Weekly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

- The monthly pace of domestic headline inflation lifted in August driven by rising fuel prices, while the pace for core inflation was steady.
- Job vacancies fell for a fifth consecutive quarter over the three months to August, though the level of vacancies remains elevated.
- Commentary from Federal Reserve and ECB officials suggested rates could be kept higher for longer as inflation remains high. This saw bond yields rise again.
- Business activity across advanced economies was mixed, though conditions in the manufacturing sector remain weaker than in the services sector.

Week in review

Domestic

- The Monthly CPI rose +0.6 per cent in August (up from +0.3 per cent in July), with the annual inflation rate rising three-tenths to +5.2 per cent. Underlying inflation was mixed, with the core CPI (which excludes fresh food, fuel and travel) rising +0.5 per cent on the month (the same as July) to be 5.5 per cent higher year-on-year (down from +5.8 per cent). The annual rate of the trimmed-mean measure was unchanged at +5.6 per cent. The details of the report were firm, with goods inflation accelerating (largely driven by a 9.1 per cent month-on-month jump in fuel prices) and services rebounding as a decline in travel prices was more than offset by increases across a range of other services.
  - Overall, there was limited market reaction to this stronger inflation report as investors look ahead to the more comprehensive Q3 inflation release, released on 25 October.
- Job vacancies fell 8.9 per cent over the three-months to August to be 15.2 per cent lower over the year. Declines were apparent across both private and public sector vacancies. However, despite now falling for five consecutive quarters, in level terms vacancies remain historically elevated and around 72 per cent above pre-COVID levels.
- Nominal retail sales rose slightly less than expected +0.2 per cent in August. This follows stronger outcomes in previous months with sales lifting 0.5 per cent in July and 0.8 per cent in June. Weakness was led by a second consecutive decline in food retailing (which covers grocery and liquor stores) as food inflation continued to ease. That said, the ABS suggested that warmer than usual weather, activity and events associated with the *2023 FIFA Women's World Cup*, and promotions related to *Afterpay Day* lifted spending on discretionary goods and services, especially clothing, footwear, personal accessories and at cafes/restaurants.
- The *Judo Bank/S&P Global PMIs* were mixed in September. Conditions in the services sector improved after having been easing. Meanwhile, the moderation in manufacturing sector conditions gathered pace.

Offshore

- It was a relatively busy week for global central banks:
  - Commentary from various Fed officials was on the hawkish side with several suggesting inflation remains too high and that there will likely need to be more rate hikes to return it to target.
  - There were also slightly hawkish comments from ECB officials who suggested upside inflation risks remain and that interest rates needed to be kept at restrictive enough levels for as long as necessary. Meanwhile, ECB President Lagarde stated that the Bank is not yet talking about rate cuts, but acknowledged core inflation was trending lower.
  - The Bank of Japan left policy settings (including negative rates, the yield curve control and forward guidance) unchanged at its September meeting. The Bank also kept its outlook and assessment of the economy and inflation unchanged following upward revisions at the last meeting.
  - At its Q3 policy meeting the People's Bank of China's suggested that monetary policy should remain *'precise and forceful'* and that the Bank would '*intensify the implementation of the monetary policy tools that have been introduced*' to help boost inflation.
- US Government services could be shut down next week if an agreement on the budget for the new fiscal year cannot be reached by 1 October. Credit rating agency *Moody's* said a shutdown would be *'negative'* for the US rating as it underscores the weakness of US institutional and governance strength relative to other Aaa-rated sovereigns.
- Business activity (as measured by the *S&P Global PMIs*) was mixed across advanced economies in September:
  - In the US, service sector conditions improved at a slightly faster pace while those in the manufacturing sector moderated but at a slower pace.
  - In the UK, conditions in the services sector deteriorated at a faster pace while those in the manufacturing sector did so but at a slower rate.
  - In the euro area, service sector conditions eased at a slower pace while those in the manufacturing sector were little changed.
  - In Japan, services sector conditions improved at a slower pace while those in the manufacturing sector moderated at a quicker rate.
- On the US data front:
  - Consumer confidence (as measured by the *Conference Board*) fell to the lowest level since May 2023. This was driven by a sharp fall in expectations with current conditions little changed.
  - Durable and capital goods orders rose above expectations in August.
  - Both new and pending home sales fell much more than expected in August.
- The annual rate of Chinese industrial profit and revenue growth lifted in August with that for profits returning to positive territory for the first time since June 2022 as profit margins widened.
- Japanese inflation in August was mixed. The headline CPI (which includes all items) eased one-tenth to 3.2 per cent year-on-year (though this was above the consensus expectation of 3.0 per cent). Meanwhile, the annual rate of growth in the Core CPI (which excludes fresh food), the New Core CPI (which excludes fresh food and energy) and Core Core CPI (which excludes all food and energy) were all stable at +3.1 per cent, +4.3 per cent and +2.7 per cent respectively.

Markets

Bond yields rose further this week amid the prospect that central banks could keep rates higher for longer. The US ten-year yield rose above 4.5 per cent for the first time since 2007 with this pushing the US dollar higher and weighing on equites. Oil prices also continued to rise amid tightening supply and persistent demand.

Economic & Market Calendar

DATE	DETAILS
Domestic	**Tuesday**: RBA Policy Meeting (Oct), Building Approvals (Aug), Home Loan Values (Aug), ANZ-Indeed Job Ads (Sep). **Friday**: Trade Balance (Aug).
Offshore	**US**: Non-farm Payrolls (Sep), ISM PMIs (Sep), JOLTS Job Openings (Aug), Factory Orders (Aug), Construction Spending (Aug).

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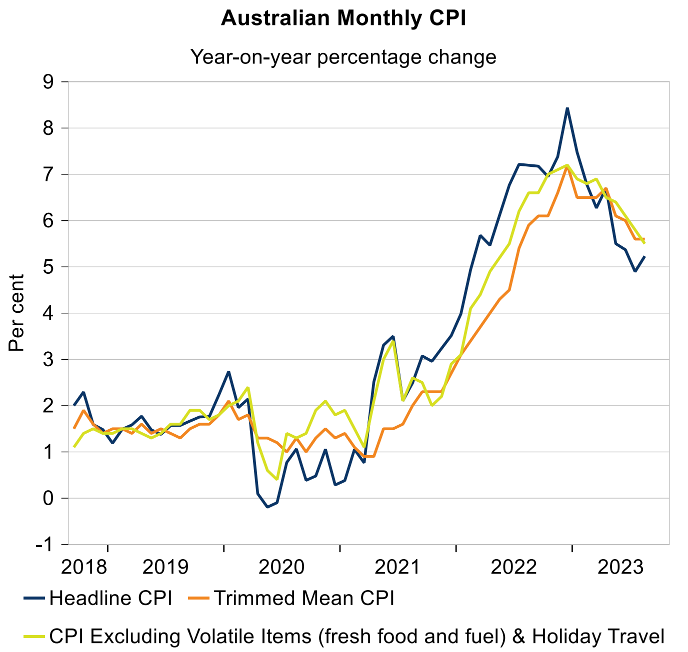
EMU: Unemployment Rate (Aug), Retail Sales (Aug), Producer Inflation (Aug).

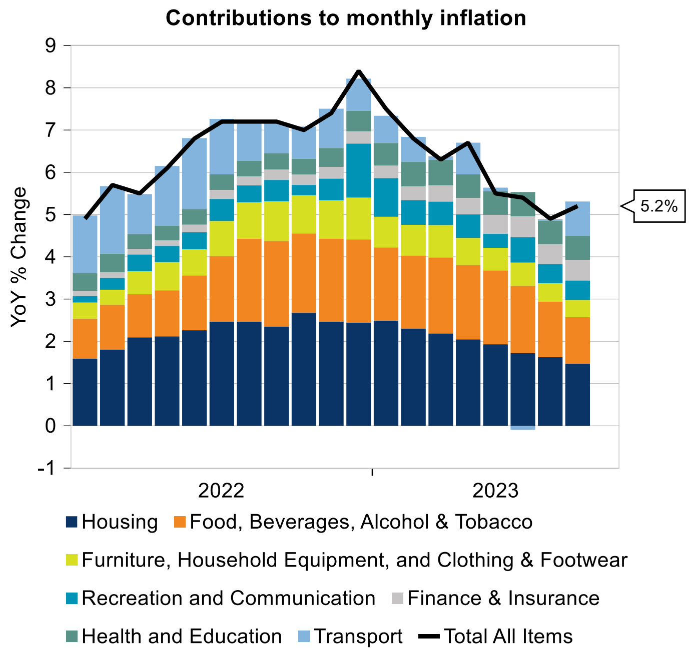
Economic and Financial Market Charts

CHART 1: ANNUAL INFLATION RATES WERE MIXED IN AUGUST WITH THE HEADLINE CPI LIFTING, CORE CPI EASING AND THE TRIMMED-MEAN CPI UNCHANGED



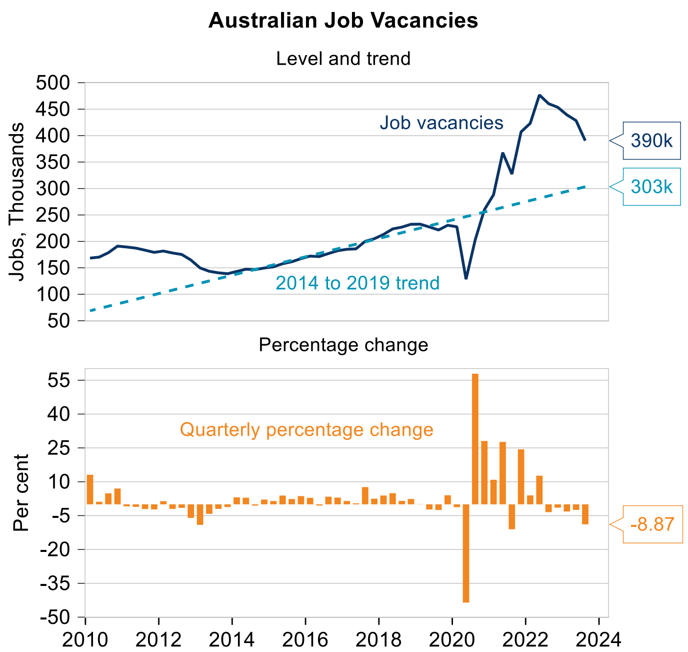
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: THE INCREASE IN HEADLINE INFLATION WAS LARGELY DRIVEN BY A RISE IN TRANSPORTATION INFLATION (WITH THIS DUE TO A JUMP IN FUEL PRICES)



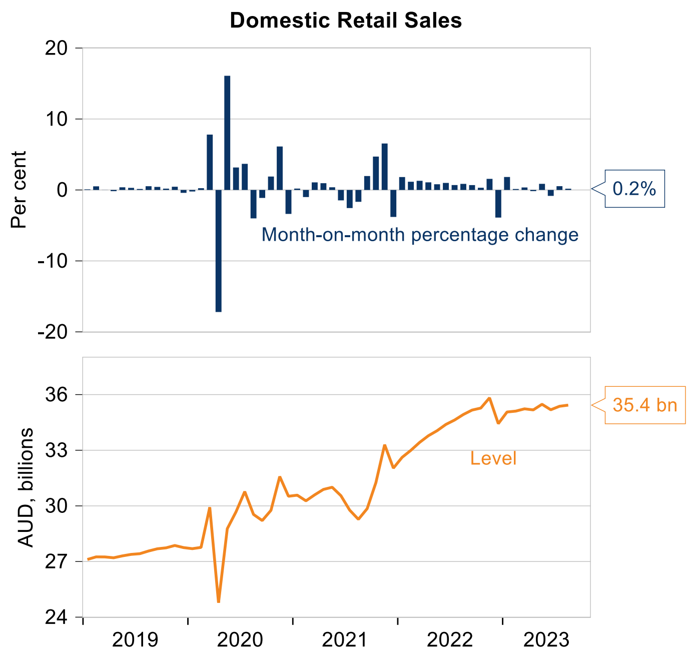
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: JOB VACANCIES HAVE DECLINED FOR FIVE CONSECUTIVE QUARTERS, THOUGH IN LEVEL TERMS REMAIN ELEVATED



Source: Australian Bureau of Statistics, QTC, Macrobond

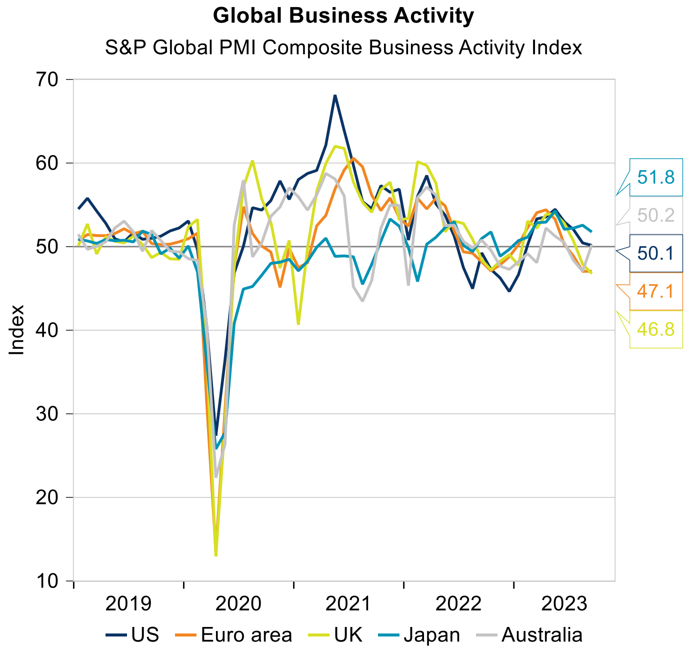
CHART 4: DOMESTIC RETAIL SALES HAVE STAGNATED AS THE COST OF LIVING HAS HAMPERED SPENDING



Source: Australian Bureau of Statistics, QTC, Macrobond

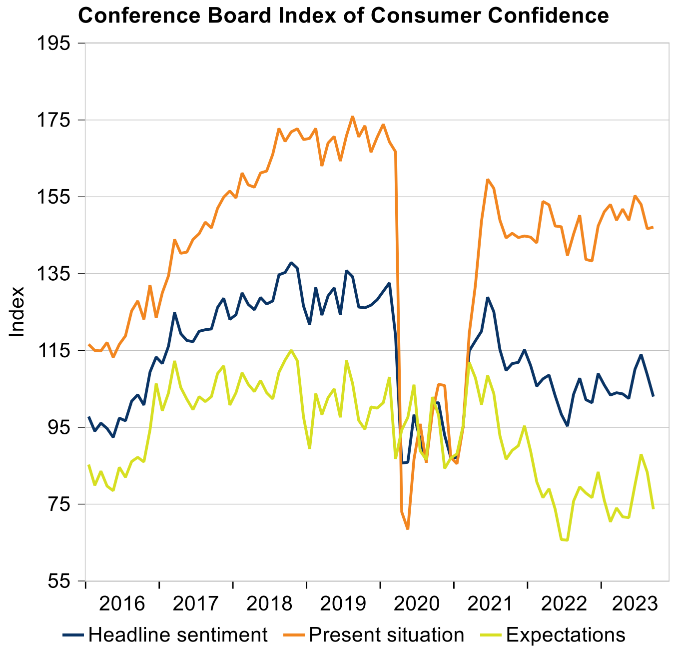
Economic and Financial Market Charts

CHART 5: THE S&P GLOBAL PMI MEASURES OF BUSINESS ACTIVITY REMAIN MIXED ACROSS ADVANCED ECONOMIES



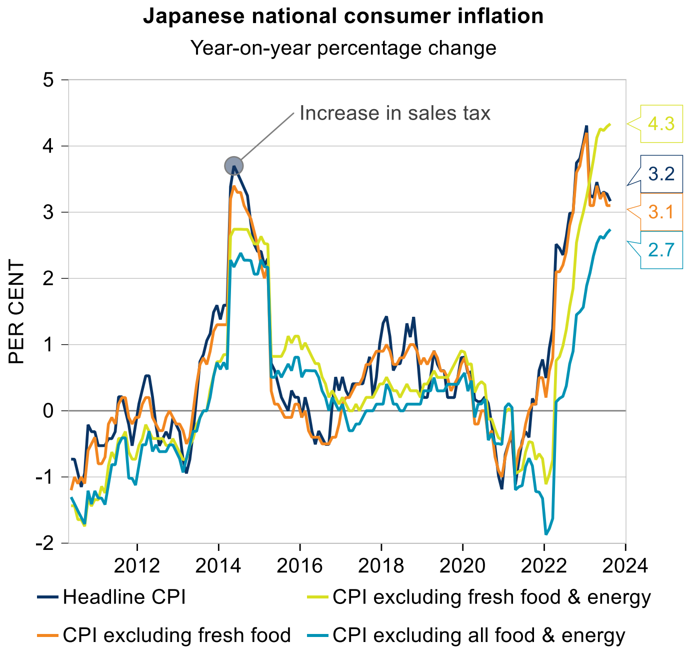
Source: S&P Global, QTC, Macrobond

CHART 6: US CONSUMER CONFIDENCE HAS FALLEN DUE TO A SHARP FALL IN EXPECTATIONS



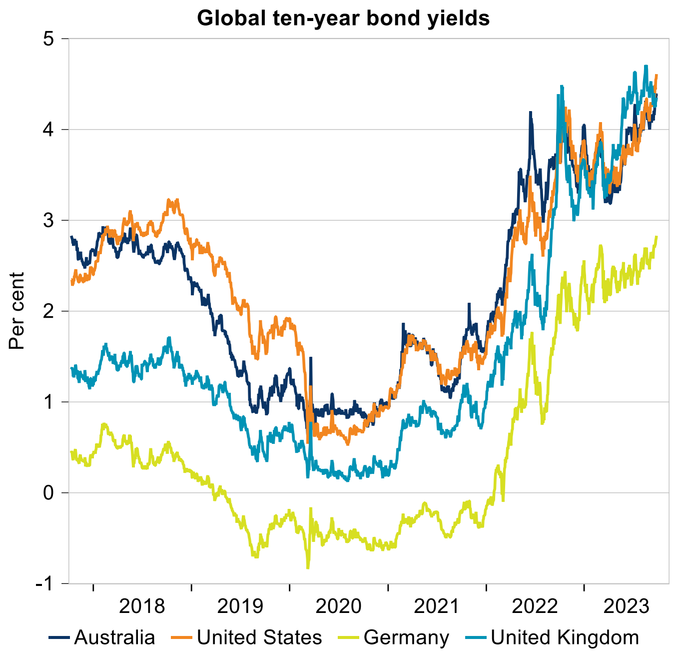
Source: Conference Board, QTC, Macrobond

CHART 7: KEY MEASURE OF JAPANESE CONSUMER INFLATION REMAIN ABOVE THE BANK OF JAPAN'S TWO PER CENT TARGET



Source: Japanese Statistics Bureau, QTC, Macrobond

CHART 8: BOND YIELDS HAVE RISEN SIGNIFCANTLY OVER THE LAST MONTH AS CENTRAL BANKS HAVE SIGNALLED POLICY RATES MAY NEED TO REMAIN HIGHER FOR LONGER



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.

			CHANGE (BASIS POINTS)		
MATURITY	ISSUER	YIELD	1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.33	5	19	24
	NSWTC	4.34	5	18	28
	TCV	4.38	5	19	33
	WATC	4.31	5	19	23
	Australian Government	4.10	6	24	38
	US Government	4.82	-4	23	60
5 Year	QTC	4.40	7	20	16
	NSWTC	4.43	8	19	17
	TCV	4.46	6	19	21
	WATC	4.38	7	20	15
	Australian Government	4.14	8	25	29
	US Government	4.62	0	35	61
7 Year	QTC	4.61	10	22	20
	NSWTC	4.67	11	21	23
	TCV	4.67	10	21	23
	WATC	4.58	10	22	17
	Australian Government	4.29	12	28	31
	US Government	4.64	6	41	71
10 Year	QTC	4.93	11	23	31
	NSWTC	5.01	14	22	31
	TCV	5.04	13	24	35
	WATC	4.85	12	22	23
	Australian Government	4.44	15	31	36
	US Government	4.57	8	46	79

		CHANGE (PER CENT)		
EQUITIES	RATE	1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.6423	0.08	-0.59	-0.88
AUD/EUR	0.6083	1.01	2.27	-8.24
AUD/GBP	0.5265	0.87	2.83	-10.15
AUD/JPY	95.867	1.26	1.68	2.37
AUD/CAD	0.866	0.13	-1.34	-2.51
AUD/NZD	1.0768	-0.50	-0.87	-5.31
AUD/SGD	0.8771	-0.03	0.46	-5.63
AUD/HKD	5.0285	0.17	-0.82	-1.15
AUD/KRW	871.47	1.34	2.03	-6.56
AUD/CNY	4.689	-0.03	-0.55	1.54
AUD/INR	53.142	-0.16	-0.38	0.34
MAJOR CURRENCIES	RATE	1 WEEK	1 MONTH	1 YEAR
EUR/USD	1.0503	-1.48	-3.47	7.00
GBP/USD	1.2135	-1.33	-4.03	9.15
USD/JPY	149.64	1.39	2.58	3.59
USD/CHF	0.9214	1.86	4.90	-5.57
USD/CNY	7.3109	0.03	0.43	2.79

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	95.14	1.97	11.29	7.51
Gold	1,863.60	-2.92	-3.76	12.34
Copper	8,114.00	-0.98	-3.96	7.58
Iron Ore	118.05	0.49	7.13	34.01

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