

# Weekly Economics and Markets Review

- The RBA left its cash rate unchanged at 4.35 per cent at its August meeting, though the Board gave ‘very serious’ consideration to the case for hiking rates.
- US labour market data were noticeably weaker than expected early in the week, prompting investors to lower their outlook for US interest rates.
- Financial market volatility settled towards the end of the week as concerns around a potential US recession subsided.

## Week in review

### Domestic

- The RBA left its cash rate unchanged at 4.35 per cent at its August meeting, as expected. However, the commentary accompanying the decision was more hawkish than anticipated.
- In the post-meeting press conference, Governor Bullock noted that the Board gave ‘very serious’ consideration to the case for hiking rates. She also pushed back against financial market pricing for rate cuts to start this year, noting that a ‘near term reduction in the cash rate does not align with the Board’s current thinking’. Bullock reiterated these messages at a speech later in the week, noting that the Board ‘remains vigilant with respect to upside risks on inflation and will not hesitate to raise rates if it needs to’.
- The RBA released its August Statement on Monetary Policy (SoMP) alongside the cash rate decision. The RBA is now forecasting a slightly slower return of trimmed-mean inflation to the mid-point of its target, with it only reaching 2.6 per cent by Q4 2026. The RBA noted that the slower-than-expected progress on inflation over the past year suggests that demand has remained too strong relative to supply.
- **Housing loan approvals** (ex. refinancing) rose 1.3 per cent in June, to be 19.1 per cent over the year. Approvals increased for both owner-occupiers and investors in the month, with investor loans now 41.3 per cent above their January 2023 trough.

### Offshore

- Several **US Federal Reserve** officials noted that this week’s soft labour market data does not fundamentally change their outlook. Chicago Fed President Goolsbee said that the weaker than expected jobs data does not indicate a recession, while San Francisco Fed President Daly said the labour market is clearly slowing but is ‘not falling off a cliff’.
- **Bank of Japan (BOJ)** Deputy Governor Shinichi Uchida provided dovish commentary on the near-term outlook for monetary policy at a recent speech. He played down the possibility of near-term hikes from the BOJ, noting that the central bank is unlikely to raise rates when financial markets are unstable.
- The Minutes to the **Bank of Canada’s** July meeting reiterated that more interest rate cuts are likely if the economy evolves in line with its forecasts.

- **US labour market** data were noticeably weaker than expected, which saw a renewed focus on the possibility of a US recession early in the week. These concerns subsided though on the back of a robust ISM Services outcome and commentary from US Fed officials.
  - Nonfarm payrolls increased 114k in July, well below consensus expectations for a 175k increase. Slower payrolls partly reflected job cuts in the technology and auto sectors, while Hurricane Beryl may have also weighed on jobs growth in the month.
  - The unemployment rate rose 0.2 percentage points to 4.3 per cent, with a 67k increase in employment being more than offset by an additional 420k individuals joining the labour force.
  - Initial jobless claims rose 233k in the week ended 3 August, below market expectations for a 240k increase. While the jobless claims data can be volatile, this outcome somewhat eased concerns about the US labour market that had arisen following the nonfarm payrolls and unemployment rate outcomes earlier in the week.
  - The ISM Services index rose 2.6 points to 51.4 in July, which was slightly higher than consensus expectations. This increase was driven by higher outcomes for the prices paid, employment and new orders components.
  - The trade balance narrowed to \$73.1bn in June (from \$75.0bn in May), reflecting a \$3.9bn increase in exports and a \$2.0bn increase in imports.
- **China’s** nominal export growth slowed to 7.0 per cent over the year to July, well below its previous growth rate (8.6 per cent) and consensus expectations (9.5 per cent). In contrast, imports growth was higher-than-expected at 7.2 per cent. The moderation of exports growth seems to reflect a slowing of global demand, which has been a key area of support for China’s economy amid ongoing weakness in domestic demand.
- In **New Zealand**, the unemployment rate rose two-tenths to 4.6 per cent in Q2. This was lower than consensus expectations but in line with the RBNZ’s forecasts. Private sector wage inflation was also in line with the RBNZ’s forecasts in Q2, increasing by 0.9 per cent in the quarter to be 3.6 per cent higher over the year.

## Markets

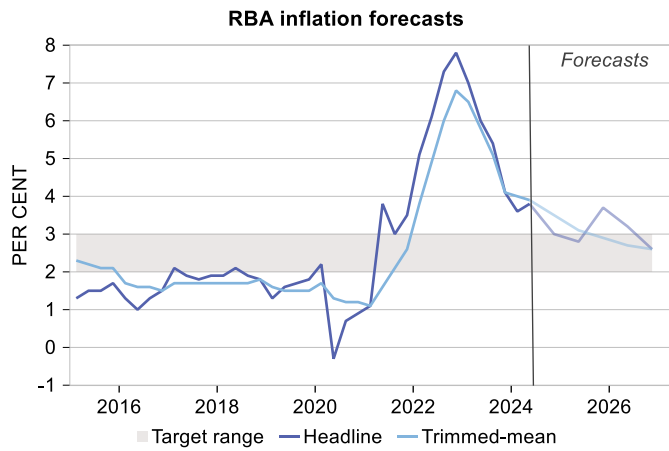
US Treasury yields have fallen over the past week in response to the weaker-than-expected employment report (released last Friday night). The weaker US jobs data initially saw the market pricing an 80 per cent chance of a 50 basis points cut to the Fed Funds rate in September, though the chance of a 50 basis points cut has since been pared back to 67 per cent. Australian Government bond yields also moved lower over the past week in response to the weaker outlook for the US economy, despite Governor Bullock’s more hawkish commentary on the cash rate outlook.

## Economic and Market Calendar

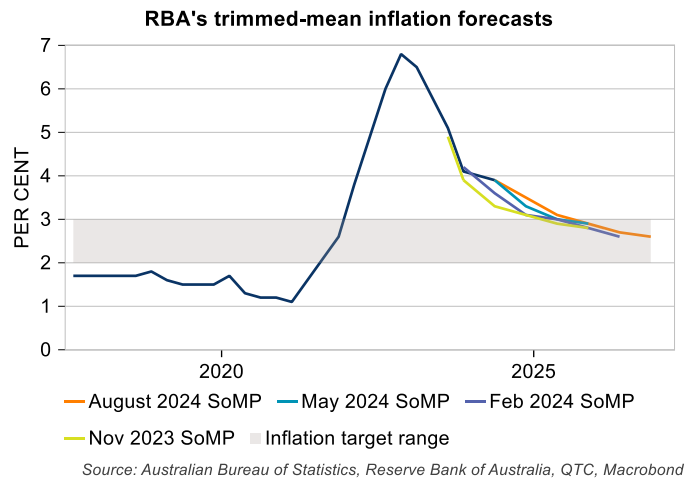
DATE	DETAILS
Domestic	<b>Tuesday:</b> Wage Price Index (Q2), NAB Business Survey (Jul), Westpac Consumer Confidence (Aug) <b>Thursday:</b> Labour Force Survey (Jul)
Offshore	<b>US:</b> CPI (Jul), Real average hourly earnings (Jul), Retail sales (Jul), PPI (Jul), Initial jobless claims ((10 Aug) <b>Euro area:</b> GDP (Q2), Employment (Q2), Industrial production (Jun) <b>Japan:</b> GDP (Q2), PPI (Jul) <b>China:</b> Retail sales (Jul), Industrial production (Jul), Fixed asset investment (Jul), 1-year medium term lending facility (15 Aug) <b>New Zealand:</b> RBNZ meeting (14 Aug)

## Economic and Financial Market Charts

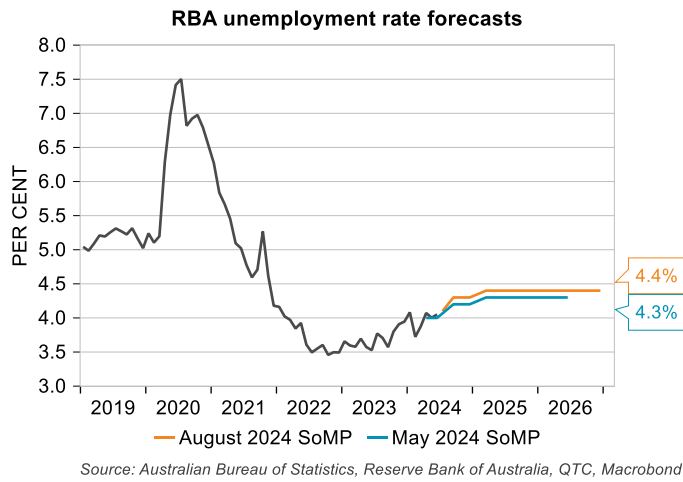
**CHART 1: THE RBA EXPECTS UNDERLYING INFLATION TO RETURN TO THE MIDDLE OF THE TARGET BAND AROUND THE END OF 2026...**



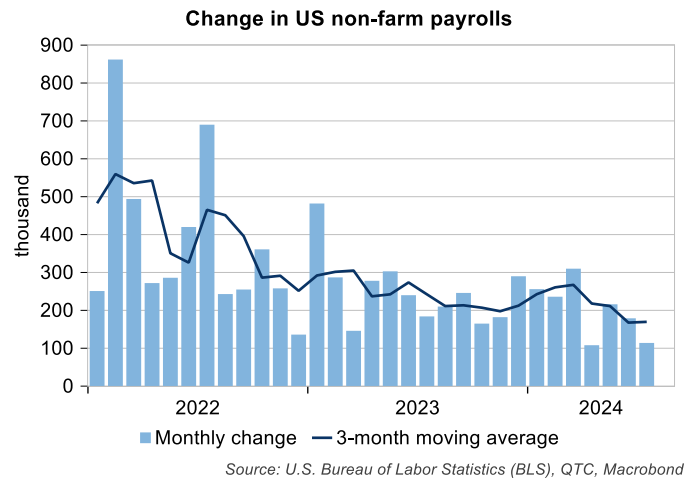
**CHART 2: ...WITH THE UPDATED OUTLOOK SHOWING A SLOWER RETURN TO TARGET RELATIVE TO PREVIOUS RBA FORECASTS**



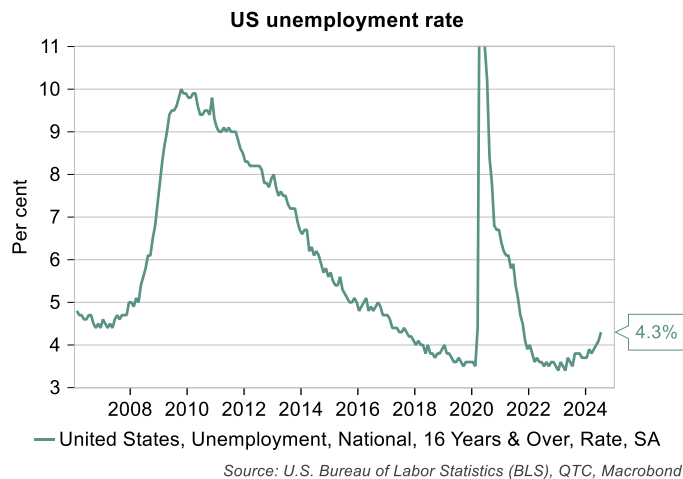
**CHART 3: THE RBA HAS REVISED ITS OUTLOOK FOR THE UNEMPLOYMENT RATE TO BE SLIGHTLY HIGHER**



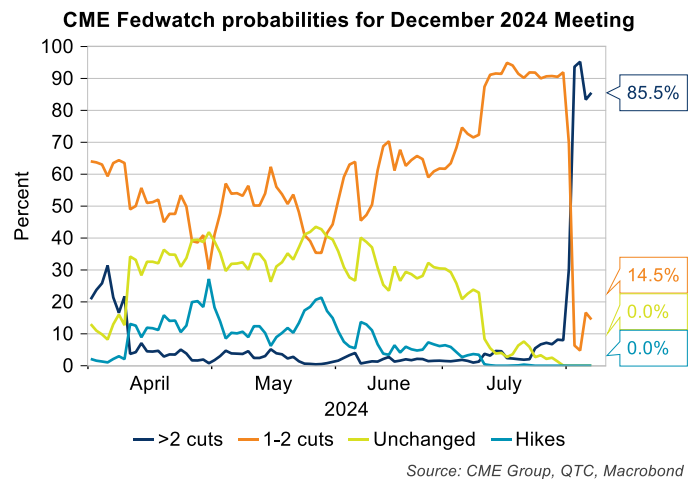
**CHART 4: RECENT US LABOUR MARKET DATA HAVE BEEN SOFT, WITH NONFARM PAYROLLS CONTINUING TO SLOW...**



**CHART 5: ...AND THE US UNEMPLOYMENT RATE TRENDING NOTICEABLY HIGHER**



**CHART 6: WEAKER-THAN-EXPECTED US LABOUR MARKET SAW A SHARP SHIFT IN MARKET PRICING FOR THE FED OVER THE PAST WEEK**



## 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	3.97	-8	-48	-2	AUD/USD	0.66	1.42	-2.20	1.20
	NSWTC	3.96	-7	-47	-5	AUD/EUR	0.60	0.22	-3.14	1.77
	TCV	4.01	-8	-48	-5	AUD/GBP	0.52	1.32	-1.92	0.60
	WATC	3.94	-8	-47	-4	AUD/JPY	97.09	0.00	-10.72	2.95
	Australian Government	3.99	-7	-48	-0	AUD/CAD	0.91	0.38	-1.50	3.32
	US Government	4.02	-7	-47	-6	AUD/NZD	1.10	0.31	-0.38	1.31
5 Year	QTC	3.64	-9	-47	-9	AUD/SGD	0.87	0.56	-4.01	-0.58
	NSWTC	3.88	-8	-53	-63	AUD/HKD	5.14	1.14	-2.41	0.88
	TCV	4.16	-5	-42	11	AUD/KRW	907.69	1.96	-2.68	5.90
	WATC	4.15	-3	-40	7	AUD/CNY	4.73	0.60	-3.50	0.22
	Australian Government	4.20	-4	-42	9	AUD/INR	54.99	0.64	-2.27	1.39
	US Government	4.11	-4	-41	8	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.18	-5	-43	8	EUR/USD	1.09	1.22	1.02	-0.53
	NSWTC	4.21	-3	-39	6	GBP/USD	1.27	-0.38	-0.74	0.13
	TCV	3.71	-5	-41	-3	USD/JPY	146.68	-1.80	-9.08	1.33
	WATC	3.83	-1	-42	-40	USD/CHF	0.86	-1.29	-4.02	-1.72
	Australian Government	4.44	-2	-35	18	USD/CNY	7.18	-0.93	-1.34	-0.62
	US Government	4.45	-2	-34	12	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	4.50	-2	-35	17	Brent Crude Oil	79.16	-0.45	-6.50	-8.38
	NSWTC	4.36	-2	-35	13	Gold	2,427.53	-0.77	2.68	26.93
	TCV	4.48	-2	-35	16	Copper	8,794.50	-2.85	-10.89	4.87
	WATC	4.47	-3	-36	14	Iron Ore	99.46	-3.11	-8.89	12.47
	Australian Government	3.88	-3	-34	1					
	US Government	3.88	-0	-37	-30					

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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