WEEKLY MARKET & ECONOMIC ROUNDUP

Tuesday, 13 January 2015

Chart A: Domestic Interest Rates

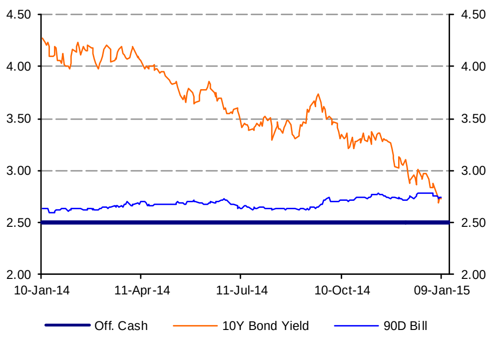


Chart B: Share Price Index

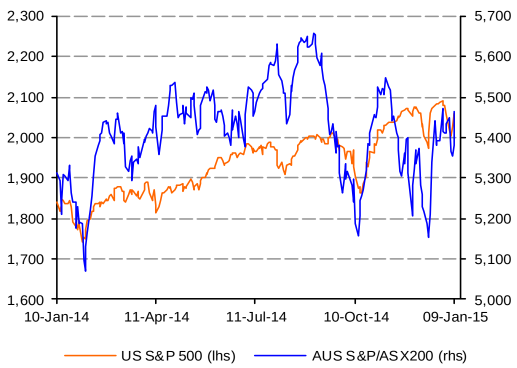


Chart C: Exchange Rate

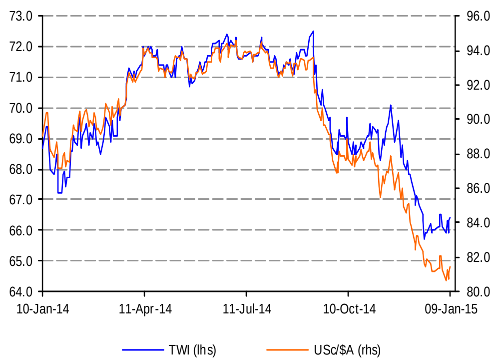
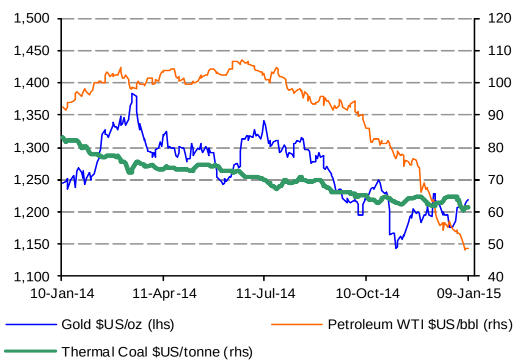


Chart D: Commodities



Key Domestic Data Releases

Retail sales for NSW fell 0.2% in November to be up 8.8% through the year (tty). The weakness in retail sales spending can be attributed in part to a decline in *Other Retail* which detracted 0.9 ppts from overall retail spending growth in NSW. Meanwhile, the strongest contributors to growth were *Food Retail* (contributed 0.4 ppts) and *Cafes, Restaurants and Takeaway Food* (contributed 0.2 ppts).Nationally, retail sales rose 0.1% in November and were up 5.0% tty.

Residential building approvals for NSW fell 1.4% in November to be down 4.4% through the year (tty). The monthly decline was driven by a 3.0% fall in detached house approvals, with multi-unit approvals broadly flat in the month (up 0.1%). Nationally, they rose 7.6% in November and were up 10.1% tty.

Non-residential building approvals for NSW rose 46.7% in November to be up 0.1% tty. Nationally, they rose 29.7% in November to be down 14.9% tty.

Merchandise **imports** for NSW were up 2.9% tty to November while merchandise **exports** were up 8.5% tty. Nationally, merchandise imports were down 1.0% tty while merchandise exports were up 5.8% tty.

AiG PMI showed that manufacturing activity nationally fell 3.2 points to 46.9 in December which now indicates a contraction in conditions. However, four of the eight manufacturing sub-sectors did expand in December including; food, beverages and tobacco; wood & paper products; textiles, clothing & furniture; and non-metallic mineral products, which mainly produces building materials and has benefitted from the recent improvement in residential building activity.

AiG PSI showed that services activity nationally deteriorated at a slower pace in December, with the index rising 3.7 points to 47.5 - a tenth consecutive month of contraction.

AiG-HIA PCI showed that construction activity nationally contracted at a slightly steeper rate in December, falling 1.0 point to 44.4 points.

Markets

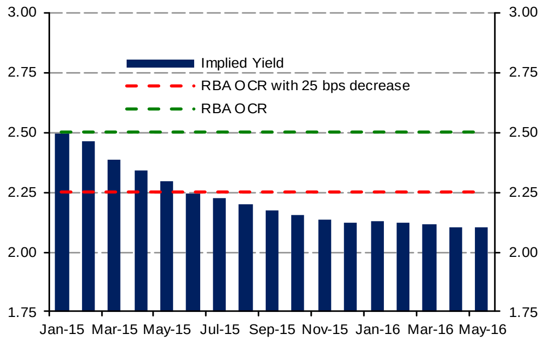
The **ASX200** rose 0.5% on the previous Friday, while the **US S&P500** fell 0.7%.

	Value	Change on Year	Change on Week
S&P 500	2,044.8	11.0 %	-0.7 %
ASX200	5,465.6	2.9 %	0.5 %
Australian Dollar (USD)	0.8138	-8.6 %	0.1 %
TWI	66.40	-3.3 %	0.5 %
Oil (USD/bbl)	48.79	-47.4 %	-7.4 %
Gold (USD/oz)	1,217.75	-2.1 %	1.0 %
Thermal Coal (USD/tonne)	61.39	-26.2 %	-0.9 %
Australian 10-yr bond	2.74%	-153.9 bps	-14.1 bps
US 10-yr bond	2.01%	-96.0 bps	-16.0 bps
Australian 90-day bill	2.74%	10.0 bps	-1.0 bps

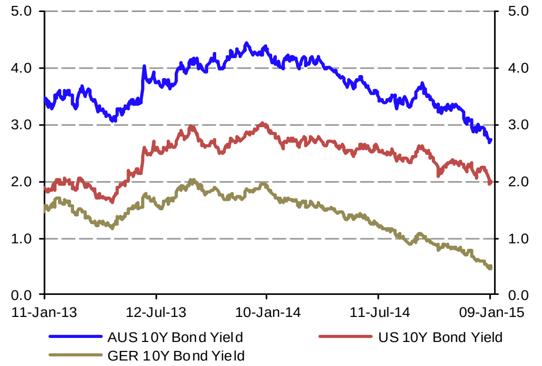
Upcoming Domestic Data Releases (12/1 – 16/1)

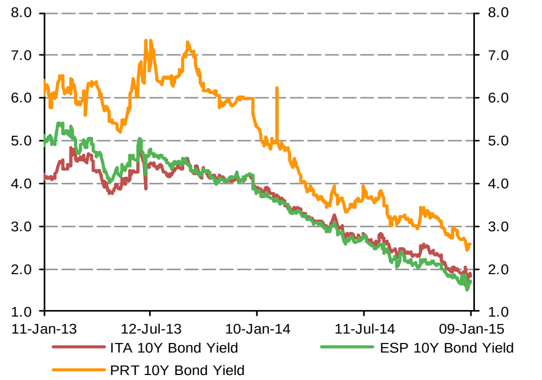
- The **ABS** will release data on Labour Force for Dec, Housing Finance for Nov, Lending Finance for Nov, Job Vacancies for Nov qtr, Engineering Construction for Sep qtr, and Building Activity for Sep qtr.
- The **ANZ** will release its Job Ads series for Dec.
- **Consensus Economics** will publish its Asia-Pacific Consensus Forecasts.

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, **favour no change** by the RBA at its next meeting. The market **does not expect a cash rate increase** until after May 2016.

According to the **ASX target rate tracker**, as of 9 January, there is an 82% expectation that the RBA will keep the cash rate at 2.50% at its policy meeting on 3 February 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)	2.74%	-153.9 bps	-14.1 bps	72.5 bps	130.4 bps
United States (US)	2.01%	-96.0 bps	-16.0 bps	- -	- -
Germany (GER)	0.51%	-139.7 bps	-3.0 bps	-149.9 bps	-106.2 bps
Italy (ITA)	1.87%	-204.5 bps	15.1 bps	-13.6 bps	94.9 bps
Portugal (PRT)	2.57%	-275.4 bps	12.7 bps	55.6 bps	235.0 bps
Spain (ESP)	1.72%	-208.5 bps	20.8 bps	-28.8 bps	83.7 bps

Key International Data Releases

US: Non-Farm payrolls increased by 252,000 jobs in December and the **unemployment rate** dropped to a six and a half year low of 5.6%. **Non-Manufacturing PMI** fell to a 6 month low of 56.2 in December from 59.3 in November. The **trade deficit** fell to $39bn in November from $42.2bn in October.

The **FOMC Minutes** revealed that "most participants agreed that it would be useful to state that the Committee judges that it can be patient in beginning to normalize the stance of monetary policy; they noted that such language would provide more flexibility to adjust policy in response to incoming information than the previous language, which had tied the beginning of normalization to the end of the asset purchase program".

Europe: The annual flash estimate for **Eurozone CPI** fell 0.2% in December after rising 0.3% in November. The fall was largely driven by lower oil prices. However, Core CPI (which excludes energy, food, alcohol and tobacco) rose at an annual rate of 0.8%. **Retail sales** rose 0.6% in November to be up 1.5% through the year. The **unemployment rate** held steady at 11.5% in November. **Germany's industrial production** fell 0.1% in November after rising 0.6% in October and is down 0.5% for the year.

China: CPI for December rose to 1.5% tty from 1.4% tty in October. The **PPI**, however, fell 3.1% tty in December.

UK: The Bank of England kept the Bank Rate at 0.5% at its 8 January meeting and maintained the stock of purchased assets reserves at £375 billion. **Industrial production** for November fell 0.1% after falling 0.3% in October and is down 1.1% tty. The **trade deficit** for November fell to £1.4bn from £2.2bn in October to be the lowest deficit since June 2014.

Upcoming Key International Data Releases (12/1 – 16/1)

- **World Bank:** Global Growth Forecasts
- **US:** Retail Sales for Dec, CPI for Dec, Industrial Production for Dec, Uni of Michigan Consumer Sentiment for Jan
- **Europe:** Industrial production for Nov, Trade balance for Nov, CPI for Dec (final)
- **China:** Trade balance for Dec
- **UK:** CPI for Dec
- **Japan:** Trade balance for Nov, PPI for Dec