1 October 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Attempts to reach an agreement between Republicans and Democrats to avert the US government shutdown proved unsuccessful, with both sides engaging in a blame game over the deadlock. Without a deal, the federal government is set to shut down after midnight.

Despite ongoing risks, most major equity indices finished the quarter on a positive note. The US Treasury yield curve steepened very slightly.

As widely anticipated, the RBA held cash rate steady at 3.60%. Both the policy statement and Governor Bullock's comments at the press conference were cautious and non-committal about the outlook, keeping all options open.

Following the RBA decision, markets now assign only a 50% probability to a cash rate cut this year, down from roughly two-thirds prior to the meeting. The AUD outperformed, rising 0.5% and moving back above 0.66.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	61.3	0.5%
AUD/USD	0.6613	0.5%
AUD/JPY	97.83	0.1%
AUD/GBP	0.4919	0.5%
AUD/NZD	1.1414	0.3%
AUD/EUR	0.5636	0.5%
AUD/CNH	4.7147	0.5%
AUD/SGD	0.8531	0.5%
AUD/HKD	5.1470	0.5%
AUD/CAD	0.9205	0.6%
EUR/USD	1.1734	0.1%
USD/JPY	147.94	-0.4%
USD Index	97.83	-0.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.59	0.00
90 day BBSY	3.63	-0.02
180 day BBSY	3.80	-0.02
1 year swap	3.48	0.05
2 year swap	3.48	0.05
3 year swap	3.54	0.05
4 year swap	3.61	0.04
5 year swap	3.69	0.04
6 year swap	3.79	0.04
7 year swap	3.88	0.04
8 year swap	3.97	0.04
9 year swap	4.05	0.03
10 year swap	4.29	0.04

Equities	Close	Change
S&P/ASX 200	8,849	-0.2%
S&P 500	6,688	0.4%
Japan Nikkei	44,933	-0.2%
Hang Seng	26,856	0.9%
Euro Stoxx 50	5,530	0.4%
UK FTSE100	9,350	0.5%
VIX Index	16.28	1.0%

Commodities	Current	Change
CRB Index	300.60	-0.7%
Gold	3858.96	0.7%
Copper	10268.00	-1.4%
Oil (WTI futures)	62.42	-1.6%
Coal (coking)	191.00	0.0%
Coal (thermal)	110.20	0.0%
Iron Ore	103.30	0.5%
ACCU	37.75	10.6%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.55	0.01
10 year bond	4.30	-0.03
United States		
3-month T Bill	3.84	-0.01
2 year bond	3.61	-0.01
10 year bond	4.15	0.01
Other (10 year yields)		
Germany	2.71	0.00
Japan	1.65	0.01
UK	4.70	0.00

Sydney Futures Exchange	Current	Change
10 yr bond	4.37	0.03
3 yr bond	3.61	0.03
3 mth bill rate	3.58	0.00
SPI 200	8,867	-0.1%

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.

Mantas Vanagas
Senior Economist, Westpac Group

Financial Markets:

Despite the prospect of a US government shutdown, financial markets remained relatively calm. Attempts to reach an agreement between Republicans and Democrats to avert the shutdown proved unsuccessful, with both sides engaging in a blame game over the deadlock. President Trump threatened to use the situation to dismiss a significant number of federal workers, while Democrats insisted that any agreement must include an extension of health insurance subsidies due to expire this year. Without a deal, the US government is set to shut down after midnight.

Closer to home, attention centred on the Reserve Bank of Australia's (RBA) policy decision. As widely anticipated, the cash rate was held steady at 3.60%. Both the policy statement and Governor Bullock's comments at the press conference were cautious and non-committal about the outlook, keeping all options open for the next few meetings.

On the data front, overnight releases indicated more stable demand in the US labour market, although consumer and business sentiment surveys were weaker, signalling a slowdown at the end of Q3. Remarks from Federal Reserve officials highlighted risks to both inflation and employment, as well as renewed uncertainty due to new tariffs.

- Despite ongoing risks, US equities finished the quarter on a positive note, with the S&P 500 up 0.4%, extending its rally for a third consecutive day. European equities followed suit: the Euro Stoxx 50 index gained 0.4%, driven by miners and banks, and the FTSE 100 rose 0.5%. In Asia, equity performance was mixed. Japan's Nikkei 225 fell 0.2% following weaker-than-expected industrial production data, while Chinese equities closed higher. Domestically, the ASX 200 declined by 0.2%.
- In bond markets, the US Treasury yield curve steepened slightly, with the 2Y yield down 1bp and the 10Y yield up 1bp, reflecting the short-term economic risks from the government shutdown and concerns about long-term fiscal pressures. Major European government bond yields were largely unchanged. Australian yields rose 1bp at the 3Y point, while the 10Y yield dropped 3bp. Following the RBA decision, markets now assign only a 50% probability to a cash rate cut this year, down from roughly two-thirds prior to the meeting.
- The DXY index was little changed, slipping 0.1% to 97.8. Both the EUR and GBP appreciated by a similar margin, while the yen strengthened by 0.4%. The AUD outperformed, rising 0.5% and moving back above 0.66.
- Crude oil prices declined sharply for a second consecutive day, as reports suggested that OPEC+ may consider further supply increases at their upcoming meeting. WTI crude fell 1.6% to $62.4. The risk of a US government shutdown supported safe-haven demand for gold, which rose 2.0% to a record high of $3,833. Iron ore prices stabilised after three consecutive days of declines.

Today's key data and events

Time	Event	Exp	Prev
9:50am	JP Tankan Large Manufacturers Q3	14pts	13pts
10:30am	JP Jibun Bank Manufacturing PMI Sep Final	-	48.4pts
6:00pm	EZ HCOB Manufacturing PMI Sep Final	49.5pts	49.5pts
6:30pm	GB S&P Manufacturing PMI Sep Final	46.2pts	46.2pts
7:00pm	EZ HICP Sep Prel.	2.2%	2.0%
10:15pm	US ADP Employment Change Sep	51k	54k
11:45pm	US S&P Manufacturing PMI Sep Final	52pts	52pts
12:00am	US ISM Manufacturing Sep	49pts	48.7pts
12:00am	US Construction Spending Aug	-0.1%	-0.1%

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:

After substantial falls in previous months, **US JOLTS job openings** stabilised in August, implying steadier labour demand. The data reported 7.23m vacancies – one of the lowest readings this cycle, yet still above the 2019 pre-pandemic average. The job openings rate remained at 4.3%, the lowest since the pandemic began, while quit and hire rates edged lower to 3.2% and 1.9% respectively, indicating reduced labour market turnover.

The US Conference Board Consumer Sentiment Index fell by 3.6pts in September to a five-month low of 94.2. The decline was driven by a weaker assessment of the present situation – the relevant sub-index dropped to its lowest since the pandemic – while expectations about the future fell only slightly. Consumers' view of the labour market conditions – a share of respondents who think the jobs are plentiful minus a share who think jobs are hard to get – declined to the new lowest level since early 2021.

The MNI Chicago Business Barometer signalled increased pessimism among businesses, with the headline index declining to 40.6, just above this year's lows.

Comments from Federal Reserve officials reflected a range of concerns about the US economic outlook. **Chicago Fed President Austan Goolsbee** warned that new tariffs announced by President Trump on trucks, timber, and furniture are creating business uncertainty and delaying investment. **Boston Fed President Susan Callins** discussed the possibility of further rate cuts this year in light of a weakening labour market, but emphasised that decisions would remain data-dependent. **Vice Chair Philip Jefferson** tone was balanced, pointing to both upside inflation risks and downside risks to employment, concluding that "both sides of our mandate are under pressure."

The final Q2 UK GDP figures were broadly in line with expectations, confirming earlier estimates of 0.3%qtr growth, down from 0.7%qtr at the start of the year. Upward revisions to growth in the second half of 2024 boosted the annual rate from 1.2%yr to 1.4%yr. Within the expenditure breakdown, business investment growth was revised higher but remained negative at -1.1%qtr, while export and import growth rates were reduced from nearly 1.5%qtr each to close to zero. Q2 GDP growth was mainly driven by stronger government spending (up 1.3%qtr) and a modest 0.1%qtr increase in household consumption.

In Japan, **industrial production** came in weaker than expected, with yet another decline of -1.2% sinking the annual pace to -1.3%yr in August. Businesses clearly remain circumspect in the wake of President Trump's tariff regime, with these latest declines inevitably set to weigh on Q3 GDP.

Local Data:

RBA Monetary Policy Board kept cash rate on hold at 3.6%, citing recovering private sector demand, an assessment that labour market conditions are stable, and the possibility that inflation might remain persistent in some areas (see here).

Australian dwelling approvals fell –6.0% in August, with July revised lower. The annual growth rate slowed to 3.0%, the weakest since mid-2024, though the three-month pace lifted (see here).

Austrlian rivate sector credit growth remained consistent with the 0.6-0.7%mth monthly pace seen in the last few months, which represented a step up from 0.5% average growth in 2024 and early 2025 (see here).

In New Zealand, business sentiment remained strong in the face of still-difficult current conditions, and has picked up a little in the wake of the RBNZ's dovish pivot in August (see here).

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