Icon

Description automatically generated

**Australian Bond Exchange Weekly Newsletter**

**5 August 2022**

**Key Points**

* **RBA lifts cash rates by 50bps**
* **Housing finance approvals drop sharply in June**
* **Beijing on high alert after Nancy Pelosi’s visit to Taiwan**
* **First grain shipment from Ukraine**
* **Heatwave in Europe**

**Australia**

As expected, the RBA has lifted the cash rate by a further 50bps to 1.85% this week. Furthermore, the Bank has increased its inflation forecast and lowered its growth outlook which highlights to us, how difficult the current situation is and how challenging it is to forecast the outlook. These revised forecasts clearly point to another 50bps in September and hopefully, the Board will slow the pace of increases afterward. The biggest question of course continues to be when the all-important consumer feels the pain and spending starts to fall and possibly goes “on strike”.

Not surprisingly, the wider housing market has dropped strongly on the back of the rapid interest rate rise impact. With more rate hikes coming through and the building sector dealing with a major cost surge and profit squeeze, clearly further sharp falls are on the cards. This week’s softer-than-expected housing approvals for June (a decline of 4.4%) are a further confirmation of this weakening housing trend.

**Global**

The geopolitical risk continues to increase and the recent visit by Nancy Pelosi to Taiwan did little to ease the tensions. China’s government issued various alert warnings and told commercial airlines to avoid airspace near Taiwan. Numerous military drills which choked off maritime areas surrounding the island didn’t help to ease global trade flows and clearly, the situation is incredibly dangerous, and one can only hope that cool heads prevail.

The financial markets in the meantime have so far ignored these issues and both the equity and the bond markets have been very calm over the past week. The US10y bond yields are trading close to their lows for the month and equity markets continue their northern hemisphere “summer” rally with the S & P 500 up close to 14% since its low in June.

The US company reporting season has also further provided positive support with just over 74% of companies beating expectations with over 60% of S&P entities having now reported.

In some hopeful news from the Russian war, we saw the first shipment of grain out of Ukraine since the invasion with some plans outlined for a possible cautious ramp-up of more shipments which should strongly help to ease some of the shortages and help to reduce food inflation somewhat.

The current heat wave in Europe on the other hand is not helping to reduce costs and England reported it’s driest July since 1935 which is pushing infrastructure to the brink. Warnings of railway lines buckling, cancelled flights, and power stations operating at low levels to prevent overheating are some of the horror headlines we saw this week. I am sure Autumn can’t come quick enough for the Europeans but then of course the big issue of gas shortages will come back into play. Indeed, these are very difficult and uncertain times!

[Contact us](mailto:support@bondexchange.com.au) if you have any questions or would like any assistance.

*Copyright © 2022* *Australian Bond Exchange Pty. Ltd. (“ABE”). ABE provides both general and specific financial product advice. Unless otherwise stated, any advice contained in this content is of general nature only and any information, advice or recommendation has been provided by ABE without taking account of your objectives, financial situation or needs. Because of this, you should before acting on any information, advice or recommendation from ABE consider the appropriateness of the information, advice or recommendation, having regard to your objectives, financial situation and needs. If this document, or any information, advice, or recommendation, relates to the acquisition, or possible acquisition, of a particular financial product, you should obtain a product disclosure document relating to the product and consider the document before making any decision about whether to acquire the product. ABE, its directors, representatives, employees, or related parties may have an interest in any companies or entities, or any financial product issued by companies and entities, and may earn revenue from the sale or purchase of any financial product, referred to in this document or in any information, advice, or recommendation. Neither ABE, nor any of its directors, representatives, employees, or agents, make any representation or warranty as to the reliability, accuracy, or completeness, of this document or any information, advice, or recommendation. Nor do they accept any liability or responsibility arising in any way (including negligence) for errors in, or omissions from, this document or any information, advice, or recommendation. Any reference to credit ratings of companies, entities or financial products must only be relied upon by a “wholesale client” as that term is defined in the Corporations Act 2001 (Cth). ABE strongly recommends that you seek independent accounting, financial, taxation, and legal advice, tailored to your specific objectives, financial situation or needs, prior to making any investment decision. ABE does not make a market in the securities or products that may be referred to in this document.*