

Monthly economic report

The global economy

The global economy has been buffeted by a succession of policy and geopolitical shocks over 2025. Despite that, the economy has managed to continue expanding at a steady pace, and that pattern continued again in June.

Tensions in the Middle East spiked in June, as conflict broke out between Israel and Iran and the US decided to bomb Iranian nuclear facilities. A ceasefire soon followed, and a temporary surge in oil prices was quickly reversed.

European policymakers committed to increasing their defence spending to 5% of GDP, which is a large increase from current levels of spending which are around 2% of GDP. This incorporates 3.5% of GDP in spending on items such as weapons and ammunition and 1.5% of GDP on associated areas, such as logistics and infrastructure. The step-up in defence spending should significantly boost Europe's growth outlook but is also likely to result in much higher debt issuance.

In the US, both consumer and business sentiment has been dented by the uncertainty emanating from President Trump's erratic trade policies, but it is still difficult to see much impact on consumer spending or firms' hiring and pricing decisions. Of course, this could simply reflect lags between the timing of policy changes and when they affect consumers. For example, US Treasury data suggest that revenue from tariffs only increased strongly at the end of May 2025 which suggests that we might begin to see the impact on tariffs on inflation or consumer spending when the June monthly data are released.

Central banks in Europe, Norway, Switzerland and Sweden all reduced interest rates in June. The US central bank kept rates steady, but a couple of policymakers signalled a willingness to cut rates in July following pressure from US President Trump and threats to replace the Chairman of the US Federal Reserve (Fed) a year before his term ends.

The Australian economy

The Australian economy grew more slowly than expected in the March quarter, expanding by just 0.2%. Over the past year, output per person declined by 0.4%. Despite weak spending across most sectors of the economy, the labour market has remained resilient. While employment has been volatile due to the timing of the Federal election, unemployment remains at 4.1%. There has, however, been good news on the inflation front with monthly inflation data pointing to price gains of just 2.1% over the past year. As a result, investors fully expect the Reserve Bank of Australia (RBA) will cut interest rates at its July policy meeting.

A number of state governments also released their annual budgets in June. Investors generally welcomed the updated forecasts which showed a reduced borrowing requirement over the next 4 years even though issuance in 2025-26 is expected to be slightly higher. TCorp expects gross issuance of \$24.2bn of bonds over 2025-26 which compares to \$32.1bn of issuance in Victoria and \$33.5bn in Queensland.

Financial market commentary

Equity markets generally recorded strong gains over June as investors decided that global growth risks had receded. Bond yields were mixed, however, as analysts weighed up the prospect of more central bank interest rate cuts on the one hand, against the potential for more fiscal stimulus boosting bond issuance.

Equity markets (performance in local currency, excluding dividends)

Global equity markets rose strongly in May, across both advanced and emerging-market economies. The MSCI World (ex-Australia) index rose by 4.2% while the MSCI Emerging Markets index gained 5.7%. Investors remained hopeful that trade disputes will only have a modest impact on activity while the quick resolution of conflict between Israel and Iran and the prospect of easier monetary policy in the US also boosted markets. The US S&P500 rose by 5.0% to close FY25 at a new all-time high.

A resolution of trade disputes would also remove a key risk looming over Japan's economic outlook – as investors became more confident that President Trump would eventually back away from his trade threats, the Japanese equity market jumped by 6.6%. Chinese shares also performed well, rising by 2.9%.

Australia's share market rose by 1.3%, with another strong performance from banks partly offset by a drag from some mining companies.

Bond yields

Bond yields fell in most advanced economies over June, with the largest falls in the US. US 10-year bond yields fell by 17bps. This partly reflected benign US inflation readings which some investors interpreted as indicating that US tariffs have not boosted prices. President Trump also increased his criticism of Fed Chair Powell for not cutting interest rates aggressively and with some Fed officials indicating that they were in favour of easing policy settings as soon as July, this was perceived to be a sign that Trump's criticisms were beginning to have the desired effect.

Monthly inflation was also surprisingly low in Australia in May. As this followed a weaker-than-expected GDP growth report, investors viewed this as sealing the case for an RBA rate cut at its July policy meeting. Consistent with this, Australian 3-year bond yields fell by 7bps while 10-year yields fell by 10bps. TCorp 10-year bond yields fell by 7bps over June to 4.77%.

The main exception to lower bond yields over June was in Europe where German bond yields, for example, rose by 11bps. This reflected the more aggressive switch to fiscal stimulus which should boost European growth – and so lessen the need for the European Central Bank to maintain very low interest rates – as well as the potential impact on budget deficit financing requirements.

Currency and commodity markets

Oil prices edged up over the first half of June from around US\$64bbl to US\$68bbl before spiking to US\$80bbl as the Iran-Israel conflict intensified. The quick resolution of the conflict, however, resulted in oil prices quickly returning to around US\$68bbl by the end of the month. Other commodities prices were mixed over the month, with iron ore prices edging lower and gold prices also dipping as risk appetite returned.

The US dollar fell by more than 3% against the Euro over June, reflecting investor concerns about Fed independence as well as investor optimism about fiscal stimulus in Europe. The Australian dollar was caught in the middle of this shift, declining by 1.7% against the Euro, but rising by 1.6% against the US dollar.

Financial market performance

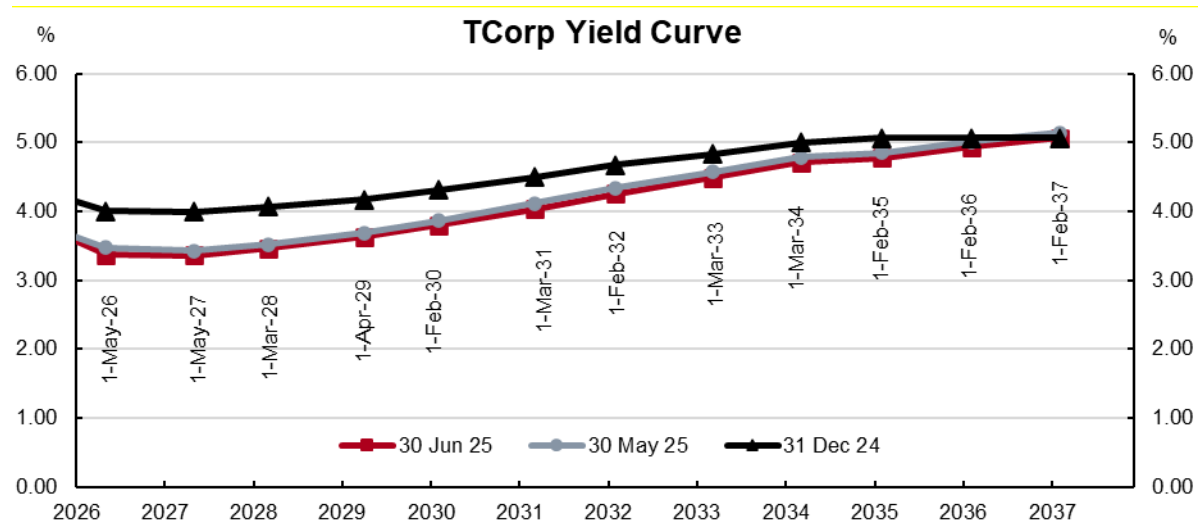
Currency markets June 2025	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.643	0.654	0.638	0.653	1.6% ▲
AUD/EUR	0.567	0.571	0.557	0.557	-1.7% ▼
AUD/JPY	92.62	94.67	92.37	94.16	1.7% ▲
AUD/GBP	0.478	0.483	0.476	0.477	-0.3% ▼
AUD/BRL	3.681	3.677	3.507	3.547	-3.6% ▼
AUD/INR	55.04	56.37	55.27	56.01	1.8% ▲
AUD/CNY	4.630	4.697	4.580	4.679	1.1% ▲

Equity markets* June 2025	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3970	4138	3988	4138	4.2% ▲
MSCI Emerging Markets	1157	1229	1154	1223	5.7% ▲
S&P/ASX200	8435	8592	8414	8542	1.3% ▲
S&P/ASX Small Ordinaries	3229	3280	3191	3248	0.6% ▲
S&P500 (US)	5912	6205	5936	6205	5.0% ▲
FTSE 100 (UK)	8772	8885	8719	8761	-0.1% ▼
Stoxx600 (Europe)	549	554	535	541	-1.3% ▼
DAX (Germany)	23997	24324	23057	23910	-0.4% ▼
CAC 40 (France)	7752	7805	7538	7666	-1.1% ▼
Nikkei 225 (Japan)	37965	40487	37447	40487	6.6% ▲
Hang Seng (HK)	23290	24475	23158	24072	3.4% ▲
Shanghai Composite (China)	3347	3456	3347	3444	2.9% ▲
Bovespa (Brazil)	137027	139256	135699	138855	1.3% ▲
IPC (Mexico)	57842	58099	56068	57451	-0.7% ▼
S&P/BSE Sensex (India)	81451	84059	80738	83606	2.6% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) June 2025	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	3.85	3.85	3.85	3.85	0.00 –
90 Day Bank Bill	3.73	3.73	3.60	3.60	-0.12 ▼
180 Day Bank Bill	3.77	3.88	3.76	3.78	0.00 ▲
New institutional term deposits	4.30	4.30	4.30	4.20	-0.10 ▼
3 Year CGS Bond	3.33	3.40	3.23	3.26	-0.07 ▼
10 Year CGS Bond	4.26	4.28	4.11	4.16	-0.10 ▼
10 Year US Bond	4.40	4.51	4.23	4.23	-0.17 ▼
10 Year German Bond	2.50	2.61	2.48	2.61	0.11 ▲
10 Year Japanese Bond	1.50	1.51	1.40	1.43	-0.07 ▼

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
June 2025					
20-May-26	3.47	3.51	3.35	3.37	-0.10 ▼
20-May-27	3.42	3.49	3.33	3.36	-0.06 ▼
20-Mar-28	3.51	3.60	3.42	3.46	-0.05 ▼
20-Apr-29	3.69	3.77	3.58	3.63	-0.06 ▼
20-Feb-30	3.86	3.93	3.74	3.80	-0.07 ▼
20-Mar-31	4.12	4.18	3.97	4.03	-0.08 ▼
20-Feb-32	4.34	4.39	4.19	4.26	-0.08 ▼
08-Mar-33	4.57	4.62	4.42	4.49	-0.08 ▼
20-Mar-34	4.79	4.83	4.64	4.71	-0.08 ▼
20-Feb-35	4.85	4.89	4.70	4.77	-0.07 ▼
20-Feb-36	5.01	5.04	4.87	4.93	-0.07 ▼
20-Feb-37	5.14	5.18	5.00	5.06	-0.08 ▼
24-Feb-38	5.25	5.29	5.12	5.18	-0.07 ▼
CIB 2.75% 20 Nov 25	1.24	1.23	0.96	0.96	-0.27 ▼
CIB 2.50% 20 Nov 35	2.67	2.76	2.58	2.58	-0.09 ▼



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
June 2025					
Brent Oil (per barrel)	63.9	78.9	64.6	67.6	5.8% ▲
Iron Ore (per tonne)	96.1	96.3	94.2	94.2	-2.0% ▼

TCorp forecasts	June-25	Dec-25	Jun-26	Dec-26
RBA Official Cash Rate	3.85	3.35	2.85	2.60
90 Day Bank Bill	3.60	3.25	3.00	2.75
10 Year CGS Bond	4.16	3.50	3.50	3.50



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About New South Wales Treasury Corporation (TCorp)

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