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MORNING REPORT

Today's economic developments and market movements.

Key themes

Financial markets speculated on how quickly the Strait of Hormuz could actually reopen. Comments from European leaders and shipping companies suggest that it might take weeks for the traffic to pick up.

The flow of major central bank policy rate decisions this week began with the BoJ's announcement of a 25bp increase in its policy rate to 1.0%. Investors are awaiting the FOMC policy announcement today, which will likely set the tone for bond yields over the next few days.

The RBA's Monetary Policy Board decided to hold the cash rate steady at 4.35%. The communication had a hawkish tone, explicitly signalling that further hikes remain on the table.

Equity markets were mixed after the initial bounce in optimism following the announcement of the US-Iran deal waned. Lower oil prices and easing expectations of inflationary pressures drove bonds higher.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.7	-0.3%
AUD/USD	0.7067	-0.1%
AUD/JPY	113.40	0.0%
AUD/GBP	0.5264	-0.2%
AUD/NZD	1.2115	-0.3%
AUD/EUR	0.6087	-0.2%
AUD/CNH	4.7754	-0.1%
AUD/SGD	0.9062	-0.1%
AUD/HKD	5.5358	-0.1%
AUD/CAD	0.9889	-0.1%
EUR/USD	1.1609	0.2%
USD/JPY	160.47	0.1%
USD Index	99.56	-0.1%

Equities	Close	Change
S&P/ASX 200	8,918	0.0%
S&P 500	7,511	-0.6%
Japan Nikkei	69,405	0.1%
Hang Seng	24,494	-1.4%
Euro Stoxx 50	6,257	0.4%
UK FTSE100	10,494	0.6%
VIX Index	16.41	1.3%

Commodities	Current	Change
CRB Index	362.49	-0.7%
Gold	4332.94	0.5%
Copper	13774	0.2%
Oil (WTI futures)	76.66	-5.1%
Coal (coking)	243.75	-0.1%
Coal (thermal)	134.30	-1.6%
Iron Ore	101.10	-0.9%
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	4.90	0.01
1 year swap	4.53	-0.04
2 year swap	4.45	-0.06
3 year swap	4.39	-0.08
4 year swap	4.38	-0.08
5 year swap	4.40	-0.08
6 year swap	4.45	-0.08
7 year swap	4.50	-0.08
8 year swap	4.55	-0.08
9 year swap	4.61	-0.08
10 year swap	4.65	-0.07

Government Bond Yields	Close	Change
Australia		
3 year bond	4.43	0.00
10 year bond	4.83	0.02
United States		
3-month T Bill	3.62	0.00
2 year bond	4.05	-0.01
10 year bond	4.44	-0.04
Other (10 year yields)		
Germany	2.93	-0.02
Japan	2.64	0.06
UK	4.79	-0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.82	-0.04
3 yr bond	4.39	-0.03
3 mth bill rate	4.54	0.00
SPI 200	8,905	-0.2%

Data as at 6:30am 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

With the US and Iran preparing to sign a peace deal on Friday, financial markets speculated on how quickly the Strait of Hormuz could actually reopen. Following discussions with President Trump at the G7 summit, European leaders expressed scepticism that this could happen within the optimistic timeframe suggested by the US, given the challenge of clearing mines from the strait. Comments from major shipping companies suggest that it could take weeks for traffic to pick up, as they need to be confident that the deal is translating into improved safety in the strait.

The flow of major central bank policy rate decisions this week began with the BoJ's announcement of a 25bp increase in its policy rate to 1.0%. This followed strong wage outcomes in Japan earlier this year and growing evidence that these are feeding through to domestically driven inflation. The central bank's communication signalled further rate hikes ahead.

Domestically, all eyes were on the RBA, where the Monetary Policy Board's decision to hold the cash rate steady at 4.35% was fully in line with expectations. The communication had a hawkish tone, explicitly signalling that further hikes remain on the table. We retained our view that further policy tightening is on the way, expecting that a strong June quarter CPI print will prompt the RBA to hike at its next meeting in August.

On the data front, the latest monthly activity figures from China once again highlighted the need for more government support for the domestically oriented parts of the economy. In the US, housing starts dropped sharply, showing that the housing market continues to face significant headwinds from affordability constraints, high interest rates and elevated inventory levels. In the euro area, economic sentiment improved as the Middle East conflict is now expected to conclude, bringing relief to energy-related cost pressures across many industries.

- Equity markets were mixed after the initial bounce in optimism following the announcement of the US-Iran deal waned. The S&P500 eased 0.6%. The tech sector posted losses, offsetting gains in other sectors. Other major markets were driven by similar forces. The Euro Stoxx gained 0.4%, while most Asian equity benchmarks traded poorly, as weak Chinese economic data added to the negative sentiment. The domestic ASX 200 was little changed.
- Lower oil prices and easing expectations of inflationary pressures drove bonds higher. Supported by strong 20Y auction results, US Treasuries rallied by 2-5bp across the curve. Investors are awaiting the FOMC policy announcement today, which will likely set the tone for bond yields over the next few days. The 10Y Bund and Gilt yields fell 2bp, while the equivalent JGB yield bucked the global trend and rose 6bp on the back of the more hawkish BoJ. Australian

Today's key data and events

Time	Event	Exp	Prev
7:00	NZ Westpac-MM Cons. Confidence Q2	-	94.7pts
8:45	NZ Current Account Balance Q1	-NZ\$1b	-NZ\$6b
9:50	JP Machinery Orders Apr	0.5%	-9.4%
10:30	AU Westpac-MI Leading Index May	-	0.0%
16:00	GB CPI May	0.4%	0.7%
22:30	US Retail Sales May	0.5%	0.5%
0:00	US Pending Home Sales May	1.0%	1.4%
4:00	US FOMC Policy Decision 17/06/2026	3.75%	3.75%

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.

government bonds pared losses following the RBA announcement and finished the day broadly unchanged at the front end and slightly weaker (yields up 2-3bp) at the long end.

- In FX markets, the DXY was a touch weaker, inching 0.1% lower and supporting further gains in other major currencies. The EUR and GBP were up 0.2% and 0.1% respectively. The yen and AUD both eased 0.1%.
- Expectations of a recovery in supply, once the Strait of Hormuz is reopened, pushed oil prices lower. The August Brent contract fell 4.5% to below \$80, while the July WTI future was down more than 5% to \$76.7. Gold and copper made small gains.

International Data

China's monthly activity indicators painted a picture of diverging trends between supply growth and aggregate demand. Industrial production posted a firm 0.4% mth increase in May, suggesting export-driven production continued to propel the economy forward. However, on the demand side, retail sales disappointed again, posting the first annual decline since mid-2023, down 0.6% yr, pointing to ongoing weakness in consumer spending. Property sector indicators also remained consistent with contraction. Fixed asset investment data suggested business demand was even weaker, with growth coming in at -4.1% yr YTD, the weakest outcome since the peak of the pandemic in 2020.

US housing starts surprised significantly to the downside, with the headline growth came in at -15.5% mth in May, taking the annualised level to 1.18mn, the lowest since the height of the pandemic in the first half of 2020. The drop was almost entirely accounted for by multifamily homes, which plummeted 40.2% mth.

The euro area ZEW survey of financial market experts showed that, after three months in negative territory, economic sentiment turned positive again this month. The headline expectations index surged almost 19pts to 9.5, a level still well below its long-term average of around 20. The current economic situation, however, was assessed to have deteriorated slightly.



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