

# Weekly Economics and Markets Review

- The Q3 inflation report was notably stronger than expected, with markets significantly increasing the likelihood the RBA will raise rates at its 7 November meeting.
- Commentary from Fed officials was mixed, while the ECB and Bank of Canada both kept policy settings unchanged.
- US Q3 GDP increased by more than expected in Q3, though not all details in the report were as strong as the headline.

## Week in review

### Domestic

- The Q3 CPI report was notably stronger than consensus expectations and the RBA's most recent forecasts. The saw investors increase the odds that the RBA would raise rates at its next meeting on 7 November with a roughly 50 per cent chance of a follow-up move by March. As for the details of the report:
  - Headline inflation rose 1.2 per cent on the quarter, an acceleration from the +0.8 per cent rise in Q2. However, favourable base effects still saw the year-end headline inflation rate decelerate to +5.4 per cent (from +6.0 per cent).
  - There was also a lift in the quarterly pace of underlying inflation measures, with the trimmed-mean rising 1.2 per cent (up from +1.0 per cent), the weighted-median up 1.3 per cent (from +1.0 per cent) and the CPI excluding volatile items increasing 1.0 per cent (from +0.9 per cent). Though as with the headline rate, year-on-year rates also slowed due to base effects.
  - Compositionally, energy and housing related categories were key drivers of the headline outcome, though significant pressures remain across both services and goods. The increase on the quarter came as notable given that government subsidies for electricity, rent, childcare and pharmaceuticals would have provided an offset of around half a percentage point.
- Speaking the day prior to the inflation report, RBA Governor Bullock stated the *'Board will not hesitate to raise the cash rate further if there is a material upward revision to the outlook for inflation'*. However, her comments were not all hawkish as she also noted the Board was *'mindful that growth in demand and the rate of inflation have been moderating, and that there are long lags in the transmission of monetary policy.'*
- Bullock then fronted the Senate Economics Committee the day after the CPI report, though did not provide any firm guidance on the RBA's policy outlook, despite being questioned on the topic. She characterised the inflation data as *'a little higher than we had been forecasting [in its latest published forecasts]'*, though suggested that given recent data it *'came out about where we thought it would [as per its most recent unpublished forecasts]'*. Bullock indicated that the Bank was *'wary'* of *'more persistent'* inflation in some services components.

### Offshore

- Commentary from Fed officials was mixed this week, with some favouring holding rates steady to assess incoming data, while another suggested one more rate hike would be appropriate given upside inflation risks.

- The ECB kept policy settings unchanged at its November meeting, noting that the recent data flow had *'broadly confirmed'* its outlook. Whilst acknowledging that inflation has been *'too high for too long'*, its recent *'marked'* decline was noted, as was the improvement in core inflation. President Lagarde suggested that the impact of the Middle East conflict posed upside risks to inflation.
- The Bank of Canada also kept policy settings unchanged, citing a slowing in the economy and a moderation in inflation. However, Governor Macklem did retain the Bank's tightening bias, suggesting the *'Council is concerned that progress towards price stability is slow and inflationary risks have increased, and is prepared to raise the policy rate further if needed'*.
- In US political news, the House of Representatives elected a new Speaker of the House after 21 days of the seat being vacated. It is unclear how the new Speaker, Republican Mike Johnson, will negotiate with the Senate and White House (both controlled by Democrats) on future spending packages ahead of another potential showdown over government funding in mid-November.
- In China, the National People's Congress approved an additional one-trillion Yuan in central government bond issuance for infrastructure spending intended to help the economy recover from previous natural disasters. The nation's fiscal deficit will now increase up to 3.8 per cent of GDP, above the usual limit of around three per cent. To show how serious the Government is about stabilising the economy, President Xi made what is understood to be his first ever visit to the People's Bank of China.
- The *S&P Global* measures of business activity showed improvements in conditions for the manufacturing and services sectors in the US, an easing of conditions in both sectors across the euro area and Australia, while for the UK and Japan, service sector softened but manufacturing improved.
- US GDP increased at an annualised rate of 4.9 per cent in Q3. While this was above consensus expectations, the composition of the report was not as strong with inventory accumulation (often due to production being greater than sales) contributing half the growth on the quarter. Despite this, and outside of softness in capex and net exports, other drivers of economic growth were firm.
- While existing home sales fell in September, both US pending and new home sales were stronger than expected. This strength comes despite 30-year mortgage rates recently topping 8.0 per cent for the first time since 2000 and mortgage applications falling to their lowest level since 1995.
- Japanese consumer price inflation eased in September, with the Headline CPI down to +3.0 per cent year-on-year (from +3.2 per cent), while the Core-Core CPI (which excludes food and energy) was one-tenth lower to +2.6 per cent.

## Markets

Bond yields were mixed with local yields rising ahead of and following the strong Q3 CPI result but US yields declining after 10-year US Treasury yield rose above five per cent for the first time since 2007. Reports that Israel could delay its planned ground invasion into Gaza saw oil prices decline on hopes the Israel-Hamas war could remain contained.

### Economic & Market Calendar

DATE	DETAILS
Domestic	<b>Monday:</b> Retail Sales (Sep); <b>Tuesday:</b> Private Sector Credit (Sep), CoreLogic House Prices (Oct); <b>Wednesday:</b> Building Approvals (Sep); <b>Thursday:</b> Home Loan Value (Sep), Trade Balance (Sep); <b>Friday:</b> Retail Sales Ex Inflation (Q3)
Offshore	<b>US:</b> FOMC Policy Meeting (Nov), Non-farm Payrolls (Oct), ISM Business Activity (Oct), Non-farm Productivity (Q3), JOLTS Job Openings (Sep), Employment Cost Index (Q3), Consumer Confidence (Oct), House Prices (Aug), Factory Orders (Sep) <b>EMU:</b> GDP (Q3), CPI (Oct), Unemployment Rate (Sep), Economic Confidence (Oct) <b>UK:</b> Bank of England Policy Meeting (Nov) <b>China:</b> Business Activity (Oct) <b>Japan:</b> Bank of Japan Policy Meeting (Nov), Jobless Rate (Sep) <b>New Zealand:</b> Employment (Q3)

## Economic and Financial Market Charts

CHART 1: THE QUARTERLY PACE OF DOMESTIC HEADLINE INFLATION ACCELERATED IN Q3...

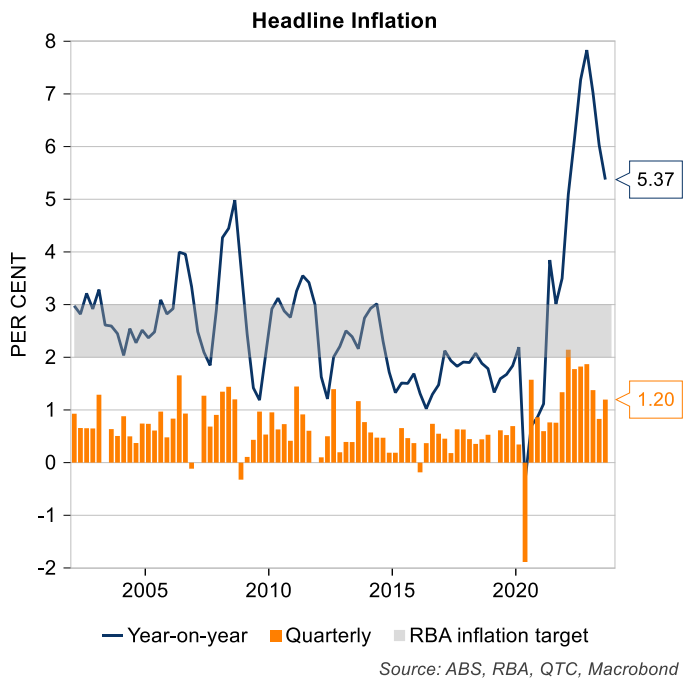


CHART 2: ... AND IMPORTANTLY, SO DID THE RBA'S PREFERRED INFLATION MEASURE, THE TRIMMED-MEAN CPI...

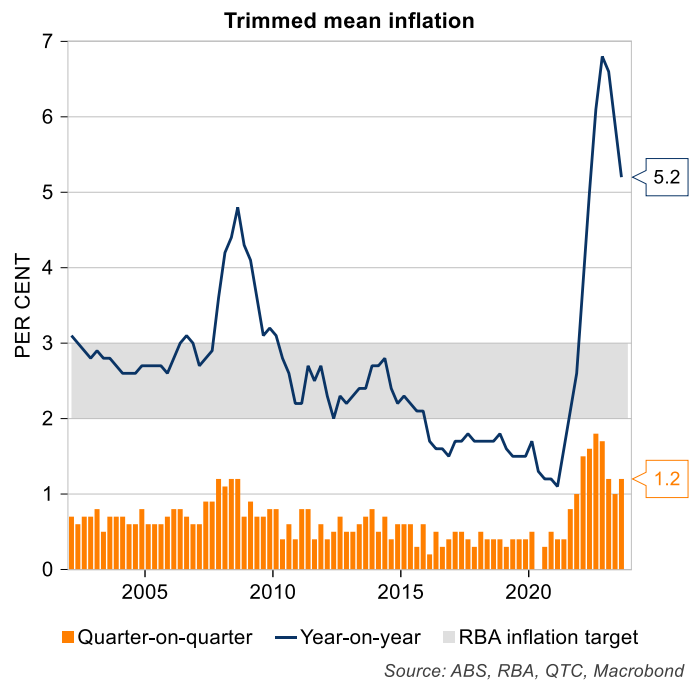


CHART 3: ...THIS AS THE PACE OF SERVICES AND GOODS INFLATION ROSE OVER THE QUARTER...

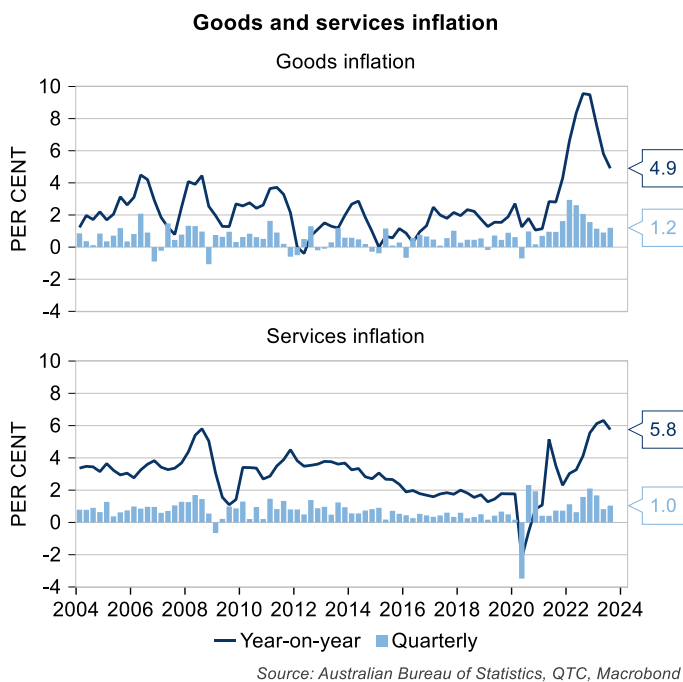


CHART 4: ...AND GIVEN THESE INFLATION OUTCOMES, MARKETS HAVE INCREASED THE PROBABILITY THE RBA WILL RAISE RATES

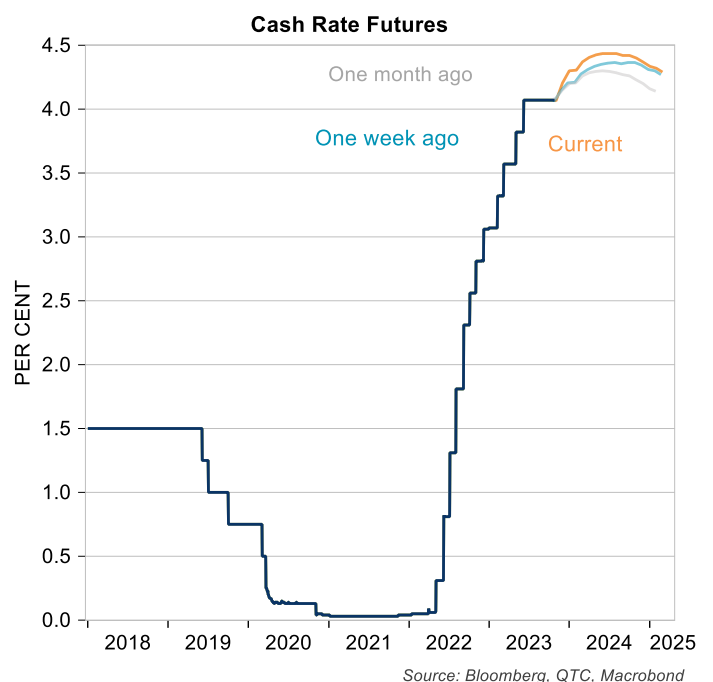


CHART 5: US GDP INCREASED AT ITS FASTEST PACE SINCE THE ECONOMY EMERGED FROM LOCKDOWNS IN 2021...

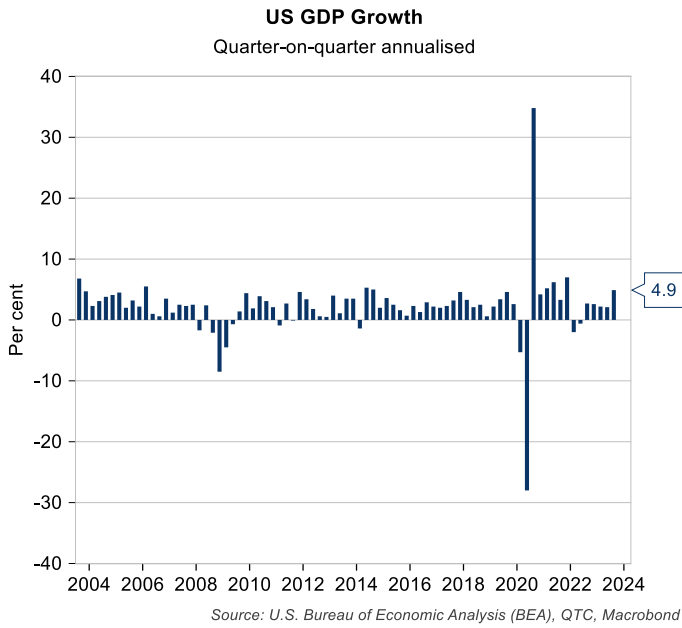


CHART 6: ...THOUGH THE COMPOSITION OF GROWTH WAS NOT AS FIRM WITH INVENTORY ACCUMULAITON A SIGNIFICANT CONTRIBUTOR

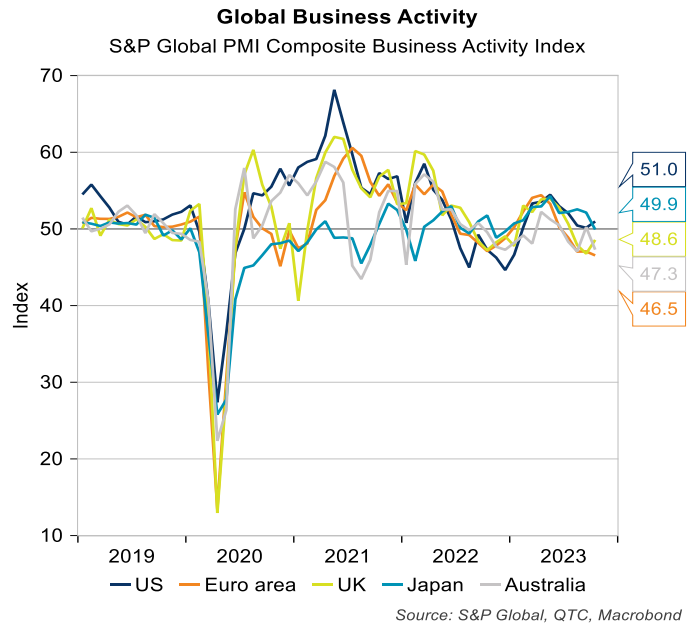


CHART 7: US BUSINESS ACTIVITY IS FIRMER THAN THAT IN OTHER ADVANCED ECONOMIES

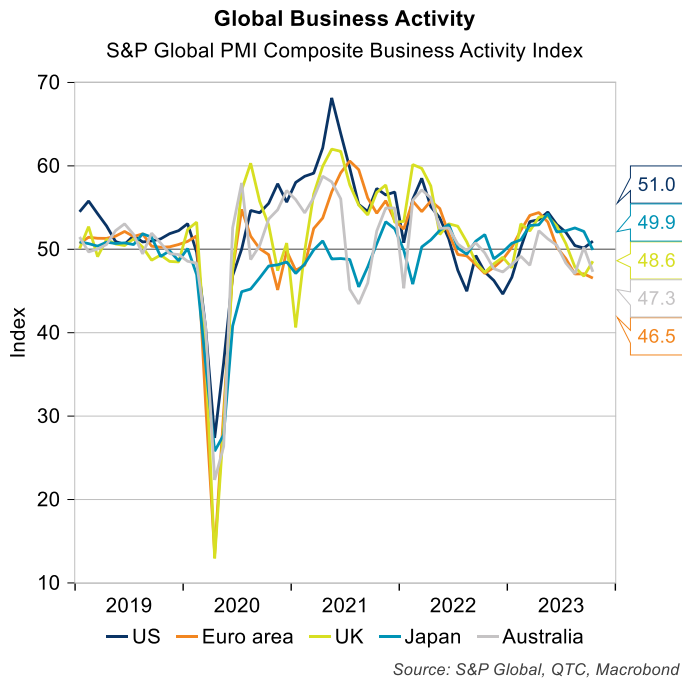
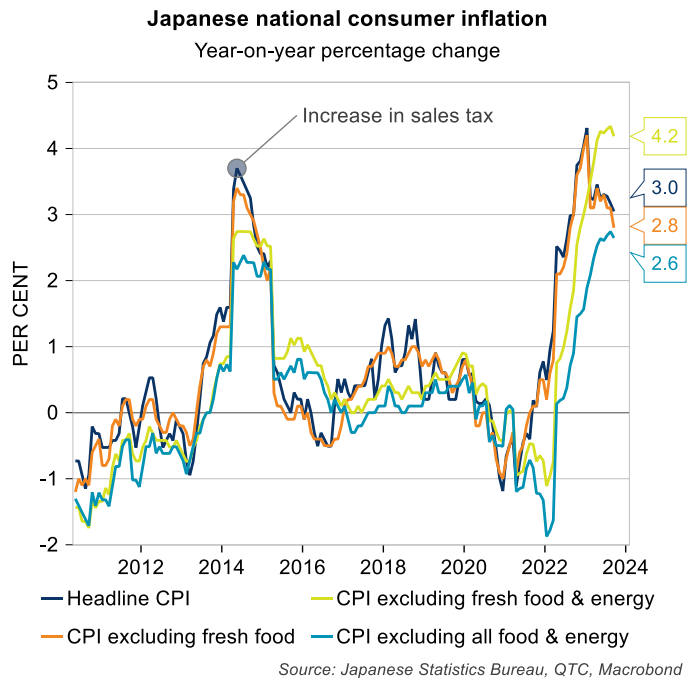


CHART 8: INFLATION REMAINS SIGNIFICANTLY ABOVE THE BANK OF JAPAN'S TWO PER CENT INFLATION TARGET



## 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	4.60	12	31	66	AUD/USD	0.6303	-0.69	-1.61	-2.60
	NSWTC	4.63	12	33	73	AUD/EUR	0.5986	-0.07	-1.25	-7.69
	TCV	4.66	12	32	75	AUD/GBP	0.5207	-0.13	-1.08	-6.88
	WATC	4.57	12	30	64	AUD/JPY	94.809	-0.24	-0.63	0.26
	Australian Government	4.33	10	28	88	AUD/CAD	0.8723	0.38	0.79	-0.46
	US Government	4.88	-14	5	63	AUD/NZD	1.0849	0.14	0.84	-2.09
						AUD/SGD	0.8643	-0.68	-1.40	-5.16
5 Year	QTC	4.76	12	40	65	AUD/HKD	4.9293	-0.72	-1.63	-2.96
	NSWTC	4.82	14	43	69	AUD/KRW	856.87	-0.54	-0.86	-6.65
	TCV	4.86	14	44	73	AUD/CNY	4.6304	0.10	-0.95	-1.40
	WATC	4.75	13	41	64	AUD/INR	52.535	0.09	-1.54	-1.36
	Australian Government	4.47	10	37	85	<b>MAJOR CURRENCIES</b>				
	US Government	4.80	-16	19	73	EUR/USD	1.0558	-0.24	-0.14	5.95
						GBP/USD	1.2124	-0.16	-0.28	4.83
7 Year	QTC	5.04	13	48	76	USD/JPY	150.39	0.40	0.89	2.80
	NSWTC	5.12	14	50	80	USD/CHF	0.8990	0.85	-1.83	-9.28
	TCV	5.14	14	51	80	USD/CNY	7.3173	0.12	0.12	0.94
	WATC	5.00	13	47	70	<b>MAJOR COMMODITIES</b>				
	Australian Government	4.66	10	43	89	Brent Crude Oil	88.22	-4.50	-6.11	-9.01
	US Government	4.87	-14	27	88	Gold	1,984.29	1.13	4.37	19.68
						Copper	8,032.00	0.49	-0.73	3.45
10 Year	QTC	5.41	12	53	85	Iron Ore	117.05	0.10	3.91	58.82
	NSWTC	5.50	13	54	87					
	TCV	5.57	15	58	93					
	WATC	5.33	14	53	78					
	Australian Government	4.85	9	46	96					
	US Government	4.84	-15	31	93					

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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