

Weekly Economics and Markets Review

The US labour report for July, and developments thereafter, dominated investor attention over the past week. Despite an update to 'reciprocal' tariff rates being announced last week, US trade policy developments were again in the spotlight.

Australia's surplus from international trade in goods lifted in June, due to a spike in the volatile non-monetary gold category.

Week in review

Domestic

The value of household spending rose 0.5 per cent in June with gains in both discretionary and non-discretionary categories. The volume of spending (after adjusting for inflation impact on selling prices) lifted 0.7 per cent in Q2.

The international goods trade surplus increased by \$3.8 billion to \$5.4 billion in June on a rise in the value of exports (+6.0 per cent) and a fall in that for imports (-3.1 per cent). For exports there were strong gains in the volatile non-monetary gold category (+36.7 per cent on the month) with decent gains also evident for coal (+17.3 per cent) and metal ore (+2.3 per cent) exports. Exports of rural goods were flat. For imports, declines were evident across the consumption (-5.5 per cent), capital (-9.1 per cent) and intermediate (-0.3 per cent) goods categories. Movements in non-monetary gold imports were also volatile, rising 31.3 per cent after a large fall the prior month.

Offshore

In developments related to an eventful July **US labour report**:

- According to the *Establishment Survey*, non-farm payrolls rose 73,000 in July. While this was below expectations (104,000), it was downward revisions to the prior two months' outcomes which really caught markets' attention. Here, a combination of revisions to the original (non-seasonally adjusted) estimates as more data became available as well as to account for different seasonal patterns in hiring saw 258,000 jobs cut from estimates for the prior two months – with more due to the former than the latter. These changes saw the three-month average payrolls growth slumped to 35,000 from 150,000.
- As per the *Household Survey*, despite a one-tenth fall in the participation rate to 62.2 per cent, a 260,000 drop in employment saw the unemployment rate rise one-tenth to 4.2 per cent (though, 4.248 per cent, was close to being rounded up to 4.3 per cent. The underemployment rate rose to 7.9 per cent from 7.7 per cent.
- Following the release of the data, President Trump fired the BLS Commissioner as the data was 'rigged' to disadvantage him.
- Speeches from FOMC participants following the report noted that, though conditions appeared solid, they are softening.

Fed Governor Kugler resigned her position five months ahead of schedule.

Kugler, a distinguished economist who was appointed by Joe Biden was not expected to have her term extended by President Trump. The President suggested Kevin Warsh and Kevin Hassett were being considered to replace Fed Chair Powell along with two other candidates (thought to be Christopher Waller and Michelle Bowman). Trump ruled out Treasury Secretary Scott Bessent as a candidate.

In news related to **US trade policy**, President Trump:

- Is set to announce tariffs on semiconductor and pharmaceutical imports 'within the next week or so'.
- Announced a further 25 per cent tariff on exports from India to the US. This is due to the country's continued purchase of Russian oil. This is in addition to the 25 per cent 'reciprocal' tariff on India.

In **US economic data**:

- Services conditions increased at a slower pace in July and almost stalled according to the ISM. Weakness was seen in the business activity, new orders and employment components. The prices paid increased at the fastest pace since October 2022. Meanwhile, manufacturing conditions slowed at a faster rate in July. Improvements were seen in measures of production and new orders, though the opposite was true for employment.

In the **UK**, the Bank of England cut the Bank Rate by 25 basis points as expected, however was hawkish in doing so. Firstly, it wasn't a one-sided decision to cut with the vote being very close (5-4) in the end after it had to be re-done after the initial vote was tied 4-4 (25 bps cut vs hold) with one member voting for a 50 bp cut. In the post-meeting press conference, Governor Bailey did however reiterate that the trajectory for Bank Rate remains downwards.

In **China**, annual growth in exports increased to 7.2 per cent in July from 5.9 per cent in June. Import growth also improved noticeably, rising to 4.1 per cent from 1.1 per cent. Both were above expectations at 5.6 per cent and -1.0 per cent respectively.

Markets

Australian Government bond yields edged slightly lower this week, though much larger falls were seen in the US following weaker than expected readings on the labour market as well as manufacturing and service sector conditions.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: RBA (Aug), NAB Business Survey (Jul) Wednesday: Wage price index & lending finance (Q2) Thursday: Labour Force (Jul)
Offshore	US: CPI, PPI, retail sales & industrial production (all Jul) CN: Retail sales, credit, fixed asset investment, industrial production (Jul) Other: labour market (CA, Jul & UK, 3 months to Jun), GDP (UK & JP, Q2)

Economic and Financial Market Charts

CHART 1: THE PACE OF JOBS GROWTH HAS SLOWED SHARPLY SINCE THE START OF THE YEAR WITH THE THREE-MONTH AVERAGE GAIN IN NON-FARM PAYROLLS NOW THE LOWEST IN THE POST-COVID PERIOD

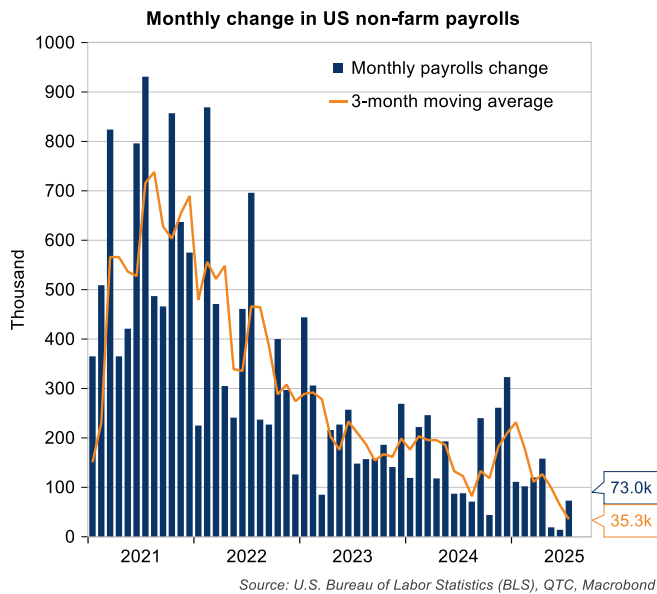


CHART 2: TWO-MONTH REVISIONS TO US NON-FARM PAYROLLS WERE ONE OF THE BIGGEST ON RECORD IN JULY (OUTSIDE RECESSIONS)

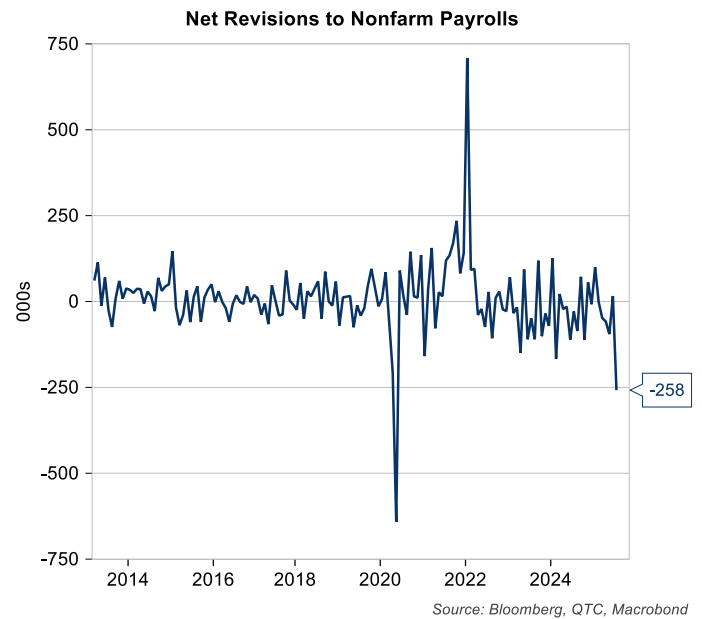


CHART 3: ANNUAL GROWTH IN HOUSEHOLD SPENDING, BOTH IN REAL AND NOMINAL TERMS, IS TRENDING HIGHER

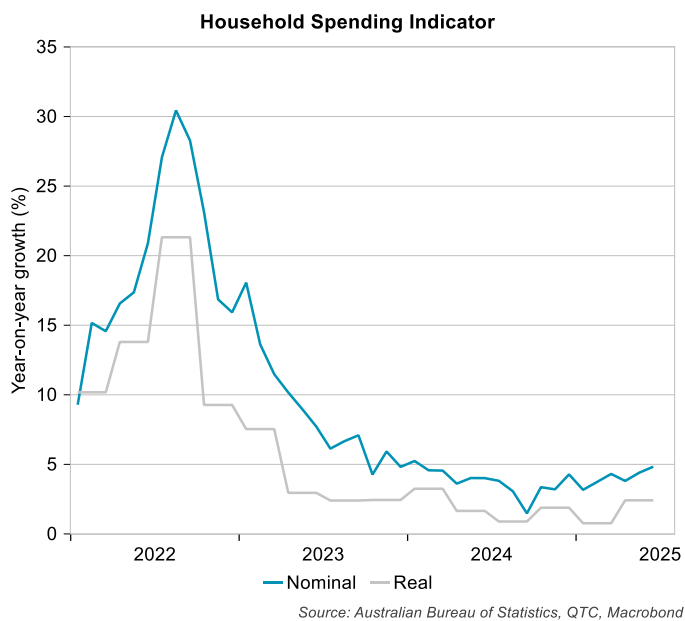
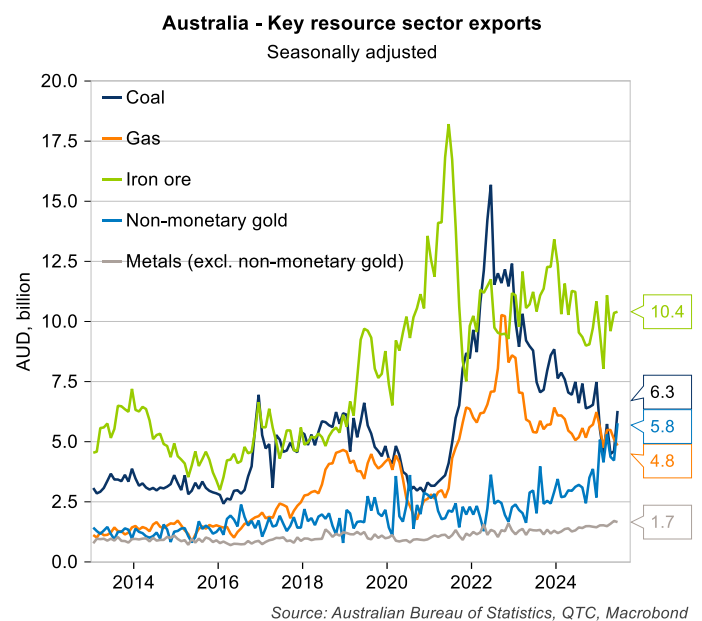


CHART 4: NON-MONETARY GOLD EXPORTS SHINED IN JUNE TO BECOME AUSTRALIA'S THIRD LARGEST GOODS EXPORT CATEGORY



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	3.59	-2	8	-42
	NSWTC	3.59	-2	8	-41
	TCV	3.61	-2	8	-44
	WATC	3.55	-2	9	-43
	Australian Government	3.59	-2	8	-43
	US Government	3.70	-2	10	-36
5 Year	QTC	3.36	-3	8	-31
	NSWTC	3.67	-23	-18	-20
	TCV	3.93	-2	4	-26
	WATC	3.92	-3	5	-27
	Australian Government	3.97	-3	6	-25
	US Government	3.84	-2	5	-30
7 Year	QTC	3.90	-3	5	-31
	NSWTC	4.09	-2	6	-15
	TCV	3.57	-3	7	-17
	WATC	3.78	-19	-19	-5
	Australian Government	4.36	-2	2	-10
	US Government	4.32	-2	3	-15
10 Year	QTC	4.37	-2	4	-17
	NSWTC	4.25	-2	3	-15
	TCV	4.31	-1	2	-18
	WATC	4.53	-2	3	2
	Australian Government	3.88	-2	6	-2
	US Government	3.98	-18	-19	10

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	1.07	-0.37	-1.17
AUD/EUR	0.56	-0.78	0.25	-7.35
AUD/GBP	0.48	-0.49	0.73	-6.23
AUD/JPY	95.80	-1.15	0.05	-1.09
AUD/CAD	0.89	0.37	0.13	-1.10
AUD/NZD	1.09	0.25	0.48	-0.28
AUD/SGD	0.84	0.04	-0.04	-4.26
AUD/HKD	5.10	1.08	-0.37	-0.47
AUD/KRW	900.98	0.50	0.65	-0.53
AUD/CNY	4.67	0.78	-0.45	-1.36
AUD/INR	57.22	1.29	2.12	4.06
MAJOR CURRENCIES				
EUR/USD	1.16	1.88	-0.61	6.68
GBP/USD	1.34	1.57	-1.10	5.40
USD/JPY	147.37	-2.20	0.42	0.08
USD/CHF	0.81	-0.64	1.29	-6.81
USD/CNY	7.18	-0.26	0.03	0.07

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	66.28	-8.62	-5.52	-16.27
Gold	3,388.85	2.84	2.68	40.14
Copper	9,676.00	0.68	-1.17	10.02
Iron Ore	102.25	2.50	6.82	6.96

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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