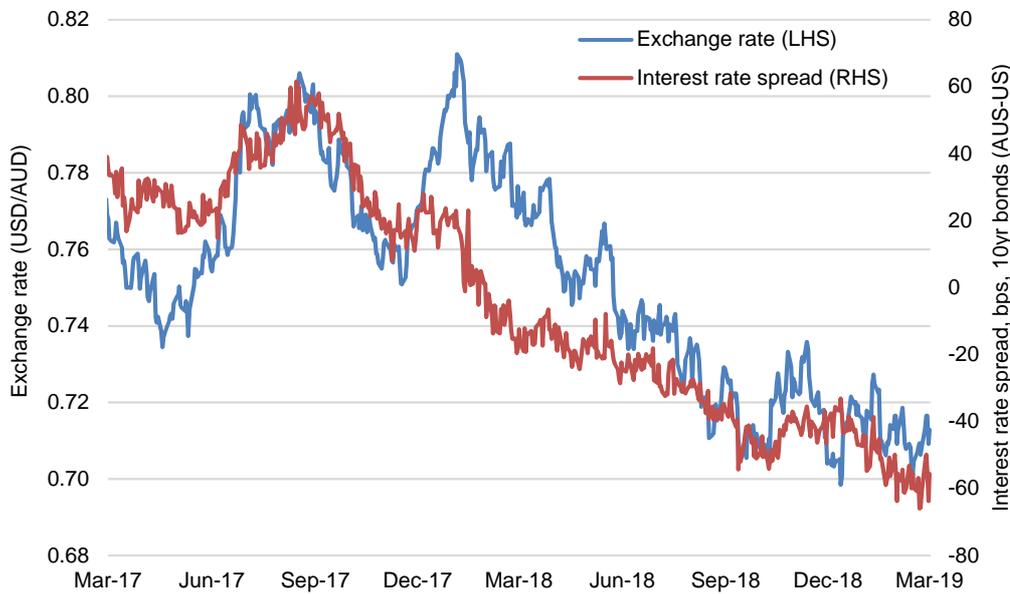


Chart of the Week: Widening interest rate spread hints at AUD weakness



From the chief economist:

The highlight of domestic economic events last week was the release of the February employment data last Thursday. The data revealed a reversal of the previous month's positive trends for NSW, with employment falling over the month and the unemployment rate springing back up to 4.3%, from the all-time (reported) low of 3.9% in January. The national jobless rate actually dipped in February to a decade-low of 4.9%. The higher jobless rate in NSW better aligns with real-economy indicators showing slower growth in activity. The other major economic release last week showed a large fall in Sydney house prices over Q4, although we already knew that from more-timely industry data. Offshore, the US Fed unexpectedly guided towards interest rate stability over the course of 2019, which prompted a fall in USD and a bounce in AUD.

This week is more quiet, with the RBA's credit aggregates scheduled for release on Friday and the Bank's assistant governor delivering a speech on housing tomorrow morning. The home auction clearance rate has trended up in recent weeks, but remains in the low 50s in Sydney, a rate consistent with falling house prices. The rate of decline in house prices probably is slowing, but they will continue to fall for some time yet. Overseas, the Brexit clock was supposed to stop ticking at the end of this week but, with the chaos and indecision worsening, the government has resorted to negotiating an extension.

Chart A: Domestic Interest Rates

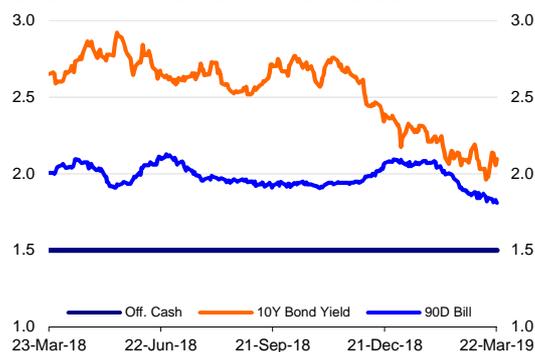


Chart B: Share Price Index

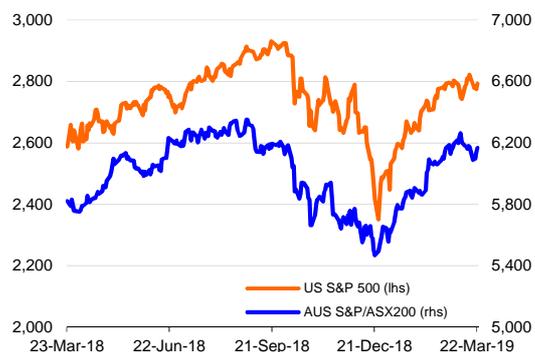
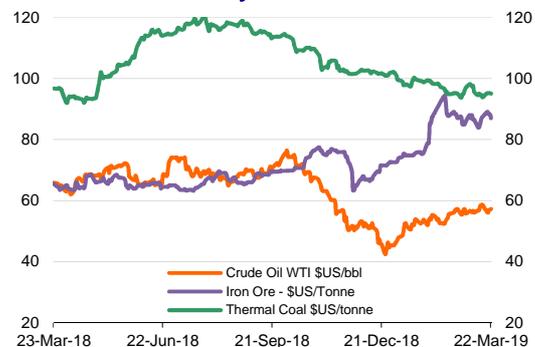


Chart C: Exchange rate



Chart D: Commodity Prices



Domestic Data Releases

ABS Labour Force data showed that in NSW employment fell by 5,800 or 0.1 per cent in February, to be up 3.3 per cent through the year. The unemployment rate bounced higher to 4.3 per cent from the record low of 3.9 per cent last month. The participation rate remained steady at its record high of 65.2 per cent. Nationally, employment increased by 4,600 in February, to be up 2.3 per cent through the year. The national unemployment rate fell by 0.1 percentage points to 4.9 per cent.

ABS Demographic Statistics data showed that for the first time in history Australia pushed past 25 million residents and NSW past 8 million residents. The population in NSW reached 8.024 million in the September quarter, which was up 1.5 per cent through the year. Natural increase contributed 0.7 percentage points, net interstate migration detracted 0.3 percentage points and net overseas migration contributed 1.1 percentage points. Nationally, the population reached 25.102 million in the quarter, which was up 1.6 per cent through the year.

ABS Residential Property Price Indexes data showed that the residential property price index in Sydney fell 3.7 per cent in the December quarter, to be down 7.8 per cent through the year. The December quarter represents the sharpest decline since the index started falling in the September quarter 2017. In Australia (weighted average of capital cities) the index fell 2.4 per cent in the quarter, down 5.1 per cent through the year.

CoreLogic Weekly Auction Data for the week ended 17 March 2019, showed that the final auction clearance rate in Sydney was 54.2 per cent compared to 52.3 per cent in the week prior. Nationally, the final auction clearance rate was 51.4 per cent, compared to 47.8 per cent in the week prior.

Markets

Over the week to Friday, the ASX200 fell 0.1 per cent, the US S&P500 fell 1.1 per cent and oil prices fell 2.2 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2792.67	7.9 %	-1.1 %
ASX200	6167.31	6.0 %	-0.1 %
Australian Dollar (USD)	0.71	-7.4 %	0.6 %
TWI	60.50	-3.5 %	0.0 %
Oil (USD/bbl)	57.26	-13.1 %	-2.2 %
Gold (USD/oz)	1329.05	-1.3 %	2.0 %
Thermal Coal (USD/tonnes)	95.05	-1.8 %	1.3 %
Australian 10-yr bond	2.10%	-55.5 bps	11.7 bps
US 10-yr bond	2.65%	-16.2 bps	6.5 bps
NSW 10-yr bond (bps) maturity 2028	2.34%	-53.5 bps	-13.0 bps

Upcoming Domestic Data Releases (25/03-29/03)

- **ABS** will release Engineering Construction Activity data for the December quarter, Detailed Quarterly Labour Force and Job Vacancies data for the February quarter and Detailed Monthly Labour Force data for February.
- **RBA** will release Private Sector Credit data for February. RBA Assistant Governor (Economic) Luci Ellis will deliver a speech at the HIA March Industry Outlook Breakfast in Sydney.

Chart E: Interest Rate Expectations

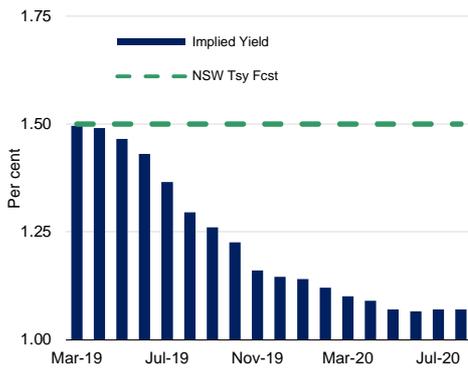
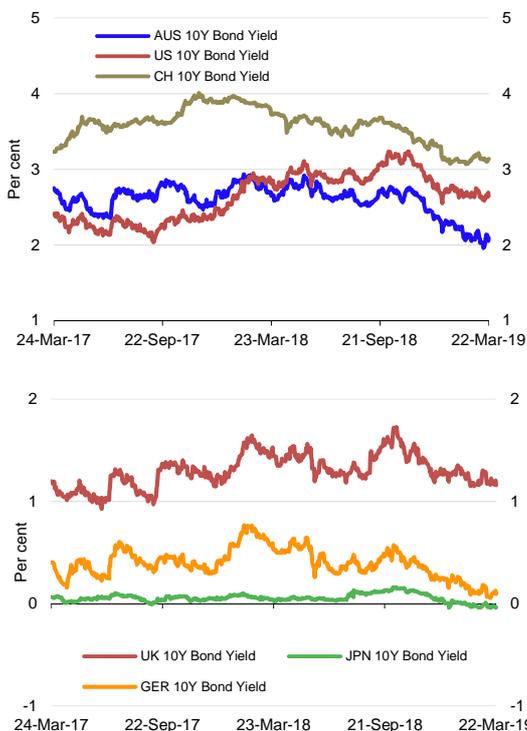


Chart F & G: International Bond Yields



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 a rate cut in July 2019.

According to the ASX Target Rate Tracker, as at 22 March, there is a 4 per cent expectation that the RBA will decrease the cash rate to 1.25 per cent at its next policy meeting on 2 April 2019.

International Bond Yield Spreads

US bond yields built in anticipation of the Federal Reserve’s interest rate decision on Wednesday before falling drastically post announcement. The unchanged interest rates were expected and already priced in to bond yields, however the announcement of a more patient approach going forward caused markets to shift. The Fed appears to have abandoned plans for interest rate hikes this year and is planning to halt quantitative tightening – dropping its double-barrelled tightening strategy.

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)	2.10	-55.5	11.7	-55.6	-16.3
United States (US)	2.65	-16.2	6.5	-	-
Germany (GER)	0.10	-43.1	1.2	-255.6	-228.7
United Kingdom (UK)	1.16	-28.7	-5.3	-149.4	-136.9
Japan (JPN)	-0.04	-6.1	-0.3	-268.9	-279.0
China (CH)	3.14	-58.8	-0.3	48.7	91.4

Key International Data Releases

US: The Fed decided to keep interest rates unchanged at 2.25-2.50 per cent. Factory orders rose 0.1 per cent in January, undershooting market expectation for an 0.3 per cent rise.

UK: The BoE decided to leave interest rates unchanged at 0.750 per cent. The unemployment rate dropped slightly to 3.9 per cent in January, from 4.0 per cent in the previous month. CPI rose 1.9 per cent through the year to February, compared with 1.8 per cent in January. Retail sales (inc auto fuel) increased by 4.0 per cent through the year to February compared to 4.1 per cent in the previous month.

Euro Area: The trade surplus expanded to €17.0 billion in January, from €16.0 billion in February. The consumer confidence index rose slightly to -7.2 for March, from -7.4 the prior month. Manufacturing PMI decreased to 47.6 in March from 49.3 in the previous month. Services PMI decreased to 52.7 in March from 51.9 in the prior month.

Germany: Manufacturing PMI decreased to 44.7 in March from 47.6 in the previous month.

Japan: The trade deficit of ¥1415.6 in January pivoted drastically to a trade surplus of ¥339.0 billion in February. CPI rose 0.2 per cent through the year to February, unchanged from January. Manufacturing PMI remained steady at 48.9 in March

Upcoming Key International Data Releases (25/03-29/03)

- **US** Trade Balance for January.
- **Euro Area** Business Climate for March.
- **Japan** Unemployment, Retail Sales and Industrial Production for February and Tokyo CPI for March.
- **China** Manufacturing PMI and Non-Manufacturing PMI for March.
- **Germany** Retail Sales for February, Business Climate, Unemployment and CPI for March and Consumer Confidence for April.

Six Weeks At A Glance

Monday	Tuesday	Wednesday	Thursday	Friday
25-Mar	26-Mar	27-Mar	28-Mar	29-Mar
	RBA Speech by Luci Ellis, Assistant Governor (Economic), at the HIA March Industry Outlook Breakfast, Sydney	ABS Engineering Construction Activity, DecQ-18	CoreLogic Weekly Auction Data ABS Detailed Monthly Labour Force, Feb-19 ABS Detailed Quarterly Labour Force, FebQ-19 ABS Job Vacancies, Feb-19	RBA Private Sector Credit, Feb-19
1-Apr	2-Apr	3-Apr	4-Apr	5-Apr
NAB Monthly Business Survey, Mar-19 CoreLogic Monthly House Price Data	ABS Building Approvals, Feb-19 RBA Interest Rate Decision, Apr-19	ABS International Trade in Goods & Services, Feb-19 ABS Retail Trade, Feb-19	CoreLogic Weekly Auction Data	
8-Apr	9-Apr	10-Apr	11-Apr	12-Apr
	ABS Lending to Households and Businesses, Feb-19 ABS Regional Building Approvals, Feb-19	ABS Building Activity, DecQ-18 W-MI Consumer Sentiment, April-19	ABS Overseas Arrivals and Departures, Feb-19 CoreLogic Weekly Auction Data	RBA Financial Stability Review, Apr-19
15-Apr	16-Apr	17-Apr	18-Apr	19-Apr
	RBA Monetary Policy Minutes, Apr-19		ABS Labour Force, Mar-19 CoreLogic Weekly Auction Data NAB Quarterly Business Survey, MarQ-19	
22-Apr	23-Apr	24-Apr	25-Apr	26-Apr
Commsec State of the States, MarQ-19		ABS Detailed Monthly Labour Force, Mar-19 ABS Consumer Price Index, MarQ-19	CoreLogic Weekly Auction Data	ABS Producer Price Indexes, MarQ-19 ABS International Trade Price Indexes, MarQ-19
29-Apr	30-Apr	1-May	2-May	3-May
	RBA Private Sector Credit, Mar-19	CoreLogic Monthly House Price Data	CoreLogic Weekly Auction Data	ABS Building Approvals, Mar-19

ECONOMIC FACTS

ECONOMIC GROWTH				
ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.6%	2.8%	% annual average	2017-18 Next: November 2019
State/Domestic Final Demand	2.6%	2.5%	% through the year	December quarter 18 Next: 5 June 19
	-0.1%	0.3%	% change on last qtr	
BUSINESS INVESTMENT				
NAB Business Confidence	-1	+2	NAB Index	February 19 (mthly) Next: 1 April 19
NAB Business Conditions	+3	+4		
HOUSING				
Dwelling Approvals	63.2k	206.7k	Number of app 12mms	January 19 (mthly) Next: 2 April 2019
	-4.5%	0.5%	% annual average	
Residential Prices (capitals)	-7.8%	-5.1%	% through the year	December quarter 18 Next: 18 June 19
LABOUR FORCE				
Employment	3.3%	2.3%	% through the year	February 19 (mthly) Next: 18 April 19
Unemployment Rate	4.3%	4.9%	Current rate	
Youth unemployment rate	10.1%	11.5%	12 monthly moving average rate	
CONSUMER				
Retail Sales	2.7%	2.7%	% through the year (nominal)	January 19 (mthly) Next: 3 April 19
Westpac MI Consumer Confidence	95.3	98.8	Westpac MI Index	February 19 (mthly) Next: 10 April 19
CPI (Capital cities)	1.7%	1.8%	% through the year	December quarter 18 Next: 24 March 19
Official cash rate	1.50%		Lowered 25 basis points Aug 16	Next: 2 April 19

ECONOMIC FORECASTS^(a)	NSW Forecasts (as per 2018-19 PEBU)			Australian Gov't Forecasts (as per 2018-19 MYEFO)		
	2017-18 Actual	2018-19 Forecast	2019-20 Forecast	2017-18 Actual	2018-19 Forecast	2019-20 Forecast
State/Domestic Final Demand (%)	3.4	2¾	2¾	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	2.6	2½	2½	2.8	2¾	3
Employment (%)^(b)	3.1	2¾	1½	2.7	1¾	1¾
Unemployment rate (%)^(c)	4.8	4½	4½	5.4	5	5
CPI (%)^(b)	2.0	1¾	2	2.1	2	2¼
Wage Price Index (%)^(b)	2.1	2½	2¾	2.1	2½	3

(a) Per cent change, annual average, unless otherwise indicated. (b) NSW: annual average, Australia: per cent change through the year to June (c) NSW: Per cent, year average, Australia: Per cent in June.