

Highlights this week

- In Australia, the CPI figures for Q4 and December confirmed that both headline and core inflation are above the 2-3% target range. NAB business conditions and confidence improved slightly in December.
- Abroad, the FOMC left the fed funds rate unchanged on Wednesday night, as expected, highlighting the strength of the US economy. US durable goods orders bounced back in November.

Highlights next week

- The major domestic event next week will be the RBA cash rate decision on Tuesday, with a 25bps hike to 3.85% widely expected by the markets. The RBA will also release its quarterly Statement on Monetary Policy, with updated macroeconomic projections. The other domestic releases will be the January Core inflation home prices, the Melbourne Institute inflation gauge and ANZ job ads on Monday, followed by the December trade balance on Thursday.
- It will also be a big week in global central banking, with the ECB and the Bank of England decisions both due on Thursday. The key data releases will be the US and Chinese PMI figures for January on Monday and Wednesday, as well as the US official labour market data on Friday.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia 3.60	(0 pt)	O/N Interbank Cash 3.60	(0 pt)	USD 3-month 4.85	(0 pt)	ASX200 8875	(+21 pt)
US (IOR) 3.65	(0 pt)	90-day Bills 3.84	(+3 pt)	2-yr T-Notes 3.56	(-4 pt)	S&P500 6969	(+56 pt)
Eurozone (Deposit) 2.00	(0 pt)	3-yr T-Bond 4.28	(+2 pt)	10-yr T-Notes 4.27	(+2 pt)	DJIA 49072	(-312 pt)
UK 3.75	(0 pt)	10-yr T-Bond 4.83	(+1 pt)	Jap 10-yr 2.24	(0 pt)	Nikkei 52998	(-860 pt)
Japan (Target) 0.75	(0 pt)	3-yr WATC Bond 4.35	(+3 pt)	UK 10-yr 4.51	(+4 pt)	CSI300 4678	(-46 pt)
China (1Y LPR) 3.00	(0 pt)	10-yr WATC Bond 5.18	(0 pt)	Ger 10-yr 2.84	(-5 pt)	Stoxx600 607	(-2 pt)

Changes are since the previous issue of Market WATCH Weekly.

Financial Markets**Interest Rates**

The FOMC left the fed funds rate target range at 3.50-3.75% on Wednesday night, with the post-meeting statement and press conference highlighting the solid pace of US growth, stabilisation in the labour market and the decline in services price inflation. The markets still expect one fed funds rate cut later this year.

The Bank of Canada also kept its interest rate unchanged on Wednesday, but expectations for a rate hike are building up.

The RBA cash rate hike expectations for next Tuesday also intensified a bit this week, after the CPI report for Q4 and December confirmed that both headline and trimmed mean inflation are now above the RBA target range of 2-3%. Currently, a 25bps hike is still roughly 70% priced in for next week, with one more such move expected for later this year.

Government bond yields were pretty mixed this week, with slight increases at the front end of the Aussie yield curve, while longer-term Commonwealth bond yields are overall little changed for the week. US Treasury yields are down for shorter maturities and slightly up for 10-year bond yields.

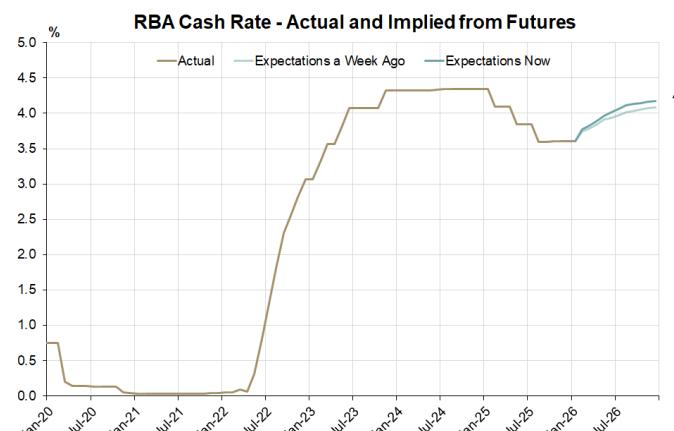
Equities

Australian equities had a strong start to the week following the long weekend. The market hit its highest level since October last year early on Wednesday, before falling after the elevated CPI saw raised expectations for an RBA rate hike next week.

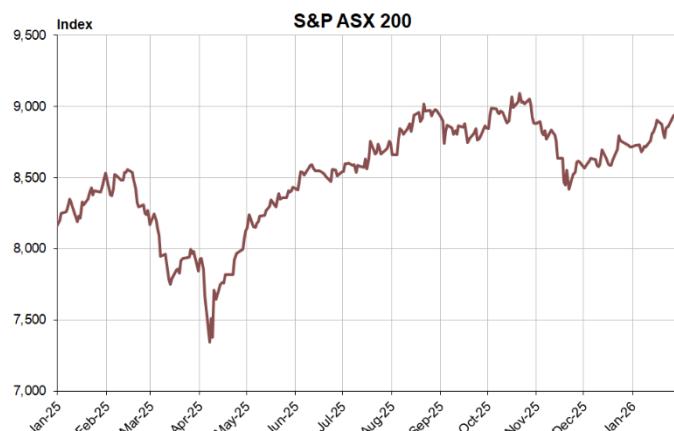
The ASX 200 remains above its level of this time last week despite sliding over the past three days, including a solid decline today. Energy and materials have been the best performing sectors.

US equities rose in the first two days of the week, with the S&P 500 closing Tuesday at a record high and briefly climbing above 7,000 for the first time early on Wednesday, before easing.

The US market fell again on Thursday led by a 10% slump in Microsoft shares on concerns that its spending on AI might be overdone. Traders are also becoming increasingly concerned with the fallout of a potential US attack on Iran. US futures pricing currently suggests Wall Street will open lower again tonight.



Source: Bloomberg



Source: Bloomberg

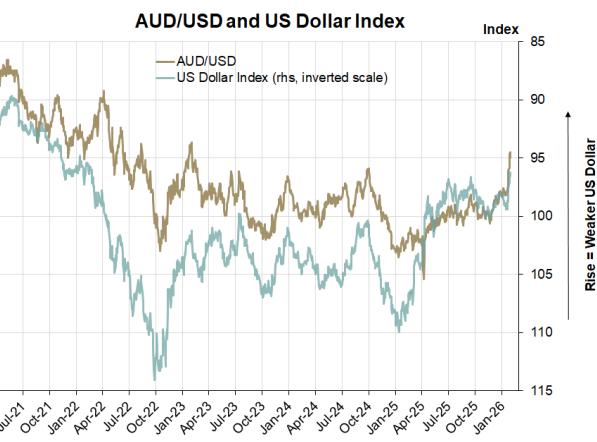
Currencies

It was a very good week for the AUD, which appreciated against all major currencies except for the JPY.

The AUD's appreciation was supported first by a rise in some commodity prices, and then by the intensification of the RBA cash rate hike expectations after the strong Q4 CPI figures for Australia.

The AUD/USD rose above the US\$0.70 mark for the first time since early 2023. This strong rise reflects partly the weakness of the USD amid concerns over the state of US finances and governance ahead of a likely start of a short partial government shutdown this weekend.

Despite the solid performance of the AUD, it was the JPY that was the strongest G10 currency this week, amid speculation about FX market intervention after its downslide over the past few months.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7020	0.7094	0.6892	↑2.6	0.7094	0.5915
AUD/EUR		0.5882	0.5918	0.5810	↑1	0.6113	0.4620
AUD/GBP		0.5096	0.5126	0.5048	↑0.5	0.5126	0.4620
AUD/JPY		107.83	108.58	106.08	↓0.6	109.00	86.05
AUD/CNY		4.8893	4.9279	4.7586	↑2.5	4.9279	4.3523
EUR/USD		1.1937	1.2081	1.1834	↑1.6	1.2081	1.0141
GBP/USD		1.3776	1.3868	1.3637	↑2.1	1.3868	1.2249
USD/JPY		153.59	155.35	152.10	↓3.1	159.45	139.89
USD/CNY		6.9524	6.9659	6.9450	↓0.2	7.3511	6.9450
Forward Rates		Spot	3M	6M	12M		
AUD/USD		0.7020	0.7018	0.7009	0.6977		
AUD/EUR		0.5882	0.5855	0.5824	0.5756		
AUD/GBP		0.5096	0.5095	0.5089	0.5070		
AUD/JPY		107.83	106.94	106.08	104.30		
AUD/NZD		1.1590	1.1548	1.1500	1.1411		
AUD/SGD		0.8889	0.8831	0.8769	0.8640		

Commodities

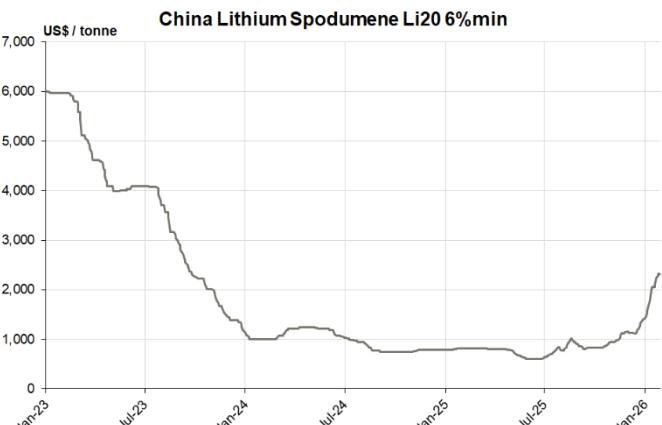
Precious metals climbed to new record highs this week, as the US dollar continued to slide and geopolitical risk escalated.

Rising expectations for a fresh conflict in the Middle East and concerns over its impact on oil supplies drove oil prices to their highest levels since August last year.

Copper – a key input into data centre and renewable energy investment – surged to all-time highs. While not rising quite as much as copper, aluminium and nickel prices have also seen solid increases over the past week.

Lithium spodumene prices picked up further, building on the strong increases that began late last year.

Iron ore futures prices fell to six-week lows on Wednesday, before bouncing back as prices rose across commodity markets.



Source: Bloomberg

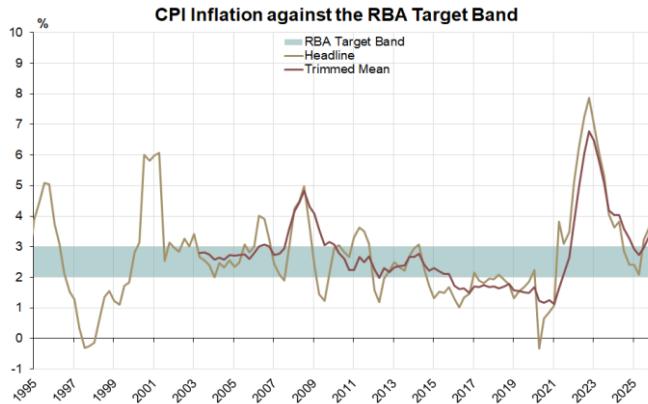
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$5,218.92	\$5,595.47	\$4,990.72	(+\$262.49)	\$5,595.47	\$2,758.29
Brent Crude Oil (US\$)	\$69.81	\$71.89	\$65.00	(+\$5.75)	\$81.40	\$58.40
Mogas95* (US\$)	\$76.00	\$77.73	\$72.69	(+\$1.92)	\$95.91	\$67.57
WTI Oil (US\$)	\$64.38	\$66.48	\$60.14	(+\$4.74)	\$78.40	\$54.98
CRB Index	323.71	323.71	312.24	(+15.3)	323.71	279.79
Iron Ore Price 62% Fe (US\$) **	\$104.30	\$105.45	\$102.70	(+\$0.4)	\$109.40	\$91.70

*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.

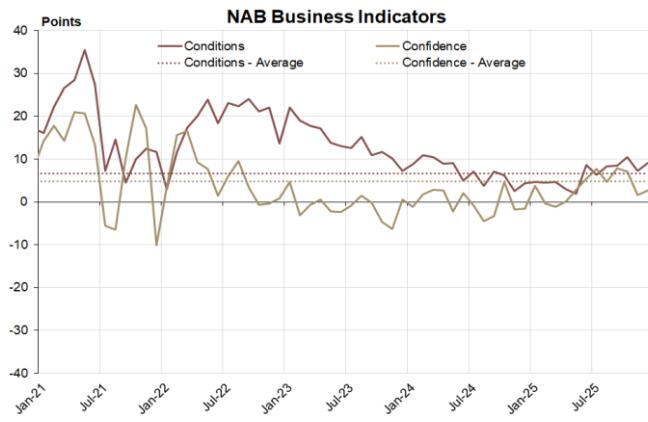
Domestic Economy

The **Q4 and December CPI report** confirmed that both headline and core inflation are above the target range.



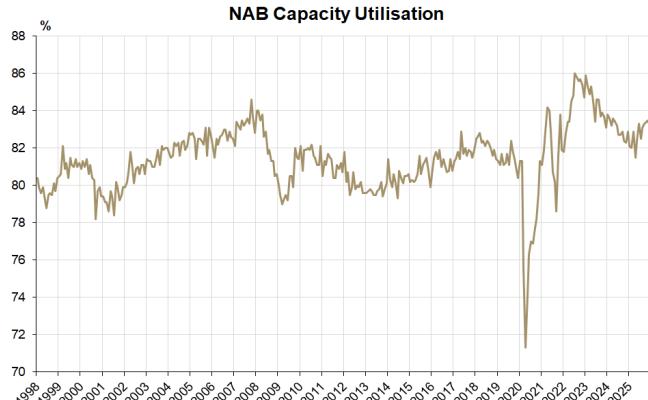
Source: ABS

NAB business conditions and confidence both rose a little in December...



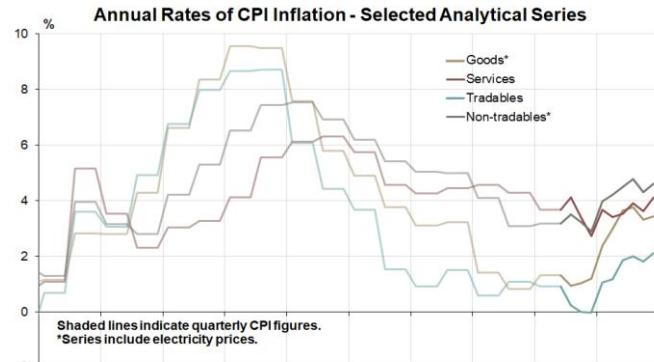
Source: Bloomberg

Despite a slight decline in December, **NAB capacity utilisation** is near a two-year high.



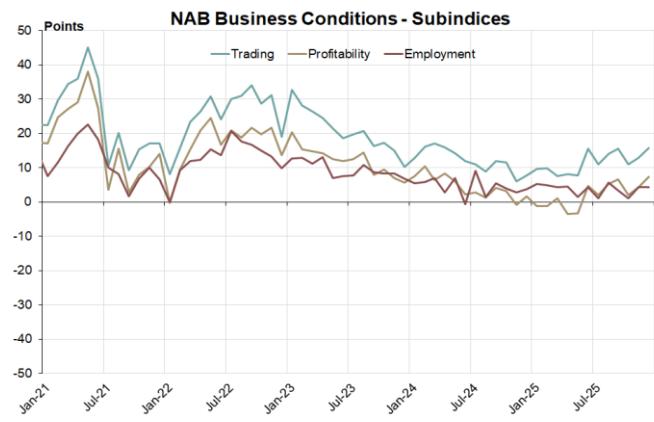
Source: Bloomberg

The monthly CPI figures suggest that **services price inflation** could be picking up again.



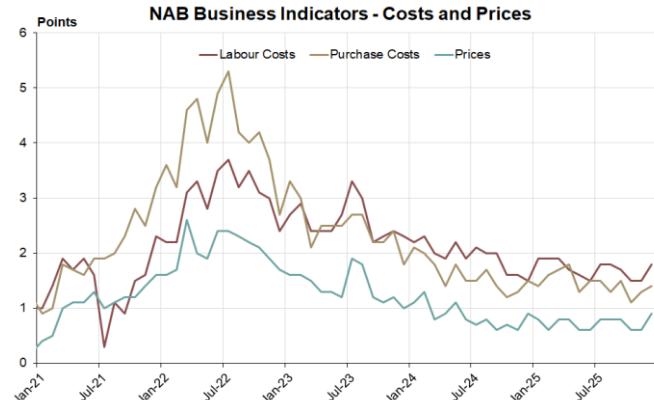
Source: ABS

... with the slight improvement in business conditions driven by **trading and profitability**.



Source: Bloomberg

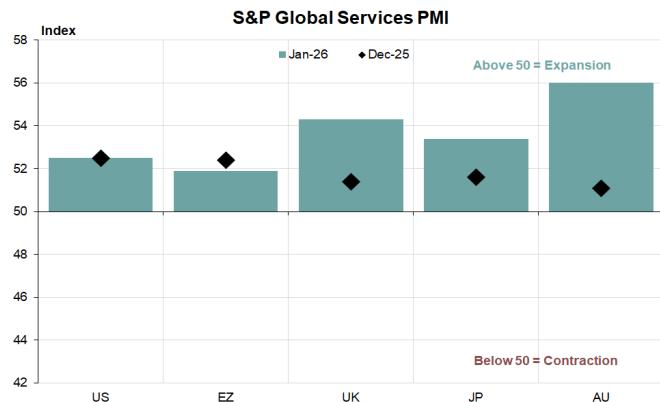
The NAB report also confirmed a slight rise in **cost and price pressures of Australian businesses**.



Source: Bloomberg

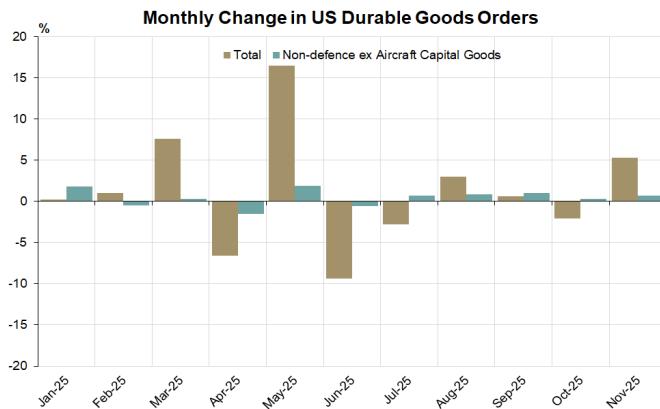
Global Economy

S&P Global PMIs pointed to an ongoing expansion across the major advanced economies in January.



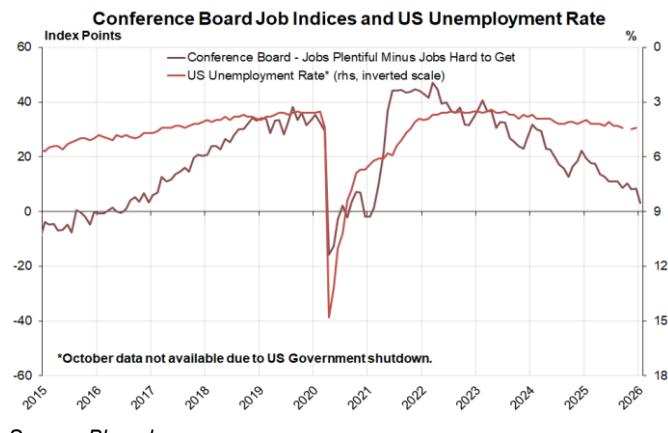
Source: Bloomberg

US durable goods orders bounced back in November, with sustained growth in underlying orders.



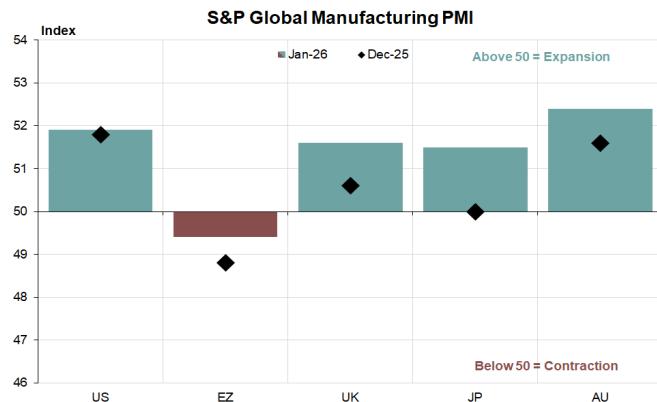
Source: Bloomberg

This comes as the perception of **US labour market conditions** is the weakest since the heights of COVID.



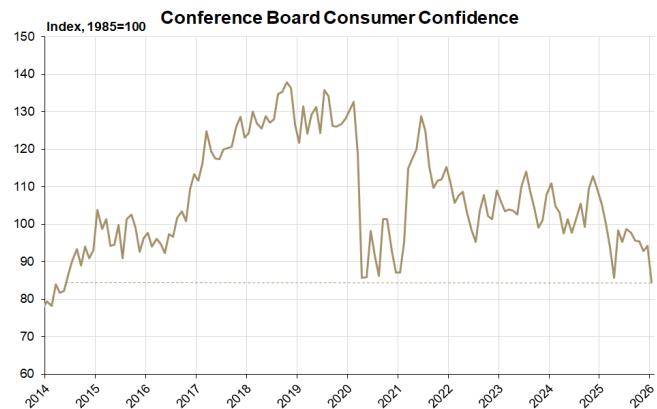
Source: Bloomberg

Manufacturing was also in expansion across the major advanced economies outside of the euro area.



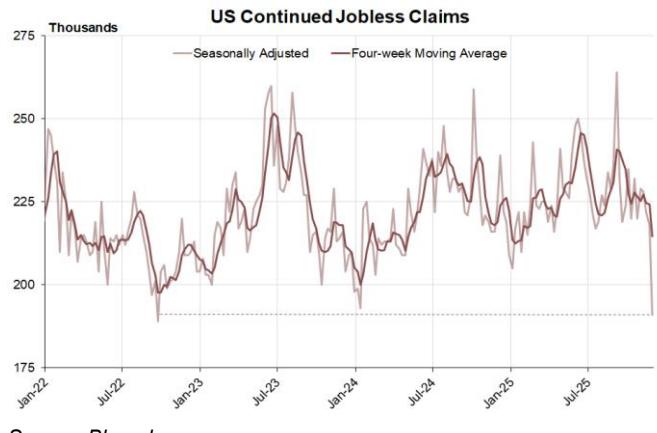
Source: Bloomberg

According to the Conference Board survey, **US consumer confidence** is the weakest in over a decade.



Source: Bloomberg

This contrasts with a drop in **US continued jobless claims** to the lowest level in over three years.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 26					
US	Durable Goods Ord. (MoM, Nov)	5.3%	3.8%	-2.1%	Non-defence ex aircraft orders up by 0.7% in November.
Tue 27					
AU	NAB Business Conditions (Jan)	9	-	7	Improvement driven by trading and profitability.
AU	NAB Business Confidence (Jan)	3	-	2	Remains below its longer-run average.
US	C-S Hse Pce 20 City (MoM, Nov)	0.5%	0.2%	0.4%	The strongest rise in nearly a year.
US	CB Consumer Confidence (Jan)	84.5	90.0	94.2	Dropped to the weakest level since 2014.
Wed 28					
AU	CPI (YoY, Dec)	3.8%	3.6%	4.3%	Headline and trimmed mean inflation rates above 2-3%.
AU	ANZ Cons. Conf. (w/e 24 Jan)	84.0	-	79.3	Improvement driven by better labour market perception.
CA	BoC Decision (Policy Rate)	2.50%	2.50%	2.50%	BoC now expected to start hiking in late 2026.
US	FOMC Decision (IoER)	3.65%	3.65%	3.65%	Two FOMC members preferred a 25bps rate cut.
Thu 29					
AU	Export Price Index (QoQ, Q4)	3.2%	-	-0.9%	Export price growth driven by gold, iron ore and coal.
AU	Import Price Index (QoQ, Q4)	0.9%	-	-0.4%	Up 3.0% YoY.
US	Initial Jobless Claims (w/e 24 Jan)	209k	205k	210k	Continued claims the lowest since September 2022.
Fri 30					
AU	PPI (QoQ, Q4)	0.8%	-	1.0%	Annual rate of PPI inflation remained at 3.5%.
AU	Private Sector Credit (MoM, Dec)	0.8%	0.6%	0.6%	The fastest annual growth rate in three years (7.7%).
Tonight					
EZ	GDP (QoQ, Q4)	-	0.3%	0.3%	Euro area has been in expansion since Q3 2023.
US	PPI (MoM, Dec)	-	0.2%	0.2%	US annual PPI inflation was 3.0% in November.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 02				
AU	Cotality Home Value Index (MoM, Jan)	-	0.5%	Aussie home price growth has slowed amid the RBA pivot.
AU	Melbourne Institute Inflation (MoM, Jan)	-	1.0%	First insights into price formation in January.
AU	ANZ Job Ads (MoM, Jan)	-	-0.5%	Hit a near five-year low in December.
CH	RatingDog Manufacturing PMI (Jan)	50.0	50.1	NBS PMIs to be released over the weekend.
US	ISM Manufacturing PMI (Jan)	48.3	47.9	S&P Global composite PMI suggested expansion.
Tue 03				
AU	RBA Decision (Cash Rate Target)	3.85%	3.60%	A hike widely expected.
AU	RBA Statement on Monetary Policy (Q1)	-	-	Will contain updated macroeconomic projections.
AU	RBA Governor Michele Bullock Speaks	-	-	Post-meeting press conference.
AU	Dwelling Approvals (MoM, Dec)	-7.5%	15.2%	High-rise activity driving the heightened volatility.
US	JOLTS Job Openings (Dec)	7.1m	7.2m	Was below the number of officially unemployed in November.
Wed 04				
CH	RatingDog Services PMI (Jan)	51.5	52.0	Services expected to expand at a steady and modest pace.
EZ	HICP (YoY, Jan)	-	1.9%	In line with the ECB's goal of 'below but close to 2%'.
US	ADP Employment (monthly change, Jan)	48k	41k	Has been a poor indicator for the official US payroll figures.
US	ISM Services PMI (Jan)	53.5	54.4	S&P Global services PMI suggested steady expansion.
Thu 05				
AU	Trade Balance (Dec)	A\$3.5b	A\$2.9b	Non-monetary gold exports remain elevated.
EZ	ECB Decision (Deposit Rate)	2.00%	2.00%	ECB widely anticipated to stay put in 2026.
UK	Bank of England Decision (Bank Rate)	3.75%	3.75%	One rate cut expected sometime in the first half of 2026.
Fri 06				
US	Non-farm Payrolls (monthly change, Jan)	78k	50k	Business reports point to another modest gain.
US	Unemployment Rate (Jan)	4.4%	4.4%	Declined by 0.2pps from 4.6% in December.
US	UMich Consumer Sentiment (Feb, prel.)	55.5	56.4	Has been less reliable since the switch to the online survey.