

WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

15 September 2023

THIS WEEK'S HIGHLIGHTS

- In Australia, employment rose much more than expected in August, while the unemployment rate remained unchanged at 3.7%. The NAB business conditions and confidence indices both improved in August, but the Westpac consumer sentiment index deteriorated further in September.
- Abroad, the annual rate of US CPI inflation re-accelerated in August in headline terms, but continued to slow in core terms. US retail sales saw a solid increase in August, propped up by higher fuel prices. Chinese retail sales and industrial output picked up in August.

NEXT WEEK'S HIGHLIGHTS

- A quieter week domestically, with the RBA Board minutes from the September meeting due on Tuesday and the Judo Bank flash PMIs for September on Friday.
- Friday will also see the release of the PMI figures for the major advanced economies. However, central bank decisions will be the real highlights next week, with an FOMC decision on Wednesday, Bank of England decision on Thursday and Bank of Japan decision on Friday.

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	5.67	(↑1 pt)	ASX200	7301	(↑162 pt)
US (IOR)	5.40	(0 pt)	90-day Bills	4.13	(↑1 pt)	2-yr T-Notes	5.01	(↑8 pt)	S&P500	4505	(↑54 pt)
Eurozone (Deposit)	4.00	(↑25 pt)	3-yr T-Bond	3.81	(↑2 pt)	10-yr T-Notes	4.28	(↑5 pt)	DJIA	34907	(↑406 pt)
UK	5.25	(0 pt)	10-yr T-Bond	4.09	(0 pt)	Jap 10-yr	0.71	(↑6 pt)	Nikkei	33588	(↑920 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	4.04	(↑1 pt)	UK 10-yr	4.28	(↓17 pt)	CSI300	3736	(↑1 pt)
China (1Y LPR)	3.45	(0 pt)	10-yr WATC Bond	4.53	(↓1 pt)	Ger 10-yr	2.59	(↓2 pt)	Stoxx600	461	(↑7 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields are a bit mixed this week, with increases in the US, Japan and Australia, while yields declined in the UK and, to a lesser extent, in the euro area member states.

The increases in the US were supported by the pick-up in US inflation. The market participants still expect the FOMC to keep rates on hold at its meeting next week, while another 25bps hike is less than 50% priced in for the rest of 2023.

The ECB increased its key interest rates by 25bps, including its deposit rate to a new record high of 4.00%, while signalling that this is most likely the final move in this tightening cycle.

Bank of Japan Governor Kazuo Ueda hinted that the central bank may end its negative interest rate policy at some point.

Commonwealth bond yields rose less than their US equivalents, with the upside surprise to August employment growth having little impact.

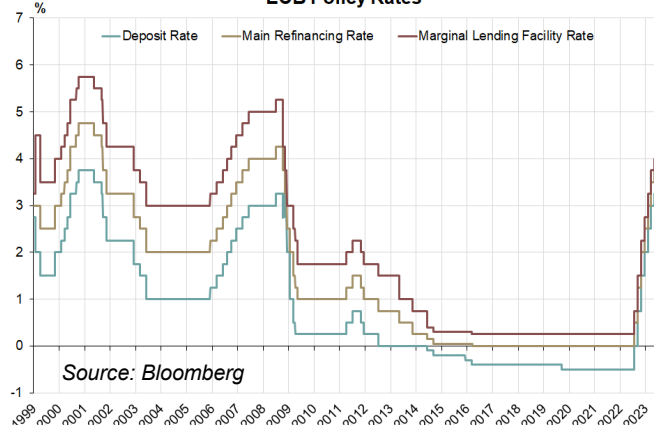
Equities

It was a very positive week for equities, as traders bet that the Fed is near the end of its tightening cycle.

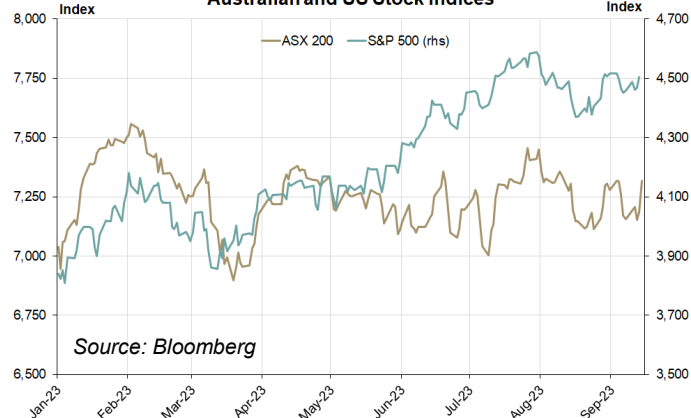
The gains in the US were broad-based, with industrials and information technology being the only sectors in the red. Utilities saw the strongest rise followed by consumer discretionary items, boosted by the solid rise in US retail sales. Energy shares also posted a strong increase.

The Aussie stock market outperformed Wall Street this week, with gains being equally broad-based. Materials were the top performer this week, supported by the surge in iron ore prices. There were also solid gains for financials and energy.

ECB Policy Rates



Australian and US Stock Indices



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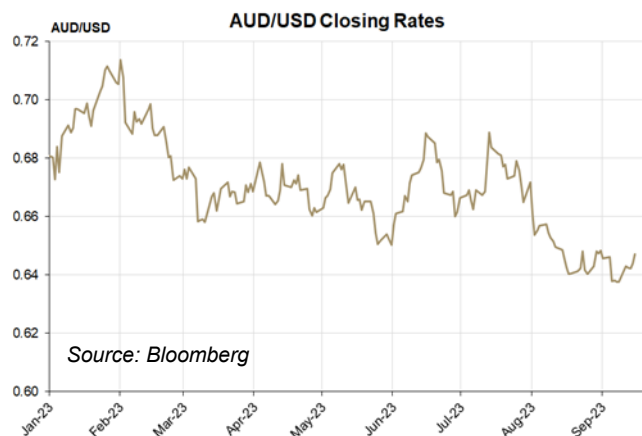
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Currencies

The Aussie dollar has posted solid gains against all the major currencies this week after getting an early lift from the sharp rise in the Chinese yuan after the People's Bank of China (PBoC) set a stronger than expected morning reference rate for the currency on Monday and warned against excessive market volatility. The PBoC move came after the yuan slumped to its lowest level against the big dollar since the GFC last Friday.

The Aussie traded in a relatively narrow range against the greenback over the rest of the week after its sharp rise on Monday before getting another lift today following the release of some better than expected Chinese economic data.

The Aussie is currently sitting at its highest levels against the euro since the beginning of August, following the ECB meeting on Thursday which saw the euro area central bank suggest that it could be at the end of its tightening cycle.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6465	0.6468	0.6378	↑1.1	0.7158	0.6170
AUD/EUR		0.6072	0.6075	0.5955	↑1.8	0.6790	0.5007
AUD/GBP		0.5205	0.5207	0.5110	↑1.8	0.6277	0.5007
AUD/JPY		95.33	95.37	93.65	↑1.4	97.68	86.06
AUD/CNY		4.6910	4.7042	4.6459	↓0	4.9348	4.4465
EUR/USD		1.0647	1.0769	1.0632	↓0.7	1.1276	0.9536
GBP/USD		1.2422	1.2548	1.2397	↓0.6	1.3142	1.0350
USD/JPY		147.44	147.73	145.91	↑0.2	151.95	127.23
USD/CNY		7.2560	7.3354	7.2466	↓1.2	7.3274	6.6909

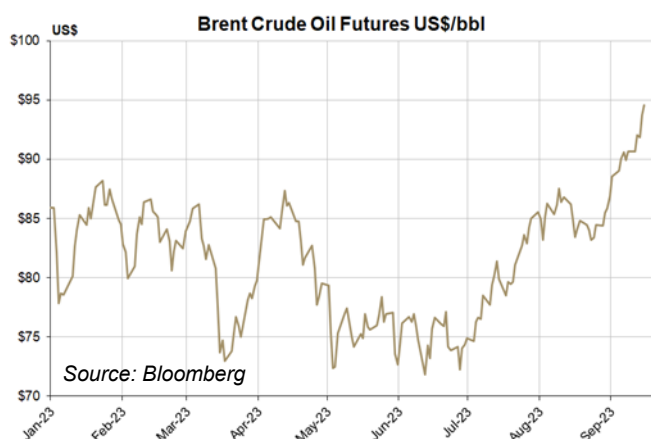
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6465	0.6486	0.6507	0.6538
AUD/EUR		0.6072	0.6067	0.6059	0.6036
AUD/GBP		0.5205	0.5221	0.5237	0.5264
AUD/JPY		95.33	94.25	93.13	90.99
AUD/NZD		1.0903	1.0937	1.0971	1.1033
AUD/SGD		0.8806	0.8798	0.8785	0.8751

Commodities

Commodity prices continued to rise this week, with the CRB commodity price index appearing to be on track for its fourth weekly gain in a row and is currently at its highest level in more than a year.

The gains in the CRB index this week were again led by oil prices which have climbed to fresh 10-month highs, partly boosted by OPEC data that projected a three million barrel a day global supply deficit in the fourth quarter.

Iron ore futures prices hit the highest levels since early April, boosted by stronger than expected Chinese credit data and reported increases in blast furnace activity at Chinese steel mills.



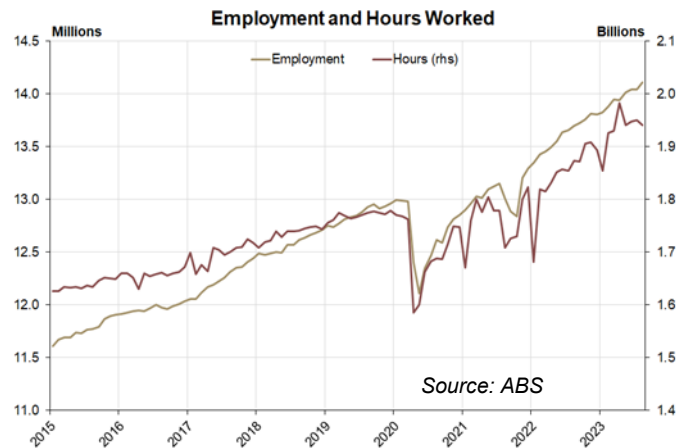
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,915.68	\$1,930.74	\$1,901.05	(↓\$10.49)	\$2,062.99	\$1,614.96
Brent Crude Oil (US\$)	\$94.53	\$94.56	\$90.11	(↑\$5.08)	\$99.56	\$70.12
Mogas95* (US\$)	\$105.48	\$107.08	\$98.10	(↑\$5.09)	\$108.40	\$77.66
WTI Oil (US\$)	\$91.05	\$91.09	\$86.71	(↑\$4.7)	\$93.74	\$63.64
CRB Index	290.29	290.29	283.77	(↑6.51)	290.29	253.85
Iron Ore Price 62% Fe (US\$) **	\$122.85	\$123.00	\$112.90	(↑\$9.05)	\$139.80	\$75.00

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

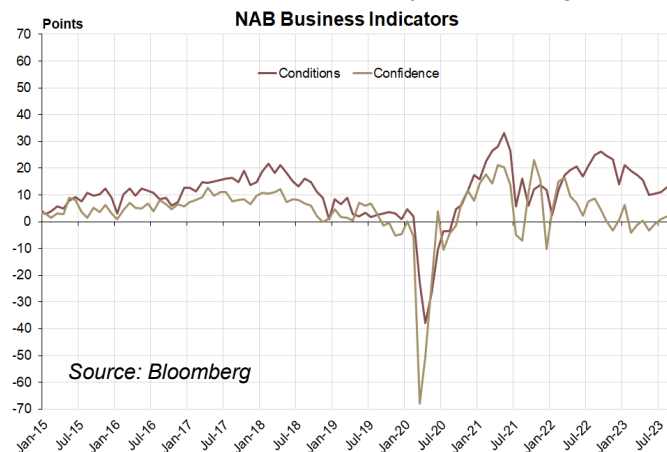
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

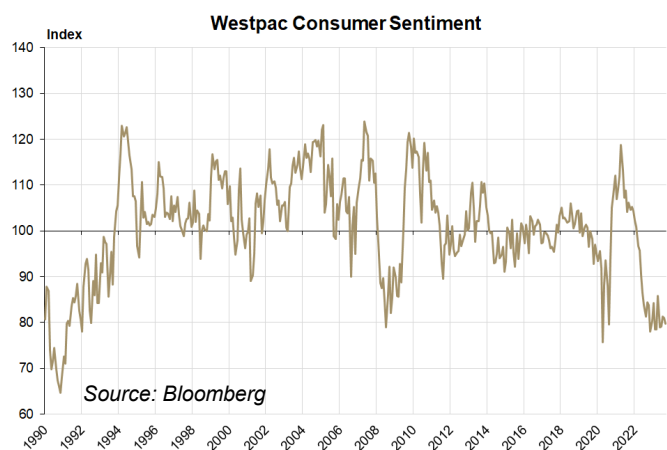
Employment rose to a new record high in August, while aggregate hours worked saw a slight decline.



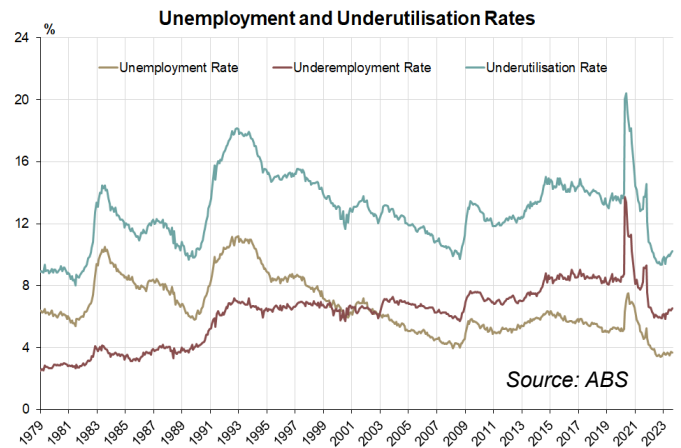
According to the **NAB business survey**, business conditions and confidence both improved in August...



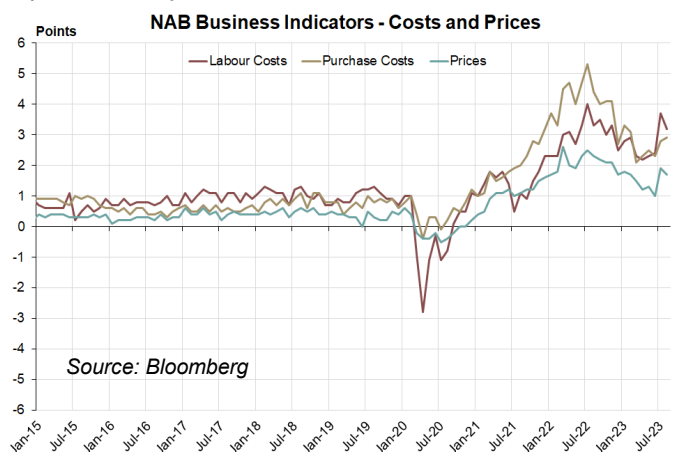
The **Westpac consumer sentiment index** remains at recessionary levels.



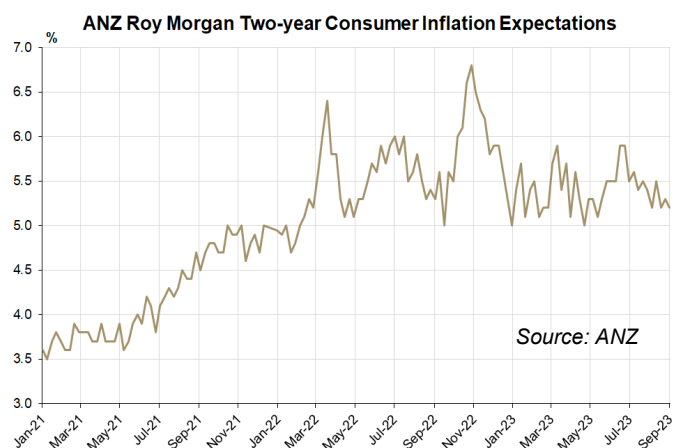
The **unemployment rate** remains near historical lows, but the underemployment is clearly heading north.



... despite the still elevated **cost and price inflation** experienced by business.

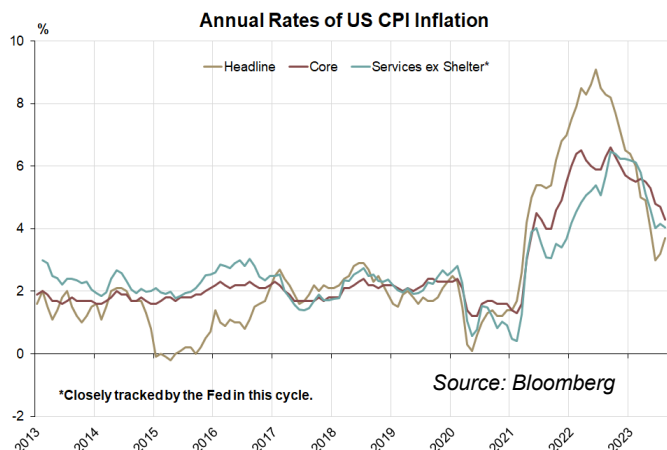


According to the **ANZ Roy Morgan survey**, consumer inflation expectations dipped but remain elevated.

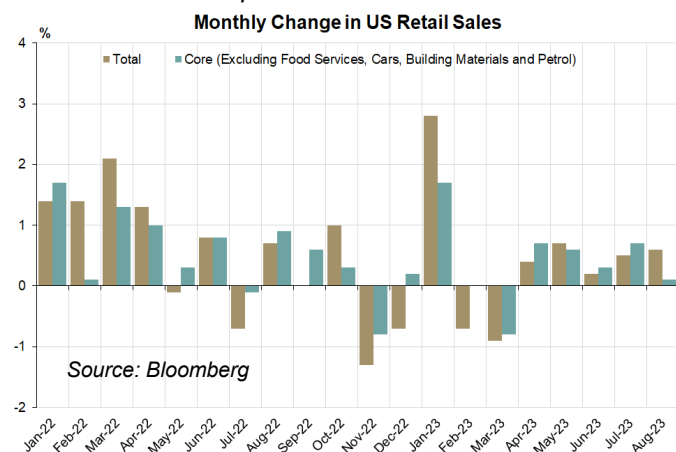


GLOBAL ECONOMY

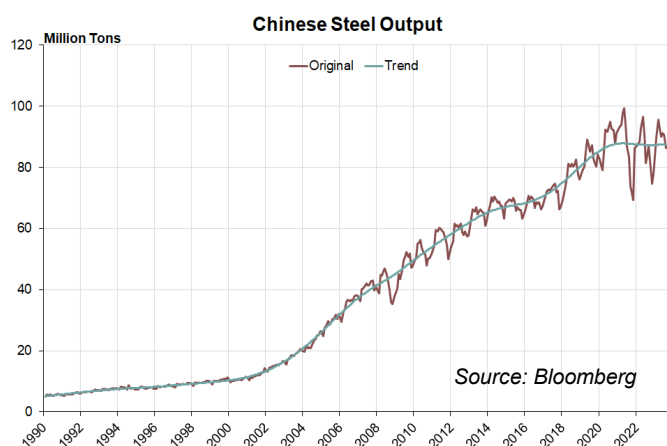
US CPI headline inflation re-accelerated in August, but underlying inflation eased.



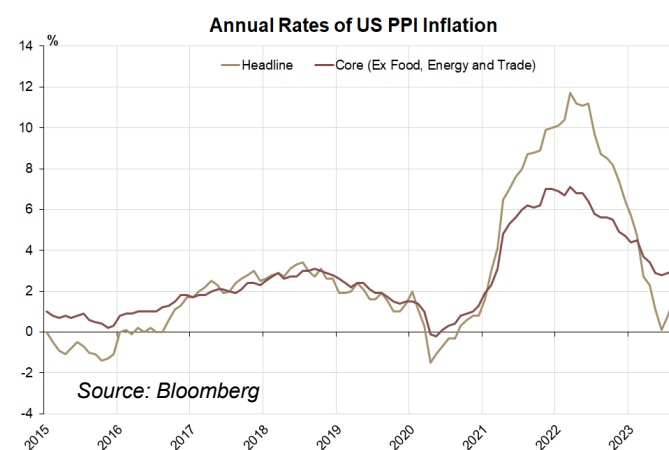
US retail sales saw a solid increase in August, but mainly due to a rise in fuel prices.



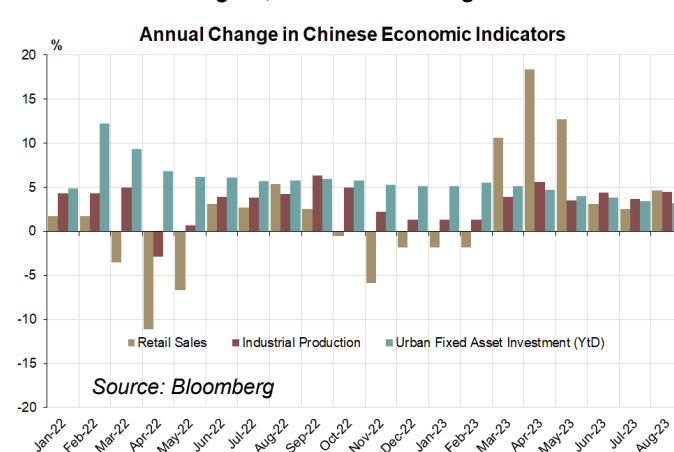
Chinese steel output declined in August, but was still 3.0% higher than a year ago.



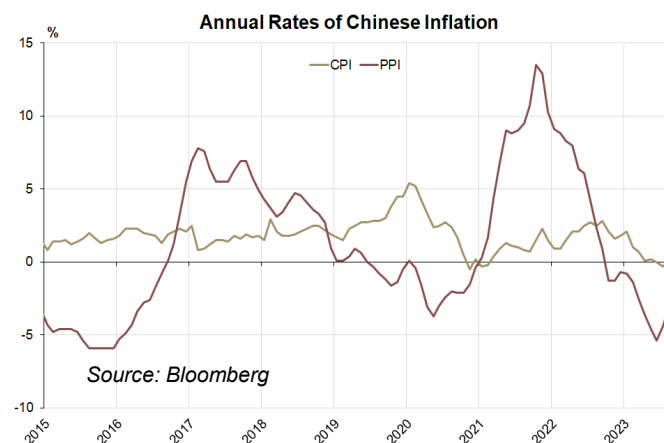
US PPI inflation also picked up in August, both in headline and core terms.



Growth in Chinese retail sales and industrial output accelerated in August, but investment growth slowed.



Chinese consumer price inflation has turned positive and producer price deflation has eased.



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KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 11	<i>No market-moving data.</i>				
Tue 12					
AU	NAB Business Conditions (Aug)	13	-	11	A broad-based uptick.
AU	NAB Business Confidence (Aug)	2	-	1	Confidence is the weakest in retail in trend terms.
AU	Westpac Cons. Conf. (MoM, Sep)	-1.5%	-	-0.4%	Cost-of-living pressures weighing on sentiment.
UK	Unemployment Rate (Jul)	4.3%	4.3%	4.2%	Employment dropped by 207k in 3 months to July.
US	NFIB Small Bus. Optimism (Aug)	91.3	91.5	91.9	Remains at quite depressed levels.
Wed 13					
UK	Monthly GDP (MoM, Jul)	-0.5%	-0.2%	0.5%	Could be partly impacted by adverse weather.
US	CPI (MoM, Aug)	0.6%	0.6%	0.2%	Annual rate accelerated 0.5ppts to 3.7%.
Thu 14					
AU	Employment (monthly change, Aug)	64.9k	25.0k	-1.4k	Driven mainly by a surge in part-time jobs.
AU	Unemployment Rate (Aug)	3.7%	3.7%	3.7%	Participation rate rose to a new record high of 67.0%.
EZ	ECB Decision (Deposit Rate)	4.00%	3.75%	3.75%	ECB signalled that this was the last hike in the cycle.
US	Retail Sales (MoM, Aug)	0.6%	0.1%	0.5%	'Core retail sales' ticked up by just 0.1%.
US	PPI (MoM, Aug)	0.7%	0.4%	0.4%	Annual producer price inflation up 0.8ppts to 1.6%.
US	Initial Jobless Claims (w/e 9 Sep)	220k	225k	217k	Continued claims broadly unchanged in w/e 2 Sep.
Fri 15					
CH	Retail Sales (YoY, Aug)	4.6%	3.0%	2.5%	The strongest increase in three months.
CH	Industrial Production (YoY, Aug)	4.5%	3.9%	3.7%	Steel output up 3.0% YoY.
CH	Urban Asset Inv. (YoY YtD Aug)	3.2%	3.3%	3.4%	Such slow growth was last seen in late 2020.
Tonight					
US	Industrial Production (MoM, Aug)	-	0.1%	1.0%	PMIs pointed to a decline in manufacturing.
US	UoM Consumer Confidence (Sep)	-	69.0	69.5	Will include inflation expectations tracked by the Fed.

Next Week

	Event	Forecast	Previous	Comment
Mon 18	<i>No market-moving data.</i>			
Tue 19				
AU	RBA Minutes (Sep)	-	-	Probably a non-event.
Wed 20				
UK	CPI (MoM, Aug)	-	-0.4%	Annual rate expected to rise 0.2ppts to 7.0%.
US	FOMC Decision (IoER)	5.40%	5.40%	Probability of a 25bps hike this year below 50%.
Thu 21				
NZ	GDP (QoQ, Q2)	0.4%	-0.1%	Kiwi economy to emerge from technical recession.
UK	Bank of England Decision (Bank Rate)	5.50%	5.25%	This is expected to be the tightening cycle peak.
Fri 22				
AU	Judo Bank Composite PMI (Sep, flash)	-	48.0	Aussie private sector slid back into contraction in July.
JP	BoJ Decision (Comp. Deposit Rate)	-0.10%	-0.10%	BoJ signalled a possible rate hike, but not at this stage...
JP	CPI (YoY, Aug)	3.0%	3.3%	... despite inflation remaining elevated.
JP	Jibun Bank Composite PMI (Sep, flash)	-	52.6	Bright spot among the major advanced economies.
EZ	HCOB Composite PMI (Sep, flash)	46.0	46.7	To remain in the strongest contraction since late 2020.
UK	S&P Global Composite PMI (Sep, flash)	-	48.6	Fell back into contraction in August.
US	S&P Global Composite PMI (Sep, flash)	-	50.2	Has been a poor indicator for the ISM PMIs.