June 2020
Published: 1 July 2020

Economic Commentary

Bounce-back optimism confronts COVID-19 reality

Economic data released over the last month suggest that the global economy passed its low point in late April , with stronger activity emerging in indicators covering the May and June periods. The strong monthly gains in some indicators have also fuelled optimism that the global economy may experience a 'V-shaped' recovery in which activity quickly returns to pre-COVID-19 levels.

While this optimism may be excessive given the damage that has already been done to business and household balance sheets, the likelihood that some restrictions will remain in place for the remainder of 2020 and changed household behaviour, investors have also been forced to recognise that COVID-19 case numbers continue to rise sharply in some US States as well as emerging markets such as Brazil and India.

In the US, hopes for a quick economic revival have been driven by large monthly gains in retail sales (rising 18% in May), employment (up 2.5 million in May) and manufacturing activity, where the June Purchasing Manager's Index rose to 49.6 in June (just below the 50 level which signals stable output) up from 39.8 in May. Similarly, there has been large improvements in manufacturing PMIs in Europe (to 46.9) and China (to 50.6). Japan's manufacturing PMI was the outlier with it remaining at a disappointing 37.8 level in May, but Japan's services sector did improve substantially.

Optimism that the US could quickly remove all restrictions imposed to limit the spread of COVID-19 have been dashed in June, however, as the number of new cases increased rapidly in the south and west of the country. For example, while states in the west were recording around 3,000 new cases in May, this rose to more than 10,000 per day in June. Similarly, southern states were recording around 7,000 new daily cases in May, which rose to more than 20,000 cases in June.

In response to this, there are some signs that consumers began to curtail their activity with high-frequency indicators, such as restaurant bookings, falling in those States with rapidly rising case numbers. Subsequently, authorities have re-imposed some restrictions, such as closing bars and reducing the capacity of restaurants. Other States have slowed re-opening plans, and some companies, such as Apple and Nike, also closed stores in heavily affected areas.

RBA forecasts illustrate uncertainty of the times

The Australian economic data is also exhibiting extreme volatility as restrictions have been imposed and removed over recent months. Economic activity data showed that the Australian economy shrank by 0.3% in the March quarter, even before the worst effects of the shutdowns became apparent. Retail sales fell by 18% in April and employment declined by 227,800 in May which was much worse than expected.

That said, there is also evidence that activity has improved since late April/early May. Preliminary retail sales data for May pointed to large 17% rebound, while the manufacturing PMI improved to 49.8 in June, again suggesting that activity has stabilised. The overall impression from the Australian data is that while the economy has sustained a large hit to activity, a prompt and large policy response has limited the second-round effects on activity so far. Looking ahead, one of the key questions is how the economy will cope as some of those policy support measures are wound back over the next few months.

Financial Market Commentary

Equity Markets (Performance is in local currency and excludes dividends)

The positive investor sentiment that buoyed equity markets in April and May continued in early June. And while markets became more volatile in the second half of the month as COVID-19 cases increased in the US, most markets still managed to record healthy gains over June.

The Australian equity market rose 2.5% over June, supported in part by strong commodity prices which underpinned resource company share prices. While the number of COVID-19 cases in Victoria increased substantially late in the month and the Victorian government announced that it was reimposing a lockdown on 10 suburbs at the epicentre of the outbreak, this had no impact on investors.

Elsewhere in the Asian region, Japanese share prices rose by 1.9% while Chinese equities jumped by 4.6%. Some of the European markets recorded even stronger gains, with German stocks surging by 6.2% and French equities recording a 5.1% rise. By comparison, the US S&P500 rose by a more modest 1.8% as the rapid growth in COVID-19 cases undermined the narrative that economic restrictions could be rapidly removed without some negative health repercussions.

Interest Rates

Bond markets were mixed across regions in June, although TCorp bonds received support from investors over the month resulting in moderate declines in bond yields across the curve.

US 10-year yields traded in a wide range – from 0.62% to 0.9% -- but ended the month at 0.66% which was just a touch higher than they were at the start of the month. In Europe, the main action was in the periphery bond markets where Italian bond yields, for example, fell by 22bps. This reflected rising optimism that European leaders might agree to the creation of a new European Recovery Fund that would provide grants to countries like Italy which would ease their fiscal constraints. In contrast, German 10-year yields fell by just 1bps.

Australian 10-year bond yields fell by 2bps to 0.87%. 3-year bond yields stayed around the RBA's target ending the month at 0.25%. TCorp bond yields fell across the curve. The yield on TCorp's 2023 bond fell by 8bps to 0.39%, and the yield on TCorp's 2030 bond declined 11bps to 1.31%.

Currency and Commodity Markets

The A$ continued to strengthen against the other major currencies in June, in line with rising investor risk appetite and stronger commodity prices. The A$ rose 2.7% against the US$ finishing the month at US 68.5 cents. The A$ also rose by more than 3% against the British Pound and was up 2.6% against the Japanese Yen.

Iron ore continued its very strong run in June climbing by a further 11% over the month. Hopes for improving Chinese demand alongside curtailed Brazilian production have left Australian producers in a sweet spot. Oil prices also rose strongly, increasing by 16% in June, continuing their recovery from the low point reached in April.

Financial Market Performance

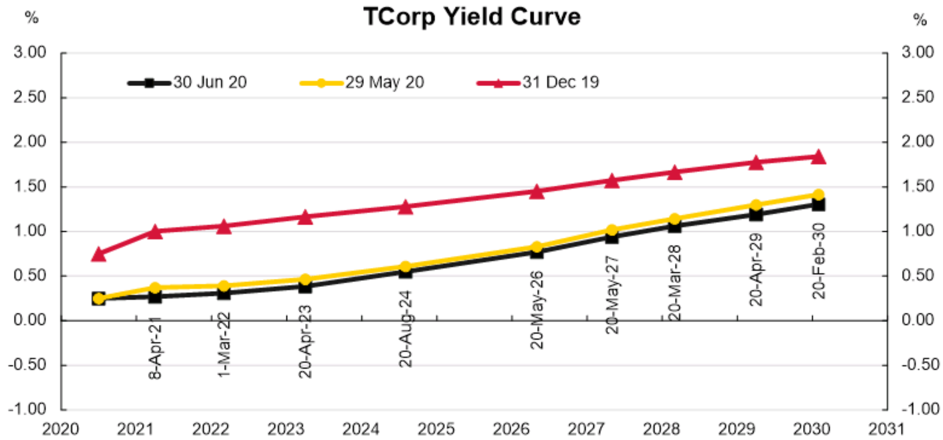
Currency Markets June 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
AUD/USD	0.667	0.700	0.673	**0.685**	2.71% ▲
AUD/EUR	0.601	0.619	0.604	**0.611**	1.73% ▲
AUD/JPY	71.890	76.373	72.452	**73.774**	2.62% ▲
AUD/GBP	0.540	0.559	0.543	**0.558**	3.35% ▲
AUD/BRL	3.558	3.766	3.363	**3.744**	5.24% ▲
AUD/RUB	46.77	48.75	46.49	**48.75**	4.23% ▲
AUD/INR	50.41	52.92	50.81	**51.71**	2.57% ▲
AUD/CNY	4.758	4.943	4.794	**4.838**	1.69% ▲

Equity Markets* June 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
MSCI World ex Australia	2198	2340	2201	**2251**	2.4% ▲
MSCI Emerging Markets	930	1015	951	**995**	7.0% ▲
S&P/ASX 200	5756	6148	5720	**5898**	2.5% ▲
S&P/ASX Small Ordinaries	11908	2752	2553	**12514**	5.1% ▲
S&P 500 (US)	3044	3232	3002	**3100**	1.8% ▲
FTSE 100 (UK)	6077	6484	6065	**6170**	1.5% ▲
Stoxx 600 (Europe)	350	375	353	**360**	2.8% ▲
DAX (Germany)	11587	12848	11587	**12311**	6.2% ▲
CAC 40 (France)	4695	5198	4763	**4936**	5.1% ▲
Nikkei 225 (Japan)	21878	23178	21531	**22288**	1.9% ▲
Hang Seng (HK)	22961	25057	23733	**24427**	6.4% ▲
Shanghai Composite (China)	2852	2985	2890	**2985**	4.6% ▲
Bovespa (Brazil)	87403	97645	88620	**95056**	8.8% ▲
IPC (Mexico)	36123	39954	36827	**37716**	4.4% ▲
S&P/BSE Sensex (India)	32424	35430	33229	**34916**	7.7% ▲

*Returns are in local currency, and exclude dividend payments

Bond Markets (%) June 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
RBA Official Cash Rate	0.25	0.25	0.25	**0.25**	0.00 –
90-day Bank Bill	0.10	0.11	0.10	**0.10**	0.01 ▲
180-day Bank Bill	0.17	0.18	0.16	**0.16**	0.00 ▼
1-year Term Deposit Rate	0.90	0.90	0.90	**0.90**	0.00 –
3-year Australian Bond	0.26	0.28	0.24	**0.25**	-0.01 ▼
10-year Australian Bond	0.89	1.09	0.86	**0.87**	-0.02 ▼
10-year US Bond	0.65	0.90	0.62	**0.66**	0.00 ▲
10-year German Bond	-0.45	-0.28	-0.48	**-0.45**	-0.01 ▼
10-year Japanese Bond	0.01	0.05	0.01	**0.03**	0.02 ▲

TCorp Bonds (%) June 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
08-Apr-21	0.37	0.37	0.27	**0.27**	-0.10 ▼
01-Mar-22	0.39	0.41	0.31	**0.31**	-0.08 ▼
20-Apr-23	0.46	0.47	0.39	**0.39**	-0.08 ▼
20-Aug-24	0.61	0.61	0.55	**0.55**	-0.06 ▼
20-May-26	0.83	0.86	0.76	**0.77**	-0.06 ▼
20-May-27	1.02	1.10	0.93	**0.94**	-0.08 ▼
20-Mar-28	1.14	1.27	1.06	**1.06**	-0.08 ▼
20-Apr-29	1.30	1.43	1.17	**1.19**	-0.11 ▼
20-Feb-30	1.42	1.56	1.29	**1.31**	-0.11 ▼
CIB 3.75% 20 Nov 20	-0.82	0.14	-0.82	**0.14**	0.96 ▲
CIB 2.75% 20 Nov 25	0.47	0.47	0.22	**0.23**	-0.24 ▼
CIB 2.50% 20 Nov 35	1.04	1.04	0.68	**0.69**	-0.34 ▼



Commodity Markets (US$) June 2020	Previous Month Close	Month High	Month Low	Month Close	Month Change
Brent Oil (per barrel)	35.3	43.1	38.3	**41.2**	16.5% ▲
Iron Ore (per tonne)	92.5	104.3	98.6	**103.0**	11.2% ▲

TCorp Forecasts	Dec-20	Jun-21	Dec-21	June-22
RBA Official Cash Rate	0.25	0.25	0.25	0.25
90-day Bank Bill	0.25	0.25	0.25	0.25
10-year Australian Bond	1.00	1.00	1.00	1.00

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$100 billion of funds 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$95 billion. It is rated AAA by S&P and Aaa by Moody's.

TCorp

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