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MORNING REPORT

Today's economic developments and market movements.

Key themes

While Beijing signalled that it is open to trade talks with the US, the power play between the two countries continues to obstruct any meaningful progress in tariff negotiations.

Comments from Fed Chair Powell suggested that he would prioritize fighting inflation when the tariff shock hits the US economy.

The latest Chinese activity data suggested that momentum in the world's second-largest economy held up well before the trade war escalated this month.

USD depreciated to new lows, while US equities also sold off as the US administration imposed restrictions on NVIDIA's chip exports to China.

Data snapshot

FX Last 24 hrs			AUS Interest Rate Swaps		
	Current	Change		Last	Change
TWI	59.5	-0.2%	30 day BBSY	4.12	0.00
AUD/USD	0.6373	0.4%	90 day BBSY	4.05	-0.01
AUD/JPY	90.36	-0.6%	180 day BBSY	4.10	-0.02
AUD/GBP	0.4812	0.4%	1 year swap	3.37	-0.01
AUD/NZD	1.0740	-0.2%	2 year swap	3.25	-0.01
AUD/EUR	0.5590	-0.6%	3 year swap	3.29	-0.02
AUD/CNH	4.6500	0.0%	4 year swap	3.40	-0.03
AUD/SGD	0.8350	-0.2%	5 year swap	3.53	-0.02
AUD/HKD	4.9455	0.5%	6 year swap	3.66	-0.02
AUD/CAD	0.8832	-0.3%	7 year swap	3.78	-0.02
EUR/USD	1.1398	1.0%	8 year swap	3.89	-0.02
USD/JPY	141.83	-0.9%	9 year swap	3.98	-0.02
USD Index	99.26	-1.0%	10 year swap	4.17	-0.07
Equities			Government Bond Yields		
	Close	Change		Close	Change
S&P/ASX 200	7,759	0.0%	Australia		
S&P 500	5,276	-2.2%	3 year bond	3.35	0.01
Japan Nikkei	33,920	-1.0%	10 year bond	4.34	-0.01
Hang Seng	21,057	-1.9%	United States		
Euro Stoxx 50	4,967	-0.1%	3-month T Bill	4.20	0.00
UK FTSE100	8,276	0.3%	2 year bond	3.77	-0.08
VIX Index	32.64	8.4%	10 year bond	4.28	-0.06
Commodities			Other (10 year yields)		
	Current	Change			
CRB Index	292.70	1.2%	Germany	2.51	-0.02
Gold	3342.71	3.5%	Japan	1.27	-0.10
Copper	9204.00	0.4%	UK	4.60	-0.04
Oil (WTI futures)	62.47	1.9%	Sydney Futures Exchange		
Coal (coking)	182.50	0.6%		Current	Change
Coal (thermal)	106.35	-1.7%	10 yr bond	4.27	-0.06
Iron Ore	98.20	-0.5%	3 yr bond	3.30	-0.04
ACCU	35.38	-4.4%	3 mth bill rate	3.85	0.05
			SPI 200	7,760	-0.3%

Data as at 8:00am 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:

Focus in financial markets remained on the progress in the US trade negotiations. Beijing signalled that it is open to trade talks, however, Chinese officials also imposed several conditions for how the process should evolve. With the power play obstructing any meaningful progress, financial markets continue to assess economic implications of the current tariff regime. The latest GDP figures from China suggested that growth in the world's second-largest economy was holding up well ahead of the escalation of trade war this month. Meanwhile in the US, markets closely followed comments from Fed Chair Jerome Powell who suggested that if and when the tariff shock raises inflation and hits US growth, he would prioritize fighting inflation.

- After a couple of calmer days, the US equities sold off more sharply – the S&P500 lost 2.2% in the day – led by the tech sector, as the US administration imposed restrictions on NVIDIA's chip exports to China. Asian stock markets were also weaker, while European stocks as well as the domestic ASX200 index were little changed from yesterday.
- Despite the hawkish comments from Fed Chair Powell, US Treasuries rallied, with yields retreating 4-9bp across the curve. The 10Y is now at 4.28%, down by more than 20bp since last week. A similar downward momentum was seen in other major government bond yields, with the 10Y JGB down 10bp, and equivalent Bunds and Gilts down 2bp and 4bp respectively. The 10Y Australian government bonds yield was down only 1bp yesterday, but the futures suggest a more significant rally at the market open today.
- In FX markets, policy uncertainty in the US continue to weigh on USD, which dropped 1.0% to a new low of 99.3. EUR and Yen were the main beneficiaries appreciating 1.0% and 0.9% respectively. CAD gained 0.7% following the Bank of Canada decision to keep policy rate unchanged at 2.75%. AUD was also stronger, gaining 0.4% to 0.637.
- The May WTI contract closed up 1.9% at \$62.5, as news that China was willing to negotiate with the Trump administration helped lift sentiment and the EIA also announced lower than expected crude inventory build. Metals held up well, with copper up 0.4% at \$9,204 and aluminium up 0.3%. Iron ore markets were slightly lower though within well-rehearsed ranges with the May SGX contract down 0.5% at \$98.2. Gold surged 3.5% higher.

International Data:

US retail sales data suggested that consumer spending is holding up well, despite a sharp decline in consumer sentiment. Retail sales were up 1.4%*mth* in March, the steepest in two years. Almost a full percentage point of that growth pace was accounted by higher car sales ahead of tariff increases. Control group sales, which provide the best

Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ CPI Q1	0.8%	0.5%
8:45am	NZ CPI Q1	2.4%	2.2%
11:30am	AU Employment Mar	40k	-52.8k
11:30am	AU Unemployment Rate Mar	4.2%	4.1%
10:15pm	EZ ECB Policy Decision	2.4%	2.6%
10:30pm	US Housing Starts Mar	-5.4%	11.2%
10:30pm	US Building Permits Mar Prel.	-0.6%	-1.0%
10:30pm	US Initial Jobless Claims	225k	223k
10:30pm	US Philly Fed Apr	2pts	12.5pts

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.

indication of the impact on GDP, went up 0.4%*mth*, in line with an average increase since the start of last year. Looking at Q1, control group sales were up 0.9%*qtr*, the weakest in a year, down from 1.2%*qtr* in Q4.

US industrial production declined 0.3%*mth* in March, which represented the weakest performance in five months. The manufacturing sector saw output rising 0.3%*mth*, but most of the gains were concentrated in vehicle and aerospace equipment categories suggesting that production was accelerated ahead of the tariff increases.

The UK CPI data surprised on the downside, with the headline rate falling by 0.2ppt for a second consecutive month, to 2.6%*yr*. The core rate ticked 0.1ppt lower to 3.4%*yr*, thanks to the retreat of the upward pressure on services prices. Having been around 5% for the most part of the last six months, inflation in this category declined to 4.7%*yr*. The rate was 0.2ppt below the BoE forecast, but the timing of Easter might have provided a temporary downward contribution. Looking ahead, the lower inflation prints should give the BoE confidence to continue cutting rates in May.

The Chinese GDP growth figures for Q1 came in stronger than anticipated at 5.4%*yr*, even though the quarterly pace of growth eased from 1.6%*qtr* to 1.2%*qtr*. Monthly activity data for March suggested that economic momentum might have increased further, despite the effects of US import tariffs. Retail sales rose 4.6%*yr* on a year-to-date basis, up from 4.0% in the prior month, supported by spending in household appliances, furniture and services categories. Industrial production lifted 6.5%*yr/ytd* exceeding expectations of unchanged growth of 5.9% from February. Overall, the figures suggested that the Chinese economy had a good momentum before the trade war with the US escalated. While the sky-high tariffs imposed by the US undoubtedly will have a negative effect on growth from April, we retain our view that the Chinese economy will hit its growth target of 5.0% for 2025 supported by further policy measures.

Domestic Data:

The six-month annualised growth rate in the Westpac–Melbourne Institute Leading Index slowed to 0.6% in March from 0.9% in February (please [see here](#) for more information).



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