

Monday, 16 March 2015

Chart A: Domestic Interest Rates

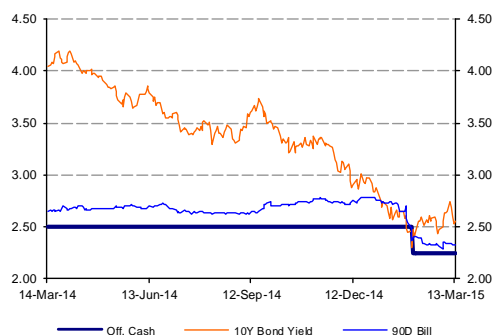


Chart B: Share Price Index

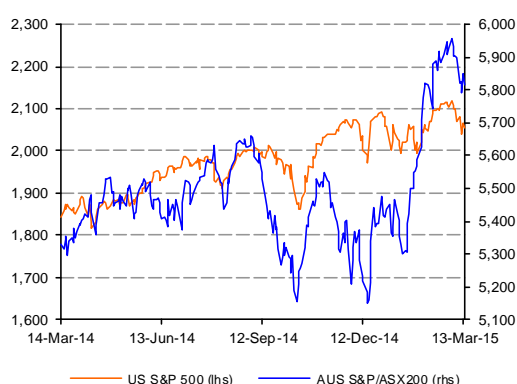


Chart C: Exchange Rate

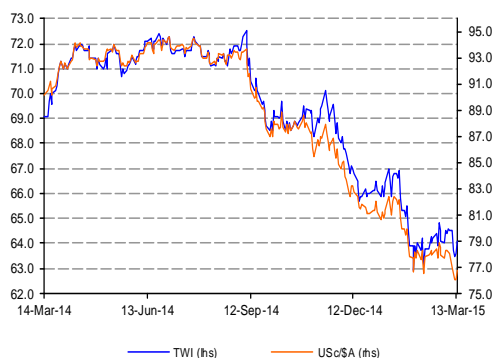
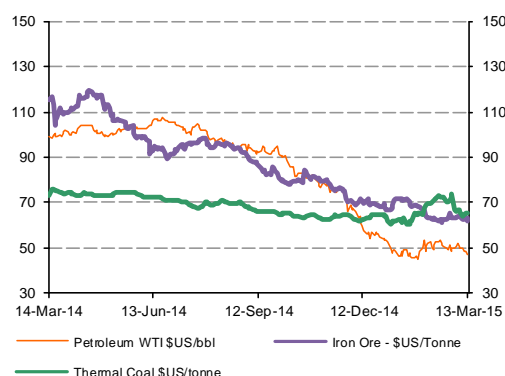


Chart D: Commodities



Key Domestic Data Releases

The **unemployment rate** remained unchanged at 6.3% in February and total employment rose by 600 in the month to be up 22,600 tty. Nationally, the UE rate fell to 6.3% from 6.4% in January while total employment rose by 15,600 in the month. A strong result in Victoria brought the national average UE rate down.

The number of **housing finance** commitments for owner-occupation in NSW fell 0.4% in January. Nationally, they fell 3.5%. Despite the relatively small decline for NSW in January, finance approval levels remain at around five year highs and that will continue to underpin the strength of NSW housing activity.

WBC-MI NSW **Consumer Sentiment** Index fell 2.6% to 106.0 in March but remains high reflecting strong household consumption and a booming housing sector. Nationally, the index fell 1.2% to 99.5. NSW has the second highest consumer confidence level among the surveyed states.

Investor housing finance approvals (nsa) were up 25.5% compared to a year ago and nationally they were up 15.9%. **Total commercial finance** (including investor housing) (nsa) was up 3.9% compared to a year ago and nationally it was up 4.9%.

The **RBA Deputy Gov. Chris Kent's** speech noted that "the Bank's central forecast for economic activity is for growth to gradually pick up over the course of the next couple of years. The low interest rate environment is expected to sustain strong activity in the housing market and support household wealth, which will support consumption. However, this effect is likely to be dampened by higher levels of household indebtedness. In time, a pick-up in household demand should encourage businesses to increase employment and undertake more investment".

ANZ Job newspaper ads fell 1.0% in February to be down 7.4% tty. Nationally, they fell 2.2% on the previous month to be down 20.4% tty. The number of Australian internet job ads rose 0.8% in February and was up 11.2% tty.

NAB Business Confidence index for NSW fell from +3 in January 2015 to +1 in February 2015 while **Business Conditions** index rose from +4 in January to +8 in February. At the national level, manufacturing and construction conditions improved the most, more than unwinding a surprise drop in construction last month to be in positive territory again. In contrast, mining dropped sharply in line with weaker commodity markets and less favourable movements in the AUD.

Markets

The **ASX200** fell 1.4% on the previous Friday, while the **US S&P500** fell 0.9%.

	Value	Change on Year	Change on Week
US S&P 500	2,053.4	11.5 %	-0.9 %
ASX200	5,814.5	9.1 %	-1.4 %
Australian Dollar (USD)	0.7671	-14.9 %	-1.7 %
TWI	64.10	-7.2 %	-0.6 %
Oil (USD/bbl)	47.05	-52.4 %	-5.2 %
Gold (USD/oz)	1,152.00	-16.8 %	-2.0 %
Thermal Coal (USD/tonne)	64.91	-11.1 %	-2.0 %
Australian 10-yr bond	2.56%	-149.2 bps	-8.3 bps
US 10-yr bond	2.12%	-52.0 bps	0.0 bps
Australian 90-day bill	2.33%	-32.0 bps	-1.0 bps

Upcoming Domestic Data Releases (16/3 – 20/3)

The **ABS** releases data on New Motor Vehicle Sales for Feb, Regional Labour Force and Industry Labour Force for Feb. The **RBA** publishes the Monetary Policy Minutes for March and Gov. Glenn Stevens speaks in Melbourne on Fri.

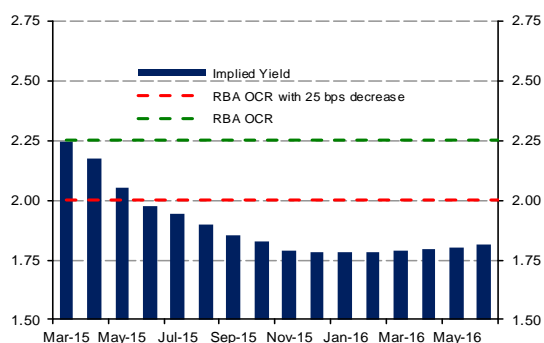
Market Interest Rate Expectations

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 middle of this year.

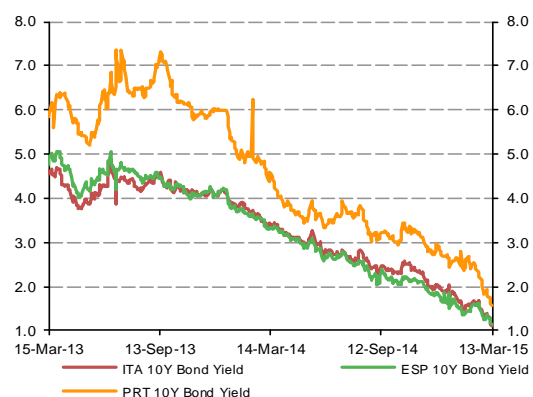
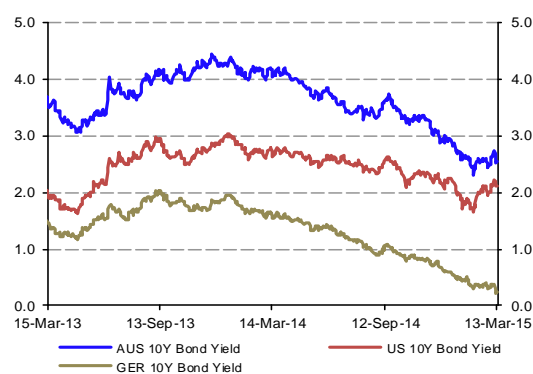
According to the **ASX target rate tracker**, as of 6 March, there is a 39% expectation that the RBA will lower the cash rate to 2.0% at its policy meeting on 7 April 2015.

International Bond Yield Spreads

Chart E: Interest Rate Expectations



Charts F & G: International Bond Yields



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)	2.56%	-149.2 bps	-8.3 bps	43.9 bps	141.1 bps
United States (US)	2.12%	-52.0 bps	0.0 bps	-	-
Germany (GER)	0.25%	-129.2 bps	-9.2 bps	-186.9 bps	-109.7 bps
Italy (ITA)	1.15%	-225.9 bps	-16.8 bps	-97.5 bps	76.4 bps
Portugal (PRT)	1.56%	-301.2 bps	-20.0 bps	-56.0 bps	193.2 bps
Spain (ESP)	1.15%	-219.2 bps	-13.1 bps	-96.8 bps	70.4 bps

Key International Data Releases

US: Retail Sales fell 0.6% in February following two previous months of falls which were possibly caused by freezing temperatures. Uni of Michigan Consumer Sentiment declined to 91.2 from 95.4 in March mainly affected by low and middle income households experiencing higher utility and petrol prices.

Europe: Industrial Production fell 0.1% in January but was up 1.2% tty.

UK: Industrial Production fell 0.1% in January but was up 1.3% tty.

China: CPI rose 1.4% tty in February. Retail sales grew by 10.7% tty in February. The Trade surplus was a record \$60.6b in February with exports jumping 48.9% tty while imports fell 20% tty and Industrial production increased 6.8% tty in February.

Japan: Consumer Confidence index rose to 40.7 from 39.1 in February.

Upcoming Key International Data Releases (16/3 – 20/3)

- **US:** Industrial Production for Feb, FOMC Rate Decision
- **Europe:** CPI for Feb, Trade Balance for Jan
- **UK:** ILO Unemployment for Jan, Bank of England Minutes
- **China:** CPI, Retail sales, Trade balance and Industrial production for Feb
- **Japan:** Consumer Confidence for Feb
- **NZ:** GDP for Dec qtr.