

Weekly Economics and Markets Review

- Domestic inflation eased further in July, while Q2 GDP partials and July retail sales were stronger than expected.
- Markets continued to moderate pricing for additional rate hikes from the Fed following some softer labour market and activity data.

Week in review

Domestic

- RBA Deputy Governor Bullock (who will become the next Governor from mid-September) gave a speech on *'Climate Change and Central Banks'*. Bullock suggested climate change could impact on monetary policy through inflation, changes in output and the neutral rate. Meanwhile, in the Q&A she also noted inflation was still too high and the RBA may need to raise interest rates again.
- The ABS's monthly read on inflation eased to +0.25 per cent in July (from +0.7 per cent in June) to be 4.9 per cent higher over the year (was +5.4 per cent). The details of the report showed much of the deceleration was driven by a decline in volatile categories such as holiday travel and accommodation, fruit and vegetables, and fuel. Looking through the volatility, the CPI excluding volatile items and holiday travel measures eased by slightly a more moderate three-tenths to +5.8 per cent year-on-year.
 - Following this, markets further pared back pricing for RBA rate hikes, with expectations now for rates to remain on hold to around mid-2024 with a cut to the cash rate mostly fully priced by the end of the year.
- Q2 activity measures released ahead of the next week's Q2 GDP showed:
 - Construction work done rose a weaker than expected +0.4 per cent in Q2, though this was offset by activity from Q1 being revised notably higher (up to +3.8 per cent, from an initial +1.8 per cent).
 - Private capital expenditure rose a stronger than expected 2.8 per cent in Q2, with Q1 expenditure revised up to +3.7 per cent (from +2.4 per cent). The Q2 strength was broad-based, with the ABS noting *'a further easing of supply-chain disruptions, with the availability of vehicles improving significantly during the quarter. Some businesses also brought investment plans forward, ahead of the end of the temporary full expensing tax incentive on 30 June.'*
- Nominal retail sales rose a stronger than expected +0.5 per cent in July, partly offsetting the -0.8 per cent fall in June. The sales strength was broad-based across categories, with the ABS also highlighting that *'the rise in July was boosted by additional spending at catering and takeaway food outlets linked to the 2023 FIFA Women's World Cup and school holidays'*.
- Private-sector credit growth rose +0.3 per cent in July to be 5.3 per cent higher over the year. The rise was broad-based, with monthly increases across business, personal, and housing credit.
- Residential building approvals fell 8.1 per cent in July, driven by a 19.9 per cent drop in the particularly volatile apartments approvals category, with detached dwelling approvals little changed on the month.

Offshore

- In central bank news:
 - Speaking at the Jackson Hole symposium, Fed Chair Powell repeated many of the recent themes from FOMC communication. That included reaffirming the Fed's commitment to its two per cent inflation target and arguing the FOMC must *'proceed carefully'* in future decisions.
- Meanwhile, other Fed officials speaking over the week gave a mixed sense of where rates may go from here as some argued policy was already restrictive enough while others believed the Committee has more work to do.
- ECB President Lagarde, and other ECB officials speaking through the week, suggested the Bank needed to set rates at a sufficiently restrictive level to bring down inflation; the inference from these comments is that the ECB will likely need to increase rates further.
- The Minutes to the ECB's July meeting highlighted that the decision to lift rates by 25 basis points was unanimous but that, ahead of its September meeting, the Governing Council should keep an open mind on future moves.
- Bank of Japan Governor Ueda defended the Bank's ultra-easing policy stances, arguing that underlying Japanese inflation remains below the Bank's two per cent target and that domestic demand is still on a healthy trend.
- On the **US** data front:
 - GDP growth was revised down by three-tenths to +2.1 per cent annualised in Q2. Despite the headline weakness, the composition was mixed, with personal consumption revised higher, while the contributions from inventories, net exports, and business fixed investment were revised down. The monthly rates of both PCE and core PCE inflation were unchanged in July, though the annual rates lifted a touch.
 - The JOLTS measure of job openings declined by 338,000 to 8.827 million, this also coming alongside a 417,000 downward revision to the June release. Meanwhile the ADP measure of private sector employment rose by 177,000 in August, the weakest monthly increase since March. While these suggest the US labour market may be showing some early signs of weakness, both outcomes remain at historically very strong levels. The US non-farm payrolls release tonight will be key to understanding the strength of labour market.
 - The *Conference Board* measure of consumer confidence declined more than expected in August, driven by a drop in consumers assessment of both their present situation and expectations for the future.
- In the **euro area**, the annual rate of headline consumer price inflation was steady in August at +5.3 per cent while that for core inflation moderated two-tenths to +5.3 per cent. Meanwhile, the unemployment rate stayed at a record low of 6.4 per cent.
- In **Germany**, sentiment measures were soft with the *Ifo* survey of the business climate deteriorating further in August, while the *GfK* measure of consumer confidence fell further into negative territory for September.
- In **Japan**, a drop in employment saw the jobless rate rise two-tenths to 2.7 per cent.
- **Chinese** business activity (as measured by the NBS' PMIs) was mixed in July, with manufacturing activity moderating at a slower pace but service sector conditions improving at a slower pace. Other data pointed to annual growth in industrial sector profits and revenues continuing to decline in July.

Markets

Softer US labour market and activity data lowered expectations for Fed rate hikes, this saw bond yields and the US dollar fall and equities rise.

Economic & Market Calendar

DATE	DETAILS
Domestic	Monday: Company Profits (Q2), Inventories (Q2) Tuesday: RBA Policy Meeting (Sep), Net Exports (Q2) Wednesday: GDP (Q2) Thursday: Trade Balance (Jul)
Offshore	US: ISM Services (Aug), Fed Beige Book, Factory Orders (Jul), Household Net Worth (Q2) EMU: ECB Inflation Expectations (Jul), Producer Inflation (Jul), Retail Sales (Jul), Investor Confidence (Sep) CHN: Caixin Services/Composite PMI (Aug), Trade Balance (Aug)

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	4.07	-7	-9	42	AUD/USD	0.6472	0.59	-2.21	-4.56
	NSWTC	4.09	-6	-8	48	AUD/EUR	0.5967	0.47	-1.03	-12.61
	TCV	4.12	-6	-10	52	AUD/GBP	0.5110	0.42	-1.47	-13.17
	WATC	4.05	-6	-10	41	AUD/JPY	94.26	0.61	-0.60	-0.76
	Australian Government	3.79	-8	-9	52	AUD/CAD	0.8757	0.35	-0.39	-2.04
	US Government	4.55	-19	11	113	AUD/NZD	1.0880	0.21	1.11	-2.60
						AUD/SGD	0.8745	0.35	-1.10	-8.07
5 Year	QTC	4.13	-8	-4	37	AUD/HKD	5.0761	0.59	-1.60	-4.64
	NSWTC	4.18	-7	-3	39	AUD/KRW	857.72	0.66	0.46	-6.93
	TCV	4.20	-7	-3	42	AUD/CNY	4.6982	0.33	-1.05	0.32
	WATC	4.11	-8	-2	35	AUD/INR	53.52	0.74	-1.78	-1.00
	Australian Government	3.82	-9	-2	44	MAJOR CURRENCIES				
	US Government	4.25	-18	12	96	EUR/USD	1.0847	0.12	-1.19	9.21
						GBP/USD	1.2666	0.16	-0.75	9.92
7 Year	QTC	4.32	-9	-3	40	USD/JPY	145.63	-0.02	-1.65	-3.98
	NSWTC	4.40	-9	-3	44	USD/CHF	1.1316	-0.18	-0.98	10.28
	TCV	4.40	-9	-3	43	USD/CNY	7.2587	0.25	-1.19	-5.12
	WATC	4.29	-8	-4	36	MAJOR COMMODITIES				
	Australian Government	3.94	-11	-0	45	Brent Crude Oil	86.86	4.20	2.30	-5.95
	US Government	4.20	-16	12	94	Gold	1,938.20	1.04	-0.13	14.24
						Copper	377.25	0.13	-3.11	10.48
10 Year	QTC	4.64	-10	-1	51	Iron Ore	109.40	0.21	1.27	13.50
	NSWTC	4.73	-10	-1	52					
	TCV	4.75	-11	-3	55					
	WATC	4.56	-9	-2	44					
	Australian Government	4.06	-12	1	47					
	US Government	4.11	-13	7	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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