

Weekly Economics and Markets Review

- Notable developments on the trade front this week included a US court ruling that key tariffs implemented by the Trump administration were unconstitutional, this being subsequently halted following an appeal, and the President pushing back by roughly five weeks the deadline to reach a trade deal with the EU.
- Locally, partial indicators of Q1 GDP were subdued and there were further signs that inflation is stabilising in the top half of the RBA's target band.
- Japan's finance ministry quizzing market participants of their views about recent volatile conditions in the country's sovereign bond market was the catalyst for a large fall in ultra-long end yields as investors speculated this could lead to less bond issuance in that part of the yield curve.

Week in review

Domestic

- The monthly CPI increased 0.8 per cent in April to be 2.4 per cent higher over the year. This reflected seasonal increases in holiday travel and accommodation as well as health insurance prices. For core inflation, annual rates of growth in the trimmed mean and CPI excluding fresh food, fuel and holiday travel both edged 0.1 percentage point higher to 2.8 per cent and 2.7 per cent respectively.
- There were a couple of partial indicators of Q1 GDP released this week. Construction work done was unchanged while private capital expenditure dipped 0.1 percentage points. The market expectation for both was for a 0.5 percentage point increase. For construction, the non-residential component fell – largely due to a decline in the public sector – while the residential segment lifted. For capex, while that on buildings and structures increased, this was more than offset by a decline in spending on equipment and machinery. The weakness in the latter was particularly evident in the non-mining sector.

Offshore

- In **global trade** news:
 - The US Court of International Trade ruled that the “reciprocal” tariffs as well as those on Canada, Mexico, and China for fentanyl/border issues that were imposed by President Trump under the International Emergency Economic Powers Act (IEEPA) are unconstitutional. The ruling gave the government 10 days to effectuate the order, as well as the opportunity to appeal. It appealed and within 24 hours the United States Court of Appeals for the Federal Circuit temporarily halted the Trade Court's ruling. The federal appeals court provided no opinion or reasoning behind its decision. The parties to the case can respond to this ruling.
 - President Trump agreed to extend the deadline to impose a 50 per cent tariff on imports from the EU until 9 July to allow talks between the EU and US. The previous deadline for an agreement to avoid the higher tariff rate was 1 June.

- In **central bank** news:

- The minutes to the FOMC's May meeting highlighted that, despite uncertainty about the outlook having '*increased further*', the Committee was '*well positioned to wait for more clarity*' on the economic outlook before adjusting rates further. Note, this meeting was held before the de-escalation in US-China trade tensions.
- For the first time since commencing his second term, President Trump met with Federal Reserve chairman Jerome Powell at the White House. The pair discussed the economy with the president reportedly urging Powell to lower rates and saying he was making a mistake by not doing so. A statement from the Fed stated that the Chair, '*...and his colleagues on the FOMC will set monetary policy, as required by law, to support maximum employment and stable prices and will make those decisions based solely on careful, objective, and non-political analysis*'.
- The Reserve Bank of New Zealand cut the cash rate by 25 basis points to 3.25 per cent as widely expected given moderating inflation and spare capacity in the economy. The projected path of the cash rate was revised down across the forward forecast period.

- In the **US**:

- The Conference Board's measure of consumer confidence increased 12.3 points to 98.0 in May, an outcome that was well above the consensus forecast. This was driven by a strong rebound in expectations (+17.4 pts to 72.8) after these declined in April to the lowest level since October 2011. Perceptions of current conditions also increased though views on the labour market and future inflation softened a bit. The Conference Board noted that around half of responses were collated after the de-escalation in US-China trade tensions.
- Orders and shipments for capital goods excluding volatile items both fell in April while dwelling prices edged lower in April.

Markets

Markets were quiet this week amid public holidays and a lack of data. Australian Government three and 10-year bonds four basis points to 3.43 per cent and eight basis points to 4.33 per cent respectively. The most notable move on the week followed a big rally in Japanese ultra-long bonds. This came after the country's finance ministry engaged with market participants as to views on recent conditions in the Japanese bond market and led to speculation that the Government might cut issuance of ultra-long bonds. Over the week the yield on 40-year Japanese Government bonds fell nearly 60 basis points to 3.1 per cent.

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday: GDP (Q1) Thursday: International trade (April)
Offshore	US: ISM Manufacturing and Services (May), JOLTS (April), Non-farm payrolls (May) EZ: CPI (May), Labour market (April) Central Banks: European Central Bank, Bank of Canada

Economic and Financial Market Charts

CHART 1: THE MODERATION IN ANNUAL RATES OF KEY INFLATION MEASURES FROM THE MONTHLY ABS REPORT HAS STALLED...

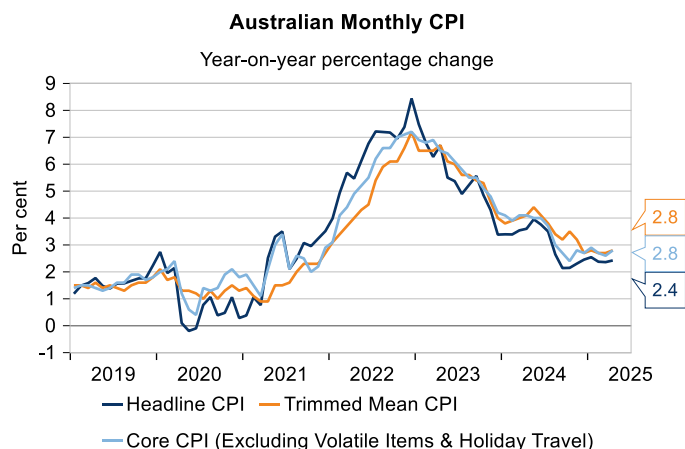


CHART 2: ...WITH THIS ALSO EVIDENT IN A RANGE OF CORE INFLATION MEASURES FROM THIS REPORT AND OTHERS

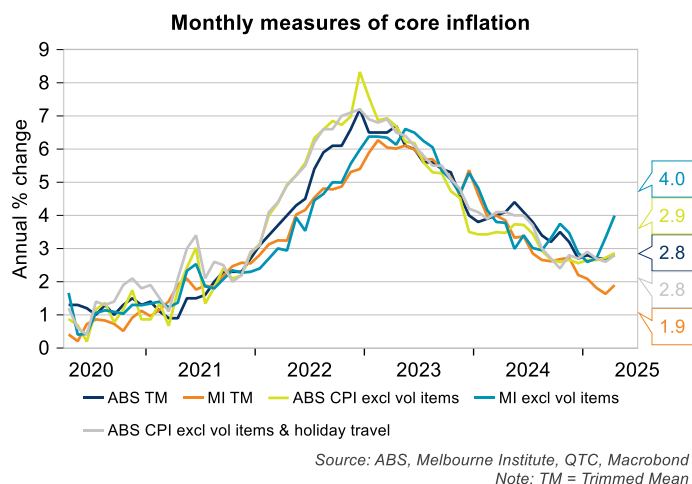


CHART 3: RESIDENTIAL CONSTRUCTION INCREASED IN Q1 WITH THE OPPOSITE TRUE FOR NON-RESIDENTIAL CONSTRUCTION...

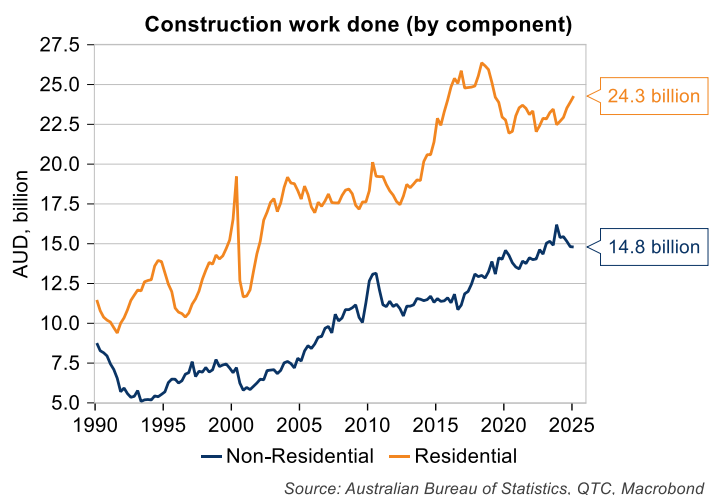


CHART 4: ...WITH CONTRASTING FORTUNES ALSO EVIDENT FOR INVESTMENT IN BUILDINGS (HIGHER) AND EQUIPMENT (LOWER)

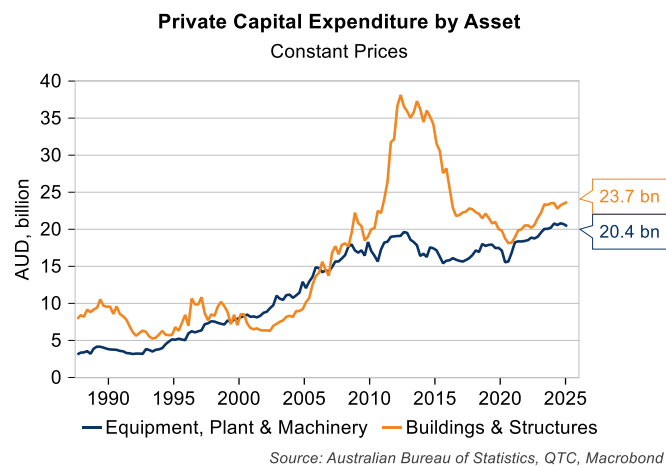


CHART 5: US CONSUMER CONFIDENCE REBOUNDED STRONGLY IN MAY ACCORDING TO THE CONFERENCE BOARD

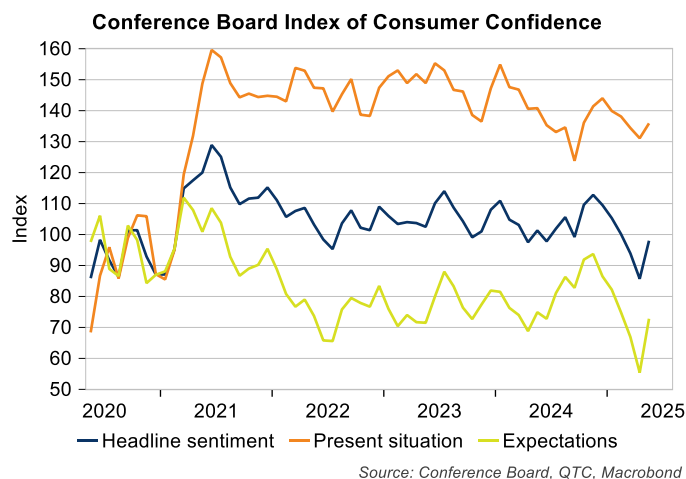
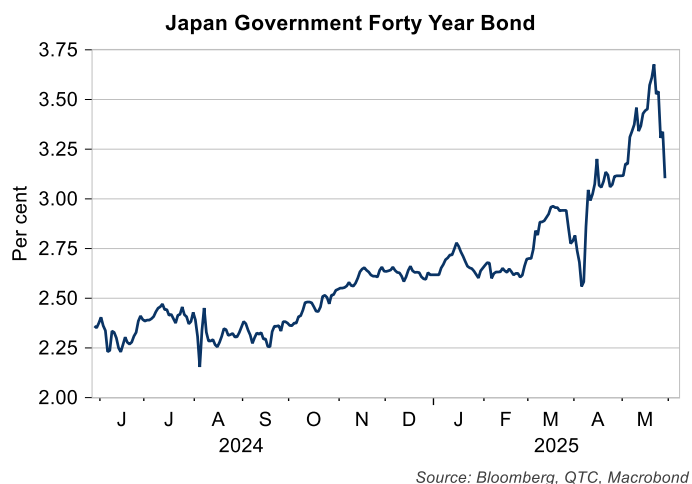


CHART 6: IN A WEEK JAPANESE GOVERNMENT 40-YEAR BONDS HAVE FALLEN BY NEARLY 60 BASIS POINTS AFTER HAVING INCREASED BY ROUGHLY THAT AMOUNT OVER THE PREVIOUS THREE WEEKS



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	3.65	-3	12	-78
	NSWTC	3.66	-2	12	-76
	TCV	3.67	-3	9	-78
	WATC	3.58	-3	12	-81
	Australian Government	3.43	-4	13	-64
	US Government	3.90	-6	26	-84
5 Year	QTC	4.04	-5	14	-53
	NSWTC	4.03	-5	11	-54
	TCV	4.08	-4	9	-53
	WATC	3.94	-5	14	-59
	Australian Government	3.65	-5	12	-45
	US Government	4.00	-10	23	-57
7 Year	QTC	4.50	-5	16	-30
	NSWTC	4.46	-6	13	-35
	TCV	4.53	-5	11	-34
	WATC	4.37	-6	14	-36
	Australian Government	3.98	-7	14	-26
	US Government	4.20	-10	23	-36
10 Year	QTC	5.07	-7	19	-9
	NSWTC	4.99	-8	15	-17
	TCV	5.07	-7	13	-15
	WATC	4.82	-8	16	-21
	Australian Government	4.33	-8	18	-6
	US Government	4.42	-11	25	-13

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.64	0.49	0.97	-2.93
AUD/EUR	0.57	-0.18	1.29	-7.35
AUD/GBP	0.48	0.02	0.30	-8.32
AUD/JPY	93.03	0.87	2.47	-10.54
AUD/CAD	0.89	0.01	0.54	-1.97
AUD/NZD	1.08	-0.82	0.21	-0.60
AUD/SGD	0.83	0.08	-0.69	-7.44
AUD/HKD	5.05	0.66	2.02	-2.65
AUD/KRW	884.31	-0.19	-3.38	-3.14
AUD/CNY	4.64	0.51	-0.29	-3.55
AUD/INR	55.04	-0.21	1.26	-0.47
MAJOR CURRENCIES				
EUR/USD	1.14	0.67	-0.32	4.77
GBP/USD	1.35	0.47	0.66	5.88
USD/JPY	144.35	-0.38	-1.49	7.84
USD/CHF	1.21	0.58	-0.02	8.84
USD/CNY	7.20	-0.02	1.24	0.64

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	64.22	-0.34	-0.05	-21.55
Gold	3,322	0.63	-0.19	41.50
Copper	9,565	0.68	1.32	-5.62
Iron Ore	96.89	-2.13	-0.57	-10.68

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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