

### THIS WEEK'S HIGHLIGHTS

- Abroad, the FOMC lifted the fed funds rate target range by 25bps, which is a step down from previous increases. The ECB and Bank of England increased their respective policy rates by 50bps this week.
- Data-wise, US ISM manufacturing PMI remained in contraction in January, while growth in US ADP employment slowed. The quarterly growth rate in US employment cost index in Q4 was the slowest in a year. Chinese PMIs suggested that the services sector returned to expansion in January, but manufacturing remained near stagnant.
- In Australia, retail sales dropped more than expected in December. New home loans continued to fall in December, while building approvals rose thanks to high-rise activity. House prices declined by another 1.1% in December.

### NEXT WEEK'S HIGHLIGHTS

- It will be a busy week in Australia. The RBA Board meets for the first time this year on Tuesday and is expected to lift the cash rate by a further 25 basis points. The RBA's quarterly Statement on Monetary Policy will be released on Friday. Economic data will include the quarterly sales volume numbers for Q4 2022 and the Melbourne Institute inflation gauge for January on Monday, external trade for December on Tuesday and payrolls and wages for the week ending 14 January on Thursday.
- The only US data of note will be the trade balance for December on Tuesday and the University of Michigan consumer confidence report, containing inflation expectations. Chinese inflation data for January and UK Q4 GDP will be 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	4.81	(0 pt)	ASX200	7558	(↑60 pt)
US (IOR)	4.65	(↑25 pt)	90-day Bills	3.34	(↓4 pt)	2-yr T-Notes	4.10	(↓9 pt)	S&P500	4180	(↑120 pt)
Eurozone (Deposit)	2.50	(↑50 pt)	3-yr T-Bond	3.00	(↓19 pt)	10-yr T-Notes	3.38	(↓13 pt)	DJIA	34054	(↑105 pt)
UK	4.00	(↑50 pt)	10-yr T-Bond	3.39	(↓17 pt)	Jap 10-yr	0.49	(↑1 pt)	Nikkei	27495	(↑114 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	3.40	(↓27 pt)	UK 10-yr	3.00	(↓31 pt)	CSI300	4114	(↓68 pt)
China (1Y LPR)	3.65	(0 pt)	10-yr WATC Bond	4.03	(↓24 pt)	Ger 10-yr	2.07	(↓14 pt)	Stoxx600	459	(↑5 pt)

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

## FINANCIAL MARKETS OVERVIEW

### Interest Rates

As expected, the FOMC increased the fed funds rate target range by 25bps to 4.50-4.75%. In the press conference, Fed Chair Jerome Powell said that the disinflationary process had already started, and highlighted the upcoming end of the tightening cycle. This spurred a decline in fed funds rate expectations and US Treasury yields. A final 25bps rate hike is expected for March.

The European Central Bank and Bank of England increased their policy rates by 50bps, to 2.50% and 4.00%, respectively. The governors of these central banks also struck a less hawkish tone at their respective press conferences. This was particularly true for BoE Governor Andrew Bailey, who stressed that inflation is "turning the corner", though the risks remain "very large". Yields on UK gilts and German bunds fell sharply in response.

Commonwealth bond yields and RBA cash rate expectations declined, also due to the massive downside surprise to retail sales figures for December. However, a 25bps increase in the RBA cash rate is still expected next week.

### Equities

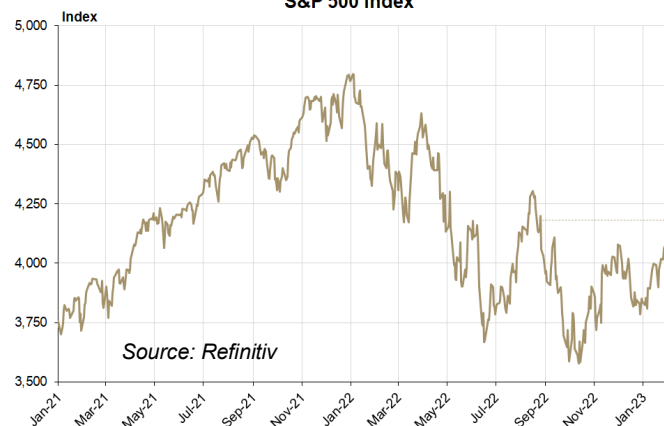
Equity prices received further support this week from the multiple signs that the current monetary policy tightening cycle may be nearing an end. These signs included the downside surprises to US data and the less hawkish tone struck by the major central banks, including the Fed, at the post-meeting conferences this week. The S&P 500 is now at the highest level since late August 2022.

Aussie stocks also picked up this week, but less than their US equivalents, as a decline in commodity prices weighed on mining stocks. Nonetheless, the ASX 200 added 0.8% this week, to be at the level highest since April 2022.

Central Bank Interest Rates - Major Advanced Economies and Australia



S&P 500 Index



For further information, please contact:

Craig McGuinness

Chief Economist

[cmcguinness@watc.wa.gov.au](mailto:cmcguinness@watc.wa.gov.au)

(08) 9235 9104

Patrycja Beniak

Economist

[pbeniak@watc.wa.gov.au](mailto:pbeniak@watc.wa.gov.au)

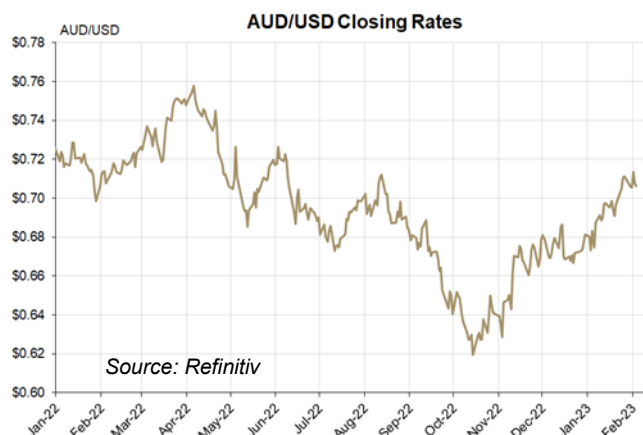
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### Currencies

The Australian dollar built on its recent gains against the US dollar through most of this week, rising to its highest level since June last year. It received an extra lift on Wednesday, after the greenback dropped following a strong hint from Fed Chair Jerome Powell that the US central bank is close to the end of its tightening cycle.

However, the tide turned as the US dollar came back into favour after the Bank of England and European Central Bank were also seen to have softened their language on the inflation outlook following their meetings on Thursday.

The Aussie remains above USD0.70 but it is currently well off its weekly high. The decline over the past 24 hours sees it as one of the weaker members of the G10 currency basket over the past week, while the Japanese yen has been the strongest.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7061	0.7157	0.6869	↓0.8	0.7661	0.6169
AUD/EUR		0.6479	0.6554	0.6345	↓0.9	0.7000	0.6160
AUD/GBP		0.5780	0.5806	0.5564	↑0.7	0.6260	0.5211
AUD/JPY		90.80	92.81	88.07	↓1.7	98.43	81.26
AUD/CNY		4.7637	4.8441	4.6554	↓1.3	4.8743	4.4365
EUR/USD		1.0894	1.1033	1.0764	↑0.2	1.1495	0.9534
GBP/USD		1.2215	1.2447	1.2167	↓1.4	1.3643	1.0382
USD/JPY		128.59	131.57	127.21	↓0.9	151.94	114.14
USD/CNY		6.7465	6.7465	6.6905	↓0.5	7.3270	6.3025

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7061	0.7087	0.7111	0.7146
AUD/EUR		0.6479	0.6467	0.6458	0.6432
AUD/GBP		0.5780	0.5787	0.5793	0.5797
AUD/JPY		90.80	89.96	89.06	87.17
AUD/NZD		1.0903	1.0935	1.0973	1.1037
AUD/SGD		0.9259	0.9271	0.9275	0.9268

### Commodities

Gold hit its highest level since April 2022 midweek, but it has since given up all its early gains and more, to be on track for its first weekly loss in seven weeks.

Oil prices have seen a heavy decline over the past week, partially unwinding the sharp runup through most of January that was driven by optimism over the Chinese oil demand outlook following the easing of COVID restrictions. News of a further build in US crude oil inventories (excluding the Strategic Petroleum Reserve), to the highest level since June last year, also weighed on crude prices.

Iron ore prices have also given up some of their recent strong gains, with the benchmark futures price down almost 2% from this time last week, after five consecutive weekly gains.



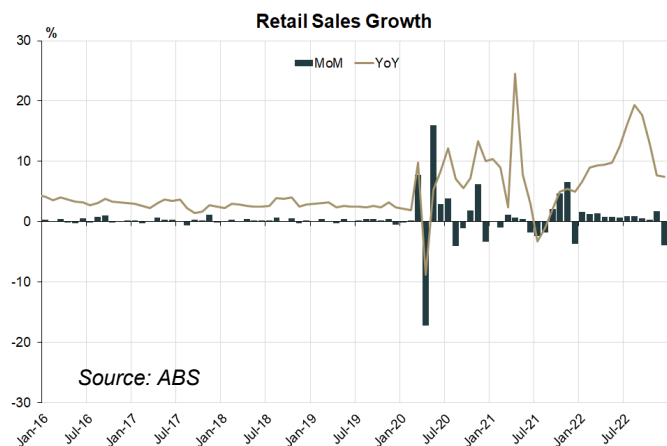
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,915.27	\$1,959.60	\$1,900.60	(↓\$11.66)	\$2,069.89	\$1,613.60
Brent Crude Oil (US\$)	\$81.98	\$88.95	\$81.25	(↓\$5.77)	\$139.13	\$75.11
Mogas95* (US\$)	\$98.65	\$106.12	\$98.65	(↓\$8.44)	\$161.20	\$82.60
WTI Oil (US\$)	\$75.69	\$82.48	\$74.97	(↓\$5.61)	\$130.50	\$70.08
CRB Index	271.63	278.09	271.63	(↓7.92)	329.59	259.49
Iron Ore Price 62% Fe (US\$) **	124.08	\$129.55	\$121.15	(↓\$2.22)	\$171.00	\$75.30

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

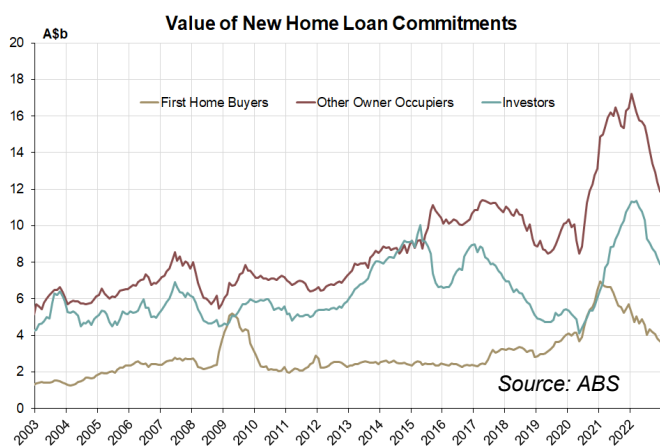
\*\* The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

### DOMESTIC ECONOMY

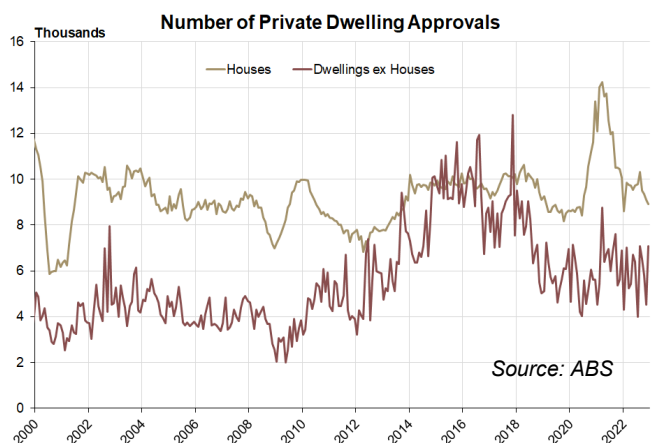
**Retail trade** fell sharply in December, partly due to a setback from Black Friday sales in the previous month.



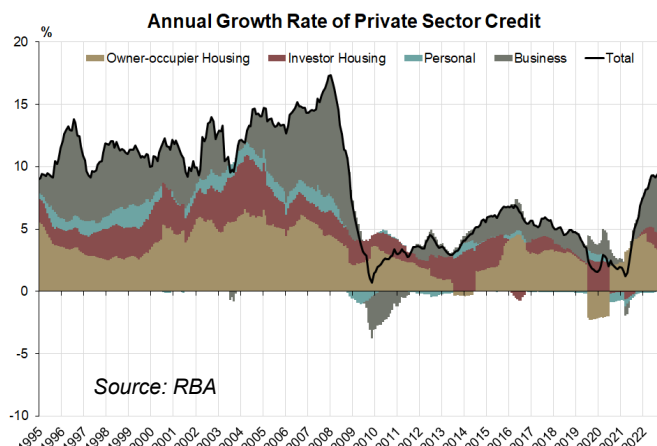
... as **new home loans** continued their normalisation in December...



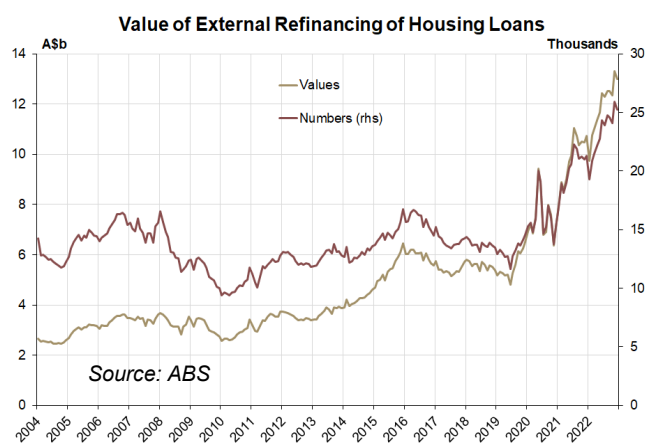
Apartment approvals rose in December, while consents for **private houses** continued to fall.



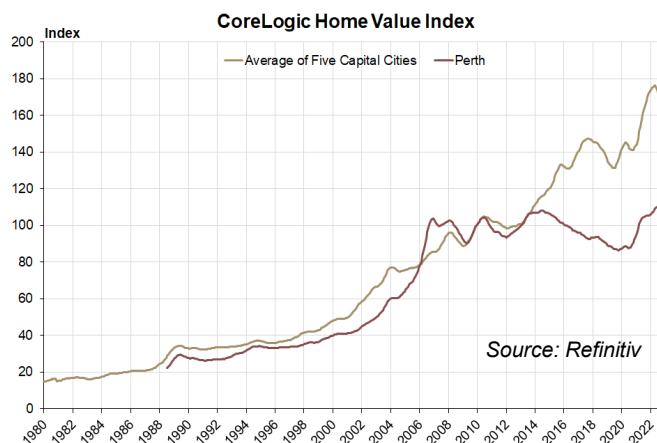
**Private sector credit growth** showed further signs of broad-based weakening in December...



... while **refinancing activity** remained near record highs, as households continue to shop for lower rates.



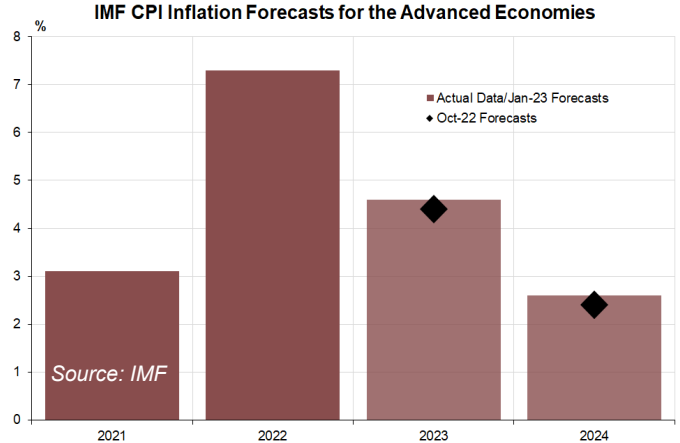
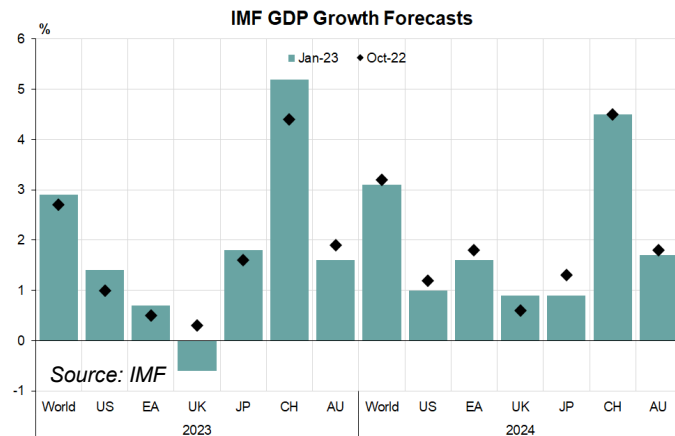
The decline in demand continues to drive **home prices** lower nationwide; home prices have been stable in Perth.



### GLOBAL ECONOMY

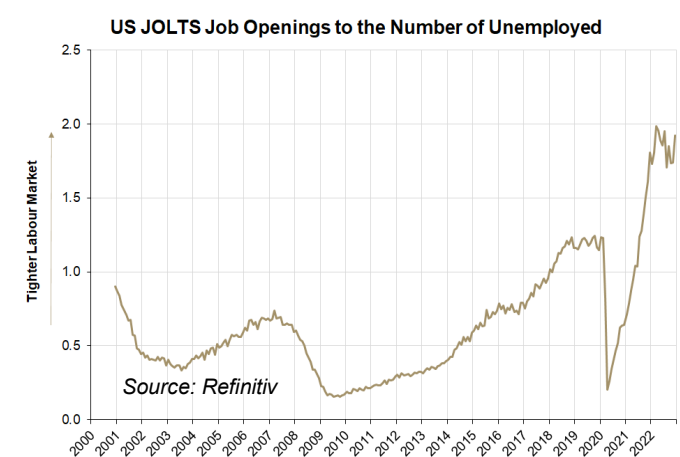
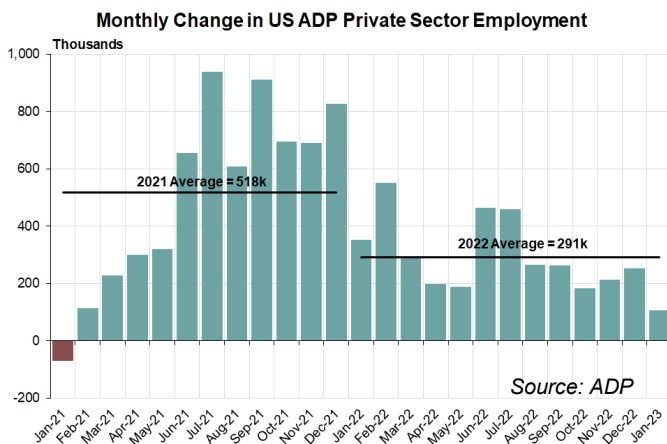
The IMF has upgraded its **2023 global growth forecasts**, but there were also downward revisions for some countries.

IMF inflation forecasts for the advanced economies were revised slightly upwards.



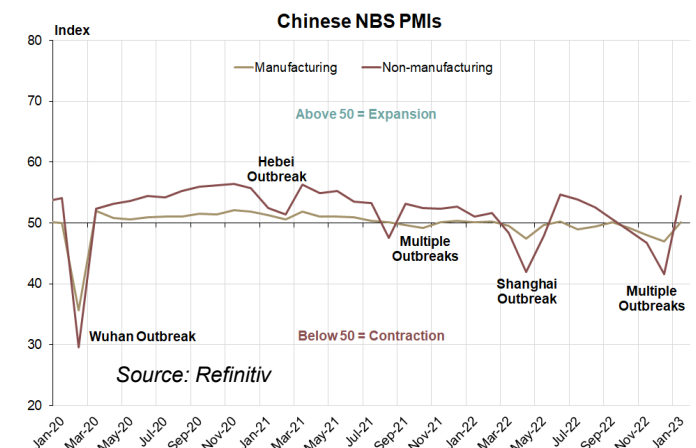
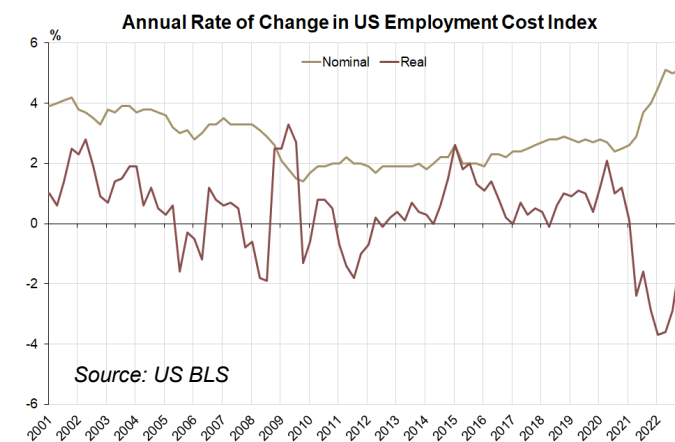
According to the **ADP report**, private sector employment growth appears to have slowed in 2022.

Despite this, the **JOLTS numbers** continue to suggest that the US labour market remains exceptionally tight.



The growth rate of **US nominal employment costs** appears to have peaked; real labour costs continue to fall.

The **Chinese PMIs** suggest services moved into expansion in January, while manufacturing remains stagnant.



## KEY ECONOMIC EVENTS

*This Week*

	Event	Actual	Forecast	Previous	Comment
<b>Mon 30</b>	<i>No market moving data</i>				
<b>Tue 31</b>					
AU	Retail Sales (MoM, Dec)	-3.9%	-0.3%	1.7%	A setback after strong Black Friday sales in Nov.
AU	Private Sector Credit (MoM, Dec)	0.3%	0.5%	0.5%	The slowest growth in private credit since April 2021.
AU	ANZ Consumer Conf. (w/e 28 Jan)	0.9%	-	1.8%	Inflation expectations dropped 0.6ppts to 5.1%.
CH	NBS Composite PMI (Jan)	52.9	-	42.6	Rose into expansion as the COVID-zero policy ended.
EZ	GDP (QoQ, Q4, flash)	0.1%	-0.1%	0.3%	German real GDP unexpectedly fell 0.2% in Q4.
US	Employment Cost Index (QoQ, Q4)	1.0%	1.1%	1.2%	Up 5.1% YoY.
US	C-S House Price Index (YoY, Nov)	6.8%	6.8%	8.6%	The slowest growth since August 2020.
<b>Wed 01</b>					
CH	Caixin Manufacturing PMI (Jan)	49.2	49.7	49.0	Chinese manufacturing growth remains stagnant.
EZ	HICP (YoY, Jan, flash)	8.5%	8.9%	9.2%	Core inflation steady at 5.2% YoY.
US	ADP Employment (MoM Jan)	106k	170k	253k	The slowest growth in employment since Jan 2021.
US	ISM Manufacturing PMI (Jan)	47.4	48.0	48.4	Prices paid fell for the fourth month in a row.
US	FOMC Decision (IoER)	4.65%	4.65%	4.40%	One more 25bps hike expected in the tightening cycle.
<b>Thu 02</b>					
AU	Building Approvals (MoM, Dec)	18.5%	1.0%	-8.8%	Supported by high-rise activity.
EZ	ECB Decision (Deposit Rate)	2.50%	2.50%	2.50%	ECB also started to reduce its balance sheet.
UK	BoE Decision (Bank Rate)	4.00%	4.00%	3.50%	Only one more 25bps hike is priced in for this cycle.
US	Initial Jobless Claims (w/e 28 Jan)	183k	200k	186k	The lowest level since early April 2022.
<b>Fri 03</b>					
AU	New Home Loans (MoM, Dec)	-4.3%	-2.8%	-4.2%	Refinancing activity remained close to a record high.
CH	Caixin Services PMI (Jan)	52.9	51.0	48.0	Business sentiment the highest in 12 years.
<b>Tonight</b>					
US	Non-farm Payrolls (MoM, Jan)	-	185k	223k	ADP report suggests a downside risk to the forecast.
US	Unemployment Rate (Jan)	-	3.6%	3.5%	To remain below the Fed's long-run estimate of 4.0%.
US	ISM Services PMI (Jan)	-	50.4	48.6	S&P Global report points to ongoing contraction.

*Next Week*

	Event	Forecast	Previous	Comment
<b>Mon 06</b>				
AU	Retail Sales Volumes (QoQ, Q4)	-0.5%	0.2%	Aussie consumer demand appears to be easing.
AU	Melbourne Institute Inflation (YoY, Jan)	-	-0.2%	Was a poor indicator for official ABS data last month.
<b>Tue 07</b>				
AU	Trade Balance (Dec)	A\$12.4b	A\$13.2b	Anecdotal data suggests a strong rise in services imports.
AU	RBA Decision (Cash Rate Target)	3.35%	3.10%	A 40bps hike not ruled out by some commercial banks.
US	Trade Balance (Dec)	-US\$68.5b	-US\$61.5b	Deficit was the narrowest for two years in November.
<b>Wed 08</b>	<i>No market moving data</i>			
<b>Thu 09</b>				
AU	Payroll Jobs (MoM, w/e 14 Jan)	-	0.7%	The most recent report was for w/e 12 November 2022.
AU	Total Wages (MoM, w/e 14 Jan)	-	-0.2%	Up 3.6% YoY in the w/e 12 November 2022.
<b>Fri 10</b>				
AU	Statement on Monetary Policy (Q1)	-	-	Will include a new set of economic projections.
AU	Business Turnover Indicators (Dec)	-	-	November saw a decline in eight out of 13 industries.
CH	CPI (YoY, Jan)	2.3%	1.8%	Chinese consumer demand appears to be strengthening.
CH	PPI (YoY, Jan)	0.4%	-0.7%	PMI reports suggest ongoing weak cost pressures.
UK	GDP (QoQ, Q4)	0.0%	-0.3%	The UK appears to be sliding into recession.
US	UoM Consumer Confidence (Feb)	65.5	64.9	Consumer inflation expectations included in the report.