

**Highlights this week**

- In Australia, real GDP growth disappointed in Q1, while the current account deficit narrowed amid a decline in the primary income deficit. This was followed by soft household spending growth and a fall in goods trade surplus in April. Home price growth accelerated in May, while the Melbourne Institute inflation gauge pointed to a decline in consumer price inflation in May.
- Abroad, the ISM PMIs pointed to contraction in both manufacturing and services in the US. ADP employment had its weakest result in two years in May. The Chinese Caixin PMIs pointed to sluggish growth in services and contraction in manufacturing. The ECB delivered another 25bps rate cut, as expected, but signalled that the easing cycle might be coming to an end.

**Highlights next week**

- A quieter week ahead domestically, with the Westpac consumer sentiment for June and the NAB business report for May being the only releases of note.
- The week will be busier offshore, with US and Chinese inflation figures as well as the Chinese trade report due; all these releases are for May. The University of Michigan consumer confidence report for June is also due and will contain consumer inflation expectations, which are important determinants of the tariff inflation span.

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	8550 (↑142 pt)
US (IOR)	4.40 (0 pt)	90-day Bills	3.71 (↓2 pt)	2-yr T-Notes	3.91 (↓3 pt)	S&P500	5939 (↑27 pt)
Eurozone (Deposit)	2.00 (↓25 pt)	3-yr T-Bond	3.36 (↑1 pt)	10-yr T-Notes	4.38 (↓3 pt)	DJIA	42320 (↑104 pt)
UK	4.25 (0 pt)	10-yr T-Bond	4.27 (0 pt)	Jap 10-yr	1.46 (↓7 pt)	Nikkei	37694 (↓207 pt)
Japan (Target)	0.50 (0 pt)	3-yr WATC Bond	3.55 (↑3 pt)	UK 10-yr	4.62 (↓3 pt)	CSI300	3878 (↑25 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	4.87 (↑5 pt)	Ger 10-yr	2.58 (↑7 pt)	Stoxx600	552 (↑4 pt)

Changes are since the previous issue of Market WATCH Weekly.

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

US Treasury yields declined this week, with the falls concentrated in the middle of the week. The slide was driven by disappointing ISM services and ADP employment data on Wednesday night, which led to a slight intensification of fed funds rate cut expectations, with a September cut now virtually fully priced in.

Rising expectations for cash rate cuts followed the RBA minutes, which confirmed that a 50bps cut was discussed at the May meeting. Additionally, the disappointing Q1 GDP report saw Aussie Commonwealth bond yields fall midweek. However, they rose back towards the end of the week, bringing yields back to where they were this time last Friday.

German bund yields, in turn, picked up this week. This increase came as ECB President Christine Lagarde said that, following a 25bps rate cut on Thursday, the Bank is in a 'good position'. This was seen as a signal that the monetary policy easing cycle might be coming to an end in the euro area.

**Equities**

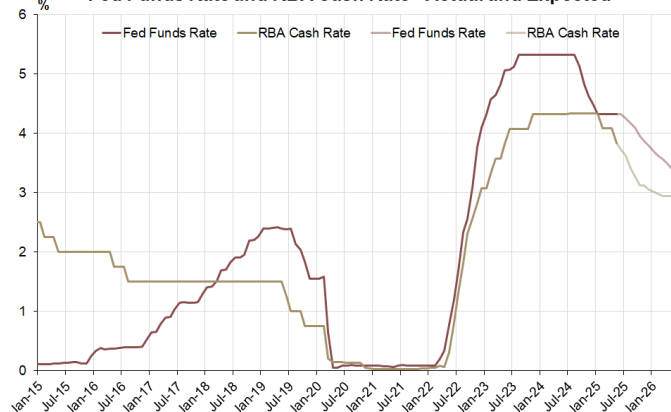
Aussie equities have been one of the strongest performers among the developed markets and are on track for the fourth weekly rise in a row.

The ASX 200 is currently just short of the record high reached in mid-February, just before the slump sparked by Donald Trump's escalating tariff threats and disappointing domestic bank earnings started a sharp selloff.

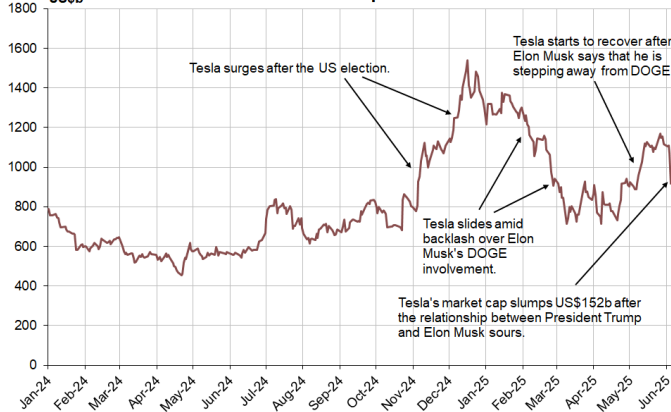
All major industry categories have posted gains this week except for the health sector. Financials, info tech, and energy have been the strongest sectors.

Meanwhile in the US, the S&P 500 is up 0.5% from this time last week, led by communication services and info tech.

Consumer discretionary was the biggest drag, falling 2.8% led by a 21% drop in Tesla stock, as the relationship between President Trump and Elon Musk soured.

**Fed Funds Rate and RBA Cash Rate - Actual and Expected**

Source: Bloomberg

**Tesla Market Capitalisation**

Source: Bloomberg

## Currencies

It was a very good week for the Australian dollar, which was supported by improvement in the global market sentiment and a rise in commodity prices.

The AUD's appreciation came despite the disappointing Q1 GDP report, the resulting increase in cash rate cut expectations and a slight decline in iron ore futures.

The AUD/USD climbed by 1.2%, to reach a fresh 2025 high, partly reflecting the weakness of the greenback. However, the Aussie dollar was also up 1.2% versus the Japanese yen, 0.4% against the euro and 0.5% versus the British pound.

The Aussie dollar was the second strongest G10 currency, surpassed only by the Kiwi dollar. Safe-haven currencies, such as the Japanese yen and Swiss franc, and the Swedish krona are at the bottom of the currency ladder this week.

AUD/USD Closing Rates



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6508	0.6538	0.6430	↑1.2	0.6942	0.5915
AUD/EUR		0.5685	0.5706	0.5648	↑0.4	0.6261	0.4620
AUD/GBP		0.4794	0.4805	0.4770	↑0.5	0.5288	0.4620
AUD/JPY		93.56	93.78	92.06	↑1.2	109.37	86.05
AUD/CNY		4.6733	4.6886	4.6343	↑1.2	4.9340	4.3523
EUR/USD		1.1447	1.1495	1.1341	↑0.8	1.1573	1.0141
GBP/USD		1.3577	1.3616	1.3452	↑0.8	1.3616	1.2100
USD/JPY		143.76	144.38	142.38	↓0	161.95	139.58
USD/CNY		7.1809	7.2015	7.1718	↓0.1	7.3511	7.0063

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6508	0.6519	0.6532	0.6551
AUD/EUR		0.5685	0.5660	0.5638	0.5596
AUD/GBP		0.4794	0.4799	0.4807	0.4822
AUD/JPY		93.56	92.76	92.05	90.77
AUD/NZD		1.0767	1.0751	1.0741	1.0729
AUD/SGD		0.8373	0.8337	0.8304	0.8236

## Commodities

Iron ore futures prices slipped, as US steel and aluminium tariffs doubled to 50% on Wednesday. There are reports that the European market was already being flooded with steel imports following the US original increase in tariffs to 25% announced in February.

Sentiment toward iron ore also faced downward pressure from the Chinese PMIs, which showed the contraction in manufacturing output deepened in May and growth in the construction sector activity slowed.

Oil prices initially climbed amid escalating tensions between Iran and the UN's nuclear watchdog, and received another boost later in the week after US President Trump said he had a 'very good' phone call with Chinese President Xi Jinping and announced that he would be visiting China, boosting hopes for a further easing in trade tensions.

Gold jumped to a near one-month high, as President Trump escalated tariffs and the US dollar sank, before easing a little.

Spot Gold Closing Price



Source: Bloomberg

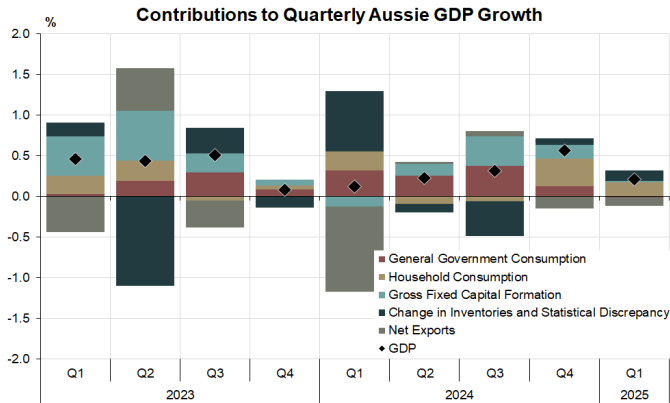
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$3,362.60	\$3,403.48	\$3,295.84	(↑\$67.66)	\$3,500.10	\$2,286.86
Brent Crude Oil (US\$)	\$65.20	\$65.95	\$63.00	(↑\$1.36)	\$87.95	\$58.40
Mogas95* (US\$)	\$76.01	\$80.64	\$72.75	(↑\$1.91)	\$99.71	\$67.57
WTI Oil (US\$)	\$63.20	\$63.98	\$61.06	(↑\$2.62)	\$84.52	\$55.12
CRB Index	298.62	298.62	290.43	(↑7.86)	316.63	265.48
Iron Ore Price 62% Fe (US\$) **	\$95.65	\$96.25	\$93.80	(↓\$1)	\$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.

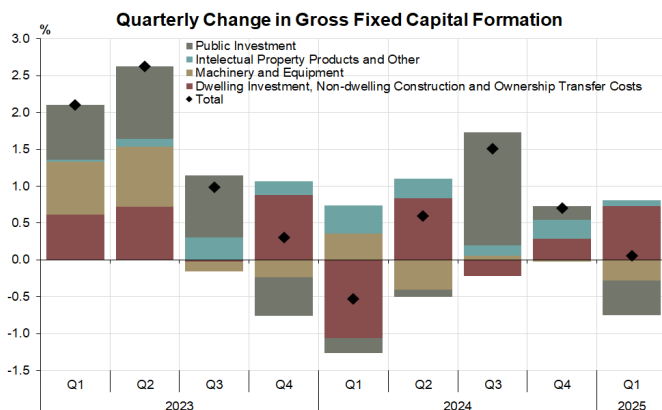
## Domestic Economy

**GDP growth** slowed in Q1 amid flat investment and a negative contribution from net exports...



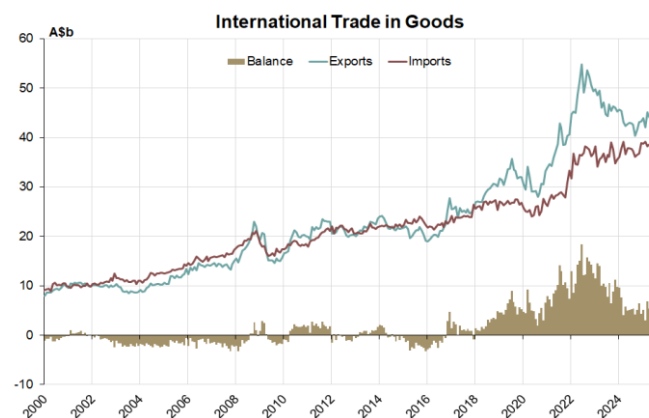
Source: ABS

Investment was flat in Q1, despite a solid gain in dwelling investment and non-dwelling construction.



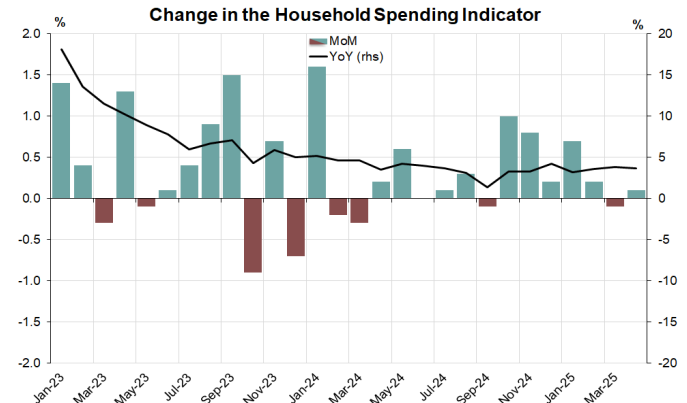
Source: ABS

The **goods trade surplus** narrowed slightly in April, as exports fell and imports picked up...



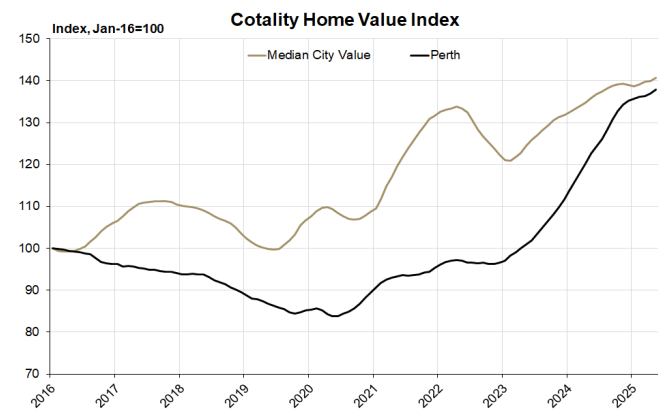
Source: ABS

... while **household spending** growth was weak, followed by only a slight increase in April.



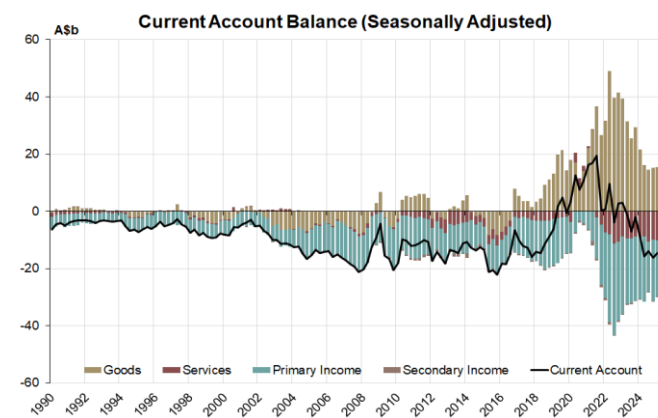
Source: ABS

The recent cash rate cuts saw **home price growth** accelerate in May.



Source: Cotality

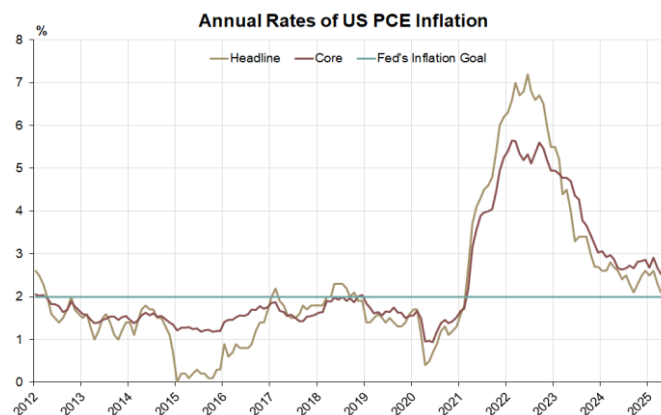
... which followed a solid goods trade surplus in Q1, that was more than offset by the **primary income deficit**.



Source: ABS

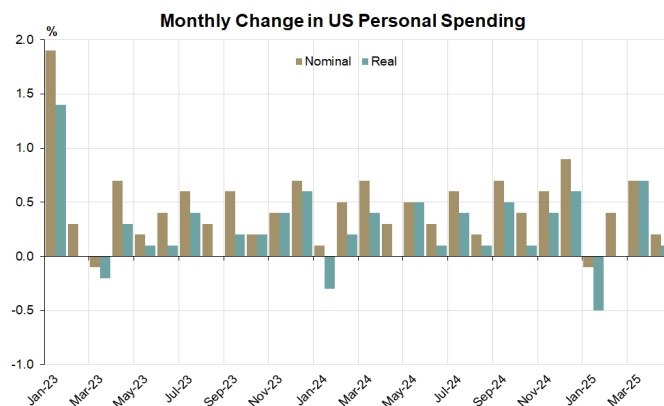
## Global Economy

**US PCE price inflation** is approaching the Fed's goal of 2%, but this precedes the inflationary impact of tariffs.



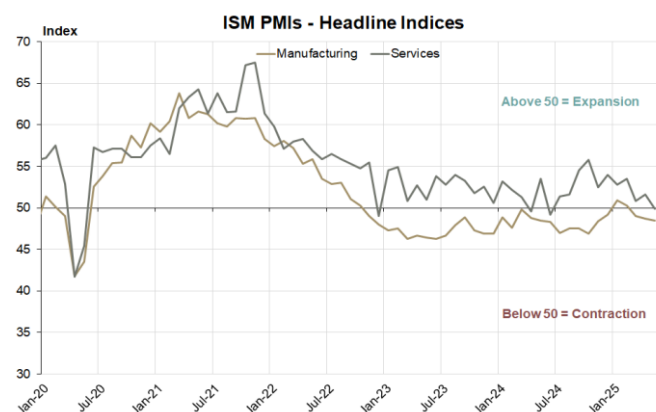
Source: Bloomberg

The uncertainty driven by the introduction of outsized tariffs saw **US personal spending** growth slow in April.



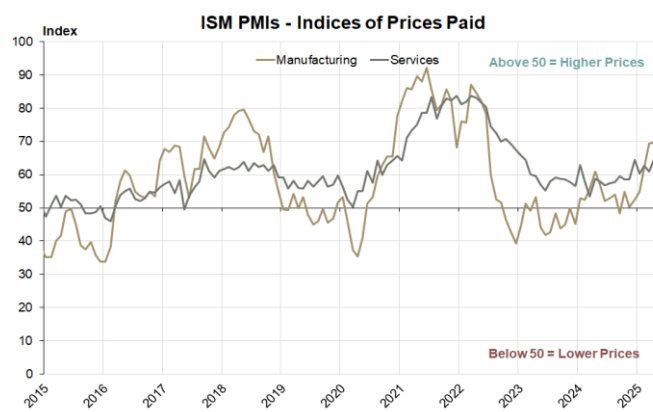
Source: Bloomberg

The **ISM PMI reports** suggest that both manufacturing and services are in slight contraction in the US...



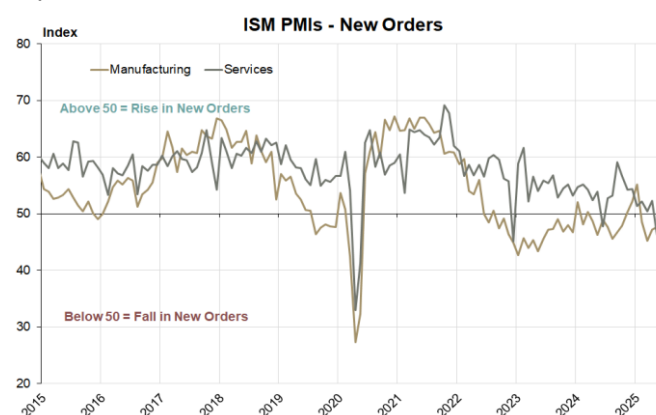
Source: Bloomberg

... while **US price and cost pressures** are growing at the fastest pace since the aftermath of COVID-19.



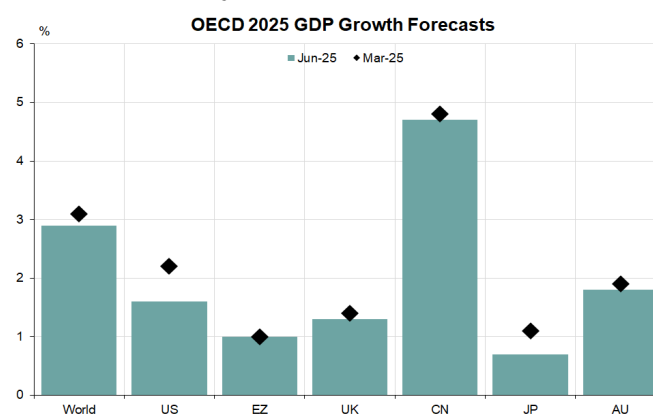
Source: Bloomberg

The ISM subindices for **US new orders**, including new export orders, are also in contraction.



Source: Bloomberg

The **OECD** has downgraded its **2025 growth forecasts** for most of the major economies.



Source: OECD

## Last Week

Date	Event	Actual	Forecast	Previous	Comment
<b>Mon 02</b>					
AU	Cotality Home Value (MoM, May)	0.5%	-	0.2%	Perth home prices rose by 0.7%
AU	MI Inflation Gauge (YoY, May)	-0.4%	-	0.6%	Annual rate down 0.7ppts to 2.6%.
AU	ANZ Job Ads (MoM, May)	-1.2%	-	-0.3%	Still 13.6% above the pre-COVID levels.
US	ISM Manufacturing PMI (May)	48.5	49.5	48.7	Further decline in orders and jobs, prices on a rise.
<b>Tue 03</b>					
AU	RBA Minutes	-	-	-	May rate cut driven by domestic conditions.
AU	Current Account Balance (Q1)	-\$14.7b	-\$12.5b	-\$16.3b	Q4 2024 deficit was wider than initially estimated.
AU	ANZ Cons. Conf. (w/e 31 May)	86.4	-	87.0	Inflation expectations up 0.2ppts to 5.0%.
CH	Caixin Manufacturing PMI (Apr)	48.3	50.7	50.4	Points to the deepest contraction since 2022.
EZ	HICP (YoY, May, flash)	1.9%	2.0%	2.2%	ECB expects inflation to remain in line with the goal.
US	JOLTS Job Openings (Apr)	7.4m	7.1m	7.2m	Still slightly above the number of officially unemployed.
<b>Wed 04</b>					
AU	GDP (QoQ, Q1)	0.2%	0.4%	0.6%	Annual rate remained at 1.3%, below the RBA forecasts.
CA	BoC Decision (Policy Rate)	2.75%	2.75%	2.75%	The next 25bps cut fully priced in for October.
US	ADP Employment (MoM, May)	37k	114k	60k	The weakest result since March 2023.
US	ISM Services PMI (May)	49.9	52.0	51.6	The first contraction since mid-2024.
US	Beige Book	-	-	-	Respondents concerned about higher tariffs.
<b>Thu 05</b>					
AU	Household Spending (MoM, Apr)	0.1%	0.2%	-0.1%	Spending growth has slowed in the last three months.
AU	Goods Trade Balance (Apr)	A\$5.4b	A\$6.0b	A\$6.9b	Decline caused by both lower exports and higher imports.
CH	Caixin Services PMI (May)	51.1	51.0	50.7	The Caixin composite PMI dropped 1.5pts to 49.6.
EZ	ECB Decision (Deposit Rate)	2.00%	2.00%	2.25%	ECB 'in a good position' with the current level of rates.
<b>Tonight</b>					
US	Non-farm Payrolls (MoM, May)	-	126k	177k	ADP employment points to downside risks.
US	Unemployment Rate (May)	-	4.2%	4.2%	To remain in line with the FOMC's longer-run estimate.

## Next Week

Date	Event	Forecast	Previous	Comment
<b>Mon 09</b>				
CH	Trade Balance (May)	US\$99b	US\$96b	Export growth expected to slow, imports to rebound.
CH	CPI (YoY, May)	-0.2%	-0.1%	Demand pressure in China is very weak.
CH	PPI (YoY, May)	-3.0%	-2.7%	Chinese deflation helping to lower price pressures worldwide.
<b>Tue 10</b>				
AU	Westpac-MI Consumer Sentiment (Jun)	-	2.2%	Sentiment has improved, but consumers remain pessimistic.
AU	NAB Business Conditions (May)	-	2	S&P Global PMI suggests a slight increase.
AU	NAB Business Confidence (May)	-	-1	Business confidence not yet affected by global trade tensions.
UK	Unemployment Rate (Apr)	-	4.5%	Claimant count unemployment rate steady for 5 months.
<b>Wed 11</b>				
US	CPI (MoM, May)	0.2%	0.2%	Annual rate expected to rise by 0.2ppts to 2.5%.
<b>Thu 12</b>				
AU	MI Consumer Inflation Expectations (Jun)	-	4.1%	Weekly figures suggest an increase.
UK	Monthly GDP (MoM, Apr)	-	0.2%	Business reports suggest further slight expansion.
US	PPI (MoM, May)	0.2%	-0.5%	Tariff-related cost pressures signalled by PMIs reports.
<b>Fri 13</b>				
US	UMich Consumer Sentiment (Jun, prel.)	52.0	52.2	Long-term inflation expectations fell in May, but are still high.