

Chart of the Week: The US yield curve inverted last week



From the Chief Economist:

Last week saw another extraordinary few days for global financial markets. The main event was on Wednesday, when the US yield curve (2-10 year) inverted for the first time since before the global crisis in 2007. This sent equity markets tumbling again, including here (in fact, to the largest one-day dip since February 2018). This carnage was despite the US administration taking a tiny step back from the abyss on trade. The gold price reached a six year high as investors headed for perceived safe havens. An inverted yield curve has preceded each US recession for half a century although, to make things interesting, there also have been curve inversions that didn't. AUD dived in sympathy with share markets, hitting the lowest level in a decade. Argentina was the epicentre of the volatility because of an unhelpful overlay of political instability – the local share market dived 49% in a day as the battered peso sank 20%! The economic data here wasn't too bad. Consumer confidence bounced because punters expect more interest rate relief from the RBA, and the July jobs numbers were great. There was a more than 40,000 addition to net jobs nationally last month and an unchanged jobless rate at 5.2%. In NSW, a decent jobs number saw the unemployment rate dip to 4.4%, which still is the lowest in the land.

There is no high-level domestic economic data released this week, so things may be a little quieter here. Tomorrow, the Reserve Bank releases minutes from the most recent Board meeting, but there wasn't much mystery around the RBA's thinking two weeks' ago, so the minutes should not be revelatory. Instead, there will be a lot of focus on the US Federal Reserve, which last month reversed course and cut interest rates for the first time in more than a decade. Chairman Jay Powell delivers the traditional Jackson Hole Symposium address next weekend – Powell's comments will come a week after the US President labelled him "clueless".

Chart A: Domestic Interest Rates

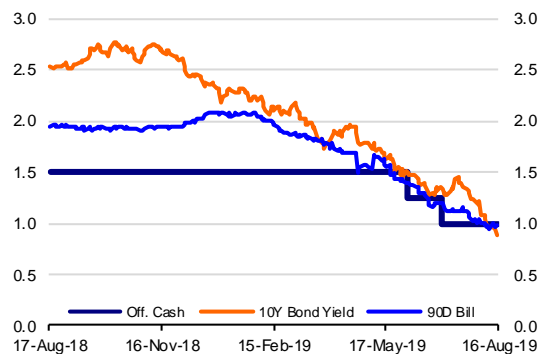


Chart B: Share Price Index

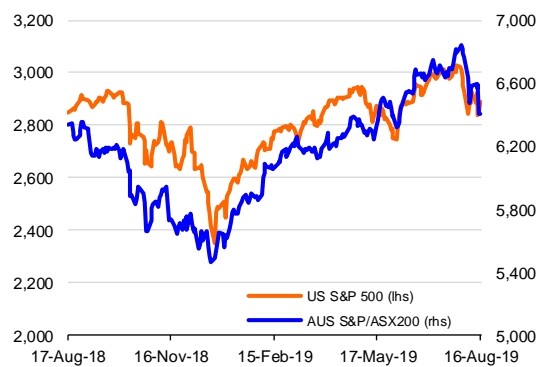


Chart C: Exchange rate

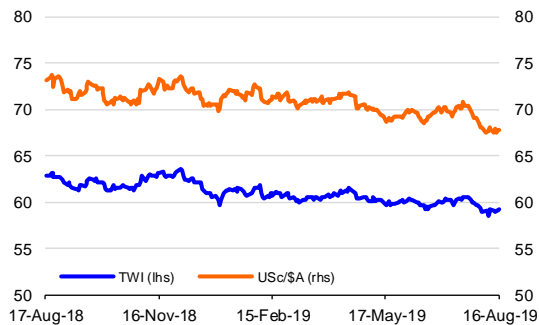
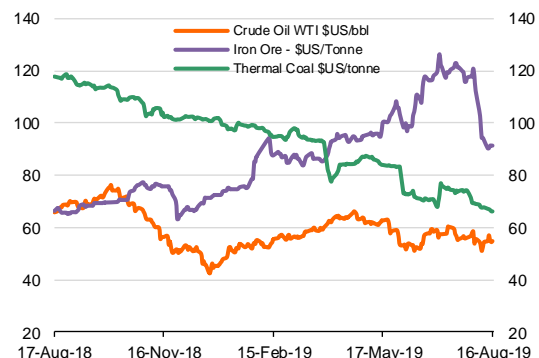


Chart D: Commodity Prices



Domestic Data Releases

NAB Monthly Business Survey for July showed an improvement in business confidence but a deterioration in conditions for both NSW and Australia. Business confidence in NSW rose to +7 index points in July (from +4 in June) and is now above its decade average of +6. NSW business conditions fell to +1 in July (from +3 in June). This continues a downward trend in conditions in both NSW and Australia since late 2017.

W-MI Consumer Sentiment Index increased by 5.8 per cent in August, reaching 98.1. This reflects an improvement in views on future economic conditions. Nationally, consumer sentiment increased 3.6 per cent in August, reaching a neutral level of 100. Measures relating to housing sentiment have shown a positive response to lower interest rates.

ABS Wage Price Index showed wages growth in NSW remained steady at 2.3 per cent through the year to the June quarter. Nationally, wages growth edged up 2.4 per cent through the year to the June quarter, from 2.3 per cent in the March quarter. The Health Care and Social Assistance industry recorded the fastest wages growth for NSW and nationally.

CoreLogic Weekly Auction Clearance rate picked up to 76.2 per cent for the week ending 11 August 2019, from 72.0 in the previous week. Nationally auction clearance rates reached 67.8 per cent for the week ending 11 August 2019, up from 66.4 per cent in the previous week.

ABS Overseas Arrivals and Departures showed there were 3.5 million international visitors to NSW over the twelve months to June, equivalent to 37 per cent of total visitors to Australia. In annual average terms, international visitors to NSW rose 1.5 per cent to June, which is unchanged from the growth rate in May, but above the 0.3 increase in March.

ABS Monthly Labour Force data for July showed the unemployment rate for NSW fell 0.2 percentage points to 4.4 per cent. NSW continues to have the lowest unemployment rates of the states with a female participation rate at record high and youth unemployment below the national rate. The national unemployment rate remained steady at 5.2 per cent in July.

ABS Average Weekly Earnings for NSW rose 3.7 per cent through the year to May, with full time AWE rising 3.6 per cent. NSW had the strongest through the year growth of the states and territories.

Markets

Over the week, the ASX200 fell 2.7 per cent, the S&P500 fell 1.0 per cent and oil prices rose 0.7 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2888.68	1.4 %	-1.0 %
ASX200	6405.53	1.0 %	-2.7 %
Australian Dollar (USD)	0.68	-7.3 %	-0.1 %
TWI	59.20	-5.7 %	-0.2 %
Oil (USD/bbl)	54.87	-16.8 %	0.7 %
Gold (USD/oz)	1515.25	28.6 %	1.2 %
Thermal Coal (USD/tonnes)	66.30	-43.8 %	-2.3 %
Australian 10-yr bond	0.88%	-65.3 bps	-7.5 bps
US 10-yr bond	1.55%	-45.7 bps	-19.1 bps
NSW 10-yr bond	1.39%	-48.2 bps	-6.3 bps

Upcoming Domestic Data Releases (19/08-23/08)

- **RBA** Monetary Policy Minutes for August.
- **ANZ** Stateometer for the June quarter.
- **Department of Jobs** Vacancy Report for July.
- **ABS** Detail Monthly Labour Force for July.

Chart E: Interest Rate Expectations

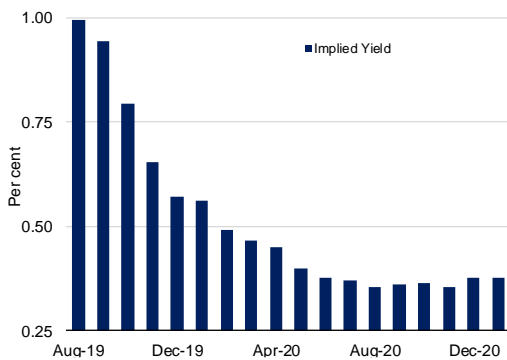
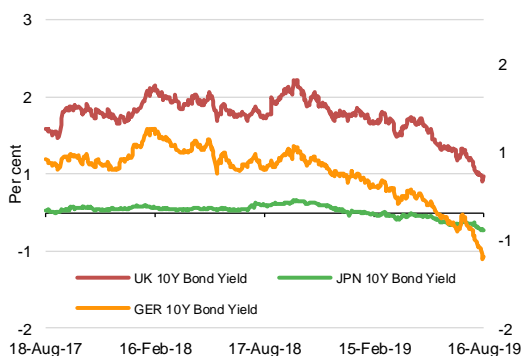
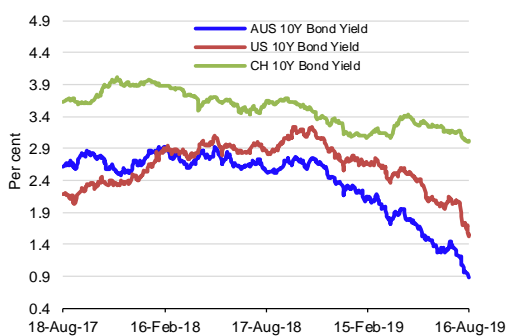


Chart F & G: International Bond Yields



Market Interest Rate Expectations

The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the market expects a rate cut in October 2019.

According to the ASX Target Rate Tracker, as at 16 August, there is a 24 per cent expectation that the RBA will decrease the cash rate to 0.75 per cent at its next policy meeting on 3 September 2019.

International Bond Yield Spreads

US-China trade wars continued to dominate the bond markets last week with all major yields recording falls. Some relief was provided on Tuesday as Trump announced a delay in the introduction of over half of the \$300 billion tariffs from September to December. This was quickly retraced the following day with anaemic data releases and a brief inversion of the US yield curve—an inversion of the yield curve has often preceded an economic downturn. On the data front, China’s industrial production grew at the slowest pace in seventeen years and Germany’s economy shrunk in the June quarter as the US-China trade wars impact global manufacturing supply lines and the country’s export dependent industries.

10-yr bond yield	Yield (%)	Change on Year (bps)	Change on Week (bps)	Spread on 10 yr US bond week end (bps)	Spread on 10-yr US bond year ago (bps)
Australian (AUS)	0.88	-166.2	-7.5	-67.1	-31.6
United States (US)	1.55	-130.7	-19.1	-	-
Germany (GER)	-0.69	-99.0	-10.9	-223.9	-255.6
United Kingdom (UK)	0.47	-77.0	-1.8	-108.8	-162.5
Japan (JPN)	-0.23	-32.6	-1.1	-178.2	-276.3
China (CH)	3.02	-62.2	0.3	146.8	78.4

Key International Data Releases

China: Industrial production grew at the weakest rate in 17 years rising just 4.8 per cent through the year to July. Retail sales grew weaker than expectations, rising 7.6 per cent through the year to July, compared to market expectations of a 8.6 per cent rise.

UK: Unemployment rate edged higher to 3.9 per cent in June from 3.8 per cent in May. CPI growth was 2.1 per cent through the year to July, edging up from 2.0 in the previous month. Retail sales rose 3.3 per cent through the year July, following a 3.8 per cent increase in the previous month.

Japan: Producer price index (PPI) fell 0.6 per cent through the year to July after falling 0.1 per cent in the previous month. These are the first declines observed since 2016.

Germany: GDP fell 0.1 per cent (seasonally adjusted) in the June quarter on par with market expectations. This is the second quarterly decline recorded over the past year amid global uncertainty and trade wars.

India: CPI growth edged a little lower through the year to July following an upward trend since the beginning of the year. CPI rose 3.15 per cent through the year to July, compared to a rise of 3.18 per cent through the year to June.

Euro Area: GDP rose 0.2 per cent in the June quarter. Industrial production fell 2.6 per cent through the year to June. Trade surplus contracted from €19.6 billion in May to €17.9 billion in June.

US: CPI growth rose to 1.8 per cent through the year to July, from 1.6 per cent in the previous month. Retail sales rose 0.7 per cent in July, above market expectations of a 0.3 per cent rise. Industrial production fell 0.2 per cent in July, worse than market expectations of a 0.1 per cent increase.

Upcoming Key International Data Releases (19/08-23/08)

- **Japan:** Trade Balance for July.
- **Germany:** Manufacturing PMI for August.
- **Euro Area:** Manufacturing PMI, Services PMI and Consumer Confidence for August.

Six Weeks At A Glance

Monday 19-Aug	Tuesday 20-Aug	Wednesday 21-Aug	Thursday 22-Aug	Friday 23-Aug
	RBA Monetary Policy Minutes, Aug-19 ANZ Stateometer, JunQ-19	DoJ Vacancy Report, Jul-19	ABS Detailed Monthly Labour Force, Jul-19 CoreLogic Weekly Auction Data	
26-Aug	27-Aug	28-Aug	29-Aug	30-Aug
		ABS Construction Work Done (Prelim), JunQ-19	ABS Private New Capital Expenditure, JunQ-19 CoreLogic Weekly Auction Data	ABS Building Approvals, Jul-19 RBA Private Sector Credit, Aug-19
2-Sep	3-Sep	4-Sep	5-Sep	6-Sep
ABS Business Indicators, JunQ-19 ABS Mineral and Petroleum Exploration, JunQ-19	ABS Balance of Payments, JunQ-19 ABS Government Finance Statistics, JunQ-19 ABS Retail Trade, Jul-19 RBA Interest Rate Decision, Sep-19	ABS National Accounts, JunQ-19	ABS International Trade in Goods and Services, Jul-19 CoreLogic Weekly Auction Data	ABS Regional Building Approvals, Jul- 19
9-Sep	10-Sep	11-Sep	12-Sep	13-Sep
ABS Lending to Households and Businesses, Jul-19	ABS Labour Account, JunQ-19 ABARES Crop Report, Sep-19 NAB Monthly Business Survey, Aug-19	ABS Overseas Arrivals and Departures, Jul-19 W-MI Consumer Sentiment, Sep-19	CoreLogic Weekly Auction Data	
16-Sep	17-Sep	18-Sep	19-Sep	20-Sep
	ABS Residential Property Price Indexes, Jun-19 ABARES Agricultural Commodities, SepQ- 19 RBA Monetary Policy Minutes, Sep-19	DoJ Vacancy Report, Aug-19	ABS Australian Demographic Statistics, MarQ-19 ABS Labour Force, Aug-19 CoreLogic Weekly Auction Data RBA Bulletin, SepQ-19	
23-Sep	24-Sep	25-Sep	26-Sep	27-Sep
		ABS Engineering Construction Activity, JunQ-19	ABS Detailed Monthly Labour Force, Aug-19 CoreLogic Weekly Auction Data	

ECONOMIC FACTS

ECONOMIC GROWTH

ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.6%	2.8%	% annual average	2017-18 Next: November 19
State/Domestic Final Demand	2.1%	1.6%	% through the year	June quarter 19
	0.4%	0.1%	% change on last qtr	Next: 4 September 19
BUSINESS INVESTMENT				
NAB Business Confidence	+7	+4	NAB Index	July 19 (mthly) Next: 10 September 19
NAB Business Conditions	+1	+2		
HOUSING				
Dwelling Approvals	57.5k	187.1k	Number of app 12mms	June 19 (mthly)
	-20.8%	-19.4%	% annual average	Next: 30 August 19
Residential Prices (capitals)	-10.3%	-7.4%	% through the year	March quarter 19 Next: 17 September 19
LABOUR FORCE				
Employment	4.0%	2.6%	% through the year	July 19 (mthly) Next: 19 September 19
Unemployment Rate	4.4%	5.2%	Current rate	
Youth unemployment rate	10.0%	11.6%	12 monthly moving average rate	
CONSUMER				
Retail Sales	0.6%	2.5%	% through the year (nominal)	June 19 (mthly) Next: 3 September 19
Westpac MI Consumer Confidence	98.1	100.0	Westpac MI Index	August 19 (mthly) Next: 11 September 19
CPI (Capital cities)	1.7%	1.6%	% through the year	June quarter 19 Next: 30 October 19
Official cash rate	1.00%		Lowered 25 basis points in July 19	Next: 3 September 19

ECONOMIC FORECASTS ^(a)	NSW Forecasts (as per 2019-20 Budget)			Australian Gov't Forecasts (as per 2019-20 Budget)		
	2017-18 Actual	2018-19 Forecast	2019-20 Forecast	2017-18 Actual	2018-19 Forecast	2019-20 Forecast
State/Domestic Final Demand (%)	3.4	2½	2½	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	2.6	2¼	2¼	2.8	2¼	2¾
Employment (%) ^(b)	3.2	3¼	1½	2.7	2	1¾
Unemployment rate (%) ^(c)	4.8	4½	4½	5.4	5	5
CPI (%) ^(b)	2.0	1¾	2	2.1	1½	2¼
Wage Price Index (%) ^(b)	2.1	2½	2½	2.1	2½	2¾

(a) Per cent change, annual average, unless otherwise indicated. (b) NSW: annual average, Australia: per cent change through the year to June (c) NSW: Per cent, year average, Australia: Per cent in June.