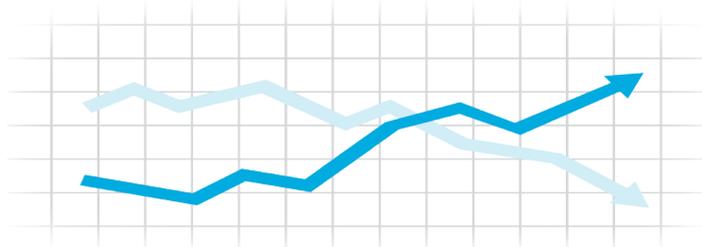


WEEKLY ECONOMIC COMMENTARY

Week beginning 25th April 2016

ECONOMIC DATA ROUNDUP



DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
New Motor Vehicle Sales	March	+2.2%	-0.1%
DEER Internet Vacancies Index	March	-1.2%	-0.9%
NAB Business Confidence Survey	March quarter	+4	+4

The **sale of new motor vehicle** increased by 2.2% in March to be up 4.2% annually. Sales of passenger vehicles decreased by 0.9% while sports utility and other vehicles increased by 0.2% and 1.8% respectively. The largest rise across all states and territories was in the Northern Territory (+2.8%) while the largest fall was recorded in Tasmania (-1.0%).

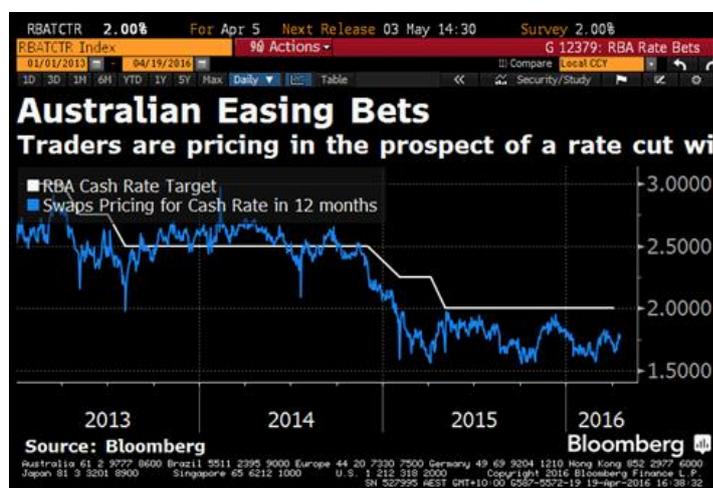
The Department of Employment **Internet Vacancy Index** decreased by 1.2% in March. Despite this fall the index remains 2.6% higher than the level recorded a year ago, while the level of vacancies is 20,700 (or 14.8%) above the October 2013 low point. A decline was recorded in all occupational groups except Machinery Operators and Drivers (up by 0.4%), with the strongest falls recorded for Community and Personal Service Workers (down by 1.3%), Sales Workers (1.2%) and Professionals (1.1%).

The **NAB Quarterly Business Survey** for the March quarter shows both a resilient non-mining recovery and an outlook that has continued to improve with both business conditions (+9) and confidence (+4) slightly lower but remaining at levels similar to that seen in the previous quarter. The survey suggests stronger momentum towards the end of the quarter with robust conditions and business confidence translating into rising employment demand and improved investment intentions. Leading indicators were generally quite positive in the quarter, forward orders are holding up at positive levels and expectations for conditions in 3 and 12 months' time improved.

The release of the minutes from the April Reserve Bank Board meeting last week were already outdated with the subsequent release of business and consumer data and the latest unemployment rate which fell to a two-and-a-half-year low. As was the case with the post-meeting statement, the minutes were relatively brief on the Australian dollar and its impact on the recovery and the theme in the rest of the commentary was virtually unchanged from previous minutes.

The minutes noted that while "continued low inflation would provide scope to ease monetary policy further", there remains "reasonable prospects for continued growth in the economy".

In summary, the RBA has adopted a stronger easing bias, noting the need for "very accommodative" monetary policy settings and while the economic transition is proceeding the higher Australian dollar "could complicate progress in activity rebalancing". The key to the minutes is that the RBA says the Aussie dollar "could" complicate, not "is complicating". That's a message that suggests it is "alert" but so far not "alarmed" at the currency's elevated level and will cut rates again if the currency gets too high.



Data over the next week

Economic Data	Date	Period	Forecast	Previous
Producer Price Index (PPI)	29 April	March quarter	n/a	+0.3%
Private Sector Credit	29 April	March	+0.6%	+0.6%
Headline CPI - quarterly	27 April	March quarter	+0.1%	+0.4%
Headline CPI - annual	27 April	March quarter	+1.6%	+1.7%
Underlying CPI - quarterly	27 April	March quarter	+0.5%	+0.6%
Underlying CPI - annual	27 April	March quarter	+1.9%	+2.0%

ECONOMIC COMMENTARY

LAST WEEK

The release of the Reserve Bank board minutes repeated the well-worn guidance that low inflation would provide scope to ease monetary policy further “should that be appropriate to lend support to demand” and also repeated the Governor’s comment that the appreciating exchange rate was “complicating” the rebalancing of the economy away from mining, stopping short of declaring it overvalued.

Sentiment was mostly positive early last week, helped by a recovery in oil prices off the post-Doha low, which brought out some risk-on trading pushing equities and bond yields higher over the week.

By the close of trading on Friday, the 90-day bank bill was trading at 2.27% compared to 2.29% the previous Friday while in the long term maturities, 3 and 10 year bond yields closed lower at 2.04% and 2.64% respectively, from 1.98% and 2.56% a week earlier.

CURRENCY

The Australian dollar opened last week almost a cent lower at USD0.76 but, as has been the pattern for some time now, the Aussie has followed the course of commodities, especially oil. Oil opened the week around 6% lower after a meeting of oil producers in Qatar on the weekend failed to agree to cut oil supply. However, despite no agreement, oil has recovered almost all of the sell-off (thanks to a labour strike in Kuwait which reduced output by about 60%, albeit temporarily) which assisted commodity-based currencies and pushed the Australian dollar back through USD0.77. A rise in almost all base metal prices also helped the rally. By mid-week, US dollar weakness and higher commodity prices saw the Australian dollar break through USD0.78 for the first time in 10 months before profit taking pushed the currency lower and by the end of the week, was virtually unchanged.

By the close on Friday, the Australian dollar was trading at USD0.7739 compared to USD0.7709 a week earlier.

EQUITIES

Global equity markets started last week in the red after a fall in oil prices over the weekend but from there, spent the rest of the week gradually moving higher as the oil price recovered. Resource and energy stocks rallied, assisted by a rise in most base metals, with iron ore once again trading over \$70 a tonne. Consumer discretionary stocks and financials were also in favour as IBM and a couple of US bank (Morgan Stanley and Goldman Sachs) reported earnings that beat expectations. The Dow Jones Index pushed above the 18,000 level for the first time since 20th July 2015 and up 15% since mid-February.

By the close on Friday the S&P/ASX200 Index was down trading at 5,236.4 compared to 5,157.5 a week earlier.

THIS WEEK

The highlight for this Anzac Day holiday shortened week will be the release of March quarter inflation data on Wednesday. Economists are looking for a modest 0.1% quarterly rise (+1.6% annually) in the headline CPI data (weighed down by a sizeable fall in petrol prices) and for the RBA’s preferred underlying measure of CPI to rise by 0.5% in the quarter for a yearly rise of only 1.9%. Both year-on-year numbers to be below the RBA’s target CPI band of 2% to 3% but not expected to move the stance on monetary policy. International trade prices for the March quarter are out on Thursday, while producer prices (March quarter) and March private sector credit will be released on Friday.

INTEREST RATE VIEW

The futures market is currently pricing less than a 15% chance of an RBA rate cut in May heading into the CPI data release this week. Over the coming 12 months the market is now pricing less than one full rate cut, with a terminal cash rate of only 1.79% by May next year.

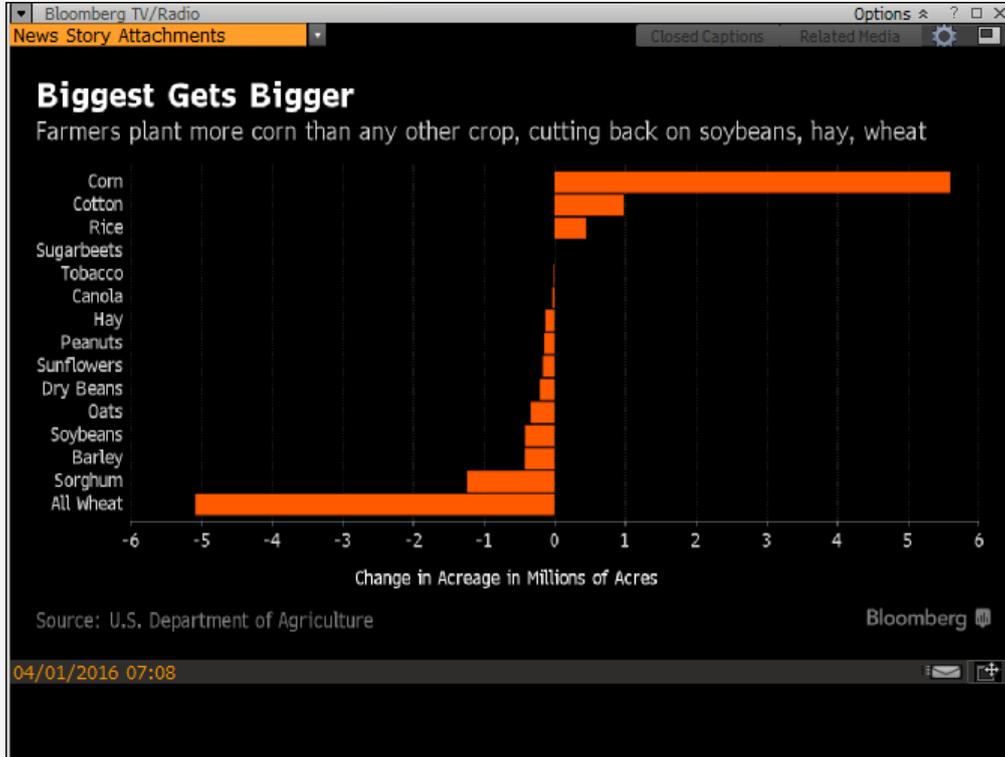
<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	2.25	2.00	2.00	2.00	2.00
90 day Bank Bill	2.26	2.16	2.27	2.30	2.27
180 day Bank Bill	2.30	2.22	2.40	2.46	2.46
1 year swap	2.14	1.94	2.08	2.20	2.21
3 year swap	2.23	2.01	2.10	2.19	2.23
5 year swap	2.51	2.38	2.43	2.43	2.49
10 year swap	2.87	2.90	2.84	2.71	2.76
AUD/USD	0.7808	0.7276	0.7025	0.7506	0.7739
S&P/ASX200 Index	5,933.3	5,351.6	5,006.6	5,079.0	5,236.4

CHART OF THE WEEK

Corn Everywhere

Corn planting in the US this year will jump 6.4% to the third-most acres since 1944, the US Department of Agriculture said last month in its first estimate based on a survey of farmers. The biggest gains will come in North Dakota and Kansas, traditionally top producers of wheat, which will see a 9.3% drop in seeding nationwide, the USDA said.

The prospect of increased supply sent corn futures in Chicago to their lowest price since October 2014. The combined sowing of corn and soybeans - the two biggest US crops - will be the most ever in Iowa, Illinois and North Dakota, the government said.



World corn supplies just keep getting bigger. Inventories by the end of the 2016-17 season may rise to 208 million tons, the highest in 31 years, the London-based International Grains Council said last week. The agency expects output to expand in the US, the world's biggest grower, as well as in Europe and Argentina, Senior Economist Amy Reynolds said. Corn prices are near a 17-month low after the US Department of Agriculture report showed US farmers intend to plant the third-largest area since 1944.



Source: Bloomberg; 2 April 2016, articles by Megan Durisin, Chicago and Whitney McFerron, London.

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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