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Economic Snapshot

March 2022

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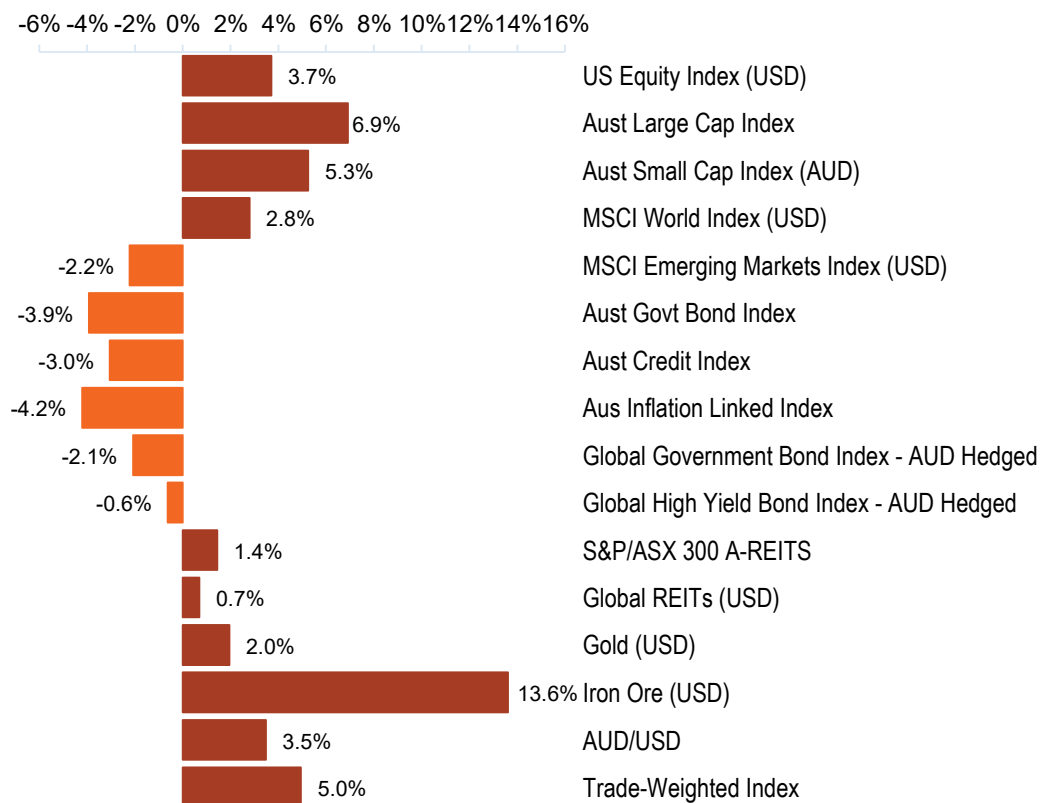
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In summary

- The war in Ukraine continues to have a significant spill over effect globally. Soft and hard commodity prices surged higher. The Australian Dollar followed suit.
- Australian equities defied gravity, posting gains of +6.9%, driven by continued strength from resources and banks.
- Bond yields rose sharply on the back of inflation and monetary tightening concerns. Bond market returns crashed to lows not seen in decades.
- The US Federal Reserve lifted rates by 0.25% to 0.5% and signalled the end of its quantitative easing programme.
- The Australian Government announced a politically friendly budget, designed to deal with rising cost of living challenges and to win much-needed votes.

Selected Market Returns, March 2022



Sources: Thomson Reuters, Bloomberg.



Key Economic Developments

Despite fierce resistance and worldwide condemnation of Russia, the war in Ukraine continues to unfold like a slow-moving train wreck. Many people have needlessly died, and over four million people are reported to have fled their homes into neighbouring countries. Millions more are trapped in cities desperate for respite from the senseless violence. Our thoughts are with them, with the hope that a peaceful resolution or compromise will be reached sooner than later to end this appalling and abhorrent tragedy.

In the meantime, we note that beyond the obvious direct and devastating effects on Ukraine, the conflict is having a marked effect on the outlook for global economic growth, energy supply (especially in Europe), energy prices and of course, inflation. This has created an incredibly challenging environment for central banks to manage. The dilemma confronting central banks is whether to tackle rampant inflation with higher interest rates or to remain 'patient' with the expectation that inflation will moderate once current supply issues resolve themselves and geopolitical tensions start to wane. Up until now, central banks have chosen to be patient, but it is becoming abundantly obvious that patience is starting to wear thin.

During the month, the European Central Bank acknowledged that inflation was a pressing problem and has responded by signalling the end of quantitative easing in the September quarter in advance of planned rate hikes for later in the year. The Bank of England also raised interest rates to 0.75% in response to large increases in the cost of energy and the prices of goods it imports from abroad. The elephant in the room, the US Federal Reserve, also got in on the act lifting rates by 0.25%, noting that whilst US economic activity and employment have continued to strengthen, inflation remains elevated and is likely to persist at intolerable levels if no action is taken to control it. Given the magnitude of the inflation problem, the market now expects six hikes this year and potentially a further 3-4 hikes in 2023 to bring interest rates to a normal setting and to push the inflation genie back into the bottle.

The outlier as far as central banks are concerned, is currently the Reserve Bank of Australia (RBA), although that may soon be about to change. The RBA kept the cash rate unchanged at 0.10% at its previous monthly meeting, but subsequent hawkish remarks from Governor Philip Lowe concerning rising prices and wage growth hinted that the RBA was warming to the idea of lifting rates.

Whilst the topic of inflation was very much the talk of the town amongst central bankers this month, managing cost of living pressures received attention in the Australian Federal Budget. Some of the key measures addressing this issue, included a halving of the fuel excise for the next 6 months, a one-off \$420 cost of living tax offset, and a new one-off \$250 cost of living payment, all aimed at low-to-middle income earners (voters). There were also billions of tax-payer dollars directed at apprentices, first home buyers, women, pensioners, the health system, national security, and infrastructure.

Pleasingly, the reported cash deficit of \$78 billion was much lower than expected given the faster than anticipated economic recovery, solid labour market and higher than expected commodity prices. Australia's debt position remains lower than other comparable countries, with GDP growth higher than most OECD nations over 2021.

Whilst the pandemic was responsible for our ballooning deficit and Government debt, the good news today is that the economy is now 3.4% larger than it was prior to the pandemic. Additionally, employment in Australia is now well above pre-pandemic levels and has grown more than other major advanced economies. The RBA's central forecast is for the unemployment rate to fall to below 4 per cent this year and to remain below 4 per cent next year.

As far as financial markets were concerned, March was a surprisingly good month for developed market equities but poor for emerging markets and terrible for bonds.

Australian equities were the stand-out, outperforming US equities by +3.2%, driven by strong gains in Resources and Financials. Commodities continued their golden run. Gold was up +2%, iron ore +13.6% and the price of oil up +4.8% and +33% for the quarter. On the other side of the ledger is China where equities fell heavily on signs of a contraction in manufacturing activity exacerbated by widespread lockdowns triggered by China's Covid-zero policy.

In contrast to the mixed fortunes of equities, March was amongst the worst months in recent history for bond markets. A major sell off triggered on the back of inflation and monetary tightening concerns, saw global bond yields spike higher.



Major Market Indicators

	31-Mar-22	28-Feb-22	31-Jan-22	Qtr change	1 year change
Interest Rates (at close of period)					
Aus 90 day Bank Bills	0.17%	0.07%	0.07%	+11.0	+14.0
Aus 10yr Bond	2.50%	2.11%	1.88%	+89.0	+81.0
US 90 day T Bill	0.51%	0.37%	0.24%	+45.0	+48.0
US 10 yr Bond	2.33%	1.84%	1.78%	+82.7	+57.9
Currency (against the AUD)					
US Dollar	0.751	0.726	0.705	3.29%	-1.40%
British Pound	0.570	0.538	0.523	6.10%	3.00%
Euro	0.670	0.644	0.628	4.57%	3.25%
Japanese Yen	91.21	83.55	81.38	9.06%	8.39%
Trade-Weighted Index	63.60	60.60	59.30	4.09%	-0.47%
Equity Markets					
Australian All Ordinaries	6.9%	1.7%	-6.6%	1.6%	15.5%
MSCI Australia Value (AUD)	7.7%	3.9%	-3.4%	8.2%	18.7%
MSCI Australia Growth (AUD)	5.7%	0.9%	-10.0%	-4.0%	11.1%
S&P 500 (USD)	3.7%	-3.0%	-5.2%	-4.6%	15.6%
MSCI US Value (USD)	2.9%	-1.8%	-2.4%	-1.4%	13.5%
MSCI US Growth (USD)	4.2%	-4.1%	-8.9%	-9.0%	14.2%
MSCI World (USD)	2.8%	-2.5%	-5.3%	-5.0%	10.6%
Nikkei (YEN)	5.8%	-1.7%	-6.2%	-2.5%	-2.8%
CSI 300 (CNY)	-7.8%	0.4%	-7.6%	-14.5%	-14.9%
FTSE 100 (GBP)	1.4%	0.3%	1.1%	2.9%	16.1%
DAX (EUR)	-0.3%	-6.5%	-2.6%	-9.3%	-4.0%
Euro 100 (EUR)	0.2%	-3.7%	-3.1%	-6.5%	8.6%
MSCI Emerging Markets (USD)	-2.2%	-3.0%	-1.9%	-6.9%	-11.1%
Commodities					
Iron Ore (USD)	13.6%	-5.7%	20.8%	29.4%	-4.5%
Crude Oil WTI US\$/BBL	4.8%	8.6%	17.2%	33.3%	69.5%
Gold Bullion \$/t oz	2.0%	6.0%	-1.4%	6.5%	13.9%

Source: Quilla, Thomson Reuters Datastream

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