



22 January 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Expectations that US president Donald Trump may take a more measured approach with tariffs than previously thought helped boost sentiment across markets, Asian markets being the biggest beneficiaries.

Equities in Asia and Australia continued their ascent following yesterday's news of a constructive call with China's President Xi Jinping.

The US dollar again slumped further with most G10 currencies closing where they opened. Asian currencies were the biggest beneficiaries.

Bond yields were lower across developed markets, most curves flattening

Data snapshot

FX Last 24 hrs	Current	Change
TWI	59.9	0.0%
AUD/USD	0.6271	-0.1%
AUD/JPY	97.53	-0.1%
AUD/GBP	0.5081	-0.2%
AUD/NZD	1.1055	-0.1%
AUD/EUR	0.6018	-0.1%
AUD/CNH	4.5568	0.0%
AUD/SGD	0.8483	-0.3%
AUD/HKD	4.8818	0.0%
AUD/CAD	0.8987	0.1%
EUR/USD	1.0422	0.1%
USD/JPY	155.53	-0.1%
USD Index	108.05	-1.2%

Equities	Close	Change
S&P/ASX 200	8,402	0.7%
S&P 500	6,046	0.8%
Japan Nikkei	39,028	0.3%
Hang Seng	20,107	0.9%
Euro Stoxx 50	5,166	0.0%
UK FTSE100	8,548	0.3%
VIX Index	15.07	-4.7%

Commodities	Current	Change
CRB Index	308.87	-0.7%
Gold	2742.60	1.3%
Copper	9206.33	0.9%
Oil (WTI futures)	75.89	-2.6%
Coal (coking)	195.00	0.5%
Coal (thermal)	124.45	2.4%
Iron Ore	103.75	0.9%
ACCU	35.38	-4.4%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.37	0.00
90 day BBSY	4.38	0.00
180 day BBSY	4.47	0.00
1 year swap	4.02	0.00
2 year swap	3.90	0.00
3 year swap	3.90	0.02
4 year swap	3.92	0.01
5 year swap	3.97	0.00
6 year swap	4.05	0.00
7 year swap	4.13	0.00
8 year swap	4.20	0.01
9 year swap	4.26	0.00
10 year swap	4.45	-0.01

Government Bond Yields	Close	Change
Australia		
3 year bond	3.88	-0.06
10 year bond	4.40	-0.07
United States		
3-month T Bill	4.20	0.00
2 year bond	4.27	-0.01
10 year bond	4.56	-0.06

Other (10 year yields)		
Germany	2.51	-0.02
Japan	1.19	-0.01
UK	4.59	-0.07

Sydney Futures Exchange	Current	Change
10 yr bond	4.46	0.02
3 yr bond	3.90	0.04
3 mth bill rate	4.24	-0.02
SPI 200	8,409	0.4%

Data as at 8:07am 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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Illiana Jain
Economist, Westpac Group
P: +61 403 908 032
E: illiana.jain@westpac.com.au

Share markets:

With little to react to domestically the ASX 200 gained 0.7% reflecting positive sentiment permeating markets as expectations that Trump may be softer on tariffs than previously expected started to grow. US markets also finished higher as executive orders were viewed as positive for equities both for mid and small caps. The S&P500 rose 0.9% while the Dow Jones was up 1.3% and the NASDAQ 0.6%.

Outside the US, this positive sentiment was most noted in Asian markets led by Hong Kong's Hang Seng which rose 0.9%. Japan's Nikkei was up 0.3% while China's CSI 300 also rose 0.1%. India's NIFTY50 was an anomaly in the pack falling 1.4%. Elsewhere, London's FTSE 100 finished 0.3% higher as did the German DAX. The Euro Stoxx 50 finished flat.

Interest rates:

Yields were down across most developed markets as the reduced threat of trade tensions quelled concerns of inflation and tighter policy helping flatten the curve. Australian government bond yields were lower across the curve with the long-end leading the way. In yesterday's trade, the 10-year bond yield was down 7 basis points to 4.40% while the 3-year was down 6 basis points to 3.88%. Bond futures suggest the curve may flatten further with the 10-year yield up 2 basis points and the 3-year up 4 basis points. Markets continue to price a 70% chance of an RBA rate cut in February with almost three cuts priced in for 2025.

In the US, the 10-year bond yield fell 6 basis points to 4.56% while the 2-year was down 1 basis point to 4.27%. UK Gilts also unwound slightly with the 2-year bond yield falling 4 basis points to 4.33% and the 10-year down 7 basis points to 4.59%. The German Bund was down only slightly – 2 basis points at the 10-year mark and 1 basis point at the 2-year.

Foreign exchange:

The dollar sold off further sending the DXY index down to 108.05 points. The DXY was trading higher prior to the opening of US markets after which it descended lower until it tested a key level of 108 before jolting back. This is the second time the DXY has tested 108 this week.

The Australian and Canadian dollar were the worst performers against the greenback. The Aussie dollar was little changed at 0.6267. The CAD started the session strong but was little changed finishing roughly where it was at open at 1.4338. Weakness in the CAD was prompted not only by Trump's remarks around tariffs on Canadian goods but also the weaker than anticipated inflation read which could see the Bank of Canada cut further widening its policy differential with the Fed. The Mexican peso recovered some of its losses from yesterday rising 0.14 peso against the greenback to 20.6416 at the time of writing.

The euro made good progress during the first half of the

Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ CPI Q4	0.5%	0.6%
8:45am	NZ CPI Q4 y/y	2.1%	2.2%
10:30am	AU Westpac-MI Leading Index Dec	-	0.0%
2:00am	US Leading Index Dec	-0.1pts	0.3pts
8:45am	NZ Net Migration Nov	-	2790k
12:30am	US Initial Jobless Claims	220k	217k

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.

session but also closed not far from the open at 1.0417 against the US dollar following a strong session yesterday.

Asian currencies were stronger led by the Thai baht. Policymakers, both on the fiscal and monetary side, across emerging Asia will see tariffs and a more hawkish Fed as key risks to growth for 2025.

Commodities:

Brent crude oil price fell a further 0.8% as Trump reaffirmed his support for promoting oil production and declared a national energy emergency.

The London Metals Exchange Index closed 0.7% higher. Metals continued to move higher again supported by doubt around the extent of tariffs. Copper was up 0.9% while Nickel was flat. The prospect of cuts in production continue to weigh on Nickel prices.

Gas prices were supported by cold weather across Texas and could come under pressure further should temperatures get frostier in Europe. UK Natural Gas futures were up 4.33%.

Gold was up 1.3% to US\$2742.60. Iron ore fell 0.9%.

Australia:

There were no significant data releases on Tuesday.

Eurozone:

The ZEW survey reported that financial sector analysts' expectations for the euro area growth prospects for the near term were little changed in the latest month. The headline expectations index was up by 1 point to 18, a level well below the average for last year. Meanwhile, the current conditions index was also little changed remaining at historically low levels. Political uncertainty in Germany and possible adverse growth effects for the euro area from Trump's trade policy likely remain at the top of the list of survey respondents' concerns.

New Zealand:

Card spending was up 2.0% across all industries in December. Growth was led by fuel and durables (+3.8% and 3.7% respectively) while spending on motor vehicles was down. Spending was up 1.1% in the quarter. This, however, follows weakness in Q2 and Q3.

United Kingdom:

The latest UK jobs data was largely as expected, confirming



that the conditions in the labour market continued to loosen towards the end of last year as the economy stagnated. Indeed, payrolled employees count was down by 47k in December, while the three-month growth of official employment measure slowed to a seven-month low of 35k leaving the headline three-month unemployment rate ticking higher to 4.4%, which is 0.3ppt higher from three months ago. A ratio of vacancies-to-unemployment, an indicator of the overall labour market situation the Bank of England officials follow closely, fell again and was below the levels seen before the pandemic.

On wages, private sector regular pay growth increased 0.5ppt to 6.0%3M/Y in November. While the increase may be alarming, especially compared to the BoE's 5.1%3M/Y forecast for Q4 2024, it follows more-timely survey data pointing to slowing pace of pay growth. Ahead of forthcoming tax and minimal wage increases, the BoE's MPC is likely to look through the most recent pick up in the official indicators and continue cutting interest rates in the next policy meeting in early February.

United States:

Following his inauguration, US President Trump signed a flurry of Executive Orders, withdrawing the US from the WHO and the Paris agreement; promoting oil and gas production in the US and removing support for the green transition; reducing and removing safeguards for AI development; requiring Federal workers return to the office full time as soon as possible; removing protections for undocumented migrants and readying for stronger enforcement of the US' borders. President Trump also made comments that inferred tariff proposals were being discussed, the requested study of trade seemingly not precluding a more immediate imposition of trade measures if deemed appropriate. Press reports suggest President Trump's immediate focus will now shift to initial discussions with Congress on personal taxation and an announcement related to private investment in AI development.



Corporate Directory

Westpac Economics / Australia

Sydney
Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis
Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan
Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke
Head of International Economics
E: eclarke@westpac.com.au

Justin Smirk
Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante
Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas
Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells
Economist
E: ryan.wells@westpac.com.au

Illiana Jain
Economist
E: illiana.jain@westpac.com.au

Jameson Coombs
Economist
E: jameson.coombs@westpac.com.au

Neha Sharma
Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland
Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold
Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon
Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs
Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod
Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark
Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva
1 Thomson Street
Suva, Fiji

Shamal Chand
Senior Economist
E: shamal.chand@westpac.com.au



westpaciq.com.au

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