



6 August 2025

# MORNING REPORT

Today's economic developments and market movements.

## Key themes

There was a risk off tone overnight as weaker than expected US data suggests activity is slowing more rapidly than expected, while price pressures, tied to imported items attracting tariffs, are re-accelerating. Further talk of tariffs on chips and pharmaceutical also hit sentiment.

Major US equity indices closed lower, while European markets were mixed.

US yields were slightly higher, with little movement elsewhere. There was a soft auction of \$58bn in in three-year notes, the first of three auctions scheduled this week.

The US dollar was unchanged with currency movements fairly muted. The Aussie was slightly higher at 0.6472.

Oil continued to fall as Russia said it was considering a 'air-truce' with Ukraine.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	60.0	-0.2%	30 day BBSY	3.71	-0.01
AUD/USD	0.6472	0.1%	90 day BBSY	3.71	-0.03
AUD/JPY	95.50	0.4%	180 day BBSY	3.80	-0.06
AUD/GBP	0.4868	0.0%	1 year swap	3.32	0.01
AUD/NZD	1.0968	0.2%	2 year swap	3.24	0.01
AUD/EUR	0.5591	0.1%	3 year swap	3.28	0.03
AUD/CNH	4.6527	0.2%	4 year swap	3.36	0.02
AUD/SGD	0.8334	0.1%	5 year swap	3.46	0.00
AUD/HKD	5.0804	0.1%	6 year swap	3.58	0.00
AUD/CAD	0.8916	0.1%	7 year swap	3.69	0.00
EUR/USD	1.1576	0.0%	8 year swap	3.79	-0.01
USD/JPY	147.56	0.4%	9 year swap	3.87	-0.01
USD Index	98.76	0.0%	10 year swap	4.12	-0.01

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,770	1.2%	<b>Australia</b>		
S&P 500	6,299	-0.5%	3 year bond	3.37	-0.09
Japan Nikkei	40,550	0.6%	10 year bond	4.23	-0.09
Hang Seng	24,903	0.7%	<b>United States</b>		
Euro Stoxx 50	5,250	0.1%	3-month T Bill	4.13	0.01
UK FTSE100	9,143	0.2%	2 year bond	3.72	0.05
VIX Index	17.85	1.9%	10 year bond	4.21	0.02
			<b>Other (10 year yields)</b>		
<b>Commodities</b>	<b>Current</b>	<b>Change</b>	Germany	2.62	0.00
CRB Index	293.33	-0.1%	Japan	1.47	-0.04
Gold	3380.60	0.2%	UK	4.52	0.01
Copper	9651	0.6%			
Oil (WTI futures)	65.16	-1.7%			
Coal (coking)	189.50	1.1%	<b>Sydney Futures Exchange</b>	<b>Current</b>	<b>Change</b>
Coal (thermal)	117.00	-0.2%	10 yr bond	4.25	-0.01
Iron Ore	101.70	1.0%	3 yr bond	3.37	0.00
ACCU	34.13	-4.1%	3 mth bill rate	3.61	0.04
			SPI 200	8,739	0.1%

Data as at 7:25am 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:

- Major US equity indices were lower on the back of the weaker than expected partial data coming out of the US and the possibility of further tariffs on chips and pharmaceuticals. A Bloomberg gauge on chipmaker shares slid more than 1% during the session. The S&P 500 dropped 0.5%, with seven of the eleven primary S&P 500 sectors finishing in the red. The Nasdaq fell 0.7%, while the Dow Jones closed 0.1% lower.
- European markets finished marginally higher with sentiment taking a hit late in the session as the weak US ISM data was released. The Euro Stoxx 50 finished 0.1% higher, Germany's DAX increased 0.4% and the FTSE 100 gained 0.2%. The ASX 200 finished 1.2% higher, led by financials with all sectors finishing in the green. Futures are pointing to a positive open this morning.
- US yields were slightly higher on the back of the 'soft' treasuries auction. The sale of US\$58bn in three-year notes was the first of three auctions scheduled this week. The 2-year US bond yield increased 5 basis point to 3.72%, while the 10-year US bond yield increased 2 basis points to 4.23%. Interest-rate futures now have a 90% chance of a September US Fed cut, with 58 basis points of cuts priced in over 2025.
- At home, the 3-and-10-year bond yields declined almost 10 basis points during yesterday's session. There was little movement in futures overnight, with the 3-and-10-year futures flat and down one basis point to 3.37% and 4.25%, respectively. Interest-rate futures now have a rate cut for August fully priced in, and there are around 60 basis points of cuts priced in over 2025.
- Currency movements were fairly muted overnight. The US dollar index was unchanged at 98.76 after the gains early in the session were reverse following the release of the US ISM data. The US dollar index continued to trade within a narrow range (98.585 to 99.074). The Aussie was slightly higher against the Greenback at 0.6472 and traded within a tight range (0.6450 to 0.6490). We see upside for the AUD/USD pair, as trade policy uncertainty diminishes, the US economy slows and possible future stimulus coming out of China supports activity.
- Gold was 0.2% higher on the back of the hit to sentiment. Oil continued to fall as Russia said it was considering a 'air-truce' with Ukraine. The WTI fell 1.7% to US\$65.16/bbl. Copper (+0.2%) and Iron Ore (1.0%) were both higher, with Iron Ore now at US\$101.70/t.

## Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ Unemployment Rate Q2	5.3%	5.1%
8:45am	NZ Employment Q2	-0.1%	0.1%
8:45am	NZ Labour Cost Index Q2	0.5%	0.4%
7:00pm	EZ Retail Sales Jun	0.3%	-0.7%

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:

President Trump said he will announce **tariffs on chips and pharmaceutical** imports in the next week or so. The President reportedly said pharma will face a small tariff that within 12 to 18 months will jump to 150% and then 250%. The President also said he was likely to raise tariffs on Indian goods "very substantially over the next 24 hours" from a planned 25%.

The advance trade data for July, released a week ago, suggested that the US goods trade balance improved markedly. The overnight release of the full **US monthly trade figures** for that month brought a similar message, revealing a drop in the overall trade deficit from \$71.7bn to \$60.2bn, very close to the level seen in April and less than half the average of Q1, when a surge in imports ahead of tariff increases had driven the deficits significantly higher. The main factor was lower goods imports, which fell 4.5% mth, while services imports were down only 0.3%. Exports declined by 0.5%. US trade deficits with China and the EU decreased notably, while the surplus with Australia rose from \$1.5bn to \$1.7bn, thanks to higher exports during that month. Looking ahead, volatility in US trade flows is likely to persist in the coming months and potentially beyond, as exporters and importers adjust to the latest changes in US import tariffs.

**ISM services PMI** data indicated that US economic momentum eased in July to broadly stable levels, with the headline index falling from 50.8 to 50.1, the second lowest level in the last twelve months. Among the major survey components, the activity indicator fell by 1.6 points to 52.6, while the new orders index declined by 1.0 point to 50.3, suggesting stagnating demand. The employment index slipped deeper into contractionary territory, to 46.4, the lowest level since March, broadly aligning with the latest labour market report, which indicated weak job growth in most services categories. The survey also showed that price pressures continued to increase to be at their highest since October 2022.

In line with the official Chinese PMIs released last week, which showed that economic momentum in the Chinese economy eased in July, the **Chinese Caixin Composite PMI**, released yesterday, also declined, from 51.3 to 50.8, just below the average for the first half of the year. The drop was driven mainly by the manufacturing index (released on Friday), which dipped below the neutral level of 50. Yesterday's release of the equivalent indicator for services showed a 2-point improvement to a sixteen-month high of 52.6.



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