

Monday, 9 March 2015

Chart A: Domestic Interest Rates

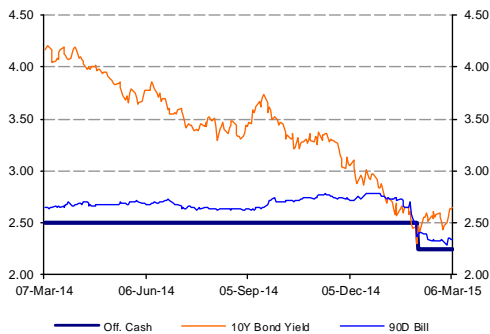


Chart B: Share Price Index

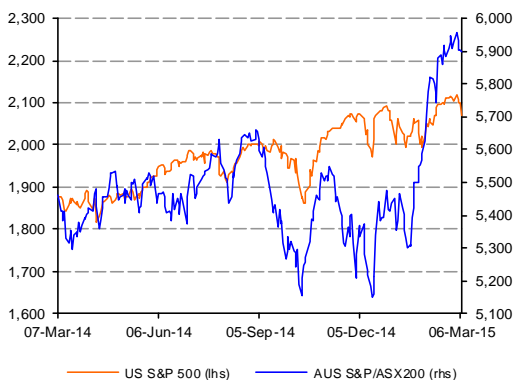


Chart C: Exchange Rate

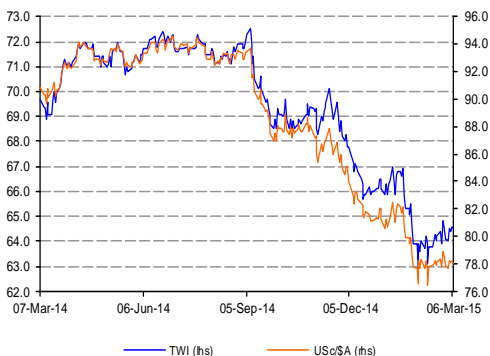
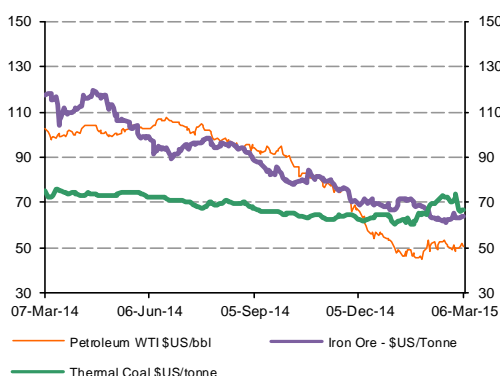


Chart D: Commodities



Key Domestic Data Releases

Real **GDP** rose 0.5% in the December 2014 quarter to be up 2.5% tty. Real **NSW SFD** rose 0.3% in the December 2014 quarter to be up 3.8% tty. In annual terms, NSW has been the fastest growing state for the last five consecutive quarters. Nationally, real **DFD** rose 0.6% to be up 1.2% tty.

Merchandise exports were down 5.7% tty and **merchandise imports** were up 2.2% tty. Nationally, exports were down 9.1% tty and imports were down 3.7% tty.

Retail Sales rose 0.1% in January to be up 5.2% tty. Nationally, they rose 0.4% to be up 3.6% tty.

Residential Building Approvals fell by 4.2% in January to be down 0.3% tty. Nationally, they rose 7.9% to be up 9.1% tty.

Non-Residential Building Approvals rose 57.6% in January to be up 36.0% tty. Nationally, they rose 73.5% to be up 13.1% tty. Trend approvals in NSW were down 4.0% in quarter annual terms and nationally they were down 27.5%.

Business Indicators for Australia showed the trend volume of inventories rose 0.4% in the Dec qtr while the seasonally adjusted estimate fell 0.8%. Also, Manufacturing sales of goods and services fell 0.3% in the December quarter while the seasonally adjusted estimate was unchanged. The seasonally adjusted estimate for Company Gross Operating Profits fell 0.2% in the December quarter and estimate for Wages and Salaries rose 0.3% in the December quarter.

The **current account deficit** fell \$2,542m (21%) to \$9,588m in the December quarter 2014 while. The **primary income** deficit fell \$1,067m (14%) to \$6,621m and the **surplus on goods and services** rose \$2,814m (54%) from \$5,177m in the September quarter 2014 to \$7,991m in the December quarter 2014.

Government Finance Statistics for all levels of *general government* showed Taxation revenue increased 12.8% to \$112,389m the December quarter 2014. Expenses exceeded revenue resulting in a GFS net operating balance of -\$7,046m and the net borrowing position was \$11,757m.

The RBA held the **cash rate** at 2.25% noting that growth is continuing at a below-trend pace, with domestic demand growth overall quite weak contributing to rising unemployment. The Bank left the way open for further easing of policy to "foster sustainable growth in demand and inflation consistent with target".

In a **speech by Deputy Gov. Lowe** of the RBA he noted, "the solution to the problems caused by the disconnect between the desire to save and the desire to invest cannot lie with monetary policy. Instead, it lies in measures to improve the investment environment so that once again there is strong productive demand for the use of our societies' savings".

HIA New Home Sales were up 1.3% in January but were down 8.3% tty. Nationally, new home sales were flat in January to be up 3.4% tty while new unit sales were up 9.9% to be up 24.2% tty.

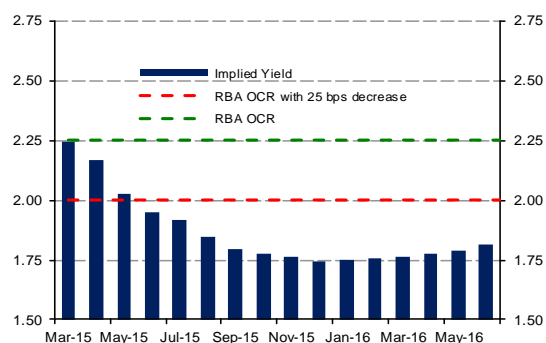
Nationally, the **AiG PMI** fell by 3.6 points to 45.4 points in February indicating a third month of contraction in conditions across the manufacturing sector. The **PSI** improved again by 1.8 points to 51.7 points in February. Much of the growth was concentrated in the health and community and financial and insurance services sub-sectors. The **PCI** fell by 2 points to 43.9 points in February with new orders contracting at a steeper rate.

TD-MI's national Inflation Gauge was flat in February, after rising 0.1% in January, to be up 1.3% tty. The trimmed mean inflation gauge rose by 0.2% to be up 2.7% tty.

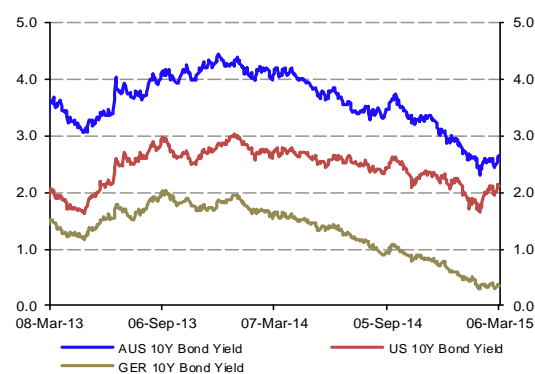
Markets

The **ASX200** fell 0.5% on the previous Friday, while the **US S&P500** fell 1.6%.

Chart E: Interest Rate Expectations



Charts F & G: International Bond Yields



	Value	Change on Year	Change on Week
US S&P 500	2,071.3	10.3 %	-1.6 %
ASX200	5,898.9	8.0 %	-0.5 %
Australian Dollar (USD)	0.7805	-14.1 %	0.2 %
TWI	64.50	-7.5 %	0.6 %
Oil (USD/bbl)	50.76	-50.5 %	2.0 %
Gold (USD/oz)	1,175.75	-11.9 %	-3.2 %
Thermal Coal (USD/tonne)	66.78	-11.2 %	-9.4 %
Australian 10-yr bond	2.64%	-153.1 bps	16.4 bps
US 10-yr bond	2.12%	-62.0 bps	11.0 bps
Australian 90-day bill	2.34%	-31.0 bps	3.0 bps

Upcoming Domestic Data Releases (9/3 – 13/3)

The **ABS** releases data on Labour Force for Feb, Housing Finance and Lending Finance for Jan, Overseas Visitors for Jan. The **RBA** Deputy Gov. Chris Kent speaks in Sydney on Wed. **ANZ** Job Ads for Feb, **NAB** Business Survey, **WBC-MI** Consumer Confidence for Mar. Consensus Asia- Pacific Forecasts for Mar.

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 in the second half of this year.

According to the **ASX target rate tracker**, as of 6 March, there is a 44% expectation that the RBA will lower the cash rate to 2.0% at its policy meeting on 7 April 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)	2.64%	-153.1 bps	16.4 bps	52.2 bps	143.3 bps
United States (US)	2.12%	-62.0 bps	11.0 bps	-	-
Germany (GER)	0.34%	-130.5 bps	3.6 bps	-177.7 bps	-109.2 bps
Italy (ITA)	1.31%	-210.7 bps	-2.1 bps	-80.7 bps	68.0 bps
Portugal (PRT)	1.76%	-278.3 bps	-7.0 bps	-36.0 bps	180.3 bps
Spain (ESP)	1.28%	-206.5 bps	2.7 bps	-83.7 bps	60.8 bps

Key International Data Releases

US: Unemployment rate fell 0.2ppt to 5.5% for Feb mainly due to a lowering of the participation rate. Trade deficit fell to \$41.8b for January from \$45.6 the previous month. ISM Manufacturing survey fell 0.6 to 52.9 in February while the Non-Manufacturing survey rose 0.2 to 56.9. Private employment increased by 212,000 jobs in February with small businesses continue to lead hiring.

Europe: UE fell slightly by 0.1ppt to 11.2% in January. Retail Sales rose 1.1% in January to be up 3.7% tty, which was highest annual rise since August 2005. The ECB kept the official interest rate unchanged but the previously announced quantitative easing program will commence this week by the purchase of €60b per month until September 2016. ECB forecasts economic growth of 1.5% (up 0.5ppt) in 2015, 1.9% (up 0.4ppt) in 2016, and a new forecast of 2.1% for 2017.

UK: BoE held the interest rates at 0.5% in March.

Germany: Industrial production was up 0.1% in January but was down 0.7% tty.

Upcoming Key International Data Releases (9/3 – 13/3)

- **US:** Retail Sales for Feb, Uni of Michigan Consumer Sentiment for Mar.
- **Europe:** Industrial Production for Jan
- **UK:** Industrial Production for Jan
- **China:** CPI, Retail sales, Trade balance and Industrial production for Feb
- **Japan:** Consumer Confidence for Feb.