

Weekly Economics and Markets Review

- The RBA appears willing to continue to increase rates with RBA Governor Lowe reportedly expressing concern to Federal MPs about the persistence of inflation.
- US debt ceiling negotiations saw limited progress, despite warnings from the US Treasury that it expects to run out of funds over the coming week(s).
- Central bank commentary was mixed (particularly at the Fed) as central banks grapple with where the peak in policy rates might be.

Week in review

Domestic

- It was reported that during a closed-door session with members of the federal parliament's economics committee RBA Governor Lowe struck a relatively pessimistic tone, stating he had no tolerance for lingering inflation and would do what was needed to bring it down.
- The RBA's head of domestic markets David Jacobs reiterated comments from the minutes to the May meeting which stated that the current approach of holding government bonds purchased during the pandemic until they mature should be reviewed periodically. Jacobs noted that this strategy remains appropriate 'for the time being'.
- Business activity (as measured by the S&P Global PMIs) softened in May. The composite measure of manufacturing and services continues to suggest improving conditions, albeit at a slower pace than previously.

Offshore

- Negotiations over the US debt ceiling continued again this week, with limited tangible progress seemingly made.
 - US President Biden (Democrat), House Speaker McCarthy (Republican) and Senate Majority Leader Schumer (Democrat) remain optimistic that a deal can be reached soon. Though they suggested this last week too and there has seemingly been little progress made since. Spending cuts are the major issue with Republicans wanting to cut it while Democrats are seeking to stop it from growing.
 - This came as US Treasury Secretary Yellen warned it was 'highly likely' that Treasury would run out of funds to meet its existing obligations (known as the X-date) in early June and that Treasury 'no longer see[s] much likelihood that our resources will enable us to get to the middle or end of June.'
 - Meanwhile, Fitch Ratings placed the US's AAA rating on negative watch to reflect the risk the debt limit is not raised or suspended before the X-date. This is essentially a warning that it may downgrade the US credit rating.
- In central bank news:
 - The minutes to the US Federal Open Market Committee's May meeting showed a split among members about the prospect of future tightening with

'some' members feeling that further rate rises would likely be warranted, while 'several' believe that further policy tightening may not be necessary if their economic outlook were realised.

- This mixed sentiment was reflected in the commentary from various Fed officials over the week. Some suggested rates needed to be higher, others implied they should remain on hold with another cohort undecided and waiting for more data ahead of the Committee's next meeting on 15 June.
- There was a more uniform message from the ECB, with policymakers stating the Bank still had more need to hike rates in order to bring down inflation.
- The Reserve Bank of New Zealand lifted the policy rate by 25-basis points to 5.5 per cent at its May meeting. While in line with consensus expectations, some had expected a 50-basis point hike. The post-meeting statement struck a dovish tone, with policymakers discussing the merits of a 25-basis point hike or keeping rates on hold (that is, there was no discussion on a 50-point increase for May). Policymakers failed to reach a consensus and opted to put the policy decision to a vote for the first time; five members voted for the 25-basis point hike while two voted to keep rates unchanged.
- On the data front:
 - Business activity across many advanced economies (as measured by the S&P Global PMIs) was mixed in May with manufacturing activity underperforming, though the larger services sector continues to expand.
 - **UK** inflation in April was notably stronger than expected. Headline CPI eased to a still elevated 8.7 per cent year-on-year (from 10.2 per cent), with core CPI rising to a more than two-decade high of 6.8 per cent. Price pressures were broad-based, with services and goods inflation particularly strong.
 - **Japanese** inflation accelerated in April, with the annual pace of headline and various core CPI measures all rising.
 - **New Zealand** retail sales fell notably in Q1, against expectations of a slight increase, with broad-based weakness. Given retail sales account for around 60 per cent of household consumption there is a risk of a technical recession (two quarters of negative growth) in Q1 23 given GDP contracted in Q4 22.
 - **Germany** entered a technical recession over winter with Q1 23 GDP revised down from flat to -0.3 per cent, this followed the -0.4 per cent Q4 22 print.

Markets

Bond yields continued to rise as Fed officials again suggested that rates may be raised further if needed, while yields on short-term US Treasury bills surged as debt ceiling negotiations seemed to stall. The prospect of higher rates saw equities mostly lower over the week, while the US dollar outperformed.

Economic & Market Calendar

DATE	DETAILS
Domestic	Friday, 26 May: Retail Sales (April) Tuesday 30 May: Building Approvals (April) Wednesday 31 May: CPI (April), Construction Work Done (Q1), and Private Sector Credit (Apr) Thursday 1 June: Private Capital Expenditure (Q1) and CoreLogic House Prices (May)
Offshore	US: Debt ceiling discussions, Various Fed speakers, Fed Beige Book, PCE Deflator (April), Job Openings (April), and Consumer Confidence (May) Euro area: Inflation (May), Economic Confidence (May) GDP (Q1) and Ifo Business Climate Survey (May) China: Official NBS PMIs (April)

Economic and Financial Market Charts

CHART 1: THE RBA'S BALANCE SHEET WILL SHRINK AS LIQUIDITY MEASURES AND BONDS PURCHASED DURING COVID MATURE AND MAY CONSIDER ACTIVELY SELLING BONDS TO EXPEDITE THIS PROCESS

CHART 2: DOMESTIC SERVICES ACTIVITY CONTINUES TO IMPROVE, ALBEIT AT A SLOWER RATE WHILE MANUFACTURING ACTIVITY CONTINUES TO MODERATE

Graph 6

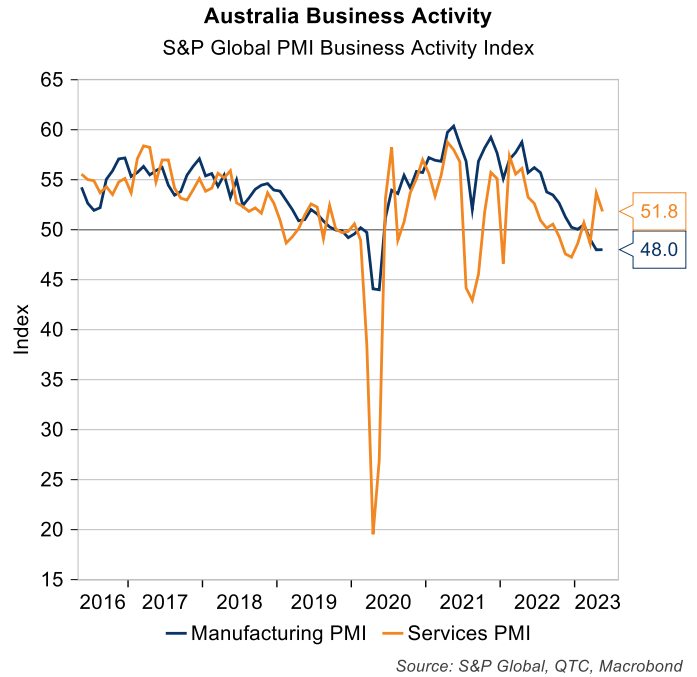
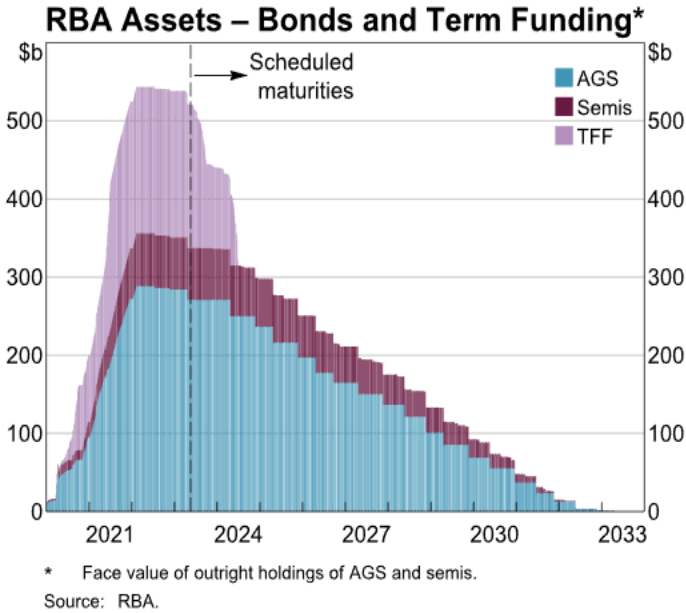
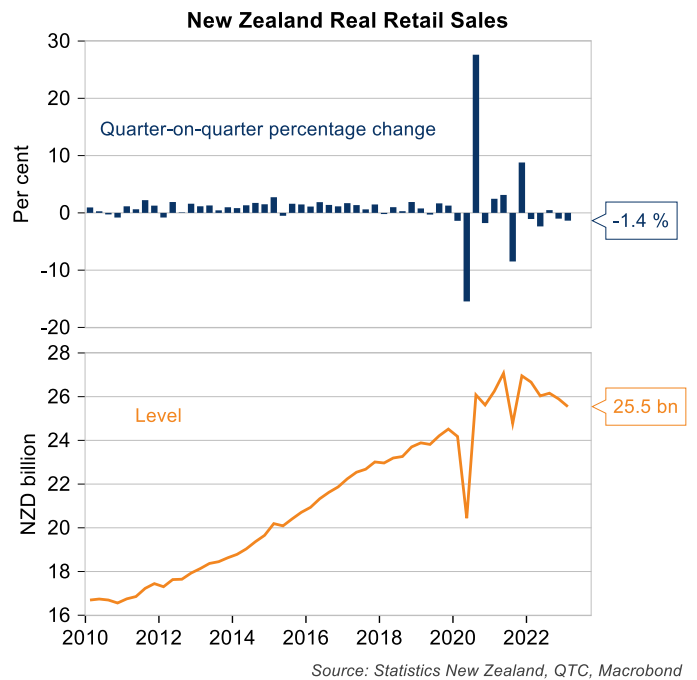
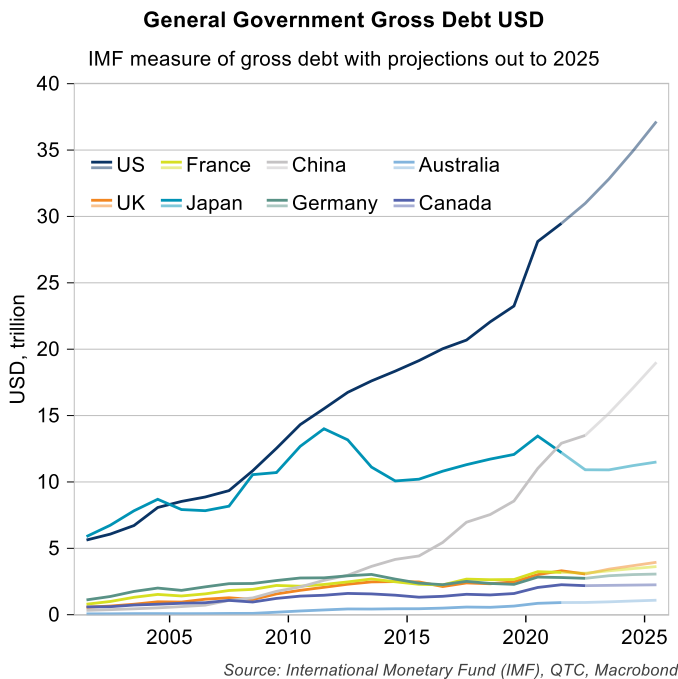


CHART 3: IN US DOLLAR TERMS US DEBT IS NOTABLY HIGHER THAN ANY OTHER ECONOMY. IT IS UNCLER HOW EFFETIVE THE DEBT CEILING HAS BEEN IN RESTRICTING GOVERNMENT FISCAL EXPANSION.

CHART 4: NEW ZEALAND CONSUMER SPENDING HAS CONTRACTED OVER THE PRIOR TWO QUARTERS AS COST-OF-LIVING PRESSURES CONTINUE TO IMPACT HOUSEHOLD SPENDING



Economic and Financial Market Charts

CHART 5: CORE PRICE PRESSURES PICKED UP IN APRIL WITH THE CORE CPI INCREASING AT ITS FASTEST PACE SINCE MARCH 1992

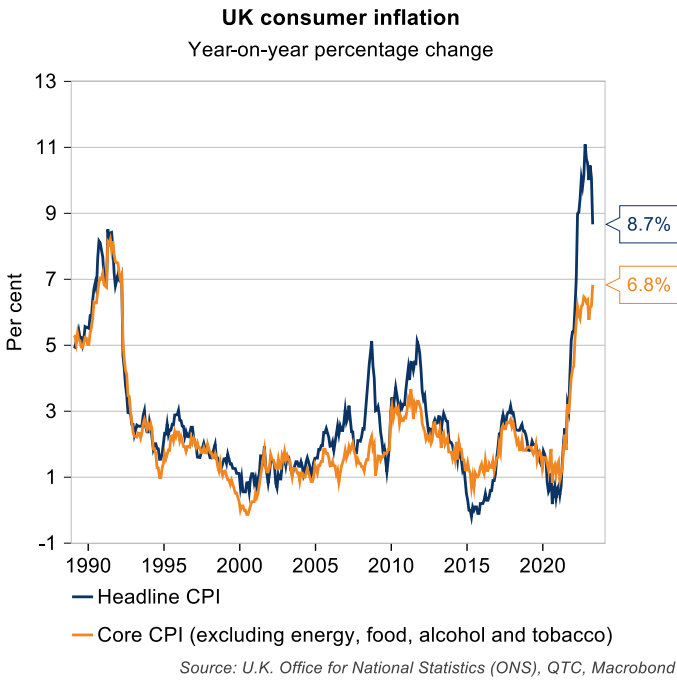


CHART 6: ... AS JAPANESE 'NEW' CORE CPI (EXCLUDES FRESH FOOD AND ENERGY) REACHED THE FASTEST RATE SINCE SEPTEMBER 1981

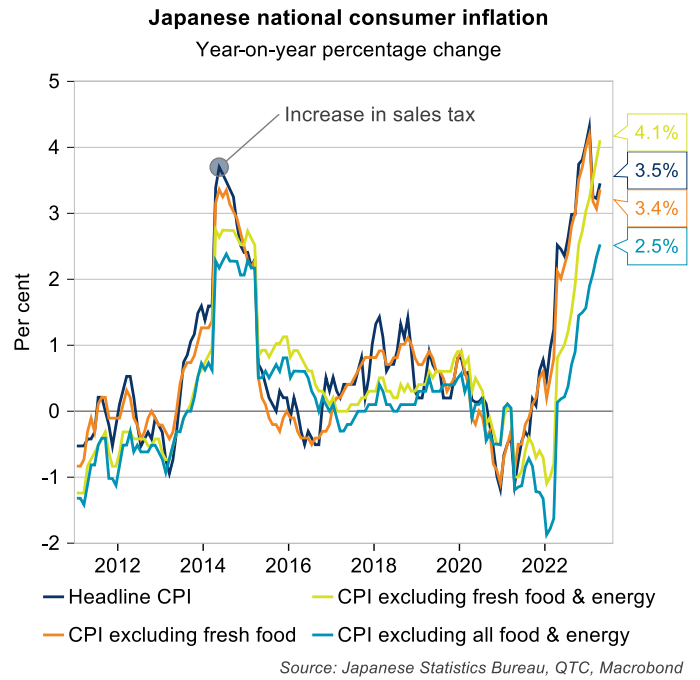
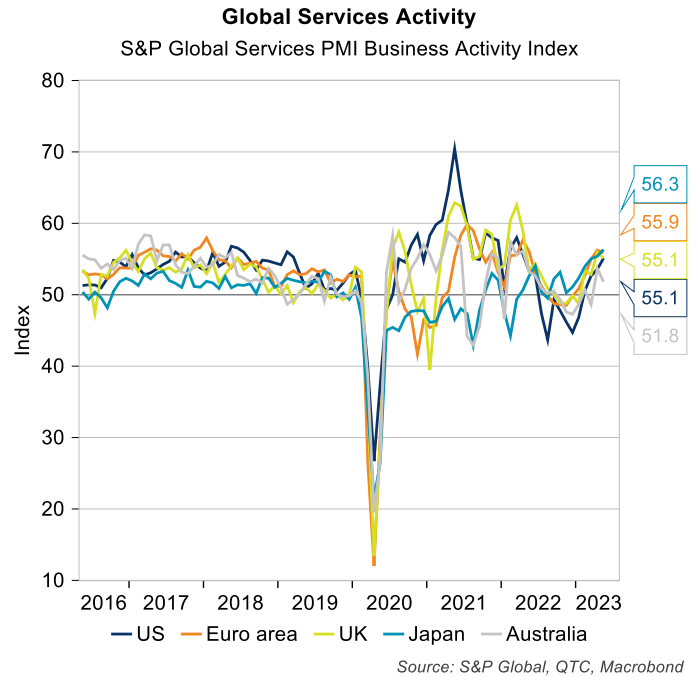


CHART 7: GERMANY ENTERED A TECHNICAL RECESSION OVER THE WINTER, WITH DOWNWARD REVISIONS TO PUBLIC AND PRIVATE CONSUMPTION, THOUGH CAPITAL INVESTMENT REBOUNDED



CHART 8: GLOBALLY, CONDITIONS IN SERVICES SECTORS CONTINUE TO IMPROVE THOUGH CONDITIONS AREN'T AS FIRM IN MANUFACTURING



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	18	39	79	AUD/USD	0.6499	-1.66	-1.89	-8.28
	NSWTC	3.75	18	39	82	AUD/EUR	0.6066	-1.21	0.45	-8.35
	TCV	3.81	20	43	86	AUD/GBP	0.5280	-0.97	-1.17	-6.30
	WATC	3.75	18	40	79	AUD/JPY	90.942	-0.70	2.58	0.77
	Australian Government	3.41	20	47	67	AUD/CAD	0.8863	-0.81	-1.86	-2.20
	US Government	4.21	29	56	158	AUD/NZD	1.0752	1.00	-0.30	-1.91
						AUD/SGD	0.8808	-1.16	-0.69	-9.51
5 Year	QTC	3.79	19	37	57	AUD/HKD	5.0921	-1.57	-2.07	-8.45
	NSWTC	3.83	19	37	61	AUD/KRW	861.94	-2.23	-2.34	-4.04
	TCV	3.86	20	39	62	AUD/CNY	4.6043	-1.07	0.35	-3.44
	WATC	3.77	19	37	54	AUD/INR	54.015	-1.43	-1.12	-1.90
	Australian Government	3.43	21	41	48	MAJOR CURRENCIES				
	US Government	3.91	23	46	120	EUR/USD	1.0724	-0.44	-2.27	-0.01
						GBP/USD	1.2320	-0.72	-0.72	-2.22
7 Year	QTC	3.99	19	36	57	USD/JPY	140.12	1.01	4.75	10.22
	NSWTC	4.06	20	36	63	USD/CHF	0.9063	0.12	1.61	-5.58
	TCV	4.06	21	39	62	USD/CNY	7.0811	0.64	2.17	5.04
	WATC	3.97	20	35	55	MAJOR COMMODITIES				
	Australian Government	3.57	21	40	45	Brent Crude Oil	76.24	0.50	-5.61	-35.06
	US Government	3.88	22	46	113	Gold	1,943.67	-0.62	-2.36	5.19
						Copper	7,901.50	-3.32	-7.35	-15.52
10 Year	QTC	4.31	19	36	70	Iron Ore	95.67	-10.45	-4.35	-16.55
	NSWTC	4.41	19	36	78					
	TCV	4.43	22	40	78					
	WATC	4.26	19	35	66					
	Australian Government	3.70	21	39	49					
	US Government	3.82	17	42	107					

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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