March 2022
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# Economic commentary

## The global economy

Global economic data continued to paint a resilient picture in March, prior to the disruptions with the Russia-Ukraine crisis. In the US, non-farm payrolls rose 678,000 in February, far exceeding expectations, with the prior 2 months' gains also revised higher. The unemployment rate fell to 3.8%, the lowest in 2 years. The ISM manufacturing index ticked higher to 58.6 in February, consistent with robust activity gains (above 50 indicates expansion). In Europe, the manufacturing PMI came in at 58.2, also pointing to solid growth. The unemployment rate continued to decline, from 7.0% in December to 6.8% in January, a new low. Data for China was mixed, with the most recent data points decidedly weaker, pointing to a rapid slowdown. This is particularly due to new COVID-driven lockdowns in force. The official Manufacturing PMI fell from 50.2 to 49.5.

Global inflation reports showed price pressures continued to surge in many major economies. US CPI jumped once more, to 7.9% year-on-year in February, from 7.5% in January. The core CPI came in at 6.4%, up from 6.0%, reflecting broadening price pressures. Eurozone headline inflation hit 5.8% year-on-year in February, a new high. Surging energy prices were the key driver, however core inflation also accelerated. Extremely high commodity prices were a key driver of the surging inflationary pressures. Natural gas prices jumped, reflecting potential strains on supply to Europe from sanctions against Russia. At the same time, oil prices exploded on concerns of a supply shock. Brent crude prices rose to as high as US$130 per barrel.

The US Federal Reserve meeting was a focal point for March. As widely anticipated, the Federal Reserve's Open Market Committee increased the Fed funds rate target by 25bps, to a range between 0.25% and 0.50%. This was significant as it marks the beginning of the first tightening cycle since 2018. While a smaller increase than the 50bps hike that was postulated before the Russia-Ukraine crisis, the move showed that the Fed is undeterred from its decision to get tightening underway. Fed members signalled that they would consider faster-paced hikes near-term, including a potential 50bps hike in May. The UK's Bank of England and the Bank of Canada also raised interest rates.

## The Australian economy

Economic releases for Australia were also robust. Employment continued to outperform expectations, rising by 77,400 jobs in February. Retail sales also rose a strong 1.8% in February, and business confidence improved in the month. Housing credit growth continues to look solid, up 7.8% year-on-year in February, while slowing auction clearance rates suggest moderating activity.

On policy, the Federal Budget revealed a material reduction in budget deficits, at $104bn over the next 5 years. This is despite $40bn in new spending announced. Better economic performance and higher commodity prices are supportive. A temporary fuel excise cut and tax cuts for lower-income earners are expected to keep spending afloat. The Reserve Bank of Australia (RBA) continued to emphasise patience in its communications, reaffirming it is in no rush to raise rates. It highlighted the need for faster wages growth for tightening to commence and did not yet see these pressures as sufficient. Still, the market expects aggressive hiking from here, with the cash rate expected to reach 2.45% in 12 months' time.

# Financial market commentary

March was another volatile month for financial markets, as the escalating risks from Russia's invasion of Ukraine hit sentiment and investors digested the broadening global sanctions against Russia. Toward month-end confidence improved as early talks between Russia and Ukraine were underway. At the same time, central bank tightening was a major focus, as the US Federal Reserve commenced rate hikes following its March meeting. Rising waves of COVID-19 infections, driven by a new Omicron variant, were of secondary concern for markets.

## Equity markets (performance in local currency, excluding dividends)

Equities were mixed in March. Positive reception of the US Federal Reserve's rate hike, along with some better news on the conflict, supported gains for many markets. The MSCI World equity market index (excluding Australia) closed up 3.8%. The S&P500 rose 3.6%.

At the same time, surging geopolitical risks drove pockets of volatility and weakness in some markets, including Europe, with the German DAX down -0.3%. For others, the surge in commodity prices brought on by the conflict supported market gains, with the ASX200 up 6.4%.

The Shanghai Composite lost -6.1%, reflecting COVID outbreaks and the imposition of additional lockdowns as the Chinese government continues to pursue a zero-COVID policy.

## Interest rates

Longer-dated bond yields marched higher still in March, on rising rate hike expectations and surging inflationary pressure. The US 10-year bond yield rose 51bps to 2.34%. In Germany, 10-year yields rose 41bps to 0.55%.

Australian 10-year benchmark yields gained 70bps to 2.84%. The outsized gains continued to reflect very strong market pricing for RBA tightening, which also saw Australian 3-year benchmark yields jump 80bps, to 2.34%. The yield on TCorp's February 2032 bond rose 67bps to 3.21%.

## Currency and commodity markets

Russia's invasion of Ukraine was the catalyst for surging and volatile commodity prices in March. Brent crude oil prices rose 6.9%, to US$107.90 per barrel, though were as high as US$130 per barrel. Prices remain 66% above year-ago levels, despite the announcement at month-end from the US that it would release some its strategic oil reserves, which saw prices pare back. Iron ore prices gained 12.7%, to close at US$158.30 per tonne.

The Australian dollar rallied further, with commodity price gains giving the currency a lift. The Australian dollar climbed 3.02% to US$0.748 and appreciated across the board against most major currencies. Rising expectations for RBA rate hikes supported performance. The extreme 24.7% gain against the Russian rouble reflected the ongoing impact on the rouble from financial sanctions.

# Financial market performance

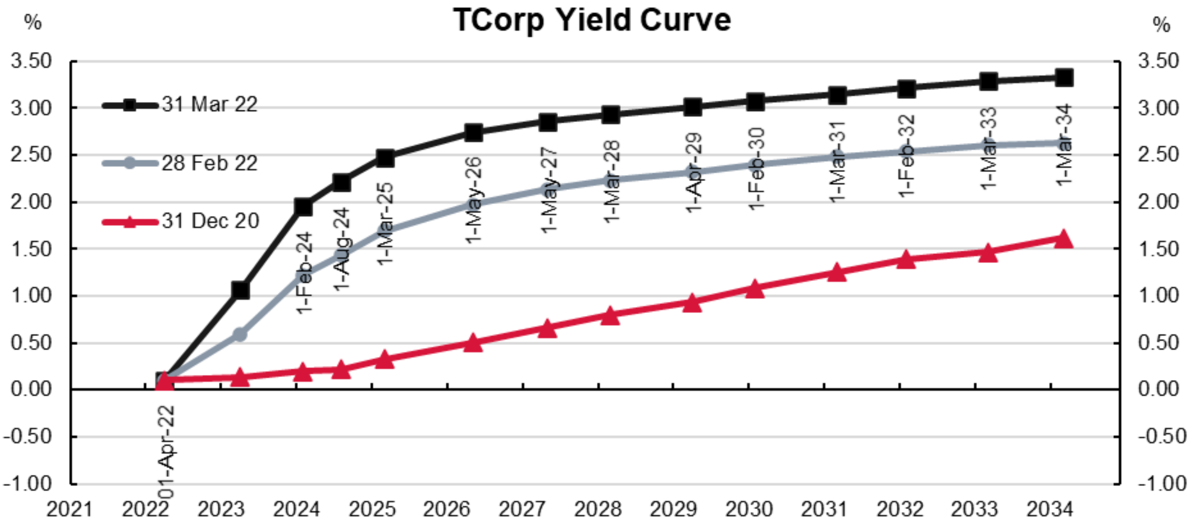
| **Currency markets**<br>**March 2022** | **Previous month close** | **Month high** | **Month low** | **Month close** | **Month change** | |
|---|---|---|---|---|---|---|
| AUD/USD | 0.726 | 0.752 | 0.719 | **0.748** | 3.02% | ▲ |
| AUD/EUR | 0.647 | 0.684 | 0.652 | **0.676** | 4.43% | ▲ |
| AUD/JPY | 83.52 | 92.76 | 83.34 | **91.06** | 9.02% | ▲ |
| AUD/GBP | 0.541 | 0.573 | 0.544 | **0.569** | 5.20% | ▲ |
| AUD/BRL | 3.742 | 3.736 | 3.548 | **3.548** | -5.19% | ▼ |
| AUD/RUB | 71.22 | 89.20 | 70.28 | **88.80** | 24.68% | ▲ |
| AUD/INR | 54.72 | 57.38 | 54.64 | **56.71** | 3.63% | ▲ |
| AUD/CNY | 4.582 | 4.784 | 4.576 | **4.744** | 3.52% | ▲ |

| **Equity markets***<br>**March 2022** | **Previous month close** | **Month high** | **Month low** | **Month close** | **Month change** | |
|---|---|---|---|---|---|---|
| MSCI World ex Australia | 3049 | 3182 | 2861 | **3166** | 3.8% | ▲ |
| MSCI Emerging Markets | 1171 | 1176 | 1027 | **1149** | -1.9% | ▼ |
| S&P/ASX200 | 7049 | 7515 | 6980 | **7500** | 6.4% | ▲ |
| S&P/ASX Small Ordinaries | 3205 | 3357 | 3114 | **3351** | 4.6% | ▲ |
| S&P500 (US) | 4374 | 4632 | 4171 | **4530** | 3.6% | ▲ |
| FTSE 100 (UK) | 7458 | 7579 | 6959 | **7516** | 0.8% | ▲ |
| Stoxx600 (Europe) | 453 | 462 | 415 | **456** | 0.6% | ▲ |
| DAX (Germany) | 14461 | 14820 | 12832 | **14415** | -0.3% | ▼ |
| CAC 40 (France) | 6659 | 6792 | 5963 | **6660** | 0.0% | ▲ |
| Nikkei 225 (Japan) | 26527 | 28252 | 24718 | **27821** | 4.9% | ▲ |
| Hang Seng (HK) | 22713 | 22762 | 18415 | **21997** | -3.2% | ▼ |
| Shanghai Composite (China) | 3462 | 3489 | 3064 | **3252** | -6.1% | ▼ |
| Bovespa (Brazil) | 113142 | 120260 | 108959 | **119999** | 6.1% | ▲ |
| IPC (Mexico) | 53401 | 56537 | 52313 | **56537** | 5.9% | ▲ |
| S&P/BSE Sensex (India) | 56247 | 58684 | 52843 | **58569** | 4.1% | ▲ |

*Returns are in local currency, and exclude dividend payments

| **Bond markets (%)**<br>**March 2022** | **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 | 0.08 | 0.23 | 0.09 | **0.23** | 0.15 | ▲ |
| 180 Day Bank Bill | 0.25 | 0.73 | 0.26 | **0.71** | 0.46 | ▲ |
| 1 Year Term Deposit Rate | 0.30 | 0.30 | 0.30 | **0.30** | 0.00 | – |
| 3 Year CGS Bond | 1.54 | 2.47 | 1.45 | **2.34** | 0.80 | ▲ |
| 10 Year CGS Bond | 2.14 | 2.90 | 2.08 | **2.84** | 0.70 | ▲ |
| 10 Year US Bond | 1.83 | 2.47 | 1.73 | **2.34** | 0.51 | ▲ |
| 10 Year German Bond | 0.14 | 0.65 | -0.07 | **0.55** | 0.41 | ▲ |
| 10 Year Japanese Bond | 0.19 | 0.25 | 0.14 | **0.22** | 0.03 | ▲ |

| TCorp bonds (%) March 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| 20-Apr-23 | 0.59 | 1.16 | 0.52 | **1.06** | 0.47 ▲ |
| 08-Feb-24 | 1.22 | 2.08 | 1.11 | **1.96** | 0.73 ▲ |
| 20-Aug-24 | 1.44 | 2.33 | 1.35 | **2.22** | 0.78 ▲ |
| 20-Mar-25 | 1.69 | 2.60 | 1.61 | **2.48** | 0.79 ▲ |
| 20-May-26 | 1.97 | 2.88 | 1.90 | **2.74** | 0.77 ▲ |
| 20-May-27 | 2.13 | 2.98 | 2.06 | **2.86** | 0.73 ▲ |
| 20-Mar-28 | 2.23 | 3.01 | 2.15 | **2.93** | 0.71 ▲ |
| 20-Apr-29 | 2.32 | 3.08 | 2.25 | **3.02** | 0.70 ▲ |
| 20-Feb-30 | 2.39 | 3.13 | 2.33 | **3.07** | 0.68 ▲ |
| 20-Mar-31 | 2.48 | 3.20 | 2.42 | **3.15** | 0.67 ▲ |
| 20-Feb-32 | 2.54 | 3.27 | 2.46 | **3.21** | 0.67 ▲ |
| CIB 2.75% 20 Nov 25 | -1.14 | -0.29 | -1.34 | **-0.37** | 0.78 ▲ |
| CIB 2.50% 20 Nov 35 | 0.44 | 0.94 | 0.27 | **0.89** | 0.45 ▲ |




Source: TCorp

| Commodity markets (US$) March 2022 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| Brent Oil (per barrel) | 101.0 | 128.0 | 98.0 | **107.9** | 6.9% ▲ |
| Iron Ore (per tonne) | 140.5 | 165.9 | 137.7 | **158.3** | 12.7% ▲ |

| TCorp forecasts | June-22 | Dec-22 | June-23 | Dec-23 |
|---|---|---|---|---|
| RBA Official Cash Rate | 0.10 | 0.10 | 0.25 | 0.50 |
| 90 Day Bank Bill | 0.10 | 0.25 | 0.50 | 0.75 |
| 10 Year CGS Bond | 2.50 | 2.75 | 3.00 | 3.25 |

## 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$108 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$131 billion. It is rated Aaa (Stable) by Moody's and AA+ (Stable) by S&P.


## TCorp

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