

Second Quarter 2023

Newsletter

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JULY 2023

From the CEO's Desk



An absolute standout for the quarter was the release of our Sustainability Bond Framework (Framework) and inaugural green bond.

This newsletter provides considerable detail on these releases, but from my perspective it was the culmination of a multi-year journey that WATC and our agency partners have been on, to showcase the breadth and depth of positive activities undertaken across the Western Australian Government.

Over the years, we have increasingly demonstrated the alignment between government, industry and the community to commit to, and make progress against, material improvements in our environmental outcomes. I would like to thank all of our government and banking partners for supporting this work. I would also like to acknowledge the wide range of investors we met with over the roadshow for their interest and engagement in this process – and for their varied and tough questions – that allowed us to demonstrate the strength behind our Framework and asset pool.

During May the State Government released the 2023-24 State budget, with a revised 2022-23 general government operating surplus of \$4.2 billion, reducing to a forecast \$3.3 billion in 2023-24 reflecting lower commodity price forecasts. Net debt was predicted to reduce to a total of \$27.9 billion by 30 June 2023, or 6.3% of gross state product. WATC released an updated borrowing program following the budget release,

with a funding task of \$5.3 billion in 2023-24, that almost entirely focused on refinancing maturing debt. The Premier and WATC presented this budget update to investors and banking partners in Sydney in May.

While not strictly during the June 2023 quarter, on 11 July 2023 Moody's Rating Agency upgraded Western Australia's credit rating to Aaa, with a 'stable' outlook, highlighting Western Australia's strong financial management. This follows a similar upgrade by S&P Global in June 2022, meaning Western Australia is now the only State or Territory with a triple-A credit rating from both major international ratings agencies, and one of a very small number of jurisdictions globally with such a rating.

This positive rating action was undertaken in a backdrop of continuing global economic volatility. The war in Ukraine drags on, with a summer counter offensive moving slowly. Central banks globally continue the war against inflation, with interest rates now predicted to be higher and for longer. Core inflation continues to be stubbornly persistent, although recent signs are that global growth has started to slow, with related easing in some recent inflation data. Mixed results nationally (household consumption slowing, business investment up and employment remaining high) makes picking the end of the tightening cycle difficult and saw the Reserve Bank of Australia raise rates in two out of the three meetings this quarter.

In June we also released an update on key ESG initiatives progressed by the Western Australian

Government, to build on the ESG Information Pack that was launched by the Premier in November 2021. This latest updated has been prepared on key ESG initiatives progressed by the Western Australian Government over the last year, including through the 2023-24 State Budget.

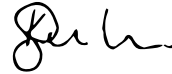
During the quarter Premier and Treasurer Mark McGowan retired from politics, with Rita Saffioti taking on the Treasury portfolio, including WATC.

Within WATC, we celebrated the long-standing contributions of Geoff Williams (Asset and Liability Manager) and Steve Pannell (Manager, Program Management Office) who both announced their retirement. Recruitment has slowed over the quarter, with only two new starters, allowing our HR team a brief breather!


The HR team used this short reprieve to run a series of very engaging and enlightening workshops for WATC staff, building on our commitment to supporting diversity and inclusion across our workforce and in our engagements with others.

WATC continued to build on our training program too, with a foreign exchange hedging seminar hosted for agencies over the quarter. We have also been working closely with the Department of Treasury and Government Trading Enterprises (GTEs) on the guidelines to support the GTE Act 2023, with operations commencing from 1 July 2023. We look forward to continuing to support the GTE sector through this transition,

especially as we develop tools, training and products to support the ongoing management of business risk.



Kaylene Gulich
CEO



'Over the years, we have increasingly demonstrated the alignment between government, industry and the community to commit to, and make progress against, material improvements in our environmental outcomes.'

Kaylene Gulich

IMAGE COURTESY OF TOURISM WESTERN AUSTRALIA

Narrowing Path, Uneven Keel.

‘The first [point] is that the Board has been willing to accept a somewhat more gradual return of inflation to target than many other central banks. The second point is that we need to think about the consequences for the labour market of not getting inflation under control. (...) it is very difficult to sustain full employment without price stability.’

Michele Bullock, RBA Deputy Governor, 20 June 2023.

The Global Economy

The global economy has continued to show resilience to ongoing monetary tightening by central banks. However, there are tentative signs that the slowdown in manufacturing activity, is spilling over to the services sector. With growth starting to slow, inflation rates have also started to ease, while remaining significantly above central bank targets.

US real GDP rose an annualised 2.0% in Q1, somewhat less than the 2.6% registered in the previous quarter. However, the slowdown came from inventory changes, while personal

consumption saw a strong increase. The PMI reports continued to suggest further, albeit somewhat slower, expansion in services activity and ongoing contraction in manufacturing.

US labour market conditions remained strong, with non-farm payrolls rising by 732k in Q2, while the unemployment rate was 3.6% in June. The tight labour market conditions were reflected in the solid wage growth of 4.4% YoY.

US inflation continued to decline in Q2. In June, the annual rate of US CPI inflation fell to 3.0%, the lowest since May 2021. Core inflation was still elevated at 4.8%. However, inflation for services excluding rent for

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shelter, closely tracked by the Fed, declined to just 3.2% in June.

On the other side of the Atlantic, the euro area entered technical recession in Q1, while the PMIs pointed to increasingly slower expansion in services. Inflation in the euro area is slowing as well, though core inflation remained high at 5.6% in June. At the same time, UK economic activity growth proved surprisingly solid, translating into a renewed rise in core inflation which reached 7.1%, the highest level since March 1992.

Closer to home, the Japanese economy is expanding, with inflation remaining higher than in the previous three decades. The so-called 'core-core' inflation rate, which excludes fresh fruit and energy, rose to 4.3%, the highest level since 1981.

The Chinese economic data has been disappointing in Q2, including the industrial production and investment data. The NBS PMIs suggested that manufacturing activity contracted in June, while growth in services is slowing. The sluggish economic activity is reflected in very soft consumer price inflation and deflation in producer prices.

The Australian Economy

Australian economic growth slowed in Q1, with real GDP rising by just 0.2% in the quarter to be up 2.3% through the year. The slowdown was driven by household consumption, as Aussie households continue to feel the pain of the cost-of-living pressures and higher mortgage rates. However, business investment rose a solid 3.4% in Q1, with a strong contribution from investment

in machinery and equipment. Dwelling investment continued to fall in Q1 reflecting ongoing problems in the construction sector.

The slower economic growth, coupled with a further increase in hours worked, was reflected in a record annual decline in labour productivity in Q1. This, along with a solid wages growth, translated into a further rise in unit labour costs.

The second quarter saw a continuation of the trends observed in Q1. The NAB business survey pointed to a decline in business conditions, though they remain strong, while the PMI signalled slower growth in the dominant services sector. Nominal retail trade rose in the first two months of Q2, supported by temporary factors such as exceptionally cold weather, an earlier start to end of financial year sales and higher prices, particularly for food.

Labour market conditions remained strong in Q2. Employment surged 75.9k in May following a surprise 4.0k fall in April. The unemployment rate remains low at 3.6%.

The first months of 2023 also saw a gradual decline in inflation, which however remains high. The annual rate of CPI inflation declined to 7.0% in Q1 from the peak of 7.8% in Q4 2022. Trimmed mean inflation, which is the RBA's preferred measure of underlying inflation, ebbed 0.3ppts to 6.6% in Q1. The monthly CPI indicator saw inflation fall to 5.6% in May, suggesting a further decline in inflation in Q2. However, this gauge has been volatile and inflation remains well above the RBA's 2-3% target band.

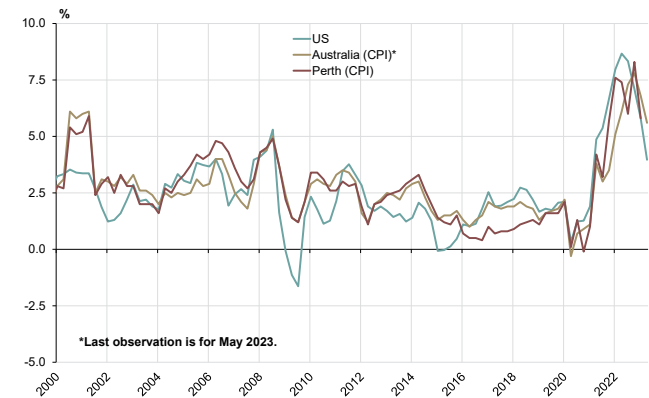
House prices have climbed for four months in a row since hitting a low in February. The rise in

house prices came despite further aggressive tightening by the RBA as the significant rise in immigration after COVID-19 restrictions were lifted added to the housing supply shortage, exacerbated by low housing construction completion rates.

The Western Australian Economy

Western Australia's real state final demand rose 0.8% in Q1, which was the strongest increase of all the states. Public sector demand was the major driver of growth, followed by business capital investment. Labour market conditions remain strong with the unemployment rate of 3.7% and the labour force participation rate the highest of all

Annual Rates of CPI Inflation



Source: US Bureau of Economic Analysis, Australian Bureau of Statistics

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the states. Perth CPI inflation dropped to 5.8% in Q1, to be the lowest of all capital cities.

The 2023-24 State Budget, estimates Western Australian GSP growth of 4.25% in 2022-23, including state final demand growth of 3.25% and 6.0% goods export growth. GSP growth is forecast to slow to 2.25% in 2023-24, with state final demand growth expected to be 1.5%. The unemployment rate is forecast to rise to 4.0% in 2023-24 and peak at 4.50% in 2025-26. Inflation is expected to fall to 3.50% in 2023-24 and 2.75% in 2024-25. The State budget is forecast to remain in surplus until at least 2026-27, while net debt is to remain below 10% of GSP.

Given the strong fiscal position, Moody's has upgraded Western Australia's credit rating to 'Aaa', with a 'stable' outlook. Western Australia is the only state with the top rating from both Moody's and S&P Global.

Financial Markets

Global market sentiment was positive in Q2 2023, despite central banks continuing to tighten their monetary policies.

The MSCI World index, which is the broadest measure of global equity market performance, rose 5.6% in Q2. The S&P 500, which is one of the benchmark US stock indices, added 6.3%, after increasing by 7.3% in Q1.

Government bond yields rebounded after falling in Q1, reflecting a further pick-up in central bank rate expectations and sticky core inflation rates.

US 10-year Treasury yields rose by 33bps in Q2 to close the quarter at 3.84%.

The FOMC increased the fed funds rate target range by 25bps to 5.00-5.25% in May, before pausing in June. They also issued new projections implying two more 25bps hikes later in 2023.

However, fed funds futures continue to price in just one more 25bps hike in the current cycle, which is expected to occur at the meeting in late July.

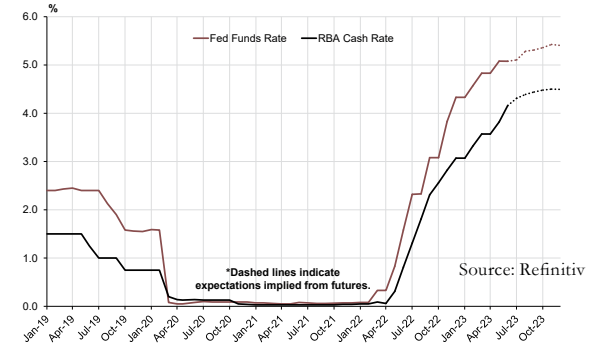
The ECB and Bank of England also continue to tighten their monetary policies. The Bank of England, faced with a further rise in core inflation in May, delivered a supersized 50bps hike in June and continues to signal further tightening. The ECB increased its key interest rates by 25bps in both May and June, stressing that they are not considering a pause in tightening at this stage.

On the other side of the ledger, the Bank of Japan has kept its ultra-expansionary monetary policy settings unchanged in Q2, despite inflation hovering at multidecade highs.

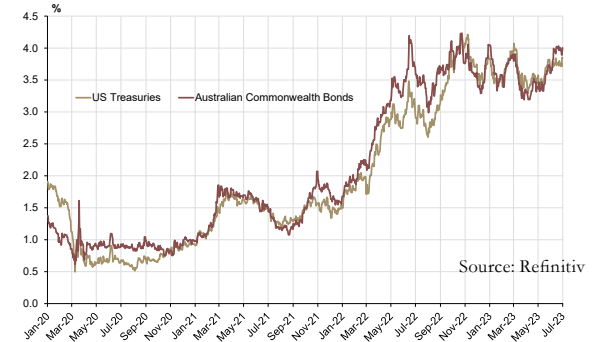
Domestically, the RBA Board raised the cash rate by 25bps at each of its May and June meetings, following a short-lived pause in April, lifting the cash rate target to 4.10%. The RBA held rates steady at its July meeting. However, with inflation remaining well above target, traders are currently pricing an increase to 4.50% in early 2024.

The back-to-back interest rate increases and overseas rate hikes have driven a sharp rise in Commonwealth bond yields, which rose more than their US equivalents. The 10-year yield picked up

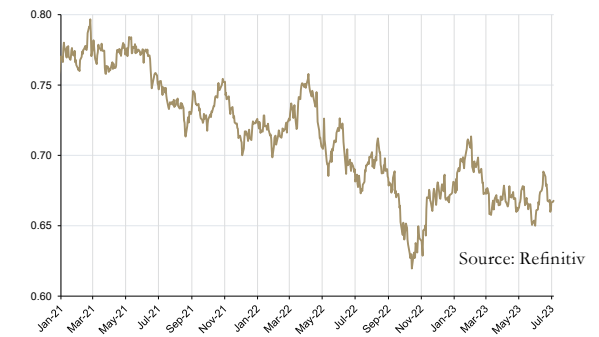
Central Bank Benchmark Rates*



10-Year Government Bond Yields



AUD/USD Closing Rates



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by 69bps to 4.02%, while the 3-year yield surged 111bps to 4.05%, resulting in inversion of the Aussie sovereign yield curve.

The Australian share market underperformed against Wall Street again in Q2, with the ASX 200 rising by just 0.4%. A key reason was the weaker-than-expected recovery in China, the related decline in commodity prices and slowdown in the domestic consumer spending.

The lacklustre performance of the Chinese economy, coupled with concerns over the economic impacts of monetary tightening in the advanced economies, led to a decline in commodity prices in Q2. The CRB commodity index ebbed by 2.1%. Iron ore futures plunged by 12.5% and oil prices dropped by 6.1%, which came despite the extension of supply cuts by OPEC+ in early June.

The Aussie dollar continues to underperform the greenback, sliding to a 6½-month low of US\$0.6458 at one point before recovering some lost ground to close the quarter down just 0.30% at US\$0.6664. ■

Economic Services Team



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CHIEF ECONOMIST



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ECONOMIST

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Release of WATC Sustainability Bond Framework and Inaugural Green Bond Issue



In May 2023 WATC released its [Sustainability Bond Framework](#) (Framework) and announced the intention to issue an inaugural green bond shortly after. The foundations for launching the Framework were laid over the last two years through WATC's coordination of agencies across the Western Australian Government to provide investors with meaningful disclosures on decarbonisation initiatives and progress towards the objectives of the United Nations Sustainable Development Goals. This was achieved through the publication series [Supporting Continuous Improvements in ESG Outcomes for Western Australia](#), launched by the Premier in November 2021 and updated following the May 2022 and 2023 State budget releases.

The release of the Framework was supported by an intensive investor engagement program in the latter half of May where WATC officials met with over 70 domestic and international investors to:

- raise investor awareness of WATC's intended

participation in the sustainable finance market and establish credibility of purpose;

- emphasise the link between entry into the sustainable finance market and the Western Australian Governments' broader ESG credentials to support the entirety of the WATC funding program; and
- expand the investor base for Western Australian Government bonds to include investors specifically seeking exposure to ESG labelled issuance.

Green Bond Issue

Issued on 8 June, WATC's first green bond was a resounding success as indicated by:

- the issuance being more than three times oversubscribed with over \$6 billion in investor bids (25% from offshore) for the \$1.9 billion issued;

IMAGE COURTESY OF TOURISM AUSTRALIA

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- the interest rate being reduced during the issuance process due to the volume of demand; and
- the participation of a substantial number of new investors including those requiring green bond certification.

The high level of participation reflected sentiment from the investor engagement program where the key feedback themes were:

- an acknowledgement of and confidence in the progress the Western Australian Government has made to support improving ESG outcomes, especially in planning social advancement in conjunction with environmental transition and the degree of engagement with the private sector, especially the mining industry;
- the quality of documentation provided to support investor due diligence on the Framework and green bond issue, noting this had also been validated externally through a [Second Party Opinion](#) by global ESG research firm Sustainalytics; and
- the forward-looking nature of the green bond project pool that reflected the leadership of the Western Australian Government and best practice environmental transition.

News Coverage

The green bond was covered externally by mainstream, financial, environmental and industry-specific news outlets. Independent statements from participating investors were also of note,

including those with very specific requirements for the ESG profile of the issuer and the characteristics of green bond projects, such as Pental Sustainable Australian Fixed Income Fund that stated, “WA’s policies have progressed significantly, and this green bond is a reflection of that.”

What’s Next?

WATC will continue to issue debt through this green bond, with volume expected to reach around \$5 billion over time and will consider issuing an additional green, social or sustainability bond under the Framework in the 2024/25 financial year. This will require ongoing support from contributing State Government agencies to meet impact reporting requirements on the existing projects in the green bond pool and to consider additional green or social projects for inclusion in the future.

Want to find out more?

Visit WATC’s [Sustainable Finance Program](#) page or contact Richard McKenzie, WATC Head of Strategy for more information. Call (08) 9235 9127 or email rmckenzie@watc.wa.gov.au. ▀



Richard McKenzie
HEAD OF STRATEGY

‘WA’s policies have progressed significantly, and this green bond is a reflection of that.’

Pental Sustainable Australian Fixed Income Fund, 22 June 2023: ‘Sustainable fixed interest: How to weigh up WA’s new green bond’.

Additional Information

Access our Sustainability Bond Framework and other key documents via our website.

[Sustainable Finance Program](#) →

Update to the Western Australian Government's ESG Information Pack

WATC has coordinated the release of an update to the Western Australian Government's ESG Information Pack, Supporting Continuous Improvement in ESG Outcomes for Western Australia, originally launched by the Premier in November 2021 and updated in May 2022.

The update was made simultaneously through the [Department of Treasury website](#) and the [WATC website](#) on 5 July, and shared with investors via:

- a personal email from WATC CEO Kaylene Gulich to current and former investors in Western Australian Government Debt Securities.
- WATC's 12 panel bank members that act as market intermediaries for the sale of Western Australian Government Debt Securities to distribute to their broad investor networks and through their regular ESG market updates.

The update informs investors of key ESG initiatives progressed by the Western Australian Government over the past year, including through the

2023-24 State Budget. It also complements the recent release of WATC's Sustainability Bond Framework and inaugural green bond issue.

While the content of this publication series remains relevant, this update will be the last in this format. This reflects the consideration given to the evolution that has occurred over the past two years in international frameworks to guide the provision of ESG and sustainability-related reporting, most notably the 'general requirements for disclosure of sustainability-related financial information' published by the International Sustainability Standards Board (ISSB) in June. ■

More ESG Releases

Access additional ESG-related publications via our website.

[WA's ESG Commitment](#) →

IMAGE COURTESY OF TOURISM WESTERN AUSTRALIA

CLIENT SERVICES

Foreign Exchange Hedging Masterclass

On 31 May, WATC held an online Foreign Exchange seminar focused on Hedging. There were a total of 23 participants representing 8 areas of government including the Public Transport Authority, Western Power, Water Corporation, Synergy, Western Australian Museum, Department of Health, WA Police and Department of Jobs, Tourism, Science and Innovation.

The seminar, which is part of our ongoing training program, is suitable for Project and Finance teams tasked with managing project cash flows with foreign currency exposures. Participants are expected to have attended our [FX Procurement seminar](#) and / or have experience in foreign currency payments and management. Should this education be of interest to you or your organisation, please reach out to WATC via csoperations@watc.wa.gov.au. ▀

More For Clients

To find out more information about the products and tools developed to assist our clients navigate the complexities of foreign currency exposures, visit our website.

[Foreign Exchange](#)



Living with Disability

During April, Clint Morgan from Rebound WA spoke to the WATC team about his lived experience with disability, the impact to his life and career and what the community can do to support Western Australians living with a physical disability.

Clint spoke at the WATC offices for a little over an hour about his life before the accident that left him in a wheelchair, his long road to recovery and how his life post-accident transformed his career and his outlook. While the challenges Clint faced were significant, his positivity and willingness to embrace them head on was inspiring.

Clint's initial presentation was followed by a Q&A session, where the WATC team asked a range of questions about his life before and after the accident and his strategies for coping with change. Clint also provided practical advice on how to support people with disability in the workplace and expanded on how Rebound WA works to assist those living with physical disability to lead fuller and more connected lives through being active.

Rebound WA also loaned wheelchairs to WATC during April, so team members could better

appreciate the challenges faced by wheelchair users every day. Over the weeks following Clint's session, WATC fundraised on behalf of [Rebound WA](#) and raised \$690 in donations, including \$345 from staff and an additional \$345 in matched funds from WATC. A big thank you to Clint for sharing his story and his insights with the WATC team. ▀

More About WATC

Find out more about our organisation and what we stand for.

[Who We Are](#)



IMAGE COURTESY OF TOURISM WESTERN AUSTRALIA

Acknowledge This! A Team Workshop.

While cultural acknowledgements become more prevalent, their significance and origins are not always as widely known. During May, the WATC team deepened their understanding of Indigenous culture, with an Acknowledgement of Country awareness workshop.

Emma and Rhys from *Acknowledge This!* facilitated the interactive session, where participants were encouraged to explore what cultural acknowledgements are, how they came about and how they can be more meaningfully incorporated into our lives.

Over two hours, workshop attendees were supported to unpack any fears they held about delivering an Acknowledgement of Country, guided on how to participate in cultural acknowledgements more confidently and given the time and space to develop their own versions to share with the team. Participants were also encouraged to get curious and continue exploring Indigenous culture and community beyond the end of the session.

Thank you to Rhys and Emma for helping to expand

our collective kaartdijin (knowledge and learning) and develop our awareness of, and connection to, Indigenous culture. ▀

More about inclusion

Find out more about our journey towards inclusivity via our website.

[Our Commitment to Inclusivity →](#)

IMAGE COURTESY OF TOURISM WESTERN AUSTRALIA

New Appointments and Secondments



New Appointment

John Parker

ROLE

Cloud Administrator

TEAM

Information and
Communications Technology

66

I started with WATC in March. Prior to that I'd been employed at the Western Australian Industrial Relations Commission (WAIRC) for 10 years. There my roles included Database Administrator, Senior Systems Administrator, Technical Architect and ICT Coordinator. Before that I'd done various Systems Administration roles all the way back to the late 90s in a mix of private and government organisations. My qualifications included both a MCP and MCSE from Microsoft. Probably my greatest professional achievements were designing, executing and project managing two major cloud migrations for WAIRC. Outside of work, I'm an avid collector of "vintage" computers and consoles, with systems dating back to the late 70s in my collection. I'm often found on weekends with a soldering iron in hand, trying to bring yet another system back to life. Sometimes I even use them to actually play videogames. I'm also a long term fan of both comics and science fiction literature, movies and television.



On Secondment

Renee Santos

ROLE

Executive Assistant

TEAM

Business Administration
Team

66

I joined WATC as Executive Assistant to WATC CEO, Kaylene Gulich in March on an eight-month fixed term contract. I left Sydney in August 2018 after working at Sydney Water for 13 years in various senior administration roles. I then spent the next 4 years working at Water Corporation as a Business Support Officer in various departments. Prior to joining WATC I was Executive Assistant to the Deputy Commissioner WA, Assistant Secretary to the Department of Veteran's Affairs. Outside of work I have three wonderful children and a loving husband that keep me very busy.

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IMAGE COURTESY OF TOURISM WESTERN AUSTRALIA



WESTERN AUSTRALIAN
TREASURY CORPORATION

Western Australian Treasury Corporation (WATC) is the State's central financial services provider, working with its public sector clients to achieve sound financial outcomes.

WATC's principal activities involve:

- funding and debt management
- asset and investment management
- financial advisory services
- financial risk management
- treasury management services and systems.

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