October 2026
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Monthly economic report

The global economy

The global economy and financial markets continue to be driven by developments in the Middle East and sentiment towards the AI sector. Energy prices rose sharply in October amid ongoing attacks and as investors priced in the risk of an escalation in the conflict after the US mid-term elections. Oil prices rose to US$118 per barrel, their highest level since April. Diesel and LNG prices remain very high, with the latter rising by 30% in October.

The rise in energy prices is keeping inflation elevated and central banks continue to signal that further interest rate rises will be necessary. The Bank of Canada raised interest rates in October and central banks in the UK, Sweden and Australia are expected to do the same in November. Central banks in the US, Japan, Europe and New Zealand held rates steady in October but are expected to raise rates in December.

Investor sentiment towards AI companies is becoming more fragile. After strong optimism about the sector at the start of October, concerns around AI companies triggered large risk-off moves across financial markets. Investors have become more concerned about whether the large AI investment will generate sufficient returns and have consequently become more discerning across companies. Concerns are greater for companies whose earnings are most reliant on a continued strong increase in infrastructure spending and those more reliant on debt financing.

Developments in France have also remained in focus this month, with concerns around France's fiscal position continuing to pressure French government bonds. Signs of contagion spreading to French banks, other European sovereigns and corporate credit markets have so far been limited and are unlikely to generate serious concerns within the European Central Bank at this stage.

The Australian economy

Commentary by the Reserve Bank of Australia (RBA) has been consistently hawkish in October, with several public appearances emphasising that inflation is too high and reiterating that the economy and labour market must weaken further to bring inflation down. The September quarter inflation data confirmed that underlying inflation remains high and well above where the RBA forecast it would be at the time of its most recent forecast update in early August.

In response, investors now see a 75% chance of the RBA raising rates again this week (up from around 20% at the start of October). Another 25bps rate rise would take Australia's policy rate to 4.85% – the highest level since 2008, when the RBA was aggressively cutting rates during the Global Financial Crisis (from 7.25% in mid-2008 to 3% in early 2009). The key question for investors now is whether this will mark the peak in rates.

Although the RBA acknowledges that most inflationary pressures reflect global factors – higher energy costs and the AI investment boom – it also thinks the labour market remains tight. It is likely, however, that consumer spending will weaken further in coming months because of higher interest rates and the ongoing housing market downturn.

House prices fell further in October across all capital cities, with Sydney house prices now 10% below their early 2026 peak. Australian retailers are reporting tougher trading conditions as

consumers rein in discretionary spending and wait for sales promotions before making large purchases, with some home builders also starting to offer discounts to boost sales.

Financial market commentary

Investor risk sentiment around the AI sector weighed on those equity markets that are more exposed to AI companies. This heightened demand for government bonds and pushed global bond yields lower, despite notable increases in energy prices.

Equity markets (performance in local currency, excluding dividends)

After a strong start to October, concerns around the AI sector weighed on global equity markets, particularly those with a larger representation of AI companies. Disappointing earnings reports by some tech firms triggered sharp falls in their share prices and a broader sell-off across the sector. For example, Alphabet's share price fell by 13% after its earnings report underwhelmed investors. This contributed to the US tech-heavy Nasdaq index ending the month 5% lower, while the S&P500 fell by 0.9%. AI-exposed equity markets in Korea and Japan fell by 16% and 5%.

Brazil's stock market ended October 10% lower. Investors had expected Brazil's Presidential election would be won by the more market-friendly and fiscally conservative candidate Flavio Bolsonaro. But when it became clear that this would not occur, Brazilian shares dropped 18%. This triggered a broad sell-off in Brazilian assets, with the Brazilian currency plummeting and bond yields soaring.

Australia's ASX200 gained 1.2%, with a strong recovery in banking sector stocks more than offsetting another poor month for resource companies. European equities (outside of France) recorded solid gains, supported by lower bond yields in October.

Bond yields

Despite the rise in energy prices, long-term bond yields fell sharply in most economies in October. Heightened risk aversion saw investors seek the safety of government bonds, with this safe-haven demand strongest in the US and 10-year yields falling by 36bps. Germany and Japan also benefited from safe-haven demand, with 10-year bond yields down 26bps and 28ps.

In contrast, ongoing concerns around France's fiscal outlook saw 10-year bond yields rise another 11bps. French bond yields have increased by much more than other advanced economies over the past 2 months, with 10-year yields now at their highest level since 2002 and well above those in Greece and Italy.

Australia's 10-year bond yields followed global yields lower, declining by 23bps. The fall in 3-year yields was a more modest 12bps, however, because of a more hawkish RBA. The deterioration in global risk appetite saw TCorp bond yields fall by less than Australian Government bond yields, with the 10-year spread widening by 10bps to 68bps.

Currency and commodity markets

The Australian dollar rose by 1.2% against the US dollar in October, supported by the RBA being more hawkish than the US Federal Reserve and higher prices for some of Australia's key commodity exports (mainly LNG and coal, while iron ore prices continued to edge lower).

The euro weakened in October, weighed down by concerns surrounding France. While safe-haven flows supported the US dollar, the Swiss franc benefited more, rising by 1.3% against the US dollar over the month.

Financial market performance

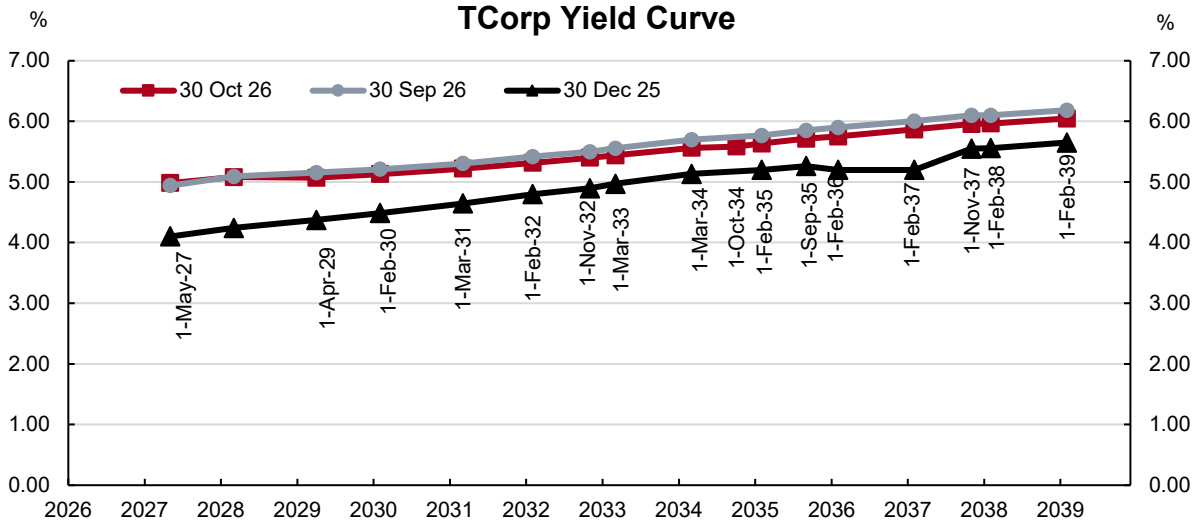
Currency markets October 2026	Previous month close	Month high	Month low	Month close	Month change	
AUD/USD	0.695	0.705	0.692	**0.703**	1.2%	▲
AUD/EUR	0.613	0.632	0.616	**0.630**	2.8%	▲
AUD/JPY	109.35	111.34	109.35	**110.80**	1.3%	▲
AUD/GBP	0.524	0.529	0.521	**0.525**	0.3%	▲
AUD/BRL	3.595	3.824	3.471	**3.824**	6.4%	▲
AUD/INR	66.57	67.55	65.79	**66.77**	0.3%	▲
AUD/CNY	4.659	4.702	4.631	**4.680**	0.5%	▲

Equity markets* October 2026	Previous month close	Month high	Month low	Month close	Month change	
MSCI World ex Australia	5049	5135	5004	**5004**	-0.9%	▼
MSCI Emerging Markets	1705	1743	1563	**1567**	-8.1%	▼
S&P/ASX200	8789	8908	8614	**8908**	1.4%	▲
S&P/ASX Small Ordinaries	3369	3326	3067	**3148**	-6.6%	▼
S&P500 (US)	7652	7819	7580	**7580**	-0.9%	▼
FTSE 100 (UK)	10606	10882	10428	**10730**	1.2%	▲
Stoxx600 (Europe)	635	649	626	**647**	1.9%	▲
DAX (Germany)	25199	26040	24807	**25818**	2.5%	▲
CAC 40 (France)	7965	7970	7730	**7969**	0.1%	▲
Nikkei 225 (Japan)	66754	70684	62190	**63290**	-5.2%	▼
Hang Seng (HK)	24613	24613	22935	**23294**	-5.4%	▼
Shanghai Composite (China)	3842	3842	3599	**3599**	-6.3%	▼
Bovespa (Brazil)	186340	209067	167922	**167922**	-9.9%	▼
IPC (Mexico)	64214	70250	63829	**69779**	8.7%	▲
S&P/BSE Sensex (India)	72480	74729	71593	**74460**	2.7%	▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) October 2026	Previous month close	Month high	Month low	Month close	Month change	
RBA Official Cash Rate	4.60	4.60	4.60	**4.60**	0.00	–
90 Day Bank Bill	4.77	4.91	4.76	**4.90**	0.13	▲
180 Day Bank Bill	5.12	5.25	5.12	**5.25**	0.13	▲
New institutional term deposits	4.60	4.60	4.60	**4.60**	0.00	–
3 Year CGS Bond	4.93	4.97	4.81	**4.81**	-0.12	▼
10 Year CGS Bond	5.35	5.41	5.12	**5.12**	-0.23	▼
10 Year US Bond	5.28	5.30	4.93	**4.93**	-0.36	▼
10 Year German Bond	3.59	3.51	3.32	**3.32**	-0.26	▼
10 Year Japanese Bond	3.07	3.13	2.78	**2.78**	-0.28	▼

TCorp bonds (%) October 2026	Previous month close	Month high	Month low	Month close	Month change	
20-May-27	4.94	5.00	4.89	**4.98**	0.04	▲
20-Mar-28	5.09	5.12	5.00	**5.08**	-0.01	▼
20-Apr-29	5.15	5.19	5.05	**5.07**	-0.08	▼
20-Feb-30	5.21	5.25	5.12	**5.13**	-0.08	▼
20-Mar-31	5.30	5.35	5.22	**5.22**	-0.08	▼
20-Feb-32	5.42	5.47	5.32	**5.32**	-0.10	▼
22-Nov-32	5.50	5.56	5.40	**5.40**	-0.10	▼
08-Mar-33	5.56	5.62	5.44	**5.44**	-0.12	▼
20-Mar-34	5.70	5.76	5.56	**5.56**	-0.13	▼
17-Oct-34	5.70	5.79	5.58	**5.58**	-0.12	▼
20-Feb-35	5.76	5.84	5.63	**5.63**	-0.13	▼
20-Sep-35	5.85	5.92	5.71	**5.71**	-0.14	▼
20-Feb-36	5.90	5.98	5.75	**5.75**	-0.15	▼
20-Oct-36	5.93	6.02	5.79	**5.79**	-0.14	▼
20-Feb-37	6.00	6.09	5.87	**5.87**	-0.14	▼
20-Nov-37	6.10	6.18	5.96	**5.96**	-0.14	▼
24-Feb-38	6.10	6.19	5.96	**5.96**	-0.13	▼
22-Feb-39	6.18	6.28	6.05	**6.05**	-0.14	▼
CIB 2.50% 20 Nov 35	3.28	3.31	3.11	**3.11**	-0.16	▼



Source: TCorp

Commodity markets (US$) October 2026	Previous month close	Month high	Month low	Month close	Month change	
Brent Oil (per barrel)	103.5	117.6	100.2	**117.6**	13.6%	▲
Iron Ore (per tonne)	92.3	91.5	90.3	**91.0**	-1.5%	▼

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

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About New South Wales Treasury Corporation (TCorp)

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