

## Highlights this week

- Abroad, the attack on Iran led to an escalation of the military conflict in the Middle East and a rise in geopolitical risk perception, as well as oil prices. China has set its 2026 growth target at 4.5-5.0%. The ISM PMIs suggested that US manufacturing and services remained in expansion in February, with a strong acceleration in services. The Chinese PMIs for February were mixed, pointing to expansion in small and medium sized businesses and contraction in larger companies.
- In Australia, real GDP rose largely in line with market expectations, though private consumption growth disappointed. Household spending rose less than expected in January. Dwelling approvals saw another fall in January, while Cotality home price growth slowed a little in February. The current account deficit deteriorated to the fourth widest on record in Q4, which was followed by a decline in the trade balance in January.

## Highlights next week

- The military conflict in the Middle East will remain in the key focus next week. The primary releases offshore will be the US and Chinese inflation data for February, as well as the US personal income and outlays report for January, which will contain the PCE price inflation targeted by the Fed. There is also the Chinese trade report for the first two months of the year.
- It will be a very quiet week domestically, with no major releases scheduled for publication.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.85 (0 pt)	O/N Interbank Cash	3.85 (0 pt)	USD 3-month	4.85 (0 pt)	ASX200	8818 (↓348 pt)
US (IOR)	3.65 (0 pt)	90-day Bills	4.07 (↑8 pt)	2-yr T-Notes	3.58 (↑16 pt)	S&P500	6831 (↓78 pt)
Eurozone (Deposit)	2.00 (0 pt)	3-yr T-Bond	4.42 (↑21 pt)	10-yr T-Notes	4.14 (↑14 pt)	DJIA	47955 (↓1544 pt)
UK	3.75 (0 pt)	10-yr T-Bond	4.84 (↑18 pt)	Jap 10-yr	2.16 (↑3 pt)	Nikkei	55122 (↓3240 pt)
Japan (Target)	0.75 (0 pt)	3-yr WATC Bond	4.56 (↑21 pt)	UK 10-yr	4.54 (↑27 pt)	CSI300	4648 (↓51 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	5.28 (↑22 pt)	Ger 10-yr	2.84 (↑15 pt)	Stoxx600	605 (↓28 pt)

Changes are since the previous issue of Market WATCH Weekly.

## Financial Markets

### Interest Rates

Government bond yields rose sharply this week, reflecting concerns that a spike in oil prices due to the escalation of the conflict in the Middle East will lead to a rise in inflation and a revision of the monetary policy outlook. This followed an initial knee-jerk reaction of a slight decline due to flight-to-safety flows over the weekend.

At home, RBA Governor Michele Bullock caused some stir on Tuesday morning, reminding AFR Business Summit participants that every RBA Monetary Policy Board meeting is 'live', including the upcoming meeting in March. Market pricing for a hike in March picked up as a result, while a May hike became fully priced in. The disappointment in private consumption in the Q4 GDP figures led to only a temporary retreat in rate hike expectations.

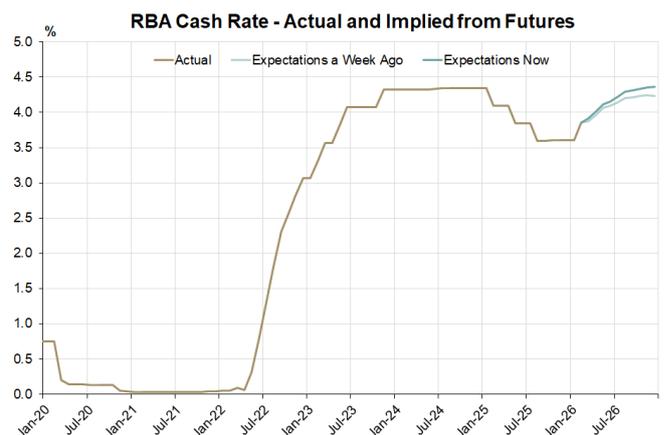
### Equities

Global equity prices sank this week in reaction to a rise in geopolitical risk perception after military tensions in the Middle East escalated last weekend. The gauge of equity prices in developed markets, the MSCI World Index, fell by 2.2%, with declines recorded every day of the week except from Wednesday.

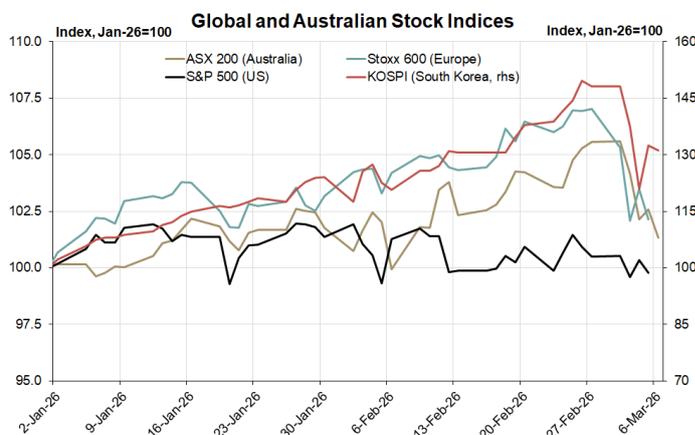
Out of the major markets, the strongest declines were recorded in Europe, which is particularly affected by the closure of the Strait of Hormuz and Qatar halting its gas production. The European Stoxx 600 lost 4.5% this week, much more than its US equivalent, the S&P 500 (-1.1%).

The Korean KOSPI, which had been inflated by strong gains earlier this year, is down by around 14% for the week at the time of writing and saw the strongest single day decline on record of 12.1% on Wednesday.

At home, the ASX 200 is down by 3.8% for the week at the time of writing, with strong declines in most sectors led by materials. However, several sectors managed to post quite solid gains this week, particularly energy, which was supported by a surge in oil prices.



source: Bloomberg



Source: Bloomberg

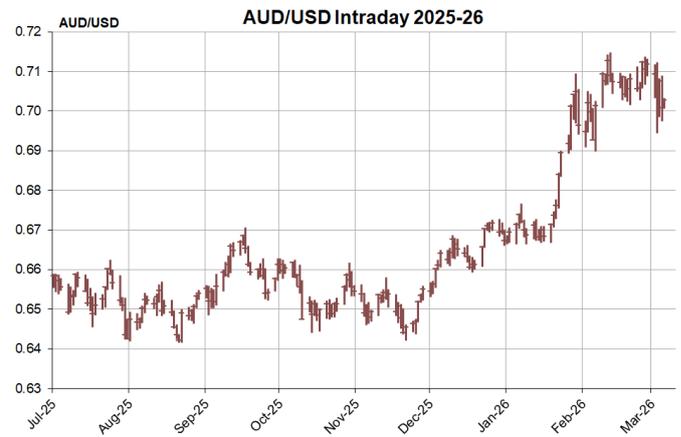
## Currencies

The Australian dollar has slipped against most of the G10 currency basket over the past week, to be ahead of only the euro and Swedish krona.

The biggest slide has been against the US dollar, with the greenback benefitting from increased risk aversion in the wake of the war with Iran. The US dollar index is currently at its highest level in over six weeks. The US is a net energy exporter, which makes higher oil and gas prices a positive for US energy exporters, although not for consumers.

The combination of the weaker Aussie and stronger greenback saw the AUD/USD slip to on-month lows on Tuesday before stabilising. The AUD/USD is on track for its first weekly fall in seven weeks.

The euro has been the weakest of the major currencies, sliding to its lowest levels against the USD since mid-January. The decline has largely been driven by the sharp rise in oil and gas prices, with Europe's reliance on imported energy seen as a major vulnerability.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7021	0.7123	0.6944	↓1.2	0.7147	0.5915
AUD/EUR		0.6047	0.6087	0.5975	↑0.3	0.6087	0.4620
AUD/GBP		0.5255	0.5318	0.5233	↓0.3	0.5318	0.4620
AUD/JPY		110.58	112.09	109.53	↓0.2	112.09	86.05
AUD/CNY		4.8296	4.9133	4.8076	↓0.9	4.9373	4.3523
EUR/USD		1.1610	1.1796	1.1530	↓1.6	1.2081	1.0733
GBP/USD		1.3360	1.3463	1.3253	↓0.9	1.3868	1.2709
USD/JPY		157.50	157.97	155.85	↑1	159.45	139.89
USD/CNY		6.9113	6.9278	6.8543	↑0.8	7.3511	6.8316

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7021	0.7015	0.7004	0.6967
AUD/EUR		0.6047	0.6016	0.5982	0.5913
AUD/GBP		0.5255	0.5251	0.5242	0.5219
AUD/JPY		110.58	109.64	108.67	106.76
AUD/NZD		1.1891	1.1842	1.1788	1.1688
AUD/SGD		0.8985	0.8920	0.8849	0.8709

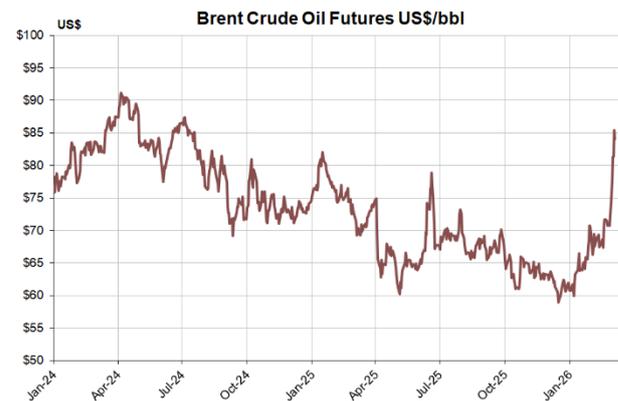
## Commodities

The explosion of violence in the Middle East has seen oil prices surge to their highest levels since mid-2024.

Prices have so far fallen short of predictions that oil would surge to over US\$100 a barrel. However, with energy infrastructure continuing to be targeted, the Strait of Hormuz effectively shut, and no end in sight to the conflict, those forecasts may yet come to fruition.

Iron ore futures prices hit a one-month high on Thursday, as leaders at China's National People's Congress pledged to support the steel industry as regulators tackle overcapacity. Chinese authorities also confirmed the widely expected 4.5-5.0% growth target for the economy in 2026, the lowest since 1991.

Gold and silver have underperformed despite the outbreak of war in the Middle East.



Source: Bloomberg

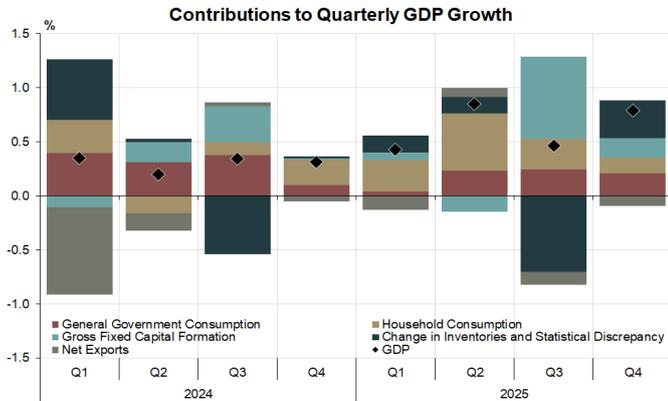
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$5,098.60	\$5,419.11	\$4,996.58	(↓\$95.74)	\$5,595.47	\$2,880.32
Brent Crude Oil (US\$)	\$83.42	\$86.28	\$75.75	(↑\$12.8)	\$86.28	\$58.40
Mogas95* (US\$)	\$101.37	\$107.05	\$74.81	(↑\$20.19)	\$107.05	\$67.57
WTI Oil (US\$)	\$78.80	\$82.16	\$69.20	(↑\$13.72)	\$82.16	\$54.98
CRB Index	336.85	336.85	312.67	(↑26.82)	336.85	279.79
Iron Ore Price 62% Fe (US\$) **	\$100.70	\$101.20	\$97.40	(↑\$1.9)	\$109.40	\$91.70

\*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

\*\* The Iron Ore Price is the SGX 61% Fe iron ore futures 2nd contract.

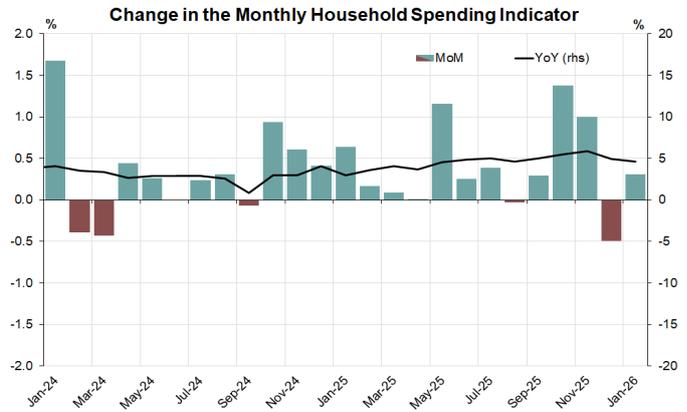
## Domestic Economy

**GDP growth** accelerated in Q4 thanks to a rise in inventories, but private consumption growth slowed...



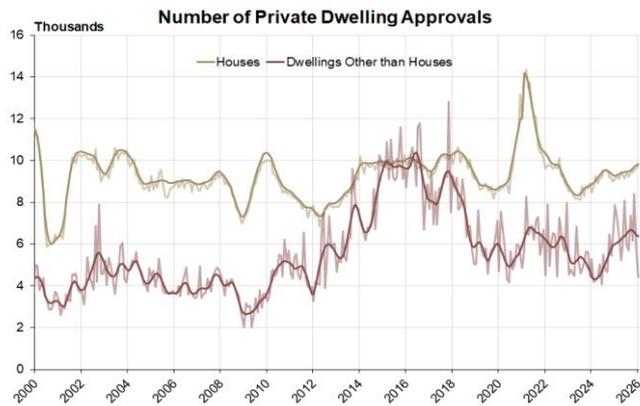
Source: ABS

... while the **household spending indicator** suggested a soft start to 2026.



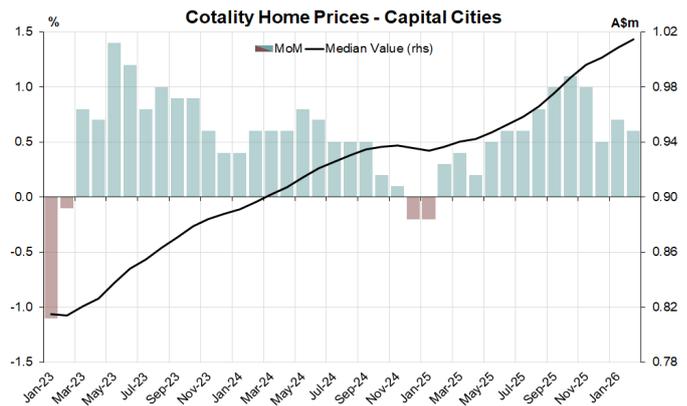
Source: ABS

Unit **building approvals** appear to have peaked, while private sector house approvals continued to rise.



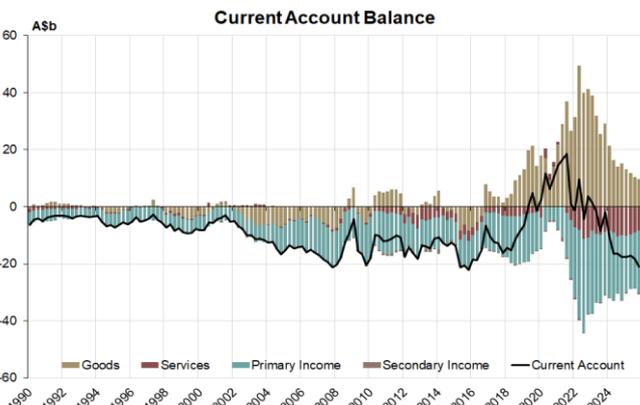
Source: ABS

**Home prices** continued to climb in most capital cities in February but stagnated in some amid the cash rate hike.



Source: Cotality

Deterioration in the net primary income deficit and trade surplus drove the Q4 **current account balance** lower...



Source: ABS

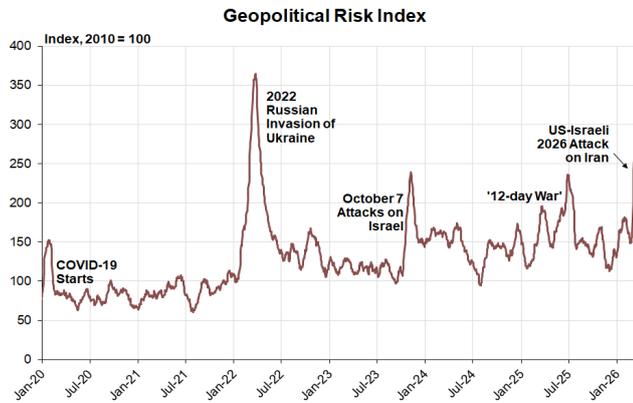
... while the **goods trade surplus** declined in January, with exports ebbing and imports picking up.



Source: ABS

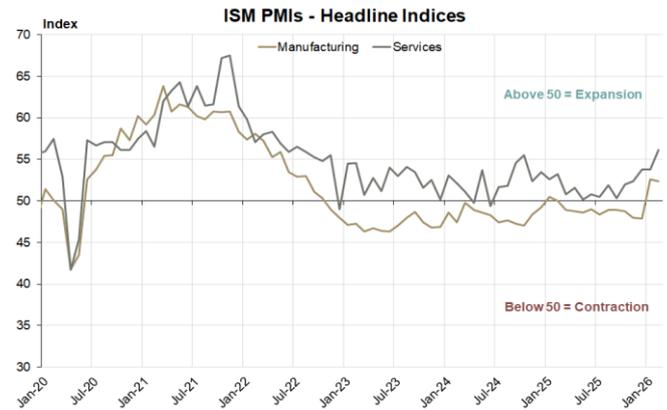
## Global Economy

The attack on Iran led to a quite solid rise in perceptions of geopolitical risks.



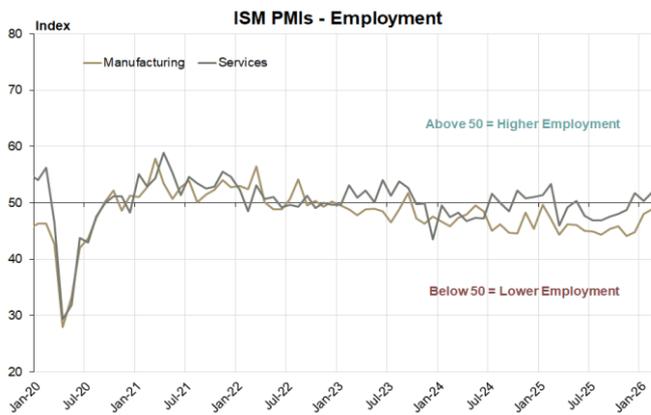
Source: Bloomberg

Meanwhile, the ISM PMIs suggest the strongest pace of expansion in services since 2022.



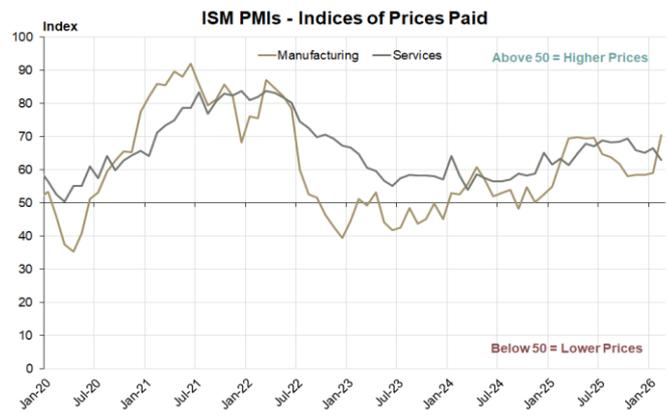
Source: Bloomberg

The expansion is happening largely without a rise in employment, both in manufacturing and services.



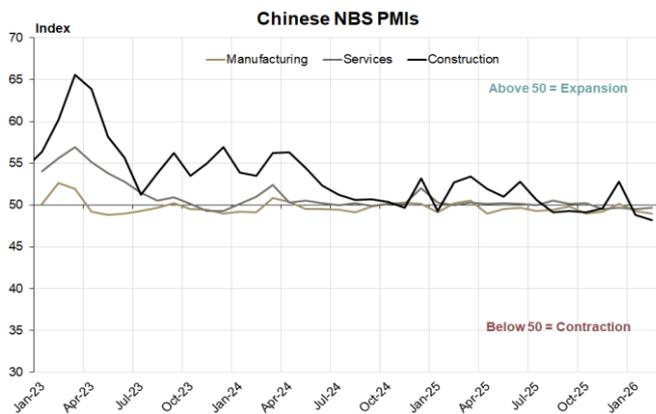
Source: Bloomberg

Price pressures in manufacturing spiked in February, but inflation declined in services.



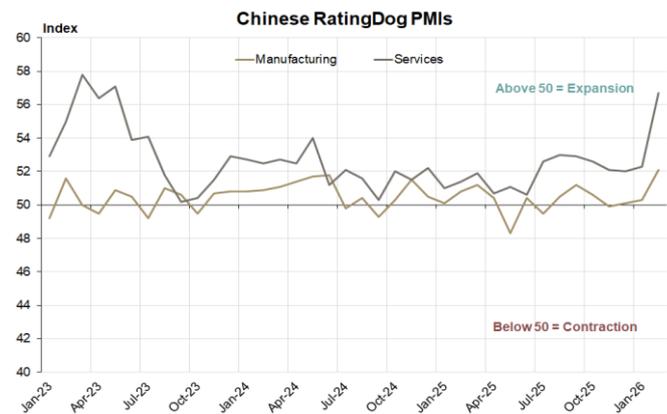
Source: Bloomberg

In China, the NBS PMIs suggest contraction in larger companies in manufacturing, services and construction.



Source: Bloomberg

... while the RatingDog PMIs, which are more focused on SME firms, suggest the strongest expansion in years.



Source: Bloomberg

## Last Week

Date	Event	Actual	Forecast	Previous	Comment
<b>Mon 02</b>					
AU	Cotality Home Prices (MoM, Feb)	0.7%	-	0.8%	Perth median home prices surged by 2.3% to A\$989k.
AU	MI Inflation Gauge (MoM, Feb)	-0.2%	-	0.2%	Annual rate unchanged at 3.6%.
AU	ANZ Job Ads (MoM, Feb)	3.2%	-	5.2%	Up 2.3% YoY and 16.6% above pre-COVID levels.
AU	RBA Assistant Governor Speaks	-	-	-	Unemployment would be at 5.3% with stronger rate hikes.
US	ISM Manufacturing PMI (Feb)	52.4	51.5	52.6	Prices paid subindex the highest since 2022.
<b>Tue 03</b>					
AU	Current Account Balance (Q4)	-\$21.1b	-\$16.5b	-\$18.3b	The fourth widest current account deficit on record.
AU	Dwelling Approvals (MoM, Jan)	-7.2%	5.0%	-14.9%	Private sector house approvals rose by 1.1% in January.
AU	RBA Governor M. Bullock Speaks	-	-	-	The March RBA meeting will be 'live'.
AU	ANZ Cons. Conf. (w/e 28 Feb)	77.1	-	80.2	Inflation expectations up 0.1ppts to 5.3%.
EZ	HICP (YoY, Feb)	1.9%	1.7%	1.7%	Core inflation up by 0.2ppts to 2.4%, above the 2% goal.
<b>Wed 04</b>					
AU	GDP (QoQ, Q4)	0.8%	0.8%	0.5%	Consumption growth lower than estimated by the RBA.
CH	NBS Composite PMI (Feb)	49.5	-	49.8	Suggests larger public companies are struggling.
CH	RatingDog Composite PMI	55.4	-	51.6	China's SMEs are doing relatively well.
US	ADP Employment (MoM, Feb)	63k	50k	11k	January gain was revised downwards.
US	ISM Services PMI (Feb)	56.1	53.5	53.8	Suggests the strongest pace of growth since 2022.
US	Beige Book	-	-	-	Employment steady, prices rising 'moderately'.
<b>Thu 05</b>					
AU	Household Spending (MoM, Jan)	0.3%	0.4%	-0.5%	Supported by spending on services and essential items.
AU	Goods Trade Balance (Jan)	A\$2.6b	A\$3.8b	A\$3.4b	Decline due to a fall in exports and a rise in imports.
US	Initial Jobless Claims (w/e 28 Feb)	213k	215k	213k	Continued claims up to 1,868k in w/e 21 February.
<b>Tonight</b>					
AU	RBA Deputy Governor Speaks	-	-	-	Panel discussion at the 2026 US Monetary Policy Forum.
US	Non-farm Payrolls (MoM, Feb)	-	55k	130k	Private sector payrolls growth expected to slow to 65k.
US	Unemployment Rate (Feb)	-	4.3%	4.3%	FOMC's longer-run estimate is 4.2%.
US	Retail Sales (MoM, Feb)	-	-0.3%	0.0%	Core retail sales expected to rise by 0.3% in February.

## Next Week

Date	Event	Forecast	Previous	Comment
<b>Mon 09</b>				
CH	CPI (YoY, Feb)	0.9%	0.2%	Inflation in January was contained by a fall in food prices.
CH	PPI (YoY, Feb)	-1.1%	-1.4%	The pace of producer price deflation is slowing.
US	NY Fed 1Y Inflation Expectations (Feb)	-	3.1%	Will also contain expectations for the US labour market.
<b>Tue 10</b>				
AU	Total Value of Dwellings (QoQ, Q4)	-	2.7%	Mean dwelling price reached A\$1,045k in Q3.
CH	Trade Balance (Jan-Feb)	US\$188b	-	RatingDog PMIs suggested a solid outcome.
US	NFIB Small Business Optimism (Feb)	-	99.3	Remains slightly above the long-term average.
<b>Wed 11</b>				
US	CPI (MoM, Feb)	0.2%	0.2%	Annual CPI inflation expected to tick 0.1ppts up, to 2.5%.
<b>Thu 12</b>				
<i>No market-moving data</i>				
<b>Fri 13</b>				
UK	Monthly GDP (MoM, Jan)	-	0.1%	Business reports point to a rise.
US	Personal Spending (MoM, Jan)	0.3%	0.4%	Real personal spending was virtually flat in December.
US	PCE Price Index (MoM, Jan)	0.3%	0.4%	Annual rate of inflation expected to remain steady at 2.9%.
US	Durable Goods Orders (MoM, Jan)	0.4%	-1.4%	Non-defence ex aircraft orders picked up in December.
US	JOLTS Job Openings (Jan)	-	6.5m	This report was delayed by the US government shutdown.
US	UMich Consumer Sentiment (Mar, prel.)	56.3	56.6	Expected to remain at a depressed level.
US	GDP (QoQ annualised, Q4, 2nd est.)	1.4%	1.4%	The last GDPNow nowcast from Atlanta Fed was 3.0%.