

**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 if you have any questions or would like any assistance.

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