

Weekly Economic & Financial Market Wrap

Week ended Friday 12 October 2018



Treasury

Monday, 15 October 2018

Chart A: Domestic Interest Rates

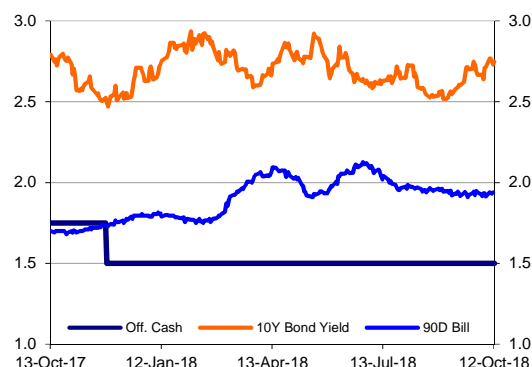


Chart B: Share Price Index

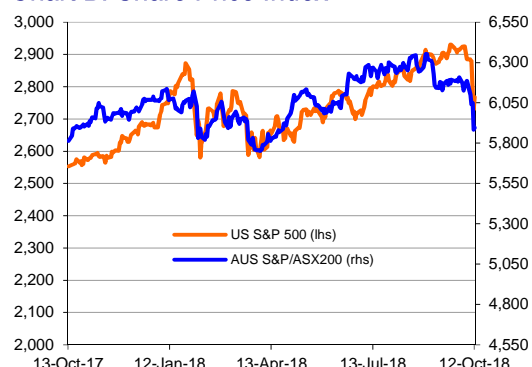


Chart C: Exchange rate

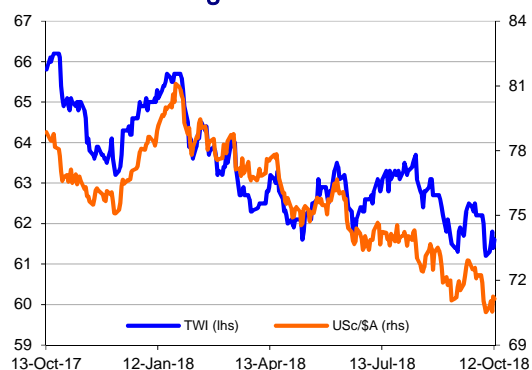
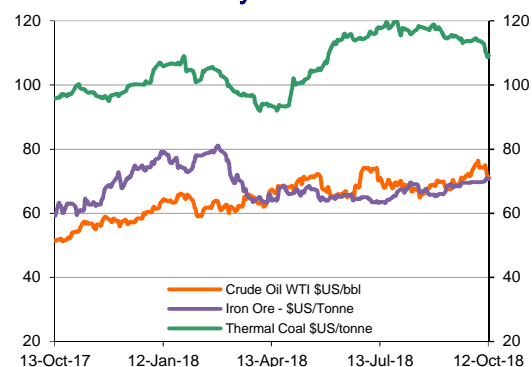


Chart D: Commodity Prices



Domestic Data Releases

NAB released its **Monthly Business Survey** for September. NSW business confidence rose from +2 in August to +3 in September and business conditions remained steady at +15 in September. Nationally, business confidence rose from +5 in August to +6 in September and business conditions fell from +14 in August to +15 in September.

W-MI released its **Consumer Sentiment Survey** for **October**. NSW consumer sentiment index fell by 3.0 per cent to 98.5 index points in October. This was the result of declines in both its current conditions and expectations indexes, down by 5.3 per cent and 1.5 per cent respectively. The Australia consumer sentiment index rose by 1.0 per cent to 101.5 index points in October. Westpac commented "several positives have likely helped stabilise the index, including strong economic growth, a solid labour market and ongoing recoveries in the previously weak mining states".

ABS Building Activity data for the **June quarter**, showed that NSW dwelling completions were at an annual sum of 65,082 in the quarter, up 2.6 per cent in the year. Nationally, completions were at an annual sum of 212,814, down 2.8 per cent in the year. NSW dwelling commencements were at an annual sum of 70,843 in the quarter, down 5.8 per cent in the year. Nationally, commencements were at an annual sum of 228,248, down 2.6 per cent in the year.

ABS Housing Finance data for **August**, showed that commitments for owner-occupiers in NSW were down 13.0 per cent through the year and in Australia were down 10.2 per cent through the year. In NSW, the proportion of first home buyers rose slightly to 23.7 per cent.

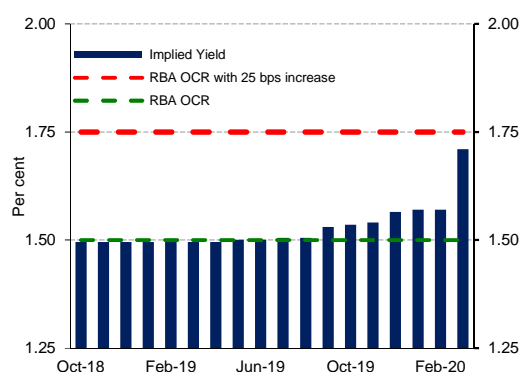
Markets

Over the week to Friday, the ASX200 fell by 4.7 per cent, the US S&P500 fell by 4.1 per cent and thermal coal prices fell by 3.9 per cent.

	Value	Change Year	on	Change Week	on
US S&P 500	2767.13	8.4 %		-4.1 %	
ASX200	5895.67	1.4 %		-4.7 %	
Australian Dollar (USD)	0.71	-9.8 %		0.9 %	
TWI	61.60	-6.4 %		0.7 %	
Oil (USD/bbl)	71.34	38.7 %		-4.0 %	
Gold (USD/oz)	1219.75	-6.1 %		1.3 %	
Thermal Coal (USD/tonnes)	109.20	14.0 %		-3.9 %	
Australian 10-yr bond	2.75%	-4.2 bps		3.6 bps	
US 10-yr bond	3.16%	88.8 bps		-7.2 bps	
NSW 10-yr bond (bps) maturity 2028	3.17%	- bps		3.0 bps	

Upcoming Domestic Data Releases (15/10 – 19/10)

- **ABS** will release Lending Finance and Overseas Arrivals and Departures data for August and Labour Force data for September.
- **NAB** will release its Quarterly Business Survey for the September quarter.
- The **RBA** will release its Monetary Policy Minutes for October.

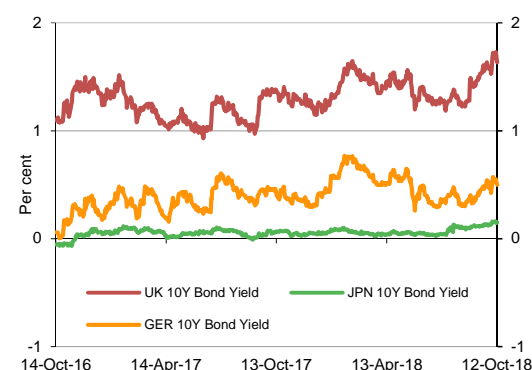
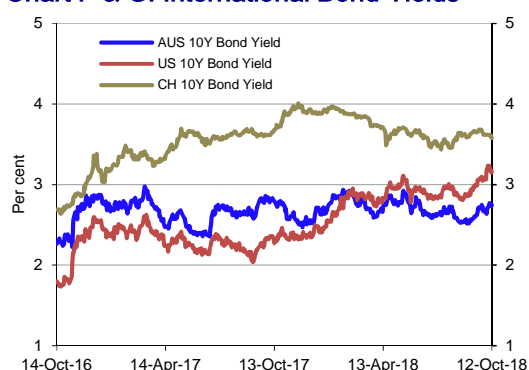
Chart E: Interest Rate Expectations**Market Interest Rate Expectations**

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 March 2020.

According to the ASX Target Rate Tracker, as at 12 October, 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 6 November 2018.

International Bond Yield Spreads

US bond yields fell 7.2 basis points over the week to Friday. The consumer price index showed that consumer prices rose less than expected in September, calming inflation fears. The 10-year Treasury yield to its highest level in seven years last week as the unemployment rate hit 3.7 per cent, the lowest rate in 49 years. Bond yields fell in all other countries tracked over the week, except Australia.

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 U bond year ago (bps)
Australian (AUS)	2.75	-4.2	3.6	-41.1	51.9
United States (US)	3.16	88.8	-7.2	-	-
Germany (GER)	0.50	9.5	-7.5	-266.3	-187.0
United Kingdom (UK)	1.63	26.6	-8.9	-152.8	-90.6
Japan (JPN)	0.15	8.6	-0.5	-301.1	-220.9
China (CH)	3.58	-9.3	-3.9	41.8	139.9

Key International Data Releases

Germany: Industrial production fell 0.1 per cent through the year to August, compared to a rise of 1.5 per cent in July. The trade surplus widened to €17.2 billion in August, from €16.5 billion in July, as the decline in imports outweighed a softening in exports.

UK: The rate of GDP growth slowed to 0.0 per cent in the month of August, compared to 0.4 per cent in the previous month. The momentum in the economy, after hot weather and the World Cup prompted consumers to spend more money earlier in the Summer, has eased. Manufacturing production came in at 1.3 per cent through the year to August, against 1.4 per cent in the previous month. The trade deficit widened to -£1.2 billion in August, from -0.572 billion in July as imports grew faster than exports during the month.

US: The consumer price index rose 2.3 per cent through the year to September, compared to 2.7 per cent in August. Inflationary pressures appeared to cool slightly, with a slower increase in the cost of rent and falling energy prices, although this is unlikely to change monetary policy expectations. The producer price index rose 2.6 per cent through the year to September, compared to 2.8 per cent in the previous month.

Japan: The producer price index rose 3.0 per cent through the year to September, unchanged from the previous month. The current account surplus narrowed to ¥1.84 trillion in August, from ¥2.01 trillion in the previous month. Notably, the margin of surplus in the current account was down 23.4 per cent from a year earlier on oil import surges. The goods trade deficit was ¥219.3 billion as energy imports such as crude oil and liquid natural gas soared, outpacing a rise in exports.

Upcoming Key International Data Releases (15/10 – 19/10)

- **China:** CPI, PPI Industrial Production and Retail Sales data for September and GDP growth for the September quarter.
- **UK:** Employment Change, Unemployment Rate data for August and Retail Sales, CPI data for September.
- **Japan:** Trade Balance and CPI data for September.

Six Weeks At A Glance

Monday 15-Oct	Tuesday 16-Oct	Wednesday 17-Oct	Thursday 18-Oct	Friday 19-Oct
	RBA Monetary Policy Minutes, Oct-18 ABS Lending Finance, Aug-18	ABS Overseas Arrival and Departures, Aug-18	NAB Quarterly Business Survey, Sep Q-18 ABS Labour Force, Sep-18	
22-Oct	23-Oct	24-Oct	25-Oct	26-Oct
		DoE Skilled Vacancies, Sep-18	ABS Detailed Monthly Labour Force, Sep-18	ABS National Accounts, 2017-18
29-Oct	30-Oct	31-Oct	1-Nov	2-Nov
	ABS Building Approvals, Sep-18	RBA Private Sector Credit, Sep-18 ABS Consumer Price Index, Sep-18	ABS International Trade in Goods and Services, Sep-18	ABS Producer Price Indexes, Sep-18 ABS Retail Trade, Sep-18
5-Nov	6-Nov	7-Nov	8-Nov	9-Nov
	RBA Interest Rate Decision, Nov-18 APM Auction data, Oct-18	ABS Regional Building Approvals, Sep-18		RBA Statement on Monetary Policy, Nov-18 ABS Housing Finance, Sep-18
12-Nov	13-Nov	14-Nov	15-Nov	16-Nov
	NAB Monthly Business Survey, Oct-18 ABS Lending Finance, Sep-18	W-MI Consumer Sentiment, Nov-18 ABS Wage Price Index, Sep-18	ABS Labour Force, Oct-18	ABS State Accounts, 2017-18
19-Nov	20-Nov	21-Nov	22-Nov	23-Nov
ABS Overseas Arrivals and Departures, Sep-18	RBA Monetary Policy Minutes, Nov-18	DoE Skilled Vacancies, Oct-18 ANZ Stateometer, Sep Q-18	ABS Detailed Monthly Labour Force, Oct-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: 16 November 18
State/Domestic Final Demand	3.5%	3.4%	% through the year	June quarter 18 Next: 5 December 18
	0.3%	0.6%	% change on last qtr	
BUSINESS INVESTMENT				
NAB Business Confidence	+3	+6	NAB Index	October 18 (mthly) Next: 13 November 18
NAB Business Conditions	+15	+15		
HOUSING				
Dwelling Approvals	69.8k	227.8k	Number of app 12mms	August 18 (mthly) Next: 30 October 2018
	-3.8%	-0.9%	% annual average	
Residential Prices (capitals)	-3.9%	-0.6%	% through the year	June quarter 18 Next: 11 December 18
LABOUR FORCE				
Employment	3.9%	2.5%	% through the year	August 18 (mthly) Next: 18 October 18
Unemployment Rate	4.7%	5.3%	Current rate	
Youth unemployment rate	10.3%	12.1%	12 monthly moving average rate	
CONSUMER				
Retail Sales	4.3%	3.8%	% through the year	August 18 (mthly) Next: 2 November 18
Westpac MI Consumer Confidence	98.5	101.5	Westpac MI Index	October 18 (mthly) Next: 14 November 18
CPI (Capital cities)	2.1%	2.1%	% through the year	June quarter 18 Next: 31 October 2018
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 6 November 18

ECONOMIC FORECASTS^(a)	NSW Forecasts (as per 2018-19 Budget)			Australian Gov't Forecasts (as per 2018-19 Budget)		
	2016-17 Actual	2017-18 Actual (Forecast)	2018-19 Forecast	2016-17 Actual	2017-18 Actual (Forecast)	2018-19 Forecast
State/Domestic Final Demand (%)	3.8	3.3(3¾)	3	2.3	n.a.	n.a.
Gross State /Domestic Product (%)	2.9	(3)	2¾	2.1	2.9(2¾)	3
Employment (%)^(b)	1.1	3.1(3)	1¾	2.2	2.9(2¾)	1½
Unemployment rate (%)^(c)	5.0	4.8(4¾)	4¾	5.6	5.4(5½)	5¼
CPI (%)^(d)	2.0	2.0(2)	2¼	1.9	2.1(2)	2¼
Wage Price Index (%)^(e)	2.1	2.1(2)	2½	1.9	2.1(2¼)	2¾

(a) Australia and NSW: Annual average growth unless otherwise stated (b) Australia: per cent change through the year to June (c) Australia: per cent in June (d) Australia: per cent change through the year to June quarter. 2017-18 to 2018-19 include a ¼ percentage point contribution from tobacco excise increases. (e) Australia: per cent change through the year to June quarter.