WEEKLY ECONOMIC COMMENTARY

Week beginning 29th October 2018

ECONOMIC DATA ROUNDUP

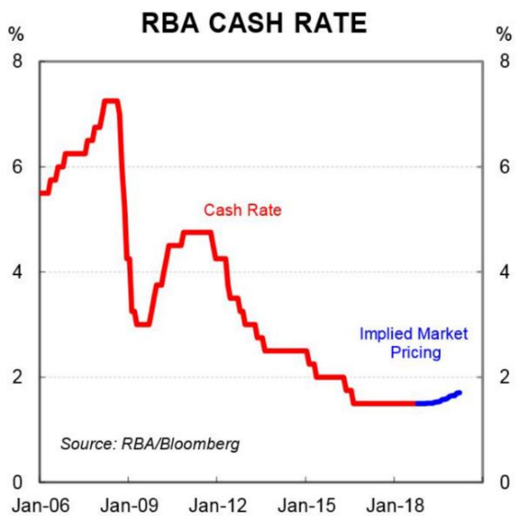
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Skilled Vacancies	Sept	-0.6%	+0.6%

The **skilled vacancies index** fell 0.6% in September with last month's +0.6% revised down to -0.2% which means this index has fallen six months in a row. Skilled vacancies are now up only 1.6% over the year, down from +3.1% over the year to August. Job advertisements rose in six of the eight occupational groups. The strongest gains were recorded for Professionals (+5.6%), Technicians and Trades Workers (+4.2%), and Community and Personal Service Workers (+2.9%). Job advertisements decreased for Labourers (-7.6%) and Sales Workers (-7.2%).

For those that watch the Reserve Bank of Australia's monthly board meetings and their decisions on the official cash rate, it's been a pretty dull past two years. The last move in rates by the RBA was on the 3rd August 2016 when it cut rates by 25 basis points to a record low of 1.50%. Since then, the RBA has made it clear that their period of stability in interest rates is set to continue for some time yet. In fact, current futures market pricing implies only a 50% chance of an interest rate hike over the next year (refer chart).

Put another way, the market is of the view that it's an even-money chance that the RBA's period of interest rate stability continues for another year – nothing we didn't know already although this is in an environment where US interest rates are on a steady and regular uptrend.



In other news, the ANZ-Roy Morgan Australian Consumer Confidence index fell 7.2 points or 6% last week to 112.3 points, closing just below its long term average and is now at its lowest level since September 2017. All components of the survey fell sharply.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Building Approvals	30 October	Sept	+3.5%	-9.4%
Headline CPI - quarterly	31 October	Sept quarter	+0.4%	+0.4%
Headline CPI - annual	31 October	Sept quarter	1.9%	2.1%
Underlying CPI - quarterly	31 October	Sept quarter	+0.5%	+0.5%
Underlying CPI - annual	31 October	Sept quarter	2.0%	1.9%
Private Sector Credit	31 October	Sept	+0.4%	+0.5%
Trade Balance	24 October	Sept	$1.5bn	$1.604bn
Retail Sales	2 November	Sept	+0.2%	+0.3%

ECONOMIC COMMENTARY

LAST WEEK

Last week was a slow burn with virtually no economic data released. Therefore, trading direction came from news, data and events offshore. Global yields pushed lower as the risk-off environment caught up with the rates market.

Concerns over global growth outlook, the Italian budget, an impasse on Brexit talks as well as international tensions with Saudi Arabia over the killing of a journalist and attempted bomb attacks targeting former US President Obama, Hillary Clinton, CNN and other Democrats have dented risk appetite. The US market drove the move after weak price action in equities pushed investors into buying safe-haven bonds and the US dollar.

In other news, the Bank of Canada increased rates for the third time this year (as was expected) to 1.75% with three more hikes expected while Russia's central bank held its cash rate at 7.5% after a rally in the ruble eased inflationary pressures.

By the close on Friday, the 90-day bank bill was trading at 1.92% from 1.93% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 2.00% and 2.60% respectively, from 2.04% and 2.69% a week earlier.

CURRENCY

Movements in currency markets last week have been well contained despite the more significant moves in equities and bonds. The Australian dollar opened last Monday at the week's high of USD0.7127 and continued to drift lower over the week as the US dollar gained against most other currencies, trading to a low of USD0.7055 before buying support pushed it higher. The British pound fell last week on news that Brexit negotiations with the European Union over the Northern Ireland border remain in deadlock and as the Euro continued to weaken on political uncertainty over Italy's budget.

The AUD has largely traded sideways, although leaning to the downside in an approximate USD0.7050 to USD0.7090 range for most of the week.

By the close last Friday, the Australian dollar was trading at USD0.7032 from USD0.7115 a week earlier.

EQUITIES

The global equity markets once again turned south last week on some soft economic data releases, ongoing geopolitical concerns and fears that corporate profits have peaked. The US Dow jones index plunging more nearly 800 points up to last Thursday before bouncing back on Friday but still wiping out the gains made in the past 12 months. The "bounce" on Friday followed some positive earnings results from some market heavyweights (including Ford, Telsa, Microsoft and Visa) and as bargain hunters emerged which stopped the share market fall, for now.

Our share market was not immune to the sell-off, closing the week down 274 point (4.6%) with the index now down nearly 11% from the peak recorded in late August.

By the close last Friday, the S&P/ASX200 Index was trading at 5,665.2 compared to 5,939.5 a week earlier.

THIS WEEK

The main focus for markets this week will be on the September quarter inflation data. Both the headline and underlying CPI is expected to show that inflation remains at, or below the RBA's target range. Economists will watch to see whether there are any "surprises" in the data (possibly from a lower AUD or higher oil prices) that pushes inflation higher which may flow through to interest rate expectations. Other data out this week includes September building approvals, trade balance and retail sales.

INTEREST RATE VIEW

The futures market is not pricing a full 25 basis point rate hike by the RBA until mid-2020. This is little changed from the pricing prior to the latest employment data which saw the unemployment rate fall to 5%. The lack of any significant shift in financial market pricing possibly reflects the increased commentary out of the RBA around the uncertainty as to where the new "full employment" number is. Focus is clearly on the upcoming CPI data for any signs of an increase in inflation and a possible change to the RBA's stance on monetary policy.

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	1.69	2.05	1.97	1.94	1.92
180 day Bank Bill	1.88	2.15	2.15	2.14	2.07
1 year swap	1.78	2.04	1.99	1.95	1.95
3 year swap	2.09	2.29	2.15	2.13	2.10
5 year swap	2.50	2.66	2.48	2.49	2.43
10 year swap	2.94	2.99	2.83	2.87	2.78
AUD/USD	0.7639	0.7546	0.7386	0.7212	0.7032
S&P/ASX200 Index	5,903.2	5,953.6	6,300.2	6,207.6	5,665.2

CHART OF THE WEEK

Improving fuel efficiency makes long haul air travel more profitable

Earlier this month Singapore Airlines reinstates the world’s longest flight, a 15,329km, 19-hour flight between Singapore and New York which it grounded in 2013. Super-long-haul routes are once again fashionable after Qantas started a 15,000km Perth-to-London non-stop flight a few months ago.

Where previously Singapore Airlines used a four-engine, gas-guzzling Airbus A340, it will now fly a twin-engine Airbus A350-900s that take passengers almost 30% further per litre of fuel. Such advances make the unthinkable thinkable.

Some fliers will recoil at these endurance tests - at least those in cattle-class cabins where knees are squashed, food limited and alcohol rationed. But super-long-haul services are not aimed at such victims.

Airlines make little money from the sardines crammed in the back of the plane, instead they profit from business-class and first-class travellers for whom time is money. Non-stop flights are also handy for pilfering customers from Gulf “super-connectors”, whose small domestic markets mean they rely on passengers connecting via their hubs. That model is now, pardon the pun, “up in the air”.

Longest commercial airline routes, October 2018

	Route	Airline	Distance, km
1	New York*-Singapore	Singapore Airlines	15,329
2	Doha-Auckland	Qatar Airways	14,526
3	London-Perth	Qantas Airways	14,499
4	Auckland-Dubai	Emirates	14,193
5	Los Angeles-Singapore	Singapore Airlines	14,096
6	Houston-Sydney	United Airlines	13,829
7	Dallas-Sydney	Qantas Airways	13,802
8	Manila-New York	Philippine Airlines	13,691
9	San Francisco-Singapore	Singapore/United	13,575
10	Atlanta-Johannesburg	Delta Air Lines	13,573

Source: OAG

*Newark Liberty International Airport

Source: The Economist, Chart, Maps and Infographics, “The return of the world’s longest flight”
OAG Aviation Data - OAG leverages the world's largest network of air travel data to provide accurate, timely, actionable digital information and applications to the world’s airlines, airports, government agencies and travel-related service companies.

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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.

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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