

Weekly Economics and Markets Review

- Domestic headline CPI inflation eased in May, though the underlying measures moderated by less.
- The message from key global central bankers coming out of this week's ECB annual conference was that further tightening is needed.
- Measures of global business activity softened, particularly for the manufacturing sector, with signs building that earlier economic resilience is fading.

Week in review

Domestic

- The ABS' monthly CPI fell 0.4 per cent in May, marking the third monthly fall in prices across the last six months. The annual pace of headline inflation eased more than expected to +5.6 per cent (from +6.8 per cent) on favourable base effects as well as a sharp monthly decline in volatile holiday and fuel prices. However, the moderation in underlying inflation was less pronounced, with the annual rate of trimmed mean inflation decelerating to +6.1 per cent (from +6.7 per cent), while the CPI excluding volatile items (fuel, fresh food and holiday travel) only moderated by one-tenth to +6.4 per cent year-on-year.
- The ABS' measure of job vacancies fell for a fourth straight quarter in the three-months to May, with vacancies in the prior quarter also revised lower. Despite recent weakness, the level of job vacancies remains historically elevated at around 90 per cent above pre-pandemic February 2020 levels.
- Retail sales rose a stronger-than-expected 0.7 per cent in May, with strength across categories. The ABS noted this strength '*reflected some resilience in spending with consumers taking advantage of larger than usual promotional activity and sales events for May.*' Spending on household goods rebounded +0.6 per cent after three consecutive monthly declines, while there were additional strong increases in dining out and takeaway spending.
- The S&P Global PMIs generally showed that conditions improved but at a slower pace in June. The Composite PMI eased to 50.5 (from 51.6), the Services PMI fell to 50.7 (from 52.1), while the Manufacturing PMI bucked the trend to rise 0.2 points to 48.6. By being below 50 points but rising, the latter implies that manufacturing conditions are getting worse but at a more moderate pace.

Offshore

- It was a busy week for central bank news and commentary as the ECB hosted its annual conference in Sintra, Portugal. Below are some of the key takeaways:
 - ECB President Lagarde said the Bank has more ground to cover on inflation and that her baseline scenario is that the ECB will increase rates at its next policy meeting on 27 July. Despite being questioned on the topic, Lagarde did not signal her expectations for the Bank's September meeting, though did stress the Governing Council is not considering a rate pause at this time.
 - Fed Chair Powell suggested that the consensus of the Federal Open Market Committee (based on its latest "dot plot") was for further policy tightening from the Fed. In justifying this view, Powell said that '*although policy is restrictive, it may not be restrictive enough and it has not been restrictive for long enough.*' Following the decision to pause rate hikes at its 15/16 June meeting, Powell indicated policymakers would take each meeting as it comes and did not rule out further hikes at consecutive meetings in the future.

- Bank of England Governor Bailey suggested more tightening was needed. This follows the BoE's 50-basis point increase last week as the nation deals with sticky core inflation and ongoing resilience in the UK labour market.
- Supporting the Bank's ultra-easing monetary policy, Bank of Japan Governor Ueda suggested that while Japanese inflation was above the Bank's two per cent inflation target, he expects inflation to ease later this year.
- Sweden's central bank lifted interest rates by 25 basis points to 3.75 per cent as it revised up growth, inflation, and policy rate forecasts.
- The S&P Global PMIs were disappointing for the US, UK, euro area and Japan with services sector conditions improving at a more moderate pace than previously while manufacturing conditions are weakening at a more rapid rate.
- For the US economy:
 - In the third reading from the Bureau of Economic Analysis, the annualised rate of US GDP growth in Q1 was revised up by +0.6 percentage points to +2.0 per cent on the back of stronger contributions from household spending and net exports.
 - Consumer confidence (as measured by the *Conference Board*) increased in June, with improvements in present situations and future expectations.
 - Housing data were mixed with pending home sales falling in May but new home sales rose strongly on the month and house prices lifted in April.
- Survey measures in **Germany** softened, with the Ifo Index of business climate for June and the GfK Index of consumer confidence for July both declining more than expected.
- **UK** retail sales were stronger than expected, with good weather reportedly boosting sales of outdoor-related goods, summer clothing, and eating out.
- The annual pace of **Canadian** headline inflation eased 1.0 percentage point to +3.4 per cent on favourable base-effects, while the median-core CPI fell a more moderate four-tenths to +3.9 per cent year-on-year.
- **Japanese** headline inflation eased three-tenths to +3.2 per cent year-on-year in May, while the 'new core' CPI measure (which excludes fresh food and energy) accelerated two-tenths to a near 42-year high of +4.3 per cent.
- Industrial profits in **China** declined 11.9 per cent year-on-year in May, a lift from the -18.1 per cent annual decline in April.

Markets

Bond yields fell this week as investors focussed more on emerging signs of softer economic conditions than hawkish central bank commentary.

Economic & Market Calendar

DATE	DETAILS
Domestic	Monday: Building Approvals (May) and Home Loan Values (May) Tuesday: RBA Policy Meeting (July) Thursday: Trade Balance (May)
Offshore	US: Non-farm Payrolls (Jun), PCE Deflator (May), FOMC Minutes (Jun), ISM Manufacturing and Services PMIs (Jun), Job Openings (May) Euro area: PPI (Jun) China: Caixin PMIs (Jun).

Economic and Financial Market Charts

CHART 1: DOMESTIC HEADLINE INFLATION EASED IN MAY, ALTHOUGH BY LESS WHEN ABSTRACTING FROM VOLATILE ITEMS

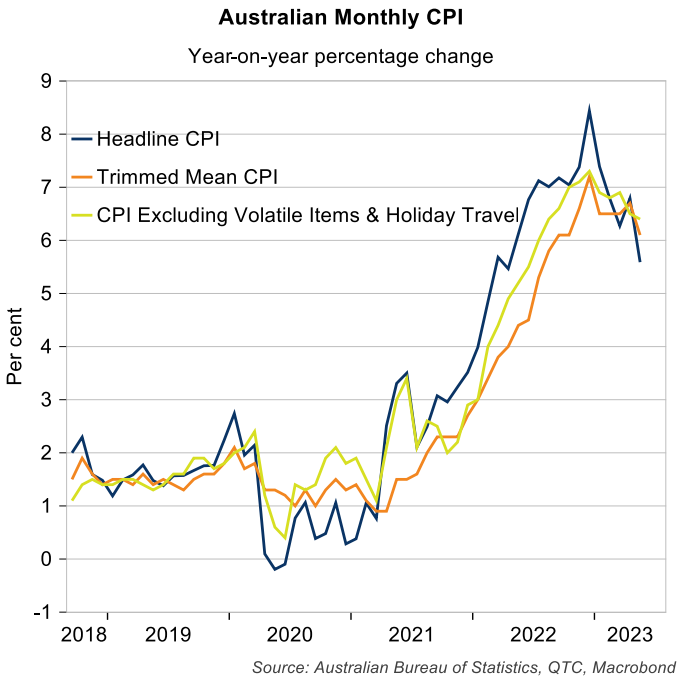


CHART 2: WHILE JOB VACANCIES FELL FURTHER IN THE THREE-MONTHS TO MAY, THEY ARE WELL ABOVE THE PRE-COVID TREND

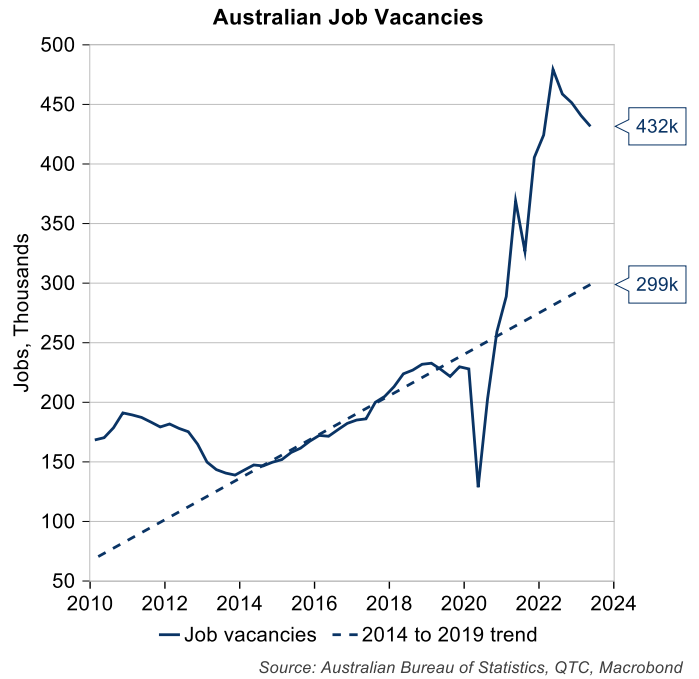


CHART 3: RETAIL SALES ROSE IN MAY FOLLOWING RELATIVELY STAGNANT GROWTH OVER THE PRIOR THREE-MONTHS

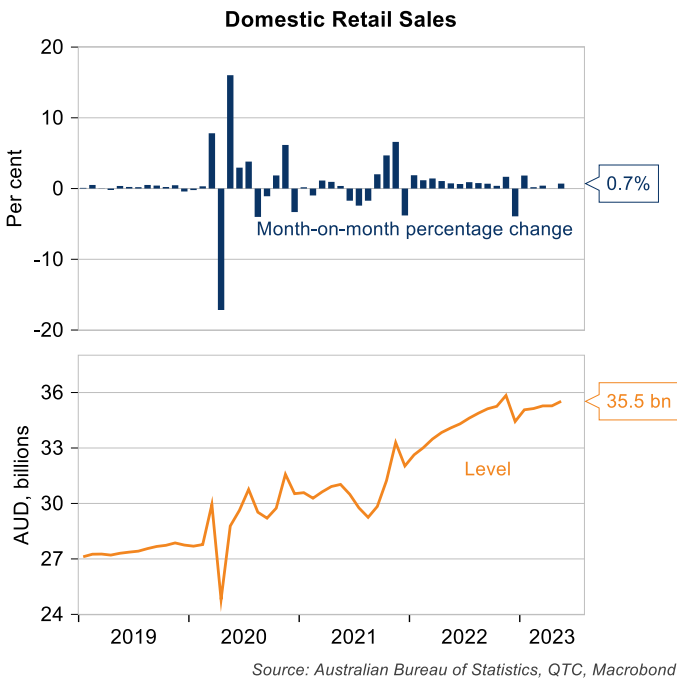
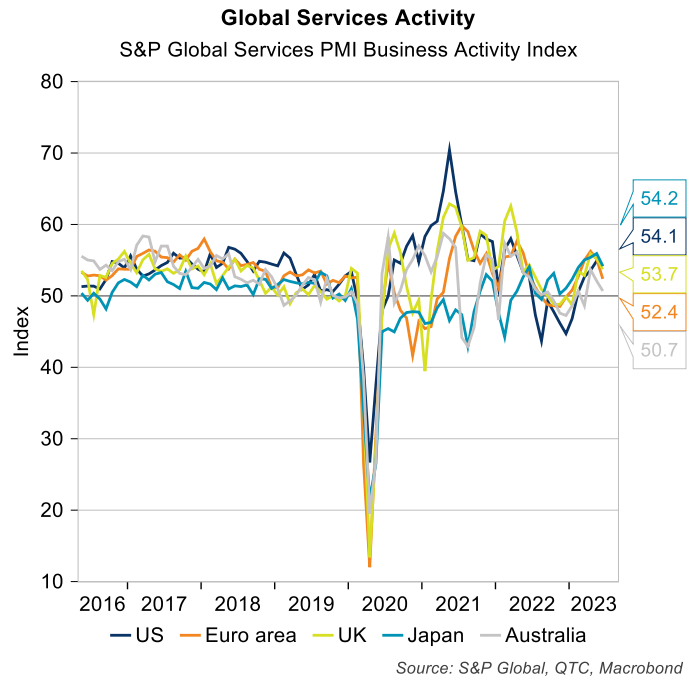


CHART 4: CONDITIONS IN THE GLOBAL SERVICES SECTOR ARE STILL IMPROVING, BUT NOW ARE DOING SO AT A MORE MODERATE PACE...



Economic and Financial Market Charts

CHART 5: ... MEANWHILE, THOSE IN THE MANUFACTURING SECTOR ARE WEAKENING AT A FASTER PACE

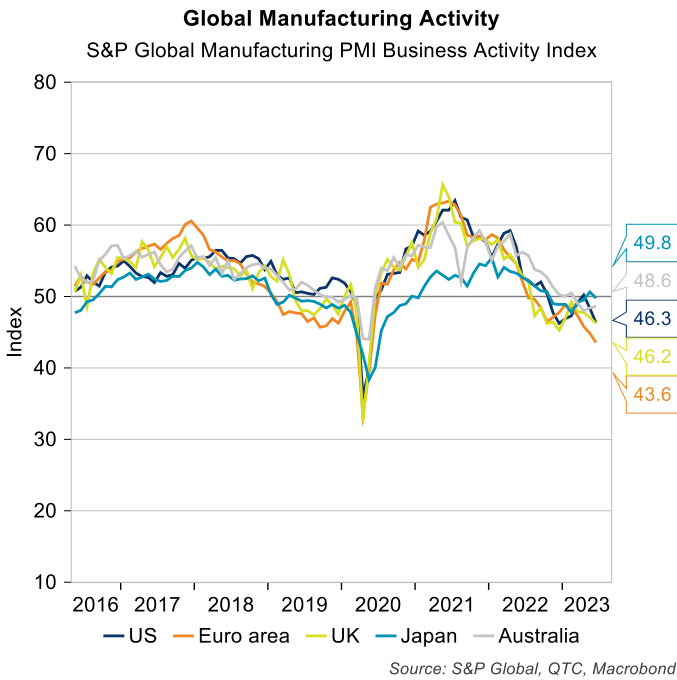


CHART 6: US CONSUMER CONFIDENCE LIFTED IN JUNE WITH ASSESSMENTS OF PRESENT AND FUTURE CONDITIONS IMPROVING

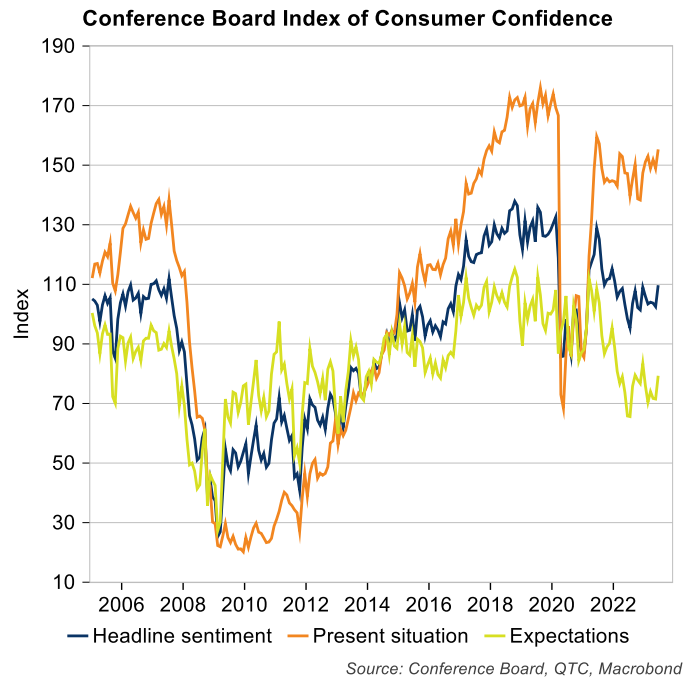
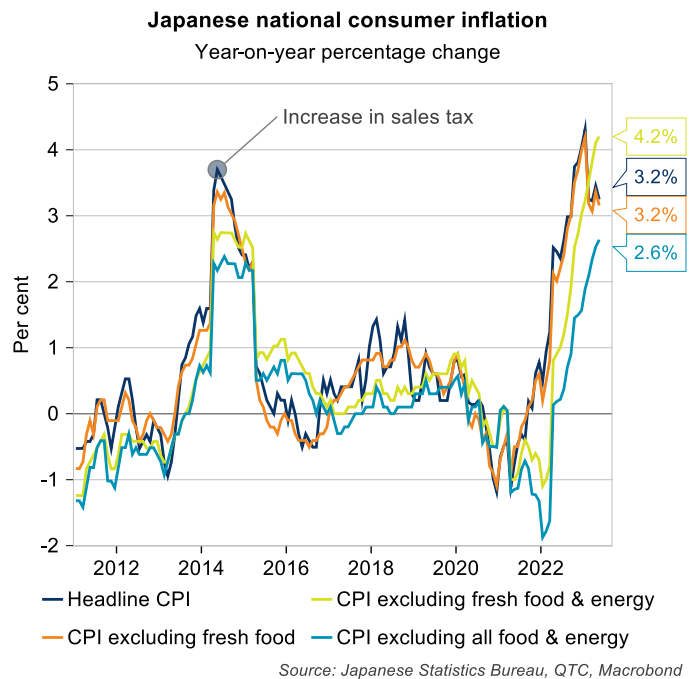


CHART 7: THE GERMAN BUSINESS CLIMATE HAS SOFTENED, WITH EXPECTATIONS DETERIORATING SHARPLY WHILE CURRENT CONDITIONS HAVE ALSO DECLINED



CHART 8: JAPANESE HEADLINE INFLATION EASED SLIGHTLY IN MAY, WHILE UNDERLYING INFLATION THAT EXCLUDES ENERGY PRICES ACCELERATED 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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.20	-5	44	61
	NSWTC	4.21	-6	44	63
	TCV	4.27	-5	46	68
	WATC	4.19	-4	44	60
	Australian Government	3.91	-5	49	69
	US Government	4.49	11	37	148
5 Year	QTC	4.16	-7	36	35
	NSWTC	4.19	-7	35	34
	TCV	4.23	-7	35	34
	WATC	4.13	-7	35	33
	Australian Government	3.84	-6	39	40
	US Government	4.13	9	32	109
7 Year	QTC	4.25	-8	26	28
	NSWTC	4.31	-9	25	27
	TCV	4.34	-8	26	27
	WATC	4.24	-8	26	27
	Australian Government	3.86	-7	29	30
	US Government	3.98	6	23	91
10 Year	QTC	4.49	-9	18	29
	NSWTC	4.60	-10	18	32
	TCV	4.63	-9	19	33
	WATC	4.43	-9	16	26
	Australian Government	3.90	-8	20	23
	US Government	3.84	4	15	83

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.6627	-1.84	1.80	-4.12
AUD/EUR	0.6096	-1.07	0.40	-7.55
AUD/GBP	0.5250	-0.99	-0.03	-7.51
AUD/JPY	95.988	-0.57	5.37	2.36
AUD/CAD	0.8781	-1.14	-0.77	-1.30
AUD/NZD	1.0921	-0.02	1.35	-1.23
AUD/SGD	0.8983	-1.04	2.08	-6.45
AUD/HKD	5.1944	-1.74	1.85	-4.23
AUD/KRW	873.11	-0.13	1.22	-2.74
AUD/CNY	4.7975	-1.13	4.06	3.95
AUD/INR	54.446	-2.21	0.56	0.08
MAJOR CURRENCIES				
EUR/USD	1.0913	-0.39	1.66	4.10
GBP/USD	1.2636	-0.88	1.79	3.76
USD/JPY	144.49	0.96	3.36	6.45
USD/CHF	0.8969	0.23	-0.99	-6.09
USD/CNY	7.2394	0.56	2.21	8.18

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	74.34	0.27	1.09	-35.25
Gold	1,910.34	-0.27	-2.53	5.55
Copper	8,255.00	-3.72	1.63	-0.04
Iron Ore	112.80	1.02	14.66	0.92

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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