

# Weekly Economics and Markets Review

- The RBA kept the cash rate unchanged at its recent meeting, with Governor Bullock pushing back against market pricing for rate cuts by the end of the year.
- Headline inflation fell to be back within the RBA's target band in August, with the roll out of Federal electricity subsidies weighing on price growth.
- China's policymakers announced a package of monetary and fiscal stimulus measures in response to concerns for the economy's growth prospects.

## Week in review

### Domestic

- The **RBA** decided to keep the cash rate unchanged at 4.35 per cent at its recent meeting, with few surprises in the post-meeting commentary.
- The RBA continues to push back against market pricing for rate cuts by the end of the year. The post-meeting statement noted that policy will remain 'sufficiently restrictive' until the Board is confident that inflation is 'sustainably' moving towards its target. Governor Bullock was more direct, stating that the Board 'does not see interest rate cuts' in the near term.
- When asked why the RBA remains on hold while most other central banks have started to cut interest rates, Governor Bullock said that domestic economic circumstances were a 'little different'. In particular, she noted that the RBA did not raise rates as far as most central banks and that Australia has not experienced the same deterioration of labour market conditions.
- The **RBA Financial Stability Review** highlighted the resilience of mortgage holders to date. It noted that 'the vast majority of borrowers continue to be able to service their debts and most have maintained, if not added, to their mortgage buffers'. While roughly 5 per cent of variable-rate owner-occupier borrowers could be considered vulnerable (with essential expenses and mortgage repayments exceeding income), most of these borrowers have mortgage buffers exceeding six months of repayments.
- The **monthly CPI** measure of headline inflation fell to 2.7 per cent year-on-year in August, down from 3.5 per cent in July. The continued roll out of Federal electricity subsidies weighed on inflation in August, with measures of inflation excluding electricity experiencing more modest declines.
- **Job vacancies** fell by 5.2 per cent in the three months to August 2024. The recent fall is a continuation of the trend decline in vacancies, which are now 30 per cent below their May 2022 peak.

### Offshore

- **US Federal Reserve** officials expect there will be further rate reductions in coming months, through there is some disagreement on the pace of easing. Chicago Fed President Goolsbee believes that interest rates are significantly above neutral and predicts there will be 'many more' rate cuts in the coming year. In contrast, Bowman was more hawkish, reaffirming her preference for a slower pace of rate cuts due to ongoing inflation concerns.

- In **China**, policymakers announced a package of monetary and fiscal stimulus measures in response to concerns for the economy's growth prospects.
  - The People's Bank of China (PBOC) announced several policy changes, including: a 20-basis point cut to the primary policy rate, a 50-basis point cut to the reserve requirement ratio (RRR), and a 50-basis point cut on existing mortgages. The announcement was significant given the size of easing, the rare simultaneous announcement of rate cuts, and the guidance for another 25-50 basis RRR cut by the end of 2025
  - China's Politburo will provide additional fiscal support in an attempt to achieve the country's growth target. It is reported that China is planning to issue 2 trillion yuan (AUD 414 billion), with the funding split between supporting household consumption and local governments finances.
- In **other central bank news**:
  - The Bank of Japan (BOJ) kept interest rates unchanged, as anticipated. Governor Ueda reiterated that the BOJ would increase rates if their forecasts are met, but suggested there is no immediate need to act. He also said that they will continue to evaluate the effects of this year's two rate increases.
  - The Swiss National Bank cut the policy rate by 25 basis points to 1.0 per cent in response to weaker inflationary pressures.
  - Bank of England (BOE) Monetary Policy Committee member Greene said that her preference is for the BOE to take a 'cautious, steady-as-she goes' approach to interest rate cuts.
- **S&P Global's PMIs** showed that activity continues to diverge across sectors, with a robust services sector juxtaposed against weaker manufacturing activity.
  - Euro area PMIs were particularly soft in August, with larger-than-expected falls in both the manufacturing and services sector. This weakness was most pronounced in Germany and France (though France was affected by a sharp unwind from the Olympics).
  - The US manufacturing PMI also fell by more than expected, though US services activity was stronger than consensus.
- In the **US**:
  - Initial jobless claims fell 4,000 to a four-month low of 218k. This was slightly lower than consensus expectations.
  - The Conference Board measure of consumer confidence came in below expectations in September, with declines in both the 'present situation' and 'expectations' components.

## Markets

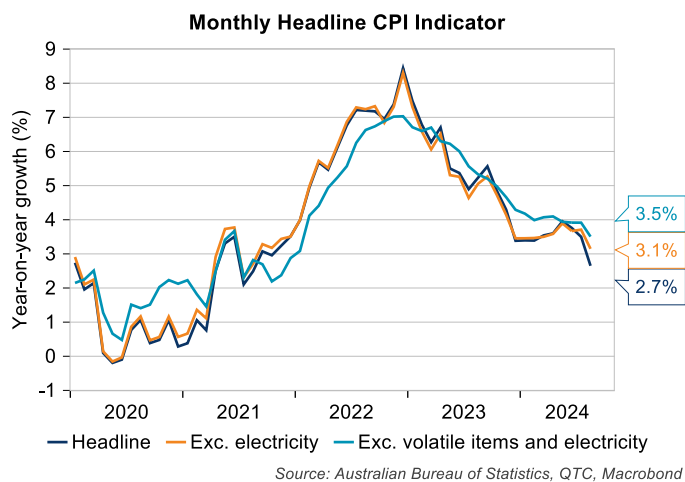
US Treasury yields edged higher over the past week, retracing some of last week's decline. Currencies were mostly stronger against the US dollar, with the Australian dollar surpassing US69 cents on Thursday. Commodity markets were buoyed by the announcement of monetary and fiscal stimulus from China's policymakers, with notable increases in base metal and bulk commodity prices.

### Economic and Market Calendar

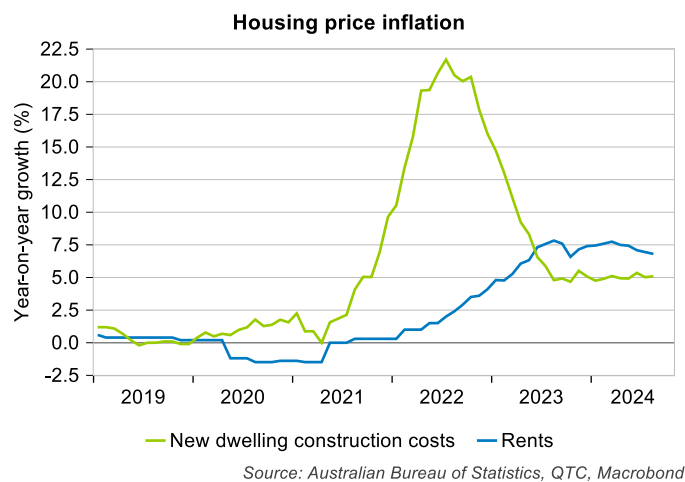
DATE	DETAILS
Domestic	<b>Tuesday:</b> Retail sales (Aug), Building approvals (Aug); <b>Wednesday:</b> International trade (Aug); <b>Friday:</b> Housing loans (Aug)
Offshore	<b>US:</b> Non-farm payrolls (Sep), JOLTS Job openings (Aug), ADP Employment (Sep), Unemployment rate (Sep), Average hourly earnings (Sep), ISM services and manufacturing (Sep) <b>Euro area:</b> CPI (Sep), Unemployment rate (Aug), PPI (Aug) <b>China:</b> NBS PMIs (Sep), Caixin PMIs (Sep) <b>Japan:</b> Retail sales (Aug), Industrial production (Aug), Jobless rate (Aug)

## Economic and Financial Market Charts

**CHART 1: HEADLINE INFLATION EASED TO BE BACK WITHIN THE RBA'S TARGET BAND IN AUGUST, LARGELY DUE TO ELECTRICITY SUBSIDIES**



**CHART 2: HOUSING AND RENTS INFLATION REMAINED HIGH, WITH LITTLE IMPROVEMENT OVER THE PAST YEAR**



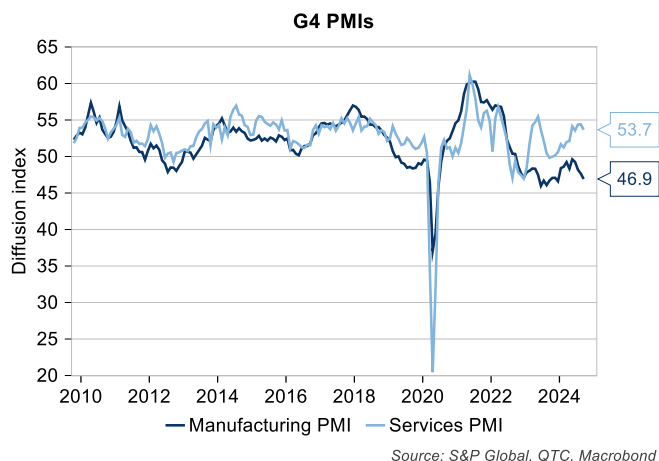
**CHART 3: JOB VACANCIES CONTINUE TO TREND LOWER AND ARE NOW 30% BELOW THEIR MAY 2022 PEAK**



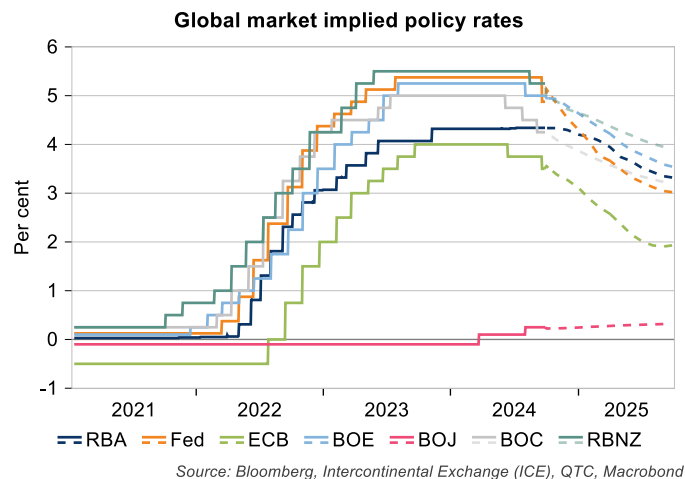
**CHART 4: MOST SECTORS HAVE SEEN DECLINES IN JOB ADS OVER THE PAST TWO YEARS, WITH PARTICULARLY LARGE DECLINES IN MANUFACTURING AND ACCOMODATION & FOOD SERVICES**



**CHART 5: GLOBAL ECONOMIC ACTIVITY HAS DIVERGED ACROSS SECTORS, WITH ROBUST SERVICE SECTOR ACTIVITY OCCURRING ALONGSIDE A WEAKER MANUFACTURING SECTOR**



**CHART 6: MOST CENTRAL BANKS HAVE STARTED EASING MONETARY POLICY, WITH THE RBA AND BOJ BEING NOTABLE EXCEPTIONS**



## 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	3.76	-1	0	-53
	NSWTC	3.77	0	0	-53
	TCV	3.81	-1	1	-53
	WATC	3.72	-2	-1	-55
	Australian Government	3.49	-3	5	-56
	US Government	3.55	8	-17	-127
5 Year	QTC	3.97	3	2	-39
	NSWTC	3.98	4	3	-41
	TCV	4.03	2	3	-40
	WATC	3.93	3	3	-41
	Australian Government	3.57	-1	6	-52
	US Government	3.57	8	-8	-106
7 Year	QTC	4.27	4	3	-29
	NSWTC	4.29	4	3	-34
	TCV	4.34	4	4	-28
	WATC	4.19	5	4	-34
	Australian Government	3.76	0	8	-47
	US Government	3.66	7	-6	-97
10 Year	QTC	4.67	3	3	-22
	NSWTC	4.69	4	6	-27
	TCV	4.75	3	4	-25
	WATC	4.52	4	4	-28
	Australian Government	3.95	1	9	-44
	US Government	3.80	8	-3	-78

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.69	1.15	1.51	7.35
AUD/EUR	0.62	0.83	1.52	1.57
AUD/GBP	0.51	0.12	0.31	-2.21
AUD/JPY	99.69	2.48	1.88	4.07
AUD/CAD	0.93	0.38	1.64	7.15
AUD/NZD	1.09	-0.09	0.23	1.30
AUD/SGD	0.88	0.42	0.04	0.86
AUD/HKD	5.36	0.95	1.20	6.68
AUD/KRW	908.78	0.37	0.70	4.81
AUD/CNY	4.83	0.33	-0.10	3.08
AUD/INR	57.57	1.13	1.15	7.96
MAJOR CURRENCIES				
EUR/USD	1.12	0.31	-0.01	5.70
GBP/USD	1.34	1.03	1.19	9.78
USD/JPY	144.80	-1.32	-0.37	3.06
USD/CHF	1.18	0.07	-0.50	7.53
USD/CNY	7.01	0.81	1.58	3.98

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	71.60	-4.38	-9.99	-24.93
Gold	2,672	3.31	5.85	43.30
Copper	10,081	5.94	6.69	22.67
Iron Ore	98.52	6.31	-3.11	-2.41

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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