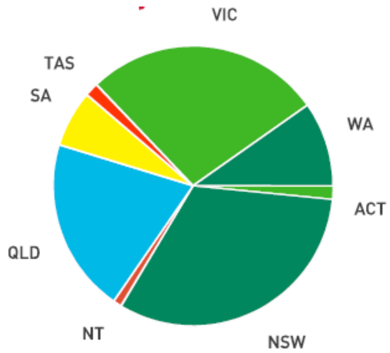
WEEKLY ECONOMIC COMMENTARY

Week beginning 23rd March 2015

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
New Motor Vehicle Registrations	February	+2.9%	-1.5%



New motor vehicle sales rose 2.9% in February, with sales now up 4.1% over the last year. Sales of passenger vehicles fell by 0.9% while “Other vehicles” decreased by 0.3%. Over the same period, sports utility vehicles increased by 10.5%. Australian consumers continue to move towards versatile vehicles such as SUVs and light commercial vehicles, with these vehicles accounting for around 53% of the new car market in February 2015 while passenger vehicles made up around 45%. The Northern Territory led the strong performance, with new car sales rising 22.4% in the month, followed by a rise of 8.8% in South Australia and 5.9% in the ACT.

Data on Motor Vehicle Sales

Volumes	Monthly		YTD		Variance+/-	Volume & %		
	2015	**2014**	**2015**	**2014**	**MTH**	**YTD**	**MTH**	**YTD**
Passenger	40,775	43,644	80,574	85,248	-2,869	-4,674	-6.6%	-5.5%
SUV	32,039	25,874	59,718	51,764	6,165	7,954	23.8%	15.4%
Light Commercial	15,496	15,090	28,454	28,081	406	373	2.7%	1.3%
Heavy Commercial	2,114	2,210	3,794	4,010	-96	-216	-4.3%	-5.4%
Total Market	**90,424**	**86,818**	**172,540**	**169,103**	**3,606**	**3,437**	**4.2%**	**2.0%**

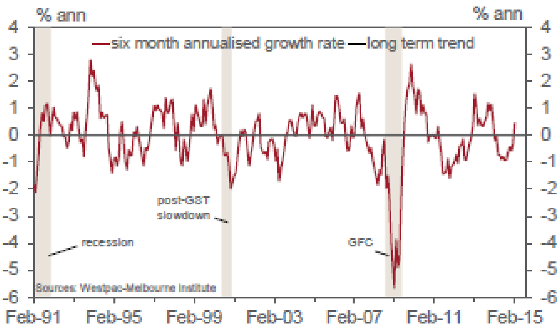
The minutes of the last Reserve Bank Board meeting were very clear on the direction of rates - that they are going lower, but the RBA seems to be in no rush to move stating that “members saw benefit in allowing some time for the structure of interest rates and the economy to adjust to the earlier change”. The minutes show the Board considered cutting rates again at the March meeting but decided against this in the interests of allowing more time to see how financial markets and the economy reacted to the February move and also to receive “more data to indicate whether or not the economy was on the previously forecast path.”

That said, the RBA also commented that “On the basis of the current forecasts for growth and inflation, members were of the view that a case to ease monetary policy further might emerge” so rates are going down at some point.

The minutes continue to express concern about house prices, particularly in Sydney and Melbourne. The minutes also noted that “members were briefed on recent developments in international regulation, including macro-prudential measures announced in a range of countries over recent years.”

In other data released last week, the Westpac-Melbourne Institute leading index, which indicates the likely pace of economic growth three to nine months into the future, lifted from -0.32% in January to +0.45% in February. After showing persistently weak, sub-trend momentum over the last 12 months, the index has returned a positive result - the first above trend reading from the leading Index since January 2014, suggesting the economy will start to regain some momentum towards the end of the year.

Westpac Leading Index



Data over the next week

Economic Data	Date	Period	Forecast	Previous
DEER Internet Vacancies Index	25 Mar	February	n/a	+0.7%

ECONOMIC COMMENTARY

LAST WEEK

With a lack of economic news out last week all the focus was on central bank minutes and meetings. The Reserve Bank's minutes of the March Board meeting confirmed that although the cash rate was unchanged in March, the Board members did consider a cut but decided to wait for more data and see how the economy was adjusting to previous rate cuts. The RBA considered that rates are appropriate "for the time being" - an indication that further monetary policy moves are likely going forward.

Offshore, the US Federal Reserve spooked financial markets by firstly warning that economic growth is moderating (revising down growth projections this year from 2.8% to 2.5%) and that they would need to be confident that inflation would move back to its 2% objective over the medium term, before raising rates. Markets took this as a potential delay in the timing of the first US rate cut, causing large moves on Thursday with the US Dollar and bond yields falling heavily while equities rallied. There was a partial reversal (retracement) to these moves last Friday as a sense of reality returned to markets, but interest rates managed to hold onto some of the gains made over the week.

By the close of trading on Friday, the 90-day bank bill was trading at 2.28% compared to 2.32% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.76% and 2.39% respectively, from 1.88% and 2.56% a week earlier.

CURRENCY

The Australian Dollar surged over two-and-a-half cents last Wednesday night after the US Federal Reserve surprised markets with weaker economic forecasts. The Fed stated that it would need to see an improvement in the jobs market before it would start raising US interest rates and downgraded growth forecasts for the economy. This weakened the US Dollar against most other currencies.

The massive sell-off in the US Dollar was quickly reversed as bargain-hunters stepped in to buy the greenback, almost completely reversing the previous day's move and pushing the Australian Dollar lower once again, the currency having traded in a range of over 3 cents over the week but ending the week virtually unchanged.

By the close on Friday the Australian dollar was trading a cent lower at USD0.7682 compared to USD0.7673 a week earlier.

EQUITIES

Our share market, which has traded sideways for just over a week, posted its biggest rally in a month last Thursday and rocketing back towards the 6,000-point level as the likelihood of a local rate cut drove high-yielding financial stocks to record highs. This was also despite the price of iron ore falling over 5% last week to a new six-year low of $54.50 a tonne. Iron's value has now fallen over 15% in the past month alone after falls of nearly 50% in 2014 and a soft start to 2015.

By the close on Friday the S&P/ASX200 Index was trading at 5,975.5 compared to 5,814.5 a week earlier.

THIS WEEK

In another light week for economic data releases, the highlight will be the Reserve Bank's semi-annual Financial Stability Review on Wednesday. Analysts will focus on the RBA's assessment of housing market activity with given the recent commentary around the bank's concern about the escalating investor housing market, especially in Sydney and Melbourne.

INTEREST RATE VIEW

With little economic data of significance out over the last week or so, market focus has been on the commentary from central banks – both here and overseas. The fact that the US Federal Reserve has thrown a spanner in the works by down-playing the prospect of imminent rate cuts, has actually increased the probability of a local rate cut domestically (mainly due to a higher currency).

At present, May seems the most likely timing for another RBA rate cut. This is almost fully priced into markets (with a probability of over 90%), but an April move cannot be ruled out.

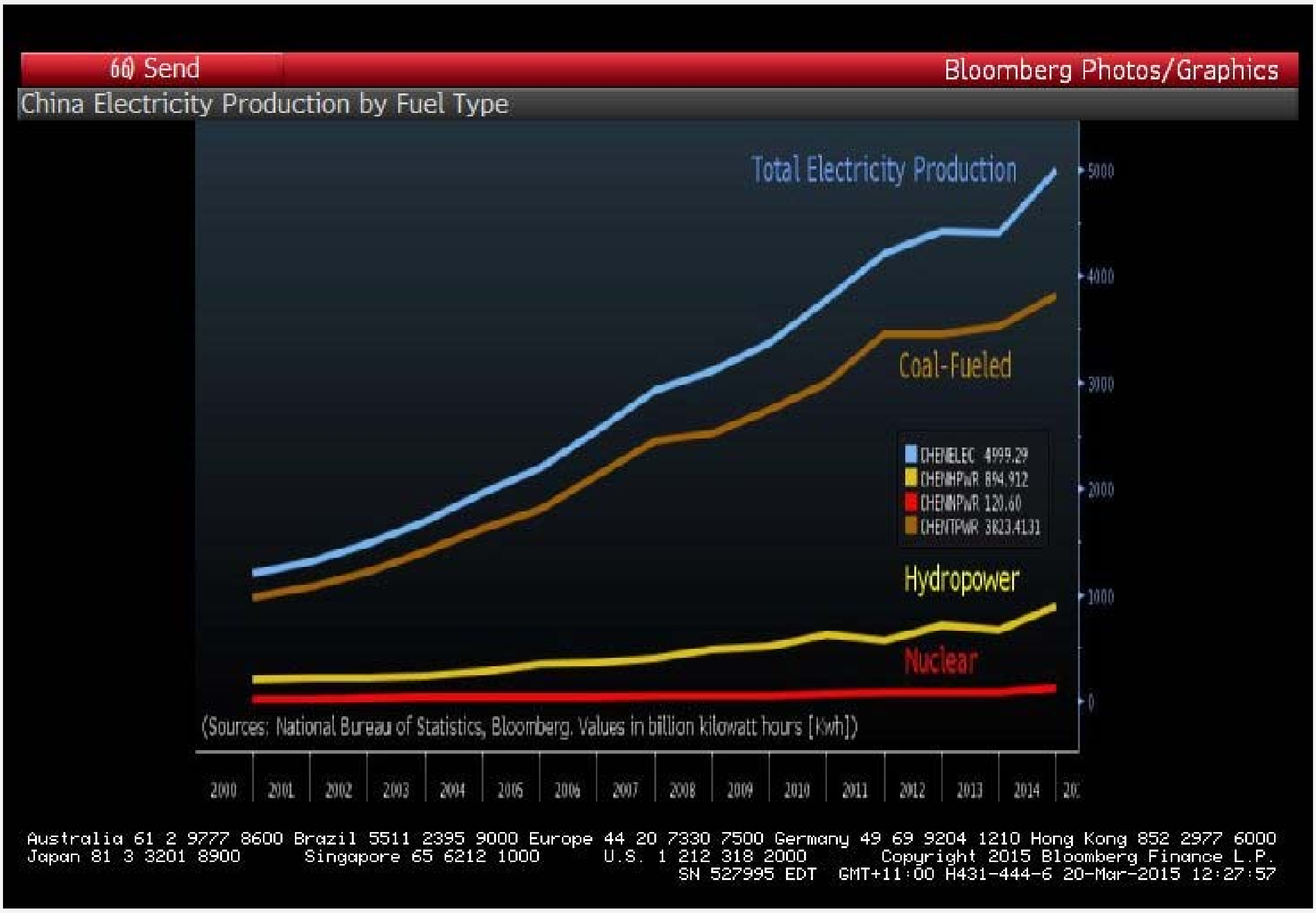
Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.50	2.50	2.25	2.25
90 day Bank Bill	2.66	2.65	2.78	2.33	2.28
180 day Bank Bill	2.69	2.72	2.80	2.35	2.33
1 year swap	2.69	2.71	2.54	2.13	2.10
3 year swap	3.18	3.07	2.55	2.17	2.11
5 year swap	3.72	3.50	2.84	2.45	2.38
10 year swap	4.45	4.05	3.35	2.87	2.74
AUD/USD	0.9020	0.8956	0.8171	0.7806	0.7682
S&P/ASX200 Index	5,294.0	5,433.1	5,338.6	5,881.5	5,975.5

CHARTS OF THE WEEK

China Revives Nuclear Power to Shed Smog Masks: Chart of the Day

(Source: Bloomberg) -- China approved the construction of new nuclear reactors for the first time since Japan's Fukushima disaster in 2011 as the world's biggest polluter seeks to drive protective masks out of fashion.

The chart below compares China's total electricity output with amounts generated from thermal coal, hydroelectric power and atomic reactors. The world's largest energy consumer derived 77% of its electricity from coal and gas-fired utilities last year, compared with 17% provided by hydropower and 2.4% by nuclear, according to data from the National Bureau of Statistics compiled by Bloomberg.



China approved two reactors this month as it vowed to cut coal use to meet terms of a carbon-emissions agreement reached in November between President Xi Jinping and US counterpart Barack Obama. About $370 billion will be spent on atomic power over the next decade, Bloomberg New Energy Finance estimates. Plans to triple nuclear capacity by 2020 to as much as 58 gigawatts -- almost equal to Australia's total electricity resources -- were frozen after the Fukushima meltdown in 2011.

"China is in a race with itself to reach a nuclear-power goal set for 2020 that's concurrent with a coal-reduction plan," Tian Miao, an analyst at North Square Blue Oak Ltd., a London-based researcher, said in Beijing. "Because it normally takes five years to build one reactor, the program needs to be ramped up from now on."

China has 24 reactors in operation and another 25 under construction, according to the World Nuclear Association. France gets about 75% of its electricity generated by nuclear, making it the world leader, while the global average is about 11%, WNA data show. Whatever money is spent will only put a dent in the importance of coal, which is still expected to make up almost two-thirds of the nation's power mix in 2030, said Wood Mackenzie Ltd., an Edinburgh-based energy consultant.

A Chinese documentary film on air pollution choking major cities, viewed by more than 100 million people in the week of its release, was scrubbed this month from domestic websites even as President Xi pledged to unleash an "iron hand" to protect the environment. Xi made a pact with Obama to cap China's carbon emissions and increase the share of non-fossil fuel in its total energy to 20% by 2030.

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