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MORNING REPORT

Today's economic developments and market movements.

Key themes

After a sharp sell-off in the second half of last week, dip buying and confirmation from NVIDIA that its business plans remain on track, rebutting rumours of potential product delays, pushed semiconductor stocks higher and lifted the broader sector.

News that Saudi Arabia is cutting crude prices for exports to Asia validated the recent decline in global oil benchmarks. The rapid recovery in oil flows through the Strait of Hormuz has supported a sizeable rebound in global crude supply, while demand, particularly in China, appears to remain in energy-saving mode.

US equity markets ended the day higher, but European equity markets were less optimistic. In FX markets, the DXY pared its earlier gain and ended the day unchanged at 100.87. The yen weakened 0.5%, while the AUD gained 0.2%.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	65.1	0.0%
AUD/USD	0.6955	0.2%
AUD/JPY	112.74	0.7%
AUD/GBP	0.5196	-0.1%
AUD/NZD	1.2201	0.4%
AUD/EUR	0.6079	0.2%
AUD/CNH	4.7273	0.4%
AUD/SGD	0.8989	0.3%
AUD/HKD	5.4550	0.2%
AUD/CAD	0.9880	0.3%
EUR/USD	1.1442	0.0%
USD/JPY	162.09	0.5%
USD Index	100.87	0.0%

Equities	Close	Change
S&P/ASX 200	8,831	-0.2%
S&P 500	7,537	0.7%
Japan Nikkei	69,738	0.0%
Hang Seng	23,616	1.1%
Euro Stoxx 50	6,398	-0.2%
UK FTSE100	10,652	-0.3%
VIX Index	15.57	-1.5%

Commodities	Current	Change
CRB Index	362.31	2.6%
Gold	4165.23	-0.3%
Copper	13404	0.3%
Oil (WTI futures)	68.55	-0.2%
Coal (coking)	239.67	-0.6%
Coal (thermal)	128.25	-0.6%
Iron Ore	98.60	0.4%
ACCU	36.13	-4.3%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.36	0.00
90 day BBSY	4.52	0.01
180 day BBSY	4.80	-0.01
1 year swap	4.50	-0.01
2 year swap	4.42	-0.02
3 year swap	4.37	-0.02
4 year swap	4.37	-0.02
5 year swap	4.40	-0.01
6 year swap	4.45	-0.01
7 year swap	4.51	-0.01
8 year swap	4.56	-0.01
9 year swap	4.61	-0.01
10 year swap	4.66	-0.01

Government Bond Yields	Close	Change
Australia		
3 year bond	4.39	-0.02
10 year bond	4.79	-0.01
United States		
3-month T Bill	3.68	0.00
2 year bond	4.11	-0.03
10 year bond	4.47	-0.01

Other (10 year yields)		
Germany	2.95	0.01
Japan	2.83	0.04
UK	4.79	0.01

Sydney Futures Exchange	Current	Change
10 yr bond	4.83	0.01
3 yr bond	4.39	0.01
3 mth bill rate	4.50	-0.01
SPI 200	8,813	0.0%

Data as at 7:20am 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

Tech sector volatility remains the dominant force in major markets, with questions about overcapacity and the future returns on massive investment remaining the key concerns. But after a sharp sell-off in the second half of last week, dip buying and confirmation from NVIDIA that its business plans remain on track, rebutting rumours of potential product delays, pushed semiconductor stocks higher and lifted the broader sector.

News that Saudi Arabia is cutting crude prices for exports to Asia validated the recent decline in global oil benchmarks. The rapid recovery in oil flows through the Strait of Hormuz has supported a sizeable rebound in global crude supply, while demand, particularly in China, appears to remain in energy-saving mode. With oil prices easing, the euro area Sentix survey showed sentiment normalising; however, the ECB's Schnabel warned that the economy is in a different position compared with the pre-conflict period, and that policymakers cannot look through the recent shock.

- US equity markets ended the day higher, with gains concentrated in technology, communication services and consumer discretionary. The S&P 500 rose 0.7%. European equity markets were less optimistic, with technology stocks retreating and healthcare stocks falling significantly. The Euro Stoxx 50 declined 0.2%, while the FTSE 100 fell 0.3%. In Asia, Japan's Nikkei was flat, while South Korea's KOSPI also moved sideways ahead of today's earnings announcement by Samsung. The domestic ASX 200 decreased 0.2%.
- In bond markets, lower oil prices see major yield curves steepen. The US Treasury curve shifted around 3bp lower at the front end, while the 10Y yield was down only 1bp. Gilt and bund curves also steepened slightly, mainly due to 1–2bp increases in long-dated yields. The long end of the curve moved more significantly higher in Japan. Today's 30Y bond auction will be an important test of investor demand for Japanese debt, amid ongoing concerns about inflationary pressures. Australian bonds rallied by 1–2bp across the curve.
- In FX markets, the DXY pared its earlier gain and ended the day unchanged at 100.87. The euro was also flat, while the GBP outperformed, gaining 0.3%. The yen weakened 0.5% against a backdrop of investor concerns about Japanese inflation, fiscal pressures and only very gradual BoJ policy tightening. The AUD gained 0.2% to 0.6955.
- The WTI and Brent benchmarks ticked only slightly lower, down by about 0.2%. Prices appear to have found a more stable footing this month after falling sharply in June. Among other major commodities, gold recorded a 0.3% loss after

Today's key data and events

Time	Event	Exp	Prev
9:30	JP Household Spending May	-2.3%	-0.5%
22:30	US Trade Balance May	-US\$78.5b	-US\$55.9b
1:00	US US NY Fed 1-Yr Expectations Jun	-	3.5%

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.

notable gains in recent days, while iron ore prices rose 0.4% as the dispute between Chinese authorities and Australian miner Fortescue remained in the spotlight.

International Data

The ISM Services PMI edged lower in June, from 54.5 to 54.0, a touch below the average of the past six months. The survey highlighted slower growth in activity following May's surge, as businesses reported softer new orders. The assessment of employment dynamics turned positive after three months in negative territory. Businesses also reported that input cost pressures eased slightly but remained elevated.

Fed Governor Christopher Waller spoke in favour of forward guidance, appearing to diverge from new Fed Chair Kevin Warsh's preference to move away from this monetary policy tool. "I continue to believe that forward guidance can be a valuable tool that has, at times, significantly strengthened policymaking and will continue to be useful," he said.

Euro area retail sales rose 0.2% mth in May, recovering from a 0.3% mth decline in the prior month. Food and non-food sales both increased, while fuel sales declined significantly for a second consecutive month. Overall, the numbers suggest that underlying momentum in consumer spending remained positive last quarter despite the energy price shock – the April–May average was 0.2% higher than in Q1.

The Sentix survey of euro area institutional and individual investors showed that sentiment continued to improve this month. The headline index jumped by ten points to -3.1, matching its March level and moving above last year's average. Assessments of both the current situation and the outlook improved substantially, pointing to stronger euro area growth momentum at the start of Q3.

ECB Executive Board member Isabel Schnabel warned that despite falling oil prices, the economy is in a different position compared to pre-conflict in the Middle East. She highlighted that the peace deal is fragile, gas prices are still much higher, and markets continue to expect higher oil prices over longer time horizons, concluding that policy makers cannot simply look through the shock.



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