01 September 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

There was a risk off tone to end the week with key equity markets generally finishing the session lower.

The US yield curve steepened with traders firming up bets on a September rate cut as the core PCE inflation print was as expected. Longer end yields ticked higher as investors grow increasing concerned over threats to the Fed's independence. The 2-year and 30-year yield spread is now running at its highest level since early 2022. Yields were generally higher across Europe.

The US dollar was broadly unchanged while the Aussie continued to consolidate above 0.6500. This week's June quarter National Accounts is a risk event for the Aussie.

Oil was lower while gold was higher on the back of ongoing geopolitical instability and concerns about the Fed's independence. Iron ore continues to trade above US$100.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.5	0.3%
AUD/USD	0.6540	0.1%
AUD/JPY	96.19	0.2%
AUD/GBP	0.4835	0.0%
AUD/NZD	1.1094	-0.1%
AUD/EUR	0.5597	0.1%
AUD/CNH	4.6586	0.2%
AUD/SGD	0.8397	0.3%
AUD/HKD	5.1001	0.2%
AUD/CAD	0.8998	0.2%
EUR/USD	1.1686	0.0%
USD/JPY	147.05	0.1%
USD Index	97.77	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.60	-0.01
90 day BBSY	3.62	0.01
180 day BBSY	3.71	0.00
1 year swap	3.31	0.00
2 year swap	3.25	0.00
3 year swap	3.30	-0.01
4 year swap	3.39	0.00
5 year swap	3.50	0.00
6 year swap	3.62	0.00
7 year swap	3.73	0.00
8 year swap	3.84	0.00
9 year swap	3.93	0.00
10 year swap	4.16	0.00

Equities	Close	Change
S&P/ASX 200	8,973	-0.1%
S&P 500	6,460	-0.6%
Japan Nikkei	42,718	-0.3%
Hang Seng	25,078	0.3%
Euro Stoxx 50	5,352	-0.8%
UK FTSE100	9,187	-0.3%
VIX Index	15.36	6.4%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.40	0.01
10 year bond	4.27	-0.01
United States		
3-month T Bill	4.04	-0.03
2 year bond	3.62	-0.01
10 year bond	4.23	0.03
Other (10 year yields)		
Germany	2.72	0.03
Japan	1.60	-0.02
UK	4.72	0.02

Commodities	Current	Change
CRB Index	302.35	0.2%
Gold	3447.95	0.9%
Copper	9845.16	0.9%
Oil (WTI futures)	64.01	-0.9%
Coal (coking)	188.00	0.3%
Coal (thermal)	111.50	-0.4%
Iron Ore	102.80	-0.6%
ACCU	34.13	-4.1%

Sydney Futures Exchange	Current	Change
10 yr bond	4.31	0.01
3 yr bond	3.41	0.00
3 mth bill rate	3.56	0.00
SPI 200	8,912	-0.3%

Data as at 7:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

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Financial Markets:

- A selloff in tech shares helped to snap a three-day winning streak, with major US equity indices generally finishing Friday's session, and the week, in the red. Tech stocks lost 1.6% during Friday's session as weaker than expected earnings across key players increased concerns about slowing growth across the AI sector. Further, Nvidia shares fell 3.3% as the Wall Street Journal reported that China's Alibaba Group Holding, a key customer of Nvidia, had developed its own semiconductor chip. The S&P 500 closed 0.6% lower to finish the week 0.1% in the red. The Dow Jones Industrial Average slid 0.2% on Friday, to also end the week 0.2% lower, while the Nasdaq lost 1.2% on Friday to finish the week around 0.2% lower.
- European markets also closed lower with political uncertainty and ongoing geopolitical instability weighing on sentiment. French Prime Minister Bayrou said negotiations with opposition parties will start this week, while German Chancellor Merz said a meeting between President Zelenskiy and Russia's Putin is unlikely to occur. The Euro Stoxx 50 was 0.8% lower on Friday and finished the week 2.5% in the red. The FTSE 100 lost 0.3% to finish the week 1.4% in the red, while the German DAX closed 0.6% lower to end the week 1.9% in the red. France's CAC 40 closed 0.8% lower to end the week 3.3% lower.
- Asian markets were generally higher with the CSI 300 up 0.7% on Friday to end the week 2.7% in the green. The Hang Seng finished 0.3% higher on Friday while the Nikkei ended Friday's session 0.3% lower. In the local market, the ASX 200 finished the week 0.1% higher, despite closing 0.1% lower during Friday's session. The ASX 200 was 2.6% higher over the month of August. Futures are pointing to a soft start to today's session.
- The US yield curve steepened with yields ticking lower at the shorter end of the curve but higher at the long end. The 2-year US bond yield closed 1 basis points lower at 3.62%. The 10-year US bond yield increased 3 basis points to 4.23%, while the 30-year US bond yield increased 5 basis points to 4.93%. The spread between the 2-year and 30-year yields are near their widest level since early 2022. Interest-rate futures now have an almost 90% chance of a September US Fed cut and around 140 basis points of cuts over 2025 and 2026. Yields were also higher in Europe, with 10-year bond yields up almost 4 basis points in France to 3.51%, 3 basis point higher in Germany to 2.72%, and 2 basis points higher in the UK to 4.72%.
- At home, the 3-and-10-year futures were broadly unchanged at 3.41% and 4.31%, respectively. Interest-rate futures have a rate cut fully priced in for the November RBA Board meeting and a total of 50 basis points of cuts priced in over the remainder of 2025 and 2026.

Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ Building Permits Jul	-	-6.4%
10:30am	JP Jibun Bank Manufacturing PMI Aug Final	-	49.9pts
11:00am	AU MI Inflation Gauge Aug	-	2.9%
11:30am	AU Business Indicators Q2	1.1%	-0.5%
11:30am	AU Inventories Q2	0.2%	0.8%
11:30am	AU ANZ Job Ads Aug	-	-1.0%
11:30am	AU Dwelling Approvals Jul	-5.0%	11.9%
11:45am	CN Caixin Manufacturing PMI Aug	49.8pts	49.5pts
4:00pm	GB Nationwide House Prices Aug	0.0%	0.6%
6:00pm	EZ HCOB Manufacturing PMI Aug Final	50.5pts	50.5pts
6:30pm	GB Net Mortgage Lending Jul	£3.5b	£5.3b
6:30pm	GB S&P Manufacturing PMI Aug Final	47.3pts	47.3pts
7:00pm	EZ Unemployment Rate Jul	6.2%	6.2%

Times are AEST. 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.

- The US dollar index was broadly unchanged at 97.77, to finish the week slightly higher (+0.1%) after three consecutive weeks of declines. President Trump's recent attempts to 'stack the Fed board' and dismiss Governor Cook is likely to weigh on the US dollar going forward. The Japanese Yen and the euro lacked direction during the session and traded within narrow ranges.
- The Aussie was 0.1% higher against the Greenback at 0.6540 and now looks to be consolidating above 0.6500. The still cautious message from the RBA Board, the stronger than expected inflation report for July, the more dovish comments from US Fed Powell and the US President's move to remove Governor Cook should provide the Aussie with some upside.
- Oil recorded its first monthly decline since April amid growing concerns around excess supply and the impacts of ongoing geopolitical issues, including US-led efforts to end the war in Ukraine. The West Texas Intermediate for October declined almost 1.0% to US$64.01/bbl. Gold was almost 1.0% higher at US$3,447.95 an ounce as traders have become more concerned about the legal fights escalating over President Donald Trump's move to fire Fed Governor Cook, and the overall independence of the Fed. Iron Ore was higher over the August with futures in Singapore sitting at around US$102 a tonne.

International Data and News:

Headline and core PCE inflation were in line with expectations in July, at 0.2% and 0.3% respectively. Annual inflation remained at 2.6%yr for headline and edged up to 2.9%yr on a core basis.

Personal income and spending were also as expected at 0.4% and 0.5%, both 0.1ppts stronger than June. On a real basis, spending saw a more noticeable lift June to July, from 0.1% to 0.3%.

The advance **goods trade deficit** was wider than expected in July at $104bn. That compares to June's $86bn deficit. Given the considerable uncertainty surrounding trade policy April through August, volatility is likely to persist for a number of months yet.

The final reading for August **University of Michigan consumer sentiment** was a touch weaker than the preliminary reading at 58.2. Current economic conditions were actually better than initially estimated but offset by a deterioration in expectations. Policy uncertainty continues to weigh heavily on households.

A **US Federal Appeals Court** has ruled 7-4 that President Trump's bilateral tariffs are illegal, upholding a prior decision by the Federal Court. However, the tariffs have been kept in place by the Court while the White House considers next steps, potentially including an appeal to the Supreme Court.

China's official NBS manufacturing and non-manufacturing PMIs were essentially unchanged in August at 49.4 and 50.3. These levels are consistent historically with GDP growth at or above the 5.0% target.

Local Data and News:

Private sector credit growth accelerated to 0.7%mth in July, the joint highest rate in the current cycle. The pace of growth exceeded our and market consensus expectations of a 0.6%mth increase. The annual pace rose to 7.2%yr, a 2.5-year high. Business credit growth remained the main driver, surging 1.4%mth. We have not seen a steeper increase since late 2021. Having posted the steepest increase since December 2007 of 0.8%mth, personal credit growth moderated, but at 0.4%mth, it still exceeded the average of the last twelve months (further information available here).

The **June quarter National Accounts** will likely show Australia's recovery stalled over the first six months of 2025, with the economy expanding just 1.3%yr in six-month annualised terms - a step down from the 1.8%yr pace recorded in the second half of 2024 and well below the RBA's updated trend estimate of +2.0%yr. The extent of the pull back in public demand has surprised on the downside, while it's become clearer that it will take time for investment and construction activity to pick up. This increases the chances of a 'shaky handover', and buildup of unnecessary slack in the labour market, in the near term (further information available in our preview).

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