

Weekly Economics and Markets Review

- It was another busy week in terms of potential tariffs actions from President Trump. Actual policy changes were seen by central bankers in Japan (rate hikes) as well as Canada and Sweden (both rate cuts). The US Federal Reserve kept interest rates on hold with Chair Powell indicating it was not *'in a hurry'* to cut further.
- Inflation data was softer than expected in Australia, a development which saw markets move to price a rate cut in February as a near certainty. Conditions in the manufacturing and services sector in key economies around the world were mixed in January according to the latest PMI data.

Week in review

Domestic

- The **Q4 CPI** report was weaker than consensus, with inflation slowing noticeably across a range of measures.
 - Headline CPI increased by 0.2 per cent in the quarter (consensus: 0.3 per cent), with year-ended inflation falling to 2.4 per cent. A decline in electricity and fuel prices once again weighed on headline CPI inflation.
 - Electricity prices fell 9.9 per cent (quarter-on-quarter) in Q4, due to the continued roll out of state and federal electricity rebates. Housing-related prices were also softer, with new dwelling costs falling 0.2 per cent and rents growth easing to 0.6 per cent. The improvement in rents is unlikely to persist though given it largely reflected changes to Commonwealth Rent Assistance.
 - Trimmed-mean inflation (which is the RBA's preferred measure of underlying inflation) was 0.5 per cent in Q4, marking the lowest quarterly result since Q2 2021. This saw the six-month annualized rate fall to 2.7 per cent and the year-on-year rate ease to 3.2 per cent.
 - Other measures of underlying inflation also improved noticeably in Q4, with a clear slowdown in services, labour market-sensitive, and non-tradables price increases. Financial markets took this as a sign that the RBA will cut rates at its February meeting, pricing in a roughly 90 per cent probability that the cash rate will be lowered by 25 basis points.
- The **NAB Business Survey** measure of business conditions rebounded in December, partially unwinding the fall in November. Improved conditions were driven by increases in the trading, profitability and employment sub-components. Forward orders also moved higher but remains negative. In terms of NAB's measures of costs and prices, there was an acceleration in retail prices, final product prices and purchase costs, though a small easing in the pace of labour cost growth.

Offshore

- US Treasury secretary Scott Bessent is reportedly pushing for a 2.5 per cent tariff to be imposed on all the US's trading partners (a 'universal' tariff). The rate would increase by this amount each month up to 20 per cent, the level that was flagged during the US election campaign. Some sources have indicated that no plans are yet being drawn up while others indicate that there is no single plan ready to be signed off. President Trump recently declared that the US may implement a universal tariff, possibly 'much bigger' than under the reported Bessent proposal, but that it is not ready to yet.

- President Trump also threatened to impose tariffs and sanctions on Columbia after its government refused to accept military flights carrying citizens who tried to migrate illegally to the US. An agreement was ultimately reached and these measures ended up not being pursued.
- From the January meetings of **global central banks**:
 - The FOMC left the target range for the federal funds rate unchanged at 4.25-4.50 per cent. The post-meeting statement appeared to upgrade the Committee's assessment of the labour market by referring to conditions as *'solid'*. The press conference was notable for Fed Chair Powell indicating that the FOMC is not *'in a hurry'* to cut rates further, though it appears that further cuts will eventually come with interest rates still being *'meaningfully restrictive'*. Powell also noted that part of the reason for the FOMC's patience is a desire to see which policies the Trump administration enacts and their potential impacts on the economy.
 - The Bank of Japan raised rates by 25 basis points to 0.50 per cent and flagged further moves if its economic and inflation forecasts are realised.
 - Central banks of Canada and Sweden both cut policy rates by 25 basis points, as expected. Neither offered forward guidance on future moves.
- **PMI** data for January continue to point to mixed economic conditions across major economies.
 - In the US, manufacturing conditions began to improve after having been moderating for the prior six months. There was a sharp slowdown in the rate of improvement in service sector conditions.
 - In the euro area, manufacturing conditions continue to ease but at a slower pace than previously. Conditions in the services sector continue to improve, but at a slightly more moderate pace.
 - In the UK, the pace of easing in manufacturing conditions slowed from what had been an 11-month low. Service sector conditions continued to improve.
 - In China, manufacturing conditions worsened after having been improving over the previous three months. Non-manufacturing conditions continue to improve, but at a slower pace than previously.
- Other **US** economic data suggested that housing conditions continue to improve, while consumer sentiment has weakened.
 - Both new and existing sales rose by more than expected in December.
 - Consumer confidence fell in January by more than expected.
 - Orders and shipments for core capital goods rose more than expected in December despite upwards revisions to the prior months' outcome.

Markets

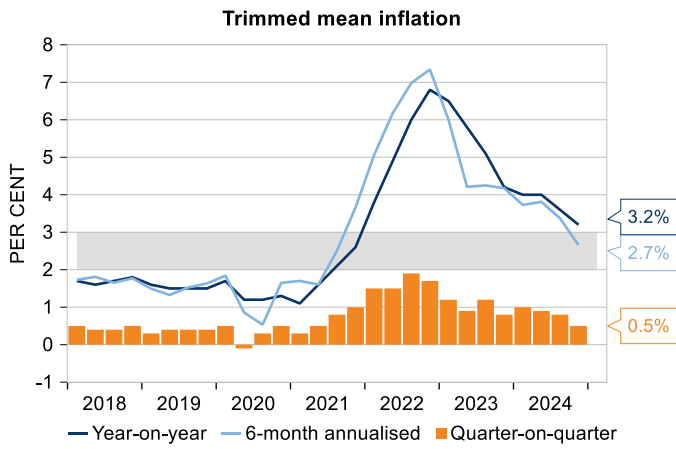
The emergence of a Chinese-based competitor ('DeepSeek') to the American dominated AI landscape this week was the catalyst for bond yields to decline. This move was reinforced domestically by a softer-than-expected Q4 CPI result, which saw local investors factor in a RBA rate cut in February as a near certainty.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday – Retail sales and building approvals (Dec), ANZ-Indeed Job Ads (Jan) Thursday – International goods trade (Dec)
Offshore	US - Employment costs (Q4), JOLTS (Dec), ISM Manufacturing & Services Surveys (Jan) Japan – Industrial production, retail sales, labour market (all December) Other – euro area CPI (Jan), Bank of England meeting

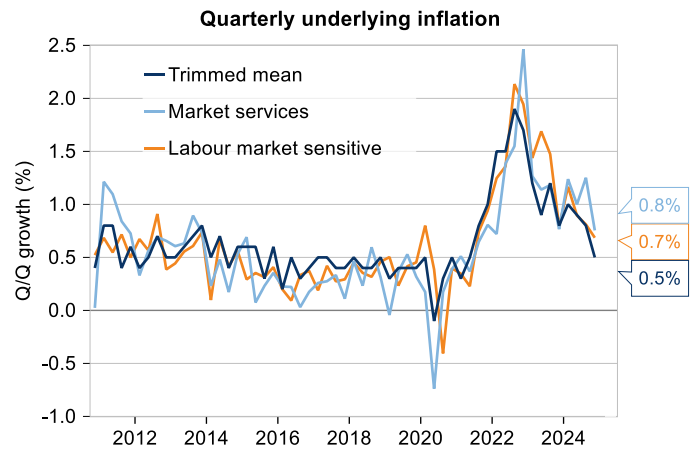
Economic and Financial Market Charts

CHART 1: ON A SIX-MONTH ANNUALISED BASIS TRIMMED MEAN INFLATION IS NOW BACK IN THE RBA'S TARGET BAND



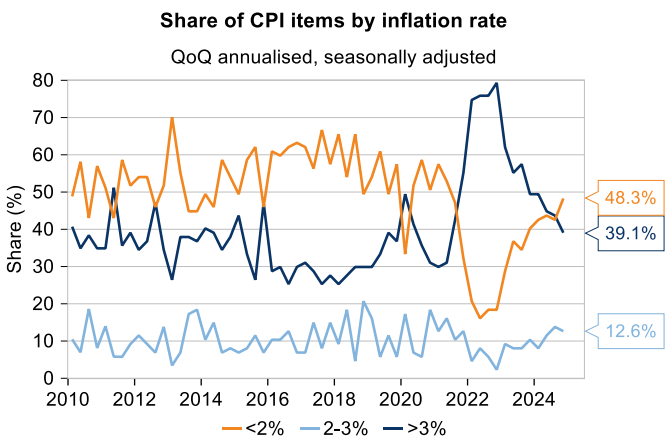
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

CHART 2: THE SLOWING OF TRIMMED-MEAN INFLATION WAS ALSO SEEN ACROSS OTHER KEY MEASURES OF UNDERLYING INFLATION



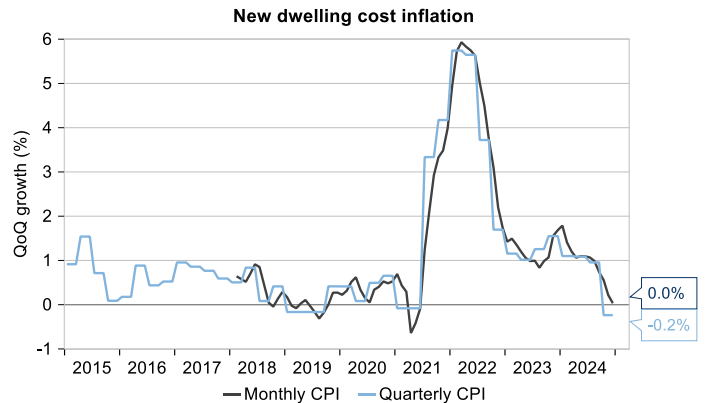
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: THE IMPROVEMENT WAS FAIRLY BROAD-BASED ACROSS THE CPI COMPONENTS, WITH THE NUMBER OF CATEGORIES EXPERIENCING HIGH PRICE GROWTH FALLING NOTICEABLY IN Q4



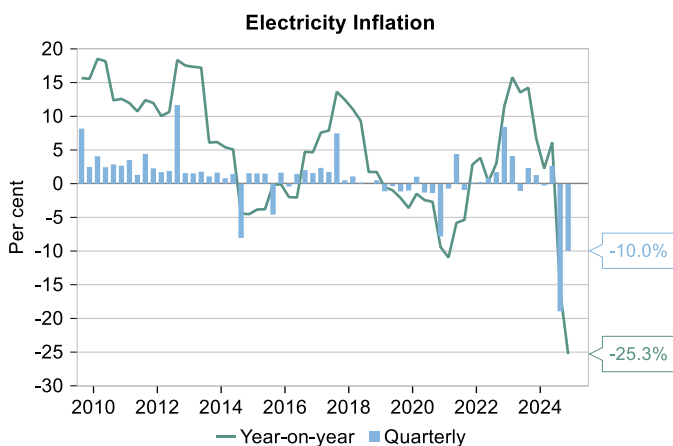
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 4: HOUSING RELATED INFLATION EASED IN Q4, WITH A PARTICULARLY SHARP SLOWDOWN IN NEW DWELLING PURCHASE COSTS TOWARDS THE END OF YEAR



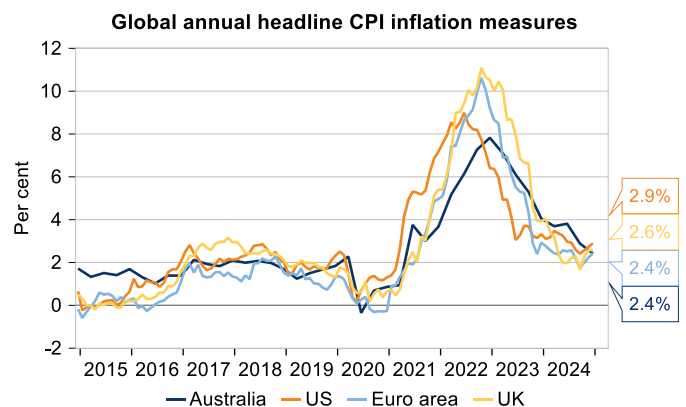
Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 5: THE FALL IN ELECTRICITY PRICES WAS THE SECOND LARGEST ON RECORD (AND FOLLOWS THE LARGEST FALL ON RECORD IN Q3)



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 6: AUSTRALIA'S HEADLINE INFLATION IS BROADLY CONSISTENT WITH OUR GLOBAL COUNTERPARTS



Source: Australian Bureau of Statistics, U.S. Bureau of Labor Statistics (BLS), Eurostat, U.K. Office for National Statistics (ONS), Japanese Statistics Bureau, Ministry of Internal Affairs & Communications, China National Bureau of Statistics (NBS), QTC, Macrobond

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	4.05	-10	-8	7	AUD/USD	0.63	0.73	0.67	-4.69
	NSWTC	4.01	-12	-12	2	AUD/EUR	0.60	-0.14	0.65	-0.76
	TCV	4.04	-13	-12	-2	AUD/GBP	0.51	0.06	2.45	-1.81
	WATC	3.98	-12	-10	0	AUD/JPY	97.96	1.33	-0.04	0.88
	Australian Government	3.79	-13	-12	8	AUD/CAD	0.90	0.72	0.68	1.51
	US Government	4.24	-11	-3	27	AUD/NZD	1.11	0.03	0.28	2.95
5 Year	QTC	4.33	-8	-3	25	AUD/SGD	0.85	0.13	0.42	-3.55
	NSWTC	4.27	-10	-9	15	AUD/HKD	4.88	0.76	0.97	-5.03
	TCV	4.32	-12	-11	14	AUD/KRW	901.45	-0.57	-0.77	2.56
	WATC	4.23	-11	-9	16	AUD/CNY	4.57	0.12	0.57	-2.00
	Australian Government	3.92	-11	-9	16	AUD/INR	54.22	0.57	2.21	-0.84
	US Government	4.32	-13	-6	51	MAJOR CURRENCIES				
7 Year	QTC	4.68	-7	-1	36	EUR/USD	1.04	0.87	0.02	-3.96
	NSWTC	4.62	-11	-8	21	GBP/USD	1.23	0.68	-1.74	-2.93
	TCV	4.68	-12	-9	22	USD/JPY	156.22	-0.59	0.70	-5.84
	WATC	4.54	-10	-7	24	USD/CHF	1.10	0.18	-0.98	-4.78
	Australian Government	4.14	-10	-9	20	USD/CNY	7.29	0.61	0.10	-2.83
	US Government	4.42	-13	-6	57	MAJOR COMMODITIES				
10 Year	QTC	5.16	-6	2	50	Brent Crude Oil	78.29	-3.69	6.40	-5.02
	NSWTC	5.08	-9	-5	34	Gold	2,755	1.49	5.27	36.32
	TCV	5.14	-9	-7	31	Copper	9,232	0.02	3.15	7.74
	WATC	4.93	-9	-4	35	Iron Ore	103.71	1.00	2.95	-11.56
	Australian Government	4.37	-9	-8	24					
	US Government	4.52	-13	-5	64					

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 for 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.