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MORNING REPORT

Today's economic developments and market movements.

Key themes

Tensions between the US and China are rising again, as President Trump accused China of violating the trade deal reached last month when they agreed to lower reciprocal tariffs.

Ukraine and Russia concluded a second round of talks in Istanbul, with little progress.

The S&P500 index was under pressure, but a spurt in tech stocks pushed daily returns into positive territory, to 0.4%. Most other equity benchmark indices posted losses.

Higher oil prices and geopolitical tensions drove bond yields higher. US Treasury yields were up around 4bp across the curve.

The DXY index lost 0.6%, AUD was among the best performers, gaining 1%.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	59.8	0.3%
AUD/USD	0.6495	1.0%
AUD/JPY	92.68	0.0%
AUD/GBP	0.4795	0.3%
AUD/NZD	1.0767	-0.1%
AUD/EUR	0.5678	0.1%
AUD/CNH	4.6844	1.1%
AUD/SGD	0.8352	0.6%
AUD/HKD	5.0957	1.0%
AUD/CAD	0.8907	0.9%
EUR/USD	1.1441	0.8%
USD/JPY	142.70	-0.9%
USD Index	98.69	-0.6%

Equities	Close	Change
S&P/ASX 200	8,414	-0.2%
S&P 500	5,936	0.4%
Japan Nikkei	37,471	-1.3%
Hang Seng	23,158	-0.6%
Euro Stoxx 50	5,356	-0.2%
UK FTSE100	8,774	0.0%
VIX Index	18.36	-1.1%

Commodities	Current	Change
CRB Index	294.93	1.5%
Gold	3381.61	2.8%
Copper	9616.00	1.2%
Oil (WTI futures)	63.13	3.8%
Coal (coking)	184.00	-1.6%
Coal (thermal)	105.35	2.0%
Iron Ore	94.95	-0.4%
ACCU	35.38	2.9%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.80	0.00
90 day BBSY	3.76	-0.02
180 day BBSY	3.82	-0.01
1 year swap	3.36	0.02
2 year swap	3.25	0.03
3 year swap	3.31	0.07
4 year swap	3.41	0.06
5 year swap	3.53	0.06
6 year swap	3.65	0.06
7 year swap	3.77	0.07
8 year swap	3.88	0.07
9 year swap	3.98	0.07
10 year swap	4.20	0.06

Government Bond Yields	Close	Change
Australia		
3 year bond	3.33	0.00
10 year bond	4.27	0.01
United States		
3-month T Bill	4.23	-0.01
2 year bond	3.94	0.04
10 year bond	4.44	0.04
Other (10 year yields)		
Germany	2.52	0.02
Japan	1.51	0.01
UK	4.67	0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.29	0.03
3 yr bond	3.37	0.03
3 mth bill rate	3.70	0.01
SPI 200	8,500	0.8%

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

Financial markets were on the back foot yesterday and overnight. Tensions between the US and China are rising again, as President Trump accused China of violating the trade deal reached last month when they agreed to lower reciprocal tariffs. He pointed out that China has not sped up its exports of critical minerals, as agreed. China says that the US is not fulfilling its commitments, accusing it of discriminatory restrictions, such as chip export controls, and the revocation of Chinese student visas. Meanwhile, Ukraine and Russia concluded a second round of talks in Istanbul, with little progress. Russia rejected a proposal for a 30-day unconditional ceasefire and kept its broader demands that are close to a de facto capitulation of Ukraine unchanged.

- The equity markets, the S&P500 index in the US traded in the red in the first half of the session, but later a 0.9% spurt in tech stocks pushed daily returns into positive territory, to 0.4%. Most other equity benchmark indices posted losses. Asian stocks posted significant losses, while European markets were closer to a neutral result. The Euro Stoxx 50 index was down 0.2%, as some of the losses, led by the automotive sector, were offset by gains in energy. The domestic ASX200 index was also down 0.2%.
- Major government bonds made losses, with higher oil prices and geopolitical tensions adding to the risks. US Treasury yields were up around 4bp across the curve, with the 10Y bouncing back up from a three-week low of 4.40% to 4.44%. Bund and Gilt yields were 2bp higher at the 10Y point. Australian yields were up only 1bp, but futures suggest that they are likely to catch up with the global trends at the market opening this morning. The release of minutes from the RBA's latest meeting before lunchtime might drive market sentiment later in the day.
- In FX markets, the DXY index lost 0.6%, with the release of weak US manufacturing survey data providing additional downward pressure. The index broke through the 99 mark for the first time since 21 April to finish the day at 98.7. AUD was among the best performers, gaining 1%. EUR and Yen were not far behind, up 0.8% and 0.9% respectively.
- Oil prices rose sharply reacting to the OPEC+ agreement over the weekend to increase supply by 411,000bbl/day in July. Markets were expecting for even a bigger rise, but, reportedly, the opposition from Russia and other members during the meeting led to an agreement on a supply hike no bigger than recent increases. The July WTI contract was up 3.8% to \$63.1. Aluminium and steel prices surged as President Trump said he would double tariffs on these metals. Copper was 1.2% higher too, while gold prices rose 2.8%.

Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ Terms Of Trade Q1	3.5%	3.1%
11:30am	AU RBA Minutes	-	-
11:30am	AU Business Indicators Q1	1.3%	5.9%
11:30am	AU Inventories Q1	0.2%	0.1%
11:30am	AU RBA Minutes	-	-
11:30am	AU Current Account Balance Q1	-\$12.5b	-\$12.5b
11:45am	CN Caixin Manufacturing PMI May	50.7pts	50.4pts
1:05pm	AU RBA's Hunter-Speech	-	-
7:00pm	EZ CPI May Prel.	0.0%	0.6%
7:00pm	EZ Unemployment Rate Apr	6.2%	6.2%
12:00am	US Factory Orders Apr	-3.2%	4.3%
12:00am	US Durable Goods Orders Apr Final	-6.3%	-6.3%
12:00am	US Jolts Job Openings Apr	7100k	7192k

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:

The **ISM Manufacturing PMI** showed no recovery in the US business conditions in May. The headline index eased further, by 0.2pt, to a six-month low of 48.5. However, the details of the survey were stronger, with the production indicator, new orders and employment indices posting increases. The inventories indicator was down 4.1pts to 46.7, suggesting that inventory levels have started to normalize after manufacturing accumulated stock ahead of the increase in tariffs. The prices indicator was little changed at just below 70, continuing to suggest very strong inflationary impulse from tariffs.

The overnight comments from Fed officials suggested that the Fed might resume monetary policy normalization once the tariff uncertainty eases. "I still think, if we can get past this bumpy period, that the dual mandate still looks pretty good to me, and I think we could be on that path", **Chicago Fed President Austan Goolsbee** said. **Fed Governor Christopher Waller** was more specific, highlighting a path to cuts later this year, if tariffs settle at a lower level in the spectrum of possible outcomes closer to 10%. He thinks the policymakers should be looking through the near-term increase in inflation driven by higher tariffs.

Domestic Data:

The **Cotality home value index** rose 0.5% in May, the RBA's latest rate cut giving a clear kick-along. Annual growth moderated to 2.6%yr ([see here](#)).



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