

Economic commentary

The global economy

The brief kindling of investor hopes that the US central bank could stop raising interest rates before the nation's economic growth slowed sharply was extinguished at month's end, when Federal Reserve Chairman Jerome Powell addressed the annual Jackson Hole conference.

Hopes were fired by July data – unchanged consumer prices and a very strong 528,000 rise in employment, but Powell's speech indicated that households and businesses should prepare to experience "pain". To lower inflation, Powell said the Fed needed to keep raising rates to deliver a sustained period of weak growth. He also stated that prematurely easing policy would be a policy mistake that he was keen to avoid.

The low July inflation reading was heavily influenced by a sharp fall in petrol prices that month and yet core price inflation remained higher than desired at 0.3%. That said, a raft of housing data as well as the S&P Global Purchasing Managers' Index released over August already suggests that the US economy is headed for recession.

The outlook for growth in Europe also deteriorated in August as surging energy prices are set to sap consumer spending power, while European Central Bank policymakers prepare to follow the Fed in aggressively raising interest rates. In contrast, policymakers in China eased monetary policy in August in an effort to stabilise the property market. So far, however, these efforts have been unsuccessful due, in part, to the regular lockdowns required as part of China's "zero COVID" policy.

The Australian economy

After raising its policy rate by 50bps to 1.85% in August, the Reserve Bank of Australia (RBA) released updated economic forecasts which pointed to slower growth but also higher inflation. Despite forecasting that the economy will grow by a disappointingly weak 1.75% in both 2023 and 2024, the RBA expects it will be the end of 2024 before inflation slowly returns to the top of its 2-3% target.

Economic data released during August was mixed but won't dissuade the RBA from continuing to hike rates aggressively in coming months, alongside other central banks. Among the weaker data, building approvals fell by 17% in July, construction activity dropped 3.8% in Q3, consumer sentiment fell 3% (and is now at GFC-type levels) while home prices declined another 1.6% in August.

That said, while consumer sentiment is very weak, July retail sales were reported to have risen by 1.3%. Business confidence remains firm and, while employment supposedly fell by 41,000 in July, the unemployment rate fell from 3.5% to 3.4% - the lowest level since the 1970s.

Financial market commentary

The positive tone evident in financial markets in July initially continued in the first half of August. Central bank policymakers, however, became increasingly frustrated that investors doubted their commitment to quenching inflation and their rhetoric became increasingly hawkish. As a result, bond yields moved higher and equity markets in most developed markets ended the month lower.

Equity markets (performance in local currency, excluding dividends)

Equity markets eventually succumbed to the warnings of central bankers promising to deliver pain with many falling sharply in August. The MSCI World equity market index (excluding Australia) fell by 4.4% in August after rising by 7.9% in July.

Australia's ASX200 was one of the few markets to remain resilient during August, managing to eke out a modest 0.2% gain. Global energy stocks were the only sector to move higher over August which benefitted the Australian market given their relatively high weighting. The US S&P500 fell by 4.2% during August as investor hopes for an imminent end to the tightening cycle were quashed. European equity markets were the worst performers in August, as hawkish central bank rhetoric combined with soaring energy prices and the risk of power shortages to unnerve investors. The Euro Stoxx600 index fell by 5.3% over the month.

The MSCI Emerging Markets index was flat over August although this masked significant divergences in performance between individual markets. For example, while Brazilian stocks rose by 6.2% and Indian shares climbed 3.4% in August, Mexican equities plummeted 6.7% and Chinese shares fell by 1.6%.

Interest rates

Bond yields rose across the board in August as central banks reiterated their commitment to raising rates and attempted to convince investors that these would need to remain high for a sustained period.

In Australia, 3-year Commonwealth Government bond yields rose by 55bps to 3.21% in August, while 10-year yields rose by 54bps to 3.6%. The yield on TCorp's February 2032 bond increased by 58bps over the same period.

US bond yields increased in line with those in Australia while European yields rose by a greater margin over August. German 10-year yields climbed by 72bps, almost doubling the yield to 1.54%. Yields in peripheral European countries and the UK rose even further. Japan remains the key outlier in this respect. Japanese 10-year yields rose by just 4bps as the central bank refuses to tighten monetary policy.

Currency and commodity markets

Commodity prices tended to fall during August, with oil prices down 12% and iron ore prices declining by 2%. Consistent with lower commodity prices and the risk-off tone in equity markets, the Australian dollar fell by 2% against its US counterpart.

Financial market performance

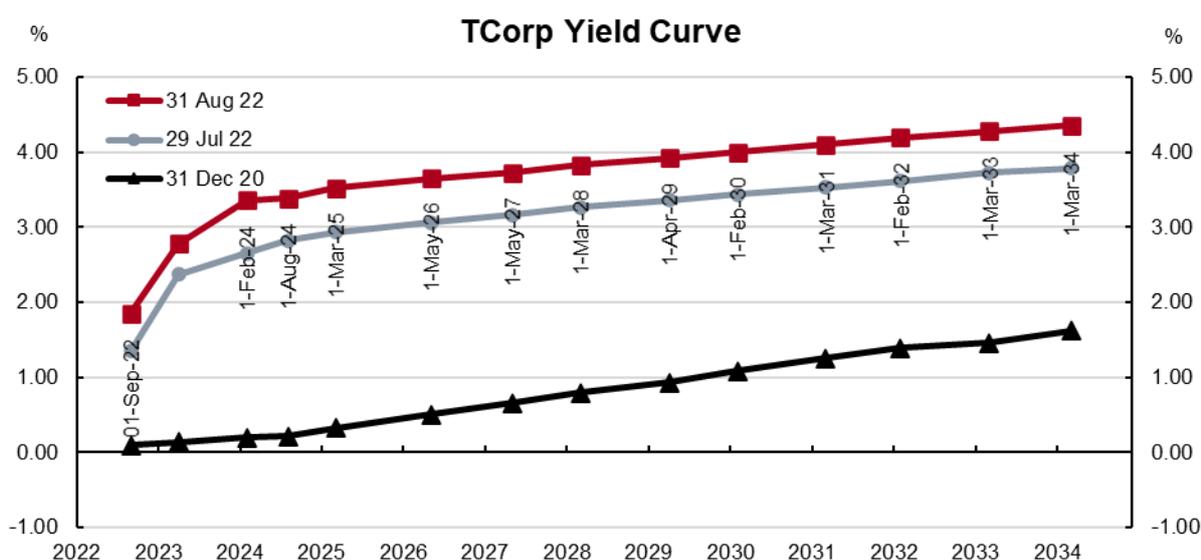
| Currency markets August 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---------------------------------|-------------------------|---------------|--------------|----------------|-----------------|
| AUD/USD | 0.699 | 0.712 | 0.685 | 0.685 | -1.95% ▼ |
| AUD/EUR | 0.683 | 0.698 | 0.677 | 0.686 | 0.43% ▲ |
| AUD/JPY | 93.09 | 95.92 | 90.70 | 95.02 | 2.07% ▲ |
| AUD/GBP | 0.574 | 0.592 | 0.567 | 0.590 | 2.80% ▲ |
| AUD/BRL | 3.614 | 3.662 | 3.452 | 3.550 | -1.75% ▼ |
| AUD/RUB | 82.90 | 84.52 | 81.29 | 81.29 | -1.95% ▼ |
| AUD/INR | 55.36 | 56.72 | 54.42 | 54.42 | -1.70% ▼ |
| AUD/CNY | 4.711 | 4.802 | 4.673 | 4.719 | 0.17% ▲ |

| Equity markets* August 2022 | Previous month close | Month high | Month low | Month close | Month change |
|--------------------------------|-------------------------|---------------|--------------|----------------|-----------------|
| MSCI World ex Australia | 2810 | 2911 | 2686 | 2686 | -4.4% ▼ |
| MSCI Emerging Markets | 994 | 1017 | 984 | 994 | 0.0% ▲ |
| S&P/ASX200 | 6945 | 7128 | 6962 | 6987 | 0.6% ▲ |
| S&P/ASX Small Ordinaries | 2957 | 3087 | 2904 | 2965 | 0.3% ▲ |
| S&P500 (US) | 4130 | 4305 | 3955 | 3955 | -4.2% ▼ |
| FTSE 100 (UK) | 7423 | 7550 | 7284 | 7284 | -1.9% ▼ |
| Stoxx600 (Europe) | 438 | 443 | 415 | 415 | -5.3% ▼ |
| DAX (Germany) | 13484 | 13910 | 12835 | 12835 | -4.8% ▼ |
| CAC 40 (France) | 6449 | 6593 | 6125 | 6125 | -5.0% ▼ |
| Nikkei 225 (Japan) | 27802 | 29223 | 27595 | 28092 | 1.0% ▲ |
| Hang Seng (HK) | 20157 | 20202 | 19269 | 19954 | -1.0% ▼ |
| Shanghai Composite (China) | 3253 | 3293 | 3164 | 3202 | -1.6% ▼ |
| Bovespa (Brazil) | 103165 | 113813 | 102225 | 109523 | 6.2% ▲ |
| IPC (Mexico) | 48144 | 48853 | 44919 | 44919 | -6.7% ▼ |
| S&P/BSE Sensex (India) | 57570 | 60298 | 57973 | 59537 | 3.4% ▲ |

*Returns are in local currency, and exclude dividend payments

| Bond markets (%) August 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---------------------------------|-------------------------|---------------|--------------|----------------|-----------------|
| RBA Official Cash Rate | 1.35 | 1.85 | 1.35 | 1.85 | 0.50 ▲ |
| 90 Day Bank Bill | 2.12 | 2.47 | 2.12 | 2.46 | 0.34 ▲ |
| 180 Day Bank Bill | 2.78 | 3.03 | 2.78 | 3.01 | 0.22 ▲ |
| 1 Year Term Deposit Rate | 0.70 | 1.20 | 0.70 | 1.20 | 0.50 ▲ |
| 3 Year CGS Bond | 2.66 | 3.34 | 2.64 | 3.21 | 0.55 ▲ |
| 10 Year CGS Bond | 3.06 | 3.67 | 2.98 | 3.60 | 0.54 ▲ |
| 10 Year US Bond | 2.65 | 3.19 | 2.57 | 3.19 | 0.54 ▲ |
| 10 Year German Bond | 0.82 | 1.54 | 0.78 | 1.54 | 0.72 ▲ |
| 10 Year Japanese Bond | 0.19 | 0.25 | 0.17 | 0.23 | 0.04 ▲ |

| TCorp bonds (%) | Previous month close | Month high | Month low | Month close | Month change |
|---------------------|----------------------|------------|-----------|-------------|--------------|
| August 2022 | | | | | |
| 20-Apr-23 | 2.37 | 2.93 | 2.37 | 2.79 | 0.42 ▲ |
| 08-Feb-24 | 2.66 | 3.49 | 2.66 | 3.36 | 0.71 ▲ |
| 20-Aug-24 | 2.83 | 3.52 | 2.83 | 3.39 | 0.57 ▲ |
| 20-Mar-25 | 2.93 | 3.66 | 2.90 | 3.53 | 0.59 ▲ |
| 20-May-26 | 3.06 | 3.79 | 3.02 | 3.65 | 0.59 ▲ |
| 20-May-27 | 3.16 | 3.86 | 3.11 | 3.72 | 0.56 ▲ |
| 20-Mar-28 | 3.27 | 3.94 | 3.19 | 3.83 | 0.57 ▲ |
| 20-Apr-29 | 3.36 | 4.02 | 3.29 | 3.92 | 0.56 ▲ |
| 20-Feb-30 | 3.43 | 4.09 | 3.36 | 4.00 | 0.57 ▲ |
| 20-Mar-31 | 3.54 | 4.20 | 3.47 | 4.11 | 0.57 ▲ |
| 20-Feb-32 | 3.62 | 4.29 | 3.55 | 4.20 | 0.58 ▲ |
| CIB 2.75% 20 Nov 25 | -0.41 | 0.25 | -0.42 | 0.21 | 0.62 ▲ |
| CIB 2.50% 20 Nov 35 | 1.47 | 1.96 | 1.43 | 1.91 | 0.43 ▲ |



Source: TCorp

| Commodity markets (US\$) | Previous month close | Month high | Month low | Month close | Month change |
|--------------------------|----------------------|------------|-----------|--------------|--------------|
| August 2022 | | | | | |
| Brent Oil (per barrel) | 110.0 | 105.1 | 92.3 | 96.5 | -12.3% ▼ |
| Iron Ore (per tonne) | 107.2 | 114.9 | 104.2 | 104.8 | -2.3% ▼ |

| TCorp forecasts | Dec-22 | June-23 | Dec-23 | June-24 |
|------------------------|--------|---------|--------|---------|
| RBA Official Cash Rate | 2.85 | 2.85 | 2.85 | 2.85 |
| 90 Day Bank Bill | 3.10 | 3.10 | 3.10 | 3.10 |
| 10 Year CGS Bond | 3.00 | 3.25 | 3.25 | 3.50 |

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