WEEKLY ECONOMIC COMMENTARY

Week beginning 14th November 2016

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Period</th>
<th>Actual</th>
<th>Previous</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANZ Job Ads</td>
<td>October</td>
<td>+1.0%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>NAB Business Survey (Confidence)</td>
<td>October</td>
<td>+4</td>
<td>+6</td>
</tr>
<tr>
<td>NAB Business Survey (Conditions)</td>
<td>October</td>
<td>+6</td>
<td>+8</td>
</tr>
<tr>
<td>Housing Finance</td>
<td>September</td>
<td>+1.8%</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Westpac/MI Consumer Sentiment</td>
<td>November</td>
<td>-1.1%</td>
<td>+1.1%</td>
</tr>
</tbody>
</table>

ANZ job advertisements rose 1.0% in October with annual growth now 5.2% (+3.8% last month). Internet job ads were up 1.1% (or 159,939) and 6.2% over the year, while newspaper job ads (which comprise only 2% of the series) fell 7.6% in September (or -1,562) to be down 47.8% annually.

The NAB Monthly Business Survey reported some deterioration in both conditions and confidence in October with the deterioration widespread across industries. **Business conditions** fell 2 points to +6 in October; the lowest level in 1½ years; with a fall recorded across most industries. Although there was an improvement in retail conditions, trading and employment conditions deteriorated while profitability was steady. Inflation measures in the survey have been subdued and generally moderated further in the month. **Business confidence** was also down 2 points to +4 and now sits below the long run average of +6. This suggests firms have remained relatively unconcerned about uncertainties surrounding Brexit and the US election, while at the same time not posting any lift following the RBA’s rate cut in August.

The value of **housing finance** (excluding refinancing) was up 1.8% in September but remains down 1.0% over the year. The increase this month was driven by investor finance which rose 4.6% to be up 9.6% annually while owner-occupier (ex-refinancing) fell 0.8% in the month to be down 9.4% annually. Finance for first home buyers rose by 0.9% while finance for upgraders (excluding refinancing) fell by 1.1%.

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>Date</th>
<th>Period</th>
<th>Forecast</th>
<th>Previous</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage Price Index</td>
<td>16 Nov</td>
<td>Sept quarter</td>
<td>+0.5%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Employment</td>
<td>17 Nov</td>
<td>November</td>
<td>+15,000</td>
<td>-9,800</td>
</tr>
<tr>
<td>Unemployment</td>
<td>17 Nov</td>
<td>September</td>
<td>5.6%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

The Westpac-Melbourne Institute consumer sentiment index fell 1.1% in November to 101.3, but remains close to its long term average. The current conditions index eased by 1.9%, the "future expectations index" was 0.5% lower, while unemployment expectations increased by 0.6% in the month. The survey was taken in the first week of November and picks up the RBA’s cash rate decision, as well as the effects of the uncertainty around the outcome of the US election and the losses in the local share market.

Data over the next week
**ECONOMIC COMMENTARY**

**LAST WEEK**

To say that the last week was a volatile session for markets is probably an understatement. Global financial markets were set for a Hillary Clinton victory in the US elections, but as a Donald Trump win became more likely, risk aversion kicked in and safe haven assets went “bid”. However, 24 hours later, following a “conciliatory” acceptance speech by Trump, markets did a massive u-turn with risk aversion strongly reversed as traders latching on to the idea that Trump means more growth via an increase in fiscal spending. US rate hike expectations for December fell significantly, then completely rebounded. While equity markets embraced the prospects of debt-induced US growth, US bond markets have reacted violently to the idea of more government bond issuance (to pay for Trump’s spending and tax cuts) and possibly higher inflation pushing yields higher. This also flowed through to our bond market with yields across the curve higher last week. Finally, as expected, the Reserve Bank of New Zealand cut their cash rate to 1.75% last week, and have shifted from an easing to a neutral bias in their commentary. By the close of trading on Friday, the 90-day bank bill was unchanged at 1.75%. In the long term maturities, 3 and 10 year bond yields closed the week at 1.78% and 2.57% respectively, from 1.70% and 2.33% a week earlier.

**CURRENCY**

After a week of consecutive declines, the US dollar rallied on news the FBI had announcement that following its review of recently discovered additional emails, it had not changed its earlier finding that Hillary Clinton had not committed a crime. This was seen as a boost to Clinton’s chance of winning the election. How quickly sentiment changed with a surprise Trump victory turning markets to “risk-off” followed by a reversal as the President-elect delivered an acceptance speech that was less aggressive than feared. Our currency was initially lower on a stronger US dollar, but managed to recover some of the lost ground, supported by a strong rally in commodities, especially iron ore which was up over 11% last week. By the close on Friday, the Australian dollar was trading at USD0.7617 compared to USD0.7669 a week earlier.

**EQUITIES**

We didn’t have to wait until the US election result to have a rally in equity markets that ended the spell of ten consecutive days of decline. But then came the US Presidential election, and as events evolved our share market went into free-fall late in the day as it became clear Donald Trump was going to win, closing down over 2%. When offshore markets opened Wednesday night they were also initially down up to 4%, but sentiment took an about face after Trump’s acceptance speech which watered down some of his aggressive (or radical) policy promises. Equity markets recouped early losses and finished the day in positive territory. The optimism in the US pushed the Dow to a new high by the close of the week. By the close on Friday the S&P/ASX200 Index was trading at 5,370.7 compared to 5,180.8 a week earlier.

**THIS WEEK**

The main economic data release this week will be the latest monthly employment numbers. After two consecutive declines, economists are forecasting a rise in the number of employed with the unemployment rate expected to remain at 5.6%. The market will also remain alert to any news on President-elect Trump’s policies and possible appointments.

**INTEREST RATE VIEW**

Financial markets will continue to digest the US election results and the potential impact on global growth, trade policies, currencies, inflation and interest rates as well as any geopolitical impact that may result from Trump’s economic and foreign policies. Now that things have somewhat settled down, markets are still predicting a US rate hike in December (85% probability) and continue to wind back (defer) a further RBA rate cut until mid-next year, with only a 25% probability of a rate cut priced in by July 17.

<table>
<thead>
<tr>
<th>Economic Data</th>
<th>12 months ago</th>
<th>6 months ago</th>
<th>3 months ago</th>
<th>1 month ago</th>
<th>Now</th>
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</thead>
<tbody>
<tr>
<td>Official Cash Rate</td>
<td>2.00</td>
<td>1.75</td>
<td>1.50</td>
<td>1.50</td>
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<tr>
<td>90 day Bank Bill</td>
<td>2.24</td>
<td>1.99</td>
<td>1.75</td>
<td>1.75</td>
<td>1.76</td>
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<tr>
<td>180 day Bank Bill</td>
<td>2.34</td>
<td>2.13</td>
<td>1.96</td>
<td>1.99</td>
<td>2.00</td>
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<tr>
<td>1 year swap</td>
<td>2.15</td>
<td>1.84</td>
<td>1.68</td>
<td>1.75</td>
<td>1.75</td>
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<tr>
<td>3 year swap</td>
<td>2.23</td>
<td>1.79</td>
<td>1.66</td>
<td>1.81</td>
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<td>5 year swap</td>
<td>2.59</td>
<td>2.05</td>
<td>1.89</td>
<td>2.10</td>
<td>2.33</td>
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<tr>
<td>10 year swap</td>
<td>3.08</td>
<td>2.38</td>
<td>2.11</td>
<td>2.33</td>
<td>2.68</td>
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<tr>
<td>AUD/USD</td>
<td>0.7123</td>
<td>0.7281</td>
<td>0.7686</td>
<td>0.7524</td>
<td>0.7617</td>
</tr>
<tr>
<td>S&amp;P/ASX200 Index</td>
<td>5,051.3</td>
<td>5,329.0</td>
<td>5,530.9</td>
<td>5,435.5</td>
<td>5,370.7</td>
</tr>
</tbody>
</table>
China is now Australia’s biggest wine exports market

The massive growth in China’s middle class has been a godsend for the Australian wine industry, with exports jumping 51% in the last year to $474 million, making it the top export market by value for the first time. The rise of China is no more apparent than in the fact that just a decade ago, sales there were worth just $27 million.

Wine Australia’s Export Report, released today, reveal double digital growth for local exporters in the 12 months to 30 September 2016, up 10% to a total value of $2.17 billion.

Overseas fans are not only drinking more, they’re drinking better, with bottled exports up 14% to $1.8 billion and the average value increasing by 9% to $5.47 per litre, a 13-year high. Only the UK disappointed, posting a small drop in sales, down 1% to $361 million.

Europe overall disappointed, down 3% to $570 million. Northeast Asia is now Australia’s number one export region, growing 35% – $177 million to $678 million. North America was up 3% to $639 million, while Southeast Asia grew 11% to $152 million. The former top Australian wine drinking nation, the USA, saw sales rise 4% to $448 million.

Wine Australia CEO Andreas Clark said more than half of the total value of growth in the last 12 months was in wines priced at $10 or more per litre. Growth in the premium price segments (detailed below) added more than $120 million in value. “Of the 1743 active exporters across the period, 70% contributed to the value growth, an outstanding result. The value of exports grew in 81 of the 122 destinations for Australian wine,” Clark said.

Exports priced $10 and more per litre FOB (free on board, the value of the wine leaving Australia, excluding transport costs) were up in all top five markets – mainland China by 63%, the US by 21%, the United Kingdom by 20%, Canada by 9%, and Hong Kong by 7%.

Clark said the China–Australia Free Trade Agreement also contributed to the stellar result in that market. More than a third of Australian wine exports priced $10 and more per litre FOB were destined for China, valued at $190 million and up by 63%.

Negociants International executive director Adam O’Neill said demand for premium wines in China showed no signs of abating, with online platforms such as Alibaba’s TMall helping Australian exporters find new customers. Exports to Malaysia jumped 24% to $55 million, Taiwan was up 23% to $19 million and South Korea 42% to $14 million. Japan posted a small decline of 0.3% to $45 million, due to a decline in bulk wine exports.

Australia’s top five export markets by value:

- Mainland China $474 million ▲51%
- US $448 million ▲4%
- UK $361 million ▼3%
- Canada $190 million ▲1%
- Hong Kong $126 million ▲7%.

Source: Business Insider, Australia
By Simon Thomsen, 20th October 2016
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.