

## Monthly economic report

### The global economy

Over the past month, investors have pushed back their expectations for when they expect central banks to start cutting interest rates in 2024. While at the end of last year investors were certain that the US Federal Reserve (Fed) would deliver the first rate cut in March 2024, confidence around this view has diminished, particularly after Fed Chairman Powell noted that a March rate cut is unlikely. Investors remain confident, however, that a rate cut will be delivered in May, and currently expect the Fed to cut rates by around 150bps this year.

The reassessment of the policy outlook occurred as Fed officials have continued to push back on investors anticipating rate cuts to commence in early 2024. While inflation developments in the US (and globally) have been positive, the Fed noted that it needs to be convinced that inflation is sustainably returning to target before it cuts rates. The recent slowing in wages growth is encouraging, but it is still above levels that are consistent with the Fed's 2% inflation target. This reflects continued strength in the US labour market, with employment rising strongly and job openings unexpectedly increasing in December.

Stronger US economic data has also reinforced the view that the Fed won't cut rates in the first quarter of 2024. The US economy grew by more than expected in the December quarter, buoyed by solid consumer spending. The strength in consumer spending over 2023 has surprised many, as households remain willing to reduce their saving rate to fund spending. Purchasing Managers Indexes (PMI) also improved in January, highlighting the US economy's continued resilience.

In Europe, central bank officials have abandoned their tightening bias and also turned their focus to the timing of potential rate cuts, with the European Central Bank (ECB) President opining that a rate cut around the middle of this year is likely. Like the US, investors now ascribe a lower chance of a rate cut in March and expect one less rate cut in the first half of 2024. In contrast to the US economy, however, the European economy has been weak, stagnating over 2023. Activity in Germany has been particularly muted.

China's economy grew by 5.2% in 2023 – meeting authorities target – but ongoing deflationary pressures saw nominal GDP grow at its slowest rate in almost 50 years. With weak consumer spending and an anaemic property sector, the People's Bank of China unexpectedly announced a 50bps cut to the Reserve Requirement Ratio for all banks. This has boosted hopes that larger fiscal stimulus and monetary easing measures will be announced to support China's economy. Developments in the liquidation of large property developer, Evergrande – which was ordered by a Hong Kong court – will be closely watched over coming months.

### The Australian economy

Inflation developments in Australia have also been positive, with consumer price inflation in the December quarter 2023 significantly lower than the Reserve Bank of Australia (RBA) anticipated in its most recent forecasts (from early November). The moderation in domestic market services inflation is particularly encouraging, though services inflation remains elevated and the RBA is likely to remain concerned about this being sticky. Investors now expect the RBA to start cutting interest rates in June and to lower rates by 75bps over 2024.

The recent easing of inflationary pressures has occurred alongside mounting evidence of weakness in the Australian economy. PMI data indicates that the Australian economy weakened further in the December quarter. Retail spending remains subdued, with turnover little changed over the past year despite high inflation and strong population growth. The labour market also continues to loosen, with full-time employment and total hours worked falling further in recent months. Leading indicators, including job advertisements and job vacancies, are pointing to a further labour market cooling.

## Financial market commentary

Bond yields rose in January, largely unwinding December's fall in yields, as investors pared back their expectations for interest rate cuts this year. Despite the higher yields, most developed economy equity markets recorded gains.

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

The MSCI World (ex-Australia) index rose by 2.2% in January and the ASX gained 1.2%. The US S&P500 was up 1.6%; investor sentiment boosted by positive economic data that supported the view that the US economy will have a soft landing. Japan's equity market rose by a strong 8.4% in January, following large gains in 2023, boosted by the depreciation of the yen.

The UK equity market underperformed, losing 1.3%, as a higher-than-expected inflation data caused investors to noticeably scale back their rate cut expectations for 2024 and pushed up bond yields.

Emerging market equities were mostly weaker in January, with the MSCI Emerging Markets index falling by 4.2%. Equity markets in China and Hong Kong experienced sharp falls reflecting ongoing concerns around China's growth prospects and a Hong Kong court ordering the liquidation of large Chinese property developer, Evergrande.

### Interest rates

Global bond yields rose throughout the first half of January, following sizeable falls in November and December, as investors pared back their expectations for interest rate cuts in 2024. In the last few days of January, however, yields retraced most of their earlier rise as rate cut expectations were again increased. For the US, this was driven by the Fed's forward guidance becoming more neutral rather than hawkish. For Australia, the significantly weaker inflation outcome for the December quarter caused a sharp fall in bond yields. US 10-year bond yields ended the month 3bps higher and Australian 10-year yields rose 6bps. Australian 3-year bond yields fell by 4bps.

TCorp bond yields moved broadly in line with those on Commonwealth Government bonds in January.

### Currency and commodity markets

Oil prices rose by 6.1% in January, unwinding the fall in December, boosted by concerns around the conflict in the Middle East and heightened attacks in the Red Sea.

The Australian dollar depreciated by 3.6% against the US dollar in January. Higher US bond yields led to broad US dollar strength as investors pared back rate cut expectations more for the Fed than for the RBA.

## Financial market performance

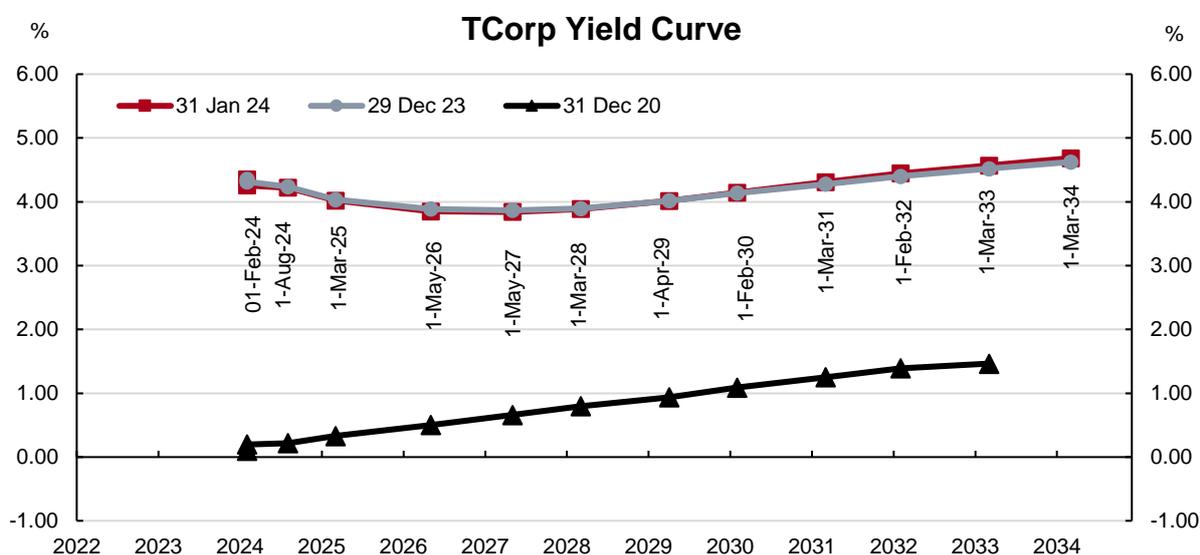
Currency markets January 2024	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.681	0.681	0.655	<b>0.657</b>	-3.6% ▼
AUD/EUR	0.617	0.618	0.602	<b>0.607</b>	-1.6% ▼
AUD/JPY	96.08	97.71	95.99	<b>96.50</b>	0.4% ▲
AUD/GBP	0.535	0.536	0.517	<b>0.518</b>	-3.2% ▼
AUD/BRL	3.309	3.325	3.229	<b>3.255</b>	-1.6% ▼
AUD/INR	56.68	56.71	54.47	<b>54.54</b>	-3.8% ▼
AUD/CNY	4.837	4.837	4.708	<b>4.709</b>	-2.6% ▼

Equity markets* January 2024	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3247	3320	3191	<b>3320</b>	2.2% ▲
MSCI Emerging Markets	1024	1025	958	<b>981</b>	-4.2% ▼
S&P/ASX200	7591	7681	7346	<b>7681</b>	1.2% ▲
S&P/ASX Small Ordinaries	2930	2956	2833	<b>2956</b>	0.9% ▲
S&P500 (US)	4770	4928	4689	<b>4846</b>	1.6% ▲
FTSE 100 (UK)	7733	7733	7446	<b>7631</b>	-1.3% ▼
Stoxx600 (Europe)	479	486	468	<b>486</b>	1.4% ▲
DAX (Germany)	16752	16972	16432	<b>16904</b>	0.9% ▲
CAC 40 (France)	7543	7677	7319	<b>7657</b>	1.5% ▲
Nikkei 225 (Japan)	33464	36547	33288	<b>36287</b>	8.4% ▲
Hang Seng (HK)	17047	17047	14961	<b>15485</b>	-9.2% ▼
Shanghai Composite (China)	2975	2975	2756	<b>2789</b>	-6.3% ▼
Bovespa (Brazil)	134185	134185	126602	<b>127752</b>	-4.8% ▼
IPC (Mexico)	57386	57537	54708	<b>57373</b>	0.0% ▼
S&P/BSE Sensex (India)	72240	73328	70371	<b>71752</b>	-0.7% ▼

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

Bond markets (%) January 2024	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.35	4.35	4.35	<b>4.35</b>	0.00 –
90 Day Bank Bill	4.36	4.36	4.34	<b>4.35</b>	-0.01 ▼
180 Day Bank Bill	4.45	4.47	4.43	<b>4.43</b>	-0.01 ▼
New institutional term deposits	4.50	4.70	4.50	<b>4.70</b>	0.20 ▲
3 Year CGS Bond	3.61	3.86	3.57	<b>3.57</b>	-0.04 ▼
10 Year CGS Bond	3.96	4.29	3.96	<b>4.01</b>	0.06 ▲
10 Year US Bond	3.88	4.18	3.88	<b>3.91</b>	0.03 ▲
10 Year German Bond	2.02	2.35	2.02	<b>2.17</b>	0.14 ▲
10 Year Japanese Bond	0.61	0.75	0.57	<b>0.73</b>	0.12 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
<b>January 2024</b>					
08-Feb-24	4.31	4.38	4.26	<b>4.26</b>	-0.06 ▼
20-Aug-24	4.23	4.37	4.22	<b>4.22</b>	-0.01 ▼
20-Mar-25	4.03	4.25	4.02	<b>4.02</b>	-0.01 ▼
20-May-26	3.89	4.12	3.85	<b>3.85</b>	-0.04 ▼
20-May-27	3.87	4.13	3.84	<b>3.84</b>	-0.02 ▼
20-Mar-28	3.89	4.17	3.89	<b>3.89</b>	-0.01 ▼
20-Apr-29	4.02	4.31	4.01	<b>4.01</b>	0.00 ▼
20-Feb-30	4.14	4.44	4.14	<b>4.14</b>	0.01 ▲
20-Mar-31	4.28	4.60	4.28	<b>4.31</b>	0.03 ▲
20-Feb-32	4.40	4.73	4.40	<b>4.45</b>	0.05 ▲
08-Mar-33	4.52	4.85	4.52	<b>4.57</b>	0.05 ▲
CIB 2.75% 20 Nov 25	1.06	1.39	1.06	<b>1.25</b>	0.19 ▲
CIB 2.50% 20 Nov 35	2.07	2.37	2.07	<b>2.17</b>	0.10 ▲



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
<b>January 2024</b>					
Brent Oil (per barrel)	77.0	83.6	75.9	<b>81.7</b>	6.1% ▲
Iron Ore (per tonne)	136.4	143.6	132.0	<b>135.1</b>	-0.9% ▼

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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