

# Weekly Economics and Markets Review

- Israel attacked Iran to destroy its nuclear facilities in a move which has pushed oil prices, as well as expectations of future oil price volatility, higher. Broader financial market movements have been more contained.
- The central banks of the US, UK and Japan kept rates on hold while there were 25 basis point rate cuts by the central banks of Sweden, Norway and Switzerland.

## Week in review

### Domestic

- Employment edged lower (-2,500) against expectations of a modest increase (+20,000) as a 41,100 drop in part-time work was more than offset a 38,700 rise in full-time employment. The unemployment rate was steady at 4.1 per cent, as expected, with the reduction in employment offset by fall in the participation rate (down one-tenth to 67.0 per cent).

### Offshore

- Israel attacked Iran to destroy its nuclear facilities.
  - A key area of focus for markets in relation to the attacks has been the impact on oil supply. This could come from the destruction of Iranian oil production capacity, the possibility that Iran may close off access to the Strait of Hormuz (around one-fifth of global crude oil production sails through this passage), or the potential for the conflict to spread to other oil-producing countries within the region (the Middle East accounts for around one-third) of global oil production. So far none of these have come to pass.
  - Brent Crude is up 13.7 per cent since the conflict started and 23.4 per cent since the start of June. The CBOE's Crude Oil Volatility Index, which measures the market's expectation of 30-day ahead volatility of oil prices, has risen 47.4 per cent since the start of the conflict to one of the highest levels in the past decade (outside COVID).
  - Beyond oil, broader market conditions have been surprisingly contained in the circumstances.
- In **central bank** news:
  - The Federal Open Markets Committee ('FOMC') kept rates on hold as expected in June. The median 'dot' (that is, median rate expectation for FOMC participants) for 2025 again pointed to two cuts (to 3.9 per cent), though now seven participants see no further cuts this year (versus four in March). The median expectation was also marked higher for 2026 (3.6 per cent from 3.4 per cent) and 2027 (3.4 per cent from 3.1 per cent). However, in the post-meeting press conference Chair Powell downplayed the dots noting that *'with uncertainty as elevated as it is, no one holds these rate paths with a lot of conviction'*. He also commented that *'we feel like we will learn a great deal more over the summer on tariffs'*. This appears to imply that rates could be on hold until at least September. FOMC participant core inflation forecasts were marked higher across the forward period while indicators of economic activity were revised in a negative fashion this year and next.

- Rates were kept on hold by the central banks of Japan and England. The Bank of Japan will proceed with a plan to halve the rate at which it is purchasing bonds from April 2026. There were 25 basis point rate cuts by the central banks of Sweden, Norway and Switzerland.

#### In the US:

- After having fallen nearly 30 per cent since the start of 2025, consumer confidence jumped 8.3 per cent in June driven by a pick-up in perceptions of current and future conditions. There was a sharp moderation in one-year ahead inflation expectations from 6.6 per cent to 5.1 per cent. An easing in tariff fears could have been behind the favourable outcomes on the month.
- There was softer news on the housing sector with both housing starts and building permits declining in May while homebuilder sentiment dipped in June.
- Industrial production was slightly softer than expected with the opposite true for core retail sales.
- The Senate version of the draft of the "One Big Beautiful Bill Act" was released. No formal costings have been released. The taxes on income streams payable to foreign investors (under Section 899 appear unlikely to apply on interest income payable. Senate Republicans are aiming to pass the bill by the end of June. From there it would need to go back to the House, and if approved, on to President Trump for signing.

#### In China, data for May revealed that annual growth in:

- Aggregate financing and new lending both slowed
- Industrial production eased slightly to 5.8 per cent from 6.1 per cent. Manufacturing was a notable sector weighing on industrial production.
- Retail sales growth lifted to 6.4 per cent from 5.1 per cent on continued support from government sponsored trade-in schemes.
- Fixed asset investment (YTD) dipped to 2.9 per cent from 3.6 per cent. Weakness was seen in manufacturing, infrastructure and property.
- Key property sector measures were mixed but all remain subdued.
- Relative to market expectations, industrial production was most in-line, fixed asset investment was weaker and retail sales was firmer.

## Markets

Australian Government bond yields were little changed over the week, in line with many other asset prices, despite a flurry of central bank meetings, economic data and the start of a conflict between Israel and Iran. Concerns related to the latter saw crude oil was a notable exception and is up nearly 14 per cent over the week.

### Economic and Market Calendar

DATE	DETAILS
Domestic	<b>Wednesday:</b> CPI (May) <b>Thursday:</b> ABS Job vacancies (3 months to May)
Offshore	<b>US:</b> Existing and pending homes sales (May), house prices (Apr), Conference Board consumer confidence (Jun), core PCE inflation (May) <b>China:</b> Retail sales, industrial production, fixed asset investment (all May) <b>Other:</b> S&P Global PMIs (Jun), Canada inflation (May)

## Economic and Financial Market Charts

CHART 1: OIL PRICES ARE UP 13.7 PER CENT SINCE ISRAEL ATTACKED IRAN AND 23.4 PER CENT SINCE THE START OF JUNE

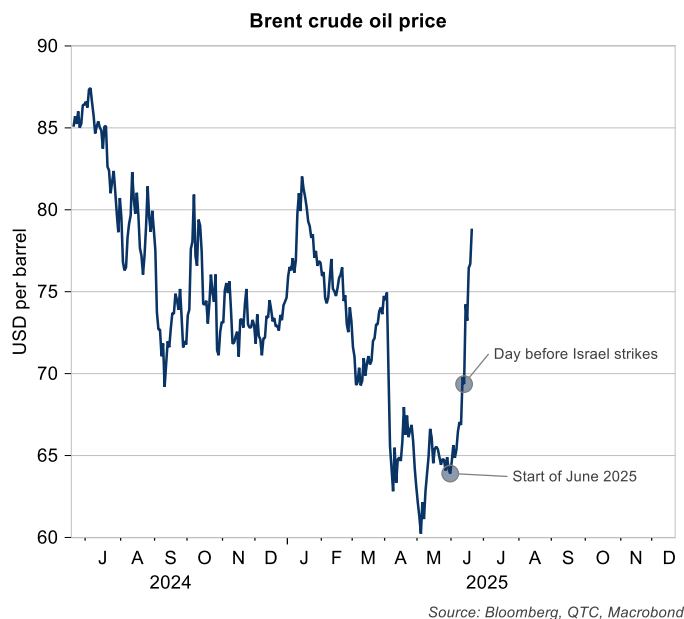


CHART 2: THE UNEMPLOYMENT RATE HAS BEEN IN A VERY NARROW RANGE SINCE MARCH 2024. THIS CONTINUED IN MAY.

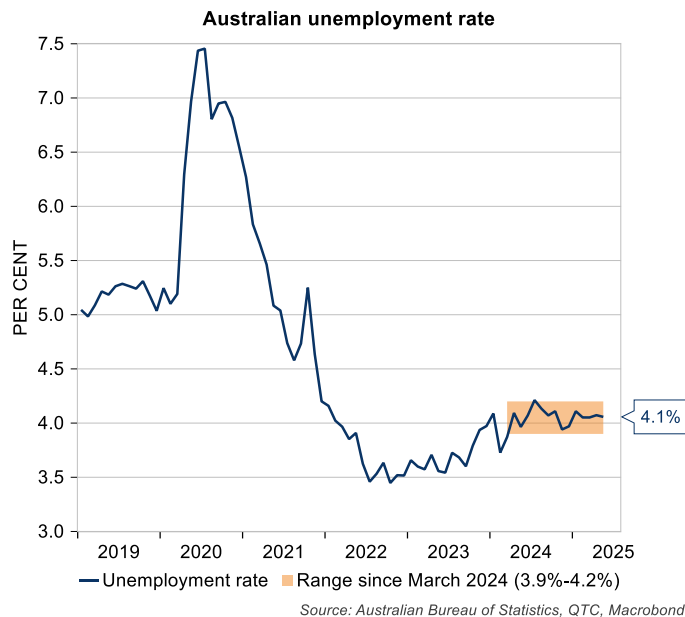


CHART 3: THE LAST TWO MONTHS HAS SEEN A LIFT IN US CONSUMER CONFIDENCE, MOST DRIVEN BY EXPECTATIONS FOR THE FUTURE

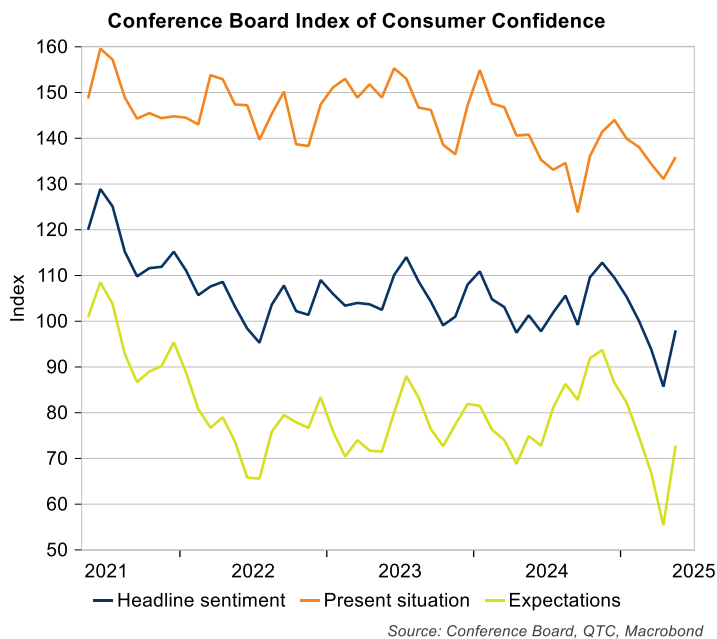
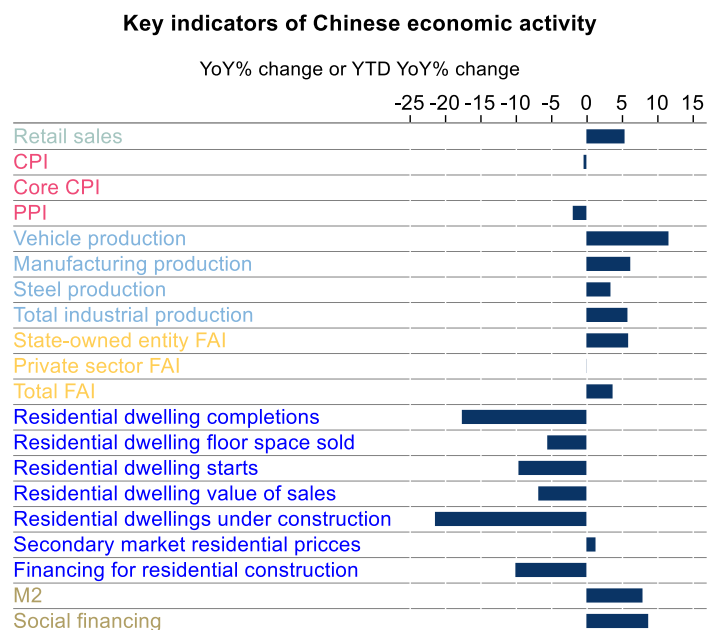


CHART 4: CHINESE ECONOMIC MOMENTUM REMAINS REASONABLE, THOUGH NOTABLE SOFTNESS PERSISTS IN ITS PROPERTY SECTOR



## 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	3.58	-1	-27	-64
	NSWTC	3.58	-1	-26	-62
	TCV	3.59	-1	-30	-66
	WATC	3.51	-1	-26	-67
	Australian Government	3.57	-0	-26	-68
	US Government	3.65	-0	-24	-61
5 Year	QTC	3.35	-0	-28	-54
	NSWTC	3.89	2	-5	-57
	TCV	3.94	-1	-27	-41
	WATC	3.91	-2	-29	-42
	Australian Government	3.96	-1	-31	-42
	US Government	3.84	-2	-28	-46
7 Year	QTC	3.90	-1	-31	-49
	NSWTC	4.07	-1	-24	-32
	TCV	3.54	-0	-29	-38
	WATC	3.99	2	-8	-28
	Australian Government	4.38	-3	-27	-20
	US Government	4.33	-3	-29	-25
10 Year	QTC	4.37	-3	-33	-27
	NSWTC	4.24	-4	-29	-26
	TCV	4.32	-6	-31	-28
	WATC	4.50	-3	-27	-12
	Australian Government	3.85	-1	-30	-19
	US Government	4.18	3	-10	-8

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	-1.15	0.56	-3.02
AUD/EUR	0.56	-0.11	-1.21	-9.38
AUD/GBP	0.48	0.08	0.15	-8.52
AUD/JPY	94.03	0.30	1.18	-11.05
AUD/CAD	0.89	-0.25	-0.89	-2.81
AUD/NZD	1.08	0.45	-0.27	-0.57
AUD/SGD	0.83	-0.37	0.08	-7.69
AUD/HKD	5.07	-1.14	0.83	-2.46
AUD/KRW	890.81	0.60	-0.39	-3.31
AUD/CNY	4.65	-0.67	0.49	-3.81
AUD/INR	56.09	0.80	2.01	0.54
MAJOR CURRENCIES				
EUR/USD	1.15	-1.03	1.78	7.00
GBP/USD	1.34	-1.22	0.40	6.03
USD/JPY	145.72	1.47	0.63	-8.27
USD/CHF	0.82	0.82	-1.59	-8.12
USD/CNY	7.19	0.22	-0.40	-0.99

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	78.85	13.68	20.60	-8.00
Gold	3,371.15	-0.38	2.81	43.06
Copper	9,655.50	-0.48	1.43	-2.05
Iron Ore	92.68	-1.97	-5.81	-7.93

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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