

Highlights this week

- In Australia, the monthly CPI indicator suggested that both headline and trimmed mean inflation remained in the RBA target range in April. Retail trade and dwelling approvals fell in April, while private sector credit growth accelerated. Private sector capex ebbed in Q1, while construction work done was flat.
- Abroad, some of US tariffs were blocked by a US trade court, before being temporarily reinstated by an appeals court. The FOMC minutes repeated that the US central bank is in a good position to wait for more clarity about the impact of trade policies on economic activity, the labour market and inflation. The US Q1 GDP estimate was largely upheld, but private consumption growth was downgraded. US durable goods orders fell in April.

Highlights next week

- Another busy week ahead domestically, with the Q1 national accounts on Wednesday being the key release. Other highlights include the CoreLogic home value index and Melbourne Institute inflation gauge for May on Monday, the RBA minutes and Q1 balance of payments on Tuesday as well as the household spending indicator and trade balance for April on Thursday.
- Highlights offshore will be the US labour market figures as well as the Chinese and US PMIs. The Bank of Canada and ECB are to announce monetary policy decisions on Wednesday and Thursday, respectively.

| Central Bank Rates (%) | Weekly Change | Australian Interest Rates (%) | Weekly Change | Major Overseas Interest Rates (%) | Weekly Change | Global Equities | Weekly Change |
|------------------------|---------------|-------------------------------|---------------|-----------------------------------|---------------|-----------------|-----------------|
| Australia | 3.85 (0 pt) | O/N Interbank Cash | 3.84 (0 pt) | USD 3-month | 4.85 (0 pt) | ASX200 | 8408 (↑29 pt) |
| US (IOR) | 4.40 (0 pt) | 90-day Bills | 3.73 (0 pt) | 2-yr T-Notes | 3.94 (↓3 pt) | S&P500 | 5912 (↑70 pt) |
| Eurozone (Deposit) | 2.25 (0 pt) | 3-yr T-Bond | 3.35 (↓11 pt) | 10-yr T-Notes | 4.42 (↓10 pt) | DJIA | 42216 (↑357 pt) |
| UK | 4.25 (0 pt) | 10-yr T-Bond | 4.27 (↓15 pt) | Jap 10-yr | 1.51 (↓5 pt) | Nikkei | 37901 (↑622 pt) |
| Japan (Target) | 0.50 (0 pt) | 3-yr WATC Bond | 3.52 (↓11 pt) | UK 10-yr | 4.65 (↓10 pt) | CSI300 | 3853 (↓61 pt) |
| China (1Y LPR) | 3.00 (0 pt) | 10-yr WATC Bond | 4.82 (↓15 pt) | Ger 10-yr | 2.51 (↓14 pt) | Stoxx600 | 548 (↓2 pt) |

Changes are since the previous issue of Market WATCH Weekly.

Financial Markets

Interest Rates

Government bond yields are down across the advanced economies this week.

The decline was initially a reaction to signs that Japan is planning to alter its long-term issuance plans on Tuesday. This was followed by news that US President Donald Trump and Fed Chair Jerome Powell met on the same day, which led to some intensification of fed funds rate expectations and a further decline in yields as a result.

Meanwhile, the FOMC minutes released on Wednesday night again showed that US monetary policymakers see uncertainty about the economic outlook as 'unusually elevated'. However, with monetary policy still restrictive, the FOMC judges that they are in a good position to 'wait for more clarity'.

Closer to home, the RBNZ cut its official cash rate target by another 25bps to 3.25% on Wednesday. The updated RBNZ projections and market expectations point to at least one more 25bps cut in this cycle, most likely in Q3.

Equities

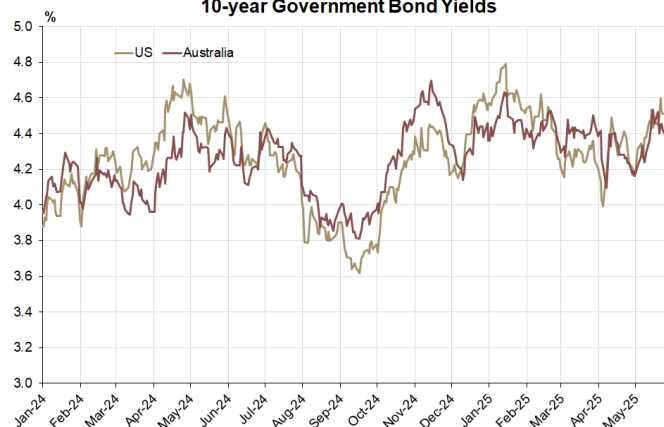
Global stocks were generally up this week, but this masks some intra-week volatility.

A threat of outsized tariffs on Europe rattled the equity markets ahead of the US long weekend. However, news that these tariffs would be pushed back until 9 July allowed for a positive start to the trading week in the US.

Thereafter, a US trade court decision to block some of the tariffs on Wednesday, coupled with a good earnings report from Nvidia, led to further improvement in sentiment mid-week. However, this was dented this morning, as the tariffs were temporarily reinstated by an appeals court.

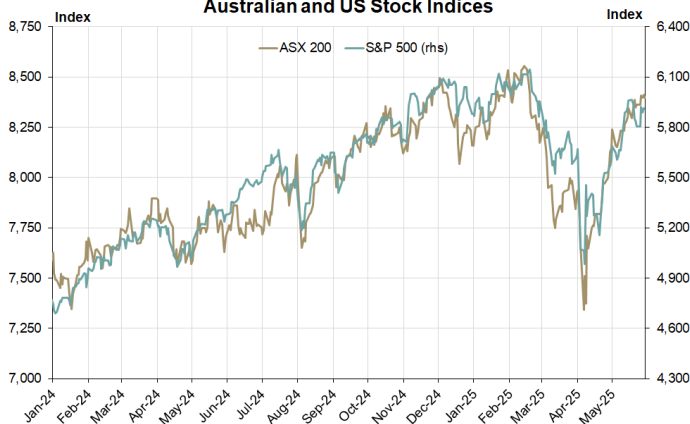
Overall, the S&P 500 is 1.2% up for the week. The ASX 200 is underperforming, with a 0.3% gain at the time of writing, reflecting a retreat in stock prices this morning.

10-year Government Bond Yields



Source: Bloomberg

Australian and US Stock Indices



Source: Bloomberg

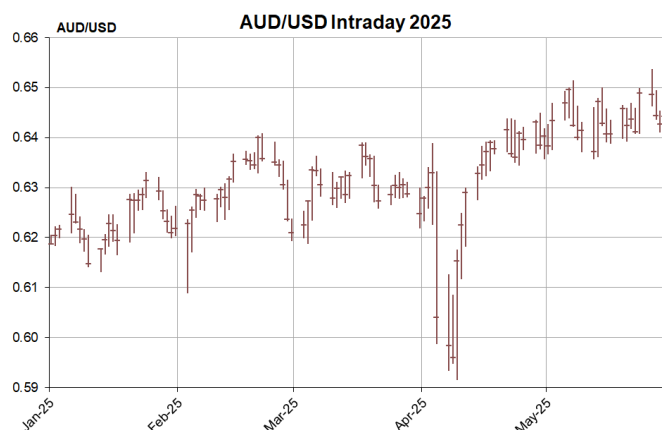
Currencies

The Aussie opened the week strongly, with the Australian dollar trade weighted index rising to its highest level in 1½ weeks on Monday. However, the currency soon lost ground.

A further slide this morning sees the Australian dollar as the weakest member of the G10 currency basket over the past week.

Moves in the AUD/USD exchange rate were largely driven by what was happening with the greenback. The big dollar fell early, with the US dollar index closing Monday at its lowest level in almost a month before picking up again.

The AUD/USD peaked at US\$0.6537 on Monday morning, its highest level since November last year, as the USD weakened. The AUD/USD gave up most of those gains in the following days, as the USD strengthened and the AUD began to slide, driving the exchange rate back to where it was this time last week.



Source: Bloomberg

| Spot Rates | | Current | High | Low | Change (%) | 52-Week High | 52-Week Low |
|------------|--|---------|--------|--------|------------|--------------|-------------|
| AUD/USD | | 0.6428 | 0.6537 | 0.6407 | ↓0 | 0.6942 | 0.5915 |
| AUD/EUR | | 0.5662 | 0.5726 | 0.5654 | ↓0.4 | 0.6261 | 0.4620 |
| AUD/GBP | | 0.4771 | 0.4811 | 0.4754 | ↓0.2 | 0.5288 | 0.4620 |
| AUD/JPY | | 92.43 | 93.88 | 92.14 | ↑0 | 109.37 | 86.05 |
| AUD/CNY | | 4.6188 | 4.6864 | 4.6130 | ↓0.2 | 4.9340 | 4.3523 |
| EUR/USD | | 1.1352 | 1.1419 | 1.1210 | ↑0.4 | 1.1573 | 1.0141 |
| GBP/USD | | 1.3473 | 1.3593 | 1.3416 | ↑0.2 | 1.3593 | 1.2100 |
| USD/JPY | | 143.80 | 146.28 | 142.12 | ↑0 | 161.95 | 139.58 |
| USD/CNY | | 7.1859 | 7.2104 | 7.1679 | ↓0.2 | 7.3511 | 7.0063 |

| Forward Rates | | Spot | 3M | 6M | 12M |
|---------------|--|--------|--------|--------|--------|
| AUD/USD | | 0.6428 | 0.6438 | 0.6451 | 0.6472 |
| AUD/EUR | | 0.5662 | 0.5636 | 0.5613 | 0.5568 |
| AUD/GBP | | 0.4771 | 0.4777 | 0.4784 | 0.4799 |
| AUD/JPY | | 92.43 | 91.62 | 90.91 | 89.63 |
| AUD/NZD | | 1.0773 | 1.0756 | 1.0744 | 1.0733 |
| AUD/SGD | | 0.8282 | 0.8247 | 0.8214 | 0.8149 |

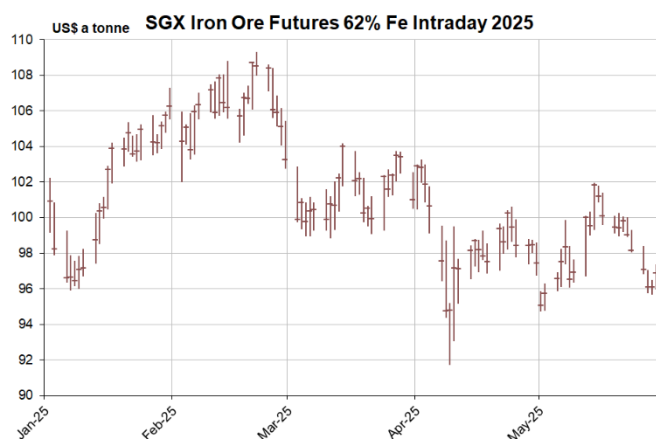
Commodities

Commodity prices fell again this week, as US trade policy continued to drive uncertainty over the demand outlook.

Oil prices continued to trade in a relatively narrow range this week. While tariff news has had some impact, the major driver has been uncertainty over supply.

Reports that Russia could be facing further sanctions pushed prices to a weekly high on Thursday, only for prices to fall back, as expectations for an upcoming OPEC+ supply increase again took centre stage.

Iron ore futures are in line for the second consecutive weekly fall, as traders remain concerned over the outlook for steel demand. The benchmark price in Singapore fell to a near four-week low on Wednesday, before stabilising. The early losses were trimmed on Thursday amid news that a US court had blocked President Trump's tariff increases, although this decision has since been put on hold following an appeal.



Source: Bloomberg

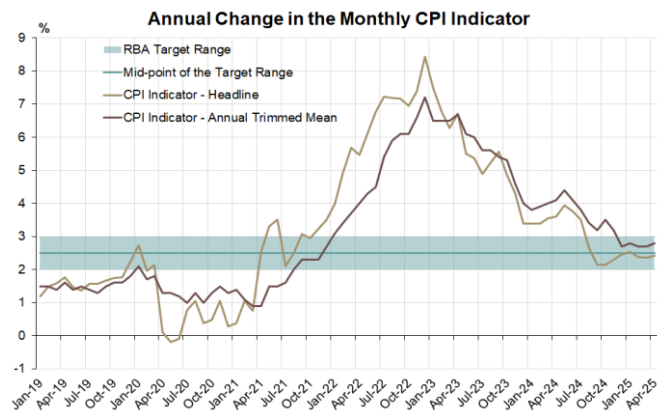
| | Current | High | Low | Change | 52-Week High | 52-Week Low |
|---------------------------------|------------|------------|------------|-----------|--------------|-------------|
| Gold (US\$) | \$3,294.94 | \$3,356.80 | \$3,245.50 | (↓\$8.37) | \$3,500.10 | \$2,286.86 |
| Brent Crude Oil (US\$) | \$63.84 | \$66.13 | \$63.50 | (↓\$0.35) | \$87.95 | \$58.40 |
| Mogas95* (US\$) | \$74.11 | \$79.02 | \$74.11 | (↓\$1.45) | \$99.71 | \$67.57 |
| WTI Oil (US\$) | \$60.58 | \$63.07 | \$60.02 | (↓\$0.34) | \$84.52 | \$55.12 |
| CRB Index | 290.76 | 296.66 | 290.76 | (↓5.51) | 316.63 | 265.48 |
| Iron Ore Price 62% Fe (US\$) ** | \$96.65 | \$98.40 | \$95.65 | (↓\$2.25) | \$119.25 | \$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.

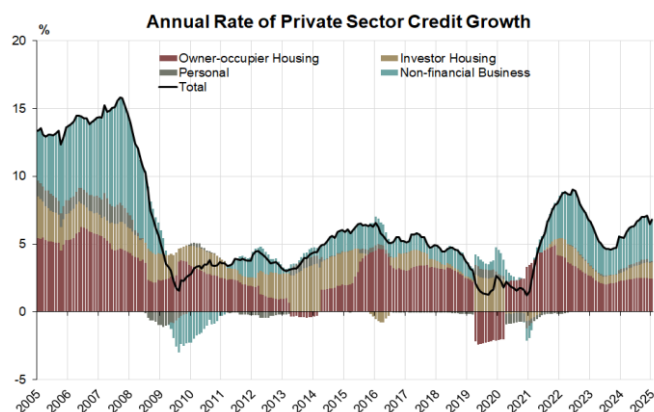
Domestic Economy

The **April CPI indicator** suggested that headline and underlying inflation rates are in the RBA target range.



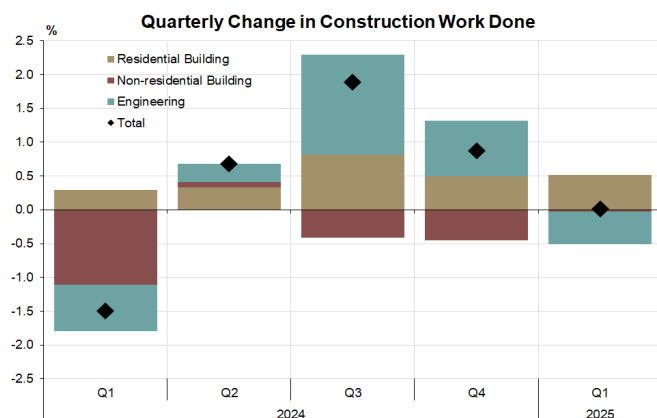
Source: ABS

Private sector credit growth remains quite solid, thanks to a strong contribution from business loans.



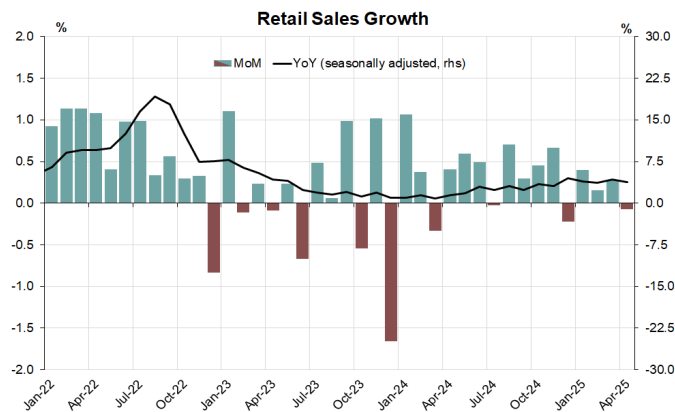
Source: RBA

Construction work done was flat in Q1, as a rise in residential building was offset by a fall in engineering.



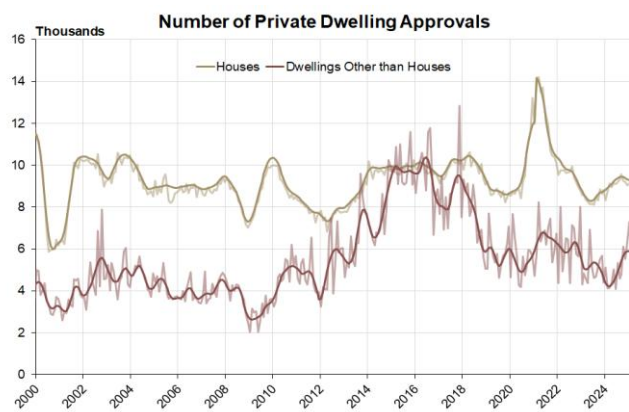
Source: ABS

Retail trade ebbed in March, despite the post-cyclone rebound in Queensland.



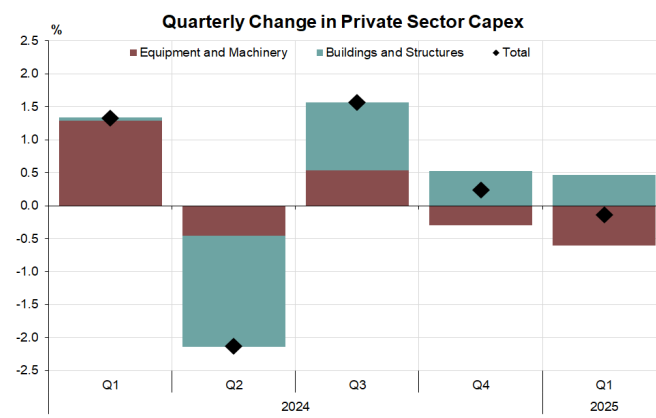
Source: ABS

Private sector house approvals saw a small uptick in April, but the volatile apartment approvals plunged.



Source: ABS

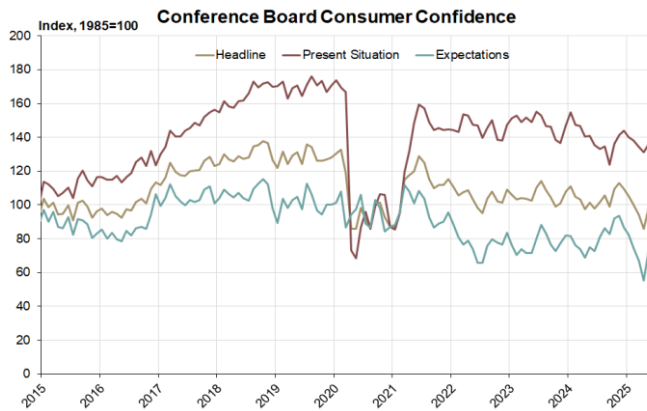
Despite a rise in buildings and structures, **private capex** ebbed in Q1, dragged down by equipment investment.



Source: ABS

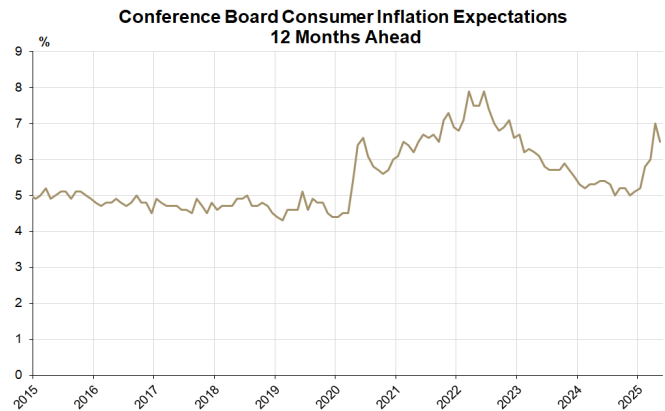
Global Economy

The delay in the introduction of supersized tariffs on China saw **US consumer confidence** bounce in May...



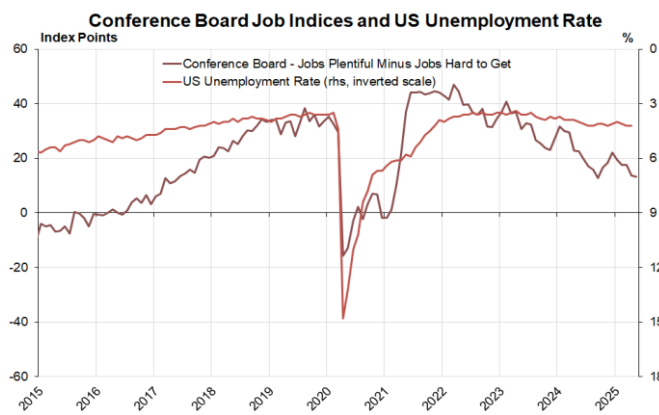
Source: Bloomberg

... while lowering their **short-term inflation expectations** a little, albeit to still elevated levels.



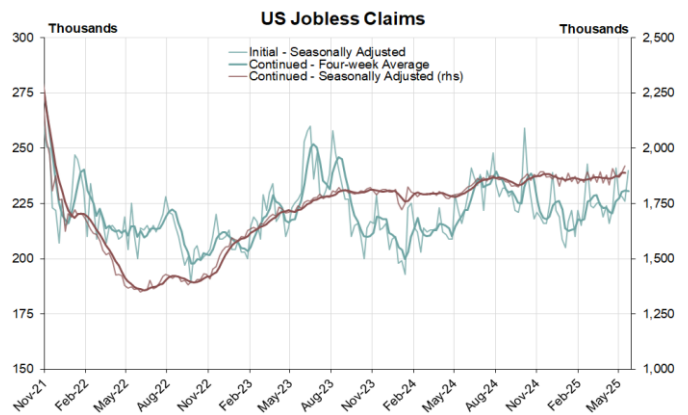
Source: Bloomberg

US consumers continue to view the **US labour market conditions** as easing, but still quite sound.



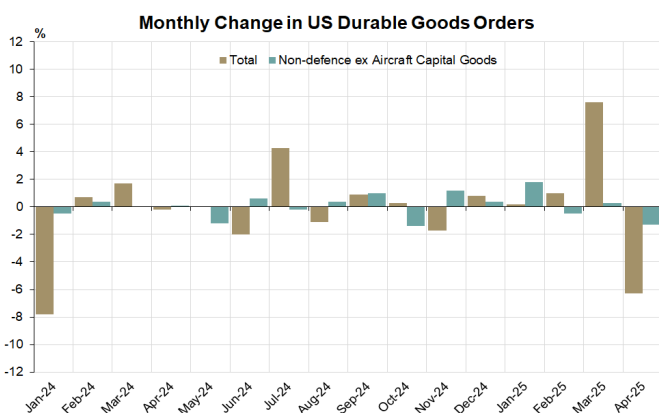
Source: Bloomberg

US continued jobless claims are the highest since November 2021, but still quite low.



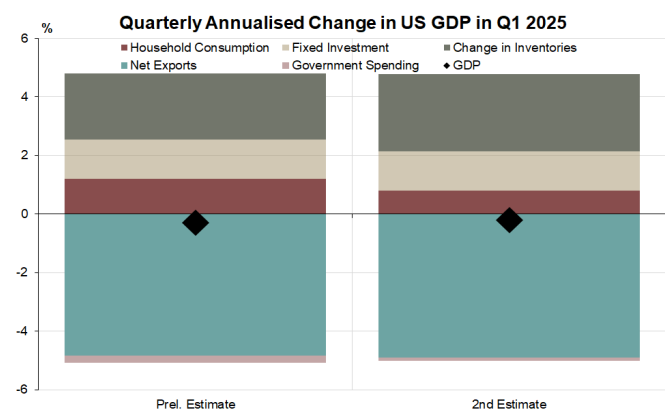
Source: Bloomberg

US durable goods orders took a dive after the April 2 tariff announcement, which followed a spike in March.



Source: FRED

US Q1 GDP was not revised much this week, but private consumption growth was downgraded.



Source: Bureau of Economic Analysis

Last Week

| Date | Event | Actual | Forecast | Previous | Comment |
|----------------|-------------------------------------|--------|----------|----------|---|
| Mon 26 | | | | | |
| | No market moving data | | | | |
| Tue 27 | | | | | |
| AU | ANZ Cons. Conf. (w/e 24 May) | 87.0 | - | 88.8 | Consumer inflation expectations up 0.2ppts to 4.7%. |
| US | Durable Goods Orders (MoM, Apr) | -6.3% | -7.8% | 7.6% | Core orders declined by 1.3% (mkt exp.: -0.2%). |
| US | Conf. Board Cons. Conf. (May) | 98.0 | 87.1 | 85.7 | Led by a rise in expectations, which remain recessionary. |
| US | C-S Hse Pce 20 Cities (MoM, Mar) | -0.1% | 0.2% | 0.4% | The first decline since January 2023. |
| Wed 28 | | | | | |
| AU | Monthly CPI Indicator (YoY, Apr) | 2.4% | 2.3% | 2.4% | Annual trimmed mean inflation up 0.1ppts to 2.7%. |
| AU | Constr. Work Done (QoQ, Q1) | 0.0% | 0.5% | 0.9% | Q4 2024 growth revised 0.4ppts upwards. |
| NZ | RBNZ Decision (OCR) | 3.25% | 3.25% | 3.50% | RBNZ and markets expect at least one more 25bps cut. |
| US | FOMC Minutes | - | - | - | |
| Thu 29 | | | | | |
| AU | Private Sector Capex (QoQ, Q1) | -0.1% | 0.5% | 0.2% | Mining investment up 1.9% in Q1. |
| US | GDP (QoQ ann., Q1, 2nd est.) | -0.2% | -0.3% | -0.3% | Downward revision to private consumption growth. |
| US | Initial Jobless Claims (w/e 24 May) | 240k | 230k | 226k | Continued claims the highest since November 2021. |
| Fri 30 | | | | | |
| AU | Retail Trade (MoM, Apr) | -0.1% | 0.3% | 0.3% | Solid falls in dining in, eating out and department stores. |
| AU | Private Sector Credit (MoM, Apr) | 0.7% | 0.5% | 0.5% | Annual rate of credit growth rose by 0.2ppts to 6.7%. |
| AU | Dwelling Approvals (MoM, Apr) | -5.7% | 3.0% | -8.8% | Decline again driven by apartment approvals. |
| Tonight | | | | | |
| US | Personal Spending (MoM, Apr) | - | 0.2% | 0.7% | Retail sales suggested a near-flat outcome. |
| US | PCE Price Index (MoM, Apr) | - | 0.1% | 0.0% | Too early to see the inflationary impacts of tariffs. |

Next Week

| Date | Event | Forecast | Previous | Comment |
|---------------|--|----------|----------|---|
| Mon 02 | | | | |
| AU | CoreLogic Home Value Index (MoM, May) | - | 0.6% | The recent RBA cuts supportive of higher demand for housing. |
| AU | Melbourne Institute Inflation (YoY, May) | - | 3.3% | First insights into price formation in May. |
| AU | ANZ Job Ads (MoM, May) | - | 0.5% | Remain well above their pre-COVID levels. |
| US | ISM Manufacturing PMI (May) | 48.5 | 48.7 | S&P Global PMIs pointed to expansion. |
| Tue 03 | | | | |
| AU | RBA Monetary Policy Board Minutes | - | - | More insights into a discussion of recent and future cuts. |
| AU | Current Account Balance (Q1) | - | -\$12.5b | Monthly trade figures point to a lower trade surplus. |
| CH | Caixin Manufacturing PMI (Apr) | 50.9 | 50.4 | NBS PMIs to be released. |
| EZ | HICP (YoY, May, flash) | - | 2.2% | The last important figure ahead of the ECB meeting on Thu. |
| US | JOLTS Job Openings (Apr) | - | 7.2m | US labour market conditions have eased, but remain tight. |
| Wed 04 | | | | |
| AU | GDP (QoQ, Q1) | 0.4% | 0.6% | Annual GDP growth expected to accelerate 0.2ppts to 1.5%. |
| CA | Bank of Canada Decision (Policy Rate) | 2.75% | 2.75% | Next cut not expected before September. |
| US | ADP Employment (monthly change, May) | 110k | 62k | Massively undershot the official April private payroll figures. |
| US | ISM Services PMI (May) | 52.0 | 51.6 | S&P Global report suggested US services are in good shape. |
| US | Beige Book | - | - | Anecdotal information on conditions in Fed districts. |
| Thu 05 | | | | |
| AU | Household Spending Indicator (MoM, Apr) | - | -0.3% | To replace retail sales from July. |
| AU | Trade Balance (Apr) | - | A\$6.9b | Chinese trade figures suggested a rise in iron ore exports. |
| CH | Caixin Services PMI (May) | - | 50.7 | Chinese economy again on the brink of stagnation. |
| EZ | ECB Decision (Deposit Rate) | 2.00% | 2.25% | 25bps almost entirely priced in. |
| Fri 06 | | | | |
| US | Non-farm Payrolls (monthly change, May) | 130k | 177k | Private payrolls expected to rise by 115k, against 167k in April. |
| US | Unemployment Rate (May) | 4.2% | 4.2% | In line with the FOMC's longer-run estimate of 4.2%. |