

27 February 2025

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Uncertainty over tariffs clearly remain at play, with Trump referencing a later start date in April for tariffs against Canada and Mexico whilst also announcing new 25% tariffs on EU products, seeing the Euro slide.

Locally, the Monthly CPI Indicator did not shift the dial in a material way, with swaps markets still pricing in the next rate cut by July and just over two rate cuts by year-end.

The US dollar was little-changed over the session but performances were mixed across the G10, with the Aussie dollar being an underperformer while the Japanese Yen continues its trend appreciation.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	60.2	-0.3%	30 day BBSY	4.14	0.00
AUD/USD	0.6301	-0.7%	90 day BBSY	4.17	-0.01
AUD/JPY	93.91	-0.7%	180 day BBSY	4.26	-0.02
AUD/GBP	0.4972	-0.7%	1 year swap	3.86	-0.01
AUD/NZD	1.1066	-0.1%	2 year swap	3.77	0.00
AUD/EUR	0.6011	-0.4%	3 year swap	3.76	0.00
AUD/CNH	4.5786	-0.5%	4 year swap	3.79	0.00
AUD/SGD	0.8431	-0.6%	5 year swap	3.85	0.00
AUD/HKD	4.8983	-0.7%	6 year swap	3.93	-0.01
AUD/CAD	0.9037	-0.5%	7 year swap	4.00	-0.01
EUR/USD	1.0485	-0.3%	8 year swap	4.08	-0.01
USD/JPY	149.03	0.0%	9 year swap	4.14	-0.01
USD Index	106.49	0.2%	10 year swap	4.31	-0.04

  

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,241	-0.1%	<b>Australia</b>		
S&P 500	5,961	0.1%	3 year bond	3.80	-0.02
Japan Nikkei	38,142	-0.2%	10 year bond	4.36	-0.04
Hang Seng	23,788	3.3%	<b>United States</b>		
Euro Stoxx 50	5,528	1.5%	3-month T Bill	4.19	0.01
UK FTSE100	8,731	0.7%	2 year bond	4.07	-0.03
VIX Index	19.16	-1.4%	10 year bond	4.24	-0.05
			<b>Other (10 year yields)</b>		
<b>Commodities</b>	<b>Current</b>	<b>Change</b>	Germany	2.43	-0.03
CRB Index	305.18	-0.4%	Japan	1.37	-0.01
Gold	2918.39	0.1%	UK	4.50	-0.01
Copper	9460	0.6%			
Oil (WTI futures)	68.78	-0.2%	<b>Sydney Futures Exchange</b>	<b>Current</b>	<b>Change</b>
Coal (coking)	187.67	-0.1%	10 yr bond	4.35	-0.05
Coal (thermal)	101.40	-0.7%	3 yr bond	3.76	-0.04
Iron Ore	105.65	-0.1%	3 mth bill rate	4.11	0.01
ACCU	35.38	-4.4%	SPI 200	8,214	-0.1%

Data as at 8:10am 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:

With comparatively less news on economic data and more uncertainty around the tariff environment, US equity markets were mixed overall. The S&P 500 held flat, the NASDAQ rose 0.3% and the Dow Jones pared back -0.4% following stronger gains the prior day.

After market close, Nvidia released its much-anticipated earnings update, providing a slightly firmer revenue forecast for Q1 relative to analysts' expectations. So far in early after-hours trading, reactions are mixed given the still-uncertain environment for AI.

Solid earnings data was in the spotlight in European trading, seeing the Euro Stoxx 50 (+1.5%) move higher over the session, which ended prior to Trump's announcement of tariffs on EU products. Germany's DAX also posted a very solid increase (+1.7%) while London's FTSE 100 also increased (+0.7%).

Hong Kong's Hang Seng was the front-runner in the Asian session, up 3.3% following news of further significant investment into AI research and development. Stocks rose in Shanghai (0.9%) but fell modestly in Tokyo (-0.2%). The ASX 200 was on the back-foot following a mixed session in overseas markets the day prior, edging slightly lower (-0.1%). Futures markets are pointing to a softer open this morning.

## Interest rates:

Treasuries rallied as markets tried to make sense of Trump's tariff announcements, with the two-year yield falling 3 basis points to 4.07% and the ten-year yield falling 5 basis points to 4.24%. With little economic news, market pricing remained virtually unchanged, with the next rate cut in July and just shy of 60 basis points of easing priced in by year-end.

The Australian yield curve shifted lower and flattened slightly, with the three-year yield falling 2 basis points to 3.80% and the ten-year yield falling 4 basis points to 4.36%. Following the action overnight, futures yields also moved lower, with the three-year and ten-year down 4 and 5 basis points respectively. Given the Monthly CPI Indicator did not shift the dial materially, swaps markets continue to price in the next rate cut by July, with around two rate cuts priced in by year-end.

## Foreign exchange:

Despite the report of tariff delays, the US dollar was little-changed over the session, with the DXY edging up 0.2% to 106.49 at the time of writing. Performances were mixed across the key currency pairs in the basket.

Reacting to the news of new tariffs on EU products, the Euro weakened against the greenback, the EUR/USD falling -0.3% to 1.0485. The Aussie dollar was an underperformer overnight, with the AUD/USD falling -0.7% to 0.6301. The Canadian dollar also depreciated but more modestly so, while the Sterling provided a bit of an offset, appreciating modestly against the greenback.

## Today's key data and events

Time	Event	Exp	Prev
9:00am	AU RBA's Hauser, Jones – Testimony	-	-
11:00am	NZ ANZ Business Confidence Feb	-	54.4pts
11:30am	AU Private New Capital Expenditure Q4	0.5%	1.1%
8:00pm	EZ M3 Money Supply Jan y/y	3.8%	3.5%
9:00pm	EZ Economic Confidence Feb	95.8pts	95.2pts
12:30am	US GDP Q4 (Second Est, Ann'd)	2.3%	2.3%
12:30am	US Durable Goods Orders Jan	2.0%	-2.20%
12:30am	US Initial Jobless Claims	221k	219k
2:00am	US Pending Home Sales Jan	-0.80%	-5.50%
3:00am	US Kansas City Fed Feb	-4pts	-5pts

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.

Meanwhile, the Japanese Yen continues outperform other major global currencies with a trend appreciation against the greenback that has been in place for much of the year, reflecting the Bank of Japan's unique position within the global backdrop as a rate hiker. On the day, the USD/JPY was little-changed, holding around 149.03.

## Commodities:

The EIA reported a decline in US crude inventories, down by 2.33 million barrels last week, marking the largest weekly decline in two months. Despite this, and news of Trump looking to revoke an oil license for a US firm to operate in Venezuela, oil prices closed slightly lower, moving further into year-to-date lows. West Texas Intermediate (WTI) fell -0.2% while Brent prices fell -0.4%. Markets will remain focused on prospects of a peace agreement between Russia and Ukraine.

Metals were somewhat mixed, but uncertainty around tariffs continues to dominate market sentiment. This is particularly true for copper, where the premium spread of US to European prices continues to widen and traders race to ship the commodity to the US before tariffs are implemented. By the end of London trading, the three-month futures contract for copper rose 0.6% to \$9,460, while aluminium fell -0.2% to \$2,632 and nickel rose a solid +1.6% to \$15,580.

Gold prices remain elevated but off their record high seen earlier in the week, rising 0.1% to \$2,918. Iron ore prices were also little changed, falling -0.1% at the margin to 105.65.

## Australia:

The January Monthly CPI Indicator (see [here](#)) fell by -0.2% in the month, leaving it up 2.5% over the year to January. There were important component updates for various items that are only surveyed once a quarter, mostly centred on goods such as clothing and footwear and household contents, which were broadly in line with expectations. The main upside surprise was around electricity prices, which increased in the month as the rebates in Queensland rolled off. At the same time, dwelling prices continues to surprise to the downside. Importantly for policy, the trimmed mean estimate printed 2.8%yr, up slightly from 2.7%yr in December, but like all other

'core' measures of inflation in the month, it remained within the 2-3% target band. One month's result is not enough to significantly move the dial, especially given the fact that this is a 'partial' indicator of inflation. The focus will remain on the full quarterly detail which will be available before the RBA's May Board meeting (but not April).

We also received the first partial indicator in the lead-up to Q4 GDP next week, being construction activity (see [here](#)). While it was a little softer-than-expected, up 0.5% in Q4, the overarching narrative is still encouraging. Growth in public infrastructure remains a key support, but we are also starting to see activity in the private sector begin to recover, across both infrastructure works and residential construction. Inflationary pressures also look to be easing in the sector, which suggests that the intense capacity constraints facing the sector are starting to ease.

## **US:**

The often-volatile measure of new home sales declined by a sharp -10.5% in January, following an upwardly revised gain of 8.1% in December, thereby netting out much of January's weakness. Despite the monthly volatility and especially high seasonality around the turn-of-the-year, it looks as though supply is slowly coming online in the new housing market, allowing sales to gradually trend higher.

The FOMC's Bostic continued to telegraph a similar view on the outlook and risks, stating that the Fed will "need to stay where we are", that being a "restrictive posture" in order to "get the price stability mandate under control".

President Trump delivered mixed messages on the tariff front. On the already-announced tariffs on Canada and Mexico, he referenced a different start date in April instead of March. He also mentioned a 25% tariff on EU products that was not previously disclosed. Overall, this has added considerable uncertainty over both the timing and scale of US tariffs.



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