

Weekly Economics and Markets Review

- The RBA left the cash rate steady at 4.10 per cent in April, while the post-meeting commentary was less hawkish than in February.
- President Trump announced 'reciprocal' tariffs on all countries this week, with the tariffs being larger and more widespread than previously expected.
- The impact of the 'Liberation Day' tariffs on financial markets has been significant, with notable falls in US Treasury yields and equities.

Week in review

Domestic

- The RBA left the cash rate steady at 4.10 per cent in April, as widely expected. The post-meeting commentary was less hawkish than in February, allowing more flexibility to respond to the upcoming CPI data and global uncertainties.
 - The post-meeting statement emphasised that the Board remains cautious around developments in the global economy, noting that '*monetary policy is well placed to respond to international developments*'. Prior guidance that the Board was '*cautious on prospects for further policy easing*' was also removed from the statement.
 - In the post-meeting press conference, RBA Governor Bullock noted that while the Board '*did not explicitly discuss a rate cut*', it did discuss downside risks to the outlook. Bullock also said the Board is '*gradually getting more confidence*' that inflation is returning sustainably to target and will gain more confidence if the incoming data are in line with the staff forecasts.
- Private-sector credit growth was steady at 0.5 per cent in February, to be 6.5 per cent in year-ended terms. Business credit growth and personal credit growth picked up pace in the month while housing credit growth was unchanged.

Offshore

- President Donald Trump announced reciprocal tariffs on all countries on 2 April, otherwise known as 'Liberation Day'.
 - The US will impose a minimum or 'baseline' tariff of 10 per cent on all imported goods, with Australia subjected to this minimum tariff. Countries which run trade surpluses with the US face additional tariffs beyond this 10 per cent baseline. The 10 per cent baseline tariff will be in effect from 5 April, with the higher rates taking effect from 9 April.
 - Some examples of the reciprocal tariffs placed on different countries includes: a 54 per cent tariff on China, 24 per cent on Japan, 20 per cent on the euro area, 10 per cent on the UK and 10 per cent on Australia.

- Products that are already subject to goods specific tariffs will not be subject to the new reciprocal tariffs, including steel, aluminium and vehicles. There are also tariff exemptions for several goods, including copper, pharmaceuticals, semiconductors, lumber and gold.
- In total, analysts estimate that the tariff increases could see the weighted-average US tariff rate increase to around 25–30 per cent (from around 2.5 per cent currently). White House trade adviser Peter Navarro suggested that this would raise \$US600bn in revenue for the US Government.
- While US Federal Reserve officials remain vigilant on the potential impact of the tariff increases, recent commentary suggests they still view the current level of interest rates as being appropriate.
- On the **US** data front:
 - The ISM manufacturing index declined 1.3pts to 49.0 in March, slightly below expectations for a more modest decline. The underlying composition was weak, with a decline in the new orders, production and employment sub-components.
 - The ISM services index declined by 2.7pt in March, with a small increase in business activity being more than offset by weaker new orders and employment.
 - JOLTS job openings fell 194k to 7.568m in February, while the quits and layoffs rates were steady.
- **China's** manufacturing PMI rose to 50.5 in March, with production accelerating as the Lunar New Year holiday effect faded. An improvement in both the services and construction sectors also saw an increase in the non-manufacturing PMI.
- **Euro area** core inflation in the eased to 2.4 per cent (from 2.6 per cent), with slower services inflation more than offsetting a tick up in non-energy industrial goods.

Markets

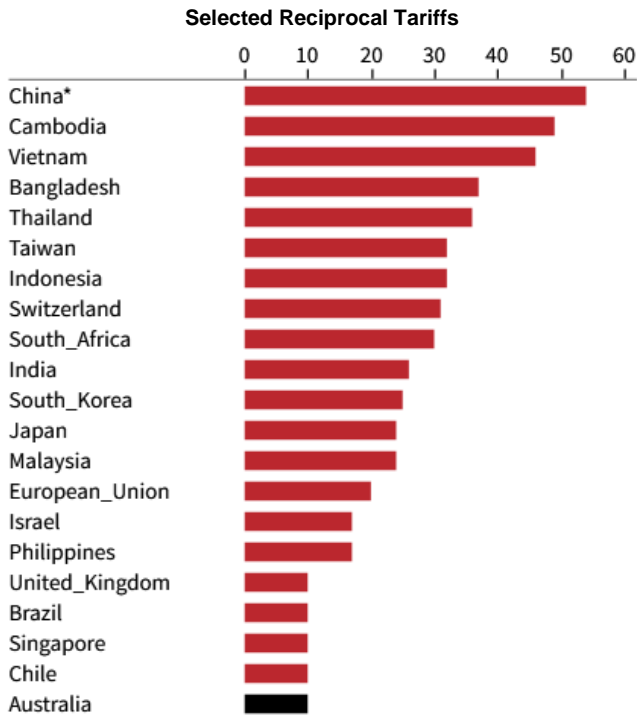
The impact of the 'Liberation Day' tariffs on markets has been significant. US Treasury yields have fallen sharply, with 10-year yields 33 basis points lower over the past week. US equities have been hit particularly hard, with the S&P500 down 5 per cent following the announcement. Brent crude oil is down 5 per cent over the past week, due to both concerns around global growth and news that OPEC+ is going to increase production. For the RBA, financial markets are now fully pricing in a 25 basis point cash rate cut in May, up from a 75 per cent probability prior to the tariff announcements.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: NAB Business Survey (Mar)
Offshore	US: CPI (Mar), PPI (Mar), Federal Budget Balance (Mar), FOMC meeting minutes (25 March) EU: Retail sales (Feb) China: CPI (Mar), PPI (Mar) NZ: RBNZ cash rate decision

Economic and Financial Market Charts

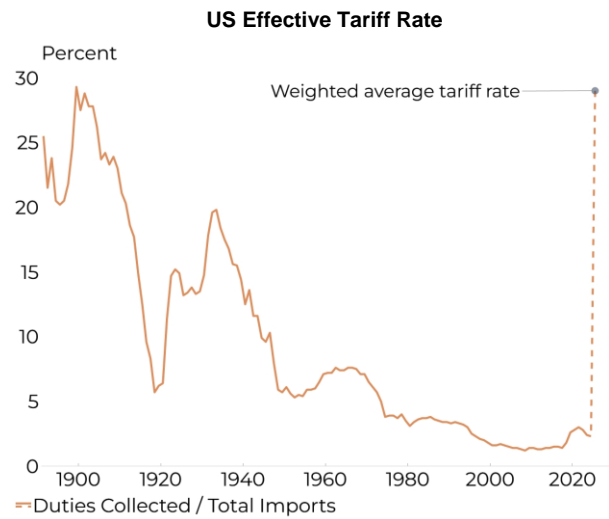
CHART 1: US RECIPROCAL TARIFFS VARY WIDELY ACROSS DIFFERENT COUNTRIES, WITH THE LARGEST TARIFFS BEING PLACED ON COUNTRIES THAT HAVE LARGE TRADE SURPLUSES WITH THE US



Note: China includes previously announced 20% tariffs and 34% announced today

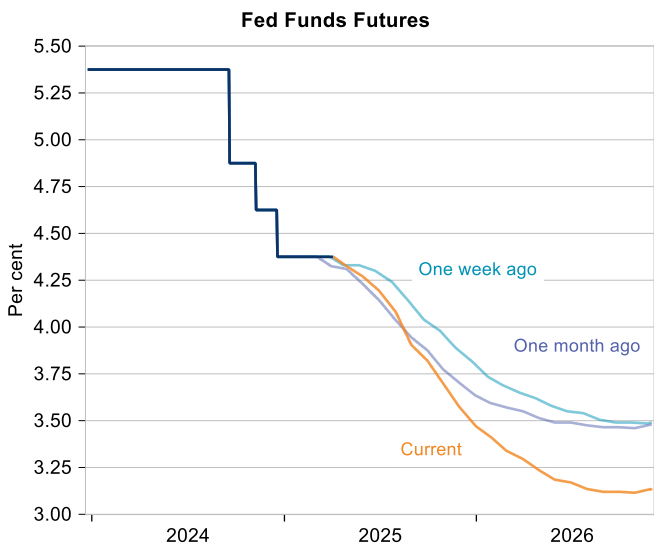
Source: NAB

CHART 2: THE ANNOUNCED TARIFFS WERE BOTH LARGER AND MORE WIDESPREAD THAN EXPECTED, WITH ANALYSTS ESTIMATING THE US WEIGHTED-AVERAGE TARIFF RATE COULD INCREASE TO BE 25-30%



Source: Barrenjoey

CHART 3: INVESTORS EXPECTATIONS FOR US INTEREST RATES SHIFTED LOWER FOLLOWING THE TARIFF ANNOUNCEMENTS, WITH FINANCIAL MARKETS NOW EXPECTING A FURTHER FOUR FED RATE CUTS OVER THE REST OF THIS YEAR



Source: Bloomberg, QTC, Macrobond

CHART 4: THERE WAS A PARTICULARLY LARGE FALL IN US EQUITIES OVERNIGHT, WITH THE FALL IN THE S&P500 BEING THE 87TH BIGGEST DAILY DECLINE IN NEARLY 5,000 TRADING DAYS FOR THE INDEX



Source: , QTC, Macrobond

Financial markets data table

The table below shows yields for bonds issued by the central financing authorities of various state governments in Australia as well as those on bonds issued by the Australian and US Governments. Further, there are values for the Australian Dollar against a range of currencies, and major exchange rates against the US Dollar. The change in these yields and rates over different time periods is also included.

MATURITY	ISSUER	YIELD	CHANGE (BASIS POINTS)			EQUITIES	RATE	CHANGE (PER CENT)		
			1 WEEK	1 MONTH	1 YEAR			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.76	-22	-25	-25	AUD/USD	0.63	0.16	-0.44	-3.31
	NSWTC	3.75	-23	-25	-26	AUD/EUR	0.58	0.59	-3.18	-3.31
	TCV	3.79	-21	-23	-28	AUD/GBP	0.49	0.18	-2.83	-5.79
	WATC	3.70	-22	-25	-30	AUD/JPY	95.22	1.55	0.88	-3.54
	Australian Government	3.55	-25	-21	-17	AUD/CAD	0.90	0.05	-0.31	2.23
	US Government	3.65	-34	-33	-81	AUD/NZD	1.10	0.16	-0.96	0.62
5 Year	QTC	4.08	-21	-20	-3	AUD/SGD	0.84	0.37	-0.33	-4.10
	NSWTC	4.08	-21	-18	-5	AUD/HKD	4.90	0.21	-0.41	-3.94
	TCV	4.13	-20	-19	-7	AUD/KRW	923.03	-0.15	1.69	4.89
	WATC	4.00	-22	-19	-10	AUD/CNY	4.58	0.53	-0.31	-2.91
	Australian Government	3.69	-25	-19	-7	AUD/INR	54.01	-0.66	-2.18	-0.70
	US Government	3.73	-36	-32	-57	MAJOR CURRENCIES				
7 Year	QTC	4.48	-21	-15	15	EUR/USD	1.08	-0.42	2.84	0.00
	NSWTC	4.46	-21	-13	7	GBP/USD	1.30	-0.01	2.46	2.63
	TCV	4.50	-21	-14	5	USD/JPY	150.97	-1.38	-1.32	0.24
	WATC	4.35	-21	-14	6	USD/CHF	1.13	0.12	1.24	2.13
	Australian Government	3.95	-27	-16	1	USD/CNY	7.26	-0.37	-0.13	-0.42
	US Government	3.86	-36	-29	-45	MAJOR COMMODITIES				
10 Year	QTC	4.98	-20	-10	29	Brent Crude Oil	74.03	2.82	1.38	-15.37
	NSWTC	4.94	-22	-9	19	Gold	3,057	0.41	4.88	37.11
	TCV	5.00	-21	-8	17	Copper	9,927	-0.10	5.59	11.95
	WATC	4.75	-21	-9	16	Iron Ore	103.49	2.98	-1.70	10.40
	Australian Government	4.22	-27	-10	10					
	US Government	4.03	-33	-22	-28					

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from *Macrobond*.

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