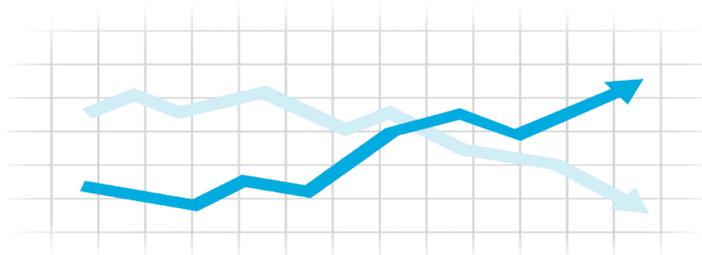


WEEKLY ECONOMIC COMMENTARY

Week beginning 13th June 2016

ECONOMIC DATA ROUNDUP

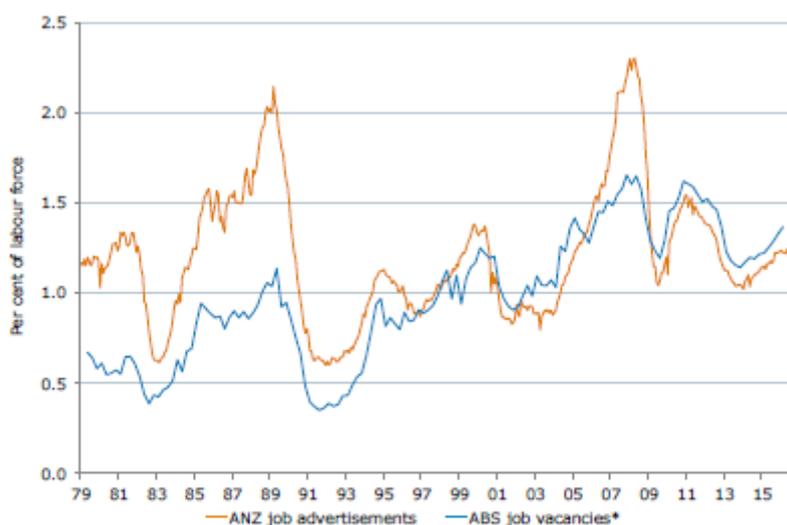


DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	May	+2.4%	-0.8%
Housing Finance	April	-3.7%	+0.2%

ANZ Job Ads rose by a larger than expected 2.4% in May to now be up 9.1% over the year. The number of Internet job ads rose 2.6% in the month (+9.9% annually), while the more volatile newspaper component fell 12.6% (-31.1% annually).

ANZ Job Ads and ABS Job Vacancies



Source: ABS, ANZ Research

Housing finance (ex-refinancing) was down 3.7% in April to be 9.2% lower over the year. Owner-occupier finance fell 2.6% to be up 3.7% annually, while investor finance drove the decline this month falling 5.0% to be down 20.8% over the year.

As was widely expected by the market, the Reserve Bank left the official cash rate unchanged at 1.75% at their monthly board meeting last week. The RBA did however surprise some by moving to a “neutral stance” on monetary policy. The accompanying statement suggested the RBA’s May rate cut is currently seen as sufficient to return inflation to their target band over time and achieve sustainable growth in the economy.

Interestingly, the RBA seems less worried by the recent pick-up in housing, acknowledging the recent rise in house prices, but noting that “lenders are also taking a more cautious attitude to lending in certain segments” and that “considerable supply of apartments is scheduled to come on stream”.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Westpac/MI Consumer Sentiment	15 June	June	n/a	+8.5%
Employment	16 June	May	+15,000	+11,000
Unemployment	16 June	May	5.7%	5.7%
New Motor Vehicle Sales	17 June	May	+1.5%	-2.5%

ECONOMIC COMMENTARY

LAST WEEK

The Reserve Bank left the official cash rate unchanged last week as expected but surprised (and disappointed) some by moving to a slightly neutral stance, and the market reacted by postponing any pricing of a rate cut. While the housing finance data released last week predated the RBA rate cut, the RBA would have been comforted by the fall in the investor finance component and will be closely watching the data over the next couple of months to see how the market responds to the May rate cut.

Offshore, US payrolls data from May, out just over a week ago, disappointed the market with a rise of only 38,000 jobs versus expectations of +160,000. The data weakened the case for a US rate hike next week and markets unwound expectations of a move, with yields and the US Dollar falling and equities rising. Supporting the market moves was a cautiously optimistic speech by Federal Reserve Chair Janet Yellen last week. She indicated that US rate hikes remained on the table despite data showing weak job growth in May, but walked away from her previous timing guidance that “a rate increase would be appropriate over coming months”.

The perception of lower US interest rates for longer saw risk sentiment improve last week, pushing commodities, equities and risk-sensitive currencies (like the Australian dollar) higher. By the close of trading on Friday, the 90-day bank bill was trading at 2.01% compared to 2.00% a week ago while in the long term maturities, 3 and 10 year bond yields closed at 1.60% and 2.11% respectively, from 1.59% and 2.24% a week earlier.

CURRENCY

The Australian dollar spiked sharply higher last week after the RBA held the cash rate steady and gave no clues about its next move – this was perceived by markets as a neutral stance (or at least no rate cut soon), which supported the Aussie. The currency was also boosted by stronger commodity prices and a continuing soft US dollar on speculation that any US rates increase will be delayed. The Aussie is up almost two cents in the last week and with the RBA and US Federal Reserve on hold for now, a weak US dollar will mean the Australian dollar will remain elevated.

By the close on Friday, the Australian dollar was trading at USD0.7425 compared to USD0.7253 a week earlier.

EQUITIES

Global equity markets posted modest gains most days last week but gave back the gains on Friday to close the week virtually unchanged. Oil prices led the rally, hitting a 10-month high above \$53 a barrel as sentiment improved, with energy stocks posting solid gains. Saudi Arabia raised prices on its oil grades into Asia as demand remains strong, while prices were also boosted by reports of a fall in Nigeria's oil production, with rebel groups threatening further disruption.

By the close on Friday the S&P/ASX200 Index was trading at 5,312.6 compared to 5,318.9 a week earlier.

THIS WEEK

In a holiday-shortened week the highlight for economic data releases will be the latest monthly employment numbers. The market is expecting a small rise (+15,000) in employment and the unemployment rate to remain unchanged.

The latest round of monthly business and consumer surveys is also due in the week ahead, with the NAB business conditions index for May out on Tuesday and the Westpac-Melbourne Institute consumer sentiment index on Wednesday. It will be interesting to see how these surveys have responded to the recent RBA rate cut.

INTEREST RATE VIEW

It's only a matter of time before the RBA cuts rates again. The better than expected economic growth data probably led the RBA to introduce a neutral stance (or at least no easing bias) back into their commentary after last week's board meeting. However, economic growth alone will be unable to stimulate inflation, so the RBA will likely need to ease monetary policy further. The key remains the June quarter CPI data. Pricing of the next RBA rate cut has been reduced following the RBA Board meeting last week, with the chance of an August rate cut only a 50% probability and a full 25 basis point rate cut not priced in by futures until early next year.

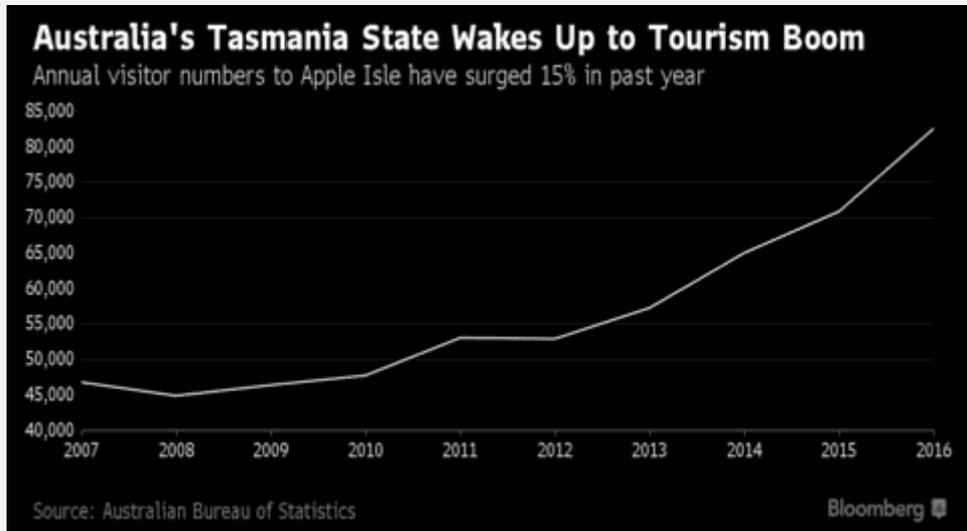
<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	2.00	2.00	2.00	1.75	1.75
90 day Bank Bill	2.16	2.35	2.33	2.00	2.01
180 day Bank Bill	2.27	2.46	2.46	2.13	2.16
1 year swap	2.12	2.24	2.21	1.84	1.90
3 year swap	2.35	2.31	2.21	1.81	1.82
5 year swap	2.79	2.63	2.46	2.08	2.04
10 year swap	3.38	3.06	2.76	2.42	2.29
AUD/USD	0.7731	0.7258	0.7496	0.7323	0.7425
S&P/ASX200 Index	5,545.3	5,029.4	5,166.4	5,359.3	5,312.6

CHARTS OF THE WEEK

Source: Bloomberg, 9 June 2016, by Jason Scott & Kimberley Painter

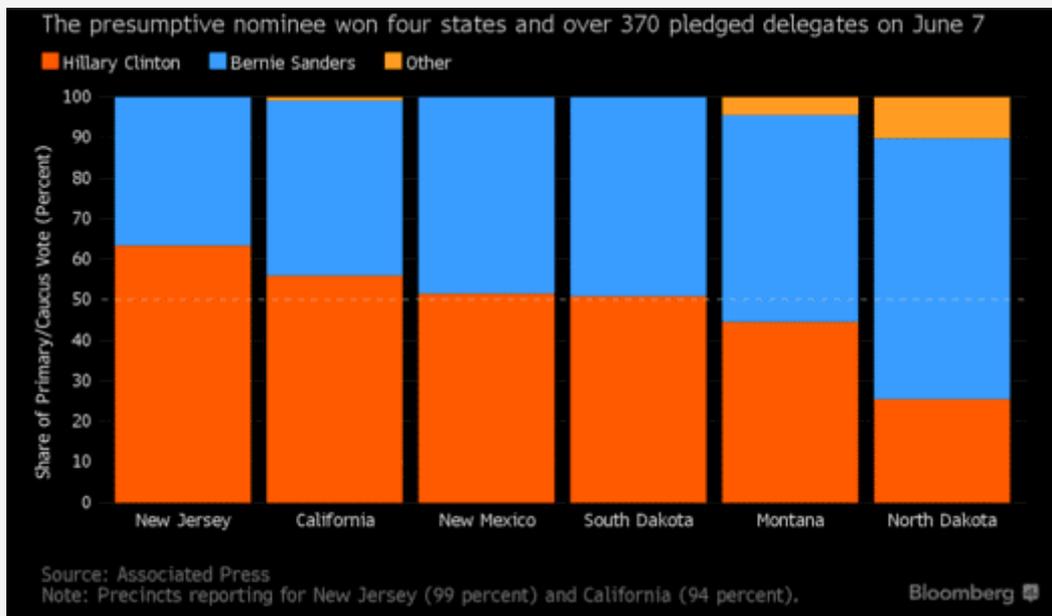
Australia's island state of Tasmania is growing at the fastest rate in six years after booming Chinese tourism helped drive a 15% rise in visitor numbers in the past year. A visit by President Xi Jinping has bolstered trade ties, with Tasmanian-branded exports to China, including apples and salmon, surging 37% since 2014.

As the July 2 election looms, Prime Minister Malcolm Turnbull is counting on the growth to sustain his appeal in the state.



Source: Bloomberg News, 10 June 2106, by Andre Tartar

Former secretary of state Hillary Clinton, who was declared the Democratic presumptive nominee by the Associated Press last Monday, won four of six contests last Tuesday, further extending her lead over Vermont Senator Bernie Sanders in both popular votes and pledged delegates. Even with a solid California win, however, Clinton's 2,184 pledged delegates means she'll have to rely on so-called super-delegates at the convention to officially clinch the nomination.



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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