4 March 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

The war in the Middle East intensified, with Israel launching a new wave of strikes against Iranian infrastructure, while Iran continued to target countries across the region.

Sentiment in financial markets was sombre, as investors prepared for the possibility of a more prolonged conflict.

Equity markets sold off again. The bond market remained on edge, assessing the likely inflationary impact of higher energy prices and the possible reaction from central banks.

Australian government bond yields caught up with global trends, surging about 12–15bp. The move was supported by RBA Governor Bullock's comments, noting that "every meeting is live".

The WTI April contract traded near $78 before easing to end the day at $73.3. President Trump's announced that the US government would provide maritime insurance and Navy protection for trade in the Middle East.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.8	0.6%
AUD/USD	0.7050	-0.6%
AUD/JPY	111.06	-0.5%
AUD/GBP	0.5274	-0.3%
AUD/NZD	1.1954	0.1%
AUD/EUR	0.6065	-0.1%
AUD/CNH	4.8746	-0.4%
AUD/SGD	0.8996	-0.4%
AUD/HKD	5.5024	-0.8%
AUD/CAD	0.9630	-0.7%
EUR/USD	1.1623	-0.6%
USD/JPY	157.54	0.1%
USD Index	98.98	0.6%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.86	0.01
90 day BBSY	4.04	0.03
180 day BBSY	4.39	0.05
1 year swap	4.30	0.05
2 year swap	4.35	0.06
3 year swap	4.37	0.06
4 year swap	4.39	0.07
5 year swap	4.43	0.07
6 year swap	4.48	0.07
7 year swap	4.53	0.06
8 year swap	4.58	0.06
9 year swap	4.62	0.06
10 year swap	4.87	0.05

Equities	Close	Change
S&P/ASX 200	9,077	-1.3%
S&P 500	6,825	-0.8%
Japan Nikkei	56,279	-3.1%
Hang Seng	25,768	-1.1%
Euro Stoxx 50	5,772	-3.6%
UK FTSE100	10,484	-2.7%
VIX Index	22.72	6.0%

Commodities	Current	Change
CRB Index	326.30	1.8%
Gold	5125.92	-3.7%
Copper	12955	-1.2%
Oil (WTI futures)	73.33	2.9%
Coal (coking)	219.75	0.6%
Coal (thermal)	135.00	7.3%
Iron Ore	97.90	-0.3%
ACCU	36.12	-4.3%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.34	0.15
10 year bond	4.77	0.14
United States		
3-month T Bill	3.59	0.00
2 year bond	3.50	0.02
10 year bond	4.06	0.02
Other (10 year yields)		
Germany	2.75	0.04
Japan	2.14	0.05
UK	4.47	0.10

Sydney Futures Exchange	Current	Change
10 yr bond	4.79	0.00
3 yr bond	4.36	0.01
3 mth bill rate	4.08	0.00
SPI 200	8,928	-1.2%

Data as at 7:30am AEDT. 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

Time	Event	Exp	Prev
8:45	NZ Terms Of Trade Q4	-0.3%	-2.1%
11:00	NZ ANZ Commodity Prices Feb	-	2.0%
11:30	AU GDP Q4	0.7%	0.4%
12:30	CN Manufacturing PMI Feb	49.2pts	49.3pts
21:00	EZ Unemployment Rate Jan	6.2%	6.2%
0:15	US ADP Employment Change Feb	50k	22k
2:00	US ISM Non-Manufacturing PMI Feb	53.5pts	53.8pts

Times are AEDT. 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

The war in the Middle East intensified, with Israel launching a new wave of strikes against Iranian infrastructure, while Iran continued to target countries across the region. The US closed its embassies in Saudi Arabia, Kuwait and Beirut, and the US State Department instructed Americans to leave the Middle East. Sentiment in financial markets was sombre, as investors prepared for the possibility of a more prolonged conflict. Water traffic through the Strait of Hormuz – a key shipping route for oil and gas – remained closed.

- Equity markets sold off again. The S&P 500 was down about 2.5% in the first hour of trading but pared losses to finish the day 0.8% lower. Losses were widespread across major sectors, with materials, energy and industrials leading the declines. European markets were hit harder, with investors particularly concerned about the impact of surging gas prices. The Euro Stoxx 50 fell 3.6%, the worst result since early April last year, when markets reacted to the Liberation Day tariffs. Asian markets also traded in the red, while the domestic ASX 200 dropped 1.3%.
- The bond market remained on edge, assessing the likely inflationary impact of higher energy prices and the possible reaction from major central banks. US Treasury yields across the curve traded 2–3bp higher from the prior day's close, with the 10Y briefly rising above 4.10% before settling at 4.06%. UK Gilts underperformed, with the 10Y yield climbing 10bp to 4.47%. Investors watched the Spring Statement in the UK, one of the two fiscal updates from the Chancellor of the Exchequer alongside the Budget, but it was largely uneventful, showing a modest improvement in the fiscal situation and lower planned Gilt issuance.
- Australian government bond yields caught up with global trends, surging about 12–15bp. The move was supported by RBA Governor Michelle Bullock's comments, noting that "every meeting is live". The market-implied probability of a rate hike at the next RBA policy meeting in two weeks jumped to around a third.
- In currency markets, the US dollar continued to benefit from risk-off moves. The DXY index rose 0.6% to 99.0, while most other major currencies depreciated. The euro dropped 0.6%, the pound fell 0.3%, and the yen lost 0.1%. The AUD depreciated 0.6%.
- The Brent contract for May 2026 briefly reached $85, while the WTI April contract traded near $78 before easing to end the day 3.6% and 2.9% higher at $80.6 and $73.3, respectively. The downward move was supported by President Trump's announcement that the US government would provide maritime insurance for trade in the Middle East, and that the US Navy would escort tankers through the Strait of Hormuz. Gas prices also jumped, by about 20%. Gold and silver both sold off, by 3.7% and 6.7%. Copper and iron ore declined by less – 1.1% and 0.3%, respectively.

International Data

The flash estimate of euro area HICP inflation in February exceeded expectations showing a 0.2ppt increase to 1.9%yr. The core inflation was also 0.2ppt higher, to 2.4%yr, top of the range in the last ten months. Both services and non-energy industries goods reported increases, most likely reflecting temporary effects of Winter Olympic Games in Milan. Indeed, Italy reported a 0.6ppt increase in February to 1.6%yr. Outside of core components, energy inflation also rose, to -4.0%yr to -3.2%yr. With oil and European gas prices up by around 34% and 93% respectively since the start of the year, energy inflation represents a huge upside risk to the European inflation and the ECB monetary policy going forward.

Minneapolis Fed President Neel Kashkari and N**ew York Fed President John Williams** struck a cautious tone when talking about the possible impact of the war in the Middle East is going to be on the US economy. "Right now it's just too soon to know what imprint this has on inflation and for how long", Kashkari said. Williams assessed that oil prices had increased, but not "in a dramatic way", describing the overall impact on financial markets so far as "reasonably muted".

Local Data

We have revised our **December quarter GDP nowcast** higher, reflecting firmer public investment (+0.1ppts) and a larger contribution from public inventories (+0.2ppts) (see here).

Australia's dwelling approvals fell for a second consecutive month in January (–7.2%mth), undershooting expectations, with the annual pace dropping to –15.7%yr (see here).

Dwelling consent numbers have continued to lift in New Zealand. January saw a 2% increase in consent numbers. That builds on the gains seen in recent months, with nearly 37,000 new homes consented over the past year (see here).

Westpac Economics published its analysis of the war in the Middle East. Using the Oxford Economics model, we trace through three different scenarios for their impacts on Australia and New Zealand (see here).

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