

Monthly economic report

The global economy

There were large moves in financial markets in October, mostly driven by shifts in the outlook for the US and Chinese economies.

In the US, investors significantly pared back their expectations for interest rate cuts by the US Federal Reserve (Fed) in response to continued strong employment and economic activity data. After the Fed cut rates for the first time in September, investors expected US rates to fall more quickly than Fed officials projected. This has now been reversed, with investors expecting a further 50bps of cuts in 2024 which is in line with the Fed's projections. However, looking further out, investors do not expect rates to fall as far as the Fed has projected (3.5% vs 2.75% in 2026).

Financial markets also intensified their focus on China in October, with investors waiting for Chinese authorities to announce large-scale fiscal stimulus measures to support weak areas of the economy. Although some measures were announced – including support for the ailing property sector and equity market – investor hopes for much larger stimulus measures were disappointed. This triggered volatility in global financial markets, particularly impacting assets most exposed to China's economy. Despite that, investors seemingly remain hopeful that more significant stimulus measures will be announced in early November.

Elsewhere, inflation in advanced economies continued to fall, and in many cases more quickly than central banks expected. This led to further interest rate cuts in Canada, New Zealand and Europe.

The Australian economy

Australian consumer prices rose by 0.2% in the September quarter to be 2.8% higher over the year. This is the first time that inflation has returned to the Reserve Bank of Australia's (RBA) 2-3% inflation target since 2021 and was a little weaker than market expectations.

Government electricity rebates reduced electricity prices substantially in the September quarter, although it is worth noting that even without that impact, overall inflation in the September quarter would have run at a pace consistent with the mid-point of the RBA's target. Another measure of inflation that the RBA has referred to – the trimmed mean – rose by 0.8% in the September quarter, or 3.1% annualised.

Despite the rapid decline in inflation, RBA officials continued to say that they weren't confident that inflation would remain sustainably within their target band and so didn't intend to cut rates imminently. A strong rise in employment in September was also interpreted by investors as removing pressure on the RBA to reduce interest rates before 2025. As a result, Australian bond yields followed US yields higher.

Other Australian economic data remained patchy. Retail sales increased by just 0.1% in September, but there was an encouraging 2% gain in building approvals in September which followed a similar-sized gain in August. Furthermore, while both firms and consumers remain pessimistic about the outlook, there was a modest improvement in the latest monthly readings.

Financial market commentary

October was a challenging month for investors, with heightened volatility, sharp rises in global bond yields and falls in most equity markets.

Equity markets (performance in local currency, excluding dividends)

Most equity markets fell in October, with the MSCI World (excl. Australia) index declining by 1.9%. Japan was the exception, with its equity market rising by 3.1% alongside the Yen depreciating by almost 6% against the US dollar. The US S&P500 ended the month 1% lower, weighed down by earnings forecasts for some large US technology companies that disappointed investors.

Equity markets in China and Hong Kong fell by 1.7% and 3.9%, respectively, reflecting investor disappointment with the stimulus measures announced to date. However, both equity markets are up strongly since mid-September when Chinese authorities first signalled forthcoming stimulus.

Concerns about China's economy also weighed on the share prices of Australian mining companies, which contributed to the ASX200 falling by 1.3% in October. In contrast, the share prices of Australian banks rose strongly, continuing the trend of strong performance by banks and weak performance by resource companies since the start of this year.

Bond yields

US bond yields rose sharply in October, unwinding the fall in the previous 2 months. US 2-year yields rose 53bps and 10-year yields increased 50bps as investors moved to price in less aggressive interest rate cuts by the Fed. The rise in yields may also reflect the chance of Donald Trump winning the upcoming Presidential election, which is widely perceived to be more inflationary than a Democrat victory. The elevated uncertainty was also reflected in bond market volatility rising to its highest level in around a year.

The rise in US yields dragged up global bond yields, though yields in most other advanced economies rose by less than in the US. Australian 10-year bond yields rose 53bps and 3-year yields increased 48bps as investors also pared back interest-rate cut expectations in Australia mainly in response to developments in the US and less because of Australian developments.

TCorp bond yields rose by less than Commonwealth Government bond yields in the month, with the 10-year spread narrowing 9bps to 68bps. The narrowing was partly driven by strong investor demand after spreads widened in late September in anticipation of increased bond issuance by the states.

Currency and commodity markets

The Australian dollar fell sharply against the US dollar in October, from around US\$0.69 to US\$0.66. This was driven by concerns around China's economy and higher US bond yields, which triggered a broad-based appreciation of the US dollar.

Concerns around the outlook for China's economy also weighed on iron ore prices, which fell by 4% in October. Oil prices ended the month 2% higher but were volatile throughout the month in response to developments in the Middle East.

Financial market performance

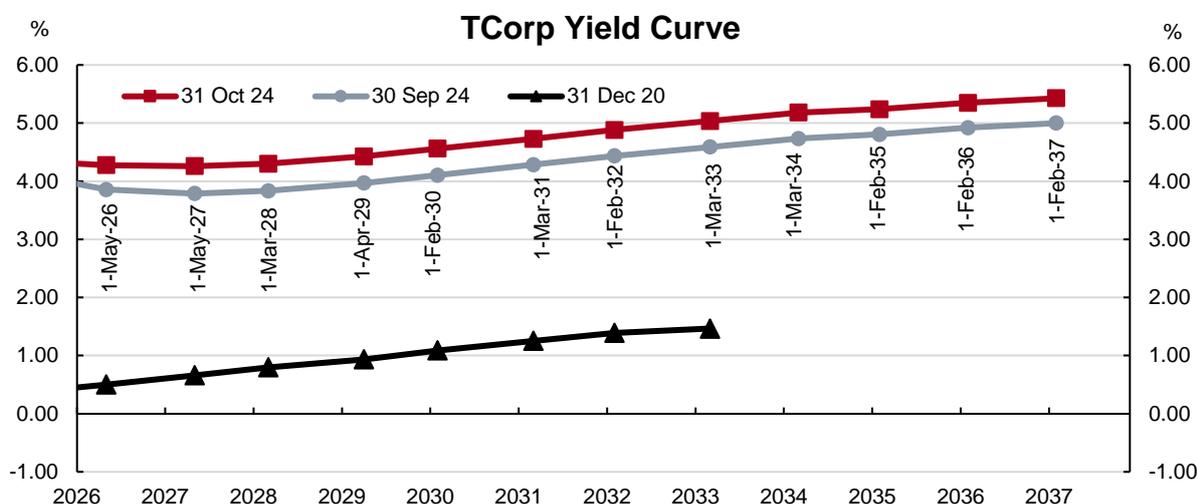
Currency markets October 2024	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.691	0.689	0.656	0.658	-4.8% ▼
AUD/EUR	0.621	0.623	0.605	0.605	-2.6% ▼
AUD/JPY	99.29	101.34	98.82	100.07	0.8% ▲
AUD/GBP	0.517	0.521	0.504	0.510	-1.3% ▼
AUD/BRL	3.767	3.818	3.707	3.809	1.1% ▲
AUD/INR	57.93	57.71	55.16	55.34	-4.5% ▼
AUD/CNY	4.852	4.832	4.677	4.685	-3.4% ▼

Equity markets* October 2024	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3819	3853	3745	3745	-1.9% ▼
MSCI Emerging Markets	1171	1188	1127	1127	-3.8% ▼
S&P/ASX200	8270	8356	8150	8160	-1.3% ▼
S&P/ASX Small Ordinaries	3138	3229	3102	3159	0.7% ▲
S&P500 (US)	5762	5865	5696	5705	-1.0% ▼
FTSE 100 (UK)	8237	8385	8110	8110	-1.5% ▼
Stoxx600 (Europe)	523	525	505	505	-3.3% ▼
DAX (Germany)	19325	19657	19015	19078	-1.3% ▼
CAC 40 (France)	7636	7613	7350	7350	-3.7% ▼
Nikkei 225 (Japan)	37920	39911	37809	39081	3.1% ▲
Hang Seng (HK)	21134	23100	20079	20317	-3.9% ▼
Shanghai Composite (China)	3336	3490	3169	3280	-1.7% ▼
Bovespa (Brazil)	131816	133515	129233	129713	-1.6% ▼
IPC (Mexico)	52477	53027	50661	50661	-3.5% ▼
S&P/BSE Sensex (India)	84300	84266	79389	79389	-5.8% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) October 2024	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.35	4.35	4.35	4.35	0.00 –
90 Day Bank Bill	4.43	4.43	4.37	4.42	-0.02 ▼
180 Day Bank Bill	4.62	4.64	4.57	4.64	0.02 ▲
New institutional term deposits	4.80	4.80	4.70	4.70	-0.10 ▼
3 Year CGS Bond	3.54	4.02	3.50	4.02	0.48 ▲
10 Year CGS Bond	3.97	4.50	3.95	4.50	0.53 ▲
10 Year US Bond	3.78	4.30	3.73	4.28	0.50 ▲
10 Year German Bond	2.12	2.39	2.04	2.39	0.27 ▲
10 Year Japanese Bond	0.86	0.98	0.83	0.95	0.09 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
October 2024					
20-May-26	3.86	4.28	3.85	4.28	0.42 ▲
20-May-27	3.79	4.26	3.77	4.26	0.47 ▲
20-Mar-28	3.84	4.30	3.82	4.30	0.46 ▲
20-Apr-29	3.97	4.43	3.94	4.43	0.46 ▲
20-Feb-30	4.10	4.56	4.07	4.56	0.46 ▲
20-Mar-31	4.28	4.73	4.26	4.73	0.45 ▲
20-Feb-32	4.43	4.88	4.40	4.88	0.45 ▲
08-Mar-33	4.59	5.04	4.55	5.04	0.45 ▲
20-Mar-34	4.73	5.18	4.69	5.18	0.45 ▲
20-Feb-35	4.81	5.24	4.77	5.24	0.43 ▲
20-Feb-36	4.92	5.35	4.88	5.35	0.43 ▲
20-Feb-37	5.00	5.43	4.96	5.43	0.43 ▲
CIB 2.75% 20 Nov 25	1.52	1.52	1.52	1.52	0.00 –
CIB 2.50% 20 Nov 35	2.33	2.80	2.30	2.77	0.44 ▲



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
October 2024					
Brent Oil (per barrel)	71.8	80.9	71.1	73.2	1.9% ▲
Iron Ore (per tonne)	108.2	110.6	103.2	103.9	-4.0% ▼

TCorp forecasts	Dec-24	Jun-25	Dec-25	Jun-26
RBA Official Cash Rate	4.10	3.60	2.85	2.35
90 Day Bank Bill	4.00	3.10	2.50	2.50
10 Year CGS Bond	4.00	3.25	3.25	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 2024. All rights reserved.

About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A\$114 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\$185 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/

