Economic commentary

The global economy

Global economic activity continued to decelerate in October from its initial re-opening boost. The much-watched US employment report printed a disappointing result for the second consecutive month, with just 194,000 jobs added in September. Consumer confidence also weakened and the first estimate of Q3 GDP was weaker than anticipated. However, there were more positive signals in manufacturing, core durable goods orders and jobless claims data. At the same time, Purchasing Manager's Index (PMI) surveys in Europe dipped, to a reading of 54.3 in October, from 56.2 in September. The current level is consistent with solid economic expansion, though a more mature stage in the recovery. While activity in the US and Europe remains resilient overall, there are more question marks surrounding the momentum of the Chinese economy with its property market recently weakening substantially.

Inflationary pressures remain acute in many major economies. Price growth continued to reflect supply chain bottlenecks, shortages in some categories (such as cars) and rapid re-hiring in some sectors (such as hospitality). Surging natural gas prices in Europe, and rising oil prices globally, were also prominent in October. US consumer inflation ticked higher to a yearly pace of 5.4% in September, from 5.3% in August. Consumer and producer inflation in the UK, Eurozone and China have also risen. Whether these price pressures are temporary or not, is the key issue.

The current setting of supply-driven inflationary pressures, the risk of stickier price pressures, and slowing growth make for a challenging time for central banks. The US Federal Reserve, European Central Bank and Reserve Bank of Australia (RBA) maintained the view that current inflation will ease in 2022. As a result, while central banks will soon start, or have started (in the case of the RBA) tapering their asset purchases, rate hikes should be some time off. Other policymakers at the Bank of England and New Zealand central bank, as well as many investors, challenged this view, with market expectations for rate hikes suggesting earlier, and faster, rate rises. Markets are currently pricing the Federal Reserve will hike rates 3 times in 2022, 25bps each time. In Australia, rate hike expectations also moved up sharply, to as early as H2,2022.

The Australian economy

Australian economic data released in October affirmed the downturn in activity in Q3, while also providing the first read on the trajectory of the transition out of the slump. Business confidence steadied in September, the labour market was mixed and retail sales and private sector credit growth held up well. Partial spending data for October hints that activity is recovering quickly. Inflation rose in Q3, though one-off building subsidies look to have been influential. The overall picture is a resilient economy that is now re-opening with good momentum.

The RBA continued to signal it will not hike rates until 2024. The bond market nonetheless moved in line with global trends, with the yield on 3-year government benchmark bonds rising sharply in the month, to more than 0.75%. This was well above the RBA's target of 0.1%. The RBA stepped in to defend its target once in late October, though it chose not to do so during the last session of the month. This consequently drove widespread expectations that the RBA will abandon its 3-year yield curve target and that it will commence rate hikes in late 2022/early 2023.

Financial market commentary

The risk of persistently higher inflation in October was top of mind for investors, which resulted in significant rises in government bond yields. However, the temporary resolution of the US government debt ceiling debate, a firm start to company earnings reporting seasons in the US and Europe and some resilient economic indicators were ultimately supportive for sentiment. Risk appetite returned in the second half of the month and saw equity markets move higher.

Equity markets (performance in local currency, excluding dividends)

The MSCI World equity market index (excluding Australia) bounced 5.6% in October, recovering from the prior month's slump. The index is now up 18.2% for the year, holding firm despite many headwinds.

US equities were strong, with the S&P500 gaining 6.9% in October. In Europe, the Stoxx600 was also firm, up 4.6%, with other indices in the region also rebounding. The Australian S&P/ASX200 went against the grain with a -0.1% decline, reflecting a choppy month of activity and rapidly changing expectations for rate hikes from the RBA. The Japan Nikkei 225 also lost -1.9%, with recent political transitions influential.

Emerging markets underperformed in October, with the MSCI Emerging Market index gaining 0.9% over the month. Across the major markets, the China and Brazilian composites fell. Concerns on the economic outlook in China and slumping commodity prices affected performance.

Interest rates

Bond yields pushed consistently higher in October, with longer-term yields closing up once more in the US, Australia, Germany and Japan. In the US, 10-year bond yields closed up 6bps, at 1.55%, and traded as high as 1.70%. In Germany, 10-year yields were also up 9bps, to -0.11%. The move up in yields reflected still-elevated inflation readings and rising expectations for rate hikes, with significant moves in yields recorded at the short end of the curve globally.

The rise was especially pronounced in Australia, as markets recalibrated their outlook for inflation and rate hikes. The Australian 10-year bond yield closed up 60bps, to 2.09%. The 3-year Commonwealth Government bond yield was up 91bps, to 1.22%, with the yield curve flattening out. TCorp bond yields also rose significantly in the month. The yield on the March 2031 bond rose 56bps, to 2.32%.

Currency and commodity markets

The Australian dollar bounced 4.03% against the US dollar during October, closing at US$0.752. This was mirrored in strong performance against other major currencies, including the Japanese Yen, Euro and British Pound. The ramp up in rate hike expectations in Australia were again likely influential.

Brent crude oil prices rose by 7.5% over October. Iron ore continued to slide, down 9.8%. The monthly close of US$106.20 per tonne was also the month low, reflecting the ultimate downtrend in iron ore prices from their peak mid-year.

Financial market performance

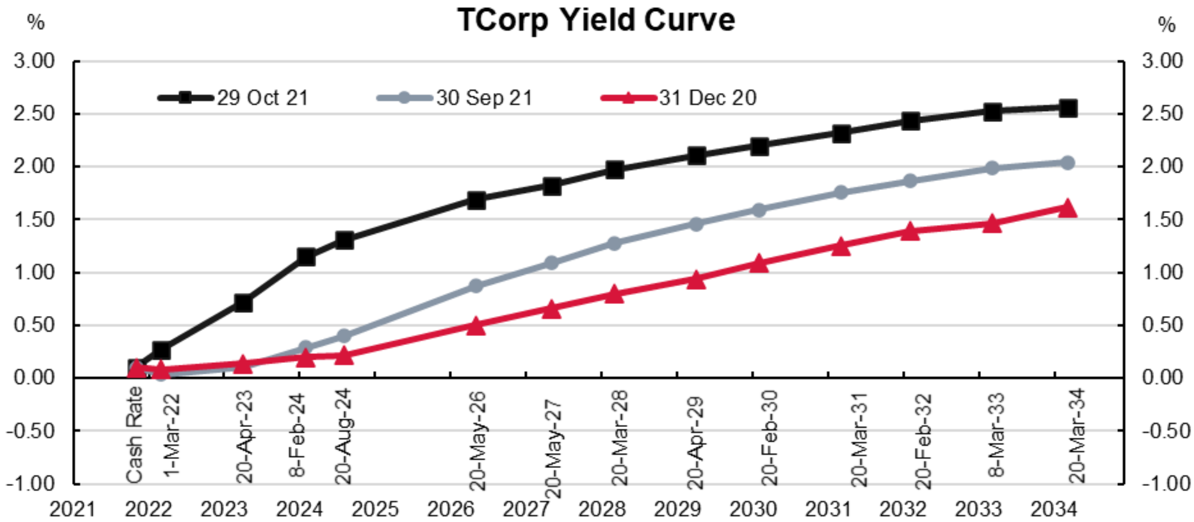
Currency markets **October 2021**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
AUD/USD	0.723	0.754	0.726	**0.752**	4.03% ▲
AUD/EUR	0.624	0.650	0.626	**0.650**	4.22% ▲
AUD/JPY	80.43	85.92	80.60	**85.67**	6.51% ▲
AUD/GBP	0.536	0.549	0.535	**0.549**	2.46% ▲
AUD/BRL	3.934	4.259	3.893	**4.237**	7.72% ▲
AUD/RUB	52.58	53.33	52.17	**53.33**	1.43% ▲
AUD/INR	53.65	56.52	53.80	**56.29**	4.93% ▲
AUD/CNY	4.658	4.822	4.678	**4.816**	3.39% ▲

Equity markets* **October 2021**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
MSCI World ex Australia	3078	3254	3063	**3251**	5.6% ▲
MSCI Emerging Markets	1253	1301	1227	**1265**	0.9% ▲
S&P/ASX200	7332	7449	7186	**7324**	-0.1% ▼
S&P/ASX Small Ordinaries	3473	3568	3373	**3503**	0.9% ▲
S&P500 (US)	4308	4605	4300	**4605**	6.9% ▲
FTSE 100 (UK)	7086	7278	6996	**7238**	2.1% ▲
Stoxx600 (Europe)	455	476	451	**476**	4.6% ▲
DAX (Germany)	15261	15757	14973	**15689**	2.8% ▲
CAC 40 (France)	6520	6830	6478	**6830**	4.8% ▲
Nikkei 225 (Japan)	29453	29256	27529	**28893**	-1.9% ▼
Hang Seng (HK)	24576	26136	23966	**25377**	3.3% ▲
Shanghai Composite (China)	3568	3610	3518	**3547**	-0.6% ▼
Bovespa (Brazil)	110979	114648	103501	**103501**	-6.7% ▼
IPC (Mexico)	51386	52798	50863	**51310**	-0.1% ▼
S&P/BSE Sensex (India)	59126	61766	58766	**59307**	0.3% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **October 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	0.02	0.07	0.02	**0.07**	0.05 ▲
180 Day Bank Bill	0.05	0.20	0.04	**0.20**	0.15 ▲
1 Year Term Deposit Rate	0.30	0.30	0.30	**0.30**	0.00 –
3 Year CGS Bond	0.31	1.22	0.33	**1.22**	0.91 ▲
10 Year CGS Bond	1.49	2.09	1.49	**2.09**	0.60 ▲
10 Year US Bond	1.49	1.70	1.46	**1.55**	0.06 ▲
10 Year German Bond	-0.20	-0.09	-0.22	**-0.11**	0.09 ▲
10 Year Japanese Bond	0.07	0.11	0.05	**0.10**	0.03 ▲

TCorp bonds (%) October 2021	Previous month close	Month high	Month low	Month close	Month change
01-Mar-22	0.04	0.27	0.04	**0.27**	0.24 ▲
20-Apr-23	0.11	0.72	0.12	**0.72**	0.61 ▲
08-Feb-24	0.29	1.15	0.30	**1.15**	0.86 ▲
20-Aug-24	0.40	1.31	0.41	**1.31**	0.91 ▲
20-May-26	0.87	1.69	0.89	**1.69**	0.82 ▲
20-May-27	1.09	1.82	1.09	**1.82**	0.74 ▲
20-Mar-28	1.28	1.98	1.28	**1.98**	0.70 ▲
20-Apr-29	1.46	2.11	1.46	**2.11**	0.65 ▲
20-Feb-30	1.59	2.20	1.59	**2.20**	0.60 ▲
20-Mar-31	1.76	2.32	1.75	**2.32**	0.56 ▲
20-Feb-32	1.87	2.44	1.87	**2.44**	0.57 ▲
CIB 2.75% 20 Nov 25	-1.12	-0.62	-1.18	**-0.62**	0.50 ▲
CIB 2.50% 20 Nov 35	0.10	0.31	0.10	**0.31**	0.21 ▲



Source: TCorp

Commodity markets (US$) October 2021	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	78.5	86.4	79.3	**84.4**	7.5% ▲
Iron Ore (per tonne)	117.7	135.4	106.2	**106.2**	-9.8% ▼

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

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$113 billion of assets under management, TCorp is a top 5 Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A$128 billion. It is rated Aaa (Stable) by Moody's and AA+ (Stable) by S&P.

TCorp

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