August Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

The month of August was characterised by hawkish commentary from the RBA and key officials from the Bank. There was consistent push-back on the notion that near-term rate cuts might be forthcoming.

International economy

The pace of jobs growth in the US continued to slow, including due to revisions to previous outcomes. The unemployment rate continued its increase. Weakness in the Chinese economy was again evident in data for July, as was softness in inflation. On monetary policy, the most notable development was the dovish shift in commentary from US monetary policymakers with a rate cut in September now considered all but guaranteed.

Interest rates

Australian Government 10-year bond yields fell 33 basis points in August. This was the fourth straight month in which yields dipped. Three-year yields declined 43 basis points on the month, a second straight decline. Catalysts for the move lower were a softer than expected US labour market report, further signs that US inflation is moderating and the Minutes to the Fed's July meeting signalling that a September cut is likely, with this all but confirmed by dovish commentary from Fed Chair Powell as a conference for central bankers. These moves lower in yields came despite the RBA's more hawkish commentary on the cash rate outlook.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.84	-46	-23
	Australian Government	3.55	-43	-24
	US Government	3.78	-28	-80
5 Year	QTC	4.01	-42	-12
	Australian Government	3.61	-38	-21
	US Government	3.70	-21	-59
7 Year	QTC	4.30	-37	-2
	Australian Government	3.79	-33	-15
	US Government	3.80	-15	-46
10 Year	QTC	4.70	-33	6
	Australian Government	3.97	-31	-8
	US Government	3.90	-13	-28

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6764	3.6%	4.7%
AUD/EUR	0.6112	1.3%	2.1%
AUD/GBP	0.5147	1.3%	0.2%
AUD/JPY	98.5501	0.4%	4.3%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.1067	2.2%	2.5%
GBP/USD	1.3142	2.3%	4.4%
USD/JPY	145.70	3.1%	0.3%
USD/CNY	7.0931	1.8%	2.3%

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.

View our recent economic reports

Weekly and monthly economic reports for QTC's clients to stay informed about the latest economic and financial market developments. Click here to view recent reports.

View our recent economic research

Hear from QTC's economists about topical issues that are important to the global and Australian economies, and financial markets. Click here to view recent updates.

FUNDING AND MARKETS DIVISION
Economics, Credit and Markets Research

Michael Anthonisz
T: 07 3842 4711
E: manthonisz@qtc.com.au

HAVE A QUESTION? Ask our economist

QUEENSLAND TREASURY CORPORATION
GPO Box 1096 Brisbane Queensland 4001
T: 07 3842 4600 www.qtc.com.au

Domestic economy

SUMMARY:

The month of August was characterised by hawkish commentary from the RBA and key officials from the Bank. There was consistent push-back on the notion that near-term rate cuts might be forthcoming.

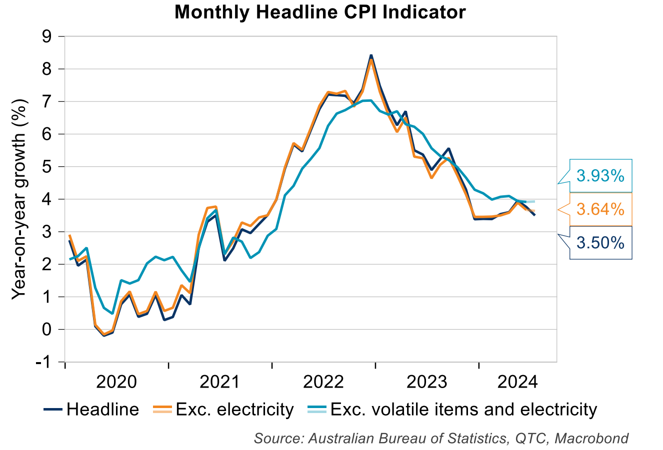
REVIEW:

- There was a lot of communication from the RBA in August with much of it skewing in the hawkish direction:
  - The RBA left its cash rate unchanged at 4.35 per cent at its August meeting, as expected. The commentary accompanying the decision was more hawkish than anticipated. The Minutes to the RBA's meeting indicated that '*it was unlikely*' that the cash rate would be reduced in the short term.
  - 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*. The Bank 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.
  - RBA Governor Bullock appeared before the House Standing Committee on Economics and reiterated the hawkish tone of other recent RBA commentary, stressing that it is '*premature to be thinking about rate cuts*' given inflation is '*still too high*.' She mentioned that the RBA Board '*does not expect that it will be in a position to cut rates in the near term*'.
- The annual rate of inflation as per the ABS' monthly CPI fell to 3.5 per cent in July down from 3.8 per cent in June. The introduction of electricity subsidies weighed on inflation in the month with measures of inflation excluding electricity (and other volatile items) remaining broadly stable.
- Finally, in news on the labour market:
  - Employment increased by a much larger-than-expected 58.2k in July, driven by a 60.5k increase in full-time employment. This outcome was almost triple consensus expectations for a 20.0k increase and marks the fourth consecutive month of accelerating employment growth.
  - The unemployment rate continued to trend higher in July, increasing to 4.2 per cent (from 4.1 per cent in June) due to a large increase in the participation rate.
  - Wage Price Index growth slowed to 0.8 per cent in Q2, slightly slower than the 0.9 per cent increase in Q1. Annual wages growth remained stable at 4.1 per cent in Q2. Wage outcomes diverged noticeably between the public and the private sectors. Private sector wage growth eased two-tenths to 0.7 per cent, which is its slowest pace since late 2021. Public sector wage growth picked up strongly to 0.9 per cent in Q2, with the ABS noting this was due to changes in the timing of Commonwealth public sector wage increases.

WHAT TO WATCH:

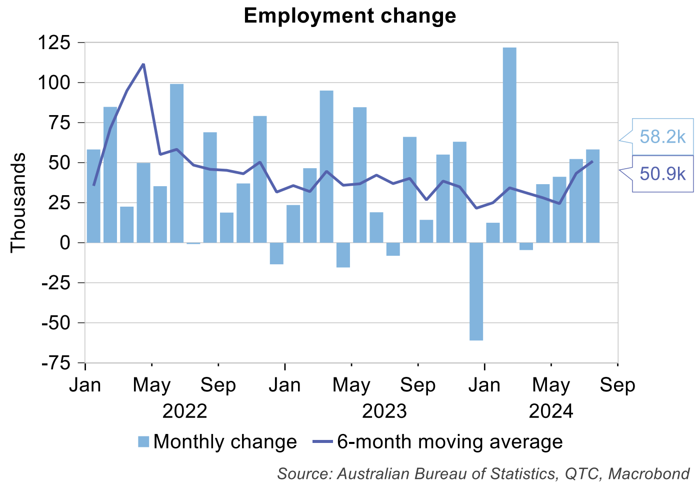
Markets don't seem to believe the RBA's hawkish commentary with the amount of rate cuts priced-in for both this year and next increasing over the month despite consistent push-back from the central bank. Electricity subsidies are clouding the picture as to underlying price pressures with further evidence seemingly needed that these are moderating before the Bank considers cutting interest rates. This, and a further uptrend in the unemployment rate, will be what is important to watch for in the months ahead as it pertains to the RBA's interest rate calculus.

CHART 1: ELECTRICITY SUBSIDIES WEIGHED ON INFLATION IN JULY, THOUGH MEASURES EXCLUDING ELECTRICITY WERE UNCHANGED



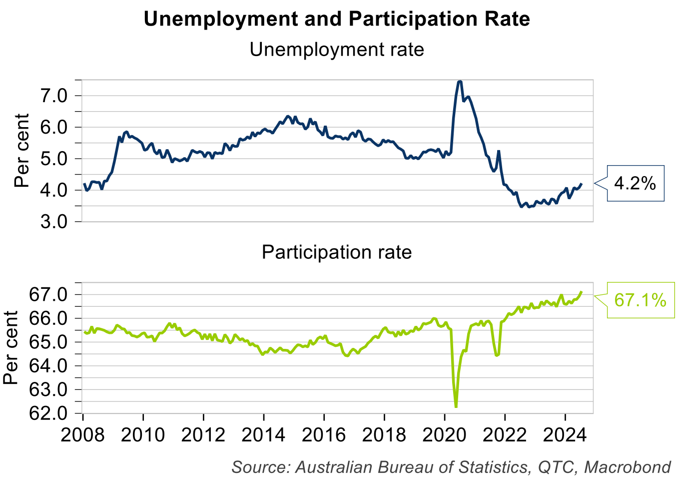
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: EMPLOYMENT INCREASES HAVE ACCELERATED IN RECENT MONTHS...



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: ... THOUGH THE UNEMPLOYMENT RATE HAS CONTINUED TO TREND HIGHER DUE TO A STRONGER PARTICIPATION RATE



Source: Australian Bureau of Statistics, QTC, Macrobond

International economy

SUMMARY:

The pace of jobs growth in the US continued to slow, including due to revisions to previous outcomes. The unemployment rate continued its increase. Weakness in the Chinese economy was again evident in data for July, as was softness in inflation. On monetary policy, the most notable development was the dovish shift in commentary from US monetary policymakers with a rate cut in September now considered all but guaranteed.

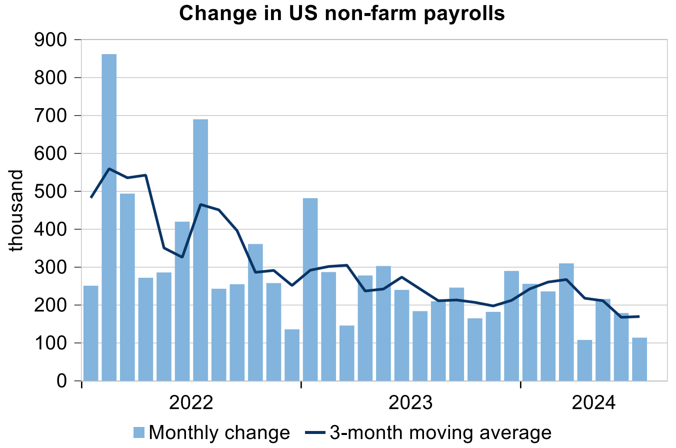
REVIEW:

- In the **US:**
  - US labour market data were noticeably weaker than expected in July. Nonfarm payrolls increased 114,000 vs 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.
  - Preliminary annual revision to non-farm payrolls, also released during the month, suggested that 818k fewer jobs were added in the year to March 2024, marking a significant shift lower in the pace of hiring over this period.
  - In some more positive news, retail sales rose 1.0 per cent in July, which was the largest month-on-month gain since January 2023. Further, 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.
- In **China**, data for July revealed that annual growth in:
  - Retail sales was 2.7 per cent vs 2.0 per cent in June, though this improvement partly reflects base effects. Industrial production eased from 5.3 to 5.1 per cent, while fixed asset investment growth slowed notably from 3.7 to 1.9 per cent. Property investment fell 10.2 per cent with residential property sales down 25.9 per cent.
  - The value of export slowing to 7.0 per cent from 8.6 per cent while that for imports was 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.
- On **inflation**, data for July highlighted that:
  - **US** core CPI and PCE inflation both increased by 0.2 per cent, as expected. The annual rate of core CPI inflation eased to 3.2 per cent, which is its lowest level since early 2021. Annual core PCE was steady at 2.6 per cent.
  - **UK** CPI inflation was softer-than-expected in July, with annual core inflation easing to 3.3 per cent (from 3.5 per cent previously).
- In **central bank** news,
  - The Minutes to the July meeting for the monetary policymaking arm of the US Federal Reserve (the FOMC) noted that the '*vast majority*' of members favour cutting interest rates in September if the economy evolved as expected. This dovish sentiment was further articulated by Chair Powell in his comments to the Federal Reserve Bank of Kansas City's Jackson Hole Economic Symposium. Here, Powell said that '*the time has come*' for rate cuts. While expressing more confidence in the outlook for inflation, he emphasised downside risks to the labour market, noting that any further weakening in the labour market would be '*unwelcome*.'

WHAT TO WATCH:

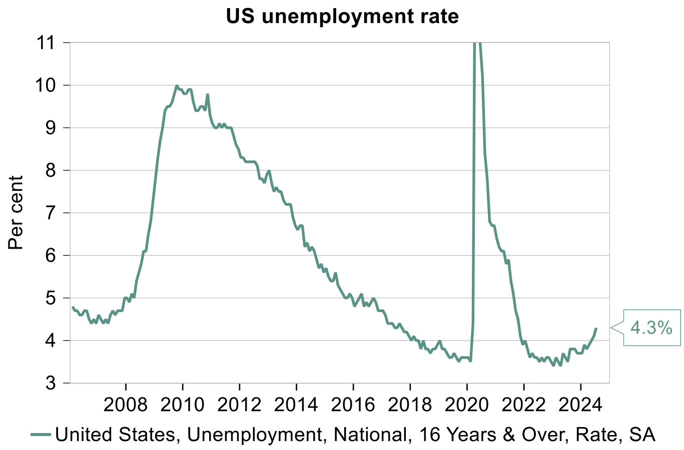
The FOMC is set to start its easing cycle at its September meeting with there being divergent views amongst both policymakers, economists, and market participants as to the speed and extent of rate cuts once the cycle gets underway. With inflation trending back towards target focus has shifted to the labour market. While its rebalancing has been gradual so far, some officials seem concerned at the trajectory and appear to view any further moves higher in the unemployment rate as unwelcome. This makes upcoming labour market releases vitally important to gauging the speed of this easing cycle once it gets underway. The August release, due at the end of the first week of September, could provide some further insight, though there remains a chance that it could be distorted by temporary factors.

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



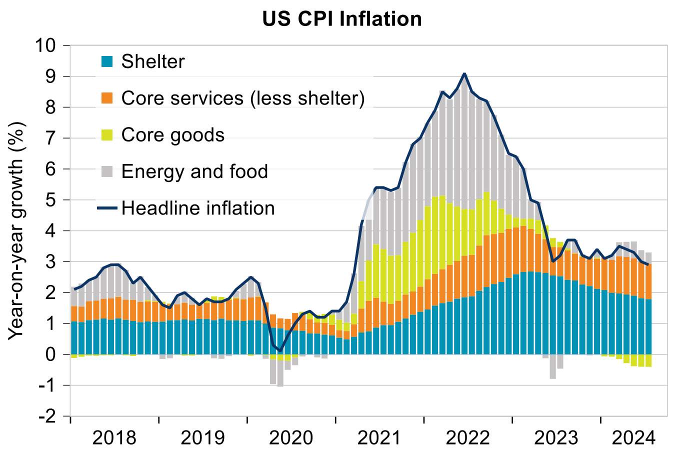
Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 5: …WITH THIS SEEING THE US UNEMPLOYMENT RATE TREND HIGHER…



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 6: …WITH THIS CONTRIBUTING TO A MODERATION IN INFLATION



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond