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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

A much stronger-than-expected US nonfarm payrolls result on Friday unsettled financial markets, prompting investors to sharply reprice the Fed's policy path.

Over the weekend, market attention shifted back to the Middle East, where the conflict escalated again as Israel and Iran launched missile attacks against each other. Media reports cited explosions in Tehran, while Israel also struck a petrochemical plant in Iran, pushing oil prices higher.

US President Trump's efforts to de-escalate the situation ultimately gained some traction, with both sides agreeing to hold fire for now while emphasising that they remain ready to resume attacks.

On Friday, equities sold off sharply. The US Treasury saw yields push significantly higher, and the DXY jumped 0.7%. The AUD dropped 1.2%. Market moves at the start of the week were much more modest.

## Data snapshot

FX Last 24 hrs	Current	Change
TWI	66.5	0.0%
AUD/USD	0.7045	0.0%
AUD/JPY	112.82	-0.1%
AUD/GBP	0.5281	-0.1%
AUD/NZD	1.2121	-0.3%
AUD/EUR	0.6107	-0.1%
AUD/CNH	4.7793	-0.1%
AUD/SGD	0.9078	0.0%
AUD/HKD	5.5209	0.0%
AUD/CAD	0.9826	0.0%
EUR/USD	1.1536	0.1%
USD/JPY	160.15	-0.1%
USD Index	99.98	-0.1%

Equities	Close	Change
S&P/ASX 200	8,625	-0.7%
S&P 500	7,406	0.3%
Japan Nikkei	64,025	-3.8%
Hang Seng	24,657	-1.2%
Euro Stoxx 50	6,062	0.0%
UK FTSE100	10,373	0.0%
VIX Index	18.92	-12.0%

Commodities	Current	Change
CRB Index	377.37	0.3%
Gold	4328.83	0.0%
Copper	13616	0.7%
Oil (WTI futures)	91.30	0.8%
Coal (coking)	249.00	0.0%
Coal (thermal)	151.25	1.7%
Iron Ore	100.70	-1.5%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.35	-0.01
90 day BBSY	4.54	0.01
180 day BBSY	4.92	0.00
1 year swap	4.66	0.01
2 year swap	4.64	0.01
3 year swap	4.59	0.02
4 year swap	4.58	0.01
5 year swap	4.61	0.02
6 year swap	4.65	0.02
7 year swap	4.70	0.02
8 year swap	4.75	0.02
9 year swap	4.79	0.02
10 year swap	4.83	0.02

Government Bond Yields	Close	Change
<b>Australia</b>		
3 year bond	4.56	0.00
10 year bond	4.91	0.00
<b>United States</b>		
3-month T Bill	3.63	0.00
2 year bond	4.16	0.01
10 year bond	4.56	0.03

Other (10 year yields)		
Germany	3.06	0.02
Japan	2.73	0.05
UK	4.94	0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.99	0.04
3 yr bond	4.61	0.03
3 mth bill rate	4.50	0.01
SPI 200	8,533	0.3%

Data as at 7:50am 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

A much stronger-than-expected US nonfarm payrolls result on Friday unsettled financial markets, prompting investors to sharply reprice the Fed's policy path and once again factor in the possibility of a rate hike this year. Equities sold off markedly and bond yields rose across the board.

Over the weekend, market attention shifted back to the Middle East, where the conflict escalated again as Israel and Iran launched missile attacks against each other. Media reports cited explosions in Tehran, while Israel also struck a petrochemical plant in Iran, pushing oil prices higher.

US President Trump, whose main objectives are to reopen the Strait of Hormuz and keep broader negotiations with Iran on track, called for both sides to stop the attacks. His efforts to de-escalate the situation ultimately gained some traction, with both sides agreeing to hold fire for now while emphasising that they remain ready to resume attacks. Iran continues to insist that any ceasefire arrangement must also cover Hezbollah. Israel does not agree and appears eager to continue striking Hezbollah's assets in Lebanon, suggesting that the situation remains very fragile.

- After a sharp selloff on Friday, US equities stabilised at the start of the week, with headlines that President Trump was calling for Israel and Iran to stop the strikes, alongside signs of eventual de-escalation, helping to keep the S&P 500 in the green. European equities were volatile but finished yesterday's trading session unchanged. Sentiment during earlier Asian trading hours was much more negative, with most major markets posting significant losses. The Nikkei 225 fell 3.8%. The ASX 200 fell 0.7% on Friday, but Australian equities did not trade yesterday because of the King's Birthday public holiday.
- The US Treasury yield curve saw its short end push significantly higher on Friday following the payrolls report. Losses at the long end were somewhat more contained, with the 10Y rising 6bp. It extended that trend yesterday, gaining a further 3bp to reach 4.56%. The direction of travel was the same for Bunds and Gilts over those two days, but the changes were much more modest. Aussie yields will be catching up with global trends this morning, with futures pointing to a selloff at the open.
- The DXY jumped 0.7% on Friday, moving above 100. Most major currencies fell significantly, with the AUD underperforming the most. It dropped 1.2%, the currency's worst result this year. Markets stabilised at the start of this week, but de-escalation of the conflict in the Middle East saw the DXY ease back slightly.
- In commodities markets, the August Brent contract spiked

## Today's key data and events

Time	Event	Exp	Prev
10:30	AU Westpac-MI Consumer Sentiment Jun	-	83pts
11:30	AU NAB Business Conditions May	-	3pts
20:00	US NFIB Small Business Optimism May	96pts	95.9pts
22:30	US Trade Balance Apr	-US\$56.1b	-US\$60.3b
-	CN Trade Balance May	US\$92.3b	US\$84.8b
0:00	US Existing Home Sales May	1.1%	0.2%

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.

by about \$5 yesterday relative to Friday's close, briefly nearing \$98, but easing tensions saw it fall back to \$94.0.

The July WTI contract followed the same pattern, settling at \$91.30. Iron ore extended its losses, falling 1.5%. Copper was slightly higher, gaining 0.7%.

## International Data

On Friday, **US nonfarm payrolls** surprised materially to the upside in May, gaining 172k against expectation of around 90k. The prior two months were also revised up 93k, leaving the three-month average at 188k, up from basically zero in February. However, the unemployment rate and participation rate were unchanged, at 4.3% and 61.8% respectively. While the household survey recorded a 149k employment gain in May, this followed the loss of 475k jobs over February to April. Looking at the industry detail for nonfarm payrolls, there is evidence of support from AI infrastructure construction, but also potentially a temporary support from the World Cup which is about to begin. Growth in average hourly earnings were benign at 0.3%, 3.4%yr.

The third estimate for **Q1 Euro area GDP** surprised to the downside, with growth of 0.1%qtr in the first and second estimates revised to -0.2%qtr in the third release. Annual growth now stands at just 0.3%yr.

Overnight, **the Sentix survey** of euro area institutional and individual investors suggested that sentiment continued to recover in June, following a sharp deterioration in April. The headline index rose 3pts to -13.4, although it remained well below both last year's average of -7 and its long-term average of around zero. Assessments of both current conditions and future expectations improved modestly, but both remained weak by historical standards and relative to Q1 levels, pointing to a likely loss of momentum in the euro area economy.

**The NY Fed Survey of Consumer Expectations** showed that near-term inflation expectations eased slightly in May, declining from 3.64%yr to 3.46%yr. Even so, they remained above the levels of around 3% seen at the start of the year, before the energy price shock. The three- and five-year inflation expectations measures were broadly unchanged at 3.1%yr and 3.0%yr, respectively, suggesting that current inflationary pressures are not expected to persist over the longer term.



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