

Weekly Economics and Markets Review

- Trade was the key story this week with developments in US trade policy, as well as the reactions of other countries to this, boosting uncertainty in markets and seeing yields fall over the week. Interestingly, despite this, equities and the Australian Dollar have risen over the past week.
- Data released over the past week has taken a back seat to these developments.

Week in review

Domestic

- The value of retail sales dipped 0.1 per cent in December after increasing 0.7 per cent in November. The timing of Cyber Monday this year (2 December) versus in normal years (in November) was cited as a possible factor contributing factor to the result. The volume of retail spending in Q4 rose 1.0 per cent, slightly higher than expected, given ongoing promotional activity by retailers.
- Building approvals rose 0.7 per cent in December, though the increase was driven by the volatile non-house category (that is, apartments and townhouses) which were up 15.2 per cent on the month while approvals for the larger and more stable category of detached houses fell three per cent.
- CoreLogic capital city dwelling prices declined 0.2 per cent in January. This was the fourth consecutive monthly contraction. Price declines continue to be led by Sydney and Melbourne, though there is a softening in other markets as well.
- ANZ-Indeed Job Ads edged 0.2 per cent higher in January but are down 15.1 per cent over the year.

Offshore

- There was plenty of news related to the US' trade relationships:
 - Over the weekend, US President Donald Trump imposed 25 per cent tariffs on all US imports from Mexico and Canada, although Canadian energy exports to the US would only be subject to 10 per cent tariffs. An additional 10 per cent tariff would be imposed on imports from China.
 - The tariffs on Mexico and Canada were paused for 30 days following promises from these countries to increase enforcement actions around illegal flows of people and drugs across these borders into the US.
 - China retaliated to the US move by imposing tariffs of between 10 to 15 per cent on a range of products including coal, LNG, oil, machinery, vehicles and agriculture. China also implemented export bans on critical minerals including tungsten, tellurium, bismuth, molybdenum, and indium. China is far and away the dominant global supplier of these critical minerals which are used to make semiconductors, electronics, precision instruments and other high-tech manufactured items. In terms of the value of items tariffed by China versus what the US did as well as the tariff rate initially imposed this time around compared to what was seen at the onset of the trade conflict in 2018, the response from China was more muted.

- President Trump threatened imposing tariffs on the 27 countries of the European Union because these don't buy enough products from the US. These tariffs could be coming 'pretty soon'. A spokesperson for the EU said that the bloc would 'respond firmly'. While the UK's trade balance with the US is 'out of line', as President Trump shares a good relationship with PM Starmer and thinks that one 'can be worked out'.
- The Bank of England cut rates by 25 basis points to 4.50 per cent, as expected. It was surprising to BoE watchers however to see a shift in those who dissented away from calling for no rate cuts to calling for bigger moves.
- On the data front:
 - In the **US**, according to the ISM, manufacturing conditions improved at a faster pace in January while those in the services sector also got better, but at a slower pace. On the labour market, job openings as a share of the labour force unexpectedly declined in December, though the rates of workers quitting as well as of firms hiring and laying off staff were all unchanged from slightly upwardly revised levels.
 - In the **euro area**, the annual rate of core inflation was little changed at 2.6 per cent, though is estimated to have slowed on a monthly basis.
 - In **New Zealand**, the unemployment rate rose 0.3 percentage points to 5.1 per cent and the underutilisation rate by 0.5 percentage points to 12.1 per cent in Q4. Markets are now nearly fully pricing in a 50 basis point rate cut by the RBNZ at its February meeting.

Markets

Developments in US trade policy, as well as the reactions of other countries to this, has boosted uncertainty in markets and seen yields fall over the week. Interestingly, despite this, equities and the Australian Dollar have risen over the past week.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday – Westpac-MI Consumer Sentiment (Feb), NAB Business Survey (Jan) Wednesday – Housign finance (Q4)
Offshore	US – Non-farm payrolls (Jan), University of Michigan Consumer Sentiment (Feb), CPI & PPI (Jan), retail spending (Jan) Other – Labour market (Jan, CA), PPI & CPI (Jan, CN)

Economic and Financial Market Charts

CHART 1: THE VOLUME OF RETAIL SALES IS RISING AGAIN AS RETAILERS LURE HOUSEHOLDS BACK TO THE SHOPS WITH DISCOUNTS

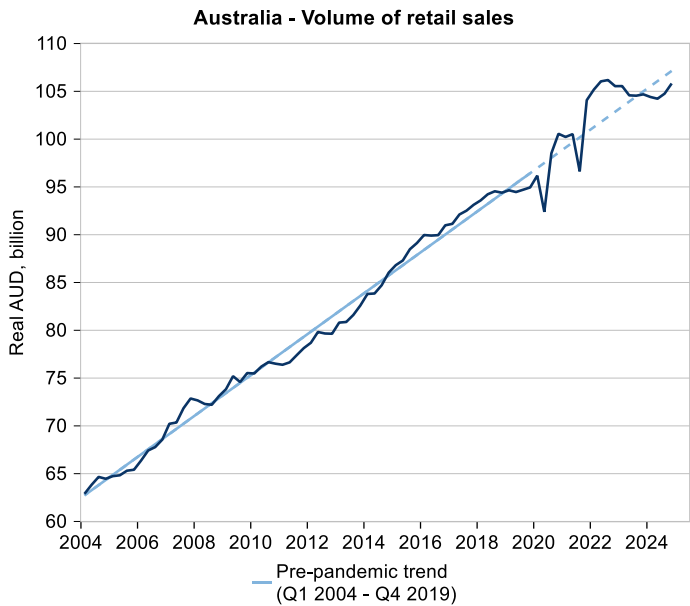


CHART 2: DWELLING PRICE GROWTH IS MODERATING ACROSS THE COUNTRY AND IS FALLING IN SYDNEY AND MELBOURNE

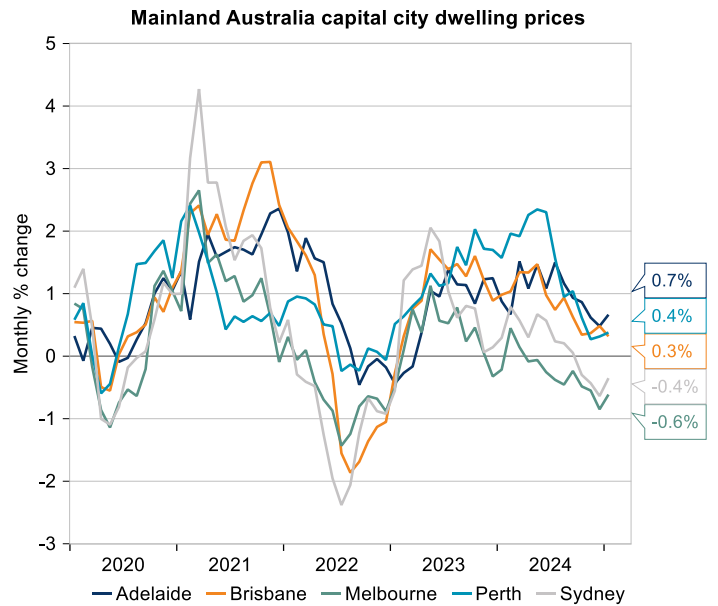


CHART 3: THE JOB OPENINGS RATE (OPENINGS DIVIDED BY LABOUR FORCE) SURPRISINGLY DIPPED IN DECEMBER

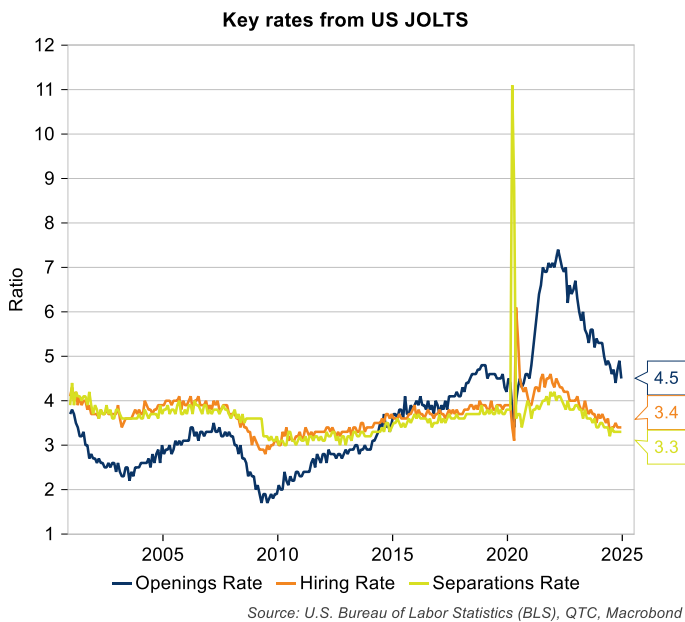
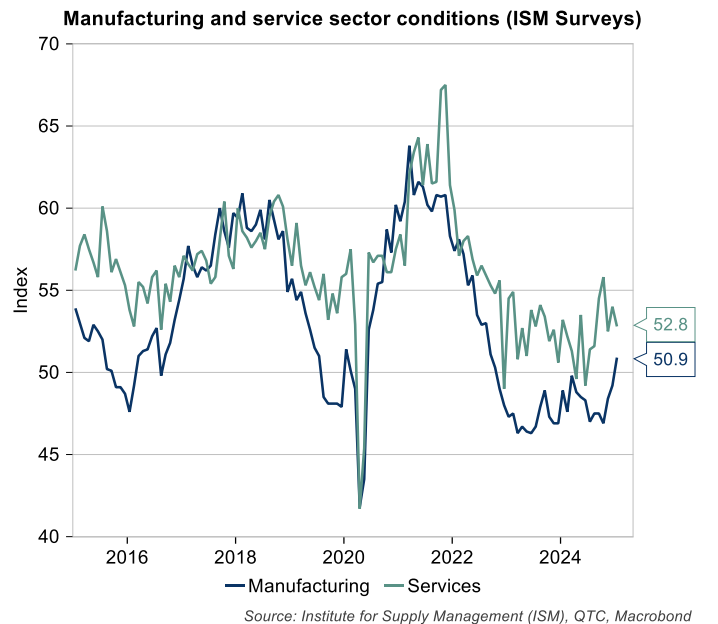


CHART 4: CONDITIONS IN THE MANUFACTURING SECTOR IN THE US ARE NOW IMPROVING AGAIN AS ARE THOSE IN THE SERVICES SECTOR STILL, ALBEIT AT A SLOWER PACE



Financial markets data table

The table below shows yields for bonds issued by the central financing authorities of various state governments in Australia as well as those on bonds issued by the Australian and US Governments. Further, there are values for the Australian Dollar against a range of currencies, and major exchange rates against the US Dollar. The change in these yields and rates over different time periods is also included.

MATURITY	ISSUER	YIELD	CHANGE (BASIS POINTS)			EQUITIES	RATE	CHANGE (PER CENT)		
			1 WEEK	1 MONTH	1 YEAR			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.99	-5	-15	2	AUD/USD	0.63	0.77	0.57	-3.13
	NSWTC	3.96	-5	-18	-1	AUD/EUR	0.61	1.32	0.57	0.53
	TCV	3.99	-5	-18	-6	AUD/GBP	0.51	1.13	1.17	-1.69
	WATC	3.92	-6	-17	-4	AUD/JPY	95.29	-0.82	-3.40	-1.63
	Australian Government	3.72	-6	-19	4	AUD/CAD	0.90	0.10	0.37	3.00
	US Government	4.23	-1	-13	-1	AUD/NZD	1.11	0.42	0.08	3.94
5 Year	QTC	4.28	-5	-12	22	AUD/SGD	0.85	0.95	-0.37	-2.85
	NSWTC	4.22	-6	-17	12	AUD/HKD	4.89	0.71	0.69	-3.55
	TCV	4.28	-5	-19	12	AUD/KRW	908.21	1.07	0.02	5.18
	WATC	4.18	-5	-17	13	AUD/CNY	4.58	2.42	0.07	-0.77
	Australian Government	3.86	-7	-18	10	AUD/INR	55.02	1.96	2.72	2.25
	US Government	4.27	-5	-19	16	MAJOR CURRENCIES				
7 Year	QTC	4.63	-5	-8	34	EUR/USD	1.04	0.87	0.02	-3.96
	NSWTC	4.56	-5	-15	20	GBP/USD	1.23	0.68	-1.74	-2.93
	TCV	4.63	-5	-18	21	USD/JPY	156.22	-0.59	0.70	-5.84
	WATC	4.50	-4	-13	23	USD/CHF	1.10	0.18	-0.98	-4.78
	Australian Government	4.09	-6	-16	16	USD/CNY	7.29	0.61	0.10	-2.83
	US Government	4.35	-6	-22	21	MAJOR COMMODITIES				
10 Year	QTC	5.10	-6	-6	47	Brent Crude Oil	74.23	-3.43	-3.66	-9.07
	NSWTC	5.03	-5	-12	32	Gold	2,852	2.03	7.53	40.38
	TCV	5.08	-6	-14	29	Copper	9,240	1.22	2.63	12.77
	WATC	4.87	-5	-11	33	Iron Ore	105.94	0.63	10.09	-4.82
	Australian Government	4.31	-6	-15	19					
	US Government	4.43	-8	-25	28					

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from *Macrobond*.

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