

9 May 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

The US and UK announced a trade deal. President Trump depicted it as an historic achievement, however, it lacked substance, with a lot of details left to be clarified and decided in the future.

The Bank of England cut Bank Rate by 25bp to 4.25% and retained its forward guidance, in line with expectations, but the voting details revealed a wide range of views among the committee members.

There was strong risk-on sentiment in the markets, with the equity markets rallying, USD appreciating and major government bonds selling off.

Data snapshot

FX Last 24 hrs			Current	Change	AUS Interest Rate Swaps			Last	Change
TWI			59.9	-0.3%	30 day BBSY		3.92	-0.01	
AUD/USD			0.6401	-0.4%	90 day BBSY		3.87	-0.01	
AUD/JPY			93.41	1.1%	180 day BBSY		3.89	-0.02	
AUD/GBP			0.4831	0.0%	1 year swap		3.44	0.06	
AUD/NZD			1.0839	0.2%	2 year swap		3.31	0.09	
AUD/EUR			0.5701	0.3%	3 year swap		3.34	0.11	
AUD/CNH			4.6360	-0.2%	4 year swap		3.43	0.09	
AUD/SGD			0.8322	0.1%	5 year swap		3.54	0.08	
AUD/HKD			4.9752	-0.2%	6 year swap		3.65	0.08	
AUD/CAD			0.8911	0.2%	7 year swap		3.76	0.08	
EUR/USD			1.1227	-0.6%	8 year swap		3.86	0.07	
USD/JPY			145.94	1.4%	9 year swap		3.94	0.06	
USD Index			100.63	1.0%	10 year swap		4.17	0.08	

Equities			Close	Change	Government Bond Yields			Close	Change
S&P/ASX 200			8,192	0.2%	Australia				
S&P 500			5,664	0.6%	3 year bond		3.36	-0.01	
Japan Nikkei			36,929	0.4%	10 year bond		4.24	-0.04	
Hang Seng			22,776	0.4%	United States				
Euro Stoxx 50			5,289	1.1%	3-month T Bill		4.22	0.00	
UK FTSE100			8,532	-0.3%	2 year bond		3.87	0.10	
VIX Index			22.48	-4.5%	10 year bond		4.38	0.11	
					Other (10 year yields)				
					Germany		2.54	0.06	
					Japan		1.34	0.03	
					UK		4.55	0.09	

Commodities			Current	Change	Sydney Futures Exchange			Current	Change
CRB Index			292.01	0.8%	10 yr bond		4.30	0.07	
Gold			3308.41	-1.7%	3 yr bond		3.41	0.06	
Copper			9432.00	0.1%	3 mth bill rate		3.74	0.03	
Oil (WTI futures)			59.91	3.2%	SPI 200		8,216	0.0%	
Coal (coking)			186.00	0.1%					
Coal (thermal)			104.00	-1.2%					
Iron Ore			97.05	-1.8%					
ACCU			35.38	2.9%					

Data as at 8:00am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.



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Financial Markets:

There was strong risk-on sentiment in financial markets, supported by the announcement of the US-UK trade deal (more details below). While President Trump depicted it as an historic achievement, the deal lacked substance, with a lot of details left to be clarified and decided in the future. Nevertheless, the market interpreted it positively, as a sign of progress in Trump's agenda. Following the Bank of England's announcement of a 25bp Bank Rate cut yesterday, Governor Bailey also spoke positively about the trade deal, as the BoE's analysis showed negative tariff impact on growth in the UK.

- US equity markets rallied – the S&P500 index gained 0.5% and returned broadly to the pre-'Liberation Day' levels. It remains down 3.7% on the year-to-date basis. Despite escalating military tensions between India and Pakistan, Asian equities were also in the green, expecting progress in the US-China talks which are commencing this weekend. European Euro Stoxx 50 gained more 1.1%, but the trade deal seems to have failed to impress UK equity markets - FTSE100 was down 0.3%.
- The risk-on sentiment saw a notable sell off in major government bonds. The US Treasury 10Y yield jumped 11bp; loses were slightly smaller at the short end of the curve, as, following the Fed announcement earlier this week, markets continued to pare their expectations of the monetary policy easing. Gilt yields also increase sharply as the BoE communication showed a wide range of views about appropriate policy actions on the Monetary Policy Committee suggesting a possibility of a more hawkish tilt ahead. Aussie yields were lower yesterday, but futures suggest that they should catch up with the global trends today.
- In FX markets, the DXY index was up a full 1% rising back above 100, and most major currencies depreciated. JPY lost 1.4% of its value against USD, while EUR and GBP dropped 0.6% and 0.3%. AUD, down 0.4% to 0.64, followed a similar trend.
- Crude jumped to a one-week high helped by news of the US-UK trade deal and optimism surrounding the US-China talks. Metals also saw some improved price action, though copper underperformed up just 0.1% at \$9,432 while aluminium rose by a stronger 1.3%. Iron ore weakened on confirmation from Chinese authorities that they are actively pushing forward with production control measures. Gold fell 1.7% on positive trade news.

Overnight Data:

The **US and UK announced a trade deal overnight**, although the agreement is being billed as a framework rather than the "full and comprehensive" agreement President Trump previously pledged to achieve. The UK will give the US improved market access in agriculture and will work to

Today's key data and events

For	Data/Event	Exp	Prev
–	CN Trade Balance Apr	US\$93.9b	US\$102.6b
9:30am	JP Household Spending Mar	0.2%	–0.5%

Times are AEST. All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data are our forecasts and for other countries they are consensus forecasts.

streamline the customs process for US goods. The UK has also agreed to purchase more aircraft from Boeing. In return, each year the first 100,000 cars exported to the US, a number broadly matching 2024's export volume, will face a tariff of 10% instead of 25%. The UK communications on the deal referenced the tariff on UK steel and aluminium exports to the US being reduced from 25% to zero, and pharmaceutical exports will also reportedly receive preferential treatment, but details are still to be agreed. There is no change to the UK's digital service tax or food safety rules, and UK goods not specified under the agreement will still face a 10% tariff in the US. We expect to see more limited detail agreements in coming weeks. Whether negotiations will continue to allow a comprehensive arrangement in time remains an open question.

The **Bank of England's Monetary Policy Committee (MPC)** cut Bank Rate by 25bp to 4.25%, as expected. Voting details revealed a wide range of views among the committee members, with two of them voting to leave policy unchanged, two favouring a bigger 50bp cut, and only a slim majority of five supporting the 25bp cut.

The MPC's language about their policy stance remained largely unchanged, continuing to emphasize "a gradual and careful approach to the further withdrawal of monetary policy restraint". The BoE's updated inflation projections showed downward revisions – inflation is now expected to reach 2%yr in Q1 2027, three quarters earlier in comparison to the February forecast. And although the GDP growth this year was revised significantly higher, to 1.1%yr, the change mostly reflected a steeper increase in Q1 2025, while growth for 2026 was expected to be 0.3ppt lower, at 1.2%yr, below the BoE estimate of supply growth suggesting that demand weakness will continue to act against remaining inflation persistence.

The MPC emphasized high uncertainty from global trade policies. Governor Bailey welcomed emerging news that the US and UK reached a trade deal. The Bank of England analysis suggested that the tariff impact should be relatively small – over the three-year forecast horizon they are likely to lower UK GDP by around 0.3%. The impact on inflation is less certain and can be in either direction.

In the US, **initial jobless claims** moderated from 241k to 228k last week as expected. To date, initial claims and other labour market data has provided no evidence of job retrenchment across the economy. The **NY Fed's 1-year inflation expectation** of consumers edged higher to 3.63%yr in April rising from 3.0%yr at the turn of the year. While much more well behaved than the Uni of Michigan and Conference Board measures, the NY Fed survey still points to near-term inflation materially above the Fed's target.



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