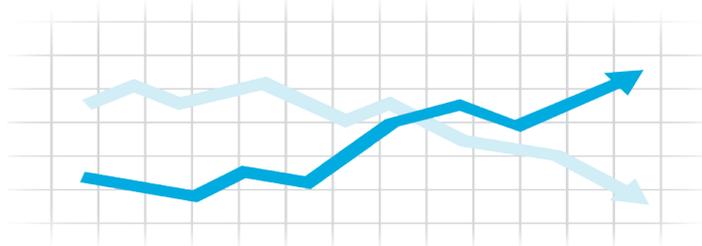


WEEKLY ECONOMIC COMMENTARY

Week beginning 1st August 2016

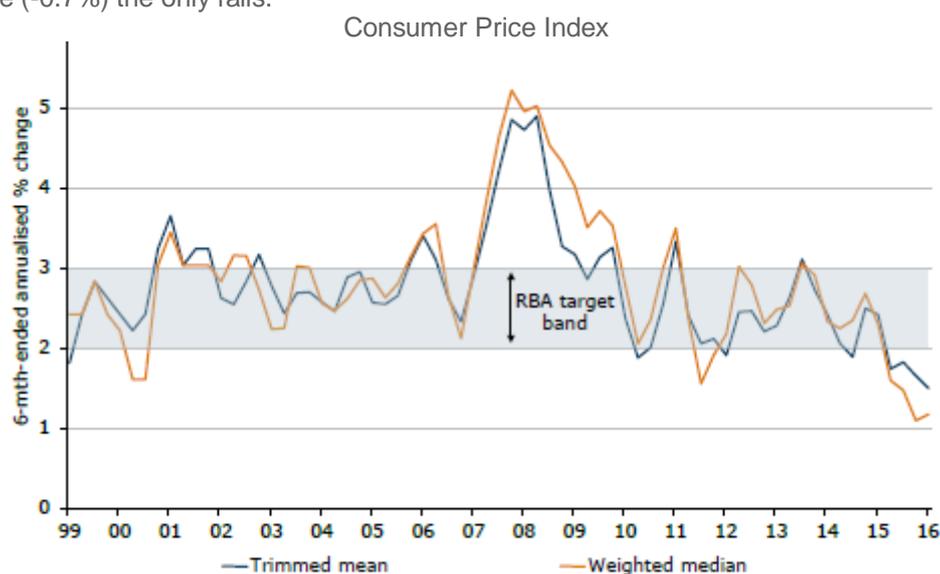
ECONOMIC DATA ROUNDUP



DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Headline CPI (quarterly)	June quarter	+0.4%	-0.2%
Headline CPI (annually)	June quarter	+1.0%	+1.3%
Underlying CPI (quarterly)	June quarter	+0.5%	+0.2%
Underlying CPI (annually)	June quarter	+1.5%	+1.5%
International Trade Prices (imports)	June	+0.4%	+0.4%
International Trade Prices (exports)	June quarter	-1.0%	-3.0%
Private Sector Credit	June quarter	+0.2%	-4.7%

The June quarter inflation data was broadly in line with market expectations, **headline inflation** increasing by 0.4% in the quarter for an annual CPI of just 1.0% (down from 1.3% last quarter) and the lowest level in 17 years. The RBA's preferred measure of **underlying inflation** rounded up to +0.5% for the quarter for an annual CPI of 1.5%. Clothing and footwear prices surprised on the upside, rising by 2%, new dwelling purchase prices bounced back after two weak quarters, rising 0.9%, the alcohol and tobacco component was up 1.0%, while petrol prices recorded a 5.9% rise in the quarter. There were very few declines recorded in the sub-components of CPI this quarter, with food (-0.3%), communication (-1.5%) and recreation and culture (-0.7%) the only falls.



Source: ABS, ANZ Research

Australia's international trade prices were positive for the first time in over two years (March 2014). **Export prices** rose 1.4%qoq in the June quarter while **import prices** fell 1.0%. Export prices were down 8.7% over the year and import prices were down 2.8%.

Private sector credit recorded the weakest monthly result in nearly four years in June, rising only 0.2% to be up 6.2% annually. The main driver of the weakness was business credit, which was down 0.2% (+6.6% annually), personal credit also fell, down 0.1% in June (-0.8% annually) while housing credit was up 0.5% (+6.7% annually).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Trade Balance	02 Aug	June	-\$1.7bn	-\$2.22bn
Building Approvals	02 Aug	June	-2.5%	-5.2%
RBA Board Meeting – rates decision	02 Aug	Aug	1.75%	1.75%
Retail Trade	04 Aug	June	+0.4%	+0.2%

ECONOMIC COMMENTARY

LAST WEEK

Last week started very quietly with small ranges and low volatility last Monday and Tuesday as all eyes focused on key economic data and events in the latter part of the week, with both the US Federal Reserve and the Bank of Japan board meetings and the release of June quarter CPI data.

The gasps that followed the last quarter's CPI data release were absent last week after the June quarter CPI data came in as expected. That said, the result still revealed a subdued inflation rate (refer front page for details) but not as weak as some economists had feared. While most market analysts are sticking to their prediction that the RBA will still cut rates, the small number who changed their view presented a compelling case for doing so and markets sold off after the CPI data.

The market move however was small as the expected rate cut wasn't removed, just deferred until later in the year as inflation outcomes for the remainder of the year will likely be low enough to force another interest rate cut.

The US Federal Reserve met market expectations by leaving the cash rate unchanged following their meeting last week and adopting a more positive (on economic outlook) but neutral tone, declining to signal when it could next raise interest rates.

By the close of trading on Friday, the 90-day bank bill was trading at 1.86% compared to 1.90% a week earlier while in the long term maturities, 3 and 10 year bond yields closed at 1.46% and 1.88% respectively, from 1.47% and 1.91% a week earlier.

CURRENCY

A weaker US dollar gave our Australian dollar a boost early last week, trading up to a high of USD 0.7539 before the release of the CPI data last Wednesday. The currency then spiked higher, up to USD0.7568 after the release of the CPI data only to erode all the gains and then some. The currency has managed to push higher on US dollar weakness after the US Federal Reserve left rates on hold last week.

By the close on Friday, the Australian dollar was trading at USD0.7509 compared to USD0.7460 a week earlier.

EQUITIES

US share markets rose last week lifting the Dow to within a whisker of a record high. The expectation that the Bank of Japan will expand a record program of quantitative easing bolstered global equity markets last week

Higher commodity prices associated with a weaker US dollar also assisted equity markets last week, especially our local share market which was trading at a one year high last week.

By the close on Friday the S&P/ASX200 Index was trading at 5,562.4 compared to 5,498.2 a week earlier.

THIS WEEK

Data out this week includes the latest monthly retail sales, building approvals and trade deficit. However, the main focus is clearly on this week's Reserve Bank Board meeting. The RBA meets on Tuesday and the market is narrowly favouring a 25 basis point rate cut to a new record low of 1.5% given inflation is likely to stay low for an extended period and since the labour market has lost momentum this year. The RBA is also likely to take the risks around the stubbornly high Australian dollar into consideration in its decision. Just as important as the RBA Board meeting is the RBA's latest statement on monetary policy this Friday, which will be crucial to setting market expectations of the RBA over the next six months.

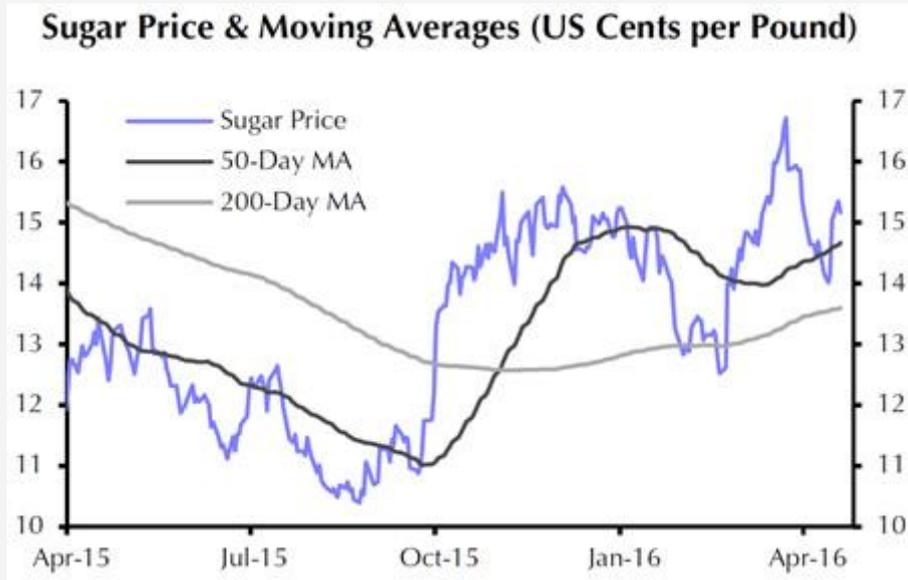
INTEREST RATE VIEW

After falling to almost 50%, the probability of an RBA rate cut this week is once again around 60%. If the market is wrong this week and the RBA keeps rates on hold, analysts will reassess their view based on the RBA's accompanying statement but it is merely going to push any forecast rate cut back and not take it off the RBA's agenda given the weak inflation is likely to persist.

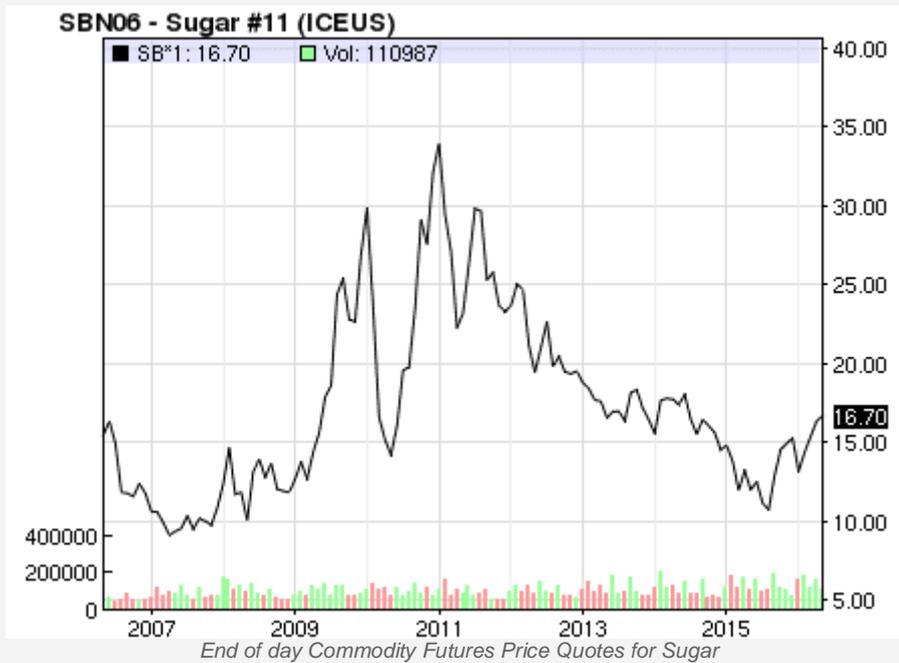
<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	2.00	2.00	2.00	1.75	1.75
90 day Bank Bill	2.15	2.29	2.15	1.96	1.86
180 day Bank Bill	2.25	2.41	2.29	2.12	2.03
1 year swap	2.06	2.11	2.05	1.83	1.76
3 year swap	2.18	2.07	2.08	1.78	1.72
5 year swap	2.57	2.38	2.36	1.99	1.93
10 year swap	3.12	2.77	2.66	2.18	2.11
AUD/USD	0.7278	0.7136	0.7602	0.7430	0.7509
S&P/ASX200 Index	5,699.2	5,005.5	5,252.2	5,233.4	5,562.4

CHART OF THE WEEK

This week's chart shows the path of sugar prices over the last 12 months. As shown below, the price of sugar has been trending higher since October 2015 and is currently trading at a premium to both of the moving averages.



However, if you extend the chart time-line to the last 10 years, it paints a different picture.....



Source: <http://www.nasdaq.com/markets/sugar.aspx#ixzz498nUkKvN>

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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