

Highlights this week

- In Australia, the RBA cut the cash rate by 25bps to 3.85% as expected, and turned more dovish. The S&P Global PMIs suggested a slower pace of expansion in the private sector in May.
- Abroad, Moody's Ratings downgraded US credit rating to 'Aa1' from the top 'Aaa', with a stable outlook. The flash PMIs pointed to faster expansion in the US and contraction in the other major advanced economies.

Highlights next week

- A busy week ahead domestically, with the April Monthly CPI indicator and Q1 construction work done on Wednesday, Q1 private sector capex on Thursday, and April retail trade, dwelling approvals and private sector credit all on Friday.
- The highlights offshore include FOMC minutes on Wednesday and US personal income and outlays on Friday, which will include PCE inflation targeted by the Fed. The RBNZ will announce its official cash rate decision on Wednesday, with another 25bps cut expected.

Central Bank Rates (%)		Weekly Change	Australian Interest Rates (%)		Weekly Change	Major Overseas Interest Rates (%)		Weekly Change	Global Equities		Weekly Change
Australia	3.85	(↓25 pt)	O/N Interbank Cash	3.84	(↓25 pt)	USD 3-month	4.85	(0 pt)	ASX200	8379	(↑36 pt)
US (IOR)	4.40	(0 pt)	90-day Bills	3.72	(↓7 pt)	2-yr T-Notes	3.97	(↑3 pt)	S&P500	5842	(↓75 pt)
Eurozone (Deposit)	2.25	(0 pt)	3-yr T-Bond	3.46	(↓16 pt)	10-yr T-Notes	4.52	(↑10 pt)	DJIA	41859	(↓464 pt)
UK	4.25	(0 pt)	10-yr T-Bond	4.42	(↓6 pt)	Jap 10-yr	1.56	(↑9 pt)	Nikkei	37279	(↓469 pt)
Japan (Target)	0.50	(0 pt)	3-yr WATC Bond	3.63	(↓14 pt)	UK 10-yr	4.75	(↑9 pt)	CSI300	3914	(↑29 pt)
China (1Y LPR)	3.00	(↓10 pt)	10-yr WATC Bond	4.98	(↓7 pt)	Ger 10-yr	2.64	(↑2 pt)	Stoxx600	550	(↑3 pt)

Changes are since the previous issue of Market WATCH Weekly.

Financial Markets**Interest Rates**

The [RBA Monetary Policy Board](#) cut the cash rate target by 25bps to 3.85% on Tuesday. The post-meeting statement turned more dovish, highlighting more balanced inflation risks, with forward guidance now citing both price stability and full employment.

Trimmed mean inflation is now expected to drop to 2.6% as soon as in June 2025 and remain there until the end of the projection horizon in June 2027. The unemployment rate is forecast to peak at 4.3%, 0.1pppts higher than in forecast in February.

The RBA's dovish tone saw pricing for cash rate cuts intensify, with a terminal rate now expected at around 3%. Commonwealth bond yields dropped, particularly for shorter maturities.

Conversely, US yields picked up this week. Moody's Ratings downgraded US credit rating to 'Aa1' last Friday, which was just a confirmation of the dire state of US public finances.

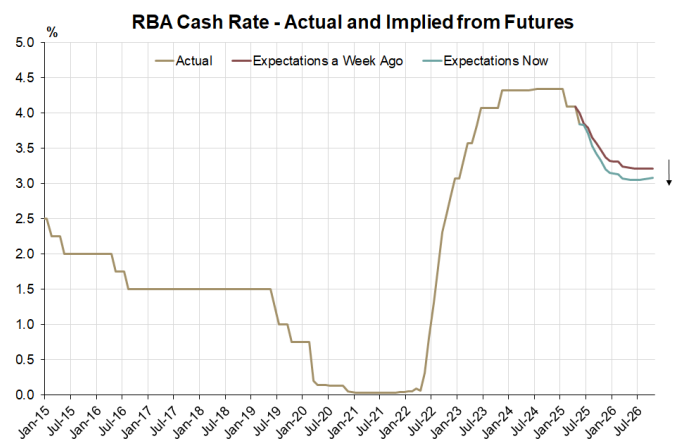
The tax cuts and immigration bill, which passed the US House of Representatives last night, is estimated to add further US\$3.1 trillion to US debt over the next decade according to the Committee for Responsible Federal Budget.

Equities

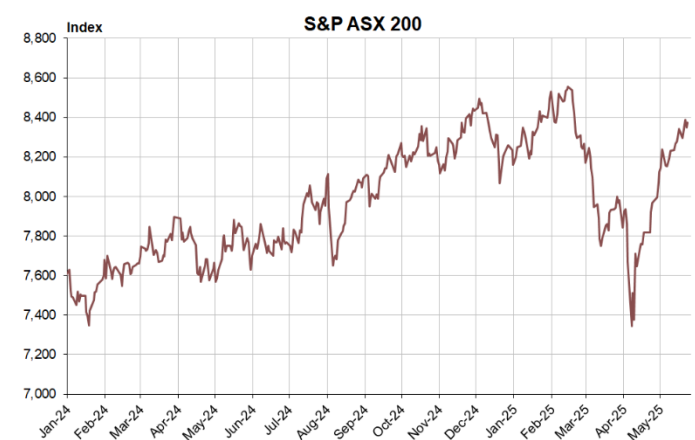
The recovery in global equities hit a pothole this week, taking the edge off the rally that pushed the MSCI World developed market index to a three-month high on Monday.

Concern over the US fiscal outlook and accompanying increase in US Treasury yields appears to have been the major catalyst for the sell-off, as President Trump's tax cut and immigration bill (officially called 'One Big Beautiful Bill') makes its way through Congress.

The Aussie market was supported by the RBA interest rate cut and more dovish messaging, with the ASX 200 closing Wednesday's session at a three-month high, before sliding on Thursday. However, the Aussie market has rebounded this morning and appears on track to record its fifth weekly gain in the past six weeks, after shares slumped in early April at the height of the panic over US tariff increases.



Source: Bloomberg



Source: Bloomberg

Currencies

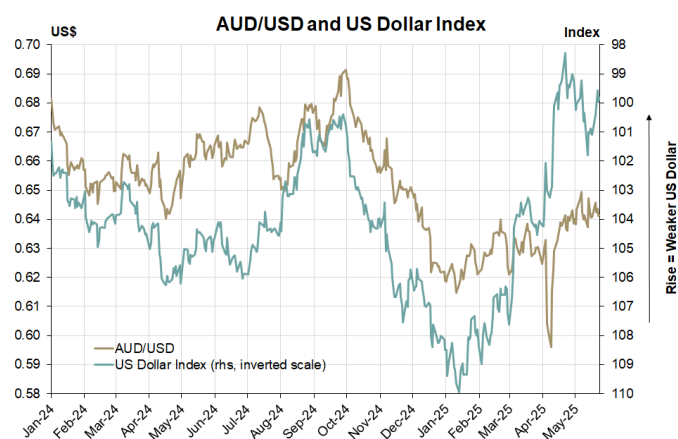
The Australian dollar depreciated against all major currencies this week, with a notable exception of the weaker greenback.

The AUD's weakness this week was caused by the RBA's hawkish tone following a 25bps cash rate cut, mixed global market sentiment, and a decline in industrial commodity prices.

The Aussie dollar was the weakest G10 currency outside of the greenback this week, while the Scandinavian currencies and the Japanese yen were the strongest.

Despite the weakness this week, the AUD/USD remains just 1.2% off its 2025 highs from early May, though mainly thanks to the greenback's weakness.

The US dollar was hit by concerns over the state of US public finances caused by a double whammy of the Moody's downgrade and the advancement of the tax cuts and spending bill.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6429	0.6469	0.6392	↑0.1	0.6942	0.5915
AUD/EUR		0.5684	0.5762	0.5670	↓0.9	0.6261	0.4620
AUD/GBP		0.4783	0.4837	0.4773	↓0.9	0.5288	0.4620
AUD/JPY		92.43	93.85	91.99	↓1	109.37	86.05
AUD/CNY		4.6283	4.6643	4.6143	↑0	4.9340	4.3523
EUR/USD		1.1310	1.1363	1.1157	↑1	1.1573	1.0141
GBP/USD		1.3441	1.3469	1.3245	↑1	1.3469	1.2100
USD/JPY		143.77	145.55	142.81	↓1.1	161.95	139.58
USD/CNY		7.1995	7.2254	7.1965	↓0	7.3511	7.0063

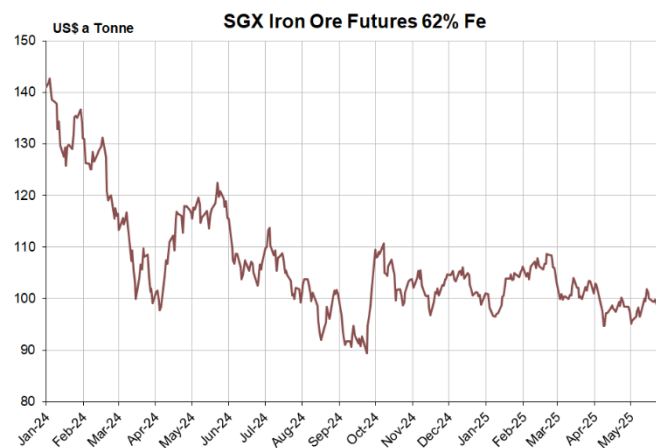
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6429	0.6439	0.6451	0.6469
AUD/EUR		0.5684	0.5658	0.5634	0.5588
AUD/GBP		0.4783	0.4788	0.4795	0.4808
AUD/JPY		92.43	91.61	90.86	89.55
AUD/NZD		1.0874	1.0854	1.0838	1.0818
AUD/SGD		0.8298	0.8263	0.8230	0.8164

Commodities

Iron ore futures prices traded in a narrow range this week, after falling early following a mixed set of Chinese economic data that raised questions over the outlook for Chinese steel demand.

Gold prices hit the highest levels in almost two weeks on mounting concerns over the outlook for US government finances. The yellow metal lost some ground overnight, possibly due to profit-taking, as the sharp rise in US Treasury yields attracted buyers into US Government debt.

Oil prices spiked mid-week on reports that Israel could be preparing a strike on Iran's nuclear facilities, only to fall back amid news that OPEC+ is discussing another large output increase in July.



Source: Bloomberg

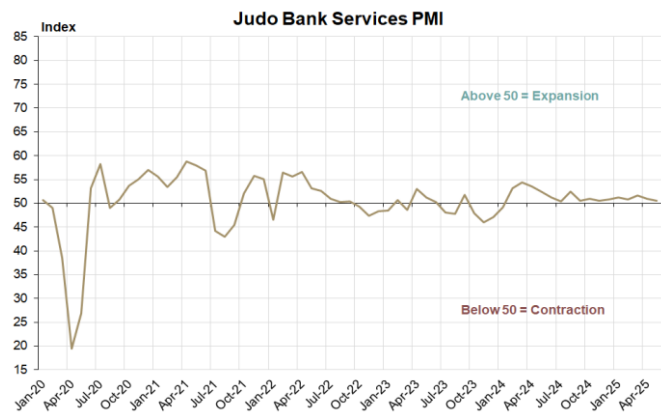
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$3,303.31	\$3,345.38	\$3,204.71	(↑\$85.89)	\$3,500.10	\$2,286.86
Brent Crude Oil (US\$)	\$64.19	\$66.63	\$63.54	(↓\$0.47)	\$87.95	\$58.40
Mogas95* (US\$)	\$75.55	\$77.38	\$74.64	(↓\$0.2)	\$99.71	\$67.57
WTI Oil (US\$)	\$60.92	\$64.19	\$60.25	(↓\$0.84)	\$84.52	\$55.12
CRB Index	296.27	298.57	296.08	(↑0.41)	316.63	265.48
Iron Ore Price 62% Fe (US\$) **	\$98.90	\$100.25	\$98.60	(↓\$1.65)	\$122.75	\$88.40

*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.

** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

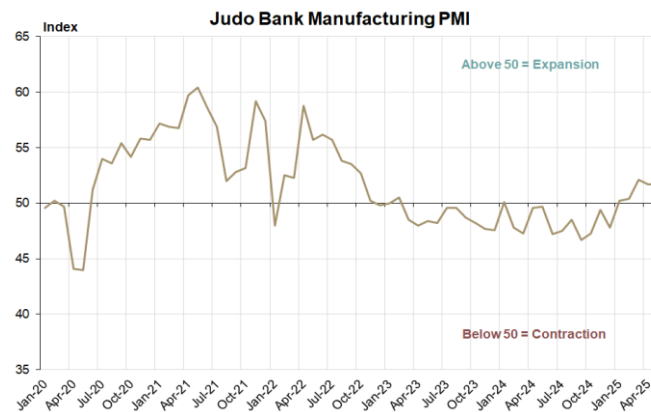
Domestic Economy

The **S&P Global PMI** pointed to a near-stagnant conditions in services...



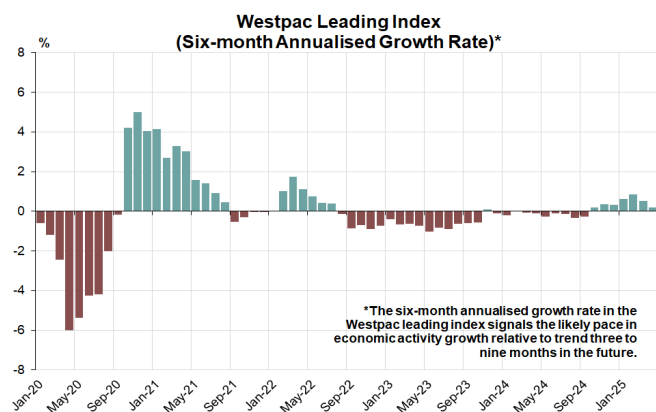
Source: Bloomberg

... while the pace of expansion in **manufacturing** is relatively faster.



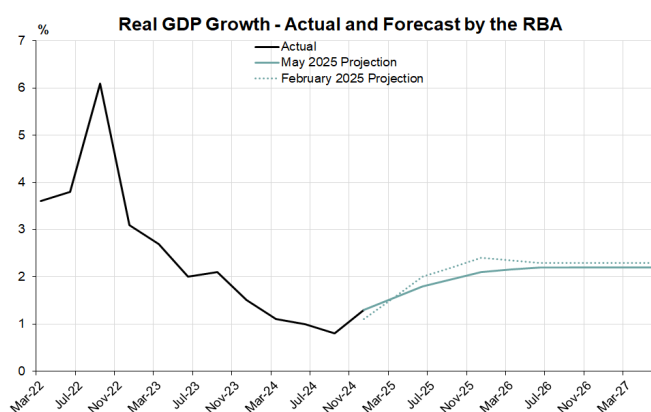
Source: Bloomberg

The **Westpac leading index** has lost momentum after picking up early in the year.



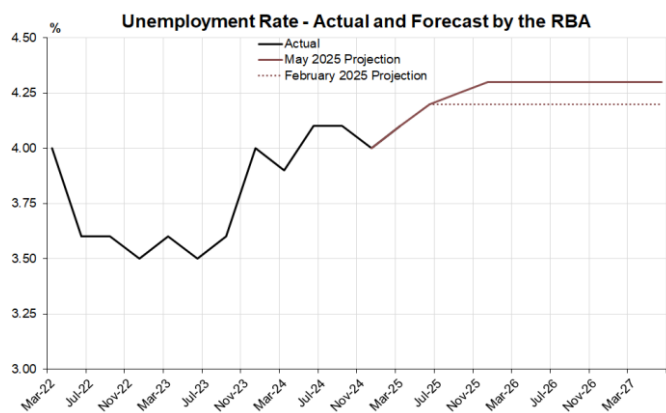
Source: Bloomberg

The RBA has downgraded its **real GDP growth forecasts** slightly in their May projection round...



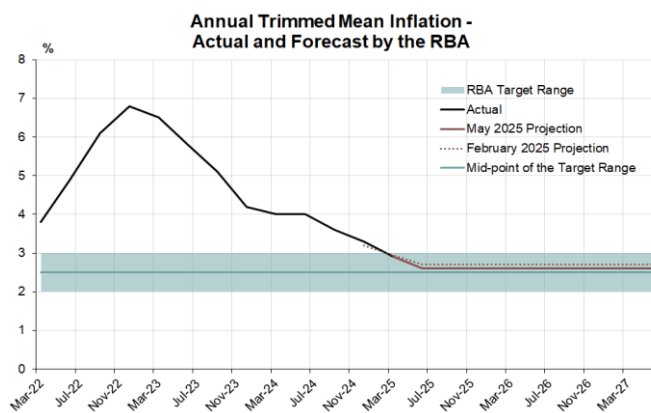
Source: ABS / RBA

... while revising their **unemployment rate forecasts** slightly upwards.



Source: ABS / RBA

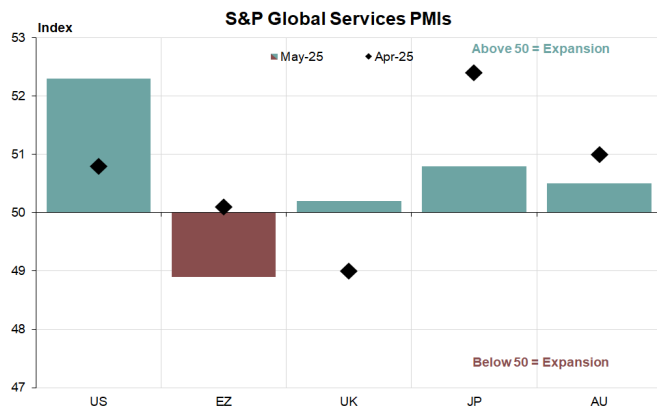
Trimmed mean inflation is now expected to decline to 2.6% this quarter and remain there until mid-2027.



Source: ABS / RBA

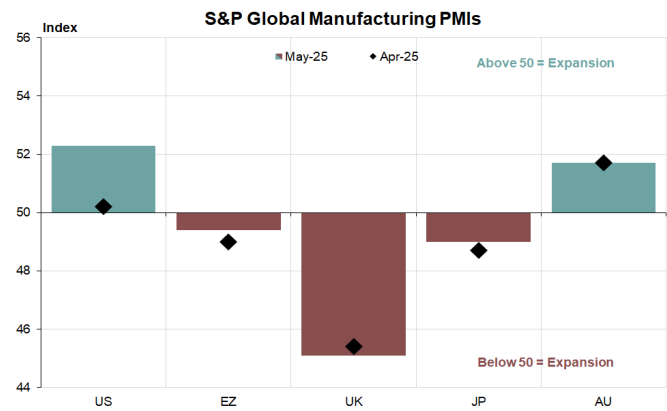
Global Economy

Services PMIs suggested ongoing expansion outside of the euro area, with particular strength in the US.



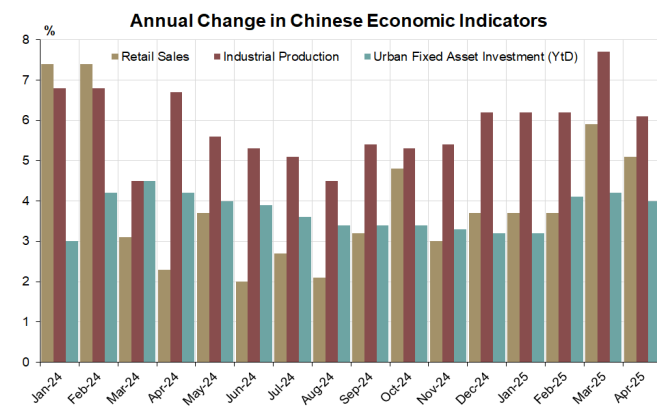
Source: Bloomberg

The US is also the only major advanced economy where **manufacturing PMIs** point to ongoing expansion.



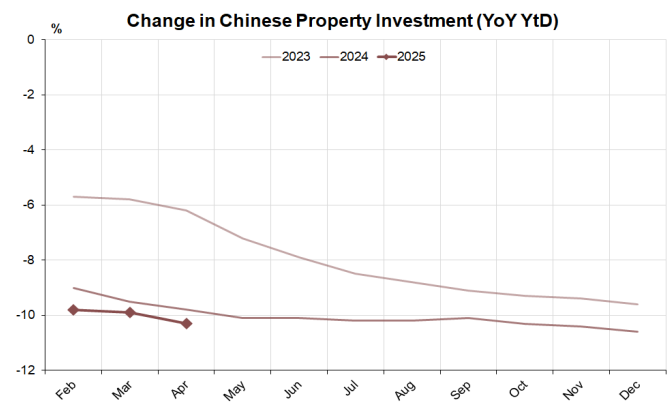
Source: Bloomberg

Following tentative signs of improvement in March, **Chinese economic indicators** weakened in April...



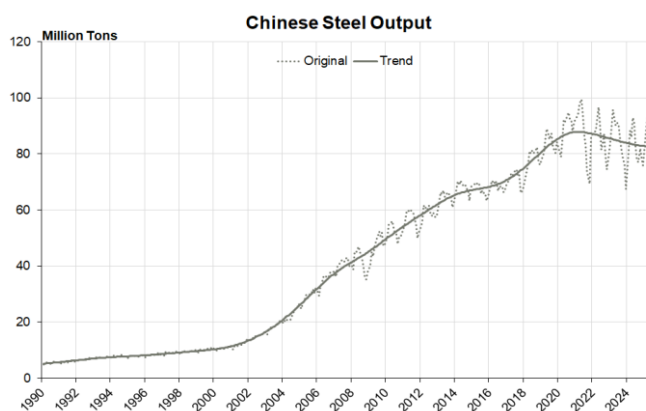
Source: Bloomberg

... with **property investment** falling at an even faster pace than this time last year.



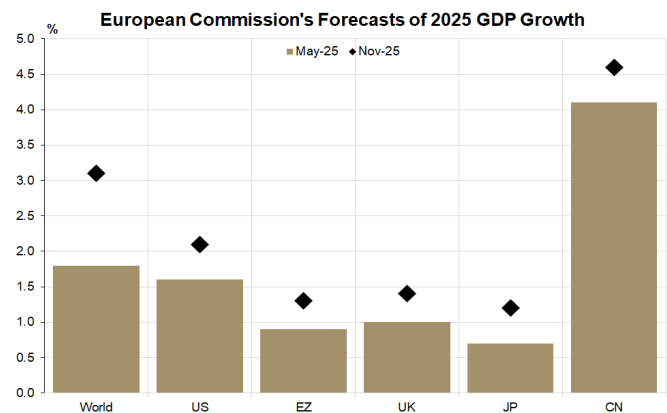
Source: Bloomberg

In positive news, **Chinese steel output** remained above-trend in April.



Source: Bloomberg

The European Commission has downgraded its 2025 **GDP growth forecasts**.



Source: European Commission

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 19					
CH	Retail Sales (YoY, Apr)	5.1%	5.8%	5.9%	Chinese consumers remain cautious despite stimulus.
CH	Industrial Production (YoY, Apr)	6.1%	5.7%	7.7%	Steel output flat YoY.
CH	Urban Asset Inv. (YoY YtD, Apr)	4.0%	4.2%	4.2%	The slowest growth so far this year.
Tue 20					
AU	RBA Decision (Cash Rate Target)	3.85%	3.85%	4.10%	Cash rate cut expectations have intensified a little.
AU	RBA Governor M. Bullock Speaks	-	-	-	50bps cut considered by the Monetary Policy Board.
AU	RBA SoMP (Q2)	-	-	-	Trimmed mean inflation expected to stabilise at 2.6%.
AU	ANZ Cons. Conf. (w/e 17 May)	88.8	-	88.3	Inflation expectations steady at a moderate 4.5%.
CH	PBoC Announcement (5Y LPR)	4.50%	4.60%	4.60%	Benchmark rate for Chinese mortgage costs.
Wed 21					
AU	Westpac Lead. Index (MoM, Apr)	-0.01%	-	-0.15%	6M annualised growth rate slowed to 0.2% in April.
AU	Wages and Salaries (YoY, Mar)	5.8%	-	7.2%	Western Australia saw the largest gain of 7.8% YoY.
UK	CPI (MoM, Apr)	1.2%	1.0%	0.3%	Annual inflation rate rose to over a one-year high of 3.5%.
Thu 22					
AU	S&P Global Composite PMI (May)	50.6	-	51.0	Growth in new export orders slowed.
JP	Jibun Bank Composite PMI (May)	49.8	-	51.2	Contraction driven by manufacturing, services expanding.
EZ	HCOB Composite PMI (May, flash)	49.5	50.6	50.4	Germany and France both in quite solid contraction.
UK	S&P Global Composite PMI (May)	49.4	49.3	48.5	UK services still in slight expansion.
US	S&P Global Composite PMI (May)	52.1	50.3	50.6	Partly propped up by longer delivery times.
US	Initial Jobless Claims (w/e 17 May)	227k	230k	229k	Continued claims back above 1.9m in w/e 10 May.
Fri 23					
JP	CPI (YoY, Apr)	3.6%	3.5%	3.6%	'Core-core' inflation picked up 0.1ppts to 3.0%.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 26				
	<i>No market moving data</i>			
Tue 27				
US	Durable Goods Orders (MoM, Apr)	-8.2%	7.5%	ISM surveys suggest a significant drop.
US	Conference Board Cons. Conf. (May)	87.0	86.0	Jobs components in focus.
US	C-S Hse Prices 20 Cities (MoM, Mar)	-	0.4%	US house prices up by 4.5% YoY.
Wed 28				
AU	Monthly CPI Indicator (YoY, Apr)	2.2%	2.4%	Covers only 62% of the CPI basket and focused on goods.
AU	Construction Work Done (QoQ, Q1)	0.0%	0.5%	Building work done fell by 0.7% in Q4 2024.
NZ	RBNZ Decision (Official Cash Rate)	3.25%	3.50%	Another cut expected.
US	FOMC Minutes	-	-	FOMC wants the dust to settle, before proceeding with cuts.
Thu 29				
AU	Private Sector Capex (QoQ, Q1)	0.4%	-0.2%	Equipment, plant and machinery fell by 0.8% in Q4 2024.
US	GDP (QoQ annualised, Q1, 2nd est.)	-0.4%	-0.3%	Revisions to growth components might be large.
Fri 30				
AU	Retail Trade (MoM, Apr)	0.4%	0.3%	The recovery in consumer demand has slowed.
AU	Private Sector Credit (MoM, Apr)	0.5%	0.5%	Has been growing at a steady pace since early 2023.
AU	Dwelling Approvals (MoM, Apr)	3.0%	-8.8%	Apartment approvals driving month-to-month volatility.
US	Personal Spending (MoM, Apr)	0.2%	0.7%	Retail sales suggested a flat outcome.
US	PCE Price Index (MoM, Apr)	0.1%	0.0%	Too early to see the inflationary impacts of tariffs.