27 July 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

Market sentiment was supported by reports that Pakistan and Iran were exploring new peace talks with the US and that oil exports from the Middle East continued to flow. Over the weekend, the US paused strikes against Iran as tensions in the region continued to escalate.

On Friday, major US equity markets were mixed, while oil prices fell sharply and bond markets rallied following a 4% decline in Brent crude prices. The US dollar was broadly unchanged, while the Aussie was slightly higher against the greenback.

Markets are now pricing in a 38% chance of a US Federal Reserve rate hike this week, up from 13% a week ago.

In Australia, OIS pricing points to a terminal cash rate of around 4.65% this year, with one additional rate hike expected by December. However, this is likely to shift this week depending on the Q2 inflation outcome, which will be released later in the week.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.4	-0.5%
AUD/USD	0.6979	0.1%
AUD/JPY	114.35	0.2%
AUD/GBP	0.5241	0.1%
AUD/NZD	1.2073	0.0%
AUD/EUR	0.6140	0.2%
AUD/CNH	4.7274	0.1%
AUD/SGD	0.9013	0.1%
AUD/HKD	5.4764	0.2%
AUD/CAD	0.9807	-0.1%
EUR/USD	1.1370	-0.1%
USD/JPY	163.83	0.0%
USD Index	101.47	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.40	0.02
90 day BBSY	4.59	0.04
180 day BBSY	4.93	0.07
1 year swap	4.68	-0.01
2 year swap	4.68	-0.01
3 year swap	4.66	0.01
4 year swap	4.66	-0.01
5 year swap	4.68	-0.01
6 year swap	4.72	-0.01
7 year swap	4.77	0.00
8 year swap	4.82	-0.01
9 year swap	4.86	-0.01
10 year swap	4.90	-0.01

Equities	Close	Change
S&P/ASX 200	8,772	-0.8%
S&P 500	7,412	0.0%
Japan Nikkei	64,611	-2.7%
Hang Seng	24,963	-1.0%
Euro Stoxx 50	6,281	1.1%
UK FTSE100	10,736	0.9%
VIX Index	18.58	-0.6%

Commodities	Current	Change
CRB Index	395.67	-1.1%
Gold	4052.79	0.1%
Copper	13645	0.4%
Oil (WTI futures)	89.31	-3.1%
Coal (coking)	221.00	-0.9%
Coal (thermal)	137.75	1.1%
Iron Ore	97.90	-0.3%
ACCU	36.13	-4.3%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.72	0.11
10 year bond	5.09	0.10
United States		
3-month T Bill	3.81	0.00
2 year bond	4.33	-0.02
10 year bond	4.68	-0.02
Other (10 year yields)		
Germany	3.17	-0.03
Japan	2.82	0.03
UK	5.03	-0.07

Sydney Futures Exchange	Current	Change
10 yr bond	5.08	-0.04
3 yr bond	4.68	-0.04
3 mth bill rate	4.47	0.00
SPI 200	8,766	0.6%

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.

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Financial Markets

- Markets settled on Friday as investors responded to reports that Pakistan and Iran were exploring options to enter new peace talks with the US, alongside reports that oil was still able to flow out of the Middle East. Brent crude prices retreated from US$100 a barrel, falling 4%, its biggest one-day drop since late June.
- Over the weekend, reports suggested the US paused strikes against Iran for a second consecutive night as tensions continued to escalate in the Red Sea following clashes involving Yemen's Houthi militants and Saudi Arabia. The Houthis claimed responsibility for missile and drone attacks on Saudi Aramco-linked facilities in Jizan and Yanbu, prompting retaliatory strikes by a Saudi-led coalition.
- US equity markets were mixed. The S&P 500 finished broadly unchanged, while the Dow Jones Industrial Average rose 0.4% and the tech-heavy Nasdaq fell 0.6%. Market volatility eased, with the VIX Index falling 0.6% to 18.6. Over the week, however, key US equity indices were lower, with the S&P 500 and Dow Jones Industrial Average falling 0.6% and 0.4%, respectively, while the Nasdaq underperformed, falling 2.1%.
- European equities outperformed, supported by lower oil prices and stronger-than-expected PMI results. The Euro Stoxx 50 rose 1.1%, Germany's DAX gained 1.4% and the FTSE 100 increased 0.9%. In Asia, equities were weaker, with the Nikkei falling 2.7% and the Hang Seng declining 1.0%. Locally, the S&P/ASX 200 fell 0.8% to 8,772. SPI futures were up 0.6%, pointing to a firmer open for the Aussie market.
- Bond markets rallied modestly on the back of the falls in oil prices. In the US, the 2-year Treasury yield fell 2bps to 4.33%, while the 10-year Treasury yield declined 2bps to 4.68%. Traders are now pricing in roughly a 38% chance of a rate hike at this week's Federal Reserve meeting, up from just 13% a week ago. European yields also moved lower, with German 10-year Bund yields falling 3bps to 3.17% and UK 10-year gilt yields down 7bps to 5.03%. Japanese 10-year government bond yields rose 3bps to 2.82%.
- Australian bond yields moved higher in cash markets but lower in futures trading. The 3-year government bond yield rose 11bps to 4.72%, while the 10-year yield increased 10bps to 5.09%. However, Sydney Futures Exchange pricing showed the 3-year and 10-year futures yields both down 4bps, suggesting a stronger open for the local bond market. OIS pricing suggests a terminal cash rate of around 4.65% this year, with the market pricing in one more hike by December this year.

Today's key data and events

Time	Event	Exp	Prev
11:30	CN Industrial Profits Jun	-	21.1%
18:00	EZ M3 Money Supply Jun	-	3.2%
22:30	US Durable Goods Orders Jun Prel.	1.4%	-4.5%
0:30	US Dallas Fed Manufacturing Jul	-	0pts

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.

- In foreign exchange markets, the US dollar index was broadly unchanged, while the Aussie was broadly firmer. The AUD/USD rose 0.1% to 0.6979, while the Australian dollar also gained against the Japanese yen (+0.2%), pound sterling (+0.1%), euro (+0.2%), Chinese yuan (+0.1%), Singapore dollar (+0.1%) and Hong Kong dollar (+0.2%). The trade-weighted index (TWI) eased 0.5% to 65.4, while the Australian dollar was unchanged against the New Zealand dollar and slipped 0.1% against the Canadian dollar.
- Commodity markets were generally weaker. The commodity index fell 1.1%, reflecting declines across energy and carbon markets. WTI crude oil dropped 3.1% to US$89.31/bbl following reports that Pakistan and Iran were exploring options to enter new peace talks with the US. Iron ore fell 0.3% to US$97.90/t, while coking coal declined 0.9%. Thermal coal was a notable exception, rising 1.1%. Copper increased 0.4%, supported by ongoing supply concerns, while gold edged 0.1% higher.

International Data

US new homes sales gained 1.6% in June after May's decline was revised from -7.3% to -4.3%. The current level of sales is almost 40% below the late-2020 peak.

The **US S&P manufacturing PMI** was little changed at 53.8 in July while the services measures improved from 51.2 to 53.6. A similar result was seen for the **Euro Area**, the manufacturing PMI reported at 52.0 and the services index 51.6, and the **UK**, manufacturing and services PMIs, respectively 52.8 and 51.8.

UK GfK consumer confidence improved from -23 to -17 in July, modestly below the survey's full-history average.

UK retail sales surprised materially to the upside in June, registering a 1.0% gain after a 1.2% increase in May. Activity was broad based, sales rising 1.1% in June excluding fuel. Over the year, sales are up 4.2% overall and 5.4% excluding fuel.

Local Data

The **Westpac-Now** continues to point to GDP growth of around 0.2%qtr in Q2, broadly in line with the sluggish 0.3%qtr outcome in Q1 2026. However, the Westpac Monthly Activity Index is showing tentative signs of stabilising (see here).

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