Monthly Economic Report

The global economy

Several developed economy central banks raised interest rates further in June, and some by more than expected. Commentary from central bank officials remains hawkish; it continues to signal that further rate hikes may be needed and that rate cuts are not being considered for the foreseeable future. Although core inflation in major developed economies has been coming down slowly, it remains well above central banks' targets and labour markets remain tight. However, global growth continues to slow, and investors currently expect central banks to raise rates by less than what is being communicated.

The US Federal Reserve held its policy rate steady at its June meeting, for the first time since it began raising rates in March 2022. However, most Fed officials view 2 more rate hikes as likely to be needed this year, but this will depend on incoming data. Inflation in the US has continued to ease, though core inflation has been more persistent. Producer price inflation has fallen more quickly, which suggests that consumer price inflation could fall faster than expected.

The US labour market is tight, with non-farm payrolls rising strongly in May. The unemployment rate remains low, despite increasing in May. The housing market appears to have stabilised and could potentially be reaccelerating. However, consumer spending is weak, manufacturing activity has contracted further, and services activity is expanding at a more moderate pace.

The European Central Bank raised its policy rate by 25bps in June and signalled that it will deliver another rate rise at its July meeting, but that future rate decisions will depend on incoming data. Core inflation in Europe remains sticky and elevated. The Eurozone economy contracted by 0.1% in each of the December and March quarters, confirming a technical recession. A technical recession was also confirmed in New Zealand.

In the UK, the Bank of England (BoE) raised its policy rate by 50bps, to 5%, to combat stubbornly high inflation. Economic activity has been weak, but the labour market remains very tight and wages growth has accelerated. BoE officials remain hawkish, and investors expect the policy rate to reach peak at 6.2% at the end of this year.

The central bank of Norway also raised its policy rate by 50bps in June, while the central banks of Switzerland, Sweden and Canada raised their policy rates by 25bps. In contrast, the Bank of Japan left its monetary policy settings unchanged and continued its dovish tone.

Concerns around slowing momentum in the Chinese economy have continued, as monthly activity data for May was again weaker than expected. The People's Bank of China cut 4 key interest rates by 10bps in June and the Chinese Premier announced that stimulus measures to boost domestic demand were forthcoming.

The Australian economy

The Reserve Bank of Australia (RBA) raised its policy interest by 25bps in June to 4.10%, following a 25bps rise in May. The RBA viewed inflation risks as having shifted to the upside, partly due to the larger-than-expected increase in national minimum and award wages announced by the

Australian Fair Work Commission. The RBA's rate rise surprised many economists and investors and prompted investors to revise up their expectations for the peak cash rate in this cycle.

However, the minutes from the RBA's June meeting were widely interpreted as dovish, with the RBA removing any reference to the need for further monetary policy tightening. The monthly inflation indicator for May also fell by more than expected, to be 5.6% higher over the year, and provides further evidence that inflation is moderating.

The Australian economy has slowed, growing by 0.1% in the March quarter and 2.3% over the year. Business investment drove this growth, though survey measures suggest that business sentiment has deteriorated throughout the June quarter. Housing construction fell and strong population growth saw output per capita decline. Household spending has been soft and consumer sentiment remains weak. Although retail turnover increased by a stronger-than-expected 0.7% in May, sales were boosted by consumers taking advantage of larger- and earlier-than-usual promotional activity in the month.

The labour market remains tight, with employment rising strongly in May and the unemployment rate declining to 3.6%. Established housing market conditions have strengthened in recent months, with a low supply of properties for sale, supporting auction clearance rates and house prices.

Financial market commentary

Risk sentiment in financial markets improved in June, with bond yields and equity markets rising and a broad-based depreciation of the US dollar.

Equity markets (performance in local currency, excluding dividends)

Equity markets rose in June, with Japanese equities again outperforming (+7.5%). US equities also increased strongly (+6.5%), as optimism over artificial intelligence supported technology companies. European equities rose 2.3% and the ASX200 gained 1.6%, with resources, technology, and financial stocks the best performers. Australian equities have underperformed most developed economy equity markets this year to date, except for the UK.

Interest rates

Global bond yields rose in June as risk sentiment improved and central banks maintained their hawkish rhetoric. US 10-year and 2-year bond yields rose 19bps and 49bps as the Fed signalled that further rate rises are likely. UK 2-year yields rose sharply (+94bps) after the BoE raised rates by more than expected and investors revised up their policy rate expectations markedly.

Australian yields also rose notably, with 10-year and 3-year bond yields up 42bps and 68bps, as expectations for the overnight cash rate were revised up following the RBA's June meeting. The Australian yield curve inverted in June, the first occurrence since before the global financial crisis. TCorp bond yields rose alongside the moves in Australian government bond yields.

Currency and commodity markets

The Australian dollar appreciated by 2.5% in June against the US dollar, reversing the depreciation the previous month. The strength in the Australian dollar reflected improved risk sentiment and the upward reassessment of Australian interest rates in June.

The Brent crude oil price rose by 3.1% in June but is around 35% lower than a year ago, reflecting slowing global growth and concerns around a further weakening in economic activity. The fall in oil prices has occurred despite OPEC+ cutting production in April and Saudi Arabia announcing further production cuts to commence in July.

Financial market performance

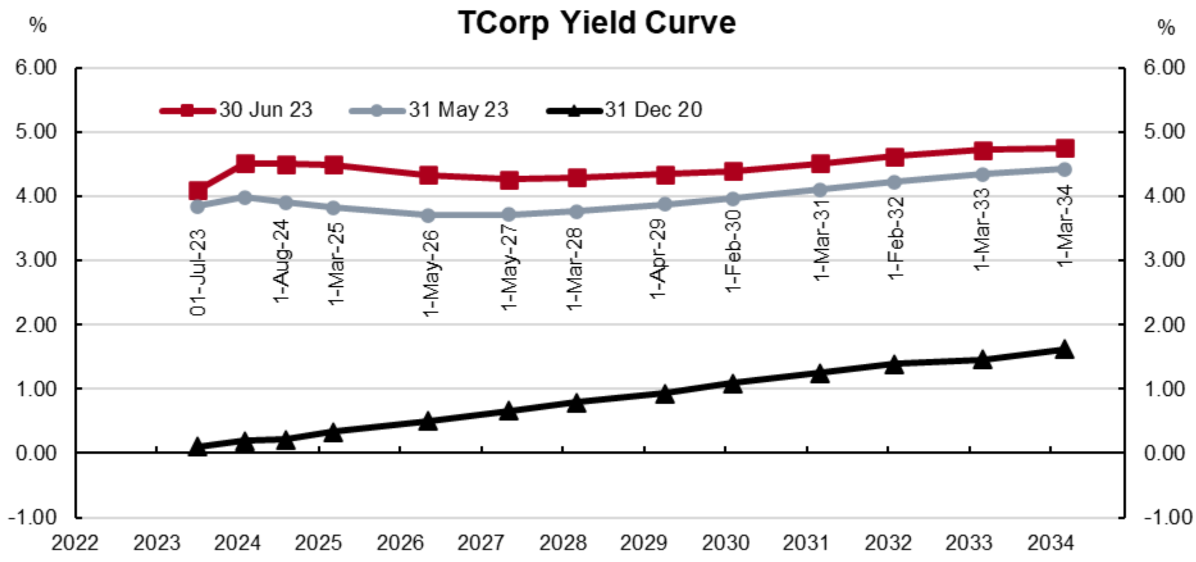
Currency markets June 2023	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.650	0.689	0.657	**0.666**	2.5% ▲
AUD/EUR	0.608	0.629	0.605	**0.611**	0.4% ▲
AUD/JPY	90.61	97.50	91.21	**96.17**	6.1% ▲
AUD/GBP	0.523	0.540	0.522	**0.525**	0.4% ▲
AUD/BRL	3.288	3.316	3.183	**3.189**	-3.0% ▼
AUD/INR	53.80	56.58	54.15	**54.67**	1.6% ▲
AUD/CNY	4.623	4.908	4.664	**4.834**	4.6% ▲

Equity markets* June 2023	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	2870	3041	2901	**3041**	6.0% ▲
MSCI Emerging Markets	959	1030	962	**989**	3.2% ▲
S&P/ASX200	7091	7358	7079	**7203**	1.6% ▲
S&P/ASX Small Ordinaries	2802	2857	2740	**2794**	-0.3% ▼
S&P500 (US)	4180	4450	4221	**4450**	6.5% ▲
FTSE 100 (UK)	7446	7643	7454	**7532**	1.1% ▲
Stoxx600 (Europe)	452	467	453	**462**	2.3% ▲
DAX (Germany)	15664	16358	15813	**16148**	3.1% ▲
CAC 40 (France)	7099	7400	7137	**7400**	4.2% ▲
Nikkei 225 (Japan)	30888	33706	31148	**33189**	7.5% ▲
Hang Seng (HK)	18234	20040	18217	**18916**	3.7% ▲
Shanghai Composite (China)	3205	3273	3151	**3202**	-0.1% ▼
Bovespa (Brazil)	108335	120420	110565	**118087**	9.0% ▲
IPC (Mexico)	52736	55344	52724	**53526**	1.5% ▲
S&P/BSE Sensex (India)	62622	64719	62429	**64719**	3.3% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) June 2023	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	3.85	4.10	3.85	**4.10**	0.25 ▲
90 Day Bank Bill	3.98	4.35	4.01	**4.35**	0.37 ▲
180 Day Bank Bill	4.17	4.70	4.22	**4.70**	0.53 ▲
1 Year Term Deposit Rate	3.20	3.25	3.20	**3.25**	0.05 ▲
3 Year CGS Bond	3.37	4.05	3.38	**4.05**	0.68 ▲
10 Year CGS Bond	3.61	4.03	3.62	**4.02**	0.42 ▲
10 Year US Bond	3.64	3.84	3.60	**3.84**	0.19 ▲
10 Year German Bond	2.28	2.52	2.25	**2.39**	0.11 ▲
10 Year Japanese Bond	0.44	0.44	0.36	**0.40**	-0.04 ▼

TCorp bonds (%) **June 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
08-Feb-24	3.99	4.52	4.02	**4.52**	0.53 ▲
20-Aug-24	3.91	4.51	3.94	**4.51**	0.59 ▲
20-Mar-25	3.83	4.49	3.86	**4.49**	0.67 ▲
20-May-26	3.71	4.34	3.72	**4.34**	0.63 ▲
20-May-27	3.72	4.29	3.73	**4.27**	0.55 ▲
20-Mar-28	3.77	4.31	3.79	**4.30**	0.53 ▲
20-Apr-29	3.88	4.37	3.89	**4.35**	0.48 ▲
20-Feb-30	3.97	4.43	3.98	**4.40**	0.43 ▲
20-Mar-31	4.11	4.54	4.13	**4.52**	0.42 ▲
20-Feb-32	4.23	4.65	4.25	**4.62**	0.39 ▲
08-Mar-33	4.35	4.76	4.37	**4.73**	0.38 ▲
CIB 2.75% 20 Nov 25	0.63	1.34	0.69	**1.34**	0.70 ▲
CIB 2.50% 20 Nov 35	1.94	2.29	1.99	**2.29**	0.35 ▲



Source: TCorp

Commodity markets (US$) **June 2023**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
Brent Oil (per barrel)	72.7	77.1	71.8	**74.9**	3.1% ▲
Iron Ore (per tonne)	105.1	114.2	104.6	**112.6**	7.1% ▲

TCorp forecasts	**Dec-23**	**June-24**	**Dec-24**	**Jun-25**
RBA Official Cash Rate	4.35	3.85	3.10	2.35
90 Day Bank Bill	4.50	3.85	3.10	2.50
10 Year CGS Bond	3.75	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$107 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$148 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

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