

THIS WEEK'S HIGHLIGHTS

- In Australia, Judo Bank flash PMIs pointed to further contraction in services and manufacturing activity in August.
- Abroad, flash PMIs confirmed slower expansion in the US, contraction in Europe and positive economic conditions in Japan. US durable goods orders fell in July. The People's Bank of China took further, albeit disappointing steps to support the ailing economy.

NEXT WEEK'S HIGHLIGHTS

- The domestic calendar next week will be a bit busier, with the Q2 GDP partials (construction work done on Wednesday and private sector capex on Thursday) as well as July data on retail trade (on Monday), building approvals (on Tuesday), the monthly CPI indicator (on Wednesday), private sector credit (on Thursday) and housing finance (on Friday). Friday will also see the CoreLogic home price data for August.
- A lot of events offshore too, with highlights being the US and Chinese PMIs, US labour market data as well as the US personal income and its outlays report, which will include July data on PCE price inflation, targeted by the Fed.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	4.10 (0 pt)	O/N Interbank Cash	4.07 (0 pt)	USD 3-month	5.65 (↑1 pt)	ASX200	7113 (↓43 pt)
US (IOR)	5.40 (0 pt)	90-day Bills	4.14 (↓1 pt)	2-yr T-Notes	5.02 (↑11 pt)	S&P500	4376 (↑6 pt)
Eurozone (Deposit)	3.75 (0 pt)	3-yr T-Bond	3.85 (↓4 pt)	10-yr T-Notes	4.25 (0 pt)	DJIA	34099 (↓375 pt)
UK	5.25 (0 pt)	10-yr T-Bond	4.16 (↓9 pt)	Jap 10-yr	0.66 (↑2 pt)	Nikkei	31693 (↑128 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	4.10 (↓3 pt)	UK 10-yr	4.43 (↓32 pt)	CSI300	3709 (↓109 pt)
China (1Y LPR)	3.45 (↓10 pt)	10-yr WATC Bond	4.62 (↓6 pt)	Ger 10-yr	2.51 (↓20 pt)	Stoxx600	452 (↑10 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Long-term government bond yields fell this week in the US and Australia, which followed a sell-off in the fixed income markets in the previous week.

Fedspeak this week was inconclusive. While Philadelphia Fed President Patrick Harker hinted that Fed tightening might have concluded, Boston Fed President Susan Collins said that more fed funds rate hikes could be needed. Both said policy will have to remain restrictive for some time.

Fed Chair Powell will speak on the economic outlook at the Jackson Hole symposium tonight and there is speculation he may provide additional insights into FOMC monetary policy outlook.

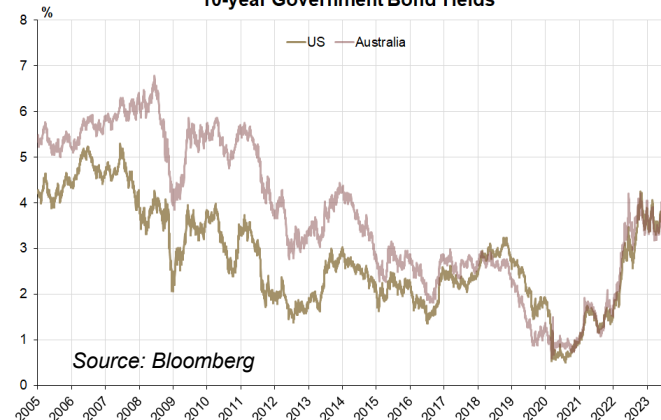
The People's Bank of China, caught between supporting the economy and not fuelling increases in the already large pile of risky debt, cut its benchmark one-year loan prime rate by a smaller-than-expected 10 basis points to 3.45% (exp. 3.40%). It also left its five-year loan prime rate, the key reference rate for mortgages, unchanged at 4.20% (exp. 4.05%).

Equities

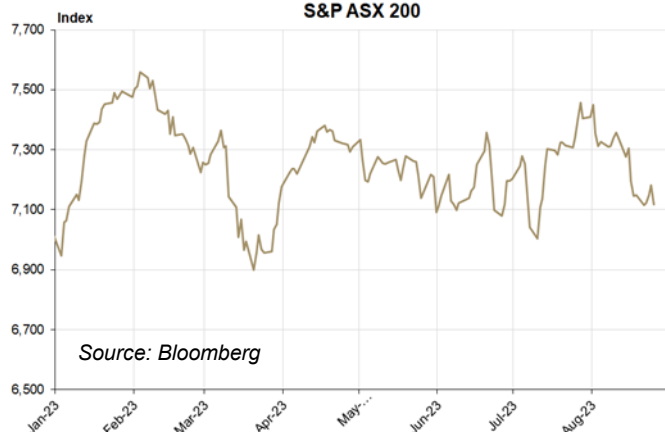
US equities rose through most of the first half of the week, after three consecutive weekly losses saw the S&P 500 close last Friday's session at its lowest closing level since June. The uplift was led by the tech sector, as earnings remained strong and bond yields eased. However, shares fell back on Thursday, as the market pulled back ahead of Fed Chair Jerome Powell's Jackson Hole speech tonight and some of the early tech sector gains were unwound.

The Aussie market fell to a seven-week low on Monday. It recovered through the middle of the week, with info tech, real estate and mining shares leading the way but followed the US market lower this morning, giving up all its earlier gains.

10-year Government Bond Yields



S&P ASX 200



For further information, please contact:

Craig McGuinness

Chief Economist

cmcguinness@watc.wa.gov.au

(08) 9235 9104

Patrycja Beniak

Economist

pbeniak@watc.wa.gov.au

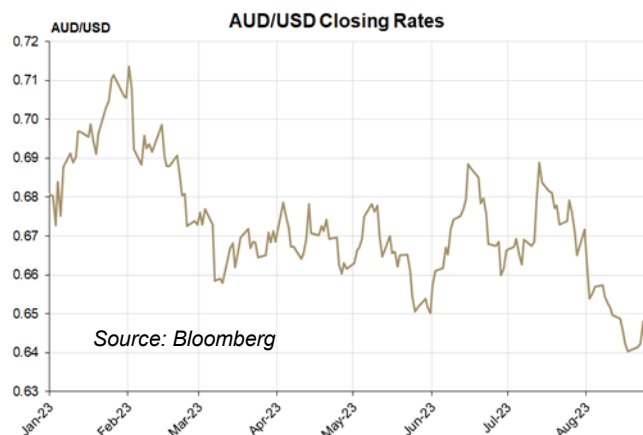
(08) 9235 9110

Currencies

The Aussie dollar had a positive week, climbing against all members of the G10 currency basket, including a slight gain against the USD. The gains have put the AUD trade-weighted index on track for its first weekly rise in six weeks.

The Aussie began the week close to its lowest level against the greenback since November last year but strengthened through most of this week, as risk appetite improved and iron ore prices continued the recovery that began in the middle of last week.

The AUD / USD slipped overnight, as the big dollar lifted ahead of the Jerome Powell's speech tonight, with the Fed chair likely to continue highlighting the upside risk to US interest rates. The US dollar index is currently at its highest level since early June.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6415	0.6488	0.6387	↑0.1	0.7158	0.6170
AUD/EUR		0.5947	0.5968	0.5868	↑1	0.7000	0.5136
AUD/GBP		0.5103	0.5105	0.5018	↑1.5	0.6277	0.5136
AUD/JPY		93.68	94.18	92.84	↑0.5	98.60	86.06
AUD/CNY		4.6722	4.7177	4.6542	↑0.1	4.9348	4.4465
EUR/USD		1.0786	1.0930	1.0783	↓0.9	1.1276	0.9536
GBP/USD		1.2572	1.2800	1.2569	↓1.4	1.3142	1.0350
USD/JPY		146.04	146.40	144.54	↑0.4	151.95	127.23
USD/CNY		7.2838	7.3154	7.2675	↑0	7.3274	6.6909

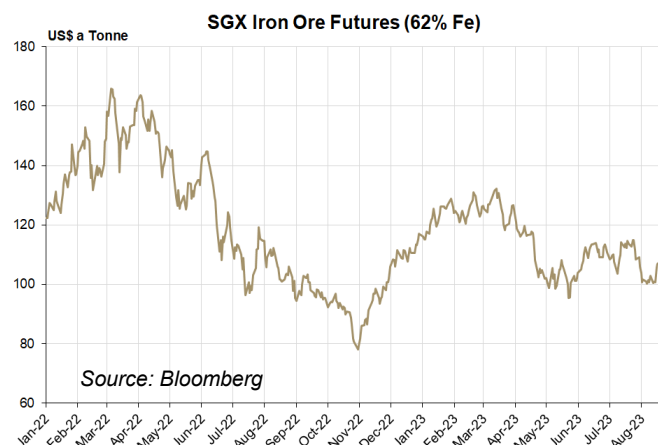
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6415	0.6436	0.6458	0.6487
AUD/EUR		0.5947	0.5940	0.5929	0.5901
AUD/GBP		0.5103	0.5119	0.5136	0.5170
AUD/JPY		93.68	92.62	91.50	89.35
AUD/NZD		1.0841	1.0876	1.0912	1.0973
AUD/SGD		0.8707	0.8700	0.8687	0.8648

Commodities

It was a relatively positive week for commodities, which is surprising given the ongoing concerns over the Chinese economic outlook and property sector as well as the weak manufacturing PMIs for the major advanced economies.

Iron ore futures continued the rally that began late last week, climbing 6.7% since last Friday, as traders bet that Chinese authorities would roll out support measures for the ailing construction and real estate sectors. The decision by the People's Bank of China to leave its five-year loan prime rate unchanged (the reference for mortgage rates) did little to dent the upward momentum, although prices have eased this morning.

Oil prices declined slightly this week amid economic growth concerns. LNG prices (Dutch TTF) dropped by 14.6%, as a strike on North West Shelf platforms was averted this week.



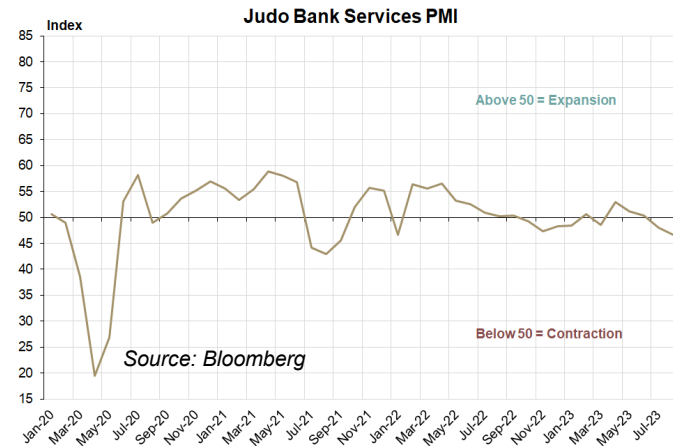
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,914.10	\$1,923.39	\$1,884.89	(↑\$20.66)	\$2,062.99	\$1,614.96
Brent Crude Oil (US\$)	\$83.57	\$85.86	\$81.94	(↓\$0.64)	\$105.45	\$70.12
Mogas95* (US\$)	\$99.88	\$102.95	\$95.62	(↑\$2.2)	\$108.40	\$77.66
WTI Oil (US\$)	\$79.26	\$82.47	\$77.59	(↓\$1.38)	\$97.66	\$63.64
CRB Index	275.83	275.83	273.99	(↑1.44)	301.75	253.85
Iron Ore Price 62% Fe (US\$) **	\$113.40	\$114.85	\$103.75	(↑\$7.15)	\$139.80	\$75.00

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

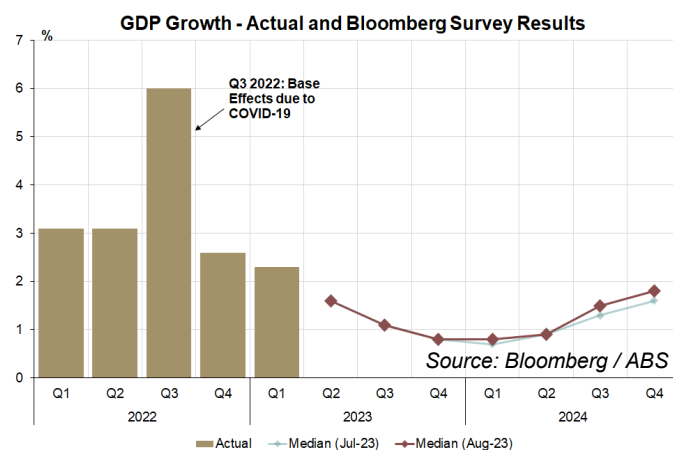
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

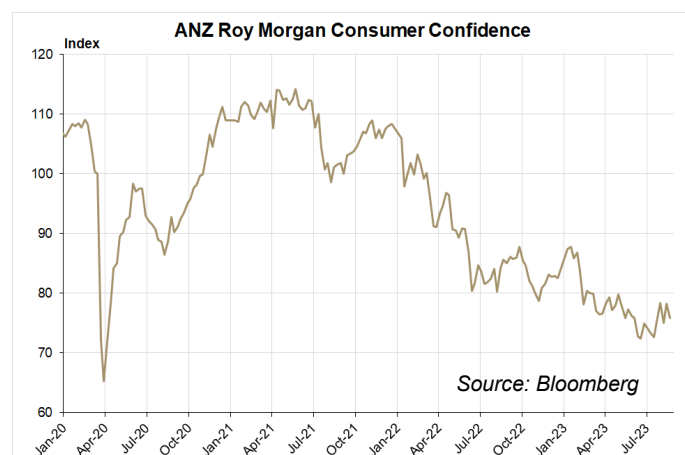
According to the **Judo Bank flash PMI** report, the pace of contraction in services accelerated in August.



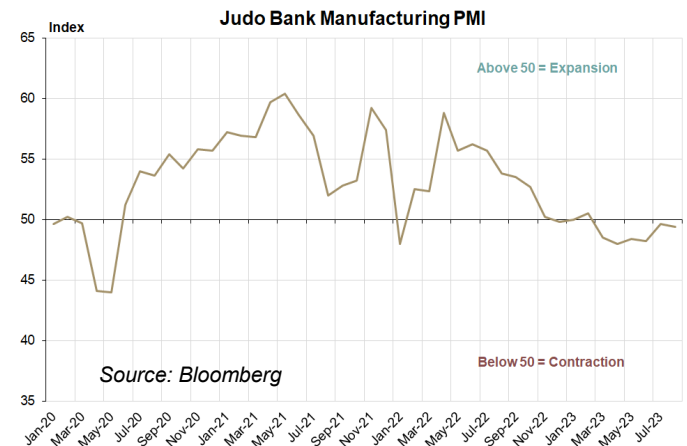
Economists surveyed by Bloomberg expect **GDP growth** to decelerate in 2023 and remain subdued in 2024.



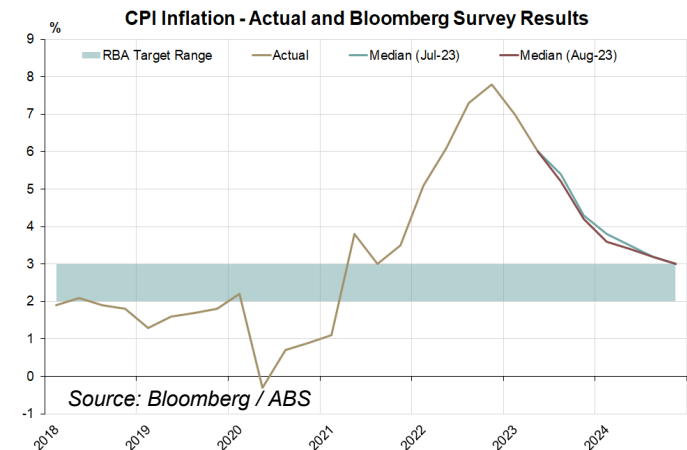
ANZ Roy Morgan consumer confidence remains at recessionary levels...



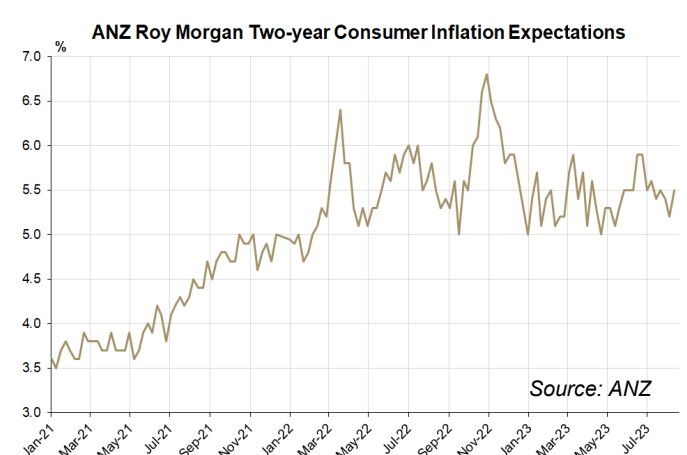
PMI manufacturing remained in slight contraction in August.



CPI inflation is expected to decline towards the RBA target range in late 2024.

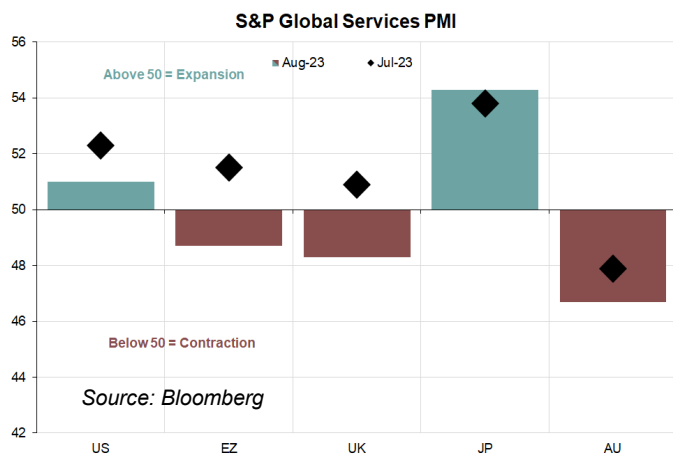


... as **ANZ Roy Morgan two-year consumer inflation expectations** rose last week.

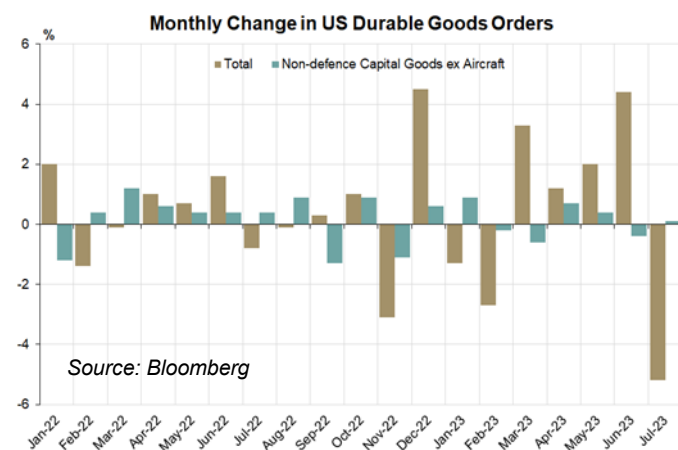


GLOBAL ECONOMY

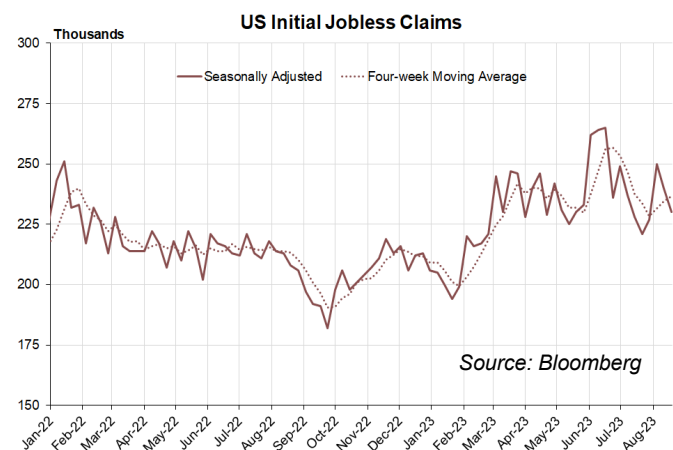
According to the flash **PMI reports**, services continue to expand in the US and Japan, but are contracting in Europe.



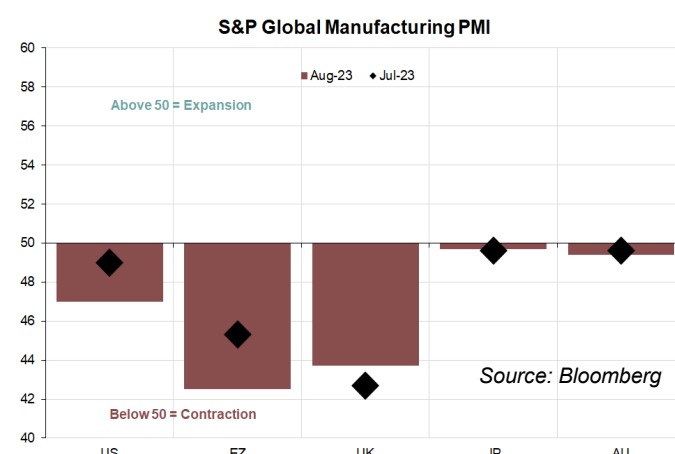
Durable goods orders dropped in July, dragged down by the volatile aircraft orders.



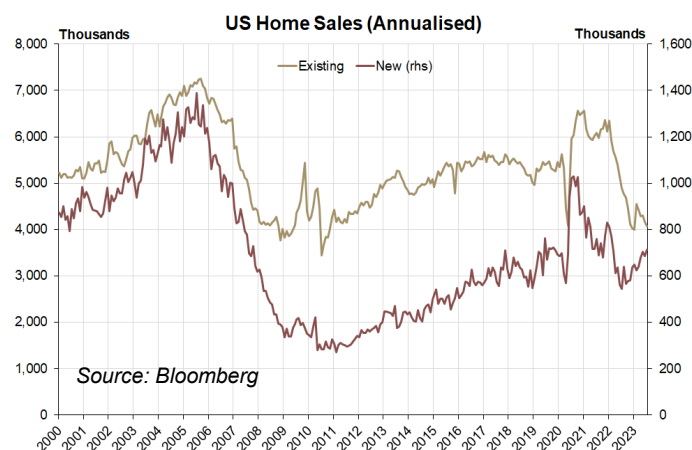
Despite a decline last week, **US initial jobless claims** are higher than in 2022 and early 2023...



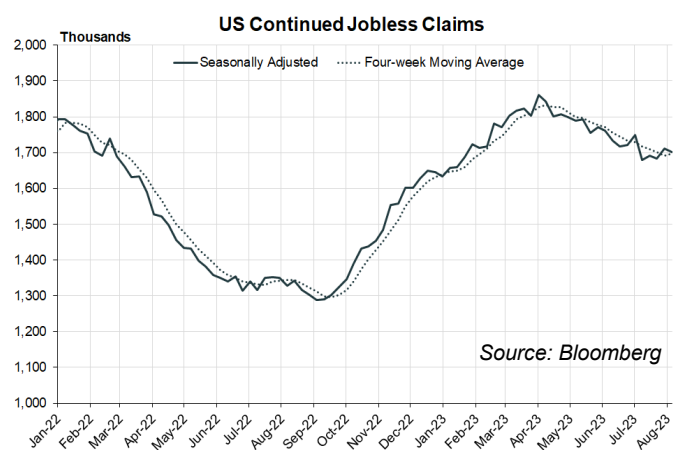
Contraction in **manufacturing** continues across the major advanced economies.



US existing home sales continued to decline in July and are at levels comparable with the global financial crisis.



... similar to **US continued jobless claims**, which however remain in a downward trend.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

25 August 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 21					
CH	PBoC Decision (1Y LPR)	3.45%	3.40%	3.55%	Five-year loan prime rate left unchanged at 4.20%.
Tue 22					
AU	ANZ Cons. Conf. (w/e 19 Aug)	-3.1%	-	3.2%	Confidence in Western Australia has improved.
US	Existing Home Sales (MoM, Jul)	-2.2%	-0.2%	-3.3%	Have been falling or remained flat since March.
Wed 23					
AU	Judo Bank Comp. PMI (Aug, flash)	47.1	-	48.2	The fastest pace of contraction since January 2022.
JP	Jibun Bank Comp. PMI (Aug, flash)	52.6	-	52.2	Japanese manufacturing remained in contraction.
EZ	HCOB Composite PMI (Aug, flash)	47.0	48.5	48.6	The fastest pace of contraction in 33 months.
UK	S&P Global Comp. PMI (Aug, flash)	47.9	50.4	50.8	First contraction since January.
US	New Home Sales (MoM, Jul)	4.4%	0.9%	-2.8%	June numbers revised down.
US	S&P Global Comp. PMI (Aug, flash)	50.4	50.5	52.0	Cost pressures picked up in August.
Thu 24					
US	Durable Goods Orders (MoM, Jul)	-5.2%	-4.0%	4.4%	Core capital goods orders ticked by 0.1%.
US	Initial Jobless Claims (w/e 19 Aug)	230k	240k	240k	Continued claims declined to 1,702k in w/e 12 Aug.
Tonight					
US	Public Appearance by Fed Chair	-	-	-	Speech on economic outlook at Jackson Hole.

Next Week

	Event	Forecast	Previous	Comment
Mon 28				
AU	Retail Sales (MoM, Jul)	0.2%	-0.8%	Aussie consumers have turned cautious.
Tue 29				
US	Case-Shiller Hse Price Index (MoM, Jun)	1.0%	0.9%	US house prices have been rising since February.
US	Conference Board Cons. Conf. (Aug)	116.6	117.0	This sentiment indicator has a heavy labour market focus.
Wed 30				
AU	Monthly CPI Indicator (YoY, Jul)	5.3%	5.4%	Gradual disinflation in Australia to continue.
AU	Building Approvals (MoM, Jul)	-3.0%	-7.7%	Has been volatile of late due to choppy high-rise activity.
AU	Construction Work Done (QoQ, Q2)	1.0%	1.8%	Residential building work done fell by 2.0% in Q1.
US	Pending Home Sales (MoM, Jul)	-0.5%	0.3%	June saw the first increase in four months.
US	JOLTS Job Openings (Jul)	-	9.6m	The US labour market is still pretty tight.
US	ADP Employment (monthly change, Aug)	200k	324k	Has been a poor indicator for the official jobs data.
US	GDP (QoQ annualised, Q2, 2nd est.)	2.4%	2.4%	Growth estimate expected to be unchanged.
Thu 31				
AU	Private Sector Capex (QoQ, Q2)	0.7%	2.4%	Equipment investment rose 3.7% in Q1.
AU	Private Sector Credit (MoM, Jul)	0.2%	0.2%	Aussie credit growth has slowed.
CH	NBS Composite PMI (Aug)	-	51.1	First glimpse into the Chinese economy in August.
EZ	HICP (YoY, Aug, flash)	5.0%	5.3%	Core inflation expected to decline 0.3ppts to 5.2%.
US	Personal Spending (MoM, Jul)	0.7%	0.5%	Retail sales figures point to a strong reading.
US	PCE Price Index (MoM, Jul)	0.2%	0.2%	Annual core PCE inflation seen to rise 0.2ppts to 4.3%.
Fri 01				
AU	CoreLogic Home Value Index (MoM, Aug)	-	0.8%	Prices continue to grow across most capital cities.
AU	Housing Finance (MoM, Jul)	-0.8%	-1.0%	June saw increases for first home buyers and investors.
CH	Caixin Manufacturing PMI (Aug)	49.3	49.2	Slipped back into contraction in July.
US	ISM Manufacturing PMI (Aug)	46.9	46.4	S&P Global reports also suggested further contraction.
US	Non-farm Payrolls (monthly change, Aug)	168k	187k	US employment growth is slowing.
US	Unemployment Rate (Aug)	3.5%	3.5%	Fed's longer-run estimate is 4.0%.