June Monthly Economics and Markets Review

Overview

Domestic economy

Both GDP growth and inflation were weaker than expected in June. This saw markets add to expectations for RBA cash rate cuts with a lowering of the policy rate now virtually fully priced for July.

International economy

Fiscal, trade, defence and geopolitical developments –all involving the US– were the focus of markets in June.

Interest rates

Three-year and 10-year Australian Government bond yields fell seven and nine basis points to 3.26 per cent and 4.13 per cent respectively in June. Yield declines in the US were even more notable at 22 basis points and 19 basis points to 3.69 per cent and 4.23 per cent for three and 10-year Treasury bonds respectively. GDP growth and inflation outcomes for Australia that were below expectations were notable local factors behind the moves. Meanwhile, softer than expected service sector conditions and core inflation outcomes in the US were global drivers of note.

MATURITY	ISSUER	YIELD	1 MONTH BPS CHANGE	1 YEAR BPS CHANGE
3 Year	QTC	3.48	-6	-89
	Australian Government	3.26	-7	-82
	US Government	3.69	-22	-89
5 Year	QTC	3.87	-5	-60
	Australian Government	3.47	-7	-60
	US Government	3.80	-20	-63
7 Year	QTC	4.33	-6	-36
	Australian Government	3.79	-8	-38
	US Government	3.99	-20	-44
10 Year	QTC	4.88	-7	-14
	Australian Government	4.13	-9	-17
	US Government	4.23	-19	-23

AUSTRALIAN DOLLAR CROSSES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
AUD/USD	0.6550	1.6%	-1.4%
AUD/EUR	0.5581	-1.7%	-9.9%
AUD/GBP	0.4781	0.0%	-9.1%
AUD/JPY	94.5710	1.7%	-12.0%

MAJOR CURRENCIES	RATE	1 MONTH % CHANGE	1 YEAR % CHANGE
EUR/USD	1.1737	3.3%	9.4%
GBP/USD	1.3701	1.6%	8.4%
USD/JPY	144.38	0.0%	10.7%
USD/CNY	7.1725	0.4%	1.3%

Prices sourced from Macrobond and QTC are correct at the time of publication

The tables above show yields on bonds issued by the Queensland, Australian and US Governments as well as values for the Australian Dollar against a range of currencies and US Dollar against major currencies. The change in yields and exchange rates over different time periods are also included.

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Domestic economy

SUMMARY:

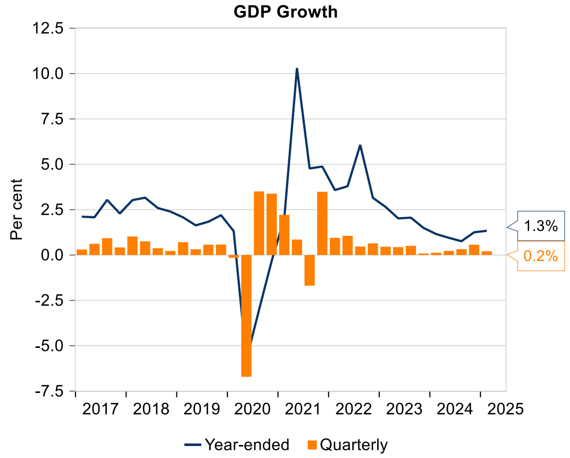
Both GDP growth and inflation were weaker than expected in June. This saw markets add to expectations for RBA cash rate cuts with a lowering of the policy rate now virtually fully priced for July.

REVIEW:

- Key data releases from the Q1 ABS National Accounts included:
  - GDP rose 0.2 per cent in Q1 (cons: +0.4 per cent), while the annual rate was steady at 1.3 per cent. GDP on a per capita basis was down 0.4 per cent over the past year.
  - Within the GDP components, 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, residential or non-residential construction activity both rose. Machinery and equipment fell while inventory accumulation added to growth.
  - 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.
- The Minutes of May's RBA's meeting provided further insight into the Board's decision to lower the cash rate by 25 and not 50 basis points. This included the desire for monetary policy to be predictable at a time of heightened uncertainty. 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.
- Headline CPI fell 0.4 per cent in May, to be up 2.1 per cent over the year. The annual rate of trimmed-mean inflation eased 0.4 per cent to 2.4 per cent. Both measures are now below the mid-point of the RBA's target band.
- Employment edged lower (-2.5k) against expectations of a 20k rise, as the increase in part-time work was more than offset by a rise in full-time employment. The unemployment rate was steady at 4.1 per cent.
- The Fair Work Commission announced a lift to the minimum and award wage of 3.5 per cent. 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.
- According to the *Westpac-Melbourne Institute Consumer Sentiment Index*, consumer confidence rose slightly in June, driven by a pickup in lower interest rates and an easing in inflationary pressures alongside economic softness. Perceptions around whether now is a good time to buy a major household item increased 7.5 per cent on the month as unemployment expectations rose 5.0 per cent. House price expectations were up 7.0 per cent.
- According to the *NAB Business Survey*, business conditions declined 4 pts in May, the lowest since August 2020. Business confidence edged up slightly, likely subdued due to weaker employment. NAB's measures of input costs and final product prices were down slightly while labour costs edged up.

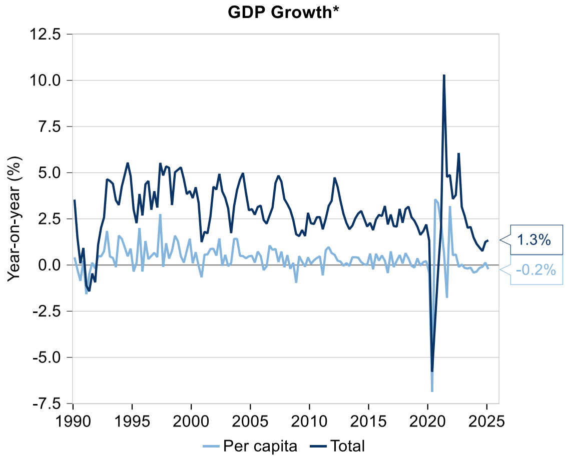
WHAT TO WATCH: Whether the RBA chooses to lower the cash rate in July as well as the commentary around its decision – whichever way it goes – will be important in gauging the timing and extent of any further moves lower in the policy rate. Labour force (June) and CPI (Q2) will also be important ahead of the Bank's deliberations in August.

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



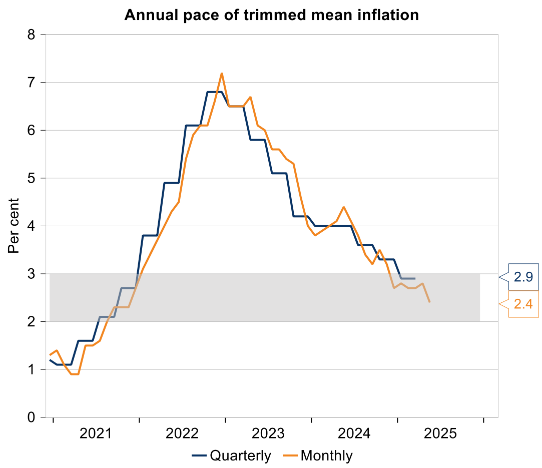
Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

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



Source: Australian Bureau of Statistics, QTC, Macrobond

CHART 3: TRIMMED MEAN INFLATION EASED FURTHER IN MAY WITH THIS POSSIBLY SET TO CONTINUE IN THE RELEASE FOR Q2



Source: Australian Bureau of Statistics, Reserve Bank of Australia, QTC, Macrobond

International economy

SUMMARY:

Fiscal, trade, defence and geopolitical developments – all involving the US – were the focus of markets in June.

REVIEW:

- Early in the month, Israel attacked Iran to destroy its nuclear facilities, placing heightened uncertainty on oil supply. Soon after, the US joined the operation through a bombing and missile campaign targeted at three Iranian nuclear sites. A cease-fire agreement was in place by month-end.
- Other US related developments included:
  - The Whitehouse confirmed a deal had been reached with China on the enforcement of provisions of the recently agreed trade truce. Chinese rare earth exports would resume, and the US would again allow Chinese university students to enter the country.
  - Following US encouragement, NATO members agreed to raise defence spending to 5 per cent of GDP by 2035. 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
  - Progress has been made on the "One Big Beautiful Bill Act", including it seems around the removal of the so-called "revenge tax" entailing taxes on income streams payable to foreign investors.
- 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.
  - Central banks of Canada, England and Japan all kept rates on hold while those in the euro area, Sweden, Norway and Switzerland all cut by 25 basis points.
- In terms of US economic data:
  - Core CPI inflation edged up 0.1 per cent in May below expectations for an increase of 0.3 per cent. In contrast, core PCE inflation was 0.2 per cent in May against expectations for a 0.1 per cent rise.
  - Non-farm payrolls rose 139,000 in May, above expectations of 126,000. A sizeable decline in the labour force saw the unemployment rate hold steady at 4.2 per cent.
- In terms of China economic data:
  - 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 firmer.
  - In other releases, annual consumer price inflation was steady at -0.1 per cent while that for producer prices eased to -3.3 per cent from -2.7 per cent. Aggregate financing and new lending both slowed. The annual rate of export (+4.8 per cent from +8.1 per cent) and import (-3.4 per cent from -0.2 per cent) growth both slowed in May.

WHAT TO WATCH:

Near-term, the two biggest developments to watch will be the legislative progress on a net-easing in US fiscal policy via the proposed "One Big Beautiful Bill Act as well as if there is an extension to the 90-day pause in the re-implementation of higher tariff rates. The Whitehouse is hopeful the former being completed by the end of this week while on the latter, the US Treasury Secretary floated the possibility of an extension being granted to 1 September.

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

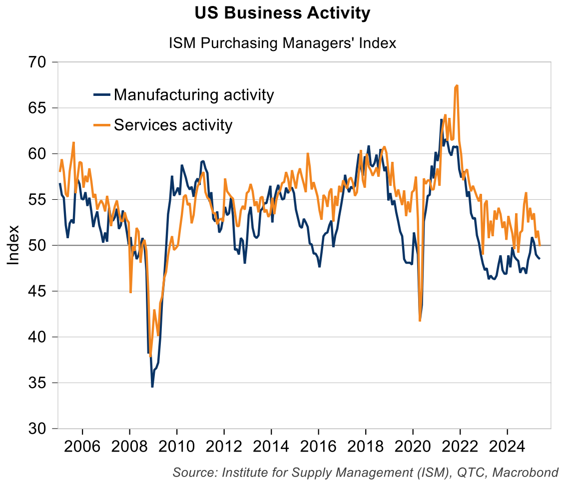


CHART 5: CHINESE ECONOMIC MOMENTUM REMAINS REASONABLE, THOUGH NOTABLE SOFTNESS PERSISTS IN ITS PROPERTY SECTOR

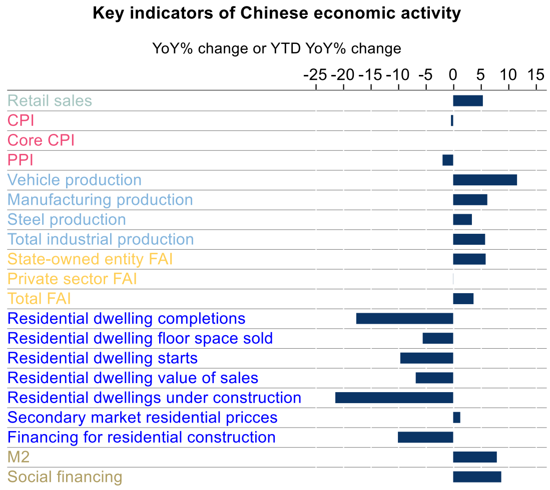


CHART 6: BRENT CRUDE OIL PRICES WERE VOLATILE IN JUNE THROUGH THE ISRAEL-IRAN CONFLICT, EVEN THOUGH BROADER MARKET MOVES WERE CONTAINED