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MORNING REPORT

Today's economic developments and market movements.

Key themes

The US FOMC voted 9-3 to keep the fed funds rate unchanged, but the reaction to Chair Warsh's press conference highlighted a clear degree of anxiety over inflation and policy uncertainty in the market, the lack of forward guidance leaving markets to question whether, or to what degree, the FOMC will eventually see a need to hike rates down the track.

Share markets sold off, the US dollar tumbled and a sharp twist steepening of the US yield curve were the defining moves overnight. Brent oil prices also surged as tensions re-escalate after a few days of relative calm – President Trump threatening to hit Iran "hard" in response to an attempted strike on a US base in Jordan.

Australia's Q2 CPI data came in below expectations. Further rate hikes from the RBA this year now look to be off the table, though a hawkish bias will likely remain. A fireside chat from the RBA's Chief Economist this morning may provide some more clues.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.2	-0.2%
AUD/USD	0.6951	-0.3%
AUD/JPY	113.57	-0.5%
AUD/GBP	0.5200	-0.9%
AUD/NZD	1.2003	-0.5%
AUD/EUR	0.6064	-1.0%
AUD/CNH	4.6993	-0.4%
AUD/SGD	0.8963	-0.5%
AUD/HKD	5.4513	-0.3%
AUD/CAD	0.9761	-0.7%
EUR/USD	1.1465	0.7%
USD/JPY	163.41	-0.3%
USD Index	100.84	-0.6%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.40	0.00
90 day BBSY	4.60	0.00
180 day BBSY	4.93	-0.01
1 year swap	4.59	-0.03
2 year swap	4.53	-0.06
3 year swap	4.49	-0.06
4 year swap	4.54	-0.01
5 year swap	4.57	-0.01
6 year swap	4.61	-0.01
7 year swap	4.66	-0.01
8 year swap	4.72	0.00
9 year swap	4.77	0.00
10 year swap	4.82	0.00

Equities	Close	Change
S&P/ASX 200	9,039	1.0%
S&P 500	7,316	-1.5%
Japan Nikkei	61,434	-1.5%
Hang Seng	25,808	2.0%
Euro Stoxx 50	6,249	-0.6%
UK FTSE100	10,908	0.3%
VIX Index	20.66	13.5%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.49	-0.07
10 year bond	4.92	-0.04
United States		
3-month T Bill	3.67	-0.09
2 year bond	4.27	-0.01
10 year bond	4.68	0.07
Other (10 year yields)		
Germany	3.16	0.06
Japan	2.77	-0.02
UK	5.04	0.09

Commodities	Current	Change
CRB Index	385.49	1.7%
Gold	4068.22	0.9%
Copper	13581	-0.8%
Oil (WTI futures)	84.46	6.6%
Coal (coking)	222.50	-0.4%
Coal (thermal)	137.25	3.2%
Iron Ore	97.45	-0.1%
ACCU	36.13	-4.3%

Sydney Futures Exchange	Current	Change
10 yr bond	5.00	0.05
3 yr bond	4.51	0.02
3 mth bill rate	4.47	0.00
SPI 200	8,945	-0.6%

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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Today's key data and events

Time	Event	Exp	Prev
11:00	NZ ANZ Business Confidence Jul	-	36.6pts
11:30	AU Dwelling Approvals Jun	-0.5%	-1.1%
11:30	AU Export Price Index Q2	0.8%	0.5%
11:30	AU Import Price Index Q2	0.0%	0.1%
19:00	EZ Economic Confidence Jul	96pts	95pts
19:00	EZ GDP Q2 A	0.2%	-0.2%
19:00	EZ Unemployment Rate Jun	6.2%	6.2%
21:00	GB BoE Policy Decision	3.75%	3.75%
22:30	US Personal Income Jun	0.3%	0.7%
22:30	US Personal Spending Jun	0.3%	0.7%
22:30	US PCE Deflator Jun	-0.1%	0.4%
22:30	US Initial Jobless Claims 25/07/2026	200k	187k
22:30	US GDP Q2 A	2.0%	2.1%

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.

Financial Markets

The US FOMC voted 9–3 to keep the fed funds rate unchanged, as widely expected by most analysts. However, the market's reaction to Chair Warsh's press conference – a weaker dollar, sell-off in stocks and a sharp twist steepening of the yield curve – highlighted a clear degree of anxiety over inflation and policy uncertainty in the market. The lack of forward guidance leaves the market questioning whether, or to what degree, the FOMC will eventually see a need to hike rates down the track.

Meanwhile in Australia, Q2 CPI data came in below expectations in Australia, prompting a repricing of the near-term path for the RBA's monetary policy – further rate hikes this year now look to be off the table, though the RBA will likely continue to hold to a hawkish bias. A fireside chat from the RBA's Chief Economist this morning may provide some more clues on their initial read of the data.

In the background, the geopolitical backdrop appears to be turning back toward more hostilities after a few days of relative calm – oil prices surging after President Trump threatened to hit Iran "hard" in response to their attempted strike on a US base in Jordan and targeting of ships In the Strait. There are reports of drones being used to target US-owned gas infrastructure in an Egyptian Mediterranean port, though responsibility is yet to be claimed.

- US share markets fell sharply as part of the broader reaction to the FOMC's hold and another surge in oil prices overnight. The S&P 500 (–1.5%), Down Jones (–2.2%) and NASDAQ (–1.7%) all declined. European stocks also fell (–0.6%), though the FTSE 100 managed to lift 0.3% following solid earnings from BP and Shell.
- Asian share markets were mixed yesterday – solid gains in Hong Kong (+2.0%) and Shanghai (+0.7%) were met with a continued slide in Tokyo (–1.5%) and ongoing sell-off out of Seoul (–6.0%). The ASX 200 meanwhile bounced 1.0% after the Q2 CPI printed below expectations, though futures markets are pointing to a weaker open this morning.
- Treasuries exhibited a marked twist steepening overnight – short-term yields edging lower following the FOMC's hold while longer-dated yields sold-off aggressively, highlighting the market's anxiety over inflation and uncertainty over policy. The 2Y fell 1bps, while the 10Y and 30Y rose 7bps and 13bps respectively. Futures markets have pushed back pricing of Fed rate hikes, with the next move now seen in Dec.
- ACGBs meanwhile rallied during local trading following softer-than-expected inflation data, seeing the 3Y and 10Y yields fall 7bps and 4bps respectively. Swaps markets now have little interest in a near-term RBA rate hike.
- The USD sold off notably, the DXY down –0.6% to around 100.8, with flows largely benefitting the Euro (+0.7%) and Sterling (+0.6%), and the Yen to a lesser extent (+0.3%). The Aussie dollar bucked the wider trend, finishing –0.3% lower on the day, around USD0.6950 at the time of writing – roughly where the Aussie settled immediately after the downside surprise on official inflation data yesterday.
- Crude oil prices rose sharply as tensions appeared to re-escalate after a few days of brief calm. Brent and WTI have risen 7.7% and 6.6% to US$90.6/bbl and US$84.4/bbl respectively. Gold managed to rise 0.9% to around US$4,070/oz despite the sharp lift in real yields, highlighting the renewed uncertainty in the geopolitical backdrop. Base metals were mixed, with LME copper falling –0.8% alongside other risk assets, while LME aluminium rose 1.0% as tensions in the Strait re-escalate.

International Data

The **FOMC's** 9–3 vote to remain on hold was accompanied with a "solid" assessment of economic momentum and the labour market seen as being broadly in balance. However, there is still a great degree of uncertainty around the degree to which price shocks are permeating through the consumer basket. It will take many months to determine the full implications for underlying inflation. It seems the FOMC may be comfortable allowing the market to adjust financial conditions to balance inflation risks without an explicit contribution from the FOMC in the interim.

Local Data

In Australia, the **Q2 CPI** came in below expectations on both a headline and trimmed mean basis, printing 0.6%qtr/3.9%yr and 0.8%qtr/3.6%yr respectively. The chief culprit behind the surprise was softer market services inflation (see here). In light of this, Westpac now expects the **RBA to remain on hold for the remainder of the year**. The substantial pass-through of higher energy costs seen in the early phase of the Middle East conflict has not been followed up in recent months (see here).

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