

# Weekly Economics and Markets Review

- In a key address, Fed Chair Powell indicated that a shifting balance of risks may warrant an interest rate cut by the FOMC at its September meeting.
- The Administration was pleased with Powell's message about the possibility of lower rates and may have the opportunity to push further towards this end with the appointments it makes to the Federal Reserve's Board of Governors. Talk continues to emerge that Stephen Miran, someone who is supportive of the President's policies, could fill a Governor role on a permanent basis. Meanwhile, the President may be able to get another person sympathetic to his calls for lower rates to replace Lisa Cook who was fired this week for alleged mortgage fraud. Cook has launched a legal challenge to the firing. Markets were unperturbed by the sacking.

## Week in review

### Domestic

- The Minutes from the RBA's August meeting indicated there was a '*strong case*' for a 25 basis point rate cut, noting that staff forecasts aligned with achieving the Board's inflation and full employment goals over the medium term – provided the cash rate was reduced at this meeting and '*somewhat further thereafter*'. This was clarified as additional easing over the coming year, with the pace of cuts to be guided by incoming data on a meeting-by-meeting basis. The current policy stance was described as still '*somewhat restrictive*'.
- Annual growth in the headline CPI accelerated to 2.8 per cent in July from 1.9 per cent in June. This was above the 2.3 per cent expected and was driven by a bounce in electricity (+13.0 per cent) as well as in holiday travel & accommodation (+4.7 per cent) prices. The former was impacted by the seasonal increase in prices at the start of the new financial year as well as a delay to the payment of subsidies in some jurisdictions while the latter was on account of later school holidays as well as the impact of the British & Irish Lions rugby tour. Interestingly, price pressures were still firm even after stripping out these volatile factors with annual growth in trimmed mean inflation jumping to 2.7 per cent from 2.1 per cent and with a measure excluding volatile items, holiday and travel accommodation and electricity also ticking up on the month.
- The partial indicators feeding into next week's GDP report included:
  - Construction work rose 3.0 per cent in Q2 on the back of a rise in non-residential construction (+4.4 per cent) with residential construction little changed (+0.1 per cent). The lift in non-residential work was driven by a 13.5 per cent rise in engineering construction.
  - Private capital expenditure ('capex') edged 0.2 per cent higher with similar sized gains across the buildings and structures as well as equipment categories. By industry, a rise in non-mining capex (including data centres) more than offset a decline in mining.

### Offshore

- Highlights of US economic data released this week included growth being marked higher (3.0 to 3.3 per cent on a quarterly annualised basis) in the second reading of Q2 GDP with upgrades to household consumption and business investment; core capital goods orders and shipments both increasing more than expected in July; and consumer confidence falling slightly in August according to the Conference Board with negative indications on key series related to perceptions of labour market conditions and future inflation.

#### ▪ In central bank news:

- In his Jackson Hole address, Fed Chair Powell signalled the possibility of a rate cut in September, citing a shifting balance of risks that may justify policy adjustments. He noted that while the labour market remains broadly balanced, downside risks to employment are increasing. On inflation, Powell suggested that tariffs would likely cause a one-time rise in the price level. Although he acknowledged some risk that tariffs could trigger more persistent inflationary pressures, he emphasized that inflation expectations remain well anchored. Powell also indicated that sustained inflation driven by adverse wage-price dynamics appears unlikely, given that the labour market is '*not particularly tight*'. NEC Director Hasset, an advocate for lower rates and a candidate to replace Powell, called the speech '*sound*'.
- NY Fed President Williams says the economy is slowing, that he's assessing the balance of risks between employment and that rates will at some point likely need to be lowered. Williams considers every meeting to be '*live*'.
- President Trump sacked Federal Reserve Governor Cook from the Board of Governors '*for cause*' due to alleged mortgage fraud. Cook has launched a legal challenge to the decision claiming it was the result of a '*clerical error*'. Cook also claims that the President does not have the authority to remove her from office. To this end, there was a recent ruling by the Supreme Court which appeared to treat the Fed as a special case in terms of the Executive's ability to remove leaders of independent agencies. If this legal interpretation holds up then it would likely apply to its Governors and other FOMC members. Further, the alleged misconduct occurred before Cook assumed her role as Governor and '*for cause*' provisions are generally thought to only apply to actions taken while in office. Though, there is limited precedent for this to have been established.
- If Cook is unsuccessful, this would create a second vacancy on the Board within a month. This would allow the President the opportunity to shape the composition of the Board of Governors with members who may be more sympathetic to his views that interest rates should be lower. This could include Stephen Miran, nominated to replace former Fed Governor Kugler after she resigned ahead of the expiration of her term in January 2026, being considered to take on a Fed Governor position beyond this point in time. Miran has not yet been confirmed by the Senate to replace Kugler but this is expected to occur when the Senate resumes sitting in September and right in time for the 17 September FOMC meeting.

## Markets

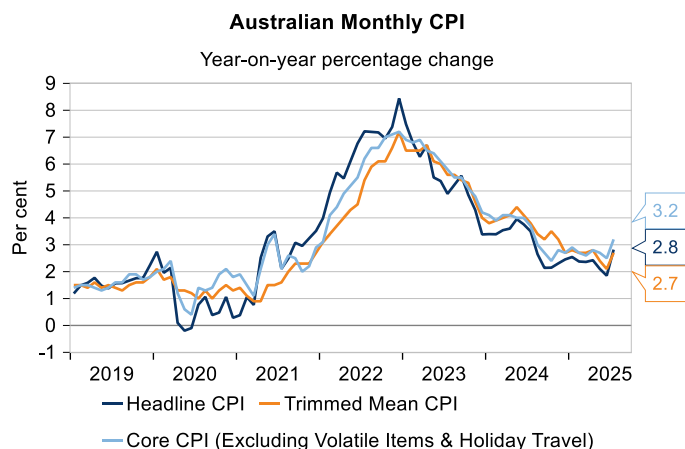
Australian Government bond yields dipped following comments by Fed Chair Powell that shifting balance of risks may warrant an interest rate cut by the FOMC at its September meeting. Yields edged higher following a stronger than expected result for the CPI in July with the Australian Dollar rising off the back of this also.

### Economic and Market Calendar

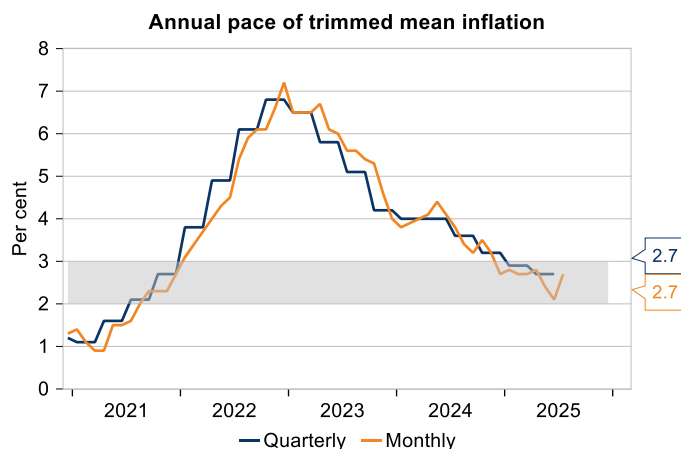
DATE	DETAILS
Domestic	<b>Monday:</b> Building approvals (Jul), business indicators (Q2) <b>Tuesday:</b> Balance of payments (Q2), government finance (Q2) <b>Wednesday:</b> GDP (Q2) <b>Thursday:</b> International goods trade (Jul)
Offshore	<b>US:</b> Core PCE inflation (Jul), ISM Manufacturing & Services (Aug); JOLTS (Jul), non-farm payrolls (Aug) <b>Other:</b> CPI (EZ, Aug), NBS PMIs (CN, Aug), Labour force (CA, Aug)

## Economic and Financial Market Charts

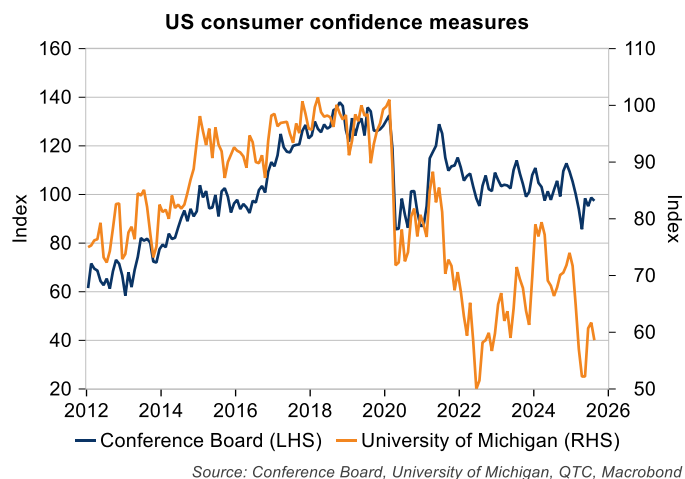
**CHART 1: EVEN AFTER STRIPPING OUT VOLATILE ITEMS, THERE WAS AN UP-TICK IN ANNUAL CONSUMER PRICE INFLATION IN JULY**



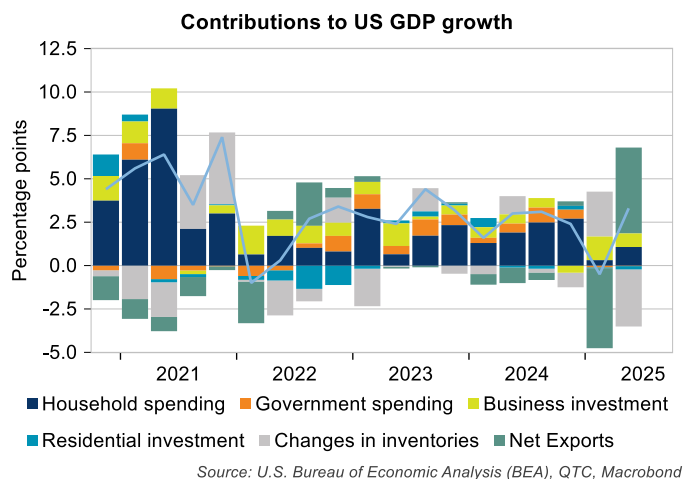
**CHART 2: TRIMMED MEAN INFLATION REBOUNDED IN JULY BACK TOWARD THE RATE FOR THE QUARTERLY MEASURE FOR Q2**



**CHART 3: US CONSUMER CONFIDENCE DIPPED IN AUGUST ACCORDING TO THE CONFERENCE BOARD WITH THIS MEASURE STRONGER IN RECENT TIMES THAN THAT FROM THE UNIVERSITY OF MICHIGAN**



**CHART 4: CHANGES IN NET EXPORTS AND INVENTORIES ARE VOLATILE INFLUENCES ON US GDP GROWTH AMIDST THE IMPACT OF TARIFFS. OTHER COMPONENTS OF GDP GROWTH ARE SOLID.**



## 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	-0	-6	-23
	NSWTC	3.59	-0	-8	-25
	TCV	3.61	1	-7	-27
	WATC	3.55	-0	-6	-25
	Australian Government	3.37	0	-8	-16
	US Government	3.59	-16	-23	-16
5 Year	QTC	3.95	-0	-6	-6
	NSWTC	3.94	0	-6	-7
	TCV	4.00	-1	-7	-7
	WATC	3.87	0	-6	-9
	Australian Government	3.58	-0	-9	-2
	US Government	3.69	-16	-21	2
7 Year	QTC	4.40	1	-5	11
	NSWTC	4.37	1	-4	7
	TCV	4.42	1	-4	6
	WATC	4.29	0	-5	8
	Australian Government	3.91	0	-7	15
	US Government	3.91	-16	-18	15
10 Year	QTC	4.96	1	-2	29
	NSWTC	4.89	2	-2	22
	TCV	4.97	1	-2	22
	WATC	4.77	7	1	25
	Australian Government	4.27	1	-4	34
	US Government	4.20	-12	-12	34

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	1.76	0.38	-3.94
AUD/EUR	0.56	1.08	-0.90	-8.96
AUD/GBP	0.48	0.98	-0.98	-6.36
AUD/JPY	95.96	0.77	-0.78	-2.73
AUD/CAD	0.90	0.65	0.14	-1.98
AUD/NZD	1.11	0.53	1.48	2.19
AUD/SGD	0.84	1.21	-0.11	-5.48
AUD/HKD	5.09	1.50	-0.33	-3.98
AUD/KRW	904.61	0.66	-0.02	-0.24
AUD/CNY	4.66	1.00	-0.36	-3.43
AUD/INR	57.15	1.93	1.06	-0.10
MAJOR CURRENCIES				
EUR/USD	1.16	0.23	0.83	5.02
GBP/USD	1.35	0.57	1.18	2.37
USD/JPY	147.36	-0.63	-0.81	1.63
USD/CHF	0.80	-0.77	-0.56	-5.30
USD/CNY	7.15	-0.40	-0.35	0.77

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	68.33	0.98	-5.76	-14.52
Gold	3,415.59	2.27	2.78	35.25
Copper	9,755.50	0.32	-0.43	5.53
Iron Ore	104.20	2.99	1.42	5.14

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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