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MORNING REPORT

Today's economic developments and market movements.

Key themes

Market sentiment turned more negative again, even though the latest survey data were consistent with a more stable economic momentum in the US services sector.

The US equity market was on a back foot ending the S&P500 index's nine-day streak of positive returns.

The US Treasury yields extended the upward trend, and Aussie yields also headed higher as the spotlight turned to Australia's fiscal position.

Crude prices plummeted after Saudi Arabia shocked global markets by announcing a steep increase in OPEC+ production.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	60.2	0.5%	30 day BBSY	3.97	-0.02
AUD/USD	0.6467	0.5%	90 day BBSY	3.90	-0.01
AUD/JPY	92.95	-0.5%	180 day BBSY	3.93	0.00
AUD/GBP	0.4864	0.2%	1 year swap	3.42	0.00
AUD/NZD	1.0838	0.0%	2 year swap	3.28	0.01
AUD/EUR	0.5713	0.2%	3 year swap	3.35	0.04
AUD/CNH	4.6572	0.2%	4 year swap	3.43	0.04
AUD/SGD	0.8344	-0.5%	5 year swap	3.54	0.03
AUD/HKD	5.0119	0.4%	6 year swap	3.66	0.02
AUD/CAD	0.8937	0.4%	7 year swap	3.77	0.02
EUR/USD	1.1319	0.2%	8 year swap	3.87	0.02
USD/JPY	143.72	-0.9%	9 year swap	3.96	0.02
USD Index	99.83	-0.2%	10 year swap	4.18	0.03

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,158	-1.0%	Australia		
S&P 500	5,650	-0.6%	3 year bond	3.39	0.06
Japan Nikkei	36,831	1.0%	10 year bond	4.27	0.05
Hang Seng	22,505	1.7%	United States		
Euro Stoxx 50	5,283	0.0%	3-month T Bill	4.21	-0.01
UK FTSE100	8,596	1.2%	2 year bond	3.83	0.01
VIX Index	23.64	4.2%	10 year bond	4.34	0.04

Commodities	Current	Change	Other (10 year yields)		
CRB Index	288.35	-0.7%	Germany	2.52	-0.02
Gold	3332.27	2.9%	Japan	1.26	0.01
Copper	9366.00	1.7%	UK	4.51	0.03
Oil (WTI futures)	57.08	-2.0%	Sydney Futures Exchange	Current	Change
Coal (coking)	187.00	0.0%	10 yr bond	4.30	0.03
Coal (thermal)	102.35	0.0%	3 yr bond	3.41	0.03
Iron Ore	96.20	0.9%	3 mth bill rate	3.81	-0.04
ACCU	35.38	2.9%	SPI 200	8,152	-0.3%

Data as at 8:15am 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:

Market sentiment turned more negative again, even though the latest survey data were consistent with a more stable economic momentum in the US services sector. A lack of meaningful progress in the US negotiations with its trading partners remains a major concern in financial markets, and the latest news suggested that lower tariffs, not their complete removal, is the best scenario countries can hope for. Reportedly, in its negotiations with Japan, the US administration rejected a request for a full exemption of tariffs, prepared to talk only about reducing tariff rates. President Trump's threatened to impose a 100% tariff on movies made abroad, with no details how such levy can work in practice.

- The US equity market was on a back foot ending the S&P500 index's nine-day streak of positive returns. Having returned to the levels seen before the 'Liberation Day' sell-off, the index was down 0.6% yesterday. Euro Stoxx 50 remained unchanged as gains in insurance and financial services sectors were offset by losses in energy and chemicals. Asian equities were stronger, but the domestic ASX200 lost 1%.
- Following a notable sell off at the end of last week, the US Treasury yields extended the upward trend. The 10Y gained 4bp, while the short end was higher too as markets repriced the Fed policy path following the ISM services PMI report, which suggested relatively resilient growth momentum and rising inflationary pressures. Aussie yields also headed higher as the spotlight turned to Australia's fiscal position following the landslide Labor victory in the federal election over the weekend.
- In FX markets, the USD index dipped back below 100 losing 0.2%. Yen was the biggest beneficiary strengthening 0.9%, while EUR appreciated too, by 0.2%. AUD gained 0.5% reaching 0.6470, the highest level since December. Investors followed Taiwanese dollar very closely – it appreciated 2.4% yesterday following a 3.7% move on Friday. The moves were driven by speculation that a trade deal with the US could include a condition of strengthening the Taiwanese currency.
- Crude plummeted, with the WTI falling 2% to \$57.1, after Saudi Arabia shocked global markets by announcing a steep increase in OPEC+ production and warning of more to come in the next few months if moves to “fully compensate for any overproduced volume since January 2024” by the likes of Kazakhstan and Iraq are not seen. Metals benefitted from a slightly softer USD, with copper up 1.7% aluminium rising 0.6%. Iron ore stabilised ahead of China's return to global markets after the Labor Day holidays. Gold jumped a hefty 3% to close at \$3,332, helped by signs of ongoing central bank demand.

Today's key data and events

For	Data/Event	Exp	Prev
12:00am	US ISM Non-Manufacturing Apr	50.2pts	50.8pts
11:00am	NZ ANZ Commodity Prices Apr	-	-0.4%
11:30am	AU Dwelling Approvals Mar	-1.8%	-0.3%
11:45am	CN Caixin Composite PMI Apr	-	51.8pts
11:45am	CN Caixin Services PMI Apr	51.8pts	51.9pts
6:00pm	EZ HCOB Services PMI Apr Final	49.7pts	49.7pts
6:30pm	GB S&P Services PMI Apr Final	48.9pts	48.9pts
7:00pm	EZ PPI Mar	-1.4%	0.2%
10:30pm	US Trade Balance Mar	-US\$137b	-US\$123b

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:

While **US ISM manufacturing PMI** released last week showed that confidence deteriorated further in April (albeit slightly), the ISM services PMI released overnight reported an improvement signalling that economic momentum in the US might have stabilised at the beginning of Q2, despite the tariff increases in early April. The headline index rose 0.8 points to 51.6, an expansionary level but still well below the recent and long-term averages. The details of the survey were firmer too, with new orders rising almost 2 points and employment regaining almost 3 points. However, the latter remained below 50, pointing to a deterioration in the labour market conditions. Prices paid were 4.2 points higher hitting 65.1, the highest level since 2022, indicating strong inflationary pressures.

The euro area **Sentix investor survey** showed that confidence bounced back up this month by 11 points to -8.1, above the average of the last six months of almost -14, but well below the long-term average of 0.6. The survey pointed to a calm and constructive reaction of the EU policy makers to the US tariffs, which paved the way for an improvement in investor expectations, which surged almost 20 points to 3.8. Meanwhile, the assessment of the current situation improved 4 points to -19.3, still historically a very subdued level.



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