

Monthly economic report

The global economy

The end of the US Government shutdown resulted in the restoration of official US data over December. Even so, they did little to dispel the confusion over the state of the US economy at the end of 2025. For example, official jobs data suggested that employment fell by 105,000 in November and that the unemployment rate rose to 4.6%. But average wage growth rose by a strong 0.4% in the month and continuing unemployment claims remain low.

At the same time, November inflation data were much softer than analysts expected, although the veracity of those data have been questioned as the US statistician assumed that some prices were flat in November because there was no price survey undertaken in October due to the Government shutdown. Finally, GDP data suggested that the US economy grew by a very strong 4.3% in the September quarter which was much stronger than expected.

Faced with such conflicting signals, the US central bank decided to cut interest rates by 25bps at its December policy meeting to 3.5% but didn't commit to further rate cuts any time soon. That said, some officials argued that the December rate cut was unnecessary while others argued that it was too timid. With so much uncertainty looming over the future direction of US Fed policy, investors are anxious to find out who President Trump nominates to replace Jerome Powell as the Chair of the US Federal Reserve.

Other central banks were also active in December, with the Bank of Japan deciding to raise its policy rate by 25bps to 0.75%. The European Central Bank (ECB) also indicated that it was generally happy with its setting of monetary policy, although investors still think if the ECB does change policy in 2026 it is more likely to be a cut than a hike.

The Australian economy

Australian economic data has also been sending confusing signals in recent months. Employment fell by 21,200 people in November but with fewer people seeking work, the measured unemployment rate fell to 4.3%. The economy grew by a surprisingly weak 0.4% in Q3 and consumer sentiment fell sharply in December, reversing a strong pick-up in the previous month.

While the Reserve Bank of Australia (RBA) decided to keep interest rates unchanged at its December policy meeting, as expected, the RBA Governor comments after the meeting were very hawkish. In particular, she suggested that the Australian economy had reached a turning point with stronger growth ahead and questioned whether accelerating inflation may justify a rate hike in early 2026.

Investors obviously heard the message from the RBA Governor and markets now place a 40% chance that the Bank will raise its key policy interest rate by 25bps at its first policy meeting in February 2026.

Financial market commentary

Financial markets generally behaved in a 'risk-on' manner over December with bond yields rising and most equity markets moving higher. Emerging market equities were again a stand-out performer.

Equity markets (performance in local currency, excluding dividends)

Global equities (MSCI All Countries excluding Australia) gained 0.7% over December. US stocks dragged down the overall index with the S&P500 falling 0.1%. This was mainly due to weakness in the so-called Magnificent 7 technology stocks as some investors worry about valuations.

The ASX200 was stronger and rose by 1.2% in December. Despite weak Chinese growth, commodity prices, excluding oil, have generally been robust which meant that Australian mining companies enjoyed a strong end to 2025.

European stocks were even stronger, rising by 2.7% in December. This was supported by healthy gains in the German equity market. Emerging market equities also rose by 2.7% in December.

Bond yields

Global bond yields rose strongly over December particularly at the longer end of the yield curve. This reflected a hawkish shift in the rhetoric of several central banks, a rate hike from the Bank of Japan as well as uncertainty about the direction of US monetary policy in 2026.

While the US central bank did cut its policy rate by 25bps as expected at its December policy meeting, some US policymakers didn't want to cut rates at all while others argued for a larger rate cut. This divergence of views reflects the political pressure being placed on the US Federal Reserve as inflation remains above target, but where US administration officials want interest rates to be much lower. While US 2-year bond yields fell slightly over December, 10-year yields rose by 15bps.

Other countries experienced even larger rises in bond yields. In Germany, 10-year yields rose by 17bps while in Japan they increased by 25bps.

Australian 10-year bond yields rose by 23bps over December, mirroring global developments. This movement was exacerbated, however, by hawkish comments from RBA Governor Bullock who suggested that further rate cuts were off the table and the decision for the RBA Board was whether or not they would need to raise interest rates in early 2026. 10-year TCorp bond yields recorded a more modest rise of 17bps over the month.

Currency and commodity markets

The Australian dollar strengthened against most currencies over December, consistent with the risk-on move in global markets and the hawkish comments from the RBA. The Australian dollar rose by 2% against the US dollar and by 2.3% against the Japanese Yen.

The Australian dollar has also been supported by strength in some commodities, including iron ore and precious metals such as gold and silver. Oil prices have been a notable exception, however, with the Brent Crude oil price falling by 3.7% over December towards US\$60 per barrel. Some investors speculate that a ceasefire in the Ukraine War could see a return of Russian oil to western markets which would be consistent with softer prices.

Financial market performance

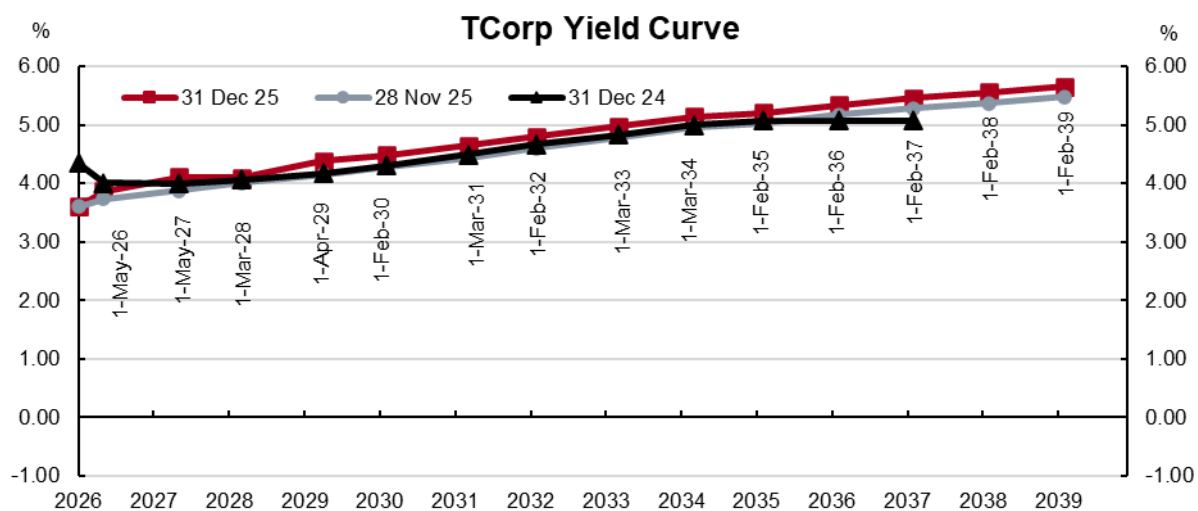
Currency markets December 2025	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.655	0.672	0.655	0.668	2.0% ▲
AUD/EUR	0.565	0.571	0.563	0.569	0.7% ▲
AUD/JPY	102.30	105.15	101.68	104.63	2.3% ▲
AUD/GBP	0.495	0.499	0.494	0.497	0.4% ▲
AUD/BRL	3.494	3.734	3.488	3.657	4.6% ▲
AUD/INR	58.59	60.41	58.65	60.03	2.4% ▲
AUD/CNY	4.634	4.710	4.629	4.668	0.7% ▲

Equity markets* December 2025	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	4530	4606	4480	4560	0.7% ▲
MSCI Emerging Markets	1367	1404	1353	1404	2.7% ▲
S&P/ASX200	8614	8796	8565	8714	1.2% ▲
S&P/ASX Small Ordinaries	3722	3809	3647	3766	1.2% ▲
S&P500 (US)	6849	6932	6721	6846	-0.1% ▼
FTSE 100 (UK)	9721	9941	9642	9931	2.2% ▲
Stoxx600 (Europe)	576	593	575	592	2.7% ▲
DAX (Germany)	23837	24490	23589	24490	2.7% ▲
CAC 40 (France)	8123	8168	8023	8150	0.3% ▲
Nikkei 225 (Japan)	50254	51028	49002	50339	0.2% ▲
Hang Seng (HK)	25859	26095	25235	25631	-0.9% ▼
Shanghai Composite (China)	3889	3969	3825	3969	2.1% ▲
Bovespa (Brazil)	159072	164456	157327	161125	1.3% ▲
IPC (Mexico)	63597	65636	62528	64308	1.1% ▲
S&P/BSE Sensex (India)	85707	85712	84391	85221	-0.6% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) December 2025	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	3.60	3.60	3.60	3.60	0.00 –
90 Day Bank Bill	3.66	3.74	3.67	3.74	0.07 ▲
180 Day Bank Bill	3.97	4.12	3.97	4.12	0.15 ▲
New institutional term deposits	3.80	3.80	3.80	3.80	0.00 –
3 Year CGS Bond	3.87	4.20	3.89	4.14	0.26 ▲
10 Year CGS Bond	4.51	4.81	4.55	4.74	0.23 ▲
10 Year US Bond	4.01	4.19	4.06	4.17	0.15 ▲
10 Year German Bond	2.69	2.90	2.75	2.86	0.17 ▲
10 Year Japanese Bond	1.81	2.09	1.87	2.07	0.25 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
December 2025					
20-May-26	3.73	3.88	3.73	3.87	0.14 ▲
20-May-27	3.88	4.18	3.90	4.11	0.23 ▲
20-Mar-28	4.00	4.10	4.02	4.10	0.10 ▲
20-Apr-29	4.15	4.44	4.17	4.38	0.24 ▲
20-Feb-30	4.28	4.56	4.30	4.49	0.21 ▲
20-Mar-31	4.44	4.72	4.46	4.65	0.21 ▲
20-Feb-32	4.60	4.87	4.64	4.80	0.20 ▲
08-Mar-33	4.79	5.04	4.82	4.97	0.18 ▲
20-Mar-34	4.97	5.21	5.00	5.14	0.17 ▲
20-Feb-35	5.03	5.27	5.06	5.20	0.17 ▲
20-Feb-36	5.18	5.41	5.21	5.34	0.16 ▲
20-Feb-37	5.28	5.52	5.32	5.46	0.18 ▲
24-Feb-38	5.37	5.62	5.41	5.56	0.19 ▲
22-Feb-39	5.47	5.72	5.51	5.65	0.18 ▲
CIB 2.50% 20 Nov 35	2.61	2.92	2.65	2.88	0.27 ▲



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
December 2025					
Brent Oil (per barrel)	63.2	63.8	58.9	60.9	-3.7% ▼
Iron Ore (per tonne)	106.9	107.9	105.8	107.2	0.3% ▲

TCorp forecasts	Dec-25	Jun-26	Dec-26	Jun-27
RBA Official Cash Rate	3.60	3.60	3.35	3.10
90 Day Bank Bill	3.74	3.75	3.50	3.25
10 Year CGS Bond	4.74	4.25	4.00	3.75



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About New South Wales Treasury Corporation (TCorp)

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