WEEKLY ECONOMIC COMMENTARY

Week beginning 23rd April 2019

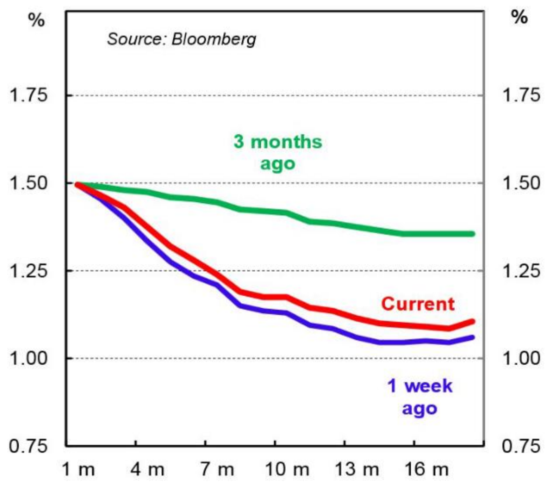
ECONOMIC DATA ROUNDUP

Farmer focused.
Future driven.

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Employment	March	+25,700	+4,600
Unemployment	March	5.0%	4.9%

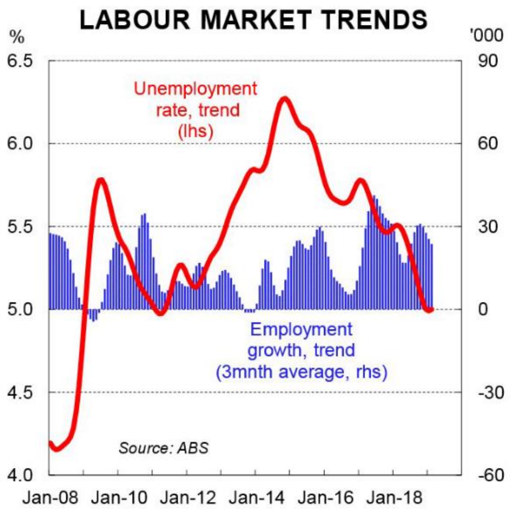
Futures market Cash Rate Pricing



The RBA board minutes from the April meeting released last week confirmed the importance of the labour market data on the near term outlook for monetary policy, making three interesting statements.
While leaving the official cash rate unchanged again the RBA noted "Members recognised that it was not possible to fine-tune outcomes and that holding monetary policy steady would enable the Bank to be a source of stability and confidence".

This could be assessed as suggesting the RBA needs a convincing case before they would consider cutting rates. Many economists believe the key will be the labour market or more specifically, the direction of the unemployment rate. The RBA noted that "Members also discussed the scenario where inflation did not move any higher and unemployment trended up, noting that a decrease in the cash rate would likely be appropriate in these circumstances".

But for now, the RBA is prepared to watch and wait, noting the following in their conclusion with "Looking forward, the Board will continue to monitor developments, including how the current tensions between the domestic GDP and labour market data evolve, and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time".



Employment increased by 25,700 in March (market was expecting +15,000), from +4,600 last month. Full-time employment dominated the gain with a solid rise of 48,300 which was partially offset by part-time employment falling 22,600. With the participation rate rising due to a 42,700 increase in the labour force, the **unemployment rate** increased from 4.9% to 5.0%, reversing last month's fall.

In other data released, 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, rose 0.19% in March to 98.01. The increase this month was almost entirely due to a lift in dwelling approvals which rose 19.1%. The **NAB cashless retail sales index** fell 0.4% in March to be up 4.3% over the year, down from +8.3% annual growth in January.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Skilled Vacancies	24 April	March	n/a	-0.9%
Headline Inflation - quarterly	24 April	March quarter	+0.2%	+0.5%
Headline Inflation - annually	24 April	March quarter	+1.5%	+1.8%
Underlying Inflation – quarterly	24 April	March quarter	+0.5%	+0.4%
Underlying Inflation – annually	24 April	March quarter	+1.8%	+1.8%
Import Prices	26 April	March quarter	+0.5%	+0.5%
Export Prices	26 April	March quarter	+3.5%	+4.4%

ECONOMIC COMMENTARY

LAST WEEK

Last week, economists noted that the RBA minutes were more dovish this month, discussing scenarios for a rate cut, but concluding there was “not a strong case” for an adjustment to monetary policy in the near term. The RBA also refrained from moving to an implicit easing bias – happy to stay with their commentary that “rates could go up or down”, as the RBA noted, the strength in the labour force is at odds with low inflation and the data on GDP.

Investors reacted by pushing yields higher last week, although the moves were small, merely reversing part of the aggressive expectations of an imminent RBA rate cut currently priced into financial markets. There has been no fundamental change in market views however, with one and almost a second RBA rate cut still expected over the next year.

Offshore last week, China released first quarter growth which was better than forecast (+1.4% for annual growth of 6.4%), US trade balance fell to an eight month low as Chinese imports fell 20% while US exports to China jumped 18% and surprisingly, Brexit headlines have been unusually scarce.

By the close on Friday, the 90-day bank bill was trading unchanged for the week at 1.69%. In the long-term maturities, three and 10 year bond yields closed at 1.47% and 1.95% respectively, from 1.44% and 1.89% a week earlier.

CURRENCY

The Australian dollar pushed higher last week, pushing towards 72 cents following the RBA board meeting minutes which were a little “dovish” with the RBA not moving to a clear easing bias. The RBA reiterated that the unemployment rate would need to rise if monetary policy is to be cut.

The AUD touched 72 cents momentarily last Wednesday but met solid selling and with a stronger US dollar closed the week below the psychological level.

By the close last Friday, the Australian dollar was trading at USD0.7186 compared to USD0.7125 a week earlier.

EQUITIES

Global equity markets were weaker early last week and under downward pressure as underwhelming quarterly profit results from some US banks weighed on the US market. Talk of Russia boosting oil production saw the price of oil fall which hurt mining and energy stocks. A mild risk-on tone emerged following some positive US and Chinese economic data and better quarterly earnings results from other larger US companies which pushed equity markets higher later in the week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,259.8 compared to 6,181.3 a week earlier.

THIS WEEK

In a holiday shortened week where market trading volumes will be lower than normal, focus will be on first quarter inflation data out on Wednesday. Headline CPI is forecast to rise by 0.2% in the March quarter to be up 1.5% annually while the RBA’s preferred measure of underlying or core inflation will rise by 0.5% (slightly higher than last quarter’s 0.4% rise) to be up 1.8% annually. Despite remaining below the RBA’s target band, this “flat” outcome should not have an impact or move financial markets.

INTEREST RATE VIEW

The RBA appears to be placing a much larger emphasis on the level of unemployment in the economy rather than the rate of inflation in terms of importance for monetary policy decisions, while economic growth (as measured by GDP) lies somewhere in between.

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	2.07	1.93	2.08	1.81	1.69
180 day Bank Bill	2.16	2.09	2.19	1.88	1.76
1 year swap	2.03	1.97	1.98	1.63	1.58
3 year swap	2.29	2.15	1.95	1.53	1.56
5 year swap	2.65	2.51	2.22	1.75	1.81
10 year swap	2.97	2.88	2.56	2.08	2.19
AUD/USD	0.7708	0.7068	0.7139	0.7107	0.7186
S&P/ASX200 Index	5,868.8	5,857.5	5,858.8	6,195.2	6,259.8

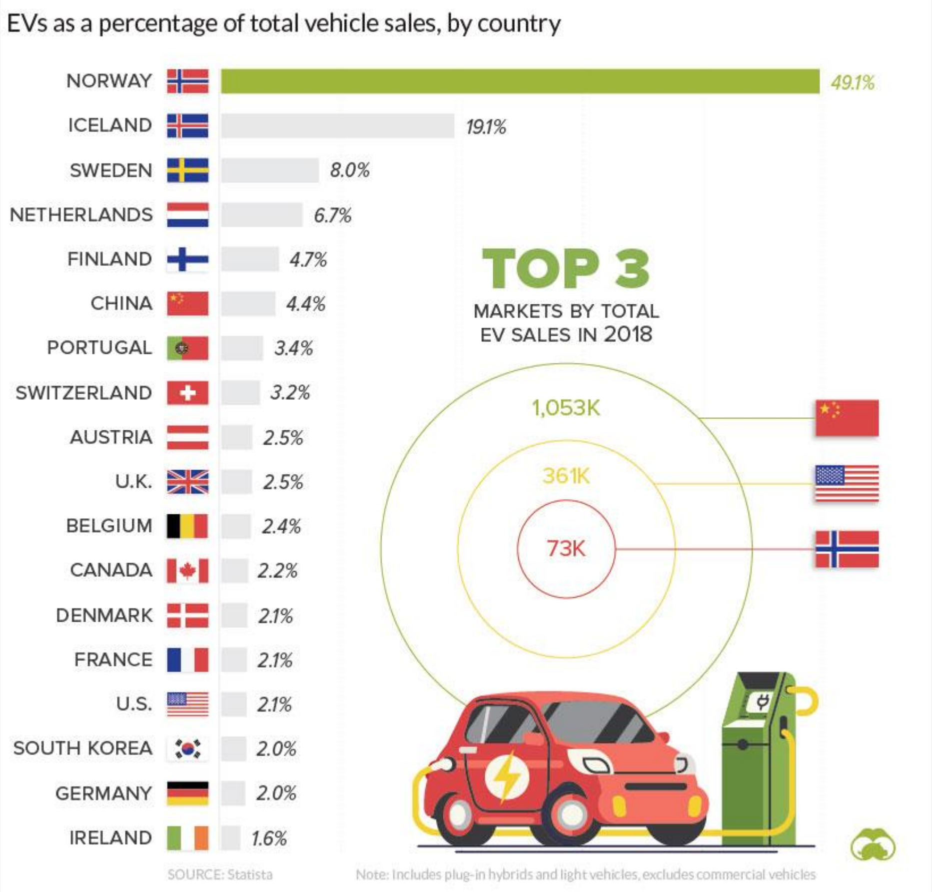
CHART OF THE WEEK

Visualizing EV Sales around the World

It took five years to sell the first million electric cars but in 2018, it took only six months.

The Tesla Model 3 also passed a significant milestone in 2018, becoming the first electric vehicle (EV) to crack the 100,000 sales mark in a single year. The Nissan LEAF and BAIC EC-Series are both likely to surpass the 100,000 this year as well.

Although the electric vehicle market didn't grow as fast as some experts initially projected, it appears that EV sales are finally hitting their stride around the world. Below are the countries where electric vehicles are a biggest part of the sales mix.



The EV Capital of the World

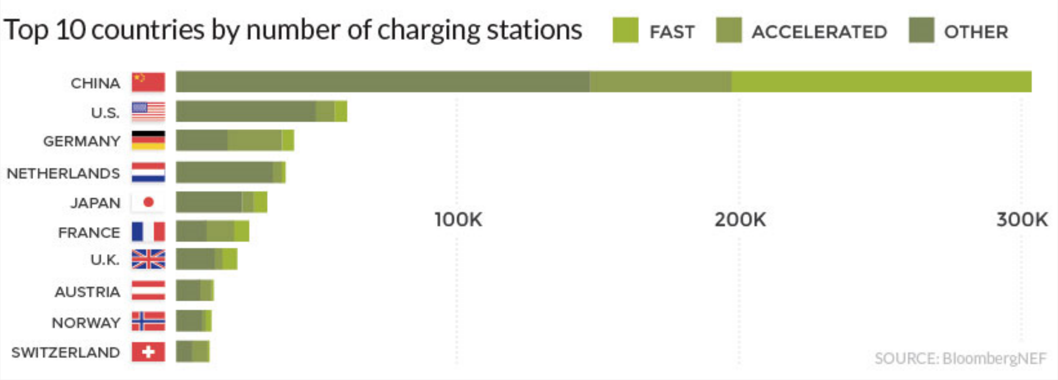
Norway, after amassing a fortune through oil and gas extraction, made the conscious decision to create incentives for its citizens to purchase electric vehicles. As a result, the country is the undisputed leader in EV adoption.

In 2018, a one-third of all passenger vehicles were fully electric, and that percentage is only expected to increase in the near future. The Norwegian government has even set the ambitious target of requiring all new cars to be zero-emission by 2025.

That enthusiasm for EVs is spilling over to other countries in the region, which are also seeing a high percentage of EV sales. However, the five countries in which EVs are the most popular, Iceland, Sweden, Netherlands, Norway and Finland, only account for 0.5% of the world's population. For EV adoption to make any real impact on global emissions, drivers in high-growth/high–population countries will need to opt for electric powered vehicles. (Of course power grids will need to get greener as well, but that's another topic.)

China's Supercharged Impact

One large economy that is embracing plug-in vehicles is China. The country leads the world in electric vehicle sales, with over a million new vehicles hitting the roads in 2018. Last year, more EVs were sold in Shenzhen and Shanghai than any country in the world, with the exception of the United States. China also leads the world in another important metric – charging stations. Not only does China have the highest volume of chargers, many of them allow drivers to charge up faster.



Source: *Visual Capitalist, 16 March 2019*
https://www.visualcapitalist.com
Article by: *Nick Routley*

About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010. It is the only Australian-owned and operated dedicated agribusiness bank in the country, providing exceptional financial services, knowledge and leadership for Australian farmers to grow.

RURAL BANK
Farmer focused.
Future driven.

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

Disclaimer: This report has been prepared by Rural Bank Treasury and is based on information obtained from public sources that are believed to be reliable. Whilst all care has been taken in compiling the information in this report, Rural Bank Limited ABN 74 083 938 416 AFSL / Australian Credit Licence 238042 makes no representation as to the accuracy, completeness or timeliness of such information. Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Rural Bank and are subject to change without notice. Rural Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein changes or subsequently becomes inaccurate. This report is provided for informational purposes only and does not take into account personal circumstances, objectives, financial situation or needs. The information contained within this report should not be relied upon without consulting independent, professional advice carefully to consider the appropriateness of the advice to your personal circumstances. Rural Bank disclaims all liability in relation to any loss or damage suffered by the use of or reliance upon any information contained herein or in any attachment or annexure hereto by any person.