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MORNING REPORT

Today's economic developments and market movements.

Key themes

Ongoing US-Iran tensions remain a concern for financial markets, as scheduled talks set for this Friday appeared to be collapsing.

US-China relations seem to be on a more productive path, with President Trump noting he had an excellent phone conversation with President Xi Jinping. Their discussions included Taiwan.

Major US equity indices traded lower again, as the rotation away from tech stocks weighed on megacap valuations. Ahead of today's ECB policy announcement, softer euro area inflation supported Bunds.

Ahead of this weekend's Japanese elections, where Prime Minister Takaichi's LDP is expected to secure a solid majority, the yen sold off, easing 0.8%. The AUD slipped 0.4%.

After a 4.5% surge the previous day, copper dropped 3.3%, as extreme volatility gave way to renewed focus on fundamentals and softer demand.

Data snapshot

| FX Last 24 hrs | Current | Change | AUS Interest Rate Swaps | Last | Change |
|----------------|---------|--------|-------------------------|------|--------|
| TWI | 64.8 | 0.2% | 30 day BBSY | 3.84 | 0.08 |
| AUD/USD | 0.6993 | -0.4% | 90 day BBSY | 3.98 | 0.07 |
| AUD/JPY | 109.75 | 0.4% | 180 day BBSY | 4.24 | 0.07 |
| AUD/GBP | 0.5122 | -0.1% | 1 year swap | 4.19 | 0.01 |
| AUD/NZD | 1.1655 | 0.4% | 2 year swap | 4.28 | 0.01 |
| AUD/EUR | 0.5926 | -0.3% | 3 year swap | 4.33 | 0.01 |
| AUD/CNH | 4.8559 | -0.3% | 4 year swap | 4.37 | 0.00 |
| AUD/SGD | 0.8902 | -0.2% | 5 year swap | 4.42 | 0.00 |
| AUD/HKD | 5.4639 | -0.4% | 6 year swap | 4.48 | 0.00 |
| AUD/CAD | 0.9562 | -0.2% | 7 year swap | 4.54 | -0.01 |
| EUR/USD | 1.1803 | -0.1% | 8 year swap | 4.60 | -0.01 |
| USD/JPY | 156.93 | 0.8% | 9 year swap | 4.66 | -0.01 |
| USD Index | 97.66 | 0.2% | 10 year swap | 4.92 | 0.00 |

| Equities | Close | Change | Government Bond Yields | Close | Change |
|---------------|--------|--------|------------------------|-------|--------|
| S&P/ASX 200 | 8,928 | 0.8% | Australia | | |
| S&P 500 | 6,897 | -0.3% | 3 year bond | 4.35 | 0.04 |
| Japan Nikkei | 54,293 | -0.8% | 10 year bond | 4.87 | 0.03 |
| Hang Seng | 26,847 | 0.0% | United States | | |
| Euro Stoxx 50 | 5,970 | -0.4% | 3-month T Bill | 3.59 | 0.00 |
| UK FTSE100 | 10,402 | 0.9% | 2 year bond | 3.56 | -0.01 |
| VIX Index | 18.87 | 4.8% | 10 year bond | 4.28 | 0.01 |

| Commodities | Current | Change | Other (10 year yields) | | |
|-------------|---------|--------|------------------------|------|-------|
| CRB Index | 312.93 | 0.9% | Germany | 2.86 | -0.03 |
| Gold | 4921.80 | -0.5% | Japan | 2.26 | -0.01 |
| Copper | 13044 | -3.2% | UK | 4.55 | 0.03 |

| | | | Sydney Futures Exchange | Current | Change |
|-------------------|--------|-------|-------------------------|---------|--------|
| Oil (WTI futures) | 64.36 | 1.8% | 10 yr bond | 4.88 | -0.01 |
| Coal (coking) | 246.33 | 0.2% | 3 yr bond | 4.36 | -0.01 |
| Coal (thermal) | 116.90 | 2.0% | 3 mth bill rate | 3.93 | 0.02 |
| Iron Ore | 101.35 | 0.5% | SPI 200 | 8,876 | -0.2% |
| ACCU | 36.13 | -4.3% | | | |

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

Geopolitics was once again front and centre, with ongoing US-Iran tensions remaining a concern for financial markets. Scheduled talks between officials set for this Friday appeared to be collapsing, as Iran demanded a change in meeting location, restrictions on the scope of negotiations, and limits on who should be attending. Meanwhile, US-China relations seem to be on a more productive path, with President Trump noting he had an excellent phone conversation with President Xi Jinping. According to reports, Taiwan was discussed, and the Chinese President stated he would never allow the island to separate.

- Major US equity indices traded lower again, as the rotation away from tech stocks weighed on megacap valuations. S&P 500 technology stocks fell by more than 2% for a second consecutive day. The resilience of value stocks helped limit the S&P 500's overall loss to 0.3%. Similar trends were seen in European markets, with chemicals and automotive sectors outperforming, but tech stocks led the Euro Stoxx 50 0.4% lower. In Japan, the Nikkei 225 declined 0.8%, giving back some of the prior day's significant gains. Domestically, the ASX 200 was firmer, posting a 0.8% gain, though futures indicate a softer opening today.
- In bond markets, the US Treasury curve steepened, with the short end moving 1bp lower and the long end rising 1bp. Ahead of today's ECB monetary policy announcement – widely expected to leave key euro area settings unchanged – the 10Y Bund rallied 3bp to 2.86%, reflecting weaker HICP inflation data from the euro area. The equivalent Gilt lost ground, with yields rising 3bp. Domestic government bond yields were 3-4bp higher, as financial markets continued to digest the implications of the RBA interest rate hike on Tuesday.
- In FX markets, the DXY was up 0.2%, reversing an equivalent loss from the previous day. The EUR and GBP depreciated by 0.1% and 0.3% respectively. Ahead of this weekend's Japanese elections, where Prime Minister Takaichi's LDP is expected to secure a solid majority, the yen sold off, easing 0.8%. The AUD slipped 0.4%, dipping just below the 0.70 level.
- The geopolitical backdrop with Iran pushed crude oil prices higher. The March WTI contract jumped by \$2 at one point to \$65.50, before paring gains to finish 1.8% higher at \$64.36. After a 4.5% surge the previous day, copper dropped 3.3%, as extreme volatility gave way to renewed focus on fundamentals and softer demand. Gold dipped below \$5,000 again, trading around \$4,900 until fresh headlines on Iran provided additional upward momentum.

Today's key data and events

| Time | Event | Exp | Prev |
|-------|---------------------------------------|---------|---------|
| 11:30 | AU Trade Balance Dec | \$3500m | \$2936m |
| 21:00 | EZ Retail Sales Dec | -0.2% | 0.2% |
| 23:00 | GB BoE Policy Decision - Bank Rate | 3.75% | 3.75% |
| 0:15 | EZ ECB Policy Decision - Deposit Rate | 2.0% | 2.0% |
| 0:30 | US Initial Jobless Claims | 212k | 209k |

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

US ADP employment growth was softer than anticipated in January, with an increase of just 22k following a revised 37k gain in December (previously 41k). Recent results indicate a labour market that is stagnant but not contracting.

The ISM non-manufacturing index was steady at 53.8 in January. Both employment and new orders eased, declining to 50.3 and 53.1 respectively, while prices paid edged higher to 66.6.

Euro area preliminary HICP inflation for January matched market expectations, recording 1.7%yr, down from 2.0%yr in December. Core inflation (excluding food and energy) dipped to 2.2%yr in January from 2.3%yr in December. A fall in services inflation – which fluctuated in the 3.0–3.5% range during the second half of last year – was a key factor, easing to 3.2%yr. Core goods inflation rose by 0.1ppt but remained low at 0.4%yr.

Local Data

In New Zealand, **the December quarter labour market surveys** showed some early signs of improvement in the jobs market, despite a further small rise in the headline unemployment rate. Wage growth measures remained unsurprisingly subdued at this stage of the cycle ([see here](#)).



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