

### THIS WEEK'S HIGHLIGHTS

- In Australia, dwelling approvals saw another big fall in November as did new home loans. Retail sales boomed in November, while CPI inflation picked up steam again. The external trade surplus widened in November. Job vacancies fell for the second quarter in a row in the three months to November but remained almost double the pre-COVID level.
- The US unemployment rate fell back to a post-1960s low in December, however wage inflation appears to be easing. US small businesses remained pessimistic in December and the ISM services PMI fell into contraction. December saw another decline in US inflation in December and Chinese inflation remained benign.

### NEXT WEEK'S HIGHLIGHTS

- A fairly quiet week ahead domestically, with the only data to look forward to being the Melbourne Institute inflation gauge for December on Monday, the Westpac-Melbourne Institute consumer sentiment report for January on Tuesday, payrolls and wages for the week ending 10 December on Wednesday and the December employment report on Thursday.
- It'll be busier overseas. The Chinese activity data for December as well as Q4 GDP are due for release on Tuesday. In the US, retail sales, industrial production and the PPI for December will be released on Wednesday, while the Japanese CPI for December is due 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 (0 pt)	USD 3-month	4.83 (↑2 pt)	ASX200	7331 (↑216 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	3.31 (↓1 pt)	2-yr T-Notes	4.16 (↓30 pt)	S&P500	3983 (↑175 pt)
Eurozone	2.00 (0 pt)	3-yr T-Bond	3.16 (↓30 pt)	10-yr T-Notes	3.47 (↓25 pt)	DJIA	34190 (↑1260 pt)
UK	3.50 (0 pt)	10-yr T-Bond	3.58 (↓24 pt)	Jap 10-yr	0.52 (↑2 pt)	Nikkei	26157 (↑163 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.64 (↓34 pt)	UK 10-yr	3.34 (↓20 pt)	CSI300	4049 (↑54 pt)
China (1Y LPR)	3.65 (0 pt)	10-yr WATC Bond	4.25 (↓27 pt)	Ger 10-yr	2.13 (↓17 pt)	Stoxx600	450 (↑11 pt)

\*changes are since the issue of last week's Market Watch

## FINANCIAL MARKETS OVERVIEW

### Interest Rates

Global bond yields have continued the downtrend that began in the first week of 2023, unwinding much of the sharp gain that occurred over the last three weeks of 2022.

The falls have been given additional momentum by increased optimism that global inflation may have peaked. That expectation was given further weight by the softer-than-expected December US CPI report released on Thursday.

The lower inflation has added weight to calls from some Fed policymakers for further dialling back of the pace of Fed rate hikes.

Domestically, Aussie bond yields have fallen along with yields elsewhere.

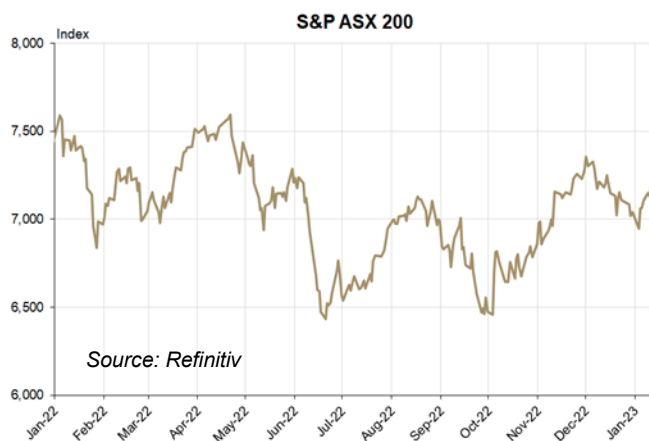
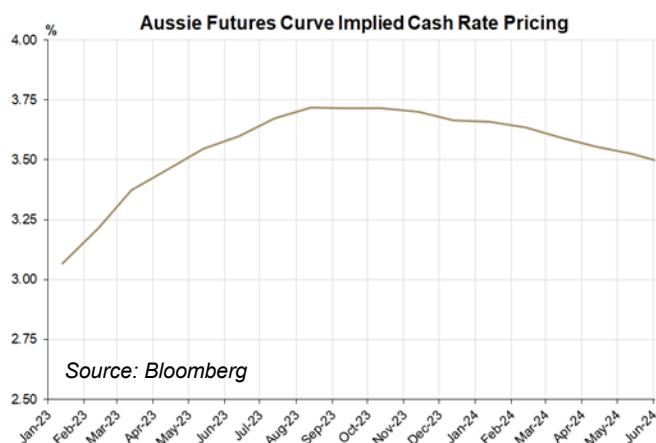
The futures market continues to price in a 75% chance of a 25bps hike from the RBA in February and is currently pricing in a peak of around 3.75% in Q3 this year, down from the almost 4% peak priced in this time last week.

### Equities

Equities have had a positive week led by strong gains on Wall Street. The upswing started after the US employment report, released last Friday, was the perfect mix of solid payrolls growth and softer wage inflation.

The upward momentum has been maintained this week by some relatively dovish comments from Fed officials and news later in the week of a further fall in the US inflation rate.

The Australian market has followed the US market higher and also been boosted by the sharp fall in Aussie bond yields and a sharp increase in commodity prices. The ASX 200 is currently sitting at a six-week high.



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### Currencies

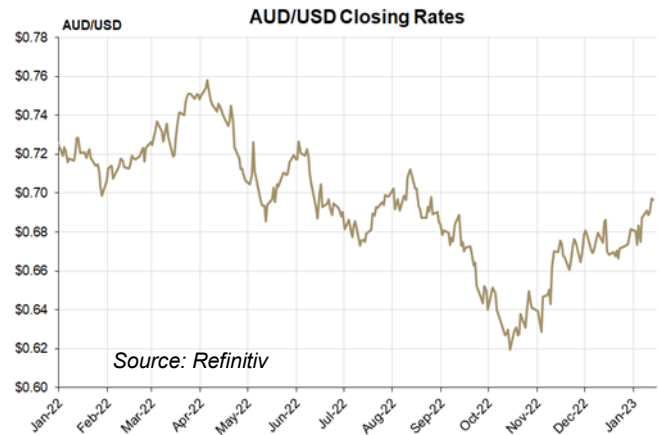
The Aussie dollar has risen strongly against the USD this week, climbing to its highest level since August last year. The increase has been largely driven by weakness in the USD rather than strength in the Aussie dollar.

The fall in the big dollar was driven by speculation that the Fed will slow the pace of interest rate hikes. The US dollar index, which values the dollar against a basket of major currencies, has dropped to its lowest level since June 2022.

The Aussie has slipped a little against the euro and the Japanese yen.

The euro continues to be boosted by hawkish commentary from the ECB and easing concerns over a winter energy crisis.

The Japanese yen has been the strongest of the major currencies, rising to its highest level against the greenback since May 2022.



Spot rates		Current	High	Low	Change (%)*	52-Week High	52-Week Low
AUD/USD		0.6952	0.6984	0.6684	↑2.7	0.7661	0.6169
AUD/EUR		0.6410	0.6499	0.6294	↓0.3	0.7000	0.6160
AUD/GBP		0.5698	0.5718	0.5538	↑0.4	0.6260	0.5200
AUD/JPY		89.79	91.82	87.37	↓0.9	98.43	80.34
AUD/CNY		4.6766	4.7432	4.6092	↑0.8	4.8743	4.4286
EUR/USD		1.0842	1.0867	1.0482	↑3	1.1495	0.9534
GBP/USD		1.2194	1.2246	1.1838	↑2.3	1.3748	1.0382
USD/JPY		129.15	134.77	128.67	↓3.5	151.94	113.46
USD/CNY		6.7270	6.7270	6.7278	↓1.8	7.3270	6.3025

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6952	0.6977	0.7002	0.7034
AUD/EUR		0.6410	0.6395	0.6383	0.6355
AUD/GBP		0.5698	0.5707	0.5714	0.5721
AUD/JPY		89.79	89.04	88.19	86.40
AUD/NZD		1.0897	1.0930	1.0975	1.1047
AUD/SGD		0.9195	0.9214	0.9221	0.9203

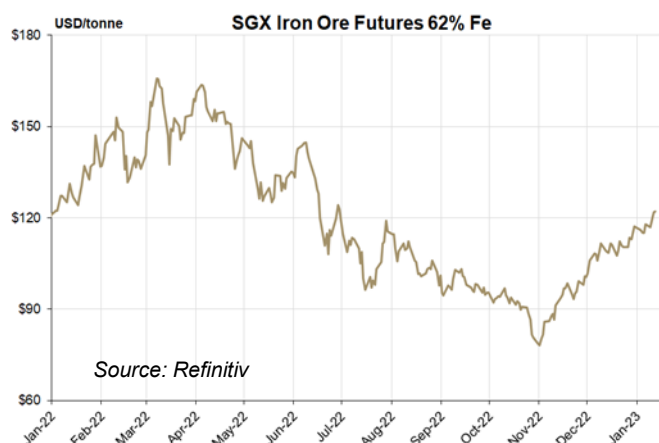
### Commodities

It's been a strong week for commodities with ongoing optimism on the outlook for demand from China and expectations for a slowing in the pace of interest rate hikes in the US.

Oil prices have jumped over 5% this week, with Chinese consumption expected to hit a record high this year after a small dip in 2022.

Iron ore futures prices have climbed 6% since this time last week, hitting a fresh 6½-month high as traders continue to bet on a sharp rise in Chinese steel demand as the economy rebounds from the zero-COVID policy.

Gold continued its upward momentum, breaking through US\$1900/oz for the first time since May last year.



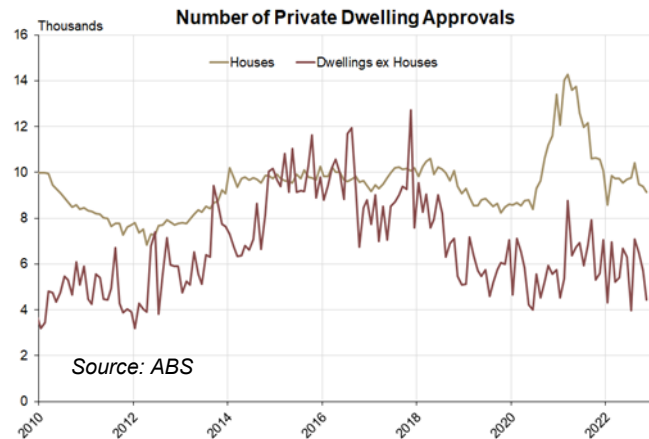
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,897.44	\$1,901.41	\$1,795.18	(↑\$58.86)	\$2,069.89	\$1,613.60
Brent Crude Oil (US\$)	\$83.72	\$87.00	\$77.61	(↑\$4.21)	\$139.13	\$75.11
Mogas95* (US\$)	\$95.18	\$98.20	\$89.60	(↑\$5.63)	\$161.20	\$82.60
WTI Oil (US\$)	\$78.21	\$81.50	\$72.46	(↑\$3.74)	\$130.50	\$70.08
CRB Index	273.77	278.47	263.69	(↑10.08)	329.59	245.43
Iron Ore Price 62% Fe (US\$) **	122.14	\$123.25	\$106.05	(↑\$7.02)	\$171.00	\$75.30

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

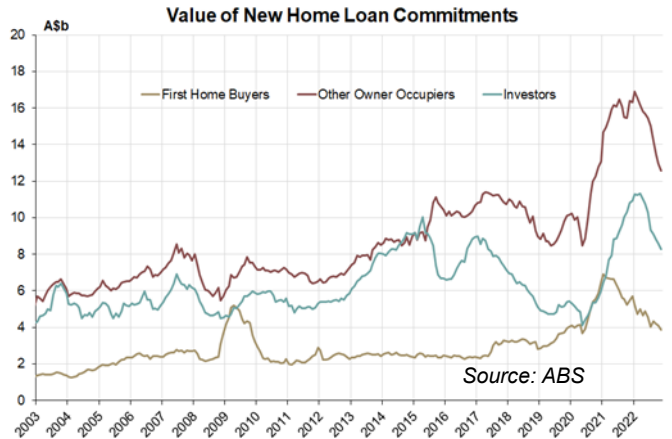
\*\* The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

### DOMESTIC ECONOMY

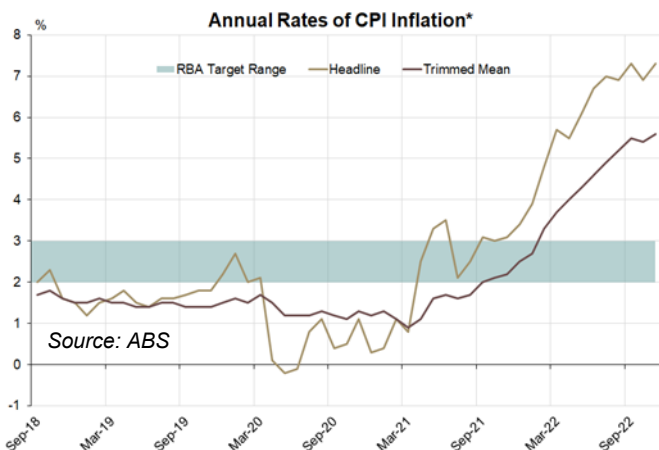
**Dwelling approvals** fell for the third month in a row in November.



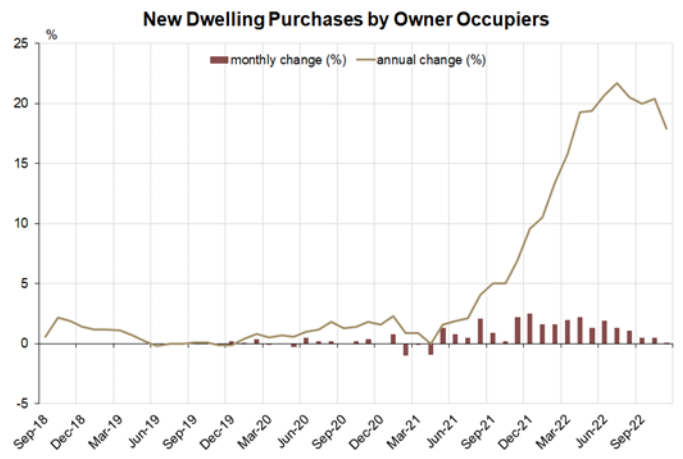
The value of **new home loans** continues to slide under the weight of higher interest rates



**CPI inflation** picked up again in November, driven partly by the expiry of the government fuel excise cut.



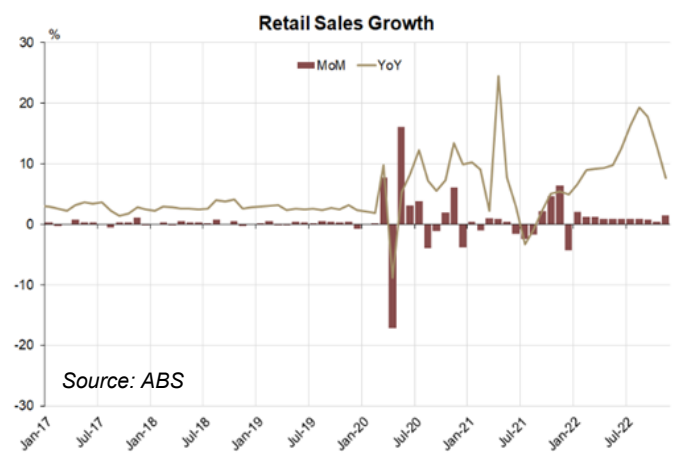
On the other side of the ledger, growth in home building costs continued to ease.



Aussie **export income** remained extremely healthy in November despite a small fall.

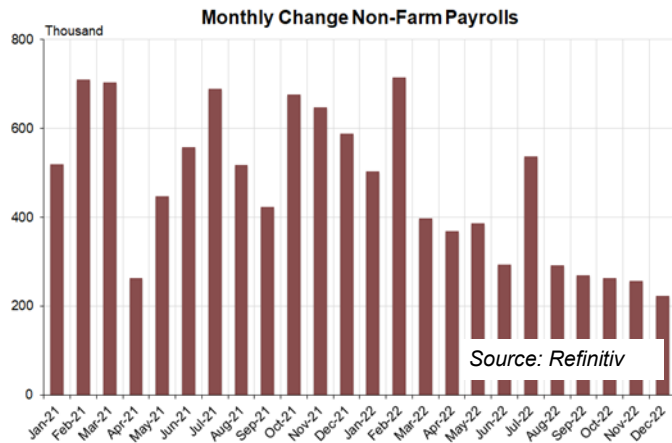


**Retail sales** had its biggest rise in 10 months in November thanks to the Black Friday sales.



### GLOBAL ECONOMY

*The US non-farm payrolls growth remains robust but appears to be losing some momentum.*



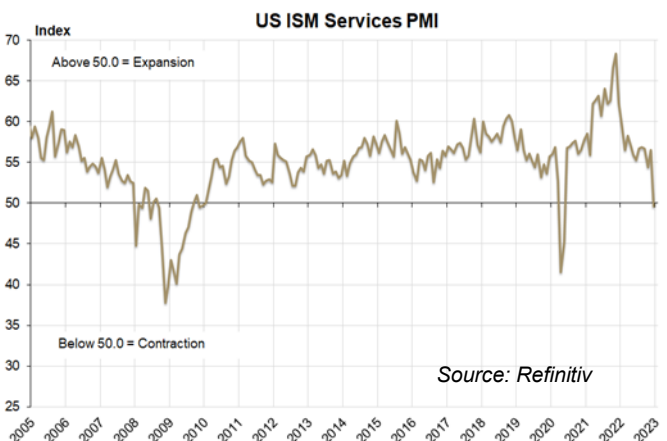
*The US unemployment rate of 3.5% in December was equal to the lowest level since the 1960s.*



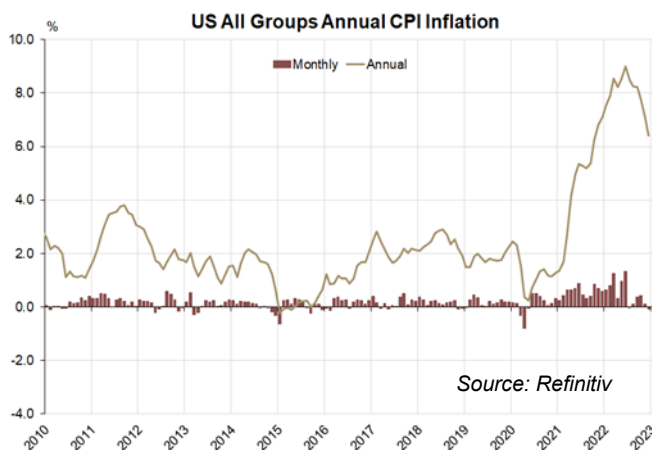
*US wages growth has eased in recent months.*



*The ISM services PMI suggests US services activity growth fell into contraction in December.*



*US CPI inflation has fallen sharply since hitting a 40-year high in mid-2022.*



*China's low inflation remains an outlier among the major economies.*



# WESTERN AUSTRALIAN TREASURY CORPORATION

## Market WATCH Weekly

13 January 2023

### KEY ECONOMIC EVENTS

#### *This Week*

	Event	Actual	Forecast	Previous	Comment
<b>Mon 09</b>					
AU	Building Approvals (Nov)	-9.0%	0.0%	-5.6%	Third decline in a row.
<b>Tue 10</b>					
AU	ANZ Consumer Conf. (w/e 8 Jan)	5.9%	-	-0.5%	Big jump in the first week of 2023 but still depressed.
US	Small Business Optimism (Dec)	89.8	91.3	91.9	Small business sentiment is very low.
<b>Wed 11</b>					
AU	Retail Sales (MoM, Nov)	1.4%	0.1%	0.4%	Big boost from Black Friday sales.
AU	CPI Indicator (YoY, Nov)	7.3%	7.4%	6.9%	Inflation picked up again in November.
AU	Job Vacancies (QoQ, Nov)	-4.9%	-	-2.8%	Vacancies still almost double February 2020 level.
<b>Thu 12</b>					
AU	Trade Balance (Nov)	A\$13.2b	A\$11.5b	A\$12.7b	Exports and imports slipped again in November.
CH	CPI (YoY, Dec)	1.8%	1.8%	1.6%	Core inflation edged up 0.1ppt to 0.7% YoY.
CH	PPI (YoY, Dec)	-0.7%	-0.1%	-1.3%	Easing in PPI deflation due to base effect.
US	CPI (MoM, Dec)	-0.1%	0.0%	0.1%	Annual US inflation of 6.5% the slowest in over a year.
<b>Fri 13</b>					
AU	New home loans (Nov)	-3.7%	-2.0%	-2.8%	Higher interest rates has seen new loan demand fall.
CH	Trade Balance (Dec)	US\$78.0b	US\$76.9b	US\$69.3b	Imports and exports down sharply from a year ago.
	<b>Tonight</b>				
US	UMich Consumer Sent (Prelim, Jan)	-	60.7	59.7	Still depressed but off its lows.

#### *Next Week*

	Event	Forecast	Previous	Comment
<b>Mon 16</b>				
AU	Melb. Institute Inflation Gauge (YoY, Dec)	-	5.9%	Saw a sharp acceleration in November.
<b>Tue 17</b>				
AU	Westpac-Melb Inst. Consumer Sent. (Jan)	-	3.0%	Saw a slight improvement in December but still very low.
CH	Industrial Production (YoY, Dec)	0.3%	2.2%	Chinese industry well and truly in the doldrums.
CH	Retail Sales (YoY, Dec)	-8.0%	-5.9%	Consumer spending badly hit by COVID restrictions.
CH	Urban Fixed Asset Inv. (YTD, YoY, Dec)	5.0%	5.3%	Will be a key government target to boost growth in 2023.
CH	GDP (YoY, Q4)	1.7%	3.9%	A 1.0% decline forecast for the quarter.
<b>Wed 18</b>				
AU	Payroll Jobs (MoM, w/e 10 Dec)	-	0.7%	Annual growth has slowed to 1.8% YoY.
AU	Total Wages (MoM, w/e 10 Dec)	-	-0.2%	Total wages up 3.6% YoY.
JP	Bank of Japan (Policy Balance Rate)	-0.10%	-0.10%	Raised the cap on the 10-year bond yield in December.
US	Retail Sales (MoM, Dec)	-0.8%	-0.6%	Consumer spending appears to be weakening.
US	PPI (MoM, Dec)	0.0%	0.3%	Producer price inflation eased in the second half of 2022.
US	Industrial Production (MoM, Dec)	-0.1%	-0.2%	ISM manufacturing PMI suggests a further decline.
US	Fed Beige Book	-	-	Summary of the US economy.
<b>Thu 19</b>				
AU	Employment (Dec)	20.0k	64.0k	November was another bumper result.
AU	Unemployment Rate (Dec)	3.4%	3.4%	Unemployment rate the lowest since the mid-1970s.
US	Housing Starts (Dec)	-4.9%	-0.50%	Has fallen for three months in a row.
<b>Fri 20</b>				
JP	CPI (YoY, Dec)	4.0%	3.8%	The highest Japanese inflation in over 30-years.
US	Existing Home Sales (MoM, Dec)	-3.7%	-7.7%	Sales have fallen for 10 consecutive months.