

Highlights this week

- Aussie dwelling approvals slipped, annual trimmed mean inflation (the RBA's favoured measure of underlying inflation), eased, the Aussie trade surplus hit a 10-month high, and Black Friday promotions boosted household spending in November. Job vacancies picked up in the three months to November.
- The Caixin Chinese services PMI hit a seven-month high, and inflation remained very low in December. In the US, the ISM services PMI showed US services sector growth accelerated in December. US job openings climbed in November, however, private sector hiring slowed. The ADP report signalled tepid job creation in December.

Coming up

- Data next week in Australia includes the Melbourne Institute inflation gauge (Dec) and ANZ-Indeed job ads (Dec) on Monday, and the Westpac-Melbourne institute consumer sentiment index (Jan) on Tuesday. However, the undoubted highlight will be the labour force report (Dec) on Thursday.
- The offshore data highlights will be Chinese external trade (Dec) expected Monday, followed by the monthly activity data (Dec), and Q4 GDP on Friday. The major US economic data will be the PPI (Dec) on Tuesday, the CPI (Dec) on Wednesday, retail sales (Dec) on Thursday, and industrial production (Dec) 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	8287 (↓206 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	4.35 (↓10 pt)	2-yr T-Notes	4.26 (↓5 pt)	S&P500	5918 (↑51 pt)
Eurozone (Deposit)	3.00 (0 pt)	3-yr T-Bond	3.93 (↓5 pt)	10-yr T-Notes	4.68 (↑13 pt)	DJIA	42635 (↑293 pt)
UK	4.75 (0 pt)	10-yr T-Bond	4.52 (↑5 pt)	Jap 10-yr	1.19 (↑14 pt)	Nikkei	39412 (↑574 pt)
Japan (Target)	0.25 (0 pt)	3-yr WATC Bond	4.05 (↓8 pt)	UK 10-yr	4.81 (↑23 pt)	CSI300	3767 (↓179 pt)
China (1Y LPR)	3.10 (0 pt)	10-yr WATC Bond	5.11 (↑7 pt)	Ger 10-yr	2.57 (↑26 pt)	Stoxx600	516 (↑9 pt)

Changes are since the issue of 20 December Market Watch.

Financial Markets

Interest Rates

Traders have continued to build on their pricing for a cash rate cut from the RBA Board at its first meeting in February. The minutes of the RBA Board meeting released on Christmas Eve, filled out the surprisingly dovish turn in the post-meeting statement, with expectations for a cut further fuelled by the decline in trimmed mean inflation in the monthly CPI indicator for November.

Aussie bond yields have fallen at the short end of the curve as cash rate cut expectations picked up, with 75bps of cuts now fully priced in for 2025. However, 10-year yields have been dragged higher by the rise in global yields.

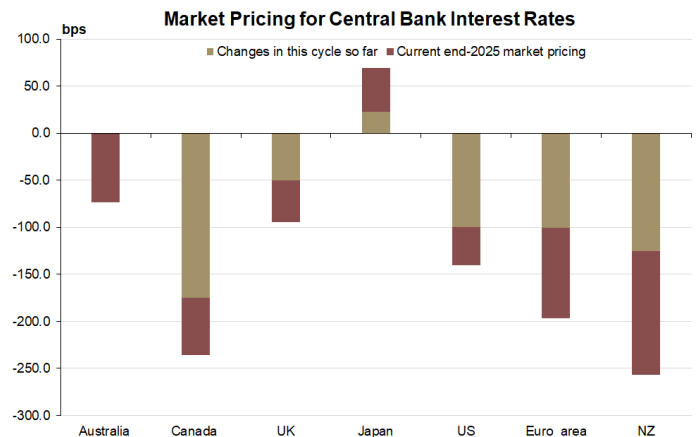
In the US, the minutes of the December FOMC meeting showed most participants saw the decision to cut the fed funds rate as finely balanced. However, this had little impact on market pricing, with the FOMC having already flagged a slowdown in the pace of interest rate cuts in the economic projections released on the day of the meeting.

Stronger than expected US economic data and ongoing concerns over the outlook for the Federal government budget helped push long-term US Treasury yields higher. European bond yields have surged in early 2025 on a mix of budget concerns in the UK, and increased bond supply in euro area.

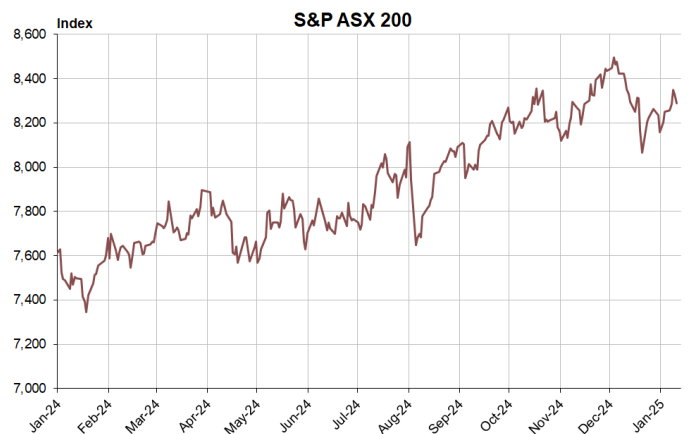
Equities

The Aussie equity market had a strong start to 2025, rising over the first five trading days of the year. However, the market has hit a pothole over the past couple of days as global sentiment soured a little, partly on rising apprehension on the impact of President-elect Donald Trump's tariff proposals on the global economy, with his 20 January inauguration approaching fast.

There had been speculation that the tariff increases would not be as high or as wide threatened in the Presidential campaign. However, all the rhetoric this week has been to the contrary, with President-elect Trump slapping down a media report that the tariffs would be narrowly based.



Source: Bloomberg.



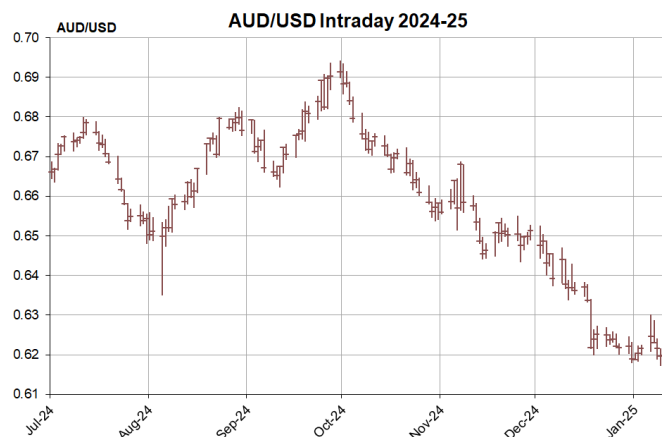
Source: Bloomberg.

Currencies

The Aussie dollar slipped to its lowest levels against the US dollar in over two years, with the exchange rate dipping to as low as US\$0.6172 on Thursday. Much of the decline in the AUD/USD has been driven by a rising greenback as the US Dollar index hit two-year highs. However, the fall in the AUD/USD is also being fuelled by rising uncertainty ahead of Donald Trump's inauguration as US President later this month and just how soon and to what extent he increases tariffs on goods imports into the US.

The Aussie has also been weighed down by rising expectations for an RBA interest rate cut in February.

The British pound has been by far the weakest of the major currencies as mounting concerns over the outlook for the UK Government budget saw a sharp selloff in UK Government bonds (gilts). The rise in gilt yields appears to have done little to make the pound more attractive.



Source: Bloomberg.

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6199	0.6302	0.6172	↓0.4	0.6942	0.6172
AUD/EUR		0.6018	0.6051	0.6001	↑0.2	0.6261	0.4926
AUD/GBP		0.5038	0.5053	0.4979	↑1.1	0.5289	0.4926
AUD/JPY		98.09	99.17	97.46	↑0.1	109.37	90.15
AUD/CNY		4.5447	4.6096	4.5257	↓0.4	4.9340	4.5118
EUR/USD		1.0300	1.0437	1.0273	↓0.6	1.1214	1.0226
GBP/USD		1.2303	1.2576	1.2239	↓1.5	1.3434	1.2239
USD/JPY		158.24	158.55	156.24	↑0.4	161.95	139.58
USD/CNY		7.3319	7.3321	7.3120	↑0.5	7.3321	7.0063

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6199	0.6201	0.6204	0.6212
AUD/EUR		0.6018	0.5995	0.5969	0.5916
AUD/GBP		0.5038	0.5043	0.5048	0.5060
AUD/JPY		98.09	97.09	96.17	94.47
AUD/NZD		1.1078	1.1068	1.1048	1.1002
AUD/SGD		0.8482	0.8455	0.8429	0.8378

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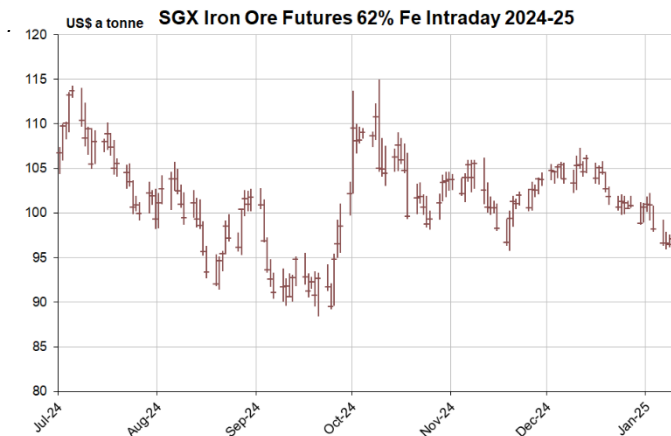
Commodities

The CRB commodity price index hit the highest level since May 2024 earlier this week before edging down.

Gold climbed as political and economic uncertainty continued to rise, hitting its highest level in almost four weeks.

Crude oil prices have risen to the highest levels since October 2024, supported by ongoing geopolitical uncertainty in the Middle East and supply restrictions. Increased demand for heating oil due to cold weather in the US and Europe has also helped push prices higher.

Iron ore futures prices have started the new year on the back foot as Chinese steel prices fell in early January and steel mills in China plan to conduct maintenance ahead of the Lunar New Year holiday beginning later this month.



Source: Bloomberg

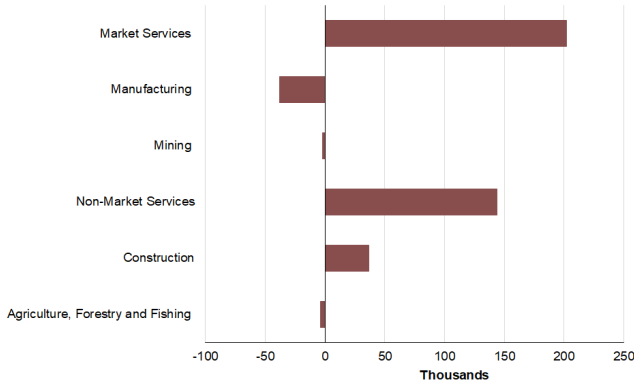
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,674.42	\$2,678.45	\$2,614.81	(↑\$80.3)	\$2,790.10	\$1,984.34
Brent Crude Oil (US\$)	\$77.19	\$77.89	\$75.68	(↑\$4.31)	\$92.18	\$68.68
Mogas95* (US\$)	\$85.22	\$88.02	\$84.15	(↑\$2.21)	\$109.19	\$76.37
WTI Oil (US\$)	\$74.17	\$75.29	\$72.84	(↑\$5.08)	\$87.67	\$65.27
CRB Index	297.39	299.28	296.77	(↑7.18)	300.23	262.31
Iron Ore Price 62% Fe (US\$) **	\$97.30	\$99.25	\$95.90	(↓\$3.85)	\$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.
 Changes are since the issue of 20 December Market Watch.

Domestic Economy

The government dominated non-market sector was a major driver of **employment growth** in 2024.

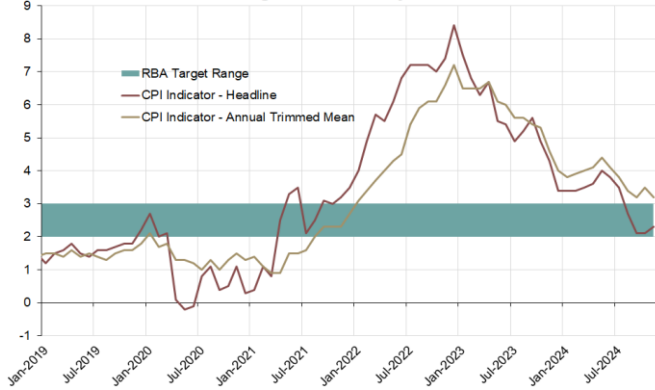
Annual Change in Employment - Australia November 2024



Source: ABS

The **monthly CPI** suggests underlying inflation made further progress toward target in November.

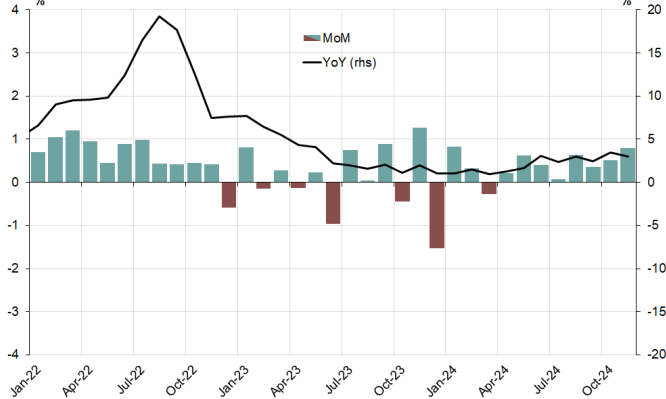
Annual Change in the Monthly CPI Indicator



Source: ABS

Australian retail trade was boosted by Black Friday sales in November.

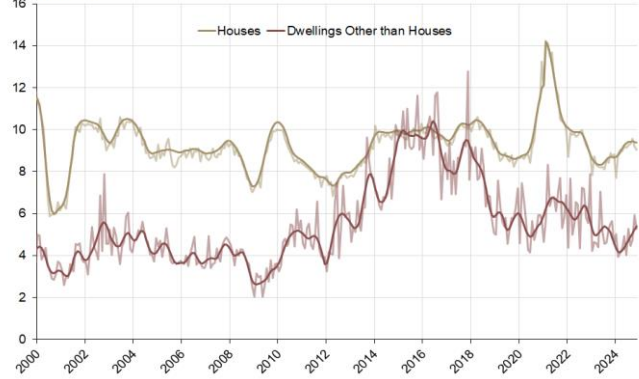
Retail Sales Growth



Source: ABS

Dwelling approvals remained below par in November 2024.

Number of Private Dwelling Approvals



Source: ABS

The labour market remains tight with the **unemployed to job vacancy ratio** still well below pre-COVID levels.

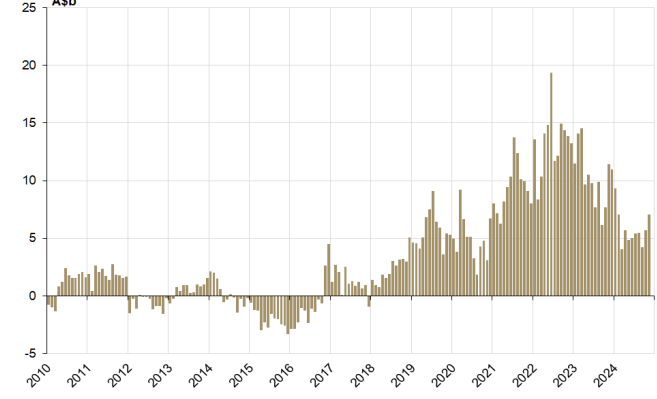
Number of Unemployed per Job Vacancy



Source: ABS

The Aussie **goods trade surplus** hit a 10-month high in November.

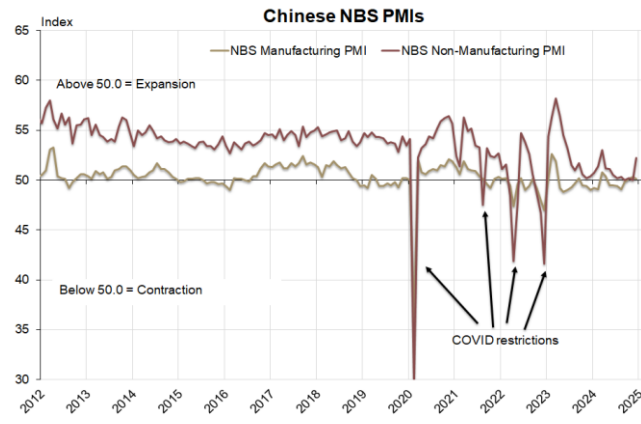
International Goods Trade Balance



Source: ABS

Global Economy

Chinese business activity picked up in December on improvements in services and construction.



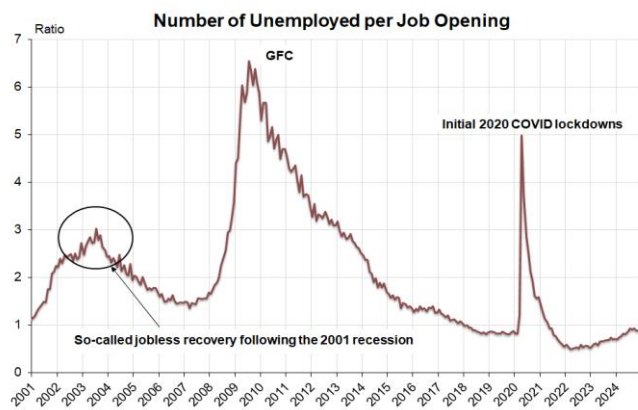
Source: Bloomberg

Chinese inflation remains very weak, giving the Government plenty of room to stimulate the economy.



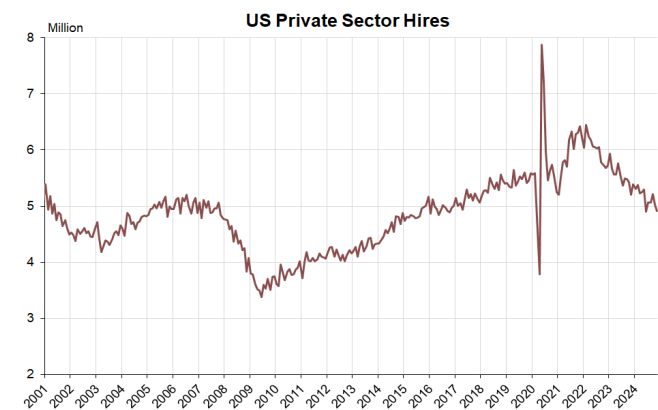
Source: Bloomberg

The US unemployment to **job openings** ratio suggests the labour market remains tight...



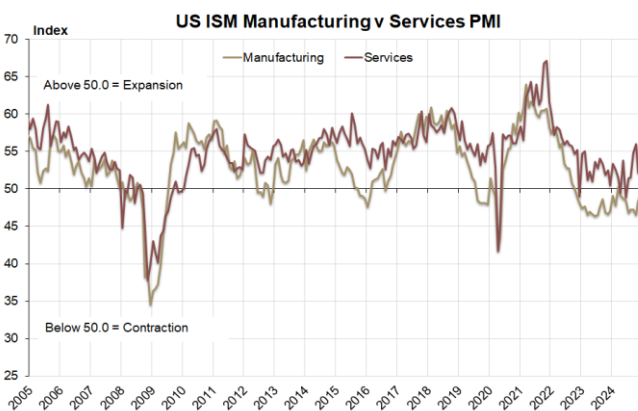
Source: Bloomberg

...however, the **hiring** of workers in the US private sector continued to slow in November.



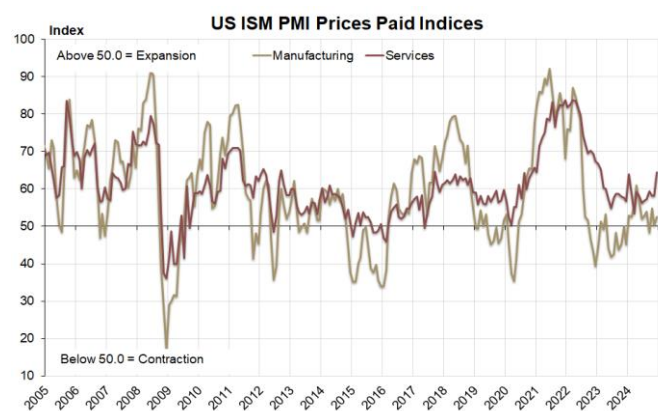
Source: Bloomberg

The **ISM indices** suggest US services sector growth improved and the manufacturing contraction slowed.



Source: Bloomberg

US business cost pressures picked up in December, particularly in the services sector.



Source: Bloomberg

Highlights Early 2025

Date	Event	Actual	Forecast	Previous	Comment
Tue 31					
CH	NBS Composite PMI (Dec)	52.2	-	50.8	Construction subindex hit a seven-month high.
Thu 02					
AU	CoreLogic Home Prices (MoM, Dec)	-0.1%	-	0.0%	First fall in the national index in almost two years.
CH	Caixin Manufacturing PMI (Dec)	50.5	51.7	51.5	Slower growth due to softer external demand.
Fri 03					
US	ISM Manufacturing PMI (Dec)	48.2	49.3	48.4	Suggests a slower pace of contraction.
Mon 06					
CH	Caixin Services PMI (Dec)	52.2	51.4	51.5	Fastest pace of growth in seven months.
Tue 07					
AU	Dwelling Approvals (MoM, Nov)	-3.6%	-1.0%	5.2%	Private house approvals down two months in a row.
EZ	CPI (YoY, Dec, Preliminary)	2.4%	2.4%	2.2%	Slight acceleration driven by energy prices.
US	JOLTS Job Openings (Nov)	8.1m	7.7m	7.8m	Increased but private sector hiring continues to slow.
US	ISM Services PMI (Dec)	54.1	53.5	52.1	Prices paid index hit the highest level since Feb 2023.
Wed 08					
AU	Monthly CPI Indicator (YoY, Nov)	2.3%	2.2%	2.1%	Annual trimmed mean inflation falls to 3.2%.
AU	Job Vacancies (QoQ, Nov)	4.2%	-	-5.6%	First quarterly rise since May 2022.
US	ADP Employment (Mthly Change, Dec)	122k	133k	146k	Soft, but rarely a good guide to official payrolls.
US	FOMC Meeting Minutes (17-18 Dec)				Expect the pace of cuts to slow.
Thu 09					
AU	Retail Sales (MoM, Nov)	0.8%	1.0%	0.5%	Sales boosted by Black Friday promotions.
AU	Trade Balance (Nov)	A\$7.5b	A\$5.5b	A\$5.7b	Highest surplus in 10 months.
CH	CPI (YoY, Dec)	0.1%	0.1%	0.2%	Consumer price pressures almost non-existent.
CH	PPI (YoY, Dec)	-2.3%	-2.5%	-2.5%	27 th straight month of annual PPI deflation.
Fri 10					
AU	Household Spending (MoM, Nov)	0.4%	0.7%	0.9%	Boosted by Black Friday and SUV sales.
Tonight					
US	Non-Farm Payrolls (Mthly Change, Dec)	165k	160k	227k	ADP report suggests some downside risk.
US	Unemployment Rate (Dec)	-	4.2%	4.2%	Has risen to above pre-pandemic levels.
US	UMich Consumer Sent (Jan, Prelim)	-	73.9	74.0	Climbed to an eight-month high in December.

Coming Up

Date	Event	Forecast	Previous	Comment
Mon 13				
AU	Melb Inst Inflation Gauge (MoM, Dec)	-	2.9%	Underlying measure picked up in November.
AU	ANZ-Indeed Job Ads (MoM, Dec)	-	-1.3%	Fell for the first time in three months in November.
CH	Trade Balance (Dec)	US\$100b	US\$97b	Imports unexpectedly soft in November.
Tue 14				
AU	Westpac Consumer Sent (MoM, Jan)		-2.0%	Small setback in December after strong back-to-back gains.
US	Final Demand PPI (MoM, Dec)	0.3%	0.4%	PPI inflation has drifted higher in recent months.
Wed 15				
US	CPI (MoM, Dec)	0.3%	0.3%	Annual core inflation remains too high at 3.3%.
Thu 16				
AU	Employment (Mnthly Change, Dec)	15.0k	35.6k	Government spending a big contributor to job creation in 2024.
AU	Unemployment Rate (Dec)	4.0%	3.9%	Fell to an eight-month low in November.
US	Retail Sales (MoM, Dec)	0.5%	0.7%	Core sales have been uneven in recent months.
Fri 17				
CH	GDP (YoY, Q4)	5.0%	4.6%	Tipped to be in line with the Government's target of about 5%.
CH	Industrial Production (YoY, Dec)	5.4%	5.4%	Steel production weakened again in November.
CH	Retail Sales (YoY, Dec)	3.5%	3.0%	Lift expected after a disappointing November report.
CH	Urban Fixed Asset Inv. (YTD, YoY, Dec)	3.3%	3.3%	Growth being driven by the public sector.
US	Industrial Production (MoM, Dec)	0.3%	-0.1%	Has declined three months in a row.