



25 February 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Confirmation of the newly formed CDU/CSU alliance leading Germany supported European stocks and the euro. This news was coupled with intentions to provide emergency defence funding of around €200mil which saw Bund yields fall.

News of US tariffs on Mexico and Canada helped support the DXY with few G10 currencies finishing stronger against the US dollar.

A Treasury auction in the US saw US Treasury yields finish lower.

Gold hit another record high in yesterday's session.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	60.5	-0.5%	30 day BBSY	4.14	0.00
AUD/USD	0.6345	-0.2%	90 day BBSY	4.18	-0.01
AUD/JPY	95.03	0.1%	180 day BBSY	4.29	-0.01
AUD/GBP	0.5028	-0.1%	1 year swap	3.89	-0.03
AUD/NZD	1.1074	0.0%	2 year swap	3.81	-0.05
AUD/EUR	0.6065	-0.2%	3 year swap	3.82	-0.03
AUD/CNH	4.6036	-0.2%	4 year swap	3.85	-0.05
AUD/SGD	0.8500	0.0%	5 year swap	3.92	-0.05
AUD/HKD	4.9336	-0.1%	6 year swap	4.01	-0.05
AUD/CAD	0.9052	0.1%	7 year swap	4.08	-0.05
EUR/USD	1.0463	0.0%	8 year swap	4.16	-0.05
USD/JPY	149.76	0.3%	9 year swap	4.23	-0.05
USD Index	106.68	0.1%	10 year swap	4.43	-0.03

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,308	0.1%	Australia		
S&P 500	6,005	-0.1%	3 year bond	3.86	-0.07
Japan Nikkei	38,777	0.3%	10 year bond	4.44	-0.07
Hang Seng	23,342	-0.6%	United States		
Euro Stoxx 50	5,454	-0.4%	3-month T Bill	4.19	-0.01
UK FTSE100	8,659	0.0%	2 year bond	4.17	-0.03
VIX Index	18.46	1.4%	10 year bond	4.40	-0.03
			Other (10 year yields)		
Commodities	Current	Change	Germany	2.48	0.01
CRB Index	308.45	-0.9%	Japan	1.43	0.00
Gold	2950.93	0.5%	UK	4.56	-0.01
Copper	9551.89	-0.1%			
Oil (WTI futures)	70.86	0.7%	Sydney Futures Exchange	Current	Change
Coal (coking)	187.67	0.6%	10 yr bond	4.46	-0.01
Coal (thermal)	106.10	-0.1%	3 yr bond	3.85	-0.01
Iron Ore	107.05	-0.1%	3 mth bill rate	4.10	-0.01
ACCU	35.38	-4.4%	SPI 200	8,226	-0.7%

Data as at 8:04am 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:

Pessimism around the tech sector saw the NASDAQ fall 1.2% while the 'Magnificent 7' stocks continue to fall for a third consecutive session closing 0.8% lower. Nvidia will release its results later this week but this is unlikely to reverse sentiment, particularly as hedge funds seek to lower their exposure to the Mag 7. Later in the session, President Trump announced tariffs on Canada and Mexico will be in place from 4 March. The S&P500 was poised for a flat close but fell 0.1% after news of tariffs.

In Europe, it was confirmed that the centre-right CDU/CSU alliance will lead Germany which saw the DAX rise 0.6%. Leader Merz has already entered talks to increase defence spending which saw a lift in Goldman Sach's index for European defence stocks up 3.0% to a new record high of 6700.05 recouping much of the moderation from last week.

US President Trump's animosity against Chinese investment into tech continued to weigh on Asian markets — Hong Kong's Hang Seng fell 0.2%, with the tech index falling 1.4%, and Shanghai's CSI 300 fell 0.2%.

The ASX200 finished 0.2% higher supported by a lift in bank stocks on the back off upbeat results. This breaks five consecutive days of declines. However, futures markets point to a weak opening.

Interest rates:

In the US, yields finished lower. The 2-year yield was down 3 basis points to 4.17% off the back of strong demand at the US Treasury's monthly auction of the two-year note. This supported the rally in bond yields with the 10-year yield falling 3 basis points to 4.40%. Futures pricing showed that markets expect the next Fed rate cut to come in July with two cuts mostly fully priced in for 2025 with a third by late 2026.

Prospects of a €200mil increase in defence spending saw the German yield curve steepen — the 2-year bund yield fell 2 basis points to 2.08% while the 10-year yield rose 1 basis point to 2.48%.

In Australia, futures pricing suggests the yield curve will shift down — bond futures are 1 basis point lower; the 3-year is at 3.85% while the 10-year is at 4.46%. This comes after a 7 basis point decline in physicals at both the 3-year and 10-year tenure in yesterday's session. Markets continue to price in another RBA rate cut by July and once more in December.

Foreign exchange:

The DXY Index started the session weaker before rising through most the day and finishing a pop higher late in the session after the announcement of tariffs on Mexico and Canada. The index gained 0.1% to 106.68 and finished just below the day's peak.

The news had an immediate impact on the Canadian dollar and Mexican peso. At the time of writing, the Canadian dollar hit a

Today's key data and events

Time	Event	Exp	Prev
1:45pm	AU RBA's Jones-Fireside Chat	-	-
-	US Building Permits Jan Final	-	0.1%
1:00am	US FHFA House Prices Dec	-	0.3%
1:00am	US S&P/Cs Home Price Index Dec	0.4%	0.4%
2:00am	US Consumer Confidence Feb	102.5pts	104.1pts
2:00am	US Richmond Fed Feb	-2pts	-4pts

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.

12-day high of 1.4258 against the greenback. In a similar vein, the Mexican peso also popped higher late in the session to 20.4814 against the US dollar but remained below its peak for the day.

Elsewhere, the euro finished stronger. The announcement of election results saw the euro cross the 1.05 mark hitting a high of 1.0528 but retreated back down to 1.0463 at time of writing. The euro has tested the 1.05 mark a few times since mid-December but has failed to sustainably clear it.

The Japanese yen is gradually making its way higher (weaker) against the US dollar. After hitting a low of 149.27 against the US dollar yesterday, today's session suggested markets did not want to test the low from 4 December of 148.65.

Commodities:

Crude inched higher day-on-day. WTI futures were up 0.7% to 70.86/barrel. However, money managers have trimmed down on net-long positions in WTI to the lowest levels seen since October 2024, which suggests that skews are turning more bearish. Additionally, International Energy Week is set to take place in London where several companies will report earnings including Diamondback Energy. Iraq's minister has expressed urgency in resuming crude shipments from Kurdistan as soon as Turkish approval is received. Finally, the Trump administration has imposed a new set of sanctions on oil brokers, ships, and individuals they believe were linked to illegal shipments of Iranian crude.

US demand for Aluminium out of Canada remain strong with Canadian exporters showing no immediate plans to shift tons elsewhere until the tariff story is solidified. Furthermore, Rio Tinto's CEO recently stated that in the likely scenario of a broad 25% tariff on aluminium and steel, diverting flows to other regions e.g. Europe wouldn't make sense. Rio also stated that under a 25% tariff, it would probably only halt selling of the metal to US buyers if a regional premium goes below roughly 45 cents/ton. The comex active contract was down 1.6% to 2615.75.

Demand for copper has picked up in recent days, with requests to withdraw LME copper from warehouses rising from 32,550 tons to 84,400 tons - the highest level seen since 2021.

Gold reached a fresh high over night, touching \$2956/oz largely driven by gold-backed ETFs which have recently seen the biggest net inflows since 2022. Spot gold was up 0.5% at the time of writing.

Australia & New Zealand:

There were no major data releases out yesterday.

Eurozone:

The final euro area HICP Inflation data for January confirmed the preliminary reading of 2.5%yr, which represented 0.1ppt increase from December, mainly driven by higher energy inflation. The core rate remained at 2.7%yr as services inflation, which indicates domestic inflationary pressures, was 3.9%yr, remaining within 0.1ppt range from a 4% level for a ninth month in a row.

In contrast to the PMI survey reported last week which pointed to a modest improvement, the German IFO Business Climate Survey suggested that sentiment in the largest euro area member state was little changed this month. The headline business climate indicator moved sideways at 85.2, a level around 1.5pts lower than the average of 2024 and about 10pts lower than its long-term average. The present situation index decreased by one point, but expectations improved by equivalent amount.

US:

The Chicago Fed National Activity Index, a weighted average of 85 other monthly indicators, suggested that at the beginning of this year the US economic growth dipped marginally below trend. The headline survey indicator for January dropped from 0.18, a ten-month high, to -0.03 suggesting the economy is operating below capacity. A sharp decline in personal income and production subcomponents accounted for weaker growth, while measures relating to the labour market, and sales and orders were stronger. Overall, the figures seem to align with other survey measures suggesting that the initial boost to the US economy from improved sentiment linked to expectations that President Trump will cut taxes and deregulate the economy is waning quickly.

The Dallas Fed Manufacturing Index also showed that sentiment weakened. In February, the headline index of business conditions was down from 14.1, the highest level since late 2021, to -8.3, a six-month low. Most survey subcomponents softened, having improved notably in the prior two months. Survey measures for price growth were higher – prices paid for raw materials doubled to 35, the highest level since 2022, while prices received for finished products was up to 7.8, a touch above the average for the last year.



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