June 2021
Published: 1 July 2021

Economic commentary

The global economy

The key event affecting financial markets in June was a pivot from the US Federal Reserve regarding the outlook for monetary policy. The US central bank's June policy meeting surprised investors when it indicated a majority of the members of its policy-setting committee expect to have tightened policy by 2023. This triggered a flurry of volatility in financial markets as investors, that had previously worried that the central bank might allow inflation to get out of hand, now expressed concern that the US central bank would tighten policy too quickly and crunch growth.

US policymakers subsequently attempted to calm markets with Federal Reserve Chair Jerome Powell emphasising that no decisions had been made yet, that he thought recent higher inflation readings were transitory and that the path of rates would continue to be guided by actual economic outcomes rather than forecasts.

US inflation was again stronger-than-expected in May, although the upside surprises were once more in areas such as used car prices that are reflecting temporary supply constraints. Firms are also complaining about cost pressures in various business surveys, although business confidence remains very high. Global consumer sentiment measures also stand at elevated levels, suggesting that global growth in the second half of 2021 should remain strong.

China is the one major economy where growth appears to be decelerating following the removal of some stimulus measures in 2020H2. Services activity in particular has slowed from its rapid recovery in late 2020, although there are some indications that Chinese policymakers are prepared to support activity if growth slows much further.

The Australian economy

Australian economic data continues to paint a picture of a rapidly recovering economy. The unemployment rate fell to 5.1% in May after a weaker-than-expected outcome in April, while business and consumer confidence remained strong. House prices also continue to rise at a rapid pace.

The NSW Government delivered its 2021-22 Budget and while the forecasts envision that the Budget will return to surplus in 2024-25, the deficit in 2021-22 was larger than some market investors expected. This reflected the Government's cautious approach to the outlook, noting that some recent pockets of strength – such as stamp duty receipts – aren't likely to keep growing at their recent pace, as well as the ongoing risks to growth that persist whilst vaccination rates stay low and international borders remain closed.

The cautious approach adopted in the Budget and the maintenance of some stimulus measures was quickly, albeit unfortunately, vindicated with the outbreak of the highly contagious "Delta variant" of COVID-19. This prompted several state governments (including NSW) to announce temporary shutdowns. Recent Australian experience, however, suggests that spending quickly rebounds once restrictions are removed, which should limit the implications for financial markets.

Financial market commentary

The shift in rhetoric from the US central bank had a significant effect on bond markets, as investors believed it would lead to higher interest rates in the short term but dampen inflation in the medium term. A rise in US interest rates also supported the US dollar. While the prospect of tighter policy could have undermined equity markets, investors appeared to take confidence in the strong flow of economic data and most stock markets ended the month stronger.

Equity markets (performance in local currency, excluding dividends)

The MSCI World equity market index (excluding Australia) rose 1.7% in June, continuing its strong run. Equity markets in Australia, the US and Europe reached record highs during June but only the US was able to close the month at its high.

In the US, the S&P500 rose 2.2%, with technology stocks rebounding from their lacklustre performance in May. The European Stoxx600 index rose 1.4% in June, while Australia’s S&P/ASX200 index added 2.1% for the month.

The news was not quite so positive for emerging markets, although the MSCI Emerging Market index still managed to close 0.1% higher over June. Gains in Indian and Brazilian share markets were able to offset modest losses in Chinese and Mexican equity markets.

Interest rates

The shift in US monetary policy expectations resulted in a distinct flattening of yield curves, as short-dated bond yields rose (reflecting the risk of near-term monetary policy tightening) while longer-dated bond yields fell substantially, as investors thought the risk of a sustained rise in inflation had fallen and that tighter monetary policy would also be short lived.

In the US, 2-year bond yields rose by 11bps over June while the 10-year yield fell by 13bps to 1.47%. The decline in 10-year yields was entirely due to a decline in expected inflation in the US. German 10-year bonds yields fell by 2bps over June, closing the month at -0.21% but did trade as low as -0.27% at one stage.

Despite the Reserve Bank of Australia being much more consistent than the US Federal Reserve in its message that it doesn’t expect to raise interest rates until 2024 at the earliest, Australian bond yields followed a similar path to global bond yields. Yields on 3-year bonds rose by 13bps over June while 10-year yields fell by 18bps to 1.53%. The yield on TCorp’s March 2031 bond fell 5bps during June, to 1.76% with the spread to the Commonwealth bond widening following the Budget.

Currency and commodity markets

The Australian dollar fell by 3% against its US counterpart over June to US$0.75. While this mainly reflected US dollar strength, the Australian dollar also fell by 0.6% against the euro. The weakness of the Australian dollar came despite some solid rises in commodity prices, including an 8.4% jump in the Brent crude oil price. It appears that investors are sceptical that commodity prices will remain elevated if the Chinese economy continues to slow.

Financial market performance

Currency markets June 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.774	0.775	0.748	**0.750**	-3.01% ▼
AUD/EUR	0.635	0.638	0.630	**0.631**	-0.56% ▼
AUD/JPY	84.86	84.83	82.43	**82.91**	-2.30% ▼
AUD/GBP	0.546	0.549	0.541	**0.541**	-0.84% ▼
AUD/BRL	4.038	3.984	3.724	**3.729**	-7.64% ▼
AUD/RUB	56.81	56.88	54.48	**54.89**	-3.39% ▼
AUD/INR	56.19	56.57	55.24	**55.78**	-0.73% ▼
AUD/CNY	4.929	4.958	4.826	**4.845**	-1.69% ▼

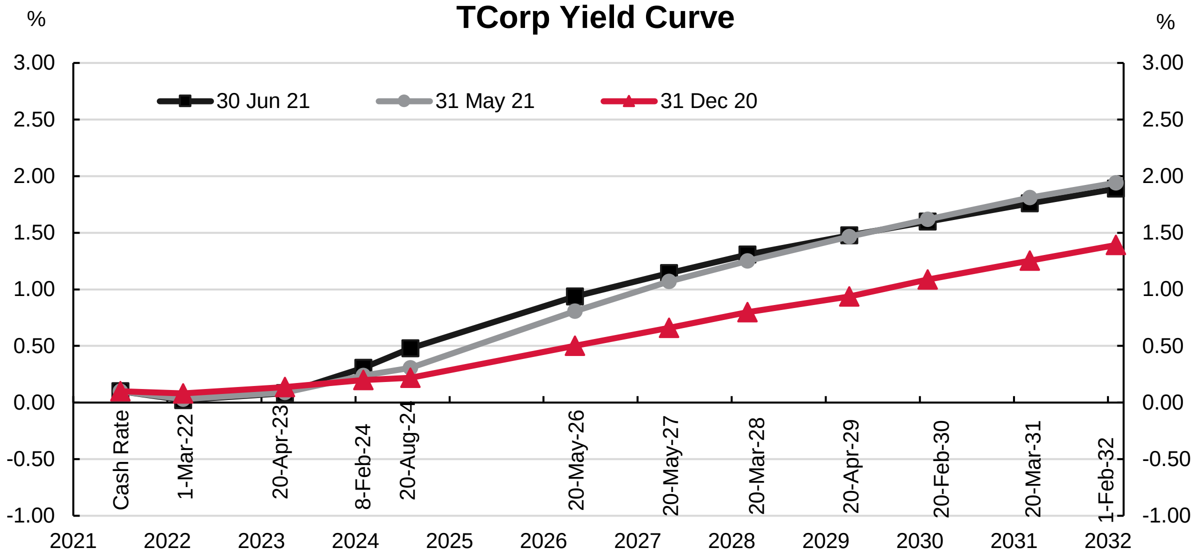
Equity markets* June 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3041	3093	3019	**3093**	1.7% ▲
MSCI Emerging Markets	1376	1391	1347	**1377**	0.1% ▲
S&P/ASX200	7162	7386	7143	**7313**	2.1% ▲
S&P/ASX Small Ordinaries	3291	3403	3279	**3384**	2.8% ▲
S&P500 (US)	4204	4298	4166	**4298**	2.2% ▲
FTSE 100 (UK)	7023	7185	7017	**7037**	0.2% ▲
Stoxx600 (Europe)	447	460	450	**453**	1.4% ▲
DAX (Germany)	15421	15730	15448	**15531**	0.7% ▲
CAC 40 (France)	6447	6666	6489	**6508**	0.9% ▲
Nikkei 225 (Japan)	28860	29441	28011	**28792**	-0.2% ▼
Hang Seng (HK)	29152	29468	28310	**28828**	-1.1% ▼
Shanghai Composite (China)	3615	3625	3518	**3591**	-0.7% ▼
Bovespa (Brazil)	126216	130776	126802	**126802**	0.5% ▲
IPC (Mexico)	50886	51428	50130	**50290**	-1.2% ▼
S&P/BSE Sensex (India)	51937	52925	51849	**52483**	1.0% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) June 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	0.04	0.03	0.02	**0.03**	-0.01 ▼
180 Day Bank Bill	0.09	0.09	0.05	**0.07**	-0.02 ▼
1 Year Term Deposit Rate	0.30	0.30	0.30	**0.25**	-0.05 ▼
3 Year CGS Bond	0.28	0.47	0.25	**0.41**	0.13 ▲
10 Year CGS Bond	1.71	1.69	1.49	**1.53**	-0.18 ▼
10 Year US Bond	1.59	1.63	1.43	**1.47**	-0.13 ▼
10 Year German Bond	-0.19	-0.16	-0.27	**-0.21**	-0.02 ▼
10 Year Japanese Bond	0.09	0.09	0.04	**0.06**	-0.03 ▼

TCorp bonds (%) June 2021	Previous month close	Month high	Month low	Month close	Month change
01-Mar-22	0.03	0.04	0.02	**0.02**	-0.01 ▼
20-Apr-23	0.09	0.12	0.02	**0.08**	0.00 ▼
08-Feb-24	0.24	0.33	0.21	**0.31**	0.07 ▲
20-Aug-24	0.31	0.51	0.30	**0.48**	0.17 ▲
20-May-26	0.81	0.96	0.72	**0.94**	0.13 ▲
20-May-27	1.07	1.17	0.94	**1.14**	0.07 ▲
20-Mar-28	1.25	1.32	1.11	**1.31**	0.06 ▲
20-Apr-29	1.47	1.50	1.30	**1.48**	0.01 ▲
20-Feb-30	1.62	1.64	1.44	**1.60**	-0.02 ▼
20-Mar-31	1.81	1.82	1.61	**1.76**	-0.05 ▼
20-Feb-32	1.94	1.95	1.74	**1.89**	-0.05 ▼
CIB 2.75% 20 Nov 25	-1.41	-1.08	-1.41	**-1.13**	0.28 ▲
CIB 2.50% 20 Nov 35	0.20	0.26	0.11	**0.20**	0.01 ▲

TCorp Yield Curve



Source: TCorp

Commodity markets (US$) June 2021	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	69.3	76.2	70.3	**75.1**	8.4% ▲
Iron Ore (per tonne)	205.7	215.8	201.4	**214.6**	4.3% ▲

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

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 over A$107 billion of assets under management, TCorp is a top 5 Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A$119 billion. It is rated Aaa (Stable) by Moody's and AA+ (Stable) by S&P.

TCorp

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