# Economic commentary

## The global economy

Financial markets were extremely volatile in March due to fears around the health of the banking sector, triggered by the collapse of 2 US banks, Silicon Valley Bank and Signature Bank, and worries about Credit Suisse in Europe. Swiss authorities brokered a deal for UBS to take over Credit Suisse and US regulators announced that continued support would be provided to US banks if required. Despite national regulators providing assurances that their banking sectors are resilient, concerns continued to reverberate throughout financial markets. Worries around contagion diminished, however, towards the end of the month, sentiment improved and markets stabilised.

Developments in the banking sector prompted a significant downward shift in investor expectations for central bank policy rates. Policy rates are now forecast to peak at a lower level, with many central banks expected to start cutting rates in the second half of this year. This is despite central bank officials signalling that more rate hikes are likely to be needed and no central bank has yet indicated that rate cuts are likely this year. However, central banks do appear to be getting close to pausing their tightening cycles. This has been supported by lower-than-expected inflation data in the US, Europe and Australia, and the expectation that banking sector concerns will lead to a tightening in financial conditions and assist in lowering inflation.

In the US, the Federal Reserve raised its policy rate by 25bps in March. Investors interpreted Fed Chair Powell's comment that a pause was considered at the meeting as dovish, even though Fed policymakers' forecasts signalled at least one more rate hike. The Fed's dovish shift is evident when looking at Powell's comments in early March – before the banking sector troubles surfaced – where he signalled that a 50bps policy rate increase was possible and that US interest rates may need to reach a higher level than previously thought.

The European Central Bank, Bank of England, Swiss National Bank and Norges Bank also raised their policy interest rates in March to curb high inflation. In contrast, the Bank of Canada left its policy interest rate unchanged.

## The Australian economy

At its March meeting, the Reserve Bank of Australia (RBA) raised its policy rate by 25bps. Although the RBA noted that a further tightening of monetary policy is likely to be required, there were also indications that the April meeting would consider the case for a pause. In response to these comments and a downward shift in US interest rate expectations following the banking sector developments, investors now expect the RBA to start cutting rates in the second half of this year. Lower-than-expected CPI inflation in February has strengthened this view.

Indicators of economic activity generally point to slowing momentum in the Australian economy. The economy grew by a weaker-than-expected 0.5% in the December quarter. Consumer spending slowed noticeably as households face falling real wage growth and higher interest rates, and consumer confidence remains weak. More recently, although retail sales values rose slightly in February, there has been no growth in retail spending for the past 6 months. Building approvals also continued to trend lower in January and the housing market more broadly remains subdued.

In contrast, the labour market remained tight in February with strong employment growth and the unemployment rate falling to 3.5%. Survey measures of business conditions also remain resilient. Net overseas migration to Australia has continued to rebound strongly, which should help alleviate labour market shortages and support economic activity.

# Financial market commentary

March was a tumultuous month in financial markets. In early March, sentiment was dominated by concerns around stubbornly high inflation and central banks signalling that more aggressive interest rate increases will be required. The collapse of Silicon Valley Bank and subsequent banking sector developments added to the volatility, with global bond yields and most equity markets falling sharply. However, financial markets stabilised in the last week of March and equities posted solid gains as concerns around the US and European banking sectors diminished.

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

While many equity markets fell in March in response to developments in the US and European banking sectors and concerns about broader contagion, overall global equities ended the month higher with the MSCI World Index (excluding Australia) rising 2.9%. The ASX200 fell by 1.1% and European shares fell by 0.7%, with banking and real estate stocks underperforming. The US S&P500 was surprisingly resilient, rising by 3.5%. However, regional US bank stocks fell sharply.

Equity markets have generally risen in 2023 to date, with European stocks 7.8% higher, the US S&P500 up 7.0 % and Japan up 7.5%. The Australian market has underperformed, rising by 2%.

## Interest rates

Global bond yields fell sharply as investors downgraded their expectations for central bank policy rates following the banking sector turmoil and comments from central banks that were interpreted as dovish. The decline in bond yields in March more than reversed the rise in February. Short-end yields fell most noticeably, with US 2-year bond yields falling by 79bps and 3-year Australian bond yields declining by 66bps.

Australian 10-year bond yields also fell sharply by 57bps to 3.28%, and by more than in the US (-36bps), Germany (-32bps) or Japan (-18bps). Australian 10-year yields reached a low of 3.2% in March, the lowest level since early August 2022.

TCorp bond yields fell alongside the decline in global bond yields, though by less than the fall in Australian Government bond yields.

## Currency and commodity markets

The Australian dollar depreciated in March in line with the risk aversion in financial markets. The Australian dollar fell by 0.7% against its US counterpart to US$0.67, and by 3.1% against the euro, Japanese yen, and British pound.

The Brent crude oil price was volatile in March but ended the month 4.9% lower.

# Financial market performance

| Currency markets<br>March 2023 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| AUD/USD | 0.673 | 0.677 | 0.658 | **0.669** | -0.7% ▼ |
| AUD/EUR | 0.636 | 0.637 | 0.615 | **0.617** | -3.1% ▼ |
| AUD/JPY | 91.63 | 92.08 | 86.87 | **88.82** | -3.1% ▼ |
| AUD/GBP | 0.560 | 0.563 | 0.541 | **0.542** | -3.1% ▼ |
| AUD/BRL | 3.524 | 3.542 | 3.385 | **3.385** | -3.9% ▼ |
| AUD/INR | 55.63 | 55.78 | 53.94 | **54.94** | -1.2% ▼ |
| AUD/CNY | 4.667 | 4.674 | 4.552 | **4.595** | -1.5% ▼ |

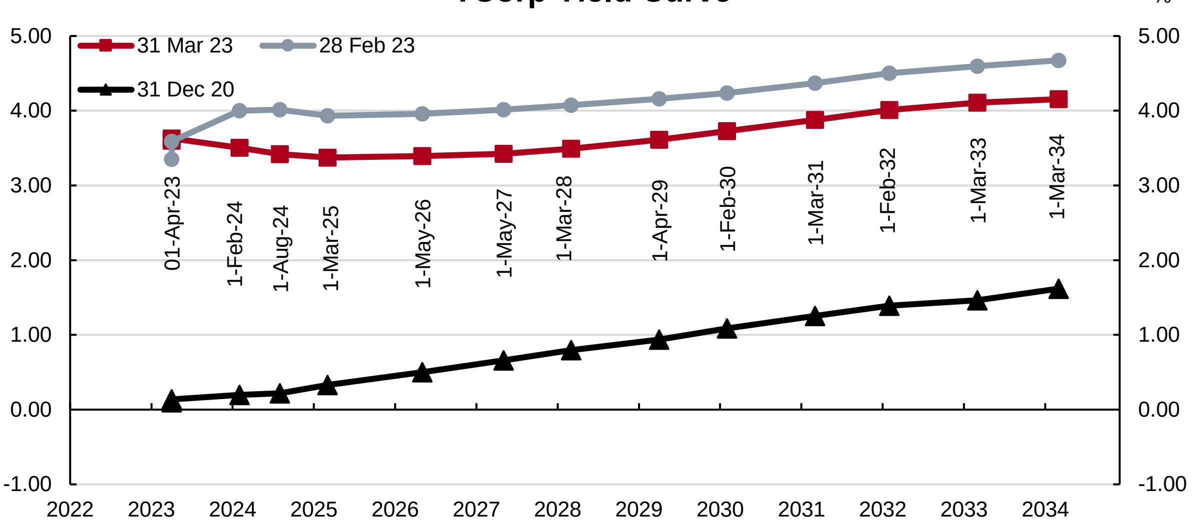
| Equity markets*<br>March 2023 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| MSCI World ex Australia | 2776 | 2857 | 2699 | **2857** | 2.9% ▲ |
| MSCI Emerging Markets | 964 | 994 | 941 | **990** | 2.7% ▲ |
| S&P/ASX200 | 7258 | 7365 | 6899 | **7178** | -1.1% ▼ |
| S&P/ASX Small Ordinaries | 2864 | 2892 | 2697 | **2823** | -1.4% ▼ |
| S&P500 (US) | 3970 | 4109 | 3856 | **4109** | 3.5% ▲ |
| FTSE 100 (UK) | 7876 | 7947 | 7335 | **7632** | -3.1% ▼ |
| Stoxx600 (Europe) | 461 | 464 | 436 | **458** | -0.7% ▼ |
| DAX (Germany) | 15365 | 15654 | 14735 | **15629** | 1.7% ▲ |
| CAC 40 (France) | 7268 | 7373 | 6886 | **7322** | 0.7% ▲ |
| Nikkei 225 (Japan) | 27446 | 28623 | 26946 | **28041** | 2.2% ▲ |
| Hang Seng (HK) | 19786 | 20620 | 19001 | **20400** | 3.1% ▲ |
| Shanghai Composite (China) | 3280 | 3328 | 3227 | **3273** | -0.2% ▼ |
| Bovespa (Brazil) | 104932 | 106540 | 97926 | **101882** | -2.9% ▼ |
| IPC (Mexico) | 52758 | 54199 | 51926 | **53904** | 2.2% ▲ |
| S&P/BSE Sensex (India) | 58962 | 60348 | 57527 | **58992** | 0.0% ▲ |

*Returns are in local currency, and exclude dividend payments

| Bond markets (%)<br>March 2023 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| RBA Official Cash Rate | 3.35 | 3.60 | 3.35 | **3.60** | 0.25 ▲ |
| 90 Day Bank Bill | 3.56 | 3.72 | 3.59 | **3.72** | 0.15 ▲ |
| 180 Day Bank Bill | 3.93 | 3.96 | 3.77 | **3.79** | -0.15 ▼ |
| 1 Year Term Deposit Rate | 2.90 | 3.15 | 2.90 | **3.15** | 0.25 ▲ |
| 3 Year CGS Bond | 3.60 | 3.60 | 2.81 | **2.94** | -0.66 ▼ |
| 10 Year CGS Bond | 3.85 | 3.90 | 3.19 | **3.30** | -0.55 ▼ |
| 10 Year US Bond | 3.92 | 4.06 | 3.38 | **3.47** | -0.45 ▼ |
| 10 Year German Bond | 2.65 | 2.75 | 2.11 | **2.29** | -0.36 ▼ |
| 10 Year Japanese Bond | 0.51 | 0.51 | 0.25 | **0.35** | -0.15 ▼ |

| TCorp bonds (%) March 2023 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| 08-Feb-24 | 4.00 | 3.99 | 3.30 | **3.51** | -0.50 ▼ |
| 20-Aug-24 | 4.01 | 4.00 | 3.27 | **3.42** | -0.60 ▼ |
| 20-Mar-25 | 3.93 | 3.95 | 3.25 | **3.37** | -0.56 ▼ |
| 20-May-26 | 3.96 | 3.96 | 3.28 | **3.39** | -0.56 ▼ |
| 20-May-27 | 4.01 | 4.01 | 3.33 | **3.42** | -0.59 ▼ |
| 20-Mar-28 | 4.08 | 4.08 | 3.43 | **3.49** | -0.58 ▼ |
| 20-Apr-29 | 4.16 | 4.19 | 3.56 | **3.61** | -0.55 ▼ |
| 20-Feb-30 | 4.24 | 4.28 | 3.67 | **3.73** | -0.51 ▼ |
| 20-Mar-31 | 4.37 | 4.42 | 3.82 | **3.88** | -0.49 ▼ |
| 20-Feb-32 | 4.50 | 4.56 | 3.96 | **4.01** | -0.49 ▼ |
| 08-Mar-33 | 4.59 | 4.65 | 4.05 | **4.11** | -0.49 ▼ |
| CIB 2.75% 20 Nov 25 | 0.59 | 0.61 | 0.15 | **0.19** | -0.40 ▼ |
| CIB 2.50% 20 Nov 35 | 2.18 | 2.14 | 1.70 | **1.72** | -0.46 ▼ |

**TCorp Yield Curve**




Source: TCorp

| Commodity markets (US$) March 2023 | Previous month close | Month high | Month low | Month close | Month change |
|---|---|---|---|---|---|
| Brent Oil (per barrel) | 83.9 | 86.2 | 73.0 | **79.8** | -4.9% ▼ |
| Iron Ore (per tonne) | 125.8 | 131.2 | 125.2 | **127.1** | 1.0% ▲ |

| TCorp forecasts | June-23 | Dec-23 | June-24 | Dec-24 |
|---|---|---|---|---|
| RBA Official Cash Rate | 3.85 | 3.85 | 3.85 | 3.85 |
| 90 Day Bank Bill | 4.15 | 4.15 | 4.15 | 4.15 |
| 10 Year CGS Bond | 3.75 | 3.75 | 3.75 | 3.75 |

## 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$105 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$144 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

## TCorp

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