

THIS WEEK'S HIGHLIGHTS

- In Australia, retail trade rose to a new high in May, partly helped by a rise in inflation. Private sector credit saw another solid rise in May, while job vacancies surged to a new record high in Q2.
- Offshore, US real personal consumption declined in May, while PCE inflation remained elevated. Chinese PMIs suggest that the economy is recovering from the recent lockdowns.

NEXT WEEK'S HIGHLIGHTS

- The most important domestic event will be the RBA decision, with a 50bps hike in interest rates expected.
- Other domestic events involve the May reports for housing finance and dwelling approvals on Monday, as well as the trade balance on Thursday. There is also the June job ads report on Monday, as well as payrolls jobs and wages for the week ending 11 June, on Thursday.
- A busy week is ahead offshore, with the US employment data, FOMC minutes, as well as the US and Chinese services PMIs being the most important releases.

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	2.29 (↑9 pt)	ASX200	6583 (↑33 pt)
US (IOR)	1.65 (0 pt)	90-day Bills	1.81 (↑7 pt)	2-yr T-Notes	2.93 (↓11 pt)	S&P500	3785 (↓10 pt)
Eurozone	-0.50 (0 pt)	3-yr T-Bond	3.07 (↓24 pt)	10-yr T-Notes	2.97 (↓13 pt)	DJIA	30775 (↑98 pt)
UK	1.25 (0 pt)	10-yr T-Bond	3.55 (↓16 pt)	Jap 10-yr	0.23 (0 pt)	Nikkei	26160 (↓203 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.40 (↓23 pt)	UK 10-yr	2.26 (↓3 pt)	CSI300	4479 (↑99 pt)
China (1Y LPR)	3.70 (0 pt)	10-yr WATC Bond	4.08 (↓15 pt)	Ger 10-yr	1.37 (↓7 pt)	Stoxx600	407 (↑5 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Government bond yields continued to decline in the US and Australia this week, dragged down by concerns over a possible recession in the US. Expectations for monetary policy tightening have eased in the US and Australia this week, but continue to point to 75bps and 50bps hikes in July, respectively, with further tightening going forward.

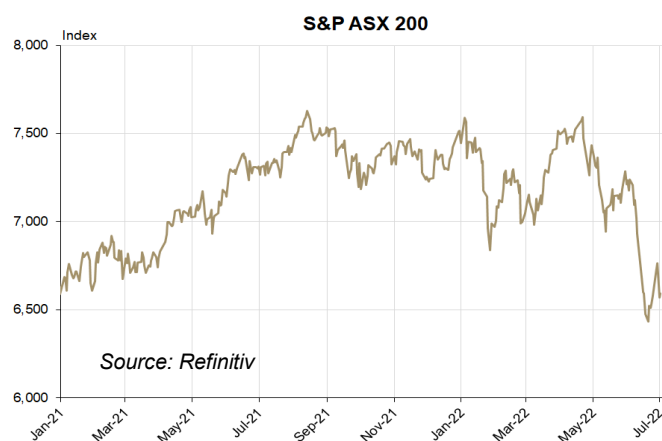
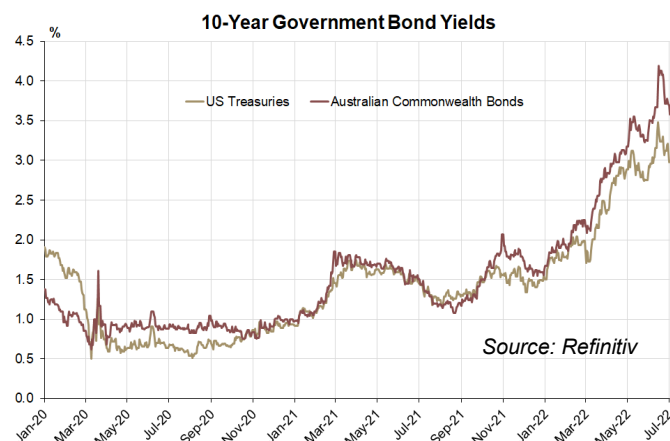
There were several public appearances by central bank officials this week, which confirmed market views on the monetary policy outlook. Fed Chair Jerome Powell again stressed that bringing inflation down to the 2% goal is necessary but will involve "some pain". ECB President Christine Lagarde reiterated that monetary policy tightening in the euro area must begin now, while Bank of England Governor Andrew Bailey said that tightening will continue despite the signs of a slowing economy.

Equities

It has been another volatile week for equities.

The US share market set the scene for a positive start to the week, with a strong rise last Friday, as a soft US consumer confidence report and downgrade of consumer inflation expectations saw traders shave some of the pricing in for Fed rate hikes. Wall Street has since given back all those gains, as the Fed reaffirmed its commitment to interest rate increases and the economic outlook deteriorated. The S&P 500 has lost 21% since the start of 2022, its worst first half year since 1970.

The Aussie market jumped out of the blocks, climbing 1.9% on Monday and backed it up with another solid rise on Tuesday, to close at a two-week high. The ASX 200 lost ground midweek, however, as global sentiment deteriorated. The index lost almost 12% over the first half of the year, but has bounced in early trade this morning to get the second half off to a positive start.



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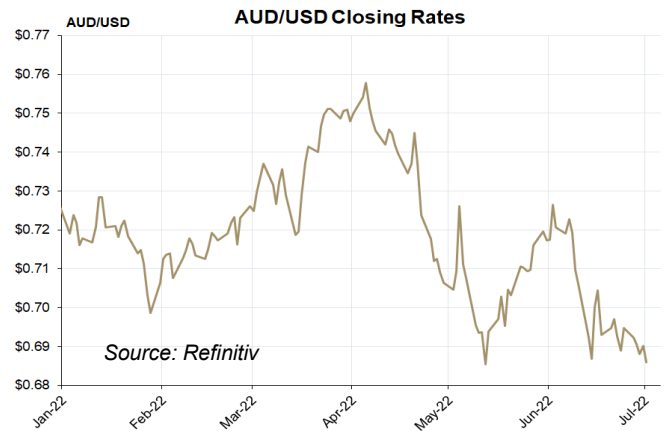
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Currencies

After initially showing some strength against the major currencies, the AUD has slipped back and is one of the weakest members of the G10 currency basket this week, ahead of only the New Zealand dollar and the British pound.

The Aussie peaked at USD0.6964 against the greenback on Tuesday but dropped soon after, as concerns mounted over the outlook for the global economy. The currency staged a short-lived revival late in Thursday's session, but has resumed its decline this morning and is currently sitting at close to a two-year low against the greenback.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6821	0.6964	0.6811	↓1.2	0.7661	0.6811
AUD/EUR		0.6524	0.6638	0.6517	↓0.4	0.6982	0.6077
AUD/GBP		0.5627	0.5689	0.5610	↑0.1	0.5822	0.5200
AUD/JPY		92.13	94.70	91.98	↓1	96.87	77.86
AUD/CNY		4.5755	4.6580	4.5665	↓1	4.9077	4.4286
EUR/USD		1.0451	1.0614	1.0381	↓0.7	1.1909	1.0348
GBP/USD		1.2117	1.2332	1.2089	↓1.3	1.3983	1.1932
USD/JPY		135.07	136.99	134.34	↑0.1	136.99	108.71
USD/CNY		6.7080	6.7080	6.6732	↑0.2	6.8110	6.3025

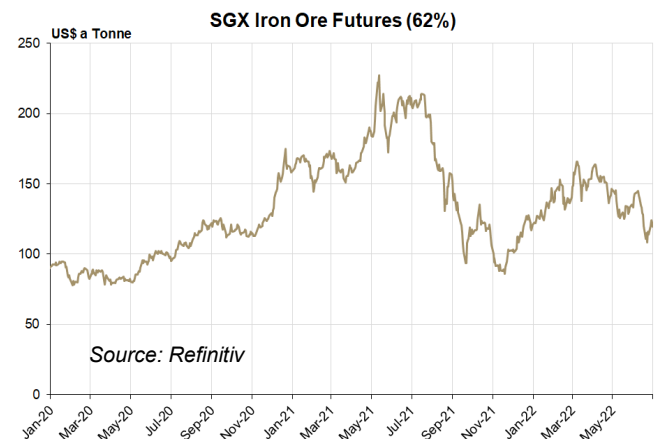
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6821	0.6827	0.6830	0.6818
AUD/EUR		0.6524	0.6485	0.6435	0.6346
AUD/GBP		0.5627	0.5622	0.5606	0.5578
AUD/JPY		92.13	91.60	90.71	88.73
AUD/NZD		1.1043	1.1062	1.1078	1.1082
AUD/SGD		0.9502	0.9501	0.9485	0.9418

Commodities

Commodity prices were mixed this week. On the one hand, concerns over a possible recession in the US continued to drag on prices for many commodities, particularly copper. On the other hand, there were more signs that the Chinese economy is recovering, which was supportive of other commodity prices.

Brent futures are pretty flat for the week, with some volatility on the way, caused by G7 leaders considering imposing a cap on Russian oil prices and the upcoming meeting of OPEC+.

Iron ore prices climbed 2.4% on the positive economic news from China. This news included the PMIs rising back into expansion in June, the easing of quarantine restrictions on overseas arrivals and no new local COVID-19 cases officially reported in Shanghai and Beijing, allowing for the easing of containment measures.



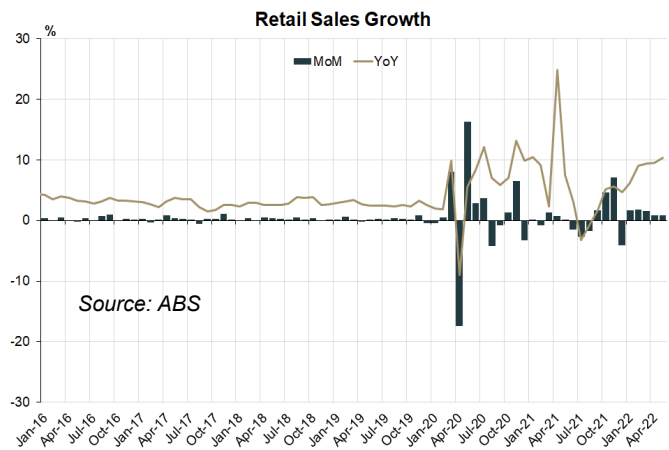
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,802.62	\$1,840.79	\$1,801.50	(↓\$22.1)	\$2,069.89	\$1,684.37
Brent Crude Oil (US\$)	\$109.37	\$120.41	\$109.24	(↓\$0.45)	\$139.13	\$64.60
Mogas95* (US\$)	\$150.09	\$156.74	\$150.09	(↓\$3.46)	\$161.20	\$75.70
WTI Oil (US\$)	\$105.95	\$114.05	\$103.64	(↑\$1.69)	\$130.50	\$61.74
CRB Index	291.15	301.00	291.15	(↓5.54)	329.59	204.94
Iron Ore Price 62% Fe (US\$)**	\$118.97	\$125.55	\$112.40	(↑\$2.82)	\$219.80	\$84.80

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

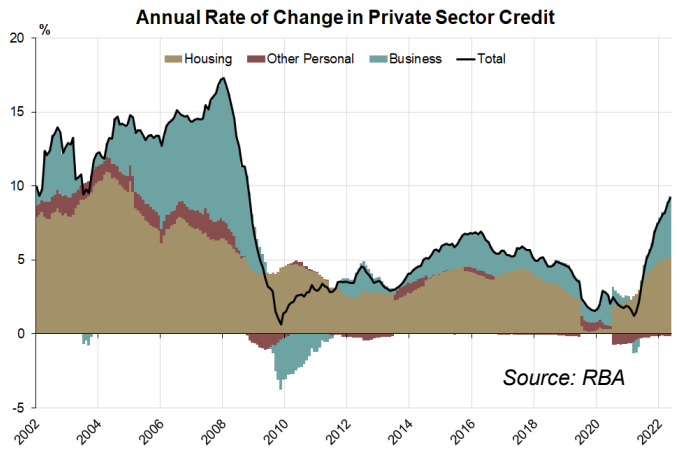
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

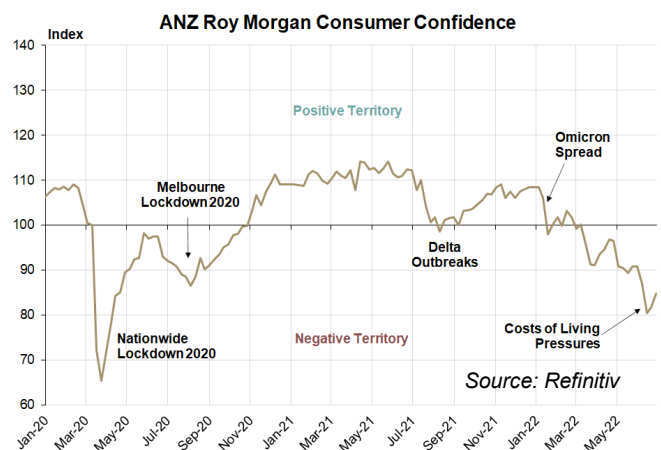
The value of **retail trade** continues to rise steadily, partly helped by higher inflation.



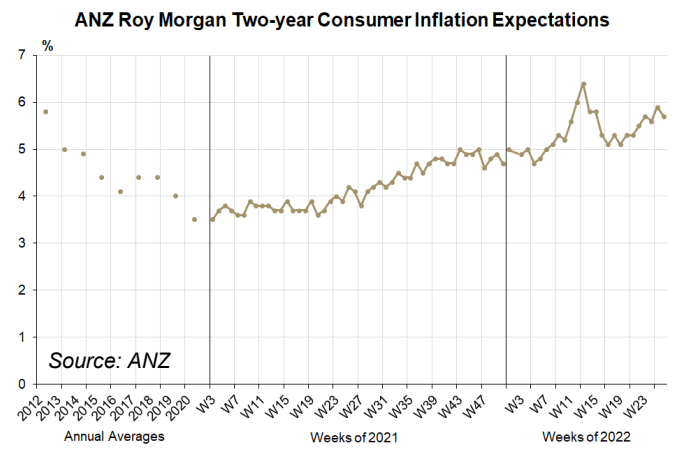
Private sector credit saw another solid increase in May, supported by business and mortgage lending.



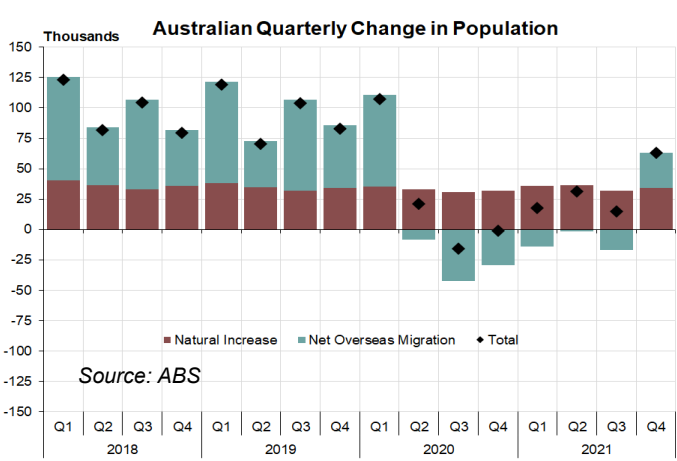
Consumer sentiment has improved a little but remains depressed...



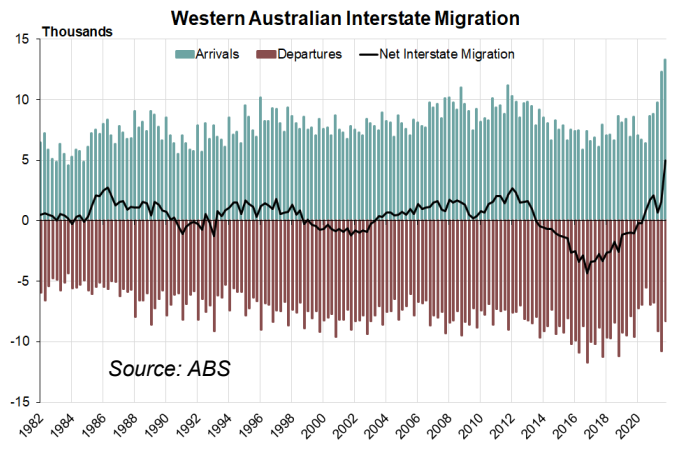
... as consumer inflation expectations are still elevated.



In Q4 2021, net overseas migration added to Aussie population growth for the first time since COVID hit.

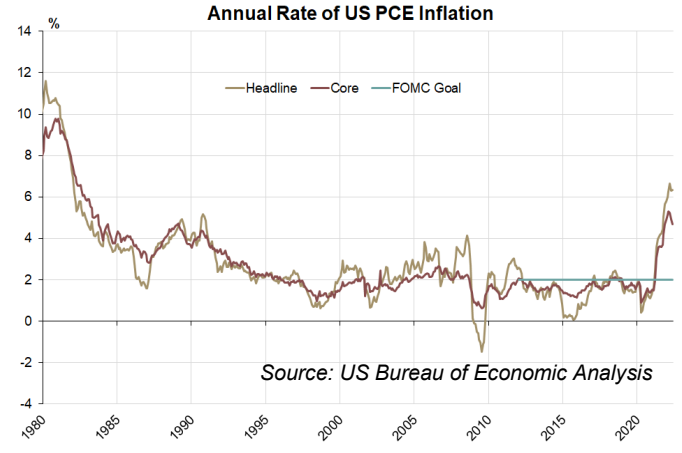
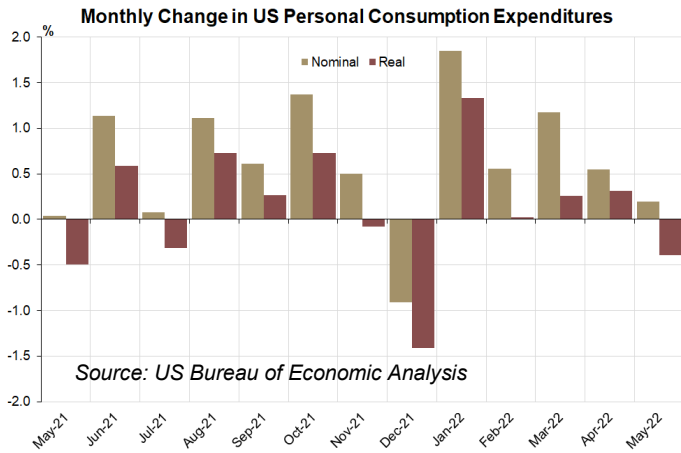


Western Australia's net interstate migration surged in the final quarter of 2021.

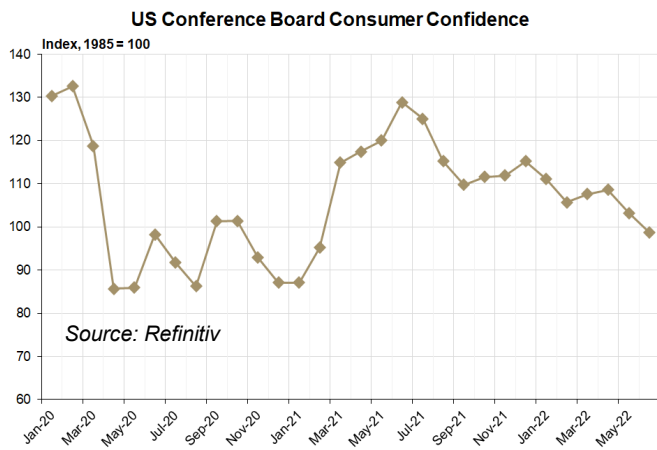


GLOBAL ECONOMY

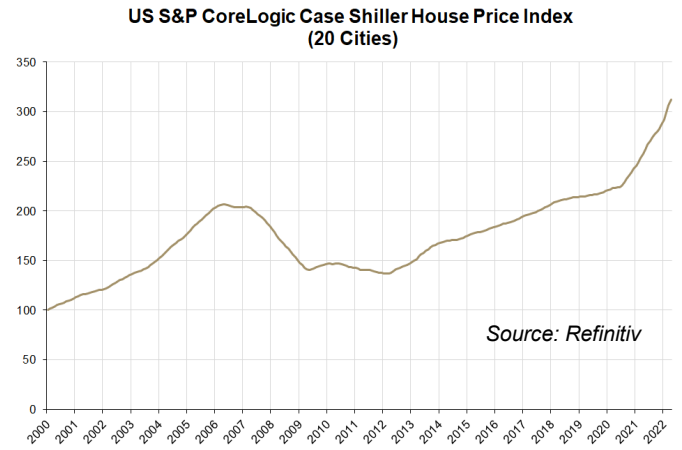
US personal consumption expenditures declined in real terms in May... while PCE price inflation remained elevated.



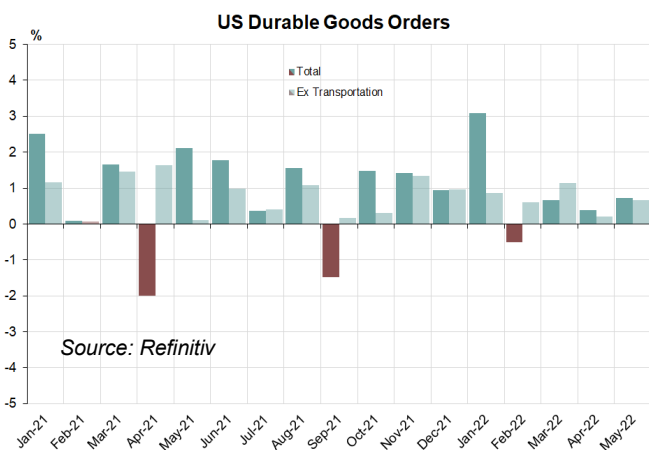
High inflation translates into an ongoing decline in US consumer confidence.



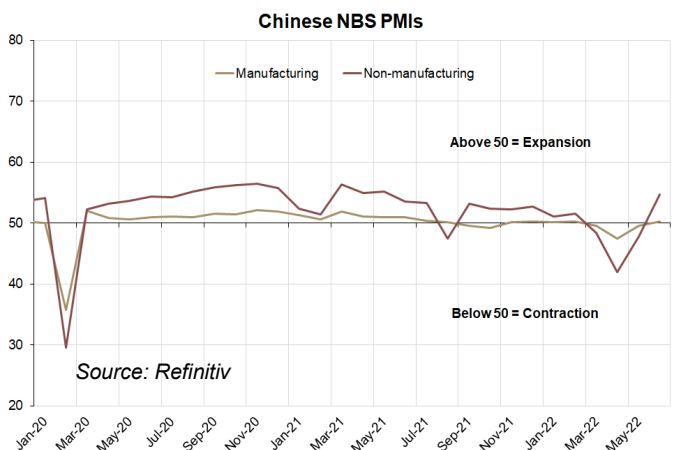
US house prices hit a new record high in April, with the impact of higher interest rates yet to be seen.



US durable goods orders saw a broad-based increase in May, partly helped by higher prices.



The Chinese NBS PMIs suggest that the economy has started to recover from the recent lockdowns.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

1 July 2022

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 27					
US	Durable Goods Orders (MoM, May)	0.7%	0.2%	0.4%	Broad-based rise, partly driven by inflation.
Tue 28					
AU	ANZ Consumer Confidence (w/e 25 Jun)	3.7%	-	1.6%	Inflation expectations eased to a still high 5.7%.
US	Case Shiller 20 Cities (YoY, Apr)	21.2%	21.0%	21.1%	Higher rates suggest prices likely near a peak.
US	Conference Board Cons. Conf. (Jun)	98.7	100.5	103.2	The lowest level since February 2021.
Wed 29					
AU	Retail Trade (MoM, May)	0.9%	0.3%	0.9%	Supported by higher prices, particularly for food.
JN	Retail Sales (YoY, May)	3.6%	3.2%	3.1%	Driven by recovery from COVID-19 curbs.
EZ	Consumer Confidence (Jun, final)	-23.6	-23.6	-21.1	Dragged down by higher inflation.
US	GDP (QoQ annualised, Q1, final)	-1.6%	-1.5%	6.9%	Downward revision to household consumption.
Thu 30					
AU	Private Sector Credit (MoM, May)	0.8%	0.6%	0.8%	Broad money up 10.4% YoY.
AU	Job Vacancies (QoQ, Q2)	13.8%	-	6.2%	1.1 officially unemployed per vacancy.
JN	Industrial Production (YoY, May)	-7.2%	-0.2%	-1.5%	The largest fall in two years.
CH	NBS Composite PMI (Jun)	54.1	-	48.4	Recovery from lockdowns is led by services.
US	Personal Spending (MoM, May)	0.2%	0.4%	0.6%	Spending declined 0.4% in real terms.
US	Personal Income (MoM, May)	0.5%	0.5%	0.5%	Savings rate rose for the first time this year.
US	PCE (YoY, May)	6.3%	6.5%	6.3%	Core inflation down 0.2ppts to 4.7%.
US	Initial Jobless Claims (w/e 25 Jun)	231k	226k	233k	Another upward revision from previous week.
Fri 01					
CH	Caixin Manufacturing PMI (Jun)	51.7	50.2	48.1	Signals the strongest growth since May 2021.
Tonight					
EZ	HICP (YoY, Jun)	-	8.5%	8.1%	A new record high expected.
US	ISM Manufacturing PMI (Jun)	-	54.8	56.1	Markit report suggests slower expansion.

Next Week

	Event	Forecast	Previous	Comment
Mon 04				
AU	ANZ Job Ads (MoM, Jun)	-	0.4%	Demand for Australian labour remains high.
AU	Housing Finance (MoM, May)	-3.2%	-6.4%	First release for period after RBA tightening started.
AU	Building Approvals (MoM, May)	-3.5%	-2.4%	Coming off the Home Builder spike continues.
Tue 05				
AU	RBA Decision (Cash Rate)	1.35%	0.85%	A 50bps hike almost fully priced in.
CH	Caixin Services PMI (Jun)	-	41.4	NBS PMI points to a recovery.
Wed 06				
US	ISM Services PMI (Jun)	54.5	55.9	Markit report suggests deceleration in growth.
US	FOMC Minutes	-	-	More on the 75bps hike in June and the outlook.
Thu 07				
AU	Trade Balance (May)	A\$11.0m	A\$10.5b	To benefit further from higher commodity prices.
AU	Payroll Jobs (monthly change, w/e 11 Jun)	-	0.2%	Growth was 1.5% in the year to 14 May.
AU	Total Wages (monthly change, w/e 11 Jun)	-	-2.6%	Annual increase at 6.7%.
US	ADP Employment (monthly change, Jun)	250k	128k	Has fully recovered from the COVID drop.
Fri 08				
US	Non-farm Payrolls (monthly change, Jun)	250k	390k	US labour market continues to power ahead.
US	Unemployment Rate (Jun)	3.6%	3.6%	US unemployment rate back at pre-COVID levels.
US	Average Hourly Wages (YoY, Jun)	-	5.2%	US wages are surging, also for low wage workers.