

**Highlights this week**

- In Australia, NAB business conditions weakened in May, while business confidence picked up but remained subdued. Westpac consumer sentiment rose a little further in June but is still depressed.
- Abroad, US inflation figures generally surprised to the downside in May. The Chinese trade figures remained resilient to trade tensions in May, with iron ore imports still high by historical standards.

**Highlights next week**

- The only domestic release of note will be the May labour force survey, but it will be an important piece of information ahead of the RBA decision in July.
- The key releases offshore will be US and Chinese activity data. It will also be a big week in central bank, with monetary policy announcements from the Fed, Bank of Japan, People's Bank of China, Bank of England and some further central banks in continental Europe. However, no changes are expected outside of continental Europe.

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	8547 (↓3 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	3.72 (↑1 pt)	2-yr T-Notes	3.89 (↓2 pt)	S&P500	6045 (↑106 pt)
Eurozone (Deposit)	2.00 (0 pt)	3-yr T-Bond	3.28 (↓8 pt)	10-yr T-Notes	4.33 (↓5 pt)	DJIA	42968 (↑648 pt)
UK	4.25 (0 pt)	10-yr T-Bond	4.15 (↓11 pt)	Jap 10-yr	1.41 (↓4 pt)	Nikkei	37730 (↑36 pt)
Japan (Target)	0.50 (0 pt)	3-yr WATC Bond	3.47 (↓8 pt)	UK 10-yr	4.48 (↓14 pt)	CSI300	3885 (↑7 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	4.76 (↓11 pt)	Ger 10-yr	2.48 (↓10 pt)	Stoxx600	550 (↓2 pt)

Changes are since the previous issue of Market WATCH Weekly.

**Financial Markets****Interest Rates**

Government bond yields declined across the advanced economies this week, though the moves do not reveal the extent of volatility, especially in US Treasury market.

US Treasury yields surged after non-farm payrolls overshot market expectations last Friday. The situation reversed mid-week, along with the downside surprise first to the US CPI and then the US PPI figures. Yields fell further this morning in reaction to the news of Israel's 'pre-emptive' strikes on Iran, which will likely be followed by retaliatory attacks on Israel.

The futures market sees virtually no chance of a cut from the FOMC next week, but a 25bps cut is fully priced in for September. This is a change from last Friday, when such a move was not fully priced in until October.

Aussie Commonwealth bond yields fell more than their US equivalents, with a July 25bps cut still around 80% priced in and a cumulative 78bps cuts expected in the remainder of 2025.

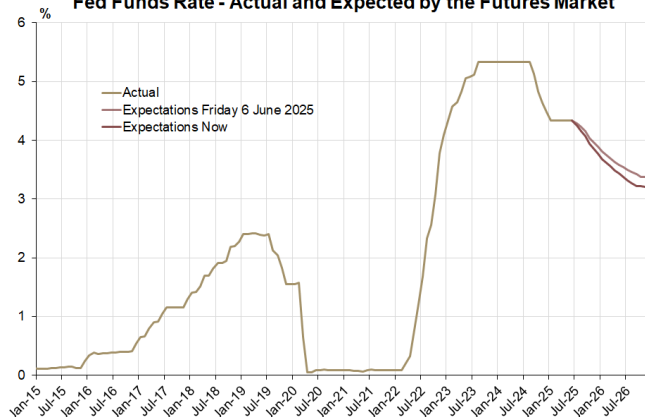
**Equities**

It was another positive week for US and Aussie equities.

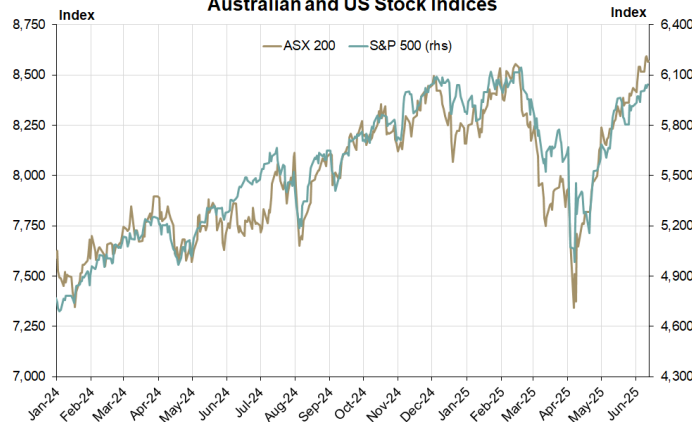
US stocks received support from the upside surprise to non-farm payrolls on Friday, followed by hopes around the two-day trade talks between China and the US in London that fuelled the market for the first half of the week.

Sentiment was temporarily dented on Wednesday, as the talks concluded with no major breakthrough. A re-intensification of fed funds rate cut expectations following downside surprises to US inflation and another rise in initial jobless claims brought renewed optimism to Wall Street. Currently, the S&P 500 is sitting just 1.6% below its February record high.

The ASX 200 reached record highs on Tuesday and Wednesday, before declining on Thursday. The Aussie share market rebounded at the open this morning. However, sentiment was again dented, this time by news on Israeli strikes on Iran.

**Fed Funds Rate - Actual and Expected by the Futures Market**

Source: Bloomberg

**Australian and US Stock Indices**

Source: Bloomberg

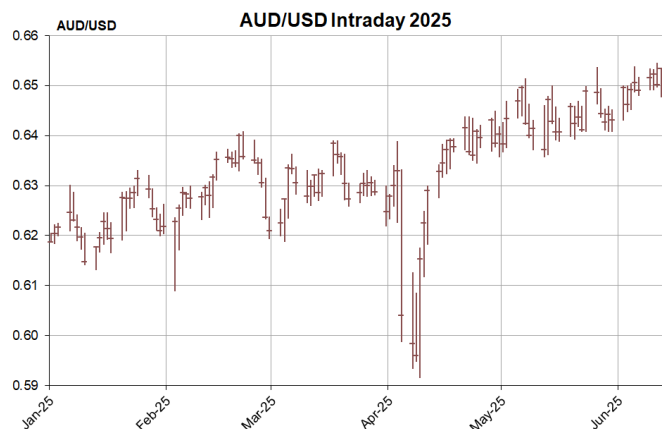
## Currencies

The Australian dollar has lost ground against all the major currencies, after a sharp fall this morning erased earlier meagre gains amid news of an Israeli air strike on Iran.

The Aussie climbed in the first half of the week, buoyed by trade talks between US and Chinese officials and news of an interim agreement to unwind some recently introduced trade restrictions on certain products.

The Aussie slipped back on news that the US was evacuating government staff from Iraq, but managed to regain its lost ground, particularly against the weak US dollar. It was comfortably above US\$0.65 this morning, before plunging following the air strike news.

The US dollar itself fell to a fresh three-year low against a basket of major currencies, but has stabilised this morning. The euro has been the major beneficiary of greenback weakness, with the AUD/EUR falling to the lowest level since April.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6488	0.6546	0.6457	↓0.3	0.6942	0.5915
AUD/EUR		0.5617	0.5745	0.5593	↓1.2	0.6261	0.4620
AUD/GBP		0.4783	0.4838	0.4762	↓0.2	0.5288	0.4620
AUD/JPY		92.89	94.75	92.32	↓0.7	109.37	86.05
AUD/CNY		4.6553	4.7026	4.6414	↓0.4	4.9340	4.3523
EUR/USD		1.1551	1.1631	1.1373	↑0.9	1.1631	1.0141
GBP/USD		1.3564	1.3632	1.3456	↓0.1	1.3632	1.2100
USD/JPY		143.17	145.46	142.80	↓0.4	161.95	139.58
USD/CNY		7.1747	7.1942	7.1702	↓0.1	7.3511	7.0063

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6488	0.6499	0.6512	0.6533
AUD/EUR		0.5617	0.5592	0.5570	0.5529
AUD/GBP		0.4783	0.4789	0.4795	0.4808
AUD/JPY		92.89	92.09	91.39	90.12
AUD/NZD		1.0752	1.0737	1.0728	1.0720
AUD/SGD		0.8306	0.8269	0.8235	0.8169

## Commodities

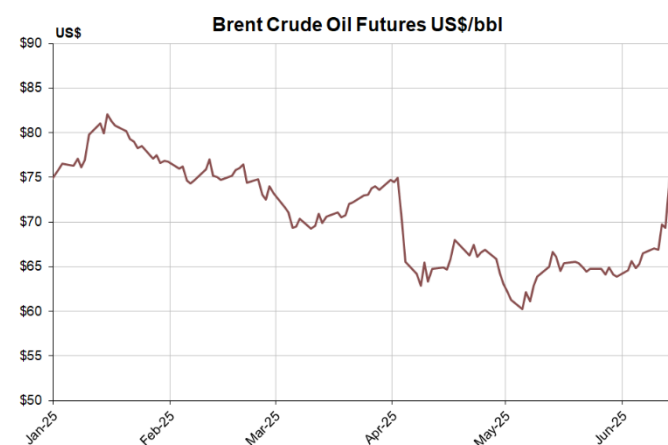
Oil prices have been pushed up sharply this week by events in the Middle East.

Prices initially jumped on news that the US State Department had ordered the departure of non-emergency US government personnel from Iraq due to rising tensions with Iran, which gave traders an inkling that something was afoot.

The biggest increase has come this morning, as fears that conflict was about to escalate in the Middle East were vindicated by news that Israel had conducted air strikes on Iran.

Gold also surged this morning, building on earlier increases, with the yellow metal bursting through US\$3,400 an ounce, which had formed a ceiling to gold's advances in recent weeks.

Iron ore has again been the poor relation among commodities, with the benchmark Singapore futures price remaining at around two-month lows.



Source: Bloomberg

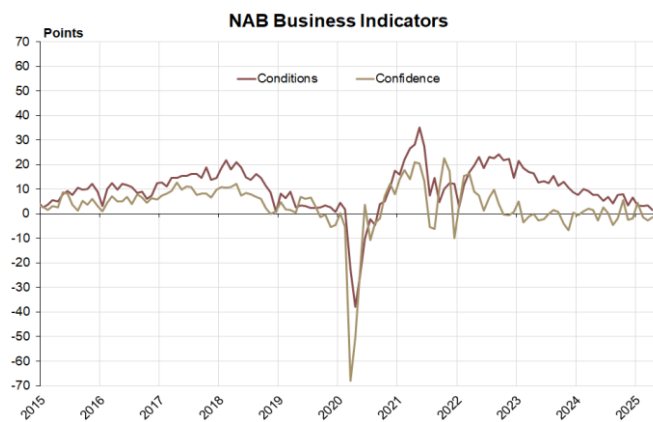
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$3,428.55	\$3,433.35	\$3,293.64	(↑\$65.95)	\$3,500.10	\$2,293.75
Brent Crude Oil (US\$)	\$74.70	\$75.32	\$66.07	(↑\$9.5)	\$87.95	\$58.40
Mogas95* (US\$)	\$84.19	\$84.95	\$76.23	(↑\$8.18)	\$99.71	\$67.57
WTI Oil (US\$)	\$73.46	\$74.35	\$64.20	(↑\$10.26)	\$84.52	\$55.12
CRB Index	302.76	303.09	299.34	(↑4.14)	316.63	265.48
Iron Ore Price 62% Fe (US\$) **	\$93.90	\$95.60	\$93.65	(↓\$1.75)	\$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.

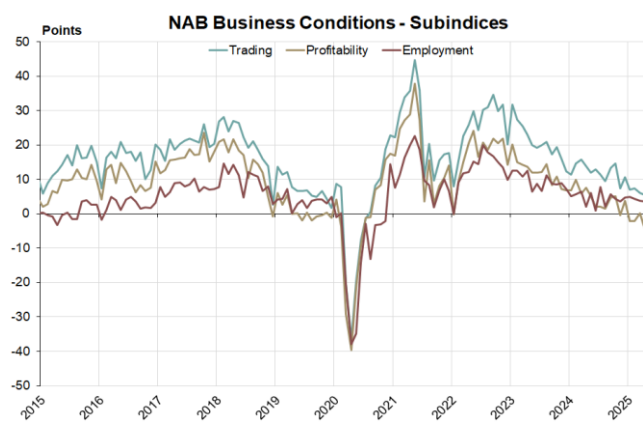
## Domestic Economy

**NAB business conditions** weakened further in May, while **business confidence** remained close to neutral.



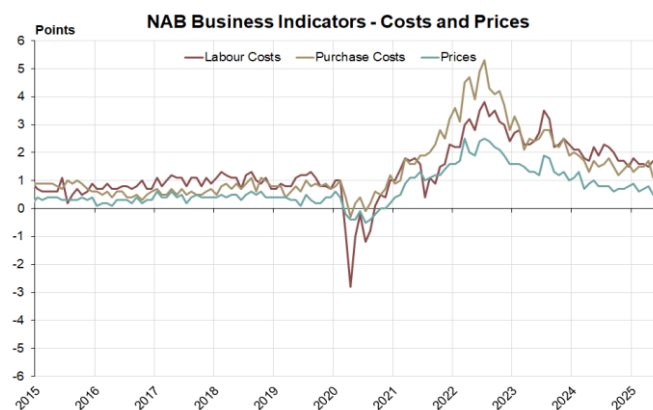
Source: Bloomberg

Deterioration in business conditions was mainly due to weaker **employment**, while profits remained negative.



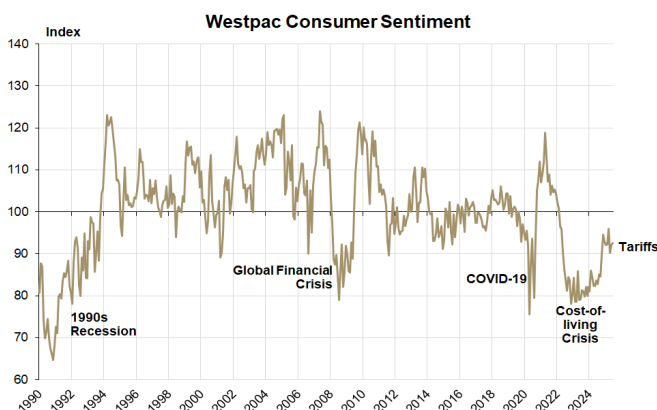
Source: Bloomberg

Growth in **purchase costs** and **selling prices** decelerated a bit, while **labour costs** rose faster in May.



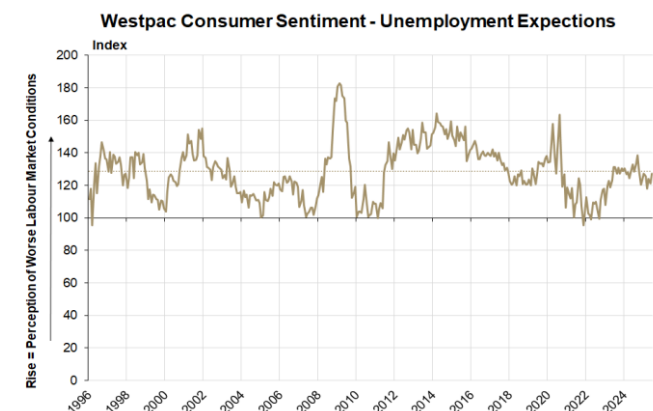
Source: Bloomberg

**Westpac consumer sentiment** improved a little further in June but is still quite depressed.



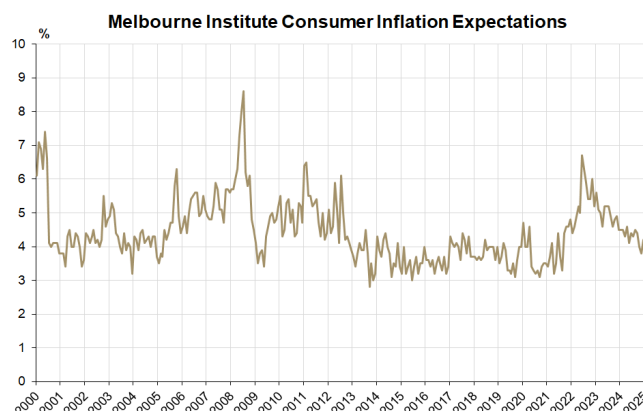
Source: Bloomberg

Consumers have noticed the softer labour market, but **unemployment expectations** are close to average.



Source: Bloomberg

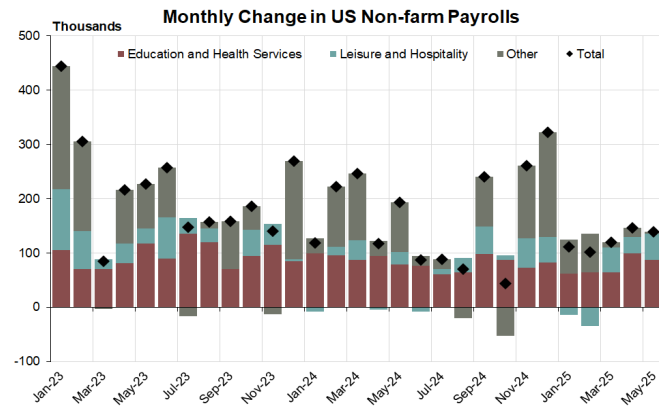
**Melbourne Institute consumer inflation expectations** surged in June, but are well off their 2022 highs.



Source: Bloomberg

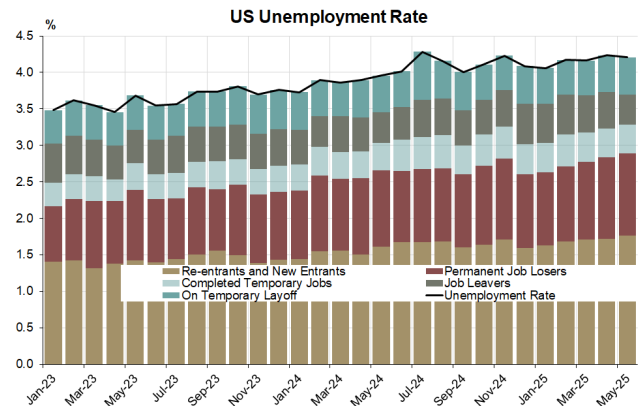
## Global Economy

**US non-farm payrolls** growth remained subdued in May with gains narrowly based in the education sector.



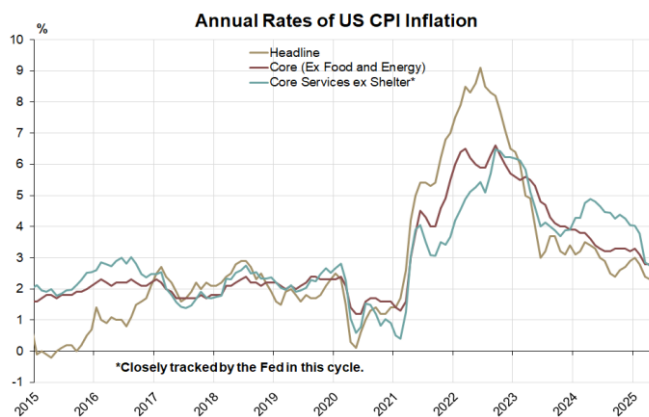
Source: Bloomberg

**US unemployment rate** has been on the rise, but as much due to labour market entrants as to job losers.



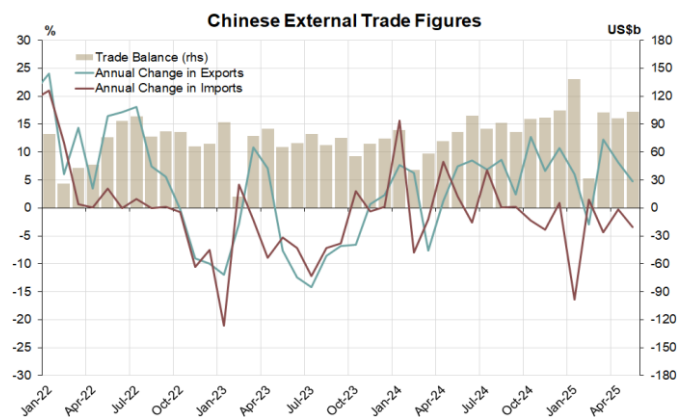
Source: Bloomberg

The annual rates of **US CPI inflation** are again stabilising above the pre-COVID levels.



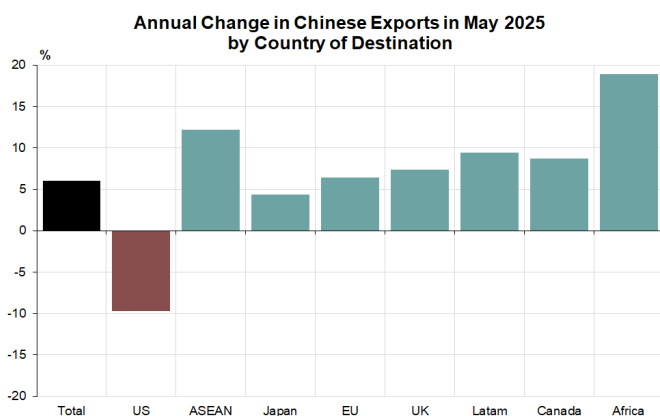
Source: Bloomberg

**Chinese headline trade figures** appear to be quite resilient to the tariff tensions so far...



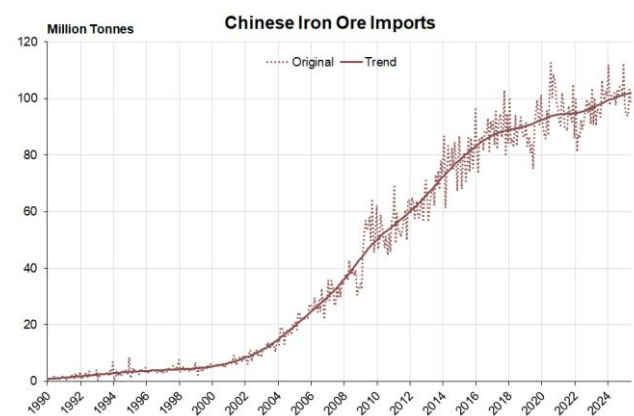
Source: Bloomberg

... as a **drop in exports to the US** was more than offset by solid gains in exports to other jurisdictions.



Source: Chinese Customs

Despite some month-to-month volatility, **Chinese iron ore imports** remain high.



Source: Bloomberg

## Last Week

Date	Event	Actual	Forecast	Previous	Comment
<b>Mon 09</b>					
CH	Trade Balance (May)	US\$103b	US\$101b	US\$96b	Slump exports to the US offset by exports to ASEAN.
CH	CPI (YoY, May)	-0.1%	-0.2%	-0.1%	Annual core CPI inflation soft at 0.6%.
CH	PPI (YoY, May)	-3.3%	-3.2%	-2.7%	Chinese PPI deflation lowers prices in many countries.
US	NY Fed 1Y Inflation Exp. (May)	3.2%	3.5%	3.6%	Declines also for three- and five-year horizons.
<b>Tue 10</b>					
AU	Westpac-MI Cons. Sent. (Jun)	0.5%	-	2.2%	Consumers more concerned about the labour market.
AU	NAB Business Conditions (May)	0	-	2	Employment and trading softer, profits remain negative.
AU	NAB Business Confidence (May)	2	-	-1	Saw an improvement in most industries.
UK	Unemployment Rate (Apr)	4.6%	4.6%	4.5%	Jobs growth also slowed in the three months to April.
US	NFIB Small Business Opt. (May)	98.8	96.0	95.8	Taxes, including tariffs, the largest concern of US firms.
<b>Wed 11</b>					
US	CPI (MoM, May)	0.1%	0.2%	0.2%	Annual core inflation remained at a four-year low of 2.8%.
<b>Thu 12</b>					
AU	MI Cons. Inflation Exp. (Jun)	5.0%	-	4.1%	The highest level since mid-2023.
UK	Monthly GDP (MoM, Apr)	-0.3%	-0.1%	0.2%	Fall in services and manufacturing, rise in construction.
US	PPI (MoM, May)	0.1%	0.2%	-0.2%	Annual core PPI inflation down 0.2ppts to 2.7%.
UK	Initial Jobless Claims (w/e 5 Jun)	248k	242k	247k	The highest level since October 2024.
<b>Tonight</b>					
US	UMich Cons. Sent. (Jun, prel.)	-	53.6	52.2	Response rate down due to a methodological change.

## Next Week

Date	Event	Forecast	Previous	Comment
<b>Mon 16</b>				
CH	Retail Sales (YoY, May)	4.9%	5.1%	Private consumption still subdued despite stimulus measures.
CH	Industrial Production (YoY, May)	6.0%	6.1%	PMI reports suggested slower growth.
CH	Urban Fixed Asset Inv. (YoY YtD, May)	4.0%	4.0%	A key indicator for Chinese demand for iron ore.
<b>Tue 17</b>				
JP	Bank of Japan Decision (Policy Rate)	0.50%	0.50%	Rate hike expectations have moved towards the end of 2025.
US	Retail Sales (MoM, May)	0.0%	0.1%	Consumption not falling, despite low confidence.
US	Industrial Production (MoM, May)	0.1%	0.0%	ISM report suggests a decline in manufacturing.
<b>Wed 18</b>				
AU	Westpac Leading Index (MoM, May)	-	-0.01%	
SE	Riksbank Decision (Policy Rate)	2.00%	2.25%	Interest rate cut 80% priced in.
UK	CPI (MoM, May)	-	1.2%	Higher bills propping up consumer price inflation in the UK.
US	FOMC Decision (IoER)	4.40%	4.40%	FOMC will release updated projections, including the 'dot plot'.
<b>Thu 19</b>				
AU	WA Budget 2025-26	-	-	WA fiscal position is solid.
AU	Employment (monthly change, May)	20k	89k	NAB and S&P Global reports point to a softer outcome.
AU	Unemployment Rate (May)	4.1%	4.1%	Underemployment rate still suggesting a tight labour market.
NZ	GDP (QoQ, Q1)	0.7%	0.7%	Annual rate of GDP growth to remain negative at -0.9%.
NO	Norges Bank Decision (Policy Rate)	4.50%	4.50%	Rate cuts not expected to commence until September.
UK	Bank of England (Bank Rate)	4.25%	4.25%	BoE to stay put for now, as inflation re-accelerates.
<b>Fri 20</b>				
JP	CPI (YoY, May)	3.5%	3.6%	'Core-core' inflation expected to rise 0.2ppts to 3.2%.
CH	PBoC Announcement (5Y LPR)	3.50%	3.50%	The benchmark rate for new mortgage loan costs.