February 2025
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Monthly economic report

The global economy

Sentiment in financial markets deteriorated in February, with ongoing geopolitical tensions and uncertainty around US tariffs continuing to trigger moves in markets. Although the fundamentals of the US economy remain strong, some weaker-than-expected data in February generated concerns that economic growth may slow. While bad weather contributed to some of the soft outcomes, it is possible that uncertainty around tariffs has caused consumers and businesses to restrict their spending. These concerns saw expectations for rate cuts by the US Federal Reserve (Fed) increase again, with 2-3 rate cuts expected in 2025 and 1 more in 2026.

Elsewhere, the Bank of England cut interest rates by a further 25bps, to 4.5%, with investors expecting another 2-3 rate cuts in 2025. The Reserve Bank of New Zealand cut rates by 50bps, to 3.75%, continuing its aggressive rate cuts since October 2024. However, the central bank suggested that future rate cuts will occur at a more gradual pace.

In Europe, Germany's election result appears to have boosted sentiment across European equity markets. Investors view the new government as more likely to undertake some fiscal stimulus through higher defence spending and lower taxes.

The Australian economy

The Reserve Bank of Australia (RBA) cut interest rates by 25bps, to 4.10%, the first rate cut of this cycle. Following a run of weaker economic data and downside surprises on wages growth and inflation, the RBA has gained more confidence that inflation is falling sustainably to 2.5%, the midpoint of its target band.

However, RBA communication around the decision was more hawkish than investors had expected. In particular, the RBA Governor noted that investors should not expect a rapid easing cycle as the RBA remains concerned that Australia's tight labour market could still generate inflationary pressures.

Despite a low unemployment rate, the labour market appears to be loosening and contributing to the observed disinflation. Wages growth is clearly decelerating, particularly in the private sector, and leading indicators point to a further slowing. While public sector wages outcomes are likely to remain elevated for longer, this mostly reflects larger wage rises in some Enterprise Bargaining Agreements (EBAs). As EBAs are negotiated infrequently, these outcomes are catch-up for the high inflation over the past few years rather than an indicator of current labour market conditions.

Financial market commentary

Global bond yields fell in February (except for Japan), with the largest falls in the US. Moves in equity markets were mixed, with US and Australian equity markets falling but equity markets in Europe and Hong Kong recording solid gains.

Equity markets (performance in local currency, excluding dividends)

The US S&P500 fell by 1.4% in February, with softer economic data raising concerns that US economic growth is slowing. Investors are sensitive to any signs that ongoing uncertainty around tariffs is prompting consumers and businesses to curtail spending.

US equities were also dragged down by weakness in the technology sector, with some disappointing earnings reports weighing on the share prices of large firms (including Nvidia). Tesla’s share price has fallen sharply since mid-December – after almost doubling around the time of the US Presidential election, Tesla’s share price has unwound around three-quarters of this rise.

Australian equities underperformed in February, with the ASX200 falling by 4.2%. The share prices of mining companies were weaker, consistent with the fall in commodity prices in the month. Bank share prices also fell sharply, in response to some weaker earnings reports, with some banks reporting lower net interest margins and higher impaired loans. Profit taking by investors may have also contributed following the strong performance of banks’ share prices in 2024.

More broadly, Australian equities have underperformed other advanced economies since the start of this year (except for Japan). European share markets have outperformed, particularly in Germany (+13%). This is despite lingering concerns about the US imposing tariffs on Europe. Germany’s election result appears to have boosted sentiment, as the new government raises the prospect of some fiscal stimulus through increased defence spending and lower taxes.

Hong Kong’s equity market has also rallied since the start of this year (+14%). This is unlikely to reflect optimism about China’s growth prospects, as China’s mainland equity market has been weak (-1%). Rather, it could be a sign of pessimism about China’s economic outlook there has been a sharp rise in money flowing into Hong Kong’s equity market from mainland China.

Bond yields

US bond yields fell sharply in February, by 33bps, to be back to where they were at the start of December 2024. Weaker-than-expected economic data – particularly on consumer spending and sentiment – raised concerns that US economic growth is slowing. These concerns have been amplified by ongoing uncertainty around tariffs. Expectations for Fed rate cuts increased in response, as the central bank would cut rates further to combat a slowdown in the economy.

Australian 10-year yields declined 14bps, dragged down by US bond yields. The fall was limited by the RBA’s hawkish rate cut, which saw bond yields rise as investors pared back their rate cut expectations. TCorp bond yields moved broadly in line with Commonwealth Government bond yields in January, with the 10-year spread ending the month at +70bps.

Bond yield across Europe fell slightly, with no material changes to either the economic outlook or expectations for rate cuts by the European Central Bank in the month.

Currency and commodity markets

The Australian dollar ended the month unchanged against the US dollar but traded in the US$0.62 – US$0.64 range throughout February. Although the fall in US bond yields saw the US dollar weaken against other currencies, the fall in commodity prices weighed on the Australian dollar.

Oil prices fell by 4.7%, more than unwinding the rise in January. Oil prices are currently trading around the bottom of the range over the past year, suggesting that oil prices won’t be a source of inflationary pressures in the next few months.

Financial market performance

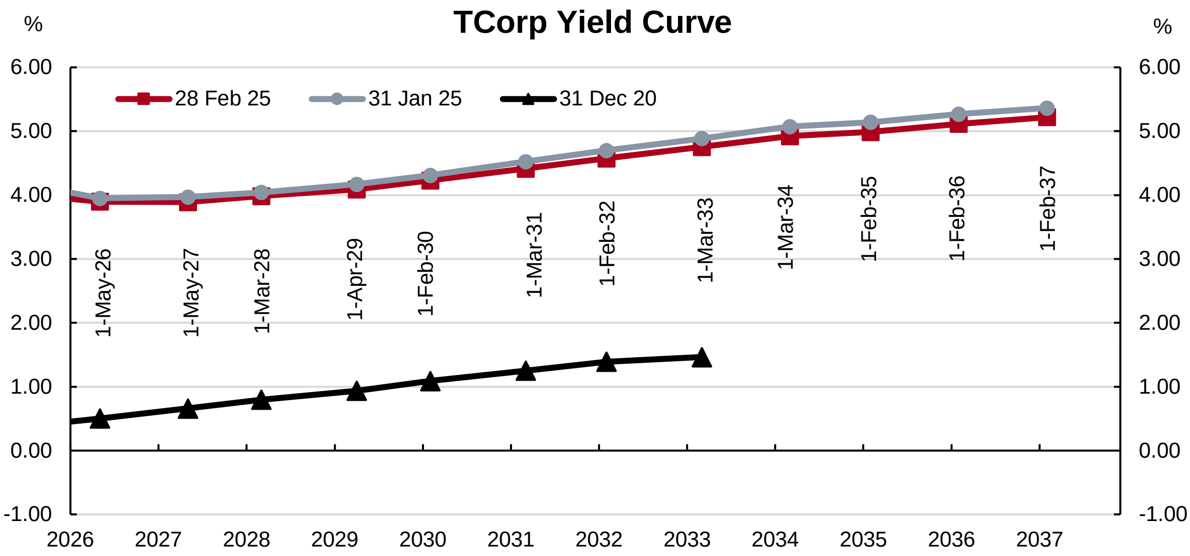
Currency markets February 2025	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.622	0.640	0.621	**0.621**	-0.1% ▼
AUD/EUR	0.600	0.609	0.598	**0.598**	-0.3% ▼
AUD/JPY	96.50	96.98	93.42	**93.53**	-3.1% ▼
AUD/GBP	0.502	0.508	0.494	**0.494**	-1.6% ▼
AUD/BRL	3.634	3.666	3.601	**3.654**	0.5% ▲
AUD/INR	53.86	55.46	54.29	**54.34**	0.9% ▲
AUD/CNY	4.505	4.635	4.511	**4.519**	0.3% ▲

Equity markets* February 2025	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3943	4020	3873	**3873**	-1.8% ▼
MSCI Emerging Markets	1093	1147	1074	**1124**	2.8% ▲
S&P/ASX200	8532	8556	8172	**8172**	-4.2% ▼
S&P/ASX Small Ordinaries	3234	3254	3137	**3137**	-3.0% ▼
S&P500 (US)	6041	6144	5862	**5955**	-1.4% ▼
FTSE 100 (UK)	8674	8810	8571	**8810**	1.6% ▲
Stoxx600 (Europe)	540	560	535	**557**	3.3% ▲
DAX (Germany)	21732	22845	21428	**22551**	3.8% ▲
CAC 40 (France)	7950	8207	7855	**8112**	2.0% ▲
Nikkei 225 (Japan)	39572	39461	37156	**37156**	-6.1% ▼
Hang Seng (HK)	20225	23788	20217	**22941**	13.4% ▲
Shanghai Composite (China)	3251	3388	3229	**3321**	2.2% ▲
Bovespa (Brazil)	126135	128552	122799	**122799**	-2.6% ▼
IPC (Mexico)	51210	54477	51210	**52326**	2.2% ▲
S&P/BSE Sensex (India)	77501	78584	73198	**73198**	-5.6% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) February 2025	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.35	4.35	4.10	**4.10**	-0.25 ▼
90 Day Bank Bill	4.25	4.23	4.12	**4.12**	-0.13 ▼
180 Day Bank Bill	4.31	4.32	4.21	**4.21**	-0.09 ▼
New institutional term deposits	4.50	4.50	4.50	**4.50**	0.00 –
3 Year CGS Bond	3.82	3.95	3.74	**3.74**	-0.08 ▼
10 Year CGS Bond	4.43	4.53	4.29	**4.29**	-0.14 ▼
10 Year US Bond	4.54	4.62	4.21	**4.21**	-0.33 ▼
10 Year German Bond	2.46	2.56	2.36	**2.41**	-0.05 ▼
10 Year Japanese Bond	1.25	1.45	1.25	**1.38**	0.13 ▲

TCorp bonds (%) February 2025	Previous month close	Month high	Month low	Month close	Month change
20-May-26	3.95	4.04	3.90	**3.90**	-0.05 ▼
20-May-27	3.97	4.10	3.89	**3.89**	-0.08 ▼
20-Mar-28	4.04	4.19	3.98	**3.98**	-0.06 ▼
20-Apr-29	4.17	4.30	4.09	**4.09**	-0.08 ▼
20-Feb-30	4.31	4.43	4.23	**4.23**	-0.08 ▼
20-Mar-31	4.52	4.63	4.41	**4.41**	-0.11 ▼
20-Feb-32	4.70	4.79	4.57	**4.57**	-0.12 ▼
08-Mar-33	4.88	4.96	4.75	**4.75**	-0.13 ▼
20-Mar-34	5.07	5.13	4.92	**4.92**	-0.15 ▼
20-Feb-35	5.14	5.19	4.99	**4.99**	-0.15 ▼
20-Feb-36	5.27	5.32	5.12	**5.12**	-0.15 ▼
20-Feb-37	5.36	5.42	5.22	**5.22**	-0.14 ▼
CIB 2.75% 20 Nov 25	2.54	2.60	2.51	**2.54**	0.00 ▼
CIB 2.50% 20 Nov 35	2.70	2.78	2.61	**2.64**	-0.06 ▼



Source: TCorp

Commodity markets (US$) February 2025	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	76.8	77.0	72.5	**73.2**	-4.7% ▼
Iron Ore (per tonne)	104.8	107.8	102.5	**102.5**	-2.2% ▼

TCorp forecasts	June-25	Dec-25	Jun-26	Dec-26
RBA Official Cash Rate	3.85	3.35	2.85	2.60
90 Day Bank Bill	3.70	3.25	3.00	2.75
10 Year CGS Bond	4.00	3.50	3.50	3.50

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About New South Wales Treasury Corporation (TCorp)

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