

Weekly Economics and Markets Review

- The RBA cut rates by 25 basis points as expected at its August meeting. Forecasts were left largely unchanged, though it did mark down estimates for productivity and GDP growth slightly. Technical assumptions and the Governor's comments imply there could be two to three more rate cuts.

Week in review

Domestic

Related to the RBA's August meeting:

- In a unanimous decision, the RBA's Monetary Policy Board cut rates by 25 basis points to 3.60 per cent as widely expected. The Board noted that inflation continued to track back towards the middle of the target band and that labour market conditions, while remaining '*a little tight*', had eased slightly. This is a softening of previous commentary which alluded to labour market conditions being '*strong*'.
- Key forecasts were little changed, though the RBA did mark productivity and GDP growth lower. Also, as a reminder that further rate cuts remain on the table, the RBA's forecasts are conditioned on a technical assumption that the cash rate path is based on market pricing. This implies the rate troughs at 2.90 per cent, which in the Bank's view, represents a '*gradual easing path*' with an additional 30 basis points of easing now factored in relative to the previous forecasts in May. Interestingly, rates this low are needed for the Bank's forecasts of trimmed mean inflation to now reach the mid-point of the target band by the end of the forecast period.
- In the post-meeting press conference, RBA Governor Bullock noted that the Bank's forecasts assumed '*two slash three*' more rate cuts with '*a couple*' more needed to get inflation to target.

According to the *NAB Business Survey* for July, business conditions gave back some of the strong gains seen in June and in doing so, dipped back below long-run average levels. In contrast, business confidence rose for the fourth straight month to now be back above long-run average levels. There was a rebound in price and wage pressures on the month after a sustained period of easing.

The quarterly rate of wages growth was one-tenth slower than expected in Q2 at 0.8 per cent and annual growth was unchanged at 3.4 per cent. These exact outcomes for quarterly and annual rates were also seen in private-sector wages, while public-sector wages growth was stronger at 0.95 per cent in Q2. The ABS noted the firmness in public sector wages was due to regular scheduled pay increases as well backdated pay rises from recently approved enterprise bargaining agreements coming into effect.

Employment increased by 24,500 in July, right in line with expectations. The unemployment rate fell one-tenth from 4.3 per cent to 4.2 per cent. However, at 4.244 per cent, was close to staying unchanged. Indeed, out of the total labour force of 14.7 million people, if an additional 864 individuals had been classified as unemployed instead of employed, the jobless rate would have been steady 4.3 per cent.

The value of dwelling finance approvals (excluding refinancing) rose 2.0 per cent in Q2, as expected. There were solid increases in the value of lending to owner-occupiers (+2.4 per cent) and investors (+1.4 per cent).

Markets

Australian Government bond yields fell following wage and labour market data that didn't rule out the chances for the slightly steeper path of rate cuts outlined in the RBA's forecast update and consistent with market pricing to be achieved. US Treasury yields increased on a stronger than expected rise in producer prices.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: Westpac-MI Consumer Sentiment (Aug)
Offshore	US: Retail sales, industrial production (both Jul), University of Michigan Consumer Sentiment (Aug), housing data (Jul), FOMC Minutes (Jul) Other: UK, CA & JP CPI (all Jul), JP GDP (Q2), CN monthly economic activity data (Jul), S&P Global PMIs (Aug), RBNZ (Aug)

Offshore

In news regarding US trade policy:

- As had been widely expected, President Trump extended the deadline for trade negotiations with China for another 90 days. Ongoing areas of focus in negotiations reportedly include tariffs imposed on China for enabling fentanyl trafficking as well as Chinese purchases of oil affected by sanctions on Russia and Iran among other issuers.
- The Whitehouse has agreed to ease restrictions on sales of certain chips by select companies including Nvidia, the world's largest company by market capitalisation. In return, Nvidia will pay the US Government 15 per cent of the value of sales of certain chips to China. It was reported that this type of arrangement has never before been put in place by the US Government and there are doubts whether it, essentially an export tax, is legal under the Constitution.

In other news related to President Trump, he:

- Threatened to sue Federal Reserve Chair Powell for the over-run in costs related to the renovation of the Fed's building.
- Indicated that there are '*three to four*' candidates to be the next Federal Reserve Chair. This is consistent with the President's previous commentary, though is at odds with reports this week that up to 11 names were being considered for the position.
- Nominated E.J. Antoni, the Chief Economist of the Heritage Foundation, to be the next Commissioner of the Bureau of Labor Statistics. The President sacked the previous BLS head following large negative revisions to prior month employment outcomes in the July labour report. Antoni has previously written many enthusiastic blogs about the President and joined in his criticism of Fed Chair Powell. Following the nomination Antoni suggested the monthly labour market report be suspended until issues with the data can be worked out and replaced with a quarterly version. The Whitehouse later indicated that the monthly report would continue to be published.

In the US, July core CPI (0.2 per cent) was in line with expectations. That there were no signs of an acceleration in core goods inflation following the increase in tariffs was a relief to markets. However, there was ongoing firmness in core services prices (excluding shelter). Meanwhile, core PPI was firmer in July which, along with solid readings on prices paid from the ISM Surveys point to the possibility that higher prices from tariffs may still yet emerge.

In China, the annual rate of consumer price inflation in July eased one-tenth to 0 per cent while producer price inflation was steady at -3.6 per cent. Annual growth in consumer prices has been negative in five of the last six months while that for producer prices has been negative for the last 34 months.

Economic and Financial Market Charts

CHART 1: THE RBA REVISED DOWN ITS CASH RATE PROFILE IN AUGUST IN LINE WITH SHIFTS IN MARKET PRICING SINCE MAY...

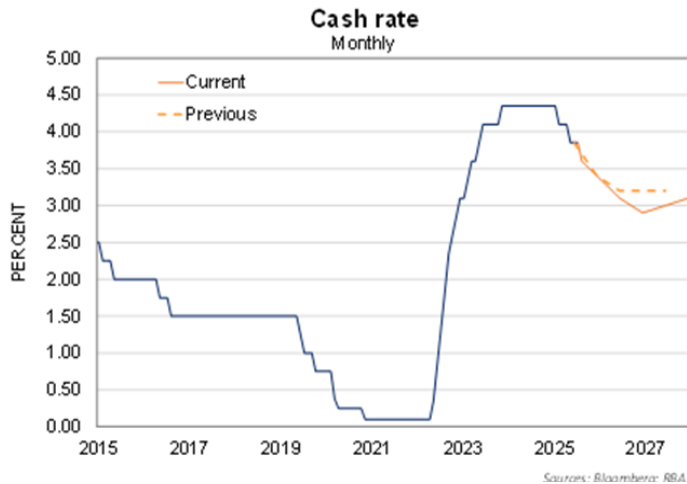


CHART 2: ...WITH THE CHANGE IN THIS TECHNICAL ASSUMPTION ENOUGH TO SEE INFLATION HIT THE MID-POINT OF ITS TARGET BAND

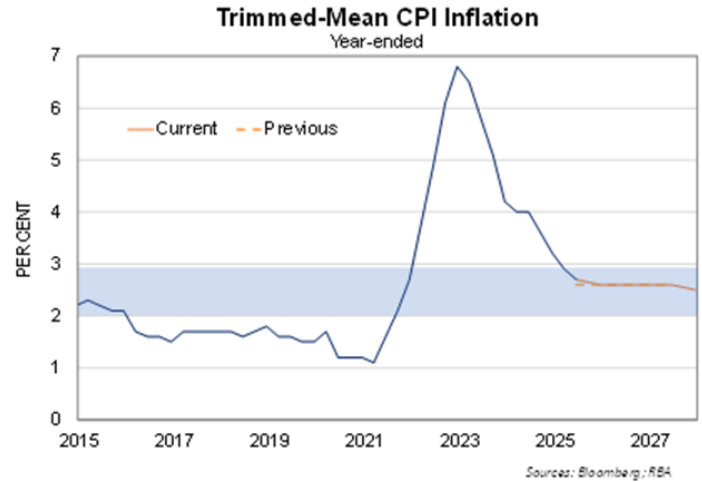


CHART 3: BUSINESS CONDITIONS FELL BELOW AVERAGE IN JULY WHILE CONFIDENCE WAS ABOVE FOR THE SECOND STRAIGHT MONTH

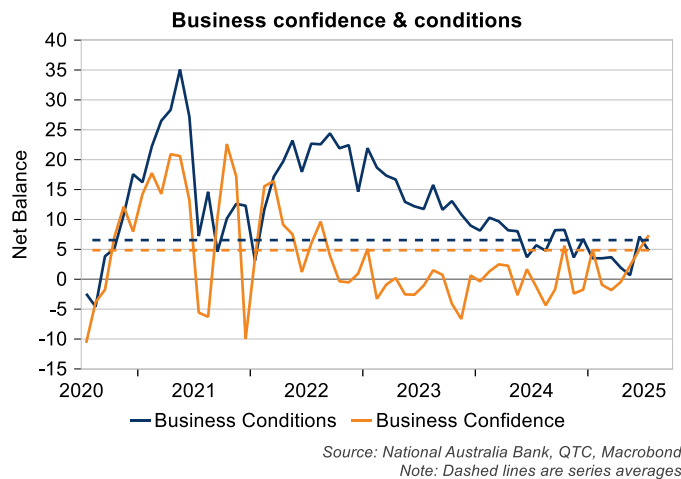


CHART 4: MEASURES OF PRICE AND WAGES FOR BUSINESSES ROSE IN JULY AFTER A SUSTAINED PERIOD OF MODERATION

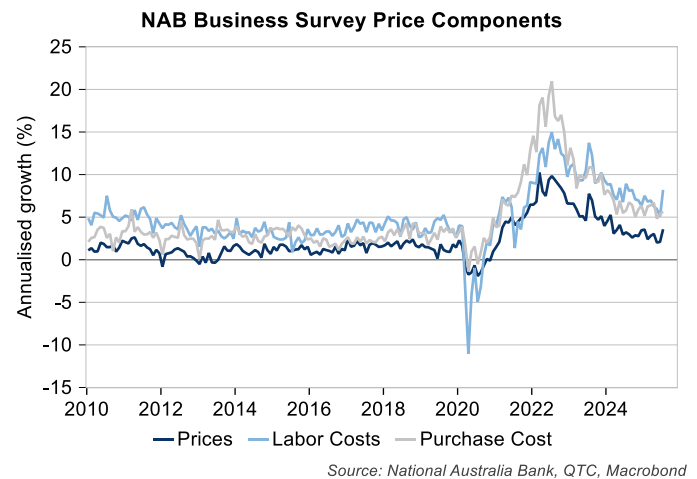


CHART 5: THAT CORE GOODS INFLATION DIDN'T ACCELERATE FURTHER ON THE BACK OF HIGHER TARIFFS IS PROVIDING SOME COMFORT FOR THE NEAR-TERM OUTLOOK FOR INFLATION IN THE US

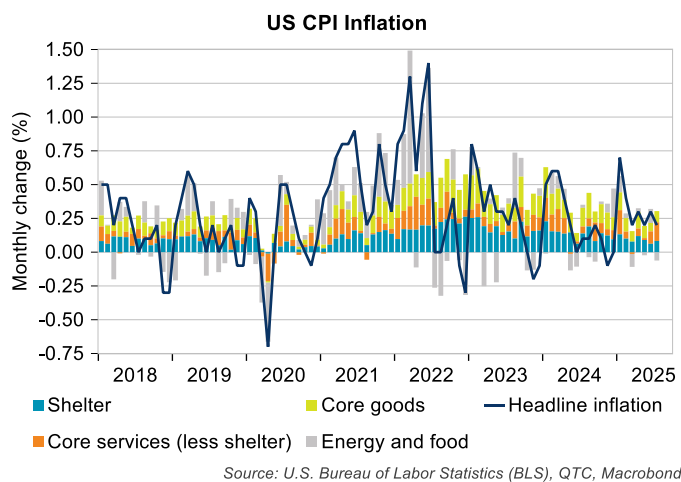
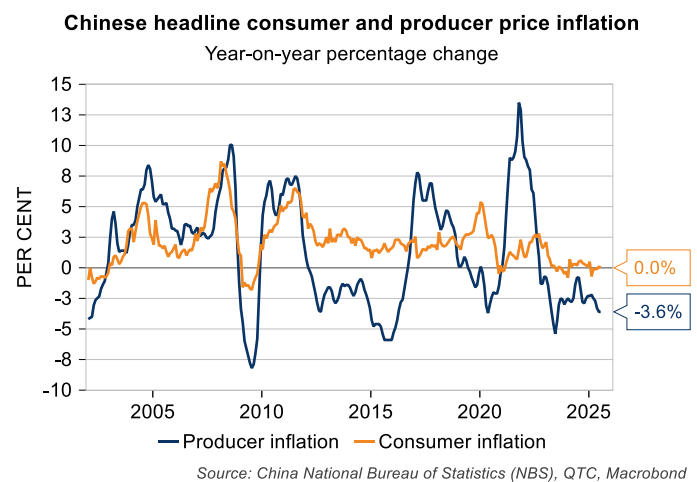


CHART 6: ANNUAL GROWTH IN CONSUMER PRICES HAS BEEN NEGATIVE IN FIVE OF THE LAST SIX MONTHS WHILE THAT FOR PRODUCER PRICES HAS BEEN NEGATIVE FOR THE LAST 34 MONTHS



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	3.54	-5	-15	-31
	NSWTC	3.55	-5	-15	-30
	TCV	3.56	-5	-14	-35
	WATC	3.50	-4	-15	-32
	Australian Government	3.54	-5	-15	-32
	US Government	3.65	-5	-14	-26
5 Year	QTC	3.32	-4	-14	-20
	NSWTC	3.70	1	-22	-20
	TCV	3.87	-5	-18	-17
	WATC	3.85	-6	-19	-18
	Australian Government	3.92	-5	-17	-17
	US Government	3.79	-5	-17	-19
7 Year	QTC	3.85	-5	-17	-20
	NSWTC	4.04	-5	-17	-6
	TCV	3.53	-4	-15	-6
	WATC	3.82	2	-23	3
	Australian Government	4.30	-6	-20	-3
	US Government	4.26	-6	-20	-6
10 Year	QTC	4.32	-5	-19	-7
	NSWTC	4.19	-5	-19	-4
	TCV	4.25	-6	-19	-6
	WATC	4.48	-5	-19	11
	Australian Government	3.84	-4	-16	8
	US Government	4.03	4	-22	20

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-0.20	-0.32	-2.05
AUD/EUR	0.56	-0.18	-0.66	-7.56
AUD/GBP	0.48	-0.89	-1.33	-6.91
AUD/JPY	95.92	0.13	-1.03	-2.83
AUD/CAD	0.90	0.26	0.32	-1.31
AUD/NZD	1.10	0.33	0.16	-0.61
AUD/SGD	0.83	-0.18	-0.38	-4.75
AUD/HKD	5.08	-0.41	-0.54	-1.59
AUD/KRW	901.98	0.11	-0.13	-0.31
AUD/CNY	4.66	-0.05	-0.36	-1.73
AUD/INR	57.16	-0.11	1.45	2.62
MAJOR CURRENCIES				
EUR/USD	1.16	-0.03	0.34	5.98
GBP/USD	1.35	0.70	1.02	5.23
USD/JPY	147.85	0.33	-0.71	-0.80
USD/CHF	0.81	0.20	0.86	-7.27
USD/CNY	7.18	0.00	-0.02	0.11

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	66.89	0.69	-2.65	-17.46
Gold	3,334.46	-1.60	0.15	35.78
Copper	9,803.00	1.22	1.63	7.15
Iron Ore	102.09	-0.16	2.84	11.95

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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