WEEKLY ECONOMIC COMMENTARY

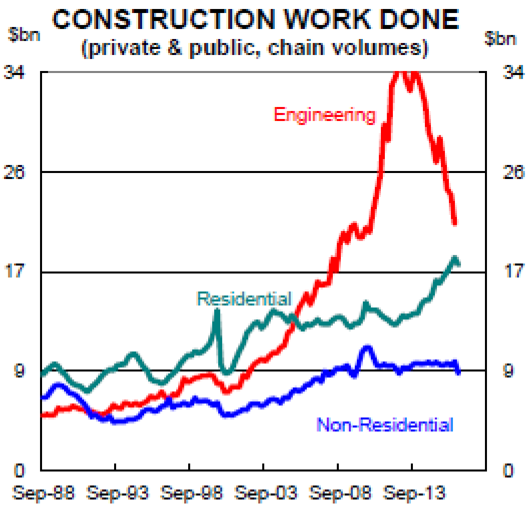
Week beginning 28th November 2016

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Construction Work Done	Sept quarter	-4.9%	-3.7%
DEWR Internet Vacancies Index	October	-0.4%	-1.2%

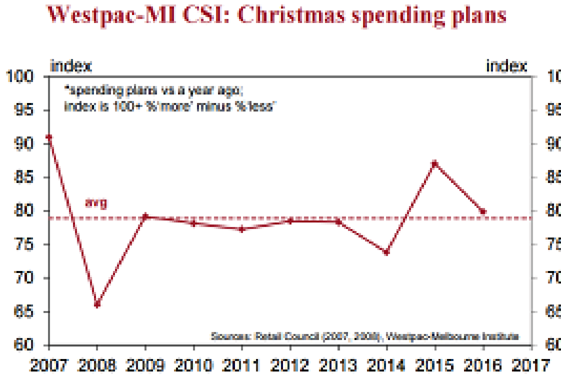
Construction work done fell more than the market expected in the September quarter, down by a sharp 4.9% (forecast was -1.6%) to be down 11% for the year. The fall was concentrated in the private sector with an unexpected decline in residential building construction of 3.1% in the quarter (+6.3% annually). Non-residential building construction fell 10.9%, the largest quarterly fall recorded in private non-residential building construction since September 2000 (-7.6% annually). Engineering work done also fell this quarter, down 3.8% and is now down 23.2% over the year. Based on these numbers, construction looks set to subtract a massive 0.7% from the upcoming September quarter GDP number.



The Internet Vacancy Index decreased by 0.4% in October 2016 and follows a revised 0.8% fall last month. Despite this fall, the Index is 0.1% higher than the level recorded a year ago. Job advertisements fell in seven of the eight occupational groups this month. The largest fall was for labourers (-1.4%), followed by machinery operators and drivers (-1.2%) and community and personal service workers (-1.0%), while professionals were unchanged over the month.

With barely 25 shopping days left until Christmas, the latest signs from the Westpac-Melbourne Institute Consumer Sentiment survey point to a more downbeat holiday spend than a year ago, but with plans still in slightly better shape than other ‘post GFC’ years.

The simplest summary measure of intentions is an index based on the net balance of responses, with the November 2016 reading at 79.9, down from 87.0 in 2015 (chart right). That in turn followed five successive years of readings in the 77-79 range, a disastrous 66 reading in the depths of the GFC and a record high 91 during the consumer boom in 2007.



The November survey included an additional question on plans for spending on Christmas gifts, asking: “will you spend less, about the same, or more compared to last year?” The results show consumers taking a more restrained approach in 2016 with 34% planning to “spend less”, 52% “the same” and 14% “more”. That compares to a 30%, 53% and 17% mix in 2015.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Building Approvals	30 Nov	October	+3.0%	-8.7%
Private Sector Credit	30 Nov	October	+0.4%	+0.4%
Private New Capital Expenditure (Capex)	01 Dec	Sept Quarter	-3.0%	-5.4%
Retail Sales	02 Dec	October	+0.4%	+0.6%

ECONOMIC COMMENTARY

LAST WEEK

With very little data out last week, markets focused on speeches both here and offshore. RBA Assistant Governor Chris Kent told an Australian Business Economists event that the drag from mining on economic growth was easing, to be replaced by a “slight tail breeze”. According to Kent, “that would contribute to a rise in domestic inflationary pressures and a gradual return of inflation to more normal levels.”

There was a lot of interest in a video released by President-elect Trump on his plans for the first 100 days in office. Withdrawing from the Trans Pacific Partnership received front billing along with cancelling job-killing restrictions on shale oil and clean coal industries and also installing a rule that deletes two regulations for every new one imposed. Surprisingly, there was no mention of the great wall of Mexico or deporting of illegal immigrants.

The positive sentiment post the US election continued last week with equities and bond yields higher, both moves also reflected in our markets last week.

By the close of trading on Friday, the 90-day bank bill was unchanged at 1.76%. In the long term maturities, 3 and 10 year bond yields closed the week higher at 1.92% and 2.76% respectively, from 1.86% and 2.72% a week earlier.

CURRENCY

The US dollar continues to strengthen against all the G10 currencies, fuelled by the Trump phenomenon, strong economic data and the predictions that the US Federal Reserve will raise interest rates next month, as well as further tightening into 2017. The greenback’s rally however appears to be slowing as the Trump hype subsides but it has still rallied almost 6% since the US election. The Australian dollar hasn’t done too badly given the US dollar strength of late, with the Aussie holding up on the cross rates, assisted by stronger commodity prices.

By the close on Friday, the Australian dollar was trading at USD0.7435 compared to USD0.7389 a week earlier.

EQUITIES

The US share market nudged to a fresh record high on numerous occasions last week as the positive sentiment after the Trump election win continues to drive equities higher. The Dow was boosted by the prospect of greater US infrastructure spending and strong data on the current state of the US economy.

Our share market also benefited from the positive offshore sentiment as well as stronger commodity prices, with oil trading to a three week high ahead of a key OPEC meeting and decision to limit global production this week.

By the close on Friday the S&P/ASX200 Index was up 150 points or 2.8% for the week and trading at 5,508.8 compared to 5,359.4 a week earlier.

THIS WEEK

The data flow remains light this week although there are some economic statistics out that will be of interest. The September quarter CAPEX data is worth watching to get an update on private sector investment intentions while retail sales for October will also gain some attention to see if the recent run of stronger numbers can continue.

INTEREST RATE VIEW

Globally, rates continue to drift higher, but at a much slower pace than previous weeks. Since the election of Donald Trump, the US 10-year Treasury bond yield has risen from 1.85% to 2.35% and we have seen similar moves in our long term yields. For example, our three-year bond yield has risen 22 basis points since the US election, while our ten-year bond yield is 42 basis points higher. Compounded by the expectation that US rates are going up next month, for the first time since late 2014, our futures market is now pricing in a slight increase in the official cash rate over the next 12 months.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.00	1.75	1.50	1.50	1.50
90 day Bank Bill	2.27	1.97	1.73	1.76	1.76
180 day Bank Bill	2.37	2.12	1.93	2.00	2.02
1 year swap	2.16	1.86	1.64	1.76	1.79
3 year swap	2.22	1.83	1.62	1.87	2.06
5 year swap	2.54	2.09	1.85	2.19	2.49
10 year swap	2.98	2.40	2.06	2.45	2.87
AUD/USD	0.7230	0.7221	0.7632	0.7630	0.7435
S&P/ASX200 Index	5,202.6	5,405.9	5,515.5	5,295.5	5,507.8

CHARTS OF THE WEEK

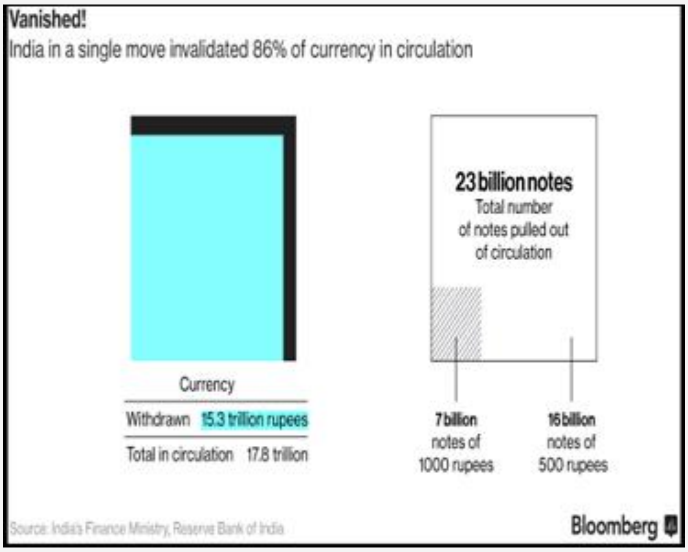
India’s Cash Chaos by the Numbers: Guide to Banknote Revamp

Serpentine queues spilling from banks. Parents worried that they can’t provide for their families. Prime Minister Narendra Modi appealing to Indians to bear the pain for just a little while longer.

These pictures continue to dominate media coverage in Asia’s third-largest economy, even two weeks after the government’s shock clampdown on cash. While supporters of the move say it will help root out tax evasion and graft in the years ahead, critics question the administration’s planning and execution. What many outside the country can’t comprehend, though, is the reason for the chaos. Surely global governments in the past have suddenly banned certain currency denominations, too, haven’t they?

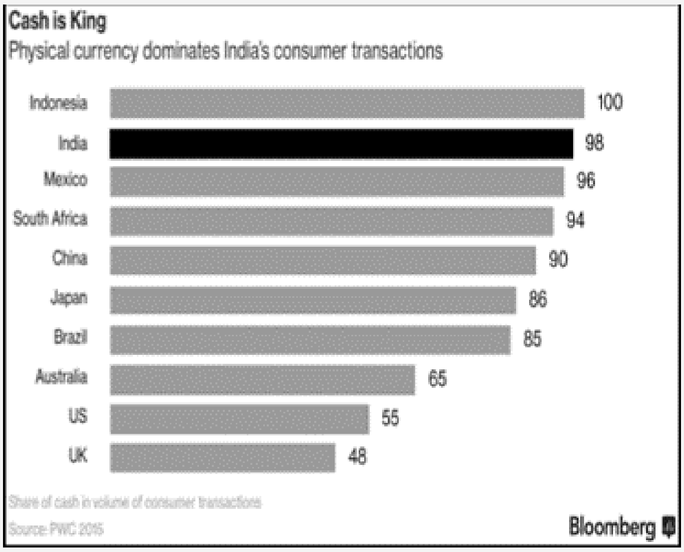
Why India’s Cash Clampdown is Different

As most Indians gathered around for dinner November 8, Modi blindsided citizens by announcing on national television that their 500 rupee and 1,000 rupee ($15) notes would be worthless come midnight. The step was essential to clamp down on "black money," he said, the local term for cash stashed away to avoid tax. In terms of the share of currency in circulation, Modi’s move was akin to sucking out from the system all US dollar bills except about half of the $1 notes.



The decision rattled the world’s second-most populous nation, where cash dominates day-to-day life. Strange tales were whispered around neighbourhoods that night, of the wealthy rushing to purchase gold and luxury watches to extinguish unaccounted cash, while housewives stocked up on groceries.

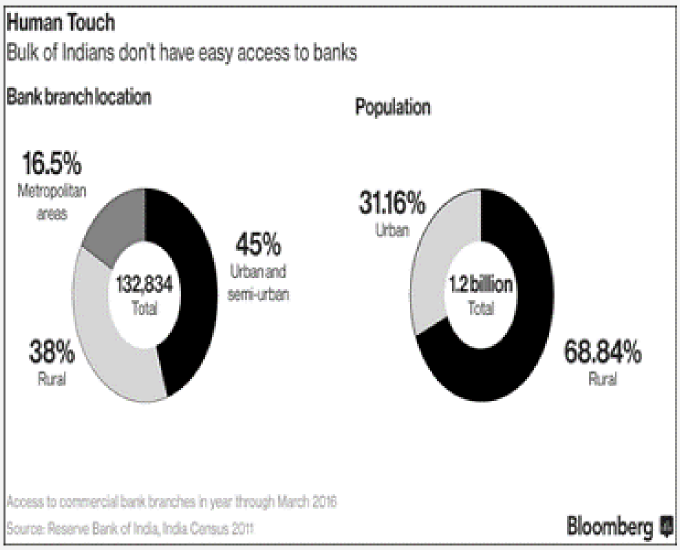
Morning dawned to even more confusion, and when banks reopened the next day people lined up to exchange their now worthless currency. Newspapers reported that sacks of torn notes turned up across the country as people destroyed and abandoned them to avoid prosecution.



Economic activity will slow for 30 - 35 days, a government official told reporters in New Delhi on Tuesday. Modi’s administration expects growth in October - December to slow to 5.5%, the Business Line newspaper reported on Wednesday, without saying where it got the information. That compares with 7.2% a year earlier.

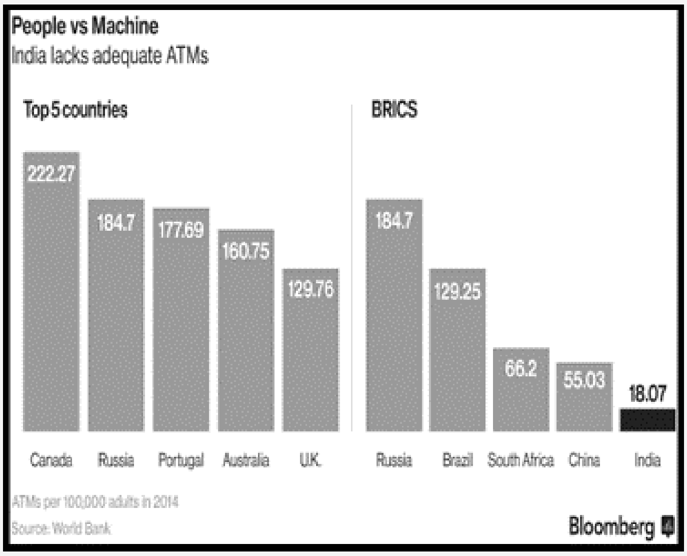
It’s not as if the notes would turn into paper at the stroke of midnight. They’d still retain their value, the government ruled, but only if they were deposited into bank accounts by December 30. Strict caps were imposed on the exchange of physical bills into new notes, and those depositing the old notes had to submit signed declarations and come armed with identification.

That doesn’t sound so tough, you may say. Try this: as many as 600 million Indians probably don’t have bank accounts, central bank data show. A disproportionate number of these live in more than 600,000 villages, earning daily wages in cash.

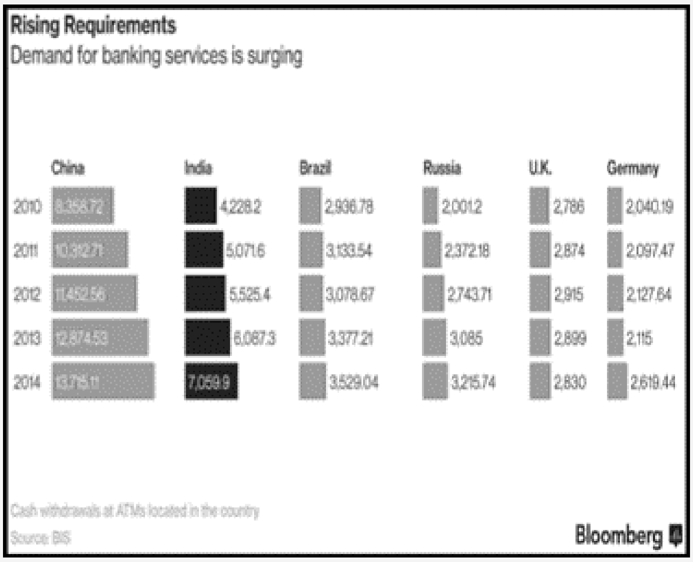


CHARTS OF THE WEEK

To meet demand, banks stayed open for longer hours, offering water and coffee to hassled clients. Reports began trickling in (several disputed) of Indians collapsing as they waited to exchange their bills under the biting sun, as well as bank staff dying under the strain of the job.



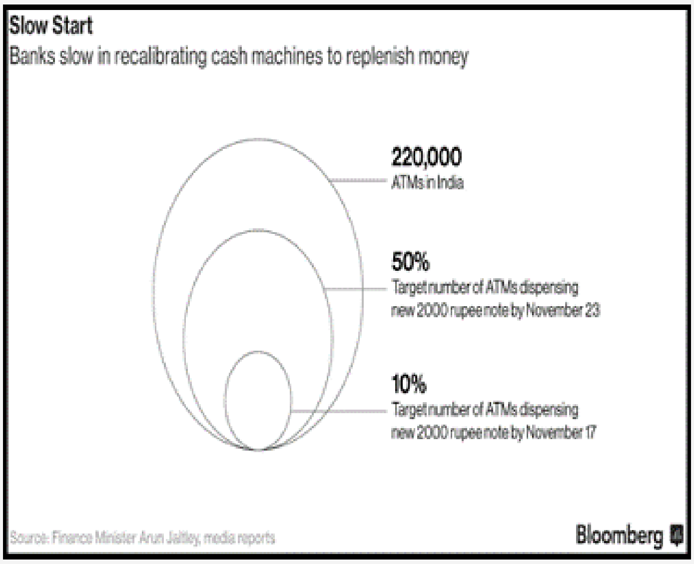
Tourists were left stranded without money and touts fleeced visitors who had been until then enjoying the beaches of Goa or the shrines of Rajasthan. Part of the reason for the trouble is that India is woefully under-banked. Cash machines are few and far between, even though demand for services has been surging over the years.



Amid rising public anger, Modi appealed for understanding. Give me 50 more days, he requested Indians in a teary-eyed address on November 12. "After that, if any fault is found in my intentions or my actions, I am willing to suffer any punishment given by the country."

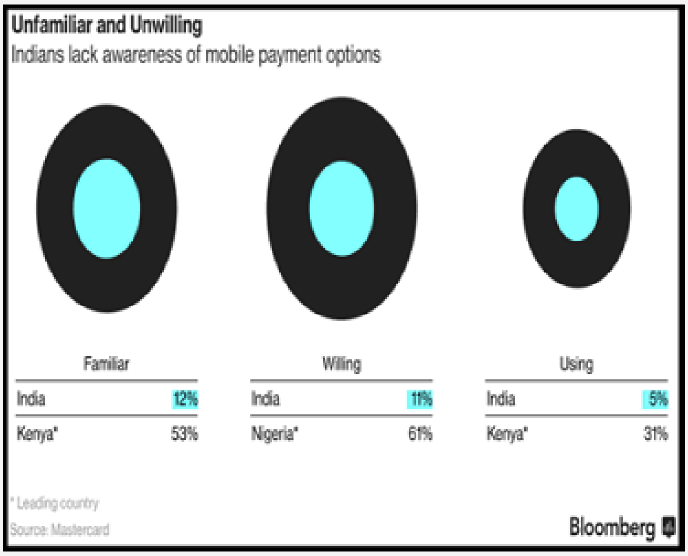
Modi's motive was clear: he sought to take account of each of the big bills in circulation. Of the 15 trillion rupees that needed to be turned in at banks, about a third wouldn't be deposited, the government's lawyer told the Supreme Court.

However, as the days rolled on, it became increasingly clear that the logistics weren't completely thought through. To pump out the new notes, cash machines needed to be refitted, which banks scrambled to do after being caught unaware. Printing the required number of new notes could itself take as long as six more months, according to some estimates.



CHARTS OF THE WEEK

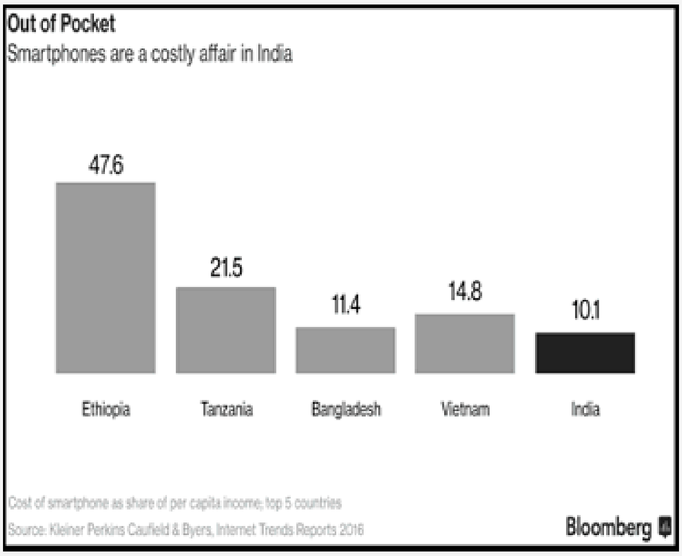
Alternative payment providers saw their window of opportunity. Mobile wallet companies such as Paytm and Freecharge.in reported a jump in transactions. Again, most of this came from cities and towns. Most of India, data show, is unfamiliar with the available options.



One reason for the lack of technological options is that the availability of third-generation mobile spectrum and broadband is limited. Of India's 1.3 billion population, less than 300 million use the Internet. Of the total number of Indians who own a mobile phone, only about 26% have smartphones, which are essential to run payment apps.

The relatively low penetration of smartphones in India is because the cost of a smartphone is prohibitively high in the nation with the lowest living standards among major emerging markets.

That leaves Indians back where they started - relying on cash for their daily survival, but not getting quite enough of it.



Market Reaction

The rupee tumbled to a record low and the nation's stocks fell as global funds dumped Indian assets. Foreign holdings of sovereign and corporate debt are set for the biggest drop this month since April 2014. State-run banks sold dollars, probably on behalf of the central bank, three traders said. Analysts are split on what's next but a backdrop of the world's biggest currency overhaul in decades probably won't settle nerves.
Other emerging markets got whacked, too. Stocks from Brazil to Indonesia fell, while Vietnam's dong sank to a record and the Philippine peso hit its lowest since the financial crisis.

Source: Bloomberg - By Jeanette Rodrigues, 22 November 2016

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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