

Chart A: Domestic Interest Rates

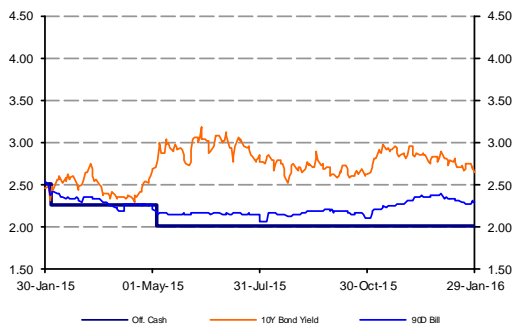


Chart B: Share Price Index

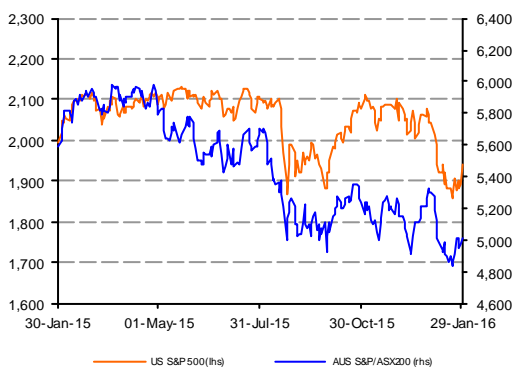
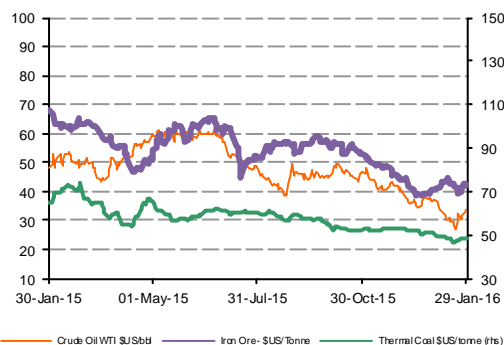


Chart C: Exchange rate



Chart D: Commodity Prices



## Domestic Data Releases

NSW **business conditions** remained positive, but fell from +17 index points in November to +12 points in December. National business conditions fell 3 points to +7 index points. NSW **business confidence** also fell in December, falling 3 index points to +3. National business confidence fell, by 2 index points to +3. An index number greater than zero represents positive business conditions/confidence.

National import prices fell 0.3% in the December quarter 2015, and are up 2.4% through the year. Export prices fell 5.4% in the December quarter 2015, and are down 10.3% through the year.

Total credit to the private sector rose 0.5% in December, to be up 6.6% through the year.

In the December quarter 2015, prices of final stage products, as measured by the Producer Price Index (PPI) rose 0.3% in the quarter, to be 1.9% higher through the year.

The Sydney CPI rose 0.3% in the December quarter, to be 2.0% higher than a year ago. For the eight capital city average ('Australia'), the CPI rose 0.4% in the quarter, and was 1.7% higher than a year ago.

## Markets

The ASX200 rose 1.8% compared to last Friday and the US S&P500 rose 1.7%.

|                          | Value    | Change on Year | Change on Week |
|--------------------------|----------|----------------|----------------|
| US S&P 500               | 1,940.2  | -2.7 %         | 1.7 %          |
| ASX200                   | 5,005.5  | -10.4 %        | 1.8 %          |
| Australian Dollar (USD)  | 0.7100   | -8.8 %         | 1.3 %          |
| TWI                      | 61.50    | -3.8 %         | 1.3 %          |
| Oil (USD/bbl)            | 33.62    | -30.3 %        | 4.4 %          |
| Gold (USD/oz)            | 1,111.80 | -11.8 %        | 1.4 %          |
| Thermal Coal (USD/tonne) | 48.10    | -26.2 %        | 1.5 %          |
| Australian 10-yr bond    | 2.64%    | 19.8 bps       | -9.9 bps       |
| US 10-yr bond            | 1.96%    | 22.0 bps       | -8.0 bps       |
| Australian 90-day bill   | 2.28%    | -26.0 bps      | 1.0 bps        |

## Upcoming Domestic Data Releases (1/2 – 5/2)

- **NAB** releases the Quarterly Business Survey for the December quarter
- **TD-MI** releases the an update of its Inflation Gauge
- The **ABS** releases December 2015 data for international trade in goods and services, building approvals and retail trade
- The **RBA** holds its Board Meeting to determine the cash interest rate, and releases its quarterly Statement on Monetary Policy

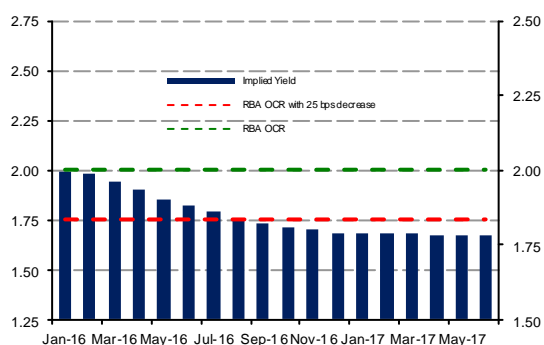
## Market Interest Rate Expectations

Current market expectations, as shown by the implied yield curve on ASX 30 day interbank cash rate futures (Chart E) indicate an expectation that the RBA will lower rates to 1.75% in May 2016.

According to the ASX target rate tracker, as of 29 January, there is a 6% expectation that the RBA will lower the cash rate to 1.75% at its policy meeting on 2 February 2016.

## International Bond Yield Spreads

Chart E: Interest Rate Expectations



| 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>   | 2.64% | 19.8 bps       | -9.9 bps       | 68.2 bps                         | 70.4 bps                         |
| <b>United States (US)</b> | 1.96% | 22.0 bps       | -8.0 bps       | -                                | -                                |
| <b>Germany (GER)</b>      | 0.40% | 4.4 bps        | -4.8 bps       | -155.7 bps                       | -138.1 bps                       |
| <b>Italy (ITA)</b>        | 1.42% | -15.5 bps      | -16.3 bps      | -54.0 bps                        | -16.5 bps                        |
| <b>Portugal (PRT)</b>     | 2.66% | 1.8 bps        | -16.1 bps      | 69.8 bps                         | 90.0 bps                         |
| <b>Spain (ESP)</b>        | 1.52% | 7.6 bps        | -20.2 bps      | -43.6 bps                        | -29.2 bps                        |

## Key International Data Releases

**US:** The Federal Reserve decided to keep interest rates unchanged between a range of 0.25 to 0.5% at its FOMC meeting. Sales of new homes in December were at an annual rate of 544,000, up 10.8% from last month and higher than market expectations. GDP rose 1.8% through the year to the December quarter 2015, down from the 2.1% growth recorded in the previous period.

**Japan:** In December consumer prices fell 0.1% compared to the previous month. Through the year to December, prices rose 0.2%, in line with market expectations. The unemployment rate was 3.3% in December, unchanged from November. The Bank of Japan voted to decrease interest rates to -0.1% and maintained its quantitative easing program at existing levels.

**EU:** The Economic Sentiment Indicator decreased in both the euro area (by 1.7 points to 105.0) and in the EU (by 1.8 points to 106.7).

**UK:** Economic output grew by 0.5% in the December quarter 2015 compared to the previous quarter. Year-on-year, the economy grew by 1.9%, down from an annual 2.1% in the September quarter.

**NZ:** The RBNZ kept interest rates unchanged at 2.5% at its monetary policy meeting.

## Upcoming Key International Data Releases (1/2 – 5/2)

- **US:** US balance of trade for December, unemployment and non-farm payrolls for January
- **EU:** Unemployment rate for December, Retail sales for December,
- **Japan:** Consumer confidence for January
- **UK:** Bank of England interest rate decision
- **China:** Manufacturing PMI for January

Chart F &amp; G: International Bond Yields

