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MORNING REPORT

Today's economic developments and market movements.

Key themes

President Trump announced a trade agreement with Indonesia, which will face a 19% tariff, significantly below the 32% it was previously threatened with.

The latest US CPI numbers were mixed, showing some evidence of tariff pass-through, but also signalling weaker consumer demand in other categories. The numbers prompted an upward repricing of the Fed's interest rate outlook.

The Chinese GDP data indicated that the economy maintained its momentum despite the effects from higher US tariffs.

In the FX markets, the DXY index continued to march higher, gaining 0.6%. EUR and AUD each lost 0.5%.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	60.6	0.0%
AUD/USD	0.6516	-0.5%
AUD/JPY	97.02	0.3%
AUD/GBP	0.4868	-0.2%
AUD/NZD	1.0954	-0.1%
AUD/EUR	0.5618	0.1%
AUD/CNH	4.6826	-0.3%
AUD/SGD	0.8378	-0.3%
AUD/HKD	5.1149	-0.5%
AUD/CAD	0.8940	-0.3%
EUR/USD	1.1600	-0.5%
USD/JPY	148.89	0.8%
USD Index	98.64	0.6%

Equities	Close	Change
S&P/ASX 200	8,630	0.7%
S&P 500	6,244	-0.4%
Japan Nikkei	39,678	0.6%
Hang Seng	24,590	1.6%
Euro Stoxx 50	5,354	-0.3%
UK FTSE100	8,938	-0.7%
VIX Index	17.38	1.0%

Commodities	Current	Change
CRB Index	302.70	-0.2%
Gold	3324.55	-0.6%
Copper	9646	0.3%
Oil (WTI futures)	66.79	-0.3%
Coal (coking)	177.50	-0.8%
Coal (thermal)	113.70	-1.6%
Iron Ore	98.70	-0.7%
ACCU	34.13	-4.1%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.82	-0.02
90 day BBSY	3.77	0.00
180 day BBSY	3.84	0.00
1 year swap	3.43	0.04
2 year swap	3.37	0.05
3 year swap	3.44	0.05
4 year swap	3.53	0.05
5 year swap	3.65	0.05
6 year swap	3.77	0.06
7 year swap	3.89	0.06
8 year swap	3.99	0.06
9 year swap	4.08	0.06
10 year swap	4.31	0.06

Government Bond Yields	Close	Change
Australia		
3 year bond	3.51	0.02
10 year bond	4.38	0.01
United States		
3-month T Bill	4.23	-0.01
2 year bond	3.94	0.04
10 year bond	4.48	0.05

Other (10 year yields)		
Germany	2.71	-0.02
Japan	1.58	0.00
UK	4.63	0.03

Sydney Futures Exchange	Current	Change
10 yr bond	4.47	0.05
3 yr bond	3.53	0.03
3 mth bill rate	3.64	-0.01
SPI 200	8,544	-0.8%

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:

President Trump announced a trade agreement with Indonesia, which will face a 19% tariff, significantly below the 32% it was previously threatened with. In addition to the trade news, markets closely followed incoming economic data – the latest US CPI numbers were mixed, showing some evidence of tariff pass-through, but also signalling weaker consumer demand in other categories. The Chinese GDP data indicated that the economy maintained its momentum despite the effects from higher US tariffs.

- It was a busy session for equity markets. In the US, news that Nvidia and other chip manufacturers had received a permission from the US government to resume their exports to China spurred the S&P500 index early in the trading session. However, the CPI data and declining bank stocks pulled it lower later in the day, resulting in a 0.4% loss. Firm Chinese GDP data supported Asian stocks, with the Hang Seng index rising 1.6%. The domestic ASX200 index also gained 0.7%.
- In the bond markets, US Treasuries sold off, with the 10Y yield rising by 5bp to 4.48%, the highest level since the first week of June. Markets focused on the higher inflation categories in the CPI data, prompting a slight upward repricing of the Fed's interest rate outlook and reducing the conviction that the Fed will be able to cut interest rates twice before the year-end. Aussie yields were also higher, and futures are pointing to further increases today, ahead of tomorrow's release of the Australian labour market data.
- In the FX markets, the DXY index continued to march higher, gaining 0.6%. EUR and AUD each lost 0.5%, while JPY was even weaker, depreciating by 0.8%.
- After heightened volatility in the last couple of days, crude markets were more stable, with the August WTI future falling only slightly by 0.3%. Iron ore declined 0.7% due to concerns about slowing demand in China.

International Data:

The **US CPI** data for June were mixed, with the headline index rising 0.3%*mth*, in line with consensus expectations and the steepest since the start of the year, while the core CPI increased at a soft pace of 0.2%*mth*. Core goods inflation picked up from the average pace of zero in the last three months to 0.2%*mth*, providing some evidence of tariff-related price increases. Indeed, categories such as appliances, apparel and audio & video equipment saw a pick-up in inflation rates. However, they were partly offset by lower new and used vehicle price inflation. Core services inflation rose 0.3%*mth*, broadly in line with the recent trend, despite a bigger drop in hotel prices, which could be seen as a proxy for the underlying demand in non-essential categories. Overall, the CPI numbers represented quite nuanced picture of the underlying price

Today's key data and events

For	Data/Event	Exp	Prev
4:00pm	GB CPI Jun	0.1%	0.2%
10:30pm	US PPI Jun	0.2%	0.1%
8:45am	NZ Food Price Index Jun	-	0.5%

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.

pressures in the US, with tariff-related price increases becoming more evident, but they are meeting pockets of softer demand.

The latest **Chinese GDP data** continued to highlight resilience of the world's second-largest economy in the face of ongoing tariff headwinds. The economic activity rose by 1.1%*qtr* in Q2, leaving the annual growth rate at 5.2%*yr*, exceeding market expectations of 5.1%*yr*. With the worst economic effects of the high uncertainty brought by the US trade war likely to be behind us, the numbers put China in a good position to meet the official government's target of 5.0%*yr* for the year.

The Chinese monthly indicators presented a mixed picture regarding how momentum held up at the end of the quarter. On the positive side, **industrial production** rose by 0.5%*mth* in June, in line with the average pace of the last couple of years. This reaffirms the message from yesterday's strong trade numbers, that the Chinese export-orientated manufacturing sector is successfully adjusting to the high US tariffs by shifting their focus to other markets.

However, the figures also highlighted that Chinese companies have become more hesitant to commit to new investments, with the **fixed asset investment** growth slowing to 2.8%*yr* YTD, the lowest rate since the pandemic shock. The weakness seems to be linked to the property sector and ongoing concerns about its outlook, as the real estate investment growth dipped below -11%*yr* YTD, having fluctuated around the -10% mark for around a year. House prices also did not bring any positive news, continuing to follow a negative trend. Against that backdrop, Chinese consumer spending failed to meet market expectations, with **retail sales** growth falling from 6.4%*yr* to a four-month low of 4.8%*yr*.

The **ZEW Confidence Survey** of financial market experts showed that sentiment in the euro area improved further in July. The headline economic expectations index rose 0.8pts to 36.1, a reading at the top of the range seen since the pandemic. The survey mentioned hopes of the US-EU trade agreement and the German government economic stimulus as the main reason for higher sentiment.

Local Data:

In Australia, **Westpac Consumer Sentiment Index** ticks up 0.6% to 93.1 in July ([see here](#)).

The June REINZ report showed further signs of the New Zealand housing market losing its recent momentum. Turnover has slowed in the last two months, and prices fell for the first time since late last year ([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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