Economic commentary

The global economy

A subtle shift in the tone of many central banks, as well as some more encouraging inflation data, combined to encourage hopes that the end of the monetary policy tightening cycle is approaching.

In the US, October consumer price inflation rose by 0.4% which was considerably lower than the 0.6% rise expected by the market. Business surveys also suggest that US firms are beginning to see declines in the prices of their inputs. At the same time, a range of US central bank policymakers – including Fed Chair Powell – have indicated that it is appropriate to slow the pace of interest rates increases. Central banks in Canada, Sweden and the UK have similarly indicated that interest rates are approaching levels that will be sufficient to quell inflation.

While there are some encouraging signs on the inflation outlook, most indicators of global economic activity continue to soften. Purchasing managers' indexes in the US, Europe, China and Japan are all below 50, which suggests that production is declining. And while US employment remained strong up until October, job openings are beginning to decline, while lay-offs are beginning to rise.

Chinese economic activity has also weakened in recent months reflecting the ongoing downturn in the property market as well as the way that China continues to lock-down regions whenever COVID cases spike. Over November, however, Chinese authorities signalled a push to vaccinate more of the elderly population while also becoming less alarmist about the health risks posed by the virus. Investors interpreted these statements as a sign that authorities may abandon the zero-COVID approach in 2023.

The Australian economy

The Reserve Bank of Australia (RBA) raised its key policy rate by 25bps to 2.85% at its November policy meeting. And while the RBA Governor indicated that rates were most likely to rise further, he also suggested that the risks surrounding that forecast were more balanced, with a pause in further rate hikes a possibility.

The prospect of a pause in the tightening cycle was boosted by a fall in retail sales and surprisingly subdued inflation in October. Retail sales were expected to rise by 0.5% in October but fell by 0.2% – the first decline in 2022. The Australian Statistician's new monthly inflation indicator rose by just 0.2% in October, compared to expectations of a 1-1.5% increase. While such developments are consistent with an end to the tightening cycle, we suspect that the RBA would need to see a few more months of evidence of weakening cost pressures before declaring victory. This is especially the case whilst the labour market remains tight.

The unemployment rate fell to 3.4% in October, with NSW's unemployment rate dropping to 3%. At the same time, wages grew by 1% in the September quarter, a little above the market expectation of 0.9%. As with many other countries, however, overall activity appears to be easing with Australia's Purchasing Manager's Index dropping to 47.7 in November.

Financial market commentary

While central banks continue to raise policy rates, the prospect that central banks may soon pause their tightening cycle resulted in declining long-term bond yields. That enabled equity markets to rally strongly while the US dollar also softened.

Equity markets (performance in local currency, excluding dividends)

Equity markets recorded very strong gains over November. The MSCI World equity market index (excluding Australia) rose by 6.7% while the MSCI Emerging Markets index was even stronger, rising by 14.6%.

The strength in Emerging Markets equities was underpinned by hopes that China will abandon its zero-COVID approach and provide more policy stimulus for the property market. The Shanghai Composite Index jumped 8.9% while the Hong Kong stock market soared 26.6%. These gains made the performance of some other Emerging Markets appear pale in comparison. In Mexico and India, for example, shares rose by 3.5% and 3.9%.

Australia's ASX200 gained 6.1% over November, boosted in part by very strong mining stocks, which would benefit from stronger Chinese growth. The US S&P500 rose by 5.4% boosted by hopes that the US central bank is approaching the end of its tightening path. European equity markets were the best Developed Market performers in November, with mild Autumn weather raising hopes that Europe may not run out of gas during winter. This implies that the impending recession may be shallower than previously feared. The Euro Stoxx600 rose by 6.8% over November, with German shares gaining 8.6%.

Interest rates

Bond yields fell over November as investors pared back their estimates of how high central banks may need to raise rates.

In Australia, 10-year bond yields fell by 23bps to 3.53%. There was however, a lot of volatility over the month, with the 10-year yield reaching as high as 4.04% at one stage. That volatility was also apparent in TCorp bonds, with the February 2032 bond yield starting November at 4.51%, rising to 4.77% before falling back to 4.19% at the end of the month.

German 10-year bond yields recorded a similar decline as the Australian bond in November, falling 21bps to 1.85%. US 10-year bond yields fell most sharply in November, however, falling by 44bps to 3.61%.

Currency and commodity markets

Oil prices continued to fall during November, declining by a further 10% over the month and dropping below the level prevailing before Russia invaded Ukraine. In response, OPEC members threatened to further reduce supply in an effort to prevent prices falling further. Iron ore prices were steady over November supported by hopes for Chinese reopening.

The very sharp falls in US bond yields over November also removed support for the US dollar. Against its US counterpart, the Australian dollar rose by 5.2%. The Australian dollar rose by 0.9% against the Euro, and fell 1.8% against the Japanese Yen.

Financial market performance

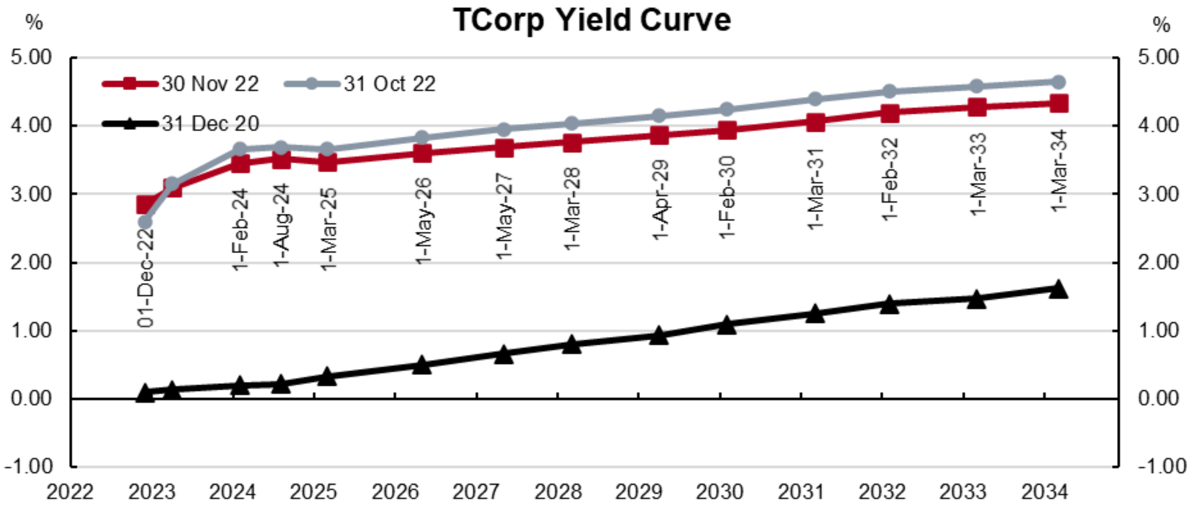
Currency markets November 2022	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.640	0.678	0.629	**0.673**	5.16% ▲
AUD/EUR	0.644	0.650	0.640	**0.650**	0.88% ▲
AUD/JPY	95.04	94.96	92.42	**93.37**	-1.76% ▼
AUD/GBP	0.554	0.570	0.555	**0.561**	1.25% ▲
AUD/BRL	3.312	3.657	3.219	**3.491**	5.38% ▲
AUD/RUB	75.90	80.50	74.68	**79.82**	5.16% ▲
AUD/INR	52.93	55.15	52.15	**54.76**	3.45% ▲
AUD/CNY	4.672	4.837	4.594	**4.770**	2.10% ▲

Equity markets* November 2022	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2608	2783	2526	**2783**	6.7% ▲
MSCI Emerging Markets	848	972	861	**972**	14.6% ▲
S&P/ASX200	6863	7284	6858	**7284**	6.1% ▲
S&P/ASX Small Ordinaries	2781	2914	2779	**2914**	4.8% ▲
S&P500 (US)	3872	4080	3720	**4080**	5.4% ▲
FTSE 100 (UK)	7095	7573	7144	**7573**	6.7% ▲
Stoxx600 (Europe)	412	441	410	**440**	6.8% ▲
DAX (Germany)	13254	14541	13130	**14397**	8.6% ▲
CAC 40 (France)	6267	6739	6243	**6739**	7.5% ▲
Nikkei 225 (Japan)	27587	28383	27200	**27969**	1.4% ▲
Hang Seng (HK)	14687	18597	15339	**18597**	26.6% ▲
Shanghai Composite (China)	2893	3151	2969	**3151**	8.9% ▲
Bovespa (Brazil)	116037	118155	108782	**112486**	-3.1% ▼
IPC (Mexico)	49922	51994	50174	**51685**	3.5% ▲
S&P/BSE Sensex (India)	60747	63100	60614	**63100**	3.9% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) November 2022	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	2.60	2.85	2.60	**2.85**	0.25 ▲
90 Day Bank Bill	3.09	3.13	3.03	**3.09**	0.00 ▲
180 Day Bank Bill	3.66	3.70	3.53	**3.56**	-0.10 ▼
1 Year Term Deposit Rate	1.50	1.50	1.30	**2.70**	1.20 ▲
3 Year CGS Bond	3.29	3.51	3.17	**3.17**	-0.13 ▼
10 Year CGS Bond	3.76	4.04	3.52	**3.53**	-0.23 ▼
10 Year US Bond	4.05	4.21	3.61	**3.61**	-0.44 ▼
10 Year German Bond	2.14	2.34	1.85	**1.93**	-0.21 ▼
10 Year Japanese Bond	0.25	0.26	0.24	**0.25**	0.01 ▲

TCorp bonds (%) November 2022	Previous month close	Month high	Month low	Month close	Month change
20-Apr-23	3.16	3.21	3.08	**3.10**	-0.05 ▼
08-Feb-24	3.66	3.77	3.44	**3.46**	-0.20 ▼
20-Aug-24	3.69	3.83	3.49	**3.52**	-0.17 ▼
20-Mar-25	3.66	3.86	3.47	**3.47**	-0.19 ▼
20-May-26	3.83	4.05	3.60	**3.60**	-0.23 ▼
20-May-27	3.95	4.17	3.68	**3.68**	-0.27 ▼
20-Mar-28	4.04	4.28	3.76	**3.76**	-0.28 ▼
20-Apr-29	4.15	4.39	3.87	**3.87**	-0.29 ▼
20-Feb-30	4.25	4.50	3.94	**3.94**	-0.31 ▼
20-Mar-31	4.39	4.65	4.07	**4.07**	-0.32 ▼
20-Feb-32	4.51	4.77	4.19	**4.19**	-0.32 ▼
CIB 2.75% 20 Nov 25	0.49	0.49	0.31	**0.31**	-0.18 ▼
CIB 2.50% 20 Nov 35	2.08	2.40	2.02	**2.17**	0.09 ▲



Source: TCorp

Commodity markets (US$) November 2022	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	94.8	98.6	83.0	**85.4**	-9.9% ▼
Iron Ore (per tonne)	92.4	93.9	79.8	**93.3**	0.9% ▲

TCorp forecasts	Dec-22	June-23	Dec-23	June-24
RBA Official Cash Rate	2.85	3.10	3.10	3.10
90 Day Bank Bill	3.10	3.35	3.35	3.35
10 Year CGS Bond	3.00	3.25	3.25	3.50

About New South Wales Treasury Corporation (TCorp)

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$105 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$134 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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