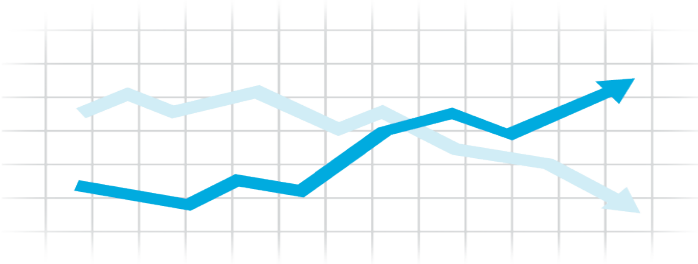
WEEKLY ECONOMIC COMMENTARY



Week beginning 19th June 2017

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
NAB Business Conditions	May	+12	+13
NAB Business Confidence	May	+7	+13
Westpac/MI Consumer Sentiment	June	-1.8%	-1.1%
Employment	May	+15,000	+37,400
Unemployment	May	5.5%	5.7%

The **NAB business survey** continues to show a positive sentiment and at odds with a softening housing sector. **Business conditions** fell to +12 in May with all industries recording positive business conditions for only the second time since 2010. The fall in business conditions this month was largely driven by softer profitability, although employment conditions also eased slightly while trading conditions (sales) held steady at fairly elevated levels. Despite the small monthly fall, conditions remain around the strongest levels since the GFC, with noticeable trend improvements in the previously weak states of South and Western Australia. **Business confidence** was down 6 points to 7 in May. Construction (+7) and transport (u+4) saw the biggest improvement, while wholesale (-16) deteriorated the most. In trend terms, construction (+20) and mining (+14) were the most confident, while personal services was weakest (at +3), despite solid business conditions

The **Westpac Melbourne Institute Consumer Sentiment Index** fell 1.8% in June to 96.2 (from 98.0 in May) and firmly below 100 indicating pessimists outweigh optimists. The component detail shows increased pressure on family finances and renewed concerns about the economic outlook as the main factors driving the fall. The “family finances compared to a year ago” sub-index fell 1.5% although the “family finances over the next 12 months” index was up 3.1%. While consumers remained positive with the “time to buy a major household item” sub-index rising 1.7% while confidence in the wider economy fell sharply with the “economic conditions in the next 12 months” sub-index down 4.8% and the “economic conditions in the next 5 years” down 8.3%.

Consumer Sentiment Index

Employment added 42,000 new jobs in May and April’s 37,400 increase was revised up to 46,100. In addition, May’s increase was concentrated in full-time employment which was up 52,100 which was partially offset by a fall of 10,100 in part-time employment. The **unemployment rate** fell from 5.7% to 5.5% in May, the lowest unemployment rate since February 2013. By state, every mainland state reported a fall in unemployment except for NSW where the unemployment rate lifted 0.1% to 4.8% which is still well under the national average.

Data over the next two weeks

Economic Data	Date	Period	Forecast	Previous
New Motor Vehicle Sales	19 June	May	+0.5%	+0.3%
ABS Established House Prices	20 June	March quarter	+1.5%	+4.1%
DER Internet Vacancies Index	21 June	May	n/a	+0.1%

ECONOMIC COMMENTARY

LAST WEEK

Newswires are calling it “May-day”, as the decision to call an early election in the UK backfires. Britain’s PM Theresa May apologised to her fellow Conservatives for the election debacle and signalled she's willing to broaden her Brexit approach, saying "I'm the person who got us into this mess and I'm the one who will get us out of it". While May could have bought herself a reprieve, she still needs to seal a deal with Northern Ireland's Democratic Unionist Party to form government. The pound has taken a hit but other market movements have been relatively contained - Brexit uncertainty remains high, but markets are generally taking it in their stride.

The US Federal Reserve delivered another rate hike last week (as expected), the third hike in six months, taking the cash rate to 1.00% to 1.25%. Realised labour market strength, and an expected rise in inflation by next year, were cited as the reason for the rate rise with further “gradual” rate hikes expected. UK CPI data was a surprise last week with headline inflation rising 0.3% in May to a 5-year high of 2.9%. The Bank of England left monetary policy unchanged at 0.50% last week but surprised investors and economists with the closeness of the vote (the split was 5-3, the biggest board division in six years) – hinting that the risk of a UK rate hike has increased.

The stronger than expected employment data and the fall in the unemployment rate to a four year low caused markets to unwind any probability of an RBA rate cut which pushed rates slightly higher late last week.

By the close of trading on Friday, the 90-day bank bill was trading at 1.72% compared to 1.73% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.77% and 2.41% respectively, from 1.71% and 2.42% a week earlier.

CURRENCY

The Australian dollar had a volatile roller coaster ride last week trading in a 1½ cent range on the back of US dollar moves and economic data releases. The Aussie rallied through USD0.76 following the release of lower than expected US retail sales and CPI data. This saw the US dollar weaken, only to be reversed as market reaction to the US Federal Reserve’s rate cut and accompanying message of further hikes to come was to sell bonds and buy the US dollar – a hawkish price action. The Aussie returned to its familiar trading range (around USD0.7550) only to spike higher once again after employment data for May beat estimates and the previous month’s jobs data was revised higher.

By the close on Friday, the Australian dollar was trading at USD0.7583 compared to USD0.7540 a week earlier.

Selling pressure on all things British remained last week following the UK election and resulted in the Pound Sterling falling to a fresh low of USD1.2640 before the UK rate decision (refer above) caused a partial recovery.

EQUITIES

Gains in emerging market indices and in Europe early last week coupled with a rebound in technology, bank and energy stocks saw the Dow Jones index trade to a new high last week. Our market followed the offshore rally, pushing through the 5,800 level to a high of 5,836 before some profit taking emerged. The rally ran out of steam late in the week as a fall in commodity prices saw resource and energy stocks fall and the US rate hike provided traders with a reason to take some profits following the recent rally.

By the close on Friday the S&P/ASX200 Index was trading at 5,774.0 compared to 5,677.8 a week earlier.

THIS WEEK

A relatively quiet week ahead for economic data releases with only March quarter house price index, new motor vehicle sales and internet vacancies index for May due for release – all unlikely to move the market. The minutes of the RBA’s June board meeting are also out but also unlikely to provide any new information for the market. NSW and SA state budgets will also be released this week.

INTEREST RATE VIEW

The strong employment data last week has put out any willingness of the market to price in further RBA rate cuts – although the probability of further cuts was only around 5%. Financial futures now have the cash rate unchanged till mid next year.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	1.75	1.50	1.50	1.50	1.50
90 day Bank Bill	2.00	1.78	1.80	1.74	1.72
180 day Bank Bill	2.14	2.02	2.00	1.89	1.86
1 year swap	1.87	1.82	1.82	1.71	1.73
3 year swap	1.80	2.11	2.16	1.90	1.94
5 year swap	2.03	2.60	2.66	2.29	2.29
10 year swap	2.28	3.05	3.12	2.72	2.68
AUD/USD	0.7379	0.7361	0.7685	0.7437	0.7583
S&P/ASX200 Index	5,162.7	5,532.9	5,799.6	5,738.3	5,774.0

CHART OF THE WEEK

Asian countries are eating more wheat

As the continent grows richer, people’s tastes are changing

So central is rice to life in Asia that in many countries, rather than asking “how are you?” people ask, “Have you eaten rice yet?” Around 90% of the world’s rice is consumed in Asia - 60% of it in China, India and Indonesia alone.

In every large country except Pakistan, Asians eat more rice than the global average. Between the early 1960s and the early 1990s, rice consumption per head rose steadily, from an average of 85 kilograms per year to 103. As Asia scraped its way out of poverty people began to consume more food, and rice was available and affordable.

But rice consumption is now more-or-less flat in Asia. In better-off countries rice is going out of fashion. Figures from the United States Department of Agriculture (USDA) suggest that rice consumption per head has fallen since 2000 in China, Indonesia and South Korea, and has crashed in Singapore. Asians are following a rule known as Bennett’s law, whereby as people become wealthier they get more of their calories from vegetables, fruit, meat, fish and dairy products. And many of them are starting to replace the rice in their diets with wheat.

Wheat consumption is rising quickly in countries like Thailand and Vietnam. South-East Asian countries will consume 23.4m tonnes of wheat in 2016-17, estimates the USDA - up from 16.5m tonnes in 2012-13. Almost all of it will be imported. In South Asia consumption is expected to grow from 121m to 139m tonnes over the same period.

This trend has a long way to run, predicts Rabobank. South-East Asians still eat only 26kg of wheat a year, much less than the world average of 78kg. They seem unperturbed by price rises, with wheat eating continuing to grow even as the grain became more expensive between 2009 and 2013. Still, rice will remain central to many Asian cultures. People are unlikely to start greeting each other by asking if they have eaten bagels just yet.

Source: The Economist by the Data Team
13 March 17

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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