

THIS WEEK'S HIGHLIGHTS

- In Australia, employment saw a surprising fall in January, while the unemployment rate increased to 3.7%. The NAB business conditions and confidence indices both improved in January, but the Westpac consumer sentiment index plunged in February. In his public appearances this week, RBA Governor Philip Lowe continued to point to further RBA cash rate hikes.
- Abroad, the annual rate of US CPI inflation continued to fall in January, albeit slower than anticipated. The rise in US retail sales was stronger than expected, while manufacturing output picked up following two months of declines.

NEXT WEEK'S HIGHLIGHTS

- The key domestic events will be the RBA Board minutes and the flash PMIs for February on Tuesday, the Q4 wage price index and Q4 construction work done on Wednesday and the Q4 private sector capex on Thursday.
- The most important releases abroad will be the flash PMIs for the major economies on Tuesday, the FOMC minutes on Wednesday and US personal spending and its disposition report for January on Friday, which will include PCE price inflation targeted by the Fed. There is also the RBNZ official cash rate decision (on Wednesday).

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.35	O/N Interbank Cash	3.32	USD 3-month	4.90	ASX200	7358
US (IOR)	4.65	90-day Bills	3.47	2-yr T-Notes	4.67	S&P500	4090
Eurozone (Deposit)	2.50	3-yr T-Bond	3.50	10-yr T-Notes	3.90	DJIA	33697
UK	4.00	10-yr T-Bond	3.84	Jap 10-yr	0.50	Nikkei	27545
Japan	-0.10	3-yr WATC Bond	3.87	UK 10-yr	3.50	CSI300	4086
China (1Y LPR)	3.65	10-yr WATC Bond	4.43	Ger 10-yr	2.47	Stoxx600	465

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields picked up this week, as the annual rate of US inflation did not decline as much as expected and Fed officials maintained their hawkish tone. The markets continue to expect a 25bps fed funds rate hike in March, followed by another increase in Q2.

The rise in Aussie yields was somewhat smaller than in the US, mainly due to the negative surprise to the domestic labour market data for January. However, RBA cash rate futures continue to price in a 25bps hike in March and a terminal rate for the current tightening cycle at 4.10%.

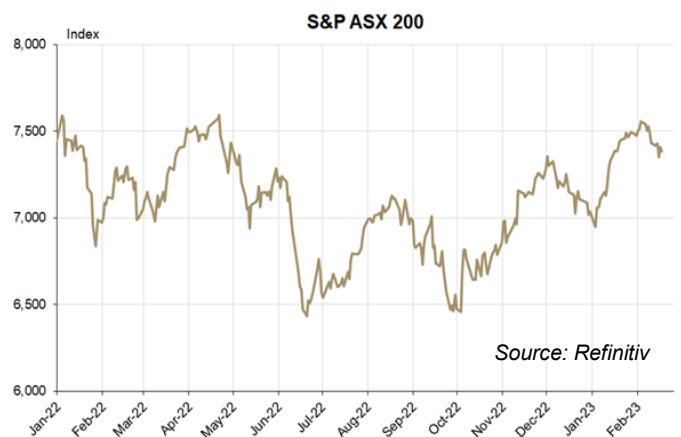
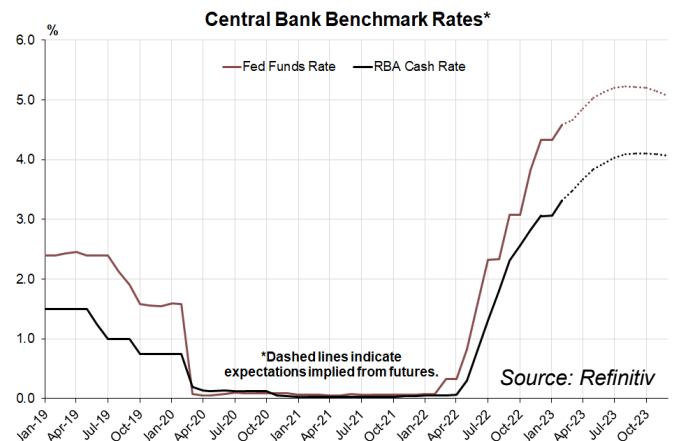
RBA Governor Philip Lowe appeared before parliamentary committees twice this week, reiterating that further increases in interest rates are needed in the months ahead as inflation is "way too high". In one of the Q&A sessions, Governor Lowe suggested that the reason behind the hawkish turn in February was concern that inflation could become entrenched, especially given that the upside surprise to core inflation in Q4, compared with the November projection, resulted from demand-side factors.

Equities

Global equities are mainly lower over the past week, although the US market is pretty much flat, with Wall Street giving up its early gains.

It has been a choppy week for the Aussie market, with shares pushed around by global market events and domestic developments.

The ASX 200 had its worst day in six weeks on Wednesday, as bank shares slumped on the back of concerns over the earnings outlook. The market regained some of that loss on Thursday, after the employment report suggested some of the labour market tightness could be easing. A poor overnight session on the US market has dragged Aussie equities lower again this morning.



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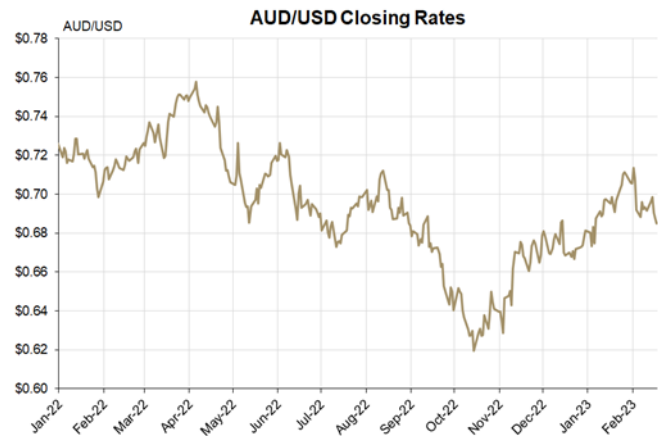
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Currencies

The Aussie dollar has had a mixed week against the major currencies, falling against the USD and the euro but gaining against the weaker Japanese yen.

The AUD has traded in roughly a 2c range against the US dollar, spiking above US\$0.70 in the hours before the US CPI on Tuesday, only to slip back after the release. The exchange rate continued to slide through much of the rest of the week, weighed down by a stronger US\$ as the US dollar index climbed to its highest level since early January.

The weaker-than-expected Japanese Q4 GDP report and rising US rate hike expectations have dragged the yen lower, with the Aussie hitting its highest level against the yen since November last year, before slipping back.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6852	0.7157	0.6838	↓1.2	0.7661	0.6169
AUD/EUR		0.6430	0.6549	0.6377	↓0.5	0.7000	0.6255
AUD/GBP		0.5730	0.5806	0.5669	↑0	0.6260	0.5266
AUD/JPY		92.21	93.04	89.86	↑1	98.43	81.98
AUD/CNY		4.7103	4.8291	4.6509	↑0	4.8743	4.4365
EUR/USD		1.0653	1.1033	1.0647	↓0.7	1.1395	0.9534
GBP/USD		1.1955	1.2417	1.1945	↓1.2	1.3642	1.0382
USD/JPY		134.57	134.71	128.07	↑2.2	151.94	114.39
USD/CNY		6.8744	6.8744	6.7326	↑1.2	7.3270	6.3025

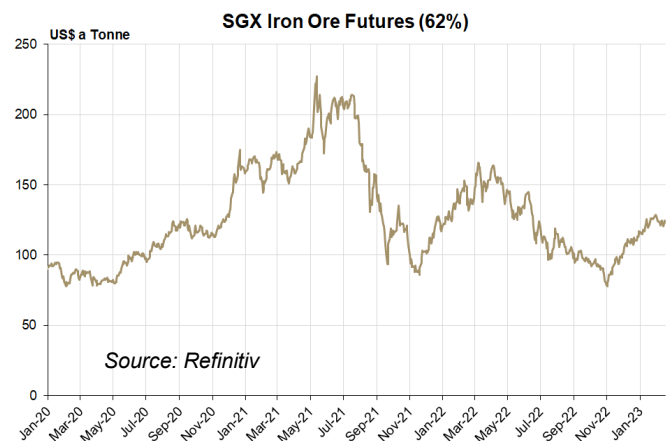
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6852	0.6875	0.6896	0.6930
AUD/EUR		0.6430	0.6416	0.6404	0.6370
AUD/GBP		0.5730	0.5736	0.5739	0.5734
AUD/JPY		92.21	91.33	90.35	88.20
AUD/NZD		1.0998	1.1030	1.1061	1.1102
AUD/SGD		0.9173	0.9180	0.9174	0.9147

Commodities

Crude oil started the week in a positive fashion, mainly due to news that Russia is planning to cut output by 500 thousand barrels a day. However, concerns over the economic impact of further Fed tightening prevailed for the rest of the week, resulting in a sustained decline in oil prices. Overall, Brent futures are slightly higher than at the time of the previous edition of the *Market WATCH*.

Iron ore futures also saw a slight uptick this week and remain significantly higher than their low point in late 2022. There were more signs of stabilisation in the Chinese housing market this week, with new home prices stabilising in January after 16 consecutive months of declines.

The gold price fell this week amid the appreciation of the US dollar and further Fed tightening ahead.



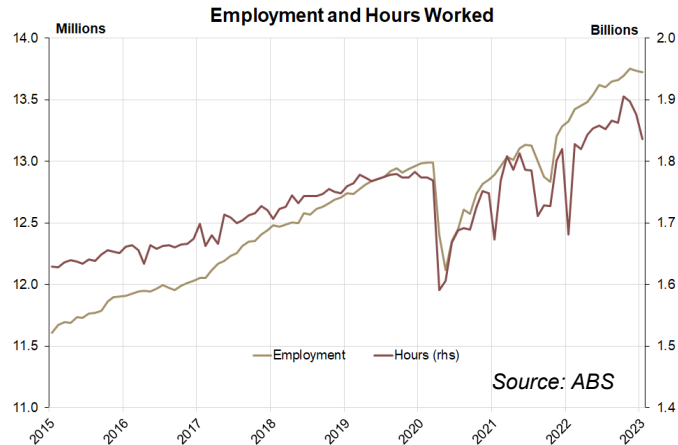
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,829.42	\$1,872.13	\$1,826.60	(↓\$30.74)	\$2,069.89	\$1,613.60
Brent Crude Oil (US\$)	\$84.78	\$86.95	\$83.88	(↑\$0.52)	\$139.13	\$75.11
Mogas95* (US\$)	\$101.00	\$102.30	\$100.30	(↓\$0.45)	\$161.20	\$82.60
WTI Oil (US\$)	\$78.14	\$80.62	\$76.52	(↑\$0.39)	\$130.50	\$70.08
CRB Index	270.25	273.56	270.25	(↓0.23)	329.59	263.62
Iron Ore Price 62% Fe (US\$)**	124.53	\$125.00	\$119.90	(↑\$0.56)	\$171.00	\$75.30

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

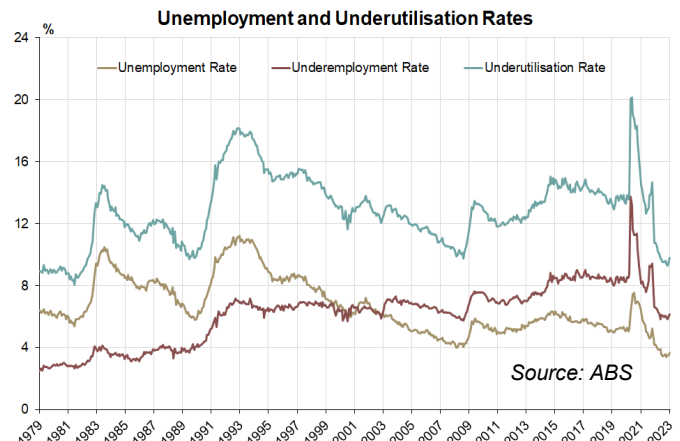
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

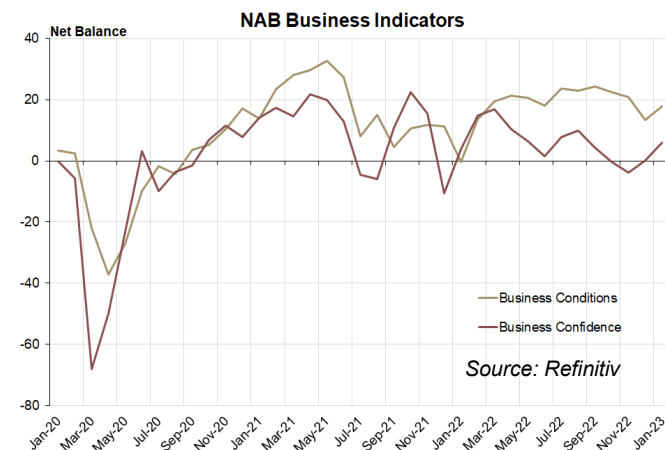
Employment and hours worked both continued to fall in January.



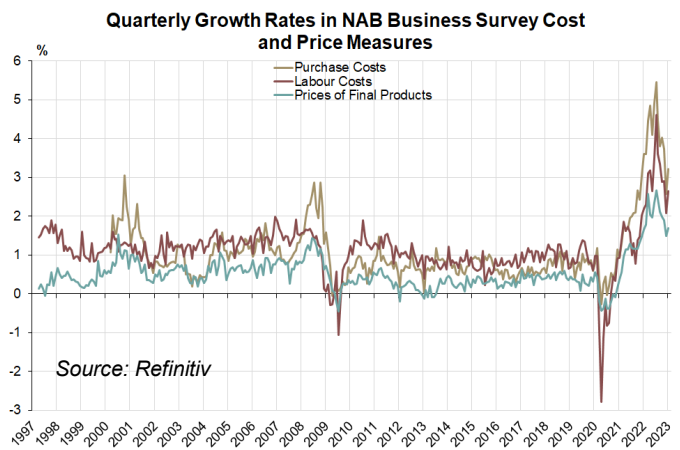
The **unemployment rate** unexpectedly rose in January, but was still close to the monthly series low.



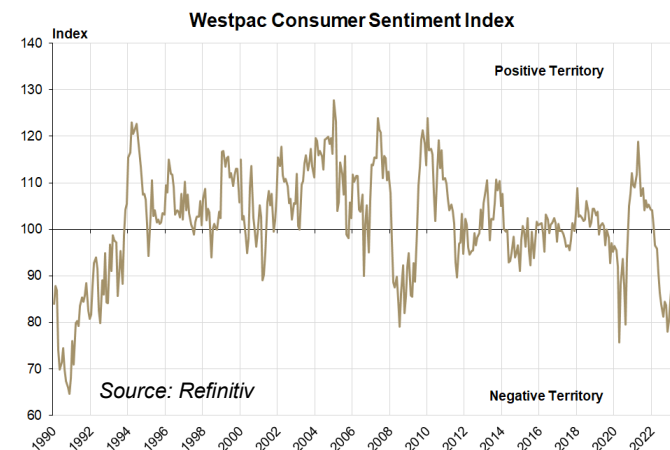
The **NAB business conditions and confidence indices** both improved in January...



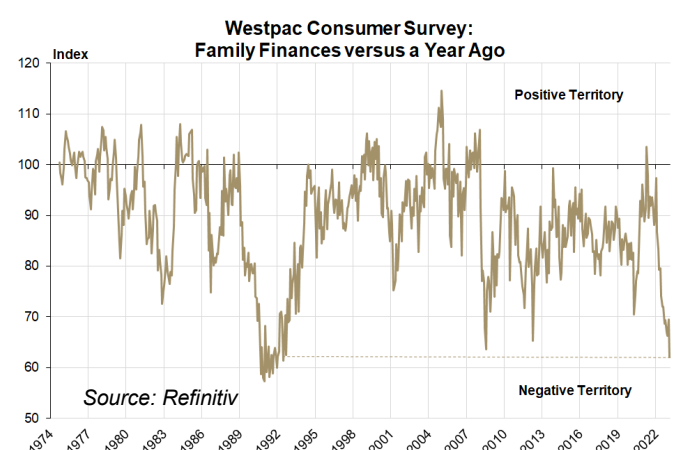
... while **growth in costs and prices** reaccelerated.



The **Westpac consumer sentiment index** fell in February, to be at levels comparable with the GFC...



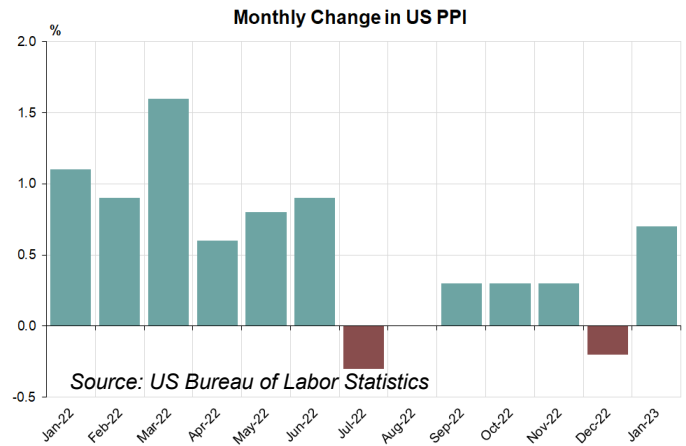
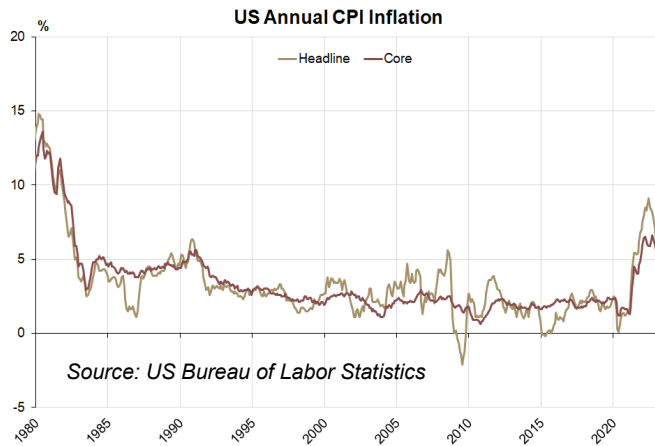
... with **Aussie households** more negative on the state of their finances than anytime since the 1990s recession.



GLOBAL ECONOMY

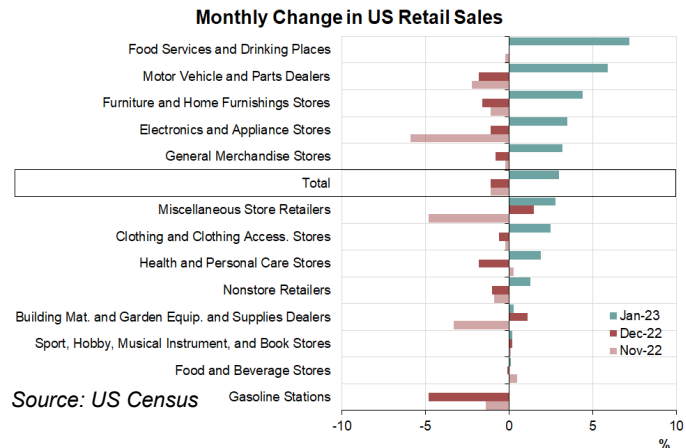
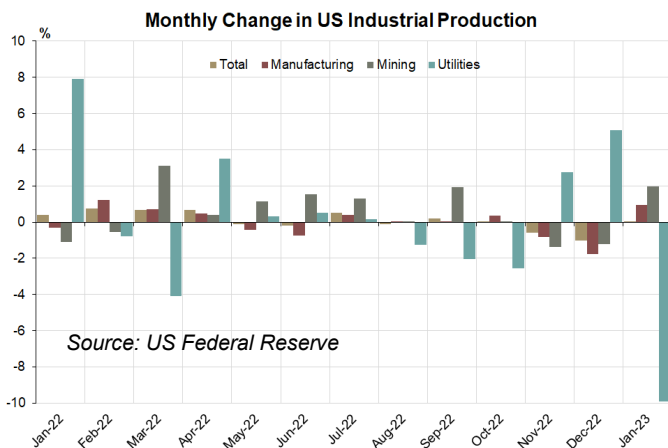
US CPI inflation continued to decline in January, though slower than in the previous months, and remains high.

US PPI rose the most since mid-2022 in January, driven by a pick-up in energy prices.



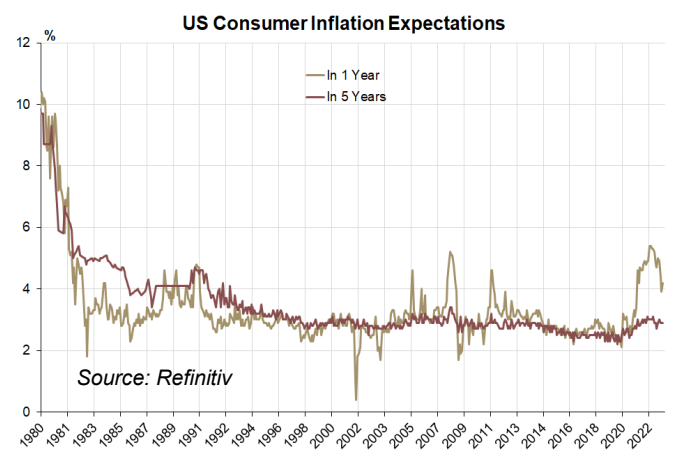
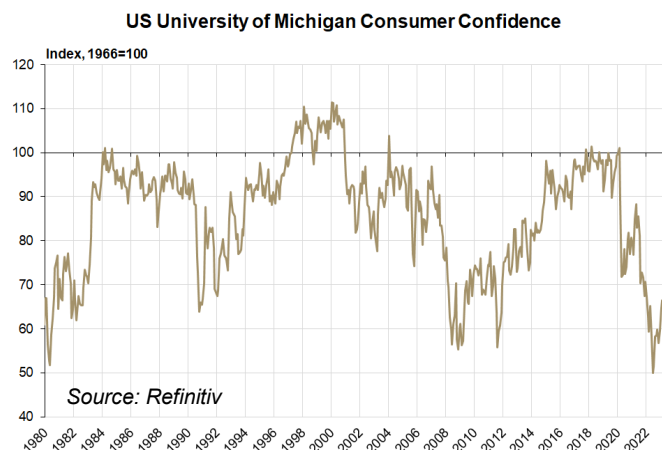
US industrial production was unchanged in January, as a drop in utilities offset a rise in manufacturing and mining.

US retail sales saw a broad-based increase in January, after two months of declines.



The US University of Michigan consumer confidence index improved again in February, but remains depressed.

Near-term consumer inflation expectations rose slightly in February, but medium-term expectations were stable.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

17 February 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment	
Mon 13	<i>No market moving data</i>					
Tue 14	AU	NAB Business Conditions (Jan)	18	-	13	Broad-based improvement.
	AU	NAB Business Confidence (Jan)	6	-	0	Back to series average.
	AU	Westpac Consumer Confidence (Feb)	-6.9%	-	5.0%	Higher rates and inflation weighing on confidence.
	JP	GDP (QoQ, Q4)	0.2%	0.5%	-0.3%	The numbers for Q3 were revised downwards.
	UK	Unemployment Rate (Dec)	3.7%	3.7%	3.7%	YoY earnings growth ex-bonuses near a record high.
	US	CPI (MoM, Jan)	0.5%	0.5%	0.1%	Annual rate of inflation declined just 0.1ppts to 6.4%.
Wed 15	AU	RBA Gov. before Senate Committee	-	-	-	Low fears inflation expectations may de-anchor.
	UK	CPI (YoY, Jan)	10.1%	10.2%	10.5%	Core inflation at 5.8%.
	US	Retail Sales (MoM, Jan)	3.0%	1.8%	-1.1%	Sales up in all categories in January except fuel.
	US	Industrial Production (MoM, Jan)	0.0%	0.5%	-1.0%	Manufacturing output rose by 1.0%.
Thu 16	AU	Employment (monthly change, Jan)	-11.5%	20.0k	-20.0k	Still just 0.2% off its record high from November 2022.
	AU	Unemployment Rate (Jan)	3.7%	3.5%	3.5%	Participation rate ebbed 0.1ppts to 66.5%.
	US	PPI (MoM, Jan)	0.7%	0.4%	-0.2%	The fastest increase since June 2022.
	US	Initial Jobless Claims (w/e 11 Feb)	194k	200k	195k	Continued claims still low at 1.7m.
Fri 17	AU	RBA Gov. before HoR Ec. Committee	-	-	-	Hawkish tilt due to a rise in demand-driven inflation.

Next Week

	Event	Forecast	Previous	Comment	
Mon 20	CH	PBoC Decision (1Y Loan Prime Rate)	3.65%	3.65%	PBoC supporting the economy by other instruments.
Tue 21	AU	RBA Board Minutes (Feb)	-	-	More insights into the hawkish shift at the Feb meeting.
	AU	Judo Bank Composite PMI (Feb, flash)	-	48.5	In contrast to the NAB survey, still points to contraction.
	JP	Jibun Bank Composite PMI (Feb, flash)	-	50.7	Rose back into expansion in January.
	EZ	S&P Global Composite PMI (Feb, flash)	50.7	50.3	Germany and France were still in contraction in January.
	UK	S&P Global Composite PMI (Feb, flash)	-	48.5	The UK economy is clearly slipping into recession.
	US	S&P Global Composite PMI (Feb, flash)	-	46.8	Has been a poor indicator for ISM PMIs of late.
Wed 22	AU	Wage Price Index (QoQ, Q4)	1.0%	1.0%	Business surveys suggest still elevated wage growth.
	AU	Construction Work Done (QoQ, Q4)	1.5%	2.2%	Residential building rose 1.3% in Q3.
	NZ	RBNZ Decision (Official Cash Rate)	4.75%	4.25%	A hike to 5.00% not ruled out by a quarter of traders.
	US	FOMC Minutes	-	-	May provide more guidance on scale of further tightening.
Thu 23	AU	Private Capex (QoQ, Q4)	0.9%	-0.6%	Q3 decline due to a 1.6% drop in equipment investment.
	US	GDP (QoQ Annualised, Q4, 2nd Estimate)	2.9%	3.2%	US increasingly likely to avoid recession.
Fri 24	US	Personal Spending (MoM, Jan)	0.0%	-0.2%	Retail sales point to a strong gain.
	US	PCE Index (MoM, Jan)	0.4%	0.1%	CPI figures suggest faster monthly growth in prices.