

Highlights this week

- In Australia, trimmed mean inflation eased close to the RBA's target range in Q4, increasing the probability of a cash rate cut in mid-February. NAB business conditions and confidence improved and business credit growth remained strong in December.
- Abroad, the FOMC kept the fed funds rate unchanged, but other G10 central banks that met this week continued their monetary policy easing. US GDP growth slowed in Q4, while euro area GDP stagnated. The NBS composite PMI pointed to renewed stagnation in China in January.

Highlights next week

- The major domestic events next week will be on Monday and will include retail trade for December, retail sales volumes for Q4, dwelling approvals for December, the Melbourne Institute inflation gauge for January, and CoreLogic home prices for January. The household spending indicator for December will be published on Tuesday, followed by the goods trade balance for December on Thursday.
- Key offshore events offshore will be US and Chinese PMIs as well as the US employment data; all these releases are for January.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	4.35 (0 pt)	O/N Interbank Cash	4.34 (0 pt)	USD 3-month	4.85 (0 pt)	ASX200	8543 (↓135 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	4.25 (↓7 pt)	2-yr T-Notes	4.22 (↓4 pt)	S&P500	6071 (↓48 pt)
Eurozone (Deposit)	2.75 (↓25 pt)	3-yr T-Bond	3.82 (↓10 pt)	10-yr T-Notes	4.54 (↓8 pt)	DJIA	44882 (↓317 pt)
UK	4.75 (0 pt)	10-yr T-Bond	4.41 (↓6 pt)	Jap 10-yr	1.23 (0 pt)	Nikkei	39554 (↓487 pt)
Japan (Target)	0.50 (0 pt)	3-yr WATC Bond	3.96 (↓11 pt)	UK 10-yr	4.56 (↓8 pt)	CSI300	3817 (↓23 pt)
China (1Y LPR)	3.10 (0 pt)	10-yr WATC Bond	5.01 (↓10 pt)	Ger 10-yr	2.52 (↓3 pt)	Stoxx600	539 (↑9 pt)

Changes are since the issue of 20 December Market Watch.

Financial Markets

Interest Rates

The FOMC kept the fed funds rate target range unchanged at 4.25-4.50% this week and moved to a wait-and-see mode.

They also removed the reference to easing labour market conditions and inflation making progress toward the target, causing some stir in the markets. However, Fed Chair Jerome Powell said at the press conference that this was just 'some clean-up', which helped stabilise sentiment.

The next fed funds rate cut is not fully priced in until July.

The European Central Bank, Bank of Canada and Swedish Riksbank all reduced their policy rates by 25bps this week.

At home, the probability of a cash rate cut at the RBA Board's February meeting has risen to around 90%, as the CPI report showed that trimmed mean inflation has returned close to the RBA target band of 2-3%.

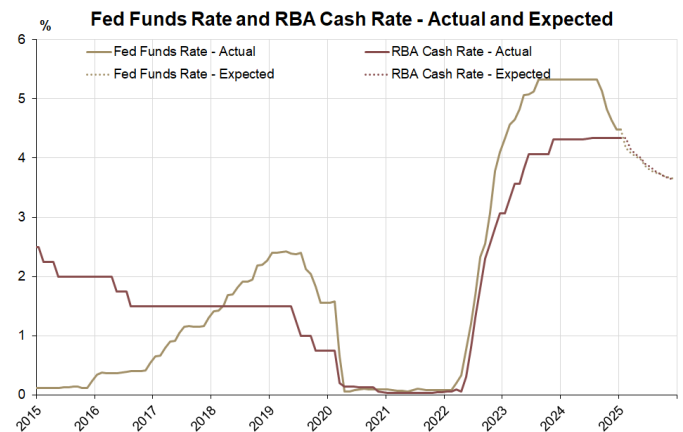
Global bond yields declined this week, mainly reflecting the uncertainty regarding policies of the new Trump administration.

Aussie bond yields came under additional downward pressure from the softer-than-expected CPI.

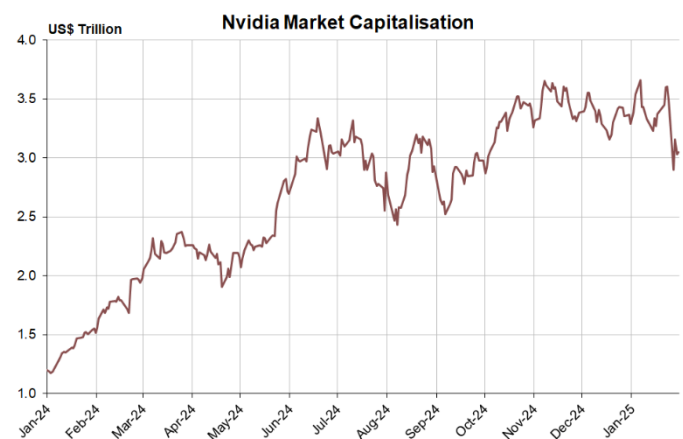
Equities

US equities opened the week with a sharp sell-off after Chinese company DeepSeek triggered a downturn in US tech stocks with the release of its low-cost artificial intelligence model. The news had investors wondering if too much money had been sunk into companies such as Nvidia, which lost US\$593 billion (17%) of its market value on Monday. Nvidia has since reclaimed only a quarter of that loss. The drag from tech shares sees the S&P 500 currently down 0.8% compared to this time last week.

The Aussie market has performed much better. After largely shaking off the carnage on Wall Street, domestic equities were fuelled by the Q4 CPI, which came in a little under expectations and boosted pricing for a February interest rate cut by the RBA. Further gains on Thursday and a strong start today see the ASX 200 currently sitting at a record high.



Source: Bloomberg



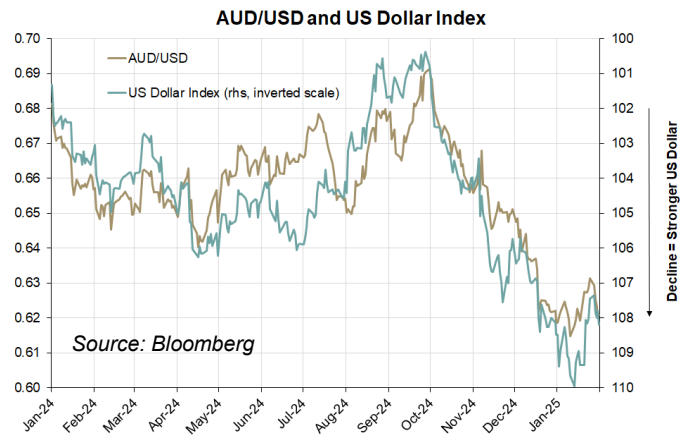
Source: Bloomberg

Currencies

The Australian dollar again has had a poor week, facing both domestic and global headwinds.

The Aussie slipped early in the week, weighed down by negative market sentiment and concerns over trade policies of the Trump administration. The currency came under further downward pressure from the Q4 CPI report, which showed trimmed mean inflation had fallen to close to the RBA target range, fuelling expectations for a cash rate cut in February.

The Australian dollar is at the very bottom of the G10 currency table this week, having depreciated 1.4% against the USD. The Aussie managed to fare even worse than the Canadian dollar, which was hit hard by Trump's 25% tariff threats. The safe-haven Japanese yen is by far on the top of this week's G10 currency ladder.



Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6215	0.6322	0.6199	↓1.4	0.6942	0.6131
AUD/EUR		0.5982	0.6026	0.5960	↓0.9	0.6261	0.4926
AUD/GBP		0.5004	0.5067	0.4995	↓1.7	0.5289	0.4926
AUD/JPY		95.75	98.60	95.61	↓2.7	109.37	90.15
AUD/CNY		4.5022	4.5763	4.4993	↓1.7	4.9340	4.4955
EUR/USD		1.0389	1.0533	1.0378	↓0.4	1.1214	1.0178
GBP/USD		1.2419	0.5067	0.4995	↑0.4	0.5289	0.4926
USD/JPY		154.08	156.25	153.72	↓1.4	161.95	139.58
USD/CNY		7.2446	7.2885	7.2376	↓0.3	7.3328	7.0063

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6215	0.6218	0.6223	0.6234
AUD/EUR		0.5982	0.5958	0.5933	0.5883
AUD/GBP		0.5004	0.5008	0.5013	0.5022
AUD/JPY		95.75	94.80	93.96	92.39
AUD/NZD		1.1028	1.1016	1.0999	1.0965
AUD/SGD		0.8412	0.8386	0.8360	0.8311

Commodities

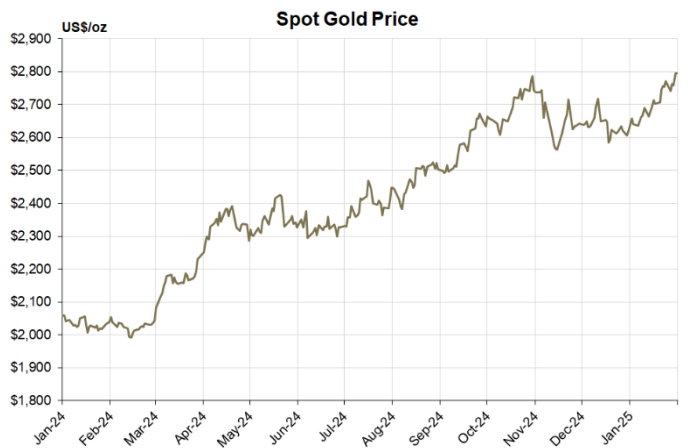
Oil prices slipped to a three-week low as the market continues to be plagued by uncertainty ahead of the upcoming OPEC+ meeting, the first after Donald Trump's inauguration and his demand to increase production and lower prices.

President Trump's threats to impose a 25% tariff on all imports from Canada and Mexico as early as 1 February, and his comments that he might exclude oil imports, have also muddied the waters.

Canadian oil exports to the US averaged around 4 million barrels a day in 2024.

Gold is on its way to its fifth weekly gain in a row, hitting a fresh record high in the process as traders bought up safe-haven assets.

Iron ore futures prices in Singapore drifted to seven-week highs amid low volumes, with Chinese traders out for most of the week for the Lunar New Year holiday.



Source: Bloomberg

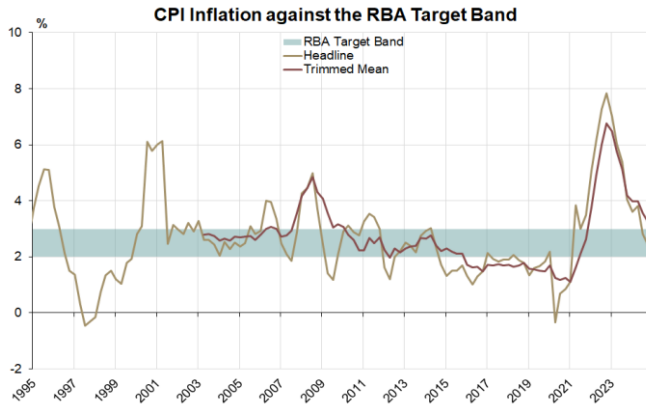
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,796.32	\$2,799.65	\$2,730.58	(↑\$36.4)	\$2,799.65	\$1,984.34
Brent Crude Oil (US\$)	\$77.21	\$79.00	\$76.00	(↓\$0.75)	\$92.18	\$68.68
Mogas95* (US\$)	\$86.85	\$88.00	\$84.79	(↑\$0.54)	\$109.19	\$76.37
WTI Oil (US\$)	\$73.17	\$75.15	\$72.02	(↓\$1.15)	\$87.67	\$65.27
CRB Index	306.39	309.84	305.34	(↓2.97)	312.17	265.48
Iron Ore Price 62% Fe (US\$) **	\$106.55	\$107.30	\$103.50	(↑\$2.15)	\$131.60	\$88.40

*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

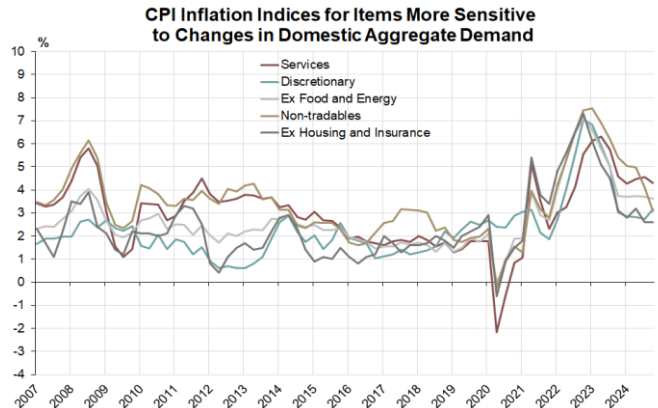
Domestic Economy

Annual trimmed mean **inflation**, preferred by the RBA, is now just above the target range.



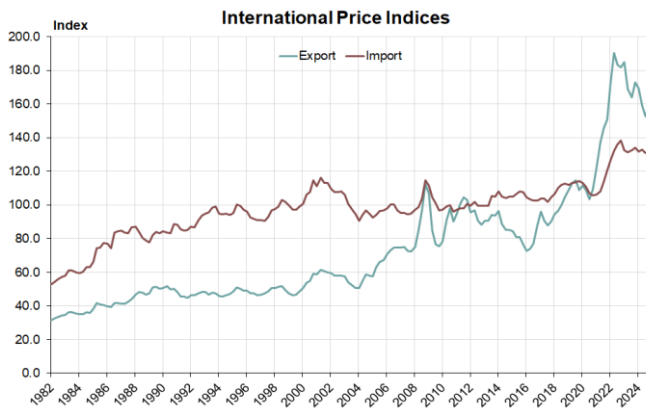
Source: ABS

Demand-sensitive inflation measures have declined substantially, but services price inflation remains high.



Source: ABS

Export prices picked up a little in Q4 on higher iron ore and LNG prices, while import prices were flat.



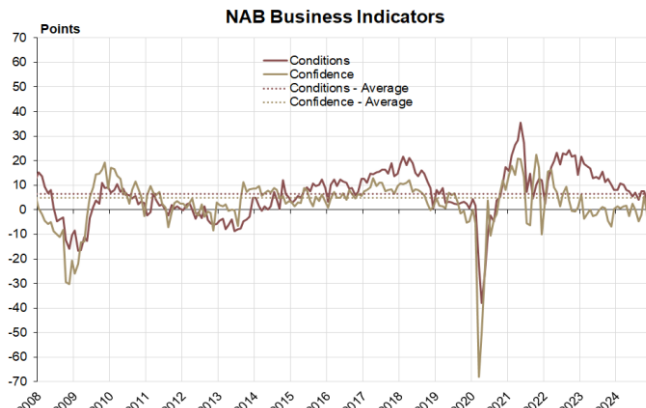
Source: ABS

The **terms of trade** are off their record highs from early 2022, but remain elevated.



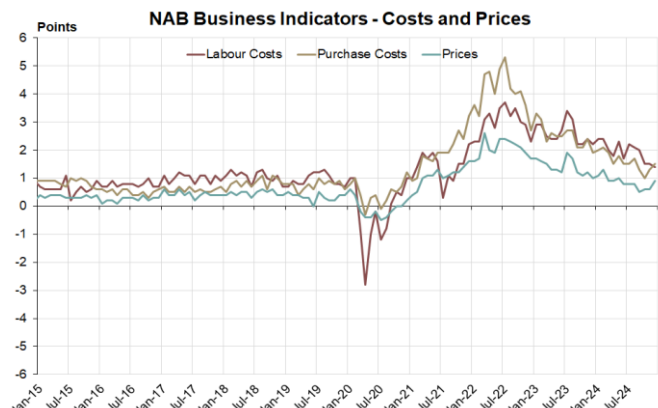
Source: ABS

NAB business conditions returned to their average levels, but confidence remains subdued.



Source: Bloomberg

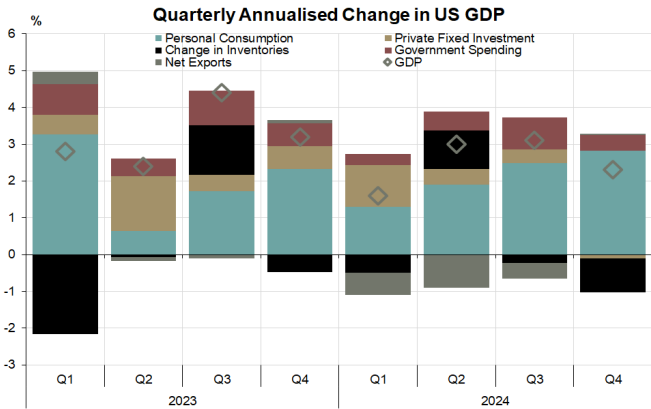
Labour cost pressures declined further, while growth in purchase costs and selling prices picked up a little.



Source: Bloomberg

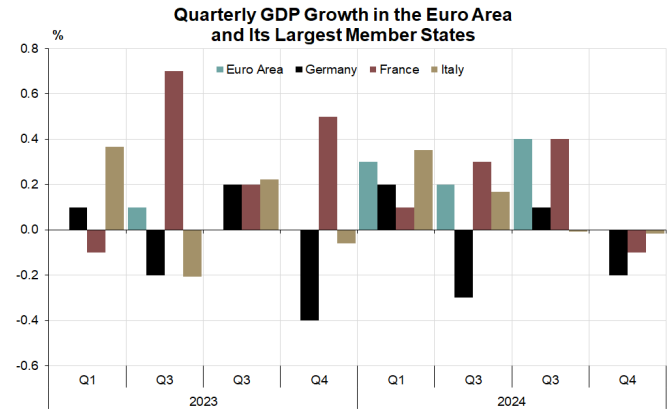
Global Economy

US GDP growth slowed a little in Q4, dragged down by a fall in inventories, while consumption remained solid.



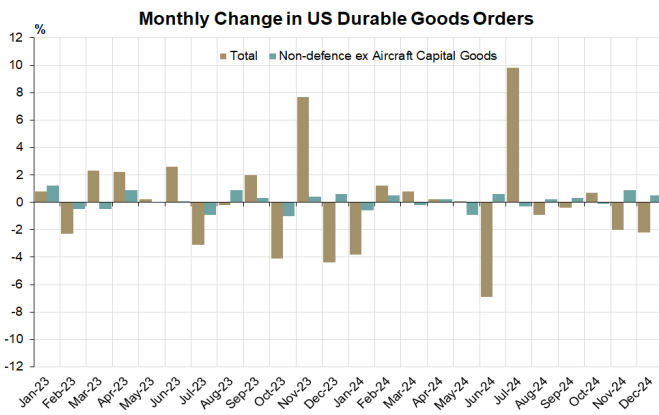
Source: Bloomberg

Euro area GDP again stagnated in Q4, amid declines in the three largest member states, particularly Germany.



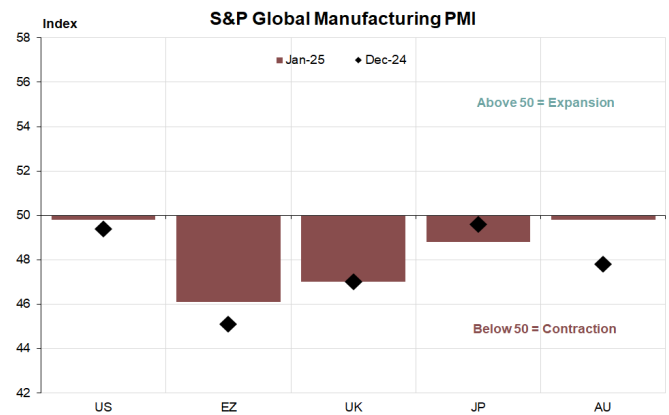
Source: Bloomberg

US durable goods orders declined again in December, dragged down by the volatile aircraft orders.



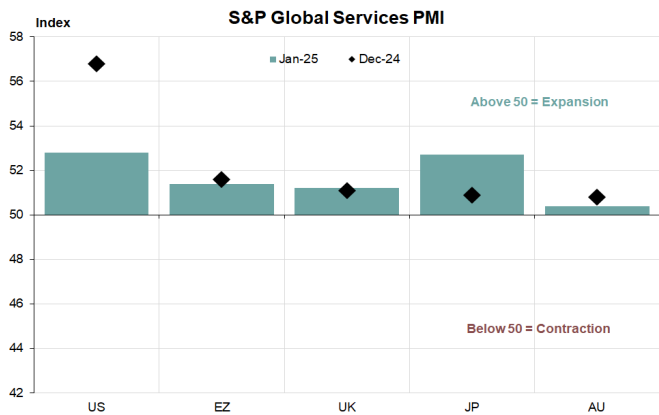
Source: Bloomberg

S&P Global PMIs suggested that manufacturing remains in contraction in all major advanced economies.



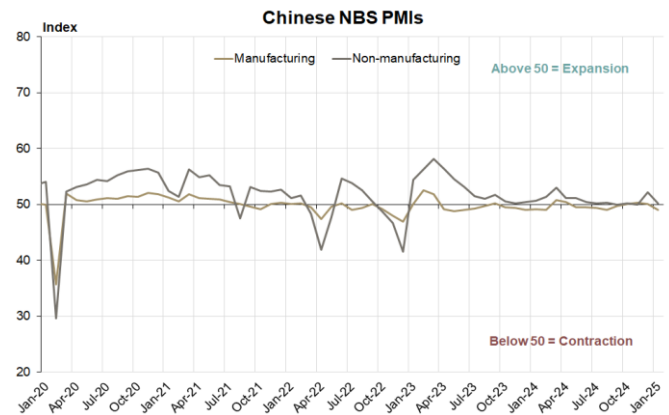
Source: Bloomberg

Despite significant deceleration, the US is still leading other major economies in terms of **services expansion**.



Source: Bloomberg

The **NBS PMIs** suggest that Chinese economic activity stagnated again in January.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 27					
CH	NBS Composite PMI (Jan)	50.1	-	52.2	NBS manufacturing PMI back in mild contraction.
Tue 28					
AU	NAB Business Conditions (Dec)	6	-	3	Broad-based improvement.
AU	NAB Business Confidence (Dec)	-2	-	-3	Has been sluggish since early 2023.
US	Durable Goods Orders (MoM, Dec)	-2.2%	0.6%	-2.0%	Core capital goods orders rose by 0.5%.
US	Conference Board Cons. Conf. (Jan)	104.1	105.7	109.5	Significant upward revision to December.
US	C-S Hse Prices 20 Cities (MoM, Nov)	0.4%	0.3%	0.4%	Up 4.3% through the year.
Wed 29					
AU	CPI (QoQ, Q4)	0.2%	0.3%	0.4%	Annual trimmed mean inflation declined to 3.2%.
AU	Monthly CPI Indicator (YoY, Dec)	2.5%	2.5%	2.7%	The full monthly inflation to be published in late 2025.
CA	BoC Decision (Policy Rate)	3.00%	3.00%	3.25%	Next cut not expected until June.
US	FOMC Decision (IoER)	4.40%	4.40%	4.40%	Fed has shifted to wait-and-see mode.
Thu 30					
AU	Export Price Index (QoQ, Q4)	3.6%	2.5%	-4.3%	Propped up by higher iron ore and LNG prices.
AU	Import Price Index (QoQ, Q4)	0.2%	1.5%	-1.4%	Petrol prices dropped by 5.7% in the quarter.
EZ	GDP (QoQ, Q4, flash)	0.0%	0.1%	0.4%	German GDP dropped by 0.4% in Q4.
EZ	ECB Decision (Deposit Rate)	2.75%	2.75%	3.00%	Next 25bps cut more than fully priced in for March.
US	GDP (QoQ annualised, Q4, adv. est.)	2.3%	2.6%	3.1%	Personal consumption growth at a solid 4.2% (ann.).
US	Initial Jobless Claims (w/e 25 Jan)	207k	225k	223k	Impact of California wildfires unwound.
Fri 31					
AU	PPI (QoQ, Q4)	0.8%	-	1.0%	The largest gains in property operators and hotels.
AU	Private Sector Credit (MoM, Dec)	0.6%	0.5%	0.6%	Business credit saw another solid gain of 0.8%.
Tonight					
US	Personal Spending (MoM, Dec)	-	0.5%	0.4%	US retail sales rose by another 0.4% in December.
US	PCE Price Index (MoM, Dec)	-	0.3%	0.1%	Annual rate expected to pick up by 0.1ppts to 2.5%.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 03				
AU	Retail Trade (MoM, Dec)	-0.6%	0.8%	Black Friday/Cyber Monday sales distort the seasonal pattern.
AU	Retail Trade Volumes (QoQ, Q4)	0.8%	0.5%	Encompasses only around 1/3 of household consumption.
AU	Dwelling Approvals (MoM, Dec)	0.0%	-3.6%	Saw a broad-based decline in November.
AU	CoreLogic Home Price Index (MoM, Jan)	-	-0.2%	Perth home prices rose by another 0.7% in December.
AU	MI Inflation Gauge (MoM, Jan)	-	0.6%	Up 2.6% YoY.
AU	ANZ Job Ads (MoM, Jan)	-	0.3%	Job ads off their records, but still above pre-COVID levels.
EZ	HICP (YoY, Jan, flash)	-	2.4%	ECB confident that inflation will be back at 2% this year.
CH	Caixin Manufacturing PMI (Jan)	50.6	50.5	NBS PMI figures suggested contraction.
US	ISM Manufacturing PMI (Jan)	48.9	49.2	S&P Global manufacturing PMI suggested further contraction.
Tue 04				
AU	Household Spending Indicator (MoM, Dec)	-	0.4%	To replace retail trade in July.
US	JOLTS Job Openings (Dec)	-	8.1m	Has returned to pre-COVID levels.
Wed 05				
AU	Living Costs Indices (Q4)	-	-	Measures the impact of inflation on selected household types.
CH	Caixin Services PMI (Jan)	52.5	52.2	NBS PMI report pointed to slower expansion.
US	ADP Employment (monthly change, Jan)	155k	122k	Has been an unreliable indicator of the official job figures.
US	ISM Services PMI (Jan)	54.3	54.1	S&P Global services PMI pointed to slower expansion.
Thu 06				
AU	Goods Trade Balance (Dec)	A\$6.3b	A\$7.1b	Trend surplus appears to have troughed in mid-2024.
Fri 07				
US	Non-farm Payrolls (monthly change, Jan)	150k	256k	Will include the annual benchmark revision.
US	Unemployment Rate (Jan)	4.1%	4.1%	FOMC's longer-run unemployment rate estimate is 4.2%.