

# Weekly Economics and Markets Review

- A speech from RBA Assistant Governor Kent maintained the Bank's tightening bias, though he did suggest policy was in restrictive territory and there are still some further effects from prior rate hikes to come.
- Surveys of domestic business and consumer confidence were mixed, while job ads fell further.
- Commentary from Federal Reserve officials as well as the Minutes to the September Federal Open Markets Committee (FOMC) mostly pointed to policy rates being kept on hold for the time being.
- US data were mixed, with labour market conditions remaining firm but headline and core consumer and producer price inflation lifting.

## Week in review

### Domestic

- RBA Assistant Governor Kent suggested that policy rates are in restrictive territory and that there are still some further effects from prior rate hikes to come. However, he repeated the RBA's recent commentary that *'some further tightening of monetary policy may be required to ensure that inflation, which is still too high, returns to target in a reasonable timeframe'*. In Q&A, Kent indicated that, in contrast to some speculation in markets, the Bank had no current plans to actively sell its holdings of government bonds.
- The RBA's quarterly *Financial Stability Review* noted that Australia's financial system *'remains strong'* and that *'most Australian households and businesses remain well placed to adapt to the challenging set of economic conditions, though some are vulnerable to further shocks.'*
- The *NAB Business Survey* showed that business conditions eased in September but remain above the series average, while business confidence was stable at levels below average. The fall in business conditions was broad-based, with declines across profitability, trading, and employment.
- The *Westpac-Melbourne Institute Consumer Sentiment Index* lifted in October but remains well below the series average (as has been the case since early 2022).
- The *SEEK* measure of job advertisements fell in September, the 14<sup>th</sup> drop in the last 16 months. Despite this trend lower, job ads are still around 25 per cent above December 2019 levels.

### Offshore

- Commentary from Federal Reserve officials indicated that many thought policy rates may have peaked and the recent sharp increase in bond yields means the Fed may not need to tighten policy further. However, this was not a view shared by all policymakers, with some still suggesting inflation remains too high and that further interest rate hikes may be needed.
- The FOMC's September Minutes contained limited new information relative to the post-meeting statement but did highlight that *'all participants'* believed the Committee should *'proceed carefully'* and *'all'* agreed policy should remain restrictive for some time until the Committee was confident inflation was moving down sustainably toward its two per cent target.
- The Minutes of the ECB's September policy meeting highlighted that the Bank was encouraged by recent developments in core inflation but the 25-basis point increase in rates at the meeting – while a close call – was done to reduce upside risks to inflation and help boost confidence in inflation returning to target.
- The *IMF's World Economic Outlook* slightly downgraded its forecasts for global GDP growth in 2024 – as downward revisions to European and Chinese growth was offset by upgrades to that for the US – and slightly upped its 2024 global inflation forecast.
- China's largest property developer, *Country Garden*, warned it may default on its international debts after being unable to make some repayments.
- In the days following, there were reports that Chinese authorities were considering issuing one-trillion yuan (AUD 213 billion) in sovereign bonds to support the economy and infrastructure spending to help the economy meet the official growth target of around five per cent.
- On the US data front:
  - Non-farm payrolls lifted 336,000 in September, almost double the consensus expectation. This was accompanied by strong upward revisions to prior months' outcomes. Despite this, the unemployment rate remained at 3.8 per cent as jobs growth in the Household Survey – which feeds into the unemployment rate calculation – was more modest and labour force participation lifted slightly. Average hourly earnings growth was less than expected in September, with the annual growth rate easing one-tenth to +4.2 per cent.
  - US headline consumer price inflation was slightly above expectations for the month of September while core inflation was in line. The annual rate of headline inflation was steady at 3.7 per cent while that for core inflation eased from 4.3 per cent to 4.1 per cent.
  - Meanwhile, headline producer price inflation rose above expectations in September, largely driven by a sharp lift in energy prices and an increase in food prices. Core producer inflation (which excludes food, energy, and trade services) rose in-line with expectations, with the annual pace easing one-tenth to +2.8 per cent.
  - The New York Fed's measure of US consumer inflation expectations rose in September with the one-year ahead measure rising to 3.67 per cent (from 3.63 per cent) and the three-year ahead gauge increasing to 3.0 per cent (from 2.8 per cent).
- Meanwhile, euro area consumer inflation expectations (as measured by the ECB) also rose in August with the one-year and three-year ahead measures both lifting by one-tenth to 3.5 per cent and 2.5 per cent respectively.
- Canadian employment rose by 63,800 in September (more than three-times the consensus expectation) which saw the unemployment rate remain at 5.5 per cent despite a lift in the participation rate.

## Markets

Bond yields eased over the week following the Hamas attacks on Israel and following commentary from Federal Reserve officials that policy rates may have reached a peak. The decline in US yields pushed the US dollar lower against most major currencies and equities higher. Oil prices have had a turbulent week, rising sharply on Monday open following the attack, before easing through the week on reports Iran was surprised by the attacks to finish largely unchanged.

## Economic & Market Calendar

DATE	DETAILS
Domestic	<b>Tuesday:</b> RBA Minutes (Oct) <b>Thursday:</b> Labour Force Survey (Sep)
Offshore	<b>US:</b> Retail Sales (Sep), Industrial Production (Sep), Fed Beige Book, Building Permits and Housing Starts (Sep), Existing Home Sales (Sep) <b>UK:</b> CPI (Sep), Employment (Aug), Retail Sales (Sep) <b>China:</b> GDP (Q3), Monthly Activity Data (Sep), one and five-year Loan Prime Rates (Oct), Medium-Term Lending Facility Rate (Oct) <b>New Zealand:</b> CPI (Q3), 2023 General Election

## Economic and Financial Market Charts

CHART 1: DOMESTIC VARIABLE RATE LOANS AND FUNDING COSTS HAVE RISEN SHARPLY OVER 2022 AND 2023, ALONGSIDE THE INCREASES IN THE RBA CASH RATE

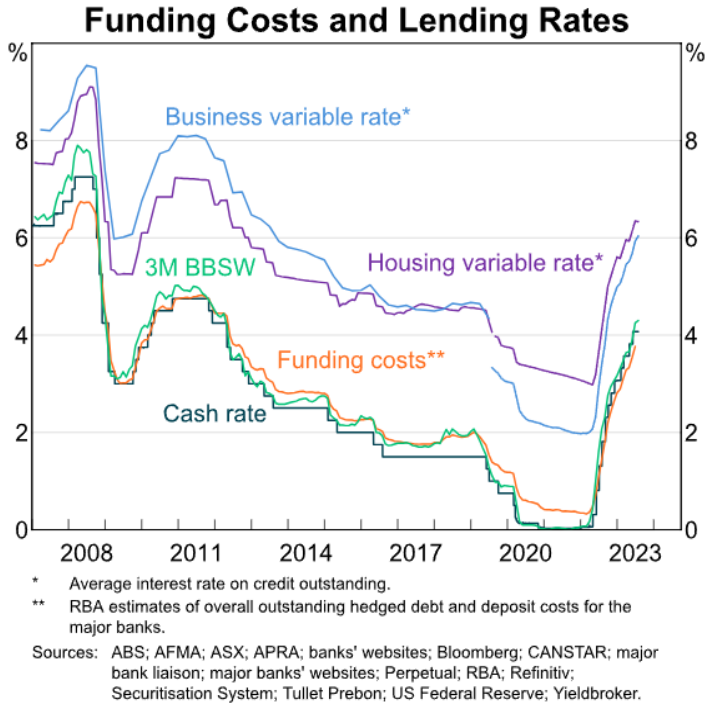


CHART 2: ...WITH THE CASH-FLOW CHANNEL OF MONETARY POLICY MORE PROMINENT IN ECONOMIES WHERE MOST DEBTS ARE NOT LOCKED IN FOR LENGTHY PERIODS (I.E. AUSTRALIA VERSUS THE US)

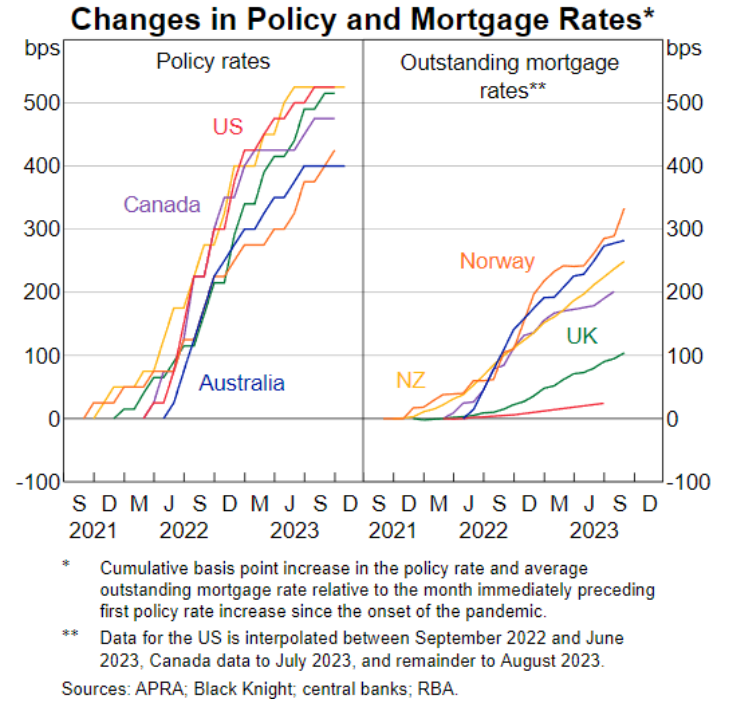


CHART 3: DOMESTIC CONSUMER SENTIMENT REMAINS AROUND 20 PER CENT BELOW ITS LONG-TERM AVERAGE...

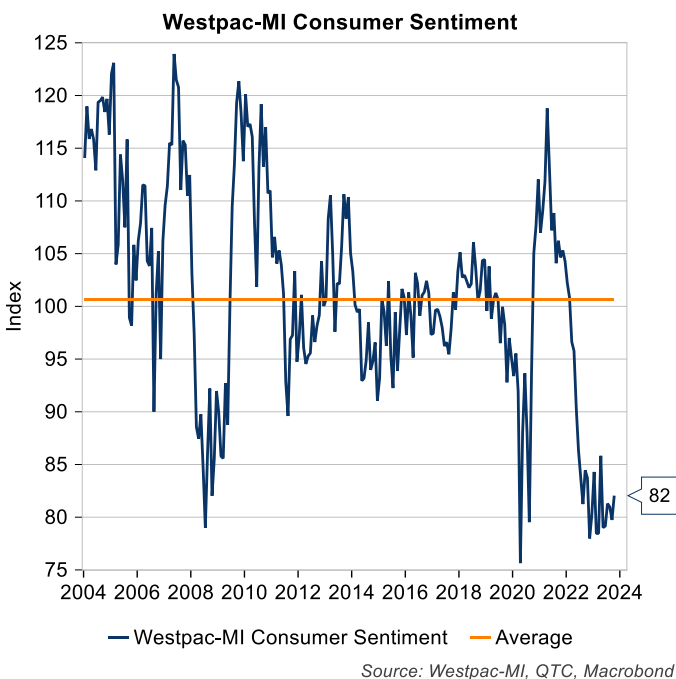
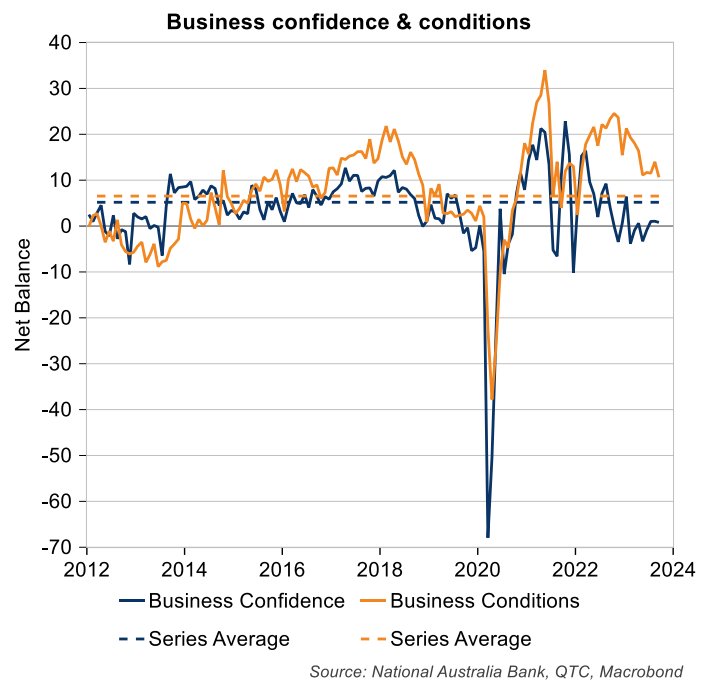


CHART 4: ...WHILE BUSINESS CONFIDENCE IS ONLY A LITTLE BELOW LONG-RUN AVERAGE, BUSINESS CONDITIONS ARE ABOVE



## Economic and Financial Market Charts

CHART 5: SEEK JOB ADS HAVE FALLEN IN 14 OF THE LAST 16 MONTHS

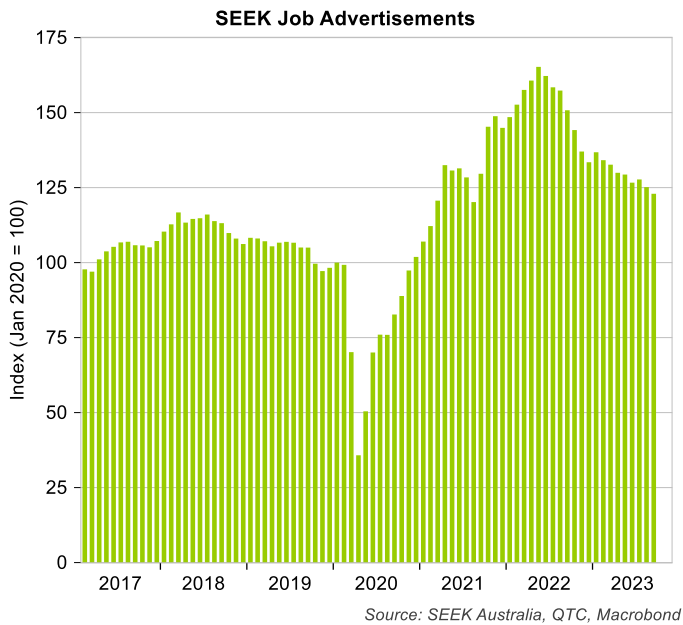


CHART 6: US PAYROLLS GROWTH JUMPED SHARPLY IN SEPTEMBER

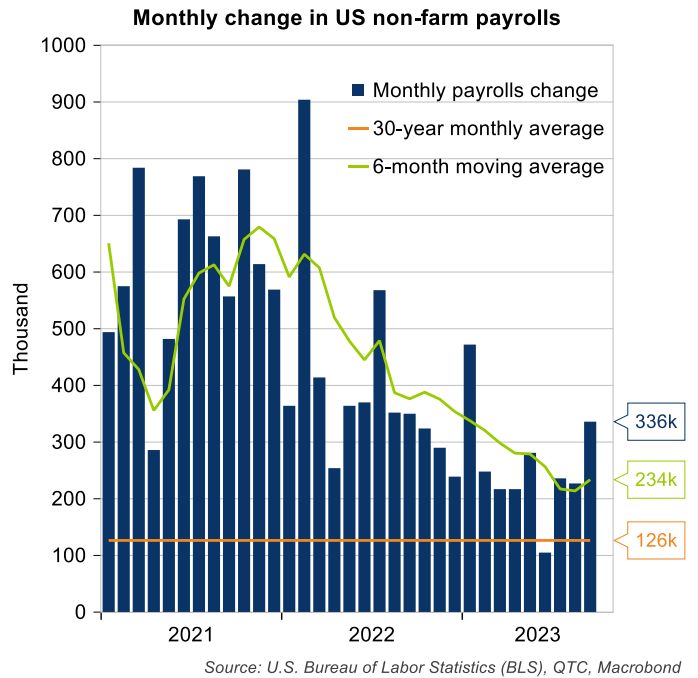


CHART 7: US CONSUMER PRICE INFLATION CONTINUES TO MOVE LOWER WHILE ENERGY PRICES ARE LIFTING HEADLINE INFLATION...

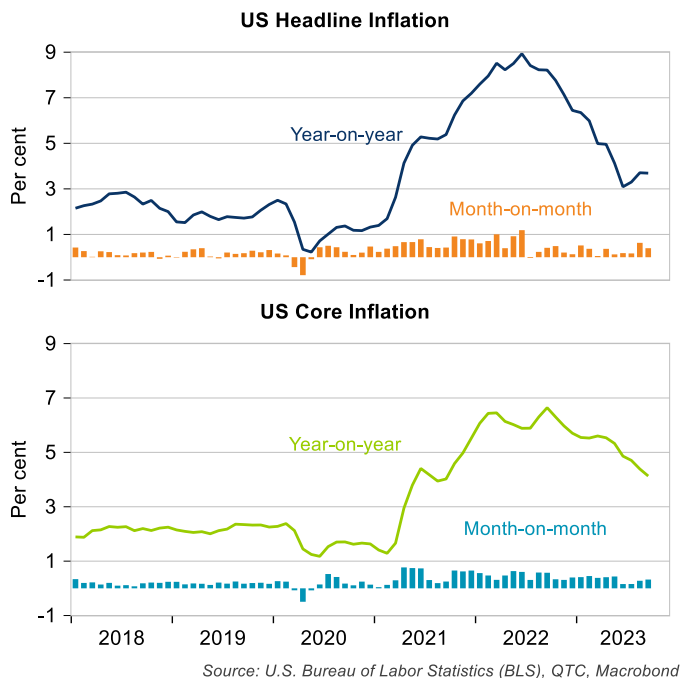
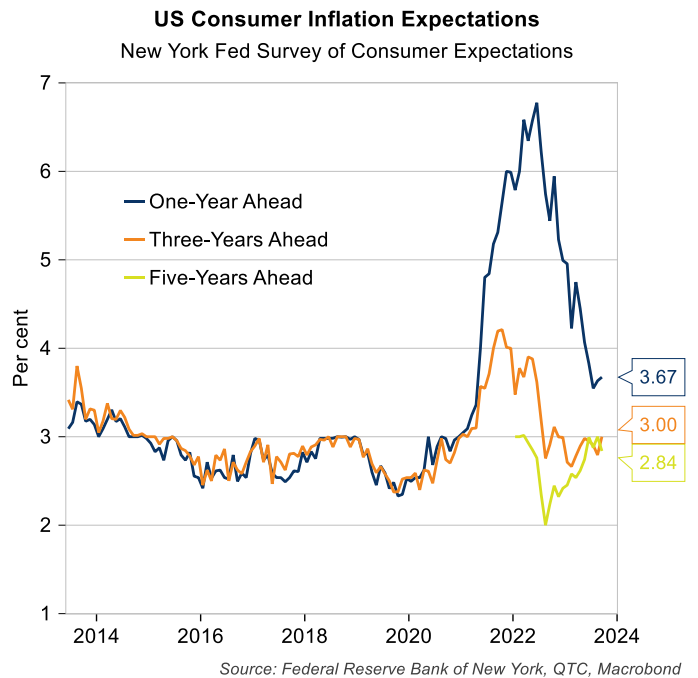


CHART 8: ...THIS AS US CONSUMER INFLATION EXPECTATIONS LIFTED (THOUGH REMAIN WITHIN RECENT RANGES)



## 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	4.18	-13	8	38	AUD/USD	0.6328	-0.49	-1.42	0.73
	NSWTC	4.19	-13	8	41	AUD/EUR	0.5998	-0.61	0.20	-6.67
	TCV	4.24	-13	9	46	AUD/GBP	0.5186	-0.66	0.81	-6.47
	WATC	4.15	-14	7	36	AUD/JPY	94.751	0.41	0.29	2.45
	Australian Government	3.91	-13	6	48	AUD/CAD	0.8649	-0.89	-0.62	0.06
	US Government	4.85	2	15	40	AUD/NZD	1.0661	-0.10	-2.02	-4.52
5 Year	QTC	4.31	-14	15	29	AUD/SGD	0.8661	-0.45	-0.94	-3.78
	NSWTC	4.34	-15	13	31	AUD/HKD	4.9505	-0.58	-1.49	0.38
	TCV	4.38	-13	16	36	AUD/KRW	846.75	-1.38	-0.63	-5.82
	WATC	4.28	-15	14	28	AUD/CNY	4.6112	-0.83	-1.57	2.75
	Australian Government	4.00	-13	12	38	AUD/INR	53.364	1.17	0.15	3.00
	US Government	4.69	1	26	49	<b>MAJOR CURRENCIES</b>	<b>RATE</b>	<b>1 WEEK</b>	<b>1 MONTH</b>	<b>1 YEAR</b>
7 Year	QTC	4.55	-15	19	34	EUR/USD	1.0620	0.66	-1.25	8.63
	NSWTC	4.63	-16	18	37	GBP/USD	1.2313	0.99	-1.42	8.71
	TCV	4.65	-14	21	40	USD/JPY	149.17	0.44	1.42	1.39
	WATC	4.52	-15	19	31	USD/CHF	0.9020	-1.13	1.19	-9.79
	Australian Government	4.17	-16	16	39	USD/CNY	7.3020	-0.06	0.14	1.97
	US Government	4.72	-1	35	63	<b>MAJOR COMMODITIES</b>	<b>PRICE (USD)</b>	<b>1 WEEK</b>	<b>1 MONTH</b>	<b>1 YEAR</b>
10 Year	QTC	4.90	-18	21	42	Brent Crude Oil	86.00	2.30	-6.58	-9.06
	NSWTC	4.98	-18	19	42	Gold	1,871.48	2.93	-2.14	12.35
	TCV	5.04	-17	24	47	Copper	8,024.00	1.58	-4.37	5.96
	WATC	4.81	-18	20	34	Iron Ore	114.61	-0.45	-1.98	37.97
	Australian Government	4.35	-19	20	44					
	US Government	4.70	-2	42	75					

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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