



23 May 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

President Trump's signature tax bill extending the tax cuts he introduced in his first term and adding hundreds of billions to the US deficit passed the House of Representatives by a single vote.

The overnight moves in major markets were mixed, partly supported by a recovery in the US business sentiment as reported by the latest PMIs.

After a notable sell off earlier this week, the US Treasuries rallied, with yields falling across the curve. The DXY index posted the first daily gain this week, AUD and EUR lost 0.4%.

Data snapshot

FX Last 24 hrs			AUS Interest Rate Swaps		
	Current	Change		Last	Change
TWI	59.8	0.0%	30 day BBSY	3.79	0.00
AUD/USD	0.6413	-0.4%	90 day BBSY	3.78	0.00
AUD/JPY	92.32	-0.2%	180 day BBSY	3.82	0.01
AUD/GBP	0.4777	-0.4%	1 year swap	3.41	-0.03
AUD/NZD	1.0869	0.3%	2 year swap	3.33	-0.05
AUD/EUR	0.5683	-0.2%	3 year swap	3.38	-0.05
AUD/CNH	4.6187	0.1%	4 year swap	3.48	-0.06
AUD/SGD	0.8289	-0.1%	5 year swap	3.61	-0.05
AUD/HKD	5.0178	-0.5%	6 year swap	3.73	-0.06
AUD/CAD	0.8884	-0.4%	7 year swap	3.86	-0.05
EUR/USD	1.1280	-0.4%	8 year swap	3.97	-0.05
USD/JPY	144.01	0.2%	9 year swap	4.06	-0.06
USD Index	99.93	0.4%	10 year swap	4.28	-0.10
Equities			Government Bond Yields		
	Close	Change		Close	Change
S&P/ASX 200	8,349	-0.5%	Australia		
S&P 500	5,842	0.0%	3 year bond	3.48	0.00
Japan Nikkei	36,986	-0.8%	10 year bond	4.46	0.01
Hang Seng	23,544	-1.2%	United States		
Euro Stoxx 50	5,424	-0.5%	3-month T Bill	4.23	-0.01
UK FTSE100	8,739	-0.5%	2 year bond	3.99	-0.03
VIX Index	20.28	-2.8%	10 year bond	4.53	-0.07
Commodities			Other (10 year yields)		
	Current	Change			
CRB Index	296.27	-0.8%	Germany	2.64	0.00
Gold	3294.30	-0.6%	Japan	1.57	0.05
Copper	9500.00	-0.3%	UK	4.75	-0.01
Oil (WTI futures)	60.81	-1.2%	Sydney Futures Exchange		
Coal (coking)	189.50	0.0%			
Coal (thermal)	105.00	-0.8%	10 yr bond	4.40	-0.05
Iron Ore	99.15	-0.8%	3 yr bond	3.46	-0.03
ACCU	35.38	2.9%	3 mth bill rate	3.71	0.02
			SPI 200	8,388	0.3%

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:

President Trump's signature tax bill extending the tax cuts he introduced in his first term and adding hundreds of billions to the US deficit passed the House of Representatives by a single vote. Included in the bill is a \$4trn increase in the debt ceiling which is expected to be required to fund spending from August or September. The bill now heads to the Senate where some Republicans are looking to expand tax cuts further. Financial markets are uneasy about the US fiscal prospects, with the US debt-to-GDP ratio set to rise to around 125% over the next decade from below 100% at the moment. However, the overnight moves in major markets were mixed, partly supported by a recovery in the US business sentiment as reported by the latest PMIs.

- The US equities were broadly unchanged, with the S&P500 index moving sideways following a 2% drop in the prior two days. Other major global equity indices were in the red. In Europe, the weakness was broad-based, but consumer products and automotive sectors were the main contributors to the sell-off, which brought in the Euro Stoxx 50 index 0.5% lower. The FTSE100 in the UK also fell 0.5%, but Asian equities were down more sharply, with weakness in the tech sector providing additional drag.
- After a notable sell off earlier this week, the US Treasuries rallied, with yields falling across the curve. The 10Y was down 7bp outperforming the 2Y's 3bp move. Bund and Gilt yields also moved lower, but mainly at the short-end, with the 10Y benchmarks remaining little changed. But the JGBs in Japan continued to sell off – the 10Y rose 5bp to 1.57%. Since the start of the month, it has increased by more than 30bp, similar to the move in the equivalent US Treasury yields, but the 30Y JGB yield is up almost 50bp over that period reflecting renewed concerns over fiscal pressures in Japan.
- In FX markets, the DXY index posted the first daily gain this week, rising 0.4%. Nevertheless, it remained below 100, more than 1% lower in comparison to the close last Friday. AUD and EUR lost 0.4%, but GBP overperformed, remaining broadly unchanged despite the latest UK PMIs signalling that growth momentum remained weak in May. The yen also weakened – it was up 0.2% to 144 – as the US administration confirmed that exchange rates were not discussed in the latest meeting between the US and Japanese officials.
- Crude prices eased for a third consecutive day – the June WTI contract was down 1.2% to \$60.8 – as news outlets reported that OPEC+ members are considering a larger supply increase for July than initially planned. Concerns over the US fiscal position weighed on prices of metals, with copper falling 0.3%. Iron ore also eased, by 0.8%, as signs of lower Chinese steel production added downward pressure on prices.

Today's key data and events

For	Data/Event	Exp	Prev
-	US Building Permits Apr Final	-	-4.7%
1:00am	US Kansas City Fed May	-5pts	-4pts
9:01am	GB Gfk Consumer Sentiment May	-21.5pts	-23pts
9:30am	JP CPI Apr	3.5%	3.6%
4:00pm	GB Retail Sales Apr	0.3%	0.4%
12:00am	US New Home Sales Apr	-4.0%	7.4%

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:

May PMI surveys provided the latest insights into the underlying growth momentum in major economies. The euro area manufacturing PMI edged higher in May from 49.0 to 49.4, while the services index deteriorated from 50.1 to 48.9. The euro area economy is in robust shape but continues to face heightened uncertainty regarding trade. The UK S&P Global manufacturing PMI softened from 45.4 to 45.1 as the service sector strengthened, the services PMI rising from 49.0 to 50.2. The disconnect between the two measures highlights the pressure UK manufacturers are under given trade uncertainty, input costs and wage pressures. The US S&P Global manufacturing and services PMIs both rebounded in May following President Trump's short-term tariff reprieve. The manufacturing and services PMIs both rose to 52.3 from 50.2 and 50.8 respectively in April.

Among other US data, existing home sales disappointed in April, falling another 0.5% after March's 5.9% decline; this compares to a 2.0% expected rebound in April. High and rising mortgage rates and uncertainty over the outlook for the economy are restricting demand. Supply also remains an issue. Initial jobless claims were essentially unchanged last week at 227k, indicating businesses continue to hold on to current staff. Meanwhile, the Chicago Fed national activity index dipped to -0.25 in April, consistent with below-trend economic growth. The Kansas City manufacturing index was essentially unchanged at -3 in May despite relief on tariffs.

New York Fed President Williams emphasised overnight the need to collect information on the economic impact of US trade policy over a number of months before being in a position to decide whether to adjust the stance of monetary policy. September is therefore likely to be the first meeting where a rate cut is debated. Fed Governor Christopher Waller said the central bank could cut interest rates in the second half of this year, if US tariffs settle at around 10%, which seems to be the lowest acceptable level for the US administration.

Domestic Data:

In New Zealand, Budget 2025 provided no major surprises. A net \$4bn lift in bond issuance was in line with Westpac forecast. A key feature of the Budget was a sizeable tax incentive to encourage investment (please [see here](#) for more details).



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