

Highlights this week

- In Australia, the Q2 CPI report confirmed that annual trimmed mean inflation is heading towards the mid-point of the target range, paving the way for a cash rate cut in August. Retail trade growth in June and Q2 surprised to the upside, mainly supported by the EOFY sales. Dwelling approvals bounced more than expected in June, followed by another rise in the Cotality home value index.
- Abroad, the White House released a list of updated 'reciprocal tariffs', while announcing that the baseline rate will remain at 10%. FOMC left the fed funds rate target rate unchanged, signalling caution about rate cuts in the coming months. US GDP growth accelerated in Q2, though mainly thanks to unwinding of a Q1 surge in imports. US PCE inflation remained above the Fed's 2% goal in June.

Highlights next week

- The key domestic highlights next week will be Melbourne Institute inflation gauge for July on Monday, followed by the June household spending indicator and July ANZ job ads on Tuesday and the goods trade balance for June on Thursday.
- The key releases offshore will be the US and Chinese services PMIs for July on Tuesday, followed by Chinese trade figures for July on Thursday. The Bank of England will announce its monetary policy decision on Thursday.

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	8675	(+16 pt)
US (IOR)	4.40	(0 pt)	90-day Bills	3.69	(-13 pt)	2-yr T-Notes	3.95	(+14 pt)	S&P500	6339	(-124 pt)
Eurozone (Deposit)	2.00	(0 pt)	3-yr T-Bond	3.47	(-11 pt)	10-yr T-Notes	4.38	(-11 pt)	DJIA	44131	(-1563 pt)
UK	4.25	(0 pt)	10-yr T-Bond	4.32	(-13 pt)	Jap 10-yr	1.55	(-15 pt)	Nikkei	40934	(-1722 pt)
Japan (Target)	0.50	(0 pt)	3-yr WATC Bond	3.61	(-12 pt)	UK 10-yr	4.57	(-15 pt)	CSI300	4082	(-167 pt)
China (1Y LPR)	3.00	(0 pt)	10-yr WATC Bond	4.81	(-16 pt)	Ger 10-yr	2.70	(-11 pt)	Stoxx600	546	(-15 pt)

Changes are since the previous issue of Market WATCH Weekly.

Financial Markets

Interest Rates

US Treasury yields declined at the back end of the curve, but there were increases in shorter maturities, as fed funds rate cut expectations were trimmed slightly due to cautious forward guidance following the FOMC monetary policy decision meeting. FOMC left the fed funds rate target range unchanged at 4.25-4.50% on Thursday morning, as expected. During the press conference, Fed Chair Jerome Powell repeatedly highlighted that the case for rate cuts at the coming meetings will depend on the incoming data.

The Bank of Canada and Bank of Japan also held rates steady this week, in line with market expectations.

Commonwealth yields also declined this week, as Q2 figures confirmed that trimmed mean inflation is heading towards the mid-point of the 2-3% target range, opening a way to a cash rate cut at the August RBA meeting.

Supporting the above, RBA Deputy Governor Andrew Hauser said in his public appearance on Thursday that a decline in trimmed mean inflation in Q2 was 'very welcome'.

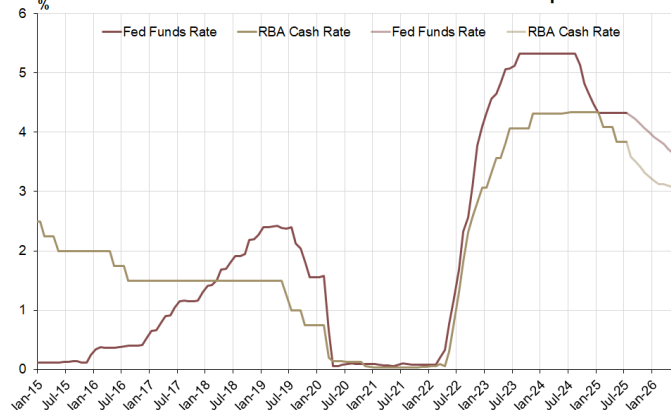
Equities

US stocks started the trading week with fresh record highs, supported by optimism over a tentative trade deal between the US and the EU. However, they retreated for the rest of the week, as the 1 August deadline for trade negotiations loomed.

This morning, the White House released a list of updated 'reciprocal tariffs', while confirming that the baseline rate will remain at 10%.

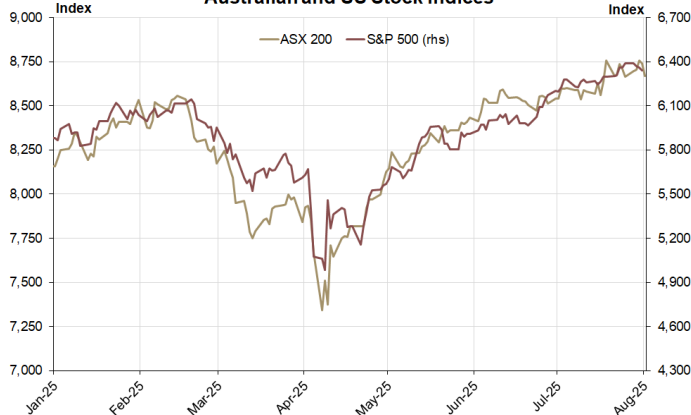
The ASX 200 was trending higher in the first half of the week, closing just shy of its record high on Wednesday. However, it followed the US market lower amid tariff concerns on Thursday and plunged at the open this morning, despite Australia likely retaining the 10% baseline tariff rate.

Fed Funds Rate and RBA Cash Rate - Actual and Expected



Source: Bloomberg

Australian and US Stock Indices



Source: Bloomberg

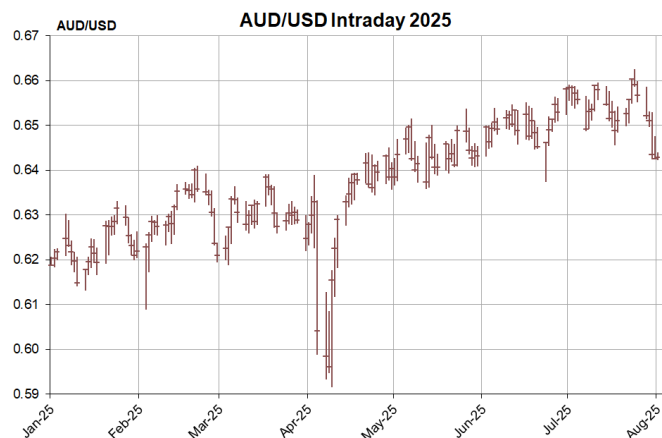
Currencies

The AUD/USD appears on track for its worst week since early April, with the exchange rate falling to five-week lows. The slide has been driven by a combination of a weaker Australian dollar and stronger greenback.

Weaker-than-expected Aussie inflation figures, which have all but locked in an RBA cash rate cut in August, drove the AUD lower against the major currencies, except the euro.

The greenback was pushed higher by trade deal news and relatively hawkish comments from Fed Chair Jerome Powell following the FOMC meeting this week, with the US dollar index climbing to its highest level since May.

Apart from setting a 15% base tariff on US imports from the EU, the US-EU 'trade deal' included a commitment from the EU to increase purchases of US goods and significantly lift investment in US industry. If fulfilled, this would increase demand for US dollars. A similar deal with South Korea was announced later in the week, and followed another one, with Japan.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6431	0.6586	0.6422	↓2.5	0.6942	0.5915
AUD/EUR		0.5635	0.5658	0.5569	↑0.5	0.6261	0.4620
AUD/GBP		0.4874	0.4900	0.4848	↓0.2	0.5229	0.4620
AUD/JPY		96.99	97.29	95.86	↓0.1	102.41	86.05
AUD/CNY		4.6355	4.7158	4.6253	↓1.8	4.8726	4.3523
EUR/USD		1.1412	1.1779	1.1401	↓2.9	1.1829	1.0141
GBP/USD		1.3194	1.3453	1.3186	↓2.3	1.3789	1.2100
USD/JPY		150.82	150.92	147.52	↑2.5	158.87	139.58
USD/CNY		7.2086	7.2108	7.1674	↑0.8	7.3511	7.0063
Forward Rates		Spot	3M	6M	12M		
AUD/USD		0.6431	0.6442	0.6455	0.6474		
AUD/EUR		0.5635	0.5611	0.5589	0.5548		
AUD/GBP		0.4874	0.4879	0.4884	0.4893		
AUD/JPY		96.99	96.17	95.42	94.09		
AUD/NZD		1.0939	1.0922	1.0909	1.0887		
AUD/SGD		0.8351	0.8308	0.8269	0.8196		

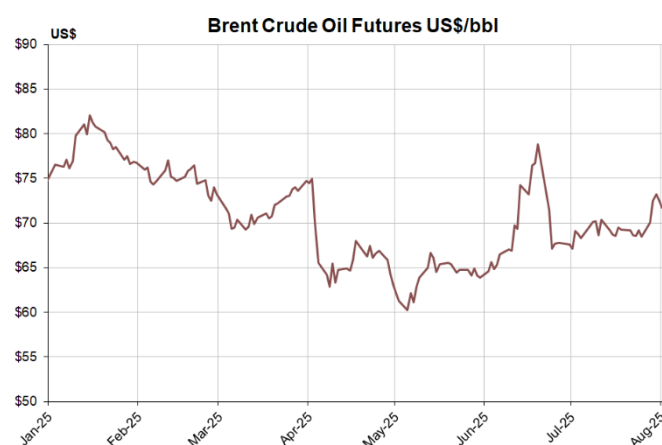
Commodities

Oil prices jumped to five-week highs after US President Donald Trump said Russia must agree to a ceasefire in Ukraine by 8 August, or face further sanctions. The new measures would include secondary US tariffs on buyers of Russian oil. The announcement brought forward the original deadline of 2 September and raised concerns over the near-term oil supply outlook. President Trump is also reportedly pressuring India over its imports of Russian oil as part of trade negotiations.

News of tighter sanctions on Iranian oil exports added further upward pressure on prices.

Iron ore futures prices slipped after hitting near five-month highs last week, with the benchmark Singapore price currently on track for its worst week since early May.

Gold prices dropped to their lowest levels in a month against the stronger greenback.



Source: Bloomberg

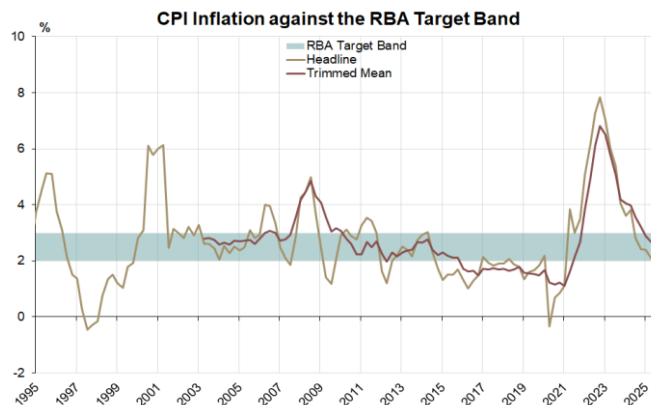
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$3,288.24	\$3,345.39	\$3,268.18	(↓\$83.67)	\$3,500.10	\$2,364.43
Brent Crude Oil (US\$)	\$71.66	\$73.63	\$68.35	(↑\$2.33)	\$82.63	\$58.40
Mogas95* (US\$)	\$80.06	\$82.68	\$76.98	(↑\$2.09)	\$95.91	\$67.57
WTI Oil (US\$)	\$69.20	\$70.51	\$65.05	(↑\$3.03)	\$80.77	\$55.12
CRB Index	299.78	305.95	299.78	(↓4.59)	316.63	265.48
Iron Ore Price 62% Fe (US\$) **	\$100.50	\$103.75	\$99.05	(↓\$2.75)	\$115.00	\$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.

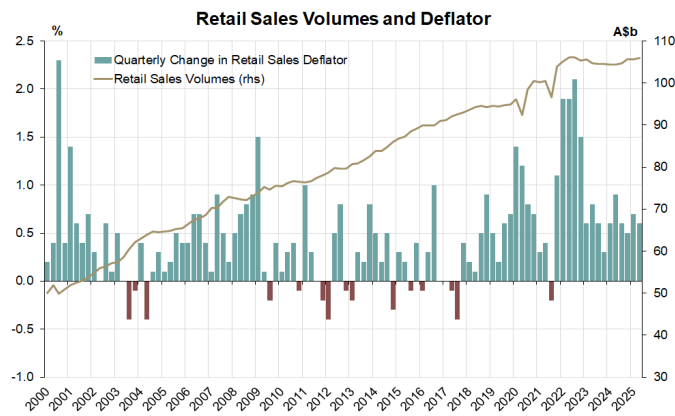
Domestic Economy

The **Q2 CPI report** confirmed that annual trimmed mean is not far above the mid-point of the target range.



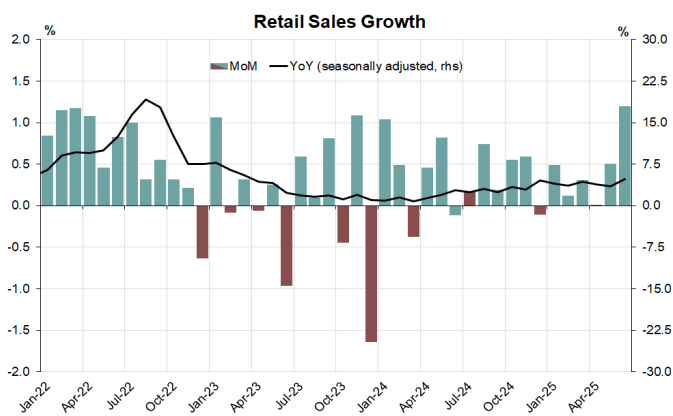
Source: ABS

After decelerating in early 2023, **retail prices** growth has been steady, while retail trade volumes have plateaued.



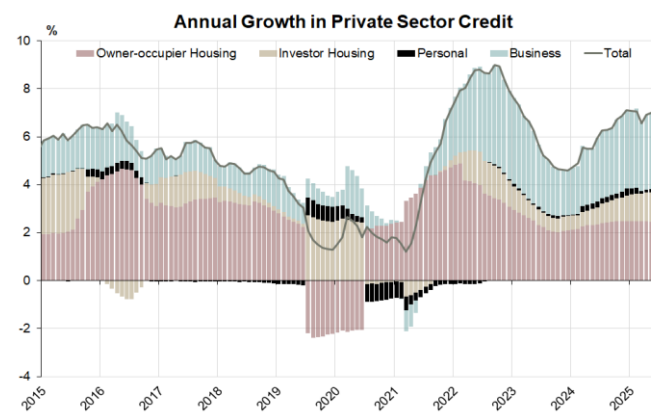
Source: ABS

Retail sales bounced in June, supported by EOFY sales and a release of a new gaming product.



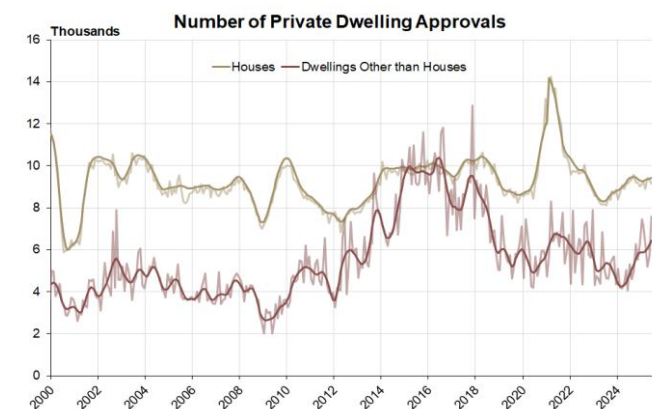
Source: ABS

Consumers appear to have funded their spending with **personal credit** slightly more over the past year.



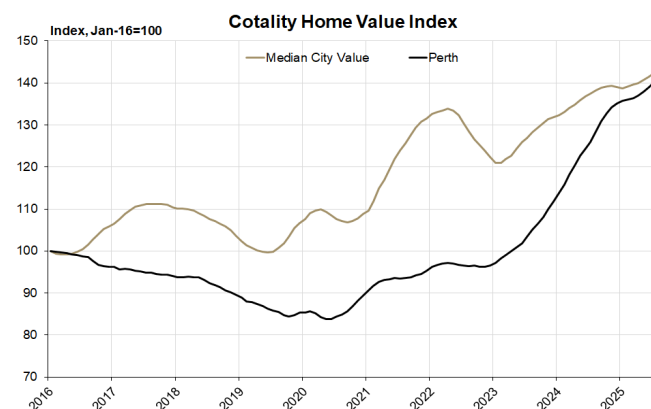
Source: RBA

Dwelling approvals saw a solid gain in June, supported by a bounce in unit approvals...



Source: ABS

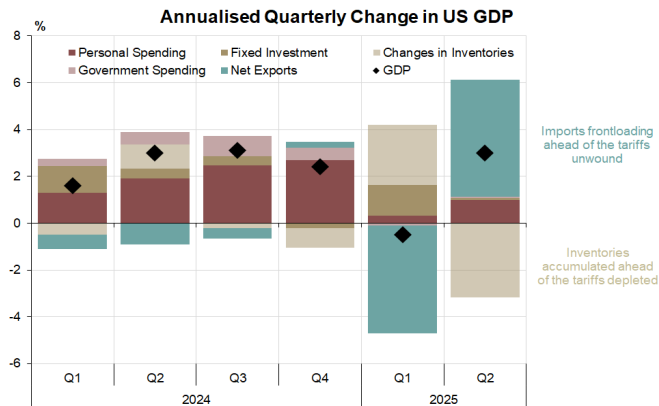
... but the ongoing imbalance continues to push **house prices** higher nationwide.



Source: Bloomberg

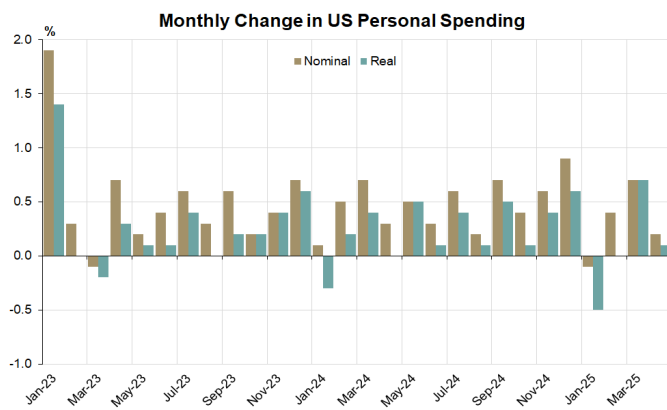
Global Economy

US GDP saw a solid gain in Q2, as depletion of inventories accumulated amid tariffs concerns in Q1...



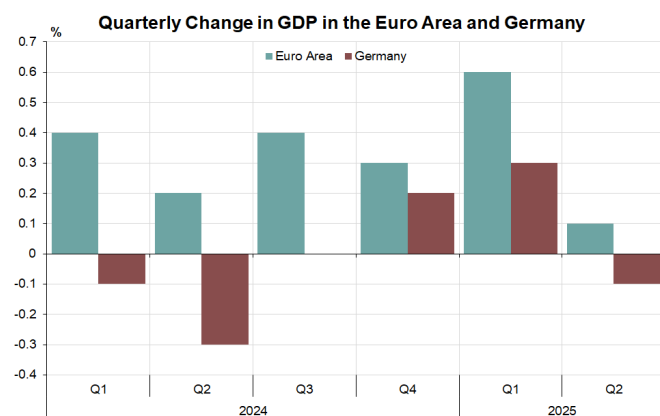
Source: Bureau of Economic Analysis

US personal spending displayed some weakness towards the end of Q2, especially in real terms...



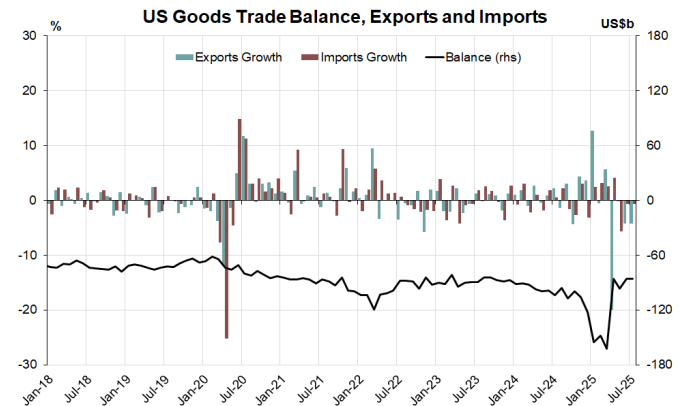
Source: Bloomberg

In contrast to the US, **euro area GDP growth** was hit by tariff uncertainty, with German growth turning negative.



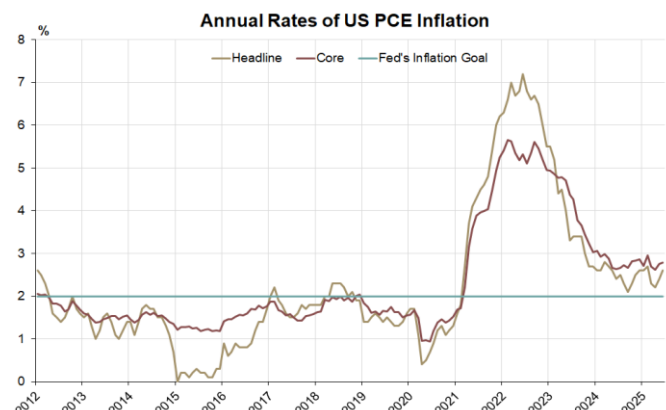
Source: Bloomberg

... was more than offset by a **drop in imports** from high levels in Q1 amid frontloading ahead of the tariffs.



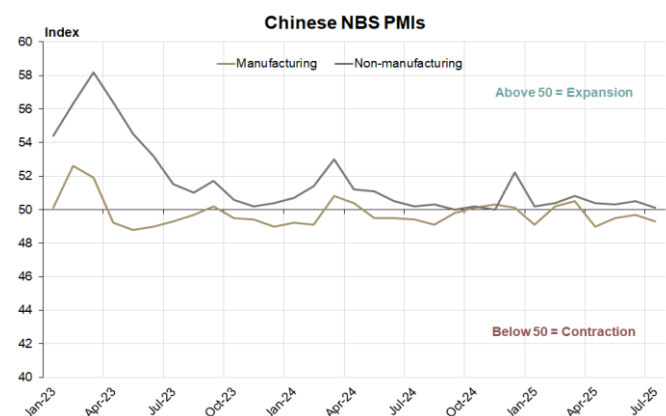
Source: Bloomberg

... as **US PCE inflation rates** remain stubbornly above the Fed's 2% goal.



Source: Bloomberg

NBS Chinese PMIs also suggest further contraction in manufacturing and stagnation elsewhere.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 28					
	No market moving data				
Tue 29					
AU	ANZ Consumer Sent. (w/e 26 Jul)	86.7	-	86.3	Inflation expectations rose by 0.2ppts to 4.9%.
US	JOLTS Job Openings (Jun)	7.4m	7.5m	7.7m	Still higher than the number of officially unemployed.
US	C-S Hse Price 20 City (MoM, May)	-0.3%	-0.2%	-0.3%	Annual rate of growth at 2.8%, the slowest since Aug-23.
US	Conference Board Conf. (Jul)	97.2	96.0	95.2	Improvement driven by higher expectations.
US	Goods Trade Balance (Jun, adv.)	-US\$86b	-US\$98b	-US\$96b	Narrower deficit thanks to normalisation in imports.
Wed 30					
AU	CPI (QoQ, Q2)	0.7%	0.8%	0.9%	Annual trimmed mean inflation down to 2.7%.
CA	BoC Decision (Policy Rate)	2.75%	2.75%	2.75%	BoC appears to be done with rate cuts.
EZ	GDP (QoQ, Q2)	0.1%	0.0%	0.6%	German GDP back in retreat.
US	ADP Employment (MoM, Jul)	104k	76k	-23k	Has been a poor indicator of the official jobs figures.
US	GDP (QoQ ann., Q2, 1st est.)	3.0%	2.6%	-0.5%	Helped by unwinding of the Q1 surge in imports.
US	FOMC Decision (IoER)	4.40%	4.40%	4.40%	Do not expect a cut in September.
Thu 31					
AU	Retail Trade (MoM, Jun)	1.2%	0.4%	0.5%	The upside surprise driven by the EOFY sales.
AU	Retail Sales Volumes (QoQ, Q2)	0.3%	0.0%	0.1%	Retail sales prices rose by 0.6% in Q2.
AU	Dwelling Approvals (MoM, Jun)	11.9%	1.8%	2.2%	Reached the highest level since August 2022.
AU	Private Sector Credit (MoM, Jun)	0.6%	0.5%	0.6%	Personal credit growth accelerated.
AU	International Price Indices (Q2)	-	-	-	Decline in both export and import prices.
AU	RBA Deputy Governor Speaks	-	-	-	Fall in trimmed mean inflation 'very welcome' by the RBA.
JP	BoJ Decision (Policy Bal. Rate)	0.50%	0.50%	0.50%	BoJ worried about wage and price setting behaviour.
CN	NBS Composite PMI (Jul)	50.2	-	50.7	Stagnation in services, slight expansion in construction.
US	Personal Spending (MoM, Jun)	0.3%	0.4%	0.0%	Real personal spending rose by just 0.1% in June.
US	PCE Price Index (MoM, Jun)	0.3%	0.3%	0.2%	Annual inflation rates at 2.6% (headline) and 2.8% (core).
US	Initial Jobless Claims (w/e 26 Jul)	218k	224k	217k	Continued claims unchanged at 1,946k in w/e 19 July.
Fri 01					
AU	Cotality Home Value (MoM, Jul)	0.6%	-	0.6%	Perth again saw the strongest state capital gain of 0.9%.
AU	PPI (QoQ, Q2)	0.7%	-	0.9%	Annual producer price inflation down 0.3ppts to 3.4%.
CN	Caixin Manufacturing PMI (Jul)	49.5	50.2	50.4	Contraction in new export orders accelerated.
Tonight					
EZ	HICP (YoY, Jul)	-	1.9%	2.0%	ECB appears to be content about euro area inflation.
US	ISM Manufacturing PMI (Jul)	-	49.5	49.0	Contraction signalled by the flash S&P Global report.
US	Non-farm Payrolls (MoM, Jul)	-	104k	147k	Half of the rise in June came from government jobs.
US	Unemployment Rate (Jul)	-	4.2%	4.1%	Would be in line with the FOMC's long-run estimate.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 04				
AU	Melbourne Institute Inflation (MoM, Jul)	-	0.1%	First insights into price formation in July.
Tue 05				
AU	Household Spending Indicator (MoM, Jun)	0.8%	0.9%	Annual growth to accelerate to 4.9%.
AU	ANZ Job Ads (MoM, Jul)	-	1.8%	Have disconnected with the unemployment rate of late.
CH	Caixin Services PMI (Jul)	-	50.6	NBS PMIs pointed to contraction.
US	ISM Services PMI (Jul)	51.5	50.8	S&P Global report suggested a solid pace of expansion.
Wed 06				
	No market moving data			
Thu 07				
AU	Goods Trade Balance (Jun)	A\$3.7m	A\$18.4b	Aussie trade not impacted by tariffs so far.
CH	Trade Balance (Jul)	-	US\$115b	So far, the fall in exports to the US offset by gains elsewhere.
UK	Bank of England Decision (Bank Rate)	4.00%	4.25%	A rate cut nearly fully priced in for this meeting.
Fri 08				
	No market moving data			