

Major upcoming global economic releases and events

DATE	DATA/EVENT	PREVIOUS	CONSENSUS
28-May-19	Europe economic sentiment (May)	104	103.8
29-May-19	Australia building permits m/m (Apr)	-15.5%	0.1%
29-May-19	Australia private capex q/q (Q1)	2%	0.5%
30-May-19	UK consumer confidence (May)	-13	-12
31-May-19	Australia private sector credit m/m (Apr)	0.3%	0.3%
31-May-19	China manufacturing PMI (May)	50.1	49.9
31-May-19	US core PCE prices y/y (Apr)	1.6%	1.6%

Source: Bloomberg, UBS Global Research, Tradingeconomics.com

What to watch this week



Australia

A relatively quiet data schedule saw some mixed results in Australia last week. Construction work and the Leading Index were both weaker while PMI data was a little stronger in May.

As the final seats were declared the coalition was confirmed as having won 77 seats in the Federal election, one above the 76 required for victory and with Macquarie still too close to call. Domestic equities took heart from the election result, particularly the banks, which were up strongly. A regulatory shift by APRA, who lowered a key lending constraint, provided further support.

The RBA was also in focus last week as the minutes from the recent meeting delivered a dovish tone. This sentiment was then echoed in a speech by the governor who said that *"at our next meeting... we will consider the case for lower interest rates"*. All eyes now turn to the June meeting.

Building permits, private capex and private sector credit are the key data releases in the week ahead.



US

Economic data was on the weaker side last week. Both new and existing home sales missed expectations in April while PMIs also pushed lower. The manufacturing and services components were both weak, spurring concerns that the outlook for the economy is softening. Later in the week durable goods orders was also reported in negative territory for April. The Fed meeting minutes showed confidence in the economy however, describing activity as robust.

Trade tensions between the US and China continue to dominate sentiment and drive elevated market volatility. Last week we saw the US put Chinese firm Huawei on a list that US firms can't trade with unless they have a license. The move provided additional concern for investors, who fear an escalation of the already tense situation. Further additions to the list, or retaliation from China against US companies, would be damaging for risk assets.

A quiet week ahead sees the second estimate of Q1 GDP growth and monthly inflation data form the highlights.



Europe

European PMIs remained subdued last week, as expected. The composite index is still in expansionary territory but is well below 2018 levels. In the UK inflation data was a little below expectations in April, with Core CPI up 1.8% over the year. The picture of benign inflation in developed markets is helping central banks follow a cautious approach to monetary policy. UK Retail sales was reported above expectations in April.

On Friday last week UK prime minister Theresa May announced that she would step down on June 7. The contest is now underway to elect her successor. The process is expected to take around two months, with candidates progressively eliminated by a series of votes by conservative MPs before the final pair are subjected to a postal vote by some 125,000 Conservative Party members. Boris Johnson is currently favourite but the outcome is far from certain.

This week economic sentiment is the highlight in Europe while in the UK, house prices and consumer confidence are the most significant data releases.

Chart of the week—Probability of an interest rate cut in June



Source: Bloomberg

The RBA meeting in early May was the first in a long time where there were real expectations of a change to the policy rate. Market pricing implied around a 50% chance of a cut going in to the meeting, and while the RBA ultimately held off pulling the trigger, the chance of a shift lower in the coming months remains strong.

Since the meeting there have been some dramatic shifts in market expectations. The higher unemployment rate saw the probability of a cut spike higher before the election result spurred a sharp decline. Almost immediately after that the dovish RBA meeting minutes and a similar tone in a speech by governor Lowe saw the chance of a cut in June spike up and then push higher. Current market pricing suggests around an 85% chance of a rate cut in June.

Financial market movements

INDICATOR	AS AT 24-MAY-19	1 WEEK CHANGE	1 YEAR CHANGE	3 YEAR CHANGE (ANNUALISED)	5 YEAR CHANGE (ANNUALISED)
EQUITIES		%	%	%	%
S&P/ASX 200 Accum. Index	68,397.24	1.43	11.72	10.75	7.86
US S&P 500 TR^ Index	5,665.60	-1.14	5.95	12.67	10.38
Europe STOXX TR Index	727.75	-1.77	-4.04	6.11	4.54
UK FTSE 100 TR Index	6,575.37	-0.93	-1.63	9.48	5.31
Japan TOPIX TR Index	2,197.80	-0.84	-11.25	6.48	7.12
MSCI World ex-Australia TR Index	4,660.23	-0.51	2.26	10.24	7.85
FIXED INCOME	%	BP	BP	BP	BP
Australian 90-day bank bill yield	1.59	-0.00	-0.09	-0.05	-0.17
Australian 10-year bond yield	1.54	-0.14	-1.25	-0.24	-0.45
US 90-day bank bill yield	2.30	-0.04	0.45	0.66	0.45
US 10-year bond yield	2.32	-0.07	-0.66	0.15	-0.04
UK 10-year bond yield	0.96	-0.08	-0.45	-0.17	-0.34
German 10-year bond yield	-0.12	-0.01	-0.59	-0.10	-0.31
COMMODITIES		%	%	%	%
Gold	1,284.90	0.55	-1.09	1.96	0.31
Oil—West Texas Crude	58.81	-6.80	-13.36	6.03	-10.79
Iron Ore Spot Price Index	92.90	3.68	50.42	21.03	-0.49
CURRENCIES		%	%	%	%
AUD:USD	0.69	0.32	-8.16	-1.18	-5.63
EUR:USD	1.12	0.39	-3.58	0.28	-3.84
GBP:USD	1.27	-0.02	-4.41	-4.53	-5.42
USD:JPY	109.41	-0.59	-0.01	-0.27	1.42
NZD:USD	0.66	0.34	-5.56	-0.73	-5.20
CHF:USD	1.00	0.66	-0.83	-0.25	-2.20
AUD:EUR	0.62	-0.05	-4.76	-1.48	-1.86
AUD:GBP	0.54	0.33	-3.93	3.49	-0.23
AUD:JPY	75.83	-0.26	-8.17	-1.48	-4.29

*BP = Basis Point, Source: Bloomberg; ^TR = Total Return

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