

Weekly Economics and Markets Review

- Market moves were fairly limited this week in the absence of any material catalysts for shifts in pricing. There was plenty of incoming news and data however.
- On the news front, momentum appears to be building in talks around the Russia-Ukraine conflict. Meanwhile, in central bank news, the Reserve Bank of New Zealand cut rates at its meeting this week while information was forthcoming on why the US Federal Reserve elected not to do likewise its July meeting.
- On the data front, US economic data was mixed while that released in China pointed to a further loss of momentum in that economy.

Week in review

Domestic

- According to the *Westpac-Melbourne Institute Consumer Sentiment Survey*, consumer confidence rose 5.7 per cent in August to the highest level since February 2022. This follows the August rate cut and the prospect of further easing by the RBA. Perceptions of economic conditions, family finances and if it is a good time to buy a major household good all rose while unemployment expectations fell. Property sector sentiment continued to improve.

Offshore

▪ In central bank news:

- The minutes to the July meeting of the policymaking committee of the US Federal Reserve (the FOMC), at which the Fed Funds Rate was kept unchanged, revealed that most participants considered that upside risks to inflation were larger than the downside risks to employment. However, it is important to note that the meeting took place prior to the July employment report pointed to weaker-than-expected non-farm payroll growth as well as large negative revisions to outcomes for May and June.
- On inflation, FOMC participants continue to expect inflation to increase but remain uncertain about the *'timing, magnitude, and persistence'* of the impacts on this from tariffs. Factors cited as being behind the delayed flow-through of tariffs into prices include frontloading, a gradual updating of prices and uncertainty over final outcomes for tariffs given ongoing trade negotiations. There were mixed views as to the degree to which exporters, retailers and consumers are or would feel the brunt of the tariff changes. There was also a variety of views as to how much patience the Committee should show in waiting to see how prices adjust. Some participants want to wait to see upcoming inflation reports while others thought that it would *'not be feasible or appropriate to wait for complete clarity'* on how tariffs were impacting inflation before changing policy settings.
- On the labour market, FOMC participants noted that the economy was *'at or near estimates of maximum employment'* with the unemployment rate staying low as weaker demand was being offset by the impact of measures to reduce immigration with this lowering labour supply.
- President Trump said that Federal Reserve Governor Lisa Cook must resign, or she may be fired due to allegations of mortgage fraud. Cook was appointed by former President Biden.
- The Reserve Bank of New Zealand cut the Official Cash Rate (OCR) by 25 basis points to three per cent as expected. The decision came with a 4-2 vote in favour of the move with the two members voting against pushing for a 50 basis point cut. The Bank's projections for the OCR were revised down between 20 and 30 basis points over the forecast horizon.

▪ In terms of US economic data:

- Industrial production edged down 0.1 per cent in July. Key items in this report had mixed implications the Q3 GDP with that feeding through to investment rising, but that flowing through to consumption falling.
- Core retail sales rose 0.5 per cent in July. This was a slightly above expectations outcome and notable given the level of core retail sales for June was revised up 0.4 per cent.
- The University of Michigan's consumer sentiment index dipped 3.1 points to 58.6 in August. Deteriorating perceptions of current economic conditions led the move with forward-looking expectations component little changed. Measures of near and medium-term inflation expectations both rose.

▪ In China, economic activity data for July suggested that annual growth in:

- Industrial production slowed to 5.7 per cent from 6.8 per cent. This was below consensus expectations (6.0 per cent) with weakness evident in the manufacturing and mining sectors, but some firmness in utilities where output growth accelerated.
- Retail sales slowed to 3.7 per cent. This was below expectations of 4.6 per cent. Payback from trade-in schemes continues to affect sales of autos, home appliances, office appliances and furniture. Meanwhile, catering services are being weighed on by the new austerity rule that prohibits alcohol and liquor at official meals and discourages government officials from dining out.
- Fixed asset investment fell sharply to -5.2 per cent in July from 0.5 per cent. This was below expectations (2.1 per cent) and the first negative outcome since November 2021. Weakness was evident across manufacturing, infrastructure and property.
- The volume of new home sales (-8.0 per cent from -5.4 per cent), new home starts (-15.4 per cent from -9.5 per cent) and new home completions (-29.2 per cent from -1.9 per cent) all dropped sharply.

- US President Trump met with Russian President Putin and then with leaders from Europe, including Ukrainian President Zelenskyy. The initial bilateral meeting failed to produce a ceasefire. In the follow-up meeting European leaders continued calls for a ceasefire, though President Trump played down the prospects of this. The US did however offer to help European countries provide security guarantees for Ukraine. The prospect remains of further talks, including between the Russian and Ukrainian leaders.

Markets

Australian Government bond yields drifted higher this week amidst a quiet week overall in markets in the absence of many material catalysts for shifts in pricing.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: RBA Minutes (aug) Wednesday: CPI (Jul), construction work (Q2)
Offshore	US: New home sales (Jul), house prices (Jun), durable goods (Jul), Conference Board consumer confidence (Aug), core PCE inflation (Jul) Other: CPI (JP, Jul)

Economic and Financial Market Charts

CHART 1: CONSUMER CONFIDENCE IN AUSTRALIA IS REBOUNDING, ESPECIALLY THE WESTPAC-MELBOURNE INSTITUTE MEASURE...

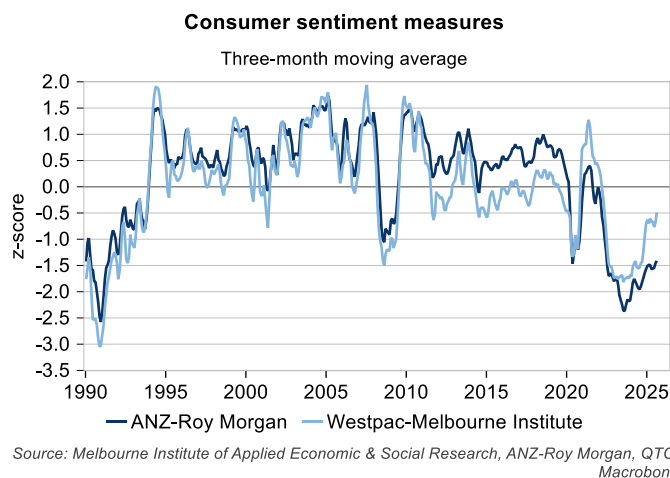


CHART 2: ...WITH IT NOW TRACKING ABOVE THE MEDIAN PATH TYPICALLY SEEN FOLLOWING THE START OF AN RBA EASING CYCLE

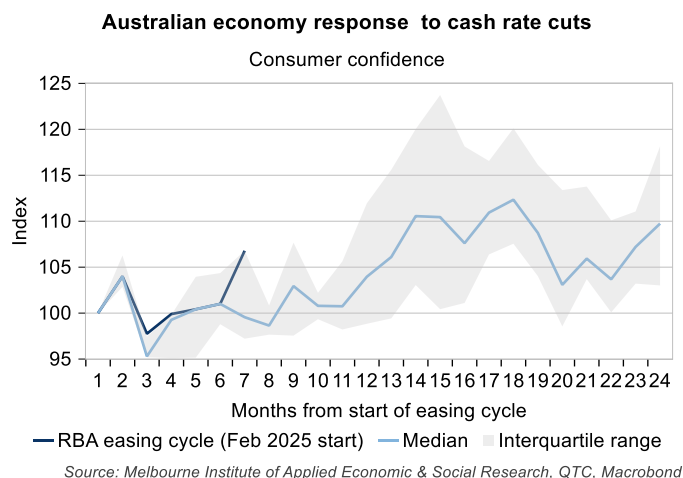


CHART 3: US CONSUMER CONFIDENCE FELL IN AUGUST, LARGELY DUE TO WORSENING PERCEPTIONS OF CURRENT CONDITIONS

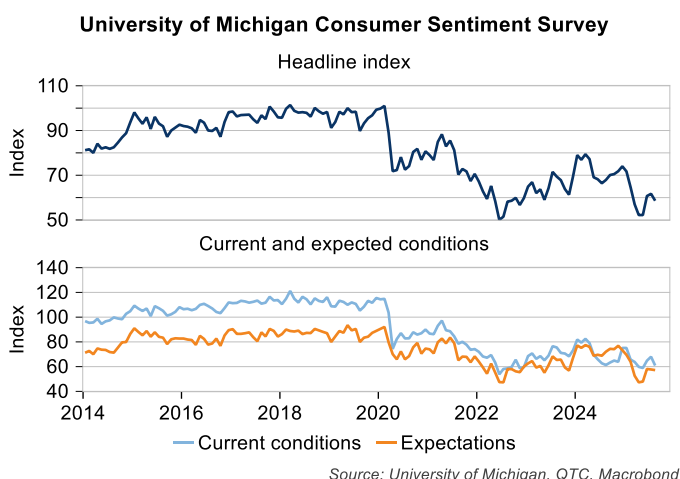


CHART 4: CORE RETAIL SALES IN THE US HAVE BEEN SOLID OVER THE PAST TWO MONTHS

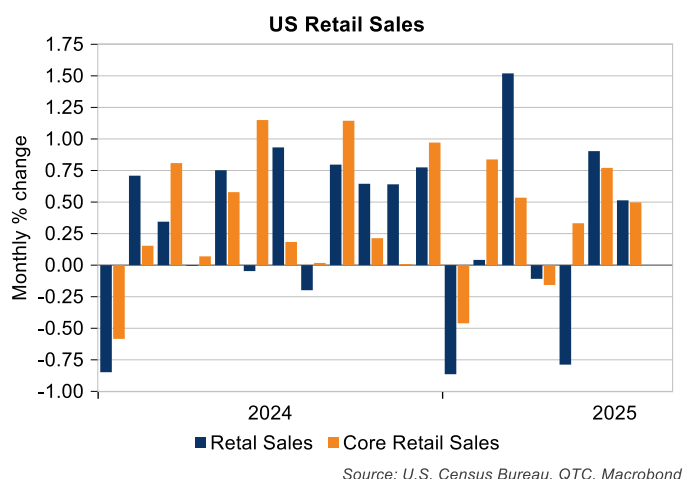


CHART 5: INDUSTRIAL PRODUCTION, FIXED INVESTMENT, PROPERTY, RETAIL SPENDING AND CREDIT DATA HAVE ALL WEAKENED RECENTLY IN CHINA

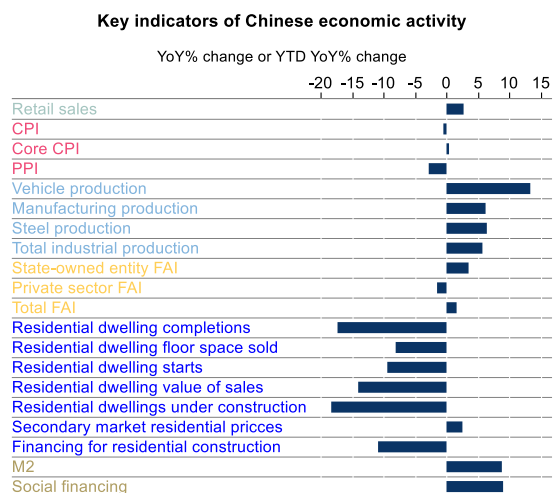
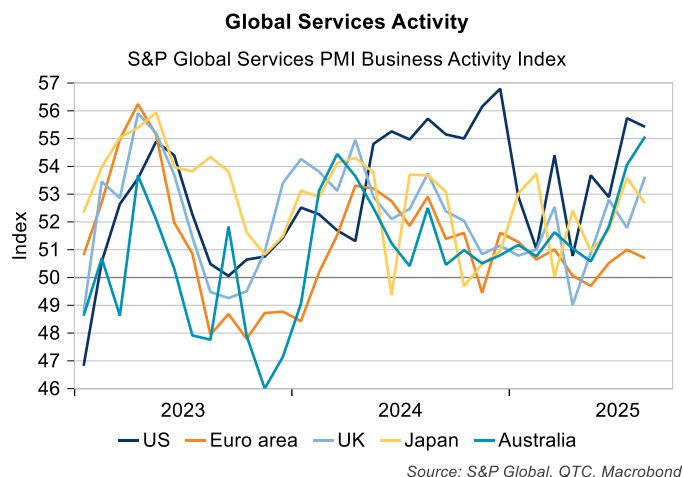


CHART 6: CONDITIONS IN THE GLOBAL ECONOMY APPEAR TO BE STABILISING WITH IMPROVEMENTS IN BOTH THE MANUFACTURING AND SERVICES SECTORS, BUT PARTICULARLY SERVICES



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	3.60	6	2	-23
	NSWTC	3.59	5	-0	-25
	TCV	3.61	5	-1	-28
	WATC	3.56	5	2	-26
	Australian Government	3.60	5	1	-24
	US Government	3.70	6	1	-20
5 Year	QTC	3.37	5	-0	-16
	NSWTC	3.74	5	-3	-6
	TCV	3.95	8	-1	-8
	WATC	3.94	8	-2	-8
	Australian Government	4.00	8	-1	-7
	US Government	3.87	8	-1	-11
7 Year	QTC	3.92	7	-1	-10
	NSWTC	4.11	7	-1	4
	TCV	3.58	6	-2	1
	WATC	3.86	4	-3	14
	Australian Government	4.39	9	-4	9
	US Government	4.36	10	-3	6
10 Year	QTC	4.41	9	-3	6
	NSWTC	4.29	9	-3	8
	TCV	4.35	9	-3	6
	WATC	4.56	8	-3	23
	Australian Government	3.90	7	-3	17
	US Government	4.06	4	-3	30

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.64	-1.02	-2.00	-4.24
AUD/EUR	0.55	-0.84	-0.79	-8.38
AUD/GBP	0.48	-0.25	-1.18	-6.61
AUD/JPY	95.23	-0.72	-0.75	-2.96
AUD/CAD	0.89	-0.42	0.03	-2.17
AUD/NZD	1.10	0.62	1.11	1.04
AUD/SGD	0.83	-0.72	-1.17	-5.84
AUD/HKD	5.02	-1.25	-2.44	-4.03
AUD/KRW	898.67	-0.37	-0.67	-0.23
AUD/CNY	4.61	-1.08	-1.76	-3.73
AUD/INR	56.07	-1.92	-0.42	-0.92
MAJOR CURRENCIES				
EUR/USD	1.17	0.22	-0.81	4.95
GBP/USD	1.35	-0.46	-0.51	2.87
USD/JPY	147.12	-0.49	0.47	0.54
USD/CHF	0.80	-0.59	1.49	-5.64
USD/CNY	7.18	-0.07	0.11	0.45

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	67.58	1.11	-1.47	-12.48
Gold	3,339.82	0.16	-2.69	34.43
Copper	9,720.50	-0.47	-2.01	6.46
Iron Ore	101.17	-0.90	-4.05	6.88

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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