



22 May 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Concerns about the US deficit lead to a bear steepening in US rates.

There was some contagion with yields rising elsewhere as well.

The pop higher in US Treasury yields saw the US dollar weaken, the DXY dipped below 100 for the first time in two weeks.

Equities in the US retreated following the news, but other major indices were unaffected.

Data snapshot

FX Last 24 hrs			Current	Change
TWI			59.8	0.20%
AUD/USD			0.6432	0.20%
AUD/JPY			92.7	-0.40%
AUD/GBP			0.4796	0.00%
AUD/NZD			1.0843	0.00%
AUD/EUR			0.568	-0.20%
AUD/CNH			4.6313	0.10%
AUD/SGD			0.8293	-0.30%
AUD/HKD			5.0365	0.30%
AUD/CAD			0.8921	-0.20%
EUR/USD			1.1323	0.40%
USD/JPY			144.12	-0.60%
USD Index			99.56	-0.60%
Equities			Close	Change
S&P/ASX 200			8,387	0.50%
S&P 500			5,845	-1.60%
Japan Nikkei			37,299	-0.60%
Hang Seng			23,828	0.60%
Euro Stoxx 50			5,454	0.00%
UK FTSE100			8,786	0.10%
VIX Index			20.87	15.40%
Commodities			Current	Change
CRB Index			298.57	0.10%
Gold			3317.81	0.80%
Copper			9534	0.10%
Oil (WTI futures)			61.27	-1.60%
Coal (coking)			189.5	0.00%
Coal (thermal)			105.85	0.20%
Iron Ore			99.8	0.40%
ACCU			35.38	2.90%
AUS Interest Rate Swaps			Last	Change
30 day BBSY			3.79	-0.02
90 day BBSY			3.78	-0.06
180 day BBSY			3.81	-0.13
1 year swap			3.44	0.04
2 year swap			3.37	0.07
3 year swap			3.43	0.07
4 year swap			3.53	0.07
5 year swap			3.66	0.07
6 year swap			3.79	0.08
7 year swap			3.91	0.08
8 year swap			4.02	0.08
9 year swap			4.11	0.09
10 year swap			4.37	0.12
Government Bond Yields			Close	Change
Australia				
3 year bond			3.48	0.01
10 year bond			4.45	0.05
United States				
3-month T Bill			4.23	0.01
2 year bond			4.02	0.05
10 year bond			4.6	0.11
Other (10 year yields)				
Germany			2.65	0.04
Japan			1.53	0.02
UK			4.76	0.05
Sydney Futures Exchange			Current	Change
10 yr bond			4.51	0.06
3 yr bond			3.52	0.03
3 mth bill rate			3.72	0.01
SPI 200			8,326	-1.00%

Data as at 8:15am AEST. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.



Illiana Jain
Economist, Westpac Group
P: +61 403 908 032
E: illiana.jain@westpac.com.au

Financial Markets:

Concerns about the US fiscal deficit saw US Treasuries sell off further. The sell off in US rates began last week after Moody's downgraded the US' credit rating. This gained further momentum overnight with a soft result in the auction of 20Y Treasury bonds and in reaction to Trump's tax cuts which is likely to see the deficit widen.

- In **equities**, worries around debt saw US markets underperform the rest of the world. The three major indexes popped lower after the auction result. The S&P closed 1.6% lower, the Dow Jones was down 1.9% and the NASDAQ 1.4%. Declines were mostly contained in the US, Europe's EuroStoxx 50 finished flat, London's FTSE 100 finished 0.1% higher and the German DAX was up 0.4%. The Asian session was mixed -- Hong Kong's Hang Seng was up 0.6% and Shanghai's CSI 300 closed 0.5% higher. The Japanese Nikkei was an outlier closing 0.6% lower. This may have been the result of reports which showed a decline in cross-asset holdings by major Japanese companies. The ASX200 closed 0.5% higher but futures suggest a weak open this morning.
- In **bond** markets, concerns around US debt were front and centre and resulted in a bear steepening of the curve. 10Y bond yield rose 11bp to 4.60%, the highest since mid-January, while the 2Y was up 5bps to 4.02% which was the highest since May 2024. There was some contagion across other markets, in Germany the 2Y Bund yield was up 3bp and the 10Y up 4bp while in the UK the 2Y Gilt yield was up 4bp and the 10Y up 5bp. Fiscal concerns in the UK have also seen the 30Y Gilt yield rise to 5.52% and is the highest of all major market yields in this tenor. The Japanese 10Y continues to explore higher grounds rising 2bp to 1.52% even as market participants encourage the BoJ to ease plans to taper their bond holdings citing concerns about liquidity at the long end. In Australia, futures suggest a bear steepening in rates this morning -- pricing for the 10Y bond yield is up 6bp and the 3Y is up 3bps.
- **FX** markets reacted to the news as expected, there was a sell-off in the US dollar with the DXY hitting 99.61, a 4-week low. The euro strengthened to 1.13 against the greenback while the JPY weakened to 144.12, and continues to pop higher this morning. The AUD/USD pair also strengthened to 0.6432 retracing some of its losses since the RBA cut rates on Tuesday.
- In **commodities**, oil prices fell with the July WTI contract down 0.74% to \$61.57 following an EIA report of rises in the US crude oil inventory. Escalating tensions between Iran and Israel saw gold prices rise once again closing at \$3,318/oz, up 0.8%.

Today's key data and events

For	Data/Event	Exp	Prev
9:50am	JP Machinery Orders Mar	-1.60%	4.30%
10:30am	JP Jibun Bank Manufacturing PMI May Prel.	-	48.7pts
10:30am	JP Jibun Bank Services PMI May Prel.	-	52.4pts
6:00pm	EZ HCOB Manufacturing PMI May Prel.	49.2pts	49pts
6:00pm	EZ HCOB Services PMI May Prel.	50.4pts	50.1pts
6:30pm	AU RBA's Hauser-Speech	-	-
6:30pm	GB S&P Manufacturing PMI May Prel.	46pts	45.4pts
6:30pm	GB S&P Services PMI May Prel.	50pts	49pts
10:30pm	US Chicago Fed Activity Index Apr	-0.2pts	-0pts
10:30pm	US Initial Jobless Claims	230k	229k
11:45pm	US S&P Manufacturing PMI May Prel.	49.8pts	50.2pts
11:45pm	US S&P Services PMI May Prel.	51pts	50.8pts
-	US Building Permits Apr Final	-	-4.70%
12:00am	US Existing Home Sales Apr	2.00%	-5.90%
1:00am	US Kansas City Fed May	-5pts	-4pts
8:45am	NZ Real Retail Sales Q1	0.00%	0.90%

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.

Domestic Data:

The six-month annualised growth rate in the Westpac–Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, slowed to 0.2% in April from 0.5% in March. The shift reflects heightened uncertainty around global trade and a less supportive commodity price backdrop. While most of the drag is 'external', domestic drivers are also fairly mixed with labour market momentum slowing and interest rate settings providing only modest support. The overall picture is consistent with some stalling in what was already expected to be a gradual growth recovery for the Australian economy in 2025.

International Data:

The **UK CPI** was stronger than expected in April at 1.2% (consensus 1.0%), seeing the annual rate rise back to 3.5%yr. Annual core inflation was stronger still at 3.8%yr as services inflation accelerated to 5.4%yr. Increases in energy, water and other administered prices were reportedly behind the acceleration. So, while the acceleration was more rapid than expected, its cause was consistent with authorities' expectations.



Corporate Directory

Westpac Economics / Australia

Sydney

Level 19, 275 Kent Street
Sydney NSW 2000
Australia

E: economics@westpac.com.au

Luci Ellis

Chief Economist Westpac Group
E: luci.ellis@westpac.com.au

Matthew Hassan

Head of Australian Macro-Forecasting
E: mhassan@westpac.com.au

Elliot Clarke

Head of International Economics
E: eclarke@westpac.com.au

Sian Fenner

Head of Business and Industry Economics
E: sian.fenner@westpac.com.au

Justin Smirk

Senior Economist
E: jsmirk@westpac.com.au

Pat Bustamante

Senior Economist
E: pat.bustamante@westpac.com.au

Mantas Vanagas

Senior Economist
E: mantas.vanagas@westpac.com.au

Ryan Wells

Economist
E: ryan.wells@westpac.com.au

Illiana Jain

Economist
E: illiana.jain@westpac.com.au

Jameson Coombs

Economist
E: jameson.coombs@westpac.com.au

Neha Sharma

Economist
E: neha.sharma1@westpac.com.au

Westpac Economics / New Zealand

Auckland

Takutai on the Square
Level 8, 16 Takutai Square
Auckland, New Zealand

E: economics@westpac.co.nz

Kelly Eckhold

Chief Economist NZ
E: kelly.eckhold@westpac.co.nz

Michael Gordon

Senior Economist
E: michael.gordon@westpac.co.nz

Darren Gibbs

Senior Economist
E: darren.gibbs@westpac.co.nz

Satish Ranchhod

Senior Economist
E: satish.ranchhod@westpac.co.nz

Paul Clark

Industry Economist
E: paul.clarke@westpac.co.nz

Westpac Economics / Fiji

Suva

1 Thomson Street
Suva, Fiji

Shamal Chand

Senior Economist
E: shamal.chand@westpac.com.au



 westpaciq.com.au

©2025 Westpac Banking Corporation ABN 33 007 457 141 (including where acting under any of its Westpac, St George, Bank of Melbourne or BankSA brands, collectively, “Westpac”). References to the “Westpac Group” are to Westpac and its subsidiaries and includes the directors, employees and representatives of Westpac and its subsidiaries.

Things you should know

We respect your privacy: You can view our [privacy statement at Westpac.com.au](#). Each time someone visits our site, data is captured so that we can accurately evaluate the quality of our content and make improvements for you. We may at times use technology to capture data about you to help us to better understand you and your needs, including potentially for the purposes of assessing your individual reading habits and interests to allow us to provide suggestions regarding other reading material which may be suitable for you.

This information, unless specifically indicated otherwise, is under copyright of the Westpac Group. None of the material, nor its contents, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party without the prior written permission of the Westpac Group.

Disclaimer

This information has been prepared by Westpac and is intended for information purposes only. It is not intended to reflect any recommendation or financial advice and investment decisions should not be based on it. This information does not constitute an offer, a solicitation of an offer, or an inducement to subscribe for, purchase or sell any financial instrument or to enter into a legally binding contract. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice. Certain types of transactions, including those involving futures, options and high yield securities give rise to substantial risk and are not suitable for all investors. We recommend that you seek your own independent legal or financial advice before proceeding with any investment decision.

This information may contain material provided by third parties. While such material is published with the necessary permission none of Westpac or its related entities accepts any responsibility for the accuracy or completeness of any such material. Although we have made every effort to ensure this information is free from error, none of Westpac or its related entities warrants the accuracy, adequacy or completeness of this information, or otherwise endorses it in any way. Except where contrary to law, Westpac Group intend by this notice to exclude liability for this information. This information is subject to change without notice and none of Westpac or its related entities is under any obligation to update this information or correct any inaccuracy which may become apparent at a later date. This information may contain or incorporate by reference forward-looking statements. The words “believe”, “anticipate”, “expect”, “intend”, “plan”, “predict”, “continue”, “assume”, “positioned”, “may”, “will”, “should”, “shall”, “risk” and other similar expressions that are predictions of or indicate future events and future trends identify forward-looking statements. These forward-looking statements include all matters that are not historical facts. Past performance is not a reliable indicator of future performance, nor are forecasts of future performance. Whilst every effort has been taken to ensure that the assumptions on which any forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The ultimate outcomes may differ substantially from any forecasts.

Conflicts of Interest: In the normal course of offering banking products and services to its clients, the Westpac Group may act in several capacities (including issuer, market maker, underwriter, distributor, swap counterparty and calculation agent) simultaneously with respect

to a financial instrument, giving rise to potential conflicts of interest which may impact the performance of a financial instrument. The Westpac Group may at any time transact or hold a position (including hedging and trading positions) for its own account or the account of a client in any financial instrument which may impact the performance of that financial instrument.

Author(s) disclaimer and declaration: The author(s) confirms that (a) no part of his/her compensation was, is, or will be, directly or indirectly, related to any views or (if applicable) recommendations expressed in this material; (b) this material accurately reflects his/her personal views about the financial products, companies or issuers (if applicable) and is based on sources reasonably believed to be reliable and accurate; (c) to the best of the author’s knowledge, they are not in receipt of inside information and this material does not contain inside information; and (d) no other part of the Westpac Group has made any attempt to influence this material.

Further important information regarding sustainability-related content:

This material may contain statements relating to environmental, social and governance (ESG) topics. These are subject to known and unknown risks, and there are significant uncertainties, limitations, risks and assumptions in the metrics, modelling, data, scenarios, reporting and analysis on which the statements rely. In particular, these areas are rapidly evolving and maturing, and there are variations in approaches and common standards and practice, as well as uncertainty around future related policy and legislation. Some material may include information derived from publicly available sources that have not been independently verified. No representation or warranty is made as to the accuracy, completeness or reliability of the information. There is a risk that the analysis, estimates, judgements, assumptions, views, models, scenarios or projections used may turn out to be incorrect. These risks may cause actual outcomes to differ materially from those expressed or implied. The ESG-related statements in this material do not constitute advice, nor are they guarantees or predictions of future performance, and Westpac gives no representation, warranty or assurance (including as to the quality, accuracy or completeness of the statements). You should seek your own independent advice.

Additional country disclosures:

Australia: Westpac holds an Australian Financial Services Licence (No. 233714). You can access [Westpac's Financial Services Guide](#) [here](#) or request a copy from your Westpac point of contact. To the extent that this information contains any general advice, it has been prepared without taking into account your objectives, financial situation or needs and before acting on it you should consider the appropriateness of the advice.

Note: Luci Ellis, Westpac Chief Economist is a member of the Australian Statistics Advisory Council (ASAC) which is a key advisory body to the Minister and the Australian Bureau of Statistics on statistical services. Luci does not have access to sensitive data/reports in her capacity as a member of ASAC.

New Zealand: In New Zealand, Westpac Institutional Bank refers to the brand under which products and services are provided by either Westpac (NZ division) or Westpac New Zealand Limited (company number 1763882), the New Zealand incorporated subsidiary of Westpac (“WNZL”). Any product or service made available by WNZL does not represent an offer from Westpac or any of its subsidiaries (other than WNZL). Neither Westpac nor its other subsidiaries guarantee or otherwise support the performance of WNZL in respect of any such product. WNZL is not an authorised deposit-taking institution for the purposes of Australian prudential standards. The current disclosure statements for the New Zealand branch of Westpac and WNZL can be obtained at the internet address www.westpac.co.nz.

Disclaimer continues overleaf ►

Singapore: This material has been prepared and issued for distribution in Singapore to institutional investors, accredited investors and expert investors (as defined in the applicable Singapore laws and regulations) only. Recipients of this material in Singapore should contact Westpac Singapore Branch in respect of any matters arising from, or in connection with, this material. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore.

U.S: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. The services and products referenced above are not insured by the Federal Deposit Insurance Corporation ("FDIC"). Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ('FINRA'). In accordance with APRA's Prudential Standard 222 'Association with Related Entities', Westpac does not stand behind WCM other than as provided for in certain legal agreements between Westpac and WCM and obligations of WCM do not represent liabilities of Westpac.

This communication is provided for distribution to U.S. institutional investors in reliance on the exemption from registration provided by Rule 15a-6 under the Exchange Act and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors in the United States. WCM is the U.S. distributor of this communication and accepts responsibility for the contents of this communication. Transactions by U.S. customers of any securities referenced herein should be effected through WCM. All disclaimers set out with respect to Westpac apply equally to WCM. If you would like to speak to someone regarding any security mentioned herein, please contact WCM on +1 212 389 1269. Investing in any non-U.S. securities or related financial instruments mentioned in this communication may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the SEC in the United States. Information on such non-U.S. securities or related financial instruments may be limited. Non-U.S. companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect in the United States. The value of any investment or income from any securities or related derivative instruments denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related derivative instruments.

The author of this communication is employed by Westpac and is not registered or qualified as a research analyst, representative, or associated person of WCM or any other U.S. broker-dealer under the rules of FINRA, any other U.S. self-regulatory organisation, or the laws, rules or regulations of any State. Unless otherwise specifically stated, the views expressed herein are solely those of the author and may differ from the information, views or analysis expressed by Westpac and/or its affiliates.

UK and EU: The London branch of Westpac is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA (Financial Services Register number: 124586). The London branch of Westpac is registered at Companies House as a branch established in the United Kingdom (Branch No. BR000106). Details about the extent of the regulation of Westpac's London branch by the PRA are available from us on request.

Westpac Europe GmbH ("WEG") is authorised in Germany by the Federal Financial Supervision Authority ('BaFin') and subject to its regulation. WEG's supervisory authorities are BaFin and the German

Federal Bank ('Deutsche Bundesbank'). WEG is registered with the commercial register ('Handelsregister') of the local court of Frankfurt am Main under registration number HRB 118483. In accordance with APRA's Prudential Standard 222 'Association with Related Entities', Westpac does not stand behind WEG other than as provided for in certain legal agreements (a risk transfer, sub-participation and collateral agreement) between Westpac and WEG and obligations of WEG do not represent liabilities of Westpac.

This communication is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. This communication is not being made to or distributed to, and must not be passed on to, the general public in the United Kingdom. Rather, this communication is being made only to and is directed at (a) those persons falling within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order")); (b) those persons falling within the definition of high net worth companies, unincorporated associations etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may lawfully be communicated in accordance with the Order or (d) any persons to whom it may otherwise lawfully be made (all such persons together being referred to as "relevant persons"). Any person who is not a relevant person should not act or rely on this communication or any of its contents. In the same way, the information contained in this communication is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Conduct Authority and is not intended for "retail clients". Westpac expressly prohibits you from passing on the information in this communication to any third party.

This communication contains general commentary, research, and market colour. The communication does not constitute investment advice. The material may contain an 'investment recommendation' and/or 'information recommending or suggesting an investment', both as defined in Regulation (EU) No 596/2014 (including as applicable in the United Kingdom) ("MAR"). In accordance with the relevant provisions of MAR, reasonable care has been taken to ensure that the material has been objectively presented and that interests or conflicts of interest of the sender concerning the financial instruments to which that information relates have been disclosed.

Investment recommendations must be read alongside the specific disclosure which accompanies them and the general disclosure which can be found [here](#). Such disclosure fulfils certain additional information requirements of MAR and associated delegated legislation and by accepting this communication you acknowledge that you are aware of the existence of such additional disclosure and its contents.

To the extent this communication comprises an investment recommendation it is classified as non-independent research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and therefore constitutes a marketing communication. Further, this communication is not subject to any prohibition on dealing ahead of the dissemination of investment research.