

WEEKLY ECONOMIC COMMENTARY

Week beginning 22nd October 2018

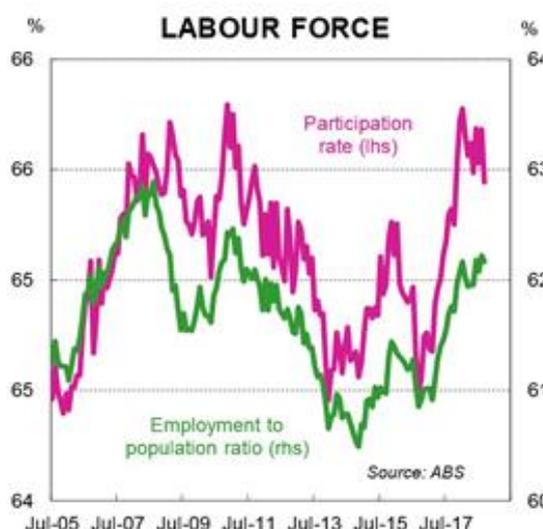
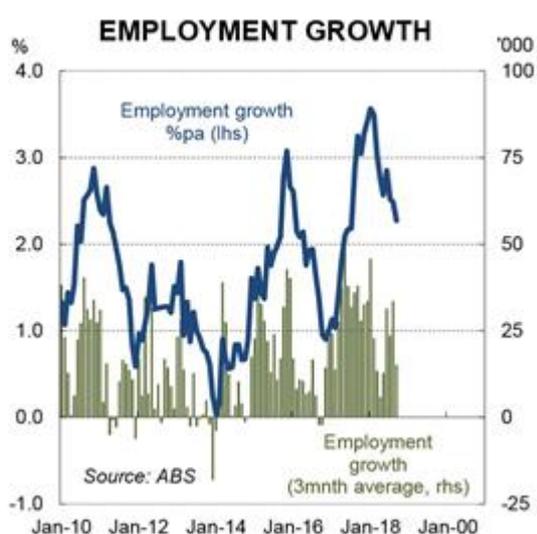
ECONOMIC DATA ROUNDUP



DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Employment	Sept	+5,600	+44,000
Unemployment	Sept	5.0%	5.3%
Westpac Leading Index	Sept	+0.21%	-0.02%

Employment increased by 5,600 in September with full-time employment increasing by 20,300 while part-time employment fell 14,700. Thanks to a 31,600 decline in the labour force (participation rate fell from 65.7% to 65.4%), the **unemployment rate** fell to a six-and-a-half year low of 5.0% from 5.3% in August.



The six month annualised growth rate in the **Westpac/Melbourne Institute Leading Index**, which indicates the likely pace of economic activity relative to trend three to nine months into the future, increased from -0.02% in August to +0.21% in September.

The NAB **cashless retail sales index** rose by 0.2% in September, its weakest result since April this year, to be up 10.4% on an annual basis. Five out of six major categories grew in the month, while “other retailing” contracted. The NAB **quarterly business survey** provides a more in-depth probe into the conditions facing Australian business than the monthly survey, and also examines additional information about how firms perceive the outlook for their industries. Business conditions (an average of trading conditions/sales, profitability and employment) decreased by 2 points in the quarter to +13 while business confidence was down 4 points to +3.

The minutes of this month’s RBA Board meeting were released last week and had a familiar look about them, noting that “...members continued to agree that the next move in the cash rate would more likely be an increase than a decrease. However, since progress on unemployment and inflation was likely to be gradual, they also agreed there was no strong case for a near-term adjustment in monetary policy.”

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Skilled Vacancies	24 September	Sept	n/a	+0.6%

ECONOMIC COMMENTARY

LAST WEEK

The surprise fall in the unemployment rate to 5.0% from 5.3% was the talk of market economists last week, as 5% is the level the RBA thinks Australia is at full employment (still far from reality though).

The US Federal Reserve's September board meeting minutes released last week (where they hiked rates) were upbeat and noted "participants generally anticipated that further gradual increases in the target range for the federal funds rate would most likely be consistent with a sustained economic expansion." So, despite Donald Trump's vocal disapproval, US rates look set to continue to increase, gradually. That's provided the US economic data reflects growth momentum which is exactly the case at the moment.

While markets were quieter than the week prior, equity market volatility (mainly weakness) and continued uncertainty around Italy's ability to reign in their budget deficit through reforms resulted in further nervousness last week, the US dollar strengthening and bond yields drifting lower on safe-haven demand last week.

By the close on Friday, the 90-day bank bill was trading at 1.93% from 1.94% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 2.04% and 2.69% respectively, from 2.07% and 2.76% a week earlier.

CURRENCY

The Australian dollar traded in a narrow range last week oscillating around the 71 cent level. A small rally in the US dollar following upbeat US Federal Reserve minutes, and reports that the European Commission is likely to reject the Italian proposed budget, saw the AUD fall slightly. The AUD seems to be finding buying support any time it trades down to 71 cents.

While the strength of the US dollar remains the main driver of the AUD at the moment, any rally in the AUD is also being met with profit taking (selling) which is limiting the upside.

By the close last Friday, the Australian dollar was trading at USD0.7115 from USD0.7125 a week earlier.

EQUITIES

After a volatile week of trading, US stocks opened last Monday mixed with the Dow and S&P higher and the Nasdaq lower, as investors weighed global tensions against a backdrop of strong economic growth. European shares also hit their lowest level since December 2016 early last week as trade wars, rising US yields, Brexit and the Italy/EU budget row continued to weigh on markets.

Market sentiment failed to improve despite the release of some positive US corporate earnings results, and risk aversion returned with equity markets continuing their sell off late in the week, reversing earlier gains. Our market followed the offshore lead but managed to post a small rise over the week.

By the close last Friday, the S&P/ASX200 Index was trading at 5,939.5 compared to 5,895.7 a week earlier.

THIS WEEK

A very light week ahead for data releases, with only second-tier skilled vacancies index for September due out on Wednesday. RBA Deputy Governor Guy Debelle will speak on Monday at a journalism awards function in Sydney and may gain some focus, but the topic of his speech is unknown.

INTEREST RATE VIEW

With no change to rates expected here any time soon (despite last week's lower unemployment number) the focus will be on monetary policy decisions in Canada and Europe this week, with the Bank of Canada almost certain to deliver a rate hike. Although a number of RBA members will speak this week, there is likely to be no change in their message – the RBA is comfortably on hold for the foreseeable future.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.70	2.07	1.99	1.93	1.93
180 day Bank Bill	1.89	2.16	2.17	2.12	2.10
1 year swap	1.82	2.03	2.03	1.97	1.97
3 year swap	2.17	2.29	2.18	2.17	2.16
5 year swap	2.55	2.65	2.51	2.53	2.51
10 year swap	2.93	2.97	2.81	2.89	2.88
AUD/USD	0.7847	0.7708	0.7365	0.7292	0.7115
S&P/ASX200 Index	5,907.0	5,868.8	6,285.9	6,194.6	5,939.5

CHART OF THE WEEK

The launch of a new “pineapple” – the \$50 note

After the launch of the \$5 and \$10 notes over the past two years, the RBA has announced the new \$50 bank note will now be available for general circulation. The new \$50 notes mark a milestone upgrade of Australia’s “Next Generation” banknotes, with the new \$20 expected to be issued in 2019 and the new \$100 will follow in 2020.

The \$50 is the most widely circulated banknote in Australia, accounting for nearly half the total value of other banknotes in use, mostly coming from ATMs, according to the RBA.

Governor Philip Lowe said ‘We were keen for the new \$5 and \$10 to be well accepted before we launched the most popular note, the \$50. This has involved working closely with businesses to assist cash handlers and cash-handling machines to identify and use the notes, which will help minimize disruption to people and businesses.’

Portraits on the note remain the same. It features Australia’s first published Aboriginal author and inventor, David Unaipon and the first female member of an Australian parliament, Edith Cowan.



Security features on the \$50 bank note are the same as the \$5 and \$10, designed to deter counterfeiting with its unique design. It includes a top-to-bottom clear window that contains several dynamic features including a reversing number and flying bird, as well as microprint and a patch with a rolling colour effect to differentiate the new \$50 from counterfeits.

The upgraded note also has a feature to help the vision-impaired community, with a tactile feature to help distinguish between notes. The \$50 has four raised bumps on each of the edges to help identify it from other notes.

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