

Weekly Economics and Markets Review

- The Minutes to the RBA's June policy meeting showed the decision to hike rates was more finely balanced than many had expected.
- Fed Chair Powell suggested the US central bank has more rate increases to come while policymakers throughout the greater European region delivered rate hikes in response to inflation that is proving more resilient than desired.

Week in review

Domestic

- The Minutes to the RBA's June policy meeting showed the Bank's decision to increase rates by 25-basis points was *'finely balanced'*. Recall, this outcome was a surprise to many with only 10 of 30 economists surveyed by Bloomberg expecting the change and markets pricing in only a one-third chance of a 25 basis point move. In justifying the rate hike, the Minutes noted there was an *'increased risk that inflation would take longer to return to target than had been expected'* (this following the upside surprise in the monthly inflation in April) and *'the possibility of implicit indexation of wages to past high inflation and the potential for this to become widespread'* (this following the increases to the minimum and award wages). In keeping with the idea that the decision was *'finely balanced'* the Minutes also provided some support for holding rates unchanged by noting that *'consumption growth was already quite weak, especially in per capita terms'* and highlighting *'the possibility that the significant increases in interest rates to date would lead to the economy slowing more sharply than expected'* as well as noting *'some of the downside risks to inflation'* from the earlier decline in commodity prices.
- RBA Deputy Governor Bullock delivered a speech on *'Achieving Full Employment'* in which she suggested that the domestic labour market remains tight, but that supply-demand imbalances have improved somewhat. On this Bullock cited an increase in net arrivals from overseas (more supply) and a moderation in the post-pandemic recovery (less demand). On the relationship between inflation and employment, Bullock stated that the RBA has been *'willing to accept a somewhat more gradual return of inflation to target'* as a faster return *'would mean more job losses in the short term'*.

Offshore

- In central bank news:
 - In his semi-annual testimony to the US House of Representative's Financial Services Committee Fed Chair Powell suggested that FOMC participants see rates somewhat higher by year-end but noted that policy decisions will be made meeting-by-meeting. Powell indicated two more rate hikes were likely, but that the pace of tightening would be more moderate than seen to-date.
 - Numerous ECB policymakers, including President Lagarde, suggested core inflation remains too high and that further policy tightening was needed.
 - The central banks for Norway and the UK both lifted rates by 50 basis points to tame ongoing inflationary pressures. These moves which were double the size of what was expected by markets.

- After having cut interest rates in recent years in response to rising inflation, the new Governor of Türkiye's central bank hiked rates by 650 basis points as part a new strategy to combat inflation with further *'gradual'* moves likely.
- Switzerland's central bank raised rates by 25 basis points and flagged that further moves *'cannot be ruled out'*, though its chairman noted that the pace of hikes may slow given progress in addressing inflation.
- The Bank of Japan voted unanimously to maintain its ultra-easy monetary policy, as was widely expected (though there was an outside chance of a surprise policy adjustment especially regarding its yield curve control).
- As China's post-pandemic economic recovery appears to be stalling, the People's Bank of China cut the one-year and five-year Loan Prime Rates by 10-basis points. These cuts follow the Bank's decision last week to cut the seven-day reverse repo rate and medium-term lending facility rate.
- In more China related news this week:
 - Following a State Council meeting last week chaired by Chinese Premier Li Qiang, a statement was released which said that officials were *'mulling several policies to promote sustained recovery of its [China's] economy'*.
 - US Secretary of State Blinken met with Chinese President Xi in Beijing, becoming the highest-level US official to visit China in five years. While progress was said to be made on several issues there were no concrete resolutions from the meeting. Both sides agreed to continue talks in the hope of deescalating tensions between the two superpowers.
- On the data front:
 - **US** consumer confidence (as measured by the *University of Michigan's Index of Consumer Sentiment*) increased above expectations in June, with strength across consumers current conditions and future expectations. In that same survey, consumer inflation expectations also eased, particularly those one-year ahead. Meanwhile, US housing data were generally stronger, with housing starts, building permits, existing home sales, and homebuilder confidence all rising above expectations, though this follows months of weakness as the Fed has raised rates.
 - **German** producer price inflation fell more than expected in May, with the annual pace slowing further to +1.0 per cent (from +1.7 per cent in April and down from an August 2022 high of +45.8 per cent).
 - **UK** consumer inflation remains elevated, with the annual rate of headline inflation unchanged at +8.7 per cent while the rate for core inflation rose a further three-tenths to +7.1 per cent. The annual pace of retail inflation eased by one-tenth to +11.3 per cent.

Markets

US bond yields increased over the week as key central bank officials there and in the euro area spoke about the possibility of higher interest rates as well as their peers elsewhere in the greater European region lifted rates, some by more than expected. Ahead of the latter, Australian yields were lower over the week to Thursday.

Economic & Market Calendar

DATE	DETAILS
Domestic	Wednesday: Monthly CPI (May) Thursday: Retail Sales (May), Job Vacancies (May) Friday: Private Credit Sector (May)
Offshore	US: PCE Deflator (May), Personal Income/Spending (May), Durable Goods Orders (May), New and Pending Home Sales (May), House Prices Index (Apr), Consumer Confidence (Jun), GDP (Q1 T) Euro area: CPI (Jun), Unemployment Rate (Jun) China: Industrial Profits (May)

Economic and Financial Market Charts

CHART 1: WHILE SOME MODERATION IN LABOUR DEMAND IN AUSTRALIA HAS BEEN SEEN OVER RECENT MONTHS...

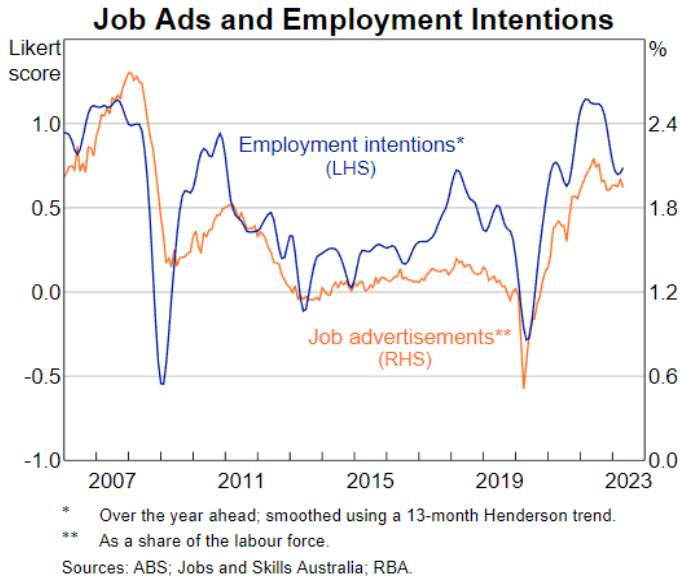


CHART 2: ... THE LABOUR MARKET, AS MEASURED ACROSS NUMEROUS INDICATORS, REMAINS NEAR HISTORIC LEVELS OF TIGHTNESS

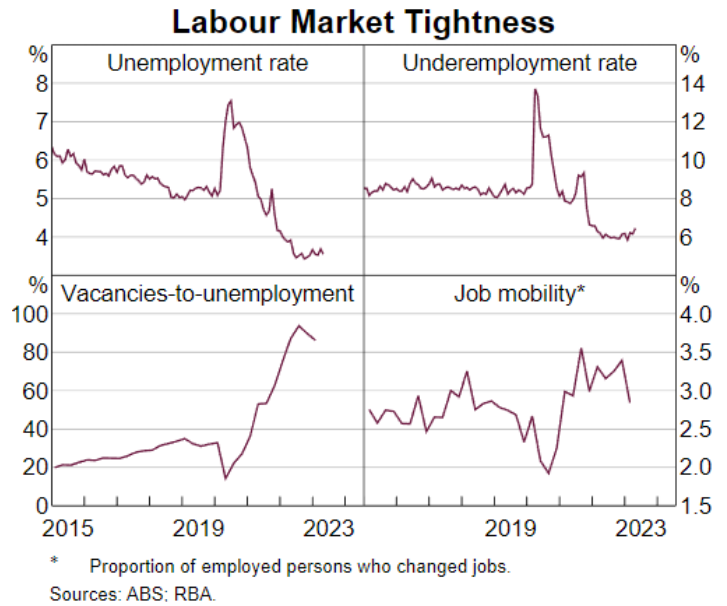


CHART 3: CENTRAL BANKS NOT HAVING PATIENCE FOR INFLATION THAT IS PROVING MORE PERSISTENT THAN EXPECTED HAS SEEN POLICY RATES CONTINUE TO MOVE HIGHER

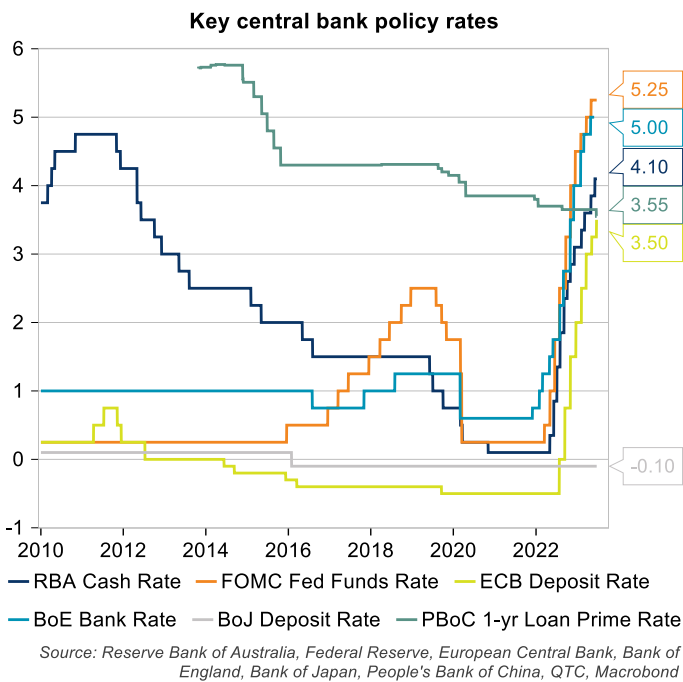
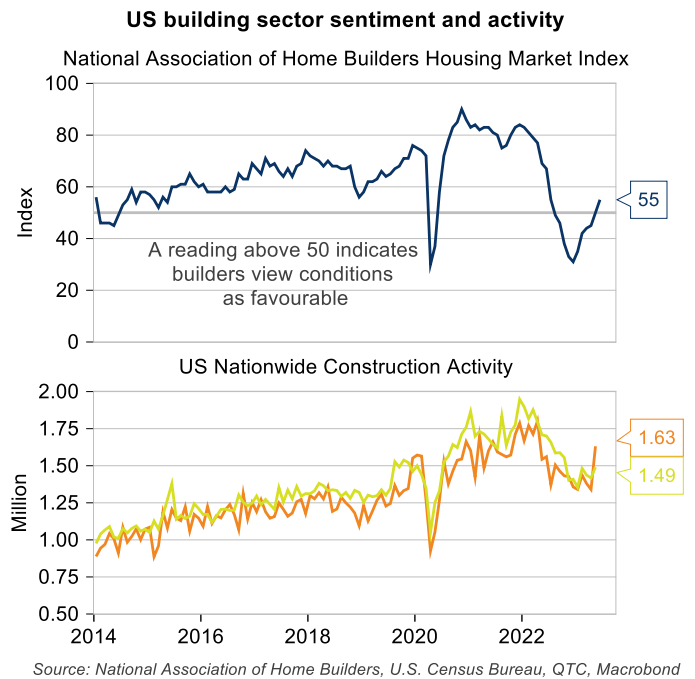


CHART 4: SENTIMENT AND ACTIVITY IN THE US HOUSING SECTOR APPEARS TO HAVE IMPROVED FOLLOWING SHARP DECLINES OVER 2022 AS THE FED TIGHTENED POLICY



Economic and Financial Market Charts

CHART 5: US CONSUMER SENTIMENT IMPROVED IN JUNE, RISING TO THE HIGHEST LEVEL SINCE FEBRUARY 2023 (BEFORE THE US BANKING STRESSES BEGAN) BUT STILL NOTABLY BELOW THE SERIES AVERAGE...

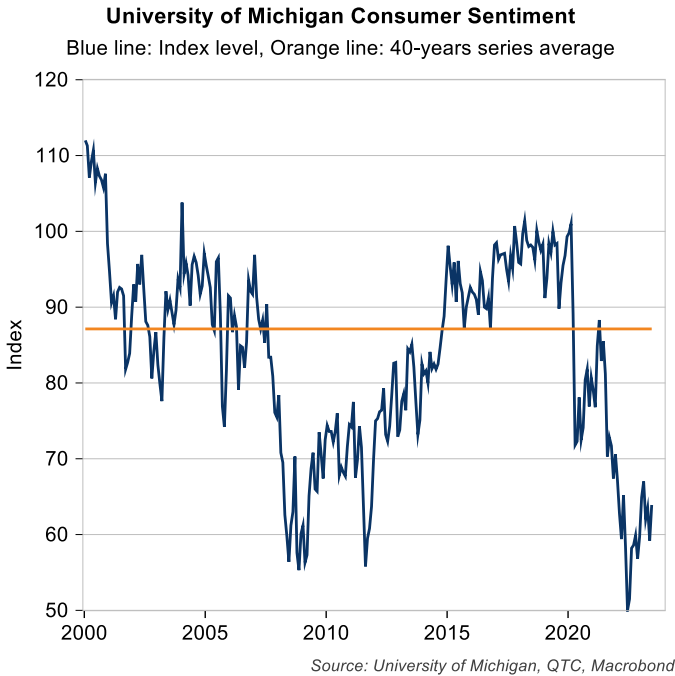


CHART 6: ... MEANWHILE US CONSUMER INFLATION EXPECTATIONS FOR ONE YEAR-AHEAD HAVE EASED NOTABLY FROM RECORD HIGHS, WHILE THOSE FIVE-TO-TEN YEARS AHEAD REMAIN ABOVE RECENT LEVELS

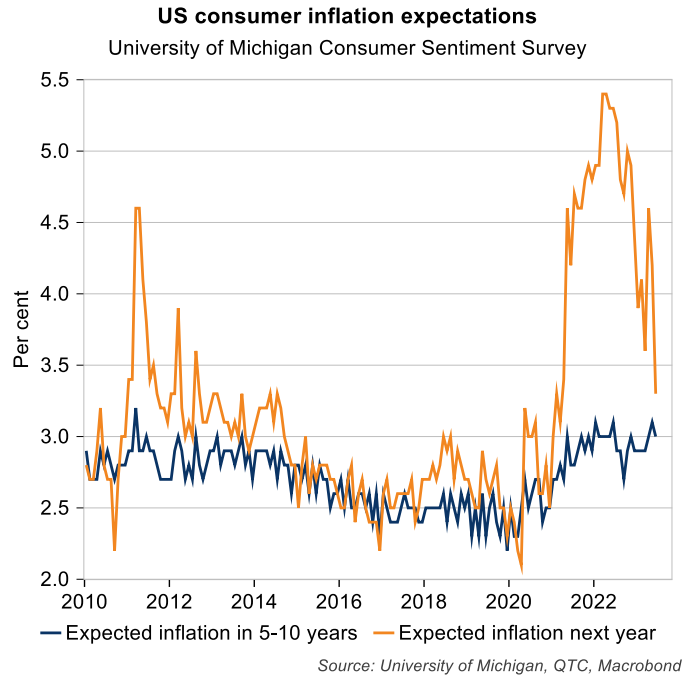


CHART 7: GERMAN PRODUCER INFLATION CONTINUES TO EASE, HELPED BY A SHARP FALL IN ENERGY PRICES

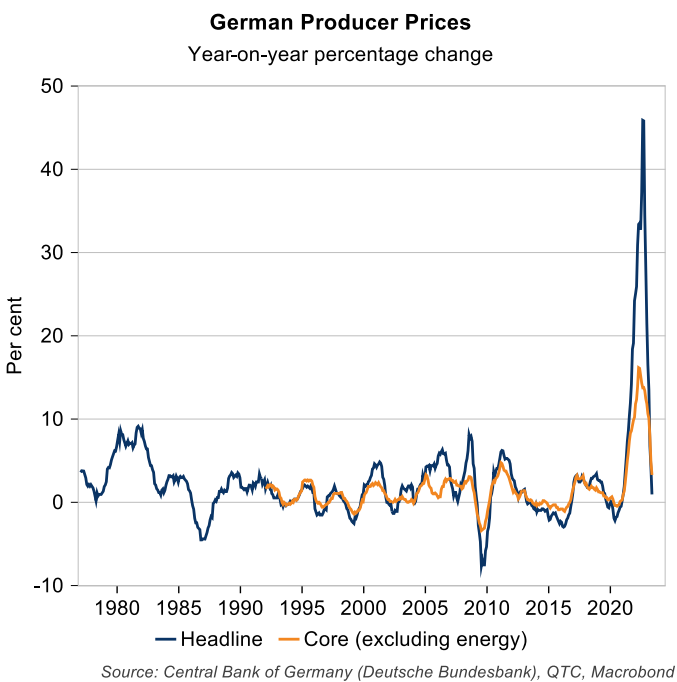
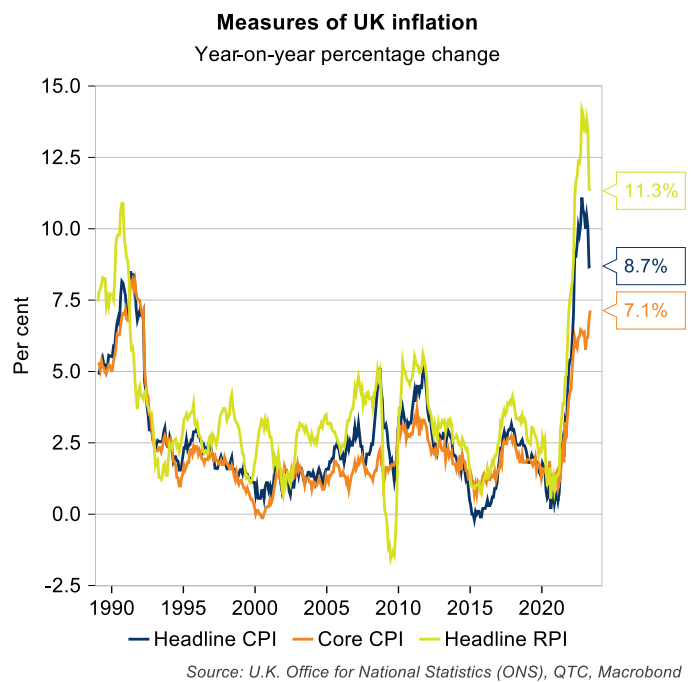


CHART 8: UK CONSUMER INFLATION ON THE OTHER HAND REMAINS ELEVATED, WITH CORE INFLATION RISING FURTHER



Financial markets data table

The table below shows yields for bonds issued by the central financing authorities of various state governments in Australia as well as those on bonds issued by the Australian and US Governments. Further, there are values for the Australian Dollar against a range of currencies, and major exchange rates against the US Dollar. The change in these yields and rates over different time periods is also included.

MATURITY	ISSUER	YIELD	CHANGE (BASIS POINTS)			EQUITIES	RATE	CHANGE (PER CENT)		
			1 WEEK	1 MONTH	1 YEAR			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.25	-3	59	41	AUD/USD	0.6751	-1.78	2.07	-1.89
	NSWTC	4.26	-2	61	46	AUD/EUR	0.6162	-1.88	0.29	-5.88
	TCV	4.32	-4	62	49	AUD/GBP	0.5302	-1.46	-0.47	-5.77
	WATC	4.24	-3	58	39	AUD/JPY	96.536	0.10	5.27	4.10
	Australian Government	3.96	-4	66	49	AUD/CAD	0.8882	-2.34	-0.56	-0.74
	US Government	4.37	13	40	125	AUD/NZD	1.0923	-0.98	3.27	-0.50
						AUD/SGD	0.9077	-1.20	1.86	-5.10
5 Year	QTC	4.23	-4	53	16	AUD/HKD	5.2863	-1.67	2.00	-2.13
	NSWTC	4.27	-3	54	17	AUD/KRW	874.23	-0.66	0.70	-2.37
	TCV	4.30	-4	55	17	AUD/CNY	4.8524	-1.13	4.01	4.86
	WATC	4.20	-3	52	12	AUD/INR	55.676	-0.66	1.59	3.21
	Australian Government	3.90	-4	57	20	MAJOR CURRENCIES				
	US Government	4.04	13	30	90	EUR/USD	1.0986	0.37	2.01	4.40
						GBP/USD	1.2770	-0.11	2.88	4.15
7 Year	QTC	4.33	-2	45	10	USD/JPY	141.88	1.13	2.37	5.14
	NSWTC	4.40	-3	45	11	USD/CHF	0.8931	0.15	-0.91	-7.06
	TCV	4.42	-2	48	11	USD/CNY	7.1813	0.85	1.73	7.24
	WATC	4.32	-2	45	7	MAJOR COMMODITIES				
	Australian Government	3.93	-2	48	9	Brent Crude Oil	74.23	-1.90	-3.40	-32.55
	US Government	3.92	11	21	76	Gold	1,915.59	-2.24	-2.92	4.66
						Copper	8,602.50	0.52	6.18	2.30
10 Year	QTC	4.58	-2	38	12	Iron Ore	111.66	-1.51	14.66	2.92
	NSWTC	4.69	-3	39	18					
	TCV	4.72	-2	42	17					
	WATC	4.51	-3	35	7					
	Australian Government	3.98	-3	39	2					
	US Government	3.79	8	10	71					

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from *Macrobond*.

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