

Weekly Economic & Financial Market Roundup

Week ended Friday 15 December 2017

Monday, 18 December 2017

Chart A: Domestic Interest Rates

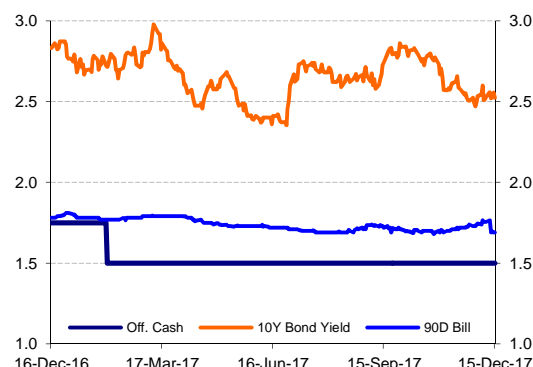


Chart B: Share Price Index

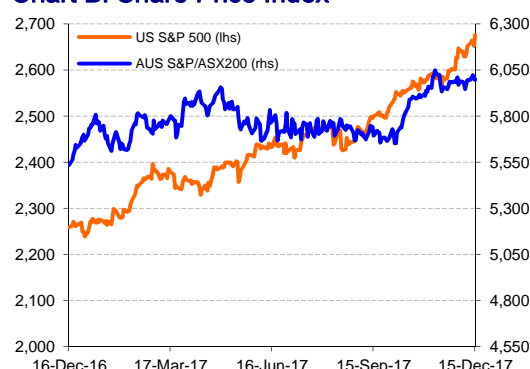


Chart C: Exchange rate

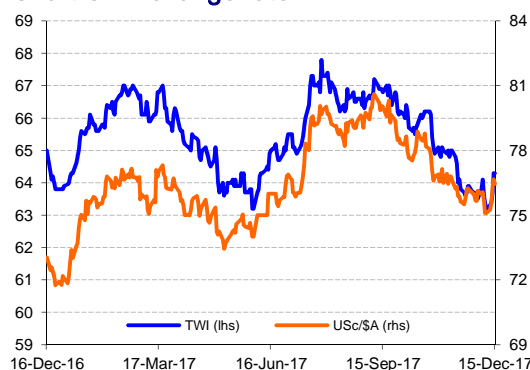
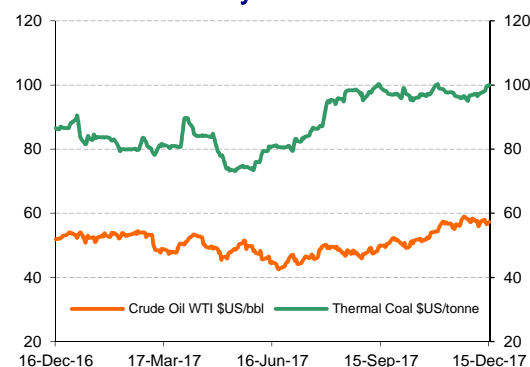


Chart D: Commodity Prices



Domestic Data Releases

The **NAB Monthly Business Survey** showed that business conditions in NSW were +17 index points in November, down from the record high of +30 last month. NSW business confidence was +7 index points. Nationally, business conditions were +12 index points, and confidence was +6 index points.

ABS Lending Finance data indicated that investor housing finance commitments fell 1.2 per cent through the year in NSW, and fell 2.6 per cent through the year nationally.

The **ABS Residential Property Price Index** showed that residential property prices in Sydney fell by 1.4 per cent in the September quarter, and increased 9.4 per cent through the year. Nationally, residential property prices fell 0.2 per cent in the quarter, and increased 8.3 per cent through the year.

W-MI Consumer Sentiment data showed that consumer sentiment in NSW increased 7.1 per cent in December to reach 105.6 index points. Nationally, consumer sentiment increased 3.6 per cent to 103.3 index points. A reading over 100 indicates optimists outweigh pessimists.

ABS Overseas Arrivals & Departures data showed that there were 271,600 short term visitors in NSW in October, a through the year increase of 8.9 per cent. Nationally, there were 741,500 short term visitors, a through the year increase of 6.6 per cent.

ABS Demographic Statistics data showed that NSW's population grew by 1.6 per cent over the year ended 30 June 2017. Australia's population also grew by 1.6 per cent over the same period. Victoria recorded the highest growth rate of all states and territories at 2.4%.

ABS Labour Force data showed that total employment in NSW increased by 28,500 in November, representing a through the year increase of 3.1 per cent. The unemployment rate in NSW remained steady at 4.6 per cent. Nationally, employment was up 61,600 in the month, a through the year increase of 3.2 per cent. The national unemployment rate was steady at 5.4 per cent.

Markets

The ASX200 rose by 0.0 per cent and the US S&P500 rose by 0.9 per cent over the week to Friday.

	Value	Change Year	on Week
US S&P 500	2675.81	18.5 %	0.9 %
ASX200	5996.97	8.4 %	0.0 %
Australian Dollar (USD)	0.76	4.7 %	1.8 %
TWI	64.30	-1.1 %	1.7 %
Oil (USD/bbl)	57.30	10.4 %	-0.1 %
Gold (USD/oz)	1254.60	10.9 %	0.3 %
Thermal Coal (USD/tonnes)	100.00	15.6 %	2.5 %
Australian 10-yr bond	2.52%	-30.8 bps	-0.6 bps
US 10-yr bond	2.35%	-23.9 bps	-2.3 bps
NSW 10-yr bond (bps) maturity 2026	2.72% -	bps	-0.1 bps

Upcoming Domestic Data Releases (18/12 – 22/12)

- The **ABS** will release Sale of New Motor Vehicles and Detailed Labour Force data for November, and Quarterly Labour Force data for the November quarter.
- The **Commonwealth Department of Employment** will release Skilled Vacancies data for November.

Chart E: Interest Rate Expectations

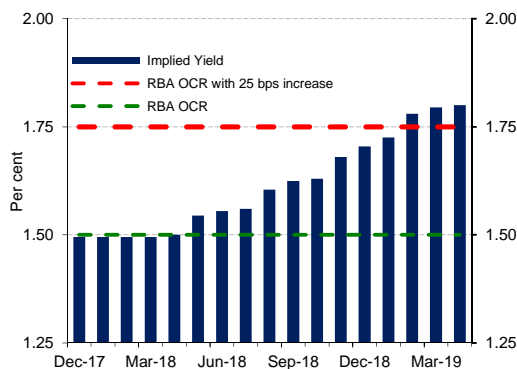
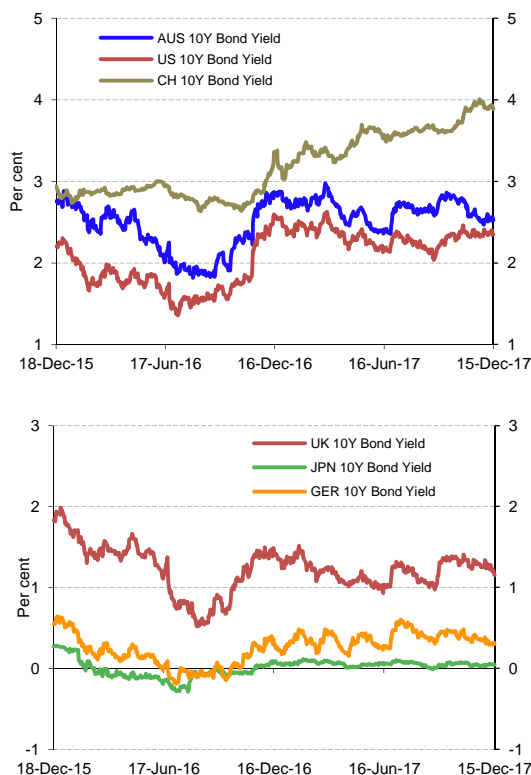


Chart F & G: International Bond Yields



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 increase the cash rate in October 2018.

According to the ASX Target Rate Tracker, as of 15 December, there is a 0 per cent expectation that the RBA will increase the cash rate to 1.75 per cent at its policy meeting on 6 February 2018.

International Bond Yield Spreads

US bond yields fell by 2.3 basis points over the week to Friday. The US yield curve hit its flattest level in a decade after the Fed increased its policy rate to 1.5 per cent. A flat yield curve is often indicative that markets expect low future inflationary pressure, and is consistent with expectations that the Fed will continue to raise rates next year. The spread between US and Australian bond yields was 17.0 basis points last week.

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)	2.52	-30.8	-0.6	17.0	23.9
United States (US)	2.35	-23.9	-2.3	-	-
Germany (GER)	0.30	-1.3	-0.6	-205.2	-227.8
United Kingdom (UK)	1.15	-28.8	-12.9	-120.3	-115.4
Japan (JPN)	0.05	-3.5	-0.7	-230.7	-251.1
China (CH)	3.89	62.1	-2.9	153.2	67.2

Key International Data Releases

US: As expected, the Fed raised its benchmark interest rate to 1.5 per cent. CPI data released last week was also in line with expectations at 2.2 per cent through the year to November. Retail Sales data came in stronger than expected, increasing by 5.8 per cent annualised. The strengthening in consumer spending was broadly based across categories.

Euro: The Markit Manufacturing PMI hit a record high of 60.6 index points, driven particularly by strength in German manufacturing. The composite Markit PMI rose to 62.0 index points, its highest level since 2000. Industrial Production also beat expectations of 3.3 per cent to be up 3.7 per cent through the year. The data points to strengthening growth in the Eurozone, which should further support the ECB's case for gradually unwinding monetary stimulus, despite the central bank leaving its main policy rate unchanged last week.

UK: The unemployment rate stayed at its record low of 4.3 per cent. CPI inflation came in above expectations at 3.1 per cent through the year. Relatively higher inflation in the UK than in Europe has been driven by the pound's sharp depreciation following Brexit, which has pushed up the prices of imported goods. Retail Sales came in well ahead of expectations of 0.3 per cent year on year, to be up 1.6 per cent. The strong result was likely driven by stronger than expected seasonal consumption.

Upcoming Key International Data Releases (18/12 – 22/12)

- **US:** Current Account data for the September quarter and New Home Sales data for November.
- **Euro:** Consumer Confidence data for December.
- **Germany:** IFO Business Expectations data for December, Consumer Confidence data for January.
- **Japan:** Trade Balance data for November.
- **New Zealand:** GDP Growth data for the September quarter.
- **Canada:** GDP Growth data for October.