

### THIS WEEK'S HIGHLIGHTS

- The RBA has increased its policy interest rates by another 50bps, including the cash rate target to 2.35%.
- Aussie real GDP rose 0.9% in Q2, supported by strong performance of private consumption and exports. The surge in commodity prices saw a surge in the current account surplus and terms of trade in Q2, but the trade surplus narrowed in July. ANZ job ads resumed rising in August and the Melbourne Institute inflation gauge edged down but remained elevated. Payroll jobs fell 0.8% in the month to 13 August, while total wages were 1.9% lower (both unadjusted).
- Offshore, the ISM PMI report pointed to slight acceleration in services activity growth in the US. In China, the trade surplus narrowed in August, while the Caixin PMI signalled ongoing expansion in services.

### NEXT WEEK'S HIGHLIGHTS

- The most important domestic events will be the NAB business report for August (Tue), Westpac consumer sentiment for September (Tue) and the labour force survey results for August (Thu).
- The key releases offshore will be US data for August, including CPI (Tue), PPI (Wed), retail trade (Thu) and industrial production (Thu). Other important events will be Chinese economic activity data for August (Fri) and Bank of England's monetary policy decision (Thu).

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	2.35 (↑50 pt)	O/N Interbank Cash	2.31 (↑50 pt)	USD 3-month	3.24 (↑9 pt)	ASX200	6883 (↑46 pt)
US (IOR)	2.40 (0 pt)	90-day Bills	2.61 (↑12 pt)	2-yr T-Notes	3.49 (↓2 pt)	S&P500	4006 (↑39 pt)
Eurozone	0.75 (↑75 pt)	3-yr T-Bond	3.17 (↓19 pt)	10-yr T-Notes	3.30 (↑3 pt)	DJIA	31775 (↑118 pt)
UK	1.75 (0 pt)	10-yr T-Bond	3.60 (↓10 pt)	Jap 10-yr	0.25 (↑1 pt)	Nikkei	28179 (↑557 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.50 (↓20 pt)	UK 10-yr	3.15 (↑23 pt)	CSI300	4084 (↑52 pt)
China (1Y LPR)	3.70 (0 pt)	10-yr WATC Bond	4.15 (↓10 pt)	Ger 10-yr	1.73 (↑17 pt)	Stoxx600	414 (↑6 pt)

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

## FINANCIAL MARKETS OVERVIEW

### Interest Rates

The RBA increased its interest rates by 50bps on Tuesday, including the cash rate to 2.35%. RBA Governor Philip Lowe stressed that the RBA Board is not "on a pre-set path" in relation to future decisions, without using the word "normalisation".

In his speech on Thursday, Governor Lowe confirmed that the cash rate is roughly in neutral territory now and signalled a slower pace of tightening ahead. The speech caused cash rate expectations to fall and Commonwealth bond yields to decline, in contrast to their US equivalents.

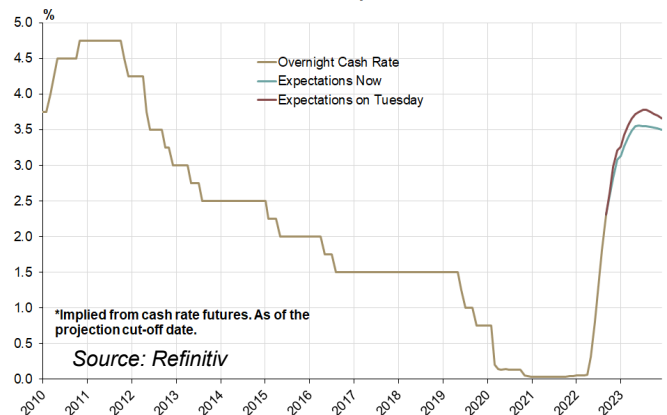
Elsewhere, the ECB increased its key interest rates by 75bps, including taking the deposit facility rate to 0.75%, the highest level since early 2009. ECB President Christine Lagarde declined to rule out more supersized hikes. The Bank of Canada increased its policy rate by 75bps to 3.25%, but also removed the reference to "frontloading" of tightening from its statement.

### Equities

US equity prices are up for the week, despite a sell-off last Friday and on Tuesday. The rebound was largely driven by hopes of less rapid Fed tightening ahead, after the ISM reports and the Beige Book signalled easing in price pressures. The tweak in the Bank of Canada's post-meeting statement added to these hopes.

The Aussie equities are also up for the week, despite the underperformance of commodities. This was mainly thanks to a boost received from dovish comments by RBA Governor Phil Lowe on Thursday, which triggered the largest daily gain since late June (1.8%). The rally has continued today, supported by positive global market sentiment, with some mining stocks leading the increase.

RBA Historical and Expected Cash Rate\*



ASX 200 Index



For further information, please contact:

Craig McGuinness  
Patrycja Beniak

Chief Economist  
Economist

[cmcguinness@watac.wa.gov.au](mailto:cmcguinness@watac.wa.gov.au)  
[pbeniak@watac.wa.gov.au](mailto:pbeniak@watac.wa.gov.au)

(08) 9235 9104  
(08) 9235 9110

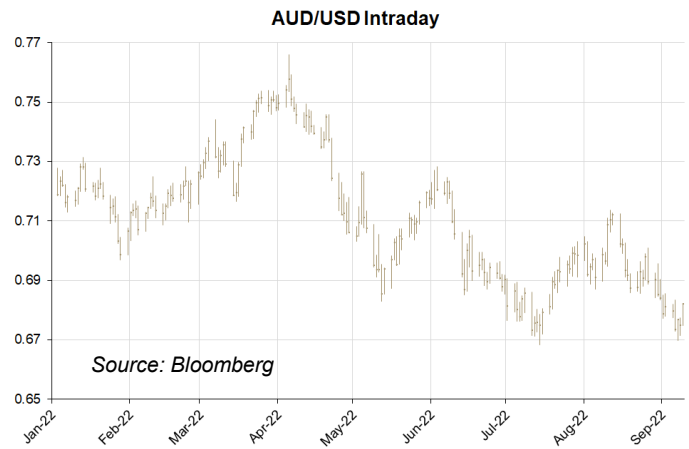
### Currencies

The Australian dollar fell against almost all of the G10 currencies over the first half of the week. It declined below US\$0.67 for the first time since mid-July after the RBA appeared to open the door to a dial back in the pace of rate hikes going forward.

The Aussie has managed to claw back its losses against the greenback over the past couple of days, partly due to a drop in the big dollar as traders switched towards the euro.

The euro has risen back above parity with the USD, boosted by the ECB interest rate rise and signals that there are more increases to come.

The Japanese yen has been easily the weakest of the major currencies, with the Aussie climbing to its highest level against the yen since early 2015.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6825	0.6855	0.6697	↑0.6	0.7661	0.6680
AUD/EUR		0.6778	0.6865	0.6715	↓0.5	0.7000	0.6156
AUD/GBP		0.5893	0.5935	0.5833	↑0.3	0.5935	0.5200
AUD/JPY		97.68	97.91	94.88	↑2.7	97.91	78.75
AUD/CNY		4.7362	4.7374	4.6628	↑1.1	4.8743	4.4286
EUR/USD		1.0065	1.0083	0.9862	↑1.1	1.1851	0.9862
GBP/USD		1.1580	1.1609	1.1403	↑0.3	1.3912	1.1403
USD/JPY		143.12	144.98	139.85	↑2.1	144.98	109.09
USD/CNY		6.9395	6.9395	6.8921	↑0.5	6.9799	6.3025

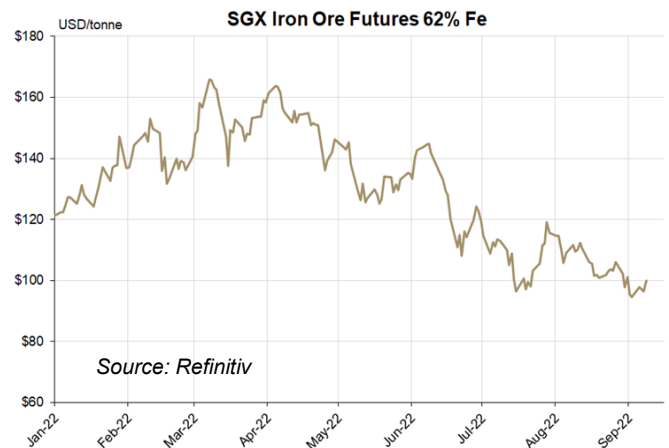
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6825	0.6835	0.6846	0.6850
AUD/EUR		0.6778	0.6748	0.6717	0.6657
AUD/GBP		0.5893	0.5892	0.5892	0.5903
AUD/JPY		97.68	96.97	96.01	93.93
AUD/NZD		1.1174	1.1191	1.1206	1.1222
AUD/SGD		0.9549	0.9551	0.9552	0.9522

### Commodities

Iron ore futures prices slipped midweek but bounced back over US\$100 / tonne on Thursday. The rebound appeared to be driven by reports the Chinese city of Zhengzhou had ordered property developers to restart work on stalled projects and said it will takeover projects where builders are unable to do so.

Oil prices fell again this week, with traders remaining concerned over the outlook for demand in the wake of the central bank tightening cycle.

The energy crisis in Europe has seen the UK government move to shield consumers from rising gas prices and support struggling suppliers, with a two-year price cap that could cost up to £150 billion by some estimates.



	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,719.29	\$1,728.09	\$1,687.60	(↑\$22.56)	\$2,069.89	\$1,680.25
Brent Crude Oil (US\$)	\$89.35	\$96.99	\$87.24	(↓\$4.13)	\$139.13	\$65.72
Mogas95* (US\$)	\$98.99	\$105.96	\$96.51	(↑\$2.53)	\$161.20	\$81.00
WTI Oil (US\$)	\$83.61	\$90.39	\$81.20	(↓\$4.16)	\$130.50	\$62.43
CRB Index	278.31	284.62	276.52	(↓6.31)	329.59	218.10
Iron Ore Price 62% Fe (US\$)**	\$100.03	\$100.75	\$93.05	(↑\$4.57)	\$171.00	\$84.80

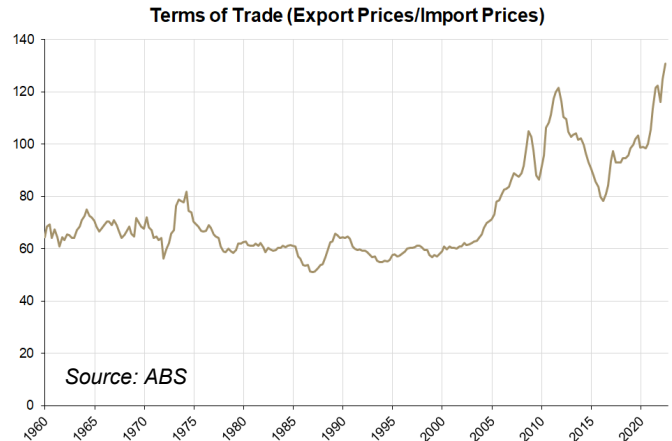
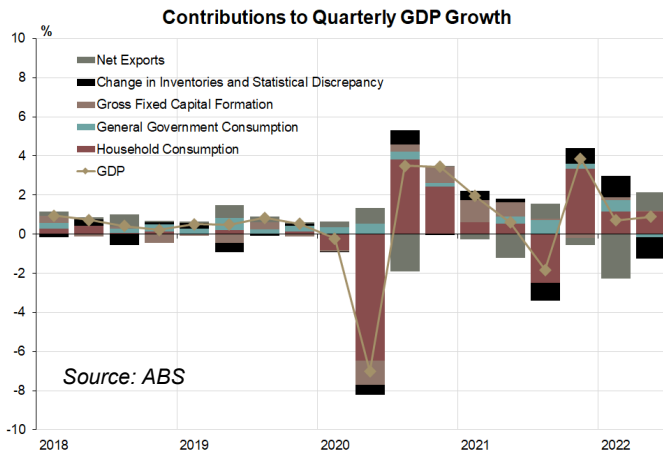
\*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

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

### DOMESTIC ECONOMY

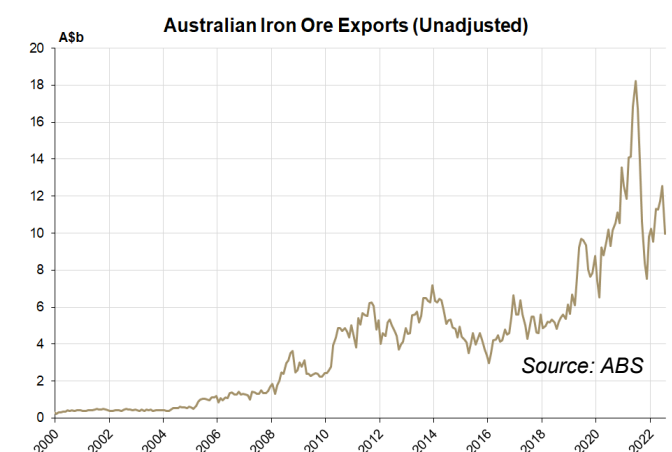
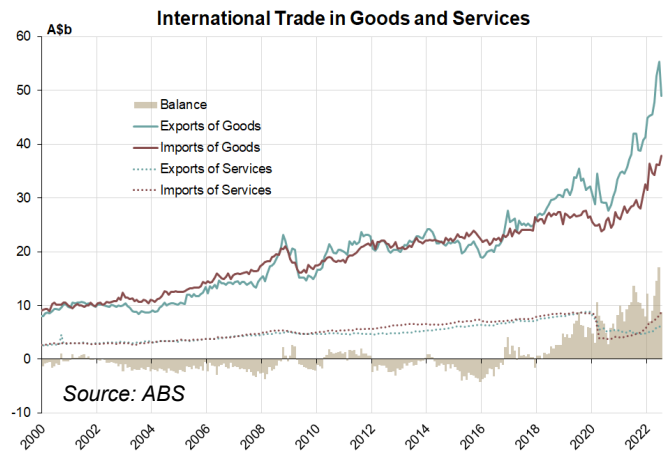
**Real GDP** grew by another 0.9% in Q2, supported by strong performance of private consumption and exports.

The surge in commodity prices saw the **terms of trade** rise to a new record high in Q2.



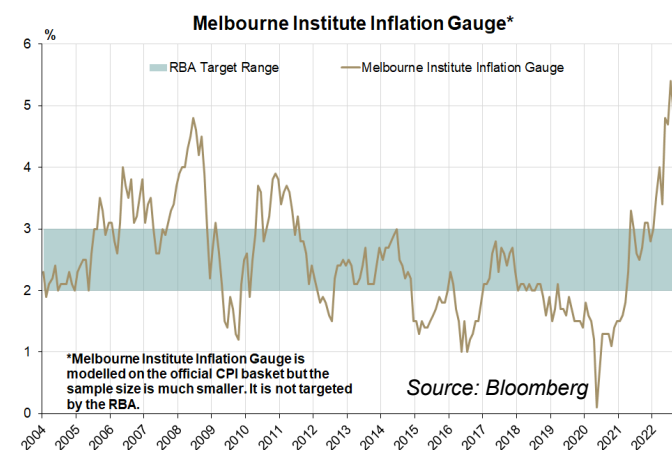
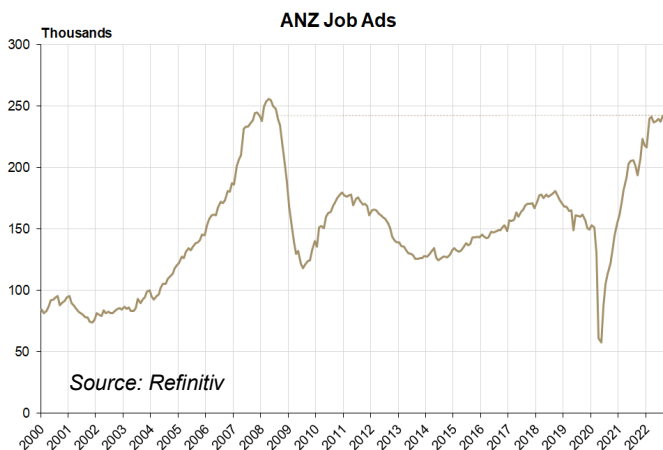
The **trade surplus** fell in July amid a drop in exports and higher imports; services debits were at pre-COVID levels.

**Iron ore export values** declined amid lower prices, but remain high by pre-COVID standards.



**ANZ job ads** picked up in August, to be at the highest level since July 2008 and 5.3% off their record highs.

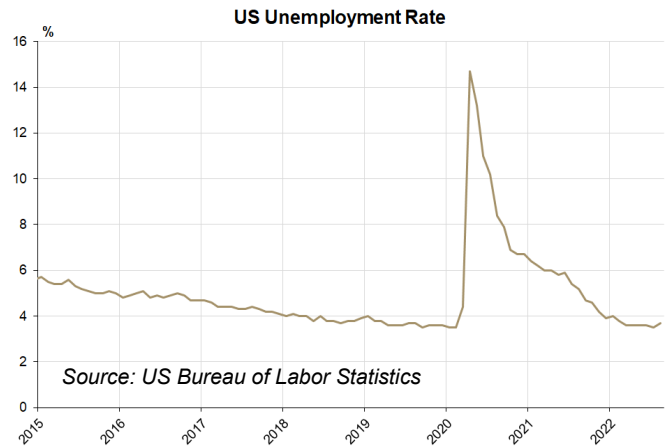
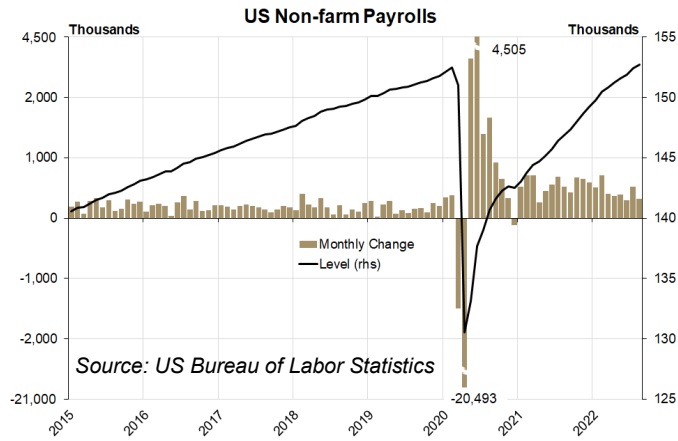
The **Melbourne Institute inflation gauge** saw a slight decline in August, but remained elevated.



### GLOBAL ECONOMY

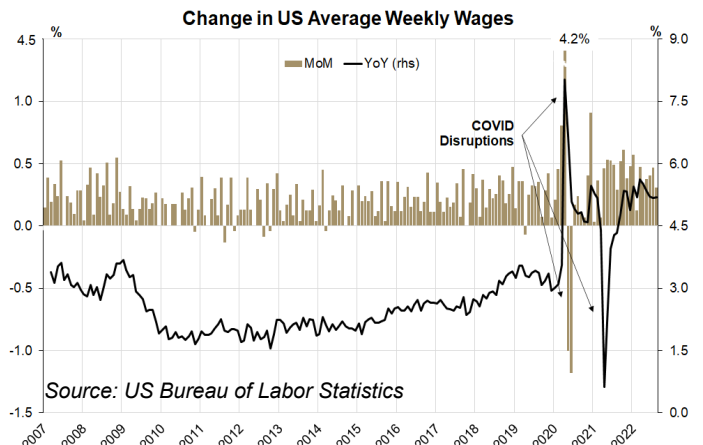
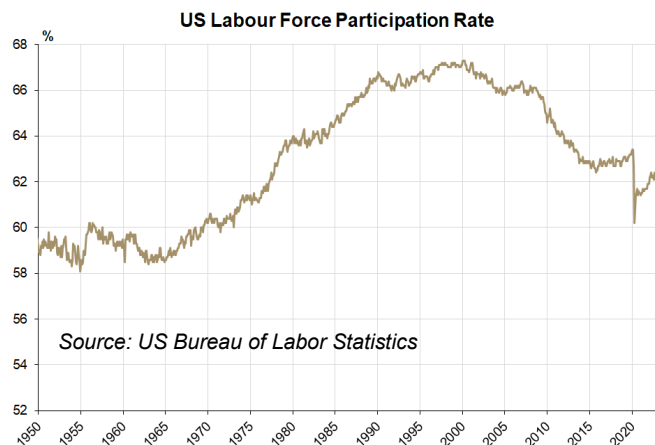
**US non-farm payrolls** saw another solid gain in August...

... while the **US unemployment rate** rose for the first time since January...



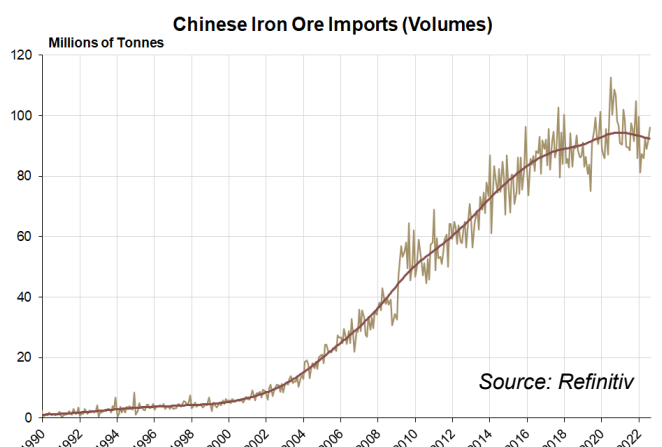
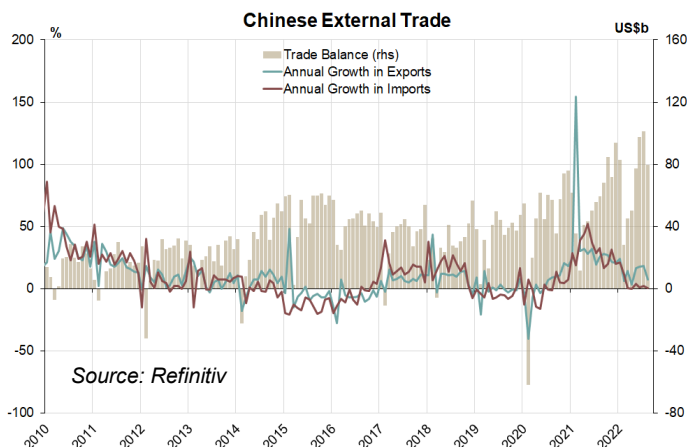
... as **labour force participation** picked up but remained depressed.

**US wages growth** decelerated in August, but is still elevated through the year.



The **Chinese trade balance** narrowed in August, amid slower export growth; import growth decelerated, too.

**Chinese iron ore imports** hit a seven-month high in August.



# WESTERN AUSTRALIAN TREASURY CORPORATION

## Market WATCH Weekly

9 September 2022

### KEY ECONOMIC EVENTS

#### *This Week*

	Event	Actual	Forecast	Previous	Comment
<b>Mon 05</b>					
AU	Melbourne Institute Inflation (MoM, Aug)	-0.5%	-	1.2%	Inflation gauge slides as fuel prices fall.
AU	ANZ Job Ads (MoM, Aug)	2.0%	-	-1.1%	Back at the highest levels since 2008.
CH	Caixin Services PMI (Aug)	55.0	54.0	55.5	Surprisingly resilient to COVID-19 restrictions.
<b>Tue 06</b>					
AU	RBA Decision (Cash Rate)	2.35%	2.35%	1.85%	Another 50bps hike is priced in for October.
AU	Current Account Balance (Q2)	A\$18.3b	A\$21.8b	A\$2.8b	Supported by higher commodity exports.
AU	ANZ Consumer Confidence (w/e 3 Sep)	1.3%	-	-0.7%	Consumer inflation expectations rose to 5.4%.
US	ISM Services PMI (Aug)	56.9	54.7	56.7	Strong growth but signalled acute inflation.
<b>Wed 07</b>					
AU	Real GDP (QoQ, Q2)	0.9%	1.1%	0.7%	GDP deflator rose the fastest since 1989.
CH	Trade Surplus (Aug)	US\$79.39b	US\$91.3b	US\$101.3	Weaker export growth.
CA	Bank of Canada Decision (Policy Rate)	3.25%	3.20%	2.50%	Pace of tightening may slow down from now.
US	Beige Book	-	-	-	Price pressures weaken in some Fed districts.
<b>Thu 08</b>					
AU	Trade Balance (Jul)	A\$8.7b	A\$14.2b	A\$17.1b	Services imports have recovered from COVID.
AU	Payrolls (MoM, w/e 13 Aug)	-0.8%	-	-0.6%	This data is unadjusted and subject to revision.
AU	Speech by RBA Governor Phillip Lowe	-	-	-	Pace of tightening may slow down from now on.
EZ	ECB Decision (Deposit Rate)	0.75%	0.75%	0.0%	Another 75bps hike not ruled out in future.
US	Initial Jobless Claims (w/e 2 Sep)	222k	239k	228k	Continued claims rose to the still low 1.5m.
<b>Fri 09</b>					
CH	CPI (YoY, Aug)	2.5%	2.8%	2.7%	Core inflation remained at just 0.8% in August.
CH	PPI (YoY, Aug)	2.3%	3.1%	4.2%	The lowest PPI inflation since February 2021.

#### *Next Week*

	Event	Forecast	Previous	Comment
<b>Mon 12</b>				
UK	GDP (MoM, Jul)	-	-0.6%	BoE expects the UK to enter recession this year.
<b>Tue 13</b>				
AU	NAB Business Conditions (Aug)	-	20	Saw a surprising strong improvement in July.
AU	NAB Business Confidence (Aug)	-	7	PMI reports point to weaker business confidence.
AU	Westpac Consumer Sentiment (MoM, Sep)	-	-3.0%	ANZ reports suggest stabilisation in confidence.
UK	Unemployment Rate (Jul)	3.7%	3.8%	Claimant count for July also suggested a decline.
US	CPI (MoM, Aug)	-0.1%	0.0%	Business reports point to easing price pressures.
US	NFIB Small Business Optimism (Aug)	90.5	89.9	Has fallen to the lowest levels since 2013.
<b>Wed 14</b>				
UK	CPI (YoY, Aug)	10.4%	10.1%	BoE forecasts inflation to peak at 13% in late 2022.
US	PPI (MoM, Aug)	0.0%	-0.5%	The July fall came amid easing energy prices.
<b>Thu 15</b>				
AU	Employment (MoM, Aug)	30.0k	-40.9k	Business reports point to a pick-up in employment.
AU	Unemployment (Aug)	3.4%	3.4%	Remains at a near 50-year low.
NZ	GDP (QoQ, Q2)	1.0%	-0.2%	RBNZ expects a rebound in GDP growth in Q2.
UK	Bank of England Decision (Bank Rate)	2.25%	1.75%	BoE projects a peak of 3.00% in Q3 2023.
US	Retail Sales (MoM, Aug)	0.0%	0.0%	July stagnation due to lower fuel and car prices.
US	Industrial Production (MoM, Aug)	0.2%	0.6%	PMI reports suggested further growth in August.
<b>Fri 16</b>				
CH	Retail Sales (YoY, Aug)	2.3%	2.7%	Business reports point to further growth in August.
CH	Urban Fixed Asset Inv. (YoY YtD, Aug)	5.5%	5.7%	Crucial indicator for Australian iron ore demand.
CH	Industrial Production (YoY, Aug)	3.8%	3.8%	May be hit by the recent power supply shortages.
US	UMich Consumer Confidence (Sep, prel.)	59.3	58.2	Will also contain updated inflation expectations.