FINANCIAL MARKET CONDITIONS
July 2024

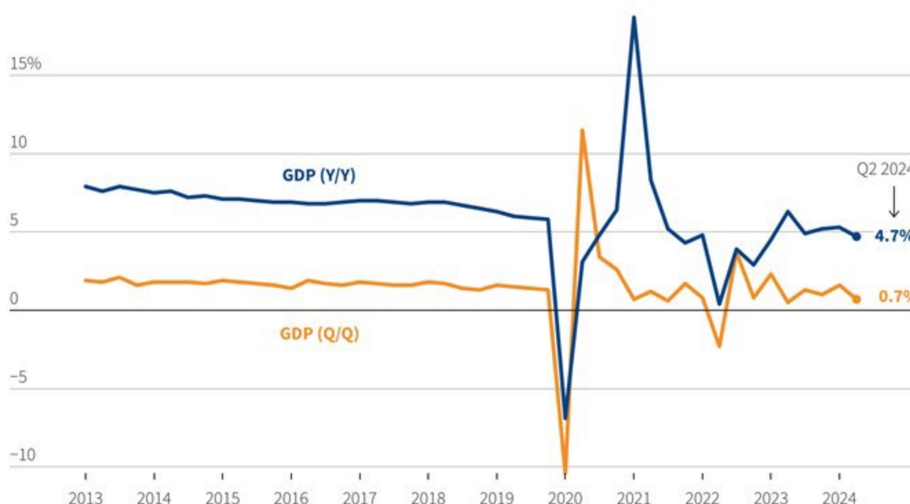
Local Government Finance Authority

Geopolitical tensions in the Middle East weighed on risk sentiment, and markets were volatile over periods of the month, amongst a backdrop of a declining oil price. In the US, earnings season reporting results were positive, with more than two thirds beating analyst expectations, suggesting a resilient economy. Overall, global equities posted further gains in July, with positive signs of reduced inflation pressure and weaker labour market data, ending fears of further rate hikes.

In the United States, economic data reflected a slowing economic landscape, a cooling labour market and slowing inflation. US inflation figures for June were lower than expected, with the annual rate falling to 3.0%, the lowest rate in 3 years. The Federal Reserve (FOMC) left rates unchanged as expected, noting reduced inflation risks and potential future cuts based on the data. US payrolls report on the 2nd of August showed softness across the board and the unemployment rate rising from 4.1% to 4.3%, moving markets to consider increased chances of rate cuts by the end of 2024. The market is now expecting FOMC's first rate cut at its next meeting in September.

In the United Kingdom, the UK economy expanded strongly in Q1, after two consecutive quarters of negative GDP. The annualised rate at 0.9% is now currently one of the strongest amongst G10 nations. Inflation held steady at 3.5%, and labour market showed some signs of slowing. UK retail sales were also weak. The Bank of England (BoE) kicked off its easing cycle in August with a 0.25% rate cut to the policy rate, which was only 60% priced in by the market. The Bank said it was now appropriate to slightly reduce the degree of policy restrictiveness and it maintained the line that policy "will need to continue to remain restrictive for sufficiently long", and markets are expecting a pause at its September meeting, before cutting again in November. In Europe, inflation unexpectedly rose in July to 2.6%, while German and French business outlook indicators worsened. The European Central Bank (ECB) left policy rates unchanged as expected, with President Lagarde noting that the next "meeting in September is wide open" and unsurprisingly she emphasised that the policy decision will be dependent on the message from data releases between now and then.

China continues to struggle to build onto the momentum seen in Q1 of 2024, with Q2 GDP release weaker than expected, at 0.7%. Whilst it was the eighth straight period of quarterly rise, the latest result was the softest since Q2 of 2023, reflecting multiple headwinds such as extreme weather, weak consumption, high government debts, and ongoing property weakness. Manufacturing sector numbers softened, consumption slowed, and housing related data remained weak. On the monetary front, the People's Bank of China (PBoC) has pledged to continue a supportive monetary policy stance, however there is yet to be action with the PBoC keeping policy interest rates unchanged since Q2 2024. Further slowing in activity may add pressure to the PBoC to ease rates sooner.



Furthermore, in Japan, the Yen rose 7.3% after the Bank of Japan hiked their policy rate by 0.10% to 0.25%. BoJ Governor Ueda noted that "we plan to continue raising our policy rate and adjust the degree of monetary accommodation" if economic conditions and inflation move in line with its forecast.

Locally, there are signs of weakness in the economy, particularly in the job market. Job advertisements fell for the third consecutive month, the unemployment rate drifted up to 4.1%, with employment and hours worked growth both slowing, and wages growth appearing to have peaked last year. Inflation is in line with Reserve Bank (RBA) expectations, with CPI gaining 1.0% in the June quarter, which was exactly what financial markets had been expecting. This saw the annual pace lift a touch from 3.6% to 3.8%; it was 4.1%YoY in December 2023 and peaked at 7.8%YoY in December 2022. Markets read the inflation result as further evidence that the RBA will stay higher for longer, despite volatility in interest rates market through the month.

At its August meeting, the RBA left the cash rate on hold at 4.35% as widely expected. The post meeting statement and the Governor's media conference were more hawkish in tone than we expected. Governor Bullock pushed back firmly against market pricing for rate cuts in 2024 based on the Board's current view on the economy. Rate expectations from major banks are mixed, ranging from November 2024 to February 2025, and markets now pricing in its first cut by December 2024.