July 2024
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Monthly economic report

The global economy

Central banks in most advanced economies have either begun lowering interest rates or signalled that they will soon start. Inflation globally has continued to fall towards central banks' targets, providing them with the confidence to gradually make monetary policy settings less restrictive.

In the US, inflation readings throughout the June quarter have been benign and the US economy and labour market have continued to gradually weaken. Communication from the US Federal Reserve (Fed) has signalled that it is likely to cut rates for in September, if recent trends in the data continue. Investors expect the Fed to deliver its first 25bps rate cut in September, followed by rate cuts in November and December this year.

The Bank of England is also seen as likely to start cutting rates in either August or September and the European Central Bank is expected to deliver its second rate cut in September. This follows Bank of Canada lowering rates for the second time in July. The Reserve Bank of New Zealand also made a noticeable dovish pivot in July, signalling that rate cuts are on the horizon, which investors think are likely to commence in August.

In Japan, the Bank of Japan (BoJ) raised interest rates from 0-0.1% to 'around 0.25%.' The BoJ is expected to continue to gradually remove the degree of monetary policy accommodation as it gains more confidence that inflation will stabilise around its 2% target, ending decades of deflation. The BoJ will also halve its monthly purchases of Japanese Government bonds to steadily reduce its bond holdings. Both developments are likely to put gradual upward pressure on Japanese Government bond yields, and to a lesser extent, global bond yields.

Concerns about the near-term growth outlook for China's economy have increased after economic activity slowed sharply in the June quarter. Investors expect fiscal policy settings to become more supportive in the second half of this year, as authorities seek to ensure that the 5% annual GDP growth target is achieved.

The Australian economy

While central banks in most advanced economies have become confident that inflation will continue to fall, the Reserve Bank of Australia (RBA) has remained concerned that inflation will be elevated for longer. However, with the June quarter inflation data printing broadly in line with the RBA's forecasts, it should provide some comfort that the disinflation trend remains in place. Importantly, inflation in many services prices has continued to slow and inflation in Australia looks to be falling in line with other advanced economies.

Following the inflation data, investors shifted from fretting about the risk of rate hikes to pondering when the RBA will start to lower interest rates. As such, it has brought market pricing for Australian interest rates more into line with expectations for other central banks.

Recent data suggest that the Australian economy remained weak in the June quarter and the labour market continued to gradually loosen, further supporting the case for the RBA to start contemplating rate cuts. High interest rates are continuing to weigh heavily on consumer spending and residential construction. Partly offsetting weakness in these areas has been higher government spending, particularly on healthcare, social services and education, which has provided significant support to the Australian economy (and employment growth) over the past year.

Financial market commentary

Global bond yields fell sharply across advanced economies in July (except for Japan), as the Fed and other central banks get closer to starting their rate cutting cycles. Equity markets in most advanced economies rose in July, though moves were more modest.

Equity markets (performance in local currency, excluding dividends)

The Australian ASX200 outperformed other advanced economies in July, rising by 4.2%. Banks performed strongly while mining company stocks fell further, which continued the trend observed since the start of this year. Mining companies have been weighed down by concerns about China's economy and resulting falls in the prices of many commodities. These concerns also weighed on equity markets in China and Hong Kong in July. The ASX200 has underperformed equity markets in other advanced economies in 2024 to date.

After rising strongly for most of this year, US equities had a lacklustre month in July. The S&P500 managed to end the month 1.1% higher, but the Nasdaq composite fell by almost 1%. The weakness in the stocks of many large technology companies was partly driven by investors favouring smaller companies in July. The likelihood of imminent rate cuts by the Fed has increased the attractiveness of smaller firms who benefit relatively more from lower interest rates. Some big technology companies were also weighed down by disappointing corporate earnings reports, in an otherwise mostly positive earnings reporting season.

Bond yields

Bond markets continue to be driven by the evolving outlook for interest rates. US bond yields fell sharply in July, as recent economic data reinforced investors' expectations that the Fed will deliver its first rate cut in September. The US yield curve became less inverted in July, with 2-year yields falling more sharply than 10-year yields (-50bps vs. -37bps). Investors currently expect the Fed to cut rates 3 times in 2024, compared to 1-2 rate cuts expected in late June.

Australian 10-year yields also fell noticeably in July, by 20bps, driven by the subdued inflation data that increased the prospect of RBA rate cuts. Since the start of 2024, however, Australian 10-year yields have risen alongside US 10-year yields (around 15bps). 10-year TCorp bond yields fell by slightly less than Commonwealth Government bond yields in the month.

Currency and commodity markets

Increasing concerns around the growth prospects of China's economy have led to large falls in the prices of some commodities in July, including copper and oil. Oil prices fell almost 7% in July, mostly unwinding the rise in June.

The Australian dollar was volatile in July. It rose strongly against the US dollar in the first half of the month, driven by lower US bond yields, and reached its highest level since the start of this year (almost US$0.68). Escalating concerns about China's economy then led to a sharp fall in the Australian dollar in the second half of the month, which ended the month almost 2% lower against the US dollar.

In mid-July, the Australian dollar reached its highest level against the Japanese yen in around 35 years (though this was unwound later in the month). Lower US bond yields and a rate rise in Japan saw the yen appreciate by almost 7% against the US dollar in July. This follows sustained depreciation pressures, with the yen still 6% lower against the US dollar since the start of 2024.

Financial market performance

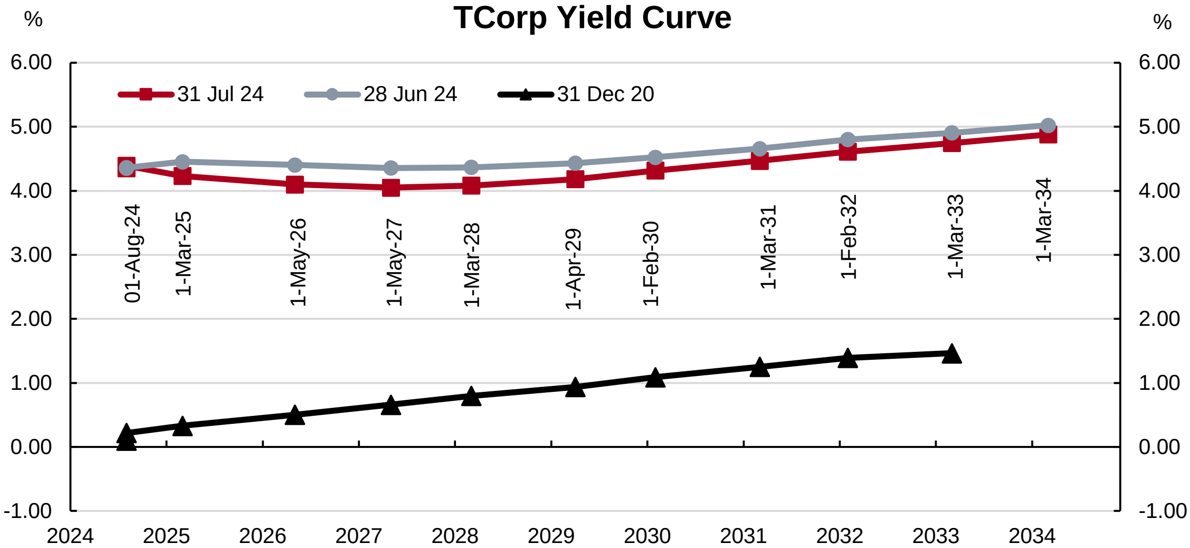
Currency markets July 2024	Previous month close	Month high	Month low	Month close	Month change	
AUD/USD	0.667	0.678	0.654	**0.654**	-1.9%	▼
AUD/EUR	0.623	0.623	0.603	**0.604**	-2.9%	▼
AUD/JPY	107.31	109.09	98.12	**98.12**	-8.6%	▼
AUD/GBP	0.528	0.527	0.509	**0.509**	-3.5%	▼
AUD/BRL	3.731	3.784	3.654	**3.697**	-0.9%	▼
AUD/INR	55.62	56.67	54.73	**54.78**	-1.5%	▼
AUD/CNY	4.847	4.919	4.728	**4.728**	-2.5%	▼

Equity markets* July 2024	Previous month close	Month high	Month low	Month close	Month change	
MSCI World ex Australia	3605	3740	3584	**3666**	1.7%	▲
MSCI Emerging Markets	1086	1125	1072	**1085**	-0.1%	▼
S&P/ASX200	7767	8092	7718	**8092**	4.2%	▲
S&P/ASX Small Ordinaries	2973	3088	2949	**3075**	3.4%	▲
S&P500 (US)	5460	5667	5399	**5522**	1.1%	▲
FTSE 100 (UK)	8164	8368	8121	**8368**	2.5%	▲
Stoxx600 (Europe)	511	524	509	**518**	1.3%	▲
DAX (Germany)	18235	18748	18164	**18509**	1.5%	▲
CAC 40 (France)	7479	7724	7427	**7531**	0.7%	▲
Nikkei 225 (Japan)	39583	42224	37667	**39102**	-1.2%	▼
Hang Seng (HK)	17719	18293	17003	**17345**	-2.1%	▼
Shanghai Composite (China)	2967	2997	2879	**2939**	-1.0%	▼
Bovespa (Brazil)	123907	129450	124718	**127652**	3.0%	▲
IPC (Mexico)	52440	54953	51948	**53094**	1.2%	▲
S&P/BSE Sensex (India)	79033	81741	79441	**81741**	3.4%	▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) July 2024	Previous month close	Month high	Month low	Month close	Month change	
RBA Official Cash Rate	4.35	4.35	4.35	**4.35**	0.00	–
90 Day Bank Bill	4.45	4.49	4.44	**4.49**	0.04	▲
180 Day Bank Bill	4.74	4.80	4.70	**4.78**	0.05	▲
New institutional term deposits	4.60	4.60	4.60	**4.60**	0.00	–
3 Year CGS Bond	4.08	4.16	3.76	**3.76**	-0.32	▼
10 Year CGS Bond	4.31	4.43	4.12	**4.12**	-0.20	▼
10 Year US Bond	4.40	4.46	4.03	**4.03**	-0.37	▼
10 Year German Bond	2.50	2.61	2.30	**2.30**	-0.20	▼
10 Year Japanese Bond	1.06	1.10	1.00	**1.06**	0.00	▼

TCorp bonds (%) **July 2024**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
20-Aug-24	4.36	4.46	4.33	**4.39**	0.03 ▲
20-Mar-25	4.45	4.50	4.23	**4.23**	-0.22 ▼
20-May-26	4.40	4.50	4.10	**4.10**	-0.31 ▼
20-May-27	4.36	4.47	4.05	**4.05**	-0.31 ▼
20-Mar-28	4.36	4.49	4.08	**4.08**	-0.28 ▼
20-Apr-29	4.43	4.57	4.18	**4.18**	-0.25 ▼
20-Feb-30	4.52	4.67	4.32	**4.32**	-0.21 ▼
20-Mar-31	4.66	4.81	4.47	**4.47**	-0.19 ▼
20-Feb-32	4.80	4.94	4.61	**4.61**	-0.19 ▼
08-Mar-33	4.91	5.06	4.75	**4.75**	-0.16 ▼
20-Mar-34	5.02	5.18	4.88	4.88	-0.14 ▼
CIB 2.75% 20 Nov 25	1.94	2.00	1.97	**1.99**	0.04 ▲
CIB 2.50% 20 Nov 35	2.54	2.62	2.36	**2.36**	-0.18 ▼



Source: TCorp

Commodity markets (US$) **July 2024**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
Brent Oil (per barrel)	86.4	87.4	78.6	**80.7**	-6.6% ▼
Iron Ore (per tonne)	106.5	113.7	105.8	**105.9**	-0.5% ▼

TCorp forecasts	**Dec-24**	**Jun-25**	**Dec-25**	**Jun-26**
RBA Official Cash Rate	4.10	3.60	2.85	2.35
90 Day Bank Bill	4.00	3.10	2.50	2.50
10 Year CGS Bond	3.50	3.25	3.25	3.50

About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$110 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$177 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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