September 2024
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Monthly economic report

The global economy

The US Federal Reserve (Fed) delivered its first rate cut in this cycle, lowering rates by 50bps. Fed Chair Powell noted that the larger rate cut was to increase the chances of a soft landing in the economy by preventing a further weakening of the labour market, rather than the Fed being concerned that the US economy was heading for a deeper downturn. Economic data over the past month has shown that the US economy remains resilient, especially consumer spending.

With inflation falling and the labour market gradually loosening, Fed policymakers expect to cut rates much more aggressively now compared to expectations 3 months ago. The Fed's median projection is for another 50bps of rate cuts before the end of 2025, followed by 100bps in 2025 and 50bps in 2026 (to 2.75-3%). Investors, however, expect US rates to fall faster than the Fed projects, with 75bps of cuts expected in 2024 and more than 100bps in 2025.

Central banks in several other advanced economies also cut rates in September. The central banks of Canada and Sweden lowered rates for the third time and the European Central Bank for the second time. The Bank of England kept rates on hold, after lowering rates for the first time in August. Most central banks continue to signal a cautious and gradual approach to rate cuts going forward, particularly in economies where services price inflation remains elevated.

Chinese authorities announced a suite of monetary and fiscal stimulus measures in late September aimed at boosting economic activity and ensuring the 5% annual GDP growth target is met. The measures included lower interest rates and increased liquidity in the banking system to support lending. Policies to directly support the ailing housing and equity markets were also introduced. The announcement of this broader suite of measures has fuelled investor optimism, after the policy initiatives announced earlier this year failed to have a material impact on economic growth.

The Australian economy

The Reserve Bank of Australia (RBA) Board left interest rates unchanged at its September meeting, as was widely expected. Although the Board did not explicitly discuss the option of raising interest rates this month, the RBA remains concerned about inflation taking too long to return to the midpoint of its target range (2.5%). Reflecting this concern, the RBA does not expect to lower rates in 2024 but continues to emphasise that the economic outlook is very uncertain. A sharper slowdown in Australia's labour market is a key factor that would change the balance of risks for the RBA and increase the likelihood of a rate cut in 2024.

Despite the RBA's guidance, investors think that one 25bps rate cut by the RBA is likely in 2024 (with a 70% chance of this priced into bond markets). While inflation has continued to fall broadly in line with the RBA's latest forecasts, private sector activity was noticeably weaker in the June quarter. Household spending and residential construction – the 2 most interest-rate sensitive sectors of the economy – have been particularly weak. This is despite population growth remaining very strong in the first half of this year. All of the modest growth in the Australian economy in 2024 has been due to higher government spending, particularly on health services.

The NSW economy shrank in the June quarter due to weaker consumer spending. NSW has experienced the weakest consumption over the past 2 years, with the larger average size of mortgages exerting a greater financial burden on mortgage holders when interest rates are high.

Financial market commentary

September was a positive month for investors, with many equity markets rising and bond yields declining in most advanced economies.

Equity markets (performance in local currency, excluding dividends)

Global equity markets rose in September, with the MSCI World (excl. Australia) index gaining 1.6%. Investor sentiment was boosted by the Fed's 50bps rate cut and investors' expectations of further aggressive rate cuts, which are seen as increasing the likelihood of a soft landing in the US economy. The S&P500 gained 2%, but European equities ended the month a touch lower.

Equity markets in China and Hong Kong rose sharpy in late September, ending the month around 17% higher, as a raft of stimulus measures announced by Chinese authorities boosted investor sentiment.

The increased optimism about China's growth prospects also triggered a rise in the share prices of Australian mining companies, with the ASX Resources index rising almost 10% in September. In contrast, the ASX Banks index fell by 1.4%, leading to a more modest increase in the overall ASX200 over the month (+2.2%).

Japan's equity market ended the month almost 2% lower, with investors having a negative reaction to the selection of the new leader of the ruling party, who will become Prime Minister on 1 October.

Bond yields

The Fed's 50bps rate cut saw US bond yields fall further in September, with 10-year yields ending the month 12bps lower and 2-year yields declining 28bps. The US yield curve is now positively sloped, after being inverted for the past 2 years. European bond yields also fell in the month.

In contrast, Australian bond yields were little changed in September, with 10-year yields rising 3bps and 3-year yields declining 1bp. This reflects little change in the outlook for Australian interest rates, with the RBA remaining hawkish and investors still seeing a 75% chance of a rate cut before the end of this year. TCorp 10-year bond yields rose broadly in line with 10-year Commonwealth Government bond yields in the month (+2bps).

Currency and commodity markets

The Australian dollar appreciated by 2.2% against the US dollar in September, to US$0.69 – its highest level since early 2023. The Australian dollar was supported by increased optimism about China's economy, which would in turn increase demand for Australia's resource exports. Lower US bond yields also saw the US dollar weaken against a broad range of currencies.

Iron ore prices rose by 11% in September, rising strongly at the end of the month as China's stimulus measures boosted hopes of increased steel demand. Iron ore prices remain around 20% lower than at the start of this year.

Oil prices fell by a further 9% in August, reflecting concerns about weaker global oil demand combined with the prospect of increased supply from Saudi Arabia. Oil prices are now trading at their lowest levels in 2024, which should help put downward pressure on global inflation.

Financial market performance

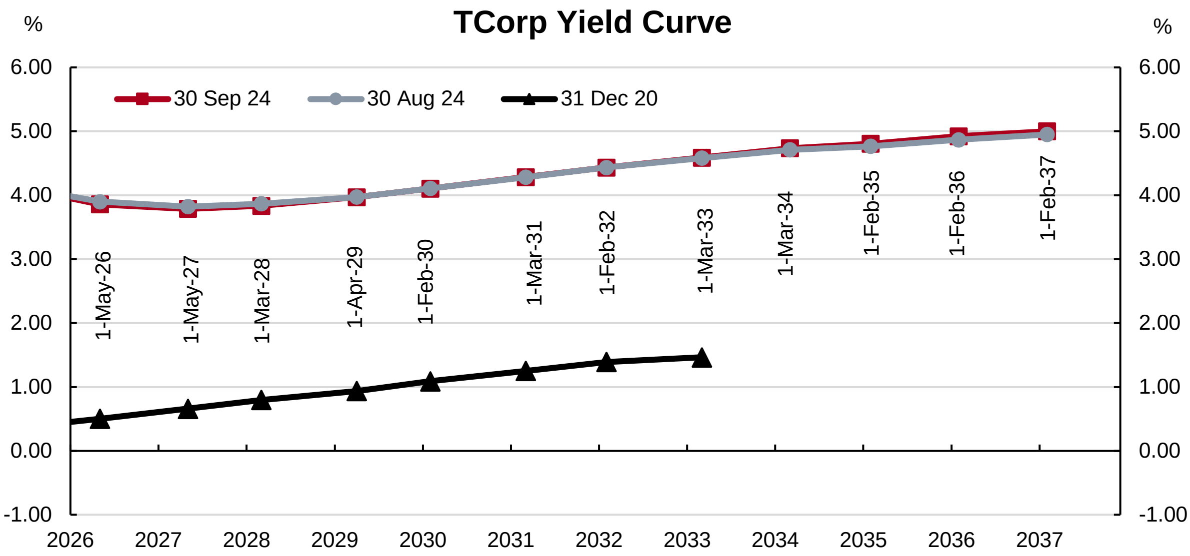
Currency markets September 2024	Previous month close	Month high	Month low	Month close	Month change	
AUD/USD	0.677	0.691	0.665	**0.691**	2.2%	▲
AUD/EUR	0.612	0.621	0.602	**0.621**	1.4%	▲
AUD/JPY	98.88	99.86	94.43	**99.29**	0.4%	▲
AUD/GBP	0.515	0.517	0.508	**0.517**	0.3%	▲
AUD/BRL	3.793	3.815	3.694	**3.767**	-0.7%	▼
AUD/INR	56.74	57.93	55.86	**57.93**	2.1%	▲
AUD/CNY	4.797	4.852	4.735	**4.852**	1.1%	▲

Equity markets* September 2024	Previous month close	Month high	Month low	Month close	Month change	
MSCI World ex Australia	3757	3824	3609	**3819**	1.6%	▲
MSCI Emerging Markets	1100	1175	1059	**1171**	6.4%	▲
S&P/ASX200	8092	8270	7950	**8270**	2.2%	▲
S&P/ASX Small Ordinaries	3006	3139	2886	**3138**	4.4%	▲
S&P500 (US)	5648	5762	5408	**5762**	2.0%	▲
FTSE 100 (UK)	8377	8364	8181	**8237**	-1.7%	▼
Stoxx600 (Europe)	525	528	507	**523**	-0.4%	▼
DAX (Germany)	18907	19474	18266	**19325**	2.2%	▲
CAC 40 (France)	7631	7792	7352	**7636**	0.1%	▲
Nikkei 225 (Japan)	38648	39830	35620	**37920**	-1.9%	▼
Hang Seng (HK)	17989	21134	17109	**21134**	17.5%	▲
Shanghai Composite (China)	2842	3336	2704	**3336**	17.4%	▲
Bovespa (Brazil)	136004	136502	130568	**131816**	-3.1%	▼
IPC (Mexico)	51986	53654	50973	**52477**	0.9%	▲
S&P/BSE Sensex (India)	82366	85836	81184	**84300**	2.3%	▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) September 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	4.39	4.44	4.39	**4.43**	0.04	▲
180 Day Bank Bill	4.53	4.64	4.52	**4.62**	0.09	▲
New institutional term deposits	4.70	4.80	4.70	**4.80**	0.10	▲
3 Year CGS Bond	3.55	3.61	3.41	**3.54**	-0.01	▼
10 Year CGS Bond	3.97	4.01	3.81	**3.97**	0.01	▲
10 Year US Bond	3.90	3.90	3.62	**3.78**	-0.12	▼
10 Year German Bond	2.30	2.34	2.11	**2.12**	-0.18	▼
10 Year Japanese Bond	0.90	0.93	0.82	**0.86**	-0.04	▼

TCorp bonds (%) September 2024	Previous month close	Month high	Month low	Month close	Month change
20-May-26	3.90	3.96	3.74	**3.86**	-0.04 ▼
20-May-27	3.82	3.88	3.66	**3.79**	-0.03 ▼
20-Mar-28	3.87	3.92	3.68	**3.84**	-0.03 ▼
20-Apr-29	3.97	4.03	3.79	**3.97**	0.00 ▼
20-Feb-30	4.11	4.16	3.91	**4.10**	0.00 ▼
20-Mar-31	4.28	4.33	4.09	**4.28**	0.00 ▲
20-Feb-32	4.43	4.49	4.25	**4.43**	0.00 ▲
08-Mar-33	4.58	4.64	4.42	**4.59**	0.01 ▲
20-Mar-34	4.71	4.76	4.55	**4.73**	0.02 ▲
20-Feb-35	4.77	4.82	4.62	**4.81**	0.04 ▲
20-Feb-36	4.87	4.92	4.73	**4.92**	0.05 ▲
20-Feb-37	4.95	5.00	4.81	**5.00**	0.05 ▲
CIB 2.75% 20 Nov 25	1.56	1.56	1.52	**1.52**	-0.03 ▼
CIB 2.50% 20 Nov 35	2.36	2.43	2.24	**2.33**	-0.03 ▼



Source: TCorp

Commodity markets (US$) September 2024	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	78.8	77.5	69.2	**71.8**	-8.9% ▼
Iron Ore (per tonne)	96.6	107.1	91.1	**107.1**	10.9% ▲

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	3.50	3.25	3.25	3.50

About TCorp

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. With A$112 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$183 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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