July 2026

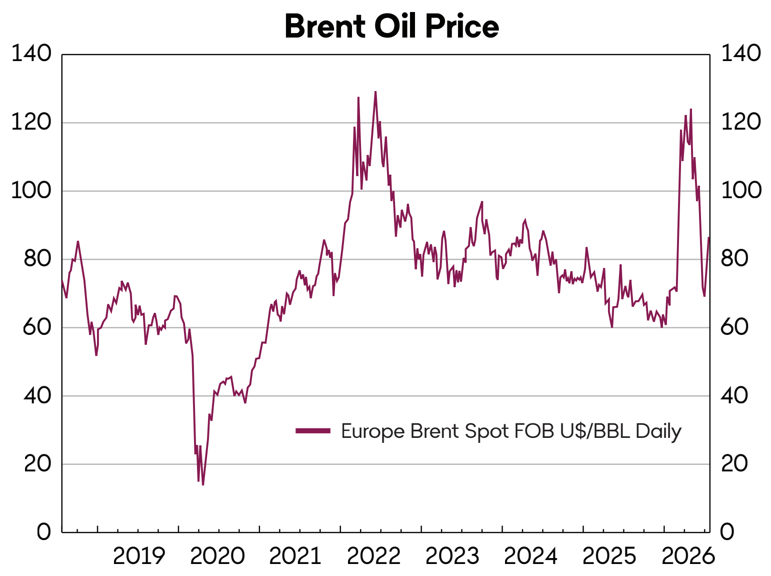
Economic and market update

Economic Overview – as at 23rd July 2026

Global markets

The cautious optimism that prevailed at the end of June into early July based on the 60-day MoU briefly saw the price of oil recede to levels seen in late February just ahead of the Middle East conflict, however diplomatic progress was short-lived and Brent Crude is now back around US$95 a barrel. Apart from the oil price (refer chart below) another helpful indicator of the extent of this energy shock is the number of ships getting through the Strait of Hormuz, which briefly rose to almost half the pre-conflict levels on 24 June but is now back to virtually none. The aggressive language from both sides makes a meaningful ceasefire difficult to envisage in the weeks ahead, so there are fears that oil prices will rise back above $100 especially with the latest development of Houthis rebels blockading the Red Sea to Gulf of Aden chokepoint.

The impact of this deterioration of the conflict on financial markets has also been seen in bonds with sharply higher yields as the prospect of even higher inflation for longer is contemplated. This has seen the US ten-year yield up to 4.66% (from 4.55% a week ago and 4.37% at the end of June), while stock indices remain within a few percent of recent record highs but have seen a jump in



Sources: LSEG Datastream.

traded volatility. The path ahead for US interest rates remains highly topical with last week's US CPI data slightly more benign than feared, however speeches from various Fed officials (including new Chair Kevin Warsh) have reaffirmed the Fed's 'commitment to restoring price stability', so markets are still pricing in a number of hikes over the next 12 months.

Similarly for Europe the prospect of higher energy prices amid the Middle East conflict reescalation leaves central banks with the challenge of dealing with stagflation risks: the ECB (having hiked rates last month for the first time in 3 years) is expected to hold the benchmark deposit rate at 2.25% this month, but won't be ruling out another hike in September. The UK has a new leader, Andy Burnham (their 6th PM in 7 years), and UK gilts have traded cautiously given he may be more fiscally aggressive than his predecessor. However the appointment of John Healey as chancellor has seen gilt yields level off and another 'Liz Truss moment' isn't expected. The Bank of England are expected to keep official rates on hold at 3.75% for some months.

The Chinese economy slowed further in Q2 and by a larger step-down than had been expected with the official GDP growth rate decelerating to 4.3% (from 5.0% y/y in Q1), and only 0.9% real growth in the quarter. Construction and domestic demand were weak while exports remain the highlight as the AI investment boom saw further leaps in semiconductor and computing equipment exports, so the outlook is mixed and China's ability to cope with higher energy prices will again be tested. More promisingly, retail sales picked up slightly in June and services activity was improved while Industrial Production accelerated to 5.3% growth, so there remains confidence that China can still hit its 4.5–5% official growth target for 2026.

The Reserve Bank of New Zealand increased the official cash rate by 25bp to 2.5% on 8 July signalling a new tightening cycle, with further hikes expected over the coming months and the market implying a peak above 3.5% in late 2027. As a net energy importer New Zealand remains highly exposed to oil prices, and CPI rose 1.5% in Q2 or 4.1% y/y (its highest level in more than two years).

In summary, the escalation of hostilities in the Middle East obviously brings stagflation risks back into focus for all advanced economies, and potentially even greater structural challenges for developing nations. The offsetting consideration (especially for Australia's major trading partners) remains the global AI investment boom, which primarily explains why most stock markets around the world remain within a few percent of record highs, despite the renewed focus on energy prices. This intersection of geopolitical tensions – with the reality of capital flows to chip producers but highly speculative estimates of downstream revenues – makes for a fascinating, but unpredictable period ahead. Global GDP is still forecast to expand around 3% this year, but the longer the oil price remains above US$90 the more at-risk this growth rate is.

Domestic economy

The RBA face the same challenges that other advanced economy central banks are dealing with as detailed above, now that oil prices are back on the ascent. Official rates have risen earlier and from a higher level here than compared to our economic peers (especially Canada, New Zealand, the UK and US), so in some respects we are ahead of the curve, although inflation here rebounded sooner due to capacity constraints even prior to the Middle East conflict. The next policy meeting on 10–11 August will probably be a close call and will be subject to further offshore developments. While maintaining the tightening bias the RBA can pause further to assess the conflicting forces of higher energy prices, very low consumer sentiment, falling house prices, relatively tight but easing labour markets, and relatively strong business investment amid the ongoing AI boom.

The latest jobs data revealed an unchanged unemployment rate of 4.4% in June both in seasonally adjusted and trend terms, but mixed messages for the RBA to interpret with respect to inflationary risks within the data.

- Total employment surged by 76k although it was mainly part-time work;
- Despite this jump the unemployment rate rose from 4.37% to 4.43%;
- Underemployment rose by 0.2% to 6.5%, from an upwardly revised 6.3%;
- Youth unemployment rose to 10.7%;
- In trend terms Victoria's unemployment rate jumped to 5.0% while Queensland was lowest at 4.1%, so the 3-speed economy discussed here previously is still in place.

From here the basecase scenario forecasts below continue to lean to further softening in labour markets (in line with falling job advertisement and vacancies, and anecdotal evidence of businesses managing expenses), and it is noteworthy that the unemployment rate of 4.4% is 0.2% above the RBA's forecast from May. Perhaps more important for the RBA Monetary Policy Board is the worrying rise in the oil price, which had been forecast to steadily normalise, so adverse scenarios are now going to be more of a consideration which pose risks to growth and inflation, especially if oil prices rise further and remain there for some time.

Consumer sentiment fell sharply in April as previously discussed and has struggled to recover, so household discretionary spending is expected to moderate – although it hasn't just yet.

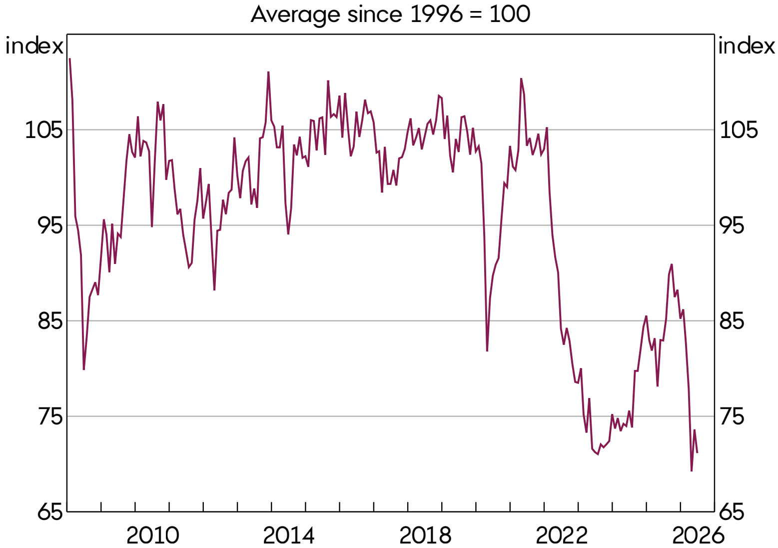
The monthly Household Spending Indicator rose 1.3% in May to be 5.5% higher than spending levels one year ago, with all categories rising in May compared to the previous month. This appears unsustainable in the absence of a recovery in sentiment, so household demand should moderate especially when considering the media attention of falling house prices – although there is debate as to the likely extent of this decline and how the 'wealth effect' might play out. Property prices and auction clearance rates have responded to the Federal Budget tax changes with falls in home values in Sydney, Melbourne, Canberra and some regional locations, but it is worth noting that the record 'peak to trough' decline on record is 8.5% and we still appear to have more demand than supply: albeit less demand from investors for existing properties.

Next week's inflation data will be eagerly awaited with the full Q2 numbers expected to show CPI still in the 4's and underlying inflation (best measured by the trimmed mean) around 0.9% for Q2 and 3.7% y/y. A read at that level for core inflation wouldn't force the RBA MPB to deliver another rate hike in August, but our forecasts below continue to show another increase in the cash rate around November, on the assumption that the RBA will lose patience approaching year-end if core inflation is still around 3.5% and energy prices are still problematic.

Even more challenging than this debate around the likely peak in official rates is estimating when rates might start to fall again – having just had the shallowest RBA easing cycle in history (only 3 cuts totalling 0.75% vs the previous record of 2% of cuts) we may also set a record for the shortest hiking cycle (the previous record being 1.5%). However for the RBA to have the luxury of cutting rates, presumably core inflation will need to be back to 3% – and this appears unlikely next year in the absence of a much harder landing than consensus forecasts. Again, the escalation of the Middle East conflict and the higher oil prices does make this scenario more likely, but arguably this is still an outlier rather than a central forecast.

Consumer Sentiment*

Average since 1996 = 100



* Average of the ANZ-Roy Morgan and Westpac-Melbourne Institute consumer sentiment measure of respondents' perceptions of their personal finances relative to the previous year; ANZ-Roy Morgan index rescaled to have the same average as the Westpac-Melbourne Institute index since 1996.

Sources: ANZ-Roy Morgan; RBA; Westpac and Melbourne Institute.

Interest Rate Outlook

The RBA will maintain a tightening bias for the rest of 2026 and probably for the bulk of 2027 but will likely continue their pause for rate hikes in August. Another rate rise is expected later in the year as core inflation remains stubbornly above target (perhaps in November), however an easing cycle is unlikely until core inflation is back below 3%, or in the event of a harder landing next year resulting in recession-like conditions. The rebound in oil prices adds to recession risks but is still probably less than a 25% probability this financial year.

Economic Forecasts: basecase scenario

	2025			2026				2027			
% (actual, forecast)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP q/q	1.0	0.4	0.9	0.3	0.4	0.2	0.2	0.4	0.7	0.6	0.8
GDP y/y	2.0	2.1	2.5	2.5	1.9	1.8	1.1	1.2	1.5	1.9	2.5
Unemployment	4.3	4.4	4.1	4.3	4.4	4.6	4.8	5.0	5.2	5.4	5.5
CPI (q/q)	0.7	1.3	0.6	1.4	1.2	1.0	0.5	0.5	0.7	0.9	0.7
CPI (y/y)	2.1	3.2	3.6	4.1	4.5	4.2	4.1	3.2	2.7	2.6	2.8
CPI (core y/y)	2.7	3.0	3.4	3.5	3.7	3.7	3.5	3.4	3.0	3.0	3.0
RBA cash rate	3.85	3.60	3.60	4.35	4.35	4.35	4.60	4.60	4.60	4.60	4.60
AUD / USD	.658	.662	.668	.690	.692	.72	.74	.76	.77	.78	.79

Benchmark rates

	30/5/25	29/5/2026	30/6/2026	23/7/2026
90-day bills	3.73%	4.46%	4.67%	4.50%
3-year swap	3.30%	4.49%	4.32%	4.56%
5-year swap	3.66 %	4.78%	4.70%	4.86%
AUD/USD	.6440	.7185	.6920	.7015
ASX 200	8 435	8 732	8 986	8 868
Credit Index (iTraxx- 5 yr)	74.6	72.5	67.5	70.7