

Chart A: Domestic Interest Rates

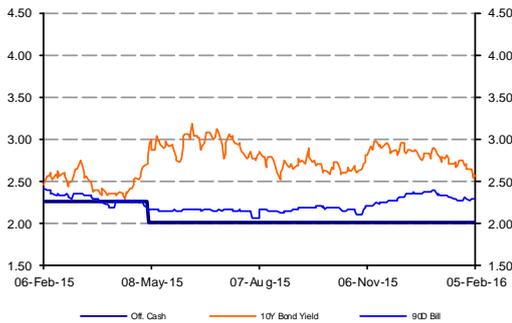


Chart B: Share Price Index

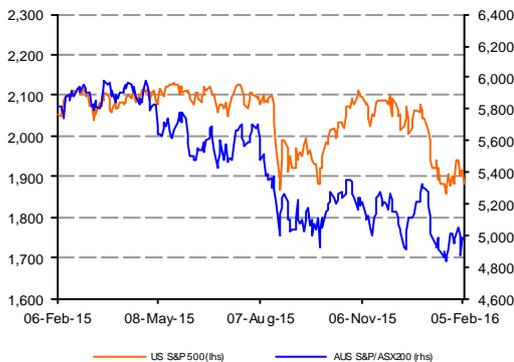
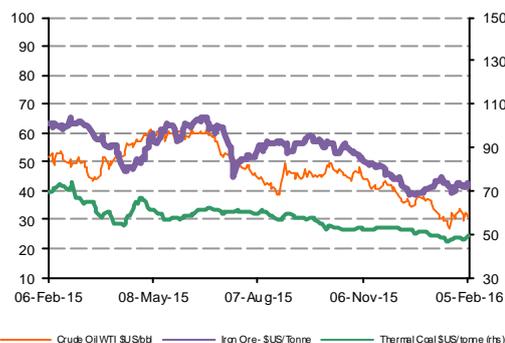


Chart C: Exchange rate



Chart D: Commodity Prices



Domestic Data Releases

The TD Securities-Melbourne Institute Inflation Gauge rose by 2.3% in the 12 months ending January 2016. This is the highest rate since October 2014.

NSW merchandise exports were down 5.3% while merchandise imports were up 8.4% through the year to December 2015. Over the same period, Australian merchandise exports were down 11.7% while merchandise imports were up 3.8%.

NSW residential building approvals were up 2.9% through the year to December 2015 but fell nationally by 2.5% over the same period. NSW non-residential building approvals were down 16.9% through the year to December 2015 and down 0.3% nationally.

The RBA left the benchmark cash rate unchanged at 2.0%.

NSW business conditions remained stable at +21 index points between the September and December quarters. National business conditions fell 3 points to +14 index points. NSW expected business conditions fell 3 index points in the December quarter to 21 index points. National business confidence fell, by 4 index points to +13. An index number greater than zero represents positive business conditions/confidence.

NSW nominal retail sales fell 0.1% in December 2015, to be up 4.9% through the year. Nationally nominal retail sales were unchanged in December and were up 4.2% through the year. The volume of NSW retail sales grew 2.9% through the year to the December quarter 2015. Nationally the volume of retail sales grew 2.5% over the same period.

Markets

The ASX200 fell 0.6% compared to last Friday and the US S&P500 fell 3.1%.

	Value	Change on Year	Change on Week
<b>US S&amp;P 500</b>	1,880.1	-8.5 %	-3.1 %
<b>ASX200</b>	4,976.2	-14.5 %	-0.6 %
<b>Australian Dollar (USD)</b>	0.7190	-8.2 %	1.3 %
<b>TWI</b>	61.60	-3.8 %	0.2 %
<b>Oil (USD/bbl)</b>	30.89	-40.2 %	-8.1 %
<b>Gold (USD/oz)</b>	1,150.35	-7.3 %	3.5 %
<b>Thermal Coal (USD/tonne)</b>	49.14	-29.4 %	2.1 %
<b>Australian 10-yr bond</b>	2.55%	9.6 bps	-8.8 bps
<b>US 10-yr bond</b>	1.84%	2.0 bps	-12.0 bps
<b>Australian 90-day bill</b>	2.29%	-11.5 bps	1.0 bps

Upcoming Domestic Data Releases (8/2 – 12/2)

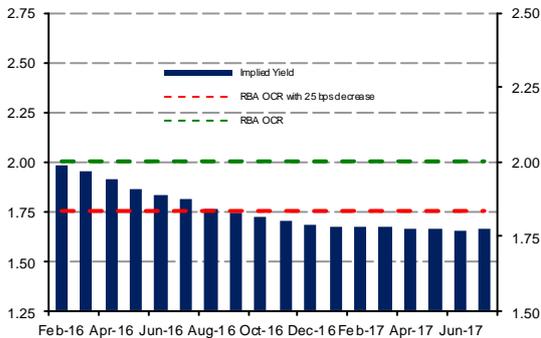
- **NAB** releases the Monthly Business Survey for January
- **W-MI** releases an update of its Consumer Sentiment Index
- **HIA** releases December 2015 data for new home sales
- The **ABS** releases Housing Finance data and Overseas Arrivals and Departures data for the month of December
- **ANZ** releases job ads for January

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 5 February, there is a 19% expectation that the RBA will lower the cash rate to 1.75% at its policy meeting on 1 March 2016.

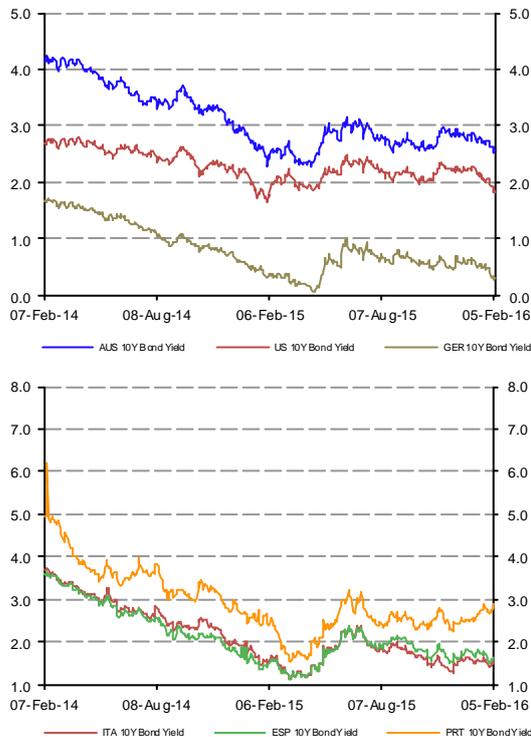
**Chart E: Interest Rate Expectations**



**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>	2.55%	9.6 bps	-8.8 bps	71.4 bps	63.8 bps
<b>United States (US)</b>	1.84%	2.0 bps	-12.0 bps	-	-
<b>Germany (GER)</b>	0.31%	-6.1 bps	-9.8 bps	-153.5 bps	-145.4 bps
<b>Italy (ITA)</b>	1.56%	1.2 bps	13.9 bps	-28.1 bps	-27.3 bps
<b>Portugal (PRT)</b>	2.93%	51.7 bps	26.9 bps	108.7 bps	59.0 bps
<b>Spain (ESP)</b>	1.65%	16.1 bps	12.3 bps	-19.3 bps	-33.4 bps

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



**Key International Data Releases**

**UK:** The Bank of England Monetary Policy Committee voted unanimously to maintain interest rates at 0.5% and maintain the stock of purchased assets for quantitative easing at £375 billion.

**US:** The unemployment rate dropped to an eight-year low of 4.9% in January, from 5.0% in the previous month. The unemployment rate has fallen 0.8ppts over the last year. Total nonfarm payroll employment increased by 151,000 in January, below the 262,000 increase recorded in December. The trade deficit increased from US\$42.2b in November to US\$43.4b in December as imports rose and exports fell.

**EU:** The unemployment rate in the Eurozone decreased slightly to 10.4% in December 2015. This was the lowest rate recorded since September 2011. Retail sales grew 0.3% in December, to be up 1.4% through the year to January

**Japan:** Consumer confidence weakened in January as the index fell to 42.5, from 42.7 in December 2015. An index score below 50 indicates that pessimistic sentiment outweighs optimistic sentiment.

**China:** The Caixin Manufacturing PMI rose to 48.4 in January, up from 48.2 in December. A reading above 50 indicates an expansion of the manufacturing sector compared to the previous month; below 50 represents a contraction.

**Upcoming Key International Data Releases (8/2 – 12/2)**

- **US:** Retail sales for January, Consumer Sentiment for February
- **EU:** Preliminary GDP growth rate for Q4 2015
- **India:** GDP growth rate for Q4 2015
- **China:** Foreign exchange reserves for January 2016
- **UK:** Balance of Trade for December 2015