

Highlights this week

- In Australia, employment bounced more than forecast in December, and the unemployment rate unexpectedly fell to 4.1%. The S&P Global Composite PMI signalled faster expansion of the economy in January, while the Westpac leading index suggested above-trend growth ahead. The Melbourne Institute inflation gauge pointed to a rise in inflation in January.
- Abroad, China has reached its 2025 growth goal of 5%, but the December activity data disappointed. The International Monetary Fund has revised its 2025 growth forecasts upwards. The Bank of Japan kept its policy rate unchanged today.

Highlights next week

- The key domestic release next week will be the December CPI report on Wednesday, which will be a crucial piece of information ahead of the RBA's decision in early February. It will be preceded by the NAB business report for December on Tuesday and followed by the Q4 international price indices on Thursday and the Q4 PPI on Friday.
- Offshore, the FOMC decision and Fed press conference on Wednesday night will undoubtedly be the most important events. While no changes are expected, the key focus will be on recent tensions between the Fed and the White House. The Bank of Canada will also announce its decision on Wednesday, with no changes anticipated.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	3.60	(0 pt)	O/N Interbank Cash	3.60	(0 pt)	USD 3-month	4.85
US (IOR)	3.65	(0 pt)	90-day Bills	3.81	(↑8 pt)	2-yr T-Notes	3.61
Eurozone (Deposit)	2.00	(0 pt)	3-yr T-Bond	4.26	(↑15 pt)	10-yr T-Notes	4.25
UK	3.75	(0 pt)	10-yr T-Bond	4.82	(↑10 pt)	Jap 10-yr	2.24
Japan (Target)	0.75	(0 pt)	3-yr WATC Bond	4.32	(↑14 pt)	UK 10-yr	4.47
China (1Y LPR)	3.00	(0 pt)	10-yr WATC Bond	5.19	(↑7 pt)	Ger 10-yr	2.89

Changes are since the previous issue of Market WATCh Weekly.

Financial Markets**Interest Rates**

Government bond yields rose across the advanced economies this week, with a particularly strong increase in Australia.

The rise in global yields came despite a rise in geopolitical tensions over Greenland, and occurred in several stages.

First, US President Donald Trump announced on Friday that he would like to keep one of the potential Fed Chair candidates, the dovish Kevin Hassett, in the White House, which increased the odds for selection of a more hawkish candidate, Kevin Warsh.

Second, early this week, Japan's Prime Minister Sanae Takaichi called a snap election, to get more support for her expansionary fiscal policy plans, which pushed yields up in Japan.

Third, data released on Thursday night confirmed that US PCE inflation remains well above the Fed's 2% goal. Markets widely expect the FOMC to stay put at its meeting next week.

The relatively strong rise in Australian yields was triggered by higher RBA cash rate hike expectations following bumper labour force survey results for December. The probability of a 25bps hike in February jumped to around 60% from around 25% this week.

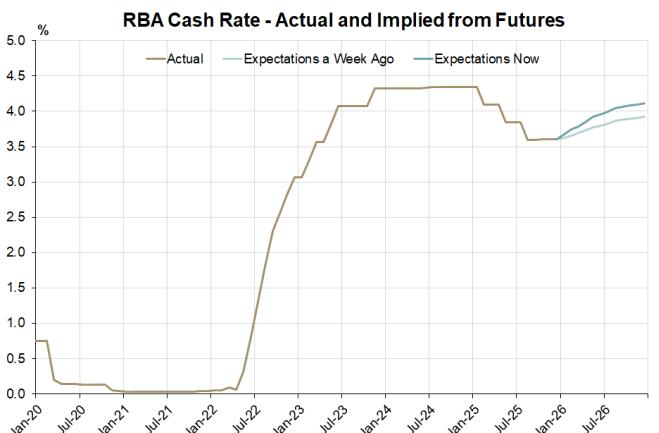
Equities

Global equities were hit by an escalation of US demands to acquire Greenland early this week. US President Donald Trump did not rule out military intervention and threatened some European countries with extra tariffs.

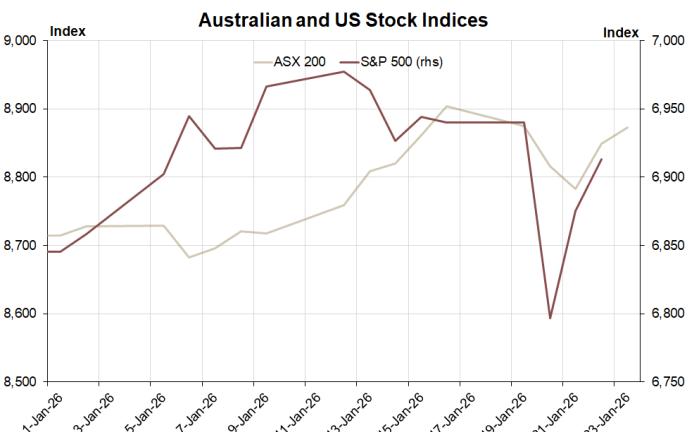
The situation reversed on Wednesday, when President Trump walked away from all these threats, adding that he has made progress on a Greenland deal at a meeting with the NATO chief.

As a result of this pivot, US equities bounced back, but the S&P 500 remains 0.4% down from last Thursday.

The ASX 200 is down by 0.5% since this time last week, with losses in most sectors. However, information technology and materials are up for the week, the latter helped by a surge in the gold price.



Source: Bloomberg



Source: Bloomberg

Currencies

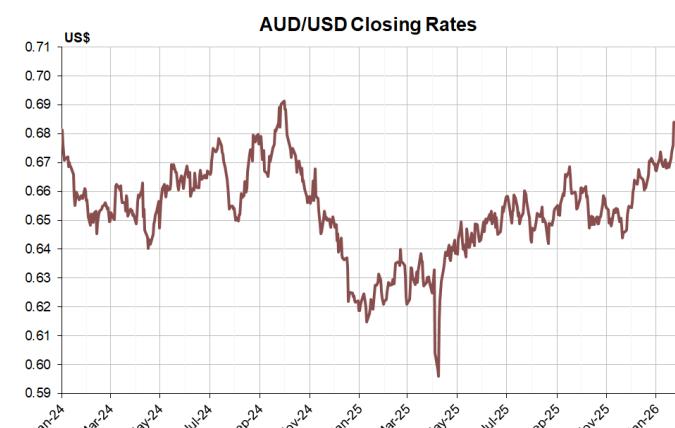
The Australian dollar has been among the top performers in the G10 currency basket this week and gained against all the majors.

The biggest increases have been against the US dollar and Japanese yen. The greenback sold off in the wake of US President Donald Trump's threats to impose additional tariffs on those European countries standing in the way of his plans to annex Greenland.

The dollar continued to fall on Thursday despite the US president walking back his tariff threats and ruling out military force in his pursuit of Greenland.

A combination of Aussie dollar strength and greenback weakness pushed the AUD/USD above US\$0.68 for the first time since October 2024. The uptrend was given an additional push from rising expectations for RBA cash rate increases after the release of the strong Aussie employment report.

The AUD trade-weighted index has climbed to its highest level since July 2024.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6844	0.6845	0.6668	↑2.1	0.6845	0.5915
AUD/EUR		0.5825	0.5827	0.5727	↑0.9	0.6113	0.4620
AUD/GBP		0.5071	0.5079	0.4988	↑1.3	0.5103	0.4620
AUD/JPY		108.49	108.50	105.23	↑2.2	108.50	86.05
AUD/CNY		4.7690	4.7701	4.6505	↑2.1	4.7701	4.3523
EUR/USD		1.1750	1.1768	1.1573	↑1.2	1.1919	1.0141
GBP/USD		1.3498	1.3509	1.3331	↑0.8	1.3789	1.2249
USD/JPY		158.53	158.89	157.43	↑0.2	159.45	139.89
USD/CNY		6.9696	6.9775	6.9576	↑0	7.3511	6.9576
Forward Rates		Spot	3M	6M	12M		
AUD/USD		0.6844	0.6843	0.6836	0.6809		
AUD/EUR		0.5825	0.5799	0.5770	0.5705		
AUD/GBP		0.5071	0.5070	0.5065	0.5046		
AUD/JPY		108.49	107.64	106.76	104.98		
AUD/NZD		1.1567	1.1525	1.1479	1.1392		
AUD/SGD		0.8765	0.8710	0.8650	0.8527		

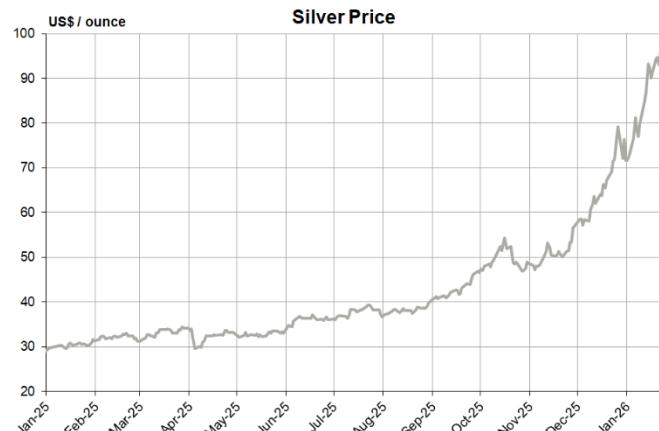
Commodities

Precious metals remain the main beneficiaries of the volatility caused by US policy uncertainty. Gold is rapidly approaching US\$5,000 an ounce, up from around US\$2,750 this time last year.

Silver has had an even sharper increase, with the price more than tripling over the past 12 months and adding over 30% in the first three weeks of January alone.

Oil prices have traded in a relatively narrow range. Prices picked up slightly midweek, before sliding again amid news that Ukrainian President Zelenskyy will join Russian and US representatives in the UAE for talks on ending the war.

Iron ore futures prices continued to slide, with the downtrend given further impetus from another round of soft Chinese economic data. Steel production fell to a two-year low in December while urban fixed asset investment fell at the fastest rate on record in 2025, declining by 3.8% for the year.



Source: Bloomberg

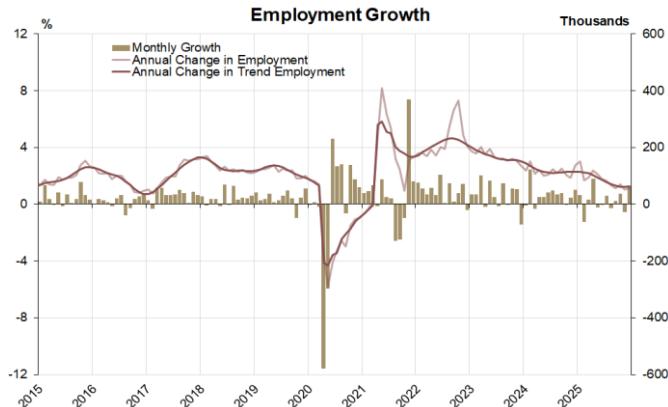
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$4,956.43	\$4,958.68	\$4,629.85	(↑\$357.44)	\$4,958.68	\$2,730.58
Brent Crude Oil (US\$)	\$64.06	\$65.45	\$63.26	(+\$0.36)	\$81.40	\$58.40
Mogas95* (US\$)	\$74.08	\$75.52	\$72.40	(+\$1.19)	\$95.91	\$67.57
WTI Oil (US\$)	\$59.64	\$60.89	\$58.70	(+\$0.46)	\$78.40	\$54.98
CRB Index	308.41	309.22	301.75	(↑6.66)	316.63	279.79
Iron Ore Price 62% Fe (US\$) **	\$103.90	\$106.30	\$102.40	(↓\$3.6)	\$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 62% Fe iron ore futures 2nd contract.

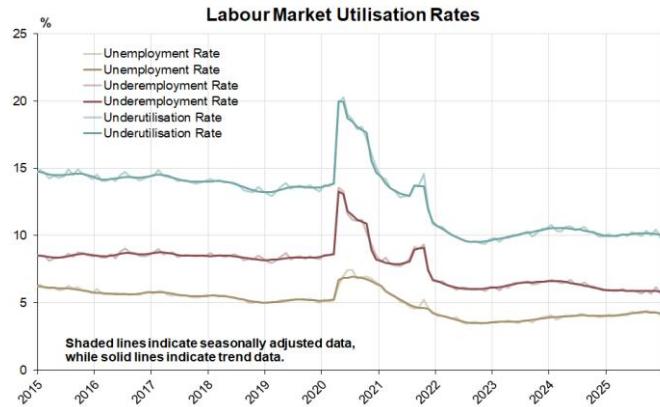
Domestic Economy

Employment saw a surprisingly strong rise in seasonally adjusted terms in December...



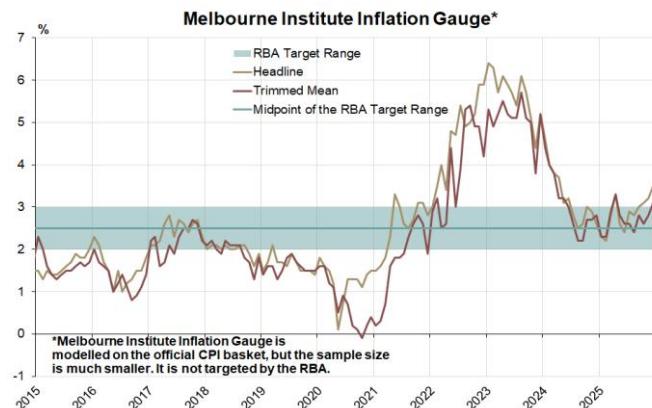
Source: ABS

... while the **unemployment and underemployment rates** declined.



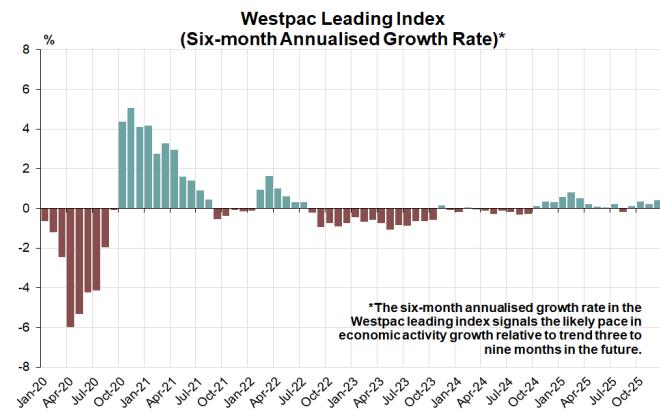
Source: ABS

Meanwhile, the **Melbourne Institute inflation gauge** suggested faster consumer price growth in January.



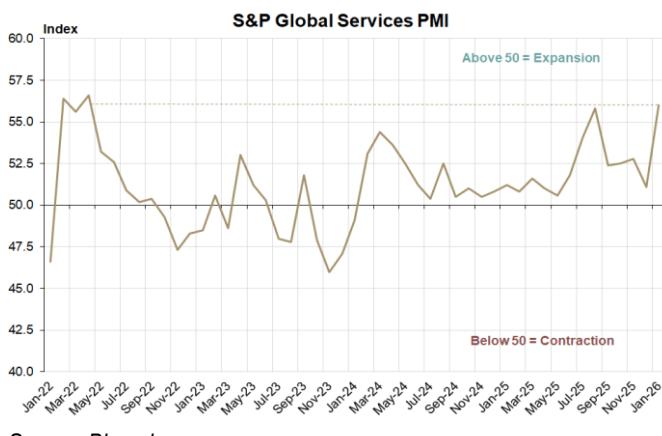
Source: Bloomberg

The **Westpac leading index** suggests above-trend growth later this year.



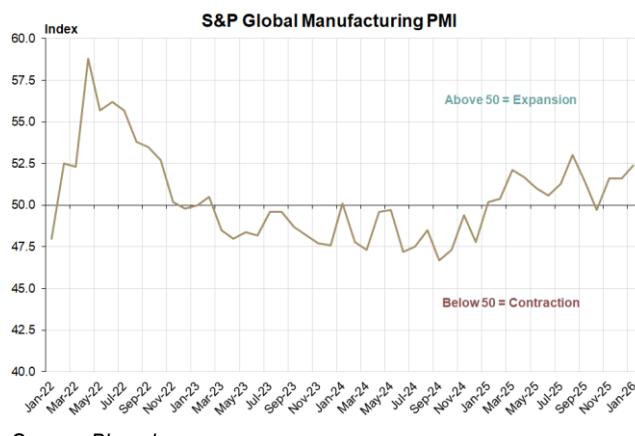
Source: Bloomberg

The **S&P Global PMIs** suggested the fastest expansion in services since 2022...



Source: Bloomberg

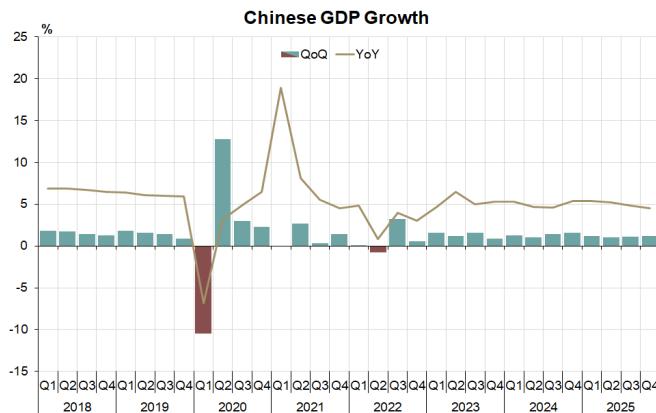
... with **manufacturing** also seeing a steady recovery over the past few months.



Source: Bloomberg

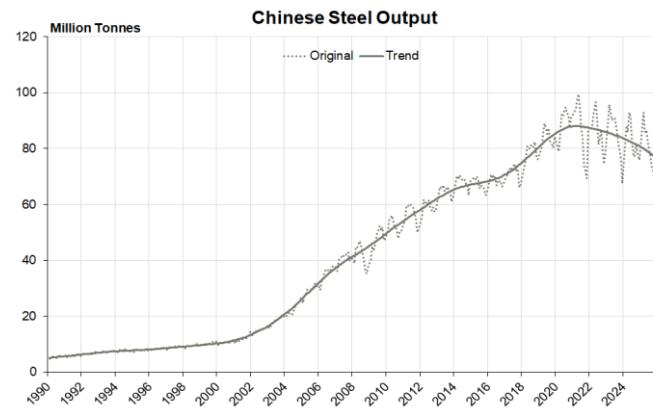
Global Economy

The official data suggests broadly steady quarterly GDP growth in China towards the end of 2025...



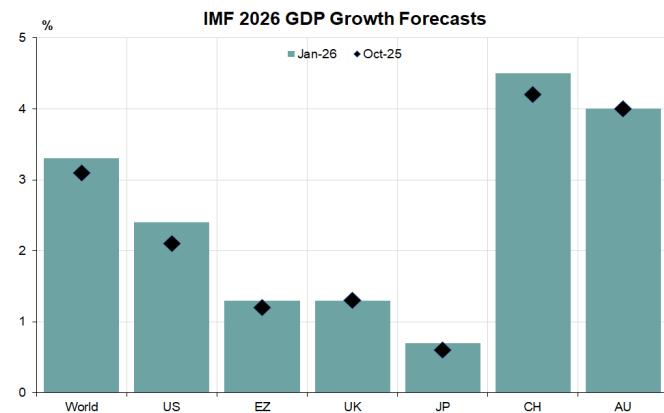
Source: Bloomberg

... despite the steady decline in steel production, which reached a new two-year low...



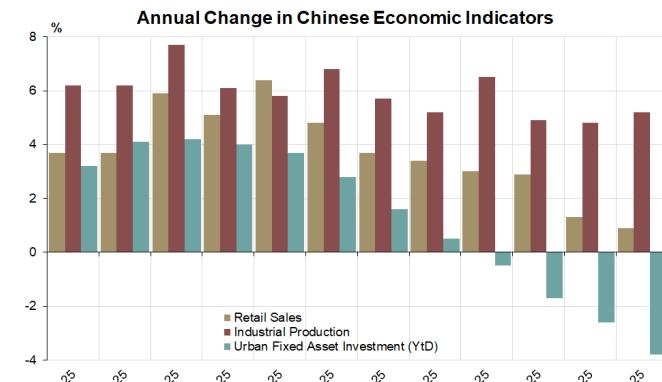
Source: Bloomberg

The International Monetary Fund has upgraded its global economic growth forecasts for 2026.



Source: International Monetary Fund

... as a fall in investment and slower growth in retail sales was offset by a decent rise in industrial output...



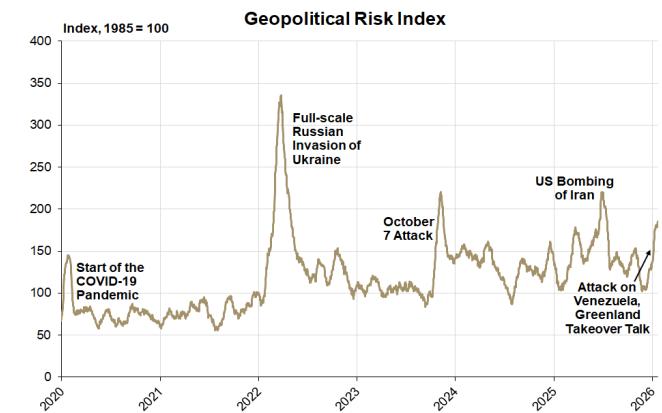
Source: Bloomberg

... amid the strongest property market downturn on record.



Source: Bloomberg

Greenland takeover talks have led to only a relatively slight rise in geopolitical risk perception.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 19					
AU	MI Inflation Gauge (MoM, Dec)	1.0%	-	0.3%	Annual rate up 0.3pppts to 3.5%, the highest since Apr-24.
CH	GDP (YoY, Q4)	4.5%	4.5%	4.8%	Rose by 5.0% in 2025, in line with the growth target.
CH	Retail Sales (YoY, Dec)	0.9%	1.0%	1.3%	Chinese consumers turned even more cautious.
CH	Industrial Production (YoY, Dec)	5.2%	5.0%	4.8%	Steel production down 10.3% YoY.
CH	Urban Fixed Inv. (YoY YtD, Dec)	-3.8%	-3.1%	-2.6%	Property investment dropped by 17.2%, most on record.
Tue 20					
AU	ANZ Cons. Conf. (w/e 17 Jan)	79.3	-	84.5	The sharpest drop since February 2023.
UK	Unemployment Rate (Sep-Nov)	5.1%	5.1%	5.1%	UK employment rose 82k in three months to November.
Wed 21					
AU	Westpac Lead. Index (MoM, Dec)	0.1%	-	0.0%	6m annualised growth rate up 0.2pppts to 0.4%.
UK	CPI (YoY, Dec)	0.4%	0.4%	-0.2%	UK annual CPI inflation rose by 0.2pppts to 3.4%.
Thu 22					
AU	Employment (MoM, Dec)	65.2k	27.0k	-28.7k	Employment rose by 24.8k in trend terms.
AU	Unemployment Rate (Dec)	4.1%	4.3%	4.3%	Unemployment fell most since February 2024.
US	Personal Spending (MoM, Nov)	0.5%	0.5%	0.4%	Real spending up by 0.3%, after rising 0.1% in October.
US	PCE Price Index (MoM, Nov)	0.2%	0.2%	0.3%	Annual rate down to 2.7%, still above the 2% Fed goal.
US	Initial Jobless Claims (w/e 17 Jan)	200k	209k	199k	Continued claims rose to a one-month high in w/e 9 Jan.
Fri 23					
AU	S&P Global Composite PMI (Jan)	55.5	-	51.0	Private sector in the fastest expansion since August.
JP	CPI (YoY, Dec)	2.1%	2.2%	2.9%	Annual 'core-core' inflation down by just 0.1pppts to 2.9%.
JP	S&P Global Composite PMI (Jan)	52.8	-	51.1	Japanese manufacturing emerged from stagnation in Jan.
JP	BoJ Decision (Policy Rate)	0.75%	0.75%	0.75%	Expectations are rising for an FX intervention in Japan.
Tonight					
EZ	HCOB Composite PMI (Jan)	-	51.9	51.5	Euro area expansion expected to gain some steam.
UK	S&P Global Composite PMI (Jan)	-	51.5	51.4	The pace of UK expansion accelerated in late 2025.
US	S&P Global Composite PMI (Jan)	-	53.0	52.7	Fell to an eight-month low in December.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 26				
US	Durable Goods Orders (MoM, Nov)	3.0%	-2.2%	Non-defence ex aircraft orders expected to rise by 0.3%.
Tue 27				
AU	NAB Business Conditions (Jan)	-	7	NAB capacity utilisation remained high in Dec, at 83.6%.
AU	NAB Business Confidence (Jan)	-	1	Business confidence deteriorated towards the end of 2025.
US	C-S Hse Price Index 20 Cities (MoM, Nov)	0.2%	0.3%	Restart of Fed rate cuts saw renewed rise in US home prices.
US	Conference Board Cons. Confidence (Jan)	90.0	89.1	Labour market sub-indicators will be closely followed.
Wed 28				
AU	CPI (YoY, Dec)	3.3%	3.4%	Key release ahead of the RBA meeting next week.
CA	Bank of Canada Decision (Policy Rate)	2.25%	2.25%	The Bank of Canada will also release new projections.
US	FOMC Decision (IoER)	3.60%	3.60%	Fed-White House tensions might resurface at conference.
Thu 29				
AU	International Price Indices (Q4)	-	-	Both export and import price index declined in Q3.
Fri 30				
AU	PPI (QoQ, Q4)	-	1.0%	Up 3.5% over the year to Q3.
CH	NBS Composite PMI (Jan)	-	50.7	First insights into the Chinese economy in early 2026.
EZ	GDP (QoQ, Q4)	0.3%	0.3%	Euro area has been in ongoing expansion since Q3 2023.
US	PPI (MoM, Dec)	0.2%	0.2%	US annual producer price inflation was 3.0% in November.