

Highlights this week

- In Australia, the household spending indicator growth in June missed market expectations but was still decent. The Melbourne Institute inflation gauge pointed to a rise in headline inflation in July, amid lower energy bill relief payments. Living cost indexes rose at a slower pace for most household types in Q2. The goods trade surplus widened in June.
- Abroad, the ISM services PMI indicated that US services activity growth almost stalled in July. The Chinese S&P Global services PMIs unexpectedly pointed to a strong acceleration in services growth in July. China's trade surplus narrowed in July as imports rose, while exports to the US slumped.

Highlights next week

- It will be a busy week domestically, with the RBA Monetary Policy Board decision on Tuesday being the key event. A 25bps cash rate cut is widely expected by market participants. The RBA will also issue its Statement on Monetary Policy including a set of updated projections.
- Data-wise, next week will see the July NAB business report on Tuesday, followed by the Q2 wage price index on Wednesday and the July labour force survey results on Thursday.
- Highlights offshore include US and Chinese inflation and activity data for July.

| Central Bank Rates (%) | | Weekly Change | Australian Interest Rates (%) | | Weekly Change | Major Overseas Interest Rates (%) | | Weekly Change | Global Equities | | Weekly Change |
|------------------------|------|---------------|-------------------------------|------|---------------|-----------------------------------|------|---------------|-----------------|-------|---------------|
| Australia | 3.85 | (0 pt) | O/N Interbank Cash | 3.84 | (0 pt) | USD 3-month | 4.85 | (0 pt) | ASX200 | 8826 | (↑151 pt) |
| US (IOR) | 4.40 | (0 pt) | 90-day Bills | 3.67 | (↓2 pt) | 2-yr T-Notes | 3.74 | (↓21 pt) | S&P500 | 6340 | (↑1 pt) |
| Eurozone (Deposit) | 2.00 | (0 pt) | 3-yr T-Bond | 3.40 | (↓7 pt) | 10-yr T-Notes | 4.25 | (↓13 pt) | DJIA | 43969 | (↓162 pt) |
| UK | 4.00 | (↓25 pt) | 10-yr T-Bond | 4.24 | (↓7 pt) | Jap 10-yr | 1.50 | (↓5 pt) | Nikkei | 41969 | (↑1035 pt) |
| Japan (Target) | 0.50 | (0 pt) | 3-yr WATC Bond | 3.56 | (↓5 pt) | UK 10-yr | 4.55 | (↓2 pt) | CSI300 | 4116 | (↑34 pt) |
| China (1Y LPR) | 3.00 | (0 pt) | 10-yr WATC Bond | 4.75 | (↓7 pt) | Ger 10-yr | 2.63 | (↓6 pt) | Stoxx600 | 546 | (↓0 pt) |

Changes are since the previous issue of Market Watch Weekly.

Financial Markets**Interest Rates**

Government bond yields fell for the week, particularly in the US, reflecting a downside after the disappointing US non-farm payrolls data on Friday.

The weak jobs report led to intensification of fed funds rate cut expectations. At the time of writing, a 25bps cut is around 90% priced in for the next FOMC meeting in September, compared to roughly 40% a week ago.

The Bank of England's Monetary Policy Committee cut its bank rate by 25bps on Thursday, as expected, but four out of the nine members unexpectedly dissented in favour of staying put, citing weakening labour market conditions.

The decline in Australian Commonwealth bond yields was more measured than their US equivalents. The RBA Monetary Policy Board is widely expected to deliver a 25bps cut at their meeting next week, but it is the guidance and the projections that the markets will be paying attention to.

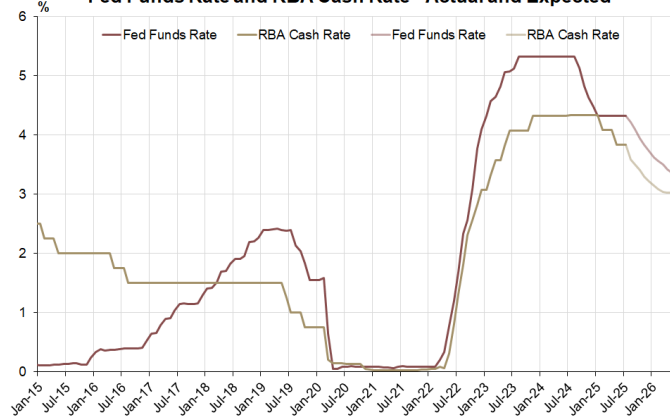
Equities

US equities have been choppy over the past week. The market fell sharply last Friday, after the disappointing US employment report raised concerns about the economic outlook. The US equity market recovered on Monday, as traders switched focus to the increased probability for a near-term Fed interest rate cut.

Trade remained uneven over the remainder of the week, as uncertainty over US trade policy was offset by positive earnings reports and dovish comments from Fed officials.

The Aussie market has been one of the better performers among global equities. The ASX 200 closed at a record high on Wednesday before edging down in the past couple of days.

All sectors gained except for the health sector, as President Trump flagged higher tariffs on pharmaceutical imports. Australia exported A\$2.2b of pharmaceutical products to the US in 2024-25.

Fed Funds Rate and RBA Cash Rate - Actual and Expected

Source: Bloomberg

S&P ASX 200

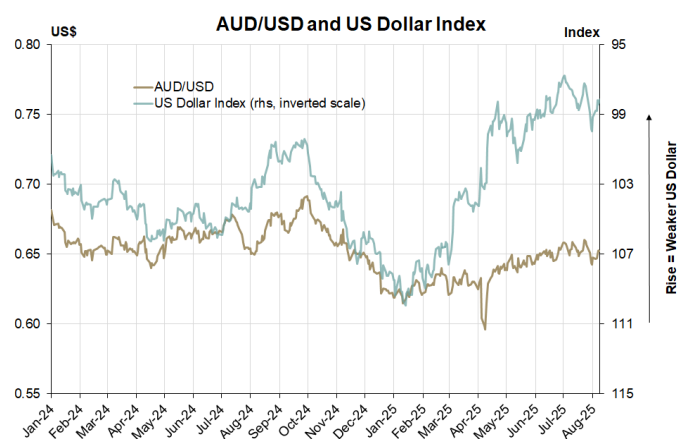
Source: Bloomberg

Currencies

The Australian dollar appreciated against the weaker greenback this week, but slid down versus the remainder of the major currencies.

The USD was dragged down by intensification of fed funds rate cut expectations following a weak US jobs report, and concerns over the credibility of US institutions. Following the disappointing non-farm payrolls, US President Donald Trump directed his administration to dismiss the Commissioner of Labour Statistics Erica McEnferter, while employing the Chair of his own Council of Economic advisers to serve as an interim Fed Governor.

The Australian dollar was in the middle of the G10 currency ladder this week, while the British pound was the strongest, supported by unexpectedly strong opposition to the rate cut at the Bank of England meeting on Thursday.



Source: Bloomberg

| Spot Rates | | Current | High | Low | Change (%) | 52-Week High | 52-Week Low |
|------------|--|---------|--------|--------|------------|--------------|-------------|
| AUD/USD | | 0.6523 | 0.6541 | 0.6447 | ↑1.4 | 0.6942 | 0.5915 |
| AUD/EUR | | 0.5592 | 0.5611 | 0.5560 | ↓0.8 | 0.6261 | 0.4620 |
| AUD/GBP | | 0.4852 | 0.4889 | 0.4839 | ↓0.5 | 0.5229 | 0.4620 |
| AUD/JPY | | 96.00 | 96.21 | 94.91 | ↓1 | 102.41 | 86.05 |
| AUD/CNY | | 4.6845 | 4.6944 | 4.6355 | ↑1.1 | 4.8726 | 4.3523 |
| EUR/USD | | 1.1663 | 1.1699 | 1.1528 | ↑2.2 | 1.1829 | 1.0141 |
| GBP/USD | | 1.3444 | 1.3453 | 1.3254 | ↑1.9 | 1.3789 | 1.2100 |
| USD/JPY | | 147.17 | 148.09 | 146.62 | ↓2.4 | 158.87 | 139.58 |
| USD/CNY | | 7.1821 | 7.1903 | 7.1742 | ↓0.4 | 7.3511 | 7.0063 |

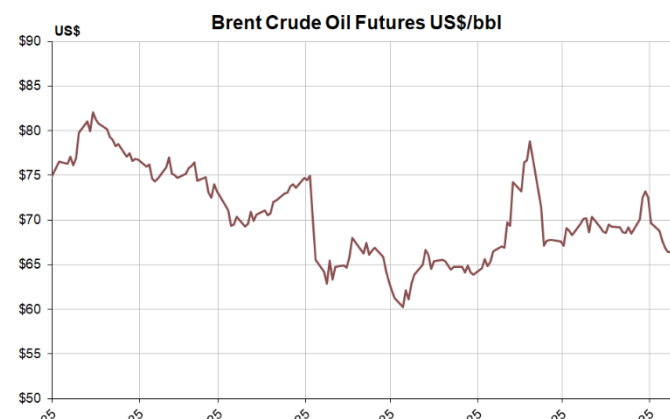
| Forward Rates | | Spot | 3M | 6M | 12M |
|---------------|--|--------|--------|--------|--------|
| AUD/USD | | 0.6523 | 0.6533 | 0.6543 | 0.6554 |
| AUD/EUR | | 0.5592 | 0.5569 | 0.5547 | 0.5507 |
| AUD/GBP | | 0.4852 | 0.4856 | 0.4862 | 0.4873 |
| AUD/JPY | | 96.00 | 95.20 | 94.46 | 93.18 |
| AUD/NZD | | 1.0932 | 1.0915 | 1.0902 | 1.0878 |
| AUD/SGD | | 0.8372 | 0.8327 | 0.8284 | 0.8206 |

Commodities

Oil prices have fallen to two-month lows. The major catalysts were renewed concerns over the demand outlook following the weak US employment report last Friday, and news of another boost to supply.

OPEC+ announced that it will increase output quotas by a further 547k barrels per day (bpd) from September. The increase reverses the last of the 2.2mbpd cut announced in November 2023. Downward pressure continued amid news US President Donald Trump plans to meet with Russian President Vladimir Putin, raising hopes for a ceasefire in the Russia-Ukraine War.

Iron ore futures prices traded in a narrow range this week, edging up by 1.5% from this time last Friday. There was some good news on demand, with the monthly Chinese trade report showing China imported a further 104.6 million tonnes of iron ore in July. This was only slightly lower than June's seven-month high of 106mt.



Source: Bloomberg

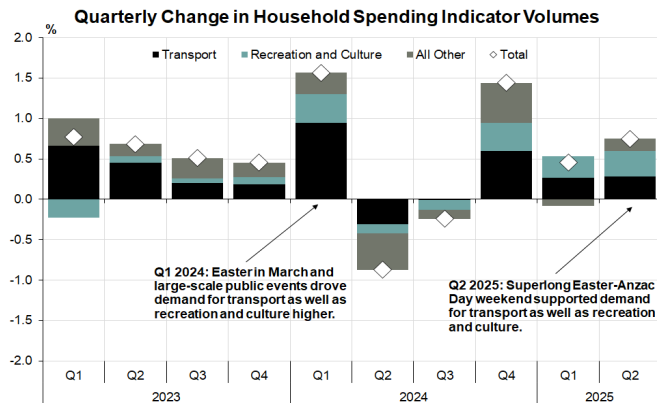
| | Current | High | Low | Change | 52-Week High | 52-Week Low |
|---------------------------------|------------|------------|------------|-------------|--------------|-------------|
| Gold (US\$) | \$3,389.28 | \$3,409.17 | \$3,345.13 | (↑\$101.04) | \$3,500.10 | \$2,381.15 |
| Brent Crude Oil (US\$) | \$66.41 | \$69.98 | \$66.22 | (↓\$5.25) | \$82.63 | \$58.40 |
| Mogas95* (US\$) | \$77.06 | \$79.06 | \$75.76 | (↓\$3) | \$95.91 | \$67.57 |
| WTI Oil (US\$) | \$63.82 | \$67.74 | \$63.64 | (↓\$5.38) | \$80.77 | \$55.12 |
| CRB Index | 293.87 | 295.28 | 293.13 | (↓5.91) | 316.63 | 265.48 |
| Iron Ore Price 62% Fe (US\$) ** | \$102.00 | \$102.65 | \$100.00 | (↑\$1.5) | \$115.00 | \$88.40 |

*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.

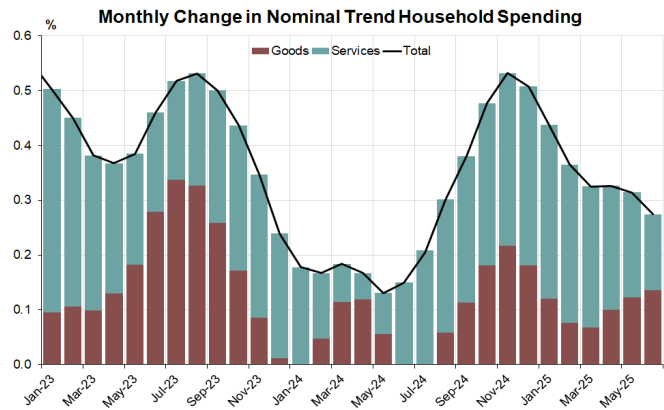
Domestic Economy

Household spending volumes saw solid gains in Q2, partly thanks to back-to-back long weekends in April.



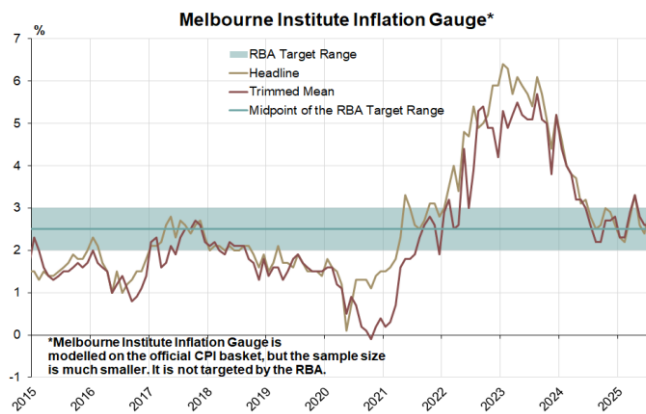
Source: ABS

Goods are taking over as the driver of household spending, but not enough to prevent slower trend growth.



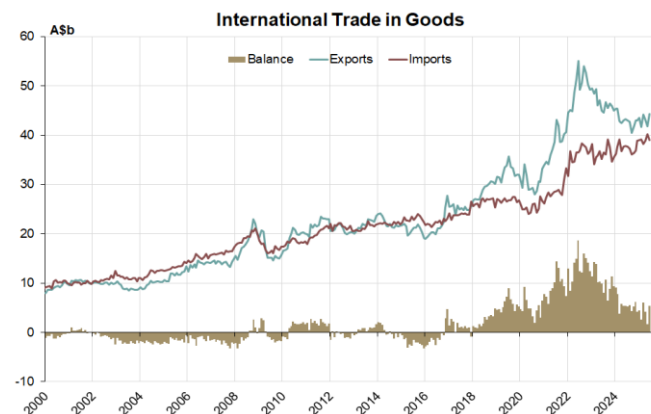
Source: ABS

The Melbourne Institute inflation gauge pointed to a rise in headline inflation amid lower energy rebates.



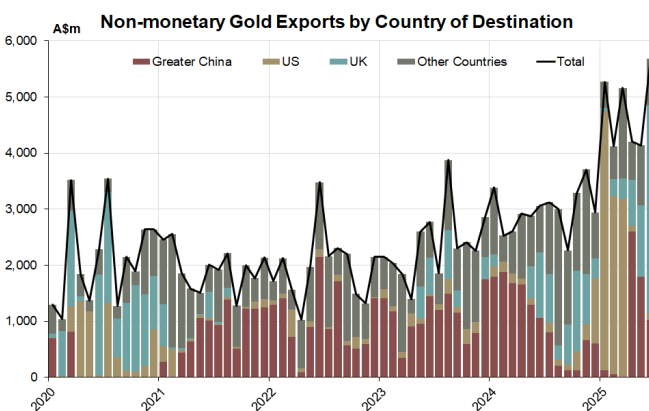
Source: Bloomberg

Goods trade surplus increased in June, supported by a decline in imports and stronger exports...



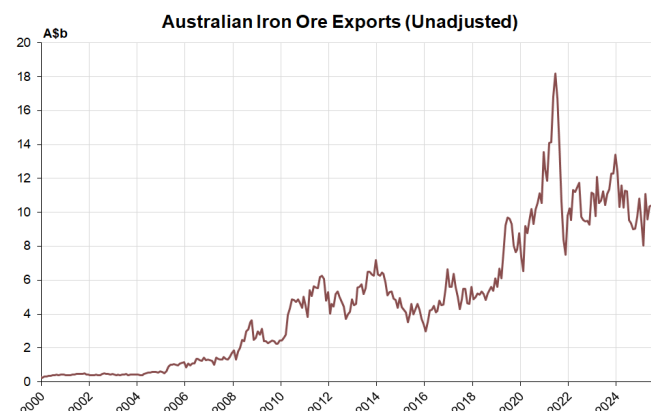
Source: ABS

... with a large contribution from **non-monetary gold exports**, mainly to the UK.



Source: ABS

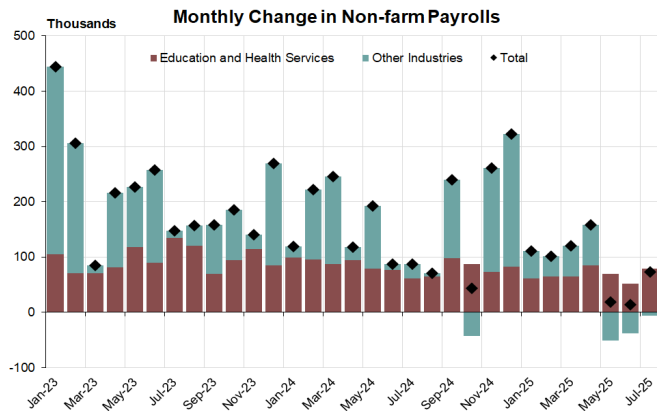
Iron ore exports picked up only marginally, but remain solid.



Source: ABS

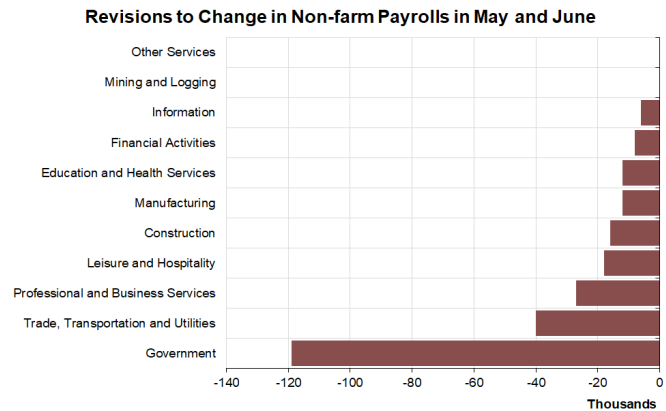
Global Economy

The pace of **US non-farm payrolls** growth has slowed markedly, with gains only in education and health.



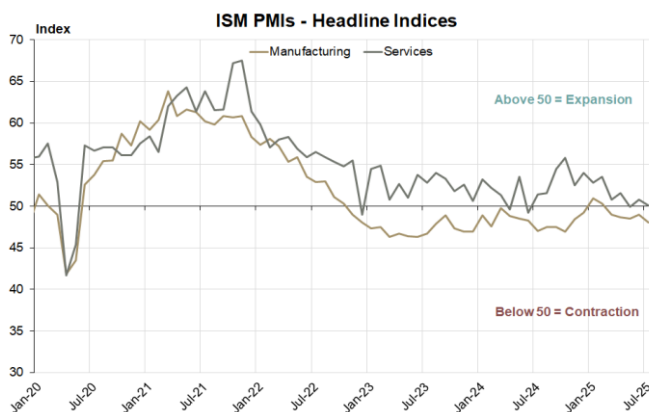
Source: Bloomberg

Half of the significant **downward revisions** to May and June figures came from government jobs.



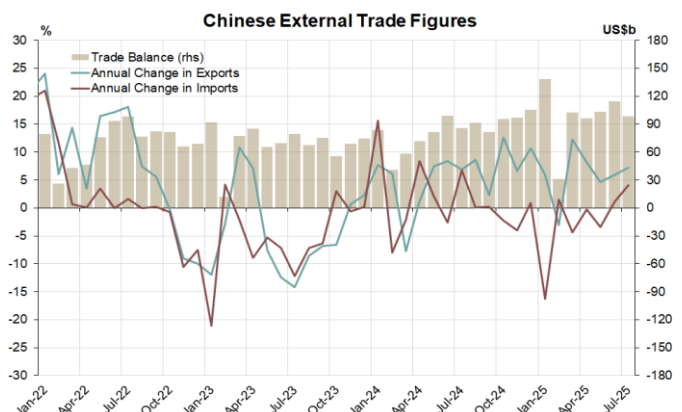
Source: Bloomberg

US ISM PMIs pointed to faster contraction in manufacturing and stagnant conditions in services.



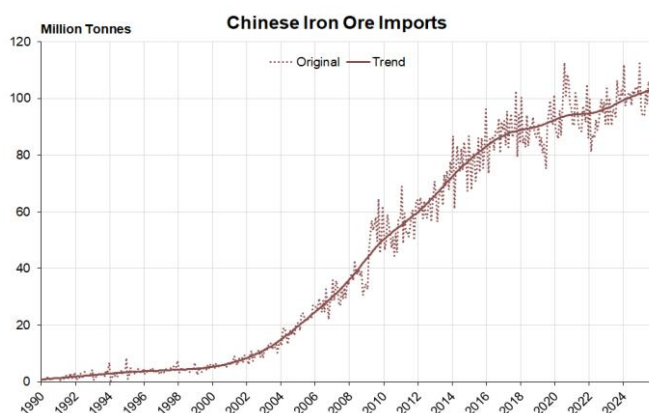
Source: Bloomberg

The **Chinese trade surplus** narrowed in July, as imports growth accelerated more than export growth.



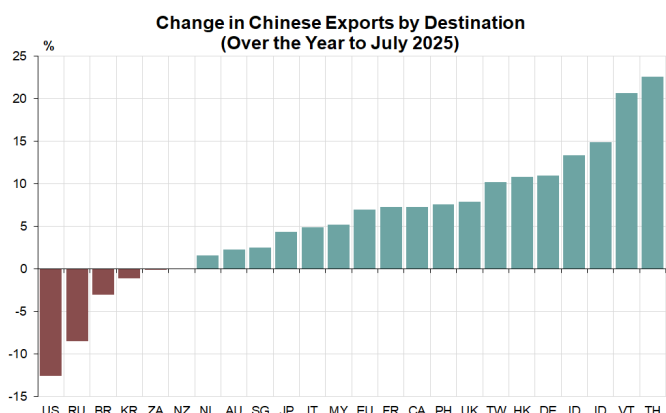
Source: Bloomberg

Chinese iron ore imports remained elevated in July.



Source: Bloomberg

The accelerating fall in **Chinese exports to the US** continues to be offset by shipments to other destinations.



Source: Customs China

Last Week

| Date | Event | Actual | Forecast | Previous | Comment |
|---------------|------------------------------------|-----------|------------|------------|--|
| Mon 04 | | | | | |
| AU | MI Inflation Gauge (MoM, Jul) | 0.9% | - | 0.1% | Annual rate bounced 0.5ppts to a 3m high of 2.9%. |
| | | | | | |
| Tue 05 | | | | | |
| AU | Household Spending (MoM, Jun) | 0.5% | 0.8% | 1.0% | Household spending volumes up by 0.7% in Q2. |
| AU | ANZ Job Ads (MoM, Jul) | -1.0% | - | 1.6% | Still 14.4% above the pre-COVID levels. |
| AU | ANZ Cons. Conf. (w/e 2 Aug) | 90.6 | - | 86.7 | Bounced to the highest level since May 2022. |
| CH | S&P Global Services PMI (Jul) | 52.6 | 50.4 | 50.6 | 14-month high, supported by higher export orders. |
| US | ISM Services PMI (Jul) | 50.1 | 51.5 | 50.8 | Stagnation with higher cost inflation. |
| | | | | | |
| Wed 06 | | | | | |
| AU | Living Cost Indexes (Q2) | - | - | - | Costs rose most for recipients of government benefits. |
| | | | | | |
| Thu 07 | | | | | |
| AU | Goods Trade Balance (Jun) | A\$5.4b | A\$3.0b | A\$1.6b | Gold exports hit a fresh record high. |
| CH | Trade Balance (Jul) | US\$98.2b | US\$104.7b | US\$114.7b | Exports to the US dropped 6.1% in the month. |
| UK | BoE Decision (Bank Rate) | 4.00% | 4.00% | 4.25% | The vote was very close, with nearly half dissenting. |
| US | NY Fed 1Y Inflation Exp. (Jul) | 3.1% | - | 3.0% | 3Y expectations steady, 5Y expectations up. |
| US | Initial Jobless Claims (w/e 2 Aug) | 226k | 222k | 219k | Continued jobless claims the highest since 2021. |
| | | | | | |
| Fri 08 | | | | | |
| | No market moving data | | | | |

Next Week

| Date | Event | Forecast | Previous | Comment |
|---------------|---------------------------------------|----------|----------|---|
| Mon 11 | | | | |
| | No market moving data | | | |
| | | | | |
| Tue 12 | | | | |
| AU | RBA Decision (Cash Rate Target) | 3.60% | 3.85% | Some market participants expecting a larger 50bps cut. |
| AU | RBA SoMP (Q3) | - | - | Will include an updated set of economic projections. |
| AU | RBA Governor Michele Bullock Speaks | - | - | The monthly conference after the monetary policy meeting. |
| AU | NAB Business Conditions (Jul) | - | 9 | Saw a solid and broad-based improvement in June. |
| AU | NAB Business Confidence (Jul) | - | 5 | Climbed to a seven-month high in June. |
| UK | Unemployment Rate (Jun) | - | 4.7% | Claimant count unemployment rate was steady in June. |
| US | CPI (MoM, Jul) | 0.2% | 0.3% | The previous report pointed to a tentative tariff impact. |
| US | NFIB Small Business Optimism (Jul) | 98.6 | 98.6 | Despite recent improvement, remains below 2024 highs. |
| | | | | |
| Wed 13 | | | | |
| AU | Wage Price Index (QoQ, Q3) | 0.8% | 0.9% | Annual rate expected to slow 0.1ppts to 3.3%. |
| | | | | |
| Thu 14 | | | | |
| AU | Employment (monthly change, Jul) | 24.0k | 2.0k | The last two Aussie jobs reports were very disappointing. |
| AU | Unemployment Rate (Jul) | 4.2% | 4.3% | The June uptick partly due to change in the sample. |
| UK | GDP (QoQ, Q2) | - | 0.7% | Monthly figures point to a risk of a negative result. |
| US | PPI (MoM, Jul) | 0.2% | 0.0% | ISM reports suggested renewed growth in producer prices. |
| | | | | |
| Fri 15 | | | | |
| JP | GDP (QoQ, Q2) | 0.1% | -0.2% | Growth expected to be driven by business investment. |
| CH | Retail Sales (YoY, Jul) | 4.6% | 4.8% | Saw significant slowdown in June, despite the stimulus. |
| CH | Industrial Production (YoY, Jul) | 6.0% | 6.8% | Took over as the major growth driver in June. |
| CH | Urban Fixed Asset Inv. (YoY YtD, Jul) | 2.7% | 2.8% | Chinese property investment still in deep decline. |
| US | Retail Sales (MoM, Jul) | 0.5% | 0.6% | It appears most of the recent gains are due to higher prices. |
| US | Industrial Production (MoM, Jul) | 0.0% | 0.3% | PMI reports suggested a decline in manufacturing in July. |
| US | UoM Cons. Conf. (Aug, prelim.) | 62.1 | 61.7 | UoM inflation expectations on a decline, but still high. |