



19 March 2025

MORNING REPORT

Today's economic developments and market movements.

Key themes

The conclusion of the phone conversation between Trump and Putin was underwhelming, with Russia not agreeing to a full ceasefire in Ukraine.

Lawmakers approved defence and infrastructure spending package in Germany. The news supported EUR and European equity prices.

After advancing two days two days in a row, US equity markets were in red again, as the US import price index brought some early evidence of inflationary impact from the import tariffs.

Ahead of the monetary policy announcement by the Fed today, USD was little changed, but AUD depreciated.

Data snapshot

FX Last 24 hrs	Current	Change	AUS Interest Rate Swaps	Last	Change
TWI	60.3	0.7%	30 day BBSY	4.14	0.00
AUD/USD	0.6362	-0.4%	90 day BBSY	4.16	0.00
AUD/JPY	94.96	-0.3%	180 day BBSY	4.29	0.01
AUD/GBP	0.4894	-0.4%	1 year swap	3.83	0.01
AUD/NZD	1.0931	-0.4%	2 year swap	3.71	0.01
AUD/EUR	0.5812	-0.6%	3 year swap	3.72	0.03
AUD/CNH	4.5979	-0.3%	4 year swap	3.76	0.02
AUD/SGD	0.8466	-0.3%	5 year swap	3.83	0.02
AUD/HKD	4.9428	-0.4%	6 year swap	3.91	0.02
AUD/CAD	0.9101	-0.3%	7 year swap	4.00	0.02
EUR/USD	1.0945	0.2%	8 year swap	4.07	0.02
USD/JPY	149.30	0.0%	9 year swap	4.14	0.02
USD Index	103.25	-0.1%	10 year swap	4.35	0.01
Equities	Close	Change	Government Bond Yields	Close	Change
S&P/ASX 200	7,860	0.1%	Australia		
S&P 500	5,615	-1.1%	3 year bond	3.78	0.01
Japan Nikkei	37,845	1.2%	10 year bond	4.40	-0.01
Hang Seng	24,741	2.5%	United States		
Euro Stoxx 50	5,485	0.7%	3-month T Bill	4.18	0.00
UK FTSE100	8,705	0.3%	2 year bond	4.04	0.00
VIX Index	21.7	5.8%	10 year bond	4.28	-0.02
Commodities	Current	Change	Other (10 year yields)		
CRB Index	304.08	-0.2%	Germany	2.81	-0.01
Gold	3034.63	1.1%	Japan	1.51	-0.01
Copper	9904.00	0.4%	UK	4.64	0.00
Oil (WTI futures)	66.71	-1.3%	Sydney Futures Exchange	Current	Change
Coal (coking)	173.33	-1.5%	10 yr bond	4.44	0.01
Coal (thermal)	110.05	-1.7%	3 yr bond	3.78	0.02
Iron Ore	101.10	0.1%	3 mth bill rate	4.08	0.03
ACCU	35.38	-4.4%	SPI 200	7,808	-0.7%

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:

Markets were navigating a tough landscape of major political news. The conclusion of the phone conversation between Trump and Putin was underwhelming, with the Russian President agreeing to limit Russian attacks only on Ukrainian energy assets. He did not accept Trump's proposal of a full ceasefire, but the US and Russia will now begin broader negotiations trying to find a path to it. In the Middle East, Israel ended its ceasefire with Hamas, launching airstrikes across Gaza. Overnight news from Europe confirmed that German lawmakers passed the fiscal spending package, which sets up a €500bn infrastructure investment fund and ensures that defence spending will be largely excluded from constitutional restrictions on fiscal spending. Meanwhile, overnight economic data releases were mixed, with US industrial production increasing more than expected, but import prices figures brought some early evidence of the inflationary impact from higher US import tariffs. All eyes today will be on the monetary policy announcements by the Fed in the US and the Bank of Japan.

- After a couple of days in recovery, US equity markets were in red again, as investors tried to limit their exposure to risk assets further. The S&P500 index sank 1.1%, with technology stocks leading the way down. European stocks were stronger, supported by the approval of German lawmakers of the fiscal spending package – Euro Stoxx 50 gained 0.7%. Asian equity markets were also up, with Nikkei 225 advancing 1.2%, while Hang Seng was up 2.5%.
- The movements were small in major government bond markets. The US Treasury yields inched lower at the long end – the 10Y was down 2bp to 4.28% – but the short end of the yield curve, anchored by broadly stable expectations for the Fed policy outlook, remained little changed. In Europe, having eased from the peak of 2.90% registered a week ago, the 10Y Bund yield was down another basis point, to 2.81%. Equivalent Australian government bond yield was down 2bp to 4.40%.
- In FX markets, ahead of the Fed policy announcement today, USD was little changed a touch above 103.2. EUR advanced 0.2% to 1.095, while GBP gained 0.1%, breaking through 1.30 for the first time since last November. AUD was the worst performer in the G10 currency basket depreciating 0.4%.
- Crude oil price fell with general risk off sentiment and on the back of the Putin–Trump call. The WTI was up above \$68.50 after Israel's military strikes on Gaza, however, the news from the Russia–US talks sent prices down to close of \$66.7. Metals were mixed with copper up 0.4%, hitting fresh multi month highs though aluminium closed 1.3% lower. Iron ore softened again on firmer supply as the impact of weather in Australia and Brazil waned. Gold climbed to fresh record highs yesterday, briefly testing \$3036/oz before closing just under \$3035/oz, up 1.1% from its open. This surge was largely driven by the Middle East tensions.

Today's key data and events

Time	Event	Exp	Prev
8:45am	NZ Current Account Balance Q4	-\$6.6b	-\$10.6b
10:30am	AU Westpac–MI Leading Index Feb	–	0.1%
10:50am	JP Machinery Orders Jan	0.00%	-1.20%
3:30pm	JP Industrial Production Jan Final	–	-1.10%
9:00pm	EZ HICP Feb Final	2.4%	2.4%
5:00am	FOMC Rate Decision	4.50%	4.50%

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:

US industrial production rose 0.7%*mt* in February, beating consensus expectations of a 0.2% increase and contrasting with some of the weaker US manufacturing surveys seen of late. Growth in January was revised lower, to 0.3%*mt*. The two months together imply 1.3%*qtr* growth in Q1, which would be a sharp improvement following a 0.2%*qtr* decline in Q4. Some of the strength might reflect higher production associated with stronger imports ahead of the increase in tariffs.

The **US import price index** for February brought some early evidence of the first direct effect of import tariffs on the economy. The overall import prices increased 0.4%*mt*, unchanged pace from (upwardly revised) print in January, but significantly higher than a flat trend in the second half of last year. Prices of imported goods from China, which was subject to higher import tariffs that month, rose 0.5%*mt*, the steepest in almost three years. Mexico reported a more modest 0.2%*mt* gain, but Canada reported a steeper 0.8%*mt* rise highlighting that some of the price pressures came from the front running of imports ahead of the expected increase in import duties.

After a weaker start of the year, when cold weather seems to have impacted housing activity pushing housing starts to 1350k, the overnight release of the **US housing starts** for February showed a recovery to 1501k. Building permits declined for a third consecutive month, pointing to a weaker pipeline of incoming housing projects ahead.

The euro area **ZEW Confidence Survey** of financial market experts reported a sharp improvement in March. The headline euro area economic expectations index increased more than 15 points to 39.8, a reading towards the top of the range since the start of 2024. Higher optimism reflected expectations that higher fiscal spending in Germany and the euro area will support economic growth. Overnight news confirmed that German lawmakers passed the spending package, which will largely exclude defence spending from fiscal restrictions, and will set up a €500bn infrastructure investment fund.

The **euro area trade balance** was little changed in January, with surplus falling only very slightly to €14.0bn.



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