

Economic commentary

Economic outlook improves and investors embrace recovery trades

In March, analysts upgraded forecasts for economic growth around the world. Major economies continued to gain momentum. In some regions, such as Europe, new waves of COVID-19 infections were met with renewed restrictions on activity, but investors viewed these setbacks as temporary and markets were mainly unaffected.

The Organisation for Economic Cooperation and Development (OECD) raised its forecasts for world economic growth in 2021 from 4.2% to 5.6%, and from 3.7% to 4% in 2022, which exceeds the long-run average of 3.5%. US economic prospects were boosted by passage of President Biden's US\$1.9tn stimulus package and the potential for another US\$2-4tn of spending on physical and social infrastructure in the US over the next 8 years.

In the US and Europe, business and consumer confidence returned to pre-COVID levels in March - despite a third wave of COVID-19 cases in Europe prompting new lockdowns. Unemployment rates continued to fall; they are now well below their peaks, although still above pre-COVID levels. For example, the US unemployment rate jumped from 3.5% in February 2020 to a peak of 14.8% (in April 2020), and was back down to 6.2% in February 2021; the Eurozone rate rose from 7.3% to 8.7% and fell to 8.1% in January; China's unemployment rate travelled from 5.1% to 6.2% but fell back to 5.5% in February 2020.

The improvement in economic conditions has been sufficient for some governments and central banks, notably China, to allow some emergency support measures to lapse, while still maintaining pro-growth fiscal and monetary policy settings overall.

Australian Government sees reduced need to support economy

The Australian economy continued to recover. Employment returned to pre-COVID levels in February, and the unemployment rate dropped from 6.3% to 5.8%, compared to 5.2% pre-COVID. Strong demand pushed house prices up 2.8% in March. Business conditions and confidence are now both quite strong; the NAB business survey indicates overall conditions and forward orders in March are the best since 2018. The strong aggregate data do hide areas of ongoing weakness, especially in international travel-related sectors. Overall economic conditions, however, have improved sufficiently for the Government to allow a host of support measures to lapse at the end of March, including JobKeeper, the JobSeeker Supplement, and HomeBuilder.

The improved economy has also allowed Australian governments to reconsider their borrowing needs, with budget deficits likely to be smaller than expected heading into FY2022. Private sector economists estimate the Commonwealth underlying cash deficit for FY2021 could be closer to \$150bn rather than the \$198bn forecast in the Mid-Year Economic and Fiscal Outlook. Meanwhile, the Reserve Bank of Australia (RBA) committed to purchasing an additional \$100bn of government bonds in the 6 months from April, helping to keep borrowing costs low for governments, and the overall economy.

Financial market commentary

Risk assets performed well in March, as they usually do during upturns in economic cycles. Share markets and commodity prices rose. In contrast, bond prices fell, translating into higher bond yields.

There were periodic spikes in volatility as investors repositioned their portfolios, while this was reinforced by some 'one-off' events. These included a large container ship, the Ever Given, blocking the Suez Canal for a week, which temporarily raised oil prices and bond yields. While a hedge fund, Achegos Capital Management, was forced to sell a large volume of shares to meet margin calls from its bankers, sending ripples through share markets.

Equity Markets (Performance is in local currency and excludes dividends)

World equity markets (excluding Australia) rose 3.2% in March, to be up 4.6% for the quarter. Share markets have gained 75% since they bottomed out a year ago.

The underlying theme in stock markets is moving money into industry sectors which stand to profit most from stronger economic growth (e.g. industrials and mining) and steeper yield curves (e.g. banks). In the US, stock markets posted new record highs, the broad-based S&P500 rose 4.2%, to be up 5.8% for the quarter. The industrial-focussed Dow Jones is up 7.8% for the quarter, while the technology-centric NASDAQ 100 gained 2.9%.

Although Europe's economic recovery has been delayed by a slow vaccine rollout and renewed lockdowns, stock markets posted good gains – the pan-European Stoxx600 index rose 6.1% in March and 7.7% in the quarter. Chinese authorities voiced concerns about asset price bubbles, acting to slow credit growth and this sent share prices lower; the Shanghai Composite fell 1.9% in March. In Brazil, which has been one of the countries hit hardest by the pandemic, shares jumped 6% in March but are down 2% for the quarter.

The Australian equity market was buffeted by events in China, trailing other developed markets. The S&P/ASX200 index gained 1.8% in March, ending the quarter up 3.1%.

Interest rates

Globally, stronger economic conditions, and central bank efforts to rekindle inflation to meet their medium-term targets, maintained upward pressure on bond yields. Global pressures, however, were offset to varying degrees by local factors. US 10-year bond yields rose 34bps to 1.74%, German yields fell 3bps to -29bps, while Australian yields fell 13bps to 1.79%. Yields were volatile. Australian 10 year-yields traded between 1.65% and 1.92%, while US yields ranged from 1.40% to 1.74%. The yield on TCorp's March 2031 bond fell 12bps to 1.96%.

Currency and commodity markets

Commodity prices had a mixed month. Brent oil ended down 3.9%, at US\$63.50 per barrel; iron ore edged up 0.8%; and the gold price fell 1.5%, to US\$1,708 per ounce. The US dollar appreciated against the currencies of its trading partners in March, rising 2.5% on average. The Australian dollar fell to US\$0.76.

Financial market performance

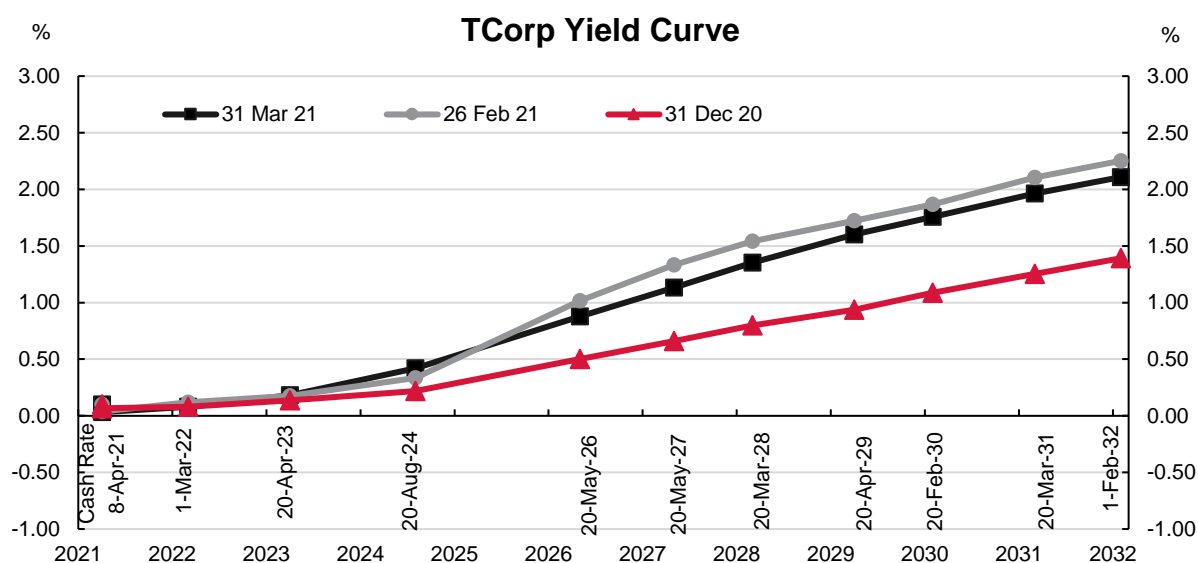
Currency markets March 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.771	0.782	0.758	0.760	-1.40% ▼
AUD/EUR	0.638	0.651	0.642	0.648	1.50% ▲
AUD/JPY	82.12	84.87	82.44	84.13	2.44% ▲
AUD/GBP	0.553	0.560	0.551	0.551	-0.32% ▼
AUD/BRL	4.318	4.479	4.211	4.280	-0.87% ▼
AUD/RUB	57.51	58.24	56.43	57.51	0.00% ▲
AUD/INR	56.62	57.37	55.02	55.55	-1.88% ▼
AUD/CNY	4.993	5.072	4.947	4.979	-0.28% ▼

Equity markets* March 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2786	2890	2763	2875	3.2% ▲
MSCI Emerging Markets	1339	1378	1288	1320	-1.5% ▼
S&P/ASX200	6673	6827	6708	6791	1.8% ▲
S&P/ASX Small Ordinaries	3124	3234	3072	3131	0.2% ▲
S&P500 (US)	3811	3975	3768	3973	4.2% ▲
FTSE 100 (UK)	6483	6804	6589	6714	3.6% ▲
Stoxx600 (Europe)	405	431	409	430	6.1% ▲
DAX (Germany)	13786	15009	13921	15008	8.9% ▲
CAC 40 (France)	5703	6088	5783	6067	6.4% ▲
Nikkei 225 (Japan)	28966	30217	28406	29179	0.7% ▲
Hang Seng (HK)	28980	29880	27900	28378	-2.1% ▼
Shanghai Composite (China)	3509	3577	3358	3442	-1.9% ▼
Bovespa (Brazil)	110035	116850	110335	116634	6.0% ▲
IPC (Mexico)	44593	48204	44785	47246	6.0% ▲
S&P/BSE Sensex (India)	49100	51445	48440	49509	0.8% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) March 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	0.03	0.04	0.03	0.04	0.01 ▲
180 Day Bank Bill	0.06	0.09	0.07	0.09	0.02 ▲
1 Year Term Deposit Rate	0.30	0.35	0.30	0.35	0.05 ▲
3 Year CGS Bond	0.12	0.13	0.09	0.12	0.00 ▼
10 Year CGS Bond	1.92	1.83	1.65	1.79	-0.13 ▼
10 Year US Bond	1.40	1.74	1.39	1.74	0.34 ▲
10 Year German Bond	-0.26	-0.26	-0.38	-0.29	-0.03 ▼
10 Year Japanese Bond	0.16	0.16	0.07	0.10	-0.07 ▼

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
March 2021					
08-Apr-21	0.04	0.05	-0.05	0.03	-0.01 ▼
01-Mar-22	0.12	0.13	0.08	0.08	-0.04 ▼
20-Apr-23	0.18	0.21	0.16	0.18	0.00 ▲
20-Aug-24	0.33	0.42	0.33	0.42	0.09 ▲
20-May-26	1.02	1.02	0.79	0.88	-0.14 ▼
20-May-27	1.33	1.29	1.03	1.13	-0.20 ▼
20-Mar-28	1.54	1.52	1.24	1.35	-0.19 ▼
20-Apr-29	1.72	1.70	1.46	1.60	-0.12 ▼
20-Feb-30	1.87	1.87	1.62	1.76	-0.11 ▼
20-Mar-31	2.10	2.07	1.83	1.96	-0.14 ▼
CIB 2.75% 20 Nov 25	-1.05	-1.16	-1.35	-1.21	-0.16 ▼
CIB 2.50% 20 Nov 35	0.71	0.49	0.29	0.44	-0.26 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
March 2021					
Brent Oil (per barrel)	66.1	69.6	60.8	63.5	-3.9% ▼
Iron Ore (per tonne)	165.6	175.5	164.6	166.9	0.8% ▲
TCorp forecasts		Jun-21	Sep-21	Dec-21	Dec-22
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	1.25	1.00	1.00

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