

Weekly Economics and Markets Review

- Consumer sentiment in Australia declined for the second straight month in October, driven by sharp falls in perceptions of family finances amid rising expectations for interest rates, though the signal on this was not as clear as one might expect.
- Internationally, US inflation expectations edged higher, service sector activity softened, and the Fed signalled further rate cuts. Meanwhile, the RBNZ delivered a larger-than-expected rate cut and political developments in Japan and France added to global uncertainty.

Week in review

Domestic

- Consumer sentiment declined for the second straight month in October with the 3.5 per cent fall coming on the heels of a 3.1 per cent dip in September. There were sharp declines in consumer's perceptions of current (-4.8 per cent) and future (-9.9 per cent) family finances with more modest declines in perceptions of current economic conditions (-2.5 per cent) and whether it is a good time to buy a major household item (-1.1 per cent). The result was a somewhat confusing one as it came in the wake of less dovish commentary from the RBA at its September meeting. This was consistent with a 15.6 per cent surge in consumer's expectations for interest rate but not with the observation that respondents surveyed after the September RBA meeting were more optimistic on further interest rate cuts than those surveyed before.

Offshore

- In terms of economic data:

– In the US:

- > According to the New York Fed's *Survey of Consumer Expectations*, the median expectation for inflation one year ahead increased to 3.4 per cent in September, up from 3.2 per cent. At the five-year horizon, expectations also edged higher to 3.0 per cent from 2.9 per cent, while the three-year outlook remained unchanged at 3.0 per cent. The survey showed a narrowing in the range of inflation expectations among respondents at both the one-year and five-year horizons, indicating reduced disagreement. However, the range remained steady at the three-year point.
- > According to the ISM, service sector conditions eased in September and are now neither getting worse or better. This was after they had been improving the month before. Key measures within the report (business activity and new orders) had large declines, though encouragingly, perceptions on employment edged higher.
- > No labour market data was released for September given the government shutdown.

- In central bank news:

- The Minutes to the FOMC's September meeting revealed that, on monetary policy, most participants believe further rate cut will likely be appropriate before the end of the year. Some participants urged caution due to financial conditions being relatively easy already. On the labour market, certain indicators (for example, the unemployment rate, job openings, wage growth) were noted as not having sharply deteriorated. That said, other measures (for example, turnover, the breadth of job gains across industries, and unemployment rates for certain groups in society) were cited as pointing to rising downside risks to conditions. On inflation, a majority see inflation risks as being skewed to the upside given recent data, tariffs and the possibility of elevated inflation impacting long-term inflation expectations.
- The Reserve Bank of New Zealand lowered the Official Cash Rate (OCR) by 50 basis points to 2.50 per cent at its October meeting in a move that was surprisingly large relative to expectations. The accompanying statement maintained a clear bias toward further easing, with the Committee stating it '*remains open to further reductions in the OCR as required for inflation to settle sustainably near the 2 per cent target mid-point in the medium term.*' This was a slight tweak to the prior statement which noted that '*if medium-term inflation pressures continue to ease as expected, there is scope to lower the OCR further.*'

- In other news:

- Sanae Takaichi was elected as leader of the LDP in Japan, though will need the support of a minor party in parliament to become the next Prime Minister. Takaichi's election was somewhat of a surprise result with markets in Japan and beyond noting her disposition towards easier policy settings. This is consistent with a steeper yield curve on the back of lower interest rates (monetary policy) and higher government spending (fiscal policy) which is what was seen in response.
- Newly appointed French Prime Minister Sébastien Lecornu resigned after less than a month in charge. He is the third PM to leave office in less than a year with his government having the shortest tenure in modern French history (27 days, with the second shortest being Michel Barnier – his predecessor – at 90 days). Lecornu resigned due to a perceived lack of support from other parties in the parliament which made governing, including passing a budget, difficult.
- President Trump announced a 25 per cent tariff on medium and heavy-duty trucks.

Markets

Australian Government bond yields were little changed this week with those in the US rising by slightly more. Overall market moves were limited given the lack of data released, including in the US due to the government shutdown.

Economic and Market Calendar

| DATE | DETAILS |
|----------|---|
| Domestic | Tuesday: NAB Business Survey (Sep), RBA Minutes (Sep) Thursday: Labour Force (Sep) |
| Offshore | CN: Credit, trade, CPI, PPI (all Sep) US: University of Michigan Consumer Sentiment (Oct) US (data impacted by government shutdown): CPI & PPI (Sep), retail sales (Sep) |

Economic and Financial Market Charts

CHART 1: CONSUMER CONFIDENCE IN AUSTRALIA HAS SOFTENED IN RECENT MONTHS AFTER A FAIRLY STEADY INCREASE OVER THE PREVIOUS THREE YEARS...

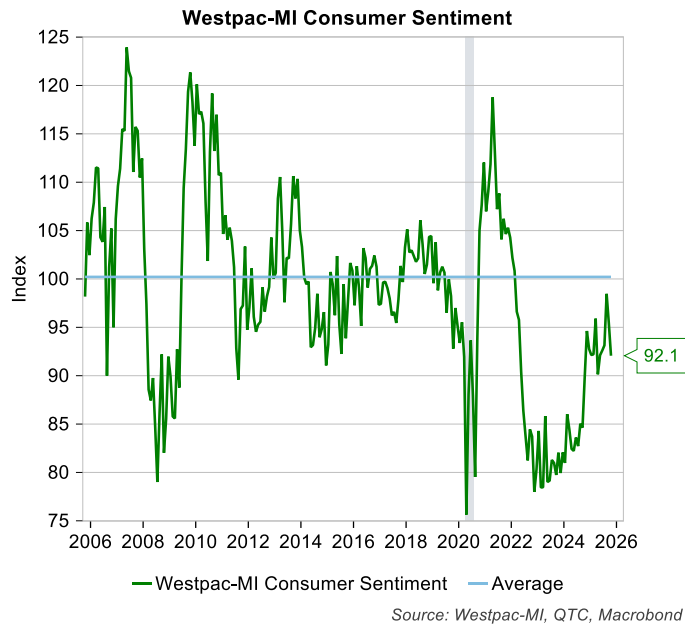


CHART 2: ...WITH THIS RECENT MODERATION TAKING CONFIDENCE FROM BEING IN THE TOP QUARTILE OF WHERE IT HAS BEEN AT THAT POINT OF AN RBA EASING CYCLE TO NOW BEING AT THE MEDIAN OF THESE CYCLES

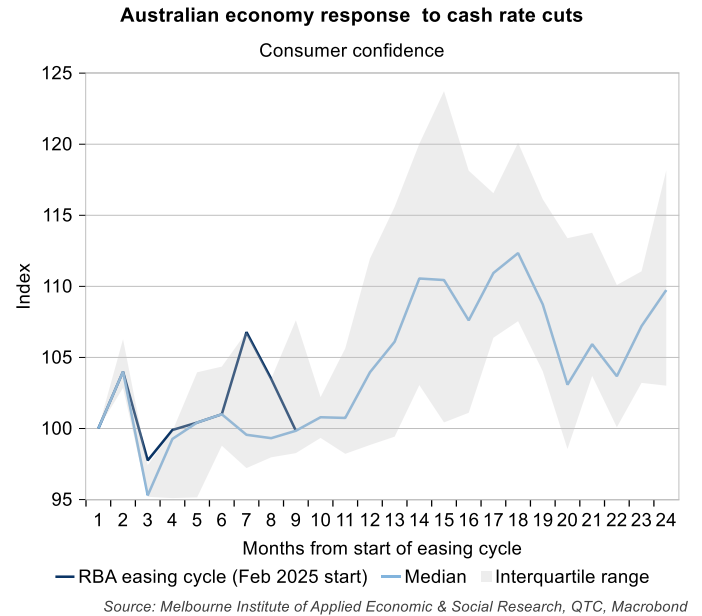


CHART 3: SERVICE SECTOR CONDITIONS MODERATED IN SEPTEMBER IN THE US WITH THE SECTOR STILL DOING BETTER THAN MANUFACTURING

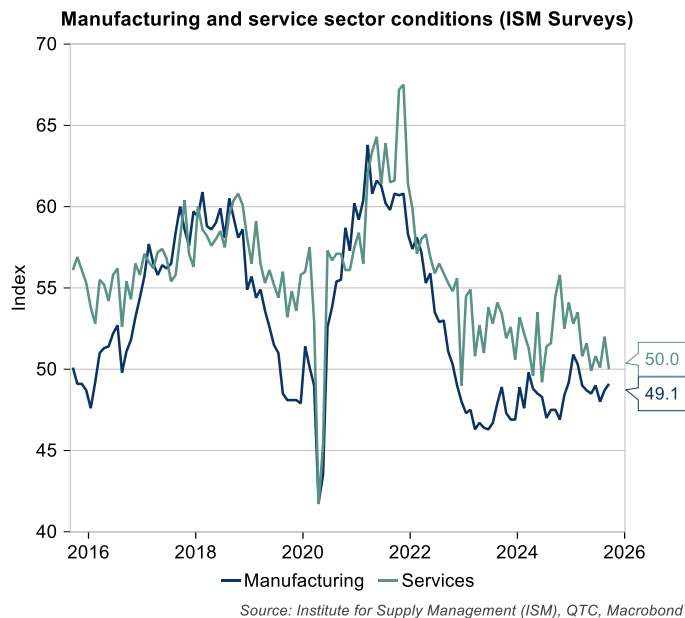
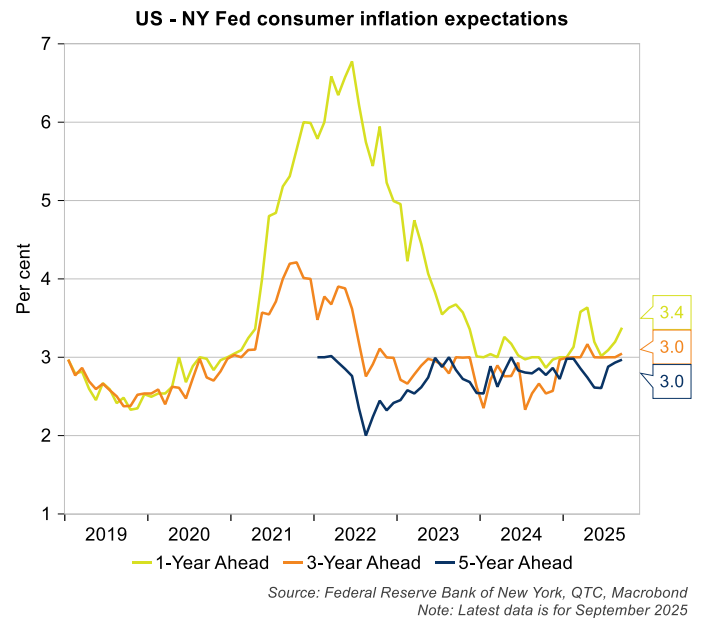


CHART 4: INFLATION EXPECTATIONS IN THE US ARE FAIRLY WELL BEHAVED, THOUGH ARE STILL ABOVE THE FED'S TARGET



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 | 0 | 12 | -27 |
| | NSWTC | 3.76 | 0 | 13 | -29 |
| | TCV | 3.79 | 1 | 13 | -29 |
| | WATC | 3.72 | 0 | 13 | -26 |
| | Australian Government | 3.55 | 2 | 14 | -19 |
| | US Government | 3.61 | 6 | 9 | -26 |
| 5 Year | QTC | 4.06 | -1 | 8 | -19 |
| | NSWTC | 4.05 | -1 | 8 | -21 |
| | TCV | 4.11 | -1 | 7 | -21 |
| | WATC | 3.99 | -0 | 8 | -22 |
| | Australian Government | 3.72 | 1 | 11 | -10 |
| | US Government | 3.74 | 7 | 12 | -15 |
| 7 Year | QTC | 4.44 | -1 | 3 | -11 |
| | NSWTC | 4.42 | -1 | 4 | -14 |
| | TCV | 4.45 | -1 | 2 | -17 |
| | WATC | 4.33 | -1 | 4 | -14 |
| | Australian Government | 3.99 | 1 | 9 | -0 |
| | US Government | 3.92 | 6 | 10 | -4 |
| 10 Year | QTC | 4.94 | -2 | -1 | -0 |
| | NSWTC | 4.88 | -1 | 0 | -7 |
| | TCV | 4.94 | -2 | -2 | -8 |
| | WATC | 4.77 | -1 | 0 | -3 |
| | Australian Government | 4.32 | 1 | 7 | 15 |
| | US Government | 4.14 | 6 | 5 | 8 |

| EQUITIES | RATE | CHANGE (PER CENT) | | |
|------------------|--------|-------------------|---------|--------|
| | | 1 WEEK | 1 MONTH | 1 YEAR |
| AUD/USD | 0.65 | -0.68 | -0.64 | -2.52 |
| AUD/EUR | 0.57 | 0.68 | 0.75 | -8.03 |
| AUD/GBP | 0.49 | 0.40 | 1.16 | -4.43 |
| AUD/JPY | 100.20 | 3.26 | 3.23 | 0.14 |
| AUD/CAD | 0.92 | -0.29 | 0.71 | -0.71 |
| AUD/NZD | 1.14 | 0.67 | 2.64 | 3.10 |
| AUD/SGD | 0.85 | 0.12 | 0.67 | -3.23 |
| AUD/HKD | 5.10 | -0.70 | -0.72 | -2.41 |
| AUD/KRW | 933.94 | 0.75 | 2.11 | 2.57 |
| AUD/CNY | 4.67 | -0.55 | -0.52 | -2.02 |
| AUD/INR | 58.55 | -0.19 | 0.39 | 3.68 |
| MAJOR CURRENCIES | | | | |
| EUR/USD | 1.16 | -0.94 | -0.97 | 6.41 |
| GBP/USD | 1.34 | -0.39 | -1.09 | 2.70 |
| USD/JPY | 152.76 | 3.80 | 3.73 | 2.58 |
| USD/CHF | 0.80 | 0.51 | 0.67 | -6.49 |
| USD/CNY | 7.13 | 0.15 | 0.13 | 0.74 |

| MAJOR COMMODITIES | PRICE (USD) | 1 WEEK | 1 MONTH | 1 YEAR |
|-------------------|-------------|--------|---------|--------|
| Brent Crude Oil | 65.20 | 1.70 | -1.79 | -17.88 |
| Gold | 3,968.67 | 3.22 | 8.88 | 51.52 |
| Copper | 10,669.00 | 1.70 | 7.62 | 9.73 |
| Iron Ore | 104.86 | 1.02 | -1.92 | 3.33 |

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.