

Monday, 6 February 2017

Chart A: Domestic Interest Rates

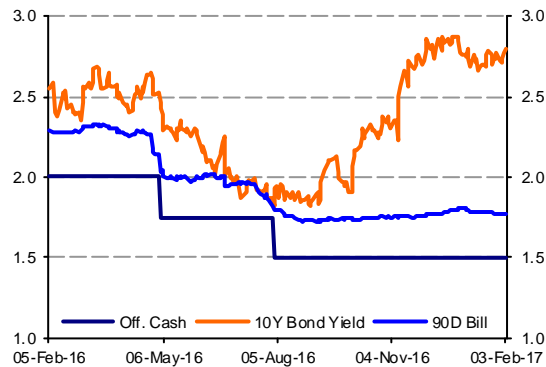


Chart B: Share Price Index

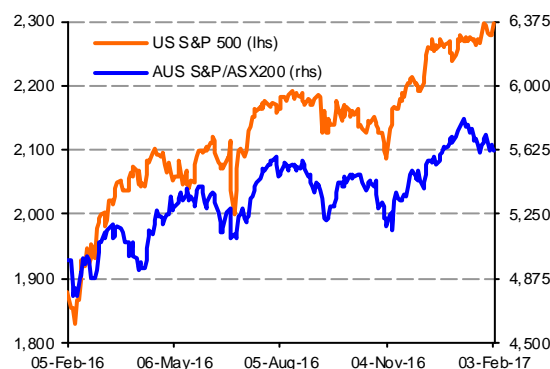


Chart C: Exchange rate

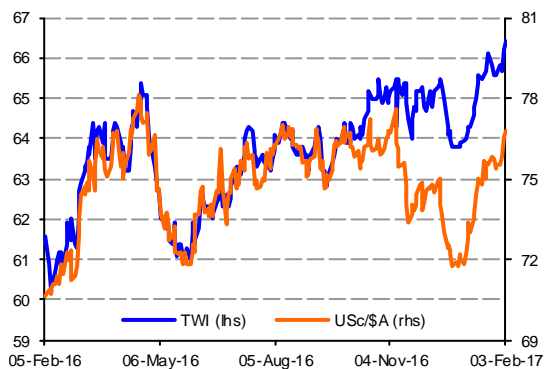
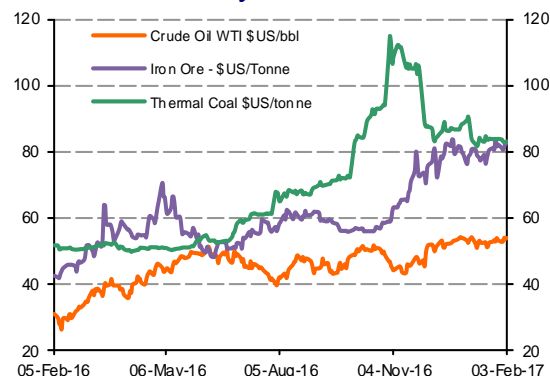


Chart D: Commodity Prices



## Domestic Data Releases

The RBA released national financial aggregates data for December indicating that **Private Sector Credit** rose 0.7% in the month to be up 5.9% through the year. More specifically, housing credit rose 0.5% in the month for a through the year increase of 6.6%.

The December **NAB Monthly Business Survey** showed that NSW business confidence fell by 8 index points to 0 and business conditions rose by 1 index point to +16 points. Nationally, business confidence was unchanged at +6 and business conditions rose by 5 points to +11.

**International Trade** data for December showed that NSW merchandise exports were up 30.1% while merchandise imports were down 2.4% through the year. For Australia, merchandise exports were up 40.0% and merchandise imports were down 2.0% through the year.

**NSW Residential Building Approvals** reached 72,445 in the 12 months to December 2016, well below the record high of 75,744 reached in September.

## Markets

The ASX200 fell by 1.6% and the US S&P500 rose by 0.1% over the week to Friday.

	Value	Change on Year	Change on Week
<b>US S&amp;P 500</b>	2,297.4	22.2 %	0.1 %
<b>ASX200</b>	5,621.6	13.0 %	-1.6 %
<b>Australian Dollar (USD)</b>	0.7680	8.7 %	1.7 %
<b>TWI</b>	66.4	7.8 %	1.2 %
<b>Oil (USD/bbl)</b>	53.8	74.3 %	1.2 %
<b>Gold (USD/oz)</b>	1,215.20	5.6 %	2.6 %
<b>Thermal Coal (USD/tonne)</b>	83.0	60.9 %	-0.9 %
<b>Australian 10-yr bond</b>	2.80%	24.7 bps	1.6 bps
<b>US 10-yr bond</b>	2.46%	62.9 bps	-2.0 bps
<b>NSW TCorp bond (2028 maturity)</b>	3.22%	42.0 bps	1.8 bps

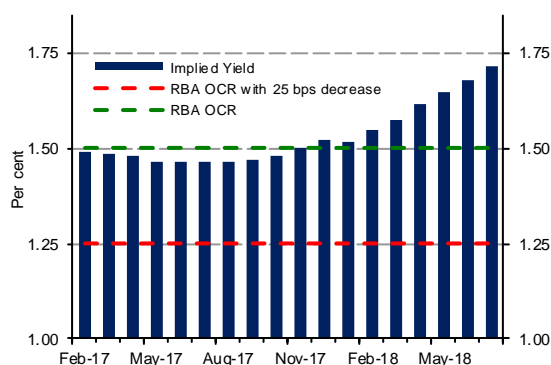
## Upcoming Domestic Data Releases (06/02 – 10/02)

- **ABS** releases Retail Trade and Housing Finance data for December
- **ANZ** releases Job Advertisement data for January
- **RBA** releases the Statement on Monetary Policy and announces its interest rate decision. RBA Governor Philip Lowe speaks at the A50 Australian Economic Forum Dinner in Sydney.
- **APM** releases Sydney Auction Clearance Rates for January
- **HIA** releases New Home Sales data for December
- **NAB** releases its Quarterly Business Survey for the December quarter

## Market Interest Rate Expectations

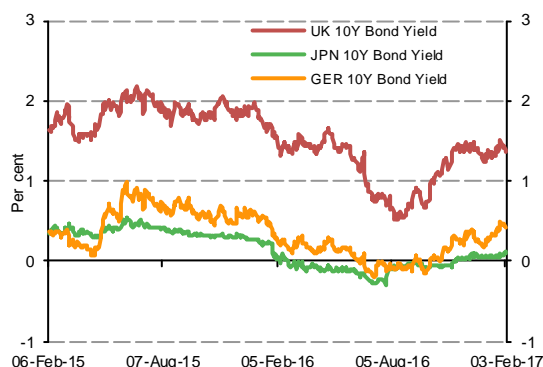
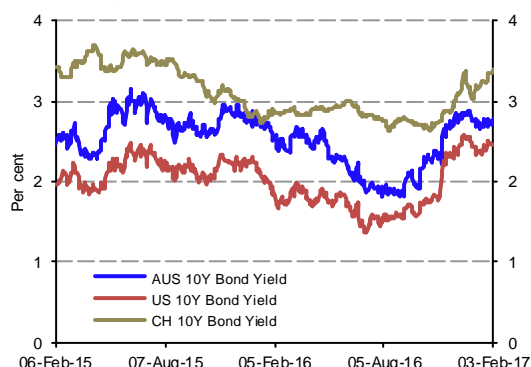
The current implied yield curve on ASX 30 day interbank cash rate futures (Chart E) indicates that the majority of the market expects the RBA to leave the cash rate unchanged until the April quarter of 2018.

According to the ASX Target Rate Tracker, as of 3 February, there is a 5% expectation that the RBA will lower the cash rate to 1.25% at its policy meeting on 7 February 2017.

**Chart E: Interest Rate Expectations****International Bond Yield Spreads**

Bond yields fell slightly over the last week due to a disappointing jobs report on wage gains but remain roughly around the same levels reached post the US election. This caused the US dollar to fall. Amid uncertainty regarding Brexit and interest rates, UK bond yield fell by 11.9 percentage points over the week to Friday.

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)
<b>Australian (AUS)</b>	2.80	24.7	1.6	33.0	71.2
<b>United States (US)</b>	2.46	62.9	-2.0	-	-
<b>Germany (GER)</b>	0.41	11.6	-5.0	-205.3	-154.0
<b>United Kingdom (UK)</b>	1.35	-20.7	-11.9	-111.3	-27.7
<b>Japan (JPN)</b>	0.10	7.3	1.6	-236.5	-180.9
<b>China (CH)</b>	3.41	54.6	6.9	94.9	103.2

**Chart F & G: International Bond Yields****Key International Data Releases**

**US:** The Federal Reserve decided to leave the interest rates unchanged “in the view of realised and expected labour market conditions and inflation”. Unemployment rate increased slightly to 4.8% in January while retail trade, construction and financial activities experienced job gains. Non-farm payroll employment rose by 227,000 in the month.

**Japan:** Officials decided to keep interest rates at -0.1% as expected by markets. Retail trade rose by 0.6% through the year to December as unemployment rate remained steady at 3.1%.

**UK:** Official interest rate remained unchanged at 0.25%. This unanimous decision relied on the “trade-off between above-target inflation and slack in the economy”. The committee emphasised the importance of jobs and economy activity and “seek to return inflation to the target over a somewhat longer period than usual” caused by weaker sterling.

**Euro Area:** GDP growth rate of 0.5% in December quarter was higher than the US for the first time since 2005. CPI was estimated to be 1.8% in January due to higher energy prices as unemployment rate decreased slightly to 9.6% in December.

**Upcoming Key International Data Releases (06/02 – 10/02)**

- **Japan:** Machine Orders data for December and PPI data for January
- **UK:** Industrial Production and Trade Balance data for December
- **US:** Trade Balance data for December and the University of Michigan Sentiment for February
- **Germany:** Industrial Production and Trade Balance data for December
- **China:** Trade Balance data for January
- **Canada:** Unemployment Rate data for January
- **NZ:** Interest Rate Decision