

Tuesday, 21 February 2017

Chart A: Domestic Interest Rates

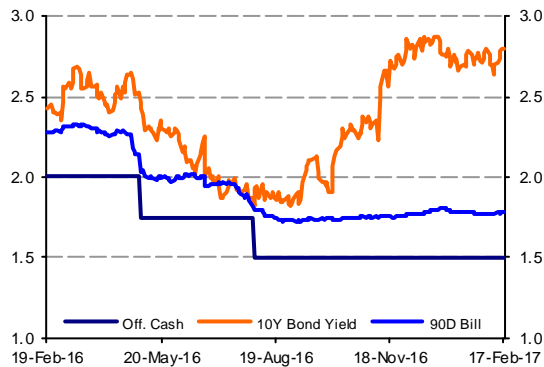


Chart B: Share Price Index

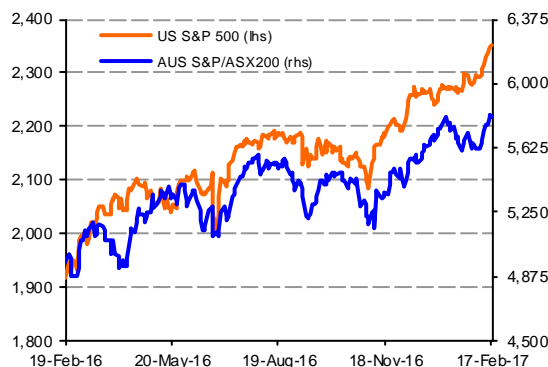


Chart C: Exchange rate

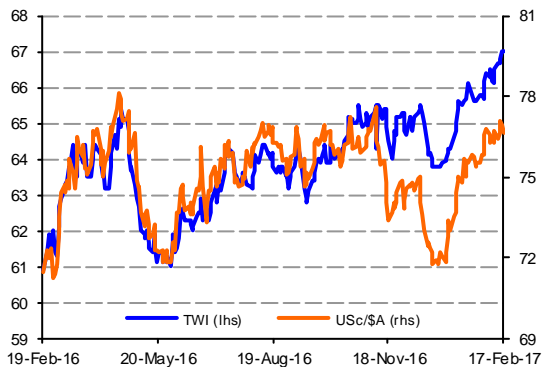
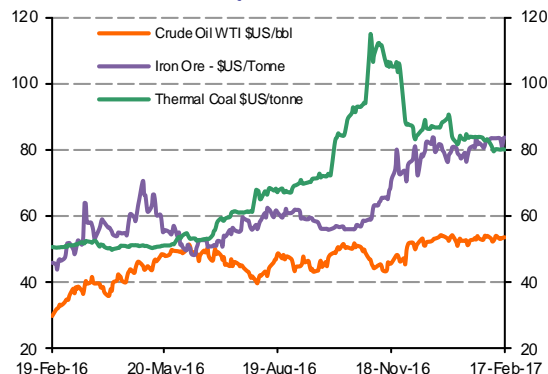


Chart D: Commodity Prices



Domestic Data Releases

ABS Overseas Arrivals and Departures data for December showed that visitors to NSW increased by 12.9% through the year to reach 298.0k in the month. Nationally, visitors increased by 12.2% through the year to reach 800.9k in the month.

ABS Lending Finance data for December indicated that NSW investor housing finance approvals were up 34.3% compared to a year ago, while national investor housing finance approvals were up 14.9%. More broadly, total NSW commercial finance was up 14.0% through the year, while total national commercial finance was up 0.9%.

The January **NAB Monthly Business Survey** showed that NSW business confidence rose by 9 index points to +9 points and business conditions rose by 7 index points to +23 points. Nationally, business confidence rose by 4 index points to +10 points and business conditions rose by 5 index points to +16 points.

The **Westpac – Melbourne Institute Consumer Sentiment Survey** showed that NSW consumer sentiment increased 0.1% to 103.9 index points in February. Nationally, consumer sentiment rose by 2.3% to 99.6 index points. An index over 100 indicates optimism outweighs pessimism.

The NSW **Unemployment Rate** decreased 0.2 ppts to 5.0% in January. Nationally the unemployment rate fell by 0.1 ppts to 5.7%. Employment in NSW fell by 13,800 in the month and was down 5,142 (-0.1%) through the year. Nationally, employment increased by 13,500 in the month, and was 103,361 (or 0.9%) higher through the year.

According to the December **ANZ Stateometer**, NSW is growing at a below trend pace and momentum continues to slow. ANZ indicated that the recent weakness in the index is being driven by slowing in labour market indicators and noted that NSW index seems to have stabilised as all other sectors improved in December.

Markets

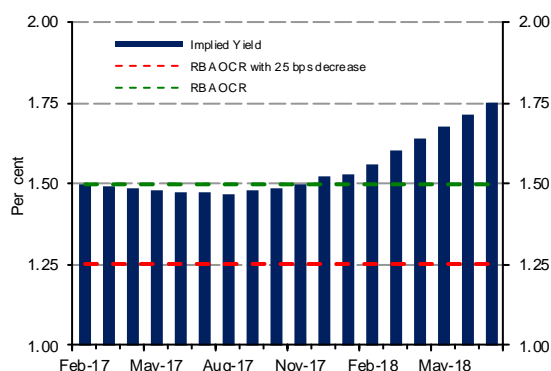
The ASX200 and the US S&P500 rose by 1.5% over the week to Friday.

	Value	Change on Year	Change on Week
US S&P 500	2,351.2	22.6 %	1.5 %
ASX200	5,805.8	17.2 %	1.5 %
Australian Dollar (USD)	0.7664	7.2 %	-0.1 %
TWI	67.0	10.0 %	0.8 %
Oil (USD/bbl)	53.4	80.2 %	-0.9 %
Gold (USD/oz)	1,241.95	0.9 %	1.1 %
Thermal Coal (USD/tonne)	79.9	58.2 %	-0.2 %
Australian 10-yr bond	2.80%	37.3 bps	10.7 bps
US 10-yr bond	2.41%	67.0 bps	0.7 bps

Upcoming Domestic Data Releases (20/02 – 24/02)

- **ABS** will release Wage Price Index, Construction Work Done and Private New Capital Expenditure data for the December quarter, Detailed Labour Force data for January and Average Weekly Earnings data for November.
- **The Department of Employment** will release Skilled Vacancies data for January.
- **The RBA** will release the minutes for its February board meeting. Governor Philip Lowe will speak at the Australia-Canada Economic Leadership Forum in Sydney.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

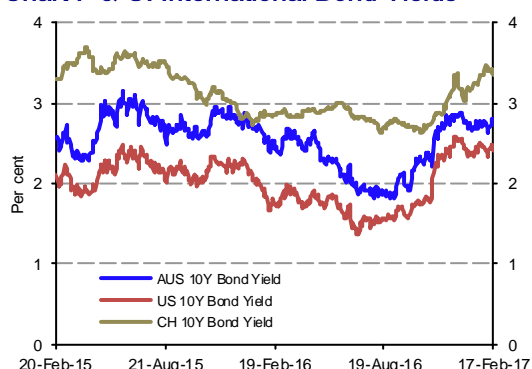
The current implied yield curve on ASX 30 day interbank cash rate futures (Chart E) indicates that the majority of the market expects the RBA to leave the cash rate unchanged until the April quarter of 2018.

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

International Bond Yield Spreads

Following the US election, US bond yields rose in the expectation of greater borrowing by the US Government. This increasing trend has been subdued in recent weeks. Bond yields have been largely stable over the week to Friday. More recently, the spread between US and Germany bond yields has been noticeably wider due to different policy outlooks.

Chart F & G: International Bond Yields



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)	2.80	37.3	10.7	38.8	68.5
United States (US)	2.41	67.0	0.7	-	-
Germany (GER)	0.30	10.0	-1.8	-211.3	-154.3
United Kingdom (UK)	1.21	-20.3	-4.5	-120.4	-33.1
Japan (JPN)	0.09	8.1	0.2	-232.1	-173.2
China (CH)	3.35	49.2	-8.0	93.6	111.4

Key International Data Releases

US: Monthly retail sales increased by an above market expectation of 0.1% in January. Consumer prices increased by 2.5% through the year to January, the fastest through the year growth since March 2012, driven by higher energy prices.

UK: Consumer price rose by 1.8% through the year to January, slightly below market expectation of 1.9%. This was the highest through the year inflation rate since June 2014 due partly to increasing diesel and oil prices.

China: CPI and PPI grew by more than expected in January. The CPI increased by 2.5% through the year to January due to commodity price increases. The PPI increased by 6.9% through the year to January, the highest through the year growth rate since 2011.

Upcoming Key International Data Releases (20/02 – 24/02)

- **Japan:** Trade Balance data for January and the Manufacturing PMI data for February
- **EU:** Consumer Confidence, Manufacturing PMI and Services PMI data for February
- **Germany:** Manufacturing PMI and Business Climate data for February as well as Consumer Confidence data for March