June 2022
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Economic commentary

The global economy

Across the major economies, the June data did suggest weakening economic activity, though conditions nonetheless seemed resilient. In the US, the ISM manufacturing survey surprised by increasing in May, up from 55.4 to 56.1. Durable goods orders also remained sound in their latest print. Private payrolls growth also held up well, at 333,000 in May, though are drifting lower overall. The unemployment rate nudged higher, from 3.5% in April to 3.6% for May, and annual average earnings growth slowed. At the same time, consumer confidence slumped and retail sales dropped. Housing activity indicators, including building permits and housing starts, also softened noticeably. Similarly in Europe, some key economic indicators rolled over. Eurozone PMIs surprised firmly to the downside, with slowing manufacturing and services activity driving the Composite index down to 51.9 in June, from 54.8 in May. Retail sales were also weak in their May report, and momentum in industrial production seems to be slowing.

Economic conditions in China continued to look weak, with protracted COVID lockdowns hurting activity. Retail sales growth and property investment contracted significantly in May. The Caixin PMI surveys pointed firmly to contracting activity in manufacturing and services, with the Composite index at 42.0 in May (below 50.0 denotes contraction). The government recently announced a broad-based economic stimulus package, which could start to stem the decline.

While the overall growth picture is slowing, inflation data remained very strong. US headline CPI growth hit 8.6% year-on-year in May, up from 8.3% for April. The core CPI also remained very quick, at 6.0% year-on-year. In Europe, the Eurozone CPI jumped to 8.1% year-on-year, from 7.4% for May. As a result, there was little to suggest that pressures are peaking.

Persistent, elevated price pressures remain instrumental for the outlook for interest rates, and for global economic activity. Central banks, most notably the US Federal Reserve, remained firm in their stance that they will do whatever necessary to get inflation back down. Fed Chair Powell noted in the month that the soft landing the Fed is seeking will be “very challenging”, and that a recession was “a possibility”. In June, the Fed lifted the funds rate another 75bps in its June meeting, taking the benchmark rate from 1.00% to 1.75%.

The Australian economy

Economic conditions in Australia continued to appear sound, though there is a slower tone coming through in the data. The strength of the job market continued to surprise in the May report, with the economy adding 60,600 new jobs in the month, and the participation rate climbing, from 66.3% to 66.7%. Consumer confidence slowed in its June reading, as did business sentiment. Home loans slumped in May and auction clearance rates, especially in Sydney, continued to decline.

The Reserve Bank of Australia (RBA) delivered a hawkish surprise with a 50bps hike in June, taking Australia’s cash rate to 0.85%. Market pricing suggests that the cash rate could reach 3.75% this tightening cycle. This is a very aggressive outlook, likely also reflecting uncertainty on the RBA’s expected reaction to forthcoming growth and inflation data.

Financial market commentary

The shaky run for markets extended into June, reflecting growing concerns on the outlook for global economic activity. With aggressive, front-loaded rate hikes now commonly expected, investors took their cues from still-elevated inflation data during the month. For much of June, this served to fuel expectations that monetary tightening would need to be even more restrictive to get price pressure back down. Expectations for a hard landing for global growth mounted.

Equity markets (performance in local currency, excluding dividends)

Equity market performance was very poor in June. Markets globally repriced further on a slowing growth outlook, high ongoing inflationary pressures and hawkish central bank activity. The MSCI World equity market index (excluding Australia) lost 8.7% during the month. Australia's ASX200 was weaker again, down 8.9%, reflecting its exposure to energy and materials stocks. The MSCI Emerging Markets index was also hard-hit, down 7.1%.

The slump was pretty well universal, with most bourses recording falls in excess of 5% over June. The S&P500 dropped 8.4%, and the European Stoxx600 lost 8.2%. Germany's DAX plunged 11.2%, with energy security concerns weighing on companies in this market.

Once again, a positive surprise was the Shanghai Composite. This index added another 6.7%, as news of government stimulus packages boosted sentiment, and plans to ease back some of the zero-COVID restrictions were announced later in the month.

Interest rates

Bond yields climbed solidly higher in June. Increasingly hawkish rhetoric from central banks globally pumped-up expectations for front-loaded rate hikes. Rate rises from the US Federal Reserve and RBA, among others, also consolidated expectations for higher rates.

At the shorter end of the curve, Australian 3-year benchmark bonds closed at 3.12%, up 28bps from 2.84% at the end of May. In the US, 2-year treasuries also rose, from 2.56% to 2.95%. Longer-dated bond yields also pushed higher. Australian 10-year benchmark yields were up 31bps, to 3.66%, while in the US, 10-year treasury yields climbed 17bps, to 3.01%. Notably, 10-year yields closed much lower than their monthly highs, for example with Australian 10-year yields as high as 4.20%. Slowing global growth expectations weighed on yields as the month went on, and yield curves were also flatter as a result.

Currency and commodity markets

Commodity prices pared some of their recent gains in June, reflecting a slowing outlook for growth global and also persistent concerns on the impact of China's COVID zero policies on demand. Brent crude oil prices declined 6.5%, to close at $114.80 per barrel. Iron ore prices also fell, down 11.5%, to $119.40 per tonne.

The Australian dollar was under pressure, as risk appetite dropped. The dollar closed down 3.8% to US$0.69.

Financial market performance

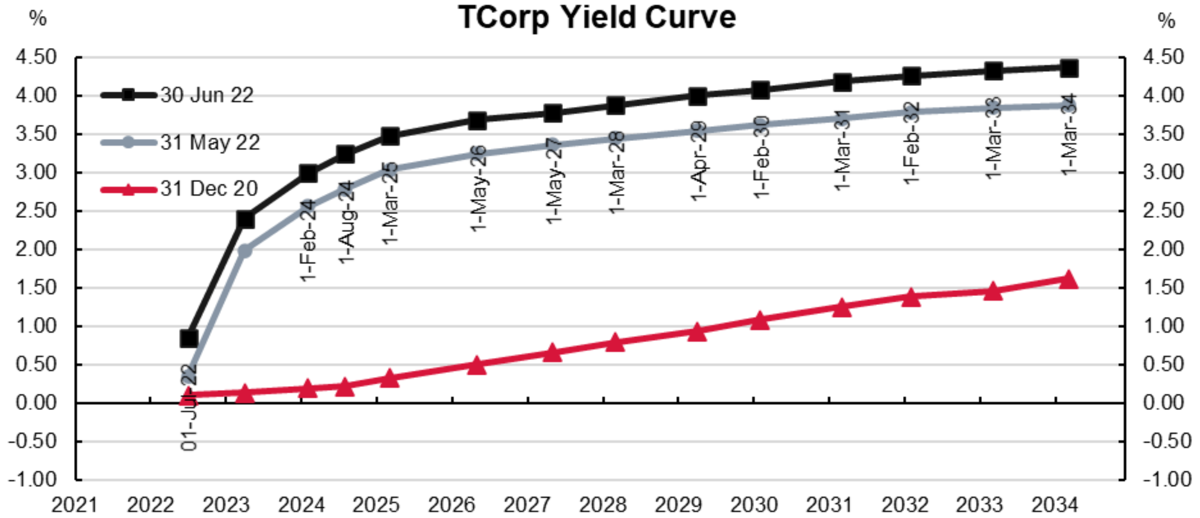
Currency markets **June 2022**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
AUD/USD	0.718	0.727	0.687	**0.690**	-3.82% ▼
AUD/EUR	0.669	0.676	0.654	**0.658**	-1.52% ▼
AUD/JPY	92.35	96.58	93.06	**93.69**	1.45% ▲
AUD/GBP	0.570	0.578	0.562	**0.567**	-0.48% ▼
AUD/BRL	3.397	3.641	3.441	**3.629**	6.83% ▲
AUD/RUB	85.18	86.23	81.55	**81.93**	-3.82% ▼
AUD/INR	55.72	56.39	53.59	**54.52**	-2.16% ▼
AUD/CNY	4.788	4.839	4.610	**4.625**	-3.42% ▼

Equity markets* **June 2022**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
MSCI World ex Australia	2852	2876	2542	**2604**	-8.7% ▼
MSCI Emerging Markets	1078	1074	994	**1001**	-7.1% ▼
S&P/ASX200	7211	7239	6433	**6568**	-8.9% ▼
S&P/ASX Small Ordinaries	3064	3025	2616	**2654**	-13.4% ▼
S&P500 (US)	4132	4177	3667	**3785**	-8.4% ▼
FTSE 100 (UK)	7608	7608	7016	**7169**	-5.8% ▼
Stoxx600 (Europe)	443	444	402	**407**	-8.2% ▼
DAX (Germany)	14388	14654	12784	**12784**	-11.2% ▼
CAC 40 (France)	6469	6549	5883	**5923**	-8.4% ▼
Nikkei 225 (Japan)	27280	28247	25771	**26393**	-3.3% ▼
Hang Seng (HK)	21415	22419	20845	**21860**	2.1% ▲
Shanghai Composite (China)	3186	3409	3182	**3399**	6.7% ▲
Bovespa (Brazil)	111351	112393	98080	**98542**	-11.5% ▼
IPC (Mexico)	51753	51506	46658	**47524**	-8.2% ▼
S&P/BSE Sensex (India)	55566	55818	51360	**53019**	-4.6% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **June 2022**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
RBA Official Cash Rate	0.35	0.85	0.35	**0.85**	0.50 ▲
90 Day Bank Bill	1.18	1.86	1.19	**1.81**	0.64 ▲
180 Day Bank Bill	1.93	2.85	1.94	**2.67**	0.75 ▲
1 Year Term Deposit Rate	0.25	0.25	0.25	**0.25**	0.00 –
3 Year CGS Bond	2.84	3.69	2.89	**3.12**	0.28 ▲
10 Year CGS Bond	3.35	4.20	3.42	**3.66**	0.31 ▲
10 Year US Bond	2.84	3.47	2.91	**3.01**	0.17 ▲
10 Year German Bond	1.12	1.77	1.19	**1.34**	0.21 ▲
10 Year Japanese Bond	0.24	0.26	0.23	**0.23**	-0.01 ▼

TCorp bonds (%) June 2022	Previous month close	Month high	Month low	Month close	Month change
20-Apr-23	1.99	2.89	2.05	**2.40**	0.42 ▲
08-Feb-24	2.57	3.63	2.65	**2.99**	0.43 ▲
20-Aug-24	2.79	3.79	2.87	**3.24**	0.45 ▲
20-Mar-25	3.04	3.94	3.08	**3.48**	0.44 ▲
20-May-26	3.25	4.15	3.30	**3.69**	0.44 ▲
20-May-27	3.36	4.26	3.41	**3.78**	0.42 ▲
20-Mar-28	3.45	4.33	3.51	**3.88**	0.44 ▲
20-Apr-29	3.55	4.45	3.62	**4.00**	0.46 ▲
20-Feb-30	3.62	4.52	3.69	**4.08**	0.46 ▲
20-Mar-31	3.71	4.61	3.78	**4.19**	0.48 ▲
20-Feb-32	3.78	4.67	3.85	**4.26**	0.48 ▲
CIB 2.75% 20 Nov 25	-0.17	0.39	-0.15	**-0.09**	0.08 ▲
CIB 2.50% 20 Nov 35	1.51	2.36	1.58	**1.94**	0.44 ▲



Source: TCorp

Commodity markets (US$) June 2022	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	122.8	123.6	110.1	**114.8**	-6.5% ▼
Iron Ore (per tonne)	135.0	144.7	108.1	**119.4**	-11.5% ▼

TCorp forecasts	Dec-22	June-23	Dec-23	June-24
RBA Official Cash Rate	1.25	1.25	1.25	1.25
90 Day Bank Bill	1.25	1.25	1.25	1.50
10 Year CGS Bond	3.00	3.25	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$104 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 over A$120 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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