



28 February 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

A confirmation by President Trump that imports tariffs on Canada and Mexico will be increased next week, additional 10% tariffs will be added on China, and all other countries will see reciprocal tariffs imposed supported USD and sent most other major currencies lower.

Mixed US economic data and ongoing concerns about easing US growth momentum added to the negative sentiment globally. US equity sold off notably.

Longer term US Treasury yields were slightly higher, but growth concerns pushed the short-term yields lower.

Oil price jumped higher reacting to the tariff news, but sentiment in metals market remains weak.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	59.9	-0.5%	30 day BBSY	4.14	0.00
AUD/USD	0.6236	-1.1%	90 day BBSY	4.17	0.00
AUD/JPY	93.35	-0.7%	180 day BBSY	4.26	0.00
AUD/GBP	0.4946	-0.6%	1 year swap	3.86	-0.01
AUD/NZD	1.1074	0.0%	2 year swap	3.75	-0.01
AUD/EUR	0.5993	-0.3%	3 year swap	3.76	0.01
AUD/CNH	4.5526	-0.6%	4 year swap	3.79	0.01
AUD/SGD	0.8405	-0.4%	5 year swap	3.85	0.01
AUD/HKD	4.8502	-1.0%	6 year swap	3.93	0.01
AUD/CAD	0.9006	-0.4%	7 year swap	4.00	0.02
EUR/USD	1.0403	-0.8%	8 year swap	4.07	0.02
USD/JPY	149.70	0.4%	9 year swap	4.14	0.02
USD Index	107.25	0.8%	10 year swap	4.32	0.00

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,268	0.3%	Australia		
S&P 500	5,874	-1.4%	3 year bond	3.79	-0.01
Japan Nikkei	38,256	0.3%	10 year bond	4.34	-0.02
Hang Seng	23,718	-0.3%	United States		
Euro Stoxx 50	5,473	-1.0%	3-month T Bill	4.20	0.00
UK FTSE100	8,756	0.3%	2 year bond	4.06	-0.01
VIX Index	21.35	11.8%	10 year bond	4.27	0.02
			Other (10 year yields)		
Commodities	Current	Change	Germany	2.41	-0.02
CRB Index	306.03	0.3%	Japan	1.40	0.03
Gold	2873.67	-1.5%	UK	4.51	0.01
Copper	9390	-0.7%			
Oil (WTI futures)	70.19	2.3%	Sydney Futures Exchange	Current	Change
Coal (coking)	187.50	-0.1%	10 yr bond	4.36	0.00
Coal (thermal)	100.10	-1.3%	3 yr bond	3.79	0.00
Iron Ore	103.55	-0.7%	3 mth bill rate	4.11	0.00
ACCU	35.38	-4.4%	SPI 200	8,180	-0.8%

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:

Mixed economic data, not overly impressive earnings reported by NVIDIA, and news headlines on rising trade tariffs left the US markets repricing equity valuations lower. In the end, the S&P500 index was down 1.4% from yesterday's close while NASDAQ dropped more than 2.5%. In the European trading session, before the announcements from the US President, Euro Stoxx 50 reversed yesterday's significant gains and fell 1%, while FTSE100 in the UK was more resilient maintaining an upward trend with an 0.3% increase. Asian equities were mixed – in Japan Nikkei 225 was up 0.3%, but Hang Seng declined by the same amount. Domestic equity market was generally in a positive mood. Led by consumer staples and industrial stocks, the ASX200 index gained 0.3%.

Interest rates:

In a volatile day in the bond markets, the longer-term US Treasury yields rose, with the 10Y gaining 2bp to 4.27%. But the short end of the US yield curve shifted slightly lower on the back of ongoing concerns about the US growth outlook. Markets repriced the path for the fed fund rate slightly lower to a cumulative easing of 60bp expected this year. Australian government bonds yields extended the downward trend falling to 4.34%, while 10Y Bund yield was also lower, as the minutes from the latest ECB policy meeting at the end of last month suggested that the Governing Council members are increasingly worried about the economic outlook in the euro area.

Foreign exchange:

President Trump confirmed that the increase in tariffs on Canadian and Mexican imports is going ahead as planned next week. He also said that additional 10% increase will be added on Chinese imports, and reciprocal tariffs on all countries that should match and offset tariffs and non-tariffs barriers imposed by other countries on the US exports will also be raised in early April. Canadian Prime Minister Trudeau vowed an immediate and strong response to the formal introduction of tariffs on Canada. The FX markets reacted with the USD index rising 0.8%, for the first time in more than a week exceeding 107. Against this backdrop, most other major currencies depreciated. EUR was 0.8% weaker falling back to 1.04, while GBP lost 0.4% as the UK Prime Minister Keir Starmer met with US President Trump. Unsurprisingly, Canadian and Mexican FX rates also depreciated on the back of tariffs news. AUD was one of the worst performers, losing 1.1% to 0.6236 as weaker data on business investment suggested slower growth ahead.

Commodities:

Crude oil price rose from lows for the year as US President Trump confirmed plans to impose new tariffs. The April WTI contract settled up 2.3% at \$70.2. However, it remains down by about 3.5% this month as moves to end the Russian war in Ukraine risks additional supply, if sanctions are removed.

Today's key data and events

Time	Event	Exp	Prev
8:00am	NZ ANZ Consumer Confidence Feb	-	96pts
10:30am	JP Tokyo Feb	3.2%	3.4%
10:50am	JP Industrial Production Jan Prel.	-1.00%	-0.20%
11:30am	AU Private Sector Credit Jan	0.5%	0.6%
12:30am	US Personal Income Jan	0.4%	0.4%
12:30am	US Personal Spending Jan	0.2%	0.7%
12:30am	US Wholesale Inventories Jan Prel.	0.0%	-0.50%
12:30am	US PCE Deflator Jan	0.3%	0.3%
12:30am	US Core PCE Deflator Jan	0.3%	0.2%
1:45am	US Chicago PMI Feb	40.8pts	39.5pts
12:30pm	CN Manufacturing PMI Feb	50pts	49.1pts
12:30pm	CN Non-Manufacturing PMI Feb	50.4pts	50.2pts

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.

Metals were mixed in recent ranges with copper down 0.7% and aluminium unchanged. The former is at two-week lows, while iron ore slumped to a three-week low as the threat of another wave of rationalisation in the Chinese steel industry weighed on sentiment. Gold hit to a two-week low with signs of physical demand waning.

Australia:

December quarter capex growth surprised on the downside reporting -0.2%qtr growth vs consensus expectations of 0.5%qtr. Both mining and non-mining sectors saw capex falling, by 0.6%qtr and 0.1%qtr respectively. Capex spending plans for FY2024-25 were broadly as expected, but with the December actuals weaker than expected, we revised our expectations for nominal spending slightly lower, to \$188bn. With capex deflator set to increase by more than 2%yr, it implied an increase of around 1%yr in real terms this financial year. The first estimate of capex plans for FY2025-26 disappointed coming in at \$148, which was only 1.8%yr higher compared to equivalent estimate a year ago. It represented a sharp slowdown from a double-digit growth pace seen in the last three years, suggesting that companies have little confidence that capex will grow significantly next financial year. They are likely feeling uneasy in the face of higher uncertainty ahead of the expected federal election and higher economic and political uncertainty globally.

New Zealand

Following three consecutive months of weakening business sentiment, the February ANZ business outlook survey showed a pickup in general sentiment index from 54.4 to 58.4, a level still very close to the ten-year high reached in October. Businesses seem to remain hopeful that lower interest rates will help to revive the economy in the year ahead. Firms' expectations about their own performance dipped slightly for the month, but hiring and investment expectations were up for the month. In terms of their current performance, a net 3% of firms said that they were down on the same time a year ago.



United States:

The second estimate of Q4 US GDP data left headline and personal consumption growth unchanged at 2.3% and 4.2% annualised. Private investment was a touch weaker than estimated before, but public demand offset. In terms of price pressures, both the headline and core price indexes were revised up however, from 2.2% to 2.4% annualised for headline and 2.5% to 2.7% annualised for core.

Meanwhile, durable goods orders data was mixed. The headline orders growth beat expectations, rising 3.1% in January after a minor upward revision to December, from -2.2% to -1.8%. But the underlying growth was more modest, with core orders rising 0.8% in January, with the upside surprise largely offset by December being revised down from 0.4% to 0.2%. Other US data releases pointed to downside risks to growth. For example, US initial jobless claims surprised, stepping higher from 220k to 242k. While still very low versus history, this outcome is towards the top of the range seen over the past six months. And pending home sales were materially weaker than anticipated in January, declining 4.6%. A positive revision to December limited the consequences for the annual rate, though sales are still down 5.2% versus a year ago. The Kansas City manufacturing index meanwhile remained weak in February at -5.

On the monetary policy front, Kansas City Fed President Schmid expressed concerns over progress in reducing inflation and the outlook for inflation expectations, which, according to survey data, increased recently.



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