

## Highlights this week

- In Australia, GDP growth in Q1 disappointed a little, while the current account deficit widened to a record level. Dwelling approvals fell for the second month in a row in April, while a strong rise in exports pushed the trade balance back into surplus and credit growth remained resilient.
- Abroad, US ISM manufacturing PMI pointed to the fastest expansion in four years, while the services PMI also signalled robust growth. The ADP report indicated the fastest US employment growth since January 2025, while JOLTS job openings suggested some tightening in the US labour market conditions. The Chinese PMIs for May were again mixed.

## Highlights next week

- The main events next week will be NAB business report for May and Westpac consumer confidence for June on Tuesday, followed by Melbourne Institute inflation expectations for June on Thursday.
- The highlights offshore will be US inflation figures and the Chinese trade report; both releases are for May. The ECB is expected to announce its monetary policy decision on Thursday, with a 25bps hike widely expected by the markets.

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	3.56 (↓2 pt)	ASX200	8631 (↓100 pt)
US (IOR)	3.65 (0 pt)	90-day Bills	4.49 (↑4 pt)	2-yr T-Notes	4.04 (↑2 pt)	S&P500	7584 (↑21 pt)
Eurozone (Deposit)	2.00 (0 pt)	3-yr T-Bond	4.56 (↑7 pt)	10-yr T-Notes	4.47 (↑2 pt)	DJIA	51562 (↑893 pt)
UK	3.75 (0 pt)	10-yr T-Bond	4.91 (↑6 pt)	Jap 10-yr	2.67 (↓3 pt)	Nikkei	66408 (↑591 pt)
Japan (Target)	0.75 (0 pt)	3-yr WATC Bond	4.75 (↑7 pt)	UK 10-yr	4.90 (↑8 pt)	CSI300	4899 (↓15 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	5.33 (↑4 pt)	Ger 10-yr	3.02 (↑6 pt)	Stoxx600	624 (↓1 pt)

Changes are since the previous issue of Market WATCH Weekly.

## Financial Markets

### Interest Rates

Government bond yields increased slightly across most of the advanced economies this week, with Japanese government bond yields being an exception following a downside surprise to the Tokyo CPI figures for May.

While up for the week, government bond yields were choppy day-to-day, reflecting changes in sentiment, oil prices and inflation concerns depending on news reports about the progress on the Lebanon and Iran ceasefire talks.

Fedspeak this week generally highlighted the wait-and-see approach of the US central bank. A fed funds rate hike remains around 70% priced in for this year.

At home, RBA Governor Michele Bullock appeared before a Senate committee this week, reiterating that, after three rate hikes this year, monetary policy is well-placed to respond to developments. RBA Monetary Policy Board member Ian Harper, who delivered a speech this week, highlighted the importance of long-term inflation expectations remaining well-anchored.

Despite the downside surprise to Q1 GDP this week, cash rate hike expectations are little changed overall, with a 25bps hike not fully priced in for this year.

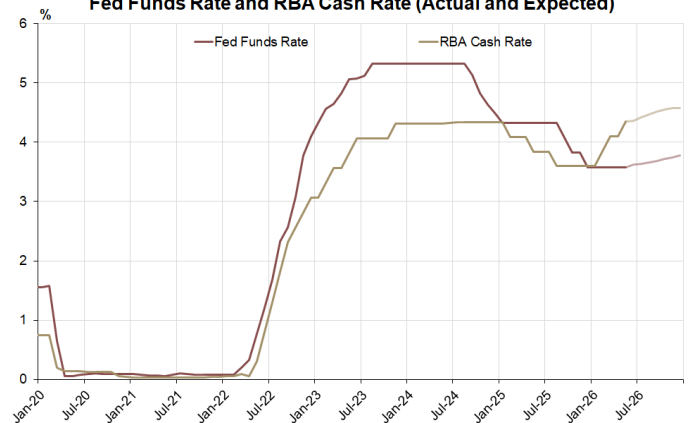
### Equities

US equities saw further increases this week, with the S&P 500 rising in 10 of the past 11 days, but a sharp fall on Wednesday has left the US benchmark sitting just below Tuesday's record high.

Aussie equities have had a tough week, falling in four of the past five days, with the real estate, finance, mining and communication services indexes seeing sharp falls.

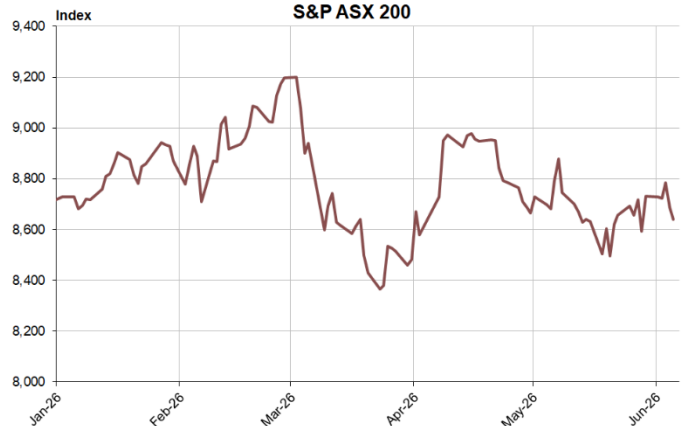
Information technology was the best performing sector, with an 8% rise, recovering some of the previous losses. Despite the gains this week, the ASX info tech index is down 11% year-to-date. This compares to a 24% year-to-date rise in the US info tech index.

Fed Funds Rate and RBA Cash Rate (Actual and Expected)



Source: Bloomberg

S&P ASX 200



Source: Bloomberg

## Currencies

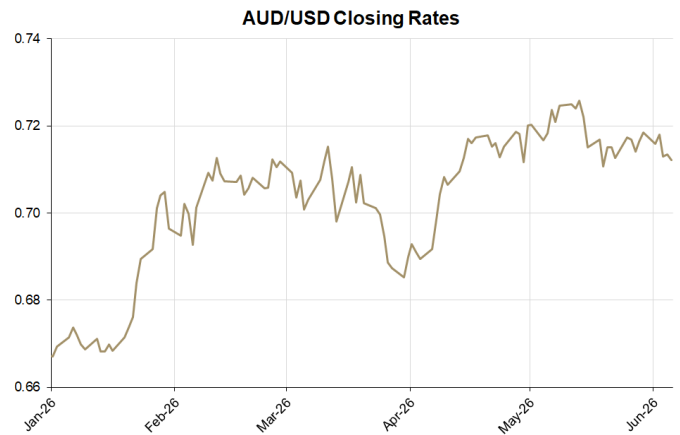
The Australian dollar is down for the week against all the major currencies except for the Japanese yen.

Re-escalation of the conflict in the Middle East at the turn of the week led to a weakening of global market sentiment and depreciation of the AUD early in the week.

The downside surprise to Q1 GDP also had a negative impact on the Aussie currency, though to a much lesser degree than the global news.

The news that the militant group Hezbollah rejected the ceasefire proposal negotiated between Israel and Lebanon is also dragging the AUD lower this morning.

The Aussie dollar is sitting in the middle of the G10 currency ladder for the week, with the Canadian dollar being the weakest and the US dollar being the strongest.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7134	0.7190	0.7122	↓0.4	0.7278	0.6373
AUD/EUR		0.6144	0.6176	0.6134	↓0.1	0.6207	0.4754
AUD/GBP		0.5314	0.5342	0.5306	↓0.3	0.5394	0.4754
AUD/JPY		114.14	114.92	113.84	↑0	114.92	92.32
AUD/CNY		4.8340	4.8721	4.8251	↓0.4	4.9567	4.5602
EUR/USD		1.1613	1.1671	1.1595	↓0.3	1.2081	1.1372
GBP/USD		1.3425	1.3482	1.3407	↓0.1	1.3868	1.3010
USD/JPY		160.00	160.09	159.24	↑0.5	160.72	142.53
USD/CNY		6.7746	6.7792	6.7614	↓0	7.2140	6.7614

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7134	0.7120	0.7105	0.7078
AUD/EUR		0.6144	0.6109	0.6077	0.6014
AUD/GBP		0.5314	0.5306	0.5298	0.5286
AUD/JPY		114.14	113.09	112.04	110.02
AUD/NZD		1.2157	1.2100	1.2048	1.1969
AUD/SGD		0.9163	0.9087	0.9010	0.8861

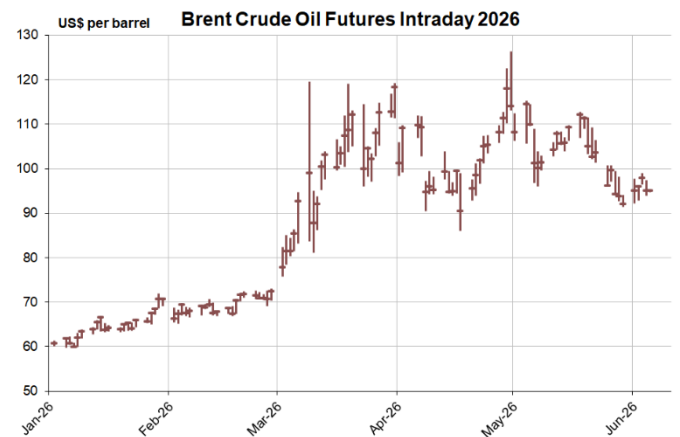
## Commodities

Oil prices firmed slightly this week, though Brent crude remains below US\$100 per barrel. Prices ended last week at their lowest levels since mid-April, as the US and Iran appeared to be making progress on an agreement to extend the fragile ceasefire.

However, prices climbed again as renewed air strikes threatened to reignite hostilities, and negotiations appeared to reach an impasse. Washington continues to express optimism that a deal will eventually be reached.

Iron ore futures have fallen to near three-month lows, weighed down by news of a sharp increase in shipments from Guinea's Simandou project to 2.2 million tonnes in May. However, the project's share of global supply remains modest.

Seasonal softness in steel demand is also possibly contributing to the downward pressure on iron ore prices.



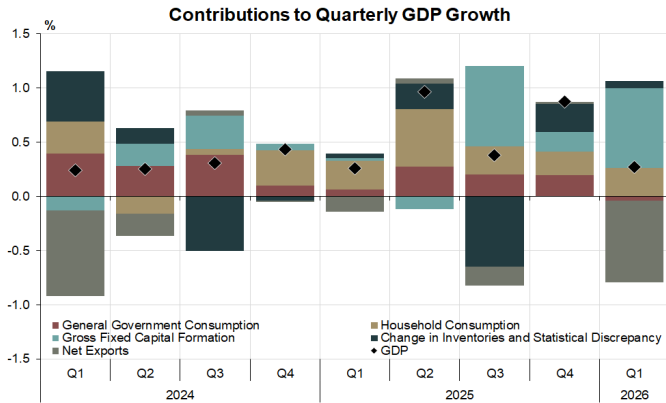
Source: Bloomberg

as	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$4,464.99	\$4,545.98	\$4,424.19	(↓\$38.14)	\$5,595.47	\$3,248.71
Brent Crude Oil (US\$)	\$95.00	\$98.99	\$92.20	(↑\$1.67)	\$126.41	\$58.72
Mogas95* (US\$)	\$110.18	\$116.26	\$106.48	(↓\$3.19)	\$150.55	\$68.52
WTI Oil (US\$)	\$92.76	\$97.00	\$88.45	(↑\$4.45)	\$119.48	\$54.98
CRB Index	384.04	388.99	380.45	(↓0.57)	406.18	291.69
Iron Ore Price 61% Fe (US\$) **	\$101.25	\$105.55	\$100.85	(↓\$4.1)	\$111.90	\$92.00

\*Mogas95 is the Singapore benchmark petrol price closely linked to Australian domestic fuel prices.  
 \*\* The Iron Ore Price is the SGX61% Fe iron ore futures 2nd contract.

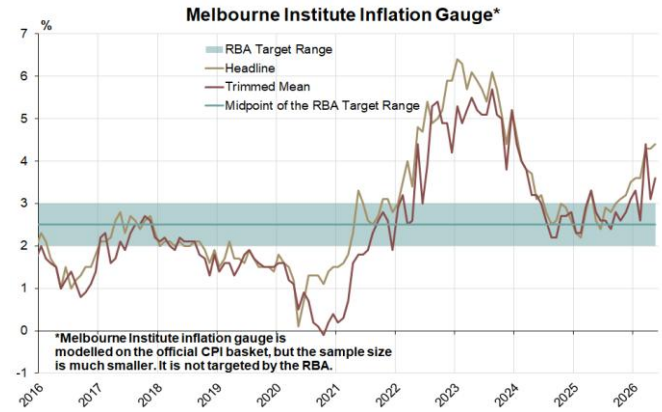
## Domestic Economy

Quarterly **GDP growth** slowed in Q1, and remained positive only thanks to the investment in data centres.



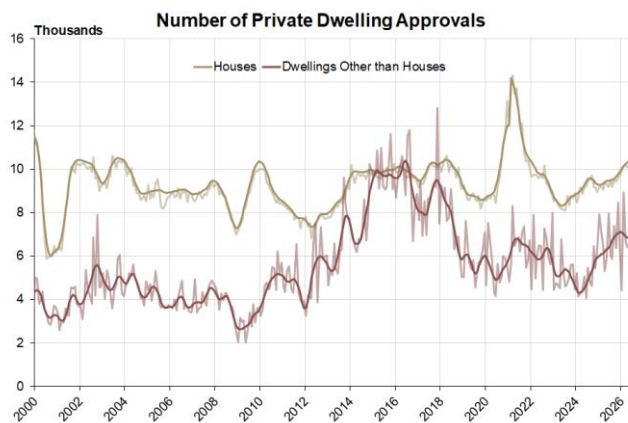
Source: ABS

The **Melbourne Institute gauge** suggests CPI inflation remained above the RBA target range in May.



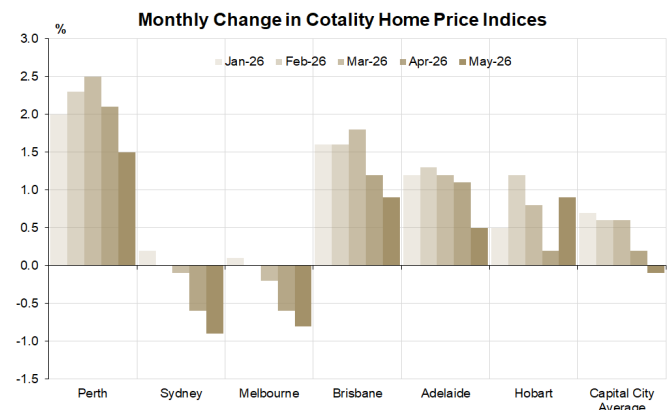
Source: Bloomberg

Despite the decline in April, **private sector house approvals** are trending upwards.



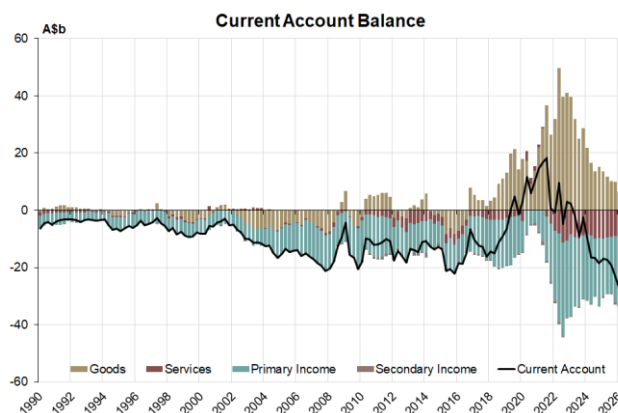
Source: ABS

Sydney and Melbourne **home prices** are declining, but other capital cities are seeing further gains.



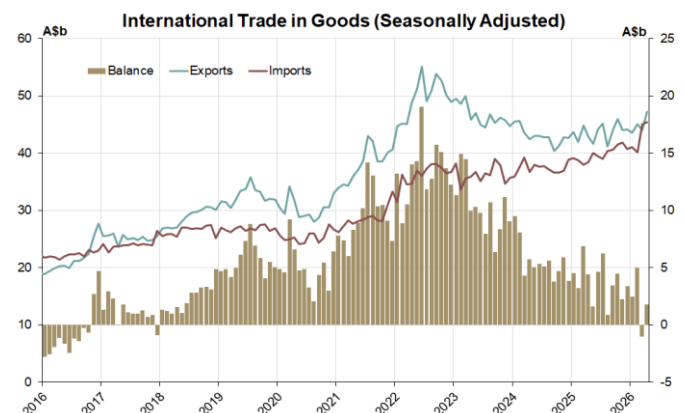
Source: Cotality

Meanwhile, the **current account deficit** widened to its record level in Q1.



Source: ABS

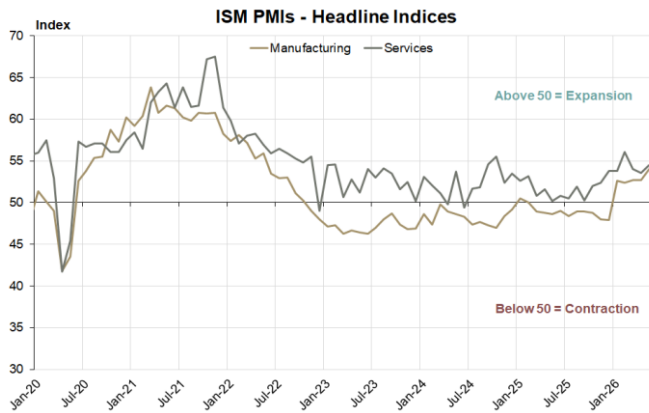
However, a solid rise in exports pushed **goods trade balance** back into surplus in April.



Source: ABS

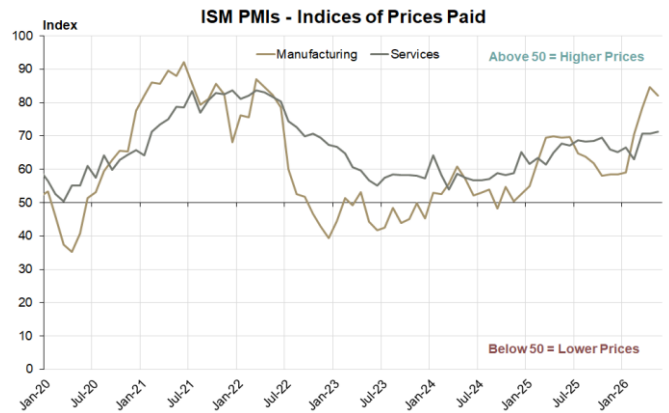
## Global Economy

**US ISM PMIs** pointed to solid expansion in both manufacturing and services.



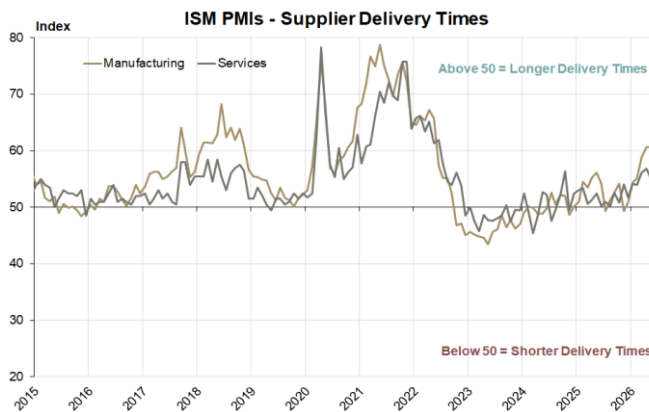
Source: Bloomberg

**Inflation of prices paid** by business in manufacturing and services appears to have stabilised at a high level.



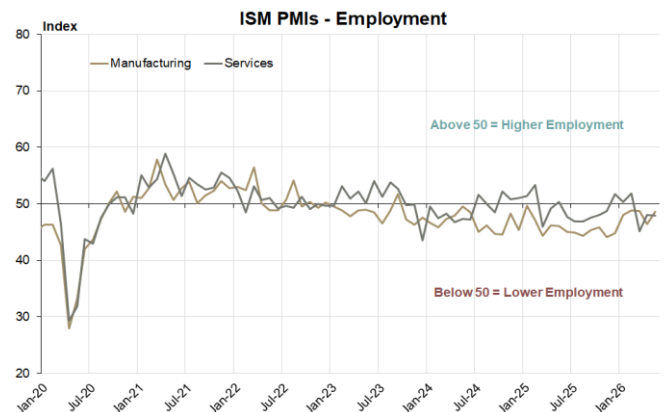
Source: Bloomberg

The ISM report pointed to ongoing **supply chain disruptions**, which are not worsening anymore.



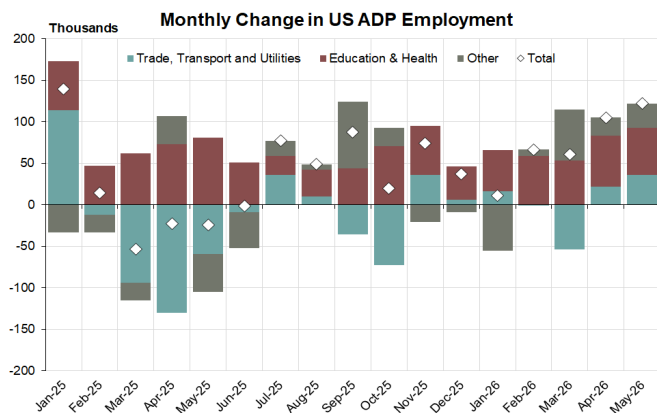
Source: Bloomberg

According to the ISM report, **employment** remained in contraction in May...



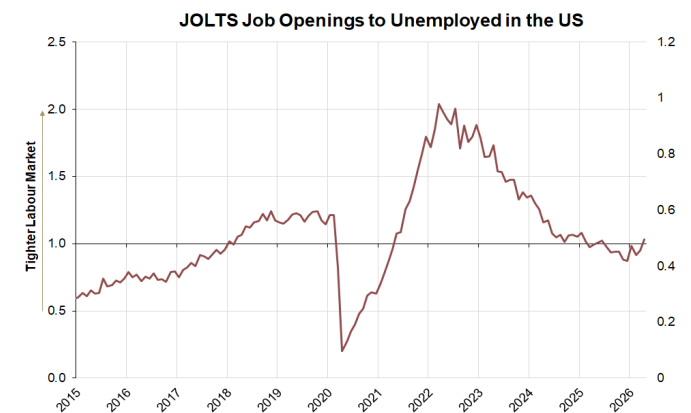
Source: Bloomberg

... which contrasts with the strongest rise in **US ADP employment** in over a year...



Source: Bloomberg

... and the tightening in labour market conditions suggested by the **JOLTS job openings** data.



Source: Bloomberg

## Last Week

Date	Event	Actual	Forecast	Previous	Comment
<b>Mon 01</b>					
AU	MI Inflation Gauge (MoM, May)	-0.3%	-	0.6%	Annual rate ticked up by 0.1ppts to a 2Y high of 4.4%.
AU	Cotality Home Value (MoM, May)	-0.1%	-	0.2%	Declines in Sydney and Melbourne, gains elsewhere.
AU	ANZ Indeed Job Ads (MoM, May)	1.8%	-	-0.6%	2.0% up YoY and 15.1% higher than before COVID-19.
CH	RatingDog Manuf. PMI (May)	51.8	51.3	52.2	NBS Manufacturing PMI signalled stagnation.
US	ISM Manufacturing PMI (May)	54.0	53.0	52.7	The fastest pace of expansion in precisely four years.
<b>Tue 02</b>					
AU	Current Account Balance (Q1)	-\$27.1b	-\$23.4b	-\$23.0b	Easily the widest deficit on record.
AU	Dwelling Approvals (MoM, Apr)	-3.4%	-1.6%	-10.5%	Private sector house approvals down by 1.0% in April.
AU	RBA MPB Member Speaks	-	-	-	Keeping inflation expectations steady is key for the RBA.
AU	ANZ Cons. Conf. (w/e 30 May)	68.8	-	66.1	Inflation expectations down 0.2ppts to 5.9%.
EZ	HICP (YoY, May)	3.2%	3.2%	3.0%	Core inflation picked up to 2.5%, to be above ECB's goal.
US	JOLTS Job Openings (Apr)	7.6m	6.9m	6.9m	Slightly above the number of officially unemployed.
<b>Wed 03</b>					
AU	GDP (QoQ, Q1)	0.3%	0.4%	0.9%	It'd have been a decline without data centre investment.
AU	Private Sector Credit (MoM, Apr)	0.7%	0.6%	0.7%	Annual growth slowed 0.1ppts to the still-steep 8.0%.
CH	RatingDog Services PMI (May)	54.4	52.3	52.6	Chinese NBS services PMI at only 50.3 in May.
US	ISM Services PMI (May)	54.5	53.8	53.6	Solid growth but cost inflation accelerating.
US	ADP Employment (MoM, May)	122k	120k	105k	Largest increase since January 2025.
US	Beige Book	-	-	-	Growth improving but inflation getting stronger.
<b>Thu 04</b>					
AU	Goods Trade Balance (Apr)	A\$1.8b	A\$1.6b	-\$1.0b	Higher exports drove a return to surplus.
AU	RBA Governor M. Bullock Speaks	-	-	-	The RBA well-positioned to respond to developments.
US	Initial Jobless Claims (w/e 30 May)	225k	215k	212k	Continued claims little changed at below 1.8m.
<b>Tonight</b>					
AU	RBA Deputy Governor Speaks	-	-	-	Fireside chat on the Australian economic outlook.
US	Non-farm Payrolls (MoM, May)	-	93k	115k	Business reports suggest a fall in employment.
US	Unemployment Rate (May)	-	4.3%	4.3%	FOMC's longer run estimate is 4.2%.

## Next Week

Date	Event	Forecast	Previous	Comment
<b>Mon 08</b>				
	<i>No market-moving data</i>			
<b>Tue 09</b>				
AU	NAB Business Conditions (May)	-	3	April saw one of the lowest levels since COVID-19 hit.
AU	NAB Business Confidence (May)	-	-24	Despite a slight improvement, remained bleak in April.
AU	Westpac Consumer Sentiment (MoM, Jun)	-	3.5%	Homebuyer sentiment plunged in May.
CH	Trade Balance (May)	US\$89b	US\$84b	Chinese exports and imports to still grow in double digits.
US	NY Fed 1Y Inflation Expectations (May)	-	3.6%	Three- and five-year expectations tracked by the FOMC.
US	NFIB Small Business Optimism (May)	96.0	95.9	Has been on a decline since the start of the US-Iran war.
<b>Wed 10</b>				
CH	CPI (YoY, May)	1.3%	1.2%	Chinese consumer price inflation is still very low.
CH	PPI (YoY, May)	3.8%	2.8%	Emerged from deflation only two months ago.
CA	Bank of Canada (Policy Rate)	2.25%	2.25%	Not expected to hike until late 2026.
US	CPI (MoM, May)	0.5%	0.6%	Annual rate of inflation expected to climb 0.4ppts to 4.2%.
<b>Thu 11</b>				
AU	MI Consumer Inflation Exp. (Jun)	-	5.6%	Have been rising less decisively than their ANZ equivalents.
EZ	ECB Decision (Deposit Rate)	2.25%	2.00%	Expected to be supported by higher car sales.
US	PPI (MoM, May)	0.7%	1.4%	US annual PPI inflation hit an over three-year high in April.
<b>Fri 12</b>				
UK	Monthly GDP (MoM, Apr)	-	0.3%	UK's performance weaker than business reports suggested.
US	UMich Consumer Sentiment (Jun, prel.)	46.0	44.8	Hit a record low in May (since 1950s).