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MORNING REPORT

Today's economic developments and market movements.

Key themes

Financial markets shifted back into a risk-off mode as the US and Iran exchanged fire again. With military action intensifying and tensions over Israel's campaign in Lebanon rising, the two countries appear to be moving further away from common ground on a lasting agreement.

In Australia, the National Accounts showed that the GDP growth slowed to 0.3%qtr in Q1, in line with our expectations.

The exchange of fire between the US and Iran extended the upward trend in oil prices seen over the previous couple of days. The July WTI future rose to \$96.0, while the August Brent contract climbed to \$97.2

US equities broke a ten-day streak of positive returns. Sentiment was also weak in European markets. Higher oil prices triggered a sell-off in major government bonds.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	66.7	0.2%
AUD/USD	0.7128	-0.7%
AUD/JPY	114.07	-0.6%
AUD/GBP	0.5313	-0.4%
AUD/NZD	1.2161	0.4%
AUD/EUR	0.6147	-0.5%
AUD/CNH	4.8335	-0.5%
AUD/SGD	0.9149	-0.5%
AUD/HKD	5.5868	-0.7%
AUD/CAD	0.9903	-0.3%
EUR/USD	1.1599	-0.3%
USD/JPY	160.02	0.1%
USD Index	99.52	0.3%

Equities	Close	Change
S&P/ASX 200	8,786	0.7%
S&P 500	7,554	-0.7%
Japan Nikkei	68,402	2.5%
Hang Seng	25,633	-1.6%
Euro Stoxx 50	6,054	-0.9%
UK FTSE100	10,332	-0.4%
VIX Index	16.06	1.8%

Commodities	Current	Change
CRB Index	388.99	0.0%
Gold	4434.66	-1.2%
Copper	13825	-1.5%
Oil (WTI futures)	96.02	2.4%
Coal (coking)	245.00	0.6%
Coal (thermal)	148.00	2.2%
Iron Ore	103.30	-1.5%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	0.00
90 day BBSY	4.52	0.01
180 day BBSY	4.92	0.02
1 year swap	4.64	0.02
2 year swap	4.60	0.02
3 year swap	4.57	0.01
4 year swap	4.57	0.00
5 year swap	4.59	0.01
6 year swap	4.62	0.01
7 year swap	4.68	0.01
8 year swap	4.72	0.01
9 year swap	4.77	0.00
10 year swap	4.82	0.01

Government Bond Yields	Close	Change
Australia		
3 year bond	4.56	0.03
10 year bond	4.91	0.03
United States		
3-month T Bill	3.62	0.01
2 year bond	4.08	0.04
10 year bond	4.49	0.05
Other (10 year yields)		
Germany	3.04	0.06
Japan	2.64	0.06
UK	4.93	0.07

Sydney Futures Exchange	Current	Change
10 yr bond	4.95	0.02
3 yr bond	4.58	0.02
3 mth bill rate	4.50	0.01
SPI 200	8,734	-0.9%

Data as at 8:00am 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

Financial markets shifted back into a risk-off mode as the US and Iran exchanged fire again, with Iran targeting US military bases in Bahrain and Kuwait. The two countries had agreed to extend the ceasefire for two months, but the remaining sticking points had never been fully resolved. With military action intensifying and tensions over Israel's campaign in Lebanon against Iran's ally Hezbollah also rising, the two countries appear to be moving further away from common ground on a lasting agreement to end the conflict.

On the economic data front, the US business survey pointed to improving momentum in the services sector, while the Fed's Beige Book painted a relatively sanguine picture of growth and the labour market, though it also highlighted rising energy costs and their flow-through to the prices of other goods and services in the US. In Australia, the National Accounts showed that the GDP growth slowed to 0.3%qtr in Q1, in line with our expectations.

- US equities broke a ten-day streak of positive returns, with the S&P 500 down 0.7%. Technology stocks, which had gained more than 9% over the past two weeks, led the decline. Sentiment was also weak in European markets, with the Euro Stoxx 50 and the FTSE 100 down 0.9% and 0.4% respectively. In Asia, strong demand for AI and technology stocks helped the Nikkei 225 rise 2.5%. The domestic ASX 200 also advanced, up 0.7%.
- Higher oil prices, which are expected to add to inflationary pressures, triggered a sell-off in major government bonds. Yields were 4 – 5bp higher across the US Treasury curve, while Gilt and Bund yields rose even more, by 7bp and 6bp respectively at the 10Y point. The equivalent Aussie yield was up 3bp to 4.91%, but the reported slowdown in Australia's GDP growth did not shift market expectations for RBA interest rates, which continued to price in about one more hike before year-end.
- In FX markets, the risk-off tone saw the DXY rise 0.3%, while other major currencies lost ground. The EUR and GBP were 0.3% and 0.4% lower respectively, while the yen eased 0.1% to 160. The AUD declined 0.7%, falling back to 0.7128.
- In commodity markets, the exchange of fire between the US and Iran extended the upward trend in oil prices seen over the previous couple of days. The July WTI future rose 2.4% to \$96.0, while the August Brent contract climbed to \$97.2. Gold dipped 1.2%. Copper and iron ore both fell 1.5%, with copper dropping back below \$14,000.

International Data

The **US ISM services PMI** edged up from 53.6 to 54.5 in May,

Today's key data and events

Time	Event	Exp	Prev
11:00	NZ ANZ Commodity Prices May	-	-0.8%
11:30	AU Trade Balance Apr	\$1600m	-\$1841m
19:00	EZ Retail Sales Apr	-0.3%	-0.1%
22:30	US Productivity Q1 Final	0.4%	0.8%
22:30	US Initial Jobless Claims 30/05/2026	214k	215k

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.

ahead of expectations. New orders jumped 3.8pts to 57.3, but employment edged down to 47.9, a reading well into the contractionary territory. Businesses look to be focusing on efficiency amid uncertain economic conditions.

US factory orders jumped 4.8%*mth* in April; however, excluding transport machinery, the gain was considerably smaller, at 1.3%*mth*. And the core durable goods orders (ex defence and transport) were confirmed to have fallen 1.0%*mth*, the worst result in a year.

The latest **Federal Reserve Beige Book**, which compiles anecdotal evidence on current economic conditions from twelve regional Feds, reported that "economic activity increased at a slight to moderate pace for ten of the twelve Federal Reserve Districts". It characterized the high income households in the US as resilient, "middle-income households were described as "squeezing more life out of every dollar before deciding to spend it," and low-income consumers showed greater financial strain". In terms of the risks, "residential mortgages, consumer, and agricultural loan delinquencies were noted as rising in several of the Districts".

On the labour market, "Employment showed little to no change across eleven Districts". "Wage growth generally remained modest to moderate and largely in line with inflation", limiting concern over demand-driven inflationary pressures. Workers are "increasingly reluctant to change jobs because of economic uncertainty".

"Prices increased at a moderate to strong pace overall... [with] energy-related costs tied to the conflict in the Middle East... the primary driver of inflationary pressures [including]... spillovers into shipping, packaging, groceries, and fertilizer."

Local Data

As we expected, the **Australian GDP** expanded just 0.3% over Q1 2026 and 2.5% in year-ended terms – the softest quarterly growth rate since Q2 2024 ([see here](#)).

Despite a number of downside risks, the **total private sector credit** growth did not show any signs of slowing, with monthly growth coming in unchanged at 0.7%*mth* ([see here](#)).

In New Zealand, **building consents** continued to trend higher in April. While that's an encouraging sign for the building industry, there are questions about whether that momentum will be sustained ([see here](#)).



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