

THIS WEEK'S HIGHLIGHTS

- In Australia, CPI inflation declined more than expected in Q4 2023, but remained above the RBA target range. Retail sales dropped more than expected in December, while dwelling approvals and new home loans also fell. House prices rose further in January.
- Abroad, the FOMC left the fed funds rate unchanged, as expected, and dropped the reference to tightening from the statement. The Chinese NBS composite PMI pointed to further stagnation in China.

NEXT WEEK'S HIGHLIGHTS

- The most important domestic event next week will be the RBA decision on Tuesday, followed by the post-meeting conference by RBA Governor Michele Bullock and the Statement on Monetary Policy with updated economic projections.
- Governor Bullock will also appear before the House of Reps Economics Committee on Friday. The week will be also busy data-wise, with the December goods trade balance, January Melbourne Institute inflation gauge and January ANZ job ads on Monday, as well as Q4 retail sales volumes on Tuesday.
- The key releases offshore will be US and Chinese services PMIs as well as Chinese inflation figures; all those releases are for January.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	4.35 (0 pt)	O/N Interbank Cash	4.32 (0 pt)	USD 3-month	5.58 (↓1 pt)	ASX200	7688 (↑146 pt)
US (IOR)	5.40 (0 pt)	90-day Bills	4.32 (↓3 pt)	2-yr T-Notes	4.22 (↓16 pt)	S&P500	4906 (↑38 pt)
Eurozone (Deposit)	4.00 (0 pt)	3-yr T-Bond	3.56 (↓25 pt)	10-yr T-Notes	3.89 (↓28 pt)	DJIA	38520 (↑713 pt)
UK	5.25 (0 pt)	10-yr T-Bond	3.98 (↓27 pt)	Jap 10-yr	0.68 (↓5 pt)	Nikkei	36371 (↑243 pt)
Japan	-0.10 (0 pt)	3-yr WATC Bond	3.83 (↓22 pt)	UK 10-yr	3.75 (↓26 pt)	CSI300	3216 (↓84 pt)
China (1Y LPR)	3.45 (0 pt)	10-yr WATC Bond	4.51 (↓27 pt)	Ger 10-yr	2.15 (↓19 pt)	Stoxx600	484 (↑7 pt)

Changes are since the issue of last week's Market Watch

FINANCIAL MARKETS OVERVIEW

Interest Rates

As expected, the FOMC kept the fed funds rate target range at 5.25-5.50% and scrapped the reference to 'additional policy firming' from the post-meeting statement. However, Fed Chair Jerome Powell stressed the FOMC needs to see more evidence inflation is returning to its 2% goal and admitted the Committee was not discussing cuts at this point.

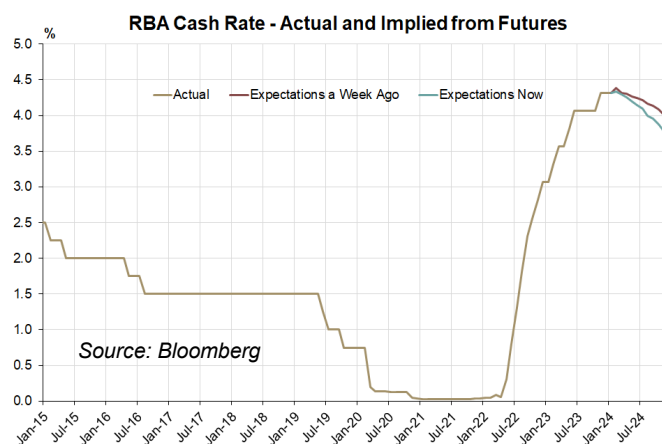
The removal of the reference to further tightening by the FOMC did translated into a significant drop in US Treasury yields and, consequently, government bond yields in other major advanced economies. Australian government bond yields saw a relatively strong decline, additionally impacted by a fall in cash rate expectations after a downside surprise to CPI reports this week.

The Bank of England also left its bank rate unchanged this week, while removing reference to tightening from the statement.

Equities

Equity markets opened the week positively, with the US benchmark, the S&P 500, closing at a record high on Monday before losing ground. The market hit the skids on Wednesday after the FOMC left its policy rate on hold as expected, but was not as dovish as the market would like, while US regional bank shares were battered by concerns over bad debts in the commercial property market. Further evidence of declining inflation pressure drove a rebound in the overall market last night although regional banks remained under downward pressure.

Domestically, the ASX 200 hit a record high on Wednesday, with the market boosted by the weaker-than-expected Aussie inflation numbers. The market buckled on Thursday under the weight of the midweek fall on Wall Street but has rebounded today and is currently sitting at a fresh record high.



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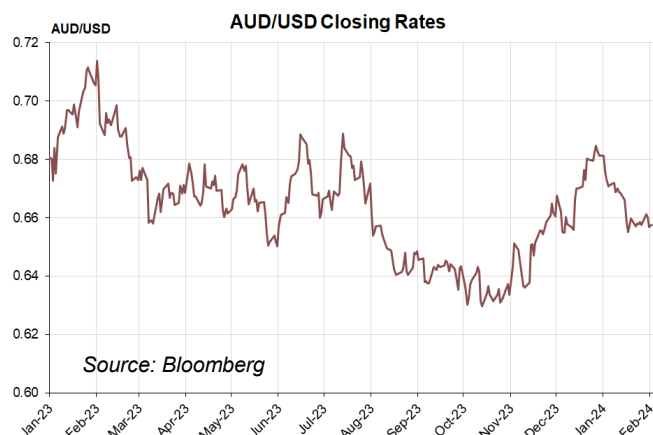
Currencies

The Australian dollar appreciated slightly against the greenback and euro this week, but is flat against the British pound and down versus the Japanese yen.

However, overall, the AUD was one of the weakest G10 currencies this week.

The Aussie dollar was dragged down by the decline in RBA cash rate expectations, after the downside surprise to CPI inflation as well as the weaker global market sentiment mid-week.

As a result of this and the US dollar's strength, the AUD/USD hit the lowest intraday level since mid-November of US\$0.6508 on Wednesday night, before recovering towards the end of the week.



Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6596	0.6625	0.6508	↑0.3	0.7158	0.6270
AUD/EUR		0.6065	0.6115	0.6022	↑0.3	0.6521	0.5007
AUD/GBP		0.5172	0.5213	0.5140	↑0	0.5806	0.5007
AUD/JPY		96.53	97.70	95.50	↓0.6	98.62	86.06
AUD/CNY		4.7351	4.7524	4.6751	↑0.6	4.9348	4.5455
EUR/USD		1.0877	1.0887	1.0780	↓0	1.1276	1.0448
GBP/USD		1.2752	1.2758	1.2625	↑0.3	1.3142	1.1804
USD/JPY		146.36	148.34	145.90	↓0.9	151.91	128.09
USD/CNY		7.1792	7.1844	7.1676	↑0.3	7.3499	6.7066

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6596	0.6614	0.6626	0.6636
AUD/EUR		0.6065	0.6059	0.6048	0.6008
AUD/GBP		0.5172	0.5184	0.5194	0.5203
AUD/JPY		96.53	95.44	94.39	92.35
AUD/NZD		1.0716	1.0746	1.0775	1.0816
AUD/SGD		0.8812	0.8801	0.8783	0.8740

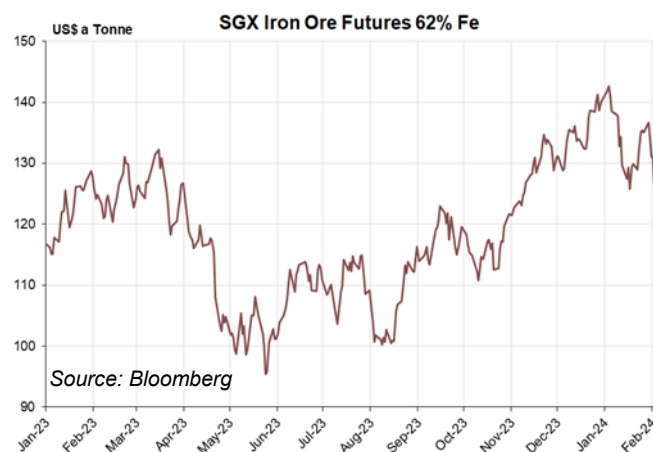
Commodities

Industrial commodity prices are mainly lower over the past week due to ongoing concerns over the outlook for the global economy, particularly China.

However, gold prices climbed to the highest levels in over two weeks as bond yields fell and geopolitical tensions remain high.

News that three US soldiers had been killed in a drone attack sent oil prices higher early in the week, with Brent crude peaking at almost US\$85.00/bbl. Prices have since slipped back, including a sharp fall overnight on reports of progress in negotiations on a ceasefire in Gaza.

Iron ore futures prices fell 6.5% in January, following five consecutive monthly increases, its worst month since April last year. Futures have fallen further in early February as Chinese economic data continues to underwhelm.



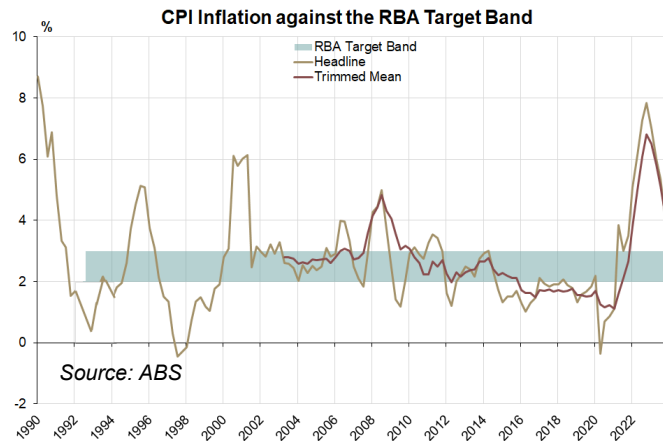
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$2,054.17	\$2,065.48	\$2,019.33	(↑\$37.37)	\$2,135.39	\$1,804.92
Brent Crude Oil (US\$)	\$79.28	\$84.80	\$78.57	(↓\$0.84)	\$97.69	\$70.12
Mogas95* (US\$)	\$96.97	\$105.27	\$95.81	(↓\$2.91)	\$110.15	\$79.06
WTI Oil (US\$)	\$74.33	\$79.29	\$73.70	(↓\$0.87)	\$95.03	\$63.64
CRB Index	269.71	274.00	269.71	(↓1.28)	290.29	253.85
Iron Ore Price 62% Fe (US\$) **	\$126.40	\$137.10	\$126.30	(↓\$9.65)	\$143.50	\$94.00

*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

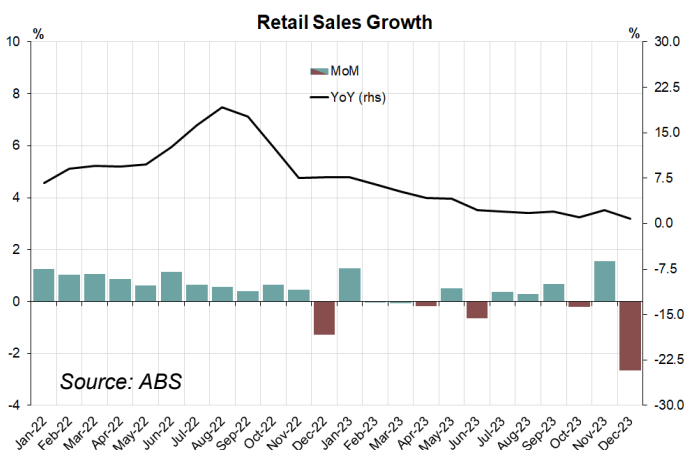
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

DOMESTIC ECONOMY

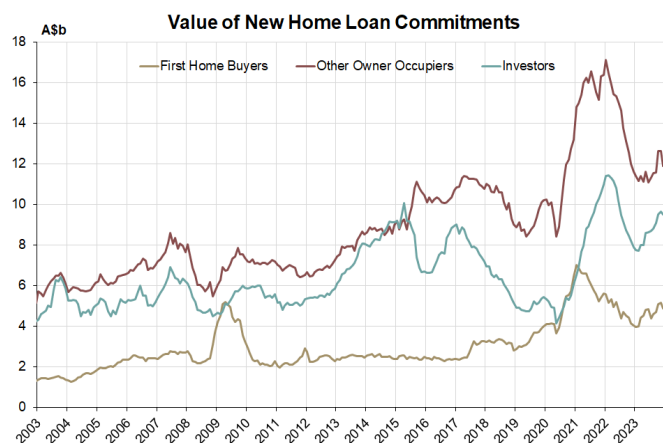
Disinflation continued in Q4, with headline and trimmed mean **CPI inflation** heading towards the target band.



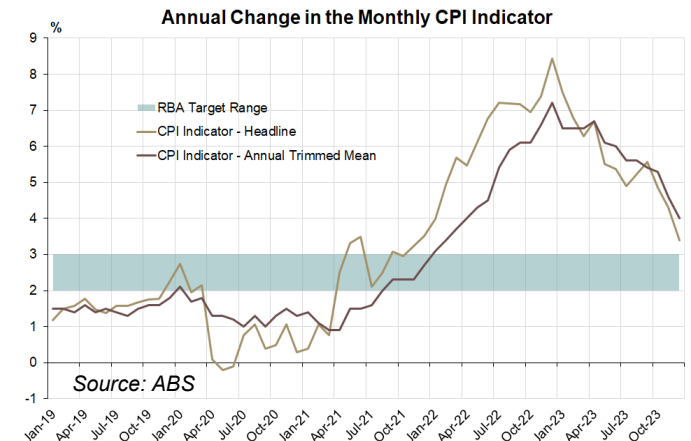
Retail sales plunged in December, more than offsetting the November surge due to the Black Friday sales.



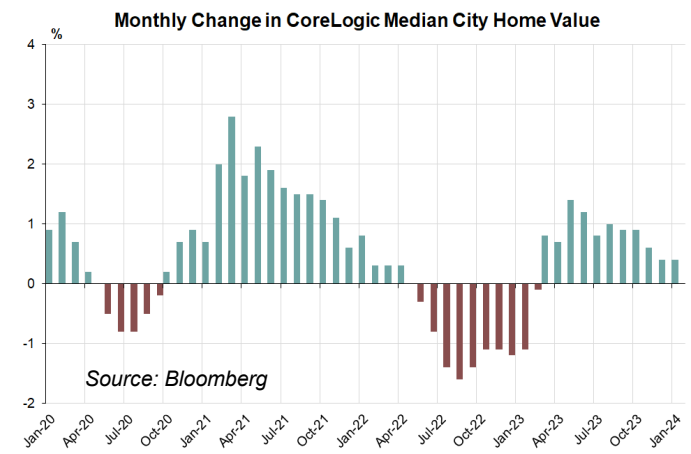
... which followed a decline in **new home loans** in December to still elevated levels.



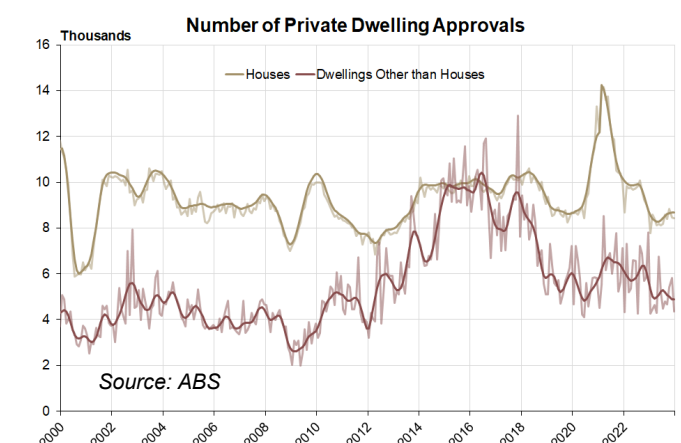
The **monthly CPI indicator** suggests that headline inflation is approaching the upper bound of the target range.



The **CoreLogic home value index** continued to climb in January, but the pace of increase slowed...

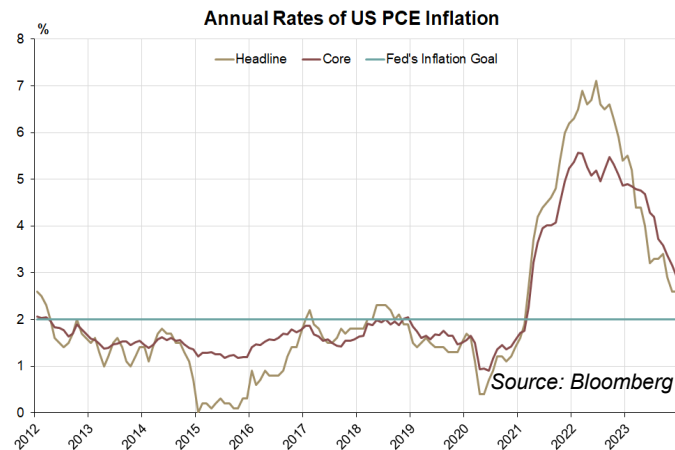


The ongoing rise in home prices is supported by limited supply amid low **dwelling approvals** and completions.

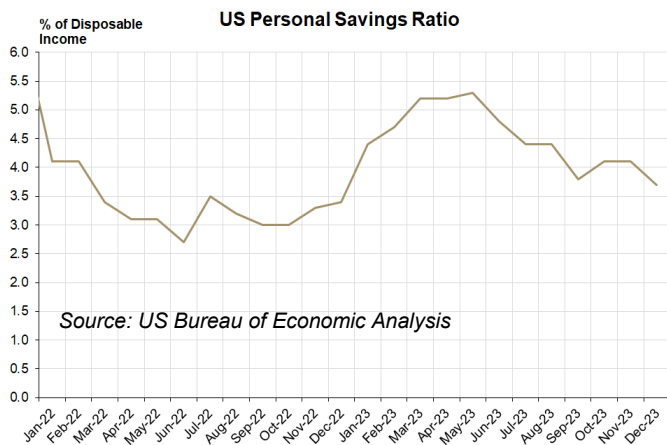


GLOBAL ECONOMY

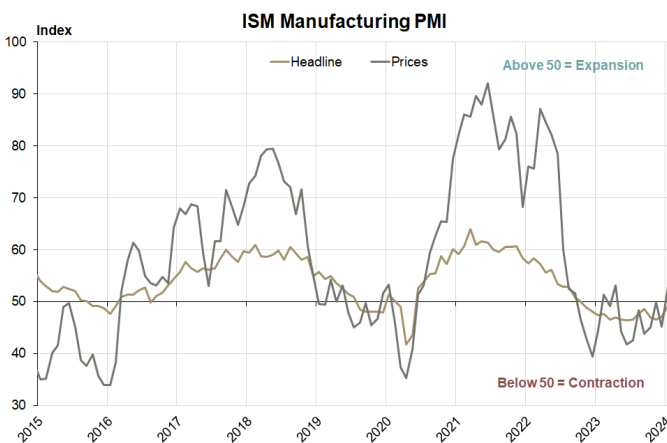
US PCE price inflation is heading towards the FOMC's goal...



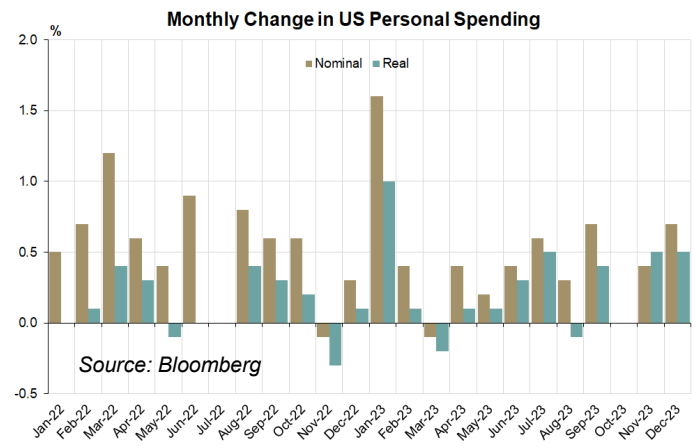
... as US consumers **save less** of their disposable income.



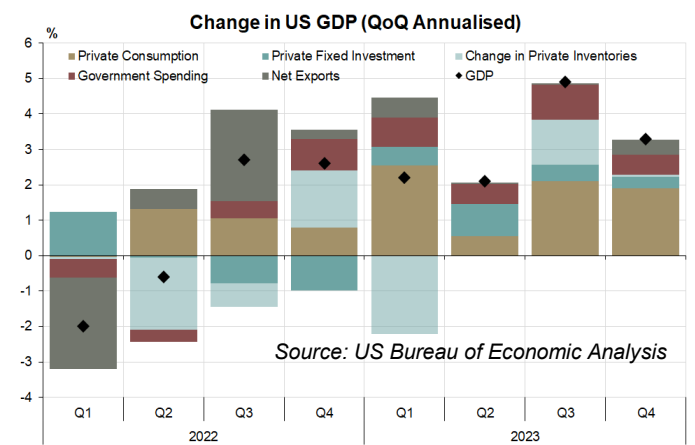
The **ISM manufacturing PMI** report showed slower contraction in activity and a renewed increase in prices.



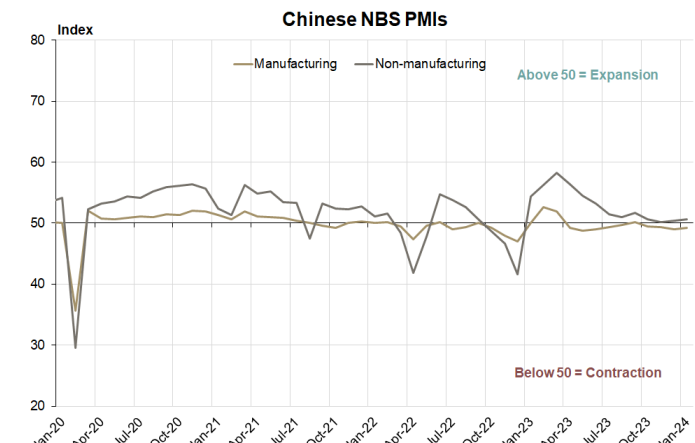
... despite renewed strength in **US consumption**...



The solid household consumption is only one of the factors behind the upside surprise to **US GDP growth** in Q4.



The **NBS PMIs** pointed to further stagnation in Chinese economic growth in January.



KEY ECONOMIC EVENTS

Last Week

	Event	Actual	Forecast	Previous	Comment
Mon 29	No market-moving data				
Tue 30					
AU	Retail Sales (MoM, Dec)	-2.7%	-1.7%	1.6%	Distorted by the November Black Friday sales.
AU	ANZ Consumer Conf. (w/e 27 Jan)	-2.4%	-	0.0%	Inflation expectations down 0.1ppts to 5.1%.
EZ	GDP (QoQ, Q4)	0.0%	-0.1%	-0.1%	Euro area narrowly escaped technical recession.
US	JOLTS Job Openings (Dec)	9.0m	8.8m	8.9m	Still more job offers than officially unemployed.
Wed 31					
AU	CPI (QoQ, Q4)	0.6%	0.8%	1.2%	Down 1.3ppts to 4.1% YoY, the lowest in two years.
AU	Monthly CPI Indicator (YoY, Dec)	3.4%	3.7%	4.3%	Annual trimmed mean inflation fell to 4.0%.
AU	Private Sector Credit (MoM, Dec)	0.4%	0.4%	0.4%	Up 4.8% YoY.
CH	NBS Composite PMI (Jan)	50.9	-	50.3	Manufacturing still in contraction.
EZ	HICP (YoY, Jan)	3.8%	2.7%	2.9%	Core HICP inflation down 0.1ppts to 3.3%.
US	ADP Employment (mthly chge, Jan)	107k	150k	158k	Soft, but a poor indicator for the official figures.
US	FOMC Decision (IoER)	5.40%	5.40%	5.40%	Jerome Powell reluctant to rush into easing.
Thu 01					
AU	CoreLogic House Prices (MoM, Jan)	0.4%	-	0.4%	Perth prices rose by 1.6% in January
AU	Dwelling Approvals (MoM, Dec)	-9.5%	0.5%	0.3%	Dragged down by the volatile unit approvals.
AU	Export Prices (QoQ, Q4)	5.6%	3.5%	-3.1%	Supported by a rise in fossil fuel and iron ore prices.
AU	Import Prices (QoQ, Q4)	1.1%	0.6%	0.8%	Driven by higher car and fuel prices.
CH	Caixin Manufacturing PMI (Jan)	50.8	50.8	50.8	New export orders rose for the first time since June.
UK	BoE Decision (Bank Rate)	5.25%	5.25%	5.25%	Reference to tightening scrapped from the statement.
US	ISM Manufacturing PMI (Jan)	49.1	47.2	47.1	New orders rose back into expansion.
Fri 02					
AU	PPI (QoQ, Q4)	0.9%	-	1.8%	Up 4.1% YoY.
AU	Housing Finance (MoM, Dec)	-4.1%	1.0%	0.7%	A broad-based decline.
Tonight					
US	Non-farm Payrolls (mthly chge, Dec)	-	185k	216k	Another moderate increase expected.
US	Unemployment Rate (Dec)	-	3.8%	3.7%	Below the FOMC's longer-run estimate of 4.1%.

Next Week

	Event	Forecast	Previous	Comment
Mon 05				
AU	Goods Trade Balance (Dec)	A\$10.8b	A\$11.4b	Supersized trade surpluses continue.
AU	ANZ Job Ads (MoM, Jan)	-	0.1%	Still well above pre-COVID levels.
AU	Melbourne Institute Inflation (MoM, Jan)	-	1.0%	Was up 5.2% YoY in December.
CH	Caixin Services PMI (Jan)	53.0	52.9	Has been stronger than the official NBS PMI.
US	ISM Services PMI (Jan)	51.7	50.6	S&P Global report suggested further expansion.
Tue 06				
AU	RBA Decision (Cash Rate Target)	4.35%	4.35%	Cuts to begin later in the year.
AU	RBA Governor M. Bullock Speaks	-	-	The first of the regular post-meeting media conferences.
AU	RBA Statement on Monetary Policy	-	-	Quarterly statement brought forward from Fridays.
AU	Retail Sales Volumes (QoQ, Q4)	0.1%	0.2%	Real consumer spending expected to remain weak.
Wed 07				
US	Trade Balance (Dec)	-US\$62.6b	-US\$63.2b	Has deteriorated significantly since early 2020.
Thu 08				
CH	CPI (YoY, Jan)	-0.5%	-0.3%	Chinese demand pressure remains weak.
CH	PPI (YoY, Jan)	-2.6%	-2.7%	Caixin report suggests a further decline.
Fri 09				
AU	RBA Governor M. Bullock Speaks	-	-	Appearance before House economics committee.