

# Weekly Economics and Markets Review

- Economic data released this week in Australia and abroad was mixed. The focus of investors was on central bank meetings in the US and Japan. Here policymakers kept rates on hold as expected. Of interest to investors were comments from US officials that pushed back on the idea that the next move in rates might be up.
- Investors were also focussed on reported foreign exchange market intervention by Japan's Ministry of Finance and the US Treasury's quarterly borrowing update.

## Week in review

### Domestic

- The number of residential building approvals increased 1.9 per cent in March. This was roughly half the jump expected though did follow an upwards revision to the prior months' outcome (-0.9 per cent vs -1.9 per cent). Detached approvals (+3.6 per cent) drove the monthly gain while those for higher-density dwellings again fell (-1.8 per cent) and are now at the lowest level since 2012. The value of approvals for residential alterations and additions (+6.1 per cent) and non-residential building (+28.7 per cent) both improved.
- The value of retail sales fell 0.4 per cent in March and with prior months' outcomes revised lower, the annual growth rate eased 0.7 percentage points to +0.8 per cent. Food was the only category to rise with others unwinding strength seen in February due to spending related to the Taylor Swift concerts.
- Australia's international (goods) trade surplus moderated to \$5.0 billion in March from \$6.6 billion (was downwardly revised from \$7.3 billion). The value of goods exports was little changed as there were largely offsetting moves in exports of rural and non-rural goods. The value of goods imports again rose strongly with firm gains across with gains across consumer, capital, and intermediate goods.

### Offshore

- In central bank news:
  - The monetary policymaking arm of the US Federal Reserve, the Federal Open Markets Committee (**FOMC**), kept rates steady at 5.25 per cent to 5.50 per cent. The post-meeting statement acknowledged a '*lack of further progress toward the Committee's 2% inflation target*' but noted risks to achieving employment and inflation goals '*have moved towards better balance over the past year*'.
  - In the post-meeting press conference, FOMC Chair Powell indicated that he sees current interest rate settings as sufficiently restrictive given the cooling off in labour demand and the softness in interest-sensitive spending. Furthermore, Powell considers that it is unlikely the next policy move will be a rate hike unless compelling evidence emerged that the current policy stance is not restrictive.
  - Powell anticipates further progress on inflation but is unsure when the FOMC will have enough evidence to ease rates. Interestingly, he outlined scenarios where inflation remained persistent and the Committee could '*hold off on rate cuts*' as well as scenarios related to developments with respect to inflation and the labour market in which rate cuts were needed.

### Offshore

- The **Bank of Japan** kept policy settings unchanged at its May meeting. However, it did remove the limited forward guidance introduced following the policy tightening delivered at its March meeting and commented that monetary policy settings will depend on economic activity and inflation as well as financial conditions.
- In the **US**:
  - The core PCE deflator rose 0.3 per cent in March, in-line with the previous and estimated value. Over the year it was up 2.7 per cent. This was slightly higher than the 2.5 per cent prior and 2.6 per cent expected given small upwards revisions to prior months' outcomes.
  - The employment cost index rose 1.2 per cent in Q1. The quarterly outcome was slightly above consensus expectation (+1.0 per cent) and previous outcome (+0.9 per cent).
  - There was a steep fall in consumer confidence according to the measure produced by the Conference Board. It fell 6.1 points in April to 97.0, the lowest level since July 2022. This was the third consecutive decline with the fall more than what was expected and came despite downward revisions to prior months' outcomes/
- In the **euro area**, the annual rate of core inflation slowed from 3.0 per cent to 2.7 per cent in April, one-tenth higher than anticipated. Real GDP rose 0.3 per cent in Q1 2024 which was above the 0.1 per cent expected. There were solid gains seen across expenditure category and country.
- In **Japan**, industrial production rose 3.8 per cent in March which was the first increase in three months as production resumed at some previously disrupted automakers. In contrast, retail sales fell for the first time in three months following the strong gain in February due to the leap year and spending by visiting Chinese residents due to the Lunar New Year holiday. Meanwhile, consumer confidence dipped in April, the first decline in seven months.
- In **China**:
  - April's Politburo meeting emphasised the need for additional support for the delivery of pre-sold new homes, local government debt resolution, high-tech manufacturing, green industries, and market reforms.
  - The NBS' manufacturing PMI indicated that conditions in the sector improved in April but at a slower pace than in March. There was a steep slowdown in the pace of improvement in service sector conditions and with those in construction largely steady, conditions outside of manufacturing moderated overall.

## Markets

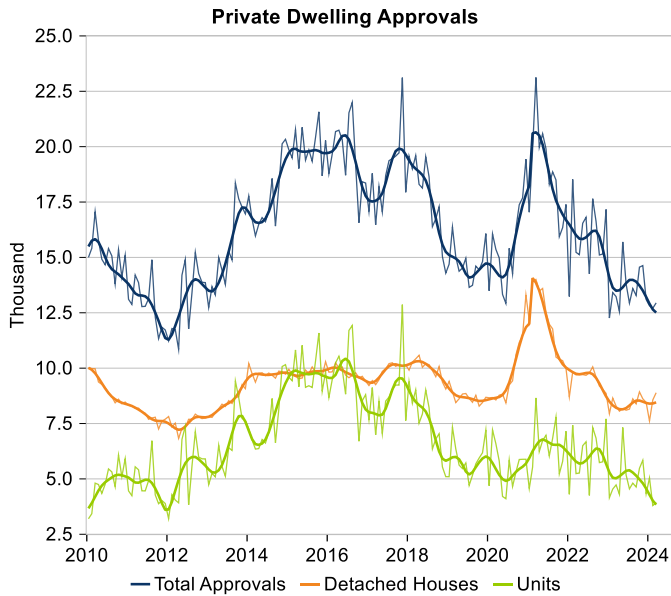
Bond yields fell this week on the lack of an upside surprise in monthly US core PCE inflation and after FOMC Chair Powell pushed back on rate hikes. Japan's Ministry of Finance reportedly intervened to support the Yen which had been depreciating consistently since the start of the year and rapidly over the week ahead of the first intervention. In other market news, the US Treasury revised up estimates of its borrowing in Q2 whilst keeping the size of its bond auctions largely unchanged.

## Economic and Market Calendar

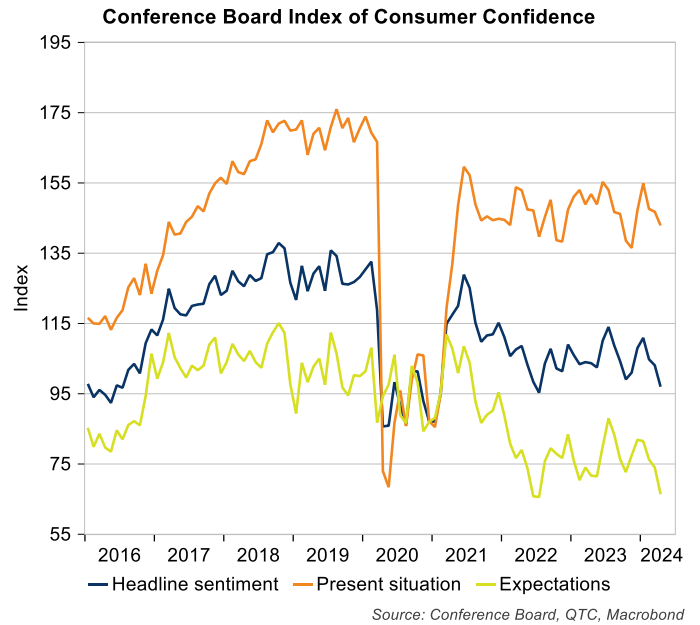
DATE	DETAILS
Domestic	Melbourne Institute Inflation Gauge (Apr), Retail sales volumes (Q1), RBA meeting and Statement on Monetary Policy (May)
Offshore	<b>US:</b> Non-farm payrolls (April), ISM Services Index (Apr); Federal Reserve Senior Loan Office Survey <b>Other:</b> Bank of England meeting (May, UK), Retail sales (Mar, EZ), Caixin PMIs (Apr, China); International trade (Apr, China)

## Economic and Financial Market Charts

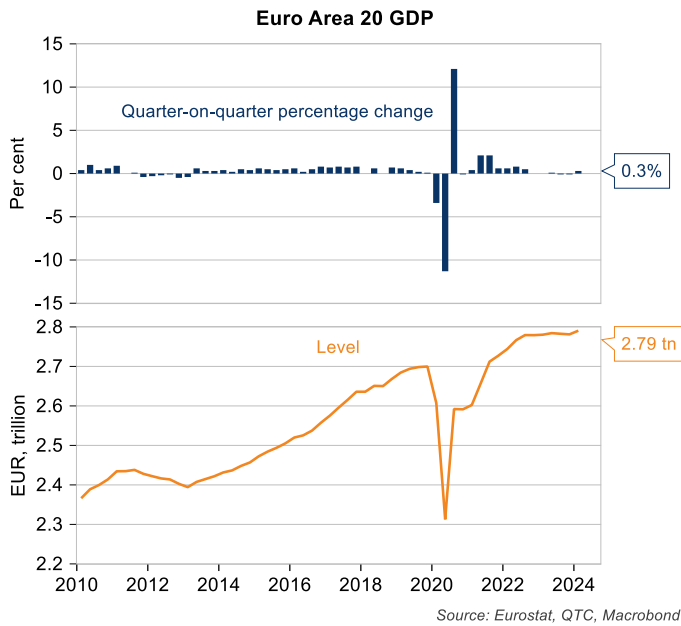
**CHART 1: HIGHER-DENSITY DWELLING APPROVALS IN AUSTRALIA HAVE FALLEN TO THE LOWEST LEVEL SINCE 2012**



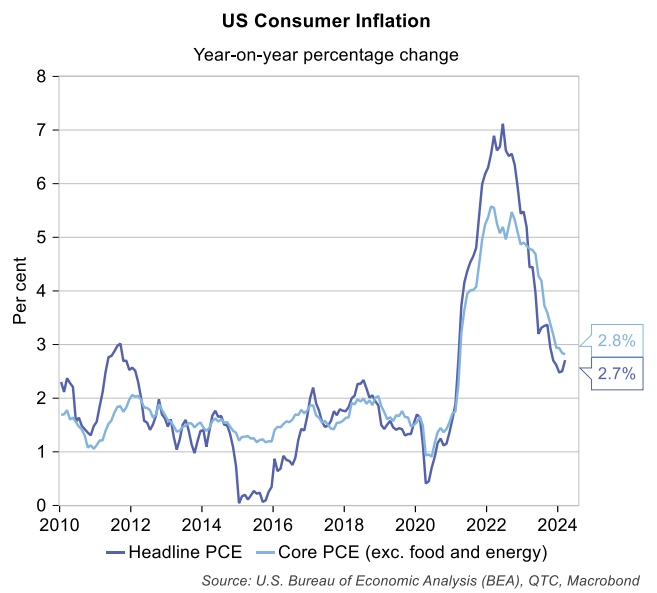
**CHART 2: ACCORDING TO THE CONFERENCE BOARD, CONSUMER CONFIDENCE FELL IN APRIL TO THE LOWEST LEVEL SINCE JULY 2022**



**CHART 3: WHILE GDP GROWTH IN THE EURO AREA ACCELERATED IN Q1 IT REMAINS FAIRLY STAGNANT**



**CHART 4: DESPITE THE ANNUAL RATE TUCKING HIGHER ON REVISIONS, BOND INVESTORS WERE PLEASED TO SEE MONTHLY US CORE PCE INFLATION COME IN LINE WITH EXPECTATIONS**



## 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)		
			1WEEK	1MONTH	1YEAR			1WEEK	1MONTH	1YEAR
3 Year	QTC	4.45	-6	49	86	AUD/USD	0.66	0.68	0.71	-2.13
	NSWTC	4.44	-6	48	86	AUD/EUR	0.61	0.81	1.19	0.67
	TCV	4.48	-6	46	87	AUD/GBP	0.52	0.66	1.15	-1.51
	WATC	4.41	-6	46	84	AUD/JPY	100.83	-0.45	2.16	12.52
	Australian Government	4.06	-7	41	88	AUD/CAD	0.90	0.75	1.58	-1.05
	US Government	4.72	-14	71	120	AUD/NZD	1.10	0.60	0.92	3.56
						AUD/SGD	0.89	0.41	1.03	-0.06
5 Year	QTC	4.59	-6	54	99	AUD/HKD	5.12	0.51	0.54	-2.53
	NSWTC	4.60	-6	52	96	AUD/KRW	901.96	0.76	2.46	1.79
	TCV	4.62	-7	49	96	AUD/CNY	4.76	0.92	1.06	2.83
	WATC	4.54	-7	50	95	AUD/INR	54.52	0.23	0.46	-0.16
	Australian Government	4.12	-7	42	90	<b>MAJOR CURRENCIES</b>				
	US Government	4.57	-15	72	124	EUR/USD	1.07	-0.55	-0.90	-3.20
						GBP/USD	1.25	-0.27	-0.72	-0.91
7 Year	QTC	4.80	-5	53	102	USD/JPY	157.62	1.36	3.97	17.84
	NSWTC	4.84	-6	50	100	USD/CHF	0.92	0.79	1.43	3.97
	TCV	4.87	-7	48	105	USD/CNY	7.24	-0.04	0.07	4.80
	WATC	4.74	-7	49	98	<b>MAJOR COMMODITIES</b>				
	Australian Government	4.27	-8	40	95	Brent Crude Oil	83.67	-6.00	-5.90	15.41
	US Government	4.57	-15	69	123	Gold	2,299.68	-1.25	1.74	12.13
						Copper	9,765.50	-1.01	8.61	14.98
10 Year	QTC	5.16	-3	53	108	Iron Ore	117.66	0.32	16.40	37.87
	NSWTC	5.18	-3	50	101					
	TCV	5.23	-6	46	107					
	WATC	5.05	-4	51	100					
	Australian Government	4.44	-7	38	99					
	US Government	4.58	-12	70	120					

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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