

Interest Rates (%)			FX			Commodities US\$		
Australia		Δ bp	AUD/USD	0.6205	-2.0%	WTI Crude Oil	70.58	\$0.48
90-day Bill	4.46	-1	AUD/JPY	95.96	-1.3%	Brent Crude Oil	73.39	\$0.16
3-year Bond	3.89	8	AUD/EUR	0.5989	-0.7%	Mogas95*	83.99	\$0.26
10-year Bond	4.36	7	AUD/GBP	0.4933	-0.9%	CRB Index	292.01	1.08
			AUD/NZD	1.1055	0.4%	Gold	2590.13	-\$59.67
			AUD/CNY	4.5937	-0.5%	Silver	29.42	-\$1.09
US			EUR/USD	1.0364	-1.3%	Iron Ore (62% Fe)**	101.25	-\$2.70
2-year	4.34	11	USD/JPY	154.66	0.7%	Iron Ore (24-25 Average)	101.60	-\$0.01
10-year	4.51	12	USD/CNY	7.2857	0.0%	Copper	9028.50	\$39.00
			RBA Policy			Equities		
			O/N Cash Rate Target	4.35		ASX200	8157	-180
			Interbank O/N Cash Rate	4.34		Dow Jones	42327	-1123
Other 10-year			Probability of a 25bps Cut in Feb	11.2%		S&P500	5872	-178
Japan	1.11	3	RBA Bond Holdings (29 Nov)	A\$298.3b		Stoxx600	514	1
Germany	2.25	2				CSI300	3942	20
UK	4.56	3						

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

**Iron ore is the second SGX futures contract.

The S&P 500 dropped most since August last night, while US Treasury yields bounced and the US dollar appreciated sharply, as the FOMC delivered a 'hawkish' rate cut, increasing the fed funds rate projection path somewhat more than expected and hitting a more cautious and less dovish tone.

The FOMC cut the fed funds rate target range by 25 basis points to 4.25-4.50% yesterday, taking the scale of the current easing cycle to 100 basis points.

During the press conference, Fed Chair Jerome Powell said that the decision in December had been a closer call than in the previous months. He stressed that that, given the significant normalisation so far and the good shape of the US economy at the moment, the Fed had comfort of flexible approach to further fed funds rate cuts. He cited the rising risks to both price stability and full employment goals, including from the policies of the upcoming Trump administration.

The more cautious approach by the Fed was underpinned by the new FOMC projections, with PCE inflation forecasts increased by 0.4 percentage points to 2.5% in 2025. Inflation is expected to come back to the 2% goal in 2027.

Inflation is forecast to reach its goal in 2027 thanks to the higher fed funds rate path, which was lifted by 50 basis points for the coming two years, implying only two rate cuts in each of 2025 and 2026. The longer-run fed funds rate estimate, which is the proxy for the neutral rate, was increased by 10 basis points to 3.0%.

Fed funds rate expectations reacted strongly to the change in the Fed's tone and forecasts, with only 32 basis point cuts priced in for 2025 at the time of writing, instead of 72 basis points before the FOMC meeting. US Treasury yields saw quite considerable increases across the yield curve, with 10-year yields bouncing to six-month highs. The US dollar appreciated sharply, taking the DXY index to the highest level since November 2022.

The deterioration of the global market sentiment had a negative impact on the Australian dollar, which depreciated against all the major currencies. The AUD/USD is now trading at the lowest level since October 2022.

Commonwealth bond yields opened higher this morning, but the scale of the increase was much smaller than their US equivalents. This was because the events overnight have not had a large impact on the current RBA cash rate expectations, with 75 basis point cuts still priced in for 2025 at the time of writing.

The ASX 200 opened 2.1% lower this morning, after ebbing by 0.1% yesterday, with results mixed across the industries. From the global data, UK CPI rose by 0.1% in November, taking the annual rate of consumer price inflation 0.3 percentage points higher to 2.6%, which is the fastest pace since March. Core inflation rose to a three-month high of 3.5%. These figures come ahead of the Bank of England bank rate decision due tonight, with no changes expected.

Economic Data Review

- **UK:** CPI (MoM, Nov) – Actual 0.1%, Expected 0.1%, Previous 0.6%.

Economic Data Preview

- **AU:** Melbourne Institute Consumer Inflation Expectations (Dec) – Previous 3.8%.
- **JP:** Bank of Japan Decision (Policy Rate) – Expected 0.25%, Previous 0.25%.
- **UK:** Bank of England Decision (Bank Rate) – Expected 4.75%, Previous 4.75%.