

Monthly economic report

The global economy

The global economy continues to prove resilient to a seemingly relentless torrent of unexpected policy announcements. In January alone, the US removed Venezuelan President Maduro, threatened to take ownership of Greenland, issued a subpoena to the Chair of the US Federal Reserve threatening a criminal indictment, threatened to impose additional 50% tariffs on Canada and threatened Iran with military action.

While the policy uncertainty has taken a toll on US consumer confidence, it appears to be having little impact on their spending behaviour, which remained strong through the end of 2025. That might reflect resilience in the labour market, with unemployment remaining low, despite more modest employment gains. Most of the policymakers at the US Central Bank appear comfortable with how the economy is performing and the current stance of policy. At the end of January, however, President Trump nominated Kevin Warsh to be US Fed Chair when Jerome Powell's term ends in May 2026. It will be interesting to see if Mr Warsh attempts to steer policy in a more dovish direction, assuming that his nomination is approved by the Senate.

The European economy also remains on a solid footing with the economy growing by 1.3% over the year to September 2025. Activity in 2026 should benefit from the large German fiscal stimulus, which has also encouraged European Central Bank policymakers to suggest that monetary policy easing is done for now.

Fiscal policy is also a hot topic of conversation in Japan where Prime Minister Takaichi announced a snap election and plans for aggressive fiscal stimulus. While bond investors worried about the implications for inflation and funding needs, equity investors welcomed the news.

The Australian economy

Australia's trimmed mean inflation rate rose by a modest 0.2% in the month of December but increased by 0.9% over the December quarter. Together with a surprise fall in the unemployment rate from 4.3% to 4.1% in December, this was sufficient to shift market expectations towards a February Reserve Bank of Australia (RBA) rate hike.

Although the unemployment rate unexpectedly fell in December, the decline was concentrated in 18-24 year olds which could reflect temporary retail hiring for the end-of-year sales.

Over 2025, employment grew by 1.1% which is less than population growth and is down sharply from the 2.7% growth recorded over 2024. A decline in the participation rate, however, has limited upward pressure on the unemployment rate.

Unemployment in NSW remains below the national average, at 3.9%, with the state's unemployment rate remaining around 4% for most of the last 12 months.

Financial market commentary

Despite a lot of background noise and some large intra-day moves in markets over January, risk assets performed well overall while bond markets were also relatively well behaved.

Equity markets (performance in local currency, excluding dividends)

Global equities (MSCI All Countries excluding Australia) gained a healthy 1.5% over January, although this was eclipsed by a strong 9% surge in the MSCI Emerging Markets index.

Amongst developed markets, the US was an underperformer in January but still managed to record a 0.6% increase. The ASX200 was stronger and rose by 1.7%, while European stocks did even better, gaining 3.1%. Japanese stocks were the standout in January, however, rising by 5.9% as Prime Minister Takaichi called an election and promised to deliver additional fiscal stimulus.

Amongst emerging markets, Brazil again recorded a very strong gain of 12.6% in January after the Brazilian Central Bank signalled that lower interest rates were coming. Chinese equities' robust 3.9% rise in January partly reflected reports that policymakers were poised to provide more support to the property market.

Bond yields

Global bond yields tended to rise over January reflecting solid economic data and signs that central banks were less worried about downside risks to the outlook. In the US, 10-year yields rose by 11bps as the US Fed kept interest rates unchanged at its January policy meeting, with most policymakers seeing no urgency to cut rates again.

Australian 10-year bond yields rose by 6bps over January, but 3-year yields increased by 14bps. This reflected the release of December inflation data which investors interpreted as putting more pressure on the RBA to tighten monetary policy at its February policy meeting. That move also dragged higher shorter-dated TCorp yields, but longer-dated maturities were flat-to-down over January.

The most dramatic movements in bond markets over January, however, were in Japan. Japan's 10-year bond yield ended the month up 19bps as bond market investors were unnerved by the inflationary implications of both aggressive fiscal stimulus announcements and steady monetary policy.

Currency and commodity markets

While there was little reaction from oil prices when the US removed Venezuelan President Maduro in early January, oil prices climbed steadily over the second half of the month to close up 14%. In January, however, it was precious metals that dominated headlines with very large gains (and a sizeable drop) in gold and silver. The silver price rose by 68% over January until a 37% plunge on the final trading day saw its gains over the month as a whole pared back to 18%. Gold traded in a similar pattern although with less extreme movements.

The Australian dollar was very strong over January, rising by more than 3% against the US dollar, the euro and the Japanese yen. The combination of rising commodity prices and shifting expectations for the RBA drove this outperformance.

Financial market performance

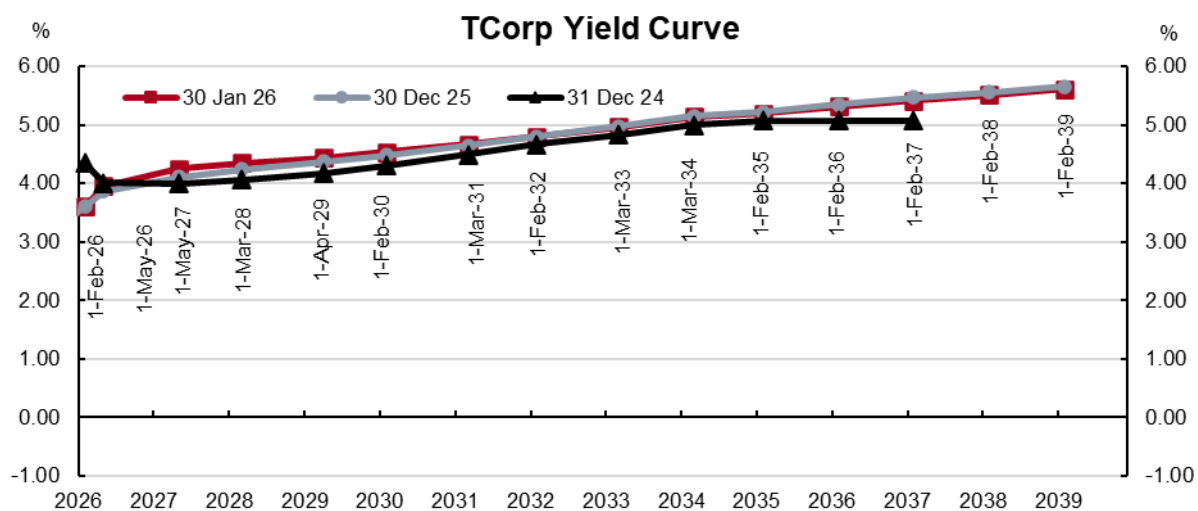
Currency markets January 2026	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.671	0.703	0.668	0.696	3.8% ▲
AUD/EUR	0.570	0.589	0.568	0.588	3.1% ▲
AUD/JPY	104.54	107.92	104.43	107.79	3.1% ▲
AUD/GBP	0.496	0.510	0.496	0.509	2.6% ▲
AUD/BRL	3.673	3.665	3.587	3.665	-0.2% ▼
AUD/INR	60.23	64.67	60.03	64.06	6.4% ▲
AUD/CNY	4.693	4.889	4.658	4.845	3.2% ▲

Equity markets* January 2026	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	4589	4692	4560	4657	1.5% ▲
MSCI Emerging Markets	1403	1557	1404	1528	9.0% ▲
S&P/ASX200	8717	8942	8683	8869	1.7% ▲
S&P/ASX Small Ordinaries	3769	3993	3766	3870	2.7% ▲
S&P500 (US)	6896	6979	6797	6939	0.6% ▲
FTSE 100 (UK)	9941	10239	9931	10224	2.8% ▲
Stoxx600 (Europe)	593	615	592	611	3.1% ▲
DAX (Germany)	24490	25421	24309	24539	0.2% ▲
CAC 40 (France)	8168	8362	8063	8127	-0.5% ▼
Nikkei 225 (Japan)	50339	54341	50339	53323	5.9% ▲
Hang Seng (HK)	25855	27968	25631	27387	5.9% ▲
Shanghai Composite (China)	3965	4165	3969	4118	3.9% ▲
Bovespa (Brazil)	161125	184691	160539	181364	12.6% ▲
IPC (Mexico)	64367	69960	64141	67599	5.0% ▲
S&P/BSE Sensex (India)	84675	85762	81538	82270	-2.8% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) January 2026	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	3.73	3.85	3.73	3.84	0.10 ▲
180 Day Bank Bill	4.10	4.13	3.98	4.09	-0.01 ▼
New institutional term deposits	3.80	3.80	3.80	3.80	0.00 –
3 Year CGS Bond	4.13	4.31	4.07	4.27	0.14 ▲
10 Year CGS Bond	4.75	4.84	4.67	4.81	0.06 ▲
10 Year US Bond	4.12	4.29	4.13	4.24	0.11 ▲
10 Year German Bond	2.86	2.91	2.81	2.84	-0.01 ▼
10 Year Japanese Bond	2.07	2.36	2.07	2.25	0.19 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
January 2026					
20-May-26	3.87	3.96	3.81	3.95	0.08 ▲
20-May-27	4.10	4.25	4.04	4.25	0.15 ▲
20-Mar-28	4.24	4.38	4.16	4.35	0.11 ▲
20-Apr-29	4.38	4.48	4.28	4.44	0.07 ▲
20-Feb-30	4.48	4.57	4.38	4.54	0.05 ▲
20-Mar-31	4.65	4.71	4.55	4.67	0.03 ▲
20-Feb-32	4.80	4.87	4.70	4.80	0.00 ▼
08-Mar-33	4.98	5.05	4.87	4.97	-0.01 ▼
20-Mar-34	5.15	5.22	5.04	5.14	-0.01 ▼
20-Feb-35	5.21	5.29	5.11	5.19	-0.02 ▼
20-Feb-36	5.34	5.43	5.24	5.31	-0.04 ▼
20-Feb-37	5.47	5.54	5.36	5.41	-0.06 ▼
24-Feb-38	5.56	5.64	5.46	5.52	-0.04 ▼
22-Feb-39	5.66	5.73	5.56	5.61	-0.05 ▼
CIB 2.50% 20 Nov 35	2.88	2.93	2.78	2.87	-0.02 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
January 2026					
Brent Oil (per barrel)	61.9	70.7	60.0	70.7	14.2% ▲
Iron Ore (per tonne)	107.2	108.9	103.3	103.3	-3.6% ▼

TCorp forecasts	Dec-25	Jun-26	Dec-26	Jun-27
RBA Official Cash Rate	3.60	3.85	3.85	3.60
90 Day Bank Bill	3.74	4.00	4.00	3.75
10 Year CGS Bond	4.74	4.50	4.00	4.00



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About New South Wales Treasury Corporation (TCorp)

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