WEEKLY ECONOMIC COMMENTARY

Week beginning 16th April 2018

ECONOMIC DATA ROUNDUP

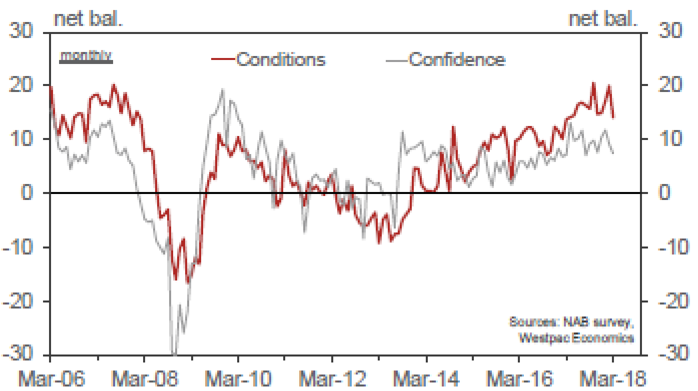
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
NAB Business Survey – business conditions	March	+14	+21
NAB Business Survey – business confidence	March	+7	+9
Westpac/MI Consumer Sentiment	April	-0.6%	+0.2%
Housing Finance	February	-0.2%	-1.8%

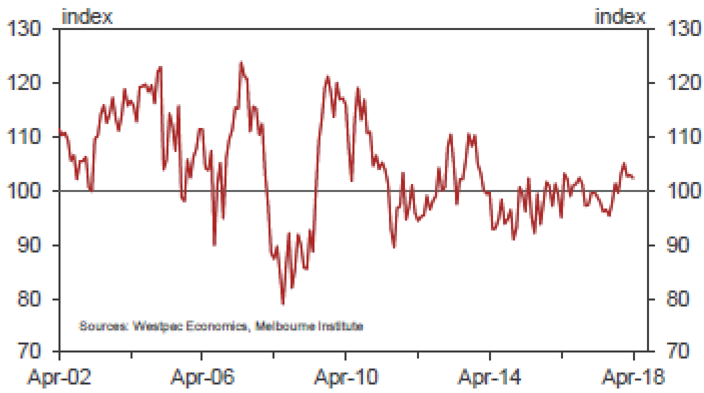
The **NAB business conditions index** fell six points to +14 in March, reversing the previous two months of gains. However, conditions remain at elevated levels and above the long term average. Conditions were mixed across industries, strengthening in manufacturing and personal & recreation services, and falling sharply in the retail sector. Trading conditions (sales) moderated by four points to +20; profitability declined by four points to 14; and employment conditions pulled back by seven points to +9 - which largely reversed the nine point spike last month.
The **business confidence index** also fell this month to +7 (from +9 in February) and is now just above the long term average. It's not surprising that confidence has deteriorated this month given that the survey was taken from 23rd to 29th March, shortly after the escalation of US/China trade tensions and associated financial market volatility.

The **Westpac/Melbourne Institute consumer sentiment index** fell 0.6% in April but remains above 100 at 102.4 indicating optimists outnumber pessimists. The index highlights that people are more uneasy about their family finances outlook ("finances ,next 12 months" fell 5.8%) and employment but a touch more optimistic about the economy ("economic outlook, next five years" increased 2.9%).

NAB Business Survey



Westpac/MI Consumer Sentiment



The number of **housing finance approvals** for owner occupiers fell 0.2% in February and are now down 0.8% annually. The total value of approvals excluding refinance rose 1.0% in the month and was up 1.1% over the year. The monthly increase was driven by the owner-occupier segment, which rose 1.3% in February (+7.6% annually) while investor finance increased by 0.5%, following the 1.4% rise in January but is still down 5.5% annually.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Internet Vacancies Index	18 April	March	n/a	+0.6%
Employment	19 April	March	=20,000	+17,500
Westpac/MI Consumer Sentiment	19 April	March	5.5%	5.6%

ECONOMIC COMMENTARY

LAST WEEK

Data out last week saw business and consumer sentiment both soften over the past month albeit from high levels with the story of robust business conditions versus a softer consumer remaining firmly in place. This was not surprising given the escalation of trade tensions between US and China over the last month and the associated financial equity market volatility. Interest rate markets however remained relatively subdued most of the week, although with a slight bias to higher long term yields. Any sell off (rise in yields) was matched by a rally last week after Chinese President Xi Jinping eased fears of a trade war and Trump took to twitter to express his appreciation.
Short term USD Libor rates fell for the first time in 41 consecutive sessions early last week and our BBSW rates also responded but the rally was short-lived and the march to higher short term yields returned.
By the close on Friday, the 90-day bank bill was trading at 2.07% compared to 2.04% a week earlier. In the long term maturities, three and 10 year bond yields closed at 2.20% and 2.74% respectively, from 2.14% and 2.66% a week earlier.

CURRENCY

The US dollar continues to trade nervously on persistent worries about a potential trade war and as the Euro rallied following comments from European Central Bank President Mario Draghi that were positive for the Euro. Chinese President Xi's commitment to open trade and widen market access for foreign investors boosted risk sentiment and in turn supported the Australian dollar which managed to post a gain last week.
By the close last Friday, the Australian dollar was trading at USD0.7795 from USD0.7669 a week earlier.

EQUITIES

Wall Street had a volatile week up one day to be down the next and this trend continued throughout the week. What was surprising was that our share market seemed to move in the opposite direction to offshore. The catalyst for the volatility came from a number of sources including a softer stance by US policymakers on China tariffs. Helping sentiment was comments from Chinese President Xi Jinping also promising to cut import tariffs which further eased concerns about trade wars. On the downside, possible US military action against Syria stoked investor concerns about geopolitical risk and the minutes from the most recent US Federal Reserve meeting sparked worries that rising inflation might require a faster pace of interest rate hikes than anticipated.
The price of oil surged more than 3% last week on escalating geopolitical tensions and as Saudi Arabia was said to seek higher prices which gave local mining and energy stocks a lift last week.
By the close last Friday, the S&P/ASX200 Index was trading at 5,829.1 compared to 5,788.7 a week earlier.

THIS WEEK

The focus for markets this week will be the latest monthly employment data. Economists are forecasting a 20k increase in employment in March which should see the unemployment rate fall back to 5.5%. The message from RBA Governor Philip Lowe last week was clear, pointing to no near term interest rate hike pressure. As such, this Tuesday's release of the minutes from the last RBA board meeting will be analysed more for particular clues on various sectors and current issues, for example any perspectives on the potential tariff impacts.

INTEREST RATE VIEW

Market pricing for the first RBA rate hike has held steady over the past fortnight with the probability of a November move around 30% and the first rate hike not fully priced in until May 2019. The upcoming CPI data (out on April 24) is the next significant data release that may change this view.

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	1.77	1.70	1.80	1.96	2.07
180 day Bank Bill	1.96	1.90	1.98	2.08	2.16
1 year swap	1.74	1.82	1.87	1.92	2.02
3 year swap	1.94	2.15	2.19	2.17	2.27
5 year swap	2.35	2.55	2.56	2.56	2.63
10 year swap	2.76	2.94	2.91	2.92	2.93
AUD/USD	0.7593	0.7836	0.7951	0.7866	0.7795
S&P/ASX200 Index	5,889.9	5,814.2	6,077.1	5,920.8	5,829.1

CHART OF THE WEEK

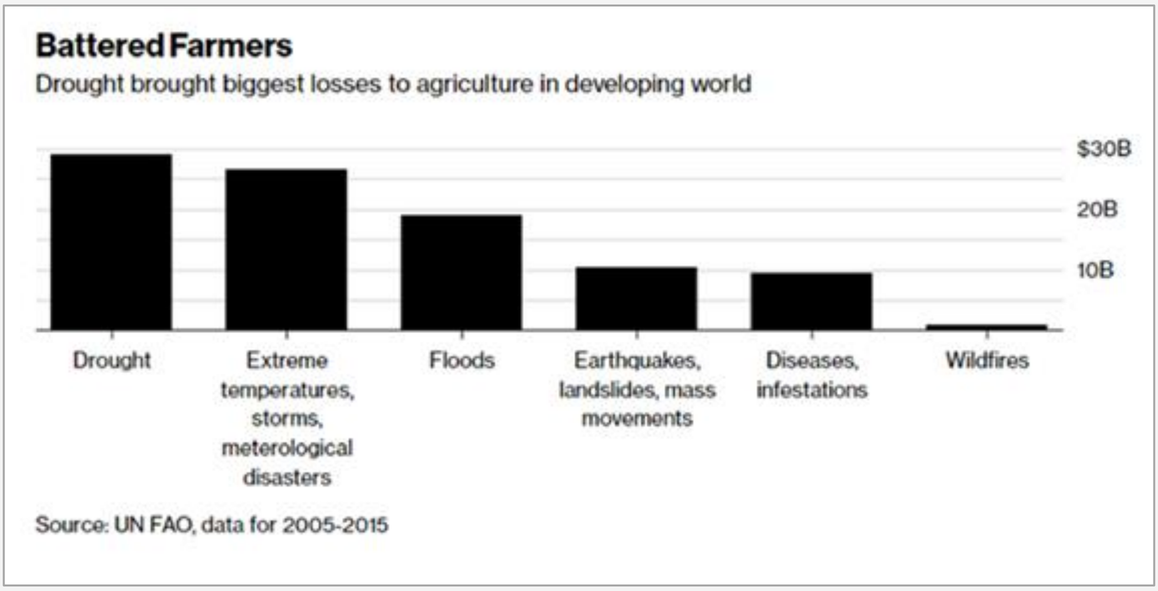
Natural disasters are costing farming billions of dollars a year

The Food and Agricultural Organisation of the United Nations (FAO) released data indicating the severe impact that natural disasters have on developing world agriculture.

Agricultural losses from weather events in developing nations totalled $96 billion between 2005 and 2015, with Asia accounting for half the amount, according to the United Nations' Food & Agriculture Organization. In addition to climate issues, sectors from forestry to aquaculture face risks from problems such as market volatility, diseases and conflicts, the FAO said in a report.

The largest impact came from drought further emphasising the continued need to efficiently manage freshwater resources not only in the developing world, but globally.

"This has become the 'new normal,' and the impact of climate change will further exacerbate these threats and challenges," FAO Director-General Jose Graziano da Silva said in a statement.



Natural disasters have become more frequent and intense since the 1980s, presenting challenges for about 2.5 billion people who depend on agriculture, the FAO said. Small-scale farmers, fishermen and other communities around the world generate more than half of all agricultural production, according to the Rome-based organization.

Almost a quarter of all financial losses caused by natural disasters in the decade through 2015 were borne by the agricultural sector, the FAO study showed. About four percent of potential output is lost to disasters.

An average of 260 natural disasters occurred in developing countries each year from 2005 to 2016, according to the FAO. Economic losses from climate- and weather-related events have been growing, and while the impact for 2017 hasn't been calculated yet, the most violent hurricane season on record should confirm the trend, it said.

"The rising incidence of weather extremes will have increasingly negative impacts on agriculture," the FAO said. Disasters often have long-lasting consequences on agriculture, including harvest and livestock losses, outbreaks of disease and damaged infrastructure and irrigation systems.

Source: *Bloomberg markets, UN Food and Agricultural Organisation*
Article by: *Agnieszka De Sousa, 15th March 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.

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Future driven.

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