

### THIS WEEK'S HIGHLIGHTS

- In Australia, the monthly CPI indicator pointed to a renewed increase in inflation in April. Home price growth accelerated in May, while new home loans declined in April. Dwelling approvals continued to fall in April and residential building work done declined in Q1. Private capex picked up further in Q1.
- Offshore, ADP employment saw another solid increase in May and US JOLTS job openings resumed climbing in April. The ISM manufacturing PMI fell further into contraction in May. The Chinese PMIs were mixed in May, but overall pointed to further modest expansion.

### NEXT WEEK'S HIGHLIGHTS

- Another busy week ahead at home, with an RBA decision on Tuesday and the Q1 national accounts on Wednesday being the major highlights.
- Other important domestic events will be the Melbourne Institute inflation gauge for May on Monday, the Q1 current account balance on Tuesday, a public appearance by RBA Governor Philip Lowe on Wednesday and the trade balance for April on Thursday.
- The highlights offshore will include May services PMIs for the US and China on Monday, the US trade balance for April on Wednesday and Chinese inflation numbers for May on Friday.

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	3.82	(0 pt)	USD 3-month	5.50	(↑4 pt)	ASX200	7128	(↓17 pt)
US (IOR)	5.15	(0 pt)	90-day Bills	4.02	(↑7 pt)	2-yr T-Notes	4.35	(↓18 pt)	S&P500	4221	(↑70 pt)
Eurozone	3.25	(0 pt)	3-yr T-Bond	3.44	(↓3 pt)	10-yr T-Notes	3.61	(↓20 pt)	DJIA	33062	(↑297 pt)
UK	4.50	(0 pt)	10-yr T-Bond	3.64	(↓11 pt)	Jap 10-yr	0.41	(↓3 pt)	Nikkei	31385	(↑283 pt)
Japan	-0.10	(0 pt)	3-yr WATC Bond	3.81	(↓3 pt)	UK 10-yr	4.13	(↓25 pt)	CSI300	3843	(↑9 pt)
China (1Y LPR)	3.65	(0 pt)	10-yr WATC Bond	4.27	(↓9 pt)	Ger 10-yr	2.25	(↓29 pt)	Stoxx600	455	(↓1 pt)

Changes are since the issue of last week's Market Watch.

## FINANCIAL MARKETS OVERVIEW

### Interest Rates

Government bond yields are largely down for the week, reflecting the US debt ceiling deal reached over the weekend and receding expectations for a fed funds rate hike next week.

The fall in fed funds rate expectations, despite quite solid labour market data, came after comments from several Fed officials midweek, who advocated for a "June skip."

RBA Governor Philip Lowe testified before a Senate committee this week, expressing concerns over the sticky inflation in labour-intensive services. He brought attention to the supply-side roots of inflation, such as low productivity growth and housing shortages.

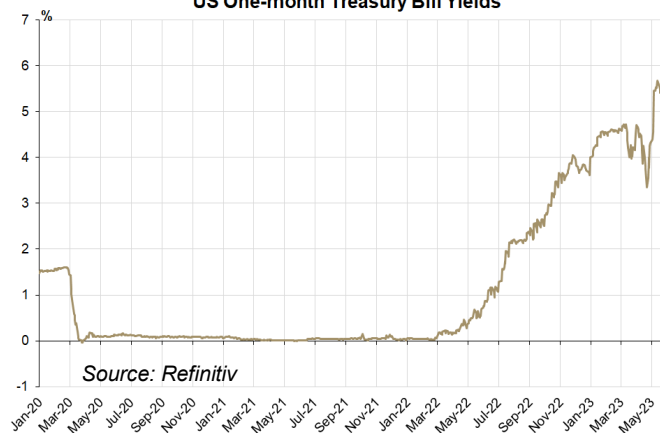
Governor Lowe's testimony preceded the upside surprise to the monthly CPI indicator. The probability of a cash rate hike at the RBA Board meeting next week rose above 50% after the minimum wage hike this morning.

### Equities

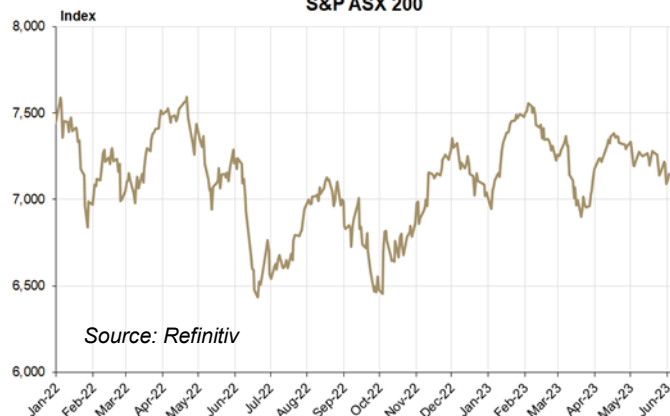
US equities jumped last Friday at signs a deal on raising the US government debt limit was getting closer. The market got the wobbles midweek on concerns it might be held up in Congress. However, with the bill passing the House of Reps and looking set to pass the Senate, the market bounced again overnight.

The Aussie market initially followed Wall Street higher, but was hit by the twin shocks of higher-than-expected Aussie inflation data and weaker-than-expected Chinese PMIs. The ASX 200 slumped 1.6% on the day, its worst session since the US regional banking crisis in mid-March. However, gains over the past two days sees the index currently sitting only a little lower than it was this time last week.

US One-month Treasury Bill Yields



S&P ASX 200



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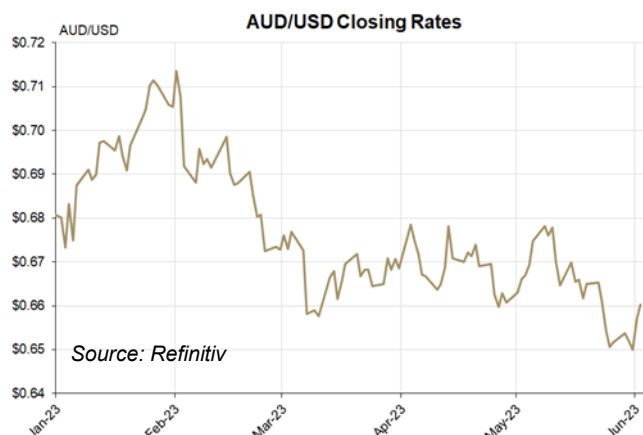
### Currencies

The Australian dollar had a strong week, rising against all the other members of the G10 currency basket, with the exception of the British pound and Canadian dollar.

The Aussie fell to a 6½-month low against the greenback midweek, after the release of some soft Chinese economic data and a strong rise in the US dollar.

However, the Aussie's fortunes picked up in the second half of the week, as the greenback weakened and commodity prices rose.

A rise in market expectations for at least one more RBA cash rate increase, following the Fair Work Australia decision to lift the national minimum wage and award rates of pay by 5.75%, has pushed the Aussie back up to US\$0.66 this morning.



Spot rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6602	0.6602	0.6456	↑1.6	0.7282	0.6169
AUD/EUR		0.6132	0.6133	0.6051	↑1.3	0.7000	0.5953
AUD/GBP		0.5266	0.5302	0.5210	↓0.2	0.6260	0.5210
AUD/JPY		91.62	92.00	90.22	↑0.8	98.43	86.03
AUD/CNY		4.6780	4.6803	4.5879	↑1.8	4.8531	4.4365
EUR/USD		1.0763	1.0768	1.0633	↑0.3	1.1095	0.9534
GBP/USD		1.2536	1.2539	1.2306	↑1.8	1.2679	1.0382
USD/JPY		138.78	140.93	138.45	↓0.9	151.94	127.21
USD/CNY		7.0857	7.0857	6.8437	↑0.1	7.3270	6.6354

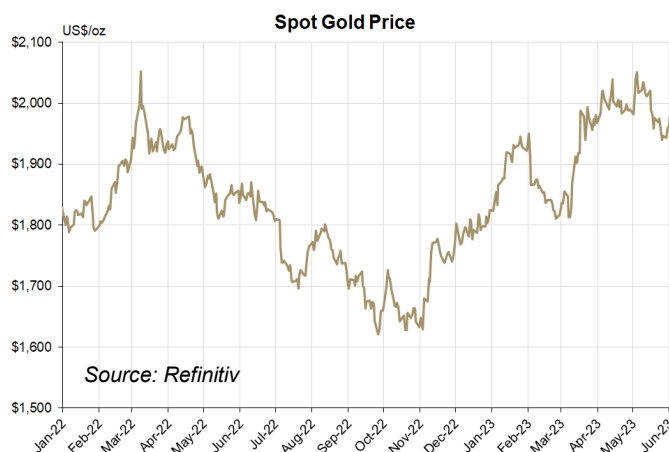
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6602	0.6622	0.6640	0.6655
AUD/EUR		0.6132	0.6119	0.6107	0.6077
AUD/GBP		0.5266	0.5274	0.5286	0.5311
AUD/JPY		91.62	90.57	89.49	87.36
AUD/NZD		1.0851	1.0887	1.0924	1.0983
AUD/SGD		0.8885	0.8878	0.8863	0.8819

### Commodities

Commodities were mixed this week, reflecting a hotchpotch of news on the US debt ceiling deal, mixed Chinese data and the Fed monetary policy outlook.

Oil prices are down for the week, reflecting big falls midweek following disappointing Chinese NBS PMIs and comments from the Russian Deputy Prime Minister Alexander Novak that further cuts in oil supply are unlikely. The early losses have been trimmed in recent days in reaction to the US debt ceiling deal, falling fed funds rate expectations, the upside surprise to the Caixin manufacturing PMI and speculation that the upcoming OPEC+ meeting may deliver a surprise production cut after all.

Iron ore futures picked up this week, largely in reaction to signs of improvement in the Chinese property market and the gold price resumed climbing, despite the US debt ceiling deal progressing through US Congress.



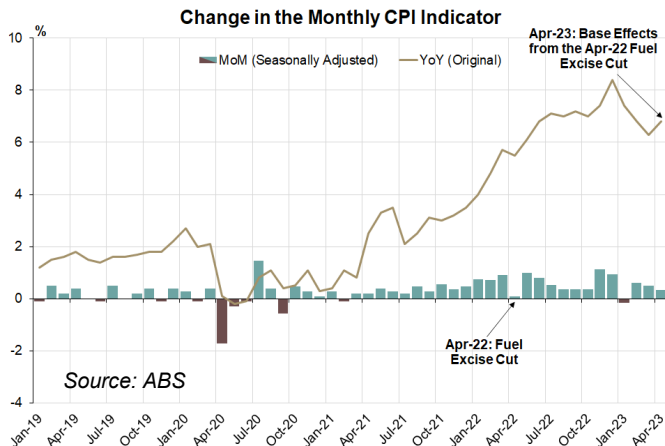
	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$1,979.19	\$1,982.89	\$1,931.76	(↑\$38.7)	\$2,072.19	\$1,613.60
Brent Crude Oil (US\$)	\$74.57	\$77.75	\$71.39	(↓\$1.64)	\$125.19	\$70.12
Mogas95* (US\$)	\$88.62	\$93.94	\$88.62	(↓\$5.27)	\$161.20	\$82.60
WTI Oil (US\$)	\$70.35	\$73.55	\$67.03	(↓\$1.57)	\$123.68	\$63.64
CRB Index	257.37	260.70	253.85	(↓1.13)	329.59	253.85
Iron Ore Price 62% Fe (US\$) **	\$102.08	\$103.25	\$94.00	(↑\$6.41)	\$146.60	\$75.30

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

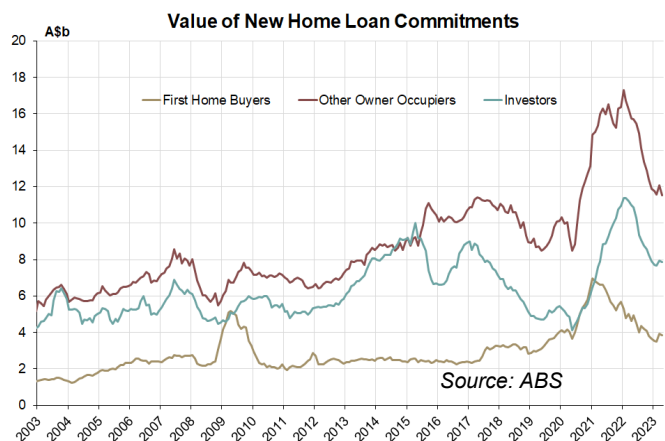
\*\* The Iron Ore Price is the SGX 62% Fe iron ore futures 2nd contract.

### DOMESTIC ECONOMY

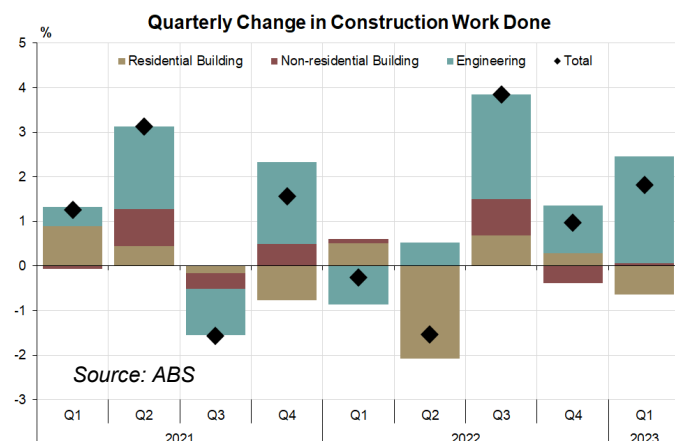
The **CPI indicator** suggests that inflation rose in April, partly due to base effects from the fuel excise cut a year earlier.



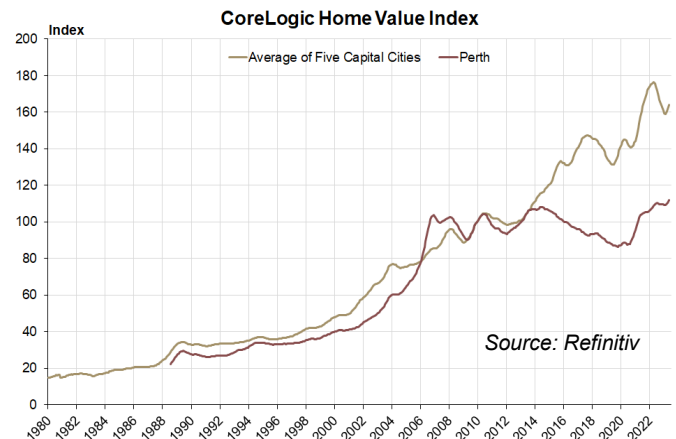
The value of **new home loan commitments** resumed to decline in April, but remains relatively high.



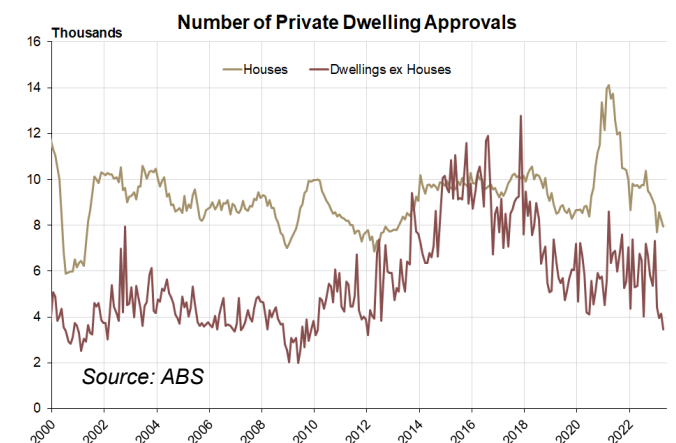
**Construction work done** rose in Q1, but residential building done declined.



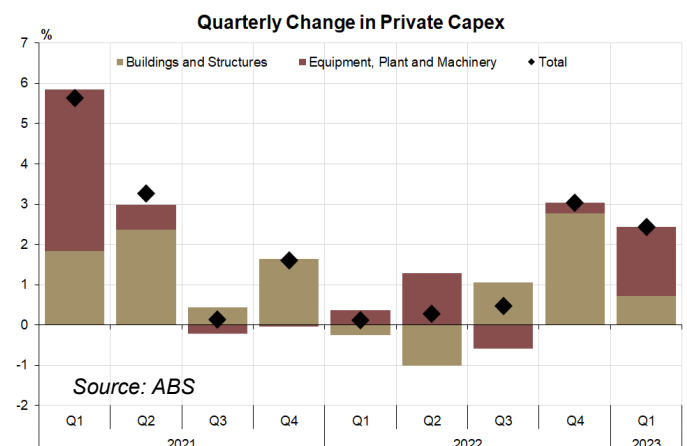
According to the CoreLogic report, **home prices** continued to climb in May.



**Dwelling approvals** continued to decline in April.

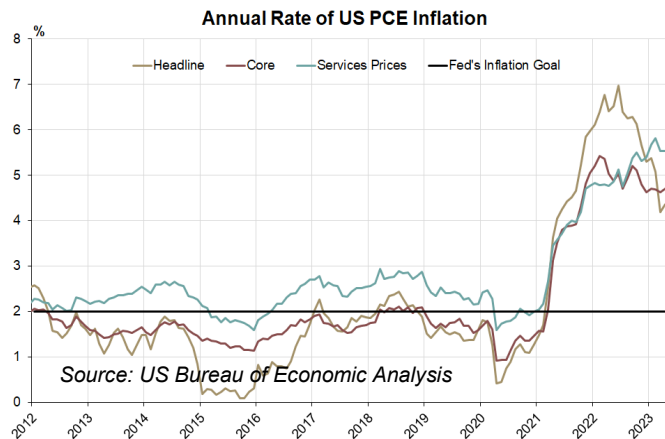


**Private capex** picked up in Q1, with acceleration in growth of investment in equipment, plant and machinery.

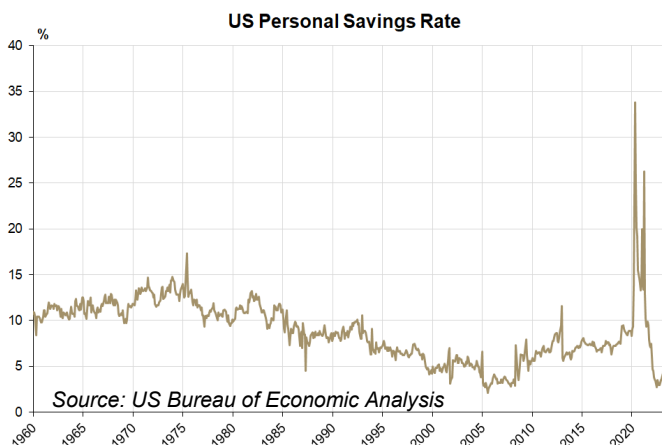


### GLOBAL ECONOMY

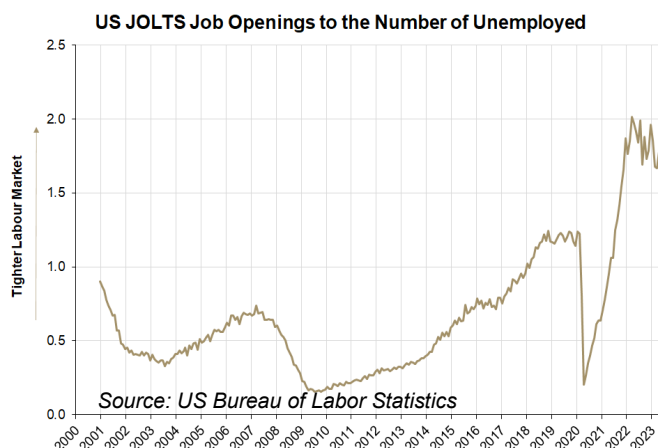
**US headline PCE price inflation** ticked up in April, while core inflation and services price inflation remained sticky.



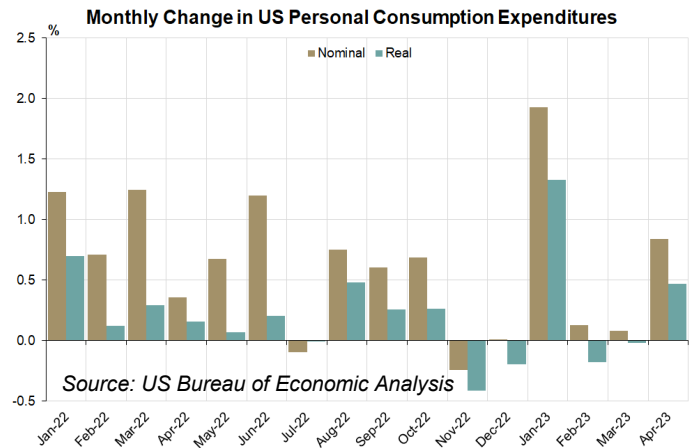
The **US personal savings rate** has risen from 15-year lows, but remains depressed.



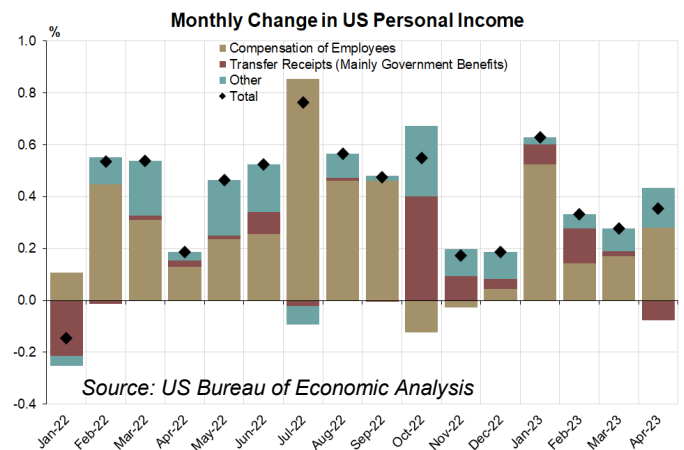
**US labour market** remains exceptionally tight.



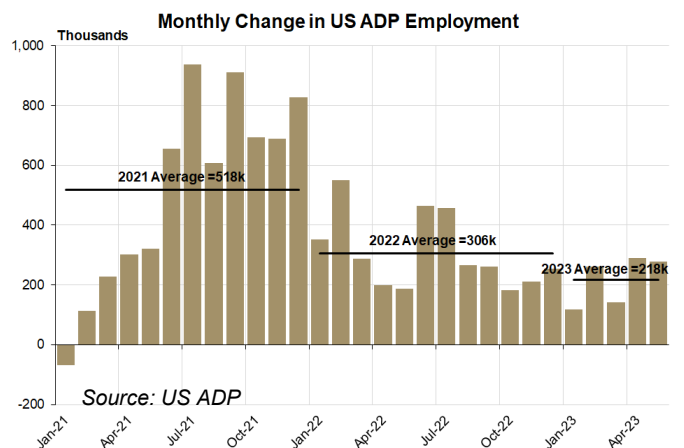
**US personal consumption** saw a solid increase in April, both in nominal and real terms.



The increase in **US personal income** continues, driven by re-accelerating growth in income of employees.



**Solid increases** in employment continued into May, but the pace of labour market expansion has slowed.



## KEY ECONOMIC EVENTS

*This Week*

	Event	Actual	Forecast	Previous	Comment
<b>Mon 29</b>	<i>No market-moving data.</i>				
<b>Tue 30</b>					
AU	Building Approvals (MoM, Apr)	-8.1%	2.2%	-1.0%	At the lowest level since January 2012.
AU	ANZ Consumer Conf. (w/e 27 May)	-1.4%	-	1.8%	Inflation expectations rose 0.2ppts to 5.3%.
US	C-S Hse Prices 20 Cities (YoY, Mar)	-1.1%	-1.6%	0.4%	Up 0.5% MoM, first monthly rise since mid-2022.
US	Conference Board Con. Conf. (May)	102.3	99.1	103.7	April numbers revised upwards.
<b>Wed 31</b>					
AU	Public Appearance by Philip Lowe	-	-	-	No hints on the June cash rate decision.
AU	Construction Work Done (QoQ, Q1)	1.8%	0.0%	1.0%	Residential construction fell 2.0%.
AU	Monthly CPI Indicator (YoY, Apr)	6.8%	6.3%	6.3%	Partly driven by base effects due to fuel excise cut.
AU	Private Sector Credit (MoM, Apr)	0.6%	0.3%	0.2%	Acceleration driven by business credit.
CH	NBS Composite PMI (May)	52.4	-	54.4	NBS manufacturing PMI pointed to faster contraction.
US	Beige Book	-	-	-	Pointed to little change in economic activity.
US	JOLTS Job Openings (Apr)	10.1m	9.4m	9.7m	1.8 times more vacancies than officially unemployed.
<b>Thu 01</b>					
AU	CoreLogic Hse Prices (MoM, May)	1.2%	-	0.5%	Rose in all capital cities and most regions.
AU	Private Capex (QoQ, Q1)	2.4%	1.0%	3.0%	Equipment, plant and machinery saw a 3.7% rise.
CH	Caixin Manufacturing PMI (May)	50.9	49.5	49.5	Production index hit an 11-month high.
EZ	HICP (YoY, May, flash)	6.1%	6.3%	7.0%	Core inflation also slowed.
US	ADP Employment (MoM, May)	278k	170k	291k	Another bumper report
US	ISM Manufacturing PMI (May)	46.9	47.0	47.1	Price index dropped back into contraction.
US	Initial Jobless Claims (w/e 27 May)	232k	235k	230k	Continued claims rose 6k to 1,795k in w/e 19 May.
<b>Fri 02</b>					
AU	Housing Finance (MoM, Apr)	-2.9%	2.0%	5.3%	Unexpected fall after a big rise in March.
<b>Tonight</b>					
US	Non-farm Payrolls (MoM, May)	-	195k	230k	ADP report suggests a possible upside surprise.
US	Unemployment Rate (May)	-	3.5%	3.4%	Came back to the equal multidecade low in April.

*Next Week*

	Event	Forecast	Previous	Comment
<b>Mon 05</b>				
AU	Melbourne Institute Inflation (MoM, May)	-	0.2%	PMI reports point to further deceleration in price growth.
CH	Caixin Services PMI (May)	55.2	56.4	NBS numbers suggest slower expansion.
US	ISM Services PMI (May)	52.5	51.9	S&P Global report pointed to faster expansion.
<b>Tue 06</b>				
AU	RBA Board Decision (Cash Rate Target)	3.85%	3.85%	A 25bps increase more than 50% priced in.
AU	Current Account (Q1)	A\$15.0b	A\$14.1b	Monthly trade figures signalled an increase in CA surplus.
<b>Wed 07</b>				
AU	GDP (QoQ, Q1)	0.3%	0.5%	GDP partials suggest slower growth.
AU	Public Appearance by RBA Governor Lowe	-	-	More insights into the RBA decision the day before.
CH	Trade Balance (May)	US\$94.2b	US\$90.2b	Expected to widen on slower import growth.
CA	Bank of Canada Decision (Policy Rate)	4.50%	4.50%	Probability of another 25bps hike is nearly 30%.
US	Trade Balance (Apr)	-US\$75.4b	-US\$64b	March saw a slightly narrower deficit.
<b>Thu 08</b>				
AU	Trade Balance (Apr)	A\$14.0b	A\$15.3b	Supported by the ongoing demand for commodities.
<b>Fri 09</b>				
CH	CPI (YoY, May)	0.2%	0.1%	Chinese inflation remains very low.
CH	PPI (YoY, May)	-4.4%	-3.6%	PMI reports suggest continued deflation.