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MORNING REPORT

Today's economic developments and market movements.

Key themes

The volatility seen in the technology sector earlier this week persisted, continuing to drive sharp moves in equity markets. Fears of overcapacity in semiconductor manufacturing were again in the spotlight.

The latest non-farm payrolls were around half the consensus expectation. The figures challenged the narrative that the Fed remains on track to hike in the second half of this year.

Technology stocks fell sharply, the front end of the US Treasury curve shifted lower by about 4bp, and the DXY lost 0.5%.

The mood was much more positive in Europe, but Asian markets underperformed. South Korea's equity market, heavily driven by semiconductor giants, was down almost 8%. Japan's Nikkei also suffered a significant loss, while the yen appreciated almost 1% as speculation increased that Japanese authorities might intervene in the market again.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	64.8	0.0%
AUD/USD	0.6923	0.4%
AUD/JPY	111.53	-0.5%
AUD/GBP	0.5188	-0.1%
AUD/NZD	1.2143	0.0%
AUD/EUR	0.6055	-0.1%
AUD/CNH	4.6994	0.3%
AUD/SGD	0.8943	0.1%
AUD/HKD	5.4306	0.4%
AUD/CAD	0.9818	0.2%
EUR/USD	1.1435	0.5%
USD/JPY	161.08	-0.9%
USD Index	100.87	-0.5%

Equities	Close	Change
S&P/ASX 200	8,724	0.0%
S&P 500	7,483	0.0%
Japan Nikkei	68,733	-2.5%
Hang Seng	23,055	0.8%
Euro Stoxx 50	6,360	1.2%
UK FTSE100	10,653	1.7%
VIX Index	16.15	-2.7%

Commodities	Current	Change
CRB Index	353.03	-0.2%
Gold	4122.41	2.3%
Copper	13326	0.2%
Oil (WTI futures)	68.69	0.2%
Coal (coking)	242.00	0.0%
Coal (thermal)	130.10	-0.2%
Iron Ore	97.75	0.7%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.51	-0.01
180 day BBSY	4.82	-0.02
1 year swap	4.52	-0.01
2 year swap	4.45	0.00
3 year swap	4.40	-0.01
4 year swap	4.41	0.02
5 year swap	4.44	0.02
6 year swap	4.49	0.02
7 year swap	4.54	0.03
8 year swap	4.60	0.03
9 year swap	4.65	0.03
10 year swap	4.70	0.03

Government Bond Yields	Close	Change
Australia		
3 year bond	4.44	0.02
10 year bond	4.82	0.03
United States		
3-month T Bill	3.67	-0.02
2 year bond	4.14	-0.04
10 year bond	4.48	0.00

Other (10 year yields)		
Germany	2.90	0.03
Japan	2.79	0.07
UK	4.78	0.02

Sydney Futures Exchange	Current	Change
10 yr bond	4.85	-0.01
3 yr bond	4.41	-0.02
3 mth bill rate	4.51	0.00
SPI 200	8,762	0.6%

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

The volatility seen in the technology sector earlier this week persisted, continuing to drive sharp moves in equity markets. Fears of overcapacity in semiconductor manufacturing were again in the spotlight. Investors were also disappointed by the flow of US economic data. The latest non-farm payrolls print was around half the consensus expectation. The figures challenged the narrative that the Fed remains on track to hike the fed funds rate in the second half of this year.

- Ahead of the Independence Day long weekend, US equity markets were mixed. Technology stocks fell sharply, with the Semiconductor Index down more than 5% following a 6.4% fall the previous day. However, rotation away from the tech sector and expectations of relatively looser financial conditions if the Fed does not proceed with previously expected policy tightening supported gains in other corners of equity markets. Overall, that left the S&P 500 unchanged.
- The mood was much more positive in Europe, where equity markets are less concentrated in the technology sector. Industrials and defence stocks, in particular, outperformed, leaving the Euro Stoxx 50 up 1.2%. In Asia, South Korea's market, which is heavily driven by semiconductor giants, was down almost 8%. Japan's Nikkei also suffered a significant loss of 2.5%.
- Weaker US labour market conditions were the main driver of government bond markets. The front end of the US Treasury curve shifted lower by about 4bp, and the market is now pricing in around one fed funds rate hike before the end of the year, down from one and a half previously. Longer-dated US government bonds were little changed, but European bonds underperformed, with 10Y Gilt and Bund yields increasing 2bp and 3bp, respectively. Losses were even steeper at the long end of the JGB curve, reflecting broadening inflation momentum and expectations of a relatively slow pace of BoJ policy tightening. The 20Y JGB yield was up 9bp. Australian yields followed similar patterns to those seen across Europe and Asia, with the 10Y rising 3bp to 4.82%.
- In FX markets, the DXY lost 0.5%, its worst daily result since the end of April, dipping to 100.87. The EUR and GBP gained by similar amounts. The Japanese yen appreciated almost 1% to 161.08. Speculation increased that Japanese authorities might intervene in the market again, with some reports suggesting that any intervention is more likely to occur unexpectedly, without warning signs from officials. The AUD underperformed, appreciating 0.4%.
- In the commodity space, oil prices held broadly steady following declines over the prior couple of days. The levels of \$68.7 for the WTI August contract and \$71.6 for the

Today's key data and events

Time	Event	Exp	Prev
8:00	NZ ANZ Consumer Confidence Jun	-	86.5pts
10:30	JP S&P Global Services PMI Jun Final	-	51.8pts
11:45	CN RatingDog Composite PMI Jun	-	54pts
11:45	CN RatingDog Services PMI Jun	53pts	54.4pts
18:00	EZ S&P Global Services PMI Jun Final	48.9pts	48.9pts
18:30	GB S&P Services PMI Jun Final	48.8pts	48.7pts

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.

Brent September futures contract were around the lowest since the Middle East war began, continuing to suggest that progress in US-Iran talks is whittling away the remaining risk premium. Reports suggested that crude exports from Saudi Arabia are picking up quickly and may already be around 90% of pre-conflict levels. Among other commodities, gold rose 2.3%, supported by weaker US labour market data. Copper was little changed, despite the semiconductor sell-off. Iron ore prices rose 0.7%, as reports suggested that China is restricting imports from Fortescue – a significant escalation in the dispute over long-term supply contracts.

International Data

US nonfarm payrolls disappointed expectations in June, with only 57k jobs created in the month and April-May payrolls revised down by a combined 74k. The three-month average is now 111k, down from a revised 164k in May. The employment measure from the household survey was much weaker, declining by 507k in June and averaging a fall of 195k over the past three months. Continuing the trend of the past eighteen months, the participation rate fell to 61.5% in June. Had the participation rate held steady instead of falling by 1.1ppt since January 2025, the unemployment rate would be above 5.0%, rather than the published 4.2%. Average hourly earnings growth remains benign for policy at 0.3%*mth*, 3.5%*yr*. Initial jobless claims were unchanged last week at 215k.

US factory orders fell 1.3% in May, partly reversing April's upwardly revised 5.3%*mth* gain. Core goods orders were a touch softer than initially reported, at 1.4%*mth*.

The **euro area unemployment rate** edged down to 6.2% in May after four months at 6.3%, suggesting that labour market conditions remain tight and stable.

Local Data

Australian trade data remained volatile amid sizeable swings in non-monetary gold flows, volatility in iron ore exports, elevated fuel imports amid global energy supply constraints, and a rapid increase in imports of components for data-centre fit outs ([see here](#)).

In New Zealand, despite dropping back in May, **dwelling consent** issuance remains firm. Looking ahead, the easing in global headwinds is welcome news, but costs are still rising ([see here](#)).



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