September 2021
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Economic commentary

The global economy

During September, global economic data releases were mixed. While some data remained strong, other indicators surprised to the downside. This suggests that the initial boost to growth from the re-opening may have run its course. The US payrolls report for August came in significantly below expectations, at 235,000 jobs added in the month (compared to consensus forecasts of 725,000). Retail sales and consumer confidence were also weaker than expected in the US. That said, surveys of business activity are still consistent with solid, albeit slower, growth. The picture was similar in Europe, as reflected in stable Purchasing Managers' Indexes (PMIs) and employment reports. There were also further signs of slower Chinese growth, as indicated by retail sales, business investment and industrial production.

While the pace of global growth looks to be moderating, inflationary pressures remain persistent. In particular, consumer and producer price reports suggest that inflationary pressures remain elevated in the US and Europe. Ongoing inflation remains a risk, but a closer examination of these data suggests that the current high inflationary reading will prove transitory. This said, a recent surge in European gas prices highlights that these pressures could be more prolonged than initially expected. Importantly, however, central banks in the US, Australia and Europe maintain that current inflationary pressures will prove temporary.

But while central banks appear to remain relaxed about higher inflation, they are increasingly questioning whether economies need as much support as they have received during 2020. In September, the US Federal Reserve, European Central Bank (ECB), Reserve Bank of Australia (RBA) and the Bank of England all signalled they intend to reduce the pace of their asset purchase programmes. For markets, the important points will be how quickly these asset purchase programmes are scaled back, and, secondly, whether it opens the path for a quick pivot to raising policy rates. The more hawkish tone from policymakers suggests that the balance of risks in the US and Europe could be for a faster taper, and earlier tightening, than markets may previously expected.

The Australian economy

Australian economic data released during September pointed to the impact of the lockdowns in Greater Sydney, and other Australian cities and regions. Sharp falls in retail sales, employment and business activity surveys suggest that Q3 GDP will plummet, as analysts had feared.

While the depth of the downturn will be important, perhaps more important will be how quickly activity rebounds once restrictions are relaxed. The RBA remains optimistic that activity will recover quickly in 2022 once restrictions are released, and so decided to proceed with its earlier decision to taper its bond purchases, from $5bn to $4bn per week. The RBA did, however, vow to maintain that pace of purchases at least until February 2022. RBA Governor Lowe also repeated his statement that he does not expect to raise interest rates until 2024 and said that he was puzzled why market pricing pointed to the RBA hiking rates in 2022. Supporting the RBA's optimism about the potential for a quick recovery were surveys of business and consumer confidence. Both of these bounced in September as some governments released their plans for re-opening.

Financial market commentary

Financial market sentiment deteriorated in September, due to concerns on the global economic recovery, amid mixed activity data, persistent waves of COVID-19 Delta variant infections, the Evergrande crisis and worries on broader China risks. The increasingly hawkish tilt to central bank communications also weighed on markets. Elevated inflation readings in many major economies also raised the alarm that central banks may wind back asset purchases, or even hike rates, sooner than expected. Equities slumped and bond yields rose.

Equity markets (performance in local currency, excluding dividends)

The MSCI World equity market index (excluding Australia) plunged -4.3% in September, erasing the prior 3 months' gains. For the quarter, the index was down -0.3%. Almost all major equity markets slumped in the month, deteriorating on economic uncertainty and increasing focus on central bank tapering plans.

The Australian S&P/ASX200 fell -2.7% for the month, with ongoing lockdowns and falling iron ore prices key drags on performance. In the US, the S&P500 dropped -4.8%, while in Europe the Stoxx600 index was down -3.4%, reflecting mixed data and rising bond yields, amid indication from the Federal Reserve and ECB that asset purchase tapering is soon coming. The Japan Nikkei 225 was the one exception to the overall slide, up 4.9%, on a change in political leadership.

Emerging markets also fell in lockstep with developed markets, with the MSCI Emerging Market index down by -4.2% over the month. Weaker global risk sentiment, and particularly investor concern on the Evergrande crisis and wider regulatory issues in China, likely drove activity.

Interest rates

Bond yields climbed higher in September, with longer-term yields closing higher in all the US, Australia, Germany and Japan. Market focus on the nearing prospect of asset purchase tapering and potential rate hikes saw yields rise. Evidence of ongoing inflationary pressures were also a driver. 10-year bond yields in the US closed up 18bps, at 1.49%, and traded as high as 1.56%. In Germany, 10-year yields were also up 18bps, to -0.38%.

The Australian 10-year bond yield closed up 34bps, to 1.49%. The 3-year Commonwealth Government bond yield was up 8bps, to 0.31%, with the yield curve steepening as a result. TCorp bond yields also rose in the month. The yield on the March 2031 bond rose 28bps, to 1.76%. The spread to the Australian benchmark came in, as the initial impact from the lockdowns steadied and the COVID-19 vaccination rollout progressed.

Currency and commodity markets

The Australian dollar fell by 1.22% against the US dollar over September, closing at US$0.723. Performance was mixed against other major currencies, with a decline against the Japanese Yen but gains against the Euro and British Pound Sterling. Commodity price swings and the outlook for monetary policy in Australia and the US were likely influential.

Brent crude oil prices rose by 7.6% over September. Iron ore prices slumped further, down 22.7%. At US$117.70 per tonne, iron ore is still holding on to a solid level, though the price did dip below the US$100-tonne level, as low as US$93.60 in the month.

Financial market performance

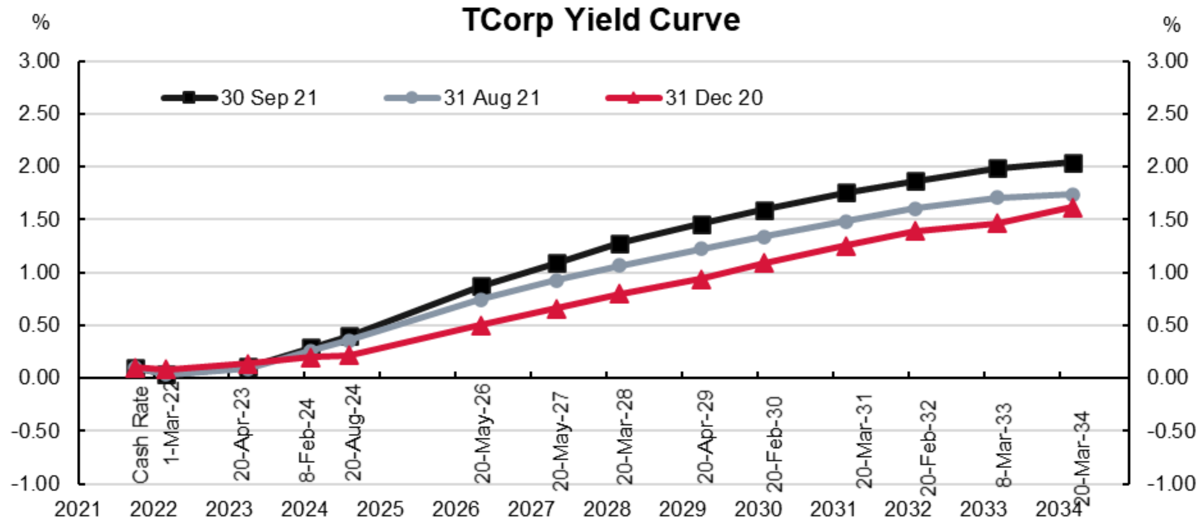
Currency markets September 2021	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.732	0.746	0.718	**0.723**	-1.22% ▼
AUD/EUR	0.620	0.628	0.617	**0.624**	0.74% ▲
AUD/JPY	80.49	81.84	78.98	**80.43**	-0.08% ▼
AUD/GBP	0.532	0.538	0.529	**0.536**	0.81% ▲
AUD/BRL	3.770	3.934	3.813	**3.934**	4.34% ▲
AUD/RUB	53.58	54.31	52.28	**52.58**	-1.87% ▼
AUD/INR	53.41	54.47	53.21	**53.65**	0.45% ▲
AUD/CNY	4.727	4.816	4.643	**4.658**	-1.46% ▼

Equity markets* September 2021	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3216	3244	3078	**3078**	-4.3% ▼
MSCI Emerging Markets	1309	1326	1251	**1253**	-4.2% ▼
S&P/ASX200	7535	7530	7197	**7332**	-2.7% ▼
S&P/ASX Small Ordinaries	3569	3594	3426	**3473**	-2.7% ▼
S&P500 (US)	4523	4537	4308	**4308**	-4.8% ▼
FTSE 100 (UK)	7120	7187	6904	**7086**	-0.5% ▼
Stoxx600 (Europe)	471	475	452	**455**	-3.4% ▼
DAX (Germany)	15835	15932	15132	**15261**	-3.6% ▼
CAC 40 (France)	6680	6763	6456	**6520**	-2.4% ▼
Nikkei 225 (Japan)	28090	30670	28451	**29453**	4.9% ▲
Hang Seng (HK)	25879	26354	24099	**24576**	-5.0% ▼
Shanghai Composite (China)	3544	3715	3536	**3568**	0.7% ▲
Bovespa (Brazil)	118781	119396	108844	**110979**	-6.6% ▼
IPC (Mexico)	53305	52283	50558	**51386**	-3.6% ▼
S&P/BSE Sensex (India)	57552	60078	57338	**59126**	2.7% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) September 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	0.01	0.02	0.01	**0.02**	0.01 ▲
180 Day Bank Bill	0.03	0.05	0.03	**0.05**	0.02 ▲
1 Year Term Deposit Rate	0.30	0.30	0.30	**0.30**	0.00 –
3 Year CGS Bond	0.24	0.31	0.20	**0.31**	0.08 ▲
10 Year CGS Bond	1.16	1.49	1.21	**1.49**	0.34 ▲
10 Year US Bond	1.31	1.54	1.28	**1.49**	0.18 ▲
10 Year German Bond	-0.38	-0.20	-0.39	**-0.20**	0.18 ▲
10 Year Japanese Bond	0.03	0.09	0.03	**0.07**	0.05 ▲

TCorp bonds (%) September 2021	Previous month close	Month high	Month low	Month close	Month change
01-Mar-22	0.04	0.04	0.01	**0.04**	0.00 –
20-Apr-23	0.09	0.11	0.07	**0.11**	0.02 ▲
08-Feb-24	0.26	0.29	0.23	**0.29**	0.03 ▲
20-Aug-24	0.36	0.40	0.32	**0.40**	0.04 ▲
20-May-26	0.75	0.90	0.73	**0.87**	0.12 ▲
20-May-27	0.93	1.09	0.91	**1.09**	0.16 ▲
20-Mar-28	1.07	1.29	1.08	**1.28**	0.21 ▲
20-Apr-29	1.22	1.46	1.25	**1.46**	0.24 ▲
20-Feb-30	1.34	1.60	1.38	**1.59**	0.26 ▲
20-Mar-31	1.48	1.76	1.52	**1.76**	0.28 ▲
20-Feb-32	1.60	1.87	1.62	**1.87**	0.26 ▲
CIB 2.75% 20 Nov 25	-1.28	-1.12	-1.31	**-1.12**	0.15 ▲
CIB 2.50% 20 Nov 35	-0.12	0.10	-0.12	**0.10**	0.22 ▲



Source: TCorp

Commodity markets (US$) September 2021	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	73.0	79.5	71.5	**78.5**	7.6% ▲
Iron Ore (per tonne)	152.2	143.0	93.6	**117.7**	-22.7% ▼

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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