

Weekly Economics and Markets Review

- After four straight meetings at which rates were kept on hold, the RBA lifted the cash rate to its highest level in 12 years at its November meeting. However, the Bank arguably softened language around the potential for future rate rises.
- Labour market conditions eased in the US, Canada and the euro area as well as in Australia.

Week in review

Domestic

- After keeping the cash rate steady for four straight meetings, the RBA lifted it by 25 basis points to 4.35 per cent at its November meeting. This was widely anticipated with investors factoring a 70 per cent chance of a 25 basis point hike and only three of 32 economists surveyed by Bloomberg expecting rates to be left on hold.
- The rate rise is intended to address upside risks to inflation which had grown following the Q3 CPI in which revealed that inflation was *'proving more persistent than expected'*. It would also provide the RBA Board with greater comfort that inflation would return to target in a *'reasonable timeframe'*.
- The RBA highlighted information beyond CPI which appears to have fed into its decision. Firstly, despite economic growth being below trend it has proven more resilient than expected. Secondly, though labour market conditions have eased, they remain tight. Thirdly, house prices are increasing.
- Finally, in a sign that further rate rises are not a done deal, the RBA Board altered its communications about possible future changes in policy being needed *'to ensure that inflation returns to target in a reasonable timeframe'*. Last months' post-meeting statement suggested that *'Some further tightening of monetary policy may be required'* while this months' indicated that *'Whether further tightening of monetary policy is required... will depend upon the data and the evolving assessment of risks'* (emphasis added).
- The labour market continued with job advertisements falling by 3.0 per cent and 5.0 per cent in October according to ANZ-Indeed and SEEK respectively.

Offshore

- In the **US**:
 - Fed Chair Powell indicated that the FOMC is prepared to raise interest rates further if required, that meeting its inflation target is *'not assured'* but that the Committee will *'continue to move carefully'*.
 - According to the Establishment Survey, non-farm payrolls increased by 150,000 in October. This was less than expected (+180,000) with the difference equal to the number of workers who were not counted due to the recent auto industry strikes. Downwards revisions to prior monthly outcomes were also observed. The result was even less favourable in the Household Survey where employment (-348,000) fell by more than the labour force did (-201,000). This saw the unemployment edge one-tenth higher to 3.9 per cent. The three-month moving average of the unemployment rate is 0.33 percentage points above its minimum over the prior 12 months. A rise of 0.5 percentage points has traditionally been associated with the onset of a recession (this is known as 'Sahm's Rule'). Finally, hourly earnings rose less than expected and hours worked declined.
 - Services sector conditions improved in October but at a slower pace.
 - It was reported that banks tightened the supply of credit at a slower pace in Q3 but that demand for credit eased further.
- In **Canada**, employment fell 17,500 in October which pushed the unemployment up from 5.5 per cent to 5.7 per cent.
- In the **euro area**:
 - The unemployment rate edged one-tenth higher in September as employment fell by almost 70,000.
 - Retail sales fell slightly in September and were two per cent (annualised) lower in Q3.
- In **China**:
 - Falling food prices pushed the overall CPI backwards over the year to October with the economy again in deflation. This outcome for consumer prices was mirrored for producer prices, though non-food consumer price growth was positive.
 - The annual rate of growth in exports fell further in October while that for imports turned positive after having been negative the previous month. Export growth was soft across product type and geography while import growth picked up across most major categories.

Markets

Bond yields were lower this week as markets consolidated following recent strong moves higher in yield. In reversing these moves, long end yields fell by more than those at the short-end of the yield curve. There were no obvious catalysts for the moves.

Economic & Market Calendar

DATE	DETAILS
Domestic	Westpac-MI Consumer Sentiment Survey (Nov), NAB Business Survey (Oct), Wage Price Index (Q3), Labour Force Survey (Oct)
Offshore	US: University of Michigan Consumer Sentiment Survey (Nov), CPI & PPI (Oct), Retail Sales (Oct), Industrial Production (Oct), NAHB Homebuilder Sentiment (Nov), Housing Starts & Building Permits (Oct), NFIB Small Business Survey (Oct) UK: GDP (Q3), Industrial Production (Sep), CPI & PPI (Oct), Retail Sales (Oct) EZ: GDP (Q3), Industrial Production (Sep) JP: GDP (Q3), PPI (Oct) CN: Credit (Oct), Industrial Production (Oct), Retail Sales (Oct)

Economic and Financial Market Charts

CHART 1: THE RBA CASH RATE IN NOVEMBER REACHED THE HIGHEST LEVEL IN 12 YEARS

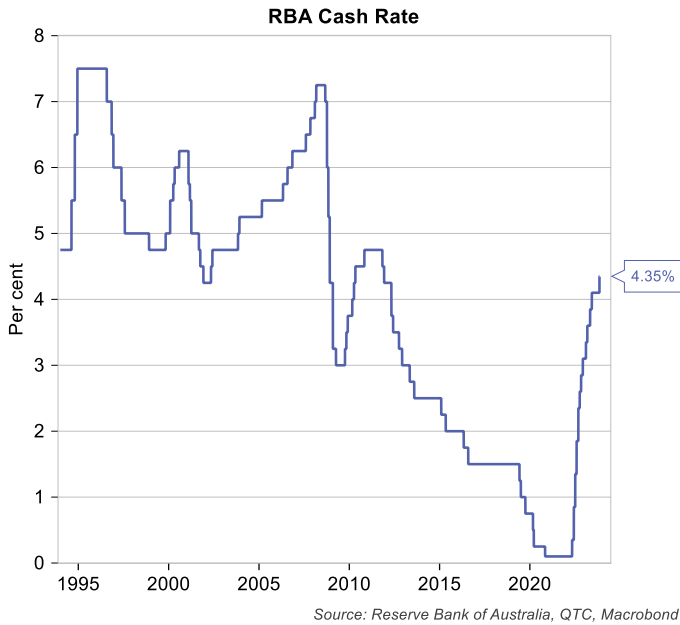


CHART 2: US 10-YEAR YIELDS ARE CURRENTLY 4.63 PER CENT AFTER HAVING BEEN AROUND FIVE PER CENT A FEW WEEKS AGO

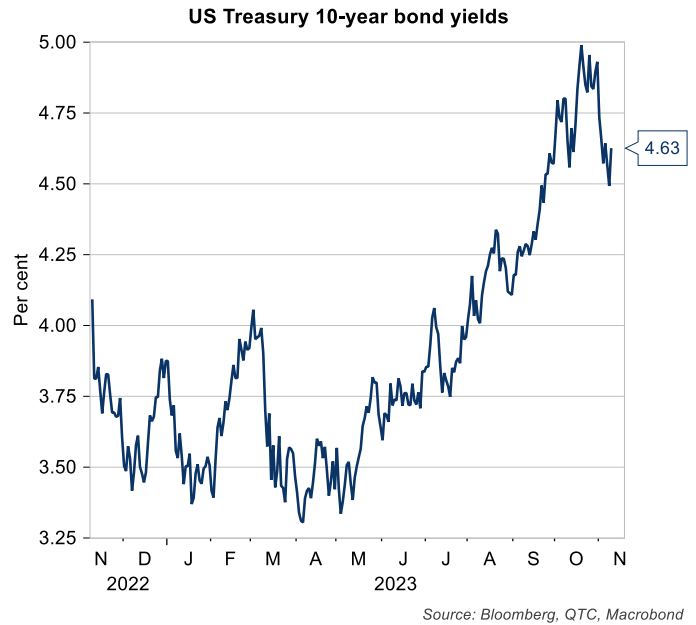


CHART 3: THE US LABOUR MARKET CONTINUES TO REBALANCE WITH JOBS GROWTH TRENDING LOWER...

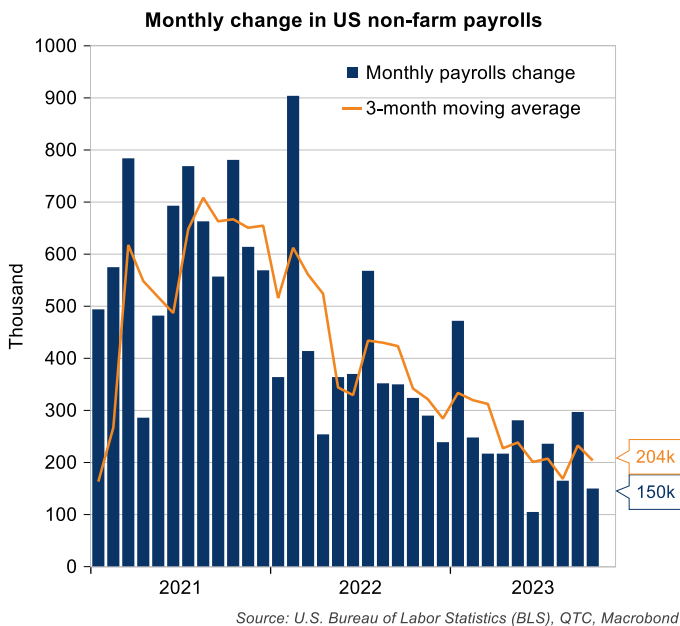
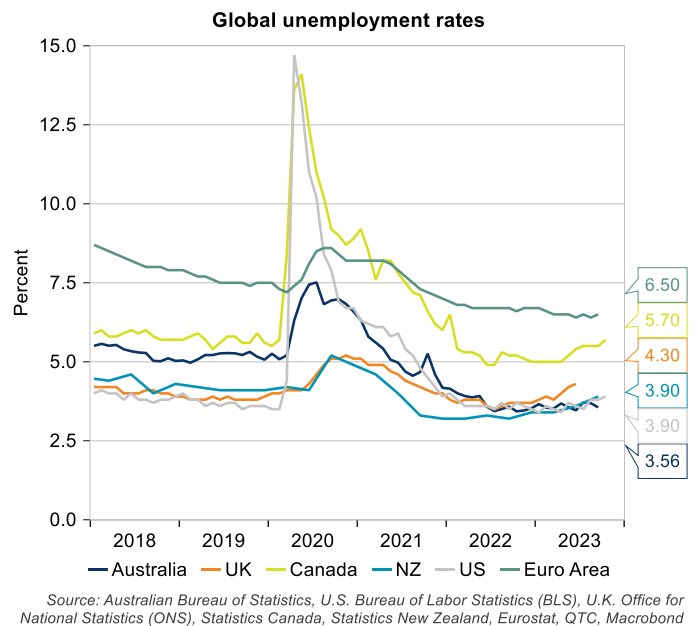


CHART 4: ...WITH THIS PROCESS PLAYING OUT ACROSS COUNTRIES AND SEEING UNEMPLOYMENT RATES EDGING HIGHER



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	4.41	-16	16	52	AUD/USD	0.6413	-0.23	-0.22	-2.26
	NSWTC	4.43	-17	17	58	AUD/EUR	0.599	-0.96	-1.06	-7.42
	TCV	4.47	-18	17	60	AUD/GBP	0.5228	-0.77	-0.04	-7.23
	WATC	4.38	-16	16	50	AUD/JPY	96.879	0.20	1.46	3.90
	Australian Government	4.16	-15	21	77	AUD/CAD	0.883	-0.11	1.17	0.47
	US Government	4.79	0	3	60	AUD/NZD	1.0796	-1.01	1.48	-1.52
5 Year	QTC	4.52	-20	13	44	AUD/SGD	0.8705	-0.73	-0.64	-4.37
	NSWTC	4.57	-21	13	47	AUD/HKD	5.0079	-0.44	-0.36	-2.73
	TCV	4.61	-21	15	51	AUD/KRW	839.93	-2.69	-3.18	-7.09
	WATC	4.51	-20	13	44	AUD/CNY	4.6596	-0.93	-0.55	-1.53
	Australian Government	4.22	-19	16	65	AUD/INR	53.357	-0.51	-0.10	1.85
	US Government	4.63	-0	2	70	MAJOR CURRENCIES				
7 Year	QTC	4.74	-24	6	49	EUR/USD	1.0668	0.43	0.58	4.49
	NSWTC	4.82	-25	6	53	GBP/USD	1.2222	0.15	-0.53	4.32
	TCV	4.84	-24	8	55	USD/JPY	151.34	0.59	1.77	7.35
	WATC	4.72	-24	7	46	USD/CHF	0.9030	-0.33	-0.18	-6.32
	Australian Government	4.37	-22	10	66	USD/CNY	7.2858	-0.39	-0.09	1.79
	US Government	4.66	-1	0	79	MAJOR COMMODITIES				
10 Year	QTC	5.06	-29	-0	54	Brent Crude Oil	79.85	-8.06	-8.90	-14.75
	NSWTC	5.15	-28	1	55	Gold	1,961.95	-1.17	5.37	12.21
	TCV	5.22	-29	2	60	Copper	8,142.00	-0.01	1.49	-1.57
	WATC	4.98	-28	1	48	Iron Ore	125.17	2.10	15.60	56.38
	Australian Government	4.51	-25	2	68					
	US Government	4.62	-4	-3	81					

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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