



WEEKLY UPDATE

8th AUGUST 2022

	Price	5 Day % Change	3 Month % Change	1yr % Change
S&P/ASX300	82,210	1.05%	-2.14%	-3.18%
MSCI World Ex-Aus. (Unhedged)	13,707	1.14%	2.83%	-4.15%
MSCI World Ex-Aus. (Hedged)	2,300	0.45%	0.41%	-7.80%
Bloomberg AusBond 0+ Composite	9,697	-0.27%	2.04%	-9.42%
BloombergBarclays Global Agg. (Hedged)	1,011	-0.57%	1.06%	-8.61%
S&P/ASX300 Property	60,357	-0.85%	-1.36%	-4.53%
FTSE EPRA Nareit Global Real Estate (Hedged)	2,833	-1.88%	-3.06%	-9.56%
S&P Global Infrastructure (Hedged)	6,066	-0.19%	-0.37%	11.52%
Bloomberg All Hedge Fund Index	1,936	N/A	2.10%	0.80%
VIX	21.2	-0.84%	-29.94%	30.96%
Bloomberg Commodity Index (USD)	117.85	-3.26%	-9.58%	24.47%
Iron Ore Index (62% Fe Aus. Off. China, USD)	111.00	-5.13%	-23.18%	-36.39%
LME Copper Spot (USD)	7,830.50	0.38%	-17.93%	-16.95%
Coal 1st Future (Newcastle Export, USD)	361.00	-11.50%	-3.57%	129.57%
Brent Crude 1st Future (USD)	94.92	-13.72%	-14.41%	33.15%
LNG 1st Future (Japan/Korea)	44.66	5.77%	84.97%	190.00%
Gold in AUD	2,569	1.62%	-2.67%	5.43%
AUDUSD	0.6911	-1.06%	-2.83%	-6.67%
AUDEUR	0.6789	-0.66%	0.60%	7.82%
AUDNZD	1.1089	-0.18%	0.23%	5.37%
AUDGBP	0.5726	-0.23%	-0.48%	7.16%
AUDJPY	93.3520	0.25%	0.82%	12.93%

Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 7th August 2022

Nancy Pelosi's visit to Taiwan prompted harsh criticism and a display of force from China, initially weighing on stock markets last week. Shares eventually advanced while bond markets fell after Friday's surprisingly strong labour report, which included higher wages and a drop in US unemployment to 3.5%.

The RBA raised interest rates by +0.50% for the third consecutive month. The accompanying higher inflation and lower growth forecasts were couched in uncertainty, particularly related to consumer spending. The Bank of England also raised the policy rate to a post-GFC high of 1.75%, while Fed speakers downplayed the prospect of an approaching peak in US dollar rates.

The highlight this week will be the American CPI figures on Wednesday night, with the market expecting a slightly softer print. The latest NAB business and Westpac consumer surveys will be published, and the Australian reporting season will continue.

Markets were beset with a degree of risk aversion last week as American Speaker of the House Nancy Pelosi visited Taiwan, stoking tensions between the US and China and prompting a mock military response.

By the end of the week, however, earnings had restored some optimism before a surprisingly strong US jobs report eased recession concerns and pushed bond yields sharply higher. Australian earnings season accelerated, with results broadly in line with estimates so far.

Commodities were mixed, with the oil price falling sharply to below \$95 per barrel, despite OPEC announcing only a small increase in production. Previously high commodity export prices helped Australia post a record-high trade surplus of \$17.67 billion in June.

The Labor government saw its climate bill accepted in the lower house and passed on to the Senate. The package set a target carbon emissions reduction of -43% on 2005 levels by 2030 and net-zero emissions by 2050. The Greens and several “teal” crossbenchers continue to push for more ambitious coal, oil, and gas targets.

The RBA raised interest rates by +0.50% for the third consecutive month on Tuesday. Updated forecasts in Friday’s quarterly Statement on Monetary Policy (see table below) showed higher inflation projections, in line with the Treasury’s near 8% peak at the end of 2022. GDP growth forecasts were revised down with a steeper drop in 2023 than previously expected. However, the RBA stressed the uncertainty surrounding current forecasts and the difficulties in predicting consumer behaviour in particular:

“The competing forces of a tight labour market [...] and cost-of living pressures on household incomes make the outlook for consumption unusually uncertain. Employment growth could be stronger than expected, and strong household balance sheet positions could support household consumption by more than anticipated. Alternatively, a decline in real incomes for the average household could weigh on spending more than expected, particularly if household wealth is also declining. Many households should be well placed to absorb higher prices and interest costs without significantly curtailing consumption. However, there are some households that will be more budget constrained in the period ahead, particularly those with low savings buffers and high debt.”

It was also clear that declining global growth is expected to weigh on Australian GDP:

“The synchronised nature of the tightening in monetary policy globally could prove quite contractionary, and is occurring at a time when fiscal policy is offering less support. As in Australia, it is also unclear how firms and households will respond to real incomes declining at the same time that labour markets in most advanced economies remain tight.”

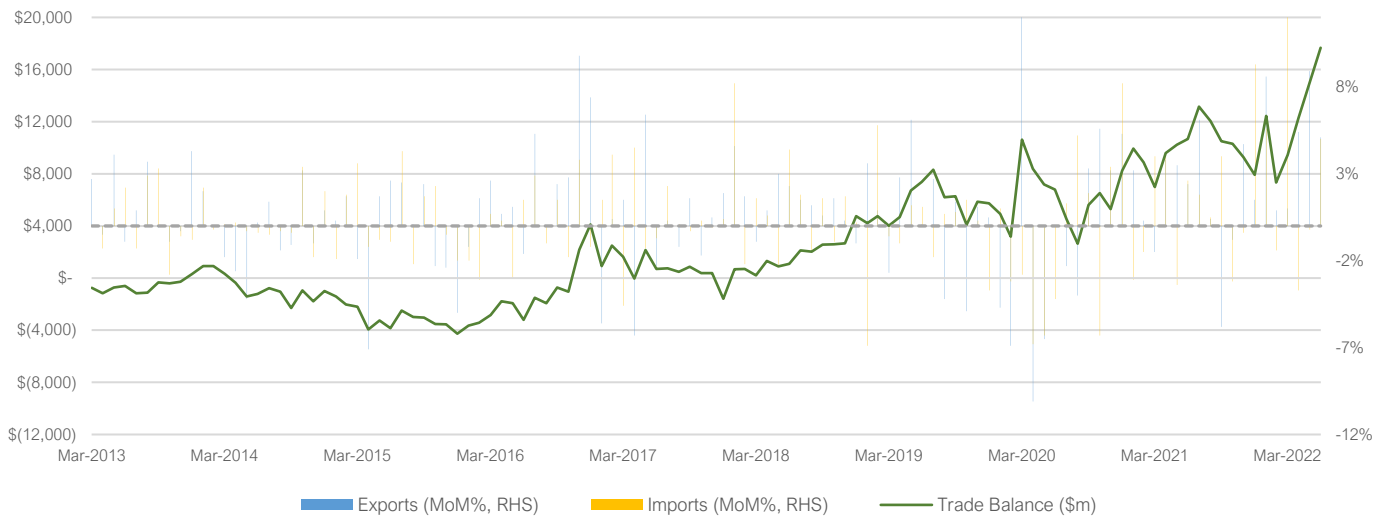
This was a sentiment echoed by the Bank of England, which raised interest rates to 1.75%, the highest level since December 2008, and warned of a prolonged recession ahead. Having reduced coupon and principal reinvestments earlier this year, the Bank also announced plans to sell roughly £10 billion of bonds per quarter over the twelve months from September, accelerating quantitative tightening.

FOMC members speaking last week were similarly hawkish and pushed back against suggestions that the Federal Reserve would soon begin cutting rates. Economic indicators such as new orders and prices paid in the ISM Manufacturing survey have indicated that the American economy is slowing relatively rapidly. The yield curve is also very inverted, with the 2yr-10yr spread now as low as -40bps. Going against the trend of recent data, July’s massive +528k new non-farm payroll additions represented a +278k surprise above the expected +250k on Friday. The figures suggest that a US recession may still be some way off. However, the surprise was more than fully accounted for by +287k in seasonal adjustments. July often has high seasonal adjustments of approximately +300k to offset temporary job losses related to summer school and university closures. This adjustment was restored to pre-pandemic levels in 2022, having been slightly negative in 2020 and 2021. As a result, the employment figures may be somewhat distorted and indicate a healthier labour market than is really the case. The unemployment rate dropped by -0.1% to 3.5%, but participation also fell by -0.1%.

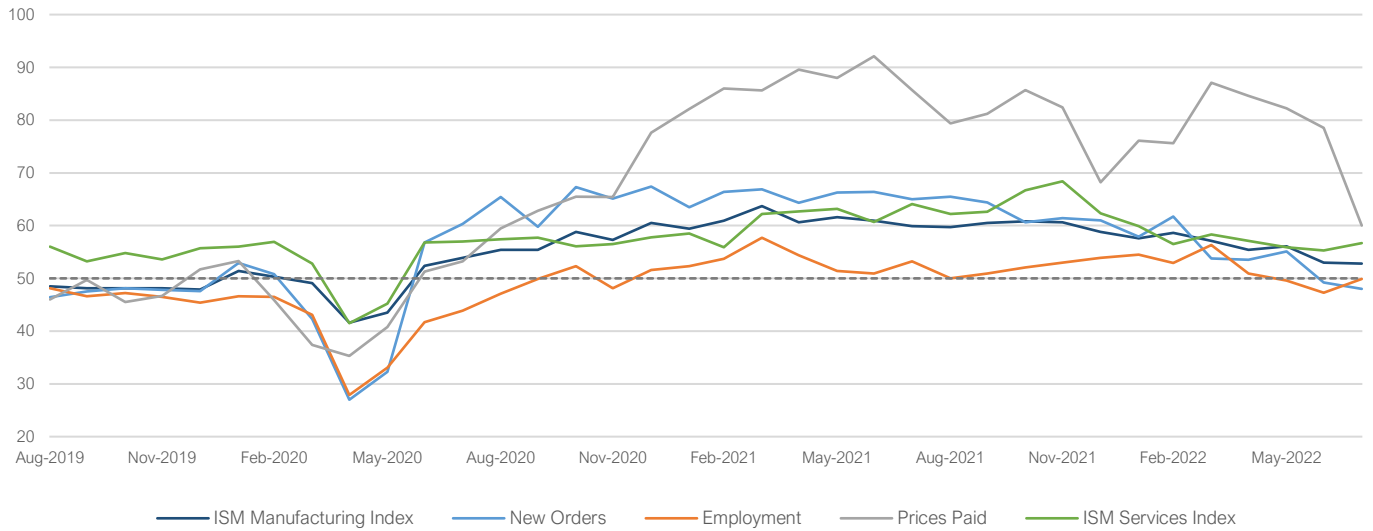
Nevertheless, there was also a significant upside surprise in average hourly earnings, which were +5.2% higher over the last year. Rising wages will likely keep the Federal Reserve in tightening mode, even if this Wednesday’s CPI number shows the expected dip from the recent high of +9.1% to +8.7% yoy. Figures have exceeded forecasts in five of the six monthly readings in 2022. So, a further upside surprise can’t be ruled out.

As well as America, China and several European nations will see updated CPI figures this week. Australian reporting season will continue, and the latest NAB business and Westpac consumer surveys will be published on Tuesday.

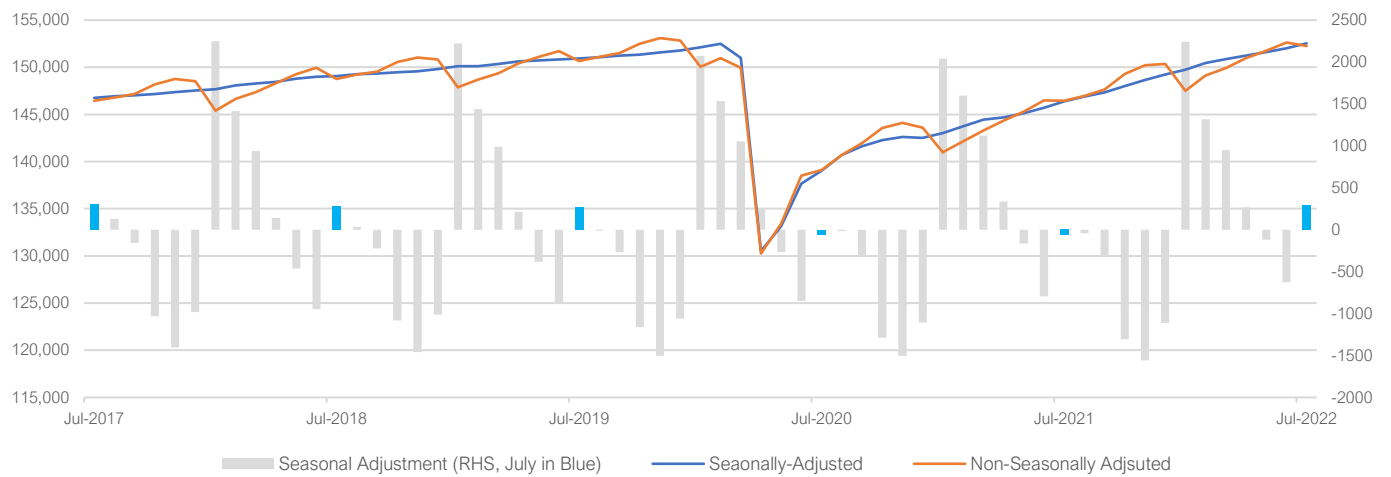
Australian Trade Balance



ISM PMI Indices & Manufacturing Sub-Series



US Total Non-Farm Payrolls (000s)



Source: Bloomberg, ABS, ISM, BLS, 7th August 2022

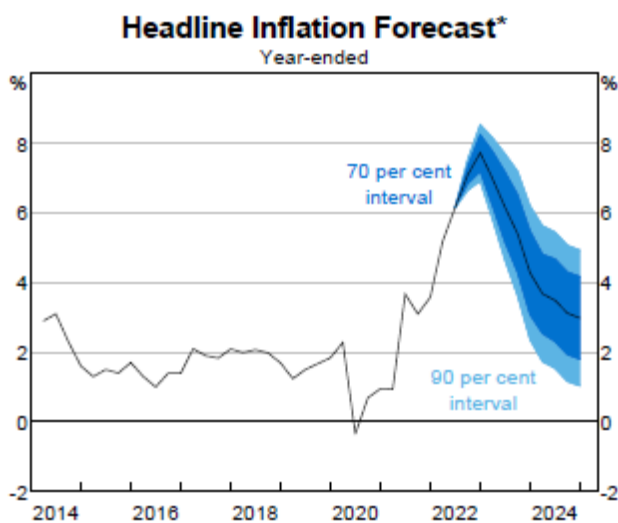
August 2022 RBA Forecasts

	Year-ended					
	Jun 2022	Dec 2022	Jun 2023	Dec 2023	Jun 2024	Dec 2024
GDP growth	3½	3¼	2¼	1¾	1¾	1¾
(previous)	(3½)	(4¼)	(3)	(2)	(2)	(n/a)
Unemployment rate ^(b)	3.8	3¼	3½	3½	3¾	4
(previous)		(3¾)	(3½)	(3½)	(3½)	(n/a)
CPI inflation	6.1	7¾	6¼	4¼	3½	3
(previous)		(6)	(4¼)	(3¼)	(3)	(n/a)
Trimmed mean inflation	4.9	6	5	3¾	3¼	3
(previous)		(4¾)	(3½)	(3¼)	(3)	(n/a)
Year-average						
	2021/22	2022	2022/23	2023	2023/24	2024
GDP growth	3¾	4	3½	2¼	1¾	1¾
(previous)	(3¾)	(4½)	(4½)	(2¾)	(2)	(n/a)

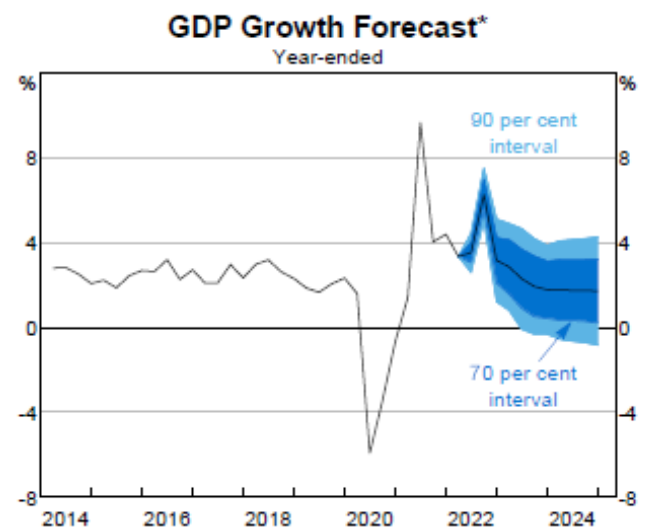
(a) Forecasts finalised on 3 August. The forecasts are conditioned on a path for the cash rate broadly in line with expectations derived from surveys of professional economists and financial market pricing. Other forecast assumptions (assumptions as of May *Statement* in parenthesis): TWI at 63 (63); A\$ at US\$0.69 (US\$0.71); Brent crude oil price at US\$94/bbl (US\$101/bbl). The assumed rate of population growth is broadly in line with the profile set out in the Australian Government Budget 2022–23. Forecasts are rounded to the nearest quarter point. Shading indicates historical data, shown to the first decimal point.

(b) Average rate in the quarter.

Sources: ABS; RBA



* Confidence intervals reflect RBA forecast errors since 1993.
Sources: ABS; RBA



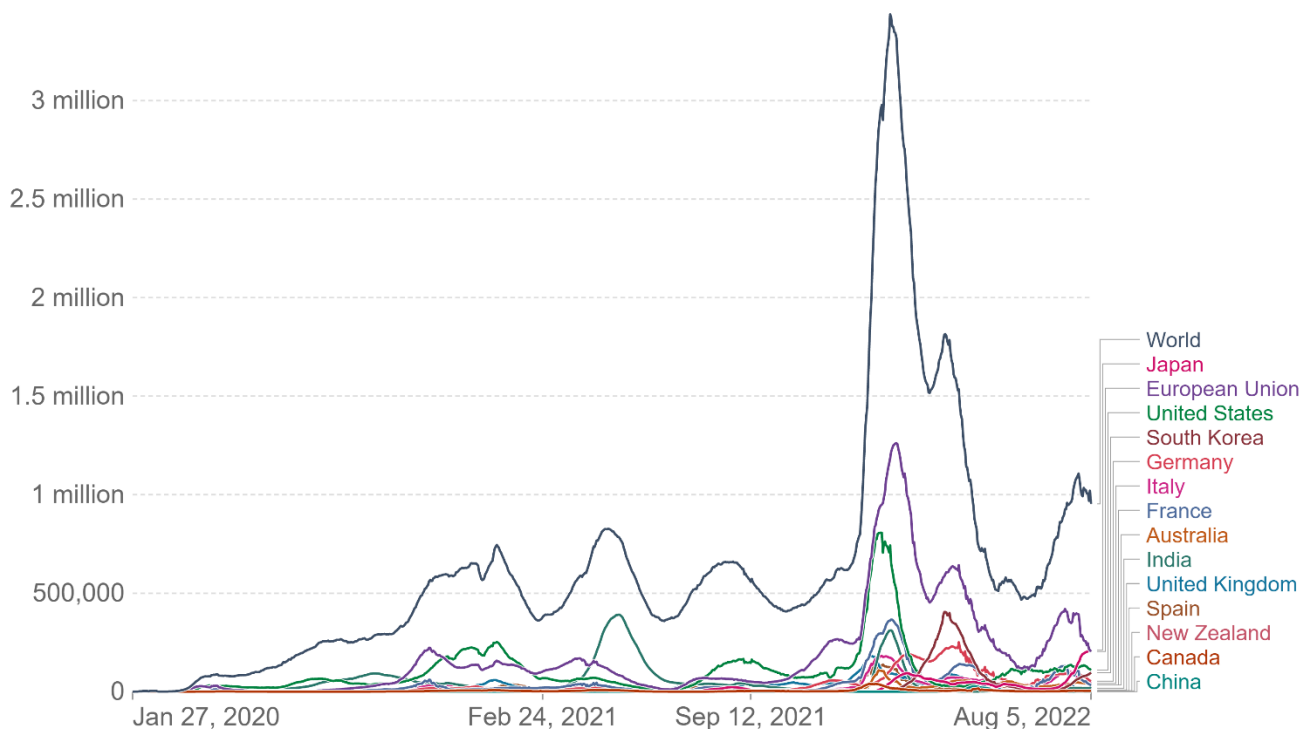
* Confidence intervals reflect RBA forecast errors since 1993.
Sources: ABS; RBA

Significant Upcoming Data:

	Monday	Tuesday	Wednesday	Thursday	Friday
Australia		NAB Business Survey; Westpac Consumer Conf.; CBA Household Spending		Consumer Inflation Exp.	
US		NFIB Small Bus. Opt. Nonfarm Product.; Unit Labour Costs;	CPI; Real Ave. Hourly Earnings; Wholesale Trade & Inventories; Monthly Budget Statement; MBA Mortgage Apps.	PPI; Weekly Jobless Claims	UMich Cons. Sent.; Imp./Exp. Prices
Europe	EZ Sentix Inv. Conf.;; Swiss Unempl.;; Norwegian & Danish Ind. Prod.;; Norwegian DNB/NIMA PMI;	Irish Ind. Prod.; Danish Trade & Curr. Acc.; Norwegian Average Monthly Earnings;	German, Italian, Dutch, Danish & Norwegian CPI; Norwegian PPI; Swedish Ind. Orders & Household Cons.; Austrian, Finnish & Greek Ind. Prod.;	German Curr. Acc. & WSale Prices; Swedish PES Unempl.; Irish CPI; UK RICS House Prices;	EZ & UK Ind. Prod.; UK Q2 GDP, Trade & Const. Output; French, Spanish & Swedish CPI; French Unemp. & Wages; Italian Trade Finnish Curr. Acc.;
Japan	Trade & Curr. Acc.; Bank Lending; Eco Watchers Survey	M2 / M3 Money Stock; Machine Tool Orders	PPI; Tokyo Office Vacancies	Mountain Day	
China	Trade; Foreign Reserves		[M0 / M1 / M2 Money Supply & Agg. Financing]	CPI & PPI	[FDI; 1yr Med. Term Lending Rate]

Daily new confirmed COVID-19 cases

7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.

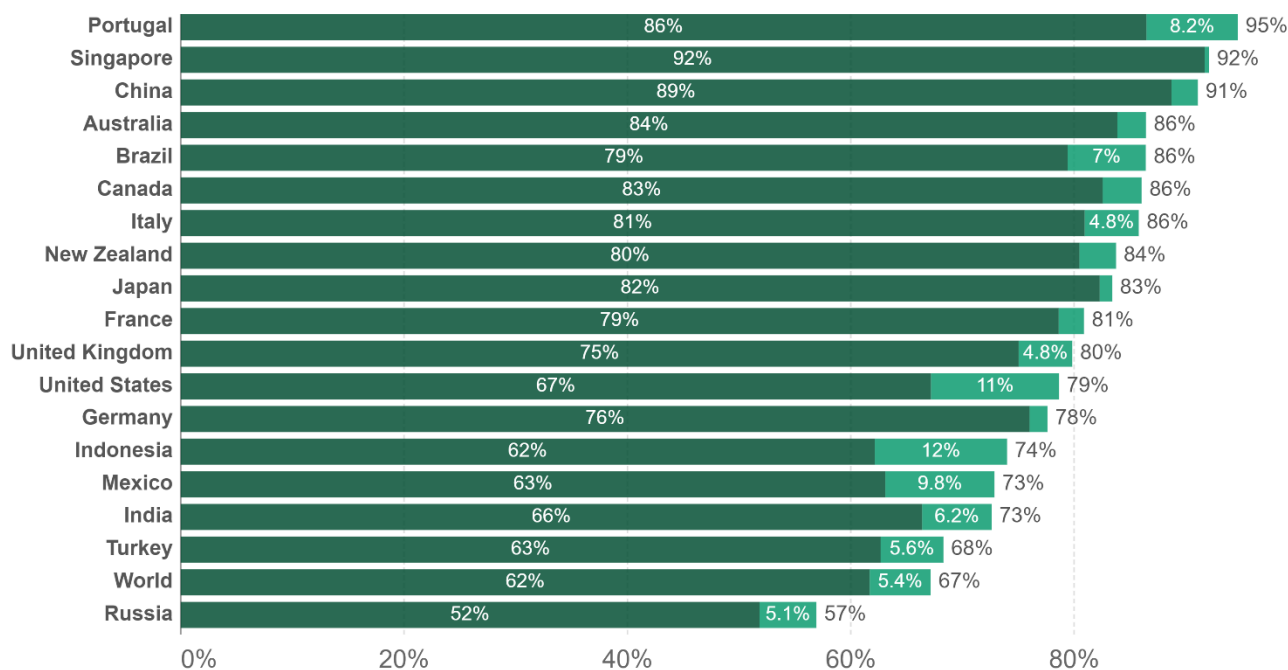


Source: Johns Hopkins University CSSE COVID-19 Data

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Share of people vaccinated against COVID-19, Aug 5, 2022

■ Share of people with a complete initial protocol ■ Share of people only partly vaccinated



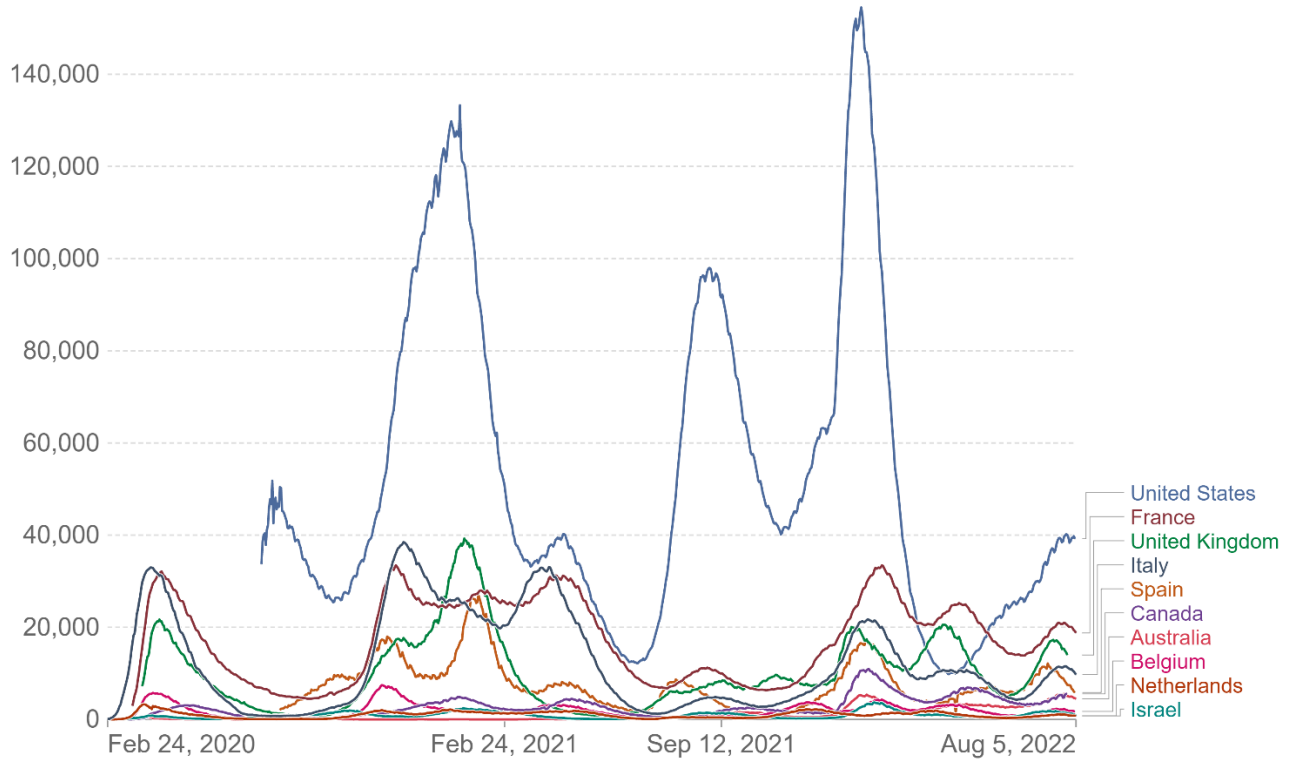
Source: Official data collated by Our World in Data

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Note: Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.

Number of COVID-19 patients in hospital

Our World in Data



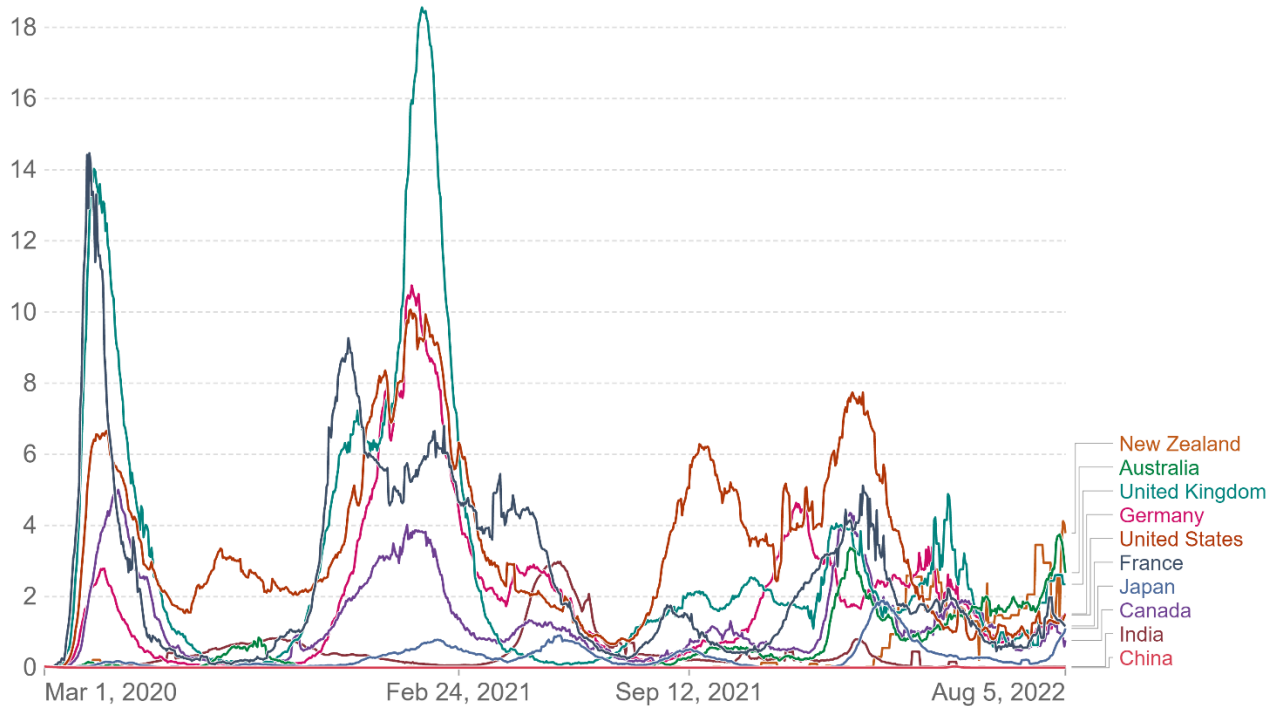
Source: Official data collated by Our World in Data – Last updated 6 August 2022

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Daily new confirmed COVID-19 deaths per million people

Our World in Data

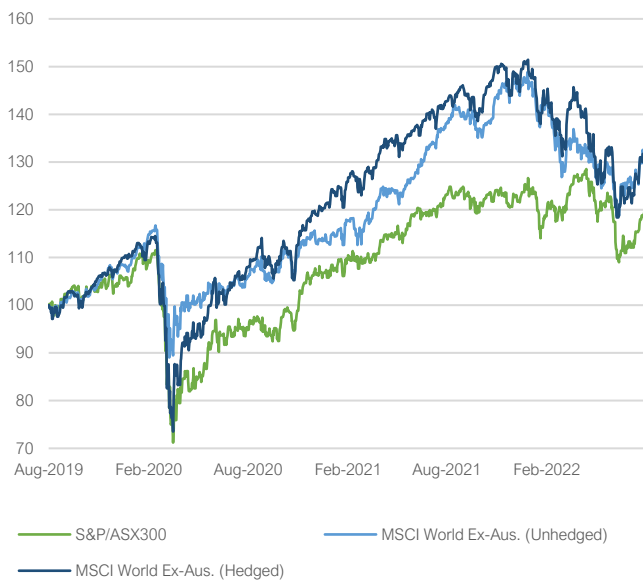
7-day rolling average. Due to varying protocols and challenges in the attribution of the cause of death, the number of confirmed deaths may not accurately represent the true number of deaths caused by COVID-19.



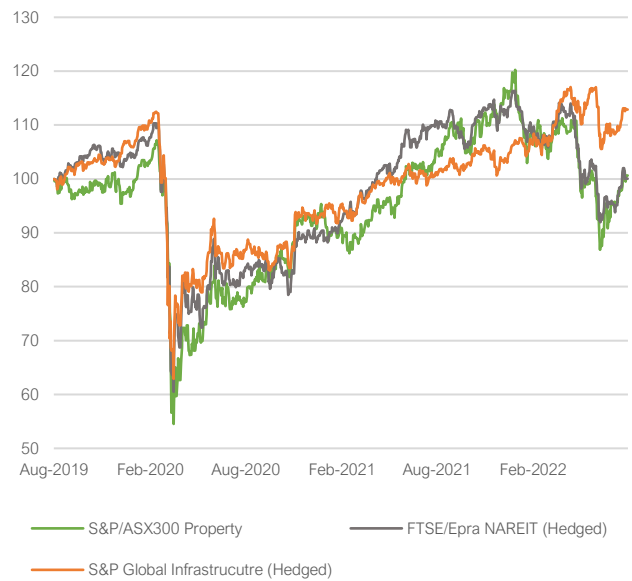
Source: Johns Hopkins University CSSE COVID-19 Data

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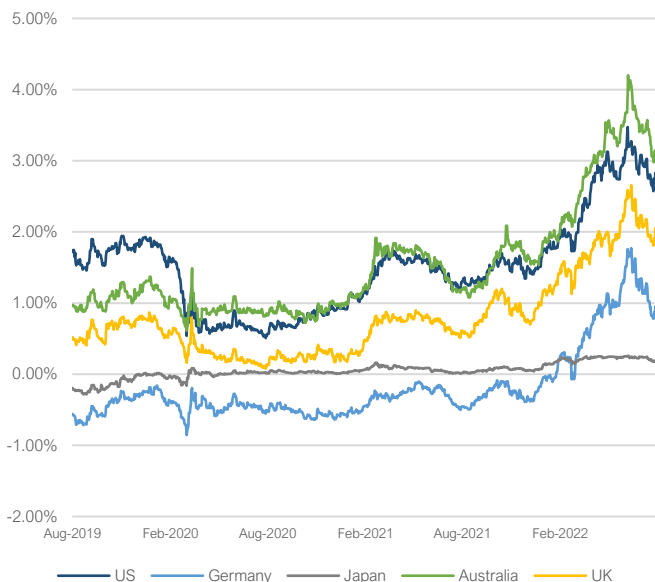
3Yr Equity Indices (Rebased to 100)



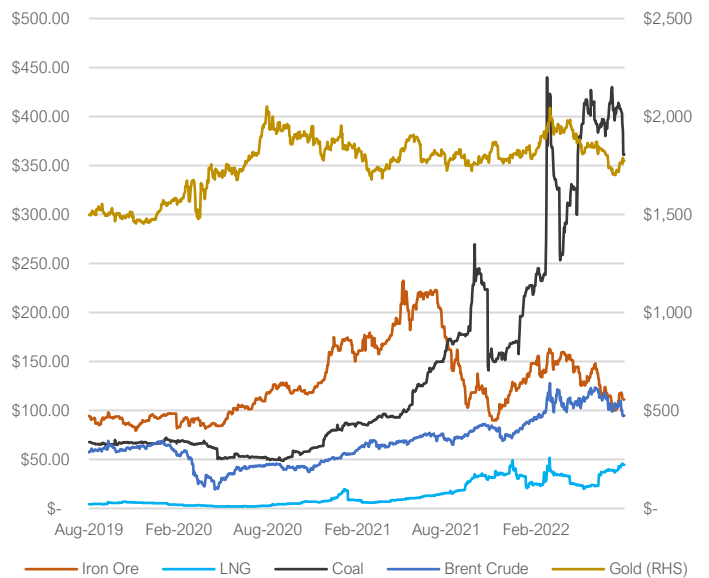
3Yr Prop. & Infrast. Indices (Rebased to 100)



10Yr Government Bond Yields (%)



Commodity Prices (US\$)



Source: Bloomberg, S&P Dow Jones, MSCI, FTSE Russell, 7th August 2022

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