

Weekly Economics and Markets Review

- CPI inflation slowed sharply in the December quarter, taking annual headline inflation to its lowest rate in two years. Nominal retail sales and dwelling approvals were also weaker than expected.
- US data were mostly stronger than expected over the past week, though there were some signs of a slowing in the labour market and inflation.
- The US Federal Reserve and the ECB left monetary policy unchanged at their recent meetings. Fed President Powell noted that rates are likely to have peaked but pushed back on the possibility of an interest rate cut in March.

Week in review

Domestic

- CPI inflation slowed sharply in the December quarter, taking annual headline inflation to its lowest rate in two years. Headline CPI inflation eased to 0.6 per cent in the quarter, which saw annual inflation fall sharply from 5.4 to 4.1 per cent. Underlying inflation also eased, with annual trimmed-mean inflation slowing from 5.1 to 4.2 per cent.
- The improvements in inflation largely reflected declines in tradable and goods prices, though market services inflation also eased in the quarter. Prices were particularly weak for goods that were previously affected by supply constraints, including furnishings and household equipment.
- Nominal retail sales were weaker than expected in December, with a 2.7 per cent fall in the month more than offsetting the 2.2 per cent rise in November. Retail sales growth was just 0.8 per cent over the year, which is its slowest annual pace since July 2000 (outside of COVID-19 lockdown periods).
- Total dwelling approvals fell 9.5 per cent in December, driven by a 25 per cent fall in higher-density housing approvals. Looking through the monthly volatility, approvals remain around the low levels that have persisted since early 2023.
- CoreLogic dwelling prices for the eight capital cities rose 0.4 per cent in January.
- Goods export prices rose by 5.6 per cent in the December quarter, largely driven by stronger iron ore and metallurgical coal prices. Import prices rose by 1.1 per cent in the quarter but are 3.1 per cent lower over the year.

Offshore

- The US Federal Reserve and the European Central Bank (ECB) left monetary policy unchanged at their recent meetings.
 - The US Federal Open Markets Committee (FOMC) Reserve left the target range for the federal funds rate unchanged at 5.25-5.5 per cent at its January meeting. The Committee now considers that employment and inflation are potentially 'moving into better balance'. Fed President Powell also noted that rates are likely to have peaked but pushed back on the possibility of an interest rate cut in March.
 - The ECB left its policy rates and formal guidance unchanged at its January meeting. During the press conference, President Lagarde noted that the consensus of the Governing Council was that discussing rate cuts was 'premature' and that policy should remain data dependent.

- Several other ECB officials also stressed that the timing of a rate cut will be data dependent, including ECB Vice President Guindos. These statements are seemingly in response to previous comments from ECB officials suggesting that policy was likely to remain unchanged until at least the June meeting.
- The Summary of Opinions at the BOJ's Monetary Policy Meeting on 22-23 January were hawkish and consistent with the idea that further policy normalisation may be seen at the BoJ's April meeting.
- US data were mostly stronger than expected over the past week, though there were some signs of a slowing in the labour market and inflation.
 - US GDP increased at an annualised rate of 3.3 per cent in the December quarter, well above consensus expectations for a 2.0 per cent increase.
 - Inflation-adjusted consumer spending remained robust in December, increasing by 0.5 per cent for a second consecutive month.
 - JOLTS job openings increased from 8.9 million to 9.0 million in December, against expectations for a small decline in the month.
 - The ISM manufacturing index increased by more than expected in January. The underlying composition was mixed, with increases in new orders and production partly offset by a decline in the employment component.
 - ADP private payrolls jobs rose by 107,000 jobs in January, below the consensus expectations for a 150,000 increase. The employment cost index increased by 0.9 per cent in the December quarter, down from 1.1 per cent in the September quarter.
 - The US PCE deflator rose 0.2 per cent in December, which saw annual headline inflation unchanged at 2.6 per cent. Annual core PCE inflation eased from 3.2 to 2.9 per cent, which is its slowest pace since March 2021.
- In the euro area, real GDP remained unchanged in Q4 2023, slightly stronger than consensus expectations for a 0.1 per cent fall. Core CPI inflation eased slightly from 3.4 to 3.3 per cent over the year to December. Annual headline inflation also eased one-tenth to 2.8 per cent. Both results were slightly above consensus expectations.
- In Japan, industrial production rose by a smaller-than-expected 1.8 per cent in December, while retail sales fell 2.9 per cent. The unemployment rate fell to 2.5 per cent in December (from 2.6 per cent in November).
- In China, both the NBS' manufacturing and non-manufacturing PMI's edged higher in January.

Markets

US Treasury yields fell over the past week, despite recent data generally being stronger than expected. There was a larger fall in short-end Australian government bond yields due to the sharp easing of CPI inflation.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: International Trade (Dec), ANZ-Indeed Job Advertisements (Jan) Tuesday: RBA cash rate decision, RBA Statement on Monetary Policy, Retail sales volumes (Dec Q)
Offshore	US: Non-farm payrolls (Jan), Unemployment rate (Jan), Hourly earnings (Jan), University of Michigan sentiment (Jan), ISM services index (Jan) Euro area: PPI (Dec), ECB inflation expectations (Dec), Retail sales (Dec) China: CPI (Jan), PPI (Jan), Caixin PMI (Jan) New Loans (Jan), Aggregate financing (Jan)

Economic and Financial Market Charts

CHART 1: HEADLINE AND TRIMMED-MEAN INFLATION HAVE BOTH FALLEN SHARPLY FROM THEIR Q4 2022 PEAKS

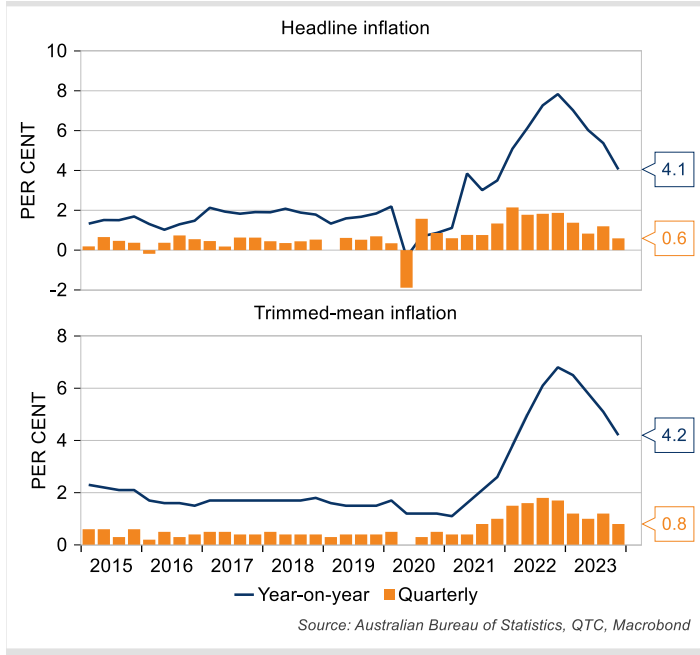


CHART 2: THE IMPROVEMENT LARGELY REFLECTED DECLINES IN TRADABLE AND GOODS PRICES...

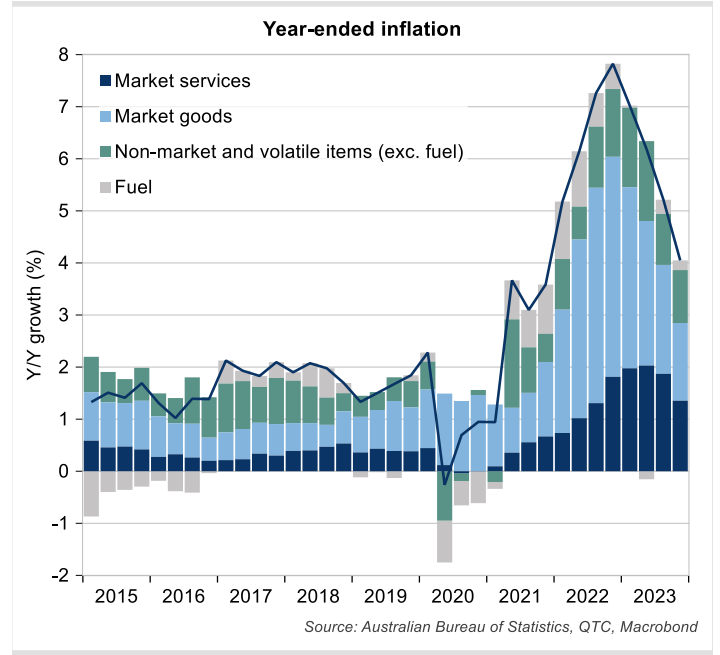


CHART 3: ... HOWEVER, THERE WERE ALSO NOTICEABLE IMPROVEMENTS ACROSS A RANGE OF UNDERLYING INFLATION MEASURES

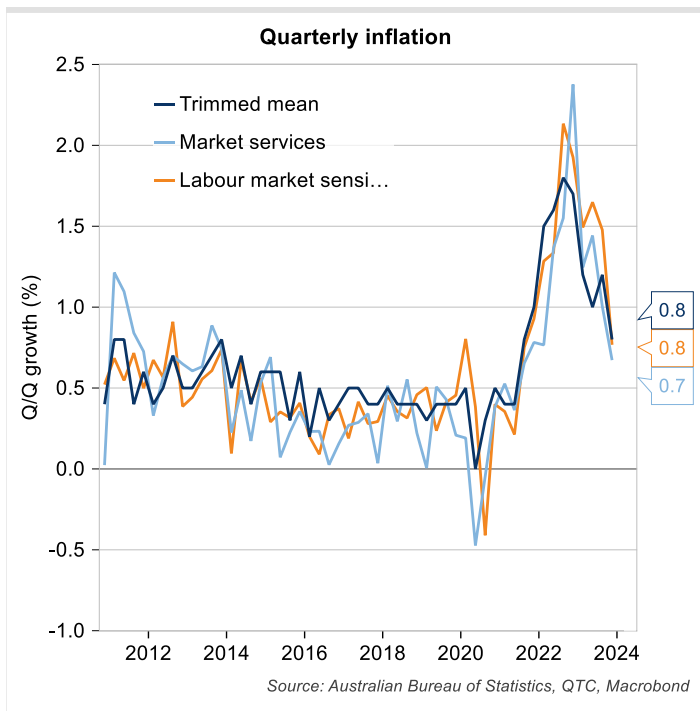


CHART 4: THE SHARE OF PRICES THAT EXPERIENCED ANNUALIZED INCREASES ABOVE 3% WAS JUST UNDER 50% IN Q4 2023, DOWN FROM 80% IN Q4 2022

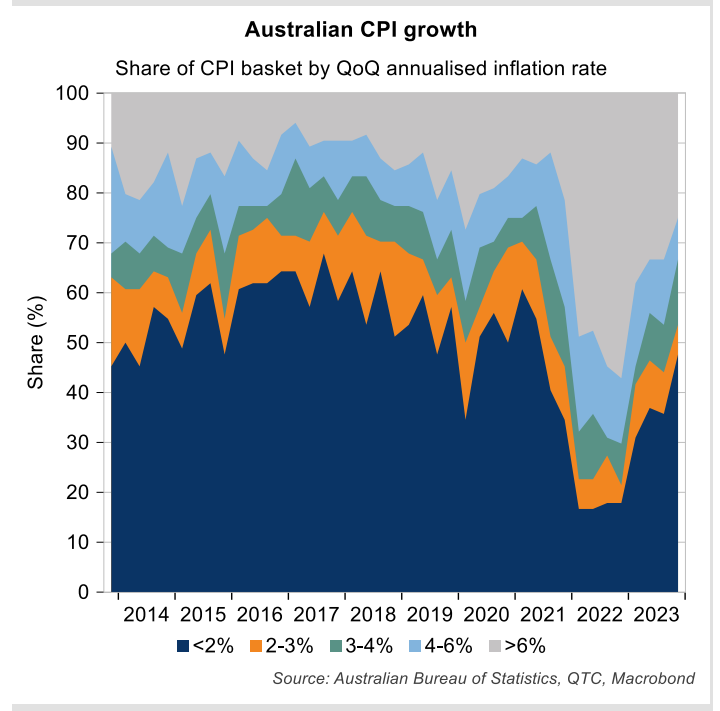


CHART 5: AUSTRALIAN DWELLING PRICES HAVE INCREASED FOR 12 CONSECUTIVE MONTHS AND ARE 10% HIGHER OVER THE YEAR

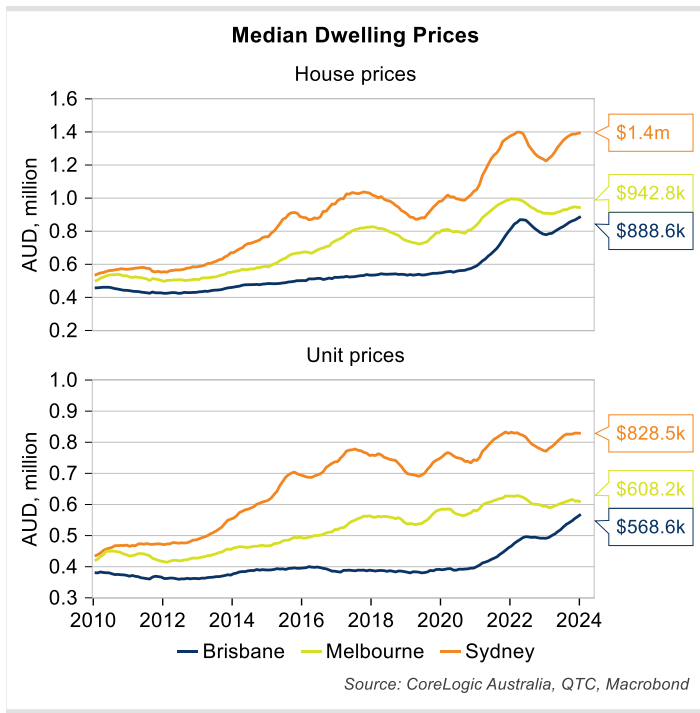


CHART 6: US GDP GROWTH REMAINS ROBUST AND WAS WELL ABOVE CONSENSUS EXPECTATIONS IN Q4 2023

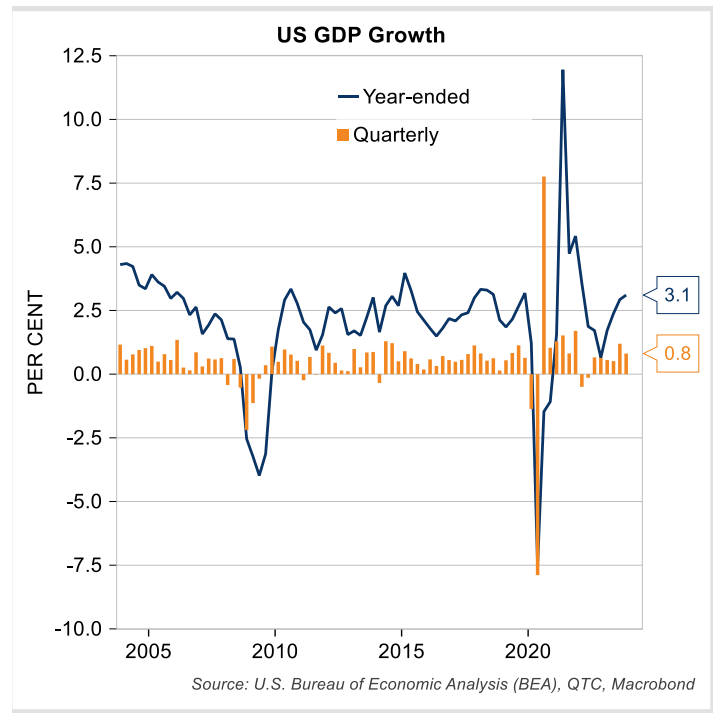


CHART 7: HEADLINE PCE INFLATION CONTINUES TO EDGE CLOSER TO THE FEDS 2% INFLATION TARGET

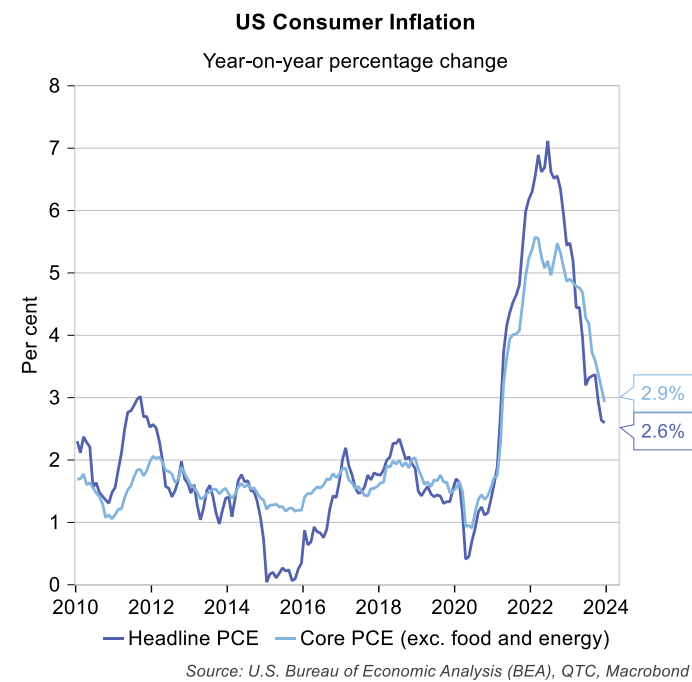
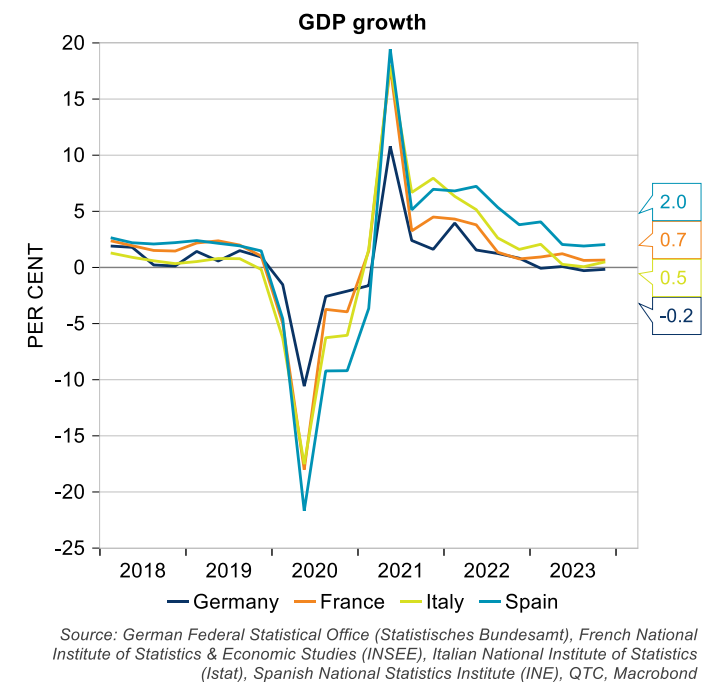


CHART 8: EURO AREA GDP GROWTH REMAINS SUBDUED, WITH GERMANY EXPERIENCING PARTICULARLY WEAK ACTIVITY



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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.84	-22	-5	23
	NSWTC	3.85	-22	-5	25
	TCV	3.92	-22	-5	30
	WATC	3.83	-22	-5	23
	Australian Government	3.56	-24	-7	38
	US Government	3.98	-12	-11	20
5 Year	QTC	3.94	-23	-3	21
	NSWTC	3.98	-23	-3	24
	TCV	4.04	-22	-4	27
	WATC	3.93	-23	-2	21
	Australian Government	3.63	-24	-4	34
	US Government	3.81	-19	-10	32
7 Year	QTC	4.19	-23	-1	26
	NSWTC	4.26	-23	-0	30
	TCV	4.32	-23	-3	34
	WATC	4.16	-22	-0	24
	Australian Government	3.81	-23	-1	39
	US Government	3.85	-23	-9	41
10 Year	QTC	4.53	-22	3	28
	NSWTC	4.61	-23	2	30
	TCV	4.70	-22	1	37
	WATC	4.44	-23	3	22
	Australian Government	4.01	-23	2	45
	US Government	3.88	-24	-5	49

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.6572	-0.20	-2.80	-7.14
AUD/EUR	0.6045	-0.43	-2.17	-6.81
AUD/GBP	0.5157	-0.47	-3.76	-10.92
AUD/JPY	96.229	-1.01	0.24	5.65
AUD/CAD	0.8797	-0.86	-2.32	-6.64
AUD/NZD	1.0697	-0.73	-1.09	-2.12
AUD/SGD	0.8784	-0.45	-2.04	-5.24
AUD/HKD	5.1393	-0.16	-2.75	-7.43
AUD/KRW	875.24	-0.51	-0.46	1.34
AUD/CNY	4.7179	0.03	-2.36	-1.13
AUD/INR	54.164	-1.07	-4.72	-7.57

MAJOR CURRENCIES				
		1 WEEK	1 MONTH	1 YEAR
EUR/USD	1.0818	-0.26	-1.13	-0.84
GBP/USD	1.2688	-0.16	0.56	3.79
USD/JPY	146.92	-0.50	3.47	14.17
USD/CHF	0.8614	-0.66	1.29	-5.68
USD/CNY	7.1746	0.08	0.43	6.48

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	78.70	-4.53	3.70	-4.22
Gold	2,054.99	1.69	-0.19	7.44
Copper	8,608.50	0.47	0.75	-4.90
Iron Ore	131.00	-2.35	-6.50	12.76

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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