

Weekly Economics and Markets Review

- Australian Government bond yields moved higher following stronger than expected readings on conditions in the US manufacturing and services sectors as well as a slightly firmer domestic monthly CPI outcome.
- Some resilience was observed in other domestic economic data released this week. Meanwhile, the Chinese economy remains mired in producer price deflation, while continuing to skirt deflation in terms of consumer prices.
- The Minutes to the December meeting of the monetary policymaking committee of the US Federal Reserve, the FOMC, shed further light on its transition to a more cautious approach to rate cuts.

Week in review

Domestic

- The ABS' monthly CPI for November increased 0.5 per cent to be up 2.3 per cent over the year (October outcomes were -0.3 per cent and 2.1 per cent respectively). The increase was driven by a steep increase in electricity prices (+22.4 per cent) as well as a lift in rents (+0.6 per cent) as less government subsidies were provided to households. Pushing in the other direction, new dwelling prices – the largest single component of the CPI – fell 0.6 per cent in what was its second straight fall. Prices in the volatile holiday travel category also declined (-1.3 per cent). The annual rate of trimmed mean inflation slowed from 3.5 per cent to 3.2 per cent, and though compositional issues related to government subsidies are impacting that measure also.
- Job vacancies rose 4.2 per cent in the three months to November in the first quarterly increase in 2.5 years. The annual rate of growth was less negative (-10.3 per cent from -17.1 per cent) but vacancies are still roughly 27 per cent lower than the peak seen in May 2022. The lift in vacancies on the quarter was due more to the private (+4.7 per cent) than the public (+0.4 per cent) sectors.
- The value of retail sales rose by less than expected in November. However, this was at least in part a function of upwards revisions to previous outcomes. Changing seasonal patterns around Black Friday sales are impacting retail data around this time of the year.

Offshore

- The Minutes to the FOMC's December meeting shed more light on the shift to a more cautious approach from policymakers to rate cuts. It was noted that the Committee was *'at or near the point at which it would be appropriate to slow the pace of policy easing.'* This was evident when it was acknowledged that, while a *'vast majority'* of participants thought a rate cut in December was appropriate, a majority thought it was *'finely balanced'*. *'Many'* participants endorsed a *'careful'* approach to future monetary policy decisions.
- In the US:
 - Manufacturing conditions eased at a slower pace in December while service sector conditions improved at the faster pace in a year. Worth noting was a large increase in the prices component within the services report. Here, respondents appeared to be preparing for the impact of tariffs on supply chains and prices.
 - The job openings rate lifted in November but the quits and hiring rates dipped.
- In other data:
 - In the **euro area**, the annual rate of headline inflation ticked 0.2 ppts higher to 2.4 per cent in December while that for core inflation was steady at 2.7 per cent. Services inflation remained firm while there was an easing in price growth for non-energy industrial goods.
 - **China** remains narrowly out of deflation despite the annual rate of consumer price inflation edging lower in December (to 0.1 per cent from 0.2 per cent). The annual rate of core inflation – that is, excluding food and energy – lifted marginally (from 0.3 per cent to 0.4 per cent). There remains deflation in terms of producer prices though with these falling 2.3 per cent over the year to December, slightly less than the 2.5 per cent decline to November.

Markets

Australian Government bond yields edged higher following stronger than expected readings on conditions in the US manufacturing and services sectors as well as a slightly firmer domestic monthly CPI outcome. The Australian Dollar headed toward its year-to-date lows as expectations of RBA rate cuts coming closer and those from the FOMC slowing down continued to build.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: Westpac-Melbourne Institute Consumer Sentiment (Jan) Thursday: Labour Force (Dec)
Offshore	US: CPI & PPI (Dec), retail sales (Dec) UK: CPI (Dec) CN: Retail sales (Dec); industrial production (Dec), fixed asset investment (Dec), property sector data (Dec), aggregate financing (Dec), international trade (Dec), GDP (Q4)

Economic and Financial Market Charts

CHART 1: INFLATION IS IN THE RBA TARGET BAND ON 'HEADLINE' MEASURE, THOUGH NOT IF EXCLUDING ELECTRICITY & VOLATILE ITEMS

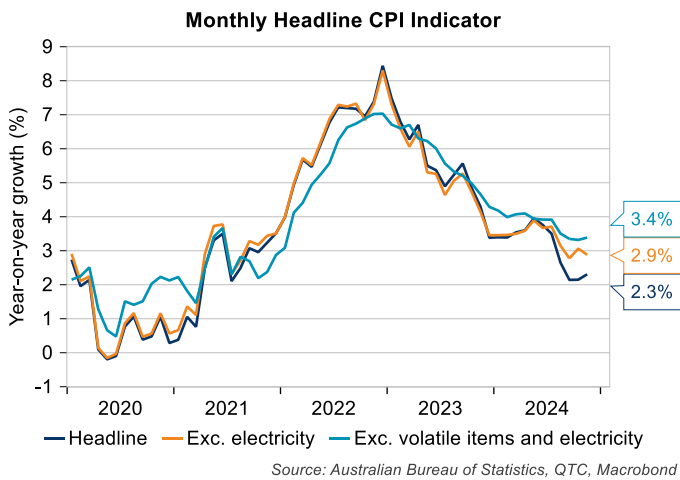


CHART 2: MONTHLY MEASURES CONTINUE TO POINT TO DOWNWARDS PRESSURE ON CORE INFLATION

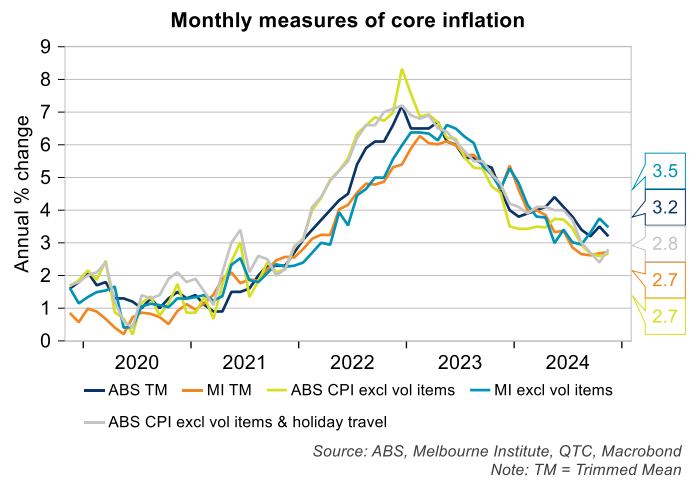


CHART 3: MIXED NEWS FOR THE US LABOUR MARKET IN NOVEMBER BASED ON THE JOB OPENINGS AND LABOR TURNOVER SURVEY

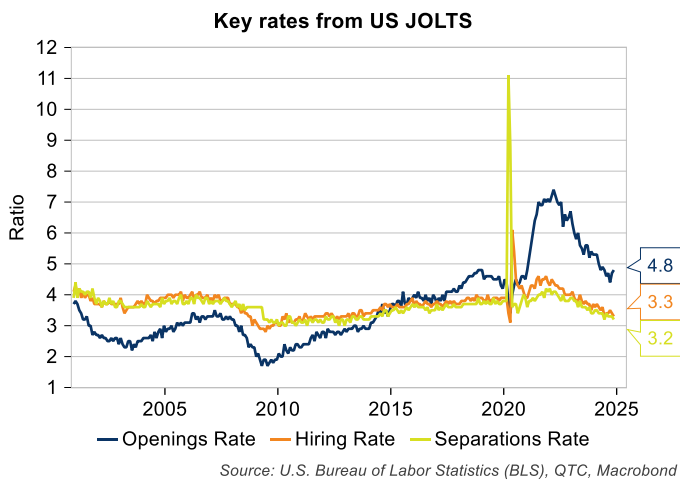


CHART 4: CHINA REMAINS CLOSE TO BEING IN DEFLATION IN TERMS OF CONSUMER PRICES AND IS WITH RESPECT TO PRODUCER PRICES

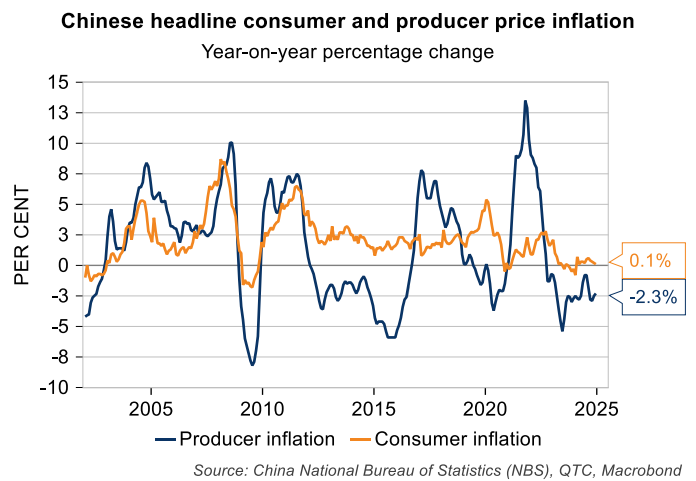


CHART 5: CONDITIONS IN THE US SERVICES SECTOR ARE FIRMER THAN IN MANUFACTURING, A TREND ALSO EVIDENT GLOBALLY

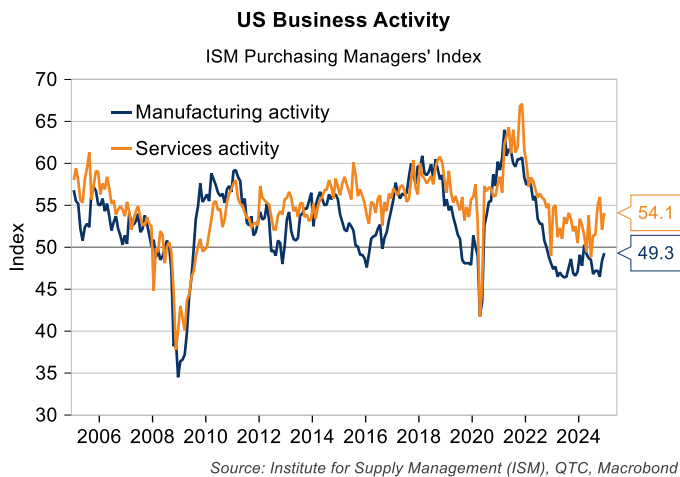
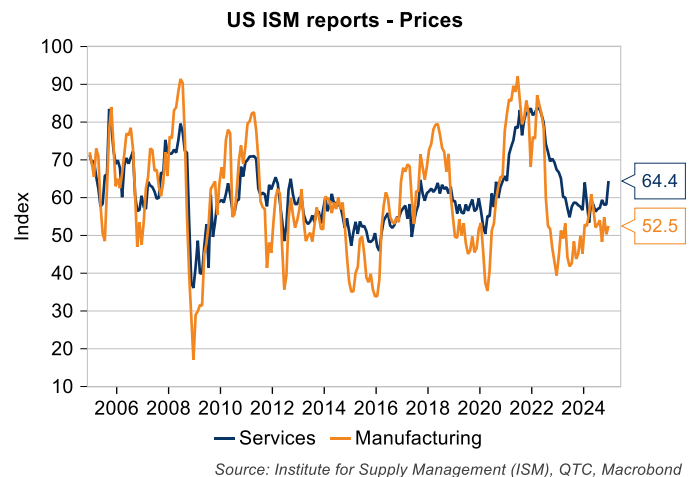


CHART 6: US SERVICES PRICES ARE IMPROVING AT THE FASTEST RATE IN 12 MONTHS AHEAD OF EXPECTED TARIFF INCREASES.



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	4.12	1	6	11	AUD/USD	0.62	-0.11	-2.79	-6.93
	NSWTC	4.12	2	7	11	AUD/EUR	0.60	-0.41	-0.81	-1.00
	TCV	4.15	2	3	5	AUD/GBP	0.50	0.47	0.72	-3.75
	WATC	4.08	3	7	9	AUD/JPY	97.95	0.24	1.04	0.83
	Australian Government	4.11	2	6	9	AUD/CAD	0.89	-0.16	-1.23	-0.20
	US Government	4.17	2	6	7	AUD/NZD	1.11	-0.16	0.64	3.32
5 Year	QTC	3.89	2	10	16	AUD/SGD	0.85	-0.21	-0.92	-4.44
	NSWTC	4.34	6	23	34	AUD/HKD	4.82	-0.04	-2.71	-7.35
	TCV	4.39	5	13	28	AUD/KRW	904.30	-0.99	-0.97	3.49
	WATC	4.39	6	14	24	AUD/CNY	4.54	0.46	-1.77	-4.99
	Australian Government	4.45	5	12	23	AUD/INR	53.18	-0.27	-1.98	-4.57
	US Government	4.34	5	13	25	MAJOR CURRENCIES				
7 Year	QTC	4.40	6	15	25	EUR/USD	1.03	0.35	-1.99	-5.94
	NSWTC	4.46	6	14	25	GBP/USD	1.23	-0.57	-3.48	-3.29
	TCV	4.02	4	17	24	USD/JPY	158.11	0.34	3.94	8.32
	WATC	4.46	9	36	58	USD/CHF	0.91	0.03	3.39	6.70
	Australian Government	4.74	7	19	41	USD/CNY	7.33	0.45	1.12	2.29
	US Government	4.74	6	19	33	MAJOR COMMODITIES				
10 Year	QTC	4.82	7	18	32	Brent Crude Oil	77.21	1.69	6.95	-0.26
	NSWTC	4.65	7	19	35	Gold	2,666.00	0.35	-1.06	32.35
	TCV	4.75	7	20	38	Copper	9,031.50	2.60	-2.01	8.10
	WATC	4.82	7	20	41	Iron Ore	97.06	-3.80	-7.54	-16.35
	Australian Government	4.25	4	23	32					
	US Government	4.57	11	42	65					

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from *Macrobond*.

[CLICK HERE TO SIGN UP FOR THE THE LATEST](#)

QTC ECONOMIC RESEARCH

Topical issues important to global and Australian economies, and financial markets

QTC

DISCLAIMER

The information within this document is intended for general information purposes only and does not constitute financial or other advice. Specific professional advice should be obtained before acting on the basis of any matter covered in this document. This information has been prepared in part by data sourced from third parties which has not been independently verified. The opinions, forecasts and data contained in this document is based on research as at the date of publication and is subject to change without notice. Queensland Treasury Corporation (QTC) issues no invitation to anyone to rely on the information and expressly excludes any warranties or representations as to its accuracy, adequacy, currency or completeness. All opinions expressed are the views of the QTC Economics and Research Team and may differ from the views of QTC or other QTC servants or agents. To the extent permitted by law, QTC, its servants and agents (QTC Parties) disclaim all responsibility and liability for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying on the information contained in this document, whether that loss or damage is caused by any fault or negligence of the QTC Parties or otherwise. No part of this document may be reproduced, copied or published in any form or by any means without QTC's prior written consent. This document may contain statements about future events and expectations that are forward looking statements. None of the future projections, expectations, estimates or prospects in this document should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of assumptions, fully stated in the document.