October Monthly Economics and Markets Review

QUEENSLAND TREASURY CORPORATION

Overview

Domestic economy

Key labour market and survey-based indicators released during October pointed towards resilient domestic economic conditions.

International economy

Momentum in China's economy looks to have stabilised while that in the US generally remains reasonable. The IMF did however revise down global growth forecasts with geopolitics and trade protectionism key risks to the outlook.

Interest rates

Australian Government three-year rose 49-basis points in October while those on 10-year bonds lifted 50-basis points. Better than expected US and Australian economic data, especially in terms of the labour market, pushed yields higher on the month. Another contributing factor was increasing speculation that former President Trump could win the election. His policy agenda for tax cuts and higher tariffs is viewed as likely to prompt higher inflation and interest rates.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	4.29	49	-40
	Australian Government	4.02	49	-38
	US Government	4.12	61	-66
5 Year	QTC	4.51	48	-36
	Australian Government	4.11	50	-41
	US Government	4.15	64	-49
7 Year	QTC	4.81	48	-34
	Australian Government	4.30	51	-41
	US Government	4.22	62	-46
10 Year	QTC	5.20	47	-32
	Australian Government	4.49	50	-41
	US Government	4.28	55	-38

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6552	-4.8%	2.1%
AUD/EUR	0.6033	-2.9%	-0.2%
AUD/GBP	0.5092	-1.7%	-3.4%
AUD/JPY	99.7667	0.9%	3.3%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.0860	-1.9%	2.3%
GBP/USD	1.2867	-3.1%	5.7%
USD/JPY	152.26	-5.9%	-1.2%
USD/CNY	7.1182	-1.3%	2.7%

Prices sourced from Macrobond and QTC are correct at the time of publication

The tables above show yields on bonds issued by the Queensland, Australian and US Governments as well as values for the Australian Dollar against a range of currencies and US Dollar against major currencies. The change in yields and exchange rates over different time periods are also included.

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Domestic economy

SUMMARY:

Key labour market and survey-based indicators released during October pointed towards resilient domestic economic conditions.

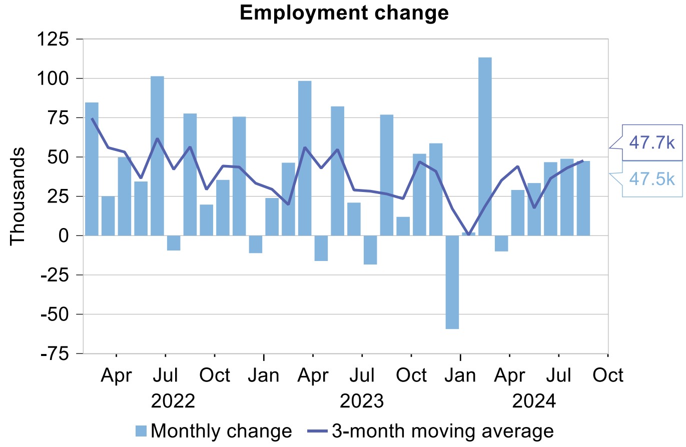
REVIEW:

- The RBA set a more dovish tone for its September board Minutes as the Board did not explicitly consider the case for tighter policy and removed reference to it being '*unlikely that the cash rate target would be reduced in the short term*'. The Minutes noted that economic data received since the previous meeting were broadly in line with expectations.
- The domestic labour market remains resilient, with broad-based strength across the key indicators in the September labour force survey. Employment posted a strong 64,100 increase, the unemployment rate held steady at 4.1 per cent, and the underemployment rate fell one-tenth to 6.3 per cent. The participation rate and employment-to-population ratios also both increased to record highs.
- Retail sales grew 0.7 per cent in August, the strongest monthly gain since January. The improvement was broad-based, with sales increasing across all states and categories (apart from household goods). The August outcome is consistent with economists' expectations for a gradual improvement in spending over the second half of 2024.
- The *NAB Business Survey* for October provided tentative signs that business conditions are stabilising, with conditions rising to around its long-run average in September. Business confidence also increased slightly, though the level of confidence remains weak. Measures of price pressures were encouraging with moderation in the rate of growth in purchase costs, labour costs, product prices and retail prices.
- According to the *Westpac–Melbourne Institute Consumer Sentiment Survey,* consumer confidence rose 6.2 per cent in October to reach its highest level since the RBA started hiking interest rates two and a half years ago. This move appears to be on the back of fears of further rate hikes receding, the possibility of rate cuts coming into view, lower inflation, and tax cuts. However, responses around family finances suggest that cost-of-living pressures continue to weigh heavily on sentiment.

WHAT TO WATCH:

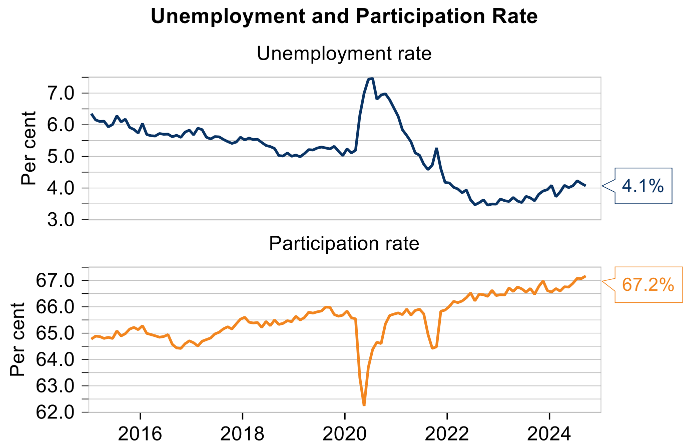
With the prospect of a pre-Christmas rate cut now considered highly unlikely by economists and market participants, attention has turned towards when in 2025 we might see the start of an RBA easing cycle. Market pricing currently has the first rate cut fully priced by May, though there is a reasonable prospect of a cut before then. Upcoming wages (13 November), GDP (4 December), inflation (29 January) as well as labour market releases (middle of each month) will be critical in assessing the timing of this move.

CHART 1: EMPLOYMENT GROWTH REMAINS STRONG, SUPPORTED BY ROBUST POPULATION GROWTH AND THE STOCK OF JOB VACANCIES



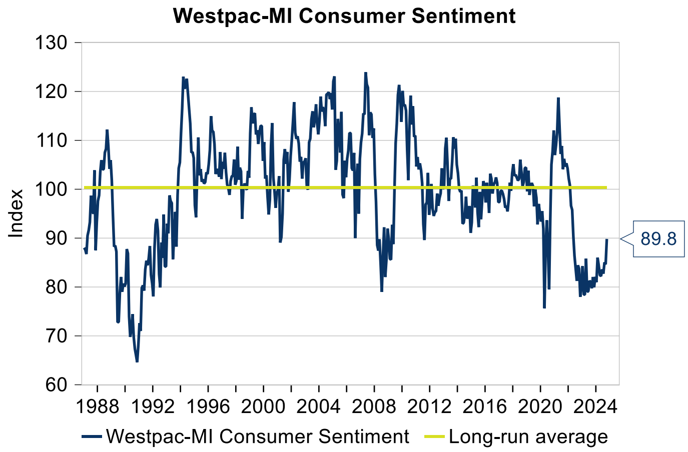
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 2: THE UNEMPLOYMENT RATE HAS EDGED LOWER IN RECENT MONTHS, WHILE THE PARTICIPATION RATE IS AT A RECORD HIGH



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: CONSUMER SENTIMENT INCREASED TO ITS HIGHEST LEVEL SINCE THE RBA STARTED HIKING INTEREST RATES IN MAY 2022



Source: Melbourne Institute of Applied Economic & Social Research, QTC, Macrobond

International economy

SUMMARY:

Momentum in China's economy looks to have stabilised while that in the US generally remains reasonable. The IMF did however revise down global growth forecasts with geopolitics and trade protectionism key risks to the outlook.

REVIEW:

- The IMF lowered its global growth forecast to 3.2 per cent in 2025 (from 3.3 per cent prior) in its latest *World Economic Outlook*, highlighting geopolitics and trade protectionism as key risks to the outlook.
- S&P Global PMIs were mixed in October. The US composite PMI increased unexpectedly, with increases in both services and manufacturing. In contrast, the euro area composite PMI was broadly stable in October, while the UK composite index fell.
- In China, the rate of quarterly GDP growth picked up in Q2 while monthly readings on economic activity for the month of September did likewise. These provided some modest signs of encouragement for the economy amidst concerted efforts by policymakers to lift growth.
- In the US:
  - Non-farm payrolls increased by 254,000 jobs in September, well above consensus expectations of 150,000.
  - The unemployment rate edged lower to 4.1 per cent in September (from 4.2 per cent in August and 4.3 per cent in July).
  - Headline CPI increased by 0.2 per cent in September, against consensus expectations for a 0.1 per cent rise. On an annual basis, headline inflation eased one-tenth to 2.4 per cent.
  - The ISM manufacturing index was unchanged at a low level in September. The corresponding services index was much stronger than expected at 54.9, driven by an increase in business activity and new orders.
  - Core retail sales increased by 0.7 per cent in September, well above expectations for a 0.3 per cent rise.
    - In central bank news:
  - US Fed Chair Powel signalled that '*this is not a committee that feels like it's in a hurry to cut rates quickly*,' off the back of an economy that '*is in solid shape*.' He noted that the pace of rate cuts will ultimately depend on how economic conditions evolve.
  - The ECB cut its policy rate by 25-basis points, as expected. The post-meeting statement reaffirmed the ECB's data-dependent, meeting-by-meeting approach. President Lagarde noted that the current level of interest rates is restrictive and would remain so even after another 25-basis point cut.
  - The Bank of Canada delivered a 50-basis point cut at its October meeting, marking the fourth reduction since June. The accompanying statement noted this was needed to stimulate growth and keep inflation within its target band.
  - The Reserve Bank of New Zealand cut rates by 50-basis points as expected.
  - The People's Bank of China delivered a 25-basis point cut to both the one and five-year loan prime rate to provide further support for the economy.

WHAT TO WATCH:

Further policy stimulus is expected to be unveiled by Chinese policymakers in the coming days, though based on reports, the majority seems at this stage to be focused on re-risking existing loans as opposed to funding new initiatives. The size and composition of this will be critical in shaping market expectations about the growth trajectory of the Chinese economy. In Western economies it will be worth keeping an eye on the pace of interest rate cuts being delivered. Central banks in different economies have dabbled with different sized moves and it will be interesting to see whether this continues or whether some more uniformity emerges.

CHART 4: THE IMF'S GROWTH OUTLOOK IS LARGELY UNCHANGED AND REMAINS AT ITS WEAKEST LEVEL IN DECADES

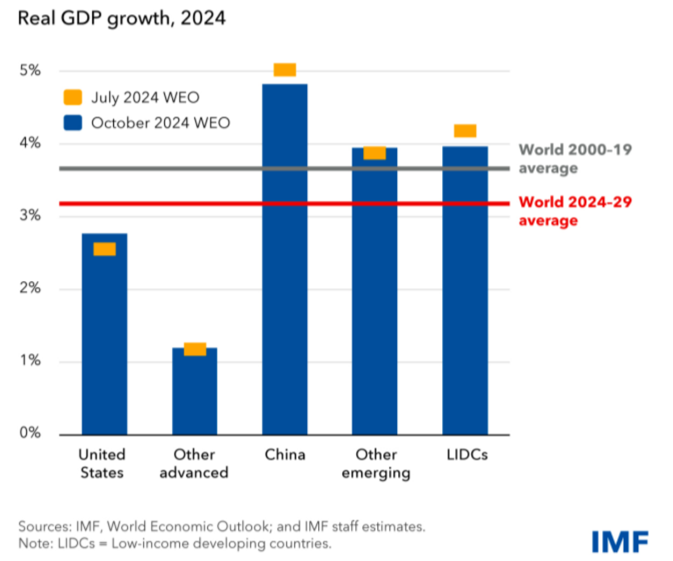


CHART 5: THERE CONTINUES TO BE A LARGE DIVEREGNCE IN ACTIVITY ACROSS DIFFERENT SECTORS IN CHINA

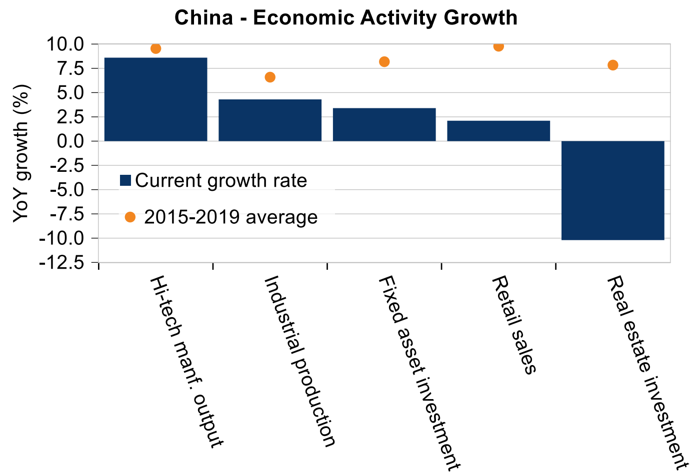


CHART 6 US LABOUR MARKET CONDITIONS HAVE PICKED UP IN RECENT MONTHS, WITH PAYROLLS JOBS MOVING HIGHER…