

Weekly Economics and Markets Review

- Thinking around potential US trade policy continues to evolve and is a clear area of focus for markets. However, over the week it was stronger than expected US labour market and consumer price inflation releases that saw bond yields rise.

Week in review

Domestic

- Business conditions softened in January according to the *NAB Business Survey* on the back of weaker trading conditions and profitability. Business confidence improved for the second straight month and is now stronger than business conditions for the first time since February 2022. Price measures in the survey were mixed with growth in purchase costs easing, final product prices steady and labour costs and retail prices accelerating.
- Consumer confidence edged 0.1 per cent higher according to the *Westpac-Melbourne Institute Consumer Sentiment Survey*. The survey providers cited the improvement in sentiment having stalled in the past three months reflects ongoing pressures on family finances and an uncertain global backdrop are offsetting building expectations of rate cuts domestically.

Offshore

- There was plenty of news related to the US' trade relationships:
 - President Trump said that he would announce 'reciprocal tariffs' this week. Little detail is available at this stage, though Trump suggested that this would involve matching tariffs on imports from countries that impose higher duties on US goods. He also suggested that reciprocal tariffs might replace the previously proposed 10-20 per cent universal tariffs.
 - Trump increased from 10 to 25 per cent the tariffs in place on all aluminium and steel imports into the US.
 - PM Albanese had a phone call with President Trump to try to gain an exemption from the aluminium and steel tariffs. On the call Trump reportedly agreed that this would be 'under consideration'. However, a few minutes later Trump announced that there would be 'no exceptions' and that previous exemptions would be scrapped in one month's time. Trade Minister Don Farrell is set to visit the US to try to change the US' mind before the exemptions are done away with. Australia and some other countries had previously obtained an exemption from the original tariffs imposed in 2018. However, playing a role in the Whitehouse's decision to not offer Australia an exemption at this stage is its view that Australian exports of aluminium to the US have surged following the granting of the exemption which was in contradiction of a verbal commitment to keep these contained to a reasonable level. Australia is the source of about one and two per cent of steel and aluminium imports into the US.

- The Trump administrations deferred resignation plan for federal employees closed. This plan allows workers to leave work in February but stay on the federal payroll through the end of September. Approximately 75,000 federal employees, or three per cent of the 2.4 million civilian federal work force, signed up for a voluntary resignation program. This figure falls short of the five to ten per cent goal previously set by White House.
- In the US:
 - Jobs growth moderated in January but remains solid, with non-farm payrolls increasing by 143,000 last month. While this was less than the 175,000 gain expected, the increase was still solid and follows strong rises in the prior two months, including on account of these months being revised upwards by a total of 100,000. The unemployment rate also edged one-tenth lower to 4.0 per cent in January.
 - Core CPI rose by 0.45 per cent in the month of January, above expectations of a 0.3 per cent gain. Notable price rises were seen in volatile items such as used cars and airfares as well as in motor insurance and communication. Core producer price growth was in line with expectations.
 - Consumer sentiment fell to a seven-month low in February, according to the University of Michigan. Sentiment among Republicans decreased for the first time since August 2024, while it reached its lowest point since 2020 for Democrats.
 - The University of Michigan linked the fall in consumer sentiment to a spike in inflation expectations, which in turn reflected President Trump's tariff announcements. Consumers now expect inflation will rise by 4.3 per cent over the coming year, up from 3.3 per cent in the previous month's survey.
 - Congressional testimony from Fed Chair Powell noted that the fed funds rate was 'significantly less restrictive than it had been'. He suggested that 'it would be unwise to speculate' on the impact of prospective trade policies, but that the FOMC was 'well positioned' to deal with 'the risks and uncertainties that we face'. Powell said that he and many of his colleagues on the FOMC feel that the neutral rate has risen 'meaningfully'.
- In **China**, monthly consumer price inflation increased by slightly more than expected in December.

Markets

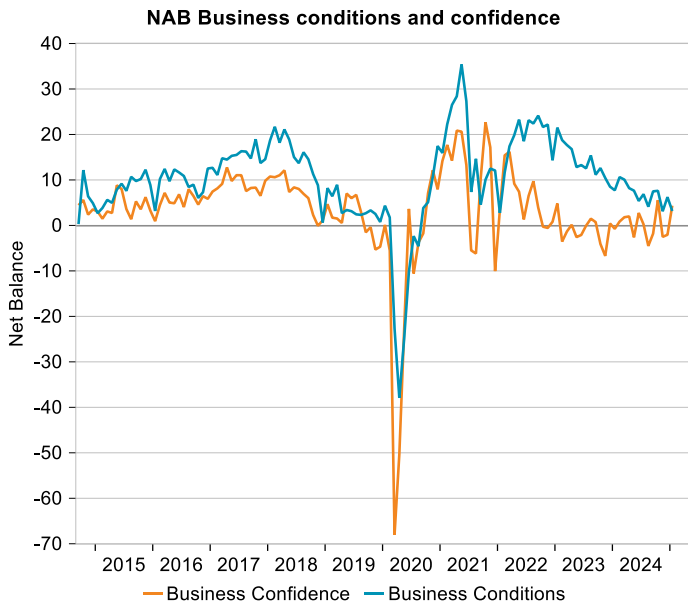
Australian Government bond yields ended the week higher following stronger than expected labour market and CPI reports in the US. Yields continue to trade within the range seen since mid-2023. The Australian Dollar was little changed against the US Dollar.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday – RBA meeting & Statement on Monetary Policy Wednesday – Wage Price Index(Housign finance (Q4) Thursday – Labour Force (Jan)
Offshore	US – Retail sales, industrial production, housing starts, building permits, existing home sales (all Jan) GDP – euro area, Japan (Q4) CPI – Canada, UK, Japan (Jan) Central bank meeting minutes (FOMC, ECB)

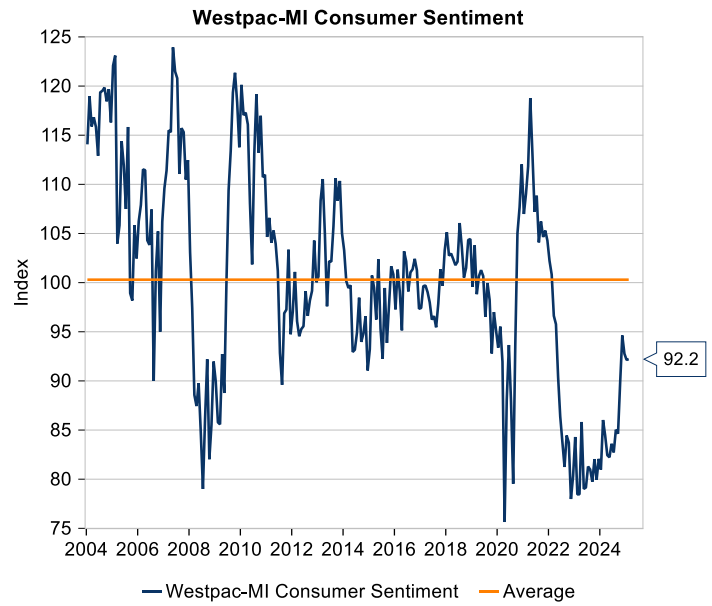
Economic and Financial Market Charts

CHART 1: BUSINESS CONFIDENCE IS NOW BACK ABOVE BUSINESS CONDITIONS FOR THE FIRST TIME SINCE FEBRUARY 2022



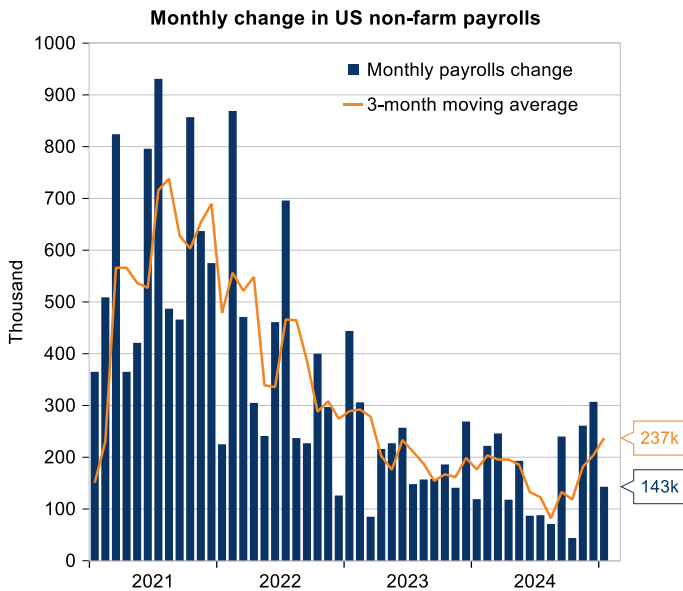
Source: National Australia Bank, QTC, Macrobond

CHART 2: AFTER A SUSTAINED IMPROVEMENT BETWEEN APRIL AND NOVEMBER 2024, THE LIFT IN CONSUMER CONFIDENCE HAS STALLED



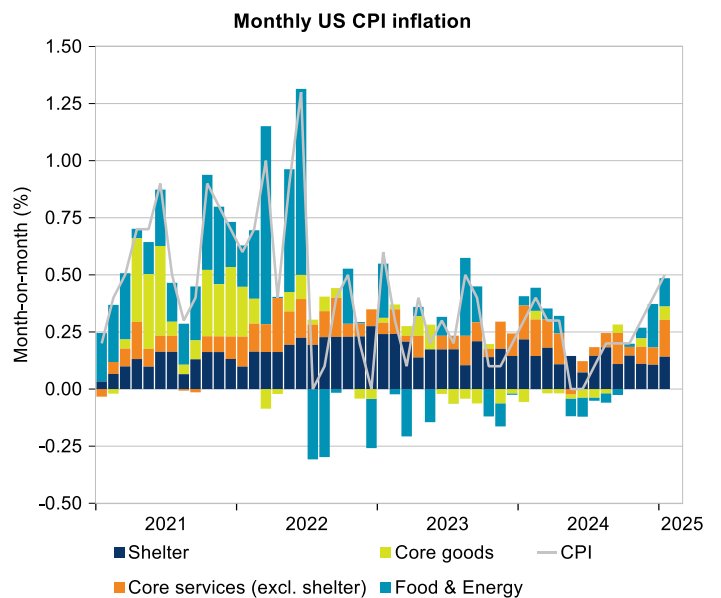
Source: Westpac-MI, QTC, Macrobond

CHART 3: THERE WAS A SLOWING IN NON-FARM PAYROLLS GROWTH IN THE US IN JANUARY RELATIVE TO NOVEMBER AND DECEMBER, THOUGH PART OF THIS REFLECTS THESE PRIOR MONTH OUTCOMES BEING REVISED UP BY AROUND 50,000 IN EACH MONTH.



Source: U.S. Bureau of Labor Statistics (BLS), QTC, Macrobond

CHART 4: THE FED WOULD HAVE NOTED NOT ONLY THAT THE MONTHLY PACE OF US INFLATION HAS ACCELERATED FOR THREE MONTHS IN A ROW AND THAT THE COMPOSITION OF THIS IN THE MOST RECENT MONTH (WITH SHELTER, CORE SERVICES EXCLUDING SHELTER AND CORE GOODS PRICES RISING AT A FASTER PACE IN JANUARY)



Source: U.S. Bureau of Labor Statistics (BLS), 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	4.13	13	-13	8	AUD/USD	0.63	0.05	1.70	-3.41
	NSWTC	4.11	14	-16	6	AUD/EUR	0.60	-0.38	0.37	-0.26
	TCV	4.12	13	-17	-1	AUD/GBP	0.50	-0.59	-1.03	-2.91
	WATC	4.05	13	-16	2	AUD/JPY	96.32	0.91	-1.49	-1.42
	Australian Government	4.08	13	-16	3	AUD/CAD	0.90	-0.42	0.82	1.99
	US Government	4.15	14	-16	8	AUD/NZD	1.11	0.48	0.62	4.33
5 Year	QTC	3.85	13	-20	9	AUD/SGD	0.85	-0.18	0.15	-3.32
	NSWTC	4.33	9	-14	-3	AUD/HKD	4.90	0.08	1.73	-3.78
	TCV	4.42	14	-13	29	AUD/KRW	910.34	0.06	0.86	4.84
	WATC	4.37	15	-17	21	AUD/CNY	4.58	0.09	1.00	-2.24
	Australian Government	4.42	14	-18	19	AUD/INR	54.47	-0.66	1.56	0.97
	US Government	4.31	13	-18	19	MAJOR CURRENCIES				
7 Year	QTC	4.37	14	-18	20	EUR/USD	1.04	0.44	1.33	-3.13
	NSWTC	4.47	15	-15	26	GBP/USD	1.25	0.64	2.76	-0.52
	TCV	4.00	14	-19	18	USD/JPY	153.17	0.85	-3.14	2.05
	WATC	4.39	11	-21	17	USD/CHF	0.90	-0.06	-1.07	2.70
	Australian Government	4.77	13	-11	42	USD/CNY	7.29	0.03	-0.59	1.33
	US Government	4.71	14	-18	29	MAJOR COMMODITIES				
10 Year	QTC	4.76	13	-20	28	Brent Crude Oil	75.24	1.28	-5.86	-9.20
	NSWTC	4.63	13	-17	31	Gold	2,919.03	2.34	9.36	45.68
	TCV	4.73	13	-16	34	Copper	9,454.50	1.92	3.28	13.72
	WATC	4.83	14	-14	40	Iron Ore	106.46	0.49	6.66	-5.61
	Australian Government	4.23	15	-17	26					
	US Government	4.46	10	-25	22					

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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