

Economic commentary

The global economy

While inflation remains stubbornly high around the world, central banks are sending mixed signals about whether they will continue to hike rates aggressively or whether they are poised to soon slow the pace of rate hikes.

The Reserve Bank of Australia (RBA) surprised markets in October by hiking rates by 25bps rather than the expected 50bps increment, and this was followed by the Bank of Canada raising rates by 50bps rather than the 75bps expected. The European Central Bank did raise rates by 75bps at its October policy meeting, but its rhetoric was more dovish than expected. And while the US Federal Reserve did not have a policy meeting in October, some policymakers indicated that they wanted to discuss moving to smaller rate hikes.

Unfortunately for central banks, recent inflation outcomes remain much stronger than desired. In the US, core inflation increased to 0.6% in the month of September to be 6.6% higher than a year earlier. In Europe, the annual headline inflation rate rose to 9.9% in September, and preliminary price data from Germany suggest pressures remained intense in October.

The weaker pace of global economic activity, however, may explain why central banks are starting to be more concerned about the potential impact of their aggressive policy tightening. In Europe, the composite Purchasing Manager's Index fell from 48.1 in September to 47.1 in October. Recall that an index reading below 50 suggests that production is contracting. In the US, the equivalent measure fell from 49.5 in September to 47.3 in October. Importantly, these surveys of business activity suggest that cost pressures are beginning to recede, and that labour demand is also waning. These trends are not yet apparent in the official data.

The Australian economy

As mentioned earlier, the RBA surprised investors by opting to raise its policy rate by 25bps at its September policy meeting. The RBA's rationale for stepping down from 50bps rate hikes was that a longer series of smaller rate hikes might be more effective in keeping inflation expectations contained, as it will keep the story of rising interest rates on the front pages of the newspapers.

As with other countries around the world, Australian inflation also continues to remain stubbornly high. Australian consumer prices rose by 1.8% in the September quarter to be 7.3% higher than a year ago. This was a little higher than market expectations but roughly in line with the RBA's forecasts.

Also consistent with the experience of other economies was the deterioration in growth momentum. The composite Purchasing Manager's Index for Australia fell to 49.6 in October, down from 50.9 in September.

Financial market commentary

Equity markets remain highly volatile but closed markedly higher in October, as investors welcomed the potential slowdown in the pace of monetary policy tightening. For bond markets, however, the implications are more nuanced as it could point to lower rates in the short term, but the potential need to keep rates higher for longer.

Equity markets (performance in local currency, excluding dividends)

Equity markets rose strongly in October with broad-based gains across most markets. The MSCI World equity market index (excluding Australia) jumped by 7.1% in October after falling by 9.4% in September.

The US S&P500 was particularly strong rising by 8.0% over the month. This robust performance, however, was eclipsed by some European markets with the German DAX rising by 9.4% and the French CAC gaining 8.8%.

More modest – although still healthy – gains were recorded in Australia and Japan with equities in these 2 markets rising by 6% and 6.4% over October.

The MSCI Emerging Markets index fell 3.2% in October. Despite strong gains in many emerging markets – Mexican shares were up 11.9% in October – a large drop in the Chinese and Hong Kong share markets proved the decisive factor. Chinese equities fell 4.3% in October while Hong Kong shares plunged 14.7%. This reflected the outcome of the Chinese Communist Party's National People's Congress which cemented the authority of President Xi Jinping and was interpreted by investors as reducing the chance of favourable reforms.

Interest rates

US 10-year bond yields rose by 22bps over October as inflation remains stubbornly high. German 10-year yields rose by a more modest 3bps to reach 2.14%. More dovish rhetoric from the European Central Bank suggested that rates may not rise as far as some investors had feared.

In contrast, Australian Commonwealth Government 10-year bond yields fell by 13bps over October, while 3-year bond yields fell by 23bps. The smaller than expected rate increase dampened Australian bond yields with the move reinforced by the RBA noting the deteriorating global growth outlook as a reason to be more cautious.

Currency and commodity markets

The Australian dollar was pretty much unchanged against its US counterpart over October, but there were large moves in other currency pairs. The Australian dollar rose by 2.6% against the Japanese Yen but fell by 3.4% against the British Pound and by 4.4% against the Brazilian Real. These moves largely reflected benign political developments with more prudent fiscal policy in the UK and the results of the Brazilian Presidential election both being welcomed by investors.

Commodity prices also remained volatile in October with oil prices rebounding 7.8% but iron prices dropping 6% on disappointing Chinese news.

Financial market performance

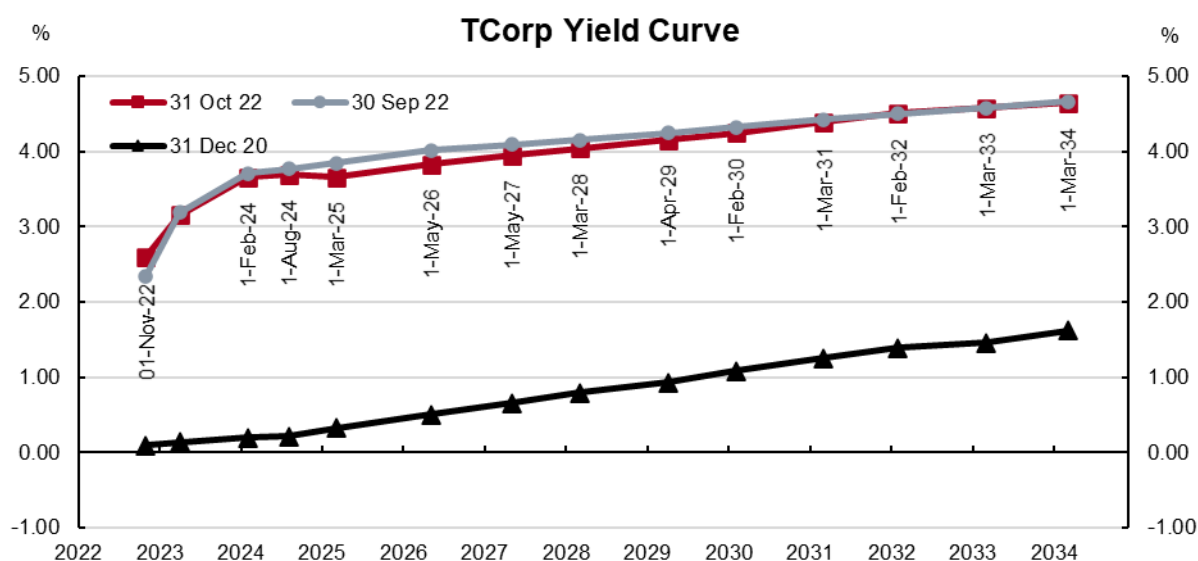
Currency markets October 2022	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.640	0.648	0.620	0.640	-0.08% ▼
AUD/EUR	0.653	0.659	0.638	0.644	-1.40% ▼
AUD/JPY	92.63	95.27	91.32	95.04	2.60% ▲
AUD/GBP	0.573	0.576	0.552	0.554	-3.36% ▼
AUD/BRL	3.466	3.484	3.273	3.312	-4.43% ▼
AUD/RUB	75.96	76.85	73.58	75.90	-0.08% ▼
AUD/INR	52.06	53.57	51.05	52.93	1.67% ▲
AUD/CNY	4.554	4.672	4.459	4.672	2.58% ▲

Equity markets* October 2022	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2434	2623	2423	2608	7.1% ▲
MSCI Emerging Markets	876	911	843	848	-3.2% ▼
S&P/ASX200	6474	6863	6457	6863	6.0% ▲
S&P/ASX Small Ordinaries	2616	2781	2586	2781	6.3% ▲
S&P500 (US)	3586	3901	3577	3872	8.0% ▲
FTSE 100 (UK)	6894	7095	6826	7095	2.9% ▲
Stoxx600 (Europe)	388	412	386	412	6.3% ▲
DAX (Germany)	12114	13254	12172	13254	9.4% ▲
CAC 40 (France)	5762	6276	5794	6267	8.8% ▲
Nikkei 225 (Japan)	25937	27587	26216	27587	6.4% ▲
Hang Seng (HK)	17223	18088	14687	14687	-14.7% ▼
Shanghai Composite (China)	3024	3085	2893	2893	-4.3% ▼
Bovespa (Brazil)	110037	119929	112072	116037	5.5% ▲
IPC (Mexico)	44627	49922	45430	49922	11.9% ▲
S&P/BSE Sensex (India)	57427	60747	56789	60747	5.8% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) October 2022	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	2.35	2.60	2.35	2.60	0.25 ▲
90 Day Bank Bill	3.06	3.09	2.85	3.09	0.02 ▲
180 Day Bank Bill	3.57	3.66	3.29	3.66	0.09 ▲
1 Year Term Deposit Rate	1.30	1.50	1.30	1.50	0.20 ▲
3 Year CGS Bond	3.52	3.76	3.24	3.29	-0.23 ▼
10 Year CGS Bond	3.89	4.20	3.64	3.76	-0.13 ▼
10 Year US Bond	3.83	4.24	3.63	4.05	0.22 ▲
10 Year German Bond	2.11	2.42	1.87	2.14	0.03 ▲
10 Year Japanese Bond	0.24	0.26	0.22	0.25	0.00 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
October 2022					
20-Apr-23	3.20	3.26	2.90	3.16	-0.04 ▼
08-Feb-24	3.71	3.95	3.33	3.66	-0.05 ▼
20-Aug-24	3.77	4.01	3.40	3.69	-0.08 ▼
20-Mar-25	3.85	4.05	3.47	3.66	-0.19 ▼
20-May-26	4.01	4.23	3.64	3.83	-0.19 ▼
20-May-27	4.09	4.36	3.74	3.95	-0.14 ▼
20-Mar-28	4.15	4.45	3.82	4.04	-0.11 ▼
20-Apr-29	4.25	4.55	3.93	4.15	-0.10 ▼
20-Feb-30	4.32	4.65	4.00	4.25	-0.08 ▼
20-Mar-31	4.42	4.78	4.14	4.39	-0.03 ▼
20-Feb-32	4.51	4.89	4.23	4.51	0.00 ▲
CIB 2.75% 20 Nov 25	1.15	1.15	0.49	0.49	-0.66 ▼
CIB 2.50% 20 Nov 35	2.43	2.55	2.02	2.08	-0.35 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
October 2022					
Brent Oil (per barrel)	88.0	97.9	88.9	94.8	7.8% ▲
Iron Ore (per tonne)	98.3	98.1	92.4	92.4	-6.0% ▼

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

The opinions, forecasts and data contained in this report is based on the research of TCorp as at the date of publication and is subject to change without notice. TCorp is not responsible for the accuracy, adequacy, currency or completeness of any information in the report provided by third parties. This report is provided for general information purposes only and should not be relied upon for investment or trading purposes. This report is not intended to forecast or predict future events.

Unauthorised copying and distribution of this material is prohibited.

© New South Wales Treasury Corporation 2022. All rights reserved.

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\$102 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\$131 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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/

