Economic commentary

The global economy

Higher than expected inflation in the US and Europe, combined with aggressive central banks, set the scene for financial markets in September. US core CPI inflation accelerated from 5.9% in July to 6.3% in August while the US central bank raised its key policy rate by 75bps for the third consecutive meeting. To highlight the shift in central bank behaviour in recent months, when the US Federal Reserve (Fed) raised rates by 75bps for the first time in June 2022, Fed Chair Jerome Powell described such a move as unusually large and that he did not expect them to become common.

Alongside aggressive central banks, investors are also becoming more concerned about erratic fiscal policy shifts which may hamper the ability of central banks to control inflation. With soaring energy prices in Europe, politicians feel compelled to provide support to households and businesses, adding to already large debt levels, at a time when the cost of debt has already increased sharply.

In the UK, the new government introduced a mini-budget that not only included very large energy subsidies but also large income tax cuts, further boosting the UK budget deficit. The government also failed to provide any independent costings over the proposal which unnerved international investors. As a result, the British pound fell sharply and UK bond yields soared, with the 30-year bond rising from around 3.5% to more than 5% over a week.

As UK bond yields rose and the value of their assets declined, UK pension funds were forced to sell more bonds to raise cash, potentially creating a self-reinforcing market rout. This forced the Bank of England to intervene and buy government bonds even though they had been poised to begin selling their bond holdings. While this action worked to stabilise markets, it points to the stress that rising bond yields are placing on markets and the economy.

The Australian economy

The Australian economy grew by 0.9% in the June quarter which was close to expectations. Consumer spending and exports were the key drivers of growth, with business investment and housing construction weak.

The unemployment rate rose from 3.4% to 3.5% in August, although this reflected more people seeking work rather than a loss of employment. Job vacancies also fell 2.1% over June to August which may indicate that a return of overseas migrants and students is gradually easing labour shortages.

Meanwhile, the Reserve Bank of Australia (RBA) continues to raise interest rates aggressively. At its September policy meeting it raised interest rates by 50bps – its fifth consecutive policy tightening – and indicated that it plans to keep on raising rates over the remainder of 2022.

Financial market commentary

September was a brutal month for investors, with sharp falls in equity markets, large rises in bond yields and extreme movements in currency markets. This mainly reflected growing unease with the way global policymakers are conducting policy, and the growing risk of a global recession.

Equity markets (performance in local currency, excluding dividends)

Equity markets capitulated as central bankers indicated that they would continue to tighten policy even if the economy fell into recession. The MSCI World equity market index (excluding Australia) fell by 9.4% in September after dropping by 4.4% in August.

Large equity market declines were apparent across developed markets. The US S&P500 fell by 9.3% during September as US central bankers admitted that a recession was a distinct possibility. European shares fell by 6.6%, as the European and Swiss Central Banks raised interest rates by 75bps, while the Swedish central bank opted for a 100bps increase. Combined with soaring energy prices, this will provide a substantial headwind for European consumers and businesses as the northern hemisphere winter approaches. The Australian ASX200 fell by 7.3% while Japan's Nikkie225 index dropped 7.7%.

The MSCI Emerging Markets index performed even worse than developed markets in September, declining by 11.9%. This partly reflected the strength of the US dollar during September which often creates financial problems for emerging markets. Hong Kong shares plunged 13.7%, the Shanghai Composite fell 5.6% while Indian stocks fell 3.5%.

Interest rates

Aggressive rate hikes by central banks, and a desire to keep them high through 2023, resulted in sharp rises in bond yields in September.

Australian Commonwealth Government 10-year bond yields rose by 29bps over September, while TCorp's February 2032 bond yield climbed 31bps. Shorter-dated TCorp bonds rose more sharply over September reflecting the RBA's decision to raise rates by 50bps at its September policy meeting. The yield on TCorp's August 2024 bond, for example, increased by 38bps.

US bond yields surged by 64bps in September while German 10-year yields climbed 57bps to reach 2.11%. Japan was again the only significant economy not to experience a sharp rise in bond yields and its central bank remains determined to keep 10-year yields close to zero until it is confident that inflation will be consistent with their target on a sustainable basis. The large and growing disparity between Japanese bond yields and those in most other markets is, however, placing extreme downward pressure on the yen.

Currency and commodity markets

To support the yen, Japan's Ministry of Finance intervened in currency markets during September for the first time since 1998. This, temporarily, provided some support for the beleaguered currency. It also meant that the Australian dollar was the weakest performer of the major currencies that we monitor, falling from as high as US$0.69 to US$0.64.

The Australian dollar was also dragged lower by weaker commodity prices. Brent crude oil prices fell 8.8% over September while the iron ore price declined 6.2%.

Financial market performance

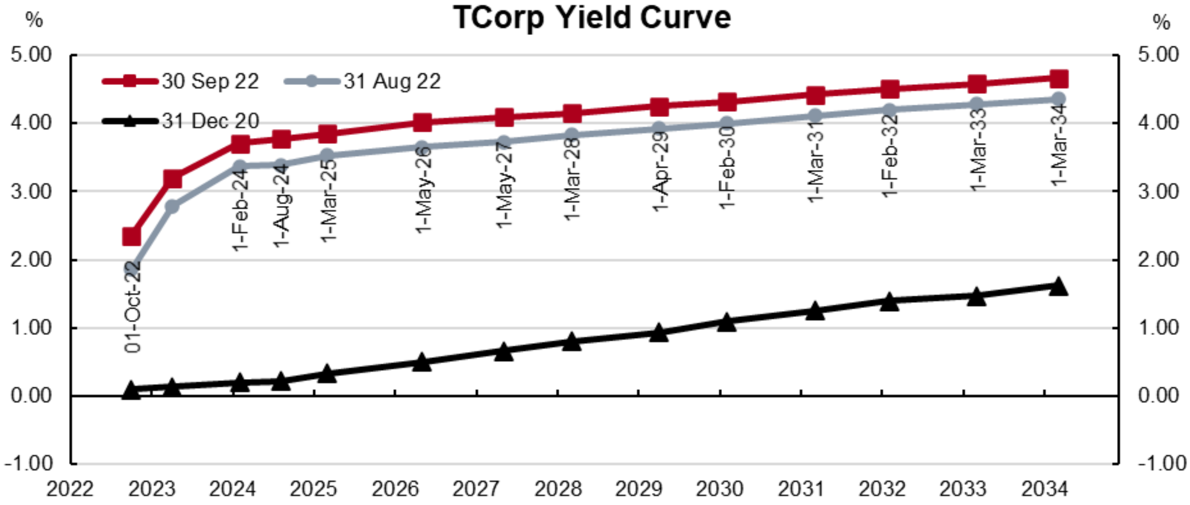
Currency markets September 2022	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.685	0.691	0.640	**0.640**	-6.56% ▼
AUD/EUR	0.686	0.684	0.653	**0.653**	-4.88% ▼
AUD/JPY	95.02	98.22	92.63	**92.63**	-2.51% ▼
AUD/GBP	0.590	0.605	0.573	**0.573**	-2.80% ▼
AUD/BRL	3.550	3.588	3.400	**3.466**	-2.38% ▼
AUD/RUB	81.29	82.05	75.96	**75.96**	-6.56% ▼
AUD/INR	54.42	54.71	52.06	**52.06**	-4.33% ▼
AUD/CNY	4.719	4.794	4.554	**4.554**	-3.50% ▼

Equity markets* September 2022	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2686	2782	2434	**2434**	-9.4% ▼
MSCI Emerging Markets	994	980	873	**876**	-11.9% ▼
S&P/ASX200	6987	7010	6462	**6474**	-7.3% ▼
S&P/ASX Small Ordinaries	2965	2996	2592	**2616**	-11.8% ▼
S&P500 (US)	3955	4110	3586	**3586**	-9.3% ▼
FTSE 100 (UK)	7284	7473	6882	**6894**	-5.4% ▼
Stoxx600 (Europe)	415	428	383	**388**	-6.6% ▼
DAX (Germany)	12835	13402	11976	**12114**	-5.6% ▼
CAC 40 (France)	6125	6334	5677	**5762**	-5.9% ▼
Nikkei 225 (Japan)	28092	28615	25937	**25937**	-7.7% ▼
Hang Seng (HK)	19954	19597	17166	**17223**	-13.7% ▼
Shanghai Composite (China)	3202	3264	3024	**3024**	-5.6% ▼
Bovespa (Brazil)	109523	114070	107664	**110037**	0.5% ▲
IPC (Mexico)	44919	47860	44627	**44627**	-0.7% ▼
S&P/BSE Sensex (India)	59537	60571	56410	**57427**	-3.5% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) September 2022	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	1.85	2.35	1.85	**2.35**	0.50 ▲
90 Day Bank Bill	2.46	3.06	2.48	**3.06**	0.61 ▲
180 Day Bank Bill	3.01	3.57	3.03	**3.57**	0.56 ▲
1 Year Term Deposit Rate	1.20	1.30	1.20	**1.30**	0.10 ▲
3 Year CGS Bond	3.21	3.72	3.10	**3.52**	0.32 ▲
10 Year CGS Bond	3.60	4.10	3.56	**3.89**	0.29 ▲
10 Year US Bond	3.19	3.95	3.19	**3.83**	0.64 ▲
10 Year German Bond	1.54	2.23	1.53	**2.11**	0.57 ▲
10 Year Japanese Bond	0.23	0.26	0.24	**0.24**	0.02 ▲

TCorp bonds (%) September 2022	Previous month close	Month high	Month low	Month close	Month change
20-Apr-23	2.79	3.32	2.78	**3.20**	0.41 ▲
08-Feb-24	3.36	3.87	3.24	**3.71**	0.35 ▲
20-Aug-24	3.39	3.91	3.29	**3.77**	0.38 ▲
20-Mar-25	3.53	4.00	3.40	**3.85**	0.32 ▲
20-May-26	3.65	4.13	3.53	**4.01**	0.37 ▲
20-May-27	3.72	4.23	3.62	**4.09**	0.37 ▲
20-Mar-28	3.83	4.33	3.73	**4.15**	0.32 ▲
20-Apr-29	3.92	4.42	3.85	**4.25**	0.33 ▲
20-Feb-30	4.00	4.49	3.93	**4.32**	0.32 ▲
20-Mar-31	4.11	4.61	4.05	**4.42**	0.32 ▲
20-Feb-32	4.20	4.70	4.15	**4.51**	0.31 ▲
CIB 2.75% 20 Nov 25	0.21	1.15	0.35	**1.15**	0.94 ▲
CIB 2.50% 20 Nov 35	1.91	2.66	2.01	**2.43**	0.52 ▲



Source: TCorp

Commodity markets (US$) September 2022	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	96.5	95.7	84.1	**88.0**	-8.8% ▼
Iron Ore (per tonne)	104.8	102.2	95.3	**98.3**	-6.2% ▼

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

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TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$104 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.

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