

# Weekly Economics and Markets Review

- The focus this week has remained firmly on the US-China trade war, with the White House raising the tariff on imports from China to 245 per cent
- China has announced a slew of new countermeasures in the past week, including raising its tariff on US goods to 125 per cent and putting more export controls on rare earth minerals
- US Treasury yields have fallen further with the escalation of the US-China trade war weighing on financial market sentiment

## Week in review

### Domestic

- The RBA's April Board Minutes highlighted the central bank's views immediately prior to the 'Liberation Day' tariff announcements.
  - The RBA Board emphasised the need to be *'cautious and alert'* to changes in the economic outlook. It noted that any further increases in global tariffs or trade restrictions could heavily disrupt global trade, while elevated uncertainty might also cause firms and households to cut spending and investment. These factors could significantly reduce global economic activity, though the effect on inflation was viewed as being less certain.
  - Most economists perceived the commentary as leaving the door open to a cash rate reduction at the RBA's next meeting on 20 May. Importantly, the Board noted that *'the May meeting would be an opportune time to revisit the monetary policy setting with the benefit of additional data... a fresh set of economic forecasts and further information about the likely evolution of global trade policies.'*
- The **labour market** remained tight in March, with the unemployment rate remaining low and strong growth of employment. The unemployment rate was basically steady in the month, with a minor increase seeing the published unemployment rate being rounded up to 4.1 per cent (from 4.0 per cent in February). Employment rose by 32.2k, following a 57.5k fall in February.

### Offshore

- The focus this week has remained firmly on the US-China trade war, with the White House making further changes to US tariffs.
  - On Friday (11 April), the White House announced that smartphones, laptops and several other electronics products would be exempt from tariffs. However, this announcement was soon wound back, with the White House later clarifying that the exemptions are temporary and that these products will be subject to a new set of tariffs targeted at the semiconductor industry.
  - On Wednesday, President Trump raised the tariff on imports from China to 245 per cent (from 145 per cent). The White House said that this increase was in response to China's retaliatory actions against the US.
- China has announced a slew of new countermeasures since late last week, including:
  - raising its tariff on US goods to 125 per cent (from 84 per cent),
  - putting more export controls on rare earth minerals,
  - ordering Chinese airlines not to take further deliveries of Boeing jets,
  - suspending sorghum, poultry and bonemeal imports from the US, and
  - launching a lawsuit against the US at the World Trade Organization.

- China's officials have also made several comments about the trade war in the past week. China's President Xi Jinping said there were *'no winners'* in a trade war, while urging other nations to stand up to *'economic bullying'* from the US. Meanwhile, Foreign ministry spokesperson Lin Jian said that China *'does not want to fight, but it is by no means afraid to fight'* a trade war with the US.
- Federal Reserve Chair Jerome Powell, speaking at The Economic Club of Chicago, stated that the FOMC is not rushing to change policy and confirmed that financial markets remain functional. He acknowledged there is potentially a conflict between the Fed's goals for maximum employment and price stability, while also noting that a key priority for the Fed is on maintaining long-term inflation expectations.
- Concerns about the effect of higher tariffs saw a sharp fall in US consumer sentiment and further increases inflation expectations. Meanwhile, retail sales increased as consumers frontload motor vehicle purchases ahead of tariff increases.
  - The University of Michigan Consumer Sentiment index fell sharply in April, marking its fourth consecutive monthly decline and its lowest level since the depths of the pandemic.
  - The University of Michigan's measures of inflation expectations increased further in April. One-year ahead inflation expectations accelerated to 6.7 per cent (from 5.0 per cent), while 5- to 10-years ahead expectations increased to 4.4 per cent (from 4.1 per cent).
  - There has been a more modest rise in the New York Fed's measure of inflation expectations in recent months. One-year ahead inflation expectations increased to 3.6 per cent in March, while five-year ahead expectations are at 2.9 per cent.
  - Headline retail sales volumes increased by 1.4 per cent in March, which is its largest monthly rise in over two years. The increase was driven by a surge in motor vehicles and parts, with consumers front-loading purchases ahead of tariff increases.
  - Headline producer prices fell 0.4 per cent in March, below expectations for a 0.2 per cent rise. The decline in headline wholesale prices was largely due to a fall in energy prices.
- In China, annual GDP growth was unchanged at 5.4 per cent in the March quarter, above economists' expectations for growth to be 5.2 per cent. There was also solid growth of industrial production and retail sales in March, while the property sector continued to weigh on economic activity.

## Markets

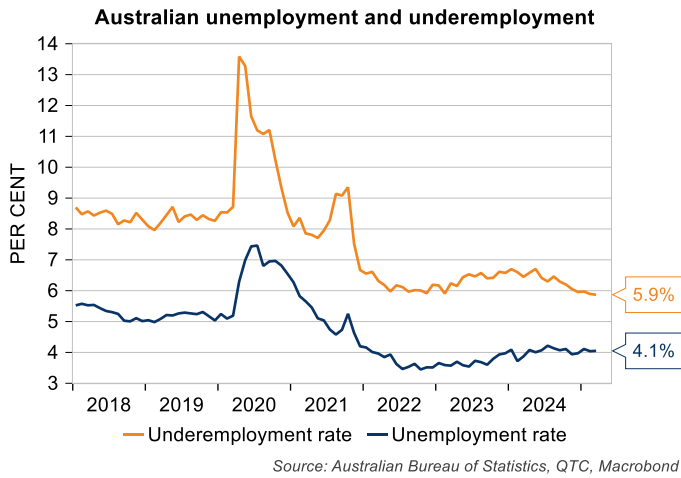
US Treasury yields have fall further over the past week, with a further escalation of the US-China trade war weighing on market sentiment. While the scale of the swings in bond yields has diminished, most analysts do not expect market conditions to return to normal until there is more certainty around the outlook. Domestically, financial markets are fully pricing in four further 25 basis point cuts from the RBA by its December meeting, with a roughly 60 per cent probability of a fifth cut.

### Economic and Market Calendar

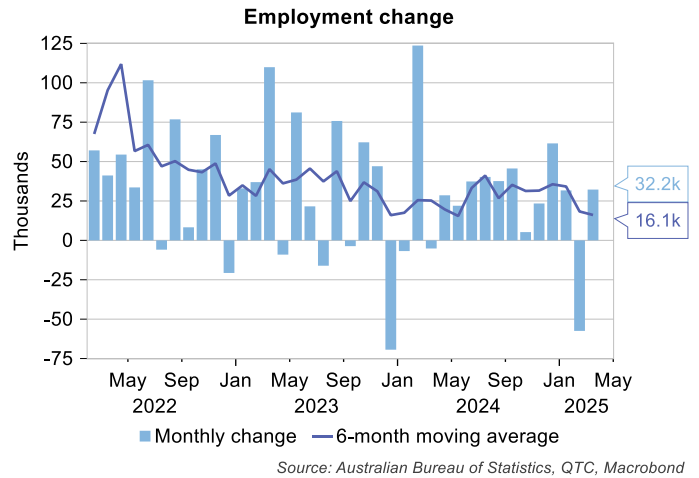
DATE	DETAILS
Domestic	No major data releases
Offshore	<b>Global:</b> S&P PMIs; <b>US:</b> New home sales (Mar); <b>JP:</b> CPI (Mar);

## Economic and Financial Market Charts

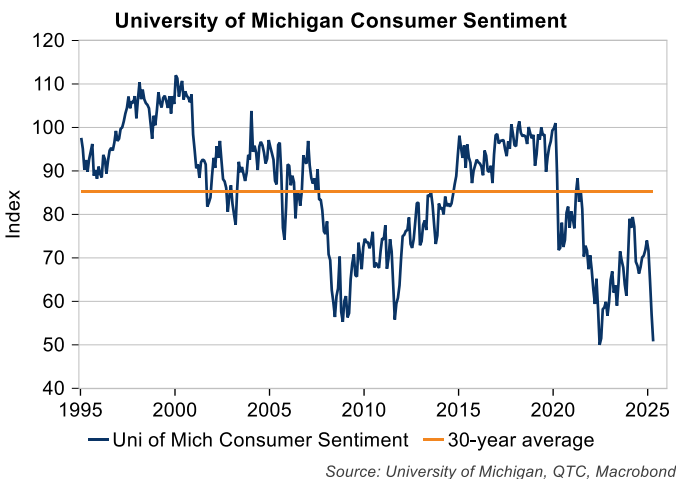
**CHART 1: AUSTRALIA'S UNEMPLOYMENT RATE HAS BEEN BROADLY STEADY AROUND 4% SINCE LATE 2023, WHILE THE UNDEREMPLOYMENT RATE HAS TRENDED LOWER OVER THE PAST YEAR**



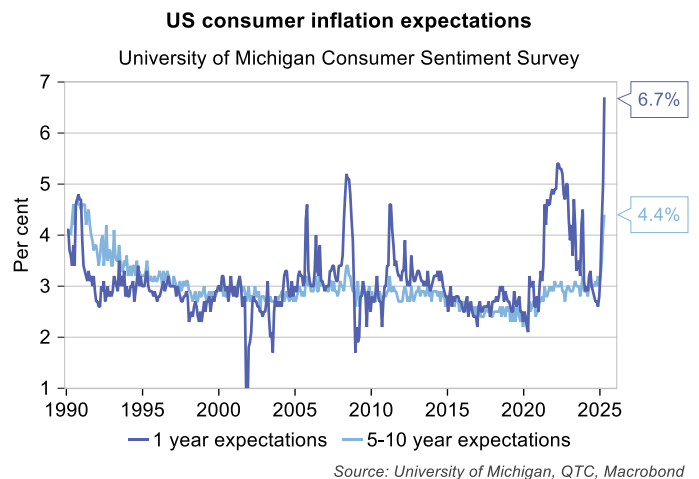
**CHART 2: EMPLOYMENT GROWTH PICKED UP IN MARCH, FOLLOWING A SHARP DECLINE IN FEBRUARY**



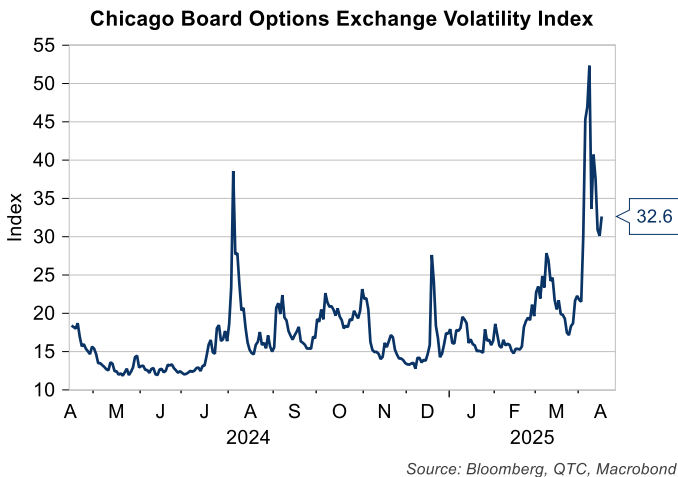
**CHART 3: US CONSUMER SENTIMENT HAS FALLEN SHARPLY DUE TO INCREASING CONCERN ABOUT THE EFFECT OF HIGHER TARIFFS ON ECONOMIC ACTIVITY AND INFLATION**



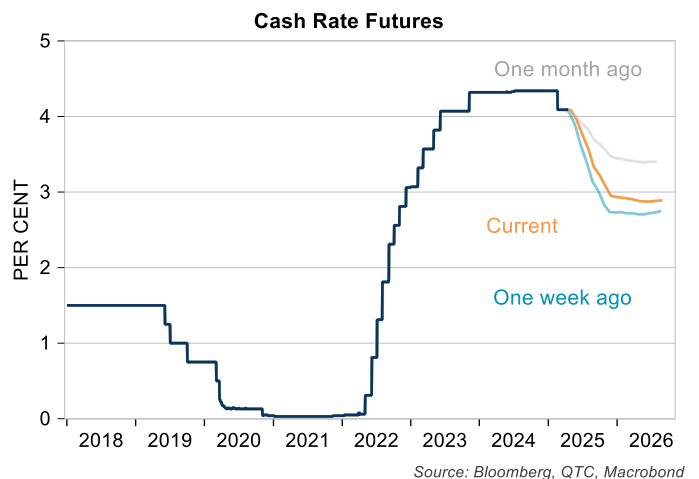
**CHART 4: THE UNIVERSITY OF MICHIGAN'S MEASURES OF CONSUMER INFLATION EXPECTATIONS HAVE RISEN SHARPLY, WITH LONG-RUN EXPECTATIONS AT THEIR HIGHEST LEVEL SINCE 1991**



**CHART 5: US TRADE POLICY ANNOUNCEMENTS HAVE SEEN EQUITY MARKET VOLATILITY MOVE SIGNIFICANTLY HIGHER IN THE PAST MONTH**



**CHART 6: THE LIKELIHOOD OF FURTHER RBA RATE CUTS HAS RISEN SIGNIFICANTLY IN RECENT WEEKS DUE TO THE WEAKER OUTLOOK FOR GLOBAL GROWTH**



## 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	3.58	6	-40	-64	AUD/USD	0.64	6.39	0.10	-0.71
	NSWTC	3.59	3	-39	-62	AUD/EUR	0.56	3.21	-3.96	-7.17
	TCV	3.62	6	-38	-65	AUD/GBP	0.48	2.41	-1.94	-6.68
	WATC	3.51	3	-40	-68	AUD/JPY	90.95	4.72	-3.96	-8.47
	Australian Government	3.34	10	-41	-55	AUD/CAD	0.89	4.04	-2.73	-0.05
	US Government	3.77	-16	-25	-99	AUD/NZD	1.08	-0.24	-1.74	-0.95
5 Year	QTC	3.99	-0	-29	-34	AUD/SGD	0.84	3.65	-1.22	-4.34
	NSWTC	4.02	-2	-25	-32	AUD/HKD	4.95	6.48	-0.00	-1.58
	TCV	4.08	3	-23	-33	AUD/KRW	903.47	2.24	-1.95	1.61
	WATC	3.90	-1	-29	-41	AUD/CNY	4.69	6.52	1.63	0.79
	Australian Government	3.60	6	-30	-35	AUD/INR	54.62	5.07	-1.17	1.61
	US Government	3.90	-14	-19	-71	<b>MAJOR CURRENCIES</b>				
7 Year	QTC	4.46	-9	-18	-9	EUR/USD	1.14	3.07	4.22	6.97
	NSWTC	4.47	-10	-16	-13	GBP/USD	1.33	3.88	2.08	6.40
	TCV	4.54	-6	-12	-13	USD/JPY	142.54	1.56	4.05	7.82
	WATC	4.36	-8	-16	-16	USD/CHF	1.23	2.94	7.42	10.62
	Australian Government	3.94	1	-20	-18	USD/CNY	7.35	-0.13	-1.53	-1.51
	US Government	4.07	-11	-13	-53	<b>MAJOR COMMODITIES</b>				
10 Year	QTC	5.05	-14	-7	14	Brent Crude Oil	65.85	0.57	-7.34	-24.56
	NSWTC	5.01	-15	-7	7	Gold	3,343	8.45	11.42	41.60
	TCV	5.08	-12	-4	4	Copper	9,164	6.40	-7.07	-4.37
	WATC	4.81	-14	-9	0	Iron Ore	98.19	3.60	-2.70	-7.20
	Australian Government	4.30	-5	-11	-2					
	US Government	4.28	-5	-2	-31					

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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