

### THIS WEEK'S HIGHLIGHTS

- In Australia, CPI inflation figures for Q4 and December surprised to the upside. NAB business conditions deteriorated markedly in December, while business confidence remained low. Flash Judo Bank PMIs pointed to the ongoing contraction in private sector business activity in January.
- Abroad, US GDP surprised to the upside in Q4. According to flash PMIs, US and UK private sector remained in contraction in January, while euro area and Japan saw an increase back into expansion territory.

### NEXT WEEK'S HIGHLIGHTS

- A busy week ahead abroad, with Fed, ECB and Bank of England monetary policy decisions due. Other international highlights include US employment figures, ISM PMIs, euro area flash GDP and Chinese PMIs.
- The key events at home will be retail sales on Tuesday, building approvals on Thursday and housing finance on Friday; all releases are for December.

Central Bank Rates (%)		Weekly Change	Australian Interest Rates (%)		Weekly Change	Major Overseas Interest Rates (%)		Weekly Change	Global Equities		Weekly Change
Australia	3.10	(0 pt)	O/N Interbank Cash	3.07	(0 pt)	USD 3-month	4.81	(0 pt)	ASX200	7498	(↑50 pt)
US (IOR)	4.40	(0 pt)	90-day Bills	3.38	(↑11 pt)	2-yr T-Notes	4.19	(↑5 pt)	S&P500	4060	(↑161 pt)
Eurozone (Deposit)	2.00	(0 pt)	3-yr T-Bond	3.19	(↑20 pt)	10-yr T-Notes	3.51	(↑11 pt)	DJIA	33949	(↑904 pt)
UK	3.50	(0 pt)	10-yr T-Bond	3.56	(↑17 pt)	Jap 10-yr	0.48	(↑7 pt)	Nikkei	27381	(↑1018 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	3.67	(↑22 pt)	UK 10-yr	3.31	(↓1 pt)	CSI300	4182	(↑26 pt)
China (1Y LPR)	3.65	(0 pt)	10-yr WATC Bond	4.27	(↑20 pt)	Ger 10-yr	2.21	(↑15 pt)	Stoxx600	454	(↑4 pt)

## FINANCIAL MARKETS OVERVIEW

### Interest Rates

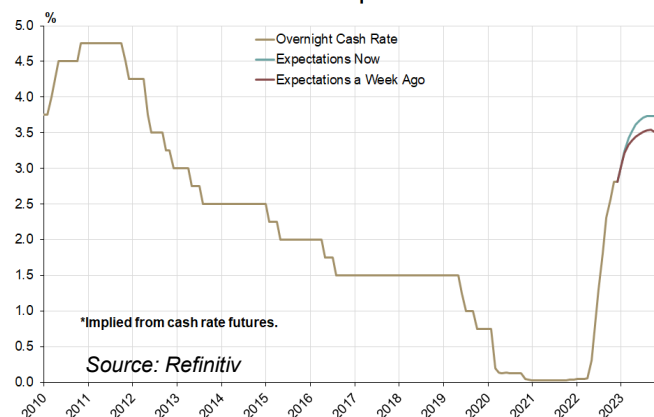
RBA cash rate expectations increased this week, which followed the upside surprise to Aussie inflation figures for Q4. The probability of a 25bps hike in February implied from futures rose from below 50% to around 80%, while the expected terminal cash rate rose to around 3.75% from 3.50% before the inflation data was released.

The larger-than-expected rise in inflation and the increase in RBA rate expectations translated into a considerable increase in Commonwealth bond yields this week, particularly at the front end of the yield curve.

US Treasury yields increased as well, but less than Aussie yields. The markets expect a 25bps hike in fed funds rate at the FOMC meeting on Wednesday.

The Bank of Canada increased its policy rate by 25bps to 4.50%. However, they also signalled a pause in tightening, conditional on economic developments being broadly in line with their projection.

RBA Historical and Expected Cash Rate\*

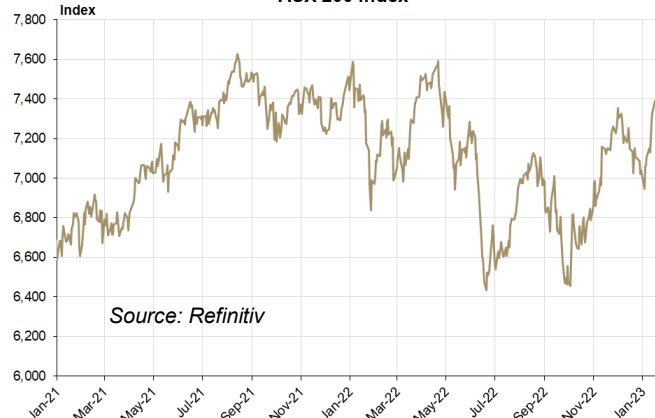


### Equities

It was a positive week for equities, with increases driven by hopes for slowdown in Fed tightening and the upside surprise to US GDP data. The increases came to a temporary halt mid-week, as flash PMIs showed that growth in cost pressures re-accelerated in the US, which left investors in doubt about the future path of Fed tightening.

Aussie shares underperformed this week, despite quite a positive start thanks to optimism about the re-opening of the Chinese economy and the associated rise in commodity prices. The sentiment was dented on Wednesday by the rise in RBA cash rate expectations after the upside surprise to Q4 inflation numbers. The ASX 200 resumed to rise this morning, however, led by increases on Wall Street, to reach a new nine-month high.

ASX 200 Index



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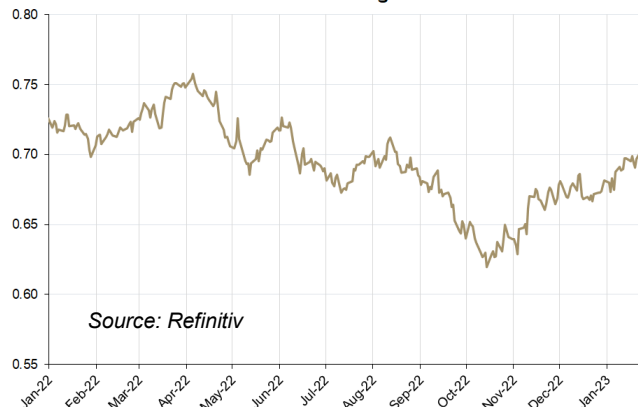
### Currencies

The Q4 CPI report and the rise in RBA rate expectations that followed saw the Aussie dollar appreciate markedly this week. This followed the already solid performance earlier in the week driven by good global market sentiment and the further increase in iron ore prices.

The AUDUSD pair reached the highest level since mid-August 2022, having gained 2.8%. However, the strongest appreciation for the week was against the safe-haven Japanese yen, which was the weakest of the entire G10 currency basket.

The Australian dollar was by far the strongest G10 currency. It surpassed the Kiwi dollar, which also strengthened markedly this week after the slight upside surprise to New Zealand inflation figures.

AUD/USD Closing Rates



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7117	0.7142	0.6858	↑2.8	0.7661	0.6169
AUD/EUR		0.6541	0.6548	0.6345	↑2.5	0.7000	0.6160
AUD/GBP		0.5740	0.5775	0.5564	↑2.8	0.6260	0.5200
AUD/JPY		92.36	92.81	88.07	↑3.8	98.43	80.34
AUD/CNY		4.8271	4.8441	4.6353	↑3	4.8743	4.4286
EUR/USD		1.0877	1.0929	1.0634	↑0.3	1.1495	0.9534
GBP/USD		1.2392	1.2447	1.2085	↓0	1.3643	1.0382
USD/JPY		129.78	132.87	127.21	↑1	151.94	113.75
USD/CNY		6.7825	6.7825	6.6905	↑0.1	7.3270	6.3025

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7117	0.7142	0.7164	0.7196
AUD/EUR		0.6541	0.6528	0.6516	0.6488
AUD/GBP		0.5740	0.5750	0.5758	0.5765
AUD/JPY		92.36	91.58	90.63	88.67
AUD/NZD		1.0944	1.0976	1.1012	1.1073
AUD/SGD		0.9338	0.9355	0.9356	0.9340

### Commodities

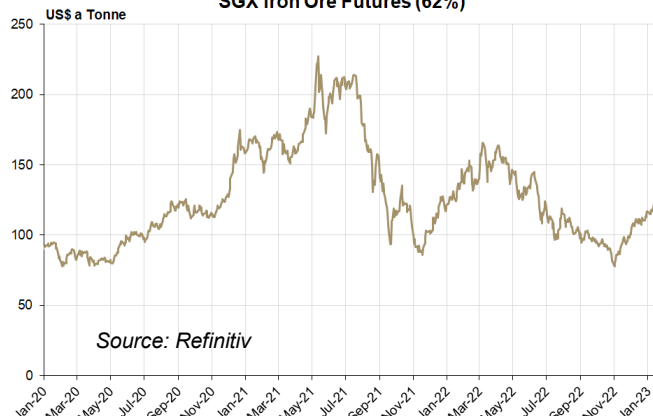
It was another good week for industrial commodities, which continue to be in demand thanks to optimism about the re-opening of the Chinese economy.

Brent futures rose by around 2% this week. Oil prices received additional boost from positive US GDP data and estimates of exceptionally high demand for petrol during the Chinese Lunar New Year celebrations.

Iron ore futures also saw an around 2% gain, reaching the highest level since mid-June 2022.

In contrast to industrial commodity prices, the gold price ebbed 0.3% amid a decline in global risk aversion.

SGX Iron Ore Futures (62%)



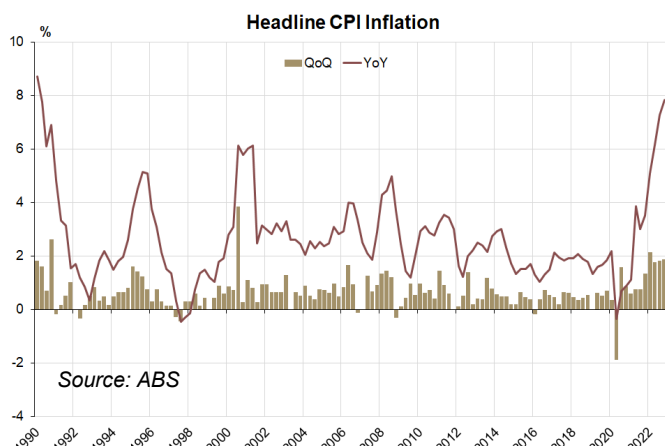
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,926.93	\$1,949.09	\$1,864.19	(↓\$3.6)	\$2,069.89	\$1,613.60
Brent Crude Oil (US\$)	\$87.75	\$89.09	\$79.31	(↑\$1.59)	\$139.13	\$75.11
Mogas95* (US\$)	\$107.09	\$107.14	\$91.10	(↑\$8.19)	\$161.20	\$82.60
WTI Oil (US\$)	\$81.30	\$82.64	\$73.84	(↑\$0.57)	\$130.50	\$70.08
CRB Index	279.55	280.25	268.09	(↑2.93)	329.59	252.85
Iron Ore Price 62% Fe (US\$) **	126.30	\$126.65	\$115.40	(↑\$2.57)	\$171.00	\$75.30

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

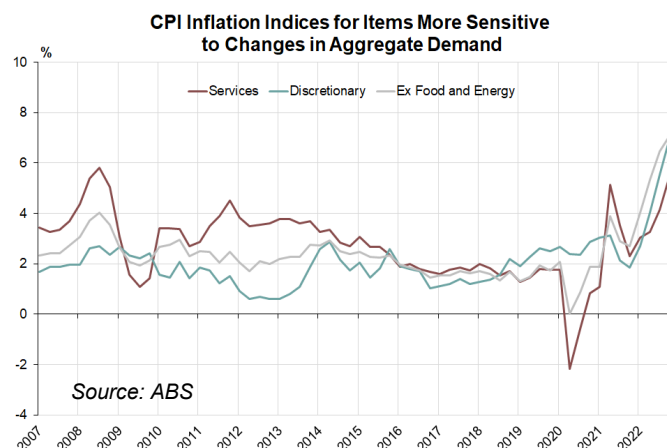
\*\* The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

### DOMESTIC ECONOMY

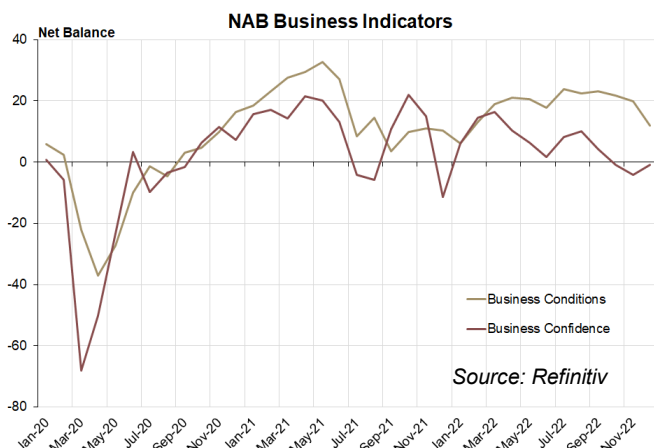
**CPI inflation** continued to accelerate in Q4...



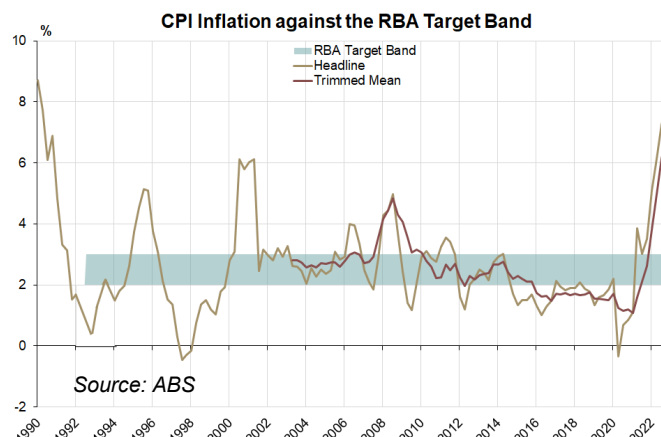
Prices for goods and services more responsive to a change in demand saw further acceleration in Q4.



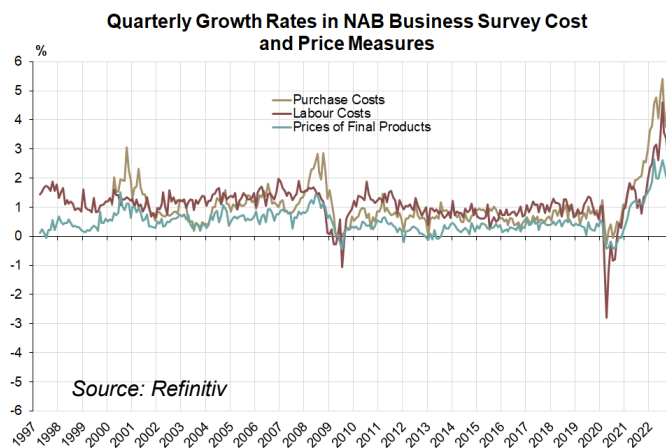
**NAB business conditions** deteriorated significantly in December and business confidence was still depressed.



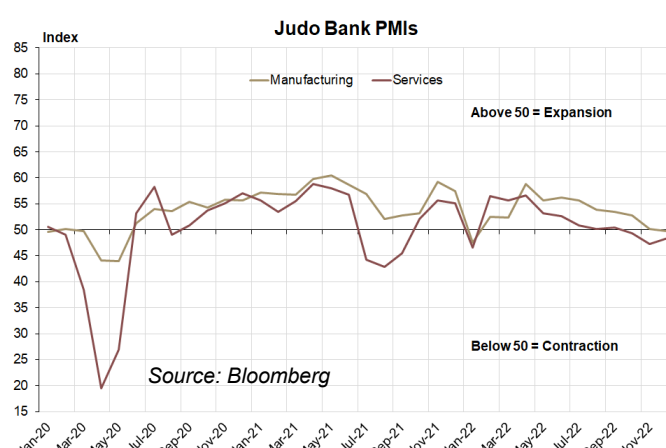
... drifting away from the **RBA's target band**, both for headline and trimmed mean indicators.



Meanwhile, the NAB business survey suggested slower, albeit still elevated, growth in costs and prices.

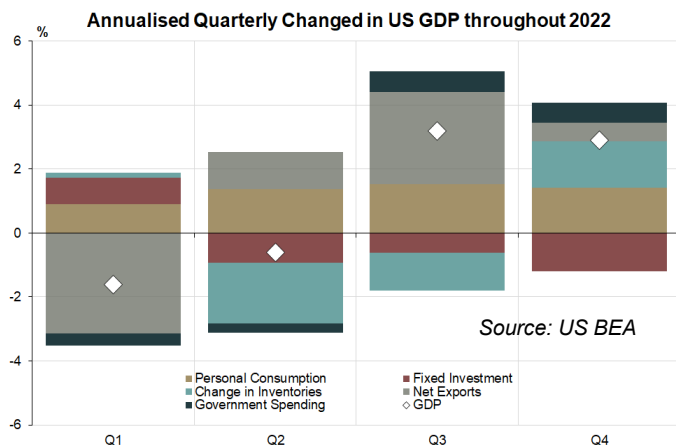


The **Judo Bank services PMI** remained in contraction in January, while manufacturing activity fell.

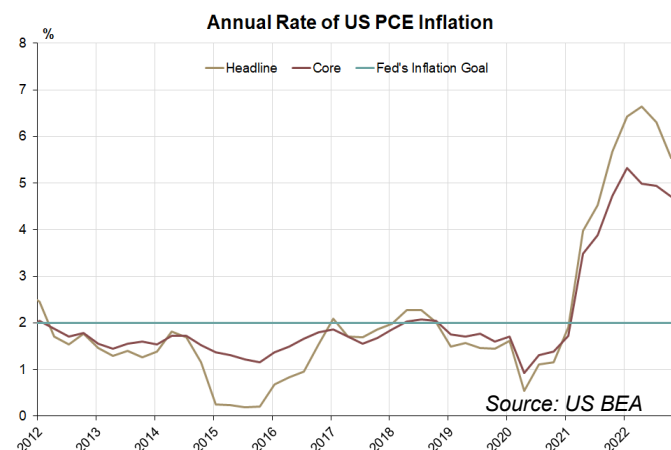


### GLOBAL ECONOMY

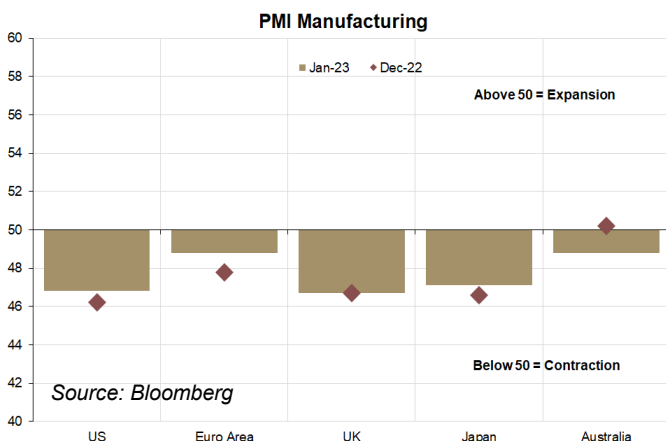
**US GDP** rose at a steady pace in Q4, with a large contribution from the change in inventories.



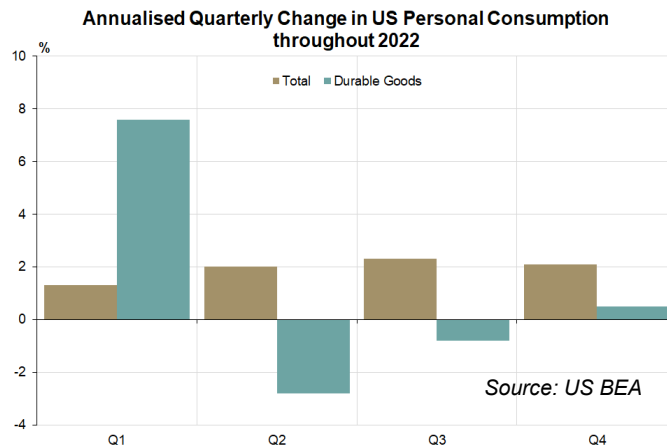
... as **PCE inflation** remains well above the Fed's goal, despite the recent decline.



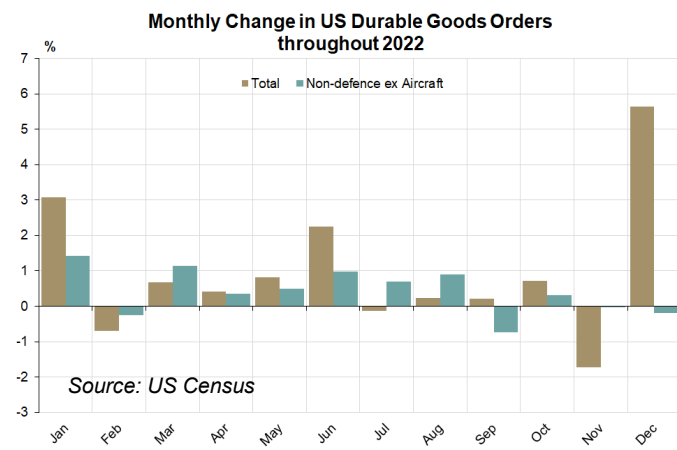
**Manufacturing PMIs** are still in contraction across the major advanced economies...



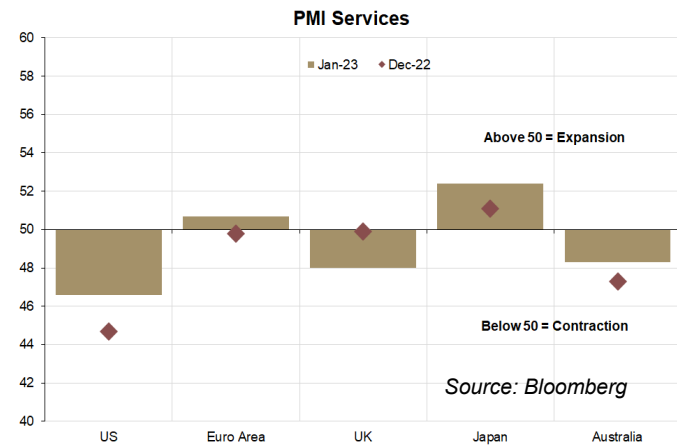
**Consumption of durable goods** continues to underperform in the US...



**US durable goods orders** saw a strong increase in December, thanks to a surge in aircraft orders.



... while **services PMIs** are mixed across the major economies and remain in deep contraction in the US.



## KEY ECONOMIC EVENTS

*This Week*

	Event	Actual	Forecast	Previous	Comment
<b>Mon 23</b>	<i>No market moving data</i>				
<b>Tue 24</b>					
AU	Judo Bank Comp. PMI (Jan, flash)	48.2	-	47.5	New orders rose back into expansion.
AU	NAB Business Conditions (Dec)	12	-	20	Despite the decline, conditions remain above average.
AU	NAB Business Confidence (Dec)	-1	-	-4	Western Australia saw a rise in confidence.
AU	ANZ Consumer Conf. (w/e 21 Jan)	-1.8%	-	0.3%	Inflation expectations rose 0.3ppts to 5.7%.
JP	Jibun Bank Comp. PMI (Jan, flash)	50.8	-	49.7	Back in expansion.
EZ	S&P Global Comp. PMI (Jan, flash)	50.2	-	49.3	Further contraction in Germany and France.
UK	S&P Global Comp. PMI (Jan, flash)	47.8	-	49.0	The fastest pace of contraction in two years.
US	S&P Global Comp. PMI (Jan, flash)	46.6	-	45.0	Rise in costs has re-accelerated.
<b>Wed 25</b>					
AU	CPI (QoQ, Q4)	1.9%	1.6%	1.8%	Annual rate of inflation rose 0.5ppts to 7.8%.
CA	BoC Decision (Policy Rate)	4.50%	4.50%	4.25%	BoC signalled a conditional pause in tightening.
<b>Thu 26</b>					
US	GDP (QoQ Annualised, Q4, prelim.)	2.9%	2.6%	3.2%	Half of the increase came from change in inventories.
US	Durable Goods Orders (MoM, Dec)	5.6%	2.5%	-1.7%	Non-defence orders ex aircraft declined by 0.2%.
US	Initial Jobless Claims (w/e 21 Jan)	186k	205k	192k	The lowest level since mid-April 2022.
<b>Fri 27</b>					
AU	International Price Indices (QoQ, Q4)	-	-	-	Import prices rose by 1.8% versus the 1.5% expected.
AU	PPI (QoQ, Q4)	0.7%	1.7%	1.9%	Up by 5.8% through the year.
<b>Tonight</b>					
US	Personal Spending (MoM, Dec)	-	-0.1%	0.1%	Retail sales report pointed to a decline.
US	PCE Index (YoY, Dec)	-	-	5.5%	CPI report suggested a fall in inflation YoY.

*Next Week*

	Event	Forecast	Previous	Comment
<b>Mon 30</b>	<i>No market moving data</i>			
<b>Tue 31</b>				
AU	Retail Sales (MoM, Dec)	-1.0%	1.4%	Credit card reports point to a weak result.
AU	Private Sector Credit (MoM, Dec)	-	0.5%	Business credit growth particularly strong of late.
CH	NBS Composite PMI (Jan)	-	48.3	First gauge into Chinese economy after reopening.
EZ	GDP (QoQ, Q4, flash)	-0.1%	0.3%	That would be the first decline since Q1 2021.
US	Case-Shiller House Price Index (YoY, Nov)	-	8.6%	Correction in US housing market continues.
<b>Wed 01</b>				
CH	Caixin Manufacturing PMI (Jan)	49.5	49.0	Coming back to expansion is likely.
EZ	HICP (YoY, Jan, flash)	9.1%	9.2%	Has been on a decline for two months already.
US	ADP Employment (monthly change, Jan)	170k	235k	Has been a poor indicator for official employment figures.
US	ISM Manufacturing PMI (Jan)	48.3	48.4	S&P Global Report suggests further contraction.
US	FOMC Decision (IoER)	4.65%	4.40%	FOMC officials hint a slower pace of tightening.
<b>Thu 02</b>				
AU	Building Approvals (MoM, Dec)	-	-9.0%	Has been volatile due to the choppy high-rise activity.
EZ	ECB Decision (Deposit Rate)	2.50%	2.00%	ECB officials dismissed speculation on slower tightening.
UK	Bank of England Decision (Bank Rate)	4.00%	3.50%	BoE keeps tightening, despite the looming recession.
<b>Fri 03</b>				
AU	New Home Loans (MoM, Dec)	-	-3.7%	Normalisation in the Aussie housing market continues.
CH	Caixin Services PMI (Jan)	-	48.0	Expect a swing back into expansion.
US	Non-farm Payrolls (monthly change, Jan)	175k	223k	US labour market remains resilient to tightening.
US	Unemployment Rate (Jan)	3.6%	3.5%	Below the Fed's long-run estimate of 4.0%.
US	ISM Services PMI (Jan)	50.5	48.6	S&P Global report also points to ongoing contraction.