WEEKLY ECONOMIC COMMENTARY

Week beginning 13th May 2019

ECONOMIC DATA ROUNDUP

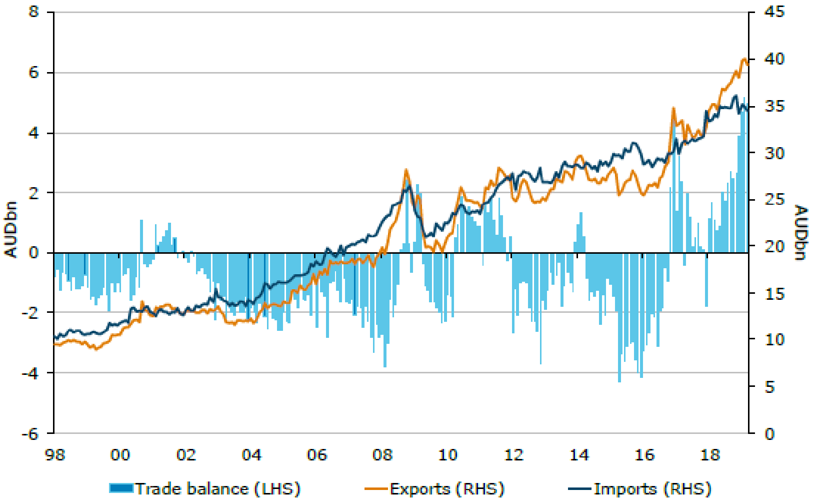
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	April	+0.1%	-1.7%
Trade Balance	March	$4.949bn	$4.801bn
Retail Sales	March	+0.3%	+0.8%

ANZ job advertisements were up 0.1% in April after five successive declines and are now down 5.6% annually.

The **trade surplus** narrowed a little from the upwardly-revised $5.14bn in February to $4.949bn in March. Imports were the main surprise, falling 1.5% in March driven by volatility in transport equipment while exports were down 1.8% with metal ore exports down due to supply disruptions from cyclone Veronica.

Trade Balance



Source: ABS, ANZ Research

Retail sales were up 0.3% in March, from an upward-revised 0.9% in February (originally +0.8%) with retail sales now up 3.5% over the year. Notably, household goods retailing rose by only 0.2% which may suggest the housing downturn is continuing to weigh on purchasing decisions, with monthly growth coming from clothing (+1.2%), eating out (+1.4%) and food (+0.4%). The main source for weakness was at department stores (-1.5%) and other (-0.4%).

At their monthly board meeting last week, the RBA left the official cash rate unchanged at 1.50%, after economists were evenly divided on the decision. The accompanying statement sounded rather upbeat with the RBA only downgrading its 2019 GDP growth forecast marginally (to 2.75% from 3.0%) and left its forecast for 2020 unchanged at 2.75%. The RBA also now expects the unemployment rate to fall below 5% by 2021, a year later than previously anticipated and expects a rebound in inflation to 2% next year (previously 2.25%), noting that the recent fall in underlying inflation (to just 1.4%) in the March quarter to be short-lived.

In other news, the NAB online retail sales index was up 1.7% in March with annual retail online sales now up 5.0% over the year. Six of the eight categories recorded monthly sales growth, the largest sales category growth seen in department stores (+8%). Declines were recorded in Media (-7%) and takeaway foods (-4%).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Housing Finance	13 May	March	-0.5%	+0.8%
NAB Business survey – Conditions/Confidence	14 May	March	n/a	+7/+0
Wage Price Index	15 May	March quarter	+0.6%	+0.5%
Westpac/MI Consumer Sentiment	15 May	May	n/a	+1.9%
Employment	16 May	April	+15,000	+25,700
Unemployment	16 May	March	5.0%	5.0%

ECONOMIC COMMENTARY

LAST WEEK

Markets started the week lower, thrown by a deterioration in the US-China trade talks. President Donald Trump threatened steeper tariffs (25% from 10%) on Chinese goods in retaliation for the slow pace of trade negotiations. As the week progressed, the trade tensions and threats escalated with a rise in tariffs “locked and loaded” on at least $200bn of Chinese imports. Risk sentiment turned negative as investors sought safe-haven assets which saw equity markets and bond yields fall while the US dollar strengthened.

Local market focus was clearly on the RBA board meeting agenda last week where the cash rate was left unchanged at 1.50%. The RBA was clearly less concerned about the low March quarter inflation data and emphasised the importance of developments in the labour market for any potential rate adjustment. Despite no cut, market reaction was only minor with financial market analysts continuing to forecast and price in a future rate cut.

In contrast to the RBA’s wait-and-see stance, the Reserve Bank of NZ delivered a rate cut last week (lowering their official cash rate to the same level as Australian rates for the first time in six years) but stopped short of promising further aggressive action.

By the close on Friday, the 90-day bank bill was trading at 1.65% compared to 1.55% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.28% and 1.73% respectively, from 1.29% and 1.79% a week earlier.

CURRENCY

After trading in a narrow range, and down to a low of USD0.6963 at the start of the week, the Australian dollar jumped over half a cent higher after the RBA decision to leave the cash rate unchanged. However, US dollar strength against most G10 currencies on the back of trade concerns and flight to quality buying late in the week saw the AUD weaken once again.

With currency markets continuing to expect an RBA rate cut in the coming months any rally is being met with profit-taking and the AUD returned to the familiar 70-cent level by the close of the week.

By the close last Friday, the Australian dollar was trading at USD0.6998 compared to USD0.6992 a week earlier.

EQUITIES

Global equity markets turned sharply negative last week after comments by the White House (Donald Trump tweets) re-escalated trade tensions, threatening an increase in tariffs after China pulled back from the latest trade negotiations. Falls could have been larger if it wasn’t for the fact that the Chinese trade delegation was still heading to the US for the next round of talks and Trump tweeting that reaching a deal was still possible.

Our share market followed the offshore lead, losing 145 points or 2% over the week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,310.9 compared to 6,335.8 a week earlier.

THIS WEEK

Data out this week includes the latest wage price index and the employment numbers which will be closely watched as they will be critical in determining the timing of any policy easing by the RBA. In other data releases, the latest monthly NAB business conditions and Westpac consumer confidence are expected to remain soft.

INTEREST RATE VIEW

Two RBA rate cuts are still priced in by financial markets, even following the sell-off in rates and flattening in the yield curve after the decision – albeit over a longer time frame than previously expected. The August RBA Board meeting is now looking good for the RBA move as it follows the release of March quarter GDP, June quarter CPI and three additional employment reports (April, May and June).

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.93	1.94	1.99	1.69	1.65
180 day Bank Bill	2.04	2.11	2.10	1.77	1.67
1 year swap	1.95	1.99	1.87	1.58	1.46
3 year swap	2.22	2.21	1.78	1.53	1.37
5 year swap	2.60	2.56	2.02	1.76	1.61
10 year swap	2.95	2.91	2.36	2.13	1.99
AUD/USD	0.7541	0.7212	0.7073	0.7127	0.6998
S&P/ASX200 Index	6,116.2	5,941.3	6,079.1	6,251.3	6,310.9

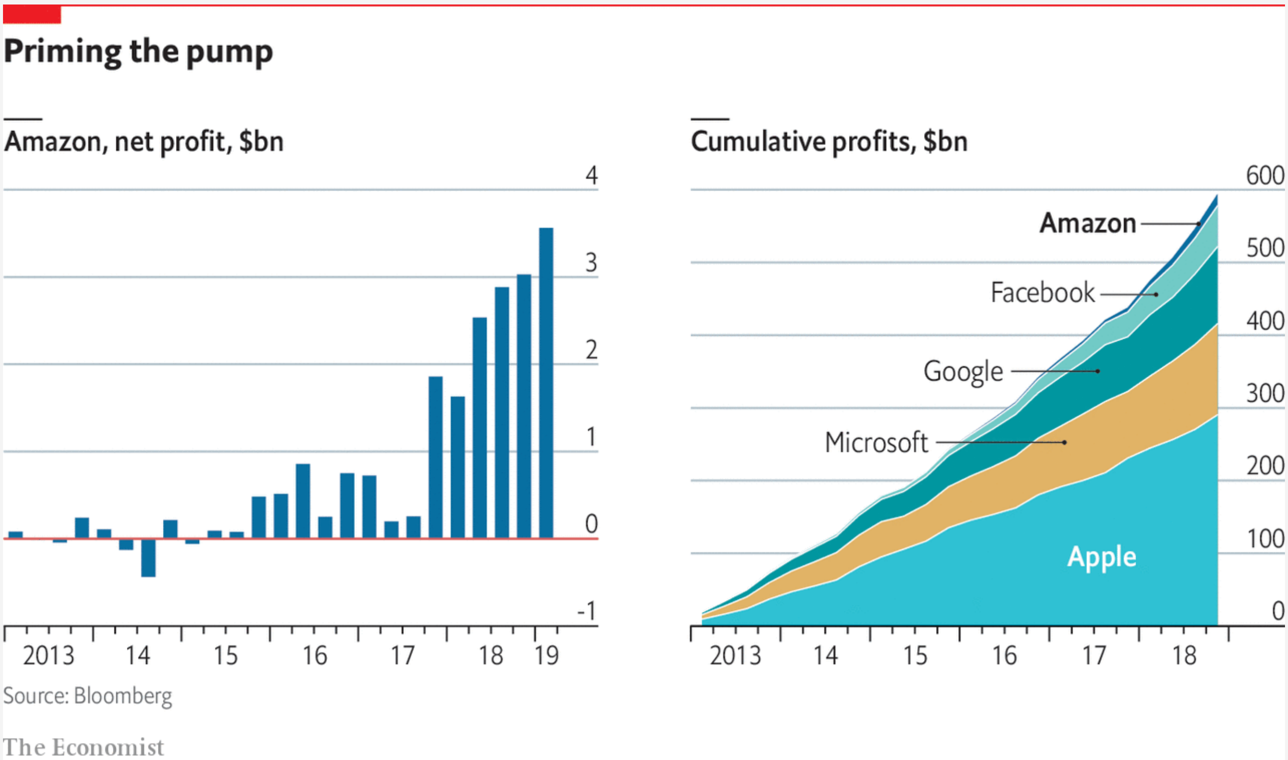
Amazon's in the money

But the online behemoth still produces much smaller profits than other tech giants

ON 25th April Amazon, the world's biggest company by market value, reported record profits for the fourth successive quarter, surpassing analysts' expectations. In the first quarter of 2019 the company had a net profit of $3.6bn, up from $1.6bn in the same quarter last year.

For over a decade Amazon has reinvested heavily in its business, at the cost of short-term earnings. The result is that despite its huge valuation it has delivered far less cumulative profit for its owners than any of the other tech superstars since 2013.

Some investors may have hoped that the last few quarters marked the start of a new phase in the company's life, when it will crank out huge sums of cash. In fact, Amazon signalled the opposite, as it ramps up investment to roll out delivery capabilities for its Prime service. It is also investing heavily in AI and smart gadgets. As a result, it expects to make earnings of $1.6bn in the second quarter, compared with Wall Street expectations of $4.2bn.



If Amazon is not printing masses of money now, at least other tech firms are. Microsoft, which saw its market value rise to $1 trillion last week, made $8.8bn in net profits in the first quarter of 2019; Apple, which is expected to release its first-quarter results on Tuesday, made a profit of just under $20bn in the last quarter of 2018. The gap between Amazon and Silicon Valley's other stars looks set to continue.

Source: The Economist
26 April 2019

About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010. It is the only Australian-owned and operated dedicated agribusiness bank in the country, providing exceptional financial services, knowledge and leadership for Australian farmers to grow.

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Future driven.

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