



16 May 2025

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Weaker US economic data supported a rally in the US Treasuries, with yields down across the curve by 9-11bp. Other major bond yields were also notably lower.

The US dollar was under downward pressure again, but equity markets were mostly in the green. The Aussie dollar weakened 0.3%, despite the stronger-than-expected Australian labour markets data.

Crude was down sharply for a second consecutive day, as the market reacted to President Trump's comments that the US and Iran are getting closer to a deal on Iran's nuclear program.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	59.9	-1.0%	30 day BBSY	3.85	-0.03
AUD/USD	0.6403	-0.3%	90 day BBSY	3.85	0.01
AUD/JPY	93.27	-1.1%	180 day BBSY	3.91	0.01
AUD/GBP	0.4814	-0.6%	1 year swap	3.56	0.00
AUD/NZD	1.0901	0.0%	2 year swap	3.47	-0.02
AUD/EUR	0.5725	-0.4%	3 year swap	3.51	-0.04
AUD/CNH	4.6141	-0.4%	4 year swap	3.60	-0.05
AUD/SGD	0.8309	-0.7%	5 year swap	3.70	-0.05
AUD/HKD	4.9981	-0.4%	6 year swap	3.81	-0.07
AUD/CAD	0.8940	-0.5%	7 year swap	3.91	-0.06
EUR/USD	1.1183	0.1%	8 year swap	4.01	-0.07
USD/JPY	145.66	-0.7%	9 year swap	4.10	-0.07
USD Index	100.81	-0.2%	10 year swap	4.31	-0.08

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,297	0.2%	<b>Australia</b>		
S&P 500	5,917	0.4%	3 year bond	3.66	0.06
Japan Nikkei	37,756	-1.0%	10 year bond	4.53	0.06
Hang Seng	23,453	-0.8%	<b>United States</b>		
Euro Stoxx 50	5,412	0.2%	3-month T Bill	4.25	-0.03
UK FTSE100	8,634	0.6%	2 year bond	3.96	-0.09
VIX Index	17.83	-4.2%	10 year bond	4.43	-0.10
			<b>Other (10 year yields)</b>		
<b>Commodities</b>	<b>Current</b>	<b>Change</b>	Germany	2.62	-0.08
CRB Index	295.86	-0.9%	Japan	1.48	0.02
Gold	3240.28	2.0%	UK	4.66	-0.05
Copper	9577.00	-0.3%			

			Sydney Futures Exchange	Current	Change
Oil (WTI futures)	61.62	-2.4%	10 yr bond	4.46	-0.08
Coal (coking)	190.00	0.0%	3 yr bond	3.61	-0.06
Coal (thermal)	104.70	0.3%	3 mth bill rate	3.78	-0.01
Iron Ore	100.45	-0.6%	SPI 200	8,411	1.0%
ACCU	35.38	2.9%			

Data as at 7:30am 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:

Focus in financial markets turned back to economic data releases that provided some insights into the economic impact of the tariff increases. US retail sales figures offered some evidence that categories more exposed to Chinese imports saw a pull-back in consumer spending. A drop in producer prices signalled that US companies are absorbing higher prices due to tariffs. The data led to a significant rally in bond markets. There was no progress in Ukraine-Russia talks, as the Russian President did not show up at the negotiations with the Ukrainian President.

- In the US equity market, the S&P500 index recovered from early losses and ended the day in the green, up 0.4%. President Trump's criticism of Apple's effort to move some of its production from China to India, not the US, demonstrated the difficulty US companies are facing trying to adapt to tariffs. The FTSE100 index outperformed, up 0.6%, as the UK GDP figures for Q1 showed a steep increase in growth. The Euro Stoxx 50 and the domestic ASX 200 indices were up 0.2%, while most major Asian equity markets sold off.
- In the bond markets, weaker US economic data supported a rally in the US Treasuries, with yields down across the curve by 9-11bp. Other major bond yields were also notably lower. The 10Y Bund yield fell 8bp, after the euro area Q1 GDP growth was revised lower, while the equivalent Gilt underperformed, down 6bp, with the UK's growth figures confirming a pickup at the start of the year. Australian yields were higher yesterday, but futures suggest that they will probably catch up with the global trend today.
- The US dollar was under downward pressure again, with the DXY slipping back below 101, down 0.2%. EUR, GBP and YEN appreciated, the latter showing the biggest move of 0.7%. AUD weakened 0.3%, despite the stronger-than-expected Australian labour markets data.
- Crude was down sharply for a second consecutive day – the June WTI contract dropped 2.4% to \$61.6. The market reacted to President Trump's comments that the US and Iran are getting closer to a deal on Iran's nuclear program which could open the doors for increased supply of Iranian oil. Iron ore prices eased after strong gains earlier this week, gold surged 2% on the back of expectations for more monetary policy easing in the US.

## International Data:

US retail sales stalled as expected in April, rising just 0.1%*mth*. Lower spending in areas such as sporting goods and miscellaneous stores that typically rely on imports from China declined, suggesting some impact from tariffs, however, some other areas that might have similar exposures saw further increases. The control group sales, which feed into the

## Today's key data and events

For	Data/Event	Exp	Prev
12:00am	US Business Inventories Mar	0.2%	0.2%
12:00am	US NAHB Housing Market May	40pts	40pts
8:30am	NZ Manufacturing PMI Apr	-	53.2pts
9:50am	JP GDP Q1 Prel.	-0.1%	0.6%
1:00pm	NZ RBNZ Inflation Expectations Q2	-	2.1%
2:30pm	JP Industrial Production Mar Final	-	-1.1%
10:30pm	US Housing Starts Apr	2.9%	-11.4%
10:30pm	US Building Permits Apr Prel.	-1.2%	0.5%
10:30pm	US Import Price Index Apr	-0.3%	-0.1%
12:00am	US Uni. Of Michigan Sentiment May Prel.	53.4pts	52.2pts

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.

GDP calculation, disappointed, declining 0.2%*mth* after solid increases in the prior two months.

US producer prices were materially below expectations at -0.5%*mth* in April, -0.4%*mth* excluding food and energy. Margin compression is potentially at least partly to blame, with consumers and businesses price conscious and the cost of inputs on the rise owing to tariffs. The US industrial production was flat in the month, and initial jobless claims meanwhile were unchanged last week at 229k, suggesting no material shift in the labour market momentum.

FOMC Chair Powell flagged potential changes to the framework and language that guides monetary policy decisions to better adapt to higher volatility in inflation and activity. Still, 2%*yr* inflation will remain the benchmark for policy making.

Euro area GDP was edged down from 0.4% to 0.3% in the second estimate for Q1 2025, still up from 0.2%*qtr* growth in Q4. To two decimal places, the revision was only -0.02*ppt*, and the annual growth rate remained unchanged at 1.2%*yr*. Also released overnight, euro area employment growth was robust in Q1 at 0.3%*qtr* and 0.8%*yr*, suggesting that conditions in the labour market remained firm. Helped by exports being pulled forward to avoid US tariffs, industrial production was strong in March, rising 2.6%*mth* and 3.6%*yr*.

UK GDP growth was strong as expected in Q1, gaining 0.7%*qtr* and 1.3%*yr*. This is despite soft private consumption (0.2%*qtr*) and a contraction in government spending (-0.5%*qtr*). More than offsetting was a surge in investment (2.9%*qtr*) and exports growth outpacing imports (3.5%*qtr* versus 2.1%*qtr*).

## Domestic Data:

The April Labour Force Survey (LFS) released in Australia yesterday surprised materially to the upside, toning down some the apparent softness that looked to have emerged over the last couple of months ([see here](#) for more details).

House prices continued to tick higher in New Zealand, as lower interest rates have helped to revive buyer interest ([see here](#) for more details).



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