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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Markets are still left with no clear answers regarding the future of the US-Israel led conflict against Iran. Intraday price action remains volatile, sensitive to the tone of headlines.

While the IEA confirmed its largest-ever release of 400mn barrels of oil from the strategic reserve was seen as a positive, the fact that it “would take place over a timeframe that is appropriate to the national circumstances of each member country” suggests the pace is unlikely to be urgent.

The US' February CPI was spot-on expectations, providing little offset to upside inflation risks from with the conflict. Markets pushed back the next expected FOMC rate cut from September to December, seeing Treasury yields shoot higher.

While most currencies weakened, the Aussie dollar was one of the few to lift against the USD, up to its highest level in around three years with ongoing support from relative policy/yield differentials.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	66.5	1.5%
AUD/USD	0.7152	0.4%
AUD/JPY	113.68	1.0%
AUD/GBP	0.5331	0.5%
AUD/NZD	1.2092	0.7%
AUD/EUR	0.6181	0.8%
AUD/CNH	4.9189	0.4%
AUD/SGD	0.9114	0.5%
AUD/HKD	5.5972	0.5%
AUD/CAD	0.9722	0.6%
EUR/USD	1.1570	-0.4%
USD/JPY	158.94	0.6%
USD Index	99.24	0.4%

Equities	Close	Change
S&P/ASX 200	8,743	0.6%
S&P 500	6,776	-0.1%
Japan Nikkei	55,025	1.4%
Hang Seng	25,899	-0.2%
Euro Stoxx 50	5,795	-0.7%
UK FTSE100	10,354	-0.6%
VIX Index	24.23	-2.8%

Commodities	Current	Change
CRB Index	354.97	2.0%
Gold	5178.04	-0.3%
Copper	13042	-0.7%
Oil (WTI futures)	88.52	6.1%
Coal (coking)	221.50	0.0%
Coal (thermal)	134.30	2.0%
Iron Ore	104.65	0.4%
ACCU	36.12	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	3.98	0.07
90 day BBSY	4.20	0.08
180 day BBSY	4.58	0.10
1 year swap	4.45	0.06
2 year swap	4.52	0.06
3 year swap	4.55	0.08
4 year swap	4.57	0.07
5 year swap	4.61	0.08
6 year swap	4.66	0.08
7 year swap	4.71	0.08
8 year swap	4.75	0.08
9 year swap	4.80	0.08
10 year swap	5.05	0.08

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	4.46	-0.01
10 year bond	4.85	0.00
<b>United States</b>		
3-month T Bill	3.60	0.00
2 year bond	3.65	0.06
10 year bond	4.22	0.07
<b>Other (10 year yields)</b>		
Germany	2.93	0.10
Japan	2.17	-0.01
UK	4.69	0.13

Sydney Futures Exchange	Current	Change
10 yr bond	4.97	0.11
3 yr bond	4.57	0.11
3 mth bill rate	4.17	0.01
SPI 200	8,683	-0.5%

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

Markets are still left with no clear answers regarding the future of the US-Israel led conflict against Iran. Intraday price action remains volatile, sensitive to the tone of headlines.

President Trump stated that there is “practically nothing left” to target in Iran, but also that the US could strike “even more targets if [they] want”. He also indicated that the war would end “soon”, but Axios later reported that officials are preparing for “at least two more weeks of strikes”. Iran’s President meanwhile stated that the “only way to end war is recognising Iran’s legitimate rights, payment of reparations and firm international guarantees against future aggression”.

- Stocks continued to fall against this backdrop overnight, with added downward pressure following reports that some Gulf states are reviewing whether to sell assets to cover war-related losses from the conflict. The S&P 500 (–0.1%), Dow Jones (–0.6%) fell while the NASDAQ (+0.1%) rose. Across the pond, the Euro Stoxx 50 (–0.7%) and FTSE 100 (–0.6%) also declined.
- Having bore the brunt of the oil price spike during local trading earlier in the week, most Asian share markets continued its partial recovery yesterday now that oil prices are trading around a relatively lower (albeit still elevated) level. Stocks rose across Tokyo (+1.4%), Shanghai (+0.6%) and Seoul (+1.4%) but fell in Hong Kong (–0.2%). The ASX 200 lifted 0.6%, but following the price action overnight, futures markets are pointing to a weak open this morning.
- Treasuries continued to sell-off overnight, seeing the 2Y rise 6bps to 3.65%, its highest yield in nearly six months, while the 10Y rose 7bps to 4.22%. The move comes after a CPI report that provided little offset to the upside inflation risks associated with the conflict, market pricing was quick to push back the next FOMC rate cut from September to December. In the background, stronger issuance in corporates and softer demand in last week’s treasury auction were also in the mix.
- Gilts and Bunds also sold-off materially overnight, their respective 10Y yields up 13bps and 10bps respectively, with the latter now at its highest in around a year. ACGBs were little-changed during local trading, but futures yields rode the global trend higher overnight, with the 3Y and 10Y shooting up 11bps each. This comes alongside a shift in RBA market pricing in recent days following hawkish commentary from RBA Deputy Governor Hauser, with a May rate hike now seen as a circa 65% chance.
- The USD once again found a solid bid overnight amid still intense uncertainty regarding the conflict, with the DXY steadily gaining momentum overnight to finish 0.4% at 99.24

## Today’s key data and events

Time	Event	Exp	Prev
11:00	AU MI Inflation Expectations Mar y/y	–	5.0%
23:30	US Trade Balance Jan	–US\$66bn	–US\$70.3bn
23:30	US Initial Jobless Claims	215k	213k
23:30	US Housing Starts Jan	–4.5%	6.2%
23:30	US Building Permits Jan Prel.	–3.1%	–

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.

at the time of writing. The Euro (–0.4%) and Yen (–0.6%) were the main pairs that weakened against the greenback, while the Sterling and Loonie held broadly steady.

- The Aussie dollar was a clear stand-out overnight, being one of the only currencies to lift against the greenback, up 0.4% to around USD0.7150, its highest level in around three years. The move reflects a combination of a weaker starting point in yesterday’s session and the ongoing support from relative policy/yield differentials.
- Crude oil prices remain elevated and continued to move higher overnight, with Brent and WTI up 6.0% and 6.1% to US\$93.02/bbl and US\$88.52/bbl respectively. Although the IEA confirmed an agreement to its largest-ever release of 400mn barrels of oil from the strategic reserve, that such a release “would take place over a timeframe that is appropriate to the national circumstances of each member country” suggests the pace is unlikely to be urgent.
- Metals were once again mixed, with LME copper falling –0.7% to US\$13,042/t while LME aluminium rose 1.5% to US\$3,457/t. This partly reflects the fact that global copper inventories are almost at all-time record highs is capping upside for copper, while conflict-related disruptions to supply are more urgent for aluminium. Gold edged slightly lower, down –0.3% to around US\$5,178/oz against the backdrop of higher yields and a stronger USD overnight.

## International Data

In the US, February’s CPI printed spot-on expectations, rising 0.3% in the month and 2.4% over the year on a headline basis. On a core basis (excluding food and energy), prices rose 0.2% in the month and 2.5% over the year. In the detail, goods inflation remained moderately above average (1.0%yr); however, core services prices remained well above the medium-term target (2.9%yr), primarily due to strength in medical care services (4.1%yr).



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