FINANCIAL MARKET CONDITIONS
November 2022

Local Government Finance Authority

There has been a clear change in messaging with regards to the pace and scale of rate hikes ahead by central banks. Whilst data over November was mixed globally, several key data releases signalled weaknesses in some areas, illustrating the aggressive rate tightening strategy from central banks had started to take effect. Geopolitical tensions continue to impact markets. The war in Ukraine, China's Zero COVID policy and the risk of global recession remain high.

Equity markets witnessed a further bounce back in November, which was mainly attributed to the Chinese Government's announcement of speeding up the rate vaccinations to the elderly and some easing of restrictions in China improved investor sentiment. Developed market equities gained around 7% after the 8% increase in October and emerging market equities rallied by almost 15%.

Despite improving sentiment regarding China's stance on its COVID zero policy, Chinese data was broadly weak. Trade data was weaker than expected over the month, hit by weaker global demand and weaker domestic demands. Inflation data pointed to subdued inflationary pressures with CPI rising by a lower than expected 2.1% year-on-year. Chinese credit data was very weak, well below consensus and the lowest since 2019. It is expected that the Chinese Government will continue to look at actions to support economic growth with the first series of measures aimed at stimulating the property market and includes reduced deposit requirements for buyers.

In the US, the US Federal Reserve delivered a sixth successive rate hike in November, raising the Federal funds rate by 0.75% as was widely expected and pushing borrowing costs to their highest point since 2008. The market is anticipating a scale back of the pace of interest rate hikes after Federal Reserve Chair Jerome Powell's comments "the time for moderating the pace of rate increases may come as soon as the December meeting". However, data remains mixed. Weaker manufacturing data, a pull back of consumer spending (despite increasing over the month, the trend is still weakening) and lower than expected inflation with CPI yearly reading to 7.7% vs 7.9% expectation has helped to drive the peak inflation theme. However, employment remains resilient, with unemployment at 3.7% and wage growth remaining elevated, meaning that the Fed still faces a very challenging task.

In the UK, consumer confidence has improved largely due to an easing of political concerns with the recent change of Prime Minister. UK inflation continues to post higher than expected numbers, at 11.1% year-on-year with energy prices being the dominant contributor. After the 0.75% rate hike in November, markets are pricing in a likely chance of a 0.5%-0.75% hike in December, despite concerns that it could lead to a larger economic downturn in the future. Manufacturing data is still weak; however, unemployment is resilient at 3.6% and retail sales increased over the month despite increase cost of living and food prices.

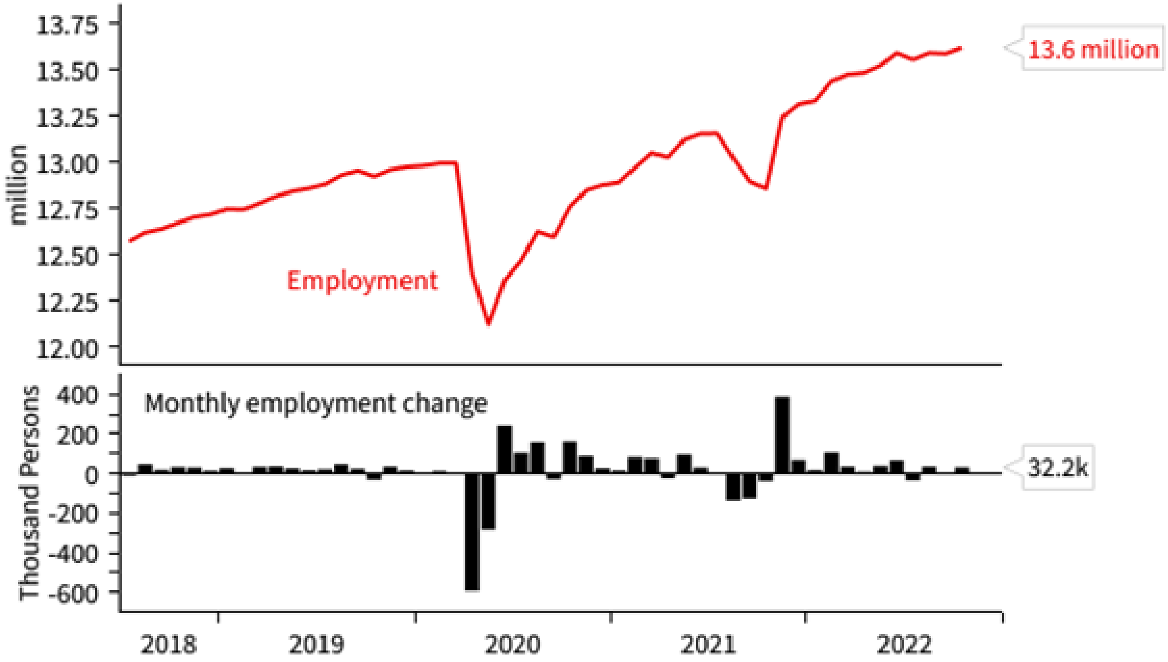
In Europe, manufacturing data continued to be weak, with figures pointing to a fifth straight month of falling factory activity in monitored eurozone nations. Business confidence is currently at the lowest level since March 2021 with stubbornly high inflation, higher borrowing costs and a deepening energy crisis influencing lower confidence. Headline inflation fell from 10.6% to 10% in October as energy prices moderated. After the 0.75% rate hike in October, markets are expecting a smaller rate hike of 0.5% in December with ECB President Lagarde recently telling European Parliament that Eurozone inflation "has not peaked and risks are rising higher than expected".

In Australia, like many other developed economies, employment continues to defy monetary policy. Headline numbers for the October labour force were strong, and the unemployment rate edged lower to 3.4%. Wages rose to be 3.1% higher over the year, rising at the fastest pace since March 2013. Whilst employment remains strong, other areas of the economy are seeing weakness, illustrating that the RBA's eight consecutive rate hikes are making an impact. The monthly CPI print was lower than expected at 6.9% vs the consensus of 7.6%.

However, the monthly inflation indicator is a new reading and is not a sign that inflation has necessarily peaked in Australia, with more focus on the quarterly inflation reading in January 2023.

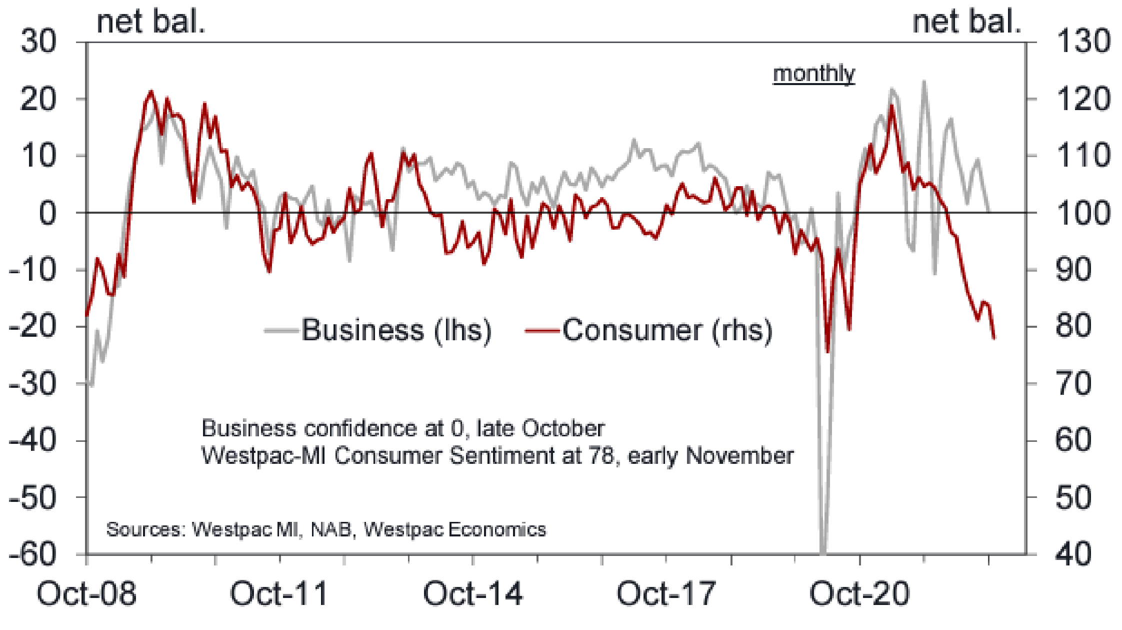
In Australia, the Reserve Bank increased rates once again in December, by a further 0.25% to 3.10%. This is the highest official cash rate since November 2012. In the accompanying statement, the RBA outlined that they will do what is necessary to return inflation back to target and the expectation of further increases to rates over the period ahead, guided by economic data. Most major banks believe that there are between 0.50% and 0.75% of rate hikes to go in this cycle. Time, and data will determine if these forecasts are correct.

Australian Employment

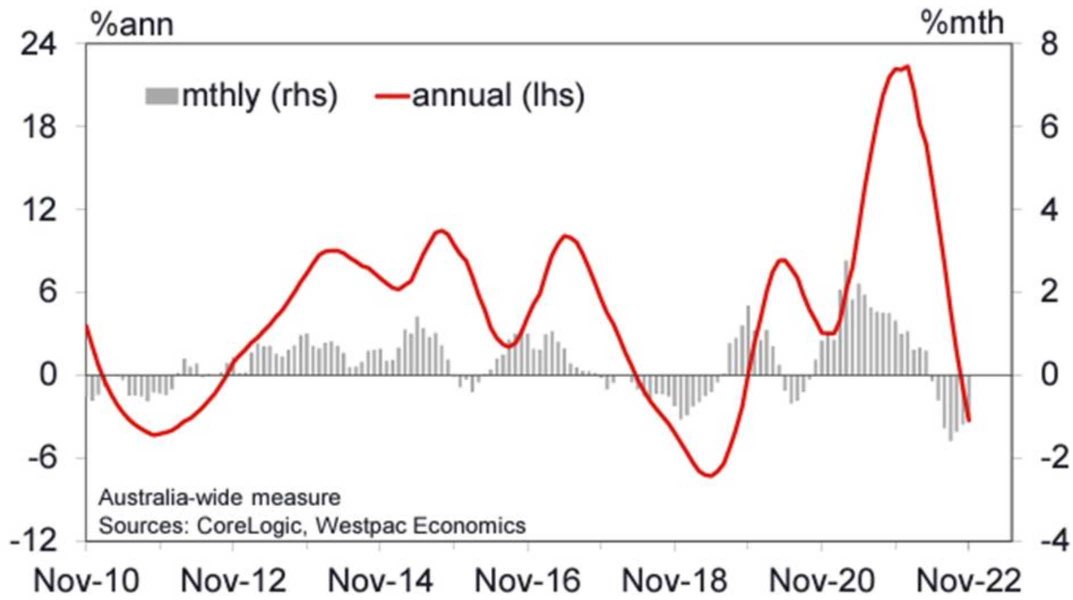


Source: National Australia Bank, ABS

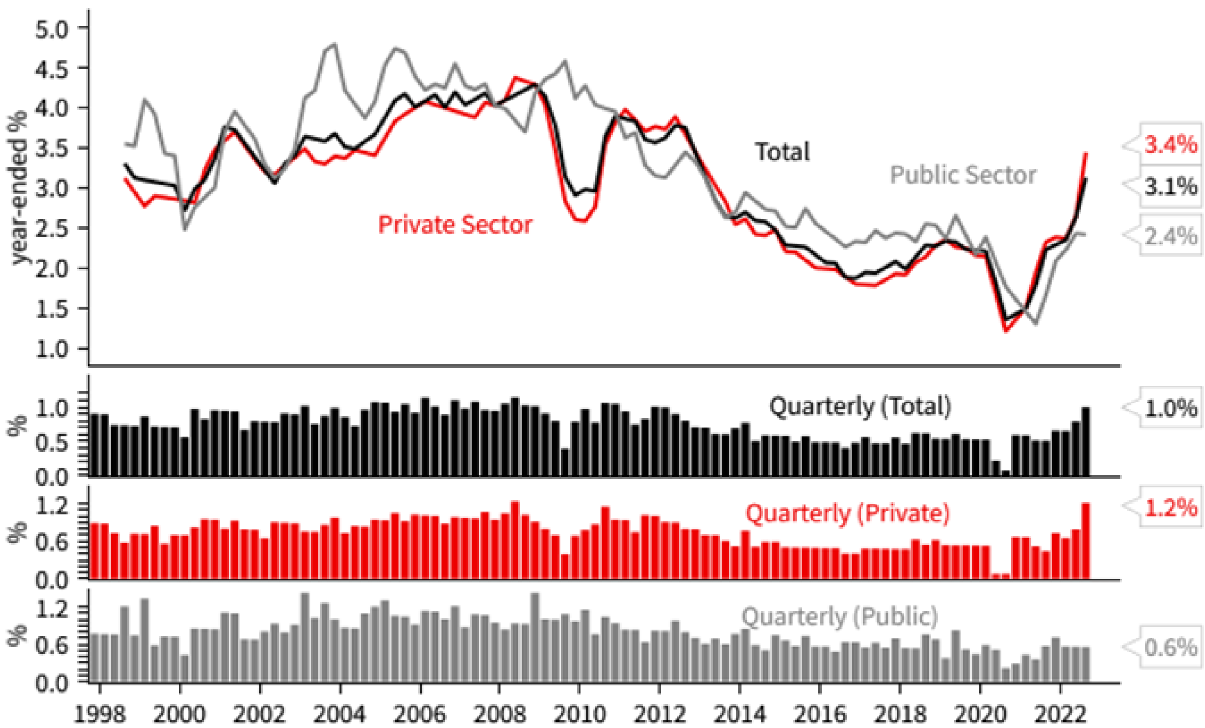
Confidence: consumers and businesses



Australian dwelling prices



Wage Price Index by Sector



Source: National Australia Bank, ABS