

Weekly Economic & Financial Market Roundup

Week ended Friday 12 January 2018

Monday, 15 January 2018

Chart A: Domestic Interest Rates

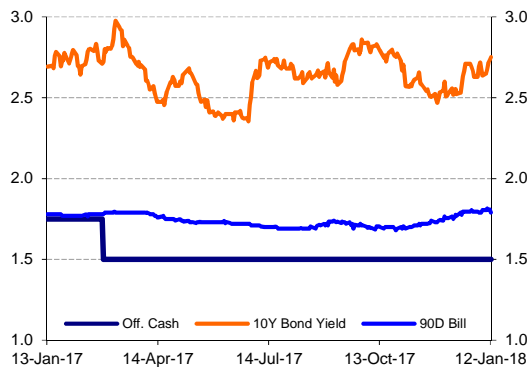


Chart B: Share Price Index

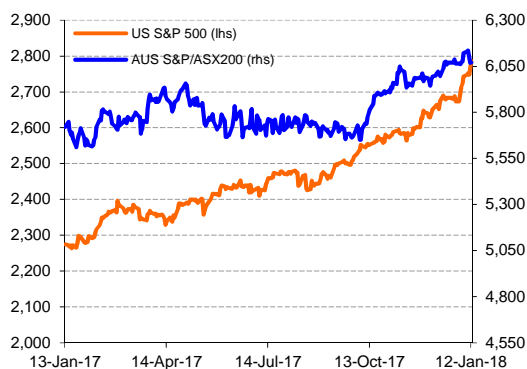


Chart C: Exchange rate

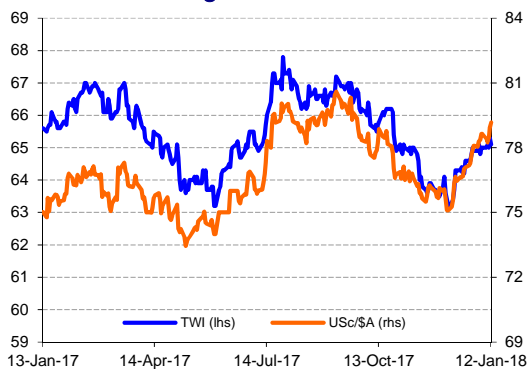
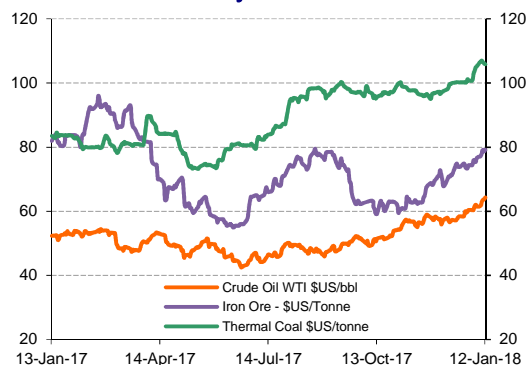


Chart D: Commodity Prices



Domestic Data Releases

ABS Retail Trade data indicated that nominal sales increased 1.0 per cent in November to be 2.7 per cent higher through the year. In Australia, nominal sales increased 1.2 per cent in the month for a 2.9 per cent through the year result.

ABS Building Approvals data showed that there were 5,936 approvals in NSW in October, contributing to a 12 month sum of 70,150 approvals. Nationally, there 22,532 approvals in October, contributing to a 12 month sum of 222,129 approvals.

APM Auction data showed that the Sydney auction clearance rate fell to 50 per cent in December, its lowest level since 2015, and well below the 70 per cent level recorded in December last year. The median house price in Sydney was down slightly (0.8 per cent) in November to \$1,168,000, and the median unit price was up 0.7 per cent to be \$740,700.

Markets

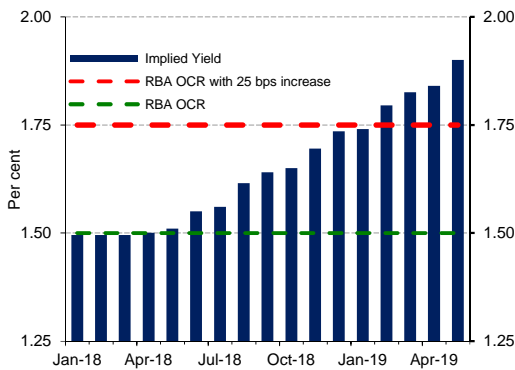
The ASX200 fell by 0.9 per cent and the US S&P500 rose by 1.6 per cent over the week to Friday.

	Value	Change on Year	Change on Week
US S&P 500	2786.24	22.5 %	1.6 %
ASX200	6070.05	6.1 %	-0.9 %
Australian Dollar (USD)	0.79	5.5 %	0.7 %
TWI	65.10	-0.8 %	0.2 %
Oil (USD/bbl)	64.30	22.8 %	4.7 %
Gold (USD/oz)	1326.80	11.5 %	0.7 %
Thermal Coal (USD/tonnes)	105.85	26.8 %	0.5 %
Australian 10-yr bond	2.75%	6.1 bps	11.5 bps
US 10-yr bond	2.55%	15.0 bps	7.0 bps
NSW 10-yr bond (bps) maturity 2026	2.90%	-	10.2 bps

Upcoming Domestic Data Releases (15/01 – 19/01)

- The **ABS** will release Lending Finance, Housing finance and overseas arrivals and departures data for November, Sale of New Motor Vehicles and Labour Force data for December and Building activity and Engineering construction data for the September quarter.
- The **Westpac-MI** will release Consumer Sentiment data for January.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

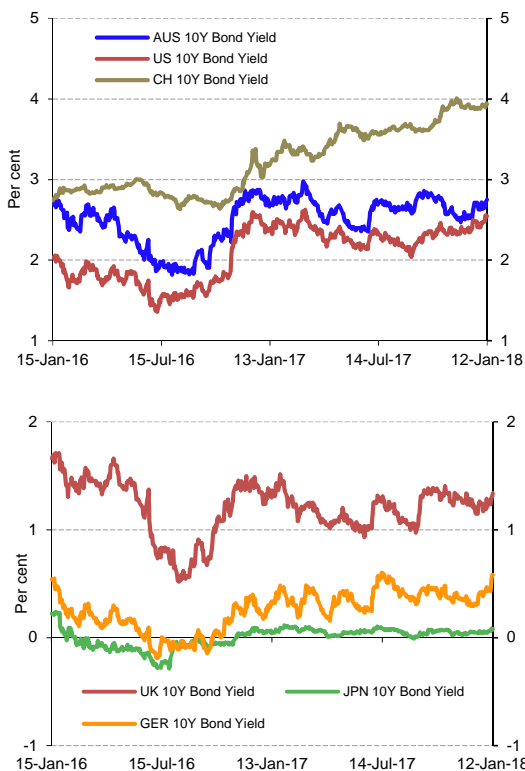
The current implied yield curve on ASX 30 day Interbank Cash Rate Futures (Chart E) indicates that the majority of the market expects the RBA to increase the cash rate in September 2018.

According to the ASX Target Rate Tracker, as of 12 January, 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 rose by 7 basis points over the week to Friday. Early in the week US bond yields hit a 10 month high following strong core inflation growth and the Bank of Japan’s decision to trim its regular purchase of long-dated bonds. This was partially offset by a number of European central banks consideration to curb their bond-buying programs. The spread between US and Australian bond yields was 20.7 basis points last 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)	2.75	6.1	11.5	20.7	29.6
United States (US)	2.55	15.0	7.0	-	-
Germany (GER)	0.58	24.3	14.2	-196.5	-205.8
United Kingdom (UK)	1.34	-2.5	9.5	-120.7	-103.2
Japan (JPN)	0.08	2.8	1.5	-246.8	-234.6
China (CH)	3.94	74.8	1.8	138.9	79.1

Key International Data Releases

US: CPI rose by 0.1 per cent in December to be 2.1 per cent higher through the year, while core inflation (exc volatile goods) rose 0.3 per cent in the month, the largest gain in 11 months, to be 1.8 per cent higher through the year. Retail sales rose 0.4 per cent in December to be 5.4 per cent higher through the year, sales were supported by receipts in gardening and building materials and motor vehicle sales.

Euro: Retail sales rose 1.5 per cent in November, after falling 1.1 per cent in October to be 2.8 per cent higher through the year. The strong gain was the largest since October 2016 and was supported by sales in food, textiles, clothing and footwear and pharmaceutical goods. The unemployment rate fell for a third consecutive month to 8.7 per cent in November from 8.8 per cent the previous month, this is the lowest unemployment rate since January 2009.

Japan: Consumer confidence fell unexpectedly in December to 44.7 index points from 44.9 the previous month, confidence weakened for most indicators including overall livelihood, employment and willingness to buy.

China: CPI rose 1.8 percent through the year to December, below expectations of 1.9 per cent but higher than November’s result of 1.7 per cent. The cost of non-food goods has continued to increase while food prices has eased slightly.

Germany: GDP growth accelerated in 2017 to 2.2 per cent for the year – the strongest gain in six years – supported primarily by increased household consumption up 2.0 per cent and investment in machinery and other equipment up 3.5 per cent in the year. Foreign trade also contributed to growth adding 0.2 percentage points to growth.

Upcoming Key International Data Releases (15/01 – 19/01)

- **US:** Industrial production data for December and Michigan Consumer Sentiment data for January.
- **China:** Industrial Production and Retail Sales data for December and GDP growth data for the December quarter.
- **Canada:** BOC Interest rate decision for January.