

Highlights this week

- In Australia, retail trade declined less than expected in December, while Q4 retail sales volumes growth surprised to the upside. The broader household spending indicator, which is to replace retail trade in mid-2025, rose more than expected in January. Dwelling approvals rose in December, but solely due to the volatile apartment approvals. The goods trade surplus narrowed in December. Melbourne Institute inflation gauge signalled further disinflation in January, while ANZ job ads fell.
- Abroad, the ISM PMIs suggested that expansion in US services has slowed, but manufacturing rose back into expansion. ADP employment and JOLTS job openings pointed to easing but still-solid US labour market conditions. The US trade deficit was the widest on record in 2024. The Chinese Caixin PMIs suggested near-stagnant conditions in manufacturing and a slowdown in services.

Highlights next week

- Domestic highlights next week include the NAB business report for January and Westpac consumer sentiment for February on Tuesday, followed by the lending indicators for Q4 (includes new housing finance) on Wednesday.
- A busier week offshore, with the US CPI and retail sales (Wed), PPI (Thu) and industrial production (Fri) for January all due. The Chinese inflation figures will be released on Sunday.

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	8521 (↓23 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	4.21 (↓14 pt)	2-yr T-Notes	4.22 (↓1 pt)	S&P500	6084 (↑12 pt)
Eurozone	2.75 (0 pt)	3-yr T-Bond	3.76 (↓16 pt)	10-yr T-Notes	4.44 (↓10 pt)	DJIA	44748 (↓135 pt)
UK	4.50 (↓25 pt)	10-yr T-Bond	4.33 (↓8 pt)	Jap 10-yr	1.28 (↑5 pt)	Nikkei	38794 (↓760 pt)
Japan (Target)	0.50 (0 pt)	3-yr WATC Bond	3.90 (↓5 pt)	UK 10-yr	4.49 (↓8 pt)	CSI300	3843 (↑26 pt)
China (1Y LPR)	3.10 (0 pt)	10-yr WATC Bond	4.93 (↓9 pt)	Ger 10-yr	2.38 (↓14 pt)	Stoxx600	545 (↑6 pt)

Changes are since the issue of 20 December Market Watch.

Financial Markets

Interest Rates

Government bond yields are down for the week, but this masks some volatility on the way.

Yields started the trading week with increases, triggered by concerns over the inflationary impact of US tariffs on China, Mexico and Canada.

However, Tuesday morning saw the news that tariffs against Mexico and Canada were postponed by a month, while the Chinese response to tariffs has been moderate. This helped ease inflationary concerns, leading to a decline in bond yields in the following trading days. The decline was amplified by disappointing economic data from the US.

The Bank of England cut its bank rate by 25bps to 4.50%, as expected. There were some surprises at the meeting, however, with two Committee members opting for a larger 50bps cut. BoE Governor Andrew Bailey repeated at the press conference that decisions on further cuts will be made meeting by meeting. The markets expect the next cut in May.

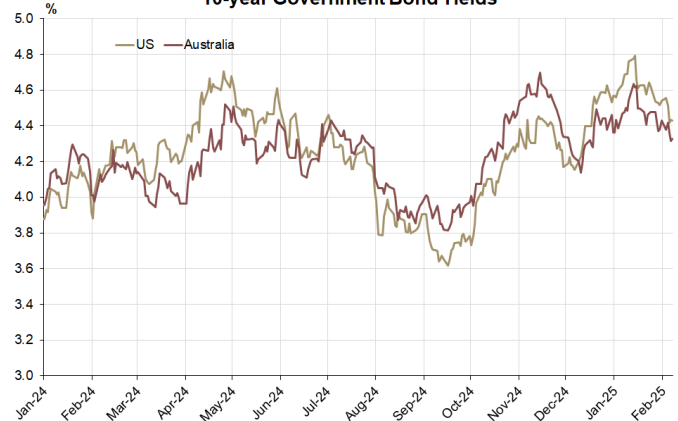
Equities

It has been a rollercoaster week on global equity markets.

Global sentiment was rattled last Friday and on Monday by the announcements on new tariff measures against China, Mexico, and Canada. News that the tariffs against Mexico and Canada were averted for now led to gains in equities later in the week, but these increases were uneven. The S&P 500 remains 0.6% short of its record high from 23 January.

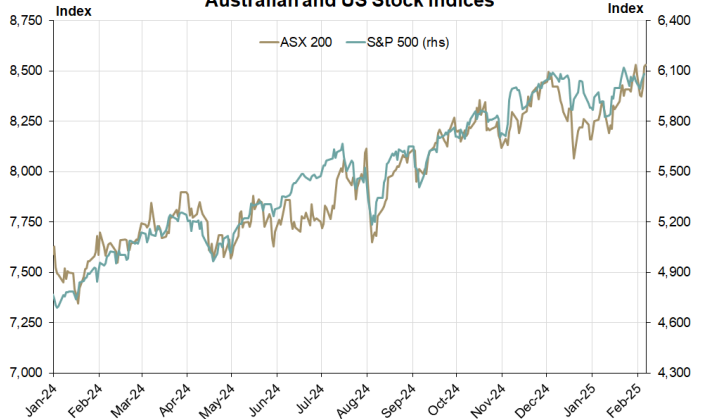
The ASX 200 hit a record high last Friday, but the news on US tariffs saw the Aussie market open the week with its largest daily loss since early September 2024. However, this was followed by solid gains later in the week, and the Aussie share market is just 0.1% off its record high at the time of writing. Gains were concentrated in information technology, communication services, and materials, with other sectors down for the week.

10-year Government Bond Yields



Source: Bloomberg

Australian and US Stock Indices



Source: Bloomberg

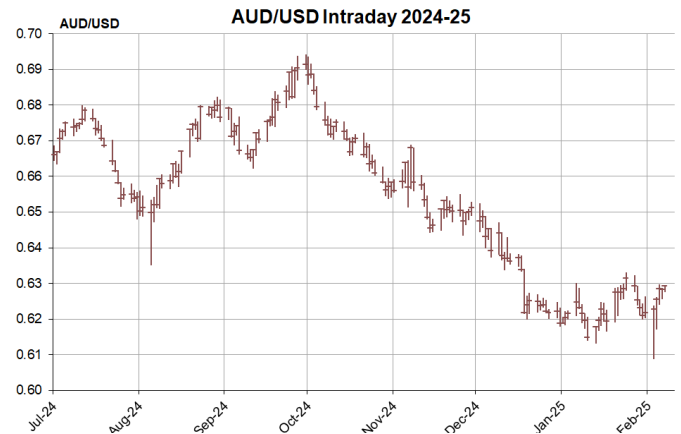
Currencies

After a shaky start to the week, the Australian dollar has rebounded following last week's sharp fall, to be one of the strongest members of the G10 currency basket.

The AUD/USD slumped to a near five-year low of US\$0.6088 on Monday, after US President Donald Trump signed executive orders over the weekend imposing tariffs on Canadian, Mexican and Chinese imports into the US.

News that the tariffs on Canada and Mexico would be delayed a month as President Trump's border and trade concerns were being addressed, helped lift sentiment and the Aussie dollar back above US\$0.62.

The AUD dipped again on Tuesday after China imposed its own tariffs on US goods in return, but soon bounced back after these tariffs turned out to be limited. The AUD fell just short of reaching US\$0.63 on Wednesday and has since traded in a relatively narrow range.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6291	0.6297	0.6088	↑1.2	0.6942	0.6088
AUD/EUR		0.6057	0.6067	0.5956	↑1.3	0.6261	0.4926
AUD/GBP		0.5059	0.5068	0.4963	↑1.1	0.5289	0.4926
AUD/JPY		95.30	96.76	94.62	↓0.5	109.37	90.15
AUD/CNY		4.5842	4.5852	4.4109	↑1.8	4.9340	4.4109
EUR/USD		1.0386	1.0442	1.0141	↓0	1.1214	1.0141
GBP/USD		1.2434	0.5068	0.4963	↑0.1	0.5289	0.4926
USD/JPY		151.48	155.89	150.96	↓1.7	161.95	139.58
USD/CNY		7.2863	7.2936	7.2376	↑0.6	7.3328	7.0063

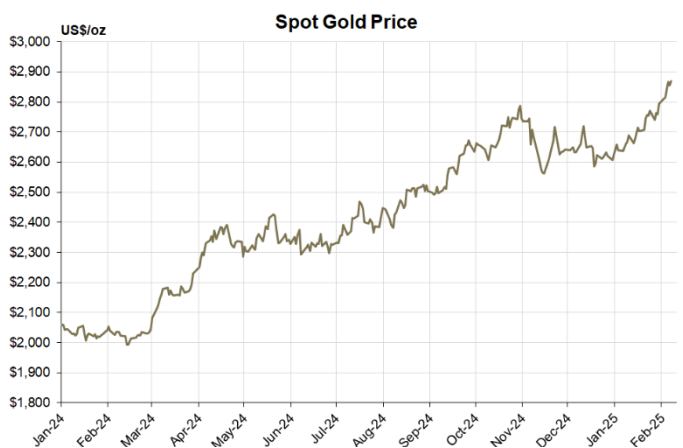
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6291	0.6295	0.6300	0.6313
AUD/EUR		0.6057	0.6033	0.6006	0.5952
AUD/GBP		0.5059	0.5063	0.5067	0.5074
AUD/JPY		95.30	94.40	93.56	92.02
AUD/NZD		1.1065	1.1052	1.1036	1.1003
AUD/SGD		0.8497	0.8470	0.8444	0.8394

Commodities

Gold continues to be boosted by the uncertainty generated by the Trump administration and its policy agenda, climbing to fresh all-time highs. With political risk likely to continue, attention among analysts has now turned to predicting when the yellow metal will hit US\$3,000 an ounce.

Oil prices have slipped to the lowest levels since late December, weighed down by President Trump's pledge to raise US oil output from already record high levels, news of the fastest increase US crude inventories in almost a year and rising concerns over the outlook for Chinese oil demand amid the US tariff increase on Chinese goods imports.

Iron ore futures hit a 2½-week low on Monday, as Donald Trump's tariffs threw a further shadow over the outlook for Chinese steel demand. However, prices have since picked up again, to be almost unchanged from this time last week.



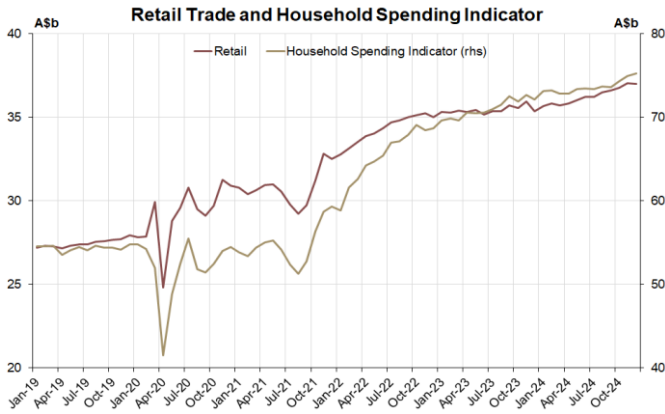
Source: Bloomberg

	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,867.71	\$2,882.36	\$2,772.23	(↑\$71.39)	\$2,882.36	\$1,984.34
Brent Crude Oil (US\$)	\$74.37	\$77.34	\$74.10	(↓\$2.84)	\$92.18	\$68.68
Mogas95* (US\$)	\$86.07	\$95.09	\$84.67	(↓\$0.78)	\$109.19	\$76.37
WTI Oil (US\$)	\$70.63	\$75.18	\$70.43	(↓\$2.54)	\$87.67	\$65.27
CRB Index	307.46	309.30	304.95	(↑1.07)	312.17	265.48
Iron Ore Price 62% Fe (US\$) **	\$106.50	\$106.60	\$102.00	(↓\$0.05)	\$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.

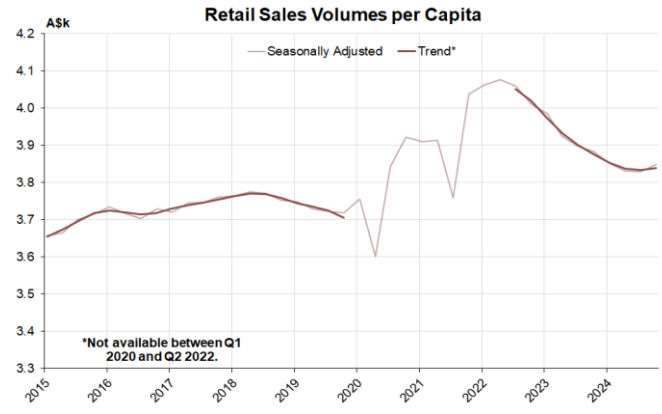
Domestic Economy

Retail trade ebbed in December, but the broader household spending indicator continued to climb.



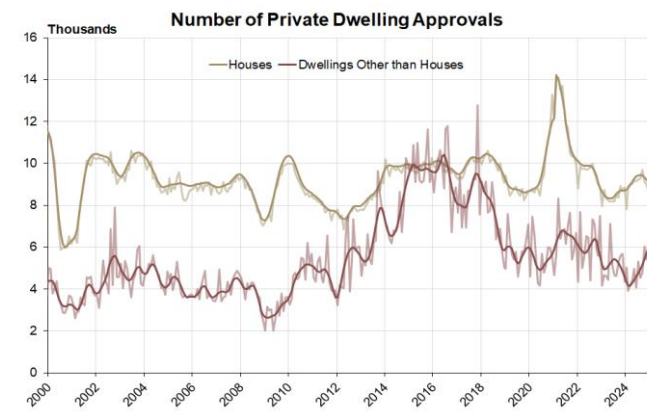
Source: ABS

The strong rise in sales turnover in October and November saw **real retail trade per capita** rise in Q4.



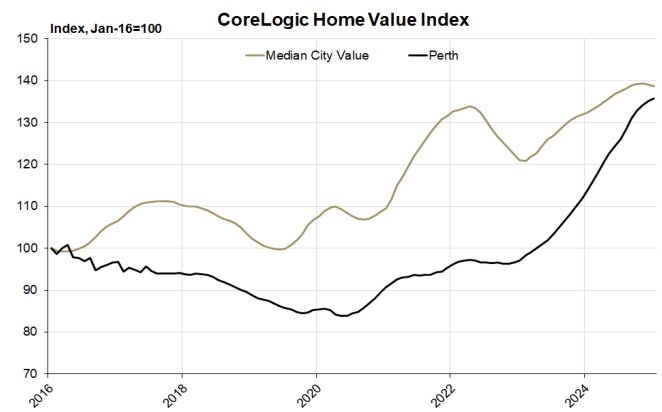
Source: ABS

Building approvals remain low, both for private sector houses and other dwellings.



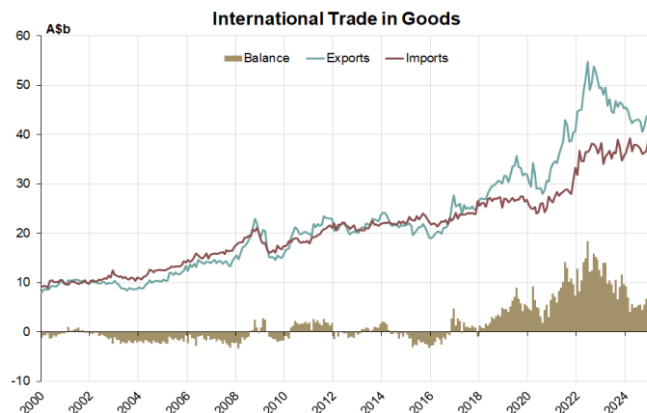
Source: ABS

The national **CoreLogic home price index** declined in January, but prices continued to climb in Perth.



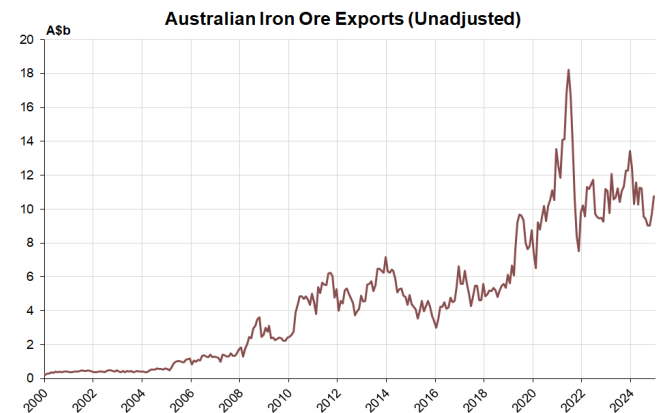
Source: Bloomberg

Australian **goods trade balance** continued to normalise in December...



Source: ABS

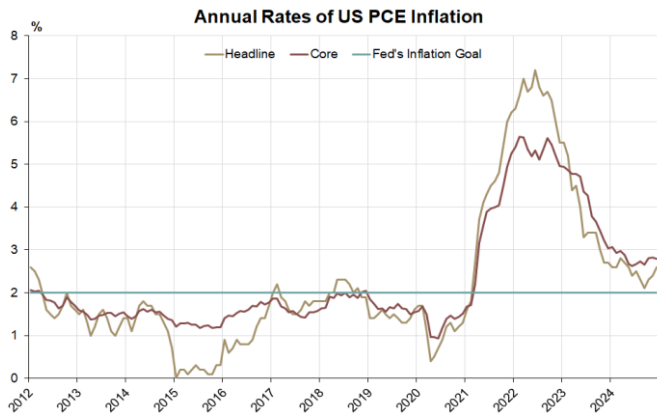
... but **iron ore exports** hit a six-month high and are well above pre-COVID levels.



Source: ABS

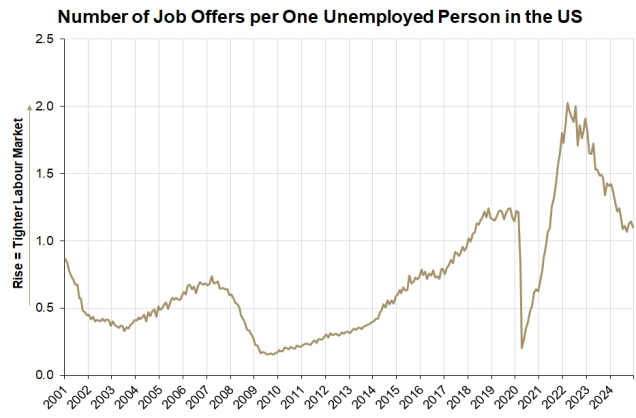
Global Economy

US PCE price inflation rates are hovering above the Fed's goal of 2%...



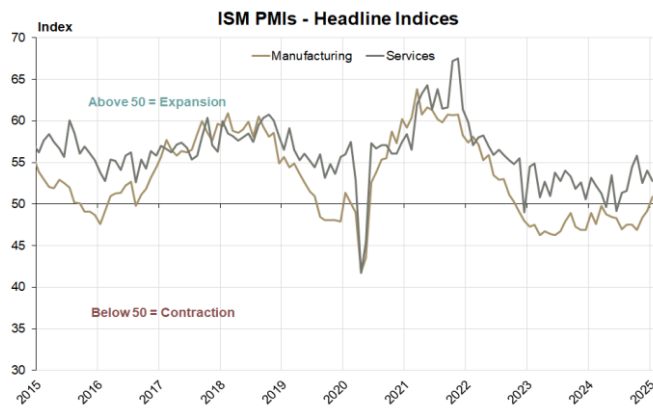
Source: Bloomberg

... while US labour market conditions are less tight than just before COVID-19 hit.



Source: Bloomberg

After two years below 50, the ISM manufacturing PMI is back in expansion, but growth in services has slowed.



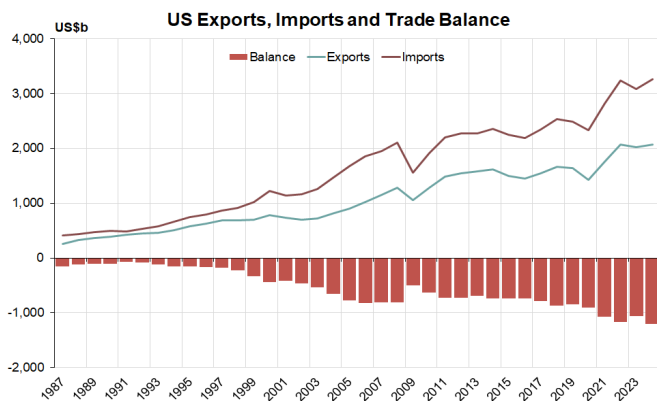
Source: Bloomberg

New orders growth is accelerating in manufacturing but slowing in services.



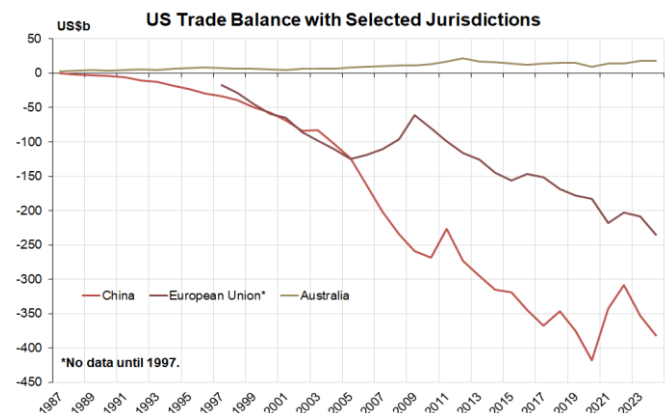
Source: Bloomberg

The US trade deficit widened to a new record in 2024, on the eve of the new Trump trade policies.



Source: US Census

China and the European Union are responsible for around half of the US trade deficit.



Source: US Census

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 03					
AU	Retail Trade (MoM, Dec)	-0.1%	-0.7%	0.7%	A setback from solid growth in the previous months.
AU	Retail Trade Volumes (QoQ, Q4)	1.0%	0.8%	0.5%	The first increase per capita since Q2 2022.
AU	Dwelling Approvals (MoM, Dec)	0.7%	1.0%	-3.4%	Private sector house approvals down by 3.0%.
AU	CoreLogic Hse Prices (MoM, Jan)	-0.2%	-	-0.2%	Perth home prices up by 0.4%.
AU	MI Inflation Gauge (MoM, Jan)	0.1%	-	0.6%	Annual rate down 0.3ppts to 2.3%.
AU	ANZ Job Ads (MoM, Jan)	0.2%	-	0.3%	Down by 15.1% YoY, but 15.0% above pre-COVID levels.
EZ	HICP (YoY, Jan, flash)	2.5%	2.4%	2.4%	Core inflation unchanged at 2.7%.
CH	Caixin Manufacturing PMI (Jan)	50.1	50.6	50.5	Chinese new export orders in contraction.
US	ISM Manufacturing PMI (Jan)	50.9	50.0	49.2	Back in expansion for the first time since October 2022.
Tue 04					
AU	Household Spending (MoM, Dec)	0.4%	0.3%	0.8%	+3.4% YoY; discretionary spending up for the 3rd month.
AU	ANZ Cons. Conf. (w/e 1 Feb)	2.9%	-	0.2%	Hit a 32-month high.
US	JOLTS Job Openings (Dec)	7.6m	8.0m	8.2m	Still slightly more job offers than officially unemployed.
Wed 05					
AU	Living Costs Indices (Q4)	-	-	-	Employee cost of living index up 0.4% in Q4.
CH	Caixin Services PMI (Jan)	51.1	-	51.4	Caixin composite PMI unexpectedly fell 1.2pts to 52.2.
US	ADP Employment (MoM, Jan)	183k	155k	176k	December figures revised up from 122k.
US	ISM Services PMI (Jan)	52.8	54.3	54.0	Expansion in new orders is slowing, signalling slowdown.
US	Trade Balance (Dec)	-US\$98b	-US\$97b	-US\$79b	Trade deficit reached a record high of \$1.2 trillion in 2024.
Thu 06					
AU	Goods Trade Balance (Dec)	A\$5.1b	A\$6.5b	A\$6.8b	Imports rose by 5.9%, outpacing exports growth (1.1%).
UK	Bank of England (Bank Rate)	4.50%	4.50%	4.75%	Two Committee members voted for a 50bps cut.
US	Initial Jobless Claims (w/e 1 Feb)	219k	213k	208k	Continued claims rose back towards 1.9m in w/e 25 Jan.
Tonight					
US	Non-farm Payrolls (MoM, Jan)	-	170k	256k	Will include the annual benchmark revision.
US	Unemployment Rate (Jan)	-	4.1%	4.1%	Not far off the FOMC's longer-run forecast.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 10				
AU	Monthly Business Turnover (MoM, Dec)	-	2.0%	Experimental indicator derived from business statements.
Tue 11				
AU	NAB Business Conditions (Jan)	-	6	Rose back to its long-run average in December.
AU	NAB Business Confidence (Jan)	-	-2	Has been low since early 2022.
AU	Westpac Consumer Sent. (MoM, Feb)	-	-0.7%	Weekly figures suggest renewed improvement in February.
Wed 12				
AU	Lending Indicators (Q4)	-	-	Includes new home loans; frequency reduced to quarterly.
US	CPI (MoM, Jan)	0.3%	0.4%	Annual rate expected to remain at 2.9% YoY.
US	Retail Trade (MoM, Jan)	0.0%	0.4%	Stagnation after four bumper months expected.
Thu 13				
UK	Monthly GDP (QoQ, Q4)	-	0.0%	UK economy again on the brink of recession.
US	PPI (MoM, Jan)	0.3%	0.2%	ISM PMIs suggest a rise in producer prices.
Fri 14				
AU	Overseas Arrivals and Departures (Dec)	-	-	Imperfect, but timely proxy of migration estimates.
US	Industrial Production (MoM, Feb)	0.3%	0.9%	ISM report suggested a rise in manufacturing.