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MORNING REPORT

Today's economic developments and market movements.

Key themes

Financial markets were in a risk-off mode as President Trump suggested that, ultimately, he will set tariff levels downplaying the importance of US's trade negotiations with other countries.

Ahead of today's Fed policy announcement, markets pricing almost no chance of a policy change this time, but investors will be watching closely how the Fed's assessment of the economy is evolving.

In Germany, Friedrich Merz struggled to secure a majority backing in the Bundestag vote to confirm him as a new Chancellor. While EUR appreciated, questions over his political authority might affect growth prospects of Germany and the whole euro area.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	59.9	-0.5%	30 day BBSY	3.95	-0.02
AUD/USD	0.6500	0.4%	90 day BBSY	3.90	0.00
AUD/JPY	92.62	-0.5%	180 day BBSY	3.93	-0.01
AUD/GBP	0.4860	-0.2%	1 year swap	3.41	-0.02
AUD/NZD	1.0812	-0.3%	2 year swap	3.28	-0.01
AUD/EUR	0.5713	-0.1%	3 year swap	3.31	-0.03
AUD/CNH	4.6859	0.5%	4 year swap	3.41	-0.01
AUD/SGD	0.8373	0.3%	5 year swap	3.53	0.00
AUD/HKD	5.0380	0.4%	6 year swap	3.66	0.00
AUD/CAD	0.8950	0.1%	7 year swap	3.78	0.01
EUR/USD	1.1372	0.5%	8 year swap	3.88	0.01
USD/JPY	142.50	-0.9%	9 year swap	3.98	0.03
USD Index	99.24	-0.6%	10 year swap	4.19	0.01

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	8,151	-0.1%	Australia		
S&P 500	5,607	-0.8%	3 year bond	3.43	0.04
Japan Nikkei	36,831	1.0%	10 year bond	4.33	0.06
Hang Seng	22,663	0.7%	United States		
Euro Stoxx 50	5,263	-0.4%	3-month T Bill	4.20	-0.01
UK FTSE100	8,597	0.0%	2 year bond	3.78	-0.05
VIX Index	24.76	4.7%	10 year bond	4.29	-0.05

Commodities	Current	Change	Other (10 year yields)		
CRB Index	292.23	1.3%	Germany	2.54	0.02
Gold	3429.19	2.9%	Japan	1.26	0.00
Copper	9576.00	1.9%	UK	4.51	0.01

			Sydney Futures Exchange	Current	Change
Oil (WTI futures)	59.09	3.4%	10 yr bond	4.30	-0.03
Coal (coking)	188.50	0.8%	3 yr bond	3.39	-0.03
Coal (thermal)	104.90	2.5%	3 mth bill rate	3.84	0.01
Iron Ore	98.40	1.0%	SPI 200	8,138	-0.4%
ACCU	35.38	2.9%			

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:

Financial markets were in a risk-off mode as President Trump suggested that, ultimately, he will set tariff levels, downplaying the importance of US's trade negotiations with other countries. The comments added to the concerns that the negotiations are not going particularly well, and a way out of the current situation might be less certain than it seemed before. News reports suggested that the UK and the US is close to reaching an agreement which will include lower tariffs on UK's car and steel exports. However, reportedly, the EU is preparing retaliatory measures on around €100bn of US goods if negotiations with the US administration fail. In Germany, Friedrich Merz struggled to secure a majority backing in the Bundestag vote to confirm him as a new Chancellor. While his appointment was approved in a second vote, the situation signalled that the new German government might not have a full backing of the parliament to drive significant reforms.

- The US equity market was down for a second consecutive day – the S&P500 index fell 0.8%, with healthcare stocks leading the way down. The Euro Stoxx 50 index was also down, by 0.4%, but FTSE100 was unchanged as the UK equity market returned after a public holiday on Monday. The Chinese equities market headed higher after their public holidays as Chinese policy makers announced that they will hold a press conference today. The PBOC policy easing might be on the cards. Domestic ASX 200 was little changed.
- Ahead of today's Fed policy announcement, the US Treasury yields were 3-6bp lower across the curve. Markets are pricing almost no chance of a policy change this time, but investors will be watching closely how the Fed's assessment of the economy is evolving, in particular in the context of the emerging inflationary pressures from tariffs and resilience of the US labour market. Looking ahead, they are expecting around three 25b fed fund rate cuts before the end of the year. Among other major government bonds, Bund yields were higher on the back of the political news from Germany, while Aussie yields also rose, with the 10Y reaching 4.33%, the highest level since mid-April.
- In currency markets, the USD index lost 0.6% retreating to 99.2. EUR gained 0.5%, even though questions over German Chancellor's political authority might affect growth prospects of the euro area as a whole. Yen appreciated, by 0.9%, while AUD gained 0.4% reaching 0.65 for the first time since late November.
- Crude bounced again on signs that the slump in prices is impacting rig counts and capex plans in the US while Kazakhstan was reported as 'weighing options to comply with its OPEC+ obligations'. The July Brent contract was up 3% at \$62.0 while the June WTI contract rose 3.4% to \$59.1. Metals jumped again with copper blasting through

Today's key data and events

For	Data/Event	Exp	Prev
8:45am	NZ Unemployment Rate Q1	5.3%	5.1%
8:45am	NZ Employment Q1	0.1%	-0.1%
8:45am	NZ Labour Cost Index Q1	0.5%	0.6%
10:30am	JP Jibun Bank Services PMI Apr Final	-	52.2pts
7:00pm	EZ Retail Sales Mar	-0.1%	0.3%
4:00am	US FOMC Policy Decision	4.50%	4.50%
5:00am	US Consumer Credit Mar	US\$9.4b	-US\$0.8b

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.

\$9,500 for the first time since Trump's 'tariff day'. Iron ore jumped with Chinese markets fully reopened and hopes of policy stimulus rising. Gold jumped another 2.9% on the return of China to global markets and news that India had launched military strikes on Pakistan.

Overnight Data:

The advanced goods trade data for March released a week ago suggested that the **US trade balance** deteriorated further that month as imports continued to surge. The overnight release of the full trade figures for that month reiterated that message. It reported the highest on record headline deficit of \$140.5bn which exceeded the previous high reached in January by almost \$10bn. Services balance was little changed at a \$23.0bn surplus, while goods balance reached a \$163.5bn deficit. Goods deficit with the EU widened sharply almost doubling from February, while deficit with China shrank to the lowest level in a year (the numbers are not adjusted for seasonality). The US goods trade balance with Australia flipped from a surplus to a deficit at the start of the year as imports increased sharply. In March the deficit decreased only slightly to just under \$1.0bn

Yesterday's Data:

The official Chinese PMIs, released last week, signalled that momentum in the Chinese economy decreased in April, and **Chinese Caixin services PMI**, released yesterday, also declined in April, from 51.9 to 50.7, a seven-month low. After a 1.2pt drop in the equivalent manufacturing index, the composite PMI was down 0.7pt to 51.1, a level at the bottom of the recent range and around 1pt below the 2024 average level.

Australian **dwelling approvals** dropped back sharply in March, an 8.8% fall coming in well below consensus expectations of a 0.6% decline and Westpac's -1.5% forecast ([see here](#) for more details).

The Australian **household spending indicator** was flat in real, inflation-adjusted terms, in Q1, with annual growth dipping to a new post-COVID low. Nominal spending fell -0.3% mth in March to finish the year up 3.5%yr ([see here](#) for more details).



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