

THIS WEEK'S HIGHLIGHTS

- In Australia, the CPI rose less than expected in Q2, with the annual rate of CPI inflation falling to 6.0%. The international price indices suggested a significant drop in terms of trade in Q2. Retail sales saw a surprisingly sharp drop in June. The Judo Bank flash PMIs pointed to renewed contraction in Aussie private business activity.
- Abroad, the FOMC and ECB increased interest rates by 25bps as expected. US GDP growth picked up a little in Q2. US durable goods orders surged in June. The flash PMIs pointed to further, albeit slower expansion in US private sector business activity, but output price inflation picked up.

NEXT WEEK'S HIGHLIGHTS

- Another busy week at home, with the RBA decision on Tuesday and the quarterly Statement on Monetary Policy on Friday being the major highlights.
- The other important releases will be private sector credit for June on Monday, and the housing market data on Tuesday. Housing finance for June, dwelling approvals for June, CoreLogic house prices for July, retail sales volumes for Q2 and the June trade balance are all on Thursday.
- The calendar will not be light offshore either, with US and Chinese PMIs for July, the US labour market data for July and the Bank of England decision all due.

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	(↓2 pt)	ASX200	7375	(↑75 pt)
US (IOR)	5.40	(↑25 pt)	90-day Bills	4.28	(↓8 pt)	2-yr T-Notes	4.91	(↑8 pt)	S&P500	4537	(↑3 pt)
Eurozone (Deposit)	3.75	(↑25 pt)	3-yr T-Bond	3.90	(↓10 pt)	10-yr T-Notes	4.00	(↑16 pt)	DJIA	35283	(↑58 pt)
UK	5.00	(0 pt)	10-yr T-Bond	4.09	(↑7 pt)	Jap 10-yr	0.54	(↑6 pt)	Nikkei	32798	(↑380 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	4.16	(↓8 pt)	UK 10-yr	4.31	(↑4 pt)	CSI300	3972	(↑130 pt)
China (1Y LPR)	3.55	(0 pt)	10-yr WATC Bond	4.58	(↑2 pt)	Ger 10-yr	2.47	(↑2 pt)	Stoxx600	472	(↑8 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

As expected, the FOMC increased the fed funds rate target range by 25bps to 5.25-5.50%, stressing that decisions will continue to be data-dependent. Currently, the futures market is pricing in no more fed funds rate hikes for this cycle.

The ECB also increased its key interest rates by another 25bps, including the deposit rate to 3.75% (the highest since 2000), while signalling that, from now on, decisions will be data-dependent.

The Bank of Japan left its complementary deposit rate at -0.10%, but allowed for greater flexibility regarding the +/-0.5ppts range around the 0% 10-year Japanese government bond yield target.

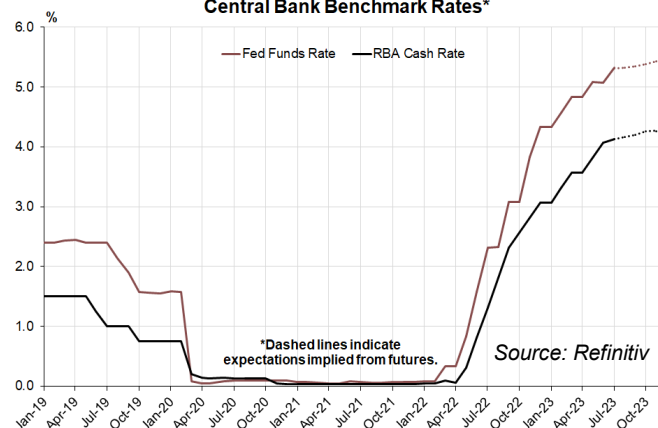
In contrast to their global equivalents, Australian bond yields generally declined this week. This came as the market probability of a 25bps cash rate hike at the RBA Board meeting next week dropped below 30% in reaction to the downside surprise to Aussie quarterly inflation figures for Q2.

Equities

Aussie equities are on the way to the third weekly increase in a row, boosted by positive sentiment on global markets and lower-than-expected Aussie Q2 inflation, which saw traders downgrade their expectations for further RBA cash rate increases. The ASX 200 hit its highest level since February before sliding today, as a rise in bond yields knocked share markets lower.

In the US, the S&P 500 started the week well, climbing to its highest level since April last year on Tuesday, before closing marginally lower on Wednesday and seeing a heavier fall overnight as Treasury yields jumped. The blue chip Dow Jones Industrial Average posted 13 increases in a row, its longest winning streak since January 1987, before Thursday's sell-off.

Central Bank Benchmark Rates*



S&P ASX 200



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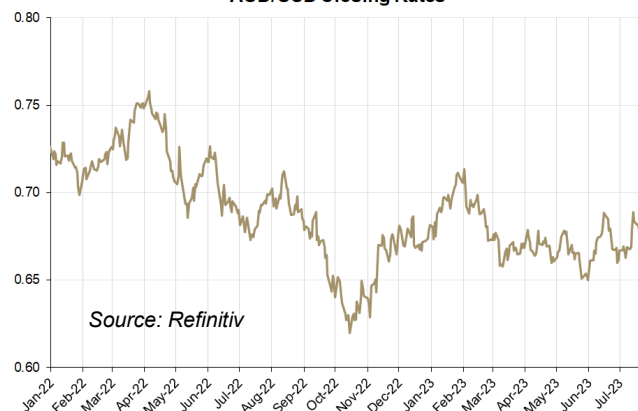
Currencies

It was a dismal week for the Australian dollar, which was hit by the decline in cash rate expectations after the downside surprise to Q2 CPI inflation.

The AUD depreciated, particularly against the stronger Japanese yen and US dollar. The Japanese currency was supported by speculation that the Bank of Japan, faced with multidecade high inflation and solid activity growth, would tweak its yield curve control policy. The US dollar jumped to a 2½-week high on Thursday following stronger-than-expected US economic data.

The Aussie was right in the middle of the G10 currency ladder, with the Japanese yen being the strongest currency and the European currencies (the euro and the Scandies) being the weakest after the ECB put a dent in expectations for further rate hikes, saying future increases would depend on the data.

AUD/USD Closing Rates



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6669	0.6847	0.6715	↓1.6	0.7158	0.6170
AUD/EUR		0.6074	0.6150	0.6038	↓0.1	0.7000	0.5198
AUD/GBP		0.5213	0.5305	0.5213	↓0.9	0.6277	0.5198
AUD/JPY		93.21	95.90	94.43	↓1.9	98.60	86.06
AUD/CNY		4.7748	4.9277	4.8060	↓1.7	4.9208	4.4465
EUR/USD		1.0978	1.1229	1.1021	↓1.4	1.1095	0.9536
GBP/USD		1.2792	1.2965	1.2798	↓0.7	1.2848	1.0350
USD/JPY		139.77	141.96	139.11	↓0.3	151.95	127.23
USD/CNY		7.1602	7.2071	7.1320	↓0.1	7.3274	6.6909

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6669	0.6690	0.6710	0.6734
AUD/EUR		0.6074	0.6066	0.6053	0.6023
AUD/GBP		0.5213	0.5229	0.5245	0.5277
AUD/JPY		93.21	92.17	91.03	88.80
AUD/NZD		1.0824	1.0857	1.0890	1.0947
AUD/SGD		0.8881	0.8870	0.8854	0.8808

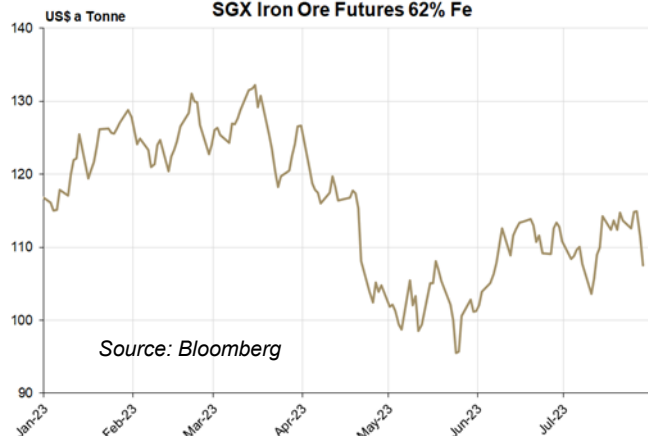
Commodities

The CRB commodity price index hit an eight-month high on Tuesday, after the Chinese Communist Party Politburo signalled economic support measures were on the way. However, prices eased later in the week, as concerns over the outlook for the Chinese economy re-emerged.

Iron ore futures prices closed at a three-month high on Wednesday. However, prices fell sharply on Thursday, and again today as a report that almost half of China's major steel makers made losses in the first five months of the year added to concern over the outlook for demand.

Oil prices were among the biggest movers, climbing to the highest levels since April, with Saudi Arabia expected to push its 1 million barrel a day supply cut into September, falling US oil inventories, and increased confidence that the US will avoid recession.

SGX Iron Ore Futures 62% Fe



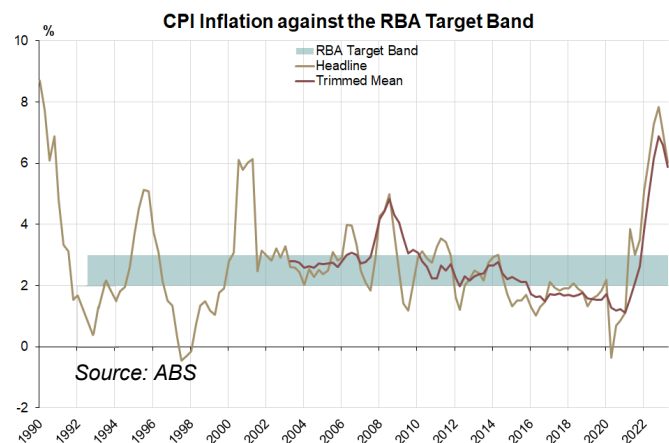
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,953.92	\$1,987.52	\$1,952.07	(↓\$16.07)	\$2,062.99	\$1,614.96
Brent Crude Oil (US\$)	\$83.76	\$83.87	\$78.66	(↑\$3.38)	\$110.67	\$70.12
Mogas95* (US\$)	\$100.93	\$102.53	\$94.03	(↑\$1.61)	\$117.40	\$77.66
WTI Oil (US\$)	\$79.70	\$79.90	\$74.72	(↑\$3.34)	\$101.88	\$63.64
CRB Index	280.17	281.89	273.09	(↑\$5.47)	301.75	253.85
Iron Ore Price 62% Fe (US\$) **	\$107.80	\$116.60	\$111.10	(↓\$6.94)	\$139.80	\$75.00

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

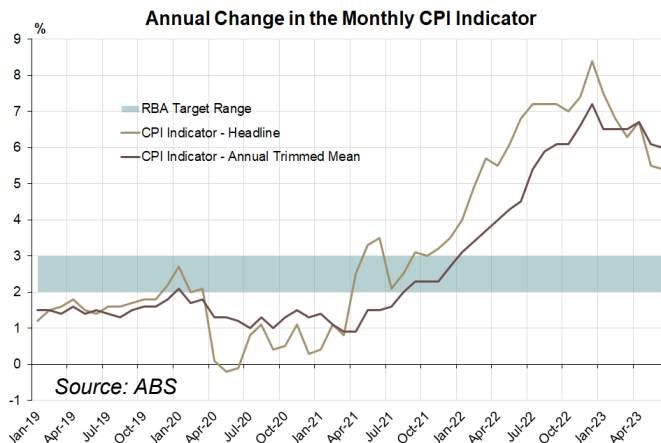
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

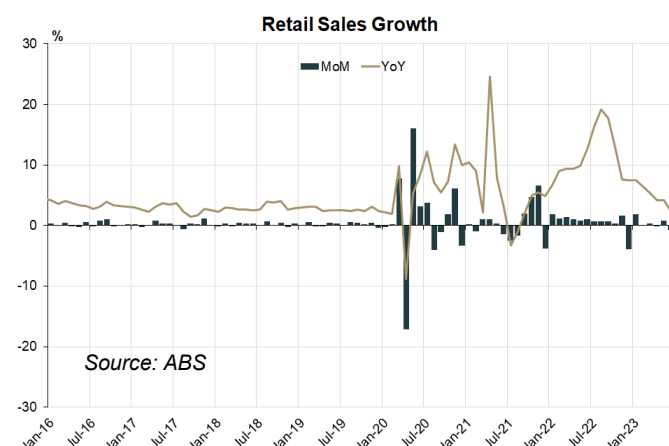
The annual rate of **CPI inflation** continued to fall in Q2, but remained significantly above the RBA target range.



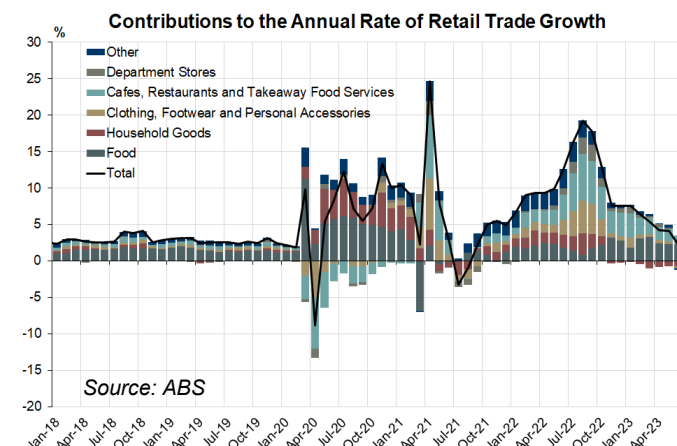
The **monthly CPI indicator** suggested most of the big fall in the annual underlying inflation rate in Q2 came in May.



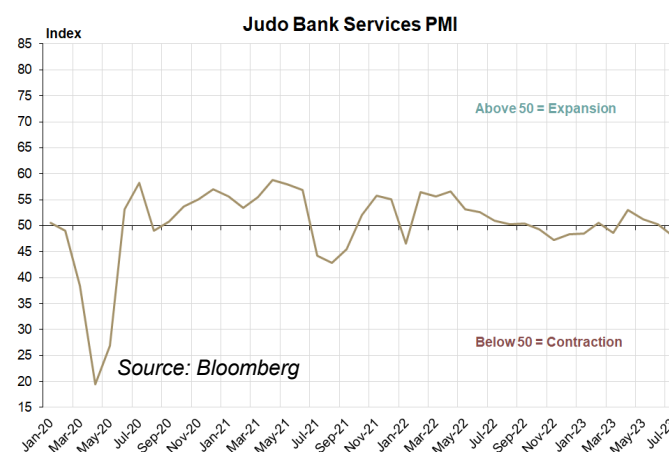
Retail sales fell in June, which was partly a setback from the surprisingly strong result in May due to EOFY sales.



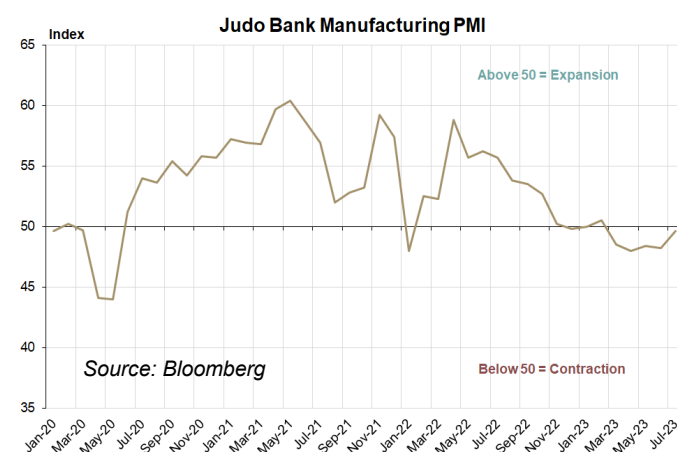
Only spending on **food** (groceries, dining out and take-away) contributed positively to annual retail sales growth.



The **Judo Bank flash PMI** report pointed to renewed contraction in services activity in July...

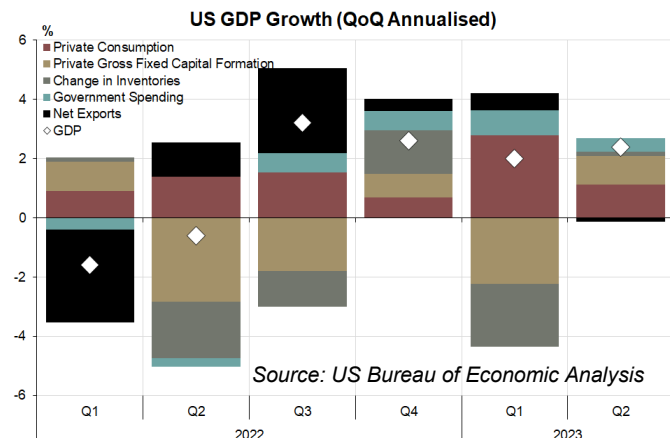


... while the pace of contraction in **manufacturing** eased.

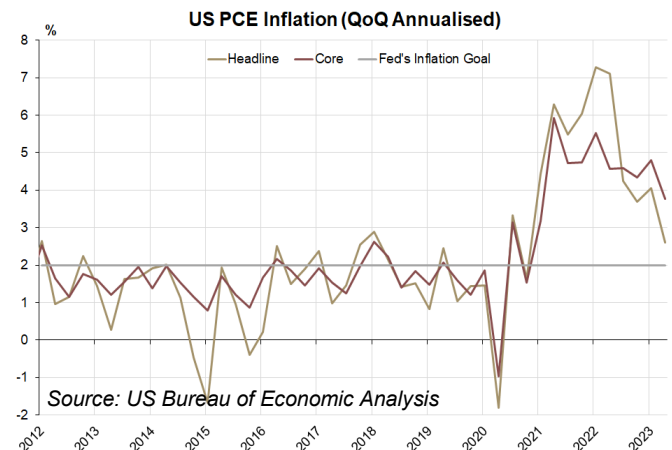


GLOBAL ECONOMY

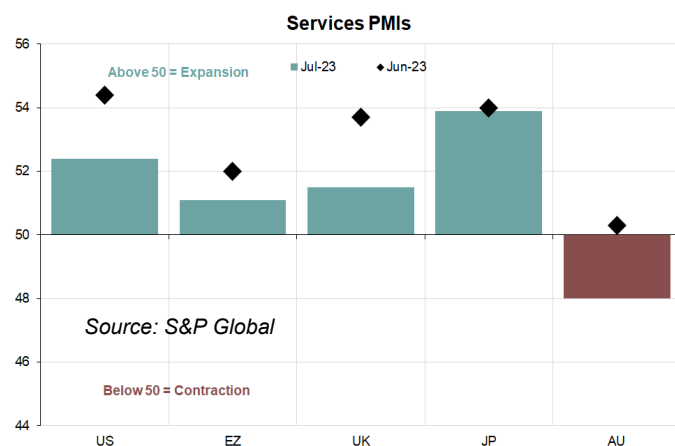
US GDP growth was broadly steady in Q2, however, positive contributions were more broad-based than in Q1.



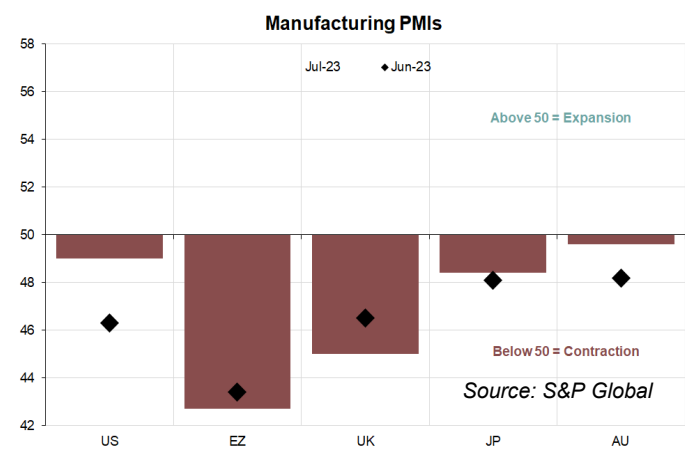
Disinflation continued in the US in Q2, with a relatively slow decline in core inflation.



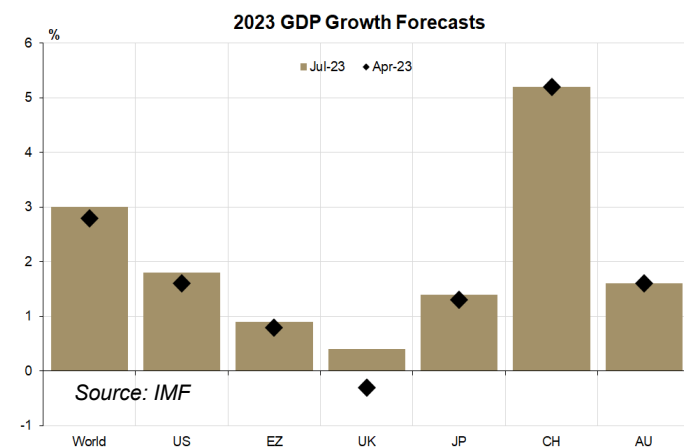
The flash services PMI reports suggested ongoing, albeit slower expansion across the major advanced economies...



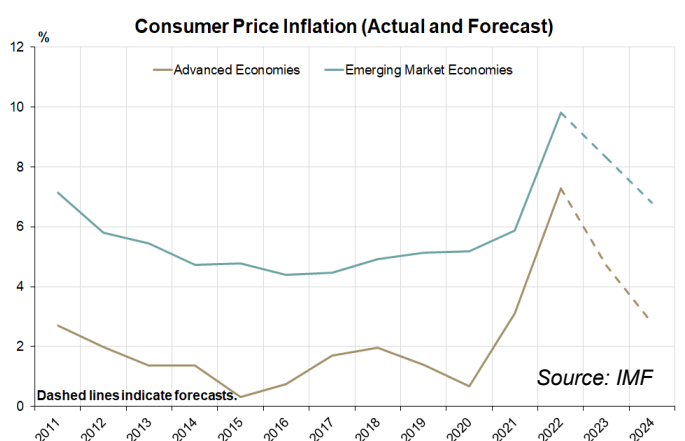
... while manufacturing remained in contraction.



The IMF revised its 2023 **global GDP** forecast upwards, with upgrades for all the major advanced economies.



The IMF also expects **inflation** to decline in 2023 and 2024, but to remain higher than before COVID hit.



KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 24					
AU	Judo Bank Comp. PMI (Jul, flash)	48.3	-	50.1	Cost and selling price growth has re-accelerated.
JP	Jibun Bank Comp. PMI (Jul, flash)	52.1	-	52.1	Japanese manufacturing remained in contraction.
EZ	HCOB Composite PMI (Jul, flash)	48.9	49.1	49.9	The fastest contraction in eight months.
UK	S&P Global Comp. PMI (Jul, flash)	50.7	-	52.8	Strong wage growth pushing costs higher.
US	S&P Global Comp. PMI (Jul, flash)	52.0	-	53.2	Output price inflation resumed climbing in July.
Tue 25					
AU	ANZ Consumer Conf. (w/e 22 Jun)	3.6%	-	-1.0%	Inflation expectations declined 0.2ppts to 5.4%.
US	C-S Hse Prcs 20 Cities (YoY, May)	-1.7%	-2.2%	-1.7%	Rose by 1.0% MoM.
US	Conference Board Cons. Conf. (Jul)	117.0	111.5	110.1	The highest since mid-2021.
Wed 26					
AU	CPI (QoQ, Q2)	0.8%	1.0%	1.4%	Annual rate of inflation slowed to 6.0%.
AU	Monthly CPI Indicator (YoY, Jun)	5.4%	5.4%	5.5%	Annual trimmed mean inflation at 6.0% in June.
US	FOMC Decision (IoER)	5.40%	5.40%	5.15%	No more hikes priced in for this cycle.
Thu 27					
AU	International Prices (QoQ, Q2)	-	-	-	Suggests a sharp drop in the terms of trade.
EZ	ECB Decision (Deposit Rate)	3.75%	3.75%	3.75%	The highest level of deposit rate since 2000.
US	GDP (QoQ Annualised, Q2, adv)	2.4%	1.8%	2.0%	Core PCE inflation fell 1.1ppts to 3.8% (annualised).
US	Durable Goods Orders (MoM, Jun)	4.7%	1.3%	1.8%	Biggest monthly rise since July 2020.
US	Initial Jobless Claims (w/e 22 Jul)	221k	235k	235k	Lowest initial jobless claims since late February.
Fri 28					
AU	Retail Trade (MoM, Jun)	-0.8%	0.0%	0.8%	Surprising fall due to less spending on EOFY sales.
AU	PPI (QoQ, Q2)	0.5%	-	1.0%	The annual rate of PPI inflation fell 1.3ppts to 3.9%.
JP	BoJ Decision (Compl. Deposit Rate)	-0.10%	-0.10%	-0.10%	The yield curve control policy is now more flexible.
Tonight					
US	Personal Spending (MoM, Jun)	-	0.4%	0.1%	Retail sales data indicated a slight increase.
US	PCE Price Index (MoM, Jun)	-	0.2%	0.1%	Headline inflation to fall sharply, core to be sticky.

Next Week

	Event	Forecast	Previous	Comment
Mon 31				
AU	Private Sector Credit (MoM, Jun)	0.4%	0.4%	Aussie credit growth is slowing.
AU	Melbourne Institute Inflation (MoM, Jul)	-	0.1%	Flash PMI report suggested re-acceleration.
CH	NBS Composite PMI (Jul)	-	52.3	First insights into the Chinese economy in July.
EZ	HICP (YoY, Jul)	5.2%	5.5%	Core inflation expected to slow 0.2ppts to 5.3%.
EZ	GDP (QoQ, Q2)	0.1%	-0.1%	Euro area expected to escape a technical recession.
Tue 01				
AU	RBA Decision (Cash Rate Target)	4.10%	4.10%	Probability of a 25bps hike is lower than 30%.
AU	Dwelling Approvals (MoM, Jun)	-11.5%	20.6%	Aussie housing market in structural undersupply.
AU	Housing Finance (MoM, Jun)	2.8%	4.8%	Construction loans hit a new record low in May.
AU	CoreLogic House Prices (MoM, Jul)	-	1.1%	House prices are rebounding nationwide.
CH	Caixin Manufacturing PMI (Jul)	49.8	50.5	Chinese manufacturing is near-stagnant.
US	ISM Manufacturing PMI (Jul)	46.9	46.0	S&P report also suggested slower contraction.
US	JOLTS Job Openings (Jun)	-	9.8m	US labour market is still very tight.
Wed 02				
US	ADP Employment (monthly change, Jul)	185k	497k	Has been a poor indicator for the official job figures.
Thu 03				
AU	Trade Balance (Jun)	A\$10.8b	A\$11.8b	Aussie external position remains impressive.
AU	Retail Sales Volumes (QoQ, Q2)	-0.3%	-0.6%	Australian consumers are turning cautious.
CH	Caixin Services PMI (Jul)	52.4	53.9	Growth in Chinese services is slowing.
UK	Bank of England Decision (Bank Rate)	5.25%	5.00%	Bank rate expected to peak at 5.75% in this cycle.
US	ISM Services PMI (Jul)	53.0	53.9	S&P report points to slowdown.
Fri 04				
AU	Statement on Monetary Policy (Q3)	-	-	Will contain a new set of economic forecasts.
US	Non-farm Payrolls (monthly change, Jul)	190k	209k	US jobs growth is clearly slowing.
US	Unemployment Rate (Jul)	3.6%	3.6%	US unemployment rate is near multidecade lows.