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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Financial markets traded cautiously on Friday, ahead of the US-China trade talks in Switzerland over the weekend.

The US equity market was little changed, while other major equity benchmark indices increased somewhat. USD depreciated, and US Treasury yields rose, as comments from the Fed officials indicated no rush to ease policy further.

After two days of negotiations, both the US and China reported “substantial progress”, but provided no details of any specific agreements.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	59.8	-0.2%	30 day BBSY	3.91	-0.01
AUD/USD	0.6424	0.2%	90 day BBSY	3.86	-0.01
AUD/JPY	93.95	-0.2%	180 day BBSY	3.89	0.01
AUD/GBP	0.4842	-0.2%	1 year swap	3.42	-0.02
AUD/NZD	1.0843	0.2%	2 year swap	3.29	-0.02
AUD/EUR	0.5738	0.7%	3 year swap	3.32	-0.03
AUD/CNH	4.6424	0.1%	4 year swap	3.41	-0.02
AUD/SGD	0.8337	-0.1%	5 year swap	3.52	-0.02
AUD/HKD	4.9963	0.2%	6 year swap	3.64	-0.02
AUD/CAD	0.8926	0.2%	7 year swap	3.75	-0.01
EUR/USD	1.1197	0.2%	8 year swap	3.85	-0.01
USD/JPY	146.26	-0.4%	9 year swap	3.94	0.00
USD Index	100.34	-0.3%	10 year swap	4.16	-0.01

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,231	0.5%	<b>Australia</b>		
S&P 500	5,660	-0.1%	3 year bond	3.41	0.06
Japan Nikkei	37,503	1.6%	10 year bond	4.29	0.05
Hang Seng	22,868	0.4%	<b>United States</b>		
Euro Stoxx 50	5,310	0.4%	3-month T Bill	4.22	-0.01
UK FTSE100	8,555	0.3%	2 year bond	3.89	0.02
VIX Index	21.9	-2.6%	10 year bond	4.38	0.00

Commodities	Current	Change	<b>Other (10 year yields)</b>		
CRB Index	295.13	1.1%	Germany	2.56	0.03
Gold	3324.98	0.6%	Japan	1.37	0.03
Copper	9446.00	0.1%	UK	4.57	0.02

			<b>Sydney Futures Exchange</b>	Current	Change
Oil (WTI futures)	61.02	1.9%	10 yr bond	4.30	0.02
Coal (coking)	187.25	0.7%	3 yr bond	3.42	0.01
Coal (thermal)	103.95	0.0%	3 mth bill rate	3.73	0.01
Iron Ore	97.45	0.4%	SPI 200	8,265	0.2%
ACCU	35.38	2.9%			

Data as at 7:00am 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:

Ahead of the US-China trade talks in Switzerland over the weekend, financial markets traded cautiously on Friday, recognizing that while both sides would like to see lower tariffs, the path to reduce them might be bumpy. President Trump urged China to open its market to the US and suggested that a right level for tariffs on China might be 80%. After two days of negotiations, both the US and China reported "substantial progress". In a short press conference, Treasury Secretary Scott Bessent provided no further details suggesting that the outcome of the talks will be outlined tomorrow. US Trade Representative Jamieson Greer subsequently provided a constructive take, noting "It's important to understand how quickly we were able to come to an agreement, which reflects that perhaps the differences were not as large as maybe thought".

- On Friday, the US equity market traded around a flat trend, with the S&P500 ending the day 0.1% lower at 5660, similar to the pre-'Liberation Day' levels. Other major equity markets were somewhat more positive. For example, Euro Stoxx 50 gained 0.4%, as European energy stocks followed oil prices higher, and major Asian stock indices (with the exception of the Chinese market) were also in the green. The domestic ASX200 index rose 0.5%.
- Major government bond yields ended the week somewhat higher - they were supported by the comments from the Fed officials indicating no rush with further policy easing. The US Treasuries curve showed loses at the short end, while 10Y and longer maturities were broadly unchanged. Meanwhile, Bunds and Gilts sold off at the longer end, with the 10Y benchmark yields rising 3bp and 2bp, and Aussie government bonds underperformed – the 10Y yield was up 5bp to 4.29%.
- In FX markets, the DXY index lost 0.3% and most other major currencies appreciated a similar amount. EUR was up 0.2%, while Yen appreciated 0.4%. GBP gained 0.5% following the BoE interest rate cut the day before, as the central bank's communication carried a more hawkish tone. AUD also appreciated gaining 0.2% to 0.6420.
- Brent jumped again on Friday as positive news on the US-China trade talks lifted sentiment. The July Brent contract rose 1.7% to \$63.9 while the June WTI contract surged 1.9% to \$61.0. Metals failed to show much enthusiasm, with copper holding below \$9,500, up just 0.1% and aluminium up 0.2. Iron ore rose to \$97.45 on the June SGX contract, as Chinese trade figures confirmed that iron ore imports surged in April but remained down 5.7% on a year-to-date basis. Gold remained under modest pressure as positive trade news hit demand for safe havens. Spot still closed up 0.6% to \$3,324.

## Today's key data and events

For	Data/Event	Exp	Prev
-	CN M2 Money Supply Apr	7.2%	7.0%
9:50am	JP Current Account Balance Mar	¥3790.8b	¥4060.7b

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.

## International Data:

After last week's FOMC policy announcement ended the blackout period which restricted Fed officials from making public comments, on Friday, a few FOMC members provided their thoughts relevant for the US monetary policy. FOMC member **Kugler** said policymakers should hold interest rates steady for now: "Overall we see health still in the real economy, so that gives us time to make sure that we continue to make progress on inflation, and we keep our inflation expectations very well anchored". **Hammack** shared a similar sentiment saying "in this case, taking no action might be the best choice". **Williams** said a "critical lesson" for central bankers is "the importance of maintaining well-anchored inflation expectations, especially when uncertainty is very high". **Barkin** said: it's not a given that companies can raise their prices to offset the cost of tariffs: "What I'm hearing from retailers is that consumers are about tapped out. And that means that it's nice to say you're going to pass it on, but it's not as easy to pass it on as you might think".

**China's trade surplus** narrowed at the margin in April from US\$103bn to US\$96bn. Annual growth in exports remained strong but slowed, from 12%yr to 8%yr, while import growth accelerated, from -4%yr to 0%yr. Exports to the US were down 21%yr, a weak but not catastrophic result, given that US tariffs on Chinese imports reached 145% after the 'Liberation Day' escalation. And exports to Asia and Europe rose notably suggesting that some Chinese businesses diverted their exports to other markets. Meanwhile, imports to China from the US also fell heavily over the year, down 14%yr. This re-orientation of Chinese trade is expected to continue in coming months, limiting the cost to GDP growth from the US tariffs.

**China's CPI** was as expected in April – the annual rate of inflation remained unchanged at -0.1%yr continuing to point to ongoing weakness of aggregated demand. Food inflation rose significantly, from -1.4%yr to -0.2%yr, while consumer goods category also showed an increase, albeit only by 0.1ppt to -0.3%yr. Those increases were offset by lower price pressures in major categories, including transportation and communication, and household services. PPI inflation was also broadly in line with the consensus forecast at -2.7%yr. A sustained return to inflation will only occur once growth in demand exceeds additions to supply.



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