

THIS WEEK'S HIGHLIGHTS

- In Australia, employment unexpectedly fell in December, while the unemployment rate remained at 3.5%. Westpac consumer confidence saw a significant gain in January, but remained depressed. Melbourne Institute inflation gauge signalled a decline in inflation in December.
- Offshore, US activity data for December were weaker than expected, while the annual rate of US PPI inflation saw a significant decline. Chinese Q4 GDP and December activity data surprised to the upside.

NEXT WEEK'S HIGHLIGHTS

- The major domestic event next week will be the release of Q4 CPI inflation on Wednesday.
- Other domestic highlights include the NAB business survey for December as well as the flash PMI for January on Tuesday, followed by international price indices and PPI inflation for Q4 on Friday.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.10	O/N Interbank Cash	3.07 (0 pt)	USD 3-month	4.81 (↓2 pt)	ASX200	7448 (↑117 pt)
US (IOR)	4.40	90-day Bills	3.27 (↓4 pt)	2-yr T-Notes	4.14 (↓2 pt)	S&P500	3899 (↓84 pt)
Eurozone	2.00	3-yr T-Bond	2.99 (↓17 pt)	10-yr T-Notes	3.40 (↓6 pt)	DJIA	33045 (↓1145 pt)
UK	3.50	10-yr T-Bond	3.39 (↓19 pt)	Jap 10-yr	0.41 (↓11 pt)	Nikkei	26363 (↑206 pt)
Japan	-0.10	3-yr WATC Bond	3.45 (↓19 pt)	UK 10-yr	3.32 (↓2 pt)	CSI300	4156 (↑107 pt)
China (1Y LPR)	3.65	10-yr WATC Bond	4.07 (↓18 pt)	Ger 10-yr	2.06 (↓7 pt)	Stoxx600	450 (↑0 pt)

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields were on a decline this week, dragged down by the downside surprise to US activity data and further signs of a decline in US inflation. Despite the weak data and lower inflation, Fed officials have maintained their hawkish tone.

Aussie Commonwealth bond yields fell more than their US equivalents, mainly due to a decline in RBA rate expectations after the disappointing labour force survey results for December.

From central bank news, the Bank of Japan left its monetary policy settings unchanged on Wednesday, including the width of the tolerance band around the yield target (0% +/-50bps).

The Bank of Japan's decision was a surprise to some market participants, who expected further relaxation of the yield curve control policy. In consequence, 10-year Japanese bond yields moved back below 0.5% and have remained within the tolerance band since.

The People's Bank of China also left its one-year loan prime rate unchanged at 3.65% today.

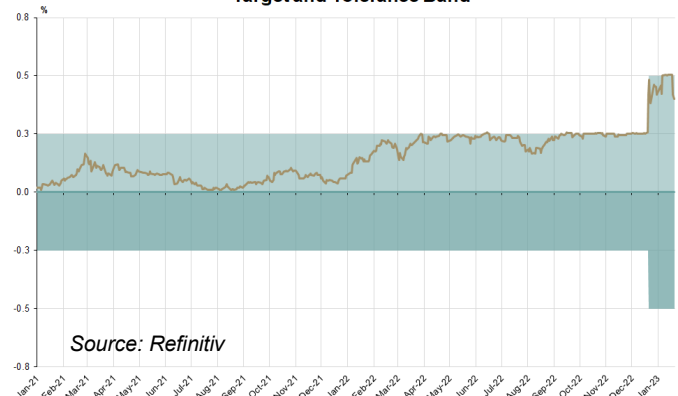
Equities

US equities had a quite dismal week, mainly due to the adverse economic data coupled with still hawkish Fed speak. There were also some disappointing earnings results released by US commercial banks.

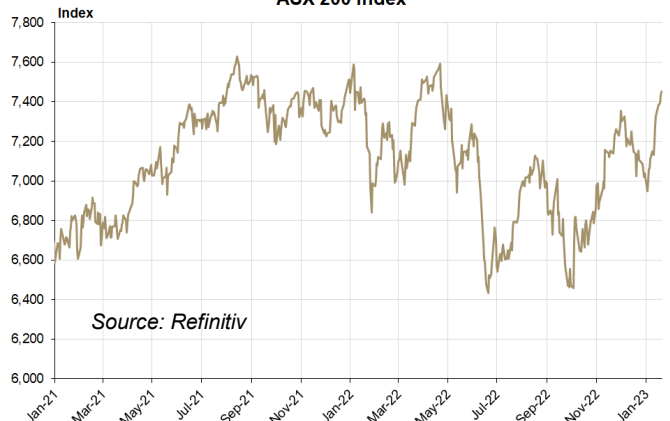
The Japanese stock market rallied after the news that the Bank of Japan kept its monetary policy settings unchanged. However, it opened in the red this morning following the data showing that Japanese CPI inflation had risen to the highest level since November 1990.

The ASX 200 also gained this week, reaching a nine-month high. The rise in Aussie equity prices was supported by higher commodity prices, which translated into an increase in mining stock prices. At the time of writing, the ASX 200 is heading for a 1.6% gain for the week.

10-year Japanese Bond Yields against the Bank of Japan's Target and Tolerance Band



ASX 200 Index



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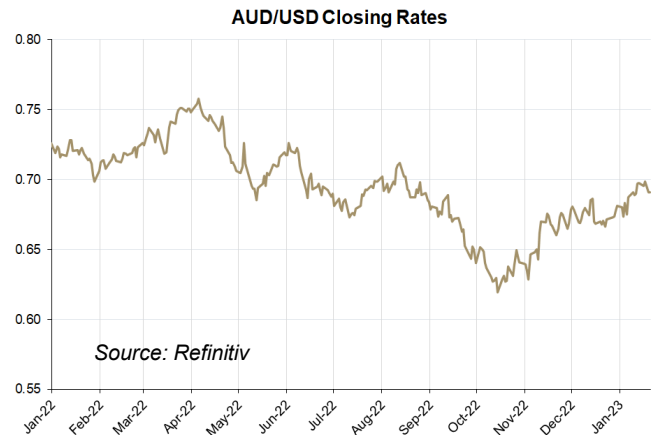
Currencies

The Australian dollar depreciated against all the major currencies this week, dragged down by the weaker global market sentiment and a decline in RBA cash rate expectations.

The sustained increase in commodity prices, including iron ore, and the optimism about China's reopening did little to support the AUD during the week.

The Aussie dollar was the weakest G10 currency this week, while the safe-haven Swiss franc was the strongest.

The Japanese yen appreciated against the US dollar, despite the decision by the Bank of Japan to keep their ultra-expansive monetary policy settings unchanged.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6920	0.7063	0.6686	↓0.5	0.7661	0.6169
AUD/EUR		0.6382	0.6502	0.6345	↓0.4	0.7000	0.6160
AUD/GBP		0.5582	0.5722	0.5564	↓2	0.6260	0.5200
AUD/JPY		88.95	91.91	87.37	↓0.9	98.43	80.34
AUD/CNY		4.6881	4.7652	4.6092	↑0.2	4.8743	4.4286
EUR/USD		1.0840	1.0887	1.0482	↓0	1.1495	0.9534
GBP/USD		1.2394	1.2435	1.1838	↑1.6	1.3661	1.0382
USD/JPY		128.52	134.77	127.21	↓0.5	151.94	113.46
USD/CNY		6.7738	6.7738	6.6905	↑0.7	7.3270	6.3025

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6920	0.6946	0.6971	0.7011
AUD/EUR		0.6382	0.6364	0.6356	0.6334
AUD/GBP		0.5582	0.5589	0.5600	0.5615
AUD/JPY		88.95	88.12	87.30	85.50
AUD/NZD		1.0792	1.0824	1.0868	1.0945
AUD/SGD		0.9144	0.9155	0.9165	0.9156

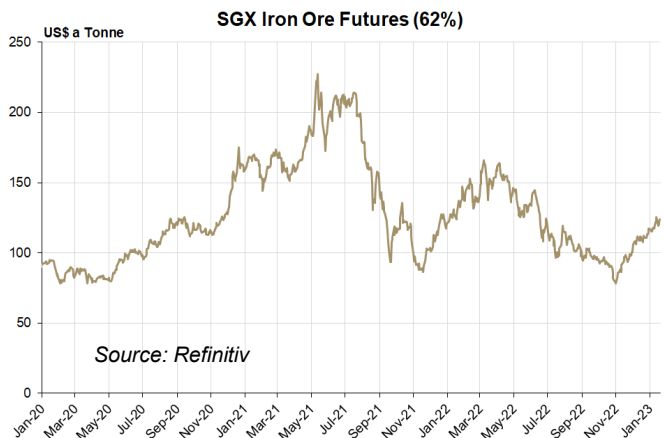
Commodities

It was another positive week for commodities, mainly thanks to the optimism regarding China's reopening.

Brent futures rose by around 3.5%, to be the highest since early December. The weak US economic activity data contributed to a short-lived decline on Wednesday, but the bullish sentiment returned later in the week.

Iron ore futures rose by 1.3% this week. They are off their recent highs, however, due to a temporary decline caused by the Chinese authorities issuing another warning about excessive speculation. This notwithstanding, iron ore futures remain very close to their six month highs.

The gold price also rose quite substantially, reaching the highest level since April 2022.



	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,930.53	\$1,935.20	\$1,823.60	(↑\$33.09)	\$2,069.89	\$1,613.60
Brent Crude Oil (US\$)	\$86.16	\$87.85	\$77.61	(↑\$2.44)	\$139.13	\$75.11
Mogas95* (US\$)	\$98.90	\$101.53	\$89.60	(↑\$3.72)	\$161.20	\$82.60
WTI Oil (US\$)	\$80.73	\$82.38	\$72.46	(↑\$2.52)	\$130.50	\$70.08
CRB Index	276.62	277.22	263.69	(↑2.85)	329.59	245.59
Iron Ore Price 62% Fe (US\$)**	123.73	\$126.40	\$106.05	(↑\$1.59)	\$171.00	\$75.30

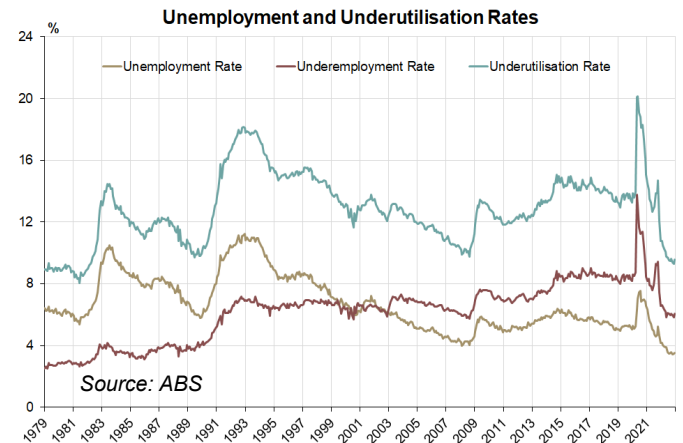
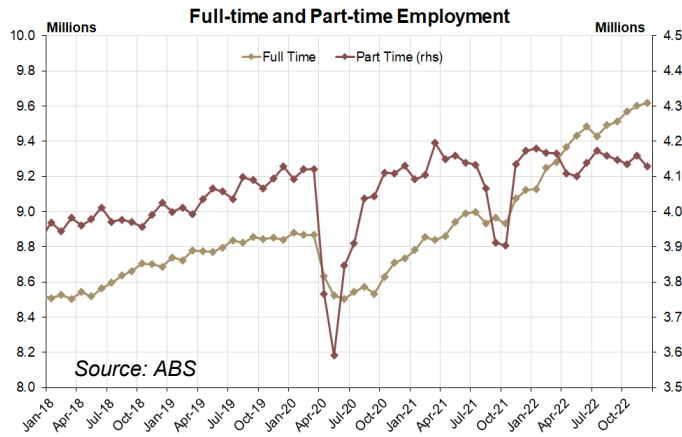
*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

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

DOMESTIC ECONOMY

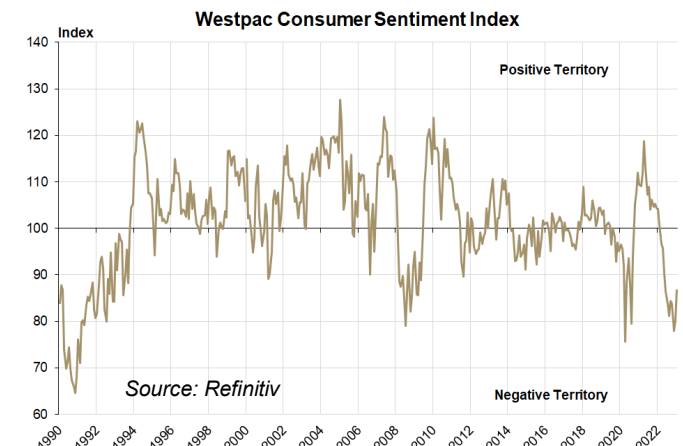
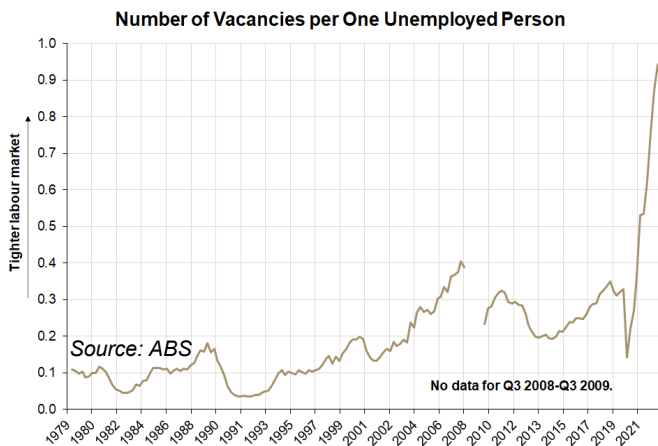
Employment declined in December, due to a fall in part-time jobs; full-time jobs rose to a new record high.

The rates of **unemployment and underemployment** remain very low by historical standards.



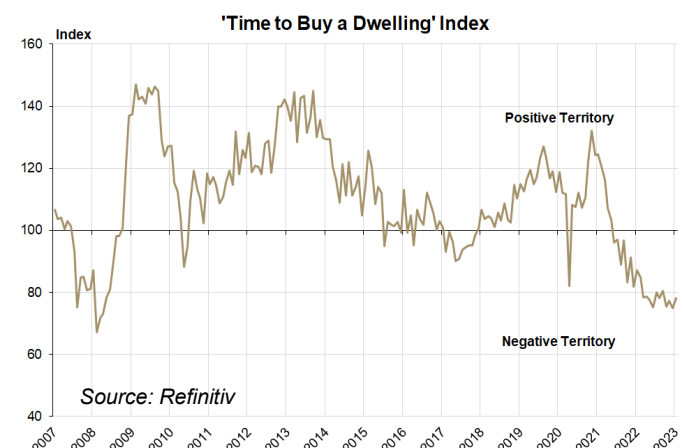
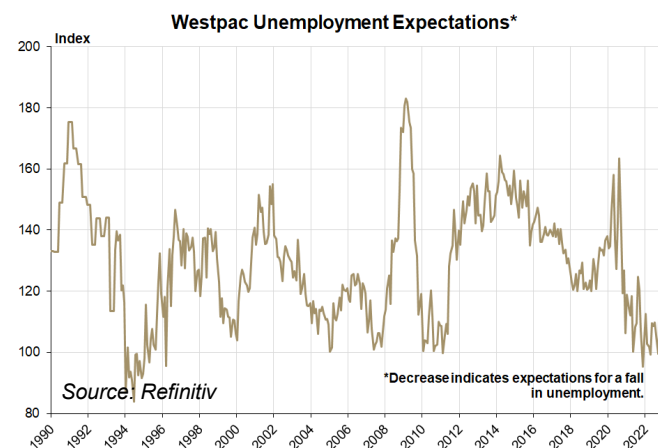
There are still as many **job vacancies** as unemployed, which suggests very tight labour market conditions.

Despite a significant increase in January, **Westpac consumer sentiment** remains depressed.



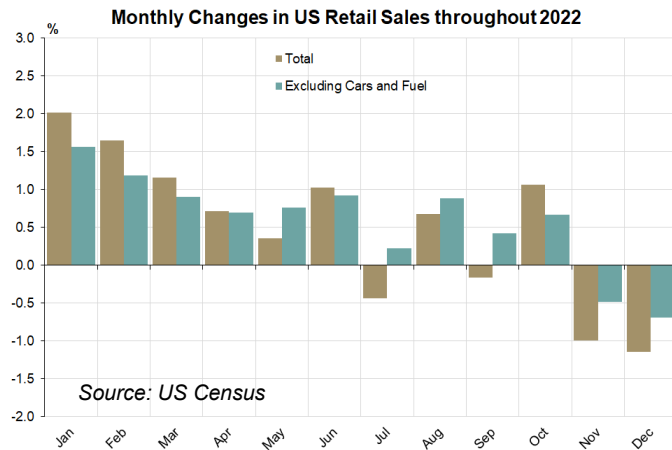
A decline in **unemployment expectations** signals that consumers are optimistic about labour market prospects.

However, consumers remain pessimistic about the **housing market conditions**.

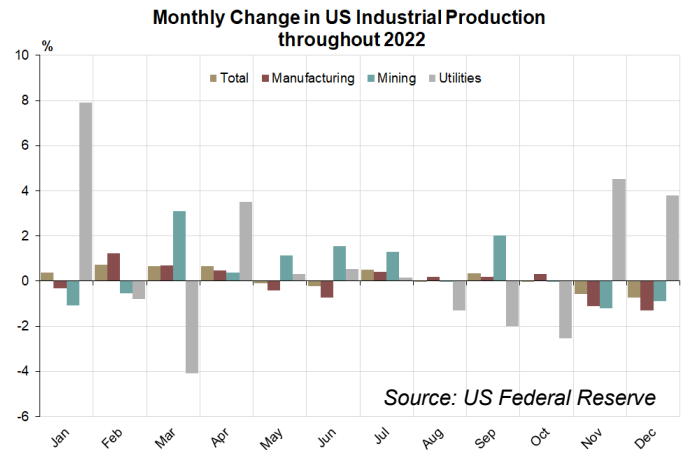


GLOBAL ECONOMY

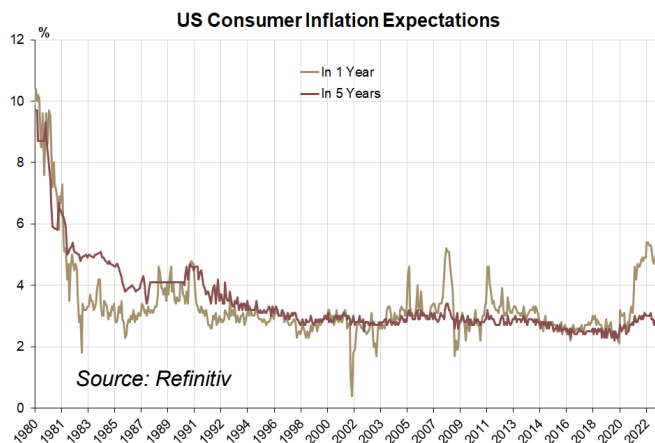
US retail sales saw a second drop in a row in December, partly due to the adverse weather conditions.



US industrial production also continued to fall, with only utilities seeing an increase amid the bad weather.



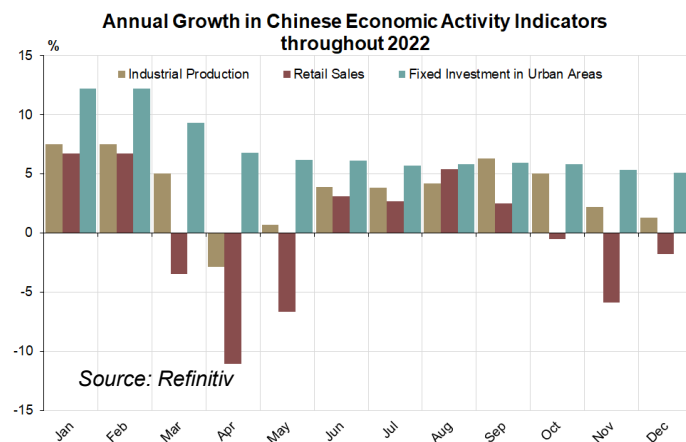
US short-term consumer inflation expectations have declined to the still elevated 4.0%.



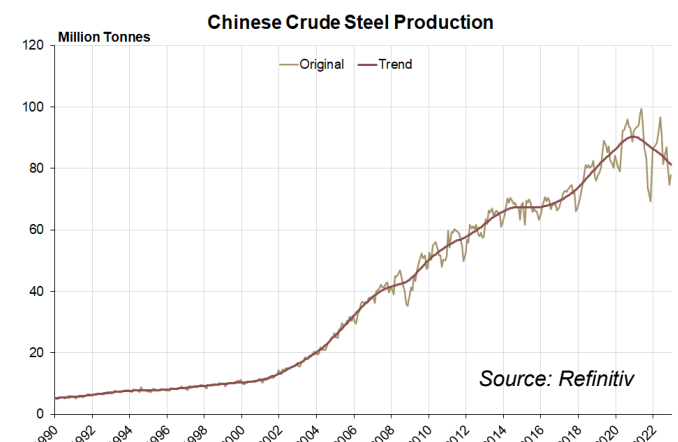
Chinese GDP stalled in Q4 2020, translating into a slightly slower annual rate of growth.



The pace of decline in **Chinese retail sales** narrowed in December, after COVID-19 restrictions were lifted.



Chinese steel output picked up slightly in December, but remained significantly lower than a year ago.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

20 January 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 16					
AU	Melb. Institute Inflation (YoY, Dec)	5.9%	-	5.9%	Trimmed mean inflation gauge fell 0.7ppts to 4.2%.
Tue 17					
AU	Westpac Consumer Sentiment (Jan)	5.0%	-	3.0%	The strongest increase since April 2021.
CH	GDP (YoY, Q4)	2.9%	1.8%	3.9%	No change in GDP in the quarter.
CH	Retail Sales (YoY, Dec)	-1.8%	-8.5%	-5.9%	Decline slowed after COVID restrictions were eased.
CH	Industrial Production (YoY, Dec)	1.3%	0.2%	2.2%	Steel output rose by 4.5% in the month.
CH	Urban Asset Inv. (YoY YtD, Dec)	5.1%	5.0%	5.3%	Key indicator for Chinese iron ore demand.
Wed 18					
JP	Bank of Japan (Balance Policy Rate)	-0.1%	-0.1%	-0.1%	No change in the yield control policy, either.
US	Retail Sales (MoM, Dec)	-1.1%	-0.8%	-1.0%	Retail sales ex autos and fuel declined by 0.7%.
US	Industrial Production (MoM, Dec)	-0.7%	-0.1%	-0.6%	A second decline in a row.
US	PPI (MoM, Dec)	-0.5%	-0.1%	0.2%	Annual rate of PPI inflation declined 1.1ppts to 6.2%.
US	Beige Book	-	-	-	Signs of easing price pressures in many Fed districts.
Thu 19					
AU	Employment (monthly change, Dec)	-14.6k	-22.0k	58.3k	Decline driven by part-time jobs.
AU	Unemployment Rate (Dec)	3.5%	3.4%	3.5%	November number revised 0.1ppts upwards.
US	Initial Jobless Claims (w/e 14 Jan)	190k	213k	205k	The lowest level since late September 2022.
Fri 20					
JP	CPI (YoY, Dec)	4.0%	4.0%	3.8%	A 32-year high.
CH	PBoC Decision (1Y Loan Prime Rate)	3.65%	3.65%	3.65%	Some analysts expect more easing ahead.

Next Week

	Event	Forecast	Previous	Comment
Mon 23	<i>No market moving data</i>			
Tue 24				
AU	Judo Bank Composite PMI (Jan, flash)	-	47.5	Has been in contraction for three months.
AU	NAB Business Conditions (Dec)	-	20	Remains robust despite the deterioration in sentiment.
AU	NAB Business Confidence (Dec)	-	-4	Slipped into negative territory in November.
JP	Jibun Bank Composite PMI (Jan, flash)	-	49.7	Japanese private sector remained in contraction in Dec.
EZ	S&P Global Composite PMI (Jan, flash)	-	49.3	December saw the slowest contraction in five months.
UK	S&P Global Composite PMI (Jan, flash)	-	49.0	UK economy in contraction for almost half a year.
US	S&P Global Composite PMI (Jan, flash)	-	45.0	Has deviated from the ISM PMIs of late.
Wed 25				
AU	CPI (QoQ, Q4)	1.5%	1.8%	Annual rate of inflation expected to rise 0.1ppts to 7.4%.
CA	Bank of Canada Decision (Policy Rate)	4.50%	4.25%	Some market participants expect no change.
Thu 26				
US	GDP (QoQ Annualised, Q4, prelim.)	2.5%	3.2%	US economy has shown resilience to Fed tightening.
US	Durable Goods Orders (MoM, Dec)	2.6%	-2.1%	Business reports point to a decline.
Fri 27				
AU	International Price Indices (QoQ, Q4)	-	-	Expect a decline in export prices.
AU	PPI (QoQ, Q4)	-	1.9%	Rise in PPI has been fuelled by utilities and construction.
US	Personal Spending (MoM, Dec)	-0.1%	0.1%	Retail sales report suggests a decline.
US	PCE Index (YoY, Dec)	-	5.5%	CPI report suggested a fall in the annual rate of inflation.