

Monday, 12 February 2018

Chart A: Domestic Interest Rates

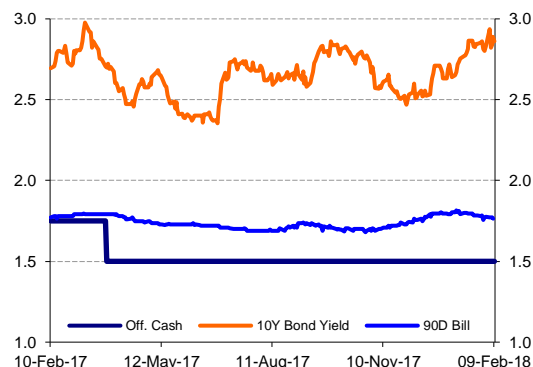


Chart B: Share Price Index

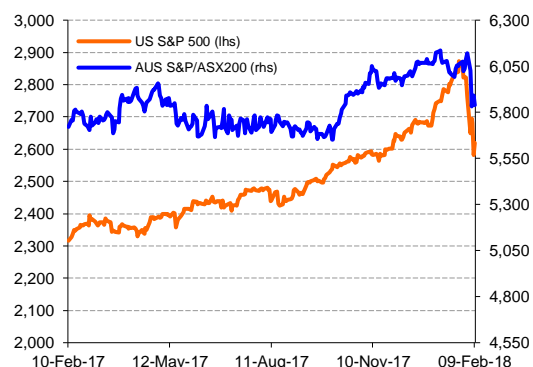


Chart C: Exchange rate

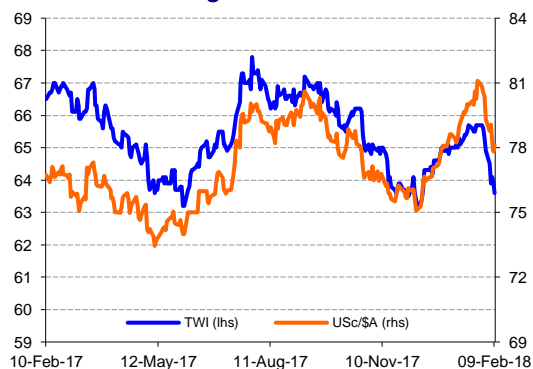
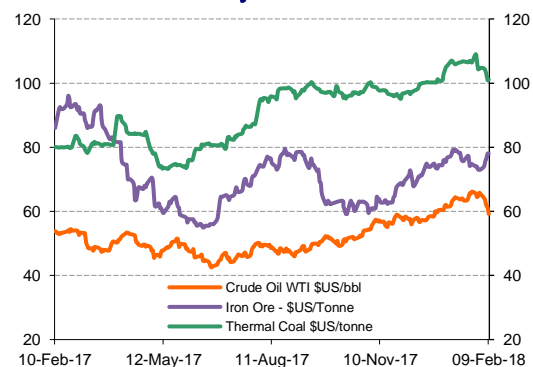


Chart D: Commodity Prices



Domestic Data Releases

ABS Retail Trade data indicated that NSW nominal sales decreased 0.4 per cent in the month of December for a 2.7 per cent increase through the year. In Australia, nominal sales decreased 0.5 per cent in the month a 2.5 per cent through the year increase.

ABS International Trade data showed that the total value of NSW exports increased 2.5 per cent through the year to December, while imports increased 10.3 per cent through the year. Nationally, exports decreased 1.9 per cent, and imports increased 10.9 per cent.

The **RBA Board** decided to leave the Official Cash Rate unchanged at 1.5 per cent following its monthly monetary policy meeting.

ABS Housing Finance data showed that the number of housing finance commitments for owner-occupation (excluding refinancing) in NSW increased 9.7 per cent through the year to December, compared to 5.3 per cent in the rest of Australia. The proportion of first home buyers to total home buyers increased to 21.3 per cent in NSW from 20.9 per cent in the previous month.

The **NAB Quarterly Business Survey** showed that in the December quarter, NSW expected conditions fell to +27 index points from +30 in the previous quarter. The expected employment index rose to +19 from +18. Nationally, expected business conditions fell to +22 from +24, and expected employment stayed flat at +14.

Markets

Over the week to Friday, the ASX200 fell by 4.6 per cent, the US S&P500 fell by 5.2 per cent and thermal coal prices fell by 3.3 per cent.

	Value	Change on Year	Change on Week
US S&P 500	2619.55	13.1 %	-5.2 %
ASX200	5837.97	2.1 %	-4.6 %
Australian Dollar (USD)	0.78	1.8 %	-1.5 %
TWI	63.60	-4.4 %	-2.0 %
Oil (USD/bbl)	59.20	9.9 %	-9.5 %
Gold (USD/oz)	1314.10	7.0 %	-1.3 %
Thermal Coal (USD/tonnes)	101.15	26.4 %	-3.4 %
Australian 10-yr bond	2.86%	16.6 bps	3.2 bps
US 10-yr bond	2.85%	44.4 bps	1.0 bps
NSW 10-yr bond (bps) maturity 2026	3.01%	-	bps

Upcoming Domestic Data Releases (12/02 – 16/02)

- **ABS** will release Lending Finance data for December and Labour Force data for January.
- Assistant Governor Luci Ellis (**RBA**) will have a speech at the ABE forecasting conference, Sydney.
- The **NAB** Monthly Business Survey will be released for January.
- **ABARES** will publish its crop report for February.
- **W-MI** will release Consumer Sentiment data for February.

Chart E: Interest Rate Expectations

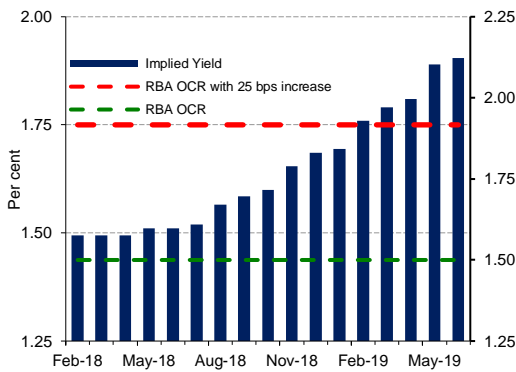
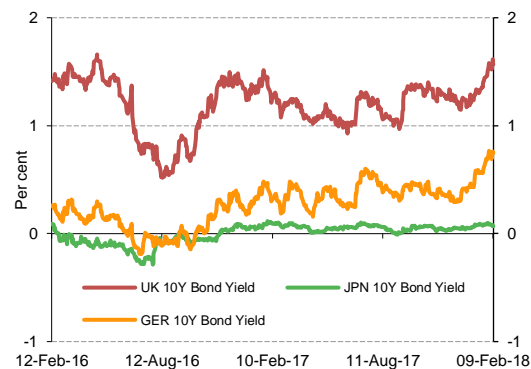
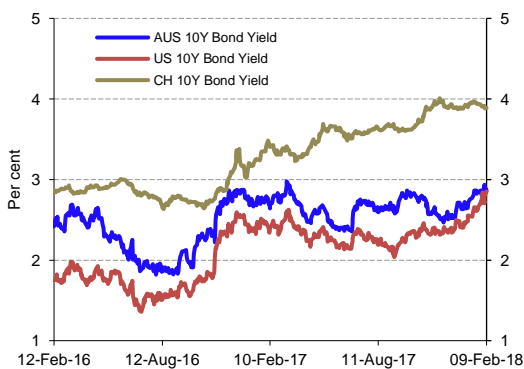


Chart F & G: International Bond Yields



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 November 2018.

According to the ASX Target Rate Tracker, as of 8 February, 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 March 2018.

International Bond Yield Spreads

US bond yields rose by 1.0 basis points over the week to Friday. The 10-year bond yield reached a four-year high of 2.88 per cent this week. This is primarily due to stronger economic growth and inflation expectations. Some analysts suggested that the secondary factor to this gain in bond yield is the deterioration of US federal budget. In recent months, China and Japan have been net sellers of US bonds, suggested by Treasury data. Bond yields fell in all countries tracked over the week except Australia and the US.

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)	2.86	16.6	3.2	1.1	28.9
United States (US)	2.85	44.4	1.0	-	-
Germany (GER)	0.75	42.5	-2.2	-210.6	-208.7
United Kingdom (UK)	1.57	31.4	-0.7	-128.1	-115.1
Japan (JPN)	0.07	-2.6	-2.0	-278.5	-231.5
China (CH)	3.89	45.5	-2.4	103.5	102.4

Key International Data Releases

Euro area: Real retail sales increased by 1.9 per cent through the year to December, after a 3.9 per cent gain in the previous month. This is due to the gains of 2.7 per cent for non-food products and of 1.3 per cent for “Food, drinks and tobacco”, while automotive fuel fell by 0.8 per cent.

US: Trade deficit increased by 5.3 per cent in December to a larger-than-expected \$53.1 billion, the widest since October 2008. Imports rose by 2.5 per cent driven by record shipments of capital goods and gains in industrial suppliers and materials. Exports increased by 1.8 per cent led by increases in consumer goods, capital goods and food products.

China: The consumer price index (CPI) increased by 1.5 per cent through the year to January compared to 1.8 per cent in the previous month. The producer price index (PPI) rose by 4.3 per cent.

UK: Bank of England’s Monetary Policy Committee has voted unanimously to maintain the Bank Rate at 0.50 per cent. Trade deficit increased by £3.8 billion to £10.8 billion in the 3 months to December. This is due to rise in global oil prices.

Germany: Industrial production fell by more than expected at 0.6 per cent in December, led by construction output. Trade surplus decreased to €244.9 billion in 2017 from its record high of €248.9 billion in the previous year.

Upcoming Key International Data Releases (12/02 – 16/02)

- **US:** CPI, Retail Sales and Industrial Production data for January
- **Japan:** GDP data for the December quarter
- **UK:** CPI and Retail Sales data for January
- **Germany:** GDP data for the December quarter
- **Euro:** Industrial Production and Balance of Trade data for December