

Markets Research

What to Watch



Week of 20 January 2025

Past Week ([jump to section](#))

- The Australian labour market remains robust with unemployment at 4%, little changed over the past year.
- A modest downside surprise on US core CPI helped markets retrace their post-payrolls repricing of Fed cut expectations, back to 42bp of cuts now priced over 2025.

Week ahead ([jump to section](#))

- It is an exceptionally quiet week in **Australia** with no data of note and nothing from the RBA.
- BNZ see **NZ Q4 CPI** at 0.6% q/q. above the RBNZ's November MPS pick of 0.4%, but the difference isn't significant, with little difference in expectation for the important non-tradable component.
- In the **US**, the data calendar is quiet and the FOMC is in pre-meeting quiet period from tomorrow. Instead, politics and corporate earnings will be the focus. Trump's inauguration is Monday (markets are closed for MLK Jr. Day), and confirmation hearings will continue.
- **Global preliminary PMIs** are Friday, **UK labour market** data is out Tuesday, and **Canadian CPI** is Tuesday.
- The **World Economic Forum** takes place in Davos through the week. Look out for ECB speakers including Lagarde on Wednesday and Friday.
- The **BoJ** is expected to raise rates 25bp at its meeting on Friday.

Important Events Preview ([jump to section](#))

Contents

Week of 20 January 2025	1
Week in Review	2
Week Ahead	2
Important Events Preview	3
Weekly Calendar of Economic Releases	5
Forecasts Table	6

Key Markets

	% change		
	Latest	week	YTD
Cash rates			
RBA Cash Rate	4.35		
US Fed Funds	4.50		
RBNZ Cash Rate	4.25		
Rates			
		<i>bps</i>	<i>bps</i>
AU BBSY 3m	4.38	-2.2	-8.6
AU 3y swap	3.93	-2.6	14.9
AU 3yr yield	3.96	0.8	13.4
AU 10yr yield	4.50	-4.7	13.6
US 10yr yield	4.61	-14.7	4.4
AU-US 10yr spread	-11.4	10.0	9.3
Commodities			
		%	%
Iron ore	103	5.9	2.4
Coal (thermal)	114.7	-0.9	-8.4
Brent oil	81.7	2.4	9.4
Gold	2716.2	1.0	3.5
FX			
AUD/USD	0.6209	1.0	0.3
USD (DXY)	109.00	-0.6	0.5
AUD/NZD	1.1087	-0.2	-0.2
AUD crosses			
AUD/JPY	96.53	0.4	0.8
AUD/CNY	4.5498	-0.8	-0.8
AUD/EUR	0.6029	-0.5	-0.9
AUD/GBP	0.5076	-0.9	-2.6
Equities			
ASX 200	8307.7	0.2	1.8
ASX Resources	5387.1	2.8	4.5
ASX Financials	8721.6	-0.7	1.2
US S&P 500	5937.3	0.3	0.9

Source: Bloomberg

Week in Review

Australian employment growth remains strong and the unemployment rate at 4% is little changed over the past year.

[AUS: Unemployment rate sharply undershooting the RBA's November forecast](#). The slower growth backdrop has not translated into rising spare capacity in the labour market. We explained why here: [Mining, not just Health, drives growth and employment disconnect](#).

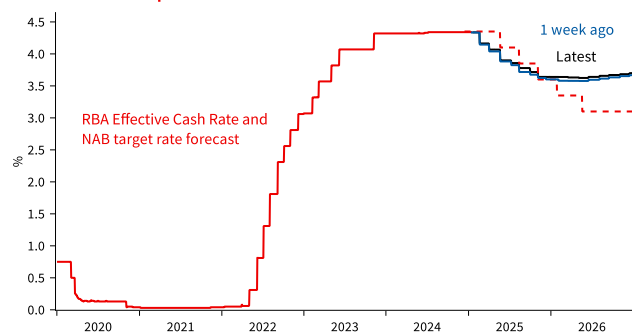
The trend in the labour market is meaningfully better than the RBA forecast in November and feared in December. The RBA's November assessment was that an unemployment rate near 4.5% was consistent with full employment and the unemployment rate would be nearer that level now. Instead, unemployment averaged 4.0% in Q4, three tenths below their November forecast.

The shift in their December messaging rightly acknowledged that risks had shifted relative to their cautious November CPI forecasts, and reflected some additional doubt that further weakening in the labour market as they forecast would ultimately be necessary for confidence in inflation to build.

Q4 CPI on 29 January is expected to confirm the inflation backdrop is more benign than that RBA feared and does not stand in the way of a cut. The February meeting is live. (See our [Q4 CPI Preview – housing drives lower trimmed mean in Q4.](#))

But labour market data since the December meeting have not shown cooling. While it is a close call, for choice NAB's view remains in May. The broader macro backdrop does not create urgency to cut rates and there is value in waiting to get a better handle on the trajectory of the labour market and the extent growth is picking up. Markets price a 70% chance of a February cut.

RBA Market Expectations



Source: National Australia Bank, Account in-house, Bloomberg, Macrobond

In the US, core CPI at 0.2% m/m vs 0.3% m/m expected was enough to some of the extremes of US pricing temper. We are back to 24bp priced by June and 42bp priced over 2025. The compares to just 29bp over 2025 after Payrolls data last Friday. 10yr Treasury yields are currently around 4.61%, down 15bp over the week.

Week Ahead

It is an exceptionally quiet week on the local calendar ahead of Q4 CPI the following week.

Over in **New Zealand**, BNZ expects Q4 CPI (Wednesday) rose 0.6% q/q and 2.3% y/y. The RBNZ picked 0.4% q/q in the November MPS, but BNZ do not expect the CPI to be a major surprise to the RBNZ especially regards non-tradeable inflation which the Bank has often focused on in the past. Also watch for the Performance of Services Indicator and electronic card transactions on Tuesday.

US politics and earnings season will provide plenty for markets to digest, even with a quiet US data calendar and an FOMC in pre-meeting quiet period from tomorrow. Final UMich Confidence (Friday) is worth a look for whether the lift in inflation expectation reported in the preliminary numbers is confirmed. Netflix is the pick of the earnings calendar, and US President Trump is inaugurated on Monday, which is also a US holiday (MLK Jr. Day).

The content of the inauguration speech and the follow through from policy rhetoric to early executive action will be important to watch, including for the AUD, where tariff intentions are a big swing factor (See [AUD/USD downside risks: Are we there yet?](#)). We can also expect additional confirmation hearings. Lutnick (Commerce) and Greer (USTR) are key hearings yet to be scheduled, their absence on day one potentially relevant for tariff timing.

The World Economic Forum takes place in Davos from Monday, expect headlines from government and business leaders and central bankers. Speakers include Ukrainian President Zelenskiy and German Chancellor Scholz (Tuesday), ECB's Lagarde, Villeroy and Knot (Wednesday), and ECB President Lagarde and Blackrock CEO Fink (Friday).

Preliminary Global PMIs are out Friday. Manufacturing activity across the US, EZ and UK remains in the doldrums, but especially so in Germany and France. The focus of the January PMIs will be services and in particular the slump and then rebound in Europe. We would not be surprised to see a slight pullback after the rebound in the eurozone services Measure in December.

Elsewhere, the BoJ is seen hiking rates on Friday. Recent media reports note the Bank is likely to upgrade its inflation forecast and this week Governor Ueda reinforced the message from his deputy that next week's policy meeting is live. We retain our forecast for a 25bps hike next week (now 21bps priced, up 10bps in the past week) and assuming this is delivered, then it is reasonable to project an end of the year policy rate closer to 1%. December CPI data is published Friday morning.

From the UK, labour market data is on Tuesday. Average earnings unexpectedly jumped in the last report for October, in part due to revisions, and the labour market data continues to suffer from poor response rates, but broader data suggests some softening in demand in recent months. Markets are 90% priced for a February BoE cut.

Important Events Preview

Selection of key data. Full calendar below.

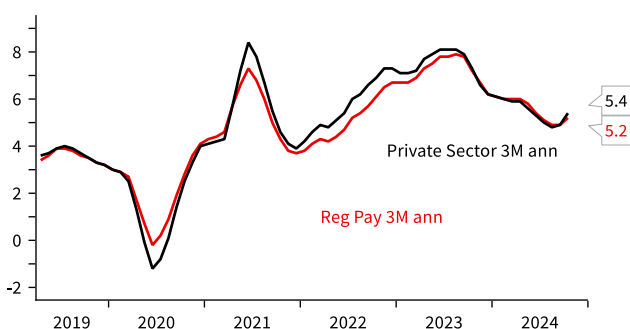
Monday 20

- CH** Loan Prime Rates
- US** Presidential Inauguration
- US** Markets Closed for MLK Jr Day
- EU** World Economic Forum Davos (until 24 January)

Tuesday 21

UK Weekly Average Earnings Nov, Labour Market data Dec

UK Average earnings unexpectedly jumped in the last report for October, in part due to revisions. Regular (non-bonus) pay in the private sector, which is the measure the BoE likes to track rose to 5.4% in the three months to October from 4.9%. Whole economy regular pay rose to 5.2% from 4.9%. We expect a slight moderation for November, but regardless of any relief here, higher pay demand is expected to remain in place as inflation ticks back up again and continues to feed through from the higher costs for business and employers following October's Budget. Of course, there will also be some cutting back of headcount as a result of this, which meshes with broader labour market data that has showed a softening in demand in recent months.



Source: National Australia Bank, Bloomberg, Macrobond

- GE** ZEW Survey
- EZ** EU Commission President von der Leyen speech Davos
- EZ** Germany CDU Leader Merz speech Davos
- CA** December CPI

Wednesday 22

NZ Q4 CPI

BNZ estimate the CPI rose 0.6% q/q in Q4, which would see annual inflation at 2.3%. Like Q3's 2.2%, annual inflation is expected to remain close to the middle of the RBNZ's target band. In its November MPS, the RBNZ projected Q4 CPI inflation of 0.4% q/q and 2.1% y/y. A

number a little above the RBNZ's latest projections shouldn't be a major surprise to the RBNZ, especially regards non-tradeable inflation which the Bank has often focused on in the past. BNZ's 0.8% q/q and 4.7% y/y estimates for non-tradeable inflation match the RBNZ's projections and are closer to rounding down a tick rather than up. BNZ forecast +0.4% q/q and -1.0% y/y for Q4 tradeable inflation, which is firmer than the Bank's -0.2% q/q and -1.5% y/y projections.

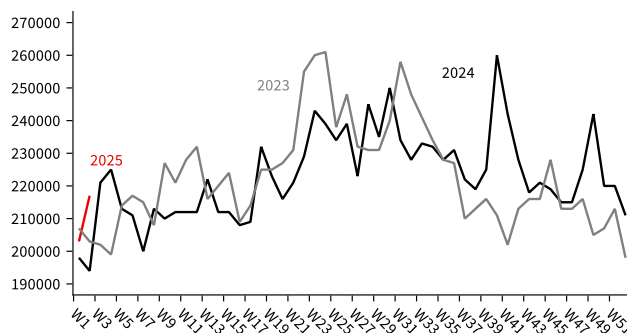
- UK** Public Finances December
- EZ** ECB President Lagarde speaks from Davos

Thursday 23

- NO** Norway Norges Bank policy meeting (hold)
- US** Jobless claims

Jobless claims dipped over year end, in line with the seasonal pattern last year, but rose back to 217k last week.

Initial Jobless Claims



Source: National Australia Bank, U.S. Department of Labor, Macrobond

Friday 24

- JN** December CPI
- JN** BoJ Policy Meeting (hike)

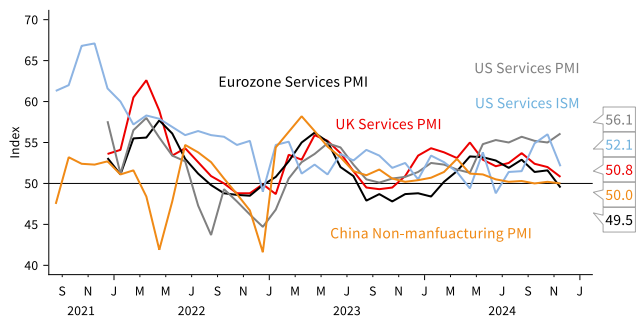
Little by little the BoJ has been leading the market to "hiking water". Following recent media reports noting the Bank was likely to upgrade its inflation forecast, this week Governor Ueda reinforced the message from his deputy that next week's policy meeting is live. Since then, media reports have noted BoJ officials see a good chance of an interest rate hike if the arrival of Trump at the White House doesn't trigger too many negative surprises. We retain our forecast for a 25bps hike next week (now 21bps priced, up 10bps in the past week) and assuming this is delivered, then it is reasonable to project an end of the year policy rate closer to 1%.

EZ, US, UK January Preliminary Manufacturing Services PMIs

Manufacturing activity across the US, EZ and UK remains in the doldrums. In the US, manufacturing is modestly below the neutral 50 level, which is suitably above the 45.1 reading for the EZ in December, which is weighed down by Germany and France. In the UK manufacturing

activity is decelerating more quickly at 47. The focus of the January PMIs will be services and in particular the slump and then rebound in Europe. In November EZ services dived from 51.6 to 49.5, only to recapture 51.6 in December. While we felt the November slump exaggerated the weakness and there is some strength outside Germany and France, we would not be surprised to see a slight pullback from December. Meanwhile the US remains way out from in services.

Global Services PMIs



Source: National Australia Bank, Institute for Supply Management (ISM), China Federation of Logistics & Purchasing, Account in-house, Bloomberg, Macrobond

US Final UMich Consumer Sentiment

Worth a look to see if the 5 tenths lift to 3.3% in the 1-yr inflation expectations reported in the preliminary data is sustained.

Weekly Calendar of Economic Releases

Date	Time	Country	Event	Period	Consensus	NAB	Previous
Monday, 20 January	10:50 AM	JN	Core Machine Orders MoM	Nov	-0.80		2.1
	12:00 PM	CH	1-Year Loan Prime Rate	Jan 20	3.10		3.10
	3:30 PM	JN	Industrial Production MoM	Nov F	--		-2.3%
	3:30 PM	JN	Tertiary Industry Index MoM	Nov	0.1%		0.3%
	1:00 AM	EC	ECB's Vujcic Speaks	--	--		--
Tuesday, 21 January	6:00 PM	UK	Average Weekly Earnings 3M/YoY	Nov	--		5.2%
	6:00 PM	UK	ILO Unemployment Rate 3Mths	Nov	--		4.3%
	6:00 PM	UK	Claimant Count Rate	Dec	--		4.6%
	6:00 PM	UK	Jobless Claims Change	Dec	--		0.30
	9:00 PM	GE	ZEW Survey Expectations	Jan	--		15.7
	9:00 PM	GE	ZEW Survey Current Situation	Jan	--		-93.1
	12:30 AM	CA	CPI NSA MoM	Dec	-0.7%		0.0%
	12:30 AM	CA	CPI YoY	Dec	1.8%		1.9%
Wednesday, 22 January	8:45 AM	NZ	CPI QoQ	4Q	0.4%		0.6%
	8:45 AM	NZ	CPI YoY	4Q	2.1%		2.2%
	6:00 PM	UK	Public Finances (PSNCR)	Dec	--		13.0
	8:15 PM	EC	ECB's Villeroy Speaks in Davos	--	--		--
	9:30 PM	EC	ECB's Knot Speaks in Davos	--	--		--
	11:00 PM	US	MBA Mortgage Applications	Jan 17	--		33.3%
	2:05 AM	EC	ECB's Lagarde Speaks in Davos	--	--		--
Thursday, 23 January	8:00 PM	NO	Deposit Rates	Jan 23	4.50		4.5
	9:30 PM	EC	ECB's Escriva Speaks in Davos	--	--		--
	12:30 AM	US	Initial Jobless Claims	Jan 11	210.00		217.0
Friday, 24 January	10:30 AM	JN	Natl CPI YoY	Dec	3.4%		2.9%
	11:30 AM	JN	Jibun Bank Japan PMI Mfg	Jan P	--		49.6
	7:15 PM	FR	HCOB France Manufacturing PMI	Jan P	--		41.9
	7:15 PM	FR	HCOB France Services PMI	Jan P	--		49.3
	7:30 PM	GE	HCOB Germany Manufacturing PMI	Jan P	43.0		42.5
	8:00 PM	EC	HCOB Eurozone Manufacturing PMI	Jan P	46.0		45.1
	8:30 PM	UK	S&P Global UK Manufacturing PMI	Jan P	--		47.0
	9:00 PM	EC	ECB's Lagarde Speaks in Davos	--	--		--
	--	JN	BOJ Target Rate	Jan 24	0.50		0.25
	1:45 AM	US	S&P Global US Manufacturing PMI	Jan P	--		49.4
	2:00 AM	US	U. of Mich. Sentiment	Jan F	--		73.2
2:00 AM	US	Existing Home Sales	Dec	4.20		4.2	
Upcoming Central Bank Interest Rate Announcements							Current
	Feb 18	Australia, RBA					4.35
	Feb 6	UK, BOE					4.75
	Jan 29	US, Federal Reserve (Upper Bound)					4.50
	Feb 19	New Zealand, RBNZ					4.00
	Jan 29	Canada, BoC					3.25
	Jan 30	Europe, ECB					3.00
	Jan 24	Japan, BoJ					0.40

Sydney Time. Dates reflect 24 hours from 7am

Forecasts Table

For NAB Economics Latest Forecast Update, see: [Easing inflation fears despite low unemployment](#)

Australian Economic Forecasts																
	2023				2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP																
Household Consumption	0.4	0.5	-0.1	0.2	0.6	-0.3	0.0	0.2	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Dwelling Investment	0.2	0.6	-0.2	-3.2	1.0	0.7	1.2	-1.4	-0.7	-0.9	-1.0	-0.4	-0.1	0.3	0.6	0.8
Underlying Bus. Investment	4.5	2.3	1.1	1.3	-0.7	-0.4	-0.6	0.2	0.3	-0.2	0.0	0.6	0.2	0.4	0.0	0.3
Public Final Demand	0.7	1.6	1.7	0.1	0.8	0.9	2.4	1.0	0.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Domestic Final Demand	0.8	1.1	0.6	0.2	0.6	0.2	0.7	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
(% y/y)	2.9	2.9	3.0	2.7	2.4	1.6	1.7	1.9	1.8	2.1	1.9	2.0	2.0	2.1	2.2	2.3
Inventories	(contr) 0.1	-1.3	0.4	-0.1	0.7	-0.3	-0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Exports	(contr) -0.5	0.5	-0.3	0.1	-1.3	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Gross Domestic Product	0.5	0.3	0.5	0.2	0.2	0.2	0.3	0.3	0.6	0.5	0.5	0.6	0.5	0.6	0.6	0.6
(% y/y)	2.7	2.0	2.1	1.5	1.1	1.0	0.8	1.0	1.4	1.7	1.9	2.2	2.1	2.2	2.3	2.3
Labour Market																
Employment	0.8	0.9	0.5	0.7	0.4	0.6	0.9	0.6	0.5	0.5	0.5	0.4	0.4	0.5	0.6	0.5
Unemployment Rate	(%) 3.6	3.6	3.7	3.9	3.9	4.1	4.1	4.0	4.2	4.3	4.2	4.2	4.2	4.1	4.1	4.1
WPI Wages	1.0	0.8	1.3	1.1	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
(% y/y)	3.7	3.6	4.0	4.3	4.1	4.1	3.5	3.3	3.4	3.4	3.5	3.4	3.4	3.3	3.3	3.2
Inflation																
CPI Trimmed Mean	1.2	0.9	1.2	0.8	1.0	0.9	0.8	0.5	0.6	0.6	0.7	0.6	0.7	0.6	0.5	0.6
(% y/y)	6.5	5.8	5.1	4.2	4.0	4.0	3.5	3.2	2.8	2.5	2.5	2.6	2.6	2.6	2.4	2.4
CPI Headline	1.4	0.8	1.2	0.6	1.0	1.0	0.2	0.2	0.7	0.7	1.0	0.6	0.7	0.6	0.5	0.6
(% y/y)	7.0	6.0	5.4	4.1	3.6	3.8	2.8	2.4	2.1	1.8	2.6	3.0	3.0	2.9	2.4	2.4

Source: ABS, NAB Economics. Quarterly percent change unless specified

Exchange Rate Forecasts						
	16-Jan	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Majors						
AUD/USD	0.621	0.65	0.64	0.66	0.67	0.69
NZD/USD	0.56	0.58	0.57	0.59	0.60	0.62
USD/JPY	155.4	155	155	153	150	144
EUR/USD	1.03	1.04	1.05	1.06	1.07	1.08
GBP/USD	1.22	1.27	1.27	1.28	1.28	1.29
USD/CNY	7.33	7.25	7.40	7.30	7.25	7.20
USD/CAD	1.44	1.43	1.44	1.41	1.39	1.37
USD/CHF	0.91	0.89	0.89	0.88	0.87	0.87

Global GDP				
	2023	2024	2025	2026
Australia	2.0	1.0	1.8	2.3
United States	2.9	2.7	1.9	2.1
Eurozone	0.5	0.6	1.0	1.5
United Kingdom	0.3	0.9	0.9	1.2
Japan	1.7	-0.1	1.0	0.7
China	5.2	4.7	4.6	4.4
India	7.7	6.6	6.2	6.4
New Zealand	0.7	-0.2	1.7	3.1
World	3.3	3.1	3.1	3.2

Australian Cross Rates						
AUD/NZD	1.11	1.12	1.12	1.13	1.13	1.12
AUD/JPY	96.5	101	99	101	101	99
AUD/EUR	0.60	0.63	0.61	0.62	0.63	0.64
AUD/GBP	0.51	0.51	0.50	0.52	0.52	0.53
AUD/CNY	4.55	4.71	4.74	4.82	4.86	4.97
AUD/CAD	0.89	0.93	0.92	0.93	0.93	0.95
AUD/CHF	0.57	0.58	0.57	0.58	0.59	0.60

Interest Rate Forecasts						
	16-Jan	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Australian Rates						
RBA cash rate	4.35	4.35	4.10	3.85	3.60	3.35
3 month bill rate	4.33	4.26	4.01	3.76	3.54	3.32
3 Year Swap Rate	3.92	3.75	3.65	3.55	3.45	3.35
10 Year Swap Rate	4.51	4.38	4.28	4.25	4.00	4.00
Offshore Policy Rates						
US Fed funds	4.50	4.25	4.00	3.75	3.50	3.50
RBNZ OCR	4.25	4.00	3.50	3.00	2.75	2.75
10-year Bond Yields						
Australia	4.49	4.40	4.30	4.30	4.05	4.05
United States	4.61	4.30	4.25	4.25	4.00	4.00
New Zealand	4.66	4.50	4.45	4.45	4.30	4.30

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