26 March 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

The Australian Budget added support to the currency and is anticipated to see equities and rates move higher at today's open.

The BoJ's Governor Ueda's comments struck a hawkish tone which saw Japanese yields climb further and the yen strengthen. The 10Y bond hit yet another decade high.

Confidence readings for Germany came in strong supporting equities while yet another indicator of deteriorating US confidence saw US equities track sideways.

News of a partial ceasefire between Russia and Ukraine kept oil prices sanguine.

Copper prices were higher as shipments pause due to production issues.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	59.8	0.30%
AUD/USD	0.6302	0.30%
AUD/JPY	94.48	–0.30%
AUD/GBP	0.4869	0.10%
AUD/NZD	1.0995	0.20%
AUD/EUR	0.584	0.40%
AUD/CNH	4.5794	0.30%
AUD/SGD	0.842	0.10%
AUD/HKD	4.8996	0.30%
AUD/CAD	0.8998	0.00%
EUR/USD	1.0792	–0.10%
USD/JPY	149.91	–0.50%
USD Index	104.21	0.00%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.15	0.01
90 day BBSY	4.16	0.00
180 day BBSY	4.3	0.00
1 year swap	3.81	0.01
2 year swap	3.68	0.01
3 year swap	3.69	0.00
4 year swap	3.73	0.01
5 year swap	3.81	0.01
6 year swap	3.89	–0.01
7 year swap	3.98	–0.01
8 year swap	4.06	–0.01
9 year swap	4.13	–0.01
10 year swap	4.34	–0.02

Equities	Close	Change
S&P/ASX 200	7,942	0.10%
S&P 500	5,777	0.20%
Japan Nikkei	37,781	0.50%
Hang Seng	23,344	–2.30%
Euro Stoxx 50	5,475	1.10%
UK FTSE100	8,664	0.30%
VIX Index	17.15	–1.90%

Commodities	Current	Change
CRB Index	306.51	0.00%
Gold	3020.46	0.30%
Copper	10,112	1.60%
Oil (WTI futures)	69.19	0.10%
Coal (coking)	174	1.80%
Coal (thermal)	105	–0.40%
Iron Ore	102.25	–0.70%
ACCU	35.38	–4.40%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.75	0.01
10 year bond	4.42	0.02
United States		
3–month T Bill	4.17	0
2 year bond	4.02	–0.02
10 year bond	4.31	–0.02
Other (10 year yields)		
Germany	2.8	0.03
Japan	1.58	0.04
UK	4.75	0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.48	0.02
3 yr bond	3.77	0.03
3 mth bill rate	4.08	0.01
SPI 200	8,033	0.60%

Data as at 8:00am AEDT. Change is from the previous trading day (excluding the SFE, which is the change during the night session). Source: Bloomberg.

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Markets reacted to the US proceeding with tariffs on steel and aluminium products which prompted a response from the EU of retaliatory tariffs. Pessimism around tariffs was offset by markets digesting news of a potential 30-day ceasefire in Ukraine after Ukrainian President Zelenskyy's announcement. However there have been few updates of talks overnight.

- **Equities** - Tech stocks yet again supported US equities though a weak consumer confidence print saw some pessimism emerge. The tech-heavy NASDAQ was up 0.5% while the S&P was up 0.2% and the Dow Jones finished flat. In Europe, the Euro Stoxx 50 closed 1.1% higher after an upbeat German confidence report. The German DAX was also up 1.1%. In Asia, Hong Kong's Hang Seng closed 2.4% lower driven by a sell-off in tech stocks. Shanghai's CSI 300 fell 0.1%. Japan's Nikkei lifted 0.5%.

  Australian equity markets have yet to react to the budget overnight, but futures pricing indicate a decent open at 0.6%. While spending will be a positive for growth, its impact on the bottom line and the increased debt that comes with it will likely see gains in equities be contained.

- **FX** - The US dollar index fell 0.05% to 104.21 with most G10 currencies appreciating against the USD. The Swedish Krona was the strongest, following by the JPY and AUD. The JPY fell to 149.91, as BoJ Governor Ueda reaffirms his plan to support higher rates should the economy evolve as expected. Supply-side inflation threatens to keep inflation elevated biting into domestic demand – earlier this week rice prices hit records. The JPY looks to be testing 150 again this morning. There was little movement during the day, but the release of the budget saw the AUD rally to a high of 0.6325 against the USD. This morning it settled to 0.6302 at time of writing.

- **Rates** - US bond yields shifted down – both the 2Y and 10Y was down 2bps. Market pricing suggests the next rate cut will come in July and a second in October. The third is almost fully priced in for 2026.

  The Japanese 10Y bond yield hit a 16-year high of 1.575% following a sale of government bonds and Ueda's comments.

  In Australia, profligate spending saw futures markets price a flattening with the 3Y yield up 3bps to 3.77% and the 10Y up 2bp to 4.48%. The increase in spending, and therefore anticipated bond issuance, will see yields drift up. Market pricing for the RBA now sees the first cut now fully priced in for August rather than July (though it is still 99.7% there). A third cut in 2026 is also being pared back.

- **Commodities** - Crude oil prices were tepid on news that Russia and Ukraine had agreed a ceasefire in the Black Sea, ensuring navigation and preventing the use of commercial shipping for military purposes. WTI futures were up just 0.1% to $69.19.

  Copper surged to record closing highs on Comex while the LME contract closed up 1.6% at $10,112 on news that Glencore had temporarily suspended copper shipments from its Altonorte smelter in Chile, activating force-majeure, after an issue affecting the plant's furnace. Meanwhile aluminium continued probing down towards $2,600 after last week's failure at $2,700. Signs of weaker demand are showing up in a softening in the US Mid-West Premium which has dropped to a 1 month low after jumping circa 60% from December to early March.

  Iron ore continued trading in well-rehearsed ranges above $100 with the April SGX contract up 25c at $102.25. Rumours of notices being received to curtail steel production in China have been noted by brokers, with a major steel producer in Shandong having reportedly received a notice to curtal as much as 1mt of production though no official confirmation has been published.

  Gold tracked slightly higher over yesterday's session, testing $3035/oz briefly before dipping down to $3020/oz. Gold prices remain up 15% YTD, notably outperforming bonds and equities in recent weeks amid heightened risk aversion.

Today's key data and events

Time	Event	Exp	Prev
11:30am	AU Monthly CPI Indicator Feb	2.50%	2.50%
11:30pm	US Durable Goods Orders Feb Prel.	-1%	3.20%

Times are AEDT. 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.

Overnight data:

The Conference Board Consumer Confidence Index has been on a downward trend since last November, and the latest figures for March suggested that the pace of decline accelerated this month, with the headline index falling by more than 7pts to 92.9, the lowest level since early 2021. The indicator for consumer assessment of the present situation was down by 3.6pts, but that drop was a relatively small in comparison to an almost 10pts decline in the index representing consumer optimism about the future. The forward-looking measure was down at only 65.2, the lowest level in twelve years. Interestingly, consumer assessment about the labour market was little changed – a share of respondents who think the jobs are plentiful minus a share who think jobs are hard to get moved broadly sideways at a level similar to the six-month average in the second half of last year. Overall, the survey once again illustrated that news about rising import tariffs and increased uncertainty about the economic outlook are having a large impact on consumers, which will show up in the spending numbers for Q1.

After a temporary increase to a positive territory in February, **the Richmond Fed Manufacturing Survey** reported that the headline index dipped back below zero in March, to -4. All three major components reflecting shipments, new orders and employment were weaker in comparison to the prior month.

The drop in the Richmond Fed survey was broadly consistent with the latest readings from Dallas and Philadelphia Feds, which also signalled a lost of momentum in the US manufacturing sector.

The German IFO Business Climate Survey showed that sentiment in Europe in holding up much better. The headline survey index rose by 1.4pt to an eight-month high of 86.7. The assessment of present situation and future conditions improved, most likely a reflection of the sharp increase in the government spending on defence and infrastructure.

Yesterday's data recap:

The government handed down the 2025-26 Budget which showed that the surplus of $15.6bn is anticipated to turn into a deficit of $27.6bn. Most initiatives had already been announced in the lead up, but the focus was on tax cuts to the lowest tax bracket from 16% to 14% over the next two years. Also helping to ease cost-of-living included $1.8bn towards an extension of energy rebates for businesses and households to the end of 2025. On healthcare, an additional $7.9bn will be provided to improve bulk billing accessibility through increasing bulk billing eligibility to all Australians and giving medical practices an additional 12.5% loading payments when they bulk bill patients. New policy since MYEFO accumulated to an increase in $20.7bn in spending but this is to be offset by an increase of $14.2bn in revenue. The increase in spending will see the budget in deficit for years to come. This spend is unlikely to phase the RBA when it meets next week. We anticipate they will remain on hold and keep forward guidance focussed on risks to inflation and growth. It should be noted that these policies are not set in place – a change of government at the upcoming election could see a whole different set of fiscal initiatives put in place.

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