

Highlights this week

- The Westpac-Melbourne Institute consumer sentiment index slipped a little in January. The Melbourne Institute inflation gauge added weight to expectations that Aussie underlying inflation eased in Q4. Job ads data was mixed but labour demand remains well above pre-pandemic levels. Employment growth was solid again and the unemployment rate remained low.
- A rise in exports drove the Chinese trade surplus wider in December and iron ore import volumes hit a record high in 2024. Chinese GDP growth met the 5% Government growth target for 2024. Industrial production growth strengthened in December, retail sales and fixed asset investment growth remained soft. US small business optimism has surged to a six-year high since the election. US core CPI inflation was better-than-expected and retail sales growth remained solid.

Coming up

- Domestic data is light-on next week. The highlights will be Q3 2024 building activity and 2023-24 multifactor productivity on Wednesday. The S&P Global flash composite PMI for January and business turnover for November are due Friday.
- The overseas calendar is sparse, with highlights being weekly US jobless claims on Thursday, and the Japanese CPI for December and advanced economy flash PMIs for January on Friday.

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	8310 (↑23 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	4.33 (↓2 pt)	2-yr T-Notes	4.23 (↓3 pt)	S&P500	5937 (↑19 pt)
Eurozone (Deposit)	3.00 (0 pt)	3-yr T-Bond	3.95 (↑1 pt)	10-yr T-Notes	4.61 (↓7 pt)	DJIA	43153 (↑18 pt)
UK	4.75 (0 pt)	10-yr T-Bond	4.49 (↓3 pt)	Jap 10-yr	1.19 (0 pt)	Nikkei	38193 (↓1219 pt)
Japan (Target)	0.25 (0 pt)	3-yr WATC Bond	4.07 (↑2 pt)	UK 10-yr	4.68 (↓13 pt)	CSI300	3812 (↑45 pt)
China (1Y LPR)	3.10 (0 pt)	10-yr WATC Bond	5.11 (0 pt)	Ger 10-yr	2.55 (↓2 pt)	Stoxx600	520 (↑4 pt)

Changes are since the issue of 20 December Market Watch.

Financial Markets

Interest Rates

Aussie bond yields opened the week higher following sharp increases in US Treasury yields last Friday after the release of stronger-than-expected US nonfarm payrolls numbers.

US Treasury yields fell back on Wednesday after US core CPI inflation was softer-than-expected in December, raising hopes for a renewed decline in US inflation after progress on disinflation stalled over much of the second half of 2024. Fed Governor Christopher Waller added to this optimism on Thursday, saying that further good news on inflation could see the Fed cut the fed funds rate three or four times this year.

Domestically, the solid Aussie employment report had little impact on bond yields with the three-year yield only a little higher than this time last week, while the decline in US Treasury yields has dragged the Aussie 10-year yield lower. The short end of the Aussie yield curve is mainly influenced by domestic considerations, while the long end of the curve is more heavily influenced by moves in US Treasuries.

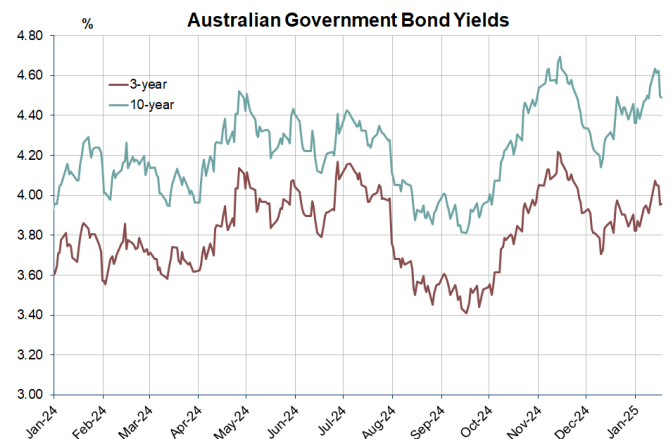
Futures market pricing for a February interest rate cut by the RBA slipped to 67% from 73%, following the Aussie employment report.

Equities

The rise in Australian and US equities over the past week has been centred on one big trading day in both markets.

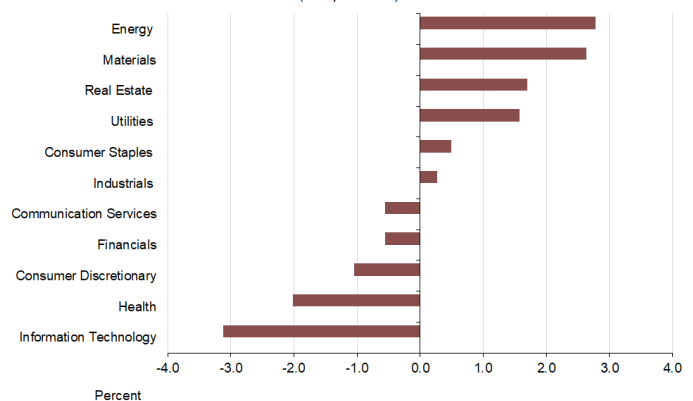
The US market slumped last Friday after the solid US employment report saw a further unwinding of expectations for Fed interest rate cuts this year. Equities drifted higher over the first couple of days of the week before signs of easing US inflation in December pushed the market on Wednesday to its best day since November.

The Aussie market opened the week sharply lower following the US slide on Friday, before again following the US market with a sharp rise on Thursday. The Aussie employment report had little impact. The ASX 200 has weakened over the course of today's trading session.



Source: Bloomberg.

ASX 200 Sector Moves 10 January to 17 January 2025 (2:40pm AEST)



Source: Bloomberg.

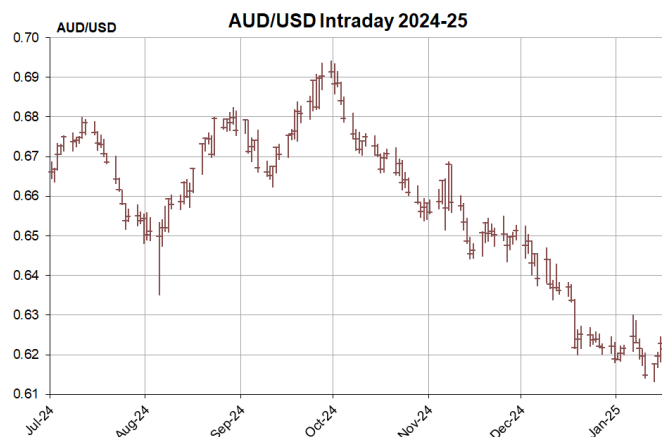
Currencies

The AUD/USD opened the week on a soft note, falling to a fresh near five-year low of US\$0.6131 on Monday. The fall was largely due to a strong increase in the greenback, with the US dollar index rising to a 14-month high, after the US employment report on Friday put a further dent in expectations for multiple Fed interest rate cuts this year.

The Aussie climbed back above US\$0.62 as the USD fell from its highs, with the AUD/USD peaking at \$0.6247 following the US CPI, before falling back again.

The Aussie picked up this morning following the release of better-than-expected Chinese Q4 GDP and December industrial figures before easing again.

The Japanese yen has been the strongest of the major currencies as expectations continue to build for a Bank of Japan interest rate hike next week.



Source: Bloomberg.

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6211	0.6247	0.6131	↑0.2	0.6942	0.6131
AUD/EUR		0.6028	0.6063	0.5997	↑0.2	0.6261	0.4926
AUD/GBP		0.5077	0.5102	0.5033	↑0.8	0.5289	0.4926
AUD/JPY		96.53	97.96	96.26	↓1.6	109.37	90.15
AUD/CNY		4.5512	4.5789	4.4955	↑0.1	4.9340	4.4955
EUR/USD		1.0303	1.0354	1.0178	↑0	1.1214	1.0178
GBP/USD		1.2235	1.2306	1.2100	↓0.6	1.3434	1.2100
USD/JPY		155.41	158.20	154.98	↓1.8	161.95	139.58
USD/CNY		7.3270	7.3320	7.3239	↓0.1	7.3328	7.0063

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6211	0.6213	0.6216	0.6222
AUD/EUR		0.6028	0.6004	0.5978	0.5922
AUD/GBP		0.5077	0.5080	0.5084	0.5093
AUD/JPY		96.53	95.56	94.66	92.99
AUD/NZD		1.1081	1.1070	1.1052	1.1015
AUD/SGD		0.8483	0.8454	0.8427	0.8374

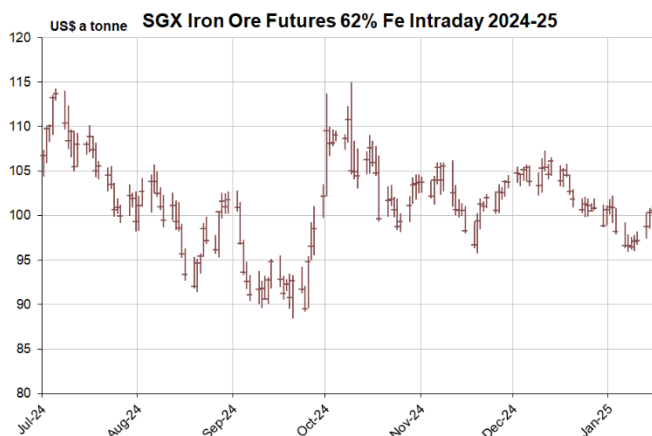
Commodities

Oil prices touched the highest levels since July 2024, as the US and UK tightened sanctions on the trade in Russian oil, and Donald Trump reportedly threatened to impose a 25% tariff on Canadian oil and gas shipments to the US, prompting threats of retaliation from Canada.

Some of those gains have been given back on speculation that the incoming Trump administration may ease some of the sanctions on Russian oil and hopes the upcoming Israel-Hamas ceasefire will see an end to Houthi attacks on Red Sea shipping.

The benchmark Singapore iron ore futures price climbed for six days in a row to be currently sitting at its highest levels in a month. Chinese iron ore imports were a record 1.2 billion tonnes in 2024, up 5% from 2023.

Copper prices rose to two-month highs on the London Metals Exchange amid news the State Grid Corporation of China will ramp up investment in its electricity grid in 2025 to accommodate the sharp increase in renewable energy.



Source: Bloomberg

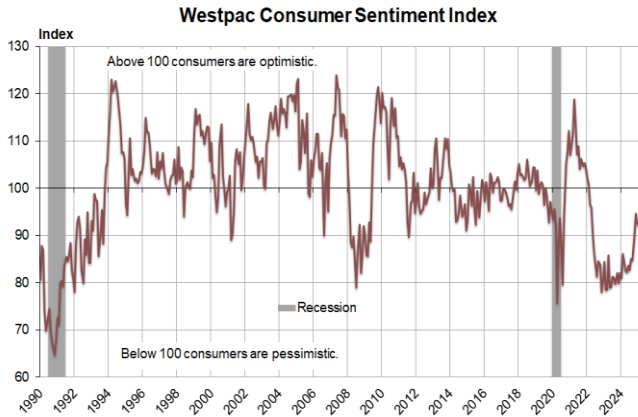
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,715.42	\$2,724.76	\$2,656.90	(↑\$41)	\$2,790.10	\$1,984.34
Brent Crude Oil (US\$)	\$81.65	\$82.63	\$79.62	(↑\$4.46)	\$92.18	\$68.68
Mogas95* (US\$)	\$87.98	\$90.41	\$83.80	(↑\$2.76)	\$109.19	\$76.37
WTI Oil (US\$)	\$79.19	\$80.77	\$76.54	(↑\$5.02)	\$87.67	\$65.27
CRB Index	311.35	312.17	305.97	(↑13.96)	312.17	263.05
Iron Ore Price 62% Fe (US\$) **	\$103.00	\$103.10	\$97.40	(↑\$5.7)	\$137.10	\$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.

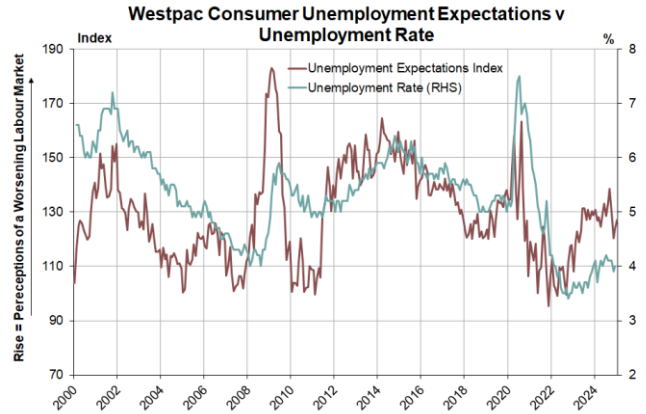
Domestic Economy

Consumer sentiment has eased in the past couple of months after strong increases in October and November.



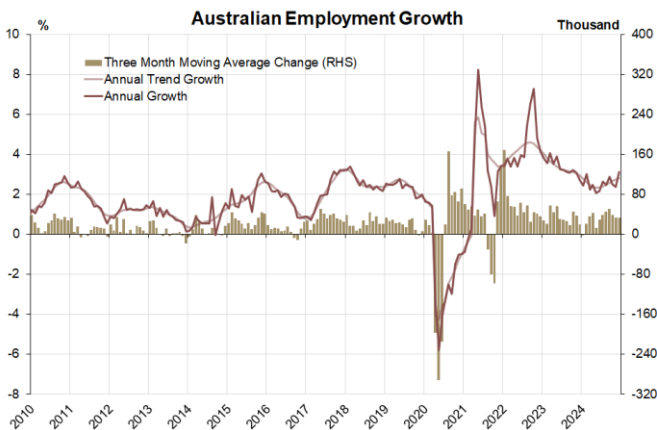
Source: Bloomberg

Aussie consumers have been expecting **labour market conditions** to ease for some time...



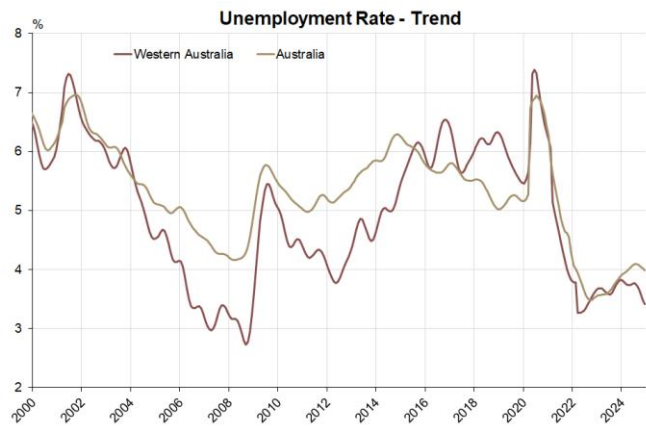
Source: Bloomberg

...however, **employment growth** remained strong at the end of 2024...



Source: ABS

...and the **unemployment rate** remained low at 4.0% for the nation and 3.3% in Western Australia.



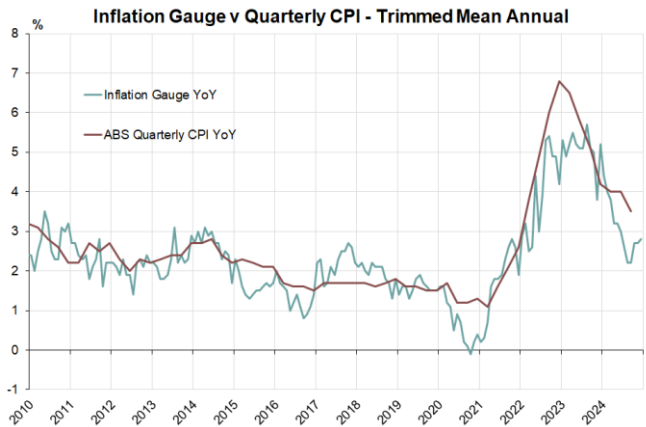
Source: ABS

The Western Australian **labour market** remains tighter than the national average.



Source: ABS

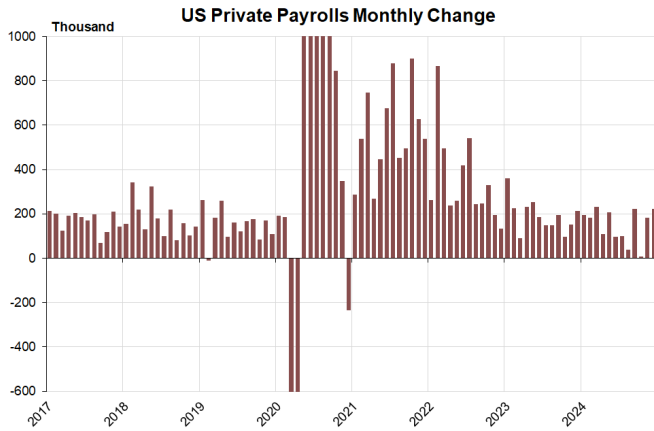
The **Melb. Inst. inflation gauge** often overshoots but suggests underlying inflation continued to ease in Q4.



Source: Bloomberg

Global Economy

US private nonfarm payrolls growth picked up in late 2024.



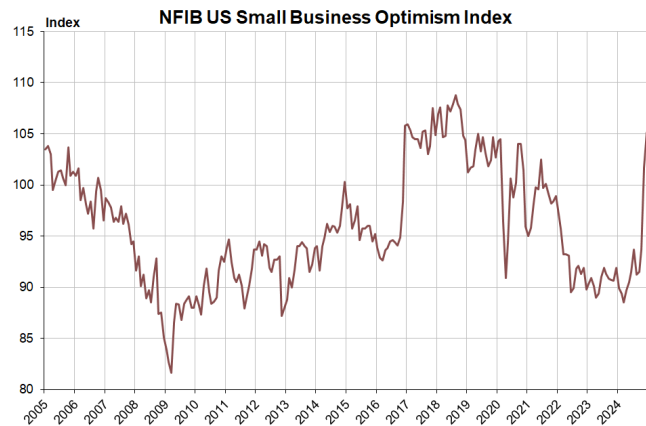
Source: Bloomberg

The US unemployment rate stabilised in late 2024 after climbing through the previous twelve months.



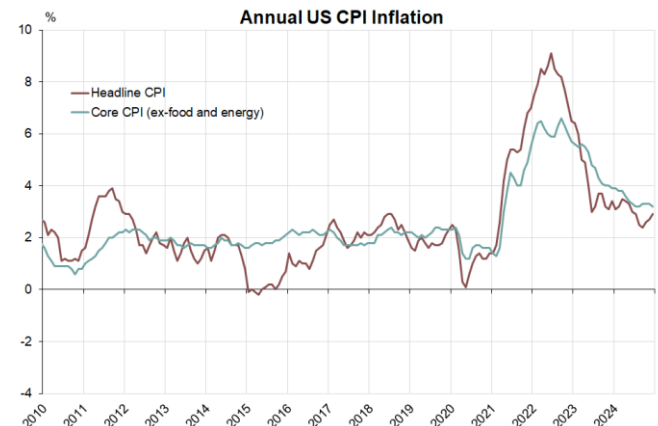
Source: Bloomberg

The US small business optimism has surged since the US election.



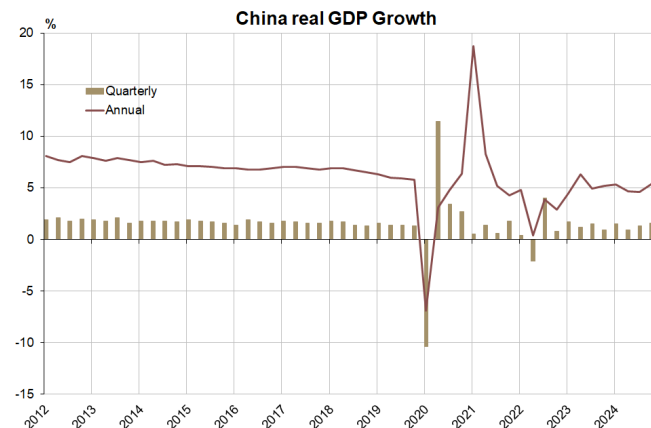
Source: Bloomberg

The rise in the US core CPI was smaller-than-expected in December but disinflation remains painfully slow.



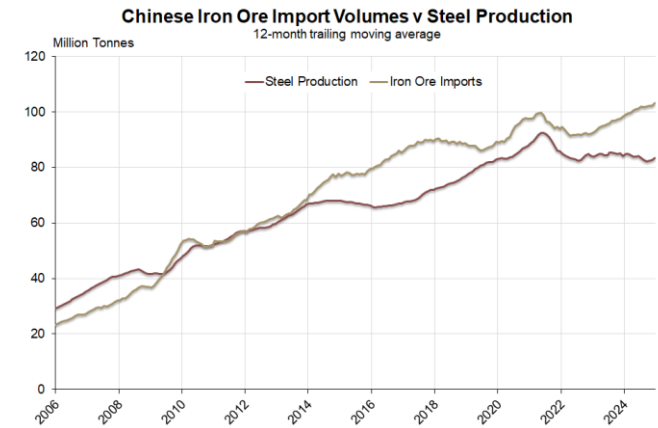
Source: Bloomberg

Stimulus measures helped Chinese GDP growth meet the Government's 5% target in 2024.



Source: Bloomberg

Chinese iron ore imports hit a record high in 2024, despite a decline in steel production.



Source: Bloomberg

This Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 13					
AU	Melb Inst Inflation Gauge (YoY, Dec)	2.6%	-	2.9%	Suggests inflation eased in Q4 2024.
AU	ANZ-Indeed Job Ads (MoM, Dec)	0.3%	-	-1.8%	Signalling a stabilisation in Aussie labour demand.
CH	Trade Balance (Dec)	US\$105b	US\$100b	US\$97b	A sharp rise in exports ahead of US tariff increases.
Tue 14					
AU	Westpac Consumer Sent (MoM, Jan)	-0.7%		-2.0%	Increased concern about current conditions.
US	Final Demand PPI (MoM, Dec)	0.2%	0.3%	0.4%	Monthly core measures soft.
US	Small Business Optimism Index (Dec)	105.1	102.1	101.7	Has jumped to a six-year high since the US election.
Wed 15					
AU	Internet Job Vacancy Index (MoM, Dec)	-2.5%	-	-2.0%	Suggests vacancies trending down but remain high.
GE	GDP (Annual, 2024)	-0.2%	-0.2%	-0.3%	Second annual fall in a row.
UK	CPI (MoM, Dec)	0.3%	0.4%	0.1%	Eased concerns that UK inflation is picking up again.
US	CPI (MoM, Dec)	0.4%	0.3%	0.3%	Easing core inflation cheered the market.
Thu 16					
AU	Employment (Monthly Change, Dec)	56.3k	15.0k	35.6k	Strong increase dents February rate cut hopes.
AU	Unemployment Rate (Dec)	4.0%	4.0%	3.9%	Remains below the RBA estimate of full employment.
US	Retail Sales (MoM, Dec)	0.4%	0.5%	0.8%	Core sales up a robust 0.7%.
US	Initial Jobless Claims (w/e 11 Jan)	217k	210k	203k	Initial claims remain low.
Fri 17					
CH	GDP (YoY, Q4)	5.4%	5.0%	4.6%	A positive end to the year.
CH	Industrial Production (YoY, Dec)	6.4%	5.4%	5.4%	Surprisingly strong.
CH	Retail Sales (YoY, Dec)	3.7%	3.6%	3.0%	Consumption growth was tepid in 2024.
CH	Urban Fixed Asset Inv. (YTD, YoY, Dec)	3.2%	3.3%	3.3%	Private investment down 0.1% for the year.
	Tonight				
US	Industrial Production (MoM, Dec)	-	0.3%	-0.1%	Manufacturing production expected to remain soft.

Coming Up

Date	Event	Forecast	Previous	Comment
Mon 20				
	5Y Prime Loan Rate	3.60%	3.60%	Benchmark rate for Chinese mortgages.
US	Market closed for Martin Luther King Day			
Tue 21				
	<i>No major market moving data</i>			
Wed 22				
AU	Building Activity (Q3)	-	-	Update on commencements, construction and completions.
AU	Multifactor Productivity Estimate (2023-24)	-	-0.5%	Productivity a key focus of the RBA.
NZ	CPI (QoQ)	0.5%	0.6%	Can be a good guide to Aussie inflation momentum.
Thu 23				
US	Initial Jobless Claims (w/e 18 Jan)	-	217k	At levels consistent with a strong labour market.
Fri 24				
AU	S&P Global Composite PMI (Jan, flash)		50.2	Has been indicating stalled growth for four months.
JP	Bank of Japan	0.50%	0.25%	An increase was flagged by the BoJ Governor this week.
JP	CPI (YoY, Dec)		2.9%	BoJ expected to raise their forecasts in January.
JP	Jibun Bank Composite PMI (Jan, flash)		50.5	Has improved but growth remains marginal.
EZ	HCOB Composite PMI (Jan, flash)		49.6	The big three economies are weighing on euro area growth.
US	S&P Global Composite PMI (Jan, flash)		55.4	Has suggested robust growth since mid-2024.