

Monthly economic report

The global economy

Bond yields globally rose sharply in September and have faced sustained upward pressure since July. This was driven by an escalation in the Middle East conflict, which has caused another large rise in energy prices. Oil prices rose from US\$90 per barrel to US\$104 per barrel in September but spiked as high as US\$110 per barrel during the month.

Pressure remains more acute on refined fuels as refineries in the Middle East and Russia have been damaged in attacks. US diesel prices are now 65% above their pre-war levels, well exceeding their 2022 peak, and global inventories continue to be run down. Russia banned diesel exports in July, and the US is considering the same, which would put more pressure on global supply and prices.

The rise in energy prices and the prolonged nature of the conflict have strengthened expectations that global inflation will be higher for longer. High energy prices are also coinciding with the AI investment boom, which has led to high inflation in exposed areas and contributed to global growth being more resilient than expected this year (particularly in the US).

Against this backdrop, central banks have become more convinced that upside risks to inflation are materialising. With inflation already having been above target for the past 5 years, central banks are embarking on a globally synchronised monetary policy tightening cycle. Central banks in the US, Europe, Australia, Japan, New Zealand and Norway all increased interest rates in September. The UK, Sweden and Canada are expected to follow suit in coming months.

The sharp rise in global bond yields in September reflects investors' view that central banks will need to hike rates more aggressively to return inflation to target. Investors expect the US Federal Reserve (Fed) and European Central Bank to raise rates another 3 or 4 times by mid-2027.

The Australian economy

The Reserve Bank of Australia (RBA) raised interest rates by 25bps in September, to 4.6%, as higher global inflation and ongoing capacity pressures in some domestic sectors have put upward pressure on Australian inflation. Monthly inflation data remain volatile but show that inflation remains well above the midpoint of the RBA's target band. With global inflationary pressures intensifying, investors expect 1 or 2 more rate rises by the RBA in this tightening cycle.

There are pockets of the Australian economy that are resilient and supporting growth. The AI investment boom has seen strong investment in data centres and related areas (especially electricity infrastructure). Housing construction activity also remains robust. The large pipeline of data centres and housing projects is expected to continue to support activity over the coming year, particularly in NSW. There is a risk, however, that strong construction activity creates shortages of labour and materials, leading to higher inflation in the construction sector and housing costs.

In contrast to the strength in housing construction, the established housing market has weakened noticeably in response to higher interest rates and the Federal Government's housing tax changes. Turnover has fallen sharply and house prices fell further in September. Housing prices in Sydney have fallen by around 8.5% from their recent peak. This has contributed to weak consumer

sentiment and sluggish consumer spending. Despite the labour market continuing to gradually weaken, the unemployment rate remains at a relatively low 4.6%.

Financial market commentary

September was a challenging month for investors, with bond yields rising sharply and most equity markets falling in response.

Equity markets (performance in local currency, excluding dividends)

The headwinds from higher bond yields weighed on global equity markets in September. The MSCI World (ex Australia) index fell 1.2% while the MSCI Emerging Market index declined by 0.8%. Despite experiencing the largest rise in bond yields, US equities were the most resilient. Although the US S&P500 fell by 0.5% and most sectors ended the month lower, strong gains in AI-related companies limited the fall. Strength in AI-related stocks also supported equity markets in Japan, Taiwan and Korea.

Australia's ASX200 fell by 3.2% and continues to underperform in 2026. Although mining companies' share prices fell in September, the resources sector is still up 19% this year. In contrast, banks continue to face headwinds from rising interest rates and a sharp slowing in the housing market.

European equity markets underperformed, particularly France, with European economies being heavily exposed to higher energy prices.

Bond yields

The reassessment of interest rate expectations was largest in the US, following a rate hike by the Fed and hawkish commentary by Fed Chair Kevin Warsh. US 2-year yields rose by 55bps and 10-year yields increased 53bps, with the latter at their highest level since 2007. US 30-year yields – which are an important benchmark rate for US borrowers – rose by 39bps and reached their highest level since 2002.

10-year bond yields in France rose the most in September (+68bps), spiking higher after the government announced that it will miss its budget deficit target for 2026 (estimated to be 5.4% of GDP vs. the 5% target). This heightened investors' existing concerns around fiscal sustainability in France, which has been compounded by political instability in recent years. Elsewhere, 10-year yields in Germany and Japan rose by 26bps and 11bps, respectively.

Australian 3-year bond yields increased 27bps as additional tightening by the RBA was priced in. 10-year yields rose by a similar amount, reaching their highest level since 2011. The gap between 10-year Australian and US yields has almost closed, after being unusually wide earlier in the year (up to +70bps). TCorp's 10-year bond yields rose by slightly more than its Commonwealth equivalent, with the spread widening to +57bps.

Currency and commodity markets

The US dollar rose against a broad range of currencies in September, consistent with US interest rate expectations rising more than other economies. This drove the Australian dollar's 3.1% depreciation against the US dollar, with the Australian dollar ending the month at 69.5 US cents.

Notably, the US dollar depreciated by 1.5% against the Japanese Yen in September. This could reflect growing confidence that the Bank of Japan will continue raising interest rates, as well as comments by Japanese and US authorities publicly expressing concerns about Yen weakness.

Financial market performance

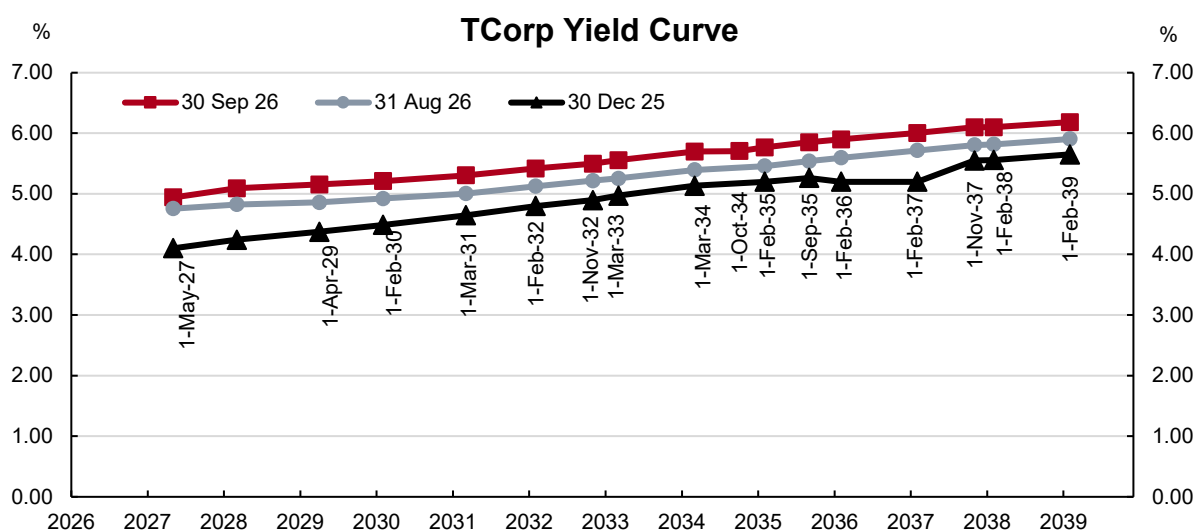
Currency markets September 2026	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.717	0.722	0.695	0.695	-3.1% ▼
AUD/EUR	0.617	0.621	0.613	0.613	-0.6% ▼
AUD/JPY	114.49	114.45	109.35	109.35	-4.5% ▼
AUD/GBP	0.529	0.533	0.524	0.524	-1.0% ▼
AUD/BRL	3.716	3.702	3.595	3.595	-3.3% ▼
AUD/INR	68.21	68.64	66.57	66.57	-2.4% ▼
AUD/CNY	4.816	4.844	4.659	4.659	-3.3% ▼

Equity markets* September 2026	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	5113	5148	5021	5049	-1.2% ▼
MSCI Emerging Markets	1719	1757	1681	1705	-0.8% ▼
S&P/ASX200	9076	9067	8665	8789	-3.2% ▼
S&P/ASX Small Ordinaries	3474	3488	3312	3369	-3.0% ▼
S&P500 (US)	7686	7765	7552	7652	-0.5% ▼
FTSE 100 (UK)	10824	10832	10606	10606	-2.0% ▼
Stoxx600 (Europe)	651	650	634	635	-2.5% ▼
DAX (Germany)	26258	26046	25199	25199	-4.0% ▼
CAC 40 (France)	8335	8318	7965	7965	-4.4% ▼
Nikkei 225 (Japan)	66312	66754	63484	66754	0.7% ▲
Hang Seng (HK)	25567	25651	24510	24613	-3.7% ▼
Shanghai Composite (China)	3986	3980	3824	3842	-3.6% ▼
Bovespa (Brazil)	177419	188269	179722	186340	5.0% ▲
IPC (Mexico)	65430	65436	63376	64214	-1.9% ▼
S&P/BSE Sensex (India)	76957	76944	72480	72480	-5.8% ▼

*Returns are in local currency, and exclude dividend payments

Bond markets (%) September 2026	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.35	4.60	4.35	4.60	0.25 ▲
90 Day Bank Bill	4.55	4.77	4.55	4.77	0.22 ▲
180 Day Bank Bill	4.88	5.15	4.88	5.12	0.25 ▲
New institutional term deposits	4.60	4.60	4.50	4.60	0.00 –
3 Year CGS Bond	4.66	5.05	4.72	4.93	0.27 ▲
10 Year CGS Bond	5.09	5.42	5.17	5.35	0.26 ▲
10 Year US Bond	4.75	5.28	4.77	5.28	0.53 ▲
10 Year German Bond	3.32	3.64	3.34	3.59	0.26 ▲
10 Year Japanese Bond	2.96	3.10	2.89	3.07	0.11 ▲

TCorp bonds (%)	Previous month close	Month high	Month low	Month close	Month change
September 2026					
20-May-27	4.76	4.98	4.79	4.94	0.18 ▲
20-Mar-28	4.82	5.20	4.88	5.09	0.27 ▲
20-Apr-29	4.86	5.27	4.92	5.15	0.29 ▲
20-Feb-30	4.92	5.33	4.99	5.21	0.29 ▲
20-Mar-31	5.00	5.41	5.08	5.30	0.30 ▲
20-Feb-32	5.13	5.51	5.20	5.42	0.29 ▲
22-Nov-32	5.22	5.60	5.28	5.50	0.28 ▲
08-Mar-33	5.25	5.64	5.32	5.56	0.30 ▲
20-Mar-34	5.39	5.76	5.47	5.70	0.30 ▲
17-Oct-34	5.41	5.78	5.49	5.70	0.29 ▲
20-Feb-35	5.46	5.83	5.53	5.76	0.31 ▲
20-Sep-35	5.54	5.91	5.62	5.85	0.31 ▲
20-Feb-36	5.59	5.95	5.68	5.90	0.30 ▲
20-Oct-36	5.64	6.00	5.71	5.93	0.29 ▲
20-Feb-37	5.72	6.06	5.79	6.00	0.29 ▲
20-Nov-37	5.81	6.14	5.89	6.10	0.29 ▲
24-Feb-38	5.82	6.15	5.90	6.10	0.28 ▲
22-Feb-39	5.90	6.24	5.98	6.18	0.28 ▲
CIB 2.50% 20 Nov 35	3.11	3.37	3.14	3.28	0.17 ▲



Source: TCorp

Commodity markets (US\$)	Previous month close	Month high	Month low	Month close	Month change
September 2026					
Brent Oil (per barrel)	90.5	108.8	94.7	103.5	14.4% ▲
Iron Ore (per tonne)	99.5	100.6	96.6	93.2	-6.3% ▼

TCorp forecasts	Dec-26	Jun-27	Dec-27	Jun-28
RBA Official Cash Rate	4.85	4.85	4.35	3.85
90 Day Bank Bill	4.95	4.70	4.25	3.75
10 Year CGS Bond	5.25	5.00	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)

TCorp provides best-in-class investment management, financial management, solutions, and advice to the New South Wales (NSW) public sector. TCorp is NSW's sovereign investment manager, responsible for A\$119 billion of assets under management, and acts as the central borrowing authority of the state, with a balance sheet of A\$196 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Stable) by S&P.

Disclaimer

The opinions, forecasts and data contained in this report is based on the research of TCorp as at the date of publication and is subject to change without notice. TCorp is not responsible for the accuracy, adequacy, currency, or completeness of any information in the report provided by third parties. This report is provided for general information purposes only and should not be relied upon for investment or trading purposes. This Report is not intended to forecast or predict future events.

Unauthorised copying and distribution of this material is prohibited.

© New South Wales Treasury Corporation 2025. All rights reserved.