

Weekly Economics and Markets Review

- The US reached its first trade deal of the second Trump Presidency after the White House came to terms with the UK. Tariff levels applying to UK exports to the US are above those seen prior to Liberation Day but below the levels immediately prior to the deal.
- The US Federal Reserve kept rates on hold at its April meeting, as did the central banks of Sweden and Norway. The Bank of England cut rates by 25 basis points.

Week in review

Domestic

- **Household spending** was flat in real (inflation-adjusted) terms in Q1, with annual growth slowing sharply to 0.9 per cent (previously 2.3 per cent). Nominal household spending fell by 0.3 per cent in March, to be 3.5 per cent higher over the year.
- **Residential building approvals** fell 8.8 per cent in March, reflecting a 15.1 per cent fall in the volatile multi-unit category and a 4.5 per cent dip in those for detached houses.

Offshore

- The US reached its first trade deal of the second Trump Presidency after the White House agreed on terms with the UK. While the 10 per cent tariff will remain on UK exports to the US, there were some declines in tariffs applying to particular sectors and for specific items. The overall rate of tariffs faced by the UK is still much higher than Liberation Day, though slightly below that prior to this deal.
- The White House has also begun trade talks with other major allies, with President Trump noting earlier in the week that his administration has 'potential deals' with India, South Korea and Japan.
- Canadian Prime Minister Carney made his first visit to the White House amid ongoing trade tensions between the longstanding allies. President Trump said he would not lower tariffs on Canada, describing them as essential for protecting US industries. Meanwhile, Carney said that Canada was 'not for sale', in response to Trump's remarks that Canada should be absorbed into the US as a 51st state.
- US Treasury Secretary Bessent and US Trade Representative Greer will meet their Chinese counterparts on Saturday, initiating the first trade meeting with China since Liberation Day. Bessent said that the discussion will likely focus on de-escalation rather than a specific trade deal.
- Trump authorised the US Trade Representative to 'begin the process' of implementing a 100 per cent tariff on foreign-made films. Australia's Ambassador to the US, Kevin Rudd, spoke against the tariffs, stating 'I don't think we want to see a tax on Bluey'.
- The EU unveiled potential retaliatory tariffs targeting US\$113bn worth of US goods, including autos and aircraft, which will be imposed if negotiations with the US fail.
- The **US Federal Reserve's** FOMC maintained its policy rate target at 4.25-4.5 per cent. The post-meeting statement noted that while recent economic data have remained 'solid', the risks to the Committee meeting both the inflation and employment legs of its dual mandate are increasing. Fed Chair Powell emphasised that the FOMC remains in 'wait and see' mode with further clarity on the outlook – especially for trade – being needed before any adjustment to policy settings could occur.
- The **People's Bank of China** unveiled stimulus measures to help stabilise the economy. These included interest rate cuts and a liquidity injection.
 - The seven-day reverse repo rate was lowered 10 basis points to 1.4 per cent and the reserve requirement ratio was cut 50 basis points.
 - Some of the other support measures targeted tech, consumption, and aged care. A 500 billion yuan relending tool will be set up for services consumption and elderly care, while the quota for technology relending loans will increase by 300 billion yuan to 800 billion yuan.
- **US economic data** was generally stronger-than-expected this week, with solid labour market data and a pickup in the ISM Services index.
 - Non-farm payrolls rose by 177k in April, against expectations for a 138k increase. The unemployment rate held steady at 4.2 per cent, while the underemployment rate edged down slightly to 7.8 per cent.
 - The ISM Services index ticked up by more than expected in April, with all three sub-components – prices paid, new orders and employment – outperforming expectations.
 - According to the Federal Reserve Bank of New York's *Survey of Consumer Expectations*, household's expectations of inflation three-years ahead rose 0.2 percentage points to 3.2 per cent in April. This is the highest since July 2022. Expectations were unchanged at 3.6 per cent one-year ahead and dipped 0.2 percentage points five years ahead (to 2.7 per cent).
- **Euro area** core inflation increased to 2.7 per cent year-on-year in May, up from 2.4 per cent, on the back of a surge in services inflation.
- Norway and Sweden's central bank kept rates on hold at their April meetings while the **Bank of England** lowered its policy rate by 25 basis points. This was consistent with a downgrade to inflation forecasts one and two years ahead. The minutes to the meeting highlighted that the Monetary Policy Committee repeated guidance that a 'gradual and careful approach' to the withdrawal of policy restraint remains appropriate.

Markets

Australian Government bond yields edged higher this week, while US Treasury yields rose by even more. The latter reflected better than expected US jobs data as well as the announcement of a trade deal with the UK. Equity markets also moved higher on the back of both events as investors welcomed the positive signals these events provide on the growth outlook. The USD weakened this week, with the AUD/USD reaching 0.65 on Wednesday for the first time since early December 2024.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: Westpac-Melbourne Institute Consumer Sentiment (May), NAB Business Survey (Apr) Wednesday: Housing finance, Wage Price Index (Q1) Thursday: Labour market (Apr)
Offshore	US: Retail sales (Apr); PPI (Apr), industrial production (Apr); housing starts (Apr), building permits (Apr), existing home sales (Apr) UK: GDP (UK, Q1), Labour market (UK, 3 months to Mar), Other: CPI/PPI (CN, Apr), Labour market (CA, Apr)

Economic and Financial Market Charts

CHART 1: THE HOUSEHOLD SPENDING INDICATOR POINTS TO SOFT HOUSEHOLD CONSUMPTION IN THE Q1 NATIONAL ACCOUNTS

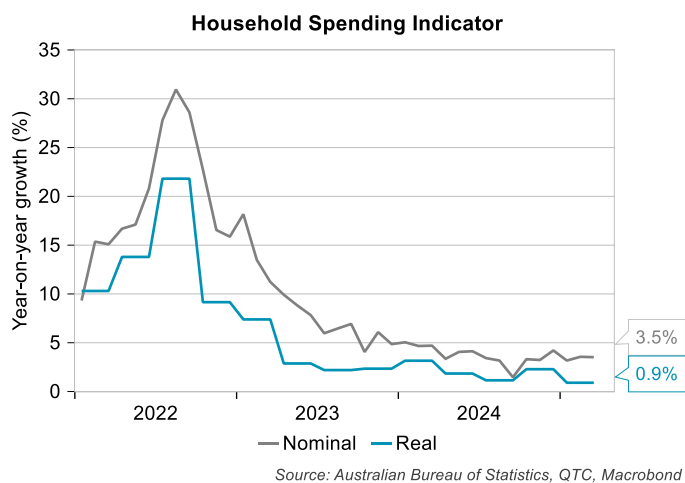


CHART 2: THREE-YEAR CONSUMER INFLATION EXPECTATIONS IN THE US REACHED THE HIGHEST LEVEL SINCE JULY 2022

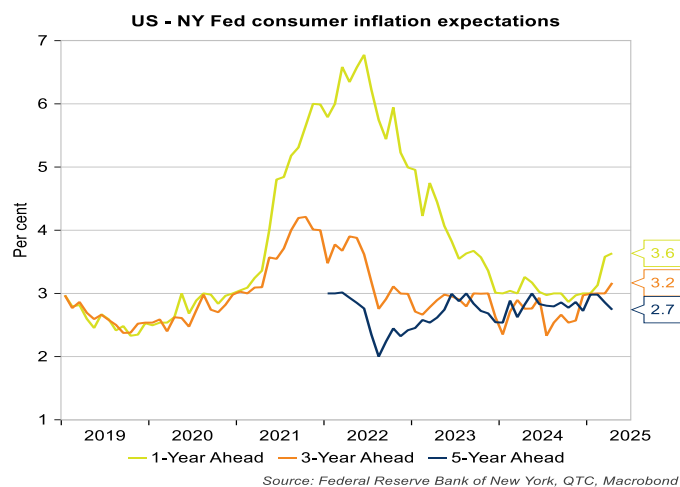


CHART 3: THE US LABOUR MARKET REMAINS ROBUST, WITH NON-FARM PAYROLLS POSTING SOLID GAINS IN MARCH AND APRIL ...

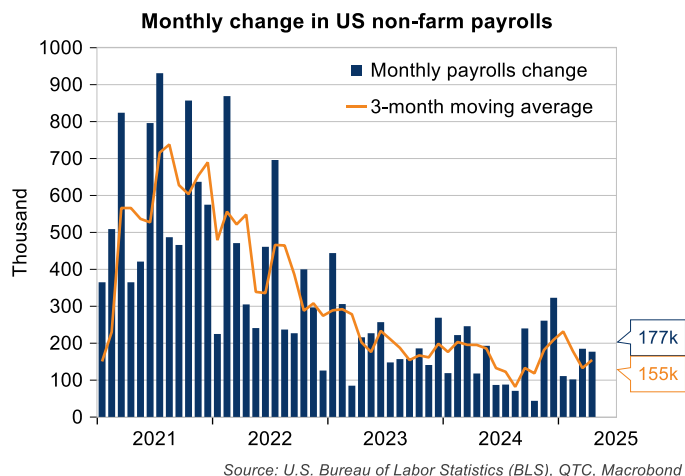
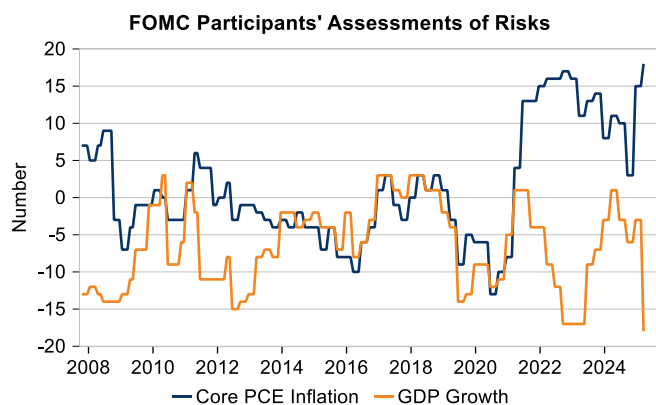


CHART 4: ... AND THE US UNEMPLOYMENT RATE REMAINING AT A HISTORICALLY LOW LEVEL

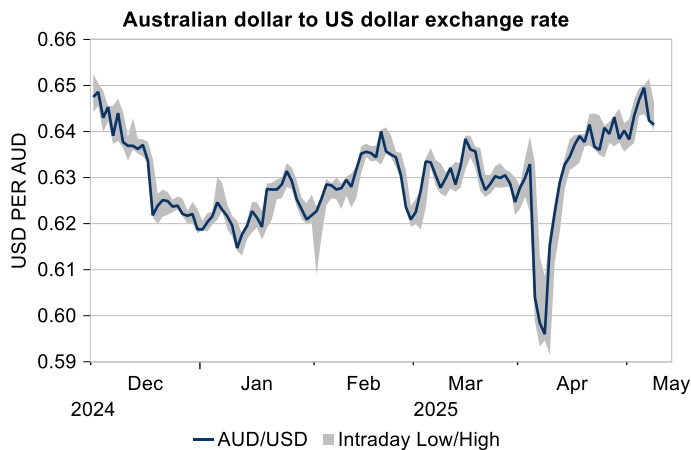


CHART 5: THE FED'S FOMC MEMBERS CONTINUE TO SEE UPSIDE RISKS TO INFLATION AND DOWNSIDE RISKS TO ECONOMIC ACTIVITY



Note: These lines represent the difference between the number of FOMC participants who see upside risks less those who see downside risks

CHART 6: AUD/USD TOUCHED 0.65 FOR THE FIRST TIME SINCE EARLY DECEMBER 2024, THOUGH THE GAINS LARGELY REVERSED POST-FOMC



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)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.57	6	-2	-76
	NSWTC	3.56	5	-5	-75
	TCV	3.62	5	-1	-74
	WATC	3.50	6	-3	-78
	Australian Government	3.55	5	-3	-76
	US Government	3.62	6	-2	-74
5 Year	QTC	3.35	6	2	-58
	NSWTC	3.87	19	11	-75
	TCV	3.95	6	-3	-51
	WATC	3.94	4	-5	-52
	Australian Government	4.00	4	-2	-49
	US Government	3.86	6	-3	-55
7 Year	QTC	3.92	4	-5	-54
	NSWTC	4.04	4	-4	-44
	TCV	3.56	4	1	-42
	WATC	4.00	19	8	-47
	Australian Government	4.40	6	-6	-28
	US Government	4.38	4	-8	-33
10 Year	QTC	4.45	4	-5	-31
	NSWTC	4.28	5	-7	-33
	TCV	4.39	5	-6	-29
	WATC	4.50	5	-6	-22
	Australian Government	3.88	4	-0	-25
	US Government	4.18	18	9	-27

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.64	0.61	7.15	-3.00
AUD/EUR	0.57	1.17	4.33	-6.90
AUD/GBP	0.48	0.72	3.17	-8.50
AUD/JPY	93.43	0.83	6.56	-9.17
AUD/CAD	0.89	1.09	5.01	-1.35
AUD/NZD	1.08	0.42	0.69	-1.22
AUD/SGD	0.83	-0.25	2.96	-6.80
AUD/HKD	4.98	0.82	7.19	-3.50
AUD/KRW	890.44	-2.66	0.43	-1.64
AUD/CNY	4.63	-0.23	5.82	-3.06
AUD/INR	54.96	1.73	5.43	0.09
MAJOR CURRENCIES				
EUR/USD	1.12	-0.58	2.70	4.17
GBP/USD	1.33	-0.11	3.86	6.01
USD/JPY	145.73	0.23	-0.55	-6.36
USD/CHF	0.83	-0.02	-2.56	-8.36
USD/CNY	7.24	-0.44	-1.32	0.28

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	62.93	1.29	0.18	-24.98
Gold	3,310.44	2.82	10.86	42.09
Copper	9,419.50	2.32	8.83	-4.90
Iron Ore	96.52	1.53	2.72	-10.20

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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