# July Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

## Overview

### Domestic economy

The Q2 CPI data was the focus for markets in July given the potential implications of the outcome for the RBA. The weaker than expected reading on price pressures saw investors shift perceptions of the path for the cash rate with the prospect of a rate hike no longer factored in and more rate cuts now anticipated. Crucial to the timing and speed of any rate cut cycle will be how labour market conditions evolve. These were solid in June.

### International economy

Data released on the US economy in July was mixed while that pertaining to the Chinese economy was generally weaker. Annual rates of both headline and core inflation generally slowed further while in central banks news, the Reserve Bank of New Zealand (RBNZ) shifted its communications in a dovish fashion while the Bank of Japan tightened policy.

### Interest rates

Australian Government bond yields trended lower in July though the move really gathered steam following a weaker than anticipated Q2 CPI outcome. US Treasury yields also fell on the month given softer than expected data on economic activity, labour market conditions and inflation. The Australian Dollar depreciated by more than one cent against the US Dollar in July with softer data out of China, falling equity prices and the appreciation of the Japanese Yen likely contributors to the move.

| MATURITY | ISSUER | YIELD | 1 MONTH BPS CHANGE | 1 YEAR BPS CHANGE |
|---|---|---|---|---|
| 3 Year | QTC | 4.07 | -31 | -9 |
| | Australian Government | 3.75 | -33 | -13 |
| | US Government | 4.06 | -52 | -49 |
| 5 Year | QTC | 4.23 | -24 | 6 |
| | Australian Government | 3.79 | -29 | -5 |
| | US Government | 3.91 | -51 | -32 |
| 7 Year | QTC | 4.49 | -20 | 14 |
| | Australian Government | 3.94 | -23 | 0 |
| | US Government | 3.94 | -49 | -22 |
| 10 Year | QTC | 4.88 | -14 | 23 |
| | Australian Government | 4.11 | -19 | 7 |
| | US Government | 4.03 | -43 | -5 |

| AUSTRALIAN DOLLAR CROSSES | RATE | 1 MONTH % CHANGE | 1 YEAR % CHANGE |
|---|---|---|---|
| AUD/USD | 0.6527 | -1.8% | -0.2% |
| AUD/EUR | 0.6031 | -2.7% | 0.7% |
| AUD/GBP | 0.5081 | -3.4% | -1.4% |
| AUD/JPY | 98.1939 | -8.6% | 4.7% |

| MAJOR CURRENCIES | RATE | 1 MONTH % CHANGE | 1 YEAR % CHANGE |
|---|---|---|---|
| EUR/USD | 1.0824 | 0.9% | -0.9% |
| GBP/USD | 1.2847 | 1.6% | 1.2% |
| USD/JPY | 150.43 | 7.0% | -4.9% |
| USD/CNY | 7.2199 | 0.7% | -0.4% |

*Prices sourced from Macrobond & QTC and are correct at the time of publication*

The tables above show yields on bonds issued by the Queensland, Australian and US Governments as well as values for the Australian Dollar against a range of currencies and US Dollar against major currencies. The change in yields and exchange rates over different time periods are also included.

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# Domestic economy

**SUMMARY:**

The Q2 CPI data was the focus for markets in July given the potential implications of the outcome for the RBA. The weaker than expected reading on price pressures saw investors shift perceptions of the path for the cash rate with the prospect of a rate hike no longer factored in and more rate cuts now anticipated. Crucial to the timing and speed of any rate cut cycle will be how labour market conditions evolve. These were solid in June.

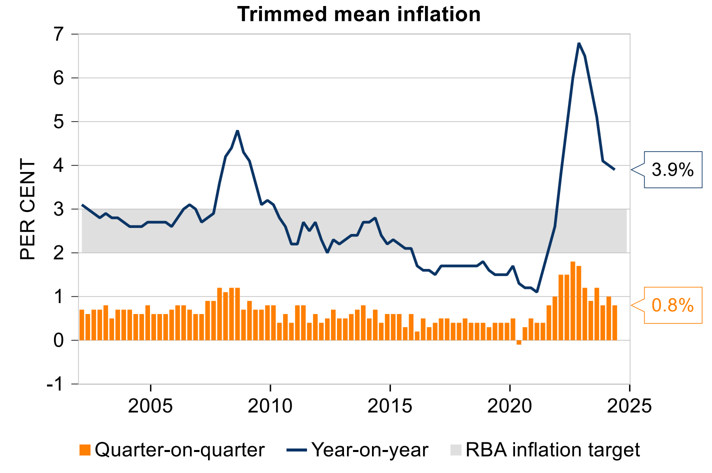
**REVIEW:**

- Trimmed mean inflation was 0.8 per cent in Q2. This was less than the previous outcome and market expectations (both +1.0 per cent). That this result was in-line with, rather than higher than, the RBA's forecasts saw investors shift expectations for the future path for the cash rate. For example, before the inflation data was released the futures markets priced-in a 20 per cent chance of a rate hike in August and 1.5 rate cuts by August next year. After the number, it was no chance of a rate rise and 2.5 rate cuts by August 2025.
- Other measures of underlying inflation – such as the weighted median and CPI excluding volatile items – also increased at a slower pace in Q2. This would have also been welcomed by the RBA, as would have been the moderation in other key measures the central bank would be watching including inflation on non-tradable items and services. Market-based services prices (that is, those excluding government administered items) accelerated on the quarter, though this was in part due to shifts in the volatile holiday travel & accommodation component.
- Labour market conditions remained tight in June according to the ABS' *Labour Force Survey*.
  - Employment increased by a larger-than-expected 50.2k in June, driven by a 43.3k increase in full-time employment.
  - The unemployment rate edged slightly higher to 4.1 per cent (from 4.0 per cent in May), due to an increase in the participation rate. Underemployment fell from 6.7 to 6.5 per cent.
- According to the *NAB Business Survey*, business conditions eased further in June and are now well below their September 2022 peak. The decline was driven by weaker employment and (to a lesser extent) a decline in profitability. Other indicators in the NAB Business Survey also point to slower activity and inflation. Forward orders remained weak in June, while capital expenditure declined notably. NAB's measures of price pressures continued to ease, with slower growth in purchase costs, labour costs and final product prices.
- According to the *Westpac/Melbourne Institute Consumer Sentiment Index*, consumer confidence fell by 1.1 per cent in July and remains well below its long-run average. Sentiment has been below average for the past two years, marking the second most protracted period of deep consumer pessimism since the survey began in the mid-1970s (with the early 1990s recession being the most protracted).
- The value of retail sales rose 0.5% in June with the ABS reporting that consumers took greater advantage of end-of-financial year sales than normal. The volume of sales however declined in Q2 with cost-of-living pressures continuing to weigh on spending.

**WHAT TO WATCH:**

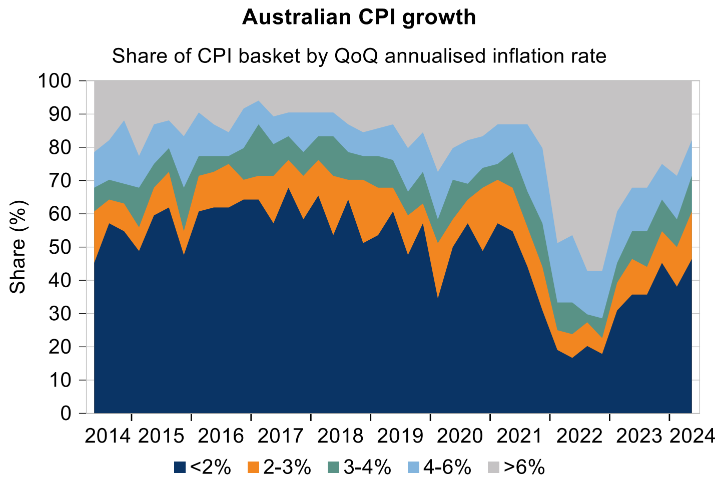
With the Q2 CPI outcome signalling that the trend towards disinflation remains on track, investor attention has shifted from considering rate hikes to thinking about when and by how much the RBA might cut interest rates. Critical to this will be ongoing evidence that inflation is returning to target in the upcoming monthly (and especially) quarterly) CPI releases as well as whether the gradual yet consistent softening in a broad suite of labour market indicators starts to become more clearly evident in the ABS' unemployment rate series. The RBA's updated commentary and outlook will be available in the quarterly *Statement on Monetary Policy* released next week accompanying the Board's decision following its August meeting.

CHART 1: THE MODERATION IN QUARTERLY TRIMMED MEAN INFLATION IN Q2 GAVE SOME COMFORT THAT THE SPIKE IN Q1 WAS AN OUTLIER...



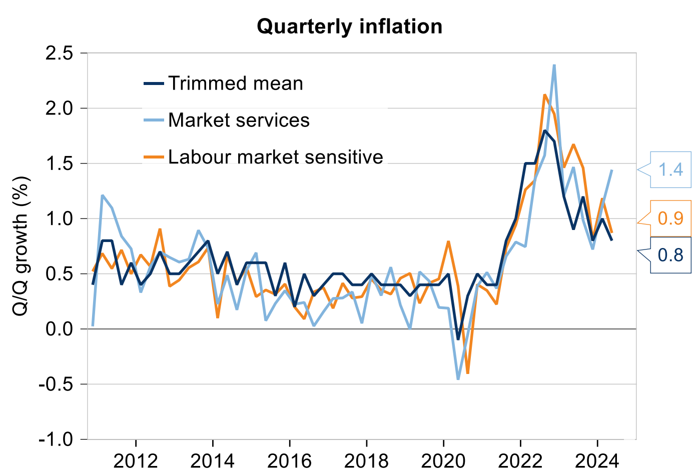

Source: ABS, RBA, QTC, Macrobond

CHART 2: ...WITH THIS CONSISTENT WITH A NOTABLE EASING IN THE BREADTH OF INFLATIONARY PRESSURES




Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: GROWTH IN MARKET-DETERMINED SERVICES PRICES ACCELERATED IN THE QUARTER, THOUGH THIS PARTLY REFLECTED CHANGES IN VOLATILE HOLIDAY TRAVEL & ACCOMMODATION PRICES




Source: Australian Bureau of Statistics, QTC, Macrobond

# International economy

**SUMMARY:**

Data released on the US economy in July was mixed while that pertaining to the Chinese economy was generally weaker. Annual rates of both headline and core inflation generally slowed further while in central banks news, the Reserve Bank of New Zealand (RBNZ) shifted its communications in a dovish fashion while the Bank of Japan tightened policy.

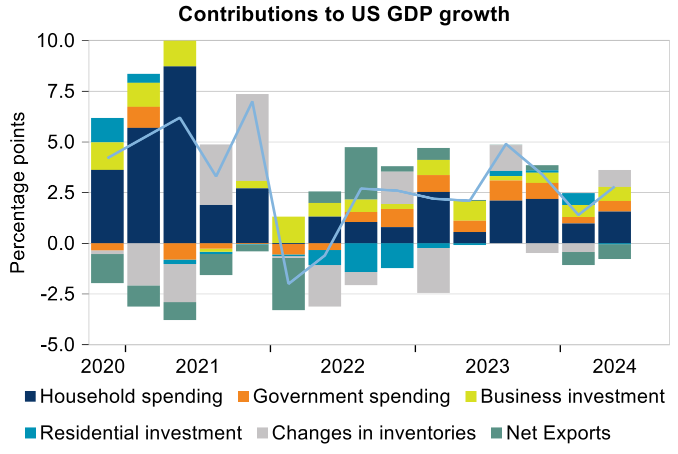
**REVIEW:**

- In the **US**,
  - Non-farm payrolls growth were 16k above expectations in June, though this was more than offset by an 111k downward revision in the previous two months. These revisions saw the average change in payrolls in Q2 2024 ease to 177k (from 267k in Q1). The unemployment rate increased to 4.1 per cent in June and is now 0.7 percentage points above its April 2023 trough.
  - GDP growth was 2.8 per cent annualized in the June quarter, noticeably stronger than both the 1.4 per cent increase recorded in the March quarter and economists' expectations for a 2.0 per cent rise. There were strong increases across several areas of the economy, including consumption, business investment and government spending.
- In **China**:
  - Real GDP growth eased to 0.7 per cent in Q2, below both its previous rate (1.6 per cent) and consensus expectations (0.9 per cent). GDP has grown at an annualised rate of 5.0 per cent over the year to date, with authorities needing to maintain this growth rate in the second half of the year to achieve its growth target.
  - Retail sales growth slowed further in June and was well below expectations, while industrial production growth also moderated. The housing sector also continued to be a drag on the economy, with property investment and sales noticeably lower over the past year.
- On **inflation**:
  - The annual rate of US CPI inflation slowed to 3.0 per cent in June from 3.3 per cent in May. Meanwhile, that for core inflation edged down to 3.3 per cent from 3.4 per cent.
  - Euro area CPI inflation moderated to an annual pace of 2.5 per cent in June, according to preliminary estimates. Core inflation edged slightly higher to 2.9 per cent, while services inflation remained sticky at 4.1 per cent.
  - Canada's headline CPI fell 0.1 per cent month-on-month, as expected, which saw the annual rate ease from 2.9 to 2.7 per cent.
  - In the UK, headline CPI inflation eased to 0.1 per cent on a monthly basis, which saw the annual rate hold steady at a 2.0 per cent.
- In **central bank** news,
  - The RBNZ left its cash rate on hold at 5.5 per cent at its July meeting, as expected. However, the accompanying statement turned noticeably more dovish. The RBNZ noted that restrictive monetary policy has '*significantly*' reduced inflation and that policy tightness '*will be tempered over time*' due to the expected decline in inflation pressures.
  - As had been hinted at in press reports ahead of the meeting, the Bank of Japan raised the target range for its policy rate by 15 basis points to 0.25 per cent. The Bank also announced plans to gradually slow the monthly pace of its Japanese Government Bond purchases over the next 18 months or so. Further signs of a strengthening of the pass-through of wages into prices and concerns about how earlier weakness in the Yen might impact import prices were factors behind the decision to raise rates. Commentary from the Bank and its Governor in the post-meeting press conference suggested that there is scope for interest rates to be increased further.

**WHAT TO WATCH:**

The US Federal Reserve was for a time considered likely to be one of the first global central banks to cut interest rates in this cycle. Several peer central banks have however managed to get ahead of the Fed. That said, all eyes will be on the FOMC for clues as to the timing of the first US rate cut and the size and speed of the moves lower. At this stage, the market expects the first cut in September and 3.5 cuts by January.

CHART 4: US GDP WAS STRONGER THAN EXPECTED IN Q2, WITH A NOTABLE UPTICK IN HOUSEHOLD SPENDING

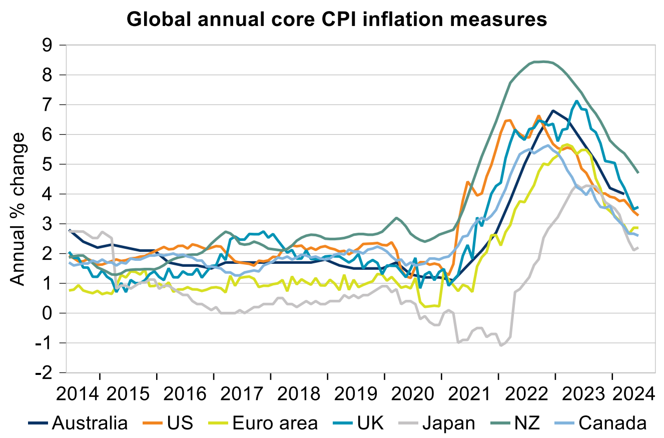



Source: U.S. Bureau of Economic Analysis (BEA), QTC, Macrobond

CHART 5: THE QUARTERLY RATE OF GDP GROWTH IN CHINA WAS THE WEAKEST IN TWO YEARS IN Q2


Source: China National Bureau of Statistics (NBS), QTC, Macrobond

CHART 6: GLOBAL MEASURES OF CORE INFLATION GENERALLY CONTINUED TO MODERATE IN JUNE




Source: QTC, Macrobond
Note: Canada and NZ are an average of several measures of core inflation