Monthly economic report

The global economy

Signs of slowing in global economic activity became more evident in November, particularly in the US where economic data were generally on the softer side. Global inflation data was also softer-than-expected in the month and showed that inflation is receding quickly. This combination has fuelled hopes that central banks have reached the end of their tightening cycles. However, central banks remain concerned that services inflation could stay elevated and have left open the possibility of further rate hikes if progress on reducing inflation stalls.

Central bank officials also continue to emphasise that a focus on interest rate cuts for next year is premature. This contrasts with investors, who are now expecting central banks to cut rates in 2024 by more, and sooner, than was anticipated one month ago. Despite the expectation of significant rate cuts, investors remain hopeful that central banks will be able to engineer a 'soft landing', where a sharp slowing in global economic activity and a large rise in unemployment can be avoided.

In the US, the Federal Reserve (Fed) left its policy rate unchanged amid signs that the monetary policy tightening to date appears to be increasingly weighing on economic activity. The rise in mortgage rates has dampened new home sales and consumers are saving less so that they can continue spending. Jobs growth was weaker-than-expected in October and the unemployment rate rose to 3.9%. However, the Fed has left open the possibility of another rate hike if more tightening is needed to lower inflation.

Economic activity in Europe has been very weak, and significantly weaker than in the US. Preliminary purchasing managers' index (PMI) data, however, suggests that activity did not weaken further in November. Like the US, inflation across Europe has fallen more quickly than expected in recent months and investors think the European Central Bank has finished hiking.

The Australian economy

The Reserve Bank of Australia (RBA) raised its policy rate by 25bps in November to 4.35% as it perceived greater upside risks to inflation, particularly after inflation was higher than it expected in the September quarter. The RBA remains committed to ensuring that headline inflation returns to 3%, the top of its target band, by the end of 2025. Encouragingly, the monthly inflation indicator for October was lower-than-expected, at 4.9% over the year.

Comments by the RBA Governor after the November rate rise have been interpreted as hawkish, with the Governor repeatedly noting that inflation was being increasingly driven by domestic factors and that the hardest part of the inflation fight was still ahead. However, investors still think that the RBA's tightening cycle is probably finished but do not expect any rate cuts in 2024. This contrasts with the US, where investors expect the Fed to cut rates by around 125bps next year.

Higher interest rates and a rising cost of living have put many Australian households under financial pressure, especially those with large mortgages. This has caused households to cut back on discretionary spending, with retail sales very weak over the past year, particularly in light of Australia's strong population growth. The labour market has also showed signs of easing, with the unemployment rate rising to 3.7%, employment gains being driven by part-time workers, and average hours worked trending lower. Wages growth also looks to be at or close to its peak, at 4% over the year to September.

While the RBA's monetary policy tightening is clearly weighing on consumers, business investment has been resilient, and the investment pipeline remains large. Conditions in the established housing market have also held up, though auction clearance rates have fallen in recent months.

Financial market commentary

November was a positive month for investors, with large falls in global bond yields and broad-based equity market gains. The improvement in risk sentiment reflected greater investor confidence that central banks have reached the end of their tightening cycles and will start cutting rates in 2024.

Equity markets (performance in local currency, excluding dividends)

Global equity markets rose strongly in November, largely unwinding the falls experienced in the prior 2 months. The MSCI World (ex-Australia) equity index rose by 8.9% and the MSCI Emerging Markets index gained 7.4%. The US S&P500 rose 8.9% and has almost recovered to the recent high reached in late July. The ASX200 increased by 4.5% but underperformed other developed economies except for the UK.

Interest rates

Global bonds yields fell sharply in November, with the declines more pronounced for longer-dated bonds. US 10-year bonds fell by 60bps to 4.3%, after reaching 5% in mid-October. Australian 10-year bond yields declined 51bps to 4.4%, reversing the rise in yields in October. Bond yields in Europe and Japan declined by less than in the US or Australia, with German 10-year yields falling 36bps and Japanese 10-year yields declining by 28bps to 0.67%, well below the Bank of Japan's 1% reference rate.

US 2-year bond yields fell by 38bps, and Australian 3-year yields ended the month 39bps lower, as investors became more convinced that both central banks have concluded their tightening cycles. While the Fed is expected to deliver sizeable rate cuts next year, investors think that there is a 50% chance that the RBA will deliver one rate cut towards the end of 2024.

TCorp bond yields fell by more than those of Commonwealth Government bonds in October, with the 10-year TCorp bond spread narrowing by 11bps.

Currency and commodity markets

The 'risk on' tone in financial markets was also reflected in currencies, with broad-based US dollar weakness. The improvement in risk appetite supported the Australian dollar, which appreciated by 4.2% against the US dollar to reach US$0.66. The Australian dollar also appreciated against a broad range of other currencies.

Oil prices fell 5.2% in November, with prices now having unwound the sharp rise that occurred in September. Iron ore price rose by almost 10%, as strong manufacturing and infrastructure investment in China have supported steel demand despite weakness in the property sector.

Financial market performance

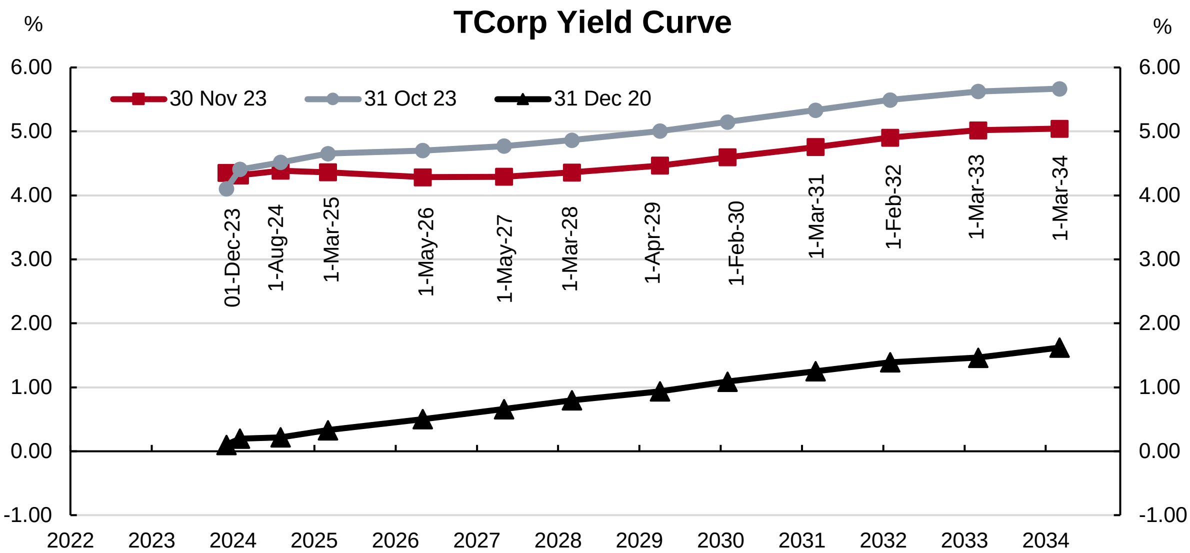
Currency markets November 2023	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.634	0.665	0.636	**0.661**	4.2% ▲
AUD/EUR	0.599	0.607	0.595	**0.607**	1.2% ▲
AUD/JPY	96.12	98.52	96.36	**97.89**	1.8% ▲
AUD/GBP	0.522	0.527	0.519	**0.523**	0.3% ▲
AUD/BRL	3.193	3.249	3.123	**3.249**	1.8% ▲
AUD/INR	52.76	55.41	53.01	**55.08**	4.4% ▲
AUD/CNY	4.636	4.745	4.634	**4.713**	1.6% ▲

Equity markets* November 2023	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2839	3093	2869	**3091**	8.9% ▲
MSCI Emerging Markets	915	988	916	**983**	7.4% ▲
S&P/ASX200	6781	7106	6838	**7087**	4.5% ▲
S&P/ASX Small Ordinaries	2561	2740	2584	**2739**	6.9% ▲
S&P500 (US)	4194	4568	4238	**4568**	8.9% ▲
FTSE 100 (UK)	7322	7504	7342	**7454**	1.8% ▲
Stoxx600 (Europe)	434	462	437	**462**	6.4% ▲
DAX (Germany)	14810	16215	14923	**16215**	9.5% ▲
CAC 40 (France)	6886	7311	6933	**7311**	6.2% ▲
Nikkei 225 (Japan)	30859	33626	31602	**33487**	8.5% ▲
Hang Seng (HK)	17112	18079	16993	**17043**	-0.4% ▼
Shanghai Composite (China)	3019	3073	3009	**3030**	0.4% ▲
Bovespa (Brazil)	113144	127331	115053	**127331**	12.5% ▲
IPC (Mexico)	49062	54060	49788	**54060**	10.2% ▲
S&P/BSE Sensex (India)	63875	66988	63591	**66988**	4.9% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) November 2023	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.10	4.35	4.10	**4.35**	0.25 ▲
90 Day Bank Bill	4.35	4.42	4.35	**4.37**	0.02 ▲
180 Day Bank Bill	4.74	4.79	4.58	**4.58**	-0.17 ▼
1 Year Term Deposit Rate	4.60	4.60	4.60	**4.60**	0.00 –
3 Year CGS Bond	4.40	4.41	4.01	**4.01**	-0.39 ▼
10 Year CGS Bond	4.93	4.95	4.36	**4.41**	-0.51 ▼
10 Year US Bond	4.93	4.73	4.26	**4.33**	-0.60 ▼
10 Year German Bond	2.81	2.76	2.43	**2.45**	-0.36 ▼
10 Year Japanese Bond	0.95	0.96	0.67	**0.67**	-0.28 ▼

TCorp bonds (%) November 2023	Previous month close	Month high	Month low	Month close	Month change	
08-Feb-24	4.41	4.41	4.29	**4.31**	-0.09	▼
20-Aug-24	4.51	4.50	4.37	**4.38**	-0.13	▼
20-Mar-25	4.65	4.64	4.34	**4.36**	-0.29	▼
20-May-26	4.70	4.70	4.28	**4.28**	-0.42	▼
20-May-27	4.77	4.75	4.29	**4.29**	-0.48	▼
20-Mar-28	4.86	4.85	4.35	**4.36**	-0.51	▼
20-Apr-29	5.00	5.00	4.45	**4.47**	-0.54	▼
20-Feb-30	5.15	5.15	4.56	**4.60**	-0.55	▼
20-Mar-31	5.33	5.33	4.71	**4.75**	-0.58	▼
20-Feb-32	5.49	5.49	4.85	**4.90**	-0.59	▼
08-Mar-33	5.62	5.62	4.97	**5.02**	-0.61	▼
CIB 2.75% 20 Nov 25	1.65	1.66	1.35	**1.40**	-0.25	▼
CIB 2.50% 20 Nov 35	2.91	2.94	2.54	**2.62**	-0.29	▼



Source: TCorp

Commodity markets (US$) November 2023	Previous month close	Month high	Month low	Month close	Month change	
Brent Oil (per barrel)	87.4	86.9	77.4	**82.8**	-5.2%	▼
Iron Ore (per tonne)	118.9	131.4	123.9	**130.3**	9.6%	▲

TCorp forecasts	Dec-23	June-24	Dec-24	Jun-25
RBA Official Cash Rate	4.35	4.10	3.85	3.10
90 Day Bank Bill	4.45	4.10	3.10	3.10
10 Year CGS Bond	4.25	3.50	3.50	3.25

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$106 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$156 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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