

Interest Rates			FX			Commodities		
<b>Australia</b>		<b>Δ bp</b>	AUD/USD	0.7102	-0.9%	WTI Crude Oil	103.73	-\$3.65
90-day Bill	4.45	0	AUD/JPY	112.95	-0.9%	Brent Crude Oil	110.71	-\$1.39
3-year Bond	4.69	-2	AUD/EUR	0.6119	-0.5%	Mogas95*	135.73	\$0.70
10-year Bond	5.07	1	AUD/GBP	0.5301	-0.7%	CRB Index	406.18	0.41
			AUD/NZD	1.2189	-0.2%	Gold	4506.90	-\$72.96
			AUD/CNY	4.8421	-0.4%	Silver	74.48	-\$4.12
<b>US</b>			EUR/USD	1.1605	-0.4%	Iron Ore (61% Fe)**	107.80	-\$0.30
2-year	4.11	7	USD/JPY	159.05	0.1%	Iron Ore (25-26 Average)	103.90	\$0.02
10-year	4.66	7	USD/CNY	6.8136	0.2%	Copper	13411.00	-\$176.50
			RBA Policy			Equities		
			O/N Cash Rate Target	4.35		ASX200	8557	52
			Interbank O/N Cash Rate	4.35		Dow Jones	49364	-322
<b>Other 10-year</b>			Probability of a 25bps Hike in Jun	17.1%		S&P500	7354	-49
Japan	2.80	5	RBA Bond Holdings (30 Apr)	A\$230.3b		Stoxx600	611	1
Germany	3.19	4				CSI300	4853	19
UK	5.13	3						

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

\*\*Iron ore is the second SGX futures contract.

US equities fell again as the standoff in the Persian Gulf continues and US Treasury yields jumped. The 30-year Treasury yield hit its highest level since 2007. The risk-off tone and rising expectations for a US interest rate hike later this year drove the US dollar index to a six-week high. Oil prices eased slightly as Washington mixed comments about making good progress in negotiations with Iran along with threats of resuming air strikes if a deal isn't reached soon. NATO is reportedly considering sending ships to the Gulf to escort commercial vessels if the Strait isn't opened by July.

The equity selloff in the US followed positive sessions in Europe and most of the Asia-Pacific, although European shares ran out of steam toward the end of the session. The Aussie share market had a strong day yesterday, with the ASX 200 gaining over 1%, before opening lower this morning.

Aussie bond yields fell yesterday but have opened higher this morning. The Aussie dollar has been the weakest member of the G10 currency basket over the past 24 hours and has slipped to its lowest levels against the greenback in a month.

In commodity markets, Brent crude remains above US\$110 a barrel, gold prices dropped amid a rise in the US dollar and bond yields. Iron ore futures fell for the fourth day in a row but remain at a healthy level.

The minutes of the RBA Monetary Policy Board meeting in May brought few surprises, highlighting that the RBA's current focus is on containing inflation and inflation expectations. However, the minutes also said that the decision to raise the cash rate by an additional 25bps, along with the previous cash rate increases, would give the Board space to see how the outlook evolves.

This is in line with most forecasters and market pricing, that the RBA is likely to pause its hiking cycle at the next meeting on 15-16 June. As a result, the minutes saw only minor adjustments to cash rate expectations. The market continues to price in less than a 20% probability of a 25bps cash rate increase in June and a 75% probability at the following meeting in August. A hike is fully priced in for the September meeting.

The relatively less hawkish tone of the RBA minutes was offset by RBA Chief Economist Sarah Hunter's warnings about the inflationary risks of the Middle East war in her speech yesterday morning. The RBA also released a research paper saying firms raise prices more frequently during large supply shocks, arguing that such circumstances call for more aggressive policy tightening.

The other key piece of Aussie news was the Westpac-Melbourne Institute consumer sentiment index, which saw a 3.5% increase in May following a 12.5% drop in April. Despite the small improvement, the index remains very depressed at 83.0. The increase was driven by a less pessimistic view on family finances, which was partly offset by a deterioration in expectations for the economy. Interest rate expectations climbed to a three-year high, with 85% of consumers expecting further hikes in the next 12 months. Negative views on the Budget were in line with the historical average. Fears of losing a job eased, with the unemployment expectations index falling 5.2%, after hitting a 5½-year high in April.

### Economic Data Review

- **AU:** Westpac Consumer Sentiment (MoM, May) – Actual 3.5%, Previous -12.5%.

### Economic Data Preview

- **US:** FOMC Meeting Minutes
- **UK:** CPI (MoM, Apr) – Expected 0.9%, Previous 0.7%.