

Weekly Economics and Markets Review

- Domestic consumer inflation continued to ease in the June quarter with this seeing markets pare back expectations for RBA rate hikes.
- The US Federal Open Market Committee (FOMC) and European Central Bank (ECB) both increased rates by 25-basis points, as expected.
- The IMF revised its projections for 2023 global GDP growth higher and inflation lower.

Week in review

Domestic

- Consumer inflation surprised to the downside in the June quarter:
 - Headline CPI rose +0.8 per cent in Q2 to be +6.0 per cent higher over the year. These outcomes were below both market expectations and RBA forecasts, as well as being the slowest pace of quarterly and annual inflation since Q3 2021 and Q1 2022 respectively.
 - The downside surprise was largely driven by goods disinflation, which eased to +0.9 per cent on the quarter (the slowest pace since Q3 2021), with the annual rate falling 1.8 percentage points to +5.8 per cent. Meanwhile, services inflation dipped to +0.8 per cent on the quarter, though the annual rate rose two-tenths to +6.3 per cent (the highest since 2001). The increase in services inflation was driven by higher prices in a range of categories including rents, restaurant meals, holiday travel and insurance. On housing, quarterly rents growth rose the most since the late 1980s, though this was partially offset by easing inflation across new housing and utilities.
 - The trimmed-mean (which is the RBA's preferred gauge) rose +0.9 per cent in Q2 (the slowest quarterly pace since Q3 2021) with the annual rate of growth eased seven-tenths to +5.9 per cent year-on-year, slightly below the consensus expectation and RBA's latest forecast of +6.0 per cent.

Offshore

- It was a key week for central banks globally:
 - The FOMC lifted rates by 25-basis points to 5.25-to-5.50 per cent, as widely expected. The only adjustment to the post-meeting statement was an upgrade to the Committee's characterisation of economic growth to 'moderate' from 'modest'. In the press conference Chair Powell said the full impact of prior rate increases have yet to be felt, although there was evidence in some sectors; that policymakers have not committed to an 'every other meeting' approach and will remain data dependent; that Fed staff economists no longer anticipate a recession; and that, when rate cuts do come, they could still continue to shrink its balance sheet.
 - The ECB raised interest rates by 25-basis points as expected. However, guidance from its Governing Council (GC) and President indicated that the Bank may be close to done with tightening policy. For example, previously President Lagarde indicated that the Bank had 'more ground to cover' in lifting interest rates but now noted that incoming data would dictate 'whether and how much' rates would be lifted. Similarly, the GC previously noted that rates would need to be 'brought to' restrictive levels but now says rates would be 'set at' these levels, implying that they may now be there. The Bank noted the weaker near-term outlook for the economy and how policy was effective in tightening financing conditions to achieve this.
- The minutes to the Bank of Canada's July meeting noted that policymakers are willing to hike rates again, but that decisions will be entirely data dependent with the Bank cautious not to 'overdo it'.
- The Politburo of the Chinese Communist Party said the economy faced 'new difficulties and challenges' given insufficient demand and a 'complex and severe external environment'. There was some apparent support for the troubled property sector with it vowing to 'adjust and optimise real estate policy in a timely manner.' Also, notably absent from the post-meeting statement was the prior comment that 'housing is for living and not for speculation.'
- The IMF revised up its global growth forecast for 2023 to +3.0 per cent (from +2.8 per cent in April), with growth in 2024 still expected at +3.0 per cent. The Agency also revised its expectations for global inflation in 2023 down two-tenths to +6.8 per cent, but increased those for 2024 to +5.2 per cent (from +5.0 per cent) as it projects underlying inflation to persist and decline more gradually.
- Business activity (as measured by PMIs) was more moderate in July across the US, UK, euro area and Japan. Services activity improved at a slower rate while conditions in the manufacturing sector deteriorated at a faster pace.
- In the **US**, GDP increased at an annualised rate of 2.4 per cent in Q2, with strength evident in domestic demand categories including household consumption, government spending and non-residential investment. Only residential investment dragged on growth, though the pace at which this did so moderated. The Conference Board's gauge of US consumer confidence lifted in July, driven by an increase in consumers perceptions about their current situation and expectations for the future. New home sales declined in June, while pending home sales rose on the month as did dwelling prices in May.
- In the **euro area**, the ECB's Q2 bank lending survey showed corporate loan demand to be falling at a faster rate while the opposite was true for household's demand for housing or personal credit. On the supply side, fewer banks were reporting tightening standards further.
- **UK** retail sales rose above expectations in June as warm weather and summer promotions drove broad-based strength across categories.
- Consumer price inflation was mixed in **Japan** in June. The Headline CPI (which covers all items) and Core CPI (which excludes fresh food) rose one-tenth to +3.3 per cent year-on-year. Meanwhile, the New Core CPI (which excludes fresh food and energy) fell one-tenth to +4.3 per cent and the Core Core CPI (which excludes all food and energy) was unchanged at +2.6 per cent.
- Finally, the annual rate of growth in industrial profits in **China** lifted in June, though revenues for industry were lower.

Markets

Australian bond yields fell across the curve this week following the weaker than expected Q2 CPI outcome. The declines were more pronounced at the short-end as market participants revised expectations for future RBA rate hikes.

Economic & Market Calendar

DATE	DETAILS
Domestic	Tuesday: RBA Policy Meeting (Aug), Building Approvals (Jun), Home Loan Values (Jun) Thursday: Retail Sales (volumes, Q2), Trade Balance (Jun) Friday: RBA Statement on Monetary Policy (Aug)
Offshore	US: Non-farm Payrolls (Jul), Non-farm Productivity (Q2), Unit Labour Costs (Q2), ISM PMIs (Jul), Job Openings (Jun) Euro area: GDP (Q2), CPI (Jul), Unemployment (Jun), Retail Sales (Jun), Producer Inflation (Jun) China: Official PMIs (Jul) New Zealand: Employment (Q2)

Economic and Financial Market Charts

CHART 1: DOMESTIC CONSUMER PRICE INFLATION CONTINUED TO EASE IN THE JUNE QUARTER...

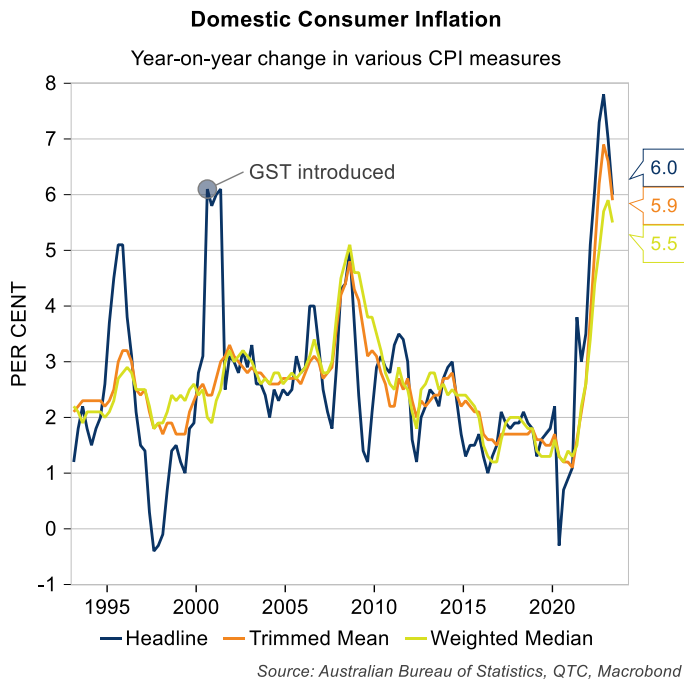


CHART 2: ...AS UTILITIES MADE A SMALLER CONTRIBUTION TO INFLATION IN Q2 DUE TO GOVERNMENT SUBSIDIES

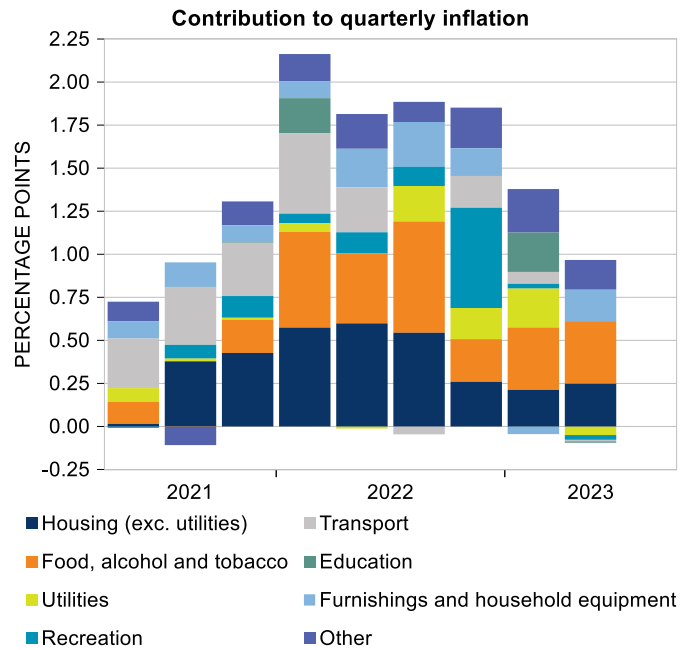


CHART 3: WHILE GOODS INFLATION HAS SLOWED NOTICEABLY, SERVICES INFLATION APPEARS TO BE EASING MORE SLOWLY...

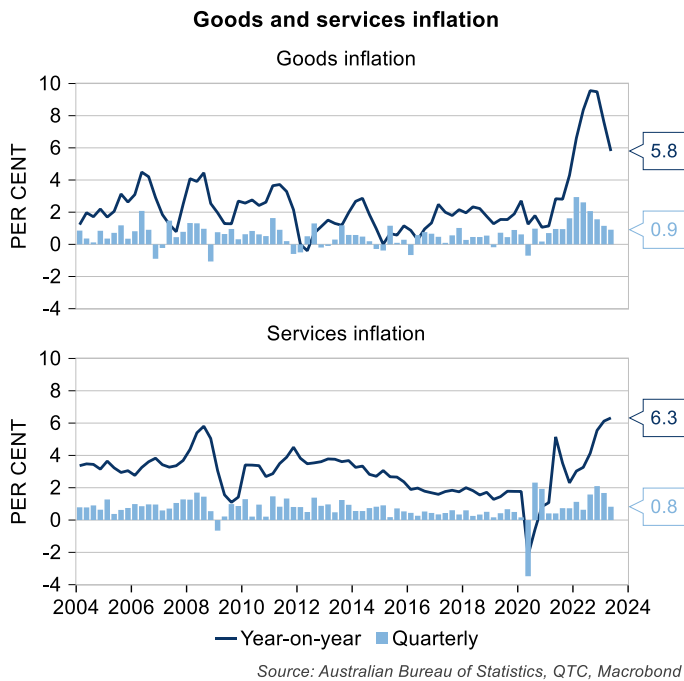
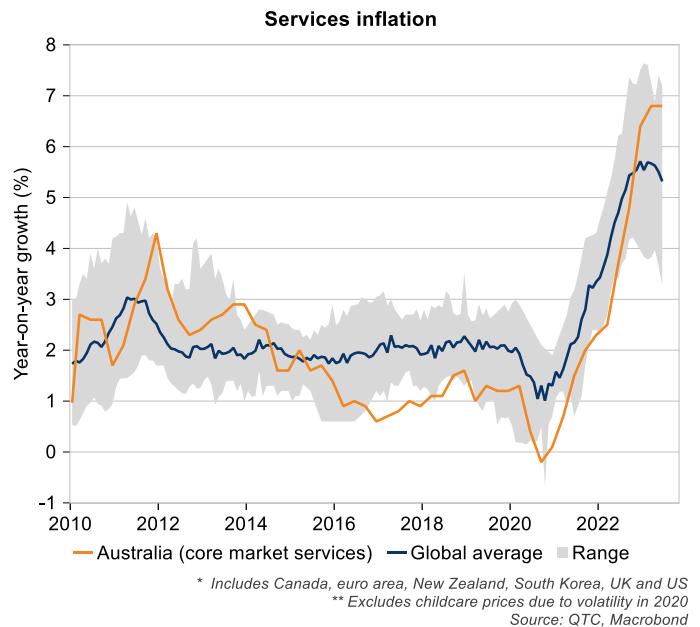


CHART 4: ...WITH THIS BEING A GLOBAL TREND, ALBEIT ONE IN WHICH AUSTRALIA STILL STANDS OUT



Economic and Financial Market Charts

CHART 5: ALL KEY MEASURES OF JAPANESE INFLATION REMAIN ABOVE THE BANK OF JAPAN'S TWO PER CENT INFLATION TARGET

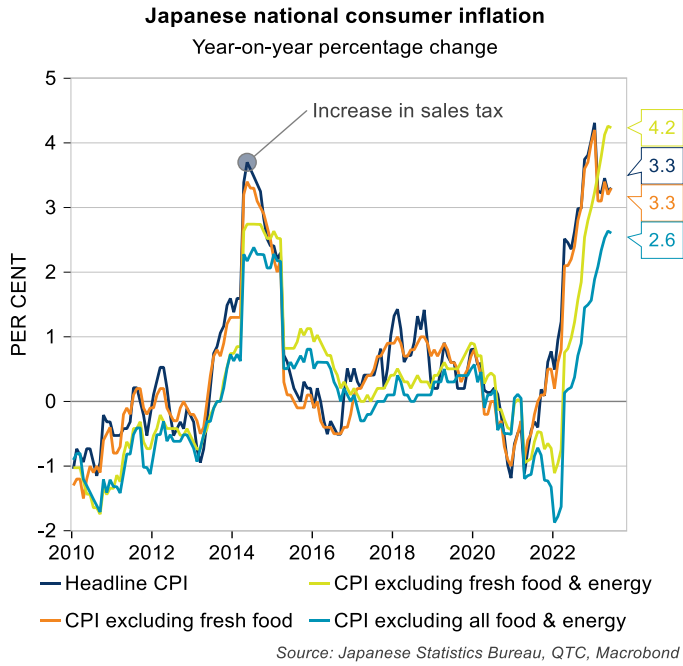


CHART 6: US GDP GROWTH UNEXPECTEDLY ACCELERATED IN Q2 WITH CONTRIBUTIONS FROM MOST CATEGORIES OF DOMESTIC DEMAND

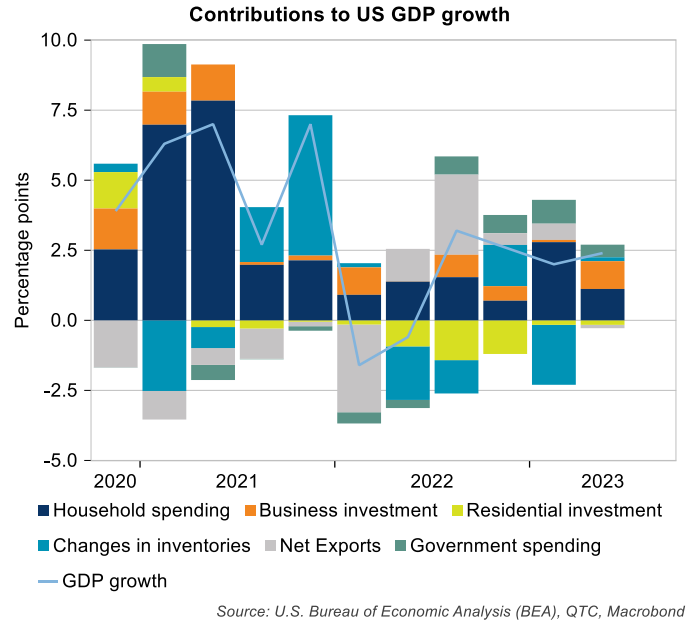


CHART 7: GLOBAL BUSINESS ACTIVITY SOFTENED IN JULY

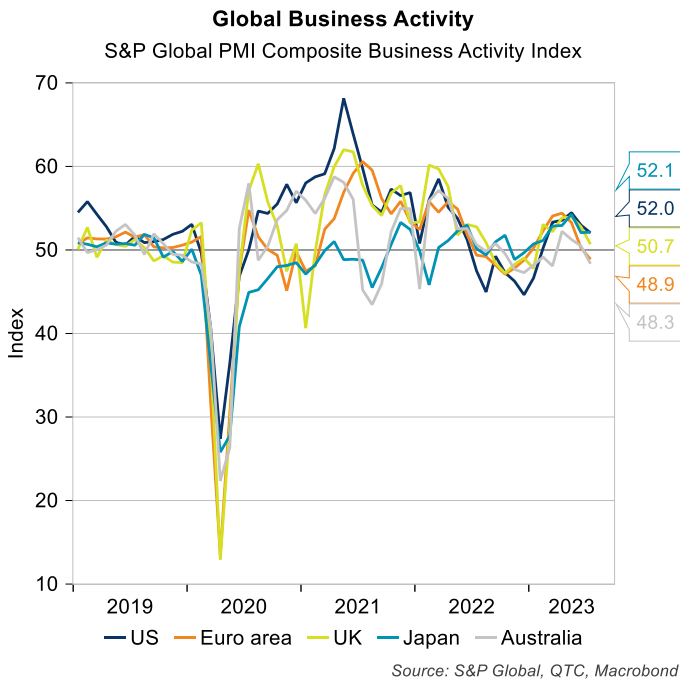


CHART 8: THE IMF UPGRADED ITS GROWTH OUTLOOK AND DOWNGRADED THAT FOR INFLATION FOR THIS YEAR

Overview of the IMF World Economic Outlook Projections

	Estimate		Current projection		Forecast revision from April 2023		
	2021	2022	2023	2024	2023	2024	
Output	Global Growth	6.3%	3.5%	3.0%	3.0%	0.2%	0.0%
	Advanced Economies Growth	5.4%	2.7%	1.5%	1.4%	0.2%	0.0%
	Developing Economies Growth	6.8%	4.0%	4.0%	4.1%	0.1%	-0.1%
	Australia Growth	5.2%	3.7%	1.6%	1.5%	0.0%	-0.2%
Prices	Global Inflation	4.7%	8.7%	6.8%	5.2%	-0.2%	0.3%
	Advanced Economies Inflation	3.1%	7.3%	4.7%	2.8%	0.0%	0.2%
	Developing Economies Inflation	5.9%	9.8%	8.3%	6.8%	-0.3%	0.3%

Source: International Monetary Fund World Economic Outlook Update (July 2023 Update) & QTC

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	4.11	-12	-11	81	AUD/USD	0.6736	-0.55	0.76	-3.25
	NSWTC	4.12	-12	-10	87	AUD/EUR	0.6129	0.64	0.48	-10.56
	TCV	4.18	-11	-11	92	AUD/GBP	0.5246	-0.46	0.05	-8.60
	WATC	4.10	-11	-10	81	AUD/JPY	95.037	-0.11	-1.25	1.50
	Australian Government	3.81	-11	-10	89	AUD/CAD	0.8885	-0.48	0.82	-0.60
	US Government	4.58	14	19	178	AUD/NZD	1.0858	-0.32	0.22	-2.22
5 Year	QTC	4.10	-10	-8	70	AUD/SGD	0.8960	-0.34	-0.68	-6.82
	NSWTC	4.14	-9	-8	70	AUD/HKD	5.2555	-0.69	0.36	-3.83
	TCV	4.17	-10	-8	73	AUD/KRW	860.49	0.07	-0.99	-4.89
	WATC	4.08	-9	-8	67	AUD/CNY	4.8047	-1.30	-0.58	2.07
	Australian Government	3.76	-9	-8	72	AUD/INR	55.720	-0.55	1.52	0.02
	US Government	4.24	14	21	154	MAJOR CURRENCIES				
7 Year	QTC	4.26	-7	-4	72	EUR/USD	1.0969	-1.45	0.07	7.56
	NSWTC	4.32	-6	-3	72	GBP/USD	1.2790	-0.61	0.32	5.00
	TCV	4.33	-8	-5	72	USD/JPY	139.40	-0.48	-3.24	3.83
	WATC	4.23	-8	-5	68	USD/CHF	0.8697	0.33	-2.69	-8.92
	Australian Government	3.83	-6	-6	70	USD/CNY	7.1708	-0.13	-0.74	6.35
	US Government	4.14	15	23	143	MAJOR COMMODITIES				
10 Year	QTC	4.54	-5	0	78	Brent Crude Oil	83.91	5.36	16.12	-21.68
	NSWTC	4.63	-5	-2	79	Gold	1,944.30	-1.20	1.55	10.85
	TCV	4.67	-5	-0	83	Copper	8,617.50	1.56	3.04	11.02
	WATC	4.47	-6	0	72	Iron Ore	109.72	-2.81	0.35	-3.59
	Australian Government	3.92	-3	-1	68					
	US Government	4.00	15	24	133					

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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