WEEKLY MARKET & ECONOMIC ROUNDUP

Monday, 27 April 2015

Chart A: Domestic Interest Rates

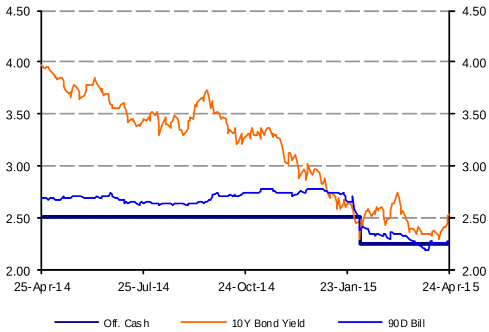


Chart B: Share Price Index

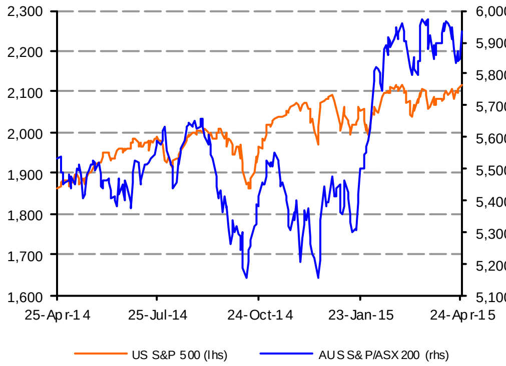


Chart C: Exchange Rate

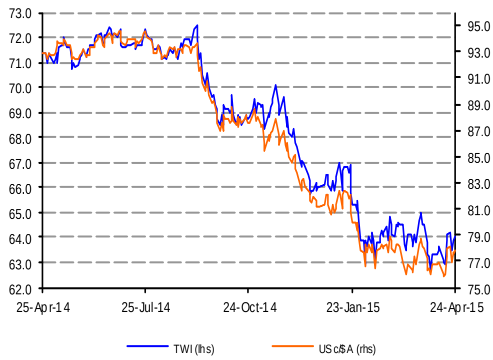
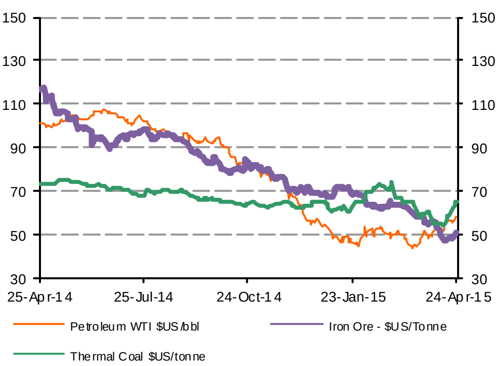


Chart D: Commodities



Key Domestic Data Releases

The **ABS** released Consumer Price Index (CPI) data for the March quarter 2015. The inflation rate, as measured by the CPI, rose 0.5 per cent for Sydney in the March quarter, to be 1.6 per cent higher than a year ago. Nationally, the CPI rose 0.2 per cent in the March quarter, and was 1.3 per cent higher than a year ago. The main contributions to the Sydney CPI rise were new dwelling purchases by owner-occupiers, tertiary education and domestic holiday travel and accommodation.

The **ABS** also released regional labour force data that showed that Greater Sydney's unemployment rate remained steady at 5.2% for the fifth consecutive month. Western Sydney's unemployment rate remained at 6.1%, but has fallen from 6.7% in February 2014. Since mid-2012, the unemployment rates in the Hunter and South NSW regions have risen.

The **NAB** Quarterly Business Survey for the March quarter 2015 showed that for New South Wales business confidence remained neutral, while business conditions, though slightly lower compared to the previous quarter, remained strong overall and were equal highest among mainland states.

The **RBA** Governor Glenn Stevens spoke at the American Australian Association in New York. He addressed subjects including the prospects for the global economy and the impact of global economic trends on Australia. The minutes of the April 7th monetary policy meeting of the RBA, where the cash rate was left unchanged at 2.25%, highlighted that members 'considered that the current setting of monetary policy was accommodative and providing support to the economy', while noting that further cuts to the cash rate may be appropriate over the period ahead.

Commsec released its April quarter State of the States report, confirming that the NSW economy continues to outperform the other states, retaining its number one ranking for the third consecutive quarter.

Deloitte Access Economics (DAE) released its March quarter Business Outlook report. It stated that 'amid rising challenges for Australia, the relative fortunes of NSW are looking increasingly good'. DAE forecast NSW State Final Demand growth of 3.1% in 2014-15 and 3% in 2015-16.

The **Department of Employment** released its Vacancy Report for March 2015. It indicated that the Internet Vacancy Index rose by 0.6% for NSW in trend terms and is now 11.7% higher than it was a year ago.

Markets

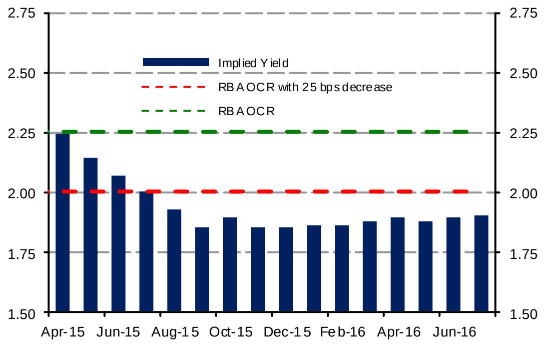
The **ASX200** rose 0.9% on the previous Friday and the **US S&P500** rose 1.8%.

	Value	Change on Year	Change on Week
US S&P 500	2,117.7	13.6 %	1.8 %
ASX200	5,933.3	7.3 %	0.9 %
Australian Dollar (USD)	0.7778	-16.3 %	-0.2 %
TWI	64.00	-10.4 %	-0.2 %
Oil (USD/bbl)	57.74	-42.6 %	3.6 %
Gold (USD/oz)	1,183.00	-9.1 %	-1.7 %
Thermal Coal (USD/tonne)	64.49	-11.8 %	10.9 %
Australian 10-yr bond	2.54%	-143.6 bps	18.8 bps
US 10-yr bond	1.95%	-75.0 bps	8.0 bps
Australian 90-day bill	2.27%	-41.0 bps	1.0 bps

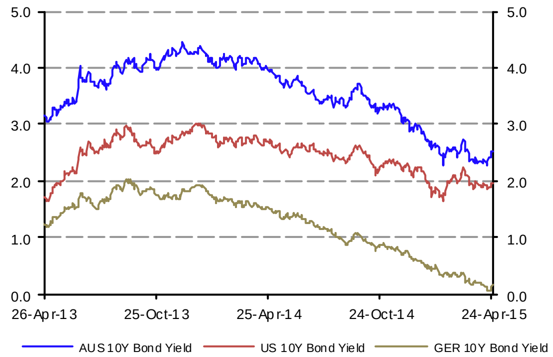
Upcoming Domestic Data Releases (27/4 – 30/4)

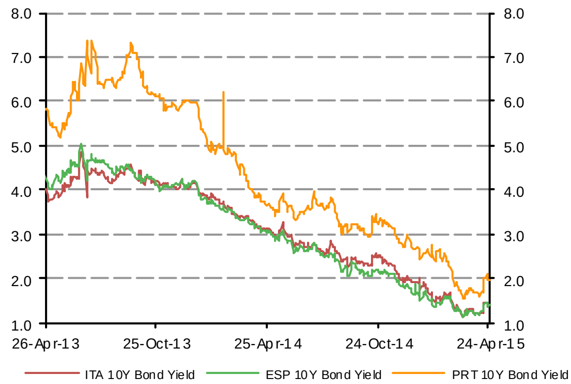
The **ABS** releases the March quarter Trade Price Index and the Producer Price Index, as well as preliminary quarterly estimates of overseas arrivals and departures. **Deloitte Access Economics** releases its quarterly Investment Monitor. The **RBA** releases private credit data for March, the April update to its index of commodity prices, and the RBA governor speaks at the AFR Banking and Wealth Summit in Sydney. The **AIG** releases the April Performance of Manufacturing Index.

Chart E: Interest Rate Expectations



Charts 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 (refer Chart E below), **favour a reduction in interest** rates by the RBA by May or June.

According to the **ASX target rate tracker**, as of 24 April, there is a 52% expectation that the RBA will lower the cash rate to 2.0% at its policy meeting on 5 May 2015.

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)	2.54%	-143.6 bps	18.8 bps	58.7 bps	127.3 bps
United States (US)	1.95%	-75.0 bps	8.0 bps	- -	- -
Germany (GER)	0.17%	-136.5 bps	9.3 bps	-178.1 bps	-116.6 bps
Italy (ITA)	1.42%	-169.7 bps	-3.9 bps	-53.5 bps	41.2 bps
Portugal (PRT)	1.99%	-166.5 bps	-3.0 bps	4.0 bps	95.5 bps
Spain (ESP)	1.40%	-166.5 bps	-3.4 bps	-55.5 bps	36.0 bps

Key International Data Releases

US: Existing home sales increased 6.1 percent to an annual rate of 5.19 million units in March, the highest level since September 2013 and the largest percentage rise since December 2010. Orders for durable goods, products such as refrigerators and cars designed to last at least three years, rose a seasonally adjusted 4 per cent in March from a month earlier. Compared to a year earlier, durable goods orders are up 0.1 per cent.

Europe: According to the European Commission, preliminary consumer confidence fell to -4.6 in April, from -3.7 in March, showing weaker Eurozone consumer confidence in April. This represents the first Eurozone fall in consumer confidence in five months. The Manufacturing PMI in the Euro Area decreased to 51.9 in April from 52.2 in March. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month.

UK: UK retail sales fell 0.5% in March compared to the previous month. This was driven by a fall in spending on petrol. The Bank of England minutes showed that the nine members of the Monetary Policy Committee all voted to keep rates unchanged. Two members indicated that their decision to keep rates at 0.5% was again "finely balanced" - suggesting they may soon vote for a rate rise.

China: The MNI Business Sentiment Indicator, a gauge of current business confidence, fell for the fourth consecutive month to 48.8 in April from 52.2 in March. This result (below 50) implies that negative or contractionary business sentiment exists in China for the first time since the global financial crisis. Likewise, the HSBC Flash China Manufacturing PMI fell to 49.2 in April from 49.6 in March, representing a 12 month low, and implying a deterioration of operating conditions in China's manufacturing sector.

Upcoming Key International Data Releases (27/4 – 30/4)

- **US:** Consumer Confidence for April, preliminary GDP for March quarter, FOMC meeting on interest rates, March quarter PCE index and core PCE,
- **Europe:** Euro area unemployment Rate for March.
- **UK:** Preliminary GDP for March quarter.
- **New Zealand:** RBNZ official cash rate decision
- **Japan:** Statement on Monetary Policy, Retail Sales, and CPI for March