

Monday, 1 December 2014

Chart A: Domestic Interest Rates

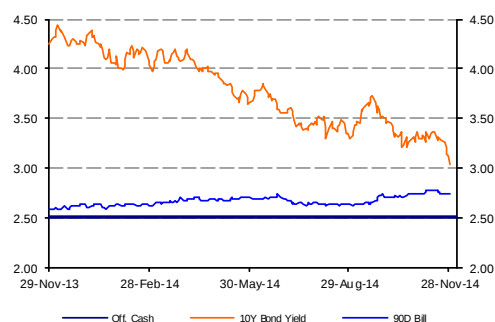


Chart B: Share Price Index

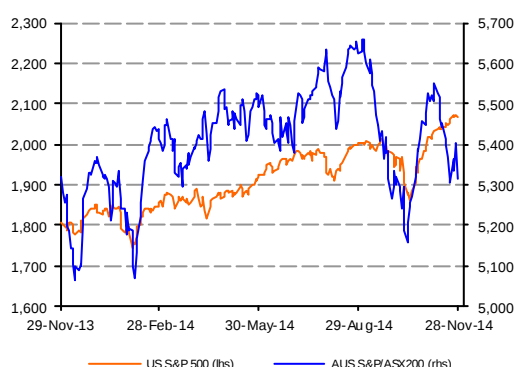


Chart C: Exchange Rate

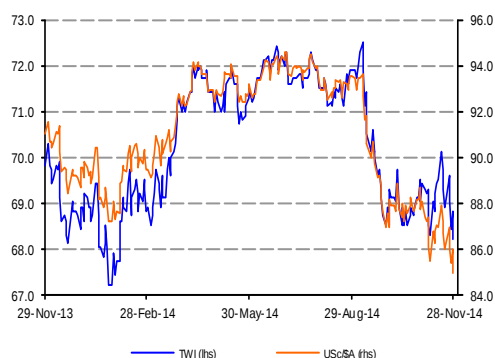
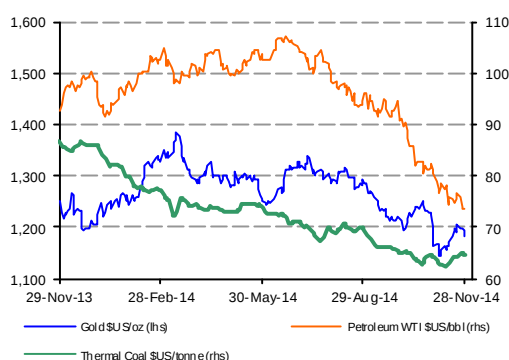


Chart D: Commodities



Key Domestic Data Releases

Total **Construction Work Done** for the September quarter - a key building block for the quarterly national accounts to be released on Wednesday - rose 0.7% in the quarter for NSW and 5.7% through the year (tty). Building work done in NSW increased 3.0% in the quarter (up 18.6% tty) and engineering construction in NSW fell 2.5% in the quarter (down 8.4% tty). Nationally, total construction work done fell 2.2% over the quarter and is down 5.1% tty.

Total **Private New Capital Expenditure** for NSW increased 4.4% over the September quarter (up 15.4% tty), with capex on building and structures in NSW falling 2.4% in the quarter but capex on equipment, plant and machinery rising 10.4% over the quarter. Across Australia, total capex spending rose 0.2% over the quarter (down 5.9% tty) with capex on buildings and structures down 1.9% and capex on plant and machinery up 4.4%. National private capital expenditure is expected to be 7.5% lower than the same estimate for 2013-14.

In NSW, **New Home Sales** were down 3.0% in October, and were up 5.1% tty. In Australia, new home sales were up 6.0% over the month, and were up 10.3% tty. New unit sales were down 10.5%, and were up 27.0% tty.

The RBA measure of total **credit** provided to the private sector by financial intermediaries grew by 0.6% in October and 5.7% tty. Housing credit increased by 0.6% (up 7.0% tty), with investor credit up 1.0% (up 9.9% tty) and owner-occupier credit up 0.5% (up 5.6% tty). Meanwhile, business credit is finally gaining momentum, rising 0.7% (up 4.3% tty) while other personal credit was flat (up 1.0% tty) in October.

RBA Deputy Governor Lowe spoke at the Annual ABE Dinner. He explained that "the reason that the world has such low interest rates at the moment is that people's desire to save outstrips their desire to create new assets. A stronger global investment environment would be likely to see global interest rates rise and this is something that we should all hope occurs sooner rather than later."

According to **HIA-CBA's affordability report** in the September quarter, housing affordability in New South Wales improved by 2.3% to 86.5 following a deterioration in the June quarter. In tty terms, affordability was down 1.1% in NSW. In Australia, affordability was up 1.2% in the September quarter, but was down 2.4% tty.

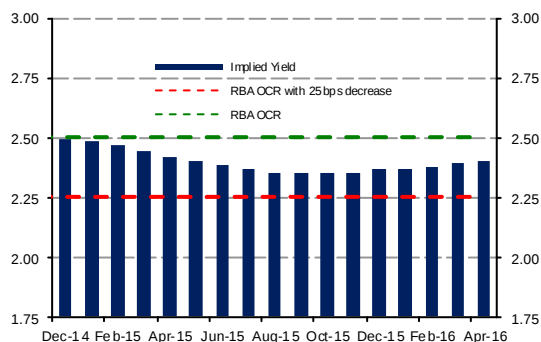
Markets

The **ASX200** rose 0.2% on the previous Friday, while the **US S&P500** also rose 0.2%.

	Value	Change on Year	Change on Week
S&P 500	2,067.6	14.5 %	0.2 %
ASX200	5,313.0	-0.1 %	0.2 %
Australian Dollar (USD)	0.8491	-6.7 %	-1.6 %
TWI	68.20	-2.3 %	-1.3 %
Oil (USD/bbl)	73.69	-20.5 %	-3.7 %
Gold (USD/oz)	1,182.75	-5.5 %	-1.7 %
Thermal Coal (USD/tonne)	64.69	-25.6 %	0.9 %
Australian 10-yr bond	3.04%	-121.7 bps	-24.4 bps
US 10-yr bond	2.21%	-53.7 bps	-12.0 bps
Australian 90-day bill	2.74%	15.0 bps	0.0 bps

Upcoming Domestic Data Releases (1/12 – 5/12)

- The **ABS** will release data on GDP and SFD for Q3, Balance of Payments for Q3, Business Indicators for Q3, Government Finance Statistics for Q3, Retail Sales for October, Building Approvals for October, and International Trade for October
- The **RBA** will make its final interest rate announcement for the year (next meeting is not until February next year)
- The **AIG** will publish the November update to their PMI and PSI series

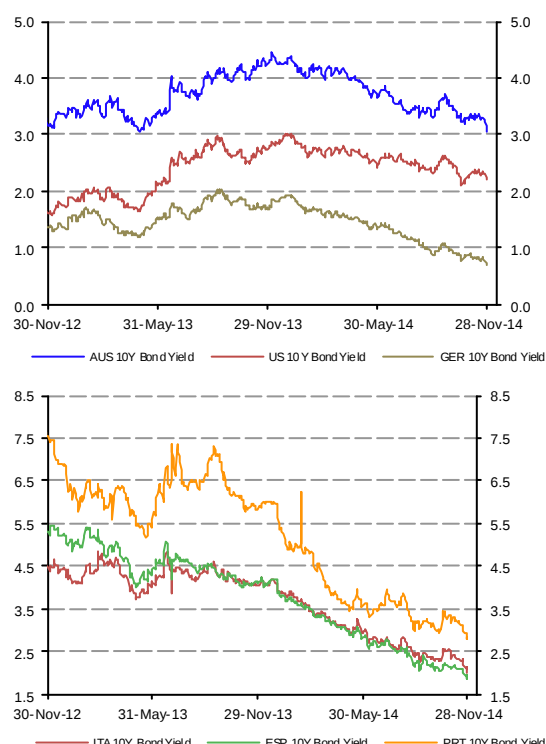
Chart E: Interest Rate Expectations**Market Interest Rate Expectations**

Current **market expectations**, as shown by the **implied yield** curve on ASX 30 day interbank cash rate futures, **favour no change** by the RBA at its next meeting. The market **does not expect a cash rate increase** until after April 2016.

According to the **ASX target rate tracker**, as of 28 November, there is a 96% expectation that the RBA will keep the cash rate at 2.50% at its policy meeting on Tuesday.

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)	3.04%	-121.7 bps	-24.4 bps	82.7 bps	150.7 bps
United States (US)	2.21%	-53.7 bps	-12.0 bps	-	-
Germany (GER)	0.70%	-98.9 bps	-9.8 bps	-150.8 bps	-105.6 bps
Italy (ITA)	2.00%	-204.2 bps	-19.4 bps	-20.9 bps	129.6 bps
Portugal (PRT)	2.83%	-297.8 bps	-15.8 bps	62.4 bps	306.5 bps
Spain (ESP)	1.90%	-222.2 bps	-11.7 bps	-31.2 bps	137.3 bps

Charts F & G: International Bond Yields**Key International Data Releases**

US: GDP grew at an annualised rate of 3.9% over the September quarter compared to 3.5% reported as the first estimate last month and an annualised 4.6% over the June quarter. However, **Consumer Confidence** fell to 88.7 in November from 94.1 in October. **Durable Goods Orders** rose 0.4% in October (up 7.5% tty) after falling 0.9% in September. **New Home Sales** rose for a third straight month in October, up 0.7% to 458,000 units. **S&P/CS House Price growth** decelerated in September, with the tty rate easing to 4.8% tty from 5.1% tty in August.

Europe: **Germany's Unemployment Rate** hit a record low of 6.6% in November while **inflation** fell to its lowest level in five years dropping to 0.5% tty in November from 0.7% tty in October. Recall that Germany narrowly avoided a recession in Q3, with GDP growth expanding just 0.1%. The **German Ifo Survey**, however, points to a recovery with the business confidence indicator jumping to 104.7 points in November from 103.2 last month and bringing to an end six consecutive months of falls. **German Retail Sales** bounced back strongly in October, rising by 1.9%, after falling 2.8% in September, to be up 1.7% tty. The **EU Unemployment Rate** remained steady at 11.5% in October.

UK: GDP grew 0.7% in the September quarter (or 3.0% tty) following 0.9% growth in the June quarter (3.3% tty). Consumer spending was the key driver of growth. Business investment, however, was a drag. The **GfK Consumer Confidence Index** for November came in at -2, unchanged from October.

Japan: **Inflation** slowed to its lowest level in a year (up 0.9% tty) due to the decline in crude oil prices and weak domestic demand. **Industrial Production** rose 0.2% in October after rising 2.9% in September. The annual rate is down 1.0% (previously up 0.8% tty). **Retail sales** growth slowed to 1.4% tty in October from 2.3% tty due to bad weather and the lingering effects of the April sales tax hike.

Upcoming Key International Data Releases (1/12 – 5/12)

- **US:** ISM Manufacturing and Non-Manufacturing Indexes for Nov, Construction Spending for Oct, Non-Farm Payrolls for Nov, Trade Balance for Oct, Factory Orders for Oct, Consumer Credit for Oct
- **Europe:** ECB interest rate announcement, PMI Indexes for November, Retail Sales for Oct, Q3 GDP (2nd est)
- **China:** Manufacturing PMI for Nov, Non-Manufacturing PMI for Nov
- **UK:** BoE interest rate announcement, PMI for November, Mortgage approvals for Oct