

THIS WEEK’S HIGHLIGHTS

- In Australia, employment rose less than expected in January, while the unemployment rate rose to 4.1%. NAB business conditions continued to normalise and business confidence, despite some improvement, remained below the long-run average. Westpac consumer sentiment rose sharply in February, but remained depressed.
- Abroad, the US CPI for January surprised to the upside. US retail sales saw its biggest fall in 10 months in January. US industrial production also fell a little in January, dragged down by declines in manufacturing and mining.

NEXT WEEK’S HIGHLIGHTS

- The key domestic events next week will be the RBA Board minutes on Tuesday, the Q4 wage price index on Wednesday and the February Judo Bank flash PMI on Thursday.
- A quiet week offshore, with the highlights being the FOMC minutes and S&P Global flash PMIs.

Central Bank Rates (%)		Weekly Change	Australian Interest Rates (%)		Weekly Change	Major Overseas Interest Rates (%)		Weekly Change	Global Equities		Weekly Change
Australia	4.35	(0 pt)	O/N Interbank Cash	4.32	(0 pt)	USD 3-month	5.59	(↑1 pt)	ASX200	7653	(↑16 pt)
US (IOR)	5.40	(0 pt)	90-day Bills	4.34	(↓1 pt)	2-yr T-Notes	4.60	(↑16 pt)	S&P500	5030	(↑32 pt)
Eurozone (Deposit)	4.00	(0 pt)	3-yr T-Bond	3.77	(↑8 pt)	10-yr T-Notes	4.25	(↑11 pt)	DJIA	38773	(↑47 pt)
UK	5.25	(0 pt)	10-yr T-Bond	4.19	(↑7 pt)	Jap 10-yr	0.74	(↑3 pt)	Nikkei	38395	(↑1284 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	4.03	(↑7 pt)	UK 10-yr	4.05	(0 pt)	CSI300*	3365	(0 pt)
China (1Y LPR)	3.45	(0 pt)	10-yr WATC Bond	4.73	(↑10 pt)	Ger 10-yr	2.36	(0 pt)	Stoxx600	489	(↑3 pt)

Changes are since the issue of last week’s Market Watch. *No change due to Lunar New Year holidays.

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields picked up this week, driven by a slight upside surprise to the US CPI, which raised doubts over an imminent Fed easing. There was also more Fedpeak cautioning that the FOMC remains focused on bringing inflation back to its goal and needs to see more data before embarking on rate cuts.

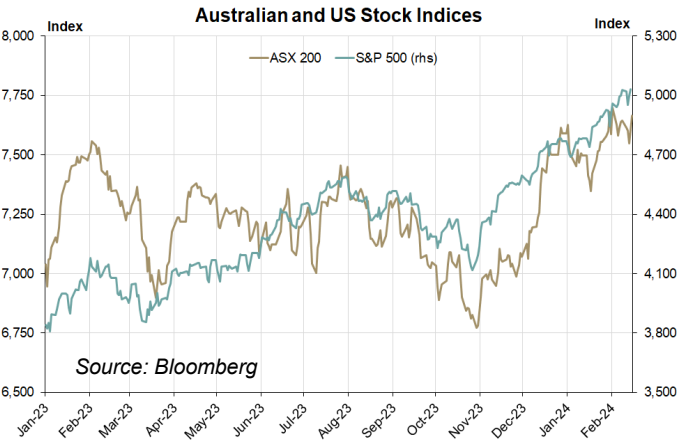
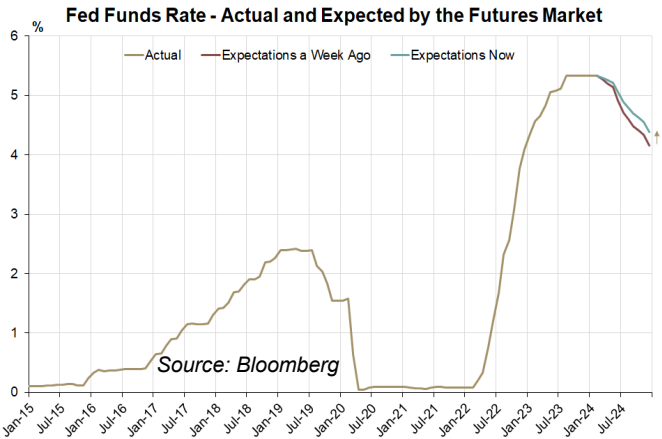
Fed funds rate cut expectations were scaled back a bit over the week, with the probability of a May cut falling below 50%, but the first cut continues to be fully priced in for June.

Commonwealth bond yields rose less than their US equivalents, mainly due to the disappointing January labour force survey, which saw an increase in expectations for the RBA to start cutting the cash rate later this year. However, the first cut isn’t fully priced in until September. RBA Governor Michele Bullock appeared before a Senate committee on Thursday, but did not say anything new regarding the monetary policy outlook.

Equities

It was another positive week for US equities, with stock market traders preferring to focus on the upcoming fed funds rate cuts. The upside surprise to US CPI figures saw US stocks retreat on Tuesday night, but this proved short-lived as the one-day sell-off attracted dip buyers. Stock indices continued to rise on Thursday night, with the S&P 500 reaching a new record high, while the Dow Jones and Nasdaq closed just short of their respective highs.

The ASX 200 is only marginally higher at time of writing, mainly due to a 4.8% fall in healthcare which was dragged down by biotechnology companies after a major drug trial failure. Outside of healthcare, there were also solid declines in energy, communications and materials. These losses were offset by strong increases in information technology, consumer discretionary and real estate.



For further information, please contact:

Craig McGuinness
Patrycja Beniak

Chief Economist
Economist

cmcguinness@watc.wa.gov.au
pbeniak@watc.wa.gov.au

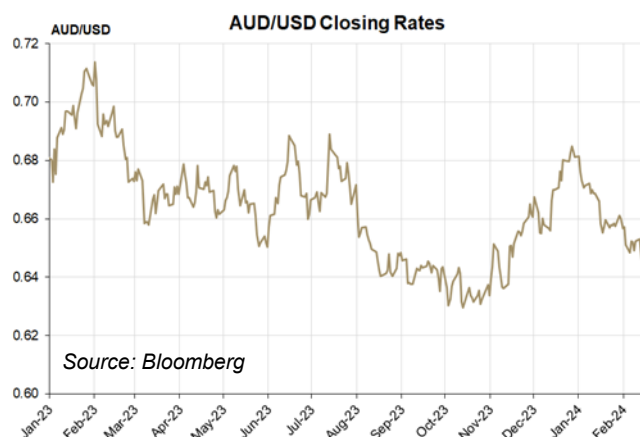
(08) 9235 9104
(08) 9235 9110

Currencies

The Australian dollar had a solid start to the week, peaking at US\$0.6543 against the USD on Monday. However, the story changed on Tuesday, with the exchange rate plunging from US\$0.6531 to US\$0.6465 in 20 minutes as the big dollar surged on the release of slightly stronger-than-expected US inflation figures which prompted a repricing of US rate cut expectations.

The exchange rate bottomed out at a three-month low of US\$0.6443 late in the US trading session on Tuesday before climbing again over the past couple of days, despite a small setback after the release of disappointing Aussie employment numbers.

The Aussie has also risen against the other major trading currencies since this time last week and been the strongest G10 currency basket member except for the Norwegian krone.



Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6517	0.6543	0.6443	↑0.4	0.6936	0.6270
AUD/EUR		0.6055	0.6069	0.6021	↑0.5	0.6479	0.5007
AUD/GBP		0.5178	0.5192	0.5121	↑0.6	0.5751	0.5007
AUD/JPY		97.85	97.87	96.88	↑1	98.62	86.06
AUD/CNY		4.6884	4.7073	4.6400	↑0.3	4.9348	4.5455
EUR/USD		1.0764	1.0806	1.0695	↓0.1	1.1276	1.0448
GBP/USD		1.2588	1.2684	1.2536	↓0.2	1.3142	1.1804
USD/JPY		150.14	150.89	148.93	↑0.6	151.91	129.64
USD/CNY		7.1936	7.1986	7.1765	↓0	7.3499	6.8169

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6517	0.6535	0.6550	0.6568
AUD/EUR		0.6055	0.6049	0.6039	0.6000
AUD/GBP		0.5178	0.5189	0.5199	0.5210
AUD/JPY		97.85	96.76	95.67	93.54
AUD/NZD		1.0690	1.0721	1.0753	1.0810
AUD/SGD		0.8776	0.8765	0.8750	0.8710

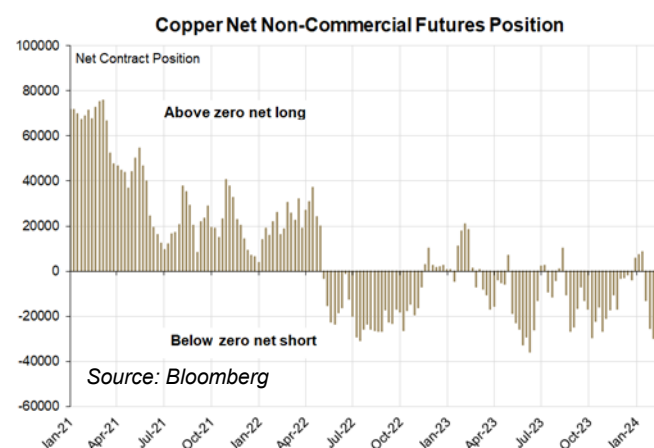
Commodities

Iron ore futures prices have drifted higher this week though, with Chinese traders out for the Lunar New Year holiday, trading volumes have been low.

Oil prices continue to be supported by tensions in the Middle East, trading at two-week highs despite the International Energy Agency forecasting an oil supply surplus for 2024.

Base metal prices remain under pressure. The LME base metals index closed at its lowest level since October last Friday but has bounced back this week. The recovery was largely driven by a rebound in copper, as traders reportedly moved to cover speculative short positions.

Nickel prices appear on track to record only the second weekly gain since the end of 2023, climbing from a three-year low as a series of mine closures and output cuts appeared to ease some of the concerns about medium-term oversupply.



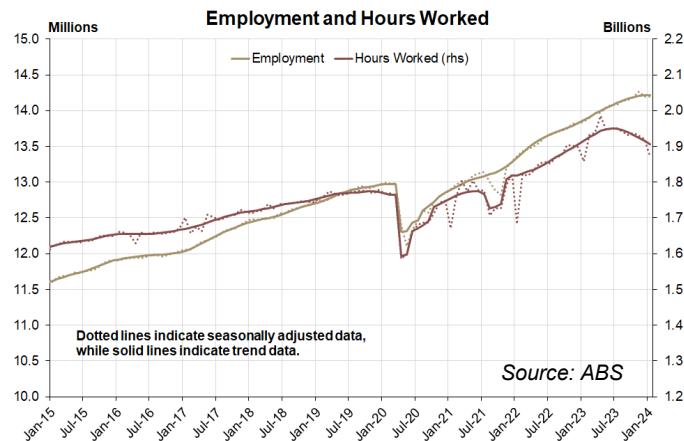
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,004.92	\$2,031.33	\$1,984.34	(↓\$29.44)	\$2,135.39	\$1,804.92
Brent Crude Oil (US\$)	\$82.75	\$83.60	\$80.72	(↑\$1.14)	\$97.69	\$70.12
Mogas95* (US\$)	\$100.97	\$104.05	\$98.99	(↓\$0.03)	\$110.15	\$79.06
WTI Oil (US\$)	\$78.05	\$78.77	\$75.54	(↑\$1.75)	\$95.03	\$63.64
CRB Index	271.28	274.34	270.19	(↓2.29)	290.29	253.85
Iron Ore Price 62% Fe (US\$) **	\$129.15	\$129.95	\$126.60	(↑\$2.45)	\$143.50	\$94.00

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

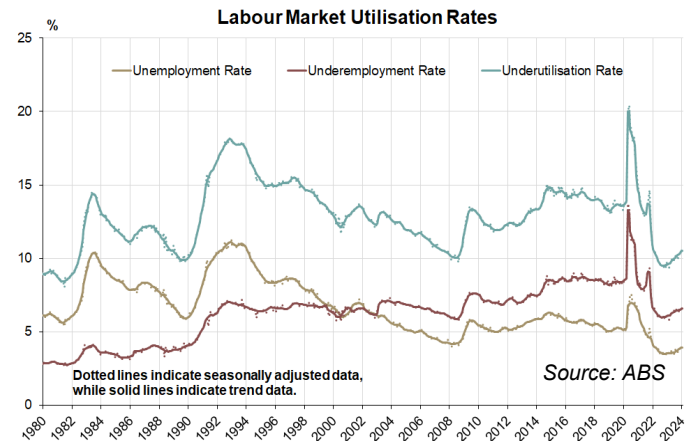
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

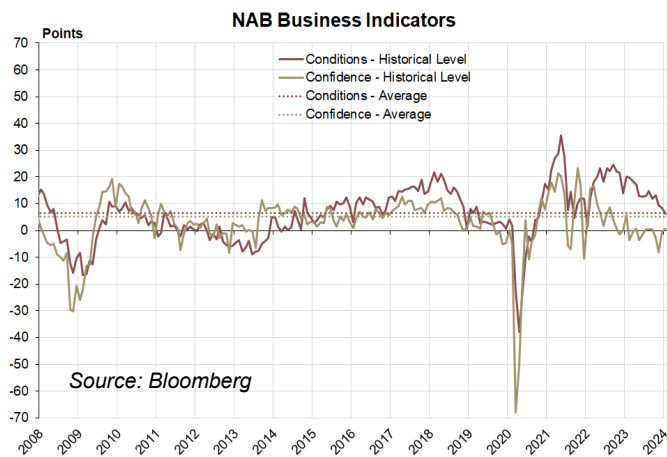
Employment growth is clearly slowing, while hours worked are on a downward trend.



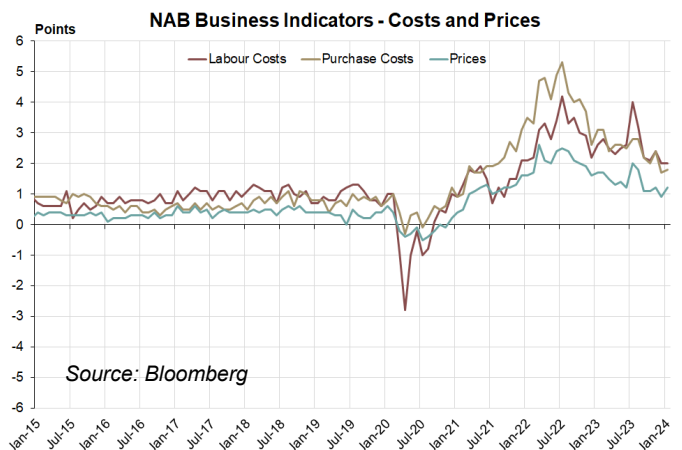
The **unemployment and underemployment rates** have risen, but remain low by historical standards.



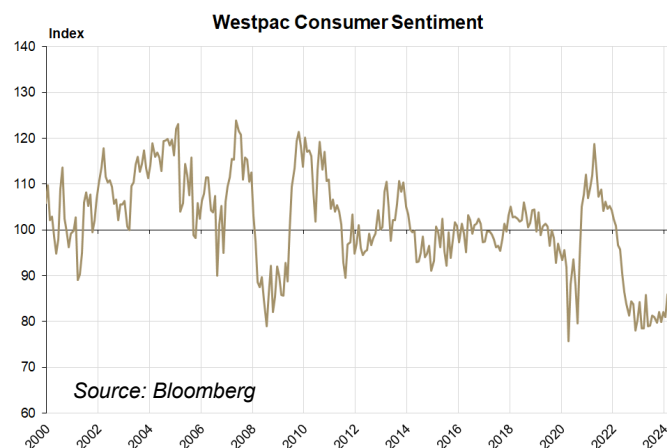
NAB business conditions continue to normalise and confidence, despite improvement, remains below average.



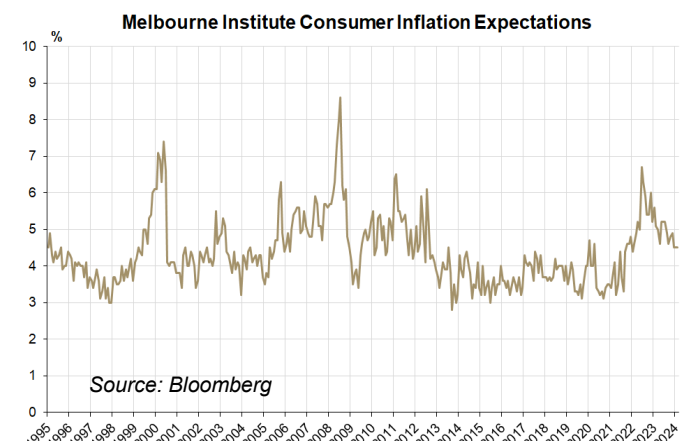
According to the NAB business survey, **cost and price inflation pressures** have stabilised at an elevated level.



Westpac consumer sentiment improved in February, but remains depressed.

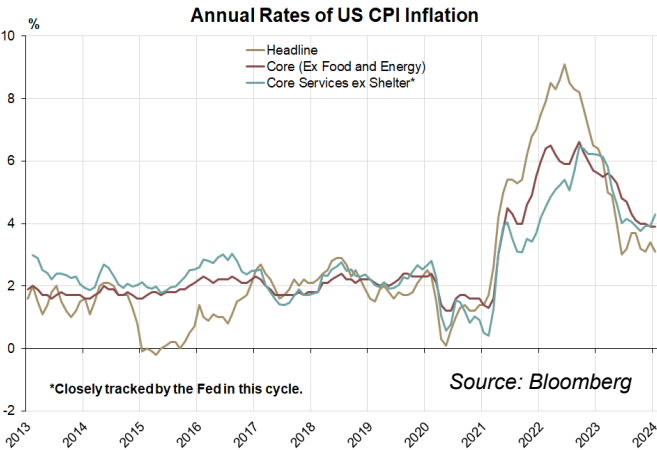


Melbourne Institute consumer inflation expectations have declined, but are above the pre-COVID level.

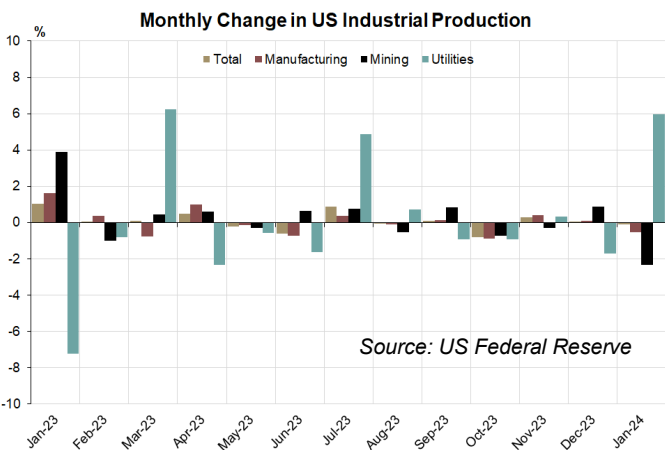


GLOBAL ECONOMY

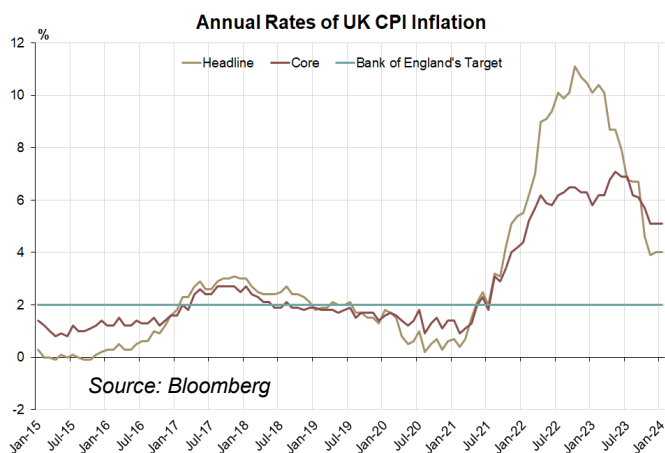
US disinflation appears to have stalled, at least in CPI terms.



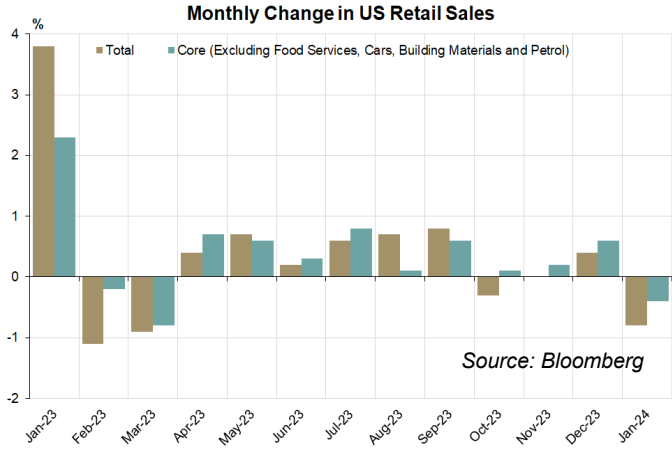
US industrial production ebbed in January, dragged down by manufacturing and mining.



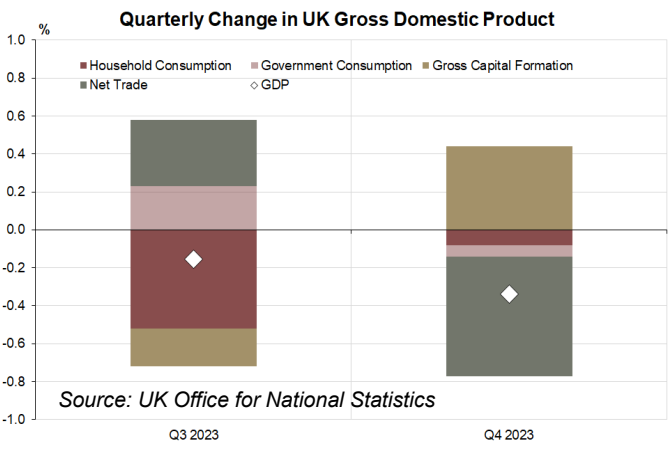
UK CPI inflation rates remain significantly above the Bank of England's target.



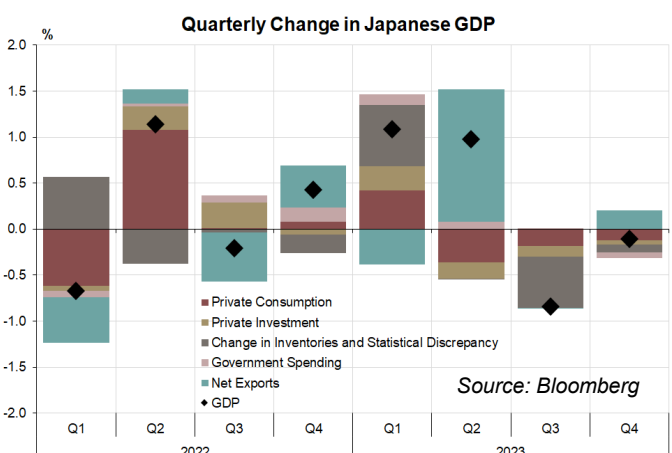
US retail sales saw a broad-based decline in January, to have its biggest fall since March last year.



The UK economy entered a technical recession in Q4 2023, due to a big negative contribution from net exports.



Japan has also slipped into technical recession, with a positive contribution coming only from net exports.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

16 February 2024

KEY ECONOMIC EVENTS

Last Week

Event		Actual	Forecast	Previous	Comment
Mon 12					
No market-moving data.					
Tue 13					
AU	NAB Business Conditions (Jan)	6	-	8	A broad-based decline.
AU	NAB Business Confidence (Jan)	1	-	0	Still well below the long-run average.
AU	Westpac Cons. Conf. (MoM, Feb)	6.2%	-	-1.3%	Would be stronger if not for the hawkish RBA.
US	CPI (MoM, Jan)	0.3%	0.2%	0.2%	Annual rate down 0.3ppts to 3.1%.
Wed 14					
UK	CPI (MoM, Jan)	-0.6%	-0.3%	0.4%	Annual rate of inflation remained at 4.0% in January.
Thu 15					
AU	Employment (monthly change, Jan)	0.5k	25.0k	-62.7k	Impacted by more people taking leave than usual.
AU	Unemployment Rate (Jan)	4.1%	4.0%	3.9%	Some unemployed expected to start new jobs soon.
JP	GDP (QoQ, Q4)	-0.1%	0.2%	-0.8%	Japan falls into technical recession.
UK	GDP (QoQ, Q4)	-0.3%	-0.1%	-0.1%	UK dragged into technical recession by net exports.
US	Retail Sales (MoM, Jan)	-0.8%	-0.2%	0.4%	Core retail sales fell by 0.4% in January.
US	Industrial Production (MoM, Jan)	-0.1%	0.2%	0.0%	Manufacturing saw a 0.5% decline.
US	Initial Jobless Claims (w/e 10 Feb)	212k	220k	220k	Four-week moving average is on the rise.
Tonight					
Fri 16					
US	PPI (MoM, Jan)	-	0.1%	-0.1%	PMI reports suggested the risk of an increase.
US	UoM Consumer Conf. (Feb, prelim.)	-	79.0	79.0	Will contain inflation expectations tracked by the Fed.

Next Week

Event		Forecast	Previous	Comment
Mon 19				
No market-moving data.				
Tue 20				
AU	RBA Board Minutes	-	-	Most probably a non-event.
CH	PBoC Decision (1Y Loan Prime Rate)	3.45%	3.45%	PBoC is easing monetary conditions through RRR cuts.
Wed 21				
AU	Wage Price Index (QoQ, Q4)	0.9%	1.3%	Annual rate of growth expected to accelerate to 4.1%.
US	FOMC Minutes	-	-	Will contain more hints on the timing of rate cuts.
Thu 22				
AU	Judo Bank Composite PMI (Feb, flash)	-	49.0	Signalled four months of contraction in a row in January.
JP	Jibun Bank Composite PMI (Feb, flash)	-	51.5	Business sentiment the strongest since mid-2023.
EZ	HCOB Composite PMI (Feb, flash)	48.7	48.4	Contraction led by Germany and France.
UK	S&P Global Composite PMI (Feb, flash)	-	52.9	UK businesses also the most optimistic in half a year.
US	S&P Global Composite PMI (Feb, flash)	-	52.0	Charge inflation the weakest since May 2020.
Fri 23				
No market-moving data.				