Financial Market Conditions – June 2022

Financial markets marked the end of the financial year continued to be dominated by high inflation, higher interest rates and the risk of recession. The invasion of Ukraine by Russia continued to weigh on global activity, putting upward pressure on inflation. In addition, China's recent COVID lockdowns have also exacerbated supply chain disruptions, impacting the availability of goods and pushing up prices globally.

Global equities continued to weaken over June. The global share market had its worst six months since the Cuban Missile Crisis, with equities down 20% since the peak. The rising risk of global recession in addition to new waves of COVID infections in China has concerns that China's goal of zero-COVID will trigger further lockdowns and stall commodity demand. This has led to falls in oil, metal and iron ore prices, which has also impacted the Australian dollar, with the iron or price falling around 30% in 2022, and AUD at its lowest level since May 2020.

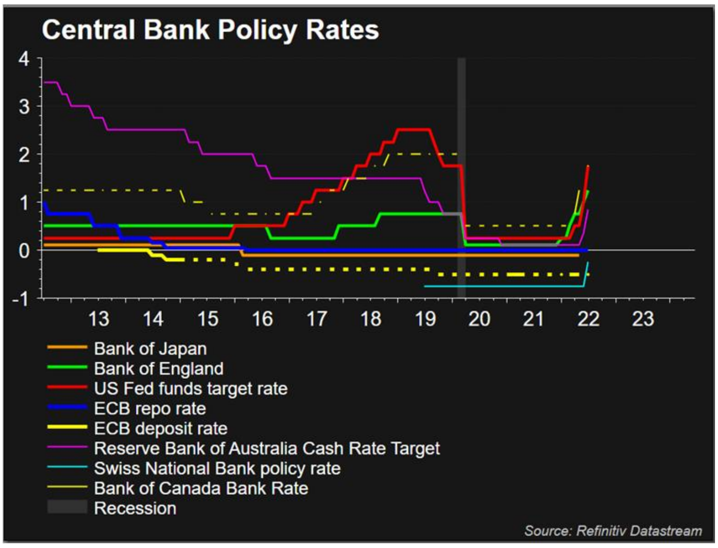
Data globally has been mixed, with evidence of weakening economic conditions from countries that began their rate hiking process early such as New Zealand, United Kingdom and the US. In New Zealand, consumer confidence has plummeted, and household budgets have been squeezed by higher mortgage costs and higher living costs, the Reserve Bank of New Zealand have been hiking their cash rate at a rapid pace with five straight hikes with their cash rate at 2%., with the expectation that it will likely rise substantially more over coming months. This comes as the RBNZ, similar to the RBA, tries to navigate competing economic challenges, including a tight labour market, inflation at three-decade highs and significant risks to economic growth. House prices are now falling, with expectations to be down by 15% by the end of 2022.

Data in China is also mixed, with retail sales remaining weak and home prices falling. The fall in iron ore prices has coincided with signs of an oversupply in China's steel sector, where furnace utilisation rates continued to fall. Concerns about whether China will be able to achieve its annual growth target of 5.5% remained at the forefront, despite the governments focus on achieving this level of growth and setting policy accordingly. Bucking the trend of weak data, China has seen strength in its official manufacturing data, returning to expansion over the month.

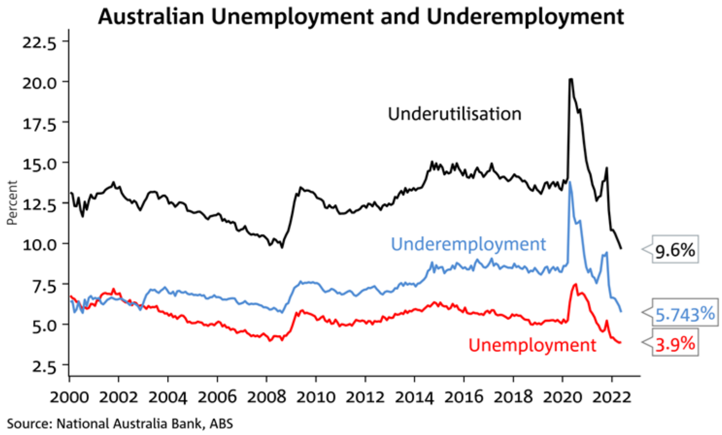
In the US, the Federal Reserve raised its benchmark rates by 0.75% in June, a move that equates to the most aggressive hike since 1994. Headline inflation has continued to print higher, at 8.6% over the year, the highest level since 1981. Manufacturing data has seen weakness, with the index at a two-year low, in addition to weak retail sales and home sales data in May. However, a tight labour market persists, with high vacancies equating to two job openings for every unemployed person.

The UK is also witnessing softer economic data, with monthly GDP at -0.3%. If this weakness continues, they might be the first major developed nation to enter into a recession. The BOE also raised rates for the 5th consecutive time to 1.25%. Labour data has witnessed a rise in the unemployment rate from 3.8%, reflecting that whilst inflationary pressures continue, rate hikes are starting to impact economic activity.

In Europe, the Swiss National Bank unexpectedly raised interest rates for the first time in 15 years in a reaction to high inflation. The ECB is widely expected to raise rates in July for the first time in 11 months as it also attempts to control soaring inflation in Europe.



Locally, another strong jobs report saw unemployment remaining at its lowest level since 1974. Job vacancy data is still strong, with one unemployed person per job vacancy, well down from 3 prior to the pandemic. This suggests the unemployment rate will remain low and although not as tight but still vindicates the RBA aggressive stance. Retail sales continued to be strong, up over 10% in 2022. Consumer confidence continues to be hit, currently at its lowest level since 2009 due to concerns of higher rates and inflation. National property prices have seen some weakness in the major cities, with the market expectoration of weakness of around 155 over the next 18 months. After increasing the cash rate by 50bps in July to 1.35%, it is expected that the RBA will continue to normalise monetary conditions and the major banks expect the cash rate to be at 2.30% by the end of 2022.



	2021 (a)	2022 (f)	2023 (f)
Sydney	25	-11	-7
Melbourne	15	-10	-8
Brisbane	27	6	-10
Adelaide	23	6	-11
Perth	13	2	-8
Hobart	28	-4	-9
Darwin	15	-1	-9
Canberra	25	-4	-9
Australia*	**21**	**-6**	**-8**

** 8 capital city average; source: CBA, Corelogic*