WEEKLY MARKET & ECONOMIC ROUNDUP

Monday, 4 May 2015

Chart A: Domestic Interest Rates

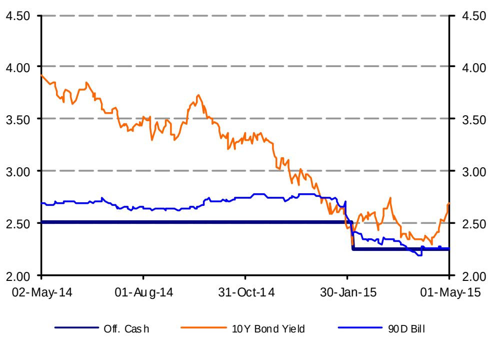


Chart B: Share Price Index

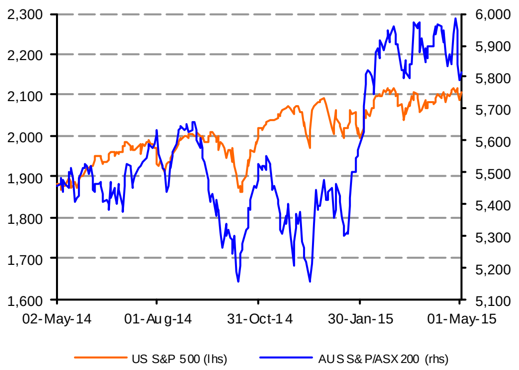


Chart C: Exchange Rate

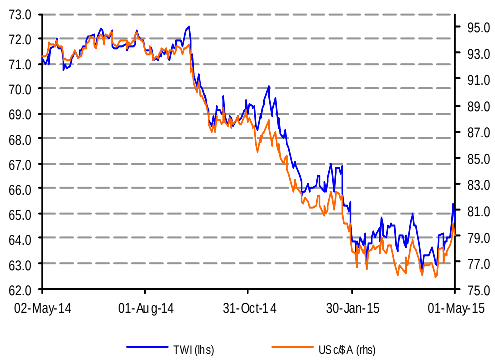
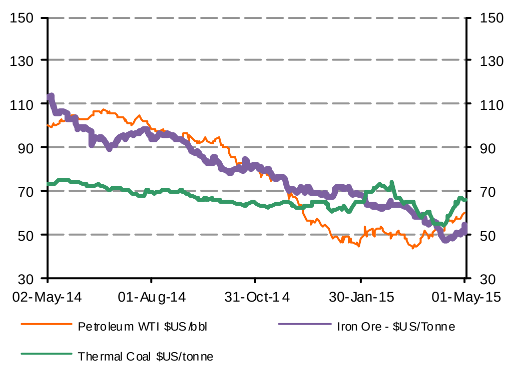


Chart D: Commodities



Key Domestic Data Releases

The **ABS** released the March quarter Producer Price Index, showing prices of final stage products rose 0.5 per cent in the quarter, to be 0.7 per cent higher through the year.

The ABS also released the March quarter international trade price index. The release showed that export prices fell compared to the previous quarter, and annually the index is down 12.2%. Import prices also fell in the quarter, and the index is also down 3% annually.

The **Australian Industry Group (AIG)** released their performance of manufacturing index (PMI) report, which gives an indication of manufacturing activity. The report stated that activity across the manufacturing industry contracted for the fifth consecutive month in April. The PMI moved up by 1.8 points to 48.0 points this month (readings below 50 points indicate contraction). The Australian PMI typically 'leads' ABS data for manufacturing output by around 3 months.

The **RBA** released national financial aggregates data for March. The release showed that private sector credit continued to grow in March, up by 6.2% compared to March 2014. Investor housing credit grew by 0.9% in March and is up 10.4% compared to March 2014. Growth in owner occupier housing credit was up 0.5% in March, and is up 5.7% for the year.

The RBA also released preliminary estimates for April for its Index of Commodity Prices. The index declined by 3.3% in April in international currency terms (SDR), following a decline of 2.6% in March. Over the past year, the index has fallen by 20.5%, largely driven by falls in the prices of bulk commodities.

Deloitte Access Economics (DAE) released its March quarter Investment Monitor report. It showed that projects in the pipeline in NSW have risen over the year. Since the March quarter 2014, committed projects in NSW have grown 31%, projects under consideration have risen 23%, and possible projects have risen 15%. Reflecting a decline in resource-related construction investment, in Australia as a whole, the number of projects under consideration and possible have fallen substantially.

Markets

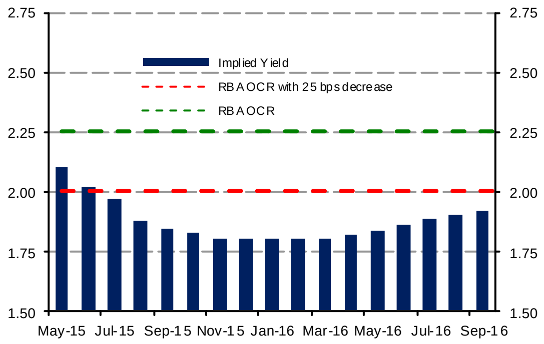
The **ASX200** fell 2.0% compared to last Friday and the **US S&P500** fell 0.4%.

	Value	Change on Year	Change on Week
US S&P 500	2,108.3	12.1 %	-0.4 %
ASX200	5,814.4	6.5 %	-2.0 %
Australian Dollar (USD)	0.7903	-14.8 %	1.6 %
TWI	64.70	-9.1 %	1.1 %
Oil (USD/bbl)	59.63	-40.2 %	4.3 %
Gold (USD/oz)	1,175.95	-8.2 %	-0.6 %
Thermal Coal (USD/tonne)	66.03	-9.7 %	3.4 %
Australian 10-yr bond	2.69%	-123.1 bps	14.9 bps
US 10-yr bond	2.06%	-57.0 bps	11.0 bps
Australian 90-day bill	2.25%	-43.0 bps	-0.8 bps

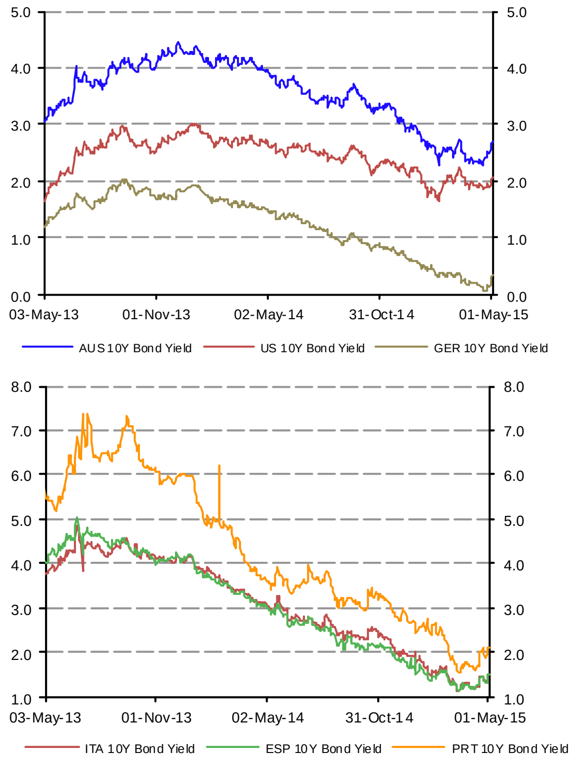
Upcoming Domestic Data Releases (4/5 – 8/5)

The **ABS** has several releases this week, including building approvals for March, overseas arrival estimates for October 2014, international merchandise trade for March, retail trade for March, and labour force for April. **ANZ** releases its job ads series for April. The **RBA** meets to decide the headline target interest rate and releases its Statement of Monetary Policy. The **TD-MI** monthly inflation gauge update is released for April. **AiG** releases its Australian Performance of Services Index (PSI) and its Australian Performance of Construction Index (PCI) for April. The **Victorian** State Budget is released on Tuesday. The **HIA** releases new home sales for March.

Chart E: Interest Rate Expectations



Charts F & G: International Bond Yields



Market Interest Rate Expectations

Current **market expectations**, as shown by the **implied yield** curve on ASX 30 day interbank cash rate futures (refer Chart E below), **favour a reduction in interest** rates by the RBA at its next policy meeting on 5 May.

According to the **ASX target rate tracker**, as of 1 May, there is a 71% expectation that the RBA will lower the cash rate to 2.0% at its policy meeting on 5 May 2015.

International Bond Yield Spreads

10-yr bond yield	Yield	Change on Year	Change on Week	Spread on 10-yr US bond week end	Spread on 10-yr US bond year ago
Australian (AUS)	2.69%	-123.1 bps	14.9 bps	62.6 bps	128.7 bps
United States (US)	2.06%	-57.0 bps	11.0 bps	- -	- -
Germany (GER)	0.36%	-110.8 bps	18.8 bps	-170.3 bps	-116.5 bps
Italy (ITA)	1.49%	-155.3 bps	7.3 bps	-57.2 bps	41.1 bps
Portugal (PRT)	2.09%	-149.7 bps	10.0 bps	3.0 bps	95.7 bps
Spain (ESP)	1.51%	-146.4 bps	11.6 bps	-54.9 bps	34.5 bps

Key International Data Releases

US: Consumer confidence, as reported by the Conference Board Index, fell to 95.2 in April from 101.4 in March, reflecting weaker US consumer sentiment. GDP rose by an annual rate of 0.2% in the March quarter, well below market expectations and the lowest quarterly growth rate in a year. The Federal Reserve left interest rates unchanged and noted that the recent slowdown in US growth reflected short term factors only. The personal consumption expenditure (PCE) index increased 0.2% in March, the same increase as in February. Excluding food and energy, the PCE price index increased by 0.1%.

Europe: The euro area (EA19) unemployment rate was 11.3% in March, unchanged from February, but down from 11.7% rate in March 2014. The EU28 unemployment rate was 9.8% in March, down from 10.4% in March 2014.

UK: GDP grew by 0.3% in the March quarter 2015, below market expectations and the lowest growth rate recorded since the December quarter 2012. While output in the services sector grew, output in construction, production and agriculture all fell in the March quarter. Compared to the same quarter in 2014, GDP grew by 2.4%.

New Zealand: The RBNZ left its benchmark interest rate unchanged at 3.5% as expected. It noted that “The Bank expects to keep monetary policy stimulatory, and is not currently considering any increase in interest rates”.

Japan: The Bank of Japan agreed to maintain its quantitative easing policy in its Statement on Monetary Policy. The Bank also revised down its GDP and CPI forecasts for the 2015 and 2016 fiscal years. Retail sales for March fell by 9.7% year-on-year, below market expectations, but partly reflective of strong retail sales a year ago prior to the consumption tax rise in April 2014. Prices for March, as represented by the CPI, rose by 2.2% compared to a year ago. Taking into account the consumption tax rise, prices rose 0.2%, slightly above market expectations.

Upcoming Key International Data Releases (4/5 – 8/5)

- **US:** Trade balance for March, US non-farm payrolls for and US unemployment rate for April
- **Europe:** Retail Sales for March, Manufacturing PMI for April
- **UK:** General election, Trade balance for March
- **New Zealand:** NZ unemployment rate for April
- **China:** Trade balance for April, CPI for April

READY RECKONER

ECONOMIC FORECASTS	NSW Forecasts (as per 2014-15 Half Year Review)				Australian Gov't Forecasts (as per 2014-15 MYEFO)			
	2013-14 Actual	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast	2013-14 Actual	2014-15 Forecast	2015-16 Forecast	2016-17 Forecast
Domestic/Gross Final Demand	2.6	3 ¼	3 ¼	n.a.	1.0	1 ½	1 ¾	n.a.
Domestic/Gross State Product	2.1	2 ¾	3	2 ¾	2.5	2 ½	3	3 ½
Employment [(a)]	0.5	1 ¼	2	1 ½	0.8	1	1 ¾	2
Unemployment rate [(b)]	5.7	5 ¾	5 ½	n.a.	6.0	6 ½	6 ½	6
CPI [(c)]	2.5	2	2 ¾	2 ½	3.0	2 ½	2 ½	2½
Wage Price Index	2.5	2 ½	3 ¼	3 ½	2.6	2 ½	3	2 ¾

(a) Australia- per cent change through the Year to June quarter (b) Australia- per cent in the June quarter (c) Per cent change, through the year to the June Quarter

ECONOMIC FACTS

INDICATOR	NSW	Australia	Vic	Qld		Latest Period
Gross State/Domestic Product (GSP/GDP)	2.1%	2.5%	1.7%	2.3%	% change year ago (Constant prices)	2013-14 (annual) Next: Nov '15
	31.3%	-	22.0%	18.9%	Share of national	
	$492.4b	$1,583.6b	$350.4b	$296.2b	Level (current prices)	
State/Domestic Final Demand	3.8%	1.2%	2.8%	-3.4%	% change on same qtr last yr	Dec qtr '14 Next: 3 Jun '15
	0.3%	0.6%	1.6%	-1.0%	% change on last qtr	
Business Investment	4.7%	-3.2%	5.8%	-17.1%	% change year ago (Constant prices)	Dec qtr '14 Next: 3 Jun '15
Non Residential Construction	-6.2%	-9.1%	8.3%	-24.4%	% change year ago (Constant prices)	Dec qtr '14 Next: 3 Jun '15
Dwelling Investment	17.2%	8.1%	4.8%	7.4%	% change year ago (Constant prices)	Dec qtr '14 Next: 3 Jun '15
Population	7,544k	23,581k	5,866K	4,741k	Level	Sep qtr '14 Next: 25 Jun '15
	32.0%	-	24.9%	20.1%	Share of national	
	1.5%	1.5%	1.8%	1.5%	% change year ago	
Labour Force	1.2%	1.6%	3.5%	-0.6%	% change year ago	Mar'15 (mthly) Next: 7 May '15
• Employment	3,661k	11,720k	2,957k	2,325.4k	Level	
	31.2%	-	25.2%	19.8%	Share of national	
• Unemployment Rate	6.0%	6.1%	6.2%	6.6%	Current rate	
CPI (Capital cities)	1.6%	1.3%	1.0%	1.4%	% change year ago	Mar qtr '14 Next: 22 Jul '15
Wage Price Index • Public Sector	+2.5%	+2.7%	+3.3%	+2.6%	% change year ago	Dec qtr '14 (qtrly) Next: 13 May '15
• Private Sector	+2.3%	+2.5%	+2.7%	+2.6%	% change year ago	
Official cash rate %	2.25%				Lowered 0.25 basis points Feb '15	Next: 5 May '15