

Weekly Economics and Markets Review

- The global developments followed by markets this week were less to do with economic data with attention instead focussed on geopolitics with the bombing of Iran's nuclear facilities by the US preceding a ceasefire agreement between Israel and Iran. The US also brokered a commitment from NATO countries to lift spending on defence (broadly defined) to five per cent of GDP by 2035.
- Locally, a softer than expected monthly CPI report from the ABS boosted the market's perception of the chance of a rate cut in July. It is now almost fully priced.

Week in review

Domestic

- The headline CPI fell 0.4 per cent in May to be up 2.1 per cent over the year. This is the lowest since July 2021, just above the bottom of the RBA's target band and softer than economist expectations (2.4 per cent). Turning to the core measures, the annual rate of trimmed-mean inflation eased 0.4 percentage points to 2.4 per cent. This is below the mid-point of the RBA's target band and the slowest rate since November 2021. Another measure, the CPI excluding fresh food, fuel and holiday the lower-than-expected outcome for headline inflation and ongoing moderation in core inflation saw markets shift from pricing in an 85 per cent chance of an RBA rate cut in July to a roughly 95 per cent chance.
- Job vacancies rose 2.9 per cent over the three months to May but remain almost the same amount (-2.8 per cent) lower over the year. The move on the quarter was driven by the private sector (+3.2 per cent) with public sector vacancies rising a more muted 0.8 per cent.

Offshore

- Israel and Iran have agreed a cease-fire. This follows US intervention in the conflict in which it dropped bombs and fired missiles at Iran's nuclear facilities. The Trump administration is claiming that Iran's nuclear program has been '*completely obliterated*', though a report leaked from an intelligence agency within the Pentagon suggested that a preliminary assessment was that the strikes are likely to have delayed the program by '*less than six months*'
- Following US encouragement, NATO members agreed to raise defence spending to five per cent of GDP by 2035 at a meeting in the Netherlands. The intent is to get to spending of 3.5 per cent of GDP on defence and 1.5 per cent of GDP on related spending on critical infrastructure, cyber-defence support to defence industries and civil preparedness.
- Commentary from some FOMC participants pointed to the possibility of a rate cut as soon as July if recent subdued readings on inflation persisted. In semi-annual congressional testimony, Fed Chair Powell didn't rule a July cut out. However, he seemed more circumspect, noting that '*For the time being, we are well positioned to wait to learn more about the likely course of the economy before considering any adjustments to our policy stance.*'

- According to S&P Global PMIs, in June:
 - In the **US**, the composite PMI dipped to 52.8 from 53.0. This was a better than anticipated outcome (consensus expectations were 52.2). The services PMI declined 0.6 points to 53.1, in line with consensus expectations (53.0). The manufacturing PMI was unchanged at 52.0, against expectations for a decline to 51.0)
 - In the **UK**, the UK composite PMI edged up to 50.7 in June from 50.3, slightly above expectations (50.6). This reflected improvement in both the services (from 50.9 to 51.3) and manufacturing (to 47.7 from 46.4) PMIs.
 - In the **EZ**, the composite PMI was basically unchanged at 50.2 in June, in a below consensus (50.5) outcome. This reflected an improvement in services (+0.3 points to 50.0) being offset by a softening in manufacturing (-0.5 points to 51.0).
- In the **US**:
 - Existing home sales rose 0.8 per cent in May against expectations of a decline (-1.3 per cent) while new home sales declined by much more (-13.7 per cent) than expected (-6.7 per cent). House prices fell 0.3 to 0.4 per cent in April depending on the measure.
 - The Conference Board's measure of consumer confidence fell 5.4 points to 93.0 in June. This ran counter to consensus expectations which were for an increase to 99.8. There were declines on the month in both the expectations and present situation components. Perceptions of labour market conditions fell to the lowest level since March 2021 while there was also a decline in year-ahead inflation expectations.

Markets

Australian Government bond yields fell over the week with a softer than expected CPI result for May a key catalyst. Yields also took a lead from offshore moves with US Treasury yields falling by even more over the week. Oil declined significantly (around 14 per cent) as hostilities in the Middle East settled. The Australian Dollar hit its highest level against the US Dollar since November 2024 (at 65.5 US cents).

Economic and Market Calendar

DATE	DETAILS
Domestic	Wednesday: Building approvals (May) Thursday: International goods trade (May)
Offshore	US: ISM Manufacturing and Services (Jun), JOLTS (May), Non-farm payrolls (Jun) China: NBS and Caixin PMIs (Jun)

Economic and Financial Market Charts

CHART 1: TRIMMED MEAN INFLATION EASED FURTHER IN MAY WITH THIS POSSIBLY SET TO CONTINUE IN THE RELEASE FOR Q2

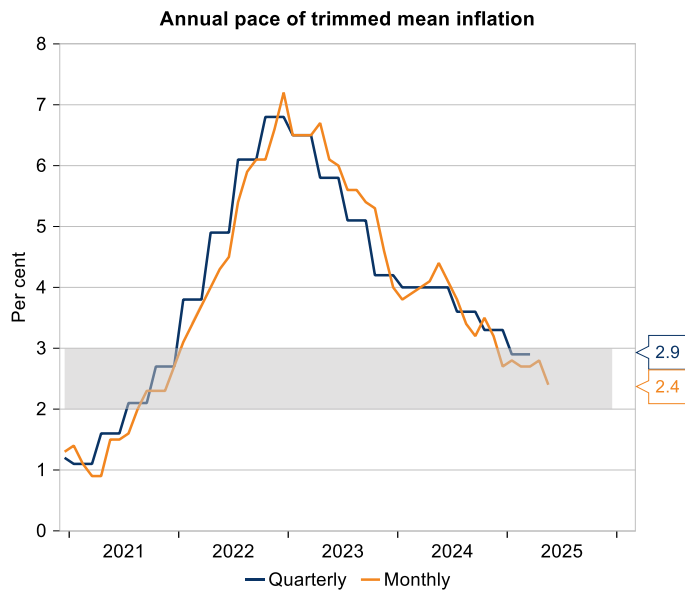


CHART 2: JOB VACANCIES HAVE RE-CONVERGED WITH THE PRE-COVID TREND

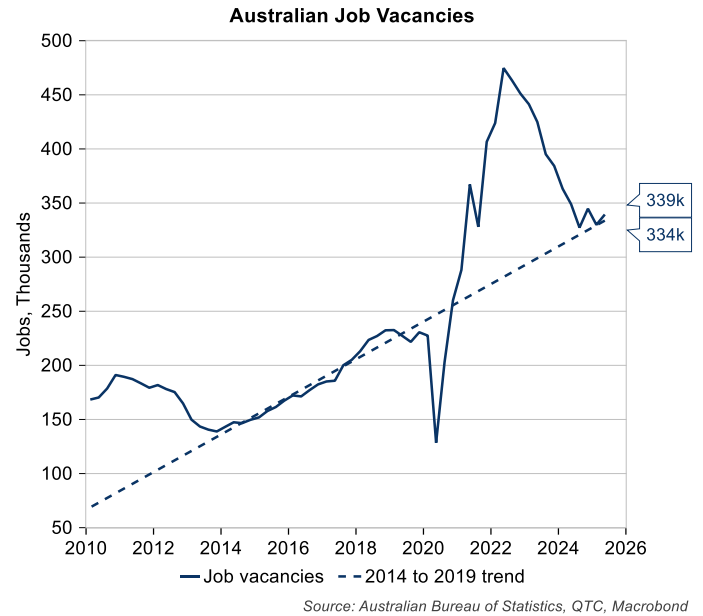


CHART 3: THERE WERE CONTRASTING OUTCOMES FOR BOTH NEW AND EXISTING HOME SALES IN MAY, THOUGH BOTH REMAIN SUBDUED

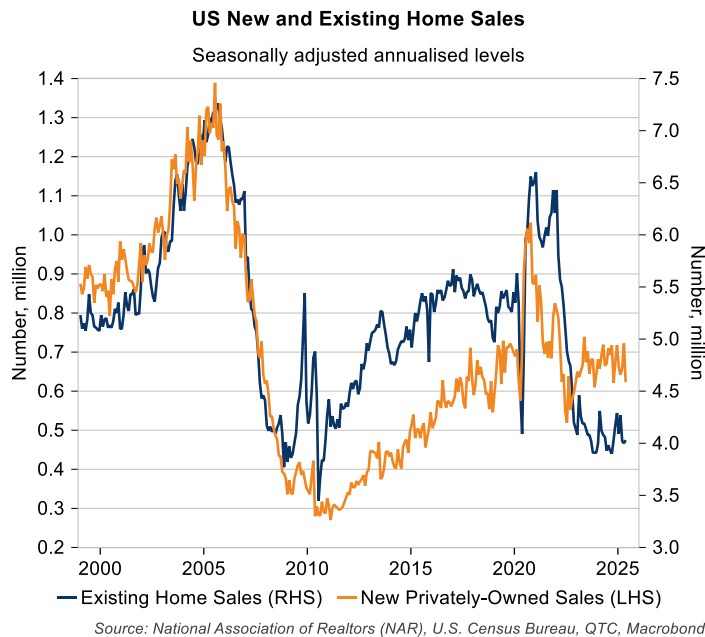
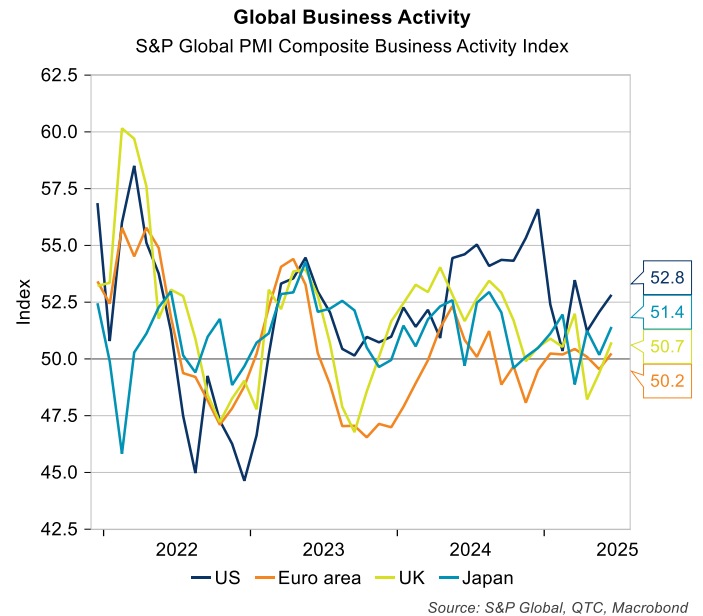


CHART 4: GLOBAL BUSINESS CONDITIONS IMPROVED IN JUNE AS TARIFF FEARS SUBSIDED



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	3.45	-12	-17	-95
	NSWTC	3.47	-11	-16	-91
	TCV	3.48	-11	-17	-96
	WATC	3.40	-11	-16	-97
	Australian Government	3.46	-11	-16	-96
	US Government	3.56	-10	-14	-87
5 Year	QTC	3.23	-12	-19	-87
	NSWTC	3.68	-21	-25	-81
	TCV	3.83	-12	-20	-67
	WATC	3.81	-10	-21	-66
	Australian Government	3.86	-10	-21	-67
	US Government	3.74	-10	-19	-71
7 Year	QTC	3.80	-10	-19	-73
	NSWTC	3.97	-9	-16	-55
	TCV	3.43	-11	-22	-66
	WATC	3.79	-20	-24	-50
	Australian Government	4.27	-11	-22	-44
	US Government	4.23	-10	-23	-47
10 Year	QTC	4.26	-11	-26	-51
	NSWTC	4.15	-9	-22	-48
	TCV	4.23	-9	-25	-50
	WATC	4.42	-8	-19	-33
	Australian Government	3.74	-11	-24	-45
	US Government	3.99	-19	-24	-30

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.66	1.58	1.74	-1.41
AUD/EUR	0.56	-0.76	-1.69	-10.01
AUD/GBP	0.48	-0.85	-0.09	-9.32
AUD/JPY	94.56	0.57	1.66	-11.51
AUD/CAD	0.89	0.82	0.63	-1.87
AUD/NZD	1.08	-0.12	-0.27	-1.07
AUD/SGD	0.83	0.34	0.51	-7.57
AUD/HKD	5.15	1.59	1.89	-0.90
AUD/KRW	887.21	-0.40	0.06	-3.72
AUD/CNY	4.70	1.04	1.35	-2.71
AUD/INR	56.05	-0.06	1.80	0.71
MAJOR CURRENCIES				
EUR/USD	1.17	2.38	3.51	9.55
GBP/USD	1.38	2.47	1.84	8.73
USD/JPY	144.25	-1.00	-0.09	-10.24
USD/CHF	0.80	-2.42	-3.39	-11.03
USD/CNY	7.17	-0.29	-0.40	-1.39

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	67.95	-13.82	6.02	-21.35
Gold	3,331.44	-1.18	1.02	43.26
Copper	9,712.50	1.01	1.21	2.07
Iron Ore	93.32	0.69	-2.00	-6.71

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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