Monthly economic report

The global economy

Central banks in advanced economies appear to be comfortable with the inflation outlook but remain vigilant for signs that that the disinflationary progress may stall. While inflation is expected to return to targets, the prevailing view is that it is falling slower than was expected at the start of this year and may not be smooth. As a result, central banks are cautious about cutting interest rates too soon and – once commenced – rate cuts are likely to be gradual.

US inflation measures were either in line with or slightly lower than expectations in April, which was a relief following a series of upside inflation surprises in the first 3 months of 2024. With inflation only falling gradually, investors expect that interest rates will remain higher for longer.

Comments from the US Federal Reserve (Fed) have reinforced this view, with policymakers emphasising their cautious approach to rate cuts amid continued resilience in the US economy and labour market. In practice, policymakers probably need to see a few months of low inflation before gaining the confidence to reduce rates. Importantly, however, Fed Chair Powell noted that further interest rate rises are unlikely, which allayed investor concerns around the possibility of further rate hikes.

In contrast to the higher-for-longer narrative in the US, the central banks of Sweden and Switzerland have already cut rates and the European Central Bank (ECB) is expected to deliver its first rate cut in June. However, ECB policymakers have noted that the timing and pace of additional rate cuts (beyond June) are likely to be gradual and guided by incoming inflation data.

In China, exports and investment in the manufacturing sector continue to drive economic activity, including investment in the green energy transition. Consumer spending and the property sector remain weak, though authorities announced a suite of measures in May to support the property market. While it remains to be seen how effective these measures will be, it is noteworthy that some support has been announced as authorities likely want to minimise the risk of not achieving this year's 5% GDP growth target.

The Australian economy

The Reserve Bank of Australia (RBA) Board held interest rates steady at its May meeting. The RBA Governor emphasised the Board's neutral policy stance, as it views risks to the outlook as balanced. The RBA expects inflation to continue falling but thinks it will remain above the 3% target band until mid-2025. The Governor's comments were less hawkish than investors feared, which alleviated concerns the RBA might tighten policy further. While inflation surprised to the upside in April, the figure is still consistent with the RBA's latest forecasts and is unlikely to alter the near-term outlook for monetary policy. Investors currently expect no change to interest rates this year.

Although inflation looks to be falling more slowly, the Australian economy is weaker than the RBA expected a few months ago. Household spending is particularly soft, with many households cutting discretionary spending and instead choosing to save and pay down debt. In addition, construction activity surprised to the downside in the March quarter, and new building approvals remain very weak, particularly on a per capita basis.

The labour market also continues to gradually loosen, though conditions remain tight overall. Wages growth slowed slightly in the March quarter and leading indicators are pointing to smaller wage rises ahead. The Fair Work Commission's annual decision on minimum and award wages, due on 3 June, will be important for the wage growth and inflation outlooks.

Financial market commentary

Equity markets in advanced economies rose in May, but there was some divergence across bond markets as investors reacted to local data and commentary from central bank policymakers.

Equity markets (performance in local currency, excluding dividends)

Lower US bond yields supported the equity market, with the S&P500 gaining 4.8% in May and outperforming other advanced economies. All sectors rose except energy stocks, which fell slightly alongside the fall in oil prices in the month. The IT sector recorded the largest gains, boosted by a stronger-than-expected earnings report from Nvidia, which is benefiting from booming interest in artificial intelligence. Nvidia alone has contributed more than one-third of the rise in the S&P500 since the start of this year, with other big technology stocks also making significant contributions.

The ASX200 underperformed most other advanced economies in May, gaining only 0.5%. Consumer-facing stocks weighed, which is consistent with the ongoing weakness in consumer spending. The ASX200 has also significantly underperformed other advanced economies in 2024 to date, with the share prices of several large mining companies falling alongside weakness in some commodities.

Interest rates

US 10-year bond yields fell 18bps in May as encouraging inflation data and comments by Fed officials reassured investors that further interest rate rises were unlikely. Some weaker US economic data also contributed, particularly softer employment in April. However, the fall in yields was limited by the recognition that inflation is only falling gradually, which will keep interest rates elevated for longer. Investors currently expect the Fed to start cutting rates at the end of this year.

Australian 10-year yields were unchanged in May. Yields were dragged lower by the fall in US yields throughout the first half of May, but then rose after domestic inflation surprised to the upside. In contrast, bond yields across Europe rose in May, as comments by ECB policymakers indicated that the pace of rate cuts would likely be gradual.

TCorp bond yields were also little changed in May, in line with Commonwealth Government yields.

Currency and commodity markets

The Australian dollar appreciated against a broad range of currencies in May, including a 2.8% rise against the US dollar. This partly reflected a narrowing in the short-term interest rate differential between the US and Australia, with US bond yields falling while Australian yields were unchanged. Positive risk sentiment in financial markets also contributed.

The Japanese Yen ended the month little changed against the US dollar. A sharp appreciation of the Yen at the start of May was gradually unwound, with market intervention from Japan's Ministry of Finance helping to stem the rise.

Oil fell by around 7% in May as geopolitical tensions tentatively eased and some indicators pointed to weaker US oil demand. However, oil prices are still around 6% higher since the start of this year.

Financial market performance

Currency markets May 2024	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.647	0.669	0.652	**0.665**	2.8% ▲
AUD/EUR	0.607	0.616	0.609	**0.613**	1.1% ▲
AUD/JPY	102.14	104.66	100.83	**104.66**	2.5% ▲
AUD/GBP	0.518	0.529	0.520	**0.522**	0.8% ▲
AUD/BRL	3.362	3.490	3.346	**3.490**	3.8% ▲
AUD/INR	54.01	55.89	54.42	**55.53**	2.8% ▲
AUD/CNY	4.687	4.835	4.723	**4.818**	2.8% ▲

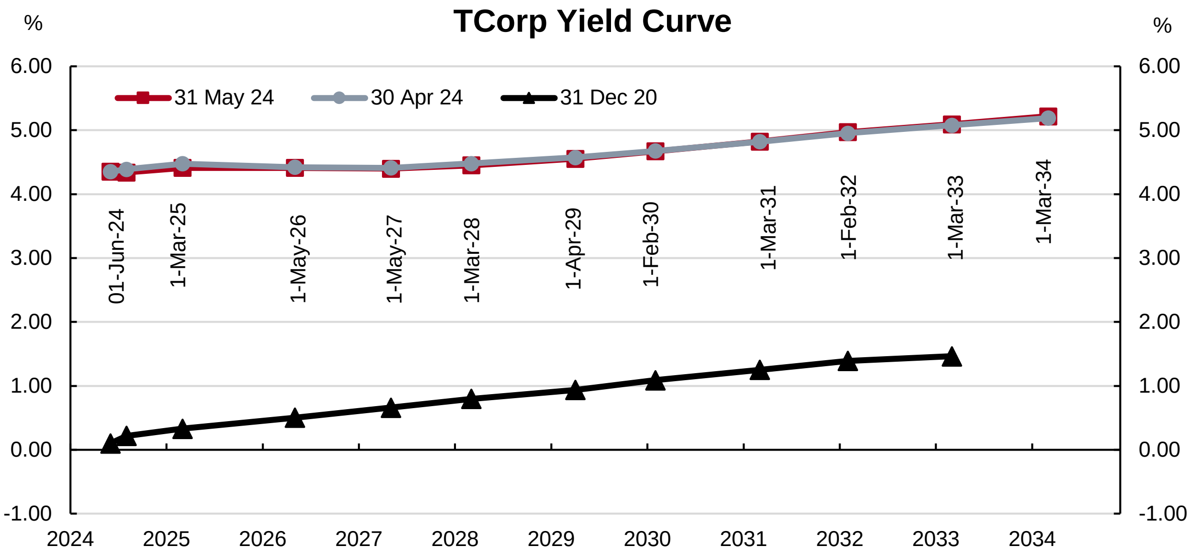
Equity markets* May 2024	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3392	3571	3381	**3536**	4.3% ▲
MSCI Emerging Markets	1046	1102	1046	**1049**	0.3% ▲
S&P/ASX200	7664	7881	7570	**7702**	0.5% ▲
S&P/ASX Small Ordinaries	3025	3080	2971	**3023**	-0.1% ▼
S&P500 (US)	5036	5321	5018	**5278**	4.8% ▲
FTSE 100 (UK)	8144	8446	8121	**8275**	1.6% ▲
Stoxx600 (Europe)	505	525	503	**518**	2.6% ▲
DAX (Germany)	17932	18869	17897	**18498**	3.2% ▲
CAC 40 (France)	7985	8240	7915	**7993**	0.1% ▲
Nikkei 225 (Japan)	38406	39103	38054	**38488**	0.2% ▲
Hang Seng (HK)	17763	19636	17763	**18080**	1.8% ▲
Shanghai Composite (China)	3105	3171	3087	**3087**	-0.6% ▼
Bovespa (Brazil)	125924	129481	122098	**122098**	-3.0% ▼
IPC (Mexico)	56728	57846	55179	**55179**	-2.7% ▼
S&P/BSE Sensex (India)	74483	75418	72404	**73961**	-0.7% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) May 2024	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.35	4.35	4.35	**4.35**	0.00 –
90 Day Bank Bill	4.41	4.42	4.34	**4.35**	-0.06 ▼
180 Day Bank Bill	4.70	4.69	4.56	**4.60**	-0.10 ▼
New institutional term deposits	4.70	4.70	4.60	**4.60**	-0.10 ▼
3 Year CGS Bond	4.04	4.11	3.84	**4.05**	0.01 ▲
10 Year CGS Bond	4.42	4.51	4.19	**4.41**	-0.01 ▼
10 Year US Bond	4.68	4.63	4.34	**4.50**	-0.18 ▼
10 Year German Bond	2.58	2.69	2.42	**2.66**	0.08 ▲
10 Year Japanese Bond	0.88	1.09	0.87	**1.07**	0.19 ▲

TCorp bonds (%) May 2024	Previous month close	Month high	Month low	Month close	Month change
20-Aug-24	4.39	4.39	4.29	**4.34**	-0.05 ▼
20-Mar-25	4.48	4.53	4.33	**4.41**	-0.07 ▼
20-May-26	4.42	4.50	4.21	**4.41**	-0.01 ▼
20-May-27	4.41	4.49	4.18	**4.40**	-0.01 ▼
20-Mar-28	4.48	4.56	4.23	**4.45**	-0.03 ▼
20-Apr-29	4.57	4.66	4.32	**4.55**	-0.02 ▼
20-Feb-30	4.68	4.75	4.43	**4.67**	-0.01 ▼

20-Mar-31	4.82	4.90	4.58	**4.82**	0.00 ▲
20-Feb-32	4.95	5.04	4.73	**4.97**	0.02 ▲
08-Mar-33	5.08	5.16	4.84	**5.09**	0.01 ▲
20-Mar-34	5.19	5.28	4.96	5.22	0.03 ▲
CIB 2.75% 20 Nov 25	1.55	1.78	1.50	**1.74**	0.18 ▲
CIB 2.50% 20 Nov 35	2.48	2.57	2.34	**2.55**	0.07 ▲



Source: TCorp

Commodity markets (US$) May 2024	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
Brent Oil (per barrel)	87.9	84.2	81.4	**81.6**	-7.1% ▼
Iron Ore (per tonne)	110.9	119.6	115.4	**117.5**	6.0% ▲

TCorp forecasts	**June-24**	**Dec-24**	**Jun-25**	**Dec-25**
RBA Official Cash Rate	4.35	3.85	3.10	2.35
90 Day Bank Bill	4.35	3.60	2.85	2.50
10 Year CGS Bond	3.75	3.50	3.25	3.25

About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$109 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$169 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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