

Economic commentary

The global economy

While most economic data consistently exceeded expectations over the first half of 2021, it now appears that the peak pace of growth has been reached, at least for the largest two economies of China and the US. This said, the underlying momentum appears strong and shouldn't unnerve investors.

The US economy grew at an annualised pace of 6.5% in the June quarter. While this is a healthy outcome, it was below the 8.5% pace forecast by analysts. Similarly, the US service sector Purchasing Manager's Index fell back from around 65 in June to 60 in July. While this still reflects very robust growth, it is consistent with a moderation in the pace of expansion.

Besides the slight softening of some economic measures, investors also monitored the spread of the delta variant of COVID-19 around the world. While case numbers rose sharply even in those countries such as the US and UK where vaccination rates are high, investors ultimately took comfort from the ongoing low level of hospitalisations and serious illness. Many Asian countries, however, have relatively low vaccination rates and this could create an uneven global recovery.

The US central bank appeared relatively unconcerned that activity could be undermined by the delta variant of COVID-19 and stated that the US economy had made progress towards its goal of a fully-employed labour market over 2021. But while Fed Chair Powell signalled there was no urgency to remove stimulus, he did suggest that the Fed could decide to slow its asset purchase program later in the year.

The Australian economy

Australian economic data released during July continued to depict an economy that was performing well at the mid-point mark of 2021, but the outlook was dominated by lockdowns in Victoria, Queensland, South Australia and, most importantly, the extended lockdown in the Greater Sydney region.

Consumer sentiment fell sharply in July, reflecting a more cautious outlook from consumers. High-frequency data – such as electronic card transactions – also showed a sharp decline in spending in NSW over the month of July. Most analysts now expect that the Australian economy will contract in the September quarter, but are confident that spending will bounce back in the December quarter as restrictions are progressively removed.

The altered outlook for the economy has also shifted the risks for monetary policy. In early July, the Reserve Bank of Australia (RBA) announced that it intended to scale back its weekly purchases of government bonds, from \$5bn to \$4bn, when the current program ends in September. Analysts speculated that this decision may now be reversed following Sydney's extended shutdown. Certainly the inflation data that was released during July, which showed that core inflation was just 1.6% over the year to June 2021, was consistent with the RBA keeping policy highly stimulatory for longer.

Financial market commentary

Supportive statements from central banks ensured that bond yields continued to ease over July. This combined with very strong earnings reports in the US and Europe underpinned health returns for developed country equity markets in July. The story was, however, very different in emerging markets where equities performed poorly in July.

Equity markets (performance in local currency, excluding dividends)

The MSCI World equity market index (excluding Australia) rose 1.8% in July, continuing its strong run. Equity markets in Australia, the US and Europe all closed solidly higher, despite some temporary setbacks during the month.

In the US, the S&P500 rose 2.3%, with a very strong earnings reporting season underpinning the gains. The European Stoxx600 index rose 2.0% in July, with earnings also supporting the gains over the month. Meanwhile, Australia's S&P/ASX200 index added 1.1% for the month with resources stocks performing well.

Emerging markets again underperformed, with the MSCI Emerging Market index falling by 7% over the month. Low vaccination rates and the spread of the delta variant of COVID-19 was one of the explanations for the poor performance, while shares in China and Hong Kong were also hit by the decision of Chinese authorities to increase regulation on some sectors.

Interest rates

Bond yields continued to retreat over July, as investor fears over rising inflation dissipated and central banks indicated that they were not in any hurry to remove stimulus.

The decline in bond yields was concentrated at the long end of the yield curve, with the Australian 10-year bond yield falling by 35bps to 1.18% over July. In contrast, the 3-year Commonwealth Government bond yield declined by 17bps to 0.24%. TCorp bond yields also fell sharply over July, with the yield on the March 2031 bond falling by 31bps to 1.45%.

Bonds in other major economies recorded smaller – though still substantial – declines in yields, with the difference potentially reflecting the weaker Australian growth outlook as a result of the NSW lockdown. 10-year bond yields in both the US and Germany fell by 25bps over July, to 1.22% and -0.46%.

Currency and commodity markets

The Australian dollar fell by 2% against its US counterpart over July, declining to US\$0.734. The Australian dollar fell even more sharply against the Japanese Yen and British Pound, reflecting weakness in the Australian dollar rather than simply US dollar strength.

The weakness of the Australian dollar was again accompanied by resilient commodity prices. Brent crude oil prices increased by 1.6% over July. And while iron prices dipped by 1.2% over the month, at \$212 per tonne they remain much higher than analysts (or the Commonwealth Government) expected. Of course, the combination of resilient commodity prices and a weaker Australian dollar is one of the reasons why resource companies performed well over July.

Financial market performance

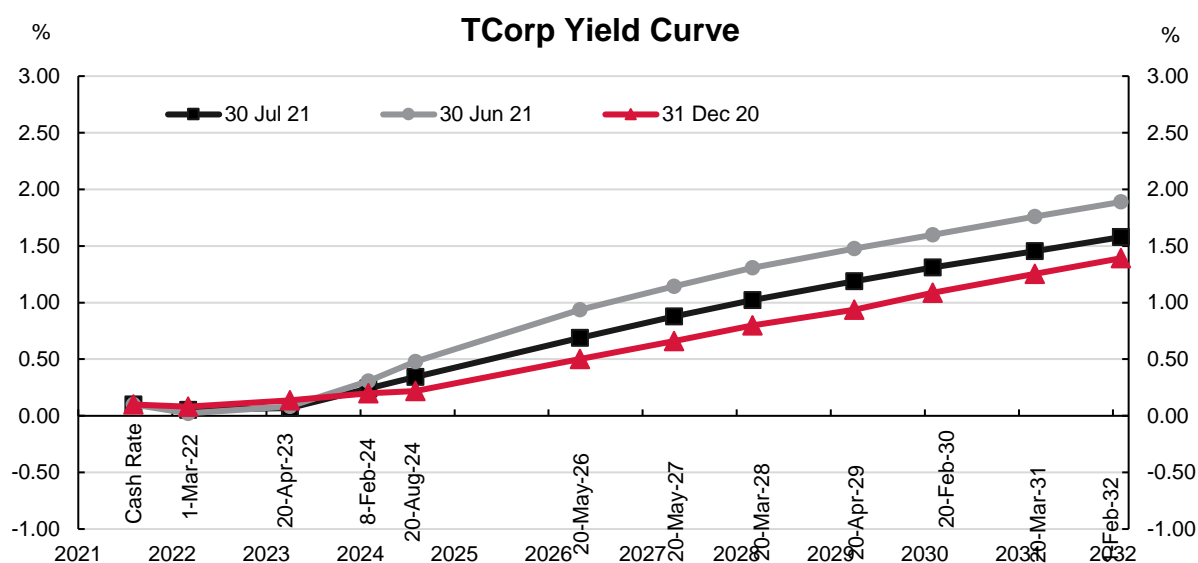
Currency markets July 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.750	0.757	0.732	0.734	-2.13% ▼
AUD/EUR	0.631	0.640	0.619	0.619	-1.97% ▼
AUD/JPY	82.91	83.84	80.09	80.58	-2.81% ▼
AUD/GBP	0.541	0.547	0.528	0.528	-2.44% ▼
AUD/BRL	3.729	3.939	3.755	3.828	2.64% ▲
AUD/RUB	54.89	56.40	53.72	53.72	-2.13% ▼
AUD/INR	55.78	56.47	54.58	54.65	-2.02% ▼
AUD/CNY	4.845	4.907	4.731	4.745	-2.07% ▼

Equity markets* July 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3086	3162	3044	3141	1.8% ▲
MSCI Emerging Markets	1375	1368	1252	1278	-7.0% ▼
S&P/ASX200	7313	7431	7252	7393	1.1% ▲
S&P/ASX Small Ordinaries	3384	3407	3322	3406	0.7% ▲
S&P500 (US)	4298	4422	4258	4395	2.3% ▲
FTSE 100 (UK)	7037	7165	6844	7032	-0.1% ▼
Stoxx600 (Europe)	453	464	444	462	2.0% ▲
DAX (Germany)	15531	15791	15133	15544	0.1% ▲
CAC 40 (France)	6508	6634	6296	6613	1.6% ▲
Nikkei 225 (Japan)	28792	28783	27284	27284	-5.2% ▼
Hang Seng (HK) Shanghai Composite (China)	28828	28828	25086	25961	-9.9% ▼
Bovespa (Brazil)	3591	3589	3362	3397	-5.4% ▼
IPC (Mexico)	126802	128407	121801	121801	-3.9% ▼
S&P/BSE Sensex (India)	50290	51635	49096	50868	1.2% ▲
	52483	53159	52199	52587	0.2% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) July 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	0.03	0.03	0.02	0.02	-0.01 ▼
180 Day Bank Bill	0.07	0.07	0.05	0.05	-0.02 ▼
1 Year Term Deposit Rate	0.30	0.30	0.30	0.30	0.00 –
3 Year CGS Bond	0.41	0.45	0.23	0.24	-0.17 ▼
10 Year CGS Bond	1.53	1.52	1.15	1.18	-0.35 ▼
10 Year US Bond	1.47	1.46	1.19	1.22	-0.25 ▼
10 Year German Bond	-0.21	-0.20	-0.46	-0.46	-0.25 ▼
10 Year Japanese Bond	0.06	0.05	0.01	0.02	-0.04 ▼

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
July 2021					
01-Mar-22	0.02	0.05	0.03	0.05	0.03 ▲
20-Apr-23	0.08	0.11	0.06	0.07	-0.01 ▼
08-Feb-24	0.31	0.33	0.24	0.24	-0.06 ▼
20-Aug-24	0.48	0.51	0.33	0.34	-0.14 ▼
20-May-26	0.94	0.98	0.67	0.69	-0.25 ▼
20-May-27	1.14	1.19	0.87	0.88	-0.27 ▼
20-Mar-28	1.31	1.33	1.00	1.02	-0.29 ▼
20-Apr-29	1.48	1.49	1.16	1.19	-0.29 ▼
20-Feb-30	1.60	1.61	1.27	1.31	-0.29 ▼
20-Mar-31	1.76	1.77	1.41	1.45	-0.30 ▼
20-Feb-32	1.89	1.89	1.54	1.58	-0.31 ▼
CIB 2.75% 20 Nov 25	-1.13	-1.11	-1.40	-1.35	-0.22 ▼
CIB 2.50% 20 Nov 35	0.20	0.20	-0.21	-0.21	-0.41 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
July 2021					
Brent Oil (per barrel)	75.1	77.2	68.6	76.3	1.6% ▲
Iron Ore (per tonne)	214.6	219.7	212.0	212.0	-1.2% ▼

TCorp forecasts	Sep-21	Dec-21	June-22	June-23
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	1.50	1.50	1.50	2.00

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