

# Weekly Economics and Markets Review

- RBA commentary was more hawkish in the past week, with Governor Bullock noting that the inflation challenge now largely reflects strong domestic demand.
- Commentary from the US Federal Reserve also remained hawkish, despite the recent improvements in US inflation.
- Survey measures of economic activity in the euro area and the UK generally improved over the past week.

## Week in review

### Domestic

- The RBA's November Board Minutes confirmed that the decision was once again between an increase in the cash rate or holding it steady. Ultimately, the decision to raise the cash rate was 'to mitigate the risk' that there could be further delays to returning inflation to its target.
- The Minutes suggested that continued reductions in inflation will require demand to remain subdued, in contrast to the supply-driven improvements that we have seen to date. As a result, 'it was expected to take longer to return inflation to target than it had taken so far to reduce inflation from its peak.'
- Following the release of the Minutes, RBA Governor Bullock noted in a speech that 'the remaining inflation challenge we are dealing with is increasingly homegrown and demand driven'. She also said that 'a more substantial monetary policy tightening is the right response' to demand-driven inflation.
- The Q&A for Bullock's speech touched on several additional topics.
  - Bullock confirmed that the upcoming Statement on the Conduct of Monetary Policy would specify the RBA's inflation target as the mid-point of the 2 to 3 per cent target band. This is potentially important given the RBA's current forecasts only have inflation at 2.9 per cent by December quarter 2025.
  - Bullock said the net impact of migration on inflation was unclear as it added to supply and demand.
  - Bullock noted the impact of quantitative tightening was 'pretty marginal' and said that the cash rate would be the focus of the RBA in terms of responding to high inflation.

### Offshore

- US Federal Reserve (Fed) officials suggested that there is still a way to go on returning inflation sustainably to the Fed's two per cent target. Boston Fed President Collins said that it is important to be patient with returning inflation to its target, though she also noted that further interest rate hikes are not 'off the table'.
- Officials from the BoE noted that tight labour market conditions have continued to support elevated services inflation and that there remains a risk of inflation being higher than expected.

- ECB officials said that interest rates will likely remain unchanged for the next few quarters and that it is too early to 'declare victory' on inflation. The minutes of the ECB's October meeting also emphasised the importance of avoiding 'an unwarranted loosening of financial conditions', despite concerns about near-term risks to economic growth.
- Sweden's Riksbank kept rates steady at 4 per cent, though the Board noted that it was prepared to lift the rates further if necessary.
- It was another busy week for **US** data releases:
  - Initial jobless claims declined by more than expected in the week to 18 November, though the four-week moving average was little changed. Continuing claims declined for the first time in two months.
  - Core capital goods orders dipped slightly lower in October, while shipments were flat. Both orders and shipments were slightly weaker than expectations.
  - Existing home sales fell by a larger-than-expected 4.1 per cent in October and are now to their lowest level since 2010. This is the fifth consecutive monthly fall in new home sales and reflects the impact of high mortgage rates.
  - Both new housing starts and permits rose in October, despite expectations that they would fall.
- In **Canada**, measures of underlying inflation eased in October. Trimmed-mean inflation moderated to 3.5 per cent in October (from 3.7 per cent in September), while the median inflation rate also fell from 3.9 to 3.6 per cent.
- In the **euro area**, survey measures of activity and sentiment improved over the past week. The composite flash PMI increased by more than expected in November, driven by an improvement in manufacturing activity. Consumer confidence also picked up slightly in November.
- The **UK** composite flash PMI rose in November, reflecting increases in both manufacturing and services. Expectations for future output also edged higher.
- The UK Office for Budget Responsibility revised its outlook for revenue higher in its Autumn Statement, with the public sector net borrowing forecast now £0.7bn lower on average from FY2023 to FY2027.

## Markets

Bond yields were lower this week as markets continued to consolidate following recent strong moves higher in yields. Crude oil prices increased on speculation of deeper cuts to global supply.

### Economic & Market Calendar

DATE	DETAILS
Domestic	<b>Tuesday:</b> Retail sales (Oct) <b>Wednesday:</b> Construction work done (Q3) <b>Thursday:</b> Private sector credit (Oct), Building approvals (Oct), Private capital expenditure (Q3) <b>Friday:</b> Corelogic house prices (Nov), Judo Bank PMI (Nov F)
Offshore	<b>US:</b> S&P PMIs (Nov), New home sales (Oct), FHFA House prices (Sep), Conference Board consumer confidence (Nov), Richmond and Dallas Fed business surveys (Nov), PCE inflation (Oct), Personal income and spending (Oct) <b>Euro area:</b> Consumer confidence (Nov), CPI (Nov), Unemployment (Oct) <b>Japan:</b> CPI (Oct), Retail sales (Oct), Industrial production (Oct), Capital spending (Q3), Jobless rate (Oct) <b>China:</b> Manufacturing PMI (Nov)

## Economic and Financial Market Charts

CHART 1: THE FINANCIAL MARKETS OUTLOOK FOR THE RBA'S CASH RATE HAS SHIFTED SLIGHTLY HIGHER OVER THE PAST WEEK

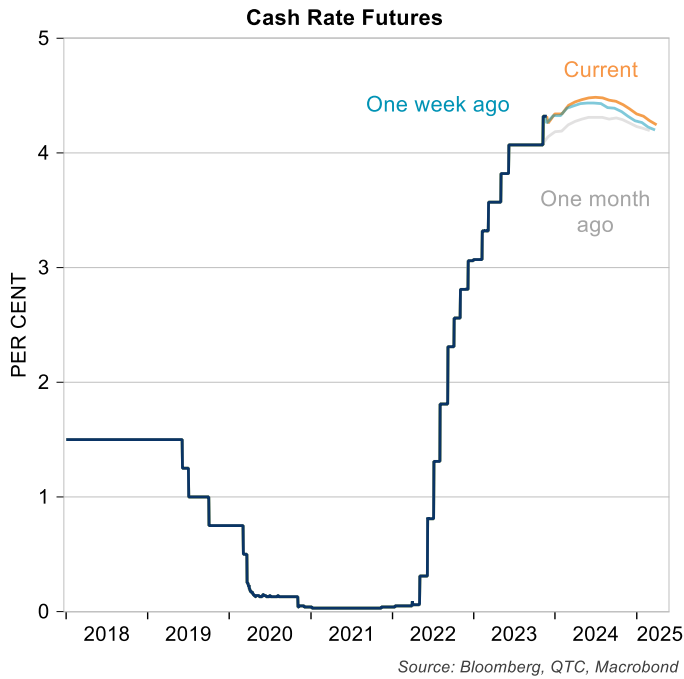


CHART 2: WHILE FINANCIAL MARKETS EXPECT THE CASH RATE WILL REMAIN HIGH OVER THE COMING YEAR, OTHER MAJOR CENTRAL BANKS ARE EXPECTED TO START REDUCING THEIR POLICY RATES

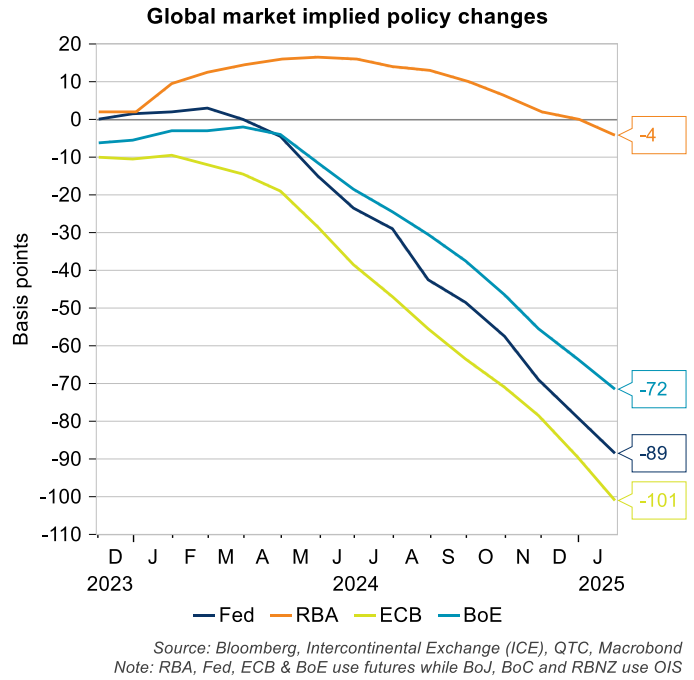


CHART 3: US HOUSING STARTS AND PERMITS HAVE STARTED TO INCREASE MODESTLY, THOUGH THIS FOLLOWS A LARGE DECLINE SINCE MID 2022

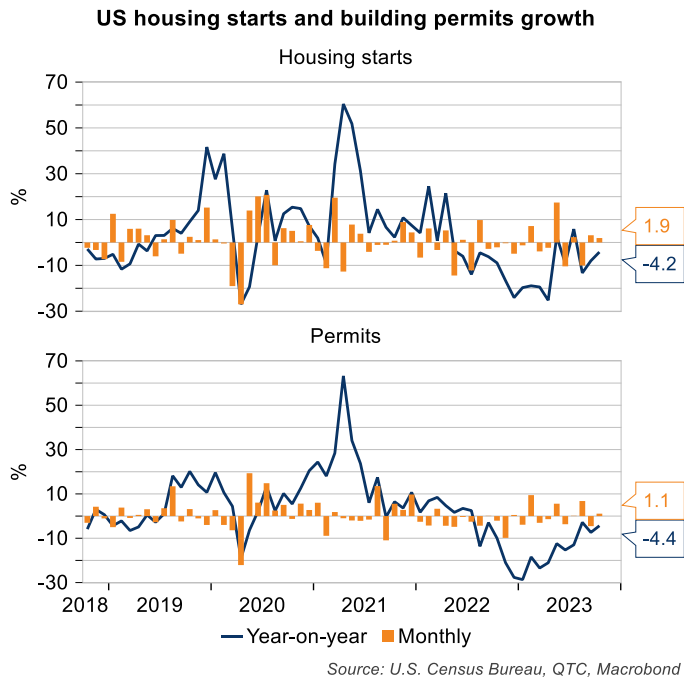
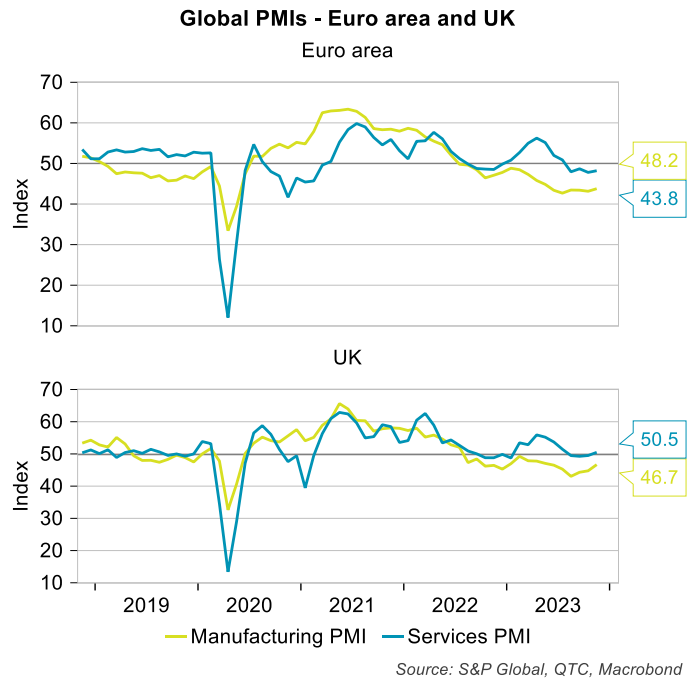


CHART 4: WHILE EURO AREA AND UK MANUFACTURING ACTIVITY HAS STARTED TO IMPROVE, IT REMAINS NOTICEABLY LOWER THAN ACTIVITY IN THE SERVICES SECTORS



## 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	4.38	-3	-10	72	AUD/USD	0.66	1.14	3.24	-3.09
	NSWTC	4.40	-3	-10	76	AUD/EUR	0.60	0.90	0.29	-7.50
	TCV	4.44	-3	-9	80	AUD/GBP	0.52	0.42	0.26	-6.15
	WATC	4.35	-3	-10	70	AUD/JPY	98.11	0.61	2.98	4.74
	Australian Government	4.14	-3	-8	88	AUD/CAD	0.90	0.81	2.97	-0.41
	US Government	4.62	3	-30	39	AUD/NZD	1.09	0.37	-0.30	0.51
5 Year	QTC	4.48	-4	-18	67	AUD/SGD	0.88	0.77	1.20	-5.47
	NSWTC	4.51	-5	-19	70	AUD/HKD	5.12	1.08	2.92	-3.19
	TCV	4.57	-5	-17	74	AUD/KRW	853.71	2.07	-0.12	-4.86
	WATC	4.46	-5	-17	66	AUD/CNY	4.66	-0.89	0.24	-3.77
	Australian Government	4.18	-5	-18	81	AUD/INR	54.66	1.22	3.58	-1.12
	US Government	4.43	1	-39	55	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.69	-5	-23	74	EUR/USD	1.09	0.23	2.95	4.77
	NSWTC	4.76	-6	-25	79	GBP/USD	1.25	0.71	2.97	3.26
	TCV	4.79	-4	-22	79	USD/JPY	149.53	0.52	0.25	-8.08
	WATC	4.66	-6	-22	71	USD/CHF	1.13	0.37	1.12	6.37
	Australian Government	4.32	-5	-23	85	USD/CNY	7.10	2.00	2.90	0.71
	US Government	4.45	-0	-41	65	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	5.00	-7	-30	81	Brent Crude Oil	81.42	5.17	-7.55	-4.59
	NSWTC	5.09	-7	-30	82	Gold	1,992.25	0.57	1.08	13.50
	TCV	5.15	-7	-29	86	Copper	8,353.50	1.62	3.75	3.89
	WATC	4.91	-7	-29	74	Iron Ore	133.18	1.70	17.12	49.25
	Australian Government	4.47	-7	-29	90					
	US Government	4.40	-3	-42	71					

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

**CLICK HERE TO SUBSCRIBE**

**QTC'S ECONOMIC RESEARCH**

Topical issues important to global and Australian economies, and financial markets.

### DISCLAIMER

The information within this document is intended for general information purposes only and does not constitute financial or other advice. Specific professional advice should be obtained before acting on the basis of any matter covered in this document. This information has been prepared in part by data sourced from third parties which has not been independently verified. The opinions, forecasts and data contained in this document is based on research as at the date of publication and is subject to change without notice. Queensland Treasury Corporation (QTC) issues no invitation to anyone to rely on the information and expressly excludes any warranties or representations as to its accuracy, adequacy, currency or completeness. All opinions expressed are the views of the QTC Economic Research Team and may differ from the views of QTC or other QTC servants or agents. To the extent permitted by law, QTC, its servants and agents (QTC Parties) disclaim all responsibility and liability for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying on the information contained in this document, whether that loss for damage is caused by any fault or negligence of the QTC Parties or otherwise. No part of this document may be reproduced, copied or published in any form or by any means without QTC's prior written consent. This document may contain statements about future events and expectations that are forward looking statements. None of the future projections, expectations, estimates or prospects in this document should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of assumptions, fully stated in the document.