

WEEKLY ECONOMIC COMMENTARY

Week beginning 14th January 2019

ECONOMIC DATA ROUNDUP

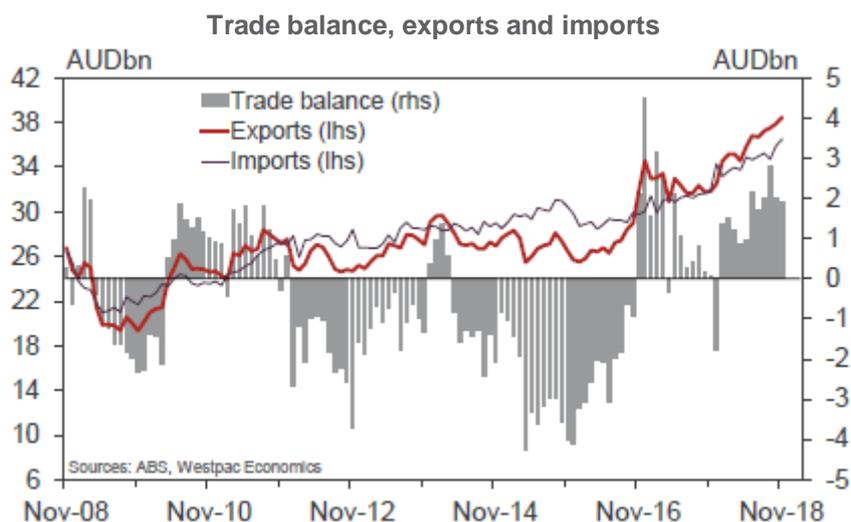


DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Advertisements	December	0.0%	+0.2%
Trade Balance	November	\$1.925bn	\$2.316bn
Building Approvals	November	-9.1%	-1.5%
ABS Job Vacancies	November quarter	+1.6%	+0.6%
Retail Trade	November	+0.4%	+0.3%

ANZ job advertisements were flat in December to remain up 4.1% over the year (+2.1% in November). The annual growth of job ads has progressively slipped through the year. In trend terms, job ads fell by 0.1%, the seventh consecutive monthly fall in the series.

The **trade balance** for November was \$1.925bn, slightly lower than forecasts thanks to a rise in both imports and exports this month due to sustained high fuel and lubricant prices despite the sharp fall in global energy prices. Imports were up 1.7% with capital goods imports up 6.5% (driven by a 78% rise in the volatile civil aircraft category) and consumption goods up 2.3% which more than offset a 10.9% fall in telecommunication equipment. Exports rose 1.4% as a rise in iron ore exports (+4.0%), meat exports (+2.2%) and a 59.6% jump in the volatile non-monetary gold exports was partially offset by a fall in coal (-8.8%) and rural goods exports (-0.9%) led by an 8.9% fall in wool.



Residential building approvals fell by 9.1% in November and are now 32.8% lower than a year ago – the largest annual decline since the year to January 2009. The fall was almost solely from the volatile apartment/unit approvals which were down 18.4% in November (-28% annually) while private house approvals fell 2.3% to be down 6.5% annually.

ABS job vacancies rose 1.6% in the November quarter to be up 13.9% annually. Public sector vacancies were up 3.8% in the quarter and continue to outpace private job vacancies which rose 1.1% for the quarter.

Retail sales increased by 0.4% in November, the fourth consecutive monthly rise, however retail sales is only up 2.8% over the year. There was some evidence of a shift in the timing of pre-Christmas spending that contributed to the November rise, in particular, the black Friday to cyber Monday period is now a significant event. Strong rises were recorded this month in household goods sales (+1.2%), clothing and footwear (+1.5%), department stores (+0.4%) and food sales (+0.2%) which were partially offset by a fall in cafes and restaurants (-0.1%) and other retailing (-0.1%).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Westpac/I Consumer Sentiment	16 January	January	n/a	+0.1%
Housing Finance	17 January	November	-1.5%	+2.2%

ECONOMIC COMMENTARY

LAST WEEK

Market sentiment started the week on a positive note following some US economic data releases and emerging optimism around the resumption of US/China trade talks over the weekend while the US government's partial shutdown entering its third week was taken in its stride. The US Trade Representative office said China pledged to purchase "a substantial amount" of agricultural, energy and manufactured goods and services from the United States. The Chinese delegation will travel to Washington for more trade talks on 22 January.

Sentiment was also helped by indications from the US Federal Reserve chairman that setting monetary policy needs to be flexible given the benign inflation data and can be put on hold for now which the minutes of the last meeting reiterated.

Despite the release of some mixed economic data last week, sentiment remains the main driver for markets at the moment and the positive (trade) news saw equities rally while bond yields and the US dollar weakened last week.

By the close on Friday, the 90-day bank bill was trading at 2.06% compared to 2.07% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.77% and 2.31% respectively, from 1.82% and 2.24% a week earlier.

CURRENCY

It's not often that a currency plunges 3.5% in a session only to finish higher on the day. Equally rare is a 4.3% weekly drop that turns into a 1.1% gain, all in the space of 24-hours. All this happened Thursday week ago. Last week we saw the Australian dollar make further gains, to a high of USD.7150 with US/China trade optimism still the fundamental driver at the moment.

The AUD remained coiled in a tightening range last week despite strength in equities and a weaker US dollar thanks to further progress in trade talks. The AUD was the best performing G10 currency, thanks to a softer US dollar and a strengthening Chinese Yuan, trading above USD0.71 for most of the week.

By the close last Friday, the Australian dollar was trading at USD0.7211 compared to USD0.7010 a week earlier.

EQUITIES

US share markets opened with solid gains last week primarily on the back of optimism about US-China trade talks. US President Trump last week wrote on twitter no more than "talks with China are going very well!" which was enough for the market to remain positive. Technology stocks led the gains with Netflix up 5.3% and Amazon up 3% early last week.

The Australian share market also posted gains last week but was weighed down by a 3.4% fall in BHP shares after they went ex-dividend (BHP are paying shareholders a special dividend of \$1.43 per share following the sale of its oil assets).

By the close last Friday, the S&P/ASX200 Index was trading at 5,774.6 compared to 5,619.4 a week earlier.

THIS WEEK

Data out this week is restricted to consumer sentiment and housing finance. The Westpac/MI consumer sentiment index for January is affected by the holiday period and is subject to statistical adjustments so analysts will generally overlook the data this month. Housing however is front of mind at the moment and the next month of housing finance data (a leading indicator of housing growth in the coming months) will give an indication as to the magnitude of the current slowdown in housing activity and prices.

INTEREST RATE VIEW

Financial markets currently remain convinced there is a strong possibility that the RBA will cut interest rates later this year. While the majority of economists are sticking to a view that the next move by the RBA is up, the opposite camp is gaining some credibility. My view remains that rather than cutting interest rates, the RBA will just leave the cash rate unchanged for longer.

<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	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.80	2.02	1.94	2.00	2.06
180 day Bank Bill	1.98	2.18	2.10	2.16	2.18
1 year swap	1.86	2.03	1.96	1.96	1.95
3 year swap	2.18	2.17	2.17	2.06	1.92
5 year swap	2.55	2.49	2.55	2.36	2.36
10 year swap	2.90	2.83	2.93	2.68	2.55
AUD/USD	0.7882	0.7415	0.7125	0.7236	0.7211
S&P/ASX200 Index	6,070.1	6,268.4	5,895.7	5,661.6	5,774.6

The world's most expensive cities

For a fifth consecutive year, Singapore has been named as the most expensive city in the world, according to the latest Worldwide Cost of Living report from the Economist Intelligence Unit (EIU).

While last year the top 10 was dominated by cities in Asia, now five of the priciest places in the report are found in Europe, with Paris and Zurich joint-second. Oslo, Geneva and Copenhagen are fifth, joint-sixth and eighth, respectively.

Hong Kong is ranked as the fourth most expensive city, while Seoul (joint-sixth), Tel Aviv (ninth) and Sydney (10th) are also included in the list.

Singapore is the most expensive place to buy and run a car, while the average price for one bottle of wine (\$23.68) is considerably more than in most other cities, including the majority of those within the top 10. Only Seoul (\$26.54) and Tel Aviv (\$28.77) were found to be more expensive.

At the bottom of the rankings, Damascus is the cheapest city in the world, dropping 14 places in comparison to last year (chart below). Caracas is the next cheapest city, with its ranking falling 13 places since the survey was last conducted, highlighting the impact of political or economic disruption, the report says.

For many Syrian and Venezuelan nationals, however, neither Damascus nor Caracas would be considered cheap, as rocketing prices in recent years have made groceries more difficult for people to afford.

There's one European capital among the world's 10 cheapest cities.

These are the world's most expensive cities

Based on the Worldwide Cost of Living Index, 2018.

1. Singapore
- 2= Paris, France
- 2= Zurich, Switzerland
4. Hong Kong, China
5. Oslo, Norway
- 6= Geneva, Switzerland
- 6= Seoul, South Korea
8. Hamburg, Germany
9. Tel Aviv, Israel
10. Sydney, Australia

Source: Economist Intelligence Unit (EIU)

The ten cheapest cities in the world

Country	City	Index (New York=100)	Rank	Rank movement
Syria	Damascus	26	133	-14
Venezuela	Caracas	33	132	-13
Kazakhstan	Almaty	38	131	2
Nigeria	Lagos	40	130	2
India	Bangalore	44	129	2
Pakistan	Karachi	46	127	3
Algeria	Algiers	46	127	0
India	Chennai	47	126	1
Romania	Bucharest	48	124	0
India	New Delhi	48	124	0

Source: EIU Worldwide Cost of Living report

Source: World Economic Forum, EIU Cost of Living report

Article by: Rob Smith, 4th April 2018

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.



Postal Address:
PO Box 3660,
Rundle Mall, SA 5000
Telephone: 1300 660 115
Facsimile: 08 8121 0106
service@ruralbank.com.au
www.ruralbank.com.au

Disclaimer: This report has been prepared by Rural Bank Treasury and is based on information obtained from public sources that are believed to be reliable. Whilst all care has been taken in compiling the information in this report, Rural Bank Limited ABN 74 083 938 416 AFSL / Australian Credit Licence 238042 makes no representation as to the accuracy, completeness or timeliness of such information. Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Rural Bank and are subject to change without notice. Rural Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein changes or subsequently becomes inaccurate. This report is provided for informational purposes only and does not take into account personal circumstances, objectives, financial situation or needs. The information contained within this report should not be relied upon without consulting independent, professional advice carefully to consider the appropriateness of the advice to your personal circumstances. Rural Bank disclaims all liability in relation to any loss or damage suffered by the use of or reliance upon any information contained herein or in any attachment or annexure hereto by any person.

© Copyright Rural Bank Ltd ABN 74 083 938 416 (A250677) (06/17)