

THIS WEEK'S HIGHLIGHTS

- In Australia, the RBA minutes released this week were perceived as hawkish, while the RBA governor and deputy governor confirmed further interest rate hikes going forward. Internet job vacancies climbed to the highest level since 2008. ANZ consumer confidence remained depressed, while consumer inflation expectations declined but are still elevated.
- Offshore, the ECB increased its key interest rates by 50bps, including raising the deposit rate to 0.00%, and announced another facility aimed to prevent the fragmentation of euro area bond markets. The US housing market data deteriorated further. The Kiwi annual inflation rate rose to the highest level since 1990 in Q2.

NEXT WEEK'S HIGHLIGHTS

- The next week will see the release of inflation data for Q2, most notably the CPI on Wednesday, which is a crucial release before the RBA meeting in early August. The other important release will be retail trade for June.
- It will be a busy week offshore, with the key data releases being the advance reading of US Q2 GDP (Thu), euro area GDP and inflation (Fri) as well as US personal income and outlays, including PCE inflation (Fri). The most important event, however, will be the FOMC decision (Wed), with another 75bps hike widely expected.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	1.35 (0 pt)	O/N Interbank Cash	1.31 (0 pt)	USD 3-month	2.78 (↑4 pt)	ASX200	6809 (↑216 pt)
US (IOR)	1.65 (0 pt)	90-day Bills	2.24 (↑9 pt)	2-yr T-Notes	3.14 (↑2 pt)	S&P500	3999 (↑209 pt)
Eurozone	0.00 (↑50 pt)	3-yr T-Bond	3.20 (↑12 pt)	10-yr T-Notes	2.90 (↓5 pt)	DJIA	32037 (↑1407 pt)
UK	1.25 (0 pt)	10-yr T-Bond	3.48 (↑4 pt)	Jap 10-yr	0.23 (0 pt)	Nikkei	27870 (↑1073 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.53 (↑12 pt)	UK 10-yr	2.04 (↓5 pt)	CSI300	4235 (↓101 pt)
China (1Y LPR)	3.70 (0 pt)	10-yr WATC Bond	4.02 (↑5 pt)	Ger 10-yr	1.22 (↑6 pt)	Stoxx600	424 (↓17 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

Concerns over the global economic outlook sent long-term government bond yields lower in the US and UK, however, yields are higher in continental Europe and Australia.

The RBA Board minutes were broadly perceived as hawkish, again signalling that monetary policy tightening will continue, with the size and timing being data dependent. RBA deputy governor Michele Bullock and RBA governor Philip Lowe also confirmed that the cash rate will rise further, with getting to at least the neutral rate a key focus. The RBA estimate the neutral cash rate to be at least 2.50%.

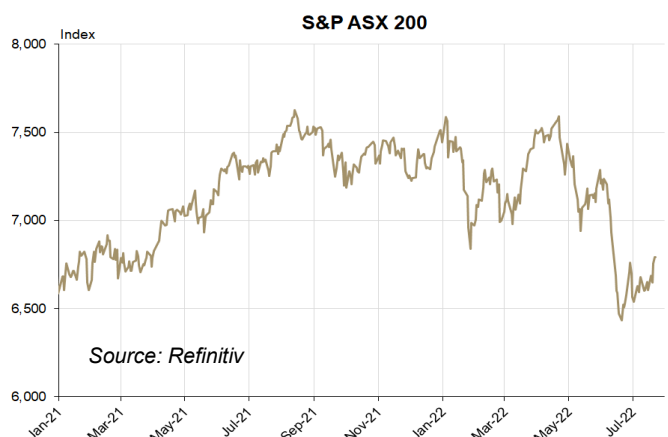
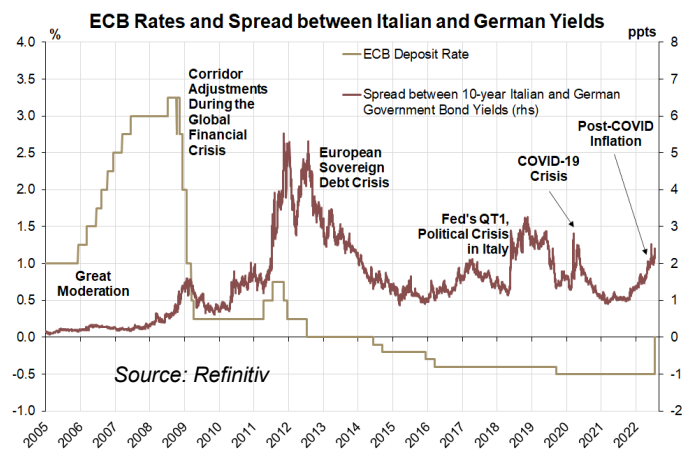
Elsewhere, the ECB increased its key interest rates by 50bps, including the deposit rate to 0.00%, and announced another facility, aiming to prevent the fragmentation of euro area bond markets. However, the announcement failed to lower the spread between Italian and German bonds. The Bank of Japan left its monetary policy settings unchanged yesterday, as expected.

Equities

Equities have seen strong rebounds across most of the major markets this week, despite the dark clouds remaining overhead.

The US market appears to have been lifted by an earnings season, which has so far largely exceeded some pretty downbeat expectations. There also seems to be an element that is of the view that, as the US economy slows, the Fed will lose its appetite for raising interest rates.

The Aussie market has followed the US market higher, shrugging off further hawkish rhetoric from the RBA and mounting concerns over the threat to the Chinese economy from problems in its property sector.



For further information, please contact:

Craig McGuinness
Patrycja Beniak

Chief Economist
Economist

cmcguinness@watac.wa.gov.au
pbeniak@watac.wa.gov.au

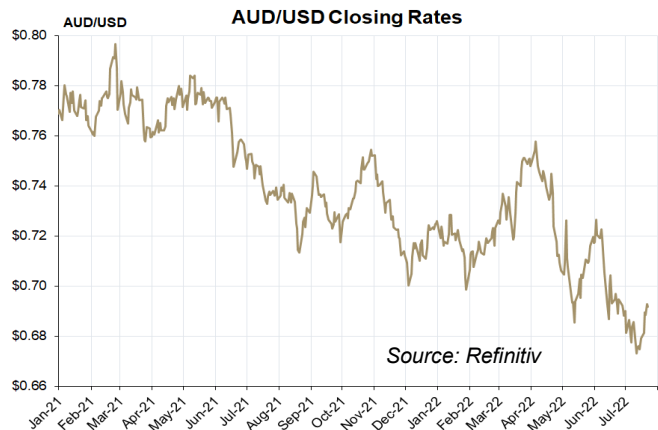
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(08) 9235 9110

Currencies

The Aussie dollar has been one of the strongest of the G10 currencies over the past week, only trailing the Swedish krona, and Norwegian krone.

The Aussie has jumped 2.5% against the greenback over the past week, rising to its highest levels in almost four weeks. The exchange rate was boosted by an increase in RBA rate hike expectations, improved market sentiment and the drop in the USD index, which slipped after hitting a 20-year high last week.

The fall in the USD was mainly driven by a rebound in the euro after the exchange rate briefly dipped below parity last week. The euro hit a two-week high following the 50bps rate hike from the ECB on Thursday but has since slipped back.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6909	0.6938	0.6717	↑2.4	0.7661	0.6680
AUD/EUR		0.6780	0.6786	0.6696	↑0.8	0.6982	0.6077
AUD/GBP		0.5773	0.5785	0.5677	↑1.2	0.5822	0.5200
AUD/JPY		95.14	95.75	93.12	↑1.5	96.87	77.86
AUD/CNY		4.6755	4.6939	4.5410	↑2.6	4.8743	4.4286
EUR/USD		1.0186	1.0278	1.0005	↑1.5	1.1909	0.9950
GBP/USD		1.1964	1.2045	1.1802	↑1.1	1.3983	1.1757
USD/JPY		137.68	139.12	137.00	↓0.9	139.39	108.71
USD/CNY		6.7673	6.7673	6.7220	↑0.2	6.8110	6.3025

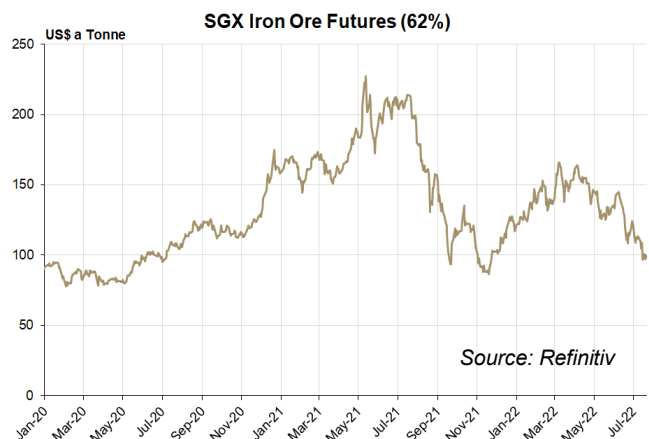
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6909	0.6916	0.6917	0.6900
AUD/EUR		0.6780	0.6743	0.6692	0.6599
AUD/GBP		0.5773	0.5766	0.5749	0.5722
AUD/JPY		95.14	94.50	93.46	91.37
AUD/NZD		1.1102	1.1123	1.1136	1.1137
AUD/SGD		0.9610	0.9615	0.9602	0.9542

Commodities

Commodity prices are quite mixed for the week. Oil prices managed to climb, despite growing concerns over the global economic outlook. The increase reflected persisting tightness of the energy market, further amplified by constrained supply of gas supplies to Europe with the Nord Stream 1 pipeline reopening after maintenance, but with flows at just 40% of capacity.

Iron ore prices slid this week, with some volatility on the way. Prices are currently sitting at a little under US\$100 a tonne. The Chinese government has set up a central body to oversee supply, aimed at increasing the bargaining position of Chinese importers in negotiations over iron ore prices.

There was some good news on the agricultural commodities front, with Turkey saying that Russia and Ukraine will sign a deal later today on re-opening ports for grain exports.



	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,713.85	\$1,723.69	\$1,680.25	(↑\$0.62)	\$2,069.89	\$1,680.25
Brent Crude Oil (US\$)	\$104.70	\$107.61	\$98.17	(↑\$4.67)	\$139.13	\$64.60
Mogas95* (US\$)	\$110.51	\$125.53	\$110.56	(↓\$2.56)	\$161.20	\$75.70
WTI Oil (US\$)	\$97.14	\$104.46	\$94.59	(↑\$0.53)	\$130.50	\$61.74
CRB Index	281.84	287.04	277.64	(↑8.58)	329.59	206.88
Iron Ore Price 62% Fe (US\$) **	\$97.95	\$104.40	\$95.50	(↓\$2.29)	\$212.00	\$84.80

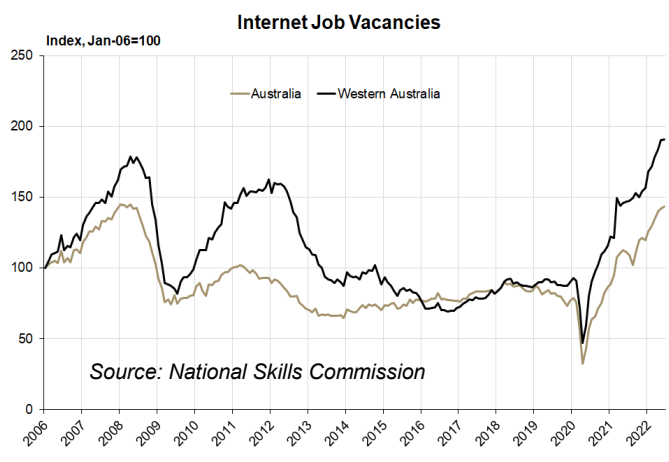
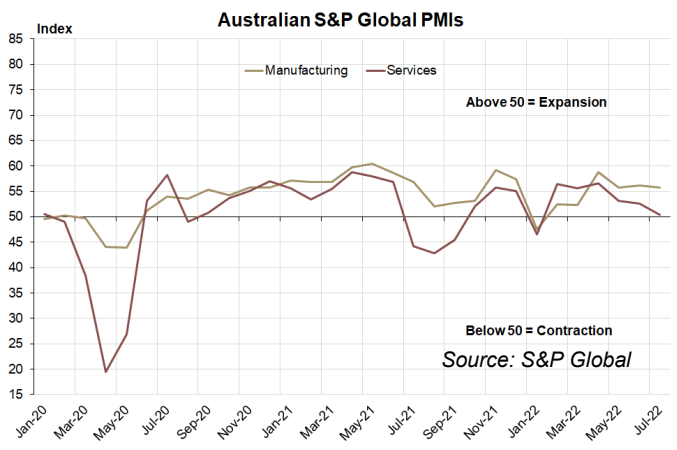
*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

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

DOMESTIC ECONOMY

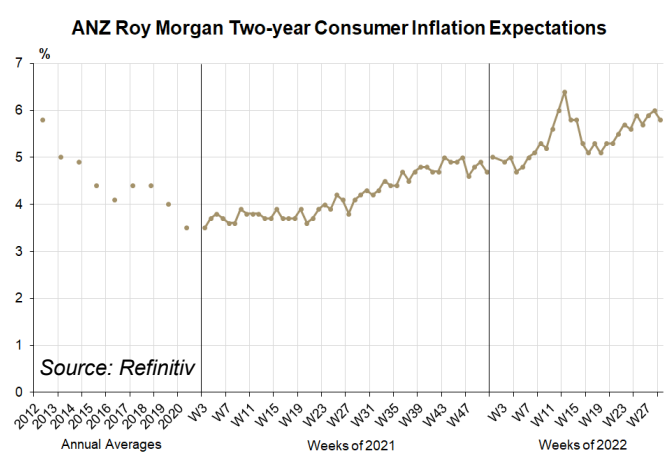
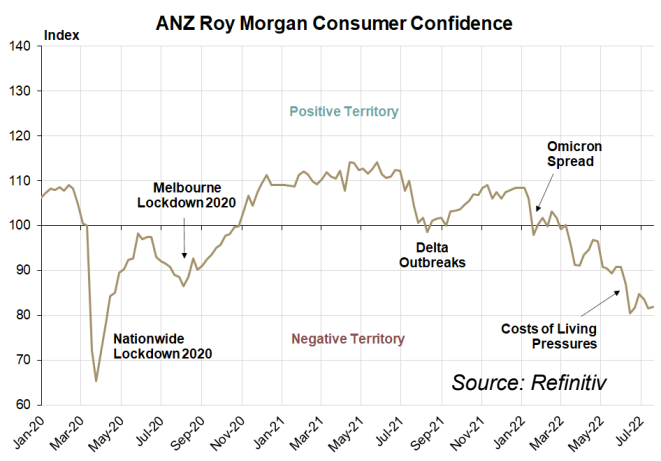
Flash S&P Global PMIs point to deceleration in economic activity growth, particularly in services.

The demand for labour is the highest since 2008 nationwide and the largest on record in Western Australia.



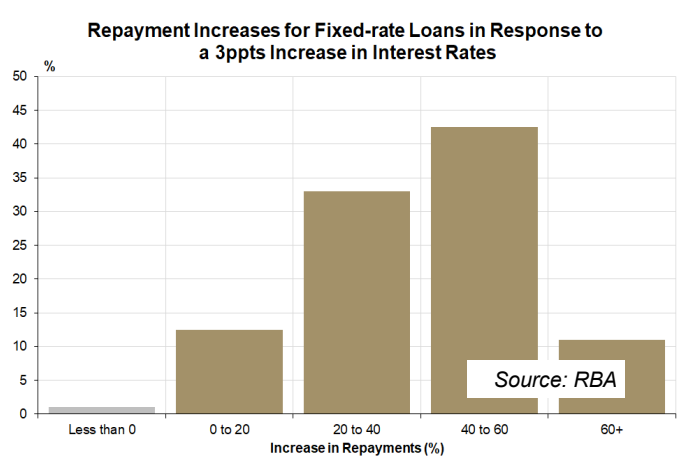
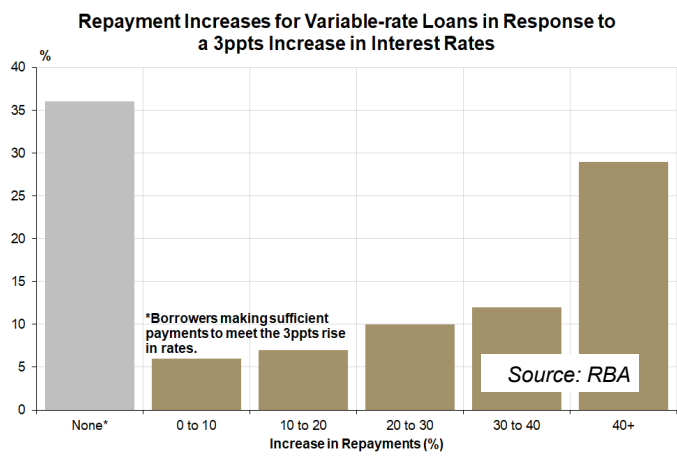
ANZ Roy Morgan consumer confidence index appears to be stabilising at a very depressed level...

... while two-year consumer inflation expectations remain elevated.



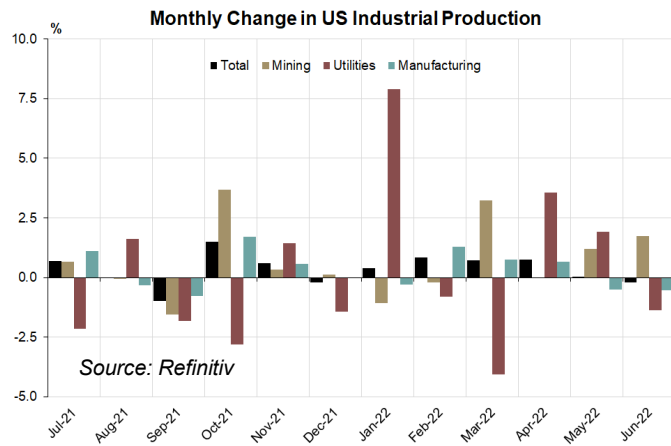
The RBA estimate 1/3 of variable-rate mortgage payers will face a 40%+ increase in payments if rates rise 3ppts.

The same rate hike will trigger a significant increase in repayments for most of fixed-rate mortgages.

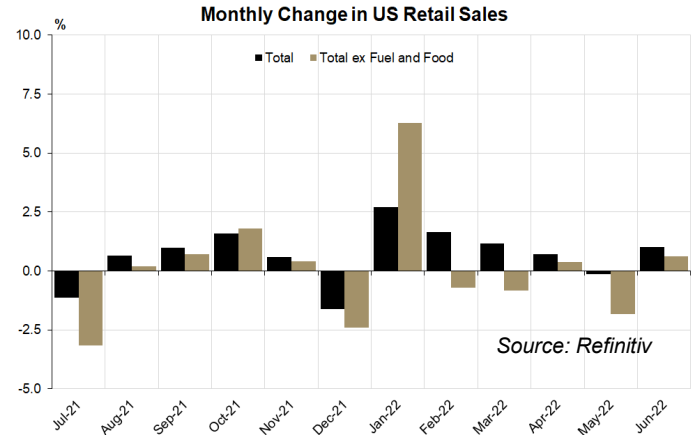


GLOBAL ECONOMY

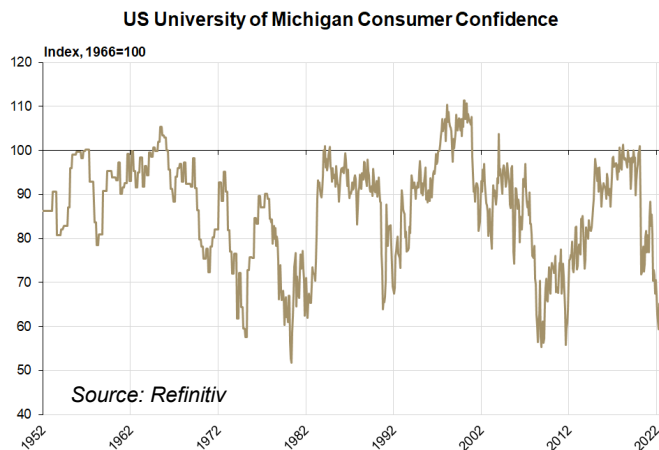
US industrial production fell in June, with mining the only sector to see a gain amid higher oil and gas output.



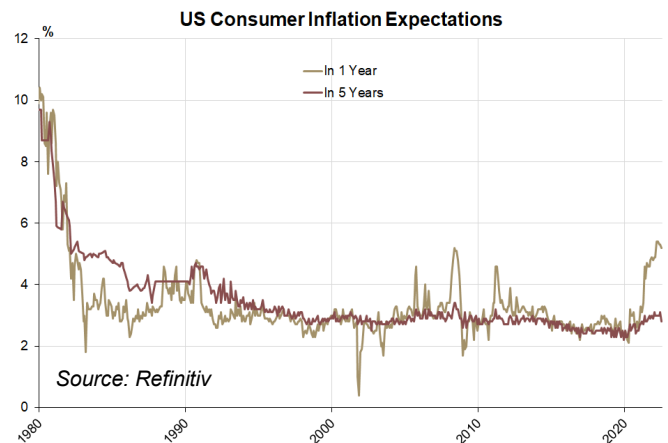
US nominal retail sales rose in June, partly supported by higher food and energy prices.



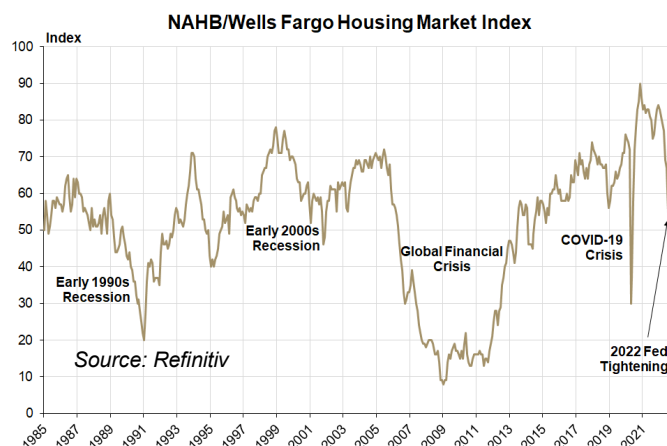
The US University of Michigan consumer confidence index remained close to record lows in July...



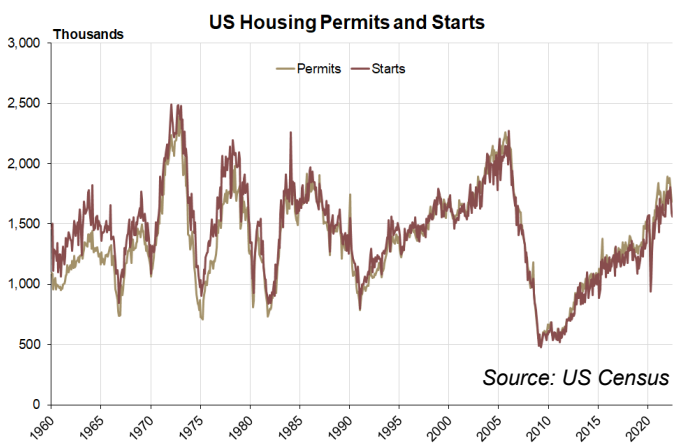
... but consumer inflation expectations eased, mainly for longer-run expectations tracked closely by the Fed.



US homebuilder sentiment has deteriorated amid Fed tightening but remains around the historical average.



US housing permits and starts have also declined but are still reasonably high.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

22 July 2022

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 18					
NZ	CPI (QoQ, Q2)	1.7%	1.5%	1.8%	Annual rate up to 7.3%, highest since 1990.
Tue 19					
AU	RBA Board Minutes	-	-	-	Further tightening still data-dependent.
AU	Public Appearance by RBA Deputy Gov.	-	-	-	Many mortgagees to be hit by cash rate hikes.
AU	ANZ Consumer Confidence (w/e 16 Jul)	0.2%	-	-2.5%	Inflation expectations declined 0.2ppts to 5.8%.
UK	Unemployment Rate (May)	3.8%	3.8%	3.8%	UK labour market conditions remain strong.
US	Housing Starts (Jun)	-2.0%	3.3%	-14.4%	Fell to the lowest level since September 2021.
Wed 20					
AU	Public Appearance by RBA Governor	-	-	-	Neutral rate estimated to be 2.50% or higher.
CH	PBoC Decision (1-year Loan Prime Rate)	3.70%	3.70%	3.70%	PBoC vowed strong economic support.
UK	CPI (YoY, Jun)	9.4%	9.3%	9.1%	The highest level since 1982.
Thu 21					
JN	BoJ Decision (Compl. Deposit Rate)	-0.10%	-0.10%	-0.10%	BoJ still dovish and nowhere near tightening.
EZ	Consumer Confidence (prel. Jul)	-27.0	-24.9	-23.6	EZ consumer confidence at a record low.
EZ	ECB Decision (Deposit Rate)	0.00%	-0.25%	-0.50%	ECB to address bond market fragmentation.
US	Initial Jobless Claims (w/e 16 Jul)	251k	240k	244k	Still low but drifting higher.
Fri 22					
AU	S&P Composite PMI (flash, Jul)	50.6	-	52.6	Output slowing amid high inflation.
JP	CPI (YoY, Jun)	2.4%	2.4%	2.5%	Core-core inflation is the highest since 2016.
JP	S&P Composite PMI (flash, Jul)	50.6	-	53.0	Japanese manufacturing back in contraction.
Tonight					
EZ	S&P Composite PMI (flash, Jul)	-	50.9	52.0	Activity expected to almost stagnate in July.
UK	S&P Composite PMI (flash, Jul)	-	52.4	53.7	Rose further into expansion in June.
US	S&P Composite PMI (flash, Jul)	-	52.4	52.3	US growth has been slowing gradually.

Next Week

	Event	Forecast	Previous	Comment
Mon 25	<i>No market moving data.</i>			
Tue 26				
US	C-S House Prices 20 Cities (YoY, May)	-	21.2%	US house prices is climbing to new record highs.
US	Conference Board Cons. Conf. (Jul)	97.5	98.7	UMich confidence unexpectedly improved in July.
Wed 27				
AU	CPI (QoQ, Q2)	2.0%	2.1%	Annual rate forecast to accelerate to 6.3%.
US	Durable Goods Orders (MoM, Jun)	-0.2%	0.8%	It would be the first decline in four months.
US	FOMC Decision (IoER)	2.40%	1.65%	A larger 100bps hike has fallen below 20%.
Thu 28				
AU	Retail Trade (MoM, Jun)	0.5%	0.9%	Quarterly volumes published in the following week.
AU	International Trade Price Indices (QoQ, Q2)	-	-	Boosted by higher fuel and commodity prices.
US	GDP (QoQ Annualised, Q2, prelim.)	0.5%	-1.6%	Technical recession possible in the US.
Fri 29				
AU	Private Sector Credit (MoM, May)	0.7%	0.8%	Supported by business and housing credit.
AU	PPI (QoQ, Jun)	-	1.6%	Business reports point to higher cost pressures.
JN	Industrial Production (YoY, Jun)	-6.9%	-3.1%	PMI report indicated ongoing weakness.
JN	Retail Sales (YoY, Jun)	2.9%	3.6%	Growth easing after the strong Omicron rebound.
EZ	GDP (QoQ, Q2, flash)	0.2%	0.6%	EC forecasts point to slower growth in 2022 & 2023.
EZ	HICP (YoY, Jul, flash)	8.8%	8.6%	Will probably establish a new record high.
US	Personal Spending (MoM, Jun)	0.8%	0.2%	Inflation adjusted spending fell in May.
US	PCE Price Index (YoY, Jun)	6.6%	6.3%	CPI report suggested another acceleration.