

# Weekly Economics and Markets Review

- Developments with respect to US trade policy and around the fate of the Federal Reserve Chair dominated investor attention this week. There was plenty of economic data released, with US figures generally meeting or exceeding expectations, while China's data was mixed and, on balance, slightly weaker than anticipated.

## Week in review

### Domestic

- Employment rose 2,000 in June, one-tenth the amount expected. Subdued jobs growth, a higher participation rate and statistical noise (the households rotating into the ABS monthly survey had a higher propensity to be unemployed than those rotating out) were behind a 0.2 percentage point rise in the unemployment rate to 4.3 per cent.
- Consumer confidence edged 0.6 per cent higher in July. There was a divide between those surveyed before the RBA announced its decision to keep rates on hold in July with those surveyed before (after) this more (less) confident.

### Offshore

- **US trade policy** continues to remain a focus for markets. Key developments over the past week include that:
  - The deadline for tariff negotiations to be completed for most countries is 1 August (from 9 July).
  - Tariffs of 30 per cent are set to be imposed on Mexico and the EU if deals are not reached by this date.
  - President Trump threatened tariffs on Russia of 100 per cent if a ceasefire deal with Ukraine is not reached within 50 days.
  - A framework for a trade deal with Indonesia was announced. Indonesian exports to the US will be subject to a 19 per cent tariff while those from the US to Indonesia will not be subject to tariffs. Goods shipped from other countries to the US via Indonesia will be tariffed at the Indonesian rate plus the rate of the originating country.
- There continues to be plenty of discussion about the future of **Federal Reserve Chair Powell**.
  - This week it was reported that the President would fire Powell, though the President subsequently denied this.
  - It has been speculated that Powell's role in overseeing a renovation of the Fed's headquarters in Washington – which has blown out from US\$1.9 billion to US\$2.5 billion in recent years – could be pre-text for the President to fire the Chair 'for cause'.
  - Kevin Hassett, Head of the National Economic Council, said the Fed's have got it wrong on policy and more congressional oversight of the central bank is needed. Kevin Warsh, a former Fed, critiqued the FOMC's current inaction on rate cuts. Both Kevins are among the leading candidates to replace Fed Chair Powell.
  - Federal Reserve Bank of Richmond President Barkin highlighted that Federal Open Markets Committee participants don't always follow the Chair's lead on monetary policy. This was considered a reminder to the Whitehouse of the independence of the central bank.

#### ▪ In the US:

- Core inflation rose 0.2 per cent in June. There were modest rises on both core goods (0.2 per cent) and core services (+0.25 per cent) on the month as well as "Supercore" inflation – that is, core services excluding shelter – which was up 0.2 per cent.
- Both industrial production and core retail sales increased by more than expected in June. The prior month's outcome revised for the former was revised higher while that for the latter was marked lower.
- Producer prices, both headline and core, were flat in June and continue to not show any material impact of tariffs.

#### ▪ In China:

- The annual rate of real GDP growth slowed to 5.2 per cent from 5.4 per cent in Q2 while that for nominal GDP growth eased to 3.9 per cent (from 4.6 per cent). The latter is the lowest since the GFC and the tenth negative print in the past 11 quarters.
- Annual growth of industrial production rose to 6.8 per cent in June from 5.8 per cent. This was a stronger than expected (5.6 per cent) result and was led by improved manufacturing and mining production, offset by slower output growth in utilities.
- Annual growth of retail sales slowed to 4.8 per cent from 6.4 per cent. Recent austerity measures applying to public officials and the fading impact of the government's trade-in program have been cited as reasons behind the weaker than expected (5.2 per cent) result.
- Annual growth in fixed asset investment slowed to 0.5 per cent from 2.9 per cent. This was lower than expected (3.3 per cent) and the weakest growth rate since late 2021. The slowdown was road-based across manufacturing, infrastructure and property.
- Data on the property market was mixed in June with annual rates of growth in investment, new home sales and house prices weakening but those for new home starts and completions improving.
- Annual growth in both exports and imports rose by more than expected in June. Shipments to clear the backlog of goods following the tariff truce in mid-May and front-loading of exports ahead of the 90-day tariff pause deadline in mid-August were cited as reasons behind the lift in export growth.
- Annual growth in aggregate financing lifted from 8.7 per cent to 8.9 per cent in June on a seasonal rise in government bond issuance. New RMB loan growth was stronger than expected but remained at a record low annual growth rate of 7.1 per cent.

## Markets

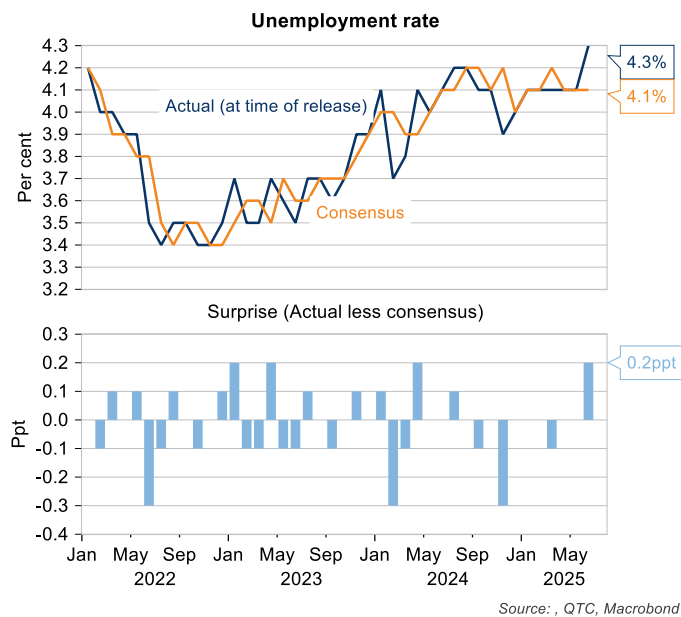
Australian Government bond yields were little changed over the week, though US long-end yields continue to shift higher. The possibility of higher tariffs and a reduction in Fed independence, as well as firmer than expected US economic data, have been cited as being behind the move.

## Economic and Market Calendar

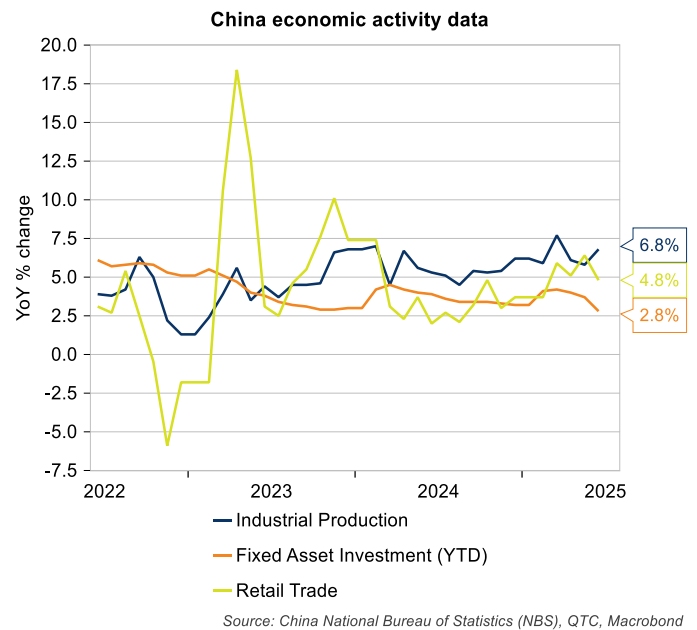
DATE	DETAILS
Domestic	<b>Tuesday:</b> RBA Minutes (Jul)
Offshore	<b>US:</b> University of Michigan Consumer Sentiment (Jul); durable goods (Jun); new and existing home sales, housing starts and building permits (Jun) <b>Other:</b> ECB (Jul), S&P Global PMIs (Jul), Japan CPI (Jun)

## Economic and Financial Market Charts

**CHART 1: THE UNEMPLOYMENT RATE LIFTED BY TWO-TENTHS IN JUNE, AGAINST EXPECTATIONS OF NO CHANGE. THIS WAS THE BIGGEST UPSIDE SURPRISE IN MORE THAN A YEAR.**



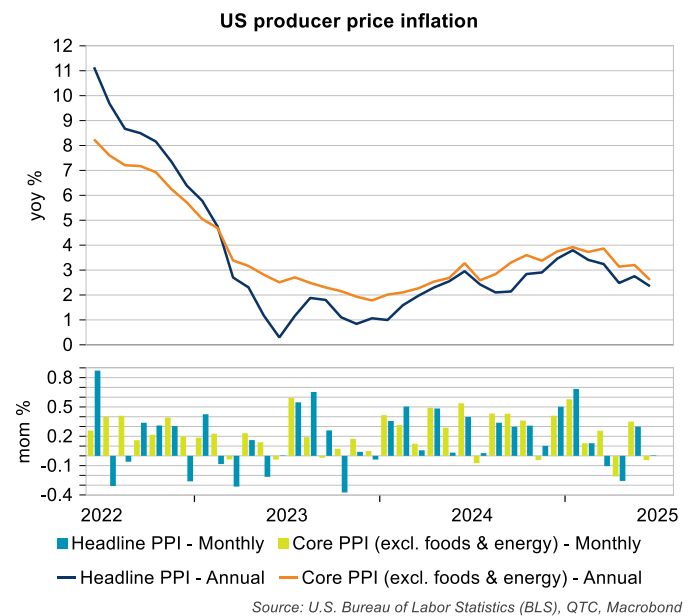
**CHART 2: THERE WERE MIXED READINGS ON THE CHINESE ECONOMY IN THE MONTH OF JUNE...**



**CHART 3: ...WHILE BOTH THE QUARTERLY AND ANNUAL RATES OF GDP GROWTH SLOWED IN Q2.**



**CHART 4: EVIDENCE OF THE IMPACT OF HIGHER TARIFF RATES IS SO FAR NOT EVIDENT IN PRICES PAID BY US PRODUCERS.**



## 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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.61	-1	1	-68
	NSWTC	3.63	-0	4	-65
	TCV	3.63	-2	2	-70
	WATC	3.58	-1	5	-68
	Australian Government	3.62	-0	3	-69
	US Government	3.72	-1	4	-61
5 Year	QTC	3.39	-0	2	-57
	NSWTC	3.88	4	-2	-36
	TCV	3.98	-0	0	-45
	WATC	3.98	1	3	-44
	Australian Government	4.02	0	3	-45
	US Government	3.90	-1	3	-48
7 Year	QTC	3.96	0	3	-50
	NSWTC	4.14	-0	5	-32
	TCV	3.61	1	4	-36
	WATC	3.99	6	0	-13
	Australian Government	4.44	2	2	-23
	US Government	4.41	2	3	-26
10 Year	QTC	4.44	2	2	-30
	NSWTC	4.33	3	5	-26
	TCV	4.40	3	1	-30
	WATC	4.61	2	6	-10
	Australian Government	3.95	3	6	-16
	US Government	4.21	9	4	7

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-1.38	-0.18	-3.63
AUD/EUR	0.56	-0.55	-0.89	-9.20
AUD/GBP	0.48	-0.18	0.36	-6.70
AUD/JPY	96.35	0.07	2.17	-8.85
AUD/CAD	0.89	-0.89	0.85	-3.20
AUD/NZD	1.09	0.23	1.71	-1.35
AUD/SGD	0.83	-0.94	-0.05	-7.65
AUD/HKD	5.09	-1.40	-0.18	-3.13
AUD/KRW	902.24	-0.07	1.09	-3.05
AUD/CNY	4.66	-1.42	0.17	-4.32
AUD/INR	55.66	-0.94	-1.15	-1.21
MAJOR CURRENCIES				
EUR/USD	1.16	-0.85	0.73	6.15
GBP/USD	1.34	-1.20	-0.53	3.31
USD/JPY	148.63	1.47	2.35	-5.42
USD/CHF	0.81	0.99	-1.18	-9.07
USD/CNY	7.18	0.05	-0.04	-1.08

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	69.55	1.33	-9.03	-18.28
Gold	3,338.90	0.72	-1.30	35.93
Copper	9,635.00	-0.68	-0.35	2.65
Iron Ore	100.83	1.84	9.12	-0.26

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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