

THIS WEEK'S HIGHLIGHTS

- In Australia, RBA minutes confirmed that a 25bps hike was discussed at the August meeting. Employment unexpectedly declined in July, while the unemployment rate increased to 3.7%. The annual rate of wages growth slowed in Q2.
- Abroad, FOMC minutes pointed to the possibility of further fed funds rate increases. US retail sales and industrial production rose more than expected in July. Chinese economic activity data weakened further in July.

NEXT WEEK'S HIGHLIGHTS

- A fairly quiet week at home, with the flash Judo Bank PMIs for August on Wednesday the only release of note.
- Wednesday will also see flash PMIs for August for the major advanced economies. Other releases will include US existing home sales (Wed), new homes sales (Thu) and durable goods orders (Thu); all those releases are for July. However, the major global event next week will be the annual central bankers' meeting in Jackson Hole, which will start on Thursday night.

| 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 | 5.64 | (↑1 pt) | ASX200 | 7156 | (↓191 pt) |
| US (IOR) | 5.40 | (0 pt) | 90-day Bills | 4.15 | (↓2 pt) | 2-yr T-Notes | 4.91 | (↑7 pt) | S&P500 | 4370 | (↓98 pt) |
| Eurozone (Deposit) | 3.75 | (0 pt) | 3-yr T-Bond | 3.89 | (↑6 pt) | 10-yr T-Notes | 4.25 | (↑15 pt) | DJIA | 34475 | (↓701 pt) |
| UK | 5.25 | (0 pt) | 10-yr T-Bond | 4.25 | (↑13 pt) | Jap 10-yr | 0.64 | (↑6 pt) | Nikkei | 31565 | (↓908 pt) |
| Japan | -0.10 | (0 pt) | 3-yr WATC Bond | 4.13 | (↑6 pt) | UK 10-yr | 4.75 | (↑38 pt) | CSI300 | 3818 | (↓88 pt) |
| China (1Y LPR) | 3.55 | (0 pt) | 10-yr WATC Bond | 4.68 | (↑11 pt) | Ger 10-yr | 2.71 | (↑18 pt) | Stoxx600 | 451 | (↓13 pt) |

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

The FOMC minutes showed that most participants still judged the upside risks to inflation as 'significant', adding that this could require further policy tightening. The document concluded that the Committee remains resolute in their commitment to bring inflation back to target, implying a clear tightening bias.

The hawkish FOMC minutes, coupled with upside surprises to the US data, led to an increase in government bond yields, with 10-year US Treasury yields reaching the highest levels since late 2007. Traders continue to price in only a small chance of another Fed rate hike in this cycle.

The RBA Board minutes released on Tuesday unsurprisingly confirmed the Board considered a case for an interest rate hike at the August meeting. Board members noted there was a 'credible path back to the inflation target' with the cash rate being kept unchanged.

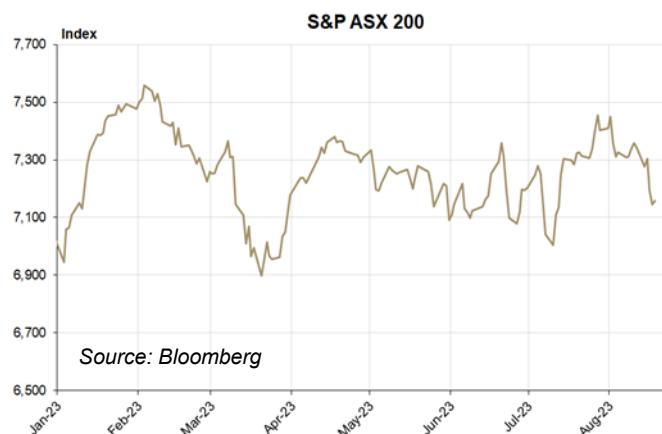
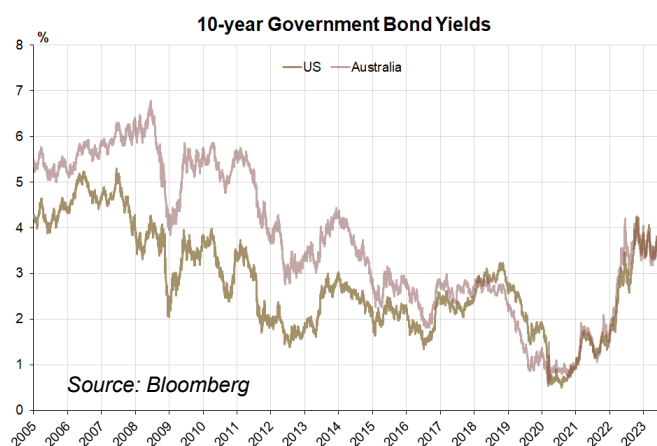
RBA cash rate expectations declined this week, following the downside surprise to the wage price index for Q2 and disappointing labour force survey results for July. However, a 25bps hike continues to be partially priced in for late 2023.

Equities

Equities have slipped over the past five days as soft Chinese economic data and further evidence of financial instability in the Chinese property sector increased anxiety over the outlook.

Share markets have been under additional downward pressure as rising bond yields weighed on valuations.

The Aussie market is on track for its worst week since September last year, which should be no surprise given the exposure to China. The ASX 200 fell to a five-week low on Thursday but has managed to make a small gain this morning. Mining, communication services and financials have been the worst performing sectors over the week.



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Currencies

It was not a good week for the Australian dollar, which was hit by a combination of downside surprises to employment and wages, relatively dovish RBA Board minutes and troubles in the Chinese economy and property sector.

The AUD/USD dropped below US\$0.65 at the start of the week and continued to decline on Tuesday and Wednesday. The downside accelerated after the disappointing labour force survey on Thursday, when the pair briefly breached US\$0.64, before rising again.

Overall, the Aussie dollar depreciated by 1.6% against the greenback, making it the third weakest G10 currency.

The troubles in China are reflected in the weak yuan, which fell to its lowest level against the greenback since November last year, which was itself the lowest level since late 2007.

AUD/USD Closing Rates



| Spot rates | | Current | High | Low | Change (%) | 52-Week High | 52-Week Low |
|------------|--|---------|--------|--------|------------|--------------|-------------|
| AUD/USD | | 0.6410 | 0.6522 | 0.6365 | ↓1.7 | 0.7158 | 0.6170 |
| AUD/EUR | | 0.5887 | 0.5971 | 0.5863 | ↓0.8 | 0.7000 | 0.5157 |
| AUD/GBP | | 0.5025 | 0.5130 | 0.5007 | ↓2.3 | 0.6277 | 0.5157 |
| AUD/JPY | | 93.20 | 94.87 | 93.15 | ↓1.3 | 98.60 | 86.06 |
| AUD/CNY | | 4.6680 | 4.7453 | 4.6520 | ↓1 | 4.9348 | 4.4465 |
| EUR/USD | | 1.0888 | 1.0961 | 1.0857 | ↓0.9 | 1.1276 | 0.9536 |
| GBP/USD | | 1.2755 | 1.2787 | 1.2617 | ↑0.6 | 1.3142 | 1.0350 |
| USD/JPY | | 145.40 | 146.56 | 144.66 | ↑0.5 | 151.95 | 127.23 |
| USD/CNY | | 7.2828 | 7.3173 | 7.2484 | ↑0.7 | 7.3274 | 6.6909 |

| Forward Rates | | Spot | 3M | 6M | 12M |
|---------------|--|--------|--------|--------|--------|
| AUD/USD | | 0.6410 | 0.6431 | 0.6451 | 0.6476 |
| AUD/EUR | | 0.5887 | 0.5881 | 0.5870 | 0.5845 |
| AUD/GBP | | 0.5025 | 0.5041 | 0.5060 | 0.5099 |
| AUD/JPY | | 93.20 | 92.15 | 91.02 | 88.87 |
| AUD/NZD | | 1.0809 | 1.0845 | 1.0879 | 1.0943 |
| AUD/SGD | | 0.8695 | 0.8687 | 0.8674 | 0.8632 |

Commodities

Iron ore prices remained under downward pressure through most of the week, which is not surprise given the weakness of the Chinese economic data and ongoing problems in the property sector. Sentiment toward iron ore wasn't helped by news of the third monthly decline in Chinese steel output in the past four months. However, prices unexpectedly bounced to the highest level since the end of July on Thursday, as the rapidly deteriorating Chinese property outlook again raised hopes of government intervention.

Gold prices have dropped to the lowest level since March, as the greenback strengthened and bond yields climbed.

Oil prices have slipped to the lowest levels in two weeks as concerns about the Chinese economy escalated and the US dollar strengthened.

SGX Iron Ore Futures 62% Fe



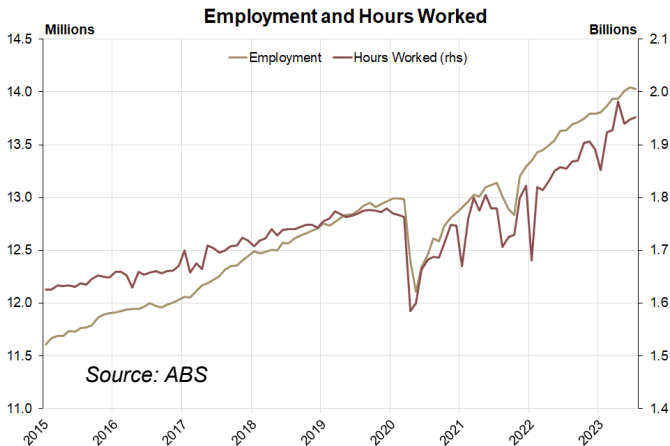
| | Current | High | Low | Change | 52-Week High | 52-Week Low |
|---------------------------------|------------|------------|------------|------------|--------------|-------------|
| Gold (US\$) | \$1,893.44 | \$1,916.28 | \$1,885.08 | (↓\$20.45) | \$2,062.99 | \$1,614.96 |
| Brent Crude Oil (US\$) | \$84.21 | \$86.71 | \$83.05 | (↓\$2.24) | \$105.48 | \$70.12 |
| Mogas95* (US\$) | \$97.68 | \$108.40 | \$97.51 | (↓\$2.97) | \$109.53 | \$77.66 |
| WTI Oil (US\$) | \$80.64 | \$83.20 | \$78.95 | (↓\$2.25) | \$97.66 | \$63.64 |
| CRB Index | 274.39 | 279.96 | 273.46 | (↓\$5.57) | 301.75 | 253.85 |
| Iron Ore Price 62% Fe (US\$) ** | \$106.25 | \$107.25 | \$99.40 | (↑\$5.1) | \$139.80 | \$75.00 |

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

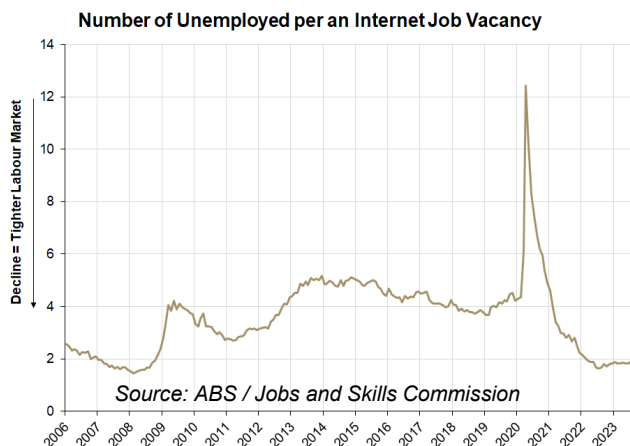
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

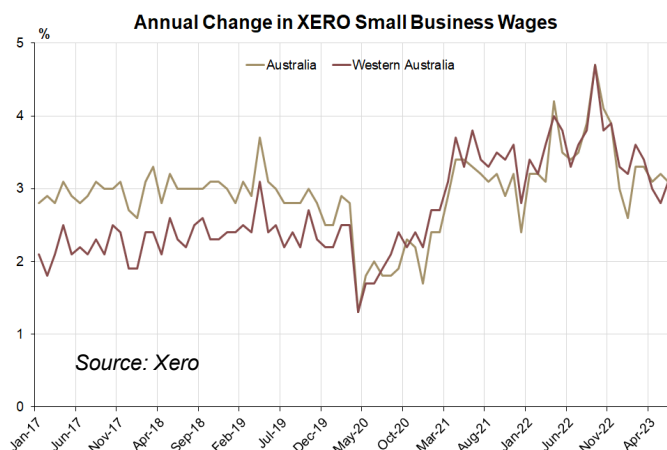
Employment declined in July, but remained close to a record high, while hours worked rose further.



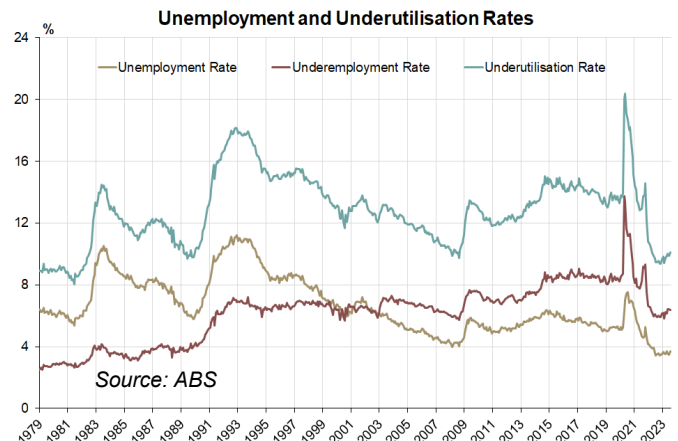
The labour market remains very tight, with less than two unemployed people per an internet job vacancy.



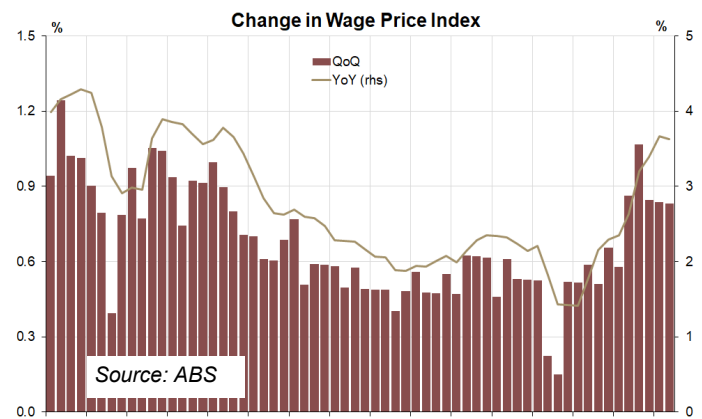
Wage growth in the small business sector has eased in recent quarters.



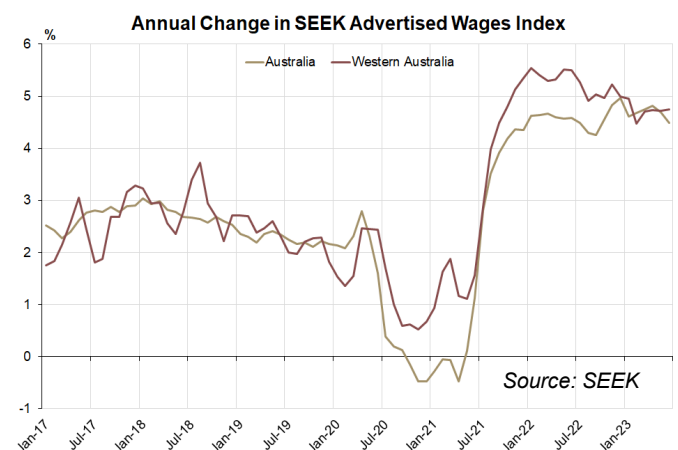
The **unemployment rate** picked up but remained low at low 3.7%, while underemployment was stable.



However, annual **wages growth** slowed slightly in Q2 ahead of the minimum and award wage hike in Q3.

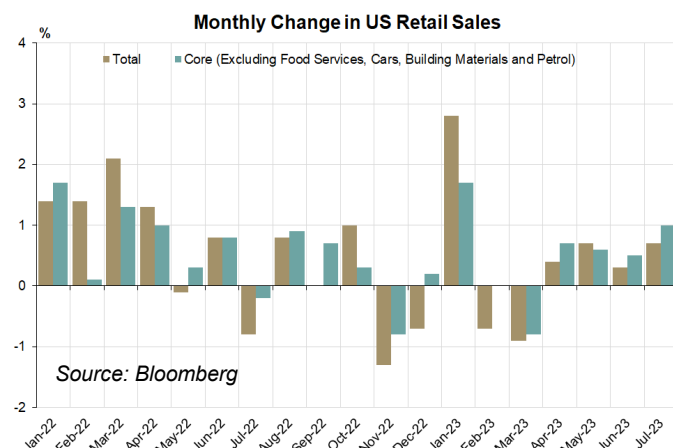


Advertised wage growth has eased but remains elevated.

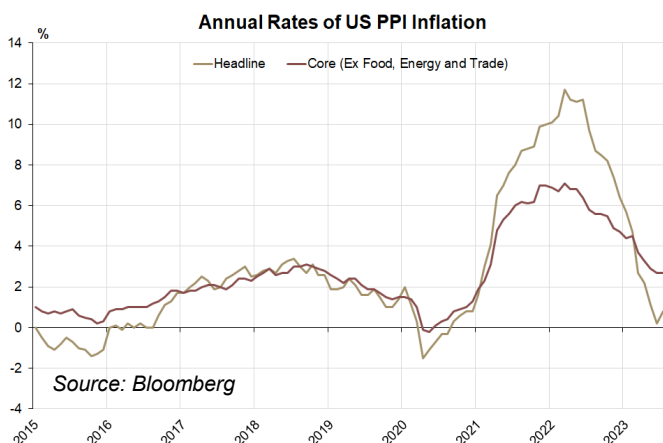


GLOBAL ECONOMY

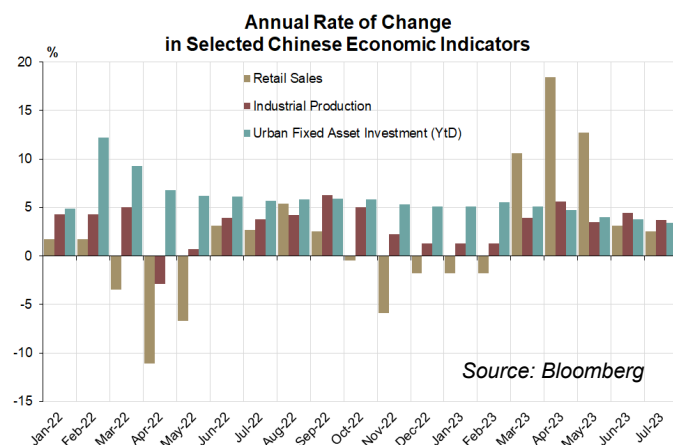
US retail sales growth re-accelerated in July...



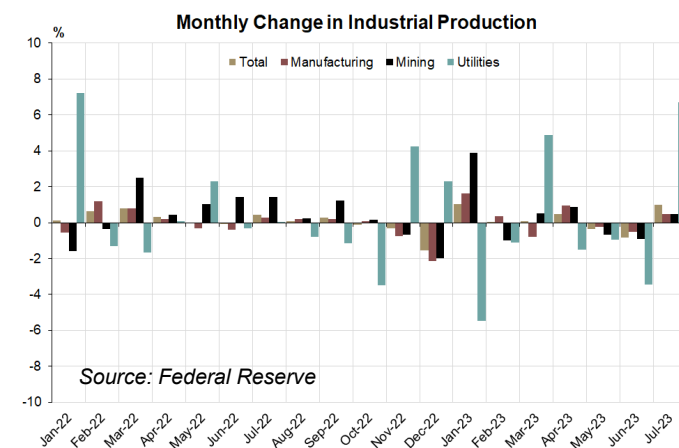
US PPI inflation picked up in headline terms, but remained low, while core inflation continued to decline.



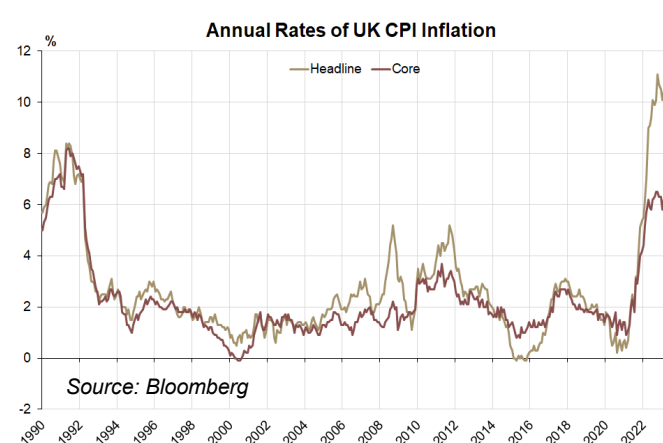
Chinese economic activity data weakened further in July.



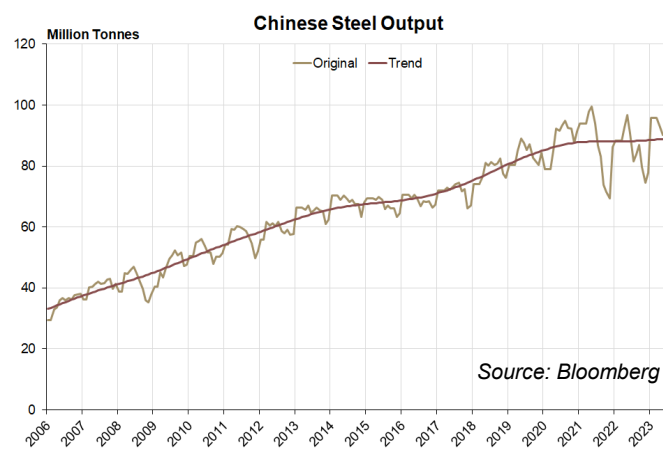
US industrial production also saw a broad-based rise in July, led by the volatile utilities amid hot weather.



UK CPI inflation dropped considerably in headline terms, but core inflation remains sticky.



Chinese steel output has fallen in three of the past four months but remains elevated.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

18 August 2023

KEY ECONOMIC EVENTS

This Week

| | Event | Actual | Forecast | Previous | Comment |
|---------------|-------------------------------------|--------|----------|----------|---|
| Mon 14 | <i>No market-moving data.</i> | | | | |
| Tue 15 | | | | | |
| AU | RBA Minutes (Aug) | - | - | - | Central RBA forecasts suggest no more rate hikes. |
| AU | Wage Price Index (QoQ, Q2) | 0.8% | 0.9% | 0.8% | Unexpected slowdown of 0.1ppts to 3.6% YoY. |
| AU | ANZ Consumer Conf. (w/e 12 Aug) | 3.2% | - | 3.4% | Inflation expectations declined 0.2ppts to 5.2%. |
| JP | GDP (QoQ, Q2) | 1.5% | 0.8% | 0.9% | Q1 growth revised 0.1ppts upwards. |
| CH | Retail Sales (YoY, Jul) | 2.5% | 4.0% | 3.1% | Private consumption in China is weak. |
| CH | Industrial Production (YoY, Jul) | 3.7% | 4.4% | 4.4% | Chinese steel output down in 3 of past 4 months.. |
| CH | Urban Fixed Inv. (YoY YtD, Jul) | 3.4% | 3.7% | 3.8% | Key indicator for Chinese demand for iron ore. |
| UK | Unemployment Rate (Jun) | 4.2% | 4.0% | 4.0% | Average earnings growth increased to 7.3% YoY. |
| US | Retail Sales (MoM, Jul) | 0.7% | 0.4% | 0.3% | Core retail sales rose by 1.0% in July. |
| Wed 16 | | | | | |
| NZ | RBNZ Decision (Official Cash Rate) | 5.50% | 5.50% | 5.50% | Interest rate projection path revised slightly upwards. |
| UK | CPI (YoY, Jul) | 6.8% | 6.7% | 7.9% | Annual core inflation rate steady at 6.9%. |
| US | Industrial Production (MoM, Jul) | 1.0% | 0.3% | -0.8% | A broad-based increase. |
| US | FOMC Minutes | - | - | - | Most FOMC participants see possible hikes ahead. |
| Thu 17 | | | | | |
| AU | Employment (monthly change, Jul) | -14.6k | 15.0k | 31.6k | Decline was probably a setback from May and June. |
| AU | Unemployment Rate (Jul) | 3.7% | 3.5% | 3.5% | Still very low. |
| US | Initial Jobless Claims (w/e 12 Aug) | 239k | 240k | 250k | Continued claims rose to 1,716k in w/e 5 August. |
| Fri 18 | | | | | |
| JP | CPI (YoY, Jul) | 3.3% | 3.3% | 3.3% | 'Core-core' inflation rose by 0.1ppts to 4.3%. |

Next Week

| | Event | Forecast | Previous | Comment |
|---------------|---------------------------------------|----------|----------|--|
| Mon 21 | | | | |
| CH | PBoC Decision (1Y Loan Prime Rate) | 3.40% | 3.55% | PBoC unexpectedly cut the MLF rate by 15bps this week. |
| Tue 22 | <i>No market-moving data.</i> | | | |
| Wed 23 | | | | |
| AU | Judo Bank Composite PMI (Aug, flash) | - | 48.2 | Has been more downbeat than the NAB business survey. |
| JP | Jibun Bank Composite PMI (Aug, flash) | - | 52.2 | Growth being driven by the service sector. |
| EZ | HCOB Composite PMI (Aug, flash) | - | 48.6 | Further contraction expected in Germany. |
| UK | S&P Global Composite PMI (Aug, flash) | - | 50.8 | Has been signalling only a modest UK expansion. |
| US | Existing Home Sales (MoM, Jul) | -0.2% | -3.3% | Has been falling since March. |
| US | S&P Global Composite PMI (Aug, flash) | - | 52.0 | First insights into US economic activity in August. |
| Thu 24 | | | | |
| US | New Home Sales (MoM, Jul) | 1.4% | -2.5% | This would be the first rise since January. |
| US | Durable Goods Orders (MoM, Jul) | -4.0% | 4.6% | Has shown surprising resilience of late. |
| US | Jackson Hole Symposium Starts | - | - | Major topic will be structural shifts in the global economy. |
| Fri 25 | <i>No market-moving data.</i> | | | |