

Economic Commentary

A watershed moment for the global economy

Investors were buoyed in November by the clinical testing results of some COVID-19 vaccine candidates which suggested they were highly effective as well as the outcome of the US elections.

Contemporaneous economic data continued to send mixed messages about the pace of economic recovery around the world, and COVID-19 case numbers increased. However, the announcements that (at least) three COVID-19 vaccines have proved to be very effective in trials signalled that the pandemic could be brought under control and become progressively less of a burden on the global economy in 2021. Also, Joe Biden's victory in the US Presidential election set the stage for the US Government policy to do more to combat the pandemic, and to reengage and reinvigorate global trade.

China continued to lead the economic recovery, the US economy continued to show momentum, but economic activity in Europe remained patchy. A comparison of November Composite Purchasing Managers' Indexes (PMI), a combined measure of conditions in manufacturing and services, showed China (55.7) and the US (57.9) comfortably above the 50 line that indicates expansion, and Europe (45.1) well below it. Similarly, China's latest surveyed unemployment rate was 5.3%, compared to 6.9% in the US and 8.3% in the Eurozone.

Within the space of a few days, Pfizer/BioNTech, Moderna and AstraZeneca/Oxford announced that their vaccines tested up to 90-95% effective in protecting people from COVID-19. Distribution of vaccines could begin in December, with widespread immunisation of vulnerable groups potentially being achieved by the second half of 2021.

The Reserve Bank of Australia ramps up its support of the economy

The Australian economy continued to recover, boosted by further easing of restrictions to combat the pandemic in Victoria and elsewhere, and the reopening of state and territory borders. The Reserve Bank of Australia (RBA), however, concluded that there were sufficient risks to the outlook to justify providing additional support to the economy.

The RBA announced a reduction to their target interest rates for the cash rate, the 3-year government bond yield and for banks' borrowing from the Term Funding Facility, from 0.25% to 0.10%. The RBA also declared they would purchase \$100bn of government bonds issued by the Commonwealth (\$80bn), states and territories (\$20bn) over the next 6 months.

State governments also announced large increases in their borrowing to fund recovery. The NSW and Victorian state budgets released in November included 4-year infrastructure programs costing \$107bn and \$78bn.

Economic data broadly was somewhat more positive for households than for business. Reports released during the month noted a sharp spike in monthly building approvals (+15.4%, September); a rebound in quarterly retail sales volumes (+6.5%, Q3); improving confidence amongst business and consumers; flat quarterly wages (+0.1%, Q3) and a slight rise in the unemployment rate (7%, October); but falling quarterly construction work (-2.6%, Q3) and business investment (-3.0%).

Financial Market Commentary

Equity Markets (Performance is in local currency and excludes dividends)

The MSCI World (ex Australia) Equity index jumped 13.4% in November. Stock markets posted strong rebounds in all countries. The US S&P500 gained 10.8% as investors were buoyed by news of successful vaccine trials. The Presidential election result in favour of Democrat candidate Joe Biden, together with the likelihood of a Republican-controlled Senate, set the stage for more liberal international trade without more regulation of US businesses and higher taxes.

European equities surged 13.7% during November, regaining levels last seen in February. This largely reflected the positive news on vaccines and the US election outcome being favourable to European firms selling goods into the US market.

The Australian equity market continued its recovery, gaining another 10%, and has now risen more than 43% from its March low. In addition to the positive news from offshore, local stocks benefited from moves to ease lending regulations for banks and to ease travel restrictions more broadly. Trade tensions with China hurting Australian exporters dampened investor sentiment somewhat.

Emerging market equities also posted strong gains, rising by 11.5% overall.

Interest Rates

The influence of domestic developments on bond yield movements was evident in November. 10-year bond yields fell in the US (-3bps) and peripheral members of the Eurozone (Portugal (-7bps), Italy (-13bps) and Greece (-28bps) – notably, these countries all saw large rises in COVID-19 cases that threatened to overwhelm local health facilities. By contrast, yields ended flat to higher in much of the Asia/Pacific region, Canada (+1bp) and Germany (+5bps).

The Australian 10-year yield increased by 8bps to 0.83%. The RBA reduced its target for the 3-year bond to 10bps preventing shorter-term yields from rising. The yield on TCorp's 2030 bond rose by 3bps to 1.05%.

Currency and Commodity Markets

The Australian dollar benefited from the improved outlook for global growth and, hence, for Australian export earnings, gaining 4.5% against the US currency over November and appreciating 2.0% against the Euro.

Commodity prices were stronger over November, with oil prices retracing earlier falls. The price of Brent crude oil jumped by 27% over the month to \$48 per barrel, as successful vaccine trials pointed to travel restrictions being unwound in 2021. Iron ore prices gained 3.7% during the month, to \$125 per tonne. It is notable that iron ore was not affected by China's restrictions on imports from Australia, probably due to a lack of alternative sources of bulk iron ore.

Financial Market Performance

Currency Markets

November 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
AUD/USD	0.703	0.739	0.706	0.734	4.50% ▲
AUD/EUR	0.603	0.619	0.606	0.616	2.04% ▲
AUD/JPY	73.555	76.935	73.880	76.649	4.21% ▲
AUD/GBP	0.542	0.555	0.546	0.551	1.62% ▲
AUD/BRL	4.038	4.121	3.869	3.936	-2.52% ▼
AUD/RUB	55.89	57.00	55.43	56.10	0.38% ▲
AUD/INR	52.08	54.70	52.51	54.38	4.41% ▲
AUD/CNY	4.703	4.859	4.720	4.832	2.74% ▲

Equity Markets*

November 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
MSCI World ex Australia	2345	2659	2376	2659	13.4% ▲
MSCI Emerging Markets	1103	1231	1115	1231	11.5% ▲
S&P/ASX200	5928	6683	5951	6518	10.0% ▲
S&P/ASX Small Ordinaries	2736	3037	2722	3016	10.2% ▲
S&P500 (US)	3270	3638	3310	3622	10.8% ▲
FTSE 100 (UK)	5577	6432	5655	6266	12.4% ▲
Stoxx 600 (Europe)	342	393	348	389	13.7% ▲
DAX (Germany)	11556	13336	11788	13291	15.0% ▲
CAC 40 (France)	4594	5598	4691	5519	20.1% ▲
Nikkei 225 (Japan)	22977	26645	23295	26434	15.0% ▲
Hang Seng (HK)	24107	26895	24460	26341	9.3% ▲
Shanghai Composite (China)	3225	3414	3225	3392	5.2% ▲
Bovespa (Brazil)	93952	110576	93952	108893	15.9% ▲
IPC (Mexico)	36988	42736	36988	41779	13.0% ▲
S&P/BSE Sensex (India)	39614	44523	39758	44150	11.4% ▲

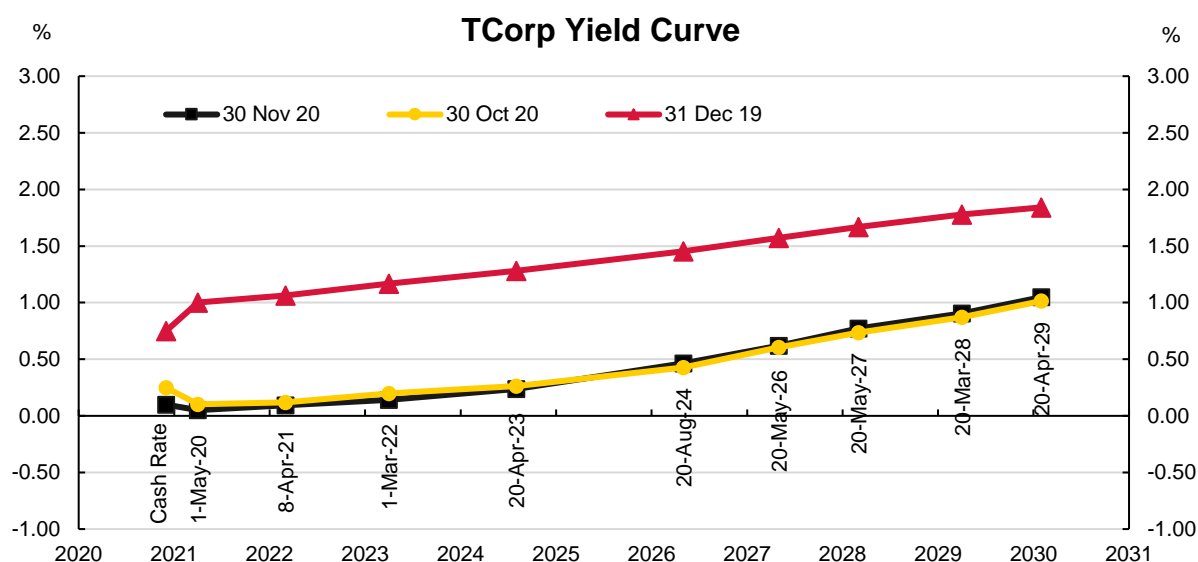
*Returns are in local currency, and exclude dividend payments

Bond Markets (%)

November 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
RBA Official Cash Rate	0.25	0.25	0.10	0.10	-0.15 ▼
90 Day Bank Bill	0.06	0.05	0.02	0.02	-0.04 ▼
180 Day Bank Bill	0.07	0.07	0.02	0.02	-0.04 ▼
1 Year Term Deposit Rate	0.75	0.75	0.75	0.70	-0.05 ▼
3 Year CGS Bond	0.12	0.12	0.10	0.11	-0.01 ▼
10 Year CGS Bond	0.83	0.99	0.74	0.90	0.07 ▲
10 Year US Bond	0.87	0.98	0.76	0.84	-0.03 ▼
10 Year German Bond	-0.63	-0.49	-0.64	-0.57	0.06 ▲
10 Year Japanese Bond	0.04	0.05	0.01	0.03	-0.01 ▼

TCorp Bonds (%)

November 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
08-Apr-21	0.10	0.11	0.04	0.05	-0.05 ▼
01-Mar-22	0.12	0.13	0.09	0.09	-0.03 ▼
20-Apr-23	0.20	0.20	0.14	0.14	-0.06 ▼
20-Aug-24	0.26	0.26	0.19	0.24	-0.03 ▼
20-May-26	0.43	0.47	0.35	0.46	0.03 ▲
20-May-27	0.60	0.64	0.48	0.62	0.01 ▲
20-Mar-28	0.74	0.79	0.61	0.77	0.04 ▲
20-Apr-29	0.87	0.94	0.72	0.91	0.04 ▲
20-Feb-30	1.01	1.08	0.85	1.05	0.03 ▲
CIB 3.75% 20 Nov 20	2.08	6.98	2.08	6.98	4.90 ▲
CIB 2.75% 20 Nov 25	-0.59	-0.59	-0.87	-0.87	-0.29 ▼
CIB 2.50% 20 Nov 35	0.40	0.40	0.12	0.13	-0.27 ▼



Commodity Markets (US\$)

November 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
Brent Oil (per barrel)	37.5	48.6	39.0	47.6	27.0% ▲
Iron Ore (per tonne)	120.2	124.6	116.3	124.6	3.7% ▲

TCorp Forecasts

	Dec-20	Jun-21	Dec-21	June-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	0.75	1.00	1.00	1.00

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