

Highlights this week

- At home, the headline CPI inflation for April surprised to the downside, but trimmed mean inflation climbed further. Household spending fell in nominal terms in April, dragged down by the fuel excise cut. Private sector capex surged in Q1, supported by investment in data centres. Construction work done also saw a solid increase in Q1, though residential building work fell.
- Offshore, US PCE price inflation also surprised slightly to the downside, both in headline and core terms, but annual rates continue to drift away from the Fed's goal. GDP growth in Q1 was revised downwards. The RBNZ left the official cash rate unchanged, as expected, but came close to a rate hike.

Highlights next week

- The main domestic release next week will be the Q1 GDP on Wednesday. It will be preceded by the balance of payments for Q1 on Tuesday, and followed by the April goods trade balance on Thursday. There will be a lot of RBA speak next week, with public appearances by the RBA Governor, Deputy Governor and one member of the Monetary Policy Board.
- The key releases abroad will be US labour market data as well as the US and Chinese PMIs.

Central Bank Rates (%)	Weekly Change	Australian Interest Rates (%)	Weekly Change	Major Overseas Interest Rates (%)	Weekly Change	Global Equities	Weekly Change
Australia	4.35 (0 pt)	O/N Interbank Cash	4.35 (0 pt)	USD 3-month	3.58 (↑1 pt)	ASX200	8593 (↓71 pt)
US (IOR)	3.65 (0 pt)	90-day Bills	4.44 (↑1 pt)	2-yr T-Notes	4.02 (↓6 pt)	S&P500	7564 (↑118 pt)
Eurozone (Deposit)	2.00 (0 pt)	3-yr T-Bond	4.49 (↓5 pt)	10-yr T-Notes	4.45 (↓12 pt)	DJIA	50669 (↑383 pt)
UK	3.75 (0 pt)	10-yr T-Bond	4.85 (↓7 pt)	Jap 10-yr	2.70 (↓8 pt)	Nikkei	65817 (↑2868 pt)
Japan (Target)	0.75 (0 pt)	3-yr WATC Bond	4.68 (↓5 pt)	UK 10-yr	4.81 (↓15 pt)	CSI300	4914 (↑120 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	5.29 (↓6 pt)	Ger 10-yr	2.96 (↓14 pt)	Stoxx600	625 (↑5 pt)

Changes are since the previous issue of Market WATCH Weekly.

Financial Markets

Interest Rates

Government bond yields saw quite considerable declines across the advanced economies this week, reflecting easing inflation concerns following a fall in oil prices and a downside surprise to the US PCE inflation figures.

Aussie government bond yields fell less than their US equivalents, despite domestic headline inflation also coming out somewhat lower than expected in April. Currently, only 18bps of cash rate hikes are priced in for the remainder of 2026, which compares with 24bps a week ago.

Speaking on Wednesday night, RBA Monetary Policy Board member Carolyn Hewson judged that the conflict in the Middle East has had moderate impacts on household behaviour, but highlighted the risk of second round effects and underscored the importance of keeping inflation expectations anchored.

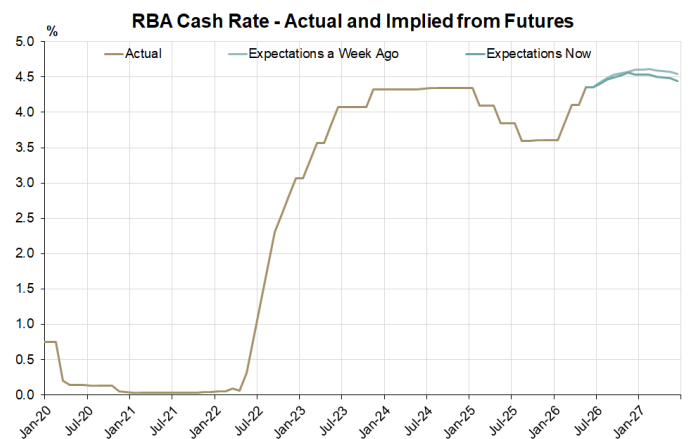
The RBNZ left its official cash rate target at 2.25% on Wednesday, but the vote was split, with some participants preferring a 25bps hike. The Kiwi central bank has also released a projection suggesting hikes ahead, but it was still short of market expectations, which are for the official cash rate peaking above 4.00% in mid-2027.

Equities

Despite the mixed messages about the US-Iran war and even a resumption of strikes in the Middle East, Wall Street saw fresh record highs almost every day over the past week.

The gains came as investors preferred to see the glass half full about the prospects of a peace deal between the conflicted parties. These hopes were partly validated by press reports last night that a framework for a deal has been negotiated, but is waiting for final approval by both sides.

The ASX 200 again underperformed its US counterpart this week, with virtually no change despite day-to-day volatility. Gains and losses are almost equally spread across industries. The worst performer was energy amid the drop in oil prices, while consumer discretionary is at the top of the ladder for the week.



Source: Bloomberg



Source: Bloomberg

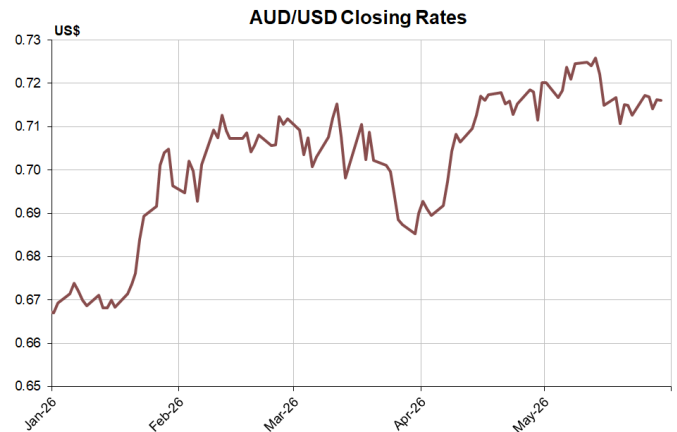
Currencies

The Australian dollar has had a mixed week and is currently mid-table among the G10 traded currencies, although it has gained against most of the majors.

The Aussie dollar dipped on Wednesday, after weaker than anticipated April headline CPI inflation added to expectations that the RBA will pause its cash rate hikes in June.

The AUD/USD slipped to as low as US\$0.7098 yesterday morning, following the soft Aussie household spending data and the appreciating US dollar. However, those losses were reversed as the greenback slipped amid peace hopes and softer-than-expected US PCE price inflation for April.

The New Zealand dollar has been the strongest of the G10, after the Reserve Bank of New Zealand came close to raising its official cash rate this week.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7163	0.7182	0.7098	↑0.3	0.7278	0.6373
AUD/EUR		0.6148	0.6170	0.6123	↓0	0.6207	0.4754
AUD/GBP		0.5329	0.5336	0.5303	↑0.2	0.5394	0.4754
AUD/JPY		114.09	114.35	113.28	↑0.5	114.74	92.02
AUD/CNY		4.8534	4.8740	4.8173	↓0	4.9567	4.5602
EUR/USD		1.1651	1.1661	1.1586	↑0.3	1.2081	1.1210
GBP/USD		1.3443	1.3509	1.3368	↑0.1	1.3868	1.3010
USD/JPY		159.27	159.65	158.74	↑0.1	160.72	142.38
USD/CNY		6.7757	6.8014	6.7755	↓0.4	7.2140	6.7755

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7163	0.7150	0.7135	0.7108
AUD/EUR		0.6148	0.6113	0.6079	0.6015
AUD/GBP		0.5329	0.5320	0.5312	0.5299
AUD/JPY		114.09	113.03	111.98	109.95
AUD/NZD		1.2074	1.2017	1.1967	1.1893
AUD/SGD		0.9141	0.9065	0.8987	0.8837

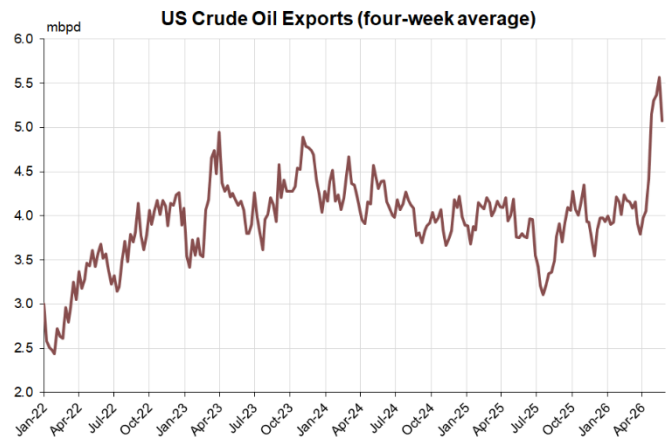
Commodities

Oil prices slumped to five-week lows, amid news that the US and Iran have reportedly reached an agreement to extend the ceasefire by 60-days while talks for a more lasting solution continue. The deal would reportedly see Iran reopen the Strait of Hormuz and the US lift its naval blockade on Iran, while the more contentious issues are negotiated. However, the US President is yet to fully endorse the deal.

Average US crude oil exports have surged to over 5 million barrels per day (mbpd) over the past month, up around 1.0 mbpd from the average level over the two years prior to the conflict. Average global oil consumption is now over 100 mbpd.

Iron ore futures prices jumped on Monday, reportedly pulled higher by a jump in coal futures prices following a mine disaster in China. Prices quickly fell back to be slightly lower for the week.

Aluminium prices hit a four-year high on Tuesday as fears of possible production cuts in China compounded supply concerns amid disruptions caused by the US-Iran war.



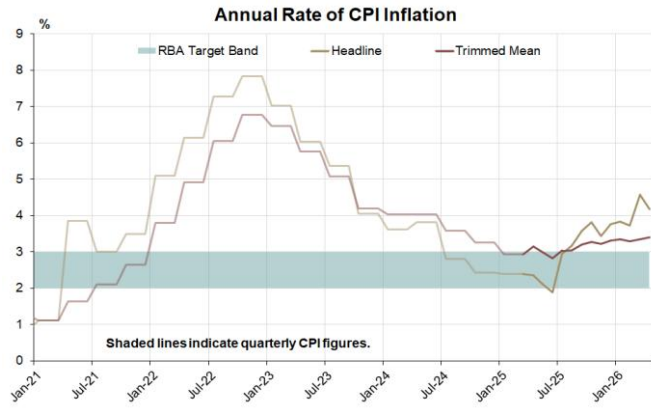
Source: Bloomberg

as	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$4,503.13	\$4,580.16	\$4,366.74	(↓\$24.1)	\$5,595.47	\$3,245.50
Brent Crude Oil (US\$)	\$93.33	\$100.73	\$92.60	(↓\$11.17)	\$126.41	\$58.72
Mogas95* (US\$)	\$113.37	\$130.88	\$111.72	(↓\$10.52)	\$150.55	\$68.52
WTI Oil (US\$)	\$88.31	\$99.43	\$87.11	(↓\$9.43)	\$119.48	\$54.98
CRB Index	384.61	392.67	381.17	(↓7.76)	406.18	290.43
Iron Ore Price 62% Fe (US\$) **	\$105.35	\$108.55	\$104.35	(↓\$0.55)	\$111.90	\$92.00

*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.
 ** The Iron Ore Price is the SGX 61% Fe iron ore futures 2nd contract.

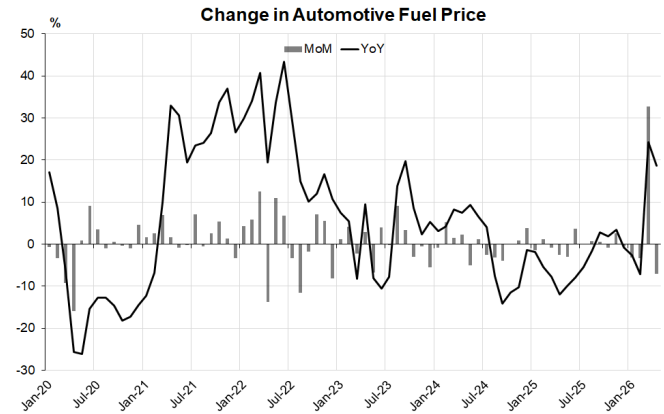
Domestic Economy

Headline consumer price inflation declined in April, but trimmed mean inflation climbed further.



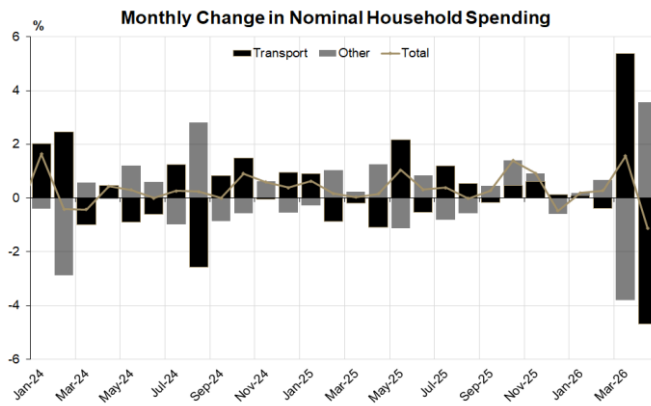
Source: ABS

The fuel excise cut drove automotive fuel prices lower in April...



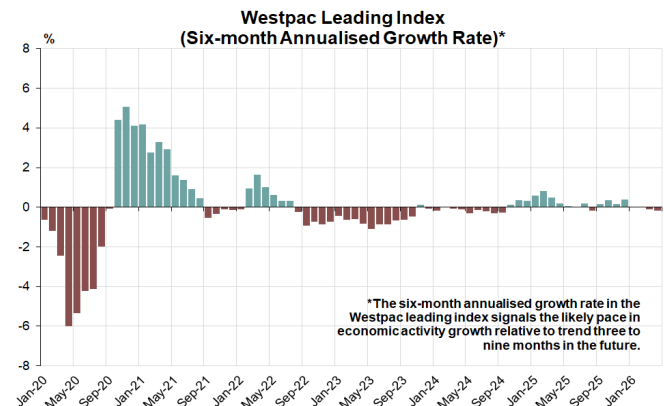
Source: ABS

... while also putting a drag on **nominal household spending**.



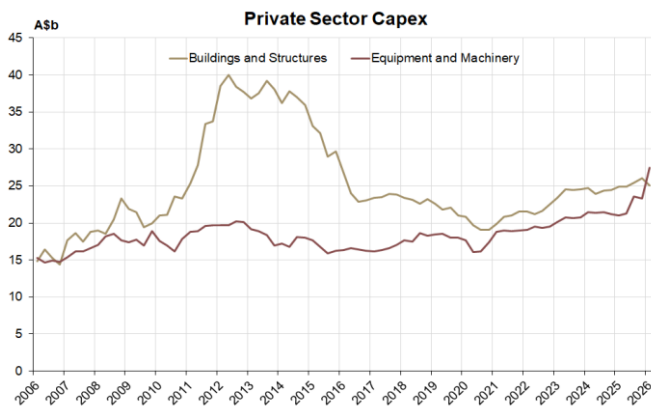
Source: ABS

The Westpac leading index suggests that the pace of growth will be slightly below trend later this year.



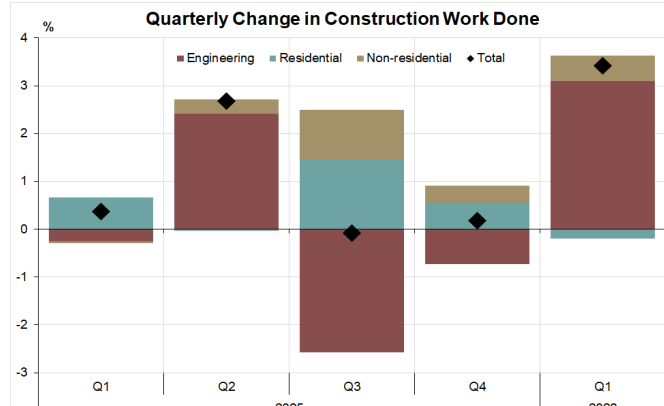
Source: Bloomberg

Meanwhile, spending for data centres drove the **equipment capex** to a record high in Q1.



Source: ABS

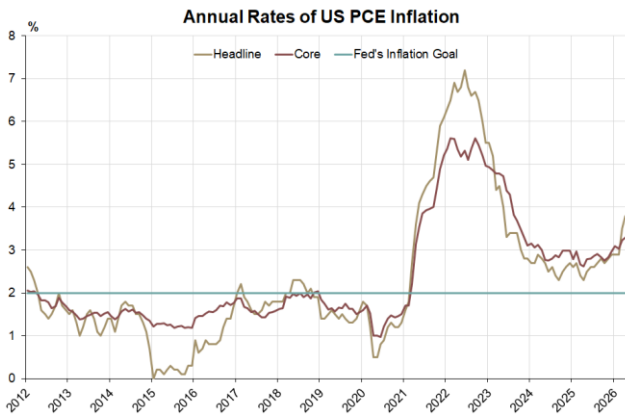
The rise in **construction work done** in Q1 was driven by a surge in engineering work.



Source: ABS

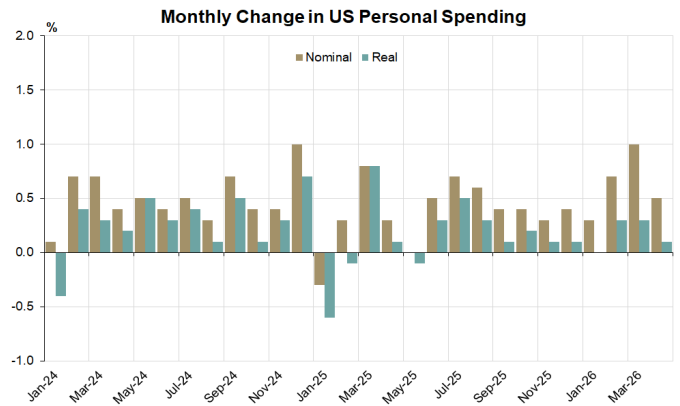
Global Economy

Annual rates of **US PCE inflation** continue to drift away from the Fed's goal, both in headline and core terms...



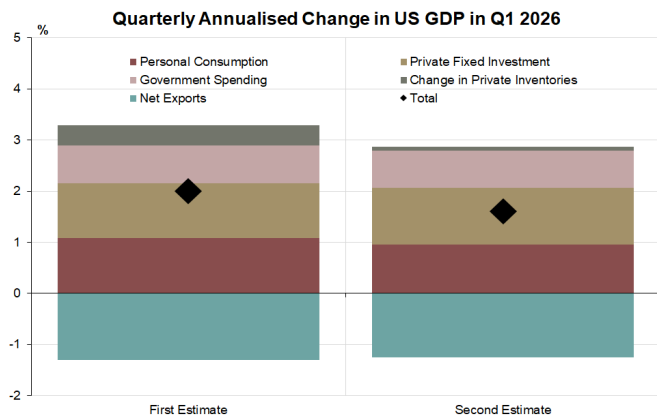
Source: Bloomberg

... though real **US personal spending growth** appears to have again come to a virtual halt in April.



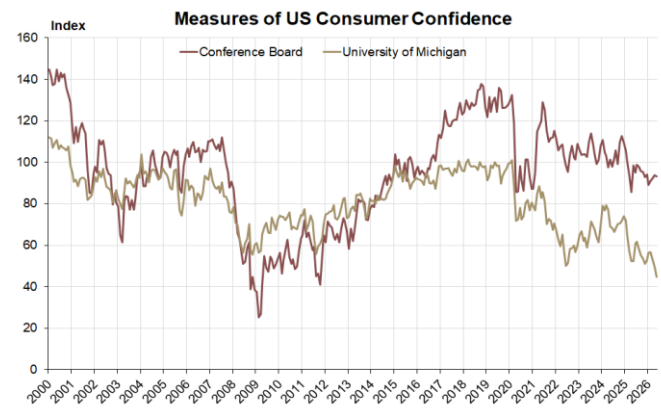
Source: Bloomberg

US GDP growth estimate for Q1 2026 was revised downwards, though mainly due to smaller rise in stocks.



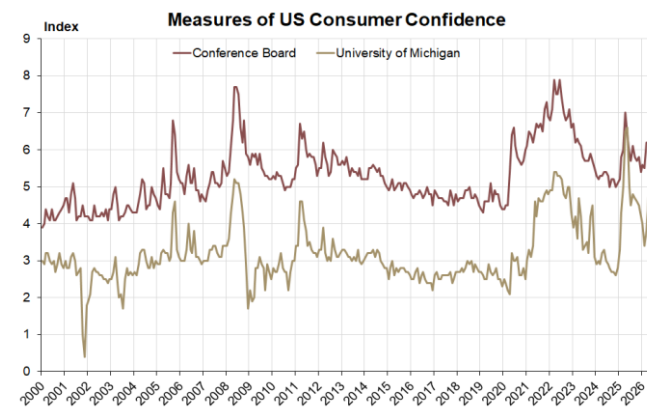
Source: Bloomberg

Despite the difference in levels, both measures of **US consumer sentiment** remain depressed.



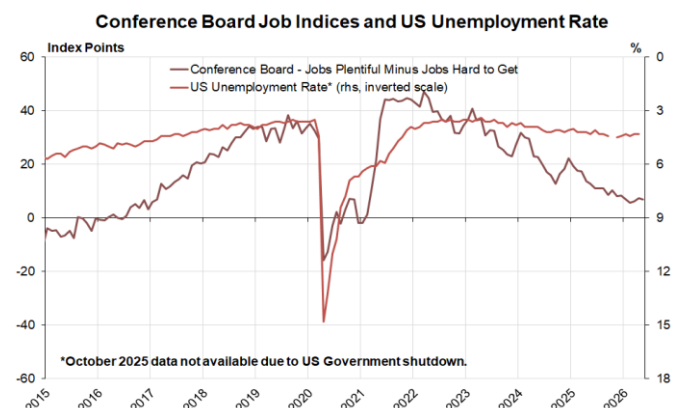
Source: Bloomberg

US consumer inflation expectations might be off their 2025 and 2026 highs, but are still quite elevated.



Source: Bloomberg

US consumers view **labour market conditions** as more bleak than indicated by the official data.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 25					
	<i>No market moving data</i>				
Tue 26					
AU	ANZ Cons. Conf. (w/e 23 May)	66.1	-	66.4	Inflation expectations up 0.1ppts to 6.1%.
US	C-S Hse Pce 20 Cities (MoM, Mar)	-0.2%	-0.1%	-0.1%	Second monthly decline in a row.
US	CB Cons. Confidence (May)	93.1	92.0	93.8	Assessment of present conditions deteriorated.
Wed 27					
AU	CPI (YoY, Apr)	4.2%	4.4%	4.6%	Annual trimmed mean inflation up 0.1ppts to 3.4%.
AU	Construction Work (QoQ, Q1)	3.4%	0.8%	0.2%	Residential building work done down by 0.6% QoQ.
AU	Westpac Lead. Index (MoM, Apr)	0.0%	-	-0.1%	6m annualised rate suggests sub-trend growth ahead.
AU	RBA MPB Member Speaks	-	-	-	Expressed concerns about second-round effects.
NZ	RBNZ Decision (OCR)	2.25%	2.25%	2.25%	RBNZ and markets expect tightening in Q3.
Thu 28					
AU	Household Spending (MoM, Apr)	-1.1%	-0.5%	1.6%	Negative contribution came from fuel excise cut.
AU	Private Sector Capex (QoQ, Q1)	6.5%	1.0%	0.7%	Data centres drove equipment investment 18.1% higher.
US	Durable Goods Orders (MoM, Apr)	7.9%	4.0%	1.3%	Non-defence orders ex aircraft saw an unexpected fall.
US	Personal Spending (MoM, Apr)	0.5%	0.5%	1.0%	Real spending ticked up by just 0.1%.
US	PCE Price Index (MoM, Apr)	0.4%	0.5%	0.7%	Core PCE price index rose by 0.2% in April (exp.: 0.3%).
US	GDP (QoQ ann., Q1, 2nd est.)	1.6%	2.0%	2.0%	Downgrade reflecting mainly a smaller rise in inventories.
US	Initial Jobless Claims (w/e 23 May)	215k	211k	210k	Continued claims were little changed in w/e 16 May.
Fri 29					
	<i>No market-moving data</i>				

Next Week

Date	Event	Forecast	Previous	Comment
Mon 01				
AU	Cotality Home Value Index (MoM, May)	-	0.2%	Daily data point to a flat outcome or even a slight decline.
CH	RatingDog Manufacturing PMI (May)	51.3	52.2	NBS PMIs to be published over the weekend.
US	ISM Manufacturing PMI (May)	53.2	52.7	Doing well, though costs and supply pressures are on a rise.
Tue 02				
AU	Current Account Balance (Q1)	-\$22.5b	-\$21.1b	That would be the widest current account deficit on record.
AU	Dwelling Approvals (MoM, Apr)	-3.0%	-10.3%	Private sector house approvals rose by 0.9% in March.
AU	RBA MPB Member Speaks	-	-	Ian Harper speaking at a CEDA event in Melbourne.
EZ	HICP (YoY, May)	3.3%	3.0%	Core inflation expected to pick up by 0.2ppts to 2.4%.
US	JOLTS Job Openings (Apr)	6.9m	6.9m	Remains below the number of officially unemployed.
Wed 03				
AU	GDP (QoQ, Q1)	0.5%	0.8%	Annual rate of growth expected to remain unchanged at 2.6%.
CH	RatingDog Services PMI (May)	52.2	52.6	Has been more positive than its NBS equivalent.
US	ISM Manufacturing PMI (May)	53.7	53.6	The only major advanced economy with services expansion.
US	ADP Employment (monthly change, May)	120k	109k	Has been a poor indicator of the official employment figures.
US	Beige Book	-	-	Anecdotal evidence of economic conditions in Fed regions.
Thu 04				
AU	Goods Trade Balance (Apr)	A\$2.2b	-\$1.8b	March saw the first deficit since 2017 amid higher fuel imports.
AU	RBA Governor Michele Bullock Speaks	-	-	Appearance before a Senate Committee.
Fri 05				
AU	RBA Deputy Governor A. Hauser Speaks	-	-	Fireside chat at a press event in Sydney.
US	Non-farm Payrolls (monthly change, May)	93k	115k	Business reports increasingly suggest a fall in employment.
US	Unemployment Rate (May)	4.3%	4.3%	FOMC's longer run estimate is 4.2%.