



24 June 2026

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Concerns about AI equity valuations were front and centre in the last trading session. Tech sector stocks were down 3.7% in the US, with major semiconductor producers falling almost 8%.

The South Korean market, heavily exposed to chip giants, saw the KOSPI index falling 10%.

Risk-off sentiment saw major government bonds make gains. The US Treasury yield curve shifted about 3–4bp lower at the front end. Gilt yields fell by about 5bp across the curve, as the Labour Party appears to be uniting behind Andy Burnham's candidacy to replace Prime Minister Keir Starmer.

In the search for safety, the US dollar appreciated by 0.3%. The Aussie dollar, a higher-beta currency, suffered a 1.2% drop to 0.6917.

With a tanker flow through the Strait of Hormuz helping to alleviate some global oil supply pressures, oil prices fell again.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.3	-0.6%
AUD/USD	0.6917	-1.2%
AUD/JPY	111.73	-1.2%
AUD/GBP	0.5238	-0.9%
AUD/NZD	1.2198	-0.4%
AUD/EUR	0.6076	-0.8%
AUD/CNH	4.7006	-1.0%
AUD/SGD	0.8968	-1.0%
AUD/HKD	5.4233	-1.2%
AUD/CAD	0.9828	-0.9%
EUR/USD	1.1384	-0.4%
USD/JPY	161.54	0.0%
USD Index	101.36	0.3%

Equities	Close	Change
S&P/ASX 200	8,787	-0.3%
S&P 500	7,365	-1.4%
Japan Nikkei	69,788	-3.5%
Hang Seng	23,336	-1.8%
Euro Stoxx 50	6,231	-1.3%
UK FTSE100	10,429	-0.1%
VIX Index	19.49	12.8%

Commodities	Current	Change
CRB Index	355.33	-1.2%
Gold	4117.06	-1.7%
Copper	13371	-2.0%
Oil (WTI futures)	73.21	-0.9%
Coal (coking)	243.00	0.0%
Coal (thermal)	131.15	0.2%
Iron Ore	98.45	-0.8%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.52	0.00
180 day BBSY	4.86	0.00
1 year swap	4.53	-0.01
2 year swap	4.44	-0.03
3 year swap	4.39	-0.03
4 year swap	4.38	-0.04
5 year swap	4.41	-0.04
6 year swap	4.45	-0.04
7 year swap	4.51	-0.04
8 year swap	4.56	-0.04
9 year swap	4.61	-0.04
10 year swap	4.66	-0.04

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	4.40	-0.05
10 year bond	4.77	-0.04
<b>United States</b>		
3-month T Bill	3.67	-0.01
2 year bond	4.20	-0.03
10 year bond	4.50	-0.01

Other (10 year yields)		
Germany	2.92	-0.03
Japan	2.68	0.00
UK	4.75	-0.05

Sydney Futures Exchange	Current	Change
10 yr bond	4.81	0.00
3 yr bond	4.39	0.00
3 mth bill rate	4.54	0.00
SPI 200	8,787	0.4%

Data as at 7:30am 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

Concerns in financial markets about the Middle East appear to be easing as investors watch tanker traffic out of the Persian Gulf pick up and ships become more confident about transiting the Strait of Hormuz. However, there are plenty of other things for markets to worry about, and equity valuations in the AI space are at the top of that list. Those concerns were front and centre in the latest trading session, with tech sector losses driving major equity markets lower and investors seeking safety in the US dollar and government bonds.

- Tech sector stocks were down 3.7% in the US, with major semiconductor producers bearing the brunt and falling almost 8%, leaving the S&P 500 1.4% lower. Despite a more positive geopolitical backdrop, the index has lost 2.5% since the start of last week.
- Sentiment in Asia was even weaker. The South Korean market, which is heavily exposed to chip giants, saw the KOSPI index falling 10%. The Japanese Nikkei and Hong Kong Hang Seng also traded deep in the red, falling 3.5% and 1.5% respectively. The European market was not immune to the global sell-off either, with the Euro Stoxx 50 down 1.3%. The Australian market, which is less exposed to chip manufacturing, was more stable, falling only 0.3%.
- Risk-off sentiment saw major government bonds make gains despite the latest PMI surveys broadly suggesting an improvement in business sentiment at the end of Q2. The US Treasury yield curve shifted about 3–4bp lower at the front end, while gains at the long end were more limited. Swap pricing continues to reflect 1.5 fed funds rate hikes before the end of the year.
- Gains were more significant in Europe, with gilt yields falling by about 5bp across the curve. The Labour Party appears to be uniting behind Andy Burnham's candidacy to replace Prime Minister Keir Starmer, helping to alleviate political uncertainty. Aussie yields declined by 5bp at the front end, and investors pared back their expectations for further RBA policy tightening this year from two-thirds of a hike to around half.
- In the search for safety, the US dollar appreciated by 0.3%, with DXY reaching 101.36, its highest level since May 2025. The EUR and GBP depreciated by 0.4%, while the Japanese yen was more resilient, remaining steady at 161.54. The Aussie dollar, a higher-beta currency, suffered a 1.2% drop, its worst result in about three months. It is currently trading at 0.6917.
- With a tanker flow through the Strait of Hormuz helping to alleviate some global oil supply pressures, oil prices fell again. Both the Brent and WTI benchmarks eased by

## Today's key data and events

Time	Event	Exp	Prev
11:30	AU Monthly CPI Indicator May	4.3%	4.2%
-	US Building Permits May Final	-	-0.7%
0:00	US New Home Sales May	3.2%	-6.2%

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.

about 1.0%, to \$76.9 and \$73.2 respectively. Metals used in chipmaking and data centres suffered from the sell-off in tech stocks, with copper down 2.0%.

## International Data

After a strong recovery in May, US manufacturing sentiment stabilised in June. The **Richmond Fed Fifth District Manufacturing Index** declined by 9pts to 4, a level still above its long-term average. Both shipments and new orders fell notably but remained consistent with positive growth in the sector. However, the assessment of the labour market soured, signalling weaker employment ahead.

**Chicago Fed President Austan Goolsbee** voiced his concerns about inflationary pressures in the US, noting that higher services inflation might be more persistent. "We are dealing with an inflation problem that's well above the target and has been going the wrong way" he said.

Receding economic risks from the war in the Middle East and lower oil prices supported business sentiment in June. The preliminary **S&P Global composite PMI** for the US showed that momentum picked up in both the manufacturing and services sectors, leaving the composite index at a five-month high of 52.2. On a three-month average basis, the index was little changed in Q2 compared with Q1, at 51.8.

The equivalent survey results from the euro area were more mixed. The services index rose by 1.2pts to 48.9, while the manufacturing indicator ticked slightly lower but remained in expansionary territory, at 51.3. Together, they left the composite index at 49.5, up 1pt since May. Its three-month average was 48.9, pointing to the possibility of a negative euro area GDP growth print this quarter.

With political uncertainty weighing further on business sentiment in the UK, the PMIs showed another loss of growth momentum. Both the manufacturing and services indices declined, by 0.8pts and 0.6pts respectively, leaving the composite index down at 49.4, its lowest level since April last year. Given the strong result in April, the Q2 average remained in expansionary territory, but at 50.6, it was consistent with a stagnant economy this quarter.

## Local Data

In New Zealand, the **Westpac-McDermott Miller Employment Confidence Index** fell by 12.5 points to 83.1 in the June quarter. This was the lowest reading for the survey since it began in September 2004 ([see here](#)).



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