

Weekly Economics and Markets Review

- CPI inflation was the focus this week, with a weaker-than-expected outcome for underlying inflation seeing investors lower their outlook for the cash rate
- US data remain consistent with a gradual easing of economic activity, with Fed Chair Powell hinting at the possibility of a September rate cut
- The Bank of England cut its policy rate this week, joining a growing list of central banks that have begun to ease monetary policy

Week in review

Domestic

- **Underlying CPI inflation** slowed in Q2, allaying concerns that the strong Q1 CPI outcome would be repeated. Notably, trimmed-mean inflation eased to 0.8 per cent in Q2, noticeably slower than both consensus expectations (1.0 per cent) and its previous growth rate (1.0 per cent). This saw the annual rate of trimmed-mean inflation slow to 3.9 per cent (previously 4.1 per cent).
- **Headline CPI inflation** was 1.0 per cent in Q2, with year-ended inflation picking up slightly to 3.8 per cent.
- In contrast to the easing of underlying inflation, there was an increase in tradable and goods inflation in Q2. This follows a prolonged period of improvements in these prices due to the resolution of supply-chain disruptions.
- **Retail sales** were stronger than economists' expectations in June, with a 0.5 per cent increase in nominal retail sales being supported by increased sales events. However, the volume of retail trade remains subdued, falling by 0.3 per cent in aggregate and 0.6 per cent on a per capita basis in Q2.
- The **CoreLogic home value index** rose 0.5 per cent in July, which saw annual price growth moderate to 7.9 per cent. Housing market conditions continue to diverge across the capital cities, with strong price gains in Perth, Adelaide and Brisbane, subdued growth in Sydney, and price declines in Melbourne.
- The number of **residential building approvals** fell by a larger-than-expected 6.5 per cent in June, driven by a sharp fall in higher-density dwelling approvals. Detached dwelling approvals also fell slightly in the month.

Offshore

- The US **Federal Reserve's** FOMC left the target range for the federal funds rate unchanged at 5.25-5.5 per cent. The FOMC noted that inflation is only 'somewhat' elevated and that there has been some further progress towards its target. Fed Chair Powell also hinted at the possibility of a rate cut at its September meeting, noting that a rate cut 'could be on the table' in September if the data comes in as hoped.
- The **Bank of England (BOE)** cut its Bank Rate by 25 bps to 5.0 per cent, with the decision reflecting a tight 5-4 vote across the MPC members. Governor Bailey remained cautious on the outlook for rate cuts, stressing that the recent decision does not signal a commitment to a series of reductions at upcoming meetings.
- In contrast to the BOE, the **Bank of Japan (BOJ)** raised interest rates by 15 basis points, taking its policy rate to 0.25 per cent. The forward guidance from the BOJ was also hawkish, with it noting that it will continue to tighten monetary policy if the economy evolves in line with its forecasts.

- **ECB's** Schnabel noted that it's decisions on monetary policy will remain data dependent and that the first interest rate reduction does not necessarily need to be followed by a series of cuts.
- **US data** were mostly weaker than expected over the past week and were consistent with a gradual easing of economic activity and labour market conditions.
 - Core PCE inflation (which is the Federal Reserve's preferred measure of underlying inflation) was 0.2 per cent in June on a month-on-month basis, with annual inflation remaining steady at 2.6 per cent. The month-on-month increase was in line with economists' expectations.
 - Real personal spending increased by 0.2 per cent in June, slightly below economists' expectations. Personal income also rose by a smaller-than-expected 0.2 per cent in the month.
 - The ISM manufacturing index declined in July, against consensus expectations for a small increase. The component-level detail was weak, with declines across new orders, production and employment.
 - Employment cost growth was slower than expected at 0.9 per cent in Q2 (from 1.2 per cent in Q1).
 - The ADP employment report suggests that private jobs increased by 122k in July, which was lower than both consensus expectations (150k) and its increase in June (155k).
 - JOLTS job openings fell 46k to 8,148k in June, though this outcome was stronger than expected.
- In the **euro area**:
 - Annual headline inflation unexpectedly rose to 2.6 per cent in July, while core inflation was also higher than expected at 2.9 per cent.
 - GDP rose 0.3 per cent in Q2, slightly stronger than consensus estimates for a 0.2 per cent increase. The unemployment rate edged one-tenth higher to 6.5 per cent in June.
- **China's** industrial profits rose 3.6 per cent over the year to June, despite a broader slowing in China's economy. Industrial revenue is also steadily recovering, supported by continued growth in industrial production and an easing in factory-gate prices. In contrast, the NBS manufacturing and non-manufacturing PMIs both edged lower in July.
- In **Japan**, industrial production fell 3.6 per cent in June, though this was better than expectations for a 4.7 per cent decline. Retail sales were strong, increasing 0.6 per cent in July to be 3.7 per cent higher over the year.

Markets

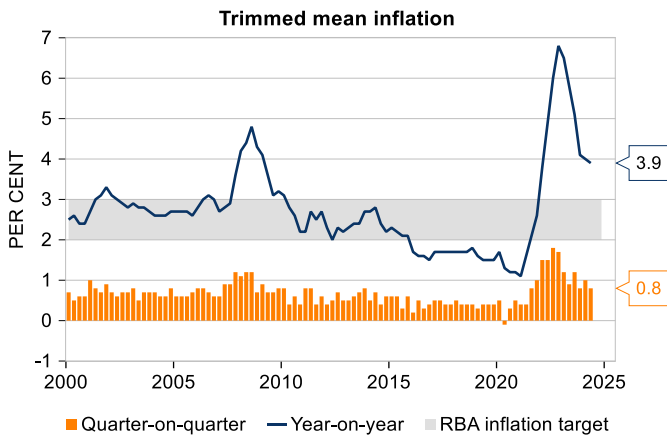
US Treasury yields moved lower over the past week, alongside dovish commentary from Fed Chair Powell and weaker-than-expected economic data. Australian Government bond yields also moved noticeably lower following the softer-than-expected Q2 CPI release. Financial markets are now fully pricing in the first RBA cash rate cut for February 2025 (compared to July 2025 prior to the CPI release).

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: RBA cash rate, RBA Statement on Monetary Policy (SoMP) Thursday: Speech by RBA Governor Bullock
Offshore	US: Non-farm payrolls (Jul), Average hourly earnings (Jul), Unemployment rate (Jul), ISM services index (Jul) Euro area: Retail sales (Jun) China: Caixin PMIs (Jul), Trade (Jul), CPI (Jul), PPI (Jul)

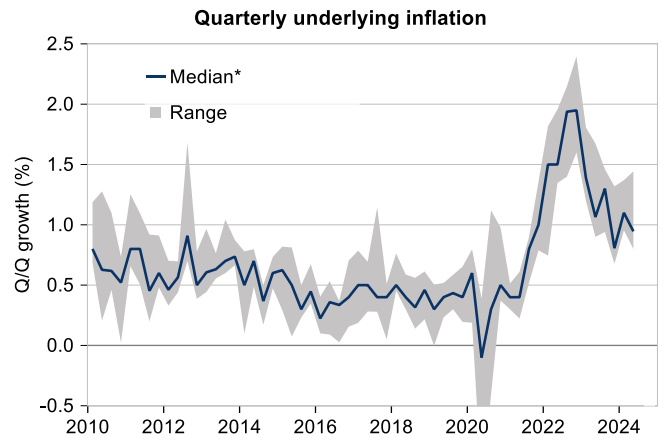
Economic and Financial Market Charts

CHART 1: TRIMMED-MEAN INFLATION EASED IN Q2, ALLAYING CONCERNS THAT THE STRONG Q1 CPI OUTCOME WOULD BE REPEATED



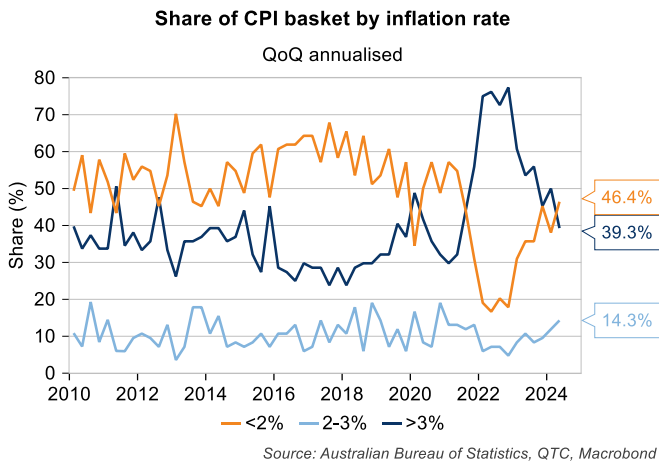
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 2: THE EASING OF TRIMMED-MEAN INFLATION WAS CONSISTENT WITH MOST OTHER MEASURES OF UNDERLYING INFLATION IN Q2



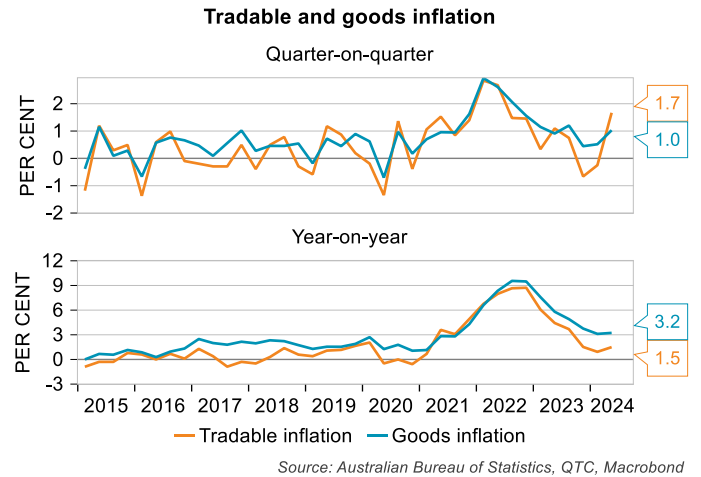
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: THE SHARE OF CPI ITEMS THAT EXPERIENCED ANNUALIZED PRICE INCREASES ABOVE 3% FELL SHARPLY TO BE UNDER 40% IN Q2



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 4: DESPITE THESE IMPROVEMENTS, THERE WAS A NOTICEABLE INCREASE IN TRADABLE AND GOODS INFLATION IN THE QUARTER



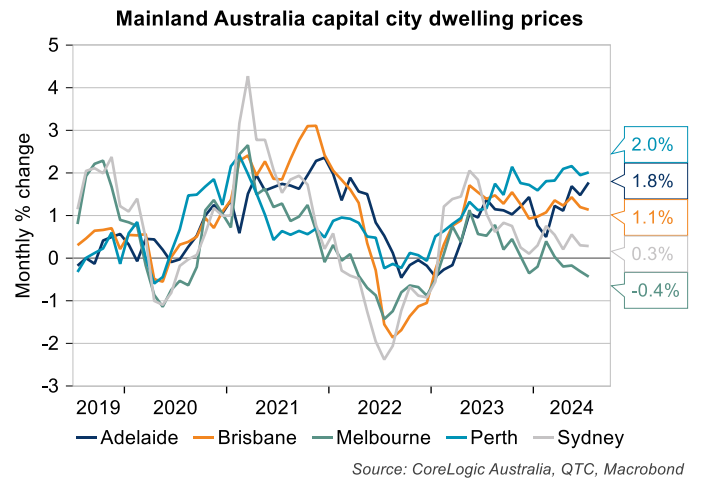
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 5: NOMINAL RETAIL SALES GROWTH PICKED UP IN JUNE, THOUGH THE VOLUME OF TRADE REMAINS SUBDUED



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 6: HOUSING MARKET CONDITIONS CONTINUE TO DIVERGE ACROSS THE CAPITAL CITIES



Source: CoreLogic Australia, QTC, Macrobond

CHART 7: US INFLATION CONTINUES TO GRADUALLY EASE...

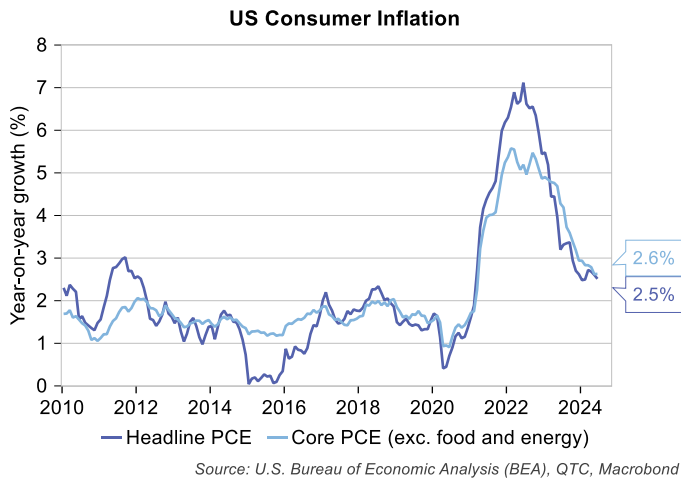


CHART 8: ... ALONGSIDE A SOFTENING OF LABOUR MARKET CONDITIONS

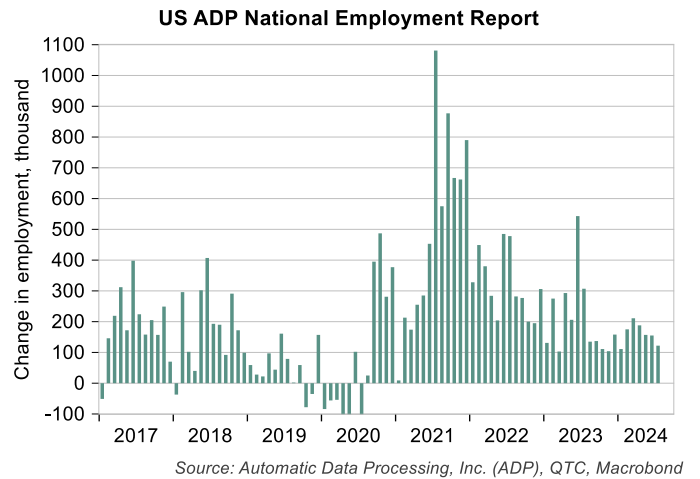


CHART 9: LEADING INDICATORS FOR CHINA'S ECONOMY ALSO CONTINUE TO EASE, AMID ONGOING WEAKNESS IN HOUSEHOLD SPENDING AND THE PROPERTY SECTOR

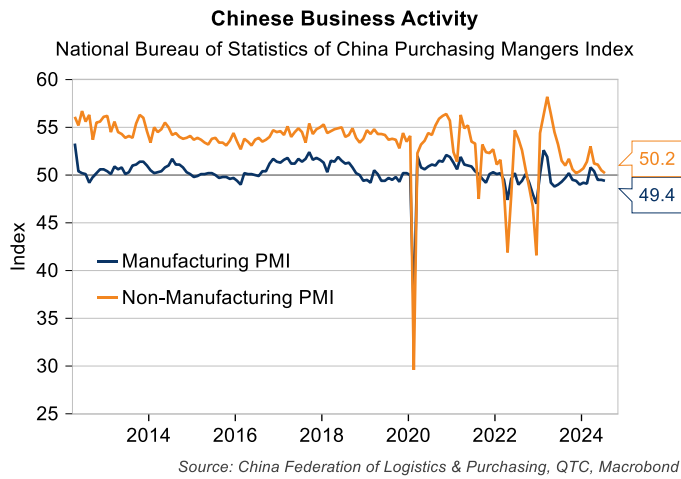


CHART 10: INVESTORS LOWERED THEIR OUTLOOK FOR THE RBA CASH RATE FOLLOWING THE Q2 CPI...

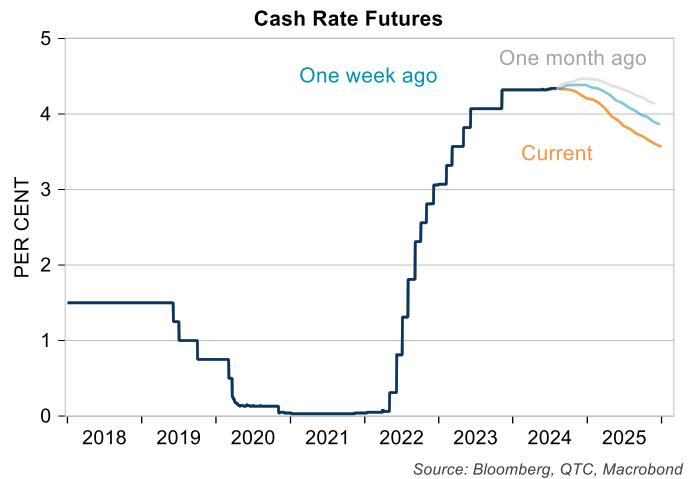


CHART 11: ... THOUGH THE PACE OF RATE CUTS IS STILL EXPECTED TO BE NOTICEABLY SLOWER THAN (MOST) OTHER CENTRAL BANKS

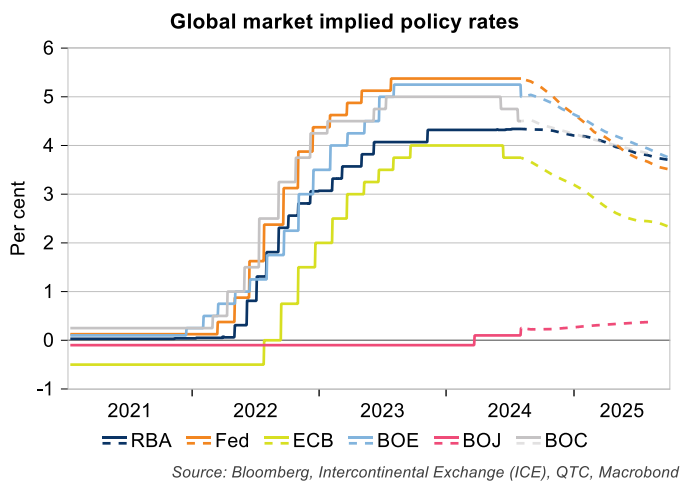
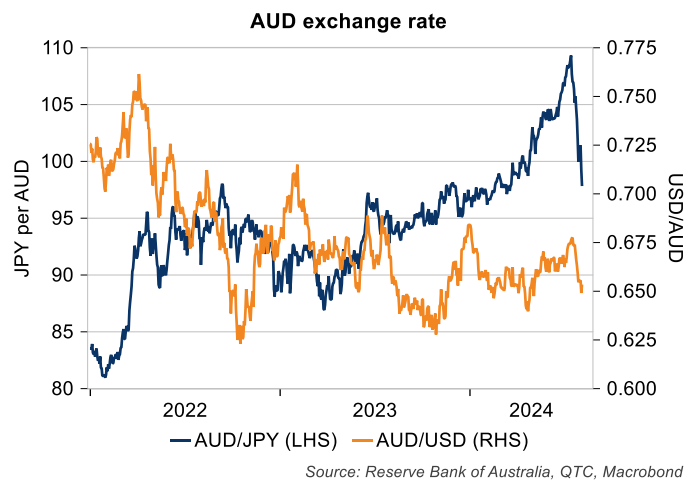


CHART 12: THE BOJ'S RATE HIKE AND HAWKISH COMMENTARY HAS SEEN A SHARP DEPRECIATION IN THE AUD RELATIVE TO THE YEN



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	4.04	-23	-38	1	AUD/USD	0.65	-0.57	-2.49	-0.76
	NSWTC	4.04	-23	-37	-1	AUD/EUR	0.60	-0.05	-2.90	0.70
	TCV	4.09	-23	-38	-1	AUD/GBP	0.51	0.31	-2.90	-1.00
	WATC	4.02	-23	-38	-1	AUD/JPY	97.09	-3.53	-9.80	4.00
	Australian Government	4.06	-23	-39	3	AUD/CAD	0.90	-0.21	-1.10	3.11
	US Government	4.09	-23	-37	-0	AUD/NZD	1.09	-1.61	-0.37	1.39
5 Year	QTC	3.73	-24	-39	-2	AUD/SGD	0.87	-1.05	-3.87	-1.07
	NSWTC	3.96	-29	-59	-62	AUD/HKD	5.08	-0.46	-2.47	-0.64
	TCV	4.20	-22	-34	14	AUD/KRW	890.21	-1.53	-3.73	4.59
	WATC	4.19	-22	-32	10	AUD/CNY	4.70	-0.83	-3.02	0.17
	Australian Government	4.24	-22	-33	12	AUD/INR	54.64	0.07	-1.61	1.09
	US Government	4.15	-22	-34	13	MAJOR CURRENCIES				
7 Year	QTC	4.22	-22	-34	12	EUR/USD	1.08	-0.18	0.75	-1.13
	NSWTC	4.25	-22	-33	9	GBP/USD	1.29	0.04	1.34	1.16
	TCV	3.77	-24	-36	4	USD/JPY	149.99	-2.57	-7.10	5.20
	WATC	3.83	-30	-56	-46	USD/CHF	0.88	-0.42	-2.87	0.43
	Australian Government	4.46	-21	-30	20	USD/CNY	7.24	0.00	-0.39	1.03
	US Government	4.46	-21	-28	14	MAJOR COMMODITIES				
10 Year	QTC	4.53	-21	-30	21	Brent Crude Oil	79.52	-3.46	-7.79	-6.60
	NSWTC	4.38	-20	-29	15	Gold	2,446.26	3.46	5.01	26.48
	TCV	4.49	-23	-32	18	Copper	9,052.50	-0.76	-6.41	5.13
	WATC	4.50	-21	-29	18	Iron Ore	102.65	2.96	-6.41	14.76
	Australian Government	3.91	-23	-32	7					
	US Government	3.88	-29	-52	-37					

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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