October 2023
Published: 1 November 2023

Monthly economic report

The global economy

Longer-term US bond yields rose further in October, extending the sharp rise in yields since May. The sharp repricing reflects the US central bank's continuing commentary that interest rates will remain elevated for a longer period. Investors have lifted their expectations in response, an attitude strengthened further in October by a range of data pointing to ongoing resilience in the US economy. This boosted hopes of a 'soft landing', where inflation returns to central bank targets with minimal damage to economic activity or labour markets. The rise in longer-term US yields pushed global bond yields higher in many other advanced economies, including Australia.

US economic activity indicators released over the past month mostly surprised to the upside. The US economy grew by more than expected in the September quarter and stronger-than-expected business surveys suggest that economic activity remained resilient in October. At the same time, inflation continued to trend lower, and employment increased strongly in September, signalling continued strong demand for labour. This combination fuelled hopes that inflation could fall towards target while avoiding a sharp slowdown in the US economy.

More broadly, core inflation is trending lower in advanced economies even though higher oil prices have boosted headline inflation rates. Although wages growth has also moderated, it is still above the levels consistent with central bank inflation targets.

Economic activity in Europe has been significantly weaker than in the US, with the slowdown in services sectors becoming increasingly evident. In contrast, China's economy grew by more than expected in the September quarter, with retail sales surprising to the upside. Business survey data, however, suggests that manufacturing and services activity slowed again in October.

The Bank of Japan (BoJ) loosened its Yield Curve Control policy, changing the 1% ceiling on 10-year government bond yields from a strict cap to a 'reference'. Yields have risen in recent months, reaching a decade-high of 0.95% in late October, and the Yen depreciated further. It is unclear how high the BoJ will let yields rise as it wants to keep financial conditions loose to sustainably boost wage growth and inflation.

The Australian economy

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.1% in October and the minutes from the meeting were interpreted as hawkish. Both headline and trimmed mean consumer price inflation were stronger than expected in the September quarter, driven by large price increases for fuel, housing and electricity. Comments by the new RBA Governor following the data release were also seen as hawkish, reiterating that the RBA Board will not hesitate to raise the cash rate further if there is a material upward revision to the inflation outlook.

Retail sales rose by more than expected in September, though this was largely boosted by temporary factors. Retail spending has been very weak over the past year, particularly considering strong population growth and high inflation, with the finances of many households under increasing pressure and consumer sentiment remaining weak. In contrast, survey data indicates ongoing resilience in business activity, supported by easing cost pressures.

The Australian labour market remains tight, but conditions continue to gradually ease. Total employment increased by less than expected in September, and both full-time employment and average hours worked fell further. Job vacancies also fell by 9% in the 3 months to August.

The housing market remains resilient, with house prices rising further in September. Prices rose at a slower pace than a few months ago, however, consistent with the rise in new listings. The rental market is tight, with vacancy rates at or near historically low levels in most capital cities. Building approvals, however, remain weak.

Financial market commentary

Global bond yields rose further in October and equity markets experienced sizeable falls as investors continued to adjust to the expected higher-for-longer interest rate environment.

Equity markets (performance in local currency, excluding dividends)

Global equity markets saw further declines in October, with the MSCI World (ex-Australia) equity index falling by 2.9% and the MSCI Emerging Markets index declining 3.9%. The US S&P500 ended the month 2.2% lower, weighed down by higher bond yields, concerns around the conflict in the Middle East and some disappointing corporate earnings reports. US equities are down almost 9% from their peak in July. The ASX200 fell by 3.8% in October, with all sectors weaker except utilities.

Interest rates

Longer-dated bond yields rose further in many developed economies in October. US 10-year bond yields rose by 36bps to 4.93%, with yields briefly reaching 5% during the month. Yields have been boosted by the ongoing resilience of the US economy, with 10-year yields around their highest level since mid-2007. The rise in US yields occurred despite several US Federal Reserve policymakers downplaying the need for further rate hikes as higher bond yields are working to tighten financial conditions. US yields also rose despite periods of increased demand for safe assets throughout the month on concerns around the conflict in the Middle East.

Australian 10-year bond yields rose by 44bps, to 4.93%, the same level as US yields. The increase was driven by a combination of offshore developments, higher-than-expected local inflation and several hawkish comments by the RBA Governor. 3-year yields rose by 32bps, with financial markets throughout the month pricing in a higher chance of a rate rise at the RBA’s November meeting. TCorp bond yields rose more than those of Commonwealth Government bonds in October, as did the bond yields of other Australian state governments.

European bond yields were little changed in October, as economic activity across Europe remains weak and inflation continues to trend lower.

Currency and commodity markets

Oil prices fell by 8%, largely retracing the rise in September, as concerns abated that the conflict in the Middle East could broaden and reduce oil supply. The Australian dollar depreciated by 1.5%, to US$0.63, weighed down by a deterioration in risk sentiment and the broader rise in the US dollar.

Financial market performance

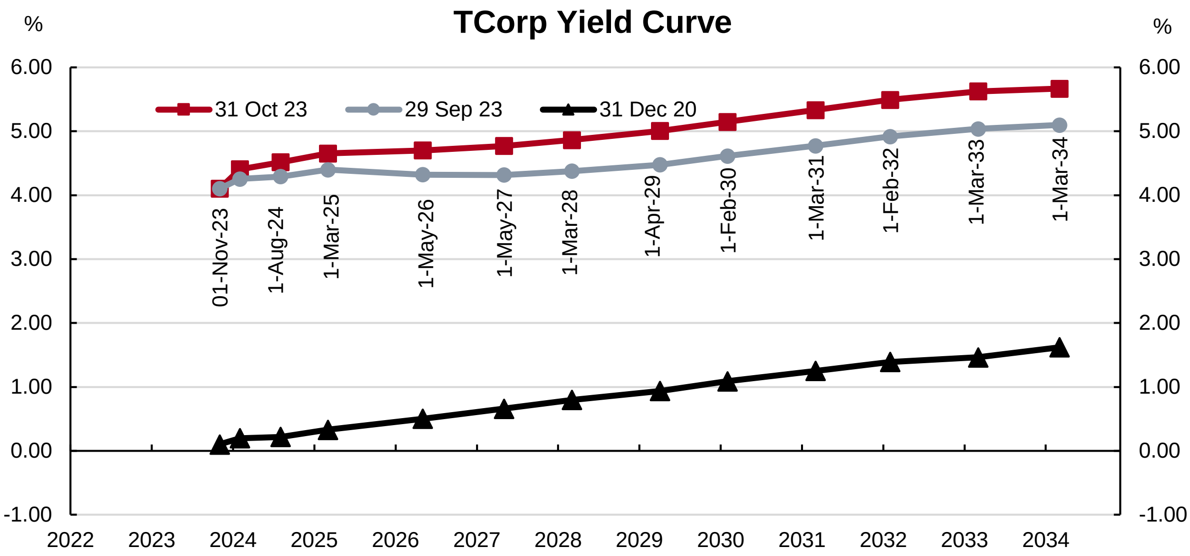
Currency markets October 2023	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.644	0.643	0.630	**0.634**	-1.5% ▼
AUD/EUR	0.609	0.607	0.594	**0.599**	-1.5% ▼
AUD/JPY	96.12	96.12	93.91	**96.12**	0.0% ▲
AUD/GBP	0.527	0.527	0.517	**0.522**	-1.1% ▼
AUD/BRL	3.239	3.294	3.152	**3.193**	-1.4% ▼
AUD/INR	53.44	53.55	52.42	**52.76**	-1.3% ▼
AUD/CNY	4.696	4.692	4.599	**4.636**	-1.3% ▼

Equity markets* October 2023	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2925	2973	2801	**2839**	-2.9% ▼
MSCI Emerging Markets	953	963	911	**915**	-3.9% ▼
S&P/ASX200	7049	7091	6773	**6781**	-3.8% ▼
S&P/ASX Small Ordinaries	2713	2720	2557	**2561**	-5.6% ▼
S&P500 (US)	4288	4377	4117	**4194**	-2.2% ▼
FTSE 100 (UK)	7608	7675	7291	**7322**	-3.8% ▼
Stoxx600 (Europe)	450	454	430	**434**	-3.7% ▼
DAX (Germany)	15387	15460	14687	**14810**	-3.7% ▼
CAC 40 (France)	7135	7162	6795	**6886**	-3.5% ▼
Nikkei 225 (Japan)	31858	32495	30527	**30859**	-3.1% ▼
Hang Seng (HK)	17810	18238	16992	**17112**	-3.9% ▼
Shanghai Composite (China)	3110	3110	2939	**3019**	-2.9% ▼
Bovespa (Brazil)	116565	117051	112532	**113144**	-2.9% ▼
IPC (Mexico)	50875	51260	48198	**49062**	-3.6% ▼
S&P/BSE Sensex (India)	65828	66473	63148	**63875**	-3.0% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) October 2023	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.10	4.10	4.10	**4.10**	0.00 –
90 Day Bank Bill	4.14	4.35	4.13	**4.35**	0.21 ▲
180 Day Bank Bill	4.40	4.74	4.37	**4.74**	0.34 ▲
1 Year Term Deposit Rate	4.70	4.60	4.70	**4.60**	-0.10 ▼
3 Year CGS Bond	4.08	4.40	3.91	**4.40**	0.32 ▲
10 Year CGS Bond	4.49	4.93	4.37	**4.93**	0.44 ▲
10 Year US Bond	4.57	4.99	4.56	**4.93**	0.36 ▲
10 Year German Bond	2.84	2.97	2.72	**2.81**	-0.03 ▼
10 Year Japanese Bond	0.77	0.95	0.76	**0.95**	0.18 ▲

TCorp bonds (%) October 2023	Previous month close	Month high	Month low	Month close	Month change
08-Feb-24	4.25	4.42	4.22	**4.41**	0.15 ▲
20-Aug-24	4.29	4.51	4.22	**4.51**	0.22 ▲
20-Mar-25	4.40	4.65	4.28	**4.65**	0.25 ▲
20-May-26	4.32	4.70	4.19	**4.70**	0.38 ▲
20-May-27	4.32	4.77	4.20	**4.77**	0.45 ▲
20-Mar-28	4.38	4.86	4.29	**4.86**	0.49 ▲
20-Apr-29	4.48	5.00	4.41	**5.00**	0.53 ▲
20-Feb-30	4.61	5.15	4.55	**5.15**	0.53 ▲
20-Mar-31	4.77	5.33	4.72	**5.33**	0.56 ▲
20-Feb-32	4.92	5.49	4.86	**5.49**	0.57 ▲
08-Mar-33	5.04	5.62	4.99	**5.62**	0.59 ▲
CIB 2.75% 20 Nov 25	1.53	1.65	1.40	**1.65**	0.12 ▲
CIB 2.50% 20 Nov 35	2.61	2.91	2.54	**2.91**	0.30 ▲



Source: TCorp

Commodity markets (US$) October 2023	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	95.3	92.4	84.1	**87.4**	-8.3% ▼
Iron Ore (per tonne)	120.8	120.5	115.0	**118.9**	-1.6% ▼

TCorp forecasts	Dec-23	June-24	Dec-24	Jun-25
RBA Official Cash Rate	4.10	3.85	3.10	2.35
90 Day Bank Bill	4.25	3.85	3.10	2.50
10 Year CGS Bond	4.25	3.50	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$107 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$158 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/

NSW GOVERNMENT

tcorp