FINANCIAL MARKET CONDITIONS
September 2024

Local Government Finance Authority

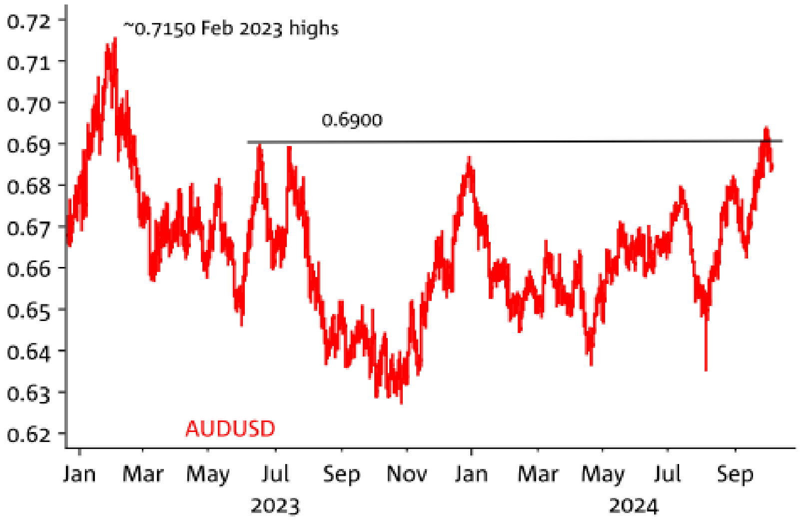
Global equities moved higher in September despite volatility in financial markets due to geopolitical tensions in the middle east at the end of September. As central banks continued to ease respective policy rates, in addition to confidence with the unveil of new stimulus measures in China, global stocks were higher by around 2.5%.

In the US, data remained resilient over September, with retail sales and industrial production expanding over the month. The US labour market continued to loosen with the pace of job gains weaker than expected, however the unemployment rate fell to 4.2% in August and jobless claims fell. The US headline inflation rate fell to 2.5% and marked its lowest reading since early 2021. The Federal Reserve (FOMC) started the process of returning monetary policy to a more neutral setting, reducing its target rate by a larger than anticipated 0.50% in September. The FOMC indicated further easing ahead, with the market pricing in a further 0.50% of cuts before the end of the year.

In Europe, economic data reinforced a sluggish recovery, with the Eurozone economy expanding by a soft 0.2% in Q2 2024. Despite a weak economy, the Eurozone labour market remains tight. Inflation has continued to fall, falling to 1.8% in September, the lowest since April 2021 and back near the European Central Bank's (ECB) target of 2%. The ECB cut interest rates by a further 0.25% in September and another further cut is expected in December. In the UK, inflation has also fallen back to the Bank of England's (BOE) 2% target, with the BoE expected to cut rates by another 0.50% in 2024.

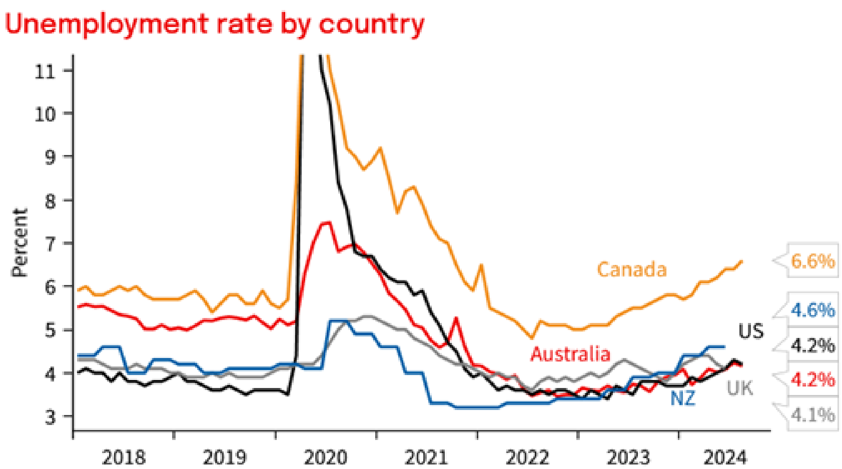
Also exhibiting a sluggish recovery, China's headline economy data continued to disappoint, with the Q2 GDP growing by 0.7%, the slowest since the covid contraction in 2020 – and threatening the government's 2024 target of 5% growth. The Chinese government's timely announcement of monetary and fiscal stimulus surprised markets, and risk appetite improved following the announcement. Interest rates and the reserve requirement ratio for borrowings were lowered, as well as further measures to support the property and stock markets. Alongside the call for "'substantial rate cuts" the communication talked of the need to "intensify countercyclical adjustments", to "maintain necessary fiscal expenditure" and greater efforts to halt declines in the housing market and promote a recovery.

Following China's announcement, the Australian Dollar (AUD) hit a 14-month high, increasing the confidence of a rebound in commodity demand. The Australian economy continues to illustrate resilience despite high interest rates and August labour force data pointed towards relatively strong employment, with the unemployment rate unchanged at 4.2%. The monthly inflation reading fell by 0.8%, to a yearly 2.7%, the first-time inflation has been within the Reserve Bank's (RBA) target band since October 2021.



Source: National Australia Bank, Macrobond

Despite the lower inflation data the RBA maintained its cash rate at 4.35% at its September meeting, keeping borrowing costs unchanged for the seventh consecutive month. The RBA continue to view that inflation momentum, remains too high. The Board reiterated that the policy would be sufficiently restrictive for some time. Major banks expect the RBA to join the global trend of easing monetary policy to early 2025, and financial markets are currently pricing in a 70% chance of a 0.25% RBA rate cut at its December meeting.



Source: National Australia Bank, Australian Bureau of Statistics, U.S. Bureau of Labor Statistics (BLS), U.K. Office for National Statistics (ONS), Statistics New Zealand, Statistics Canada, Macrobond