Weekly Economic & Financial Market Roundup

Week ended Friday 19 May 2017

Tuesday, 23 May 2017

Chart A: Domestic Interest Rates

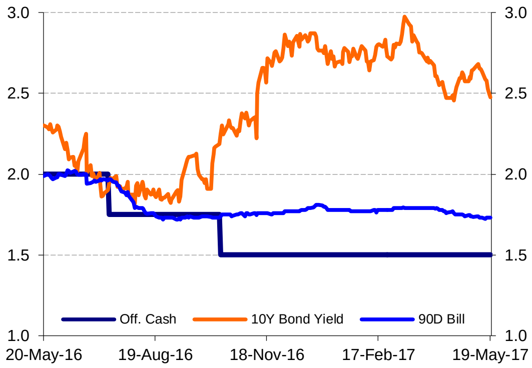


Chart B: Share Price Index

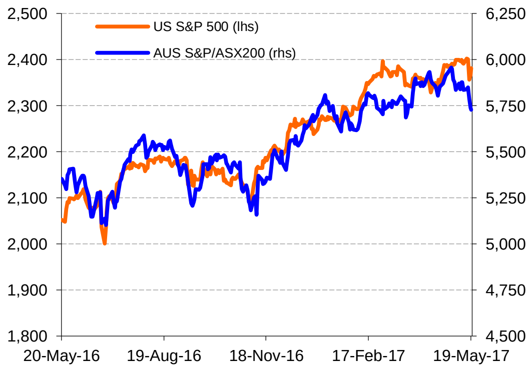


Chart C: Exchange rate

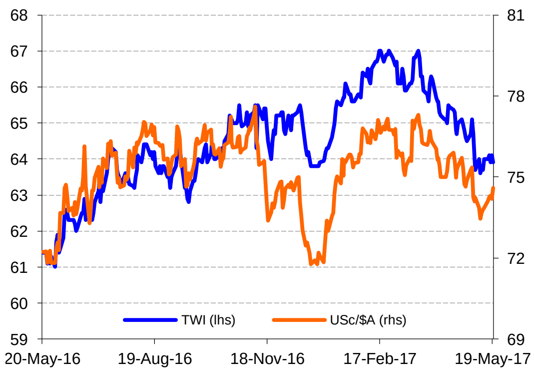
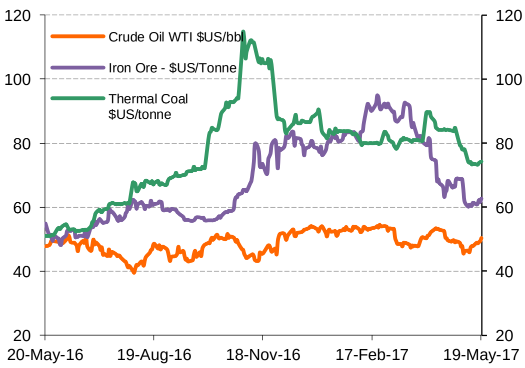


Chart D: Commodity Prices



Domestic Data Releases

The number of **Housing Finance (ABS)** commitments for owner-occupiers in NSW rose by 0.3 per cent in March to be down 2.8 per cent through the year. Nationally, housing commitments fell by 0.5 per cent in the month and down 1.9 per cent through the year. Over the three months to March 2017, the proportion of first home-buyers to total home-buyers (excluding refinancing) was 12.3 per cent for NSW and 20.0 per cent nationally compared with February 2017 figure of 12.6 per cent for NSW and 20.1 per cent nationally.

ABS **Lending Finance** data for March indicated that NSW investor housing finance approvals were up 22.0 per cent compared to a year ago, while national investor housing finance approvals were up 19.4 per cent. More broadly, total NSW commercial finance was up 23.5 per cent through the year, while total national commercial finance was up 15.6 per cent.

The **Westpac – Melbourne Institute Consumer Sentiment Survey** showed that NSW consumer sentiment increased by 1.9 per cent to 98.3 index points in May. Nationally, consumer sentiment fell by 1.0 per cent to 98.0 index points. An index over 100 indicates optimists outweigh pessimists.

According to the March **ANZ Stateometer**, NSW is still growing at a slightly below trend pace, however the momentum has improved and NSW is now accelerating.

The NSW **Unemployment Rate** decreased 0.3 percentage points to 4.7 per cent in April. Nationally the unemployment rate decreased 0.2 percentage points to 5.7 per cent in the month. Employment in NSW increased by 9,700 in the month and was up 21,800 (0.6 per cent) through the year. Nationally, employment increased by 37,400 in the month, and was 192,000 (or 1.6 per cent) higher through the year.

ABS **Wage Price Index** data for the March quarter showed that the NSW Index increased by 2.1 per cent through the year. Nationally, the Wage Price Index rose by 1.9 per cent through the year.

Markets

The ASX200 fell 1.9 per cent and the US S&P500 fell by 0.4 per cent over the week to Friday.

	Value	Change on Year	Change on Week
US S&P 500	2381.7	16.1 %	-0.4 %
ASX200	5727.4	7.0 %	-1.9 %
Australian Dollar (USD)	0.75	3.3 %	1.0 %
TWI	63.9	4.1 %	-0.2 %
Oil (USD/bbl)	50.3	5.4 %	5.2 %
Gold (USD/oz)	1252.0	-0.2 %	1.7 %
Thermal Coal (USD/tonnes)	74.3	45.7 %	0.9 %
Australian 10-yr bond	2.48%	17.2 bps	-16.0 bps
US 10-yr bond	2.23%	39.6 bps	-9.1 bps
NSW 10-yr bond (bps) maturity 2026	2.69%	- bps	-15.0 bps

Upcoming Domestic Data Releases (22/05 – 26/05)

- The **ABS** will release Construction Work Done data for the March quarter and Detailed Labour Force data for April.
- **The Department of Employment** will release Skilled Vacancies data for April.

Chart E: Interest Rate Expectations

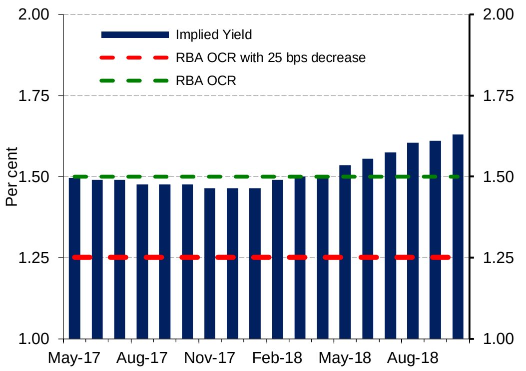
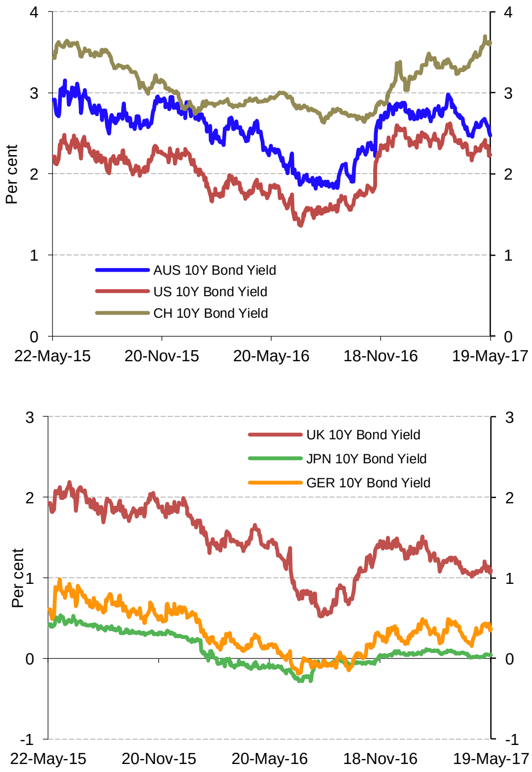


Chart F & G: International Bond Yields



Market Interest Rate Expectations

The current implied yield curve on ASX 30 day interbank cash rate futures (Chart E) indicates that the majority of the market expects the RBA to leave the cash rate unchanged until October 2018.

According to the ASX Target Rate Tracker, as of 18 May, there is a 5 per cent expectation that the RBA will lower the cash rate to 1.25 per cent at its policy meeting on 6 June 2017.

International Bond Yield Spreads

US bond yields fell by 16.0 basis points over the week to Friday as investors sort out bond havens, shedding their risk appetite following political uncertainty from the White House. As investors demand more bonds, the price increases, yields and prices have an inverse relationship. Bond yields fell in all countries tracked over the past week with the exception of the UK.

10-yr bond yield	Yield (%)	Change on Year (bps)	Change on Week (bps)	Spread on 10 yr US bond week end (bps)	Spread on 10-yr US bond year ago (bps)
Australian (AUS)	2.48	17.2	-16.0	24.0	46.5
United States (US)	2.23	39.6	-9.1	-	-
Germany (GER)	0.37	20.3	-2.3	-186.7	-167.3
United Kingdom (UK)	1.09	-35.9	0.7	-114.2	-38.6
Japan (JPN)	0.04	15.3	-0.7	-219.5	-195.1
China (CH)	3.62	68.2	-1.7	138.5	110.0

Key International Data Releases

US: Industrial Production index rose by 1.0 per cent in April, beating market expectations of 0.4 per cent. The Industrial Production index measures the output of factories, mines and utilities. This is the fastest expansion in production in more than 3 years, as manufactures and mines recovered from a March downturn.

UK: CPI jumped unexpectedly to 2.7 per cent in April from 2.3 per cent last month – the highest level since September 2003. The increase was largely driven by the slump in the Pound from last June's Brexit vote. Retail Sales were up 4 per cent through the year to April, increasing by 2.3 per cent in the month. The strong result may have been affected by seasonal factors such as the change in the timing of Easter. The Unemployment rate fell in the month to a 42-year low of 4.6 per cent. The Bank of England estimates this to be above what it considers inflationary.

Euro Area: GDP expanded by 0.5 per cent in the March Quarter to be 1.7 per cent through the year, easing slightly from 1.8 per cent last quarter. Growth was supported by an expansion in Germany and Spain offset by slightly weaker growth in France and Italy.

Japan: GDP grew by 2.2 per cent through the year, beating the market expectation of 1.7 per cent. Much of the improvement was export-driven but many economists cautioned that this growth may not continue as demand for auto motives from the US appears to be dropping and real wages continue to lose ground.

China: Retail Sales were up 10.7 per cent through the year to April, 0.2 percentage points lower than March.

Upcoming Key International Data Releases (22/05 – 26/05)

- **Japan:** Trade Balance and CPI data for April as well as Nikkei Manufacturing PMI data for May
- **Euro Area:** Markit Manufacturing PMI data for May
- **UK:** GDP data for the March Quarter
- **Germany:** Retail Sales data for April