

# Weekly Economics and Markets Review

- While the RBA kept interest rates on hold at its June meeting, the post-meeting media release and press conference skewed in a 'hawkish' direction. The Governor highlighted that the Board is alert to upside risks to persistent inflation and that the Q2 CPI report will be important to get a read on the trajectory of inflation.
- The Bank of England and Bank of Japan flagged it was possible that easier and tighter policy settings respectively might be forthcoming at their upcoming meetings.

## Week in review

### Domestic

- The RBA left the cash rate at 4.35% at June's Board meeting as expected.
- The post-meeting statement painted the picture of a mixed to slowing economy continuing to be impacted by persistent inflation with risks to future price outcomes skewed to the upside. Key points included that:
  - The RBA retained its neutral forward guidance by indicating that *'the path of interest rates that will best ensure that inflation returns to target in a reasonable timeframe remains uncertain and the Board is not ruling anything in or out.'* Though, in talking about the Board being resolute in its determination to return inflation to target, the statement also added that it *'...will do what is necessary to achieve that outcome'.*
  - On inflation, the RBA changed the heading of the section of this topic from *'inflation remains high and is falling more gradually than expected'* to *'inflation remains above target and is proving persistent'*. It also highlighted that *'the revisions to consumption and the saving rate and the persistence of inflation suggest that risks to the upside remain'*.
  - On the economy, the RBA suggested that since the last forecast update in May, *'there have been indications that momentum in economic activity is weak, including slow growth in GDP, a rise in the unemployment rate and slower-than-expected wages growth'* and that recent data have been *'mixed'*. In contrast to this more subdued assessment, it was highlighted that *'There has also been an increase in wealth, driven by housing prices'* in the context of potentially boosting consumption where this had been one of the key areas of concern for the Bank in recent times.
- In the post-meeting press conference RBA Governor Bullock noted that:
  - Like in May, the Board debated a hike but decided that keeping rates unchanged would be the most appropriate strategy.
  - However, Bullock also opined that *'We need a lot to go our way to get inflation in the 2-3 per cent target range'* and that *'We still think we're on the narrow path [though] ... the narrow path is getting narrower'*.
  - The Q2 CPI report is considered *'important'* in getting a sense of the trajectory for inflation.
  - Upward revisions to previous household consumption outcomes to incorporate tourist spending helped explain why spending had been so much weaker than the RBA's estimates of it.
- Job ads as measured by Seek as well as ANZ-Indeed fell in May in a sign that the rebalancing of the labour market continues.

### Offshore

- In the US:
  - Consumer confidence declined in June according to the University of Michigan measure. This was the third straight fall and reflected an easing in perceptions or both current and future conditions.
  - Core retail sales rose by slightly less than anticipated in May, though this followed the prior months' outcome being revised lower.
  - Industrial production increased by three times as much as expected in May with gains across all key components.
  - There were steep falls in both housing starts and building permits with wetter than normal weather likely having some impact on starts and more modest expectations for interest rate cuts affecting permits.
- In China:
  - The annual rate of growth in both industrial production and fixed asset investment were lower than expected in May. Conditions in the property sector remain weak with ongoing contraction in floor space sold and under construction, new home starts and completions as well as overall real estate investment and dwelling prices. That said, there were mixed outcomes in terms of whether the annual growth rates for these property indicators were worse in May than in April. In contrast, retail sales were firmer than anticipated.
- In central bank news:
  - The Bank of England kept rates on hold at its June meeting. A day prior, while annual headline and core inflation for May slowed as expected, the moderation in services prices was less pronounced. Members of the Bank's Monetary Policy Committee suggested that this *'somewhat higher'* than forecast outcome was impacted by annual price resets in some items and volatile movements in others. Also pointing in the *'dovish'* direction were comments that, for those members which elected to vote for no change, their decision was *'finely balanced'*. The Bank also noted that the MPC would re-assess things as part of the next forecasting round in August. This was interpreted that a rate cut will be on the table at that meeting.
  - The Bank of Japan also kept rates on hold but indicated future tightening. For example, it flagged that an announcement would be forthcoming at its July meeting around the monthly pace of Japanese Government Bond purchases. The Governor flagged that this reduction could be *'meaningful'* and that, subject to the data, this could occur at the same time as rates were lifted.

## Markets

Over the past week there has been both concern and relief regarding political and fiscal risk in France, mixed signals about future potential actions from central banks and weaker than expected data in the US and China. This ended up seeing little net movement in US and Australian Government bond yields over the week.

### Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Tuesday:</b> Westpac-Melbourne Institute Consumer Sentiment (Jun) <b>Wednesday:</b> ABS Monthly CPI (May) <b>Thursday:</b> ABS Job Vacancies (three months to May)
Offshore	<b>US:</b> Existing & new home sales (May), Conference Board Consumer Confidence (Jun), Durable Goods Orders & Shipments (May) <b>S&amp;P Global PMIs (June):</b> Japan, UK, US, euro area

## Economic and Financial Market Charts

CHART 1: READINGS ON CHINESE ECONOMIC ACTIVITY WERE MIXED IN THE DATA FOR MAY

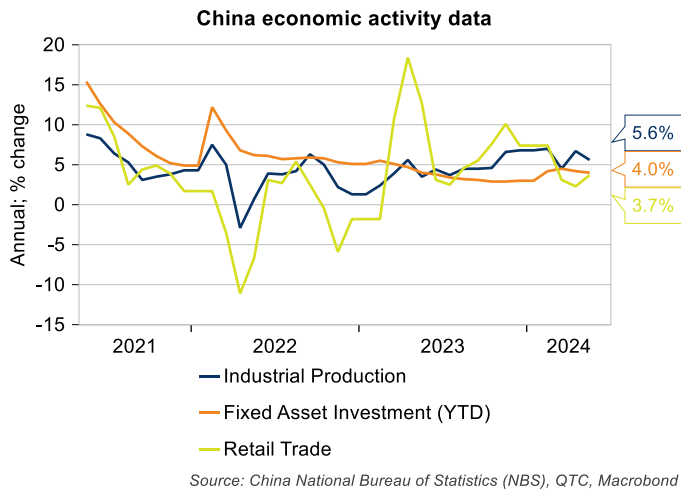


CHART 2: US CONSUMER SENTIMENT FELL FOR A 3<sup>RD</sup> STRAIGHT MONTH IN JUNE ACCORDING TO THE UNIVERSITY OF MICHIGAN'S MEASURE

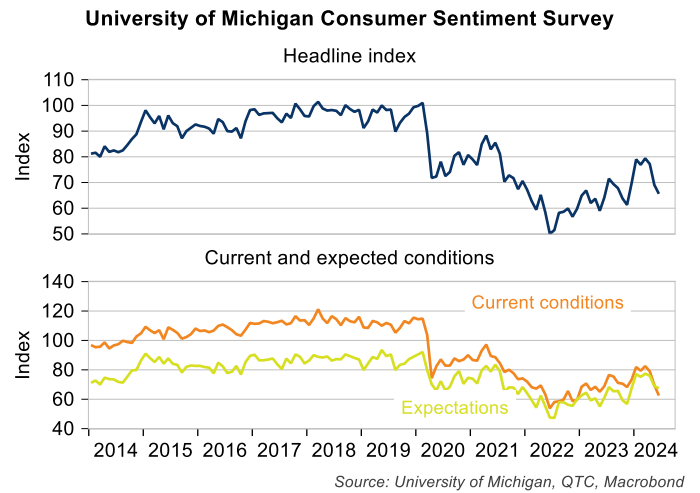


CHART 3: US RETAIL SALES, INCLUDING THAT AT THE 'CORE' LEVEL (THAT IS, THE 'CONTROL GROUP') HAVE BEEN A BIT UP AND DOWN IN RECENT MONTHS

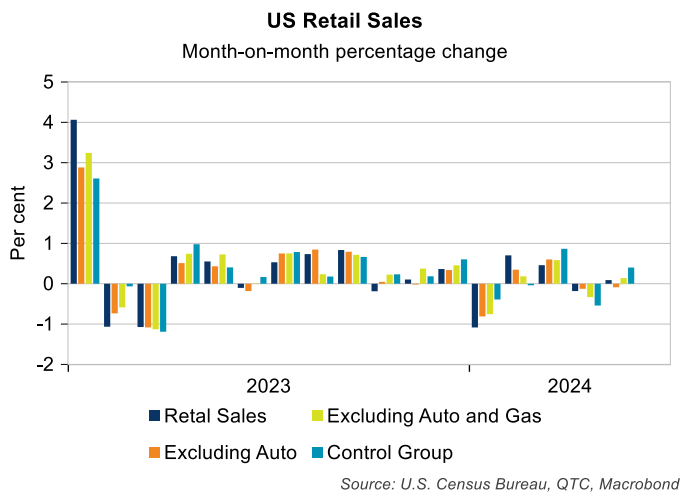
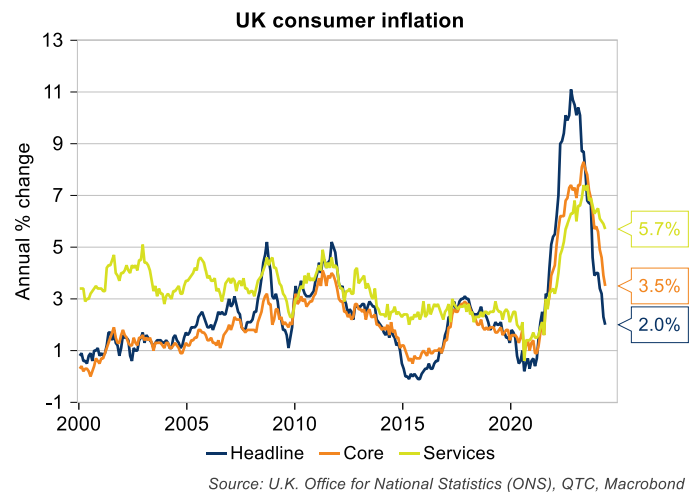


CHART 4: ANNUAL RATES OF INFLATION CONTINUE TO MODERATE IN THE UK, THOUGH THAT FOR SERVICES IS EASING MORE SLOWLY THAN OTHER KEY MEASURES



## 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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.22	-4	-2	-3
	NSWTC	4.20	-4	-2	-6
	TCV	4.26	-2	-1	-6
	WATC	4.19	-3	-1	-5
	Australian Government	3.92	3	4	-5
	US Government	4.46	3	-14	9
5 Year	QTC	4.35	-5	-2	11
	NSWTC	4.33	-5	-4	5
	TCV	4.38	-4	-2	7
	WATC	4.30	-5	-3	9
	Australian Government	3.94	2	3	3
	US Government	4.27	3	-16	23
7 Year	QTC	4.58	-5	-3	21
	NSWTC	4.58	-5	-5	14
	TCV	4.63	-5	-4	18
	WATC	4.50	-5	-3	14
	Australian Government	4.05	2	-1	9
	US Government	4.25	2	-17	33
10 Year	QTC	4.93	-6	-3	29
	NSWTC	4.92	-6	-5	18
	TCV	4.97	-5	-6	20
	WATC	4.80	-4	-4	23
	Australian Government	4.20	1	-3	17
	US Government	4.26	1	-16	46

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.67	0.36	-0.15	-1.44
AUD/EUR	0.62	0.62	1.21	0.86
AUD/GBP	0.53	1.01	0.19	-0.91
AUD/JPY	105.70	1.64	1.59	9.49
AUD/CAD	0.91	-0.02	0.21	2.62
AUD/NZD	1.09	1.12	-0.53	-0.41
AUD/SGD	0.90	0.64	0.37	-0.72
AUD/HKD	5.19	0.28	-0.16	-1.76
AUD/KRW	921.30	1.14	1.41	5.38
AUD/CNY	4.84	0.47	0.25	-0.33
AUD/INR	55.78	0.37	0.38	0.19
MAJOR CURRENCIES				
EUR/USD	1.07	-0.26	-1.35	-2.25
GBP/USD	1.27	-0.64	-0.35	-0.54
USD/JPY	158.87	1.29	1.75	11.11
USD/CHF	0.89	-0.37	-2.12	-0.62
USD/CNY	7.26	0.11	0.31	1.14

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	85.82	3.71	3.55	15.75
Gold	2,356.42	2.48	-2.75	23.01
Copper	9,786.00	-0.09	-9.88	14.14
Iron Ore	106.71	0.29	-11.31	10.47

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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