

Weekly Economics and Markets Review

- US President Trump threatened to impose 100 per cent tariffs on goods imports from China to the US. Trump also suggested he saw no need to attend an upcoming meeting with Chinese leader Xi Jinping. Over the following days both the President and US officials moderated these comments.

Week in review

Domestic

- It was a busy week of public remarks from RBA officials.
 - The Minutes to the RBA's September meeting highlighted that policy was 'probably' still 'a little restrictive'. This, the Bank's forecasts, and the flow of data and were factors behind the decision to keep rates on hold on the month.
 - RBA Assistant Governor (Financial Markets) Chris Kent expanded on how the Bank assesses financial conditions, including with reference to comparing the cash rate to estimates of the neutral rate. On this, Kent presented charts which showed estimates of the neutral rate to be in a two to four per cent range, with the average around – or slightly above – three per cent.
 - RBA Assistant Governor (Economic), Sarah Hunter, acknowledged upside risks to the RBA's inflation forecasts given strength in housing and market sector services prices. Hunter's point on inflation was echoed by RBA Governor Michelle Bullock who touched on a range of topics in a 'fire side chat', though mostly echoed previous commentary from the Bank or its officials.
- Employment increased by 14,900 in September. This was less than expected (20,000), undershooting for the fifth month in a row. Modest jobs growth and a tick higher in the participation rate (up one-tenth to 67.0 per cent) saw the unemployment rate lift to 4.5 per cent from 4.3 per cent. The consensus expectation had been that the unemployment rate would be unchanged on the month.
- Business conditions were unchanged in September according to the NAB Survey. Meanwhile, business confidence continued to increase. Most measures of price pressures rose on the month.

Offshore

- In terms of economic data:
 - In **China**, the annual rate of both export and import growth increased by more than anticipated in September. Base effects and the timing of the mid-autumn festival were cited by analysts as factors which may have boosted the export figures. Both CPI and PPI deflation were less pronounced in September at -0.3 per cent and -2.3 per cent respectively. New lending was weaker than expected with annual growth in loans outstanding reaching yet another historic low.
 - In the **UK**, the unemployment rate edged higher against expectations that it would be steady. Bank of England Governor Bailey pointed to signs of softening in the labour market.

In central bank news:

- Fed Chair Powell indicated that the Bank would stop reducing its balance sheet once reserves were somewhat above the level considered to be 'ample' for the functioning of the financial system. This point could be reached in the coming months he said. On the labour market, Powell noted that 'downside risks to employment appear to have risen' while on inflation, that goods price increases 'primarily reflect tariffs rather than broader inflationary pressures'.
- The five people shortlisted to replace Jerome Powell as Fed Chair are Kevin Hassett, Kevin Warsh, Christopher Waller, Michelle Bowman and Rick Rieder. This list will be further trimmed to three to four after the Thanksgiving holiday in late November.

In other news:

- President Donald Trump announced plans for an additional 100 per cent tariff on Chinese goods imports as well as export controls on 'any and all critical software'. This is set to commence on 1 November and came shortly after the President said he saw no need to attend an upcoming meeting with Chinese leader Xi Jinping.
- President Trump's threat of higher tariffs came after China took a range of actions in recent months against the US including adding new port fees on US ships, ceasing purchases of US soybeans and starting an antitrust investigation into Qualcomm – a US semiconductor company. However, a bigger factor behind the move appears to have been the recent announcement that foreign companies are now required to get permits to export products which contain even traces of certain rare earths sourced from China. This was perceived to be an effort to contain US activities in semiconductors, AI, high-tech manufacturing and advanced military equipment.
- China's Commerce Ministry has confirmed that the requirement for export approvals is not a ban on exports and applications that meet requirements will be approved. It said that the country will 'resolutely take corresponding measures to safeguard its legitimate rights and interests' if the US goes ahead with the tariffs. China considers its recent moves as defensive following actions taken by the US targeting China following talks between the two countries in Madrid in September. These actions include the US Commerce Department closing loopholes in current rules so as to block China from accessing cutting-edge chips.
- A few days after threatening higher tariffs, President Trump posted on social media 'Don't worry about China, it will all be fine!... the USA wants to help China, not hurt it!!!'. Staff level meetings between the countries and US economic and trade officials are set to take place at meetings of the IMF and World Bank.
- Four days after he resigned, Sebastien Lecornu was reappointed as French PM. The budget must be adopted by the end of the year or else an emergency funding bill may be required to ensure continued government operations. There are hopes Lecornu may have more luck with passing the budget. This comes as the Socialist Party said it would not support no confidence votes in the Lecornu government after it flagged an intention to not proceed with a reform to lift the retirement age. Two confidence votes against the PM failed.

Markets

This week Australian Government three-year bond yields fell 18 basis points to 3.37 per cent and 10-year bond yields by 19 basis points to 4.13 per cent. These moves came off the back of the US threatening a steep rise in tariffs against China and a weaker than expected domestic Labour Force Survey.

Economic and Market Calendar

DATE	DETAILS
Domestic	No major data released
Offshore	US: Data delayed by government shutdown China: Industrial production, fixed asset investment, retail sales, property sector data (all Sep), GDP (Q3) Other: CPI (JP, CA & UK, all Sep + NZ for Q3), S&P Global PMIs

Economic and Financial Market Charts

CHART 1: BUSINESS CONDITIONS AND CONFIDENCE HAVE BEEN IMPROVING IN RECENT MONTHS, THOUGH IN SEPTEMBER IT WAS ONLY THE LATTER THAT ROSE

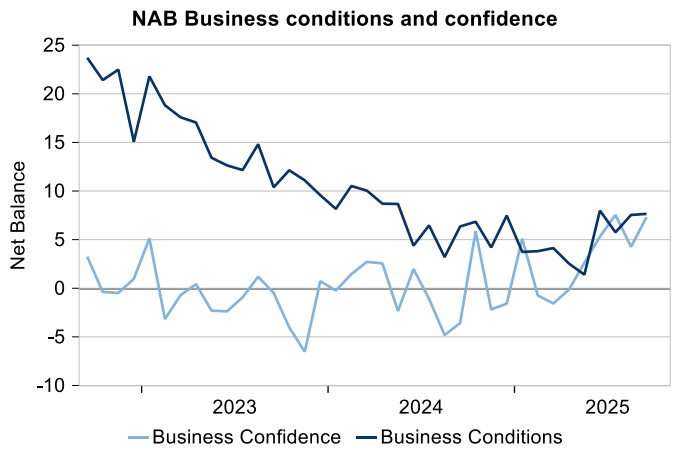


CHART 2: INPUT COSTS AND OUTPUT PRICES ROSE FOR AUSTRALIAN BUSINESSES IN SEPTEMBER, THOUGH LABOUR COSTS ACTUALLY EASED

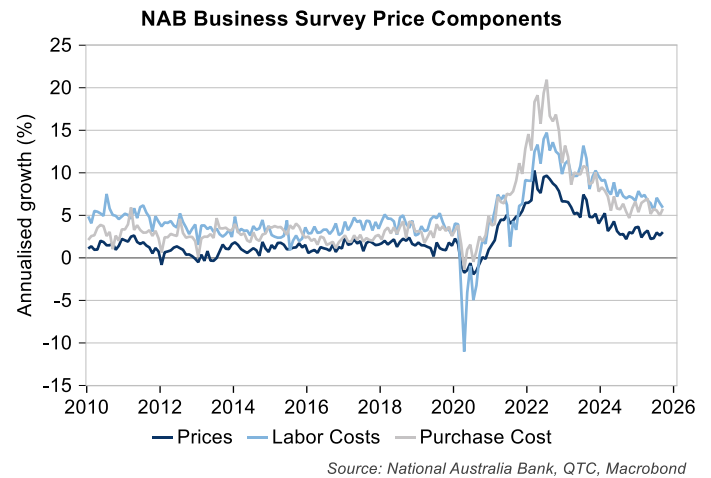


CHART 3: FOR THE FIFTH MONTH IN A ROW JOBS GROWTH UNDERSHOT CONSENSUS EXPECTATIONS WITH THIS, AND A RISE IN THE PARTICIPATION RATE...

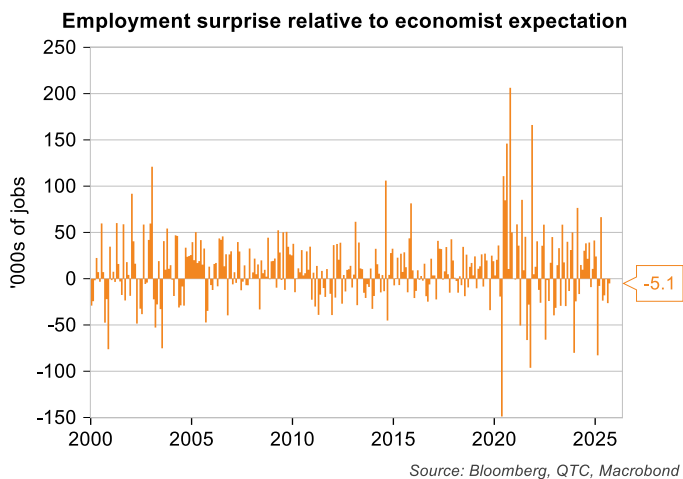


CHART 4: ...ENOUGH TO SEE THE UNEMPLOYMENT RATE LIFT TO ITS HIGHEST LEVEL SINCE LATE 2021, RATHER THAN REMAIN UNCHANGED AS HAD BEEN EXPECTED



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	3.60	-16	-3	-45
	NSWTC	3.60	-16	-3	-46
	TCV	3.63	-16	-2	-47
	WATC	3.56	-16	-3	-44
	Australian Government	3.37	-18	-4	-39
	US Government	3.43	-18	-4	-46
5 Year	QTC	3.92	-14	-6	-36
	NSWTC	3.90	-15	-6	-37
	TCV	3.96	-15	-6	-36
	WATC	3.84	-15	-6	-40
	Australian Government	3.54	-18	-6	-30
	US Government	3.55	-19	-4	-35
7 Year	QTC	4.30	-14	-10	-27
	NSWTC	4.28	-14	-8	-29
	TCV	4.32	-13	-9	-31
	WATC	4.19	-15	-9	-30
	Australian Government	3.81	-18	-8	-20
	US Government	3.74	-18	-3	-25
10 Year	QTC	4.80	-14	-11	-17
	NSWTC	4.74	-15	-10	-23
	TCV	4.80	-14	-10	-23
	WATC	4.62	-15	-9	-19
	Australian Government	4.13	-19	-8	-6
	US Government	3.97	-16	-5	-12

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-0.90	-2.89	-3.13
AUD/EUR	0.56	-1.91	-1.33	-10.18
AUD/GBP	0.48	-1.87	-1.21	-6.12
AUD/JPY	97.62	-2.57	-0.20	-3.00
AUD/CAD	0.91	-0.73	-0.75	-1.34
AUD/NZD	1.13	-0.72	1.43	2.46
AUD/SGD	0.84	-1.30	-1.49	-4.60
AUD/HKD	5.04	-1.01	-3.00	-3.15
AUD/KRW	919.48	-1.55	-0.25	0.03
AUD/CNY	4.62	-0.98	-2.84	-3.13
AUD/INR	57.15	-2.39	-2.67	1.64
MAJOR CURRENCIES				
EUR/USD	1.16	0.71	-1.90	7.53
GBP/USD	1.34	0.73	-1.95	2.93
USD/JPY	151.19	-1.19	3.30	0.65
USD/CHF	0.80	-1.24	1.32	-7.99
USD/CNY	7.13	-0.04	0.18	0.04

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	61.01	-6.46	-10.90	-18.05
Gold	4,282.66	7.91	16.07	59.07
Copper	10,641.00	-2.08	5.08	11.82
Iron Ore	104.93	0.07	-1.07	7.18

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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