

THIS WEEK'S HIGHLIGHTS

- Domestically, the RBA increased its cash rate target by 25bps to 0.35% and announced passive quantitative tightening. The Statement on Monetary Policy saw the RBA increase its forecasts for wages and inflation and lower its forecasts for unemployment.
- Data-wise, retail sales rose to a new record high in March, while the international trade surplus re-widened. March also saw an increase in new home loans, while building approvals declined. The Melbourne Institute inflation gauge fell in April, driven by a decline in fuel prices.
- Offshore, the FOMC has increased the fed funds rate by 50bps to 0.75-1.00% and announced the start of net sales of its assets in June. The ISM PMIs pointed to further solid expansion in the US, while the ADP report saw another rise in employment. The Chinese PMIs pointed to the largest contraction in activity since the Wuhan COVID outbreak.

NEXT WEEK'S HIGHLIGHTS

- Next week's calendar will be quite light, with the CBA household spending, the NAB business survey reports for April and Q1 retail sales volumes on Tuesday followed by Westpac consumer sentiment for May on Wednesday.
- The major releases offshore will be US and Chinese inflation numbers, as well as the Chinese trade data for April.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change				
Australia	0.35	(↑25 pt)	O/N Interbank Cash	0.31	(↑25 pt)	USD 3-month	1.37	(↑8 pt)	ASX200	7192	(↓224 pt)
US (IOR)	0.90	(↑50 pt)	90-day Bills	0.92	(↑21 pt)	2-yr T-Notes	2.72	(↑11 pt)	S&P500	4147	(↓141 pt)
Eurozone	-0.50	(0 pt)	3-yr T-Bond	3.04	(↑29 pt)	10-yr T-Notes	3.05	(↑23 pt)	DJIA	32998	(↓1918 pt)
UK	1.00	(↑25 pt)	10-yr T-Bond	3.48	(↑31 pt)	Jap 10-yr	0.24	(↓2 pt)	Nikkei	27000	(↑152 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	3.34	(↑31 pt)	UK 10-yr	1.96	(↑8 pt)	CSI300	3906	(↓6 pt)
China (1Y LPR)	3.70	(0 pt)	10-yr WATC Bond	3.88	(↑29 pt)	Ger 10-yr	1.04	(↑15 pt)	Stoxx600	438	(↓9 pt)

*changes are since the issue of last week's Market Watch

FINANCIAL MARKETS OVERVIEW

Interest Rates

The RBA increased its interest rates by 25bps (mkt exp. +15bps), to 0.35% for the cash rate and to 0.25% for the rate on the Exchange Settlement balances. The RBA also said that it will start the quantitative tightening process by not reinvesting the proceeds of maturing government bonds in its portfolio. The Governor said that he would like to see the cash rate at around 2.50% at some stage.

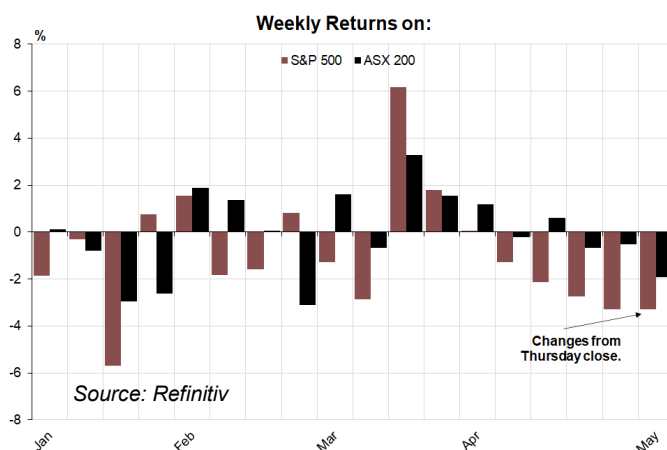
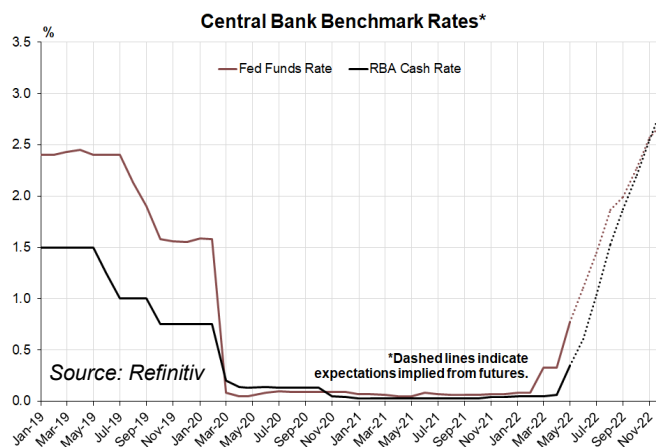
In its Statement on Monetary Policy, the RBA lowered its forecast for GDP growth for the first half of 2022, but expects some catch up in the second half of the year. Inflation is forecast to pick up to 6% for the headline index and 4.75% for the trimmed mean by late 2022 and drop back to 3% by mid-2024. The unemployment rate is projected to fall to 3.5% by mid-2023 and remain there. Wages are to grow by 3.0% in late 2022 and 3.7% in mid-2024.

The FOMC increased the fed funds rate by 50bps to 0.75-1.00%, as expected, and announced the beginning of quantitative tightening in June. Fed Chair Jerome Powell ruled out 75bps rate hikes at upcoming meetings. This notwithstanding, the market is pricing in an 80% probability of a 75bps increase in June.

Equities

Equities have had one of the worst weeks for this year so far. Compared to last Thursday's close, the S&P 500 lost 3.3%, which was mainly due to large losses on Friday and yesterday, driven by concerns over the pace of Fed tightening.

Aussie stocks saw the largest weekly loss since the start of Russian-Ukrainian war. At the time of writing, the ASX 200 is 3.0% down since last week's Market Watch. Apart from the common global concerns, the RBA's hawkish interest rate outlook is an additional factor weighing on the Aussie market.



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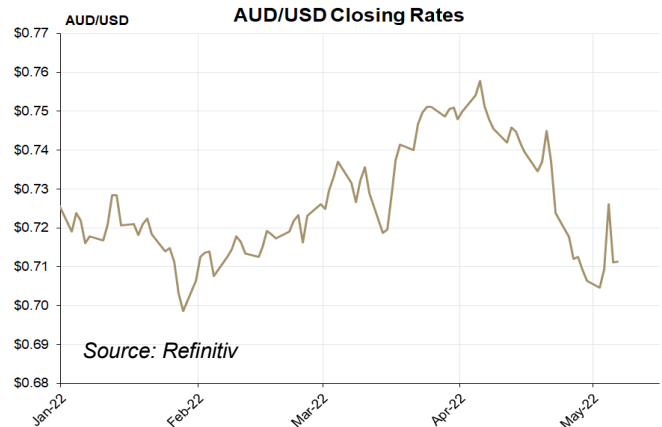
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Currencies

The Aussie dollar drifted higher early in the week, buoyed by the RBA cash rate increase and hawkish outlook. The gains were relatively muted until, late on Wednesday when a less hawkish than expected press conference from Fed Chair Jerome Powell drove risk assets, including the Aussie dollar, sharply higher.

The rebound pushed the Aussie dollar to as high as USD0.7266, but the exchange rate soon fell back on mounting concerns over the impact of the zero-COVID policy on the Chinese economy, and the rising risk of recession in the major economies as central banks raise interest rates to combat inflation.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7109	0.7266	0.7028	↓0.3	0.7890	0.6966
AUD/EUR		0.6749	0.6848	0.6678	↓0.4	0.6982	0.6077
AUD/GBP		0.5748	0.5819	0.5596	↑0.7	0.5822	0.5200
AUD/JPY		92.79	94.03	91.46	↓0.3	95.74	77.86
AUD/CNY		4.7447	4.8007	4.6441	↑0.2	5.0602	4.4286
EUR/USD		1.0530	1.0641	1.0489	↑0.2	1.2266	1.0470
GBP/USD		1.2367	1.2638	1.2322	↓0.9	1.4248	1.2322
USD/JPY		130.53	130.95	128.61	↓0.1	131.24	108.32
USD/CNY		6.6742	6.6742	6.3349	↑0.5	6.6934	6.3025

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7109	0.7118	0.7118	0.7101
AUD/EUR		0.6749	0.6724	0.6680	0.6572
AUD/GBP		0.5748	0.5751	0.5741	0.5701
AUD/JPY		92.79	92.54	91.95	90.14
AUD/NZD		1.1061	1.1086	1.1105	1.1110
AUD/SGD		0.9848	0.9858	0.9841	0.9767

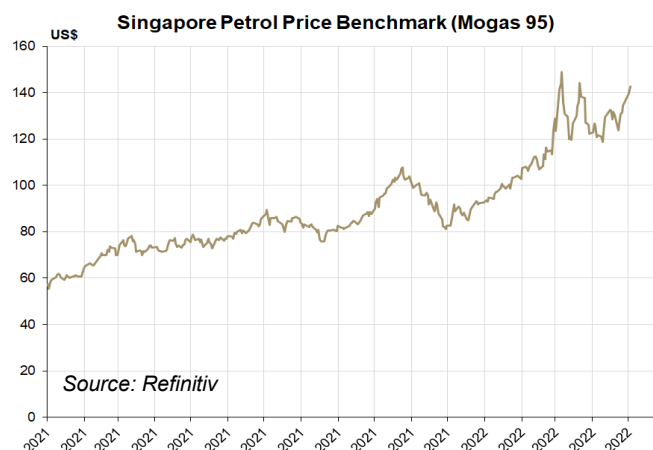
Commodities

Oil prices weakened in the first half of the week, as soft Chinese business surveys heightened concerns over the impact of the zero-COVID policies on demand. However, prices have bounced back over the past couple of days as European plans to ban Russian oil imports gained momentum.

OPEC stuck to its strategy of gradual monthly increases in production. The supply caps have drawn the ire of the US, which is keen to cut Russia from the market. However, most OPEC members are reportedly struggling to meet their output quotas as it is.

The Singapore benchmark unleaded fuel price posted an 8.5% gain over the past week, hitting its highest level since March.

Iron ore prices remain surprisingly strong given the apparent weakness in the Chinese economy due to COVID-related restrictions imposed by the government.



	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,875.71	\$1,919.55	\$1,849.90	(↓\$27.25)	\$2,069.89	\$1,684.37
Brent Crude Oil (US\$)	\$111.38	\$114.00	\$103.10	(↑\$3.58)	\$139.13	\$64.57
Mogas95* (US\$)	\$142.51	\$142.56	\$134.54	(↑\$3.41)	\$148.81	\$72.79
WTI Oil (US\$)	\$108.73	\$111.37	\$100.28	(↑\$3.41)	\$130.50	\$61.56
CRB Index	313.87	314.27	305.71	(↑5.84)	315.95	199.96
Iron Ore Price 62% Fe (US\$) **	\$145.22	\$151.00	\$139.50	(↑\$3.17)	\$233.50	\$84.80

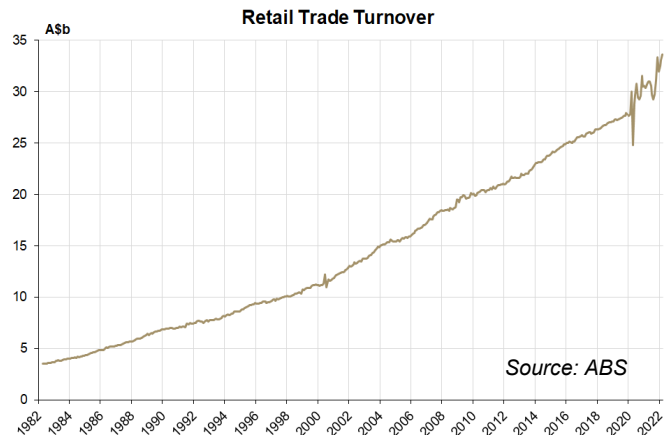
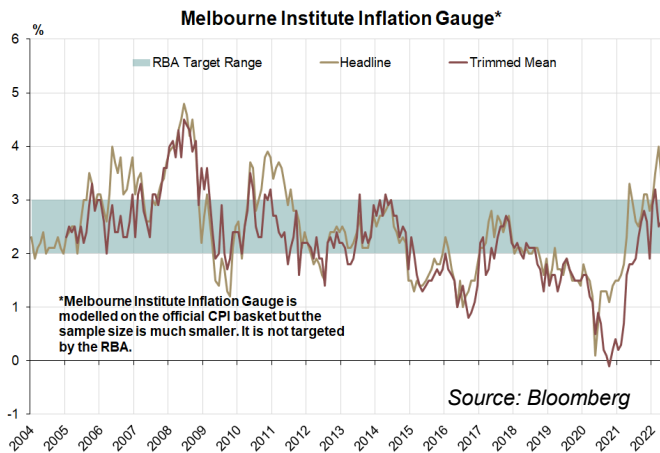
*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

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

DOMESTIC ECONOMY

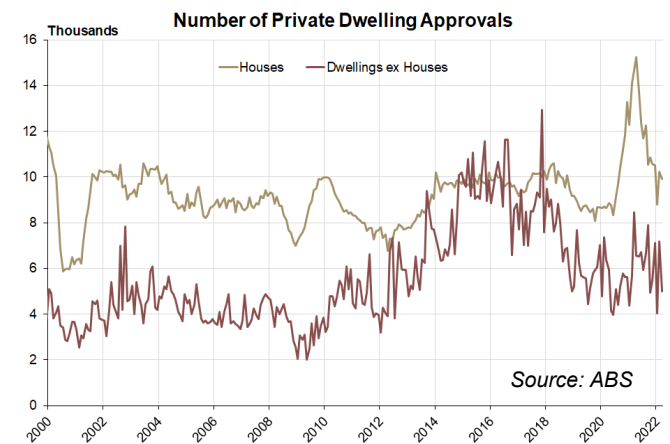
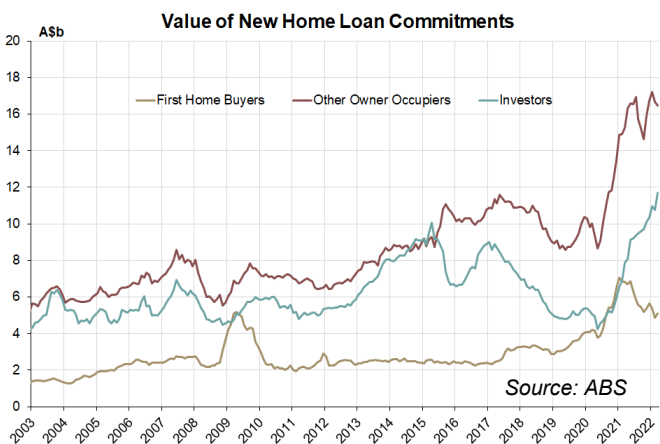
The **Melbourne Institute gauge** suggests consumer price pressures eased in April, helped by lower fuel costs.

Higher prices, as well as the recovery from Omicron and floods, saw **retail sales** hit a record high in March.



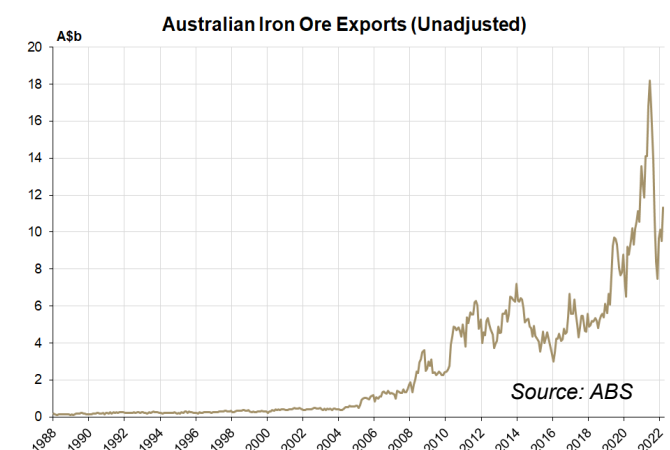
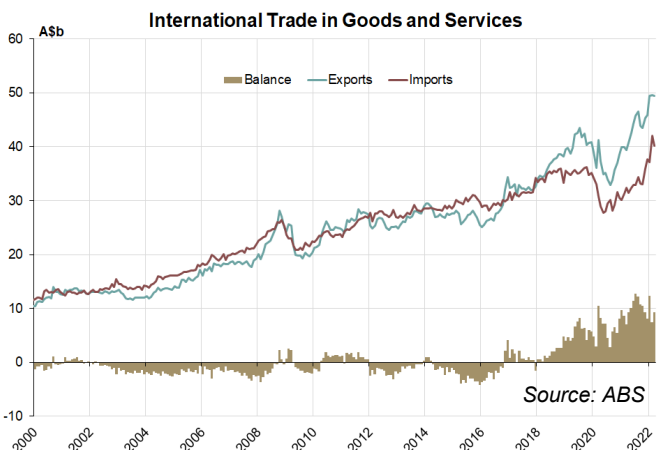
New home loans picked up in March, supported mainly by another strong gain in investment loans...

... while **dwelling approvals** have slipped, private house approvals remain well above pre-pandemic levels.



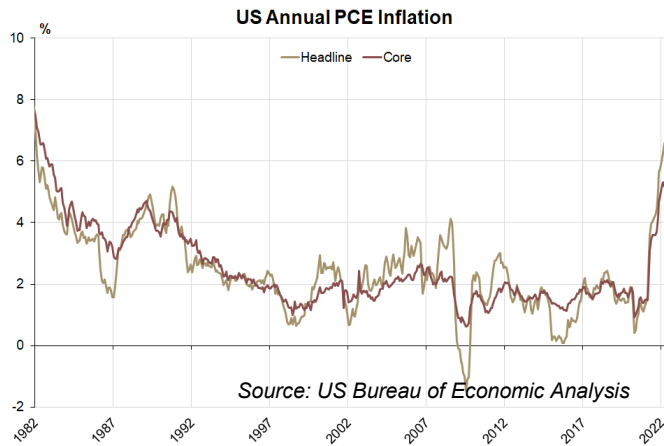
The **trade balance** widened in March, supported by a fall in imports after a strong gain in the previous month.

The value of **iron ore exports** rose further and is elevated by historical standards.

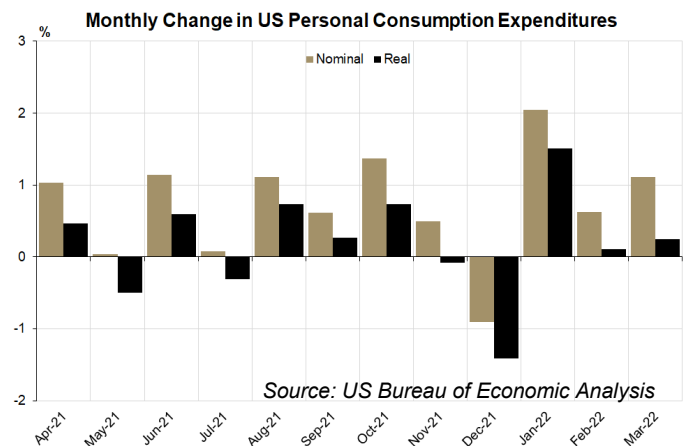


GLOBAL ECONOMY

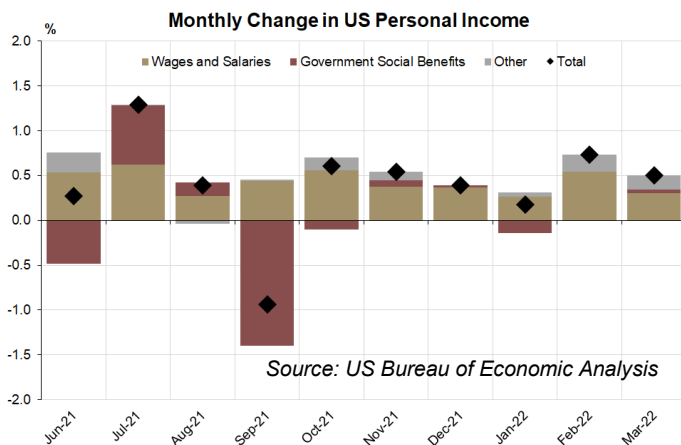
US PCE price inflation rose to a new 40-year high in March.



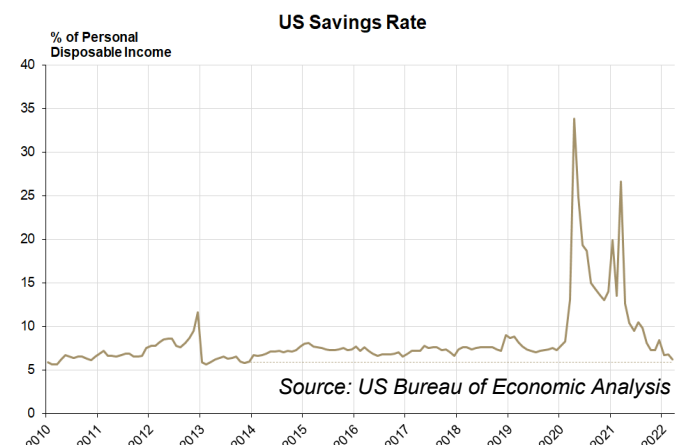
US personal spending growth accelerated in March but it remained very slow if adjusted for inflation.



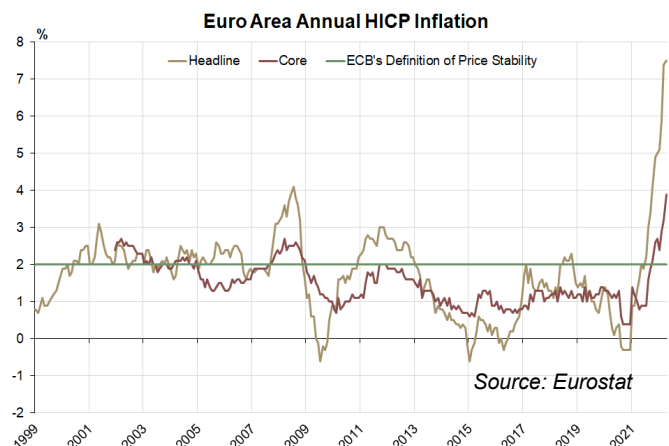
US household income growth remained relatively solid in March...



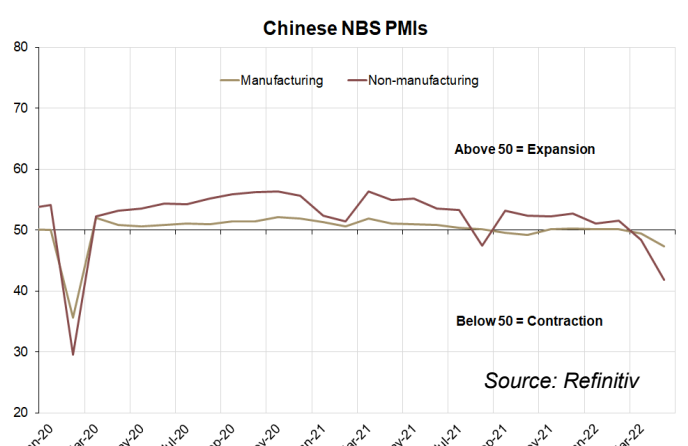
... however, the household **savings rate** continued to decline



Elsewhere, inflation reached a new record high in **the euro area**, both for headline and core indices.



In China, **official PMIs** signal deepening contraction in April, as the zero-COVID policy continues.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

9 May 2022

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 02					
AU	Melbourne Institute Inflation (MoM, Apr)	-0.1%	-	0.8%	Decline due to lower petrol prices.
AU	ANZ Job Ads (MoM, Apr)	-0.5%	-	0.4%	Slipped from its pandemic high in March.
US	ISM Manufacturing PMI (Apr)	55.4	57.6	57.1	Lockdowns in China disrupting US production.
Tue 03					
AU	RBA Decision (Cash Rate)	0.35%	0.10%	0.10%	RBA signals more rate hikes are coming.
AU	ANZ Consumer Confidence (w/e 30 Apr)	-6.0%	-	-0.3%	Slumped amid higher cash rate expectations.
US	JOLTS Job Openings (Mar)	11,549k	11,000k	11,266k	Job openings almost double the unemployed.
Wed 04					
AU	Housing Finance (MoM, Mar)	1.6%	-1.0%	-3.7%	Investor loans rose by 48.4% YoY.
AU	Retail Trade (MoM, Mar)	1.6%	0.5%	1.8%	Partly supported by a rise in inflation.
US	FOMC Decision (IoR)	0.90%	0.40%	0.40%	QT to start in early June.
US	ADP Employment (monthly change, Apr)	247k	395k	479k	Over 1 million above the pre-pandemic level.
US	ISM Services PMI (Apr)	57.1	58.5	58.3	Price pressures the highest on record.
Thu 05					
AU	Trade Balance (Mar)	A\$9.3b	A\$8.5b	A\$A\$7.4b	A rise in surplus driven by a fall in imports.
AU	Building Approvals (MoM, Mar)	-18.5%	-12.0%	43.5%	Private house approvals still high.
CH	Caixin Composite PMI (Apr)	37.2	40.1	43.9	Fastest contraction since the Wuhan outbreak.
UK	Bank of England Decision (Bank Rate)	1.00%	1.00%	0.75%	BoE points to a risk of a recession.
US	Initial Jobless Claims (w/e 30 Apr)	200k	180k	180k	Continued claims the lowest since Jan 1970.
Fri 06					
AU	Statement on Monetary Policy (May)	-	-	-	RBA projecting sharply higher inflation.
Tonight					
US	Non-farm Payrolls (monthly change, Apr)	-	400k	431k	Official number still below pre-COVID levels.
US	Unemployment Rate (Apr)	-	3.6%	3.6%	FOMC's longer-run estimate is 4.0%.

Next Week

	Event	Forecast	Previous	Comment
Mon 09				
CH	Trade Surplus (Apr)	US\$56.6b	US\$47.4b	Lockdowns across China saw imports fall in March.
Tue 10				
AU	NAB Business Conditions (Apr)	-	9	WA conditions the highest of all states in March.
AU	NAB Business Confidence (Apr)	-	16	Confidence in WA rose 13pts in March.
AU	CBA Household Spending (MoM, Apr)	-	9.2%	An early look at household spending in April.
AU	Retail Sales Volumes (Q1)	1.0%	8.2%	Growth for volumes slower than for nominal sales.
Wed 11				
AU	Westpac Consumer Confidence (May)	-	-0.9%	Has been falling for five months.
CH	CPI (YoY, Apr)	1.9%	1.5%	Chinese consumer demand pressure remains low.
CH	PPI (YoY, Apr)	7.8%	8.3%	Cost pressures have been easing for half a year.
US	CPI (MoM, Apr)	0.2%	1.2%	Inflation in the US might be peaking.
Thu 12				
AU	Payroll Jobs (MoM, w/e 16 Apr)	-	-0.6%	Were up 0.3% over the year to 12 March.
UK	GDP (QoQ, Q1)	1.0%	1.3%	Monthly reports suggest a solid gain.
US	PPI (MoM, Apr)	0.4%	1.3%	Core PPI to rise by 0.6% in the month.
Fri 13				
US	University of Michigan Cons. Conf. (May)	64.0	65.2	US consumer confidence remains depressed.