yieldreport Daily

Your Income Advantage

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Overview of the US Market

US equities extended gains for a second consecutive quarter despite subdued trading Tuesday, as investors weighed the economic risks of a looming US government shutdown. The S&P 500 closed 0.4% higher, capping its strongest September in 15 years, fueled by optimism surrounding artificial intelligence and expectations of lower interest rates. The Nasdaq 100 and Dow Jones also advanced, while Treasuries gained for a third straight quarter, reflecting investor caution.

Concerns remain that a shutdown could delay the release of critical labor data, including Friday's nonfarm payrolls, which would obscure the Federal Reserve's policy outlook. Economic readings over the past month show a cooling labor market and inflation trending lower, though still above the Fed's 2% target. Analysts warn that an "information vacuum" may increase volatility, with stocks vulnerable to corrections given stretched valuations. The JOLTS report showed job openings steady in August but subdued hiring, signaling weaker labor demand.

Fed officials struck a cautious tone. Chicago Fed President Austan Goolsbee cited tariff-related uncertainty, while Boston Fed's Susan Collins said further rate cuts may be warranted this year. Fed Vice Chair Philip Jefferson noted simultaneous downside risks to employment and upside risks to inflation, underscoring the policy challenge. Economists, including Nomura's David Seif, suggested that even without fresh data, the Fed is likely to proceed with a 25-basis-point rate cut in October as indicated in its dot plot.

Historically, short shutdowns have had limited impact on GDP or equities, though longer disruptions tend to weaken stocks while supporting bond markets, according to Citi Research. Sectors reliant on government contracts, such as defense and health care, may face near-term weakness but could present longer-term buying opportunities.

In corporate news, Pfizer secured relief from tariffs by agreeing to cut some drug prices, Nike posted stronger-than-expected sales on robust North American demand, and CoreWeave struck a $14.2 billion computing supply deal with Meta. Meanwhile, the Fed lowered Morgan Stanley's stress capital buffer requirement to 4.3% from 5.1%.

On the broader market front, the Bloomberg Dollar Spot Index slipped 0.2%, the yen strengthened, and cryptocurrencies were mixed with Bitcoin steady but Ether falling nearly 2%. Commodities saw oil decline 1.4% as OPEC+ considered faster output hikes, while gold gained 0.5% on safe-haven demand.

Overall, markets remain resilient but face heightened uncertainty from political gridlock, slowing labor conditions, and a delicate balancing act for the Fed as it navigates both inflation risks and weakening growth.

Overview of the Australian Market

Australia's share market erased early gains to close lower on September 30, 2025, after the Reserve Bank of Australia held interest rates steady and adopted a cautious tone on inflation, diminishing expectations for a November cut. The S&P/ASX 200 fell 0.16% to 8,848.8, while the All Ordinaries slipped 0.14% to 9,135.9. Nine of eleven sectors ended in the red, with Energy down 1.59% amid tumbling oil prices and OPEC+ signaling production increases, and Materials up 0.89% buoyed by record gold prices and supply concerns in copper. Resources majors like BHP Group rose 1.5%, Rio Tinto added 0.6%, and South32 climbed 3.0%, while gold miners such as Resolute Mining gained 4.0% and Ramelius Resources advanced 2.6%.

The RBA's decision to keep the cash rate at 3.6% was unanimous, with Governor Michele Bullock emphasizing data dependency and noting upside surprises in recent inflation and activity figures, including partial data suggesting a higher-than-expected September quarter print. This hawkish lean prompted traders to pare bets on near-term easing, with the probability of a November cut dropping to about 38%. Energy stocks extended their monthly losses beyond 10%, led by Woodside Energy down 1.7%, Santos falling 2.5%, and Beach Energy dropping 3.4%, reflecting a supply glut in crude. Uranium plays bucked the trend, with Elevate Uranium up 11.3% and Alligator Energy rising 10.3% amid sector strength.

Financials shed 0.51%, with Commonwealth Bank declining 0.9% to $166.90, while health care and utilities also weakened. Defence firm Droneshield surged 5.9% to a new high of $4.66 for a second session. Outside the top 200, Stakk soared 82.4% on a T-Mobile vendor deal, and Veem jumped 23.8% following a capital raise. Building approvals data disappointed earlier, falling 6% in August against expectations of a 3% rise, adding to uncertainty on domestic recovery. Investors now eye Wednesday's trade balance and exports figures, amid global risks from US shutdown threats and Trump's new tariffs on pharmaceuticals and furniture, which could pressure Australian exports and inflate costs.

Overview of the US Bond Market

Bond traders are increasingly betting that US 10-year Treasuries are poised for a rally, potentially driving yields to their lowest levels in five months. The shift comes ahead of a possible US government shutdown that could weigh on the economy, strengthen expectations for Federal Reserve rate cuts, and delay key economic data. On Tuesday, traders boosted bullish positioning, including a $35 million options premium targeting a drop in yields to around 4.05% by late November, compared with current levels near 4.15%. This follows a $50 million wager last week aiming for yields to fall as low as 3.95%, levels not seen since April's market turmoil.

Strategists at BMO Capital Markets argue that investors view shutdown risk as supportive of lower rates. Historically, prolonged shutdowns have reinforced Treasury rallies, such as in 2018 when 10-year yields fell nearly half a percentage point during a month-long closure. The risk is heightened this time by President Donald Trump's threat to fire federal workers in a shutdown and by potential delays to jobs data, which traders rely on to gauge Fed policy direction. Many see confirmation of a cooling labor market as necessary to fuel the next rally leg in Treasuries.

Positioning indicators confirm the shift. JPMorgan's client survey shows long positions rising to their highest since April, while short positions declined. In SOFR (Secured Overnight Financing Rate) options, heavy activity centered on December 2025 contracts at the 96.50–96.625 strikes, signaling traders are targeting additional Fed rate cuts by year-end. Open interest in 10-year options surged, with demand concentrated on strikes implying yields between 4.05% and 3.95%. This growth reflects new bullish positioning rather than unwinding prior trades.

Meanwhile, CFTC data showed asset managers recently pared long Treasury futures positions for the third consecutive week, while hedge funds covered SOFR shorts. Despite some liquidation, options activity suggests traders are preparing for lower yields, with open interest spiking as buyers bet on declines below 4%.

The outlook hinges heavily on upcoming labor market signals, particularly Friday's nonfarm payrolls release — now at risk of being delayed if the shutdown occurs. Without updated data, the Fed's October decision may rely more heavily on its September dot plot, which projects a 25 basis point rate cut. Overall, traders are positioning for near-term volatility but see shutdown uncertainty, softer economic indicators, and Fed easing expectations as drivers of a sustained Treasury rally.

Overview of the Australian Bond Market

Australian government bonds saw yields rise modestly on September 30, 2025, with the policy-sensitive 2-year yield up 5 basis points to 3.52% as the RBA's hawkish commentary reinforced caution amid persistent inflation and a resilient labor market. The 5-year yield climbed 3 basis points to 3.78%, the 10-year added 1 basis point to 4.33%, and the 15-year held steady at 4.68%. Traders trimmed expectations for a November rate cut to 38% following the central bank's statement highlighting slower disinflation and stronger private demand, with Governor Bullock noting the policy remains "probably a little bit restrictive" but urging patience as third-quarter inflation may exceed forecasts.

The RBA board emphasized uncertainties from domestic growth picking up, a strengthening housing market, and readily available credit, alongside international risks like US tariffs and geopolitical tensions that could dampen global demand. Economists at Toronto-Dominion Bank described the tone as hawkish, pushing some to delay expected easing to next year, while Bloomberg Economics noted the bank's ability to remain patient given elevated monthly inflation at the top of the 2-3% target and steady unemployment at 4.2%. The Australian dollar strengthened above 66 US cents on the uplifted rate outlook.

August building approvals plunged 6% month-on-month, missing the 3% poll and signaling uneven recovery, while annual total approvals fell 1.2%. S&P Global Manufacturing PMI finalized at 51.4, slightly below preliminary. Ahead, Wednesday's goods balance is eyed at A$6.2 billion, with exports potentially buoyed by commodities but tempered by China's slowdown. Global factors, including Trump's protectionist moves expected to curb growth and squeeze margins, add to the RBA's vigilance on imported inflation, as the bank prepares its Financial Stability Review on Thursday.

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For inquiries, please contact contact@yieldreport.com.au or call 0408 266 713.

YieldReport – Interest Rates &Yield Investment Data & Research
Level 2, Suite 208
33 Lexington Drive
Bella Vista NSW 2153

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