

Weekly Economics and Markets Review

- US trade policy was a dominant theme this week, though President Trump flirting with sacking the Federal Reserve Chair also garnered the attention of investors.
- The IMF lowered its global GDP growth forecasts for this year and next on account of the direct impact of US tariff increases as well as of uncertainty over these policy settings. The US, China and other emerging and developing economies experienced the largest revisions.

Week in review

Domestic

- There was no major domestic economic data released this week.

Offshore

- The focus this week for investors globally has again been developments with US trade policy:
 - Reports indicated that progress has been made in talks around trade agreements with Japan and India. A second round of negotiations with Japan is expected before the end of the month. Though, Japan's Prime Minister said his country will not concede to all US demands.
 - China warned countries against making trade deals with the US that could hurt Beijing's interests.
 - On US-China trade, President Trump said that a deal will likely be negotiated, that *'[tariff rates on China] will come down substantially, but it won't be zero'*, and that *'we're going to be very nice, and they're going to be very nice, and we'll see what happens'*. While US Treasury Secretary Bessent shares this optimism, commenting that he expects there to be a de-escalation in trade tensions with China in the very near future due to the unsustainability of the whole tariff situation, he cautioned that talks between the US and China had yet to formally start. Later in the week Bessent claimed that a deal could be two to three years away, after a report that President Trump may be considering slashing tariffs on China. A spokesperson for China's Foreign Ministry indicated that *'the door for talks is wide open.'*
- President Trump briefly flirted with firing US Federal Reserve Chair Powell.
 - Trump called Powell a *'major loser'* for not being prompt enough with rate cuts (He called him *'Mr Too Late'*). He contrasted the Fed's hesitancy to the ECB, which has *'already lowered (rates) seven times,'* and how Powell acted during the election period, *'when he lowered in order to help Sleepy Joe Biden, later Kamala, get elected.'* Trump highlighted the risks of a slowing economy if Powell didn't act now.
 - Trump also suggested that *'Powell's termination cannot come fast enough!'* One of his chief economic advisors (Kevin Hassett, National Economic Council Director) indicated that investigations are being made as to whether the President can fire the Fed Chair.
 - However, following a poor response by markets to these developments, Trump walked the comments back stating he had *'no intention'* of firing Powell. Trump added that he *'would like to see him be a little more active in terms of his idea to lower interest rates.'*
- In the latest *World Economic Outlook*, the IMF revised down its global growth forecast for 2025 to 2.8 per cent this year from 3.3 per cent and for 2026 to three per cent from 3.3 per cent. The marking down of GDP growth estimates was most pronounced in the US, China and in emerging and developing economies. US growth was slashed by 0.9 percentage points to 1.8 per cent in 2025 while China's were lowered by 0.6 percentage points to four per cent. The forecast downgrades reflect the impact of changes to US trade policy as well as uncertainty around these policy settings.
- In the **euro area**:
 - As widely expected, the ECB cut its policy rate by 25 basis points to 2.25 per cent. The Governing Council sees downside risks to growth given the impact of uncertainty around US trade policy settings as well as how this is flowing through to markets and tightening financing conditions. It is also alert to downside risks to inflation and called out the *'marked'* decline in services inflation. The decision to shift rates lower by 25 basis points was unanimous and the Council had even considered a 50-basis point reduction. Looking forward, that the ECB would be data-dependent and take a meeting-by-meeting approach whilst being *'ready'* and *'agile'* in setting policy.
 - Consumer confidence slipped to -16.7 in April from -14.5 previously and less than the -15.1 expected.
- Readings from the **S&P Global PMIs** for April suggested that services sector conditions softened while those for manufacturing were mixed:
 - In the **US**, the services PMI was down 3 pts to 51.4 (cons: 52.6). The manufacturing index rose 0.5 pts to 50.7 (cons: 49.0).
 - In the **UK**, the services PMI fell 2.6 pts to 48.9 (cons: 51.5), while manufacturing was down 0.9 pts to 44.0, in line with consensus.
 - In the **euro area**, the services PMI was down 1.3 pts to 51.0 (cons: 50.5), while manufacturing edged up slightly to 48.7 (cons: 47.7).
 - In **Australia**, the services and manufacturing PMIs were largely unmoved at 51.4 and 51.7 in April.

Markets

Markets were again volatile over the week with the US Dollar, equities and 10-year Treasury yields all ending the week higher. Australian Government 10-year yields fell as did the Australian Dollar, albeit the latter only slightly and from the highest levels since December. The Aussie is up more than four cents against the US Dollar in the past few weeks.

Economic and Market Calendar

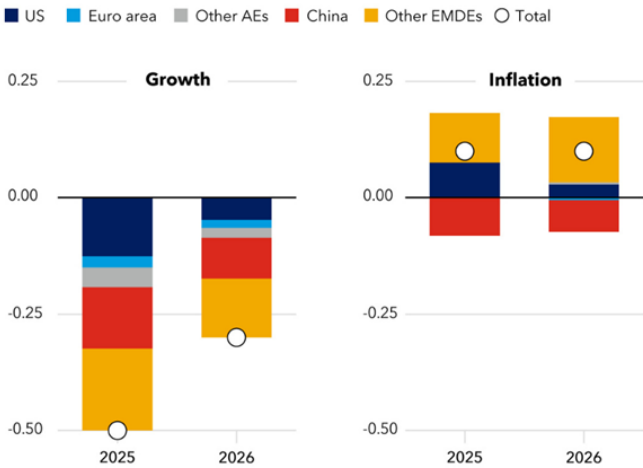
DATE	DETAILS
Domestic	Wednesday: CPI (Q1)
Offshore	US: Conference Board consumer confidence (Apr), personal spending and core PCE inflation (Mar); JOLTS (Mar), manufacturing ISM (Apr) Other: GDP (euro area, Q1); 'Official' PMIs (China, Apr); Central bank meeting (Japan, May)

Economic and Financial Market Charts

CHART 1: THE IMF HAS LOWERED ITS GLOBAL GDP GROWTH FORECASTS FOR 2025 AND 2026 WITH REVISIONS HEAVILY CONCENTRATED IN THE US, CHINA AND OTHER EMERGING AND DEVELOPING ECONOMIES...

Global growth revised down significantly, inflation slightly revised up

Forecast change from January 2025, percentage points



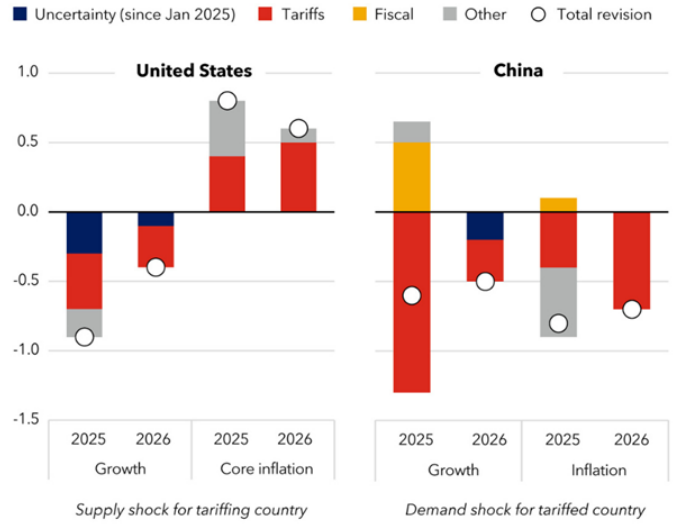
Sources: IMF, World Economic Outlook; and IMF staff estimates.



CHART 2: ...WITH THESE FORECAST REVISIONS REFLECTING THE IMPACT OF HEIGHTENED UNCERTAINTY AROUND US TARIFFS AS WELL AS THAT OF THESE IMPORT TAXES THEMSELVES

Tariffs effects vary across countries

Forecast change from January 2025, percentage points



Sources: IMF, World Economic Outlook; and IMF staff estimates.



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	3.56	-2	-39	-65	AUD/USD	0.64	-0.22	1.55	-1.88
	NSWTC	3.57	-2	-39	-63	AUD/EUR	0.56	0.07	-3.41	-7.51
	TCV	3.60	-2	-36	-64	AUD/GBP	0.48	-0.42	-1.14	-7.91
	WATC	3.48	-3	-40	-69	AUD/JPY	91.07	0.12	-3.60	-9.51
	Australian Government	3.55	-3	-38	-65	AUD/CAD	0.88	-0.10	-1.46	-0.64
	US Government	3.60	-3	-39	-64	AUD/NZD	1.07	-0.77	-2.65	-2.41
5 Year	QTC	3.32	-2	-41	-52	AUD/SGD	0.84	0.05	-0.32	-5.25
	NSWTC	3.87	10	-15	-92	AUD/HKD	4.94	-0.23	1.36	-2.78
	TCV	3.95	-4	-31	-39	AUD/KRW	909.25	0.63	-1.33	2.04
	WATC	3.97	-5	-28	-37	AUD/CNY	4.64	-0.20	1.65	-1.41
	Australian Government	4.03	-4	-26	-37	AUD/INR	54.81	0.41	1.64	1.21
	US Government	3.85	-5	-32	-46	MAJOR CURRENCIES				
7 Year	QTC	3.93	-5	-31	-42	EUR/USD	1.13	-0.31	5.12	6.07
	NSWTC	4.04	-7	-29	-33	GBP/USD	1.33	0.20	2.71	6.55
	TCV	3.57	-3	-31	-34	USD/JPY	143.03	0.34	-5.03	-7.79
	WATC	4.01	10	-9	-65	USD/CHF	0.83	1.72	-6.11	-9.22
	Australian Government	4.40	-6	-23	-16	USD/CNY	7.29	-0.17	0.37	0.56
	US Government	4.40	-6	-21	-19	MAJOR COMMODITIES				
10 Year	QTC	4.47	-6	-19	-19	Brent Crude Oil	66.15	0.46	-9.38	-24.85
	NSWTC	4.29	-7	-21	-22	Gold	3,295.16	-0.97	9.58	41.72
	TCV	4.41	-6	-21	-16	Copper	9,369.00	1.80	-5.90	-4.14
	WATC	4.52	-7	-20	-10	Iron Ore	100.24	2.09	-0.93	-7.76
	Australian Government	3.89	-6	-25	-19					
	US Government	4.19	12	-2	-46					

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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