

THIS WEEK’S HIGHLIGHTS

- In Australia, the RBA kept interest rates unchanged and revised its inflation projections slightly downwards, but also made an attempt to push back pricing for near-term rate cuts.
- Data-wise, the trade surplus narrowed slightly in December. The Melbourne Institute inflation gauge suggested further disinflation in January, while ANZ job ads rose further.
- Abroad, the US ISM services PMI pointed to faster expansion and a marked acceleration in price growth amid transport disruptions in the Middle East and Panama Canal. The Chinese Caixin services PMI suggested a slightly slower pace of expansion in January.

NEXT WEEK’S HIGHLIGHTS

- The key domestic releases next week will be the January NAB business survey and February Westpac consumer confidence reports on Tuesday, followed by the January labour force survey on Thursday.
- Highlights offshore include US inflation, retail sales and industrial production for January. There will be also the University of Michigan consumer confidence report for February, which will contain inflation expectations tracked by the Fed.

Central Bank Rates (%)		Weekly Change	Australian Interest Rates (%)		Weekly Change	Major Overseas Interest Rates (%)		Weekly Change	Global Equities		Weekly Change
Australia	4.35	(0 pt)	O/N Interbank Cash	4.32	(0 pt)	USD 3-month	5.58	(0 pt)	ASX200	7647	(↓41 pt)
US (IOR)	5.40	(0 pt)	90-day Bills	4.34	(↑2 pt)	2-yr T-Notes	4.44	(↑22 pt)	S&P500	4998	(↑92 pt)
Eurozone (Deposit)	4.00	(0 pt)	3-yr T-Bond	3.69	(↑13 pt)	10-yr T-Notes	4.14	(↑25 pt)	DJIA	38726	(↑206 pt)
UK	5.25	(0 pt)	10-yr T-Bond	4.11	(↑13 pt)	Jap 10-yr	0.71	(↑3 pt)	Nikkei	37112	(↑741 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	3.96	(↑13 pt)	UK 10-yr	4.05	(↑30 pt)	CSI300	3365	(↑149 pt)
China (1Y LPR)	3.45	(0 pt)	10-yr WATC Bond	4.63	(↑12 pt)	Ger 10-yr	2.35	(↑20 pt)	Stoxx600	485	(↑1 pt)

Changes are since the issue of last week’s Market Watch

FINANCIAL MARKETS OVERVIEW

Interest Rates

As expected, the RBA Board kept interest rates unchanged yesterday, including the cash rate target at 4.35%.

At the press conference, Governor Bullock distanced herself from discussing rate cuts, saying ‘the job is not done’ and adding that the RBA needs to be ‘convinced’ inflation is on path to the 2-3% target range before considering policy easing. She reiterated this message at her testimony before the House economics committee this morning, but she also stressed that inflation does not need to be at the mid-point of the range for easing to begin.

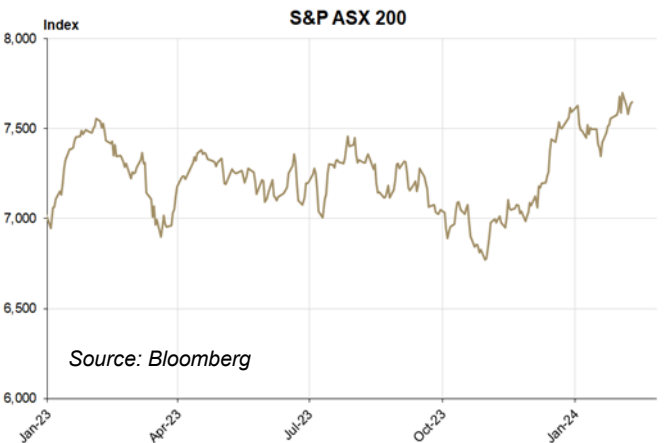
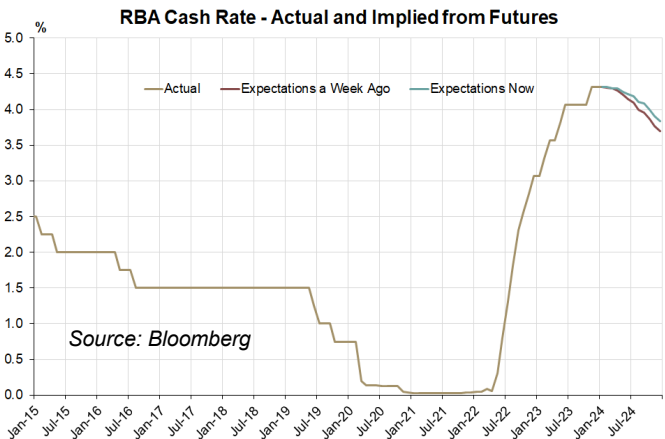
In the February Statement on Monetary Policy, the RBA revised its inflation forecasts slightly downwards, with CPI inflation expected to return to the target range in the second half of 2025 and to the mid-point of that range in 2026. The near-term growth outlook was downgraded somewhat, while the unemployment rate is now expected to peak at 4.4% by mid-2025.

All this communication resulted in investors scaling back their cash rate expectations somewhat, but a 25bps cut remains fully priced in for Q3. Commonwealth bond yields rose quite significantly this week, albeit less than their US equivalents.

Equities

US equities got off to a soft start this week as traders pulled back on interest rate cut expectations following strong economic data, but soon recovered to make fresh record highs.

The Aussie market closed last Friday at a record high of 7699. However, as is often the case, it reacted more strongly to the US data than Wall Street did and began this week with back-to-back losses. The market recovered some losses later in the week, but is currently trading 0.5% below last Friday’s record high.



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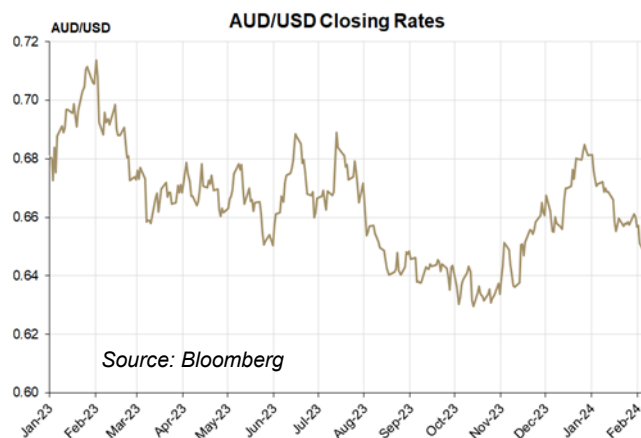
Currencies

The Aussie dollar slumped during last Friday's US trading session, as the big dollar surged amid news of a big jump in US non-farm payrolls in January.

Further weakness on Monday pushed the Aussie down to US\$0.6469, the lowest since November last year. The currency bounced after the RBA kept rates on hold but, unlike the Fed, maintained a mild tightening bias. The Aussie held above US\$0.6500 before falling back again overnight.

The Aussie is also weaker against the other major currencies, except the Japanese yen.

The Aussie dollar is currently sitting near a two-month low on a trade-weighted basis.



Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6492	0.6610	0.6469	↓1.6	0.7029	0.6270
AUD/EUR		0.6026	0.6076	0.6020	↓0.6	0.6512	0.5007
AUD/GBP		0.5145	0.5194	0.5140	↓0.5	0.5763	0.5007
AUD/JPY		96.92	97.05	96.18	↑0.4	98.62	86.06
AUD/CNY		4.6735	4.7447	4.6571	↓1.3	4.9348	4.5455
EUR/USD		1.0774	1.0898	1.0723	↓0.9	1.1276	1.0448
GBP/USD		1.2619	1.2772	1.2519	↓1	1.3142	1.1804
USD/JPY		149.27	149.48	146.24	↑2	151.91	129.64
USD/CNY		7.1967	7.1986	7.1764	↑0.2	7.3499	6.7730

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6492	0.6510	0.6523	0.6536
AUD/EUR		0.6026	0.6020	0.6009	0.5971
AUD/GBP		0.5145	0.5156	0.5166	0.5177
AUD/JPY		96.92	95.83	94.75	92.65
AUD/NZD		1.0604	1.0636	1.0671	1.0728
AUD/SGD		0.8743	0.8732	0.8715	0.8671

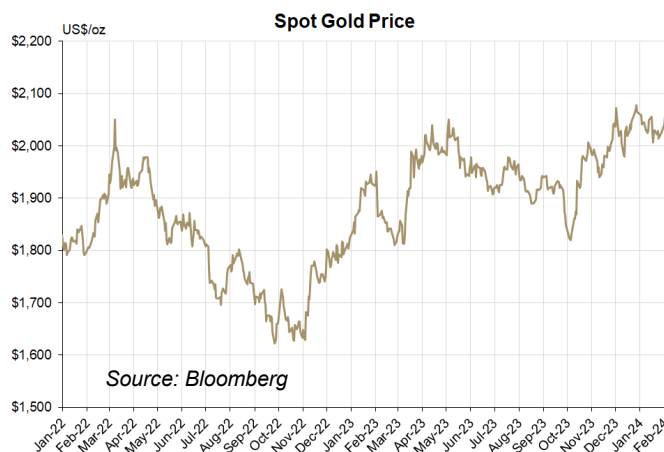
Commodities

Oil prices are up for the week, almost exclusively due to the surge last night, in reaction to a set of news related to tensions in the Middle East. First, Israeli Prime Minister Benjamin Netanyahu rejected Hamas' proposal for a ceasefire. Second, there were press reports that the Biden administration wants to tighten sanctions on Iranian oil exports, in order to indirectly neutralise Tehran's support for militants across the Middle East.

News that petrol inventories fell in the US last week, indicating higher demand for fuel, also supported oil prices.

Despite the ongoing geopolitical tensions, the gold price has decreased since the previous issue of *Market WATCH Weekly*, with prices slumping in the aftermath of the upside surprise to US non-farm payrolls. That said, the gold price remains above the US\$2,000 an ounce.

Iron ore futures rose 1.1% ahead of the Chinese New Year holiday.



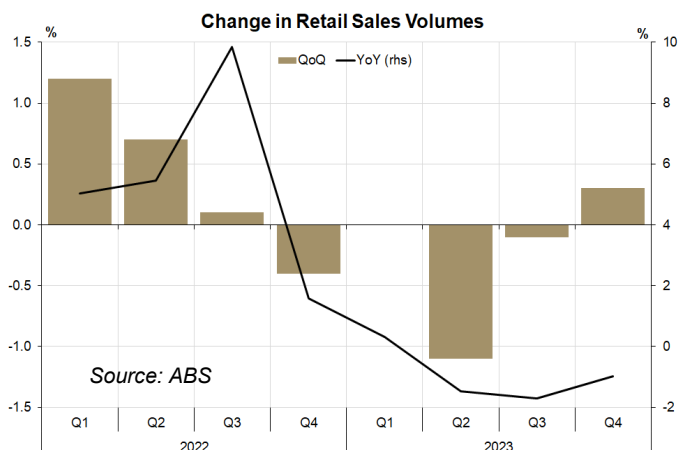
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,034.36	\$2,044.60	\$2,014.95	(↓\$19.81)	\$2,135.39	\$1,804.92
Brent Crude Oil (US\$)	\$81.61	\$81.90	\$76.62	(↑\$2.33)	\$97.69	\$70.12
Mogas95* (US\$)	\$101.00	\$101.58	\$94.13	(↑\$4.03)	\$110.15	\$79.06
WTI Oil (US\$)	\$76.30	\$76.59	\$71.41	(↑\$1.97)	\$95.03	\$63.64
CRB Index	273.57	273.57	267.74	(↑3.86)	290.29	253.85
Iron Ore Price 62% Fe (US\$) **	\$126.70	\$129.30	\$123.65	(↑\$0.3)	\$143.50	\$94.00

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

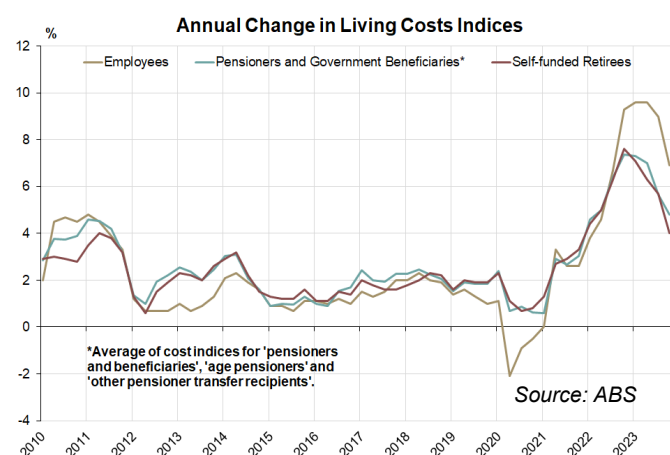
** The Iron Ore Price is the SGX62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

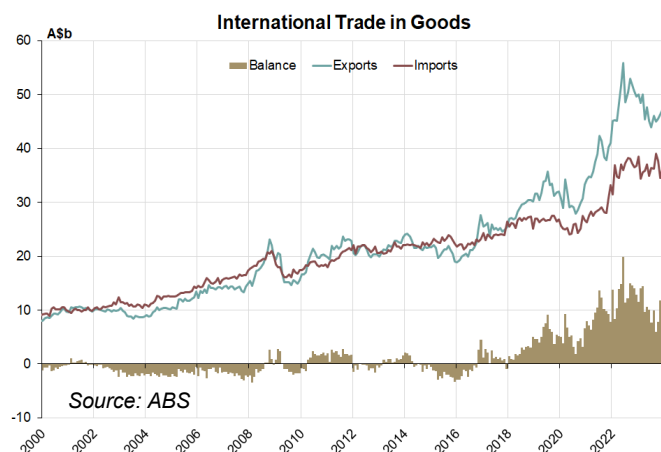
Retail sales volumes rose in Q4 2023 supported by Black Friday sales, but remained lower than a year earlier.



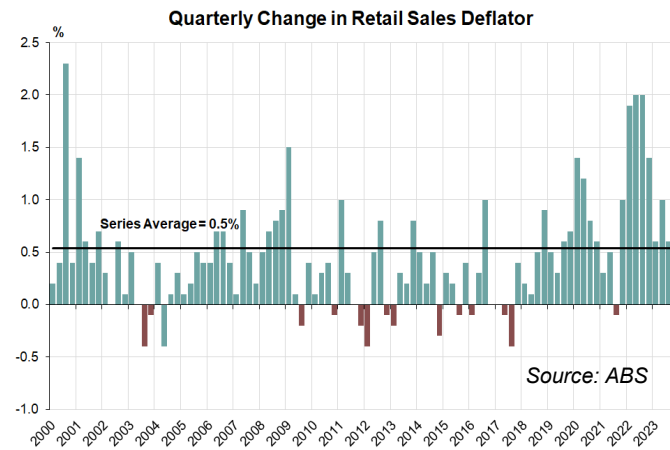
Despite the recent easing, growth in **living costs** remains elevated.



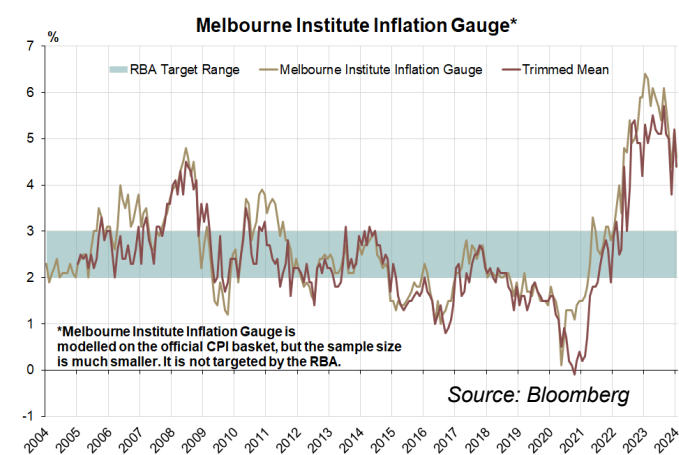
Australia continues to record supersized **trade surpluses**...



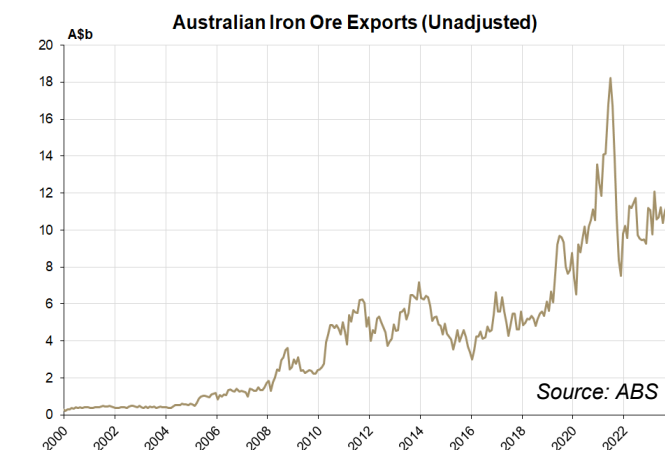
The rise in **retail prices** was the slowest in two years, partly helped by increased promotional activity.



Melbourne Institute inflation gauge points to renewed disinflation in January.

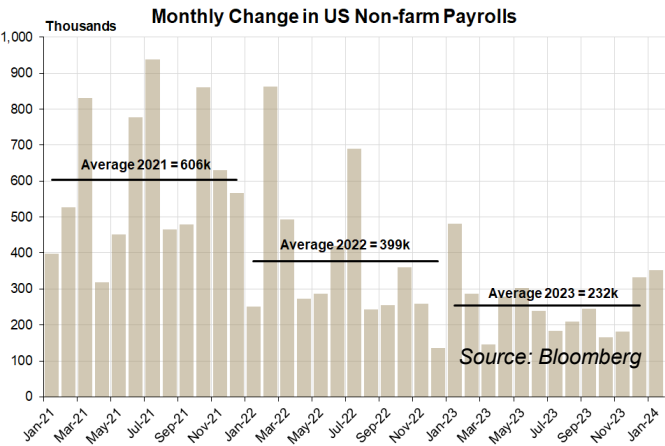


... with **iron ore export values** again climbing in unadjusted terms.

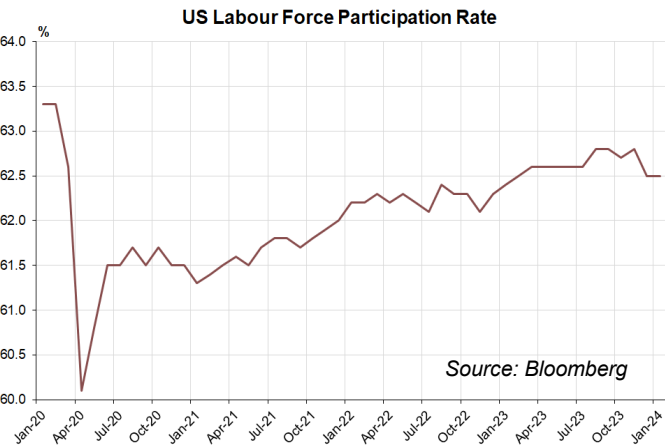


GLOBAL ECONOMY

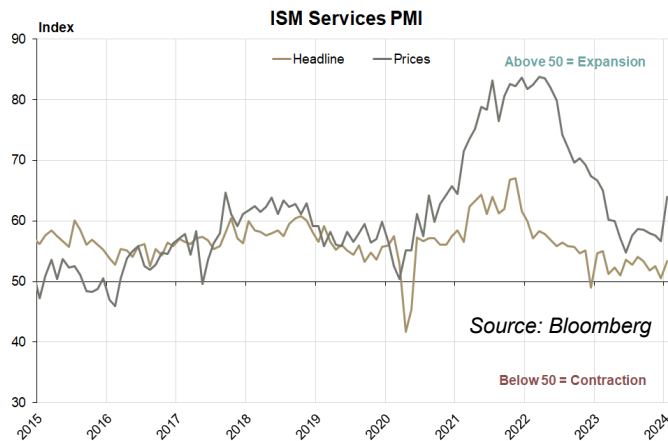
US non-farm payrolls saw an unexpected surge in January, while the December numbers were revised up.



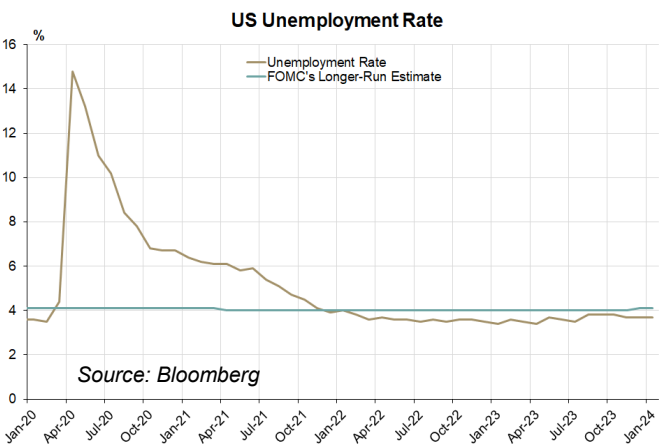
US labour force participation has stabilised well below the pre-COVID levels.



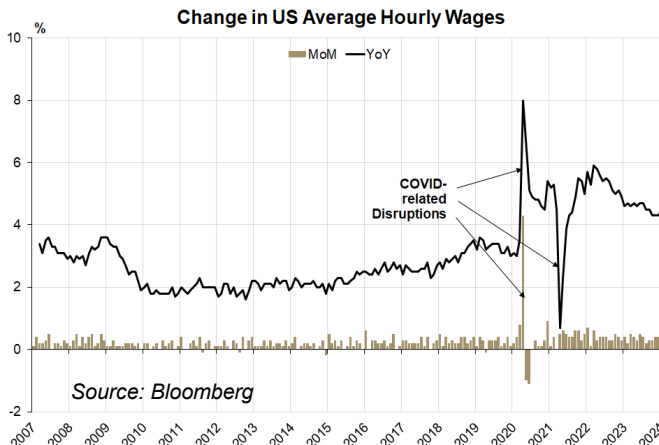
The ISM services report pointed to faster expansion and a strong re-acceleration in price growth in US services.



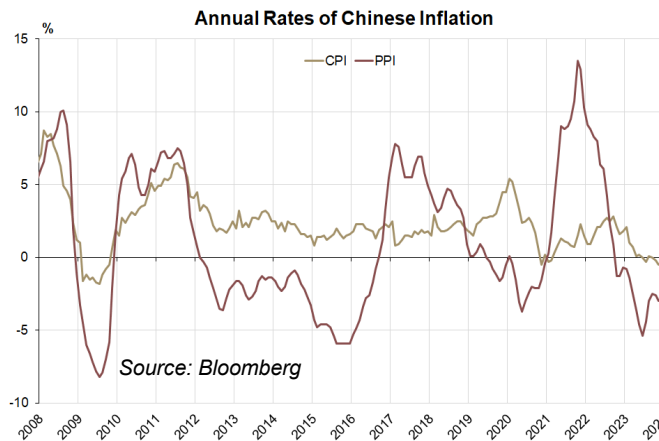
The US unemployment rate remains slightly below the FOMC's longer-run estimate.



The reduced labour supply and high demand are factors behind the solid growth in **US wages**.



The pace of consumer price deflation in China is the fastest since 2009 amid a drop in food prices.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

9 February 2024

KEY ECONOMIC EVENTS

Last Week

	Event	Actual	Forecast	Previous	Comment
Mon 05					
AU	Goods Trade Balance (Dec)	A\$11.0m	A\$10.5m	A\$11.8m	Iron ore exports remain elevated.
AU	ANZ Job Ads (MoM, Jan)	1.7%	-	0.6%	Have stabilised following a drop in 2023.
AU	MI Inflation Gauge (MoM, Jan)	0.3%	-	1.0%	Annual rate down 0.3ppts to 4.6%.
CH	Caixin Services PMI (Jan)	52.7	53.0	52.9	Composite PMI down 0.1pts to 52.6.
US	ISM Services PMI (Jan)	53.4	51.7	50.5	Prices propped up by Panama and Suez disruptions.
Tue 06					
AU	RBA Decision (Cash Rate Target)	4.35%	4.35%	4.35%	Markets expect rate cuts in Q3...
AU	RBA Governor M. Bullock Speaks	-	-	-	... while the RBA is not considering them yet.
AU	RBA Statement on Monetary Policy	-	-	-	Inflation in target range in 2025; mid-point in 2026.
AU	Retail Sales Volumes (QoQ, Q4)	0.3%	0.1%	-0.1%	Further fall in per capita terms.
AU	ANZ Consumer Conf. (w/e 3 Feb)	1.7%	-	0.6%	Inflation expectations the lowest since September.
Wed 07					
US	Trade Balance (Dec)	-US\$62b	-US\$62b	-US\$62b	Total deficit for 2023 was US\$773.4 billion.
Thu 08					
CH	CPI (YoY, Jan)	-0.8%	-0.5%	-0.3%	The fastest pace of decline since 2009.
CH	PPI (YoY, Jan)	-2.5%	-2.6%	-2.7%	Down 0.2% in the month.
US	Initial Jobless Claims (w/e 3 Feb)	218k	220k	227k	Continued claims fell 23k to 1,871k in w/e 27 Jan.
Fri 09					
AU	RBA Governor M. Bullock Speaks	-	-	-	Rate cuts may begin before inflation falls to 2.5%.
AU	Hhold Spend. Indicator (YoY, Dec)	2.3%	-	3.1%	Discretionary items down 0.6% from a year earlier.

Next Week

	Event	Forecast	Previous	Comment
Mon 12	No market-moving data.			
Tue 13				
AU	NAB Business Conditions (Jan)	-	7	Deteriorated in December, but remains close to average.
AU	NAB Business Confidence (Jan)	-	-1	Still depressed, despite the recent improvement.
AU	Westpac Consumer Conf. (MoM, Feb)	-	-1.3%	Weekly ANZ reports suggest stabilisation at a low level.
US	CPI (MoM, Jan)	0.2%	0.3%	Annual core CPI inflation expected to fall 0.2ppts to 3.7%.
Wed 14				
UK	CPI (MoM, Jan)	-0.1%	0.4%	Annual rate expected to have climbed 0.3ppts to 4.3%.
Thu 15				
AU	Employment (monthly change, Jan)	27.5k	-65.1k	The massive December drop could be downscaled.
AU	Unemployment Rate (Jan)	4.0%	3.9%	A 4 in front of it has not been seen in two years.
JP	GDP (QoQ, Q4)	0.3%	-0.7%	Growth expected to be boosted by stronger exports.
UK	GDP (QoQ, Q4)	0.0%	-0.1%	Expected to have risen by 0.2% YoY.
US	Retail Sales (MoM, Jan)	-0.2%	0.6%	That would be the first fall since October 2023.
US	Industrial Production (MoM, Jan)	0.4%	0.1%	US industrial production may have bottomed out.
Fri 16				
US	PPI (MoM, Jan)	0.1%	-0.1%	PMI reports suggested the risk of a renewed increase.
US	UoM Consumer Confidence (Feb, prelim.)	79.0	79.0	Will contain inflation expectations tracked by the Fed.