

Highlights this week

- In Australia, NAB business conditions improved slightly in August, while business confidence deteriorated somewhat, but both measures remained around their respective long-term averages. The Westpac Melbourne Institute consumer sentiment index retreated from a 3.5-year high in September, while inflation expectations rose.
- Abroad, the level of US non-farm payrolls was revised sharply downwards. The US CPI rose roughly in line with expectations in August, while the US PPI saw an unexpected decline. China was in deflation, both in terms of consumer and producer prices. The ECB kept interest rates unchanged, as expected.

Highlights next week

- The only domestic release of note will be the August labour force survey on Thursday, with another moderate rise in employment expected.
- It will be a big week in global central banking, with the Fed, Bank of Japan and Bank of England all expected to announce their monetary policy decisions. Only the Fed is expected to deliver a rate cut, while also publishing its updated projections. The key offshore data releases will be US and Chinese activity data for August.

Central Bank Rates (%)			Australian Interest Rates (%)			Major Overseas Interest Rates (%)			Global Equities		Weekly Change
		Weekly Change			Weekly Change			Weekly Change			
Australia	3.60	(0 pt)	O/N Interbank Cash	3.60	(↑1 pt)	USD 3-month	4.85	(0 pt)	ASX200	8878	(↑16 pt)
US (IOR)	4.40	(0 pt)	90-day Bills	3.59	(0 pt)	2-yr T-Notes	3.54	(↓4 pt)	S&P500	6587	(↑85 pt)
Eurozone (Deposit)	2.00	(0 pt)	3-yr T-Bond	3.43	(↓6 pt)	10-yr T-Notes	4.03	(↓13 pt)	DJIA	46108	(↑487 pt)
UK	4.00	(0 pt)	10-yr T-Bond	4.21	(↓13 pt)	Jap 10-yr	1.59	(↑1 pt)	Nikkei	44669	(↑1753 pt)
Japan (Target)	0.50	(0 pt)	3-yr WATC Bond	3.58	(↓3 pt)	UK 10-yr	4.61	(↓11 pt)	CSI300	4545	(↑180 pt)
China (1Y LPR)	3.00	(0 pt)	10-yr WATC Bond	4.75	(↓9 pt)	Ger 10-yr	2.66	(↓6 pt)	Stoxx600	555	(↑5 pt)

Changes are since the previous issue of Market Watch Weekly.

Financial Markets

Interest Rates

Government bond yields are generally down this week, as US economic data supported the case for the to resume rate cuts next week. The US PPI figures for August undershot market expectations, while the US CPI figures were roughly in line with the consensus, with core inflation holding steady. US non-farm payrolls saw another meagre increase in August, while initial jobless claims climbed to a nearly four-year high. The preliminary annual benchmark revision signalled that payrolls will likely be revised sharply lower in February 2026.

The fall in US yields was helped by geopolitical events, with Israel launching an attack on Hamas leadership in Qatar and Russian drones entering the Polish airspace in relatively large numbers.

A change in prime ministership in Japan and France prevented larger declines in yields in Europe and Japan, with Japanese yields even climbing slightly. Aussie Commonwealth bond yields fell along with their US equivalents.

The ECB kept interest rates unchanged last night, including the deposit rate at 2.00%. The markets expect no more cuts from the ECB this year, with a 25bps cut partially priced in for 2026.

Equities

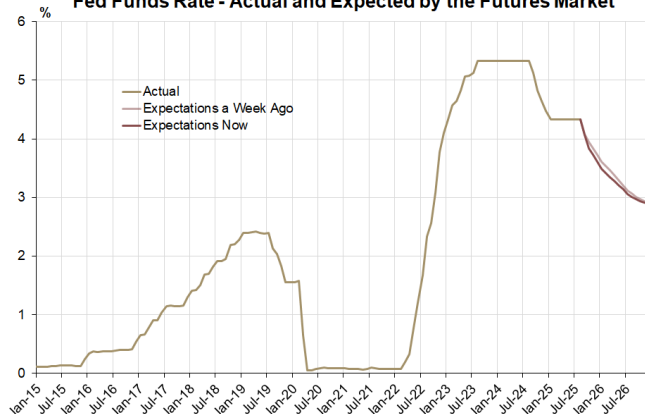
The slight intensification of fed funds rate expectations drove US stocks to fresh record highs this week.

Most of the gains came mid-week, particularly on Thursday, after US inflation figures and a bounce in initial jobless claims cemented the case for a fed funds rate cut next week. These gains came after a very weak start and a decline in shares last Friday night, following another meagre non-farm payrolls report.

The Nikkei and French CAC 40 shrugged off political tensions to register solid gains this week, with the Nikkei hitting a record high.

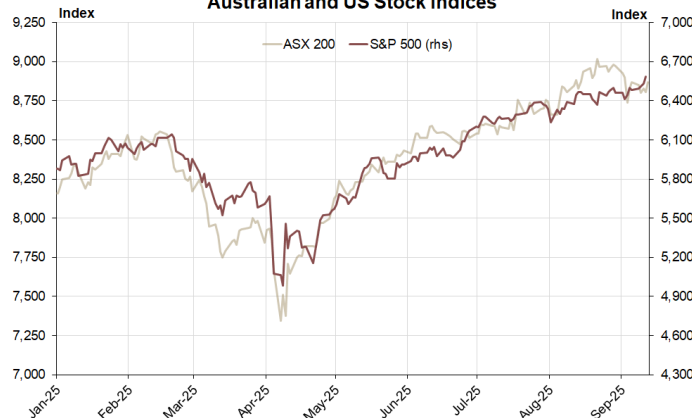
The Aussie share market again underperformed Wall Street this week, staying 1.7% short of its record high from mid-August with just a 0.2% gain. Increases and losses were almost equally split across industries, with information technology seeing the strongest gain, while energy stocks recorded the steepest fall.

Fed Funds Rate - Actual and Expected by the Futures Market



Source: Bloomberg

Australian and US Stock Indices



Source: Bloomberg

Currencies

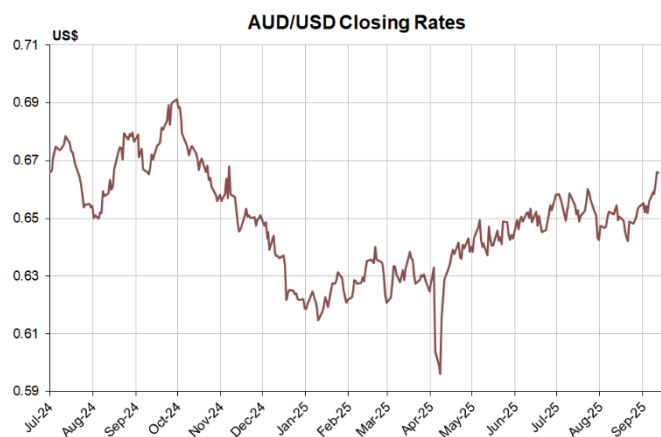
The Australian dollar appreciated against all major currencies over the past week and was one of the strongest members of the G10 currency basket, behind only the Norwegian krone and New Zealand dollar.

The strongest increases were against the Canadian and US dollars. The AUD/USD has risen to its highest levels since November last year.

Major drivers behind the Aussie's gain have been the improvement in financial market sentiment and rising commodity prices, including gold. Australia is the world's third biggest gold producer, with the majority being produced in Western Australia.

The AUD trade-weighted index rose to its highest levels since December.

The greenback came under further downward pressure, as expectations for Fed interest rate cuts continued to build.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6657	0.6669	0.6544	↑2	0.6942	0.5915
AUD/EUR		0.5677	0.5684	0.5589	↑1.5	0.6261	0.4620
AUD/GBP		0.4910	0.4914	0.4847	↑1.2	0.5229	0.4620
AUD/JPY		98.15	98.22	96.73	↑1.5	102.41	86.05
AUD/CNY		4.7402	4.7448	4.6732	↑1.8	4.8726	4.3523
EUR/USD		1.1727	1.1780	1.1662	↑0.5	1.1829	1.0141
GBP/USD		1.3560	1.3590	1.3483	↑0.8	1.3789	1.2100
USD/JPY		147.43	148.58	146.31	↓0.5	158.87	139.58
USD/CNY		7.1199	7.1365	7.1175	↓0.2	7.3511	7.0063

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6657	0.6665	0.6670	0.6672
AUD/EUR		0.5677	0.5654	0.5633	0.5593
AUD/GBP		0.4910	0.4915	0.4921	0.4932
AUD/JPY		98.15	97.36	96.64	95.32
AUD/NZD		1.1151	1.1130	1.1110	1.1072
AUD/SGD		0.8536	0.8487	0.8440	0.8346

Commodities

Gold prices surged again this week, climbing to fresh record highs. The yellow metal continues to be supported by expectations for Fed interest rate cuts, lower bond yields and ongoing geopolitical risk.

Geopolitical risk is also supporting oil prices. News of Israel's strike against Hamas in Qatar and Russian drones crossing into Polish airspace offset some of the downward pressure on the global benchmark, Brent crude. The International Energy Agency issued a further warning of a looming supply glut.

The US domestic benchmark West Texas Intermediate (WTI) – which tends to be less impacted by global concerns – fell by around twice as much as Brent, partly driven by a surge in US initial jobless claims. News of a second consecutive increase in US oil inventories also helped put downward pressure on prices.

Iron ore futures climbed to the highest level since February early in the week on demand optimism following news of strong Chinese imports in August. However, prices have since eased.



Source: Bloomberg

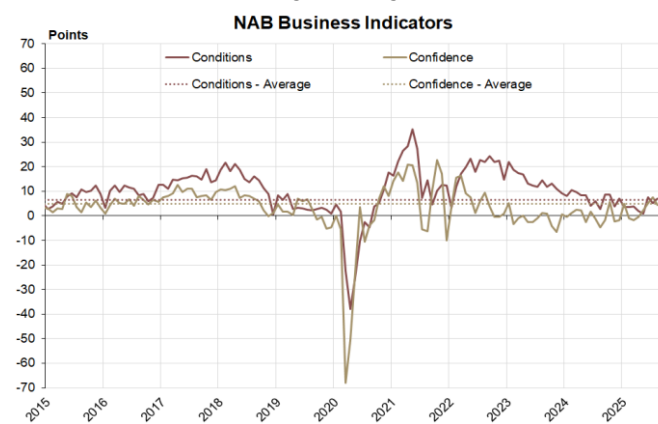
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$3,648.98	\$3,674.27	\$3,579.73	(↑\$96.35)	\$3,674.27	\$2,511.11
Brent Crude Oil (US\$)	\$65.89	\$67.78	\$65.51	(↓\$0.83)	\$82.63	\$58.40
Mogas95* (US\$)	\$78.36	\$80.45	\$77.42	(↓\$0.36)	\$95.91	\$67.57
WTI Oil (US\$)	\$61.87	\$64.08	\$61.85	(↓\$1.32)	\$80.77	\$55.12
CRB Index	300.32	301.85	297.77	(↓0.03)	316.63	272.99
Iron Ore Price 62% Fe (US\$) **	\$105.25	\$107.65	\$103.95	(↑\$1.05)	\$115.00	\$88.40

*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

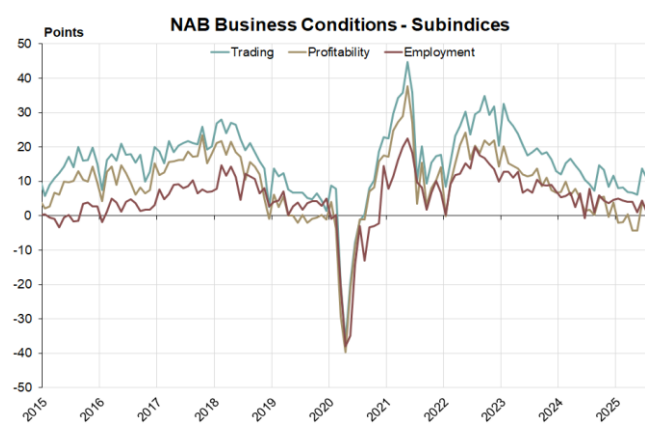
Domestic Economy

NAB business conditions and confidence remained around the series average in August...



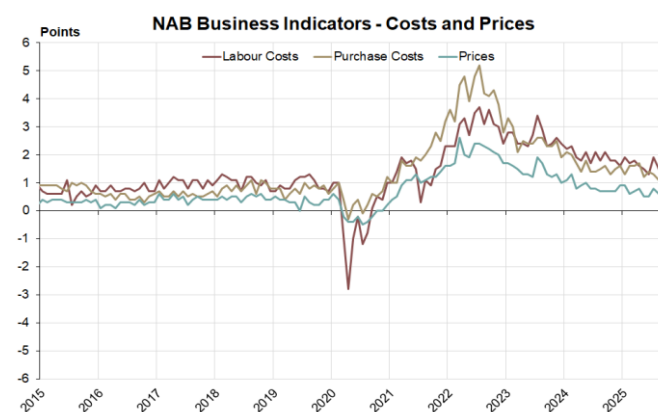
Source: Bloomberg

... with slight improvement in all sub-indicators of business conditions.



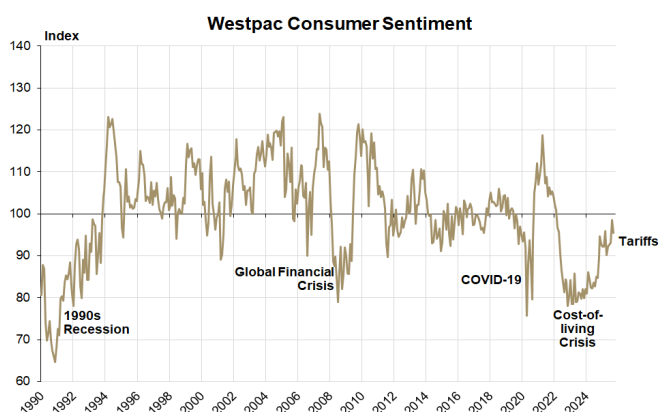
Source: Bloomberg

Business cost and price pressures continue to abate and are not so much above the pre-COVID levels.



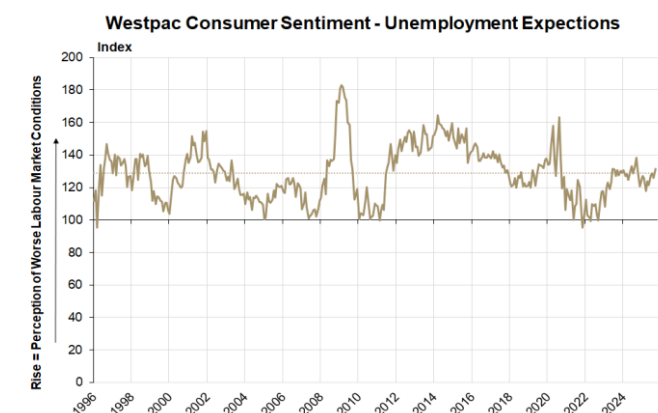
Source: Bloomberg

Westpac consumer sentiment retreated from a 3.5-year high in September...



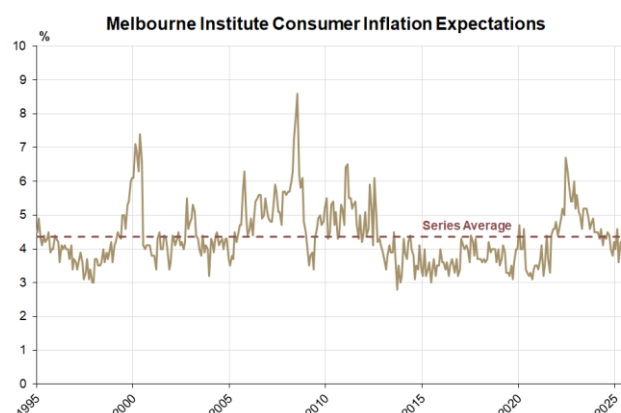
Source: Bloomberg

... with unemployment expectations now above, but still very close to their series average.



Source: Bloomberg

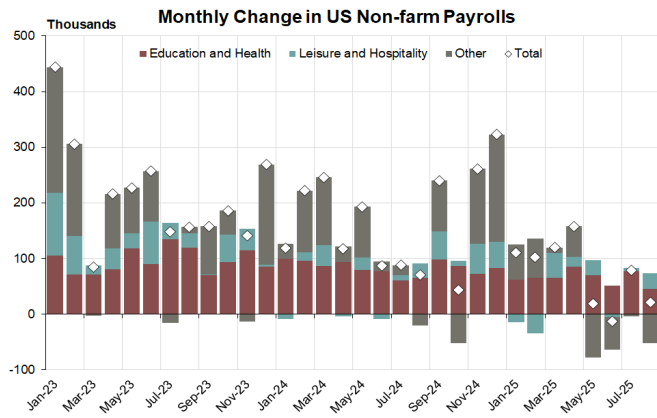
Melbourne Institute inflation expectations are also back above their long-run average.



Source: Bloomberg

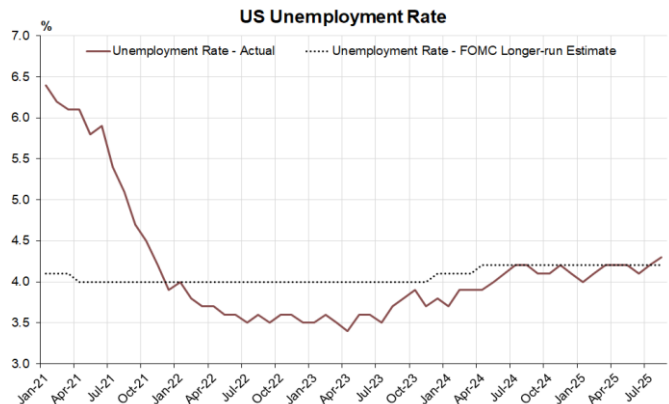
Global Economy

US non-farm payrolls saw another meagre increase in August, with the level revised further downwards.



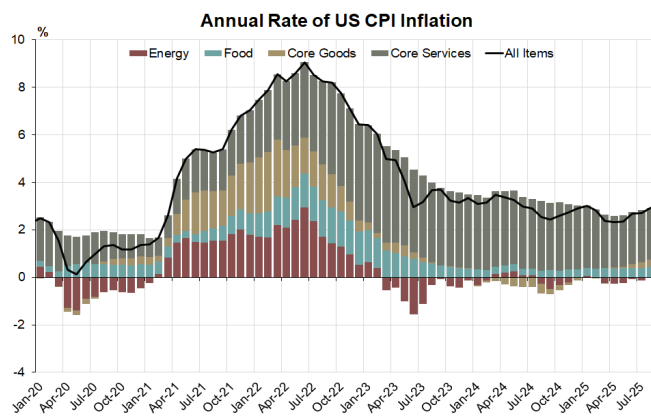
Source: Bloomberg

US unemployment rate remains moderate but has risen somewhat above the FOMC's longer-run estimate.



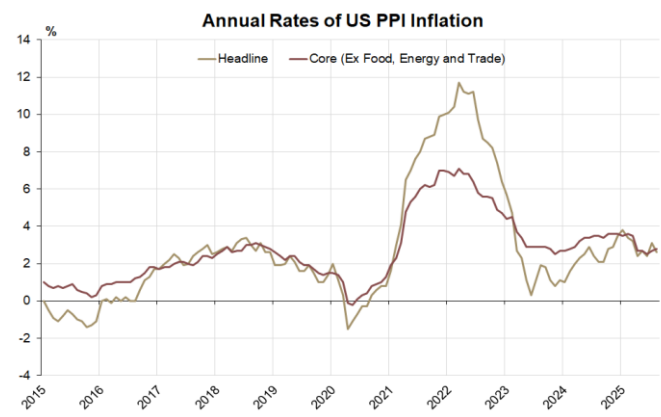
Source: Bloomberg

US annual CPI inflation continued to climb in August, as energy prices ceased to decline.



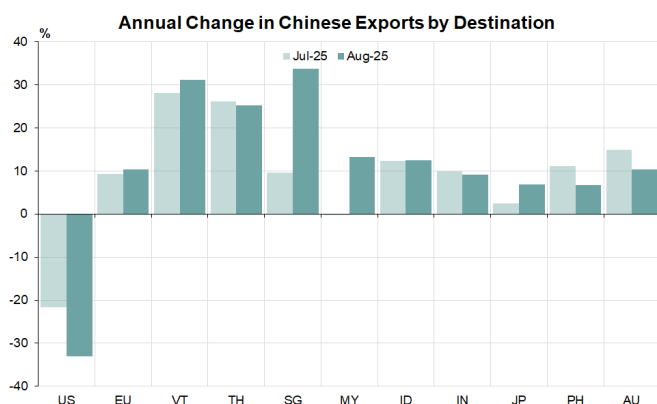
Source: Bloomberg

US headline PPI inflation retreated in August, but core PPI inflation saw another slight increase.



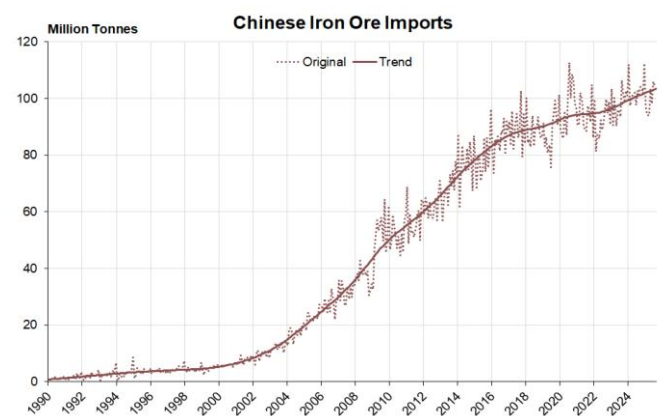
Source: Bloomberg

The deepening decline in **Chinese exports** to the US is offset by strong gains in exports to the EU and Asia.



Source: Bloomberg

Despite re-acceleration in the property investment malaise, **Chinese iron ore imports** are trending higher.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 08					
CH	Trade Balance (Aug)	US\$102b	US\$99b	US\$98b	Exports growth rate almost halved from July.
Tue 09					
AU	NAB Business Conditions (Aug)	7	-	5	A broad-based improvement.
AU	NAB Business Confidence (Aug)	4	-	8	WA confidence the second strongest of all states.
AU	Westpac Cons. Sent. (MoM, Sep)	-3.1%	-	5.7%	Retreat from after a spike to a 3.5-year high.
US	Non-farm Payrolls Revision (prel.)	-911k	-682k	-818k	The revision was three times larger than average.
US	NFIB Small Bus. Optimism (Aug)	100.8	100.5	100.3	Quality of labour is the main concern of small businesses.
Wed 10					
CH	CPI (YoY, Aug)	-0.4%	-0.2%	0.0%	Annual core CPI inflation rose 0.1ppts to 0.9%.
CH	PPI (YoY, Aug)	-2.9%	-2.9%	-3.6%	PPI deflation in China reduces inflation globally.
US	PPI (MoM, Aug)	-0.1%	0.3%	0.7%	Annual rate down 0.5ppts to 2.6%.
Thu 11					
AU	MI Cons. Infl. Expectations (Sep)	4.7%	-	3.9%	Back above the series average.
EZ	ECB Decision (Deposit Rate)	2.00%	2.00%	2.00%	ECB to stay put, at least for the rest of 2025.
US	CPI (MoM, Aug)	0.4%	0.3%	0.2%	Annual core inflation steady at 3.1%.
US	Initial Jobless Claims (w/e 6 Sep)	263k	235k	236k	The highest level since October 2021.
Tonight					
UK	Monthly GDP (MoM, Jul)	-	0.0%	0.4%	A flat result expected, with construction being a drag.
US	UMich Cons. Sent. (Sep, prel.)	-	58.0	58.2	Inflation expectations forecast to abate further.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 15				
CH	Retail Sales (YoY, Aug)	3.8%	3.7%	Chinese consumer remains cautious despite stimulus.
CH	Industrial Production (YoY, Aug)	5.6%	5.7%	Continues to lead to Chinese growth.
CH	Urban Fixed Asset Inv. (YoY YtD, Aug)	1.5%	1.6%	Property investment fall to accelerate to 12.5% YoY YtD.
Tue 16				
UK	Unemployment Rate (Aug)	-	4.6%	Claimant count rate was flat at 4.4% in August.
US	Retail Sales (MoM, Aug)	0.2%	0.5%	Core retail sales also expected to climb by 0.3%.
US	Industrial Production (YoY, Aug)	0.0%	-0.1%	PMI reports were mixed about manufacturing output in Aug.
Wed 17				
UK	CPI (MoM, Aug)	-	0.1%	Annual rate of CPI inflation remains well above the 2% goal.
CA	Bank of Canada Decision (Policy Rate)	2.50%	2.75%	A 25bps cut 90% priced in.
US	FOMC Decision (IoER)	4.15%	4.40%	Some traders are betting for a 50bps cut.
Thu 18				
AU	Employment (monthly change, Aug)	24.0k	24.5k	Has tended to surprise to the downside of late.
AU	Unemployment Rate (Aug)	4.2%	4.2%	The RBA expects the unemployment rate to peak at 4.3%.
NZ	GDP (QoQ, Q2)	-0.4%	0.8%	Renewed decline in GDP expected.
NO	Norges Bank Decision (Policy Rate)	4.00%	4.25%	The other G10 central bank that started cutting rates later.
UK	Bank of England Decision (Bank Rate)	4.00%	4.00%	Bank rate expected to remain unchanged for the rest of 2025.
Fri 19				
JP	CPI (YoY, Aug)	2.8%	3.1%	Core inflation expected to ebb by 0.1ppts to 3.3%.
JP	Bank of Japan Decision (Policy Bal. Rate)	0.50%	0.50%	Odds of a hike in late 2025 have risen above 60%.