

Economic commentary

The global economy

Global economic activity steadied in November, with data releases suggesting an overall solid pace of global growth, after the deceleration seen in October. US payroll employment picked up, with job gains of 531,000 reported in October, and solid upward revisions to prior months' gains. The US retail sales report and industrial production for October were also solid and exceeded market expectations.

In Europe, business purchasing managers' indexes (PMIs) for manufacturing and service sectors held at firm levels, with the manufacturing PMI printing at 58.3 for October. This remains firmly in expansionary territory, with an index level above 50 consistent with growth.

But while economic activity remains healthy in developed economies, Chinese data pointed to weaker growth highlighted by the official manufacturing PMI sliding from 49.6 in September to 49.2 in October. Coal, gas and iron ore imports also fell from September to October, consistent with a further slowing in property construction.

Meanwhile, inflation continued to accelerate in many economies. US consumer inflation rose by a very strong 0.9% in October, to be 6.2% higher than a year ago. Core inflation was also up firmly. In Europe, headline consumer inflation came in at a strong rate of 4% for October. It was evident that supply chain disruptions and high energy prices continue to boost prices. Despite these high inflation readings, consumer inflation expectations remain anchored and oil prices declined in November. These factors support the case that much of the recent rise in inflation will prove transitory.

Against this backdrop, the outlook for monetary policy remains in the spotlight. Minutes from several major bank meetings in the month showed that most policymakers still expect inflation to decline substantially in 2022, although some appear to be more open to the idea that elevated inflation may be more persistent than previously thought. The Federal Reserve, European Central Bank and Bank of England all left policy settings unchanged in their November meetings. In 2022 markets are currently pricing 3 US rate hikes, and 4 UK rate hikes.

The Australian economy

In Australia, the data was also positive, with September releases for private sector credit growth solid and retail spending encouraging. Credit card spending data suggests that activity rapidly recovered losses sustained during the lockdowns. Business confidence also increased sharply in October. As a result, the economy seems to be staging a solid rebound from the lockdowns.

The Reserve Bank (RBA) surprised many investors by abandoning its 3-year yield curve target at its November meeting. This said, the RBA's message was clearly dovish. The RBA flagged it will be mid-2023 before inflation sustainably reaches the mid-point of its 2-3% target band, indicating that rate hikes should not then commence until early 2024. RBA Governor Lowe pushed back on market expectations for hiking to commence as early as 2022 and reiterated that recent acute inflationary pressures are transitory.

Financial market commentary

Lingering inflation fears remained the driving force for markets for most of November, as attention turned to the timing and pace of expected rate hikes. News of a COVID-19 “fourth wave” in Europe, followed by the discovery of the COVID-19 Omicron variant, then swept through markets. This saw risk appetite falter in the last days of the month. Government bond yields slid and equities also ultimately ended the month lower.

Equity markets (performance in local currency, excluding dividends)

The MSCI World equity market index (excluding Australia) fell 2.2% in November, reversing some of the strong gains recorded in October. Most equity markets in both developed and emerging markets fell over the month.

US equities were relatively resilient, with the S&P500 falling by 0.8% in November. In Europe, shares performed much more poorly with Stoxx600 dropping 2.6%, as German stocks fell by almost 4%. The Japan Nikkei 225 was similarly weak, declining by 3.7%. Australian’s S&P/ASX200 fell by 0.9% over November, with the relatively modest fall partly explained by a much weaker Australian dollar which supports the profits of those Australian firms with offshore revenue.

The other factor supporting the Australian market was a turnaround in resource companies as investors began to bet that Chinese policymakers would soon begin to ease policy settings. This also resulted in the Chinese share market rising by 0.5%. That was the exception, however, with the MSCI Emerging Market index falling by 4.1% over the month as share markets in Mexico, India and Hong Kong all recorded substantial declines.

Interest rates

Longer-dated bond yields fell substantially in November, as investors feared that if central banks are forced to respond aggressively to inflation that it may curtail longer-term growth. In the US, 10-year bond yields fell 11bps to 1.44%, after trading as high as 1.67% during the month. In Germany, 10-year yields fell 24bps, to -0.35%.

The decline in bond yields was especially pronounced in Australia, as volatility remained elevated in the Australian market. The Australian 10-year bond yield fell 40bps, to 1.69%. The 3-year Commonwealth Government bond yield fell 36bps, to 0.87%. Meanwhile, the yield on TCorp’s March 2031 bond fell by 32bps, to 2.00%.

Currency and commodity markets

The Australian dollar fell 5% against the US dollar during November, dropping to US\$0.713. Even steeper declines were recorded against the Japanese Yen, Brazilian Real and Chinese Renminbi. The sharp decline in Australian bond yields was one factor behind the weaker Australian dollar.

Brent crude oil prices fell 17% over November. While US President Biden did announce the release of some oil from the US Strategic Petroleum Reserve, the main driver was the new COVID-19 Omicron variant which prompted some countries to reimpose restrictions on travel. Iron ore prices fell 22% to US\$95 over November, although this was up from a monthly low of US\$90.

Financial market performance

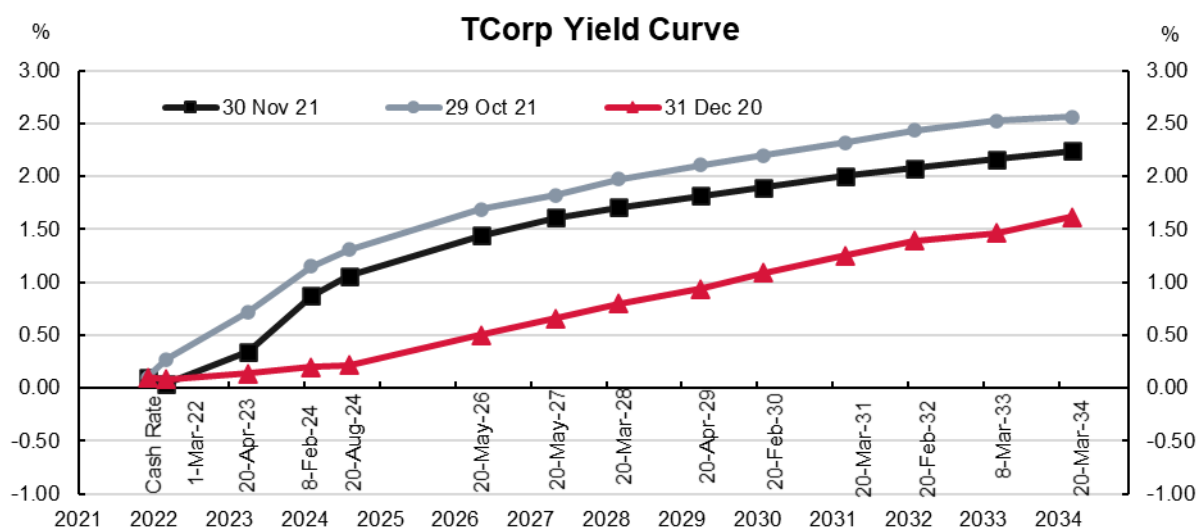
Currency markets November 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.752	0.750	0.712	0.713	-5.15% ▼
AUD/EUR	0.650	0.648	0.628	0.628	-3.51% ▼
AUD/JPY	85.67	85.72	80.47	80.47	-6.07% ▼
AUD/GBP	0.549	0.550	0.534	0.534	-2.79% ▼
AUD/BRL	4.237	4.266	3.943	4.010	-5.36% ▼
AUD/RUB	53.33	54.31	52.25	52.83	-0.95% ▼
AUD/INR	56.29	56.18	53.33	53.60	-4.78% ▼
AUD/CNY	4.816	4.800	4.539	4.539	-5.76% ▼

Equity markets* November 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3251	3316	3210	3235	-0.5% ▼
MSCI Emerging Markets	1265	1291	1219	1219	-3.6% ▼
S&P/ASX200	7324	7470	7240	7256	-0.9% ▼
S&P/ASX Small Ordinaries	3503	3586	3439	3489	-0.4% ▼
S&P500 (US)	4605	4705	4567	4567	-0.8% ▼
FTSE 100 (UK)	7238	7384	7044	7059	-2.5% ▼
Stoxx600 (Europe)	476	490	463	463	-2.6% ▼
DAX (Germany)	15689	16251	15100	15100	-3.8% ▼
CAC 40 (France)	6830	7157	6721	6721	-1.6% ▼
Nikkei 225 (Japan)	28893	29808	27822	27822	-3.7% ▼
Hang Seng (HK)	25377	25714	23475	23475	-7.5% ▼
Shanghai Composite (China)	3547	3593	3492	3564	0.5% ▲
Bovespa (Brazil)	103501	107595	101916	101916	-1.5% ▼
IPC (Mexico)	51310	52251	49493	49699	-3.1% ▼
S&P/BSE Sensex (India)	59307	60719	57065	57065	-3.8% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) November 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	0.07	0.06	0.04	0.05	-0.02 ▼
180 Day Bank Bill	0.20	0.20	0.12	0.14	-0.06 ▼
1 Year Term Deposit Rate	0.25	0.30	0.30	0.25	0.00 –
3 Year CGS Bond	1.22	1.03	0.86	0.87	-0.36 ▼
10 Year CGS Bond	2.09	1.91	1.69	1.69	-0.40 ▼
10 Year US Bond	1.55	1.67	1.44	1.44	-0.11 ▼
10 Year German Bond	-0.11	-0.10	-0.35	-0.35	-0.24 ▼
10 Year Japanese Bond	0.10	0.10	0.06	0.06	-0.04 ▼

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
November 2021					
01-Mar-22	0.27	0.20	0.02	0.04	-0.23 ▼
20-Apr-23	0.72	0.60	0.34	0.35	-0.38 ▼
08-Feb-24	1.15	1.00	0.79	0.87	-0.28 ▼
20-Aug-24	1.31	1.20	0.95	1.06	-0.25 ▼
20-May-26	1.69	1.62	1.38	1.44	-0.25 ▼
20-May-27	1.82	1.79	1.55	1.61	-0.21 ▼
20-Mar-28	1.98	1.90	1.67	1.71	-0.27 ▼
20-Apr-29	2.11	2.01	1.80	1.82	-0.29 ▼
20-Feb-30	2.20	2.10	1.88	1.89	-0.30 ▼
20-Mar-31	2.32	2.21	2.00	2.00	-0.32 ▼
20-Feb-32	2.44	2.30	2.08	2.08	-0.36 ▼
CIB 2.75% 20 Nov 25	-0.62	-0.74	-1.03	-0.93	-0.31 ▼
CIB 2.50% 20 Nov 35	0.31	0.55	0.19	0.27	-0.04 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
November 2021					
Brent Oil (per barrel)	84.4	84.8	70.6	70.6	-16.4% ▼
Iron Ore (per tonne)	121.2	102.1	90.6	95.0	-21.7% ▼

TCorp forecasts	Dec-21	June-22	Dec-22	June-23
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	1.75	2.00	2.25	2.25

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TCorp

Level 7, Deutsche Bank Place,
126 Phillip Street, Sydney, NSW 2000

Tel: +61 2 9325 9325

www.tcorp.nsw.gov.au

www.linkedin.com/company/tcorp-nswtreasurycorporation/

