WEEKLY ECONOMIC & FINANCIAL MARKET ROUNDUP

NSW GOVERNMENT The Treasury

Chart A: Domestic Interest Rates

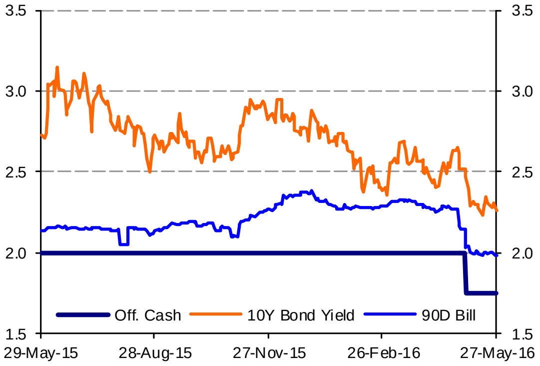


Chart B: Share Price Index

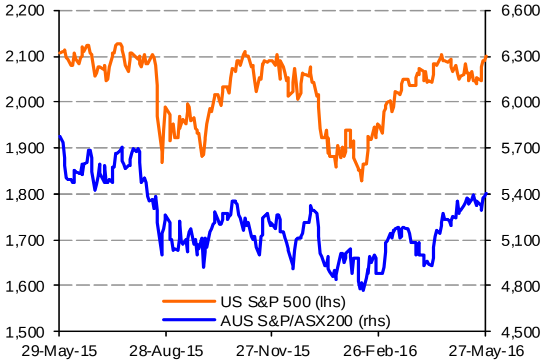


Chart C: Exchange rate

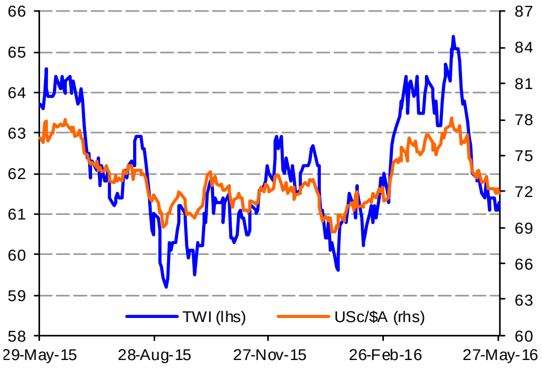
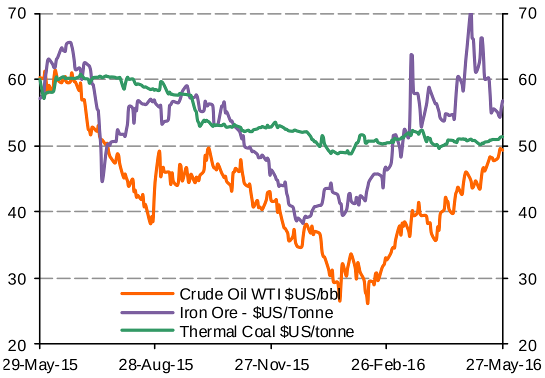


Chart D: Commodity Prices



Domestic Data Releases

Construction Work Done for the December quarter 2015 showed Building Work Done in NSW was up 2.9% in the quarter and up 10.2% through the year. Nationally, Building Work Done was up 1.0% in the quarter and up 1.0% through the year. Total Construction Work Done (Building and Engineering) in NSW was up 2.6% in the quarter and up 7.8% through the year. Nationally, Total Construction Work Done was down 2.6% on the quarter and down 6.7% through the year.

Regional Labour Force data showed that the regional unemployment rate, in 12-month moving average terms to April 2016 was steady at 5.0% in Greater Sydney and ticked down to 6.5% in the rest of NSW. Regional unemployment rates fell to 5.8% in Western Sydney, 6.8% in the Greater Hunter and 6.6% in the Greater Illawarra. Over the same period, the NSW youth unemployment rate fell to 11.9% while the national youth unemployment rate also declined to 12.6%.

New Private Capital Expenditure (capex) for the March quarter 2016 showed that NSW total capex rose 3.4% in the quarter and was up 9.3% through the year. Nationally, total capex fell 5.2% in the March quarter and was down 15.4% through the year. Expectations for national capex investment in 2015-16 fell 17.2%, compared to 2014-15, indicating a protracted decline in business investment as the economy continues to transition.

Markets

The ASX200 rose 1.0% compared to last Friday and the US S&P500 rose 2.3%.

	Value	Change on Year	Change on Week
US S&P 500	2,099.1	-0.4 %	2.3 %
ASX200	5,405.9	-6.4 %	1.0 %
Australian Dollar (USD)	0.7182	-6.1 %	-0.6 %
TWI	61.30	-3.8 %	-0.2 %
Oil (USD/bbl)	49.33	-18.2 %	3.3 %
Gold (USD/oz)	1,216.25	2.1 %	-3.0 %
Thermal Coal (USD/tonne)	51.35	-14.5 %	0.8 %
Australian 10-yr bond	2.26%	-47.3 bps	-4.6 bps
US 10-yr bond	1.85%	-27.0 bps	1.3 bps
Australian 90-day bill	0.00%	-218.0 bps	0.0 bps

Upcoming Domestic Data Releases (30/5 – 3/6)

- **ABS** releases Business Indicators, Government Finance Statistics, Industrial Disputes, Balance of Payments and National Accounts data for the March quarter. The ABS also releases Building Approvals, International Trade in Goods and Services, Retail Trade and Overseas Arrivals and Departures data for April.
- **HIA** releases New Home Sales data for April
- **RBA** releases Private Sector Credit data for April

Chart E: Interest Rate Expectations

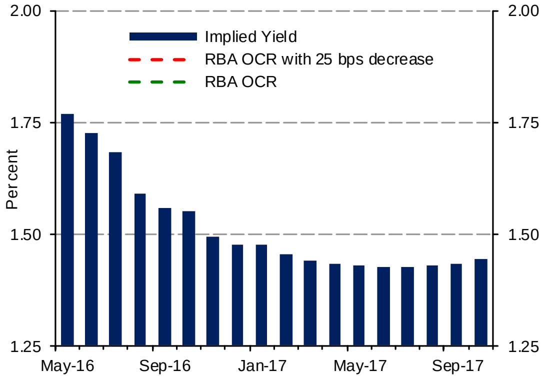
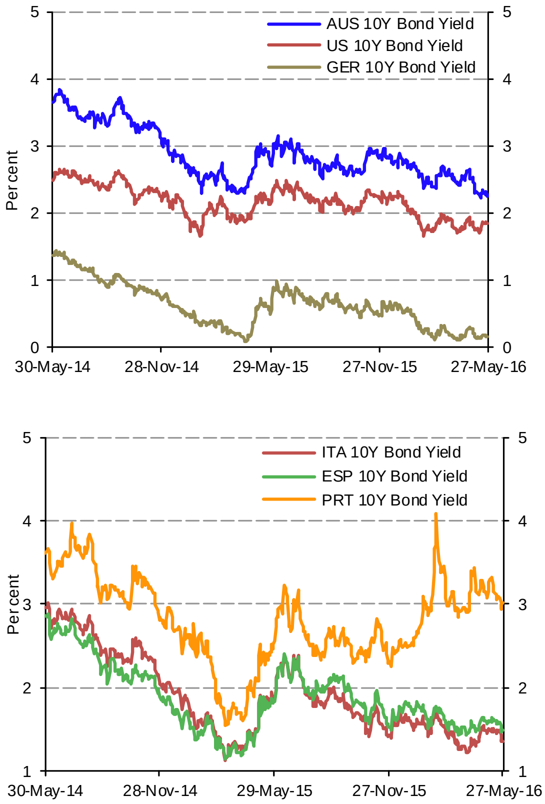


Chart F & G: International Bond Yields



Market Interest Rate Expectations

Current market expectations, as shown by the implied yield curve on ASX 30 day interbank cash rate futures (Chart E), indicate an expectation that the RBA will lower rates to 1.5% in August 2016.

According to the ASX target rate tracker, as of 26 May, there is a 10% expectation that the RBA will lower the cash rate to 1.50% at its policy meeting on 7 June 2016.

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)	2.26%	-47.3 bps	-4.6 bps	40.6 bps	60.9 bps
United States (US)	1.85%	-27.0 bps	1.3 bps	- -	- -
Germany (GER)	0.14%	-34.9 bps	-2.7 bps	-171.3 bps	-163.4 bps
Italy (ITA)	1.35%	-49.3 bps	-11.8 bps	-49.8 bps	-27.5 bps
Portugal (PRT)	3.03%	47.7 bps	-6.7 bps	117.5 bps	42.8 bps
Spain (ESP)	1.48%	-35.8 bps	-8.2 bps	-37.1 bps	-28.3 bps

Key International Data Releases

Japan: The Consumer Price Index dropped 0.3% through the year to April. This was the second consecutive drop in the inflation rate on the back of falling transport and housing costs.

A ¥823.5 billion trade surplus was record in April, the largest since 2010.

US: March quarter GDP growth was revised up to 0.8% from the initial estimate of 0.5%. This reflects stronger than expected spending on residential buildings while the drag from net trade was lower than expected.

Manufacturing PMI fell to 50.5 in May, down from 50.8 in April. This is still higher than the neutral 50 mark, signalling a marginal improvement in overall business conditions.

Canada: The Bank of Canada left its benchmark interest rate unchanged at 0.5%. The Bank cautioned that second quarter growth will be weaker than predicted because of the devastating Alberta wildfires and the associated halt to oil production.

NZ: Exports increased to NZ$4.3 billion (led by an increase in fruit sales mainly kiwifruit) while imports increased to NZ$4.0 billion resulting in a trade surplus of NZ$292 million.

Upcoming Key International Data Releases (30/5 – 3/6)

- **Japan:** Retail Sales, Unemployment Rate and Industrial Production data for April
- **Euro:** Interest Rate Decision. Also, Unemployment Rate for April and CPI data for May
- **Germany:** CPI data for April
- **Canada:** GDP Growth data for the March quarter
- **China:** NBS Manufacturing and Non-Manufacturing PMI data for May
- **US:** ISM Manufacturing PMI, ISM Non-Manufacturing PMI and Non-Farm Payrolls data for May. Also, Trade Balance data for April.
- **OECD:** Global Economic Outlook