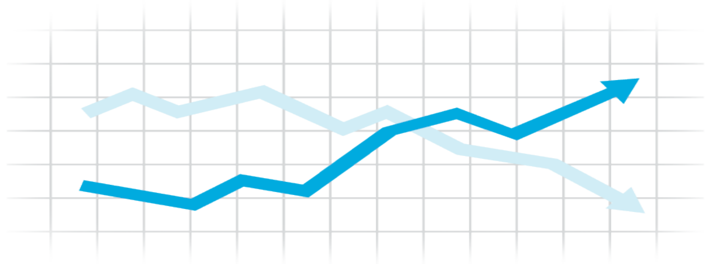
WEEKLY ECONOMIC COMMENTARY



Week beginning 17th October 2016

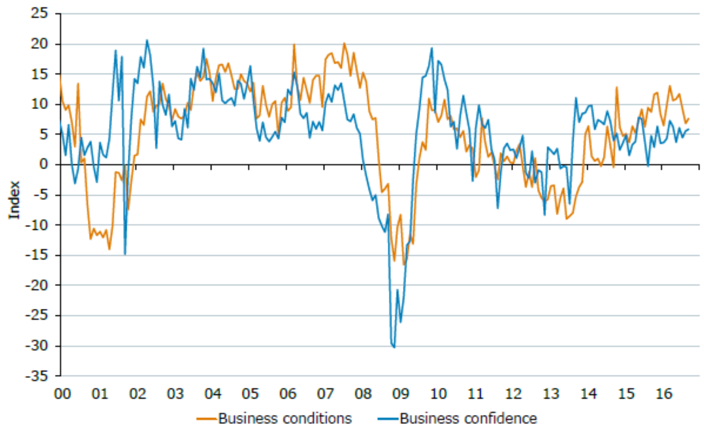
ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
NAB Business Survey - Conditions	September	+8	+7
NAB Business Survey - Confidence	September	+6	+6
Housing Finance	August	+0.2%	-4.2%
Westpac-MI Consumer Sentiment	October	+1.1%	+0.3%

The **NAB monthly business survey** suggests the confidence of firms in aggregate remains at reasonable levels, although varied by industry and despite the numerous uncertainties still lingering in the background. Businesses reported small improvements in both current conditions and confidence in September. There was no hint that the RBA's August rate cut had any further material impact on confidence in September after apparently providing some support in August. **Business confidence** was unchanged this month (at +6 index points) with increases in mining offset by falls in all other categories. **Business conditions** which is a combination of trading, profitability and employment conditions, rose to +8 index points in September (from +7 last month). After some promising signs of a recovery earlier in the year, the strength in business conditions has once again become more heavily skewed towards major services industries, with trading conditions and profitability the main drivers of the elevated business conditions.

NAB Monthly Business Survey



Source: NAB, ANZ Research

Housing finance (excluding-refinancing) was up 0.2% in August to be down 6.3% over the year. Owner occupier financing was up 0.2% (-7.5% annually) and investor financing was up 0.1% (-5% annually). Finance for first home buyers fell by 1.2% in the month.

The **Westpac Melbourne Institute Index of Consumer Sentiment** rose 1.1% to 102.4 in October, the third consecutive monthly gain. The index has been stable over the past six months, moving in a tight 4% range. The largest rise was in the "Economy 1 year ahead" sub-category which was up 5.8% to 96.0 indicating that consumers have a very positive outlook for the economy over the next 12 months. "Family finances, a year ahead" increased by +0.9% and "general expectations" were up 2.1%. On the down side, "time to buy a major household item" fell 0.4% and "Family finances, a year ago" fell 0.4%.

Consumer Sentiment

Data over the next week

Economic Data	Date	Period	Forecast	Previous
New Motor Vehicle Sales	18 Oct	September	+0.5%	+0.1%
DEWR Internet Vacancies Index	19 Oct	September	n/a	-0.4%
Employment	20 Oct	September	+15,000	-3,900
Unemployment	20 Oct	September	5.7%	5.6%

ECONOMIC COMMENTARY

LAST WEEK

Focus last week was on the continuing rally in the price of oil and the latest in the US Presidential election campaign.
The likelihood of a Democrat (Hillary Clinton) win increased after the second live debate (latest poll has Clinton leading Trump by 6 points), along with a higher oil price has seen the probability of a US rate hike by December edge up to 70%, pushing global bond yields higher.
A mixture of events late in the week including weak Chinese trade data, strong US jobless claims data, and more officials speaking of higher US rates following the publication of the September US Federal Reserve minutes saw markets take a risk-off tone pushing equities and bond yields lower last Friday.
By the close of trading on Friday, the 90-day bank bill was trading at 1.75% compared to 1.73% a week earlier. In the long term maturities, 3 and 10 year bond yields closed higher for the third week at 1.75% and 2.27% respectively, from 1.66% and 2.18% a week earlier.

CURRENCY

The increased expectations of a US rate hike before year end boosted the US dollar against most other currencies early last week (and to a seven month high against a major currency basket). The Australian dollar fell to a 3 week low of USD0.7518 and looks set to trade lower in the short term if US dollar strength remains. The Aussie is however supported by a diminishing chance of another RBA rate cut which is limiting any downside moves. This has seen the Aussie close the week virtually unchanged.
In contrast, the British Pound continued to freefall last week, hitting a 31-year low of USD1.2090 (and a 3½-year high of AUD0.6233) on concerns of a “hard Brexit” before experiencing a “relief rally” late in the week.
By the close on Friday, the Australian dollar was trading at USD0.7578 compared to USD0.7576 a week earlier.

EQUITIES

Disappointing US corporate earnings reports has seen Wall Street trade lower last week, dragging our market lower in response.
After a stellar rally over the last two weeks, the oil price has slipped off its 18-month high, giving back some of the gains after Russia’s largest oil producer said it would not cut oil production despite comments from Russian President Putin to the contrary earlier in the week. The rise in coking and thermal coal price is a significant story to watch, as both products are at yearly highs and new contracts have been set for exporters. This will not only flow through to Australia’s GDP, but will support some mining stock should this price rise be maintained.
By the close on Friday the S&P/ASX200 Index was trading at 5,434.0 compared to 5,467.4 a week earlier.

THIS WEEK

Apart from the latest monthly employment data, the economic calendar is quiet this week. The market is looking for a rebound in employment of +15,000 (from -3,900 last month), but for the unemployment rate to increase slightly to 5.7%. While the minutes to the RBA’s October meeting will be released on Tuesday they are unlikely to provide any new information, however a speech by RBA governor Philip Lowe this week will gain more focus for the market.

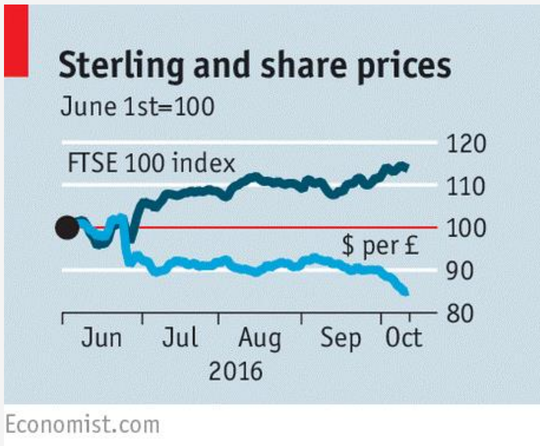
INTEREST RATE VIEW

Having cut the cash rate in May and August and having lowered its inflation forecasts in the August statement on monetary policy, there is a higher hurdle to further easing by the RBA this year. This has been reflected in the current pricing by financial markets that only have less than a 50% probability of one more rate cut and not until mid-next year. Of course, this is clearly data dependant and next week’s September quarter CPI data will be closely watched.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.00	2.00	1.75	1.50	1.50
90 day Bank Bill	2.14	2.29	1.96	1.74	1.75
180 day Bank Bill	2.21	2.46	2.11	1.95	1.99
1 year swap	1.91	2.20	1.83	1.69	1.76
3 year swap	2.01	2.19	1.80	1.72	1.83
5 year swap	2.38	2.43	2.01	2.01	2.11
10 year swap	2.89	2.68	2.17	2.28	2.34
AUD/USD	0.7290	0.7709	0.7630	0.7507	0.7578
S&P/ASX200 Index	5,268.2	5,157.5	5,429.6	5,296.7	5,434.0

CHARTS OF THE WEEK

Brexit vote boosts exports



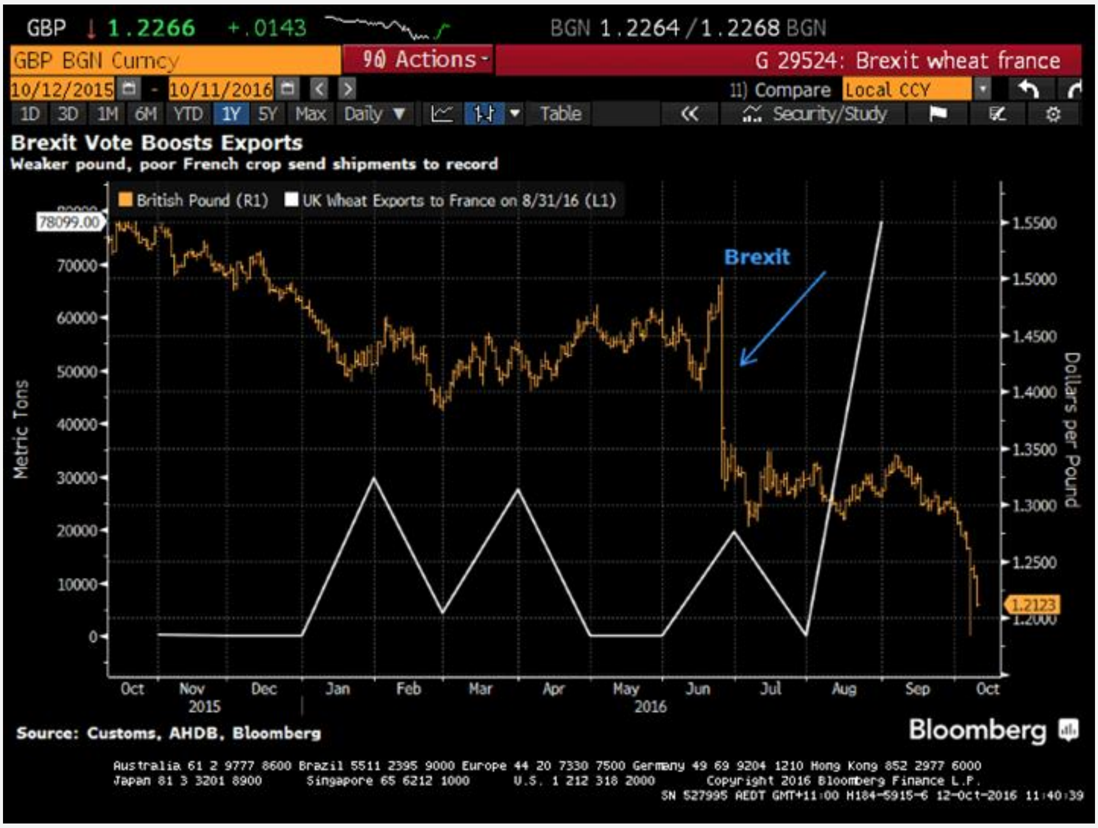
Rarely do people compare the British pound to the Nigerian naira, Azerbaijani manat or Malawian kwacha. But on a measure of year-to-date change against the US dollar, sterling is near the bottom of the 154 currencies tracked by Bloomberg. The pound is down by 15% on a trade-weighted basis since the Brexit vote, and is plumbing the depths it reached in the 2008/09 financial crisis.

The cause of sterling's fall is the realisation that Theresa May's government is moving towards a "hard" Brexit, which involves Britain leaving the European Union's customs union and its single market. It is also driven by the fear that Britain is turning into a xenophobic, interventionist and unpredictable place, with calls to clamp down on foreign workers and foreign capital. For a country that is used to attracting swathes of investment from abroad because of its membership of the single market and stable political climate, this is a huge shift.

With Britain's current-account deficit (a measure of what it borrows from abroad) equal to a gigantic 6% of GDP, it is also a dangerous one. True, Britain is not heading for a balance-of-payments crisis. Its debts are issued in its own currency, so the cost of meeting its obligations will not soar as the currency falls. And Britain's net capital flows tend to come in the form of foreign direct investment (FDI), as opposed to deposits or short-term debt. FDI will not disappear overnight in the way that deposits could. But it can be hard to recover from a loss of confidence. If foreign investment dries up, and the pound stays weak, Britons will be left permanently poorer.

Fears that Brexit will hurt UK trade with Europe are spurring an export boom for British farmers. Britain shipped record levels of wheat to France in July and August as concerns the UK will face tariffs on trade with the European Union when it leaves the bloc drove the pound lower, raising export competitiveness. France has also been importing more after floods damaged the nation's crop.

Any rebound for sterling will have to wait. The pound fell again last week following its worst week since the UK vote in June to leave the European Union.



Source: Bloomberg, 10th & 12th October 2016, article by Jake Ulick in Hong Kong and Manisha Jha in London.
The Economist, "Sterling: Taking a Pounding", 15 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.

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