

THIS WEEK'S HIGHLIGHTS

- In Australia, the RBA Board left the cash rate unchanged at 4.10% at its meeting on Tuesday.
- From domestic data, home prices continued to climb in June, while there were also surprisingly big increases in dwelling approvals and new home loans in May. The Melbourne Institute inflation gauge pointed to a further deceleration in annual consumer price growth in June. The trade surplus saw a renewed increase in May, driven by higher exports partly offset by a rise in imports.
- Abroad, ISM services rose further into expansion in May, while contraction in manufacturing deepened. May also saw the strongest increase in the ADP employment report since December 2021. The Chinese PMIs pointed to weaker expansion in services and stagnant activity in manufacturing.

NEXT WEEK'S HIGHLIGHTS

- The most important domestic releases next week will be the NAB business survey report for June and Westpac consumer sentiment for July on Tuesday, followed by payroll jobs and wages for the month to 10 June on Thursday. RBA Governor Philip Lowe will speak on Wednesday.
- A busy week offshore, with US and Chinese inflation numbers for June, the Chinese trade figures for June and the US University of Michigan consumer confidence index for July being the key highlights.

Central Bank Rates (%)			Australian Interest Rates (%)			Major Overseas Interest Rates (%)			Global Equities		
		Weekly Change			Weekly Change			Weekly Change			Weekly Change
Australia	4.10	(0 pt)	O/N Interbank Cash	4.07	(0 pt)	USD 3-month	5.54	(↑1 pt)	ASX200	7042	(↓149 pt)
US (IOR)	5.15	(0 pt)	90-day Bills	4.30	(↓5 pt)	2-yr T-Notes	5.02	(↑14 pt)	S&P500	4412	(↑15 pt)
Eurozone (Deposit)	3.50	(0 pt)	3-yr T-Bond	4.28	(↑26 pt)	10-yr T-Notes	4.05	(↑21 pt)	DJIA	33922	(↓200 pt)
UK	5.00	(0 pt)	10-yr T-Bond	4.27	(↑27 pt)	Jap 10-yr	0.44	(↑4 pt)	Nikkei	32645	(↓387 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	4.61	(↑28 pt)	UK 10-yr	4.65	(↑29 pt)	CSI300	3832	(↓23 pt)
China (1Y LPR)	3.55	(0 pt)	10-yr WATC Bond	4.83	(↑30 pt)	Ger 10-yr	2.63	(↑22 pt)	Stoxx600	447	(↓9 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

The RBA decided to keep the cash rate target unchanged at 4.10% this week. The decision was in line with most analyst forecasts and a 25bps hike was less than 40% priced in.

In the post-meeting statement, RBA Governor Philip Lowe explained that the decision to leave the rates on hold was to provide more time to assess the impact of interest rate hikes to date and the economic outlook. The forward guidance was largely unchanged, with the Board assessing that some further tightening may be required, depending on how the economy and inflation evolve. The forecasts updates in the upcoming Statement on Monetary Policy in August will be key in this context.

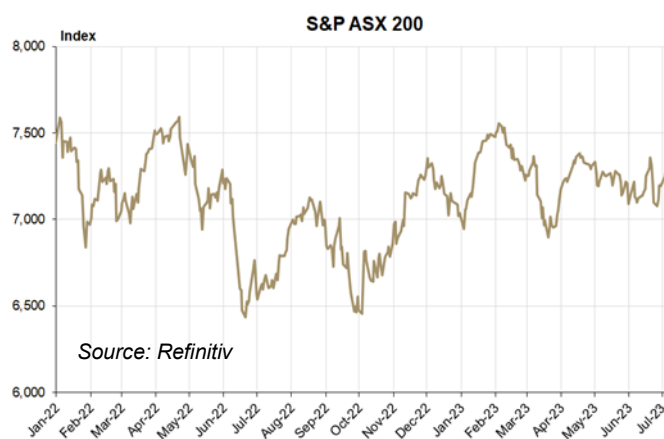
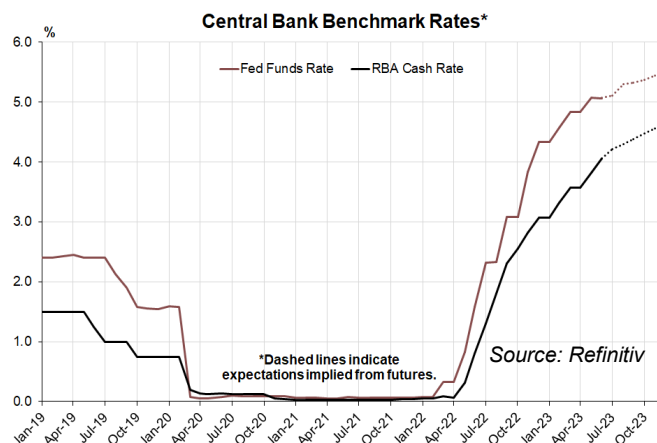
The FOMC minutes confirmed that, while the June decision to leave the fed funds rate unchanged was supported by most participants at the meeting. However, almost all participants judged that further rate increases will be required later in 2023.

Government bond yields surged this week, with the bulk of this increase occurring on Thursday night after the strong US data, which led to a pick-up in fed funds rate expectations.

Equities

US equities climbed sharply last Friday, with the S&P 500 closing at over a 14-month high on Monday. Shares slipped after Tuesday's 4 July holiday, as the FOMC minutes and strong labour market data raised expectations that the Fed will be back raising interest rates before too long.

The Aussie market started off positively, as the RBA held rates steady, but slipped on Thursday after Chinese data missed expectations and slumped further today following the weak session in the US and is currently at its lowest level since March.



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Currencies

The Australian dollar was down against most of the major currencies over the past week but unchanged against the weak US dollar.

The AUD was on an upward trajectory on Monday and Tuesday, in reaction to the relatively positive mood in the global financial markets after data pointed to a further decline in headline PCE inflation in the US. There was a temporary fall after the RBA left the cash rate on hold on Tuesday but it soon bounced back.

The Aussie dollar weakened in the second half of the week, particularly on Thursday night after the strong US jobs report saw a rise in concerns over further tightening by the Fed and a deterioration in global market sentiment.

AUD/USD Closing Rates



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6625	0.6705	0.6597	-	0.7157	0.6169
AUD/EUR		0.6086	0.6154	0.6041	↓0.1	0.7000	0.5953
AUD/GBP		0.5203	0.5269	0.5193	↓0.9	0.6260	0.5193
AUD/JPY		95.39	96.84	95.12	↓0.5	98.43	86.03
AUD/CNY		4.8005	4.8455	4.7748	-	4.9200	4.4365
EUR/USD		1.0885	1.0941	1.0832	↑0.1	1.1095	0.9534
GBP/USD		1.2731	1.2780	1.2589	↑0.9	1.2848	1.0382
USD/JPY		143.98	145.07	143.54	↓0.5	151.94	127.21
USD/CNY		7.2461	7.2461	7.2103	↓0	7.3270	6.6831

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6625	0.6644	0.6657	0.6672
AUD/EUR		0.6086	0.6074	0.6056	0.6021
AUD/GBP		0.5203	0.5217	0.5232	0.5271
AUD/JPY		95.39	94.31	93.03	90.59
AUD/NZD		1.0753	1.0791	1.0817	1.0847
AUD/SGD		0.8966	0.8962	0.8943	0.8892

Commodities

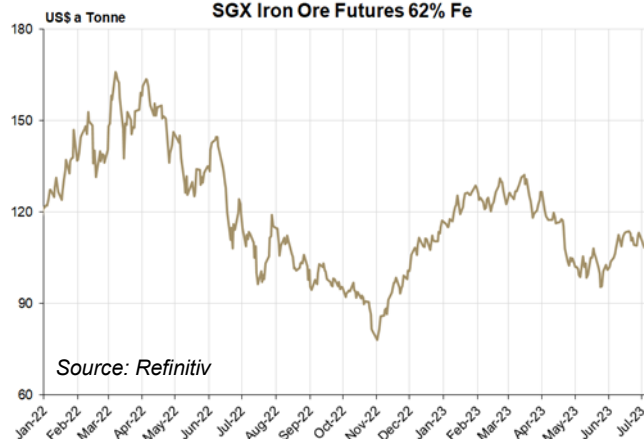
Commodity prices bounced after falling sharply last week with the CRB Commodity Index up 1.1% over the past five days.

Oil prices were boosted early by news of the extension of Saudi Arabian and Russian production cuts into August. A report from the US navy that Iran had attempted to seize two oil tankers near the Persian Gulf and news of a big US inventory drawdown, as the US holiday season saw a jump in fuel demand.

Iron ore futures prices have slipped, as soft Chinese business survey data reinforced concerns that the Chinese economy is losing momentum.

News out of China that it will impose controls on exports of germanium and gallium, which are minerals critical to semiconductor production, added to mounting concerns over a developing trade war in semiconductor equipment and minerals.

SGX Iron Ore Futures 62% Fe



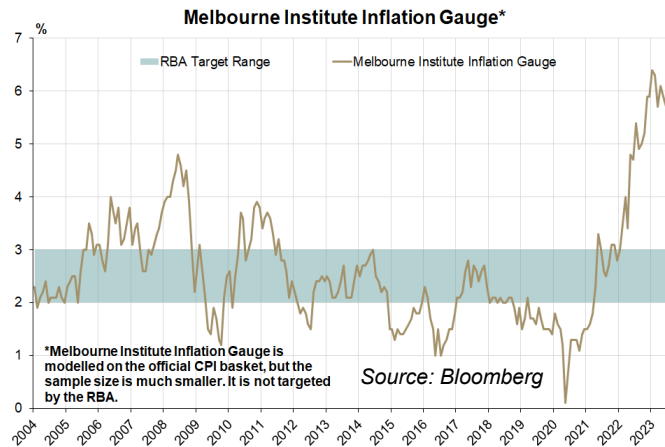
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,910.68	\$1,934.89	\$1,900.31	(↑\$2.62)	\$2,072.19	\$1,613.60
Brent Crude Oil (US\$)	\$76.46	\$76.95	\$74.21	(↑\$1.82)	\$110.67	\$70.12
Mogas95* (US\$)	\$90.80	\$91.90	\$89.60	(↑\$1.25)	\$150.35	\$82.60
WTI Oil (US\$)	\$71.77	\$72.34	\$69.53	(↑\$1.82)	\$105.24	\$63.64
CRB Index	261.92	262.80	259.08	(↑2.84)	301.75	253.85
Iron Ore Price 62% Fe (US\$) **	\$110.09	\$113.65	\$107.20	(↓\$2.71)	\$133.20	\$75.30

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

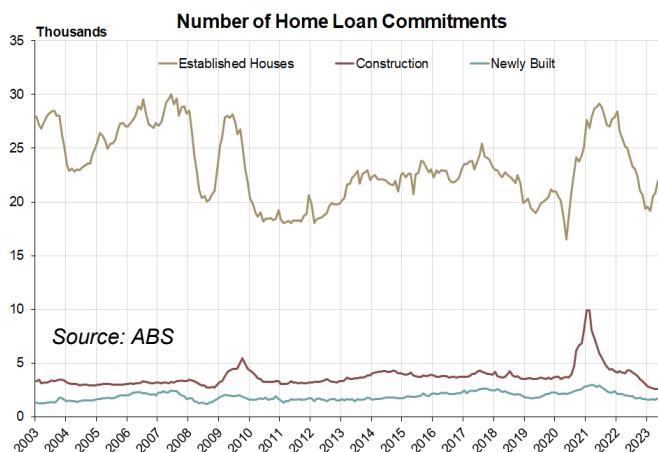
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

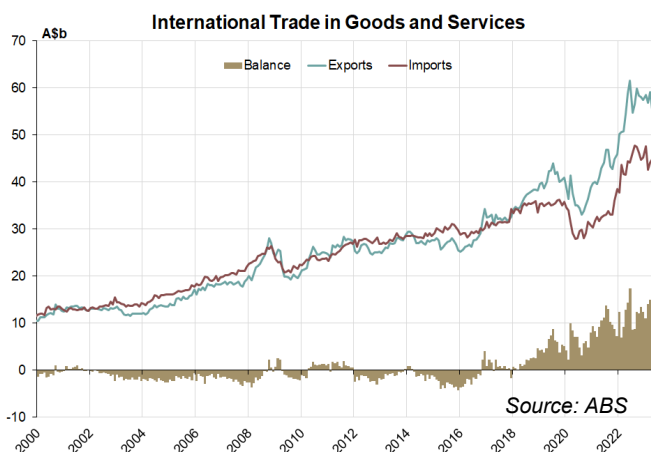
Melbourne Institute inflation gauge suggests that price growth decelerated further in June, but remained high.



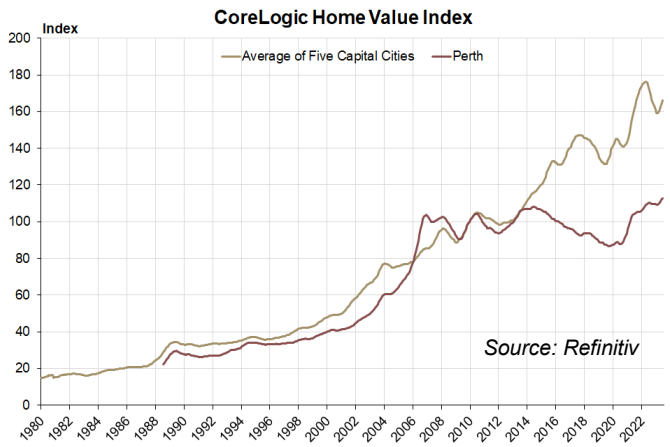
New home loans for established houses rose in May, but construction loans declined to a new record low.



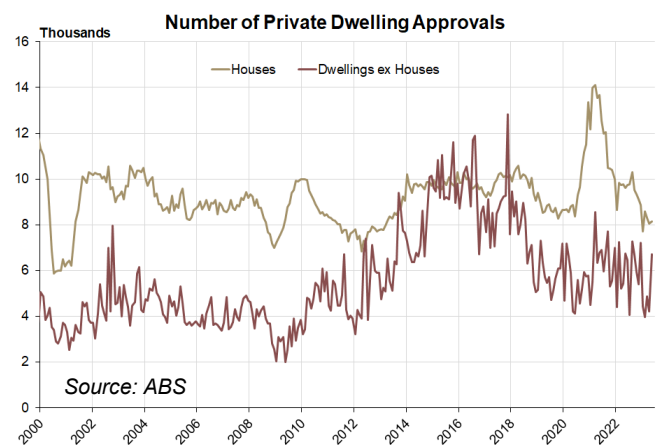
Trade surplus widened in May, supported by an increase in exports, partly offset by higher imports.



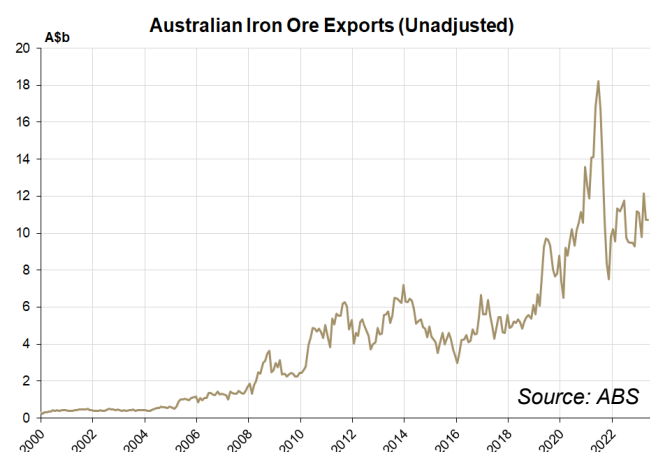
According to CoreLogic data, **house prices** continued to rise in June.



The surge in **dwelling approvals** in May was led by volatile unit approvals, while house approvals remained low.

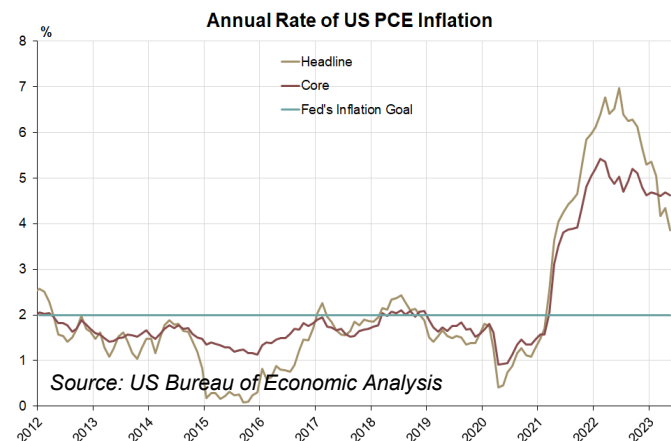


Iron ore exports remain above pre-pandemic levels, supported by higher export volumes and prices.

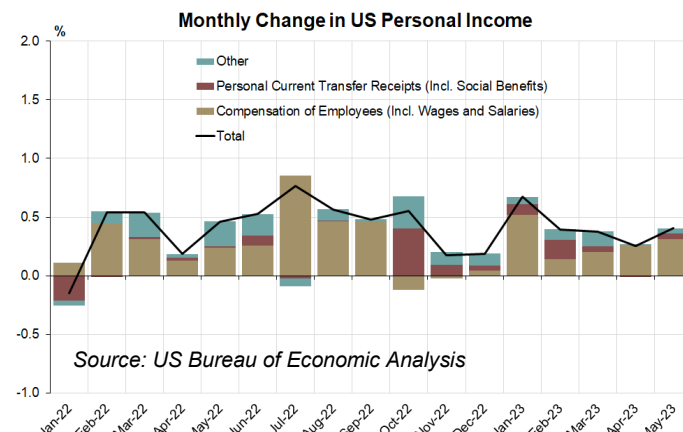


GLOBAL ECONOMY

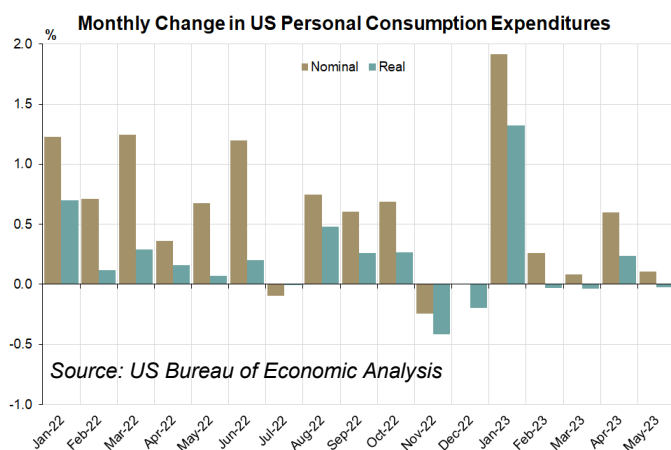
US headline PCE inflation continued to fall swiftly in May, but core inflation remained sticky.



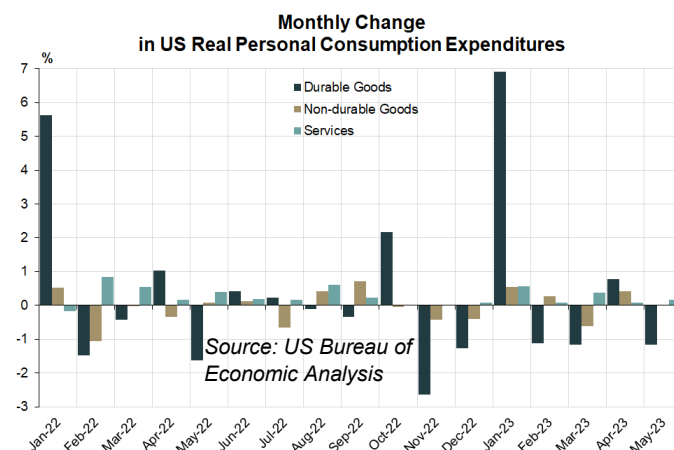
US personal income growth accelerated in May, supported by a faster increase in wages.



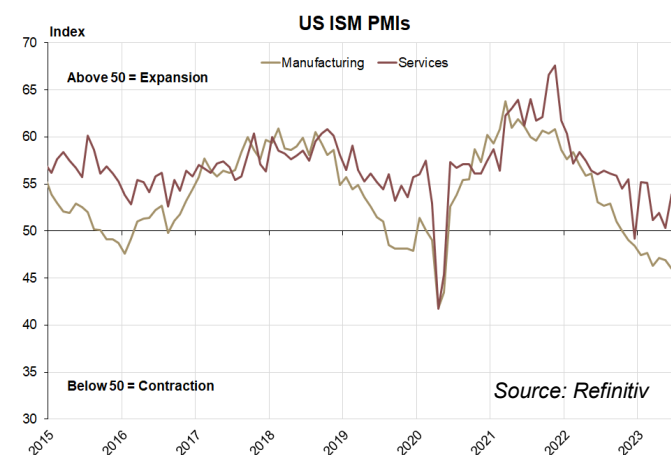
However, **US nominal household consumption growth** decelerated in May, while real consumption fell...



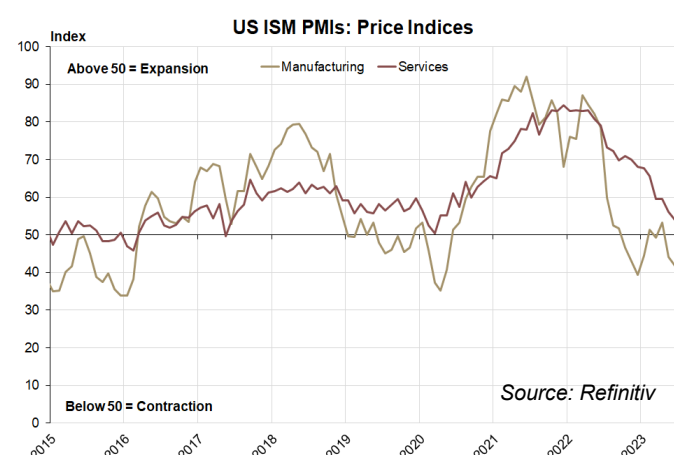
... as the higher borrowing costs have again constrained **consumption of goods**, particularly durables.



The **US ISM services PMI** rose further into expansion in June, while the contraction in manufacturing deepened.



The ISM report also pointed to slower **input price growth** in services and acceleration of deflation in manufacturing.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

7 July 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 03					
AU	Dwelling Approvals (MoM, May)	20.6%	3.0%	-6.8%	Surge driven by the volatile unit approvals.
AU	Housing Finance (MoM, May)	4.8%	1.4%	-1.0%	A new record low for construction loans.
AU	CoreLogic Hse Prices (MoM, Jun)	1.1%	-	1.2%	Perth saw a 0.9% pick-up in house prices in June.
AU	MI Inflation Gauge (MoM, Jun)	5.7%	-	5.9%	Suggests a further gradual decline in CPI inflation.
CH	Caixin Manufacturing PMI (Jun)	50.5	50.2	50.9	Growth in new export orders remained stagnant.
US	ISM Manufacturing PMI (Jun)	46.0	47.2	46.9	Deflation in manufacturing deepened.
Tue 04					
AU	RBA Board Decision (Cash Rate)	4.10%	4.10%	4.10%	Cash rate still expected to peak at around 4.60%.
AU	ANZ Consumer Conf. (w/e 1 Jul)	-1.1%	-	3.5%	Consumer inflation expectations unchanged at 5.9%.
Wed 05					
CH	Caixin Services PMI (Jun)	53.9	56.2	57.1	Caixin composite PMI dropped 3.1pts to 52.6.
US	FOMC Minutes	-	-	-	Participants expect further hikes this year.
Thu 06					
AU	Trade Balance (May)	A\$11.8b	A\$10.6b	A\$10.5b	Rise driven by higher exports.
US	ADP Employment (MoM, Jun)	497k	230k	267k	The largest increase since December 2021.
US	ISM Services PMI (Jun)	53.9	51.0	50.3	The prices index declined 2.1pts to 54.1.
US	JOLTS Job Openings (May)	9.8m	9.9m	10.3m	Still 1.6 times more job offers than unemployed.
US	Initial Jobless Claims (w/e 1 Jul)	248k	246k	236k	Continued claims declined by 13k in w/e 24 June.
Tonight					
US	Non-farm Payrolls (MoM, Jun)	-	225k	339k	ADP report indicates an upside risk to consensus.
US	Unemployment Rate (Jun)	-	3.6%	3.7%	Well below the Fed's longer-run estimate of 4.0%.

Next Week

	Event	Forecast	Previous	Comment
Mon 10				
CH	CPI (YoY, Jun)	0.2%	0.2%	Chinese inflation pressure remains low.
CH	PPI (YoY, Jun)	-5.0%	-4.6%	Producer price deflation continues in China.
Tue 11				
AU	NAB Business Conditions (Jun)	-	8	PMI reports suggested further weakening.
AU	NAB Business Confidence (Jun)	-	-4	Business confidence is subdued.
AU	Westpac Consumer Sentiment (MoM, Jul)	-	0.2%	Weekly confidence surveys point to a renewed decline.
UK	Unemployment Rate (May)	-	3.8%	Wages growth saw a surprising acceleration in April.
Wed 12				
AU	Speech by RBA Governor Philip Lowe	-	-	Speech about the RBA review and monetary policy.
CA	Bank of Canada Decision (Policy Rate)	5.00%	4.75%	Bank of Canada resumed tightening policy after a pause.
US	CPI (MoM, Jun)	0.3%	0.1%	Business reports pointed to further slowdown in inflation.
US	Beige Book	-	-	Anecdotal information on conditions across Fed districts.
Thu 13				
AU	Payroll Jobs (MoM, w/e 10 Jun)	-	-0.5%	Were 3.7% higher than a year ago in early May.
AU	Total Wages (MoM, w/e 10 Jun)	-	-2.4%	Up 8.6% YoY.
CH	Trade Balance (Jun)	US\$74.4b	US\$65.8b	PMI reports suggested ongoing weakness.
UK	Monthly GDP (MoM, May)	-	0.2%	UK economy has been surprisingly resilient.
US	PPI (MoM, Jun)	0.2%	-0.3%	PMI reports pointed to another decline.
Fri 14				
US	UoM Consumer Confidence (Jun)	65.5	64.4	Will contain inflation expectations tracked by the FOMC.