August 2026
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Monthly economic report

The global economy

The ongoing Iran war had a smaller impact on financial markets in August compared to previous months, as there was little decisive news on the outlook for the conflict. Oil prices were rangebound, trading between US$80 and US$95 per barrel. Reports suggest that more oil is leaving the Strait of Hormuz now with the assistance of the US, with some estimates suggesting exits have reached 50% of pre-war levels. Exports of refined fuels (e.g. diesel) from the Gulf remain depressed, which has seen prices of these products remain elevated.

Economic data and the outlook for interest rates received more focus in August. In the US, inflation remains well above the US Federal Reserve's (Fed) 2% target, the labour market is solid and the economy remains resilient. While AI-related investment is driving activity, there are increasing signs of strength in other sectors. This backdrop has seen increasingly hawkish rhetoric from US Fed officials that favour rate hikes. The new US Fed Chair, Kevin Warsh, has also reassured investors of his commitment to return inflation back to target. Investors now see a 60% chance of a rate rise in September and a 90% chance by October, with a second hike in early 2027.

Expectations for rate hikes also firmed in other advanced economies, including in Australia. The European Central Bank is expected to raise rates in September, with the ongoing conflict boosting inflation and German economic data surprising to the upside. Divergences exist within Europe, however, particularly in France where activity has been weaker and there are ongoing concerns around the fiscal situation.

The Bank of Japan is widely expected to increase interest rates. Inflation is close to the 2% target, but interest rates remain low and the Yen continues to face depreciation pressure.

China's economy remains driven by strong export growth, particularly in sectors linked to AI investment. This has boosted manufacturing of high-tech goods, which stands in sharp contrast to the ongoing property sector downturn and sluggish consumer spending.

The Australian economy

The Reserve Bank of Australia (RBA) kept interest rates unchanged in August. RBA rhetoric remains hawkish, noting that further rate hikes will be needed if there are upside inflation surprises. Investors' expectation of a near-term rate hike increased following stronger than expected inflation in July, with a 50% chance of a hike priced in for September, and almost 100% by November.

Although the RBA is concerned about broad-based inflationary pressures, the weakening housing market is a key risk to the outlook. Higher interest rates and the Federal Government's housing tax changes have led to falling house prices and weak turnover. Major banks have reported 15-20% falls in mortgage applications, with especially large falls in new applications by investors. A weaker housing market will also reduce the stamp duty revenue of state governments.

While nominal consumer spending is growing solidly, real consumer spending looks sluggish. Large retailers are reporting challenging trading conditions as consumer sentiment remains low, unemployment is rising slowly and wages growth is easing.

Investment in data centres and renewable energy projects remains a bright spot for the economy, with most data centre investment occurring in NSW or Victoria. Housing construction in NSW has also been strong and should remain supported by a large pipeline of projects. Investment outside of these remains uninspiring.

Financial market commentary

Bond yields rose as inflationary concerns intensified but most equity markets climbed higher over August, as global growth exhibited some reassuring resilience.

Equity markets (performance in local currency, excluding dividends)

Stronger economic data and positive sentiment around AI companies boosted equity markets in August, despite higher bond yields in many economies. The MSCI World (ex Australia) index rose 2.5%, while the MSCI Emerging Market index gained 3.2% over August.

The US S&P500 increased by 2.6%, driven by gains in the technology sector alongside some positive earnings reports (including Nvidia and several large software companies). The ASX200 gained 1.1%, with mining companies recording another strong month alongside the rise in global commodity prices. In contrast, banking stocks fell sharply as the slowing housing market provides a challenging backdrop for Australian banks. Consumer-facing stocks were also weak amid sluggish consumer spending and disappointing earnings reports by retailers (e.g. JB Hi-Fi).

European equity markets were mixed. Germany’s equity market rose 2.5% alongside more positive economic data, while France’s fell 2.1% and the UK FTSE 100 dipped by 0.4%. Japan’s equity market rebounded 3% in August, boosted by AI companies and banking stocks that rose alongside expectations for a rate rise by the Bank of Japan. Japan’s equity market has outperformed in 2026 to date, rising by 32%.

Bond yields

Australian bond yields rose by more than most other advanced economies in August, increasing by 9-16bps across the curve. Shorter-dated tenors rose the most, which reflected a hawkish RBA and stronger domestic inflation data. TCorp’s 10-year bond yields rose less than its Commonwealth equivalent, with the spread narrowing to 55bps.

2-year US yields ended the month up 5bps as additional rate rises were priced in, while the 10-year bond yield ticked up 2bps. This follows upward pressure on long-term bond yields in recent months, where 30-year yields reached their highest level in almost 20 years. The US Treasury appears to be concerned about long-term borrowing costs increasing further, as the US economy and government borrowing costs are most sensitive to long-term interest rates.

Long-term bond yields in Europe and Japan also rose in the month, as expectations for rate hikes in those economies also firmed and higher oil prices exacerbate inflationary pressures for economies that are more reliant on imported energy.

Currency and commodity markets

The Australian dollar rose by 2% against the US dollar, as short-term interest rate expectations in Australia were revised up more than the US. Stronger commodity prices also supported, with the Australian dollar returning close to 72 US cents – a bit below its year-to-date high in May.

Oil prices ended the month little changed and compared to the first 5 months of the war, traded in a relatively narrow range. The iron ore gained 2.6% climbing back above US$ 96 per tonne.

Financial market performance

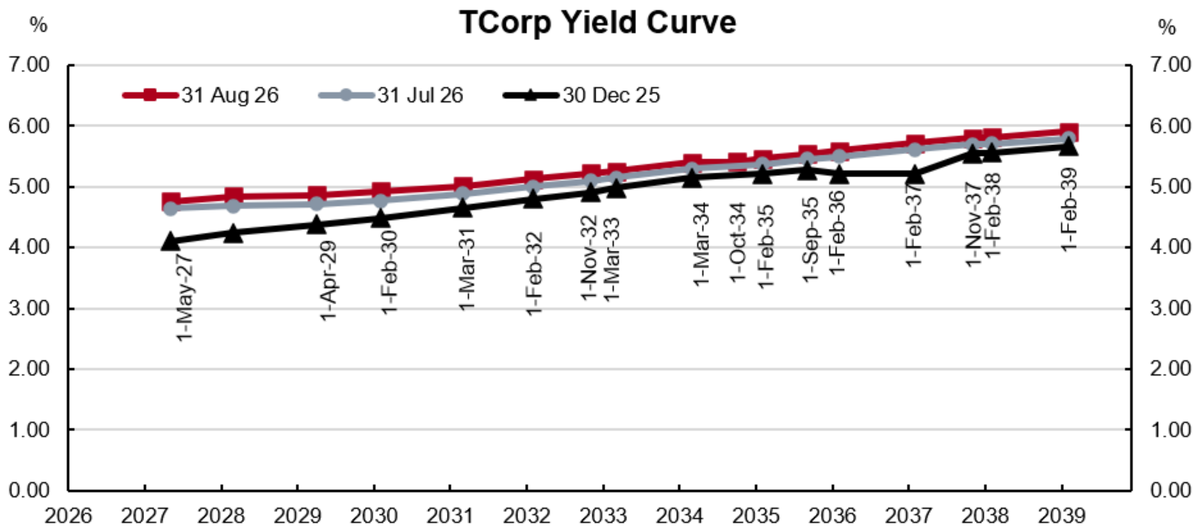
Currency markets August 2026	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.702	0.718	0.700	**0.716**	2.0% ▲
AUD/EUR	0.609	0.618	0.608	**0.617**	1.3% ▲
AUD/JPY	110.48	114.69	109.78	**114.30**	3.5% ▲
AUD/GBP	0.521	0.529	0.520	**0.529**	1.5% ▲
AUD/BRL	3.561	3.721	3.561	**3.711**	4.2% ▲
AUD/INR	66.96	68.63	66.74	**68.11**	1.7% ▲
AUD/CNY	4.739	4.827	4.728	**4.808**	1.5% ▲

Equity markets* August 2026	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	4989	5182	5048	**5113**	2.5% ▲
MSCI Emerging Markets	1666	1723	1651	**1719**	3.2% ▲
S&P/ASX200	8977	9272	9019	**9076**	1.1% ▲
S&P/ASX Small Ordinaries	3315	3589	3341	**3474**	4.8% ▲
S&P500 (US)	7490	7799	7601	**7686**	2.6% ▲
FTSE 100 (UK)	10868	10901	10720	**10824**	-0.4% ▼
Stoxx600 (Europe)	649	661	650	**651**	0.3% ▲
DAX (Germany)	25629	26570	25983	**26258**	2.5% ▲
CAC 40 (France)	8510	8726	8320	**8335**	-2.1% ▼
Nikkei 225 (Japan)	64362	69220	63755	**66312**	3.0% ▲
Hang Seng (HK)	25884	26009	25117	**25567**	-1.2% ▼
Shanghai Composite (China)	3832	3990	3810	**3986**	4.0% ▲
Bovespa (Brazil)	177999	178000	166335	**177419**	-0.3% ▼
IPC (Mexico)	66937	66939	63934	**65430**	-2.3% ▼
S&P/BSE Sensex (India)	78095	78955	76910	**76957**	-1.5% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) August 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	4.50	4.55	4.49	**4.55**	0.05 ▲
180 Day Bank Bill	4.83	4.88	4.78	**4.88**	0.05 ▲
New institutional term deposits	4.50	4.60	4.50	**4.60**	0.10 ▲
3 Year CGS Bond	4.49	4.67	4.47	**4.66**	0.17 ▲
10 Year CGS Bond	4.93	5.10	4.91	**5.09**	0.17 ▲
10 Year US Bond	4.73	4.75	4.61	**4.75**	0.02 ▲
10 Year German Bond	3.21	3.32	3.11	**3.32**	0.12 ▲
10 Year Japanese Bond	2.81	2.96	2.79	**2.96**	0.15 ▲

TCorp bonds (%) August 2026	Previous month close	Month high	Month low	Month close	Month change
20-May-27	4.64	4.78	4.63	**4.76**	0.12 ▲
20-Mar-28	4.68	4.85	4.66	**4.84**	0.16 ▲
20-Apr-29	4.72	4.87	4.69	**4.87**	0.15 ▲
20-Feb-30	4.77	4.93	4.73	**4.93**	0.16 ▲
20-Mar-31	4.88	5.02	4.84	**5.01**	0.13 ▲
20-Feb-32	5.00	5.13	4.97	**5.13**	0.13 ▲
22-Nov-32	5.10	5.22	5.07	**5.22**	0.12 ▲
08-Mar-33	5.15	5.26	5.11	**5.25**	0.11 ▲
20-Mar-34	5.29	5.41	5.26	**5.40**	0.10 ▲
17-Oct-34	5.32	5.44	5.28	**5.41**	0.10 ▲
20-Feb-35	5.36	5.49	5.33	**5.46**	0.10 ▲
20-Sep-35	5.46	5.58	5.42	**5.54**	0.09 ▲
20-Feb-36	5.49	5.63	5.45	**5.59**	0.10 ▲
20-Oct-36	5.54	5.68	5.51	**5.64**	0.10 ▲
20-Feb-37	5.61	5.74	5.58	**5.72**	0.11 ▲
20-Nov-37	5.70	5.84	5.67	**5.81**	0.11 ▲
24-Feb-38	5.71	5.85	5.69	**5.82**	0.11 ▲
22-Feb-39	5.79	5.93	5.76	**5.91**	0.12 ▲
CIB 2.50% 20 Nov 35	3.13	3.24	3.02	**3.11**	-0.02 ▼



Source: TCorp

Commodity markets (US$) August 2026	Previous month close	Month high	Month low	Month close	Month change
Brent Oil (per barrel)	90.1	94.4	79.4	**90.5**	0.4% ▲
Iron Ore (per tonne)	93.6	96.1	93.6	**96.1**	2.6% ▲

TCorp forecasts	Dec-26	Jun-27	Dec-27	Jun-28
RBA Official Cash Rate	4.35	4.35	3.85	3.35
90 Day Bank Bill	4.35	4.25	3.75	3.25
10 Year CGS Bond	4.75	4.50	4.50	4.00

Level 7, Deutsche Bank Place
126 Phillip Street
Sydney NSW 2000, Australia

T +61 2 9325 9325
W www.tcorp.nsw.gov.au

ABN 99 095 235 825

About New South Wales Treasury Corporation (TCorp)

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