

Weekly Economic & Financial Market Wrap

Week ended Friday 11 May 2018



Treasury

Monday, 14 May 2018

Chart A: Domestic Interest Rates

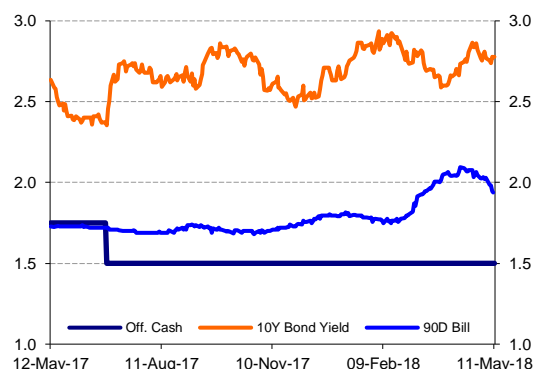


Chart B: Share Price Index

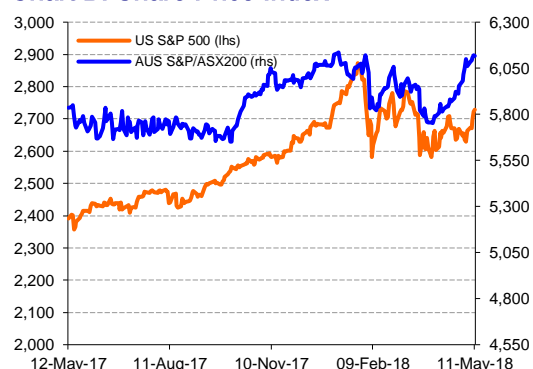


Chart C: Exchange rate

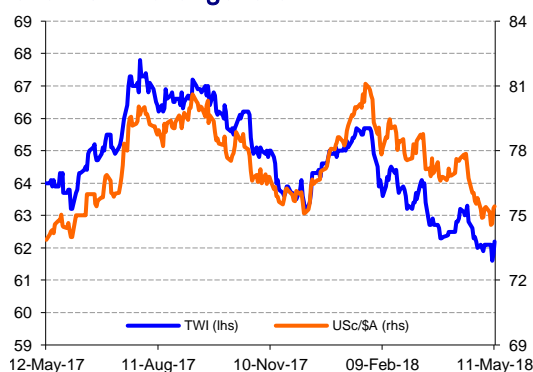
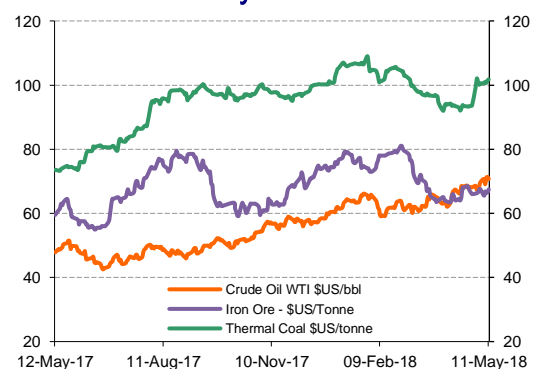


Chart D: Commodity Prices



Domestic Data Releases

NAB released its **Monthly Business Survey**, which showed that NSW business conditions rose from +14 in March to +21 in April; NSW business confidence fell from +10 to +8. Nationally, business conditions rose from +15 to +21, and business confidence rose from +8 to +10.

ABS Retail Trade data indicated that NSW nominal sales decreased 0.1 per cent in March to be up 2.8 per cent through the year. In Australia, nominal sales remained flat in the month to be up 3.1 per cent through the year. NSW real retail sales increased 0.2 per cent in the March quarter to be up 2.5 per cent though the year. In Australia, real retail sales increased by 0.2 per cent in the quarter to be up 2.6 per cent through the year.

ABS Housing Finance data showed that the number of housing finance commitments for owner-occupation (excluding refinancing) in NSW increased 7.7 per cent through the year to March, compared to 3.3 per cent in the rest of Australia. The proportion of first home buyers to total home buyers decreased to 22.0 per cent in NSW from 23.5 per cent in the previous month.

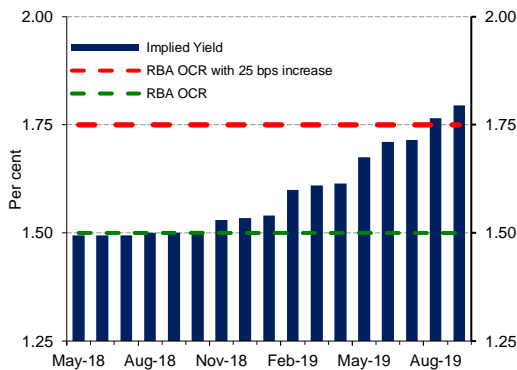
Markets

Over the week to Friday, the ASX200 rose by 0.9 per cent, the US S&P500 rose by 2.4 per cent and thermal coal prices rose by 1.2 per cent. Thermal coal prices are up 38.2 per cent through the year as strong Asian demand continues to hold up the markets.

| | Value | Change on Year | Change on Week |
|---|---------|----------------|----------------|
| US S&P 500 | 2727.72 | 14.1 % | 2.4 % |
| ASX200 | 6116.19 | 4.8 % | 0.9 % |
| Australian Dollar (USD) | 0.75 | 2.1 % | 0.1 % |
| TWI | 62.20 | -2.8 % | 0.2 % |
| Oil (USD/bbl) | 70.70 | 47.8 % | 1.4 % |
| Gold (USD/oz) | 1324.35 | 7.6 % | 1.1 % |
| Thermal Coal (USD/tonnes) | 101.75 | 38.2 % | 1.2 % |
| Australian 10-yr bond | 2.78% | 14.5 bps | 1.0 bps |
| US 10-yr bond | 2.97% | 64.4 bps | 2.0 bps |
| NSW 10-yr bond (bps) maturity 2026 | 2.93% | - | bps -0.5 bps |

Upcoming Domestic Data Releases (14/05 – 18/05)

- **ABS** will release Overseas Arrivals and Departures and Lending Finance data for March, Wage Price Index data for the March quarter and Labour Force data for April.
- **W-MI** will release its Consumer Sentiment data for May.
- **RBA** will release its Monetary Policy Minutes for May. RBA Deputy Governor Guy Debelle will speak at the CFO Forum 2018, Sydney.

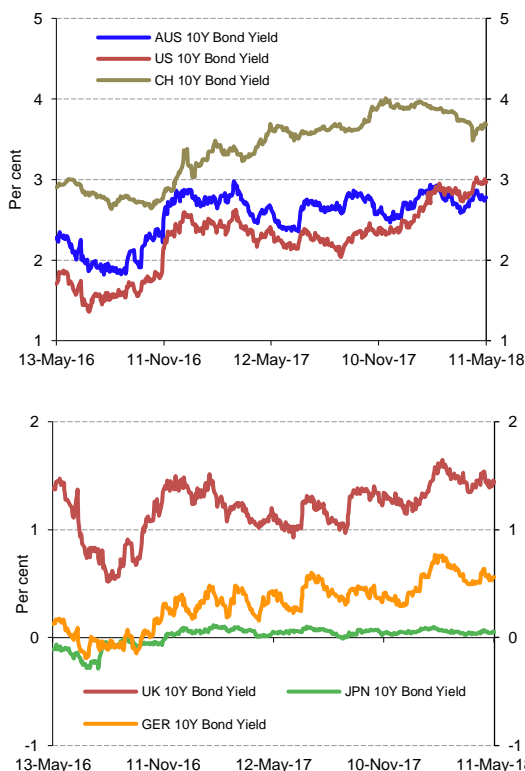
Chart E: Interest Rate Expectations**Market Interest Rate Expectations**

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 increase the cash rate in May 2019.

According to the ASX Target Rate Tracker, as at 10 May, there is a 0 per cent expectation that the RBA will increase the cash rate to 1.75 per cent at its next policy meeting on 5 June 2018.

International Bond Yield Spreads

US bond yields rose by 2.0 basis points over the week to Friday, amid the release of weaker-than-expected CPI data. This suggests that the Fed may not have to increase rates at a faster pace. Australia's 10-year bond yield remained below the US. Bond yields rose in all countries tracked over the week.

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) | 2.78 | 14.5 | 1.0 | -19.0 | 30.9 |
| United States (US) | 2.97 | 64.4 | 2.0 | - | - |
| Germany (GER) | 0.56 | 16.8 | 1.5 | -241.1 | -193.5 |
| United Kingdom (UK) | 1.44 | 35.7 | 4.3 | -152.7 | -124.0 |
| Japan (JPN) | 0.05 | 0.0 | 0.2 | -292.3 | -227.9 |
| China (CH) | 3.69 | 4.8 | 5.9 | 71.6 | 131.1 |

Key International Data Releases

US: Consumer Price Index (CPI) increased by 0.2 per cent in April to be up 2.5 per cent through the year. This was the biggest through the year gain since February 2017. Producer Price Index (PPI) rose by 0.1 per cent in April to be up 2.6 per cent through the year, which was lower than 3.0 per cent increase in March.

China: Trade surplus was reported to be \$28.78 billion in April as through the year growth rates for imports and exports are 21.5 per cent and 12.9 per cent respectively. CPI increased by 1.8 per cent through the year to April, down from 2.1 per cent in March. PPI increased by 3.4 per cent through the year to April, up from 3.1 per cent in March.

UK: Trade deficit narrowed £0.7 billion to £6.9 billion in the three months to March 2018, due mainly to falling goods imports from non-EU countries. Industrial production rose by 0.1 per cent in March to be up 2.9 per cent through the year.

Germany: Trade surplus widened to €22 billion in March as seasonally adjusted exports rose 1.7 per cent and imports fell 0.9 per cent. Industrial Production rose by 1.0 per cent in March compared with a decrease of 1.7 per cent in February.

Upcoming Key International Data Releases (14/04 – 18/05)

- **US:** Retail Sales and Industrial Production data for April.
- **Germany:** GDP data for the March quarter.
- **China:** Industrial Production and Retail Sales data for April.
- **UK:** Unemployment Rate data for March.
- **India:** CPI data for April
- **Japan:** PPI and CPI data for April as well as GDP data for the March quarter.
- **Euro Area:** Industrial Production and Trade Balance data for March.

Six Weeks At A Glance

| Monday | Tuesday | Wednesday | Thursday | Friday |
|--|---|---|---|--------|
| 14-May | 15-May | 16-May | 17-May | 18-May |
| | RBA Monetary Policy Minutes, May-18 Speech by Guy Debelle, Deputy Governor, at the CFO Forum 2018, Sydney ABS Overseas Arrivals and Departures, Mar-18 ABS Lending Finance, Mar-18 | ABS Wage Price Index, MarQ-18 W-MI Consumer Sentiment, May-18 | ABS Labour Force, Apr-18 | |
| 21-May | 22-May | 23-May | 24-May | 25-May |
| | | DoE Skilled Vacancies, Apr-18 ABS Construction Work Done (Prelim), MarQ-18 ANZ Stateometer, MarQ-18 Speech by Phillip Lowe, Governor, at the Australia-China Relations Institute, Sydney | ABS Detailed Labour Force, Apr-18 | |
| 28-May | 29-May | 30-May | 31-May | 1-Jun |
| | | ABS Building Approvals, Apr-18 | RBA Private Sector Credit, Apr-18 ABS Private New Capital Expenditure, MarQ-18 | |
| 4-Jun | 5-Jun | 6-Jun | 7-Jun | 8-Jun |
| ABS Business Indicators, MarQ-18 ABS Retail Trade, Apr-18 | RBA Interest Rate Decision, Jun-18 ABS Balance of Payments, MarQ-18 | APM Auction data, May-18 ABS National Accounts, MarQ-18 ABS Building Approvals, Apr-18 Austrade International Visitor Survey, MarQ-17 | ABS International Trade in Goods & Services, Apr-18 | |
| 11-Jun | 12-Jun | 13-Jun | 14-Jun | 15-Jun |
| | NAB Monthly Business Survey, May-18 ABS Housing Finance, Apr-18 ABS Lending Finance, Apr-18 | ABARES Crop Report, Jun-18 W-MI Consumer Sentiment, Jun-18 | | |
| 18-Jun | 19-Jun | 20-Jun | 21-Jun | 22-Jun |
| ABS Overseas Arrivals and Departures, Apr-18 | RBA Monetary Policy Minutes, Jun-18 ABS Residential Property Price Indexes, MarQ-18 | DoE Skilled Vacancies, May-18 | ABS Detailed Monthly Labour Force, May-18 ABS Detailed Quarterly Labour Force, MayQ-18 RBA Bulletin, Jun-18 | |

ECONOMIC FACTS

| ECONOMIC GROWTH | | | | |
|--------------------------------------|-------|-----------|--------------------------------|---|
| ECONOMIC INDICATOR | NSW | Australia | Measure | Latest Period |
| Gross State/ Domestic Product | 2.9% | 2.0% | % annual average | 2016-17 Next: November 18 |
| State/Domestic Final Demand | 3.0% | 2.4% | % through the year | December quarter 17 Next: 6 June 18 |
| | 1.0% | 0.4% | % change on last qtr | |
| BUSINESS INVESTMENT | | | | |
| NAB Business Confidence | +8 | +10 | NAB Index | April 18 (mthly) Next: 12 June 18 |
| NAB Business Conditions | +21 | +21 | | |
| HOUSING | | | | |
| Dwelling Approvals | 70.7k | 226.7k | Number of app 12mms | March 18 (mthly) Next: 6 June 2018 |
| | -5.0% | -6.3% | % annual average | |
| Residential Prices (capitals) | 3.8% | 5.0% | % through the year | December quarter 17 Next: 19 June 18 |
| LABOUR FORCE | | | | |
| Employment | 3.5% | 3.0% | % through the year | March 18 (mthly) Next: 17 May 18 |
| Unemployment Rate | 5.0% | 5.5% | Current rate | |
| Youth unemployment rate | 10.7% | 12.6% | 12 monthly moving average rate | |
| CONSUMER | | | | |
| Retail Sales | 2.8% | 3.1% | % through the year | March 18 (mthly) Next: 4 June 18 |
| Westpac MI Consumer Confidence | 97.5 | 102.4 | Westpac MI Index | April 18 (mthly) Next: 16 May 18 |
| CPI (Capital cities) | 2.1% | 1.9% | % through the year | March quarter 18 Next: 25 July 2018 |
| Official cash rate | 1.50% | | Lowered 25 basis points Aug 16 | Next: 5 June 18 |

| ECONOMIC FORECASTS | NSW Forecasts (as per 2017-18 HYR) | | | Australian Gov't Forecasts (as per 2018-19 Budget) | | |
|--|---|---------------------|---------------------|---|---------------------|---------------------|
| | 2016-17 Actual | 2017-18 Forecast | 2018-19 Forecast | 2016-17 Actual | 2017-18 Forecast | 2018-19 Forecast |
| State/Domestic Final Demand (%) | 3.6 | 3½ | 2¾ | 2.0 | n.a. | n.a. |
| Gross State /Domestic Product (%) | 2.9 | 3 | 2¾ | 2.1 | 2¾ | 3 |
| Employment (%) ^(a) | 0.9 | 2½ | 1¾ | 1.9 | 2¾ | 1½ |
| Unemployment rate (%)^(b) | 5.0 | 4¾ | 4¾ | 5.6 | 5½ | 5¼ |
| CPI (%)^(c) | 2.0 | 2¼ | 2¼ | 1.9 | 2 | 2¼ |
| Wage Price Index (%) | 2.1 | 2 | 2½ | 1.9 | 2¼ | 2¾ |

(a) Australia: per cent change through the year to June quarter, NSW: year average per cent growth (b) Australia: per cent in the June quarter, NSW: year average per cent (c)

Australia and NSW: per cent change through the year to June quarter