21 January 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

Tensions between the US and major European countries escalated, as President Trump suggested there was no going back on his plan to take control of Greenland.

In the markets, the ‘sell America’ trade was the driving force behind major market moves overnight, as investors looked to reduce exposure to the US, seen by many as an unreliable partner pursuing self-defeating policies

The VIX volatility index surged above 20 and the S&P500 fell 2.1%, erasing the year-to-date gains. US Treasuries sold off, with the 10Y yield jumping 7bp to 4.29%.

Concerns over the fiscal stance of the Japanese government spread. Japanese Finance Minister Katayama called on markets to calm down after the JGB 30Y and 40Y yields jumped by almost 30bp.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.7	0.6%
AUD/USD	0.6733	0.3%
AUD/JPY	106.54	0.3%
AUD/GBP	0.5012	0.2%
AUD/NZD	1.1550	-0.2%
AUD/EUR	0.5745	-0.4%
AUD/CNH	4.6843	0.3%
AUD/SGD	0.8650	0.3%
AUD/HKD	5.2515	0.3%
AUD/CAD	0.9313	0.0%
EUR/USD	1.1719	0.6%
USD/JPY	158.24	0.1%
USD Index	98.62	-0.8%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.62	0.01
90 day BBSY	3.78	0.00
180 day BBSY	4.05	-0.01
1 year swap	3.93	0.01
2 year swap	4.06	0.02
3 year swap	4.15	0.03
4 year swap	4.22	0.02
5 year swap	4.30	0.03
6 year swap	4.37	0.03
7 year swap	4.45	0.03
8 year swap	4.52	0.03
9 year swap	4.58	0.03
10 year swap	4.85	0.05

Equities	Close	Change
S&P/ASX 200	8,816	-0.7%
S&P 500	6,796	-2.1%
Japan Nikkei	52,991	-1.1%
Hang Seng	26,488	-0.3%
Euro Stoxx 50	5,892	-0.6%
UK FTSE100	10,127	-0.7%
VIX Index	20.84	10.6%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.18	0.04
10 year bond	4.78	0.04
United States		
3-month T Bill	3.57	0.02
2 year bond	3.59	0.01
10 year bond	4.29	0.07
Other (10 year yields)		
Germany	2.86	0.02
Japan	2.36	0.09
UK	4.46	0.04

Commodities	Current	Change
CRB Index	306.35	1.4%
Gold	4750.57	1.7%
Copper	12754	-1.6%
Oil (WTI futures)	60.34	1.5%
Coal (coking)	230.00	-1.9%
Coal (thermal)	112.00	0.8%
Iron Ore	103.70	-0.7%
ACCU	36.13	-4.3%

Sydney Futures Exchange	Current	Change
10 yr bond	4.85	0.03
3 yr bond	4.22	0.01
3 mth bill rate	3.83	0.00
SPI 200	8,733	-0.6%

Data as at 7:30am 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:

Tensions between the US and major European countries escalated, as President Trump suggested there was no going back on his plan to take control of Greenland. Comments from various European leaders indicated determination to stand firm, but the path for talks and diplomacy remains widely open, with expectations that face-to-face meetings with Trump in Davos, where he is travelling today, will help to defuse tensions and find some common ground between the US and Europe.

In the markets, the 'sell America' trade, which gained traction after Liberation Day last year, was the driving force behind major market moves overnight. The US dollar weakened, US equities led the way down, and Treasuries sold off as investors looked to reduce exposure to the US, seen by many as an unreliable partner pursuing self-defeating policies.

- The VIX volatility index surged above 20 and US equity markets were flashing red. The S&P500 fell 2.1%, erasing the year-to-date gains. European equities also sold off across the board, as the US tariff risk weighed further on sentiment. The Euro Stoxx 50 was down 0.6%, while the UK's FTSE 100 fell 0.7%. The Japanese Nikkei 225 was down more than 1%, posting a fourth consecutive daily loss and paring notable gains from the first two weeks of the year. The Australian market also traded lower, with the global risk-off sentiment driving valuations down.
- In the bond markets, US Treasuries sold off, mainly at the long end, with the 10Y yield jumping 7bp higher to 4.29%, the highest level since last August. European bonds were also under pressure but to a lesser extent – the 10Y Gilt yield rose 4bp, while the 10Y Bund yield was up 2bp. Australian yields followed the global trend and rose by about 4bp across the curve. Concerns over the fiscal stance of the Japanese government spread as investors questioned how it would pay for the sales tax cut on food that PM Takaichi promised if she wins the snap election. Speaking in Davos, Japanese Finance Minister Katayama called on markets to calm down after the JGB 30Y and 40Y yields jumped by almost 30bp.
- The US dollar depreciated 0.8% to 98.62. The Swiss franc and Nordic currencies were the main beneficiaries, while the EUR gained 0.6%. The GBP was only 0.1% higher, and the Japanese yen weakened 0.1%. The AUD rose 0.3% to 0.6733.
- Despite the risk-off sentiment in financial markets, the weaker USD saw crude heading higher. The February WTI contract gained 1.5%, rising back above $60. Gold was in high demand again, with prices up 1.7%. Other major commodities were weaker – copper and iron ore both sold off by 1.6% and 0.7% respectively.

Today's key data and events

Time	Event	Exp	Prev
10:30	AU Westpac-MI Leading Index Dec	-	0.0%
18:00	GB CPI Dec	3.3%	3.2%
2:00	US Construction Spending Oct	0.1%	-
2:00	US Pending Home Sales Dec	-	3.3%

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

The latest **euro area ZEW survey** of financial market experts indicated that, despite escalating tensions between major European countries and the US, the euro area economy began the new year on a positive note. The assessment of current economic conditions improved significantly in January, rising by more than ten points to -18.1, a level above its long-term average of around -25. Meanwhile, the expectations index also increased sharply, up by 7.1 points to 40.8. The survey cited the recently announced Mercosur trade deal by the EU as one of the positive factors boosting sentiment.

After a steady deterioration over the prior few months, conditions in the **UK labour market** became less certain towards the end of 2025. On the positive side, after two months in negative territory, the latest data showed headline three-month LFS employment growth rebounding to 82k, similar to the level seen in August. Having risen by 0.4ppts over the previous four months, the three-month unemployment rate remained stable in November at 5.1%. However, the single-month unemployment rate, which tends to be highly volatile, increased to 5.3%, its highest point in this cycle, while payroll employment, a more reliable but narrower measure of jobs, continued to decline for the fourth consecutive month. Average weekly earnings growth continued to slow, though the 0.1ppt drop in the three-month rate to 4.7%yr was smaller than anticipated. Private sector core wages growth, the BoE's preferred measure, declined more noticeably, falling by 0.3ppt to 3.6% – a new low in this cycle – which will likely allow BoE policymakers to conclude that underlying inflationary pressures from the labour market continue to ease.

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