

HOLIDAY PERIOD HIGHLIGHTS

- In Australia, the RBA Board meeting minutes from December showed that the Board considered a 50bps increase, 25bps increase or no change in the cash rate at the meeting before settling on 25bps. Private sector credit growth was steady in November. The CoreLogic home value index fell again in December, with the annual decline the biggest since 2008.
- Abroad, the Bank of Japan increased the cap on the 10-year Japanese government bond yield to 0.50% from 0.25%. The Chinese PMIs suggested business activity continued to contract in December. The US ISM manufacturing PMI pointed to an ongoing deterioration in manufacturing activity, however, the ADP employment report saw better-than-expected private payrolls growth in December.

NEXT WEEK'S HIGHLIGHTS

- A busy week ahead domestically, with building approvals for November kicking things off on Monday, the November retail sales report and CPI indicator, plus the quarterly job vacancies report are due on Wednesday. The November trade balance is due Thursday and new home loans data for November will be released on Friday.
- It's a fairly quiet week ahead overseas, with the only data of real note being the Chinese and US inflation for December due to be released on Thursday, the Chinese trade data for December and the preliminary University of Michigan consumer confidence report for January on Friday.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.10 (0 pt)	O/N Interbank Cash	3.07 (↑1 pt)	USD 3-month	4.81 (↑7 pt)	ASX200	7115 (↓51 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	3.32 (↑13 pt)	2-yr T-Notes	4.46 (↑21 pt)	S&P500	3808 (↓88 pt)
Eurozone (Deposit)	2.00 (0 pt)	3-yr T-Bond	3.46 (↑31 pt)	10-yr T-Notes	3.72 (↑26 pt)	DJIA	32930 (↓272 pt)
UK	3.50 (0 pt)	10-yr T-Bond	3.82 (↑38 pt)	Jap 10-yr	0.50 (↑24 pt)	Nikkei	25994 (↓1629 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.97 (↑28 pt)	UK 10-yr	3.55 (↑30 pt)	CSI300	3995 (↑43 pt)
China (1Y LPR)	3.65 (0 pt)	10-yr WATC Bond	4.52 (↑34 pt)	Ger 10-yr	2.30 (↑22 pt)	Stoxx600	439 (↑9 pt)

*changes are since the last issue of Market Watch on 16 December 2022

FINANCIAL MARKETS OVERVIEW

Interest Rates

Yields jumped over the last two weeks of 2022 as traders revised up their expectations for central bank interest rate hikes. The increase in yields was further fuelled by the Bank of Japan's decision to essentially increase the cap on the 10-year Japanese government bond yield from 0.25% to 0.50%.

The Australian 10-year Commonwealth yield peaked at 4.05% on the last day of 2022, but has eased a little in early 2023.

Looking ahead, the Aussie cash rate futures market is currently pricing in over a 70% probability of a 25bps increase in the cash rate target to 3.35% in February. A cash rate of almost 4% is priced in for the second half of the year.

There are signs of easing inflation in Europe and the US, however, the impact of the rising COVID infections and worker absences in China suggests there is risk of a fresh round of supply chain driven inflation emanating out of China in early 2023.

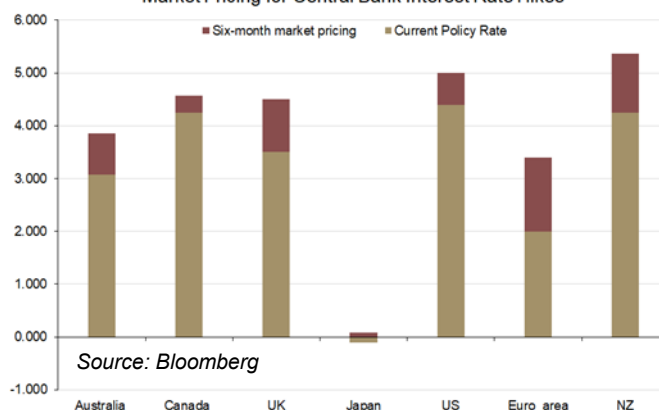
Equities

Equities continued to slide at the end of 2022, rounding out the worst year for the global equity market since 2008, with the MSCI world index (developed markets) falling 19.5% in US dollar terms for the year.

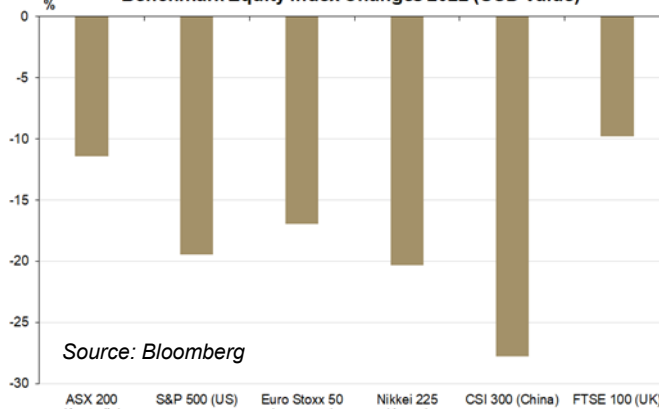
The Aussie market was a relative outperformer; the ASX 200 dropped 5.5%, although that was in AUD. Converted to USD the fall was 11.4%. Info tech, real estate and consumer stocks were the worst performers while, at the other end of the scale, energy and utilities were up sharply through the year.

Equities have mainly got off to a good start in 2023, the Aussie market is up 0.9% since the start of the year. The major indices are also up in Europe and most of Asia but down in the US and Japan.

Market Pricing for Central Bank Interest Rate Hikes



Benchmark Equity Index Changes 2022 (USD Value)



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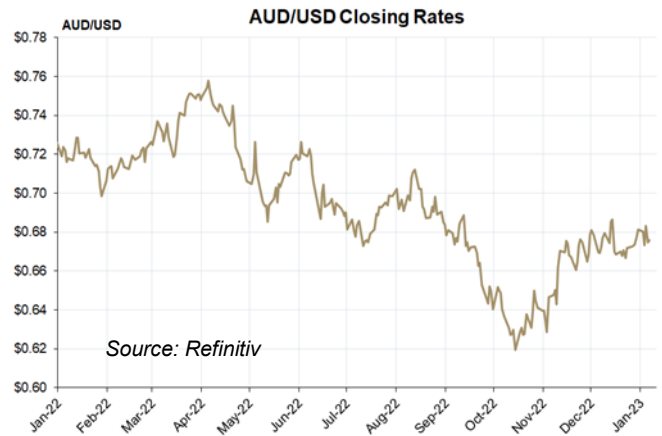
Currencies

The Aussie dollar has been the strongest member of the G10 currency basket, behind the Japanese yen.

The AUD had a positive finish to 2022, closing the year at USD0.6813 against the big dollar, but has had a volatile start to 2023. The currency slipped to as low as USD0.6688 on Tuesday on mounting concerns over the outlook for the Chinese economy in the wake of the rapid spread of COVID through the country.

The Aussie rebounded sharply the following day on little more than speculation that the Chinese government is considering relaxing the ban on imports of coal from Australia, closing the day at a near three-week high.

The Aussie saw another reversal of fortune overnight and has again dipped below USD0.68.



Spot rates		Current	High*	Low*	Change (%)*	52-Week High	52-Week Low
AUD/USD		0.6768	0.6886	0.6626	↑1	0.7661	0.6169
AUD/EUR		0.6429	0.6485	0.6255	↑2.1	0.7000	0.6160
AUD/GBP		0.5675	0.5712	0.5468	↑3.3	0.6260	0.5200
AUD/JPY		90.60	92.08	86.99	↓1.7	98.43	80.34
AUD/CNY		4.6372	4.7432	4.6190	↓0.8	4.8743	4.4286
EUR/USD		1.0524	1.0713	1.0513	↓1.1	1.1495	0.9534
GBP/USD		1.1923	1.2241	1.1871	↓2.2	1.3748	1.0382
USD/JPY		133.86	137.47	129.50	↓2.6	151.94	113.46
USD/CNY		6.8516	6.8516	6.8681	↓1.7	7.3270	6.3025

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6768	0.6791	0.6813	0.6842
AUD/EUR		0.6429	0.6410	0.6397	0.6363
AUD/GBP		0.5675	0.5681	0.5689	0.5695
AUD/JPY		90.60	89.78	88.89	86.87
AUD/NZD		1.0837	1.0864	1.0905	1.0967
AUD/SGD		0.9094	0.9107	0.9114	0.9077

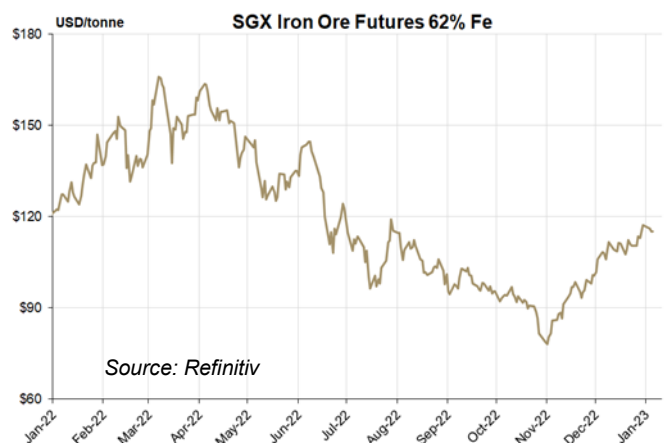
*changes are since the last issue of Market Watch on 16 December 2022

Commodities

Oil prices finished 2022 strongly, closing the year at a four-week high. However, concern over the demand outlook in China as COVID spreads through the population and news of increased OPEC production in December has seen a sharp reversal in the early days of 2023.

The surge in iron ore futures prices that began in early November continued through to the end of December, with the benchmark Singapore price closing 2022 at a five-month high. Uncertainty over the near-term demand outlook has weighed on prices over the past few days with the Chinese PMI reports released this week showing Chinese manufacturing remains very much in the doldrums.

Fears of global recession helped push the gold price to a near six-month high before slipping back.



	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,838.58	\$1,864.99	\$1,782.93	(↑\$60.16)	\$2,069.89	\$1,613.60
Brent Crude Oil (US\$)	\$79.51	\$87.00	\$77.61	(↓\$2)	\$139.13	\$75.11
Mogas95* (US\$)	\$89.55	\$98.20	\$86.40	(↓\$0.29)	\$161.20	\$82.60
WTI Oil (US\$)	\$74.47	\$81.50	\$72.46	(↓\$1.85)	\$130.50	\$70.08
CRB Index	263.69	278.47	263.69	(↓11.03)	329.59	236.64
Iron Ore Price 62% Fe (US\$) **	115.12	\$117.15	\$103.85	(↑\$3.62)	\$171.00	\$75.30

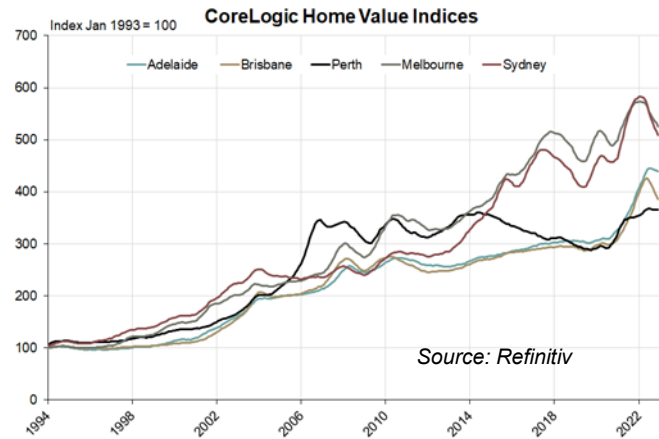
*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

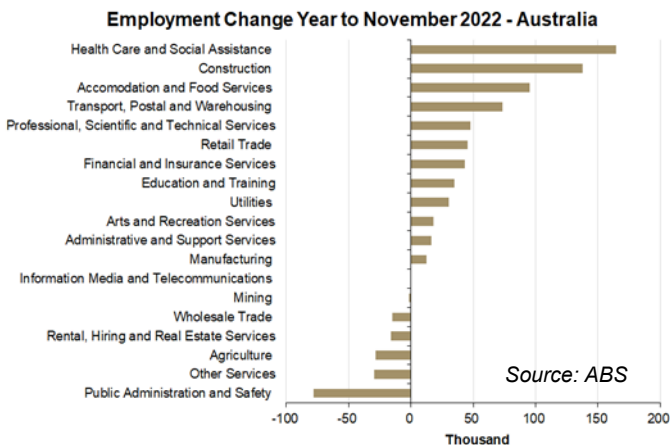
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DOMESTIC ECONOMY

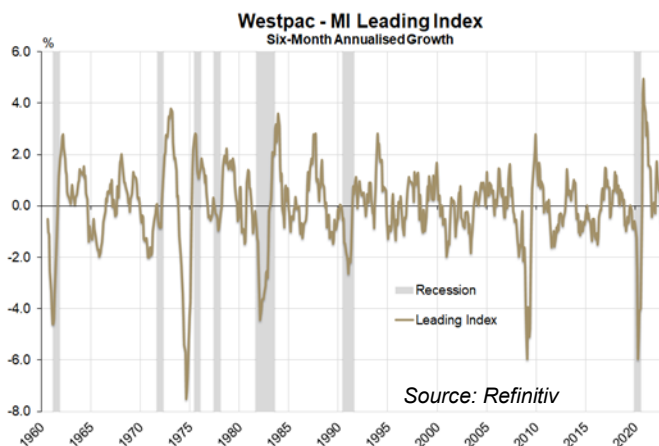
The CoreLogic home value index continued to fall in all capital cities but Perth in December.



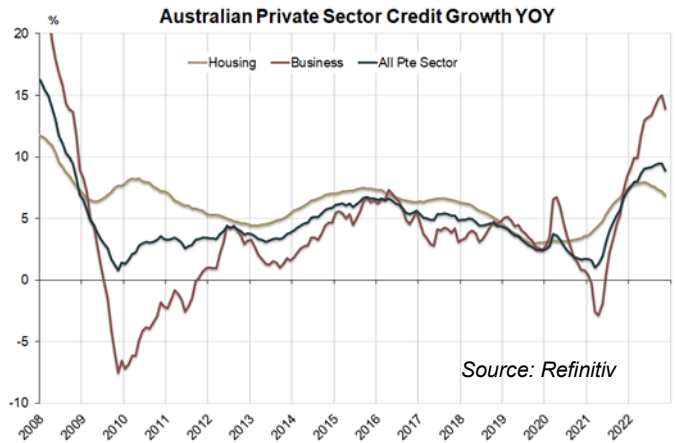
Healthcare and social assistance, and construction accounted for over half the jobs growth in the past year.



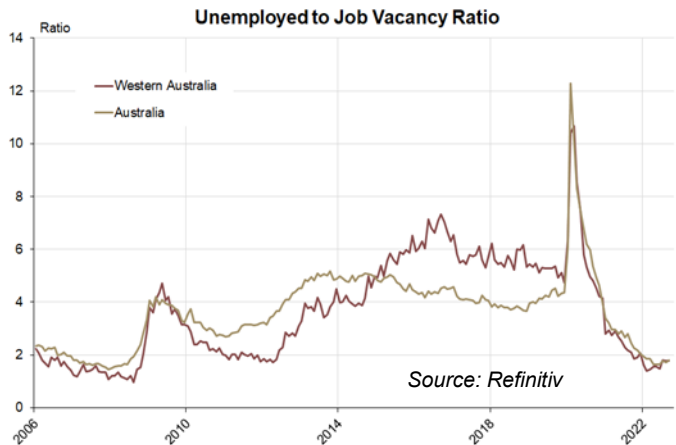
The Westpac - Melbourne Institute leading index is signalling subpar growth in 2023.



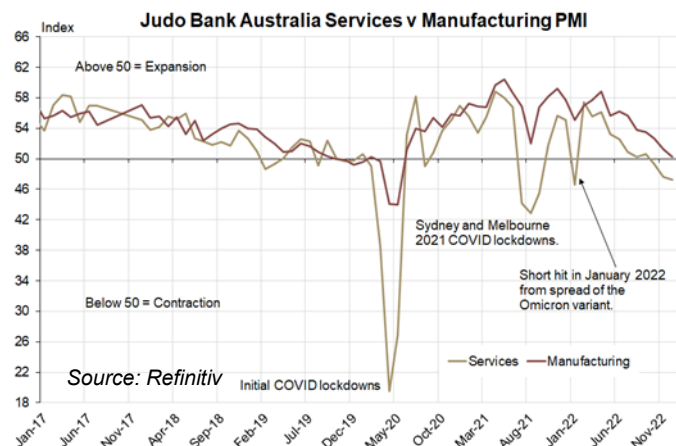
Private sector credit growth has started to ease in the past two months.



The Aussie labour market remains extremely tight, putting upward pressure on wages.



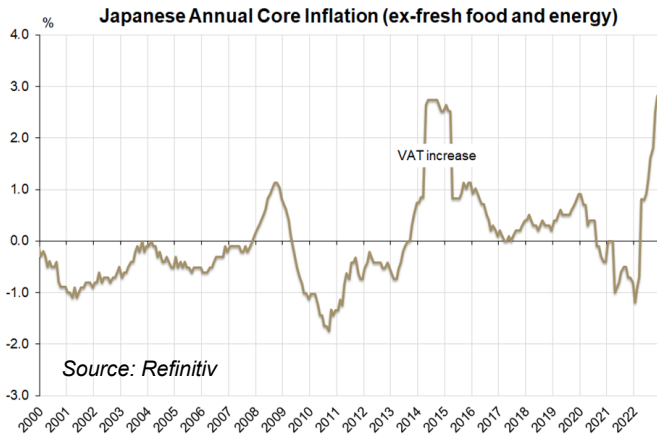
The Aussie PMIs suggest business activity slowed toward the end of 2022.



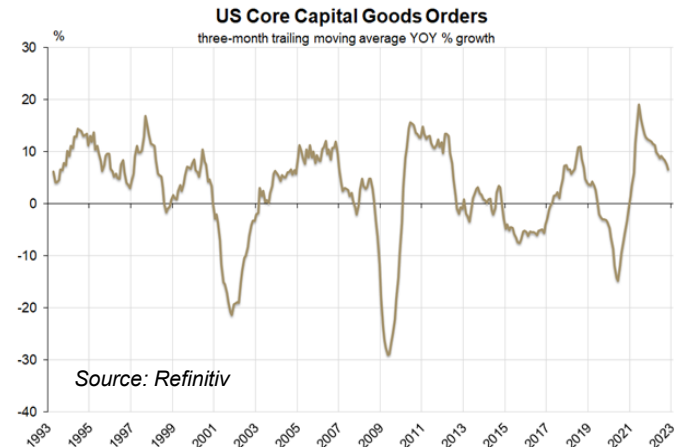
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GLOBAL ECONOMY

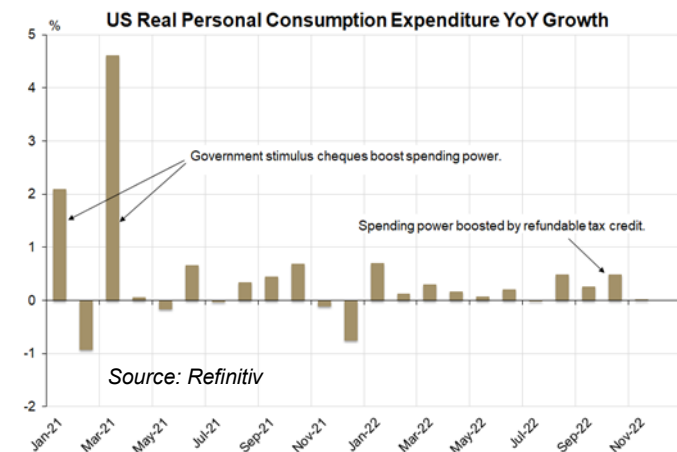
Japanese core inflation hit a fresh 30-year high in November.



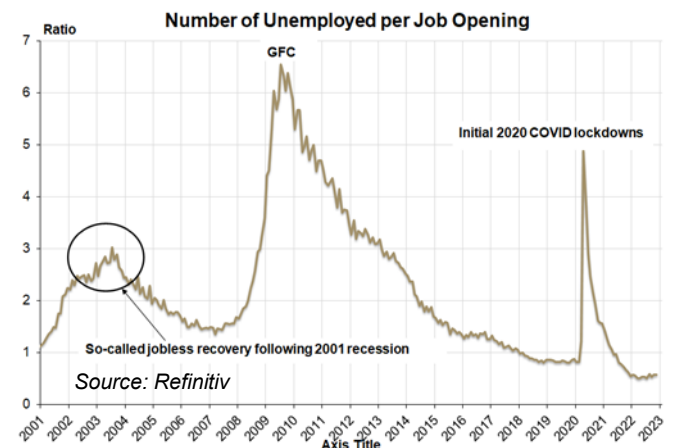
Growth in **US core capital goods orders** has slowed in recent months.



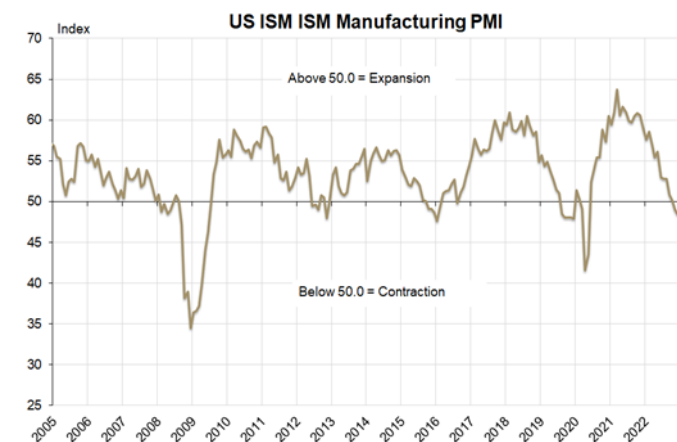
US real personal consumption spending was almost unchanged in November after three months of solid growth.



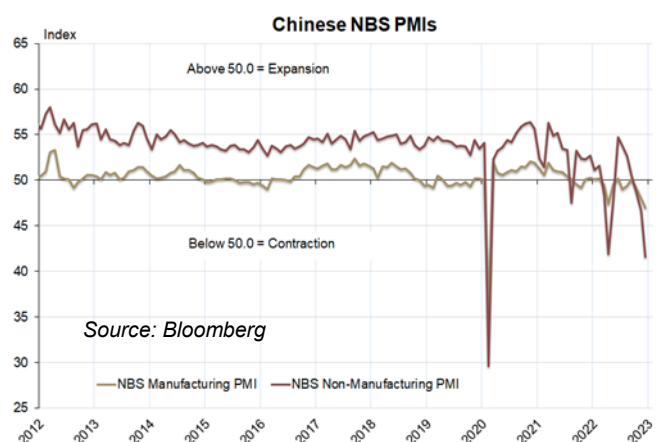
There are more **job openings** than people looking for work in the US, indicating a very tight labour market.



The **US ISM manufacturing PMI** has slipped into contraction territory for the first time since May 2020.



The **Chinese PMIs** suggest December saw the weakest business conditions since February 2020.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

6 January 2023

KEY ECONOMIC EVENTS

Previous Three Weeks

Event	Actual	Forecast	Previous	Comment
Mon 19	<i>No market moving data.</i>			
Tue 20				
AU RBA Minutes	-	-	-	RBA considered a 50bps or 25bps rise, or no change.
JP BoJ Decision (Compl. Deposit Rate)	-0.10%	-0.10%	-0.10%	The BoJ increased the cap on the 10Y JGB yield..
Wed 21				
US Conference Board Cons. Conf. (Dec)	108.3	101.0	101.4	Consumer confidence hit an eight-month high.
Thu 22				
US GDP - 3rd Est. (QoQ, Ann, Q3)	3.2%	2.9%	-0.6%	Little change from earlier estimates.
Fri 23				
AU Private Sector Credit (Nov)	0.5%	0.5%	0.5%	Credit growth eased in late 2022.
JP CPI (YoY, Nov)	3.8%	3.9%	3.7%	Ex food and energy inflation increased to 2.8%.
US Durable Goods Orders (MoM, Nov)	-2.1%	-1.0%	0.7%	Decline led by a sharp drop in aircraft.
US Personal Spending (MoM, Nov)	0.1%	0.2%	0.9%	Inflation adjusted spending growth was flat.
US PCE Index (YoY, Nov)	5.5%	5.5%	6.1%	US inflation appears to be easing.
Tue 03				
AU CoreLogic Home Prices (MoM, Dec)	-1.1%	-	-1.0%	2022 saw the steepest annual fall since 2008.
CH Caixin Manufacturing PMI (Dec)	49.0	49.1	49.4	Activity dampened by COVID containment measures.
Wed 04				
US ISM Manufacturing PMI (Dec)	48.4	48.5	49.0	Activity contracting and input prices falling.
US Job Openings (Nov)	10.46m	10.05m	10.51m	Vacancies continue to outnumber the unemployed.
US FOMC Minutes	-	-	-	Signalled further rate hikes to come.
Thu 05				
CH Caixin Services PMI (Dec)	48.0	46.8	46.7	Fourth consecutive month of contraction.
US ADP Private Payrolls (Change, Dec)	235k	150k	182k	Suggests private payrolls growth remained strong.
Fri 06				
EZ HICP (Preliminary, YoY)	-	9.6%	10.0%	Inflation easing in Europe.
US Non-Farm Payrolls (Change, Dec)	-	200k	263k	US employment growth remains solid.
US Unemployment Rate (Dec)	-	3.7%	3.7%	Hit a low of 3.5% in September before drifting higher.
US ISM Services PMI (Dec)	-	55.0	56.5	ISM implies services activity growth remains robust.

Next Week

Event	Forecast	Previous	Comment
Mon 09			
AU Building Approvals (Nov)	0.0%	-6.0%	Dwelling approvals down in three of the past four months.
Tue 10			
US Small Business Optimism Index (Dec)	91.3	91.9	Small business sentiment is very low.
Wed 11			
AU Retail Sales (MoM, Nov)	0.1%	-0.2%	Consumer spending starting to falter.
AU CPI Indicator (YoY, Nov)	7.4%	6.9%	Inflation unexpectedly eased in October.
AU Job Vacancies (QoQ, Nov)	-	-2.1%	Vacancies were double the February 2020 level in Q2.
Thu 12			
AU Trade Balance (Nov)	A\$11.5b	A\$12.2b	Exports and imports slipped in October.
CH CPI (YoY, Dec)	1.8%	1.6%	Core inflation just 0.6% YoY.
CH PPI (YoY, Dec)	-0.1%	-1.3%	Base effects likely to see deflation ease.
US CPI (MoM, Dec)	0.0%	0.1%	US inflation appears to have peaked.
Fri 13			
AU New home loans (Nov)	-2.0%	-2.7%	Higher interest rates has seen new loan demand fall.
CH Trade Balance (Dec)	US\$78.8b	US\$69.2b	Chinese trade flows down sharply over the year.
US UMich Consumer Sentiment (Prelim, Jan)	60.5	59.7	Still depressed but well off its lows.