21 August 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

Focus in financial markets remained on soaring US borrowing costs. The effect of the US Treasury's increased buybacks of long-dated bonds proved short-lived.

The US government appears to be looking to expand buyback efforts further, but Bessent also pointed to a greater focus on fiscal consolidation, with details to be announced in due course in a new fiscal plan.

Oil prices continued to rise as President Trump's threats to crush Iran's economy suggested that the US and Iran were moving further away from any resolution to the conflict.

Aussie yields were 4-5bp lower across the curve, as investors assessed the implications of the downside surprise in the latest Australian labour market data for July. The market-implied probability of a further RBA interest rate increase this year eased to around a half.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.7	0.3%
AUD/USD	0.7112	-0.2%
AUD/JPY	113.11	0.4%
AUD/GBP	0.5217	-0.3%
AUD/NZD	1.1968	-0.3%
AUD/EUR	0.6090	-0.2%
AUD/CNH	4.7829	-0.3%
AUD/SGD	0.9047	-0.1%
AUD/HKD	5.5775	-0.1%
AUD/CAD	0.9805	-0.3%
EUR/USD	1.1679	0.0%
USD/JPY	159.05	0.6%
USD Index	98.87	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.55	0.01
180 day BBSY	4.84	-0.02
1 year swap	4.58	0.00
2 year swap	4.56	0.00
3 year swap	4.55	-0.02
4 year swap	4.57	-0.01
5 year swap	4.61	0.00
6 year swap	4.66	0.00
7 year swap	4.72	0.00
8 year swap	4.78	0.00
9 year swap	4.84	0.00
10 year swap	4.89	0.01

Equities	Close	Change
S&P/ASX 200	9,084	0.3%
S&P 500	7,641	-0.9%
Japan Nikkei	66,217	1.4%
Hang Seng	25,698	0.8%
Euro Stoxx 50	6,422	-0.3%
UK FTSE100	10,748	0.0%
VIX Index	16.01	7.5%

Commodities	Current	Change
CRB Index	403.41	0.8%
Gold	4510.84	0.0%
Copper	14036	-0.1%
Oil (WTI futures)	86.83	2.9%
Coal (coking)	229.00	1.0%
Coal (thermal)	138.30	0.9%
Iron Ore	95.95	-0.4%
ACCU	36.13	-4.3%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.53	-0.04
10 year bond	5.01	-0.05
United States		
3-month T Bill	3.71	0.00
2 year bond	4.19	0.03
10 year bond	4.70	0.06
Other (10 year yields)		
Germany	3.26	0.00
Japan	2.86	-0.04
UK	5.07	0.02

Sydney Futures Exchange	Current	Change
10 yr bond	5.05	0.04
3 yr bond	4.56	0.03
3 mth bill rate	4.50	0.01
SPI 200	8,991	-0.3%

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

Oil prices continued to rise as President Trump's threats to crush Iran's economy suggested that the US and Iran were moving further away from any resolution to the conflict. Treasury Secretary Bessent is expected to announce specific details on Monday of the measures the US plans to apply to Iran and its trading partners. The move could destabilise the current equilibrium in relations between the US and China, a major buyer of Iranian oil.

In financial markets, the focus remained on soaring US borrowing costs. The effect of the US Treasury's increased buybacks of long-dated bonds proved short-lived. Bessent suggested the intention was to ensure orderly trading during thin summer market conditions. The US government appears to be looking to expand buyback efforts further, but Bessent also pointed to a greater focus on fiscal consolidation, with details to be announced in due course in a new fiscal plan.

- After a brief pause yesterday, US equity markets returned to their recent downward trend, with the S&P 500 falling 0.9%, its steepest decline so far this month. The weakness was broad-based across most major sectors. Tech stocks declined further, although the semiconductor segment caught a break after significant losses over the previous two days. The Euro Stoxx 50 also extended its decline, down 0.3%, while Asian stocks traded mostly in the green. The Nikkei 225 rose 1.4%, but the rise followed a loss of more than 5.5% earlier this week. The domestic ASX 200 was up 0.3%.
- After a strong rally the day before, US Treasuries came under renewed pressure. The long end of the yield curve rose by about 5-6bp, with the 30-year yield moving back up to 5.25%, having fallen from 5.31% to 5.19% over the previous two days. The moves suggest investors may be sceptical that the US Treasury's efforts, including any near-term fiscal consolidation, will meaningfully alter the US fiscal trajectory.
- Gilts in the UK, where investor concerns about fiscal dynamics are also elevated, followed a similar pattern, with yields rising by about 2bp across the curve. Bunds were little changed, while JGBs rallied as the elevated bid-to-cover ratio in the 20Y JGB auction signalled strong demand for Japanese debt. Aussie yields were 4-5bp lower across the curve, as investors assessed the implications of the downside surprise in the latest Australian labour market data for July. The market-implied probability of a further RBA interest rate increase this year eased to around a half.
- After a significant correction earlier this week, the DXY remained broadly unchanged. The EUR also moved sideways, while GBP gained 0.2%. The yen lost 0.6%, and was back above the 159 mark. The AUD lost 0.2% to 0.7112.
- Oil prices extended their recent rally. The WTI active contract was up almost 3% to $86.8, while the Brent contract rose by slightly less to reach $93.2. Both have gained around 7–8% over the past seven days. Gold was unchanged after gaining more than 4% the previous day. Since the end of last month, it has gained 11.6%.

Today's key data and events

Time	Event	Exp	Prev
8:45	NZ Trade Balance Jul	-	NZ$23m
9:01	GB GfK Consumer Sentiment Aug	-18pts	-17pts
9:30	JP CPI Jul	1.9%	1.6%
10:30	JP S&P Global Manufact. PMI Aug Prel.	-	54.5pts
10:30	JP S&P Global Services PMI Aug Prel.	-	51.2pts
16:00	GB Retail Sales Jul	-0.5%	1.0%
18:00	EZ S&P Global Manufact. PMI Aug Prel.	51.8pts	51.9pts
18:00	EZ S&P Global Services PMI Aug Prel.	51.5pts	51.7pts
18:30	GB S&P Manufacturing PMI Aug Prel.	51.5pts	51.9pts
18:30	GB S&P Services PMI Aug Prel.	51.8pts	52.1pts
23:45	US S&P Manufacturing PMI Aug Prel.	53.8pts	53.9pts
23:45	US S&P Services PMI Aug Prel.	54pts	54.6pts
0:00	EZ Consumer Confidence Aug Prel.	-16pts	-15.9pts

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.

International Data

US initial jobless claims edged lower last week to 206k, implying that firing remains at historically low levels.

The US Philadelphia Fed business outlook surprised to the upside in August, strengthening from 41.4 to 47.4 against a consensus expectation of a drop to 24.8.

The **US leading index** edged higher in July, rising 0.2%mth and continuing to suggest that the economy is growing around trend in aggregate.

San Francisco Fed President Mary Daly suggested that she sees no major signs in the US economy that would point to a need for a change in monetary policy. "I was very supportive of the July hold," she said. "The recent prints on both inflation and the labour market didn't really change that picture for me."

St. Louis Fed President Alberto Musalem said regarding the rise in bond yields: "There's a competition for capital happening from government financing – gross government financing – plus the AI build-out, which is being financed in the US and globally now. Interestingly, inflation expectations are anchored. Fed credibility is not in question."

Local Data

The **July Labour Force Survey (LFS)** surprised to the downside, with employment falling –15.8k, with a soft offset from a modest fall in labour supply as participation eased –0.1ppts to 66.9% (see here).

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