

Weekly Economics and Markets Review

- The RBA left rates on hold at its June meeting with this outcome being slightly favoured by economists and markets.
- Data released on the domestic economy pointed to moderating labour market conditions and price pressures but resilience in the property market.
- Participants of the Federal Open Markets Committee ('FOMC'), the policymaking arm of the US Federal Reserve, weren't unanimous in their thinking about a June rate hike. Further rate rises anticipated later this year.

Week in review

Domestic

- The RBA kept the cash rate steady at 4.1 per cent at its July meeting.
 - The RBA noted that this *'provides the Board with more time to assess the state of the economy and the economic outlook and associated risks.'*
 - Despite pausing this month, the RBA reinstated forward guidance that *'some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve.'* This had been a feature of previous communications though was dropped in the minutes to the June meeting (which pre-dated this decision in July to keep rates on-hold).
 - The post-meeting statement removed commentary that the Board was *'seeking to keep the economy on an even keel'* and that the path to a soft landing was *'a narrow one'*. In its place the release noted that the Board is *'still expecting the economy to grow'* but the path to achieving *'this balance is a narrow one.'* This change is hard to interpret but could suggest that the Bank is more confident in the resilience of the economy and is comfortable tilting its actions more towards containing inflation than shoring up growth.
 - 60 per cent of economists surveyed prior to the meeting expected this while markets priced-in a similar chance of a 25-basis point hike.
- Data released this week suggested signs of resilience in the property market:
 - Residential building approvals rebounded 20.6 per cent in May driven by a steep lift in the volatile higher-density category (+59.3 per cent) with the larger and more stable detached dwellings segment rising only 0.3 per cent. Despite the jump, approvals are 9.8 per cent lower over the year.
 - The value of housing lending jumped 4.8 per cent in May but is 20.2 per cent lower over the year. On the month the rise was led by investors (+6.2 per cent) but the larger owner-occupier category was strong also (+4.0 per cent).
 - According to *CoreLogic*, capital city dwelling prices rose +1.2 per cent in June. This was the fourth straight monthly increase but was a little smaller than the gain in May (+1.4 per cent). Decent rises were seen across both detached houses (+1.3 per cent) and units (+1.0 per cent). Prices are now down 'only' 5.3 per cent over the year.
- In other data:
 - The Melbourne Institute's monthly inflation gauge edged 0.1 per cent higher in June to be up 1.2 per cent in Q2. The trimmed mean measure rose 0.2 per cent to be up 1.3 per cent in Q2. The monthly pace of price pressures slowed for relative to May.
 - ANZ-Indeed Australian Job Ads fell by 2.5 per cent in June to be 10 per cent lower over the year.

Offshore

- The minutes to the June FOCM meeting revealed that:
 - *'almost all'* participants viewed keeping rates on hold as being *'appropriate or acceptable,'* while *'some'* participants either preferred or *'could have supported'* a 25-basis point hike in June.
 - Beyond the June meeting, *'Almost all'* participants judged that additional increases would be appropriate this year with inflation still *'unacceptably high,'* with the decline in inflation having been slower than expected. However, with rates having risen 500 basis points since early 2022, *'many'* participants thought that *'a further moderation in the pace of policy firming was appropriate'* to allow the Committee to gather more information on the *'effects of cumulative tightening'* and *'assess their implications for policy.'*
 - The Fed staff continue to expect the economy to enter *'a mild recession'*. However, interestingly, given resilience in the labour market and consumer spending, the possibility of this being avoided was now *'almost as likely'*.
- In terms of economic data released this week:
 - In the **US**, core PCE inflation was 0.3 per cent in May and 4.6 per cent over the year. There were signs of moderation in some of the details of the report, including that this was the smallest monthly increase in six months. Meanwhile, manufacturing conditions in June moderated at the fastest pace since the GFC (excluding COVID-19) and service sector conditions improved at a faster rate.
 - In the **euro area**, consumer prices rose 5.5 per cent over the year to June, slower than the 6.1 per cent seen in May. The moderation in price pressures came on the back of lower energy prices. Core inflation was 5.4 per cent over the year to June with moderating core goods inflation (+5.5 per cent from +5.8 per cent) but rising services (+5.4 per cent from +5.0 per cent) inflation. The latter was due to base effects mainly from Germany's transport incentives a year ago. Meanwhile, producer price inflation was -1.9 per cent in May to be 1.5 per cent lower over the year. The monthly move was also driven by lower energy costs. Excluding energy, prices fell a more moderate 0.4 per cent on the month to be 3.4 per cent higher over the year.
 - In **Japan**, the unemployment rate was steady in May at 2.6 per cent while, industrial production turned down for the first time in four months in May.
 - In **China**, manufacturing conditions moderated at a slightly slower pace in June while those in the services sector improved a little less quickly.

Markets

Signals from the June FOMC minutes that some participants were looking to lift rates at that meeting pushed yields higher this week.

Economic & Market Calendar

DATE	DETAILS
Domestic	Tuesday: NAB Business Survey (Jun), Westpac-Melbourne Institute Consumer Sentiment Survey (Jul)
Offshore	US: Non-farm payrolls (Jun), NFIB Small Business Optimism (Jun), CPI (Jun), PPI (Jun) UK: Labour market data (3 months to Jun) Other: Industrial production (JP & EZ, May), CPI (CN, Jun), trade (CN, Jun)

Economic and Financial Market Charts

CHART 1: THE VALUE OF NEW HOME LOAN APPROVALS HAS INCREASED IN LINE WITH THE PICK-UP IN DWELLING PRICES...

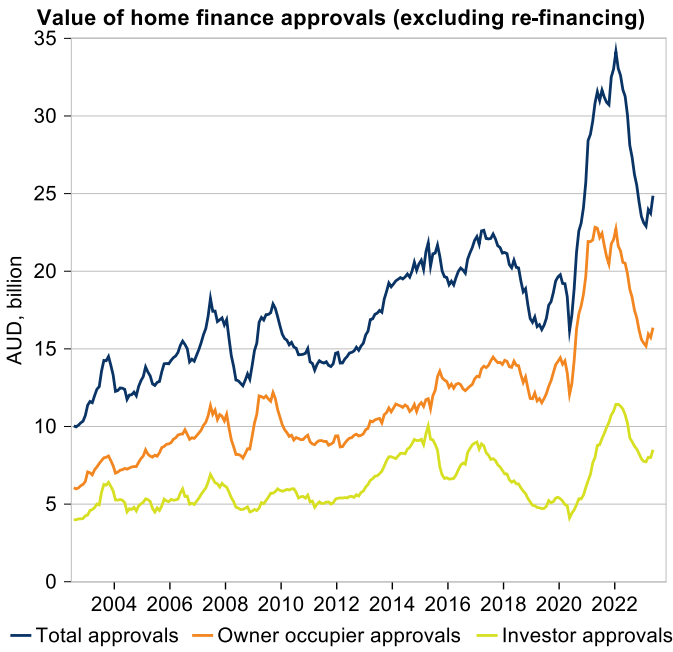


CHART 2: ...WITH BUILDING APPROVALS ALSO LIFTING, ALBEIT THAT THIS WAS DRIVEN BY THE VOLATILE MULTI-DWELLINGS SEGMENT

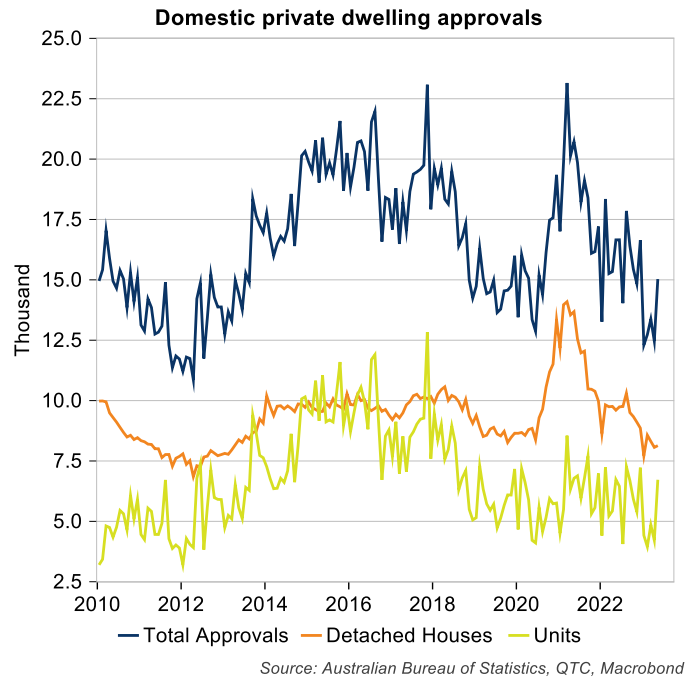


CHART 3: US CORE INFLATION PRESSURES ARE MODERATING, SLOWLY...

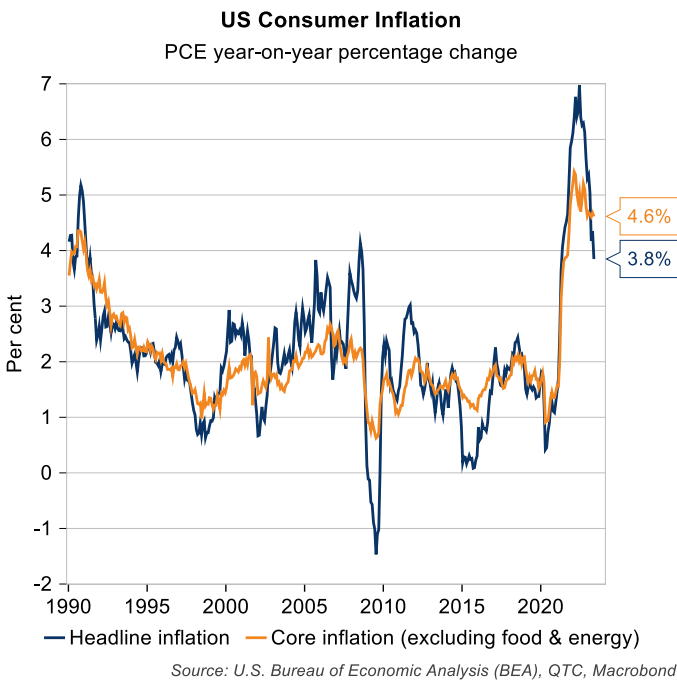
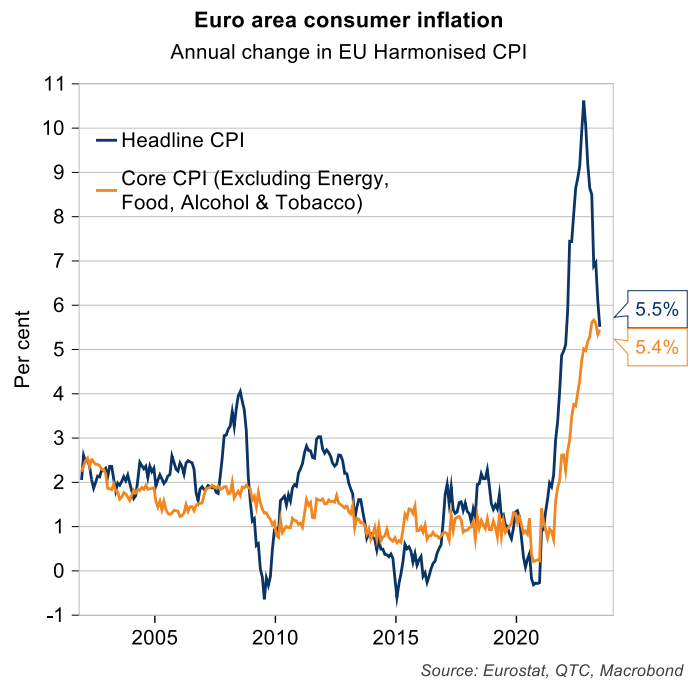


CHART 4: ...WITH A SIMILAR STORY UNFOLDING IN THE EURO AREA



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	4.41	21	48	113	AUD/USD	0.6621	-0.09	-0.78	-3.15
	NSWTC	4.42	22	48	113	AUD/EUR	0.609	-0.10	-2.45	-8.83
	TCV	4.49	22	48	123	AUD/GBP	0.5202	-0.90	-3.11	-8.62
	WATC	4.40	21	47	113	AUD/JPY	95.419	-0.59	2.39	2.60
	Australian Government	4.12	21	49	122	AUD/CAD	0.8846	0.74	-1.14	-0.35
	US Government	4.68	19	57	164	AUD/NZD	1.0763	-1.45	-2.04	-2.82
						AUD/SGD	0.8967	-0.18	-0.36	-6.32
5 Year	QTC	4.38	23	43	90	AUD/HKD	5.179	-0.30	-1.04	-3.47
	NSWTC	4.42	23	43	90	AUD/KRW	861.59	-1.32	-0.53	-3.05
	TCV	4.46	23	42	91	AUD/CNY	4.8027	0.11	1.11	4.93
	WATC	4.36	23	43	87	AUD/INR	54.958	0.94	-0.01	1.47
	Australian Government	4.06	22	44	96	MAJOR CURRENCIES				
	US Government	4.35	22	54	132	EUR/USD	1.0890	0.23	1.84	7.19
						GBP/USD	1.2740	1.01	2.54	5.96
7 Year	QTC	4.48	23	37	83	USD/JPY	144.10	-0.46	3.19	5.95
	NSWTC	4.54	23	36	82	USD/CHF	0.8955	-0.44	-1.33	-8.04
	TCV	4.57	23	36	83	USD/CNY	7.2462	-0.02	1.82	8.28
	WATC	4.47	23	37	81	MAJOR COMMODITIES				
	Australian Government	4.08	21	37	83	Brent Crude Oil	76.51	2.92	0.29	-26.89
	US Government	4.20	22	46	114	Gold	1,909.93	-0.02	-2.74	9.59
						Copper	8,319.00	1.73	-0.24	6.35
10 Year	QTC	4.74	25	33	84	Iron Ore	110.09	-0.90	5.76	4.14
	NSWTC	4.83	23	31	85					
	TCV	4.87	24	32	87					
	WATC	4.66	24	30	78					
	Australian Government	4.12	22	31	73					
	US Government	4.03	19	37	103					

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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