

17 January 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Momentum from Wednesday night's US and UK inflation data largely continued overnight. Rates are lower across the curve in the US and Europe, while the US dollar pulled back a touch further.

Equities were more mixed with strong gains persisting in Europe but fizzling out in the US, where softer headline retail sales data in December may have prompted questions about the sustainability of earnings growth.

The Japanese Yen outperformed what was a mixed session for the majors. The euro also firmed, while the Aussie dollar and the British Pound were marginally weaker.

Crude gave back some of the recent gains on news that Saudi Aramco had received inquiries from Indian and Chinese buyers to make up for any shortfall from Russian sanctions.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	59.9	0.0%	30 day BBSY	4.37	0.00
AUD/USD	0.6209	-0.3%	90 day BBSY	4.39	-0.02
AUD/JPY	96.36	-1.1%	180 day BBSY	4.48	-0.02
AUD/GBP	0.5077	-0.2%	1 year swap	4.03	0.01
AUD/NZD	1.1078	-0.1%	2 year swap	3.91	0.00
AUD/EUR	0.6029	-0.4%	3 year swap	3.90	-0.01
AUD/CNH	4.5617	-0.3%	4 year swap	3.94	-0.01
AUD/SGD	0.8488	-0.3%	5 year swap	4.00	-0.02
AUD/HKD	4.8354	-0.3%	6 year swap	4.07	-0.02
AUD/CAD	0.8938	0.1%	7 year swap	4.15	-0.03
EUR/USD	1.0299	0.1%	8 year swap	4.22	-0.03
USD/JPY	155.19	-0.8%	9 year swap	4.29	-0.03
USD Index	108.98	-0.1%	10 year swap	4.49	-0.03

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,327	1.4%	Australia		
S&P 500	5,937	-0.2%	3 year bond	3.95	-0.10
Japan Nikkei	38,573	0.3%	10 year bond	4.50	-0.13
Hang Seng	19,523	1.2%	United States		
Euro Stoxx 50	5,107	1.5%	3-month T Bill	4.20	0.00
UK FTSE100	8,392	1.1%	2 year bond	4.24	-0.03
VIX Index	16.36	1.5%	10 year bond	4.61	-0.04
			Other (10 year yields)		
Commodities	Current	Change	Germany	2.55	-0.01
CRB Index	311.35	-0.3%	Japan	1.21	-0.05
Gold	2713.28	0.6%	UK	4.68	-0.05
Copper	9103.88	0.2%			
Oil (WTI futures)	78.63	-1.8%	Sydney Futures Exchange	Current	Change
Coal (coking)	195.50	0.9%	10 yr bond	4.52	-0.01
Coal (thermal)	118.25	0.9%	3 yr bond	3.93	-0.01
Iron Ore	102.40	2.1%	3 mth bill rate	4.26	0.02
ACCU	37.00	-0.7%	SPI 200	8,309	0.1%

Data as at 8:15am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.



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Share markets:

The ASX 200 shot higher at the open yesterday, repricing after the strong gains in offshore markets on Wednesday night. Prices wavered somewhat throughout the session but largely managed to hold onto early gains to close up 1.4%. Equities were also notably firmer in Japan and China.

Overnight, global equities were mixed. European markets continued to rally solidly with the Euro Stoxx 50 up 1.5%, taking year-to-date gains to 4.3%. In the UK the FTSE 100 was up 1.1%. US equities closed broadly lower with softer than expected headline retail sales data perhaps bringing into question the sustainability of strong earnings growth.

Interest rates:

Global rates markets rallied for a second day, led by firmer gains in the UK. Yields are 3-5 basis points lower in the US, 2-4 basis points lower in Europe and 4-8 basis points lower in the UK. 2-10-year curves are marginally steeper across the US, UK and Europe.

Rate cut expectations firmed marginally across developed markets, led by the UK which now has around 65 basis points of cuts priced in for 2025, up from just 40 basis points at the start of the week.

Aussie bonds rallied sharply yesterday, with 3-and-10-year yields dropping 10 and 13 basis points, respectively. Aussie bond futures are down a further 1 basis point in yield overnight in both the 3-and-10-year tenors. The implied odds of February RBA rate cut remain pulled back slightly following firm jobs data yesterday but remain around 65%-70%.

Foreign exchange:

The US dollar was marginally softer again yesterday but is holding around the middle of its early 2025 range. The Yen was the strongest performer as expectations grow that the Bank of Japan (BoJ) will resume rate hikes at its meeting next week. The USD/JPY tested 155 overnight, its lowest level so far this year.

The Euro was a touch firmer after modestly underperforming the rates rally and is trading the middle of its year-to-date range, though admittedly this is around the weakest it's been since late 2022. The Aussie dollar and the British Pound lost ground against the greenback but both continue to hold key levels above 0.6220 and 1.2200, respectively.

Commodities:

Crude gave back some of the recent gains on news that Saudi Aramco had received inquiries from Indian and Chinese buyers for as much as 750k barrels per day of extra crude to make up

Today's key data and events

Time	Event	Exp	Prev
2:00am	US Business Inventories Nov	0.1%	0.1%
2:00am	US NAHB Housing Market Jan	45pts	46pts
1:00pm	CN GDP Q4	5.0%	4.6%
1:00pm	CN Industrial Production YoY YTD Dec	5.7%	5.8%
1:00pm	CN Retail Sales YoY YTD Dec	3.5%	3.5%
1:00pm	CN Fixed Asset Investment YoY YTD Dec	3.3%	3.3%
9:00pm	EZ CPI Dec Final	0.4%	0.4%
12:30am	US Housing Starts Dec	2.9%	-1.80%
12:30am	US Building Permits Dec Prel.	-2.20%	5.2%

Times are AEDT. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

for any shortfall from Russian sanctions and the Trump team gave off mixed signals about any further Russian sanctions. West Texas Intermediate (WTI) futures are down 1.8% at US\$78.63.

Trump's Treasury Secretary pick Bessent said he would support sanctioning Russian oil majors, though press also reported Trump's team was considering good faith measures to benefit sanctioned Russian oil producers to help seal a peace deal in Ukraine. However, the team was also reported as considering a full maximum pressure strategy targeting Iran and a more aggressive posture towards Venezuela.

Metals pushed higher across the board with copper above \$9,100 and aluminium surging above \$2,600, to be up almost 4% over the last week. Iron ore continued the move higher above \$100. Rio reported yesterday that iron ore shipments decreased 1% in Q4 due to production declines at some mines. Rio maintained its production guidance for 2025 at 323 to 338mt.

Australia:

The gradual easing in labour market conditions underway since late-2022 took a breather in the second half of 2024 with conditions virtually unchanged over this period. December was no exception with employment growth proving resilient, the unemployment rate remaining low and both participation and employment to population rates hitting fresh record highs.

Employment expanded 56.3k in the month, beating all expectations. Meanwhile, a rise in the participation rate to a record 67.1% saw the unemployment rate tick higher to 4.0% despite the strong employment gains. Note however, that at 4.0% the unemployment rate is at the same level it was at the end of 2023 and is historically a very low level.

At their February meeting the RBA will be primarily focusing on labour market and inflation dynamics. We will get an update on inflation towards the end of the month, but as far as the labour market goes, there is nothing in yesterday's data

which will make the RBA think they need to be in a rush to cut rates. That said, inflation data could still prove decisive should it surprise materially to the low side.

United Kingdom:

Monthly GDP data disappointed in November only posting a 0.1% monthly increase against expectations of a 0.2% rise. A 0.4% monthly decline in industrial production was the main source of weakness, while services activity rose only marginally, by 0.1%. Taken together, October-November readings are consistent with a 0.1% GDP drop in the December quarter, and another 0.1% monthly rise in December will be required to keep quarterly GDP growth at zero.

United States:

Retail Sales came in short of expectations rising 0.4% in December. However, the details of the report were more positive. October and November growth rates were revised upward, both estimated to be 0.1ppt higher. And when we exclude various volatile items, the latest numbers signalled that the underlying growth in consumer spending remained strong at the end of last year. Importantly, core group sales, which provides the best indication of the impact to GDP, increased 0.7% in the month to leave three-month growth in Q4 at 1.3%, very similar to the 1.4% increase in Q3, when household consumption was the main driving force behind solid GDP growth.

The Philadelphia Fed Manufacturing Business Outlook Survey reported a surge in current business activity at the start of this year, with the headline index rising from -10.9 to 44.3, only a touch lower than the peak seen in April 2021 when easing pandemic restrictions lifted activity.

Fed Governor Christopher Waller's comments reiterated that the Fed is prepared to proceed with policy normalisation if inflationary pressures continue to ease, as expected. "If we continue getting numbers like [the latest CPI data], it's reasonable to think a rate cut could happen in the first half of the year", he said.



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