

## Highlights this week

- Offshore, the tensions between the US and Iran resumed this week, with the 60-day ceasefire declared no longer valid.
- The International Monetary Fund has slightly downgraded its global economic growth forecasts for 2026. FOMC minutes were on the hawkish side, revealing that a fed funds rate hike was discussed at the June meeting. ISM PMIs pointed to somewhat slower, albeit still solid expansion in US services. Chinese CPI inflation eased and remained low, but PPI inflation rose to a fresh four-year high.
- At home, the Melbourne Institute inflation gauge suggested that consumer price inflation declined further in June. RBA Assistant Governor Sarah Hunter has reminded that the central bank's response to supply shock depends on its duration and impact on inflation expectations.

## Highlights next week

- Aside from developments in the Middle East, which will continue to attract headlines next week, the key highlights will be US inflation figures for June, US and Chinese activity data for June, Chinese Q2 GDP and June trade data.
- The key events in Australia will be on Tuesday and will include the NAB business survey for June and Westpac consumer sentiment for July. There is also the Melbourne Institute consumer inflation expectations report for July on Thursday.

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	3.67 (↑1 pt)	ASX200	8793 (↓34 pt)
US (IOR)	3.65 (0 pt)	90-day Bills	4.46 (0 pt)	2-yr T-Notes	4.16 (↑2 pt)	S&P500	7544 (↑60 pt)
Eurozone (Deposit)	2.25 (0 pt)	3-yr T-Bond	4.42 (↑2 pt)	10-yr T-Notes	4.53 (↑5 pt)	DJIA	52487 (↓1413 pt)
UK	3.75 (0 pt)	10-yr T-Bond	4.83 (↑4 pt)	Jap 10-yr	2.77 (0 pt)	Nikkei	68825 (↓335 pt)
Japan (Target)	1.00 (0 pt)	3-yr WATC Bond	4.63 (↑1 pt)	UK 10-yr	4.90 (↑12 pt)	CSI300	4843 (↑3 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	5.23 (↑3 pt)	Ger 10-yr	3.08 (↑18 pt)	Stoxx600	641 (↓7 pt)

## Financial Markets

### Interest Rates

Government bond yields rose across the advanced economies this week, as a bounce in oil prices in reaction to renewed tensions in the Middle East revived concerns over inflation and monetary policy tightening.

Expectations for Fed tightening have shifted forward to October from December, while rate hikes are again fully priced in for the ECB and Bank of England.

FOMC minutes added to expectations for a fed funds rate hike, revealing that some participants saw a case for monetary policy tightening already at the June meeting. FOMC members also generally assessed that upside risks to inflation had increased in recent months.

The RBNZ increased the official cash rate by 25 basis points to 2.50% yesterday and did not rule out further monetary policy tightening.

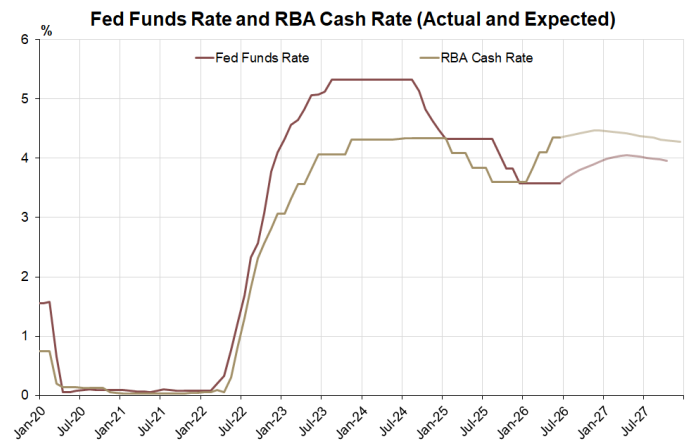
At home, RBA Assistant Governor Sarah Hunter spoke about the management of supply shocks by monetary policy, reminding about the importance of inflation expectations. The speech had no impact on cash rate hike expectations, but the probability of monetary policy tightening picked up slightly this week.

### Equities

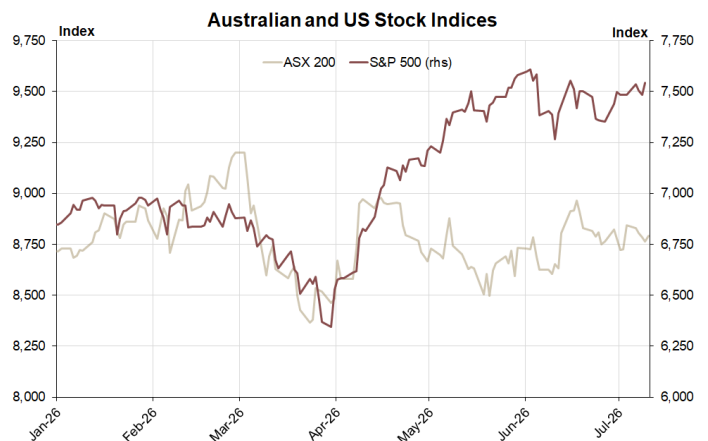
It was a mixed week for equities, with fresh optimism about the artificial intelligence boom offsetting concerns about the impacts of the US-Iran war.

The S&P 500 gained 0.8% this week, but the Dow Jones – which is lighter in tech stocks – fell by the same magnitude. Stock markets in Europe and Asia, which are more dependent on oil supplies from the Middle East, also look set to close the week in the red.

The ASX 200 is marginally down for the week, with gains and losses almost equally spread across sectors. Energy stocks unsurprisingly saw the strongest increases, while materials stocks led the losses.



Source: Bloomberg



Source: Bloomberg

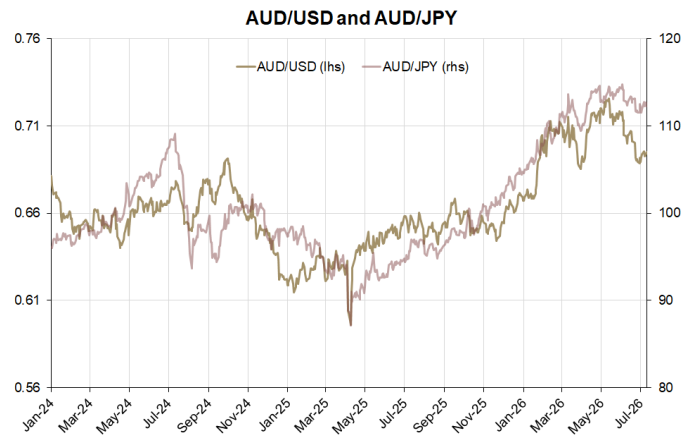
## Currencies

The Australian dollar appreciated against most major currencies this week, supported by a slight intensification of cash rate hike expectations and a rise in commodity prices.

The only major currency against which the AUD weakened was the British pound, which received some tailwinds from declining political uncertainty, with the transition of Prime Ministership happening quite smoothly.

The Aussie dollar is sitting in the middle of the G10 currency ladder for the week.

The oil-dependent Norwegian krone is the strongest currency this week, while the Japanese yen ends the rank despite normally benefitting from a rise in geopolitical uncertainty. The USD/JPY remains very close to its multidecade lows, and a risk of foreign exchange intervention is on a rise.



Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.6948	0.6970	0.6907	↑0.3	0.7278	0.6415
AUD/EUR		0.6074	0.6084	0.6056	↑0.2	0.6207	0.4761
AUD/GBP		0.5174	0.5203	0.5166	↓0.3	0.5394	0.4761
AUD/JPY		112.25	112.81	111.87	↑0.5	114.92	94.40
AUD/CNY		4.7110	4.7283	4.6973	↑0.3	4.9567	4.5602
EUR/USD		1.1440	1.1461	1.1391	↑0	1.2081	1.1325
GBP/USD		1.3429	1.3452	1.3322	↑0.5	1.3868	1.3010
USD/JPY		161.55	162.71	161.20	↑0.2	162.84	145.49
USD/CNY		6.7799	6.8061	6.7767	↓0	7.2140	6.7555

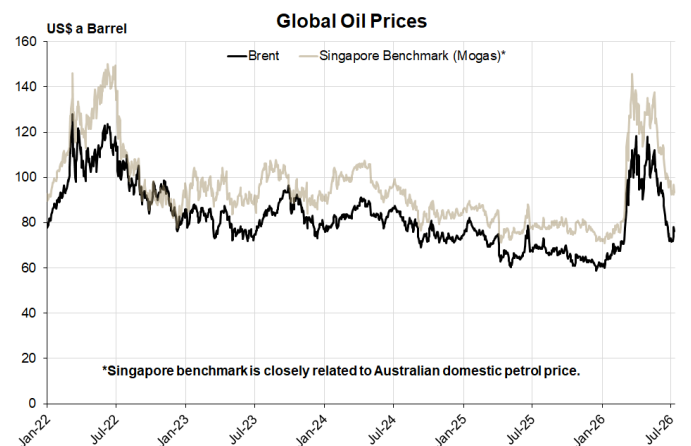
Forward Rates		Spot	3M	6M	12M
AUD/USD		0.6948	0.6937	0.6928	0.6914
AUD/EUR		0.6074	0.6042	0.6011	0.5953
AUD/GBP		0.5174	0.5166	0.5160	0.5150
AUD/JPY		112.25	111.25	110.24	108.43
AUD/NZD		1.2042	1.1990	1.1945	1.1877
AUD/SGD		0.8971	0.8899	0.8828	0.8691

## Commodities

Tensions in the Middle East re-escalated this week, after three commercial vessels trying to cross the Strait of Hormuz close to Oman being targeted, allegedly by the Iranian military. This was followed by an exchange of fire between the US and Iran, and US President Donald Trump declaring the 60-day ceasefire to be no longer valid.

The reaction in oil prices to the above was quite calm, reflecting the market adjustments to shortages in the Middle East and hopes that, similarly to previous episodes, tensions will be short-lived. Brent futures only briefly touched US\$80 a barrel but are now back below this mark.

This week also saw a renewed rise in iron ore futures, which remain only a touch below US\$100 a tonne.

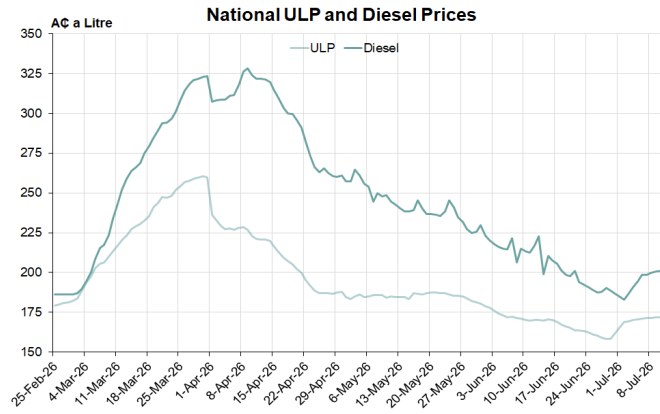


	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$4,126.63	\$4,202.90	\$4,021.92	(↑\$0.9)	\$5,595.47	\$3,268.18
Brent Crude Oil (US\$)	\$76.47	\$80.59	\$71.02	(↑\$4.67)	\$126.41	\$58.72
Mogas95* (US\$)	\$94.04	\$102.84	\$91.33	(↓\$0.21)	\$150.55	\$68.52
WTI Oil (US\$)	\$72.29	\$76.08	\$67.82	(↑\$3.85)	\$119.48	\$54.98
CRB Index	368.51	368.51	353.03	(↑15.48)	406.18	291.69
Iron Ore Price 61% Fe (US\$)**	\$99.25	\$99.60	\$97.60	(↑\$1.5)	\$111.90	\$95.10

\*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.

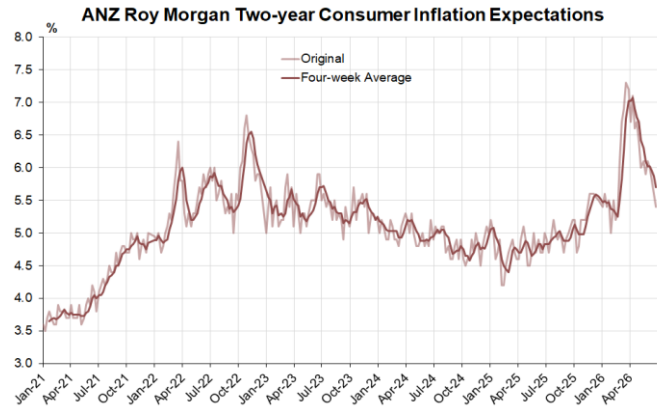
## Domestic Economy

**Petrol prices** climbed after the excise cut started to taper off and US-Iran tensions resumed, but are still low.



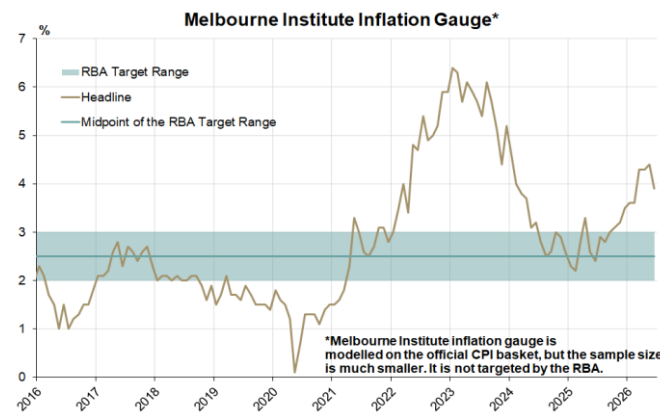
Source: ABC

Low petrol prices over the past few weeks has helped **consumer inflation expectations** lower.



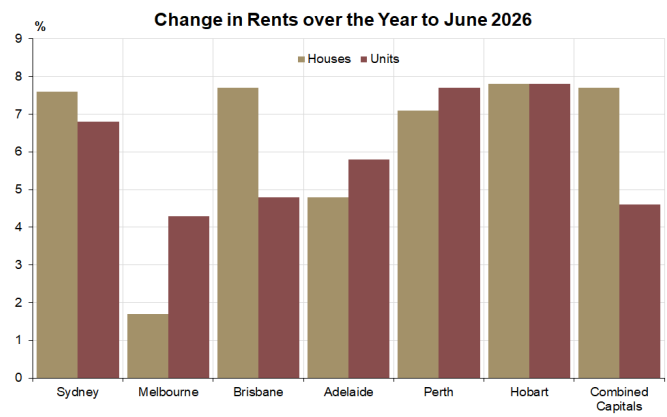
Source: ANZ

**Melbourne Institute inflation gauge** pointed to a lower, albeit elevated CPI inflation in June.



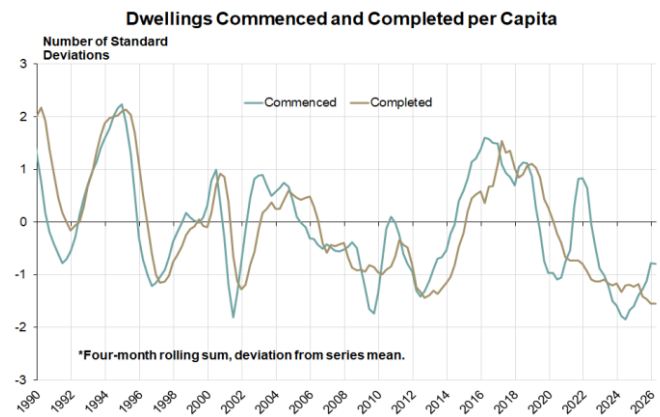
Source: Bloomberg

One of the factors keeping inflation high are housing-related costs, including **rent**.



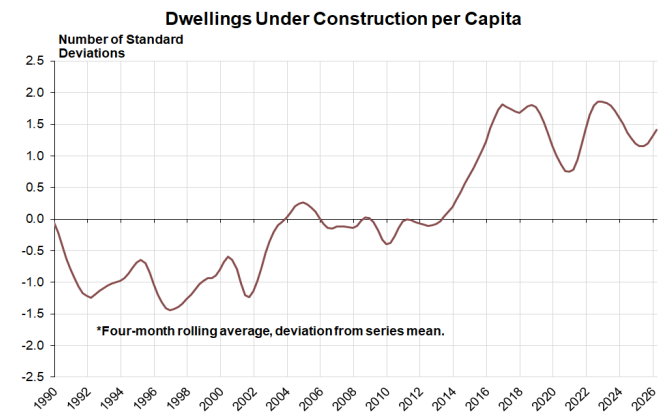
Source: Domain

The number of **dwelling commences** and even more so approved remains insufficient for population growth.



Source: ABS

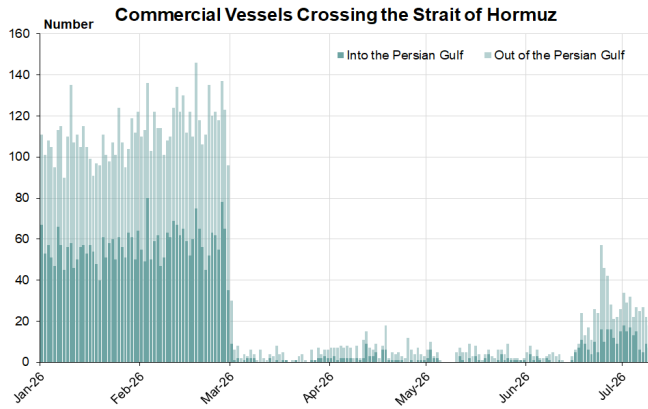
Residential construction is troubled by labour and cost pressures, which make it hard to **complete the projects**.



Source: ABS

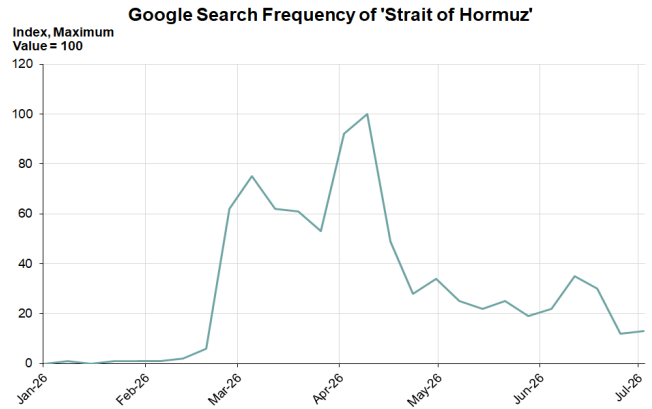
## Global Economy

The number of vessels crossing the **Strait of Hormuz** fell after the exchange of fire between US and Iran.



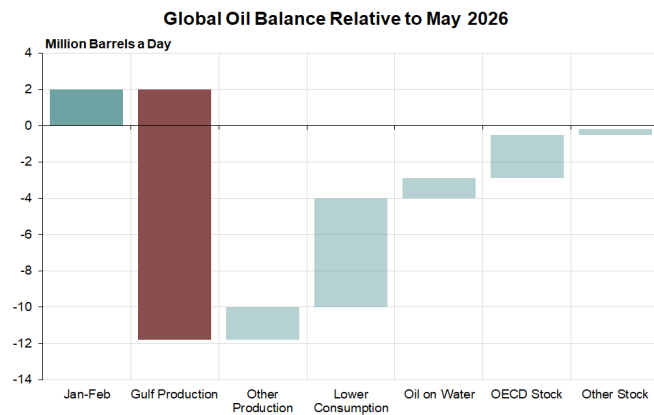
Source: Bloomberg

However, the decline in traffic through the Strait is attracting less **attention** than in previous months...



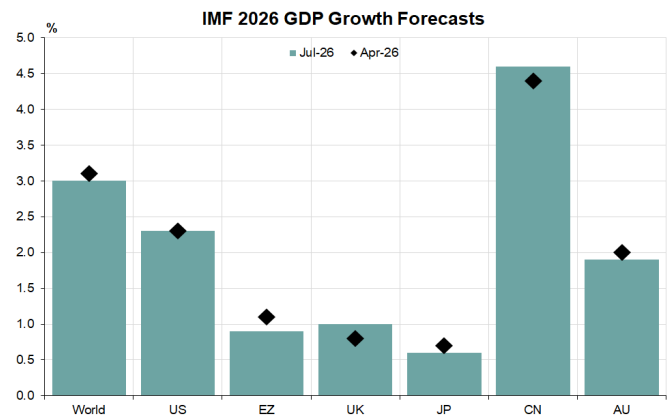
Source: Google Trends

... reflecting the **market adjustment** to the shortage of oil supplies from the Persian Gulf.



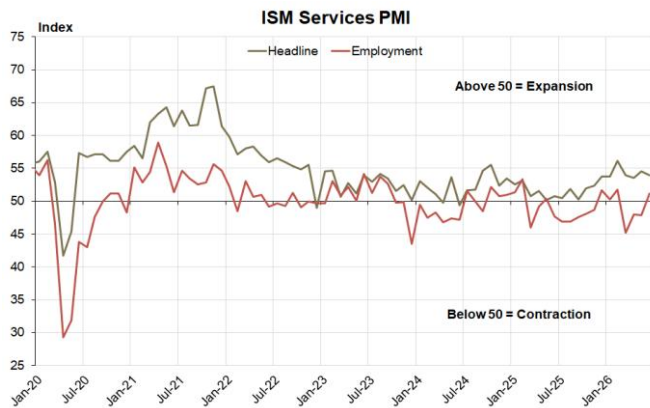
Source: International Monetary Fund

However, the **International Monetary Fund** has just revised its global growth forecasts slightly downwards.



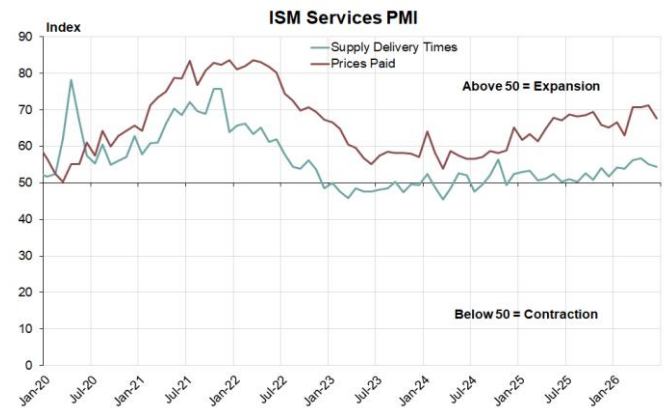
Source: International Monetary Fund

**US ISM services PMI** continues to point to expansion, with employment growing again.



Source: Bloomberg

**Cost pressures in the US services sector** have eased slightly, but remain acute.



Source: Bloomberg

## Last Week

Date	Event	Actual	Forecast	Previous	Comment
<b>Mon 06</b>					
AU	MI Inflation Gauge (YoY, Jun)	3.9%	-	4.4%	The official CPI inflation figures will be out in late July.
AU	ANZ Job Ads (MoM, Jun)	-0.2%	-	2.0%	Still up by 15.0% from pre-COVID levels.
US	ISM Services PMI (Jun)	54.0	54.0	54.5	Report pointed to easing cost and supply pressures.
<b>Tue 07</b>					
AU	ANZ Cons. Conf. (w/e 4 Jun)	74.7	-	75.9	Inflation expectations fell to a new four-month low.
<b>Wed 08</b>					
AU	RBA Assistant Governor Speaks	-	-	-	Expectations key in taming supply-side shocks.
NZ	RBNZ Decision (OCR)	2.50%	2.50%	2.25%	At least one more rate hike expected in 2026.
US	FOMC Minutes	-	-	-	A rate hike was discussed at the June FOMC meeting.
<b>Thu 09</b>					
CN	CPI (YoY, Jun)	1.0%	1.1%	1.2%	Core inflation also declined to 1.0% in June.
CN	PPI (YoY, Jun)	4.1%	4.1%	3.9%	The highest level since mid-2022.
US	Initial Jobless Claims (w/e 4 Jun)	215k	217k	217k	Continued claims were steady at 1.8m in w/e 27 June.
<b>Fri 10</b>					
	No market-moving data.				

## Next Week

Date	Event	Forecast	Previous	Comment
<b>Mon 13</b>				
	No market moving data.			
<b>Tue 14</b>				
AU	NAB Business Conditions (Jun)	-	3	Has been quite resilient during the US-Iran war.
AU	NAB Business Confidence (Jun)	-	-14	S&P Global report suggested a renewed decline.
AU	Westpac Consumer Sentiment (MoM, Jul)	-	-2.9%	Weekly figures point to some improvement.
CN	Trade Balance (Jun)	US\$121b	US\$105b	Gains in EVs and electronics drove a surge in exports in May.
US	CPI (MoM, Jun)	-0.1%	0.5%	Annual rate expected to decline to 3.8%.
US	Fed Chair Kevin Warsh Speaks	-	-	Presentation of Monetary Policy Report in Congress.
US	NFIB Small Business Optimism (Jun)	95.5	95.3	Reached the lowest level since late 2024 in May.
<b>Wed 15</b>				
CN	GDP (YoY, Q2)	4.5%	5.0%	Quarterly growth rate expected to slow to 0.9% from 1.3%.
CN	Retail Sales (YoY, Jun)	-0.1%	-0.6%	May saw the first decline since late 2022.
CN	Industrial Production (YoY, Jun)	4.6%	4.5%	Has been the key driver of the Chinese growth.
CN	Urban Fixed Asset Inv. (YoY YtD, Jun)	-5.1%	-4.1%	Property investment expected to drop by 16.8% YoY YtD.
CA	Bank of Canada Decision (Policy Rate)	2.25%	2.25%	Bank of Canada prefers to look through the inflation spike.
US	PPI (MoM, Jun)	-0.1%	1.1%	Annual rate of producer price inflation to ebb to still-high 6.2%.
US	Beige Book	-	-	Anecdotal information on economic conditions in Fed districts.
<b>Thu 16</b>				
AU	MI Consumer Inflation Expectations (Jul)	-	5.5%	Weekly figures suggested a decline.
UK	Monthly GDP (MoM, May)	-	-0.1%	Business indicators point to another decline.
US	Retail Sales (MoM, Jun)	-0.1%	0.9%	US consumer quite resilient during the energy price shock.
<b>Fri 17</b>				
US	Industrial Production (MoM, Jun)	0.2%	0.1%	ISM manufacturing report also suggested another gain.
US	UMich Consumer Sentiment (Jul, prel.)	51.3	49.5	Inflation expectations have come off their recent highs.