Monthly economic report

The global economy

The evolving conflict in the Middle East continued to be an important driver of financial markets in July. The month started with oil prices back near their pre-war levels and investors optimistic that the worst of the conflict was behind us. As tensions increased and the conflict escalated, oil prices rose from US$70 per barrel to over US$100 per barrel. This reignited inflationary concerns and triggered a sharp rise in global bond yields. However, oil prices declined to around US$90 per barrel towards the end of July as, once again, investors became hopeful that a diplomatic solution could be reached to end the war.

While the ceasefire in early July enabled some ships to leave the Strait of Hormuz, transit stalled again when attacks recommenced. Global inventories of oil and refined fuels continue to run down, with analysts forecasting that inventories will reach critically low levels in coming months. The broadening of the conflict to the Red Sea, where the Houthis impeded the flow of oil from Saudi Arabia, puts more oil supply at risk.

The uncertainty around the Gulf war – and the size and persistence of resulting inflationary pressures – is providing a challenging backdrop for global central banks. While major central banks left their policy rates unchanged in July, there was an increasing divergence of opinions among central bankers, with some voting for rate hikes. There were 3 dissenters that voted for rate hikes at the US Federal Reserve (Fed) and Bank of England meetings, and 1 dissenter at the Bank of Japan. Investors still expect 1 or 2 rate hikes in the US, Europe, UK and Japan by the end of 2026.

Another important theme driving markets in July was evolving sentiment towards AI companies. Investors have become increasingly sceptical in recent months that large AI firms will earn a sufficient return on their massive investments, which has weighed on their share prices. The earnings reports of some US hyperscalers have however allayed some of these concern, at least temporarily.

Chipmakers globally have benefited from soaring chip demand, which has seen their earnings and share prices surge. The share prices however have been very volatile, leading to heightened volatility in share indices that are more exposed to AI firms.

The Australian economy

Australian economic data was mostly on the weaker side in July. Inflation was lower in the June quarter than both the market and the Reserve Bank of Australia (RBA) expected, with trimmed mean inflation rising by 0.8%. Consumer and business confidence remains weak, and although the unemployment rate was steady at 4.4%, it has slowly crept higher over the past few years.

The housing market continues to weaken further, with banks reporting a sharp fall in loan applications, particularly from property investors. House price falls are accelerating in Sydney and Melbourne, with prices in Brisbane and Adelaide looking to have fallen in July for the first time this cycle. Auction clearance rates remain low and consistent with falling house prices.

The weaker domestic economy should allow the RBA to be patient before adjusting rates again, with investors seeing a 50% chance of another rate rise. The recent escalation of the Iran war will see cost pressures intensify, and the RBA will be concerned about further upside risks to inflation and inflation expectations.

Financial market commentary

Bond prices declined as inflationary concerns intensified and several equity markets were dragged down by falls in many AI-related stocks. However, it was a better month for investors in Australian markets.

Equity markets (performance in local currency, excluding dividends)

The MSCI All Countries excluding Australia rose by 0.4% in July, with gains across UK and European markets. The US S&P500 was little changed, weighed down by technology stocks amid ongoing concerns around the future profitability of AI companies. Other equity markets with large AI exposure were also weak.

Japan’s Nikkei fell by 8% and China’s equity market declined 6.4%. The MSCI Emerging Markets index declined by 3.3%, dragged down by a 20% fall in Korea’s equity market and a 6.5% fall in Taiwan’s equity market. While the stock prices of large memory chip makers are significantly higher since the start of the year, they have been extremely volatile and have contributed to higher volatility in broader stock market indices.

Australia’s ASX200 rose 2.3% in July, supported by energy stocks and financials. Despite the softening housing market, the share prices of Australian banks rose strongly in July, following weakness in the prior few months.

Bond yields

Global bond yields rose alongside higher oil prices, with larger rises in European economies that are more reliant on energy imports. Long-term bond yields rose more than short-term yields in most advanced economies, leading to steepening yield curves. This was most stark in the US, where 10-year yields rose 27bps, while 2-year yields increased by 12bps.

The steepening yield curves could reflect investors’ concerns that central banks are raising rates too slowly to return inflation back to their targets. It could also reflect investors starting to demand a higher compensation for risk in an environment of heightened geopolitical tensions and large fiscal budget deficits in many economies.

Australian 10-year bond yields rose 21bps, with the move higher limited by weaker inflation data. TCorp bond yields moved in line with Commonwealth Government bond yields in the month, with the 10-year spread at 60bps.

Currency and commodity markets

The prices of many commodities rose in July, in addition to the 24% rise in oil prices. This supported the Australian dollar, which rose 1.4% against the US dollar and ended the month at US$0.70. This also reflected broad US dollar weakness, as investors slightly pushed back the timing for the first US Fed rate hike.

Another factor that weighed on the US dollar in late July was the coordinated intervention by Japanese and US authorities to support the Japanese Yen, which was at its weakest level in around 4 decades. This saw the Yen appreciate by 3.3% against the US dollar on 31 July. While Japanese authorities have intervened a few times this year to support the Yen, it has only had a short-lived impact. Fundamental depreciation pressures on the Yen soon resumed, driven by Japan’s negative real interest rates, a slow pace of rate rises by the Bank of Japan, and investors’ concerns about looser fiscal policy under Prime Minister Takaichi’s government.

Financial market performance

Currency markets July 2026	Previous month close	Month high	Month low	Month close	Month change	
AUD/USD	0.692	0.703	0.689	**0.702**	1.4%	▲
AUD/EUR	0.606	0.615	0.605	**0.609**	0.5%	▲
AUD/JPY	112.47	114.49	110.48	**110.48**	-1.8%	▼
AUD/GBP	0.522	0.526	0.517	**0.521**	-0.2%	▼
AUD/BRL	3.571	3.600	3.536	**3.561**	-0.3%	▼
AUD/INR	65.50	67.57	65.65	**66.96**	2.2%	▲
AUD/CNY	4.696	4.745	4.681	**4.740**	0.9%	▲

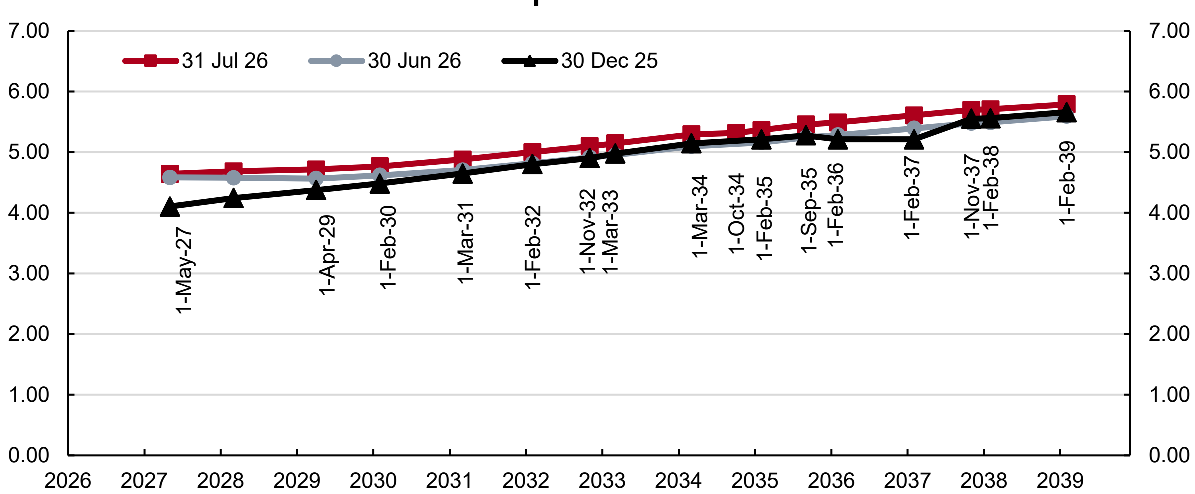
Equity markets* July 2026	Previous month close	Month high	Month low	Month close	Month change	
MSCI World ex Australia	4969	5021	4881	**4989**	0.4%	▲
MSCI Emerging Markets	1723	1722	1560	**1666**	-3.3%	▼
S&P/ASX200	8779	9039	8723	**8977**	2.3%	▲
S&P/ASX Small Ordinaries	3425	3440	3269	**3315**	-3.2%	▼
S&P500 (US)	7499	7575	7316	**7490**	-0.1%	▼
FTSE 100 (UK)	10497	10908	10472	**10868**	3.5%	▲
Stoxx600 (Europe)	642	653	636	**649**	1.2%	▲
DAX (Germany)	24996	25818	24763	**25629**	2.5%	▲
CAC 40 (France)	8404	8510	8253	**8510**	1.3%	▲
Nikkei 225 (Japan)	70062	70475	61434	**64362**	-8.1%	▼
Hang Seng (HK)	22881	25884	22881	**25884**	13.1%	▲
Shanghai Composite (China)	4094	4112	3764	**3832**	-6.4%	▼
Bovespa (Brazil)	172024	177999	170653	**177999**	3.5%	▲
IPC (Mexico)	66967	67466	65973	**66937**	0.0%	▼
S&P/BSE Sensex (India)	76479	78285	76060	**78095**	2.1%	▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) July 2026	Previous month close	Month high	Month low	Month close	Month change	
RBA Official Cash Rate	4.35	4.35	4.35	**4.35**	0.00	–
90 Day Bank Bill	4.46	4.55	4.46	**4.50**	0.04	▲
180 Day Bank Bill	4.80	4.89	4.72	**4.83**	0.03	▲
New institutional term deposits	4.40	4.50	4.40	**4.50**	0.10	▲
3 Year CGS Bond	4.36	4.72	4.39	**4.49**	0.13	▲
10 Year CGS Bond	4.72	5.09	4.79	**4.93**	0.21	▲
10 Year US Bond	4.47	4.73	4.47	**4.73**	0.27	▲
10 Year German Bond	2.86	3.21	2.88	**3.21**	0.35	▲
10 Year Japanese Bond	2.68	2.88	2.70	**2.81**	0.12	▲

TCorp bonds (%) July 2026	Previous month close	Month high	Month low	Month close	Month change	
20-May-27	4.58	4.77	4.58	**4.64**	0.06	▲
20-Mar-28	4.58	4.88	4.60	**4.68**	0.11	▲
20-Apr-29	4.57	4.93	4.60	**4.72**	0.15	▲
20-Feb-30	4.62	4.99	4.65	**4.77**	0.15	▲
20-Mar-31	4.71	5.08	4.74	**4.88**	0.17	▲
20-Feb-32	4.82	5.19	4.86	**5.00**	0.18	▲
22-Nov-32	4.91	5.29	4.95	**5.10**	0.19	▲
08-Mar-33	4.95	5.32	5.00	**5.15**	0.19	▲
20-Mar-34	5.10	5.47	5.15	**5.29**	0.20	▲
17-Oct-34	5.12	5.49	5.18	**5.32**	0.20	▲
20-Feb-35	5.16	5.52	5.22	**5.36**	0.20	▲
20-Sep-35	5.25	5.61	5.31	**5.46**	0.21	▲
20-Feb-36	5.28	5.65	5.35	**5.49**	0.21	▲
20-Feb-37	5.39	5.76	5.46	**5.61**	0.21	▲
20-Nov-37	5.48	5.84	5.55	**5.70**	0.22	▲
24-Feb-38	5.49	5.85	5.56	**5.71**	0.22	▲
22-Feb-39	5.59	5.93	5.66	**5.79**	0.20	▲
CIB 2.50% 20 Nov 35	2.87	3.07	2.88	**3.01**	0.14	▲

TCorp Yield Curve



Source: TCorp

Commodity markets (US$) July 2026	Previous month close	Month high	Month low	Month close	Month change	
Brent Oil (per barrel)	72.9	100.7	71.6	**90.1**	23.6%	▲
Iron Ore (per tonne)	97.6	99.5	97.9	**94.2**	-3.5%	▼

TCorp forecasts	Dec-26	Jun-27	Dec-27	Jun-28
RBA Official Cash Rate	4.35	3.85	3.35	3.10
90 Day Bank Bill	4.25	3.75	3.25	3.25
10 Year CGS Bond	4.50	4.00	4.00	3.75

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About New South Wales Treasury Corporation (TCorp)

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