

Highlights this week

- The Western Australian 2025-26 State Budget again confirmed the solid fiscal position of the State, with ongoing surpluses and debt kept in check. Nationwide, Australian seasonally adjusted employment unexpectedly ebbed in May, but the unemployment rate remained steady at 4.1%.
- Abroad, FOMC has kept the fed funds rate unchanged this week, as expected, but the divergence in views for the 2025 monetary policy outlook is growing among the Committee members.
- Data-wise, US activity data for May undershot expectations, but this followed upwardly revised figures for the previous month. Chinese economic activity data for May was also generally disappointing, with a notable exception of retail sales.

Highlights next week

- The major domestic release next week will be the monthly CPI indicator for May on Wednesday, preceded by the S&P flash PMIs for June on Monday.
- Monday will also see PMI reports for the major advanced economies. Otherwise, it will be a quiet week, with the key release being the US personal income and its disposition report for May on Friday, which will contain PCE inflation tracked by the Fed.

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	8470	(↓78 pt)
US (IOR)	4.40	(0 pt)	90-day Bills	3.69	(↓2 pt)	2-yr T-Notes	3.92	(↑4 pt)	S&P500	5981	(↓64 pt)
Eurozone (Deposit)	2.00	(0 pt)	3-yr T-Bond	3.34	(↑7 pt)	10-yr T-Notes	4.39	(↑6 pt)	DJIA	42172	(↓796 pt)
UK	4.25	(0 pt)	10-yr T-Bond	4.21	(↑6 pt)	Jap 10-yr	1.42	(↑1 pt)	Nikkei	38449	(↑719 pt)
Japan (Target)	0.50	(0 pt)	3-yr WATC Bond	3.52	(↑5 pt)	UK 10-yr	4.53	(↑5 pt)	CSI300	3848	(↓37 pt)
China (1Y LPR)	3.00	(0 pt)	10-yr WATC Bond	4.78	(↑2 pt)	Ger 10-yr	2.52	(↑4 pt)	Stoxx600	536	(↓14 pt)

Changes are since the previous issue of Market WATCH Weekly.

Financial Markets**Interest Rates**

As expected, the FOMC kept the fed funds rate target range unchanged at 4.25-4.50% on Thursday morning. At the press conference, Fed Chair Jerome Powell acknowledged that near-term inflation expectations have moved up and warned that the 'tariff bill' will ultimately have to be 'paid'.

The median expectation for the fed funds rate remains for 50bps in cuts this year, same as in March. However, seven out of 19 participants are now seeing no rate change in 2025. The markets are pricing in 48bps of cuts from the Fed this year, with the next 25bps reduction now expected in October.

In other central bank news, the Bank of England and Bank of Japan left their policy rates unchanged, but the Swedish Riksbank, Norges Bank and Swiss National Bank all delivered rate cuts this week. In the case of the Swiss National Bank, the policy rate was reduced to zero.

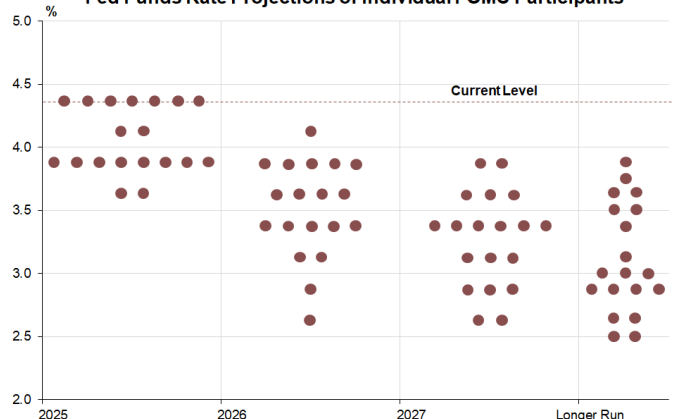
Government bond yields are generally up this week, which reflects concerns over the impacts of higher oil prices on inflation and monetary policy outlook.

Equities

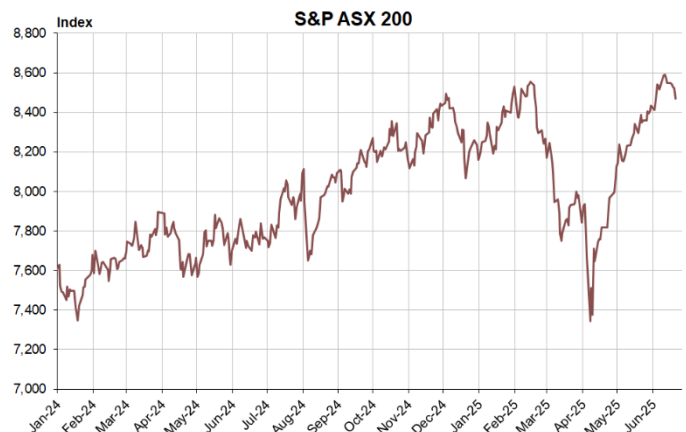
Equities opened the week on a positive note, with global markets climbing amid reports that Iran had reached out to some of its neighbours, asking them to broker a ceasefire. However, sentiment soon soured again after US President Trump indicated that the US was preparing for direct involvement in the war.

Global share markets remain near record levels despite the uncertainty driven by the escalation in the Middle East and the rapid approach of the 9 July deadline for President Trump's 'reciprocal' tariffs that were delayed for 90 days on 9 April.

The Aussie market has fallen for four days in a row, although the declines were small before accelerating today. Nevertheless, the ASX 200 remains within striking distance of the record high it reached earlier in the month.

Fed Funds Rate Projections of Individual FOMC Participants

Source: Federal Reserve / Bloomberg

S&P ASX 200

Source: Bloomberg

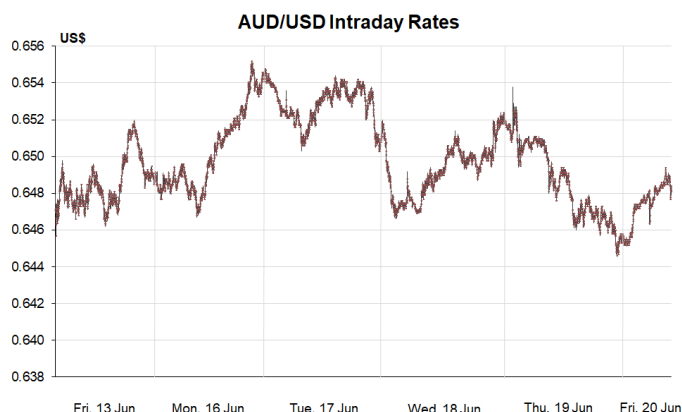
Currencies

The AUD/USD is little changed since this time last week, but there was a lot of volatility along the way.

Following a downside after the Israeli strike on Iran last Friday morning, the AUD appreciated against the greenback on Monday, as the global sentiment improved on encouraging comments on possible talks on de-escalation of the Israeli-Iranian conflict.

However, news that President Trump is calling a national security meeting sent the AUD/USD sharply lower on Wednesday morning. The Aussie dollar regained some ground later in the day, before sliding back on Thursday, as domestic employment undershot expectations.

The AUD is sitting roughly in the middle of the G10 currency ladder this week. The euro was the strongest G10 currency, while the Swedish krona was the weakest.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6478	0.6552	0.6446	↓0.2	0.6942	0.5915
AUD/EUR		0.5624	0.5674	0.5611	↑0.1	0.6261	0.4620
AUD/GBP		0.4805	0.4852	0.4774	↑0.5	0.5288	0.4620
AUD/JPY		94.15	94.84	93.28	↑1.4	109.37	86.05
AUD/CNY		4.6522	4.7037	4.6330	↓0.1	4.9340	4.3523
EUR/USD		1.1516	1.1615	1.1446	↓0.3	1.1631	1.0141
GBP/USD		1.3482	1.3622	1.3383	↓0.6	1.3632	1.2100
USD/JPY		145.33	145.77	143.65	↑1.5	161.95	139.58
USD/CNY		7.1810	7.1925	7.1767	↑0.1	7.3511	7.0063

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6478	0.6490	0.6502	0.6523
AUD/EUR		0.5624	0.5599	0.5578	0.5536
AUD/GBP		0.4805	0.4811	0.4817	0.4829
AUD/JPY		94.15	93.34	92.63	91.31
AUD/NZD		1.0814	1.0800	1.0790	1.0780
AUD/SGD		0.8325	0.8288	0.8254	0.8187

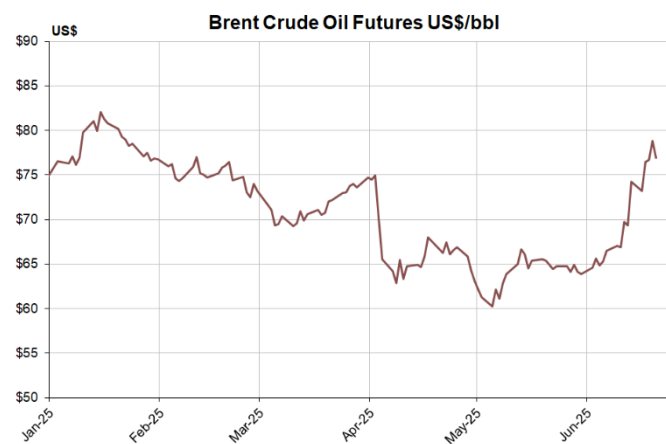
Commodities

Oil prices jumped this week. News remains dominated by war in the Middle East, with the escalation of violence pushing prices to the highest levels since January on Thursday.

Major catalysts were rising fears of direct US involvement in the war and a possible Iranian blockade of the Strait of Hormuz, which by some estimates sees about 20% of global daily oil consumption pass through its waters.

Prices have edged back a little this morning as US President Trump said he would decide on a US strike against Iran sometime in the next two weeks, easing fears that an attack was imminent.

Iron ore futures prices came under further downward pressure in the first half of the week, with the Singapore benchmark price falling to its lowest level since April. Prices stabilised before rising sharply this morning.



Source: Bloomberg

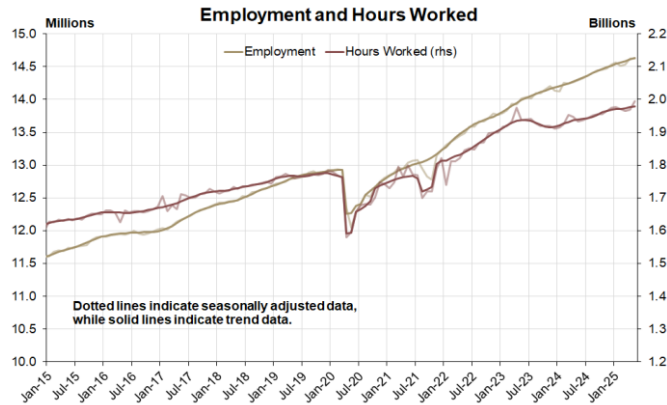
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$3,358.73	\$3,451.31	\$3,347.68	(↓\$69.82)	\$3,500.10	\$2,293.75
Brent Crude Oil (US\$)	\$76.74	\$79.04	\$70.56	(↑\$2.04)	\$87.95	\$58.40
Mogas95* (US\$)	\$86.80	\$88.36	\$80.29	(↑\$2.61)	\$99.71	\$67.57
WTI Oil (US\$)	\$75.93	\$77.62	\$68.49	(↑\$2.47)	\$84.52	\$55.12
CRB Index	314.40	314.40	302.76	(↑11.64)	316.63	265.48
Iron Ore Price 62% Fe (US\$) **	\$93.95	\$94.60	\$92.00	(↑\$0.05)	\$115.00	\$88.40

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

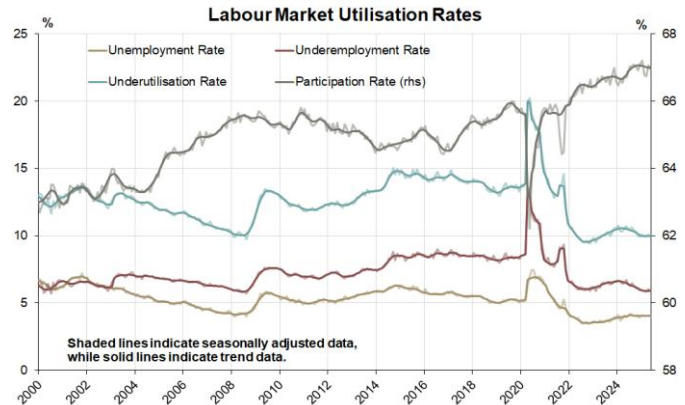
** The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

Domestic Economy

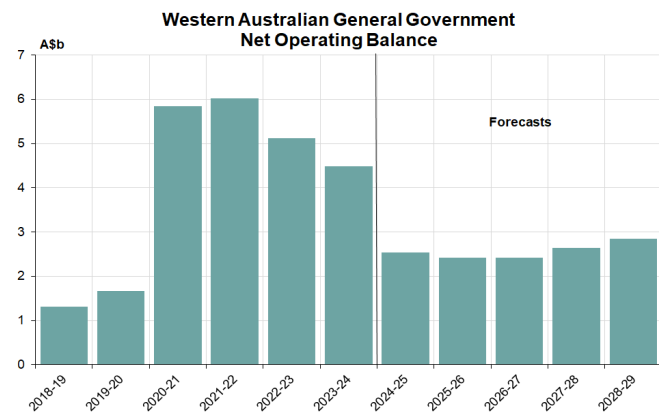
Despite a setback in seasonally adjusted terms in May, **employment** continues to climb steadily in trend terms.



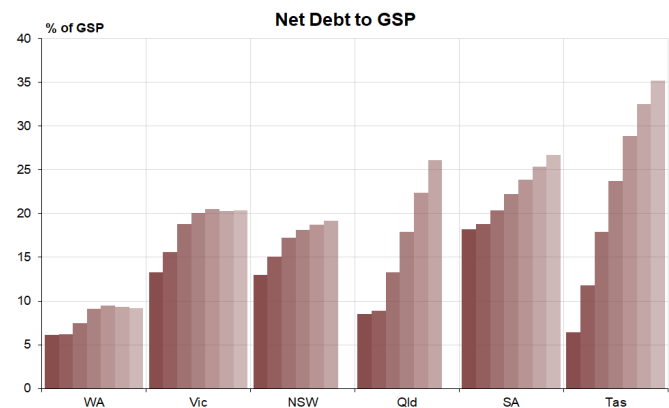
The low **unemployment and underemployment** rates point to high utilisation of the Australian labour force.



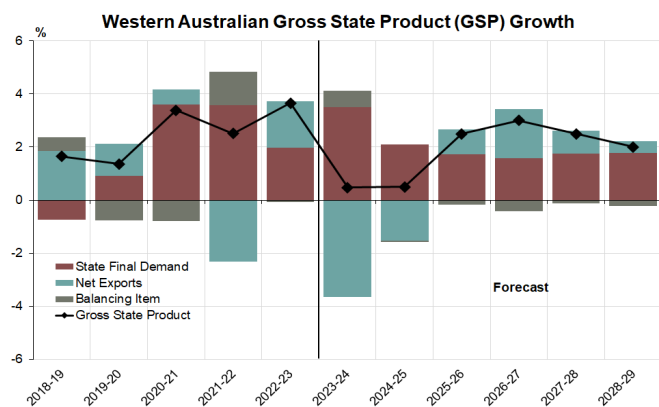
Western Australian State Budget 2025-26 envisages surpluses in at least four upcoming financial years.



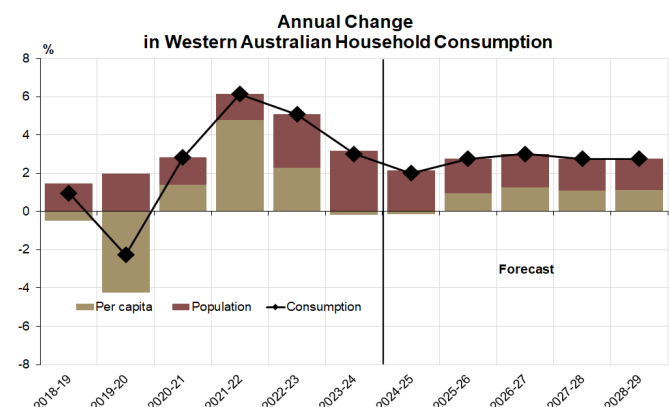
Western Australian net debt is expected to remain below 10% of GSP, well below the levels of other states.



Western Australian gross state product is forecast to grow steadily, with a solid domestic contribution.

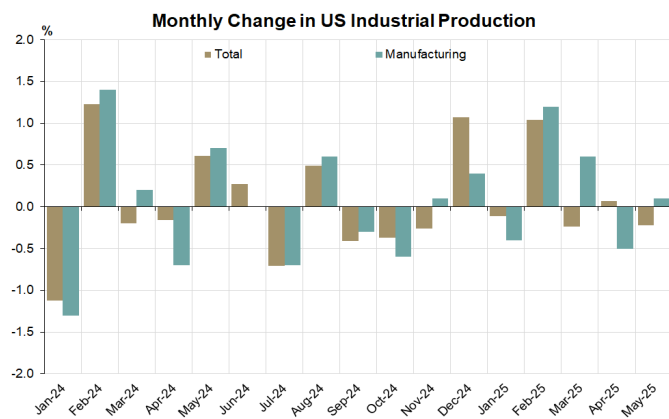


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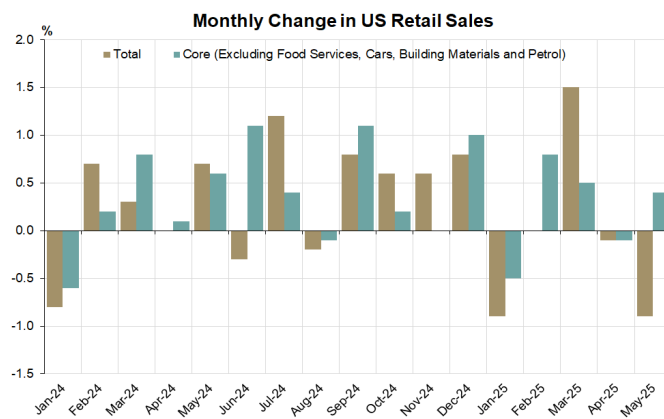
Global Economy

US industrial production declined slightly in May, but manufacturing activity saw a partial recovery.



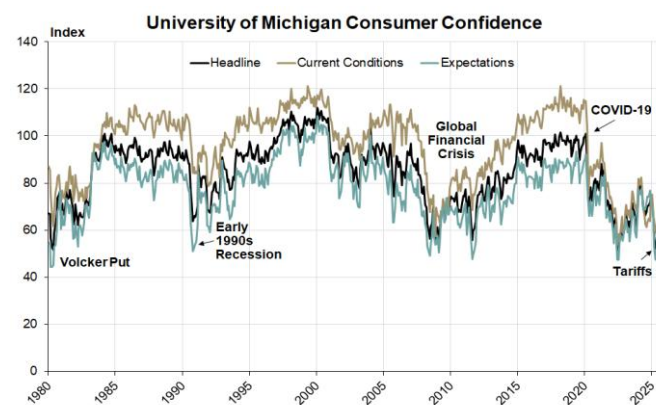
Source: Bloomberg

The decline in **US retail sales** in May was even more pronounced, but core sales bounced back.



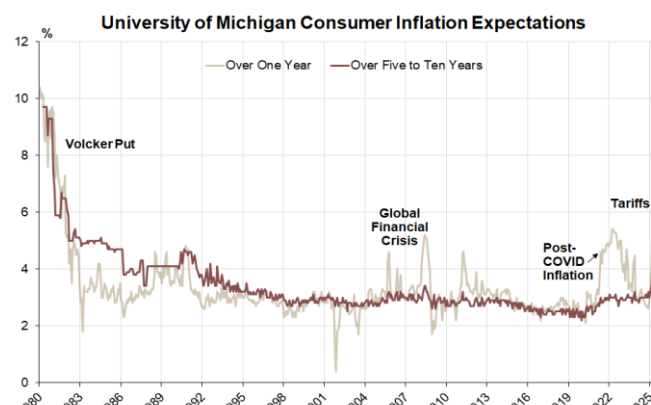
Source: Bloomberg

Despite the recent improvement, **University of Michigan consumer confidence** remains very low...



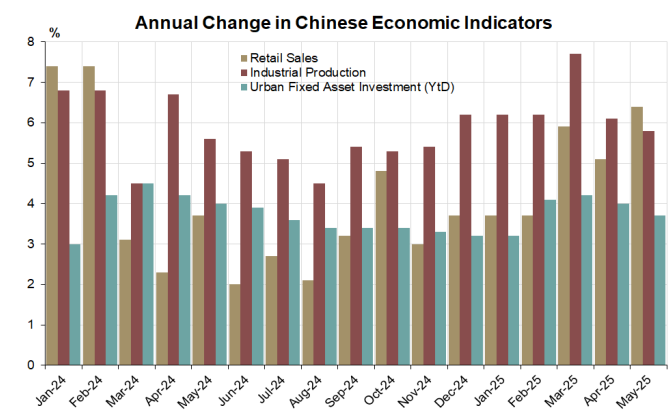
Source: Bloomberg

... while **consumer inflation expectations** are still elevated, regardless of their decline in June.



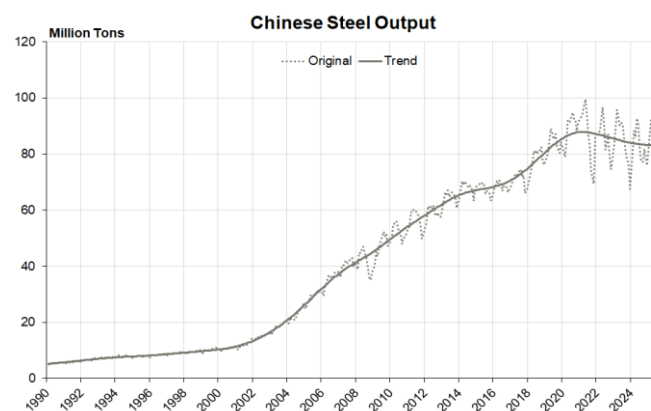
Source: Bloomberg

The **Chinese activity data** for May showed renewed slowdown, with a notable exception of retail sales.



Source: Bloomberg

Despite stagnating over the past few years, **Chinese steel output** remains elevated by historical standards.



Source: Bloomberg

Last Week

Date	Event	Actual	Forecast	Previous	Comment
Mon 16					
CH	Retail Sales (YoY, May)	6.4%	4.9%	5.1%	Cash for clunkers boosting sales of home appliances.
CH	Industrial Production (YoY, May)	5.8%	6.0%	6.1%	Steel output increased in May and is historically high.
CH	Urban Fixed Inv. (YoY YtD, May)	3.7%	4.0%	4.0%	Property investment down 10.7% YoY YtD.
Tue 17					
AU	ANZ Cons. Conf. (w/e 14 Jun)	85.4	-	86.7	Inflation expectation up 0.2ppts to 4.9%.
JP	Bank of Japan Dec. (Policy Rate)	0.50%	0.50%	0.50%	JGB purchases halved from April 2026, as expected.
US	Retail Sales (MoM, May)	-0.9%	-0.6%	-0.1%	Core retail sales rose by 0.4%.
US	Industrial Production (MoM, May)	-0.2%	0.0%	0.1%	Manufacturing activity up by 0.1%.
Wed 18					
AU	Westpac Lead. Index (MoM, May)	-0.06%	-	-0.01%	6m annualised growth rate down to a sub-trend -0.18%.
SE	Riksbank Decision (Policy Rate)	2.00%	2.00%	2.25%	Riksbank's attention has turned to weaker growth.
UK	CPI (MoM, May)	0.2%	0.2%	1.2%	Annual rate down to 3.4%, still above the 2% goal.
US	FOMC Decision (IoER)	4.40%	4.40%	4.40%	Seven out of 19 participants want to stay put in 2025.
Thu 19					
AU	WA Budget 2025-26	-	-	-	
AU	Employment (MoM, May)	-2.5k	21.2k	87.6k	Trend employment growth the fastest since October.
AU	Unemployment Rate (May)	4.1%	4.1%	4.1%	Steady at 4.1% for the fifth month in a row.
NZ	GDP (QoQ, Q1)	0.8%	0.7%	0.5%	Annual rate of decline in GDP eased 0.5ppts to -0.7%.
NO	Norges Bank Dec. (Policy Rate)	4.25%	4.50%	4.50%	First policy rate cut since the heights of COVID-19.
UK	BoE Decision (Bank Rate)	4.25%	4.25%	4.25%	Two meeting participants supported a 25bps cut.
Fri 20					
JP	CPI (YoY, May)	3.5%	3.5%	3.6%	'Core-core' inflation the highest since January 2024.
CH	PBoC Announcement (5Y LPR)	3.50%	3.50%	3.50%	One-year loan prime rate also steady at 3.00%.

Next Week

Date	Event	Forecast	Previous	Comment
Mon 23				
AU	S&P Global Composite PMI (Jun, flash)	-	50.5	First insights into Aussie private sector activity in June.
JP	Judo Bank Composite PMI (Jun, flash)	-	50.2	Contraction in Japanese manufacturing slowed in May.
EZ	HCOB Composite PMI (Jun, flash)	-	50.2	Germany and France were both in contraction in May.
UK	S&P Global Composite PMI (Jun, flash)	-	50.3	Following a weak start, activity seems to be picking up in Q2.
US	Existing Home Sales (MoM, May)	-1.3%	-0.5%	Have been hovering around 15-year lows since mid-2023.
US	S&P Global Composite PMI (Jun, flash)	-	53.0	Partly propped up by longer supplier delivery times.
Tue 24				
US	C-S House Prices 20 Cities (MoM, Apr)	-	-0.1%	The March decline was the first one since January 2023.
Wed 25				
AU	Monthly CPI Indicator (YoY, May)	2.4%	2.4%	Encompasses around 73% of the CPI basket.
US	Conference Board Cons. Confidence (Jun)	99.0	98.0	To remain quite low despite the expected improvement.
US	New Home Sales (MoM, May)	-6.7%	10.9%	April saw the strongest gain in two years.
Thu 26				
AU	Job Vacancies (QoQ, Q2)	-	-4.5%	Monthly figures suggest another decline.
US	Durable Goods Orders (MoM, May)	6.9%	-6.3%	The month-to-month volatility driven by the tariff changes.
US	GDP (QoQ annualised, Q1, final)	-0.2%	-0.2%	Revisions to growth components are very likely.
US	CFNAI (May)	-	-0.25	Weighted average of 85 economic indicators.
US	Goods Trade Balance (May, adv.)	-US\$92b	-US\$87b	Might receive some attention of those gauging tariff impacts.
Fri 27				
US	Personal Spending (MoM, May)	0.2%	0.2%	Retail sales signalled a decline.
US	PCE Price Index (MoM, May)	0.1%	0.1%	Annual rate expected to rise 0.2ppts to 2.3%.