

Highlights this week

- Abroad, in the first days of his second term, US President Donald Trump announced a review of US trade relationships due 1 April, which will be a base for future tariffs and new agreements. He also signed executive orders targeting illegal migration, energy and climate policies, as well as a withdrawal from the global corporate tax deal among other measures.
- In Australia, the Judo Bank composite PMI signalled only marginal expansion in January, but the Westpac leading index suggested slightly above-trend growth three- to nine-months into the future. The more dated business turnover indicator saw a solid increase in November and remained in a sluggish upward trend.

Highlights next week

- It will be a slightly busier week, with the major domestic highlight being the Q4 CPI report on Wednesday, which will be a critical report ahead of the RBA decision in early February. Other highlights include the December NAB business report on Tuesday, Q4 international price indices on Thursday, the Q4 PPI as well as the December private sector credit on Friday.
- The main event offshore will be the FOMC decision on Wednesday night, with no changes to the fed funds rate expected. Next week will also see preliminary Q4 GDP figures for the US and euro area, the Chinese PMIs for January as well as the US personal income and the outlays report for December, which will contain PCE price inflation targeted by the Fed.

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	8408 (↑98 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	4.32 (↓2 pt)	2-yr T-Notes	4.26 (↑2 pt)	S&P500	6119 (↑181 pt)
Eurozone	3.00 (0 pt)	3-yr T-Bond	3.91 (↓4 pt)	10-yr T-Notes	4.62 (0 pt)	DJIA	44565 (↑1412 pt)
UK	4.75 (0 pt)	10-yr T-Bond	4.47 (↓2 pt)	Jap 10-yr	1.23 (↑4 pt)	Nikkei	40041 (↑1848 pt)
Japan (Target)	0.50 (↑25 pt)	3-yr WATC Bond	4.07 (0 pt)	UK 10-yr	4.64 (↓4 pt)	CSI300	3840 (↑28 pt)
China (1Y LPR)	3.10 (0 pt)	10-yr WATC Bond	5.11 (0 pt)	Ger 10-yr	2.55 (0 pt)	Stoxx600	530 (↑10 pt)

Changes are since the issue of 20 December Market Watch.

Financial Markets

Interest Rates

Government bond yields are little changed this week, still off their highs from mid-January. This came as investors await more clarity on the policies of the new US administration.

In his first days in office, US President Donald Trump signed many executive orders which have conflicting impacts on inflation (downward impact on energy costs from energy policies, but upward from tighter immigration measures).

At the same time, President Trump refrained from immediate trade tariff hikes until a review on trade policies is concluded on 1 April. However, he also hinted that tariffs against Canada and Mexico could be introduced as early as on 1 February.

The absence of economic data provided no further guidance for the Fed, which will announce a monetary policy decision next week, with no changes expected. The RBA is still expected to cut rates in early February, though any upside surprise to the inflation figures due next week may change these expectations.

Equities

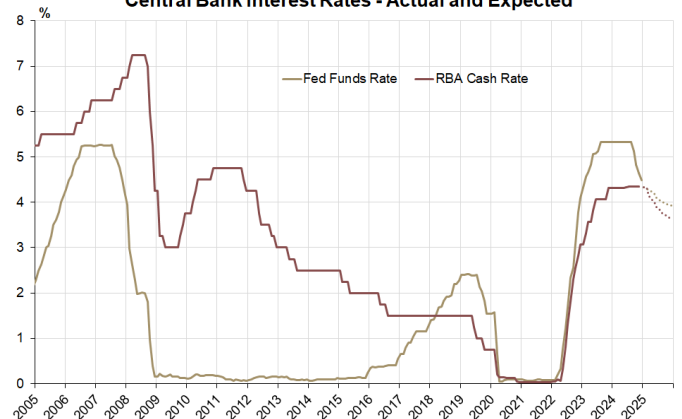
The rally on Wall Street re-accelerated after President Trump's inauguration.

On one hand, the threat of immediate tariffs appears to have been averted, while the other policies announced so far by the new administration are viewed as stimulatory for the US economy. Among these are withdrawal from the global corporate tax deal, which would see more competitive rates in the US, energy policies and support for the artificial intelligence industry.

Following consecutive solid gains, the S&P 500 reached a fresh all-time high on Thursday night, while the Dow Jones and Nasdaq are around 1% short of their records.

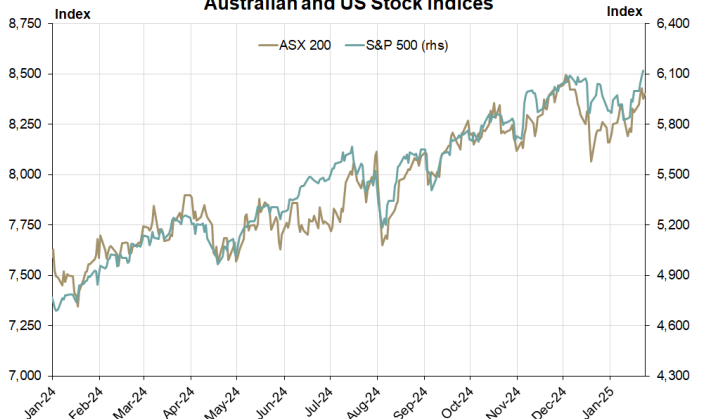
Domestically, the ASX 200 is also up for the week, but less than US stocks, as concerns over the impacts of Trump energy and tariff policies weighed on energy and materials.

Central Bank Interest Rates - Actual and Expected



Source: Bloomberg

Australian and US Stock Indices



Source: Bloomberg

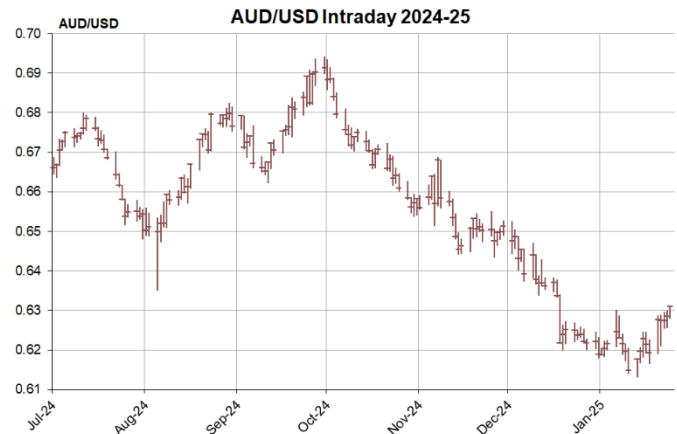
Currencies

The AUD/USD exchange rate continues to climb, rising above US\$0.63 for the first time in over two weeks, with the Aussie boosted and the greenback sliding after US President Donald Trump did not immediately impose tariffs upon his inauguration as he'd previously threatened.

Even with the rebound this week, the Aussie remains tied with the New Zealand dollar and the British pound as the worst performing G10 currencies since Donald Trump's election victory on 5 November.

The rebound in the Aussie over the past week sees it as one of the strongest G10 currencies behind the Swedish krone and the New Zealand dollar.

Japanese yen reversed last week's gains ahead of the expected Bank of Japan interest rate hike today, with traders considering the currency is exposed to downside risk if the post-meeting statement is not sufficiently hawkish.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6301	0.6310	0.6190	↑1.4	0.6942	0.6131
AUD/EUR		0.6039	0.6044	0.5996	↑0.2	0.6261	0.4926
AUD/GBP		0.5092	0.5104	0.5068	↑0.3	0.5289	0.4926
AUD/JPY		98.44	98.56	96.67	↑2	109.37	90.15
AUD/CNY		4.5804	4.5872	4.5275	↑0.6	4.9340	4.4955
EUR/USD		1.0433	1.0457	1.0266	↑1.3	1.1214	1.0178
GBP/USD		1.2375	1.2390	1.2161	↑1.1	1.3434	1.2100
USD/JPY		156.24	156.75	154.78	↑0.5	161.95	139.58
USD/CNY		7.2687	7.3239	7.2587	↓0.8	7.3328	7.0063

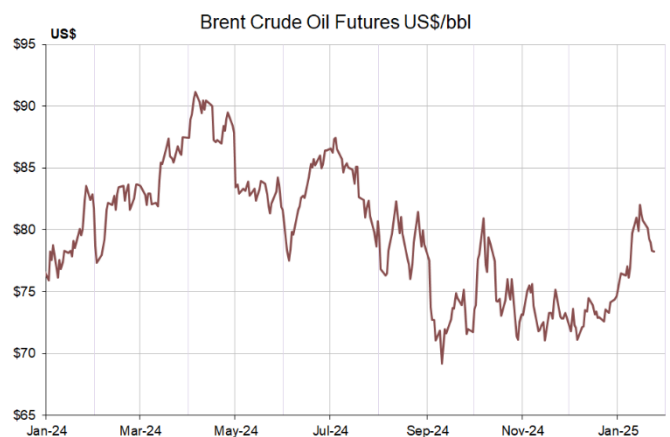
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6301	0.6303	0.6306	0.6314
AUD/EUR		0.6039	0.6015	0.5988	0.5935
AUD/GBP		0.5092	0.5095	0.5099	0.5107
AUD/JPY		98.44	97.45	96.55	94.87
AUD/NZD		1.1068	1.1056	1.1038	1.1003
AUD/SGD		0.8521	0.8494	0.8466	0.8413

Commodities

Gold picked up against the weaker greenback and is again threatening its record high of US\$2,790 an ounce from October last year. The gains came as safe-haven demand for the yellow metal picked up amid uncertainty over the future direction of US trade policy in the wake of Donald Trump's inauguration and aggressive statements.

Oil prices have slipped through the week and are on track for the first weekly decline of 2025. Prices were initially knocked down by Donald Trump's declaration of an energy emergency to boost support for US oil production. However, with the US already pumping a record 13 million barrels a day, there does not appear to be much of a problem with US supply. Oil came under further downward pressure overnight after President Trump told the World Economic Forum that he will push OPEC to lower oil prices.

Iron ore futures hit a one-month high on Tuesday after the threatened US tariff increase on Chinese imports failed to materialise, before slipping back a little.



Source: Bloomberg

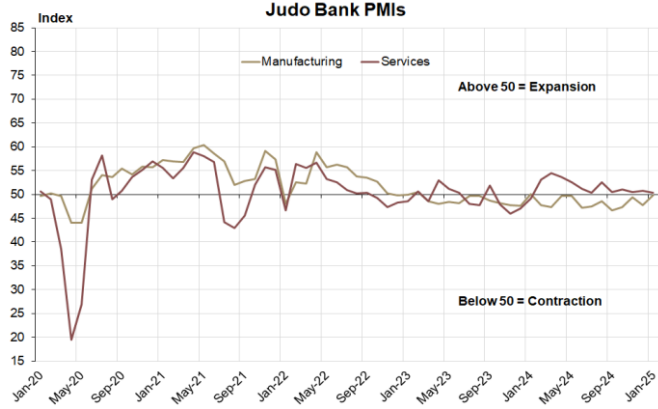
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,759.92	\$2,763.47	\$2,689.46	(↑\$44.5)	\$2,790.10	\$1,984.34
Brent Crude Oil (US\$)	\$77.96	\$81.23	\$77.60	(↓\$3.69)	\$92.18	\$68.68
Mogas95* (US\$)	\$86.31	\$88.01	\$84.99	(↓\$1.67)	\$109.19	\$76.37
WTI Oil (US\$)	\$74.32	\$79.44	\$74.01	(↓\$4.87)	\$87.67	\$65.27
CRB Index	309.36	311.35	308.87	(↓1.99)	312.17	265.48
Iron Ore Price 62% Fe (US\$) **	\$104.40	\$105.35	\$102.85	(↑\$1.4)	\$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.

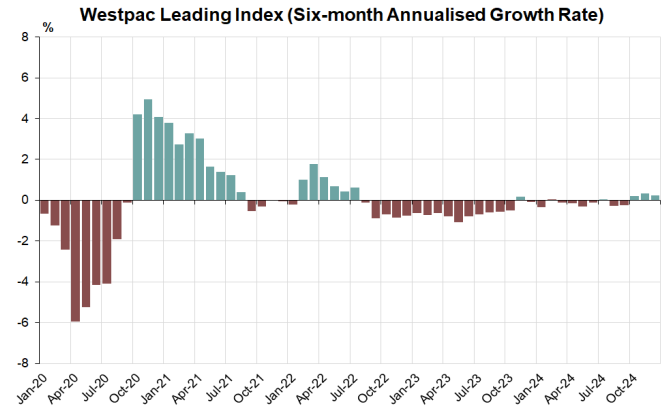
Domestic Economy

The **Judo Bank flash PMI** signals near-stagnant conditions in both services and manufacturing...



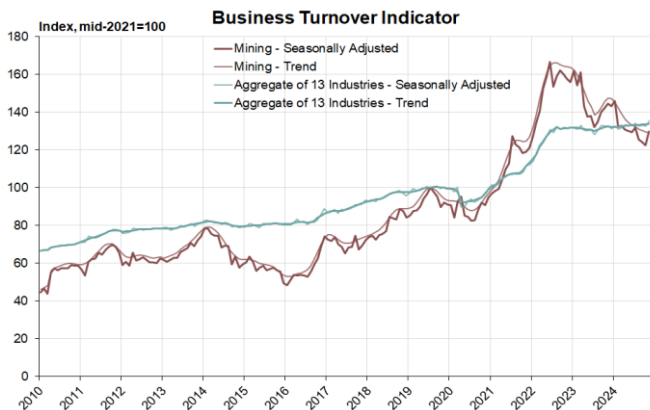
Source: Bloomberg

... but the **Westpac leading index** continues to point to slight improvement in growth in the period ahead.



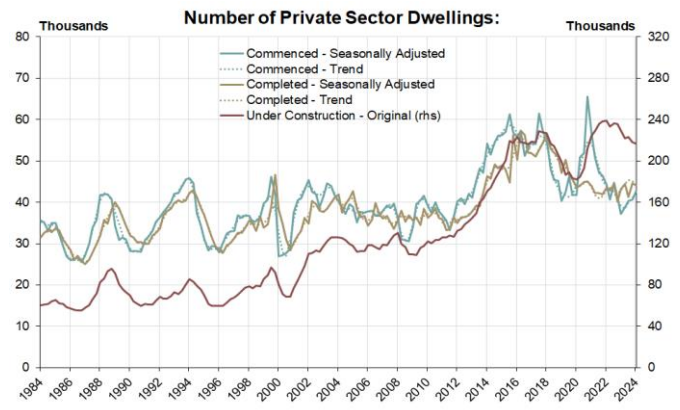
Source: Bloomberg

The **business turnover indicator** is still trending slightly upwards, with signs of stabilisation in mining.



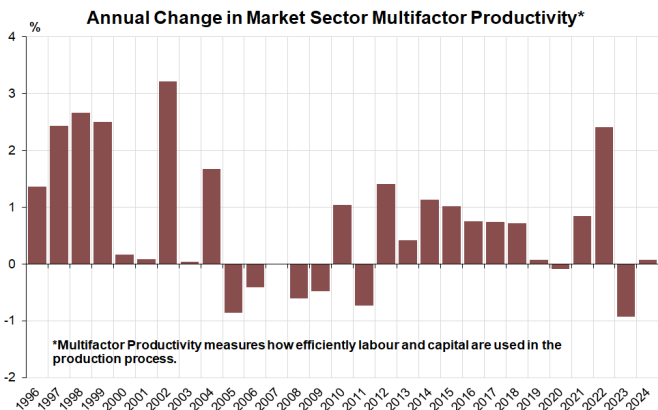
Source: ABS

Building commencements and completions remain low, and dwellings under construction are on a decline.



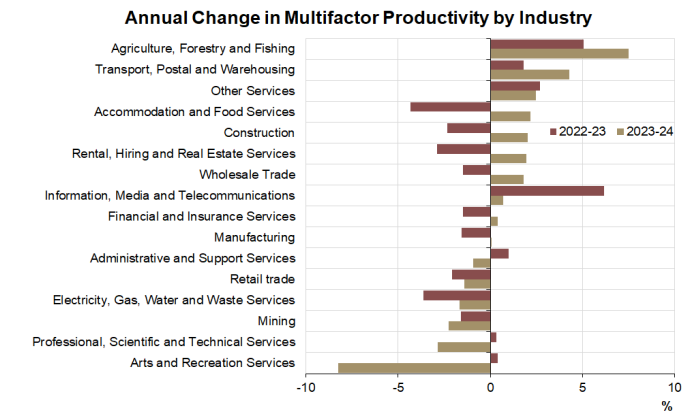
Source: ABS

Multifactor productivity growth was near stagnant in 2023-24, suggesting further inefficiency in the use of the means of production in the Australian market sector.



Source: ABS

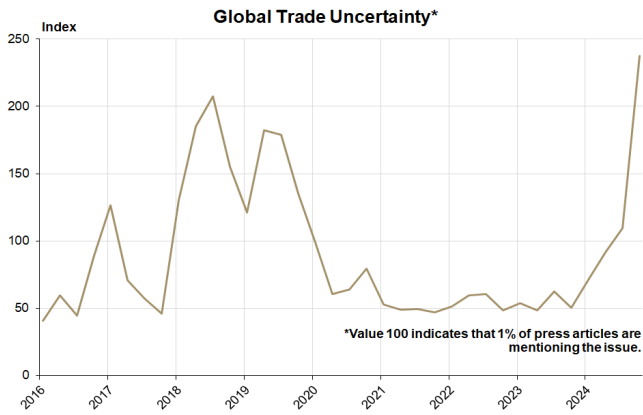
Part of the productivity story is the underperformance of some major industries, including **mining**.



Source: ABS

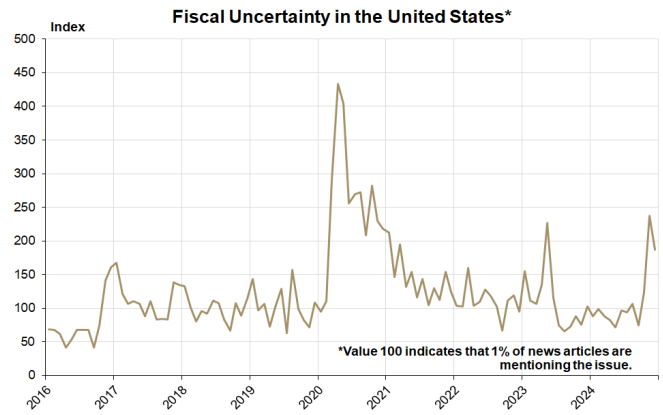
Global Economy

Trump tariff fears saw the **global trade uncertainty spike to unprecedented levels in Q4 2024.**



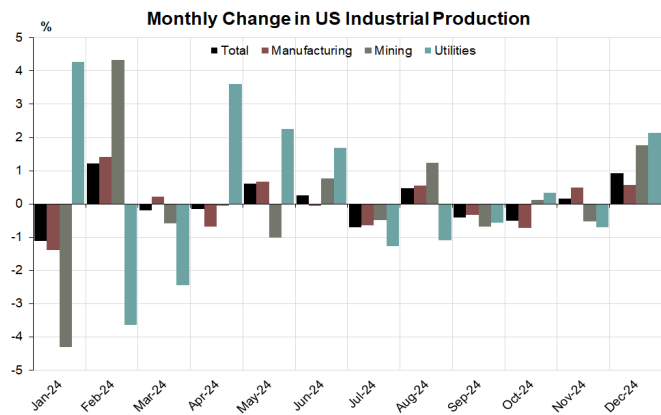
Source: IMF

US fiscal uncertainty eased a little in December, but remains elevated.



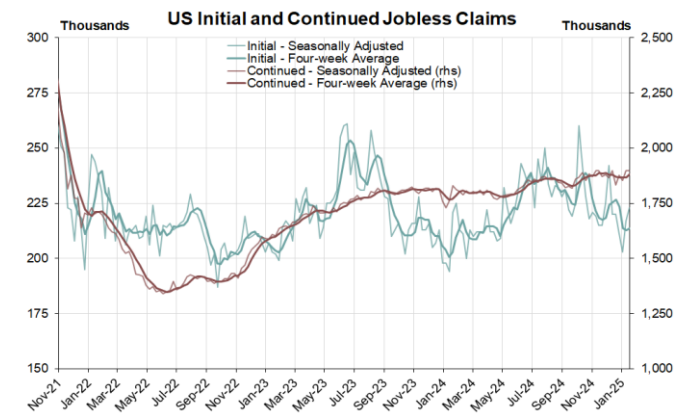
Source: IMF

Meanwhile, **US industrial production picked up in December, supported by the end of strikes at Boeing.**



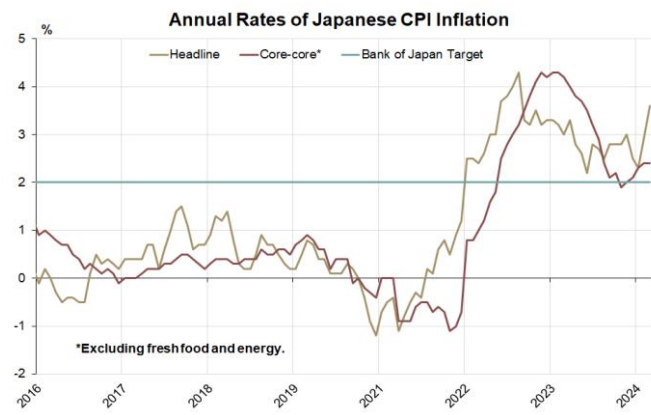
Source: Bloomberg

US initial jobless claims remain moderate, but continued claims are the highest since late 2021.



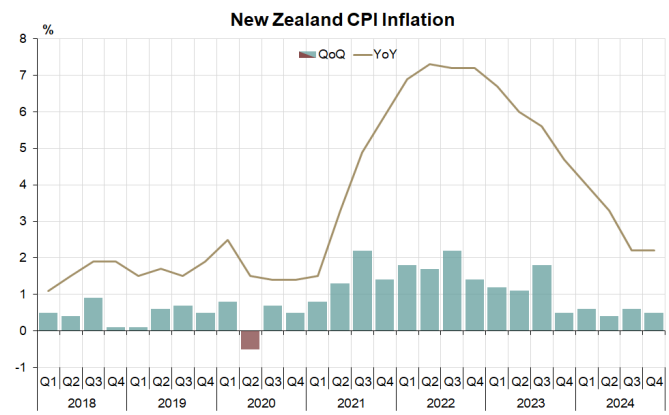
Source: Bloomberg

Elsewhere, **Japanese CPI inflation rates remain above the Bank of Japan's goal.**



Source: Bloomberg

New Zealand CPI figures, historically good indicators for Aussie price growth, suggest further disinflation.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 20					
CH	PBoC Decision (5Y LPR)	3.60%	3.60%	3.60%	One-year loan prime rate also unchanged at 3.10%.
Tue 21					
AU	ANZ Cons. Conf. (w/e 18 Jan)	-1.5%	-	-0.5%	Inflation expectations the highest since mid-2024.
Wed 22					
AU	Westpac Leading Index (MoM, Dec)	-0.02%	-	0.06%	Annualised 6M rate suggests above-average growth.
AU	Building Activity (Q3)	-	-	-	Commencements rose, completions declined; both low.
AU	Multifactor Productivity (2023-24)	0.1%	-	-0.9%	Further decline if adjusted for quality of hours worked.
NZ	CPI (QoQ)	0.5%	0.5%	0.6%	Annual rate at 2.1%, in line with the RBNZ's target.
Thu 23					
US	Initial Jobless Claims (w/e 18 Jan)	223k	220k	217k	Continued claims have again approached 1.9 million.
Fri 24					
AU	Judo Bank Comp. PMI (Jan, flash)	50.4	-	50.2	Cost and price pressures the highest since Q3 2024.
AU	Business Turnover Ind. (MoM, Nov)	2.0%	-	-0.4%	Mining saw the largest gain of 5.7% in November.
JP	BoJ Decision (Policy Rate)	0.50%	0.50%	0.25%	BoJ revised its inflation forecasts upwards.
JP	CPI (YoY, Dec)	3.6%	3.4%	2.9%	'Core-core' inflation steady but above the BoJ's target.
JP	Jibun Bank Comp. PMI (Jan, flash)	51.1	-	50.5	Contraction in Japanese manufacturing deepened.
Tonight					
EZ	HCOB Composite PMI (Jan, flash)	-	49.7	49.6	Largest member states weighing on euro area growth.
UK	S&P Global Comp. PMI (Jan, flash)	-	50.1	50.4	UK economy just muddling through.
US	S&P Global Comp. PMI (Jan, flash)	-	55.6	55.4	Has suggested robust growth since mid-2024.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 27				
CH	NBS Composite PMI (Jan)	-	52.2	First insights into the Chinese economy in early 2025.
Tue 28				
AU	NAB Business Conditions (Dec)	-	2	Dropped below the series average in November.
AU	NAB Business Confidence (Dec)	-	-3	Saw renewed deterioration in November.
Wed 29				
AU	CPI (QoQ, Q4)	0.4%	0.8%	Critical figure ahead of the RBA decision on 18 February.
AU	Monthly CPI Indicator (YoY, Dec)	2.5%	2.3%	Annual inflation for the entire quarter to fall 0.2ppts to 2.6%.
US	Durable Goods Orders (MoM, Dec)	0.8%	-1.2%	To be partially propped up by the volatile transport orders.
US	Conference Board Cons. Conf. (Jan)	106.0	104.7	Remains well off its 2021 highs.
US	FOMC Decision (IoER)	4.40%	4.40%	Rate cut expectations have eased considerably in early 2025.
Thu 30				
AU	International Price Indices (Q4)	-	-	AUD's depreciation adding upward pressure to import prices.
EZ	GDP (QoQ, Q4, flash)	-	0.4%	Euro area muddling through.
US	GDP (QoQ Annualised, Q4, advance est.)	2.6%	3.1%	GDPNow model suggests a slight upside surprise.
Fri 31				
AU	PPI (QoQ, Q4)	-	1.0%	Construction costs are the major driver of PPI inflation.
AU	Private Sector Credit (MoM, Dec)	0.5%	0.5%	Has seen steady growth since mid-2021.
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 0.1ppts to 2.5%.