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MORNING REPORT

Today's economic developments and market movements.

Key themes

The mood in financial markets turned much more positive, with equities rallying and oil prices falling further, after it emerged that Israel and Iran are honouring the US-led ceasefire agreement.

Fed Chair Powell's testimony in Congress did not bring any major surprises, reiterating his view that the Fed is in no rush to lower interest rates further.

The S&P500 rose 1.1%, while returns for the Euro Stoxx 50, ASX200, and Nikkei225 also exceeded 1%. The US Treasuries rallied, while the DXY extended its downward trend. Ahead of this morning's Australian inflation data release, AUD was up 0.4%.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	60.0	0.7%	30 day BBSY	3.74	-0.01
AUD/USD	0.6489	0.4%	90 day BBSY	3.71	0.00
AUD/JPY	94.04	-0.4%	180 day BBSY	3.86	-0.01
AUD/GBP	0.4767	-0.2%	1 year swap	3.28	-0.01
AUD/NZD	1.0804	0.0%	2 year swap	3.17	-0.02
AUD/EUR	0.5590	0.2%	3 year swap	3.22	-0.02
AUD/CNH	4.6491	0.3%	4 year swap	3.31	-0.01
AUD/SGD	0.8305	0.1%	5 year swap	3.42	0.00
AUD/HKD	5.0943	0.5%	6 year swap	3.53	-0.02
AUD/CAD	0.8907	0.4%	7 year swap	3.65	-0.02
EUR/USD	1.1609	0.3%	8 year swap	3.75	-0.02
USD/JPY	144.92	-0.8%	9 year swap	3.84	-0.02
USD Index	97.97	-0.5%	10 year swap	4.07	-0.04
Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,556	1.0%	Australia		
S&P 500	6,092	1.1%	3 year bond	3.27	-0.06
Japan Nikkei	38,791	1.1%	10 year bond	4.15	-0.06
Hang Seng	24,177	2.1%	United States		
Euro Stoxx 50	5,297	1.4%	3-month T Bill	4.16	0.02
UK FTSE100	8,759	0.0%	2 year bond	3.83	-0.04
VIX Index	17.48	-11.9%	10 year bond	4.29	-0.05
Commodities	Current	Change	Other (10 year yields)		
CRB Index	296.97	-2.6%	Germany	2.54	0.04
Gold	3323.63	-1.3%	Japan	1.42	0.01
Copper	9669	0.0%	UK	4.47	-0.02
Oil (WTI futures)	65.08	-5.0%	Sydney Futures Exchange	Current	Change
Coal (coking)	175.00	0.0%	10 yr bond	4.19	0.00
Coal (thermal)	115.25	-2.5%	3 yr bond	3.27	-0.01
Iron Ore	93.00	-0.9%	3 mth bill rate	3.59	-0.02
ACCU	35.38	2.9%	SPI 200	8,540	0.1%

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 mood in financial markets turned much more positive, with equities rallying and oil prices falling further, after it emerged that Israel and Iran are honouring the US-led ceasefire agreement. The situation remains fragile, with the focus now shifting back to diplomacy to find a longer-lasting peace solution, as officials are trying to assess the damage done to Iran's nuclear programme. In terms of the economics news flow, Fed Chair Powell's testimony in Congress did not bring any major surprises, reiterating his view that the Fed is in no rush to lower interest rates further. The economic data releases, which show an unexpected drop in the US consumer sentiment in June and a decline in US house prices in April, were of secondary importance for financial markets.

- Easing tensions in the Middle East spurred notable gains in major equity markets. The S&P500 in the US rose 1.1%, while returns of the Euro Stoxx 50, ASX200 and Nikkei225 also exceeded 1%. The FTSE100 in the UK was an exception remaining flat, as stocks of major oil producers fell.
- In the bond market, the US Treasuries rallied, with the 10Y yield falling 5bp to 4.29%, the lowest level since 7 May. Gilt and Australian government bond yields were also lower, by 2bp and 6bp respectively, but German Bunds bucked the trend, with the 10Y yield rising 4bp, as German business sentiment survey suggested a more positive outlook ahead.
- In the FX markets, the risk-on sentiment saw the DXY extending the downward trend and falling 0.5% to below 98.0. EUR gained 0.3%, and was outperformed by the Yen and GBP, which appreciated 0.7-0.8%. Ahead of this morning's monthly Australian inflation data release, AUD was up 0.4%.
- Crude extended losses amid the stabilization of the geopolitical situation in the Middle East. President Trump's surprise announcement that China can buy oil from Iran suggested a significant deviation from the previous US policy, which imposed heavy sanctions on Iranian oil exports, and also added to the downward pressure on prices. The August WTI contract was down 5% to \$65.1, the lowest level in two weeks. Among other major commodities, copper was unchanged, while gold prices eased 1.3%.

International Data:

Fed Chair Powell's testimony in Congress revealed that his view on the near-term monetary policy outlook remained little changed, seeing no need to rush to further interest rate cuts. He noted that the FOMC will start easing policy "sooner rather than later", if tariff-related inflationary pressures do not materialize. "But I wouldn't want to point to a particular meeting. I don't think we need to be in any rush because the economy is still strong", he confirmed. While two FOMC members, Bowman and Goolsbee, signalled that they might

Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ Trade Balance May	-	NZ\$1426m
11:30am	AU Monthly CPI Indicator May	2.3%	2.4%
12:00am	US Fed's Powell Testifies Before Senate Committee	-	-
12:00am	US New Home Sales May	-6.7%	10.9%

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.

vote for a cut as soon as July, support the latest 'dot plot' published after the FOMC meeting last week showed a median voter supporting two cuts this year, with seven favouring no cuts at all. Powell expects that tariffs will have a meaningful inflationary effect over the coming few months, but he acknowledged that the uncertainty on how that effect will play out is high. He continued to characterize the overall economy and the labour market as solid.

In contrast to the University of Michigan consumer sentiment indicator, which showed a sharp improvement in June, the overnight release of the **Conference Board Consumer Confidence index** surprised on the downside, showing that the headline index fell 5.4pts this month to 93.0. The assessment of the current conditions was at the second weakest since the pandemic, while the expectations subcomponent also eased notably. Consumer assessment of the labour market conditions – a share of respondents who think the jobs are plentiful minus a share who think jobs are hard to get – was down to the lowest level in this cycle. Concerns about the outlook were also evident in the latest house price data. Both **the S&P CoreLogic CS** and **the FHFA** reported a 0.4%mt decline in April, which was the worst result since 2022.

Germany's ifo business climate index rose 0.9pts in June to a thirteen-month high of 88.4. The assessment of the current situation was little changed broadly in line with the average level since the start of 2024, but the future business expectation index rose 1.7pts to 90.7, only a touch below the highest point seen after the pandemic. The survey is suggesting that once the lingering tariff uncertainty is cleared, German businesses are seeing opportunities for a meaningful upward shift in the country's growth trend.

Local Data:

Australia's manufacturing sector is showing signs of recovery as conditions continued to improve into mid-year, with **the Westpac-ACCI Composite Index** lifting to 51.6 from 50.8 in March ([see here](#)).

In New Zealand, **the Westpac-McDermott Miller Employment Confidence Index** rose by 0.5 points to 88.8 in the June quarter ([see here](#)).



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