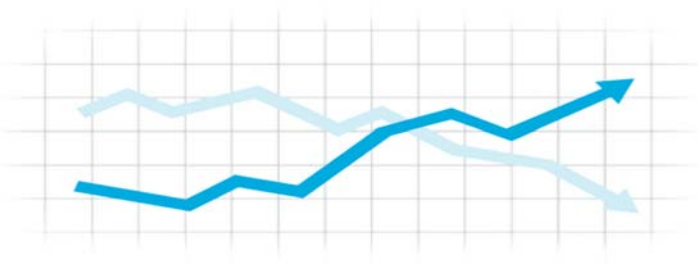
WEEKLY ECONOMIC COMMENTARY



Week beginning 18th January 2016

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	December	-0.1%	+1.3%
ABS Job Vacancies	Dec/Quarter	+3.5%	+2.7%
Employment	December	-900	+71,400
Unemployment	December	5.8%	5.8%
Housing Finance	November	+1.3%	-0.5%

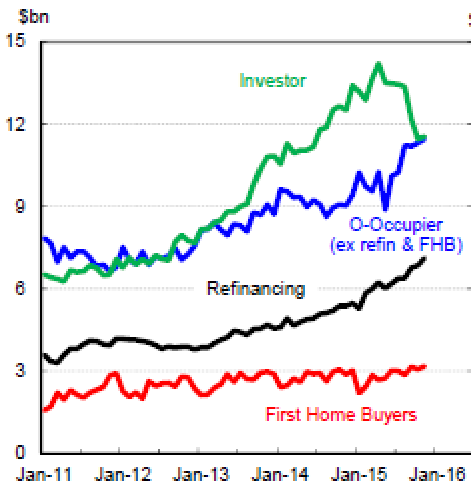
ANZ job ads were virtually unchanged in December, falling 0.1% to be up 10.0% over the last year. The number of Internet job ads fell 0.1% (to be up 10.6% annually) while the number of newspaper job ads (comprising only 2% of total job ads) fell 1.2% (to be down 13.8% annually)..

The **ABS job vacancies index** lifted 3.5% in the December quarter to be up 11.8% over the year. This was the fifth consecutive quarterly increase in job vacancies and the previous quarter was also revised higher (from +2.7% to +3.5%). Private-sector job vacancies rose 2.6% while public sector job vacancies saw a much larger rise, up 14.0% in the quarter to be up 25% annually.

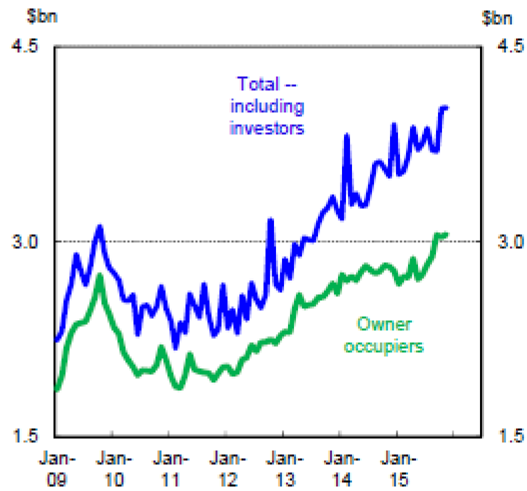
Employment fell by only 900 in December against a market expectation of -10,000. This follows a rise of 55,000 and 74,900 in the previous two months. Full-time employment rose 17,600 but this was more than offset by an 18,500 fall in part-time employment. As a result, the **unemployment rate** was unchanged at 5.8% (but fell from 5.84% to 5.76%, a 26-month low).

Housing finance (excluding refinancing) was up 1.3% in November to be up 7.2% over the year. Owner-occupier finance increased 1.7%, the sixth consecutive monthly gain, to be up 22.8% annually. Investor finance was also up in November, by 0.7% (halting six consecutive monthly declines) to be down 7.7% annually.

Housing Loan Approvals



Construction-related approvals



Data over the next week

Economic Data	Date	Period	Forecast	Previous
New Motor Vehicle Sales	18 Jan	December	n/a	+1.0%
Westpac/MI Consumer Sentiment	20 Jan	January	+1.0%	-0.8%

ECONOMIC COMMENTARY

LAST WEEK

Last week was all about “China watch” as well as the fall in the oil price and the subsequent “risk-off” trading by investors that saw equity markets savaged for the second week this year, in favour of buying the US dollar and government bonds. Even the better than expected employment data (and a steady unemployment rate) failed to give local markets a boost last week.

Some calm did return to markets last Friday after a bounce in oil on Thursday night (off a 12 year low) which had the effect of reversing some of the earlier carnage, but it wasn’t enough to see markets recover from earlier losses.

By the close of trading on Friday, the 90-day bank bill was trading at 2.31% from 2.32% a week earlier while in the long term maturities, 3 and 10 year bond yields closed at 1.93% and 2.70% respectively, from 2.00% and 2.78% a week earlier.

CURRENCY

Major currencies were generally softer against a stronger US dollar last week, the greenback benefiting from flight to quality buying as equity markets tumbled. China’s efforts to gradually devalue its currency sparked concern its economy is slowing more than forecast and this is adding to Australian dollar weakness at the moment. The Aussie has a strong correlation to the Chinese economy and an economic slowdown in China is seen as a negative for sectors of the Australian economy ranging from commodities to education and tourism. The Australian dollar traded to a low of USD0.6910 last week before a late week recovery in commodities and some stability in the Chinese equity market gave the currency a boost.

By the close on Friday, the Australian dollar was trading at USD0.6947 compared to USD0.7057 a week earlier.

Update: The Australian dollar plunged to USD0.6827 during last Saturday morning’s session, the currency’s lowest mark since April 2009, just after the GFC, after Wall Street plunged more than 2% on lower commodity prices.

EQUITIES

As was the case the week before, equity markets started the week on a negative note and despite some better than expected trade data out of China that briefly quelled fears of a slowdown in the world’s second-largest economy, the bears re-emerged and took control sending stock markets lower.

Much of the slide was attributed to ongoing weakness in commodity prices, especially in the resource and energy sectors, with crude oil, copper and iron ore all trending lower. The oil price fell more than 5% last week to be just above $30 a barrel, having earlier in the week traded below that mark for the first time since December 2003. The oil price remains under downward pressure on fears of further supply hitting the market once the sanctions on Iran are lifted and they once again start selling oil to the global market as well.

By the close on Friday the S&P/ASX200 Index was trading at 4,892.8, a two-and-a-half year low, compared to 4,997.1 a week earlier.

THIS WEEK

A relatively quiet week ahead for data releases. December motor vehicle sales data is due out on Monday but the main focus for markets this week will be the Westpac-Melbourne Institute consumer sentiment survey for January, (out on Wednesday) as an indicator of potential household spending activity in early 2016 and the impact of recent market volatility. The data winds up on Thursday with the release of consumers’ inflation expectations for January.

INTEREST RATE VIEW

Markets still have an easing bias but are currently attaching only a less than 10% probability to a 25 basis point RBA rate cut in February when the RBA meets again. This probability increases to just over 60% by May with the expectations of future rate cuts in Australia now forecasting a terminal (low) cash rate (as reflected in financial futures) at 1.72% by December this year.

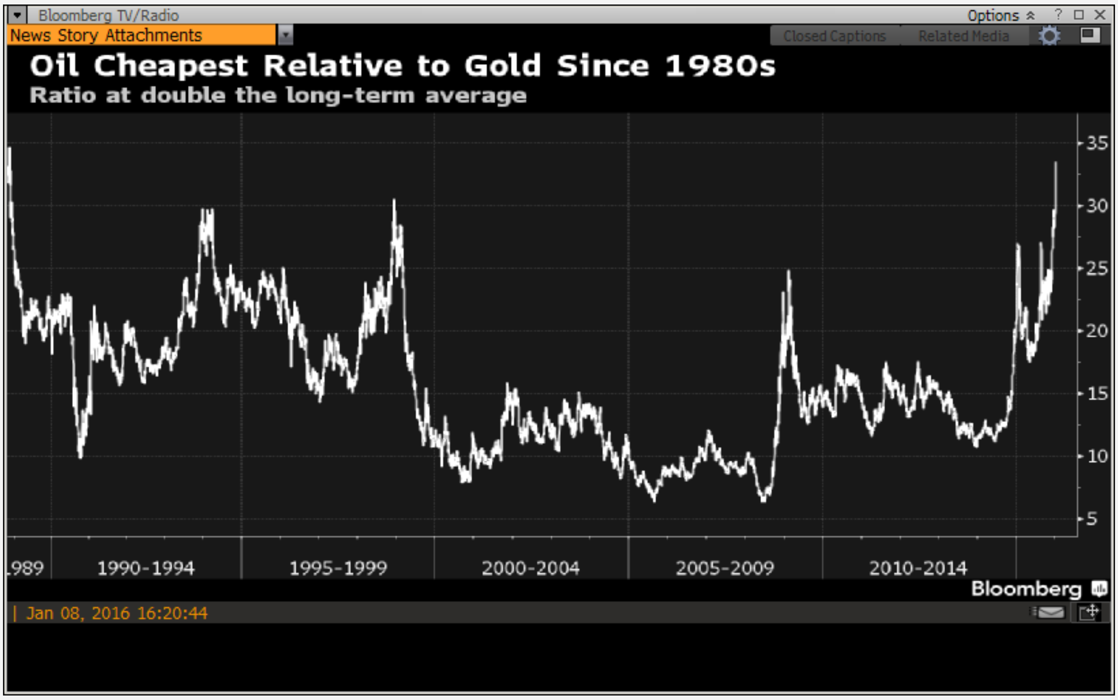
Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.00	2.00	2.00	2.00
90 day Bank Bill	2.72	2.15	2.14	2.35	2.31
180 day Bank Bill	2.76	2.25	2.21	2.47	2.43
1 year swap	2.52	2.09	1.91	2.22	2.13
3 year swap	2.40	2.25	2.01	2.27	2.12
5 year swap	2.58	2.68	2.38	2.59	2.41
10 year swap	2.90	3.29	2.89	3.03	2.82
AUD/USD	0.8224	0.7405	0.7290	0.7174	0.6947
S&P/ASX200 Index	5,299.2	5,670.1	5,268.2	5,102.0	4,892.8

CHARTS OF THE WEEK

Gold bars fetch most barrels of oil since late 1980's

Source: Bloomberg, 9th January 2016, by Eddie van der Walt

With oil prices reeling from an oversupply and gold getting a boost from demand for a haven, Brent crude is the cheapest relative to the precious metal in a generation.



Since the New Year, gold bullion has climbed 4% to $1,103.58 an ounce. The price of oil however has surprised even the most bearish punters, plunging by 18%. On January 12th West Texas Intermediate (WTI), America's benchmark, briefly dipped below $30 a barrel, its lowest level since 2003. The next day an incipient rally was undone by the news that American stocks of crude oil and petroleum products had reached 1.3 billion barrels, a new record.

An ounce of gold buys more than 33 barrels of oil, the most since 1988 (refer chart). The average ratio has been 16.

"By longer-term historical trends, crude oil should be trading for almost double its current $31-a-barrel price just to maintain its historical price relationship to gold," Nicholas Colas, chief market strategist at ConvergEx Group LLC in New York, wrote in a report.

Did you know? - David Bowie was also a pioneer in the Bond Market, through securitisation.

David Bowie who passed away last week was not only an innovative with his music but was also a pioneer in the financial markets being the first to issue unique asset-backed securities called "Bowie Bonds".

In 1997, Bowie was the first to issue asset-backed securities which used the current and future revenue from album sales as collateral. The 25 albums a "Bowie Bond" used as their underlying assets were recorded prior to 1990. Bowie bonds, issued in early 1997, paid an interest rate (coupon) of 7.9% for a term of 10 years. The Prudential Insurance Co. bought up the entire bond issue, paying $55 million to the British-born singer.

Bowie used the proceeds from the bond sale to purchase old recordings of his music. In creating the bonds, he ultimately forfeited the royalties for the life of the bond (namely 10 years).

The value of the bonds began to decline as online music and file sharing grew in popularity, decreasing album sales. This resulted in a downgrade of the bonds by the global ratings agency Moody's in 2004 but the advent of legal online music retailers renewed interest in the securities in the latter part of the bond's life.

Bowie bonds represented one of the first instances of a bond that used intellectual property as the underlying collateral and opened the securitisation market to a wide range of other types of esoteric securities backed by everything from racehorse stud rights, movie film rights, pharmaceutical patents, pre-paid funerals to restaurant franchises. The securities called collateralised debt obligations (CDO's) boomed thereafter but the market eventually collapsed in 2008 under the GFC. Bowie Bonds had matured a year earlier.

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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.

RURAL BANK
We're backing farmers

Postal Address:
PO Box 3660,
Rundle Mall, SA 5000
Telephone: 1300 660 115
Facsimile: 08 8121 0106
service@ruralbank.com.au
www.ruralbank.com.au

RURAL FINANCE
Let's talk

Postal address:
57 View Street
Bendigo VIC 3550
Telephone: 03 5448 2600
Facsimile: (03) 5441 8901
admin@ruralfinance.com.au
www.ruralfinance.com.au

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