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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Iran suggested that the latest US proposal “has narrowed the gaps to some extent” between the two sides. However, the two countries still appear to be drifting further apart on the two central issues – Iran’s nuclear ambitions and the reopening of the Strait of Hormuz.

US equities made modest gains, with Nvidia stocks falling, despite a positive quarterly results announcement. Other major equity benchmark indices were mixed.

A choppy trading session left US Treasury curve flattening. Weaker-than-expected Australian labour market data added to the downward pressure on Australian yields, with markets scaling back expectations for RBA hikes this year and pricing in one additional hike, down from closer to 1.5 previously.

Oil prices were mixed, with the July WTI contract down almost \$2 to \$96.4, while the equivalent Brent contract was only slightly lower just below \$105.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	66.4	0.2%
AUD/USD	0.7153	0.0%
AUD/JPY	113.67	0.0%
AUD/GBP	0.5324	0.0%
AUD/NZD	1.2162	-0.1%
AUD/EUR	0.6155	0.0%
AUD/CNH	4.8637	-0.1%
AUD/SGD	0.9139	0.0%
AUD/HKD	5.6037	0.0%
AUD/CAD	0.9855	0.2%
EUR/USD	1.1622	0.0%
USD/JPY	158.96	0.0%
USD Index	99.18	0.1%

Equities	Close	Change
S&P/ASX 200	8,622	1.5%
S&P 500	7,446	0.2%
Japan Nikkei	61,684	3.1%
Hang Seng	25,387	-1.0%
Euro Stoxx 50	5,960	-0.3%
UK FTSE100	10,443	0.1%
VIX Index	16.76	-3.9%

Commodities	Current	Change
CRB Index	392.37	-1.2%
Gold	4543.05	0.0%
Copper	13516	-1.0%
Oil (WTI futures)	96.35	-1.9%
Coal (coking)	236.00	-0.3%
Coal (thermal)	143.10	0.4%
Iron Ore	105.90	-1.4%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.49	-0.01
180 day BBSY	4.83	0.00
1 year swap	4.64	-0.04
2 year swap	4.62	-0.06
3 year swap	4.56	-0.07
4 year swap	4.55	-0.09
5 year swap	4.58	-0.08
6 year swap	4.62	-0.08
7 year swap	4.67	-0.07
8 year swap	4.72	-0.07
9 year swap	4.77	-0.07
10 year swap	4.81	-0.07

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	4.59	-0.10
10 year bond	4.97	-0.10
<b>United States</b>		
3-month T Bill	3.58	0.01
2 year bond	4.08	0.03
10 year bond	4.57	-0.02

Other (10 year yields)		
Germany	3.10	0.00
Japan	2.77	-0.01
UK	4.97	-0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.97	-0.02
3 yr bond	4.56	-0.03
3 mth bill rate	4.49	0.01
SPI 200	8,681	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

Developments in the Middle East and negotiations between the US and Iran again drove market moves, but the news flow left investors struggling to assess the most likely path forward. Tehran reportedly suggested that the latest US proposal “has narrowed the gaps to some extent” between the two sides, a constructive signal that there is at least some goodwill and willingness to negotiate on both sides.

However, the two countries still appear to be drifting further apart on the two central issues – Iran’s nuclear ambitions and the reopening of the Strait of Hormuz. Newswires reported that the Supreme Leader had issued a directive that Iranian uranium should not leave the country, while Iranian officials indicated that Tehran is working with Oman to establish a permanent toll system for ships passing through the Strait of Hormuz. Both proposals are clearly unacceptable to the US, which has demanded that Tehran surrender its enriched uranium and relinquish any control over maritime traffic through the strait.

- US equities made modest gains, with the S&P 500 rising 0.2%. The focus was on Nvidia, which announced its quarterly results. While sales growth beat analysts’ expectations and the company also announced additional share buybacks and higher dividends, investors were not impressed, sending the share price 1.8% lower. In other markets, the Euro Stoxx 50 fell 0.3% on the back of news from the Middle East and mixed corporate earnings announcements, while the UK’s FTSE 100 was little changed. Asian stocks were mixed, with the Nikkei 225 up 3.1%, while the Hang Seng fell 1.0%. The domestic ASX 200 index gained 1.5%, its best result since 8 April.
- A choppy trading session left US Treasuries little changed at the short end, while slightly lower oil prices pushed longer-dated yields modestly lower. The 10Y yield fell 2bp to 4.57%, although it remains well above the levels seen in the first half of last week. German bund yields were unchanged, while other major government bond markets followed a similar pattern to Treasuries. The 10Y gilt yield fell 2bp, while the equivalent JGB yield declined 1bp.
- Aussie yields caught up with the global bond rally from the previous day, falling 7-10bp across the curve. Weaker-than-expected Australian labour market data added to the downward pressure, with markets scaling back expectations for RBA cash rate hikes this year and pricing in one additional hike, down from closer to 1.5 previously.
- In FX markets, moves were generally muted, with the DXY inching 0.1% higher. The EUR and the yen appreciated by a similar amount, while the AUD weakened after the labour market data release before reversing those losses later in

## Today’s key data and events

Time	Event	Exp	Prev
8:45	NZ Real Retail Sales Q1	0.5%	0.9%
9:01	GB Gfk Consumer Sentiment May	-28pts	-25pts
9:30	JP CPI Apr	1.6%	1.5%
16:00	GB Public Sector Borrowing Apr	£20.9b	£12.6b
16:00	GB Retail Sales Apr	-0.6%	0.7%
0:00	US Uni. Of Michigan Sentiment May Final	48.2pts	48.2pts

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.

the session to finish the day flat.

- Oil prices were mixed, with the July WTI contract down almost \$2 to \$96.4, while the equivalent Brent contract was only slightly lower just below \$105. Gold was broadly unchanged, while copper and iron ore fell 1.0% and 1.4%, respectively.

## International Data

**US initial jobless claims** were essentially unchanged at 209k last week, a low level versus history, signalling stable conditions in the US labour markets.

**US housing starts** fell 2.8% in April, though most of the decline was offset by an upward revision to March, from 10.8% to 12.0%. Building permits surprised to the upside in April, gaining 5.8% against a 2.5% expectation, though this result only partly reverses March’s 11.5% decline.

The regional fed surveys signalled weakening US business sentiment. **The Philadelphia Fed business outlook index** dropped from 26.7 in April to -0.4 in May, modestly below the 5-year average of 4.0. **The Kansas City manufacturing index** edged down from 10 to 8 in April. Meanwhile, **the US S&P Global PMI** suggested more resilience of the economy to the energy price shock. **The manufacturing PMI** strengthened from 54.5 to 55.3 while **the service PMI** was broadly unchanged at 50.9.

**Euro area’s S&P Global manufacturing PMI** softened from 52.2 to 51.4 in April, and the services PMI from 47.6 to 46.4. Having fallen sharply in the prior month, **the euro area consumer confidence** improved at the margin, from -20.6 to -19.0, remaining below the 5-year average of -14.2.

**The UK S&P Global PMI manufacturing PMI** was unchanged in April at 53.7. However, the **services PMI** fell sharply from 52.7 to 47.9, suggesting a sharp loss of momentum last month.

## Local Data

**Australia’s labour market data** for April surprised to the downside: employment fell by 18.6k, the participation rate ticked down slightly to 66.7%, and the unemployment rate jumped up from 4.3% to 4.5% ([see here](#)).



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