Monthly economic report

The global economy

Financial markets over the past few months have been focused on the implications of Donald Trump winning the US Presidential election. There continues to be heightened uncertainty around what policies will be implemented, and when, with most attention focused on tariffs. The uncertainty is likely to remain elevated for the foreseeable future as US policies are gradually announced and other countries respond. In the meantime, this uncertainty will generate volatility in financial markets, with comments by President Trump regarding potential policy measures frequently triggering reactions in equity, currency and bond markets.

Despite the uncertainty around government policy changes, the US economy has continued to grow strongly, buoyed by robust consumer spending. The labour market has also remained tight, with employment growth exceeding expectations in recent months. With inflation expected to gradually fall towards the US Federal Reserve's (Fed) 2% target, the Fed lowered interest rates by another 25bps in December.

However, the continued resilience of the US economy saw investors further pare back their expectations for rate cuts in 2025, with investors now only expecting 2 more rate cuts in this easing cycle. The uncertainty over President Trump's policies is creating a challenging backdrop for the Fed, with the central bank likely to proceed cautiously with future interest rate cuts.

The European economy remains weak, with Germany experiencing particularly challenging conditions due to its large manufacturing sector. There is uncertainty around the fiscal outlooks in several European economies, including fears that the US will impose tariffs on European exports. France and Germany have also been impacted by political instability in recent months.

The weak economic conditions saw the European Central Bank cut rates further in January, with investors expecting more rate cuts throughout this year. Central banks in Canada, Sweden and Switzerland also cut interest rates in December and/or January. In contrast, the Bank of Japan raised its policy rate to 0.5%, reflecting greater confidence that higher wages growth will keep inflation close to its 2% target.

China's economy grew by 5% in 2024, in line with authorities' growth target of 'around 5%'. Growth has been driven by strong manufacturing production and exports, with household spending weak and the property sector still in a severe downturn. However, strong manufacturing investment has resulted in overcapacity, with China's economy experiencing deflation for the past 2 years. The outlook for China's economy this year will partly depend on how large and broad-based US tariffs on China's exports are and how China responds.

The Australian economy

The Reserve Bank of Australia (RBA) held interest rates steady at its December meeting, but investors interpreted its communication as signalling that rate cuts could occur sooner. In particular, the Board noted that the recent run of weaker economic data has provided it with more confidence that inflation is falling sustainably to target.

Importantly, underlying inflation was significantly lower in the December quarter than the RBA had expected. In 6-month annualised terms, underlying inflation was 2.7% in the quarter – only a touch above 2.5% (the midpoint of the RBA's target band). Despite the continued resilience of the labour market, slower wages growth and easing pressures in the housing market are seeing the disinflationary process continue. Combined with the broad-based slowing in inflation in other advanced economies, this could provide the RBA with enough confidence to start its easing cycle in February. Investors see a 90% chance of the first rate cut occurring in February, with 3 rate cuts in total currently expected in 2025.

Financial market commentary

After a challenging December, where global bond yields rose sharply and most equity markets fell, January was a more positive month for investors with many equity markets recording solid gains. Bond market moves were mixed, but the moves were smaller than in December.

Equity markets (performance in local currency, excluding dividends)

US equity markets were very volatile over December and January. The S&P500 rose by 2.7% in January, reversing its 2.5% fall in December. All sectors were higher in January, except for the IT sector, which was weighed down by large falls in the share prices of some AI-related companies (particularly after news about Chinese AI startup, DeepSeek, surfaced). The announcement of US tariffs on imports from Canada, Mexico and China on 31 January (to take effect 4 February) also weighed on US equities.

The ASX200 rose strongly (+4.6%) in January, with gains in all sectors except the utilities sector. This reversed the 3.3% decline in December. European share markets outperformed in December and January, with a particularly strong rise in Germany's share market in January (+9%). This could reflect optimism about the outlook for Europe's economy and company profits because of continuing rate cuts and the expectation that European governments will increase their spending.

Bond yields

Despite some volatility in the month, US 10-year bond yields were little changed in January overall (-3bps). This follows a sharp rise in December (+38bps) as investors responded to the heightened uncertainty around President Trump's policies and the expectation that some policies are likely to be inflationary for the US (e.g. tariffs). A paring back of rate cut expectations by the Fed also likely contributed to the higher bond yields, though to a lesser extent.

The sharp rise in long-end US yields dragged up bond yields in other advanced economies, particularly across Europe. Australian 10-year bond yields rose by noticeably less than US yields over December and January (+9bps), with soft domestic data and a more dovish RBA limiting the move higher.

TCorp bond yields moved broadly in line with Commonwealth Government bond yields in January, with the 10-year spread ending the month at +68bps.

Currency and commodity markets

The sharp rise in US bond yields in December saw the Australian dollar depreciate sharply against the US dollar (-5%), reaching US$0.61 in mid-January. The Australian dollar then appreciated slightly over the second half of January, ending the month a little above US$0.62. Over the past few months, the Australian dollar has depreciated by significantly less against a broader basket of currencies, which is a more relevant gauge when assessing the impact on the domestic economy.

Oil prices were volatile in January but ended the month 2.8% higher, partly in response to the US imposing sanctions on Russia's oil industry. However, oil prices are still below their average level in 2024.

Financial market performance

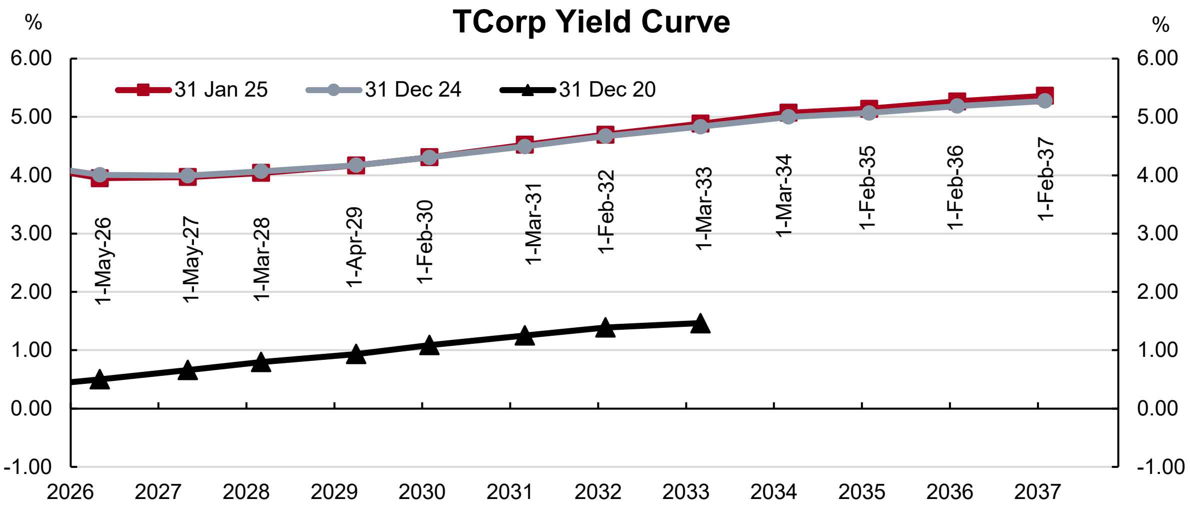
Currency markets **January 2025**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
AUD/USD	0.619	0.631	0.615	**0.622**	0.5% ▲
AUD/EUR	0.598	0.605	0.598	**0.600**	0.4% ▲
AUD/JPY	97.28	98.50	95.80	**96.50**	-0.8% ▼
AUD/GBP	0.495	0.510	0.499	**0.502**	1.5% ▲
AUD/BRL	3.823	3.845	3.634	**3.634**	-4.9% ▼
AUD/INR	52.98	54.43	52.85	**53.86**	1.7% ▲
AUD/CNY	4.517	4.579	4.498	**4.505**	-0.3% ▼

Equity markets* **January 2025**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
MSCI World ex Australia	3812	3965	3778	**3943**	3.4% ▲
MSCI Emerging Markets	1075	1096	1039	**1093**	1.7% ▲
S&P/ASX200	8159	8532	8192	**8532**	4.6% ▲
S&P/ASX Small Ordinaries	3092	3234	3063	**3234**	4.6% ▲
S&P500 (US)	5882	6119	5827	**6041**	2.7% ▲
FTSE 100 (UK)	8173	8674	8202	**8674**	6.1% ▲
Stoxx600 (Europe)	508	540	508	**540**	6.3% ▲
DAX (Germany)	19909	21732	19906	**21732**	9.2% ▲
CAC 40 (France)	7381	7950	7282	**7950**	7.7% ▲
Nikkei 225 (Japan)	39895	40083	38445	**39572**	-0.8% ▼
Hang Seng (HK)	20060	20225	18874	**20225**	0.8% ▲
Shanghai Composite (China)	3352	3263	3161	**3251**	-3.0% ▼
Bovespa (Brazil)	120283	126913	118533	**126135**	4.9% ▲
IPC (Mexico)	49513	52050	48957	**51210**	3.4% ▲
S&P/BSE Sensex (India)	78139	79944	75366	**77501**	-0.8% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **January 2025**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
RBA Official Cash Rate	4.35	4.35	4.35	**4.35**	0.00 –
90 Day Bank Bill	4.42	4.40	4.25	**4.25**	-0.17 ▼
180 Day Bank Bill	4.49	4.50	4.31	**4.31**	-0.19 ▼
New institutional term deposits	4.60	4.60	4.50	**4.50**	-0.10 ▼
3 Year CGS Bond	3.82	4.07	3.79	**3.82**	0.00 ▼
10 Year CGS Bond	4.36	4.63	4.37	**4.43**	0.07 ▲
10 Year US Bond	4.57	4.79	4.52	**4.54**	-0.03 ▼
10 Year German Bond	2.37	2.65	2.38	**2.46**	0.09 ▲
10 Year Japanese Bond	1.10	1.26	1.10	**1.25**	0.14 ▲

TCorp bonds (%) January 2025	Previous month close	Month high	Month low	Month close	Month change
20-May-26	4.01	4.14	3.94	**3.95**	-0.06 ▼
20-May-27	3.99	4.19	3.96	**3.97**	-0.03 ▼
20-Mar-28	4.07	4.30	4.02	**4.04**	-0.03 ▼
20-Apr-29	4.17	4.43	4.15	**4.17**	0.00 ▼
20-Feb-30	4.31	4.57	4.28	**4.31**	0.00 ▲
20-Mar-31	4.49	4.77	4.49	**4.52**	0.03 ▲
20-Feb-32	4.67	4.95	4.67	**4.70**	0.03 ▲
08-Mar-33	4.83	5.13	4.85	**4.88**	0.05 ▲
20-Mar-34	5.00	5.29	5.02	**5.07**	0.07 ▲
20-Feb-35	5.07	5.36	5.10	**5.14**	0.07 ▲
20-Feb-36	5.19	5.49	5.21	**5.27**	0.08 ▲
20-Feb-37	5.28	5.58	5.30	**5.36**	0.09 ▲
CIB 2.75% 20 Nov 25	2.58	2.69	2.53	**2.54**	-0.04 ▼
CIB 2.50% 20 Nov 35	2.66	2.86	2.67	**2.70**	0.04 ▲



Source: TCorp

Commodity markets (US$) January 2025	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	74.6	82.0	75.9	**76.8**	2.8% ▲
Iron Ore (per tonne)	103.6	106.1	97.3	**106.1**	2.4% ▲

TCorp forecasts	June-25	Dec-25	Jun-26	Dec-26
RBA Official Cash Rate	3.85	3.10	2.35	2.35
90 Day Bank Bill	3.60	2.85	2.50	2.50
10 Year CGS Bond	4.00	3.25	3.25	3.75

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About New South Wales Treasury Corporation (TCorp)

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