2 April 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

Markets are pricing in risks of tariffs with diverging movements across regions and asset classes.

Tariffs risks saw US and Asian equities retreat while European equities outperformed.

However, most G10 currencies outperformed the USD. Commodity-linked currencies like the CAD, AUD and NOK performed best.

The yield curve shifted down across most major markets as investors flocked to safe havens.

This theme also saw support for gold which hit a record high in the session.

Data snapshot

FX Last 24 hrs	Current	Change
TWI	59.6	0.0%
AUD/USD	0.6276	0.5%
AUD/JPY	93.85	0.2%
AUD/GBP	0.4858	0.5%
AUD/NZD	1.1015	0.1%
AUD/EUR	0.5817	0.7%
AUD/CNH	4.5696	0.7%
AUD/SGD	0.8437	0.6%
AUD/HKD	4.8832	0.5%
AUD/CAD	0.8983	0.0%
EUR/USD	1.0790	-0.2%
USD/JPY	149.54	-0.3%
USD Index	104.23	0.0%

AUS Interest Rate Swaps	Last	Change
30 day BBSY	4.14	0.00
90 day BBSY	4.17	-0.01
180 day BBSY	4.34	0.00
1 year swap	3.75	-0.01
2 year swap	3.60	-0.02
3 year swap	3.60	-0.05
4 year swap	3.64	-0.06
5 year swap	3.72	-0.06
6 year swap	3.81	-0.06
7 year swap	3.90	-0.06
8 year swap	3.98	-0.07
9 year swap	4.05	-0.07
10 year swap	4.27	-0.04

Equities	Close	Change
S&P/ASX 200	7,925	1.0%
S&P 500	5,633	0.4%
Japan Nikkei	35,624	0.0%
Hang Seng	23,207	0.4%
Euro Stoxx 50	5,320	1.4%
UK FTSE100	8,635	0.6%
VIX Index	21.77	-2.3%

Commodities	Current	Change
CRB Index	310.78	0.5%
Gold	3118.84	-0.2%
Copper	9693.00	-0.2%
Oil (WTI futures)	71.20	-0.4%
Coal (coking)	175.00	0.0%
Coal (thermal)	102.65	-0.3%
Iron Ore	102.95	1.9%
ACCU	35.38	-4.4%

Government Bond Yields	Close	Change
Australia		
3 year bond	3.70	0.00
10 year bond	4.41	0.03
United States		
3-month T Bill	4.19	0.01
2 year bond	3.87	-0.01
10 year bond	4.16	-0.04
Other (10 year yields)		
Germany	2.69	-0.05
Japan	1.50	0.01
UK	4.63	-0.04

Sydney Futures Exchange	Current	Change
10 yr bond	4.38	-0.03
3 yr bond	3.66	-0.03
3 mth bill rate	4.08	0.00
SPI 200	8,001	0.4%

Data as at 7:33am 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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Financial Markets:

On the Eve of Liberation Day, markets priced in their positions. There remains a distinct lack of clarity around what the tariffs may look like but rumours suggest there will be at least a 20% tariff across most imports to the US with some expecting tax deductions for buying US-made goods. Volatility remains high with the MOVE posting a second day of increases while the VIX tempered a little after four days of increases.

- Despite tariff risks, the S&P500 closed 0.4% higher while the NASDAQ was up 0.9%. The Dow Jones finished flat. European markets were the outperformers – the Euro Stoxx 50 was up 1.4% and the German DAX 1.7%. A constructive inflation print supported European equities but most of the gains were seen when markets opened in the US. Markets were more cautious in Asia. The Japanese Nikkei closed flat as did Shanghai's CSI 300. Hong Kong's Hang Seng was up 0.4%. India's NIFTY50 was down 1.5% the fall happening early in the session. At present, India has the third highest effective tariff rate against the US at 2.25% and will likely be subject to reciprocal tariffs hampering growth. Despite a slow start to the day, the ASX 200 began its ascent at around 12pm and finished 1.0% higher even as the RBA kept rates on hold.
- Meanwhile, the US yield curve flattened with the 10Y down 4bps and the 2Y down 1bp. Markets continue to price in a third cut for 2025. The next cut is expected to come in July followed by another in September. In Europe, the German yield curve shifted lower across all tenors, notably the 10Y Bund yield was down 5bp while the 2Y was down 3bps. UK Gilt yields were also down, the 2Y down 2bps while the 10Y down 4bps. Aussie yields are also anticipated to fall, the 2Y and 10Y futures is down 3bps. Swaps market pricing was little changed with the next rate cut fully priced in for July and three cuts priced for 2025.
- The US dollar index was little changed in the session finishing at 104.23. The strongest performer was the CAD after Prime Minister Carney vowed to retaliate on tariffs and support the auto sector. The CAD finished at 1.4300 against the USD. The AUD was the next cab off the rank, appreciating through most of the day to 0.6276. There was little change during our day, much of the leg up happened at US open. The euro weakened despite the exuberance in equity markets closing at 1.0790.
- Gold prices hit another record high of 3149.00/oz before moderating to 3118.84/oz. A flock to safe haven assets as markets prepare for tariffs drove this move. Crude oil prices fell 0.4% to US$71.2 per barrel. US President Trump's threat to impose secondary tariffs on buyers of Russian oil saw refiners in India look to other suppliers for the May delivery. Production is anticipated to ramp up over coming months. Upbeat sentiment data from China saw copper prices pick up but this optimism was quickly unwound by worries of US tariffs on growth. Copper finished 0.2% lower to 9693.

Today's key data and events

Time	Event	Exp	Prev
10:25am	AU RBA's Kent Speech	-	-
11:30am	AU Dwelling Approvals Feb	-1.2%	6.3%
11:15pm	US ADP Employment Change Mar	120k	77k
1:00am	US Factory Orders Feb	0.5%	1.7%
1:00am	US Durable Goods Orders Feb Final	0.9%	0.9%

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 ISM Manufacturing PMI dropped 1.3pt to 49pts, returning to the contractionary territory after two months above the neutral level of 50. The survey highlighted a rapid decline in demand, with the new orders index falling 3.4pt to only 45.2, the lowest level in almost two years and almost 10pts below the level only two months ago. Other major components reinforced the message of weakening demand, with companies reporting declining production volumes, falling headcount and rising inventories. Manufacturers also reported a sharp increase in prices due to rising import tariffs -- the prices component was up 7pt to 69.4, the highest since mid-2022.

JOLTS Job Openings suggested that conditions in the US labour market eased slightly in February. The latest data showed a 194k decline to 7.57mn, a level close to the average over the last six months and almost fully reversing the rise at the start of the year. The ratio of vacancies to unemployment – an indicator of labour market tightness closely followed by the FOMC – signalled a meaningful softening dropping from 1.13 to 1.07, the lowest level in five months. Layoff and quits rates were unchanged at 1.1% and 2.0% respectively.

The preliminary estimate for March showed euro area HICP inflation eased for a second consecutive month, by 0.1ppt to 2.2%yr. The decline left the Q1 average rate at 2.3%yr, in line with the latest ECB forecast. Looking at major components, the disinflationary impulse came from energy price inflation, which dropped by almost 1ppt to -0.7%yr, and core services prices, closely followed by the ECB as an indicator of domestic price pressures. Inflation in the latter category eased by 0.3ppt to 3.4%yr. Alongside stable core goods inflation, at 0.6%yr, they left the core rate falling by 0.2ppt to 2.4%yr.

Yesterday's data recap:

The **RBA** kept rates steady at its most recent meeting, the first with the new monetary policy board. Much of the statement spoke to uncertainty around the global outlook and the need for greater confidence before making their next move. We expected that their confidence will strengthen on the outlook for inflation with the Q1 inflation print. This will allow them to cut rates by 25bps to 3.85% in the May meeting. Our detailed commentary on this meeting can be found here.

Retail Sales rose 0.2% in February led by food retailing.

Meanwhile, non-food retail declined for a second consecutive month as the post-sales consumer blues continue. Annual growth slowed to 3.6%yr. Retail trade declined -0.4%mth in Qld, while Vic posted a flat result. Trends were positive in the remaining states with WA recording its 14th consecutive lift. Any impacts from Cyclone Alfred will show through in March figures. The nominal prints for January and February hint at a weaker Q1 2025 volumes result.

The **CoreLogic** home value index rose a further 0.4% in March, the second monthly gain following four consecutive monthly declines. Annual price growth slowed to 2.8%yr but now looks likely to bottom out around 1.5% later this year. Preliminary estimates of turnover volumes were on the weak side, even allowing for likely upward revisions. With some up-lift showing through in new listings, the mix may limit the extent to which price gains are sustained.

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