

Weekly Economics and Markets Review

The Minutes to the RBA's July meeting highlighted the desire by most members of the Monetary Policy Board to proceed in a *'cautious and gradual manner'* in terms of rate cuts at the current time given recent data flow and the desire to see that inflation is tracking as expected. It is widely expected that confirmation on inflation will be available in next week's quarterly ABS CPI print. This could set the stage for the central bank to lower rates again. Markets have fully priced-in this outcome. Offshore, developments with respect to US trade policy and the next Chair of the Federal Reserve again dominated headlines.

Week in review

Domestic

The Minutes to the RBA's July meeting revealed that, in deciding to keep rates on hold in July, those who voted in favour of doing so were of the view that *'lowering the cash rate a third time within the space of four meetings would be unlikely to be consistent with the strategy of easing monetary policy in a cautious and gradual manner to achieve the Board's inflation and full employment objectives.'* Interestingly, the Board viewed recent data as having been broadly in line with forecasts, some data were considered to have been *'slightly stronger than expected'*. It was considered *'prudent'* to wait for additional data to confirm that inflation would sustainably return to target before easing policy further. This confirmation could come as soon as this month's quarterly ABS CPI release ahead of the RBA's August meeting.

Offshore

It was a busy week for US trade policy developments:

A trade deal reached with Japan in which exports to the US will be subject to a 15 per cent tariff. This includes autos which were subject to a 25 per cent tariff already. Without the deal, other exports would have been hit with a 25 per cent tariff starting 1 August. The deal also includes US\$550 billion of investment by Japan in key sectors in the US. These include energy; semiconductor manufacturing and research; critical minerals mining, processing, and refining; pharmaceutical and medical supply manufacturing; and shipbuilding.

- Trade deals were also reached with Indonesia and the Philippines in which exports from each to the US would be subject to a 19 per cent tariff. No tariffs would be placed on exports from the US to either of these countries.
- The EU and the US are also reportedly close to a trade deal with a tariff rate of 15 per cent set to apply to exports from Europe to the US. This is below a rate of up to 30 per cent which President Trump threatened this week.
- The Australian Government will reportedly lift biosecurity restrictions on US beef which were originally imposed following an outbreak of 'mad cow' disease in 2019. The decision follows a review by the national agriculture department into steps taken by US authorities to accurately track cattle movements from Canada and Mexico into the US where the animals were slaughtered before being exported. This decision also comes as Australia seeks to negotiate a trade deal with the US and avoid 50 per cent tariffs on steel and aluminium, 200 per cent on pharmaceuticals and 10 per cent on other items.

In the US:

- The housing market was soft in June as housing starts declined by 9.8 per cent, building permits by 2.0 per cent and existing home sales by 2.7 per cent. New home sales bucked the trend and rose 0.6 per cent.
- Consumer sentiment rose in July according to the University of Michigan. Of note also were the large falls in one-year (4.4 per cent from 5.0 per cent) and five- to ten-year ahead (3.6 per cent from 4.0 per cent) consumer inflation expectations.

In other news:

- In Japan, upper house elections saw the governing coalition (an alliance of the LDP and Komeito parties) lose their majority as voters splintered off to other parties, including to a surging Sanseito – a nationalist party which began on YouTube. Without any clear individual or coalition of parties able to form government, PM Ishiba will stay on to provide continuity and stability.
- Christopher Waller, a Federal Reserve Governor, echoed his earlier calls for the Fed to cut rates in July. This reflected considerations including tariffs temporarily boosting the price level but not permanently impacting price growth, policy being too restrictive, and building downside risks to the labour market.
- Waller is one of the candidates considered most likely to replace Fed Chair Powell when his term expires in May. Waller indicated this week that he would be prepared to serve in this capacity if asked by the President. Treasury Secretary Bessent announced plans for an internal review of the Fed, including with respect to its building renovations. He also considers that Chair Powell should be able to stay in the role till his term expires in May next year (if he wants to).
- Core inflation continued to ease in New Zealand in Q2 with key measures all annualising within the RBNZ's target range. Meanwhile, annual core inflation (that is, excluding fresh food and energy) edged one-tenth higher in Japan in June to 3.4 per cent.
- According to the S&P Global PMIs for July:
 - In the euro area, conditions in the services sector improved at a faster pace (+0.7 pts to 51.2) while those in manufacturing eased, but at a slower pace than before (+0.3 pts to 49.8).
 - In the UK, conditions in the services sector still improved, but at a slower rate (-1.6 pts to 51.2) while, like with the euro area, those in manufacturing moderated but at a more measured pace than before (+0.5 pts to 48.2).

Markets

Australian Government bond yields rose slightly over the week with these moves also reflected in the Australian Dollar which was higher across the board.

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday: CPI (Q2) Thursday: Building approvals (Jun), retail volumes (Q2), private sector credit (Jun), trade prices (Q2)
Offshore	US: House prices (May), JOLTS (Jun); Conference Board Consumer Confidence (Jul), GDP (Q2), ECI (Q2), core PCE inflation (Jun), FOMC (Jul) Other: GDP (EZ, Q2), NBS PMIs (Jul), Bank of Canada (Jul), BoJ (Jul)

Economic and Financial Market Charts

CHART 1: S&P GLOBAL PMIS IMPROVED IN JULY...

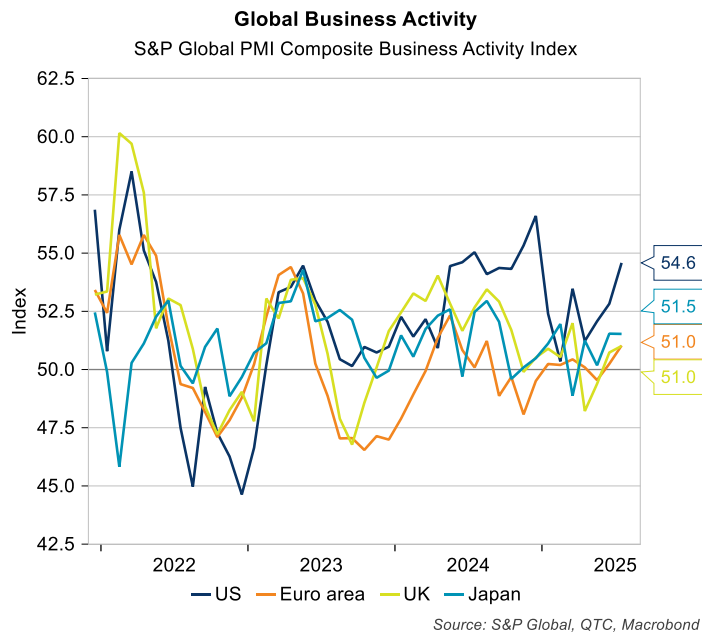


CHART 2: ...ON A LIFT IN SERVICES ACTIVITY...

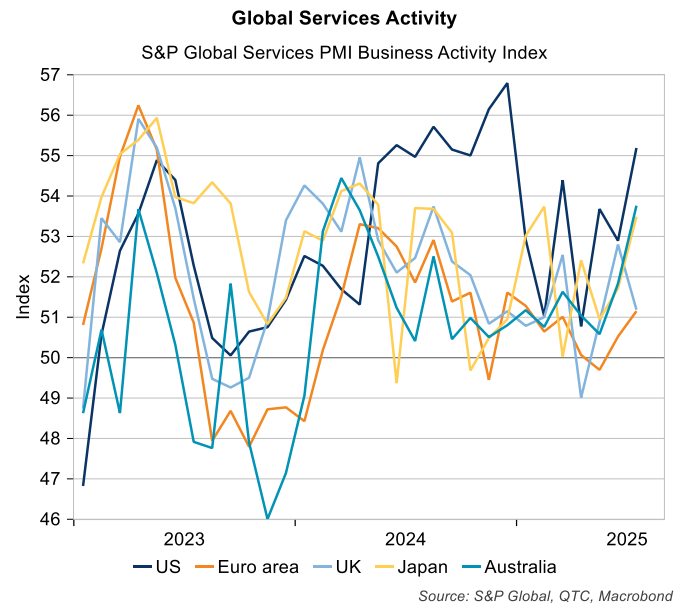


CHART 3: ...MORE SO THAN MANUFACTURING

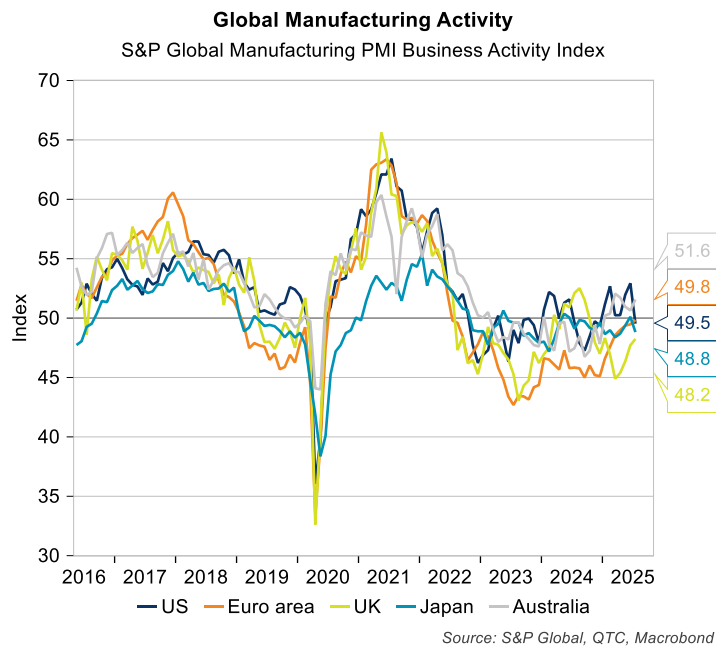
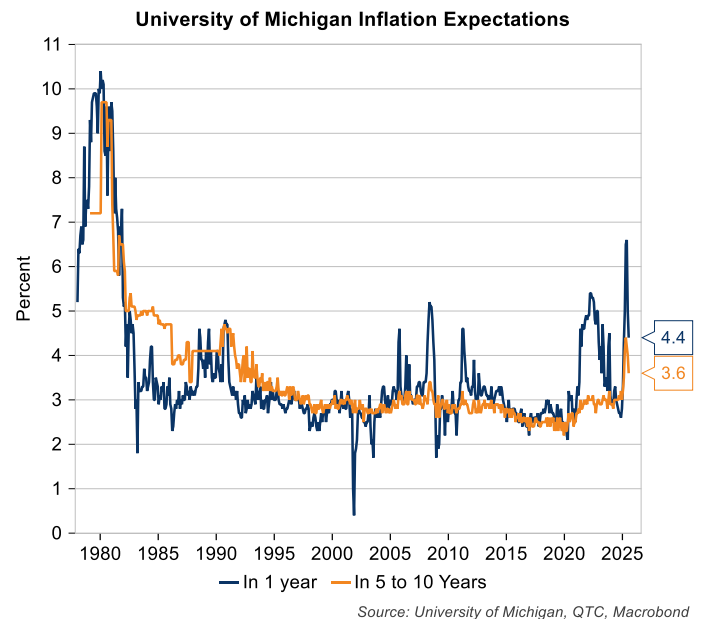


CHART 4: CONSUMER INFLATION EXPECTATIONS FELL BY MUCH MORE THAN EXPECTED IN JULY AS TARIFF FEARS EASED



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	3.66	4	18	-67
	NSWTC	3.67	4	18	-65
	TCV	3.68	5	18	-69
	WATC	3.61	3	18	-69
	Australian Government	3.66	4	18	-68
	US Government	3.77	5	19	-61
5 Year	QTC	3.45	6	18	-58
	NSWTC	3.86	-1	10	-38
	TCV	4.02	4	18	-45
	WATC	4.02	4	18	-43
	Australian Government	4.08	5	19	-43
	US Government	3.94	5	18	-47
7 Year	QTC	4.00	4	18	-49
	NSWTC	4.19	5	20	-31
	TCV	3.67	5	20	-38
	WATC	3.96	-3	9	-17
	Australian Government	4.47	2	19	-23
	US Government	4.43	2	18	-27
10 Year	QTC	4.48	4	19	-29
	NSWTC	4.36	2	20	-26
	TCV	4.42	2	17	-31
	WATC	4.63	2	20	-11
	Australian Government	3.98	4	21	-19
	US Government	4.16	-4	10	-1

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.66	1.77	1.40	0.63
AUD/EUR	0.56	0.23	0.20	-7.09
AUD/GBP	0.49	0.93	2.26	-4.06
AUD/JPY	96.91	0.58	2.94	-4.03
AUD/CAD	0.90	0.91	0.87	-0.60
AUD/NZD	1.09	-0.17	1.09	-1.61
AUD/SGD	0.84	1.07	1.26	-4.24
AUD/HKD	5.18	1.77	1.40	1.17
AUD/KRW	904.94	0.30	2.42	-0.18
AUD/CNY	4.72	1.37	1.24	-0.41
AUD/INR	57.19	2.75	2.17	4.73
MAJOR CURRENCIES				
EUR/USD	1.18	1.53	1.20	8.29
GBP/USD	1.35	0.83	-0.84	4.88
USD/JPY	146.91	-1.16	1.52	-4.62
USD/CHF	0.79	-1.35	-1.19	-9.74
USD/CNY	7.15	-0.38	-0.24	-1.20

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	69.25	-0.39	3.14	-15.93
Gold	3,367.00	0.84	1.46	42.51
Copper	9,930.50	2.73	2.70	8.86
Iron Ore	105.16	4.10	13.85	9.83

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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