

Chart A: Domestic Interest Rates

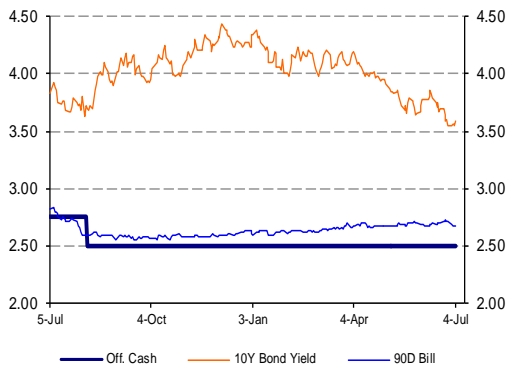


Chart B: Share Price Index

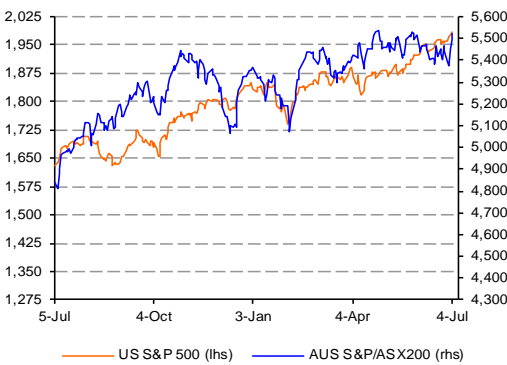


Chart C: Exchange Rate

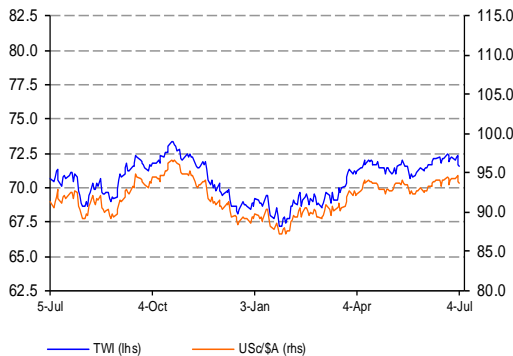
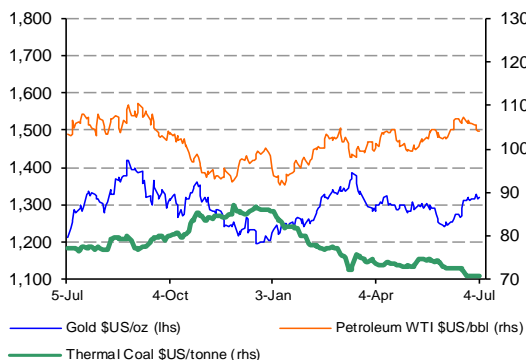


Chart D: Commodities



Key Domestic Data Releases

The **TD-MI inflation gauge** was flat in June, following a 0.3% increase in May. Over the year to June, the inflation gauge edged higher to 3.0%YoY (from 2.9%), right on the upper end of the RBA's 2-3% inflation target band. The trimmed mean measure (which excludes volatile items) also came in at 3.0%YoY (up 0.2%MoM).

The **RBA's measure of private sector credit** increased 0.4% in May to be up 4.7% through the year. The increase was supported by a monthly 0.5% increase in housing credit (up 6.2% over the year) and a monthly 0.2% increase in business credit (up 2.7% over the year). Personal credit, however, fell 0.3% (also up 0.3% over the year).

HIA new home sales fell 4.3% in May, the first monthly decline this year. Nevertheless, sales were still up 15.9% over the year. In NSW, new home sales fell 5.5% in May but are up 7.3% over the year.

Australia's **PMI** fell 0.3pts to 48.9pts but at below the 50 level, this is in the contractionary zone.

The **RBA** left the **cash rate** on hold at 2.5% and maintained that the most prudent course is likely to be a period of stability in interest rates.

The value of **engineering work done** fell 2.0% nationally and 1.2% in NSW over the March quarter.

The **trade deficit** rose to \$1.91b in and the April deficit was revised up to \$780m from \$122m.

Retail sales in Australia fell 0.5% over the month of May to be up 4.6% through the year. In NSW, retail sales also fell 0.5% over the month but are up 7.3% through the year. While the 0.5% fall in sales is bad news it should be noted that sales declined in almost all the mainland states, with the exception of SA. In yearly terms, sales growth in NSW remains the strongest (7.3%YoY) among the mainland states.

Nationally, residential **building approvals** rose 9.9% in May after falling three months (up 14.3% through the year). In NSW, residential building approvals rose 18.7% in May to be up 22.6% through the year.

Markets

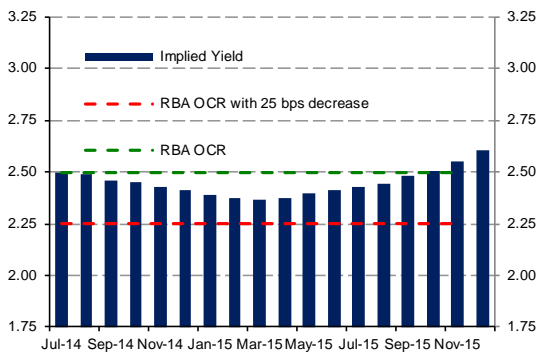
The **ASX200** rose 1.5% on the previous Friday, while the **US S&P500** rose 1.2%.

| | Value | Change on Year | Change on Week |
|---------------------------------|----------|----------------|----------------|
| S&P 500 | 1,985.4 | 21.7 % | 1.2 % |
| ASX200 | 5,525.0 | 14.1 % | 1.5 % |
| Australian Dollar (USD) | 0.9365 | 2.5 % | -0.8 % |
| TWI | 71.60 | 1.3 % | -0.8 % |
| Oil (USD/bbl) | 104.00 | 0.8 % | -1.6 % |
| Gold (USD/oz) | 1,319.25 | 8.8 % | 0.1 % |
| Thermal Coal (USD/tonne) | 70.88 | -8.0 % | 0.0 % |
| Australian 10-yr bond | 3.59% | -23.8 bps | 4.3 bps |
| US 10-yr bond | 2.64% | 12.0 bps | 12.0 bps |
| Australian 90-day bill | 2.67% | -15.7 bps | -4.0 bps |

Upcoming Domestic Data Releases (7/7 – 11/7)

- The **ABS** will release data on Overseas Migration for May (Mon), Labour Force for June (Thu), and Housing Finance for May (Fri)
- ANZ will release their Job Advertisements data for (Mon)
- NAB will release their monthly Business Survey for (Tue)
- Westpac-MI will release the Consumer Sentiment Index for (Wed)

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

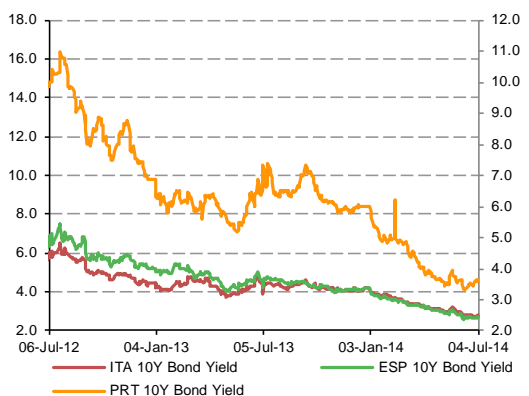
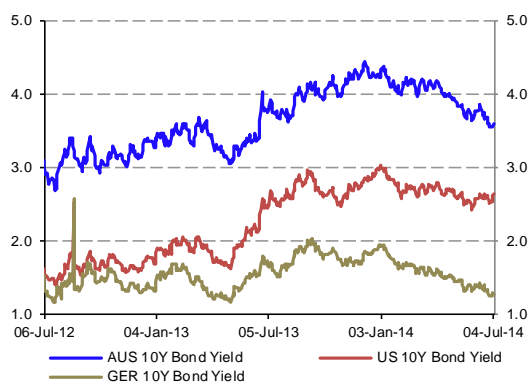
Current **market expectations**, as shown by the **implied yield** curve on ASX 30 day interbank cash rate futures, **favour no change** by the RBA at its next meeting. The market does not expect a **cash rate increase until the second half of 2015**.

According to the **ASX target rate tracker**, as of 4 July, there is a 93% expectation that the RBA will keep the cash rate at 2.50% at its 5 August policy meeting.

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) | 3.59% | -23.8 bps | 4.3 bps | 95.4 bps | 131.2 bps |
| United States (US) | 2.64% | 12.0 bps | 12.0 bps | - - | - - |
| Germany (GER) | 1.29% | -37.1 bps | 3.3 bps | -135.5 bps | -86.4 bps |
| Italy (ITA) | 2.71% | -171.4 bps | -1.0 bps | 6.8 bps | 190.2 bps |
| Portugal (PRT) | 3.57% | -346.9 bps | 0.0 bps | 93.0 bps | 451.9 bps |
| Spain (ESP) | 2.66% | -195.7 bps | 3.0 bps | 1.9 bps | 209.6 bps |

Charts F & G: International Bond Yields



Key International Data Releases

- **US: non-farm payrolls** rose by 288k in June, while the **unemployment rate** fell to 6.1%. The **trade deficit** narrowed to \$44.4b in May down from \$47b in April. The **PMI** rose to its highest reading in 4 years to 57.5 in June up from 56.4 in May. Meanwhile the **PSI** eased to 56 in June from 56.3 in May.
- **EU: The ECB** kept its main refinancing rate at a record low of 0.15%. The **unemployment rate** remained unchanged at 11.6% in May while **retail sales** remained flat in May after a small dip April. The **flash HICP** for June remained unchanged at a yearly rate of 0.5%
- **Japan: Industrial production** rose 0.5% in May after a 2.8% fall in April. Production is up 0.8% through the year. But the **Q2 Tankan survey** showed that confidence among businesses fell to 7ppts from 12ppts, the first fall since the Q4 2012
- **China: The PMI** rose to a 6 month high of 51 in June, up from May's reading of 50.8.

Upcoming Key International Data Releases (7/7 – 11/7)

- **US:** Consumer credit for May (Tue), FOMC Minutes (Wed), and Monthly Budget Statement for June (Fri)
- **Europe:** Germany industrial production and current account for May (Mon)
- **UK:** BoE monetary policy announcement (Thu), UK industrial production for May (Tue)
- **China:** CPI and PPI for June (Wed), Trade for June (Thu)
- **Japan:** Current account for May (Tue)
- **Asia:** South Korea, Malaysia and Indonesia will hold monetary policy announcements (Thu)