

WEEKLY ECONOMIC COMMENTARY

Week beginning 17th June 2019

ECONOMIC DATA ROUNDUP

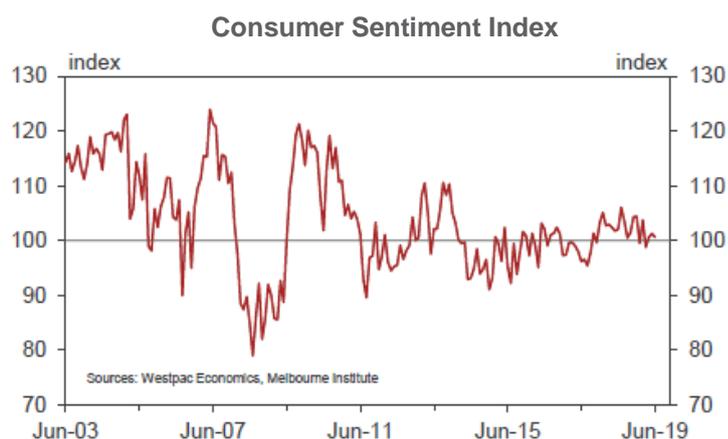
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
NAB Business Survey – Confidence	May	+7	+0
NAB Business Survey – Conditions	May	+1	+3
Westpac/MI Consumer Sentiment	June	+0.6%	+0.6%
Employment	May	+42,300	+28,400
Unemployment	May	5.2%	5.2%

The latest NAB monthly business survey was mixed with confidence up but conditions down. **Business confidence** was up strongly in May, rising 7 index points to +7 and with the survey taken near the end of the month was put down to expectations of an RBA rate cut and a reflection of a post-election bounce.

Business conditions weakened further in the month, declining 2 index points to +1, the weakest level for conditions since September 2014. The fall in conditions was driven by a further weakening in retail, a fall in mining and smaller falls in transport and utilities and the services sector. Within the conditions index, trading fell 5 index points this month to +3, profitability was down 2 index points to -3 while employment increased 3 index points to +2.

The **Westpac/Melbourne Institute consumer sentiment index** fell by 0.6% in June to sit at a level of 100.7, with optimists just outnumbering pessimists. Despite the RBA delivering a rate cut, weak GDP data out a day later had consumers concerned about the economy. The survey, taken in the first week of June highlighted that responses collected before the RBA's rate decision were much stronger than those collected after. The largest fall was in the sub-index tracking "economic expectations over the next 12 months" which fell 4.7% while "expectations of finances over the next 12 months" rose 3.1%. The housing-related measures were boosted by the lower RBA cash rate with the sub-index "the time to buy a dwelling" up 1.8% in June while confidence in the labour market fell with the job security fears index up 5.1% in the month.



Employment increased by a larger than expected 42,300 in May and the April increase was revised up to +43,100 (from +28,400). Part-time employment increased by 39,800 (due to the election effect) which was partially offset by a fall in full-time employment of 2,400. The **unemployment rate** remained unchanged at 5.2% due to an increase in the participation rate to a record high of 66.0%.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
House Price Index	18 June	March quarter	-3.1%	-2.4%
Skilled Vacancies	19 June	May	n/a	-1.6%

ECONOMIC COMMENTARY

LAST WEEK

Markets started last week with a positive tone following comments from Trump confirming he still expects to meet China's Xi Jinping at the upcoming G20 summit in Japan and get a US-China trade deal worked out.

Meandering along in a narrow range, the market sprung to life after the employment data release on Thursday. The night before, RBA assistant governor Lucy Ellis gave a speech that focused, among other things, on the RBA's target for unemployment which the RBA now thinks is around 4.5% (down from 5% previously). So, when employment beat expectations with a rise of 42,000 but the unemployment rate remained unchanged at 5.2% the market raised the expectation of a July RBA rate cut and yields rallied late in the week.

Similarly, US inflation data out last week showed CPI lower than market expectation and with a slowing US economy could increase the pressure on the US Federal Reserve to cut interest rates a lot sooner this year.

By the close on Friday, the 90-day bank bill was trading at 1.30% compared to 1.37% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 0.99% and 1.37% respectively, from 1.08% and 1.48% a week earlier.

CURRENCY

The Australian dollar opened last week on a high and steadily drifted lower last week thanks to a stronger US dollar. The AUD spiked lower last Thursday following the RBA's Ellis speech and a stubbornly high unemployment rate, which prompted markets to expect another RBA rate cut a lot sooner.

The AUD dipped below the psychological 69 cent level late on Friday before buying support saw the currency bounce off its lows.

By the close last Friday, the Australian dollar was trading at USD0.6900 compared to USD0.6971 a week earlier.

EQUITIES

Global equity markets seem to be buoyed at the moment by positive sentiment stemming from growing expectation of lower US interest rates. Locally, our market followed the offshore lead, the rally assisted by higher commodity prices, especially iron ore and oil, the latter impacted by supply concerns on the back of unrest in the middle east. Attacks on two oil tankers in the Gulf of Oman raised fears about a short-term disruption to global oil supplies, despite a current glut in supply and pushed oil prices 2% higher.

By the close last Friday, the S&P/ASX200 Index was trading at 6,554.0 compared to 6,443.9 a week earlier.

THIS WEEK

A very quiet week ahead with only one secondary economic data release due out. The March quarter house price index or the skilled vacancies index for May are not likely to gain much attention, let alone move markets.

The RBA will therefore again be in focus this week with RBA Governor Philip Lowe giving a speech and the minutes from the June RBA meeting where they cut rates will be released. Offshore, three central banks meet this week (the US Federal Reserve, the Bank of Japan and the Bank of England) but none are expected to change monetary policy.

INTEREST RATE VIEW

The employment data last week reinforced the market view that the RBA will cut the cash rate again with many claiming August as the preferred month for the RBA move but futures market pricing for a July cut has jumped sharply from a probability of 55% before the employment data to over 70%. The terminal official cash rate according to futures pricing is now around 0.67% in mid-2020 (that's more than two further RBA rate cuts).

<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	1.25
90 day Bank Bill	2.06	2.02	1.84	1.63	1.30
180 day Bank Bill	2.16	2.18	1.92	1.63	1.30
1 year swap	1.99	1.97	1.70	1.36	1.11
3 year swap	2.20	2.05	1.63	1.29	1.05
5 year swap	2.56	2.36	1.87	1.52	1.26
10 year swap	2.90	2.68	2.22	1.90	1.63
AUD/USD	0.7458	0.7192	0.7083	0.6908	0.6900
S&P/ASX200 Index	6,094.0	5,602.0	6,175.2	6,327.8	6,554.0

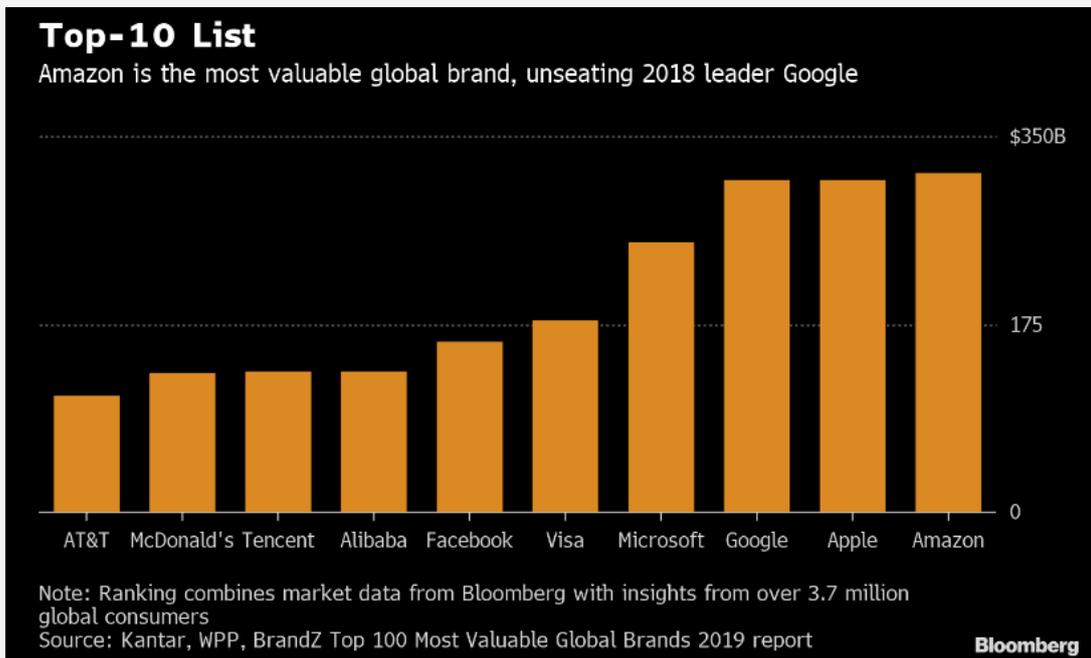
CHART OF THE WEEK

Amazon unseats Google as the world's most valuable brand

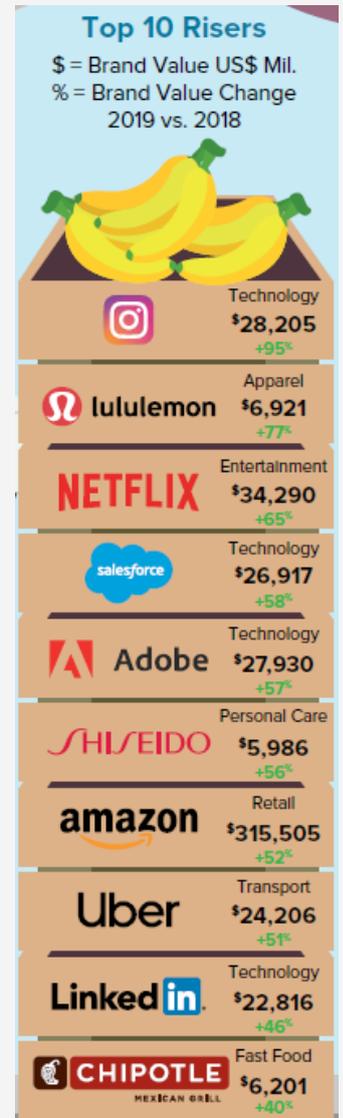
The world's second-largest company by market capitalization is now the world's most valuable brand, according to Kantar Millward Brown and WPP Plc's BrandZ™ annual assessment. The 2019 edition of the BrandZ™ Global Top 100 launched at an event at the New York Stock Exchange to learn from and celebrate the value strong brands bring to businesses, proven by BrandZ's unique and validated Brand Valuation methodology.

Top 100 Most Valuable Global Brands increased 7 percent in value. This hard-won gain outperformed the global GDP growth rate and added \$328 billion to the BrandZ™ Top 100, bringing its total value to \$4.7 trillion.

Amazon has leap-frogged the competition to be crowned the BrandZ™ Top 100 Most Valuable Global Brand for 2019, breaking Apple and Google's 12 year hold on the top spot. Other key trends and findings from 2019 include the continued rapid growth of the luxury sector - despite the slowdown in the global economy, the impact a brand's age has on consumer perception, and the common drivers behind our newcomer brands.



Amazon.com Inc. is valued at \$315.5 billion, replacing Alphabet Inc.'s Google - the 2018 leader - which dropped to third place out of 100 companies. While the top-10 is heavy on technology firms, luxury and retail were the fastest-growing categories since the prior year's list.



Source: Bloomberg, 12th June 2019
Article by: Sophie Caronello in Washington at scaronello@bloomberg.net
Source: BrandZ™, Top 100 Most Valuable Global Brands 2019
Reference: www.brandz.com

About Rural Bank

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