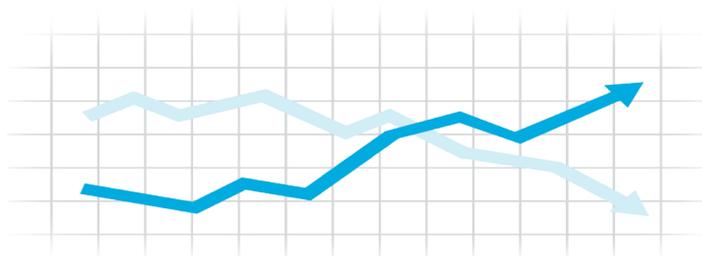


WEEKLY ECONOMIC COMMENTARY

Week beginning 25th June 2018

ECONOMIC DATA ROUNDUP



DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
House Price Index	March quarter	-0.7%	+1.0%
Westpac/MI Leading Index	May	+0.11%	0.82%

The official ABS **House Price Index** fell by 0.7% in the March quarter to be down 2.0% over the year. Sydney led the quarterly decline (-1.2%) followed by Perth (-0.9%), Melbourne (-0.6%) and Brisbane (-0.6%). Hobart bucked the trend with a 4.3% increase, benefiting from positive interstate migration, housing affordability and strong employment gains.

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, fell from +0.83% in April to +0.11% in May – the slowest growth since September last year. A decline in most domestic components of the index (to below trend) was partially offset by strength in “international” components. While the trend remains positive, there has been a clear slowing in recent months.



The broad tone of the minutes from the RBA’s June board meeting has not changed with the RBA still anticipating that the next move in rates is up, although this commentary was omitted this month. The minutes excluded the line used in May that “it would be appropriate to hold the cash rate steady and for the Reserve Bank to be a source of stability and confidence” as well as the line that “it is more likely that the next move in the cash rate would be up, rather than down”. Both of these had been included in the previous two minutes and its absence may indicate that the bank is less confident about how uncertainty around the global economy and domestic credit tightening will play out.

A speech last week where the Governor indicated that he would need to see clear evidence of a pick-up in wages before considering to raise the cash rate suggests that any RBA rate move is some way off.

In other data releases, the NAB **Cashless Retail Sales index** was up 0.8% in May and is now up 10.3% over the year. Results were stronger for four of the six major categories: food, household goods, clothing & footwear and department stores while other retailing turned negative.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ABS Job Vacancies	28 June	May	n/a	+4.4%
Private Sector Credit	29 June	May	+0.4%	+0.4%

ECONOMIC COMMENTARY

LAST WEEK

With very little economic data out last week the market focus turned to the ongoing US-China trade tiff. President Trump threatened tariffs on more Chinese imports, ordering officials to identify another \$200 billion of goods for additional levies of 10%. Beijing promised to retaliate with "strong" counter measures. A risk-off tone entered the market pushing the US dollar higher and equities lower. Despite the risk aversion, yields oscillated over the week, trading in a tight range but closing the week lower.

Unlike what happened heading into the March quarter where the differential between US and Australian short term interest rates pushed BBSW higher, a combination of June futures market rollovers and supply and demand dynamics for funding terms over 30 June has again pushed BBSW higher. In fact, the current three and six month BBSW is setting above the highs recorded back in mid-April (and at a two-year high!).

By the close on Friday, the 90-day bank bill was trading at 2.11% compared to 2.06% last week. In the long term maturities, three and 10 year bond yields closed lower at 2.10% and 2.65% respectively, from 2.13% and 2.70% a week earlier.

CURRENCY

The announcement of trade tariffs on \$50bn of Chinese goods and China's immediate retaliation has seen commodity prices weaken and the Australian dollar continue the sell off, continuing the down-trend that started the previous week. The diverging monetary policy outlooks between the US and Australia, plus heightened fears of a global trade war, has strengthened the US dollar (to an 11-month high against a basket of currencies) and also assisted to push the AUD to a 13-month low of USD0.7346 last Tuesday. The AUD did rally later in the week but continues to trade defensively and stuck below the 74 cent level.

By the close last Friday, the Australian dollar was trading at USD0.7398 from USD0.7457 a week earlier.

EQUITIES

Equity markets managed to hold up well considering the negativity around the tariff news last week. While the Dow Jones and the S&P500 were struggling, the Nasdaq reached an all-time record high last Wednesday, led by shares in Facebook (+2.3%) and Netflix (+2.9%) both also at record levels. Twenty-First Century Fox shares were up 7.4% after Walt Disney (+1.0%) raised its bid to US\$38 per share or US\$71.3 billion.

Our local share market managed to post a 10-year high last week thanks to a rally in financials and despite market heavyweight Telstra falling over 8% after they announced major job cuts and asset sales. Markets did take a turn for the worse late in the week as the trade tensions resurfaced and closed off their highs.

By the close last Friday, the S&P/ASX200 Index was trading at 6,225.2 compared to 6,094.0 a week earlier.

THIS WEEK

Another quiet week for data releases with only job vacancies and private sector credit numbers due for release, both unlikely to move markets. Developments in the US-China trade disputes will again remain a dominate focus with risk aversion expected to continue this week – as will end of financial year book-squaring in all financial markets.

INTEREST RATE VIEW

Despite the RBA omitting specific commentary around "the next move in rates being up, not down" in their latest board meeting minutes released last week, markets still feel a rate hike is the RBA's central case view – albeit some time off.

A degree of uncertainty around the global economy has seen the RBA be somewhat less confident about how some risks may play out. Financial markets have shifted expectation of the first rate hike out to August 2019 from May 2019.

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	1.72	1.80	2.00	1.94	2.11
180 day Bank Bill	1.85	1.99	2.11	2.06	2.22
1 year swap	1.74	1.85	1.95	1.97	2.03
3 year swap	1.94	2.18	2.20	2.24	2.18
5 year swap	2.28	2.55	2.56	2.63	2.52
10 year swap	2.65	2.88	2.86	2.99	2.84
AUD/USD	0.7571	0.7714	0.7711	0.7566	0.7398
S&P/ASX200 Index	5,715.9	6,073.0	5,820.7	6,037.1	6,225.2

CHART OF THE WEEK

World crop and livestock price forecasts, 2018-19



^a US no. 2 hard red winter, fob Gulf. ^b France feed barley, fob Rouen. ^c Europe rapeseed, fob Hamburg. ^d Intercontinental Exchange, nearby futures, no. 11 contract (October to September). ^e Cotlook 'A' index.

^a Australian weighted average saleyard price of beef cattle. ^b Australian weighted average saleyard price of lamb. ^c Eastern Market Indicator price, clean equivalent. ^d Australian average farmgate milk price.

Source: Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) ABARES 2018, *Agricultural commodities: June quarter 2018*. CC BY 4.0. ISBN: 978-1-74323-390-0 ISSN: 1839-5627 ABARES project 43506 www.agriculture.gov.au/abares/publications

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.



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.

© Copyright Rural Bank Ltd ABN 74 083 938 416 (A250677) (06/17)