yieldreport Daily

Your Income Advantage

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Overview of the US Bond Market

US Treasuries ended the day trading close to unchanged with yields above their session lows, and traders continued to anticipate two rate cuts this year, with the first likely in September.

Yields on two-year notes, most sensitive to the Fed's monetary policy, were ending lower by a basis point at 3.94% after earlier climbing as high as 3.96%. Most others were little changed on the day.

The Fed's decision to hold rates steady – coupled with Powell's latest warning on tariffs – underscores the delicate balance facing policymakers guiding the economy toward continued expansion. While officials continued to pencil in two rate cuts in 2025, they downgraded their estimates for growth this year while lifting forecasts for unemployment and inflation.

The concern about resurgent inflation was reflected in policymakers' expectations for the years ahead. Officials now see just one cut each in 2026 and 2027.

The Federal Open Market Committee voted unanimously on Wednesday to hold the benchmark federal funds rate in a range of 4.25%-4.5%, as they have since the beginning of the year. They also released new economic forecasts — their first since President Donald Trump unveiled a sweeping set of tariffs in April — showing they expect weaker growth, higher inflation and higher unemployment this year.

Fed officials and economists broadly expect the administration's expanded use of tariffs to weigh on economic activity and put upward pressure on prices. The rate outlook from officials was in line with investors' expectations for cuts this year prior to the announcement.

Meanwhile, US employers added jobs at a solid pace last month and the unemployment rate held at 4.2 per cent. Fed officials have pointed to the labour market's overall stability as an additional reason to take a patient approach toward adjusting interest rates.

Overview of the Australian Market

On **June 18th**, the **ASX 200 dipped 0.12% to 8,531.2**, as weakness in the **materials sector (-1.6%)** weighed on the broader market. The decline followed **Citi's downgrade of iron ore price forecasts to US$90/tonne**, which sent **Fortescue plunging 4%**, while **BHP and Rio Tinto** also lost ground.

Gold miners continued to slide after recent UBS downgrades, despite gold prices hovering near **US$3,400/oz**. On the upside, the **Tech Index rallied ~1.3%**, driven by investor rotation into growth stocks. **Technology One surged 2.3%**, **WiseTech rose 1.7%**, and **Xero added 1.2%**, as AI momentum and easing rate expectations boosted sentiment. **Uranium stocks climbed strongly**, supported by **Sprott's US$200 million capital raise**, while **silver miners staged a solid rebound** following recent underperformance. **Trading was range-bound**, with the index moving within a narrow 24-point band, reflecting **cautious but constructive sentiment**.
Defensive sectors like **financials and healthcare lagged**, and overall market breadth was mixed, with just under half of the ASX 200 constituents advancing. With **SPI futures pointing to a flat-to-slightly softer open**, focus now turns to **Australian labour market data** and the **US Federal Reserve's policy outlook**, which are expected to shape short-term investor positioning.

Overview of the Australian Bond Market

On **Wednesday, 18 June 2025**, Australia's bond market saw a quiet but steady rally, as investors took a defensive stance ahead of a pivotal week for global and domestic data. The **Bloomberg AusBond Composite 0+ Yr Index rose 0.13%**, reflecting a mild but consistent bid for fixed income assets amid softening inflation signals and cautious global sentiment.

Short-term rates were stable, with **3-month and 6-month bank bills** holding at **3.73%** and **3.77%**, suggesting little movement in near-term rate expectations. The **3-year government bond yield stayed flat at 3.33%**, while the **10-year yield eased from 4.26% to 4.23%**, a subtle shift that points to growing confidence in a slower rate environment. At the long end, the **30-year yield held near 4.96%**, still reflecting some inflation premium and longer-duration risk.

Markets remain convinced that the **RBA is in easing mode**, pricing in roughly **90 basis points of cuts**, with the **cash rate potentially dropping to 2.85%** over the next year. With the **US Fed's policy decision and Australian labour market data** both due this week, traders are in a holding pattern, carefully watching for any signals that could tilt the yield curve or disrupt the current calm.

For now, it's a story of **quiet confidence** in the bond market; yields are softening, volatility is low, and investors are positioning with patience, waiting for the next macro signal to set the direction.

Overview of the US Equity Market

A rally in stocks fizzled out after Federal Reserve Chair Jerome Powell warned that tariff-driven economic uncertainty and inflation risk continued to complicate the central bank's bid to ease monetary policy in earnest. Gains in bonds waned. The dollar barely budged.

Equities closed little changed, with the S&P 500 ending below 6,000 after briefly crossing that mark. Powell noted that increases in tariffs are likely to boost prices, while adding that the effects on inflation could be more persistent. He also declined to say if he'll stay on after his term ends. Treasury two-year yields, which are more sensitive to imminent Fed moves, almost erased a decline that had earlier reached seven basis points.

The Fed's decision to hold rates steady – coupled with Powell's latest warning on tariffs – underscores the delicate balance facing policymakers guiding the economy toward continued expansion. While officials continued to pencil in two rate cuts in 2025, they downgraded their estimates for growth this year while lifting forecasts for unemployment and inflation.

While the median expectation for two rate cuts in 2025 didn't change, a number of officials lowered their projections. Seven officials now foresee no rate cuts this year, compared with four in March. Two others pointed to one cut this year.

While most stocks struggled to find direction Wednesday, companies tied to crypto currency surged on the Senate's passage of legislation Tuesday regulating stable coins, a type of digital money. Crypto currency exchange Coinbase Global was the biggest gainer on the S&P 500, rising 16%.

Overview of the Australian Equity Market

A sell-off in the mining sector triggered by a flagging iron price weighed on the share market into the close, while most investors stayed largely on the sidelines amid an escalation in the Israel-Iran conflict.

The benchmark S&P/ASX 200 Index fell 10.1 points, or 0.1 per cent, to 8531.2 on Wednesday after the gauge briefly traded in the black.

Eight of the 11 industry groups edged higher, but the gains were offset by a 1.6 per cent drop in the materials sector.

On the ASX, the iron ore majors fell as the price for the steelmaking ingredient retreated below $US93 a tonne in Singapore, spurred by a seasonal slowdown in demand and signs that Chinese mills are curbing steel output.

Citi has also downgraded its 12-month iron ore price forecast to $US90 a tonne. **BHP** dropped 1.2 per cent to $36.86, **Fortescue** 4 per cent to $15.03, and **Mineral Resources** 4.6 per cent to $22.59.

profit-taking hit the gold stocks as the price of the precious metal failed to push much higher despite the heightened geopolitical risk. **Northern Star** fell 2 per cent to $20.58 and **Evolution** slid 3.6 per cent to $8.15.

The tech sector was also strong, climbing 1.1 per cent and buoyed by **Wisetech**'s 1.5 per cent advance to $108.93. **TechnologyOne** jumped 2 per cent to $41.15.

In corporate news, data centre operator **NextDC** slipped 1 per cent in early trade before recovering in the afternoon session, closing up 0.2 per cent at $14.01. The company has tied up a new $2.2 billion bank facility to refinance its existing debt.

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