

Weekly Economics and Markets Review

- Minutes to the RBA's May meeting revealed the factors behind the Bank's caution in deciding to lower the cash rate by 25 as opposed to 50 basis points.
- The Australian economy expanded by only 0.2 per cent in Q1 and again contracted in per capita terms. Wet weather and the impact of government subsidies made it difficult to get a clean read on underlying strength across the different drivers of growth.
- President Trump was active on issues to do with trade and people flows this week.

Week in review

Domestic

- The Minutes of May's RBA's meeting provided an interesting insight into the Board's thinking on monetary policy at the meeting in which it lowered the cash rate by 25 basis points.
 - As highlighted by the Governor in the post-meeting press conference, the Board considered a 50 basis point cut before ultimately settling on a smaller move. The reasons for this included the desire for monetary policy to be predictable at a time of heightened uncertainty, that a smaller move would leave the Board well placed to respond as needed to evolving conditions and that it could eventually be challenging for the economy if the Board had to eventually reverse a loosening in policy were it to ultimately prove to have been too rapid.
 - Other reasons for a more cautious approach to cutting rates were that inflation was yet to return sustainably to the midpoint of the target range and that the labour market was still assessed as being tight.
- The Fair Work Commission (FWC) announced a lift to the minimum and award wage of 3.5 per cent. The increase was halfway between that proposed by union and employer groups and is estimated to impact more than 20 per cent of the work force with wages equivalent to 10 per cent of the national wage bill. With annual inflation expected to be 3.1 per cent in FY26 according to RBA forecasts, this wage determination could represent a slight real wage increase. The size of the rise appears to represent a desire by the Commission to offer some catch up for real wages after a few years in which inflation increased faster than nominal wages. The FWC noted that slow productivity growth limited the capacity for larger increase in the determined wage.
- The key points coming out of the Q1 ABS National Accounts were that:
 - GDP rose 0.2 per cent in Q1. This was half the rate expected and left the annual rate of growth steady at 1.3 per cent. Adjusting for population growth, GDP on a per capita basis contracted for the eighth time on the past nine quarters to be down 0.4 per cent over the past year.
 - The unwind of government energy subsidies distorted both household and government consumption by pushing the former higher and latter lower. Wet weather also impacted household consumption, exports and possibly government investment during the quarter. In contrast, it didn't seem to impact residential or non-residential construction activity, both of which rose. Machinery and equipment fell while inventory accumulation added to growth but net exports were an offsetting drag.
 - Output per hour worked (productivity) was flat in Q1 and down 0.9 per cent over the year. The price measure implicit in GDP (the GDP deflator) rose 1.1 per cent in Q1 with the annual rate steady at 2.3 per cent.

Offshore

- In news related to US President Trump, this week he:
 - Doubled the rate of tariffs on steel and aluminium from 25 to 50 per cent.
 - Had a phone conversation with Chinese President Xi, reportedly the first since taking office for a second time, in which he said that after having gotten 'a little off track', 'we're in very good shape with China and the trade deal'. This follows comments from the President earlier in the week that President Xi was 'extremely hard to make a deal with' and that China had violated the trade truce as controls on rare earth exports were not lifted quickly enough. Negotiations are set to take place shortly and both countries invited each other's respective leaders for an official state visit with these offers both reportedly accepted.
 - Citizens of 12 countries (Afghanistan, Myanmar, Chad, the Republic of the Congo, Equatorial Guinea, Eritrea, Haiti, Iran, Libya, Somalia, Sudan and Yemen) were banned from entering the US. Partial restrictions have also been placed on those from seven other countries (Burundi, Cuba, Laos, Sierra Leone, Togo, Turkmenistan and Venezuela). In his first term, Trump prevented travellers from nine countries (Cuba, Iran, Libya, North Korea, Somalia, Sudan, Syria, Venezuela and Yemen) from entering.
- In **central bank** news:
 - The European Central Bank lowered its key policy rate by 25 basis points to two per cent. Following the move its President, Christine Lagarde, noted that the Bank was in a 'good position' to navigate the uncertainty ahead.
 - The Bank of Canada kept its policy rate steady at 2.75 per cent, as expected. The Bank remains patient and is adopting a 'wait-and-see' approach as it assess the extent to which economic growth may slow and inflation may rise in response to US trade policy changes.
- In the **US**:
 - According to the surveys conducted by the Institute of Supply Management (ISM), manufacturing conditions in the US decelerated at a faster pace in May. Anecdotal feedback from respondents indicated that manufacturers remain uncertain given tariff changes and most are fully passing these on. On the services side of things, after having been previously improving, conditions began to deteriorate.
 - The Job Openings and Labor Turnover Survey (JOLTS) revealed a slight uptick in the rate of job openings and hiring within the economy and a steady outcome on the separations rate.

Markets

Australian Government bond yields fell over the week to yesterday (Thursday 5 June), though most of this came just before we released our last report on the back of the temporary halt to the US Trade Court's blocking of some of President Trump's tariffs as well as softer US household spending data. Over the period since the last Weekly, yields have been little changed.

Economic and Market Calendar

DATE	DETAILS
Domestic	Tuesday: Westpac-MI Consumer Sentiment (Jun), NAB Business Survey (May)
Offshore	US: Non-farm payrolls, CPI, PPI (all May) China: CPI, PPI, credit, trade (all May)

Economic and Financial Market Charts

CHART 1: GDP GROWTH IN AUSTRALIA IS VERY MODEST AT PRESENT...

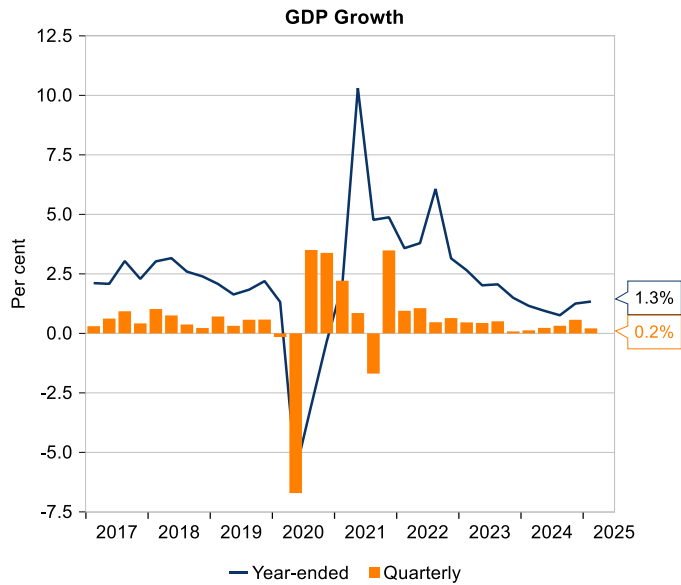


CHART 2: ...WITH THIS EVEN MORE APPARENT ON A PER CAPITA BASIS

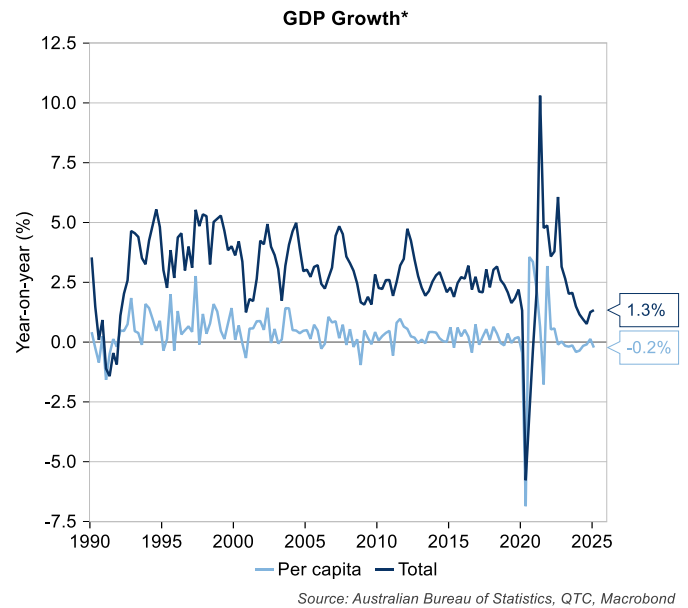


CHART 3: THE RATE OF JOB OPENINGS AND HIRING IN THE US TICKED HIGHER IN APRIL WHILE THAT FOR SEPARATIONS WAS UNCHANGED

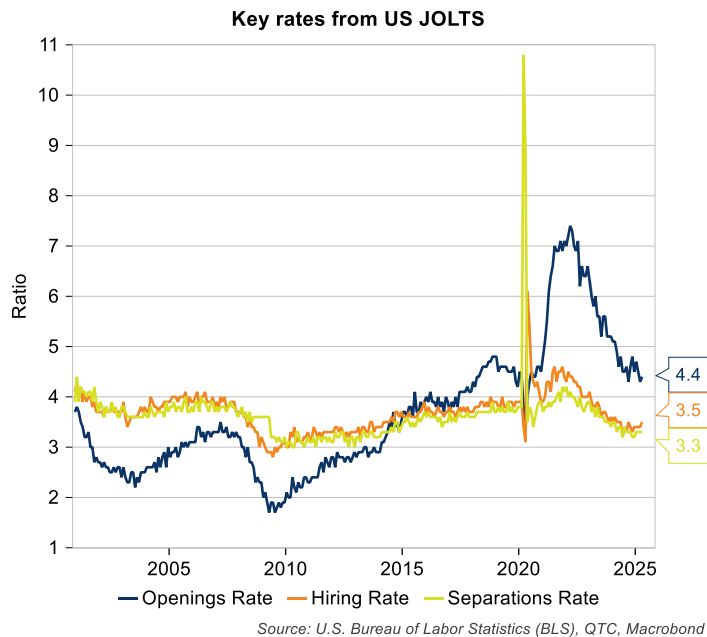
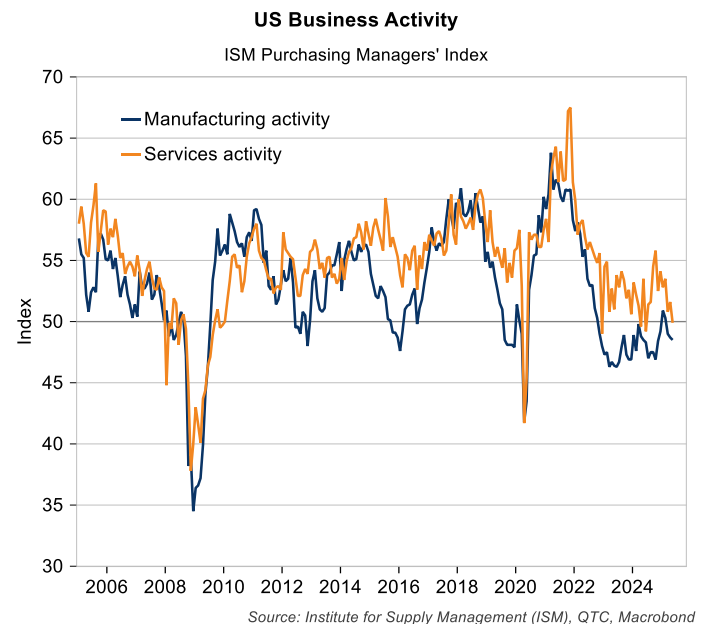


CHART 4: BOTH MANUFACTURING AND SERVICE SECTOR CONDITIONS IN THE US ARE NOW DETERIORATING



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	3.56	-9	-3	-74
	NSWTC	3.56	-10	-4	-73
	TCV	3.59	-9	-6	-75
	WATC	3.50	-8	-4	-77
	Australian Government	3.33	-10	-5	-60
	US Government	3.89	-1	14	-61
5 Year	QTC	3.96	-8	-3	-50
	NSWTC	3.93	-10	-5	-51
	TCV	3.99	-9	-6	-50
	WATC	3.85	-9	-5	-54
	Australian Government	3.54	-12	-6	-43
	US Government	3.99	-1	10	-31
7 Year	QTC	4.42	-8	-2	-26
	NSWTC	4.37	-10	-5	-33
	TCV	4.42	-11	-7	-34
	WATC	4.28	-8	-5	-33
	Australian Government	3.87	-11	-5	-23
	US Government	4.18	-1	9	-11
10 Year	QTC	4.97	-10	-4	-8
	NSWTC	4.89	-10	-6	-16
	TCV	4.95	-12	-9	-15
	WATC	4.73	-9	-4	-19
	Australian Government	4.21	-12	-2	-3
	US Government	4.39	-3	10	10

EQUITIES	RATE	CHANGE (PER CENT)		
		1 WEEK	1 MONTH	1 YEAR
AUD/USD	0.65	1.23	0.71	-1.94
AUD/EUR	0.57	0.39	-0.27	-6.82
AUD/GBP	0.48	0.43	-0.96	-7.80
AUD/JPY	93.63	0.64	1.18	-9.81
AUD/CAD	0.89	0.08	-0.33	-2.31
AUD/NZD	1.08	-0.03	-0.30	0.23
AUD/SGD	0.84	1.07	0.36	-6.47
AUD/HKD	5.12	1.31	1.95	-1.49
AUD/KRW	884.51	0.02	-0.93	-2.69
AUD/CNY	4.69	0.93	-0.51	-2.78
AUD/INR	55.98	1.70	2.51	0.78
MAJOR CURRENCIES				
EUR/USD	1.15	0.84	0.98	5.25
GBP/USD	1.36	0.80	1.69	6.36
USD/JPY	143.51	0.59	-0.47	8.02
USD/CHF	1.22	0.51	0.50	8.07
USD/CNY	7.18	0.30	1.21	0.86

MAJOR COMMODITIES	PRICE (USD)	1 WEEK	1 MONTH	1 YEAR
Brent Crude Oil	65.34	1.86	5.13	-18.19
Gold	3,354	0.96	-1.61	41.35
Copper	9,740	1.79	2.11	-4.03
Iron Ore	94.85	-1.20	-1.77	-7.54

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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