

Weekly Economics and Markets Review

The ABS' Q2 CPI report revealed a broad-based moderation in inflation. Readings on the interest rate exposed segments of the economy were favourable.

It was a busy week for US trade policy developments with deals signed with the EU and South Korea as well as the President announcing a revised set of tariff rates shortly before the 1 August deadline.

Week in review

Domestic

Headline **CPI** rose 0.7 per cent in Q2 to be up 2.1 per cent over the year. The annual rate eased from 2.4 per cent in Q1, is toward the bottom of the RBA's 2-3 per cent target band and is the lowest since Q1 2021. Trimmed-mean CPI rose 0.6 per cent in Q2 to be 2.7 per cent higher over the year. The annual rate eased from 2.9 per cent in Q1, is close to the middle of the RBA's 2-3 per cent target band and is the lowest since Q4 2021. Quarterly growth in these two key measures were both one-tenth below consensus estimates in Q2.

Quarterly growth in other measures of core (market services, weighted median) and domestic (non-tradables, labour market sensitive) related inflation also slowed. Quarterly inflation eased across both goods and services with this softness evident across the CPI basket. For instance, the share of items with quarterly annualised price growth of more than three per cent fell back to its post-2010 average and the share with prices growing by less than two per cent annualised topped 50 per cent for the first time since Q2 2021.

In data on the interest rate exposed parts of the economy:

- The number of residential **building approvals** increased 11.9 per cent in June. This was well above expectations (+1.8 per cent) and was driven by the volatile high-density dwelling category (+33.9 per cent) as approvals for detached housing contracted (-1.5 per cent mom). Both the value (1.2 per cent) and volume (0.3 per cent) of **retail sales** rose by more than expected in June and Q2 respectively. Volumes were boosted during the quarter by a rebound in Queensland following Cyclone Alfred related weakness in Q1. Totality capital city **dwelling prices** rose 0.6 per cent in July to be up three per cent over the year. Monthly price growth has accelerated since the RBA began cutting rates in February.

Offshore

It was a very busy week for developments related to **US trade policy**.

- The US reached trade agreements with the EU and South Korea. Both countries are set to invest in or buy products from the US as part of the deal.
- The Whitehouse announced updated tariff rates just before the 1 August deadline. Rates were reportedly applied to three distinct groups of countries: 10 per cent for those with which the US has a goods trade surplus, ~15 per cent for those which have agreed deals or with which the US runs a modest goods trade deficit, higher rates for countries that didn't reach deals and with which the US runs large goods deficits. Of the 55 countries to appear on this list as well as the one following the Liberation Day announcement, 41 saw reduced rates, eight had higher rates and six had the same rates.
- The deadline for a deal with China was extended by another 90 days beyond the 12 August deadline as talks in Stockholm failed to reach an agreement.
- Exports of copper to the US will be subject to a 50 per cent tariff, though less finished goods are exempt.

- President Trump said he would shorten the deadline for Russia to agree a ceasefire with Ukraine from 50 days to '10 to 12 days'. Further, if no deal is made then secondary sanctions could apply to countries that trade with Russia.
- The monetary policymaking committee of the US Federal Reserve left rates unchanged at 4.25 to 4.50 per cent at its July meeting, as expected. There were little changes to the post-meeting statement, though there was a hawkish flavour to Chair Powell's comments in the post-meeting press conference. This includes remarks on the stance of monetary policy ('*It seems to me and to almost the whole committee that the economy is not performing as if restrictive policy is holding it back inappropriately. Modestly restrictive policy seems appropriate*') and about how the Committee is responding to tariff induced inflation ('*You could argue we are a bit looking through goods inflation by not raising rates*'). Governors Waller and Bowman dissented against the decision to keep rates on hold with both preferring a cut. Note, both are considered among the frontrunners to replace Powell when his term ends in May 2026.

The central banks of Japan and Canada left policy rates on hold as expected.

In the **US**:

- Core capital goods declined 0.7 per cent while core capital goods shipments rose 0.4 per cent.
- The job openings rate (job openings as a share of employment) fell to 4.4 per cent from 4.6 per cent in June. The quits and layoff rates were unchanged at 2.0 per cent and 1.0 per cent, respectively.
- The Conference Board's measure of consumer confidence rose two points to 97.2 in July. This was slightly above expectations (96) and reflects gains in future expectations offsetting a dip in current perceptions.

The **IMF** revised up its estimates for global GDP growth in both 2025 (from 2.8 per cent to 3.0 per cent) and 2026 (from 3.0 per cent to 3.1 per cent). Stronger-than-expected front-loading in anticipation of higher tariffs, lower average effective US tariff rates than announced in April, an improvement in financial conditions (including in-part due to a weaker US dollar), and fiscal expansion in some major jurisdictions were cited as factors for the upgrades.

Markets

Australian Government bond yields moved lower this week on a softer than expected Q2 CPI with markets now considering an August RBA rate cut as a done deal.

Economic and Market Calendar

| DATE | DETAILS |
|----------|--|
| Domestic | AU: Household Spending (Jun), International trade (Jun) |
| Offshore | US: Non-farm payrolls (Jul), ISM Manufacturing and Services (Jul) Other: Bank of England (Aug), euro area CPI (Jul), Canada (Jul) and NZ labour market (Q2) |

Economic and financial market charts

CHART 1: HEADLINE INFLATION IS TOWARD THE BOTTOM OF THE RBA'S 2-3 PER CENT TARGET BAND AND THE LOWEST SINCE Q1 2021

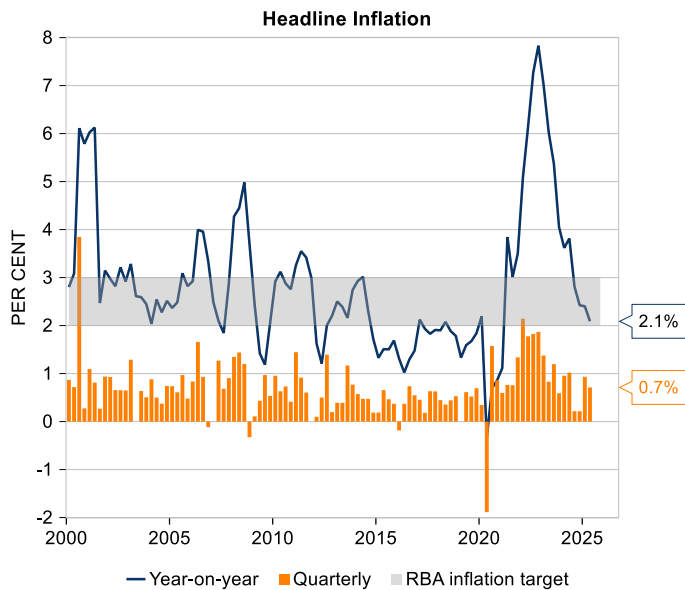


CHART 2: QUARTERLY GROWTH IN MEASURES OF CORE AND DOMESTIC RELATED INFLATION...

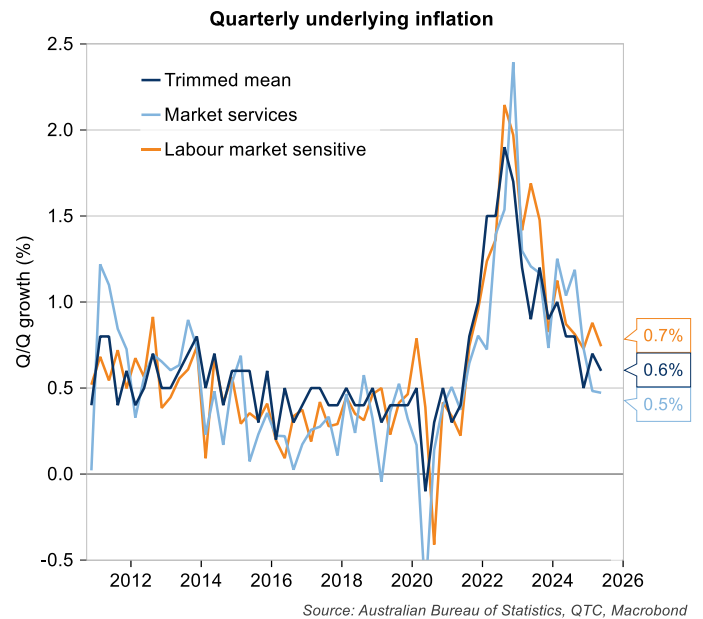


CHART 3: ...ALSO EASED IN Q2...

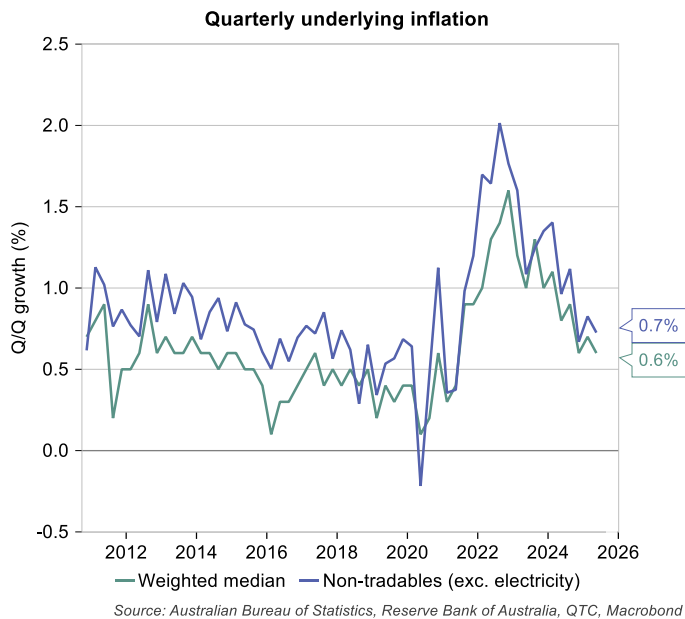
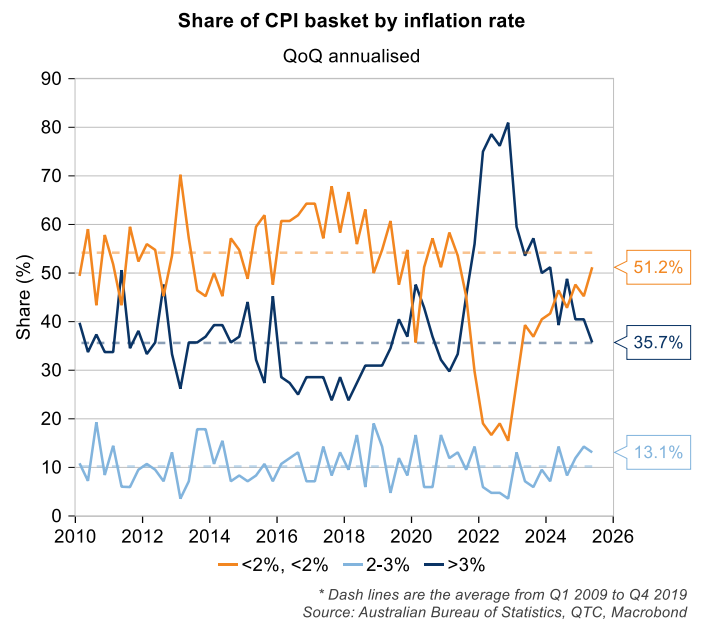


CHART 4: ...WITH A BROAD-BASED SOFTENING EVIDENT ACROSS THE CPI BASKET



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 | -5 | 12 | -46 |
| | NSWTC | 3.61 | -6 | 11 | -45 |
| | TCV | 3.63 | -5 | 12 | -48 |
| | WATC | 3.56 | -5 | 13 | -48 |
| | Australian Government | 3.61 | -5 | 12 | -48 |
| | US Government | 3.72 | -5 | 13 | -40 |
| 5 Year | QTC | 3.39 | -6 | 14 | -36 |
| | NSWTC | 3.90 | 4 | 16 | -6 |
| | TCV | 3.95 | -7 | 8 | -28 |
| | WATC | 3.94 | -8 | 8 | -28 |
| | Australian Government | 4.00 | -7 | 10 | -27 |
| | US Government | 3.87 | -7 | 9 | -31 |
| 7 Year | QTC | 3.93 | -7 | 9 | -32 |
| | NSWTC | 4.12 | -7 | 9 | -16 |
| | TCV | 3.60 | -7 | 13 | -19 |
| | WATC | 3.97 | 1 | 14 | 14 |
| | Australian Government | 4.37 | -9 | 4 | -11 |
| | US Government | 4.34 | -9 | 5 | -16 |
| 10 Year | QTC | 4.39 | -9 | 7 | -17 |
| | NSWTC | 4.26 | -9 | 6 | -16 |
| | TCV | 4.32 | -10 | 4 | -20 |
| | WATC | 4.54 | -9 | 7 | 2 |
| | Australian Government | 3.90 | -9 | 11 | -4 |
| | US Government | 4.16 | -1 | 14 | 28 |

| EQUITIES | RATE | CHANGE (PER CENT) | | |
|------------------|--------|-------------------|---------|--------|
| | | 1 WEEK | 1 MONTH | 1 YEAR |
| AUD/USD | 0.64 | -2.50 | -2.06 | -1.23 |
| AUD/EUR | 0.56 | 0.41 | 0.86 | -6.73 |
| AUD/GBP | 0.49 | -0.37 | 1.65 | -4.72 |
| AUD/JPY | 96.91 | 0.01 | 2.69 | -0.70 |
| AUD/CAD | 0.89 | -0.99 | -0.72 | -1.27 |
| AUD/NZD | 1.09 | -0.13 | 1.05 | -0.22 |
| AUD/SGD | 0.83 | -0.94 | -0.20 | -4.10 |
| AUD/HKD | 5.05 | -2.50 | -2.07 | -0.79 |
| AUD/KRW | 896.47 | -0.94 | 0.52 | 0.56 |
| AUD/CNY | 4.63 | -1.95 | -1.72 | -1.54 |
| AUD/INR | 56.49 | -1.21 | 0.31 | 3.39 |
| MAJOR CURRENCIES | | | | |
| EUR/USD | 1.15 | -2.46 | -2.47 | 6.38 |
| GBP/USD | 1.33 | -1.69 | -3.23 | 4.14 |
| USD/JPY | 148.93 | 1.38 | 3.64 | -0.65 |
| USD/CHF | 0.81 | 2.01 | 2.13 | -7.25 |
| USD/CNY | 7.20 | 0.57 | 0.41 | -0.69 |

| MAJOR COMMODITIES | PRICE (USD) | 1 WEEK | 1 MONTH | 1 YEAR |
|-------------------|-------------|--------|---------|--------|
| Brent Crude Oil | 72.53 | 4.84 | 8.08 | -8.79 |
| Gold | 3,295.11 | -2.14 | -1.40 | 34.79 |
| Copper | 9,611.00 | -2.69 | -3.25 | 6.17 |
| Iron Ore | 99.76 | -5.14 | 7.37 | 1.67 |

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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