

THIS WEEK'S HIGHLIGHTS

- In Australia, the RBA left its cash rate target unchanged at 4.35% as expected, but a rate hike was discussed at the meeting and that market pricing for rate cuts over the next six months does not align with RBA Board expectations.
- Abroad, the US ISM services PMI rose back into expansion in July. The Chinese Caixin services PMI suggested faster growth in July, while exports and imports picked up. Chinese CPI inflation was higher than expected in July but remains soft.

NEXT WEEK'S HIGHLIGHTS

- The key domestic event next week will be the labour force survey results for July on Thursday, preceded by the NAB business survey for July and Westpac Melbourne Institute consumer sentiment for August on Tuesday. RBA Deputy Governor Andrew Hauser is due to speak on Monday, while the top RBA officials will appear before the House Economics Committee on Friday.
- A busy week offshore, with the highlights being US inflation, retail sales and industrial output figures for July as well as the Chinese July activity figures.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	4.35	O/N Interbank Cash	4.34	USD 3-month	5.37	ASX200	7788
US (IOR)	5.40	90-day Bills	4.38	2-yr T-Notes	4.02	S&P500	5319
Eurozone (Deposit)	3.75	3-yr T-Bond	3.67	10-yr T-Notes	3.97	DJIA	39446
UK	5.00	10-yr T-Bond	4.08	Jap 10-yr	0.90	Nikkei	35408
Japan (Target)	0.25	3-yr WATC Bond	3.95	UK 10-yr	3.98	CSI300	3355
China (1Y LPR)	3.35	10-yr WATC Bond	4.77	Ger 10-yr	2.27	Stoxx600	496

Changes are since the issue of last week's Market Watch.

FINANCIAL MARKETS OVERVIEW

Interest Rates

As expected, the RBA Board decided to keep its cash rate unchanged at 4.35%, but issued another hawkish post-meeting statement and revised its mid-term inflation projections upwards.

At the press conference, RBA Governor Michele Bullock confirmed that a 25bps hike was given 'a very serious consideration' at the meeting and said that rate cuts were not on the agenda over the near term, specifying this as around six months.

Cash rate expectations picked up in reaction to the above news, with the first cut now fully priced in for February rather than for November before the monetary policy decision announcement.

Governor Bullock spoke also yesterday, not ruling out another rate hike, with hardly any reaction from the futures market.

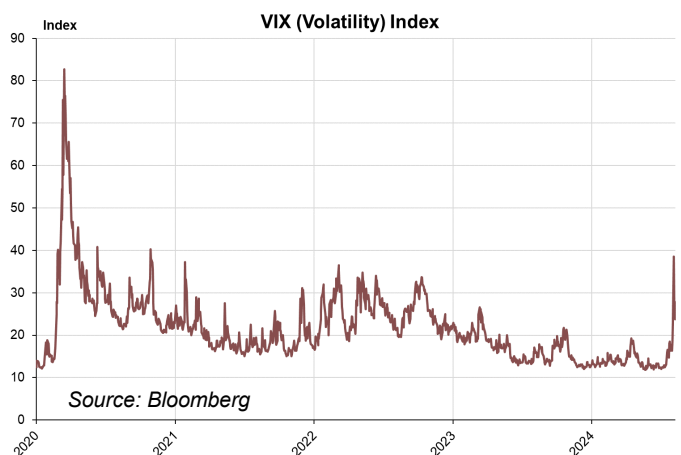
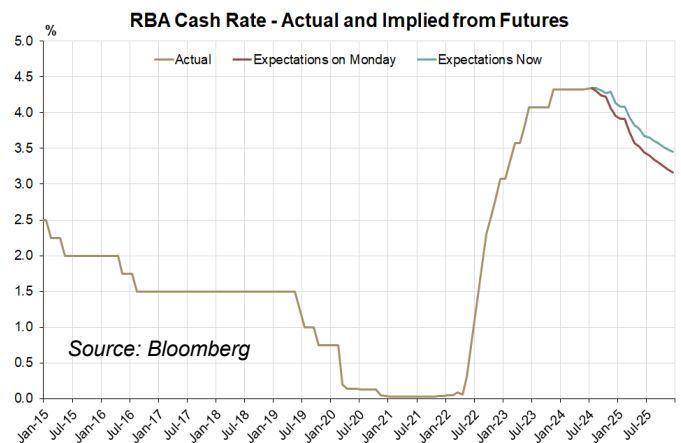
Government bond yields were mixed this week, with the US seeing solid declines at the front end of the curve and slight increases for longer maturities. 3-year Commonwealth bond yields were overall little changed, while 10-year yields rose somewhat more than their US equivalents.

Equities

Equities fell across most developed markets this week, led by sharp falls in the US, which were kicked off by last week's softer-than-expected US employment report that raised fears the US could be falling into recession. The carnage pushed the Volatility Index (VIX), the so-called fear index, to a near four-year high.

The US market clawed back about half its earlier losses overnight after better-than-expected initial jobless claims alleviated some of the near-term concerns over the US labour market.

At home, the ASX 200 slumped 3.7% on Monday, its biggest one-day fall since 2020 but rises over three of the past four days have pared back some of those losses. The hawkish tone of the RBA communication was largely as expected and had little impact.



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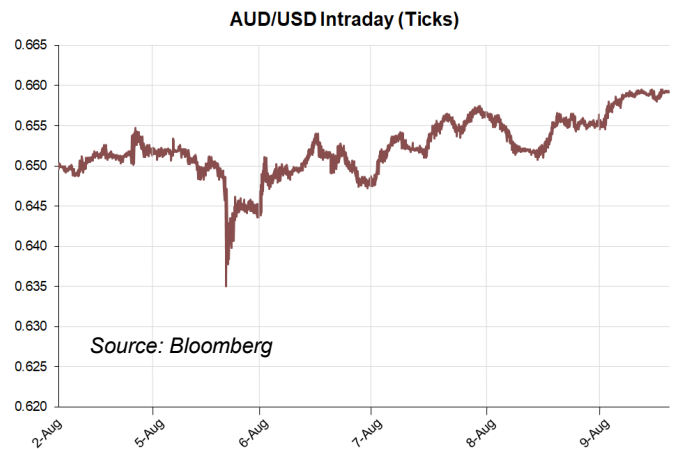
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Currencies

It was a rolled coaster week for the Australian dollar, which eventually ended up in a positive fashion, with the AUD ending the week higher against all the major currencies.

This positive outcome came despite the Aussie's crash on Monday, following the market sell-off on Wall Street at the end of the previous week. The AUD/USD crashed to as low as US\$0.6350 on Monday afternoon, which was the lowest intraday level since October, before recovering.

There was little impact on the AUD from the somewhat hawkish language from the RBA on Tuesday, but more hawkishness from Governor Michele Bullock, coupled with improved global market sentiment, sent the Aussie dollar higher on Thursday, making it the second strongest G10 currency this week, after the Swedish krona.



Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6603	0.6604	0.6350	↑1.6	0.6871	0.6270
AUD/EUR		0.6045	0.6046	0.5825	↑0.4	0.6251	0.4990
AUD/GBP		0.5176	0.5177	0.4990	↑1.3	0.5393	0.4990
AUD/JPY		97.26	97.45	90.15	↑0.3	109.37	90.15
AUD/CNY		4.7366	4.7383	4.5273	↑0.8	4.9340	4.5273
EUR/USD		1.0923	1.1008	1.0882	↑1.3	1.1139	1.0448
GBP/USD		1.2756	1.2817	1.2665	↑0.3	1.3044	1.2037
USD/JPY		147.30	147.90	141.70	↓1.4	161.95	140.25
USD/CNY		7.1740	7.1866	7.1154	↓0.8	7.3499	7.0880

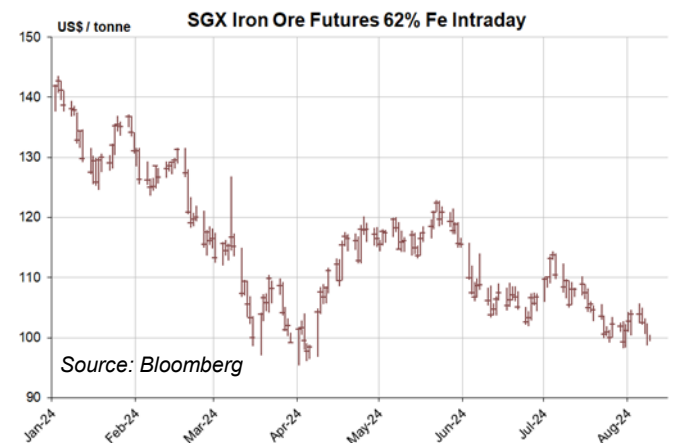
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6603	0.6616	0.6620	0.6615
AUD/EUR		0.6045	0.6032	0.6012	0.5968
AUD/GBP		0.5176	0.5183	0.5187	0.5191
AUD/JPY		97.26	96.18	95.11	93.28
AUD/NZD		1.0947	1.0968	1.0979	1.0973
AUD/SGD		0.8741	0.8719	0.8687	0.8617

Commodities

Commodity prices have been mixed, with the CRB Commodity Price Index, which measures a broad section of commodities, slightly higher than this time last week.

Oil prices slumped to seven-month lows on Monday as risk assets were sold-off, however prices have since bounced as concerns over the demand outlook were more than offset by Middle East war drums.

The Singapore benchmark iron ore futures price remains under downward pressure but continues to find support at around US\$100 a tonne. Despite weak Chinese steel demand and concerns over its property sector, trade data this week showed that China's appetite for iron ore imports remained strong with imports rising to a six-month high of 102.8 million tonnes in July.



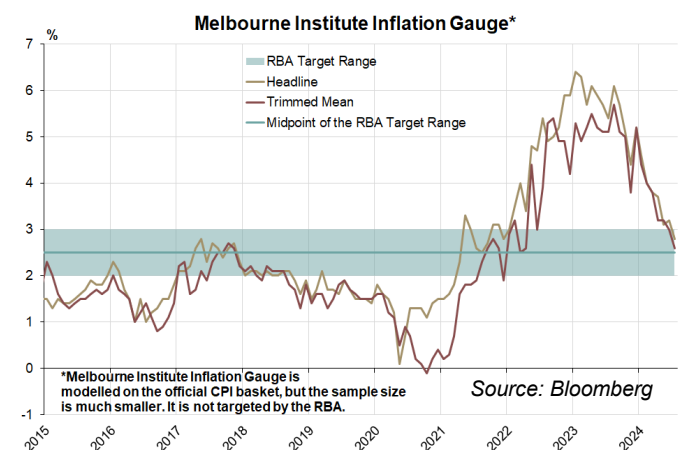
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,425.45	\$2,458.80	\$2,364.43	(↓\$27.44)	\$2,483.73	\$1,810.51
Brent Crude Oil (US\$)	\$79.23	\$79.37	\$75.05	(↓\$0.72)	\$97.69	\$72.29
Mogas95* (US\$)	\$90.27	\$90.45	\$85.39	(↓\$1.6)	\$110.15	\$81.53
WTI Oil (US\$)	\$76.29	\$76.52	\$71.67	(↓\$0.46)	\$95.03	\$67.71
CRB Index	273.99	273.99	268.79	(↑0.4)	300.23	258.09
Iron Ore Price 62% Fe (US\$) **	\$101.25	\$105.75	\$98.70	(0)	\$143.50	\$95.40

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

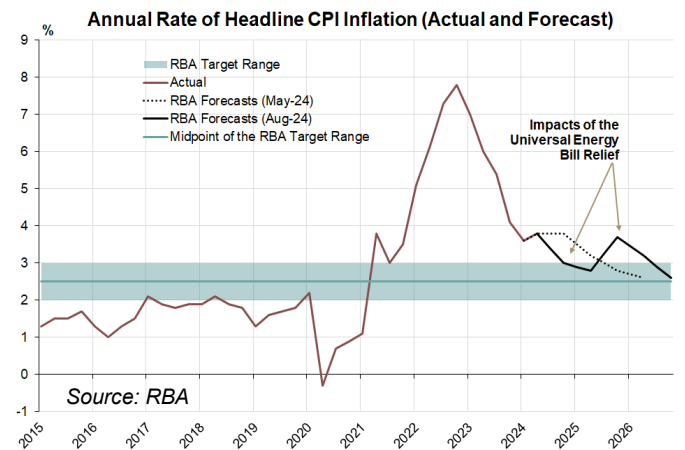
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

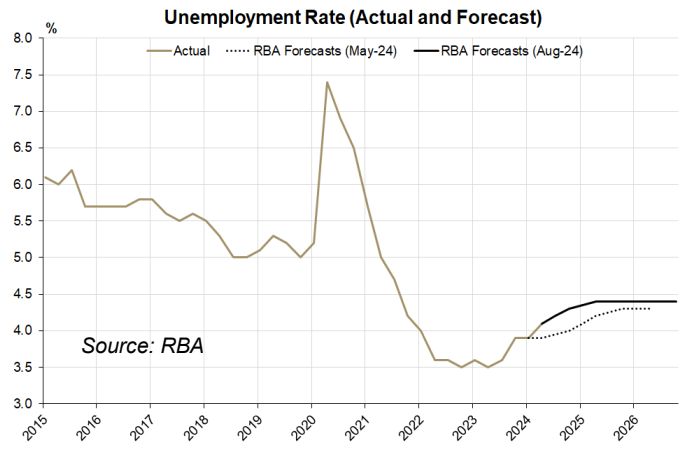
The **Melbourne Institute inflation gauge** returned to the target range in July thanks to energy bill relief.



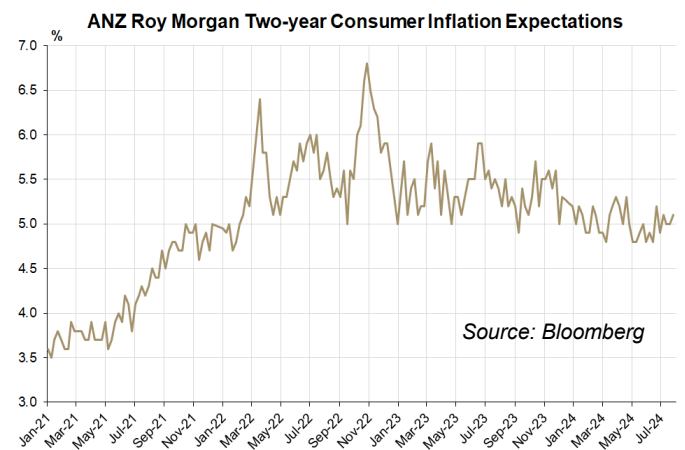
Despite the near-term decline, the RBA expects **headline inflation** to sustainably return to target only in 2026.



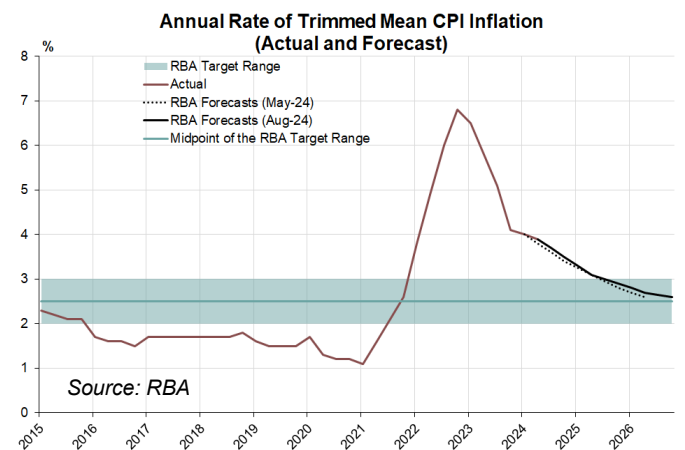
At the same time, however, the RBA revised the **unemployment rate projection path upwards...**



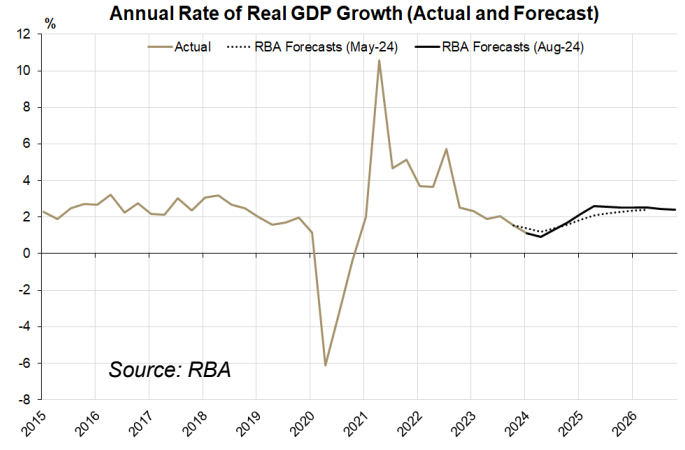
However, the energy bill relief has so far not resulted in lower **inflation expectations** of Australian households.



The RBA also expects **trimmed mean inflation** to remain above the midpoint of the target band for a bit longer.

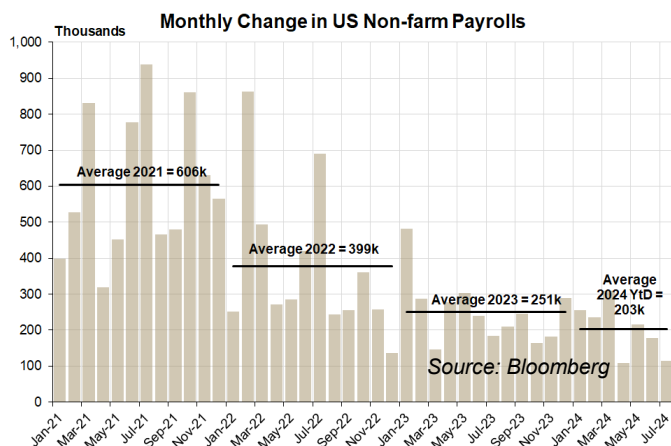


... while still expecting slight acceleration in **real GDP growth**.

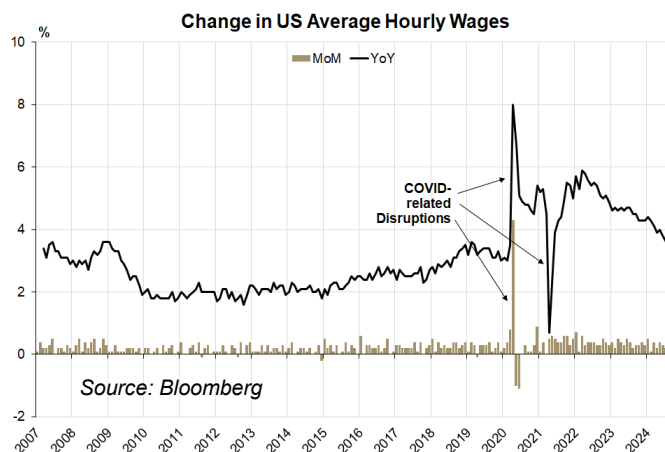


GLOBAL ECONOMY

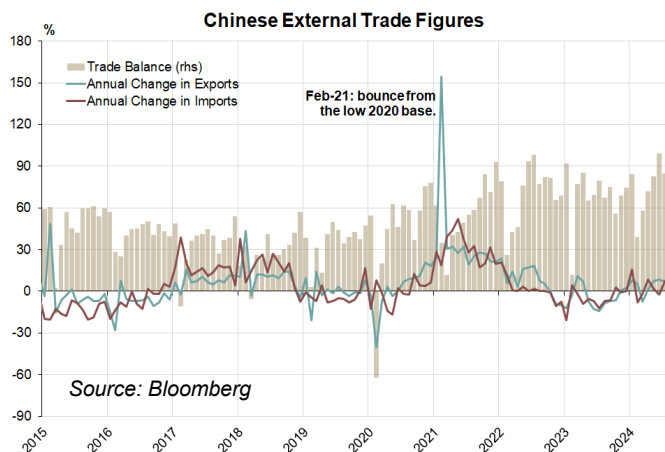
US non-farm payrolls slowed sharply in July.



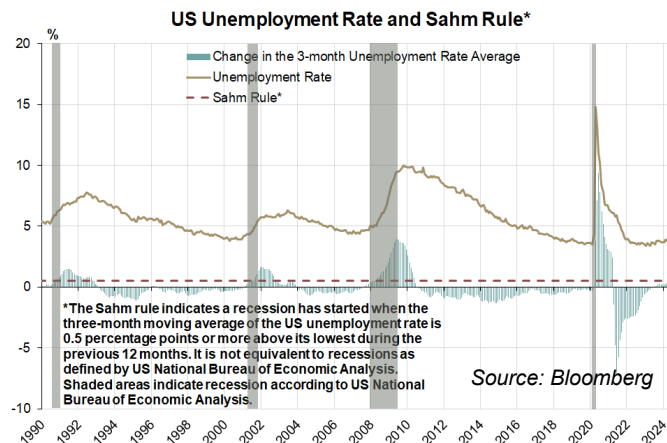
US wages growth is the slowest since the heights of COVID-19.



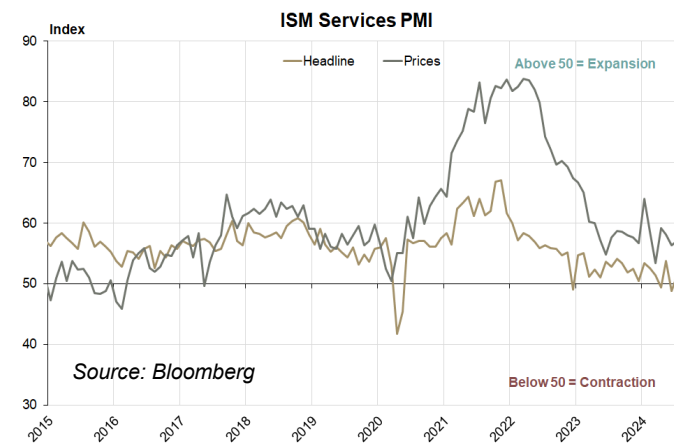
Chinese exports and imports both increased in July, but at a moderate pace by historical standards...



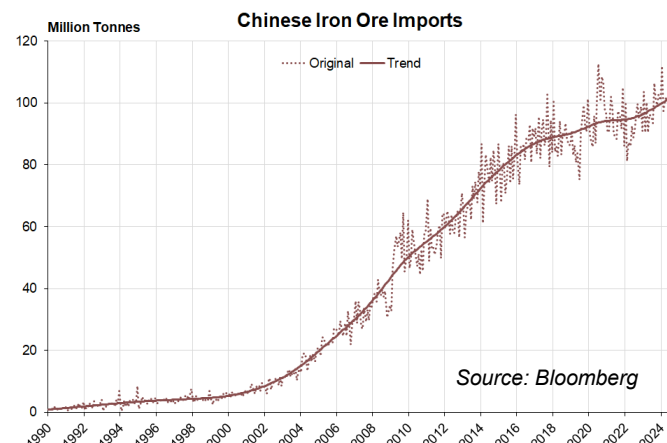
The US unemployment rate has risen fast enough to ignite the Sahn rule of recession.



The ISM services PMI report for July suggests renewed expansion and moderate price growth.



... while **Chinese iron ore imports** continue to trend upwards.



WESTERN AUSTRALIAN TREASURY CORPORATION

Market WATCH Weekly

9 August 2024

KEY ECONOMIC EVENTS

Last Week

Event		Actual	Forecast	Previous	Comment
Mon 05					
AU	Melb. Inst. Inflation (MoM, Jul)	0.4%	-	0.3%	Annual rate dropped 0.4ppts to 2.8%.
CH	Caixin Services PMI (Jul)	52.1	51.5	51.2	Composite PMI down 1.6ppts to 51.2.
US	ISM Services PMI (Jul)	51.4	51.0	48.8	Out of a one-month contraction.
Tue 06					
AU	RBA Decision (Cash Rate Target)	4.35%	4.35%	4.35%	The first cut no longer priced in this year.
AU	RBA Governor M. Bullock Speaks	-	-	-	A rate hike was given strong consideration.
AU	RBA Statement on Monetary Policy	-	-	-	Inflation to return to target a bit later.
AU	ANZ Consumer Conf. (w/e 3 Aug)	-2.1%	-	-1.5%	Inflation expectations up 0.1ppts to 5.1%.
Wed 07					
CH	Trade Balance (Jul)	US\$84.7b	US\$98.4b	US\$99.1b	Exports and imports picked up in July.
Thu 08					
AU	RBA Governor M. Bullock Speaks	-	-	-	A rate hike not completely ruled out by the RBA.
US	Initial Jobless Claims (w/e 3 Aug)	233k	240k	250k	Four-week average at a year high.
Fri 09					
CH	CPI (YoY, Jul)	0.5%	0.3%	0.2%	Core inflation at 0.4% YoY.
CH	PPI (YoY, Jul)	-0.8%	-0.9%	-0.8%	Chinese PPI deflation helping disinflation elsewhere.

Next Week

Event		Forecast	Previous	Comment
Mon 12				
AU	RBA Deputy Governor Speaks	-	-	Speech at the ESA business lunch.
Tue 13				
AU	NAB Business Conditions (Jul)	-	4	The Judo Bank report suggested worse conditions...
AU	NAB Business Confidence (Jul)	-	4	... and marginal improvement in confidence.
AU	Westpac Consumer Conf. (MoM, Aug)	-	-1.1%	ANZ Roy Morgan report points to a slight increase.
UK	Unemployment Rate (Jun)	4.5%	4.4%	UK unemployment climbing steadily.
US	PPI (MoM, Jul)	0.2%	0.2%	Annual rate remained low at 2.6% in June.
Wed 14				
NZ	RBNZ Decision (Official Cash Rate)	5.50%	5.50%	A 25bps cut over 50% priced in.
UK	CPI (MoM, Jul)	-0.2%	0.1%	Annual rate expected to rise 0.3ppts to 2.3%.
US	CPI (MoM, Jul)	0.2%	-0.1%	Annual rate of CPI inflation to remain unchanged at 3.0%.
Thu 15				
AU	Employment (monthly change, Jul)	25.0k	50.2k	Partly supported by higher migration.
AU	Unemployment Rate (Jul)	4.1%	4.1%	RBA expects the unemployment rate to peak at just 4.4%.
AU	MI Inflation Expectations (Aug)	-	4.3%	Have stabilised somewhat above pre-COVID levels.
JP	GDP (QoQ, Q2)	0.5%	-0.7%	Japanese GDP growth expected to turn positive (again).
CH	Retail Sales (YoY, Jul)	2.6%	2.0%	Continues to underperform.
CH	Industrial Production (YoY, Jul)	5.4%	5.3%	Revival in trade figures a good sign for manufacturing.
CH	Urban Fixed Asset Inv. (YoY YtD, Jul)	3.9%	3.9%	Key indicator for Chinese iron ore demand.
UK	GDP (QoQ, Q2)	-	0.7%	UK economy emerged from technical recession in Q1.
US	Retail Sales (MoM, Jul)	0.3%	0.0%	Renewed growth expected.
US	Industrial Production (MoM, Jul)	0.0%	0.6%	PMI figures suggested weakness.
Fri 16				
AU	RBA Testimony at HoR	-	-	Testimony at the Standing Committee on Economics.
US	UoM Consumer Conf. (Aug)	66.7	66.4	Will contain inflation expectations tracked by the Fed.