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MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets told a two-part story, with early optimism around a potential US–Iran resolution later unwound on reports of a possible revival of ‘Project Freedom’ and US strikes, though officials emphasised the conflict had not restarted.

Equities were mixed, with US and European markets declining on renewed tensions, while Asian markets and the ASX 200 gained on earlier optimism.

US bond yields edged higher as oil prices rose, while Australian yields declined in line with the prior overnight move among global peers.

The USD strengthened, weighing on major currencies, while reports surfaced Japanese authorities may have intervened in currency markets by around US\$30 billion.

Commodity prices were volatile, with oil rising on renewed tensions and gold edging lower after giving back earlier gains.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	66.9	-0.3%
AUD/USD	0.7209	-0.4%
AUD/JPY	113.14	0.0%
AUD/GBP	0.5323	-0.1%
AUD/NZD	1.2138	-0.1%
AUD/EUR	0.6148	-0.2%
AUD/CNH	4.9080	-0.5%
AUD/SGD	0.9145	-0.4%
AUD/HKD	5.6467	-0.4%
AUD/CAD	0.9851	-0.2%
EUR/USD	1.1726	-0.2%
USD/JPY	156.92	0.3%
USD Index	98.24	0.2%

Equities	Close	Change
S&P/ASX 200	8,878	1.0%
S&P 500	7,337	-0.4%
Japan Nikkei	62,834	5.6%
Hang Seng	26,626	1.6%
Euro Stoxx 50	5,973	-0.9%
UK FTSE100	10,277	-1.5%
VIX Index	17.08	-1.8%

Commodities	Current	Change
CRB Index	387.72	-0.1%
Gold	4683.77	-0.1%
Copper	13393	0.0%
Oil (WTI futures)	97.10	2.1%
Coal (coking)	240.50	1.5%
Coal (thermal)	135.20	0.3%
Iron Ore	110.20	0.3%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.34	0.00
90 day BBSY	4.49	0.00
180 day BBSY	4.81	-0.01
1 year swap	4.67	0.04
2 year swap	4.68	0.05
3 year swap	4.66	-0.04
4 year swap	4.64	0.07
5 year swap	4.66	0.07
6 year swap	4.69	0.07
7 year swap	4.73	0.06
8 year swap	4.78	0.07
9 year swap	4.82	0.06
10 year swap	5.07	0.07

Government Bond Yields	Close	Change
Australia		
3 year bond	4.60	-0.03
10 year bond	4.92	-0.03
United States		
3-month T Bill	3.60	0.00
2 year bond	3.91	0.05
10 year bond	4.39	0.04

Other (10 year yields)		
Germany	3.00	0.00
Japan	2.48	-0.04
UK	4.95	0.01

Sydney Futures Exchange	Current	Change
10 yr bond	5.00	0.05
3 yr bond	4.66	0.05
3 mth bill rate	4.54	0.02
SPI 200	8,747	-1.7%

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 told a two part story overnight. Early optimism around a potential resolution to the US–Iran conflict supported risk sentiment, but this was later unwound following reports the US may revive ‘Project Freedom’, after Saudi Arabia and Kuwait eased restrictions on the use of their bases and airspace. Subsequent reports indicated US strikes on Iran’s Qeshm Port and Bandar Abbas, though officials stressed this did not represent a resumption of the war. Trump has suggested there is a “very good chance” of a deal, potentially ahead of his meeting with President Xi in Beijing next week.

- Equity markets were mixed. In the US, renewed tensions weighed on sentiment, with the S&P 500 falling -0.4%. The NASDAQ 100 fared slightly better, down -0.1%, while the Dow Jones lost -0.6%. European markets moved lower, with the Euro Stoxx 50 down -0.9% and the FTSE 100 underperforming, falling -1.5%.
- Asian markets reflected the earlier optimism. The Nikkei 225 led gains, rising 5.6%, its strongest increase of the year. The Hang Seng added 1.6% and the KOSPI 1.4%. Locally, the ASX 200 extended its rally, gaining 1.0%.
- US bond yields moved modestly higher as oil prices advanced during the session. The 2 year rose 5bps, with the 10 year up 4bps. Futures pricing for the terminal Fed funds rate implies a 14% probability of a rate hike by year end.
- Australian government bonds followed overnight global moves, with both the 3 year and 10 year yields falling 3bps. Swap markets continue to price at least one further rate hike this year, with the implied terminal cash rate for year-end at 4.68%.
- The USD strengthened, with the DXY up 0.2%. The Australian dollar fell -0.4% to 0.7209 against the USD, while losing -0.2% against the Euro, and -0.1% against the Sterling. Other majors too weakened against the Greenback, with the Euro down -0.2% and Sterling -0.3% lower. The USD/JPY cross rose 0.3%, with reports suggesting Japanese authorities may have intervened in currency markets by around US\$30 billion.
- Commodity markets were volatile amid Middle East developments. Oil prices finished higher as early optimism faded, with Brent up 1.6% to \$US103/bbl and WTI rising 2.1% to \$US97.1/bbl. Dated Brent traded at a discount - \$US100/bbl. Gold pared earlier gains to finish down -0.1%, while copper was little changed and aluminium declined -0.9%. Iron ore rose 0.3%.

Today’s key data and events

Time	Event	Exp	Prev
10:30	JP Jibun Bank Services PMI Apr Final	-	51.2pts
22:30	US Non-Farm Payrolls Apr	65k	178k
22:30	US Average Hourly Earnings Apr	0.3%	0.2%
22:30	US Unemployment Rate Apr	4.3%	4.3%
0:00	US Uni. Of Michigan Sentiment May PreL	49.5pts	49.8pts
0:00	US Wholesale Inventories Mar Final	1.4%	1.4%

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

Euro Area retail sales decreased 0.1% in March to be 1.2% higher than a year ago.

US construction spending rose 0.6% in March after declining 0.2% in February to be 1.6% higher than a year ago.

US initial jobless claims rose 10k to 200k, remaining at historic lows.

The NY Fed’s survey of 1yr ahead **inflation expectations** rose to 3.6% (prior 3.4%), while the 3yr and 5yr saw little change.

FOMC member Kashkari said: “Given the uncertainty around the Iran war, I actually don’t know what the future holds. If the Strait of Hormuz is closed for an extended period of time, it may well be that the next move might need to be up in interest rates”. **Daly** said it is too early to tell if the central bank is at the end of its rate-cutting cycle. **Collins** said she was “strongly supportive” of the recent decision to leave rates unchanged, but also preferred to adjust the statement to “not be as closely aligned with language that has been associated with the presumption that the next move will be a cut”. **Hammack** said: “The statement that we put is that interest rates were on hold, but we have the signal in there that it’s more likely that the next move will be a move down. I thought that was a little bit misleading, just given my view of where the economy is”.

Local Data

In Australia, the monthly **goods trade balance** shifted into deficit for the first time since 2017, at -\$1.8bn, driven by higher fuel import costs, volatility in gold trade, and a surge in data processing machine imports related to AI (see [here](#)).



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