July 2023
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Monthly Economic Report

The global economy

Economic data in July has been mostly positive in advanced economies, with inflation falling further, labour markets remaining tight and economic activity more resilient than originally feared. This has raised hopes that a soft landing is achievable, where inflation returns to central bank targets with minimal damage to economic activity and labour markets.

The US Federal Reserve, the European Central Bank and the Bank of Canada increased their policy rates by 25bps in July, which was widely expected. Central banks remain focused on ensuring that inflation slows but have highlighted risks around services price inflation being more persistent than expected. As such, central banks retain a hawkish bias but have noted that future policy decisions will depend on incoming data and are not pre-determined. Officials also continue to reiterate that interest rates are expected to remain high for a while. Investors believe that most central banks have finished their tightening campaigns or will deliver one more rate rise at most, except in the UK where around 75bps of further tightening is anticipated.

Inflation in the US continues to slow, with headline and core inflation falling to 3% and 4.1% over the year to July. Producer price inflation has fallen rapidly and suggests that consumer price inflation will fall further in the coming months. Wages growth in the US has also slowed, with the Employment Cost Index increasing by 1% in the June quarter. Although non-farm payrolls rose by less than expected in June, the unemployment rate declined to 3.6% and the labour market remains tight overall. Economic activity has also been more resilient than foreshadowed at the start of this year, with GDP growing by 2.4% in the June quarter. Although ISM data suggests that the manufacturing sector contracted further in July, services sector activity improved. Corporate earnings results have been better than expected, including in the banking sector.

The Bank of Japan (BoJ) unexpectedly loosened its Yield Curve Control (YCC) policy in July. The BoJ kept the target for 10-year Japanese government bond yields at 0% and retained the -/+50bps trading range around this target. While the upper bound of this range has previously been a binding ceiling on 10-year bond yields, the BoJ noted that it is now a ‘reference’. The BoJ also signalled that it will purchase 10-year government bonds at 1% if required, effectively capping the yield at this level. The short-term policy interest rate was left unchanged at -0.1%, with the BoJ emphasising that monetary policy will remain accommodative and that the YCC policy change will ensure that monetary easing is sustainable.

Economic activity in China has been weaker than expected in recent months. China’s economy grew by 6.3% over the year to June, with weakness evident in consumer spending and the real estate sector. Inflation was also softer than expected, with consumer prices unchanged over the year to June and producer prices falling. Official PMI data for July indicates that activity in non-manufacturing sectors – services and construction – weakened further in July. The combination of weak activity and inflation data has heightened concerns around slowing momentum in China’s economy and reinforced expectations that authorities will announce stimulus measures. While some measures to support the property market have been announced, there have been no large-scale fiscal or monetary stimulus measures.

The Australian economy

The Reserve Bank of Australia (RBA) left its policy interest rate unchanged in July at 4.10% to give it time to assess the impact of the increases in interest rates to date and the economic outlook. The RBA has maintained that further rate rises may be required to return inflation to target in a reasonable timeframe, with a subsequent speech by the RBA Governor interpreted as dovish.

Australian inflation surprised to the downside in the June quarter, with consumer prices rising by 0.8%, to be 6% higher over the year. Trimmed mean inflation slowed to 0.9% in the quarter, providing further evidence that price pressures are easing. However, economic activity continues to slow. Retail sales fell by 0.8% in June, retracing the rise in May, with the level of turnover unchanged since the start of the year despite higher inflation. Consumer sentiment remains weak and surveyed business conditions have deteriorated since the start of this year, but are close to their long-run average level. Building approvals remain weak and conditions in the established housing market were less buoyant in July, with the pace of price increases slowing. The number of new listings also edged higher.

In contrast to slowing activity, Australia's labour market remains tight. Employment rose by more than expected in June and the unemployment rate remained at 3.5%. The labour market in NSW has been particularly strong, with the unemployment rate falling to 2.9%, the lowest level since at least the late 1970s.

The Australian Treasurer appointed Michele Bullock, the current RBA Deputy Governor, to replace the Governor when his term ends in September. The RBA also outlined a preliminary response to the RBA Review recommendation, including moving to 8 annual Board meetings from next year.

Financial market commentary

Risk sentiment improved in July as investors' hopes of a soft landing were boosted by encouraging signs that inflation is falling while economic activity remains resilient, particularly in the US.

Equity markets (performance in local currency, excluding dividends)

Equity markets rose in July as investors welcomed softer inflation data globally and a more data-dependent approach by central banks to future policy decisions. The ASX200 rose by 2.9%, with energy stocks increasing particularly strongly alongside a rise in oil prices. The S&P500 gained 3.1%, supported by some stronger-than-expected earnings reports, including from large banks. Hong Kong equities outperformed in July, rising by 6.1% on hopes that Chinese policymakers will announce stimulus measures. Japanese equities underperformed, falling by 0.1%, but have outperformed in 2023 to date (+27%) alongside the depreciation of the yen.

Interest rates

Global bond yields rose further in July as central banks maintained a hawkish bias. Japanese 10-year bond yields increased the most, by 21bps, as the BoJ loosened its YCC policy. 10-year bond yields rose by 12bps in the US, 10bps in Germany and 4bps in Australia. 3-year Australian bond yields fell by 18bps, partly reflecting a speech by the RBA Governor that was interpreted as dovish. TCorp bond yields moved alongside the changes in Australian government bond yields.

Currency and commodity markets

Improved risk sentiment saw the Australian dollar appreciate by 0.8% against the US dollar. The Brent crude oil price rose strongly in July (+14.2%), fully retracing the fall in the first half of this year, boosted by more resilient global growth prospects, expectations of stimulus measures in China and further supply restrictions by Saudi Arabia and Russia.

Financial market performance

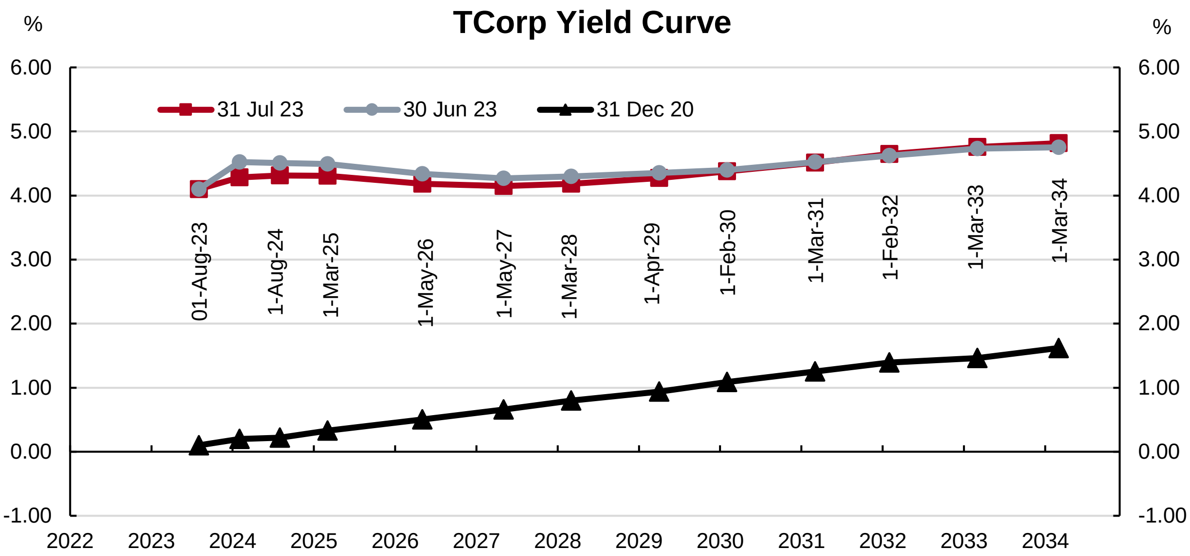
Currency markets **July 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
AUD/USD	0.666	0.689	0.663	**0.672**	0.8% ▲
AUD/EUR	0.611	0.615	0.604	**0.611**	0.0% ▼
AUD/JPY	96.17	96.68	93.58	**95.58**	-0.6% ▼
AUD/GBP	0.525	0.527	0.517	**0.523**	-0.3% ▼
AUD/BRL	3.189	3.308	3.147	**3.174**	-0.5% ▼
AUD/INR	54.67	56.54	54.67	**55.25**	1.1% ▲
AUD/CNY	4.834	4.925	4.754	**4.798**	-0.7% ▼

Equity markets* **July 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
MSCI World ex Australia	3041	3140	2997	**3140**	3.3%▲
MSCI Emerging Markets	989	1047	981	**1047**	5.8%▲
S&P/ASX200	7203	7456	7004	**7410**	2.9%▲
S&P/ASX Small Ordinaries	2794	2922	2757	**2893**	3.5%▲
S&P500 (US)	4450	4589	4399	**4589**	3.1%▲
FTSE 100 (UK)	7532	7699	7257	**7699**	2.2%▲
Stoxx600 (Europe)	462	472	447	**471**	2.0%▲
DAX (Germany)	16148	16470	15529	**16447**	1.9%▲
CAC 40 (France)	7400	7498	7082	**7498**	1.3%▲
Nikkei 225 (Japan)	33189	33753	31944	**33172**	-0.1%▼
Hang Seng (HK)	18916	20079	18366	**20079**	6.1%▲
Shanghai Composite (China)	3202	3291	3164	**3291**	2.8%▲
Bovespa (Brazil)	118087	122560	117426	**121943**	3.3%▲
IPC (Mexico)	53526	54911	53408	**54819**	2.4%▲
S&P/BSE Sensex (India)	64719	67572	65205	**66528**	2.8%▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **July 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
RBA Official Cash Rate	4.10	4.10	4.10	**4.10**	0.00 –
90 Day Bank Bill	4.35	4.36	4.26	**4.26**	-0.09 ▼
180 Day Bank Bill	4.70	4.80	4.64	**4.64**	-0.06 ▼
1 Year Term Deposit Rate	3.25	3.35	3.25	**3.35**	0.10 ▲
3 Year CGS Bond	4.05	4.23	3.79	**3.87**	-0.18 ▼
10 Year CGS Bond	4.02	4.29	3.87	**4.06**	0.04 ▲
10 Year US Bond	3.84	4.06	3.75	**3.96**	0.12 ▲
10 Year German Bond	2.39	2.65	2.39	**2.49**	0.10 ▲
10 Year Japanese Bond	0.40	0.61	0.39	**0.61**	0.21 ▲

TCorp bonds (%) **July 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**	
08-Feb-24	4.52	4.57	4.23	**4.28**	-0.24	▼
20-Aug-24	4.51	4.63	4.26	**4.31**	-0.19	▼
20-Mar-25	4.49	4.71	4.26	**4.31**	-0.18	▼
20-May-26	4.34	4.57	4.13	**4.18**	-0.15	▼
20-May-27	4.27	4.52	4.08	**4.15**	-0.12	▼
20-Mar-28	4.30	4.56	4.12	**4.18**	-0.11	▼
20-Apr-29	4.35	4.63	4.18	**4.27**	-0.08	▼
20-Feb-30	4.40	4.69	4.27	**4.38**	-0.02	▼
20-Mar-31	4.52	4.82	4.38	**4.51**	-0.01	▼
20-Feb-32	4.62	4.93	4.50	**4.65**	0.02	▲
08-Mar-33	4.73	5.04	4.61	**4.76**	0.03	▲
CIB 2.75% 20 Nov 25	1.34	1.55	1.14	**1.30**	-0.04	▼
CIB 2.50% 20 Nov 35	2.29	2.29	2.29	**2.29**	0.00	–



Source: TCorp

Commodity markets (US$) **July 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**	
Brent Oil (per barrel)	74.9	85.6	74.7	**85.6**	14.2%	▲
Iron Ore (per tonne)	112.6	113.8	106.6	**112.5**	-0.1%	▼

TCorp forecasts	**Dec-23**	**June-24**	**Dec-24**	**Jun-25**
RBA Official Cash Rate	4.35	3.85	3.10	2.35
90 Day Bank Bill	4.50	3.85	3.10	2.50
10 Year CGS Bond	3.75	3.50	3.25	3.50

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$106 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$148 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

TCorp

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