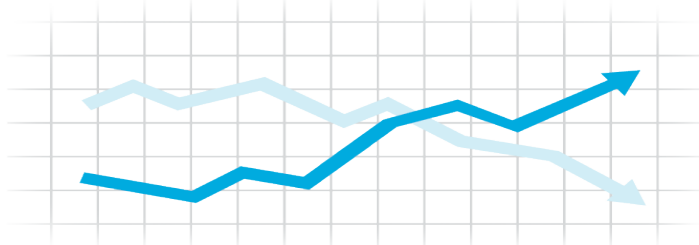


# WEEKLY ECONOMIC COMMENTARY

Week beginning 15th January 2018

## ECONOMIC DATA ROUNDUP



### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Trade Balance	November	-\$628m	+\$302m
ANZ Job Ads	December	-2.3%	+1.5%
Building Approvals	November	+11.7%	+0.9%
Retail Sales	November	+1.2%	+0.5%

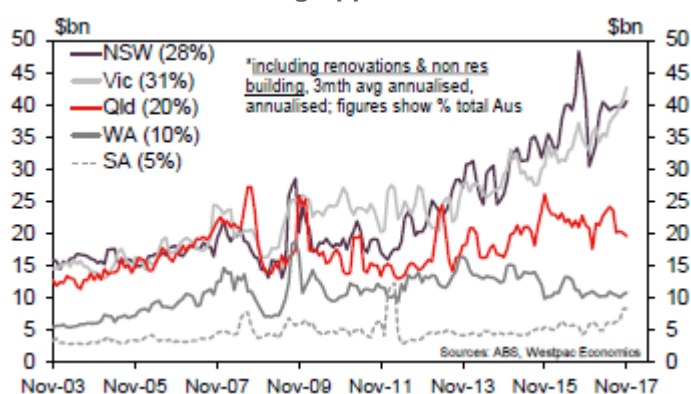
The **trade balance** recorded a wider deficit of \$628m in November (a disappointing outcome as the market was expecting a surplus) following a sharp downward revision to October's deficit of -\$302m (originally -\$105m). Exports were up slightly (+0.4%) from one month earlier while imports rose 1.5% November.

**ANZ job ads** fell 2.3% in December unwinding the previous two monthly gains. Job ads are now up 11.4% over the year.

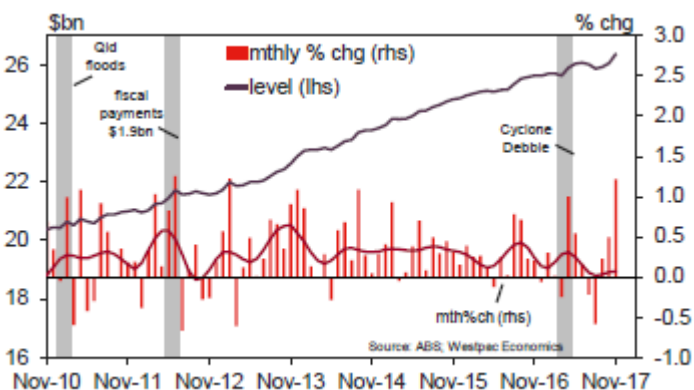
**Building approvals** increased by a larger than expected 11.7% in November and are now up 17.1% over the year. Private house approvals were down 2% in the month (+2.2% annually) while the volatile private units (apartments) were up 30.6% in November – the largest monthly rise in five years (to be up 36.8% annually). The increase in November was driven by a jump in Victorian private apartment approvals which were up 38% on the back of a 21% increase in October, while the rest of Australia's apartment approvals were relatively flat. The lower-density, townhouse developments were historically the main driver of growth in Victoria but November's increase was in the high-rise (four or more stories) sector.

**Retail sales** increased by 1.2% in November. This was the strongest monthly rise since June 2012, with retail sales now up 2.9% over the year – the highest result since July 2017. Contributing to the large rise in November were some key retail events including the Black Friday sales and the release of the new iPhone X which saw the "household goods" category rise 4.5% (electronics were up 9.3%) and "other retailing" rise 2.2%. In other categories, "clothing and footwear" was up 1.6%, "furniture, floor coverings, houseware and textiles" up 1.2%, "hardware, building and garden supplies" up 1.8% and "cafes and restaurants" increased by 0.4% while "food retailing" was flat and "department store" sales fell 1.1%.

Building Approvals



Retail Sales



The **NAB online retail sales index** increased strongly in November, rising 4.7% to be up 14.4% annually. This was the highest monthly growth rate in the index since December 2014. Most of the sub-categories recorded growth in November, with annual growth rates highest in the daily deals category (annual growth was +35.1% vs 18.6% in October) and homeware and appliances (+24.9% vs +3.8%).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
New Motor Vehicle Sales	16 Jan	December	n/a	+0.1%
Westpac-MI Consumer Sentiment	17 Jan	January	+1.0%	+3.6%
Housing Finance	17 Jan	November	+1.5%	-0.8%
Employment	18 Jan	December	+10,000	+61,600
Unemployment	14 Jan	December	5.4%	5.4%

# ECONOMIC COMMENTARY

## LAST WEEK

Financial markets begun the first full week of trading for 2018 on a fairly quiet note, which is not surprising in light of the relatively sparse economic data flow as well as analysts taking time to come up to speed with what has happened over the holiday period. Volumes quickly returned to normal as many were back at work for the first time following the Christmas/New Year break.

The general theme last week was one of higher yields (a continuation of the selloff that began in late December), especially in the longer maturities and a steeper yield curve as markets realise that the next move in rates is up – it's now just the timing of this move remaining uncertain. Markets didn't react to the surprise, larger than expected, rise in building approvals and retail sales data released last week. The latter result is being put down to one-off events (iPhone-X frenzy) and a shift in seasonal spending patterns which are not expected to be repeated in coming months.

A Bloomberg report of a rumour claiming (unnamed) Chinese officials, reviewing China's foreign reserve holdings had recommended slowing or halting the purchase of US Treasuries added to the selloff in bond yields last week.

By the close of trading on Friday, the 90-day bank bill was trading at 1.80% from 1.77% before Christmas. In the long term maturities, three and 10 year bond yields closed at 2.12% and 2.76% respectively, from 2.04% and 2.54% before Christmas.

## CURRENCY

The Australian dollar was stronger last week as the US dollar lost ground against a basket of G10 currencies. Over the holiday period, the AUD has maintained a steady grind higher, adding over two cents in the last month and trading through the psychological resistance levels of 77 and 78 cents to be just below the major resistance level of USD0.79, compared to a low of USD0.75 in early December. The strong retail sales data gave the AUD a boost late last week, but the currency again failed to break through the 79 cent level.

By the close on Friday, the Australian dollar was trading at USD0.7882 from USD0.7660 just before Christmas.

## EQUITIES

Strong commodity prices has seen our share market post solid gains already this year. Record highs in many overseas share markets since the start of 2018 has also helped our market rally. Our All Ords index added over 3.5% in December and this rally has continued in early 2018. Market sentiment is positive ahead of the upcoming US quarterly earning reporting season, buoyed by the upcoming US tax cuts which are seen as positive for equities.

Also noteworthy that Brent crude oil traded above \$70 last week for the first time since 4 December 2014 (a high of \$70.05) but these gains have subsequently been retraced. This event boosted energy and resource stocks last week.

By the close on Friday, the S&P/ASX200 Index was trading at 6,070.1 compared to 5,999.7 just before Christmas.

## THIS WEEK

This week's data releases includes the latest monthly employment figures. Employment is expected to not see a reversal of the large (61,000 jobs) rise in November and should continue to post a gain of 10,000 jobs in December with the unemployment rate to remain unchanged. Consumer sentiment is also due for release and with the RBA increasingly interested in sentiment data, these latest figures will gain some focus. That said, consumers have a tendency to reflect a little more optimism over the summer holiday period.

## INTEREST RATE VIEW

The better than expected data out last week has seen market pricing for the RBA pushed higher and/or the timing of the next move (up) on rates brought forward. At present the futures market is implying about 25 basis points of RBA rate hikes over the next 12 months and 75 basis points in total over the next three years. The first full rate hike is still not priced in until December 18.

<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	1.78	1.70	1.70	1.77	1.80
180 day Bank Bill	2.03	1.83	1.90	1.94	1.98
1 year swap	1.84	1.78	1.82	1.82	1.86
3 year swap	2.10	2.08	2.15	2.10	2.18
5 year swap	2.53	2.47	2.55	2.42	2.55
10 year swap	2.89	2.90	2.94	2.73	2.90
AUD/USD	0.7481	0.7755	0.7836	0.7662	0.7882
S&P/ASX200 Index	5,721.1	5,765.1	5,814.2	6,011.3	6,070.1

## CHART OF THE WEEK

### Happy 60<sup>th</sup> Birthday

The US industrial index, the S&P500 turned 60 last year, as did I (for those who didn't know). It's interesting to see how the world has changed since the 1950's. I have gone from being one of 2.9 billion people to one of 7.4 billion. The share market over the last 60 years has posted a 5,700% gain and that's even taking into consideration a 50% fall in the market following the GFC – showing the power of long term investing. Surprisingly, the number of industrial stocks in the S&P500 has fallen from 425 to only 68 today.

Some interesting comparisons between 1957 and 2017....

	<b>1957</b>	<b>2017</b>
S&P500	43.74	2,395.96
Dow Jones Index	420	24,534
Australia's Inflation	1.4%	1.9%
Australia's Official Cash Rate	3.11%	1.50%
10-year commonwealth bond yield	5.00%	2.60%
AUD exchange rate	USD1.11	USD0.7650
World Population	2.9 billion	7.4 billion
Australia's population	9.6 million	24.7 million
US National Debt	\$271 billion	\$21 trillion
US President	Eisenhower	Trump
Australia's Prime Minister	Robert Menzies	Malcolm Turnbull
Gross Value of Farm Production	\$2.5 billion	\$58.5 billion
Cost of a litre of Petrol	\$0.05	\$1.45
AFL Premiers	Essendon	Richmond
NRL Premiers	St George Dragons	Melbourne Storm
Average yearly income	\$4,000	\$85,000
Average house price	\$19k	\$681k
Price of a loaf of bread	8 cents	\$3.60
Cost of a postage stamp	3 cents	\$1.00
#1 on the Billboard Hot 100 Songs	All Shook Up (Elvis Presley)	Shape of You (Ed Sheeran)
Best Movie Picture	Bridge on the River Kwai	Moonlight
Oscar Winning Actor in a Leading Role	Yul Brunner (The King & I)	Casey Affleck (Manchester by the Sea)
Most popular baby names	Mary/Michael	Charlotte/Oliver

## 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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