

Tuesday, 14 March 2017

Chart A: Domestic Interest Rates

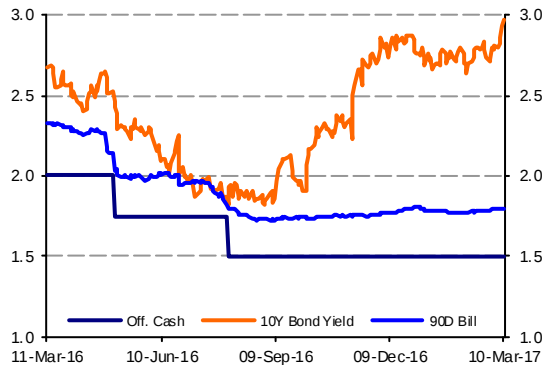


Chart B: Share Price Index

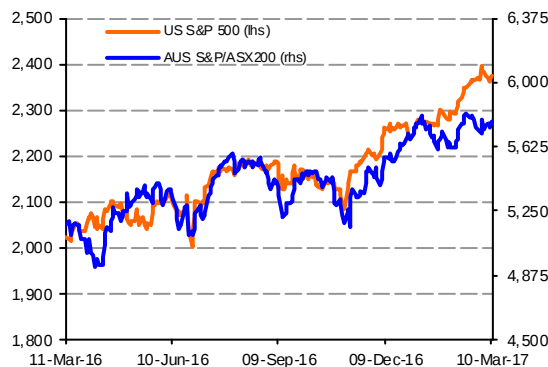


Chart C: Exchange rate

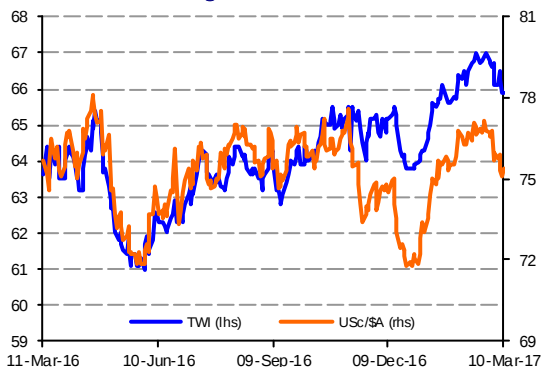
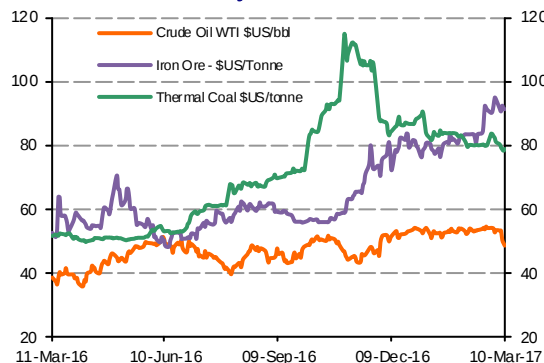


Chart D: Commodity Prices



Domestic Data Releases

ABS nominal **Retail Sales** data showed that NSW retail sales were up 0.2% in January and up 3.2% through the year. National retail sales were up 0.4% in the month and up 3.1% through the year. In the December quarter NSW lost 2.2 working days per thousand employees to **industrial disputes** up from the 1.3 days in the September quarter. This is below both the decade average of 3.1 days and December quarter national result of 3.4 days.

The **RBA Board** decided to leave the Official Cash Rate unchanged at 1.5% following its monthly monetary policy meeting.

APM released housing market data for February showing that the Sydney auction clearance rate increased to 78%. This is above the 71% rate recorded a year ago and well above the long run average of 58%.

The number of **Housing Finance** commitments for owner-occupiers in NSW rose by 1.3% in January to be up 1.5% through the year. Nationally, housing commitments rose by 0.5% in the month and up 1.9% through the year. Over the three months to January 2017, the proportion of first home-buyers to total home-buyers (excluding refinancing) was 12.9% for NSW and 20.4% nationally compared with December 2016 figure of 13.2% for NSW and 20.7% nationally.

Markets

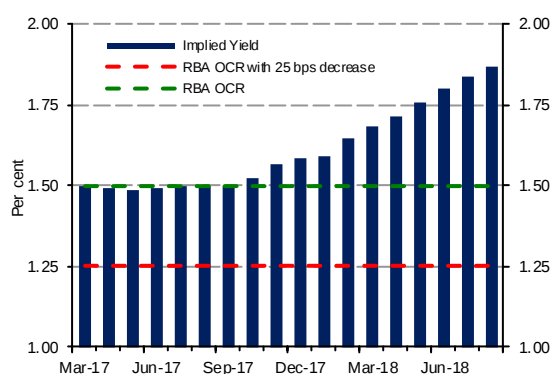
The ASX200 rose by 0.8% and the US S&P500 fell by 0.4% over the week to Friday.

	Value	Change on Year	Change on Week
US S&P 500	2,372.6	17.3 %	-0.4 %
ASX200	5,775.6	11.8 %	0.8 %
Australian Dollar (USD)	0.7542	-0.3 %	-0.7 %
TWI	65.9	3.6 %	-0.3 %
Oil (USD/bbl)	48.5	25.9 %	-9.1 %
Gold (USD/oz)	1,202.65	-4.9 %	-1.9 %
Thermal Coal (USD/tonne)	78.8	52.9 %	-2.7 %
Australian 10-yr bond	2.98%	29.9 bps	17.0 bps
US 10-yr bond	2.57%	59.1 bps	9.6 bps
NSW 10-yr bond (bps) maturity 2026	3.17%	- bps	19.1 bps

Upcoming Domestic Data Releases (13/03 – 17/03)

- The **ABS** will release Overseas Visitors and Lending Finance data for January as well as New Motor Vehicles Sales and Labour Force data for February.
- **NAB** will publish its Monthly Business Survey for February.
- **W-MI** will release Consumer Sentiment data for March.
- **Austrade** will release their December quarter International Visitor Survey.
- The **RBA** will release the March quarter Bulletin and Assistant Governor Michele Bullock will speak at the Bloomberg Breakfast in Sydney.
- **ANZ** will release the Stateometer for January.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

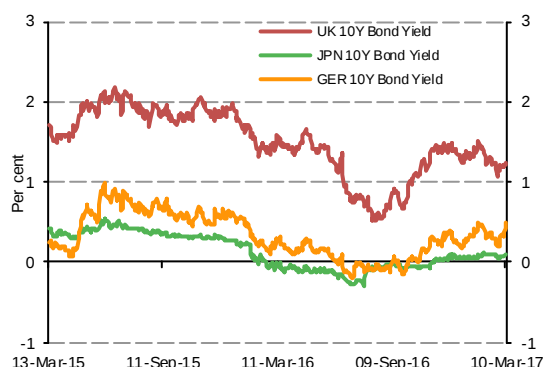
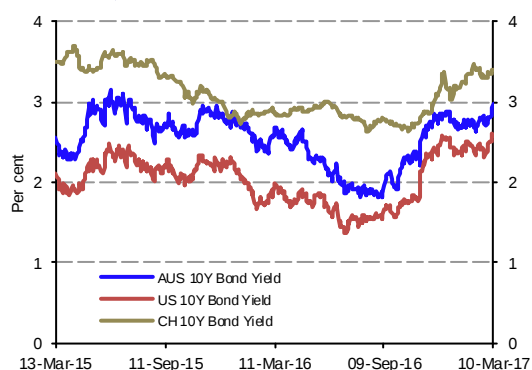
The current implied yield curve on ASX 30 day interbank cash rate futures (Chart E) indicates that the majority of the market expects the RBA to leave the cash rate unchanged until the February quarter of 2018.

According to the ASX Target Rate Tracker, as of 10 March, there is a 5% expectation that the RBA will lower the cash rate to 1.25% at its policy meeting on 4 April 2017.

International Bond Yield Spreads

US bond yields eased from the recent highs; this follows the positive employment data increasing the momentum of a rate hike in March. Yields rose across the board over the past week and German bond yields have increased more than 25 basis points for the past two weeks.

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)	2.98	29.9	17.0	40.3	69.4
United States (US)	2.57	59.1	9.6	-	-
Germany (GER)	0.49	21.4	12.9	-209.0	-171.3
United Kingdom (UK)	1.23	-34.4	4.6	-134.4	-40.9
Japan (JPN)	0.09	9.4	1.1	-248.6	-198.9
China (CH)	3.41	56.2	2.3	84.0	86.8

Key International Data Releases

EU: Officials decided to keep interest rate on the main refinancing operations at 0.00% as they maintained purchases under the asset purchase programme.

UK: Trade deficit has narrowed to £1.97 billion in January amid an increase in exports of cars and chemicals, partly due to the fall in the pound. Industrial production fell by 0.4% in the month.

China: CPI increased by 0.8 per cent through the year to February driven by lower food prices, while PPI reached its highest level since 2008 to be up 7.8 per cent in February. In February, China has recorded a monthly trade deficit for the first time in 3 years due to higher commodity prices and domestic demand.

US: Trade deficit increased by 9.6 per cent in January to -\$48.5 billion, up from -\$44.3 billion in December. The Unemployment rate fell by 0.1 percentage points to 4.7 per cent in February, while non-farm payrolls increased by more than expected at 235,000.

Upcoming Key International Data Releases (13/03 – 17/03)

- **US:** PPI, CPI, Retail Sales and Industrial Production data for February as well as Consumer Sentiment data for March; and the Fed Interest Rate Decision
- **China:** Retail Sales data for February
- **Japan:** PPI data for February and Machine Orders data for January as well as the BoJ Interest Rate Decision
- **UK:** Unemployment Rate data for January and the BoE Interest Rate Decision
- **EU:** Industrial Production and Trade Balance data for January as well as Employment data for the December quarter
- **India:** CPI data for February
- **NZ:** REINZ House Sales data for February