

Weekly Economics and Markets Review

- The RBA cut the cash rate by 25 basis points to 4.1 per cent, though the commentary accompanying the decision was notably cautious.
- Australian Government bond yields moved higher as financial markets parsed the RBA's cautious commentary following its cash rate decision.
- There were further announcements on US trade policy this week, with President Trump saying he will impose higher tariffs on US imports of automobiles, pharmaceuticals and semiconductors from 2 April.

Week in review

Domestic

- The RBA cut the cash rate by 25 basis points to 4.1 per cent, as was widely expected. The commentary accompanying the decision was notably cautious, with the RBA sending a clear signal that it expects a slow reduction in the cash rate over the coming year.
- Governor Bullock emphasised that the RBA remains alert to inflation risks and that market pricing of three further cash rate cuts by mid-2026 was 'too confident.' The post-meeting statement also noted that 'if monetary policy is eased too much too soon, disinflation could stall, and inflation would settle above the midpoint of the target range.'
- For the RBA to have confidence to do further interest rate cuts, the RBA Board would need 'more evidence that inflation is continuing to decline.' Bullock also noted that the RBA wants to see easing wage costs, disinflation in market services and slower housing inflation.
- The RBA also provided its updated forecasts in the February Statement on Monetary Policy. Trimmed-mean inflation is now forecast to return to the RBA's 2-3 per cent target band six months earlier, with it flatlining at 2.7 per cent from mid-2025. Labour market conditions are expected to remain robust, with the unemployment rate now peaking at 4.2 per cent (previously it was peaking at 4.5 per cent).
- We received further updates on labour market conditions in the days following the RBA meeting, with the release of both the *Labour Force Survey* and *Wage Price Index*.
 - The *Labour Force Survey* suggested that conditions remained robust in January. Employment posted a strong 44.0k gain in the month, driven by a surge in full-time employment. The unemployment rate ticked up slightly to 4.1 per cent, with the strong increase in employment being offset by firm population growth and a higher participation rate.
 - *Wage Price Index* growth came at 0.7 per cent quarter-on-quarter in Q4 2024, which is its lowest quarterly print since Q1 2022. This outcome was below economists' and the RBA's forecasts, both of which had an increase of 0.8 per cent. Annual wage growth slowed to 3.2 per cent (from 3.5 per cent in Q3) and is now at its slowest pace since Q3 2022.

Offshore

- President Trump announced he will impose a tariff on imports of automobiles, pharmaceuticals and semiconductors on 2 April at an initial rate of 25 per cent. These tariffs would be in addition to country-specific tariffs already announced.
- President Trump's comments about Ukraine President Zelenskyy weighed on risk sentiment. Trump denounced Zelenskyy as a dictator and accused him of taking advantage of US aid supplied by former President Biden.
- US Treasury Secretary Scott Bessent argued that the inflationary impact of tariffs would be transitory and described Trump's policy agendas as deflationary.
- In central bank news:
 - The FOMC meeting minutes confirmed market consensus for a temporary hold on policy rate changes, with strong consumer demand and changes to trade and immigration policy posing as upside risks to inflation.
 - ECB board member Schnabel indicated that the bank might soon pause or stop rate cuts. While a rate cut is expected next month, future plans remain uncertain.
 - The Reserve Bank of New Zealand (RBNZ) delivered a 50 basis point cut, as widely expected. The projections in its Monetary Policy Statement were more dovish than the previous statement, with the RBNZ now pencilling in more rate cuts this year.
- On US economic data:
 - Nominal retail sales were weaker than expected, falling by 0.9 per cent in January. Core retail sales also fell by 0.8 per cent, against expectations for a 0.3 per cent increase.
 - Housing starts fell 9.8 per cent to 1366k in January, well below expectations of a 7.3 per cent decrease.
 - Industrial production rose 0.5 per cent in January, though this partly reflected a weather-related boost from utilities.
- In Japan, GDP increased by 2.8 per cent in Q4 2024 (quarter-on-quarter annualised), well above the expectations for a 1.1 per cent increase. There were also notable upward revisions to the Q2 and Q3 GDP prints, suggesting that Japanese growth has been more solid than previously thought.

Markets

US Treasury yields were slightly lower over the past week alongside softer-than-expected retail sales data. Australian Government bond yields moved higher as the market parsed the hawkish commentary from the RBA following Tuesday's cash rate cut.

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday – ABS Monthly CPI Indicator (Jan), Construction work done (Q4) Thursday – Private capex (Q4)
Offshore	US – Core PCE inflation (Jan), University of Michigan Consumer Sentiment (Feb), Conference Board Consumer Sentiment (Feb), GDP (Q4 2 nd release), Durable goods orders (Jan)

Economic and Financial Market Charts

CHART 1: THE RBA NOW EXPECTS TRIMMED-MEAN INFLATION WILL FLATLINE AT 2.7 PER CENT FROM MID-2025

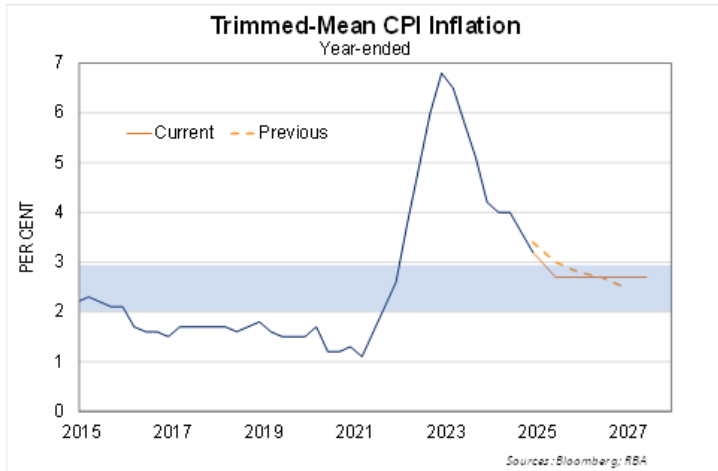


CHART 2: THE RBA ALSO EXPECTS THE UNEMPLOYMENT RATE WILL PEAK AT 4.2 PER CENT, NOTABLY BELOW ITS PREVIOUS OUTLOOK

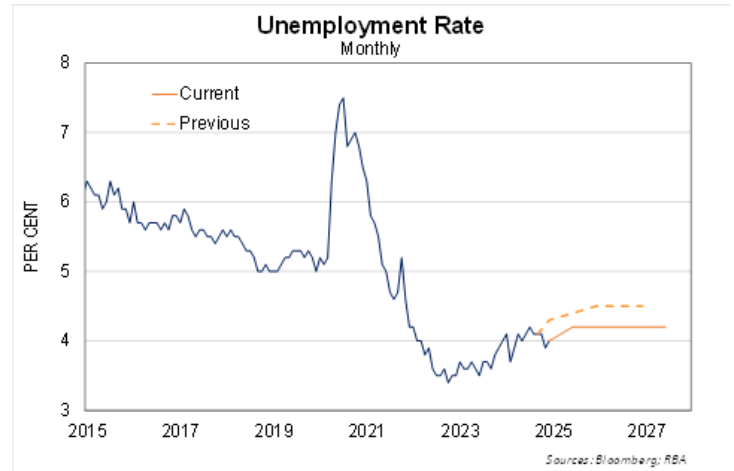


CHART 3: THE RBA COMMENTARY AROUND ITS CASH RATE DECISION WAS NOTABLY CAUTIOUS, WITH A KEY CONCERN BEING THE ONGOING TIGHTNESS ACROSS VARIOUS LABOUR MARKET INDICATORS

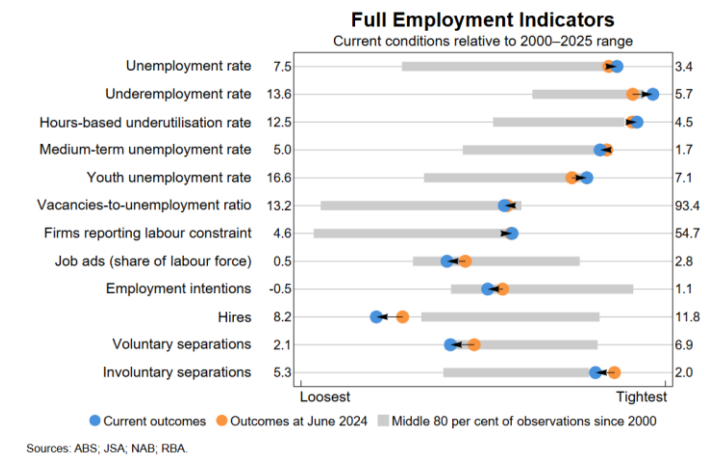
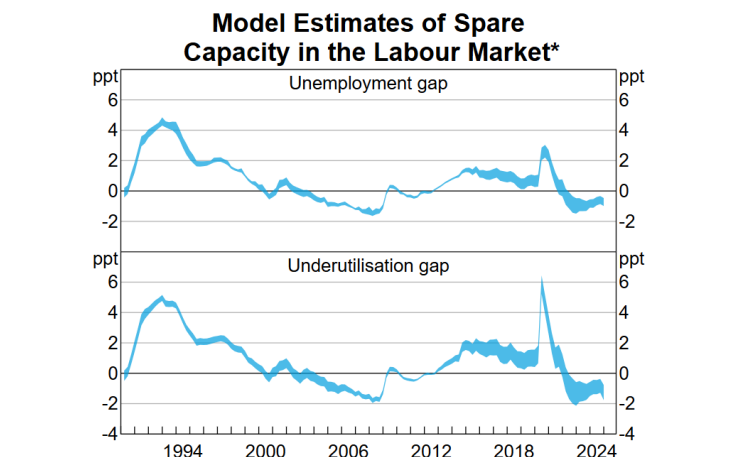


CHART 4: THE RBA'S MODEL-BASED ESTIMATES ALSO SUGGEST THAT THE LABOUR MARKET REMAINS TIGHT, WITH THE UNEMPLOYMENT RATE REMAINING LOWER THAN ITS ESTIMATE OF THE NAIRU



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	4.19	6	5	16	AUD/USD	0.64	1.51	2.14	-2.31
	NSWTC	4.18	7	4	14	AUD/EUR	0.61	1.19	1.46	0.87
	TCV	4.19	8	3	10	AUD/GBP	0.51	0.61	-0.59	-2.38
	WATC	4.12	7	3	10	AUD/JPY	95.62	-0.85	-1.67	-2.94
	Australian Government	3.94	9	2	19	AUD/CAD	0.91	1.34	0.87	2.73
	US Government	4.28	-5	-5	-21	AUD/NZD	1.11	-0.24	0.39	4.97
5 Year	QTC	4.45	4	4	32	AUD/SGD	0.85	0.66	0.66	-2.93
	NSWTC	4.42	5	3	25	AUD/HKD	4.97	1.35	2.01	-2.89
	TCV	4.47	5	1	24	AUD/KRW	918.06	0.76	1.95	5.54
	WATC	4.36	5	-0	23	AUD/CNY	4.66	1.16	1.72	-1.10
	Australian Government	4.08	8	3	26	AUD/INR	55.37	1.38	2.25	2.06
	US Government	4.34	-5	-5	2	MAJOR CURRENCIES				
7 Year	QTC	4.79	3	4	42	EUR/USD	1.05	0.31	0.67	-3.15
	NSWTC	4.74	4	1	32	GBP/USD	1.26	0.90	2.74	0.08
	TCV	4.79	3	-2	30	USD/JPY	149.54	2.32	3.73	0.65
	WATC	4.66	3	-0	32	USD/CHF	1.11	0.57	0.85	-2.02
	Australian Government	4.30	7	4	31	USD/CNY	7.28	0.35	0.42	-1.24
	US Government	4.43	-3	-6	8	MAJOR COMMODITIES				
10 Year	QTC	5.23	1	2	52	Brent Crude Oil	76.48	1.95	-3.54	-8.59
	NSWTC	5.17	2	-0	40	Gold	2,939	0.37	7.07	45.18
	TCV	5.21	2	-3	36	Copper	9,564	0.83	3.01	11.40
	WATC	5.00	2	-3	37	Iron Ore	108.68	2.09	4.30	4.70
	Australian Government	4.52	5	5	34					
	US Government	4.51	-2	-7	18					

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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