

Weekly Economics and Markets Review

- There were key announcements around policy in both China and Germany over the week with the latter acting as a material catalyst for bond markets.
- The US imposed tariffs on Canada, Mexico and China with some of these countries retaliating immediately. Further tariff increases are in train.

Week in review

Domestic

- The Melbourne Institute's trimmed-mean measure edged lower by 0.1 per cent in February with the annual rate 0.3 percentage points lower at 1.8 per cent. This is the first time this measure has been below the RBA's target band since August 2021.
- Retail sales rose 0.3 per cent in January, though were flat excluding food.
- Real GDP rose by 0.6 per cent in Q4 to be 1.3 per cent higher over the year. This was the fastest quarterly rate of growth in two years and was mostly driven by the private sector – namely household spending and business investment – with private demand contributing as much to GDP growth in the quarter as it had in the past three combined.
- The Minutes of the RBA's February meeting noted the Board agreed to cut 25bps as the case to do so was 'on balance' a stronger one. Easing upside risks to core inflation as well as Board members placing more weight on downside risks to the economy appeared to have been the factors that tilted the decision towards a rate cut.
- RBA Deputy Governor Andrew Hauser provided some detail on the scenario which seemingly swung the Board's thinking in cutting rates in February. The scenario, in which rates were held steady at 4.35 per cent to the end of next year would have seen, under most estimates from RBA models, ABS trimmed mean inflation move to be slightly below the 2.5 per cent mid-point of the RBA's target band. A cut in February would be helpful in reducing the chances of those sub-mid-point outcomes. So long as these possibilities exist the RBA will have a bias to ease further according to Hauser, but the Board does not share the market's view that a string of further cuts are needed.

Offshore

- China's National People's Congress set out real GDP growth rate target for 2025 of 'around five per cent' and a budget deficit of four per cent of GDP.
- On the data front in the US:
 - The pace of core PCE inflation ticked higher from 0.2 to 0.3 per cent in January, though the annual rate moderated from 2.6 per cent to 2.5 per cent. In that same report, personal income growth was much stronger than anticipated (0.9 vs 0.4 per cent) while the opposite was the case for personal spending (-0.5 per cent vs -0.1 per cent).
 - Manufacturing conditions improved, but at a slower pace in February. Meanwhile, conditions in the services sector picked up at a faster pace in February. There was a notable uptick in the number of respondents across both surveys who indicated concerns about the impact of the tariff increases with these 'creating chaos' from a planning perspective and substantially raising costs.

In news related to US President Trump:

- A meeting between Trump, Vice President J.D. Vance and Ukrainian President Zelenskyy in the Oval Office descended into a shouting match which stalled progress on a peace deal to end the conflict with Russia. The US ceased all military aid and intelligence sharing with Ukraine following the meeting. Zelenskyy later sent Trump a letter indicating that he was ready for peace negotiations with Trump also receiving 'strong signals' from Russia that it was ready for the same.
- The US imposed additional 25 per cent tariffs on imports from Canada and Mexico, after having previously given the two countries a one-month grace period to address people and drug flows across their borders into the US. Canada responded by placing a 25 per cent tariff on all US imports. An additional 10 per cent tariff was imposed on all Chinese exports to the US. China responded through a variety of measures, including tariffs of up to 15 per cent on US agriculture.
- Reciprocal tariffs are still to be imposed on Canada and Mexico on April 2, though the US' two former free-trade partners will get one month's grace before tariffs on auto imports come into force.
- Tariffs on agricultural products will come in on 2 April.
- The parties set to form the new government in Germany have proposed an expansion in spending that would be a material shift from the normally fiscally conservative country. There are three key elements to the proposal. Firstly, to exempt on-budget defence spending in excess of one per cent of GDP from inclusion in the country's 'debt brake' limits. Secondly, to allow states to run a small structural budget deficit as opposed to a balanced budget. Thirdly, a EUR500 billion off-balance sheet infrastructure fund to be drawn down over ten years. Officials will seek to pass legislation before the new Parliament sits for the first time later this month as parties due to take a bigger share of seats will at that time have sufficient votes to block the proposal. The shift in thinking among German policymakers, especially around defence spending, reflects a lack of confidence around the US' commitment to defend Europe.
- The ECB cut the deposit rate by 25 bps to 2.5 per cent, as widely expected. It also modified the language in the official post-meeting statement to suggest that monetary policy is 'becoming meaningfully less restrictive.' This is a notable change from it having previously been characterised as being 'restrictive'. New staff projections showed downgrades to GDP growth on account of trade policy uncertainty but the fiscal announcements in Germany were not included with these posing an upside risk to growth. In the post-meeting press conference, President Lagarde suggested the direction for rates was 'no longer as straightforward' with the Governing Council to be even more data dependent.

Markets

Better than expected US service sector conditions, hawkish commentary from RBA Deputy Governor Hauser and the prospect of more expansionary fiscal policy in Germany all worked to push bond yields higher with Australian Government three and ten-year bond yields five and 14 basis points higher over the week.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tues: Westpac-MI Consumer Sentiment (Mar), NAB Business Survey (Feb)
Offshore	US: Non-farm payrolls (Feb), job openings (Jan), CPI & PPI (Feb) CN: International goods trade, credit, CPI & PPI (all Feb) CA: Labour market (CA, Feb), Bank of Canada meeting (Mar)

Economic and Financial Market Charts

CHART 1: MELBOURNE INSTITUTE TRIMMED MEAN INFLATION HAS SOFTENED BY MORE THAN OTHER SIMILAR MEASURES HAVE IN RECENT MONTHS

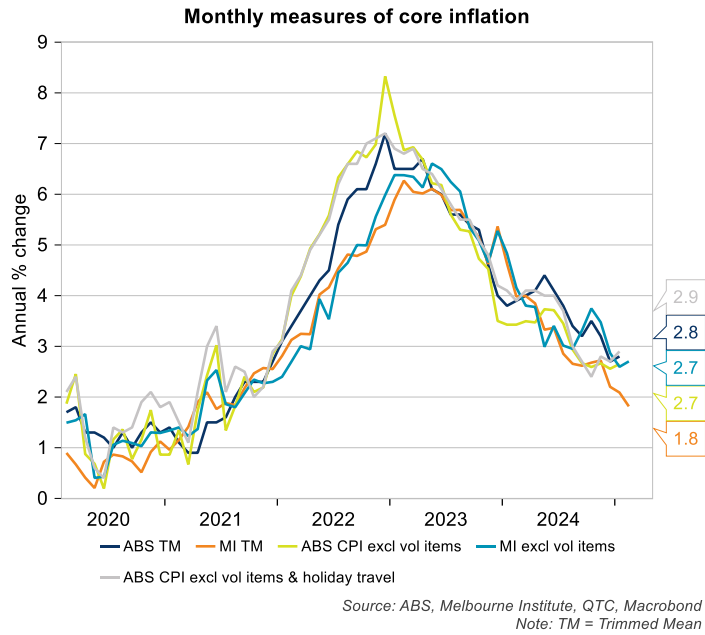


CHART 2: DEPUTY GOVERNOR HAUSER SHARED INSIGHTS FROM SCENARIO ANALYSIS AROUND RATES AND INFLATION THAT THE RBA CONSIDERED

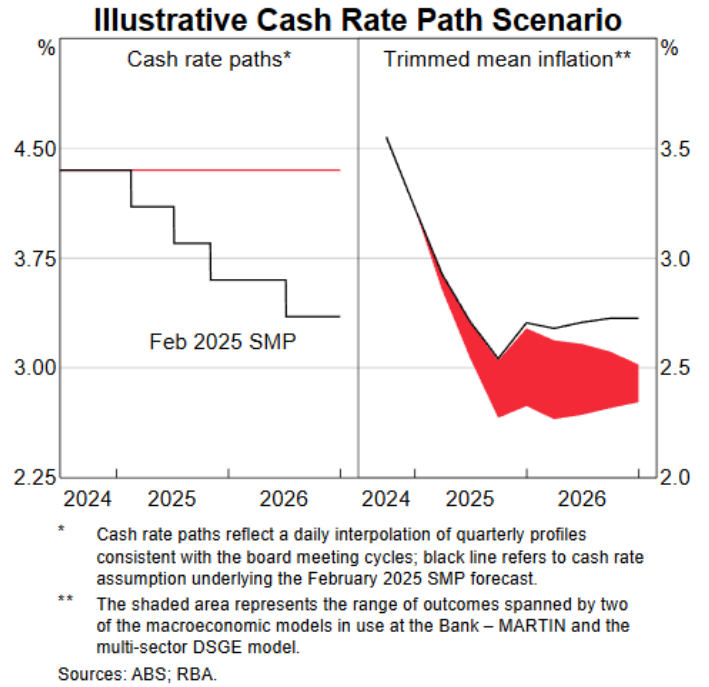


CHART 3: THE QUARTERLY PACE OF GDP GROWTH IN AUSTRALIA IN Q4 WAS THE FASTEST IN TWO YEARS...

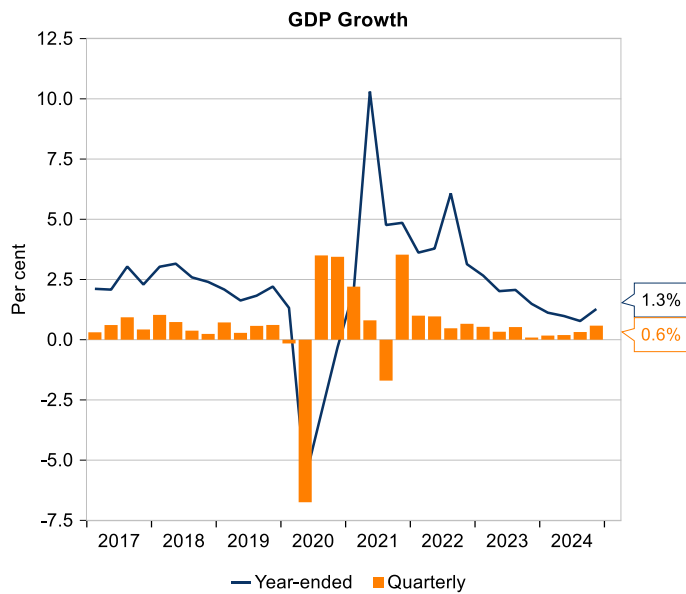
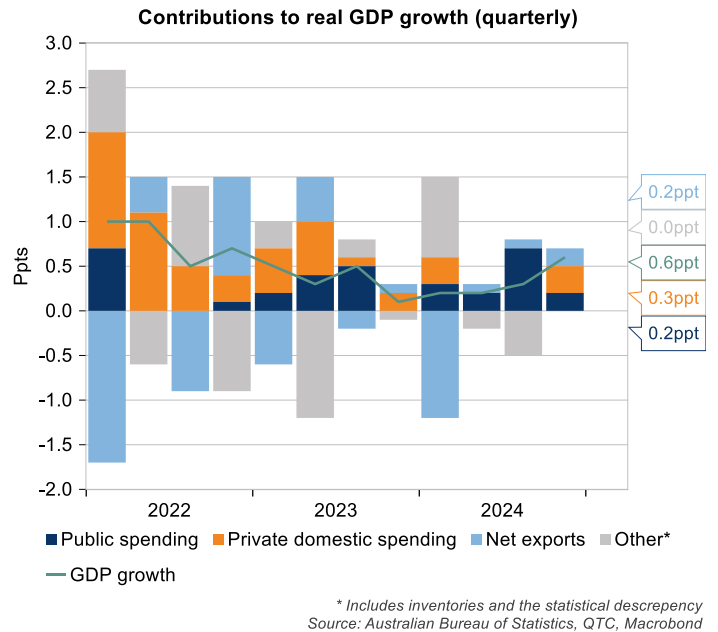


CHART 4: WITH IT ENCOURAGINGLY BEING LED BY PRIVATE SECTOR DEMAND



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	4.06	4	7	11	AUD/USD	0.63	1.47	1.39	-4.20
	NSWTC	4.05	4	9	9	AUD/EUR	0.59	-2.18	-2.57	-2.96
	TCV	4.07	4	8	4	AUD/GBP	0.49	-0.69	-1.80	-4.91
	WATC	3.99	4	8	5	AUD/JPY	93.77	0.09	-2.79	-4.32
	Australian Government	4.04	4	8	7	AUD/CAD	0.91	0.60	1.13	1.73
	US Government	4.11	5	10	9	AUD/NZD	1.10	-0.34	-0.32	2.96
5 Year	QTC	3.84	5	12	21	AUD/SGD	0.84	0.39	-0.08	-4.30
	NSWTC	3.97	-6	-27	-30	AUD/HKD	4.93	1.41	1.18	-4.80
	TCV	4.35	6	7	30	AUD/KRW	917.53	1.46	1.11	4.20
	WATC	4.33	8	11	26	AUD/CNY	4.59	0.70	1.43	-3.64
	Australian Government	4.37	6	9	22	AUD/INR	55.17	0.39	2.05	1.02
	US Government	4.25	6	7	22	MAJOR CURRENCIES				
7 Year	QTC	4.32	7	9	25	EUR/USD	1.08	3.61	3.91	-1.41
	NSWTC	4.41	7	10	29	GBP/USD	1.29	2.18	3.24	0.75
	TCV	3.98	7	12	30	USD/JPY	147.92	-1.37	-4.12	-0.13
	WATC	4.06	-2	-26	-2	USD/CHF	0.88	-1.63	-2.31	0.67
	Australian Government	4.71	10	8	47	USD/CNY	7.24	-0.63	-0.31	0.67
	US Government	4.68	11	11	37	MAJOR COMMODITIES				
10 Year	QTC	4.72	9	9	33	Brent Crude Oil	69.53	-6.09	-8.75	-16.19
	NSWTC	4.58	10	8	36	Gold	2,915.62	1.12	2.52	35.09
	TCV	4.69	10	9	40	Copper	9,585.00	2.08	4.75	10.93
	WATC	4.79	10	10	45	Iron Ore	100.36	-3.81	-3.81	-0.86
	Australian Government	4.22	11	14	40					
	US Government	4.17	-	-25	9					

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.