

## Highlights this week

- At home, NAB business conditions held steady at a subdued level in May, while business confidence improved but remained extremely weak. Westpac consumer sentiment fell back in June, to be at one of the lowest levels in the 50-year history of the survey. Melbourne Institute consumer inflation expectations eased a little in June, but remained quite high.
- Abroad, annual US consumer price inflation reached a three-year high in May, with the rise contained to energy and shelter, but producer price inflation surprised to the upside. The Chinese trade surplus picked up in May, with a strong gain in credits supported by strong exports of electric vehicles. The ECB increased its interest rates, as expected.

## Highlights next week

- The key domestic event next week will be the RBA Monetary Policy Board decision on Tuesday, with no changes expected, and the RBA press conference, which could offer some hints about the interest rate outlook.
- A big week in central banking, with decisions by the FOMC, Bank of Japan and Bank of England all due. The key data releases will be US industrial production and retail sales and the monthly Chinese activity data for May.

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	3.59 (↑3 pt)	ASX200	8802 (↑171 pt)
US (IOR)	3.65 (0 pt)	90-day Bills	4.47 (↓1 pt)	2-yr T-Notes	4.07 (↑3 pt)	S&P500	7394 (↓190 pt)
Eurozone (Deposit)	2.25 (↑25 pt)	3-yr T-Bond	4.42 (↓14 pt)	10-yr T-Notes	4.47 (↓1 pt)	DJIA	50849 (↓713 pt)
UK	3.75 (0 pt)	10-yr T-Bond	4.82 (↓9 pt)	Jap 10-yr	2.64 (↓4 pt)	Nikkei	66443 (↑35 pt)
Japan (Target)	0.75 (0 pt)	3-yr WATC Bond	4.63 (↓12 pt)	UK 10-yr	4.91 (↑1 pt)	CSI300	4796 (↓103 pt)
China (1Y LPR)	3.00 (0 pt)	10-yr WATC Bond	5.24 (↓9 pt)	Ger 10-yr	3.03 (↑1 pt)	Stoxx600	622 (↓3 pt)

Changes are since the previous issue of Market Watch Weekly.

## Financial Markets

### Interest Rates

Aussie bond yields opened the week higher. The increase followed a sharp rise in US Treasury yields last Friday, after stronger-than-expected US non-farm payrolls lifted expectations for a Fed interest rate increase this year.

Yields slipped from early highs through the week, before falling sharply in the overnight session and this morning. The late fall has been driven by an announcement by the US President that he had called off planned strikes on Iran and that the two sides had agreed to a peace deal. The news pushed Aussie bond yields to three-month lows.

The RBA and FOMC are both expected to keep rates unchanged at their meetings next week. RBA cash rate expectations have declined significantly over the past month and have fallen further this week. A further 25bps cash rate hike is now only 56% priced in by the market and only one of the 'Big Four' commercial banks are expecting further monetary policy tightening.

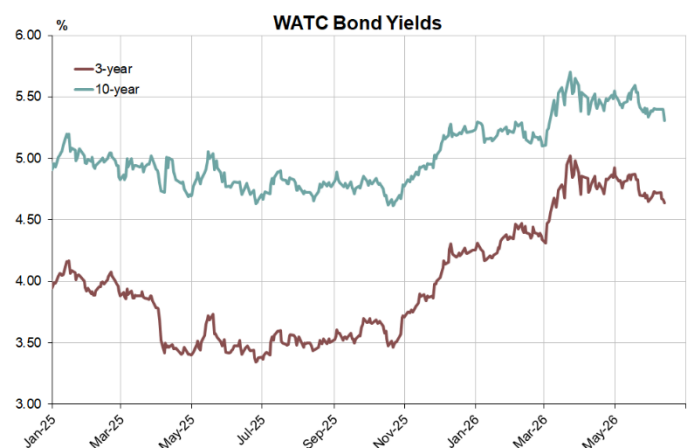
The ECB increased its policy rates by 25bps yesterday, as expected, taking the deposit rate to 2.25%, with ECB President Christine Lagarde hinting at further tightening ahead.

The Bank of Canada kept its policy rate unchanged at 2.25% this week. The Bank is looking through the impact of higher oil prices on headline inflation but remains concerned about second-round effects.

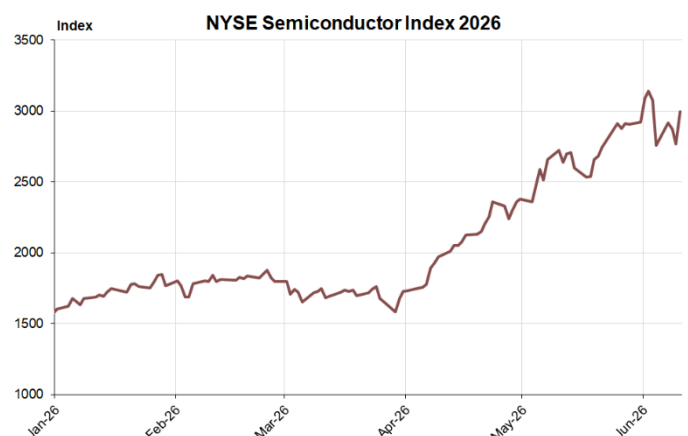
### Equities

US equities fell through most of the week amid rising expectations for a Fed interest rate hike later this year. The decline was led by the tech sector, with the semiconductor industry giving up some of its earlier big gains. The NYSE semiconductor index had almost doubled over the first five months of 2026 as traders piled into the market amid a sharp rise in demand for chips due to the AI revolution and associated data centre investment.

A near 2% increase in the ASX 200 today in the wake of news of a possible Middle East peace deal has erased the losses from earlier in the week and pushed the Aussie market to its highest level in a month.



Source: Bloomberg



Source: Bloomberg

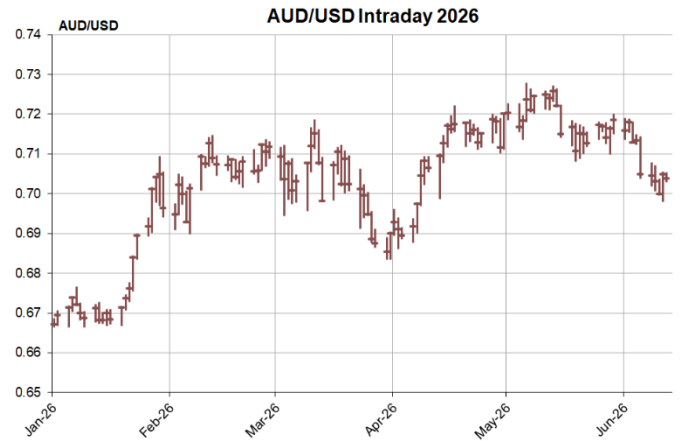
## Currencies

The Australian dollar slipped against all the major currencies this week and was one of the weakest members of the G10 currency basket. Declining expectations for a further RBA cash rate hike was the major factor behind the slide but deteriorating market sentiment and falling commodity prices also played a role.

The fall in the AUD and an appreciation in the greenback pushed the AUD/USD below US\$0.70 for the first time in almost two months.

There was a turnaround overnight, with the AUD recovering some of its losses after the US President's announcement that a peace deal was close to being finalised.

The US dollar rose amid rising expectations of a US interest rate hike later this year. The increase lifted the dollar index to its highest level since late March before the big dollar slipped back, largely due to a pickup in the euro from a two-month low.



Source: Bloomberg

Spot Rates		Current	High	Low	Change (%)	52-Week High	52-Week Low
AUD/USD		0.7039	0.7078	0.6979	↓1.3	0.7278	0.6373
AUD/EUR		0.6084	0.6133	0.6054	↓1	0.6207	0.4754
AUD/GBP		0.5248	0.5298	0.5229	↓1.2	0.5394	0.4754
AUD/JPY		112.81	113.21	112.04	↓1.2	114.92	92.32
AUD/CNY		4.7612	4.8015	4.7305	↓1.5	4.9567	4.5602
EUR/USD		1.1570	1.1590	1.1500	↓0.4	1.2081	1.1392
GBP/USD		1.3413	1.3433	1.3306	↓0.1	1.3868	1.3010
USD/JPY		160.26	160.59	159.58	↑0.2	160.72	142.68
USD/CNY		6.7635	6.7891	6.7624	↓0.2	7.2140	6.7614

Forward Rates		Spot	3M	6M	12M
AUD/USD		0.7039	0.7026	0.7013	0.6992
AUD/EUR		0.6084	0.6050	0.6019	0.5959
AUD/GBP		0.5248	0.5240	0.5233	0.5225
AUD/JPY		112.81	111.78	110.77	108.85
AUD/NZD		1.2089	1.2034	1.1985	1.1909
AUD/SGD		0.9044	0.8970	0.8896	0.8754

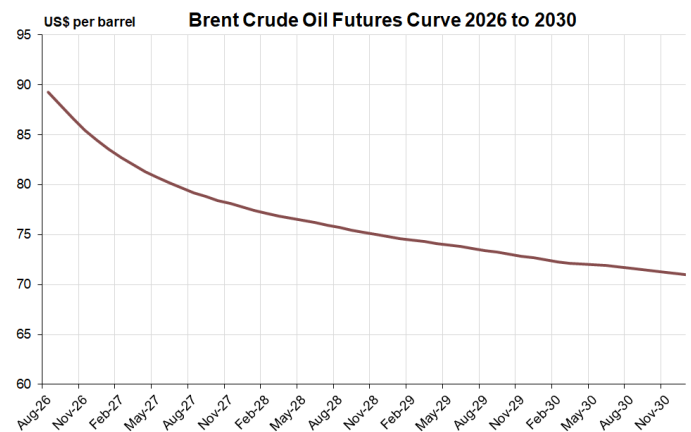
## Commodities

Oil prices were surprisingly steady through most of the week despite the flare-up in Middle East hostilities. The big moves came after the White House announced on Thursday that a peace deal with Iran is close to being signed. The news drove the front month Brent crude futures price to the lowest level since April.

Even assuming a deal has finally been reached, it will take some time for oil supply to return to pre-war levels. Brent crude oil was around US\$70 a barrel prior to the initial US-Israel strikes on Iran and US\$60 before the buildup of US forces in the region ahead of the attack.

Current futures market pricing suggests traders expect Brent crude to remain above US\$80 a barrel until well into 2027.

Iron ore futures fell to a three-month low early in the week before stabilising. Chinese trade data showed imports of iron ore were a solid 98 million tonnes in May.



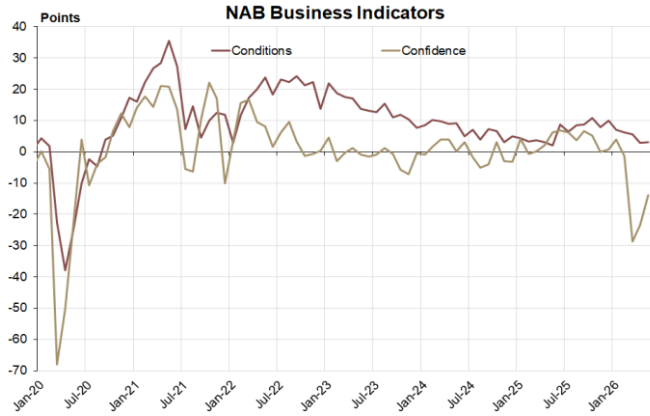
Source: Bloomberg

	Current	High	Low	Change	52-Week High	52-Week Low
Gold (US\$)	\$4,193.31	\$4,363.41	\$4,024.01	(↓\$271.68)	\$5,595.47	\$3,248.71
Brent Crude Oil (US\$)	\$88.61	\$98.08	\$88.44	(↓\$6.39)	\$126.41	\$58.72
Mogas95* (US\$)	\$110.53	\$116.59	\$107.22	(↑\$0.35)	\$150.55	\$68.52
WTI Oil (US\$)	\$86.16	\$95.47	\$85.13	(↓\$6.6)	\$119.48	\$54.98
CRB Index	369.75	377.37	369.75	(↓14.29)	406.18	291.69
Iron Ore Price 61% Fe (US\$) **	\$101.50	\$103.10	\$100.10	(↑\$0.25)	\$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.

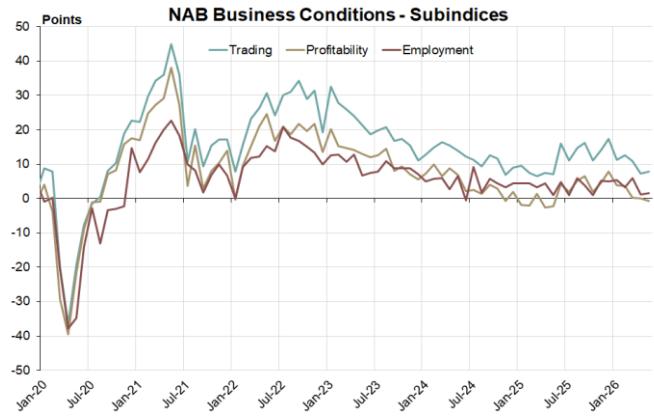
## Domestic Economy

**NAB business conditions** were still subdued in May, while confidence improved but remained negative.



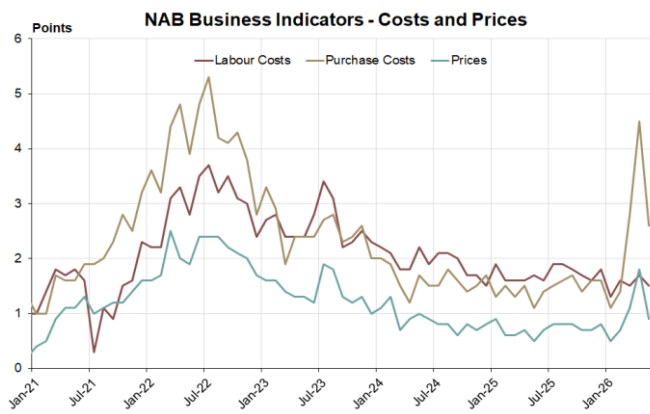
Source: ABS

**Business profitability** turned marginally negative for the first time in around a year.



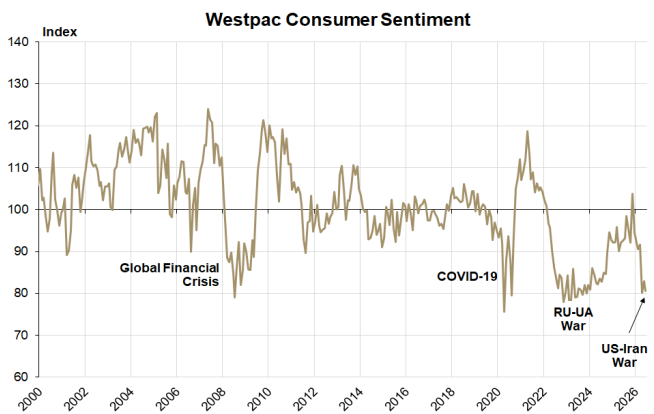
Source: ABS

The NAB business survey suggested slower **purchase cost** and **selling price** growth after a spike in April.



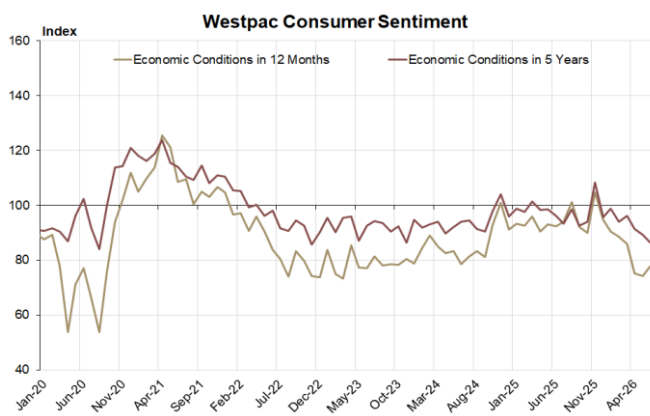
Source: Bloomberg

**Westpac consumer sentiment** declined in June, to be very close to April lows.



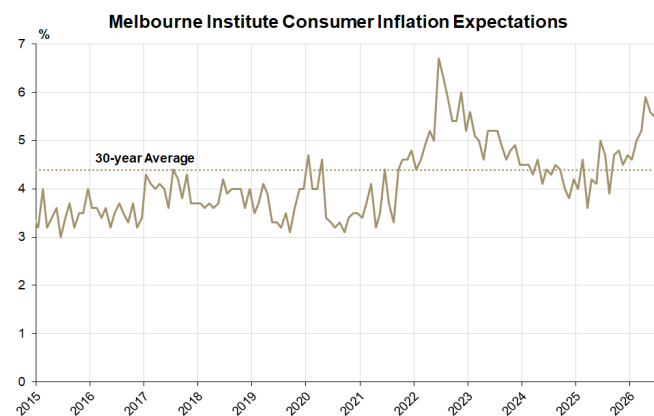
Source: Bloomberg

Despite improvement in near-term outlook, consumers are pessimistic about **longer-term perspectives**...



Source: Bloomberg

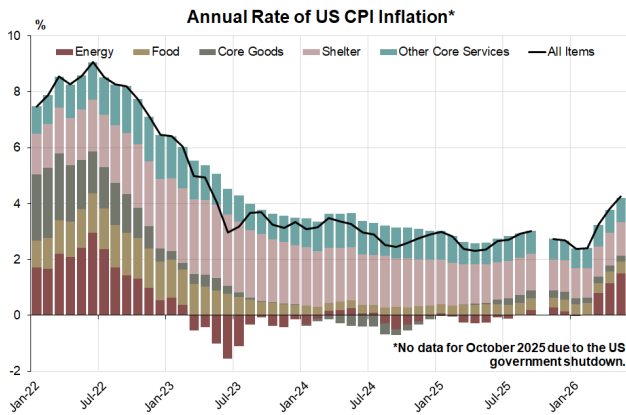
... as **consumer inflation expectations** declined from their local peak in March, but remain quite high.



Source: Bloomberg

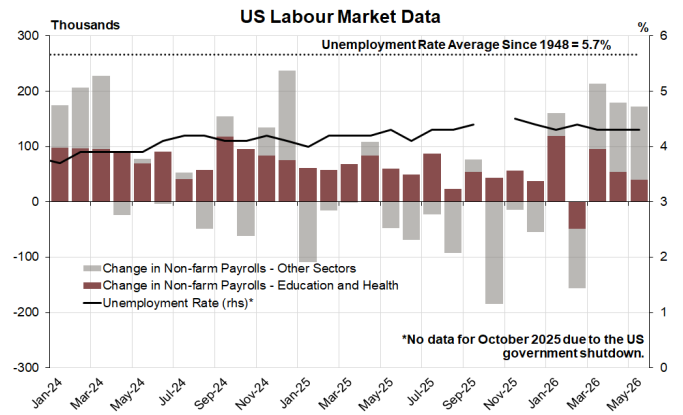
## Global Economy

The rise in **US CPI inflation** is contained to energy and shelter, and not spilling over to other items.



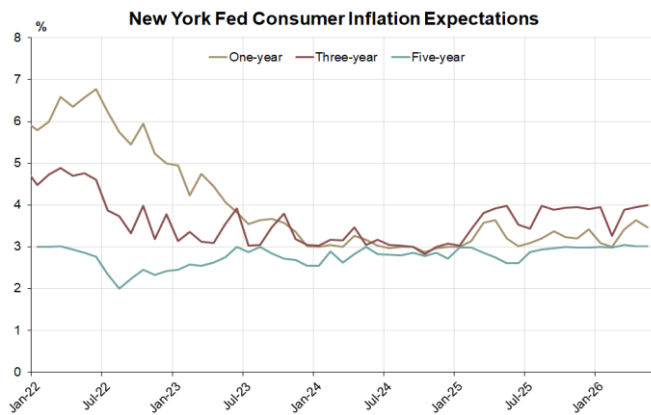
Source: Bloomberg

**US non-farm payrolls** saw a solid and broad-based gain in May, while the unemployment rate held steady.



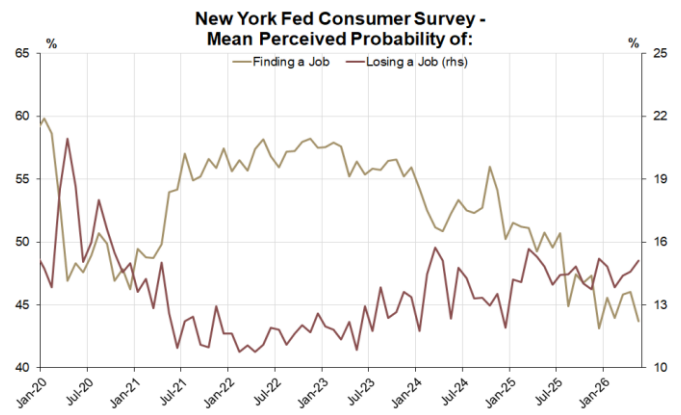
Source: Bloomberg

New York Fed survey points to steady **inflation expectations** during the current energy crisis...



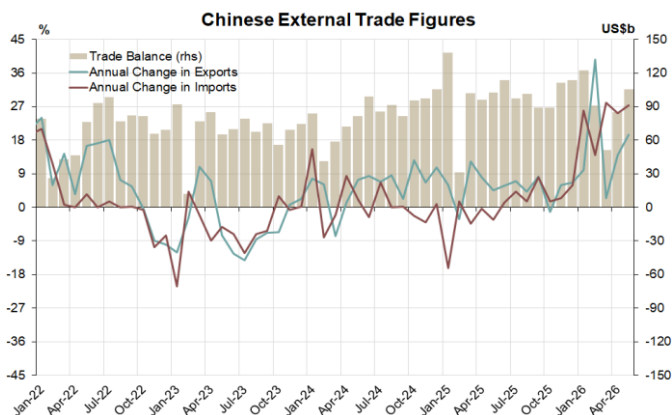
Source: New York Fed

... but does not reflect the improvement in the **labour market conditions** from the official data.



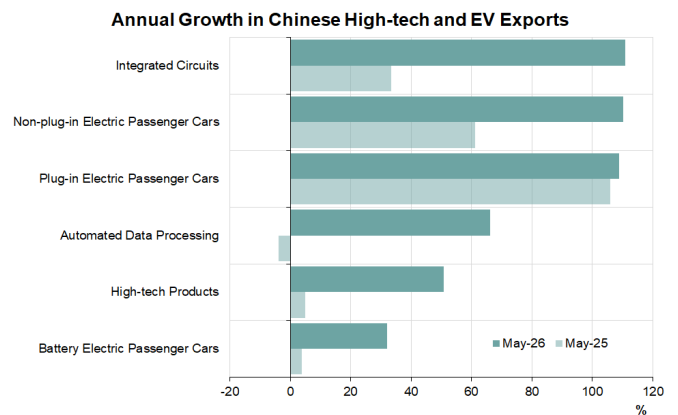
Source: New York Fed

The **Chinese trade surplus** widened in May, supported by acceleration in export growth...



Source: Bloomberg

... with exports of **chips and EVs** doubling over the year, despite the already high base.



Source: Bloomberg

## Last Week

Date	Event	Actual	Forecast	Previous	Comment
<b>Mon 08</b>					
US	NY Fed 1Y Inflation Exp. (May)	3.5%	3.7%	3.6%	3- and 5-year expectations steady at 3.1% and 3.0%.
<b>Tue 09</b>					
AU	NAB Business Conditions (May)	3	-	3	Steady despite falling profitability.
AU	NAB Business Confidence (May)	-14	-	-23	Trade confidence remains negative in all industries.
AU	Westpac Cons. Sent. (MoM, Jun)	-2.9%	-	3.5%	At 80.6, this is one of the worst readings in fifty years.
CH	Trade Balance (May)	US\$105b	US\$92b	US\$85b	Exports surged by 19.4% YoY, with EV exports doubling.
US	NFIB Small Business Opt. (May)	93.5	96.0	95.9	The lowest level since October 2024.
<b>Wed 10</b>					
CH	CPI (YoY, May)	1.2%	1.3%	1.2%	Core inflation down 0.1ppts to 1.1%.
CH	PPI (YoY, May)	3.9%	3.9%	2.8%	The fastest rise in producer prices since mid-2022.
CA	Bank of Canada (Policy Rate)	2.25%	2.25%	2.25%	Bank of Canada looking through the Middle East war.
US	CPI (MoM, May)	0.5%	0.5%	0.6%	Core CPI rose by only 0.2% in May.
<b>Thu 11</b>					
AU	MI Consumer Inflation Exp. (Jun)	5.5%	-	5.6%	Eased a little, but remains quite high.
EZ	ECB Decision (Deposit Rate)	2.25%	2.25%	2.00%	More hikes on the radar.
US	PPI (MoM, May)	1.1%	0.7%	1.1%	Annual PPI inflation is now the highest since 2022.
US	Initial Jobless Claims (w/e 6 Jun)	229k	220k	225k	Continued claims also little changed at just below 1.8m.
<b>Tonight</b>					
UK	Monthly GDP (MoM, Apr)	-	-0.1%	0.3%	UK GDP growth weaker than business reports suggest.
US	UMich Consumer Sent. (Jun, prel.)	-	46.0	44.8	Hit a record low in May (since 1950s).

## Next Week

Date	Event	Forecast	Previous	Comment
<b>Mon 15</b>				
US	Industrial Production (MoM, May)	0.2%	0.7%	Business reports suggest another solid gain.
<b>Tue 16</b>				
AU	RBA MPB Decision (Cash Rate)	4.35%	4.35%	Monetary policy tightening expectations have eased.
AU	RBA Governor Michele Bullock Speaks	-	-	Post-decision press conference.
JP	Bank of Japan Decision (Policy Rate)	1.00%	0.75%	A 25bps hike nearly 100% priced in.
CH	Retail Sales (YoY, May)	0.0%	0.2%	Growth stalled in April.
CH	Industrial Production (YoY, May)	4.2%	4.1%	Remains a driver of Chinese economic growth.
CH	Urban Fixed Asset Inv. (YoY YtD, May)	-2.2%	-1.6%	Returned to negative last month.
<b>Wed 17</b>				
AU	Westpac Leading Index (MoM, May)	-	0.0%	6m annualised rate in April signalled sub-trend growth ahead.
UK	CPI (MoM, May)	-	0.7%	Annual rate of 2.8% remains above the BoE's goal of 2%.
US	Retail Sales (MoM, May)	0.4%	0.5%	US consumers so far quite resilient to higher fuel prices.
US	FOMC Decision (IoER)	3.65%	3.65%	The first meeting with Kevin Warsh at the helm.
<b>Thu 18</b>				
NZ	GDP (QoQ, Q1)	0.8%	0.2%	Kiwi economic growth picked up in Q1.
NO	Norges Bank Decision (Policy Rate)	4.25%	4.25%	Expected to stay put until late 2026.
UK	Bank of England Decision (Policy Rate)	3.75%	3.75%	Rate hike expectations have shifted to Q3 2026.
<b>Fri 19</b>				
	No market-moving data			