May 2025
Published: 2 June 2025

Monthly economic report

The global economy

Conditions in financial markets stabilised in May, with volatility declining after the tumult in April following President Trump's 'Liberation Day' tariff announcements. Uncertainty around trade policy and its impact on global growth and inflation remains high, with ongoing legal challenges to the validity of some of President Trump's tariffs adding to the uncertainty.

Investors are still hopeful that President Trump is using tariffs as a negotiating tool and that tariffs will ultimately settle at much lower levels than originally feared. This optimism was buoyed by the 90-day reduction in tariffs agreed between China and the US. China's tariffs on US goods have decreased from 125% to 10% until mid-August, while US tariffs on Chinese goods have fallen from 145% to 30%. However, sector-specific tariffs (e.g. on autos, steel & aluminium) and those levied during President Trump's first term remain in place.

The US Federal Reserve (Fed) left interest rates unchanged in May and is waiting to see the impact of tariffs and elevated policy uncertainty on the US economy before adjusting interest rates. This reflects the Fed's expectation that unemployment and inflation will both rise, which creates a challenging environment for the Fed. Data in May showed that the US economy, particularly consumer spending, had weakened in the March quarter – even before the escalation of the trade wars in April. Some large companies have also recently reported weaker trading conditions and future earnings expectations because of tariffs.

In contrast, central banks in other advanced economies continued to lower interest rates in May, including in Australia, New Zealand and the UK. Central banks are assessing possible scenarios for the economic outlook, with most expecting slower global growth because of tariffs and elevated trade policy uncertainty. The impact on inflation, however, is less clear. For economies that have not increased tariffs, including Australia, the impact is likely to be disinflationary.

The Australian economy

The Reserve Bank of Australia (RBA) lowered interest rates by 25bps in May – the second rate cut of this cycle. The RBA has become more confident that upside risks to inflation have eased, in light of slowing wages growth, soft consider spending and a weaker global growth outlook. RBA communication was seen to be more dovish than investors had expected, with investors currently expecting the overnight cash rate to fall to 3% by early 2026.

Headline inflation was steady in April, near the middle of the RBA's target band. The unemployment rate was unchanged at 4.1% and has been around this level for the past year. Despite this, the slowing in wages growth suggests that the labour market is gradually loosening.

Financial market commentary

Although tariff developments continued to generate volatility in May, global equity markets ended the month higher and currency moves were small. Bond yields rose in many economies, most notably in the US.

Equity markets (performance in local currency, excluding dividends)

Global equity markets rose strongly in May, particularly in advanced economies. The MSCI World (ex-Australia) index rose by 5.7% while the MSCI Emerging Markets index gained 4%. Investor sentiment was boosted by the temporary tariff reduction between China and the US, which gave investors hope that tariffs could end up much lower than feared. The US S&P500 rose by 6.2%, also boosted by positive earnings reports by some large technology firms.

The German equity market rose strongly in May (+6.7%), continuing its outperformance since the start of this year (+20%). The German government is considering further fiscal stimulus, which has increased optimism around Germany's (and Europe's) growth prospects.

Australia's share market rose by 3.8%, with all sectors higher in May. The ASX200 has underperformed equity markets in other advanced economies in 2025 so far (except for the US), with the share prices of resources companies weighing.

Bond yields

Bond yields rose in most advanced economies in May, with the largest rises in the US. US 2-year bond yields increased by 29bps, as the tariff agreement between China and the US led investors to pare back their expectations for interest rate cuts by the Fed. In contrast, 3-year bond yields in Australia were little changed as the more dovish communication from the RBA prevented short-term yields from rising.

US 10-year bond yields rose by 25bps, boosted by the China-US deal. Moody's downgrade of the US Government's sovereign credit rating (down one notch from AAA) also contributed to the higher yields. Although the downgrade brings Moody's into line with the other major rating agencies, it reinforced bond investors' concerns about the large and growing US budget deficit.

The concerns around US fiscal sustainability have kept longer-term bond yields elevated this year, with US 20-year and 30-year bond yields rising (by 10-15bps). While unease around the US' fiscal position has been most prominent, investors are becoming increasingly concerned about the deteriorating fiscal positions of governments in several advanced economies. This is leading to investors demanding a higher compensation for sovereign risk. It is also creating expectations that government bond supply will increase to fund growing budget deficits, which is placing upward pressure on yields.

The rise in longer-term yields has been most prominent in Japan, with fiscal pressures rising and the Bank of Japan increasing short-term interest rates and scaling back its purchases of Japanese Government bonds. The rise in Japanese bond yields is putting further upward pressure on global bond yields. Japanese investors (pension funds) are major buyers of US Treasuries, and rising domestic yields could reduce demand for US Treasuries as it becomes more attractive to invest in Japan rather than offshore.

Currency and commodity markets

The US dollar was little changed in May on a trade-weighted basis but has fallen by 8.5% since the start of this year. The depreciation has been largest against traditional 'safe haven' currencies that benefit from heightened uncertainty and market volatility, such as the Swiss franc, Japanese yen and the Euro. The Australian dollar rose slightly against the US dollar in May (to around US$0.64) and has appreciated by 4% against the US dollar since the start of this year.

Oil prices remain at around their lowest level in 4 years, having fallen by almost 15% in 2025. This reflects a combination of weaker global demand and higher global production, with Saudi Arabia trying to recoup lost market share and punish OPEC members that have been over-producing. Sustained low oil prices would reduce global inflationary pressures, helping to offset any rise in inflation due to tariffs.

Financial market performance

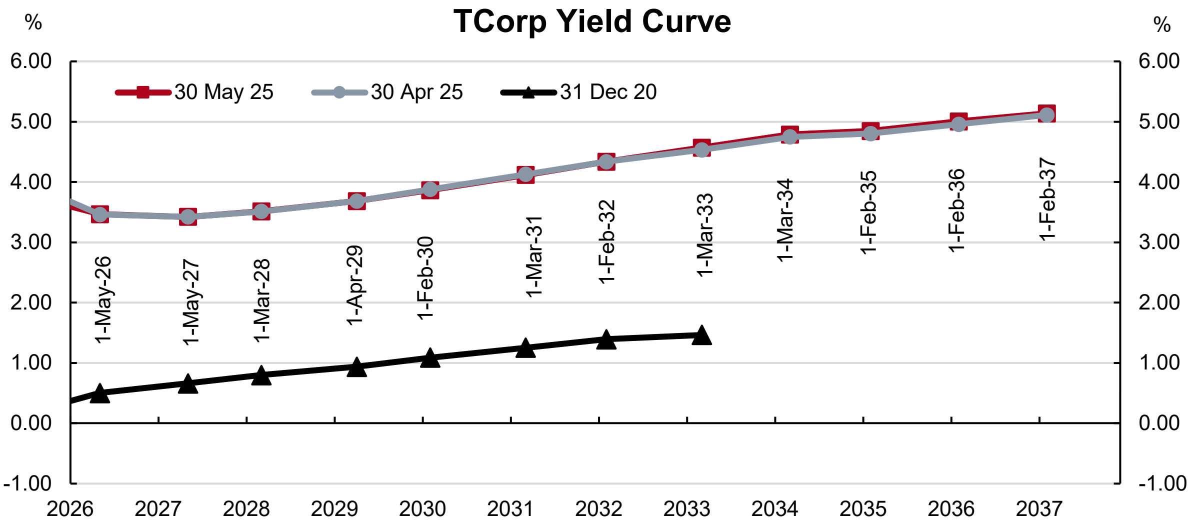
Currency markets May 2025	Previous month close	Month high	Month low	Month close	Month change
AUD/USD	0.640	0.650	0.637	**0.643**	0.5% ▲
AUD/EUR	0.565	0.579	0.565	**0.567**	0.3% ▲
AUD/JPY	91.59	95.43	92.32	**92.62**	1.1% ▲
AUD/GBP	0.480	0.487	0.477	**0.478**	-0.5% ▼
AUD/BRL	3.632	3.711	3.616	**3.681**	1.3% ▲
AUD/INR	54.09	55.29	53.93	**55.04**	1.7% ▲
AUD/CNY	4.655	4.704	4.591	**4.630**	-0.5% ▼

Equity markets* May 2025	Previous month close	Month high	Month low	Month close	Month change
MSCI World ex Australia	3755	3982	3764	**3970**	5.7% ▲
MSCI Emerging Markets	1113	1175	1112	**1157**	4.0% ▲
S&P/ASX200	8126	8435	8146	**8435**	3.8% ▲
S&P/ASX Small Ordinaries	3054	3229	3059	**3229**	5.7% ▲
S&P500 (US)	5569	5964	5604	**5912**	6.2% ▲
FTSE 100 (UK)	8495	8786	8497	**8772**	3.3% ▲
Stoxx600 (Europe)	527	554	528	**549**	4.0% ▲
DAX (Germany)	22497	24226	22497	**23997**	6.7% ▲
CAC 40 (France)	7594	7942	7594	**7752**	2.1% ▲
Nikkei 225 (Japan)	36045	38433	36452	**37965**	5.3% ▲
Hang Seng (HK)	22119	23828	22119	**23290**	5.3% ▲
Shanghai Composite (China)	3279	3404	3279	**3347**	2.1% ▲
Bovespa (Brazil)	135067	140110	133398	**137027**	1.5% ▲
IPC (Mexico)	56259	58736	55812	**57842**	2.8% ▲
S&P/BSE Sensex (India)	80242	82531	79454	**81451**	1.5% ▲

*Returns are in local currency, and exclude dividend payments

Bond markets (%) May 2025	Previous month close	Month high	Month low	Month close	Month change
RBA Official Cash Rate	4.10	4.10	3.85	**3.85**	-0.25 ▼
90 Day Bank Bill	3.87	3.88	3.69	**3.73**	-0.15 ▼
180 Day Bank Bill	3.89	3.90	3.73	**3.77**	-0.11 ▼
New institutional term deposits	4.30	4.30	4.30	**4.30**	0.00 –
3 Year CGS Bond	3.32	3.66	3.30	**3.33**	0.01 ▲
10 Year CGS Bond	4.16	4.53	4.19	**4.26**	0.09 ▲
10 Year US Bond	4.16	4.60	4.22	**4.40**	0.24 ▲
10 Year German Bond	2.44	2.70	2.44	**2.50**	0.06 ▲
10 Year Japanese Bond	1.32	1.57	1.26	**1.50**	0.18 ▲

TCorp bonds (%) May 2025	Previous month close	Month high	Month low	Month close	Month change	
20-May-26	3.46	3.72	3.45	**3.47**	0.01	▲
20-May-27	3.42	3.74	3.41	**3.42**	0.00	▲
20-Mar-28	3.51	3.83	3.50	**3.51**	0.00	▲
20-Apr-29	3.69	4.01	3.68	**3.69**	0.00	–
20-Feb-30	3.88	4.18	3.86	**3.86**	-0.01	▼
20-Mar-31	4.13	4.42	4.12	**4.12**	-0.01	▼
20-Feb-32	4.34	4.63	4.34	**4.34**	0.00	▲
08-Mar-33	4.53	4.86	4.56	**4.57**	0.04	▲
20-Mar-34	4.75	5.08	4.78	**4.79**	0.04	▲
20-Feb-35	4.80	5.14	4.84	**4.85**	0.04	▲
20-Feb-36	4.96	5.30	4.99	**5.01**	0.05	▲
20-Feb-37	5.11	5.44	5.14	**5.14**	0.03	▲
24-Feb-38	5.20	5.55	5.23	**5.25**	0.05	▲
CIB 2.75% 20 Nov 25	3.00	3.12	1.24	**1.24**	-1.76	▼
CIB 2.50% 20 Nov 35	2.73	3.00	2.67	**2.67**	-0.06	▼



Source: TCorp

Commodity markets (US$) May 2025	Previous month close	Month high	Month low	Month close	Month change	
Brent Oil (per barrel)	63.1	66.6	60.2	**63.9**	1.2%	▲
Iron Ore (per tonne)	96.2	101.8	96.3	**96.3**	0.1%	▲

TCorp forecasts	June-25	Dec-25	Jun-26	Dec-26
RBA Official Cash Rate	3.85	3.35	2.85	2.60
90 Day Bank Bill	3.70	3.25	3.00	2.75
10 Year CGS Bond	4.00	3.50	3.50	3.50

Level 7, Deutsche Bank Place
126 Phillip Street
Sydney NSW 2000, Australia

T +61 2 9325 9325
W www.tcorp.nsw.gov.au

ABN 99 095 235 825

About New South Wales Treasury Corporation (TCorp)

TCorp provides best-in-class investment management, financial management, solutions and advice to the New South Wales (NSW) public sector. TCorp is NSW's sovereign investment manager, responsible for A$115 billion of assets under management, and acts as the central borrowing authority of the state, with a balance sheet of A$198 billion. It is rated Aaa (Stable) by Moody's, AAA (Stable) by Fitch, and AA+ (Negative) by S&P.

Disclaimer

The opinions, forecasts and data contained in this report is based on the research of TCorp as at the date of publication and is subject to change without notice. TCorp is not responsible for the accuracy, adequacy, currency or completeness of any information in the report provided by third parties. This report is provided for general information purposes only and should not be relied upon for investment or trading purposes. This Report is not intended to forecast or predict future events.