

Weekly Economics and Markets Review

- The RBA held the cash rate on-hold for a second consecutive meeting as the Bank continues to assess how economic conditions are evolving.
- In other central bank news, the Bank of Japan delivered a policy surprise while the Bank of England continued to nudge rates higher.
- The US Treasury released updated borrowing estimates which were higher than market expectations. Coincidentally, credit rating agency *Fitch* downgraded its assessment of the US' credit worthiness.

Week in review

Domestic

- The RBA left the cash rate steady at 4.1 per cent at its August Board meeting. Expectations were split heading into the meeting, with 18/30 economists surveyed by *Bloomberg* expecting a 25-basis point hike while markets factored in a 30 per cent chance of a move. The post-meeting statement noted holding rates unchanged in August 'will provide further time to assess the impact of the increase in interest rates to date and the economic outlook', while noting that the four percentage points of tightening to date is 'working to establish a more sustainable balance between supply and demand in the economy and will continue to do so'. The forward guidance was broadly unchanged, again suggesting that 'some further tightening of monetary policy may be required'.
- The statement also suggested limited adjustments to the Bank's forecasts, with inflation expected to 'continue to decline, to be around 3¼ per cent by the end of 2024 and to be back within the 2–3 per cent target range in late 2025'. The unemployment rate is forecast 'to rise gradually from its current rate of 3½ per cent to around 4½ per cent late next year'. Both forecasts are broadly in-line with the RBA's May forecasts, with the full forecast update to be released later today as part of the August Statement on Monetary Policy.
- It was a particularly busy week on the domestic data front:
 - Nominal retail sales (that is, not adjusting for inflation) fell 0.8 per cent in June while retail sales excluding inflation fell 0.5 per cent in Q2.
 - Residential building approvals fell 7.7 per cent in June, unwinding some of the +20.5 per cent jump in May. The decline driven by the volatile apartments sector, while detached dwellings fell more modestly.
 - The value of home loan approvals dropped in June, with a rise in investor loans more than offset by a decline in the value of owner-occupier loans. This as private sector growth eased in June, with softness across housing and business credit.
 - Capital-city dwelling prices rose in July, marking the fifth consecutive monthly increase (albeit at a slower pace than prior months). Prices are now around five per cent below their peak in early 2022.
 - Australia's trade surplus widened in June as the value of imports fell by more than those of exports.
 - And finally, the annual rate of producer price inflation eased to 3.9 per cent in Q2. This is lower than the 5.2 per cent in Q1 and the record high 6.4 per cent from Q3 2022.

Offshore

- The Fed's *Senior Loan Officer Survey* revealed tightening lending standards and weaker demand across commercial, industrial, consumer and real estate loans.
- Credit rating agency *Fitch* downgraded its assessment of the US, from "AAA" to "AA+". In justifying the decision, the agency pointed to an expected fiscal deterioration over the coming years, a high and growing government debt burden, and the 'erosion of governance' relative to peers that has culminated in repeated debt limit standoffs over the last two decades.
- The Bank of Japan kept policy rates unchanged, but somewhat surprised the market by also allowing greater flexibility around its 10-year Japanese Government Bond yield target, allowing it to move up to a yield of 1.0 per cent (rather than 0.5 per cent). This is the second widening of the band around the yield target in the last seven months.
- Following a 50 basis point increase at its previous meeting, the Bank of England lifted rates by 25 basis points to 5.25 per cent. The Bank remains concerned about persistent price pressures and retains a tightening bias with the chances of this being exercised is contingent on incoming data.
- On the offshore data front:
 - US labour market data were mixed ahead of the July non-farm payrolls release tonight. US job openings fell to 9.582 million in June, the lowest level since April 2021 but still around 37 per cent higher than before the pandemic. The ADP measure of private sector employment rose above expectations for July, with wages growth also shown to have eased. The latter is consistent with moderating growth in the Employment Cost Index which eased further to +1.0 per cent over Q2 (+4.5 per cent year-on-year).
 - US business activity was somewhat mixed in July, with conditions in the manufacturing sector moderating at a slower pace, while those in the services sector improved at a slower pace.
 - The US core PCE deflator (the Fed's preferred measure of consumer price inflation) eased five-tenths in June to +4.1 per cent year-on-year (the lowest rate since September 2021). The headline measure eased eight-tenths to +3.0 per cent (the lowest since March 2021).
 - In the euro area, the annual rate of headline inflation softened to 5.3 per cent in July (from 5.5 per cent in June), while that for core inflation was unchanged at 5.5 per cent. GDP grew by more than anticipated in Q2, and with Q1 revised to a flat outcome (vs the previous estimate of -0.1 per cent growth), the bloc is no longer considered to be in a 'technical recession'. This is consistent with labour market conditions reminding firm with the unemployment rate hitting a record low of 6.4 per cent (data back to 2000).
 - The New Zealand employment report was relatively solid in Q2. Employment growth was stronger than expected, and while the unemployment rate lifted two-tenths to 3.6 per cent, this came as the participation rate increased by four-tenths to record high 72.4 per cent.

Markets

Bond yields rose this week on policy tightening by the Bank of Japan, higher US Treasury borrowing requirements and firm private sector US employment numbers. The fall in price/rise in yields were more pronounced for bonds at the long end of the yield curve (this type of move is known as a 'bear steepening') and in the US.

Economic & Market Calendar

DATE	DETAILS
Domestic	Tuesday: Westpac Consumer Confidence (Aug), NAB Business Survey (Jul)
Offshore	US: Consumer and Producer Inflation (Jul), Real Average Hourly Earnings (Jul), Consumer Sentiment (Aug), Various Fed speeches, Jobless Claims UK: GDP (Q2), Industrial and Manufacturing Production (Jun) CHN: Consumer and Producer Inflation (Jul), Trade Data (Jul), Aggregate Financing (Jul)

Economic and Financial Market Charts

CHART 1: THE RBA HELD THE CASH RATE UNCHANGED AT ITS AUGUST MEETING FOLLOWING A SHARP INCREASE IN RATES OVER 2022 AND THE FIRST HALF OF 2023

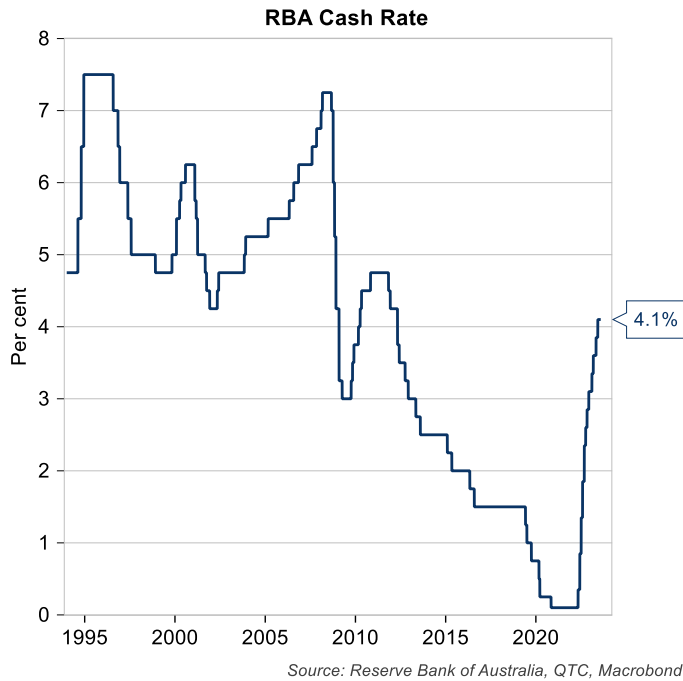


CHART 2: THE RAPID INCREASE IN INTEREST RATES APPEARS TO BE FLOWING THROUGH TO CONSUMER SPENDING...

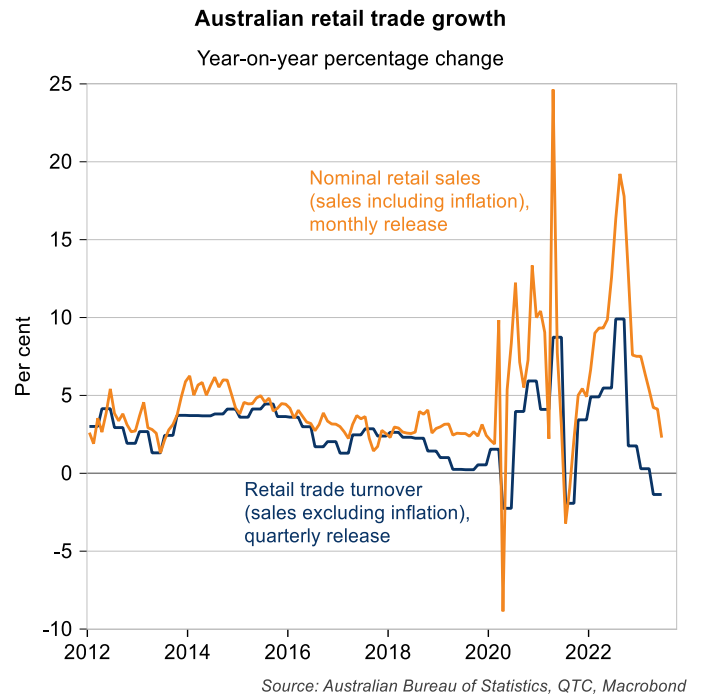


CHART 3: ...HOUSING FINANCE...

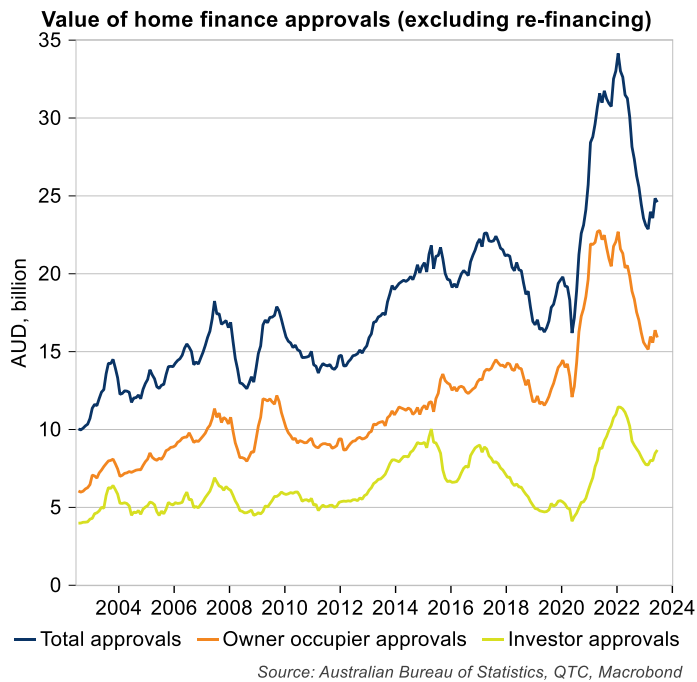
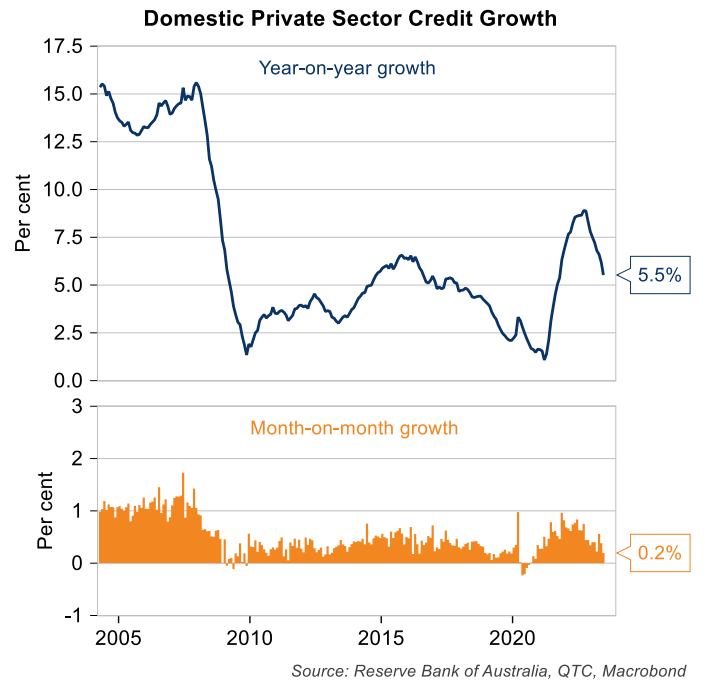


CHART 4: CREDIT GROWTH...



Economic and Financial Market Charts

CHART 5: ...AND RESIDENTIAL BUILDING APPROVALS

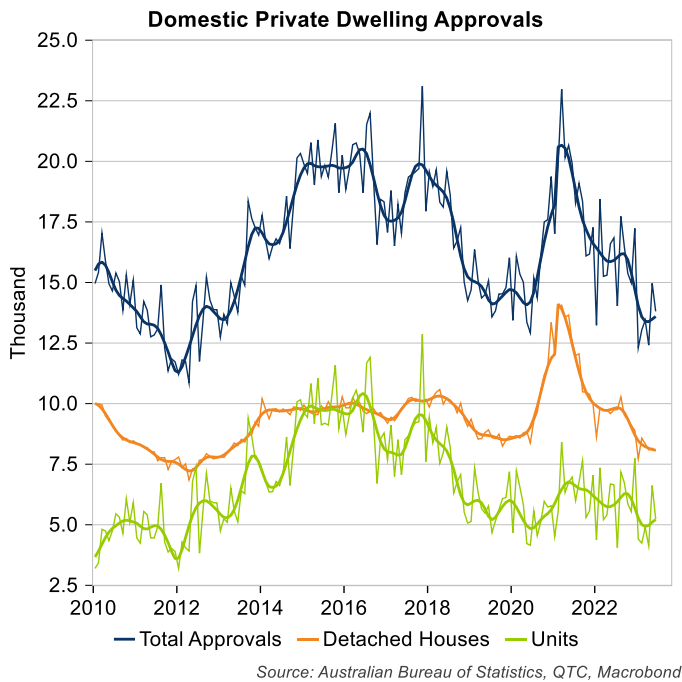


CHART 6: AUSTRALIA'S TRADE SURPLUS WIDENED IN JUNE, AS THE VALUE OF IMPORTS FELL MORE THAN THOSE OF EXPORTS

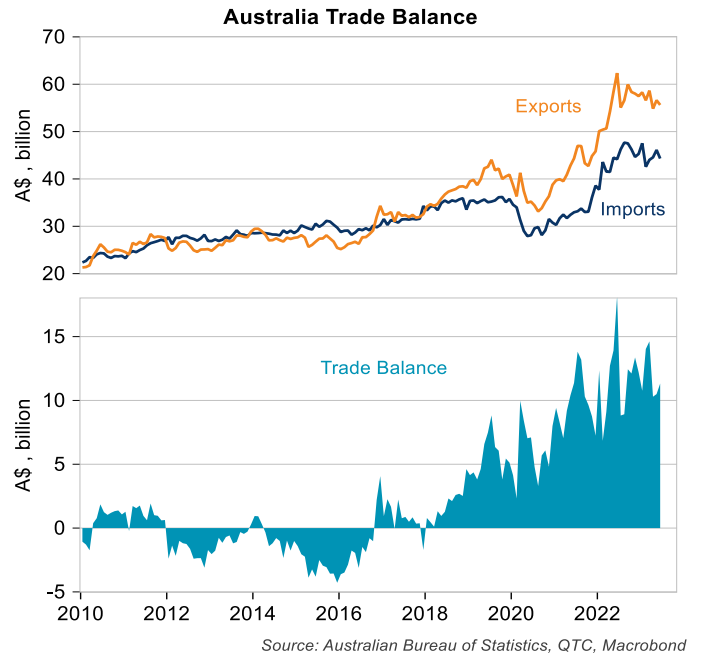


CHART 7: CORE INFLATION IS PROVING STICKY IN THE EURO AREA...

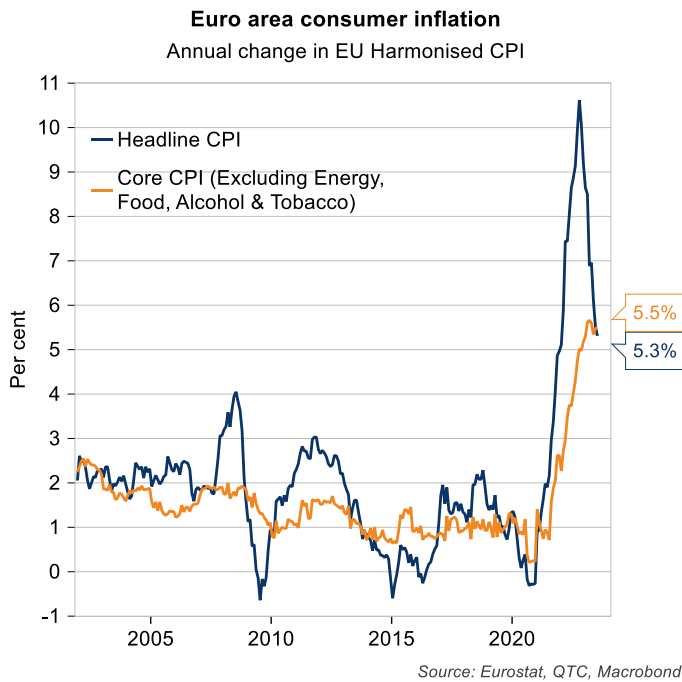
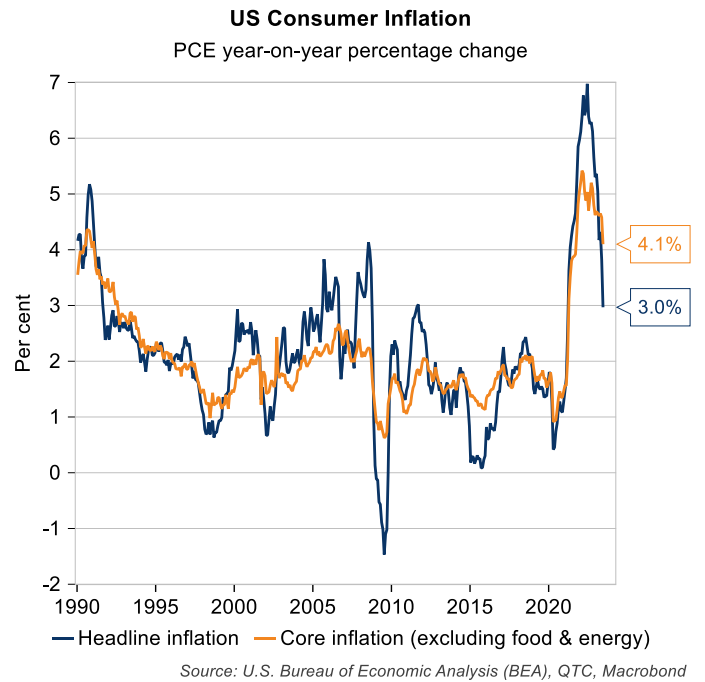


CHART 8: ...THOUGH, HAS STARTED TO MODERATE IN THE US...



Economic and Financial Market Charts

CHART 9: ...WITH THIS COMING ALONGSIDE AN EASING IN THE COST OF LABOUR...

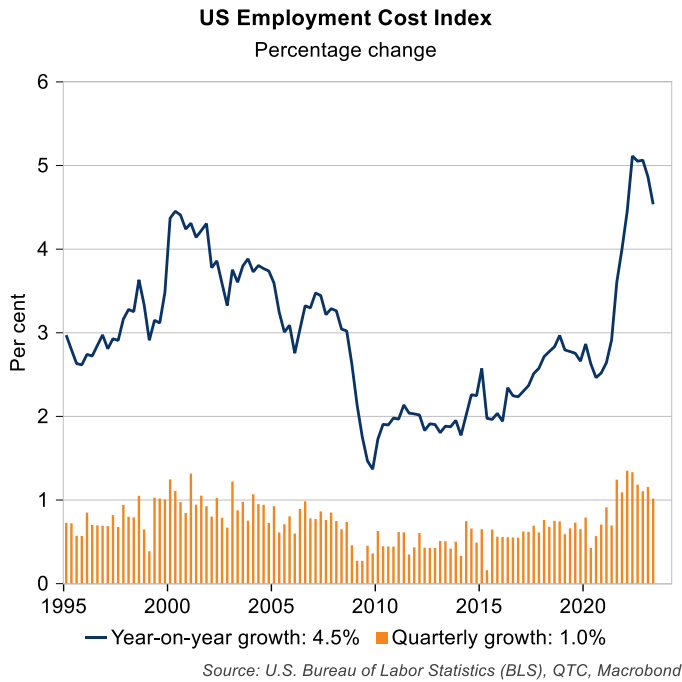


CHART 10: ...AND A DECLINE IN JOB OPENINGS

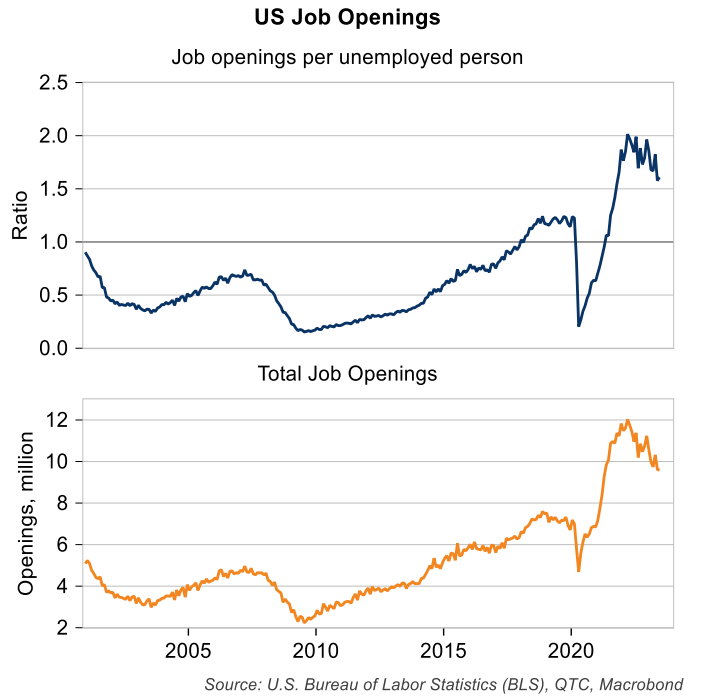


CHART 11: US MANUFACTURING CONDITIONS MODERATED AT A SLOWER PACE IN JULY WHILE THOSE IN THE SERVICES SECTOR IMPROVED AT A SLOWER PACE

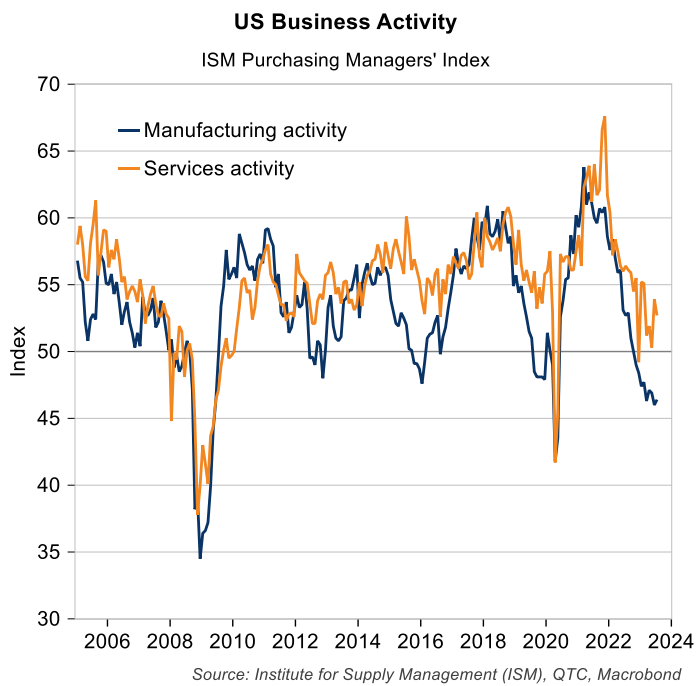
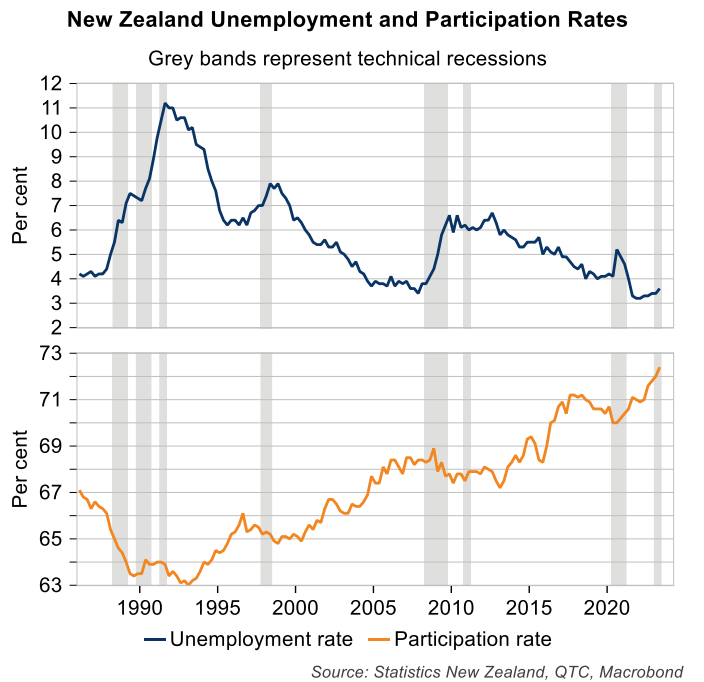


CHART 12: NEW ZEALAND'S UNEMPLOYMENT RATE IS DRIFTING HIGHER, THOUGH THIS IS PARTLY DUE TO THE PARTICIPATION RATE INCREASING TO A NEW HIGH



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)		
			1WEEK	1MONTH	1YEAR			1WEEK	1MONTH	1YEAR
3 Year	QTC	4.04	-7	-22	95	AUD/USD	0.6561	-2.60	-2.02	-5.80
	NSWTC	4.06	-7	-21	101	AUD/EUR	0.599	-2.27	-2.54	-11.96
	TCV	4.11	-7	-22	104	AUD/GBP	0.5159	-1.66	-2.01	-10.04
	WATC	4.03	-7	-22	95	AUD/JPY	93.497	-1.62	-3.38	0.86
	Australian Government	3.78	-3	-19	101	AUD/CAD	0.8749	-1.53	-1.16	-2.40
	US Government	4.58	-1	0	160	AUD/NZD	1.0775	-0.76	-0.32	-2.59
5 Year	QTC	4.09	-1	-12	89	AUD/SGD	0.8794	-1.85	-2.65	-8.32
	NSWTC	4.14	1	-10	91	AUD/HKD	5.1228	-2.52	-2.30	-6.31
	TCV	4.16	-1	-13	93	AUD/KRW	852.54	-0.92	-2.14	-6.59
	WATC	4.07	-1	-12	87	AUD/CNY	4.6946	-2.29	-2.82	-0.08
	Australian Government	3.79	4	-10	93	AUD/INR	54.052	-2.99	-1.44	-2.51
	US Government	4.29	5	10	150	MAJOR CURRENCIES				
7 Year	QTC	4.33	7	2	99	EUR/USD	1.0951	-0.36	0.51	6.97
	NSWTC	4.41	9	5	102	GBP/USD	1.2726	-0.90	0.06	4.78
	TCV	4.39	6	-0	99	USD/JPY	143.17	1.47	-0.93	7.57
	WATC	4.29	6	0	95	USD/CHF	0.8763	0.96	-2.24	-8.31
	Australian Government	3.95	12	3	99	USD/CNY	7.1931	0.38	-0.31	6.59
	US Government	4.25	11	23	150	MAJOR COMMODITIES				
10 Year	QTC	4.66	13	12	109	Brent Crude Oil	85.24	1.19	11.79	-9.43
	NSWTC	4.75	12	10	110	Gold	1,935.75	-0.44	0.60	8.11
	TCV	4.79	12	11	115	Copper	8,509.50	-0.69	1.79	10.12
	WATC	4.59	12	11	103	Iron Ore	100.73	-8.19	-6.00	-2.02
	Australian Government	4.09	17	13	102					
	US Government	4.18	18	32	149					

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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