

Chart A: Domestic Interest Rates

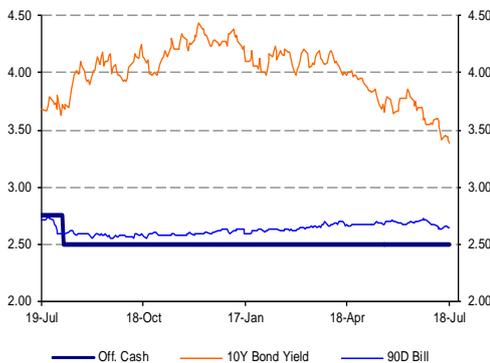


Chart B: Share Price Index

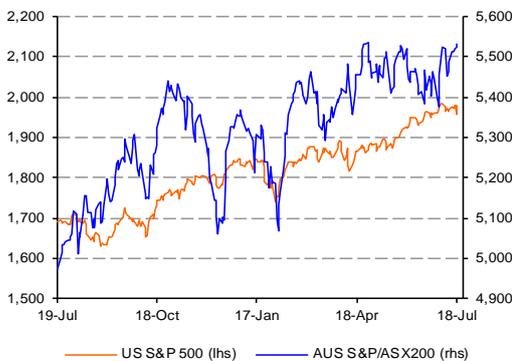


Chart C: Exchange Rate

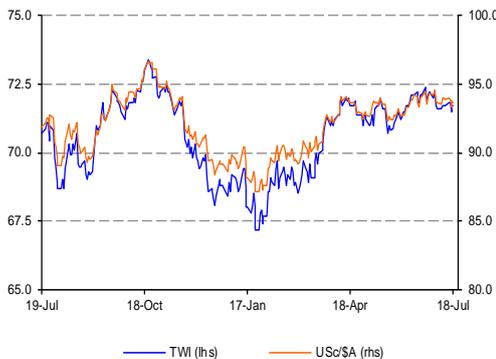
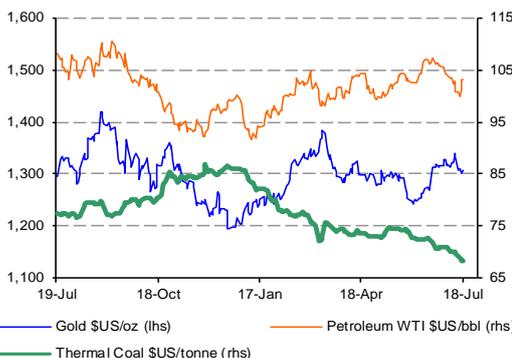


Chart D: Commodities



Key Domestic Data Releases

The **RBA Minutes** of its July 1 meeting - in which the Board decided to leave the cash rate unchanged at 2.5% - stated that "With growth in resource exports expected to ease back, GDP growth was forecast to be a little below trend over the next year or so, before picking up gradually thereafter. Inflation was expected to remain within the target. Accordingly, with the significant degree of monetary stimulus already in place to support economic activity, the Board judged that, on present indications, the most prudent course was likely to be a period of stability in interest rates."

**Building activity** data for the June quarter revealed that on a non-seasonally adjusted basis; work commenced was up 15.4% through the year in NSW compared to 17.9% nationally; work done rose 19.4% through the year in NSW compared to 8.5% nationally; total private dwelling unit commencements rose 19.0% through the year in NSW compared to 18.8% nationally; and total private dwelling unit completion rose 9.2% through the year compared to 6.5% nationally.

Total **commercial finance** was up 22.7% (nsa) in Australia and up 15.2% (nsa) in NSW over the year to May. **Investor housing finance** – a component of commercial finance) was up 17.8% (nsa) nationally and up 29.9% in NSW over the year to May.

The **regional labour force data** showed that employment in NSW rose in June 2014 with a net increase of 17,200 (12m ma), compared to June 2013. The increase was concentrated entirely in the Greater Sydney area (rising 22,900) while employment decreased in areas outside of Sydney.

**NAB business confidence** in Q2 eased slightly, down to +6 from +7 in the previous quarter while business conditions lifted from 0 index points to +1. NSW business confidence was unchanged in Q2 while business conditions were also unchanged at +2 index points.

**New vehicle sales** rose 1.7% in June to be down 2.2% through the year. In NSW, in new vehicle sales rose 1.5% on last month and were down 1.1% through the year.

Markets

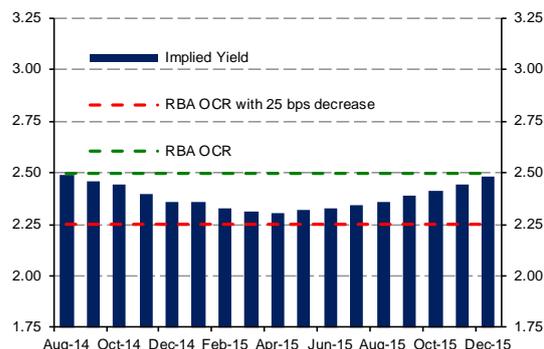
The ASX200 rose 0.8% on the previous Friday, while the **US S&P500** rose 0.5%.

|                                 | Value    | Change on Year | Change on Week |
|---------------------------------|----------|----------------|----------------|
| <b>S&amp;P 500</b>              | 1,978.2  | 16.9 %         | 0.5 %          |
| <b>ASX200</b>                   | 5,531.7  | 11.3 %         | 0.8 %          |
| <b>Australian Dollar (USD)</b>  | 0.9366   | 2.0 %          | -0.3 %         |
| <b>TWI</b>                      | 71.70    | 1.4 %          | 0.0 %          |
| <b>Oil (USD/bbl)</b>            | 103.19   | -4.5 %         | 2.3 %          |
| <b>Gold (USD/oz)</b>            | 1,307.25 | 0.9 %          | -2.1 %         |
| <b>Thermal Coal (USD/tonne)</b> | 68.18    | -12.1 %        | -2.5 %         |
| <b>Australian 10-yr bond</b>    | 3.39%    | -29.7 bps      | -3.6 bps       |
| <b>US 10-yr bond</b>            | 2.49%    | -3.0 bps       | -4.0 bps       |
| <b>Australian 90-day bill</b>   | 2.65%    | -7.3 bps       | 1.4 bps        |

Upcoming Domestic Data Releases (21/7 – 25/7)

- The **ABS** will release data on CPI.
- **CommSec** will release its State of the States publication.
- **RBA** Governor Stevens speak to the Anika Foundation, Assistant Governor DeBelle will be a panel participant at 2nd Latin American Investor Forum and Deputy Governor Lowe will make introductory remarks at the RMB Internationalisation Round Table.

**Chart E: Interest Rate Expectations**



**Market Interest Rate Expectations**

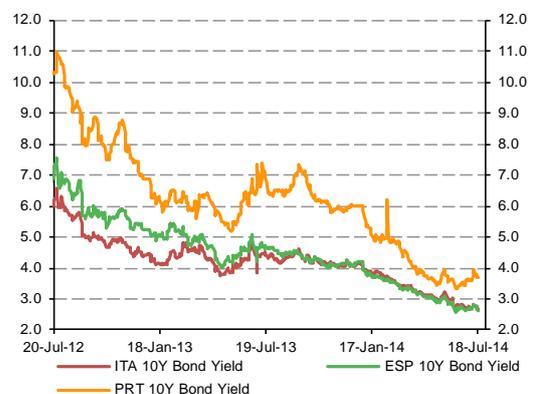
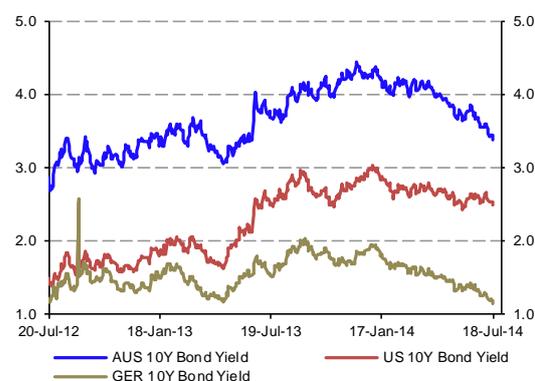
Current **market expectations**, as shown by the **implied yield** curve on ASX 30 day interbank cash rate futures, **favour no change** by the RBA at its next meeting. The market **does not expect a cash rate increase** throughout 2014 and 2015.

According to the **ASX target rate tracker**, as of 18 July, there is a 93% expectation that the RBA will keep the cash rate at 2.50% at its 5 August policy meeting.

**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 |
|---------------------------|-------|----------------|----------------|----------------------------------|----------------------------------|
| <b>Australian (AUS)</b>   | 3.39% | -29.7 bps      | -3.6 bps       | 89.5 bps                         | 116.2 bps                        |
| <b>United States (US)</b> | 2.49% | -3.0 bps       | -4.0 bps       | -                                | -                                |
| <b>Germany (GER)</b>      | 1.16% | -35.6 bps      | -4.5 bps       | -133.1 bps                       | -100.5 bps                       |
| <b>Italy (ITA)</b>        | 2.68% | -173.0 bps     | -10.1 bps      | 19.2 bps                         | 189.2 bps                        |
| <b>Portugal (PRT)</b>     | 3.67% | -308.1 bps     | -18.2 bps      | 118.0 bps                        | 423.1 bps                        |
| <b>Spain (ESP)</b>        | 2.62% | -204.2 bps     | -15.2 bps      | 13.1 bps                         | 214.3 bps                        |

**Charts F & G: International Bond Yields**



**Key International Data Releases**

- **US:** In her semi-annual testimony, Fed Chairman Yellen discussed the recent improvement in the job market, the path for interest rates (unlikely to raise rates for some time), financial stability concerns and bubble risks. Retail Sales rose 0.2% in June (up 4.3% over the year). PPI rose 0.4% in June (1.9% over the previous year). Industrial Production rose 0.2% in June (up 4.3% for the year). Housing Starts fell 9.3% in June to its lowest level in nine months (but is up 7.5% for the year). Building permits also fell 4.2% in June (but is up 2.7% for the year). Uni. of Michigan consumer sentiment index slipped to 81.3 in July from 82.5 in June.
- **Europe:** Eurozone Industrial Production dropped 1.1% in May (and grew by 0.5% over the year). The German ZEW Survey dropped to 27.1 in June – its lowest level since Dec 2012. Eurozone trade balance recorded a €15.4 billion surplus in May with exports up 0.6% and import up 0.5%.
- **UK:** UK June inflation rose to a yearly rate of 1.9% in June. Meanwhile, the unemployment rate fell to 6.5% in the three months to May – its lowest since December 2008.
- **China:** GDP grew at yearly rate of 7.5% in Q2. Retail Sales eased to the yearly rate of 12.4% in June while Industrial Production rose to the yearly rate of 9.2% in June.
- **NZ:** CPI rose by a modest 0.3% in Q2 and 1.6% over the year.

**Upcoming Key International Data Releases (21/7 – 25/7)**

- **US:** CPI, Existing Home Sales, New Home Sales, Durable Goods Orders
- **Europe:** German PPI, France Business Confidence, EU Consumer Confidence, PMI Surveys, Germany Ifo Survey
- **UK:** Public Finances, CBI Industrial Trends, BOE Minutes, Retail Sales, Q2 GDP
- **Japan:** Merchandise trade, CPI, PMI Survey
- **NZ:** RBNZ monetary policy meeting