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MORNING REPORT

Today's economic developments and market movements.

Key themes

Sentiment in financial markets improved as the latest economic data indicated stronger US growth momentum at the start of the year, and geopolitical risks related to US-Iran tensions eased.

News that the US signed a trade agreement with Taiwan, a major producer of AI chips, supported global equity valuations, particularly in the tech sector.

The risk-on sentiment saw US Treasuries sold off, and European government bonds followed a similar pattern. Gilts fell as investors adjusted expectations for the BoE Bank Rate slightly higher after the stronger-than-expected GDP data.

Easing geopolitical tensions saw oil prices retreat sharply. The WTI February contract fell 4.8% to just above \$59.0.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	62.2	-0.5%	30 day BBSY	3.61	0.00
AUD/USD	0.6697	0.2%	90 day BBSY	3.78	-0.01
AUD/JPY	106.20	0.3%	180 day BBSY	4.06	-0.04
AUD/GBP	0.5006	0.7%	1 year swap	3.90	0.03
AUD/NZD	1.1671	0.4%	2 year swap	4.01	0.04
AUD/EUR	0.5770	0.5%	3 year swap	4.09	0.04
AUD/CNH	4.6638	0.1%	4 year swap	4.15	0.04
AUD/SGD	0.8627	0.2%	5 year swap	4.21	0.03
AUD/HKD	5.2217	0.2%	6 year swap	4.29	0.03
AUD/CAD	0.9305	0.3%	7 year swap	4.36	0.03
EUR/USD	1.1606	-0.3%	8 year swap	4.43	0.02
USD/JPY	158.58	0.1%	9 year swap	4.49	0.02
USD Index	99.34	0.3%	10 year swap	4.76	0.03
Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,862	0.5%	Australia		
S&P 500	6,949	0.3%	3 year bond	4.09	-0.02
Japan Nikkei	54,111	-0.4%	10 year bond	4.68	-0.03
Hang Seng	26,924	-0.3%	United States		
Euro Stoxx 50	6,041	0.6%	3-month T Bill	3.56	0.00
UK FTSE100	10,239	0.5%	2 year bond	3.56	0.05
VIX Index	15.73	-6.1%	10 year bond	4.16	0.03
Commodities	Current	Change	Other (10 year yields)		
CRB Index	301.75	-1.7%	Germany	2.82	0.00
Gold	4606.83	-0.4%	Japan	2.16	-0.03
Copper	13106	-0.6%	UK	4.39	0.05
Oil (WTI futures)	59.03	-4.8%	Sydney Futures Exchange	Current	Change
Coal (coking)	232.00	0.0%	10 yr bond	4.74	0.02
Coal (thermal)	110.70	0.6%	3 yr bond	4.15	0.04
Iron Ore	106.90	-0.9%	3 mth bill rate	3.83	-0.01
ACCU	36.13	-4.3%	SPI 200	8,818	-0.2%

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.



Mantas Vanagas
 Senior Economist, Westpac Group
 P: +61 422 030 326
 E: mantas.vanagas@westpac.com.au

Financial Markets:

Sentiment in financial markets improved as the latest economic data indicated stronger US growth momentum at the start of the year, and geopolitical risks eased after President Trump stated that he had received assurances from "very important sources" that the killing of people in Iran involved in widespread protests against the Iranian government was coming to an end. These comments suggested a softening of his position towards Iran, reducing the likelihood of possible US military strikes. In other remarks, he said he had not yet decided whether the Justice Department's probe into the central bank renovation would give him grounds to attempt to dismiss Chair Jerome Powell.

Meanwhile, news that the US signed a trade agreement with Taiwan, a major producer of AI chips, supported global equity valuations. Under the agreement, the US will lower the import tariff on Taiwanese goods from 20% to 15%. In return, Taiwanese semiconductor companies will invest \$250bn in the US, with an equivalent sum allocated to support American semiconductor supply chains locally.

- Against this backdrop, the S&P500 index rallied by 0.5%, offsetting the previous day's losses, with the technology sector gaining 0.8%. Major European bourses recorded similar moves, with the Euro Stoxx rising 0.6%mth. Following notable gains in recent days, Asian markets bucked the global trend, posting losses. The Nikkei 225 and Hang Seng fell by 0.4% and 0.3% respectively. The domestic ASX200 rose 0.5%.
- The risk-on sentiment saw US Treasuries sold off, with the 10Y yield rising 3bp. European government bonds followed a similar pattern: short-dated tenors led Gilts lower as investors adjusted expectations for the BoE Bank Rate slightly higher after the stronger-than-expected GDP data. Bunds were unchanged at the 10Y point, but the front end of the curve also shifted higher by about 2bp. JGBs rallied at maturities of 10Y or longer, while Australian yields fell by around 2-3bp.
- In the FX markets, the DXY gained 0.3%, while the EUR and GBP depreciated by 0.3% and 0.4% respectively. The Yen eased 0.1%, as reports suggested BoJ officials are increasingly focused on inflationary effects from a weak currency. On a quiet day for major economic data releases in Australia, the AUD rose 0.2%, approaching 0.67.
- Easing geopolitical tensions saw oil prices retreat sharply. The WTI February contract fell 4.8% to just above \$59.0. Other major commodities also traded lower. The stronger risk sentiment pushed gold down 0.4%, while copper and iron ore continued to decline.

International Data

The New York Fed Empire State Manufacturing Survey

Today's key data and events

Time	Event	Exp	Prev
8:30	NZ Manufacturing PMI Dec	-	51.4pts
8:45	NZ Food Price Index Dec	-	-0.4%
1:15	US Industrial Production mth Dec	0.1%	0.2%
2:00	US NAHB Housing Market Jan	-	39pts

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.

indicated improved business conditions at the start of the year. The headline general business conditions index rose by more than 11 points to 7.7, which is 4 points above the average recorded in the second half of 2025. Notably, both new orders and shipments increased, though employment declined at the fastest rate in two years. The survey also pointed to easing inflationary pressures.

The Philadelphia Fed Business Outlook Survey also reported improved business conditions in January. The headline index jumped from -8.8 to 12.6, the third-highest level in the past twelve months. The major components broadly echoed key findings of the Empire State survey.

US initial jobless claims dropped by 9k last week to 198k, marking the second-lowest level in two years. This suggests that layoffs in the US labour market may be easing. Nevertheless, these figures should be viewed with caution, as shifting seasonality may have influenced the results.

In November, euro area industrial production increased by 0.7%mth for a second consecutive month. Manufacturing output was the main driver, rising by 0.9%mth, the largest increase since early last year, before the US tariffs were implemented, supported significantly by a recovery in the German auto sector. With euro area industrial output for October and November combined showing a 0.9% rise from Q3, the sector appears to have made a significant contribution to GDP growth in that quarter.

The euro area trade surplus narrowed in November, falling from €13.7bn to €10.7bn, as import growth (2.5%mth) outpaced exports (1.1%mth). The trade balance with the US improved slightly after reaching an almost three-year low in October, while the trade balance with China deteriorated, reflecting increased competition from Chinese manufacturers.

After recording only one increase over the previous seven months, UK monthly GDP surprised to the upside in November, rising by 0.3%mth. Both industrial production and services activity increased, by 1.1%mth and 0.3%mth respectively, while construction output fell sharply, by more than 1.0%mth for a second consecutive month. Taken together, the October–November data currently suggest a flat GDP reading in Q4; however, a further rise in December could lift quarterly growth to 0.1%qtr.

Local Data

In New Zealand, the Westpac Economics Team published the December Westpac NZ Retail Spending Pulse ([see here](#)).



Corporate Directory

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner

Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas

Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Neha Sharma

Economist
E: neha.sharma1@westpac.com.au

Luka Belobrajdic

Economist
E: luka.belobrajdic@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon

Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs

Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod

Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark

Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva

1 Thomson Street
Suva, Fiji

Shamal Chand

Senior Economist
E: shamal.chand@westpac.com.au



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