

Weekly Economic & Financial Market Wrap

Week ended Friday 27 April 2018



Treasury

Monday, 30 April 2018

Chart A: Domestic Interest Rates

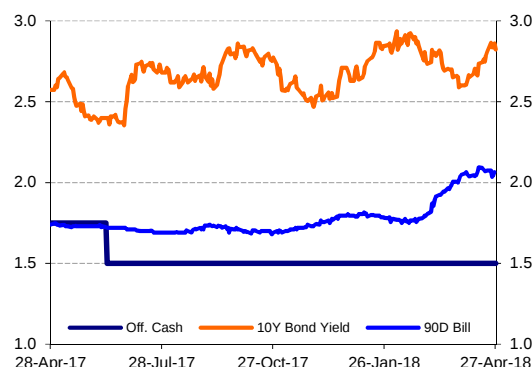


Chart B: Share Price Index

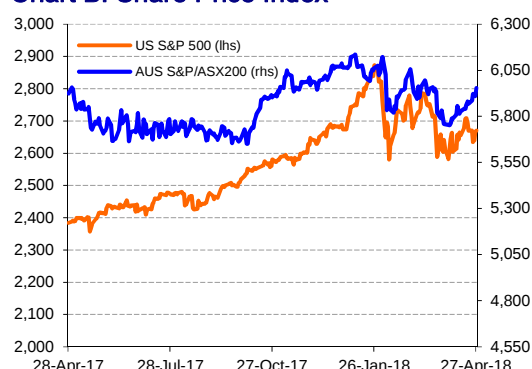


Chart C: Exchange rate

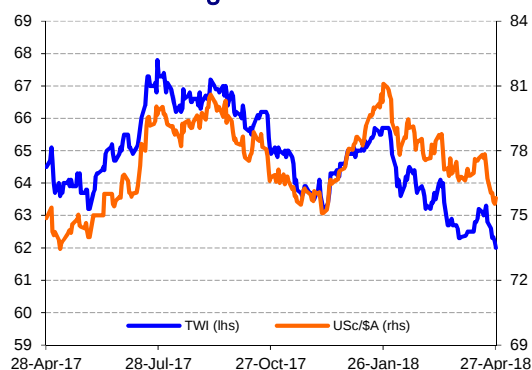
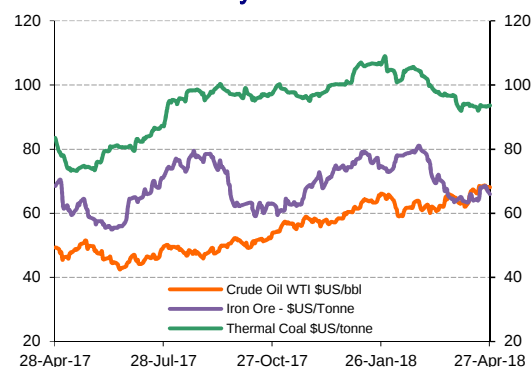


Chart D: Commodity Prices



Domestic Data Releases

ABS Consumer Price Index data for the March quarter showed that in NSW, the CPI rose 0.3 per cent in the quarter to be up 2.1 per cent through the year. The largest contributors to growth in Sydney, came from Education (+3.0 pts) and Health (+1.9 pts). The largest detractors from growth were Clothing and Footwear (-1.5 pts) and Recreation and Culture (-1.1 pts). In Australia, the CPI rose 0.4 per cent in the quarter to be up 1.9 per cent through the year. The largest contributors to growth in Australia, came from Education (+2.5 pts) and Health (+2.0 pts). The largest detractors from growth were Clothing and Footwear (-2.0 pts) and Recreation and Culture (-0.7 pts).

ABS Regional Labour Force data showed that employment in Regional NSW increased by 37,200 or 3.0 per cent through the year to March. The Regional NSW unemployment rate in March was unchanged at 5.4 per cent and the participation rate rose slightly to 59.5 per cent. In Greater Sydney, employment increased by 96,000 or 3.7 per cent through the year, while the unemployment rate fell to 4.5 per cent. In Western Sydney, employment increased by 67,100 or 5.3 per cent through the year, while the unemployment rate fell to 5.0 per cent.

Markets

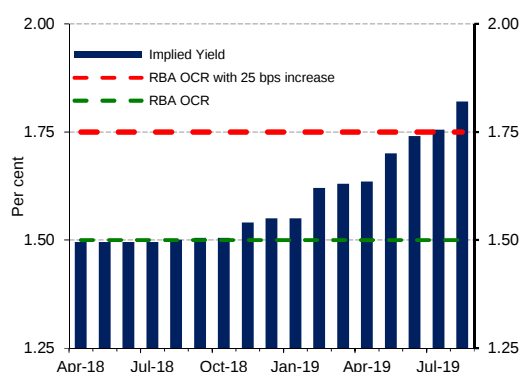
Over the week to Friday, the ASX200 rose by 1.4 per cent, the US S&P500 was unchanged and thermal coal prices rose by 0.2 per cent. Thermal coal prices are up 12.1 per cent through the year following growth in demand in key markets such as Japan and China. There are also supply concerns, with increasing competition for high-quality thermal coal to use in power stations, without increasing supply to meet this demand.

	Value	Change on Year	Change on Week
US S&P 500	2669.91	12.0 %	0.0 %
ASX200	5953.65	0.5 %	1.4 %
Australian Dollar (USD)	0.76	1.2 %	-1.2 %
TWI	62.00	-3.9 %	-1.3 %
Oil (USD/bbl)	68.10	38.0 %	-0.4 %
Gold (USD/oz)	1321.50	4.3 %	-1.1 %
Thermal Coal (USD/tonnes)	93.65	12.1 %	0.2 %
Australian 10-yr bond	2.82%	24.8 bps	1.6 bps
US 10-yr bond	2.96%	67.7 bps	-0.3 bps
NSW 10-yr bond (bps) maturity 2026	3.00%	- bps	0.2 bps

Upcoming Domestic Data Releases (30/04 – 04/05)

- **ABS** International Trade in Goods and Services and Building Approvals data for March.
- **RBA** will release Private Sector Credit data for March and the Interest Rate Decisions and Statement on Monetary Policy for May.
- **Commsec** will release its State of the States report for the March quarter.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

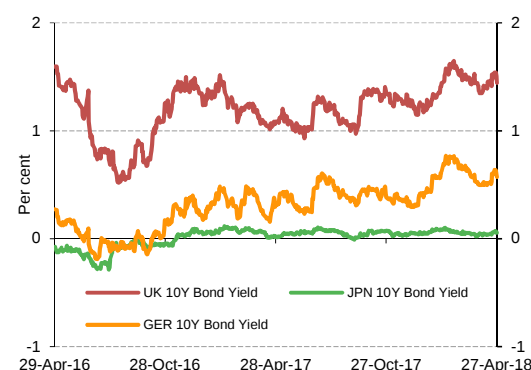
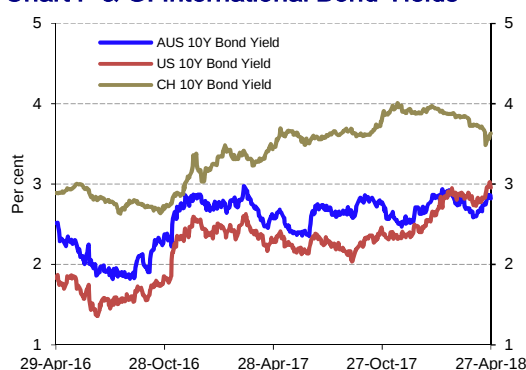
The current implied yield curve on ASX 30 day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects the RBA to increase the cash rate in March 2019.

According to the ASX Target Rate Tracker, as at 27 April, there is a 0 per cent expectation that the RBA will increase the cash rate to 1.75 per cent at its next policy meeting on 1 May 2018.

International Bond Yield Spreads

US bond yields fell by 0.3 basis points over the week to Friday. The US bond yield pushed above 3.0 per cent earlier in the week for the first time in more than four years, amid concerns over a hawkish Federal Reserve and higher inflation expectations. However, yields retreated on Thursday and slipped further on Friday to 2.96 per cent as attractive yields sparked a fresh wave of buying.

Chart F & G: International Bond Yields



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)	2.82	24.8	1.6	-13.4	29.5
United States (US)	2.96	67.7	-0.3	-	-
Germany (GER)	0.57	25.4	-1.9	-238.6	-196.3
United Kingdom (UK)	1.45	36.0	-3.4	-151.2	-119.5
Japan (JPN)	0.06	3.7	-0.5	-290.2	-226.2
China (CH)	3.63	16.7	9.9	67.4	118.4

Key International Data Releases

US: The Markit Manufacturing PMI rose to 56.5 in April, from 55.5 in March, which is a three and a half year high. GDP for the March quarter was 2.3 per cent, down from 2.9 per cent reported in the December quarter.

UK: The Gfk Consumer Confidence Index fell to -9 in April, from -7 in March. The index has now been in negative territory for 28 consecutive months. GDP for the March quarter was 0.1 per cent, down from 0.4 per cent reported in the December quarter. This was the weakest period of activity since 2012, with a sharp contraction in the construction sector.

Euro: The Markit Manufacturing PMI fell to 56.0, from 56.6 in March. The ECB kept interest rates on its main refinancing operations unchanged at 0.0 per cent as "underlying strength" in the economy continued to underpin the bank's confidence despite signs of "moderation" in recent weeks.

Japan: The Nikkei Manufacturing PMI rose to 53.3 in April, from 53.1 in March. The Unemployment Rate was flat at 2.5 per cent in March, near the lowest level in 25 years. Industrial Production increased to 2.2 per cent through the year to March, from 1.6 per cent in February. Retail sales rose 1.0 per cent through the year to March, from 1.7 per cent in February. The Bank of Japan kept interest rates unchanged at minus 0.1 per cent.

Upcoming Key International Data Releases (30/04 – 04/05)

- **US:** Trade Balance data for March, Change in Private Payrolls data and Unemployment Rate for April and the US Fed Interest Rate Decision for May.
- **Euro:** Unemployment Rate, Producer Price Index and Retail Sales data for March, GDP for the March quarter and Consumer Price Index for April.
- **Japan:** Consumer confidence data for April.
- **Germany:** Retail Sales data for March and Consumer Price Index for April.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
30-Apr	1-May	2-May	3-May	4-May
RBA Private Sector Credit, Mar-18 Commsec State of the States, MarQ-18	RBA Interest Rate Decision, May-18	ABS Selected Living Cost Indexes, MarchQ-18	ABS International Trade in Goods & Services, Mar-18 ABS Building Approvals, Mar-18	RBA Statement on Monetary Policy, May-18
7-May	8-May	9-May	10-May	11-May
NAB Monthly Business Survey, Apr-18 APM Auction data, Apr-18	Commonwealth Budget, 2018-19 ABS Retail Trade, Mar-18	W-MI Consumer Sentiment, May-18	ABS Regional Building Approvals, Mar-18	ABS Housing Finance, Mar-18
14-May	15-May	16-May	17-May	18-May
	RBA Monetary Policy Minutes, May-18 ABS Overseas Arrivals and Departures, Mar-18 ABS Lending Finance, Mar-18	ABS Wage Price Index, MarQ-18	ABS Labour Force, Apr-18	
21-May	22-May	23-May	24-May	25-May
		DoE Skilled Vacancies, Apr-18 ABS Construction Work Done (Prelim), MarQ-18 ANZ Stateometer, MarQ-18	ABS Detailed Labour Force, Apr-18	
28-May	29-May	30-May	31-May	1-Jun
		ABS Building Approvals, Apr-18	RBA Private Sector Credit, Apr-18 ABS Private New Capital Expenditure, MarQ-18	
4-Jun	5-Jun	6-Jun	7-Jun	8-Jun
ABS Business Indicators, MarQ-18 ABS Retail Trade, Apr-18	RBA Interest Rate Decision, Jun-18 ABS Balance of Payments, MarQ-18	APM Auction data, May-18 ABS National Accounts, MarQ-18 ABS Building Approvals, Apr-18 Austrade International Visitor Survey, MarQ-17	ABS International Trade in Goods & Services, Apr-18	

ECONOMIC FACTS

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.9%	2.0%	% annual average	2016-17 Next: November 18
State/Domestic Final Demand	3.0%	2.4%	% through the year	December quarter 17 Next: 6 June 18
	1.0%	0.4%	% change on last qtr	
BUSINESS INVESTMENT				
NAB Business Confidence	+10	+7	NAB Index	March 18 (mthly) Next: 7 May 18
NAB Business Conditions	+12	+14		
HOUSING				
Dwelling Approvals	70.5k	224.2k	Number of app 12mms	February 18 (mthly) Next: 3 May 2018
	-4.2%	-6.6%	% annual average	
Residential Prices (capitals)	3.8%	5.0%	% through the year	December quarter 17 Next: 19 June 18
LABOUR FORCE				
Employment	3.5%	3.0%	% through the year	March 18 (mthly) Next: 17 May 18
Unemployment Rate	5.0%	5.5%	Current rate	
Youth unemployment rate	10.7%	12.6%	12 monthly moving average rate	
CONSUMER				
Retail Sales	3.1%	3.0%	% through the year	February 18 (mthly) Next: 8 May 18
Westpac MI Consumer Confidence	97.5	102.4	Westpac MI Index	April 18 (mthly) Next: 9 May 18
CPI (Capital cities)	2.1%	1.9%	% through the year	March quarter 18 Next: 25 July 2018
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 1 May 18

ECONOMIC FORECASTS	NSW Forecasts (as per 2017-18 HYR)			Australian Gov't Forecasts (as per 2017-18 MYEFO)		
	2016-17 Actual	2017-18 Forecast	2018-19 Forecast	2016-17 Actual	2017-18 Forecast	2018-19 Forecast
State/Domestic Final Demand (%)	3.6	3½	2¾	2.0	n.a.	n.a.
Gross State /Domestic Product (%)	2.9	3	2¾	2.0	2½	3
Employment (%) ^(a)	0.9	2½	1¾	1.9	1¾	1½
Unemployment rate (%)^(b)	5.0	4¾	4¾	5.6	5½	5¼
CPI (%)^(c)	2.0	2¼	2¼	1.9	2	2¼
Wage Price Index (%)	2.1	2	2½	1.9	2¼	2¾

(a) Australia: per cent change through the year to June quarter, NSW: year average per cent growth (b) Australia: per cent in the June quarter, NSW: year average per cent (c)

Australia and NSW: per cent change through the year to June quarter