May 2022
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Economic commentary

The global economy

Global economic reports were solid overall in May, though there were emerging signs that activity has peaked. On the whole, US economic data is consistent with the economy entering late stage of the business cycle with decent, yet slowing, growth. Non-farm payrolls growth held around the 400,000 mark in April, at 428,000 jobs added, and the unemployment rate held at a low 3.6%. The ISM manufacturing and services surveys for April both edged lower but remain at levels consistent with solid expansion. Retail sales and industrial production were also sound. Housing was one notable weak spot, with housing starts, building permits and sales of existing homes all weaker.

Similarly in Europe, PMIs pointed to ongoing, solid activity in manufacturing and services. The labour market performed well, with the unemployment rate holding at a low of 6.8% in April. Conditions in China, however, appeared grim. Industrial production, retail spending and property investment slumped in their April reports. Strict, rolling, COVID lockdowns further fuelled the risk of a hard landing in this major economy.

High inflation persisted in the data received during May, and in commodity prices. While it has moderated substantially from recent highs, the oil price was nonetheless at around US$113 per barrel, up more than 45% since the start of the year. CPI reports reflected elevated, headline price pressures, and also broadening consumer inflation. US headline CPI clocked 8.3% year-on-year in April, and the core CPI measure 6.2%. In the UK, headline CPI hit 9.0% year-on-year, and in Europe 8.1% year-on-year. For Australia, the Wage Price Index for the March quarter was the key inflation release, given the Reserve Bank’s (RBA) focus on wage costs. It showed wages grew a modest 0.7% in Q1, and 2.4% year-on-year.

Inflation remains instrumental to the economic outlook, with central banks vocal throughout May on their commitment to drive down price pressures. The US Federal Reserve raised the Funds rate by 50bps. Federal Reserve policymakers, including Chair Powell, signalled several more 50bps hikes to come in the next few meetings, though some of the rhetoric softened toward month-end. The market expects the Funds rate to hit 3.0% in a year’s time, which is consistent with the outlook provided by Fed policymakers.

The Australian economy

In Australia, economic conditions remained healthy, though some softer signs are emerging. Retail spending grew 1.6% in April, ahead of expectations, with the unemployment rate edging lower to 3.9%. Business sentiment improved in April but consumer confidence slid in May. Employment growth was also modest in April, at just 4,000 jobs. Auction clearance rates also continued to fall during the month, and building approvals dropped.

Significantly, the RBA made a radical step-change in May, increasing the cash rate 25bps to 0.35%. For many months, the RBA had been out of sync with other major central banks with its insistence on “patience” in assessing price pressures, but has now joined the consensus. Meeting minutes indicate the RBA will focus on month-to-month data releases to determine how quickly, and how high, rates will go this tightening cycle.

Financial market commentary

It was a rocky run for markets in May. The focus for investors moved beyond expectations for aggressive interest rate hikes, with tighter settings very much a given for the market and economic outlook. Instead, global growth concerns came into view, with risks of a US, and global, recession mounting. Elevated inflationary pressures persisted, which served to fan worries that the global economy is headed for a potentially hard landing. The ongoing crisis in Ukraine and signs of a sharp slowdown in China, as its COVID-zero policy bites, also impacted risk appetite.

Equity markets (performance in local currency, excluding dividends)

Equity market performance was mixed in May. Signs of slowing global economic activity dampened sentiment, as did concerns that too-tight monetary policy would undercut growth. Still, performance was certainly not as poor as for April, where markets re-priced on these risks. The MSCI World equity market index (excluding Australia) lost -0.1% during the month. The MSCI Emerging Markets index posted a 0.1% gain.

For the major developed markets, there were several specific catalysts. The US S&P500, which closed flat, was influenced by mixed corporate earnings news and also investor confidence that the Federal Reserve should not over-tighten policy. In Europe, where the Stoxx600 dropped 1.6%, the war in Ukraine and implications for energy supply was a key factor. In Australia, the ASX200 fell 3.0%. This reflected very aggressive expectations for RBA tightening, slowing China growth and weaker performance in the interest rate-sensitive technology sector.

The Shanghai Composite rebounded 4.6%, as news of government stimulus packages boosted sentiment, despite the imposition of additional lockdowns as the Chinese government continues to pursue a zero-COVID policy.

Interest rates

The run-up in market expectations for rate hikes ultimately slowed during May. At month-end, markets were pricing a Fed Funds rate of 3.14% in 12 months' time, while the RBA cash rate is expected to reach 3.48%, and the ECB bank rate 1.25%. For the US and Australia, these estimates are at the lower end of their range over the prior 30 days, while for Europe expectations have moved higher.

Longer-dated bond yields moved accordingly to these rate hike expectations, combined with softer growth prospects. The US 10-year bond yield fell 9bps to 2.84%. Australian 10-year yields continued to rise, up 23bps to 3.35%. German 10-year yields were up 18bps to 1.12%.

Currency and commodity markets

Commodity prices were volatile in May, as cooling global growth signals mixed with geopolitical moves. Brent crude oil prices rose 12.3%, to $122.80 per barrel. Renewed concerns over oil supply, reflecting European sanctions on Russian oil and OPEC negotiations, pushed prices higher. Iron ore prices dropped another 7.7%, to close at US$135.00 per tonne. The decline largely reflected Chinese growth concerns.

The Australian dollar was also volatile but ultimately regained its footing, to close up 1.64% to US$0.718. Solid commodity prices and easing safe-haven demand for the US dollar were important.

Financial market performance

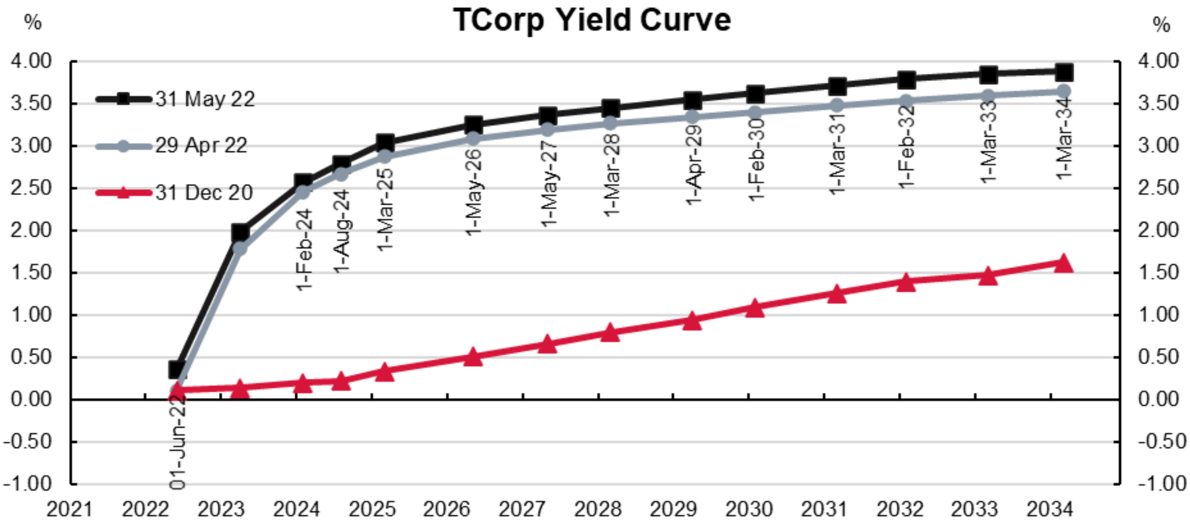
Currency markets May 2022	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.706	0.726	0.686	**0.718**	1.64% ▲
AUD/EUR	0.670	0.683	0.658	**0.669**	-0.15% ▼
AUD/JPY	91.58	93.72	87.99	**92.35**	0.84% ▲
AUD/GBP	0.562	0.575	0.562	**0.570**	1.43% ▲
AUD/BRL	3.511	3.594	3.385	**3.397**	-3.23% ▼
AUD/RUB	83.81	86.17	81.37	**85.18**	1.64% ▲
AUD/INR	53.97	55.80	53.08	**55.72**	3.24% ▲
AUD/CNY	4.666	4.798	4.653	**4.788**	2.62% ▲

Equity markets* May 2022	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2856	2929	2699	**2852**	-0.1% ▼
MSCI Emerging Markets	1076	1078	988	**1078**	0.1% ▲
S&P/ASX200	7435	7365	6941	**7211**	-3.0% ▼
S&P/ASX Small Ordinaries	3299	3235	2940	**3064**	-7.1% ▼
S&P500 (US)	4132	4300	3901	**4132**	0.0% ▲
FTSE 100 (UK)	7545	7608	7217	**7608**	0.8% ▲
Stoxx600 (Europe)	450	447	417	**443**	-1.6% ▼
DAX (Germany)	14098	14576	13381	**14388**	2.1% ▲
CAC 40 (France)	6534	6562	6086	**6469**	-1.0% ▼
Nikkei 225 (Japan)	26848	27369	25749	**27280**	1.6% ▲
Hang Seng (HK)	21089	21415	19380	**21415**	1.5% ▲
Shanghai Composite (China)	3047	3186	3002	**3186**	4.6% ▲
Bovespa (Brazil)	107876	111942	103110	**111351**	3.2% ▲
IPC (Mexico)	51418	52464	49057	**51753**	0.7% ▲
S&P/BSE Sensex (India)	57061	56976	52792	**55566**	-2.6% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) May 2022	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	0.10	0.35	0.10	**0.35**	0.25 ▲
90 Day Bank Bill	0.71	1.18	0.70	**1.18**	0.46 ▲
180 Day Bank Bill	1.45	1.93	1.47	**1.93**	0.47 ▲
1 Year Term Deposit Rate	0.25	0.25	0.25	**0.25**	0.00 –
3 Year CGS Bond	2.71	3.13	2.72	**2.84**	0.14 ▲
10 Year CGS Bond	3.13	3.57	3.20	**3.35**	0.23 ▲
10 Year US Bond	2.93	3.13	2.74	**2.84**	-0.09 ▼
10 Year German Bond	0.94	1.13	0.84	**1.12**	0.18 ▲
10 Year Japanese Bond	0.23	0.25	0.21	**0.24**	0.01 ▲

TCorp bonds (%) May 2022	Previous month close	Month high	Month low	Month close	Month change
20-Apr-23	1.78	2.28	1.83	**1.99**	0.21 ▲
08-Feb-24	2.46	2.90	2.44	**2.57**	0.11 ▲
20-Aug-24	2.67	3.10	2.66	**2.79**	0.13 ▲
20-Mar-25	2.87	3.30	2.89	**3.04**	0.17 ▲
20-May-26	3.09	3.50	3.10	**3.25**	0.16 ▲
20-May-27	3.19	3.59	3.22	**3.36**	0.17 ▲
20-Mar-28	3.27	3.68	3.30	**3.45**	0.18 ▲
20-Apr-29	3.34	3.75	3.40	**3.55**	0.21 ▲
20-Feb-30	3.40	3.81	3.46	**3.62**	0.23 ▲
20-Mar-31	3.48	3.90	3.54	**3.71**	0.23 ▲
20-Feb-32	3.53	3.96	3.61	**3.78**	0.25 ▲
CIB 2.75% 20 Nov 25	-0.07	0.20	-0.17	**-0.17**	-0.11 ▼
CIB 2.50% 20 Nov 35	1.13	1.65	1.23	**1.51**	0.37 ▲



Source: TCorp

Commodity markets (US$) May 2022	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	109.3	122.8	102.5	**122.8**	12.3% ▲
Iron Ore (per tonne)	146.3	146.3	125.2	**135.0**	-7.7% ▼

TCorp forecasts	June-22	Dec-22	June-23	Dec-23
RBA Official Cash Rate	0.60	1.25	1.25	1.25
90 Day Bank Bill	1.00	1.25	1.25	1.25
10 Year CGS Bond	3.00	3.00	3.25	3.25

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