5 May 2026

MORNING REPORT

Today's economic developments and market movements.

Key themes

Tensions escalated in the Strait of Hormuz overnight as the US Navy began to implement "Project Freedom". While two US flagged ships were safely escorted out while under fire, one South Korean and one UAE ship that were not attempting to transit were also targeted by Iran, along with a UAE port facility outside the Strait.

Brent oil prices bounced back 5.5%, driving a sell-off in stocks and bonds as markets were left mulling the upside risks to inflation.

The USD rallied overnight, seeing the Aussie dollar slip below the USD0.72 mark. There's room for the Aussie to retest recent highs should the RBA's policy decision capture a unanimous vote to hike and a palpable hawkish tone from policymakers.

Markets have settled on an 73% chance of a rate hike for the RBA today. The staff's updated forecasts (and possible scenario analysis) will be highly informative of the Board's view of the outlook.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	66.8	0.1%
AUD/USD	0.7168	-0.5%
AUD/JPY	112.68	-0.3%
AUD/GBP	0.5298	-0.3%
AUD/NZD	1.2206	0.0%
AUD/EUR	0.6130	-0.2%
AUD/CNH	4.8959	-0.5%
AUD/SGD	0.9155	-0.2%
AUD/HKD	5.6136	-0.5%
AUD/CAD	0.9766	-0.2%
EUR/USD	1.1692	-0.3%
USD/JPY	157.23	0.1%
USD Index	98.46	0.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.26	0.01
90 day BBSY	4.42	0.00
180 day BBSY	4.79	-0.01
1 year swap	4.66	0.00
2 year swap	4.71	0.01
3 year swap	4.70	0.02
4 year swap	4.69	0.02
5 year swap	4.71	0.02
6 year swap	4.75	0.02
7 year swap	4.79	0.02
8 year swap	4.83	0.02
9 year swap	4.87	0.02
10 year swap	5.11	0.02

Equities	Close	Change
S&P/ASX 200	8,697	-0.4%
S&P 500	7,201	-0.4%
Japan Nikkei	59,513	0.4%
Hang Seng	26,096	1.2%
Euro Stoxx 50	5,764	-2.0%
UK FTSE100	10,364	-0.1%
VIX Index	18.29	7.7%

Government Bond Yields	Close	Change
Australia		
3 year bond	4.67	-0.04
10 year bond	4.98	-0.04
United States		
3-month T Bill	3.59	0.01
2 year bond	3.95	0.07
10 year bond	4.44	0.07
Other (10 year yields)		
Germany	3.09	0.05
Japan	2.52	0.00
UK	4.96	0.00

Commodities	Current	Change
CRB Index	401.06	1.9%
Gold	4522.56	-2.0%
Copper	12996	0.1%
Oil (WTI futures)	104.88	2.9%
Coal (coking)	237.00	0.0%
Coal (thermal)	139.90	1.0%
Iron Ore	107.95	0.7%
ACCU	36.13	-4.3%

Sydney Futures Exchange	Current	Change
10 yr bond	5.04	0.03
3 yr bond	4.69	0.01
3 mth bill rate	4.15	0.00
SPI 200	8,649	-0.8%

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

Markets were rattled by an escalation in Middle East tensions as the US Navy began to implement "Project Freedom" overnight. Two US flagged ships were safely escorted out of the Strait while being attacked by the Iranian. Of greater concern was the fact that one South Korean and one UAE ship that were not attempting to transit were also targeted by Iran, along with a UAE port facility outside the Strait. A large fire occurred at the Fujairah port but, to date, there has been no reports of lasting damage to capacity. In the absence of a complete negotiated solution, markets are left mulling the risk that the resumption of shipping traffic through the Strait of Hormuz will remain hard-fought and gradual at best.

- Share markets sold-off overnight as oil prices surged following the flare-up of conflict in the Strait of Hormuz. In the US, the sell-off was broad-based across sectors, marked by declines in the S&P 500 (–0.4%) and NASDAQ (–0.2%) but a sizeable fall in the Dow Jones (–1.1%), The Euro Stoxx 50 also suffered a large decline (–2.0%), though London fared better (–0.1%).
- Asian share markets started the week on a positive note, including Hong Kong (+1.2%), Tokyo (+0.4%) and Seoul (+5.1%). The risk positive mood skirted Australia though, the ASX 200 falling –0.4% as market participants positioned themselves ahead of the RBA's May decision. Futures markets are pointing to another weak open this morning.
- Treasuries also sold-off overnight as the inflation risks returned the fore, following the rebound in oil prices. The 2Y and 10Y both up 7bps to 3.95% and 4.44% respectively. Near-term pricing for the Federal Reserve continues to reflect a stable policy, but markets are now pricing in a greater than 50% chance of a rate hike mid-next year.
- ACGBs were uniformly bid in yesterday's local trading, seeing the 3Y and 10Y each fell 4bps to 4.67% and 4.98% respectively. Some of this was unwound overnight in futures trading. This comes as swap markets price are pricing in a circa 73% chance of an RBA rate hike later today; participants will be closely watching the vote split for signs of dissent while also scrutinising the tone of language and updated forecasts (and possible scenario analysis).
- The USD strengthened overnight, seeing the DXY lift 0.3% to around 98.46. All major currencies weakened against the greenback, with the Sterling (–0.4%) and Euro (–0.3%) leading the pack out. The Japanese Yen also depreciated slightly (–0.1%); traders are closely watching for signs of another round of intervention to support the currency.
- The Aussie dollar meanwhile shed around –0.5% against the greenback overnight, slipping back through the USD0.72 mark. There's room for the Aussie dollar to retest recent highs should the RBA's policy decision capture a unanimous vote to hike and a palpable hawkish tone from policymakers.
- Crude prices surged following a flare-up in tensions overnight as the US Navy began escorting ships out of the Strait, with one South Korean and one UAE ship not attempting to transit also being targeted by Iran, along with a UAE port facility outside the Strait. Brent and WTI have lifted 5.5% and 2.9% to US$113.71/bbl and US$104.88/bbl respectively.
- Gold prices edged lower against the backdrop of a strong USD and higher yields, with the spot price edging –2.0% lower to around US$4,522/oz. Metals markets were closed in London, but trading out of the US overnight mirrored the risk-off mood, with the first generic futures contract for CME copper and aluminium both trading lower.

Today's key data and events

Time	Event	Exp	Prev
11:00	NZ ANZ Commodity Prices Apr	-	4.1%
14:30	AU RBA Policy Decision 5/05/2026	4.4%	4.1%
14:30	AU RBA Statement On Monetary Policy	-	-
22:30	US Trade Balance Mar	-US$60.6b	-US$57.3b
23:45	US S&P Services PMI Apr Final	51.4pts	51.3pts
-	US Building Permits Mar Final	-	-10.8%
0:00	US ISM Non-Manufacturing Apr	53.7pts	54pts
0:00	US New Home Sales Mar	6.3%	-17.6%
0:00	US Jolts Job Openings Mar	6850k	6882k

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

In the US, March's **factory orders** rose 1.5%, in line with expectations following the preliminary detail on durable goods orders, which flagged a rise on both a headline and core basis. Meanwhile, the **FOMC's Williams** said: "We will at some point need to be lowering interest rates to reflect the fact that inflation is lower. Inflation is higher this year than previously expected, so that pushes off a date of lowering interest rates, in my view, but it doesn't change that basic story", adding he was "very comfortable" with the current language in the statement because he doesn't "see anything in the day-to-day" suggesting an argument for a rate hike near term.

In Europe, **Sentix Inventor Confidence** managed to rise from –19.2 to –16.4 against expectations for a further deterioration, demonstrating that sentiment measures may remain choppy as the volatile news flow out of the Middle East is digested.

Local Data

Westpac released an update on its **state level forecasts** (see here). In Australia, **dwelling approvals** fell –10.5% in March, partially unwinding the unit-led surge in February (see here). **ANZ-Indeed job ads** edged slightly lower in April, down –0.8%, indicating stability after solid growth earlier in the year.

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