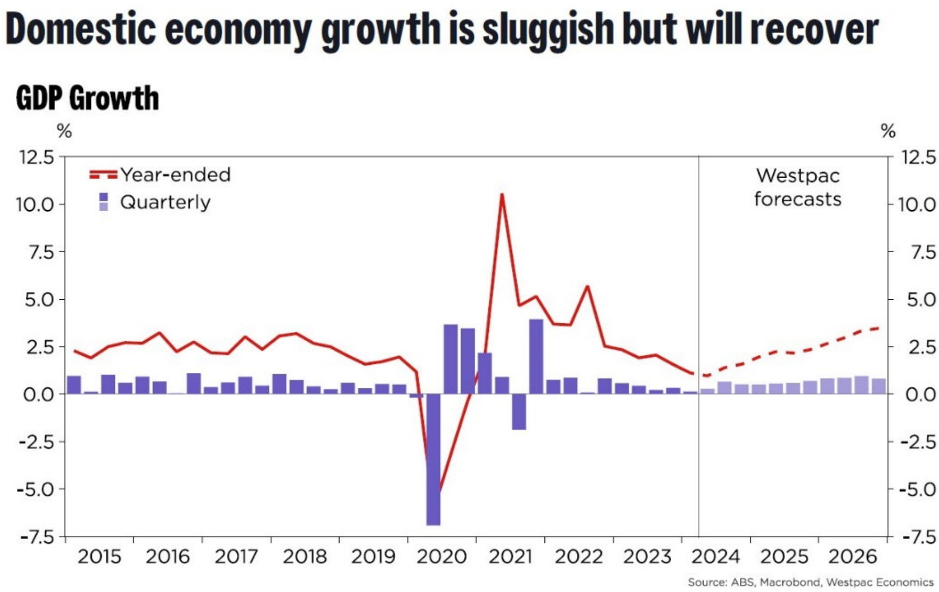
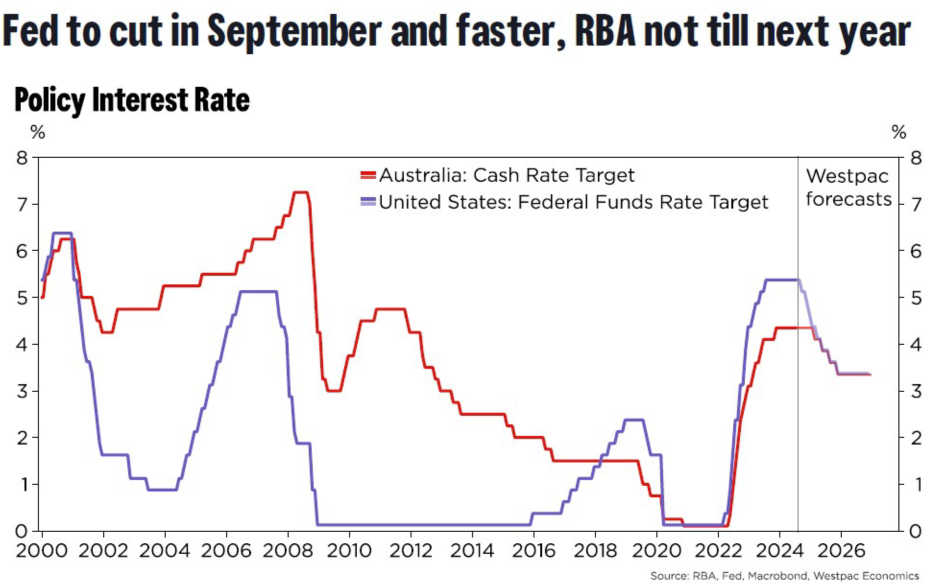
FINANCIAL MARKET CONDITIONS
August 2024

Local Government Finance Authority

Whilst global equities were higher over August, intra-month moves were highly volatile. The market volatility was sparked by weak US economic data, and a fear of a ‘hard landing’ or recession for the economy. In the second half of the month, the prospect of lower interest rates helped equity markets rebound. Market equities were higher by around 2% over August. The other major global development was a drop in commodity prices amid ongoing concerns about the demand from China, with oil and iron ore prices moving by as much as 10%. Around the globe, with inflation coming back under control, central banks continued to process of moving towards lower rates.



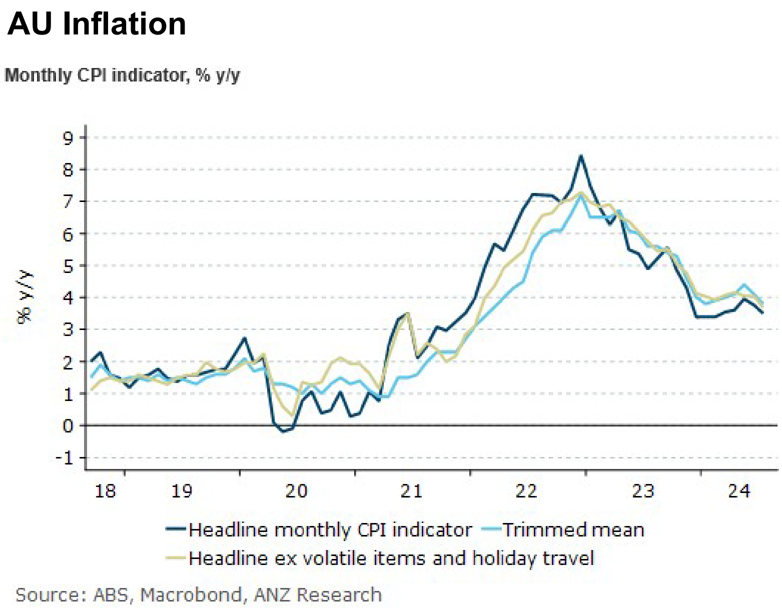
In the US, all signs are pointing to a US Federal Reserve (FOMC) rate cut in September, with inflation data falling to a new low of 2.5% in August. US Manufacturing data was weak, and the labour market continued to cool in August, publishing the smallest payrolls increase in over three years. The market is expecting a rate cut of between 0.25% and 0.50% in September, and expectation of 2% of rate cuts by December 2025.



Similarly in the Eurozone, inflation continued to fall to 2.2% in July, with the drop in inflation towards the European Central Bank's (ECB) target of 2%, saw markets increase the likelihood of a further cut in September following the 0.25% cut in July. In the United Kingdom, despite inflation falling back to Bank of England's (BOE) 2% target, services inflation is still high, and wages growth remains high at 5.5%. Following the rate cut in August, the ECB delivered another 0.25% rate cut in September, and there are expectations of further cuts in 2024.

Weakness in Chinese manufacturing data did not help the outlook, and consumer and business confidence remain at historically low levels. After monetary easing in July, there are expectations that the Bank of China (PBOC) will cut interest rates again before year end, as well as expectations that the government may be forced to significantly ramp up infrastructure investment – especially to achieve their 5% GDP growth target.

While other central banks have begun their rate cutting cycle, the Reserve Bank (RBA) Governor Bullock reiterated in August that the Board "remains vigilant with respect to upside risks on inflation and will not hesitate to raise rates if it needs to", all but ruling out rate cuts in 2024. Despite this, markets are still pricing in a 80% chance of a -0.25% rate cut at its December meeting. However major banks have started to amend their rate cut calls, outlining there are risks of the delay of monetary policy easing to the first half of 2025.



The monthly inflation reading fell in July as expected to 3.6% from 4.0% in May. GDP rose by 0.2% in Q2, up just 1.0% on year ago levels, and is the slowest rate of annual growth in GDP in three decades (outside the pandemic). Economic growth in Australia in the private sector has been non-existent in 2024, with growth being limited to public spending – illustrating the weakness in the economy. Consumer and business confidence are both very weak, and the unemployment rate ticked up to 4.2% in July, the highest jobless rate since January 2022. The risk of reduced commodity demand from China will have further impact on the Australian economy, and the Australian Dollar.