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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

The US and China reached an agreement in their trade negotiations in London, however, the outcome seems to be a damp squib, prompting a mixed reaction in financial markets. The S&P500 ended the day 0.5% in the red.

The lower-than-expected US CPI inflation print suggested that tariffs are yet to have a significant inflationary impact. The US Treasury yield curve shifted lower as markets fully priced in two 25bp fed funds rate cuts by the end of this year.

Crude prices surged as tensions between the US and Iran escalated. The July WTI contract was up almost 5% to \$68.2.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	60.3	0.3%	30 day BBSY	3.81	0.00
AUD/USD	0.6505	-0.3%	90 day BBSY	3.78	0.02
AUD/JPY	94.02	-0.5%	180 day BBSY	3.93	0.03
AUD/GBP	0.4799	-0.7%	1 year swap	3.35	-0.01
AUD/NZD	1.0791	0.0%	2 year swap	3.25	-0.02
AUD/EUR	0.5662	-0.8%	3 year swap	3.30	-0.03
AUD/CNH	4.6806	-0.2%	4 year swap	3.39	-0.03
AUD/SGD	0.8357	-0.5%	5 year swap	3.50	-0.03
AUD/HKD	5.1053	-0.3%	6 year swap	3.62	-0.04
AUD/CAD	0.8893	-0.3%	7 year swap	3.73	-0.03
EUR/USD	1.1487	0.5%	8 year swap	3.84	-0.04
USD/JPY	144.53	-0.2%	9 year swap	3.93	-0.04
USD Index	98.66	-0.4%	10 year swap	4.14	-0.05

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,592	0.1%	<b>Australia</b>		
S&P 500	6,022	-0.3%	3 year bond	3.40	0.05
Japan Nikkei	38,421	0.5%	10 year bond	4.28	0.03
Hang Seng	24,367	0.8%	<b>United States</b>		
Euro Stoxx 50	5,393	-0.4%	3-month T Bill	4.25	0.01
UK FTSE100	8,864	0.1%	2 year bond	3.95	-0.07
VIX Index	17.26	1.8%	10 year bond	4.42	-0.05

Commodities	Current	Change	Other (10 year yields)		
CRB Index	303.09	1.3%	Germany	2.54	0.01
Gold	3355.22	0.9%	Japan	1.47	-0.01
Copper	9648	-1.1%	UK	4.55	0.01

			Sydney Futures Exchange	Current	Change
Oil (WTI futures)	68.15	4.9%	10 yr bond	4.24	-0.04
Coal (coking)	177.00	0.0%	3 yr bond	3.38	-0.04
Coal (thermal)	106.70	0.8%	3 mth bill rate	3.74	0.01
Iron Ore	94.65	0.8%	SPI 200	8,619	0.2%
ACCU	35.38	2.9%			

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 US and China reached an agreement in their trade negotiations in London, however, the outcome seems to be a damp squib, prompting a mixed reaction in financial markets. Full details have not been published, and it remains unclear if the talks brought the two largest economies closer to productive cooperation. President Trump suggested that import tariffs will remain unchanged; China will be speeding up the supply of rare earth and magnets to the US, while the US will allow Chinese students into its universities. In other news, the lower-than-expected US CPI inflation print suggested that tariffs are yet to have a significant inflationary impact, prompting a reassessment of the Fed's policy path.

- The US equity market started the day on the front foot, however, a lack of details about the US-China agreement left investors feeling uneasy. Comments from US Treasury Secretary Scott Bessent in his testimony before Congress added to the uncertainty – he said the 90-day tariff pause would be extended for some trading partners, suggesting that the US negotiations could drag on for much longer. The S&P500 reacted negatively and ended the day 0.5% in the red. Results in other major markets were mixed. Asian stocks were boosted by the news of the trade agreement. In Europe, the FTSE100 index was little changed, while the Euro Stoxx 50 fell 0.4%, with retail sector stocks leading the losses.
- In the bond markets, the US Treasury yield curve shifted lower – the 10Y was down 5bp, while the short-end was down steeper 7bp as markets fully priced in two 25bp fed funds rate cuts by the end of this year. The 10Y Treasury auction results were indicative of robust demand for the US government debt. Bunds, Gilts, and JGBs were little changed. Australian bonds sold off by 3-5bp, but futures are suggesting that the move is likely to be reversed at the market opening today.
- A confirmation of lower inflationary pressures dragged the DXY index 0.4% lower. EUR gained 0.5%, while GBP and Yen appreciated 0.3%. AUD was among the worst performers, easing 0.3% back to the 0.65 level where it was in the second half of last week.
- Crude prices surged as tensions between the US and Iran escalated. The US ordered some of its embassy staff to leave Iran after Iranian officials threatened to attack US bases in the Middle East if negotiations over its nuclear program fall through. The July WTI contract was up almost 5% to \$68.2. News of the US-China agreement supported some commodities, for example, the iron ore July SGX contract was up 0.8%. Aluminium also headed higher, but copper sold off, by 1.1% on the back of concerns that demand in China is weakening.

## Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ Card Spending May	-	-0.2%
4:00pm	GB Monthly GDP Apr	-0.1%	0.2%
5:20pm	AU RBA's Jacobs-Speech	-	-
10:30pm	US PPI May	0.2%	-0.5%
10:30pm	US Initial Jobless Claims	242k	247k

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 **US CPI** came in below expectations at 0.1%*mth* in May on both a headline and core basis. Consensus forecasts were 0.2%*mth* and 0.3%*mth* respectively. On an annual basis, headline and core inflation now stand at 2.4%*yr* and 2.8%*yr*, little changed from April. Within the detail, a 1.0%*mth* decline in energy prices more than offset a 0.3%*mth* rise in food prices. Core goods prices were flat in the month as vehicle and apparel priced edged lower. Core services prices meanwhile grew 0.2%, a 0.3% rise in shelter costs and a 0.2% gain for medical services partly offset by a 0.2% decline in transport costs. The pull forward of imports to get ahead of tariffs is likely a factor behind this benign result, but so is soft end demand amongst consumers, limiting businesses' ability to pass on cost increases, at least in the short term.



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