20 January 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

US financial markets were closed for Martin Luther King Jr. Day. Elsewhere, investors considered implications from rising tensions between the US and its European allies.

European equities declined sharply. In the FX markets, the DXY index came under renewed downward pressure, losing 0.3%, as questions over reducing exposure to US assets resurfaced.

In Japan, Prime Minister Sanae Takaichi officially called an early election, which will be held on 8 February. If her LDP party wins, she promised to lower sales tax on food for two years.

China reported its Q4 GDP data – while the 5% growth target was achieved in 2025, additional details signalled weakening growth momentum.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.3	-0.3%
AUD/USD	0.6714	0.5%
AUD/JPY	106.18	0.5%
AUD/GBP	0.5001	0.1%
AUD/NZD	1.1589	-0.3%
AUD/EUR	0.5767	0.1%
AUD/CNH	4.6714	0.3%
AUD/SGD	0.8629	0.2%
AUD/HKD	5.2352	0.4%
AUD/CAD	0.9312	0.1%
EUR/USD	1.1643	0.4%
USD/JPY	158.13	0.0%
USD Index	99.06	-0.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.61	0.00
90 day BBSY	3.78	0.00
180 day BBSY	4.06	-0.01
1 year swap	3.92	0.01
2 year swap	4.04	0.01
3 year swap	4.13	0.03
4 year swap	4.19	0.03
5 year swap	4.26	0.03
6 year swap	4.34	0.03
7 year swap	4.41	0.03
8 year swap	4.48	0.03
9 year swap	4.55	0.03
10 year swap	4.80	0.01

Equities	Close	Change
S&P/ASX 200	8,875	-0.3%
S&P 500	6,940	-0.1%
Japan Nikkei	53,584	-0.7%
Hang Seng	26,564	-1.0%
Euro Stoxx 50	5,926	-1.7%
UK FTSE100	10,195	-0.4%
VIX Index	18.84	18.8%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.14	0.03
10 year bond	4.74	0.03
United States		
3-month T Bill	3.55	-0.01
2 year bond	3.59	0.00
10 year bond	4.22	0.00
Other (10 year yields)		
Germany	2.84	0.00
Japan	2.27	0.08
UK	4.42	0.01

Commodities	Current	Change
CRB Index	302.05	0.1%
Gold	4671.04	1.6%
Copper	12966	1.3%
Oil (WTI futures)	59.44	0.0%
Coal (coking)	234.50	0.6%
Coal (thermal)	111.35	-0.2%
Iron Ore	104.75	-1.6%
ACCU	36.13	-4.3%

Sydney Futures Exchange	Current	Change
10 yr bond	4.80	0.02
3 yr bond	4.19	0.02
3 mth bill rate	3.83	0.00
SPI 200	8,811	-0.4%

Data as at 7:40am 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:

US financial markets were closed for Martin Luther King Jr. Day. Elsewhere, investors continued to consider implications from rising tensions between the US and its European allies after President Trump escalated his demands to purchase Greenland by imposing new tariffs on imports from major European countries. Subsequent reports indicated that Trump told the Norwegian Prime Minister that he no longer felt obliged to focus solely on peace, because he did not receive the Nobel Peace Prize.

There was significant news from major Asian economies. China reported its Q4 GDP data, confirming that the 5% growth target was achieved in 2025. However, additional details signalled weakening growth momentum, with the year-ended growth rate falling to 4.5%yr, the slowest pace since reopening after the pandemic in late 2022. In Japan Prime Minister Sanae Takaichi officially called an early election, which will be held on 8 February. If her LDP party wins, she promised to lower sales tax on food for two years.

- European equities declined sharply, with the Euro Stoxx 50 index dropping 1.7%, the worst result in two months. Stocks most exposed to the US tariffs led the decline, while defence stocks outperformed. In the UK, the FTSE 100 fell 0.4%. Asian equities also moved lower, with the Nikkei 225 down 0.7% due to profit-taking following the election announcement and rising global geopolitical risks. Domestically, the ASX 200 followed the global trend, losing 0.3%.
- Despite elevated geopolitical risks, the reaction in major European government bond markets was fairly muted. UK Gilts sold off slightly at the long end – the 10Y yield rose 1bp. The equivalent German Bund yield was flat, but increased demand sent shorter-dated yields about 3bp lower. In Japan, concerns that Prime Minister Takaichi's proposed sales tax cut on food would put further pressure on government finances sent long-dated JGBs significantly lower. The 10Y yield jumped 8bp to 2.27%. Australian government yields also rose, by about 3bp across the yield curve.
- In the FX markets, the DXY index came under renewed downward pressure, losing 0.3%, as questions over reducing exposure to US assets – a theme that gained traction after Liberation Day last year – resurfaced. The EUR and GBP gained 0.4% and 0.3% respectively, while the Japanese Yen was unchanged. The AUD outperformed, appreciating 0.5%.
- Although crude prices fluctuated throughout the day, the WTI February contract remained unchanged at $59.4. Rising political tensions saw gold jump 1.6%. Copper also rose by 1.3%, recouping some of the losses seen in recent trading sessions. Iron ore fell 1.6%, extending its decline for a fifth consecutive day.

Today's key data and events

Time	Event	Exp	Prev
8:30	NZ BusinessNZ PSI Dec	-	46.9pts
8:30	NZ Manufacturing PMI Dec	-	56.1pts
18:00	GB ILO Unemployment Rate Nov	-	5.1%
21:00	EZ Zew Survey Of Expectations Jan	-	33.7pts

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.

International Data

China's Q4 GDP figures brought few surprises, confirming that last year the economy expanded in line with the government's 5% target. However, beyond the headline result, most other details indicated weaker momentum. Growth on a year-ended basis was only 4.5% in Q4, down almost a full percentage point since Q1 2025. Quarterly growth was 1.2%qtr, following even smaller increases in the previous two quarters. If annualised, this would also fall short of 5%.

Monthly activity indicators for December failed to provide much optimism about the near-term growth. With Chinese exports growing rapidly in recent months, industrial production growth was a relative bright spot, rising from 4.8%yr to 5.2%yr, but indicators of domestic demand weakened further. On a year-to-date basis, fixed asset investment declined 3.8%yr YTD – outside of the pandemic period, this was the worst result since records began in 2013. Property investment went from bad to worse, with growth falling to -17.2% yr YTD, and conditions remaining very weak across all major subsectors – residential, office, and commercial. Against this backdrop, house prices remained on a clear downward path, suggesting negative wealth effects that are, in turn, affecting consumer spending. On that front, retail sales grew just 3.7% yr YTD, the slowest pace since the start of 2025.

Overall, these figures highlight that further government support across multiple fronts is this year to prevent China's GDP growth from drifting lower. The National People's Congress is announcing the economic targets for the coming year and the new five-year plan in March.

The euro area final HICP figures for December showed a downward revision the preliminary inflation estimate from 2.0%yr to 1.9%yr, which now represents a 0.2ppt decline from November. It is worth noting that to two decimal places, the revision was only 0.02ppt. Lower food inflation, now estimated to be 2.5%yr vs 2.6%yr previously, was the main driver of the change. Meanwhile, the core inflation rate was left unchanged at 2.3%yr, down from 2.4%yr in the prior three months and in line with the flat readings in May-August, suggesting that underlying euro area inflationary pressures remained broadly stable at the end of last year.

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