

Weekly Economic Update



OPTIMAL
ECONOMICS

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Wednesday's inflation report didn't capture any material effects of the oil shock shaking the global economy and markets - it showed no inflation last month and a small decline in the annual rate to 3.7%. But this news is a reminder that inflation was too hot before the war with Iran - there is an ugly CPI report coming for March thanks to the spike in petrol prices alone and more ugliness to come as the inflationary pulse broadens.

This outlook explains why futures markets now price three - yes, three - additional quarter point rate hikes by the RBA before the end of the year. Yes, last week's Board vote to raise interest rates was split 5-4, but it later was confirmed the indecision was about timing, not the direction of travel. The RBA already has shown it's super-keen to curb worsening inflation expectations.

On that, a measure of consumer inflation expectations soared to a 16-year high this week, despite the RBA's back-to-back, quick fire rate hikes. The same survey by ANZ Roy Morgan (*see chart below*) reported the largest ever weekly plunge in consumer confidence (down 8%), which now sits at the lowest level since 1973! This also was a year of a severe global oil shock.

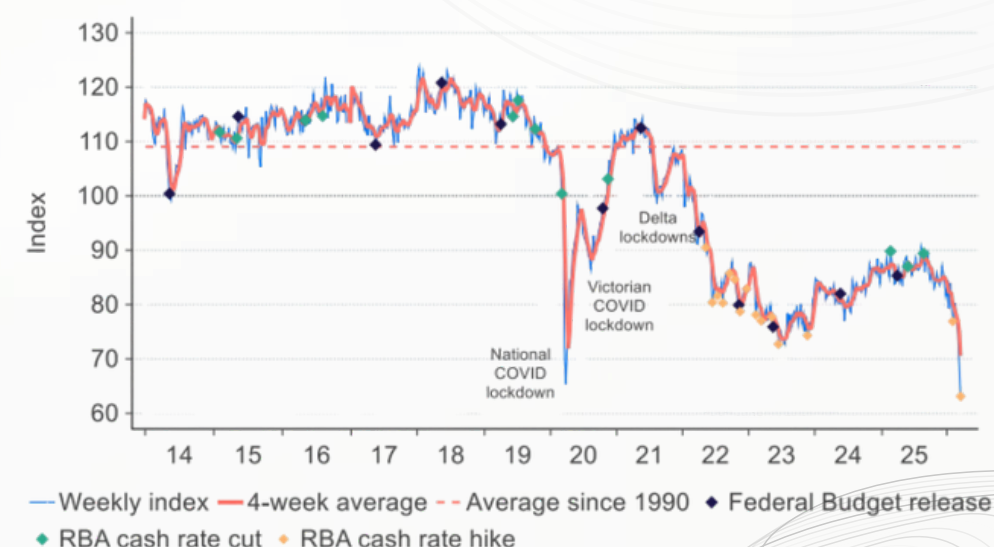
On this year's disruption, the head of the International Energy Agency, in Australia this week, said this oil shock is twice as bad as the combined shocks of the 1970s, each of which tipped the global economy into recession. He measured this in terms of oil shipments lost, but we should caveat this gloominess with an admission that non-OPEC supply has increased significantly since then. Also, oil today makes up less of the world's energy needs and the price spike has been much smaller.

Financial markets finally are catching up with worsening sentiment and adjusting accordingly. The trigger was President Trump's ultimatum last weekend that the Strait of Hormuz needed to be unclogged within 48 hours ... or else Iran's electricity assets and vast oil and gas fields will cop it. Oh, wait. Wisely, he walked that back, but the blunt warning focussed the minds of investors.

In the wake of this escalation, crude oil prices spiked before reversing, as did most equity markets. The local ASX market is down 9% since late February and rests near a 10-month low, albeit short of the 10% fall accepted as a "correction". Bond yields here have risen above 5% but the big moves have been in precious metals. Gold prices tanked 15% since the recent peak, having suffered the biggest weekly fall in more than forty years!

Finally, in better news, Australia and the European Union finally inked a free trade agreement after eight long years of haggling. It should mean lower tariffs on imports from Europe (including Beemers, biscuits and chocolate) and greater access to EU markets for Australian farmers. We'll see how the latter plays out - European farmers are notoriously coddled by subsidies and trade protectionism. Our farmers hate the deal.

ANZ-Roy Morgan Australian Consumer Confidence fell 5.4pts last week



Source: ANZ-Roy Morgan, Macrobond, ANZ Research



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