

Monday, 23 January 2017

Chart A: Domestic Interest Rates

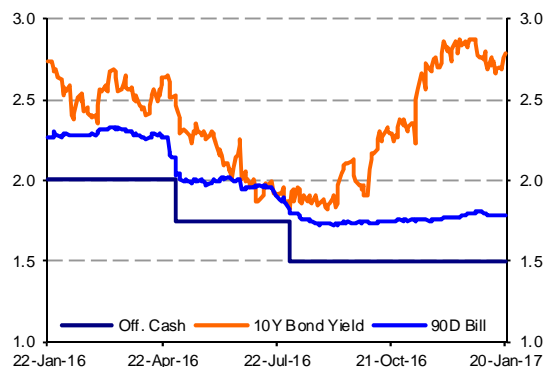


Chart B: Share Price Index

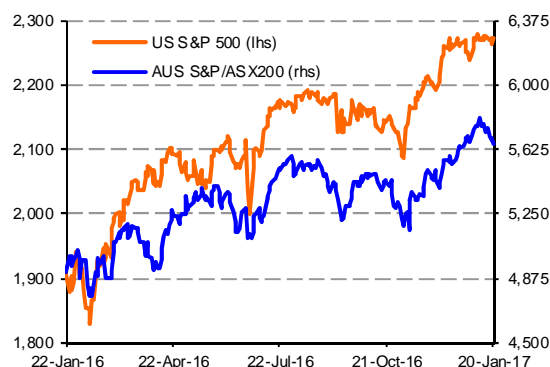


Chart C: Exchange rate

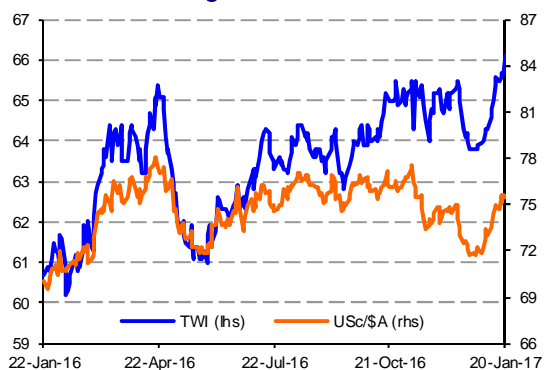
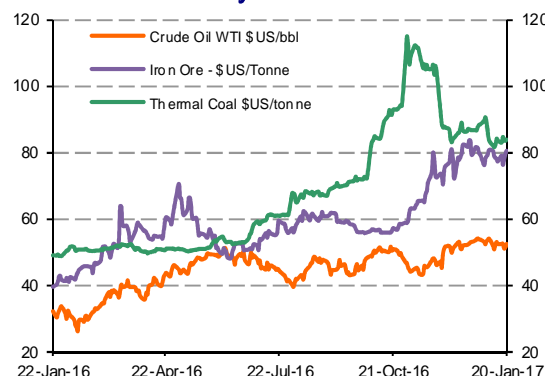


Chart D: Commodity Prices



Domestic Data Releases

ABS Overseas Arrivals and Departures data for November showed that visitors to NSW increased by 12.9% through the year to reach 297.2k in the month. Nationally, visitors increased by 11.0% through the year to reach 771.9k in the month.

The number of **Housing Finance** commitments for owner-occupiers in NSW rose by 1.5% in November but were 6.7% lower through the year. Nationally, housing commitments rose by 0.9% in the month but fell 2.6% through the year. Over the three months to November 2016, the proportion of first home-buyers to total home-buyers (excluding refinancing) was 13.1% for NSW and 20.9% nationally compared with October 2016 figure of 13.3% for NSW and 20.8% nationally.

ABS Building activity data showed that total construction work commenced rose by 3.8% through the year to the September quarter, while work done and work yet to be done were up 13.1 and 9.3% respectively. Nationally, work commenced was up 3.4%, work done was up 3.1% and work yet to be done up 8.8% during the same period.

ABS Engineering Construction Activity data showed that the value of engineering work done in NSW was down 1.6% in the September quarter 2016 but increased 6.2% through the year. Nationally, the value of engineering work done fell by 4.7% in the quarter and was down 23.9% through the year. The value of work yet to be done was up 11.7% through the year in NSW but was down 10.7% through the year nationally.

The **Westpac – Melbourne Institute Consumer Sentiment Survey** showed that NSW consumer sentiment increased 2.7% to 103.8 index points in January. Nationally, consumer sentiment rose by 0.1% to 97.4 index points.

The NSW **Unemployment Rate** increased 0.3 pts to 5.2% in December. Nationally the unemployment rate rose by 0.1 pts to 5.8%. Total employment in NSW rose by 600 in the month and was up 1,000 through the year. Nationally, employment increased by 13,500 in the month, and was 91,500 (or 0.8%) higher through the year. The NSW participation rate increased by 0.1 pts to 63.5% in December marking a significant fall since the record high of 64.6% in November 2015.

Markets

The ASX200 fell 1.2% last Friday while the US S&P500 fell 0.1%.

	Value	Change on Year	Change on Week
US S&P 500	2,271.3	19.1 %	-0.1 %
ASX200	5,654.8	15.0 %	-1.2 %
Australian Dollar (USD)	0.7555	7.9 %	0.7 %
TWI	66.1	8.9 %	0.8 %
Oil (USD/bbl)	52.4	62.8 %	0.1 %
Gold (USD/oz)	1,200.55	9.5 %	0.9 %
Thermal Coal (USD/tonne)	83.8	71.0 %	0.4 %
Australian 10-yr bond	2.78%	5.0 bps	9.1 bps
US 10-yr bond	2.47%	41.5 bps	7.0 bps
NSW TCorp bond (2028 maturity)	3.20%	17.6 bps	9.3 bps

Upcoming Domestic Data Releases (23/01 – 27/01)

- **ABS** releases Lending Finance data for November as well as Regional Labour Force data for December. It also releases Consumer Price Index, Producer Price Index and International Trade Price Indexes data for the

Chart E: Interest Rate Expectations

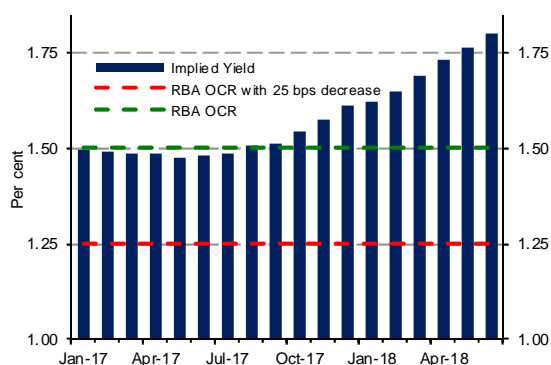
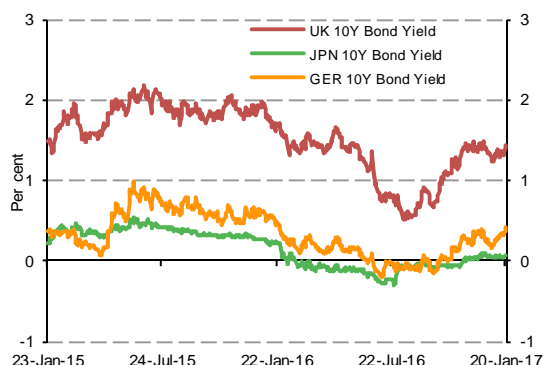
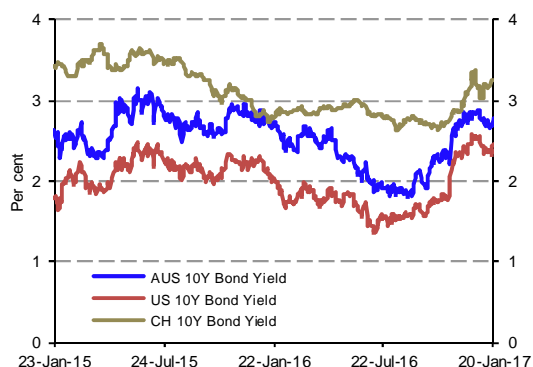


Chart F & G: International Bond Yields



December quarter.

- **Department of Employment** releases Skilled Vacancies data for December.
- **ANZ** releases the ANZ Stateometer for November.
- **CommSec** releases the State of the States for the January quarter.

Market Interest Rate Expectations

The current implied yield curve on ASX 30 day interbank cash rate futures (Chart E) indicates that the majority of the market expects the RBA to leave the cash rate unchanged until January 2018.

According to the ASX Target Rate Tracker, as of 20 January, there was a 5% expectation that the RBA will lower the cash rate to 1.25% at its policy meeting on 7 February 2017.

International Bond Yield Spreads

Ahead of Donald Trump's Presidential inauguration, bond yields rose in the expectation that fiscal stimulus would lead to greater borrowing by the US Government. More recently, UK bond yields reached a one-month high on Thursday due to strong US economic data as China bond yields rebounded on Wednesday reaching a 5-week high.

10-yr bond yield	Yield (%)	Change on Year (bps)	Change on Week (bps)	Spread on 10-yr US bond week end (bps)	Spread on 10-yr US bond year ago (bps)
Australian (AUS)	2.78	5.0	9.1	31.6	68.1
United States (US)	2.47	41.5	7.0	-	-
Germany (GER)	0.42	-6.3	8.3	-204.6	-156.8
United Kingdom (UK)	1.43	-28.0	6.7	-103.6	-34.1
Japan (JPN)	0.07	-17.4	1.6	-240.1	-181.2
China (CH)	3.24	46.5	5.6	77.6	72.6

Key International Data Releases

US: Consumer price index rose by 0.3% in December, to be up 2.1% through the year compared with 1.7% in November. This is the biggest year-on-year growth since June 2014. Industrial production was up 0.8% marking the biggest growth since November 2014.

China: GDP expanded by 6.7% through the year in the December quarter. Retail sales grew 10.4% in December compared with 10.7% in the same month last year.

UK: The unemployment rate held steady at 4.8% in November. This is the lowest unemployment rate since November 2005. Consumer price index rose by a more-than-expected 1.6% through the year to December. This is the highest growth since July 2014.

Upcoming Key International Data Releases (23/01 – 27/01)

- **Japan:** Manufacturing PMI data for January as well as Trade Balance and CPI data for December
- **Euro Area:** Consumer Confidence, Manufacturing PMI and Services PMI data for January
- **UK:** GDP data for the December quarter
- **US:** New Home Sales data for December as well as GDP data for the December quarter
- **Germany:** Retail Sales data for December as well as Manufacturing PMI data for January