28 May 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

More constructive tone in the US-EU trade negotiations injected a good dose of optimism into financial markets. An unexpected improvement in the US consumer confidence in May also supported risk assets. The S&P500 finished the day 2% in the green.

Government bonds also gained, as reports that Japanese authorities are taking actions to adjust debt issuance boosted demand for long-dated debt and soothed markets concerned about deteriorating public finances in Japan and the US.

The bond rally was largely led by long-dated JGBs, with the 40Y Japanese yield falling 23bps to 3.32%, the lowest level in three weeks. The 40Y JGB bond auction today will be closely watched for signs of the breadth of demand for Japanese bonds.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	59.9	-0.3%
AUD/USD	0.6443	-0.7%
AUD/JPY	93.00	0.4%
AUD/GBP	0.4770	-0.2%
AUD/NZD	1.0831	0.2%
AUD/EUR	0.5688	-0.1%
AUD/CNH	4.6334	-0.5%
AUD/SGD	0.8304	-0.3%
AUD/HKD	5.0505	-0.6%
AUD/CAD	0.8899	-0.1%
EUR/USD	1.1330	-0.5%
USD/JPY	144.33	1.0%
USD Index	99.59	0.7%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.79	0.00
90 day BBSY	3.75	-0.01
180 day BBSY	3.78	-0.02
1 year swap	3.36	-0.03
2 year swap	3.25	-0.03
3 year swap	3.28	-0.05
4 year swap	3.37	-0.06
5 year swap	3.48	-0.07
6 year swap	3.60	-0.05
7 year swap	3.72	-0.06
8 year swap	3.82	-0.06
9 year swap	3.91	-0.07
10 year swap	4.13	-0.07

Equities	Close	Change
S&P/ASX 200	8,408	0.6%
S&P 500	5,922	2.0%
Japan Nikkei	37,724	0.5%
Hang Seng	23,382	0.4%
Euro Stoxx 50	5,415	0.4%
UK FTSE100	8,778	0.7%
VIX Index	18.96	-7.8%

Commodities	Current	Change
CRB Index	294.75	-0.6%
Gold	3300.97	-1.3%
Copper	9596.50	-0.1%
Oil (WTI futures)	61.07	-0.7%
Coal (coking)	190.00	0.5%
Coal (thermal)	111.10	0.5%
Iron Ore	95.90	-1.0%
ACCU	35.38	2.9%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.39	-0.04
10 year bond	4.31	-0.07
United States		
3-month T Bill	4.20	-0.04
2 year bond	3.98	-0.01
10 year bond	4.44	-0.07
Other (10 year yields)		
Germany	2.53	-0.03
Japan	1.47	-0.05
UK	4.67	-0.01

Sydney Futures Exchange	Current	Change
10 yr bond	4.27	-0.03
3 yr bond	3.39	-0.01
3 mth bill rate	3.68	0.01
SPI 200	8,485	0.6%

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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Today's key data and events

For	Data/Event	Exp	Prev
11:30am	AU Monthly CPI Indicator Apr	2.3%	2.4%
11:30am	AU Construction Work Done Q1	0.5%	0.5%
12:00pm	NZ RBNZ Policy Decision	3.25%	3.50%
12:00am	US Richmond Fed May	-9pts	-13pts

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.

Financial Markets

President Trump's call with the European Commission President Ursula von der Leyen at the beginning of the week where the two leaders agreed to accelerate the US-EU trade negotiations injected a good dose of optimism into financial markets. The change in tone signalled a higher probability of a deal. An unexpected improvement in the US consumer confidence in May also supported risk assets. Government bonds also gained, as reports that Japanese authorities are taking actions to adjust debt issuance boosted demand for long-dated bonds and soothed markets concerned about deteriorating public finances in Japan and the US.

- Equity markets were on the front foot, particularly in the US, where stock exchanges were closed for a public holiday on Monday. The S&P500 made steady gains throughout session finishing the day 2% in the green, which was the biggest gain in more than two weeks. Other major benchmarks indices also gained, albeit significantly less. The Euro Stoxx 50 was up 0.4%, with travel and tech stocks leading the charge, while the FTSE100 index in the UK gained 0.7%. Japanese and HK equities made similar gains, although Chinese equities fell.
- Despite the more positive risk sentiment, government bonds also rallied, largely led by long-dated JGBs, with the 40Y Japanese yield falling 23bp to 3.32%, the lowest level in three weeks. The 40Y JGB bond auction today will be closely watched for signs about the breadth of demand for Japanese bonds. Other major government bonds also rallied, mainly at the long end. The 10Y US Treasury yield was 7bp lower, while equivalent Bund fell 3bp. Australian government bonds rallied too, with yields lower across the curve.
- In FX markets, the DXY index recovered from below 99.0 to 99.6, which represented a 0.7% gain, the biggest in two weeks. All other major hard currencies eased. JPY was the worst performer – it depreciated 1%, EUR and GBP were down 0.5% and 0.4% respectively, AUD was 0.7% weaker.
- Crude prices declined, with the July WTI contract falling 0.7% to $61.1. The market focus is on today's OPEC+ virtual meetings where members will review the group-wide quotas. News reports suggest that another large production increase is on the cards. President Trump expressed his growing frustration with Putin. He said that he would consider new sanctions on Russia after Russia's heavy drone and missile attacks on Ukraine. Metal prices were mixed, with copper reporting a minimal decrease. Iron ore was down 1% on the back of weaker demand, while gold also retreated, down 1.3%, as global risk sentiment improved.

International Data:

The **US Durable Goods Orders** decreased in April by 6.3%mth, reversing a 7.6%mth increase. The drop was accounted for by a 51.5%mth decline in commercial aircraft orders; excluding the transportation category, orders were up 0.2%mth. But core orders for capital goods, which exclude aircraft and defence, decreased 1.3%mth, suggesting that businesses were reluctant to commit to new business amid the very high uncertainty in the US and globally.

The **Dallas Fed Manufacturing Outlook Index**, a survey of Texas business executives, suggested that production levels in the US manufacturing sector were broadly stable in May, with the production indicator falling by around 4pt to almost zero. Businesses reported a small increase in employment levels, but new orders continued to fall, albeit at a slower pace than in April. The components left the headline survey indicator for broader current business conditions rising from -35.8, which was the lowest level in five years, to -15.3, about 4 pts lower compared to the 2024 average. Input cost pressures eased somewhat, while the indicator for output prices was little changed. Both indicators for price pressures were elevated compared to recent norms, suggesting an inflationary impulse from higher import tariffs.

In contrast to the University of Michigan Confidence survey, which showed a further deterioration in May, the **Conference Board Consumer Confidence Survey** surprised on the upside, suggesting that US consumers took some comfort from a somewhat more constructive approach to the US trade policy taken by the US administration and the de-escalation of trade tensions with China. The headline index rose by more than 12 points to 98.0, still below the Q1 average just shy of 100. Consumers' assessment of the present situation was slightly better, but the improvement was accounted for by much more positive expectations about the future – the expectations indicator jumped more than 17 points to 72.8, still below 80 which typically is consistent with a recession ahead. Despite the improvement, the assessment of the labour market remained subdued.

The **Euro Area Economic Sentiment Indicator** for May increased from 93.8 to 94.8, a level around 1 pt lower than the average in 2023-24. All major components except services recovered from a trough in April, suggesting that the postponement of the 20% US tariff on imports from the EU announced on Liberation Day and the subsequent negotiations are providing households and business hope that the highest tariffs will be avoided. However, the headline indictor average for April and May of 94.3 suggests that growth in Q2 is likely to be the slowest since Q3 2023.

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