3 September 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets were in risk-off mode, as investors appear to be increasingly alert to long-term fiscal risks and the ability of major governments to set public debt back on a sustainable path.

Most major equity markets sold off. The S&P 500 index extended its losses, falling 0.7% on the day. The Euro Stoxx 50 dropped 1.4%, marking its steepest decline in over a month. The UK's FTSE 100 did not fare much better.

The DXY index gained 0.6%, rising back above 98.0. Ahead of today's release of Australia's June quarter national accounts, the Australian dollar fell 0.5% to 0.6520.

Expectations that OPEC+, meeting this weekend, will keep oil supply unchanged supported crude prices, with WTI rising 2.5% to reach $65.60. Gold surged 1.6% to a new record high.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.6	0.0%
AUD/USD	0.6516	-0.5%
AUD/JPY	96.62	0.3%
AUD/GBP	0.4867	0.6%
AUD/NZD	1.1115	0.1%
AUD/EUR	0.5597	0.1%
AUD/CNH	4.6514	-0.5%
AUD/SGD	0.8393	-0.2%
AUD/HKD	5.0884	-0.4%
AUD/CAD	0.8979	-0.3%
EUR/USD	1.1644	-0.6%
USD/JPY	148.32	0.8%
USD Index	98.32	0.6%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.61	0.00
90 day BBSY	3.62	0.01
180 day BBSY	3.73	0.02
1 year swap	3.34	0.01
2 year swap	3.29	0.01
3 year swap	3.36	0.01
4 year swap	3.46	0.02
5 year swap	3.57	0.02
6 year swap	3.70	0.03
7 year swap	3.81	0.03
8 year swap	3.92	0.03
9 year swap	4.01	0.04
10 year swap	4.25	0.02

Equities	Close	Change
S&P/ASX 200	8,901	-0.3%
S&P 500	6,416	-0.7%
Japan Nikkei	42,310	0.3%
Hang Seng	25,497	-0.5%
Euro Stoxx 50	5,291	-1.4%
UK FTSE100	9,117	-0.9%
VIX Index	17.17	6.5%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.45	0.03
10 year bond	4.36	0.04
United States		
3-month T Bill	4.02	-0.03
2 year bond	3.64	0.02
10 year bond	4.26	0.03
Other (10 year yields)		
Germany	2.79	0.04
Japan	1.62	-0.01
UK	4.80	0.05

Commodities	Current	Change
CRB Index	304.38	0.7%
Gold	3533.16	1.6%
Copper	9980.00	1.0%
Oil (WTI futures)	65.61	2.5%
Coal (coking)	185.37	0.9%
Coal (thermal)	109.70	-1.0%
Iron Ore	102.50	0.8%
ACCU	34.13	-4.1%

Sydney Futures Exchange	Current	Change
10 yr bond	4.38	0.00
3 yr bond	3.46	-0.01
3 mth bill rate	3.57	0.01
SPI 200	8,842	-0.4%

Data as at 7:05am 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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Today's key data and events

For	Data/Event	Exp	Prev
10:30am	JP Jibun Bank Services PMI Aug Final	-	52.7pts
11:00am	NZ ANZ Commodity Prices Aug	-	-1.8%
11:30am	AU GDP Q2 Qtr	0.5%	0.2%
11:30am	AU GDP Q2 Yr	1.6%	1.3%
11:45am	CN Caixin Composite PMI Aug	-	50.8pts
11:45am	CN Caixin Services PMI Aug	52.5pts	52.6pts
6:00pm	AU RBA's Bullock-Lecture	-	-
7:00pm	EZ PPI Jul	0.2%	0.8%
12:00am	US Jolts Job Openings Jul	7372.5k	7437k
12:00am	US Factory Orders Jul	-1.4%	-4.8%
12:00am	US Durable Goods Orders Jul Final	-2.8%	-2.8%
04:00am	Fed Beige Book	-	-

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.

Financial Markets:

Markets were in risk-off mode, with equity benchmarks dropping, government bond yields rising, and gold prices hitting a new all-time high. In addition to concerns about the Federal Reserve's independence, investors appear increasingly alert to long-term fiscal risks and the ability of major governments – such as the US, UK, and France – to set public debt back on a sustainable path.

- Most major equity indices declined. In the US, after peaking last week above 6500, the S&P 500 index extended its losses, falling to 6416 – a decrease of 0.7% on the day. Real estate, industrials, and tech stocks led the retreat. In Europe, the Euro Stoxx 50 dropped 1.4%, marking its steepest decline in over a month. The UK's FTSE 100 did not fare much better, declining 0.9% and extending last week's losses. In Asia, Chinese stocks also closed in negative territory. However, Japan's Nikkei managed to move higher by 0.3%. Domestically, the ASX 200 lost 0.3%.
- Government bonds sold off sharply, with fiscal sustainability concerns driving losses primarily at the long end of major yield curves. For example, US long-dated Treasury yields rose by 4bp, with the 30-year yield approaching 5%. The equivalent UK Gilt yield climbed 5bp, reaching its highest level since 1998. Although Germany's fiscal situation is much stronger, Bunds still followed the global trend, with the 30-year yield up by the same amount. Australian government bonds were no exception: the 10-year yield rose 4 basis points and the 30-year yield increased by 5 basis points.
- In currency markets, the DXY index gained 0.6%, rising back above 98.0. The euro fell by an equivalent amount, while the pound underperformed, dropping 1.1% to just below 1.34. The yen depreciated by 0.8%, as Bank of Japan Deputy Governor Ryozo Himino's speech did not provide markets with the expected assurances regarding the timing of the next rate hike. Ahead of today's release of Australia's June quarter national accounts, the Australian dollar fell 0.5% to 0.6520.
- Expectations that OPEC+, meeting this weekend, will keep oil supply unchanged supported crude prices, with WTI rising 2.5% to reach $65.60. Gold surged 1.6% to a new record high. Copper and iron ore were also higher, with the latter bouncing back after recent losses.

International Data:

In the US, the **ISM manufacturing PMI** for August rose from 48.0 to 48.7, marking the sixth consecutive reading in contractionary territory. After recovering in the previous two months, the production indicator fell sharply to 47.8, but the new orders subcomponent climbed 4.3 points to 51.4, its highest since February. The employment index remained little changed, well below the neutral level, and the survey continued to highlight inflationary pressures, even though the index for output prices eased for a second consecutive month, to 63.7.

As expected, **the flash euro area HICP inflation** estimate for August ticked up from 2.0%yr to 2.1%yr. The rise in energy inflation, from -2.4%yr to -1.9%yr, was the main driver, while core inflation held steady at 2.3% for a fourth consecutive month, even though services inflation eased 0.1ppt to 3.1%yr, a new low in the current cycle.

So far in Q3, the headline HICP rate is running above the latest ECB forecast published in June (1.9%yr), so the central bank's updated projections – due after the policy announcement next week – are likely to be revised upward. While no policy change is expected this time, there is a range of opinions on the ECB Governing Council about the future path of inflation. For example, Isobel Schnabel, a member of the ECB Executive Board, noted yesterday that inflation risks are skewed to the upside and therefore she does not see a need for further ECB rate cuts. However, other Governing Council members – such as Lithuania's Gediminas Simkus and Finland's Olli Rehn – have recently voiced their concerns about downside risks to inflation.

Local Data and News:

Following the releases of the latest partials yesterday, we left our **June quarter GDP** nowcast unchanged at 0.4%qtr and 1.3%yr in six-month annualised terms. Public demand surprised to the downside and was offset by a stronger contribution from net exports (see here).

In New Zealand, **the merchandise terms of trade** increased 4.1%q/q in the June quarter – a larger increase that the market had expected, but a smaller increase than we had estimated (see here).

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