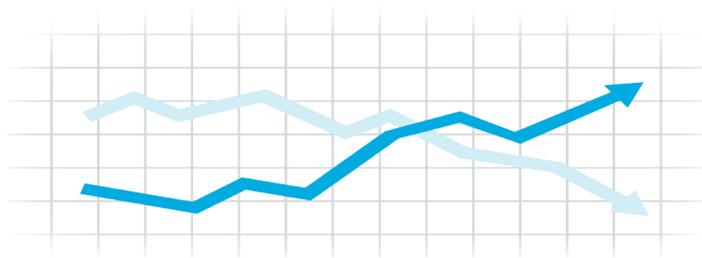


WEEKLY ECONOMIC COMMENTARY

Week beginning 2nd July 2018

ECONOMIC DATA ROUNDUP



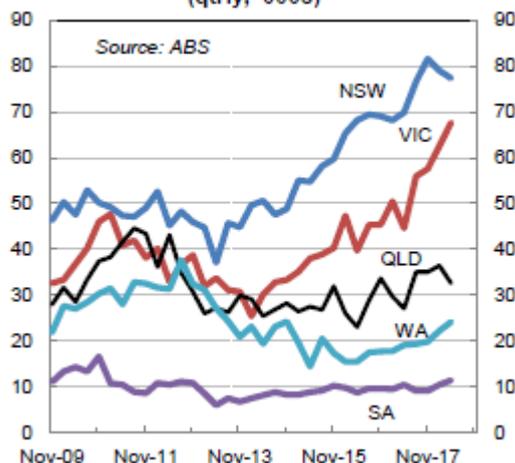
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ABS Job Vacancies	May quarter	+5.7%	+4.4%
Private Sector Credit	May	+0.2%	+0.4%

Total **job vacancies** in the three months to May were up 5.7% to be up 21.4% over the year. The number of job vacancies in the private sector increased by 4.8% (+23.0% annually) while vacancies in the public sector were up 2.9% (+6.7% annually). The majority of the growth was in Victoria and Western Australia while vacancies in New South Wales have slowed but remain high.

Within the sub-categories, the largest increases were recorded in public administration (+22.2%), administration support services (+13.9%), mining (+9.8%) and professional services (+9.3%). The largest falls were in rental / real estate services (-25.5%), accommodation / food services (-18.8%), retail trade (-17.2%) and manufacturing (-9.7%).

ABS JOB VACANCIES BY STATE
(qtrly, '000s)



Private sector credit increased by 0.2% in May to be up 4.8% over the year. Housing credit was up 0.4% in the month (+5.8% annually) with owner-occupier housing credit up 0.6% (+7.9% annually) and investor housing credit flat (+2.0% annually). Business credit decreased by 0.2% in May (+3.8% annually) and personal credit fell 0.1% (-1.3% annually).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	02 July	June	n/a	+1.5%
Building Approvals	03 July	May	+1.0%	-5.0%
RBA Board Meeting – rates decision	03 July	July	1.5%	1.5%
Trade Balance	04 July	May	+\$1,000m	+\$977m
Retail Sales	04 July	May	+0.3%	+0.4%

ECONOMIC COMMENTARY

LAST WEEK

In the absence of any major economic news, the focus remains on offshore events with trade war fears dominating financial markets last week. These fears caused a rise in volatility along with a flight to quality which saw equity markets weaken while interest rate markets and the US dollar rallied. This volatility is expected to persist as we approach the 6th July deadline when the \$34bn of US-China tariffs are due to kick in with threats of an additional \$200bn to follow.

The back and forth with trade negotiations is now moving outside the manufacturing sector and into rural with a number of soft commodities starting to weaken due to these trade concerns as well as oversupply. As an example, in retaliation for action on US steel and aluminium imports, Mexico (the largest and most reliable dairy export market) has introduced tariffs on American cheeses and other products, hurting US dairy farmers and processors.

While long term yields have rallied (fallen) over the last week, short term (BBSW) yields have remained elevated as the competition for funding over end of financial year heated up.

By the close on Friday the 90-day bank bill was trading unchanged at 2.11%. In the long term maturities, three and 10 year bond yields closed lower at 2.06% and 2.63% respectively, from 2.10% and 2.65% a week earlier.

CURRENCY

A resurgence in global trade tensions has seen the US dollar strengthen against a basket of currencies. The threat of more global trade policies is seen as a downside risk to the global economic growth outlook which has reduced the appetite for riskier currencies and weighed on the Australian dollar. Weaker commodity prices also kept downward pressure on the Aussie which traded to a year's low of USD0.7340 last week with 73 cent barrier looming on the downside. While I don't confess to be a currency trader, I'm told 72¼ appears to be the next level of major support for the AUD, should this global risk off mood persist.

By the close last Friday, the Australian dollar was trading at USD0.7390 from USD0.7404 a week earlier.

EQUITIES

Equity markets were on the back foot last week as potentially escalating trade tensions continued to be fed by new headlines which weighed on market sentiment and investors sold equities for the safe haven of government bonds.

Despite the losses, our share market still sits at one of its highest levels in around 10 years as broad market weakness was offset by mining and energy stocks which managed to gain on a higher oil price. OPEC and its partners (including Russia) announced an increase in crude oil production from July and the US pressed its allies to end all oil imports from Iran which pushed the price of oil above \$70 a barrel last week.

By the close last Friday, the S&P/ASX200 Index was trading at 6,194.6 compared to 6,225.2 a week earlier.

THIS WEEK

A bit more economic data out this week to celebrate the new financial year. The data out this week includes the latest monthly building approvals, trade balance and retail sales numbers and is expected to show that the economy is performing well enough to allow the RBA to leave the cash rate unchanged at their monthly board meeting. This will make it nearly two years since the RBA has moved the official cash rate.

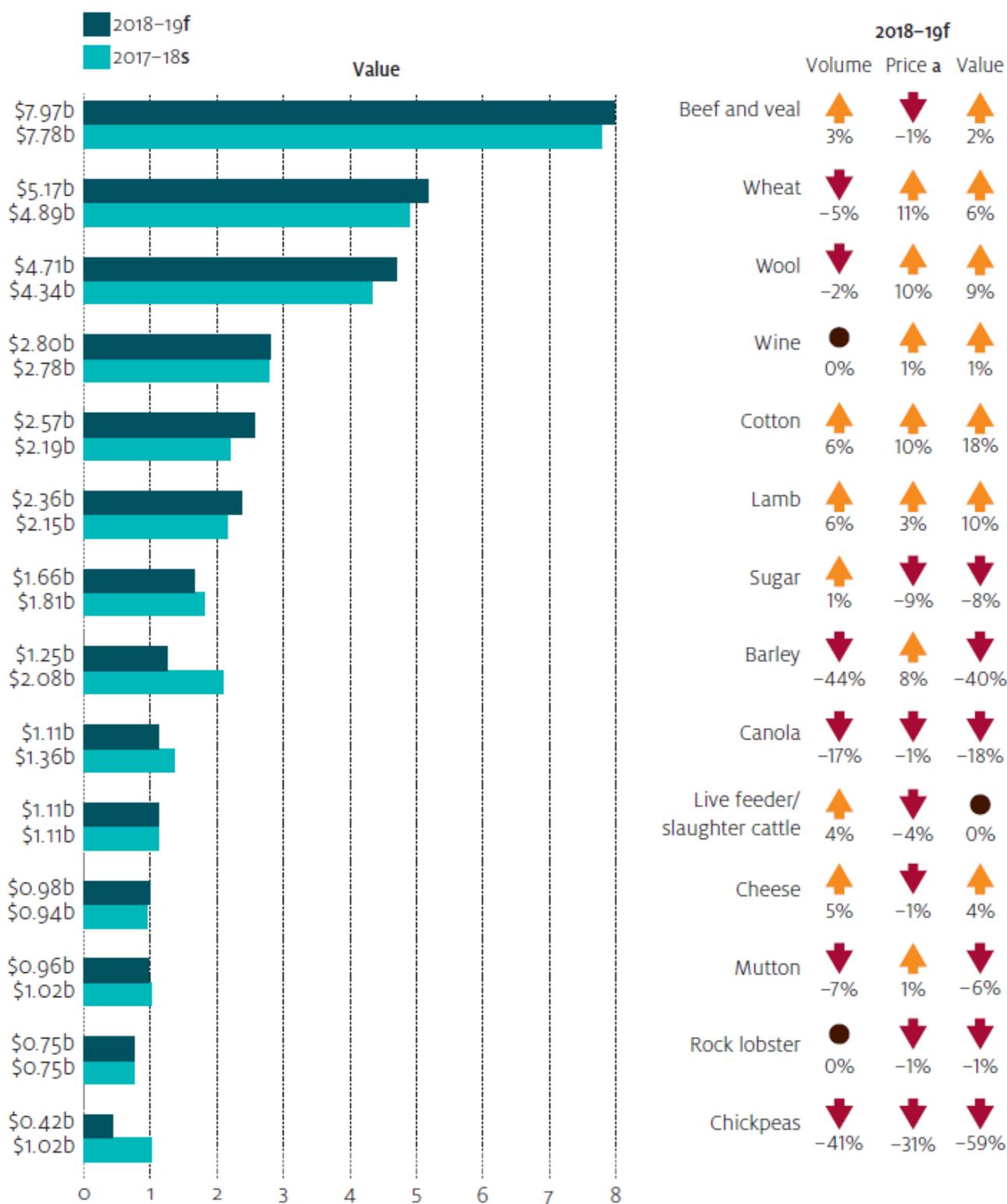
INTEREST RATE VIEW

An apparent decline in the desire to raise interest rates means that the RBA will almost certainly leave the official cash rate at 1.5% at their regular monthly board meeting this week and according to financial markets, probably won't raise rates until late in 2019. If anything, the chances have increased that rates won't be raised until 2020.

<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	1.50	1.50	1.50	1.50	1.50
90 day Bank Bill	1.71	1.80	2.03	1.99	2.11
180 day Bank Bill	1.85	2.00	2.13	2.10	2.22
1 year swap	1.78	1.85	1.95	1.99	2.04
3 year swap	2.08	2.16	2.17	2.21	2.15
5 year swap	2.48	2.51	2.52	2.56	2.49
10 year swap	2.88	2.82	2.82	2.89	2.83
AUD/USD	0.7682	0.7797	0.7672	0.7543	0.7390
S&P/ASX200 Index	5,721.5	6,065.1	5,759.4	5,990.4	6,194.6

CHART OF THE WEEK

Major Australian agricultural commodity exports



a All commodities are export unit returns in A\$. f ABARES forecast. s ABARES estimate.

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

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