

Chart A: Domestic Interest Rates

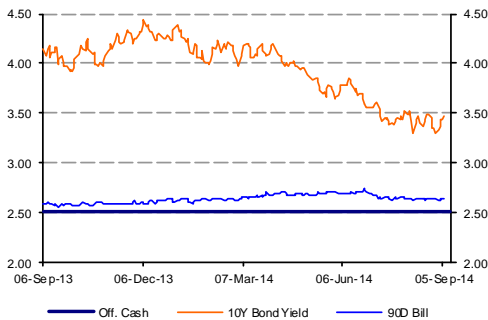


Chart B: Share Price Index

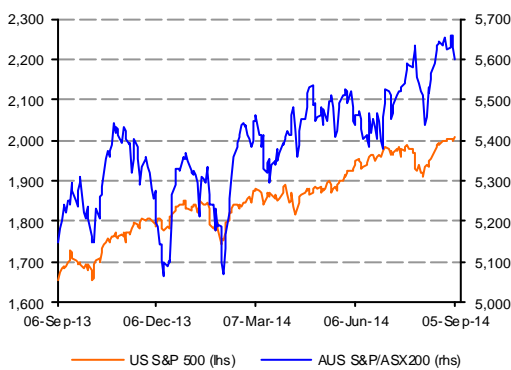


Chart C: Exchange Rate

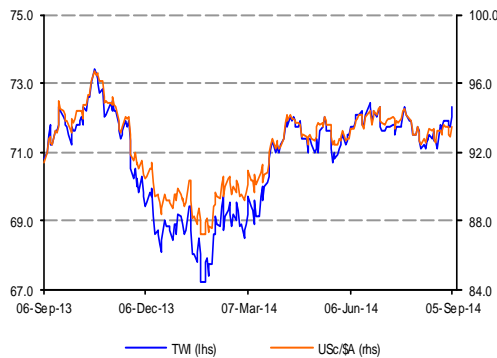
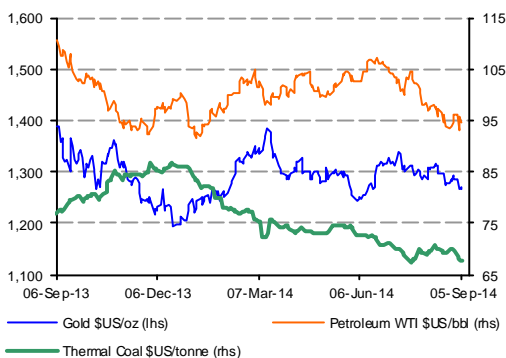


Chart D: Commodities



Key Domestic Data Releases

**State final demand** in NSW fell 0.4%, after increasing 2.7% in the March quarter 2014 (revised up from 2.4%), to be 3.6% higher through the year. Over 2013-14 NSW SFD grew 3%, slightly below the budget forecast of 3¼%. In through the year terms, NSW SFD growth was highest among the states in the quarter. Nationally gross domestic product (GDP) rose 0.5% in the June quarter, to be up 3.1% through the year.

NSW **retail sales** rose 0.7% in July, following an increase of 1.0% in June, to be up 9.8% through the year. This was the strongest result among the states in both monthly and through the year terms for July. Nominal sales across Australia rose 0.4% in July to be up 5.9% through the year.

NSW **building approvals** fell 5.7% in July, following a 1.2% fall in June. Through the year, total approvals are up 13.5%. The monthly decrease was mainly driven by a 21.4% fall in multi-unit approvals, partially offset by a 13.2% increase in detached house approvals. The number of building approvals nationally rose 2.5% in the month, to be 9.4% higher through the year.

The **current account deficit** for Australia rose 76% to \$13,742m in the June quarter. Through the year, merchandise exports volumes were down 5.5% in NSW and up 7.3% nationally. Through the year, merchandise imports volumes were up 0.8% in NSW and 0.9% nationally.

As widely expected, the **RBA** kept its cash rate at 2.50% in September. In his speech for a CEDA luncheon, Governor Stevens adopted a rather dovish tone on the economic outlook highlighting the risks of a slowdown in China. He also argued that the power of monetary policy to boost demand depends on some sectors of the economy being in a position to respond to lower costs of debt and reduced incentives to save. He specifically noted that firms in Australia are best placed to expand their balance sheets.

**Government Finance Statistics** revealed that total general government final consumption expenditure increased 0.3% while total general government gross fixed capital formation increased by 6.0% in the quarter.

Markets

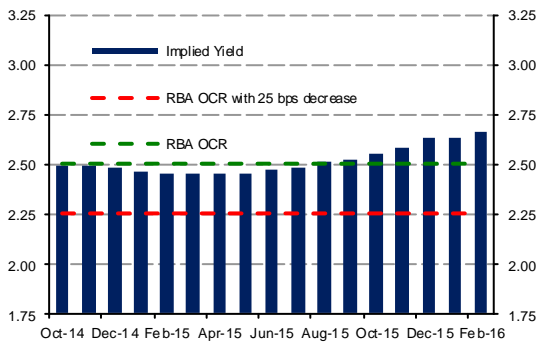
The **ASX200** fell 0.5% on the previous Friday, while the **US S&P500** rose 0.2%.

	Value	Change on Year	Change on Week
<b>S&amp;P 500</b>	2,007.7	21.3 %	0.2 %
<b>ASX200</b>	5,598.7	8.8 %	-0.5 %
<b>Australian Dollar (USD)</b>	0.9341	2.3 %	-0.1 %
<b>TWI</b>	72.30	2.1 %	0.6 %
<b>Oil (USD/bbl)</b>	94.45	-14.5 %	-1.6 %
<b>Gold (USD/oz)</b>	1,266.00	-8.7 %	-1.5 %
<b>Thermal Coal (USD/tonne)</b>	67.67	-12.0 %	-2.9 %
<b>Australian 10-yr bond</b>	3.47%	-67.1 bps	17.1 bps
<b>US 10-yr bond</b>	2.45%	-53.0 bps	12.0 bps
<b>Australian 90-day bill</b>	2.63%	4.0 bps	0.0 bps

Upcoming Domestic Data Releases (8/9 – 12/9)

- The **ABS** will release data on the Labour Force for August, Housing Finance for July, and Lending Finance for July.
- **ANZ** will release the August update to the Job Ads Series, **NAB** will publish the Business Survey for the month of August, and **Westpac-MI** will reveal the Consumer Sentiment print for September.
- **ABARES Crop Report** for the September quarter is published.
- **Consensus Economics** is also expected to distribute the latest Asian-Pacific Forecasts.

### Chart E: Interest Rate Expectations



### Market Interest Rate Expectations

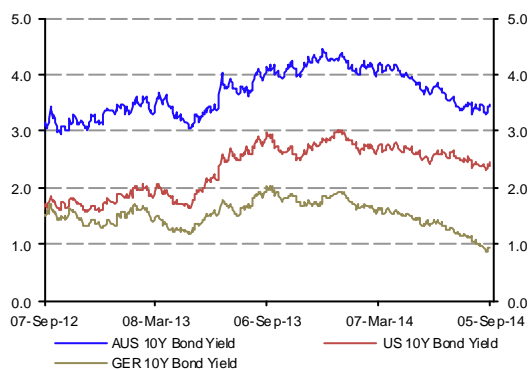
Current market expectations, as shown by the implied yield curve on ASX 30 day interbank cash rate futures, favour no change by the RBA at its next meeting. The market does not expect a cash rate increase until after November 2015.

According to the ASX target rate tracker, as of 5 September August, there is a 95% expectation that the RBA will keep the cash rate at 2.50% at its policy meeting on 7 October.

### International Bond Yield Spreads

10-yr bond yield	Yield	Change on Year	Change on Week	Spread on 10-yr US bond week end	Spread on 10-yr US bond year ago
Australian (AUS)	3.47%	-67.1 bps	17.1 bps	102.3 bps	116.4 bps
United States (US)	2.45%	-53.0 bps	12.0 bps	-	-
Germany (GER)	0.96%	-106.6 bps	7.7 bps	-149.1 bps	-95.5 bps
Italy (ITA)	2.25%	-224.9 bps	-19.1 bps	-19.9 bps	152.0 bps
Portugal (PRT)	3.05%	-400.1 bps	-15.0 bps	59.5 bps	406.6 bps
Spain (ESP)	2.05%	-246.7 bps	-17.0 bps	-39.8 bps	153.9 bps

### Charts F & G: International Bond Yields



### Key International Data Releases

**US: Non-Farm Payrolls** for August rose 142,000 (an eight month low) from 212,000 in July but the unemployment rate fell to 6.1% from 6.2%. The **ISM Manufacturing Index** soared to a 3 year high of 59.0 in August from 57.1 in July. The **Non-Manufacturing Index** increased to a 6 year high of 59.6 August from 58.7. **Construction Spending** rose 1.8% to an annual rate of \$981.31 billion, the highest level since Dec 2008. **Factory Orders** jumped 10.5% in July due to a surge in contracts for commercial aircraft but orders excluding transportation goods fell 0.8%. The **Trade Balance** fell to a 5 month low of \$40.5 billion in July.

**China:** The official **PMI** came in at 51.1 in August down from 51.7 in July. This is the first decline since slipping to 50.2 in February.

**Europe:** The **ECB** lowered the interest rate on the main refinancing operations of the Eurosystem by 10 basis points to 0.05%. In addition, the ECB decided to start purchasing non-financial private sector assets. **Retail sales** fell 0.4% in July, the first drop this year, and is up 0.8% for the year. **German industrial production** rose 1.9% in July and is up 2.5% through the year.

**UK:** The **Manufacturing PMI** hit a 14 month low of 52.5 in August from 54.8 in July but the **Services PMI** jumped to 60.5 (a 10 month high) from 59.1. The BoE made no change to monetary policy.

**Japan: BoJ** announced no change to monetary policy this month.

**Canada:** The **BoC** also announced no change to monetary policy. The **Unemployment Rate** remained unchanged in August at 7.0%

### Upcoming Key International Data Releases (8/9 – 12/9)

- **US:** Retail Sales for Aug, Consumer Credit for Jul, Business and Wholesale Inventories for Jul, and the Uni. Of Michigan Consumer Sentiment Index for Sep.
- **China:** CPI and PPI for Aug, Trade Balance for Aug, Retail Sales for Aug and Industrial Production for Aug.
- **Europe:** Industrial Production for Jul and Employment for Q2.
- **UK:** Industrial Production, Trade Balance and NIESR GDP estimate for Aug.
- **NZ:** RBNZ Monetary Policy Announcement.
- **Japan:** Machine Orders and Consumer Confidence for August.