

Weekly Economics and Markets Review

- The Australian labour market was stronger than expected in February, with the unemployment rate falling back to 3.7 per cent.
- The RBA kept the cash rate unchanged at 4.35 per cent at its March Board meeting, with the post-meeting statement indicating a shift to a neutral policy stance.
- The Bank of Japan ended its negative interest rate policy following the strongest spring wage negotiation outcome since 1991.

Week in review

Domestic

- The RBA kept the cash rate unchanged at 4.35 per cent at its March Board meeting, as expected. However, the post-meeting statement indicated a shift to a neutral policy stance, with the Board now stating that it is 'not ruling anything in or out', in contrast to its previous statement that 'a further increase in interest rates cannot be ruled out'.
- Governor Bullock explained that this change in language was in response to recent data that increased their confidence in their current path, which likely refers to the softer-than-expected inflation and labour market readings in the lead up to the meeting. Despite this shift, Bullock emphasized that the outlook for interest rates remains uncertain and that the risks are finely balanced.
- The February labour force survey was released in the days following the RBA's cash rate announcement. The outcome was much stronger than expected, with employment increasing by 116.5k and the unemployment rate falling to 3.7 per cent (from 4.1 per cent). However, given the recent volatility in these data, it is difficult to put much weight on the strength of this outcome.

Offshore

- The **US Federal Reserve's** FOMC left the target range for the federal funds rate unchanged at its March meeting. In the post-meeting press conference, Fed Chair Powell reaffirmed that rates are likely at their peak and that it will be appropriate to begin easing policy sometime this year.
- The median forecast from the FOMC members points to 75bp of rate cuts in 2024, with the fed funds rate expected to fall to 2.6 per cent in the long term. The updated economic projections for 2024 showed a more robust economic outlook, with upward revisions resulting in noticeably stronger GDP growth and slightly higher core inflation.
- The **Bank of Japan (BOJ)** ended its negative interest rate policy, which had been in place since January 2016. It also exited from other unconventional policy measures, including yield curve control and purchases of exchange-traded funds (ETFs), noting that these measures 'have fulfilled their roles'.
- The shift in BOJ policy follows the outcome of the annual spring wage negotiations (Shunto) which, at 5.3 per cent, was the strongest wage outcome since 1991. The strength of wages growth has provided the BOJ with more confidence in achieving its inflation target, with it noting that 'the virtuous cycle between wages and prices has become more solid'.

- The **Bank of England (BOE)** kept its benchmark interest rate unchanged at 5.5 per cent, with Governor Bailey noting that it is 'not yet at the point' where it can cut interest rates, but that 'things are moving in the right direction'.
- **US** housing market data were stronger than expected over the past week. Manufacturing output was also above expectations, while consumer sentiment edged lower.
 - The NAHB housing market index increased in March, against consensus expectations for a flat reading. Existing home sales increased by a much stronger-than-expected 9.5 per cent in February, while housing starts and building permits were also above expectations.
 - Industrial production growth was slightly above expectations in February, while manufacturing production was well above consensus estimates.
 - The University of Michigan's index of consumer sentiment edged lower in March. Consumer inflation expectations were unchanged, with one year ahead expectations remaining at 3 per cent.
- In **China**:
 - Industrial production and fixed asset investment increased by more than expected over the year to January-February, underpinned by stronger manufacturing activity. There was particularly strong growth in high-tech manufacturing sectors, including new-energy vehicles and green energy.
 - Retail sales were slightly below consensus estimates, with headline retail sales growth slowing from 7.4 to 5.5 per cent year-on-year.
 - Financing and house prices remained weak due to the ongoing crunch in China's property sector. House prices fell 0.4 per cent in February, marking their ninth consecutive monthly decline. Aggregate financing was well below consensus expectations, while new RMB loans were also weaker than expected.
 - The PBoC left its medium-term lending facility rate unchanged at 2.5 per cent, in line with expectations.
- **Canada's** headline CPI slowed to 2.8 per cent over the year to February, weaker than the expectations for growth to be 3.1 per cent. Core inflation also slowed in February.
- In **New Zealand**, GDP unexpectedly fell by 0.1 per cent in Q4 2023, to be 0.3 per cent lower over the year. This follows a fall in GDP in Q3, with the economy now experiencing a double-dip recession.

Markets

US Treasury yields edged slightly lower, with the FOMC projections still suggesting that the Fed expects there to be three rate cuts this year. There was little change in Australian Government bond yields over the past week, with the market fully pricing in the first cash rate cut for the September meeting.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: Westpac Consumer Confidence (Mar) Wednesday: Monthly CPI Indicator (Feb) Thursday: Retail Sales (Feb), Job Vacancies (Feb), Private Sector Credit Growth (Feb)
Offshore	US: PCE Deflator (Feb), GDP (3 rd estimate), New Home Sales (Feb), MBA Mortgage Applications (22 March), Capital Goods Orders (Feb), Dallas Fed Manufacturing (Mar), Richmond Fed Manufacturing and Business Conditions (Mar), Philadelphia Fed Non-Manufacturing (Mar) UK: GDP (Q4 Final estimate) Japan: Tokyo CPI (Mar), Retail Sales (Feb), Industrial Production (Feb), Jobless Rate (Feb)

Economic and Financial Market Charts

CHART 1: EMPLOYMENT SURGED IN FEBRUARY, THOUGH MUCH OF THIS REFLECTS VOLATILITY DUE TO CHANGING SEASONAL PATTERNS

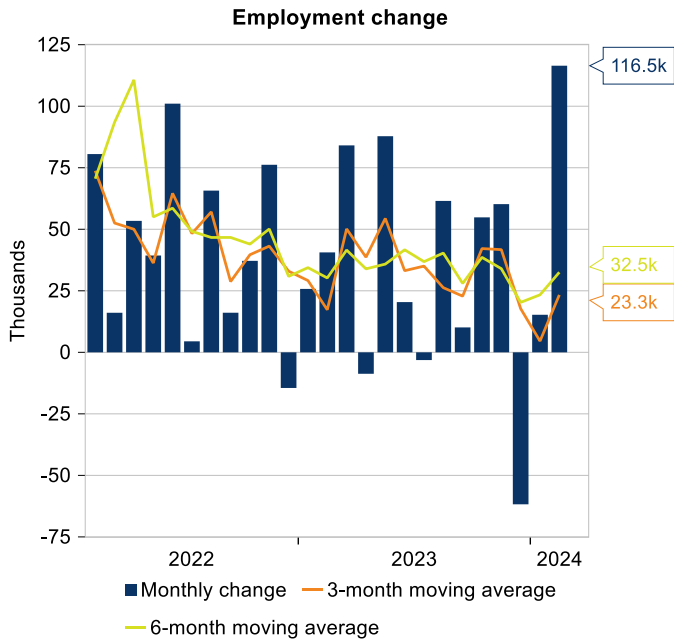


CHART 2: THERE WAS ALSO A SHARP DROP IN THE UNEMPLOYMENT RATE, WHILE UNDEREMPLOYMENT POSTED A MORE MODEST DECLINE

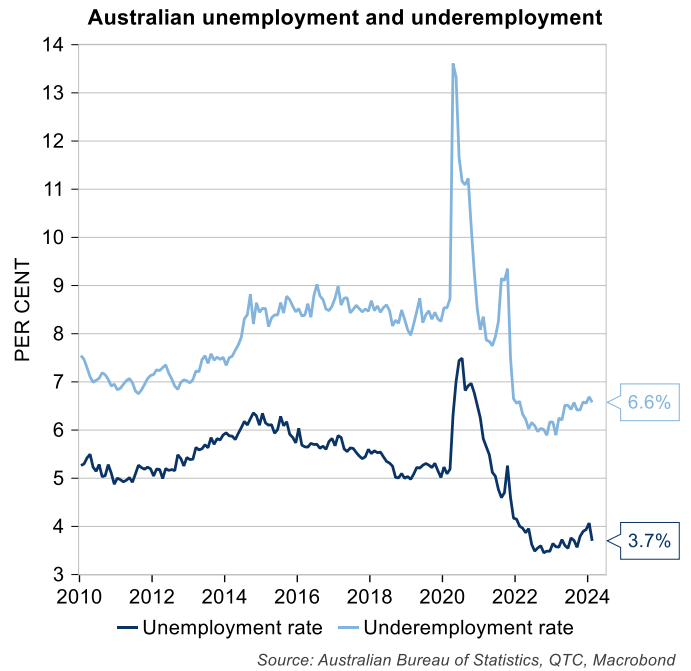


CHART 3: US CONSUMER SENTIMENT EDGED SLIGHTLY LOWER, BUT REMAINS WELL ABOVE ITS 2022 TROUGH

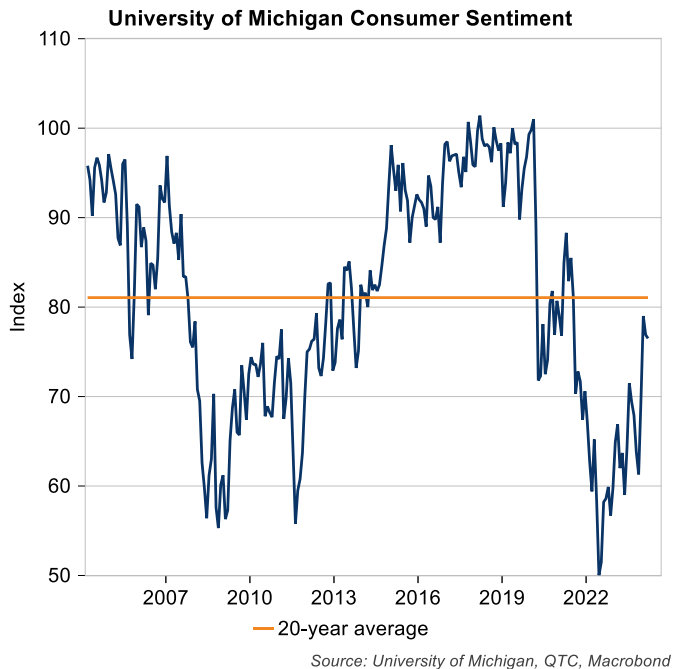


CHART 4: US CONSUMER INFLATION EXPECTATIONS HAVE STALLED AROUND 3% IN RECENT MONTHS



CHART 5: JAPAN'S SPRING WAGE NEGOTIATIONS SAW THE LARGEST INCREASE IN WAGES SINCE 1991

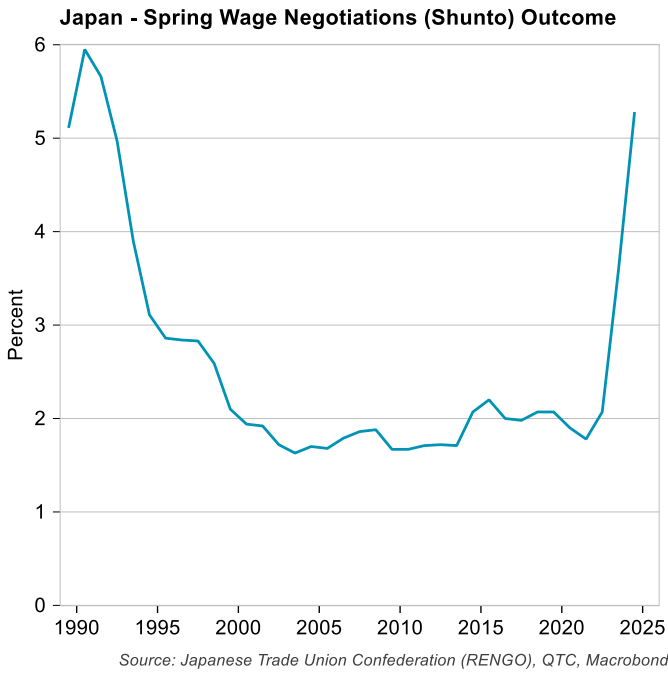


CHART 6: NZ GDP HAS FALLEN IN FOUR OF THE PREVIOUS FIVE QUARTERS

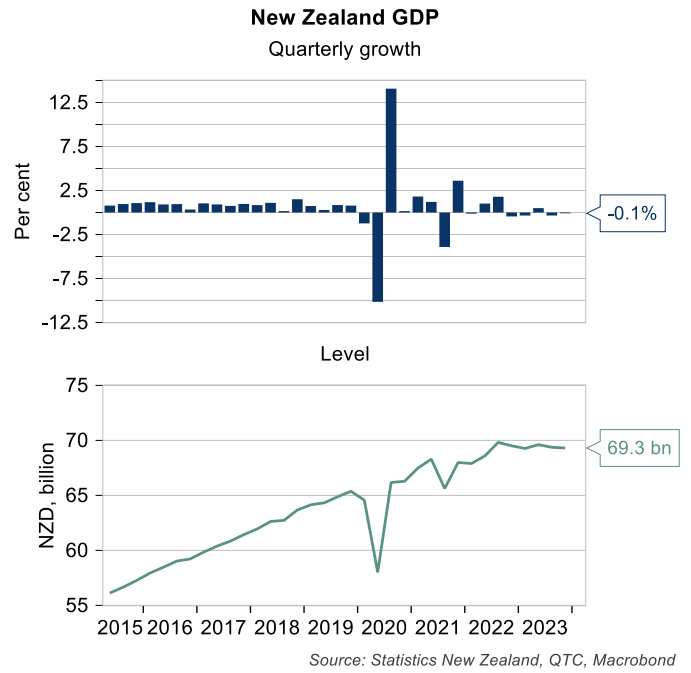


CHART 7: THE MEDIAN OUTLOOK FROM THE FED'S FOMC IS FOR 75BP OF RATE CUTS IN 2024

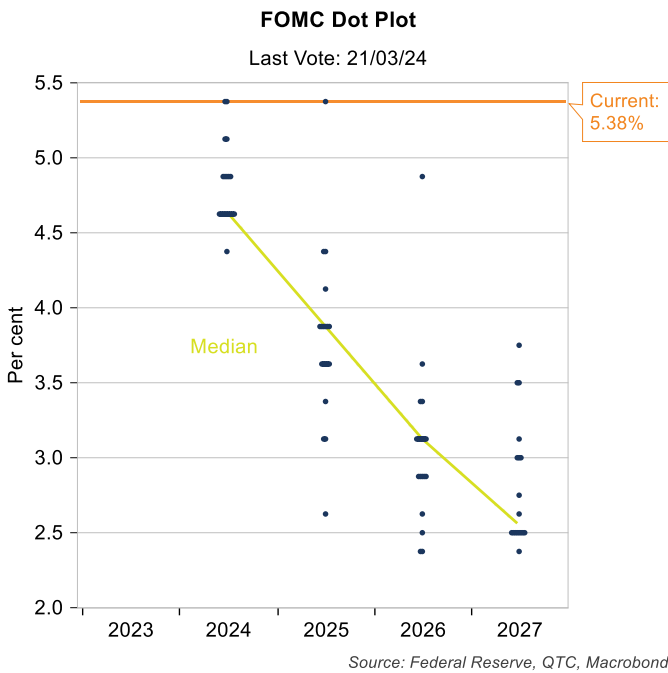
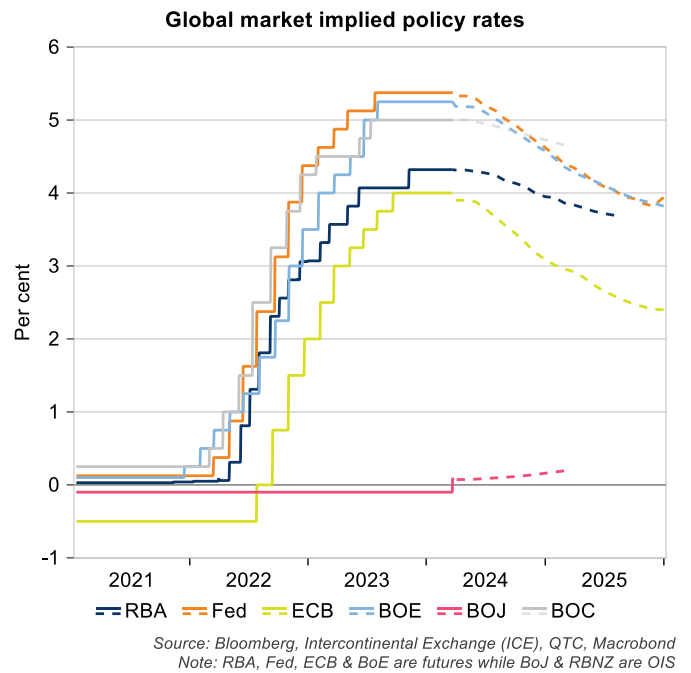


CHART 8: THE FOMC'S VIEW IS BROADLY IN LINE WITH MARKET PRICING FOR THE FED FUNDS RATE



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	4.02	2	0	73
	NSWTC	4.02	2	1	73
	TCV	4.09	1	1	78
	WATC	4.01	1	1	73
	Australian Government	3.70	2	-2	90
	US Government	4.41	-5	2	79
5 Year	QTC	4.11	0	-1	70
	NSWTC	4.14	0	-1	69
	TCV	4.20	0	-1	75
	WATC	4.10	0	-1	70
	Australian Government	3.75	1	-4	83
	US Government	4.25	-4	0	81
7 Year	QTC	4.33	2	-3	70
	NSWTC	4.39	2	-2	71
	TCV	4.45	1	-2	79
	WATC	4.30	2	-3	68
	Australian Government	3.91	3	-6	86
	US Government	4.27	-3	-1	83
10 Year	QTC	4.68	3	-3	72
	NSWTC	4.72	2	-3	68
	TCV	4.80	1	-4	78
	WATC	4.58	3	-3	67
	Australian Government	4.09	3	-8	90
	US Government	4.27	-2	-1	84

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.66	-0.17	0.32	-1.71
AUD/EUR	0.60	0.02	-0.17	-1.99
AUD/GBP	0.52	0.59	0.04	-4.57
AUD/JPY	99.62	2.06	1.40	13.89
AUD/CAD	0.89	-0.18	0.37	-3.03
AUD/NZD	1.09	1.26	2.31	1.64
AUD/SGD	0.88	0.43	0.35	-0.32
AUD/HKD	5.14	-0.18	0.33	-2.07
AUD/KRW	868.84	0.18	-0.81	1.67
AUD/CNY	4.73	-0.13	0.33	3.78
AUD/INR	54.96	0.16	1.07	-0.68

MAJOR CURRENCIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
EUR/USD	1.09	9.22	1.05	0.84
GBP/USD	1.28	0.26	1.29	4.06
USD/JPY	151.26	1.98	0.83	15.60
USD/CHF	0.89	0.35	0.57	-3.23
USD/CNY	7.20	0.07	0.12	5.57

MAJOR COMMODITIES				
	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	85.78	0.42	4.18	13.00
Gold	2,181.33	0.89	7.75	9.43
Copper	8,950.50	0.71	5.30	-0.89
Iron Ore	109.78	6.35	-8.24	4.16

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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