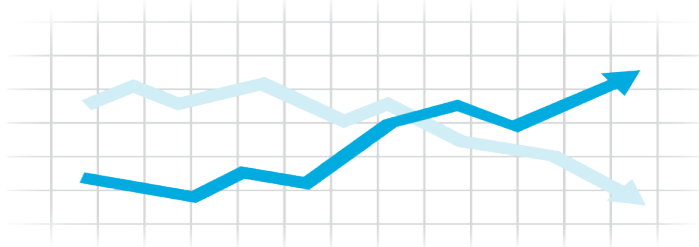


WEEKLY ECONOMIC COMMENTARY

Week beginning 10th April 2017

ECONOMIC DATA ROUNDUP



DATA RELEASED LAST WEEK

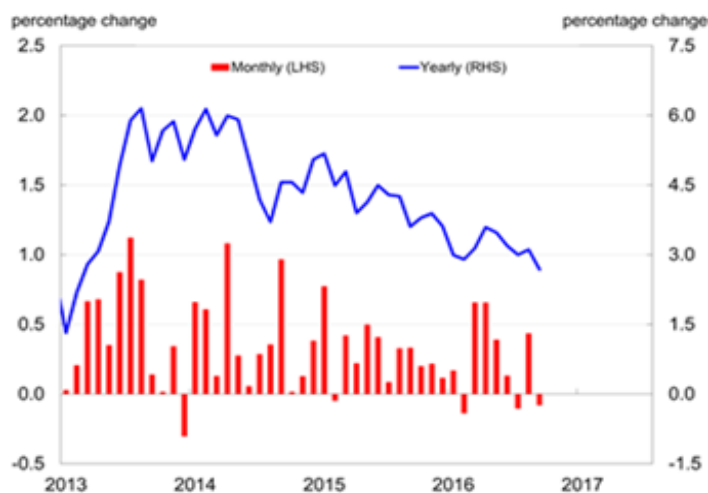
Economic Data	Period	Actual	Previous
ANZ Job Ads	March	+0.3%	-0.7%
Retail Sales	February	-0.1%	+0.4%
Building Approvals	February	+8.3%	+1.8%
Trade Balance	February	+\$3.6bn	+\$1.302bn

ANZ Job advertisements were up 0.3% in March, partially reversing the revised 0.8% fall in the previous month. Annual growth in job ads has increased to 7.0% from 6.9% in February.

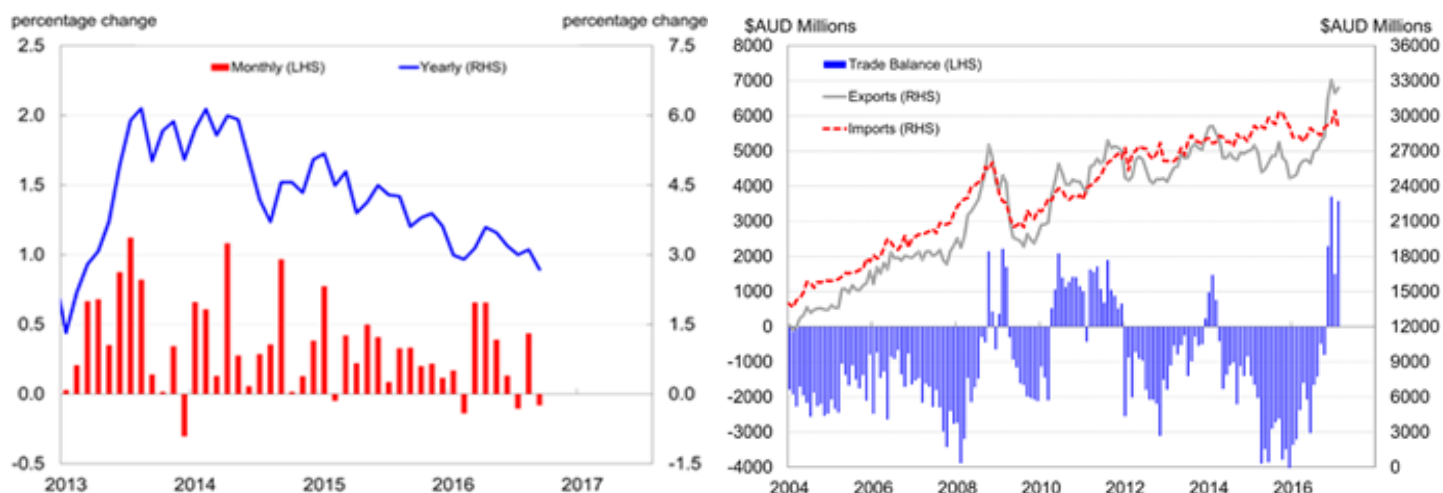
Retail sales fell by 0.1% in February to be up only 2.7% over the year, the weakest annual result since July 2013. By category there was a large decline in “clothing” (-2.5%) followed by “household goods” (-0.4%) while “cafes, restaurants and takeaway food” and the component of “other” retailing were both flat. The only gains were recorded in “food retailing” (+0.3%) and “department stores” (+0.8%).

Building approvals posted a strong increase in February, rising 8.3% and beating expectations of a 1% decline. The rise was the result of increases in both private houses (+5.3% to be down 4.4% annually) and private apartments (+10.9% to be down 30% annually). Across the country, even though approval increases were only recorded in two states, they more than offset the falls recorded elsewhere in the country. NSW continues to lead national housing activity (+20%), while QLD also saw a strong pick-up in approvals (+34%).

Retail Sales



Trade Balance



The **trade balance** was stronger than the market forecasts in February, rising to a surplus of \$3.6bn the second-highest surplus on record. Non-rural exports were slightly stronger than expected. Iron ore (+1.4%) and coal (+4.3%) combined with tourism services (+2%) to provide a small 1.5% lift to overall exports. Prices for bulk commodities exported in the month were largely unchanged on average but quantities were slightly higher. Imports fell 5.3%, reflecting weakness across most categories including a 10% fall in consumption imports. The decline in consumption goods was wide spread across textiles, clothing, footwear, household electrical items, toys, books and leisure items, food, beverages and transport equipment.

In other data released last week, the Melbourne institute inflation gauge rose 0.1% in March (2.2% annually) while the CoreLogic capital city house price index rose 1.4% in March (+12.9% annually) – the fastest pace since May 2010.

Data over the next two weeks

Economic Data	Date	Period	Forecast	Previous
Housing Finance	10 April	February	-0.3%	+1.3%
NAB Business Survey (Conditions/Confidence)	11 April	March	n/a	+9/+7
Westpac/MI Consumer Sentiment	12 April	April	n/a	-0.1%
Employment	13 April	March	+20,000	-6,400
Unemployment	13 April	March	5.8%	5.9%

ECONOMIC COMMENTARY

LAST WEEK

The RBA left the cash rate unchanged last week (as expected) for the eighth month maintaining a neutral bias, with the accompanying statement around inflation and wage growth virtually unchanged. The Governor repeated his previous, very broad guidance that the current stance of policy was consistent with sustainable economic growth and achieving the inflation target over time. The main changes from last month concentrated on the housing market highlighting the RBA's concerns about the risks from rising household debt. The RBA is wedged between the competing forces of (a) subdued consumer spending and below target inflation; and (b) continuing sharp house price inflation and risks to financial stability.

A modest risk-off tone hit markets early last week with equity markets and global yields falling while gold rallied after news of a subway bomb explosion caused fatalities in St Petersburg, which accelerated into a flight to quality after news that the US has launched a strike on Syria in retaliation for an earlier poison gas attack.

By the close of trading on Friday, the 90-day bank bill was trading at 1.79% from 1.80% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.79% and 2.56% respectively, from 1.91% and 2.71% a week earlier.

CURRENCY

The Australian dollar traded lower last week with a number of spikes and troughs giving way to a general weak tone as the market navigated mixed economic data and the minutes of the US Federal reserve meeting. After starting the week at USD0.7654 the Aussie fell one and a half cents to a four week low of USD0.7517 last Friday after the US dollar rallied before some buying support emerged late in the week.

By the close on Friday, the Australian dollar was trading at USD0.7527 compared to USD0.7649 a week earlier.

EQUITIES

Our share market struggled for direction last week illustrated by the up-and-down moves each day. US equity markets reacted negatively to the Federal Reserve's minutes, which indicated it could begin unwinding its asset purchases later this year only to rebound the following day after the market re-assessed its previous day's reaction. Commodity prices were the main focus last week with oil and iron ore prices higher. Coal prices jumped 15% to over \$200 per tonne last week as the damage caused by Cyclone Debbie to ports and rail infrastructure restricts supply as well as export volumes and earnings. The Goonyella system, where over 50% of Australia's coking coal is exported through could be offline for five weeks while damage to Newlands system, which feeds into Abbot Point coal terminal could be out for 2-3 weeks and impact a further 12% of the coking coal exports.

By the close on Friday the S&P/ASX200 Index was trading at 5,862.5 virtually unchanged from 5,864.9 a week earlier.

THIS WEEK

The economic data focus this week will be on the employment numbers for March (out on Thursday). Analysts are looking for a 20,000 rise in employment and for the unemployment rate to fall to 5.8%, after printing at 5.9% in February. Housing finance data for February and the latest monthly business survey and consumer sentiment data will also gain some market attention.

INTEREST RATE VIEW

The message from the RBA over the last two months has been that further rate cuts are off the table. Very strong house price growth and increasing concerns around the level of household debt mean that the official cash rate is unlikely go lower unless there is a large increase in unemployment. While another rate cut would reduce the debt burden faced by households, experience shows that lower rates would encourage more borrowing and push the housing market higher – something the RBA Governor does not want to see. Futures market pricing implies a negligible 5% chance that the RBA lowers the cash rate from here and futures imply a 41% chance of a rate hike by April 2018.

<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	2.00	1.50	1.50	1.50	1.50
90 day Bank Bill	2.25	1.73	1.78	1.80	1.79
180 day Bank Bill	2.42	1.96	2.04	2.01	1.99
1 year swap	2.11	1.73	1.85	1.85	1.76
3 year swap	2.05	1.76	2.16	2.21	1.96
5 year swap	2.28	2.04	2.59	2.71	2.40
10 year swap	2.56	2.27	2.96	3.15	2.85
AUD/USD	0.7541	0.7576	0.7308	0.7506	0.7527
S&P/ASX200 Index	4,937.6	5,467.4	5,807.4	5,741.2	5,862.5

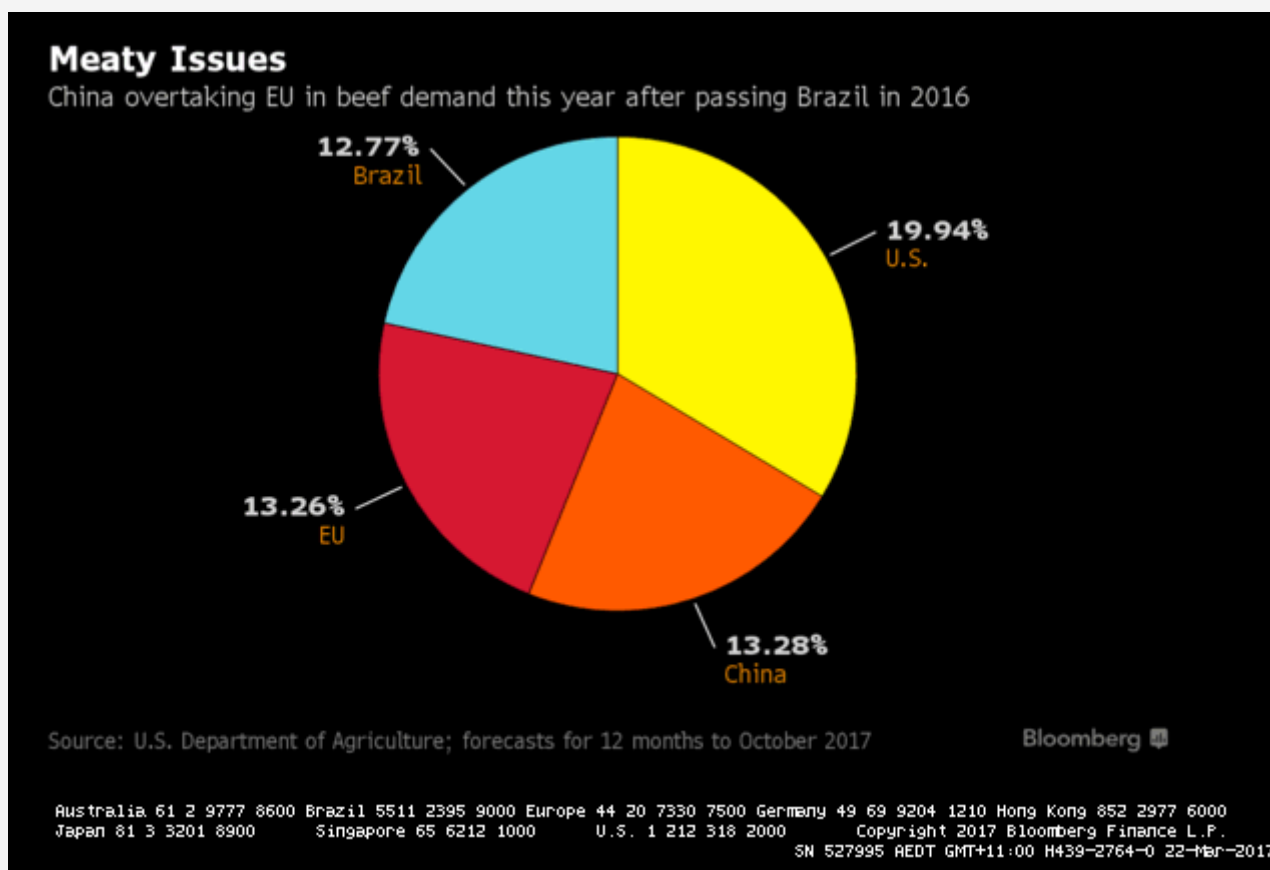
CHART OF THE WEEK

China is passing the EU and Brazil as the world's No 2 Beef consumer

China will overtake the European Union this year in total beef and veal consumption, after having passed Brazil in 2016, according to the U.S. Department of Agriculture.

China will account for 13.28% of global demand, compared with 13.26% for the EU and 12.77% by the South American nation, while the U.S. stays in the No. 1 slot with 20%.

China's per-capita consumption of 5.6 kilograms last year paled versus the other markets, as its population of almost 1.4 billion compares with about 500 million in the EU, 327 million in the U.S. and 207 million in Brazil.



Source: Bloomberg, by Lee Miller, 22 March 2017

About Rural Bank and Rural Finance

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010 and is the only Australian-owned and operated dedicated agribusiness bank in the country.

From 1 July 2014, Victorian agribusiness lender, Rural Finance joined Rural Bank as a division of Bendigo and Adelaide Bank Limited. As a specialist rural lender, Rural Finance has been fostering the sustainable economic growth of rural and regional Victoria for more than 65 years.

Together, Rural Bank and Rural Finance are supporting farmers and farming communities by providing them with specialist financial tools, industry insights and investment into the future of the Australian agribusiness sector.

Rural Bank's specialist farm finance tools are available nationally via a network of banking partners, including Bendigo Bank and Community Bank® branches and Elders Rural Services. Additionally, Rural Finance has a network of offices across regional Victoria.



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