

Monday, 23 February 2015

Chart A: Domestic Interest Rates

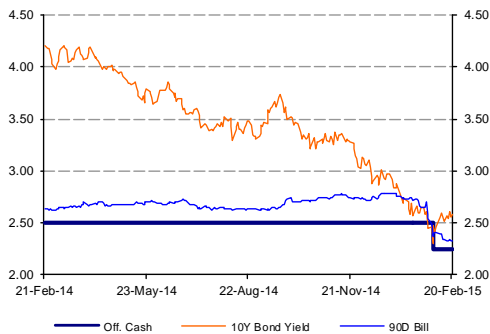


Chart B: Share Price Index

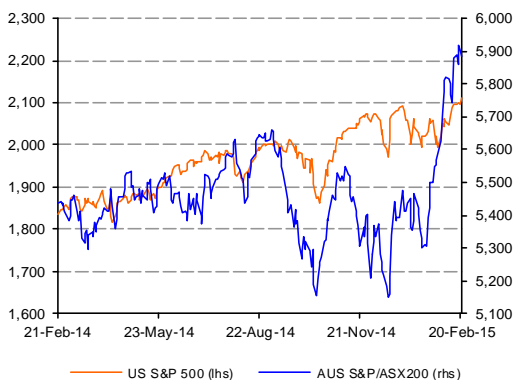


Chart C: Exchange Rate

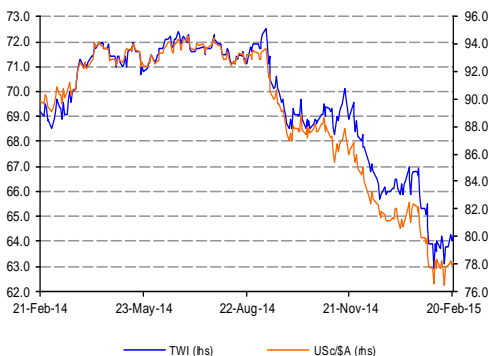
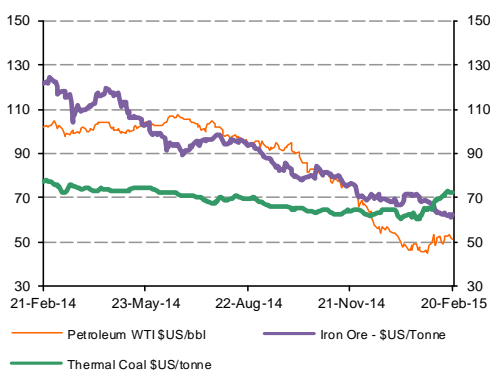


Chart D: Commodities



Key Domestic Data Releases

New Motor Vehicle Sales were down by 1.1% in January to be up 0.3% tty, nationally they were down 1.5% to be up 0.2% tty.

Regional Labour Force data showed the Greater Sydney statistical area unemployment rate was steady at 5.2% in January 2015 while the *Rest of NSW* unemployment rate rose to 7.0% in January from 6.8% in December 2014. Employment increased by 32,905 in Greater Sydney but fell by 11,270 in the rest of NSW.

Of NSW's 28 areas, 14 experienced a rise in their 12-month average unemployment rate compared to January 2014, while 14 experienced a fall in the same period.

The Western Sydney area unemployment rate fell to 6.1% in January from 6.2% in December.

The RBA released the **Minutes of Monetary Policy Meeting** for its 3 February meeting noting that the outlook for global economic growth is little changed, domestically there are fewer indications of a near-term strengthening with the unemployment rate expected to peak a little higher (and later) than in the previous forecast.

A higher degree of spare capacity is now in prospect and lower oil prices has led to a lowering of the forecast for inflation, offset somewhat by the effects of the recent exchange rate depreciation. Restrained wage and unit labour costs growth suggest low inflation is likely to be sustained.

While the Australian dollar has depreciated noticeably against a rising US dollar over recent months it remains above most estimates of fundamental value. The RBA noted that large increases in housing prices would need careful monitoring.

Markets

The **ASX200** rose 0.1% on the previous Friday, while the **US S&P500** rose 0.6%.

	Value	Change on Year	Change on Week
US S&P 500	2,110.3	14.9 %	0.6 %
ASX200	5,881.5	8.1 %	0.1 %
Australian Dollar (USD)	0.7810	-13.1 %	0.3 %
TWI	64.20	-7.2 %	0.6 %
Oil (USD/bbl)	51.16	-49.9 %	-3.1 %
Gold (USD/oz)	1,208.25	-8.7 %	-2.0 %
Thermal Coal (USD/tonne)	71.99	-6.9 %	0.6 %
Australian 10-yr bond	2.58%	-163.2 bps	6.7 bps
US 10-yr bond	2.11%	-65.0 bps	13.0 bps
Australian 90-day bill	2.33%	-30.0 bps	-1.0 bps

Upcoming Domestic Data Releases (23/2 – 27/2)

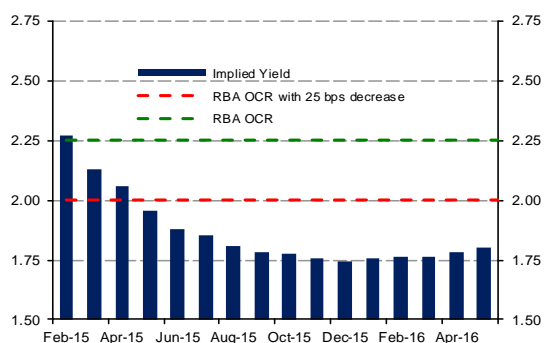
The **ABS** will release data on Balance of Payments (Prelim) for Dec, Wage Price Index for Dec qtr, Construction Work Done for Dec qtr, Private New Capex for Dec qtr and Average Weekly Earnings for Nov.

The **RBA** will report on Private Sector Credit.

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 over the next few months.

According to the **ASX target rate tracker**, as of 20 February, there is a 53% expectation that the RBA will lower the cash rate to 2.0% at its policy meeting on 3 March 2015.

Chart E: Interest Rate Expectations**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)	2.58%	-163.2 bps	6.7 bps	46.9 bps	145.1 bps
United States (US)	2.11%	-65.0 bps	13.0 bps	-	-
Germany (GER)	0.38%	-131.1 bps	5.3 bps	-173.0 bps	-106.9 bps
Italy (ITA)	1.55%	-204.5 bps	-3.3 bps	-55.7 bps	83.8 bps
Portugal (PRT)	2.23%	-267.4 bps	-16.0 bps	12.0 bps	214.4 bps
Spain (ESP)	1.53%	-201.8 bps	-3.3 bps	-58.1 bps	78.7 bps

Key International Data Releases

US: Industrial Production increased slightly to 0.2% in January following a decline of 0.3% in December. Housing starts fell 2% in January and new applications for building permits fell 0.7%.

FOMC Minutes noted the committee will need to see “further improvement in labor market conditions and data pointing to continued growth in real activity at a pace sufficient to support additional labor market gains before beginning policy normalization....Finally, the Committee also decided to reiterate its expectation that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.”

Europe: Consumer confidence index (flash) rose by 1.8 points to -6.7 in February to be the highest score since September 2007, ZEW Survey which gauges economic sentiment rose to 52.7 in February from previous 45.2.

UK: CPI increased 0.3% in January, down from 0.5% in December, mainly driven by fuel and food costs, including lower wages growth as a major business input cost. Inflation is now at its lowest level in 50 years. Unemployment rate fell to 5.7% in December and Retail Sales fell 0.3% in January. February BoE Minutes showed a unanimous decision to keep interest rates on hold with two members noting the decision was “finely balanced”.

Canada: Retail Sales fell 2% in December after rising 0.4% in November – the biggest one month fall in almost 5 years.

Japan: Merchandise Trade deficit improved to ¥ 1,177b in January, marking an annualised improvement of 57.9%, with exports surging 17% while imports fell 9%.

Upcoming Key International Data Releases (23/2 – 27/2)

- **US:** CPI for Jan, Consumer Confidence for Feb, New Home Sales for Jan, Yellen semi-annual monetary policy testimony to Senate Banking Committee
- **Europe:** Consumer Confidence for Feb
- **UK:** GDP for Dec qtr, Index of Services for Dec, GfK Consumer Confidence for Feb
- **Germany:** Unemployment Rate for Feb
- **China:** HSBC Manufacturing PMI for Feb
- **Canada:** CPI for Jan
- **Japan:** Japan CPI for Jan, Japan Retail Sales for Jan, Japan Industrial Production (Prelim) for Jan, Unemployment rate for Jan.

Charts F & G: International Bond Yields