November Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

The RBA increased its cash rate by 25 basis points to 4.35 per cent at its November meeting, following four consecutive meetings of rates being on hold. Labour market and wages data were stronger than expected over the past month, while the monthly indicator for CPI inflation slowed by more than expected.

International economy

Many central banks across the globe kept policy settings unchanged in November, reflecting a general easing of inflation and a desire to assess the impact of prior tightening.

Short-term interest rates

Domestic short-term bond yields have eased over the month, with Australian Government three-year yields falling by around 35 basis points to 4.0 per cent. US yields have also declined as inflation came in weaker-than-expected and investors became more comfortable with the idea that the Federal Reserve may cut rates earlier than expected.

Long-term interest rates

It was a similar story for domestic longer-end rates, with Australian Government 10-year yields falling 45 basis points to 4.4 per cent. There was also an easing in offshore longer-end yields, with the US Treasury ten-year yield falling by 60 basis points over the past month.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	4.27	-37	69
	Australian Government	4.01	-35	86
	US Government	4.44	-48	48
5 Year	QTC	4.38	-44	66
	Australian Government	4.07	-41	80
	US Government	4.27	-59	60
7 Year	QTC	4.61	-48	72
	Australian Government	4.23	-44	83
	US Government	4.34	-59	75
10 Year	QTC	4.94	-52	80
	Australian Government	4.40	-45	89
	US Government	4.33	-60	82

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6625	4.7%	-2.7%
AUD/EUR	0.6070	1.4%	-6.5%
AUD/GBP	0.5234	0.4%	-5.7%
AUD/JPY	97.9616	2.2%	5.8%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0913	3.2%	4.0%
GBP/USD	1.2657	4.3%	3.2%
USD/JPY	147.87	2.3%	-8.8%
USD/CNY	7.0910	3.1%	-0.7%

Prices sourced from Macrobond & QTC and are correct at the time of publication.

The tables above show yields on bonds issued by the Queensland, Australian and US Governments as well as values for the Australian Dollar against a range of currencies and US Dollar against major currencies. The change in yields and exchange rates over different time periods are also included.

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Domestic economy

SUMMARY:

The RBA increased its cash rate by 25 basis points to 4.35 per cent at its November meeting, following four consecutive meetings of rates being on hold.

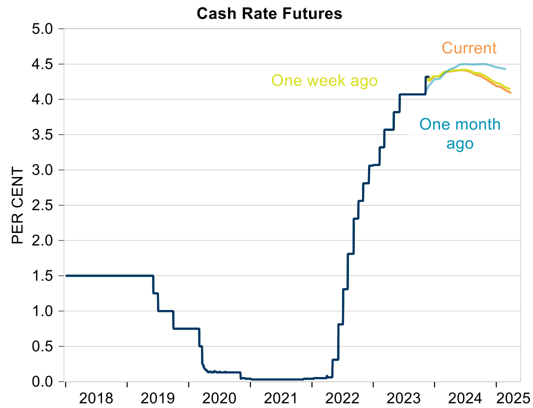
REVIEW:

- 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 in a 70 per cent chance of a hike.
- The RBA 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 also 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.'
- RBA Governor Bullock emphasised the changing drivers of inflation in a speech following the release of the Minutes. Bullock stated that the inflation has increasingly become 'homegrown and demand driven'. She also said that 'a more substantial monetary policy tightening is the right response' to demand-driven inflation.
- The RBA's November Statement on Monetary Policy provided an updated outlook for economic activity and inflation.
  - Real GDP growth was revised higher, driven by a stronger outlook for investment and exports.
  - The outlook for the labour market is now slightly stronger, with the unemployment rate now expected to rise to 4.3 per cent by December quarter 2025 (previously 4.5 per cent).
  - Inflation was revised higher, with trimmed-mean inflation revised up six-tenths to 4.5 per cent by end-2023 and one-tenth to 2.9 per cent by end-2025.
- The monthly CPI indicator slowed sharply in October, with headline inflation easing from 5.6 to 4.9 per cent on an annual basis. The sharp slowdown in headline inflation reflected unexpectedly large falls across a few items, including holiday travel prices, fuel and rents. There was a more modest easing of trimmed-mean and core CPI inflation (excluding volatile items and holiday travel) in October.
- The Wage Price Index (WPI) rose 1.3 per cent in the September quarter, marking the strongest quarterly increase in the 26-year history of the series. Annual wages growth also increased to a 14-year high of 4.0 per cent. The strength of these increases reflected several developments, including the minimum and award wage increases and a pay raise for aged-care workers.
- The October Labour Force Survey was stronger than expected. Total employment rose by 55,000 (consensus was for 20,000), with strong increases in both full-time and part-time employment. The unemployment rate increased slightly to 3.7 per cent, though this was due to an increase in the participation rate. The number of hours worked also rose in October following two consecutive monthly declines.

WHAT TO WATCH:

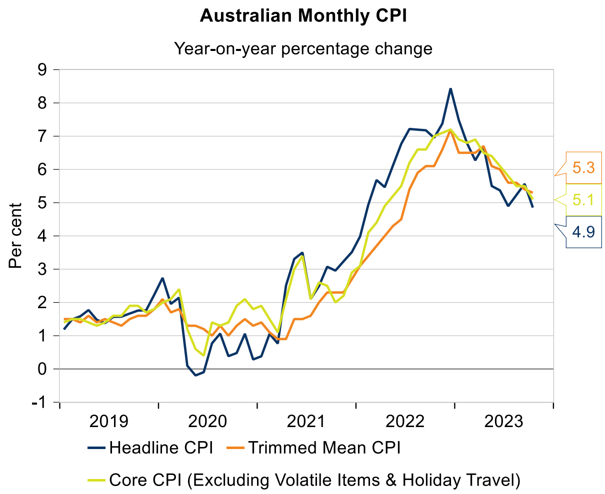
The November monthly CPI will be closely watched (10 January), given the surprisingly large easing of headline inflation in October. The November CPI release will also provide more insight into the momentum of services inflation, with the majority of services prices being updated in the 2nd month of the quarter. Other key data to watch in the period ahead include the Q3 GDP report (6 December) and the Labour Force Survey (14 December).

CHART 1: THE MARKETS OUTLOOK FOR THE CASH RATE HAS DECLINED, LARGELY IN RESPONSE TO THE WEAKER-THAN-EXPECTED MONTHLY CPI OUTCOME



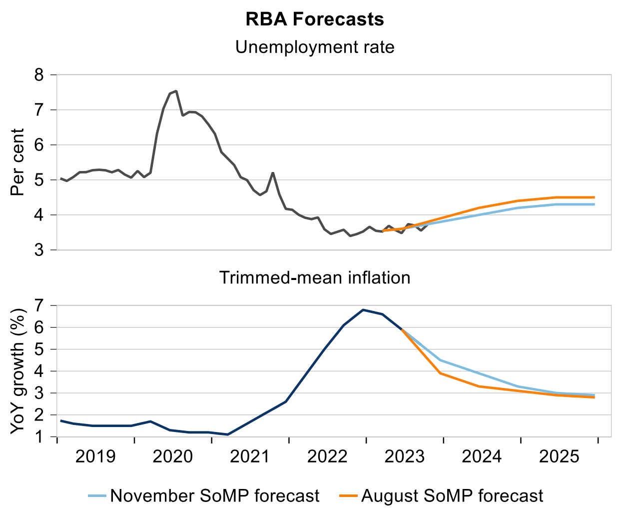
Source: Bloomberg, QTC, Macrobond

CHART 2: HEADLINE CPI INFLATION SLOWED SHARPLY IN OCTOBER, THOUGH THIS WAS NOT REFLECTED IN CORE INFLATION



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: THE RBA REVISED BOTH ITS INFLATION AND LABOUR MARKET FORECASTS STRONGER IN ITS NOVEMBER STATEMENT ON MONETARY POLICY



Source: ABS, SEEK Employment Marketplace, QTC, Macrobond

International economy

SUMMARY:

Major central banks kept policy settings unchanged, reflecting a general easing of inflation and a desire to assess the impact of cumulative policy tightening. Inflation was generally weaker-than-expected across major advanced economies in the past month.

REVIEW:

In global central bank news:

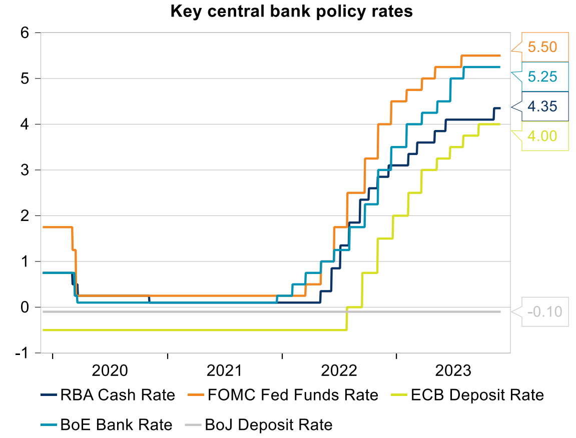
- – The US FOMC left the target range for the Federal Funds Rate unchanged at 5.25 to 5.5 per cent at its November meeting, as was widely expected. The accompanying statement also maintained a tightening bias. Fed Chair Powell said he thought the policy rate was restrictive, but suggested more hikes were possible to get inflation back to target. Powell also suggested rate cuts are not being discussed.
- – In addition to Fed Chair Powell, several Fed officials commented that while the further deceleration in US inflation was encouraging, there is still a way to go on returning inflation sustainably to its two per cent target.
- – The Bank of England (BOE) kept the Bank Rate at 5.25 per cent at its November policy meeting, as was expected. The Monetary Policy Committee voted 6-3 to keep the rate unchanged, with the three dissenters favouring a 25-basis point hike. The post-meeting statement noted that policy would need to be 'sufficiently restrictive' for a period to sustainably return inflation to its two per cent target.
- – European Central Bank (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 growth.
- – The Bank of Japan (BOJ) kept its policy rate unchanged but tweaked its Yield Curve Control (YCC) policy. The BOJ announced it would no longer conduct daily purchases of the ten-year Japanese Government Bond at a yield of 1.0 per cent, with it now regarding 1.0 per cent as the upper-bound reference for its purchases.
- – The RBNZ left the OCR unchanged at 5.50% at November's meeting. Given heightened wariness about elevated inflation, the RBNZ's policy guidance tilted incrementally hawkish with the OCR tracker revised upward to a 5.69% peak in Q3 2024 (prior peak: 5.59% in Q2 2024) and with a materially slower pace of rate cuts over the longer run.
- – The central bank of Norway kept its policy rate unchanged at 4.25 per cent, while Sweden's Riksbank kept rates steady at 4 per cent.

- US labour market indicators has started to slow. Non-farm payrolls increased by 150,000 in October, which was roughly half of the increase in September. The unemployment also edged one-tenth higher to 3.9 per cent, with 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').
- In the US, monthly headline CPI inflation was flat in October, with the annual pace of inflation easing to 3.2 per cent (from 3.7 per cent). Annual core CPI inflation eased from 4.1 to 4.0 per cent. These outcomes were one-tenth below the consensus expectation.
- UK CPI inflation was weaker than expected in October, with annual headline inflation easing to 4.6 per cent (from 6.7 per cent). The easing of headline inflation was underpinned by lower energy prices, though services price inflation also softened in the month.
- In the euro area, both headline and core inflation were below expectations. Headline inflation fell 0.5 per cent on a month-on-month basis in November, with the annual rate of inflation easing to 2.4 per cent (from 2.9 per cent).

WHAT TO WATCH:

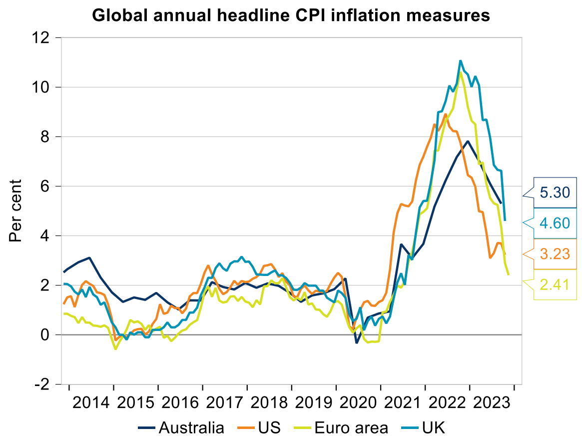
Inflation has fallen by more than expected across several major economies in the past week. The upcoming CPI releases for the US (13 December), euro area CPI (19 December) and UK (20 December) will be closely watched to see if this trend continues.

CHART 4: CENTRAL BANKS ACROSS THE GLOBE HAVE EASED THE PACE OF POLICY TIGHTENING



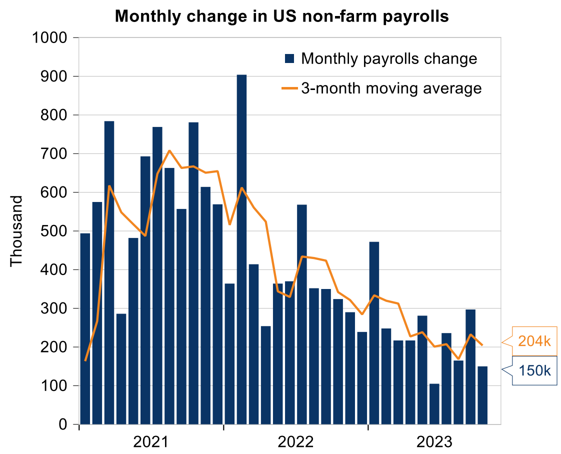
Source: Reserve Bank of Australia, Federal Reserve, European Central Bank, Bank of England, Bank of Japan, People's Bank of China, QTC, Macrobond

CHART 5: A CONTINUED EASING OF INFLATION HAS TAKEN PRESSURE OFF CENTRAL BANKS TO INCREASE POLICY RATES



Source: Australian Bureau of Statistics, U.S. Bureau of Labor Statistics (BLS), Eurostat, U.K. Office for National Statistics (ONS), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, China National Bureau of Statistics (NBS), QTC, Macrobond

CHART 6: US PAYROLLS EASED BY MORE THAN EXPECTED IN OCTOBER, FOLLOWING A SPIKE IN THE PREVIOUS MONTH



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