

Weekly Economics and Markets Review

- The RBA's *Statement on Monetary Policy* maintained the Bank's tightening bias, while keeping its economic forecasts broadly unchanged.
- US data painted a mixed picture about the labour market and inflation backdrop. This saw the chance of a rate hike at the Federal Reserve's next meeting decline over the course of the week. Meanwhile, Chinese consumer and producer prices fell together for the first time since 2020.

Week in review

Domestic

- The RBA released its quarterly *Statement on Monetary Policy*. The Statement reiterated the Bank's tightening bias, noting '*some further tightening of monetary policy may be required*'. The Statement also showed the Bank's forecasts for growth, inflation and the labour market were broadly unchanged from those in the previous update in May levels. Here are some of the details:
 - GDP growth over 2023 and 2024 was revised slightly lower following the softer Q1 2023 outcome.
 - The 2023 unemployment rate forecast was lowered marginally as the labour market remains resilient. Wages growth over the first half of 2024 was revised slightly higher.
 - The headline and trimmed-mean inflation forecasts were lowered marginally for 2023, reflecting the recent softer Q1 2023 CPI data.
 - The forecasts assumed the cash rate would peak 'around 4¼ per cent by the end of 2023 before declining to 3¼ per cent by the end of 2025'. This compares with an assumed peak in the cash rate of 3¼ per cent in May's Statement. For context, the cash rate is currently 4.1 per cent.
- The *NAB Business Survey* for July showed that conditions eased slightly, while but confidence improved. Labour costs accelerated strongly (+1.4 ppts to +3.4 per cent over the three months to July) following the increase in minimum and award wages at the start of the new financial year. In a development sure to have captured the attention of the RBA, NAB noted there was some evidence of firms passing through wage costs into higher selling (+1.0ppts to +2.0 per cent) and retail (+1.2ppts to 2.6 per cent).
- The *Melbourne Institutes'* measure of the annual rate of underlying consumer inflation expectations eased three-tenths to 4.9 per cent, this following three consecutive months at 5.2 per cent.
- The *Westpac-Melbourne Institute Consumer Sentiment Index* fell in August, with key components mixed. Consumer's outlook for the labour market improved slightly, with unemployment expectations falling.
- The *ANZ-Indeed* measure of job ads rose slightly in July following a downward revision in June.

Offshore

- It was a particularly busy week for commentary by central bank officials:
 - There were some divergent views from Fed officials on the policy outlook. Some suggested rates needed to be raised further while others believe there is no need to hike further. Various members argued the next decision is an open question and that policymakers need to be guided by the data.
 - Meanwhile, despite increasing interest rates last week, Bank of England Chief Economist Pill said the Monetary Policy Committee sees '*greater risk*' that inflation will persist in the UK. As a result, markets continue to price further rate hikes from the Bank of England. This is contrast to that for other central banks (such as those in the US, euro area, Australia, Canada, New Zealand) which appear to have peaked for the moment.
- These comments came as the ECB's Chief Economist Lane said euro area inflation will retreat markedly in the second half of 2023 and return to the Bank's two per cent target by 2025.
- In the **US**
 - Both headline and core inflation were steady at 0.2 per cent in July with the annual rate ticking up for the former (+3.0 to +3.2 per cent) while continuing to moderate for the latter (+4.8 to +4.7 per cent). Details were mixed with core goods prices continuing to decline but core services prices (excluding housing) edged higher after being flat last month. Similarly, a measure of median CPI fell to the lowest rate since the start of 2021, while inflation excluding idiosyncratic categories (that is, those affected by the COVID-19 shock) picked-up again.
 - Non-farm payrolls rose 187,000 in July. While still a historically strong result, it marks a second consecutive downside miss on jobs growth. The unemployment rate fell by one-tenth to 3.5 per cent and wages growth was solid, remaining at +4.4 per cent year-on-year.
 - Small business optimism (as measured by the *NFIB Survey on Small Business Economics Trends*) rose to the highest level in eight months, although the index remains notably below the series long-run average.
- In the **euro area**, investor confidence (as measured by *Sentix*) rose in August, though it remains in deeply negative territory.
- In **Germany**, factory orders surprised notably to the updated in June, though this positivity was offset by industrial production declining for a fourth consecutive month.
- In **China**,
 - The annual rate of headline consumer inflation eased to -0.3 per cent year-on-year in July, from 0.0 per cent in June. Much of this was due a drop in food inflation (to -1.7 per cent, from +2.3 per cent) because of base effects. Non-food inflation rose to +0.0 per cent year-on-year (from -0.6 per cent), driven by rising oil and services prices. Meanwhile, core inflation (which excludes food and energy) increased to +0.8 per cent year-on-year (from +0.4 per cent).
 - Meanwhile, the annual rate of producer inflation improved to -4.4 per cent year-on-year in July (from -5.4 per cent in June) due to rising prices of oil, non-ferrous metals, and goods.
 - Import and export growth fell notably in July, driven by weaker internal and external demand as well as base effects.

Markets

Market moves were largely contained ahead of the US inflation report. In contrast to last week, yields decreased and did so by more at the long-end of the yield curve.

Economic & Market Calendar

| DATE | DETAILS |
|-----------------|--|
| Domestic | Tuesday: RBA Minutes (Aug), Wage Price Index (Q2) Thursday: Labour Force Survey (Jul) |
| Offshore | US: Retail Sales (Jul), FOMC Minutes (Aug), Industrial Production (Jul), Housing Starts (Jul) EMU: GDP (Q2), Employment (Q2), Industrial Production (Jun), ZEW Survey (Aug) UK: Inflation (Jul), Employment (Jun) CHN: Monthly Activity Data (Jul) NZ: RBNZ Official Cash Rate (Aug), Producer Inflation (Q2) |

Economic and Financial Market Charts

CHART 1: THE RBA MADE LIMITED ADJUSTMENTS TO ITS OUTLOOK FOR THE DOMESTIC ECONOMY IN ITS STATEMENT ON MONETARY POLICY

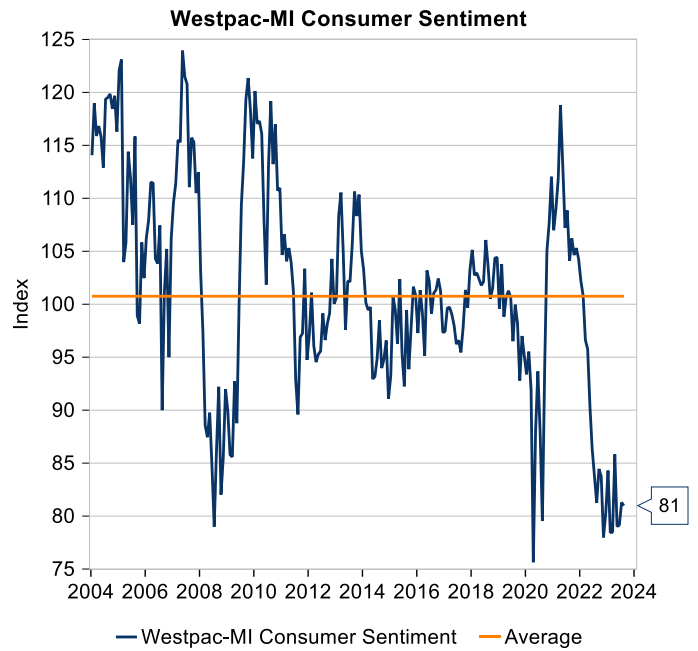
Overview of the forecasts from the RBA's August Statement on Monetary Policy

| | Dec-22 | Jun-23 | Dec-23 | Jun-24 | Dec-24 | Jun-25 | Dec-25 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| Year-on-year real GDP growth | 2.7% | 1.6% | 0.9% | 1.3% | 1.6% | 2.0% | 2.3% |
| Revision | 0.0% | -0.1% | -0.3% | -0.1% | -0.1% | -0.1% | -- |
| Quarterly unemployment rate | 3.5% | 3.6% | 3.9% | 4.2% | 4.4% | 4.5% | 4.5% |
| Revision | 0.0% | 0.0% | -0.1% | 0.0% | 0.0% | 0.0% | -- |
| Year-on-year headline inflation | 7.8% | 6.0% | 4.1% | 3.6% | 3.3% | 3.1% | 2.8% |
| Revision | 0.0% | -0.3% | -0.4% | 0.0% | 0.1% | 0.1% | -- |
| Year-on-year trimmed-mean inflation | 6.9% | 5.9% | 3.9% | 3.3% | 3.1% | 2.9% | 2.8% |
| Revision | 0.0% | -0.1% | -0.1% | 0.0% | 0.0% | 0.0% | -- |
| Year-on-year Wage Price Index growth | 3.3% | 3.7% | 4.1% | 4.0% | 3.8% | 3.7% | 3.6% |
| Revision | 0.0% | -0.1% | 0.1% | 0.1% | 0.0% | 0.0% | -- |

Blue shading denotes observed outcomes

Source: RBA & QTC

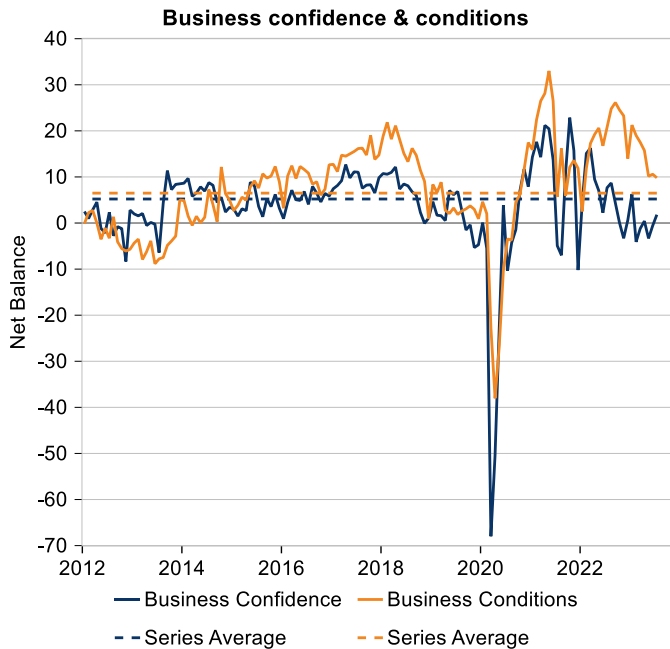
CHART 2: THE WESTPAC-MELBOURNE INSTITUTE CONSUMER SENTIMENT INDEX IS ~20 PER CENT BELOW THE LONG-TERM AVERAGE...



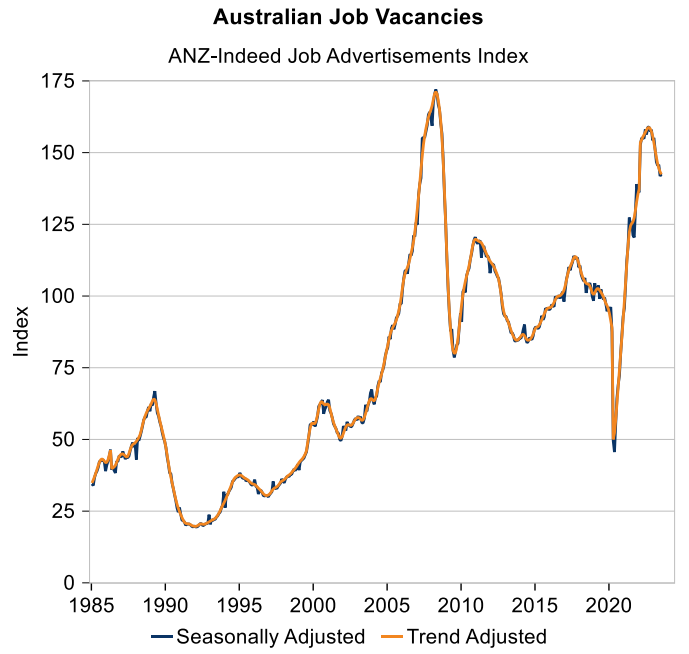
Source: Westpac-MI, QTC, Macrobond

CHART 3: ... MEANWHILE, THE NAB BUSINESS SURVEY SHOWED BUSINESS CONDITIONS REMAIN ABOVE THE SERIES LONG RUN AVERAGE, WHILE BUSINESS CONFIDENCE CONTINUES TO BE BELOW

CHART 4: THOUGH THE ANZ-INDEED INDEX FOR JOB ADS HAS FALLEN AROUND TEN PER CENT FROM ITS SEPTEMBER 2022 PEAK, IT REMAINS AT HISTORICALLY ELEVATED LEVELS



Source: National Australia Bank, QTC, Macrobond



Source: Australia & New Zealand Banking Group Limited, QTC, Macrobond

Economic and Financial Market Charts

CHART 5: US CONSUMER INFLATION CONTINUED TO EASE IN JULY

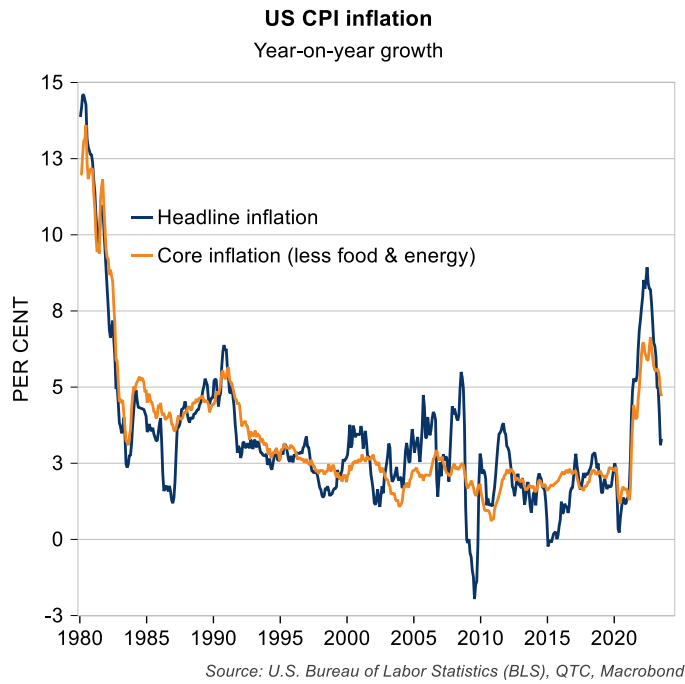


CHART 6: ...THIS AS US JOBS GROWTH HAS SLOWED

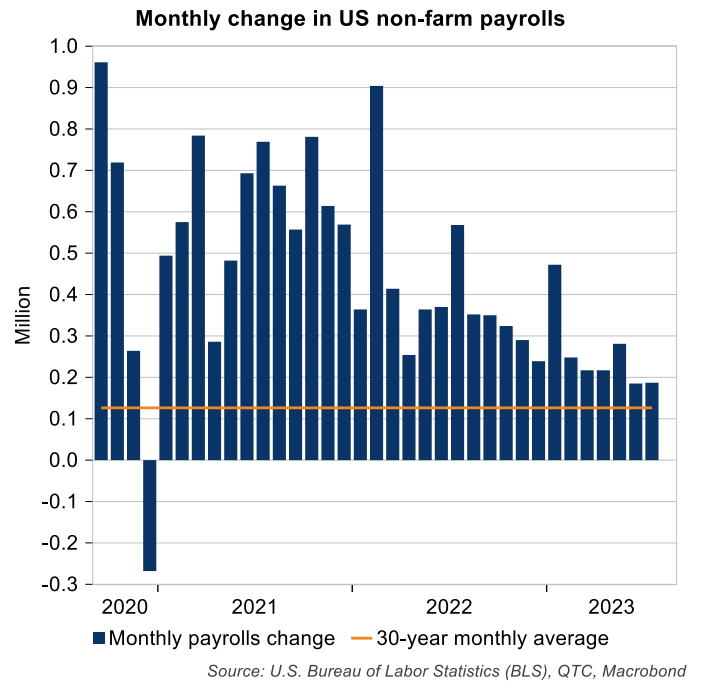


CHART 7: CHINESE CONSUMER AND PRODUCER PRICES FELL TOGETHER FOR THE FIRST TIME SINCE 2020

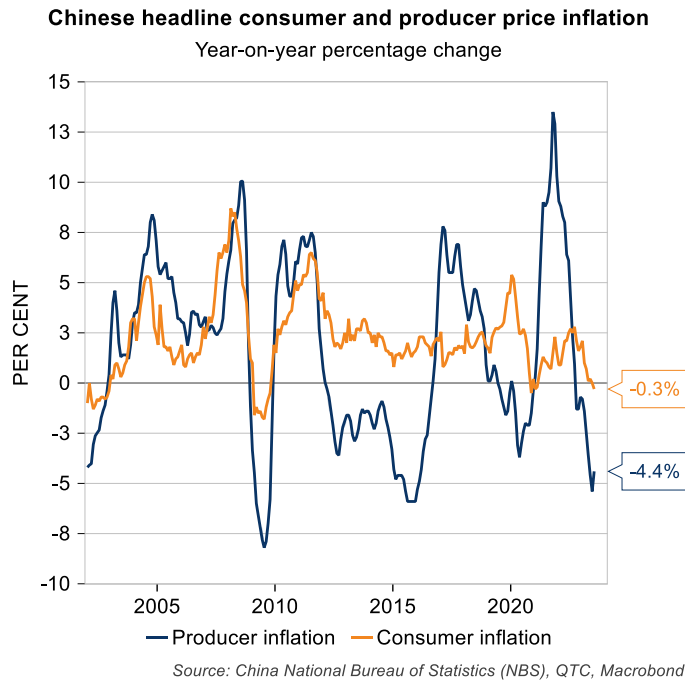


CHART 8: ... MEANWHILE, THE ANNUAL GROWTH RATE OF CHINESE IMPORTS AND EXPORTS HAS DECLINED NOTABLY



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 | 4.04 | 0 | -49 | 71 | AUD/USD | 0.6551 | -0.15 | -1.77 | -7.97 |
| | NSWTC | 4.05 | -0 | -49 | 76 | AUD/EUR | 0.5947 | -0.72 | -1.90 | -13.70 |
| | TCV | 4.10 | -1 | -50 | 79 | AUD/GBP | 0.5152 | -0.14 | -0.19 | -11.53 |
| | WATC | 4.02 | -0 | -49 | 70 | AUD/JPY | 94.627 | 1.21 | 1.10 | 0.12 |
| | Australian Government | 3.78 | -0 | -44 | 78 | AUD/CAD | 0.8789 | 0.46 | -0.53 | -3.07 |
| | US Government | 4.51 | -7 | -4 | 134 | AUD/NZD | 1.0818 | 0.40 | 0.38 | -2.06 |
| 5 Year | QTC | 4.07 | -2 | -46 | 64 | AUD/SGD | 0.8826 | 0.36 | -1.34 | -9.40 |
| | NSWTC | 4.12 | -2 | -45 | 66 | AUD/HKD | 5.1216 | -0.02 | -1.89 | -8.26 |
| | TCV | 4.14 | -2 | -46 | 68 | AUD/KRW | 861.67 | 1.07 | -0.14 | -7.10 |
| | WATC | 4.05 | -2 | -46 | 62 | AUD/CNY | 4.7201 | 0.54 | -1.99 | -1.67 |
| | Australian Government | 3.79 | -1 | -39 | 71 | AUD/INR | 54.237 | 0.34 | -1.35 | -4.09 |
| | US Government | 4.23 | -6 | 0 | 125 | MAJOR CURRENCIES | | | | |
| 7 Year | QTC | 4.28 | -5 | -38 | 74 | EUR/USD | 1.0979 | 0.21 | -0.22 | 6.28 |
| | NSWTC | 4.36 | -5 | -36 | 77 | GBP/USD | 1.2724 | 0.03 | -1.53 | 4.09 |
| | TCV | 4.36 | -4 | -38 | 76 | USD/JPY | 143.64 | 0.79 | 2.35 | 8.17 |
| | WATC | 4.25 | -4 | -39 | 71 | USD/CHF | 0.8769 | 0.34 | -0.35 | -6.67 |
| | Australian Government | 3.91 | -4 | -32 | 76 | USD/CNY | 7.2100 | 0.61 | 0.00 | 6.87 |
| | US Government | 4.18 | -7 | 7 | 123 | MAJOR COMMODITIES | | | | |
| 10 Year | QTC | 4.61 | -6 | -32 | 87 | Brent Crude Oil | 86.39 | 1.47 | 8.80 | -13.26 |
| | NSWTC | 4.70 | -6 | -33 | 87 | Gold | 1,920.61 | -0.78 | -0.61 | 7.36 |
| | TCV | 4.73 | -6 | -33 | 92 | Copper | 8,397.50 | -2.48 | 0.90 | 2.75 |
| | WATC | 4.52 | -6 | -33 | 79 | Iron Ore | 100.73 | 0.00 | -3.12 | -7.02 |
| | Australian Government | 4.03 | -6 | -25 | 79 | | | | | |
| | US Government | 4.11 | -7 | 14 | 122 | | | | | |

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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