

THIS WEEK'S HIGHLIGHTS

- In Australia, CPI inflation surprised slightly to the downside but was still elevated at 6.1% in Q2. Retail sales growth slowed to just 0.2% in June. Credit growth remained strong in June and construction costs posted another hefty increase in Q2.
- Abroad, the FOMC increased the fed funds rate target range by 75bps, as expected. US GDP declined for the second consecutive quarter in Q2, but this is a false signal of recession at this stage.

NEXT WEEK'S HIGHLIGHTS

- The key domestic events will be the RBA decision on Tuesday, with a 50bps hike expected, followed by the quarterly Statement on Monetary Policy along with new macroeconomic forecasts on Friday. Other domestic events will be the Melbourne Institute inflation gauge and ANZ job ads for July (Mon), housing finance and building approvals for June (Tue), retail trade volumes for Q2 (Wed) and the June trade balance (Thu).
- The major releases offshore will include the US ISM PMIs, the US labour market figures, as well as the Chinese Caixin PMIs for July. There is also a Bank of England rate decision, with a 25bps hike 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 (0 pt)	ASX200	6958 (↑149 pt)
US (IOR)	2.40 (↑75 pt)	90-day Bills	2.12 (↓12 pt)	2-yr T-Notes	2.87 (↓27 pt)	S&P500	4072 (↑73 pt)
Eurozone (Deposit)	0.00 (0 pt)	3-yr T-Bond	2.75 (↓45 pt)	10-yr T-Notes	2.69 (↓21 pt)	DJIA	32530 (↑493 pt)
UK	1.25 (0 pt)	10-yr T-Bond	3.09 (↓39 pt)	Jap 10-yr	0.18 (↓4 pt)	Nikkei	27945 (↑75 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.06 (↓48 pt)	UK 10-yr	1.85 (↓19 pt)	CSI300	4188 (↓47 pt)
China (1Y LPR)	3.70 (0 pt)	10-yr WATC Bond	3.61 (↓41 pt)	Ger 10-yr	0.81 (↓40 pt)	Stoxx600	433 (↑8 pt)

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

FINANCIAL MARKETS OVERVIEW

Interest Rates

The FOMC increased its key interest rates by 75bps this week, including the fed funds rate target range to 2.25-2.50%, as expected. The post-meeting statement and the introductory remarks to Chair Powell's press conference acknowledged that activity has softened, but the labour market remains strong nonetheless and inflation remains elevated and rising.

Given this, the FOMC expects ongoing interest rate increases, with the pace being data dependent, triggering a softening in market fed funds rate expectations. Those expectations eased further after a negative GDP growth reading, but market participants still expect a 50bps hike at the next FOMC meeting in September.

The easing of fed funds rate expectations, coupled with recession fears, saw government bond yields drop significantly this week.

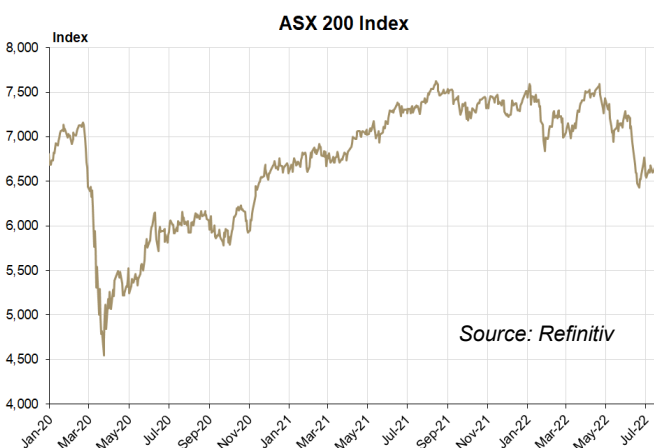
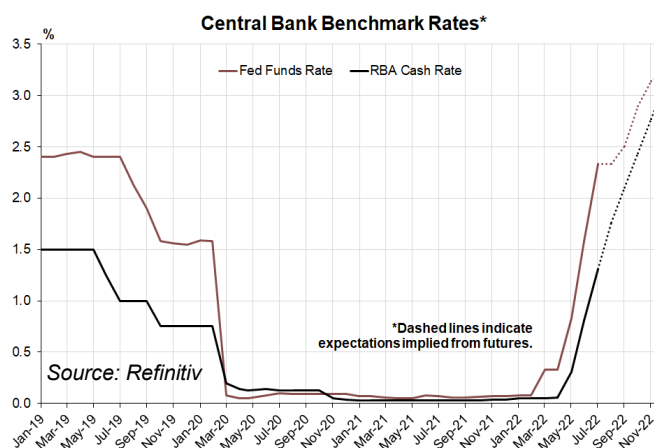
At home, RBA cash rate expectations eased somewhat following the downside surprise to the Q2 inflation figures, with a 50bps increase currently almost 90% priced in for next week.

Equities

Global and Australian equities have had a positive week, supported by declining fed funds rate expectations amid soothing comments from Fed Chair Jerome Powell and the GDP figures signalling a technical recession in the US.

All three major US stock indices are up for the week, also boosted by some upside earnings surprises. The S&P 500 has reached the highest level in almost two months.

Aussie markets have outpaced US equities this week, driven by mining stocks amid the increase in commodity prices. The ASX 200 rallied at the open this morning but stabilised later on. This notwithstanding, it is heading towards a second consecutive weekly increase for the first time since May.



For further information, please contact:

Craig McGuinness
Patrycja Beniak

Chief Economist
Economist

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

(08) 9235 9104
(08) 9235 9110

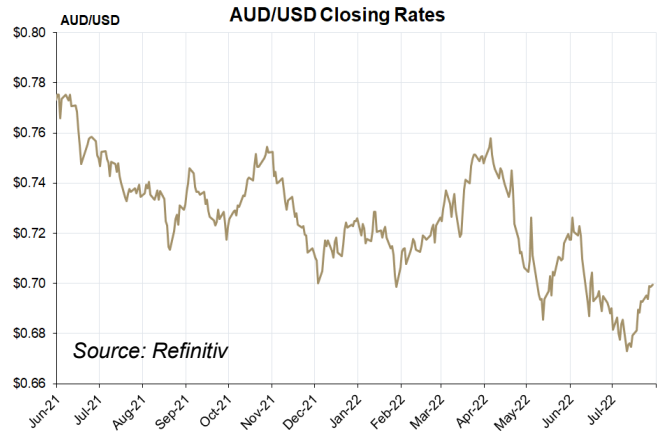
Currencies

The Aussie dollar has had a mixed week against the major currencies, tumbling against the Japanese yen and the British pound but making solid gains against the big dollar and euro.

The appreciation against the greenback has been largely the result of the US dollar tumbling. Given the sharp rise in the yen, the drop in the dollar appears to be driven by the selling of US assets by Japanese investors.

The selloff in the big dollar has pushed the AUD/USD exchange rate to USD0.70 for the first time in over a month.

The euro has been dragged lower by concerns over a looming energy crisis and the associated surge in import costs.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7002	0.7018	0.6879	↑1.3	0.7661	0.6680
AUD/EUR		0.6857	0.6891	0.6753	↑1.1	0.6982	0.6077
AUD/GBP		0.5745	0.5811	0.5731	↓0.5	0.5822	0.5200
AUD/JPY		93.41	95.69	93.20	↓1.8	96.87	77.86
AUD/CNY		4.7213	4.7380	4.6433	↑1	4.8743	4.4286
EUR/USD		1.0208	1.0257	1.0095	↑0.2	1.1909	0.9950
GBP/USD		1.2187	1.2204	1.1915	↑1.9	1.3983	1.1757
USD/JPY		133.41	137.95	132.96	↓3.1	139.39	108.71
USD/CNY		6.7428	6.7428	6.7351	↓0.4	6.8110	6.3025

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7002	0.7012	0.7016	0.7008
AUD/EUR		0.6857	0.6821	0.6773	0.6680
AUD/GBP		0.5745	0.5739	0.5727	0.5704
AUD/JPY		93.41	92.81	91.89	90.06
AUD/NZD		1.1098	1.1122	1.1140	1.1156
AUD/SGD		0.9653	0.9660	0.9656	0.9607

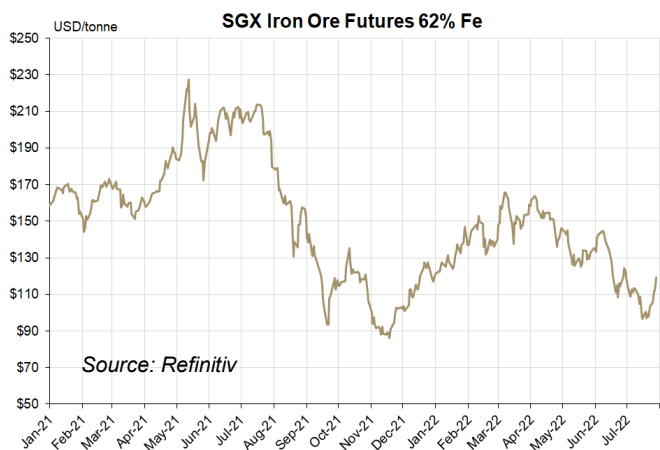
Commodities

The fall in the USD and slump in bond yields has pushed the gold price to its highest level in three weeks.

Ongoing uncertainty over Russian gas supplies into Europe has driven energy prices higher, with Brent crude on its way to its first back-to-back weekly increases since the first half of June. Concerns over supply saw European Union member states agree to a voluntary 15% cut to gas consumption from now until March 2023 to ensure there is enough supply this winter.

Germany will impose a levy on gas users to help importers bear higher prices as they scramble for alternative sources.

Iron ore prices have surged over the past week, with futures posting the strongest increase since March. However, futures prices have given back some of these gains this morning.



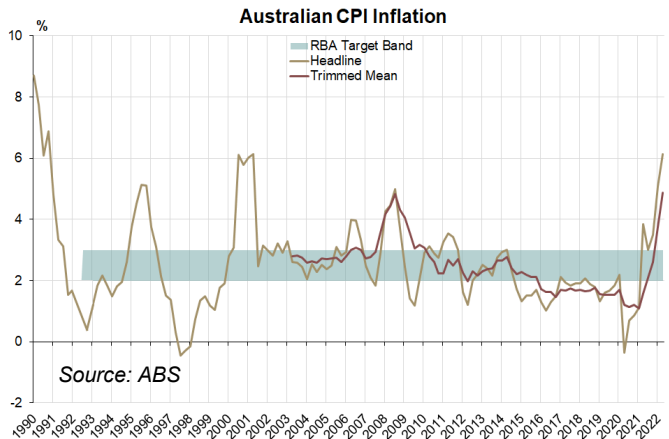
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,760.77	\$1,763.71	\$1,711.13	(↑\$46.89)	\$2,069.89	\$1,680.25
Brent Crude Oil (US\$)	\$107.04	\$109.06	\$101.64	(↑\$2.09)	\$139.13	\$64.60
Mogas95* (US\$)	\$120.05	\$120.10	\$107.24	(↑\$9.54)	\$161.20	\$75.70
WTI Oil (US\$)	\$96.72	\$99.84	\$93.01	(↑\$0.37)	\$130.50	\$61.74
CRB Index	289.02	289.08	281.16	(↑7.19)	329.59	206.88
Iron Ore Price 62% Fe (US\$)**	\$119.13	\$120.30	\$96.70	(↑\$21.18)	\$199.50	\$84.80

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

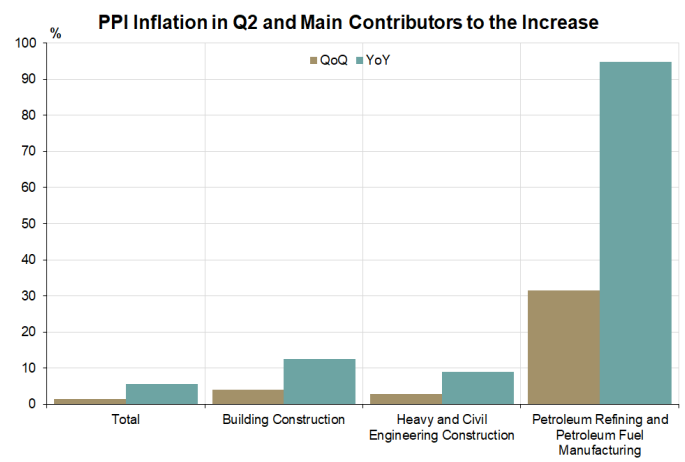
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

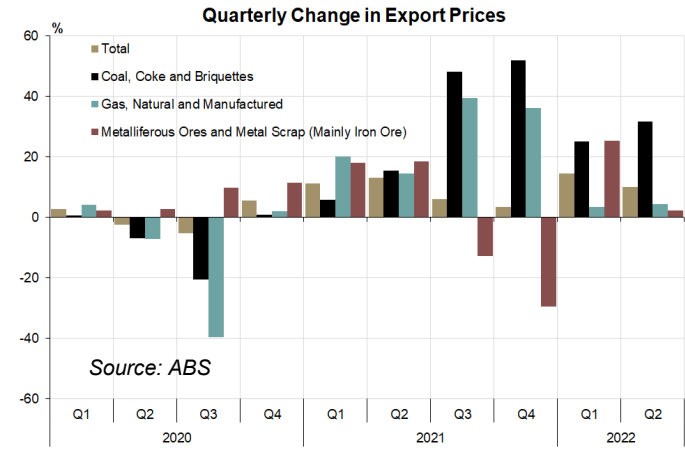
CPI inflation has drifted well above the RBA target band and is the highest in two decades.



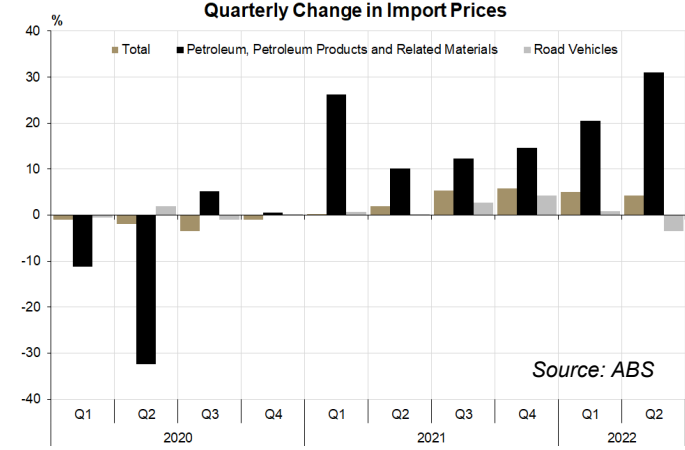
The **PPI rose** by another 1.4% in Q2, driven by a rise in costs in construction and petroleum refining.



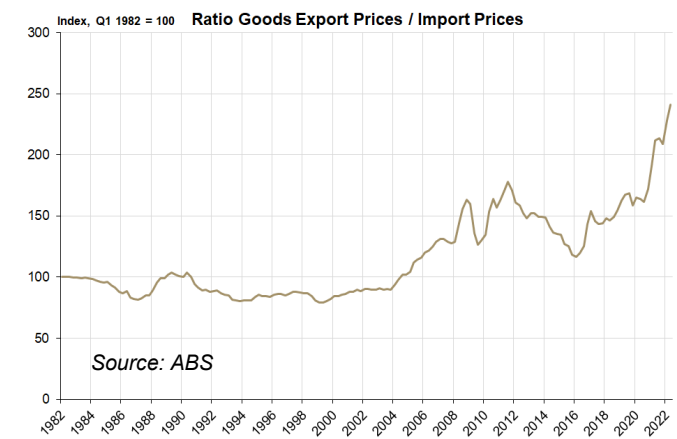
Export prices continued to surge in Q2, supported by an acceleration in coal prices; iron ore price growth slowed.



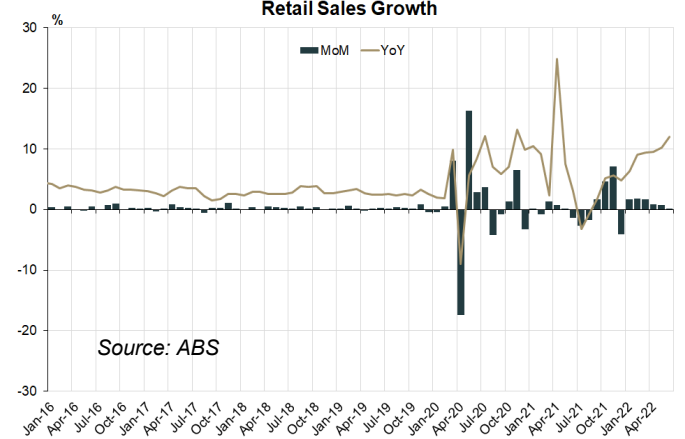
Import prices also rose quite sharply in Q2, driven by another strong increase in fuel prices



Due to export prices rising faster than import prices, the **terms of trade** reached a new record high in Q2.

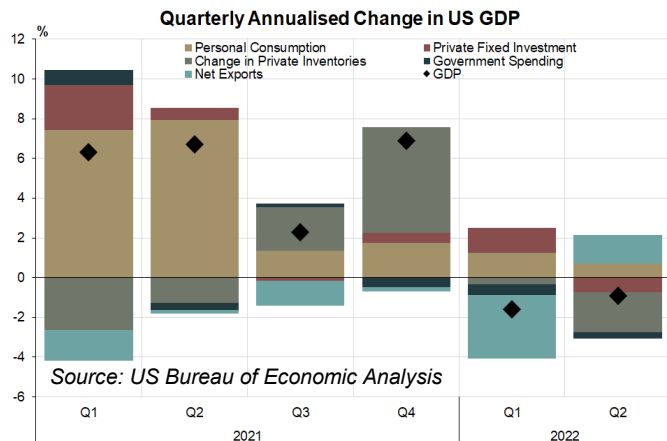


The rise in the costs of living was reflected in slower growth in **retail sales** in June.

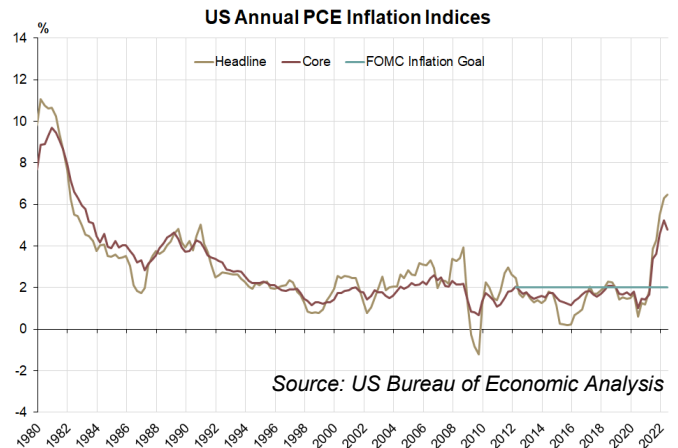


GLOBAL ECONOMY

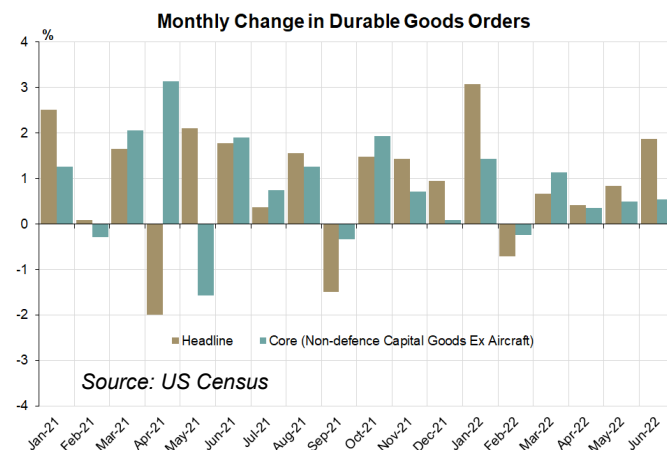
The **US economy** fell into technical recession in Q2, with the emphasis on technical rather than actual.



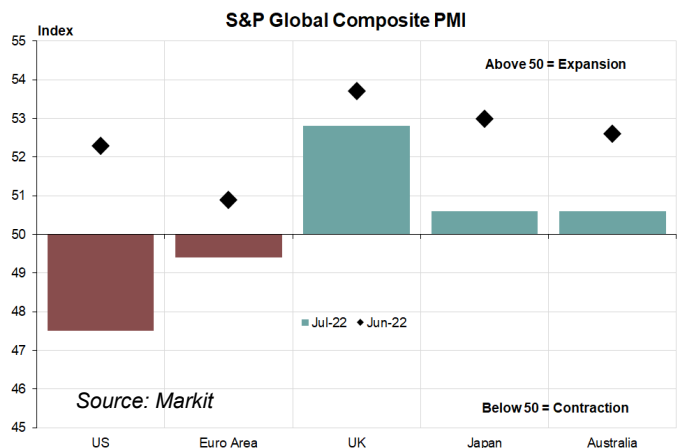
US headline PCE inflation continued to climb in Q2, but core inflation declined a little.



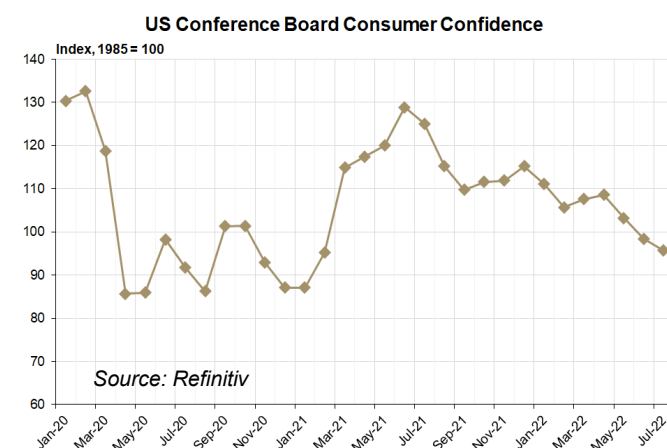
US durable goods orders continued to rise in June, again supported by military aircraft orders.



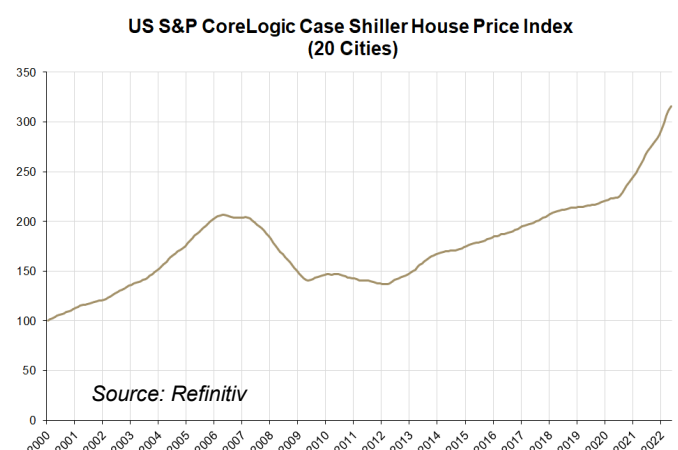
The **flash PMIs** for July point to contraction in the US and euro area, and slower expansion in other major countries.



The **US Conference Board consumer confidence index** has reached the lowest levels since February 2021.



Despite this and the steep rise in interest rates, **US house prices** continue to establish new record highs.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

29 July 2022

KEY ECONOMIC EVENTS

This Week

	Event	Actual	Forecast	Previous	Comment
Mon 25	<i>No market moving data.</i>				
Tue 26	AU ANZ Consumer Confidence (w/e 23 Jul)	0.7%	-	0.2%	2Y inflation expectations rose back to 6.0%.
	US C-S House Prices 20 Cities (YoY, May)	20.5%	20.8%	21.2%	Has established a new record high.
	US Conference Board Cons. Conf. (Jul)	95.7	97.3	98.4	The lowest level since February 2021.
Wed 27	AU CPI (QoQ, Q2)	1.8%	1.9%	2.1%	Annual trimmed mean inflation at a record high.
	US Durable Goods Orders (MoM, Jun)	1.9%	-0.4%	0.8%	Boosted by a surge in orders for military aircraft.
	US FOMC Decision (IoER)	2.40%	2.40%	1.65%	Fed funds rate hikes will slow down from now.
Thu 28	AU Retail Trade (MoM, Jun)	0.2%	0.5%	0.7%	Growth slowing due to cost of living pressures.
	AU Export Price Index (QoQ, Q2)	10.1%	-	18.0%	Supported by another steep rise in oil prices.
	AU Import Price Index (QoQ, Q2)	4.3%	4.5%	5.1%	Driven by an increase in petroleum prices.
	US GDP (QoQ Annualised, Q2, prelim.)	-0.9%	0.5%	-1.6%	Unlike in Q1, US domestic economy fell in Q2.
	US Initial Jobless Claims (w/e 23 Jul)	256k	252k	261k	Continued claims also fell slightly in w/e 16 July.
Fri 29	AU Private Sector Credit (MoM, May)	0.9%	0.7%	0.8%	M3 money growth again accelerated MoM.
	AU PPI (QoQ, Jun)	1.4%	1.4%	1.6%	Up 5.6% YoY.
	JN Industrial Production (MoM, Jun)	8.9%	3.7%	-7.5%	Supported by easing COVID curbs in China.
	JN Retail Sales (YoY, Jun)	1.5%	2.8%	3.7%	Fourth increase in a row.
Tonight	EZ GDP (QoQ, Q2, flash)	-	0.2%	0.6%	EC forecasts slower growth in 2022 & 2023.
	EZ HICP (YoY, Jul, flash)	-	8.6%	8.6%	German inflation accelerated further in July.
	US Personal Spending (MoM, Jun)	-	0.9%	0.2%	Inflation adjusted spending fell in May.
	US PCE Price Index (YoY, Jun)	-	6.6%	6.3%	CPI report suggested another acceleration.

Next Week

	Event	Forecast	Previous	Comment
Mon 01	AU Melbourne Institute Inflation (MoM, Jul)	-	0.3%	Could see some moderation amid lower fuel prices.
	AU ANZ Job Ads (MoM, Jul)	-	1.4%	Aussie labour demand remains strong.
	CH Caixin Manufacturing PMI (Jul)	-	51.7	May be hit by slow growth in global manufacturing.
	US ISM Manufacturing PMI (Jul)	52.7	53.0	S&P Global report suggested stagnation.
Tue 02	AU RBA Decision (Cash Rate)	1.85%	1.35%	A 50bps rise around 85% priced in.
	AU Building Approvals (MoM, Jun)	-5.0%	9.9%	Unit construction has been causing some volatility.
	AU Housing Finance (MoM, Jun)	-3.0%	1.7%	Propped up by the backlog processing in May.
Wed 03	AU Retail Sales Volumes (QoQ, Q2)	1.2%	1.2%	Will reveal the impact of inflation on retail spending.
	CH Caixin Services PMI (Jul)	-	54.5	May be impacted by lockdowns around the country.
	US ISM Services PMI (Jul)	53.5	55.3	S&P Global report suggested sharp contraction.
Thu 04	AU Trade Balance (Jun)	A\$13.9b	A\$16.0b	Hit a new record high in May.
	UK Bank of England Decision (Bank Rate)	1.50%	1.25%	Accompanied by the new economic projections.
Fri 05	AU RBA Statement of Monetary Policy	-	-	Expect another upward revision to inflation forecast.
	US Non-farms Payrolls (monthly change, Jul)	250k	372k	US labour market conditions remain strong.
	US Unemployment Rate (Jul)	3.6%	3.6%	Low partly due to the subdued participation rate.