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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Investors closely monitored the latest US CPI data, which came in on the soft side, with core prices rising by 0.2%<sup>mt</sup>. The data supported US Treasuries, but the move was limited, with most of the curve shifting only 1bp lower.

President Trump voiced support for Iranian protesters, encouraging them to continue their demonstrations. Additionally, a new 25% US import tariff was announced on goods originating from countries that trade with Iran.

In Japan, news agencies reported that Prime Minister Sanae Takaichi intends to call a snap election, aiming to consolidate public backing for the Liberal Democratic Party (LDP) and her pro-stimulus economic policies.

Oil prices jumped higher, the DXY index appreciated, while the AUD fell 0.4% to below the 0.67 level, as the Westpac–Melbourne Institute Consumer Sentiment Index showed a deterioration at the start of the year.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	62.5	0.2%	30 day BBSY	3.61	0.00
AUD/USD	0.6681	-0.4%	90 day BBSY	3.79	0.00
AUD/JPY	106.31	0.2%	180 day BBSY	4.15	-0.02
AUD/GBP	0.4973	-0.2%	1 year swap	3.90	-0.01
AUD/NZD	1.1640	0.1%	2 year swap	4.00	-0.01
AUD/EUR	0.5735	-0.3%	3 year swap	4.07	0.00
AUD/CNH	4.6602	-0.3%	4 year swap	4.14	0.00
AUD/SGD	0.8611	-0.2%	5 year swap	4.21	0.01
AUD/HKD	5.2122	-0.4%	6 year swap	4.29	0.01
AUD/CAD	0.9278	-0.4%	7 year swap	4.36	0.01
EUR/USD	1.1649	-0.2%	8 year swap	4.43	0.02
USD/JPY	159.13	0.6%	9 year swap	4.50	0.02
USD Index	99.14	0.3%	10 year swap	4.76	0.02

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,809	0.6%	<b>Australia</b>		
S&P 500	6,953	-0.3%	3 year bond	4.11	0.01
Japan Nikkei	53,549	3.1%	10 year bond	4.71	0.01
Hang Seng	26,848	0.9%	<b>United States</b>		
Euro Stoxx 50	6,030	0.2%	3-month T Bill	3.55	0.00
UK FTSE100	10,137	0.0%	2 year bond	3.53	-0.01
VIX Index	16.13	6.7%	10 year bond	4.17	-0.01

Commodities	Current	Change	Other (10 year yields)		
CRB Index	304.04	0.9%	Germany	2.85	0.01
Gold	4596.29	0.0%	Japan	2.17	0.08
Copper	13164.00	-0.3%	UK	4.40	0.02

			Sydney Futures Exchange	Current	Change
Oil (WTI futures)	61.09	2.7%	10 yr bond	4.76	0.02
Coal (coking)	228.25	0.8%	3 yr bond	4.14	0.00
Coal (thermal)	109.80	2.1%	3 mth bill rate	3.86	-0.01
Iron Ore	108.75	-0.8%	SPI 200	8,782	0.0%
ACCU	36.13	-4.3%			

Data as at 7:00am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.



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## Financial Markets:

Investors closely monitored the latest US CPI data, which came in on the soft side, with core prices rising by below-expectations 0.2%*mt*. Meanwhile, President Trump voiced support for Iranian protesters, encouraging them to continue their demonstrations. Additionally, a new 25% import tariff was announced on goods originating from countries that trade with Iran. This measure raises questions about its potential impact on US – China relations, as China is Iran's largest trading partner and principal oil purchaser.

In Japan, news agencies reported that Prime Minister Sanae Takaichi intends to call a snap election, aiming to consolidate public backing for the Liberal Democratic Party (LDP) and her pro-stimulus economic policies. While Takaichi currently enjoys strong approval ratings, the decision carries risks – for example, a similar move by her predecessor, Shigeru Ishiba, resulted in the LDP losing its majority in the lower house.

- US equity markets traded in a seesaw pattern. The S&P500 lost about 0.5% in early trading, pared losses, then fell again to finish 0.3% lower. Financials led the decline, as markets considered the implications of the 10% cap on credit card rates proposed by Trump. European equities were little changed, with the Euro Stoxx 50 rising 0.2% and the FTSE100 moving sideways. Meanwhile, the Nikkei 225 soared 3.1% as investors responded to the snap election news and priced in the possibility of an LDP majority. Domestic equities also rose, gaining 0.6%.
- In bond markets, soft US CPI data supported US Treasuries, but the move was limited, with most of the curve shifting only 1bp lower. European yields were slightly higher: the 10Y Gilt rose 2bp, while the equivalent Bund increased by 1bp. Meanwhile, JGBs sold off, with the long end of the yield curve moving 8-9bp higher. The 10Y yield reached 2.17%. Domestic yields were around 1bp higher across most tenors.
- The DXY index reversed Monday's losses, rising 0.3% to move back above the 99.0 mark. Against that backdrop, the EUR and GBP weakened 0.2%. The Japanese Yen underperformed, weakening 0.6%. The AUD fell 0.4% to below the 0.67 level, as the Westpac–Melbourne Institute Consumer Sentiment Index showed a deterioration at the start of the year.
- Crude oil jumped to the highest level since last October, as President Trump emphasized his support of Iranian protesters. The WTI February contract rose 2.7% to \$61.10. Gold was little changed, as a stronger US Dollar appeared to offset safe-haven demand. Both copper and iron ore eased.

## International Data

Following the partial release of **US CPI data** for November before Christmas, which showed the headline inflation rate

## Today's key data and events

Time	Event	Exp	Prev
8:45	NZ Building Permits Nov	-	-0.9%
11:00	NZ ANZ Commodity Prices Dec	-	-1.6%
-	CN Trade Balance Dec	US\$114b	US\$111.7b
0:30	US PPI Nov	0.2%	-
0:30	US Retail Sales Nov	0.4%	0.0%
2:00	US Existing Home Sales Dec	2.4%	0.5%

Times are AEDT. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

fell from 3.1%*yr* to 2.7%*yr*, the latest December figures have confirmed this decline was not merely statistical noise, as the headline rate held steady at 2.7%*yr* at the end of 2025. The monthly pace was 0.3%*mt*, unchanged from September (the most recent available reading), but slightly above the average rate recorded earlier in the year. Core services reported a 0.3%*mt* rise, in line with recent trends, while the main surprise was in goods, where prices remained flat. A 1.1%*mt* fall in used car prices contributed significantly to the downside, while prices for some electronic equipment, previously driven higher by tariffs, also declined, suggesting that tariff pass-through may have already peaked.

**St. Louis Fed President Alberto Musalem** noted that US inflation is moderating. "I expect inflation to resume its convergence toward our 2% target over the course of this year. Today's inflation reading was encouraging in that respect", he said. He also highlighted that the probability of near-term further policy easing is low, as "more cuts would take policy into accommodative territory".

In December, the **US NFIB Small Business Optimism Index** rose from 99.0 to a four-month high of 99.5. Business expectations regarding future conditions improved, while the assessment of employment conditions was slightly less negative.

After substantial increases in August and September, **US new home sales** were unchanged in October at post-pandemic highs. This result indicates that falling interest rates are supporting activity in the US housing market.

## Local Data

The latest **Westpac-DataX Card Tracker Index** read of 158.2 was the highest on record but likely overstating strength due to these issues. Looking through this 'noise' the picture is of a strong December quarter result but with some tentative signs of moderation around the turn of the year ([see here](#)).

The **Westpac–Melbourne Institute Consumer Sentiment Index** slipped 1.7% lower to 92.9 in January from 94.5 in December, suggesting that Australian consumers entered the new year in a downbeat mood ([see here](#)).

In New Zealand, the **NZIER business opinion survey** for the December quarter showed a more upbeat attitude among businesses than we've seen for some time ([see here](#)).



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