



10 February 2026

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Following a landslide LDP victory in Japan's lower house elections on Sunday, giving PM Sanae Takaichi a green light to focus on stimulus measures, Japanese equities outperformed.

In the UK, public support from cabinet ministers, some of whom are likely candidates to replace him, helped to calm speculation that Prime Minister Keir Starmer should resign.

Tech stocks led gains in the US equity markets, extending the rally seen late last week and rising almost 2%. The DXY dropped 0.8% back below 97.0, while the AUD gained 1.1%, advancing towards 0.71.

Crude markets remained on edge, as the US government issued safety guidance urging US ships to avoid Iranian waters near.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	64.9	0.9%	30 day BBSY	3.84	0.00
AUD/USD	0.7092	1.1%	90 day BBSY	3.99	0.01
AUD/JPY	110.49	0.2%	180 day BBSY	4.26	0.01
AUD/GBP	0.5179	0.5%	1 year swap	4.19	0.00
AUD/NZD	1.1711	0.5%	2 year swap	4.26	0.00
AUD/EUR	0.5952	0.3%	3 year swap	4.29	-0.02
AUD/CNH	4.9053	0.9%	4 year swap	4.34	-0.02
AUD/SGD	0.8974	0.6%	5 year swap	4.39	-0.01
AUD/HKD	5.5426	1.1%	6 year swap	4.45	-0.02
AUD/CAD	0.9617	0.3%	7 year swap	4.52	-0.02
EUR/USD	1.1917	0.9%	8 year swap	4.58	-0.01
USD/JPY	155.79	-0.9%	9 year swap	4.64	-0.01
USD Index	96.84	-0.8%	10 year swap	4.90	-0.01

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,870	1.9%	<b>Australia</b>		
S&P 500	6,975	0.6%	3 year bond	4.33	0.03
Japan Nikkei	56,364	3.9%	10 year bond	4.87	0.04
Hang Seng	27,027	1.8%	<b>United States</b>		
Euro Stoxx 50	6,059	1.0%	3-month T Bill	3.59	0.00
UK FTSE100	10,386	0.2%	2 year bond	3.49	-0.01
VIX Index	17.07	-3.9%	10 year bond	4.20	-0.01

Commodities	Current	Change	Other (10 year yields)		
CRB Index	311.08	0.5%	Germany	2.84	0.00
Gold	5080.36	2.3%	Japan	2.29	0.06
Copper	13176	1.4%	UK	4.53	0.01

			Sydney Futures Exchange	Current	Change
Oil (WTI futures)	64.25	1.1%	10 yr bond	4.87	-0.02
Coal (coking)	233.50	-0.4%	3 yr bond	4.33	-0.02
Coal (thermal)	117.50	0.2%	3 mth bill rate	3.93	0.00
Iron Ore	100.25	0.9%	SPI 200	8,859	0.4%
ACCU	36.13	-4.3%			

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

Financial markets were on the front foot on Monday, with sentiment improving across major asset classes. Following a landslide LDP victory in Japan's lower house elections on Sunday, giving PM Sanae Takaichi a green light to focus on stimulus measures, Japanese equities outperformed.

In the UK, the focus was also on politics. Prime Minister Keir Starmer was under pressure to resign over the appointment of Peter Mandelson – who had known ties with Jeffrey Epstein – to the US ambassador role. Public support from Starmer's cabinet ministers, some of whom are likely candidates to replace him, helped to calm the situation. However, his standing within party ranks appears to have been significantly damaged.

In Australia, household spending indicators fell in December, but after significant increases in the prior two months, the numbers suggest solid consumer spending growth in Q4.

- Tech stocks led gains in the US equity markets, extending the rally seen late last week and rising almost 2%. The S&P500 was up 0.6%, trading close to the 7000 mark. European stocks also traded in positive territory, with gains led mainly by basic resources and industrials. The Euro Stoxx 50 rose 1.0%, and on a year-to-date basis (4.6%) remains well ahead of the US's S&P 500 (1.7%). In Asia, the Nikkei 225 jumped almost 4%. After a 2.0% sell-off on Friday, the domestic ASX200 rebounded by 1.9% as dip buying and rising valuations in mining, real estate, and tech sectors led the gains.
- US Treasuries rallied, paring Friday's losses, with the 10Y yield easing 1bp to 4.20%. Bunds were little changed, despite a more optimistic outlook reported by the Sentix survey. Gilts sold off sharply earlier in the session, with the 10Y yield almost reaching 4.60%, but indications that PM Keir Starmer was likely to stay saw the yield drop back to 4.53%. The 10Y JGB yield rose 6bp to 2.29%, with investor expecting higher JGB supply due to the rising Japanese government debt. Australian government bond yields were 3–4bp higher across the curve, but futures indicate a decline at market opening today.
- In the FX markets, the DXY dropped 0.8% back below 97.0, as investors focused on headlines that Chinese authorities urged banks to limit exposure to US Treasuries. The EUR gained almost 1.0%, while the GBP underperformed, up 0.6%. The Yen strengthened on expectations that the LDP's large majority might reduce political noise and keep fiscal spending relatively more restrained. The AUD gained 1.1%, advancing towards 0.71.
- Crude markets remained on edge, with ongoing tensions between the US and Iran in focus. The US government issued safety guidance urging US ships to avoid Iranian waters near the Strait of Hormuz. The March WTI contract climbed 1.1% to

## Today's key data and events

Time	Event	Exp	Prev
11:30	AU NAB Business Conditions Jan	-	9pts
22:00	US NFIB Small Business Optimism Jan	99.8pts	99.5pts
0:30	US Import Price Index Dec	0.1%	0.0%
0:30	US Employment Cost Index Q4	0.8%	0.8%
0:30	US Retail Sales Dec	0.4%	0.6%

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.

\$64.25. After falling below \$100 late last week, iron ore prices edged back up to \$100.30. Gold and copper rallied again, by 2.3% and 1.4% respectively.

## International Data

The **Sentix survey** of euro area institutional and individual investors indicated that sentiment continued to improve in January. The headline index rose by 6 points to 4.2, marking the second highest level in the current cycle. Assessments of both the current situation and future expectations improved; however, the former remained below its historical average. The survey noted that optimism was concentrated in Germany, supported by higher industrial orders recorded at the end of last year.

The **NY Fed Survey of Consumer Expectations** showed that near-term inflation expectations declined early this year. At the one-year horizon, the expected annual inflation rate fell from 3.4%yr to 3.1%yr, reaching a six-month low. Meanwhile, longer-term expectations (3Y and 5Y) remained unchanged at 3.0%yr. These shifts are broadly consistent with similar measures reported by the University of Michigan; however, they differ from market-implied measures of inflation expectations – in January, the 2Y USD breakeven rate rose by about 50 basis points.

## Local Data

In Australia, **household spending** fell –0.4%<sub>mth</sub> in December, the first decline since mid-2024, following two solid months of gains. Q4 still delivered a strong 2.2%<sub>qtr</sub> rise. Volumes rose 0.9%<sub>qtr</sub>/2.4%<sub>yr</sub> pointing to an ongoing recovery in per capita terms ([see here](#)).



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