



3 April 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

President Trump announced large import tariffs on all US trading partners. US will charge 10% on imports from Australia's, the minimal rate applied to all countries, but other major economies will see much higher import tariffs, with China taxed 34%, EU 20%, UK 10% and Japan 24%.

Financial markets were quite volatile ahead of the announcement with major equity indices trading in green and government bond yields increasing somewhat.

Following the announcement, USD settled at a broadly unchanged levels, bond yields declined, while markets signalled a notable sell off in US equity markets.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	59.9	0.5%	30 day BBSY	4.15	0.01
AUD/USD	0.6299	0.3%	90 day BBSY	4.17	0.00
AUD/JPY	94.03	0.1%	180 day BBSY	4.35	0.01
AUD/GBP	0.4844	-0.3%	1 year swap	3.75	0.01
AUD/NZD	1.0957	-0.4%	2 year swap	3.62	0.01
AUD/EUR	0.5804	-0.2%	3 year swap	3.61	0.01
AUD/CNH	4.5964	0.5%	4 year swap	3.68	0.04
AUD/SGD	0.8476	0.5%	5 year swap	3.75	0.04
AUD/HKD	4.9017	0.4%	6 year swap	3.84	0.03
AUD/CAD	0.8946	-0.4%	7 year swap	3.93	0.03
EUR/USD	1.0853	0.6%	8 year swap	4.01	0.03
USD/JPY	149.27	-0.2%	9 year swap	4.08	0.03
USD Index	103.84	-0.4%	10 year swap	4.26	0.00

Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	7,935	0.1%	Australia		
S&P 500	5,671	0.7%	3 year bond	3.72	0.02
Japan Nikkei	35,726	0.3%	10 year bond	4.42	0.01
Hang Seng	23,203	0.0%	United States		
Euro Stoxx 50	5,304	-0.3%	3-month T Bill	4.20	0.00
UK FTSE100	8,608	-0.3%	2 year bond	3.86	-0.02
VIX Index	21.51	-1.2%	10 year bond	4.13	-0.04

Commodities	Current	Change	Other (10 year yields)		
CRB Index	313.56	0.9%	Germany	2.72	0.03
Gold	3129.51	0.5%	Japan	1.47	-0.03
Copper	9700.00	0.1%	UK	4.64	0.01
Oil (WTI futures)	71.15	-0.1%	Sydney Futures Exchange		
Coal (coking)	175.67	0.4%	10 yr bond	4.40	-0.02
Coal (thermal)	111.50	-2.5%	3 yr bond	3.70	-0.01
Iron Ore	102.45	-0.1%	3 mth bill rate	4.07	0.02
ACCU	35.38	-4.4%	SPI 200	8,019	0.5%

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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Financial Markets:

Ahead of the widely awaited President Trump's announcement of the reciprocal tariffs, markets were volatile, with no strong consensus of what tariff increases to expect.

- In equity markets, Nikkei 225 in Asia managed to advance slightly, but the 0.3% gain was tiny in comparison to the drop of around 5.5% over the last week. In Europe, where the European Union reportedly has already prepared retaliatory measures against the US, Euro Stoxx 50 fell 0.3%, with health care stocks leading the way down. In the UK, where the government, expecting to strike an economic deal with the US, has adopted a more constructive tone towards the US tariffs, equities were also 0.3% lower. Following a drop of around 1% at the open in the US equity market, the S&P500 index rose significantly to reach more than a 1% gain at the peak before paring gains to around 0.4%.
- In bond markets, investors were torn between high uncertainty and concerns about growth outlook in the US on the one hand, and prospects of additional inflationary impact from tariffs on the other. Ahead of the tariff announcement, US Treasury yields advanced – the 10Y was up to 4.20% – reversing the sharp downward trend in US yields seen in recent days when the 10Y declined from the peak of 4.36% last week to 4.17% yesterday. Other major government bonds also made losses, with Bunds, Gilts and Australian government bonds all seeing small increases in yields.
- The USD index was down 0.4% dipping below 104. EUR was well supported by expectations of the EU's retaliation, it appreciated 0.6% to 1.085. Japanese Yen depreciated 0.3%, despite some additional demand for the safest currencies. AUD was stronger rising 0.3% to return to 0.63.
- Crude rose into the President Trump tariff announcement with the May WTI contract closing up 0.8% at \$71.71. Gold was volatile but generally maintained an upward trend. Iron ore was modestly lower with the focus on the recent weak housing data in China.

Volatility increased further **after the President Trump's announcement**, but while the new tariffs were seemingly on the higher end of the spectrum of possible outcomes, the market reaction so far was not too dramatic. The USD index seems to be settling at around 103.8, little changed from the pre-announcement levels. The 10Y US Treasury yield initially jumped around 5bp, but then dropped around 10bp. While the US equity market was already closed before the announcement, the exchange traded fund tracking S&P500 suggests a decline of around 2.5%. Oil prices decreased, likely focusing on the high 34% tariff on China.

Today's key data and events

Time	Event	Exp	Prev
11:00am	NZ ANZ Commodity Prices Mar	-	3.0%
11:30am	AU RBA Financial Stability Review	-	-
11:30am	AU Trade Balance Feb	\$5400m	\$5620m
11:30am	AU Vacancies Q1	-	4.20%
12:45pm	CN Caixin Composite PMI Mar	-	51.5pts
12:45pm	CN Caixin Services PMI Mar	51.5pts	51.4pts
11:30pm	US Trade Balance Feb	-\$124bn	-\$131bn
11:30pm	US Initial Jobless Claims	225.5k	224k
1:00am	US ISM Services PMI Mar	52.9pts	53.5pts

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:

President Trump has announced the immediate implementation of reciprocal tariffs by the US, based on the US' estimates of monetary and non-monetary barriers to trade US firms face in other countries. This includes other nations tariffs but also subsidies and value-added taxes (which actually apply to both US exports and domestic production in the relevant country). For each individual nation, the tariff levied by the US will be equal to half the estimated cost of the measures active in the other country. For China and Taiwan, it will be 34% and 32%; for India 26%; for Europe 20%; the UK 10%; and for Australia and New Zealand, 10% and 20% respectively. A 10% floor rate will be put in place too, for countries with barriers to US imports assessed to be below 20%. While of limited significance for global growth, small developing markets will be particularly hard hit; Cambodia as an example faces a 49% tariff rate. It is not clear how these tariffs will interact with those previously announced. The assumption is that this will bring more investment into the US, but the cost of doing so and immense uncertainty over the policy outlook is likely to hold many firms back. It is also important to recognise that other nations will respond to the US' tariffs with measures of their own, triggering US retaliation, if President Trump holds to prior commitments.

US ADP employment, a leading indicator for official non-farm payrolls, beat expectations in March, rising 155k against the market consensus of 120k. This follows a 84k gain in February, revised marginally higher from the initial 77k estimate. While month-to-month changes to ADP employment do not always correspond to payrolls, it has averaged 155k per month over the year to March compared to 162k for nonfarm payrolls (to February).

US factory orders rose 0.6% in February following a 1.8% gain in January. Ex transport, the January and February outcomes were in line, at 0.3% and 0.4% respectively. Core durable goods orders (excluding transport and defence) were revised marginally higher in February, from -0.3% to -0.2%. The multi-month trend in investment is soft and a further deterioration is a clear risk given the progressive implementation of US tariffs through March and April.



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