

THIS WEEK'S HIGHLIGHTS

- Offshore, the FOMC has kept the fed funds rate unchanged, but signalled that they will resume tightening later this year. The ECB has increased its key interest rates by another 25bps, as expected. The People's Bank of China cut some of its policy rates this week.
- Data-wise, the annual rate of US headline CPI inflation declined for the 11th consecutive month. Chinese economic activity data for May came out weaker than expected.
- At home, employment saw another strong increase in May, while the unemployment rate ebbed to 3.6%. NAB business confidence and conditions deteriorated in May, while Westpac consumer sentiment was little changed in June.

NEXT WEEK'S HIGHLIGHTS

- A relatively quiet week ahead domestically, with RBA minutes on Tuesday and flash June PMIs on Friday being the only major highlights.
- Friday will also see flash PMIs for the major advanced economies. The People's Bank of China will announce its decision on the benchmark one-year loan prime rate on Tuesday, while the Bank of England is expected to deliver another 25bps bank rate hike on Thursday.

| 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 | 5.51 (↓3 pt) | ASX200 | 7215 (↑92 pt) |
| US (IOR) | 5.15 (0 pt) | 90-day Bills | 4.30 (↑10 pt) | 2-yr T-Notes | 4.68 (↑15 pt) | S&P500 | 4426 (↑132 pt) |
| Eurozone | 3.50 (↑25 pt) | 3-yr T-Bond | 4.01 (↑18 pt) | 10-yr T-Notes | 3.74 (↑1 pt) | DJIA | 34408 (↑574 pt) |
| UK | 4.50 (0 pt) | 10-yr T-Bond | 4.01 (↑6 pt) | Jap 10-yr | 0.43 (0 pt) | Nikkei | 33298 (↑1238 pt) |
| Japan | -0.10 (0 pt) | 3-yr WATC Bond | 4.31 (↑15 pt) | UK 10-yr | 4.39 (↑15 pt) | CSI300 | 3932 (↑113 pt) |
| China (1Y LPR) | 3.65 (0 pt) | 10-yr WATC Bond | 4.58 (↑5 pt) | Ger 10-yr | 2.50 (↑8 pt) | Stoxx600 | 464 (↑4 pt) |

FINANCIAL MARKETS OVERVIEW

Interest Rates

The Fed has left its funds rate target range at 5.00-5.25%, as expected. However, it also issued forecasts implying at least two more 25bps hikes later this year. However, only one 25bps adjustment is priced in by the fed funds futures. This is because the data this week pointed to a further decline in US inflation.

The ECB has increased its key interest rates by 25bps, which was also in line with expectations. The ECB's deposit rate is now at 3.50%, which is the highest level since 2001. At the post-meeting conference, ECB President Christine Lagarde was clear that no pause in tightening is being considered. The markets expect two more hikes from the ECB this year.

There was an increase in interest rate expectations at home, following another bumper labour force survey. The probability of a 25bps hike at the July RBA meeting has doubled, to reach 60%.

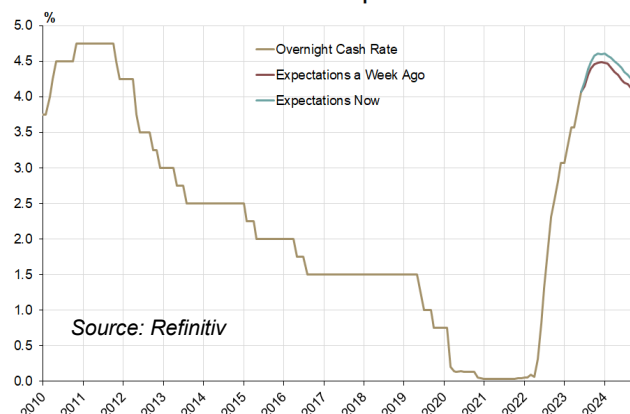
On the other side of the ledger, the Bank of Japan has kept its ultra-expansionary monetary policy settings unchanged. The People's Bank of China cut the rates on its seven-date reverse repo operations as well as the medium-term facility.

Equities

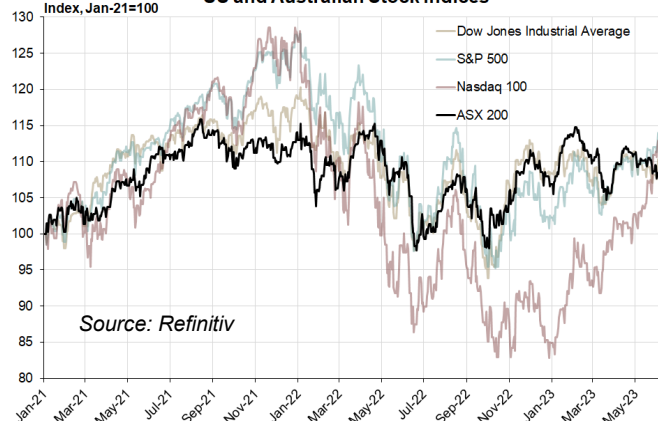
It was a positive week for equities. Despite ongoing hawkish rhetoric coming from the Fed, equity investors appear unconvinced of the need of further significant monetary policy tightening. The equity rally in the US was led by tech stocks, with the Nasdaq gaining 4.7% over the past five trading days.

The ASX 200 underperformed against Wall Street again, with sentiment dampened by the rise in RBA cash rate expectations. However, mining stocks received some boost from the rise in iron ore prices sparked by the increasing speculation on the upcoming stimulus package in China. The Aussie stock market is heading towards the first weekly gain in four weeks.

RBA Historical and Expected Cash Rate



US and Australian Stock Indices



For further information, please contact:

Craig McGuinness

Chief Economist

cmcguinness@watc.wa.gov.au

(08) 9235 9104

Patrycja Beniak

Economist

pbeniak@watc.wa.gov.au

(08) 9235 9110

Currencies

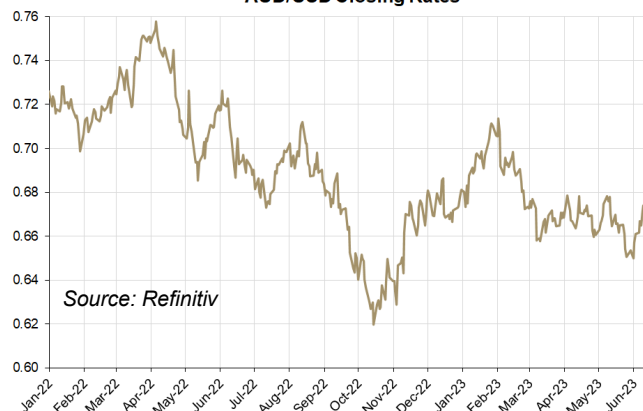
The Australian dollar has had a positive week, supported by good global market sentiment, a rise in iron ore prices and higher RBA cash rate expectations.

The AUD appreciated most against the Japanese yen, which was the weakest G10 currency this week amid the ongoing ultra-expansionary monetary policy of the Bank of Japan.

The AUD/USD rose to the highest level since February, with the Aussie having gained 2.5% against the USD. The greenback was the second weakest G10 currency as investors see relatively less monetary tightening in the US compared to Europe.

The Aussie dollar was the third strongest G10 currency this week, surpassed only by the Norwegian and Swedish currencies.

AUD/USD Closing Rates



| Spot rates | | Current | High | Low | Change (%) | 52-Week High | 52-Week Low |
|------------|--|---------|--------|--------|------------|--------------|-------------|
| AUD/USD | | 0.6875 | 0.6892 | 0.6690 | ↑2.5 | 0.7157 | 0.6169 |
| AUD/EUR | | 0.6281 | 0.6309 | 0.6206 | ↑1 | 0.7000 | 0.5953 |
| AUD/GBP | | 0.5379 | 0.5405 | 0.5331 | ↑0.7 | 0.6260 | 0.5210 |
| AUD/JPY | | 96.32 | 96.72 | 92.94 | ↑3.2 | 98.43 | 86.03 |
| AUD/CNY | | 4.9043 | 4.9083 | 4.7399 | ↑2.8 | 4.9083 | 4.4365 |
| EUR/USD | | 1.0941 | 1.0952 | 1.0694 | ↑1.5 | 1.1095 | 0.9534 |
| GBP/USD | | 1.2776 | 1.2792 | 1.2430 | ↑1.8 | 1.2792 | 1.0382 |
| USD/JPY | | 140.10 | 141.50 | 138.74 | ↑0.8 | 151.94 | 127.21 |
| USD/CNY | | 7.1335 | 7.1335 | 7.1098 | ↑0.3 | 7.3270 | 6.6694 |

| Forward Rates | | Spot | 3M | 6M | 12M |
|---------------|--|--------|--------|--------|--------|
| AUD/USD | | 0.6875 | 0.6890 | 0.6901 | 0.6911 |
| AUD/EUR | | 0.6281 | 0.6266 | 0.6249 | 0.6207 |
| AUD/GBP | | 0.5379 | 0.5385 | 0.5394 | 0.5416 |
| AUD/JPY | | 96.32 | 95.17 | 93.96 | 91.44 |
| AUD/NZD | | 1.1025 | 1.1054 | 1.1076 | 1.1109 |
| AUD/SGD | | 0.9193 | 0.9178 | 0.9149 | 0.9091 |

Commodities

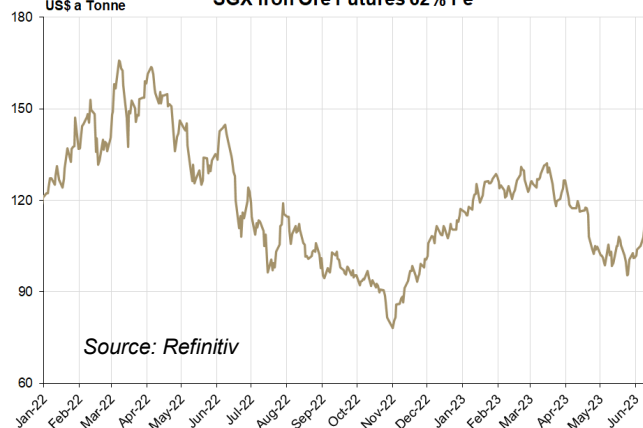
Commodities are mixed for the week, with oil prices ebbing and iron ore futures seeing a strong increase.

Commodity prices in general were supported by the optimism around the likely stimulus in China, further boosted by the People's Bank of China cutting some of its interest rates this week. This was evident particularly in the second half of the week.

However, oil prices dropped significantly early in the week, which was a reaction to US investment banks revising their oil price forecasts. The significant gains later this week were not enough to fully offset these early losses.

Iron ore futures rose by 2.8% this week, not only due to the expected stimulus in China but also to the incoming data suggesting that Chinese steel output remained above its long-run trend. Iron ore futures are now the highest since late April.

SGX Iron Ore Futures 62% Fe



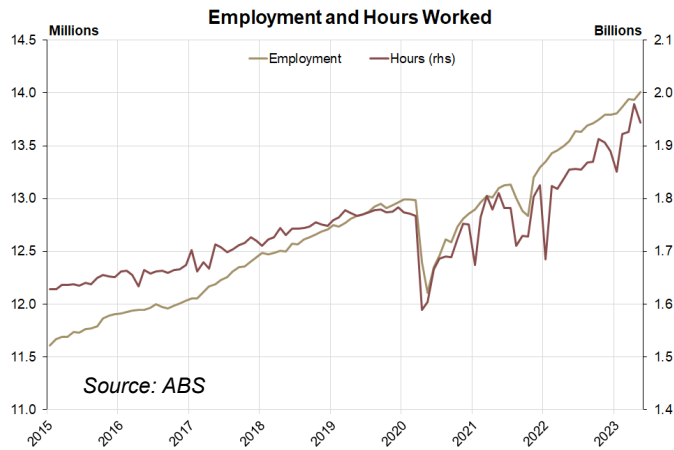
| | Current | High | Low | Change | 52-Week High | 52-Week Low |
|---------------------------------|------------|------------|------------|-----------|--------------|-------------|
| Gold (US\$) | \$1,957.19 | \$1,972.79 | \$1,924.99 | (↓\$7.4) | \$2,072.19 | \$1,613.60 |
| Brent Crude Oil (US\$) | \$75.42 | \$76.57 | \$71.58 | (↓\$0.29) | \$121.25 | \$70.12 |
| Mogas95* (US\$) | \$93.00 | \$94.10 | \$92.08 | (↓\$0.98) | \$161.20 | \$82.60 |
| WTI Oil (US\$) | \$70.41 | \$71.77 | \$66.80 | (↓\$0.66) | \$118.97 | \$63.64 |
| CRB Index | 266.91 | 266.91 | 256.94 | (↑4.6) | 309.08 | 253.85 |
| Iron Ore Price 62% Fe (US\$) ** | \$113.37 | \$113.65 | \$105.60 | (↑\$3.08) | \$134.70 | \$75.30 |

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

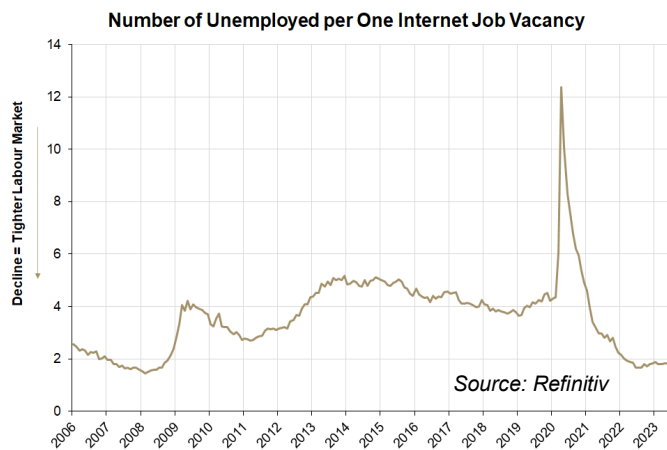
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

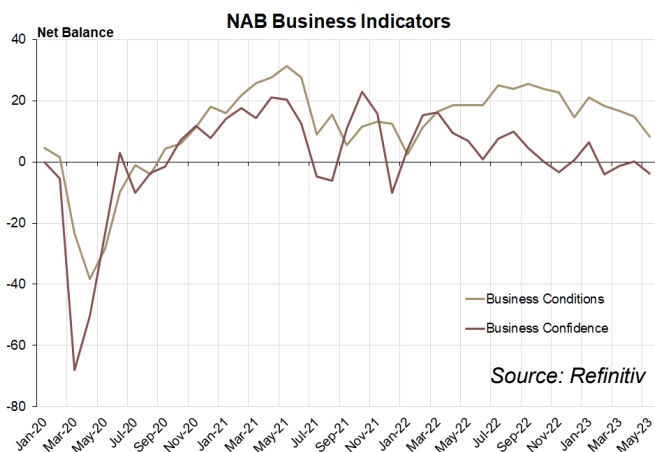
Employment surged to a fresh record high in May, but the hours work declined.



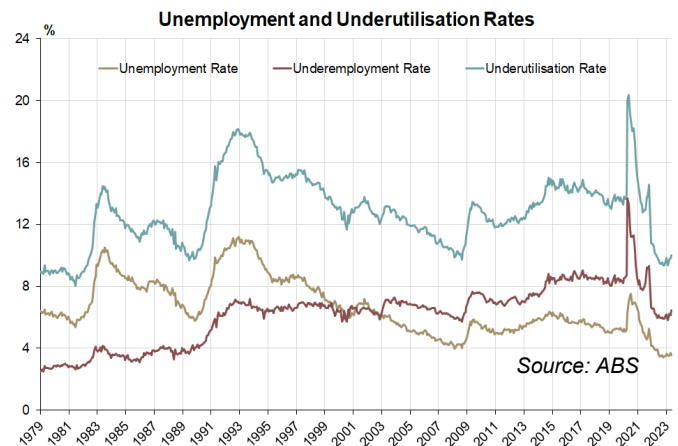
The **internet job vacancy data** for May confirmed that the labour market remains exceptionally tight.



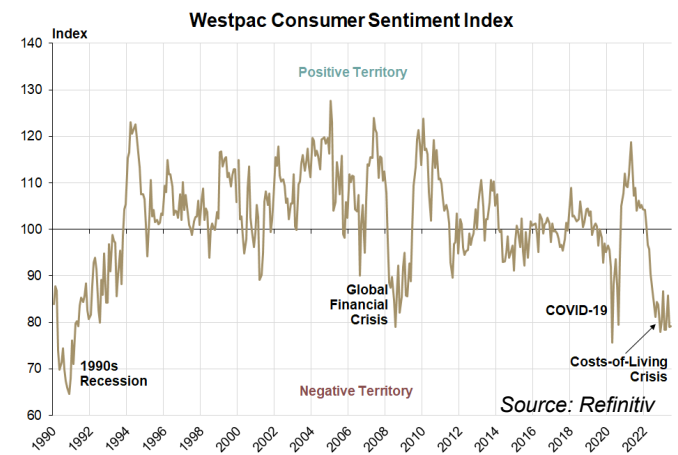
NAB business conditions and confidence both deteriorated in May...



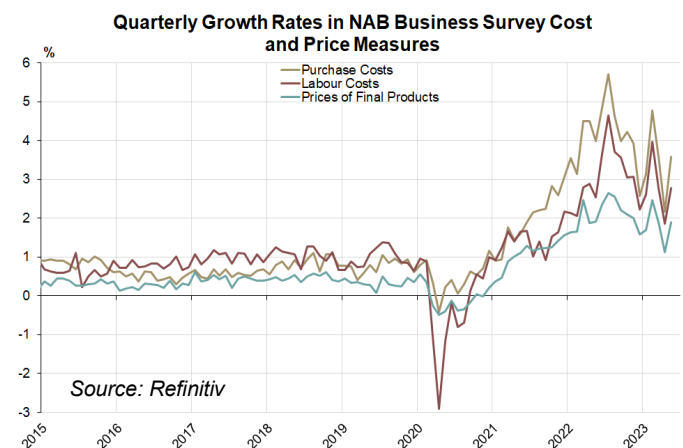
The **unemployment rate** ebbed, but the underemployment rate continued its gradual increase.



Westpac consumer sentiment has been depressed for almost a year.

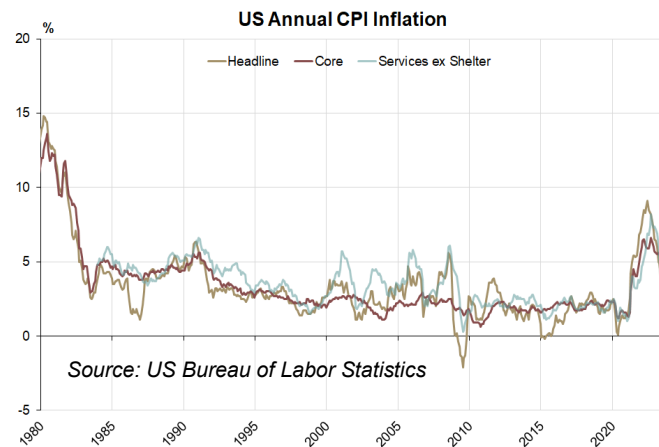


... while growth in **costs and prices** has re-accelerated.

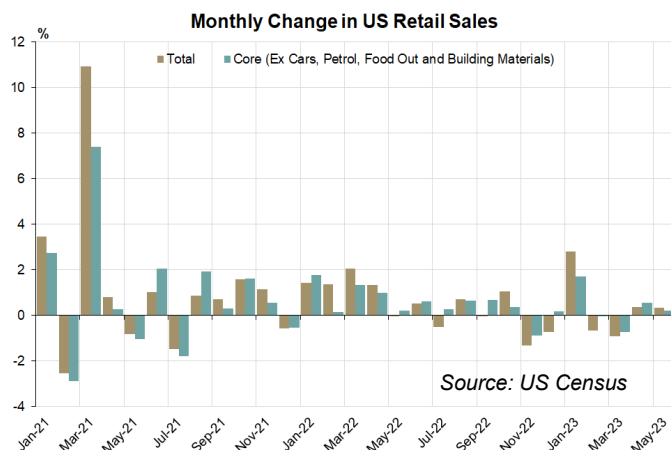


GLOBAL ECONOMY

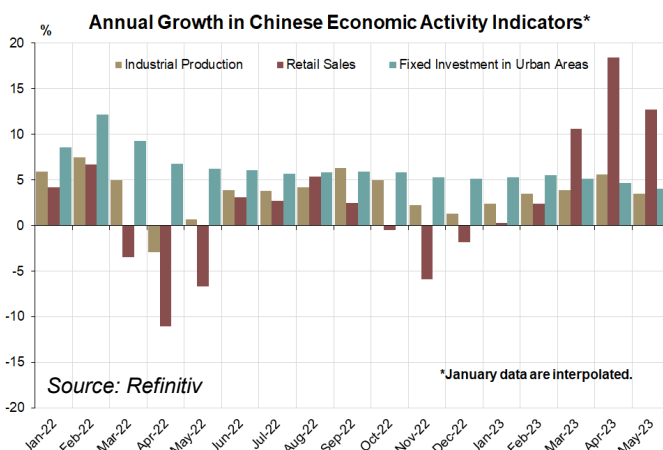
US headline CPI inflation declined quite sharply in May, but core inflation remained quite sticky.



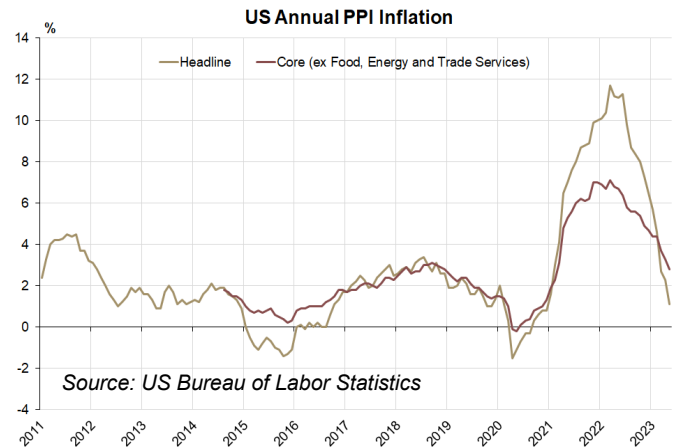
US retail trade saw another slight increase in May...



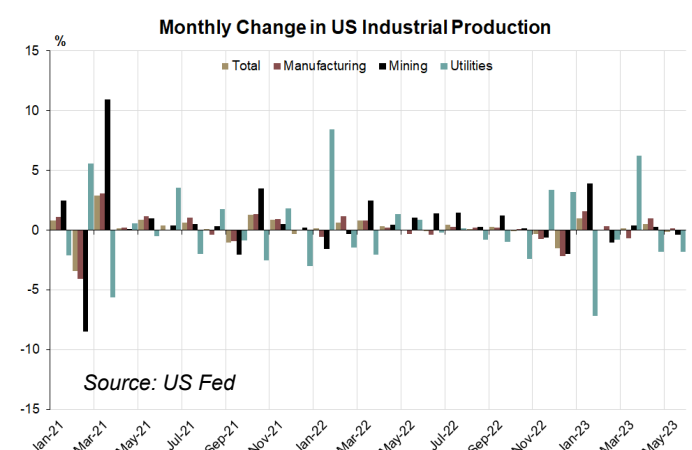
The annual growth rate of **Chinese activity indicators** continues to be supported by the low base from 2022.



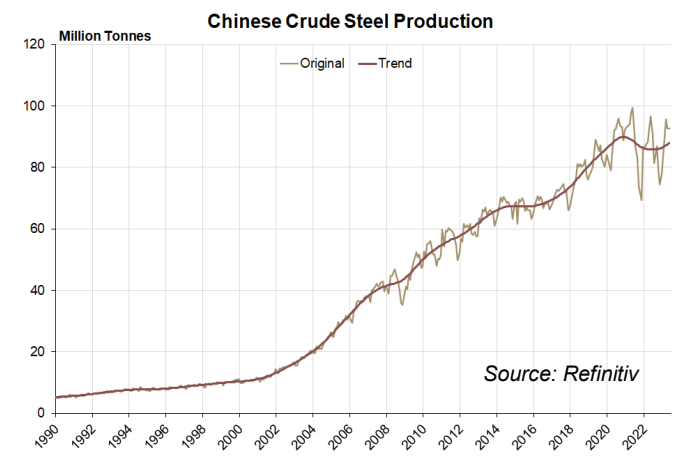
US producer price inflation rates have dropped to the lowest levels in over two years.



... while **US industrial production** was virtually flat, dragged down by declines in mining and utilities.



Despite a slight decline in May, **Chinese steel output** remains above trend.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

16 June 2023

KEY ECONOMIC EVENTS

This Week

| | Event | Actual | Forecast | Previous | Comment |
|----------------|-------------------------------------|--------|----------|----------|--------------------------------------------------------|
| Mon 12 | <i>No market moving data.</i> | | | | |
| Tue 13 | | | | | |
| AU | NAB Business Conditions (May) | 8 | - | 15 | Conditions deteriorated across all the industries. |
| AU | NAB Business Confidence (May) | -4 | - | 0 | Confidence in the mining sector improved in May. |
| AU | Westpac Cons. Conf. (MoM, Jun) | 0.2% | - | -5.7% | Despite a slight uptick, sentiment is depressed. |
| UK | Unemployment Rate (Apr) | 3.8% | 4.0% | 3.9% | UK wages growth accelerated significantly in May. |
| US | CPI (MoM, May) | 0.1% | 0.2% | 0.4% | Annual core inflation is the lowest since late 2021. |
| Wed 14 | | | | | |
| UK | Monthly GDP (MoM, Apr) | 0.2% | 0.2% | -0.3% | A rise supported by retail, while manufacturing fell. |
| US | PPI (MoM, May) | -0.3% | -0.1% | 0.2% | Annual PPI inflation the lowest since late 2020. |
| US | FOMC Decision (IoRB) | 5.15% | 5.15% | 5.15% | FOMC sees at least two more 25bps hikes in 2023. |
| Thu 15 | | | | | |
| AU | Employment (monthly change, May) | 75.9k | 14.8k | -4.0k | Rose to a fresh record high, helped by full-time jobs. |
| AU | Unemployment Rate (May) | 3.6% | 3.7% | 3.7% | Unemployment fell by 16.5k, to be 6.4% down YoY. |
| NZ | GDP (QoQ, Q1) | -0.1% | -0.1% | -0.7% | New Zealand officially in a technical recession. |
| CH | Retail Sales (YoY, May) | 12.7% | 13.7% | 18.4% | Propped up by a low statistical base from 2022. |
| CH | Industrial Production (YoY, May) | 3.5% | 3.8% | 5.6% | Chinese steel output down 6.7% through the year. |
| CH | Urban Asset Inv. (YoY, YtD, May) | 4.0% | 4.5% | 4.7% | Key variable for Chinese iron ore demand. |
| EZ | ECB Decision (Deposit Rate) | 3.50% | 3.50% | 3.25% | The highest level since 2001. |
| US | Retail Sales (MoM, May) | 0.3% | -0.1% | 0.4% | Core retail sales up 0.2% MoM. |
| US | Industrial Production (MoM, May) | -0.2% | 0.1% | 0.5% | Manufacturing edged 0.1% up. |
| US | Initial Jobless Claims (w/e 10 Jun) | 262k | 250k | 262k | Four-week average the highest since late Nov 2021. |
| Fri 16 | | | | | |
| JP | BoJ Decision (Compl. Deposit Rate) | -0.10% | -0.10% | -0.10% | No changes to the yield curve control policy, either. |
| Tonight | | | | | |
| US | UoM Consumer Conf. (Jun, prel.) | - | 60.2 | 59.2 | Report will contain consumer inflation expectations. |

Next Week

| | Event | Forecast | Previous | Comment |
|---------------|----------------------------------------|----------|----------|-----------------------------------------------------------|
| Mon 19 | <i>No market moving data.</i> | | | |
| Tue 20 | | | | |
| AU | RBA Minutes (Jun) | - | - | More insights into a surprising hike in June. |
| CH | PBoC Decision (1-year Loan Prime Rate) | 3.55% | 3.65% | The first cut since August 2022 expected. |
| Wed 21 | | | | |
| UK | CPI (YoY, May) | 8.5% | 8.7% | UK core inflation kept on climbing in April. |
| Thu 22 | | | | |
| UK | Bank of England Decision (Bank Rate) | 5.00% | 4.75% | A 50bps partly priced in. |
| Fri 23 | | | | |
| AU | Judo Bank Composite PMI (Jun, flash) | - | 51.6 | Pace of expansion slowed in May. |
| JP | Jibun Bank Composite PMI (Jun, flash) | - | 54.3 | Rose further into expansion in the previous month. |
| JP | CPI (YoY, May) | 3.2% | 3.5% | Bank of Japan expects inflation to decline later in 2023. |
| EZ | HCOB Composite PMI (Jun, flash) | - | 53.9 | Euro area manufacturing still in recession. |
| UK | S&P Global Composite PMI (Jun, flash) | - | 54.0 | UK economy continues to surprise to the upside. |
| US | S&P Global Composite PMI (Jun, flash) | - | 54.3 | Has diverged from the ISM reports of late. |