

Highlights this week

- Abroad, the FOMC delivered a hawkish fed funds rate cut, lifting the interest rate projection path for the coming years and for the longer run. Other G10 central banks that announced their decisions this week mostly kept their interest rates unchanged.
- Data-wise, the flash PMIs for December confirmed strong expansion in the US and stagnation or contraction in other major advanced economies. US retail sales saw another solid gain in November, while industrial production declined again. The Chinese economic data for November was mostly weak.
- In Australia, the Judo Bank flash PMIs suggested that the private sector activity was stagnant in December, while Westpac consumer sentiment deteriorated but remained well above its lows from earlier this year.

Coming up

- The only potentially domestic market-moving event during the festive season will be RBA Board minutes on Tuesday 24 December.
- The US highlights will be Conference Board consumer confidence and ISM manufacturing PMI for December, durable goods for November and Case-Shiller house price indices for October. Chinese PMIs will be published at the turn of December and January.
- This is the last Market Watch Weekly for this year. The Economics Team wishes a happy festive season to all readers. The next edition of the report will be published on 3 January 2025.

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	8081	(↓190 pt)
US (IOR)	4.40	(↓25 pt)	90-day Bills	4.45	(↓1 pt)	2-yr T-Notes	4.31	(↑12 pt)	S&P500	5867	(↓184 pt)
Eurozone (Deposit)	3.00	(0 pt)	3-yr T-Bond	3.98	(↑12 pt)	10-yr T-Notes	4.55	(↑23 pt)	DJIA	42342	(↓1572 pt)
UK	4.75	(0 pt)	10-yr T-Bond	4.47	(↑17 pt)	Jap 10-yr	1.05	(↑2 pt)	Nikkei	38837	(↓637 pt)
Japan (Target)	0.25	(0 pt)	3-yr WATC Bond	4.13	(↑9 pt)	UK 10-yr	4.58	(↑22 pt)	CSI300	3945	(↓83 pt)
China (1Y LPR)	3.10	(0 pt)	10-yr WATC Bond	5.05	(↑16 pt)	Ger 10-yr	2.31	(↑10 pt)	Stoxx600	507	(↓13 pt)

Financial Markets

Interest Rates

The FOMC cut the fed funds rate target range by 25 basis points to 4.25-4.50% this week, but increased its fed funds rate projection path, which now implies only two cuts in each of 2025 and 2026. The longer-run fed funds rate estimate was increased by 10 basis points to 3.0%.

Fed funds rate expectations more than adapted to the updated FOMC projections, with only one cut fully priced in for 2025. This shift led to a strong increase in government bond yields, both in the US and internationally, though the rise in Commonwealth bond yields was relatively modest.

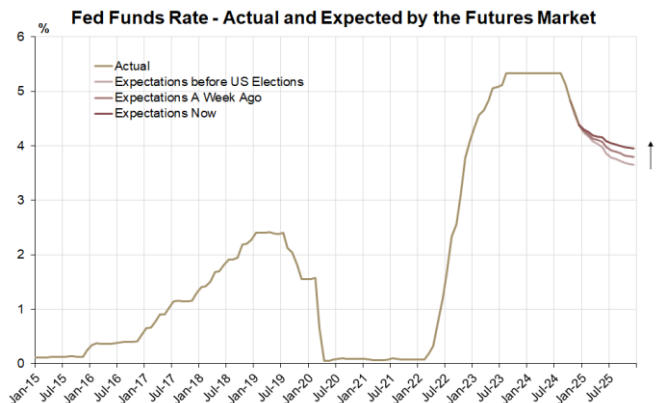
This week saw monetary policy decisions by four further G10 central banks. While the Bank of England, Bank of Japan and Norges Bank decided to stay put, the Swedish Riksbank cut its policy rate by 25 basis points to 4.50%.

Equities

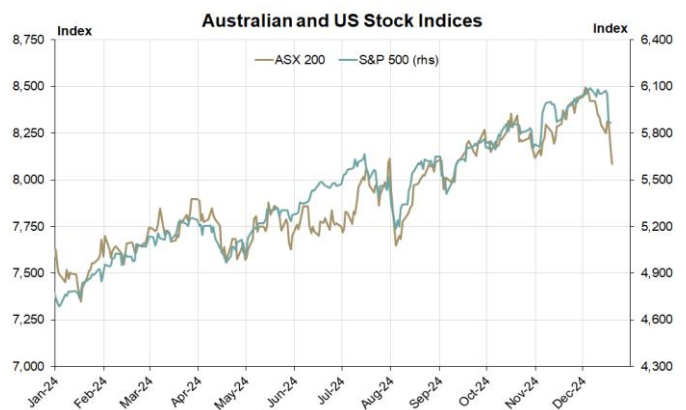
It was one of the worst weeks in the global equity markets this year. The MSCI World index, which is a gauge of global stocks, dropped by 3.2% week to date. If maintained tonight, this will be the largest weekly loss since early September.

Global equity prices were first dragged down by another set of disappointing data from China, which affected particularly markets in the Asia-Pacific region. The declines accelerated on Wednesday night, when the 'hawkish' fed funds rate cut triggered the strongest daily losses on Wall Street since August.

At the time of writing, the Australian ASX 200 is down 2.3% from the already depressed level a week ago, with industrials being the only sector that remains in black. The strongest losses were registered in materials and energy, reflecting the decline in commodity prices this week.



Source: Bloomberg.



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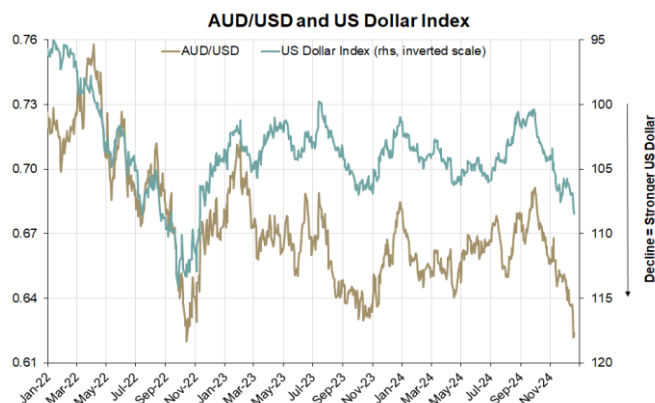
Currencies

The Australian dollar had another dismal week, depreciating sharply against all the major currencies.










The AUD depreciated most against the strong USD, which received a boost from the upward revision of fed funds rate expectations after the FOMC meeting on Wednesday night. The AUD/USD temporarily slid below US\$0.62, to be the lowest since October 2022, and is trading at US\$0.6223 at the time of writing.







However, the Australian dollar weakened significantly against the euro, Japanese yen and British pound. The AUD/GBP is now at the lowest level since before Brexit in late 2019.

The AUD was the second weakest G10 currency this week, surpassed only by the New Zealand dollar. Outside of the G10 group, the political turmoil in Korea translated into sharp depreciation of its currency, which is the weakest since the heights of the global financial crisis in 2008-09.



Source: Bloomberg.

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6223	0.6383	0.6199	↓2.2	0.6942	0.6199
AUD/EUR		0.6004	0.6070	0.5983	↓1.3	0.6261	0.4926
AUD/GBP		0.4982	0.5051	0.4926	↓0.8	0.5393	0.4926
AUD/JPY		98.03	98.74	95.81	↑0.7	109.37	90.15
AUD/CNY		4.5617	4.6460	4.5338	↓1.5	4.9340	4.5273
EUR/USD		1.0364	1.0534	1.0344	↓1	1.1214	1.0335
GBP/USD		1.2490	1.2729	1.2487	↓1.4	1.3434	1.2300
USD/JPY		157.54	157.93	153.16	↑3	161.95	139.58
USD/CNY		7.2958	7.2993	7.2720	↑0.3	7.2993	7.0063

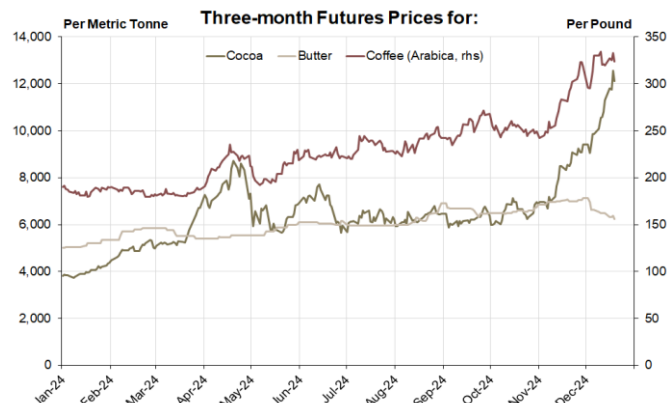
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6223	0.6224	0.6226	0.6233
AUD/EUR		0.6004	0.5980	0.5952	0.5892
AUD/GBP		0.4982	0.4986	0.4991	0.5001
AUD/JPY		98.03	96.97	96.02	94.29
AUD/NZD		1.1081	1.1071	1.1051	1.1005
AUD/SGD		0.8471	0.8441	0.8410	0.8350

Commodities

The Commodity Research Bureau index ebbed by 1.0% this week, with prices of industrial commodities dragged down by concerns over the Chinese economic outlook following another set of disappointing activity data.

The most impacted commodity was iron ore, which saw a 2.2% fall in futures prices. Brent futures declined by 0.6% this week, despite some speculation that OPEC+ might delay tapering of its production cuts beyond Q1 2025.

From news more relevant to the upcoming festive season, cocoa and coffee futures are trading near record highs, with climate change being the main culprit in both cases. For gingerbread ingredients, butter futures are also near record levels, pushed up by lower production in the US, European Union and New Zealand.



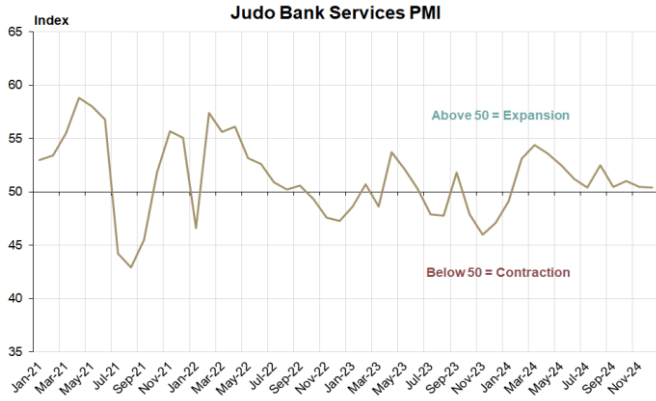
Source: Bloomberg

	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,594.12	\$2,664.45	\$2,583.57	(↓\$96.96)	\$2,790.10	\$1,984.34
Brent Crude Oil (US\$)	\$72.88	\$74.60	\$72.48	(↓\$0.45)	\$92.18	\$68.68
Mogas95* (US\$)	\$83.01	\$86.56	\$82.63	(↓\$2.64)	\$109.19	\$76.37
WTI Oil (US\$)	\$69.09	\$71.44	\$69.07	(↓\$0.86)	\$87.67	\$65.27
CRB Index	290.21	293.96	290.21	(↓3.06)	300.23	261.65
Iron Ore Price 62% Fe (US\$) **	\$101.15	\$105.80	\$100.90	(↓\$3.45)	\$143.50	\$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.

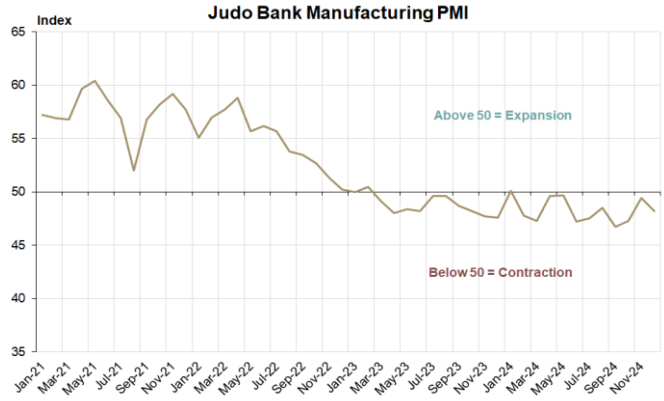
Domestic Economy

The Judo Bank services flash PMI suggested near-stagnant conditions in December.



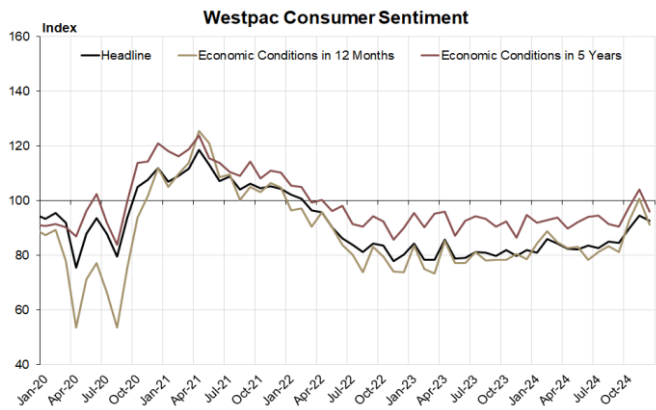
Source: Bloomberg

The Judo Bank manufacturing PMI pointed to renewed acceleration in the pace of contraction in December.



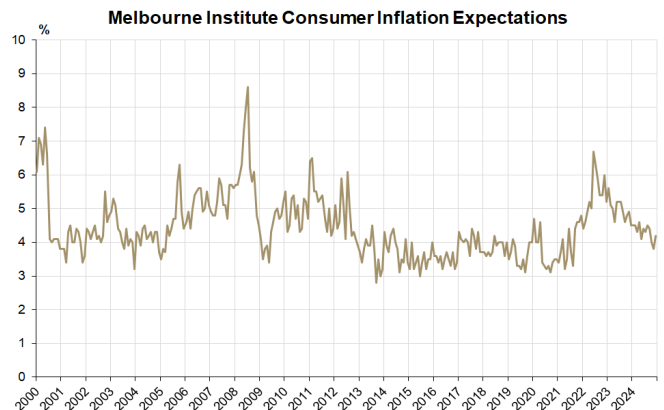
Source: Bloomberg

Westpac consumer sentiment deteriorated in December, dragged down by worse economic outlook.



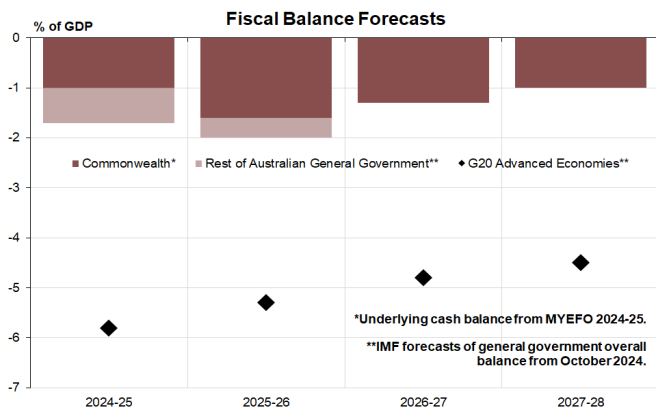
Source: Bloomberg

Melbourne Institute consumer inflation expectations ticked up in December, but are well off their 2022 peak.



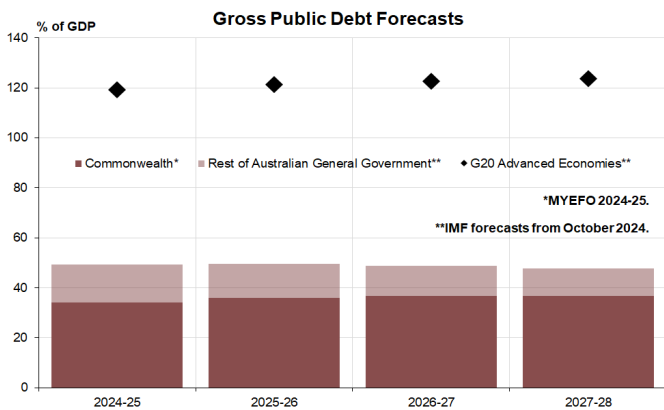
Source: Bloomberg

The Australian fiscal deficit remains very narrow compared to other advanced economies...



Source: Commonwealth Treasury / International Monetary Fund

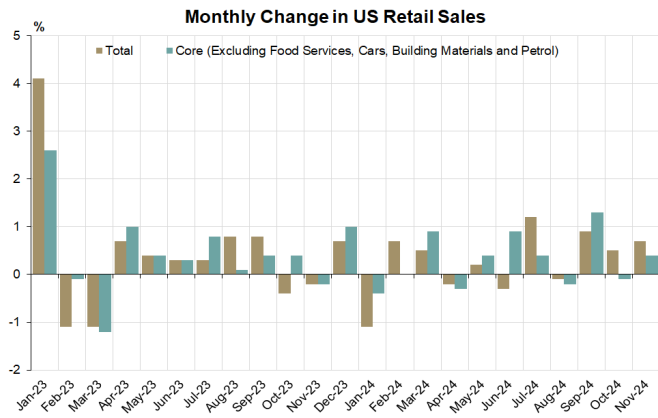
... while Australian general government gross debt is very low compared to its peers.



Source: Commonwealth Treasury / International Monetary Fund

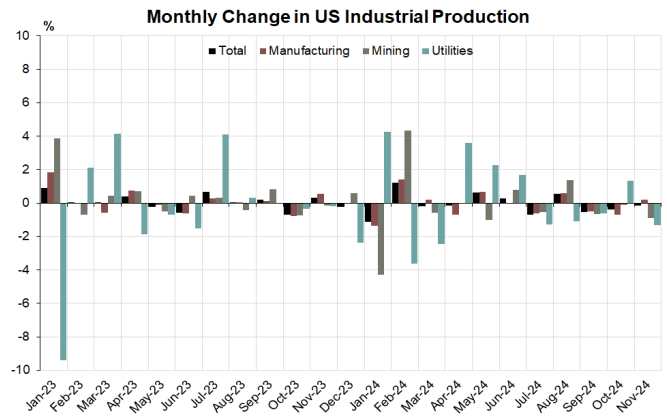
Global Economy

US retail sales saw another solid increase in November...



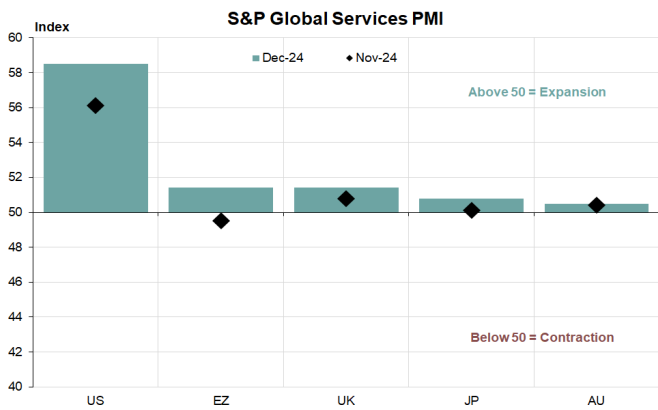
Source: Bloomberg

... while **US industrial production** saw a slight decline, dragged down by lower activity in mining and utilities.



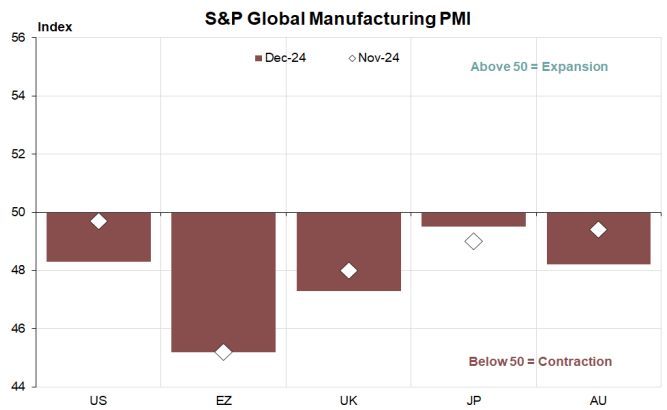
Source: Federal Reserve

The **services PMIs** are now all in expansion in all major advanced economies, with US being the leader by far.



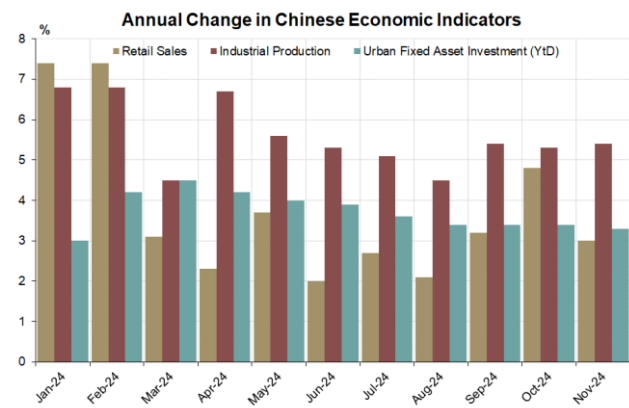
Source: S&P Global

The **manufacturing PMIs**, however, remain in contraction across the major advanced economies.



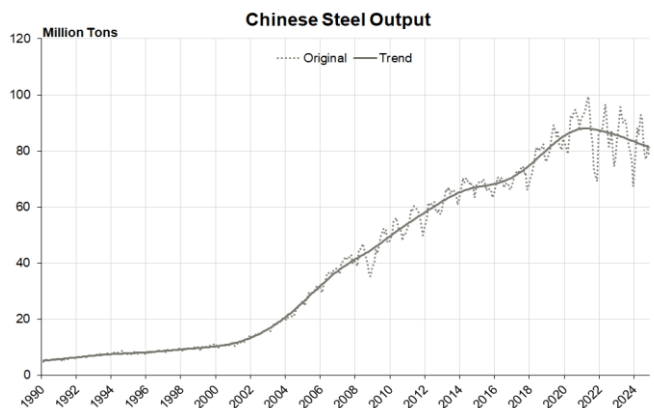
Source: S&P Global

In **China**, retail trade has again shown signs of weakness, while industrial output is growing steadily.



Source: Bloomberg

Chinese steel output is trending downwards, but remains high by historical standards.



Source: Bloomberg

This Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 16					
AU	Judo Bank Composite PMI (Dec)	49.9	-	50.2	Employment fell for the first time since August 2021.
JP	Jibun Bank Composite PMI (Dec)	50.8	-	50.1	The pace of contraction in manufacturing has slowed.
CH	Retail Sales (YoY, Nov)	3.0%	5.0%	4.8%	Chinese stimulus to focus on reviving consumption.
CH	Industrial Production (YoY, Nov)	5.4%	5.4%	5.3%	Steel output growth slowed 0.5ppts to 3.0% YoY.
CH	Urban Asset Inv. (YoY YtD, Nov)	3.3%	3.5%	3.4%	The slowest pace of growth so far this year.
EZ	HCOB Composite PMI (Dec, flash)	49.5	47.5	48.3	European manufacturing still in deep contraction.
UK	S&P Global Composite PMI (Dec)	50.5	50.6	50.5	Has been a poor indicator for the monthly GDP of late.
US	S&P Global Composite PMI (Dec)	56.6	55.1	54.9	Suggested the fastest expansion in nearly three years.
Tue 17					
AU	Westpac Cons. Sent. (MoM, Dec)	-2.0%	-	5.3%	Decline due to deterioration in economic outlook.
US	Retail Sales (MoM, Nov)	0.7%	0.6%	0.5%	Core retail sales rose by another 0.4%.
US	Industrial Production (MoM, Nov)	-0.1%	0.3%	-0.4%	Manufacturing up by 0.2%, first rise in three months.
Wed 18					
AU	Westpac Lead. Index (MoM, Dec)	0.05%	-	0.16%	Six-month annualised growth remained positive.
AU	MYEFO (2024-25)	-	-	-	Despite some widening, debt and deficit are in check.
UK	CPI (MoM, Nov)	0.1%	0.1%	0.6%	Annual rate of inflation back above the 2% target.
US	FOMC Decision (IoER)	4.40%	4.40%	4.65%	FOMC now sees only two cuts next year.
Thu 19					
AU	MI Cons. Infl. Expectations (Dec)	4.2%	-	3.8%	Still well off its 2022 peak of 6.7%.
JP	BoJ Decision (Policy Rate)	0.10%	0.10%	0.10%	A rate hike was voted on at the meeting.
SE	Riksbank Decision (Policy Rate)	2.50%	2.75%	2.75%	Swedish inflation is in line with the Riksbank's target.
NO	Norges Bank Decision (Policy Rate)	4.50%	4.50%	4.50%	One of the three G10 central banks in the easing cycle.
UK	BoE Decision (Bank Rate)	4.25%	4.25%	4.25%	Bank rate cuts expected to resume next year.
US	Initial Jobless Claims (w/e 14 Dec)	220k	230k	242k	Continued claims are climbing steadily.
Fri 20					
AU	Private Sector Credit (MoM, Dec)	0.5%	0.5%	0.6%	Annual rate of growth hit 6.2%.
JP	CPI (YoY, Nov)	2.9%	2.9%	2.3%	'Core-core' inflation picked up 0.1ppts to 2.4%.
Tonight					
US	Personal Spending (MoM, Nov)	-	0.5%	0.4%	Real spending nearly stagnated in October.
US	PCE Price Index (MoM, Nov)	-	0.2%	0.2%	Annual rate expected to climb 0.2ppts to 2.5%.
US	UoM Cons. Sent. (Dec, prelim.)	-	74.2	74.0	Will contain inflation expectations tracked by the Fed.

Coming Up

Date	Event	Forecast	Previous	Comment
Mon 23				
US	Conference Board Cons. Conf (Dec)	113.0	111.7	More focused on the labour market than the UoM equivalent.
Tue 24				
AU	RBA Board Minutes (Dec)	-	-	More insights into why the RBA suddenly hit a dovish tone.
US	Durable Goods Orders (MoM, Nov)	-0.3%	0.2%	To be dragged by lower transport orders.
Tue 31				
CH	NBS Composite PMI (Dec)	-	50.8	First insights into the Chinese economy in December.
US	C-S Hse Price Index 20 Cities (MoM, Oct)	-	0.2%	US house prices are climbing to record highs.
Thu 02				
CH	Caixin Manufacturing PMI (Dec)	51.7	51.5	Industrial output was the only bright spot in November.
Fri 03				
US	ISM Manufacturing PMI (Dec)	48.5	48.4	S&P Global PMIs also pointed to contraction.