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MORNING REPORT

Today's economic developments and market movements.

Key themes

The ongoing US-China trade talks in London remain in focus. While the US officials struck a positive tone about the progress achieved, at the time of writing, no official agreement has been announced.

Gains in the energy sector led the S&P500 index 0.5% higher. Domestic ASX200 posted stronger gains of 0.8%, but other major equity markets reported mixed results.

US Treasuries were little changed, awaiting results of today's US CPI data release. European government bonds rallied, led by Gilts, which saw yields falling 7-9bp across the curve in reaction to softer UK labour market data.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.1	0.2%
AUD/USD	0.6522	0.1%
AUD/JPY	94.50	0.3%
AUD/GBP	0.4831	0.5%
AUD/NZD	1.0780	0.0%
AUD/EUR	0.5707	0.1%
AUD/CNH	4.6886	0.2%
AUD/SGD	0.8392	0.1%
AUD/HKD	5.1193	0.1%
AUD/CAD	0.8918	-0.1%
EUR/USD	1.1429	0.0%
USD/JPY	144.89	0.2%
USD Index	99.05	0.1%

Equities	Close	Change
S&P/ASX 200	8,587	0.8%
S&P 500	6,039	0.5%
Japan Nikkei	38,212	0.3%
Hang Seng	24,163	-0.1%
Euro Stoxx 50	5,415	-0.1%
UK FTSE100	8,853	0.2%
VIX Index	16.95	-1.2%

Commodities	Current	Change
CRB Index	299.34	-0.7%
Gold	3323.40	-0.1%
Copper	9756	-0.4%
Oil (WTI futures)	64.72	-0.9%
Coal (coking)	177.00	0.0%
Coal (thermal)	105.85	-2.4%
Iron Ore	94.85	-0.3%
ACCU	35.38	2.9%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.81	0.00
90 day BBSY	3.77	0.01
180 day BBSY	3.90	0.04
1 year swap	3.36	0.00
2 year swap	3.27	-0.01
3 year swap	3.33	-0.03
4 year swap	3.42	-0.03
5 year swap	3.53	-0.03
6 year swap	3.65	-0.03
7 year swap	3.77	-0.03
8 year swap	3.87	-0.04
9 year swap	3.96	-0.04
10 year swap	4.19	-0.03

Government Bond Yields	Close	Change
Australia		
3 year bond	3.35	-0.01
10 year bond	4.25	-0.02
United States		
3-month T Bill	4.23	0.00
2 year bond	4.02	0.01
10 year bond	4.47	0.00
Other (10 year yields)		
Germany	2.52	-0.04
Japan	1.48	0.01
UK	4.54	-0.09

Sydney Futures Exchange	Current	Change
10 yr bond	4.27	0.03
3 yr bond	3.41	0.04
3 mth bill rate	3.72	0.01
SPI 200	8,625	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

The ongoing US-China trade talks in London remain in focus. While the US officials struck a positive tone about the progress achieved, at the time of writing, no official agreement has been announced. On the economic data front, the US survey reported a recovery in small business sentiment, while the euro area economic confidence was notably stonger, suggesting receding fears of a recession. In the UK, soft labour market indicators, including a notable decline in wage growth, suggested that the Bank of England should continue easing monetary policy in the second half of this year.

- Despite the ongoing uncertainty about the outcome of the trade talks in London, the US equity market was in the green, with gains in the energy sector leading the S&P500 index 0.5% higher. Domestic ASX200 posted even stronger gains of 0.8%, but other major markets reported mixed results. In Asia, Japan's Nikkei225 returned 0.3%, but Chinese stocks fell. In Europe, both Euro Stoxx 50 and FTSE100 were little changed.
- In the bond markets, US Treasuries were little changed, awaiting the results of today's US CPI data release. European government bonds rallied – they were led by Gilts, which saw yields falling 7-9bp across the curve in reaction to the softer UK labour market data. Bunds yields were also down, by 4bp at the 10Y tenor. The 10Y Australian yield was also lower by 2bp maintaining a more-than-20bp spread to US Treasuries.
- In FX markets, the DXY index was up only 0.1%, but it was enough to take it back above the 99 mark. EUR and AUD were broadly unchanged, while GBP and Yen depreciated, by 0.4% and 0.2% respectively.
- After significant gains in the last few days, crude prices eased, despite the EIA forecasts suggesting that oil production levels in the US will decline next year. The July WTI contract was down 0.9% to \$64.7. Copper was slightly lower, and gold was little changed, awaiting the outcome of the US-China talks.

International Data:

The **US NFIB Small Business Optimism Indicator** rose by 3 points in May to 98.8, a level slightly above the survey's long-term average. It marked the first improvement since December, when concerns about the new US administration's economic policies started to replace the post-election surge in optimism. Among the survey details, a recovery of the expectations about the future business conditions was the major driver, but the employment indicator fell by 3 points to -2, a level matching the post-pandemic average.

Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ Net Migration Apr	-	2480k
10:30pm	US CPI May	0.2%	0.2%

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.

The latest **UK labour market figures** were on the soft side, highlighting that the underlying momentum in the economy weakened this quarter after a steep 0.7%qtr GDP rise in Q1. The headline three-month employment growth (based on the Labour Force Survey data) eased from the peak of 206k in February to 89k in April, one of the lowest levels in the last twelve months. Payroll employment (which is based on administrative data from tax authorities) was down 109k, recording the steepest drop since the pandemic. As expected, the headline three-month unemployment rate inched 0.1ppt higher to a new high in this cycle of 4.6%, albeit the single-month estimate was 0.1ppt lower at 4.5%. With the labour market conditions loosening, despite the 6.7% increase in the UK's National Living Wage in April, the headline average weekly earnings growth was down 0.3ppt in the month to 5.3%Yr. Regular wages in the private sector, the indicator closely watched by the Bank of England, fell 0.4ppt to 5.1% a level below the Bank of England latest forecast for Q2 of 5.2%. Against the backdrop of lower employment and wage growth, we think that the Bank of England will continue cutting interest rates in the second half of this year.

The **euro area Sentix Confidence Survey** showed that investor sentiment continued to recover this month from the trough seen in April. The headline survey indicator rose by 8.3 points to 0.2, the highest level in twelve months. The improvement was led by the expectations index which rose more than 10pts to 14.3, suggesting that the recession fears seen a couple of months ago following the US tariff announcements have dissipated. The assessment of the current situation was also significantly better, rising from -19.3 to a twelve-month high of -13.0.

Domestic Data:

In Australia, the **Westpac-Melbourne Institute Consumer Sentiment Index** rose 0.5% to 92.6 in June from 92.1 in May ([see here](#)). Meanwhile, the **May NAB business survey** once again showcased the trends that have been in place over the past three years, with easing business conditions and broadly neutral, albeit volatile business confidence ([see here](#)).



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