

THIS WEEK'S HIGHLIGHTS

- In Australia, the RBA increased interest rates by 25bps, including the cash rate target to 4.10%.
- From other domestic news, real GDP growth slowed in Q1, dragged down by sluggish consumption. The current account surplus widened in Q1, while the trade surplus narrowed in April. Payrolls jobs and wages were up strongly from a year ago.
- Abroad, the ISM PMI report suggested that US services activity growth was close to stalling in May. The Chinese Caixin services PMI rose further into expansion in May, while the trade surplus narrowed and PPI deflation deepened.

NEXT WEEK'S HIGHLIGHTS

- The highlights at home will be the NAB business report for May and the Westpac consumer sentiment for June on Tuesday, followed by the results of the May labour force survey on Thursday.
- A busy week offshore, with Fed, ECB and Bank of Japan policy decisions due. Other major events will be the US inflation, retail sales and industrial production numbers as well as the Chinese activity data, all for May.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	4.10	O/N Interbank Cash	4.07	USD 3-month	5.54	ASX200	7121
US (IOR)	5.15	90-day Bills	4.21	2-yr T-Notes	4.52	S&P500	4294
Eurozone (Deposit)	3.25	3-yr T-Bond	3.83	10-yr T-Notes	3.73	DJIA	33834
UK	4.50	10-yr T-Bond	3.95	Jap 10-yr	0.43	Nikkei	32021
Japan	-0.10	3-yr WATC Bond	4.16	UK 10-yr	4.25	CSI300	3819
China (1Y LPR)	3.65	10-yr WATC Bond	4.53	Ger 10-yr	2.42	Stoxx600	461

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

The RBA increased interest rates by another 25bps this week, taking the cash rate target to 4.10% (the highest level since January 2009), in a surprise decision to many market participants.

In his post-meeting statement and in a speech on Wednesday, RBA Governor Philip Lowe justified this decision by saying the upside risks to inflation had increased. He did not alter the forward guidance, saying further tightening may be required depending on incoming data. Cash rate expectations have increased in reaction, with a rise to as much as 4.5% now fully priced in for later this year.

Due to the larger focus on the risk of higher inflation and more hawkish tone coming from the RBA, cash rate expectations have moved upwards, with another 25bps hike fully priced in by October. Commonwealth bond yields rose accordingly, with 3-year yields bouncing to the highest level since October 2022.

The Bank of Canada surprised most market participants with a 25bps hike to 4.75%, the highest BoC policy rate in 22 years.

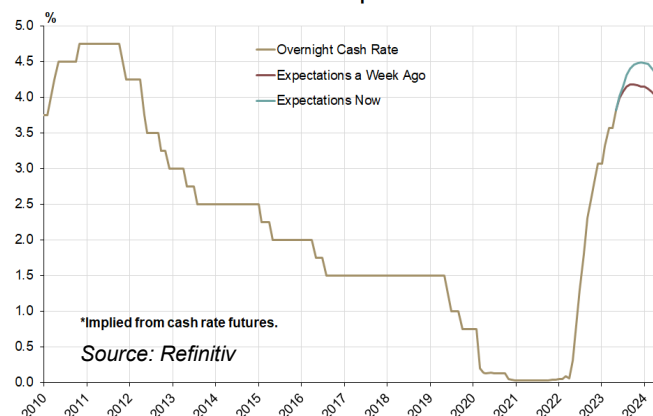
The surprising hikes in Australia and Canada saw government bond yields move higher this week. US Treasury yields rose less than their Australian equivalents, as the FOMC is expected to "skip" a rate hike at its meeting next week.

Equities

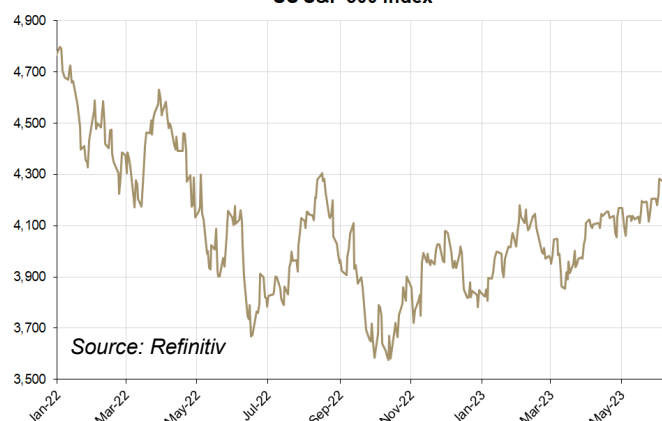
US equities are up for the week, with the S&P 500 now back in a bull market. US stocks rallied in reaction to another bumper non-farm payrolls report last Friday, which was followed by lacklustre sessions early in the week amid very thin dataflow. The rally gathered steam on Thursday, conversely due to a surge in initial jobless claims, which strengthened the view that the FOMC will "skip" a rate hike next week.

The Aussie market has underperformed compared to Wall Street, mainly due to the somewhat surprising cash rate hike this week and more hawkish rhetoric from the RBA.

RBA Historical and Expected Cash Rate*



US S&P 500 Index



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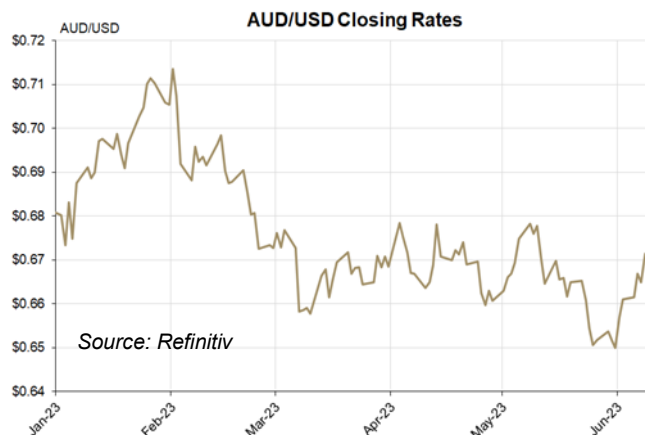
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Currencies

The Australian dollar has been the strongest of the G10 currencies over the week, rising sharply following the RBA interest rate increase this week that caught many traders off guard.

The currency lost a bit of ground on Wednesday after a rate hike from the Bank of Canada, which was only partly priced in, caused some volatility in the market but remains at around three-month highs in trade-weighted terms.

The Aussie is currently trading at its highest levels in almost a month against the greenback. The exchange rate got an added lift after the big dollar slumped on Thursday, as a bigger-than-expected rise in US initial jobless claims increased expectations that the Fed will pause its hiking cycle next week.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6709	0.6718	0.6565	↑1.6	0.7235	0.6169
AUD/EUR		0.6221	0.6258	0.6068	↑1.5	0.7000	0.5953
AUD/GBP		0.5343	0.5384	0.5214	↑1.5	0.6260	0.5210
AUD/JPY		93.29	93.52	90.26	↑1.8	98.43	86.03
AUD/CNY		4.7707	4.7776	4.6073	↑2	4.8531	4.4365
EUR/USD		1.0780	1.0786	1.0660	↑0.2	1.1095	0.9534
GBP/USD		1.2555	1.2563	1.2366	↑0.2	1.2679	1.0382
USD/JPY		139.05	140.45	138.45	↑0.2	151.94	127.21
USD/CNY		7.1109	7.1109	7.0550	↑0.4	7.3270	6.6588

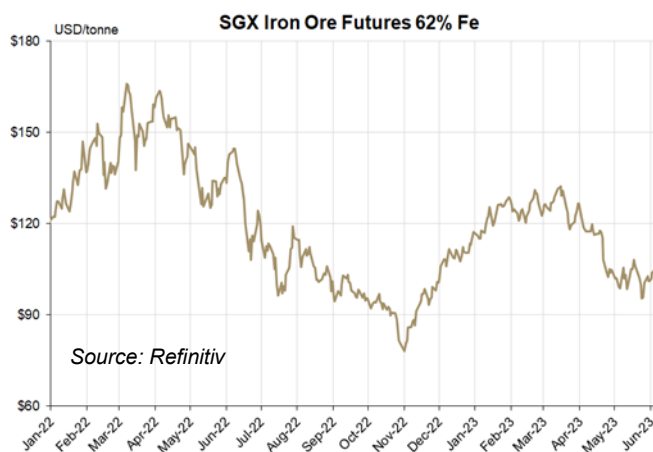
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6709	0.6727	0.6740	0.6752
AUD/EUR		0.6221	0.6205	0.6190	0.6150
AUD/GBP		0.5343	0.5348	0.5357	0.5374
AUD/JPY		93.29	92.20	91.05	88.71
AUD/NZD		1.1004	1.1040	1.1069	1.1117
AUD/SGD		0.9011	0.9002	0.8981	0.8916

Commodities

Commodity prices have strengthened almost across the board over the past week, although gold has been held back by the improvement in financial market sentiment and rise in bond yields.

Iron ore futures prices are on track for their best week since November last year, with trade data this week showing Chinese iron ore imports remain robust and speculation that fresh stimulus is coming to support the Chinese property sector.

Oil prices opened sharply higher on Monday, after the weekend announcement from Saudi Arabia to unilaterally cut its oil production by 1 million barrels per day. The OPEC+ group of oil producers also agreed to extend their current production quotas to the end of 2024. Oil has since given up some of those gains and was pushed lower again overnight on rumours that the US and Iran are closing in on a deal that would open the way for an increase in Iranian oil exports.



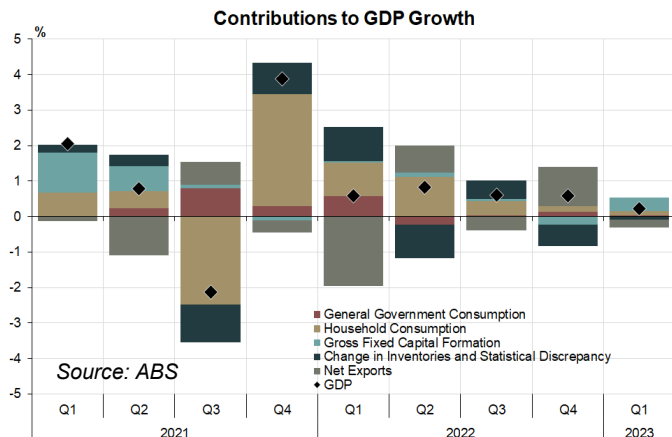
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,964.59	\$1,983.29	\$1,937.89	(↓\$14.6)	\$2,072.19	\$1,613.60
Brent Crude Oil (US\$)	\$75.71	\$78.73	\$73.58	(↑\$1.14)	\$125.19	\$70.12
Mogas95* (US\$)	\$93.98	\$94.08	\$88.67	(↑\$5.36)	\$161.20	\$82.60
WTI Oil (US\$)	\$71.07	\$75.06	\$69.03	(↑\$0.72)	\$123.68	\$63.64
CRB Index	262.32	262.32	259.69	(↑4.95)	325.81	253.85
Iron Ore Price 62% Fe (US\$) **	\$110.29	\$110.50	\$81.92	(↑\$8.21)	\$146.00	\$75.30

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

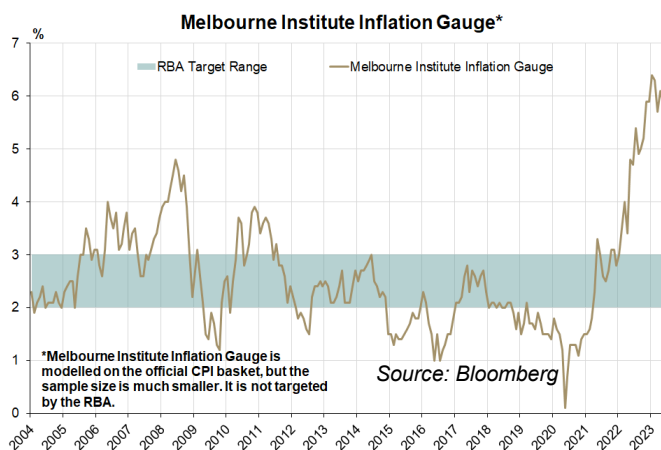
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

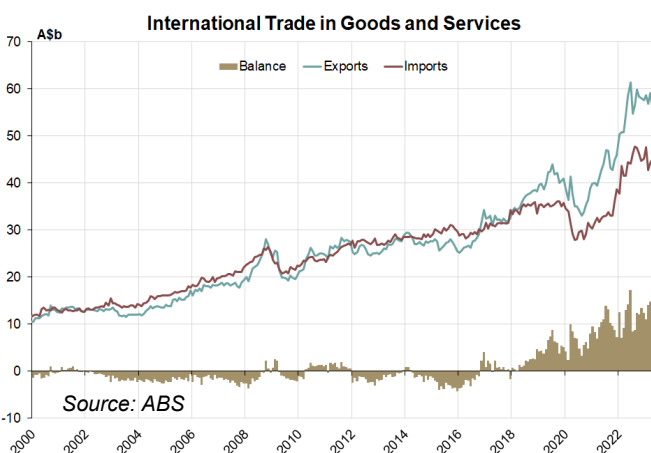
GDP growth slowed in Q1, dragged down by sluggish private consumption growth, while investment picked up.



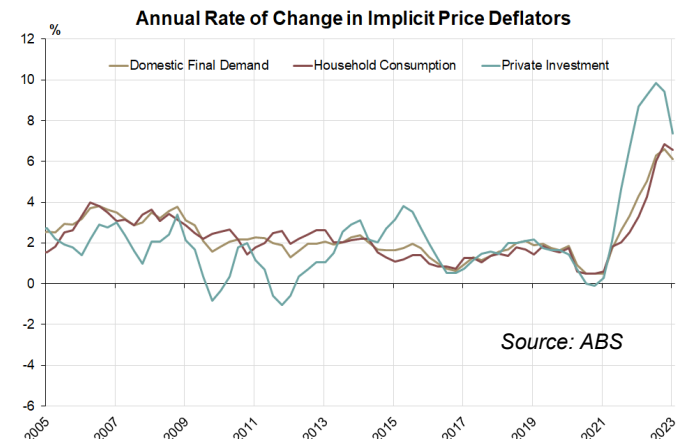
The **Melbourne Institute inflation gauge** suggests that consumer price inflation remained elevated in May.



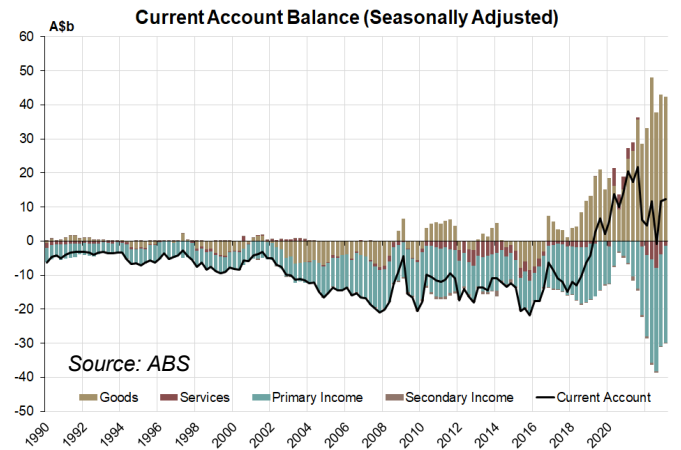
The **trade surplus** narrowed in April, but remained solid, with exports and imports close to record highs.



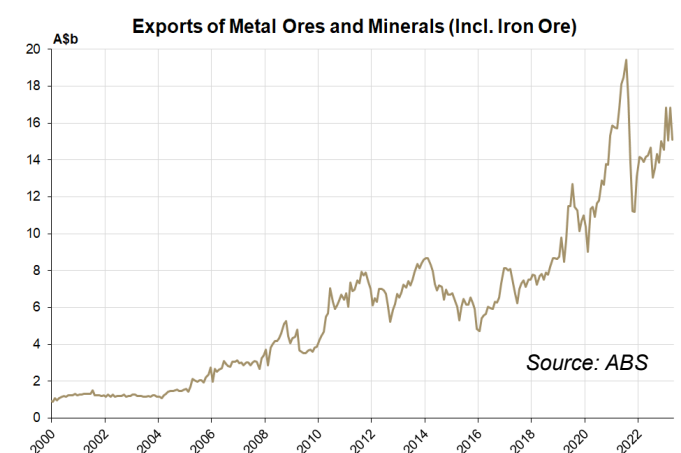
The annual growth rates of the **implicit price deflators** declined in Q1, but remained elevated.



High exports of commodities, including iron ore, continued to support the Aussie **current account** in Q1.



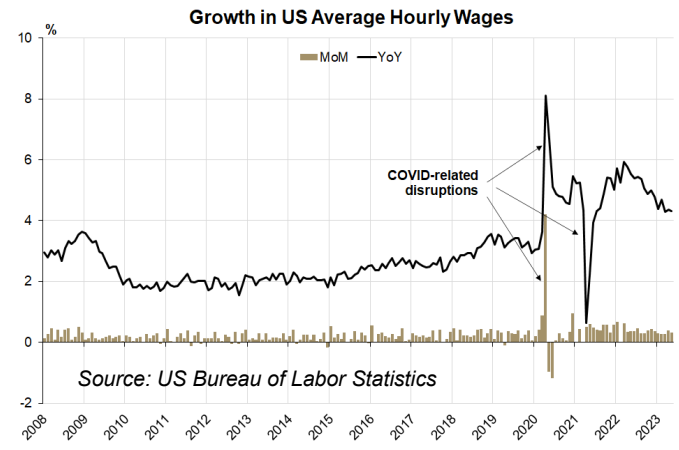
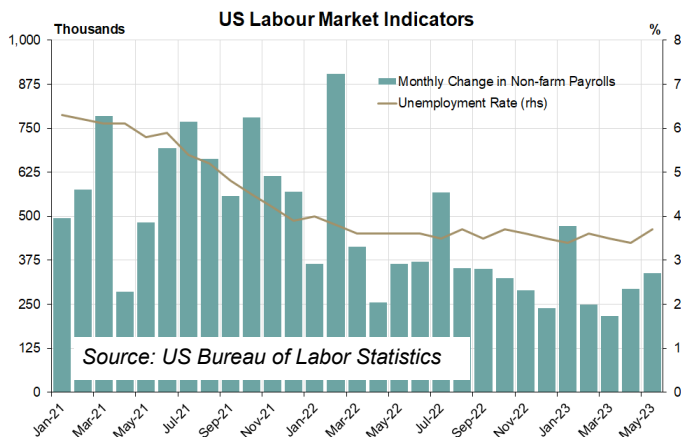
Aussie iron ore exports remain well above pre-COVID levels.



GLOBAL ECONOMY

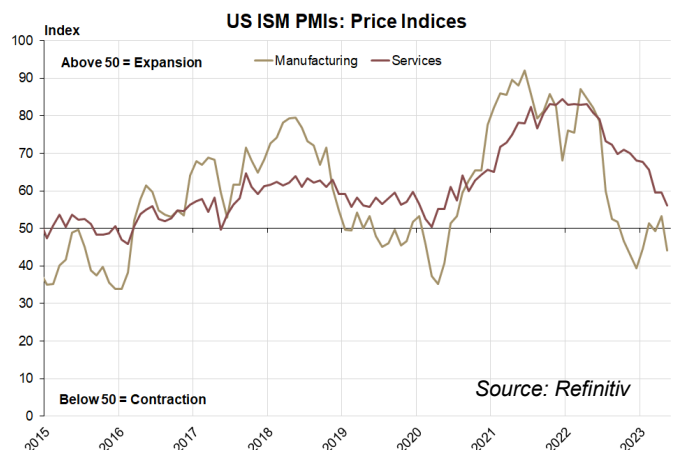
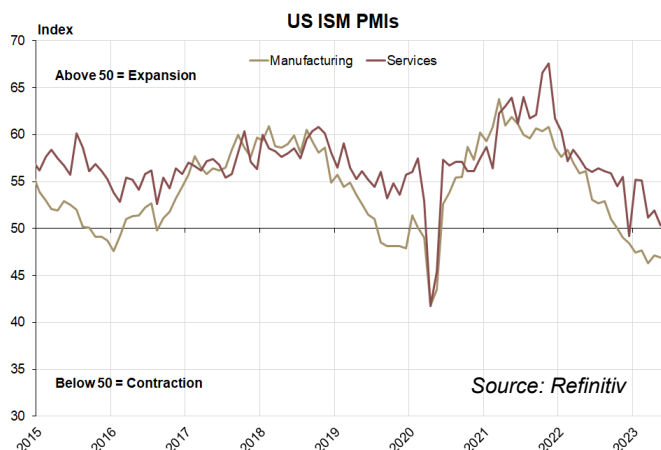
US non-farm payrolls saw another solid increase in May, while the unemployment rate ticked up to the still low 3.7%.

US wages growth is slowing, albeit only gradually.



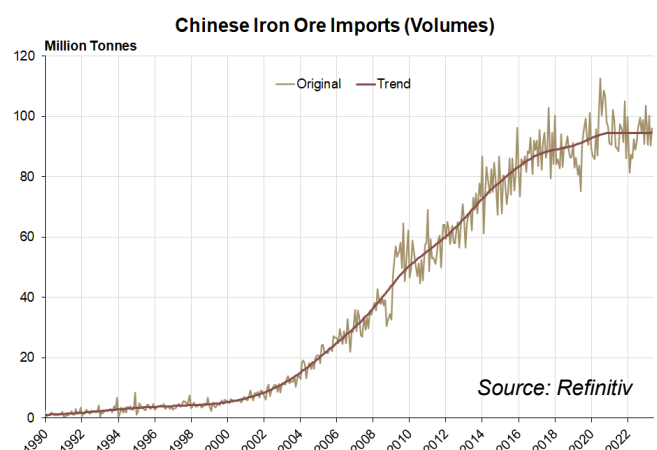
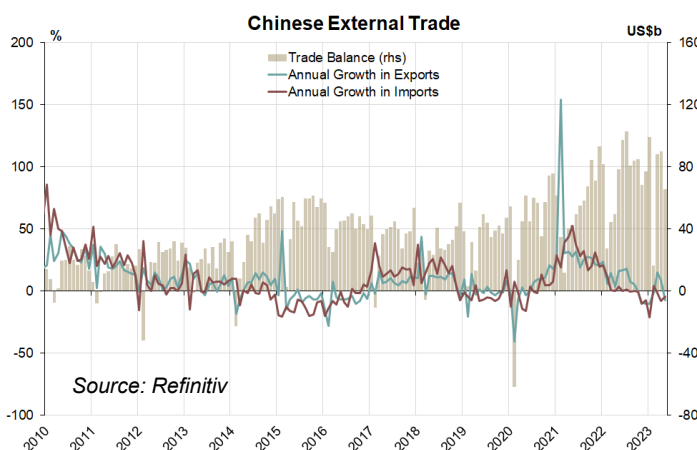
The **ISM indices** implied US services growth almost stalled in May, while manufacturing remained in contraction.

The reports suggested further slowing in services **price growth** and a renewed decline in manufacturing prices.



China's external trade surplus narrowed in May amid a renewed drop in exports, while the fall in imports slowed.

Chinese iron ore imports have been strong in the first five months of 2023.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

9 June 2023

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 05					
AU	Melb. Inst. Inflation (MoM, May)	0.9%	-	0.2%	Annual rate of inflation gauge at 5.9%.
CH	Caixin Services PMI (May)	57.1	55.3	56.4	The second fastest growth rate since late 2020.
US	ISM Services PMI (May)	50.3	52.3	51.9	Services employment reported to have fallen in May.
Tue 06					
AU	RBA Decision (Cash Rate Target)	4.10%	3.85%	3.85%	One to two more hikes currently priced in.
AU	Current Account Balance (Q1)	A\$12.3b	A\$14.8b	A\$11.7b	Supported among others by higher iron ore exports.
AU	ANZ Cons. Conf. (w/e 3 Jun)	-0.5%	-	-1.4%	Inflation expectations rose 0.2ppts to 5.5%.
Wed 07					
AU	GDP (QoQ, Q1)	0.2%	0.3%	0.6%	Historically large YoY rates of decline in productivity.
AU	Speech by RBA Governor Lowe	-	-	-	RBA ready to sacrifice labour market in inflation fight.
CH	Trade Balance (May)	US\$66b	US\$92b	US\$91b	Iron ore imports rose 4.0% YoY in May.
CA	BoC Decision (Policy Rate)	4.75%	4.50%	4.50%	Further tightening is expected by the markets.
US	Trade Balance (Apr)	-US\$75b	-US\$75b	-US\$61b	The widest trade deficit since October 2022.
Thu 08					
AU	Trade Balance (Apr)	A\$11.2b	A\$13.5b	A\$14.3b	Exports declined, while import growth slowed.
AU	Payroll Jobs (MoM, w/e 13 May)	0.5%	-	-1.3%	Payroll jobs up 3.7% YoY.
AU	Total Wages (MoM, w/e 13 May)	-2.4%	-	-2.4%	Back-to-back seasonal fall. Up 8.6% YoY.
US	Initial Jobless Claims (w/e 3 Jun)	261k	235k	232k	The highest level since late October 2021.
Fri 09					
CH	CPI (YoY, May)	0.2%	0.3%	0.1%	Down by 0.2% MoM, against the 0.1% fall expected.
CH	PPI (YoY, May)	-4.6%	-4.3%	-3.6%	The fastest pace of deflation since May 2016.

Next Week

	Event	Forecast	Previous	Comment
Mon 12	No market moving data.			
Tue 13				
AU	NAB Business Conditions (May)	-	14	The Judo Bank PMIs suggest activity expanded in May.
AU	NAB Business Confidence (May)	-	0	Has been improved in the past two months.
AU	Westpac Consumer Conf. (MoM, Jun)	-	-7.9%	The weekly confidence numbers suggest another decline.
US	CPI (YoY, May)	0.2%	0.4%	Business reports point to slower price growth.
Wed 14				
UK	Monthly GDP (MoM, Apr)	-	-0.3%	UK economy has surprised to the upside of late.
US	PPI (MoM, May)	-0.1%	0.2%	ISM PMIs pointed to a decline.
US	FOMC Decision (IoER)	5.15%	5.15%	Some FOMC members suggest a "skip" in tightening.
Thu 15				
AU	Employment (monthly change, May)	15.0k	-4.3k	Business surveys indicate a renewed increase.
AU	Unemployment Rate (May)	3.7%	3.7%	Expected to remain low over the next two years.
NZ	GDP (QoQ, Q1)	0.0%	-0.6%	The RBNZ keeps tightening despite a likely recession.
CH	Retail Sales (YoY, May)	13.8%	18.4%	Propped up by a low statistical base from a year ago.
CH	Industrial Production (YoY, May)	3.5%	5.6%	PMIs inconclusive regarding the May numbers.
CH	Urban Fixed Asset Inv. (YoY, YtD, May)	4.4%	4.7%	Important figure for Chinese iron ore demand.
EZ	ECB Decision (Deposit Rate)	3.50%	3.25%	A hike due despite the euro area slipping into recession.
US	Retail Sales (MoM, May)	0.0%	0.4%	Could surprise to the downside this time.
US	Industrial Production (MoM, May)	0.1%	0.5%	ISM reports suggest a renewed decline.
Fri 16				
JP	BoJ Decision (Compl. Deposit Rate)	-0.10%	-0.10%	Tweaks to the yield curve control expected by some.
US	UoM Consumer Conf. (Jun, prel.)	60.0	59.2	The report will contain consumer inflation expectations.