yieldreport Weekly

Your Income Advantage

6th to 11th July 2025

PART 1 – Equity & Bond Market Analysis

Weekly Overview

The major Australian stock indices ended the week ending July 11, 2025, with a slight decline, as the S&P/ASX 200 slipped 0.11% to close at 8,580.1, marking a pause after a 12% rally over the past 13 weeks.

The All Ordinaries fell 0.07% to 8,820.3, while smaller indices showed mixed results, with the Small Ords down 0.26% to 3,247.6, All Tech dropping 0.54% to 4,040.5, and Emerging Companies gaining 0.45% to 2,320.5. The week's performance reflected a strong materials rally offset by weakness in tech and property, with global cues from the "One Big Beautiful Bill" (OBBBA) providing some support.

Australian government bond yields rose modestly, with the 10-year yield increasing 4 basis points to 4.32%. The market digested the RBA's decision to hold rates at 3.85%, tempering expectations for a rate cut, while global yields remained stable amid muted US market activity over the weekend. Iron ore prices reached a two-month high nearly $100 per tonne, boosting materials, while oil prices edged to $68 per barrel with steady Middle East conditions.

Investors reacted to the OBBBA's $3.3 trillion stimulus and the tariff deadline extension to August 1, though uncertainty lingered as the RBA's stance and US trade developments shaped sentiment. At the week's end, the ASX 200 Volatility Index held at 14.5, slightly up from last week's 14.2, indicating mild short-term jitters.

Economic data showed resilience, with materials leading despite broader weakness. The Australian dollar dipped 0.12% to 0.6581 US cents, reflecting commodity volatility. The focus shifts to the trading week starting Monday, July 14, with no immediate data releases but potential movement from trade and fiscal updates.

Overview of the US Equities Market

With US markets closed on Saturday and Sunday, the week's equity performance reflected Friday's losses, with the S&P 500 down 0.33% to 6,259.75 and the Nasdaq Composite slipping 0.22% to 20,585.53. The week's decline, estimated at around 0.5%, was driven by profit-taking in financials and health care, though consumer discretionary and energy held gains, supported by the OBBBA.

The active trading highlighted NVIDIA Corp. (NVDA), up from 0.50% to $164.92 on 193.6 million shares, maintaining tech leadership, and NIO Inc. (NIO), gaining 5.69% to $3.90 on 141.5 million shares, fuelled by EV momentum. BigBear.ai Holdings Inc. (BBAI) fell 9.55% to $6.44 on 129.7 million shares, reflecting sector volatility.

The OBBBA's tax incentives lifted sentiment, though the August 1 tariff deadline kept markets cautious. With earnings season approaching, focus turns to Monday's market reopen, with no major data due until later in the week. The Cboe Volatility Index, steady at 16.5 pre-weekend, suggests moderate short-term risks.

Overview of the US Treasuries Market

US Treasury yields rose slightly in Friday's close, with the 10-year note at 4.41% and the 30-year at 4.95%, each up 1 basis point daily. The week saw a modest uptick, with the 2-year yield at 3.88% and the 5-year at 3.97%, reflecting cautious sentiment amid the OBBBA's fiscal stimulus.

The yield curve steepened, supported by a 65% chance of a September rate cut, with markets pricing two cuts by year-end, driven by the OBBBA's impact versus trade uncertainties. Treasury Secretary Scott Bessent's bank capital relief proposal added support. With markets quiet over the weekend, attention shifts to Monday's reopen, with potential shifts from trade and fiscal developments.

Overview of the Australian Equities Market

Australian equities delivered a mixed week, with the S&P/ASX 200 closing at 8,580.1 on Friday, down 0.11% for the day, ending a 13-week rally with its third weekly loss. The recovery from earlier gains was led by materials, though Friday's session saw broad weakness outside the sector.

The ASX 200 Materials Index rose 1.82% weekly, with BHP up 2.8%, Rio Tinto up 2.3%, and Fortescue gaining 2.9% on iron ore strength. Rare earths miners Lynas (+16.7%) and Iluka (+22.9%) surged on a $400 million Pentagon investment. Financials fell 0.49%, with Commonwealth Bank down 0.8%, while property dropped 1.51%, led by Goodman Group (-1.8%), and tech fell 1.06%, with Xero down 1.5%. Breadth was weak, with 58% of constituents closing lower. The OBBBA's global boost tempered losses, but the RBA's hold at 3.85% fuelled caution.

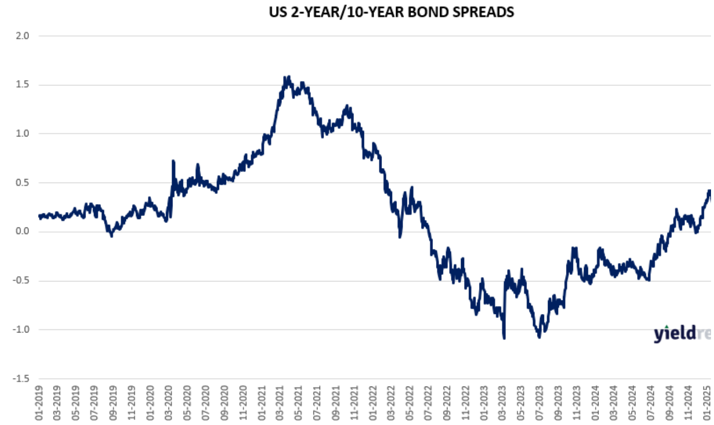
Overview of the Australian Government Bond Market

Australian government bond yields posted gains for the week ending July 13, 2025, with the 10-year yield rising 4 basis points to 4.32% on Friday. The 2-year yield climbed 2 basis points to 3.40%, the 5-year increased 3 basis points to 3.71%, and the 15-year rose 4 basis points to 4.66%, reflecting the RBA's steady 3.85% rate stance.

The uptick followed the RBA's decision, reducing the immediate likelihood of a July cut, though markets still price four cuts (100 basis points) by mid-2026. The Australian dollar fell 0.12% to 0.6581 US cents, pressured by commodity shifts. Focus shifts to Monday's market open amid global fiscal and trade developments.

Figure 1: US/Australia 10-year Bond Yield Spread

Figure 2: Australia 10-year Bond Spread vs US



Looking Ahead: Major Economic Releases for the Week Ending 18 July

For the week ending July 18, 2025, U.S. economic data will be in the spotlight, with Core CPI (MM and YY) and headline CPI (MM and YY) expected to show rising inflationary pressures, with consensus forecasts indicating month-on-month increases of 0.3% for both Core and headline CPI, and year-on-year figures climbing to 3.0% and 2.7%, respectively. Industrial Production is anticipated to rebound slightly to 0.1% from -0.2%, while the Philly Fed Business Index may improve marginally to -1 from -4, suggesting cautious optimism in manufacturing sentiment.

In Australia, Employment data is expected to show a gain of 20,000 jobs, recovering from a prior decline of 2,500, with the Unemployment Rate holding steady at 4.1%. These releases could signal resilience in Australia's labour market, though global trade uncertainties, including U.S. tariff policies, may continue to pose risks to both economies.

Major Economic Releases for the Week ending 18 Jul, 2025				
Date	**Country**	**Release**	**Consensus**	**Prior**
Tuesday, 15/07	United States	Core CPI MM, SA	0.3	0.1
Tuesday, 15/07	United States	Core CPI YY, NSA	3	2.8
Tuesday, 15/07	United States	CPI MM, SA	0.3	0.1
Tuesday, 15/07	United States	CPI YY, NSA	2.7	2.4
Tuesday, 15/07	United States	CPI Wage Earner	n/a	314.839
Wednesday, 16/07	United States	PPI Machine Manuf'ing	n/a	189.4
Wednesday, 16/07	United States	Industrial Production MM	0.1	-0.2
Thursday, 17/07	Australia	Employment	20	-2.5
Thursday, 17/07	Australia	Unemployment Rate	4.1	4.1
Thursday, 17/07	United States	Philly Fed Business Indx	-1	-4

Source: Refinitiv

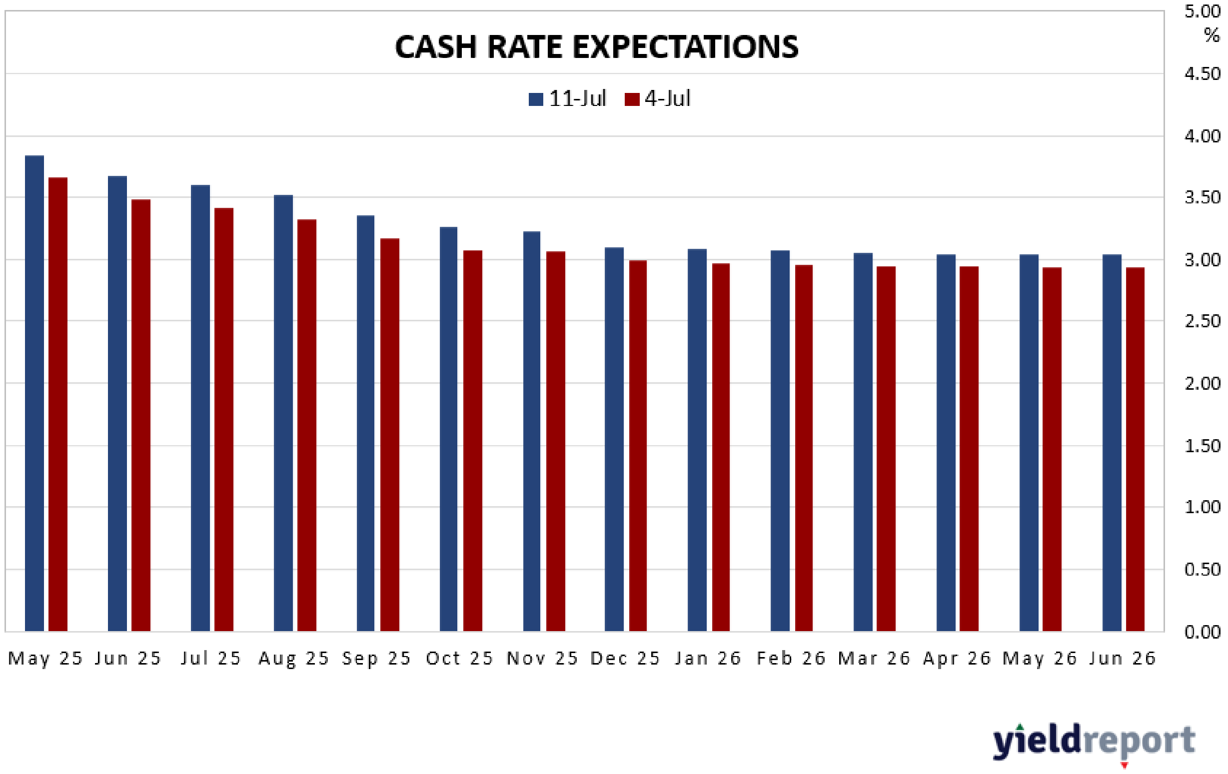
PART 2 – Investment Opportunity Review

Defensive Income - Cash

This week's rise across the yield curve signals a market cautiously adjusting to the Reserve Bank of Australia (RBA)'s decision to hold the cash rate at 3.85% and the global fiscal boost from the "One Big Beautiful Bill" (OBBBA). The 1-month and 3-month BBSW held steady to 3.585% and 3.583%, reflecting tentative optimism amid the tariff deadline extension to August 1 and a quiet US market over the weekend.

Markets are now pricing in a 100 basis points rate cut over the next 12 months, targeting a cash rate of 2.85% by mid-2026, down from the current 3.85%. This adjustment follows softer May CPI data at 2.1% year-on-year, reinforcing cut expectations. However, the RBA's holds and forecasts from ANZ (3.35% by year-end 2025) and NAB (3.10% by early 2026), suggest a more conservative 75-100 basis point range. Investors remain in a wait-and-see mode, monitoring trade negotiations and the OBBBA's $3.3 trillion impact.

Figure 3: Swaps on RBA Rate Cuts



Defensive Income- Term Deposits

The movements in term deposit rates by major and non-major banks continue to show variability. Over the past week, ending July 11, 2025, there was a mix of up and down movements, though stability is notable in some terms. Our survey across 42 institutions indicates that the most contested term deposit term remains 6 months, followed by 3 months and 1 year, with sample sizes of 42 each.

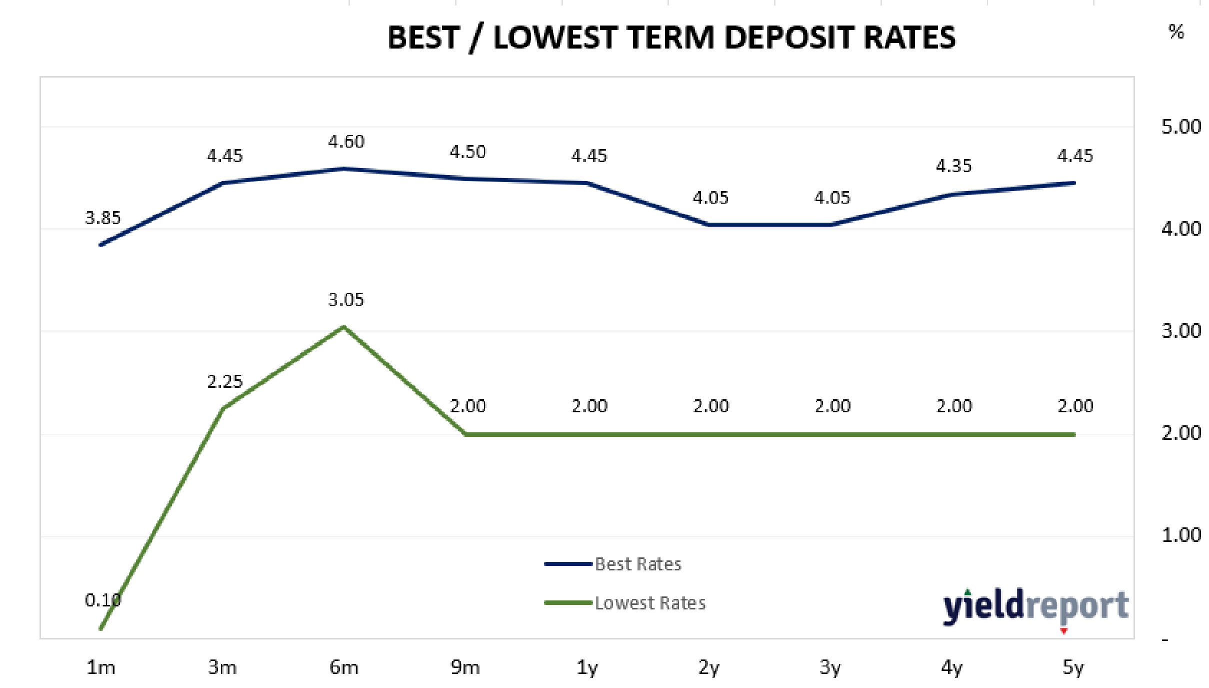
This week, the best rate with a 3-month term was 4.45%, steady from the week before, with in1bank offering the top rate. The median rate of 3.88% reflects a broad range from 2.25% to 4.45%.

This week, the best rate within 6-month term was 4.60%, unchanged from last week, offered by Teachers Mutual Bank. The median rate of 4.08% shows a tight quartile spread of 0.44%, indicating consistency.

Interestingly, the best 5-year rate held at 4.40%, led by Rabobank Australia, with Judo Bank at 4.35%. The median rate held at 3.35%, with a range from 2.00% to 4.40%.

Our analysis shows term deposits with rates above 4% are holding strong. In the 3-month category, 12 institutions now offer over 4%, unchanged from last week. In the 6-month category, 22 institutions exceed 4%, unchanged from last week, reinforcing the 6-month term's competitiveness.

Figure 4: Highest Term Deposit Rate by Term



Defensive Income – Government Bonds

For the week ending July 13, 2025, the Australian government bond market recorded modest gains, reflecting a cautious market response to the RBA's decision to hold the cash rate at 3.85% and the global fiscal stimulus from the "One Big Beautiful Bill" (OBBBA). The benchmark 10-year yield increased 14 basis points to 4.33%, while the 2-year yield rose 5 basis points to 3.40%. The 15-year yield edged up 8 basis points to 4.66%, and the 5-year yield climbed 8 basis points to 3.71%.

Swap rates also rose, with the 3-year rate up 11.83 basis points to 3.3708%, the 5-year up 11.67 basis points to 3.773%, and the 10-year up 9.98 basis points to 4.2313%, signalling adjusted expectations of future RBA policy amid the OBBBA's impact. The May CPI data, showing a trimmed mean of 2.1% year-on-year per the Australian Bureau of Statistics, continues to support rate cut speculation, with markets now pricing a 100-basis point reduction over the next year, targeting a 2.85% cash rate by mid-2026, though bank forecasts like ANZ's 3.35% by December 2025 suggest a more tempered outlook.

Figure 5: Aust. 10 yr minus 3 yr Bond Spread

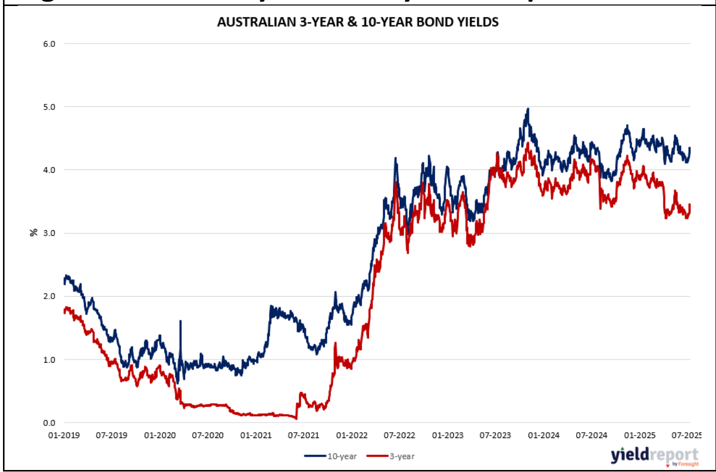


Figure 6: US 10 yr minus 2 yr Bond Spread

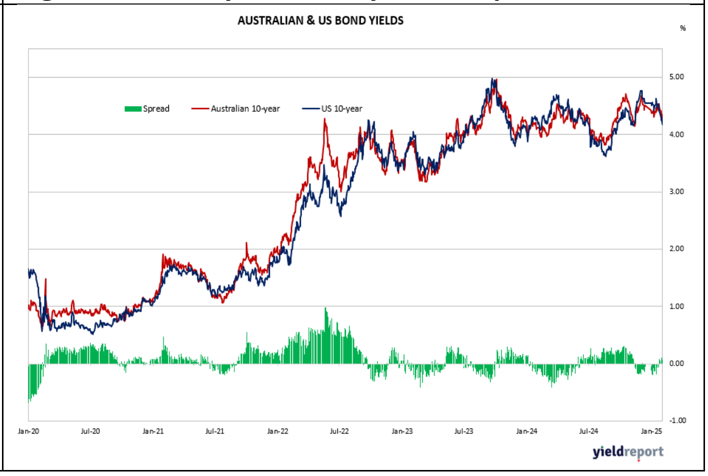
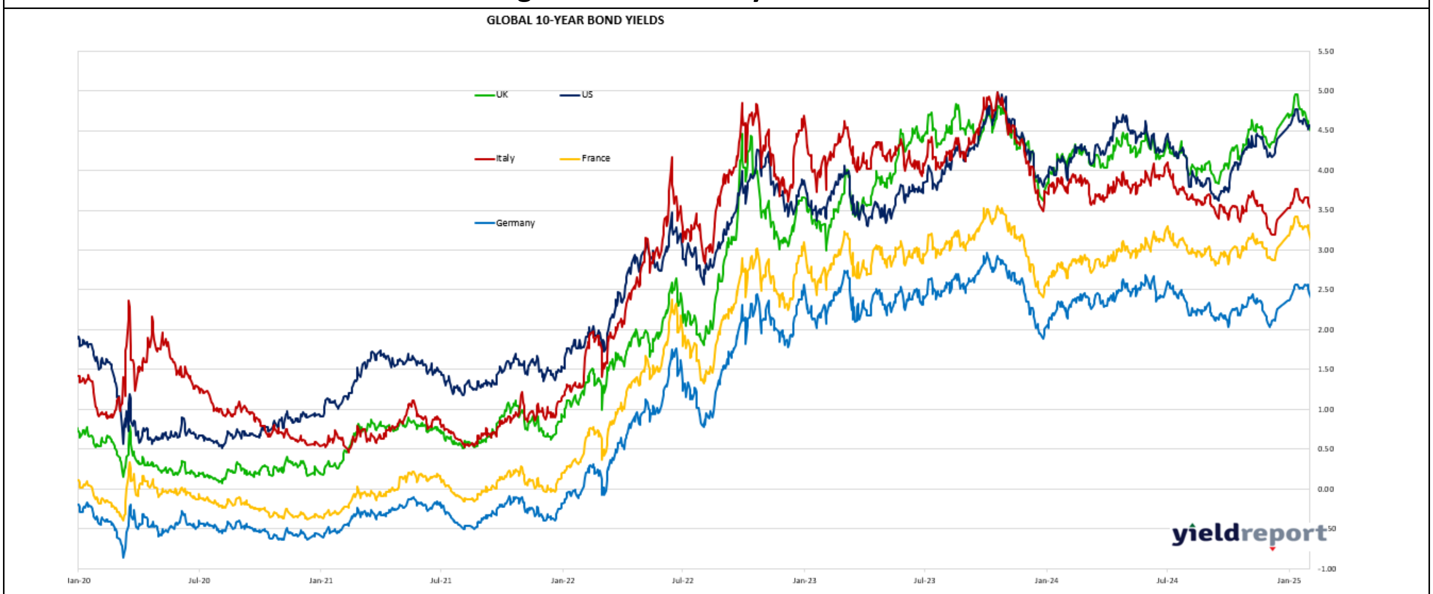


Figure 7: Global 10 yr Bond Yields

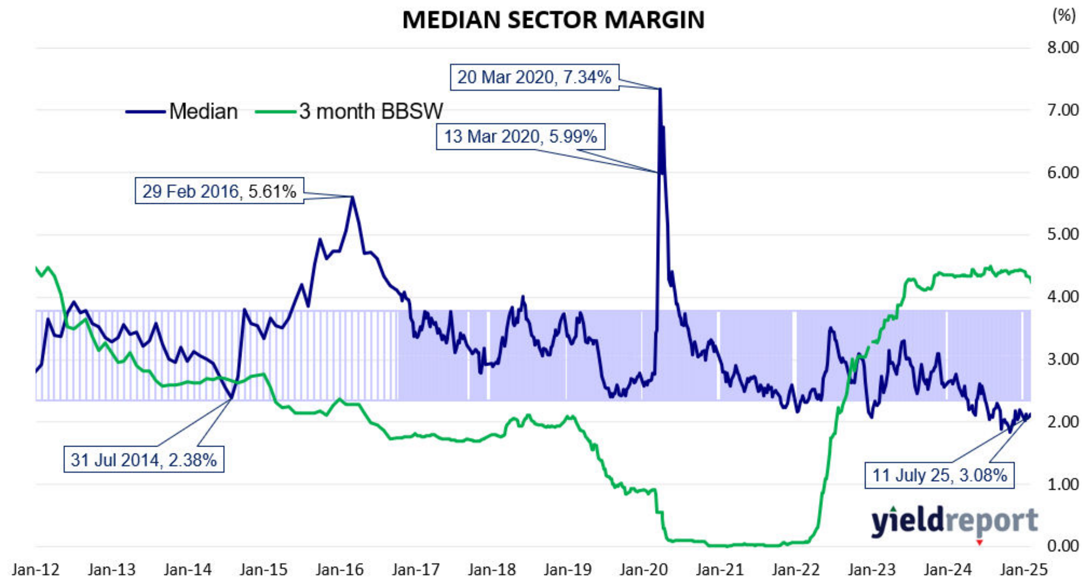


Bank & Corporate Hybrids

The ASX-listed hybrid market experienced a mixed performance this week, with trading margins showing slight increases amid the Reserve Bank of Australia (RBA)'s decision to hold the cash rate at 3.85% and the global influence of the "One Big Beautiful Bill" (OBBBA). The median trading margin across bank hybrids rose to 3.47%, up from last week's implied 3.39%, though still well below the early-2023 peak of 7.34% recorded on March 20, 2020, per historical ASX data. The 3-month BBSW rose 15.78 basis points to 3.583%, supporting a modest margin expansion trend observed in 2025.

Standout performers included Westpac's WBCPH Capital Notes 5, up 3.25% to 100 with a trading margin of 28.05%, and AMP Group's AMPPB Capital Notes 2, up 0.49% to 101.46 with a 7.44% margin. Macquarie Bank's MBLPC Capital Notes 2 gained 0.40% to 101.7, boasting a 6.36% margin. Challenger's CGFPC Capital Notes 3 dipped 0.23% to 102.91, reflecting sector volatility. Margins are trending toward pre-pandemic levels, suggesting stabilisation amid the RBA's steady policy and the OBBBA's fiscal stimulus, with investor focus shifting to the August 1 tariff deadline.

Figure 8: Hybrids: Median Sector Margin

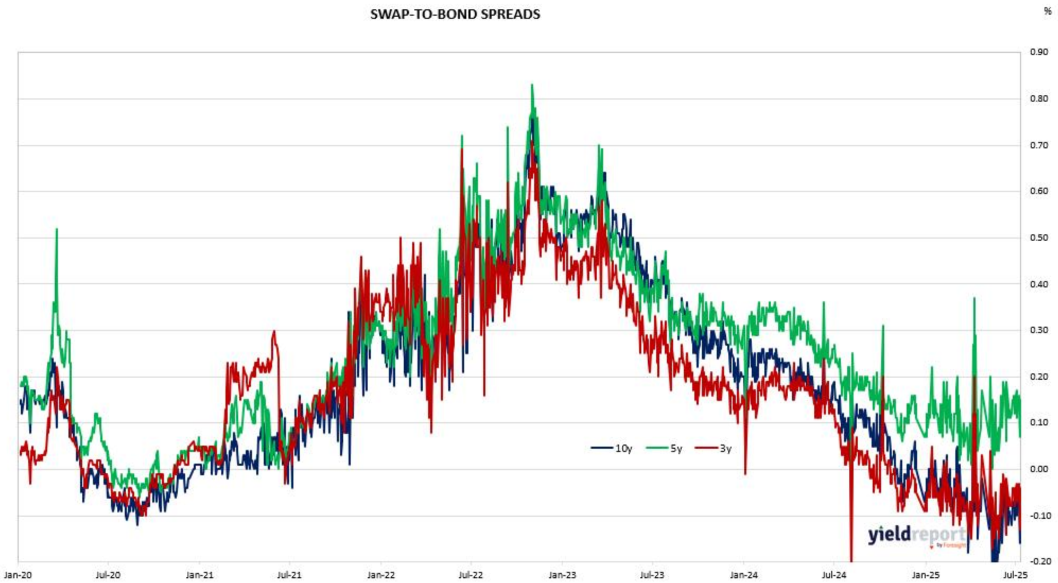


Bank Bill Swaps

The Bank Bill Swap Rate (BBSW) market exhibited a notable uptick this week, reflecting a cautious yet responsive stance to the Reserve Bank of Australia (RBA)'s decision to maintain the cash rate at 3.85% and the global fiscal stimulus from the "One Big Beautiful Bill" (OBBBA). For the week ending July 11, 2025, the 1-month BBSW rose 21.75 basis points to 3.7925%, while the 3-month BBSW increased 16.03 basis points to 3.7408%, based on daily data from the Australian Financial Markets Association (AFMA). The 6-month BBSW climbed 6.06 basis points to 3.8301%, indicating a gradual steepening of the short-end yield curve amid tariff uncertainty and the OBBBA's $3.3 trillion impact.

This upward movement, particularly pronounced on July 10 with a 21.75 basis point jump in the 1-month rate from 3.575% to 3.7925%, aligns with heightened market expectations of future rate adjustments, as noted in swap rate trends reported by Canstar on July 10, 2025. The 1-year swap rate rose 12.05 basis points to 3.3833%, reinforcing a market pricing of a 100-basis point rate cut over the next year, targeting a 2.85% cash rate by mid-2026, though tempered by the RBA's steady stance. Investors are adopting a wait-and-see approach, with focus shifting to the August 1 tariff deadline and the trading week starting Monday.

Figure 9: Bank Bill Swaps



ETFS

Investors allocated an estimated $15.6 billion into Australian-listed ETFs for the week ending July 11, 2025, as the S&P/ASX 200 dipped 0.11% and bond yields rose, reflecting a mixed sentiment amid the RBA's steady cash rate and the "One Big Beautiful Bill" (OBBBA) stimulus. Year-to-date inflows have reached approximately $285 billion, underscoring 2025 as a strong year for ETF adoption, though growth appears to be moderating compared to earlier projections.

Leading the inflows was the BetaShares Australian High Interest Cash ETF (AAA.AXW), attracting $2.4 billion despite a 0.04% price rise to 50.16, highlighting cash's enduring safe-haven appeal amid tariff uncertainty and rate cut speculation. The BetaShares Australian Investment Grade Corporate Bond ETF (CRED.AXW) followed with $1.9 billion, up 0.12% to 23.49, driven by its 4.74% yield. The VanEck Vectors Australian Subordinated Debt ETF (SUBD.AXW) added $1.5 billion, gaining 0.06% to 25.11, bolstered by a 5.93% yield.

On the outflows side, the iShares Core Composite Bond ETF (IAF.AXW) led with $1.2 billion in redemptions, down 0.61% to 102.97, as investors adjusted fixed-income positions. The Vanguard Australian Government Bond Index ETF (VGB.AXW) shed $1.0 billion, falling 0.33% to 46.82, while the BetaShares Australian Government Bond ETF (AGVT.AXW) lost $0.8 billion, down 0.34% to 42.17, signalling a rotation toward higher-yield options. The market's attention now turns to the August 1 tariff deadline and the trading week starting Monday.

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