

# Weekly Economics and Markets Review

- The RBA left the cash rate on hold at 3.6% in September, as expected, though was slightly less dovish in some of its commentary in the post-meeting media release and press conference.
- It was a busy week in the US with President Trump again ramping up actual or potential trade policy measures, being blocked in his appeal to sack Federal Reserve Governor Lisa Cook (the case will be heard starting in January) and the US Government shutting down as it hasn't passed budget bills for the new fiscal year.

## Week in review

### Domestic

- The RBA left the cash rate on hold at 3.6% in September, as expected.
  - On *economic activity*, the Board noted private demand is '...recovering a little more rapidly than expected'. On the *labour market*, the post-meeting statement removed earlier references to there being an easing in labour market conditions with these characterised as being 'stable' and still a 'little tight'. On *inflation*, the Board noted there were 'indications that inflation may be persistent in some areas', and that Q3 inflation may be higher than expected in the August SoMP. The Board will be 'attentive to the data and the evolving assessment of the outlook and risks'.
  - In the post-meeting press conference RBA Governor declined to reiterate the view that 'two slash three' more cuts would be needed for the RBA to get inflation to target. Instead, Bullock noted that there could be 'a couple more reductions [but there also] might not'. Bullock described policy as 'a little bit restrictive' vs 'somewhat restrictive' in the August minutes.
- The Australian Government's final budget outcome for 2024/25 was an underlying cash deficit of \$10 billion, considerably less than the \$27.6 billion deficit forecast in the March 2025/26 Budget. The deficit follows two years of budget surpluses, the first since just before the GFC. Despite the return to deficits, the underlying cash balance has improved by a cumulative \$209.4 billion relative to estimates in the 2022 Pre-election Economic and Fiscal Outlook. The better-than-expected result was largely driven by stronger revenue, supported by elevated commodity prices and robust labour market conditions. Expenditure was also slightly below forecast.
- Capital-city dwelling prices increased 0.9 per cent in September according to Cotality with the annual rate of growth lifting 0.6 percentage points to 4.3 per cent. Meanwhile, the number of residential building approvals fell 6.0 per cent in the month of August with the outcome was driven by a decline in the volatile high-density sector (-10.6 per cent), though softness was also evident in detached dwellings (-2.9 per cent).
- The value of household spending edged 0.1 per cent higher in August. This was the weakest monthly rise since April with various reasons being put forward for the softness including changing seasonal patterns for spending which haven't fully been accounted for yet by the ABS, higher inflation impacting purchasing power and households holding off on spending until the Black Friday sales in Q4.

### Offshore

- In terms of *economic data*:
  - US Core PCE inflation was 0.2 per cent in August to be 2.9 per cent over the year. Core goods prices fell 0.1 per cent while core services prices rose 0.3 per cent. Core services prices excluding housing rose 0.3%, while market-based core prices lifted 0.15 per cent. Annual euro area core inflation was unchanged at 2.3 per cent.
  - Manufacturing conditions in both the US and China moderated in September, albeit at a slower pace than previously. Consumer confidence in the US fell in September on declines in consumer perceptions of both current but also future conditions. Perceptions of how difficult it is to get a job were the weakest since February 2021 while 12 month ahead inflation expectations eased slightly.
- In *central bank* news:
  - The Supreme Court blocked President Trump's appeal to immediately oust Fed Governor Lisa Cook. Instead, the Court will hear arguments on the case beginning in January. This means that Cook will continue to be able to participate in FOMC meetings for the time being.
- In *trade* news:
  - President Trump announced tariffs on branded drugs with exemptions for companies building U.S. manufacturing plants or countries with relevant trade agreements. Shortly thereafter, global pharmaceuticals giant Pfizer announced it had received an exemption by agreeing to sell drugs at a steep discount with prices to now more closely align with those for comparable products in other countries.
  - Trump also announced 10 per cent tariffs on various timber products and 25 per cent for some types of furniture. Tariffs of 100 per cent on foreign films and further 'substantial' duties on furniture were also foreshadowed.
- In other news:
  - The US Government shutdown due to the failure of Congress to pass a budget for the fiscal year that began on 1 October or a continuing resolution to allow services to continue to be funded at current levels.
  - The White House is withdrawing the nomination of E.J. Antoni to lead the Bureau of Labor Statistics. This follows criticism as to his partisanship and how this could impact the credibility of data produced by the BLS. According to the Whitehouse, the President plans to announce a new nominee 'very soon'.

## Markets

Australian Government bond yields were little changed this week as markets tread water ahead of and then following the US Government shutting down. Neither other news out of the US or a slight shift in the tone of commentary from the RBA was able to prompt a significant move.

### Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Tuesday:</b> Westpac-MI Consumer Sentiment (Oct)
Offshore	<b>US:</b> Non-farm payrolls (Sep – if shutdown ends), ISM Services (Sep), FOMC Minutes (Sep) <b>Other:</b> RBNZ (Oct)

## Economic and Financial Market Charts

CHART 1: COMPANY, INDIVIDUAL AND SUPER TAX WINDFALLS HAVE RECENTLY PUSH RECEIPTS AS A SHARE OF THE ECONOMY TO THE HIGHEST LEVEL SINCE THE INTRODUCTION OF THE GST IN FY01 AND CLOSE TO THE HIGHEST LEVEL SINCE FY87.

**Australia, General Government Budget, Receipts, Financial Year, Percent of GDP**

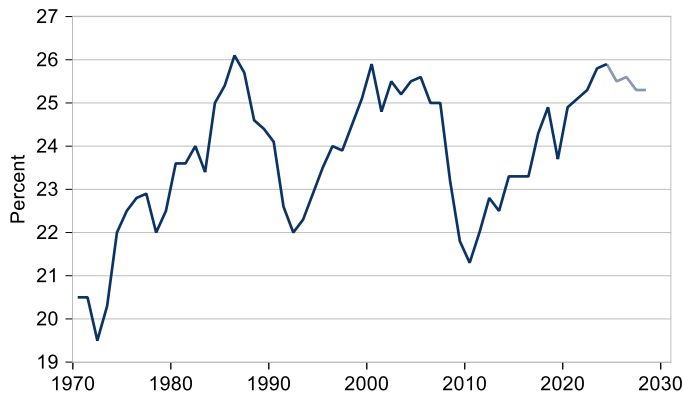


CHART 3: THE STALLING OF THE MODERATION IN US CORE PCE INFLATION, INCLUDING IN THE MARKET-BASED PRICES MEASURE, IS GIVING MOST FED OFFICIALS PAUSE FOR THOUGHT AS TO THE TIMING AND EXTENT OF FURTHER RATE CUTS.

**Key measures of Core PCE inflation**

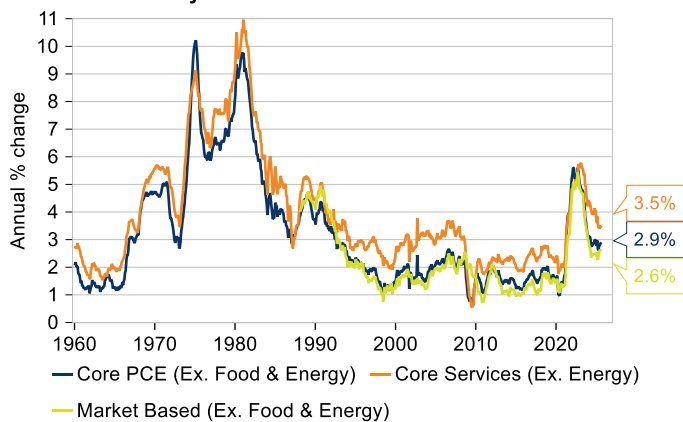


CHART 2: AUSTRALIAN DWELLING PRICES POSTED THEIR STRONGEST MONTHLY GAIN IN NEARLY TWO YEARS IN SEPTEMBER

**CoreLogic Median Dwelling Prices**

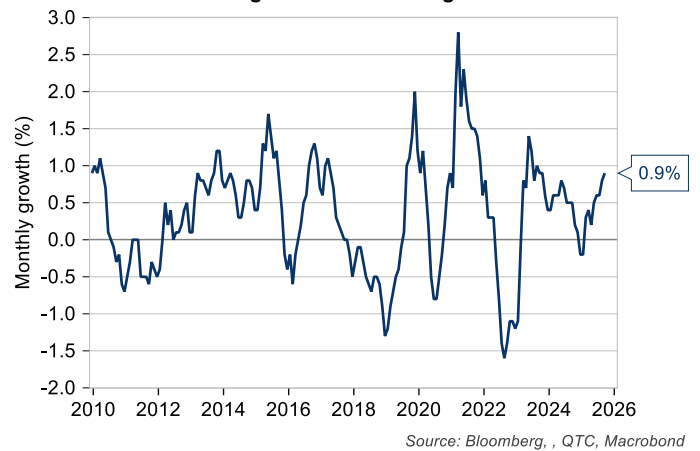
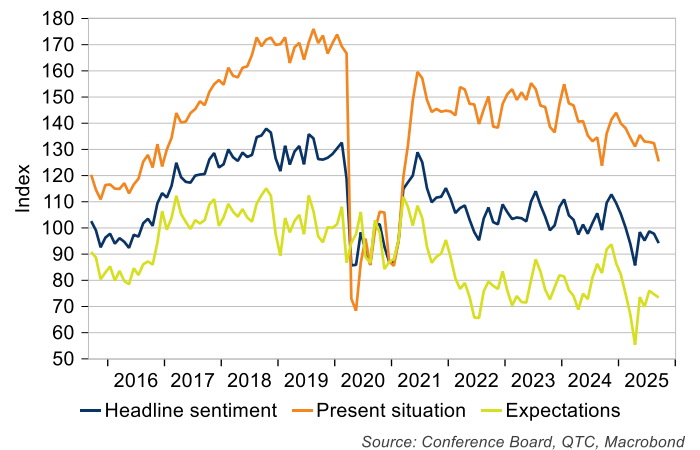


CHART 4: CONSUMER CONFIDENCE IN THE US HAS TRENDED LOWER OVER THE PAST FEW YEARS, A TREND WHICH CONTINUED IN SEPTEMBER WITH SOFTNESS IN PERCEPTIONS ABOUT CURRENT AND FUTURE CONDITIONS.

**Conference Board Index of Consumer Confidence**



## 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	11	-2
	NSWTC	3.75	0	11	-4
	TCV	3.78	1	12	-5
	WATC	3.71	1	11	-3
	Australian Government	3.53	-1	10	3
	US Government	3.55	-10	-5	-7
5 Year	QTC	4.07	-1	7	7
	NSWTC	4.05	-1	5	4
	TCV	4.12	0	6	6
	WATC	3.99	-1	6	3
	Australian Government	3.71	-2	6	13
	US Government	3.67	-9	-5	4
7 Year	QTC	4.45	-2	-0	15
	NSWTC	4.43	-1	0	12
	TCV	4.46	-2	-1	9
	WATC	4.34	-2	-1	12
	Australian Government	3.98	-3	1	22
	US Government	3.86	-8	-10	15
10 Year	QTC	4.96	-2	-6	27
	NSWTC	4.90	-1	-5	19
	TCV	4.96	-1	-7	18
	WATC	4.78	-1	-4	23
	Australian Government	4.31	-3	-3	37
	US Government	4.08	-9	-18	24

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.66	0.78	1.12	-3.74
AUD/EUR	0.56	0.39	0.52	-9.36
AUD/GBP	0.49	0.02	0.77	-5.99
AUD/JPY	97.03	-1.02	0.34	-3.44
AUD/CAD	0.92	1.00	2.53	-0.66
AUD/NZD	1.13	-0.05	1.92	2.88
AUD/SGD	0.85	0.40	1.20	-4.31
AUD/HKD	5.13	0.79	0.82	-3.53
AUD/KRW	927.00	0.55	1.87	1.36
AUD/CNY	4.69	0.65	0.89	-3.40
AUD/INR	58.66	0.27	2.20	2.02
MAJOR CURRENCIES				
EUR/USD	1.17	0.38	0.61	6.21
GBP/USD	1.34	0.76	0.35	2.40
USD/JPY	147.17	-1.76	-0.76	0.31
USD/CHF	0.80	-0.32	-0.71	-6.37
USD/CNY	7.12	-0.18	-0.24	1.08

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	64.28	-7.40	-7.03	-17.19
Gold	3,844.97	2.98	8.99	44.54
Copper	10,379.00	1.16	3.99	5.20
Iron Ore	103.80	-1.81	1.51	-1.94

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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