



6 June 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

US equity markets fell as tax bill uncertainty spooked investors.

The USD also weakened in response to the soft jobless claims data and concerns over the economic impact of the tax bill.

The European Central Bank cut rates and indicated they may be coming to the end of the rate cutting cycle.

Bond yields rose in the US and Germany, with markets pricing in gradual rate cuts despite recent central bank dovishness.

Oil prices rose in anticipation of deescalating tensions between China and the US.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	59.9	0.2%
AUD/USD	0.6507	0.2%
AUD/JPY	93.40	0.7%
AUD/GBP	0.4794	0.1%
AUD/NZD	1.0780	0.1%
AUD/EUR	0.5684	0.0%
AUD/CNH	4.6689	0.3%
AUD/SGD	0.8367	0.2%
AUD/HKD	5.1046	0.2%
AUD/CAD	0.8897	0.2%
EUR/USD	1.1446	0.2%
USD/JPY	143.57	0.5%
USD Index	98.73	-0.1%

Equities	Close	Change
S&P/ASX 200	8,539	0.0%
S&P 500	5,939	-0.5%
Japan Nikkei	37,554	-0.5%
Hang Seng	23,907	1.1%
Euro Stoxx 50	5,411	0.1%
UK FTSE100	8,811	0.1%
VIX Index	18.48	4.9%

Commodities	Current	Change
CRB Index	298.62	0.7%
Gold	3352.73	-0.6%
Copper	9740.00	1.2%
Oil (WTI futures)	63.37	0.8%
Coal (coking)	185.00	-0.5%
Coal (thermal)	115.10	2.2%
Iron Ore	95.70	-0.6%
ACCU	35.38	2.9%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.81	0.00
90 day BBSY	3.75	-0.01
180 day BBSY	3.82	-0.01
1 year swap	3.33	0.04
2 year swap	3.25	0.06
3 year swap	3.30	0.06
4 year swap	3.39	0.06
5 year swap	3.50	0.06
6 year swap	3.62	0.06
7 year swap	3.74	0.06
8 year swap	3.84	0.06
9 year swap	3.93	0.06
10 year swap	4.18	0.07

Government Bond Yields	Close	Change
Australia		
3 year bond	3.33	0.01
10 year bond	4.25	0.00
United States		
3-month T Bill	4.23	-0.01
2 year bond	3.92	0.05
10 year bond	4.39	0.04
Other (10 year yields)		
Germany	2.58	0.05
Japan	1.47	-0.04
UK	4.62	0.01

Sydney Futures Exchange	Current	Change
10 yr bond	4.26	0.02
3 yr bond	3.37	0.02
3 mth bill rate	3.70	0.00
SPI 200	8,540	-0.2%

Data as at 7:35am 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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Illiana Jain
Economist, Westpac Group
P: +61 403 908 032
E: illiana.jain@westpac.com.au

Financial Markets

Markets reacted to the turmoil surrounding the Republican tax bill and the ensuing feud between US President Donald Trump and his former advisor and CEO of Tesla Elon Musk. In Europe, the focus was on a dovish cut by the European Central Bank.

- In equities, disagreement around the tax bill saw markets sell off US stocks. The tech-heavy NASDAQ led the way falling 0.8%, followed by the S&P500 down 0.5% and the Dow Jones down 0.25%. Investors may also be skittish around their US investments as the bill includes a tax on foreign investors. In Europe, despite a dovish cut by the ECB, the EuroStoxx50 closed just 0.1%. The DAX hit a record high shortly after the ECB's cut but closed lower rising 0.2% in the day. In Asia, the Hang Seng outperformed rising 1.1% while Shanghai's CSI 300 rose 0.2%. The ASX200 closed flat.
- Across rates, curves in the US and Germany bull-steepened. In the US, the 2Y yield was up 5bps to 3.92% while the 10Y was up 4bps to 4.39%. The 10Y bond yield has not been meaningfully below 4.40% since 9 May and failed to break through in yesterday's session after a rapid decline the day before. Market pricing indicates that the Federal Reserve's next rate cut is fully priced in for October, with another anticipated in December. The 2Y Bund yield rose sharply by 8bps to 4.27% in response to the ECB's cut and remained for the rest of the session. The 10Y yield rose 5bps to 2.58%. Markets continue to price in another cut for 2025 by the central bank. The Japanese 10Y bond yield fell 4bps to 1.46% after a weak 30Y auction. Australian futures markets suggest the yield curve will rise by 2bps at the 3Y and 10Y maturities.
- In FX markets, the DXY index saw a sharp decline following an upwards surprise on Initial Jobless Claims. Evidence of a weaker labour market alongside a tax bill that could see weaker growth and disincentivise foreign investments have all weighed on the US dollar. The DXY sustained its sub-100 read at 98.755. The GBP/USD pair hit its highest since February 2022 at 1.3616 but moderated to 1.3579 at time of writing. Support came from the dovish cut by the ECB. The EUR/USD pair hit a six-week high of 1.1495 before settling to 1.1448. The AUD/USD pair hit 0.6538, the highest since 29 November 2024.
- In commodities markets, the WTI futures contract rose 0.8% to \$63.37/barrel. The London Metals Exchange Index rose 0.2% supported by a 1.2% gain in copper prices. Nickel prices were down 0.3%.

International Data:

The European Central Bank cut policy rates by 25bps, bringing the Deposit Rate to 2.0%. Inflation projections were revised

Today's key data and events

For	Data/Event	Exp	Prev
9:30am	JP Household Spending Apr	1.5%	2.1%
7:00pm	EZ Retail Sales Apr	0.2%	-0.1%
7:00pm	EZ GDP Q1 T	0.4%	0.3%
10:30pm	US Non-Farm Payrolls May	125.5k	177k
10:30pm	US Unemployment Rate May	4.2%	4.2%
10:30pm	US Average Hourly Earnings May	0.3%	0.2%
-	CN Foreign Reserves May	3288.5	3281.7
5:00am	US Consumer Credit Apr	US\$10b	US\$10.2b

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.

down by 0.3ppt, with the ECB now seeing inflation at 2.0% in 2025 and 1.6% in 2026, before returning to target in 2027. President Lagarde attributed the 2026 dip to external factors like a stronger euro and lower energy prices, emphasising that underlying inflation pressures are easing. However, she stopped short of declaring victory over inflation, citing high uncertainty. The ECB reaffirmed its data-dependent, meeting-by-meeting approach to policy, and while a July pause in rate cuts appears more likely, further easing later in the year remains possible if economic risks materialise. Most notably, she emphasised that they are approaching the end of the easing cycle.

The **US trade balance** narrowed sharply in April from \$138.3bn to \$61.6bn as shipments pulled forward to avoid tariffs were completed. Exports were up 3.0% while imports declined 16.3%. Ex-petroleum, imports were weaker still, down 20.4%. The tariff reprieve granted by President Trump will likely see imports pick up again, but given shipment times, only late in the quarter.

US initial jobless claims edged higher last week from 239k to 247k beating expectations. That said, they remain at a very low level versus history.

The **FOMC's Kugler and Harker** both highlighted inflation risks and that the FOMC have time on their side in considering the outlook for the economy and the appropriate stance for monetary policy. Continued solid employment gains are critical to that view, and so tonight's employment report will be closely scrutinised.

Domestic Data:

April's goods trade surplus narrowed to \$5.4 billion from a 13-month high of \$6.9 billion in March, primarily due to a 2.4% decline in exports, notably a drop in gold exports to the US. Despite this, exports of liquefied natural gas (LNG) rose nearly 14%, and exports to China remained stable, indicating resilience in key sectors amid ongoing global trade uncertainties.



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



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