

Weekly Economics and Markets Review

- Both the Australian and New Zealand central banks kept policy settings unchanged this week. Meanwhile, the divide amongst members of the US Federal Open Markets Committee as to the policy outlook continues. The US Government narrowly avoided a shutdown related to not passing the coming year's budget.
- Domestic data were firm this week, with an increase in the trade surplus and solid housing data.
- Bond yields continued to rise, again, especially at the longer end of the yield curve.

Week in review

Domestic

- The RBA left the cash rate unchanged at 4.1 per cent, as was widely expected. This marked Michele Bullock's first meeting as RBA Governor, having previously served as Deputy Governor. The post-meeting statement maintained the Bank's tightening bias, suggesting that *'further tightening of monetary policy may be required'* and that the decision to hold policy unchanged provided *'further time to assess the impact of the increase in interest rates to date and the economic outlook'*. The statement suggested that growth was stronger than expected over the first half of 2023, but that the economy was still experiencing a period of below-trend growth. Inflation was again suggested to have *'passed its peak'*, though the Bank acknowledged the recent notable rise in fuel prices of late.
- The trade surplus increased to a stronger than expected \$9.6 billion in August, with July's surplus revised down to \$7.3 billion (from \$8.0 billion). Export values rebounded, while import values were slightly lower.
- Private sector credit growth accelerated over the month of August, though the annual pace of credit growth eased to +2.1 per cent (marking the lowest year-on-year growth since September 2021).
- The value of new home loans (excluding refinancing) rose in August, driven by an increase in both owner-occupier and investor lending.
- Residential building approvals rebounded 7.0 per cent in August, reversing the 7.4 per cent decline in July, with approvals growth across detached houses and apartments.
- In other housing-related data, the *CoreLogic* measure of capital city dwelling prices rose in September at a similar pace to July and August (though this is a slight slowdown from the stronger gains over the June quarter).

Offshore

- Commentary from various Fed officials was mixed this week. Some called for further rate increases to return inflation to two per cent in a timely fashion, while others suggested that rates are *'at or very near to the level that is sufficiently restrictive to bringing inflation back to target'*. Meanwhile, one policymaker argued that regardless of whether the Fed is at or near peak level of interest rates, rates will need to stay restrictive for some time to take time to fully affect the economy.

- The Reserve Bank of New Zealand kept the cash rate unchanged at 5.5 per cent, as expected. The post-meeting statement saw a slight alteration to the forward guidance which now suggests *'interest rates may need to remain at a restrictive level for a more sustained period of time'*. It had previously stated that rates needed to *'stay at restrictive levels for the foreseeable future'*; the implication being that rates may need to be kept restrictive for longer.
- The US averted a shutdown of numerous federal agencies as Congress passed last minute legislation to keep the government funded through to 17 November. However, in the days that followed, the US House of Representatives (which is controlled by a slim Republican majority) voted to oust the Speaker for the first time in its history, with a group of Republicans voting alongside all House Democrats.
- It was a very mixed week for data out of the **US**:
 - US jobs data were mixed ahead of the official non-farm payrolls release tonight. The *JOLTS* measure of job openings increased by 690,000 to 9.61 million in August, against expectations for a decline. Meanwhile, the *ADP* measure of private sector employment surprised to the downside in September, rising just 89,000 (the weakest outcome since the last decline in this employment measure in January 2021).
 - Headline inflation (as measured by the PCE deflator) accelerated in August largely on higher fuel prices, with the year-on-year rate lifting one-tenth to +3.5 per cent. Meanwhile, annual growth in the core PCE deflator (which is the Fed's preferred inflation measure) eased to +3.9 per cent (from +4.3 per cent).
 - Finally, business activity (as measured by the *ISM PMIs*) was also mixed, with service sector conditions improving at a slower pace than before while those in the manufacturing sector eased at a slower rate.
- The annual rate of **Euro area** inflation eased further in August, largely on base effects. Consumer inflation surprised to the downside, with headline CPI easing to +4.3 per cent (from +5.2 per cent) and core CPI slowing to +4.5 per cent (from +5.3 per cent). Producer inflation eased further to -11.5 per cent (from -7.6 per cent).
- In **China**, both the National Bureau of Statistics (NBS) and *Caixin* manufacturing PMIs reported stronger conditions in September. Meanwhile, conditions in non-manufacturing sectors improved at a quicker pace according to the NBS but at a slower rate as per *Caixin*.

Markets

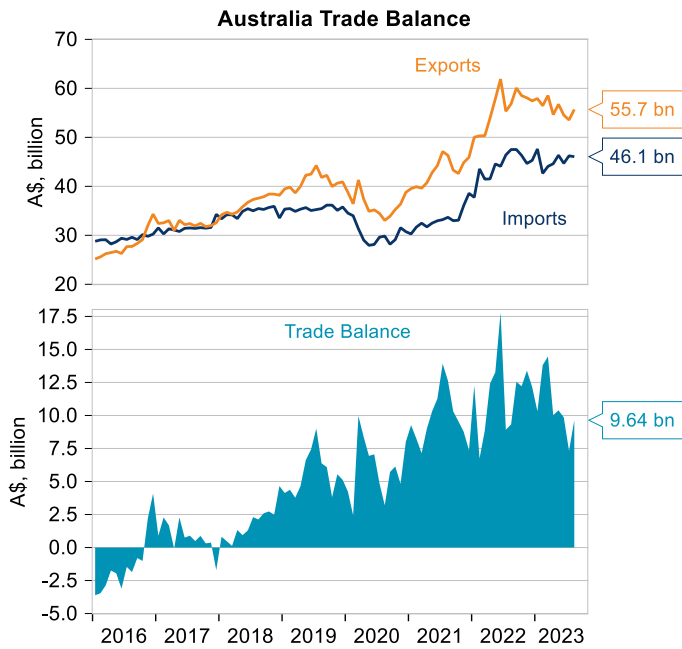
Bond yields rose higher over the week as investors continued to price rates being higher for longer. These increases weighted on equities and boosted the US dollar against most major currencies. Oil prices unwound some the recent increases, falling around seven per cent over the week and settling around the same price per barrel as early September.

Economic & Market Calendar

DATE	DETAILS
Domestic	Tuesday: NAB Business Survey (Sep), Westpac Consumer Confidence (Oct).
Offshore	US: FOMC Minutes (Sep), Consumer and Producer Inflation (Sep), University of Michigan Consumer Sentiment (Oct). UK: GDP (Aug), Monthly Activity Data (Aug). China: Aggregate Financing and New Yuan Loans (Sep), Consumer and Producer Inflation (Sep), Trade Data (Sep)

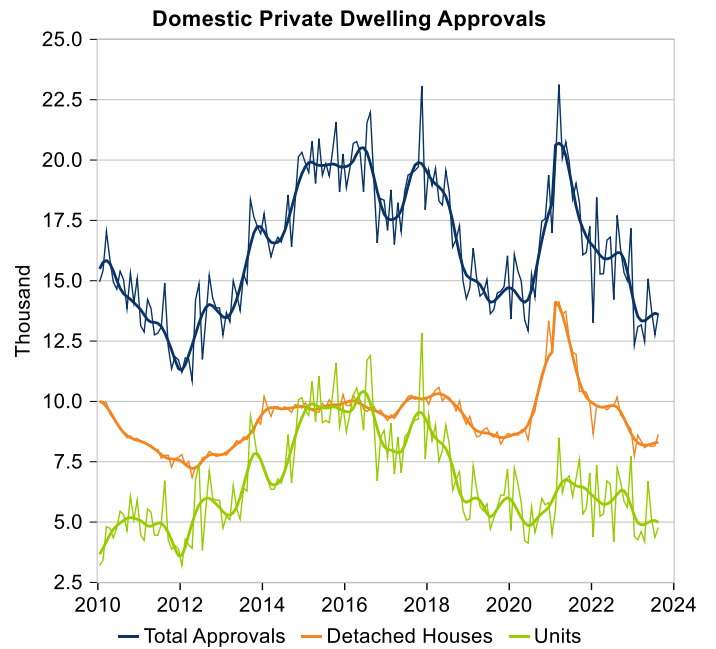
Economic and Financial Market Charts

CHART 1: AUSTRALIA'S TRADE SURPLUS ROSE IN AUGUST ON FIRM EXPORTS GROWTH AND A SMALL DECLINE IN IMPORTS



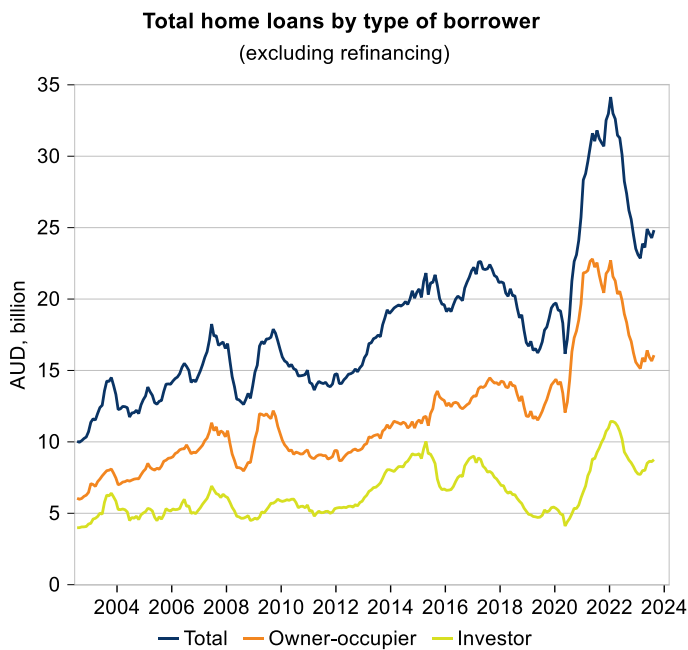
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: DOMESTIC RESIDENTIAL BUILDING APPROVALS ARE NOW AROUND EIGHT PER CENT BELOW PRE-PANDEMIC LEVELS



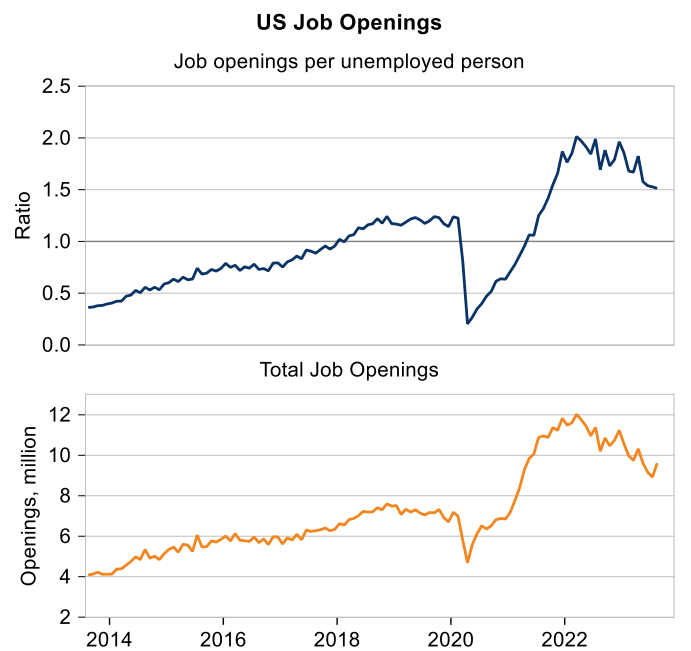
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: MEANWHILE, THE VALUE OF NEW DOMESTIC HOME LOANS ARE CONSIDERABLY ABOVE PRE-COVID LEVELS



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 4: THE RATIO OF US JOB OPENINGS TO UNEMPLOYED PEOPLE FELL TO 1:1.5 IN AUGUST, THE LOWEST LEVEL IN 24 MONTHS BUT STILL HISTORICALLY STRONG



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

Economic and Financial Market Charts

CHART 5: US HEADLINE INFLATION TICKED HIGHER IN AUGUST, WHILE CORE INFLATION EASED FURTHER

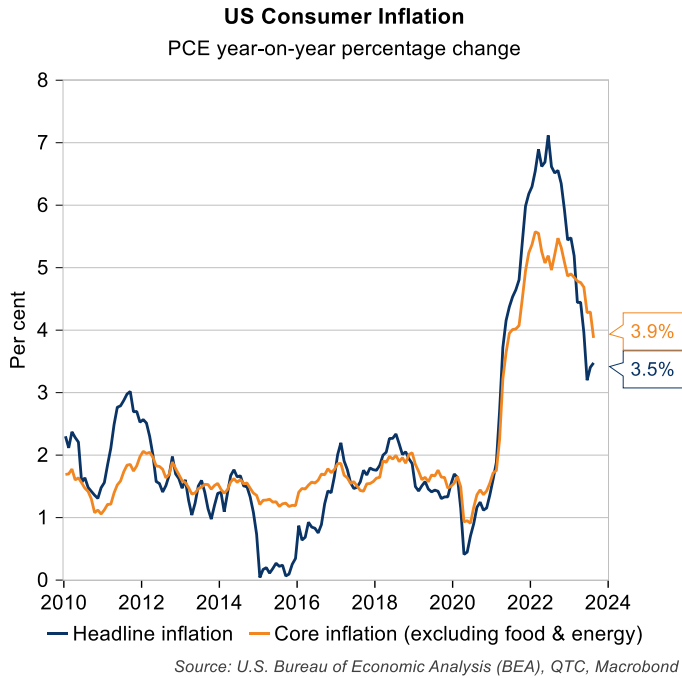


CHART 6: EURO AREA CONSUMER AND PRODUCER INFLATION CONTINUED TO FALL

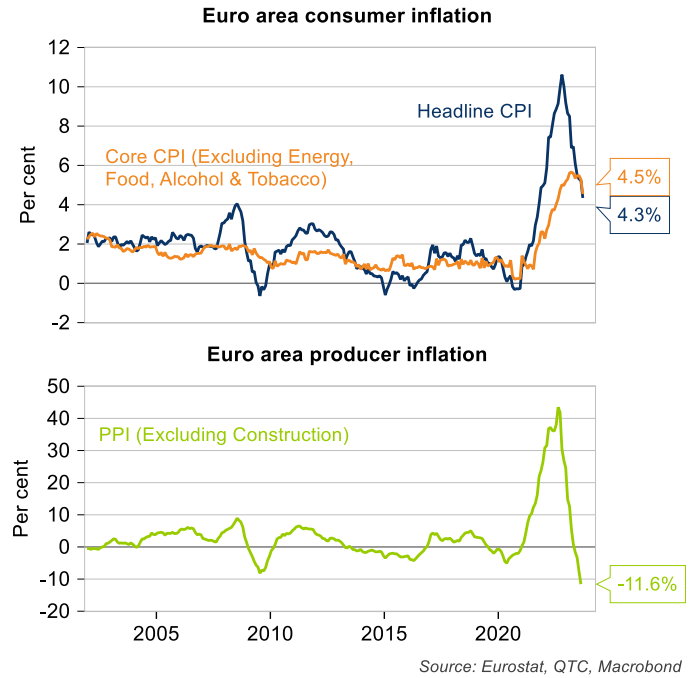


CHART 7: THERE WERE MIXED FORTUNES FOR US BUSINESS ACTIVITY...

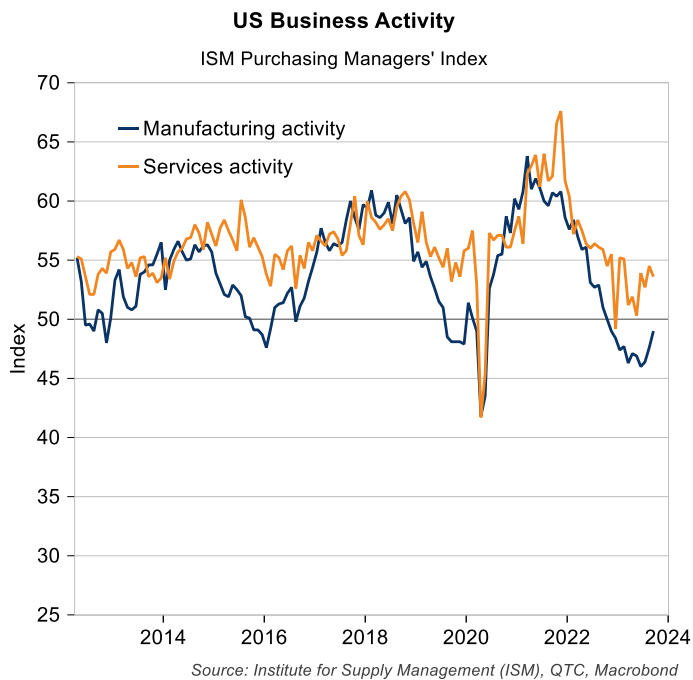


CHART 8: ...AS THAT IN CHINA IMPROVED



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)		
			1WEEK	1MONTH	1YEAR			1WEEK	1MONTH	1YEAR
3 Year	QTC	4.31	-2	24	75	AUD/USD	0.6359	-1.00	-0.39	-0.84
	NSWTC	4.33	-2	23	78	AUD/EUR	0.6035	-0.79	1.43	-7.75
	TCV	4.37	-1	25	82	AUD/GBP	0.5220	-0.84	2.85	-9.28
	WATC	4.29	-2	23	73	AUD/JPY	94.366	-1.57	0.12	1.53
	Australian Government	4.04	-7	23	83	AUD/CAD	0.8727	0.77	0.43	-0.91
	US Government	4.82	0	15	55	AUD/NZD	1.0672	-0.89	-1.63	-5.87
5 Year	QTC	4.45	4	30	69	AUD/SGD	0.8700	-0.81	0.18	-5.05
	NSWTC	4.49	5	30	72	AUD/HKD	4.9794	-0.98	-0.51	-1.09
	TCV	4.51	5	31	75	AUD/KRW	858.58	-1.48	1.06	-4.56
	WATC	4.43	5	31	68	AUD/CNY	4.65	-0.83	-0.24	1.57
	Australian Government	4.13	-2	28	77	AUD/INR	52.745	-0.75	-0.41	-0.39
	US Government	4.68	5	30	61	MAJOR CURRENCIES	RATE	1WEEK	1MONTH	1YEAR
7 Year	QTC	4.71	10	35	79	EUR/USD	1.0549	-0.16	-1.61	7.74
	NSWTC	4.79	11	35	83	GBP/USD	1.2191	-0.11	-2.98	9.21
	TCV	4.78	11	37	83	USD/JPY	148.49	-0.55	0.52	2.31
	WATC	4.67	9	35	75	USD/CHF	0.9127	-0.25	2.61	-7.87
	Australian Government	4.33	4	34	83	USD/CNY	7.3044	0.11	0.00	3.31
	US Government	4.72	8	38	76	MAJOR COMMODITIES	PRICE (USD)	1WEEK	1MONTH	1YEAR
10 Year	QTC	5.08	15	40	92	Brent Crude Oil	84.17	-11.75	-6.52	-10.86
	NSWTC	5.16	15	39	92	Gold	1,818.16	-2.44	-5.66	6.21
	TCV	5.21	16	42	97	Copper	7,949.50	-3.26	-6.33	4.50
	WATC	4.99	14	39	83	Iron Ore	115.13	-0.35	1.83	31.34
	Australian Government	4.54	11	42	94					
	US Government	4.71	14	45	89					

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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