

THIS WEEK'S HIGHLIGHTS

- The RBA on numerous occasions admitted that it is concerned about the rise in inflation and signalled more monetary policy tightening ahead.
- Data-wise, June flash PMIs pointed to slower pace of activity growth in the US and the euro area. The pace of expansion is slowing also in Australia.

NEXT WEEK'S HIGHLIGHTS

- The major domestic releases next week will be retail trade on Wednesday and private sector credit on Thursday; both releases are for May. There is also Q1 job vacancies report on Thursday.
- The most important releases offshore will be the US personal income and outlays report for May, including the PCE inflation index, as well as the US ISM report for manufacturing and Chinese PMIs.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	0.85 (0 pt)	O/N Interbank Cash	0.81 (0 pt)	USD 3-month	2.20 (↑13 pt)	ASX200	6550 (↑118 pt)
US (IOR)	1.65 (0 pt)	90-day Bills	1.74 (↑23 pt)	2-yr T-Notes	3.04 (↓13 pt)	S&P500	3796 (↑129 pt)
Eurozone	-0.50 (0 pt)	3-yr T-Bond	3.30 (↓39 pt)	10-yr T-Notes	3.10 (↓16 pt)	DJIA	30677 (↑750 pt)
UK	1.25 (0 pt)	10-yr T-Bond	3.71 (↓38 pt)	Jap 10-yr	0.23 (↓3 pt)	Nikkei	26362 (↑568 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.63 (↓42 pt)	UK 10-yr	2.29 (↓23 pt)	CSI300	4379 (↑130 pt)
China (1Y LPR)	3.70 (0 pt)	10-yr WATC Bond	4.23 (↓35 pt)	Ger 10-yr	1.44 (↓27 pt)	Stoxx600	402 (↓0 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields dropped sharply this week, driven by concerns that the rapid pace of monetary policy tightening will plunge the US economy into a recession.

During his testimony to the US Congress, Fed Chair Jerome Powell said that the Fed is committed to bringing inflation back to its goal of 2%, for which restrictive monetary policy settings are needed. He admitted that achieving a soft landing would be "very challenging", and that recession was "certainly a possibility" as a result.

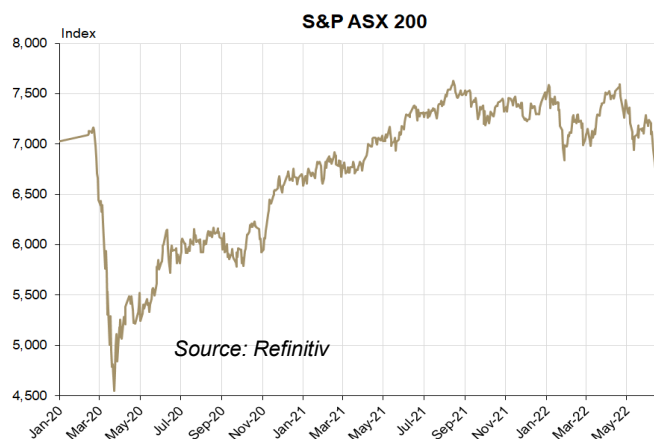
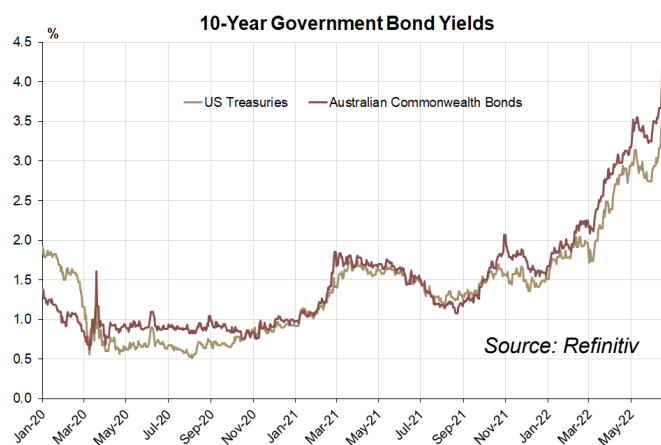
The RBA Board minutes explained that the RBA Board opted for a 50bps rate hike in early June, as interest levels are too low given the tight labour market and higher inflation. In a public appearance on Tuesday, RBA Governor Philip Lowe stressed that inflation is increasingly being driven by domestic factors and confirmed further rapid tightening ahead, thought with the speed governed by the incoming data. He dismissed speculation of a 75bps hike in July. The RBA also issued a review of its 3-year yield target, concluding that, while it has helped to lower the funding costs, the disorderly end to the policy has caused "some reputational damage to the Bank".

Equities

Trade on global equity markets has been a mixed bag after last week's heavy sell-off.

The major indices in the US have made solid gains, despite the Fed reaffirming its commitment to raising interest rates and expectations that higher interest rates will slow economic growth. The gains have largely been made in defensive stocks, reflecting the uncertain outlook.

Domestically, the ASX 200 closed the session on Monday at its lowest level since November 2020. However, the market has since clawed back some of its losses.



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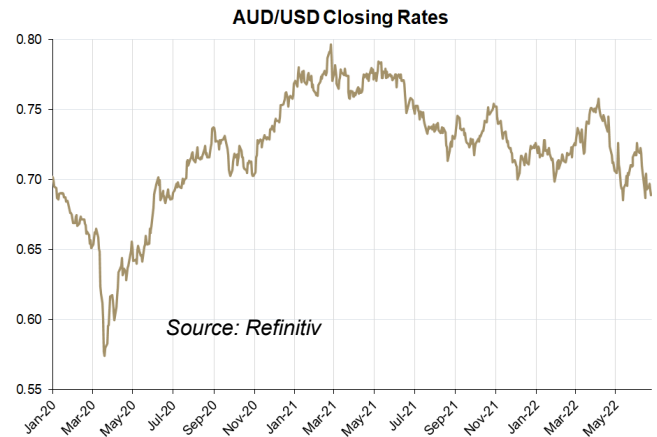
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Currencies

The Australian dollar has posted sharp losses versus all major currencies over the past week, and is not far above the near two-year low against the greenback recorded in May.

The depreciation of the AUD was caused by multiple factors, including the fall in commodity prices, volatile global market sentiment, uncertainty about the Chinese economic outlook and the prospect of a relatively slower pace of monetary policy tightening by the RBA compared to the US. This week, RBA Governor Philip Lowe virtually ruled out a 75bps hike in July, while a 75bps hike is almost certain in the US next month.

The Aussie dollar is the weakest G10 currency this week, with the Kiwi dollar being the second weakest.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6901	0.7053	0.6866	↓1.7	0.7661	0.6827
AUD/EUR		0.6552	0.6684	0.6513	↓1.7	0.6982	0.6077
AUD/GBP		0.5622	0.5717	0.5615	↓1.4	0.5822	0.5200
AUD/JPY		93.07	95.31	92.61	↓0.5	96.87	77.86
AUD/CNY		4.6207	4.7276	4.6035	↓1.8	4.9185	4.4286
EUR/USD		1.0529	1.0605	1.0443	↓0	1.1975	1.0348
GBP/USD		1.2274	1.2369	1.2159	↓0.4	1.4001	1.1932
USD/JPY		134.87	136.71	132.15	↑1.3	136.71	108.71
USD/CNY		6.6957	6.6957	6.6694	↓0.1	6.8110	6.3025

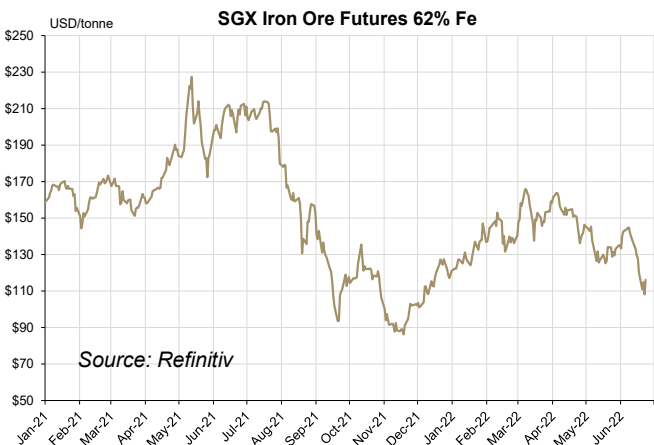
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6901	0.6904	0.6907	0.6896
AUD/EUR		0.6552	0.6511	0.6467	0.6372
AUD/GBP		0.5622	0.5614	0.5604	0.5567
AUD/JPY		93.07	92.52	91.71	89.63
AUD/NZD		1.0977	1.0988	1.1012	1.1024
AUD/SGD		0.9581	0.9578	0.9566	0.9506

Commodities

Oil prices dropped to five-week lows, as Fed officials highlighted their commitment to driving inflation back down to their target and Fed Chair Jerome Powell acknowledged the risk that rate hikes could push the US economy into recession. Supply remains the main concern, with prices continuing to trade well above US\$100.

Iron ore futures prices fell to the lowest levels in six months, although the losses were trimmed on Thursday after Chinese President Xi Jinping reaffirmed the commitment to meeting the nation's 2022 economic growth targets, raising hopes for more stimulus measures.

Copper, often seen as a prime indicator of the health of the global economy due to its use in a wide range of industries, has slipped to its lowest levels since February 2021.



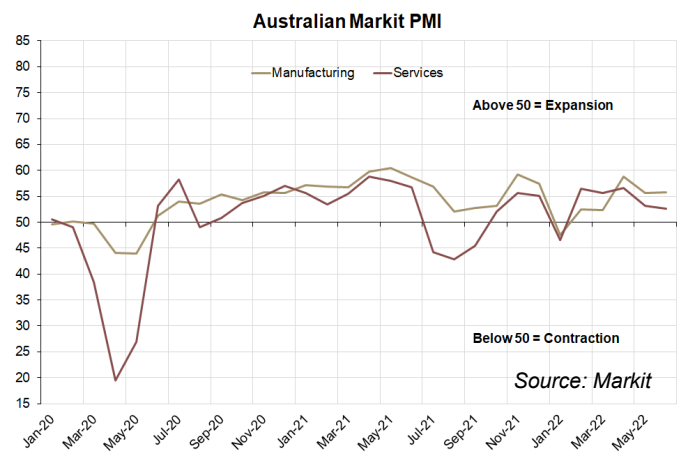
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,824.72	\$1,857.29	\$1,820.99	(↓\$21.94)	\$2,069.89	\$1,684.37
Brent Crude Oil (US\$)	\$109.82	\$121.25	\$107.03	(↓\$9.06)	\$139.13	\$64.60
Mogas95* (US\$)	\$153.55	\$161.20	\$150.69	(↓\$3.1)	\$161.20	\$75.70
WTI Oil (US\$)	\$104.26	\$118.97	\$101.53	(↓\$12.38)	\$130.50	\$61.74
CRB Index	296.69	\$117.17	296.69	(↓20.48)	329.59	204.94
Iron Ore Price 62% Fe (US\$) **	\$116.15	\$134.70	\$107.40	(↓\$11.88)	\$219.80	\$84.80

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

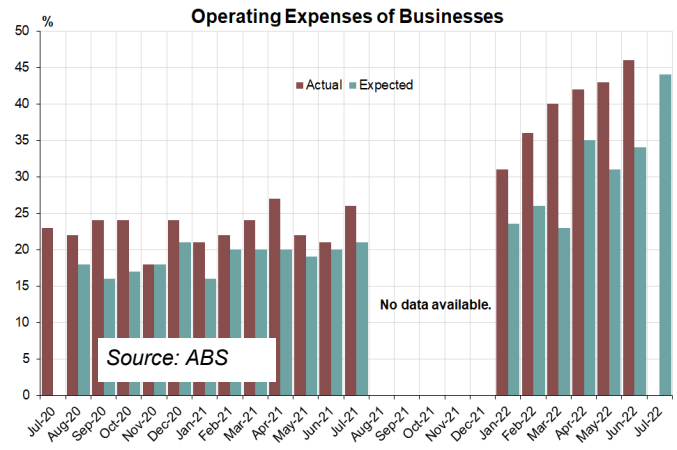
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

The **flash PMI report** pointed to slightly slower, albeit still solid growth in services in June.

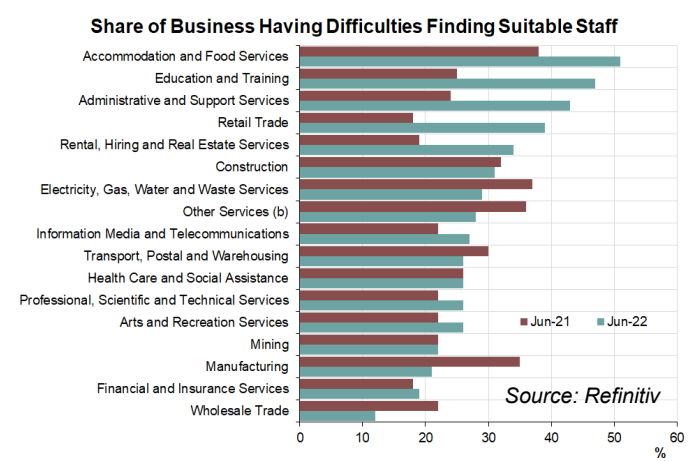
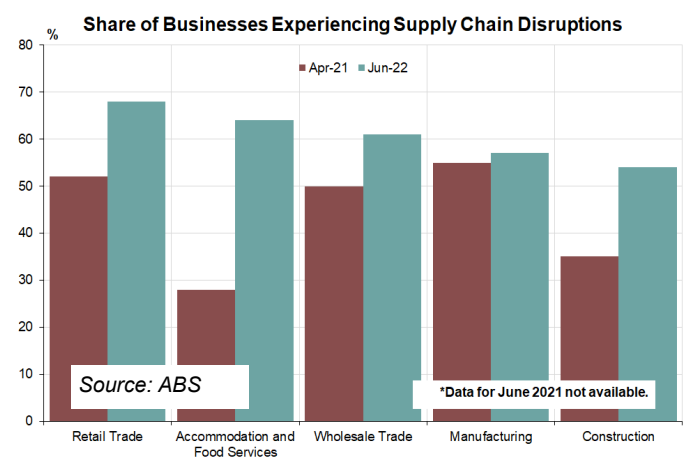


Companies are facing increasing **operating expenses**...



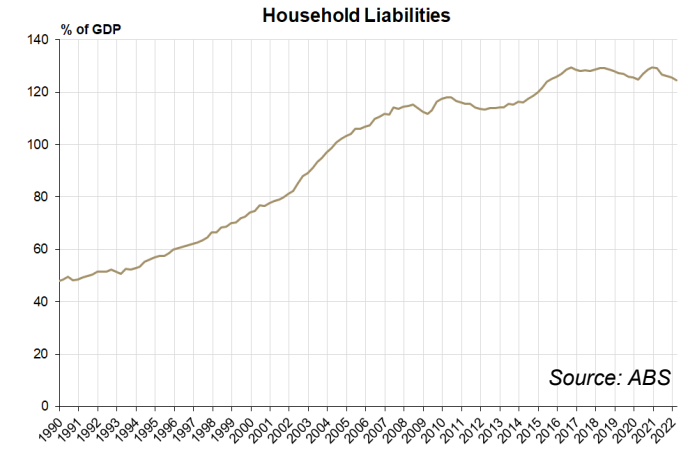
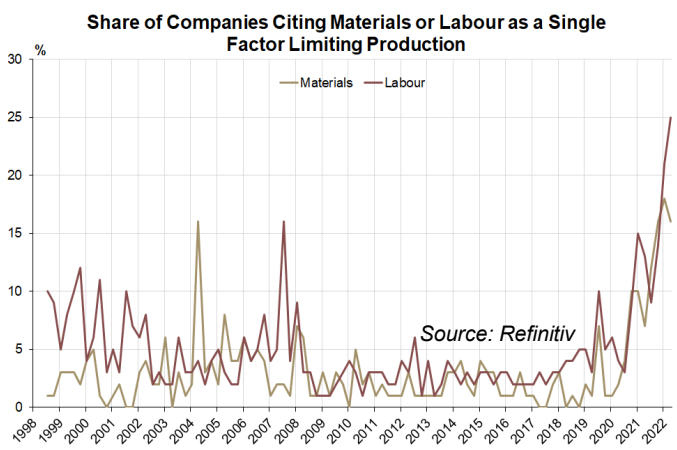
... propped up by **supply chain disruptions**...

... as well as ever greater **staff shortages**.



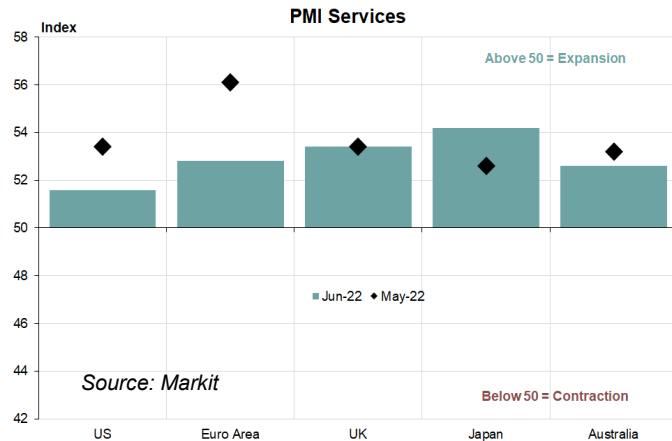
The share of companies citing costs of materials and labour as a **barrier to growth** is the highest in decades.

Household debt as proportion of GDP remained high in Q1 2022, driven by mortgage lending.

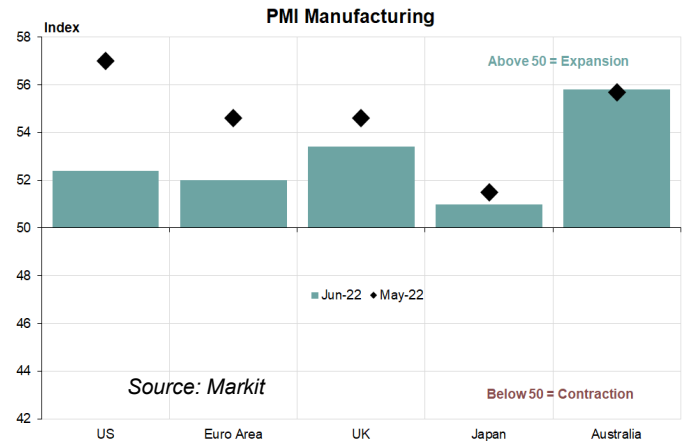


GLOBAL ECONOMY

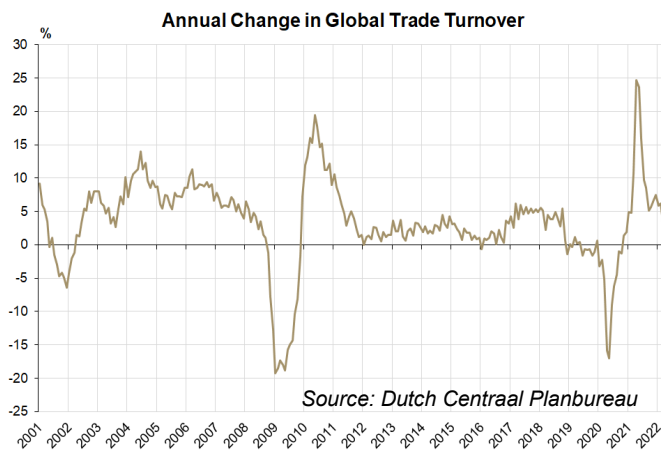
The **services PMIs** suggest slower growth in the US and euro area amid higher inflation and low confidence.



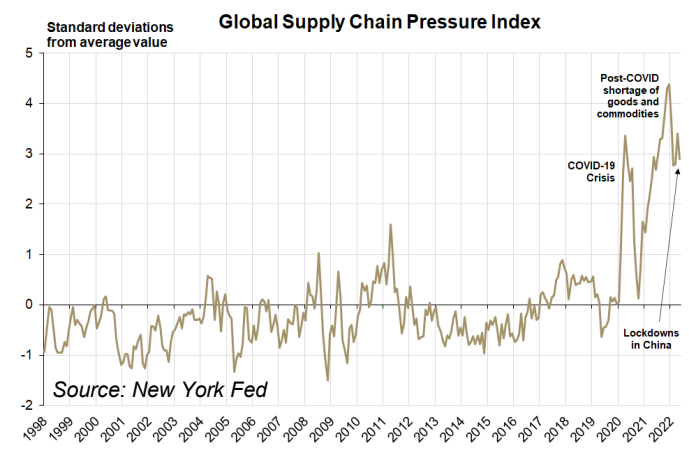
The **manufacturing PMIs** point to a sharp slowdown in the sector across the major advanced economies.



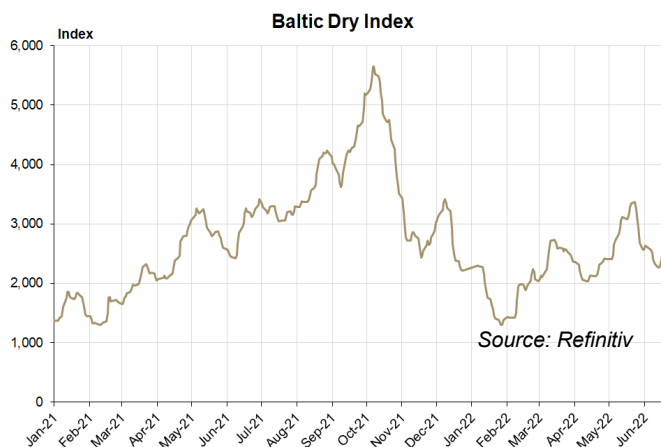
Global trade growth has slowed following a sharp rebound in 2021.



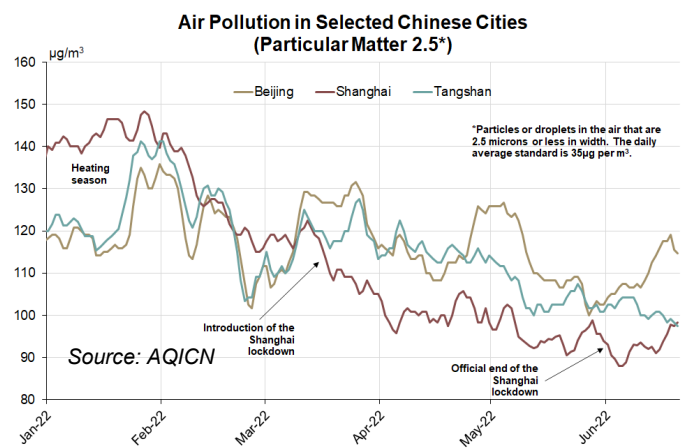
Global supply chain disruptions have eased but remain elevated, as suggested by the **New York Fed index**.



The **Baltic Dry index** of bulk shipping costs has slipped over the past month, after rising in early 2022.



The **pollution data** indicate that activity in some major Chinese industrial hubs is yet to fully recover.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

24 June 2022

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 20					
CN	PBoC Decision (1Y Loan Prime Rate)	3.70%	-	3.70%	PBoC cautious about monetary policy easing.
Tue 21					
AU	RBA Minutes (Jun)	-	-	-	50bps hike due to changing "inflation mindset".
AU	Review of RBA 3Y Yield Target	-	-	-	YCC exit caused "some reputational damage".
AU	RBA Governor's Public Appearance	-	-	-	RBA will watch inflation expectations closely.
AU	ANZ Consumer Confidence (w/e 18 Jun)	1.6%	-	-7.6%	Inflation expectations bounced to 5.9%.
Wed 22					
UK	CPI (YoY, May)	9.1%	9.1%	9.0%	A new 30-year high.
Thu 23					
AU	PMI Composite (Jun, flash)	52.6	-	52.9	Headwinds from inflation and cash rate hikes.
JN	PMI Composite (Jun, flash)	53.2	-	52.3	Recovery from Omicron accelerates.
EZ	PMI Composite (Jun, flash)	51.9	54.0	54.8	Index slipped to a 16-month low.
UK	PMI Composite (Jun, flash)	53.1	52.4	53.1	Firms worried about lower private consumption.
US	PMI Composite (Jun, flash)	51.1	52.9	52.3	Strong deterioration in forward looking indices.
US	Initial Jobless Claims (w/e 18 Jun)	229k	225k	231k	Continued claims increased but remain low.
Fri 24					
JN	CPI (YoY, May)	2.5%	2.5%	2.5%	Core-core CPI inflation at 0.8%, same as in Apr.
Tonight					
AU	RBA Governor's Public Appearance	-	-	-	Panel discussion on central banks and inflation.
US	UMich Consumer Sentiment (Jun, final)	-	50.2	58.4	Preliminary reading was a record low 50.2.

Next Week

	Event	Forecast	Previous	Comment
Mon 27				
US	Durable Goods Orders (MoM, May)	0.1%	0.5%	Have been resilient to supply chain disruptions.
Tue 28				
US	Case Shiller 20 Cities (YoY, Apr)	21.2%	21.2%	Higher rates will feed into lower prices eventually.
Wed 29				
AU	Retail Trade (MoM, May)	0.3%	0.9%	Partly propped up by faster price growth.
JN	Retail Sales (YoY, May)	4.0%	3.1%	Slowly recovering from the Omicron outbreak.
EZ	Consumer Confidence (Jun, final)	-23.6	-21.1	Dragged down by record inflation and Ukraine war.
US	GDP (QoQ annualised, Q1, final)	-1.4%	6.9%	No revision expected.
Thu 30				
AU	Private Sector Credit (MoM, May)	0.6%	0.8%	Supported by strong business and housing credit.
AU	Job Vacancies (QoQ, Q1)	-	6.9%	Demand for labour remains strong in Australia.
JN	Industrial Production (YoY, May)	4.2%	-4.9%	Dragged down by supply chain disruptions.
CH	NBS Composite PMI (Jun)	-	48.4	Chinese economy recovering from the lockdowns.
US	Personal Spending (MoM, May)	0.4%	0.9%	American consumers just keep spending.
US	Personal Income (MoM, May)	0.5%	0.4%	Has been falling short of consumption of late.
US	PCE (YoY, May)	6.5%	6.3%	CPI inflation suggests re-acceleration.
Fri 01				
CH	Caixin Manufacturing PMI (Jun)	-	48.1	To rise back into expansion as lockdowns are lifted.
EZ	HICP (YoY, Jun)	8.3%	8.1%	Euro area inflation establishes new record highs.
US	ISM Manufacturing PMI (Jun)	55.4	56.1	Markit report suggests a slower pace of expansion.