17 September 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

The Fed delivered a widely expected 25bp rate hike to a midpoint of 3.875%, with guidance pointing to at least one further move by year-end, while President Trump renewed calls for lower interest rates.

Global equities were mixed, with US stocks falling as markets increased expectations for further Fed tightening, while softer oil prices supported gains in Europe and Asia.

US Treasury yields rose as markets focused on the prospect of additional Fed hikes, with futures fully pricing a December move and assigning a 50% probability to an October increase.

The USD strengthened against major currencies as markets repriced the outlook for Fed tightening.

Oil prices retreated after Saudi Arabia outlined plans to restore half the capacity of its East-West pipeline within days and full capacity within six weeks, while the more hawkish Fed outlook weighed on gold.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.9	0.3%
AUD/USD	0.7088	-0.6%
AUD/JPY	110.76	0.1%
AUD/GBP	0.5296	0.1%
AUD/NZD	1.2401	0.1%
AUD/EUR	0.6182	0.1%
AUD/CNH	4.7572	-0.6%
AUD/SGD	0.9057	-0.2%
AUD/HKD	5.5598	-0.6%
AUD/CAD	0.9916	-0.2%
EUR/USD	1.1465	-0.7%
USD/JPY	156.26	0.7%
USD Index	100.31	0.7%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.46	0.00
90 day BBSY	4.73	0.01
180 day BBSY	5.11	0.01
1 year swap	4.89	-0.06
2 year swap	4.99	-0.02
3 year swap	4.94	-0.09
4 year swap	4.95	-0.10
5 year swap	4.98	-0.09
6 year swap	5.01	-0.09
7 year swap	5.05	-0.09
8 year swap	5.10	-0.09
9 year swap	5.14	-0.09
10 year swap	5.17	-0.09

Equities	Close	Change
S&P/ASX 200	8,697	0.3%
S&P 500	7,552	-0.4%
Japan Nikkei	63,923	0.7%
Hang Seng	24,714	0.2%
Euro Stoxx 50	6,267	0.5%
UK FTSE100	10,688	0.3%
VIX Index	17.71	3.0%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.99	-0.06
10 year bond	5.35	-0.06
United States		
3-month T Bill	3.96	0.01
2 year bond	4.74	0.07
10 year bond	5.02	0.02
Other (10 year yields)		
Germany	3.51	-0.03
Japan	3.01	-0.03
UK	5.30	-0.09

Commodities	Current	Change
CRB Index	426.14	-0.7%
Gold	4263.54	-0.7%
Copper	14232	1.1%
Oil (WTI futures)	102.06	-3.6%
Coal (coking)	273.00	0.7%
Coal (thermal)	148.90	-0.5%
Iron Ore	96.35	0.4%
ACCU	36.13	-4.3%

Sydney Futures Exchange	Current	Change
10 yr bond	5.40	0.02
3 yr bond	5.05	0.03
3 mth bill rate	4.63	0.00
SPI 200	8,626	-0.7%

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

All eyes were on the Fed overnight, with the FOMC voting unanimously to raise the fed funds rate by 25bps to a midpoint of 3.875%. Chair Warsh characterised the move as "remov[ing] a dose of accommodation", implying policy is now, at most, neutral, while President Trump took to Truth Social calling for interest rates to be lowered "AND FAST!". While the decision was widely expected, projections pointing to at least one further hike by year-end weighed on US sentiment, although a pullback in oil prices supported other markets.

- US equities were softer overnight as markets increased expectations for further Fed tightening. The S&P 500 fell 0.4%, with the Dow Jones leading declines, down 1.2%, while the NASDAQ was little changed. European equities advanced as oil prices eased, with the Euro Stoxx 50 rising 0.5% and the FTSE 100 gaining 0.3%.
- Asian markets advanced on Wednesday, led by technology stocks, while softer oil prices also supported sentiment. The KOSPI rose 1.4%, while the Nikkei 225 gained 0.7% and the Hang Seng added 0.2%. Locally, the ASX 200 rose 0.3%.
- US Treasury yields moved higher as initial relief around the Fed's inflation-fighting credentials gave way to concerns about the prospect of additional rate hikes. The 2-year Treasury yield rose 7bps, while the 10-year yield gained 2bps, moving back above 5% after initially easing ahead of the decision. Futures markets now price the probability of an October hike at 50%, while a move in December remains fully priced, taking the implied year-end fed funds rate to 4.20%.
- Australian government bond yields fell as oil prices pared recent gains. Both the 3-year and 10-year yields declined 6bps. Swap markets continue to price the probability of a September rate hike at just below 80%, while a move in November remains fully priced, taking the implied year-end cash rate to 4.72%.
- The US dollar strengthened on the prospect of further Fed tightening, with the DXY up 0.7%. The AUD fell 0.6% to 0.7088, losing its 71 handle, while the yen, sterling and euro each declined 0.7% against the greenback.
- Oil prices softened after Saudi Arabia reported it was seeking to restore around half the capacity of its East-West pipeline within days, and full capacity within six weeks. Brent fell 2.9% to US$106/bbl, while WTI declined 3.6% to US$102/bbl. Gold slipped 0.7% on the more hawkish Fed outlook, while copper rose 1.1% and iron ore gained 0.4%.

International Data

The **FOMC** voted to raise the fed funds rate by 25bps to a mid-point of 3.875% in September, in line with market expectations. The updated dot plot points to at least one more hike by year end. 8 of the 18 members who submitted forecasts also signalled the risk of an additional hike by end-2027.

Today's key data and events

Time	Event	Exp	Prev
8:45	NZ GDP Q2	0.1%	0.8%
21:00	GB BoE Policy Decision 17/09/2026	3.8%	3.8%
22:30	US Phily Fed Manufacturing Sep	32.4pts	47.4pts
22:30	US Initial Jobless Claims 12/09/2026	206.5k	206k
22:30	US Housing Starts Aug	6.6%	-12.4%
22:30	US Building Permits Aug Prel.	-1.4%	4.3%
0:00	US Pending Home Sales Aug	-0.1%	-2.3%

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.

Annual PCE inflation is forecast to slow from 3.7%yr in 2026 to 2.3%yr in 2027, then 2.1%yr in 2028 and 2.0%yr in 2029. These forecasts are little changed since June despite today's rate hike and the additional tightening forecast. Implicit here is that the FOMC is acting against renewed inflation risks.

Members' GDP forecasts were a touch higher in September than June, at 2.3%yr in 2026, 2.4%yr in 2027, 2.2%yr in 2028 and 2.1%yr in 2029 – all above the FOMC's current estimate of potential, 2.0%yr. The unemployment rate is consequently forecast to hold at 4.1% through to the end of 2029, consistent with full employment being maintained.

Asked whether the current stance is restrictive, Chair Warsh stated that, ahead of the decision, both he and the Committee were "hard pressed" to describe financial conditions as restrictive. September's hike was then characterised as removing a dose of accommodation, implying policy is now, at most, neutral.

In gauging the degree of tightening required from here, Chair Warsh commented that he did not believe the Committee needed to do "harm" to the labour market to tame inflation. This suggests a definitively restrictive stance is likely not necessary. Rather, tightening twice by year end (including today) and continuing to flag a willingness to do more should prevent secondary effects from energy prices and the AI infrastructure buildout.

US retail sales surprised in August, headline sales up 1.2% and the control group 1.4%, with sales down 0.5% in July. **Import prices** were also stronger than expected in August at 0.7%, and the annual growth rate accelerated to 7.0%yr. Under the weight of elevated interest rates and cost of living pressures, **NAHB's housing market index** edged down to 32 in September.

Euro Area inflation was 0.1% lower in July and unchanged over the year, in line with expectations.

The **UK CPI** rose 0.5% in August, edging the annual rate back up to 3.1%yr. Annual core and services inflation was unchanged at 2.6%yr and 3.4%yr.

Local Data

The **Westpac–MI Leading Index** growth rate lifted to -0.09% in August from -0.17% in July (see here).

In New Zealand, the **current account** deficit for the year to the June quarter was reported at 3.2% of GDP (see here). Separately, the **Westpac McDermott-Miller Consumer Confidence** Index rose 9 points to 89.5 in Q3 (see here).

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