

MARCH QUARTER 2022

Newsletter

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MARCH 2022

From the CEO's Desk



The start of 2022 has certainly not been what we were all hoping for, with the war in Ukraine, a resurgence of the Omicron variant across various countries, Australian east-west supply chains washed away and wide-spread flooding across Queensland and New South Wales.

Inflation remains the headline economic concern globally, with US inflation rising to new 40-year highs and the euro area inflation hitting the highest levels since the monetary union was first founded. Trends in price increases seen in 2021 grew in momentum, amplified by international sanctions on Russia and spikes in most commodity prices. Closer to home Australian CPI inflation rose to 3.5% in Q4 2021, reflecting global supply chain disruptions, domestic supply line shutdowns, high commodity prices and flow on impacts from elevated government, business and household expenditure.

Heightened global volatility is challenging central banks who have the delicate task of balancing rising inflation with managing underlying weaknesses from the still-present threat of the pandemic. A number of central banks have commenced lifting rates, with the US Federal Reserve signalling it will start tightening following its meeting in May. The RBA ceased its bond buying program in February 2022, and Australian markets are aggressively pricing in increases to the cash rate through the balance of 2022 and 2023. As a result bond yields have been pushed higher, with the WATC 10-year bond now trading at 3.1% - well above the all time low of 1.0% in November 2020.

Within Western Australia, controlled interstate border restrictions were removed in early March 2022. COVID-19 cases are on the rise, with community transmission taking hold in the State for the first time since early 2020. With 95% of the over-12 population double vaccinated, the surge in case numbers has so far not resulted in large hospitalisations or deaths, which is positive news, although both numbers are unfortunately larger than at any other time in the pandemic for Western Australians. A further easing of density restrictions came into effect from the end of the quarter, as the Western Australian community adapts to living with COVID.

The Western Australian economy continues to move from strength to strength, with the impact of current COVID

restrictions expected to have only a momentary dampening on key economic indicators. Unemployment remains at near record lows, and participation at near record highs. Workforce shortages are starting to be felt across a number of key industries, although expected pressure in wage growth is not yet showing up in key indicators.

On the markets side WATC issued a new 2027 Floating Rate Note (FRN) in February 2022, in part refinancing the maturing March 2022 FRN. New funding requirements for clients were further revised down for the year, reflecting ongoing improvements in the State's finances. WATC has largely completed the 2021-22 funding program, with activities for the balance of the financial year reflecting minor client funding requirements and balance sheet management.

To end the quarter we hosted Bill Evans, Chief Economist at Westpac, for a timely webinar to clients on the 2022-23 Federal Budget and economic outlook. For the 15th year running, Bill walked us through the various challenges facing the global, domestic and Western Australian economies, as well as providing valuable insight into the recently released Commonwealth budget.

Two long serving staff who each have been with WATC for over 30 years have retired. Julia Tyzack, Chief Accountant has taken extended leave before retiring later in the year, and Rex Sleeman, our Technical Specialist in the Program Management Office, has retired this quarter. While we are sad to see valued team members go, it has created an opportunity for several WATC people to advance their careers, as well as allowing us to welcome a number of new faces to the WATC team.

If this last quarter is any indicator, it will be an unpredictable year, but our dedicated team at WATC are ready to help our clients tackle any challenges this year may present.

Kind regards,

A handwritten signature in black ink, appearing to read 'Kaylene Gulich'. The signature is fluid and cursive.

Kaylene Gulich
CEO



More Troubles

‘One might be forgiven for fondly reminiscing about better days when we only had the pandemic to worry about’.

Adeel Jafferi, March 2022

The Global Economy

The global economy continued to recover in early 2022, following a temporary setback caused by the rapid spread of the Omicron variant of SARS-CoV-2 at the turn of the year. However, the Russian invasion of Ukraine in late February and the new round of COVID-19 containment measures in China will likely prove to be significant headwinds to the recovery, while also posing more upside risks to inflation.

High rates of COVID-19 infection remain a concern in many advanced countries, however, incoming data generally pointed to a revival in economic activity in February.

Inflation pressures remain elevated, with US inflation establishing new 40-year highs and euro area inflation hitting the highest levels since the monetary union was first founded. The recent COVID-19 restrictions in China and the rapid rise in commodity prices, even ahead of the Russian invasion, is only adding to inflation pressures.

Following the Russian invasion of Ukraine, the Western economies introduced widespread finance and trade sanctions on the Russian government, businesses and individuals. These include restrictions on international payments. The US banned Russian fossil fuel imports,

while the UK will phase out oil imports from Russia by the end of 2022. Oil prices temporarily soared to the highest levels since mid-2008, but fell back to the still elevated pre-invasion levels amid new Chinese containment measures and hopes for a rise in oil supplies from Iran. The Russian-Ukrainian conflict triggered significant increases in prices in a range of other commodities, including coal, iron ore and grain. More broadly, the rise in commodity prices will add further upward pressure to global inflation, dealing a blow to household purchasing power.

China is currently grappling with the highest number of COVID-19 cases since the Wuhan outbreak in early 2020. In response, Chinese authorities have imposed a fresh round of containment measures across a number of cities. This will be another headwind to already subdued Chinese growth and will likely add to supply chain disruptions and cost pressures worldwide.

The Australian Economy

The Australian economy has recovered from the hit to Q3 GDP due to the Delta lockdowns in New South Wales and Victoria, with Aussie real GDP rebounding by 3.4% in Q4 2021, the fastest quarterly increase since 1976.

The sharp rise in Omicron cases in late December and the first half of January had a limited impact on the economy.

Labour force data for February showed a sharp pickup in employment following a slump in hours worked in January, with employment establishing fresh record highs, while the unemployment rate fell to a 13-year low of 4.0%. Despite the increasingly tight labour market conditions, wage growth remained low at 2.3% YoY in Q4 and real unit labour costs fell in the quarter.

CPI inflation rose to 3.5% in Q4 2021. While this is less than in some advanced economies, it is still above the RBA's target band of 2-3%. The balance of risks to inflation is clearly tilted to the upside, stemming not only from higher commodity prices and global supply chain disruptions, but also from the floods in the eastern states, affecting domestic supply lines.

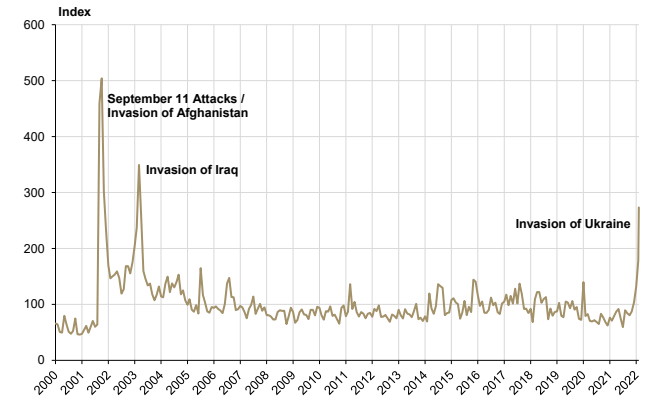
While higher commodity prices will likely boost national income through the positive impact on the terms of trade, this will be offset by the negative impact of higher inflation on household purchasing power.

The Western Australian Economy

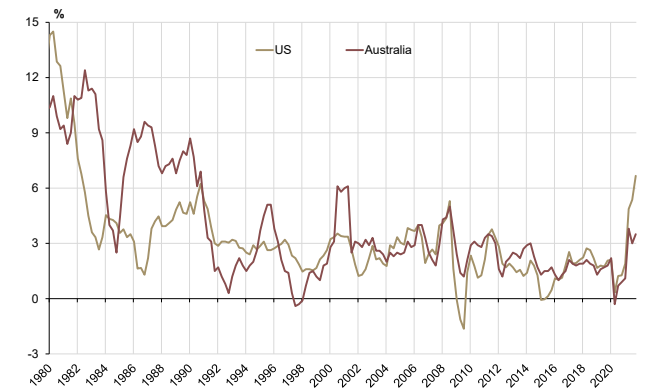
Western Australian economic conditions remain favourable. Real state final demand was little changed in Q4 2021, as solid growth in household consumption was offset by a decline in mining sector investment from elevated levels in the previous three quarters.

Western Australia continues to lead the other states in terms of labour market performance, with a 6.3% increase in employment in the year to February. The 4.1% unemployment rate is slightly above the national average of 4.0%, however the labour force participation rate of 67.0% is well above the national rate of 66.4%.

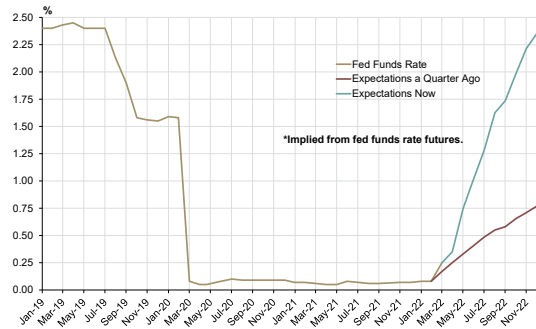
The NAB business survey showed WA business conditions remained the strongest of all the states in February. Consumer sentiment improved in March, with consumers, on balance, remaining optimistic and debit and credit card data pointing to solid consumer spending in early March, despite the sharp pickup in Omicron cases.



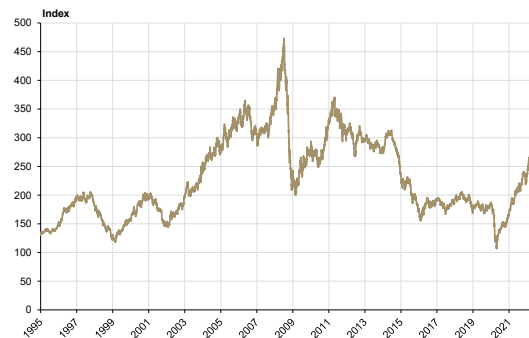
Global Geopolitical Risk Index (Monthly Averages)



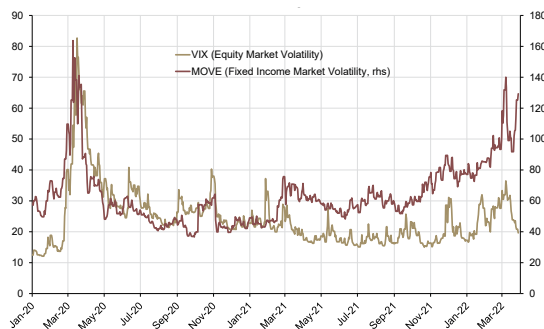
Annual CPI Inflation



Historical and Expected Fed Funds Rate



Commodity Research Bureau Index



Market Volatility Indices

Financial Markets

As expected, the FOMC increased the fed funds rate target band to 0.25-0.50% in mid-March and hinted that they will begin to reduce the Fed balance sheet following its next meeting in May. Facing higher-than-expected inflation, the Committee members revised their fed funds rate expectations significantly upwards, with the median expectation on the committee being for a 1.90% funds rate by the end of the year.

Several other central banks have started lifting interest rates, including the Bank of England, who has raised its key policy rate from 0.10% to 0.75% since its first rate hike in December. The ECB has announced it will accelerate the tapering of its asset purchases in Q2 2022. The job of the central banks will be further complicated by the commodity supply shocks driven by Russia's invasion of Ukraine.

The RBA remains in the dovish camp of the central banks but has conceded that monetary policy tightening is plausible this year. The markets expect the first cash rate rise to occur midyear, and further increases to nearly 2.0% by the end of the year. The RBA ceased its bond purchases in February and the Board will consider the issue of quantitative tightening at its meeting in May.

Rising inflation concerns have driven global bond yields higher, with US Treasury yields rising to the highest levels since mid-2019. The German 10-year bond yield has climbed into positive territory for the first time since the first half of 2019.

Australian Commonwealth bond yields have risen along with global yields and expectations of RBA cash rate hikes. The spread between the Aussie and US 10-year yield has increased well out of line with fundamentals, suggesting some scope for retracing in the coming months.

Global commodity prices have risen across the board in Q1. The Commodity Research Bureau index hit its highest level since 2014 soon after Russia invaded Ukraine before edging back, and has gained 21% for the quarter. The increase in oil prices has gathered the most headlines, however, in low income countries the spike in agricultural commodities will be a more worrying aspect. Iron ore prices surged to the highest levels since August 2021 after the Chinese government announced a 5.5% growth target for 2022 and flagged support for the property sector and infrastructure projects.

The Australian dollar has strengthened against the USD and the Japanese yen over the quarter, with the currency buoyed by the sharp rise in commodity prices and the wider spread between Australian and US bond yields.

The Russian-Ukrainian military conflict initially triggered a selloff in what were already wobbly global equity markets. However, the major indices in Australia and elsewhere have rebounded over the second half of March.



Craig McGuinness
CHIEF ECONOMIST



Patrycja Beniak
ECONOMIST

Progress Towards a Sustainability Bond Framework

On 16 November 2021 the WA Premier Mark McGowan launched the inaugural WA Government ESG Information Pack titled Supporting Continuous Improvement in Environmental, Social and Governance Outcomes for Western Australia. This publication culminated from WATC's coordination over 2021 of an intra-government working group consisting of 24 Western Australian government agencies, to outline the key policies and actions in progress to drive continuous improvement in ESG outcomes for the State of Western Australia. The key purpose of the ESG Information Pack was to better inform investors, and prospective investors, in WA Government debt securities of the State's ESG profile now and into the future, to assist with their ongoing investment decisions for which ESG considerations are having an increasingly important focus.

A detailed marketing campaign followed including the provision of webinars by WATC CEO Kaylene Gulich, to audiences in Europe and Asia Pacific. The ESG Information Pack was well received with just over 3,000 website views and increased interest from overseas investors.

As highlighted in the ESG Information Pack, WATC is now pursuing development of a Sustainability Bond Framework. This will provide the WA Government with a vehicle to finance initiatives that meet internationally recognised green and social bond standards. This will be an important global signal of the priority the WA Government assigns

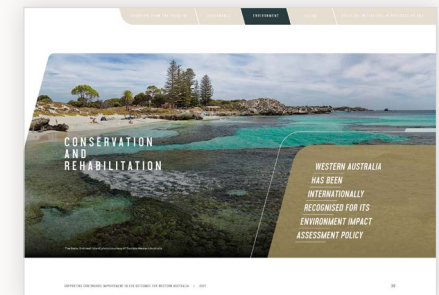
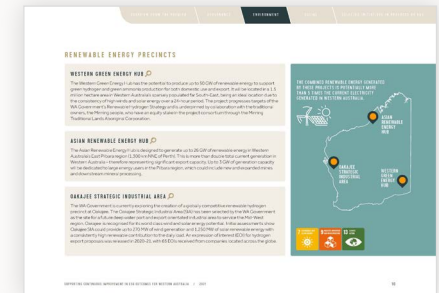
to improving ESG outcomes, as Sustainable Finance bond issuance is viewed as an enabler for a corporation or government's concerted efforts towards progressing global objectives such as the Paris Agreement target of net zero carbon emissions by 2050 and the United Nations Sustainability Development Goals. Consequently, Sustainable Finance bond issuance has tripled globally and doubled in Australia in the past 2 years – and in the Australian market the Eastern States' Governments have been major contributors.

WATC has already begun liaising with agencies expected to have projects, either planned, in progress or recently completed, whose expenditures align with green or social bond standards. Subject to final approvals, the intention over the second quarter of 2022 is to form a Sustainability Bond Committee and associated Working Group across relevant agencies to progress development of an initial project pool and develop all the necessary protocols for WATC to be in a position to issue the State's first green or sustainability bond during the 2022-23 financial year.

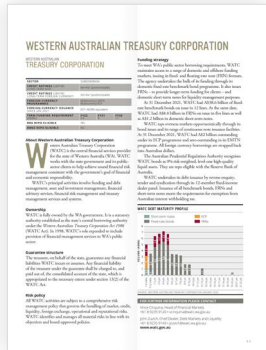
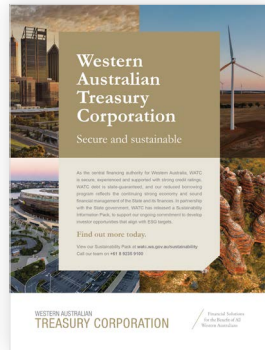
For further information on this initiative, please contact Richard McKenzie, Head of Strategy, on (08) 9235 9127 or rmckenzie@watc.wa.gov.au.



Richard McKenzie
HEAD OF STRATEGY



[View our website](#) ▶



Promoting WA to Investors

KangaNews provides a comprehensive information service for domestic and international investors on the Australian and New Zealand debt markets and each year they release the KangaNews Australasian High-Grade Yearbook. The 2022 edition is out now and major themes include rising inflation, growing ESG interests and developing pathways to exit the pandemic.

Western Australia and WATC are promoted to investors throughout the publication and article highlights include:

- An Issuer Profile on WATC.
- An Issuer Spotlight Q&A with Kaylene Gulich, Chief Executive Officer at WATC.
- An Australian Issuer Roundtable with contributions from Vince Cinquina, Head of Financial Markets at WATC.

Download your digital copy of the KangaNews High-Grade Yearbook today.

[Download the KangaNews 2022 Yearbook](#) ▶

WATC Undertakes the Syndicated Launch of a New Floating Rate Note

On 23 February 2022, WATC issued by syndication a Floating Rate Note (FRN) with a 23 February 2027 maturity.

Prominent performers on WATC's fixed interest panel, ANZ and Westpac Banking Corporation were appointed as joint lead managers for the syndicated benchmark FRN issue.

The new issue garnered strong investor support with total bids exceeding \$3.14 billion at close, with a final issue size of \$1.0 billion being allocated to 23 institutions.

The issue was well supported by domestic bank balance sheets and asset managers, with 100% going to domestic investors.

The investor term sheet can be viewed on the WATC website.

[View FRN Termsheet](#) ▶

New Appointments



Daxa Patel

Daxa joined WATC's Finance, Administration and Treasury Operations team in July 2021 as an Accounting Officer, initially on a temporary basis.

Previously Daxa worked at Ampcontrol Pty Ltd, in NSW as an Accounts Receivable Officer for two years, and was promoted to Trainee Accountant. Daxa has completed a Bachelors Degree in Accounting and Finance.

She relocated to Perth over 10 years ago to be closer to family. After taking a break to spend time with her two boys, Daxa did short-term contract roles before joining the team at WATC. In her free time, Daxa loves travelling and spending time with her family.



Euan Gleeson Brown

Euan joined WATC in January 2022 as the Legal Support Officer with the Legal and Governance team. He has diverse experience in a range of areas, including project management, customer service and volunteer engagement.

Prior to his appointment at WATC, Euan was the Campaign Coordinator managing the UWA Alumni Fund.

Euan has a Bachelor of Economics and Business Law from the University of Western Australia. Outside of work, Euan enjoys exploring WA and managing human rights volunteering with Amnesty International.



Emma Lethridge

Emma joined WATC's Finance, Administration and Treasury Operations team in February 2022 as Chief Accountant.

She is a Chartered Accountant (CAANZ) and holds a Bachelor of Commerce degree from UWA.

Emma has previously held a variety of roles, starting out in accounting public practice before moving into the resources sector, working for a Wesfarmers lithium joint venture (Covalent Lithium) and most recently, AGIG (which owns and operates the Dampier to Bunbury Natural Gas Pipeline). Having previously audited WATC whilst working at Ernst and Young as an external auditor, Emma is excited to be joining this team. In her free time, Emma enjoys dancing and musical theatre.



Luke Thomas

Luke joined WATC as the Chief Information Officer in February 2022. Prior to this he was the Chief Information Officer at Keystart Loans Ltd. Luke has worked internationally in many sectors and brings significant experience in Cyber Security, Software Delivery, Infrastructure and Vendor Management and has led major transformations such as Office 365 migration, Core System replacement, Agile delivery and Information Security Management.

Luke has a Bachelor Degree in Computer Science and qualifications in leadership, cyber security, Microsoft, project management, and recently graduated from the Australian Institute of Company Directors. In his free time, he enjoys mountain biking, running and rock climbing and hopes to one day renew his passion for scuba diving.



Elaina Cronin

Elaina joined WATC's Marketing and Communications team in January 2022 as a Marketing and Communications Officer. She has a Bachelors Degree in Graphic Design.

Elaina previously worked for the WA community pharmacy group, Pharmacy 777, where she was involved in marketing, internal communications and project management. She has also worked in the not-for-profit space, as part of the Community Relations team at Visibility & Guide Dogs WA.

Outside of work Elaina enjoys going to the beach, listening to music and a volunteering as a carer to support West Australians living with vision impairment.

New Staff Roles

Some familiar faces at WATC have recently moved into new roles. Congratulations to all of our team members taking on new challenges in 2022.



Ashley Barton

Ashley has been promoted to *Treasury Operations Officer and Deputy Registrar*, in the Finance, Administration and Treasury Operations branch.



Zachary Allen

Zach has been promoted to *Senior Corporate Financial Advisor* in the Advisory Services team.



James French

James has been promoted to *Treasury Operations Manager and Registrar*, in the Finance, Administration and Treasury Operations branch.



Sherly Rezky

Sherly has a new role of *Risk Analyst* in the Risk Management team.



Getting in Touch

If you would like more information about a specific article, product or service at WATC, please contact the relevant team member using the details below.

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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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