

THIS WEEK'S HIGHLIGHTS

- In Australia, Q4 GDP growth was slower than expected, while the GDP deflator pointed to the fastest price growth since 1988. The current account remained in surplus in Q4 for the 15th quarter in a row. Retail sales rebounded in January, while inflation slowed. Dwelling approvals plunged to a 10-year low, while the value of new home loans fell again in January.
- Abroad, the US ISM manufacturing PMI remained in contraction in February, but the prices paid index rose back into expansion. The Chinese PMIs pointed to a stronger-than-expected recovery.

NEXT WEEK'S HIGHLIGHTS

- The key domestic event next week will be the RBA Board cash rate decision on Tuesday, with a 25bps hike to 3.60% widely expected. In addition, RBA Governor Philip Lowe is to speak on Wednesday.
- Other domestic events will include the Melbourne Institute inflation gauge for February on Monday and the external trade report for January on Tuesday.
- The most important releases offshore will be those concerning US labour market conditions, including non-farm payrolls and the unemployment rate for February on Friday. The Bank of Canada interest rate decision is on Wednesday and the Chinese inflation figures for February are due on Thursday.

| 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 | 4.99 (↑3 pt) | ASX200 | 7285 (↓23 pt) |
| US (IOR) | 4.65 (0 pt) | 90-day Bills | 3.63 (↑12 pt) | 2-yr T-Notes | 4.89 (↑20 pt) | S&P500 | 3981 (↓31 pt) |
| Eurozone (Deposit) | 2.50 (0 pt) | 3-yr T-Bond | 3.61 (0 pt) | 10-yr T-Notes | 4.05 (↑18 pt) | DJIA | 33004 (↓150 pt) |
| UK | 4.00 (0 pt) | 10-yr T-Bond | 3.91 (↑3 pt) | Jap 10-yr | 0.51 (0 pt) | Nikkei | 27898 (↑670 pt) |
| Japan | -0.10 (0 pt) | 3-yr WATC Bond | 4.01 (↑1 pt) | UK 10-yr | 3.88 (↑30 pt) | CSI300 | 4112 (↑8 pt) |
| China (1Y LPR) | 3.65 (0 pt) | 10-yr WATC Bond | 4.52 (↑3 pt) | Ger 10-yr | 2.75 (↑28 pt) | Stoxx600 | 460 (↓2 pt) |

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields are up again this week across all the major economies with the notable exception of Japan, where the 10-year yield is capped by the Bank of Japan.

US 10-year yields surged above 4% for the first time since November last year. This surge was driven by hawkish comments from Fed officials, strong US household spending and inflation data, and the ISM report, which suggested that inflation pressures are again on the rise in US manufacturing. The markets now expect that the fed funds rate will rise to 5.25-5.50% in this cycle.

The strongest increases in yields were recorded in Europe, however. This was triggered by the upside surprise to inflation for individual euro area member states, as well as for the monetary union as a whole. The markets now expect that the ECB will increase its deposit rate to an equal record high of 3.75%.

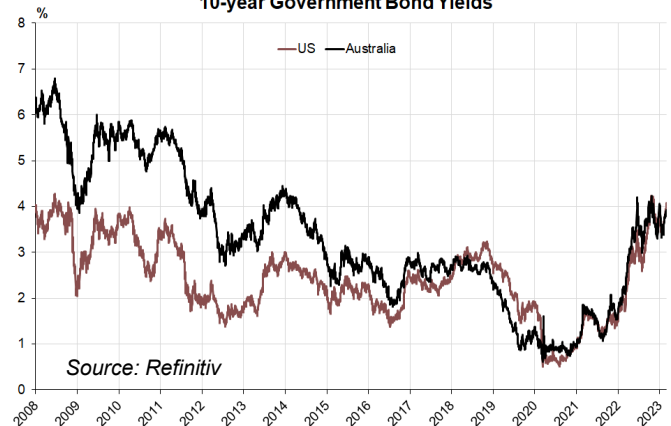
The rise in Aussie Commonwealth bond yields was constrained by the downside surprise to Q4 GDP data and the January CPI indicator. Despite that, the markets still expect a 25bps cash rate hike next week, followed by two more in the coming months.

Equities

Equities were mainly softer outside of China and Japan this week, with the US benchmark, the S&P 500, closing at a six-week low on Wednesday, before recovering a little overnight.

The Aussie market opened the week with its worst trading day in almost two months, as the ASX 200 fell 1.1% to a 6½-week low, following a sell-off in the US on Friday. The index has since recovered some of that early loss and traded in a relatively narrow range through the rest of the week, despite the release of some important domestic economic data.

10-year Government Bond Yields



S&P ASX 200



For further information, please contact:

Craig McGuinness
Patrycja Beniak

Chief Economist
Economist

cmcguinness@watc.wa.gov.au
pbeniak@watc.wa.gov.au

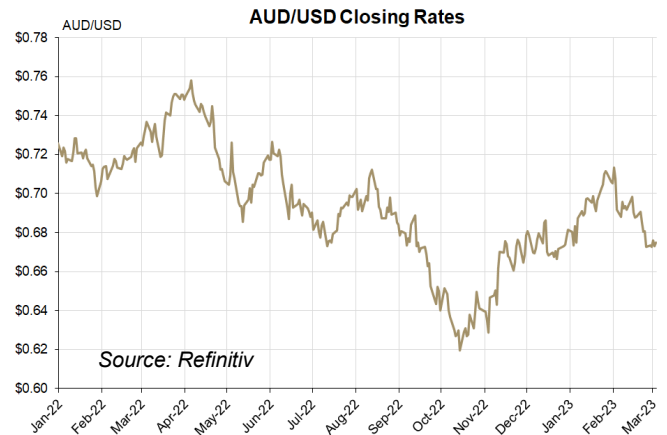
(08) 9235 9104
(08) 9235 9110

Currencies

The Australian dollar has had another dismal week, dragged down by adverse sentiment in the global financial markets amid concerns over more Fed tightening. The drop in iron ore prices and the downside surprises to Aussie GDP and CPI did not help the AUD either.

The AUD/USD broke below \$0.67 this week after the GDP and CPI releases. This was the first time since 3 January that the pair fell below this mark.

The Aussie also depreciated against the euro and the British pound this week. However, it managed to appreciate versus the weaker Japanese yen. The JPY was dragged down by the dovish comments by the Bank of Japan Governor Kazuo Ueda, who said that the ultra-expansionary policy settings remain appropriate for Japan at this stage.



| Spot rates | | Current | High | Low | Change (%) | 52-Week High | 52-Week Low |
|------------|--|---------|--------|--------|------------|--------------|-------------|
| AUD/USD | | 0.6738 | 0.6841 | 0.6693 | ↓1 | 0.7661 | 0.6169 |
| AUD/EUR | | 0.6354 | 0.6445 | 0.6314 | ↓1 | 0.7000 | 0.6255 |
| AUD/GBP | | 0.5633 | 0.5680 | 0.5542 | ↓0.5 | 0.6260 | 0.5434 |
| AUD/JPY | | 92.07 | 92.29 | 91.25 | ↑0.5 | 98.43 | 83.22 |
| AUD/CNY | | 4.6502 | 4.7221 | 4.6179 | ↓1.1 | 4.8743 | 4.4365 |
| EUR/USD | | 1.0601 | 1.0691 | 1.0531 | ↑0 | 1.1184 | 0.9534 |
| GBP/USD | | 1.1957 | 1.2143 | 1.1921 | ↓0.5 | 1.3417 | 1.0382 |
| USD/JPY | | 136.64 | 137.09 | 134.05 | ↑1.5 | 151.94 | 114.63 |
| USD/CNY | | 6.9015 | 6.9015 | 6.8616 | ↓0.1 | 7.3270 | 6.3084 |

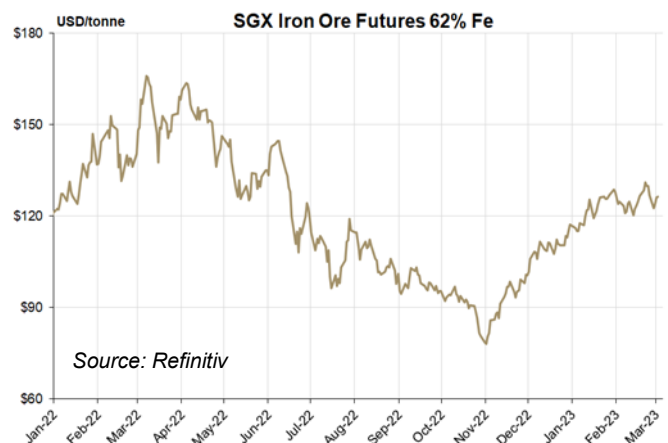
| Forward Rates | | Spot | 3M | 6M | 12M |
|---------------|--|--------|--------|--------|--------|
| AUD/USD | | 0.6738 | 0.6761 | 0.6783 | 0.6817 |
| AUD/EUR | | 0.6354 | 0.6343 | 0.6333 | 0.6310 |
| AUD/GBP | | 0.5633 | 0.5643 | 0.5649 | 0.5656 |
| AUD/JPY | | 92.07 | 91.17 | 90.16 | 88.05 |
| AUD/NZD | | 1.0828 | 1.0865 | 1.0901 | 1.0964 |
| AUD/SGD | | 0.9072 | 0.9079 | 0.9075 | 0.9055 |

Commodities

Stronger Chinese economic data helped boost oil prices this week, although optimism over the demand outlook was dented by news of yet another bigger-than-expected build in US oil inventories.

Iron ore futures prices slumped last Friday and again on Monday on news of an ongoing rise in Chinese port inventories, followed by press reports that Chinese authorities had ordered steelmakers in the steel hubs of Handan and Tangshan to cut production due to pollution concerns.

Iron ore prices picked up over the remainder of the week, as the pollution curbs were eased and Chinese manufacturing PMIs for February were better than expected.



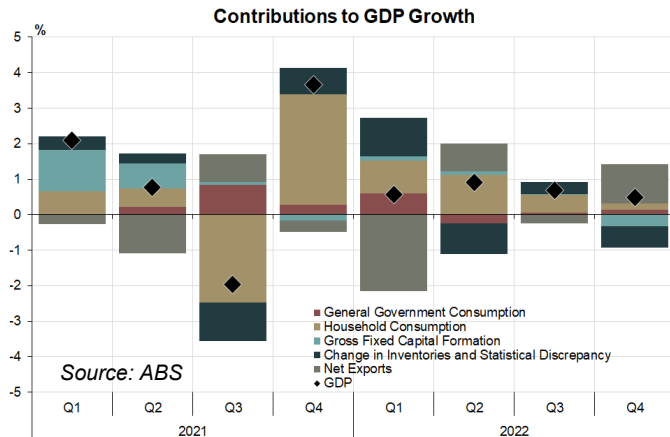
| | Current | High | Low | Change | 52-Week High | 52-Week Low |
|---------------------------------|------------|------------|------------|------------|--------------|-------------|
| Gold (US\$) | \$1,838.80 | \$1,844.50 | \$1,804.20 | (↑\$15.21) | \$2,069.89 | \$1,613.60 |
| Brent Crude Oil (US\$) | \$84.44 | \$85.10 | \$81.07 | (↑\$2.23) | \$139.13 | \$75.11 |
| Mogas95* (US\$) | \$98.25 | \$99.57 | \$95.75 | (↑\$2.55) | \$161.20 | \$82.60 |
| WTI Oil (US\$) | \$77.87 | \$78.59 | \$74.09 | (↑\$2.19) | \$130.50 | \$70.08 |
| CRB Index | 271.30 | 272.81 | 266.94 | (↓\$3.47) | 329.59 | 263.69 |
| Iron Ore Price 62% Fe (US\$) ** | 126.37 | \$131.35 | \$122.35 | (↓\$3.47) | \$171.00 | \$75.30 |

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

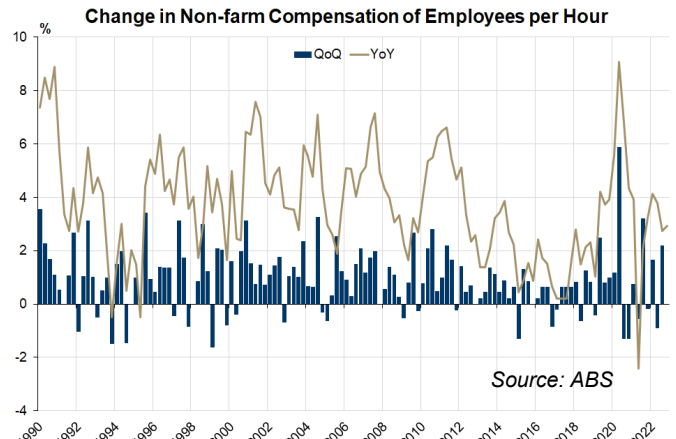
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

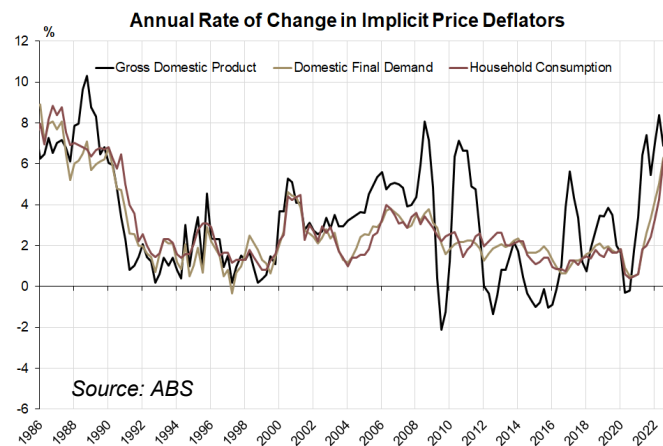
GDP growth unexpectedly slowed further in Q4, dragged down by a deceleration in private consumption.



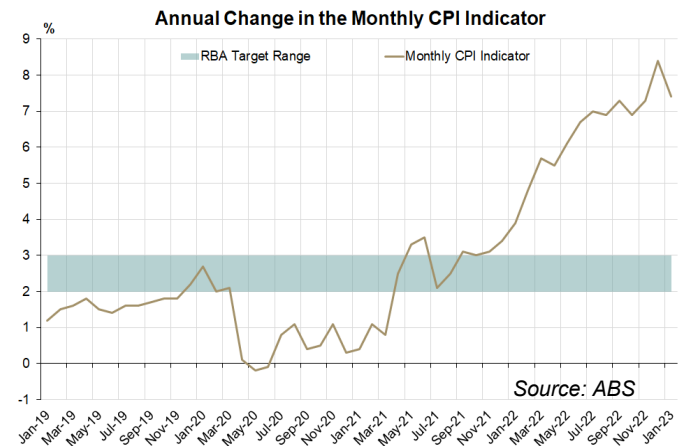
Growth in **non-farm employee compensation per hour**, tracked closely by the RBA, remains moderate.



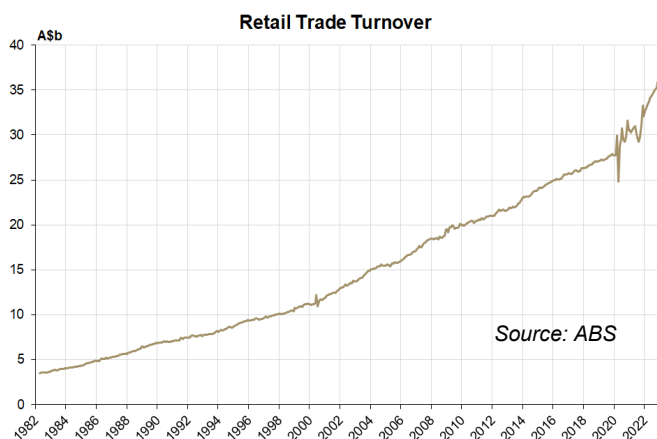
The **GDP price deflator** suggested that Q4 saw the fastest inflation in the broad economy since 1988...



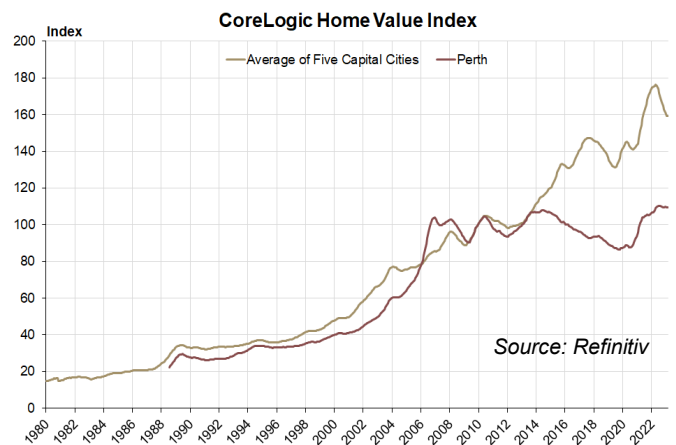
... but the **monthly CPI indicator** pointed to a decline in inflation in January, to a still elevated 7.4%.



Retail trade turnover rebounded in January, and was only a touch off its record high from November.

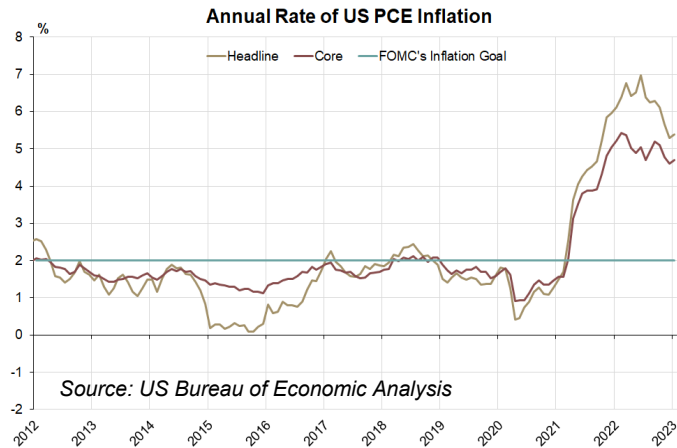


The fall in **home prices** decelerated in February, due to a rise in New South Wales; Perth prices remain stable.

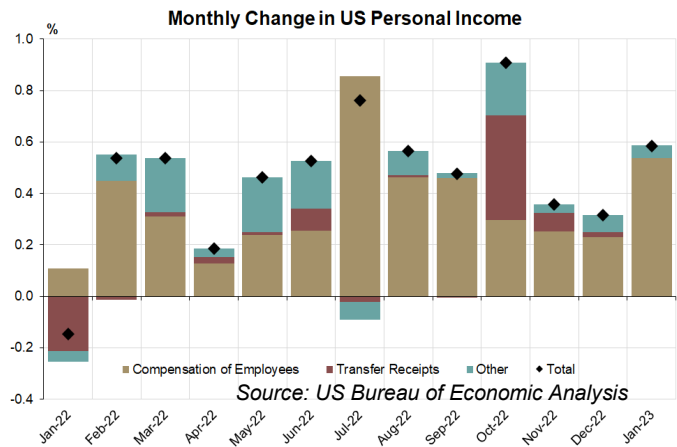


GLOBAL ECONOMY

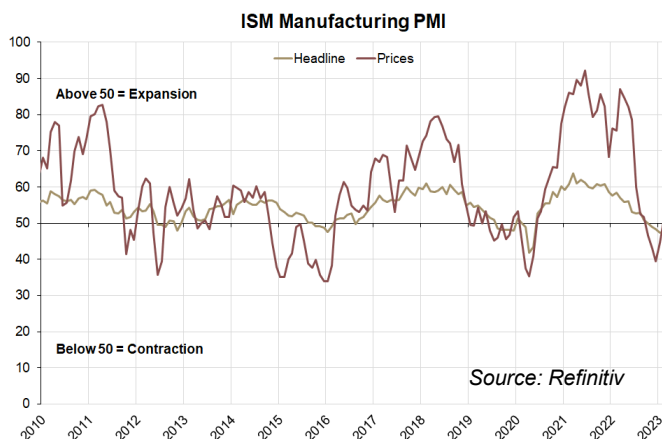
US PCE price inflation unexpectedly ticked up in January, to remain significantly above the Fed's inflation goal.



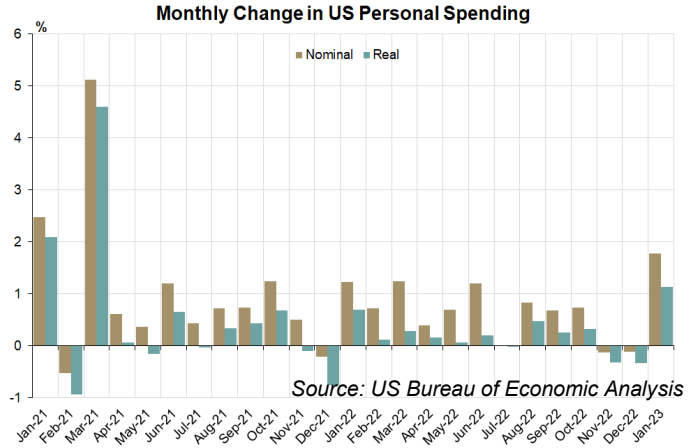
Growth in **US personal income** also accelerated, with wages growth gaining the most since July 2022.



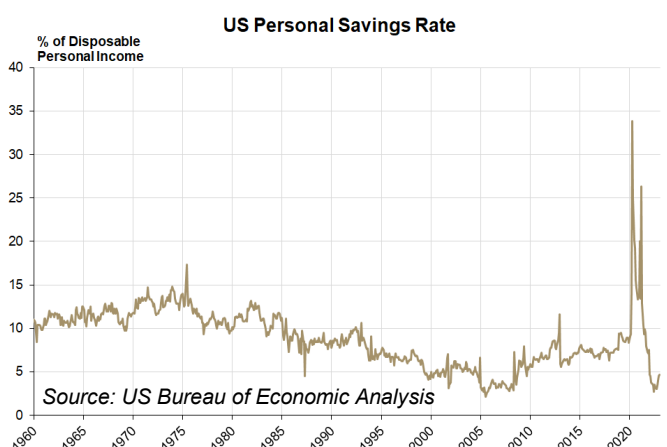
US ISM manufacturing PMI remained in contraction in February, but prices paid were again on the rise.



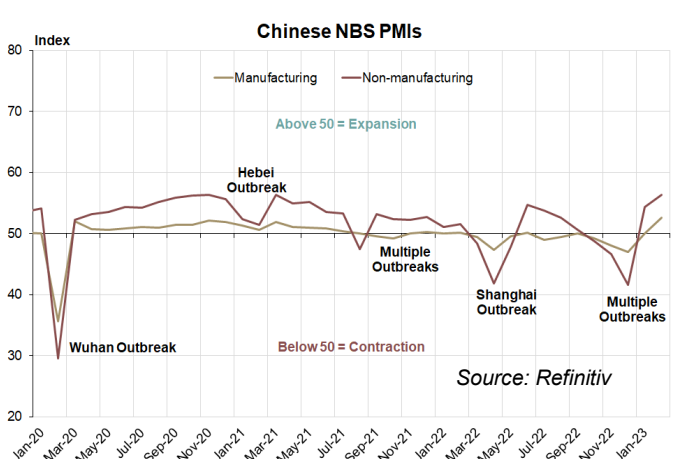
January also saw the strongest increase in **US personal spending** since March 2021.



The **US personal savings rate** has picked up from September 2022 lows, but remains depressed.



The **Chinese PMIs** point to swift recovery from the zero-COVID policy.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

3 March 2023

KEY ECONOMIC EVENTS

This Week

| | Event | Actual | Forecast | Previous | Comment |
|----------------|-------------------------------------|----------|----------|----------|--|
| Mon 27 | | | | | |
| AU | Business Indicators (QoQ, Q4) | - | - | - | Wages up by 2.6%; corporate profits up by 10.6%. |
| US | Durable Goods Orders (MoM, Jan) | -4.5% | -3.9% | 5.1% | Core durable goods orders rose by 0.9% in January. |
| Tue 28 | | | | | |
| AU | <u>Current Account Balance</u> (Q4) | A\$14.1b | A\$5.8b | A\$0.8b | 15th surplus in a row. |
| AU | Retail Trade (MoM, Jan) | 1.9% | 1.6% | -4.0% | Just 2.2% off its record high from November 2022. |
| AU | Private Sector Credit (MoM, Jan) | 0.4% | 0.3% | 0.3% | Up 8.0% through the year. |
| AU | Government Finance Statistics (Dec) | - | - | - | General government net operating balance in surplus. |
| AU | ANZ Consumer Conf. (w/e 25 Feb) | -0.4% | - | 2.3% | Consumer inflation expectations rose 0.1ppts to 5.2%. |
| US | Case-Shiller Hse Prices (YoY, Dec) | 4.6% | 6.8% | 6.8% | Down 0.5% in the month. |
| Wed 01 | | | | | |
| AU | GDP (QoQ, Q4) | 0.5% | 0.7% | 0.7% | Slowdown driven by household consumption. |
| AU | Monthly CPI Indicator (YoY, Jan) | 7.4% | 8.0% | 8.4% | Covers a little less than 2/3 of goods and services. |
| CH | NBS Composite PMI (Feb) | 56.4 | - | 52.9 | Points to the fastest pace of expansion on record. |
| CH | Caixin Manufacturing PMI (Feb) | 51.6 | 50.2 | 49.2 | Chinese manufacturing rebounds surprisingly fast. |
| US | ISM Manufacturing PMI (Feb) | 47.7 | 48.0 | 47.4 | Prices paid index rose back into expansion. |
| Thu 02 | | | | | |
| AU | Dwelling Approvals (MoM, Jan) | -27.6% | -9.2% | 18.5% | Plunged to a 10-year low. |
| EZ | HICP (YoY, Feb, flash) | 5.6% | 8.2% | 8.6% | Core inflation rose to a new record high. |
| US | Initial Jobless Claims (w/e 25 Feb) | 190k | 195k | 192k | Continued claims low at 1,655k. |
| Fri 03 | | | | | |
| AU | <u>Housing Finance</u> (MoM, Jan) | -5.3% | -3.0% | -4.3% | Another broad-based decline. |
| CH | Caixin Services PMI (Feb) | 55.0 | 54.2 | 52.9 | The fastest rate of expansion since August 2022. |
| Tonight | | | | | |
| US | ISM Services PMI (Feb) | - | 54.5 | 55.2 | US services sector resilient to higher interest rates. |

Next Week

| | Event | Forecast | Previous | Comment |
|---------------|--|------------|------------|---|
| Mon 06 | | | | |
| AU | Melbourne Institute Inflation (MoM, Feb) | - | 0.9% | Inflation expected to have peaked in Q4. |
| Tue 07 | | | | |
| AU | RBA Decision (Cash Rate Target) | 3.60% | 3.35% | Markets expect that the cash rate will reach 4.20%. |
| AU | Trade Balance (Jan) | A\$12.5b | A\$12.2b | Rebound in services trade turnover continues. |
| US | Fed Monetary Policy Report | - | - | Fed Chair semi-annual testimony to Senate Committee. |
| Wed 08 | | | | |
| AU | Speech by RBA Governor Lowe | - | - | Remarks at AFR Business Summit. |
| CA | Bank of Canada Decision (Policy Rate) | 4.50% | 4.50% | In late January, BoC signalled a pause in tightening. |
| US | ADP Employment (monthly change, Feb) | 200k | 106k | Has been a poor indicator of non-farm payrolls of late. |
| US | Trade Balance (Jan) | -US\$69.0b | -US\$67.4b | 2022 saw the widest US trade deficit on record. |
| US | Beige Book | - | - | Anecdotal information on conditions in Fed districts. |
| US | Fed Monetary Policy Report | - | - | Fed Chair semi-annual testimony to HoR Committee. |
| Thu 09 | | | | |
| CH | CPI (YoY, Feb) | 2.0% | 2.1% | Inflation pressure in China remains low. |
| CH | PPI (YoY, Feb) | -1.4% | -0.8% | Jan saw unexpected acceleration in the decline in PPI. |
| US | JOLTS Job Openings (Jan) | - | 11.0m | US labour market conditions remain tight. |
| Fri 10 | | | | |
| JP | BoJ Decision (Compl. Deposit Rate) | -0.10% | -0.10% | No changes to policy under the incumbent BoJ Governor. |
| UK | Monthly GDP (MoM, Jan) | - | -0.5% | UK economic data has surprised to the upside of late. |
| US | Non-farm Payrolls (monthly change, Feb) | 215k | 517k | Jan strength partly due to seasonal adjustment issues. |
| US | Unemployment Rate (Feb) | 3.4% | 3.4% | Hit the lowest level since 1969 in January. |