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MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets embraced a sense of calm and stability overnight, with the risk of escalation in the Middle East conflict viewed as having diminished after US Defence Secretary Pete Hegseth ensured the ceasefire was still in place, despite the US and Iran trading blows yesterday.

This put some wind in the sails for risk sentiment, supporting a rebound in equities across the US and Europe at the same time as crude oil prices partially unwound yesterday's climb, with Brent now trading around closer to US\$110/bbl.

Local elections in the UK this week add a layer of uncertainty, the chief risk being a heavier loss of local Labor seats which could spark a leadership challenge to Prime Minister Keir Starmer. Gilt yields have lifted notably in advance.

The RBA decided in an 8-1 vote to raise the cash rate by 25bps to 4.35%, citing higher inflation stemming from the Middle East conflict, including second-round effects.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	66.3	-0.7%
AUD/USD	0.7181	0.2%
AUD/JPY	113.38	0.6%
AUD/GBP	0.5303	0.1%
AUD/NZD	1.2202	0.0%
AUD/EUR	0.6141	0.2%
AUD/CNH	4.9027	0.2%
AUD/SGD	0.9161	0.1%
AUD/HKD	5.6267	0.3%
AUD/CAD	0.9780	0.2%
EUR/USD	1.1693	0.0%
USD/JPY	157.88	0.4%
USD Index	98.47	0.1%

Equities	Close	Change
S&P/ASX 200	8,680	-0.2%
S&P 500	7,259	0.8%
Japan Nikkei	59,513	0.4%
Hang Seng	25,899	-0.8%
Euro Stoxx 50	5,870	1.8%
UK FTSE100	10,219	-1.4%
VIX Index	17.38	-5.0%

Commodities	Current	Change
CRB Index	398.45	-0.7%
Gold	4560.18	0.8%
Copper	13030	0.3%
Oil (WTI futures)	102.27	-3.9%
Coal (coking)	235.00	-0.8%
Coal (thermal)	144.80	2.0%
Iron Ore	108.50	0.1%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.28	0.02
90 day BBSY	4.43	0.01
180 day BBSY	4.78	-0.01
1 year swap	4.66	0.00
2 year swap	4.67	-0.04
3 year swap	4.63	-0.07
4 year swap	4.61	-0.08
5 year swap	4.63	-0.08
6 year swap	4.67	-0.08
7 year swap	4.71	-0.08
8 year swap	4.75	-0.08
9 year swap	4.80	-0.07
10 year swap	5.06	-0.06

Government Bond Yields	Close	Change
Australia		
3 year bond	4.64	-0.03
10 year bond	4.97	-0.01
United States		
3-month T Bill	3.59	-0.01
2 year bond	3.94	-0.01
10 year bond	4.42	-0.01

Other (10 year yields)		
Germany	3.06	-0.02
Japan	2.52	0.00
UK	5.06	0.10

Sydney Futures Exchange	Current	Change
10 yr bond	5.00	0.00
3 yr bond	4.64	0.00
3 mth bill rate	4.28	0.13
SPI 200	8,719	0.4%

Data as at 7:30am 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

Despite a flare-up in tensions yesterday between the US and Iran yesterday, where both parties exchanged fire during the US' ship escort missions through the Strait, US Defence Secretary Pete Hegseth ensured that the ceasefire was still in place. Officials note that the attacks have been "below the threshold" of restarting major combat operations, and that the US' escort missions are purely a "defensive operation". This managed to bring a sense of calm and stability to global markets overnight, with the risk of a material escalation seemingly reduced for now.

- An improvement in risk sentiment buoyed share markets overnight, with the S&P 500 (+0.8%), Dow Jones (+0.7%) and NASDAQ (+1.0%) all posting solid gains. The Euro Stoxx 50 also bounced back after a much sharper sell-off yesterday (+1.8%). In London though, a fog of uncertainty lingers ahead of local elections (-1.4%).
- Of the Asian share markets that were open, the mood was negative given the preceding context of a flare-up in tensions, which saw stocks pare back in Hong Kong (-0.8%). The ASX 200 meanwhile dropped -0.2%, losses concentrated in consumer discretionary, materials and financials following the RBA's rate hike yesterday. Futures markets are pointing to a more upbeat tone this morning.
- Treasuries found a modest bid as oil prices pared back from yesterday's climb, seeing yields ease slightly across the curve. The 2Y and 10Y each fell 1bp to 3.94% and 4.42% respectively. Near-term pricing for the Federal Reserve remains stable and indicative of a no-change policy for the rest of this year, though markets are still flirting with the idea of a possible rate hike next year.
- Gilt yields meanwhile surged across the curve, with the 10Y up 10bps to 5.06%, near the top end of recent ranges. Local elections across the UK this week are add a layer of political uncertainty in London; markets are alert to the risk of a more heavy-handed loss of local Labor seats, which could spark a leadership challenge to Prime Minister Keir Starmer.
- ACGBs bull steepened during yesterday's local trading, the 3Y falling 3bps to 4.63% while the 10Y shed 1bp to 4.97%. This comes after the RBA voted 8-1 to raise the cash rate at yesterday's policy meeting, where markets read the tone as being appropriately hawkish. Markets are still pricing at least one more rate hike by the RBA in November.
- The USD traded a relatively tight range overnight, with the DXY ultimately finishing 0.1% versus yesterday's close, currently trading around 98.47. Most of the key crosses were broadly stable: the Euro and Loonie was steady from yesterday's close, and Sterling gained just 0.1%. Offsetting

Today's key data and events

Time	Event	Exp	Prev
8:45	NZ Unemployment Rate Q1	5.4%	5.4%
8:45	NZ Employment Q1	0.2%	0.5%
8:45	NZ Labour Cost Index Q1	0.4%	0.4%
11:45	CN Caixin Composite PMI Apr	-	51.5pts
11:45	CN Caixin Services PMI Apr	52pts	52.1pts
18:00	EZ HCOB Services PMI Apr Final	47.4pts	47.4pts
18:30	GB S&P Services PMI Apr Final	52pts	52pts
19:00	EZ PPI Mar	3.4%	-0.7%
22:15	US ADP Employment Change Apr	120k	62k

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.

this was a depreciation of the Yen, now trading just under JPY158, as traders watch closely for signs of intervention.

- The Aussie dollar traded a decently wide range yesterday: briefly spiking immediately after the RBA decision before swiftly slipping to a low of USD0.7140, but through the afternoon and overnight, it gathered momentum and finished 0.2% higher against the greenback, currently trading around the USD0.7180 mark this morning.
- Crude prices eased back after yesterday's climb as US officials re-assured markets that the ceasefire remains in place. Brent and WTI fell 3.9% and 3.6% to US\$110.39/bbl and US\$102.61/bbl respectively, both now well off last week's highs, but still broadly near the top end of the range since the onset of the conflict.
- Gold prices also rose modestly against the backdrop of lower real yields, up 0.8% to around US\$4,560/oz. LME copper prices rose 0.3% following a market holiday on Monday. Iron ore prices were meanwhile broadly stable, edging just 0.1% higher to around US\$108.50/mt.

International Data

In the US, the **ISM services** index painted a broadly stable picture for services activity in April, edging down only slightly from 54.0 to 53.6. Under the hood, there was a material deterioration in the new orders sub-index, falling from 60.6 to 53.5, suggesting some signs of demand pressure. However, this was offset by an improvement in the employment sub-index, from 45.2 to 48.0, indicative of an emerging stability in labour market conditions. Indeed, **JOLTS job openings** were essentially unchanged at 6.9mn in March. The **trade balance** widened marginally in March, from a deficit of \$57.8bn to \$60.3bn. Growth in **new home sales** surprised to the upside with a 8.9% gain, partially offsetting January's -19.9% decline.

Local Data

In Australia, the **RBA** decided in an 8-1 vote to raise the cash rate by 25bps to 4.35%, citing higher inflation from the Middle East conflict, including second-round effects, and risks being tilted to the upside (see [here](#)). Meanwhile, **household** spending rose 1.6% in March as fuel spending dominated (see [here](#)).



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