

Economic commentary

The global economy

Global economic conditions improved as the accelerating rollout of vaccines allowed restrictions on activity in most developed countries to be eased. The Organisation for Economic Cooperation and Development (OECD) estimates that the world economy has regained pre-COVID activity levels. The OECD also expect the world economy will grow by 5.75% in 2021 and 4.5% in 2022 – notably stronger than the 3.3% average growth achieved over 2013-19.

In emerging economies, the vaccine rollout has been slower and new waves of the pandemic are delaying recovery. In the UK and Canada, nearly 60% of the population have received at least one dose of vaccine while almost 50% of US residents and 38% of European Union residents have received one dose. Lower rates of vaccination in emerging countries, notably India (12%), and new variants of the virus could delay their recovery to pre-pandemic GDP levels until the end of 2022.

Uncertainty about the evolution of the virus saw governments err on the side of caution and continue to provide policy support for growth. Meanwhile, pandemic-related imbalances between supply and demand have caused inflation pressures to rise, leading to some concerns that monetary policy support could soon be withdrawn. US core inflation jumped from 1.9% to 3.1% in April, its highest level for 30 years. The rise was largely due to a rebound in costs for items such as travel and accommodation that plunged when COVID hit a year ago. This story was repeated in Europe, China and elsewhere, and the full impact of any temporary price rises on inflation will not be known until later in the year.

The Australian economy

The economic recovery continued to run ahead of expectations in May. The Reserve Bank of Australia (RBA) upgraded its forecasts for growth, but still anticipates inflation remaining below its target – and hence the cash rate target remaining at 10bps – until 2024 at the earliest. The RBA noted that inflation is expected to rise above 3% temporarily in the June quarter due the reversal of COVID-related price falls, before falling back below 2% until mid-2023. Decisions on the size of the bond purchase program and shifting the 3-year bond yield target from the April 2024 bond to the November 2024 bond, would be announced at its July monthly meeting.

The data flow began to capture the impact of the end of some government support programs, notably the JobKeeper wage subsidy. Unemployment rose by 33,600 in April. However, business confidence and conditions hit new highs and retail sales rose 1.1%. House prices increased 1.8% in April and another 2.3% in May, to be up 10.6% from a year ago.

The Commonwealth Government opted to continue to support growth in its 2021-22 Budget. Windfall gains from higher iron ore prices and stronger than expected economic activity will be spent on new measures to address outstanding issues in key areas such as aged care and women's economic security.

Financial market commentary

The positive news on global growth supported risk assets. Stock markets and commodity prices increased. Investors appeared to accept that rising inflation pressures would prove to be transitory and would not force central banks to begin raising interest rates prematurely. Bond markets traded in narrow ranges with yields little changed over the month.

Equity markets (performance in local currency, excluding dividends)

World equity markets (excluding Australia) rose 1.2% in May. Australia, the US and many European markets posted record highs in May.

In the US, the S&P500 rose 0.5%, but the technology-centric NASDAQ 100 fell 1.5%. While US Federal Reserve officials have stated that the recent rise in inflation pressures would not trigger tighter monetary policy, many investors remain sceptical. Their concerns that higher interest rates could derail the economic recovery created volatile trading conditions; the VIX index of share price volatility jumped to 27.6 - its highest level since early March and well above the 30-year average of 19.6.

The European Stoxx600 index rose 2.1% in May, marking a fourth successive rise. Australia's S&P/ASX200 index added 1.9% in May. Banks (+5.8%) led the way, with resources stocks (+1.1%) lagging.

After a weak start to the year, emerging markets posted a 2.1% gain in May. Despite battling to bring the pandemic under control, Brazil's BOVESPA index and India's SENSEX index both recorded gains of more than 6%.

Interest rates

Bond yields traded in narrow ranges during May, despite the volatility in share markets. The Australian Government's November 2031 bond yield remained between 1.63% and 1.81%, finishing down 4bps at 1.71%. US 10-year yields held to a narrower trading range of just 13bps, finishing down 3bps at 1.59%. And German 10-year bonds were restricted to a 14bps range, closing 2bps higher at -0.19%.

The yield on TCorp's March 2031 bond fell 2bps, to 1.81%. Yields fell along the curve, with the April 2023 bond the biggest mover (-9bps).

Currency and commodity markets

The US dollar depreciated 1.6% against the currencies of its trading partners in May, although is essentially unchanged since the start of the year. The Australian dollar edged up 0.2% to US\$0.773, to be 0.5% higher year to date. European currencies appreciated against the US dollar as well as some key emerging market currencies, including the Chinese Yuan (+1.6%).

Commodity prices rose across the board, despite efforts by Chinese authorities to lower prices by announcing a crackdown on speculation and hoarding. The Commodity Research Bureau (CRB) index, which tracks a basket of commodities, rose 3% in April. Brent oil increased 3.1%, to above US\$69 per barrel and iron ore added 14.5% to US\$206 per tonne.

Financial market performance

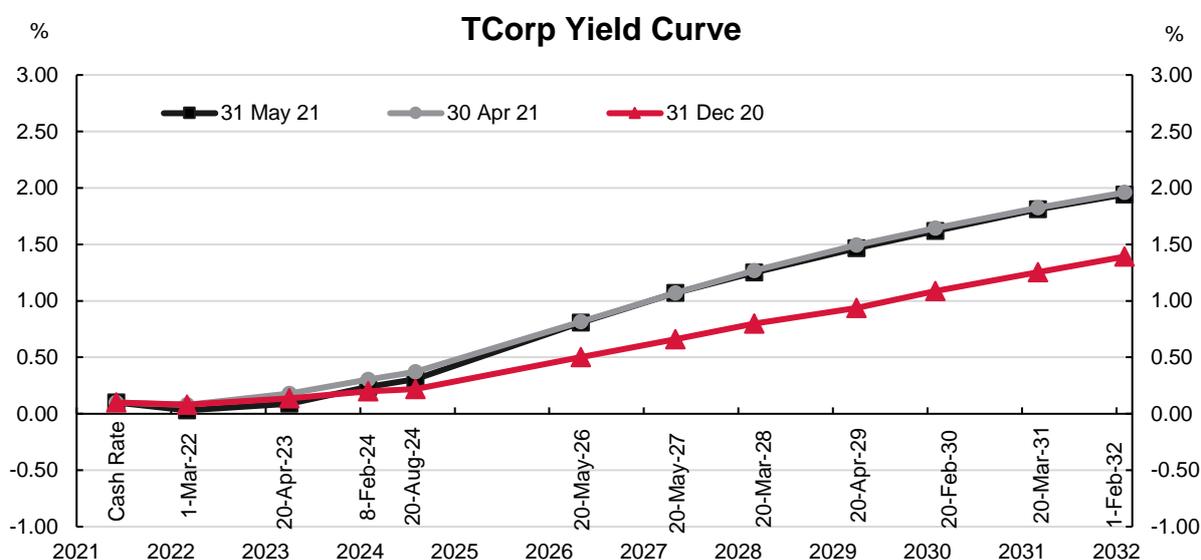
Currency markets May 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.772	0.784	0.771	0.773	0.23% ▲
AUD/EUR	0.642	0.646	0.633	0.633	-1.46% ▼
AUD/JPY	84.34	85.20	84.25	84.75	0.48% ▲
AUD/GBP	0.559	0.561	0.544	0.544	-2.58% ▼
AUD/BRL	4.196	4.225	4.030	4.036	-3.80% ▼
AUD/RUB	58.03	58.38	56.43	56.79	-2.13% ▼
AUD/INR	57.16	57.66	55.86	56.17	-1.74% ▼
AUD/CNY	4.996	5.046	4.911	4.927	-1.39% ▼

Equity markets* May 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3004	3045	2939	3041	1.2% ▲
MSCI Emerging Markets	1348	1376	1293	1376	2.1% ▲
S&P/ASX200	7026	7180	6932	7162	1.9% ▲
S&P/ASX Small Ordinaries	3286	3293	3152	3291	0.2% ▲
S&P500 (US)	4181	4233	4063	4204	0.5% ▲
FTSE 100 (UK)	6970	7130	6923	7023	0.8% ▲
Stoxx 600 (Europe)	437	449	434	447	2.1% ▲
DAX (Germany)	15136	15520	14856	15421	1.9% ▲
CAC 40 (France)	6269	6484	6252	6447	2.8% ▲
Nikkei 225 (Japan)	28813	29518	27448	28860	0.2% ▲
Hang Seng (HK)	28725	29166	27719	29152	1.5% ▲
Shanghai Composite (China)	3447	3615	3419	3615	4.9% ▲
Bovespa (Brazil)	118894	126216	117712	126216	6.2% ▲
IPC (Mexico)	48010	50886	48328	50886	6.0% ▲
S&P/BSE Sensex (India)	48782	51937	48254	51937	6.5% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) May 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	0.04	0.04	0.04	0.04	0.00 ▼
180 Day Bank Bill	0.10	0.11	0.09	0.09	-0.01 ▼
1 Year Term Deposit Rate	0.30	0.30	0.30	0.30	0.00 –
3 Year CGS Bond	0.30	0.32	0.25	0.28	-0.02 ▼
10 Year CGS Bond	1.75	1.81	1.63	1.71	-0.04 ▼
10 Year US Bond	1.63	1.69	1.56	1.59	-0.03 ▼
10 Year German Bond	-0.20	-0.10	-0.24	-0.19	0.02 ▲
10 Year Japanese Bond	0.10	0.10	0.07	0.09	-0.01 ▼

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
May 2021					
01-Mar-22	0.08	0.08	0.03	0.03	-0.05 ▼
20-Apr-23	0.18	0.17	0.09	0.09	-0.09 ▼
08-Feb-24	0.30	0.30	0.22	0.24	-0.07 ▼
20-Aug-24	0.37	0.37	0.27	0.31	-0.06 ▼
20-May-26	0.82	0.85	0.76	0.81	-0.01 ▼
20-May-27	1.07	1.10	0.99	1.07	0.00 ▲
20-Mar-28	1.27	1.30	1.16	1.25	-0.02 ▼
20-Apr-29	1.49	1.52	1.37	1.47	-0.03 ▼
20-Feb-30	1.64	1.69	1.52	1.62	-0.03 ▼
20-Mar-31	1.83	1.88	1.72	1.81	-0.02 ▼
20-Feb-32	1.96	2.02	1.85	1.94	-0.02 ▼
CIB 2.75% 20 Nov 25	-1.34	-1.32	-1.52	-1.41	-0.08 ▼
CIB 2.50% 20 Nov 35	0.44	0.44	0.20	0.20	-0.25 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
May 2021					
Brent Oil (per barrel)	67.3	69.6	65.1	69.3	3.1% ▲
Iron Ore (per tonne)	179.6	223.9	187.9	205.7	14.5% ▲

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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