

Highlights this week

- In Australia, NAB business survey suggested business conditions deteriorated in January, but confidence improved. The Westpac consumer sentiment index was almost unchanged in February. Growth in the value of new home loans slowed in Q4, dragged down by a decline in investor loans.
- Abroad, the US CPI had its biggest increase in 18 months in January and full pricing for a fed funds rate cut was pushed back as a result. This followed the University of Michigan and New York Fed consumer surveys that suggested a rise in household inflation expectations. The NFIB small business optimism index declined slightly in February, with the uncertainty generated by Trump administration policies weighing on investment plans.

Highlights next week

- The key domestic event next week will be the RBA Board interest rate decision on Tuesday, with a 25bps cut widely expected by market participants, but being a close call for us. The RBA will also publish its quarterly Statement on Monetary Policy with updated macroeconomic projections. Other important events will be the Q4 wage price index on Wednesday and the January labour force report on Thursday. The Judo Bank flash PMI for February is due on Friday.
- Flash PMIs will be also published for all major advanced economies. Other events include FOMC minutes, Japanese GDP and inflation data as well as UK inflation and labour market reports. The RBNZ is expected to cut its cash rate target by 50bps on Wednesday.

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	8571 (↑50 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	4.18 (↓3 pt)	2-yr T-Notes	4.30 (↑9 pt)	S&P500	6115 (↑32 pt)
Eurozone (Deposit)	2.75 (0 pt)	3-yr T-Bond	3.84 (↑8 pt)	10-yr T-Notes	4.53 (↑10 pt)	DJIA	44711 (↓36 pt)
UK	4.50 (0 pt)	10-yr T-Bond	4.42 (↑8 pt)	Jap 10-yr	1.35 (↑7 pt)	Nikkei	39287 (↑221 pt)
Japan (Target)	0.50 (0 pt)	3-yr WATC Bond	3.99 (↑8 pt)	UK 10-yr	4.49 (0 pt)	CSI300	3911 (↑69 pt)
China (1Y LPR)	3.10 (0 pt)	10-yr WATC Bond	4.98 (↑3 pt)	Ger 10-yr	2.42 (↑4 pt)	Stoxx600	554 (↑9 pt)

Changes are since the issue of 20 December Market Watch.

Financial Markets

Interest Rates

Government bond yields are up for the week. This came as pricing for a fed funds rate cut was pushed back, after the US jobs report pointed to a decline in US unemployment rate to 4%, while the US CPI surprised to the upside. The scale of unwinding of rate cut expectations was limited by the announcement that 'reciprocal' US tariff measures will be most likely introduced after the trade policy review is completed on 1 April. However, the next fed funds rate cut is currently fully priced in for October, rather than for July as it was this time last week. At his Congressional testimonies this week, Fed Chair Jerome Powell confirmed the FOMC is in no hurry to cut rates further.

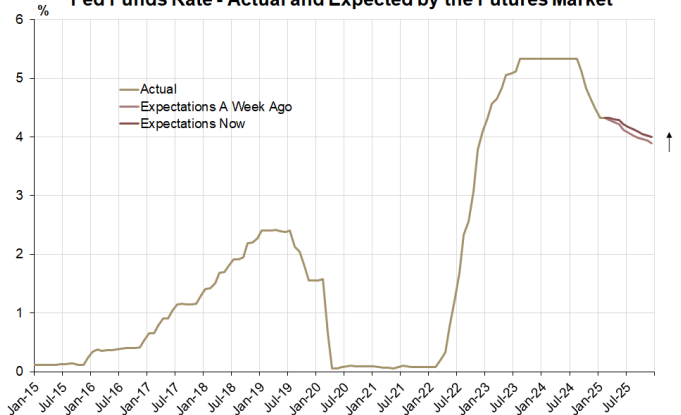
Market pricing for an RBA rate cut next week has eased somewhat, but the probability remains close to 90%. We think that this is closer to 50%, given the strength of the domestic labour market, uncertainty about the global trade and inflation outlook, and the postponement of rate cuts by the Fed.

Equities

US equities are mainly higher this week as traders shook off President Trump's announcement of 25% tariffs on steel and aluminium imports, and threats to impose wider 'reciprocal' tariffs, in retaliation for real and perceived trade barriers, including subsidies, value added taxes (VAT), and exchange rates. There was a slight setback on Wednesday, as US CPI inflation for January exceeded expectations. However, the market bounced overnight, with the S&P 500 closing just short of a record high.

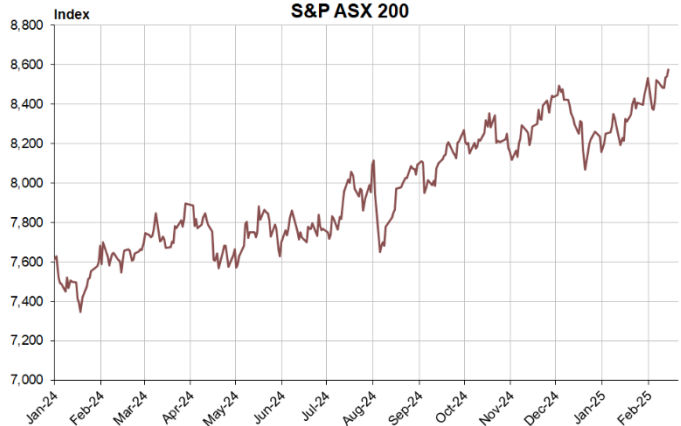
The Aussie market slipped on Monday after the US tariff announcement. However, a solid start to the local earnings reporting season helped push the market higher over the week, with the ASX 200 climbing to record highs. Most of the major industry sectors have gained over week, led by industrials, consumer shares and miners. Health shares have seen the biggest losses, falling 3.5% over the week.

Fed Funds Rate - Actual and Expected by the Futures Market



Source: Bloomberg

S&P ASX 200



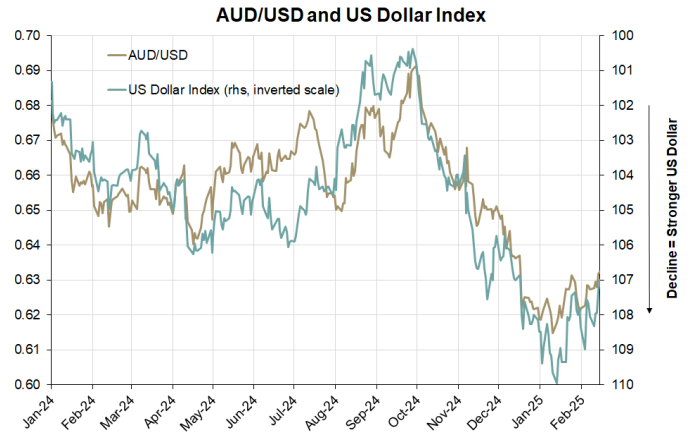
Source: Bloomberg

Currencies

The Australian dollar has had a choppy and mixed week, to be higher versus the weaker greenback and Japanese yen, and down against the euro and British pound.

The AUD started the week on the backfoot, as global market sentiment deteriorated after fed funds rate cut expectations were pushed back on Friday. The Aussie recovered briefly on Tuesday, but this was followed by renewed depreciation, as fed funds rate cut expectations briefly shifted to December following a higher-than-expected US CPI reading on Wednesday. The Australian dollar is appreciating at the time of writing amid relief that the 'reciprocal' tariff measures will likely not be effective before April.

The AUD is in the middle of the currency ladder for the week, with the Japanese yen being by far the weakest G10 currency, affected by US tariff announcements.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6323	0.6328	0.6231	↑0.5	0.6942	0.6088
AUD/EUR		0.6048	0.6100	0.6012	↓0.1	0.6261	0.4926
AUD/GBP		0.5035	0.5092	0.5014	↓0.5	0.5289	0.4926
AUD/JPY		96.70	97.33	94.32	↑1.5	109.37	90.15
AUD/CNY		4.6084	4.6115	4.5579	↑0.5	4.9340	4.4109
EUR/USD		1.0454	1.0469	1.0280	↑0.7	1.1214	1.0141
GBP/USD		1.2558	0.5092	0.5014	↑1	0.5289	0.4926
USD/JPY		152.93	154.80	151.16	↑1	161.95	139.58
USD/CNY		7.2877	7.3098	7.2760	↑0	7.3328	7.0063

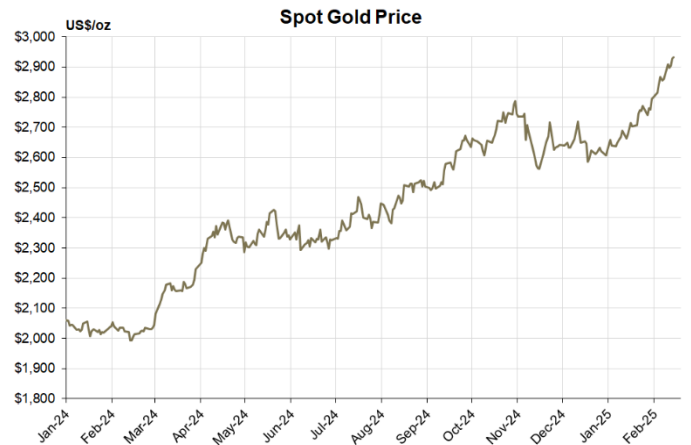
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6323	0.6327	0.6333	0.6347
AUD/EUR		0.6048	0.6023	0.5997	0.5941
AUD/GBP		0.5035	0.5039	0.5043	0.5048
AUD/JPY		96.70	95.78	94.93	93.34
AUD/NZD		1.1115	1.1102	1.1086	1.1053
AUD/SGD		0.8498	0.8469	0.8443	0.8388

Commodities

The gold price continues to hit fresh record highs, as further tariff announcements from US President Trump added to an already high uncertainty in the financial markets.

Oil prices had a strong start to the week, as the Israel-Hamas conflict threatened to reignite. However, oil prices have given up most of those gains over the past two days amid rising hopes that Russia and Ukraine may be moving closer to peace talks. Meanwhile, Donald Trump's ongoing threats of broad increases US import tariffs have increased uncertainty over the outlook for demand.

Iron ore futures prices have climbed to four-month highs this morning as category 5 Cyclone Zelia bears down on Port Hedland. The increase comes after a week of volatility driven by US tariff announcements, including news that the US will impose 25% tariffs on steel and aluminium imports.



Source: Bloomberg

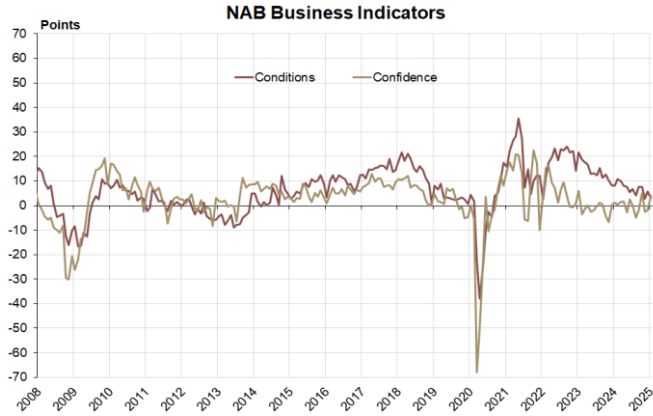
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,927.70	\$2,942.68	\$2,855.21	(↑\$59.99)	\$2,942.68	\$1,990.30
Brent Crude Oil (US\$)	\$75.24	\$77.29	\$74.06	(↑\$0.87)	\$92.18	\$68.68
Mogas95* (US\$)	\$86.86	\$95.91	\$84.60	(↑\$0.78)	\$109.19	\$76.37
WTI Oil (US\$)	\$71.45	\$73.68	\$70.22	(↑\$0.82)	\$87.67	\$65.27
CRB Index	313.19	313.43	307.51	(↑5.73)	313.43	265.48
Iron Ore Price 62% Fe (US\$)**	\$108.30	\$108.55	\$105.55	(↑\$1.8)	\$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.

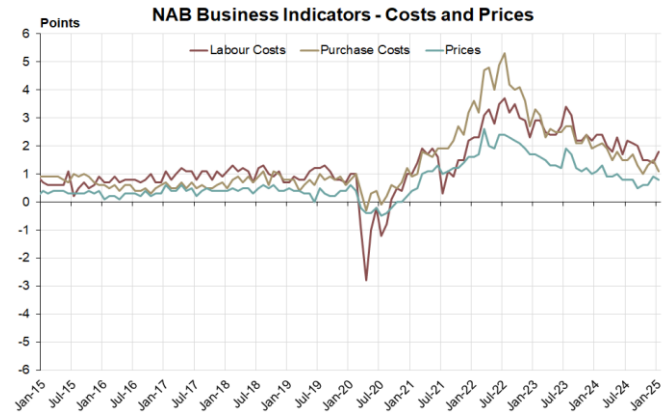
Domestic Economy

NAB business conditions deteriorated in January, but business confidence improved somewhat.



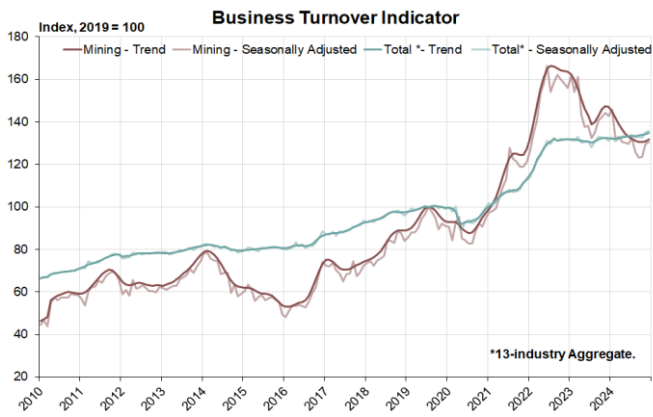
Source: Bloomberg

Business cost and selling price pressures are in check, but somewhat higher than before COVID-19 hit.



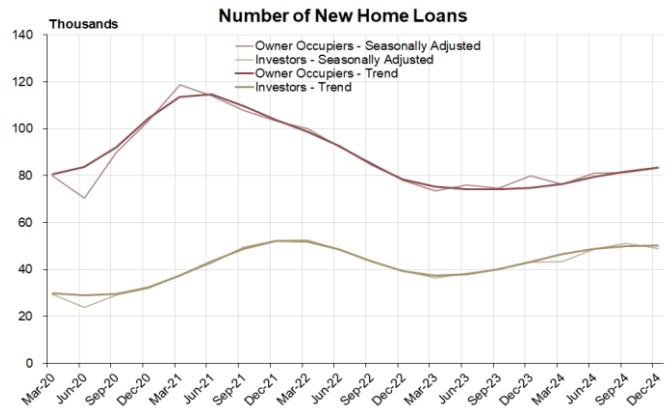
Source: Bloomberg

The **business turnover indicator** climbed again in December, with mining seeing another improvement.



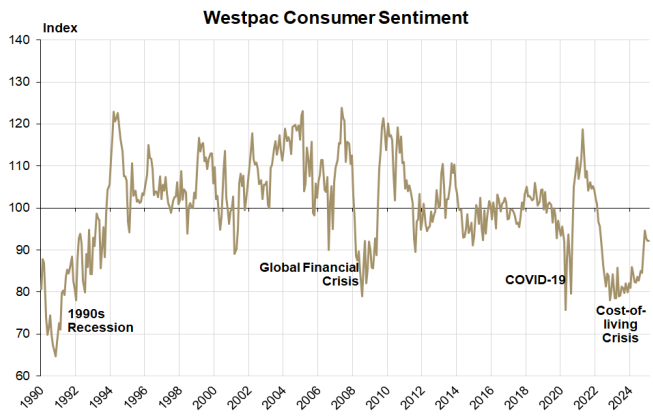
Source: ABS

The number of **new home loans** continues to trend upwards, but there are signs that investor loans have peaked.



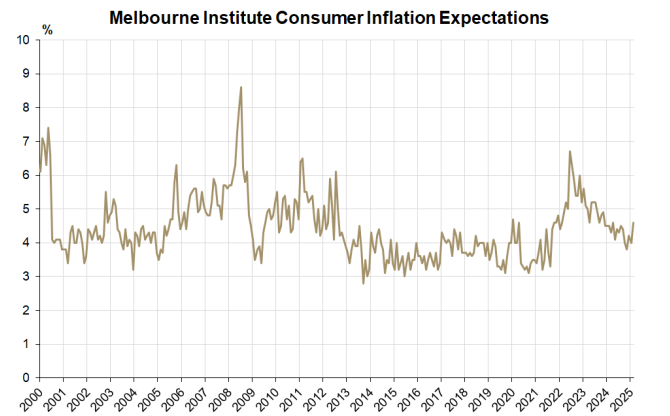
Source: ABS

The improvement in **consumer confidence**, driven by tax cuts and cost-of-living measures, has stalled.



Source: Bloomberg

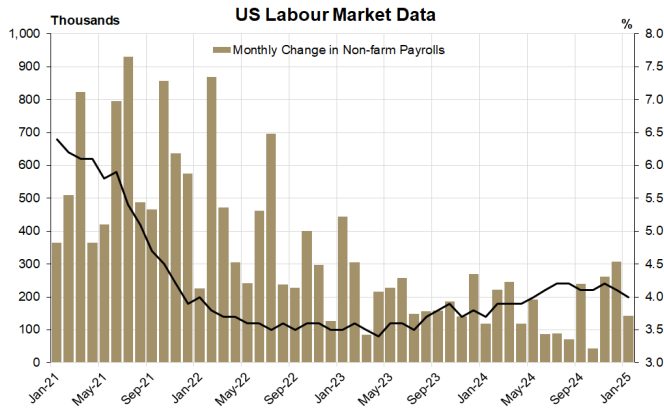
Melbourne Institute consumer inflation expectations picked up in February but remain well off the 2022 highs.



Source: Bloomberg

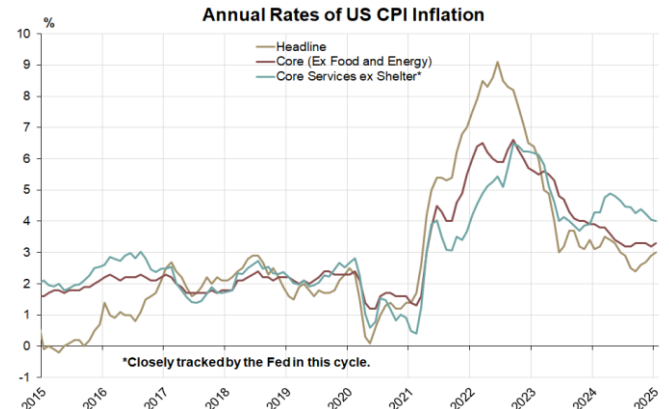
Global Economy

US non-farm payrolls growth eased in January following solid gains in late 2024.



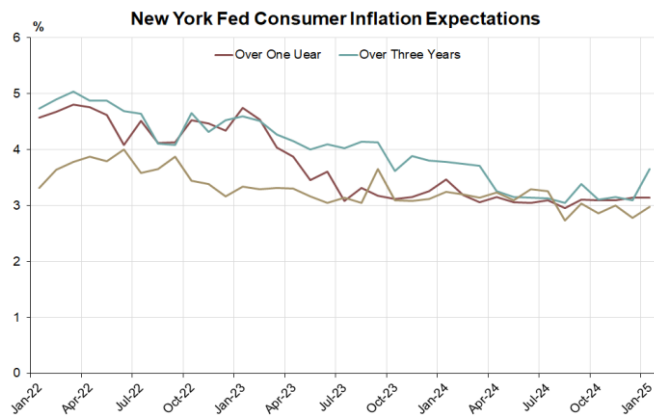
Source: Bloomberg

The **US CPI report** provided more evidence that the disinflation process has stalled.



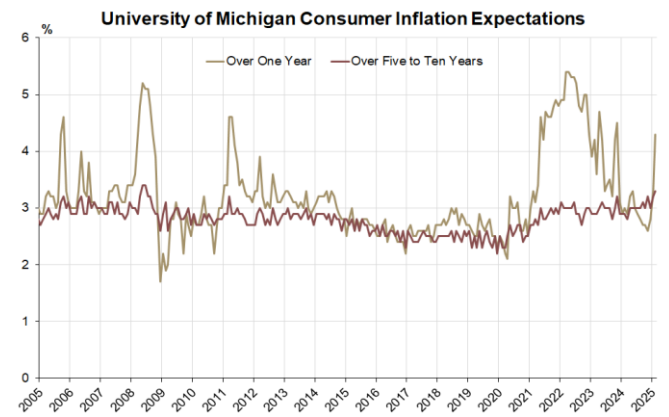
Source: Bloomberg

NY Fed five-year consumer inflation expectations rose in January, most likely due to tariff concerns...



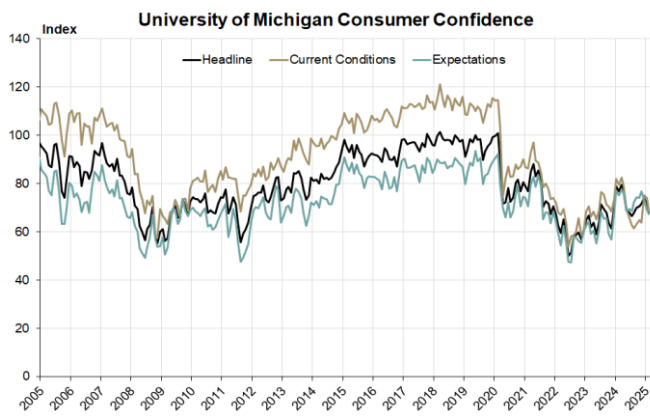
Source: Bloomberg

... while the **University of Michigan** report suggested near-term inflation expectations have picked up, too...



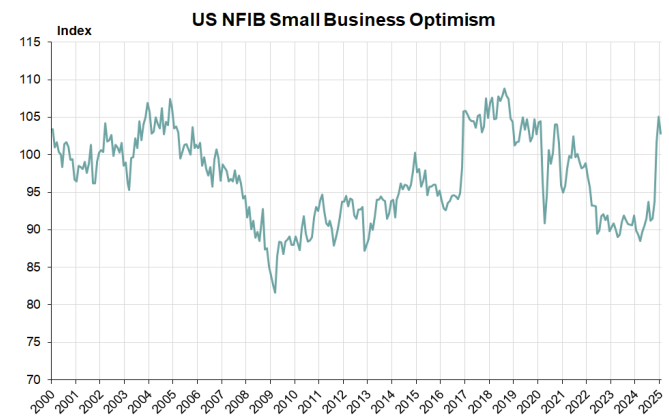
Source: Bloomberg

... dragging **US consumer confidence** slightly down in February.



Source: Bloomberg

NFIB small business confidence declined in January, following a surge in December after the Trump election.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 10					
AU	Business Turnover (MoM, Dec)	0.3%	-	0.3%	Utilities saw the largest gain amid hot weather.
US	NY Fed 1Y Inflation Exp. (Jan)	3.0%	3.1%	3.0%	Five-year expectations rose by 0.3ppts to 3.0%.
Tue 11					
AU	NAB Business Conditions (Jan)	3	-	6	WA was the only state where conditions improved.
AU	NAB Business Confidence (Jan)	4	-	-2	Confidence is strongest in WA too.
AU	Westpac Cons. Sent. (MoM, Feb)	0.1%	-	-0.7%	Households are still 'cautiously pessimistic'.
US	NFIB Small Buss. Optimism (Jan)	102.8	104.7	105.1	Uncertainty weighing on small business investment plans.
Wed 12					
AU	New Home Loans Val. (QoQ, Q4)	1.4%	-	5.3%	Growth limited by a decline in investor loans.
US	CPI (MoM, Jan)	0.5%	0.3%	0.4%	The fastest monthly growth since August 2023.
Thu 13					
AU	Consumer Infl. Expectations (Feb)	4.6%	-	4.0%	Despite a bounce, remain off their 2022 highs.
UK	GDP (QoQ, Q4)	0.1%	-0.1%	0.0%	Rise in government spending offset a fall in investment.
US	PPI (MoM, Jan)	0.4%	0.3%	0.5%	Annual rate steady at 3.5%.
US	Initial Jobless Claims (w/e 8 Feb)	213k	216k	220k	Continued claims declined to 1,850k in w/e 1 February.
Fri 14					
AU	Overseas Arrivals and Dep. (Dec)	-	-	-	Permanent arrivals down 4.2% YoY in December.
Tonight					
US	Retail Trade (MoM, Jan)	-	-0.2%	0.4%	A decline after three solid gains expected.
US	Industrial Production (MoM, Jan)	-	0.3%	0.9%	ISM report suggested a rise in manufacturing.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 17				
JP	GDP (QoQ, Q4)	0.3%	0.3%	Growth to be driven by investment, consumption to decline.
Tue 18				
AU	RBA Decision (Cash Rate Target)	4.10%	4.35%	A 25bps rate cut around 90% priced in.
AU	RBA Statement on Monetary Policy (Q1)	-	-	Will contain updated macroeconomic projections.
AU	RBA Governor Michele Bullock Speaks	-	-	Post-meeting press conference.
UK	Unemployment Rate (Dec)	4.6%	4.4%	Claimant count pointed to a steady unemployment rate in Dec.
Wed 19				
AU	Wage Price Index (QoQ, Q4)	0.8%	0.8%	Annual rate expected to fall to a two-year low of 3.2%.
NZ	RBNZ Decision (Feb)	3.75%	4.25%	The 50bps cut almost 90% priced in.
UK	CPI (MoM, Jan)	-	0.3%	Annual rate of inflation remains above the 2% target.
US	FOMC Minutes	-	-	The Fed has clearly adopted a wait-and-see stance.
Thu 20				
AU	Employment (monthly change, Jan)	15.0k	56.3k	Employment gains have been surprising to the upside.
AU	Unemployment Rate (Jan)	4.1%	4.0%	Below the RBA November projection path.
CH	1Y Loan Prime Rate	3.10%	3.10%	Loan prime rates are benchmark rates for Chinese loans.
Fri 21				
AU	Judo Bank Composite PMI (Feb, flash)	-	51.1	Signalled slightly faster, but still sluggish expansion in Jan.
JP	CPI (YoY, Jan)	4.0%	3.6%	This would be the highest inflation rate since early 2023.
JP	Jibun Bank Composite PMI (Feb, flash)	-	51.1	Japanese manufacturing remained in contraction in January.
EZ	HCOB Composite PMI (Feb, flash)	50.3	50.2	Growth stagnating in Germany, contraction in France in Jan.
UK	S&P Global Composite PMI (Feb, flash)	-	50.6	In expansion for over a year.
US	S&P Global Composite PMI (Feb, flash)	-	52.7	Predicted the January deterioration in the ISM services PMI.