

Weekly Economics and Markets Review

- The ABS' monthly CPI pressure revealed further evidence that the disinflationary process in Australia has stalled with markets now factoring in a higher probability of rate hikes. For example, before this data was released investors viewed a 25 basis point rate hike in August at a 15 per cent chance. After the data came out it was assessed as being a one-in-three prospect. More notably, a 10 per cent chance of a rate cut was being factored in for November prior to the data. This then shifted to a 50 per cent chance of a rate rise.

Week in review

Domestic

- The ABS' monthly CPI pressure revealed further evidence that the disinflationary process in Australia has stalled.
 - While the headline CPI Indicator fell 0.08 per cent in May, annual growth in this lifted to 4.0 per cent. This was above economists' expectation of 3.8 per cent which marked the third straight month that this has happened. In seasonally adjusted terms, the headline measure rose 0.24 per cent in May, the same as in April, to be up 4.1 per cent over the year.
 - The monthly rate of core inflation (that is, excluding volatile items and travel prices) rose 0.24 per cent on the month to be up 4.05 per cent over the year. In seasonally adjusted terms, core inflation accelerated from 0.24 per cent to 0.33 per cent. The annual rate of an alternate measure of core inflation – the trimmed mean (which is not available monthly) – also lifted from 4.1 per cent to 4.4 per cent.
 - The surprise at the headline level was that the seasonal decline in holiday travel prices was less than anticipated with weakness in other areas being mostly offset by ongoing strength in housing (rents and new dwellings) as well as electricity prices. The latter increased as some government rebates tapered off.
- After falling in each of the past three months, consumer sentiment – as measured by Westpac and the Melbourne Institute – lifted 1.7 per cent in June, though remains close to 20 per cent below long-run average levels. Gains on the month were capped by concerns about inflation and the outlook for interest rates. The unemployment expectations index rose 2.5 per cent and reached its highest level since September 2020. This suggests that concerns over job security are rising.
- Job vacancies fell 2.7% over the three months to May to be 24 per cent below the peak a couple of years ago. The number of unemployed workers per job vacancy – a loose measure of the balance between demand and supply of labour – rose to 1.7 which compares to a multi-decade trough of 1.1 seen in mid-2022 and a pre-COVID level of 3.1.

Offshore

- In the **US**:
 - Consumer confidence dipped in June according to the Conference Board's measure with a decline in perceptions of current conditions more than offsetting a gain in those around future conditions.
 - There were monthly declines in both new (-11.3 per cent) existing (-0.7 per cent) home sales in May. This followed steep falls in both housing starts and building permits in May according to data released last week. Meanwhile, the monthly pace of house price gains in April lifted slightly.
 - Core capital goods orders (-0.6%), and shipments (-0.5%) both declined in April.
- The flash **S&P Global PMIs** in June revealed that:
 - Both manufacturing and service sector conditions in the **US** improved at a slightly faster rate.
 - This was also the case for manufacturing in the **UK**, though the pace of improvement eased in the services sector.
 - In the **euro area**, manufacturing conditions deteriorated at a faster pace while in services, conditions improved at a slower pace. The weakness in manufacturing was led by Germany which experienced significant flooding in southern parts of the country which are key areas industrial activity.
 - In the **US**, these outcomes were better than market expectations with the opposite true in the euro area. For the **UK**, the outcome for services was weaker than anticipated while being firmer for manufacturing.
- In news on inflation:
 - In **Japan**, the annual rate of the new measure of core inflation (excluding fresh food and energy) slowed to 2.1 per cent in May from 2.4 per cent in April. This was by more than expected (consensus was for it to be 2.3 per cent) and may delay when the Bank of Japan delivers its next interest rate increase.
 - In **Canada**, the annual rate of key measures of core inflation lifted against expectations of no change.

Markets

Further evidence of persistent local inflation and what this could imply for the RBA drove bond yields notably higher in Australia this week. This was in sharp contrast to US Government yields which were little changed.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: Private sector credit (May), Retail sales (May) Tuesday: RBA Minutes (June) Wednesday: Building approvals (May) Thursday: International trade (May)
Offshore	US: Core PCE inflation (May); ISM Manufacturing & Services (June); JOLTS (May); Non-farm payrolls (June); FOMC Minutes (June) Japan: Industrial production (May), Unemployment rate (May) Other: CPI (euro area, June), Caixin PMIs (China, June)

Economic and Financial Market Charts

CHART 1: THE PERSISTENCE OF INFLATIONARY PRESSURES WAS EVIDENT WHEN LOOKING AT ANNUAL RATES IN MAY...

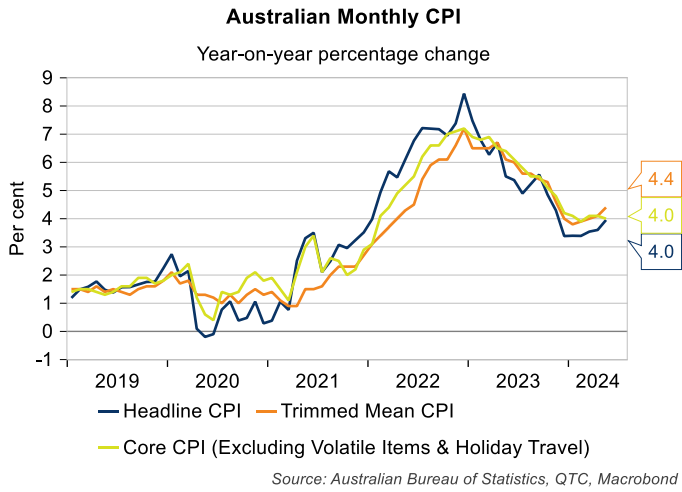


CHART 2: ...THOUGH THE STORY WAS A LITTLE MORE MIXED WHEN LOOKING AT THE MONTHLY RATES OF CHANGE

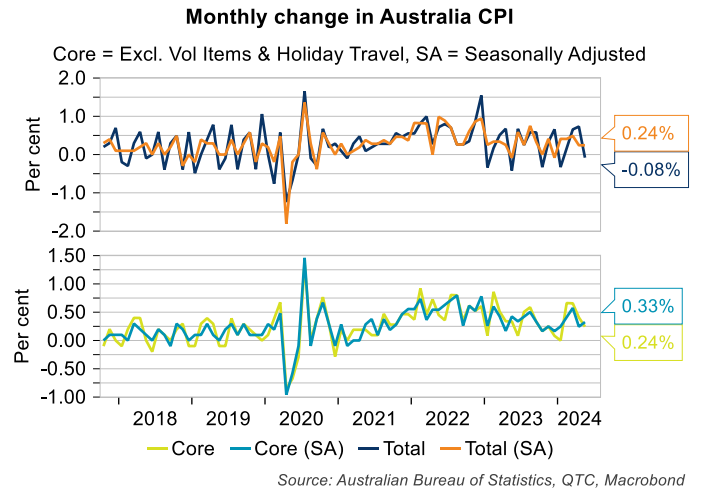


CHART 3: COMPOSITE READINGS ON CONDITIONS IN THE MANUFACTURING AND SERVICES SECTORS GENERALLY SOFTENED IN JUNE, THE US WAS AN EXCEPTION

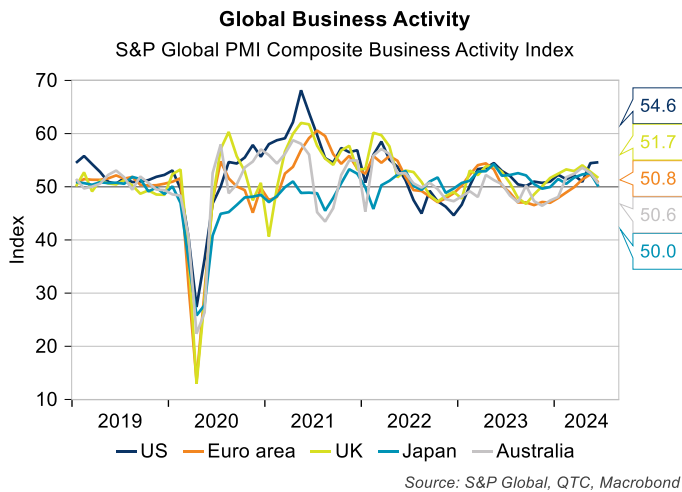
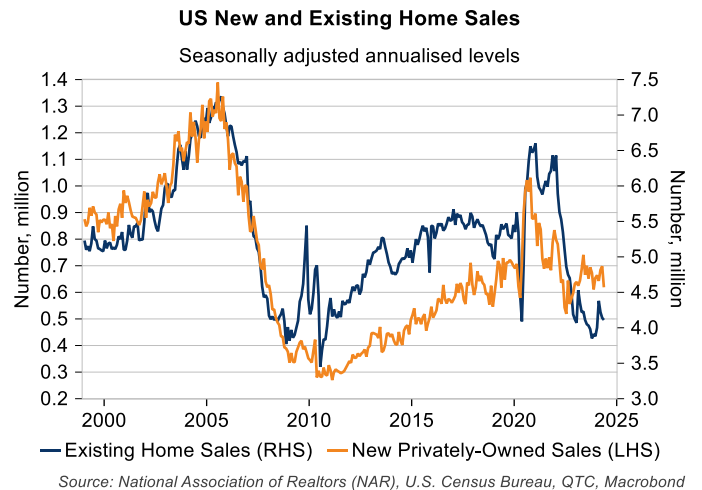


CHART 4: AFTER HAVING SHOWN SOME IMPROVEMENT RECENTLY, HOUSE SALES IN THE US HAVE BEGUN TO DECLINE AGAIN



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	4.46	24	14	25	AUD/USD	0.67	-0.20	-0.14	0.36
	NSWTC	4.44	24	14	22	AUD/EUR	0.62	-0.11	1.38	2.02
	TCV	4.51	25	16	23	AUD/GBP	0.53	0.08	0.87	0.11
	WATC	4.44	25	15	24	AUD/JPY	106.87	0.98	2.25	11.46
	Australian Government	4.17	25	20	25	AUD/CAD	0.91	-0.19	0.27	3.72
	US Government	4.49	2	-27	0	AUD/NZD	1.09	0.36	0.87	0.04
						AUD/SGD	0.90	0.10	0.58	0.55
5 Year	QTC	4.56	21	10	38	AUD/HKD	5.20	-0.13	-0.16	-0.01
	NSWTC	4.54	21	9	32	AUD/KRW	922.41	-0.46	1.89	5.42
	TCV	4.60	22	11	35	AUD/CNY	4.84	-0.10	0.16	0.67
	WATC	4.52	22	11	36	AUD/INR	55.53	-0.42	0.18	2.00
	Australian Government	4.17	22	18	32	MAJOR CURRENCIES				
	US Government	4.30	2	-30	16	EUR/USD	1.07	-0.09	-1.50	-1.63
						GBP/USD	1.27	-0.28	-1.00	0.25
7 Year	QTC	4.79	21	11	49	USD/JPY	160.60	-1.18	-2.40	-11.06
	NSWTC	4.78	20	9	42	USD/CHF	1.11	-0.73	1.43	-0.01
	TCV	4.85	21	11	47	USD/CNY	7.27	-0.10	-0.30	-0.31
	WATC	4.71	21	11	43	MAJOR COMMODITIES				
	Australian Government	4.27	22	15	38	Brent Crude Oil	86.33	0.72	2.51	16.13
	US Government	4.28	3	-29	30	Gold	2,325	-1.31	-1.33	21.73
						Copper	9,540	-3.23	-9.16	16.66
10 Year	QTC	5.12	19	10	58	Iron Ore	105.69	-0.96	-10.27	7.42
	NSWTC	5.10	18	7	45					
	TCV	5.17	20	8	50					
	WATC	4.97	18	8	50					
	Australian Government	4.40	21	13	48					
	US Government	4.28	2	-27	44					

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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