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# MORNING REPORT

Today's economic developments and market movements.

## Key themes

Financial markets rallied and oil prices fell after news emerged that the US and Iran had reached a deal that should halt hostilities between the two countries.

While it is an important diplomatic breakthrough that should remove a key source of market volatility, the durability of the deal is likely to be tested in the future. Many sticking points, including the fate of Iran's nuclear programme, were left to be resolved in subsequent negotiations

It was a sea of green across the major equity benchmarks. Major government bonds also rallied, although gains were relatively modest as investors awaited news from major central banks. The RBA and the BoJ are announcing their monetary policy decisions today, the Fed tomorrow and the BoE on Thursday.

The August Brent future fell 4.5% to \$83.5, while the July WTI contract was down almost 5% to \$80.8.

## Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	65.9	0.5%	30 day BBSY	4.35	0.00
AUD/USD	0.7073	0.4%	90 day BBSY	4.52	-0.01
AUD/JPY	113.39	0.4%	180 day BBSY	4.88	0.00
AUD/GBP	0.5273	0.3%	1 year swap	4.55	0.03
AUD/NZD	1.2138	0.5%	2 year swap	4.51	0.04
AUD/EUR	0.6102	0.2%	3 year swap	4.46	0.07
AUD/CNH	4.7805	0.3%	4 year swap	4.45	0.05
AUD/SGD	0.9071	0.3%	5 year swap	4.48	0.05
AUD/HKD	5.5412	0.3%	6 year swap	4.53	0.04
AUD/CAD	0.9893	0.4%	7 year swap	4.58	0.04
EUR/USD	1.1590	0.2%	8 year swap	4.63	0.04
USD/JPY	160.32	0.1%	9 year swap	4.68	0.04
USD Index	99.66	-0.1%	10 year swap	4.73	0.04

  

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,914	1.2%	<b>Australia</b>		
S&P 500	7,554	1.7%	3 year bond	4.43	0.01
Japan Nikkei	69,318	5.0%	10 year bond	4.81	-0.01
Hang Seng	24,843	0.5%	<b>United States</b>		
Euro Stoxx 50	6,229	0.7%	3-month T Bill	3.62	0.00
UK FTSE100	10,431	-0.4%	2 year bond	4.07	-0.01
VIX Index	16.2	-8.4%	10 year bond	4.47	-0.01
			<b>Other (10 year yields)</b>		
<b>Commodities</b>	<b>Current</b>	<b>Change</b>	Germany	2.95	-0.04
CRB Index	364.87	-1.1%	Japan	2.58	-0.04
Gold	4314.55	2.2%	UK	4.81	-0.02
Copper	13745	-0.3%			
Oil (WTI futures)	80.75	-4.9%	<b>Sydney Futures Exchange</b>	<b>Current</b>	<b>Change</b>
Coal (coking)	244.00	0.0%	10 yr bond	4.90	0.06
Coal (thermal)	136.50	-4.9%	3 yr bond	4.47	0.05
Iron Ore	102.30	0.8%	3 mth bill rate	4.54	0.00
ACCU	36.13	-4.3%	SPI 200	8,827	-1.1%

Data as at 7:25am 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 rallied and oil prices fell as investors breathed a sigh of relief after news emerged that the US and Iran had reached a deal that should halt hostilities between the two countries. The formal agreement is due to be signed this Friday in Switzerland, and the Strait of Hormuz should reopen immediately afterwards, once the mines laid by Iranian forces are removed.

While it is an important diplomatic breakthrough that should remove a key source of market volatility, the durability of the deal is likely to be tested in the future. Importantly, many sticking points, including the fate of Iran's nuclear programme, were left to be resolved in subsequent negotiations. Iran is also insisting that the agreement covers the war on all fronts, including Lebanon. Israel continued attacking Hezbollah targets there hours before the deal was reached, illustrating that curbing Israel's determination to destroy Hezbollah completely may prove to be a tall order.

- It was a sea of green across the major equity benchmarks. The S&P 500 rose 1.7%, with technology stocks posting strong gains and the energy sector falling 3.6%. The index is now trading around 10% above the levels seen before the US-Iran war began. In Europe, gains were somewhat more modest, with the Euro Stoxx 50 up 0.7%. The FTSE 100 in the UK defied the global trend, posting a 0.4% loss. Asian markets were positive, although performance was mixed. Japan's Nikkei 225 surged 5.0%, while the Hang Seng posted a more modest 0.5% gain. The domestic ASX 200 rose 1.2%, although it remains down 3.0% since the end of February.
- Major government bonds rallied, although gains were relatively modest as investors awaited news from the major central banks. The RBA and the BoJ are announcing their monetary policy decisions today, the Fed tomorrow and the BoE on Thursday. In the meantime, US Treasury yields edged 1-2bp lower across the curve. Bunds and Gilts posted larger gains, with both curves shifting around 5bp lower at the short end. The Aussie curve flattened slightly, with the 10Y yield declining 1bp to 4.81%.
- The DXY eased 0.1%, while other major currencies strengthened on the back of improving global sentiment. The EUR and GBP were up 0.2% and 0.1%, respectively. The AUD, typically a higher beta currency, appreciated 0.4% to 0.7073.
- News of the US-Iran deal brought some relief to crude markets – the August Brent future fell 4.5% to \$83.5, while the July WTI contract was down almost 5% to \$80.8. The last time the oil benchmarks traded at those levels was in the early days of the conflict. Among other commodities, gold rose 2.2%, while iron ore also moved higher, up 0.8%.

## Today's key data and events

Time	Event	Exp	Prev
8:45	NZ Food Price Index May	-	0.0%
12:00	CN Retail Sales YoY YTD May	1.4%	1.9%
12:00	CN Industrial Production YoY YTD May	5.3%	5.6%
12:00	CN Fixed Asset Investment YoY YTD May	-2.3%	-1.6%
14:30	AU RBA Policy Decision	4.35%	4.35%
19:00	EZ Zew Survey Of Expectations Jun	-	-9.1pts
22:30	US Housing Starts May	-1.8%	-2.8%
22:30	US Building Permits May Prel.	-0.6%	4.4%
-	JP BoJ Policy Decision 16/06/2026	1.0%	0.8%

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

**US industrial production** surprised to the downside in May, rising by just 0.1%*month*. With April growth revised up to 0.9%*month*, Q2 growth over the first two months stood at a solid 1.0%, which would mark the strongest quarterly increase since Q1 last year. Among the key components, manufacturing was flat, although the business equipment category, closely linked to data-centre buildout, posted a 0.6%*month* increase. Mining rose 1.3%*month*, as oil and gas drilling increased by 5.0%*month*.

**The New York Fed Empire State Manufacturing Survey** indicated a deterioration in business conditions in June. The headline current conditions index fell by almost 14pts to 5.7, a level close to its long-run historical average. Business expectations also weakened, and the survey continued to signal strong inflationary pressures, with input costs outpacing output prices.

**The US NAHB survey** of single-family home builders showed weaker sentiment in June. The headline index eased by 2pts to 35, well below the long-term average of 50, with elevated inventory levels and high interest rates continuing to weigh on builder confidence.

Following a sharp contraction in December and January, **euro area industrial production** rose in April for a third consecutive month. However, the increase was minimal at 0.1%*month*, and growth on a three-month basis remained negative at -0.2%. Energy continued to detract from growth, while capital goods production also declined. By contrast, consumer durables and intermediate goods posted stronger gains. On an annual basis, growth was just 0.4%*year*, with production in Germany continuing to trend down (-0.4%*year*).

The **euro area trade balance** was little changed in April, remaining only positive, at €1.3bn. Both imports and exports posted solid increases of around 3%*month*. However, import prices were also notably higher, driven by a 45%*year* increase in petroleum product prices.

## Local Data

In New Zealand, retail spending rebounded in May, rising by 1.7%. That more than reversed last month's fall ([see here](#)).



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