45	**3.66**	-0.43 ▼
20-Mar-28	4.20	4.20	3.52	**3.74**	-0.46 ▼
20-Apr-29	4.35	4.35	3.63	**3.85**	-0.50 ▼
20-Feb-30	4.45	4.45	3.73	**3.96**	-0.50 ▼
20-Mar-31	4.60	4.60	3.88	**4.12**	-0.48 ▼
20-Feb-32	4.74	4.74	4.00	**4.26**	-0.48 ▼
CIB 2.75% 20 Nov 25	0.86	0.86	0.49	**0.49**	-0.37 ▼
CIB 2.50% 20 Nov 35	2.44	2.46	1.71	**1.88**	-0.56 ▼



Source: TCorp

Commodity markets (US$) **January 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
Brent Oil (per barrel)	85.9	88.2	77.8	**84.5**	-1.7% ▼
Iron Ore (per tonne)	111.3	124.2	111.3	**123.4**	10.9% ▲

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

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$104 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$138 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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