

Weekly Economics and Markets Review

- The composition of inflationary pressures in August would be uncomfortable for the RBA with firm rises in services prices, particularly those in the market sector. This may lead the Bank to question the sustainability of the moderation in core inflation and could lead a shift to communications at its meeting next week.
- Donald Trump's appointee to the US Federal Open Markets Committee (FOMC), Stephen Miran, acknowledged that he is forecasting much lower interest rates than other FOMC participants. Others' caution with respect to rate cuts at the current time was evident in remarks made in various speeches over the week.

Week in review

Domestic

- The annual rate of headline inflation in the monthly CPI edged up to 3.0 per cent in August, from 2.8 per cent the month before. Annual growth in the monthly trimmed-mean measure dipped one-tenth to 2.6 per cent, though this reflects base effects more than an easing in underlying inflationary pressures. Indeed, price growth for services – and especially those in the market sector – picked up in the month. This included firmness in housing and insurance costs after both had moderated in the first half of the year. It is captured by an acceleration in measures such as the CPI excluding electricity, travel, and volatile items which, over the past six months, is annualising at 3.5 per cent and has ticked up to three per cent over the past 12 months.
- In testifying to the House of Representatives Standing Committee on Economics – before the August CPI release – RBA Governor Michelle Bullock noted that, since the August meeting, domestic data have been *'broadly in line with the Bank's expectations or if anything slightly stronger'*. Bullock noted that *'the Board will discuss this and other developments at our meeting next week'*. This does raise the possibility of the Bank continuing its tilt towards more hawkish commentary in communications following the October meeting.
- Job vacancies fell 2.7 per cent over the three months to August with this driven by the private sector with vacancies in the public sector lifting over the quarter.

Offshore

- In central bank news:
 - President Trump's appointee to the FOMC, Stephen Miran, claimed that he did not promise the President he would vote a particular way on interest rates. Miran acknowledged that the forecast he submitted to the FOMC's September meeting was for rates to fall by 150 basis points this year. There was an even mix amongst other participants at the meeting between a further 25 basis points (or less) or 50 basis points of rate cuts this year.
 - The views of other FOMC participants were more mixed. Hammack, Musalem, Bostic, and Goolsbee all expressed concern about persistent above-target inflation while suggesting caution with respect to rate cuts in this context. Fed Chair Powell acknowledged risks to both the labour market and inflation, calling it a *'challenging situation'*. Fed Governor Bowman, a candidate to replace Chair Powell, continued to indicate concern around labour market conditions and suggested that these warranted further easing.
 - The Bank of Japan left its policy rate unchanged at 0.75 per cent. Sweden's Riksbank cut its policy rate by 25 basis points to 1.75 per cent, against expectations for a hold. Meanwhile, the First Deputy Governor of the Riksbank was announced as the new Governor of the RBNZ.
- In other news:
 - Senate Republicans and Democrats each blocked proposals put forward by their opponents to extend government funding beyond this month. With no budget being passed or arrangements to extend existing funding, this increases the likelihood of a government shutdown on 1 October.
 - President Trump delivered a strongly worded speech at the UN as part of a summit to celebrate the 80th anniversary of the organisation. In his speech the President strongly criticised migration and climate policies while also supporting NATO's right to shoot down any Russian aircraft violating NATO country airspace and supporting Ukraine in its efforts to reclaim territory but suggesting that Europe needs to play a greater role in supporting Ukraine.
- In terms of economic data:
 - According to S&P Global PMIs, manufacturing conditions deteriorated at a faster pace in the UK, went from improving to getting worse in the euro area and improved at a slower pace in the US. Service sector conditions improved at a faster pace in the euro area but at a slower pace in the US and UK.
 - US real GDP was revised up by half a percentage point to an annualised rate of 3.8 per cent in Q2. This reflects upwards revisions to (services consumption), business investment and government spending, more than offsetting downwards revisions to residential investment.

Markets

Australian Government bond yields rose this week on the August CPI report which revealed notable inflationary pressures in services prices. Markets are now just pricing in a 46 per cent chance of a rate cut in November. This compares to a 64 per cent chance before the data.

Economic and Market Calendar

DATE	DETAILS
Domestic	Monday: Building approvals & private sector credit (both Aug) Tuesday: RBA meeting (Sep) Thursday: International goods trade & household spending (both Aug)
Offshore	US: Core PCE inflation (Aug), JOLTS (Aug), Conference Board Consumer Confidence (Sep), ISM Manufacturing (Sep) Other: CPI (EZ, Sep), PMIs (CN, Sep)

Economic and Financial Market Charts

CHART 1: THE ABS' MONTHLY CPI IMPLIES A STEEP PICK-UP IN ITS QUARTERLY MEASURE

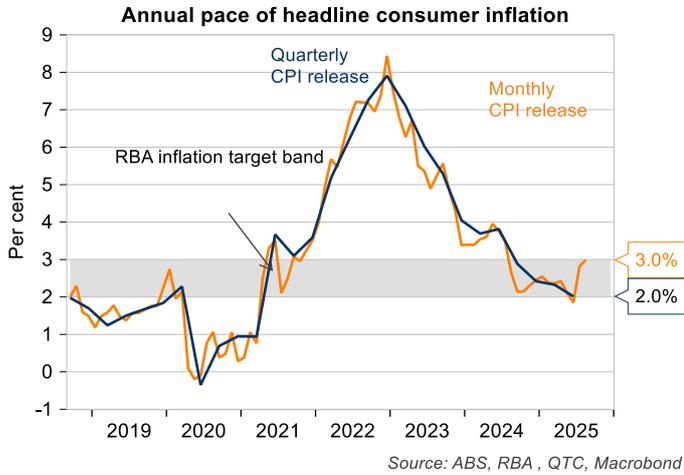


CHART 2: CORE INFLATION REMAINS FIRM AND QUARTERLY TRIMMED MEAN INFLATION LOOKS SET TO EXCEED THE RBA'S LATEST FORECAST

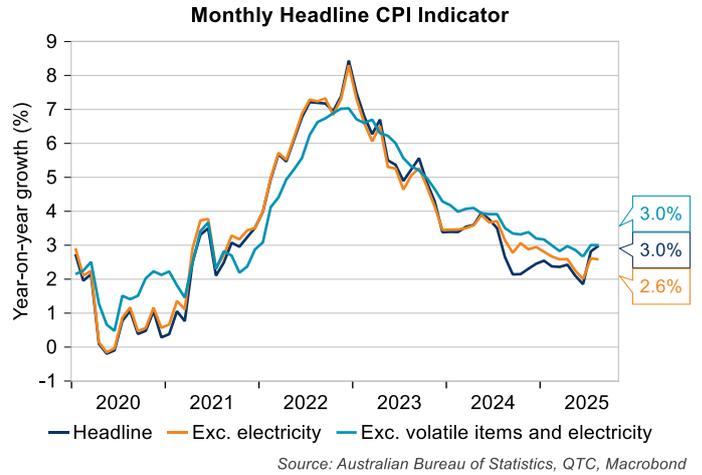
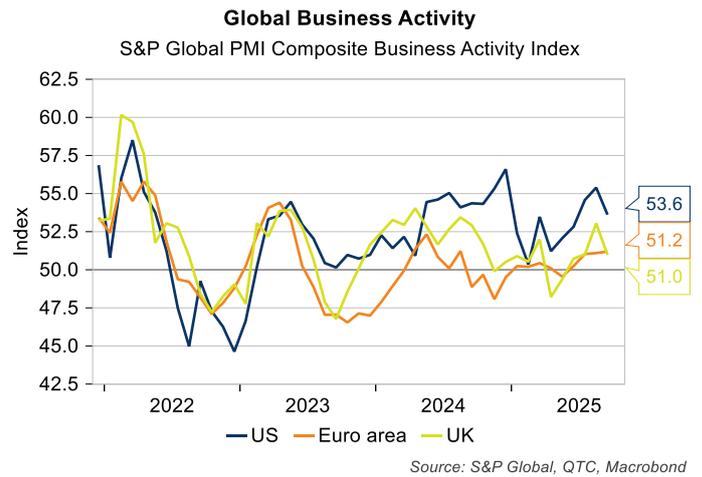


CHART 3: JOB VACANCIES FELL IN AUSTRALIA IN Q3 TO BE BACK BELOW THE PRE-COVID TREND



CHART 4: READINGS ON THE MANUFACTURING AND SERVICES SECTORS GLOBALLY WERE ON THE SOFT SIDE IN SEPTEMBER



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	3.76	16	16	3
	NSWTC	3.75	17	17	2
	TCV	3.77	17	17	-0
	WATC	3.71	16	16	2
	Australian Government	3.54	17	18	8
	US Government	3.66	11	4	11
5 Year	QTC	4.08	15	14	14
	NSWTC	4.06	15	12	11
	TCV	4.11	14	12	12
	WATC	4.00	15	13	10
	Australian Government	3.73	17	15	20
	US Government	3.76	10	2	20
7 Year	QTC	4.47	12	8	23
	NSWTC	4.44	13	7	19
	TCV	4.48	12	6	17
	WATC	4.36	12	7	21
	Australian Government	4.01	16	11	29
	US Government	3.94	9	-3	28
10 Year	QTC	4.97	11	3	33
	NSWTC	4.91	11	2	25
	TCV	4.97	10	1	25
	WATC	4.79	11	7	30
	Australian Government	4.34	16	7	42
	US Government	4.17	7	-9	38

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-1.13	0.72	-4.98
AUD/EUR	0.56	-0.18	0.54	-9.07
AUD/GBP	0.49	0.44	1.77	-4.48
AUD/JPY	98.02	0.16	2.43	-1.74
AUD/CAD	0.91	-0.19	1.48	-1.79
AUD/NZD	1.13	0.75	2.32	4.03
AUD/SGD	0.85	-0.22	1.41	-4.22
AUD/HKD	5.09	-1.10	0.55	-4.95
AUD/KRW	921.93	0.35	1.84	1.60
AUD/CNY	4.66	-0.95	0.34	-3.64
AUD/INR	58.50	-0.24	2.87	1.85
MAJOR CURRENCIES				
EUR/USD	1.17	-0.98	0.19	4.49
GBP/USD	1.33	-1.57	-1.02	-0.52
USD/JPY	149.82	1.32	1.70	3.42
USD/CHF	0.80	1.07	-0.31	-5.45
USD/CNY	7.13	0.30	-0.25	1.77

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	69.64	3.26	3.60	-2.74
Gold	3,733.81	2.40	10.37	39.93
Copper	10,336.50	3.99	5.08	2.54
Iron Ore	105.89	0.48	3.46	8.58

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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