

## Highlights this week

- At home, RBA minutes indicated little chance for monetary policy tightening in June. The April labour force survey came out much weaker than expected. The S&P Global composite PMIs suggested renewed contraction in May. Westpac consumer confidence improved in May, but remained bleak, while Melbourne Institute consumer inflation expectations eased a little.
- Offshore, FOMC minutes confirmed increasing hawkishness ahead of the new Chair taking his place on the committee. The S&P Global PMIs pointed to further expansion in the US and Japan, and contraction in the euro area and UK. Chinese economic activity data for April disappointed across the board.

## Highlights next week

- The key domestic releases next week will be the April CPI figures and Q1 construction work done on Wednesday, the April household spending report and Q1 private sector capex on Thursday, as well as private sector credit for April on Friday.
- The highlights offshore will include Chinese NBS PMIs for May as well as the US personal income and outlays report for April, which will contain PCE inflation targeted by the Fed. The RBNZ is set to announce its monetary policy decision on Wednesday, with no changes to the official cash rate expected.

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	3.57 (↑1 pt)	ASX200	8664 (↑27 pt)
US (IOR)	3.65 (0 pt)	90-day Bills	4.43 (↓1 pt)	2-yr T-Notes	4.08 (↑4 pt)	S&P500	7446 (↓56 pt)
Eurozone (Deposit)	2.00 (0 pt)	3-yr T-Bond	4.54 (↓17 pt)	10-yr T-Notes	4.57 (↑6 pt)	DJIA	50286 (↑222 pt)
UK	3.75 (0 pt)	10-yr T-Bond	4.92 (↓12 pt)	Jap 10-yr	2.79 (↑8 pt)	Nikkei	62948 (↑1099 pt)
Japan (Target)	0.75 (0 pt)	3-yr WATC Bond	4.72 (↓14 pt)	UK 10-yr	4.97 (↓3 pt)	CSI300	4794 (↓78 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	5.34 (↓11 pt)	Ger 10-yr	3.10 (↑5 pt)	Stoxx600	621 (↑5 pt)

Changes are since the previous issue of Market Watch Weekly.

## Financial Markets

### Interest Rates

Commonwealth bond yields are sharply lower this week, dragged down by a decline in cash rate hike expectations following a disappointing labour force survey for April. At the time of writing, another cash rate hike is only roughly priced in for this year.

This contrasts with an increase in US Treasury yields, which mainly reflects the surge last Friday amid concerns over the inflationary impacts of the prolonged conflict in the Middle East.

Meanwhile, minutes from the last FOMC meeting with Jerome Powell at the helm confirmed that the Committee generally agreed that the fed funds rate should be kept steady for longer than previously thought. However, removal of the slight dovish tilt from the post-meeting statement did not gain sufficient support.

Back home, RBA minutes highlighted the current focus is on containing inflation and inflation expectations. The dissenter, who did not support a 25bps rate hike at the May meeting, judged capacity pressures to be lower and risks from the conflict in the Middle East to be larger than the RBA's current assessment.

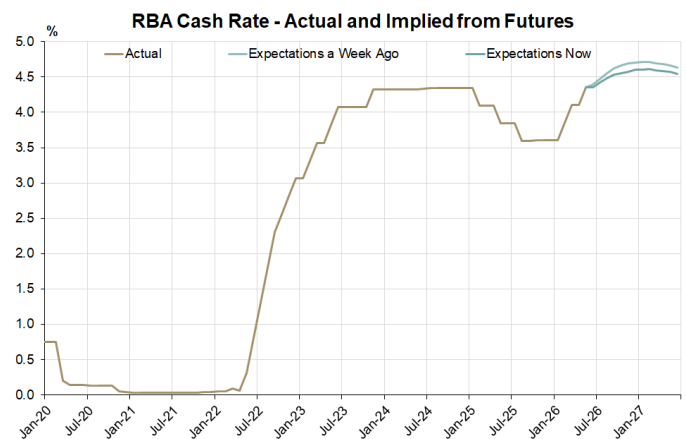
### Equities

The Aussie share market whipsawed violently this week and fell to its lowest level since the end of March on Wednesday amid fears that the Iran war would reignite.

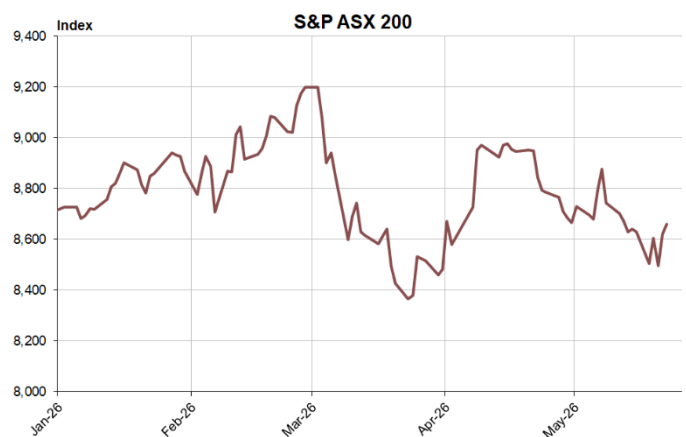
However, fresh hopes for a peace agreement, and declines in expectations for cash rate hikes this year following an unexpected increase in Aussie unemployment, drove a strong rebound on Thursday. The market has lifted a little further this morning.

In the US, Wall Street slumped last Friday, with the S&P 500 having its worst day since March as share valuations were hit by a big rise in US Treasury yields. Further increases in Treasury yields early this week continued to weigh on US equities, before the market turned for the better over the past couple of days.

While the S&P 500 and tech-heavy Nasdaq remained in negative territory over the week, the blue-chip Dow Jones Industrial has managed to climb to a fresh record high.



Source: Bloomberg



Source: Bloomberg

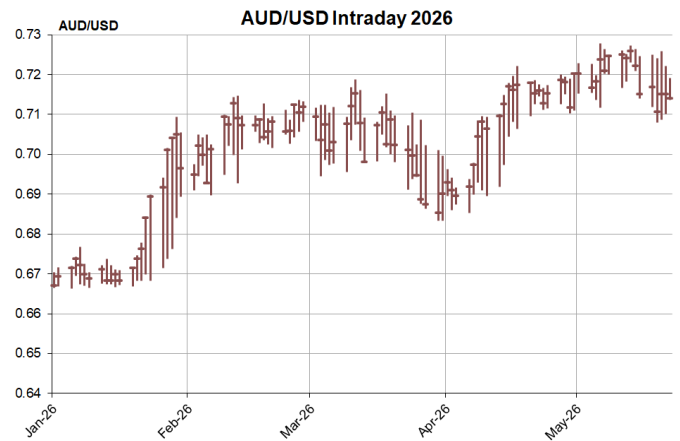
## Currencies

It was not a good week for the Australian dollar, which saw quite solid depreciation against all the major currencies, from the multiyear highs recorded last week.

The Aussie currency was dragged down first by weaker global market sentiment and geopolitical concerns, and – since Thursday – by a decline in cash rate hike expectations after the disappointing labour force survey for April.

The pace of depreciation was the strongest against the British pound (-1.1%), which found some ground after the fall earlier in May due to fiscal concerns and political uncertainty. The AUD lost 0.7% against the greenback and 0.4% versus the JPY.

The AUD was easily the weakest G10 currency this week, with depreciation nearly double that of the second last currency, the NZD. The GBP was the strongest G10 currency this week.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7139	0.7184	0.7080	↓0.8	0.7278	0.6373
AUD/EUR		0.6148	0.6166	0.6105	↓0.4	0.6207	0.4754
AUD/GBP		0.5317	0.5375	0.5288	↓1.2	0.5394	0.4754
AUD/JPY		113.57	113.98	112.64	↓0.4	114.74	91.65
AUD/CNY		4.8551	4.8841	4.8236	↓0.7	4.9567	4.5602
EUR/USD		1.1611	1.1662	1.1576	↓0.4	1.2081	1.1210
GBP/USD		1.3427	1.3463	1.3303	↑0.4	1.3868	1.3010
USD/JPY		159.09	159.34	158.54	↑0.4	160.72	142.12
USD/CNY		6.8012	6.8192	6.7937	↑0.1	7.2140	6.7850

Forward Rates	Spot	3M	6M	12M
AUD/USD	0.7139	0.7126	0.7111	0.7085
AUD/EUR	0.6148	0.6112	0.6078	0.6016
AUD/GBP	0.5317	0.5308	0.5300	0.5290
AUD/JPY	113.57	112.51	111.45	109.46
AUD/NZD	1.2154	1.2097	1.2044	1.1967
AUD/SGD	0.9131	0.9058	0.8981	0.8834

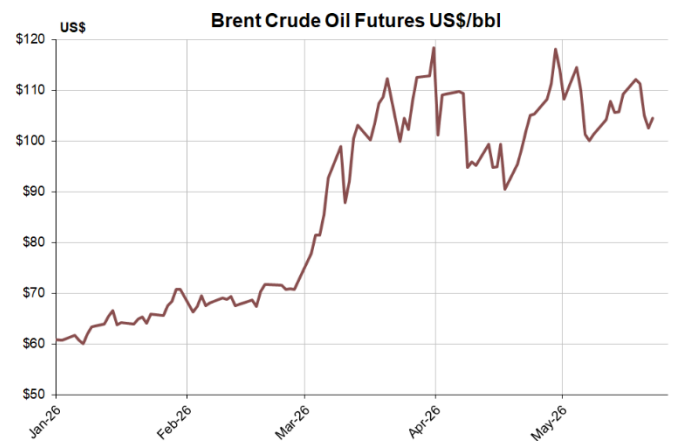
## Commodities

Oil prices continue to be pushed around by news from the Middle East. Brent crude futures jumped to a two-week high late on Monday, as a US attack on Iran appeared imminent, only to retreat again amid rising hopes for a diplomatic settlement.

Prices continued to fall following promising comments from Washington DC regarding progress in peace talks and news that several oil tankers had passed through the Strait of Hormuz. Prices have touched two-week lows this morning, however, on reports that some major issues are yet to be resolved.

Iron ore futures were weighed down by disappointing Chinese economic data, but prices continue to sit comfortably above US\$100 a tonne.

Gold was pushed to a seven-week low by the sharp rise in US Treasury yields early in the week before picking up a little as yields fell back.



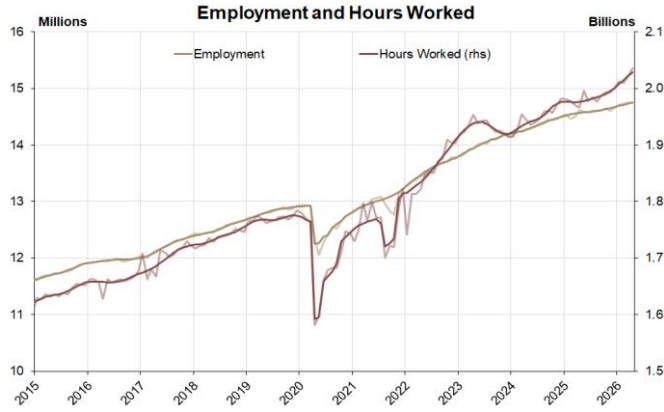
Source: Bloomberg

as	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$4,527.23	\$4,589.22	\$4,453.73	(↓\$94.98)	\$5,595.47	\$3,245.50
Brent Crude Oil (US\$)	\$104.50	\$112.72	\$102.17	(↓\$2.63)	\$126.41	\$58.72
Mogas95* (US\$)	\$123.89	\$138.41	\$123.17	(↓\$8.85)	\$150.55	\$68.52
WTI Oil (US\$)	\$97.74	\$109.47	\$95.76	(↓\$4.84)	\$119.48	\$54.98
CRB Index	392.37	406.18	392.37	(↓7.91)	406.18	290.43
Iron Ore Price 62% Fe (US\$) **	\$105.90	\$109.45	\$105.45	(↓\$3.45)	\$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.

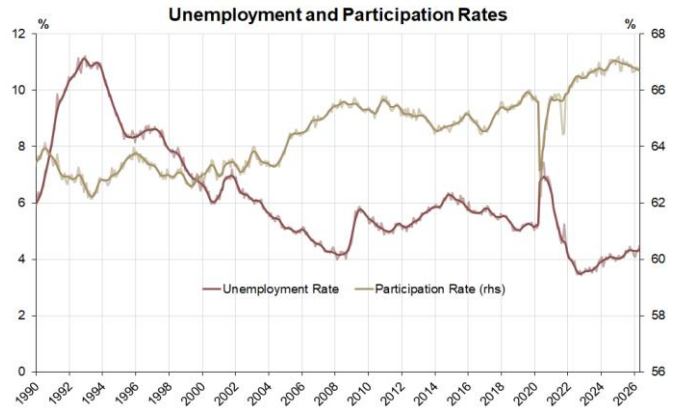
## Domestic Economy

Despite a decline in seasonally adjusted terms in April, **employment** continued to trend upwards...



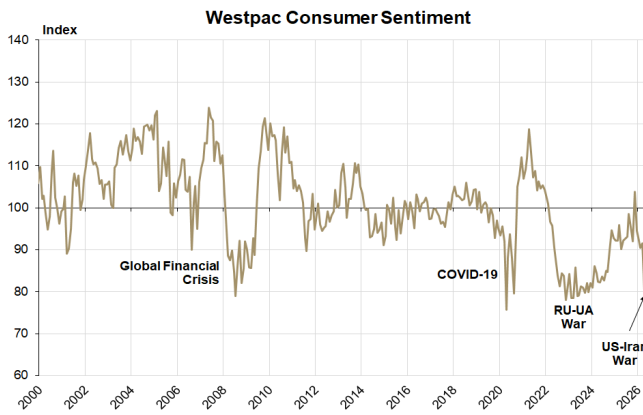
Source: ABS

... while the **unemployment rate**, though somewhat higher, remains very low by historical standards.



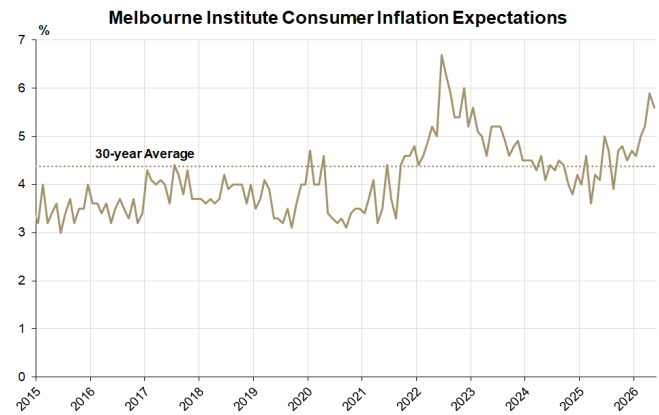
Source: ABS

**Westpac consumer sentiment** picked up slightly in May, but remained bleak.



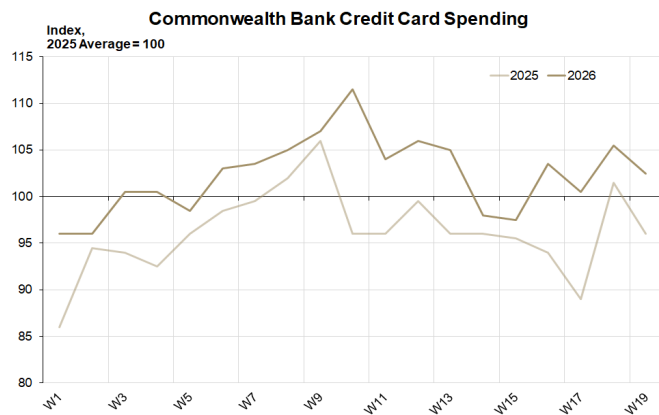
Source: Bloomberg

**Melbourne Institute inflation expectations** are still well above the long-run average after the fuel excise cut.



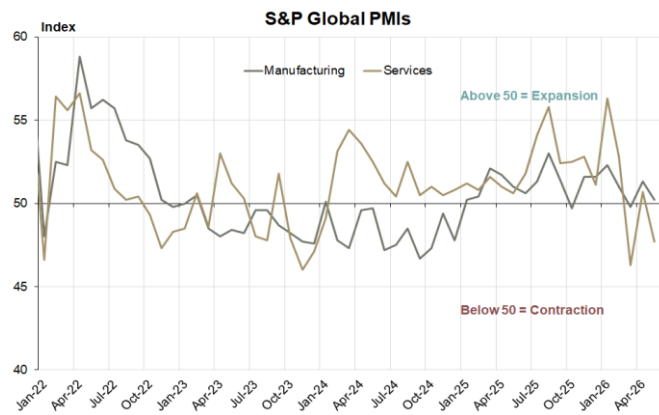
Source: Bloomberg

So far, the bleak confidence has not had much impact on **consumer spending**, at least in nominal terms.



Source: Commonwealth Bank

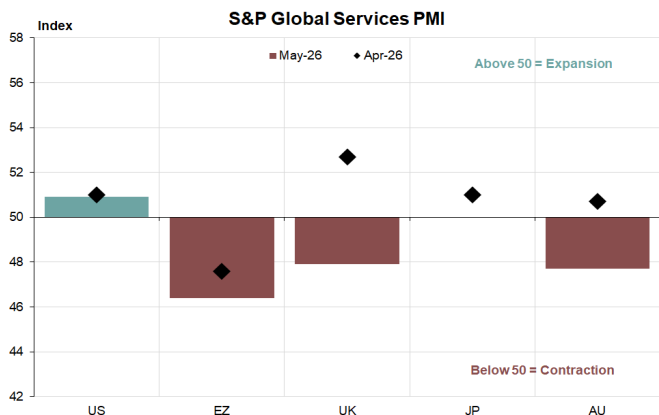
The **S&P Global services PMI** plunged back into contraction in May, after just a month of modest growth.



Source: Bloomberg

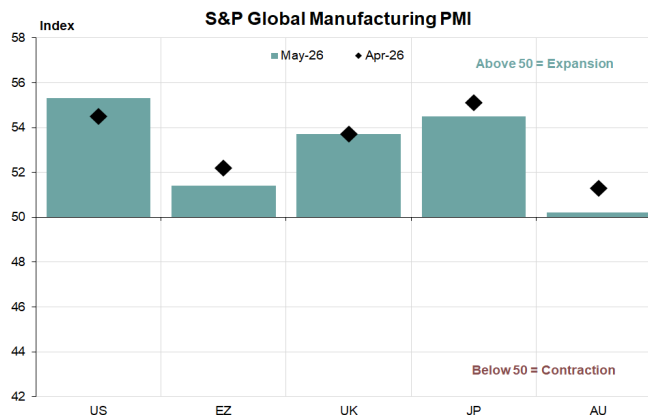
## Global Economy

The **S&P Global services PMI** remains in expansion in the US, but is in clear contraction in Europe.



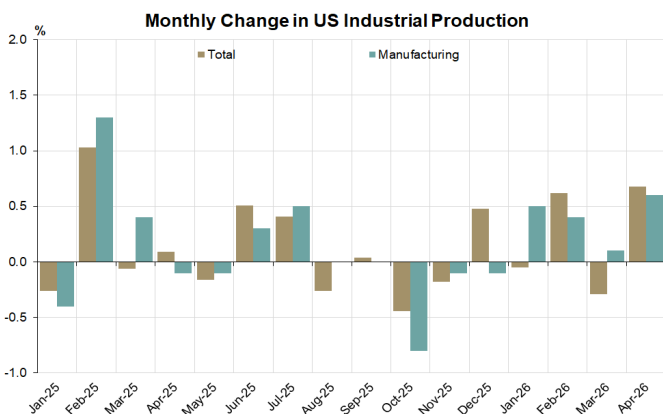
Source: Bloomberg

At the same time, the **manufacturing** sector continued to expand in May, especially in the US...



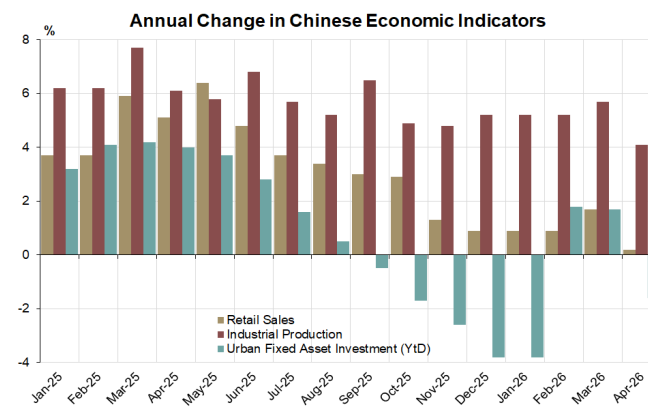
Source: Bloomberg

... which followed a solid rise in **US industrial production** in April, also in the manufacturing sector.



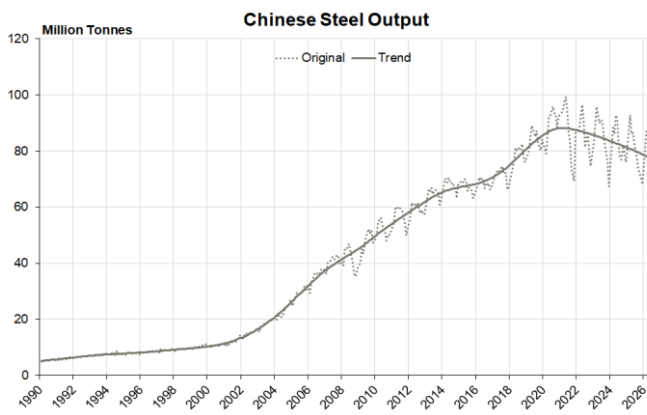
Source: Bloomberg

Following a promising start to 2026, **Chinese economic activity indicators** softened in April...



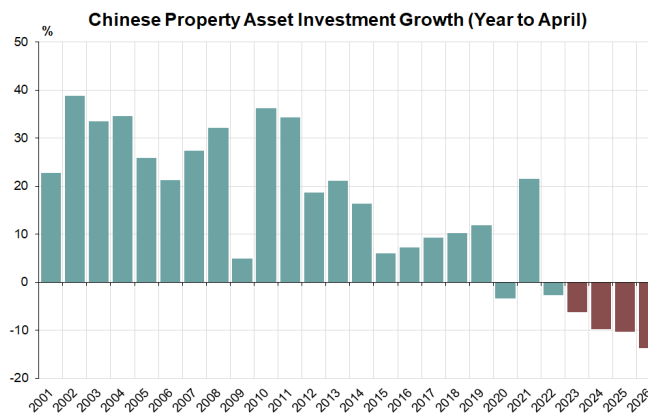
Source: Bloomberg

... with the **Chinese steel output** still trending downwards...



Source: Bloomberg

... and the decline in **Chinese property asset investment** deeper than in the previous years.



Source: Bloomberg

## Last Week

Date	Event	Actual	Forecast	Previous	Comment
<b>Mon 18</b>					
CH	Retail Sales (YoY, Apr)	0.2%	2.0%	1.7%	The slowest growth since early 2023.
CH	Industrial Production (YoY, Apr)	4.1%	5.8%	5.7%	Steel output down by 2.8% YoY.
CH	Urban Asset Inv. (YoY YtD, Apr)	-1.6%	1.5%	1.7%	Property investment down by 13.7% YoY YtD.
<b>Tue 19</b>					
AU	RBA Minutes	-	-	-	Minutes indicate the RBA is likely to pause in June.
AU	RBA Assistant Governor Speaks	-	-	-	Speech focused on the current inflation challenge.
AU	Westpac Cons. Sent. (MoM, May)	3.5%	-	-12.5%	Still depressed despite the small improvement.
JP	GDP (QoQ, Q1)	0.5%	0.4%	0.2%	Solid rise driven by consumption and exports.
UK	Unemployment Rate (Jan-Mar)	5.0%	4.9%	4.9%	Employment rose by a solid 148k in three months to Mar.
<b>Wed 20</b>					
CH	PBoC Announcement (5Y LPR)	3.50%	3.50%	3.50%	One-year loan prime rate also held steady at 3.00%.
UK	CPI (MoM, Apr)	0.7%	0.9%	0.7%	Annual rate of inflation fell on base effects from 2025.
US	FOMC Minutes	-	-	-	Most participants do not rule out a rate hike in the future.
<b>Thu 21</b>					
AU	Employment (MoM, Apr)	-18.6k	15.0k	23.3k	Could be distorted by Easter and collection changes.
AU	Unemployment Rate (Apr)	4.5%	4.3%	4.3%	The highest level since November 2021.
AU	S&P Global Composite PMI (May)	47.8	-	50.4	Back in contraction after just one month of growth.
AU	MI Consumer Infl. Exp. (May)	5.6%	-	5.9%	Decline reflects stabilisation in fuel prices in Apr-May.
JP	S&P Global Composite PMI (May)	51.1	-	52.2	Japanese manufacturing remains in solid expansion.
EZ	S&P Global Composite PMI (May)	47.5	48.8	48.8	Both Germany and France are in deep contraction.
UK	S&P Global Composite PMI (May)	48.5	51.6	52.6	Back in contraction for the first time in over a year.
US	S&P Global Composite PMI (May)	51.7	51.8	51.7	Supply disruptions and cost inflation the worst in 4 years.
US	Initial Jobless Claims (w/e 16 May)	209k	210k	212k	Continued claims little changed in w/e 9 May.
<b>Fri 22</b>					
JP	CPI (YoY, Apr)	1.4%	1.6%	1.5%	Remains held back by base effects from a year ago.

## Next Week

Date	Event	Forecast	Previous	Comment
<b>Mon 25</b>				
	<i>No market moving data</i>			
<b>Tue 26</b>				
US	C-S Hse Pce Index 20 Cities (MoM, Mar)	0.1%	-0.1%	February saw the first decline since mid-2025.
US	Conference Board Cons. Conf. (May)	91.5	92.8	A bit less bleak than the University of Michigan equivalent.
<b>Wed 27</b>				
AU	CPI (YoY, Apr)	4.4%	4.6%	Fuel excise cut should keep a lid on inflation throughout Q2.
AU	Construction Work Done (QoQ, Q1)	0.8%	-0.1%	The Q1 decline led by engineering, while building picked up.
NZ	RBNZ Decision (Official Cash Rate)	2.25%	2.25%	Widely expected to start hiking in the second half of 2026.
<b>Thu 28</b>				
AU	Household Spending (MoM, Apr)	-0.3%	1.6%	Commercial bank reports suggest ongoing resilience.
AU	Private Sector Capex (QoQ, Q1)	1.0%	0.4%	Received some support from data centres in recent quarters.
US	Durable Goods Orders (MoM, Apr)	2.5%	0.6%	Core orders expected to edge up by 0.1%.
US	Personal Spending (MoM, Apr)	0.5%	0.9%	Despite weak confidence, US consumers just keep spending.
US	PCE Price Index (MoM, Apr)	0.5%	0.7%	Annual rate expected to climb to 3.9%, the highest since 2023.
US	GDP (QoQ annualised, Q1, 2nd est.)	2.1%	2.0%	Q1 growth artificially supported by US government reopening.
<b>Fri 29</b>				
AU	Private Sector Credit (MoM, Apr)	0.6%	0.7%	Annual credit growth hit a three-year high in March.
CH	NBS Composite PMI (May)	-	50.1	First insights into the Chinese economy in May.