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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Market sentiment diverged across regions as Iran's new supreme leader reaffirmed control over the Strait of Hormuz and President Trump maintained the US naval blockade in the absence of a nuclear deal. Elsewhere, stronger US GDP growth supported sentiment, while the BoE and ECB held rates steady.

US and European stocks rose on strong data and earnings, while the ASX 200 extended its longest run of daily declines since 2018.

Overseas bond markets rallied as oil prices eased, with US and European yields falling.

The USD weakened as the Yen strengthened sharply following Japanese FX market intervention.

Oil prices eased amid the expiry of the June Brent contract, while gold rebounded on USD weakness.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	66.3	-0.5%	30 day BBSY	4.25	0.01
AUD/USD	0.7201	1.2%	90 day BBSY	4.42	-0.02
AUD/JPY	112.76	-1.2%	180 day BBSY	4.82	-0.01
AUD/GBP	0.5292	0.2%	1 year swap	4.67	-0.02
AUD/NZD	1.2186	-0.1%	2 year swap	4.71	-0.04
AUD/EUR	0.6138	0.7%	3 year swap	4.68	-0.07
AUD/CNH	4.9194	1.0%	4 year swap	4.68	-0.04
AUD/SGD	0.9168	0.6%	5 year swap	4.70	-0.04
AUD/HKD	5.6399	1.1%	6 year swap	4.73	-0.03
AUD/CAD	0.9777	0.4%	7 year swap	4.77	-0.03
EUR/USD	1.1731	0.5%	8 year swap	4.81	-0.03
USD/JPY	156.59	-2.4%	9 year swap	4.86	-0.02
USD Index	98.09	-0.9%	10 year swap	5.10	-0.05

  

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,666	-0.2%	<b>Australia</b>		
S&P 500	7,209	1.0%	3 year bond	4.76	0.08
Japan Nikkei	59,285	-1.1%	10 year bond	5.06	0.07
Hang Seng	25,777	-1.3%	<b>United States</b>		
Euro Stoxx 50	5,882	1.1%	3-month T Bill	3.58	-0.02
UK FTSE100	10,379	1.6%	2 year bond	3.87	-0.08
VIX Index	16.89	-10.2%	10 year bond	4.37	-0.06
			<b>Other (10 year yields)</b>		
<b>Commodities</b>	<b>Current</b>	<b>Change</b>	Germany	3.04	-0.07
CRB Index	395.11	0.2%	Japan	2.53	0.05
Gold	4616.09	1.5%	UK	5.01	-0.06
Copper	12987	-0.1%			
Oil (WTI futures)	105.54	-1.3%	<b>Sydney Futures Exchange</b>	<b>Current</b>	<b>Change</b>
Coal (coking)	235.25	0.3%	10 yr bond	5.03	-0.06
Coal (thermal)	137.75	0.0%	3 yr bond	4.71	-0.08
Iron Ore	107.50	0.7%	3 mth bill rate	4.14	0.00
ACCU	36.13	-4.3%	SPI 200	8,797	1.5%

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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## Financial Markets

Market sentiment diverged across regions overnight. In the Middle East, Iran's new supreme leader Khamenei vowed not to give up the country's nuclear or missile technologies and reiterated that Iran would retain control of the Strait of Hormuz. Reports also suggested President Trump had been briefed on new military options in Iran, having reinforced that the US would not lift its naval blockade without a nuclear deal.

Elsewhere, an acceleration in US GDP growth to 2% annualised in Q1 supported US equities, while the Bank of England and European Central Bank both left policy rates unchanged, delivering no major surprises but continuing to highlight upside risks to inflation.

- Equity markets showed clear regional divergence. In the US, solid GDP growth and strong corporate earnings lifted markets, with the S&P 500 posting its strongest monthly performance in more than five years and rising 1.0% on the day. The Dow Jones gained 1.6%, while the NASDAQ 100 lagged slightly, up 0.9%.
- European equities also advanced, supported by steady central bank policy, with the Euro Stoxx 50 rising 1.1% and the FTSE 100 gaining 1.6%. In contrast, Asian markets closed lower, with the Nikkei 225 down -1.1% and the Hang Seng falling -1.3%. Locally, the ASX 200 extended its losing streak, ending -0.2% lower, its longest run of daily declines since September 2018.
- US bond markets rallied as the recent surge in oil prices stalled - the 2 year yield falling 8bps and the 10 year down 6bps. Futures pricing again reversed course, implying an 11% probability of a rate cut by year end. Elsewhere, the 10 year Bund yield fell 7bps and the 10 year Gilt declined 6bps.
- Australian government bonds moved higher, tracking the previous night's rally in US Treasuries. The 3-year yield rose 8bps and the 10-year increased 7bps. Swaps price a 76% probability of a rate hike at next week's meeting, with the implied terminal cash rate for year-end at 4.85%.
- In FX markets, the USD weakened, with the DXY down 0.9%. The Australian dollar rose 1.2% to 0.7201 against the USD and also strengthened against other major currencies. The Yen saw a sharp move, with USD/JPY falling -2.4% following Japanese intervention in FX markets.
- The expiry of the June Brent contract helped soften the recent surge in oil prices. Brent fell -3.4% to US\$114/bbl, while WTI declined -1.3% to US\$106/bbl, though Dated Brent remained elevated at US\$123/bbl. Gold rebounded, rising 1.5% as the USD fell, while iron ore gained 0.7%, with higher Middle East related costs offsetting the resolution of the BHP-CMRG dispute.

## Today's key data and events

Time	Event	Exp	Prev
8:00	NZ ANZ Consumer Confidence Apr	-	91.3pts
8:45	NZ Building Permits Mar	-	2.7%
9:30	JP Tokyo Apr	1.6%	1.4%
10:30	JP Jibun Bank Manuf PMI Apr Final	-	54.9pts
11:30	AU PPI Q1	-	0.8%
11:30	AU PPI Q1	-	3.5%
16:00	GB Nationwide House Prices Apr	-0.3%	0.9%
18:30	GB Net Mortgage Lending Mar	£4.2b	£4.8b
18:30	GB S&P Manufacturing PMI Apr Final	53.3pts	53.6pts
23:45	US S&P Manufacturing PMI Apr Final	54pts	54pts
0:00	US ISM Manufacturing Apr	53.2pts	52.7pts

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

With Governor Bailey pushing back against expectations for more aggressive tightening, the **BoE** left policy unchanged at 3.75% by an 8-1 vote, with Chief Economist Huw Pill the sole dissenter, favouring a modest hike to curb second-round inflation risks. The policy statement retained a hawkish bias, although policymakers appeared increasingly concerned about growth and loosening labour market conditions, which could see underlying inflation pressures ease over time.

The **ECB** Governing Council opted to maintain its policy stance, delivering no significant surprises. The statement seemed to place greater emphasis on the risks of second-round effects, which the ECB is monitoring particularly closely. The ECB acknowledged that "upside risks to inflation and downside risks to growth have intensified". Nevertheless, this was not sufficient to convince any policy makers to take action at this policy meeting - the decision to hold was unanimous.

**US GDP** gained 2% on an annualised basis in Q1 according to the first estimate. Personal consumption weakened further to 1.6% annualised. However, business investment surged almost 9% on the AI infrastructure build out, and government spending experienced a partial reversal of Q4's shutdown induced weakness. Net exports subtracted 1.3ppts from growth in Q1. In March, **personal spending** gained 0.9%. **Personal income** growth was robust, however, gaining 0.6%. The **US employment cost index** was largely as expected in Q1, total compensation rising 0.9%.

**Euro Area GDP** rose 0.1% in Q1. The **unemployment rate** meanwhile edged down to 6.2%. In April, **consumer inflation** jumped 1.0% as the Middle East conflict impacted energy prices. Annual growth remained near target, at 2.2%yr.

## Local Data

In Australia, March **private credit** rose a stronger than expected 0.7%*mth*, suggesting continued resilience despite tighter monetary policy and a more uncertain economic backdrop (see [here](#)).



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