DECEMBER QUARTER 2021

Newsletter

IN THIS ISSUE

From the CEO’s Desk .......... 2
The Economy .................... 3
WA ESG Information Pack .... 6
Financing Large Investments... 7
FX Procurement Seminars ..... 7
New Appointments ............. 8
Christmas Office Hours ....... 9
On behalf of everyone at WATC I would like to extend our thanks and season wishes to all of our partners who have worked with us during 2021. 2021 has continued to challenge us all, with this last quarter no different as the country moves progressively to open borders and reduce restrictions all while a new strain of COVID is causing concern globally. In Western Australia as we prepare for borders reopening we also reflect on what has been a very rewarding and successful year.

The 2021-22 Mid-year Review was released on 16 December, reflecting the ongoing strength in the State’s economy. The domestic economy, as measured by State Final Demand, grew by 4.4% in 2020-21 and is forecast to grow by a further 5% in 2021-22. As anyone undertaking recruitment activity would know, demand for labour has been exceptionally strong, with employment now forecast to grow by 3.75% in 2021-22 – more than three times the average employment growth over the last decade.

The State’s forecast general government operating surplus for 2021-22 was revised down to $2.4 billion (from $2.8 billion), with operating surpluses expected across all years of the forward estimates. Total public sector net debt is on track to decline for a third consecutive year in 2021-22 to $32.6 billion. As a result WATC’s borrowing program has been further reduced, with $800 million in new money projected to be required for 2021-22.

This strong fiscal position saw S&P Global revise the outlook for Western Australia’s credit rating to AA+ "positive" in October 2021.

A highlight for the quarter was the release of the inaugural Environment, Social and Governance (ESG) Information Pack. WATC, in partnership with a large number of Western Australian public sector entities, coordinated an intra-government working group to prepare an information pack for investors in Western Australian Government bonds. The Information Pack articulates the State Government’s ESG credentials and has been widely shared with investors, financial market partners and the WA Government international office network.

The quarter was reasonably quiet from a funding perspective, with a number of our clients actually in a repayment phase of their balance sheet management. Market conditions have been fluid, with government bond yields increasing during the quarter on the back of rising inflation concerns driving expectations of interest rate increases, before falling back slightly over market uncertainty due to the concerns with the Omicron strain.

Our client teams have been busy for the quarter, running a number of training sessions for public sector colleagues. In a first for us and Macquarie University, the Financing Large Scale Investments program was ran as a mixed in house/virtual format over four half-days, with the facilitator presenting online to attendees in Perth. The four Foreign Exchange seminars were more traditional formats, with each seminar being presented over three hours in both online and in-person formats.

During the quarter a number of long standing WATC staff retired. With a combined contribution to WATC and the State of over 100 years we would like to acknowledge all the effort of Robert Beckett, Chief Information Officer, Rex Sleeman, Technical Specialist, and Guy Sojan, Registrar, and wish them well in retirement.

And so it comes to the end of another eventful year. Wishing all our partners a safe and happy time of year, and all the best for 2022.

Kind regards,

Kaylene Gulich PSM
CEO
Inflated

“...it had been many years since we had inflation at 2%. So, I think the word ‘transitory’ has different meanings to different people...I think it’s probably a good time to retire that word and try to explain more clearly what we mean.”

Fed Chair Jerome Powell, 3 December 2021

The Global Economy

The global economic recovery has resumed after disruptions due to Delta outbreaks. After slowing down to 2.0% in Q3 2021 amid lower consumption of goods, early indications are that growth has rebounded in Q4.

Business reports and consumer spending data suggest the US economy has got off to a strong start in the quarter. The recovery in US employment continues, although depressed labour force participation means the US labour market is tight despite non-farm payrolls remaining around 4 million below the February 2020 level. This is reflected in ongoing labour force shortages and a pick-up in wages growth.

Meanwhile, bottlenecks persist among global supply chains, constraining the recovery in the manufacturing sector and resulting in further intensification of cost pressures. Sharp increases in oil and gas prices have driven energy and transportation prices higher. These higher costs are increasingly being passed on to customers, which is reflected in the highest inflation rates since at least the early 1990s in many advanced economies.

The current consensus is that inflation should start to abate in the first half of 2022 but there is a large uncertainty associated with the complex nature of global value chains and the ongoing public health crisis.
Chinese economic growth has slowed in the second half of 2021 as efforts by the Chinese authorities to rein in real estate speculation and limit steel production weighed on activity. Energy shortages and COVID-19 outbreaks also served to hinder the economy at various times. The slowdown in the property sector has seen a number of Chinese property developers get into financial difficulties, with the most high profile being the heavily leveraged Evergrande Group which has appeared to be on the brink of collapse since missing the first of many bond interest payments in September. Chinese authorities have since taken steps to arrest the decline in growth, while the Politburo emphasised growth stability as its top priority at its December meeting.

The newly discovered Omicron strain of SARS-CoV-2 represents a downside risk to the global economic outlook. The degree of risk will depend on the transmissibility, the severity of symptoms as well as the effectiveness of the vaccines.

The Australian Economy

The Australian economy is currently recovering from the lockdowns in New South Wales and Victoria that drove real GDP down 1.9% in Q3. Consumer spending data suggests household consumption has rebounded strongly after slumping 4.8% in Q3, while the labour market reports employment is seeing a strong revival.

The RBA expects that Aussie output will return to its pre-Delta recovery path in the first half of 2022. The inflation numbers for Q3 surprised to the upside, with trimmed mean inflation rising into the RBA target range of 2-3% for the first time since late 2015.

Price pressures in Australia are less acute than in some other advanced economies amid lower energy price dynamics and sluggish wages growth. Annual growth in the wage price index accelerated to 2.2% in Q3, but is still well below the 3% that the RBA deems as consistent with its inflation target. However, a larger than usual contribution to the Q3 increase came from workers on individual arrangements, which are more responsive to shifts in labour demand and could be a leading indicator of a broader acceleration in wages growth. The RBA forecasts that wages growth will not rise to 3% until at least late 2023.

The Western Australian Economy

Western Australian real gross state product rose by 2.6% in 2020-21, which was the second fastest of all mainland states. Growth was led by household and government consumption but a significant contribution to growth also came from business investment.

The sharp rise in export values helped drive an 18.1% increase in real gross state income in 2020-21, the fastest growth in 10 years.

Western Australian economic conditions remained favourable in the first quarter of 2021-22. Real state final demand rose by 0.6% in Q3 to be up 6.4% YoY. The Western Australian labour market has been the standout among the states, with employment growing 4.5% in the year to November and the unemployment rate falling to 3.8%, the lowest since July 2012.

Financial Markets

Government bond yields increased in the final quarter of 2021, predominantly reflecting rising inflation concerns which have driven an escalation of interest rate hike expectations. However, the yield increases of early in the quarter have been partly unwound, particularly for longer maturities, amid concerns over rising COVID-19 infections in Europe and the emergence of the Omicron strain of SARS-CoV-2.

As expected, the Fed started to taper its asset purchases in November, initially at a pace that could see the program end in mid-2022, to announce a faster reduction in purchases just a month later. Currently, Fed quantitative easing is set
to conclude in March 2022 and the fed funds rate is widely expected to be increased shortly after. According to the most recent FOMC projection, 2022 will see three increases in the fed funds rate, to 0.75%-1.00%.

Expectations for RBA cash rate hikes have also intensified following the higher than expected inflation reading in the Q3 CPI report. The substantial move in market pricing saw the RBA Board drop its 0.10% target for the April 2024 bond yield at its November meeting and concede that it is plausible that a cash rate hike could come as early as 2023. The RBA Board dropped its guidance on the likely timing of a cash rate hike altogether at its December meeting and hinted that it is possible that it will bring its bond buying program to an end in February 2022.

The RBA’s changed outlook has basically followed the market’s lead, with traders pricing in a series of cash rate increases in the second half of 2022, starting around the middle of the year. At the time of writing the market is pricing in a 0.75% cash rate by the end of 2022.

Aussie bond yields spiked to the highest levels since the first half of 2019 in the aftermath of the Q3 CPI report, before falling back, though they remain higher than at the end of Q3. The front end continues to be largely driven by cash rate expectations while long-end yields are heavily influenced by changes in global yields.

The AUD has been choppy over the course of Q4. The currency was sitting above USD0.75 at the end of October only to slump below USD0.70 by early December for the first time since July 2020, before recovering somewhat. The Aussie’s weakness mainly reflected the increase in market volatility and to a lesser extent a rise in the USD.
Launch of the WA Government ESG Information Pack

On 16 November, a media release by 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 culminates coordination by WATC over 2021 of an intra-government working group consisting of 24 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 is to better inform investors, or 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.

Following the Premier’s media release and simultaneous representation on both the Department of Treasury and WATC’s websites, a broad range of dissemination strategies were utilised with the goal of maximising awareness, including:

- Personal email from WATC CEO Kaylene Gulich to current and former investors in WA Government Debt Securities.
- A request to the 11 WATC panel bank members that act as market intermediaries for the sale of WA Government Debt Securities to distribute the ESG Information Pack across their broad investor networks and through their regular ESG market updates;
- Hosting of two international webinars by WATC CEO Kaylene Gulich as advertised through the above distribution, one in a convenient European time and the other in Asian / Eastern Standard Time.
- Dissemination through the international investment and trade offices of the Department of Jobs, Tourism, Science and Innovation – noting the ESG Information Pack would also appeal to a broader range of investors considering WA as an investment destination in general.

Articles published in the ABC News online and the specialised debt markets ‘KangaNews’, raised further awareness, with website traffic indicators also confirming the broad interest in the publication, with well over 2,000 page views and approximately 1,000 document downloads recorded between 16 November and 7 December.


For further information on this initiative, please contact Richard McKenzie, Head of Strategy, on (08) 9235 9127 or rmckenzie@watc.wa.gov.au.
2021 Financing Large Scale Investments with Macquarie University

Following the positive feedback on the 2020 program, WATC, in conjunction with Macquarie University, recently facilitated a second Financing Large Scale Investments training program for WATC staff and clients.

The program is based on the Infrastructure Property and Resources subject as part of Macquarie University’s Master of Applied Finance and provides an overview of the process of financing large-scale investments and looks at how this differs from standard corporate finance. The program covers the techniques and principles to structure, value and finance large-scale infrastructure and industrial projects, and examines the different ways in which project finance allocates the risks and responsibilities typically found in complex projects and renders them financeable.

The 2021 program was delivered via a hybrid presentation, with WATC staff and clients working in teams in WATC’s boardrooms, with the Facilitator, Cosmas Kapsanis, presenting online over four half-days.

WATC is looking to run a third Financing Large Scale Investments program in partnership with Macquarie University in March 2022 and has already received expressions of interest from a number of clients. If you are interested in attending, please register your interest with Stephen Morhall, General Manager Client Services at WATC, by email to smorhall@watc.wa.gov.au.

Foreign Exchange in Procurement Seminars

WATC’s Mladen Zaneta and Bruce Whyatt have been busier than normal over the last few months delivering four education seminars on Foreign Exchange (FX) in Procurement. With each seminar being presented over three hours, and in both online and in-person formats, with a combined attendance totalling 95 clients.

The FX in Procurement seminar provides an overview of the FX market, an understanding of basic conventions and terminology, and considers what decisions need to be taken to manage FX in a real project. The seminar is suitable to anyone currently managing FX payments, project managers with multi-currency exposures, procurement personnel or for new or support staff who have no prior experience with FX and would benefit from greater awareness and knowledge regarding FX. The seminar can also be tailored and delivered to individual client organisations.

Feedback from attendees at our seminars has been overwhelmingly positive. To register your interest to ensure you do not miss out on future seminars, or to discuss running this seminar for your team, please contact Zaneta on (08) 9235 9175 or email mzaneta@watc.wa.gov.au.
New Appointments

Amuly Vanga

Amuly joined WATC’s Advisory Services team in October as a Senior Corporate Financial Advisor.

Prior to joining WATC, Amuly gained a wealth of experience in both the private and public sector. During his time in private industry, Amuly led various corporate finance, trade finance and corporate banking activities, leading multiple project financing, trade finance product structuring with domestic as well as international banks, credit facility evaluations and equity valuations leading in one case to the divestment of a subsidiary entity.

In the WA local government space, Amuly has led the development of a large metropolitan council’s long term financial plan with a strategic focus on addressing asset capitalisation frameworks and key factors impacting financial sustainability. Amuly was instrumental in developing the COVID-19-budget, including a one of a kind rating concession strategy, and a COVID-19 exit strategy which the Council adopted.

Amuly is a CFA Level 3 candidate and holds an MBA (Finance Major) degree with a Bachelor’s in Electrical and Electronics Engineering (First Class with Distinction).

In his free time, he likes to play the guitar to the tunes of Eric Clapton, Pearl Jam (prior band – Alive), and Ozzy Osbourne, among others.

Pulasthi (Pula) Thilakarathne

Pula joined WATC in December as an IT Support Officer.

Pula completed a Bachelor’s in Computing and Information Systems at London Metropolitan University.

Before joining WATC, Pula worked as a Systems Administrator for Synergy. Pula has also worked for the Northern Territory government as a contractor before moving to Perth.

Pula has a passion for martial arts, movies and video games, though these days he doesn’t have much time to play, as he spends any spare time with his kids.
Season’s Greetings

On behalf of everyone at WATC, we wish our clients a Merry Christmas and all the best for 2022. Thank you for your continued support during 2021.

WATC offices will be closed for the Christmas Day, Boxing Day and New Year’s Day public holidays, but will be open as usual on the business days over the Christmas and New Year period.

We look forward to continuing our successful partnership with you in 2022.

DISCLAIMER Any opinions, judgements, conclusions, forecasts, predictions or estimations contained in this advice are made in reliance on information provided to Western Australian Treasury Corporation which Western Australian Treasury Corporation believes to be reliable. Western Australian Treasury Corporation, however, cannot guarantee the accuracy of that information. Thus, any recommendations are made in good faith but are provided only to assist you with any decisions which you make. These recommendations are not intended to be a substitute for professional advice on a particular matter. Before accepting or rejecting those recommendations you must discuss your particular needs and circumstances with Western Australian Treasury Corporation.

For information on any products or services, please contact:

- **Lisa Brady**
  Head of Corporate Treasury Services
  (08) 9235 9122
  lbrady@watc.wa.gov.au

- **David Letts**
  Head of Advisory Services
  (08) 9235 9178
  dletts@watc.wa.gov.au

For economic commentary or clarification, please contact:

- **Craig McGuinness**
  Chief Economist
  (08) 9235 9104
  cmcguinness@watc.wa.gov.au

- **Patrycja Beniak**
  Economist
  (08) 9235 9110
  pbeniak@watc.wa.gov.au

On behalf of everyone at WATC, we wish our clients a Merry Christmas and all the best for 2022. Thank you for your continued support during 2021.

WATC offices will be closed for the Christmas Day, Boxing Day and New Year’s Day public holidays, but will be open as usual on the business days over the Christmas and New Year period.

We look forward to continuing our successful partnership with you in 2022.

DISCLAIMER Any opinions, judgements, conclusions, forecasts, predictions or estimations contained in this advice are made in reliance on information provided to Western Australian Treasury Corporation which Western Australian Treasury Corporation believes to be reliable. Western Australian Treasury Corporation, however, cannot guarantee the accuracy of that information. Thus, any recommendations are made in good faith but are provided only to assist you with any decisions which you make. These recommendations are not intended to be a substitute for professional advice on a particular matter. Before accepting or rejecting those recommendations you must discuss your particular needs and circumstances with Western Australian Treasury Corporation.

For information on any products or services, please contact:

- **Lisa Brady**
  Head of Corporate Treasury Services
  (08) 9235 9122
  lbrady@watc.wa.gov.au

- **David Letts**
  Head of Advisory Services
  (08) 9235 9178
  dletts@watc.wa.gov.au

For economic commentary or clarification, please contact:

- **Craig McGuinness**
  Chief Economist
  (08) 9235 9104
  cmcguinness@watc.wa.gov.au

- **Patrycja Beniak**
  Economist
  (08) 9235 9110
  pbeniak@watc.wa.gov.au
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.

Level 12
225 St Georges Terrace
Perth WA 6000

P: (+61) 8 9235 9100
F: (+61) 8 9235 9199
E: watc@watc.wa.gov.au

watc.wa.gov.au