



26 February 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

A drop in consumer sentiment brought fresh concerns about the US economic growth. Most major equity indices sold off and government bonds rallied, with the 10Y US Treasury yield dropping 11bp to 4.29%.

Market digested news that Ukraine is going to sign a minerals deal with the US, and a confirmation from the US president that US tariffs on Canadian and Mexican imports will go up next week.

USD depreciated 0.3% extending the downward trend seen since around the middle of January, and oil prices fell to the lowest level this year.

Data snapshot

| FX Last 24 hrs | Current | Change |
|----------------|---------|--------|
| TWI | 60.4 | -0.2% |
| AUD/USD | 0.6343 | -0.1% |
| AUD/JPY | 94.48 | -0.6% |
| AUD/GBP | 0.5006 | -0.5% |
| AUD/NZD | 1.1084 | 0.1% |
| AUD/EUR | 0.6031 | -0.6% |
| AUD/CNH | 4.6006 | -0.1% |
| AUD/SGD | 0.8476 | -0.3% |
| AUD/HKD | 4.9304 | -0.1% |
| AUD/CAD | 0.9077 | 0.3% |
| EUR/USD | 1.0516 | 0.5% |
| USD/JPY | 148.96 | -0.5% |
| USD Index | 106.25 | -0.3% |

| Equities | Close | Change |
|---------------|--------|--------|
| S&P/ASX 200 | 8,252 | -0.7% |
| S&P 500 | 5,957 | -0.4% |
| Japan Nikkei | 38,238 | -1.4% |
| Hang Seng | 23,034 | -1.3% |
| Euro Stoxx 50 | 5,448 | -0.1% |
| UK FTSE100 | 8,669 | 0.1% |
| VIX Index | 19.68 | 3.7% |

| Commodities | Current | Change |
|-------------------|---------|--------|
| CRB Index | 306.50 | -0.6% |
| Gold | 2912.82 | -1.3% |
| Copper | 9402 | -1.0% |
| Oil (WTI futures) | 69.10 | -2.3% |
| Coal (coking) | 187.83 | 0.1% |
| Coal (thermal) | 105.00 | -1.0% |
| Iron Ore | 106.10 | -2.2% |
| ACCU | 35.38 | -4.4% |

| AUS Interest Rate Swaps | Last | Change |
|-------------------------|------|--------|
| 30 day BBSY | 4.14 | 0.00 |
| 90 day BBSY | 4.17 | 0.00 |
| 180 day BBSY | 4.28 | -0.02 |
| 1 year swap | 3.87 | -0.02 |
| 2 year swap | 3.77 | -0.04 |
| 3 year swap | 3.77 | -0.05 |
| 4 year swap | 3.80 | -0.06 |
| 5 year swap | 3.86 | -0.06 |
| 6 year swap | 3.94 | -0.07 |
| 7 year swap | 4.02 | -0.07 |
| 8 year swap | 4.09 | -0.07 |
| 9 year swap | 4.16 | -0.07 |
| 10 year swap | 4.36 | -0.07 |

| Government Bond Yields | Close | Change |
|-------------------------------|-------|--------|
| Australia | | |
| 3 year bond | 3.82 | -0.04 |
| 10 year bond | 4.40 | -0.04 |
| United States | | |
| 3-month T Bill | 4.18 | -0.01 |
| 2 year bond | 4.09 | -0.08 |
| 10 year bond | 4.29 | -0.11 |
| Other (10 year yields) | | |
| Germany | 2.46 | -0.02 |
| Japan | 1.37 | -0.06 |
| UK | 4.51 | -0.05 |

| Sydney Futures Exchange | Current | Change |
|-------------------------|---------|--------|
| 10 yr bond | 4.38 | -0.04 |
| 3 yr bond | 3.80 | -0.02 |
| 3 mth bill rate | 4.11 | 0.00 |
| SPI 200 | 8,200 | -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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Mantas Vanagas
Senior Economist, Westpac Group
P: +61 422 030 326
E: mantas.vanagas@westpac.com.au

Share markets:

Major equity markets remained in the risk-off mode as US President Trump said that new import tariffs on goods coming from Canada and Mexico will be raised next week as planned after they were postponed at the beginning of this month. In addition, his administration is working on plans to limit semiconductor exports to China from the US and other countries. Consequently, Asian equity markets declined, with Hang Seng and Nikkei 225 both falling more than 1%. Australian equities followed a similar trend losing 0.7% on the day. Meanwhile, European stocks were little changed – Euro Stoxx 50 recorded -0.1%, while FTSE100 in the UK was up 0.1% – as signs of higher defence spending in Germany supported sentiment.

In the US, weaker Conference Board Consumer Confidence Survey brought fresh concerns about the US consumer spending and overall state of the US economy. US equity markets sold off, with the S&P500 index at the lowest point registering a 1.2% loss from the previous close. The index managed to recover some of the losses later finishing the day 0.4% in red.

Interest rates:

Government bonds made significant gains on the back of the weaker global risk sentiment and concerns about growth in the US. The US Treasury curve shifted notably lower, with the 10Y yield dropping 11bp to 4.29%, a level around 25bp lower than the last week's high. Equivalent Gilt yield decreased 5bp to 4.51%, while Bund was down only 2bp. The smaller move in the latter largely reflected market expectation of higher debt issuance in Germany, as media reported that, following the last weekend's elections, leaders of top parties are discussing a sharp increase in defence spending. Australian government bonds followed the global trend higher, with yields around 4bp lower across the curve. Bond futures are suggesting a further decline in yields at the opening today.

Foreign exchange:

Similar themes relating to global trade and US growth outlook dominated the FX markets leaving the USD index 0.3% lower. Interestingly, markets provided little reaction to the news reports that Ukraine is prepared to sign a deal with the US. The two countries will be working together on developing mineral resources in Ukraine, with 50% of proceeds going into a special fund that will invest in Ukraine. Reportedly, the agreement does not mention any US security guarantees, but it states that the US will support Ukraine's future economic development. Other major currencies appreciated, with EUR and GBP gaining 0.5% and 0.4%, but AUD was 0.1% weaker remaining close to the 0.6350 mark.

Commodities:

Crude prices fell overnight to YTD lows, with WTI falling 2.3%

Today's key data and events

| Time | Event | Exp | Prev |
|---------|------------------------------|------|------|
| 11:30am | AU Monthly CPI Indicator Jan | 2.6% | 2.5% |
| 11:30am | AU Construction Work Done Q4 | 1.0% | 1.6% |
| 2:00am | US New Home Sales Jan | 680k | 698k |

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.

to \$69/barrel, driven by pessimism around slumps in Chinese oil demand, weaker US consumer confidence and the revision down in global growth prospects from tariff threats.

Similar themes drove prices lower in metals markets. This is despite the Trump's latest executive order which has called for an examination of copper tariffs and potential US overcapacity concerns, with most imports coming from Chile, Canada and Mexico respectively. Gold fell overnight by around 2.1%, trading around \$60 away from Monday's highs.

Australia and New Zealand:

There were no major releases out yesterday.

Eurozone:

The ECB's measure of negotiated wages in the euro area showed that growth eased in Q4 from 5.4%yr to 4.1%yr. It will be a welcome sign for the policy makers suggesting that disinflationary process in the euro area is continuing.

United States:

Echoing the message from other surveys including the University of Michigan Consumer Confidence survey, the Conference Board Consumer Confidence Index showed that sentiment in the US eased further this month. The headline index was down 7 points falling from 105.3, a level broadly in line with the average of the last few years, to 98.3, a level at the bottom of the range in the current expansion cycle. A survey indicator reflecting sentiment about the current situation was down almost 3.5 points, but the weakness was mainly accounted for by falling optimism about the future, with the expectations indicator down 9 points, the steepest since the pandemic. Consumer assessment of the labour market conditions also was notably weaker – a share of respondents who think the jobs are plentiful minus a share who think jobs are hard to get fell well below the 2024 average. Overall, consumer spending has been the main engine of growth in the US last year, and the survey highlights downside risks this quarter, as the optimism continues to decline from its peak seen around the presidential election last year.

In contrast to similar surveys from Dallas and Philadelphia Feds, the Richmond Fed Manufacturing Survey suggested that sentiment in the US manufacturing sector improved this month. The headline index was up from -4 to 6, recording the first positive reading since October 2023. All three major subcomponents reflecting shipments, new orders, and employment improved notably from the prior month.

The US House Prices growth has been broadly stable in October-November, and the latest data releases for showed no change from that 0.4-0.5% mth pace. Indeed, the FHFA



index was up 0.4%*mth* at the end of last year, while the S&P Corelogic gauge rose 0.5%*mth*. Bot indices suggested that over 2024 prices increased by around 4.5%*yr*, which represented a slowdown from 6.4-7%*yr* pace seen in 2023.



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

Sian Fenner

Head of Business and Industry Economics
E: sian.fenner@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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