

THIS WEEK'S HIGHLIGHTS

- The FOMC has left the fed funds rate target range unchanged, as expected, but revised its rate projection path upwards.
- In Australia, RBA minutes brought no major surprises. The Judo Bank composite PMI rose back into expansion in September.

NEXT WEEK'S HIGHLIGHTS

- It will be a busy week at home, with monthly CPI indicator for August on Wednesday, August retail sales report and Q3 job vacancies on Thursday as well as August private sector credit data on Friday.
- The highlights offshore include US durable goods orders and the report on US personal income and its disposition, which will contain PCE inflation targeted by the Fed; both releases are for August.

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	6986 (↓315 pt)
US (IOR)	5.40 (0 pt)	90-day Bills	4.15 (↑2 pt)	2-yr T-Notes	5.13 (↑13 pt)	S&P500	4330 (↓175 pt)
Eurozone (Deposit)	4.00 (0 pt)	3-yr T-Bond	4.05 (↑24 pt)	10-yr T-Notes	4.50 (↑22 pt)	DJIA	34070 (↓837 pt)
UK	5.25 (0 pt)	10-yr T-Bond	4.35 (↑26 pt)	Jap 10-yr	0.74 (↑3 pt)	Nikkei	32250 (↓1338 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	4.27 (↑23 pt)	UK 10-yr	4.31 (↑2 pt)	CSI300	3672 (↓63 pt)
China (1Y LPR)	3.45 (0 pt)	10-yr WATC Bond	4.76 (↑23 pt)	Ger 10-yr	2.74 (↑14 pt)	Stoxx600	455 (↓6 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

At its meeting this week, the FOMC left the fed funds rate target range unchanged at 5.25-5.50% and revised its fed funds rate projections upwards. The projections now imply another 25bps fed funds rate hike later this year and a higher than previously forecast fed funds rate target range in 2024 and 2025.

Following the FOMC's announcement and the press conference, fed funds rate expectations rose quite considerably, with around a 50% probability of another hike this year priced in by the futures.

The RBA Board minutes brought no major surprises. The Board members continue to judge that the Aussie economy is 'on the narrow path' where inflation returns to the target range without further cash rate increases.

Elsewhere, the Bank of England, Swiss National Bank and the Bank of Japan kept their policy rates unchanged this week, but the Norges Bank delivered another 25bps hike.

The dovish hike from the Fed led to a substantial rise in government bond yields across the advanced economies. US 10-year Treasury yields are now the highest since October 2007.

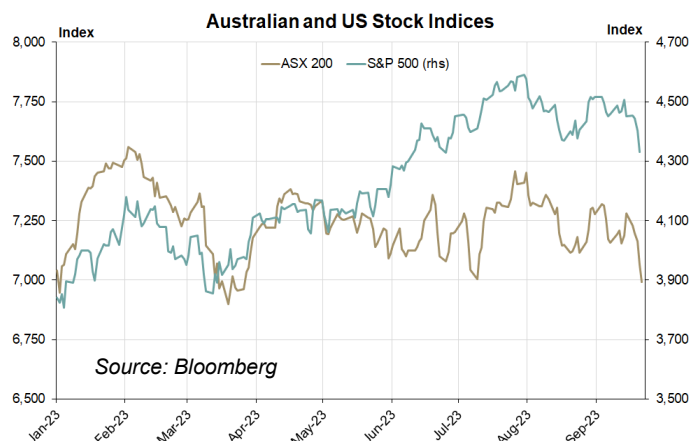
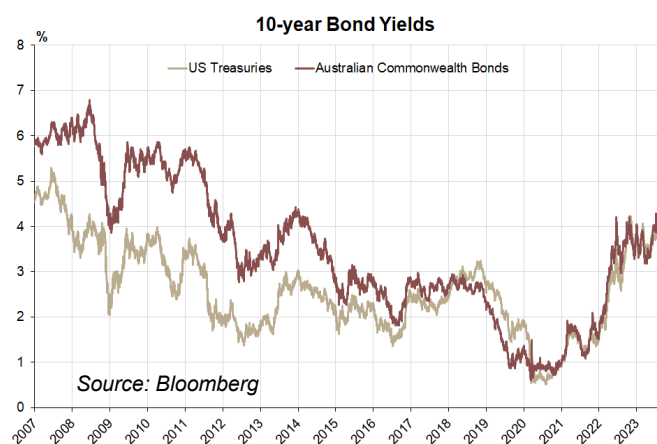
Equities

It was not a good week for equities, which were dragged down by concerns that the Fed has not concluded its tightening cycle and the interest rates may be kept higher for longer.

The MSCI World index, which is the broadest measure of global equity market performance, lost 3.2% in the week, to be the lowest since early June.

In the US, the S&P 500 fell by 3.9%, while the Dow Jones declined by 2.4%, with falls across all the industries. Particularly strong losses were recorded for consumer discretionary and real estate shares.

The Aussie stock market again underperformed Wall Street this week, with the ASX 200 retreating 4.3% to be the lowest since March. The losses were also broad-based, led by information technology and energy stocks.



For further information, please contact:

Craig McGuinness

Chief Economist

cmcguinness@watc.wa.gov.au

(08) 9235 9104

Patrycja Beniak

Economist

pbeniak@watc.wa.gov.au

(08) 9235 9110

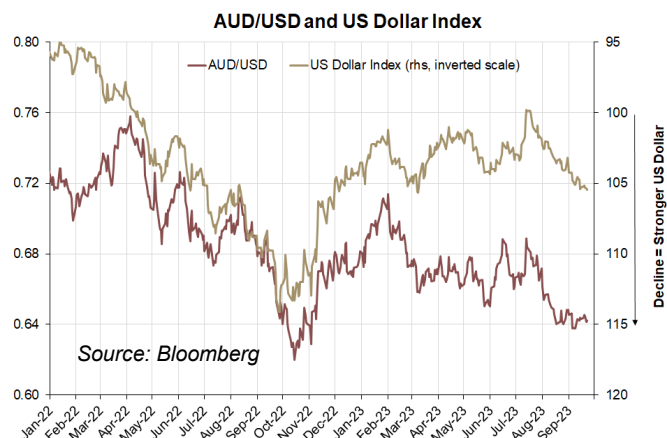
Currencies

It was another bad week for the Australian dollar, dragged down by deterioration in the global market sentiment and a decline in commodity prices.

The AUD depreciated against all the major currencies but the weaker British pound, which lost ground after the surprising decision from the Bank of England to pause on Thursday.

The Aussie dollar was the fourth weakest G10 currency. Apart from the British pound, it was surpassed by the Swiss franc, after the Swiss National Bank also unexpectedly decided to pause this week, as well as the Norwegian krone despite the Norges Bank increasing its policy rate as expected.

The decline in the AUD/USD was partly due to the greenback's strength. This week, the US dollar index reached the highest level since the US regional banking crisis back in early March.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6412	0.6511	0.6386	↓0.8	0.7158	0.6170
AUD/EUR		0.6025	0.6068	0.6005	↓0.8	0.6790	0.5007
AUD/GBP		0.5224	0.5248	0.5186	↑0.4	0.6277	0.5007
AUD/JPY		94.68	96.07	94.54	↓0.7	97.68	86.06
AUD/CNY		4.6816	4.7445	4.6660	↓0.2	4.9348	4.4465
EUR/USD		1.0643	1.0737	1.0617	↓0	1.1276	0.9536
GBP/USD		1.2275	1.2425	1.2239	↓1.2	1.3142	1.0350
USD/JPY		147.65	148.46	147.32	↑0.1	151.95	127.23
USD/CNY		7.3018	7.3094	7.2774	↑0.6	7.3274	6.6909

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6412	0.6432	0.6452	0.6479
AUD/EUR		0.6025	0.6020	0.6010	0.5984
AUD/GBP		0.5224	0.5238	0.5250	0.5270
AUD/JPY		94.68	93.59	92.48	90.27
AUD/NZD		1.0825	1.0859	1.0893	1.0953
AUD/SGD		0.8768	0.8758	0.8744	0.8706

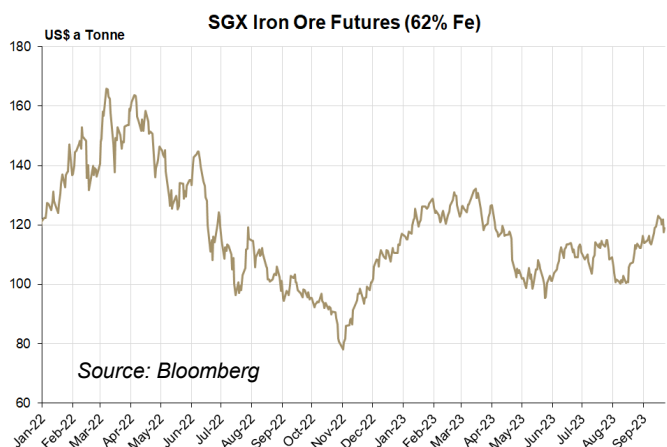
Commodities

Industrial commodity prices declined across the board this week, as investors were concerned about the economic impacts of interest rates remaining higher for longer.

Iron ore futures declined by 3.3% this week, but were still high by historical standards. Iron ore futures remain supported by the Chinese stimulus hopes and the recent upside surprises to the activity data in China.

Brent futures ebbed by 0.9%, with declines being contained by concerns over lower supply of this commodity additionally propped up by a ban on Russian diesel and gasoline exports announced by President Vladimir Putin on Thursday night.

Concerns over economic impacts of tight monetary policy supported the gold price, which picked up by 0.5% this week.



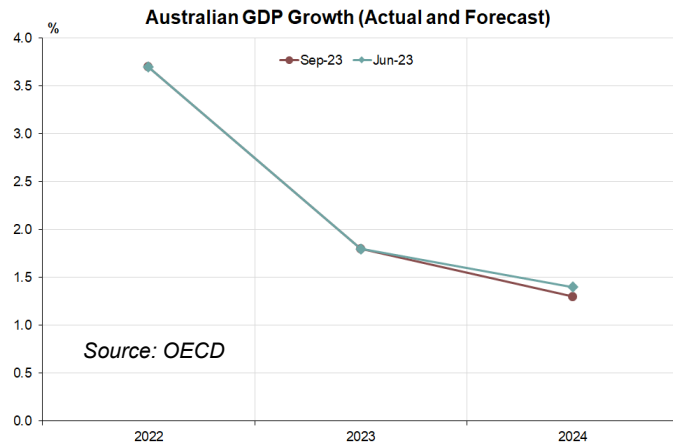
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,923.34	\$1,947.47	\$1,913.98	(↑\$7.66)	\$2,062.99	\$1,614.96
Brent Crude Oil (US\$)	\$93.56	\$95.96	\$92.20	(↓\$0.97)	\$99.56	\$70.12
Mogas95* (US\$)	\$102.30	\$110.15	\$99.01	(↓\$3.18)	\$110.15	\$77.66
WTI Oil (US\$)	\$89.96	\$93.74	\$88.37	(↓\$1.09)	\$93.74	\$63.64
CRB Index	285.93	290.29	285.93	(↓4.36)	290.29	253.85
Iron Ore Price 62% Fe (US\$) **	\$118.25	\$123.45	\$116.25	(↓\$4.6)	\$139.80	\$75.00

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

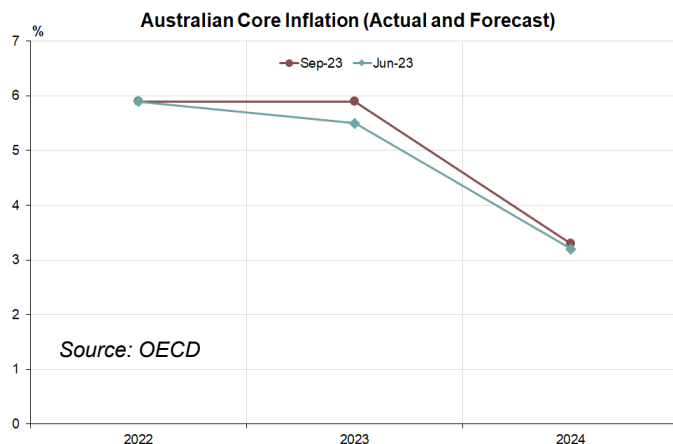
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

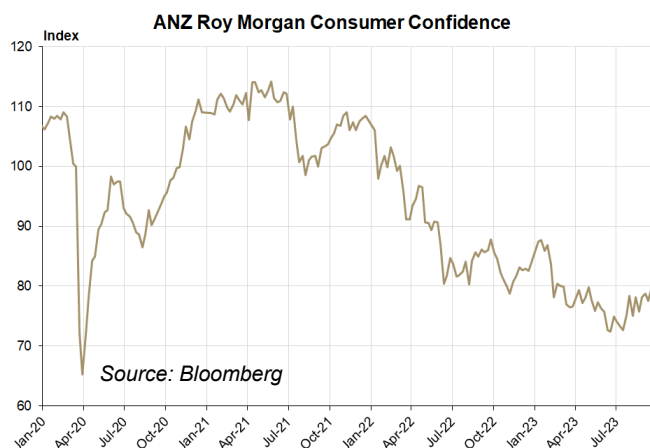
The OECD forecasts that **Aussie GDP growth** will slow down significantly this year and decelerate further in 2024.



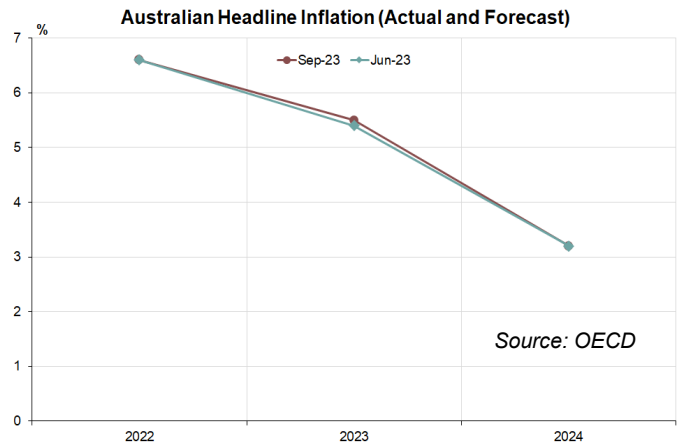
... while the **core inflation** forecasts were revised upwards, to show no deceleration this year.



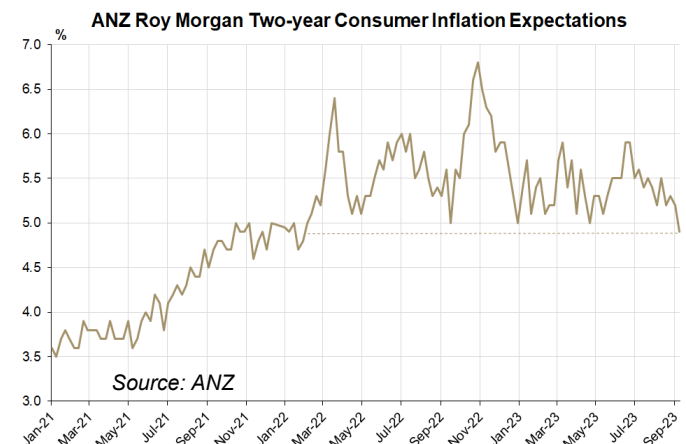
... which translates into a gradual improvement in **consumer confidence**, which however remains low.



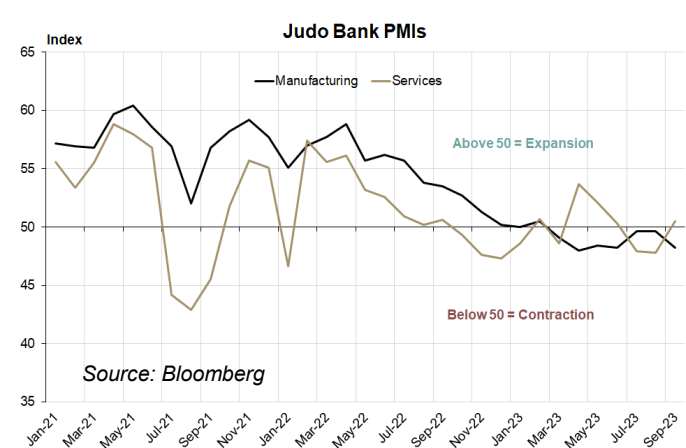
The OECD also forecasts that **headline inflation** will decline gradually, but remain slightly above 3% in 2024...



According to the ANZ report, two-year **consumer inflation expectations** are the lowest since early 2022.

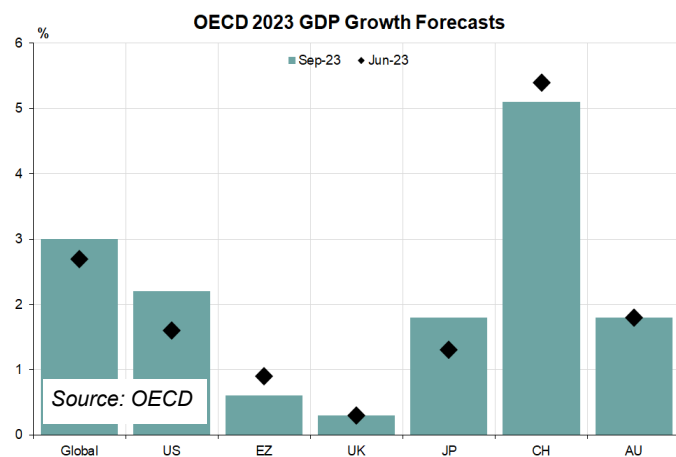


The **Judo Bank services PMI** rose back into expansion in September, but activity in manufacturing fell further.

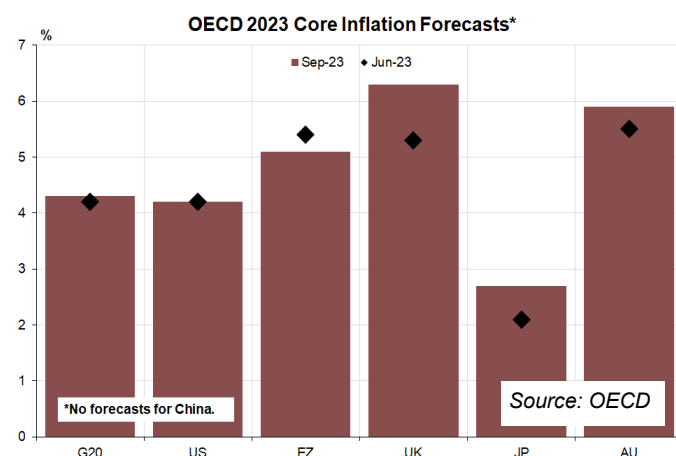


GLOBAL ECONOMY

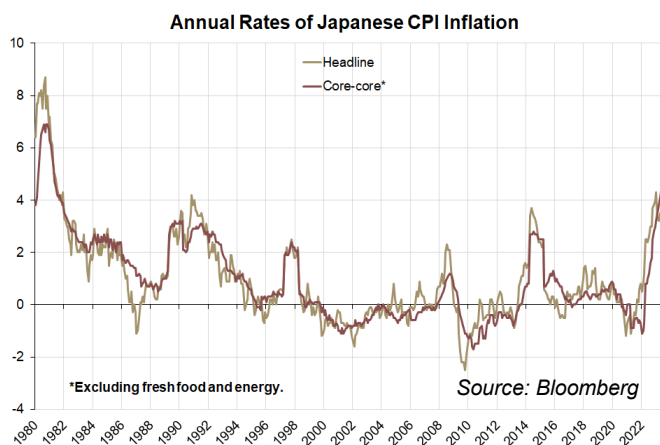
The OECD has upgraded its **global GDP growth** forecasts, thanks to the strong performance of the US and Japan.



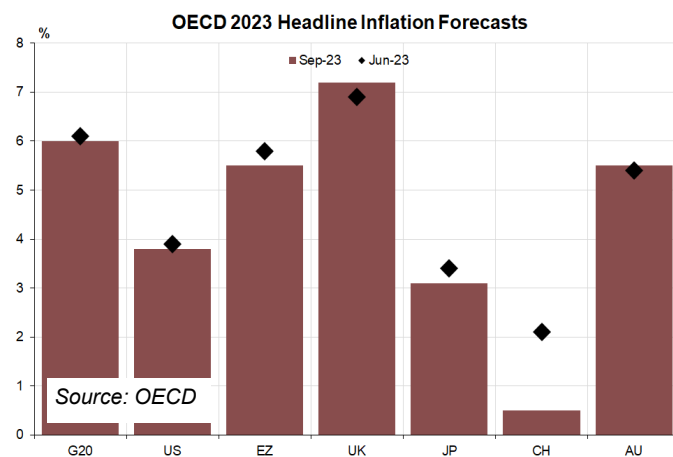
... while **core inflation** forecasts were held steady or revised upwards, with a notable exception of the euro area.



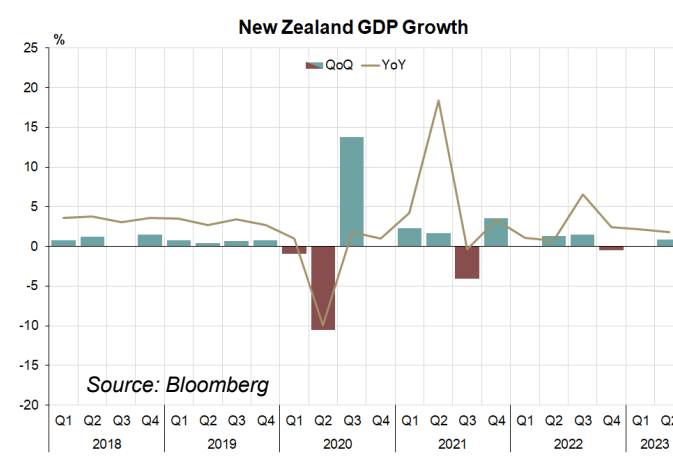
Japanese CPI inflation is falling steadily in headline terms, but remains at 40-year highs in core terms.



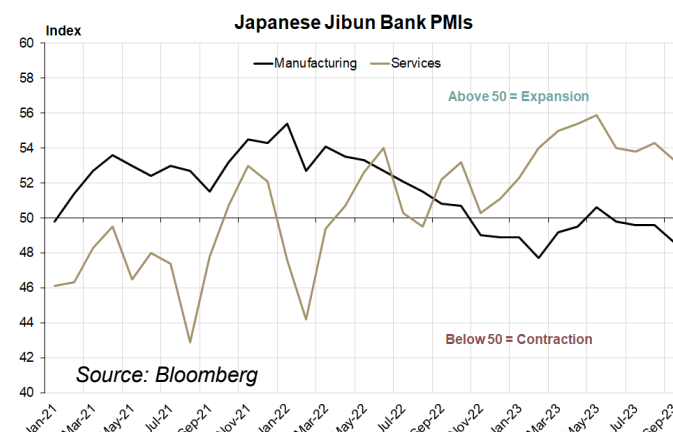
The OECD also revised **headline inflation** forecasts downwards for most major economies...



The **New Zealand** economy has escaped recession.



The **Japanese services sector** continues to expand at a solid pace, while contraction in manufacturing deepened.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

22 September 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 18	<i>No market-moving data.</i>				
Tue 19					
AU	RBA Minutes (Sep)	-	-	-	A 25bps hike was again discussed at the meeting.
AU	ANZ Consumer Conf. (w/e 16 Sep)	2.9%	-	-1.4%	Consumer inflation expectations below 5%.
Wed 20					
CH	PBoC Decision (1Y LPR)	3.45%	3.45%	3.45%	Five-year was also kept steady at 4.20%.
UK	CPI (MoM, Aug)	6.7%	7.0%	6.8%	Core inflation dropped by 0.7ppts to 6.2%.
US	FOMC Decision (IoER)	5.40%	5.40%	5.40%	FOMC members expect one more hike in 2023.
Thu 21					
NZ	GDP (QoQ, Q2)	0.9%	0.4%	0.0%	No technical recession in Kiwi economy in Q1.
UK	BoE Decision (Bank Rate)	5.25%	5.50%	5.25%	First pause in this tightening cycle.
US	Initial Jobless Claims (w/e 21 Sep)	201k	225k	221k	The lowest level since late January.
Fri 22					
AU	Judo Bank Comp. PMI (Sep, flash)	50.2	-	48.0	Selling price inflation declined to a five-month low.
JP	BoJ Decision (Comp. Deposit Rate)	-0.10%	-0.10%	-0.10%	The BoJ to keep a close eye on currency moves.
JP	CPI (YoY, Aug)	3.2%	3.0%	3.3%	'Core-core' inflation steady at a 40-year high.
JP	Jibun Bank Comp. PMI (Sep, flash)	51.8	-	52.6	Contraction in manufacturing accelerated in Sep.
Tonight					
EZ	HCOB Composite PMI (Sep, flash)	-	44.7	46.7	To remain in the strongest contraction since 2020.
UK	S&P Global Comp. PMI (Sep, flash)	-	48.7	48.6	Fell back into contraction in August.
US	S&P Global Comp. PMI (Sep, flash)	-	50.4	50.2	Has been a poor indicator for the ISM PMIs of late.

Next Week

	Event	Forecast	Previous	Comment
Mon 25	<i>No market-moving data.</i>			
Tue 26				
US	C-S Hse Price Index 20 Cities (YoY, Jul)	-	-1.2%	Has been rising in monthly terms since March.
US	Conference Board Consumer Conf. (Sep)	105.9	106.1	Its UoM equivalent suggested renewed deterioration.
Wed 27				
AU	Monthly CPI Indicator (YoY, Aug)	5.2%	4.9%	Melbourne Institute gauge also pointed to re-acceleration.
US	Durable Goods Orders (MoM, Aug)	-0.4%	-5.2%	ISM PMI report suggested a further decline.
Thu 28				
AU	Retail Trade (MoM, Aug)	0.4%	0.5%	Credit card data also point to another increase.
AU	Job Vacancies (QoQ, Q3)	-	-2.0%	Aussie labour market is easing, but remains tight.
US	GDP (QoQ Annualised, Q2, final)	2.3%	2.0%	An slight 0.2ppts upward revision expected.
Fri 29				
AU	Private Sector Credit (MoM, Aug)	0.3%	0.3%	The annual rate of private sector credit growth is slowing.
EZ	HICP (YoY, Sep, flash)	-	5.2%	Disinflation in the euro area continues.
US	Personal Spending (MoM, Sep)	0.4%	0.8%	Retail sales data suggested another solid increase.
US	PCE Price Index (MoM, Sep)	0.5%	0.2%	CPI report pointed to faster price growth.