

WEEKLY ECONOMIC COMMENTARY

Week beginning 21st January 2019

ECONOMIC DATA ROUNDUP



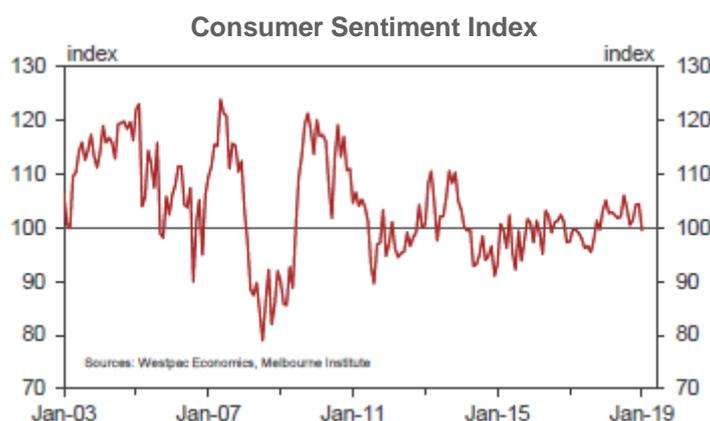
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Westpac/I Consumer Sentiment	January	-4.7%	+0.1%
Housing Finance	November	-2.9%	+2.2%

The **Westpac-Melbourne Institute Consumer Sentiment index** fell 4.7% to 99.6 in January (from 104.4 in December), the largest monthly fall in over three years with the index now below 100 indicating pessimists outnumber optimists – for the first time since November 2017. Confidence has come under pressure from a number of fronts including a continued slide in house prices; disappointing updates on Australia’s economic growth; ongoing concerns around global trade wars; and political uncertainty. Lower house prices are hurting with NSW sentiment seeing the largest falls.

All index components recorded declines with the biggest falls around expectations for the economy a year ahead and assessments of current finances. There was a 7.8% fall in the “economy one year ahead” component and a 5.9% fall in “economy five years ahead” component. Current conditions decreased by 3.3% while expectations dropped 5.6% in January.

The falls attributed to the volatile equity markets in December and early January, heightened media attention around the deteriorating housing market and some talk of lower official cash rates.



The value of **housing finance approvals** (excluding re-finance) fell 2.9% in November to be down 16% from November last year (the most rapid decline since 2010) as lending to owner-occupiers, first home buyers and investors all declined in the month. Finance to owner-occupiers fell 1.4%, leaving them down 10% over the year while investor finance declined by 4.5% in the month to be down 23.4% annually. The headline number of finance commitments for owner occupier loans was a touch firmer than expected, recording a 0.9% fall in November to be down 7.9% annually.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Dept. of Employment - Internet job vacancies	16 January	December	n/a	-0.1%
Employment	17 January	December	+20,000	+37,000
Unemployment	17 January	December	5.0%	5.1%

ECONOMIC COMMENTARY

LAST WEEK

Last week was all about the UK House of Commons vote on the Government's proposed Brexit agreement which was rejected and then PM Theresa May surviving a no confidence vote. She is still the UK PM but the path to Brexit is no clearer. So now, back to the drawing board and Theresa May needs to come back to parliament with a plan-B for Brexit. This will likely seek an extension from the 29 March Brexit deadline imposed by the EU but no further details have been forthcoming. While economic data releases have been light owing to the US Government shutdown, news from the US has been positive with some better than expected company profit results boosting risk appetite, pushing equities and bond yields higher. China's surprisingly weak trade data released last week brought out some worries of an economic slowdown which may have a wider global impact. Chinese trade data fell in December, with the unexpected fall in both exports and imports underlining the impact of the current trade war with the US. Fears were calmed after Chinese officials pledged to cut taxes in an attempt to stimulate the economy.

Locally, weak consumer sentiment and housing finance data releases had little impact on interest rate markets last week. By the close on Friday, the 90-day bank bill was unchanged for the week, trading at 2.06%. In the long-term maturities, three and 10-year bond yields closed at 1.81% and 2.32% respectively, from 1.82% and 2.31% a week earlier.

CURRENCY

The Australian dollar managed to post a small rally early last week, benefitting from increased risk appetite as well as optimism that China will continue to implement further economic stimulus to offset the recent slowdown and the potential impact of tariff negotiations. The AUD then fell over half a cent after the release of weak consumer sentiment data last Wednesday and slowly regained lost ground although the AUD is still hovering just below 72 cents and continues to trade in a familiar range.

The British pound had a roller-coaster ride last week, initially falling by as much as 1.5 cents against the US dollar in the lead up to the Brexit vote which was overwhelmingly defeated. Sterling then rallied, recouping the earlier fall, and then rallying on expectation that an eventual new Brexit deal will be more positive for the currency.

By the close last Friday, the Australian dollar was trading at USD0.7193 compared to USD0.7212 a week earlier.

EQUITIES

The announcement by China that it would implement additional stimulus measures to offset the effect of a slowdown in trade and the tariff war encouraged some buying by investors and boosted equity markets last week. A solid start to the reporting season in the US with banks leading the broader indices higher after both Goldman Sachs and Bank of America reported better than expected earnings results, also helped equity markets rally. European share markets were mixed with the UK market down due to the Brexit vote earlier in the week but mainland European markets were higher.

Our share market followed the US lead and posted a small gain each day last week, closing the week up 105 points or 1.8%. By the close last Friday, the S&P/ASX200 Index was trading at 5,879.6 compared to 5,774.6 a week earlier.

THIS WEEK

The latest monthly labour force data comes into focus this week and with employment growth accelerating over the last few months, the unemployment rate will be watched closely to see if it falls below the 5% level. Otherwise, there is not much else out to grab the market's attention.

INTEREST RATE VIEW

The consensus view with most economists is that they still expects the RBA to hike the official cash rate by the middle of next year. However, futures market expectations for interest rates have fallen sharply over the last few months and now imply almost a 50% chance of a rate cut by year-end.

<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	1.50
90 day Bank Bill	1.80	1.99	1.93	2.06	2.06
180 day Bank Bill	1.97	2.17	2.10	2.19	2.18
1 year swap	1.91	2.03	1.97	1.96	1.97
3 year swap	2.28	2.18	2.16	1.96	1.95
5 year swap	2.67	2.51	2.51	2.26	2.23
10 year swap	3.01	2.81	2.88	2.59	2.58
AUD/USD	0.8013	0.7365	0.7115	0.7092	0.7193
S&P/ASX200 Index	6,005.8	6,285.9	5,939.5	5,505.8	5,879.6

CHARTS OF THE WEEK

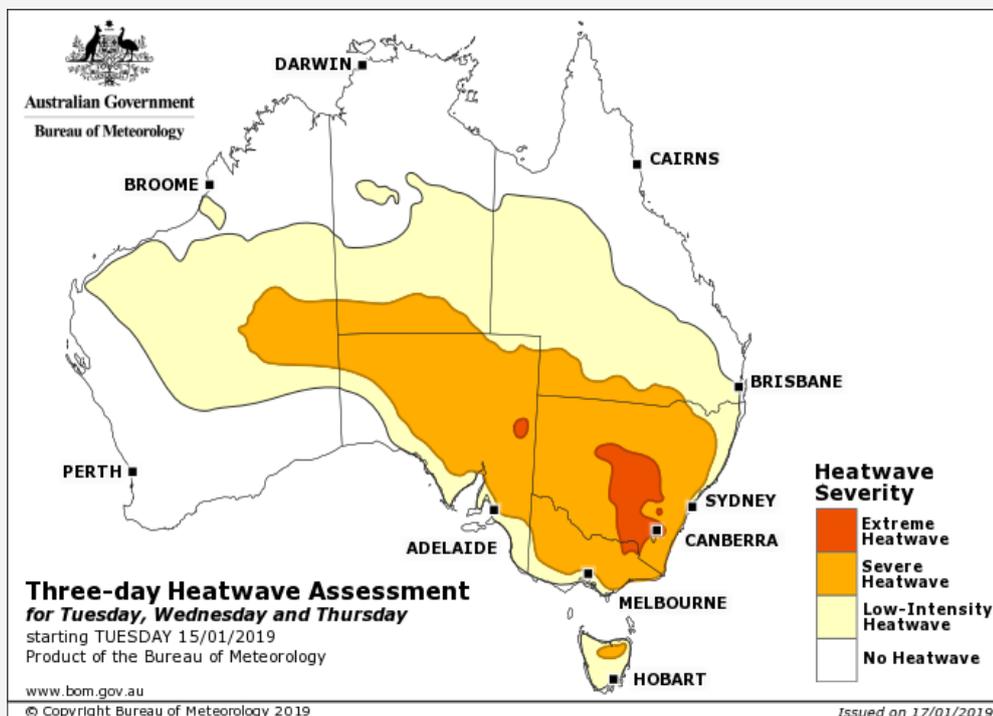
Temperature records tumble as heat wave set to continue

Blistering heat that formed over the Nullarbor at the end of December and continues over parts of inland Australia smashed temperature records and was a "highly significant" event, the Bureau of Meteorology said. In a special climate statement released last week, the bureau said the latest heatwave, while less extensive and prolonged than the record-breaking hot spell to start 2013, was still a remarkable event.

The report comes just days after the Bureau confirmed that last year was Australia's hottest in more than a century of records, easily beating 2005.

At Narrabri (in NSW) the 47.8 degrees recorded on 3rd January surpassed the previous record by 3.6 degrees, the largest margin at any Australian location with 40 or more years of data.

The heatwave began on 27th December in eastern WA and spread slowly north and east, setting records at 34 sites where data has been collected for at least 40 years - most of the sites were in QLD and northern NSW. Roma in southern QLD broke its record high temperature on three separate days - 29th and 30th December and on 3rd January. Many other locations endured prolonged hot spells, such as Barcaldine, which averaged 43.2 degree maximums for a week, beating a record of 42.8 degrees set in 1972 while Charleville's weekly average of 43.4 degree maximums easily beat the previous high of 42.6 degrees set in 2006.



Severe to extreme intensity heatwave conditions are observed from the interior of Western Australia across the southeast of Australia. Broad low intensity heatwave conditions remain for central WA and the northern interior.

Heatwave records continue to tumble across eastern Australia last week with many Victorians sweltering through their hottest days on record. The cities of Albury and Wodonga, which span the Murray River border between New South Wales and Victoria recorded their hottest ever days last Wednesday, with the mercury topping 45.3C, a record spanning over 30 years. Other centres made the record books, with Mangalore, two hours north of Melbourne, reaching 44.8C, its hottest ever January day while the northern township of Yarrawonga had a maximum of 45.7C, equalling its hottest day on record.

White Cliffs in NSW topped 48.2 degrees on Wednesday, its hottest ever, along with Wilcannia on 47.9 degrees. Last Tuesday was even warmer in South Australia, when the small town of Tarcoola hit a scorching 49 degrees and Port August reached a record 48.9C.

Across the north of Victoria, temperatures ranged between 45 and 46 degrees while overnight brought only slight relief, as temperatures dipped to about 27C. By the end of the week the heat wasn't as extreme due to some patchy cloud but temperatures were still between 42C and 44C and a maximum of 45C at Mildura.

Gusty afternoon winds and the possibility of dry lightning has prompted a severe fire danger warning for the Mallee, Wimmera and northern country.

In NSW, maximum temperatures in most of the state were expected to stay above 41 degrees until Friday, something not seen in 80 years. Penrith was forecast to reach 45 degrees last Friday, with temperatures of up to 47 degrees expected to continue inland.

A total of 16 people presented at South Australian emergency departments with heat-related conditions in the 24 hours to last Wednesday afternoon after days of soaring temperatures. Seven people were admitted for further treatment. More admissions were expected as the heat wave moved east, with authorities warning health issues were more likely after several days of sustained hot weather.

Source: Bureau of Meteorology and The NewDaily, 17 January 2019

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