Monthly economic report

The global economy

More central banks in advanced economies delivered rate cuts in June as inflation gradually fell towards targets and economic activity remained weak. The Bank of Canada (BoC) and European Central Bank (ECB) cut rates for the first time in this cycle and the Swiss Central Bank cut rates for the second time. While the BoC signalled that further rate cuts are likely soon, the ECB noted that the timing and pace of future rate cuts are highly uncertain and depend on inflation continuing to ease. The Bank of England held rates steady in June but signalled that a rate cut in August is likely.

The outperformance of the US economy over the past year relative to other advanced economies has resulted in the US Federal Reserve (Fed) delaying its rate cuts. With inflation falling more slowly than expected in the first few months of this year, the Fed is waiting for additional data to gain confidence that inflation is falling towards target, before cutting rates. The Fed now expects to cut rates only once in 2024, instead of the 3 cuts investors expected in March. Encouragingly, inflation data in April and May suggested that price pressures are continuing to ease, providing comfort to investors that the Fed will deliver 1 or 2 rate cuts towards the end of this year.

US economic data was also on the softer side in June, indicating that parts of the US economy and labour market are gradually loosening. The impact of higher interest rates on some sectors of the economy is becoming more apparent, including a softening in consumer spending, which had been resilient since the Fed started its tightening cycle.

The Australian economy

The Reserve Bank of Australia (RBA) Board held interest rates steady at its June meeting, but its messaging was interpreted as slightly hawkish. While the RBA Board highlighted the risk of inflation taking longer to return to target and again considered the case for a rate rise, it continues to describe its policy stance as neutral.

The Australian economy was weak in the March quarter, expanding by only 0.1% and again contracting in per capita terms. More timely survey data indicates that economic activity potentially weakened further in the June quarter. High interest rates continue to weigh on household spending and residential construction, while government spending has been an increasingly important driver of activity in recent years.

The weak economic activity and the gradual loosening in the labour market should provide the RBA comfort that inflation will keep falling towards target. In particular, the RBA should be more confident that wages growth will slow to a level consistent with the inflation target after the Fair Work Commission increased minimum and award wages by 3.75% this year – a much lower outcome than the previous 2 years.

However, the fall in inflation is likely to remain bumpy as global factors, such as oil prices, create volatility and complicate the assessment of underlying inflationary pressures in the economy. For example, the upside inflation surprise in May partly reflected the earlier rise in oil prices.

Financial market commentary

Bond yields in most advanced economies declined in June and continue to be driven by the evolving outlook for global interest rates. Equity market moves were mixed in June as country-specific developments had a larger influence on equities.

Equity markets (performance in local currency, excluding dividends)

The US equity market again outperformed other advanced economies, with the S&P500 gaining 3.5%. While performance across sectors was mixed, the IT sector recorded the largest gains, with companies benefiting from artificial intelligence continuing to perform strongly.

In Australia, the ASX200 rose by 0.9% in June and has underperformed most other advanced economies since the start of this year. Solid gains in the financial sector have offset weakness in the mining sector, with the latter weighed down by concerns around China's economy and falls in the prices of key Australian commodity exports. Chinese equities fell by 3.9%, but some other emerging markets had a positive month, with the MSCI Emerging Markets Index gaining 3.6%.

Equity markets across Europe fell in June, reflecting heightened political uncertainty after the European elections. Concerns were most pronounced in France, with its equity market losing almost 6.5%.

Bond yields

US 10-year bond yields fell 10bps in June, driven by lower-than-expected inflation data. Some softer economic data throughout the month, including survey measures showing slowing economic activity, also weighed on yields.

Australian 10-year yields declined 10bps, largely driven by the fall in US yields. TCorp's bond yields outperformed in June, with the 10-year spread between TCorp and Australian Commonwealth Government bonds narrowing by 9bps. This was driven by the NSW Government announcing a lower projected borrowing requirement in the next few years than investors had expected.

Heightened political uncertainty after the European elections – particularly in France – saw European bond markets diverge in June. While 10-year bond yields in Germany fell 15bps, French 10-year bond yields rose 16bps, widening the spread between them from around 50bps to around 80bps after the elections.

Currency and commodity markets

Iron ore prices fell over 9% in June, down almost 22% since the start of this year, as weakness in China's property sector weighs on the outlook for key steel-making commodities (iron ore and coking coal). Measures announced by Chinese authorities in recent months to support the ailing property sector are yet to have a noticeable impact or alleviate investors' concerns about the outlook for China's economy.

Oil prices rose almost 6% in June, unwinding most of the fall in May. Heightened geopolitical tensions and expectations that OPEC will control oil supply more tightly in the second half of this year drove the increase, despite signs of weaker US oil demand.

The Japanese yen depreciated a further 2.3% against the US dollar in June and is at its lowest level since the mid-1980s. The Bank of Japan's (BoJ) expansionary monetary policy, combined with US interest rates remaining higher for longer, has seen the yen depreciate sharply since the start of this year. Japanese officials continue to express concern about the impact of rapid, one sided currency movements on the economy.

Financial market performance

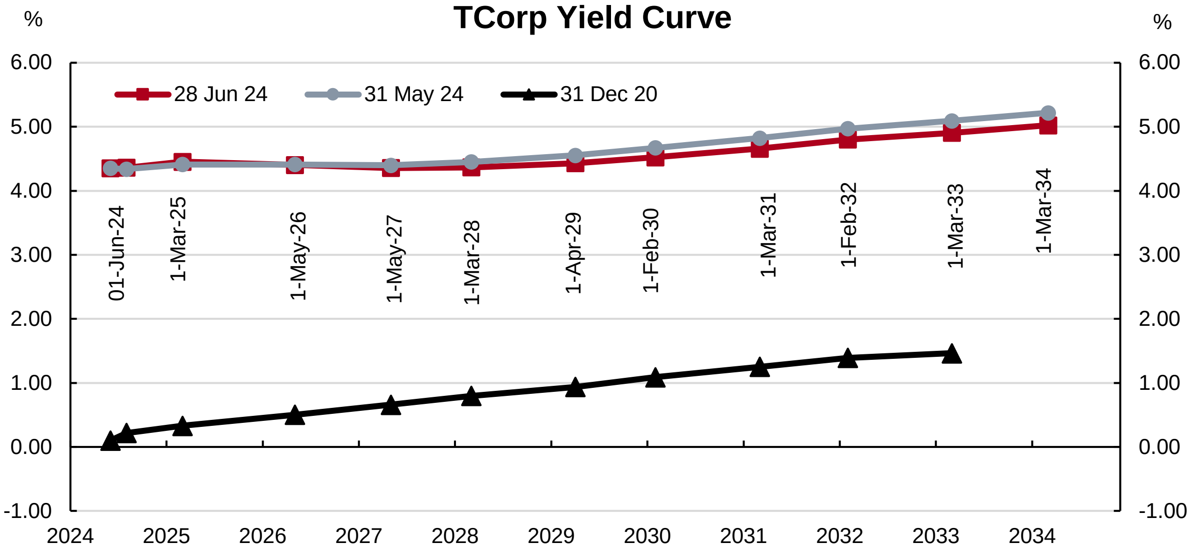
Currency markets June 2024	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.665	0.669	0.658	**0.667**	0.3% ▲
AUD/EUR	0.613	0.623	0.609	**0.623**	1.5% ▲
AUD/JPY	104.66	107.31	102.98	**107.31**	2.5% ▲
AUD/GBP	0.522	0.528	0.518	**0.528**	1.0% ▲
AUD/BRL	3.490	3.731	3.502	**3.731**	6.9% ▲
AUD/INR	55.53	55.69	54.88	**55.62**	0.2% ▲
AUD/CNY	4.818	4.847	4.771	**4.847**	0.6% ▲

Equity markets* June 2024	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3536	3617	3544	**3605**	1.9% ▲
MSCI Emerging Markets	1049	1096	1052	**1086**	3.6% ▲
S&P/ASX200	7702	7860	7700	**7767**	0.9% ▲
S&P/ASX Small Ordinaries	3023	3024	2944	**2973**	-1.7% ▼
S&P500 (US)	5278	5487	5283	**5460**	3.5% ▲
FTSE 100 (UK)	8275	8285	8142	**8164**	-1.3% ▼
Stoxx600 (Europe)	518	525	511	**511**	-1.3% ▼
DAX (Germany)	18498	18653	18002	**18235**	-1.4% ▼
CAC 40 (France)	7993	8040	7479	**7479**	-6.4% ▼
Nikkei 225 (Japan)	38488	39667	38102	**39583**	2.8% ▲
Hang Seng (HK)	18080	18477	17716	**17719**	-2.0% ▼
Shanghai Composite (China)	3087	3091	2946	**2967**	-3.9% ▼
Bovespa (Brazil)	122098	124308	119138	**123907**	1.5% ▲
IPC (Mexico)	55179	54477	51808	**52440**	-5.0% ▼
S&P/BSE Sensex (India)	73961	79243	72079	**79033**	6.9% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) June 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	4.35	4.46	4.35	**4.45**	0.10 ▲
180 Day Bank Bill	4.60	4.77	4.58	**4.74**	0.13 ▲
New institutional term deposits	4.60	4.60	4.60	**4.60**	0.00 –
3 Year CGS Bond	4.05	4.17	3.79	**4.08**	0.03 ▲
10 Year CGS Bond	4.41	4.41	4.11	**4.31**	-0.10 ▼
10 Year US Bond	4.50	4.47	4.22	**4.40**	-0.10 ▼
10 Year German Bond	2.66	2.67	2.36	**2.50**	-0.16 ▼
10 Year Japanese Bond	1.07	1.08	0.93	**1.06**	-0.01 ▼

TCorp bonds (%) June 2024	Previous month close	Month high	Month low	Month close	Month change
20-Aug-24	4.34	4.38	4.33	**4.36**	0.02 ▲
20-Mar-25	4.41	4.51	4.32	**4.45**	0.04 ▲
20-May-26	4.41	4.50	4.17	**4.40**	-0.01 ▼
20-May-27	4.40	4.44	4.14	**4.36**	-0.04 ▼
20-Mar-28	4.45	4.45	4.19	**4.36**	-0.09 ▼
20-Apr-29	4.55	4.52	4.29	**4.43**	-0.12 ▼
20-Feb-30	4.67	4.64	4.39	**4.52**	-0.15 ▼
20-Mar-31	4.82	4.79	4.54	**4.66**	-0.17 ▼
20-Feb-32	4.97	4.93	4.68	**4.80**	-0.17 ▼
08-Mar-33	5.09	5.06	4.80	**4.91**	-0.19 ▼
20-Mar-34	5.22	5.19	4.93	5.02	-0.19 ▼
CIB 2.75% 20 Nov 25	1.74	2.03	1.74	**1.94**	0.21 ▲
CIB 2.50% 20 Nov 35	2.55	2.66	2.43	**2.54**	-0.01 ▼



Source: TCorp

Commodity markets (US$) June 2024	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	81.6	86.4	77.5	**86.4**	5.9% ▲
Iron Ore (per tonne)	117.5	110.0	105.4	**106.5**	-9.4% ▼

TCorp forecasts	June-24	Dec-24	Jun-25	Dec-25
RBA Official Cash Rate	4.35	3.85	3.10	2.35
90 Day Bank Bill	4.35	3.60	2.85	2.50
10 Year CGS Bond	3.75	3.50	3.25	3.25

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$173 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

TCorp

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