

19 June 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

The FOMC policy announcement did not deliver any major surprises, with policymakers keeping the federal funds rate unchanged and maintaining a positive tone about the state of the US economy.

The market reaction was muted, with the US equities, US Dollar, and Treasuries ending the day largely unchanged.

Tensions in in the Middle East persist, with President Trump telling Israeli Prime Minister to continue the offensive targeting Iran's nuclear programme. However, Trump has yet to decide whether the US will join Israel's campaign.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.1	-0.3%
AUD/USD	0.6508	0.5%
AUD/JPY	94.48	0.4%
AUD/GBP	0.4849	0.6%
AUD/NZD	1.0795	0.3%
AUD/EUR	0.5670	0.5%
AUD/CNH	4.6825	0.5%
AUD/SGD	0.8364	0.4%
AUD/HKD	5.1092	0.5%
AUD/CAD	0.8913	0.7%
EUR/USD	1.1480	0.0%
USD/JPY	145.15	-0.1%
USD Index	98.86	0.0%

Equities	Close	Change
S&P/ASX 200	8,531	-0.1%
S&P 500	5,981	0.0%
Japan Nikkei	38,885	0.9%
Hang Seng	23,711	-1.1%
Euro Stoxx 50	5,267	-0.4%
UK FTSE100	8,843	0.1%
VIX Index	20.14	-6.8%

Commodities	Current	Change
CRB Index	314.40	0.1%
Gold	3369.38	-0.6%
Copper	9656	-0.1%
Oil (WTI futures)	74.83	0.0%
Coal (coking)	175.50	1.3%
Coal (thermal)	111.95	0.4%
Iron Ore	92.60	-0.4%
ACCU	35.38	2.9%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.77	0.00
90 day BBSY	3.75	-0.01
180 day BBSY	3.90	-0.01
1 year swap	3.34	0.00
2 year swap	3.25	0.01
3 year swap	3.30	0.01
4 year swap	3.38	-0.01
5 year swap	3.48	-0.01
6 year swap	3.60	-0.01
7 year swap	3.71	-0.01
8 year swap	3.82	-0.01
9 year swap	3.90	-0.01
10 year swap	4.16	0.02

Government Bond Yields	Close	Change
Australia		
3 year bond	3.36	-0.01
10 year bond	4.25	-0.01
United States		
3-month T Bill	4.22	0.01
2 year bond	3.94	-0.01
10 year bond	4.39	0.00

Other (10 year yields)		
Germany	2.50	-0.04
Japan	1.46	-0.01
UK	4.50	-0.05

Sydney Futures Exchange	Current	Change
10 yr bond	4.28	0.00
3 yr bond	3.37	0.00
3 mth bill rate	3.62	0.00
SPI 200	8,525	-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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Mantas Vanagas
Senior Economist, Westpac Group
P: +61 422 030 326
E: mantas.vanagas@westpac.com.au

Financial Markets

The FOMC policy announcement did not deliver any major surprises, with policymakers keeping the federal funds rate unchanged and maintaining a positive tone about the state of the US economy. The FOMC 'dot-plot' revealed that two interest rate cuts are anticipated before the end of this year, aligning with their previous forecasts and the current market pricing. Consequently, the market reaction was muted, with the US equities, US Dollar, and Treasuries ending the day largely unchanged. Meanwhile, tensions in the Middle East persist, with President Trump telling Israeli Prime Minister to continue the offensive targeting Iran's nuclear programme. However, Trump has yet to decide whether the US will join Israel's campaign.

- The S&P500 index was unchanged in the day, as losses following the Fed policy announcement offset earlier gains. Price dynamics in other major markets were mixed. In Europe, Euro Stoxx 50 fell by 0.4%, weighed down by declines in health care, chemicals, and automotive sectors. In Asia, Nikkei225 was up 0.9%, while Hong Kong's Hang Seng lost more than 1% amid growing concerns that the Middle East conflict could exacerbate tensions between the US and China.
- US Treasuries were little changed after paring gains seen immediately after the Fed announcement. In Europe, the 10Y Bund yield declined by 4bp to 2.50%. Ahead of the Bank of England's monetary policy announcement today, the equivalent Gilt yield fell 5bp, despite somewhat firmer-than-expected UK CPI print. Australian government bond yields were broadly stable, with the 10Y at 4.25%.
- In FX markets, the DXY index hovered a touch below the 99.0 level. EUR, GBP and Yen showed limited changes, while AUD outperformed, jumping 0.5% to trade above 0.65.
- After several volatile days, crude prices were more stable as investors awaited further developments in the Middle East conflict. The July WTI contract held steady, trading a touch under the \$75 mark. Copper and iron ore saw modest movements, while gold dropped 0.6%.

International Data:

At the June meeting, **the FOMC** remained positive on the underlying health of the US economy and sanguine on the outlook for inflation. Members believe they are most likely to continue cutting the fed funds rate at a measured pace through H2 2025, 2026 and into the 'longer run'. The terminal fed funds rate for this cycle remains in line with their estimate of neutral at 3.0%.

With headline GDP fluctuating wildly through Q1 and Q2

Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ GDP Q1	0.7%	0.7%
11:30am	AU Employment May	21.2k	89k
11:30am	AU Unemployment Rate May	4.1%	4.1%
9:00pm	GB BoE Policy Decision	4.25%	4.25%

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.

as tariff fears and haphazard implementation impacted net exports, the FOMC's characterisation of GDP growth as "solid" is based on the underlying pulse in private final demand. The downward revision to the median GDP forecast of the Committee from 1.7%yr and 1.8%yr to 1.4%yr and 1.6%yr in 2025 and 2026 points to a further impact from trade policy on confidence and economic activity in coming quarters. Still, the revised forecasts are only marginally below the FOMC's estimate of trend growth (1.8%yr) which is expected to return sustainably from 2027. Given this expectation for activity growth, and the resilience the labour market has shown over the past year, the unemployment rate is expected to peak at only 4.5% in 2025 and to edge back down towards the full employment level thereafter, returning to 4.2% in the 'longer run' on the Committee's median view. On inflation, the FOMC are clear that someone will eventually have to pay for the tariffs being imposed by the White House, most likely the US consumer. Still, the net impact on consumer inflation is seen as modest and short lived, annual headline and core inflation topping out at around 3.0% at end-2025 then decelerating quickly back towards target, to 2.4%yr in 2026 and 2.1%yr come 2027.

On the US data front, **housing starts** remained highly volatile, declining 9.8% in May after a 2.7% gain in April. **Building permits** fell 2.0% after a 4.0% decline in April. Home builders remain deeply pessimistic, with **the NAHB sentiment indicator** falling to 32 in June, near the series' historic lows outside the global financial crisis. In contrast to the housing indicators, **initial jobless claims** remained steady last week, claims down 5k at 245k, a historically-low level.

In Europe, **euro area inflation** was unrevised at 1.9%yr in May. **UK inflation eased** 0.1ppt to 3.4%yr, a touch above median consensus estimate, but in line with the BoE latest forecast. Core inflation fell 0.3ppt to 3.5%yr as services decreased to 4.7%yr after the timing of Easter distorted jump to 5.4%yr in April.

Local Data:

The six-month annualised growth rate in **the Westpac–Melbourne Institute Leading Index**, which indicates the likely pace of economic activity relative to trend three to nine months into the future, dropped to -0.08% in May from 0.19% in April ([see here](#)).



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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