



20 January 2025

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

US equity markets continued to rally ahead of President-elect Donald Trump's inauguration on Monday US time, chalking up their largest weekly gain since last year's election. European markets were also higher, while Chinese stocks posted gains following the stronger than expected Q4 GDP outcome.

US bond yields retraced falls recorded earlier in the week but nonetheless ended the week lower. Yields were generally lower across Europe.

The US dollar ended higher in a volatile session, while the Yen outperformed as traders ramp up bets on a 25-basis point rate hike when the Bank of Japan meets later this week. The Aussie was softer against the Greenback.

## Data snapshot

FX Last 24 hrs			AUS Interest Rate Swaps		
	Current	Change		Last	Change
TWI	59.8	-0.2%	30 day BBSY	4.37	0.00
AUD/USD	0.6201	-0.2%	90 day BBSY	4.38	-0.01
AUD/JPY	96.89	0.5%	180 day BBSY	4.49	0.01
AUD/GBP	0.5095	0.4%	1 year swap	4.04	0.01
AUD/NZD	1.1086	0.0%	2 year swap	3.94	0.03
AUD/EUR	0.6029	0.0%	3 year swap	3.94	0.03
AUD/CNH	4.5491	-0.3%	4 year swap	3.97	0.03
AUD/SGD	0.8490	0.0%	5 year swap	4.03	0.03
AUD/HKD	4.8274	-0.2%	6 year swap	4.11	0.03
AUD/CAD	0.8969	0.3%	7 year swap	4.18	0.03
EUR/USD	1.0285	-0.2%	8 year swap	4.26	0.03
USD/JPY	156.27	0.7%	9 year swap	4.32	0.03
USD Index	109.35	0.4%	10 year swap	4.52	0.03

  

Equities			Government Bond Yields		
	Close	Change		Close	Change
S&P/ASX 200	8,310	-0.2%	Australia		
S&P 500	5,997	1.0%	3 year bond	3.96	0.01
Japan Nikkei	38,451	-0.3%	10 year bond	4.50	0.00
Hang Seng	19,584	0.3%	United States		
Euro Stoxx 50	5,148	0.8%	3-month T Bill	4.20	-0.01
UK FTSE100	8,505	1.4%	2 year bond	4.28	0.05
VIX Index	15.97	-3.8%	10 year bond	4.63	0.01

  

Commodities			Other (10 year yields)		
	Current	Change			
CRB Index	311.08	-0.1%	Germany	2.55	-0.01
Gold	2703.25	-0.4%	Japan	1.20	0.00
Copper	9127.46	-0.4%	UK	4.66	-0.02
Oil (WTI futures)	77.88	-1.0%			
Coal (coking)	191.50	-1.3%	<b>Sydney Futures Exchange</b>	<b>Current</b>	<b>Change</b>
Coal (thermal)	121.60	2.8%	10 yr bond	4.55	0.02
Iron Ore	104.15	1.1%	3 yr bond	3.97	0.02
ACCU	37.00	-0.7%	3 mth bill rate	4.26	0.02
			SPI 200	8,317	0.3%

Data as at 8:00am 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:

US stocks surged on Friday ahead of the Martin Luther King public holiday, and President-elect Trump's inauguration, on Monday. Tech stocks led the market higher, with the majority of sectors finishing the session in the green. Friday's session capped off the best week for stocks since the November 2024 US election.

The S&P 500 closed 1.0% higher to be 2.9% higher over the week. The NASDAQ ended Friday's session 1.5% higher to be 2.5% higher in weekly terms, with the Dow Jones 0.8% higher, outperforming in weekly terms, up 3.7%.

European markets continued to rally with the softer currency expected to help exporters and the stronger than expected growth numbers coming out of China supporting sentiment. The Euro Stoxx 50 closed 0.8% higher, the FTSE 100 was up 1.4% to reach a fresh record high, while the DAX finished 1.2% higher.

In Asia, markets were mixed with Chinese equities higher on the back of the stronger than expected Q4 GDP outcome. The CSI 300 ended the session 0.3% higher, while the Nikkei finished 0.3% lower.

The ASX200 index slipped 0.2% on Friday to finish the week 0.2% in the green. Three of the eleven sectors finished lower, led by financials. Futures are pointing to a positive open this morning.

## Interest rates:

The US yield curve flattened with the 2-year bond yield increasing 5 basis points to 4.28%, while the US 10-year bond yield increased 1 basis point to 4.63%. Money markets are pricing in around 38 basis points of cuts through 2025, with the first full rate cut expected by July.

Yields were generally lower across Europe, with 10-year bond yields down 2 basis points to 4.66% in the UK and 1.2 basis points lower in Germany at 2.53%.

The Aussie yield curve shifted higher. The 3-year futures yield increased 2 basis points to 3.97%, while the 10-year futures yield also increased 2 basis points to 4.55%. The first full rate cut is expected by April 2025, with around a 67% chance of a cut in February. There are around 67 basis points of cuts expected over 2025.

## Foreign exchange:

Supported by higher yields, the US dollar finished 0.4% higher after it whipsawed throughout the session, reaching a high 109.40 before falling to a low of 108.83. The DXY tested 109.40 late in the session and was able to remain around this level, closing at 109.35.

The Yen outperformed, up 0.7% against the Greenback with the USD/JPY closing around the session high of 156.30. Money markets are currently pricing in an 85% chance of a hike in

## Today's key data and events

Time	Event	Exp	Prev
10:50am	JP Machinery Orders Nov	-0.8%	2.1%
3:30pm	JP Industrial Production Nov Final	-	-2.3%

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.

January and around 52 basis points of hikes throughout 2025, which is supporting the Yen.

The British Pound was weaker against the Greenback, down 0.6% to close around the session low of 1.2169 – the lowest close since October 2023. The euro also fell 0.3% against the Greenback but was higher in weekly terms. Lower yields and softer relative economic performance continue to weigh on the Pound and euro. Markets have all but priced in a rate cut by the ECB and BoE in January and are pricing in around 100 and 65 basis points of cuts over 2025, respectively.

The Aussie was softer against the Greenback, falling to a session low of 0.6165 before recovering to close at 0.6193. The Aussie remains vulnerable to shifts in risk sentiment and softer real economic data.

## Commodities:

Oil markets gave up some of the gains made but finished the week higher for the fourth consecutive week as fresh sanctions on Russian crude added to pressure on global supplies, while traders speculated that Trump may initiate fresh sanctions on Iran and Venezuela, and tariffs on Canada. The West Texas Intermediate (WTI) is trading at US\$77.88 per barrel.

Metals were mixed with copper slipping back below \$9,200 and aluminium surging to a two-month high at \$2,684, helped by expectations that Trump will announce fresh tariffs on aluminium imports.

Iron ore continues to trade above US\$100, helped from the ongoing restocking ahead of the Lunar New Year holiday which commences next week.

## Australia:

There were no significant data releases on Friday.

## Eurozone:

The final December inflation read confirmed the initial estimate of 0.4%<sup>mth</sup> and 2.4%<sup>yr</sup>. Core inflation was also confirmed at 2.7%<sup>yr</sup> in December. The acceleration in the headline rate from November 2024 (2.2%<sup>yr</sup>) was largely driven by base effects related to energy prices.

## United States:

The NAHB Housing index increased +1 point to 47 points in January. This was above the 45 points the market was expecting. The subindices were mixed, with the current sales conditions' subindex increasing +3 points to 51, while sales expectations in the next six months declined 6 points, in part reflecting increasing yields.

Housing construction starts increased 15.8% in December, well above the 3.0% expected by the market. The solid outcome retraces falls in the previous three months and was driven by multifamily (or medium/high density) projects, which surged more than 60% in December. Single-family starts, which account for most new construction, climbed 3.3% in December, the strongest since February 2024. Despite this pickup, new home construction across 2024 was the slowest since 2019.

Building permits or approvals decreased 0.7% in December, which was better than the fall of 2.2% mth expected by the market. The fall was driven entirely by multifamily projects, with permits for single-family homes continuing to rise.

Business inventories rose 0.1% in November 2024, in line with market expectations. In annual terms, inventories grew 2.6%. Inventories increased in the manufacturing and retailing industries, partly offset by falls in merchant wholesaler inventories.

## China:

The economy grew 5.0%yr in 2024, consistent with the target set by the authorities. The economy accelerated to grow 5.4% in annualised terms over the December quarter 2024, which was stronger than the 5.0% expected by the market. Despite this, consumer spending remains subdued with retail sales up 3.7%yr, below pre-pandemic levels, while property investment continued to decline at an alarming rate (down 10.6%yr from a decline of 10.4%yr recorded in the previous period). Industrial output was stronger than expected, up 6.2%yr supported by strong growth in exports and supportive fiscal measures.

These indicators suggest the recovery remains fragile, with deflation recorded for the second consecutive year given excess industrial capacity. As a result of this deflation, nominal GDP expanded by only 4.2%yr in 2024, the slowest since the 1970s, outside of the pandemic. There are further risks of significant tailwinds going forward, particularly giving the trade tensions with the US. As a result, it is widely expected the authorities will unveil new and significant stimulus measures in 2025 to boost domestic and consumer demand.



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