

Weekly Economics and Markets Review

- The RBA lowered the cash rate by 25 basis points to 3.85 per cent at its May meeting, though its post meeting communication was surprisingly dovish
- The US Government lost its last AAA rating from a major credit ratings agency, due to concern about the trajectory of US debt
- In China, economic growth experienced a slowdown in April due to higher tariffs and increasing trade tensions with the US

Week in review

Domestic

- The **RBA** lowered the cash rate by 25 basis points to 3.85 per cent at its May meeting, with the post-meeting statement shifting to be more dovish.
 - The post-meeting statement noted that risks to the forecasts have become *'more balanced'* and that upside risks to inflation have diminished. The statement removed previous commentary that the Board wanted more confidence that inflation would return to the midpoint of the RBA's target on a sustainable basis, instead noting *'inflation is expected to remain around target'*.
 - The RBA's Statement on Monetary Policy (SoMP) saw the outlook for inflation and GDP growth revised slightly lower, while the unemployment rate was revised to be slightly higher. Weaker consumption outcomes were the main driver of the lower GDP growth forecast.
 - In the post-meeting press conference, Governor Bullock noted there was a consensus across the Board on the decision to cut the cash rate by 25 basis points, though a 50 basis points cut was also discussed. Bullock highlighted that the Board would have cut 25 basis points even in the absence of global developments, due to the recent soft outcomes for domestic consumption and inflation.

Offshore

- In global trade and geopolitical news:
 - The US and EU have exchanged negotiating documents for the first time, outlining areas of discussion ranging from tariffs to digital trade and investment opportunities.
 - US Treasury Secretary Scott Bessent stated that countries that do not negotiate in good faith would be informed that their tariff rate would be as per the April 2 liberation day announcements.
 - US President Trump spoke with Russian President Putin regarding initiating negotiations between Russia and Ukraine and made comments that it went *'very well'*. He added that the two countries would start negotiations towards a ceasefire and an end to the war. Trump said that there is an opportunity for Russia and the US to expand its trade in a mutually beneficial fashion.

- In the **US**:
 - Moody's downgraded the US long-term rating from Aaa to Aa1 (stable outlook), citing the persistent increase over in government debt *'to levels that are significantly higher than similarly rated sovereigns'*. Moody's said it expects federal deficits to widen to around 9 per cent of GDP by 2035, up from 6.4 per cent last year, adding relatively low revenue generation as another reason.
 - University of Michigan Consumer Sentiment Index fell in May for the fifth straight month and is now down ~30 per cent since December. Tariffs were mentioned by nearly three-quarters of consumers.
 - The University of Michigan survey also suggests that consumers expect prices to surge 7.3 per cent over the next year, compared with expectations in April for a 6.5 per cent increase. This was the highest reading since 1981, with both Democrats and Republicans expecting higher inflation.
- In **China**, economic growth experienced a slowdown in April due to increasing trade tensions with the US. Industrial production growth slowed from 7.7 to 6.1 per cent over the year to April, while fixed asset investment slowed from 4.3 to 3.6 per cent. Retail sales also slowed over the year to April. Despite the slowdown in April, China's economy is expected to gain short-term momentum in the coming months, as US importers seek to take advantage of lower tariffs during the 90-day suspension initiated earlier this month.
- In the **UK**, the headline CPI rose to 3.5 per cent over the year to April, while core CPI inflation was 3.8 per cent. The increase was driven by a stronger-than-expected services inflation, which in turn was due to an increase in the vehicle excise duty and airfares prices.
- In terms of the **S&P Global flash PMIs** for May:
 - In the US, the Composite PMI rose 2.1 points to 52.3, well above consensus (50.3). This reflected strong gains across both the Services and Manufacturing indices.
 - For the euro area, the Composite PMI declined 0.9 points to 49.5, below consensus. This was mostly driven by a deterioration in the Services PMI with the Manufacturing PMI edging up 0.4 points to 49.4.
 - For the UK, the Composite PMI rose 0.9 points to 49.4, slightly above consensus (49.3). The Manufacturing PMI fell 0.3 points to 45.1 but the Services PMI improved 1.2 points to 50.2.

Markets

Australian Government bond yields fell over the week as the RBA's commentary following the May meeting was more dovish than expected. In contrast, sovereign bond yields rose in other key markets, with these increases especially pronounced at the ultra-long end (for example, 30 years). These moves seem to reflect multiple factors. A truce on US tariffs was likely the original catalyst for the move, while more recently, it has been underpinned by an outlook for looser fiscal policy in the US, the US Government losing its last AAA rating from a major credit ratings agency, and a poor 20-year US Treasury auction. For Japan, where 30-year yields have increased the most, the increase in yields possibly reflected the prospect of the Bank of Japan resuming its tightening cycle and its Prime Minister warning that the country's finances are worse than Greece. Finally, in Canada and the UK, stronger than expected CPI outcomes also contributed to higher yields.

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday: CPI (Apr) Friday: Building approvals (Apr)
Offshore	US: Durable goods (Apr); new home sales (Apr), Conference Board consumer confidence (May), FOMC Minutes (May); Core PCE inflation (Apr)

Economic and Financial Market Charts

CHART 1: THE RBA NOW EXPECTS GDP GROWTH WILL RECOVER MORE GRADUALLY OVER 2025, DUE TO THE WEAKER OUTLOOK FOR GLOBAL GROWTH

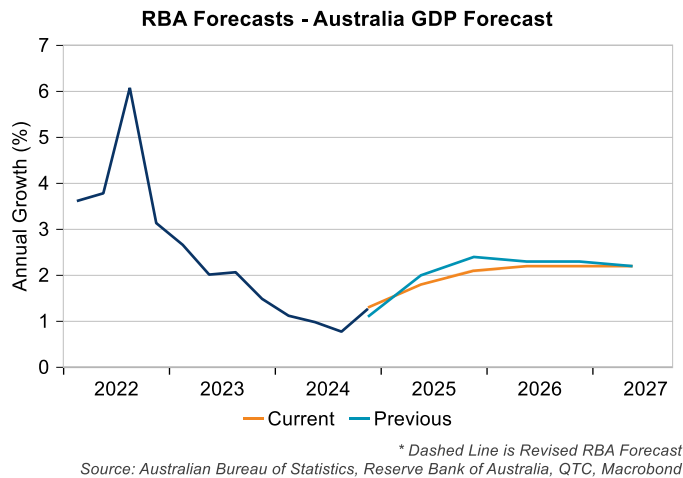


CHART 2: THE RBA'S FORECAST OF HEADLINE INFLATION HAS ALSO BEEN REVISED LOWER, CONSISTENT WITH THE DOWNWARD REVISION TO THE GROWTH OUTLOOK

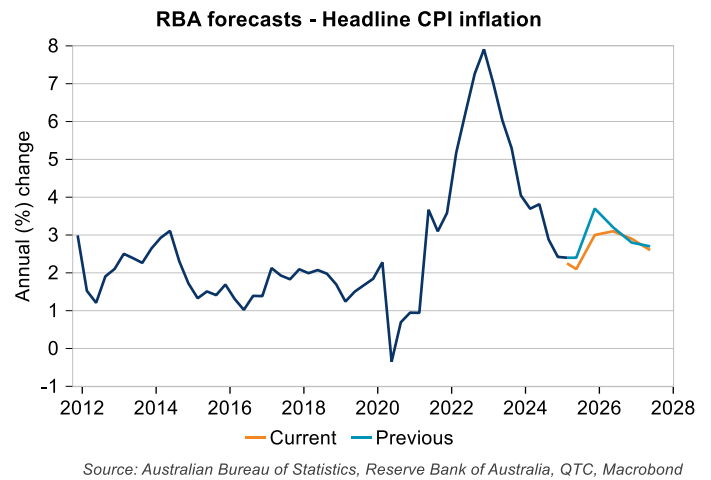


CHART 3: FINANCIAL MARKET PRICING FOR THE CASH RATE FELL FOLLOWING THE RBA'S MAY STATEMENT, WITH THE MARKET NOW EXPECTING RATES WILL REACH ~3.1% BY THE END OF 2025

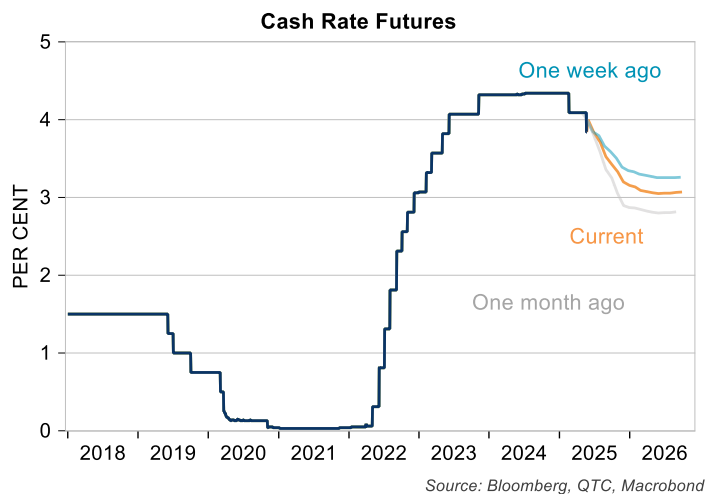


CHART 4: US CONSUMERS EXPECT PRICES TO SURGE 7.3% OVER THE NEXT YEAR, THE HIGHEST READING SINCE 1981

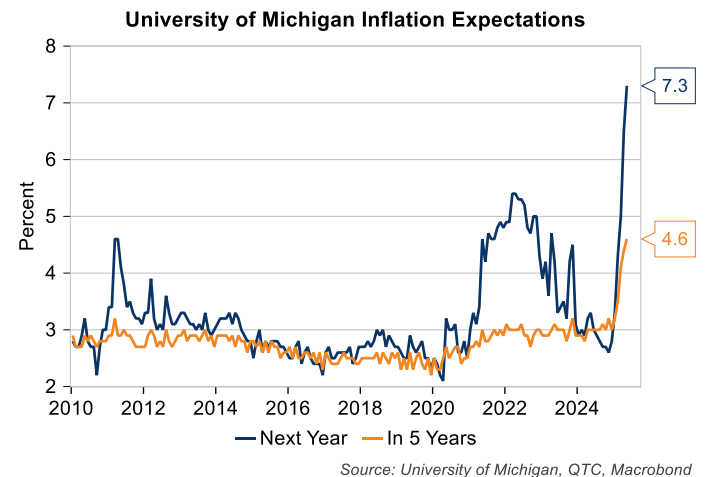
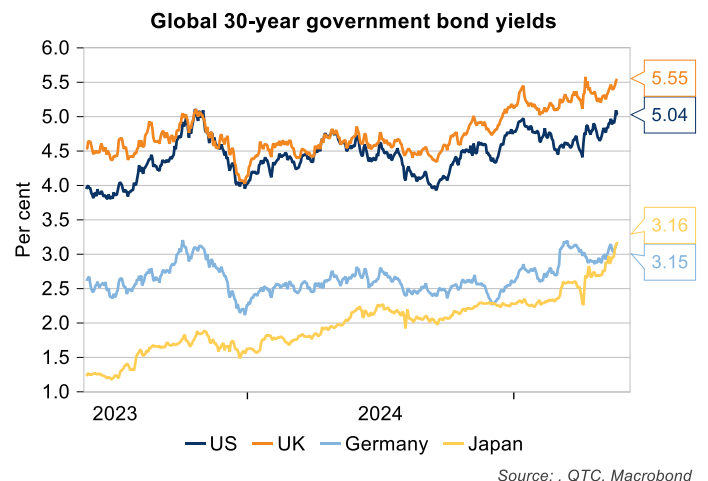


CHART 5: ECONOMIC ACTIVITY IN CHINA SLOWED IN APRIL, WITH THE REAL ESTATE SECTOR REMAINING A KEY AREA OF WEAKNESS



CHART 6: GLOBAL ULTRA-LONG YIELDS HAVE RISEN NOTABLY OVER THE PAST FEW WEEKS DUE TO A VARIETY OF FACTORS



Financial markets data table

The table below shows yields for bonds issued by the central financing authorities of various state governments in Australia as well as those on bonds issued by the Australian and US Governments. Further, there are values for the Australian Dollar against a range of currencies, and major exchange rates against the US Dollar. The change in these yields and rates over different time periods is also included.

MATURITY	ISSUER	YIELD	CHANGE (BASIS POINTS)		
			1 WEEK	1 MONTH	1 YEAR
3 Year	QTC	3.68	-18	19	-62
	NSWTC	3.68	-18	17	-60
	TCV	3.70	-20	16	-63
	WATC	3.61	-18	18	-65
	Australian Government	3.47	-18	21	-46
	US Government	3.97	2	13	-75
5 Year	QTC	4.08	-15	17	-34
	NSWTC	4.08	-15	14	-35
	TCV	4.12	-17	13	-34
	WATC	3.99	-14	17	-39
	Australian Government	3.71	-14	19	-26
	US Government	4.09	4	10	-44
7 Year	QTC	4.55	-10	16	-11
	NSWTC	4.52	-11	14	-16
	TCV	4.58	-13	12	-15
	WATC	4.43	-10	16	-16
	Australian Government	4.04	-11	19	-7
	US Government	4.30	6	11	-20
10 Year	QTC	5.14	-7	15	13
	NSWTC	5.07	-8	12	4
	TCV	5.14	-11	12	6
	WATC	4.90	-8	16	2
	Australian Government	4.41	-8	20	13
	US Government	4.53	10	13	5

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.64	0.23	0.34	-3.21
AUD/EUR	0.57	-0.63	2.10	-7.11
AUD/GBP	0.48	-0.86	0.04	-8.34
AUD/JPY	92.23	-1.21	2.50	-11.38
AUD/CAD	0.89	-0.69	0.67	-1.95
AUD/NZD	1.09	-0.41	2.00	0.25
AUD/SGD	0.83	-0.26	-0.95	-7.43
AUD/HKD	5.02	0.49	1.23	-2.99
AUD/KRW	885.98	-1.10	-2.70	-2.14
AUD/CNY	4.62	0.18	-1.00	-3.78
AUD/INR	55.16	0.77	1.32	-0.04
MAJOR CURRENCIES				
EUR/USD	1.13	0.87	-1.73	4.20
GBP/USD	1.34	1.10	0.30	5.60
USD/JPY	143.81	1.43	-2.16	8.44
USD/CHF	1.21	0.98	-1.87	9.31
USD/CNY	7.20	0.05	1.34	0.59

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	64.44	-0.14	-4.45	-20.80
Gold	3,295	1.68	-2.55	41.44
Copper	9,501	-0.80	1.40	-8.80
Iron Ore	99.00	-2.16	1.36	-11.76

Note: The Australian yield data (national and state) is sourced from QTC while the exchange rate and US yield data is from *Macrobond*.

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