Monthly economic report

The global economy

Investors remain confident that central banks will not need to raise rates much further, if at all, and are optimistic that the global economy can avoid recession this year. While central banks have – for a while – been warning that interest rates could remain higher for longer, investors in the past 2 months have started to digest this message and revise up their interest rate expectations. The US Federal Reserve reiterated the 'higher for longer' message after its September policy meeting, where members of the Federal Open Market Committee now expect to cut rates next year by 50bps less than they did a few months ago.

This prospect for interest rates reflects global economic activity being more resilient than originally expected, considering the aggressive monetary policy tightening by central banks. Activity in services industries has held up relatively well this year, though Purchasing Manager Index (PMI) data suggests that it has weakened in recent months, particularly in Europe and the UK. In the US, signs of weakness in the household sector are emerging, with soft retail sales and new home sales in August and consumer confidence falling in September.

Global inflation has continued to trend lower and recent data has been positive in many countries. Inflation was softer than expected in August in the US, with the core Personal Consumption Expenditure (PCE) deflator rising by 0.1% to be 3.9% higher over the year. Inflation also surprised to the downside in the UK and Europe, though was stronger than expected in Canada and mixed in Japan. Against the backdrop of more resilient economic activity, central banks remain concerned that inflation in some services could be persistent. The rise in oil prices over the past few months will also boost inflation. These factors could slow progress towards returning inflation to central banks' targets and require interest rates to remain higher for longer.

Consistent with the resilience in economic activity, labour markets globally remain tight, though there is increasing evidence that conditions are loosening. In the US, the unemployment rate rose from 3.5% to 3.8% in August and employment growth continued to trend lower.

Concerns about a slowing Chinese economy remain. Although retail sales and industrial output improved in August, and PMI data suggests that services sector activity is expanding at a moderate pace, the property sector remains weak, and the health of some large property developers remains in question. In response, Chinese authorities have announced measures to boost the local property market and have cut banks' reserve requirement ratios to support lending.

The Australian economy

The Australian economy grew by a modest 0.4% in the June quarter, driven by strong government infrastructure investment and inbound tourism. However, private domestic spending was very weak, as the Reserve Bank of Australia's (RBA) interest rate hikes have weighed on activity and consumer sentiment. The weakness in household spending has continued in recent months, with retail sales growing by only 0.2% in August. The weakness is particularly pronounced considering Australia's strong population growth and high inflation.

The RBA held the overnight cash rate unchanged at its September policy meeting but, consistent with the messaging from other central banks, has noted that some further tightening may be needed if inflation proves more persistent than expected. Investors think that the RBA has either reached the end of its tightening cycle or that it will deliver one more rate hike at most. The monthly inflation indicator for August was as expected, with annual inflation rising to 5.2% from 4.9%, boosted by higher fuel prices. However, the core inflation measure continued to trend lower.

Like the US, the Australian labour market remains tight but there are signs of a gradual easing. Employment rose strongly in August and the unemployment rate was steady at 3.7%. However, broader measures of labour market underutilisation have increased, and job vacancies fell in the 3 months to August. While strong population growth is improving the availability of labour, it is also supporting the demand for housing, with house prices and advertised rents rising further in August. Demand for new residential construction, however, remains weak.

Financial market commentary

Global bond yields rose sharply in September, after also rising in August, as investors continued to adjust their expectations for interest rates to remain high for longer. This reassessment triggered widespread falls in equity markets and a broad-based rise in the US dollar.

Equity markets (performance in local currency, excluding dividends)

Most global equity markets fell further in September, with larger falls in developed markets. The MSCI World (ex-Australia) equity index declined by 4.5% and the MSCI Emerging Markets index fell by 2.8%. The US S&P500 underperformed, ending the month 4.9% lower. European equities fell 1.7% and the ASX200 declined 3.5%, with all sectors ending the month lower.

UK equities outperformed, rising by 2.3%, reflecting weaker-than-expected inflation in August and the Bank of England surprised markets by holding rates steady at its September meeting.

Interest rates

Longer-dated bond yields rose in most developed economies in September, suggesting that investors have become more confident that inflation may return to central banks' targets without a sharp slowing in economic activity. US 10-year bond yields rose sharply, by 46bps to almost 4.6%, their highest level since mid-2007. German 10-year bond yields rose by 37bps. Japanese 10-year bond yields rose by 11bps, to 0.77%, their highest level in a decade.

Australian 10-year bond yields rose by 46bps alongside the moves higher offshore. Australian 3-year yields rose by 34bps to almost 4.1%, despite the RBA keeping its policy rate unchanged in September. UK 10-year bond yields rose by 8bps, less than in other developed economies.

TCorp bond yields rose by less than Commonwealth Government bond yields in September, with the 10-year TCorp bond spread narrowing by 11bps. This could reflect the NSW Government announcing a smaller borrowing programme in the 2023-24 NSW State Budget than previously flagged.

Currency and commodity markets

Oil prices rose strongly in September, up 10% to around US$95 per barrel. The upward trend in oil prices since late June primarily reflects actions by OPEC+ members to limit the supply of oil. Iron ore prices also increased by 10% in September, supported by increased Chinese steel production and measures announced by Chinese authorities to boost the local property market.

The deterioration in risk sentiment in September saw the Australian dollar depreciate by a further 0.8% against the US dollar in September, to US$0.64.

Financial market performance

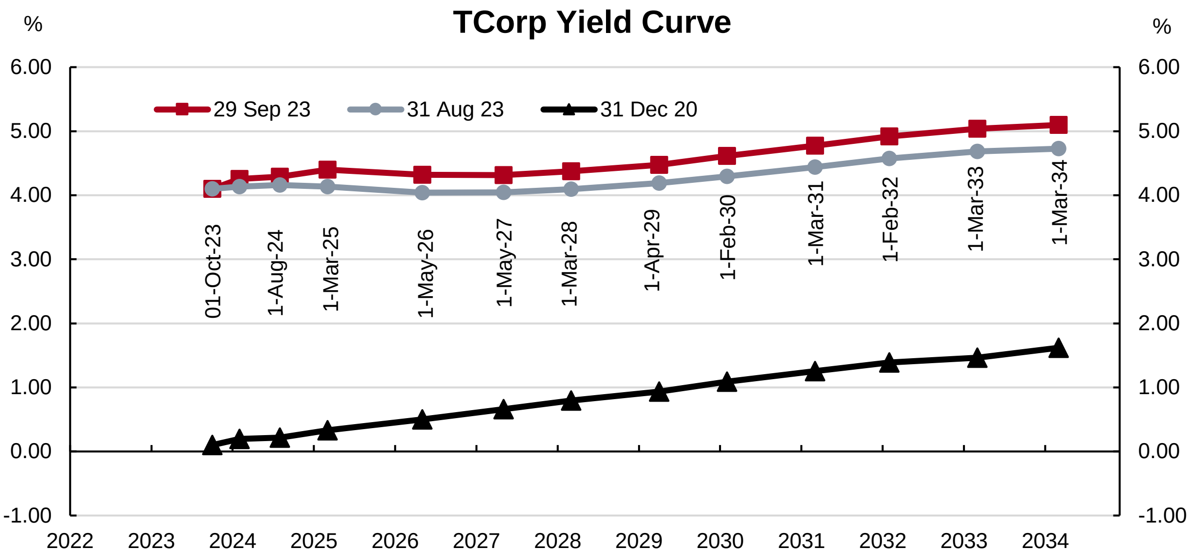
Currency markets September 2023	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.648	0.646	0.635	**0.644**	-0.8% ▼
AUD/EUR	0.598	0.609	0.595	**0.609**	1.8% ▲
AUD/JPY	94.37	96.12	93.92	**96.12**	1.9% ▲
AUD/GBP	0.512	0.527	0.508	**0.527**	3.1% ▲
AUD/BRL	3.213	3.239	3.125	**3.239**	0.8% ▲
AUD/INR	53.68	53.74	52.88	**53.44**	-0.5% ▼
AUD/CNY	4.707	4.710	4.645	**4.696**	-0.2% ▼

Equity markets* September 2023	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3062	3066	2913	**2925**	-4.5% ▼
MSCI Emerging Markets	980	996	944	**953**	-2.8% ▼
S&P/ASX200	7305	7319	7025	**7049**	-3.5% ▼
S&P/ASX Small Ordinaries	2847	2855	2696	**2713**	-4.7% ▼
S&P500 (US)	4508	4516	4274	**4288**	-4.9% ▼
FTSE 100 (UK)	7439	7732	7426	**7608**	2.3% ▲
Stoxx600 (Europe)	458	462	447	**450**	-1.7% ▼
DAX (Germany)	15947	15894	15217	**15387**	-3.5% ▼
CAC 40 (France)	7317	7379	7072	**7135**	-2.5% ▼
Nikkei 225 (Japan)	32619	33533	31858	**31858**	-2.3% ▼
Hang Seng (HK)	18382	18844	17373	**17810**	-3.1% ▼
Shanghai Composite (China)	3120	3177	3085	**3110**	-0.3% ▼
Bovespa (Brazil)	115742	119392	114193	**116565**	0.7% ▲
IPC (Mexico)	53021	53145	50875	**50875**	-4.0% ▼
S&P/BSE Sensex (India)	64831	67839	65387	**65828**	1.5% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) September 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	4.13	4.15	4.12	**4.14**	0.01 ▲
180 Day Bank Bill	4.37	4.40	4.35	**4.40**	0.03 ▲
1 Year Term Deposit Rate	3.60	3.60	3.55	**3.55**	-0.05 ▼
3 Year CGS Bond	3.74	4.11	3.73	**4.08**	0.34 ▲
10 Year CGS Bond	4.03	4.49	4.00	**4.49**	0.46 ▲
10 Year US Bond	4.11	4.61	4.18	**4.57**	0.46 ▲
10 Year German Bond	2.47	2.93	2.55	**2.84**	0.37 ▲
10 Year Japanese Bond	0.65	0.77	0.63	**0.77**	0.11 ▲

TCorp bonds (%) September 2023	Previous month close	Month high	Month low	Month close	Month change
08-Feb-24	4.14	4.27	4.13	**4.25**	0.12 ▲
20-Aug-24	4.16	4.30	4.15	**4.29**	0.13 ▲
20-Mar-25	4.13	4.42	4.12	**4.40**	0.26 ▲
20-May-26	4.04	4.34	4.03	**4.32**	0.28 ▲
20-May-27	4.05	4.34	4.04	**4.32**	0.27 ▲
20-Mar-28	4.09	4.40	4.08	**4.38**	0.28 ▲
20-Apr-29	4.19	4.49	4.17	**4.48**	0.29 ▲
20-Feb-30	4.29	4.61	4.27	**4.61**	0.32 ▲
20-Mar-31	4.44	4.77	4.42	**4.77**	0.33 ▲
20-Feb-32	4.57	4.92	4.55	**4.92**	0.34 ▲
08-Mar-33	4.68	5.04	4.66	**5.04**	0.35 ▲
CIB 2.75% 20 Nov 25	1.22	1.55	1.22	**1.53**	0.31 ▲
CIB 2.50% 20 Nov 35	2.29	2.29	2.29	**2.29**	0.00 –



Source: TCorp

Commodity markets (US$) September 2023	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	86.9	96.6	88.6	**95.3**	9.7% ▲
Iron Ore (per tonne)	109.4	123.4	116.3	**120.8**	10.4% ▲

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$108 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$161 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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