

The week that was

- The 2020-21 Commonwealth Budget was released last week revealing that the budget deficit had ballooned to 11% of GDP – the largest deficit Australia has recorded since the Second World War. While we were slightly underwhelmed by the extent of new policy initiatives, the combination of personal income tax cuts and business incentives were generally well received by most analysts and financial markets.
- The Australian equity market surged by 5.4% last week to sit at the top of the leader board. Most equity markets performed well, with the US S&P500 up 3.8% and Chinese stocks up 1.7%.
- The positive sentiment was also reflected in commodity markets with oil prices rising by 9% and iron ore prices up 3%. Longer-dated bond yield also increased last week with US10-year bond yield up 7bps to 0.77%. Australian 10-year bond yields rose more modestly, increasing by 4bps while 3-year bond yields actually fell by 3bps to 0.14%. This reflected growing confidence amongst traders that the Reserve Bank of Australia (RBA) will reduce its target for the 3-year bond yield from 25bps to 10bps as soon as its November policy meeting.

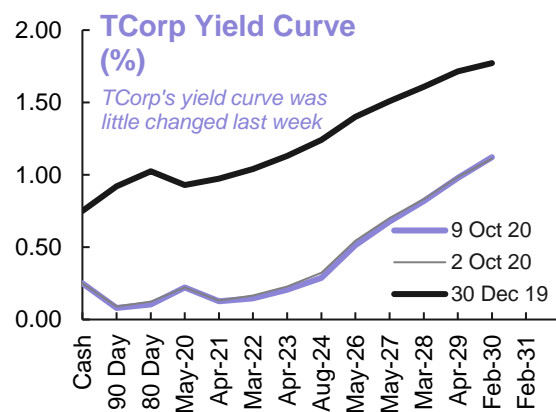
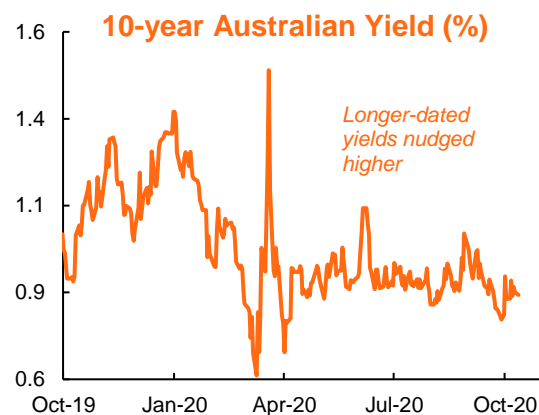
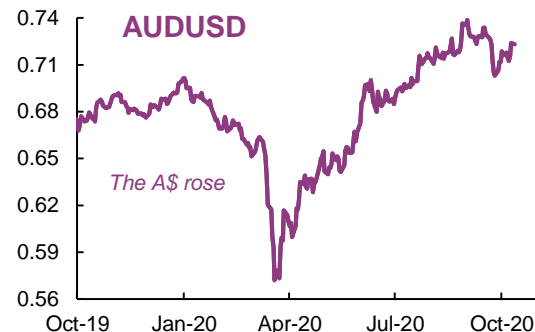
Economic calendar

Monday	
12/10	
Tuesday	EU: ZEW business survey, Sep
13/10	US: Consumer price inflation, Sep
Wednesday	AU: Consumer confidence, Oct
14/10	US: Retail sales, Aug
Thursday	AU: Employment, Aug
15/10	AU: RBA Governor speech
Friday	US: Retail sales, Sep
16/10	US: Industrial production, Sep

The week ahead

- With investors increasingly confident that the RBA will announce a raft of policy easing measures in November, the key event this week will be a speech by the RBA Governor Phillip Lowe. While the RBA Governor will not signal an imminent rate cut, if he is uncomfortable with current market pricing he would use this opportunity to pour cold water on the idea that the RBA is poised to ease further.
- In terms of economic data, the main focus will be on US retail sales. With US politicians failing to agree to a continuation of fiscal policy support, investors will closely monitor these data to see if consumer spending has weakened. Westpac's monthly survey of Australian consumer sentiment will also be released this week, although ANZ produce a weekly index that has improved solidly over the past month.

Financial markets charts



Financial markets data: Week ending 9 October 2020

Interest Rates	Close (%)	1 Week (bps)		YTD (bps)	
RBA Cash Rate	0.25	0	—	-50	▼
90-day BBSW	0.08	-1	▼	-84	▼
3-year Australian Bond Yield	0.14	-3	▼	-77	▼
10-year Australian Bond Yield	0.85	2	▲	-52	▼
20-year Australian Bond Yield	1.55	4	▲	-32	▼
10-year Australian Break-Even Inflation	1.38	3	▲	-3	▼
10-year Australian Real Yield	-0.53	-1	▼	-49	▼
Fed Funds Rate (lower bound)	0.00	0	—	-150	▼
2-year US Treasury Yield	0.15	2	▲	-142	▼
10-year US Treasury Yield	0.77	7	▲	-114	▼
30-year US Treasury Yield	1.57	8	▲	-82	▼
10-year German Bund Yield	-0.53	1	▲	-34	▼
NSW TCorp Bonds	Close (%)	1 Week (bps)		YTD (bps)	
4.00% 8 April 2021	0.13	0	▼	-87	▼
6.00% 1 March 2022	0.15	-2	▼	-92	▼
4.00% 20 April 2023	0.21	-2	▼	-96	▼
1.00% 8 February 2024	0.27	-3	▼	-101	▼
5.00% 20 August 2024	0.29	-4	▼	-99	▼
4.00% 20 May 2026	0.51	-3	▼	-94	▼
3.00% 20 May 2027	0.68	-2	▼	-90	▼
3.00% 20 March 2028	0.82	-1	▼	-85	▼
3.00% 20 April 2029	0.98	-1	▼	-80	▼
3.00% 20 February 2030	1.12	1	▲	-72	▼
2.00% 20 March 2031	1.28	1	▲	-68	▼
2.00% 20 March 2032	1.49	2	▲	n/a	n/a
2.00% 20 March 2033	1.61	2	▲	-59	▼
3.75% 20 August 2020 CIB	2.04	20	▲	274	▲
2.75% 20 November 2025 CIB	-0.39	-18	▼	-48	▼
2.50% 20 November 2035 CIB	0.23	-3	▼	n/a	n/a
10-year NSW TCorp Bond Yield	1.24	1	▲	-60	▼
10-year TCV (Victoria) Spread	-0.02	-1	▼	0	▼
10-year QTC (Queensland) Spread	-0.02	0	▲	-5	▼
Equities	Close	1 Week		YTD	
S&P/ASX200 (Australia)	6,102	5.4%	▲	-8.7%	▼
S&P500 (US)	3,477	3.8%	▲	7.6%	▲
FTSE 100 (UK)	6,017	1.9%	▲	-20.2%	▼
Euro Stoxx 600 (Europe)	370	2.1%	▲	-10.9%	▼
Nikkei 225 (Japan)	23,620	2.6%	▲	-0.2%	▼
Shanghai Composite (China)	3,272	1.7%	▲	7.3%	▲
Currencies	Close	1 Week		YTD	
AUD/USD	0.724	1.1%	▲	3.3%	▲
EUR/USD	1.183	0.9%	▲	5.4%	▲
USD/JPY	105.62	0.3%	▲	-2.7%	▼
GBP/USD	1.30	0.8%	▲	-1.1%	▼
US\$ Index	93.06	-0.8%	▼	-3.5%	▼
Commodities	Close	1 Week		YTD	
Brent Oil (US\$/bbl)	42.85	9.1%	▲	-35.1%	▼
Iron Ore (US\$/t)	124.76	3.7%	▲	36.3%	▲
Coking Coal (US\$/t)	1,315.50	0.0%	—	9.0%	▲
Gold (US\$/oz)	1,930.40	1.6%	▲	27.2%	▲

Brian Redican
Chief Economist
brian.redican@tcorp.nsw.gov.au

This material has been prepared by New South Wales Treasury Corporation ABN 99 095 235 825 (TCorp), a statutory corporation of New South Wales.

This material is of a general nature only and does not take into account your investment objectives, financial situation or needs. This material does not constitute investment advice. It should not be relied upon in determining whether to invest in a TCorpIM Fund. TCorp recommends you seek your own legal and financial advice before proceeding with any investment decision.

While this material has been formulated with all due care, TCorp does not warrant or represent that the material is free from errors or omissions, or that it is exhaustive. TCorp takes no responsibility for the accuracy, adequacy, currency or completeness of any information included in the material provided by third parties. Except where contrary to law, TCorp will not be liable for any loss, damage, cost or expense (whether direct or indirect) incurred by you as a result of the use of, or reliance on, the information contained in this material.

This material is not intended to forecast or predict future events. Past performance is not a guarantee or a reliable indicator of future performance. The material is subject to change without notice and TCorp is not under any obligation to update the information or correct any inaccuracy which may become apparent at a later date.

Unauthorised copying and distribution of this material is prohibited.

© New South Wales Treasury Corporation 2020. All rights reserved.

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\$103 billion of assets under management, TCorp is a top five Australian investment manager and is the central borrowing authority of the state of NSW, with a balance sheet of A\$99 billion. It is rated AAA by S&P and Aaa by Moody's.

TCorp

Level 7, Deutsche Bank Place,
126 Phillip Street, Sydney, NSW 2000

Tel: +61 2 9325 9325

www.tcorp.nsw.gov.au

www.linkedin.com/company/tcorp-nswtreasurycorporation/

