

### THIS WEEK'S HIGHLIGHTS

- In Australia, the RBA left the cash rate unchanged on Tuesday, as expected, and continued to stress that future decisions will be data-dependent.
- Data-wise, real GDP rose 0.4% in Q2, the same as in the previous quarter and in line with the market consensus. The current account surplus narrowed in Q2, and the trade surplus declined in July. Payroll jobs were slightly lower in the month to 12 August, to be 2.9% up YoY.
- Offshore, the US ISM services PMI pointed to a faster pace of expansion in US services activity in August. The Chinese Caixin services PMI suggested a further slowdown in August, but the annual pace of decline in exports and imports slowed, which could indicate some stabilisation in the Chinese economy and global demand.

### NEXT WEEK'S HIGHLIGHTS

- Another busy week at home, with the August NAB business report and Melbourne Institute - Westpac consumer sentiment index for September due on Tuesday, followed by the August labour force report on Thursday.
- The key data releases offshore will be US and Chinese inflation, Chinese economic activity data, and US retail sales and industrial production for August. A 25bps rate hike from the ECB is partially priced in for Thursday. The week will conclude with the UMich consumer confidence report for September on Friday, which will include consumer inflation expectations.

Central Bank Rates (%)		Weekly Change	Australian Interest Rates (%)		Weekly Change	Major Overseas Interest Rates (%)		Weekly Change	Global Equities		Weekly Change
Australia	4.10	(0 pt)	O/N Interbank Cash	4.07	(0 pt)	USD 3-month	5.66	(↓1 pt)	ASX200	7139	(↓142 pt)
US (IOR)	5.40	(0 pt)	90-day Bills	4.12	(↓1 pt)	2-yr T-Notes	4.93	(↑7 pt)	S&P500	4451	(↓57 pt)
Eurozone (Deposit)	3.75	(0 pt)	3-yr T-Bond	3.79	(↑7 pt)	10-yr T-Notes	4.22	(↑11 pt)	DJIA	34501	(↓221 pt)
UK	5.25	(0 pt)	10-yr T-Bond	4.09	(↑9 pt)	Jap 10-yr	0.65	(0 pt)	Nikkei	32668	(↓153 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	4.03	(↑5 pt)	UK 10-yr	4.45	(↑9 pt)	CSI300	3735	(↓49 pt)
China (1Y LPR)	3.45	(0 pt)	10-yr WATC Bond	4.54	(↑7 pt)	Ger 10-yr	2.61	(↑15 pt)	Stoxx600	454	(↓5 pt)

Changes are since the issue of last week's Market Watch.

## FINANCIAL MARKETS OVERVIEW

### Interest Rates

In Governor Philip Lowe's last meeting at the helm on Tuesday, the RBA kept interest rates on hold, including the cash rate target, which remains at 4.10%. The decision was in line with cash rate futures pricing.

The wording of the post-meeting statement was largely unchanged from the previous meeting, again citing the substantial monetary policy tightening to date, declining inflation as well as the uncertainty around the outlook.

The RBA's decision and post-meeting statement had little impact on cash rate expectations, with another 25bps hike partially priced in for November.

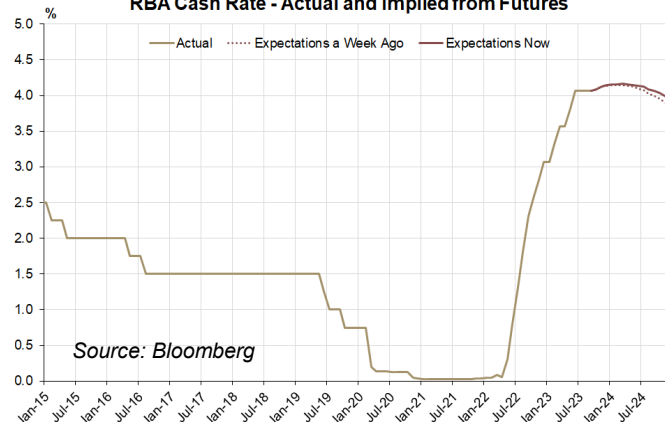
Government bond yields are predominantly up this week, which was a reaction to a series of solid US economic data reports. Most notably, the US ISM services PMI unexpectedly showed a faster pace of expansion and re-acceleration of price growth in services, which triggered an increase in inflation expectations and concerns that the Fed may not be done with its tightening cycle.

### Equities

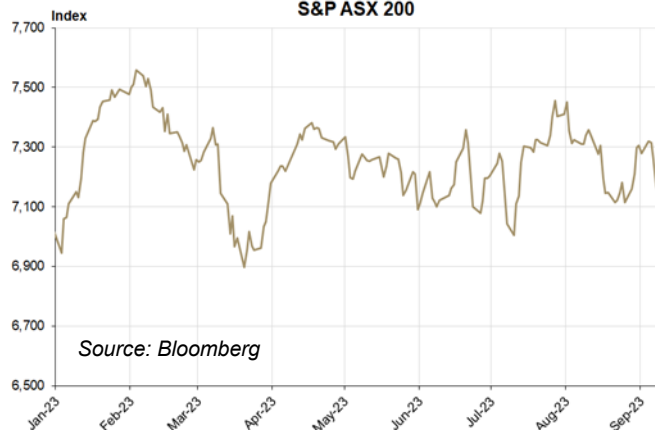
Aussie equities have slipped along with most major equity markets this week. All the major industry sectors have posted sharp falls, with the exception of energy, which has been boosted by rising oil prices over the past week. Utilities, materials and info tech have been the weakest subindices.

In the US, the S&P 500 appears on track for its first weekly loss in three weeks. All the major industry sectors have slipped since the last edition of Market WATCH, with the exception of energy, which was boosted by the sharp rise in oil prices. Info tech has been the worst performer, sliding 2.3% led by a sharp drop in Apple shares.

RBA Cash Rate - Actual and Implied from Futures



S&P ASX 200



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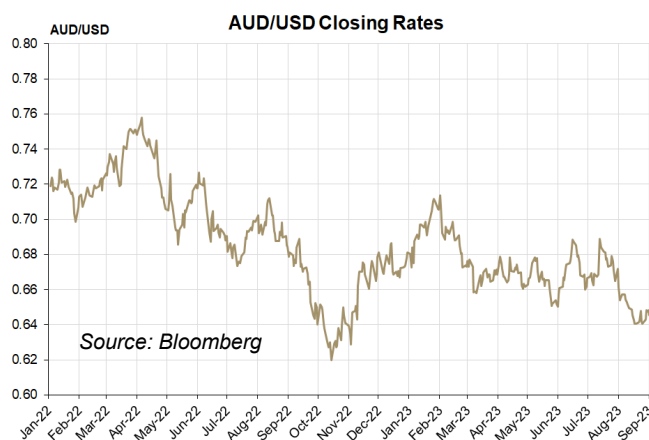
### Currencies

The Aussie dollar slipped against a stronger greenback this week.

The AUD slid below US\$0.64 on Tuesday to the lowest levels since early November 2022. This came after the soft Chinese services PMI and RBA decision to keep interest rates unchanged.

The Aussie remained below US\$0.64 for most of the week, with the exception of a temporary rise after Aussie GDP came out in line with expectations.

The negative sentiment about China and the strength of the US dollar due to the upside surprises of US economic data did not help the AUDUSD pair, with the USD index rising to its highest level since March. Overall, the Australian dollar was one of the weakest G10 currencies this week.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6392	0.6481	0.6357	↓1.2	0.7158	0.6170
AUD/EUR		0.5964	0.6006	0.5919	↓0.1	0.6825	0.5007
AUD/GBP		0.5114	0.5137	0.5064	↑0.1	0.6277	0.5007
AUD/JPY		94.03	94.72	93.59	↓0.1	98.60	86.06
AUD/CNY		4.6924	4.7081	4.6436	↓0.2	4.9348	4.4465
EUR/USD		1.0721	1.0809	1.0686	↓1.1	1.1276	0.9536
GBP/USD		1.2500	1.2643	1.2446	↓1.3	1.3142	1.0350
USD/JPY		147.10	147.87	146.02	↑1.1	151.95	127.23
USD/CNY		7.3417	7.3468	7.2574	↑1	7.3274	6.6909

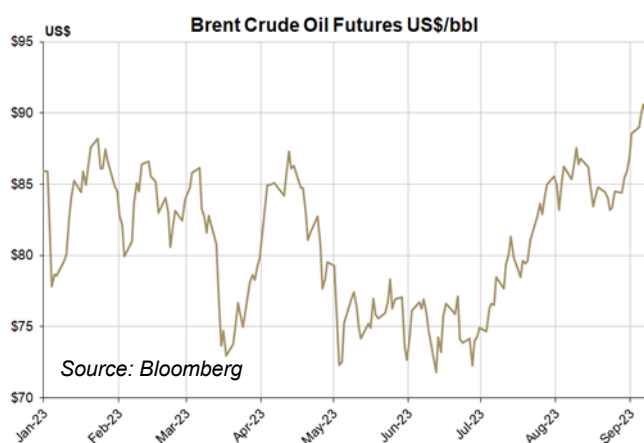
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6392	0.6413	0.6434	0.6463
AUD/EUR		0.5964	0.5957	0.5946	0.5921
AUD/GBP		0.5114	0.5130	0.5145	0.5176
AUD/JPY		94.03	92.97	91.86	89.71
AUD/NZD		1.0835	1.0869	1.0903	1.0962
AUD/SGD		0.8720	0.8713	0.8700	0.8663

### Commodities

Commodities have had a mixed week, with the CRB index posting a 0.7% gain since this time last week largely on the back of a sharp rise in oil prices, which have risen to the highest levels since November last year.

The increase in oil prices has largely been built on news that OPEC+ will extend their production cuts through to the end of 2023. The news prompted one major global bank to forecast that oil prices will climb above US\$100/barrel.

Iron ore futures prices hit the highest level since April on Monday, and remained close to those levels before slipping late in the week despite news that Chinese iron ore import volumes climbed to a near three-year high in August. The decline appears to be linked to reports that Chinese regulators are again looking at ways to regulate iron ore prices in the wake of recent gains.



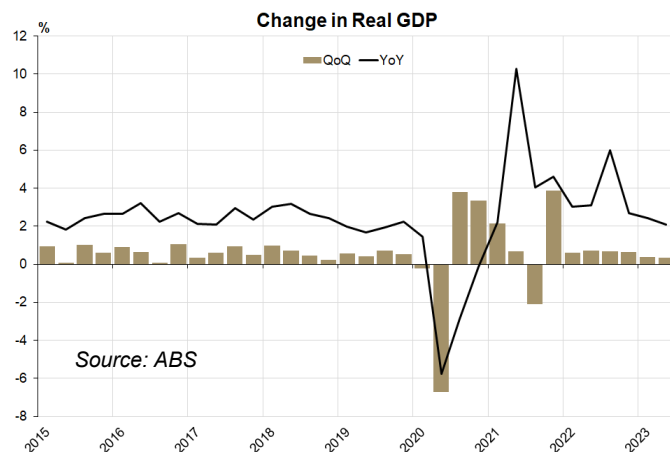
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,926.17	\$1,946.33	\$1,915.34	(↓\$12.75)	\$2,062.99	\$1,614.96
Brent Crude Oil (US\$)	\$89.45	\$91.15	\$88.06	(↑\$2.4)	\$99.56	\$70.12
Mogas95* (US\$)	\$100.39	\$106.19	\$95.08	(↑\$3.36)	\$108.40	\$77.66
WTI Oil (US\$)	\$86.35	\$88.08	\$83.46	(↑\$2.55)	\$93.74	\$63.64
CRB Index	283.77	284.92	281.15	(↑1.87)	287.62	253.85
Iron Ore Price 62% Fe (US\$) **	\$113.80	\$117.25	\$112.50	(↑\$0.3)	\$139.80	\$75.00

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

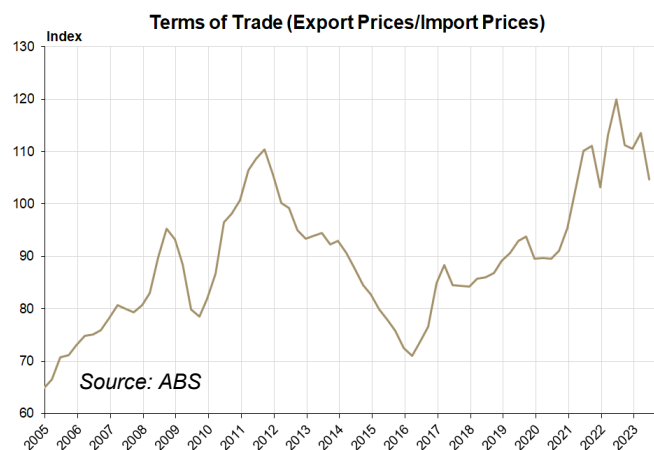
\*\* The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

### DOMESTIC ECONOMY

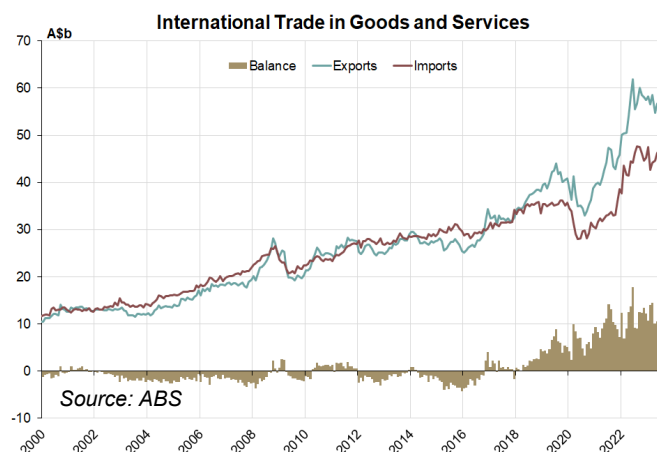
**Real GDP growth** continued to slow in Q2 2023.



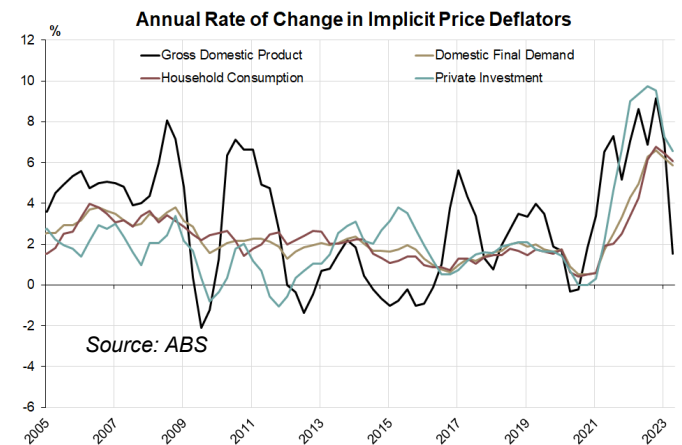
... amid a drop in the **terms of trade** due to lower commodity prices.



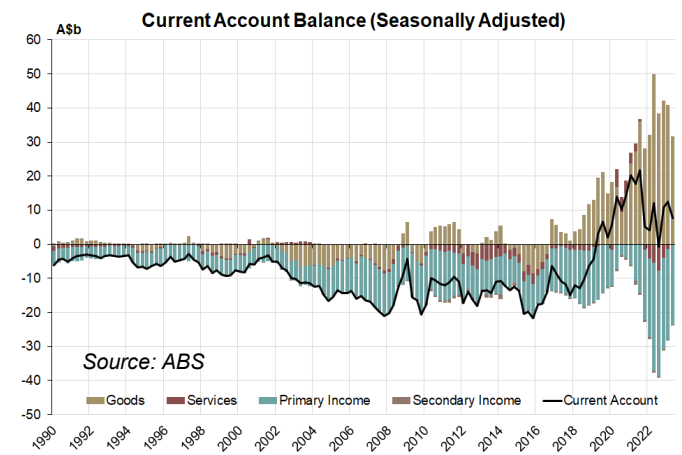
The **trade surplus** continued to fall in July amid solid imports and a decline in commodity export volumes.



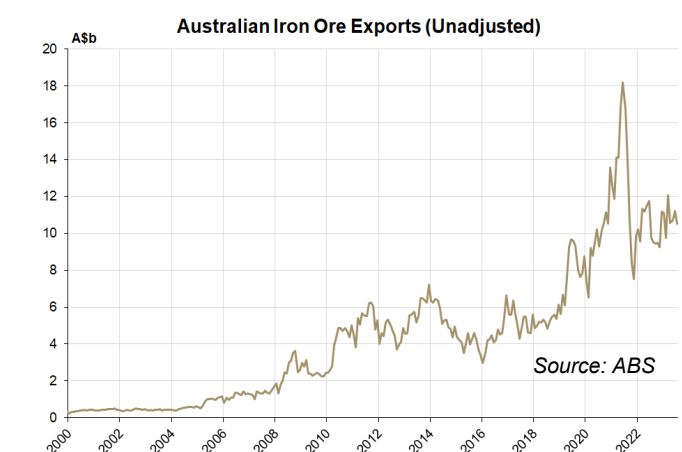
**Domestic price pressures** persisted, but have passed the peak, while the GDP deflator decelerated sharply...



Lower commodity prices led to a decline in the trade surplus in Q2 and the **current account surplus**.

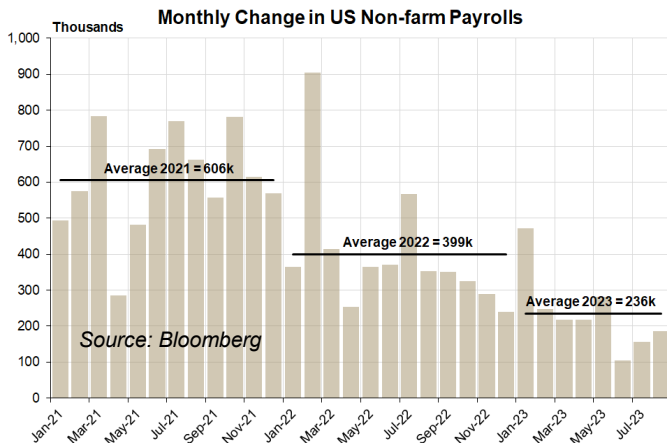


Despite a decline, **iron ore exports** remained well above pre-COVID levels.

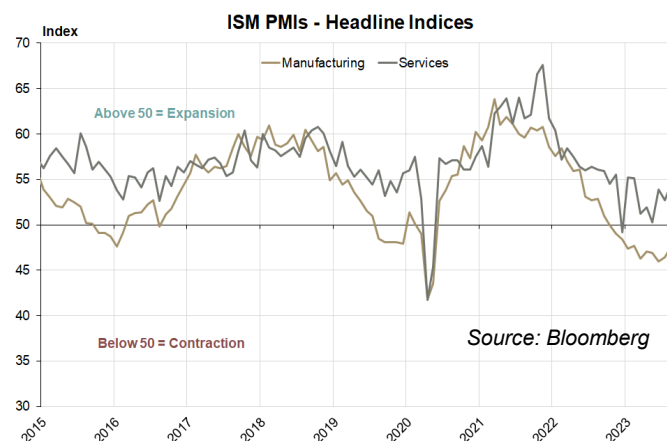


### GLOBAL ECONOMY

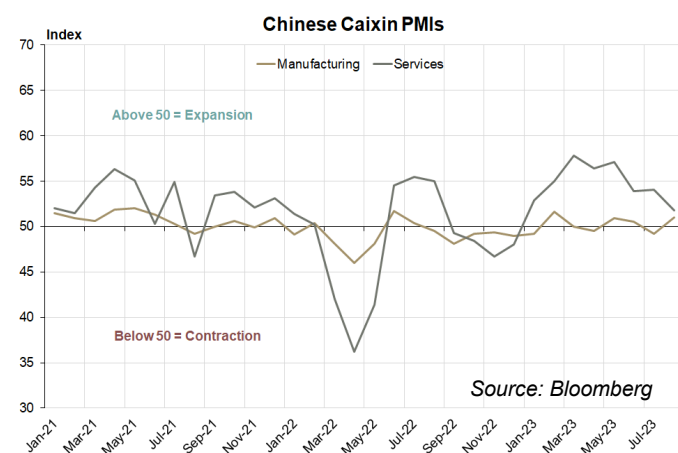
**US non-farm payrolls** growth has slowed in recent months.



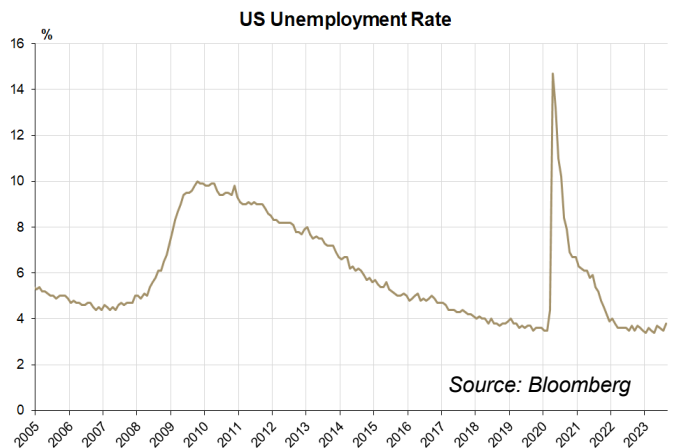
The **ISM reports** showed expansion re-accelerated in US services, but manufacturing activity fell further.



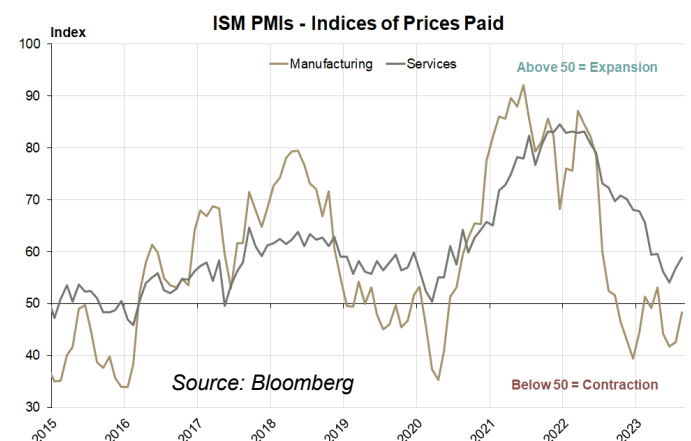
The **Caixin PMIs** suggest expansion in Chinese services has slowed, while manufacturing returned to expansion.



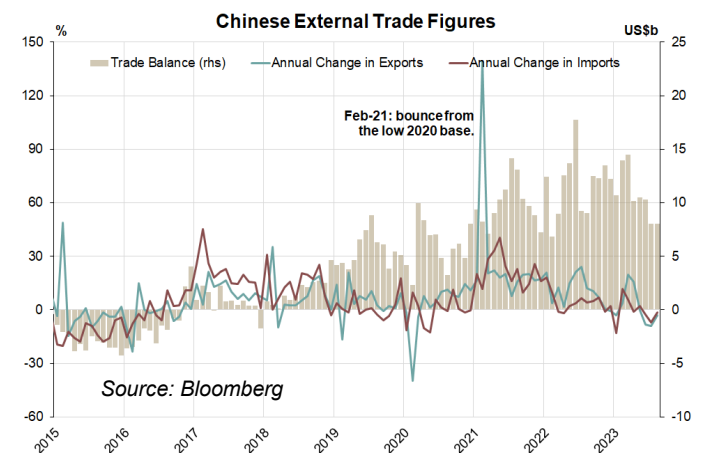
**US unemployment rate** rose slightly in August, but remained very low by historical standards.



**Cost pressures** picked up in US services, but remained limited, while manufacturing input prices continued to fall.



The fall in the **Chinese external trade turnover** has eased.



# WESTERN AUSTRALIAN TREASURY CORPORATION

## Market WATCH Weekly

8 September 2023

### KEY ECONOMIC EVENTS

#### *This Week*

	Event	Actual	Forecast	Previous	Comment
<b>Mon 04</b>					
AU	MI Inflation Gauge (MoM, Aug)	0.2%	-	0.8%	Annual rate up 0.7ppts to 6.1% due to base effects.
AU	ANZ Indeed Job Ads (MoM, Aug)	1.9%	-	0.7%	July numbers revised upwards.
<b>Tue 05</b>					
AU	RBA Decision (Cash Rate Target)	4.10%	4.10%	4.10%	Further decisions will continue to be data-dependent.
AU	Current Account Balance (Q2)	A\$7.7b	A\$8.0b	A\$12.5b	Decline due to lower commodity prices.
AU	ANZ Cons. Confidence (w/e 2 Sep)	0.8%	-	3.0%	Inflation expectations up 0.1ppts to 5.3%.
CH	Caixin Services PMI (Aug, flash)	51.8	53.5	54.1	Composite index down 0.2ppts to 51.7.
<b>Wed 06</b>					
AU	GDP (QoQ, Q2)	0.4%	0.4%	0.4%	Annual rate of growth slowed 0.2ppts to 2.1%.
US	ISM Services PMI (Aug)	54.5	52.5	52.7	The strongest expansion since February.
US	Beige Book	-	-	-	Only 'modest' activity, with jobs 'subdued'.
<b>Thu 07</b>					
AU	Trade Balance (Aug)	A\$8.0b	A\$10.0b	A\$10.3b	Decline due to lower exports and higher imports.
AU	RBA Governor Philip Lowe Speaks	-	-	-	Speech focussed on big picture themes.
AU	Payroll Jobs (MoM, w/e 12 Aug)	-0.1%	-	-0.3%	Up 2.9% YoY.
CH	Trade Balance (Jul)	US\$68.3b	US\$73.9b	US\$80.6b	Decline in exports and imports slowed substantially.
US	Initial Jobless Claims (w/e 2 Sep)	216k	234k	229k	The lowest level since February.
<b>Fri 08</b>	No market-moving data				

#### *Next Week*

	Event	Forecast	Previous	Comment
<b>Mon 11</b>	No market-moving data			
<b>Tue 12</b>				
AU	NAB Business Conditions (Aug)	-	10	Business conditions remain above average levels.
AU	NAB Business Confidence (Aug)	-	2	However, confidence is subdued despite improvement.
AU	Westpac Consumer Conf. (MoM, Sep)	-	-0.4%	Weekly indicators suggest a rise to a still subdued level.
UK	Unemployment Rate (Jul)		4.2%	Claimant count suggests a further increase.
<b>Wed 13</b>				
UK	Monthly GDP (MoM, Jul)	-	0.5%	Business indicators suggest a modest increase in GDP.
US	CPI (MoM, Aug)	0.6%	0.2%	Annual rate of inflation expected to accelerate to 3.6%.
<b>Thu 14</b>				
AU	Employment (monthly change, Aug)	25.0k	-14.6k	The July decline was likely temporary.
AU	Unemployment Rate (Aug)	3.6%	3.7%	RBA expects a gradual increase to 4.5% in 2025.
EZ	ECB Decision (Deposit Rate)	3.75%	3.75%	Market pricing in a 35% chance of a 25bps hike.
US	Retail Sales (MoM, Aug)	0.2%	0.7%	US consumer demand reports have been mixed of late.
US	PPI (MoM, Aug)	0.4%	0.2%	Business reports point to weak producer price growth.
<b>Fri 15</b>				
CH	Retail Sales (YoY, Aug)	3.5%	2.5%	PMI reports suggest further weakness.
CH	Industrial Production (YoY, Aug)	4.0%	3.7%	Steel output is reportedly strong.
CH	Urban Fixed Asset Inv. (YoY YtD Aug)	3.5%	3.4%	Key indicator for the Chinese demand for iron ore.
US	Industrial Production (MoM, Aug)	0.2%	1.0%	PMIs pointed to a decline in manufacturing.
US	UoM Consumer Confidence (Sep)	69.5	69.5	Will include inflation expectations tracked by the Fed.