

Weekly Economics and Markets Review

- After having paused in April, the RBA again surprised by increasing the cash rate by 25-basis points at its May meeting.
- Central banks in the US and Europe also increased rates by 25-basis points this week.
- Concerns around the US banking sector returned to the fore this week with a fourth US bank failing.

Week in review

Domestic

- The RBA increased the cash rate target by 25-basis points to 3.85 per cent at its May meeting. This came as a surprise to both markets and economists as the RBA pause in April was to see further information and the most material news to emerge over the past month was softer than expected inflation.
 - The Bank acknowledged the moderation of price pressures as being welcome but seems to be growing uncomfortable with the time that inflation is expected to be above target. To this end, in the minutes to its April meeting, the RBA Board noted that inflation returning to the middle of the two to three per cent target band any later than mid-2025 would be inconsistent with its mandate. In today's statement, it was highlighted that some 'further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe'.
 - Ahead of the May Statement on Monetary Policy (to be released later this morning) the Bank made minimal changes to its forecasts, with expectations for inflation and GDP growth revised slightly lower.
- RBA Governor Lowe spoke following the RBA decision and acknowledged that both last and this month's decisions were finely balanced. He justified the hike on account of extra information received over the period including the unemployment rate remaining very low, house prices beginning to rise again, the AUD declining and worryingly persistent services inflation overseas.
- On the domestic data front:
 - Nominal retail sales rose for a third straight month in March, boosted by a lift in food and café/restaurant spending which was driven by higher prices.
 - Private sector credit growth remained stable in March, with annual credit growth easing 0.8 per cent to a still robust 6.8 per cent.
 - Producer price inflation accelerated to 1.0 per cent in Q1 (from +0.7 per cent Q4 2022) while the annual rate slowed six-tenths to +5.2 per cent.
 - The trade surplus increased by \$1.1 billion to \$15.3 billion in March as a jump in iron ore exports more than offset a lift in consumer imports.

Offshore

- The Federal Open Market Committee (FOMC), the policymaking body of the US Federal Reserve, increased the Fed Funds target rate by 25-basis points to 5.0 to 5.25 per cent, as was widely expected. The post-meeting statement removed the comment that 'the committee anticipates that some additional policy firming may be appropriate', a move seen as a hint that a possible pause in the hiking cycle may soon be coming and one which the Fed Chair Powell described as a 'meaningful change'. With rates near (if not already at) a sufficiently restrictive level, Powell revealed that the Committee did discuss pausing, though not for this meeting. •The European Central Bank (ECB) lifted rates by 25-basis points, which while expected, was a slower pace of rate hikes than seen in recent months. That said, with inflation risks still skewed to the upside, it seems as though policy tightening is not yet done with the Governing Council acknowledging that it had 'more ground to cover' and that it would cease re-investing maturing securities in July thus speeding up the process of balance sheet shrinkage.
- Concerns around the US banking sector resurfaced after First Republic Bank (FRB) became the fourth US bank to fail in two-months. After FRB were seized by regulators it was acquired by JP Morgan (JPM), with the US Federal Deposit Insurance Corporation providing JPM with loss guarantees to ensure the deal was completed. Following the fall of FRB there are also concerns for PacWest, another US regional bank, after reports it was considering strategic options including a potential sale. Its shares are down 70 per cent over the week.
- It was a busy week for US data:
 - The Fed's preferred measure of inflation, the core PCE deflator, eased by one-tenth to 4.6 per cent year-on-year in March.
 - The Employment Cost Index rose 1.2 per cent over Q1 (from an upwardly revised +1.1 per cent in Q4 2022) though the annual rate eased two-tenths to 4.9 per cent.
 - The US labour market remains tight, with the ADP measure of private sector employment rising in April (this ahead of the official non-farm payrolls release tonight), and while US job openings did ease in March, they remain historically very elevated.

Markets

Renewed banking sector concerns and the Fed signalling it may be near the end of its tightening cycle saw large declines in US bond yields this week. Australian yields moved in the same direction but by considerably less. Equities and the US dollar were little changed over the week, while most major commodities eased.

Economic & Market Calendar

DATE	DETAILS
Domestic	Friday, 5 May: RBA May Statement on Monetary Policy (including revised economic forecasts) and Home Loan Values (March). Monday, 8 May: NAB Business Survey (April) and Building Approvals (March). Tuesday, 9 May: 2023/24 Federal Budget and Retail Trade Volumes (Q1).
Offshore	US: Debt ceiling discussions throughout the week, various Fed speakers, Non-farm Payrolls (April), CPI and PPI inflation (April) and the Senior Loan Officer Opinion Survey. Euro area: Various ECB speaker and Retail Sales (March). UK: Bank of England Policy Meeting.

Economic and Financial Market Charts

CHART 1: CENTRAL BANKS HAVE SLOWED DOWN ON RATE HIKES WITH MANY SIGNALLING THE TIME TO PAUSE IS OR MAY SOON BE AT HAND

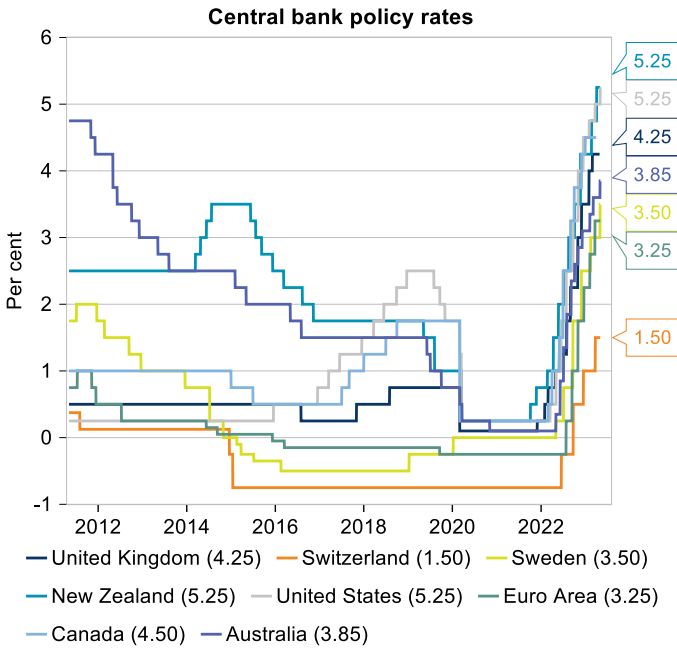


CHART 2: RETAIL SALES REMAINS ABOVE ITS PRE-COVID TREND BUT GROWTH HAS SLOWED AND IS NOW LARGELY DUE TO PRICE RISES

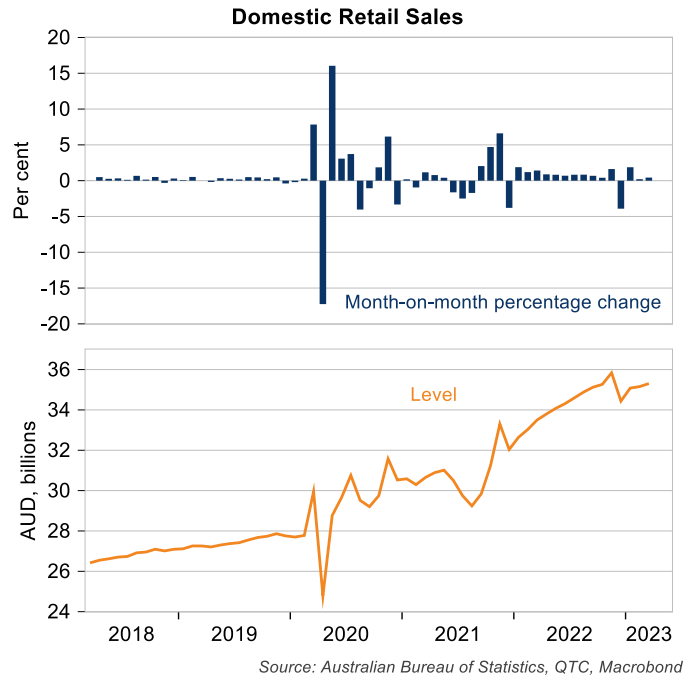


CHART 3: QUARTERLY US EMPLOYMENT COSTS REMAIN FIRM EVEN THOUGH ANNUAL GROWTH HAS STARTED TO EASE...

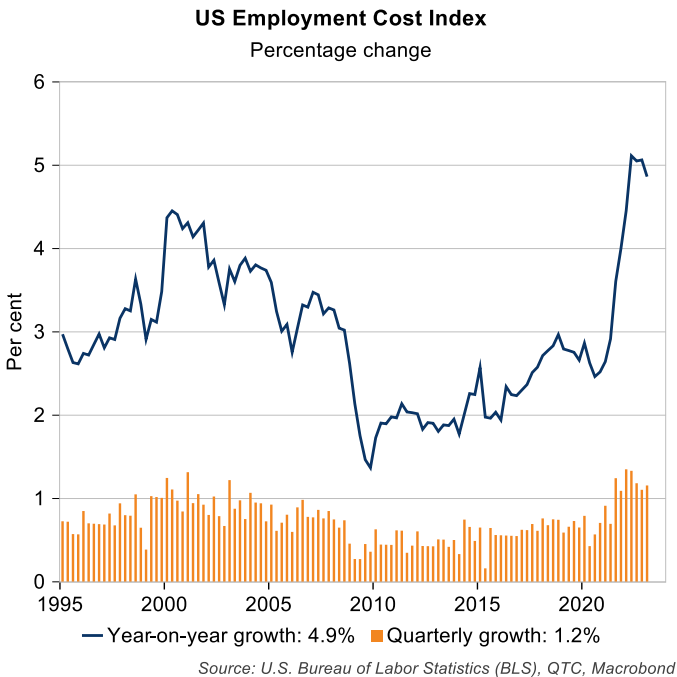


CHART 4: WITH STILL TIGHT LABOUR MARKETS MEANING THAT THE MODERATION OF EMPLOYMENT COST GROWTH WILL TAKE SOME TIME



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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.38	-5	5	2
	NSWTC	3.38	-5	5	7
	TCV	3.40	-4	5	7
	WATC	3.38	-3	4	3
	Australian Government	2.97	-4	8	-15
	US Government	3.48	-32	-12	58
5 Year	QTC	3.42	-7	3	-16
	NSWTC	3.45	-6	3	-12
	TCV	3.46	-6	3	-13
	WATC	3.40	-6	2	-18
	Australian Government	3.03	-6	5	-28
	US Government	3.30	-29	-9	29
7 Year	QTC	3.61	-7	1	-13
	NSWTC	3.68	-7	1	-5
	TCV	3.66	-7	2	-10
	WATC	3.60	-7	-0	-14
	Australian Government	3.16	-7	4	-27
	US Government	3.32	-25	-5	26
10 Year	QTC	3.94	-6	2	4
	NSWTC	4.03	-6	4	13
	TCV	4.02	-6	3	9
	WATC	3.91	-6	3	1
	Australian Government	3.31	-6	5	-21
	US Government	3.36	-16	2	32

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.67	1.30	-0.55	-5.47
AUD/EUR	0.6077	1.15	-1.27	-9.89
AUD/GBP	0.5319	0.25	-1.36	-7.40
AUD/JPY	89.615	1.11	1.05	-3.06
AUD/CAD	0.9071	0.72	0.06	-0.32
AUD/NZD	1.0642	-1.32	-0.44	-3.81
AUD/SGD	0.8897	0.67	-0.43	-9.45
AUD/HKD	5.2579	1.26	-0.60	-5.50
AUD/KRW	886.13	0.11	-0.05	-0.50
AUD/CNY	4.6281	0.82	-0.18	-2.18
AUD/INR	54.603	0.95	-1.17	-0.77

MAJOR CURRENCIES				
		1 WEEK	1 MONTH	1 YEAR
EUR/USD	1.1014	-0.14	0.55	4.48
GBP/USD	1.2574	0.61	0.58	1.71
USD/JPY	134.13	0.12	1.84	3.02
USD/CHF	0.8858	-0.96	-2.24	-10.07
USD/CNY	6.9116	-0.19	0.50	4.01

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	72.52	-7.46	-14.62	-34.61
Gold	2,050.85	3.35	1.49	9.29
Copper	8,468.50	-1.37	-3.23	-10.76
Iron Ore	99.44	-1.75	-15.22	-26.79

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

CLICK HERE TO SUBSCRIBE

QTC'S ECONOMIC RESEARCH

Topical issues important to global and Australian economies, and financial markets.

DISCLAIMER

The information within this document is intended for general information purposes only and does not constitute financial or other advice. Specific professional advice should be obtained before acting on the basis of any matter covered in this document. This information has been prepared in part by data sourced from third parties which has not been independently verified. The opinions, forecasts and data contained in this document is based on research as at the date of publication and is subject to change without notice. Queensland Treasury Corporation (QTC) issues no invitation to anyone to rely on the information and expressly excludes any warranties or representations as to its accuracy, adequacy, currency or completeness. All opinions expressed are the views of the QTC economics team and may differ from the views of QTC or other QTC servants or agents. To the extent permitted by law, QTC, its servants and agents (QTC Parties) disclaim all responsibility and liability for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying on the information contained in this document, whether that loss or damage is caused by any fault or negligence of the QTC Parties or otherwise. No part of this document may be reproduced, copied or published in any form or by any means without QTC's prior written consent. This document may contain statements about future events and expectations that are forward looking statements. None of the future projections, expectations, estimates or prospects in this document should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of assumptions, fully stated in the document.