

# Weekly Economics and Markets Review

- The Bank of Japan kept policy settings unchanged as core CPI inflation eased for a second consecutive month.
- US Federal Reserve officials continued to push back against the possibility of near-term rate cuts.
- The NAB Business Survey suggests that economic activity and cost pressures continued to slow towards the end of 2023.
- The Australian Government announced changes to the “Stage 3” tax cuts.

## Week in review

### Domestic

- The NAB Business Survey pointed to a fall in business conditions in December with these now just slightly above its long-run average. Business confidence rebounded after a sharp fall in November, though it remains at below average levels. Capacity utilisation also eased slightly in December, though it remains at a high level. Perhaps most importantly, the quarterly rate of price and cost growth slowed sharply on the month. Growth in labour costs eased to 1.8 per cent (from 2.3 per cent), input costs to 1.6 per cent (from 2.5 per cent) and retail prices to 0.9 per cent (from 1.2 per cent).
- The Australian Government announced changes to the previously legislated “Stage 3 tax cuts”. Under the proposed changes, tax cuts for those earning more than \$200,000 will fall from \$9075 to more than \$4529 while those on \$70,000 will receive \$1,429 (vs \$625), and those earning \$40,000 will receive \$654 (vs \$0). The changes include the lowest tax rate being reduced from 19 per cent to 16 per cent, the second tax rate declining from 32.5 per cent to 30 per cent and now applying up to \$135,000. The 37 per cent rate, which was to be scrapped, will now apply from \$135,000 instead of \$120,000 as is currently the case. Finally, the top 45 per cent rate will start from \$190,000. This is higher than the current level of \$180,000 but down from the \$200,000 legislated. According to Federal Treasury, the changes are ‘*broadly revenue neutral, will not add to inflationary pressures and will support labour supply.*’

### Offshore

- Global PMI reports produced by S&P Global suggested that conditions in both the manufacturing and services sectors in the US got better while in both the UK and euro area, manufacturing sector conditions lifted while those in the services sector eased.
- US Federal Reserve officials continued to push back against the possibility of near-term rate cuts. San Francisco President Daly said that it would be ‘premature’ to consider near-term rate cuts and that she wants to see more evidence that inflation will reach two per cent. Atlanta Fed President Bostic reiterated Daly’s comments, noting that the Fed should proceed cautiously with its interest rate decisions.

- In the **US**:
  - According to the University of Michigan, consumer sentiment increased sharply in January to its highest level since July 2021. This built on a large increase in December with the two-month increase the biggest since 1991. Sentiment was supported by confidence that inflation has turned a corner and strengthening income expectations. To this end, one-year ahead inflation expectations dipped to the lowest level since December 2020 while five-to-ten year ahead expectations edged lower also.
  - Existing home sales fell 1.0 per cent in December, to an annualised level of 3.78 million units, the lowest level since August 2010.
- In **Japan**, the Bank of Japan (BoJ) kept policy settings unchanged at its January meeting. It also upgraded the outlook for inflation, noting that the likelihood of realising its price stability target ‘*has continued to gradually rise*’. The decision to keep policy unchanged was supported by the December CPI release. This pointed to Japan’s core CPI inflation (excluding fresh food) slowed to 2.3 per cent over the year to December, marking the second consecutive month of slower core inflation.
- In the **euro area**, the ECB’s January Bank Lending Survey showed that credit standards continued to tighten for firms and households, though the pace of this tightening has slowed. The pace of contraction in loan demand also continued to ease for both firms and households.
- In **China**:
  - The People’s Bank of China (PBoC) cut the reserve requirement ratio (RRR) by 50 basis points while also lowering SME and agricultural lending rates by 25 basis points. The former move was larger than expected and the latter was the first cut to these rates since December 2021. The moves are designed to increase lending in the economy.
  - The Government announced measures to support troubled commercial property developers and is reportedly considering moves to stabilise the stock market which has fallen consistently over the past six months.

## Markets

Bond yields rise slightly this week as markets continued to recalibrate expectations for near-term rate cuts by the Federal Reserve following commentary by Fed officials indicating that imminent moves are unlikely.

### Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Tuesday:</b> Retail sales (Dec) <b>Wednesday:</b> CPI (Q4), Private sector credit (Dec) <b>Thursday:</b> Corelogic dwelling prices (Jan), Building approvals (Dec) <b>Friday:</b> PPI (Q4), Home lending (Dec)
Offshore	<b>US:</b> FOMC meeting (31 Jan), GDP (Q4), PCE deflator (Dec), Employment cost index (Q4), Pending home sales (Dec), ADP employment (Jan), ISM Manufacturing Index (Jan) <b>Euro area:</b> ECB meeting (26 Jan), GDP (Q4), CPI (Jan), Unemployment rate (Dec) <b>Japan:</b> Retail sales (Dec), Industrial production (Dec) <b>China:</b> Industrial profits (Dec), NBS PMIs (Jan), Caixin manufacturing PMI (Jan)

## Economic and Financial Market Charts

CHART 1: NAB BUSINESS CONDITIONS EASED IN DECEMBER DUE TO DECLINES IN EMPLOYMENT AND TRADING CONDITIONS

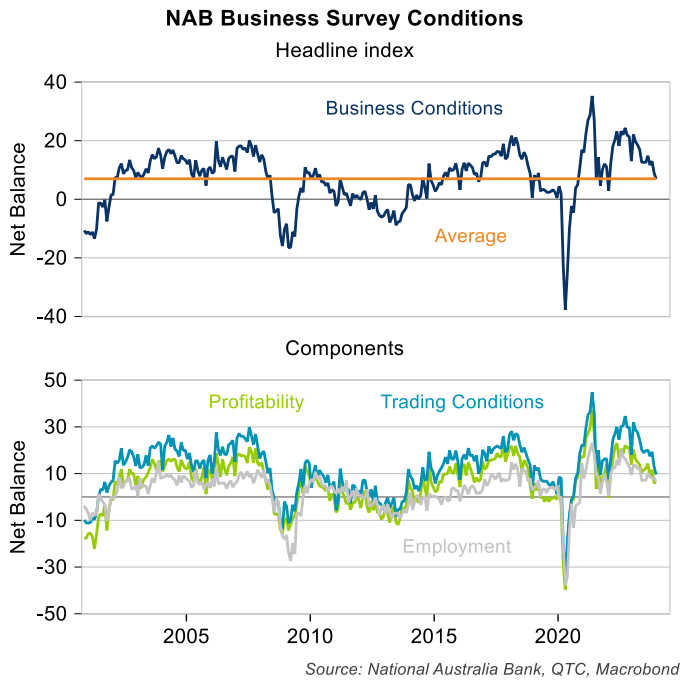


CHART 2: NAB BUSINESS CONFIDENCE TICKED UP IN THE MONTH, BUT IS STILL WELL BELOW BUSINESS CONDITIONS

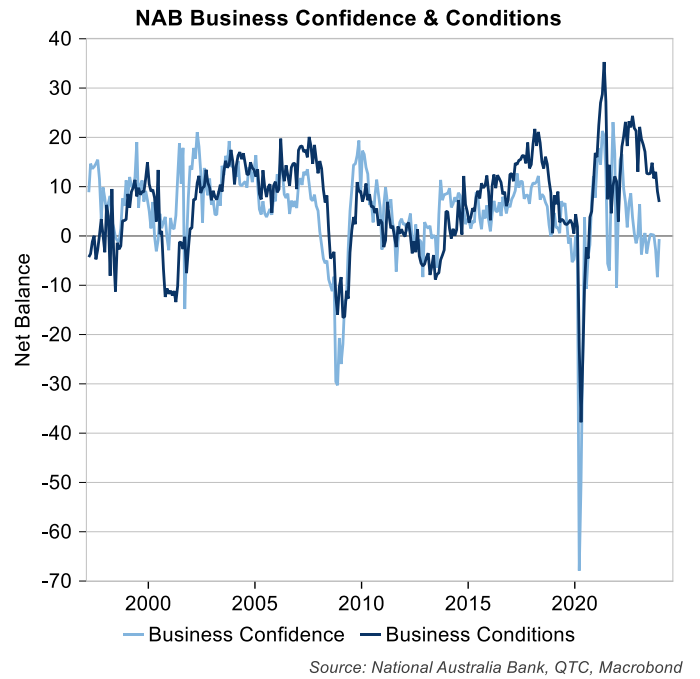


CHART 3: CAPACITY UTILISATION REMAINS AT A HIGH LEVEL DESPITE HAVING FALLEN OVER THE PAST YEAR

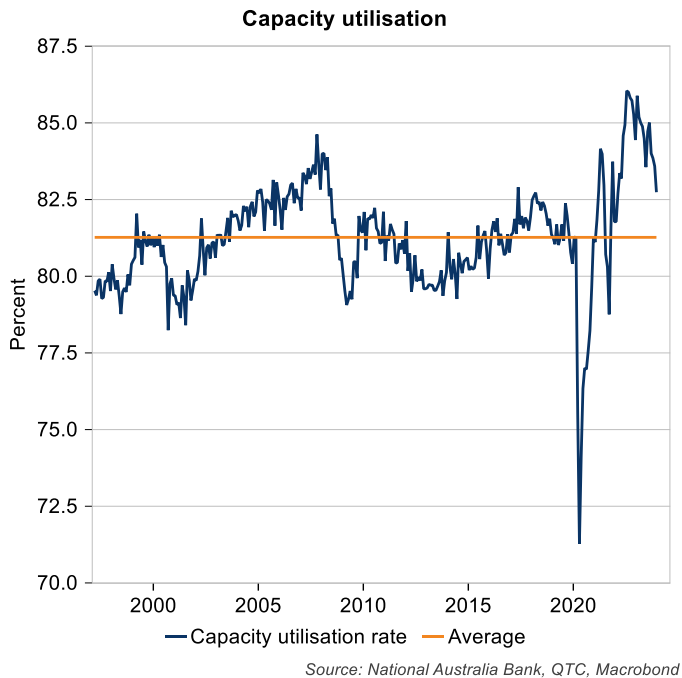


CHART 4: THE NAB SURVEY MEASURES OF PRICE AND COST GROWTH EASED NOTICEABLY OVER 2023

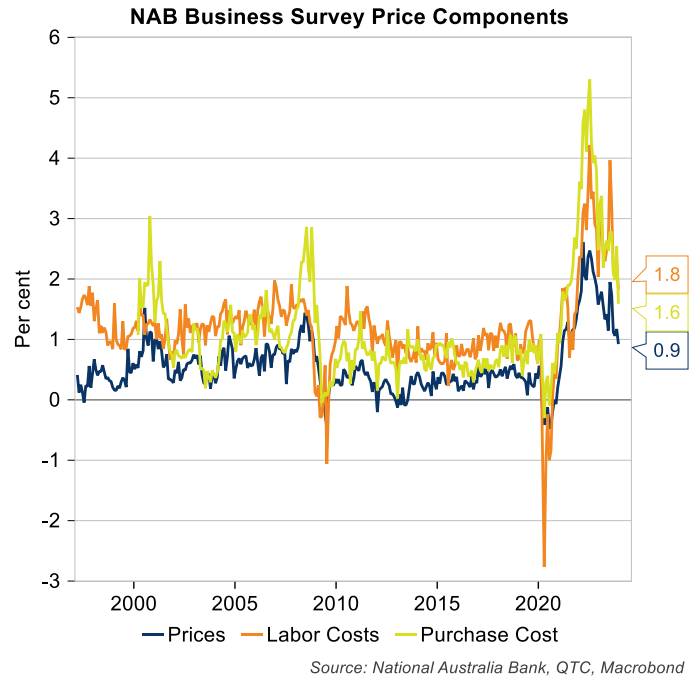


CHART 4: US CONSUMER SENTIMENT SURGED IN JANUARY, WITH IMPROVEMENTS IN BOTH CURRENT AND EXPECTED CONDITIONS

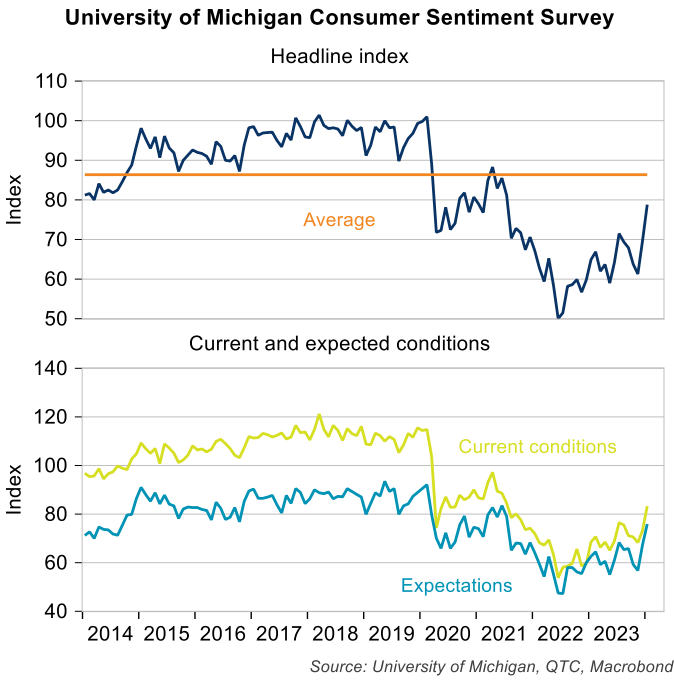


CHART 5: THE RICHMOND FED'S MANUFACTURING ACTIVITY INDEX IS AT ITS LOWEST LEVEL SINCE MAY 2020

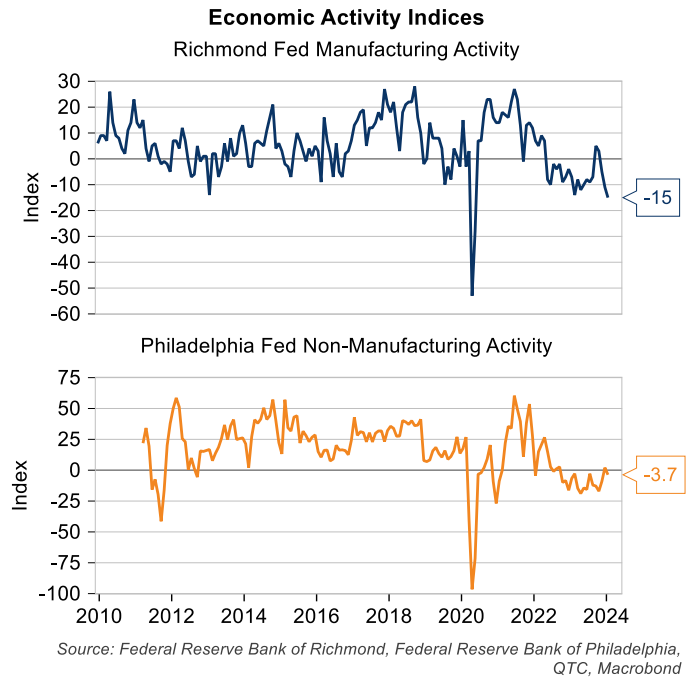


CHART 6: JAPAN'S CORE CPI INFLATION EASED FOR A SECOND CONSECUTIVE MONTH IN JANUARY

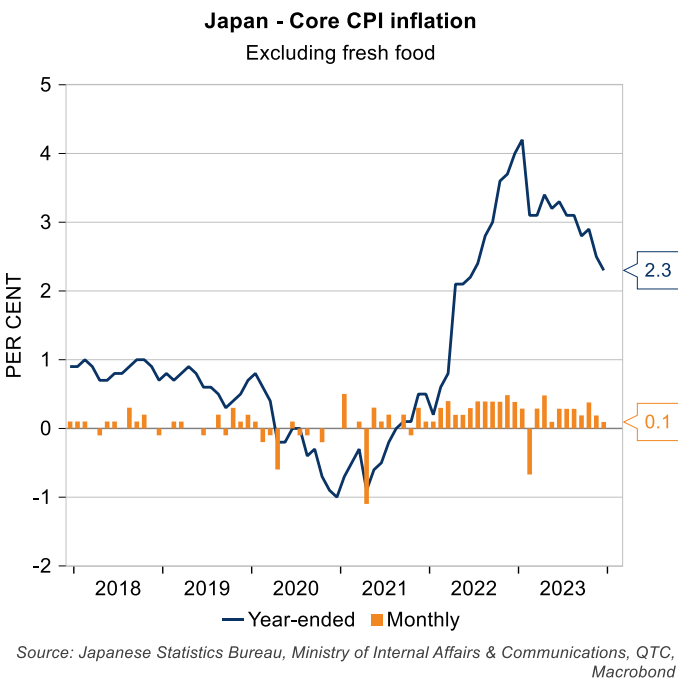
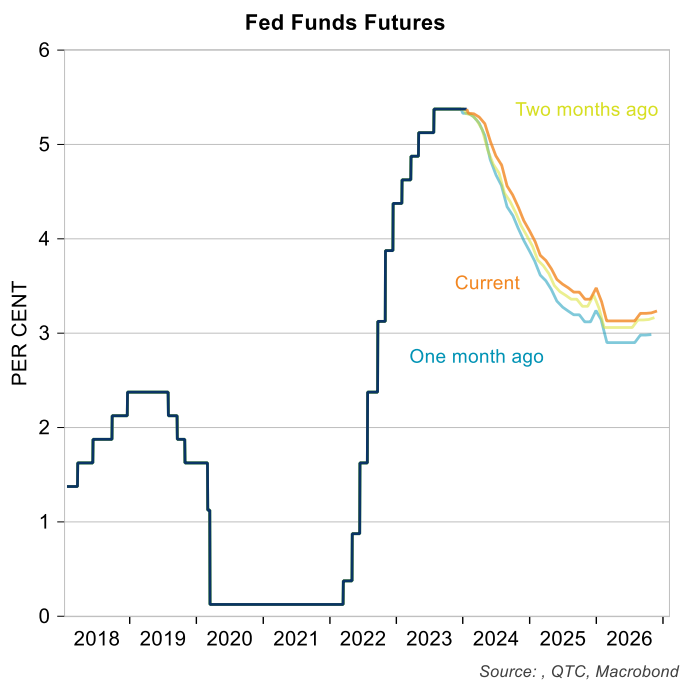


CHART 7: FEDERAL RESERVE OFFICIALS HAVE BEEN SUCCESSFUL IN DIALLING BACK MARKET ENTHUSIASM FOR NEAR-TERM RATE CUTS



## 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	4.07	2	19	60	AUD/USD	0.6607	1.02	-2.85	-6.72
	NSWTC	4.07	2	19	63	AUD/EUR	0.6058	0.65	-1.93	-6.76
	TCV	4.14	2	18	67	AUD/GBP	0.5183	0.47	-3.26	-9.39
	WATC	4.05	2	19	59	AUD/JPY	97.206	0.28	0.66	5.93
	Australian Government	3.80	2	18	77	AUD/CAD	0.8906	0.68	-1.18	-6.23
	US Government	4.19	5	18	36	AUD/NZD	1.0776	0.60	-0.14	-1.62
5 Year	QTC	4.17	2	22	58	AUD/SGD	0.8836	0.41	-1.90	-5.08
	NSWTC	4.21	1	22	61	AUD/HKD	5.1655	1.00	-2.79	-6.86
	TCV	4.27	1	20	64	AUD/KRW	881.55	0.26	-0.10	0.92
	WATC	4.16	2	22	58	AUD/CNY	4.7147	0.21	-2.85	-2.21
	Australian Government	3.86	1	20	72	AUD/INR	54.878	0.73	-2.82	-5.18
	US Government	4.09	6	24	54	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.40	0	23	60	EUR/USD	1.0882	-0.01	-1.15	-0.31
	NSWTC	4.48	0	24	64	GBP/USD	1.2719	0.33	0.22	2.55
	TCV	4.54	-0	21	69	USD/JPY	147.58	-0.39	3.67	13.87
	WATC	4.38	1	23	58	USD/CHF	0.8632	-0.14	0.99	-5.97
	Australian Government	4.03	1	23	73	USD/CNY	7.1586	-0.49	0.31	5.51
	US Government	4.14	6	26	65	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	4.74	2	26	60	Brent Crude Oil	80.31	3.12	1.57	-6.75
	NSWTC	4.82	1	25	62	Gold	2,019.32	0.61	-1.64	4.23
	TCV	4.91	1	24	67	Copper	8,405.00	1.66	-1.97	-9.76
	WATC	4.66	2	25	56	Iron Ore	135.20	7.49	-0.95	14.83
	Australian Government	4.22	2	26	77					
	US Government	4.17	7	30	73					

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 Economics and 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 or 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.