

### THIS WEEK'S HIGHLIGHTS

- The RBA kept the cash rate unchanged and signalled increased confidence that inflation is heading in the right direction.
- In Australia, retail sales volumes fell again in Q2. The trade surplus widened further in June amid a decline in imports. New home loans and dwelling approvals both fell in June, while the CoreLogic home value index saw another rise in July.
- Offshore, the Bank of England hiked rates. In the US, the ADP employment report saw another solid payrolls increase in July and the ISM PMIs suggested further contraction in manufacturing and slower growth in services. The Chinese PMIs suggested business activity growth slowed in July.

### NEXT WEEK'S HIGHLIGHTS

- The key domestic highlights next week will be the NAB business report for July and Westpac consumer sentiment for August on Tuesday, followed by payroll jobs for the month to 15 July on Thursday.
- The key releases offshore will be the Chinese trade data as well as the US and Chinese inflation figures for July.

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	5.63	(0 pt)	ASX200	7306	(↓69 pt)
US (IOR)	5.40	(0 pt)	90-day Bills	4.19	(↓9 pt)	2-yr T-Notes	4.91	(↓1 pt)	S&P500	4502	(↓36 pt)
Eurozone (Deposit)	3.75	(0 pt)	3-yr T-Bond	3.86	(↓4 pt)	10-yr T-Notes	4.17	(↑17 pt)	DJIA	35216	(↓67 pt)
UK	5.25	(↑25 pt)	10-yr T-Bond	4.19	(↑10 pt)	Jap 10-yr	0.65	(↑11 pt)	Nikkei	32124	(↓674 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	4.09	(↓7 pt)	UK 10-yr	4.47	(↑16 pt)	CSI300	4035	(↑63 pt)
China (1Y LPR)	3.55	(0 pt)	10-yr WATC Bond	4.63	(↑5 pt)	Ger 10-yr	2.61	(↑13 pt)	Stoxx600	458	(↓14 pt)

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

### FINANCIAL MARKETS OVERVIEW

Source: Bloomberg

#### Interest Rates

The RBA Board left the cash rate target unchanged at 4.10% at its meeting this week. The Bank appears a little more confident that inflation is on track to return to target in a reasonable timeframe following the recent CPI report, and mindful of the impact of rapid interest rates increases on household finances. The RBA reaffirmed further increases can't be ruled out should high inflation prove more persistent than currently expected.

The RBA updated its economic forecasts in its quarterly Statement on Monetary Policy, downgrading its 2023 headline inflation forecast by 0.25ppts to 4.25%, but leaving its projections for 2024 and 2025 unchanged. Inflation is projected to fall to 2.75% by the end of 2025. The GDP growth forecast for 2023 was downgraded 0.25ppts to 1.0%, while the forecast for 2024 is unchanged a 1.75%, rising to 2.25% in 2025. The unemployment rate is expected to peak at 4.50% by the end of 2024.

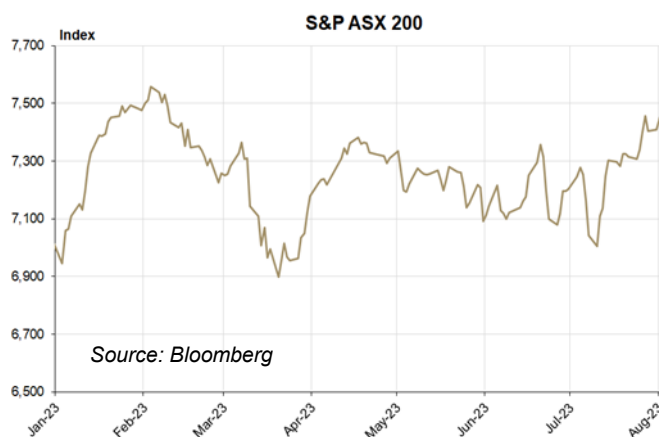
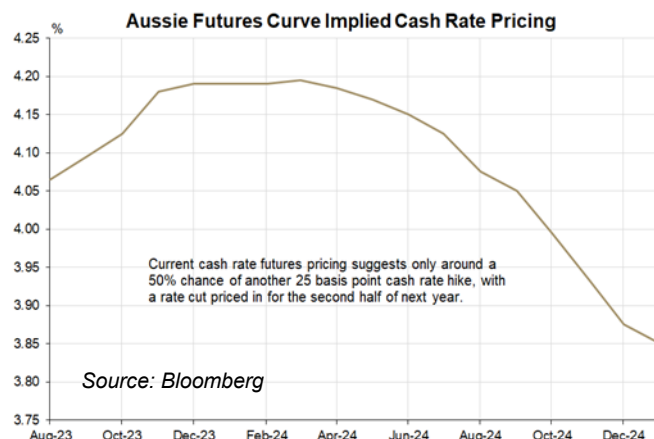
Concern over rising US debt, fuelled by news the US Treasury would boost its quarterly bond sales, prompted Fitch Ratings to strip the US government of its AAA rating, adding upward pressure to Treasury yields across most of the curve this week.

The rise in US Treasury yields dragged longer term yields higher elsewhere, including Australia. However, shorter-term Aussie yields have fallen on increased confidence that the RBA is likely to be at the end of its interest rate hiking cycle.

#### Equities

Equities are down across most of the major markets as higher bond yields weighed on valuations.

The Aussie market was boosted on Tuesday after the RBA kept the cash rate unchanged and signalled increased confidence over the inflation outlook. Lower commodity prices and falling overseas markets weighed on the market over the remainder of the week.



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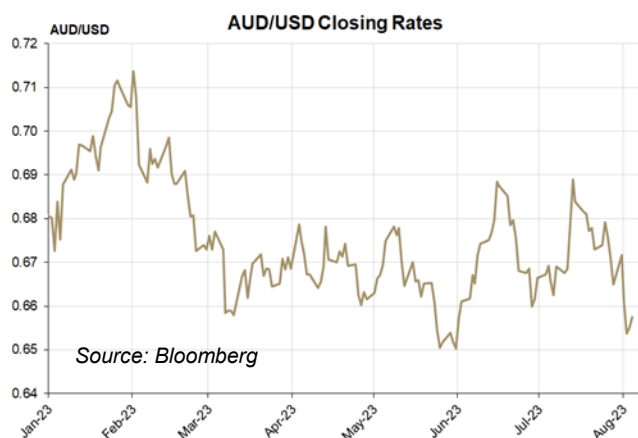
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### Currencies

The Aussie dollar has been the weakest member of the G10 currency basket over the past week, with the exception of the Japanese yen.

The Aussie picked up early in the week as Chinese authorities continued to signal that economic support measures would be rolled out. However, the currency began to fall on Tuesday after the RBA kept the cash rate on hold and appeared more confident that inflation is on the right path.

The downward momentum continued through most of the rest of the week, as financial market sentiment deteriorated, commodity prices fell and news of another decline in quarterly retail sales highlighted the downward pressure on household spending. The Aussie hit a two-month low of US\$0.6514 on Thursday, before picking up again this morning.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6572	0.6739	0.6514	↓1.5	0.7158	0.6170
AUD/EUR		0.6000	0.6115	0.5964	↓1.2	0.7000	0.5157
AUD/GBP		0.5161	0.5242	0.5136	↓1	0.6277	0.5157
AUD/JPY		93.55	95.83	92.97	↑0.4	98.60	86.06
AUD/CNY		4.7158	4.8166	4.6769	↓1.2	4.9348	4.4465
EUR/USD		1.0956	1.1046	1.0912	↓0.2	1.1228	0.9536
GBP/USD		1.2733	1.2873	1.2621	↓0.5	1.3141	1.0350
USD/JPY		142.38	143.89	140.70	↑1.9	151.95	127.23
USD/CNY		7.1796	7.1953	7.1353	↑0.3	7.3274	6.6909

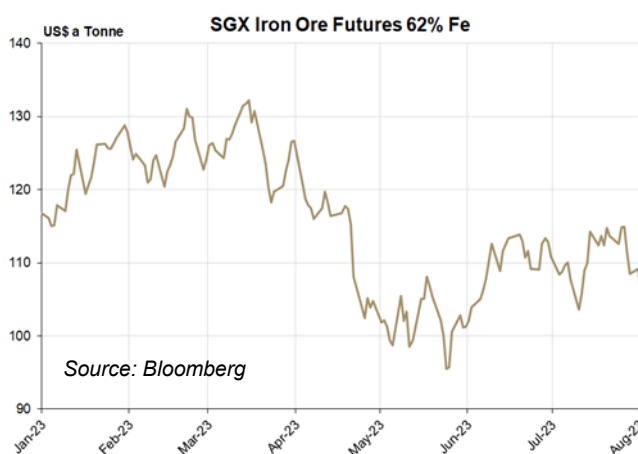
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6572	0.6593	0.6613	0.6638
AUD/EUR		0.6000	0.5992	0.5980	0.5953
AUD/GBP		0.5161	0.5176	0.5191	0.5222
AUD/JPY		93.55	92.50	91.37	89.21
AUD/NZD		1.0787	1.0821	1.0854	1.0913
AUD/SGD		0.8816	0.8806	0.8792	0.8751

### Commodities

Commodity prices saw early gains this week as Chinese authorities again pledged support for the economy before dropping again, as traders appeared to tire of promises of stimulus with little detail or follow up.

Iron ore futures got the week off to a positive start, along with other commodities, but soon began to fall. The benchmark Singapore futures price slipped below US\$100 for the first time since early June on Thursday before stabilising. Sentiment toward iron ore futures wasn't helped by reports that China's peak steel industry body is lobbying to have night trading of futures curtailed to limit speculation.

Oil prices lifted late in the week on news that Saudi Arabia will not only extend its one million barrel a day production cuts through September but also hinted at a deeper cut to supply.



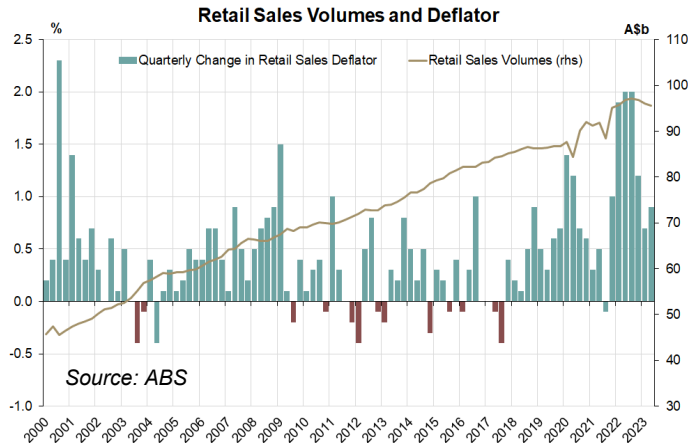
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,936.39	\$1,972.41	\$1,929.63	(↓\$17.53)	\$2,062.99	\$1,614.96
Brent Crude Oil (US\$)	\$85.30	\$85.99	\$82.36	(↑\$1.54)	\$105.48	\$70.12
Mogas95* (US\$)	\$99.27	\$104.40	\$93.75	(↓\$1.66)	\$110.36	\$77.66
WTI Oil (US\$)	\$81.77	\$82.43	\$78.69	(↑\$2.07)	\$97.66	\$63.64
CRB Index	278.48	282.18	276.50	(↓1.7)	301.75	253.85
Iron Ore Price 62% Fe (US\$) **	\$101.80	\$109.65	\$99.40	(↓\$6)	\$139.80	\$75.00

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

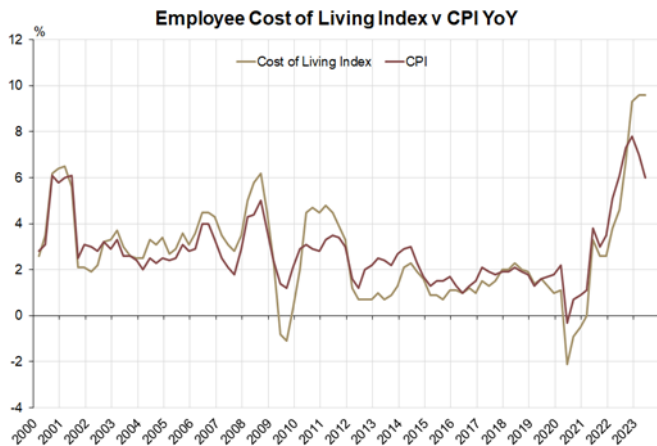
\*\* The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

### DOMESTIC ECONOMY

**Retail sales volumes** saw the third decline in a row in Q2, as retail price growth accelerated.

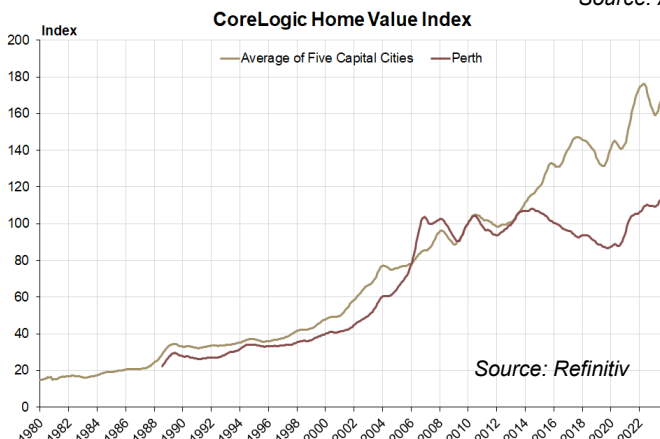


The employee **cost of living index** includes mortgage payments and is rising much faster than the CPI.

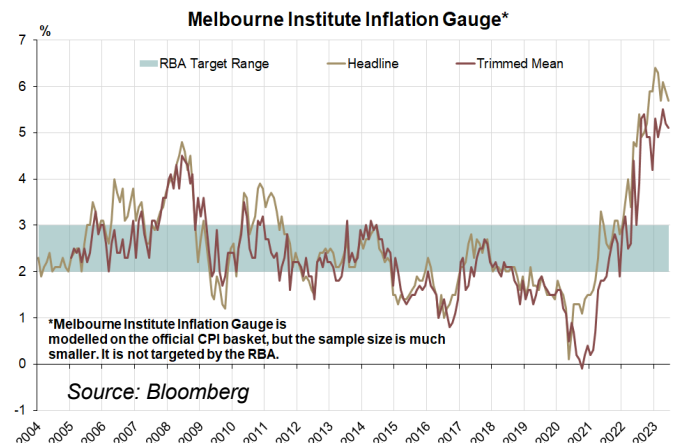


**Residential property prices** continued to climb in July, with Perth home prices reaching a new record high

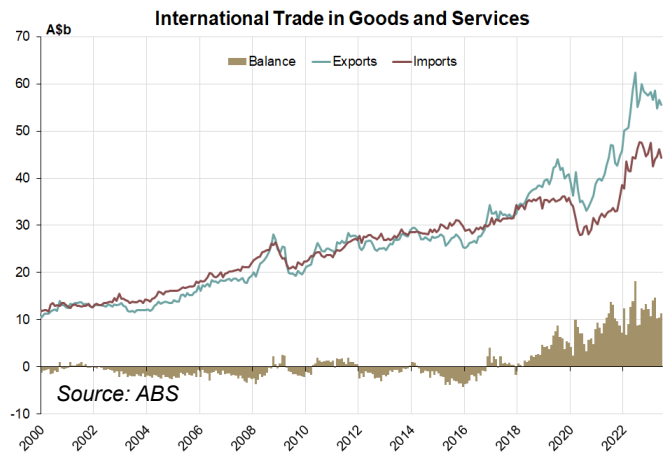
Source: Source: ABS



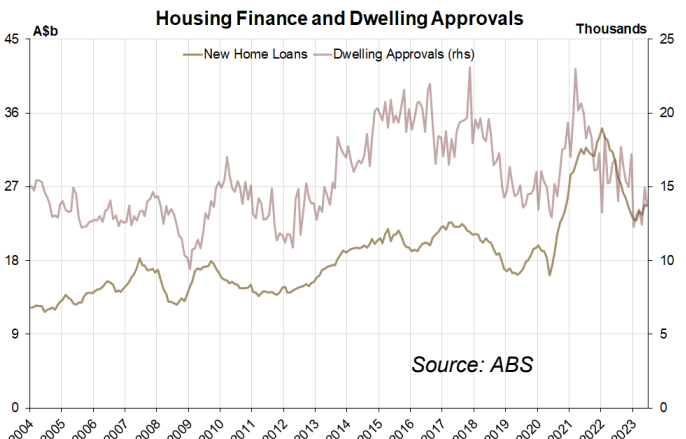
**Melbourne Institute inflation gauge** pointed to still elevated inflation in July.



The **trade surplus** widened again in June, as a decline in imports more than offset a decline in exports.

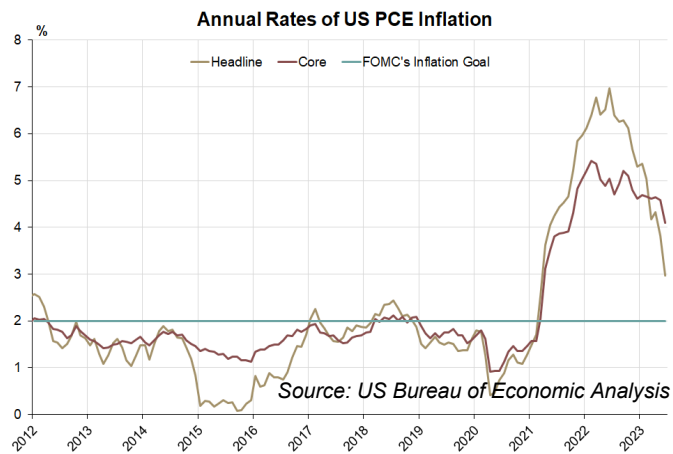


... while **new home loans** and **dwelling approvals** declined in June.

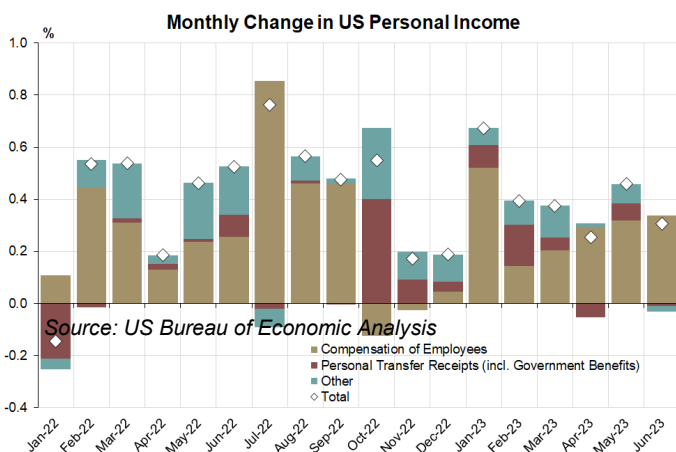


### GLOBAL ECONOMY

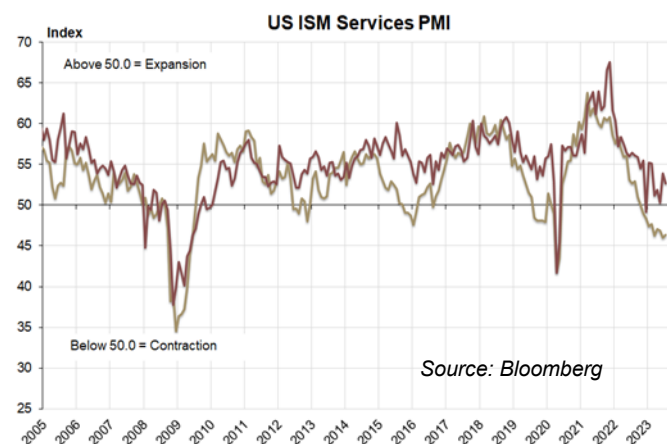
**US headline PCE inflation** has substantially declined, but core inflation is proving more sticky.



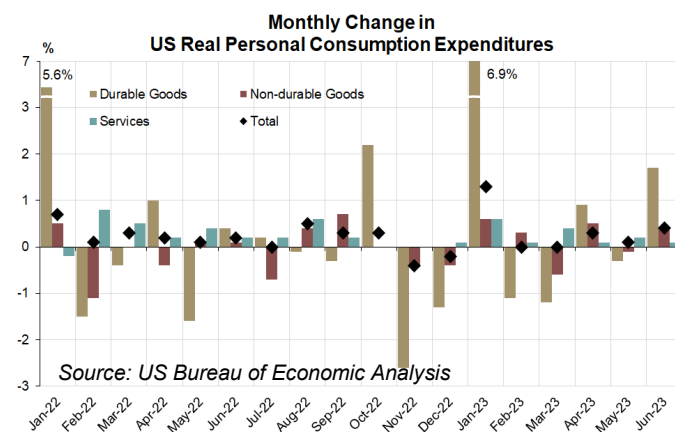
**US wages** continued to rise at a steady pace in June.



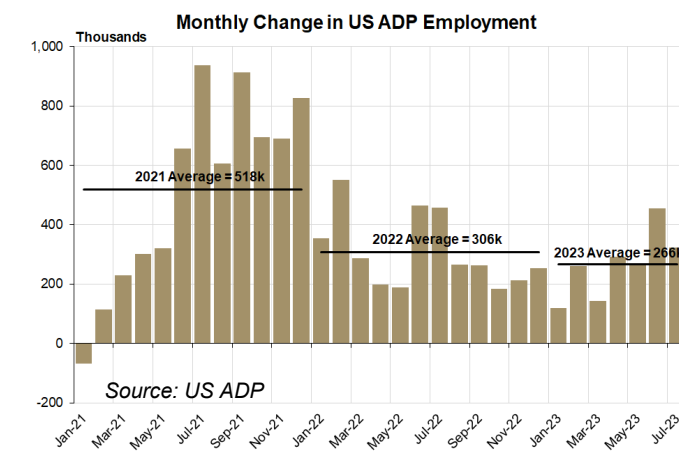
The **ISM PMIs** suggest US business activity growth slowed in July with manufacturing remaining in contraction.



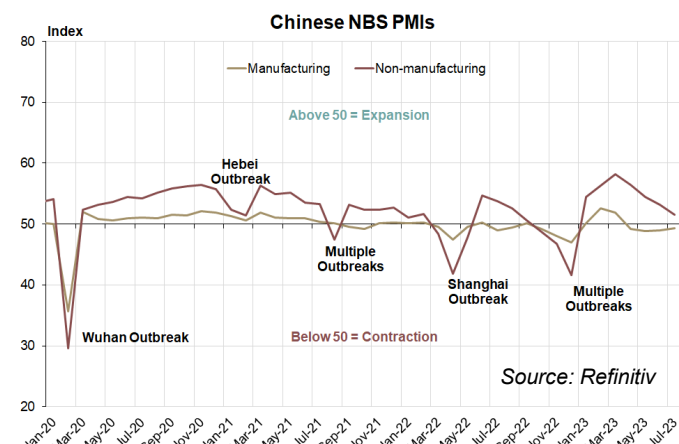
**US personal spending** saw a surprisingly solid increase in June, thanks to renewed demand for durable goods.



The **ADP employment** report suggested another solid increase in private payrolls in July.



The **Chinese NBS PMIs** signalled further slowdown in services expansion and stagnant manufacturing activity.



# WESTERN AUSTRALIAN TREASURY CORPORATION

## Market WATCH Weekly

4 August 2023

### KEY ECONOMIC EVENTS

#### *This Week*

	Event	Actual	Forecast	Previous	Comment
<b>Mon 31</b>					
AU	Private Sector Credit (MoM, Jun)	0.2%	0.4%	0.4%	Credit to real estate investors ebbed by 0.1%.
AU	Melbourne Inst. Inflation (MoM, Jul)	0.8%	-	0.1%	Annual rate of inflation declined 0.3ppts to 5.4%.
CH	NBS Composite PMI (Jul)	51.1	-	52.3	The slowest pace of expansion in 2023 so far.
EZ	HICP (YoY, Jul)	5.3%	5.3%	5.5%	Core inflation steady at 5.5%.
EZ	GDP (QoQ, Q2)	0.3%	0.2%	0.0%	GDP in Germany stagnated in Q2.
<b>Tue 01</b>					
AU	RBA Decision (Cash Rate Target)	4.10%	4.35%	4.10%	RBA more confident inflation is on the right track.
AU	Dwelling Approvals (MoM, Jun)	-7.7%	-8.0%	20.5%	Private home approvals the lowest since January.
AU	Housing Finance (MoM, Jun)	-1.0%	1.8%	5.4%	Loans to investors and first home buyers rose further.
AU	CoreLogic House Prices (MoM, Jul)	0.7%	-	1.1%	Perth house price index rose 1.0% to a record high.
AU	ANZ Consumer Conf. (w/e 29 Jul)	4.3%	-	3.6%	Inflation expectations rose 0.1ppts to 5.5%.
CH	Caixin Manufacturing PMI (Jul)	49.2	50.2	50.5	Back in contraction.
US	ISM Manufacturing PMI (Jul)	46.4	46.9	46.0	All the key subindices are in contraction.
US	JOLTS Job Openings (Jun)	9.6m	9.6m	9.6m	Still 1.6 times higher than the number of unemployed.
<b>Wed 02</b>					
US	ADP Employment (MoM, Jul)	324k	190k	455k	June figures were revised down from 497k.
<b>Thu 03</b>					
AU	Trade Balance (Jun)	A\$11.3b	A\$10.8b	A\$10.5b	Demand for commodities remains robust.
AU	Retail Sales Volumes (QoQ, Q2)	-0.5%	-0.5%	-0.8%	Third quarterly fall in a row.
CH	Caixin Services PMI (Jul)	54.1	-	53.9	Caixin composite PMI down 0.6pts to 51.9.
UK	BoE Decision (Bank Rate)	[5.25%]	5.25%	5.00%	BoE Governor warned of a long period of high rates.
US	ISM Services PMI (Jul)	52.7	53.1	53.9	Growth slowing.
US	Initial Jobless Claims (w/e 29 Jul)	227k	225k	221k	Continues to signal a healthy labour market.
<b>Fri 04</b>					
AU	Statement on Monetary Policy (Q3)	-	-	-	Inflation to fall to target range by the end of 2025.
<b>Tonight</b>					
US	Non-farm Payrolls (MoM, Jul)	-	190k	209k	US payrolls growth is slowing.
US	Unemployment Rate (Jul)	-	3.6%	3.6%	US unemployment rate is near multidecade lows.

#### *Next Week*

	Event	Forecast	Previous	Comment
<b>Mon 07</b>				
AU	ANZ Job Ads (MoM, Jul)	-	-2.5%	Aussie labour market remains tight despite falls in ads.
<b>Tue 08</b>				
AU	NAB Business Conditions (Jul)	-	9	Flash PMIs signalled an easing in conditions.
AU	NAB Business Confidence (Jul)	-	0	Confidence has been below average.
AU	Westpac Consumer Sentiment (MoM, Aug)	-	2.7%	Weekly surveys pointed to another increase.
CH	Trade Balance (Jul)	US\$66.9b	US\$70.6b	Chinese exports slumped in June.
US	NFIB Small Business Optimism (Jun)	-	91.0	Warning indicator for US business confidence.
<b>Wed 09</b>				
CH	CPI (YoY, Jul)	-0.5%	0.0%	The CPI has been falling for five months.
CH	PPI (YoY, Jul)	-4.0%	-5.4%	PPI deflating at the fastest pace since 2015.
<b>Thu 10</b>				
AU	Payroll Jobs (MoM, w/e 15 Jul)	-	0.3%	Payroll jobs were up 4.7% YoY in w/e 10 Jun.
AU	MI Cons. Inflation Expectations (Aug)	-	5.2%	Weekly figures suggested a decline.
US	CPI (MoM, Jul)	0.2%	0.2%	Business indicators suggested re-acceleration.
<b>Fri 11</b>				
UK	GDP (QoQ, Q2)	-	0.1%	Monthly GDP figures suggest modest growth.
US	PPI (MoM, Jul)	0.2%	0.1%	Business indicators suggested a slight pick-up.