

Weekly Economics and Markets Review

- The RBA Board held the cash rate steady at 4.35 per cent, with the post-meeting commentary taking a dovish turn
- Australia's unemployment rate unexpectedly fell in November, on the back of strong employment growth and a lower participation rate
- Several major central banks cut interest rates over the past week in response to slower growth and continued improvements in inflation

Week in review

Domestic

- The **RBA** Board held the cash rate steady at 4.35 per cent, as was widely expected. However, the commentary accompanying the meeting shifted to be more dovish.
- The Board noted that it is 'gaining some confidence that inflation is moving sustainably towards target', with some of the upside risks to inflation having eased. Governor Bullock also acknowledged that some of the recent data on the real economy has been soft and that the Board's views are evolving.
- At a separate speaking event, RBA Deputy Governor Hauser stated that the impact of Trump's proposed tariff increases on Australian inflation is unclear. Given this uncertainty, the RBA will monitor developments closely and be prepared to respond (if necessary) as more information comes to hand.
- The RBA's dovish shift occurred prior to the **ABS Labour Force Survey**, which suggested that Australia's labour market was stronger-than-expected in November.
 - The unemployment rate fell two-tenths to 3.9 per cent, well below market expectations for it to increase to 4.2 per cent.
 - The fall in the unemployment rate was due to both stronger-than-expected employment growth (+35.6k) and a decline in the participation rate.
 - Other indicators in the *ABS Labour Force Survey* also improved in November. The employment-to population ratio rose one-tenth to 64.4 per cent, which is its highest level on record. The underemployment rate fell one-tenth to 6.1 per cent, which is its lowest level since April 2023.
- While labour market conditions remain resilient, indicators of economic growth have continued to slow. The **NAB Business Survey** suggests that economic activity eased in November, broadly consistent with last week's soft GDP outcome. NAB's business conditions index softened in the month, while the more forward-looking business confidence measure fell sharply. Forward orders also declined and remains well below its long-run average.
- NAB's measure of price pressures have gradually trended lower, though the pace of improvement has slowed. Purchase cost growth moved slightly higher to 1.1 per cent (quarter-on-quarter), while labour cost growth was unchanged at 1.4 per cent.

Offshore

- Several major **central banks** cut interest rates over the past week, in response to slower growth and continued improvements in inflation.
 - The Bank of Canada (BoC) cut its policy rate by 50 basis points to 3.25 per cent, marking its second consecutive 50 basis point cut. The BoC has now reduced interest rates by 175 basis points since June.
 - The European Central Bank (ECB) cut its key policy rates by 25 basis points, with the post meeting statement indicating the possibility of further cuts in coming months.
 - The Swiss National Bank (SNB) lowered its policy rate by 50 basis points to 0.5 per cent, while Denmark's central bank reduced rates by 25 basis points.
- **US** labour force data were mixed over the past week, with a pickup in non-farm payrolls somewhat at odds with an increase in the unemployment rate. CPI inflation was in line with market expectations, while survey measures of consumer and business sentiment were generally stronger.
 - Non-farm payrolls increased by 227k in November, slightly stronger than expectations for a 220k rise.
 - The unemployment rate edged one-tenth higher to 4.2 per cent in the month, while the prime age employment-to-population ratio fell to 80.4 per cent (its lowest level since December).
 - Headline CPI increased by 2.7 per cent over the year to November, while core inflation was 3.3 per cent. These outcomes were in line with consensus expectations, cementing expectations that the FOMC will cut interest rates by 25 basis points when it meets next week.
 - Annual headline PPI inflation lifted from 2.6 to 3.0 per cent, which was noticeably higher than market expectations.
 - The University of Michigan consumer sentiment index rose to 74 in December (from 71.8), driven by an improvement in current conditions.
 - The ISM manufacturing saw a stronger-than-expected increase in November, supported by an improvement in new orders. The S&P Global US manufacturing PMI was also revised higher in the final November reading.
- In **China**, an announcement from the Politburo called for a 'more proactive' fiscal policy to 'meaningfully boost consumption.' China's policymakers also highlighted 'conviction' to support growth next year in a 'high quality' way.

Markets

US Treasury yields were higher over the past week, supported by continued growth in non-farm payrolls, stronger-than-expected PPI inflation and improvements in key business and consumer surveys. There was a more modest increase in Australian Government bond yields. The stronger-than-expected Australian labour market data came after the RBA's dovish pivot earlier in the week, complicating the near-term outlook for the cash rate. Commodity prices generally increased, buoyed by expectations that China's policymakers will provide additional fiscal and monetary stimulus.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: Westpac Consumer Confidence (Dec)
Offshore	US: FOMC Decision (18 Dec), Core PCE (Nov), Retail sales (Nov) EU: CPI (Nov), PMIs (Dec); JP: CPI (Nov) CH: Industrial production (Nov), Fixed asset investment (Nov), Retail sales (Nov), 1-year medium-term lending rate (25 Dec)

Economic and Financial Market Charts

CHART 1: THE UNEMPLOYMENT RATE HAS REMAINED AROUND ITS CURRENT LEVEL SINCE APRIL, WHILE UNDEREMPLOYMENT APPEARS TO BE GRADUALLY TRENDING LOWER

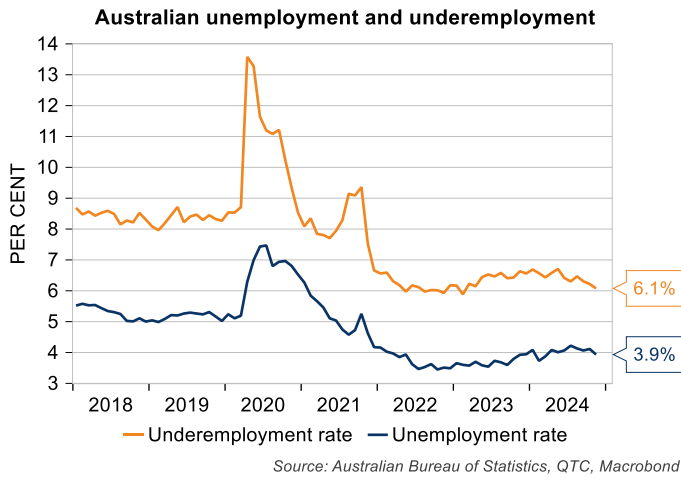


CHART 2: EMPLOYMENT GROWTH BOUNCED BACK IN NOVEMBER, WITH THE THREE-MONTH MOVING AVERAGE REMAINING AT A SOLID PACE

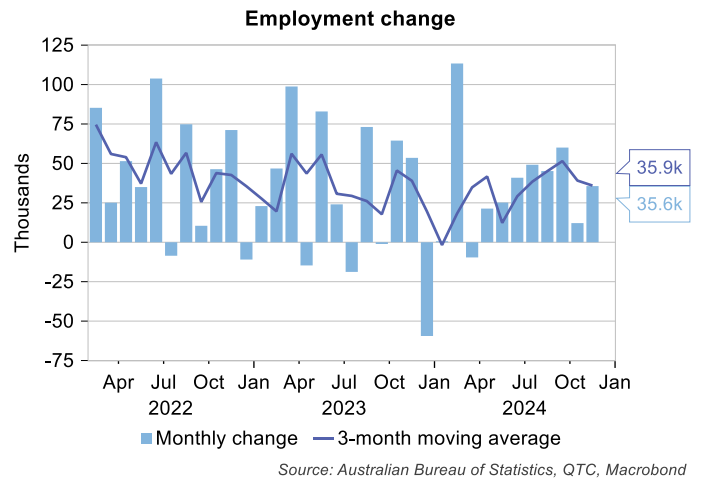


CHART 3: STRONG EMPLOYMENT GROWTH HAS SEEN THE EMPLOYMENT-TO-POPULATION RATIO REACH A RECORD HIGH



CHART 4: WHILE LABOUR MARKET CONDITIONS REMAIN RESILIENT, INDICATORS OF ECONOMIC GROWTH HAVE CONTINUED TO SLOW

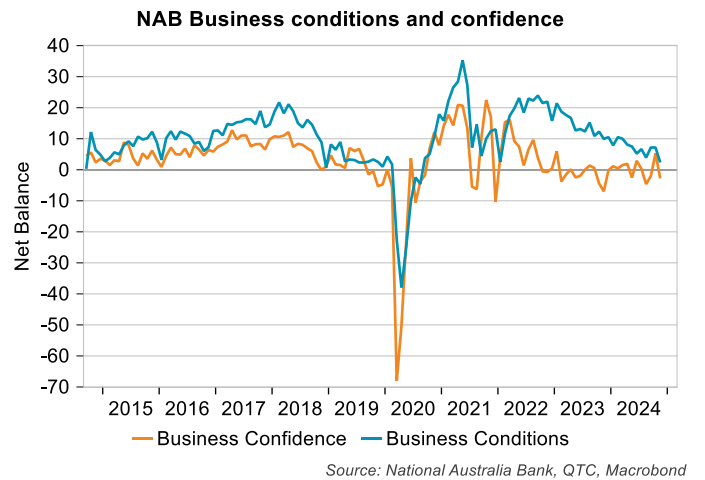


CHART 5: US CPI INFLATION HAS GRADUALLY TRENDED LOWER OVER THE PAST 12 MONTHS, SUPPORTED BY ONGOING IMPROVEMENTS IN SERVICES AND SHELTER INFLATION

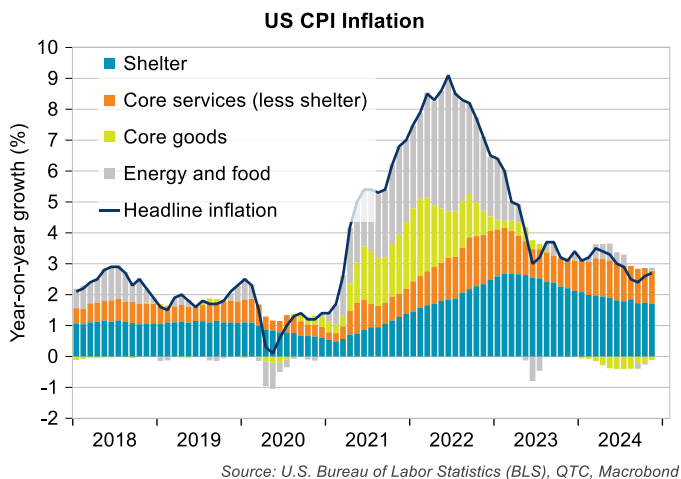
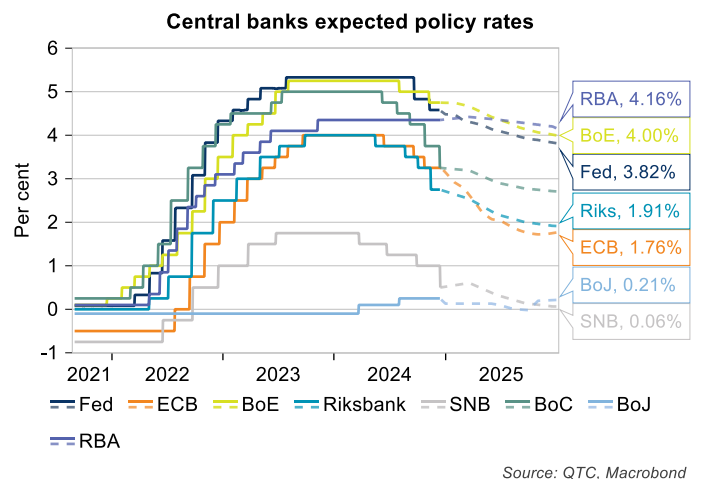


CHART 6: GLOBAL CENTRAL BANKS CONTINUE TO CUT INTEREST RATES, THOUGH THE PACE OF RATE CUTS IS EXPECTED TO SLOW OVER THE COMING YEAR



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)		
			1 WEEK	1 MONTH	1 YEAR			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	4.09	2	-26	-9	AUD/USD	0.64	-0.87	-2.48	-4.75
	NSWTC	4.09	2	-26	-10	AUD/EUR	0.61	0.06	-1.20	-0.05
	TCV	4.14	1	-24	-10	AUD/GBP	0.50	-0.32	-1.88	-4.26
	WATC	4.05	2	-24	-11	AUD/JPY	97.15	0.48	-3.89	2.31
	Australian Government	3.83	2	-28	-11	AUD/CAD	0.91	0.21	-0.80	0.68
	US Government	4.17	7	-14	7	AUD/NZD	1.10	0.69	0.07	2.22
5 Year	QTC	4.29	3	-30	2	AUD/SGD	0.86	-0.36	-1.91	-3.37
	NSWTC	4.28	3	-29	-2	AUD/HKD	4.96	-0.95	-2.52	-5.14
	TCV	4.36	3	-28	0	AUD/KRW	912.24	0.09	-0.88	5.48
	WATC	4.24	3	-30	-1	AUD/CNY	4.64	-0.74	-1.98	-1.98
	Australian Government	3.90	3	-29	-9	AUD/INR	54.16	-0.69	-1.91	-2.97
	US Government	4.19	11	-13	28	MAJOR CURRENCIES				
7 Year	QTC	4.58	3	-30	10	EUR/USD	1.05	-0.93	-1.30	-4.70
	NSWTC	4.58	4	-29	3	GBP/USD	1.27	-0.55	-0.61	-0.52
	TCV	4.67	3	-29	7	USD/JPY	152.25	-1.36	1.45	-7.42
	WATC	4.50	4	-30	4	USD/CHF	1.12	-1.09	-0.83	-2.68
	Australian Government	4.08	2	-30	-6	USD/CNY	7.27	-0.13	-0.51	-2.91
	US Government	4.26	13	-12	32	MAJOR COMMODITIES				
10 Year	QTC	4.98	4	-29	18	Brent Crude Oil	73.46	1.90	2.18	-4.11
	NSWTC	4.97	4	-28	9	Gold	2,682	1.91	3.22	31.71
	TCV	5.05	3	-28	10	Copper	9,192	1.29	0.55	7.49
	WATC	4.81	3	-30	9	Iron Ore	106.06	2.19	5.69	-8.62
	Australian Government	4.25	3	-29	-6					
	US Government	4.33	16	-10	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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