

THIS WEEK'S HIGHLIGHTS

- At home, wages growth slowed in quarterly terms in Q4, but the annual rate of growth was the highest since 2012. Construction work done fell in Q4, while private sector capex rose more than expected. According to the Judo Bank flash PMIs, the pace of contraction in Australian private sector activity eased in February.
- Abroad, the FOMC minutes was hawkish, showing that almost all meeting participants favoured a 25bps rate hike. The flash PMIs showed that business activity is now in expansion in all the major advanced economies, though manufacturing activity continues to be a drag. The RBNZ increased its official cash rate by 50bps to 4.75% and signalled more increases to come.

NEXT WEEK'S HIGHLIGHTS

- A busy week ahead domestically, with Q4 GDP data and the January CPI indicator on Wednesday being the major releases. Other events include the Q4 balance of payments, January retail trade and private sector credit on Tuesday, January building approvals on Thursday and housing finance on Friday.
- The calendar will be quite packed offshore as well, with US and Chinese PMIs for February, US durable goods orders for January and flash euro area inflation for February all scheduled for release.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.35 (0 pt)	O/N Interbank Cash	3.32 (0 pt)	USD 3-month	4.96 (↑6 pt)	ASX200	7308 (↓50 pt)
US (IOR)	4.65 (0 pt)	90-day Bills	3.51 (↑5 pt)	2-yr T-Notes	4.70 (↑2 pt)	S&P500	4012 (↓78 pt)
Eurozone (Deposit)	2.50 (0 pt)	3-yr T-Bond	3.61 (↑11 pt)	10-yr T-Notes	3.87 (↓2 pt)	DJIA	33154 (↓543 pt)
UK	4.00 (0 pt)	10-yr T-Bond	3.87 (↑4 pt)	Jap 10-yr	0.50 (0 pt)	Nikkei	27228 (↓317 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	4.00 (↑13 pt)	UK 10-yr	3.58 (↑8 pt)	CSI300	4104 (↑18 pt)
China (1Y LPR)	3.65 (0 pt)	10-yr WATC Bond	4.49 (↑7 pt)	Ger 10-yr	2.47 (0 pt)	Stoxx600	463 (↓3 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields are generally up for the week, though US Treasuries saw a relatively small increase at the front end of the curve and fell for longer maturities. The rise in Aussie Commonwealth bond yields was relatively strong.

FOMC minutes released on Thursday morning showed "almost all participants" deemed it appropriate to increase the fed funds rate by 25bps at the previous meeting, but "a few" preferred a 50bps hike. In addition, all FOMC members supported further interest rate increases, with the extent being data-dependent.

The markets currently expect that the fed funds rate will peak at 5.25-5.50% in this tightening cycle.

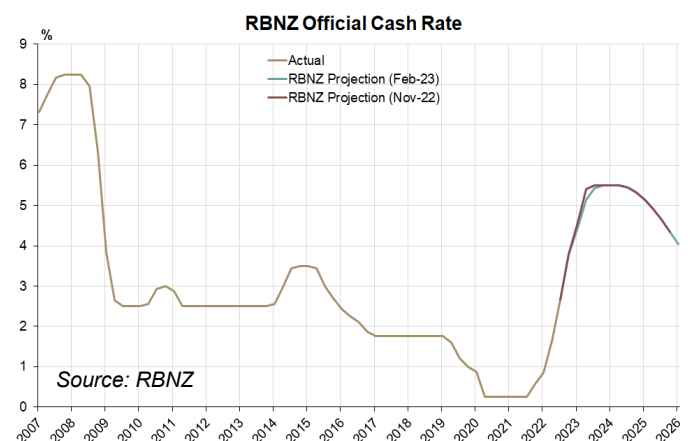
The RBNZ increased its official cash rate by 50bps to 4.75% and said that they still expect the terminal official cash rate of 5.50%.

In Australia, the downside surprise to the wage price index for Q4 saw RBA cash rate expectations decline slightly mid-week, but a peak of 4.30% is still anticipated by the markets.

Equities

It has been another dismal week for equities, as investors remain concerned over the economic impact of more central bank tightening. In the US, FOMC minutes released this week confirmed the Fed's hawkish stance. In addition, the PMIs suggested that the US services sector is back in expansion, which added to a streak of positive data supporting the outlook for further rate hikes.

The Aussie market also fell this week, to be 3.8% off the nine-month high reached earlier this month, driven in part by mixed domestic earnings reports. The ASX 200 followed Wall Street up this morning, but it is still heading for a third straight weekly loss at the time of writing.



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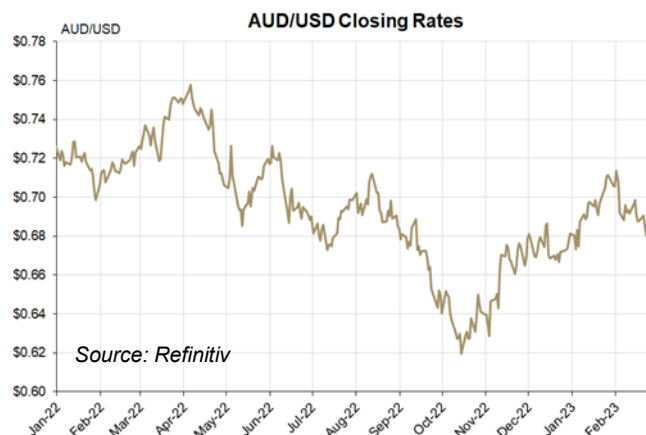
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Currencies

The Australian dollar has been the weakest of the G10 trading currencies over the past week, with the currency weighed down by the retreat in risk appetite and softer commodity prices.

The Aussie dollar got off to a good start following an early rise in metals prices. However, it has been largely downhill since then, with the currency slipping to as low as US\$0.6779 in the US trading session on Thursday, driven in part by a strong lift in the USD.

The British pound has been the strongest of the major currencies over the past five trading days, with the economic data providing hope that the UK economy may be improving in early 2023 after a weak last half of 2022, despite Bank of England forecasts signalling an impending recession.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6806	0.6936	0.6779	↓0.7	0.7661	0.6169
AUD/EUR		0.6421	0.6478	0.6393	↓0.1	0.7000	0.6255
AUD/GBP		0.5664	0.5750	0.5631	↓1.2	0.6260	0.5308
AUD/JPY		91.62	93.00	91.39	↓0.6	98.43	81.98
AUD/CNY		4.7012	4.7537	4.6809	↓0.2	4.8743	4.4365
EUR/USD		1.0596	1.0722	1.0575	↓0.5	1.1358	0.9534
GBP/USD		1.2013	1.2147	1.1913	↑0.5	1.3620	1.0382
USD/JPY		134.61	135.36	133.58	↑0	151.94	114.39
USD/CNY		6.9075	6.9075	6.8427	↑0.5	7.3270	6.3025

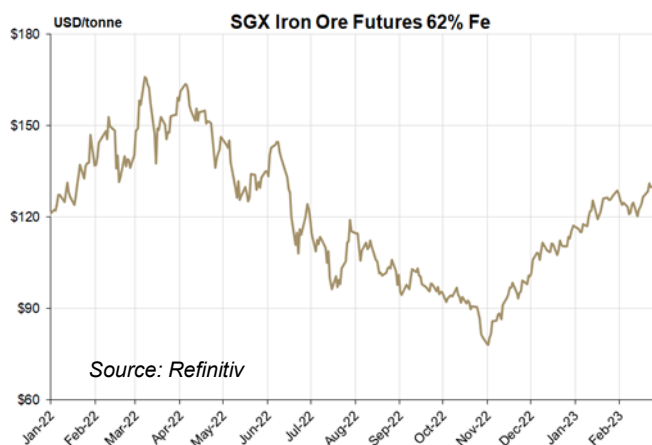
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6806	0.6828	0.6849	0.6881
AUD/EUR		0.6421	0.6408	0.6397	0.6363
AUD/GBP		0.5664	0.5671	0.5676	0.5677
AUD/JPY		91.62	90.70	89.70	87.57
AUD/NZD		1.0921	1.0959	1.0993	1.1047
AUD/SGD		0.9137	0.9144	0.9140	0.9109

Commodities

Crude oil has had another negative week, with Brent crude currently on track for its fourth decline in the past four weeks, as strong data in the US and Europe put upward pressure on interest rates.

Reports that Russia is planning a 25% cut to oil exports from its western ports helped push prices higher again on Thursday. Although this was partly offset by news that US crude oil inventories have risen to the highest level since May 2021.

Iron ore futures prices climbed to an eight-month high on Tuesday, with prices rising as steel mills restock ahead of what is anticipated to be a busy period for Chinese construction and steel demand. Prices eased a little later in the week after the Dalian Commodities Exchange announced a trading limit to take some of the heat out of the market.



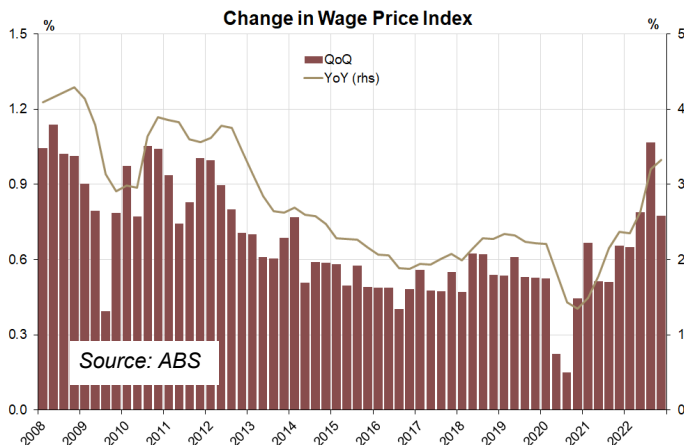
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,823.59	\$1,847.42	\$1,817.30	(↓\$5.83)	\$2,069.89	\$1,613.60
Brent Crude Oil (US\$)	\$82.21	\$84.87	\$80.40	(↓\$2.57)	\$139.13	\$75.11
Mogas95* (US\$)	\$95.70	\$100.20	\$95.70	(↓\$5.3)	\$161.20	\$82.60
WTI Oil (US\$)	\$75.68	\$79.54	\$73.80	(↓\$2.46)	\$130.50	\$70.08
CRB Index	266.94	270.25	266.10	(↓3.31)	329.59	263.69
Iron Ore Price 62% Fe (US\$) **	129.84	\$131.60	\$124.00	(↑\$5.31)	\$171.00	\$75.30

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

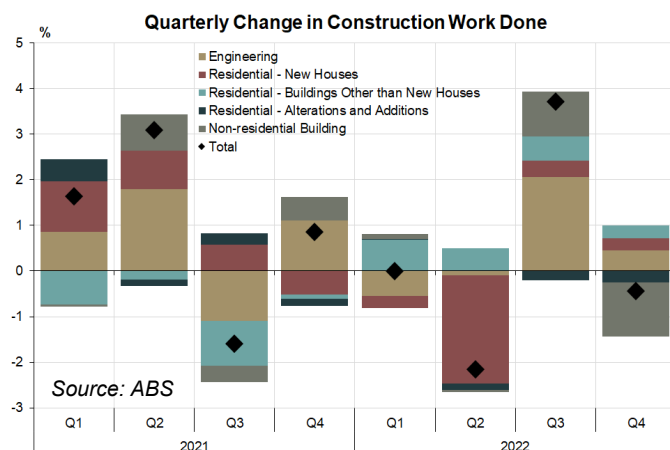
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

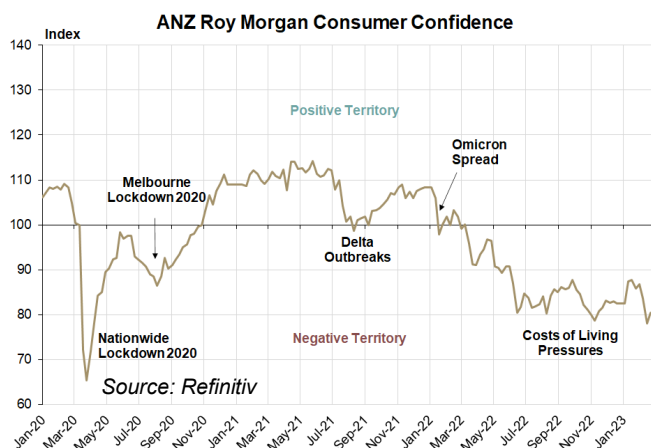
The **wage price index** rose by 0.8% in Q4, taking the annual rate growth to 3.3%, the most since 2012.



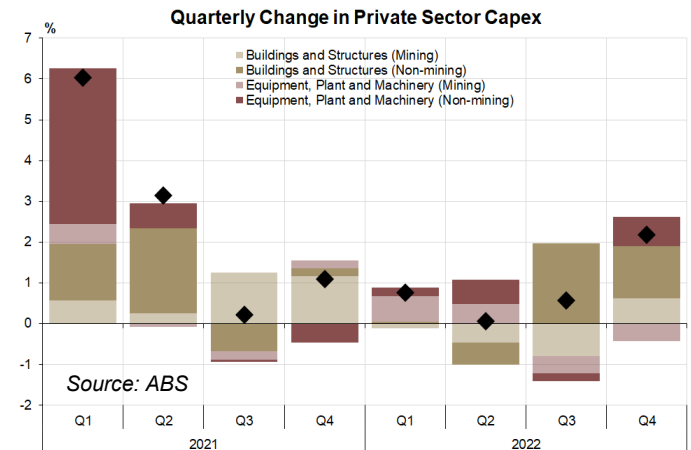
Construction work done fell in Q4, dragged down by falls in non-residential building and renovations.



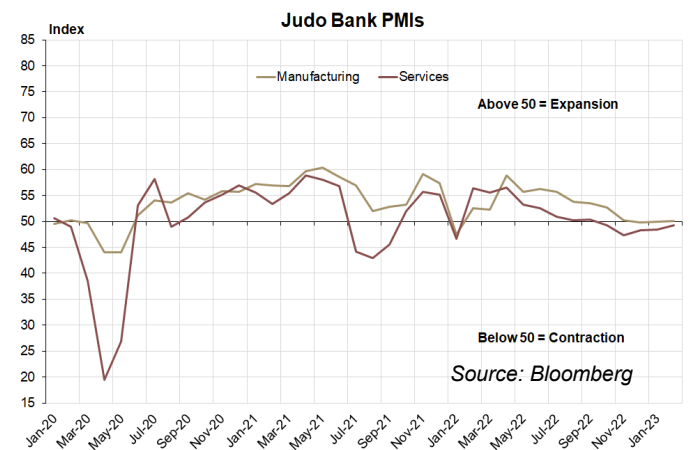
The ANZ Roy Morgan consumer confidence index picked up last week, but remains depressed.



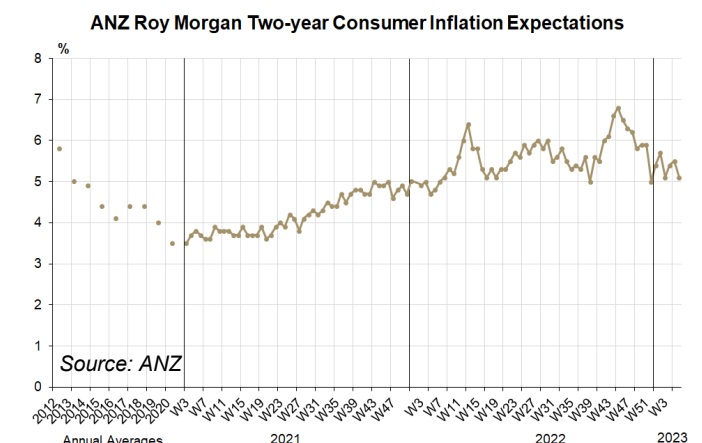
Private sector capex growth accelerated in Q4, driven by buildings and structures, and non-mining investment.



The Judo Bank flash PMIs point to slower contraction in services and ongoing manufacturing stagnation.



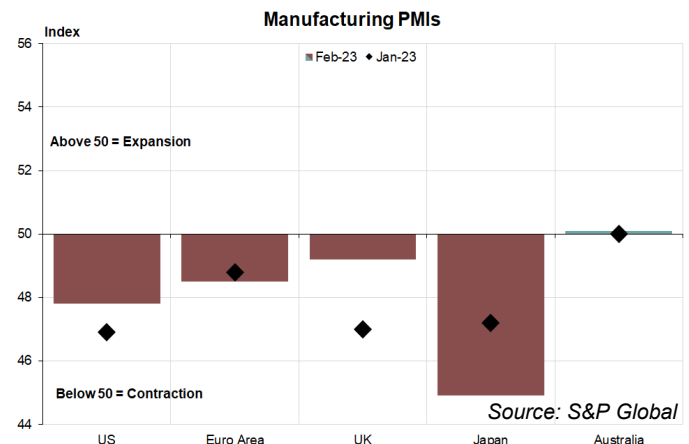
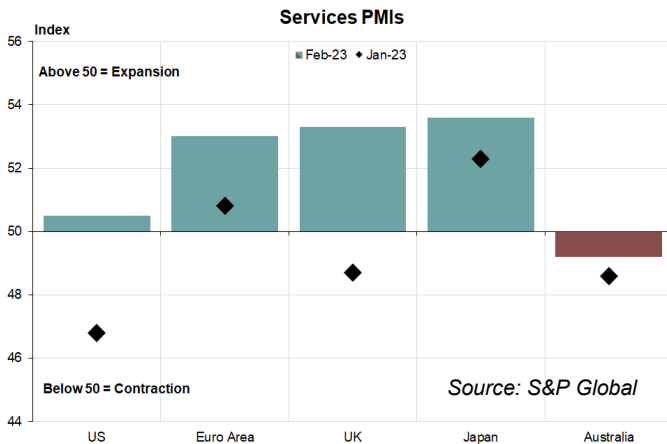
Two-year consumer inflation expectations have come off from late 2022 highs, yet are still elevated.



GLOBAL ECONOMY

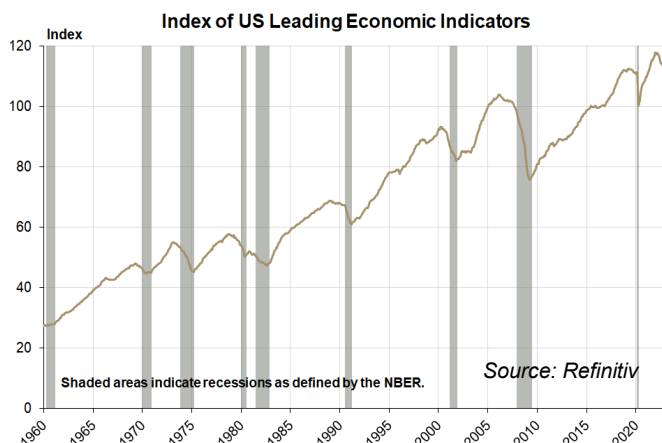
The S&P Global PMIs show that the **services sector** is back in expansion in all the major advanced economies...

... while the **manufacturing sector** continues to underperform.



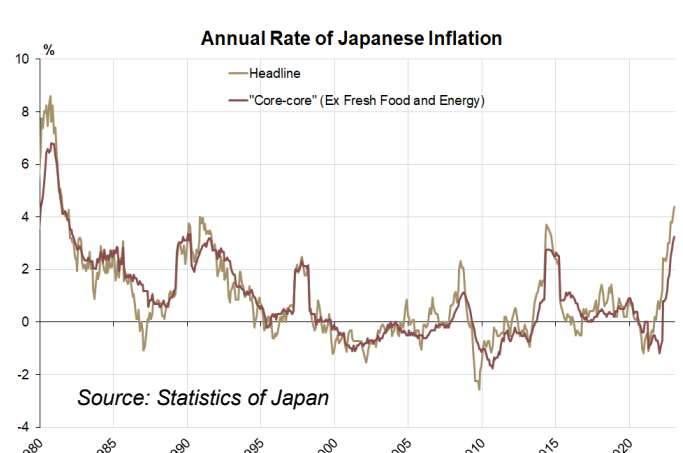
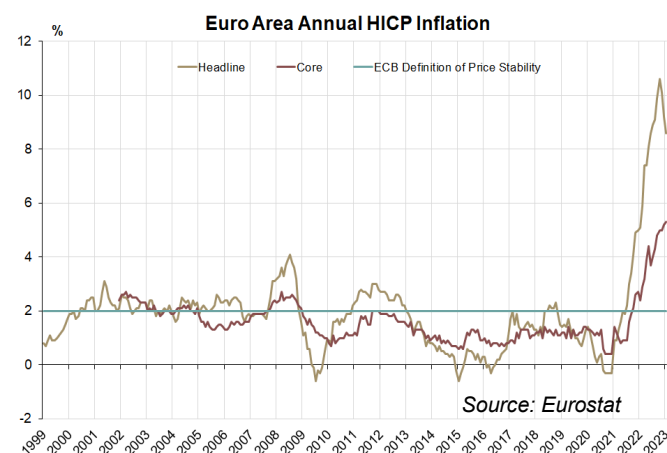
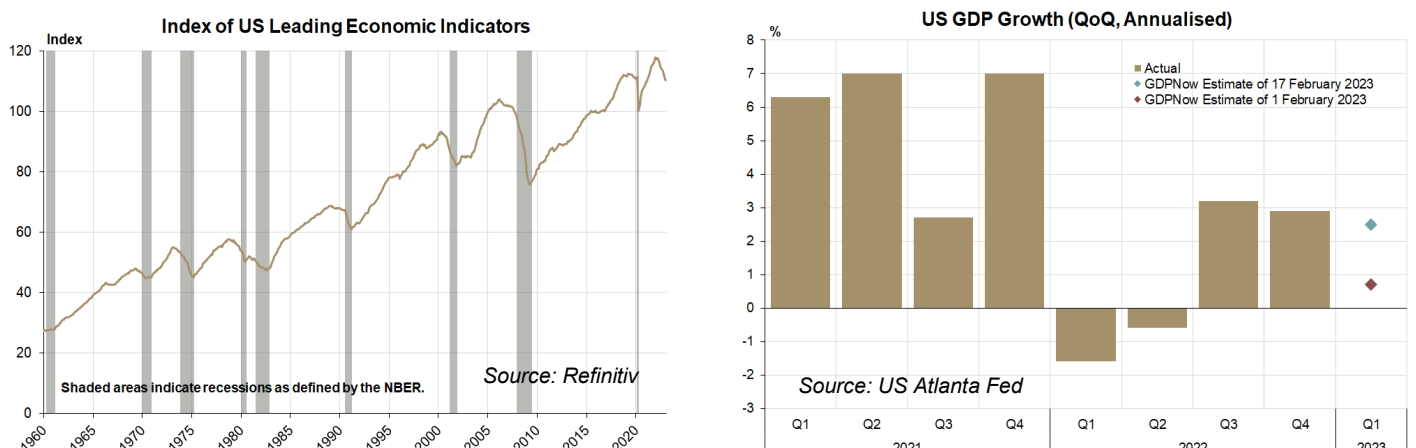
The index of **US composite leading indicators** continues to fall, which is usually consistent with recession...

... but the **US GDPNow** estimates for Q1 have been revised significantly upwards.



The final numbers confirmed that **euro area headline inflation** continues to decline, but core inflation is rising.

The annual rate of **Japanese headline inflation** rose to the highest level since mid-1981 in January.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

24 February 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 20					
CH	PBoC Decision (1Y Loan Prime Rate)	3.65%	3.65%	3.65%	PBoC supporting the economy by other instruments.
Tue 21					
AU	RBA Board Minutes (Feb)	-	-	-	RBA considered a 50bps increase at the Feb meeting.
AU	Judo Bank Comp. PMI (Feb, flash)	49.2	-	48.5	Despite a decline, cost and price pressures are high.
AU	ANZ Consumer Conf. (w/e 18 Feb)	2.3%	-	-5.5%	Consumer inflation expectations fell 0.4ppts to 5.1%.
JP	Jibun Bank Comp. PMI (Feb, flash)	50.7	-	50.7	The fastest contraction in manufacturing in 2.5 years.
EZ	S&P Global Comp. PMI (Feb, flash)	52.3	50.7	50.3	France and Germany back in expansion.
UK	S&P Global Comp. PMI (Feb, flash)	53.0	-	48.5	Upside risks to BoE's GDP projection are on the rise.
US	S&P Global Comp. PMI (Feb, flash)	50.2	-	46.8	Manufacturing remained in contraction.
Wed 22					
AU	Wage Price Index (QoQ, Q4)	0.8%	1.0%	1.1%	Annual wages growth accelerated to 3.3% YoY.
AU	Construction Work Done (QoQ, Q4)	-0.4%	1.5%	2.2%	New home construction rose by 1.6% in the quarter.
NZ	RBNZ Decision (Official Cash Rate)	4.75%	4.75%	4.25%	The RBNZ still expects the OCR to peak at 5.50%.
US	FOMC Minutes	-	-	-	All members agree that further tightening is needed.
Thu 23					
AU	Private Capex (QoQ, Q4)	2.2%	1.0%	0.6%	Q3 figures revised upwards.
EZ	HICP (YoY, Jan, final)	8.6%	8.5%	9.2%	Core inflation up 0.1ppts to 5.3%.
US	GDP (QoQ Annualised, Q4, 2nd est.)	2.7%	2.9%	3.2%	Downward revision to private consumption growth.
US	CFNAI (Jan)	0.23	-	-0.46	Points to improved conditions in early 2023.
US	Initial Jobless Claims (w/e 18 Feb)	192k	199k	195k	Continued claims also declined in w/e 11 February.
Fri 24					
JP	CPI (YoY, Jan)	4.3%	4.2%	4.0%	The highest level since June 1981.
Tonight					
US	Personal Spending (MoM, Jan)	-	1.2%	-0.2%	Retail sales point to a strong gain.
US	PCE Price Index (MoM, Jan)	-	0.5%	0.1%	CPI figures suggest faster monthly growth in prices.
US	UMich Cons. Sentiment (Feb, Final)	-	66.4	64.9	Has been improving but still weak.

Next Week

	Event	Forecast	Previous	Comment
Mon 27				
AU	Business Indicators (QoQ, Q4)	-	-	Another set of Q4 GDP partials.
US	Durable Goods Orders (MoM, Jan)	-3.9%	5.6%	January surge driven by the volatile aircraft orders.
Tue 28				
AU	Current Account Balance (Q4)	A\$6.0b	-A\$2.3b	Dividends to foreigners a drag on the current account.
AU	Retail Trade (MoM, Jan)	1.5%	-3.9%	Consensus expecting a rebound after a soft December.
AU	Private Sector Credit (MoM, Jan)	0.3%	0.3%	Up 8.3% YoY in December.
AU	Government Finance Statistics (Dec)	-	-	Data on finances of the general government and NFCs.
US	Case-Shiller Hse Price Index (YoY, Dec)	-	6.8%	US housing market in correction.
Wed 01				
AU	GDP (QoQ, Q4)	0.7%	0.6%	Significant slowdown expected in 2023.
AU	Monthly CPI Indicator (YoY, Jan)	8.0%	8.4%	Gradual decline in inflation expected from now on.
CH	NBS Composite PMI (Feb)	-	52.9	First insights into the Chinese economy in February.
CH	Caixin Manufacturing PMI (Feb)	-	49.2	The Chinese manufacturing sector is yet to rebound.
US	ISM Manufacturing PMI (Feb)	47.8	47.4	Price pressures easing in US manufacturing.
Thu 02				
AU	Dwelling Approvals (MoM, Jan)	-7.5%	18.5%	Recent volatility driven by high-rise activity.
EZ	HICP (YoY, Feb, flash)	-	8.6%	A further decline in inflation expected.
Fri 03				
AU	Housing Finance (MoM, Jan)	-3.0%	-4.3%	December saw another broad-based decline.
CH	Caixin Services PMI (Feb)	-	52.9	China's services sector rebounding from COVID.
US	ISM Services PMI (Feb)	54.5	55.2	US services sector resilient to higher interest rates so far.