Weekly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

- Domestic consumer and business surveys painted a mixed picture in their latest readings with the same message emerging from a suite of labour market data.
- Central banks meeting this week mostly kept rates setting unchanged, though downward revisions by participants of the Federal Open Markets Committee (FOMC) of the US Federal Reserve to the most appropriate path for rates in 2024 in the 'Dot Plot' saw bond yields move sharply lower.

Week in review

Domestic

- Employment increased by 61,500 in November driven by a 57,000 rise in full-time jobs. However, strong growth in the working age population (+48,200) and the participation rising to yet another record high (+0.2 percentage points to 67.2 per cent) saw the unemployment rate increase to 3.9 per cent from an upwardly revised 3.8 per cent (was 3.7 per cent). Hours worked were steady.
- In other labour market news, SEEK job ads fell 4.3 per cent in November to be 33 per cent below the May 2022 peak but 12 per cent above pre-COVID levels. Unemployment expectations fell 1.2 per cent to be around average as per the *Westpac-Melbourne Institute Consumer Sentiment Survey* (W-MI Survey).
- The W-MI Survey also revealed that consumer confidence rose 2.7 per cent in November. This reflected positive views for the economy's medium-term outlook and more comfort around family finances more than offsetting softer near-term buying intentions and expectations for the economy.
- The NAB Business Survey pointed to business conditions dipping in November, albeit to still above average levels. Meanwhile, business confidence fell to deeply negative levels. Price pressures edged higher up on the month.

Offshore

- In central bank news:
  - The FOMC kept rates on hold as expected at its December meeting. However, participants revised down their views as to interest rates in the near-term under the most appropriate path for policy. Here, they now expect marginally more rate cuts in 2024 (75 basis points vs 50 previously). This was something that the market latched on to as it was consistent with the current narrative of earlier and steeper rate cuts. This saw US Treasury yields tumble on the day.
  - The revision in 2024 contrasted with those seen in the later years with participants winding back expectations for easing in 2025 (100 basis points vs 125 previously) and 2026 (75 basis points vs 100 previously). Over the three years to 2026, less cuts were priced in aggregate (250 basis points) than was the case previously (275 basis points).
  - The FOMC's tightening bias remains but was watered down to now note that 'the extent of any additional policy firming' that may be appropriate rather than 'the extent of additional policy firming'.
  - Forecasts for GDP growth and the unemployment rate were little changed but those for core inflation were marked lower in 2024 and 2025 while remaining consistent with the target in 2026.
  - As expected, both the European Central Bank (ECB) and Bank of England (BoE) kept rates on hold at their December meetings. The ECB announced that reinvestments of pandemic era bond purchases would be lowered in the second half of next year before ceasing at the end of the year. ECB President Lagarde commented that rate cuts were not 'at all' discussed and that the Bank would follow a '*data-dependent, not time-dependent*' approach. The BoE discounted recent softer than expected wage and service price inflation data and wanted to see further evidence of these moderating before it could be concluded that upside risks to inflation had subsided.
  - Central banks of Switzerland, Taiwan, India and Mexico kept rates steady while Norway's surprisingly increased theirs by 25 basis points. Brazil's central bank cut rates by 50 basis points as part of unwinding restrictive policy settings with inflation on-track to return to target.
- In the **US**:
  - According to the *Establishment Survey*, non-farm payrolls increased 199,000 in November. While above expectations, this result was less impressive than on first inspection given almost all the jobs game from the health, leisure and hospitality and government sectors; that it was boosted by auto workers returning from being on strike; and given downward revisions to previous months.
  - It was a different story according to the *Household Survey*. Here, jobs increased by 747,000 or by 483,000 if adjusted to be on a payrolls-consistent basis. This strong jobs growth was more than enough to offset a firm rise in the labour force (+532,000) such that the unemployment rate declined 0.2 percentage points to 3.7 per cent.
  - In a pleasing development for the FOMC, both short and long-term measures of consumer inflation expectations moderated in the latest readings from the *University of Michigan Consumer Sentiment Survey* and the *New York Federal Reserve's Survey of Consumer Expectations*. According to the latter, consumer sentiment bounced sharply higher in the preliminary December report.
  - As expected, core inflation rose 0.3 per cent in November to be four per cent higher over the year. Some of the categories that tend to have stickier price moves continued to show resilience. Core producer prices did however rise less than expected on the month.
  - Core retail sales rose by more than expected in November, though the result was influenced by higher spending at pharmacies on COVID boosters and downward revisions to the prior months' outcome.
- In **China**, the annual rate of both producer (-3.0) and consumer (-0.5 per cent) price inflation was negative in November. While these measures indicated that the country remains in deflation, these moves were heavily influenced by falling oil and food prices. Annual growth in non-food inflation was positive. Credit growth data was weaker than expected in November.

Markets

Bond yields fell again this week with the near-term downward revisions to interest rate expectations from FOMC participants the catalyst.

Economic and Market Calendar

DATE	DETAILS
Domestic	**Tuesday:** RBA Minutes (Dec)
Offshore	**US:** Industrial production (Nov), S&P Global PMIs (Dec), Building permits & housing starts (Nov), Conference Board Consumer Confidence (Dec), Core PCE inflaiton (Nov), Capital goods orders & shipments (Nov) **UK:** S&P Global PMIs (Dec), PPI & CPI (Nov); Retail sales (Nov); **EZ:** S&P Global PMIs (Dec); **JP:** S&P Global PMIs (Dec), CPI (Nov), BoJ (Dec) **CH:** Monthly economic acitivty data (Nov)

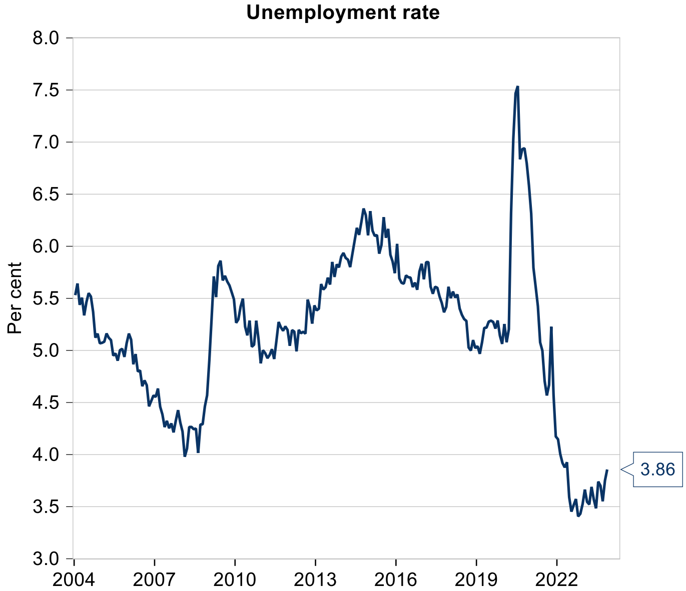
FUNDING AND MARKETS DIVISION
Economics and Research

Michael Anthonisz
T: 07 3842 4711
manthonisz@qtc.com.au

QUEENSLAND TREASURY CORPORATION
GPO Box 1096 Brisbane Queensland 4001
T: 07 3842 4600 www.qtc.com.au

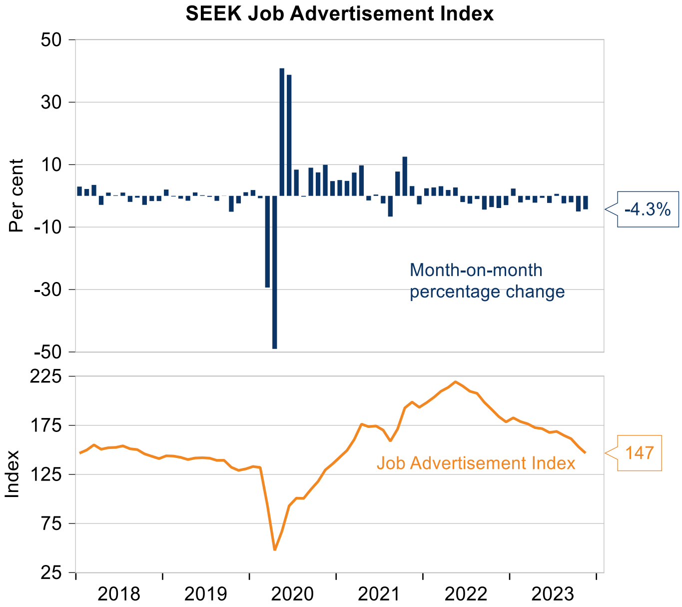
Economic and Financial Market Charts

CHART 1: AUSTRALIA'S UNEMPLOYMENT RATE HAS BROKEN OUT OF THE 3.5 PER CENT TO 3.7 PER CENT RANGE SINCE DECEMBER 2022



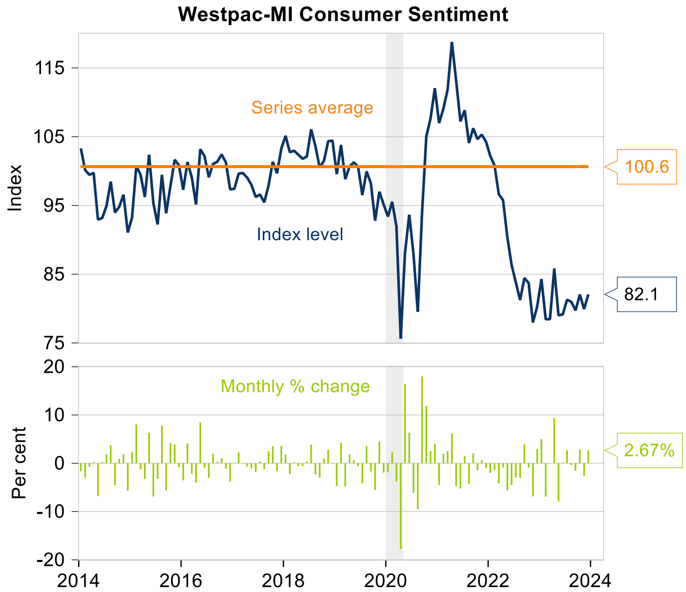
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: SEEK JOB ADS HAVE FALLEN IN 16 OT THE LAST 18 MONTHS



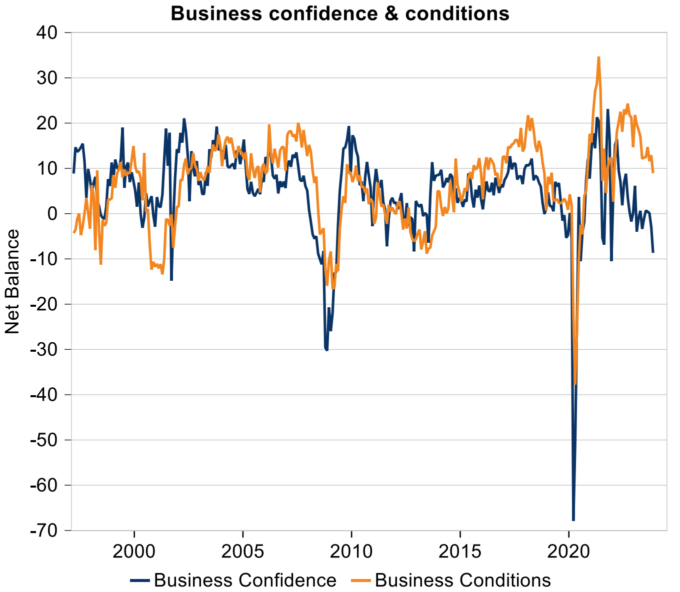
Source: SEEK Australia, QTC, Macrobond

CHART 3: CONSUMER SENTIMENT ROSE IN DECEMBER BUT HAS BEEN TRENDING SIDEWAYS AT LOW LEVELS SINCE AUGUST 2022



Source: Westpac-MI, QTC, Macrobond

CHART 4: BUSINESS CONDITIONS WEAKENED IN NOVEMBER THOUGH NOT BY AS MUCH AS BUSINESS CONFIDENCE



Source: National Australia Bank, QTC, Macrobond

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.

			CHANGE (BASIS POINTS)		
MATURITY	ISSUER	YIELD	1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.99	-17	-53	46
	NSWTC	4.01	-17	-54	50
	TCV	4.07	-17	-51	53
	WATC	3.98	-16	-51	45
	Australian Government	3.75	-18	-54	67
	US Government	4.08	-26	-51	14
5 Year	QTC	4.08	-18	-57	43
	NSWTC	4.12	-17	-57	46
	TCV	4.18	-16	-55	49
	WATC	4.07	-17	-56	41
	Australian Government	3.79	-18	-55	62
	US Government	3.90	-24	-54	28
7 Year	QTC	4.31	-17	-55	51
	NSWTC	4.37	-18	-56	55
	TCV	4.43	-16	-53	56
	WATC	4.28	-18	-54	49
	Australian Government	3.95	-19	-54	69
	US Government	3.92	-25	-54	37
10 Year	QTC	4.62	-20	-57	58
	NSWTC	4.70	-19	-57	59
	TCV	4.78	-19	-56	63
	WATC	4.54	-19	-56	52
	Australian Government	4.12	-20	-53	77
	US Government	3.91	-24	-54	46

		CHANGE (PER CENT)		
EQUITIES	RATE	1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.6712	1.56	3.34	0.46
AUD/EUR	0.6098	-0.23	2.08	-3.24
AUD/GBP	0.5250	0.12	0.98	-4.44
AUD/JPY	95.042	0.37	-2.84	3.02
AUD/CAD	0.9	0.20	1.04	-1.40
AUD/NZD	1.0788	0.93	-0.50	2.11
AUD/SGD	0.8904	0.78	1.55	-2.11
AUD/HKD	5.2411	1.51	3.36	0.88
AUD/KRW	869.32	-0.75	0.71	-0.15
AUD/CNY	4.7604	0.81	0.99	1.69
AUD/INR	55.909	2.07	5.38	-0.24
MAJOR CURRENCIES				
EUR/USD	1.0993	1.84	1.05	3.43
GBP/USD	1.2770	1.40	2.17	4.86
USD/JPY	141.81	-1.61	-5.69	2.92
USD/CHF	0.8669	-0.97	-2.50	-6.62
USD/CNY	7.1123	-0.58	-1.94	1.88

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	76.72	3.61	-6.97	-5.53
Gold	2,036.23	0.36	3.77	14.59
Copper	8,330.00	-0.14	1.15	0.44
Iron Ore	134.01	0.08	6.33	28.99

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