26 August 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets retraced some of Friday's reactions to US Fed Chair Powell's dovish address, as investors await US inflation data later this week.

US equities pulled back from the close to record highs recorded on Friday. Political instability in France weighed on European equities, which also finished lower.

There was a slight sell off in Treasuries which saw the US yield curve shift higher. Yields in France spiked, with the 10-year bond yield up almost 10 basis points.

The US dollar advanced, retracting some of Friday's falls, while the euro underperformed. The Aussie was broadly unchanged to finish the session just under 0.6500.

Oil and iron ore were both higher.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.1	0.7%
AUD/USD	0.6483	-0.1%
AUD/JPY	95.78	0.4%
AUD/GBP	0.4817	0.5%
AUD/NZD	1.1080	0.2%
AUD/EUR	0.5580	0.7%
AUD/CNH	4.6399	-0.3%
AUD/SGD	0.8335	0.2%
AUD/HKD	5.0648	-0.2%
AUD/CAD	0.8985	0.4%
EUR/USD	1.1618	-0.9%
USD/JPY	147.75	0.6%
USD Index	98.43	0.7%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.61	0.00
90 day BBSY	3.60	0.00
180 day BBSY	3.71	-0.01
1 year swap	3.31	0.02
2 year swap	3.25	0.04
3 year swap	3.32	0.04
4 year swap	3.41	0.03
5 year swap	3.52	0.03
6 year swap	3.63	0.03
7 year swap	3.75	0.03
8 year swap	3.86	0.03
9 year swap	3.95	0.03
10 year swap	4.20	0.04

Equities	Close	Change
S&P/ASX 200	8,972	0.1%
S&P 500	6,439	-0.4%
Japan Nikkei	42,808	0.4%
Hang Seng	25,830	1.9%
Euro Stoxx 50	5,444	-0.8%
UK FTSE100	9,321	0.1%
VIX Index	14.79	4.0%

Commodities	Current	Change
CRB Index	301.71	0.6%
Gold	3365.89	-0.2%
Copper	9744.33	0.8%
Oil (WTI futures)	64.80	1.8%
Coal (coking)	188.00	-0.6%
Coal (thermal)	112.30	1.4%
Iron Ore	103.15	2.7%
ACCU	34.13	-4.1%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.38	-0.03
10 year bond	4.28	-0.03
United States		
3-month T Bill	4.10	0.00
2 year bond	3.72	0.03
10 year bond	4.28	0.02
Other (10 year yields)		
Germany	2.76	0.04
Japan	1.62	0.00
UK	4.69	0.00

Sydney Futures Exchange	Current	Change
10 yr bond	4.33	0.02
3 yr bond	3.42	0.03
3 mth bill rate	3.55	0.02
SPI 200	8,930	-0.2%

Data as at 7:20am 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:

- After posting solid gains during Friday's session, US equities kicked the week off lower as investors reassessed US Fed Chair Powell's comments, in the context of key inflation data due to be released later this week. Strong gains in tech mega stocks helped to mask some of this 'reassessment', with Nvidia shares up 1.0% and a basket of magnificent seven stocks up almost 0.5%. More broadly, the S&P 500 closed 0.4% lower, the Dow Jones Industrial Average fell 0.8%, while the Nasdaq closed 0.2% in the red.
- European markets also closed lower with the political instability in France hitting sentiment and investors reassessed Powell's comments. The French CAC 40 index declined 1.6% after the French Prime Minister said he would call for a confidence vote on 8 September. The broader risk off tone saw the Euro Stoxx 50 close 0.8% lower, while the DAX closed 0.4% lower. UK markets were closed.
- Asian markets finished higher with the CSI 300 up 2.0% to set a fresh record, the Hang Seng was 1.9% higher and the Nikkel was 0.4% higher. In the local market, the ASX 200 managed to advance 0.1% after a strong start to the session. Futures are pointing to a soft start to today's session.
- There was a slight sell off in Treasuries ahead of the inflation figures later this week. The market is expecting the core personal consumption expenditures price index ticked higher in July, which could limit the Fed's ability to cut rates. The 2-year US bond yield closed 3 basis points higher at 3.72%, while the 10-year US bond yield increased 2 basis points to 4.28%. Interest-rate futures now have an 83% chance of a September US Fed cut, more than a full rate cut pencilled in by October, and around 130 basis points of cuts over 2025 and 2026. Yields were also higher in Europe, with 10-year bond yields up almost 9 basis points in France to 3.51% and 4 basis point higher in Germany to 2.76%.
- At home, the 3-and-10-year futures also increased 3 and 2 basis points to 3.38% and 4.28%, respectively. Interest-rate futures have a rate cut fully priced in for the November RBA Board meeting and a total of 55 basis points of cuts priced in over the remainder of 2025 and 2026.
- The US dollar index advanced 0.7% to 98.43 on the back of the increases in yields. The Japanese Yen and the euro declined with the USD/JYP pair up 0.6% to 147.75, while the euro spot fell 0.9% to 1.1618 on the back of the political instability in France.
- The Aussie was broadly unchanged against the Greenback, finishing at 0.6483 after trading above 0.6500 at numerous points throughout the session. The US inflation print later this week is a key risk event for the AUD/USD pair. Outside of this, the still cautious message from the RBA Board and the more dovish comments from US Fed Powell should provide the Aussie with some upside.
- Gold was broadly unchanged at US$3,365 an ounce. Oil increased 1.8% during the session, with the WTI increasing to US$64.80/bbl. Ongoing Ukrainian drone strikes on Russian oil refineries have led to a spike in prices amid high seasonal demand. Iron Ore was 2.7% higher at US$103.15/t.

Today's key data and events

For	Data/Event	Exp	Prev
12:30am	US Dallas Fed Manufacturing Activity Aug	-1.7pts	0.9pts
11:30am	AU RBA Minutes	-	-
10:30pm	US Durable Goods Orders Jul Prel.	-4.0%	-9.4%
11:00pm	US FHFA House Prices Jun	-0.1%	-0.2%
11:00pm	US S&P/Cs Home Price Index Jun	-0.2%	-0.3%
12:00am	US Richmond Fed Aug	-	-20pts
12:00am	US Consumer Confidence Aug	96.4pts	97.2pts

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:

The **Dallas Fed Manufacturing Outlook Index,** a survey of Texas business executives, showed a steady improvement in the last few months and after five months in the negative territory rose above zero in July. But the latest reading for August signalled renewed weakness, with the headline index falling back below zero, to -1.80. The production subcomponent dropped notably after a sharp recovery in July, but the forward-looking measure for production expectations increased, while new orders were reported to have improved significantly too. The survey continued to highlight expectations of significant inflationary pressures ahead.

The **Chicago Fed National Activity Index**, a weighted average of 85 other monthly indictors, was little changed in July registering -0.19, well below he H1 2025 average of -0.11 and long-term average of -0.13. The index implied that the US economy continues growing well below its trend. The production indicator weakened, but its contribution was broadly offset by a higher sales, orders and inventories reading. The employment gauge remained negative for a sixth consecutive month.

US new home sales declined only slightly in July to 0.6%mth to 652k, a level very close to recent averages suggesting broadly stable conditions in the US housing market.

The **Germany's ifo business climate index** extended its upward trend rising 0.4pt in August to a sixteen-month high of 89.0. Current conditions were assessed to be little changed from subdued levels in the prior few months, but the future expectations index rose to the highest level since early 2022. While German businesses are navigating significant challenges relating to higher US import tariffs, the US-EU trade agreement seems to have provided enough certainty for them to feel more confident about business prospects ahead.

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