Monthly economic report

The global economy

Financial markets remained focused on trade-related developments in July, with investor sentiment boosted by the announcement of new trade deals. This saw a 'risk on' tone in markets, with global equities and bond yields rising.

The trade deals that have been announced so far provide more certainty to some economies, although many details are still to be negotiated. Deadlines for negotiations with some other countries, including Mexico and China, were again extended. US trade deals with Japan and the European Union (EU) set a 15% tariff rate on imports, which importantly includes car exports to the US. As part of the deal, both Japan and the EU committed to significant investment in the US. The EU also agreed to large purchases of energy from the US.

While investors' reaction to the US-Japan deal was generally positive, the US-EU deal triggered a fall in European equity markets, the euro and a fall in European bond yields. This reflects concerns about a slowing in European economic growth because of the tariffs, which are almost as high as those announced on 2 April ('Liberation Day'). The European Central Bank held rates steady in July and signalled it was likely to keep rates steady for a while, though investors still think one more rate cut is likely.

It is still too early to see the full impact of higher tariffs on the US economy. The initial effects on inflation were evident in the June data, with notable price rises for those goods levied with higher tariffs (e.g. household appliances and clothing). Larger impacts on inflation are expected in coming months as most firms have been slow to adjust prices. Some firms have signalled impending price rises, while others are waiting to see where tariff rates settle before making pricing decisions.

As tariff-induced price rises have been limited to date, it is also too early to see the impact of higher prices on consumer spending. The US economy grew at a healthy pace in the June quarter and, importantly, the labour market remains resilient. This allows the US Federal Reserve (Fed) to wait to see the impact of tariffs on the US economy before lowering interest rates further.

China's economy has also shown resilience to higher tariffs, with strong growth in exports and manufacturing activity continuing to drive economic activity in the first half of 2025. Weaker exports to the US have been more than offset by stronger exports to the rest of the world. This likely reflects Chinese firms diverting exports to the US through other countries to avoid the high tariffs on goods from China, although this is difficult to quantify.

The Australian economy

The Reserve Bank of Australia (RBA) surprised markets in July by keeping interest rates unchanged, despite a widespread expectation of a 25bps rate cut. The RBA's new Monetary Policy Board (MPB) voted 6-3 to keep rates on hold, opting to wait for more evidence that inflation was on track to return to the 2-3% inflation target. The RBA Governor described the decision as reflecting differences of opinion about the timing of rate cuts, rather than the direction of interest rates.

Inflation data for the June quarter was in line with the RBA's most recent forecasts, providing the RBA with the comfort it needs to resume lower interest rates further. Inflation is within the RBA's target band and inflation in areas where the RBA has been more worried about – particularly services inflation – have continued to ease rapidly.

The softer labour market data in June also strengthens the case for a rate cut sooner, with employment growth weak and the unemployment rate rising to 4.3%. A rate cut by the RBA in August is widely expected by investors, who also see a further 3 rate cuts as likely, with the cash rate reaching 3.1% in early 2026.

Financial market commentary

Improving risk appetite saw most equity markets rise in July as investors became less concerned that tariffs would crunch global growth. Bond yields also rose and financial market volatility was low.

Equity markets (performance in local currency, excluding dividends)

Most equity markets rose in July, with improved risk sentiment supported by progress on trade negotiations between the US and some of its trading partners. The MSCI World (ex-Australia) index rose by 1.3% while the MSCI Emerging Markets index gained 1.7%. The S&P500 gained 2.2%, with positive corporate earnings reports also boosting the equity market. In particular, the big tech companies continued to deliver strong earnings growth.

US equities have now easily surpassed their previous peak in February 2025 and are at a record high level. Equity markets in many other economies have also more than recovered the losses in early April following President Trump's Liberation Day announcement. This is despite tariffs being much higher than before President Trump got elected, and in some cases, being set almost as high as they were on Liberation Day (e.g. the EU).

The ASX200 gained 2.3% in July, supported by strong gains in resources stocks as concerns around China's economy diminished and iron ore and coal prices rose. The rotation into mining stocks saw bank' share prices fall, reversing some of the gains experienced in recent months.

Bond yields

The 'risk on' tone in markets also saw global bond yields rise in July. Short-term US yields rose most sharply, up 24bps, as investors pared back their expectations for rate cuts by the Fed. This was partly in response to the Fed Chairman reiterating the Fed's 'wait and see' approach. Australian 3-year yields ended the month 16bps higher, after the RBA unexpectedly held rates steady at its July meeting.

US and Australian 10-year yields rose 15bps and 10bps, respectively. Despite some volatility, 10-year yields in the US and Australia have traded in a narrow range over the past 6 months. This contrasts with 10-year yields in some other economies rising further over this time, particularly in Japan and Germany.

TCorp bond yields rose by less than Commonwealth Government bond yields in July, with the 10-year spread narrowing by 8bps to 60bps which is its lowest level in around 18 months.

Currency and commodity markets

The US dollar appreciated against a broad range of currencies in July, consistent with the larger rise in US bond yields compared with other economies. The Australian dollar fell sharply in late July to be 1.4% lower against the US dollar, reflecting increased conviction around RBA rate cuts following the Australian inflation data and waning expectations for US rate cuts.

However, the US dollar is still 8% lower in 2025 to date (on a trade-weighted basis) and 3.6% lower against the Australian dollar.

Financial market performance

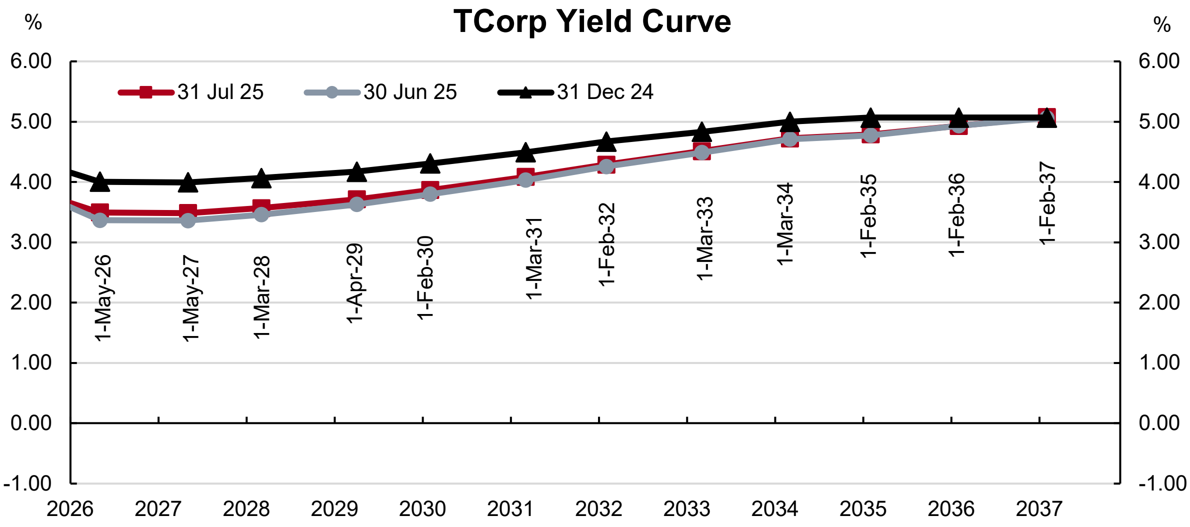
Currency markets **July 2025**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
AUD/USD	0.658	0.660	0.643	**0.643**	-2.4% ▼
AUD/EUR	0.558	0.564	0.554	**0.563**	0.8% ▲
AUD/JPY	94.79	96.98	94.41	**96.86**	2.2% ▲
AUD/GBP	0.479	0.489	0.477	**0.486**	1.5% ▲
AUD/BRL	3.575	3.657	3.554	**3.598**	0.7% ▲
AUD/INR	56.44	57.05	55.73	**56.28**	-0.3% ▼
AUD/CNY	4.714	4.729	4.626	**4.626**	-1.9% ▼

Equity markets* **July 2025**	**Previous month close**	**Month high**	**Month low**	**Month close**	**Month change**
MSCI World ex Australia	4138	4244	4133	**4190**	1.3% ▲
MSCI Emerging Markets	1223	1267	1226	**1243**	1.7% ▲
S&P/ASX200	8542	8757	8539	**8743**	2.3% ▲
S&P/ASX Small Ordinaries	3248	3381	3231	**3338**	2.8% ▲
S&P500 (US)	6205	6390	6198	**6339**	2.2% ▲
FTSE 100 (UK)	8761	9138	8775	**9133**	4.2% ▲
Stoxx600 (Europe)	541	553	540	**546**	0.9% ▲
DAX (Germany)	23910	24550	23673	**24065**	0.7% ▲
CAC 40 (France)	7666	7902	7663	**7772**	1.4% ▲
Nikkei 225 (Japan)	40487	41826	39460	**41070**	1.4% ▲
Hang Seng (HK)	24072	25667	23888	**24773**	2.9% ▲
Shanghai Composite (China)	3444	3616	3455	**3573**	3.7% ▲
Bovespa (Brazil)	138855	141264	132129	**133071**	-4.2% ▼
IPC (Mexico)	57451	58347	55518	**57398**	-0.1% ▼
S&P/BSE Sensex (India)	83606	83713	80891	**81186**	-2.9% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) **July 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	3.60	3.77	3.58	**3.68**	0.08 ▲
180 Day Bank Bill	3.78	3.88	3.72	**3.78**	0.00 ▲
New institutional term deposits	4.20	4.20	4.10	**4.10**	-0.10 ▼
3 Year CGS Bond	3.26	3.51	3.26	**3.42**	0.16 ▲
10 Year CGS Bond	4.16	4.40	4.12	**4.26**	0.10 ▲
10 Year US Bond	4.23	4.48	4.24	**4.37**	0.15 ▲
10 Year German Bond	2.61	2.73	2.57	**2.70**	0.09 ▲
10 Year Japanese Bond	1.43	1.61	1.39	**1.56**	0.13 ▲

TCorp bonds (%) July 2025	Previous month close	Month high	Month low	Month close	Month change	
20-May-26	3.37	3.56	3.34	**3.50**	0.13	▲
20-May-27	3.36	3.57	3.33	**3.49**	0.12	▲
20-Mar-28	3.46	3.68	3.43	**3.57**	0.11	▲
20-Apr-29	3.63	3.83	3.59	**3.71**	0.08	▲
20-Feb-30	3.80	3.99	3.76	**3.87**	0.07	▲
20-Mar-31	4.03	4.22	3.99	**4.09**	0.05	▲
20-Feb-32	4.26	4.43	4.21	**4.29**	0.03	▲
08-Mar-33	4.49	4.67	4.45	**4.51**	0.02	▲
20-Mar-34	4.71	4.90	4.67	**4.72**	0.01	▲
20-Feb-35	4.77	4.96	4.73	**4.79**	0.02	▲
20-Feb-36	4.93	5.12	4.89	**4.93**	0.00	▼
20-Feb-37	5.06	5.26	5.02	**5.08**	0.01	▲
24-Feb-38	5.18	5.38	5.13	**5.20**	0.02	▲
CIB 2.75% 20 Nov 25	0.96	1.14	0.75	**0.75**	-0.21	▼
CIB 2.50% 20 Nov 35	2.58	2.80	2.56	**2.63**	0.05	▲



Source: TCorp

Commodity markets (US$) July 2025	Previous month close	Month high	Month low	Month close	Month change	
Brent Oil (per barrel)	67.6	73.2	67.1	**72.5**	7.3%	▲
Iron Ore (per tonne)	93.4	100.2	95.3	**100.1**	7.2%	▲

TCorp forecasts	Dec-25	Jun-26	Dec-26	Jun-27
RBA Official Cash Rate	3.35	2.85	2.60	2.60
90 Day Bank Bill	3.25	3.00	2.75	3.00
10 Year CGS Bond	3.50	3.50	3.50	3.75

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About New South Wales Treasury Corporation (TCorp)

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