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MORNING REPORT

Today's economic developments and market movements.

Key themes

Oracle announced disappointing earnings alongside further investment in data centres, triggering fresh concerns about AI-related spending, with investors questioning whether the high level of investment will ultimately deliver the required returns.

US Treasury yields were 1-2bp lower across the curve, continuing their decline from Tuesday's peak, with higher-than-expected initial jobless claims offering some additional support. The S&P 500 dropped sharply in early trading but recovered to finish the day up 0.2%.

Australia's employment data surprised significantly to the downside, declining by -21.3k, confirming that the Australian labour market continues to soften gradually.

Australian government bonds outperformed, as weaker employment dampened expectations for further RBA tightening. The 10Y yield fell 9bp to 4.72%.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	62.0	-0.2%
AUD/USD	0.6664	-0.2%
AUD/JPY	103.66	-0.5%
AUD/GBP	0.4976	-0.3%
AUD/NZD	1.1470	-0.1%
AUD/EUR	0.5675	-0.6%
AUD/CNH	4.6986	-0.3%
AUD/SGD	0.8608	-0.3%
AUD/HKD	5.1863	-0.2%
AUD/CAD	0.9178	-0.3%
EUR/USD	1.1743	0.4%
USD/JPY	155.55	-0.3%
USD Index	98.35	-0.4%

Equities	Close	Change
S&P/ASX 200	8,592	0.1%
S&P 500	6,900	0.2%
Japan Nikkei	50,149	-0.9%
Hang Seng	25,531	0.0%
Euro Stoxx 50	5,754	0.8%
UK FTSE100	9,703	0.5%
VIX Index	15.16	-3.9%

Commodities	Current	Change
CRB Index	300.78	-0.2%
Gold	4270.46	1.0%
Copper	11872.00	2.7%
Oil (WTI futures)	57.72	-1.3%
Coal (coking)	207.25	0.6%
Coal (thermal)	106.60	-1.4%
Iron Ore	102.20	-1.3%
ACCU	37.75	10.6%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.61	0.00
90 day BBSY	3.76	-0.01
180 day BBSY	4.12	-0.02
1 year swap	3.88	-0.03
2 year swap	4.03	-0.05
3 year swap	4.10	-0.09
4 year swap	4.16	-0.08
5 year swap	4.24	-0.08
6 year swap	4.30	-0.08
7 year swap	4.37	-0.08
8 year swap	4.44	-0.08
9 year swap	4.50	-0.08
10 year swap	4.77	-0.07

Government Bond Yields	Close	Change
Australia		
3 year bond	4.11	-0.09
10 year bond	4.72	-0.09
United States		
3-month T Bill	3.57	-0.02
2 year bond	3.53	-0.01
10 year bond	4.14	-0.01
Other (10 year yields)		
Germany	2.84	-0.01
Japan	1.93	-0.03
UK	4.48	-0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.72	-0.01
3 yr bond	4.13	-0.01
3 mth bill rate	3.70	-0.01
SPI 200	8,682	1.1%

Data as at 7:30am AEDT. 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:

Concerns about AI-related spending in the US resurfaced, with investors questioning whether the high level of investment will ultimately deliver the required returns. Tech stocks fell, led by Oracle, which reported disappointing earnings and announced further investment in data centres.

Yesterday's domestic data brought Australia's November jobs report. Employment surprised significantly to the downside, declining by -21.3k, following a stronger result in October of +41.1k. Despite recent volatility, the overall trend remains little changed – the Australian labour market continues to soften gradually.

- The US stock market came under pressure. The S&P 500 dropped sharply in early trading but recovered to finish the day up 0.2%. The tech sector declined by 0.7%. In Europe, the Euro Stoxx 50 gained 0.8% as cyclical stocks performed well, while technology and energy sectors eased. Asian equity markets opened higher, tracking increased valuations in the US, supported by the Fed's monetary policy easing. However, concerns over tech valuations eventually weighed on returns. The Nikkei 225 fell 0.9%, while the Hang Seng was unchanged.
- Major government bonds rallied. US Treasury yields were 1-2bp lower across the curve, continuing their decline from Tuesday's peak, with higher-than-expected initial jobless claims offering some additional support. The market-implied path for the fed funds rate now points to two 25bp interest rate cuts in the US next year, compared to one cut suggested in the FOMC forecasts released earlier this week.
- Gilts and Bunds in Europe traded similarly, with yields falling by a similar margin. Japanese yields also declined, with the 10Y down 3bp. Strong demand for Japanese government bonds was signalled by the 20Y JGB auction, with the bid-to-cover ratio reaching its highest in over five years. Australian government bonds outperformed, as weaker employment dampened expectations for further RBA tightening. The 10Y yield fell 9bp to 4.72%.
- In FX markets, the DXY index extended its losses, falling by 0.4% to 98.4. Other major currencies saw mixed performance. The EUR rose by the same amount to 1.1740, GBP was steady at 1.3380, and the Yen appreciated by 0.3%. The AUD declined by 0.2% from its highest level since mid-September, reached yesterday.
- Risk-off sentiment weighed on crude prices. The WTI fell 1.3% to \$57.7, despite increased US-Venezuela tensions after the US seized a tanker off Venezuela's coast. Copper prices surged to a new record high, up 2.7%, as lower interest rates and the Fed's more positive outlook for the US economy boosted demand. Gold rose 1.0%.

Today's key data and events

Time	Event	Exp	Prev
8:45	NZ Card Spending Nov	-	0.0%
15:30	JP Industrial Production Oct Final	-	1.4%
18:00	GB Monthly GDP Oct	0.1%	-0.1%

Times are AEDT. 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 trade deficit** narrowed modestly in September, decreasing from \$59.3bn to \$52.8bn as exports rose by 3.0%_{mt} and imports increased by just 0.6%_{mt}. The goods trade balance with China improved slightly and was well below the levels seen last year, while the balance with the EU deteriorated significantly. US exports to Australia were little changed, whereas imports surged by \$1bn, resulting in the US trade surplus with Australia falling below the average levels seen since April.

US initial claims bounced to 236k last week, the highest level since September but still a very low level compared to historical standards. The data confirmed that the drop to a more-than-three-year low of 192k in the prior week was a one-off.

Local Data:

For more detail about **Australia's labour market report** [see here](#).



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