

# Weekly Economics and Markets Review

- The cash rate was left unchanged at 4.35 per cent at the RBA's February Board meeting, with underlying inflation now expected to reach the RBA's target band by the middle of next year.
- US labour market conditions remain robust, with non-farm payrolls increasing by noticeably more than expected in January.
- Globally, major central banks continue to stress that it is too early to consider rate cuts and that the decision will be data dependent.

## Week in review

### Domestic

- The cash rate was left unchanged at 4.35 per cent at the RBA's February Board meeting, as was widely expected. The post-meeting statement noted that returning inflation to its target 'remains the Board's highest priority'.
- The RBA's outlook for inflation and economic activity was revised to be slightly weaker in the February Statement on Monetary Policy (SoMP).
  - Trimmed-mean inflation is now expected to reach the top of the RBA's target band (3 per cent) by mid-2025, six months sooner than its previous forecasts from the November SoMP. Inflation also expected to return to the middle of the target band by June quarter 2026.
  - GDP growth was revised lower, with declines in real income and household budget pressures resulting in a weaker outlook for household consumption.
  - Labour market conditions are expected to ease further, with the unemployment rate increasing to 4.3 per cent by the end of this year (it is currently 3.9 per cent). Wages growth is forecast to gradually decline from the December quarter due to softer labour market conditions.
- Governor Bullock said that the risks to the RBA's outlook were balanced in the post-Board meeting press conference. She noted that while inflation has eased, the RBA Board needs 'to be convinced that progress is going to continue' before it considers cutting the cash rate.
- Retail trade volumes rose 0.3 per cent in Q4 2023, to be 1 per cent over the year. The increase was not broad based, with discounting boosting sales of furniture and electronic goods towards the end of last year.
- The goods trade surplus eased to \$11.0 billion in December, with a strong increase in goods imports more than offsetting the increase in goods exports.
- ANZ-Indeed Australian Job Ads rose 1.7 per cent in January, following a 0.6 per cent increase in December. While job ads have eased from their November 2022 peak, they remain almost 40 per cent higher than pre-pandemic levels.

### Offshore

- Major central banks continue to stress that it is too early to consider rate cuts and that the decision will be data dependent.
  - Several US Federal Reserve officials continued to push back on the possibility of near-term rate cuts, noting that they require further evidence that inflation is easing sustainably towards its 2 per cent target. Cleveland Fed President Mester expects the Fed will have enough confidence in the path of inflation to cut later this year.
  - ECB's Nagel said that it's 'too early to talk about cuts' and that the decision will be data dependent.
  - BoE Chief Economist Pill said that while the outlook for GDP and inflation has improved, the MPC requires further evidence that underlying inflation will be consistent with its target before it cuts rates.
- US data continue to suggest that labour market conditions are robust, while other second-tier data were mixed.
  - Non-farm payrolls rose 353k in January, which was almost double consensus expectations for a 185k increase. There were particularly large increases in the healthcare and government sectors.
  - The unemployment rate was steady at 3.7 per cent and employment increased by 239k in December. Average hourly earnings increased by a stronger-than-expected 4.5 per cent over the year to January.
  - Initial jobless numbers (i.e., claims for unemployment benefits) fell to 218k in the week to 3 February, providing further evidence of robust labour market conditions.
  - The ISM services index increased in January, though it remains at a low level.
  - The trade deficit widened to USD 62.2b in December from USD 61.9b in November.
- In Germany, industrial production declined by a sharper-than-expected 1.6 per cent in December and is now 3 per cent lower over the year. Excluding construction and energy, industrial production decreased its lowest level since mid-2020.
- China's Caixin services PMI fell slightly in January, with price indicators suggesting disinflationary pressures continued in the month.

## Markets

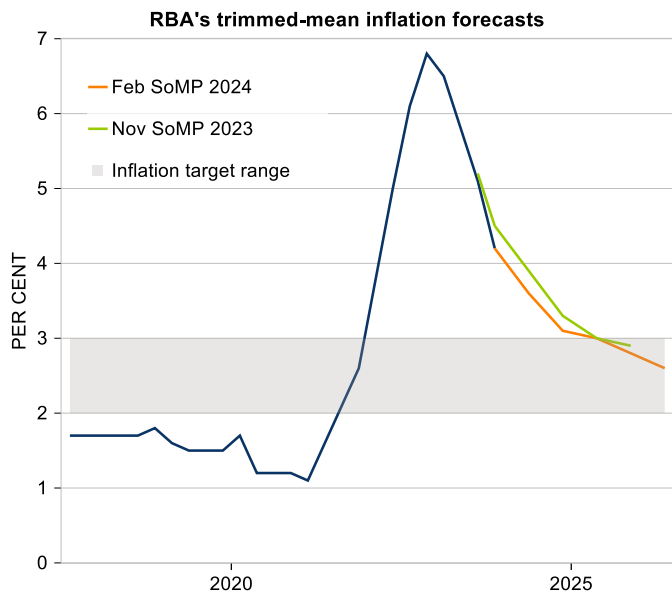
Government bond yields increased over the past week, supported by stronger-than-expected US labour market data and cautious commentary from global central banks. Crude oil prices increased, with higher prices supported by an unexpected fall in US oil inventories, the US Energy Information Administration lowering its expectations for US supply growth in 2024 and Israel's dismissal of a ceasefire agreement increasing risks in the Middle East.

### Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Tuesday:</b> NAB Business survey (Jan), Westpac consumer confidence (Feb) <b>Thursday:</b> Labour force survey (Jan), Melbourne Institute consumer inflation expectations (Feb)
Offshore	<b>US:</b> CPI (Jan), NY Fed inflation expectations (Jan), Real average weekly earnings (Jan), Retail sales (Jan), Trade prices (Jan), Initial jobless claims (10 Feb), Industrial production (Jan) <b>Euro area:</b> GDP (Q4), Employment (Q4), Industrial production (Dec), Trade balance (Dec) <b>UK:</b> CPI (Jan), Employment (Dec), Jobless claims (Jan), GDP (Q4), Monthly GDP (Dec), Retail sales (Jan), Average weekly earnings (Dec) <b>Japan:</b> GDP (Q4), Department store sales (Jan)

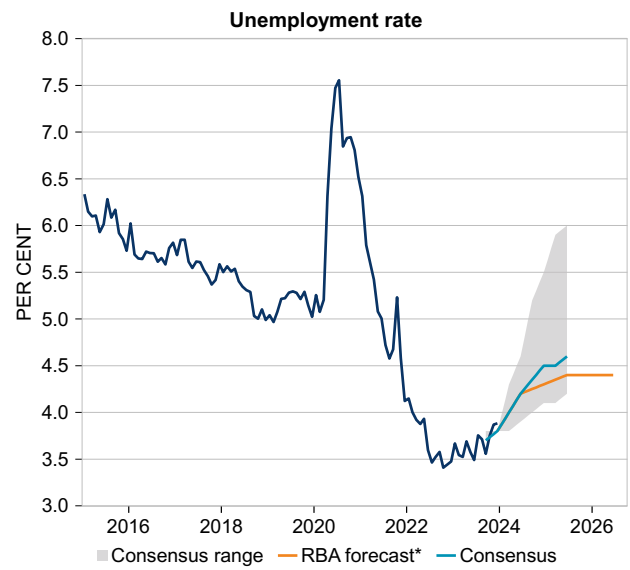
## Economic and Financial Market Charts

**CHART 1: THE RBA REVISED TRIMMED-MEAN INFLATION LOWER, WITH IT NOW REACHING ITS TARGET BAND BY THE MIDDLE OF NEXT YEAR**



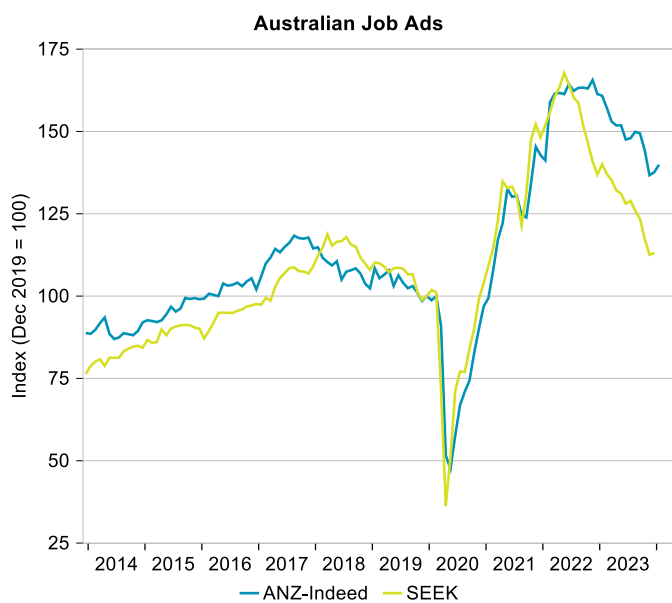
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

**CHART 2: THE RBA EXPECTS UNEMPLOYMENT WILL INCREASE, THOUGH IT REMAINS MORE OPTIMISTIC THAN CONSENSUS**



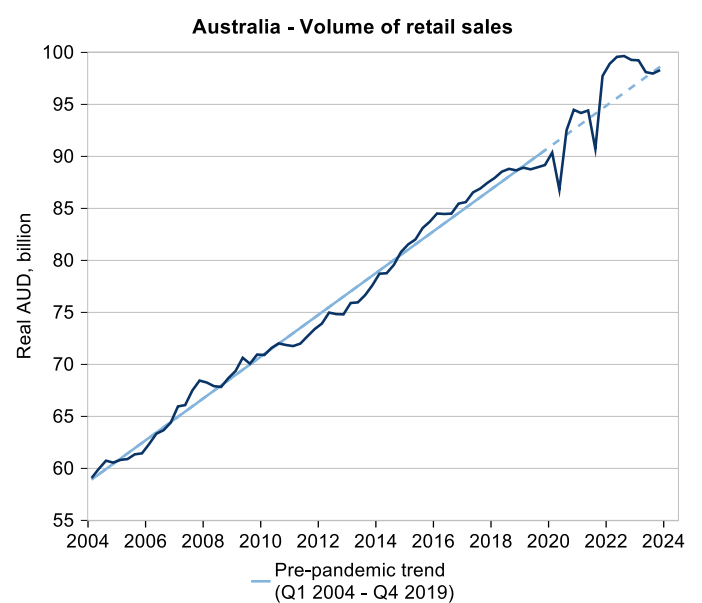
\* RBA forecast is from the November SoMP  
Source: Australian Bureau of Statistics, Reserve Bank of Australia, Azerbaijan Ministry of Finance, QTC, Macrobond

**CHART 3: ANZ-INDEED JOB ADS REMAIN WELL ABOVE PRE-PANDEMIC LEVELS, BUT SEEK JOBS ADS HAVE HAD A SHARPER FALL**

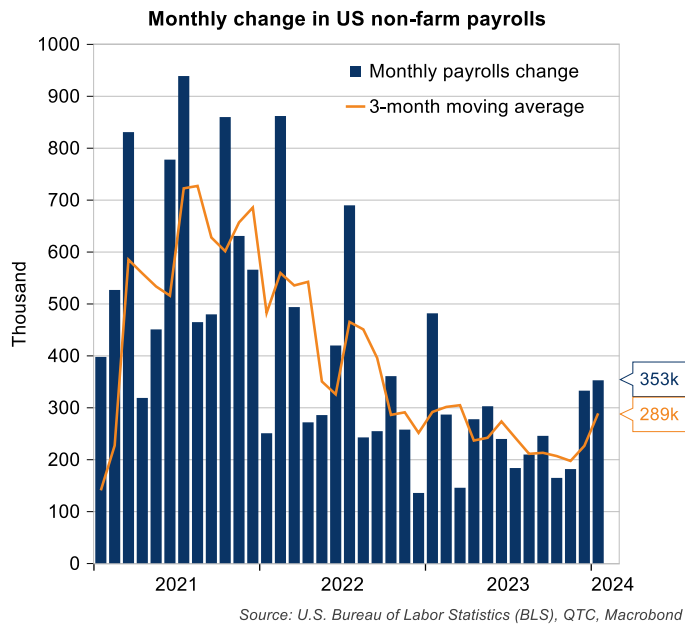
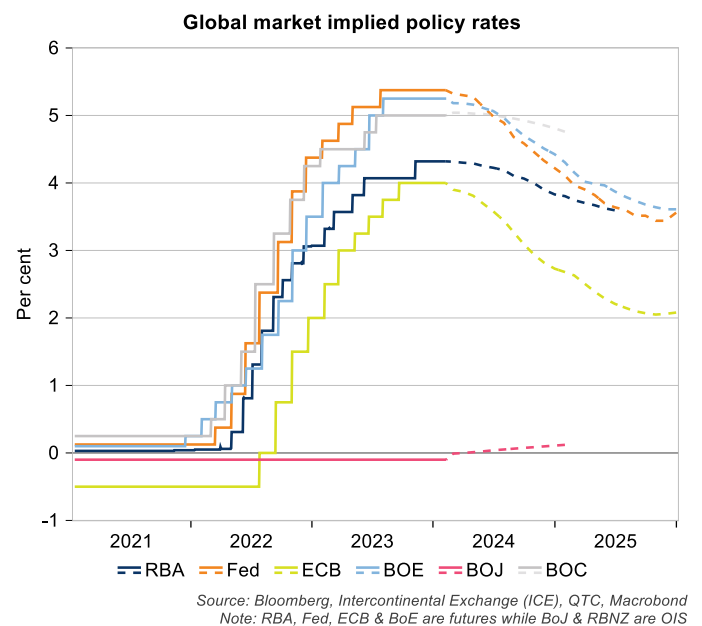


Source: ANZ-Indeed, SEEK Australia, QTC, Macrobond

**CHART 4: RECENT DECLINES HAVE SEEN RETAIL TRADE VOLUMES RETURN TO THEIR PRE-PANDEMIC TREND**



Source: Australian Bureau of Statistics, QTC, Macrobond

**CHART 5: US NON-FARM PAYROLLS HAVE BEEN SURPRISINGLY ROBUST IN RECENT MONTHS****CHART 6: THE US UNEMPLOYMENT RATE REMAINS AT A LOW LEVEL DESPITE SIGNS OF SLOWER HOUSEHOLD SPENDING****CHART 7: GERMAN INDUSTRIAL PRODUCTION FELL FOR A SEVENTH CONSECUTIVE MONTH IN DECEMBER****CHART 8: CENTRAL BANK OFFICIALS CONTINUE TO PUSH BACK AGAINST MARKET PRICING 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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.95	10	-13	31
	NSWTC	3.95	11	-12	32
	TCV	4.03	11	-13	39
	WATC	3.94	11	-12	31
	Australian Government	3.66	10	-14	40
	US Government	4.24	26	11	9
5 Year	QTC	4.04	10	-13	28
	NSWTC	4.07	9	-13	30
	TCV	4.14	9	-14	35
	WATC	4.03	10	-12	28
	Australian Government	3.73	10	-12	38
	US Government	4.11	30	14	25
7 Year	QTC	4.26	7	-12	31
	NSWTC	4.33	7	-13	34
	TCV	4.39	7	-15	39
	WATC	4.24	7	-12	28
	Australian Government	3.90	9	-8	42
	US Government	4.14	30	15	37
10 Year	QTC	4.61	8	-8	35
	NSWTC	4.68	8	-8	34
	TCV	4.76	6	-12	40
	WATC	4.52	8	-9	29
	Australian Government	4.10	9	-5	50
	US Government	4.15	27	13	49

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-1.22	-2.92	-6.40
AUD/EUR	0.60	-0.35	-1.52	-6.73
AUD/GBP	0.51	-0.24	-2.21	-10.10
AUD/JPY	96.94	0.74	0.34	6.24
AUD/CAD	0.87	-0.69	-2.43	-6.38
AUD/NZD	1.07	-0.44	-0.64	-2.86
AUD/SGD	0.87	-0.44	-1.75	-4.90
AUD/HKD	5.08	-1.18	-2.84	-6.73
AUD/KRW	862.35	-1.47	-1.99	-1.35
AUD/CNY	4.67	-0.98	-2.51	-0.88
AUD/INR	54.00	-0.30	-3.08	-6.20
MAJOR CURRENCIES				
EUR/USD	1.08	-0.86	-1.39	0.36
GBP/USD	1.26	-0.98	-0.72	4.11
USD/JPY	149.31	1.97	3.34	13.47
USD/CHF	0.87	1.85	2.50	-5.27
USD/CNY	7.20	0.22	0.41	5.99

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	81.82	3.96	5.45	-3.17
Gold	2,033.88	-1.03	0.18	9.24
Copper	8,312.00	-2.61	-0.69	-7.47
Iron Ore	128.50	-1.91	-5.73	11.78

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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