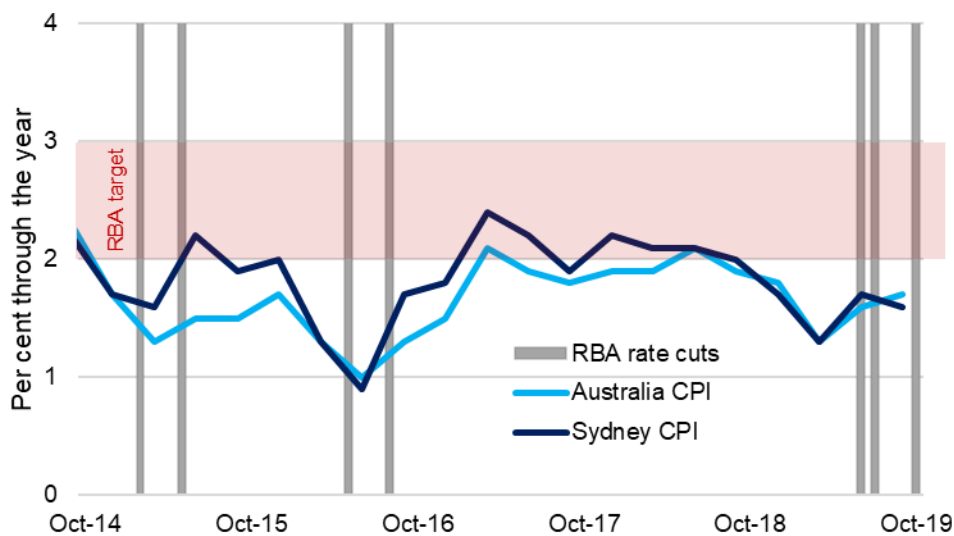


Chart of the Week: Headline CPI



From the Chief Economist:

There was a decent flow of domestic economic data this week and an intriguing speech by the Reserve Bank Governor. There also were important policy and political events overseas. The highlight of the Aussie data was the Q3 inflation data, which printed mainly in line with economists' expectations, although annual inflation continues to drift along below the RBA's 2-3% comfort zone. The absence of a downside surprise, however, saw economists shunt the likely timing of the next RBA rate cut out to early 2020. The other data showed an unexpected bounce in residential building approvals nationally (but a fall in NSW), although the Reserve Bank's credit data showed the weakest annual growth in the pool of outstanding credit since 2011. One takeaway from the speech by RBA Governor Lowe was that he thinks companies' inflexible and high hurdle rates of return are holding back investment. He wants them lowered and firms to take advantage of ultra-low borrowing costs. The main overseas news was that, with Brexit delayed yet again, the UK will head to the polls in December for the third time in 5 years - there are supposed to be fixed, five-year terms. In central bank-land, the US Fed cuts interest rates for the third time this year, but the Bank of Japan left its cash rate steady at -0.100%.

This week, the highlight probably will be tomorrow when the Reserve Bank announces its interest rate decision 30 minutes before the horses jump in the Melbourne Cup. Few surveyed economists expect a rate cut tomorrow and futures market pricing implies only a small probability (7%) of another move so soon after the last. on the timing of the next move. With other central banks easing policy, a key risk for the RBA is that, by holding off this week. The Bank's commentary, then, will be the main source of interest, particularly guidance, AUD could rise, not what RBA boffins want to see. AUD bounced mid-week after the Fed's rate cut. The main flow of economic data occurs later this morning with the release of the September retail sales report. Economists expect a gain over the month of just 0.4% - sentiment is well below average, particularly in NSW, so many consumers are saving the proceeds of the tax cuts and lower interest rates or are paying down debt. On Friday, the RBA also releases its updated economic forecasts in the quarterly statement.

Chart A: Domestic Interest Rates

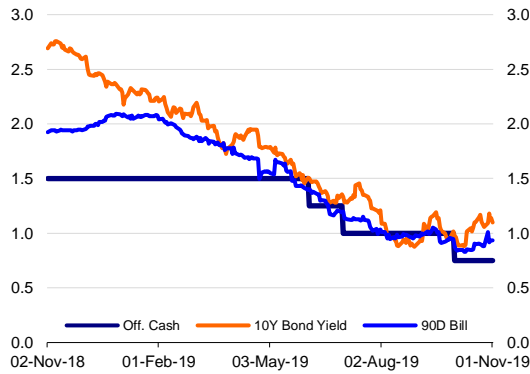


Chart B: Share Price Index

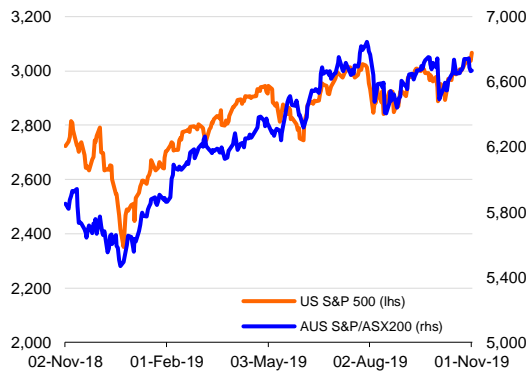


Chart C: Exchange rate

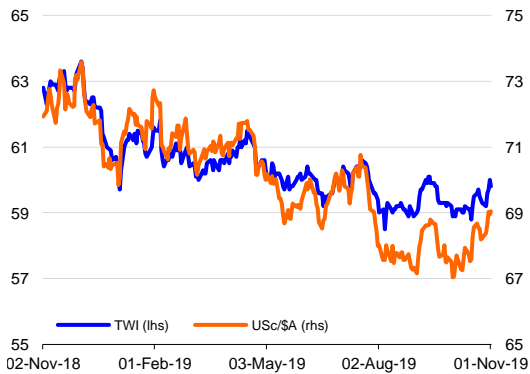
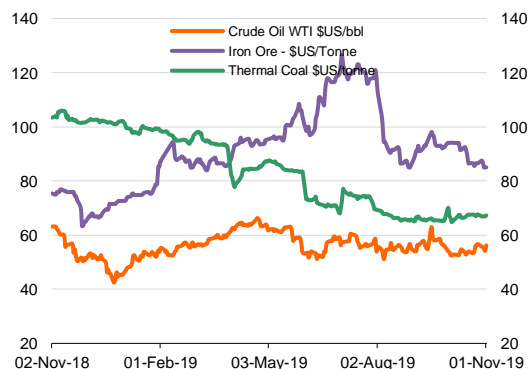


Chart D: Commodity Prices



Domestic Data Releases

CommSec State of the States October report showed that Victoria remains the best performing economy in Australia. Tasmania is now in the second spot followed by NSW, with little separating the states. NSW is identified in the report as a good all-rounder consistently strong across the indicators and is ranked second in five of the eight indicators. The drop in NSW' ranking was driven by a fall to second place in the state's ranking for Dwellings Starts.

ABS Consumer Price Index in Sydney rose 0.5 per cent in the September quarter to be up 1.6 per cent through the year. National CPI rose 0.5 per cent in the quarter to be up 1.7 per cent through the year – right on market expectations. Underlying inflation rose 0.4 per cent to be up 1.4 per cent through the year. This is now the 15th quarter which the RBA's 2-3 per cent target has been missed.

ABS Building Approvals in the residential sector continued to trend downwards in September. The number of NSW residential approvals fell 2.5 per cent in September (in seasonally adjusted terms) to be down 27.2 per cent through the year. Over the twelve months to September, there were 52,881 residential approvals in NSW (in original terms), a 22.6 per cent decline compared to a year ago. NSW annual dwelling approvals remain the second highest among the states – still behind VIC (at 56,978).

RBA Private Sector Credit data for September showed that credit growth eased to 2.7 per cent through the year in Australia. This is the weakest growth since 2011.

CoreLogic monthly house price data showed Sydney house prices rose 1.3 per cent in October, after a rise of 1.6 per cent in September. Sydney house prices are now 0.7 per cent lower through the year to October. Since the trough in May, Sydney house prices have risen by 5.9 per cent. Sydney unit prices rose 0.4 per cent in October to be down 4.8 per cent through the year. The RBA's cuts to the cash rate in June, July and October are supporting an improvement in housing market conditions.

CoreLogic weekly auction data showed the clearance rate in Sydney was 74.3 per cent in the week ending 27 October 2019, compared to 79.2 per cent over the previous week. The national clearance rate was 72.2 per cent over the week ending 27 October 2019, compared to 72.1 per cent over the previous week.

Markets

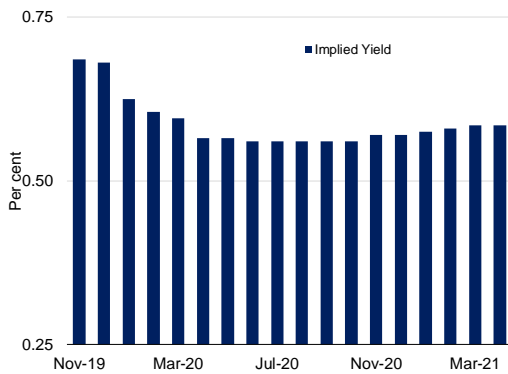
Over the week, the ASX200 fell 1.0 per cent, the S&P500 rose 1.5 per cent and oil prices fell 0.8 per cent.

	Value	Change on Year	Change on Week
US S&P 500	3066.91	12.6 %	1.5 %
ASX200	6669.10	14.0 %	-1.0 %
Australian Dollar (USD)	0.69	-4.0 %	1.2 %
TWI	59.80	-4.8 %	0.8 %
Oil (USD/bbl)	56.20	-11.0 %	-0.8 %
Gold (USD/oz)	1508.80	22.5 %	-0.3 %
Thermal Coal (USD/tonnes)	67.25	-35.0 %	-0.6 %
Australian 10-yr bond	1.10%	-59.3 bps	3.9 bps
US 10-yr bond	1.71%	-46.8 bps	-8.4 bps
NSW 10-yr bond	1.59%	-49.1 bps	3.6 bps

Upcoming Domestic Data Releases (04/11-08/11)

- **ABS** Retail Trade for the September quarter, International Trade in Goods and Services, Regional Building Approvals and Lending to Households and Businesses for September.
- **RBA** Interest Rate Decision and Statement of Monetary Policy for November.
- **CoreLogic** weekly auction results for the week ending 3rd November 2019.

Chart E: Interest Rate Expectations



Market Interest Rate Expectations

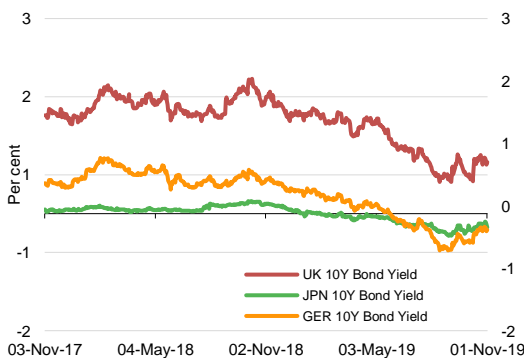
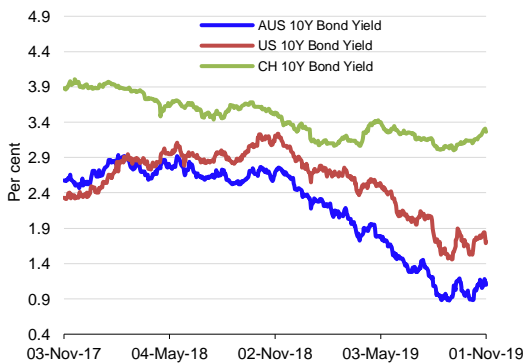
The current implied yield curve on ASX 30-day Interbank Cash Rate Futures (Chart E) indicates that the market expects a rate cut in February 2019.

According to the ASX Target Rate Tracker, as at 1st November, there is a 7 per cent expectation that the RBA will decrease the cash rate to 0.75 per cent at its next policy meeting on 5th November 2019.

International Bond Yield Spreads

The US 10-year bond yield fell 8.4 basis points last week following the Fed's decision to cut interest rates for the third time this year. Investors flocked to safe-haven assets following a report on Chinese government officials being unsure whether a comprehensive long-term trade deal with the US can be reached. Some relief in the bonds market was provided on Friday by a relatively positive US jobs market report.

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)	1.10	-159.7	3.9	-61.3	-51.8
United States (US)	1.71	-150.2	-8.4	-	-
Germany (GER)	-0.38	-81.0	-2.0	-209.2	-278.4
United Kingdom (UK)	0.66	-83.1	-1.9	-104.7	-171.8
Japan (JPN)	-0.18	-30.5	-4.0	-188.6	-308.3
China (CH)	3.27	-27.5	3.1	155.6	32.9

Key International Data Releases

US: Consumer confidence edged lower to 125.9 in October from 126.3 in the previous month. The Fed lowered the official interest rates by a quarter of a percent to 1.50 to 1.75 per cent at its October meeting. Fed chair Jerome Powell mentioned that the three cuts this year should add significant stimulus to the economy. GDP rose at an annualised 1.9 per cent in the September quarter, higher than market expectations of a 1.6 per cent rise, but still a slowdown from 2.0 per cent growth in the June quarter. Consumer spending remains strong however business investment continues to weigh on economic growth. The unemployment rate edged higher to 3.6 per cent in October from 3.5 per cent in the previous month.

Euro Area: GDP rose 1.1 per cent through the year to the September quarter, following a 1.2 per cent rise in the previous quarter. CPI edged lower to 0.7 per cent through the year to October from 0.8 per cent in the previous month.

Canada: GDP rose 1.3 percent through the year to August. Bank of Canada left interest rates unchanged at 1.75 per cent at its October meeting.

China: Manufacturing PMI edged lower to 49.3 in October from 49.8 in the previous month. Non-manufacturing PMI also edged lower to 52.8 in October from 53.7 in the previous month.

Japan: Tokyo CPI remained unchanged at 0.4 per cent through the year to October. Retail sales rose 9.1 per cent through the year to September following a 1.8 per cent rise in the previous month. Bank of Japan left interest rates unchanged at -0.100 per cent at its October meeting. The unemployment rate rose to 2.4 per cent in September from 2.2 per cent in the previous month.

Upcoming Key International Data Releases (04/11-08/11)

- **US:** Factory Orders and Trade Balance for September, and ISM Non-Manufacturing PMI for October.
- **China:** CPI, PPI and Trade Balance for October.
- **Euro Area:** Retail Sales for September.
- **Germany:** Industrial Production for September.
- **UK:** BoE Interest Rate Decision for November.

Six Weeks At A Glance

Monday 4-Nov	Tuesday 5-Nov	Wednesday 6-Nov	Thursday 7-Nov	Friday 8-Nov
ABS Retail Trade, Sep-19	RBA Interest Rate Decision, Nov-19		ABS International Trade in Goods and Services, Sep-19 ABS Regional Building Approvals, Sep-19 CoreLogic Weekly Auction Data	ABS Lending to households and businesses, Sep-19 RBA Statement of Monetary Policy, Nov-19
11-Nov	12-Nov	13-Nov	14-Nov	15-Nov
ABS Overseas Arrivals and Departures, Sep-19	NAB Monthly Business Survey, Oct-19 ABS Labour Account, JunQ-19 (additional information)	ABS Wage Price Index, SepQ-19 W-MI Consumer Sentiment, Nov-19	ABS Labour Force, Oct-19 CoreLogic Weekly Auction Data	ABS National Accounts - State Accounts, 2018-19
18-Nov	19-Nov	20-Nov	21-Nov	22-Nov
	RBA Monetary Policy Minutes, Nov-19 ANZ Stateometer, SepQ-19	DoE Vacancy Report, Oct-19	ABS Regional Labour Force, Oct-19 CoreLogic Weekly Auction Data	
25-Nov	26-Nov	27-Nov	28-Nov	29-Nov
		ABS Construction Work Done (Prelim), SepQ-19	ABS Private New Capital Expenditure, SepQ-19 CoreLogic Weekly Auction Data	RBA Private Sector Credit, Oct-19
2-Dec	3-Dec	4-Dec	5-Dec	6-Dec
ABS Business Indicators, SepQ-19 ABS Building Approvals, Oct-19 ABS Mineral and Petroleum Exploration, SepQ-19 CoreLogic Monthly House Price Data, Nov-19	ABARES Crop Report, Dec-19 ABS Balance of Payments, SepQ-19 ABS Government Finance Statistics, SepQ-19 RBA Interest Rate Decision, Dec-19	ABS National Accounts, SepQ-19	ABS International Trade in Goods and Services, Oct-19 ABS Retail Trade, Oct-19 CoreLogic Weekly Auction Data	
9-Dec	10-Dec	11-Dec	12-Dec	13-Dec
ABS Regional Building Approvals, Oct-19	ABARES Agricultural Commodities, DecQ-19 ABS Labour Account, SepQ-19 NAB Monthly Business Survey, Nov-19 ABS Residential Property Price Indexes, SepQ-19	W-MI Consumer Sentiment, Dec-19	ABS Overseas Arrivals and Departures, Oct-19 CoreLogic Weekly Auction Data RBA Bulletin, DecQ-19	

ECONOMIC FACTS

ECONOMIC GROWTH

ECONOMIC INDICATOR	NSW	Australia	Measure	Latest Period
Gross State/ Domestic Product	2.6%	2.8%	% annual average	2017-18 Next: November 19
State/Domestic Final Demand	1.3%	1.0%	% through the year	June quarter 19
	0.0%	0.3%	% change on last qtr	Next: 4 December 19
BUSINESS INVESTMENT				
NAB Business Confidence	+1	0	NAB Index	September 19 (mthly) Next: 12 November 19
NAB Business Conditions	+9	+2		
HOUSING				
Dwelling Approvals	52.9k	176.2k	Number of app 12mms	September 19 (mthly) Next: 2 December 19
	-22.6%	-21.9%	% annual average	
Residential Prices (capitals)	-9.6%	-7.4%	% through the year	June quarter 19 Next: 10 December 19
LABOUR FORCE				
Employment	2.4%	2.5%	% through the year	September 19 (mthly) Next: 14 November 19
Unemployment Rate	4.5%	5.2%	Current rate	
Youth unemployment rate	10.0%	11.6%	12 monthly moving average rate	
CONSUMER				
Retail Sales	0.3%	2.6%	% through the year (nominal)	August 19 (mthly) Next: 4 November 19
Westpac MI Consumer Confidence	90.9	92.8	Westpac MI Index	October 19 (mthly) Next: 13 November 19
CPI (Capital cities)	1.6%	1.7%	% through the year	September quarter 19 Next: 29 January 20
Official cash rate	0.75%		Lowered 25 basis points in June, July and October 2019	Next: 5 November 19

ECONOMIC FORECASTS ^(a)	NSW Forecasts (as per 2019-20 Budget)			Australian Gov't Forecasts (as per 2019-20 Budget)		
	2017-18 Actual	2018-19 Forecast	2019-20 Forecast	2017-18 Actual	2018-19 Forecast	2019-20 Forecast
State/Domestic Final Demand (%)	3.4	2½	2½	n.a.	n.a.	n.a.
Gross State/Domestic Product (%)	2.6	2¼	2¼	2.8	2¼	2¾
Employment (%) ^(b)	3.2	3¼	1½	2.7	2	1¾
Unemployment rate (%) ^(c)	4.8	4½	4½	5.4	5	5
CPI (%) ^(b)	2.0	1¾	2	2.1	1½	2¼
Wage Price Index (%) ^(b)	2.1	2½	2½	2.1	2½	2¾

(a) Per cent change, annual average, unless otherwise indicated. (b) NSW: annual average, Australia: per cent change through the year to June (c) NSW: Per cent, year average, Australia: Per cent in June.