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MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets largely looked through the Moody's downgrade of the US sovereign rating. After a 1% drop at the opening, the S&P500 index crawled back up to finish the day 0.1% in the green.

It was a day of two halves for the US Treasuries, with yields eventually falling to lower levels.

Ahead of the RBA's interest rate decision today, where a further interest rate cut is widely expected, AUD appreciated by 0.8%. USD was down 0.7%.

Data snapshot

FX Last 24 hrs			AUS Interest Rate Swaps		
	Current	Change		Last	Change
TWI	59.7	-0.3%	30 day BBSY	3.82	-0.02
AUD/USD	0.6457	0.8%	90 day BBSY	3.86	0.01
AUD/JPY	93.54	0.3%	180 day BBSY	3.93	0.03
AUD/GBP	0.4833	0.1%	1 year swap	3.58	-0.02
AUD/NZD	1.0888	0.0%	2 year swap	3.50	-0.02
AUD/EUR	0.5744	0.1%	3 year swap	3.53	-0.03
AUD/CNH	4.6588	0.9%	4 year swap	3.62	-0.01
AUD/SGD	0.8363	0.4%	5 year swap	3.73	-0.01
AUD/HKD	5.0505	0.9%	6 year swap	3.83	-0.02
AUD/CAD	0.9007	0.5%	7 year swap	3.94	-0.01
EUR/USD	1.1239	0.7%	8 year swap	4.04	-0.01
USD/JPY	144.86	-0.6%	9 year swap	4.13	-0.01
USD Index	100.36	-0.7%	10 year swap	4.33	-0.03
Equities			Government Bond Yields		
	Close	Change		Close	Change
S&P/ASX 200	8,295	-0.6%	Australia		
S&P 500	5,964	0.1%	3 year bond	3.64	0.04
Japan Nikkei	37,499	-0.7%	10 year bond	4.52	0.07
Hang Seng	23,333	-0.1%	United States		
Euro Stoxx 50	5,427	0.0%	3-month T Bill	4.24	0.00
UK FTSE100	8,699	0.2%	2 year bond	3.98	-0.02
VIX Index	18.14	5.2%	10 year bond	4.45	-0.03
Commodities			Other (10 year yields)		
	Current	Change			
CRB Index	296.21	0.0%	Germany	2.59	0.00
Gold	3229.61	0.8%	Japan	1.49	0.03
Copper	9524.00	0.8%	UK	4.66	0.01
Oil (WTI futures)	62.72	0.4%	Sydney Futures Exchange		
Coal (coking)	189.00	-0.3%		Current	Change
Coal (thermal)	105.70	1.2%	10 yr bond	4.46	-0.06
Iron Ore	99.70	-0.6%	3 yr bond	3.62	-0.03
ACCU	35.38	2.9%	3 mth bill rate	3.81	0.01
			SPI 200	8,380	0.8%

Data as at 7:00am 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:

Markets largely looked through the Moody's downgrade of the US sovereign rating, as dip buying and optimism about easing trade tensions between the US and its major trading partner supported risk assets. Comments from Fed officials emphasized concerns about tariffs causing higher inflation in the US and the negative impact from high levels of uncertainty. The Chinese monthly indicators suggested that growth was lower in April, when tensions with the US escalated. President Trump's call with Putin did not bring a breakthrough in the peace efforts in Ukraine. Ukraine and Russia will now start negotiations towards a ceasefire, but Trump's comments indicated the US may be stepping back from the mediator role, which will probably make the negotiations even more challenging.

- After a 1% drop at the opening on the back of the US credit rating downgrade, the S&P500 index crawled back up to finish the day 0.1% in the green. European equity markets were also little changed, but Asian markets were on the back foot, with the Chinese data, in particular the weaker growth in retail spending, hitting sentiment.
- It was a day of two halves for the US Treasuries. The 10Y yield peaked at 4.56%, while the 30Y jumped above 5% to the highest level since November 2023. Dip-buying helped to turn the sentiment around, and both tenors finished the day 3-4bp lower. German Bunds and UK Gilts were little changed, while JGBs sold off by around 3bp at the long end.
- The change in sentiment did not save the US dollar from a depreciation – the DXY index was down 0.7%. Ahead of the RBA's interest rate decision today, where a further interest rate cut is widely expected, AUD appreciated by 0.8%. EUR and GBP also gained, by 0.7% and 0.6% respectively.
- Crude prices were higher again as, responding to the US demands to cease the uranium enrichment programme, Iran insisted that its nuclear programme is non-negotiable. The June WTI contract closed 0.4% higher at \$62.7. Copper reversed yesterday's drop and climbed back above \$9500. Iron ore was down 0.6%, below \$100. The weaker US dollar supported the gold price, which was 0.8% higher.

International Data:

Comments from a few Fed officials revealed some interesting insights about their assessment of the current monetary policy stance, most of them carried a hawkish tone. **Atlanta Fed President Raphael Bostic** shared his concerns about US inflationary pressures from tariffs, given a notable increase in some measures of inflation expectations. He expects only one fed funds rate cut this year. **Fed Vice Chair Philip Jefferson** is also concerned about higher inflation due to tariffs, and in particular its persistence. For now, he is supporting a wait-

Today's key data and events

For	Data/Event	Exp	Prev
2:30pm	AU RBA Policy Decision	3.85%	4.10%
2:30pm	AU RBA Statement On Monetary Policy	-	-
12:00am	EZ Consumer Confidence May Prel.	-16pts	-16.7pts

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.

and-see approach to get a better understanding of how the economy is responding. **New York Fed President John Williams** emphasized high levels of uncertainty at the moment. He noted that it is impacting households and businesses, and it may take months for the Fed to understand what is happening in the economy.

The latest data released in China suggested that the escalation of tensions with the US and high tariffs left some marks in the activity data for April. **Industrial production** continued to expand, but the monthly increase of 0.2%*mth* was the lowest in more than a year, leaving the annual pace of growth at 6.4%*yr YTD*, down a touch from 6.5%*yr YTD* in March. **Fixed asset investment** followed a similar pattern, with lower but still positive monthly growth of 0.1%*mth*, and slightly lower annual *YTD* growth, at 4%. An acceleration in the pace of decline in the real estate investment to -10.3%*yr YTD* from the single-digit pace in the prior couple of months was a significant factor, likely reflecting lower investor confidence in the face of higher uncertainty. **House prices** continued to decline, but only by 0.1%*mth* in the newly built sector, while existing home prices were down a steeper 0.4%*mth*. **Retail sales** went up by 0.2%*mth*, which was the smallest increase in ten months, but the annual pace of 5.1%*yr* was still robust.

The **final euro area HICP** inflation data for April brought no surprises showing no revisions in major inflation indicators. The headline rate was confirmed at 2.2%*yr*, unchanged from March, while core inflation was reported at 2.7%, which represented a 0.3ppt increase, mainly driven by an Easter-related increase in services prices. Energy price inflation decreased to -3.6%*yr*, the steepest in six months.



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