

Analysts

Sean Lim Jia Herr
Global Macro Analyst
e1471319@u.nus.edu

Basic Information

GDP (US\$)	1724B
M2 (US\$)	2,036.732B
CPI	139.10
PPI	132
Con. Confidence	92.8
Building Permits	15498
Stock Index	ASX200
Currency	AUD

Chart info

Figure 1: GDP Growth (%)



Source: ABS

Figure 2: Quarterly and Annual CPI (%)



Source: ABS

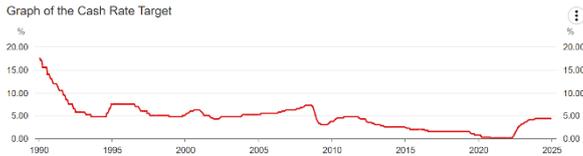
Overview of Australia

- Australia has a mixed market economy that is rich with natural resources. Australia is the 14th largest national economy by nominal GDP and the 22nd largest goods exporter and 24th largest importer. It also has the 2nd largest accessible reserves of iron ore and the 5th largest reserves of coal and significant gas reserves.
- The main contributors to Australia's GDP are the services sector (62.7%) and the mining sector (14.3%). At the height of the mining boom in 2009 – 2010, mining contributed to 8.4% of the GDP. Outside of the COVID-19 pandemic, Australia's Q3 2024 GDP marked the weakest rate of YOY GDP growth since the 1990s recession and the seventh consecutive quarterly decline in GDP per person.
- Australia's main export shares by type are: Resources (60.1%), Services (19.6%), Rural (10.1%) and Manufactured (8.0%). Being a resource rich country, Australia's main exports are metalliferous ores and metal scrap (29%), coal, coke and briquettes (15%), food and live animals (14%) and gas (7%). Bulk of their exports are delivered to Asian countries, namely China (32.4%), Japan (13.1%) and South Korea (6.3%).
- Australia's main imports are machinery and transport equipment (40%), manufactured goods (12%), petroleum (11%), chemicals and related products (10%) and food and live animals (5%). Australia mainly imports from China (23%), US (11%) and Japan (7%).
- Australia's economy has strong ties to the nations of East and Southeast Asia like China and Japan through its involvement in the ASEAN Plus 6 partnership, with a substantial portion of its exports heading to those regions. Additionally, the nation's active participation in global and regional economic organizations such as APEC, G20, OECD, and WTO have allowed for stronger collaboration with their trade partners. Aside from the aforementioned countries, Australia has established free trade agreements with other countries, including Canada, Chile, China and the United States etc.

Summary of events in the past 12 months

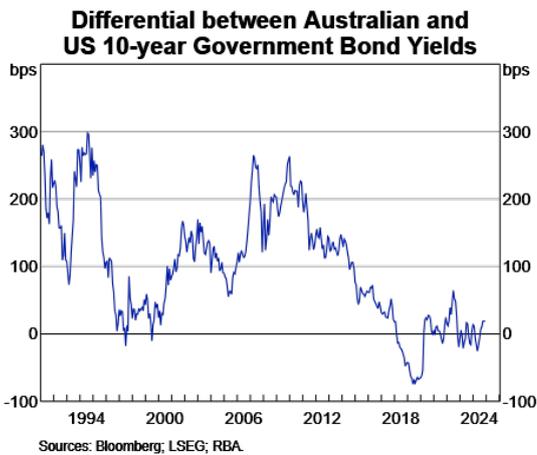
- After taming inflation to be on track towards a 2% to 3% midpoint target following an ineffective rate hike cycle

Figure 3: Australia Official Cash Rate (%)



Source: RBA

Figure 4: Differential between Australia and US 10y Government Bond Yields (%)

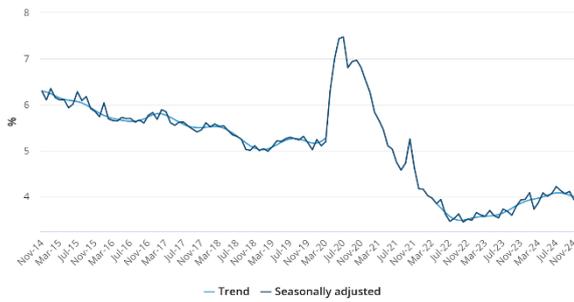


Source: RBA

that started in May 2022, the Reserve Bank of Australia finally cut its key rate by 25 basis points to 4.1% on the 18th of February 2025 - the first cut since November 2020 - meeting the expectations of market participants and kicking off its long awaited the monetary easing cycle. Most recently in its May meeting, the RBA decided to decrease the cash rate another 25bps to 3.85% as trimmed mean inflation reached 2.9% in year-ended terms and is expected to remain in the RBA's target range of 2-3%.

- RBA maintained its hawkish stance throughout 2024 amidst sticky underlying inflation and other factors like surprising labour data. Despite headline inflation seeing improvements with its fall to 2.8%, sticky underlying inflation that came in at 3.5% in Q3 deterred the RBA from cutting in 2024. On the 1st of March 2025, the RBA will operate under a dual board structure involving separate committees for interest rate setting and governance that is aimed at helping foster greater scrutiny over cash rate decisions.
- Economic growth has continued to slow amidst a restrictive monetary policy by the RBA, with factors like migration and government spending keeping the economy away from a recession. Going forward, fiscal consolidation is warranted as the fiscal deficit has widened, so the government should now look to measures like reducing the cost of doing business, re-energising the economy through more flexible workplace relations and removing red tape.
- Australia's strong labour market data including lower than expected unemployment has left many surprised considering the RBA's restrictive monetary policy in 2024. However, there are concerns over the cost-of-living crisis with many people working poor and how that has not only slowed consumer spending despite tax cuts, but also how it has not warranted a rate cut by the RBA. Since then, labour market conditions have remained tight, underemployment has slightly declined, but there still remains uncertainty around estimates of spare capacity.
- Popular Australian commodities like iron ore saw significant fluctuations in 2024. China's property crisis alongside unconvincing Chinese stimulus saw the country's steel output contracting 10% in August 2024 as margins for steel mills turned deeply negative eventually sending iron ore prices below \$90/tonne in September 2024. Periods of confidence restoration were seen in the latter half of September when China announced a massive stimulus boost which significantly rebounded commodity prices.

Figure 5: Unemployment Rate (%)



Source: ABS

Figure 6: WPI



Source: ABS

RBA's Key Measures

The 25' RBA narrative: The end of Governor Bullock's "Higher for Longer interest rates"

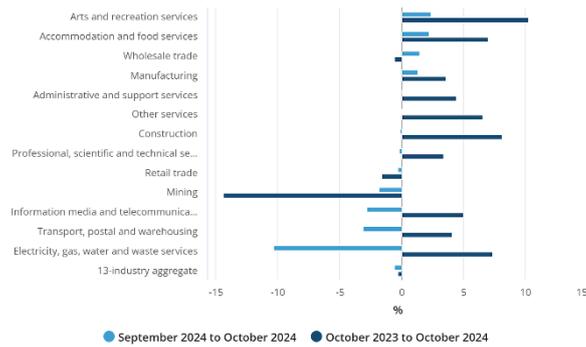
Following an ineffective rate hike cycle that started in May 2022 and kept the RBA hawkish throughout 2024, underlying inflation has finally moderated with the December quarter's print coming in at 3.2%. On top of this, continued subdued growth in private demand and an easing in wage pressures gave the RBA the confidence to finally cut rates by 25 basis points in February. The outlook at that time, however, remained uncertain with upside risks such as a tighter than expected labour market weak, growth in output, slower than expected recovery in private domestic demand and lags in monetary policy effects.

Going back to May 2022, the RBA made its first overnight cash rate (OCR) hike of 25 basis points which was followed by four consecutive 50 basis point increases until September 2022. This led to heightened mortgage repayments, underscoring the RBA's commitment to bringing inflation within target ranges, despite the economic pressures their monetary measures imposed. Fast forward to 2024, Australia's Q1 CPI figure came in at 3.6% which then climbed to 3.8% in Q2 raising concerns over lingering inflation which warranted a more hawkish RBA stance. Despite positive prints like headline inflation dropping to 2.7% in August MOM, concerns over sticky core inflation alongside positive prints like September's unemployment rate (4.1%), beating market expectations of 4.2%, justifying an extension in the RBA's rate cut timeline.

Australia's Q3 2024 CPI which came in at 2.8% - much nearer to the RBA's mid-point target of 2.5% - revived the prospect of a pre-election interest rate cut in February 2025. The RBA made sure to monitor this trend in the coming months alongside other data prints like annual GDP which unexpectedly slumped to 0.8% in September due to poor private sector performance that outweighed the benefits of government spending. There was also added uncertainty of the RBA's 2025 rate cut path as a bill which passed through parliament created a dual board structure for the RBA to help foster greater scrutiny over cash rate decisions. The RBA held the rate at 4.35% during its December meeting - leaving the next earliest possible rate cut to mid-Feb 2025.

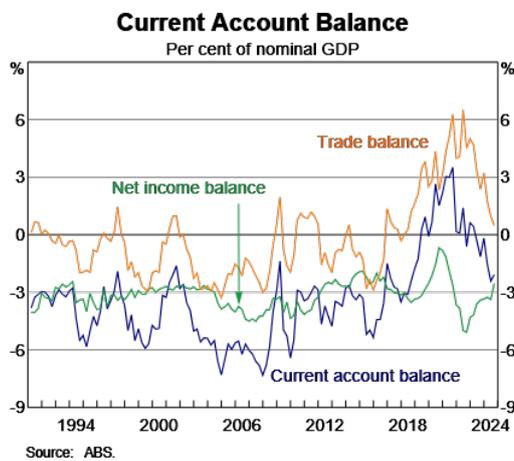
Fast forward to February 2025, underlying inflation which demonstrated stability at 3.2% gave the Reserve Bank of Australia conviction to cut its key rate by 25 basis points to 4.1%. At that time, the tight labour market's strength which signalled a potential delay in the disinflation process was a key uncertainty. The RBA's decision to not cut rates in April was influenced by the imminence of the federal elections coming soon and other factors like a promising budget plan (150 billion) which softened the

Figure 7: Business turnover (%)



Source: ABS

Figure 8: Current Account Balance (%)



Source: RBA

urgency for rate cuts. Now most recently in May, the RBA decided to decrease the cash rate another 25bps to 3.85% as trimmed mean inflation reached 2.9% in year-ended terms.

Trump’s tariff decisions made back in April remain a key source of uncertainty for Australia’s outlook. The 10% baseline tariff on Australia and 25% tariffs on Australian steel and aluminum exports have painted a bleak future with the RBA downgrading its GDP growth forecast for this year from 2.4% to 2.1% - reflecting an estimated loss of \$8 billion for the national economy. The RBA treasurer Jim Chalmers foresees 4 rate cuts this year to address the global slowdown.

Domestic Developments

Population

Australia's population grew by 2.3 per cent to 27.1 million people in March 2024, coming in at a total YOY growth of 615,300 people. This milestone of surpassing 27 million which occurred in January came 18 years earlier than predicted. 83% of this population growth was from net overseas migration which amounted to 509,800 people a year to March 2024 - down from a peak of 559,900 in September 2023. The other 17% came from births and deaths which saw a natural increase of 105,500 people in the year ending March 2024.

Out of all the states, Western Australia had the fastest growing population which grew 3.1% in the 12 months ending March 2024, followed by Victoria which grew 2.7% and Queensland which grew by 2.5%. Tasmania saw the lowest growth, at 0.4 per cent.

This unprecedented growth started post pandemic where the reopening of Australia’s borders caused an influx in migrants, such as international students, into the country. As we look into the next few years, Australia may expect to see plateaued growth if the government confirms its cap of 270,000 international students per year, but for now this bill has been put on hold.

Domestic growth

Outside of the COVID-19 pandemic, Australia’s most recent Q3 GDP marked the weakest rate of YOY GDP growth at 0.8% since the 1990s recession and the seventh consecutive quarterly decline in GDP per person. If we discount the uptick in migration which would send Australia’s growth in the opposite direction, we see that in per-person terms the economy has been shrinking for almost two years.

This slowed economic growth comes after the RBA started raising interest rates in May 2022 to redress the worst inflation outbreak in decades. The central bank lifted the cash rate 13 times from 0.1% to 4.35% in November 2023 to push up loan repayments and leave less cash for discretionary spending. Since YOY GDP growth peaked at 6.0% in September 2022, Australia has seen an overall steady

decline which has most recently been attributed to poor private sector performance that has outweighed the benefits of government spending.

With private-sector led growth being a more sustainable source of growth given that it doesn't require taxpayer money, the long-term outlook in Australia's GDP will come down to how the government reduces the cost of doing business, re-energises the economy through more flexible workplace relations and how well they remove red tape. Additionally, with business investment in machinery, equipment and software reaching levels similar to that of the mining construction boom between 2012 and 2014, there is still optimism in the future of Australia's currently waning productivity.

Labour markets

This past year, Australia's labour market recently has remained quite strong with a stable unemployment rate, strong participation rate and job creation.

November's unemployment rate dropped to 3.9% from a steady 4.1% in October and September, beating market expectations of a rise to 4.2%. This unexpected increase can be attributed to net employment which rose 35,600 in November from October's 12,200 increase - beating market expectations of a 25,000 rise. On the other hand, the participation rate has edged down to 67.0% after staying at 67.1% from July to October, with a small increase to 67.2% in September. These fairly positive data prints that signal a relatively tight labour market have given the RBA less reason to reverse one of its most aggressive policy tightening cycles in decades.

December then saw the participation rate climb to a record high of 67.1% with about 56,300 people finding work last month, smashing expectations for gains of just 15,000. However, it is noteworthy that these employment gains were driven by an 80,000 increase in part-time workers and offset by a 23,700 fall in full-time employment. Nevertheless, this increase in employment was not enough to stop the jobless rate from rising to 4% in December. Overall, these recent job prints highlight the continuing resilience of the Australian jobs market in the face of the fastest interest rate tightening cycle in decades.

Inflation

As previously mentioned, Australia's sticky inflation that has persisted despite the RBA's restrictive monetary policy since May 2022 warranted a divergence in the RBA's rate cut path in 2024. While headline inflation saw improvements seeing as it fell to 2.8% in Q3 2024 and will remain lower for a time, Governor Bullock sees underlying inflation as a more indicative of inflation momentum. Core inflation came in at 3.5% in Q3 which was deemed still too far away from the midpoint of the target 2%-3% band and the

November SMP forecasts suggest that it will be some time yet before the target is reached.

Inflation is expected to reach the midpoint target by 2026. Looking forward, a successful decline in inflation will come down to slowed demand which even though is evident from recently waning business confidence and GDP, weakness in the supply side as seen from falling productivity has made the inflation fight much slower. Headline inflation is expected to reach the target range in the first half of 2025 with the aid of temporary cost-of-living relief. However, we must keep in mind that recent data prints make this outlook uncertain. A stronger than expected labour market and weak productivity growth could slow progress in bringing inflation to target while slower than expected household spending which might not increase could mean that inflation returns to target faster. To add on to this, heightened geopolitical risks and potential changes to trade and fiscal policies abroad due to factors like a second Trump term add to this uncertainty.

Fast forward to February 2025, with headline inflation coming in at 2.4% below market expectations of 2.5%, but more importantly underlying inflation recording 3.2% in the December Quarter, the RBA responded to this stabilising inflation by cutting by 25 basis points. Looking forward, underlying inflation is expected to slow to 2.7% by the June quarter from 3.2% last quarter, compared with a previous forecast of 3.0%.

Discussions over an international student cap

In an attempt to manage the growth in international students choosing to study in Australia, a cap of 270,000 international students per year was proposed in August by the government. As of 2023, a total 710,000 international students were enrolled in an Australian university, following an upwards trend from 2022 which recorded a total of around 619,000 and a YOY increase of 8%. Formally known as the Education Services for Overseas Students Amendment (Quality and Integrity) Bill, its intention was to integrate sustainability into the education system and reduce the pressure on the housing sector. However, the bill has since been stalled after concerns of the country's academic reputation and quality of education were raised, maintaining Australia's view of embracing international students for the foreseeable future.

International Developments

Trump's second term impact on Australia

Trump's radical protectionist stance that he is bringing into his second term has created uncertainty over Australia's outlook. Firstly, despite there being no declaration on tariffs specifically against Australia, it is noteworthy that Trump made an election promise to install 10-20 per cent tariffs on all countries. In the case that Trump follows through with this, his decision not only directly effects Australian businesses doing trade with the US but it goes in

the face of the Australia-United States Free Trade Agreement (AUSFTA).

A more feasible risk are the flow-on effects for Australia when the tariffs harm US consumers and China – Australia’s major trading partner. Firstly, the introduction of US tariffs on Chinese goods will lead to higher prices on these products in the US. Lower demand for their products that follows as a result may result in Chinese firms reducing the quantity of manufactured goods, which will result in reduced demand for the inputs required for the development of those goods – like Australian natural resources (e.g., Iron Ore). With all this said, it worth noting that Australia narrowly avoided new tariffs on locally made steel under the first Trump administration. Nevertheless, Australia’s outlook remains uncertain.

China’s property crisis & economic outlook

China’s slowdown this past year as a result of its property crisis sent ripples through Australia’s commodity rich economy. Throughout the year, measures of factory output, consumption and investment all slowed which fueled calls for stimulus packages to meet their 5% growth target. In August, the country’s steel output contracted 10% as margins for steel mills turned deeply negative eventually sending iron ore prices below \$90/tonne in September. Iron ore being Australia's largest export generating approximately \$118 billion annually as of 2021, with China being the major market, caused fluctuations in the AUD everytime there were talks of stimulus. For example, on September 24, the AUD soared to a three-month high of 0.6870 after China announced a massive stimulus boost to revive household spending, real estate demand and economic growth.

Total iron ore production from the four major producers – Vale, Rio Tinto, BHP and Fortescue – reached 259 million tonnes in the first half of 2024, recording a YOY increase of 1.4%. With production in the third quarter also seeing a YOY increase, the supply side seems stable, so it will be demand in China that continues driving iron ore prices going forward. With the government navigating other issues like the imminent tariffs under Trump's second term, recovery in its property sector via fiscal stimulus may come about slower in the next year. As of now, China’s politburo has delivered a promising outlook for 2025, expressing its intention to adopt a “moderately loose” stance for monetary policy in 2025 and to widen the fiscal deficit from 3 per cent at the annual parliamentary session in March.

Thawing of China and Australia’s once strained relationship

Following a retaliatory trade battle that started in 2020 - stemming from national security concerns related to Huawei and independent investigations into the origins of COVID-19 - the 2024 year saw the continuation of trade restoration that began in late 2022.

On the 24th of March, China's Ministry of Commerce announced the removal of the anti-dumping and anti-subsidy tariffs on imported Australian wine that were implemented back in March 2021. This was one of the more notable measures taken in 2024 to remove the impacts of tariffs which at the start of the trade war, was estimated to cost the economy about AU\$20 billion (US\$13 billion) a year, with wine, barley, lobsters, beef, and coal among the most-hit products.

Fast forward to September 26, the chairman of China's National Development and Reform Commission (NDRC), Zheng Shanjie, met with Australian Treasurer Jim Chalmers for the fourth China-Australia Strategic Economic Dialogue (SED), after a seven-year hiatus. This meeting which involved both parties signing a Memorandum of Understanding (MOU) signified a mutual willingness to deepen dialogue over matters like trade, investment, green goals and to share knowledge on fiscal policy, the regional macroeconomic environment, and policy frameworks. Cautious optimism has followed since that meeting, with Prime Minister Albanese announcing in October that the exporting of Australian live rock lobster to China would fully resume by the end of 2024 that is expected to generate A\$700 million and safeguard 3,000 jobs. And now in December, the once strained bilateral relationship continues to thaw with all bans on Australian red meat exports completely lifted - pointing to a positive relationship for both countries in 2025 that will hopefully effectively navigate trade issues that stem from the policies imposed under a second Trump term.

Figure 9: AUDUSD Daily Chart



Trade Idea (Short AUDUSD)

Investment thesis

The Australian dollar experienced periods of significant gains in 2024 as the RBA stood by its hawkish stance amidst sticky inflation whilst peers like the US started their long awaited rate cut cycle. This divergence in central bank policies contributed to the widening of interest rate differential and rally in the pair, with the RBA staying true to its higher for longer narrative versus the Feds kicking off its rate cuts in August with a 50 basis points cut. Since the currency pair peaked around 0.69 in September, it has experienced persistent bearish momentum from weak economic data that has dragged its value below 0.64. Looking forward, the potential for a more dovish RBA, China's global trade conflicts and previously ineffective rate cuts outweighing its property recovery, and the direct and indirect effect of Trump's second term points toward bearish movement in the next 6 months.

Fundamental Analysis

Mixed economic outlook skewed to the downside

During 2024, the RBA's hawkish stance has been unwavering on accounts of sticky inflation and stronger than expected

jobless data. In Australia, the labour market has shown remarkable resilience as the largest increase from 0.1% to 4.35% has hardly increased unemployment. This surprising dynamic can be attributed to the shift in the economy to services which are more labour intensive but more importantly, immigration, which has stoked the cost of living crisis through raising housing prices and artificially supported economic growth.

So even though government spending helped control unemployment in 2024 and kept it as consistent to full employment as possible, cost of living was still a prevalent issue with many people still working poor. Since the RBA's mandate revolves around inflation and unemployment, these issues did not feed into its monetary policy decisions. However, they still impact economic growth through decreased spending, which has been a key issue given Q3's softer than expected growth of 0.3% despite stage 3 tax cuts implemented to boost spending. As this cost-of-living issue deepens with mortgage holders squeezed tighter, unemployment is bound to increase as employers start laying off workers. The consequences of the RBA's delayed cuts alongside global trade tensions may soon bring various economic issues for Australia in 2025.

The RBA's 25' rate cut path

The RBA is well into its rate cut cycle with cuts made in February and May, and a pause in April due to the federal election. Leading up to the May cut, we saw that Bullock's openness to a 50bps cut alongside uncertainty over global trade caused the aud/usd pair to slip. Since then, Bullock has reiterated the RBA's cautiousness over the speed at which cuts will be delivered for the rest of 2025 which will be guided by domestic data and international developments like tariffs. The RBA's rate cut cycle already points to aud weakness, but cuts are not fully priced in as factors like a July cut in addition to one in August and November is possible amidst tariff uncertainty.

The US & global economy under Trump

The market was largely expecting a 25bps rate cut by the Feds in December which happened, but since then prospects of a cut this year were put on hold after Trump's re-election. With expectations for Trump's policies - from import tariffs to tax cuts - being largely inflationary for the US economy, it was expected that the Feds will adopt a more cautious stance on rate cuts this year. Considering these expectations are now evident with the Feds adopting a wait-and-see approach, the prospects of a less dovish Fed will likely support increases in US Treasury bond yields and will act as a tailwind for the USD.

Geopolitical uncertainty under a second Trump term remains a prevalent issue with split views on whether it will help resolve or worsen global conflict. Nevertheless, any further geopolitical conflict that may arise, whether it is from the Russia-Ukraine war or tensions in the Middle East, can help benefit the safe-haven Greenback and contribute to driving flows away from risk-sensitive currencies like the AUD.

Geopolitical tensions outweighing any potential positive sentiment from China

Aside from unconvincing Chinese stimulus in May that failed to push the aud/usd above a key resistance level due to investor's fixation on trade talks, rate cuts made by the PBOC amidst trade war uncertainty will likely outweigh more stimulus talk or recently improved trade between China and Australia. Most recently, the PBoC announced a reduction in its Loan Prime Rates (LPRs) from 3.10% to 3.00%, while the five-year LPR was reduced from 3.60% to 3.50% - adding downward pressure on the aud/usd fuelled by RBA rate cuts.

Risk

Global Outlook Affecting Australian Exports

Australia's top export destinations include China, Australia, the United States, Japan, and South Korea. The economic health of these nations significantly influences the demand for Australia's exports which have rollover effects on its currency strength.

The main risks for the aud/usd currency pair revolve around the internal and external aspects of China's economy. Internally, the pronounced slowdown in China's property sector has been a key issue in 2024 with temporal moments of hope from fiscal stimulus with no signs of resounding recovery. For example, November's CPI unexpectedly decelerated as it increased a less-than-forecast 0.2% YOY, the lowest since June 2024. As such, the fiscal support that China's politburo intends to roll out in 2025 carries the risk of being ineffective which can limit any positive impact on the AUD in the coming months.

Externally, the extent to which Trump's policies affect its own economy in comparison to the global instability that may be felt in trade-reliant nations like Australia can move the aud/usd pair in either direction. In the case of not only a cautious, non-retaliatory China that doubles down on fostering deeper ties with other trading partners like Australia, but also increased prices for American consumers, supply chain disruptions, labor shortages that backfire on the US economy, it is possible that aud strengthens against the usd. Aside from external influences, China's inability to bolster its slower economic expansion in the next year - as evident from previous

decline in the property sector and overall sales - can further reduce their demand for Australia's essential commodities.

Furthermore, as tensions between Taiwan and China escalate which may bring about US intervention, Australia's decision to supply iron ore - a key commodity for war equipment - will be a polarising reflection of which side they take. Siding with the US will see a similar if not worse decline in commodity prices as observed earlier in 2024. On top of this, the USD is known as a global safe-haven currency so in the case of geopolitical tensions, investors are likely to seek shelter in the USD, thereby strengthening it against other currencies, including the AUD. This propensity towards the USD as we move into a period where conflict between Russia-Ukraine, Iran and Israel, China and Taiwan supports the case for a bearish view on the AUD/USD pair over a six-month period.

Entry Price: 0.6500

Take Profit: 0.6210

Stop Loss: 0.6600

Reward Risk Ratio: 2.90

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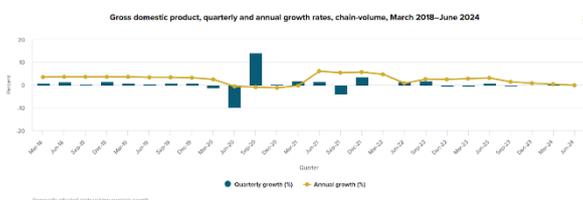
Sean Lim Jia Herr
Global Macro Analyst
e1471319@u.nus.edu

Basic Information

Real GDP (US\$)	253B
M2 (US\$)	418.981B
CPI	1280
PPI	1445
Con. Confidence	99.8
Building Permits	2724
Stock Index	NZ50
Currency	NZD

Chart info

Figure 1: GDP Growth (%)



Source: Stats NZ

Overview of New Zealand

- New Zealand has a free-market economy that has historically been driven by agriculture products like wool and meat. New Zealand is the 52nd largest economy in the world by nominal GDP, a sizable number for a population of 5.339 million and is well-known for its high level of social welfare, government transparency and economic freedom.
- The main contributors to New Zealand's GDP are the services sector (66%) and the goods-producing sector (20%). The country has a very globalized economy and is heavily dependent on international trade for growth - in particular with China and Australia.
- Being a resource rich country, New Zealand mainly exports agricultural commodities such as dairy products, meat, forest products, fruit and vegetables, and wine - with the majority of them going to China, Australia and the United States. New Zealand Foreign Affairs & Trade (MFAT) estimates New Zealand to be the 2nd largest dairy exporter, 1st largest dairy product exporter, and 2nd biggest wool exporter in the world.
- New Zealand's main imports are vehicles, machinery including computers, electronic machinery and equipment, mineral fuels including oil and plastics. They mainly import from China, Australia and the US.
- New Zealand is a member of the APEC, OECD, and WTO. The country has also entered into free trade agreements with ASEAN, Canada, Chile, China, South Korea, Malaysia, Australia, Peru, Japan, Singapore, Thailand and Hong Kong. Its trade agreement with Australia has notably deepened economic ties between the two countries.

Summary of events in the past 6 months

- The RBNZ reinforced its dovish stance by cutting its benchmark rate by 50 basis points to 3.75% in February 2025 then by 25 basis points to 3.50% in April, as part of boosting the economy from a deep recession. Despite consistent budget deficits already in the last 5 years alongside the economic slowdown from Trumpian tariffs, a more cautious RBNZ will see the cash rate be

Figure 2: Quarterly CPI (%)



Source: Stats NZ

Figure 3: New Zealand Official Cash Rate (%)

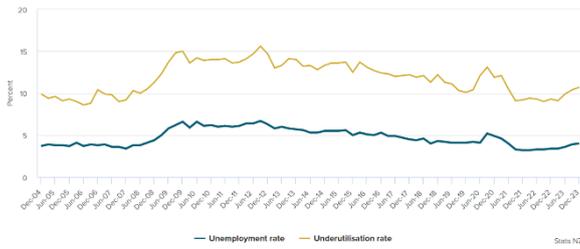


Source: Ceicdata

reduced by 25bps only on the 28th of May to avoid committing to an OCR track heading for 2.5%.

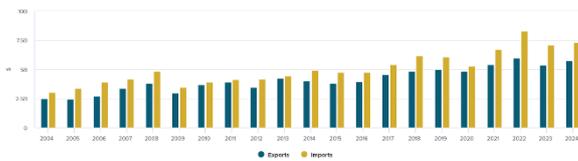
- The RBNZ started its rate cut cycle in August by lowering the official cash rate (OCR) by 25 basis points for the first time since March 2020. Their decision to do so was largely attributed to its economy’s stabilising inflation. Headline inflation has fallen to 2.2% and core inflation has fallen to 2.7%, both within the RBNZ’s target range of 1% to 3%. However, even though tradable inflation has fallen to an acceptable level on accounts of a global inflation falling, non-tradable inflation is still higher than usual as prices for services such as insurance, rents, and council rates are still rising faster than normal.
- Labour market conditions have declined with increased unemployment, fewer jobs being advertised and migration adding less to New Zealand’s population. More positive data will likely come after the economy recovers in 2025.
- The economy has been weak due to declining spending by households and businesses and fewer new homes are being built. The New Zealand economy has also been falling in and out of a technical recession with fluctuating export levels making its economic outlook uncertain. Recovery is expected as the RBNZ continues its rate cut cycle.
- Ongoing headwinds from China’s declining property market that dampened consumer confidence saw rollover effects on New Zealand’s exports in 2024. Government projections reflect an upcoming uptick that will likely stem from increased fiscal stimulus from major trading partners such as China. Additionally, Trump’s re-election and tariffs on imports raises a potential challenge for New Zealand given its reliance on exports to the US.

Figure 4: Unemployment Rate (%)



Source: Stats NZ

Figure 6: Exports and Imports trade value



Source: Stats NZ

RBNZ's Key Measures

Cut rates to save the economy

On the 14th of August 2024, the RBNZ decided to cut the official cash rate (OCR) by 25 basis points from 5.50% to 5.25% - its first slashing of rates since March of 2020. The decision came after the RBNZ was convinced that inflation was on track to stay in between the 1 to 3% range. Core inflation came in at 2.8% in Q2 which represented a significant drop from 3.7% in the previous quarter and headline inflation fell from 4.0% to 3.3% QOQ.

In addition to this, New Zealand's economy had already been facing widespread pessimism over its long-term contracting trajectory. Economic growth contracted 0.2% in Q2, retail sales volumes fell 0.1% in the three months to September after falling 1.2% in Q2 and unemployment had consistently risen 0.2% from Q1 to Q3. These data prints, which although some may have come in softer than expected, still supported concerns over a potential technical recession and excess capacity issues in the long-term. But this dire outlook wasn't just fueled by domestic issues, at that time global growth remained below its long run trend so major trading partners like China and the US were also expected to slow. Additionally, there was uncertainty over China's piecemeal policy actions, the US elections and also how the Middle East conflict could impact global economic activity and energy prices.

On the 9th of October, the RBNZ felt cutting 50bps to 4.75% would be most effective in maintaining low, stabilising inflation, while avoiding unnecessary instability in output, employment, interest rates, and the exchange rate. Moving into November, household and business spending have continued to decrease and labour market headwinds have persisted as the number of new migrants have not only decreased but more Kiwis have been seen moving to Australia for jobs. These factors alongside other economic indicators that have shaped expectations of future inflation, pricing intentions of firms, and spare productive capacity confidence are what underpinned the RBNZ's decision to cut another 50bps in late November - leaving the cash rate at 4.25%.

Since then, the RBNZ reinforced its dovish stance by cutting its benchmark rate by 50 basis points to 3.75% in February 2025 then by 25 basis points to 3.50% in April, as part of boosting the economy from a deep recession. Despite consistent budget deficits already in the last 5 years alongside the economic slowdown from Trumpian tariffs, a more cautious RBNZ will see the cash rate be reduced by 25bps only on the 28th of May to avoid committing to an OCR track heading for 2.5%.

Domestic Developments

Domestic growth

New Zealand's economy experienced a 0.2% contraction in Q2 of 2024, down from a 0.1% expansion in the previous quarter. Despite beating economist expectations of a 0.4% decline, concerns over a technical recession alongside cooling inflation and other indicators caused the RBNZ to start its cutting cycle after 4 years. For example, New Zealand also experienced international headwinds from China's slowed growth which had rollover effects on its exports of dairy products and meats. NZ logged an 11-month low trade deficit of NZ\$2.2 billion in August with meat products (-19%) and dairy products (-8.1%) recording the lowest declines.

Q3 2024 export data shows volumes falling for a second straight quarter, pointing to a potential mid-year recession and a further contraction in growth. Exports of goods dropped 1.8% in Q3 from the previous three months, while imports rose 3% signifying that net exports fell 4.8% from Q2, when they dropped 7.9 per cent. Existing pessimism coupled with continued uncertainty over China's economic health alongside higher tariffs during Trump's second term will make NZ products more expensive which will likely be passed on to consumers. From the RBNZ's perspective, the intention is that lower interest rates will bolster households and businesses spending to drive economic growth.

Labour market

New Zealand's labour market has been quite dire as more Kiwis have been seen to migrate overseas which has not only driven unemployment but also increased the pressure to attract international talent in fields with skill shortages. Unemployment has consistently risen 0.2% QOQ from Q1 to Q3 of 2024, now reaching a high of 4.6%. The underutilization rate, a comprehensive indicator of unused labor capacity, stood at 11.8% in the June 2024 quarter and 11.6% in the September 2024 quarter, marking a YOY increase of 1.9% and 1.2% respectively.

With a lack of opportunities and inadequate salaries being key drivers of Kiwis migrating, the incentives that the government plans to provide will be crucial in helping retain or attract talent in the long term. One of the recent measures that have been taken include New Zealand updating its Long-Term Skill Shortage List (LTSSL) - listing 66 in-demand jobs - which provides skilled workers opportunities for work visas, family inclusion, and a path to permanent residency. From the RBNZ's perspective, the intention is that the easing monetary policy will help unemployment come down in the next year as the economy starts to recover.

Inflation

Since October 2021, the RBNZ has been at the forefront of reversing pandemic-era monetary stimulus, increasing rates by a total of 525 basis points in an unprecedented move to control

inflation. These hikes have pushed the inflation to the desired 1% to 3% midpoint target in early 2024, with core inflation falling to 2.8% in Q2 from 3.7% in Q1 and headline inflation falling from 4.0% to 3.3%, giving the RBNZ enough reason to start its rate cutting cycle back in August. These measures have put New Zealand on the right track with Q3 core inflation coming in at 2.7% and headline inflation coming in at 2.2%. Notable items pulling up CPI include council rates, cigarette & tobacco prices which increased 10% YOY and rent prices which increased by 4.5%, making up almost a fifth of the 2.2% annual CPI increase. These were largely offset by petrol prices which fell 8% and prices for vegetables which fell 17.9%.

However, it is important to note that although tradable inflation fell 1.6% for the year in the September quarter, non-tradable inflation remained elevated at 4.9%. The reduction in headline inflation can be partly attributed to the global trend towards disinflation, so moving forward close attention should still be placed on non-tradable inflation which is an indicator of domestic demand and supply conditions. On one hand, a downturn in consumer spending could cause a larger drag on the prices of certain retail goods and services. However, there may also be the prices of items like insurance and rates may exhibit continued strength, which have contributed to stronger-than-expected non-tradable inflation over the past two years. With these fairly positive data prints, the RBNZ expects inflation to remain within its target range.

International Developments

Commodities and exports outlook

Coming off a sharp decline in commodities like dairy and lumber during the first half of 2024 due to subdued demand in China, New Zealand's primary exports are now projected to rebound in the near future. The Ministry for Primary Industries forecasted a gain in exports of 6.8% to NZ\$56.9 billion (S\$44.3 billion) in the 12 months to June 2025 after falling 7.1% in the year-earlier period. Additionally, we see that after logging an 11-month low trade deficit in August, the trade gap has gradually narrowed with exports consistently outweighing imports in the 2 months to October.

Going forward, the outlook for countries like China remains a key consideration given that it takes up a third of New Zealand's exports. In particular, China's declining property sector facing issues with high levels of debt is still one of the most pressing risks to the downside. Firstly, the low consumer confidence in the economy that has ensued as a result of the property crisis alongside unconvincing stimulus has been a headwind decreasing New Zealand's exports demand. With consumers seeking value and moderated high price expectations for discretionary firms, New Zealand firms have had to lower prices to remain competitive in a low demand environment. Secondly,

with property investment falling 10.2% in the first seven months of 2024 and home prices in China expected to drag so long as the oversupply of properties persists, exports from sectors like construction and furniture-making will continue to take a direct hit. These effects on New Zealand will be pronounced as China has taken up 92% of its log exports in the year to June 2024 and persisting low demand will likely continue placing downward pressure on log prices.

Furthermore, the US's 10% baseline tariffs that New Zealand are subject to weaken exports if the US economy experiences the downside effects of inflation and low demand. As New Zealand's second largest market for primary exports, the size, duration, and separate tariffs such as the 25% on steel and aluminum will have a significant impact on future trade. On top of this, the response of countries like China to these global tariffs may potentially bring about a retaliatory cycle that has spillover effects on New Zealand's export reliant economy.

Figure 7: NZDUSD Daily Chart



Trade Idea (Short NZDUSD)

Investment thesis

With the New Zealand government announcing its 2025 Budget on May 22nd which points toward tighter spending, alongside expectations for the RBNZ's rate cut cycle to continue and global nervousness about US money issues and trade tensions, I expect a bearish momentum from the currency pair in the next 8 weeks.

Fundamental Analysis

Soft economic outlook

Dire conditions in New Zealand's labour market have worsened market sentiment as unemployment has consistently risen 0.2% QOQ from Q1 to Q3 of 2024, reaching a high of 4.6%. More Kiwis have been seen to migrate overseas to neighbors like Australia for better job opportunities, which has not only driven unemployment but also created challenges to attract international talent in fields with skill shortages. Most recently, unemployment reached 5.1% in early 2025 and the services sector – which makes up two-thirds of GDP - has continued to contract with PSI falling from 48.9 to 48.5 in April 2025.

All this sluggish domestic data alongside global trade uncertainty looms over positive prints such as dairy exports which jumped 38% in April – reflecting a healthy \$1.43 billion trade surplus. The relief after China cut rates in May will be temporal if positive prints are not realised – which is possible given trade tensions that may subdue the recent export upswing.

With the RBNZ's upcoming 25bps rate cut being largely priced in by markets, the central bank's guidance afterward is what will likely move the currency in the near term. The soft domestic economic outlook, Trump tariffs point to an unfinished rate cut cycle which will likely be reflected in the next monetary policy statement.

Slower recovery despite cooling inflation

Recently, inflation has shown signs of stability, with the RBNZ now hoping its eased monetary policy will help stimulate growth. However, factors like austerity measures that have been carried out by the government in 2024 are likely to have counteracted the intended expansion in the economy, delaying a fast resounding recovery in the economy. For example, State-owned railway company KiwiRail offered voluntary redundancy to 4,500 staff employees which can feed into increased unemployment.

Moreover, inflation still isn't at a point that will drive significant growth in the foreseeable future. A large part of the fall in the annual rate of inflation was fueled by tradables prices while annual non-tradables inflation which although has seen QOQ improvements still came in at an elevated level of 4.9% in Q3 2024. So growth from cooling inflation will come, but it may not be as quick as expected.

The US & global economy under Trump

The market was largely expecting a 25bps rate cut by the Feds in December which happened, but since then prospects of a cut this year were put on hold after Trump's re-election. With expectations for Trump's policies - from import tariffs to tax cuts - being largely inflationary for the US economy, it was expected that the Feds will adopt a more cautious stance on rate cuts this year. Considering these expectations are now evident with the Feds adopting a wait-and-see approach, the prospects of a less dovish Fed will likely support increases in US Treasury bond yields and will act as a tailwind for the USD.

Geopolitical uncertainty under a second Trump term remains a prevalent issue with split views on whether it will help resolve or worsen global conflict. Nevertheless, any further geopolitical conflict that may arise, whether it is from the Russia-Ukraine war or tensions in the Middle East, can help benefit the safe-haven Greenback and contribute to driving flows away from risk-sensitive currencies like the NZD. Furthermore, recent updates like Moody downgrading US government credit fostering global uncertainty may further compel global investors to avoid risk-sensitive currencies like the NZD.

Risk

Global Outlook Affecting New Zealand Exports

New Zealand's top export destinations include China, Australia, the United States, Japan, and South Korea. The economic health of these nations significantly influences the demand for New Zealand's exports which have rollover effects on its currency strength.

The main risks for the nzd/usd currency pair revolve around the internal and external aspects of China's economy. Internally, the pronounced slowdown in China's property sector has been a key issue with temporal moments of hope from fiscal stimulus and no signs of quick resounding recovery. For example, November's CPI unexpectedly decelerated as it increased a less-than-forecast 0.2% YOY, the lowest since June. As such, the fiscal support that China's politburo intends to

roll out in 2025 carries the risk of being ineffective which can limit any positive impact on the NZD in the coming months.

Externally, the re-election of Trump and the imminent implementation of his drastic policies place uncertainty over global trade. The extent to which Trump's policies affect its own economy in comparison to the global instability that may be felt in trade-reliant nations like New Zealand can move the nzd/usd pair in either direction. In the case of not only a cautious, non-retaliatory China that doubles down on fostering deeper ties with other trading partners like New Zealand, but also increased prices for American consumers, supply chain disruptions, labor shortages that backfire on the US economy, it is possible that nzd strengthens against the usd. Aside from external influences, China's inability to bolster its slower economic expansion in the next year - as evident from the decline in the property sector and overall sales - can further reduce their demand for New Zealand's essential commodities.

Entry Price: 0.6000

Stop Loss: 0.6070

Take Profit: 0.5870

Reward Risk Ratio: 1.86

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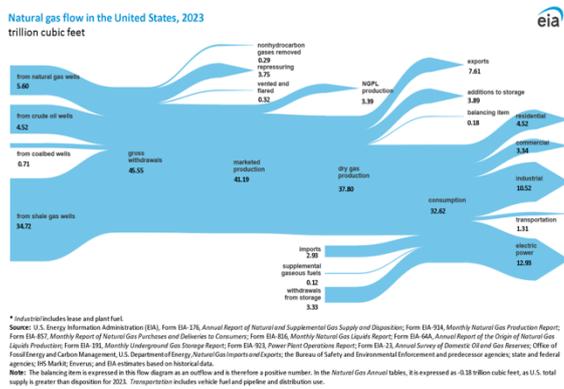
Analyst

Chen SenYi
Global Macro Analyst

e1332799@u.nus.edu

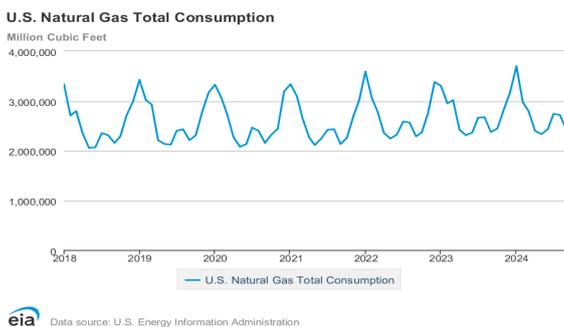
Chart info

Figure 1: US natural gas flow, 2023



Source: EIA

Figure 2: U.S. Natural Gas Total Consumption (Monthly)



Source: EIA

Figure 3: U.S. Natural Gas Gross Withdrawals

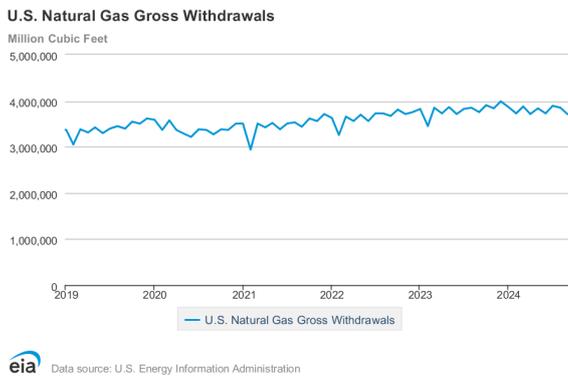
Overview of Sector

- Natural Gas (NG) exists as an odourless, colourless and non-toxic gas and is produced associated and non-associated reserves (where oil is the main produce drilled, and NG is a by-product of drilling). Condensate wells produce both raw and liquified gas. While providing warmth for cooking and heating, NG also fuels power stations as a fuel for electricity generation. This powers many industrial processes, that produce materials and goods. NG is also the largest factor input in the production of fertilisers and as such, possess price points of high correlation.

- There are several types of futures for natural gas but the focus for this analysis will be the Henry Hub Natural Gas Futures. The Henry Hub Natural Gas Futures contract, traded on the NYMEX under the symbol NG, represents 10,000 million British thermal units (mmBtu) and is quoted in U.S. dollars per mmBtu. Prices move in minimum increments of \$0.001 per mmBtu, equivalent to \$10.00 per contract, and contracts are available for all calendar months. Trading occurs from Sunday to Friday, 6:00 PM to 5:00 PM (ET) the following day, with a one-hour break starting at 5:00 PM. The last trading day is three business days prior to the first calendar day of the delivery month. Contracts are settled through physical delivery at the Henry Hub in Louisiana, a key natural gas pipeline hub connecting multiple supply and distribution networks across North America. Delivery involves the transfer of pipeline capacity at Henry Hub, ensuring the buyer receives the contracted quantity of natural gas. To meet delivery obligations, traders must have arrangements with pipeline operators to accept or provide the natural gas at the hub. Those not intending to deliver or take delivery must close out positions before the contract expires to avoid default.

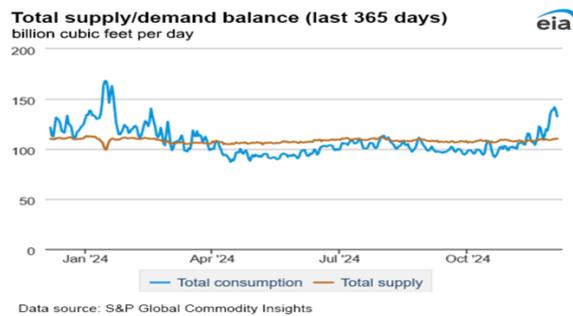
- When local markets across the United States price their natural gas, they tend to do so based off a differential to Henry Hub. This differential accounts for regional market conditions, transportation costs and available transmission capacity between locations.

- In 2023, U.S. domestic consumers accounted for the majority of natural gas use, consuming 32.63 trillion cubic feet. Meanwhile, exports comprised 7.61 trillion cubic feet, or approximately 20% of dry natural gas production. Natural gas is exported either via pipelines or as liquefied natural gas (LNG). The LNG process, which involves cooling the gas to a liquid state to reduce its volume for efficient transportation by specialized ships, adds significant cost and logistical complexity. Despite the growing export market, particularly for LNG, domestic consumers remain



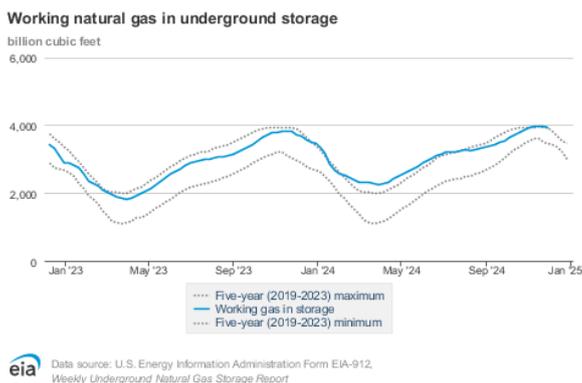
Source: EIA

Figure 4: Total supply/demand balance (last 365 days)



Source: EIA, S&P Global Commodity Insights

Figure 5: Working Natural Gas in Underground storage (US)

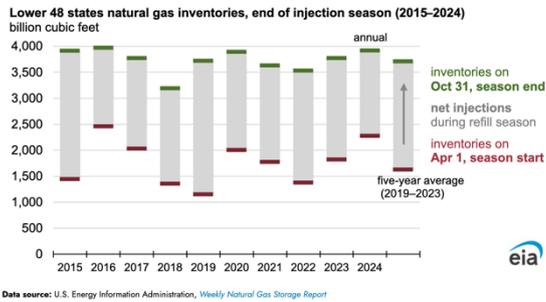


Source: EIA

Figure 6: Lower 48 states natural gas inventories, end of injection season

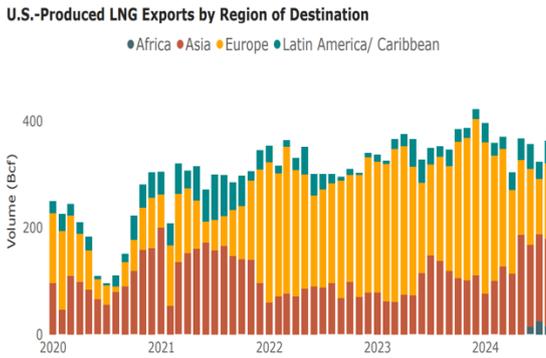
the primary driver of U.S. natural gas consumption, heavily influenced by seasonal demand for heating and cooling.

- The U.S. natural gas market displays a strong seasonal trend, as shown in the graph of total consumption between 2018 and 2024. Consumption peaks during the winter months, primarily due to increased demand for heating, and declines in the summer when milder temperatures reduce heating needs, though there is a secondary smaller peak in summer driven by power generation for air conditioning. For example, in recent years, winter peaks approached 4 trillion cubic feet per month, while summer levels dropped closer to 2 trillion cubic feet.
- The supply steadily increased from 3.38 trillion cubic feet in January 2019 to a peak of 3.99 trillion cubic feet in December 2023, before declining to 3.71 trillion cubic feet in September 2024. During the week of November 28 to December 4, 2024, the average daily supply was 109.7 billion cubic feet, slightly below the 111.1 billion cubic feet recorded during the same week in 2023.
- According to EIA, working natural gas in storage in the Lower 48 states ended the 2024 natural gas injection season with 3,922 billion cubic feet (Bcf), based on estimates from the Weekly Natural Gas Storage Report released on November 7. This marks the highest inventory level at the start of winter since 2016. Despite injections being below the five-year (2019–2023) average throughout the injection season (April 1 to October 31), inventories are 6% above the five-year average. Lower-than-average injections were primarily due to relatively full starting inventories.
- U.S. natural gas exports to Europe declined by 28% over the year, dropping to 141.6 billion cubic feet in August 2024 from the levels recorded in August 2023. As of December 7, Europe’s natural gas storage is at 82.38% capacity, a level lower than what was observed in 2020, 2022, and 2023.



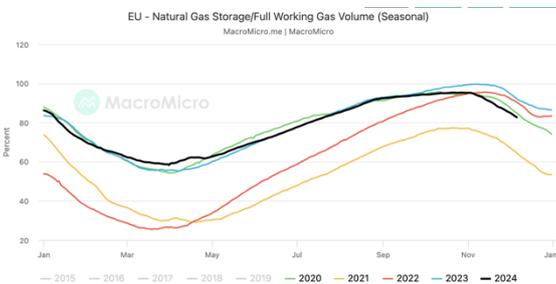
Source: EIA

Figure 7: Monthly U.S. LNG exports by destination region



Source: US Department of Energy

Figure 8: EU Natural Gas Storage/Full Working Gas Volume (Seasonal)



Source: MacroMicro, GIE

Figure 19: Dutch TTF – Henry Hub Natural Gas Futures (TTF1! – NG1!) Front Month Contract



Source: TradingView

Trade Idea: Long Henry Hub NG February 2025 Futures

January has consistently seen the highest natural gas usage in recent years, driven by increased heating demand during the peak of winter. This trend underscores the critical role of seasonal weather patterns in influencing energy consumption.

European natural gas purchases from the U.S. have shown signs of moderation, reflecting efforts to stabilize energy supplies. However, geopolitical tensions surrounding the Ukraine conflict pose significant risks, particularly in the lead-up to the U.S. presidential inauguration. The possibility of escalations disrupting gas supplies from Russia to EU is not being priced in.

Currently, natural gas demand exceeds supply, amplifying the importance of demand-side factors in shaping prices. Market dynamics are particularly sensitive to consumption trends, as supply constraints leave little flexibility to meet surging needs.

Additionally, a weather premium is not currently reflected in natural gas prices, despite unexpectedly high heating usage driven by colder-than-anticipated conditions. Such a premium would typically account for the market's reaction to unpredictable winter weather, which can further tighten supply-demand balances and drive prices higher.

Entry: 2.932

Take Profit: 3.20

Stop Loss: 2.80

Risk Reward Ratio: 2.03

Analyst

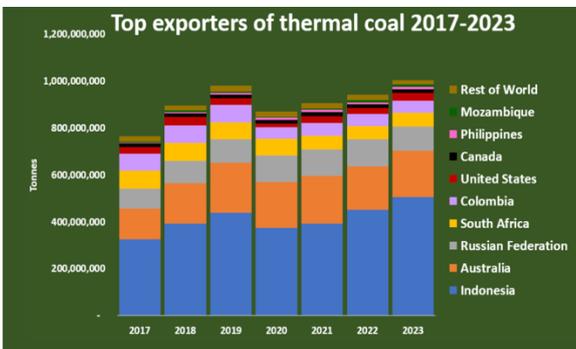
Chen SenYi

Global Macro Analyst

e1332799@u.nus.edu

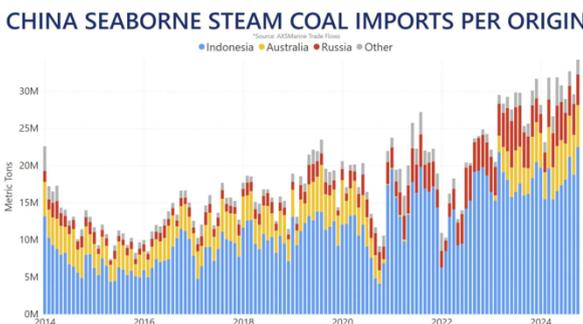
Chart info

Figure 1: Top exporters of thermal coal 2017-2023



Source: Reuters, Kpler

Figure 2: China Imports of thermal coal per Origin



Source: AXS Marine Trade Flows, The Coal Hub

Figure 3: Indonesian 4200kc GAR FOB Thermal Coal Futures– Front Month

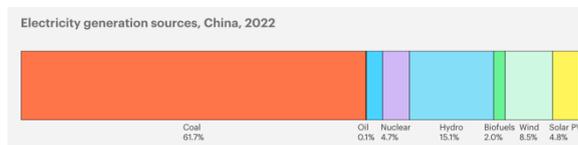
Overview of Sector

- Coal burnt in coal power stations to generate electricity is called thermal coal. It is usually pulverized and then burned in a furnace with a boiler. The furnace heat converts boiler water to steam, which is then used to spin turbines which turn generators and create electricity.
- China imports significant amounts of thermal coal from Indonesia, with the 4,200 kcal/kg GAR (gross as received) grade being the most actively traded and imported, largely due to its balance of energy content and cost. This coal grade is often preferred for blending with domestic supplies to meet environmental and operational requirements.
- According to Statista, the world’s two largest coal consuming countries in 2023 were also the world’s two most populous nations: China and India, at 91.9 and 22 exajoules consumed, respectively. In the case of China, this equates to approximately 56 percent of the global coal consumption, whereas India accounted for 13.4 percent. (Note the coal consumption includes other types of coal besides thermal coal)
- As China's demand for coal accounts for more than half of global consumption. Changes in its import volumes due to policy shifts or market conditions often impact international pricing. This applies to India as well, although to a smaller extent.
- Indonesia was the top thermal coal exporter in 2023, shipping out a record 505.4 million tons for the year, up 54 million tons or 12% from 2022's levels. For the first time, Indonesia accounted for more than half of all thermal coal shipments within a calendar year in 2023, Kpler data shows. Australia was the second largest thermal coal exporter, shipping out 198 million tons, up 12.5 million tons (7%) from the year before.
- China imports the majority of its thermal coal from Indonesia, as illustrated in Figure 2. As a result, our analysis will concentrate on the Indonesian 4200 kcal GAR (Gross As Received) FOB (Free on Board) Thermal Coal Futures.
- Our focus will be on the SGX IHS McCloskey M42 Indonesian 4200 kcal GAR FOB Thermal Coal Futures, traded on the Singapore Stock Exchange. These contracts specify a calorific value of 4200 kcal/kg (Gross as Received) and represent 1000 metric tons per contract, with pricing denominated in USD. Settlement is cash-based, calculated using the arithmetic average of all published IHS McCloskey Indonesian (4200 kcal GAR) FOB Marker reference



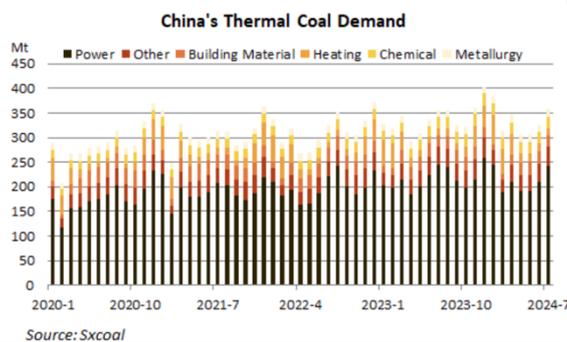
Source: TradingView

Figure 4: Electricity Generation source, China, 2022



Source: IEA

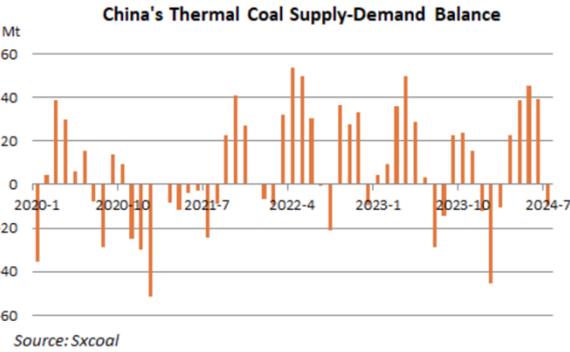
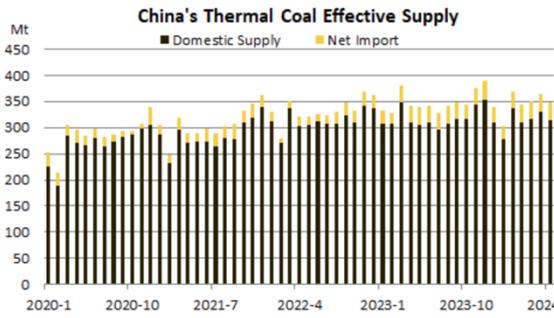
Figure 5: China's Thermal Coal Balance



Source: Sxcoal

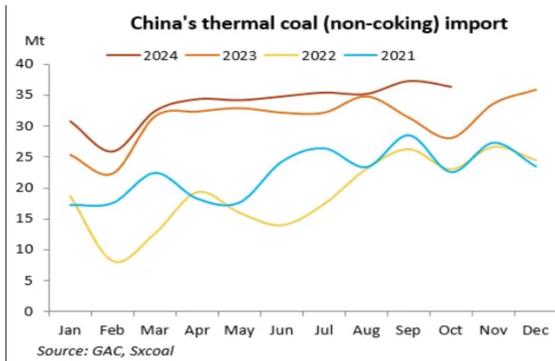
prices during the expiring contract month, rounded to two decimal places.

- China's demand for thermal coal originates from the need for electricity generation. In 2022, thermal coal constituted 61.7% of the electricity generated in China. As a result, any changes to electrical demand will impact the coal market. China's thermal coal market exhibits distinct seasonal patterns influenced by domestic energy demands and production cycles.
- Winter Peak Demand (December to February): During winter, coal-fired power plants are essential for heating, leading to increased coal consumption. To prepare for this peak, China ramps up coal production and imports in the preceding months. For instance, in August 2024, China accelerated coal mining to ensure a reliable winter power supply, achieving a seasonal record of 390 million tonnes of coal in July.
- Summer Demand (June to August): In summer, high temperatures boost electricity consumption due to air conditioning, increasing coal-fired power generation. This seasonal demand prompts higher coal production and imports. In June 2024, China's coal output reached a six-month high of 405.38 million metric tons, a 3.6% year-on-year increase, driven by increased demand for air conditioning.
- As for China's thermal coal imports, the imports each month generally increase through the year, with the exception of February due to Chinese New Year.
- According to The Coal Hub, the authorities of Shanxi province (the second largest coal producing region) gave instructions to boost production in Q4 for reaching the target of 1.3 billion tons by the end of 2024. Thus, despite high stocks, mining companies will operate at 110% of the agreed capacity by the end of the year. Moreover, at the beginning of the year, output was reduced at the request of the authorities due to safety concerns.
- The China Development and Reform Commission (NDRC) released new guidelines that could lead to increased volatility in the spot market. Under the new directive, mining companies will be able to cut the amount of coal reserved for long-term contracts. Therefore, producers will be required to ship at least 75% of their mined volumes under long-term contracts in 2025 instead of 80% in 2023-2024 (although this initiative does not apply to major companies), while generating companies will be obliged to purchase at least 80% instead of 80-100% in 2024.
- According to Bloomberg, as of 21st November, China's nationwide coal inventory could climb further into record territory to as high as 670 million tons by the year's end, according to the bank, from 550 million tons at the close of 2023. According to Kpler at the same



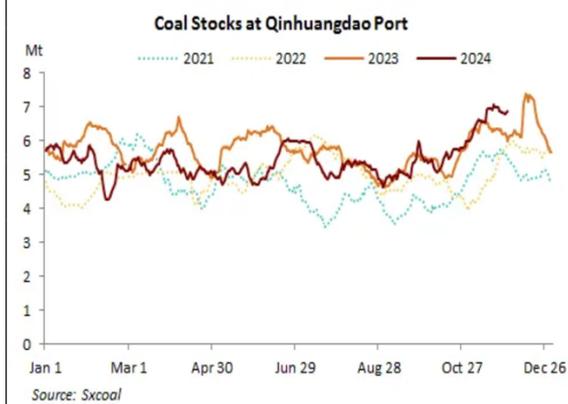
Source: Sxcoal

Figure 6: China's thermal coal import



Source: GAC, Sxcoal

Figure 7: Coal Stocks at Qinhuangdao Port



Source: Sxcoal

time, Chinese utilities are well stocked and coal inventories at the northern ports remain firm, suggesting demand might soften in the coming weeks as long as temperatures remain in line with seasonal norms.

- By the end of September, nearly half of China's major coal enterprises were operating at a loss, according to data from the National Bureau of Statistics. From Sxcoal's research, out of 5,135 companies, 2,367 reported negative earnings, resulting in a loss rate of 46.1%, up 2 percentage points from the previous year.
- The increasing losses in the coal sector are primarily driven by declining coal prices, which have significantly reduced revenues, alongside rising production costs that have pushed operational expenses higher. Enhanced safety investments, necessitated by stricter regulatory oversight, have further strained company finances. Additionally, modernization efforts and compliance with environmental regulations have increased costs related to labour, coal washing, and transportation.

Figure 8: M42F1! - Indonesian 4200KC GAR FOB Thermal Coal Front Month Contract



Source: Barcharts

Trade Idea: Long Indonesian 4200KC GAR FOB Thermal Coal January Contract

Most bearish sentiments appear to have been factored into the market, with the contango structure of futures remaining intact. January continues to show a thermal coal deficit, and a weather risk premium has yet to be reflected in prices. If temperatures fall below forecasts, stockpile drawdowns could exceed expectations.

The likelihood of stronger Chinese stimulus following the December meeting may further discourage short sellers, especially since the gains from the September stimulus have already been erased.

Given the currently high inventory levels, a modest price target remains appropriate.

From a technical perspective, the current price sits at a six-month support level of 53.70. The proposed take-profit level is 55, a resistance level tested twice previously. This setup offers a favourable risk-reward ratio of 2.44.

- Entry: 53.70**
- Take Profit: 55**
- Stop Loss: 52.80**
- Risk Reward Ratio: 2.44**

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