

Economic commentary

The global economy

Fears of a global recession continued to mount during July. Overall, however, the data released over the last month is consistent with slowing growth rather than falling output.

The recession debate was fuelled when figures showed the US economy shrank by 1.2% in the June quarter, following a similar decline in the March quarter. Consumer spending, however, continued to climb and employment rose by 372,000 in June. That said, leading indicators of the labour market, such as initial jobless claims and job layoffs are beginning to rise. The Chinese economy also shrank by 2.6% in Q2 due to COVID-related lockdowns, while European activity proved to be more resilient, rising by 0.7%.

Inflation indicators also remain very strong. US inflation rose by 1.3% in June taking the annual rate up to 9.1%. Higher petrol prices are a key part of the problem, but even core inflation has reached 5.9%. Upward pressures are also evident in Europe where inflation has reached 8.6% over the last year.

As expected, the US Federal Reserve raised its key policy rate by 75bps to 2.5% at its July policy meeting, while the European Central Bank raised its policy rate by 50bps. Fed Chair Powell said the central bank had now returned monetary policy to a neutral setting and the pace and timing of future rate rises will be determined by the flow of economic data. Given the softening of economic data in recent months, financial markets interpreted this to mean that the Fed may stop raising rates by the end of 2022. Powell, however, denied that the US economy was particularly weak, citing the healthy employment data to support his assessment.

The Australian economy

The combination of high inflation and slowing growth was also apparent in Australia during July. After a period of strong growth, retail spending rose by just 0.2% in June; with prices growing strongly, this suggests that retail sales volumes likely declined. The housing market is also softening with declining auction clearance rates and Sydney house prices falling by 2.2% in July. The labour market, however, remains very buoyant for now. Employment rose by 88,400 in June and the unemployment rate fell from 3.9% to 3.5%.

Consumer prices rose by 1.8% in the June quarter taking annual inflation to 6.1%. While this was a touch weaker than market expectations, it was higher than the Reserve Bank of Australia (RBA) forecast in May. Strong price rises were apparent in transport (reflecting higher petrol prices), food and housing.

While inflation is undoubtedly elevated, the release of the latest data prompted investors to scale back expectations for RBA rate rises. They now believe the RBA will raise rates to around 3% over the next year and, at the August policy meeting, announce a 50bps hike. Before the release of the June quarter figures, investors thought there was a risk that the RBA might increase rates by 75bps in August.

Financial market commentary

Despite the ongoing deterioration in economic data during July, equity markets performed strongly as bond yields fell, commodity prices declined and investors became more hopeful that central banks are nearer to the end, than the beginning, of their tightening cycles.

Equity markets (performance in local currency, excluding dividends)

Equity markets rebounded strongly in July. The MSCI World equity market index (excluding Australia) rose by 7.9% in July after falling by 8.7% in June.

Australia's ASX200 rose by 5.7% supported by a strong performance from the banks. European stocks performed even more strongly with the European Stoxx600 index climbing 7.6%. The US share market, however, was the stand-out performer in July as the S&P500 rose by 9.1%.

Emerging Markets equities couldn't match the strong performance of developed-country share markets in July. The MSCI Emerging Markets index fell 0.7% in July mainly due to weakness in Chinese shares. The poor outcome for Chinese stocks reflects the impact of recurring lockdowns by the Chinese government as it seeks to eliminate COVID-19, as well as ongoing problems in the property market.

Interest rates

While central banks continue to tighten policy and promise more rate increases over the second half of 2022, bond yields fell sharply during July. This suggests that investors are betting that policymakers will have to reverse course in 2023 and cut rates in response to mounting economic weakness.

The decline in bond yields was particularly pronounced in Australia with the 10-year yield falling by 60bps, to 3.06%. 3-year bond yields also fell by 46bps to 2.66%. TCorp bonds also benefitted from the improvement in investor appetite – the yield on TCorp's February 2032 bond fell by 64bps to 3.66%.

German 10-year yields fell by 52bps to 0.82%. This reflected not only the general decline in global yields but also a shift towards German bonds, and away from Italian bonds, as fears about the Italian economy and its high debt levels reappear. US 10-year yields fell by 36bps to 2.65%.

Currency and commodity markets

Commodity prices fell sharply in July reflecting the weaker outlook for growth global and persistent concerns on how China's COVID zero policies are impacting demand. The Brent crude oil price ended July down 4.2%, to close at \$110 per barrel but did dip below \$100 per barrel during the month. While investors are concerned about the outlook for oil demand, supply remains problematic, and it seems likely that the price will remain volatile in the second half of 2022. Iron ore prices also fell further in July, down 17%.

Despite the fall in commodity prices, the Australian dollar rose 1.6% against the US dollar in July, as risk appetite returned. The Australian dollar performed even more strongly against the euro, rising 3.4%.

Financial market performance

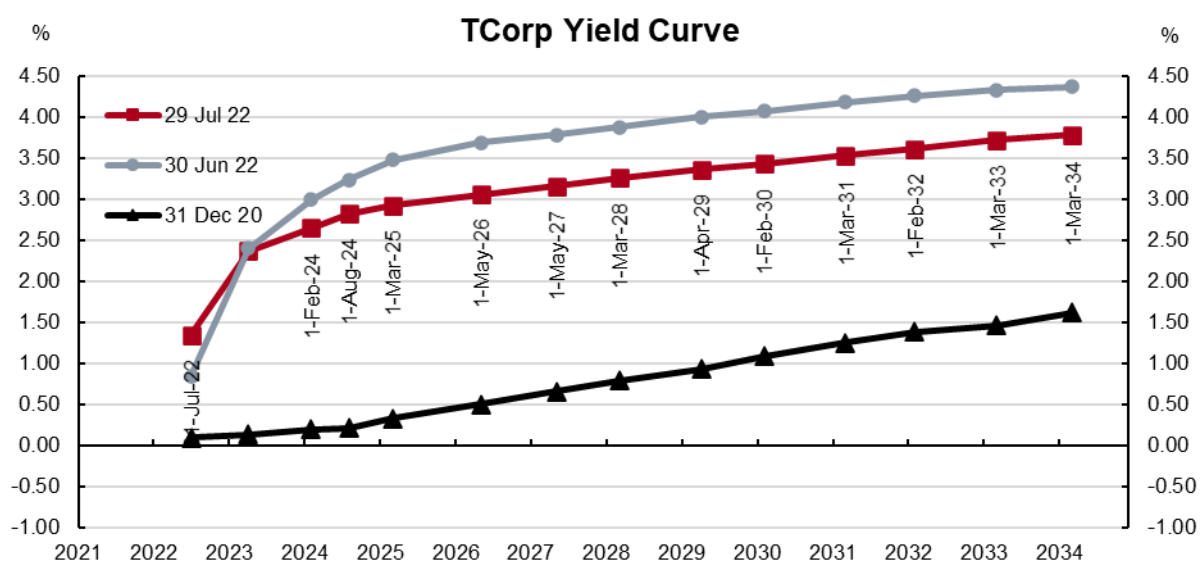
Currency markets July 2022	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.688	0.699	0.672	0.699	1.59% ▲
AUD/EUR	0.661	0.689	0.654	0.683	3.38% ▲
AUD/JPY	93.76	95.42	92.02	93.09	-0.72% ▼
AUD/GBP	0.568	0.578	0.564	0.574	1.03% ▲
AUD/BRL	3.615	3.810	3.593	3.614	-0.03% ▼
AUD/RUB	81.61	82.90	79.70	82.90	1.59% ▲
AUD/INR	54.30	55.65	53.52	55.36	1.96% ▲
AUD/CNY	4.606	4.711	4.522	4.711	2.27% ▲

Equity markets* July 2022	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2604	2810	2579	2810	7.9% ▲
MSCI Emerging Markets	1001	1000	962	994	-0.7% ▼
S&P/ASX200	6568	6945	6540	6945	5.7% ▲
S&P/ASX Small Ordinaries	2654	2957	2665	2957	11.4% ▲
S&P500 (US)	3785	4130	3790	4130	9.1% ▲
FTSE 100 (UK)	7169	7423	7025	7423	3.5% ▲
Stoxx600 (Europe)	407	438	401	438	7.6% ▲
DAX (Germany)	12784	13484	12401	13484	5.5% ▲
CAC 40 (France)	5923	6449	5795	6449	8.9% ▲
Nikkei 225 (Japan)	26393	27915	25936	27802	5.3% ▲
Hang Seng (HK)	21860	21860	20157	20157	-7.8% ▼
Shanghai Composite (China)	3399	3405	3228	3253	-4.3% ▼
Bovespa (Brazil)	98542	103165	96121	103165	4.7% ▲
IPC (Mexico)	47524	48144	46674	48144	1.3% ▲
S&P/BSE Sensex (India)	53019	57570	52908	57570	8.6% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) July 2022	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	0.85	1.35	0.85	1.35	0.50 ▲
90 Day Bank Bill	1.81	2.29	1.81	2.12	0.31 ▲
180 Day Bank Bill	2.67	3.09	2.64	2.78	0.11 ▲
1 Year Term Deposit Rate	0.25	0.25	0.25	0.25	0.00 –
3 Year CGS Bond	3.12	3.19	2.66	2.66	-0.46 ▼
10 Year CGS Bond	3.66	3.60	3.06	3.06	-0.60 ▼
10 Year US Bond	3.01	3.08	2.65	2.65	-0.36 ▼
10 Year German Bond	1.34	1.35	0.82	0.82	-0.52 ▼
10 Year Japanese Bond	0.23	0.25	0.19	0.19	-0.05 ▼

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
July 2022					
20-Apr-23	2.40	2.72	2.37	2.37	-0.03 ▼
08-Feb-24	2.99	3.14	2.66	2.66	-0.34 ▼
20-Aug-24	3.24	3.34	2.83	2.83	-0.42 ▼
20-Mar-25	3.48	3.54	2.93	2.93	-0.55 ▼
20-May-26	3.69	3.70	3.06	3.06	-0.63 ▼
20-May-27	3.78	3.79	3.16	3.16	-0.62 ▼
20-Mar-28	3.88	3.86	3.27	3.27	-0.62 ▼
20-Apr-29	4.00	3.94	3.36	3.36	-0.64 ▼
20-Feb-30	4.08	3.99	3.43	3.43	-0.65 ▼
20-Mar-31	4.19	4.10	3.54	3.54	-0.65 ▼
20-Feb-32	4.26	4.19	3.62	3.62	-0.64 ▼
CIB 2.75% 20 Nov 25	-0.09	0.05	-0.41	-0.41	-0.32 ▼
CIB 2.50% 20 Nov 35	1.94	2.00	1.47	1.47	-0.47 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
July 2022					
Brent Oil (per barrel)	114.8	113.5	99.1	110.0	-4.2% ▼
Iron Ore (per tonne)	130.0	115.2	103.1	107.2	-17.5% ▼

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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TCorp

Level 7, Deutsche Bank Place,
126 Phillip Street, Sydney, NSW 2000

Tel: +61 2 9325 9325

www.tcorp.nsw.gov.au

www.linkedin.com/company/tcorp-nswtreasurycorporation/

