15 August 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

A sharp pickup in US producer prices suggested an increase in inflationary pressures, prompting a rise in major bond yields and bringing the US equity rally to an end.

US Treasuries reversed the gains seen yesterday, with the yield curve shifting up by about 5 bp. After two days in the red, the DXY index rose 0.4%.

The AUD underperformed, losing 0.8%, as the latest Australian jobs data suggested that the labour market is re-entering a period of gradual softening.

Euro area GDP growth for Q2 was confirmed at 0.1%qtr. The first release of the equivalent numbers from the UK surprised on the upside, showing that the economy maintained some momentum after a sharp GDP increase at the start of the year.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.5	0.0%
AUD/USD	0.6491	-0.8%
AUD/JPY	95.95	-0.5%
AUD/GBP	0.4798	-0.4%
AUD/NZD	1.0972	0.2%
AUD/EUR	0.5575	-0.3%
AUD/CNH	4.6641	-0.8%
AUD/SGD	0.8341	-0.4%
AUD/HKD	5.0868	-1.0%
AUD/CAD	0.8969	-0.4%
EUR/USD	1.1650	-0.5%
USD/JPY	147.75	0.3%
USD Index	98.21	0.4%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.61	-0.01
90 day BBSY	3.66	-0.02
180 day BBSY	3.78	-0.03
1 year swap	3.31	0.02
2 year swap	3.23	0.02
3 year swap	3.28	0.04
4 year swap	3.37	0.04
5 year swap	3.48	0.04
6 year swap	3.59	0.03
7 year swap	3.70	0.04
8 year swap	3.81	0.04
9 year swap	3.90	0.03
10 year swap	4.14	0.04

Equities	Close	Change
S&P/ASX 200	8,874	0.5%
S&P 500	6,469	0.0%
Japan Nikkei	42,649	-1.4%
Hang Seng	25,519	-0.4%
Euro Stoxx 50	5,435	0.9%
UK FTSE100	9,177	0.1%
VIX Index	14.83	2.3%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.34	-0.02
10 year bond	4.21	-0.01
United States		
3-month T Bill	4.11	0.01
2 year bond	3.73	0.06
10 year bond	4.28	0.05
Other (10 year yields)		
Germany	2.71	0.03
Japan	1.55	0.03
UK	4.64	0.05

Commodities	Current	Change
CRB Index	295.09	0.1%
Gold	3335.39	-0.6%
Copper	9766	-0.4%
Oil (WTI futures)	63.97	2.1%
Coal (coking)	190.50	-0.1%
Coal (thermal)	111.10	-1.5%
Iron Ore	102.50	-1.4%
ACCU	34.13	-4.1%

Sydney Futures Exchange	Current	Change
10 yr bond	4.27	0.03
3 yr bond	3.38	0.03
3 mth bill rate	3.54	0.01
SPI 200	8,832	0.0%

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 benign CPI reading earlier in the week, showing that the impact from higher import tariffs remained modest, and speculation about a dovish replacement for the Fed Chair supported expectations of easier monetary policy ahead. But the mood shifted following the overnight release of the producer price data in the US. A sharp pickup suggested an increase in inflationary pressures, prompting a rise in major bond yields and bringing the US equity rally to an end. San Francisco Fed President Mary Daly's comments, pushing back against expectations that the FOMC might cut the policy rate by 50bp next month, also added to the hawkish tone.

In Europe, euro area GDP growth for Q2 was confirmed at 0.1%qtr, but the first release of the equivalent numbers from the UK surprised on the upside, showing that the economy maintained some momentum after a sharp GDP increase at the start of the year.

- Having made gains in the prior two days, the S&P 500 index was unchanged, despite gains in major tech stocks. Similarly, Asian stocks sold off, led by a 1.4% loss in the Japanese Nikkei 225. Sentiment in Europe remained more positive: the FTSE 100 in the UK maintained an upward trajectory, but the gains were modest, at 0.2%. Meanwhile, the Euro Stoxx 50 posted another solid increase, gaining 0.9%, thanks to solid earnings reports from major insurers and hopes for more progress towards a peace agreement in Ukraine in today's meeting between President Trump and Putin. The domestic ASX 200 also moved higher, up 0.5%.
- US Treasuries reversed the gains seen yesterday, with the yield curve shifting up by about 5bp. Markets pared their bets on a bigger fed funds rate cut at the next meeting in September, now pricing in more than a 90% chance of a 25bp cut. Bonds in Europe followed Treasuries lower. The upside surprise in the UK GDP supported Gilt yields, which also gained 5bp at the 10Y. The equivalent JGB yields rose 3bp, with US Treasury Secretary Bessent's comments - that the BoJ is falling behind the curve in controlling its inflation - putting downward pressure on Japanese bonds.
- After two days in the red, the DXY index rose 0.4%, climbing back above 98.0. The EUR depreciated 0.5% to 1.1650, while GBP and Yen lost 0.3%. The AUD underperformed, losing 0.8%, as the latest Australian jobs data suggested that the labour market is re-entering a period of gradual softening.
- Having been on a downward trend since the end of last month, crude prices found some support in the latest session, with the September WTI contract rising 2.1% to almost $64.0. Markets seem to be positioning for a constructive outcome from the Trump-Putin meeting today, even though both the Kremlin and Washington are downplaying expectations of any specific agreements. Copper lost 0.4%, while gold also traded lower, down by 0.6%. Iron ore posted another notable drop, by 1.4%, having jumped higher earlier in the week.

Today's key data and events

For	Data/Event	Exp	Prev
8:30am	NZ Manufacturing PMI Jul	-	48.8pts
8:45am	NZ Food Price Index Jul	-	1.2%
8:45am	NZ Net Migration Jun	-	1530k
9:50am	JP GDP Q2 Prel.	0.1%	0.0%
12:00pm	CN Retail Sales YoY YTD Jul	4.9%	5.0%
12:00pm	CN Industrial Production YoY YTD Jul	-	6.4%
12:00pm	CN Fixed Asset Investment YoY YTD Jul	2.7%	2.8%
2:30pm	JP Industrial Production Jun Final	-	1.7%
10:30pm	US Retail Sales Jul	0.6%	0.6%
10:30pm	US Fed Empire State Aug	0pts	5.5pts
10:30pm	US Import Price Index Jul	0.1%	0.1%
12:00am	US Business Inventories Jun	0.2%	0.0%
12:00am	US Uni. Of Michigan Sentiment Aug Prel.	62pts	61.7pts

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.

International data:

US producer prices surprised materially to the upside in July suggesting that underlying inflationary pressures in the US economy are on a rise. The headline PPI index rose 0.9%mth against a 0.2%mth expectation and flat June result. Excluding food and energy, the outcome was the same at 0.9%mth. Goods prices rose 0.7%mth, or 0.4%mth excluding food and energy. Services prices meanwhile rose 1.1%mth. Over the year, goods prices are up 1.9% and services prices 4.0%. Broadly these results highlight that tariffs are beginning to have an impact, but also that there are capacity pressures across the economy.

US initial jobless claims were essentially unchanged last week at a historically low 224k.

Euro area Q2 GDP was confirmed at 0.1%qtr and 1.4%yr in the second estimate. Germany and Italy both contracted 0.1% in Q2 but robust gains in Spain and France more than offset. However, industrial production disappointed in June, declining 1.3%mth after a downward revision to May, now 1.1%mth from 1.7%mth reported previously.

UK GDP beat expectations in Q2, gaining 0.3%qtr after a strong 0.7%qtr gain in Q1. Annual growth held up at 1.2% as a result. Growth was driven by a 1.2%qtr gain in government spending. It helped to offset a 1.1%qtr decline in investment and a weak 0.1% gain for household consumption. But with fiscal pressures mounting, government-spending-driven growth appears to be unsustainable looking ahead.

Local Data:

The latest AU labour market figures strengthened our base case view that the labour market is re-entering a period of gradual softening (see here).

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