FINANCIAL MARKET CONDITIONS
April 2024

Local Government Finance Authority

Global financial markets were volatile over the past month as markets continued to speculate if inflation and employment capacity in western developed economies were moving to a level where central banks could begin to cut official cash rates. Due to contradictory economic data, opinions of central bankers and economists both global interest rate & equity markets had large intra month swings. However, by the end of April markets had pushed out the timing of rate cuts by the US federal reserve and other developed economies fueling fears of 'higher rates for longer'.

Early in the month, March United States non-farm payrolls comfortably beat expectations at 303k, 13k above the highest estimate which increased the probability of 'higher rates for longer' and resulted in a selloff in US and equity markets. US Consumer Price Inflation (CPI) printed above expectations at 0.4%/month, with the headline rate rising to 3.5% YoY, which was also higher than expected. This removed any chance of a June rate cut that was priced into futures pricing prior to the release of the data. US GDP data rose by 1.6% YoY which was well below the market consensus of 2.5%. The US Federal Reserve (the Fed) meet later in the month, and market consensus is an unchanged reserve rate, with an expectation of the first-rate cut moved to November 2024. Late in the month US initial jobless claims jumped to 231k from 209k (consensus was 212k) which saw US interest rate yields move lower. The US Dow Jones Industrial Average index fell -4% over the course of the month.

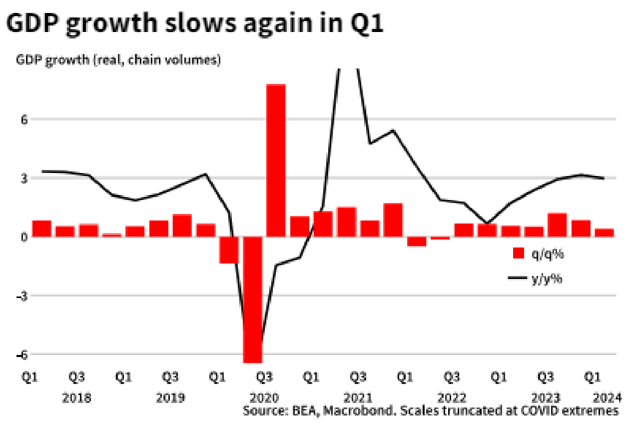
The European Central Bank (ECB) met early in the month and left its key policy rate on hold. ECB President Christine Lagarde flagged that there was some discussion about rate cuts at the meeting now that inflation was on track to fall below target and that banks remained in course to cut interest rates in the near term. Later in the month Eurozone GDP printed stronger than expected +0.3% QoQ (+0.1% expected). In the United Kingdom (UK), the Bank of England (BOE) left interest rates on hold early in the month but indicated that cuts to interest rates are imminent. UK unemployment rose to 4.2%, a six-month high and provided some more substance to support the BOE's imminent call on rates.

Early in the month, Chinese Producer Price Index and Consumer Price Index data showed levels of deflation and low levels of inflation printing at -2.8% YoY (as expected) whilst CPI printed 0.1% vs 0.4% expected highlighting the different states of Western and Eastern economies. However, Chinese Q1 GDP beat expectations with an impressive 5.3% YoY expansion, as well as Chinese manufacturing PMI posted a second month in expansion. On the back of this stronger than expected data the Hang Seng Equity Index rose by +5% over the course of the month.

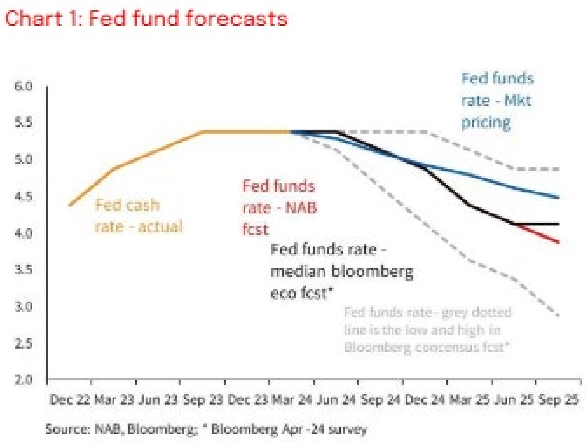
In Australia residential building approvals fell 1.9% MoM in February following a 2.5% drop in January, which is not a good sign for already tight property and rental market. House prices rose 0.6% over the month and 1.6% in 2024, with a lack of new supply coming to the market it is likely that house price inflation remain elevated for the foreseeable future. Mid-month, the Consumer Sentiment Index fell by 2.4% to 82.4, showing few signs of lifting.

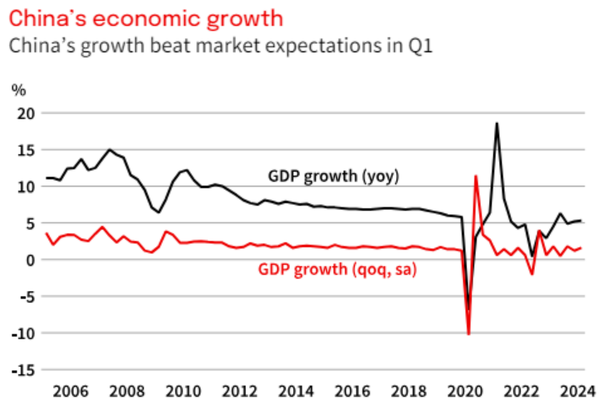
In early May, the Reserve Bank of Australia (RBA) held rates on hold as universally expected. What surprised though was the absence of a hawkish bias with the RBA keeping the mantra of "not ruling anything in or out", phrasing which was adopted in March. Governor Bullock in the post-Meeting press conference noted that the Board "believe we have rates at the right level" and that the Board did discuss the option of raising rates, and policy was assessed to be restrictive. While there is no explicit hiking bias, Governor Bullock said that the RBA needed to be "alert and vigilant" on inflation. The RBA will keep focus on Q2 CPI that is due to be released in July to provide an indication on any signs of persistent inflation and potentially the rhetoric of 'higher for lower' being witnessed in other developed economies. Major banks have moved rate cut expectations into later this year, penciling in a first cash cut in November (previously September).

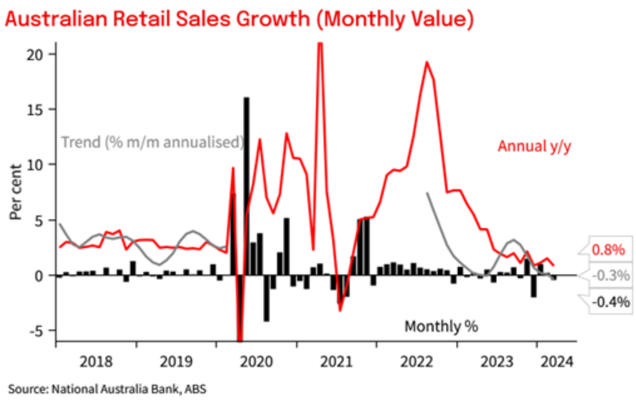
US GDP



US Fed Funds Forecast







Rental Vacancy Rates