12 August 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

Risk sentiment deteriorated as Iran continued to insist the Strait of Hormuz would remain closed until its conditions are met. Oil prices rose in response, with WTI crude up 1.3% to US$83.20/bbl.

Equity markets were mixed, with US stocks retreating amid higher oil prices and lingering geopolitical uncertainty. The S&P 500 fell 0.3%, while European markets were little changed.

Bond markets rallied ahead of tonight's all-important US CPI release. US Treasury yields fell 2-3bps across the curve, with the 10-year yield down to 4.69%. Markets continue to price around 30bps of Fed tightening by end-2026.

The US dollar was broadly unchanged, while the Aussie was up 0.1% at US$0.7058. Following the RBA Board's hawkish hold, pricing for future moves remains finely balanced, with markets continuing to price in around 21bps of tightening by early 2027.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.5	-0.2%
AUD/USD	0.7058	0.1%
AUD/JPY	112.42	0.1%
AUD/GBP	0.5226	0.1%
AUD/NZD	1.2002	0.1%
AUD/EUR	0.6115	0.1%
AUD/CNH	4.7616	0.1%
AUD/SGD	0.9032	0.1%
AUD/HKD	5.5389	0.1%
AUD/CAD	0.9827	-0.1%
EUR/USD	1.1541	0.0%
USD/JPY	159.28	0.0%
USD Index	99.82	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.56	0.00
180 day BBSY	4.88	0.00
1 year swap	4.59	-0.01
2 year swap	4.56	-0.01
3 year swap	4.55	-0.02
4 year swap	4.55	-0.03
5 year swap	4.59	-0.03
6 year swap	4.64	-0.02
7 year swap	4.69	-0.02
8 year swap	4.75	-0.02
9 year swap	4.80	-0.02
10 year swap	4.85	-0.02

Equities	Close	Change
S&P/ASX 200	9,251	0.2%
S&P 500	7,728	-0.3%
Japan Nikkei	66,970	2.1%
Hang Seng	25,653	-1.1%
Euro Stoxx 50	6,551	0.2%
UK FTSE100	10,844	-0.2%
VIX Index	15.28	-1.2%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.57	0.03
10 year bond	5.03	0.04
United States		
3-month T Bill	3.70	-0.02
2 year bond	4.21	-0.03
10 year bond	4.69	-0.02
Other (10 year yields)		
Germany	3.16	-0.02
Japan	2.83	0.00
UK	4.96	-0.02

Commodities	Current	Change
CRB Index	390.48	0.1%
Gold	4369.89	-0.5%
Copper	14156	0.0%
Oil (WTI futures)	83.20	1.3%
Coal (coking)	217.67	0.2%
Coal (thermal)	136.30	0.1%
Iron Ore	95.80	0.8%
ACCU	36.13	-4.3%

Sydney Futures Exchange	Current	Change
10 yr bond	5.02	-0.02
3 yr bond	4.56	-0.01
3 mth bill rate	4.47	0.00
SPI 200	9,147	-0.4%

Data as at 7:15am 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

- Risk sentiment deteriorated as Iran continues to insist the Strait of Hormuz would remain closed until its conditions, including compensation, are met. Despite this, Pakistan's Defence Minister said the US and Iran are "close to some sort of arrangement." Against this backdrop, oil prices increased, with WTI crude up 1.3% to US$83.20/bbl. The EIA reported that disruptions to oil supply resulting from the war may reach about 600k barrels a day through to the end of 2027.
- US equity markets lost ground as sentiment soured and oil prices increased. The S&P 500 declined 0.3% to 7,728. The Dow Jones Industrial Average also lost 0.3%, while the tech-heavy Nasdaq declined 0.6%. Volatility also eased, with the VIX Index falling 1.2% to 15.28.
- European equities were mixed after trading within a tight range. The Euro Stoxx 50 gained 0.2%, Germany's DAX gained 0.3%, the FTSE 100 was down 0.2% to 10,844, and France's CAC dropped 0.1%. Asian markets were also mixed, with the Hang Seng down 1.1% to 25,653, while the Nikkei rose 2.1% to 66,970. Locally, the S&P/ASX 200 rose 0.2% to 9,251 as the RBA Board paused during its August meeting. SPI futures are 0.4% lower at 9,147, pointing to a soft open for the domestic market.
- Bond markets rallied slightly ahead of tonight's all-important US CPI release. In the US, the 2-year Treasury yield fell 3bps to 4.21%, while the 10-year Treasury yield declined 2bps to 4.69%. Traders are now pricing around 30bps of rate hikes by the end of 2026 in the US. European yields also moved lower, with German 10-year Bund yields down 2bps to 3.16% and UK 10-year gilt yields down 2bps to 4.96%. In contrast, Japanese 10-year government bond yields were unchanged at 2.83%.
- Australian bond markets sold off after the RBA Board hawkish hold, with the 3-year government bond yield rising 3bps to 4.57% and the 10-year yield rising 4bps to 5.03%. This was partly reversed overnight, with futures yields edging lower. The 3-year contract was down 1bp to 4.56% and the 10-year contract was down 2bps to 5.02%. OIS pricing suggests a terminal cash rate of around 4.50% this year.
- In foreign exchange markets, the US dollar index was broadly unchanged at 99.82. The Aussie edged 0.1% higher to US$0.7058. It also strengthened modestly against most major currencies, including the yen (+0.1%), New Zealand dollar (+0.1%), Singapore dollar (+0.1%), Chinese yuan (+0.1%), euro (+0.1%), and pound sterling (+0.1%), while easing against the Canadian dollar (-0.1%).

Today's key data and events

Time	Event	Exp	Prev
22:30	US CPI Jul	0.1%	-0.4%

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.

- Commodity prices were mixed. The CRB commodity index rose 0.1%. WTI crude oil increased 1.3% to US$83.20/bbl. Iron ore rose 0.8% to US$95.80/t, coking coal increased 0.2%, and thermal coal gained 0.1%. ACCU prices fell 4.3%. Gold declined 0.5%, while copper was unchanged.

International Data

The **NFIB Small Business Optimism Index** increased by more than 2 points for a second consecutive month, reaching 99.8 in July, the highest level in almost a year. The improvement was driven by a stronger assessment among businesses that now is a good time to expand, alongside firmer expectations for business conditions. Employment was reported to have declined at an accelerating pace; however, job openings and hiring plans both increased. The survey also suggested that pressure to raise prices has eased somewhat.

US existing home sales fell by 1.7%mth in July to an annualised pace of 4.06mn, a touch below last year's level and the H1 2026 averages of 4.08mn and 4.09mn. US financial conditions have tightened recently, pushing mortgage rates higher and contributing to the dampening of housing demand. Meanwhile, supply remains ample, with inventory levels only slightly below their recent peak.

Local Data

As widely expected, the **RBA Monetary Policy Board** kept the cash rate on hold at 4.35% at its August meeting. The accompanying statement highlighted that the RBA is prepared to increase the cash rate from here, if upside risks to inflation materialise. This is more specific and narrower language than in May, when it was stated that the cash rate would be increased "if needed". The RBA has evidently concluded that the base case is that rates are on hold, consistent with Westpac Economics' rate view (see here for further details).

Business confidence held steady at -6 in July, following a downwardly revised reading of -6 in June (-1pt), marking the first month since the onset of the conflict in which confidence failed to improve. **Business conditions** improved modestly in July, rising 1pt to 4 after holding at 3 over the previous three months (see here for further details).

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