Monday, 21 August 2023

From World Cup Goal To Jackson Hole

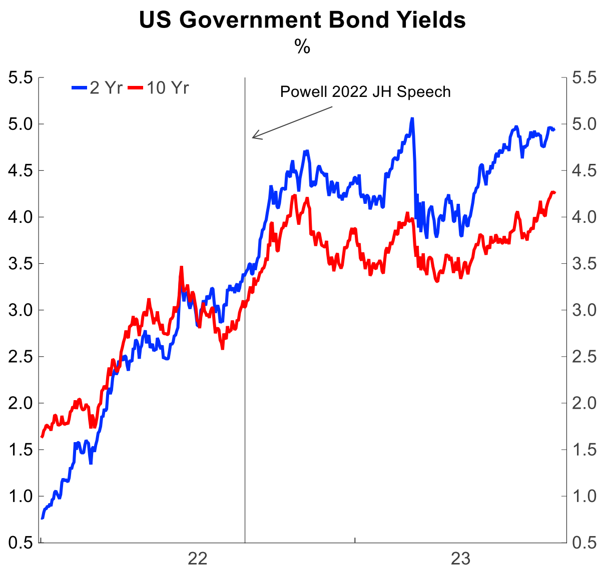
It will be a quiet week on the domestic front as there are no major Australian data releases this week. Accordingly, attention will turn away from Australian data and the FIFA Women's World Cup and towards what is happening overseas.

The focal point will be the Economic Policy Symposium hosted by the Federal Reserve Bank of Kansas City in Jackson Hole, Wyoming. This will be the final curtain call for the week as the conference is held on 24 to 26 August, with Fed Chair, Jerome Powell speaking on 25 August.

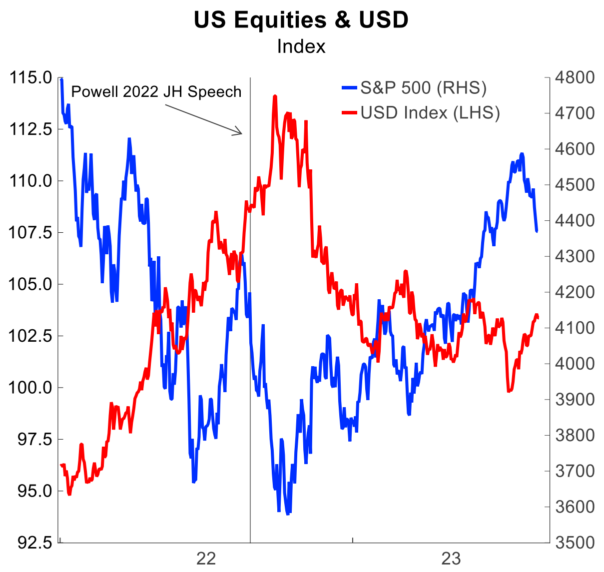
The Jackson Hole Economic Symposium is an important annual event on the economic calendar. It brings together central bankers, policymakers, academics, and economists from around the world to discuss emerging economic challenges and policy implications. This year, the theme is *Structural Shifts in the Global Economy*. The global economy is undergoing many significant challenges so this theme seems appropriate. While the agenda is not yet available, there is no shortage of areas for discussion. Potential topics could include the risk that inflation remains elevated, the energy transition, demographics, geopolitical challenges, and changes in global trade.

But it will be Chair Powell's speech and any monetary policy implications that will draw the most attention. Market reactions are not uncommon. Indeed, last year, Powell placed an emphasis on the need to continue to raise rates to reduce inflation, closing with "we will keep at it until we are confident the job is done" in his speech: *Monetary Policy and Price Stability*.

Financial market reactions were material. Equities sold off and the US dollar strengthened on the day of the speech, while bond yields were volatile immediately afterwards as other data clouded the picture. In the weeks that followed, bond yields and the US dollar continued to rise, while the S&P 500 dropped and hit a low point in October 2022.



Sources: Bloomberg, Macrobond



Sources: S&P Global, Bloomberg, Macrobond

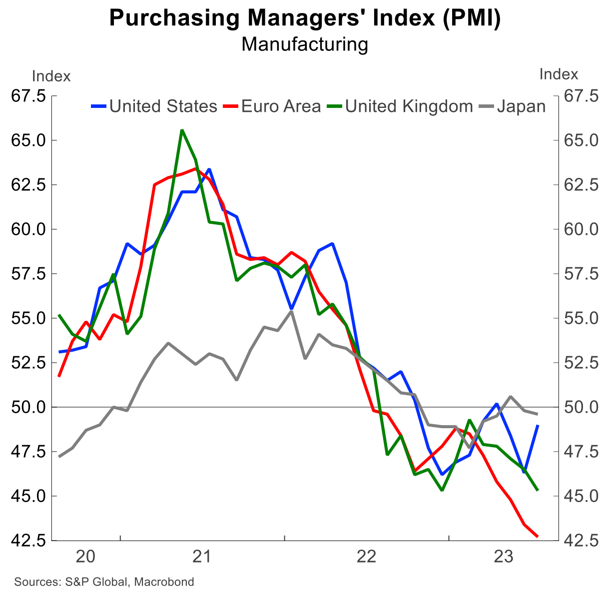
Of course, a wide range of factors impacted prices across these markets over this period, so Powell's speech was certainly not the only catalyst. But even so, central bank comments and what they mean for monetary policy always generate attention from financial markets.

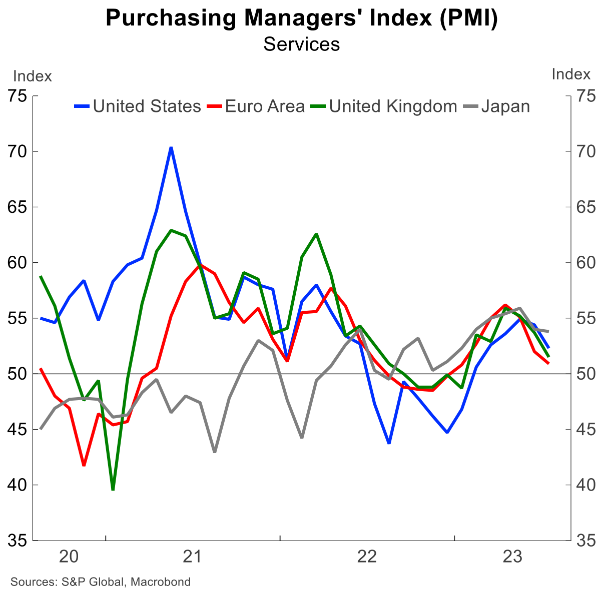
The other main events of the week will include the publication of the latest round of Purchasing Managers' Index (PMI) surveys from S&P Global for key economies such as the US, UK, Eurozone, and Japan. These are important private sector surveys and provide an early indication of the health of the manufacturing and services sectors. The surveys are closely watched as they have a good record as a leading economic indicator and provide an indication of where GDP may be heading well in advance of official data from government statistical agencies.

The main theme of these surveys for some time has been a large deviation between the health of the manufacturing and services sectors. Indeed, readings for the manufacturing sector have been persistently below 50 (the level that separates expansion from contraction) for almost all of 2023 and much of 2022. These readings indicate prolonged weakness across the sector globally and suggest a manufacturing recession has been underway for some time.

Conversely, indicators of the services sector have been largely above 50 – signalling growth. This reflects continued resilience in consumer spending, which remained robust after initially being supported by the transition from spending on goods to spending on services. However, over recent months, these indicators have shown a clear and material easing. While still above 50, they are suggesting that rapid rate hikes are working to slow aggregate demand, which is flowing through to slower activity growth in the sector. A key question will be whether this resilience continues or whether activity will slip into outright contraction across any of the regions.

On top of indicators of economic activity, the sub-indices within these surveys also provide important early readings on price pressures, such as prices paid and received, and other factors, such as new orders. Central banks will be monitoring price measures to confirm that the slowdown in inflationary pressures is continuing. Any resurgence of price pressures may prompt increased expectations of rates needing to remain higher for longer.





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Group Forecasts

		2023		2024			
End Period:	**Close (18 Aug)**	**Q3 (f)**	**Q4 (f)**	**Q1 (f)**	**Q2 (f)**	**Q3 (f)**	**Q4 (f)**
Aust. Interest Rates:							
RBA Cash Rate, %	4.10	4.10	4.10	4.10	4.10	3.85	3.60
90 Day BBSW, %	4.15	4.30	4.30	4.30	4.22	3.97	3.72
3 Year Swap, %	4.12	4.00	3.95	3.90	3.80	3.70	3.60
10 Year Bond, %	4.23	3.75	3.55	3.45	3.30	3.25	3.20
US Interest Rates:							
Fed Funds Rate, %	5.375	5.375	5.375	5.125	4.625	4.125	3.625
US 10 Year Bond, %	4.25	3.80	3.60	3.40	3.20	3.10	3.00
USD Exchange Rates:							
AUD-USD	0.6406	0.67	0.68	0.69	0.71	0.73	0.74
USD-JPY	145.39	140	138	135	132	130	128
EUR-USD	1.0873	1.11	1.12	1.12	1.13	1.14	1.15
GBP-USD	1.2734	1.28	1.28	1.29	1.29	1.30	1.30
NZD-USD	0.5923	0.62	0.63	0.63	0.64	0.65	0.66
AUD Exchange Rates:							
AUD-USD	0.6406	0.67	0.68	0.69	0.71	0.73	0.74
AUD-EUR	0.5890	0.60	0.61	0.62	0.63	0.64	0.64
AUD-JPY	93.11	93.8	93.8	93.2	93.7	94.9	94.7
AUD-GBP	0.5030	0.52	0.53	0.53	0.55	0.56	0.57
AUD-NZD	1.0815	1.07	1.08	1.09	1.10	1.12	1.12

	2021	**2022**	**2023 (f)**	**2024 (f)**
GDP, %	4.6	2.6	1.0	1.4
CPI (Headline), %	3.5	7.8	3.9	3.2
CPI (Trimmed mean), %	2.6	6.9	3.8	3.1
Unemployment Rate, %	4.7	3.5	3.8	4.7
Wages Growth, %	2.3	3.4	3.8	3.2

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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