

WEEKLY ECONOMIC COMMENTARY

Week beginning 3rd December 2018

ECONOMIC DATA ROUNDUP



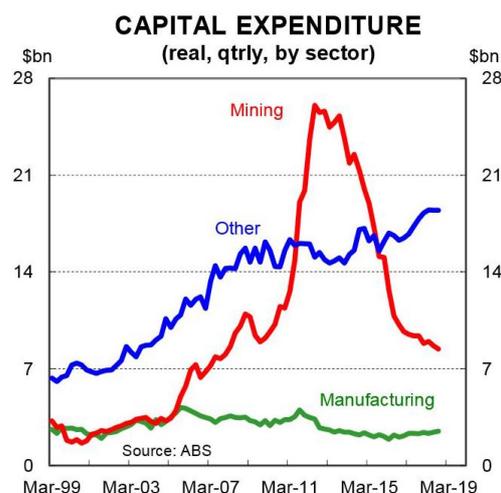
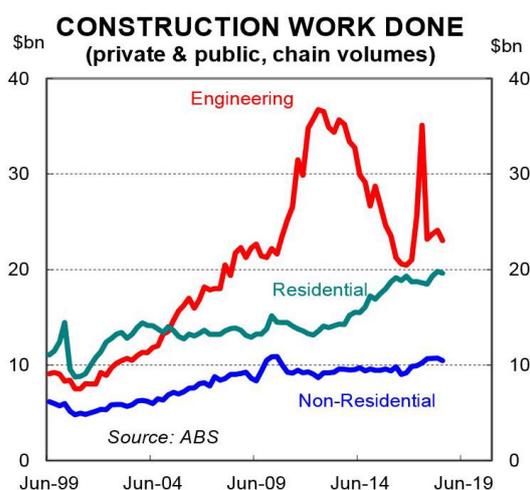
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Construction Work Done	Sept quarter	-2.8%	+1.6%
Private Capital Expenditure (CAPEX)	Sept quarter	-0.5%	-2.5%
Private Sector Credit	October	+0.4%	+0.4%

Total **construction work done** was weaker than expected, falling 2.8% in the September quarter to be down 16.9% over the year. Private construction work done fell 3.4% while public work fell 1.0%. The weakness was broad-based with engineering construction down 4.5% (-34.4% annually) and building work down 1.5% (up 4.3% annually) with residential building work down 1.0% (up 5.4% annually) and non-residential building work down 2.4% (up 2.3% annually).

Total **private capital expenditure** (Capex) fell 0.5% in the September quarter (+4.4% compared to a year ago) although this fall was not as bad as the headline suggests as it was somewhat moderated by an upgrade to the previous quarter's result, from -2.5% to only -0.9%.

While the Capex number was pulled down by weakness in building and structures this quarter (-2.8%), private investment (-0.5%), equipment, plant and machinery spending rose solidly (+2.2%) and the outlook for business investment was upgraded. By industry, mining capex fell 2.7%, services was flat and manufacturing was up 2.8%.



Total **private sector credit** was up by 0.4% in October to be 4.6% higher over the year. Housing credit was up 0.3% in the month (+5.1% annually) with owner-occupier housing credit up 0.4% (+7.0% annually) and investor housing credit unchanged in October (+1.3% annually). Business credit was up 0.6% (+4.7% annually) while personal credit fell 0.2% in the month (-1.6% annually).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	3 December	November	n/a	+0.2%
Dwelling Approvals	3 December	October	-3.0%	+3.3%
Company Profits (Inventories/Wages)	3 December	Sept quarter	+0.5%/+1.0%	+0.6%/+1.2%
Current Account Balance	4 December	Sept quarter	-\$10.5bn	-\$13.5bn
RBA Board Meeting – rates decision	4 December	December	1.50%	1.50%
GDP	5 December	Sept quarter	+0.7%	+0.9%
International Trade in Goods and Services	6 December	October	\$2.5bn	\$3.017bn
Retail Sales	6 December	October	+0.2%	+0.2%

ECONOMIC COMMENTARY

LAST WEEK

Sentiment improved and global markets traded with a better tone early last week, equity markets leading the charge with bond yields higher, the US dollar stable and oil off its lows.

However, developments in global markets were mainly driven by statements from US President Trump last week, on everything from the likelihood of a US-China trade deal, his thoughts on planned General Motor's plant closings, the US Federal Reserve rate hike expectations and even the implications of the EU-UK Brexit deal. The market mood turning cautious once again.

Then on Thursday, markets were jolted after US Federal Reserve Chair Jerome Powell sounded more cautious about future rate hikes. Expectations of future US rate hikes were wound back and equity market rallied while the US dollar and bond yields fell. Despite the comments the market continues to price in an 80% probability of a US rate hike in December but has pared back the projected hikes for next year.

By the close on Friday, the 90-day bank bill was trading at 1.95% compared to 1.94% last week. In the long-term maturities, three and 10 year bond yields closed at 2.01% and 2.59% respectively, from 2.06% and 2.65% a week earlier.

CURRENCY

The Australian dollar went from hero to zero to hero last week, initially rallying on an improvement in risk appetite but then selling off following comments by Trump that he was "highly unlikely" to accept Beijing's request to hold current tariffs and will move ahead with raising the tariff level on \$200bn of Chinese goods to 25%.

Then, following comments from the US Federal Reserve chair that US interest rates were "just below neutral", a notable shift from comments in early October when he said the Fed was "a long way" from neutral. Markets unwound their expectation of the number of future US rate hikes and saw the US dollar weaken against most currencies which pushed the AUD above 73 cents late in the week.

By the close last Friday, the Australian dollar was trading at USD0.7315 from USD0.7246 a week earlier.

EQUITIES

Global share markets rose sharply late last week after the US Fed's Jerome Powell watered down expectations for future rate hikes. Technology, financial and consumer discretionary stocks led gains although most sectors were higher. Energy stocks were also up thanks to a rise in the oil price from a 13-month low although focus shifted to whether Russia would join OPEC will cut supplies. Apple shares continued to slide after Trump suggested that a 10% tariff could be placed on mobile phones, like the iPhone, and laptops made in China. Apple shares are down 25% from their high of USD232 on 3rd October to USD180.

European stocks rallied after signs that Italy was preparing to rework their budget to appease the European Union and avoid further tension.

By the close last Friday, the S&P/ASX200 Index was trading at 5,667.2 compared to 5,716.2 a week earlier.

THIS WEEK

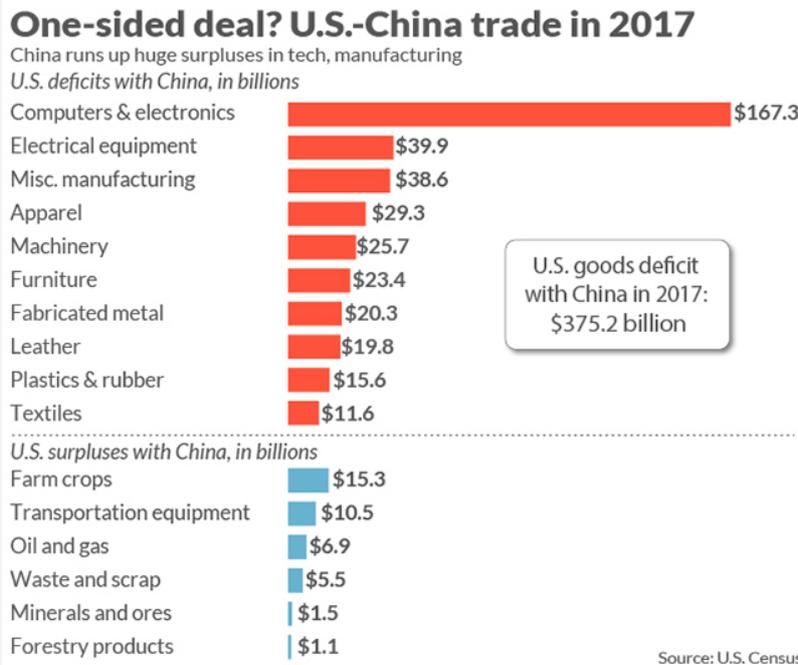
A huge week ahead for economic data releases with the main focus on September quarter GDP data out on Wednesday. In the lead up, GDP partial indicators (company profits, inventories, wages and net exports) will finalise GDP forecasts. There are also a number of monthly economic indicators due including building approvals, retail trade and the trade balance. The RBA's final board meeting of the year is on Tuesday but the RBA is widely expected to send the market off to the holiday season with no change in the official cash rate and no change in their monetary policy stance.

INTEREST RATE VIEW

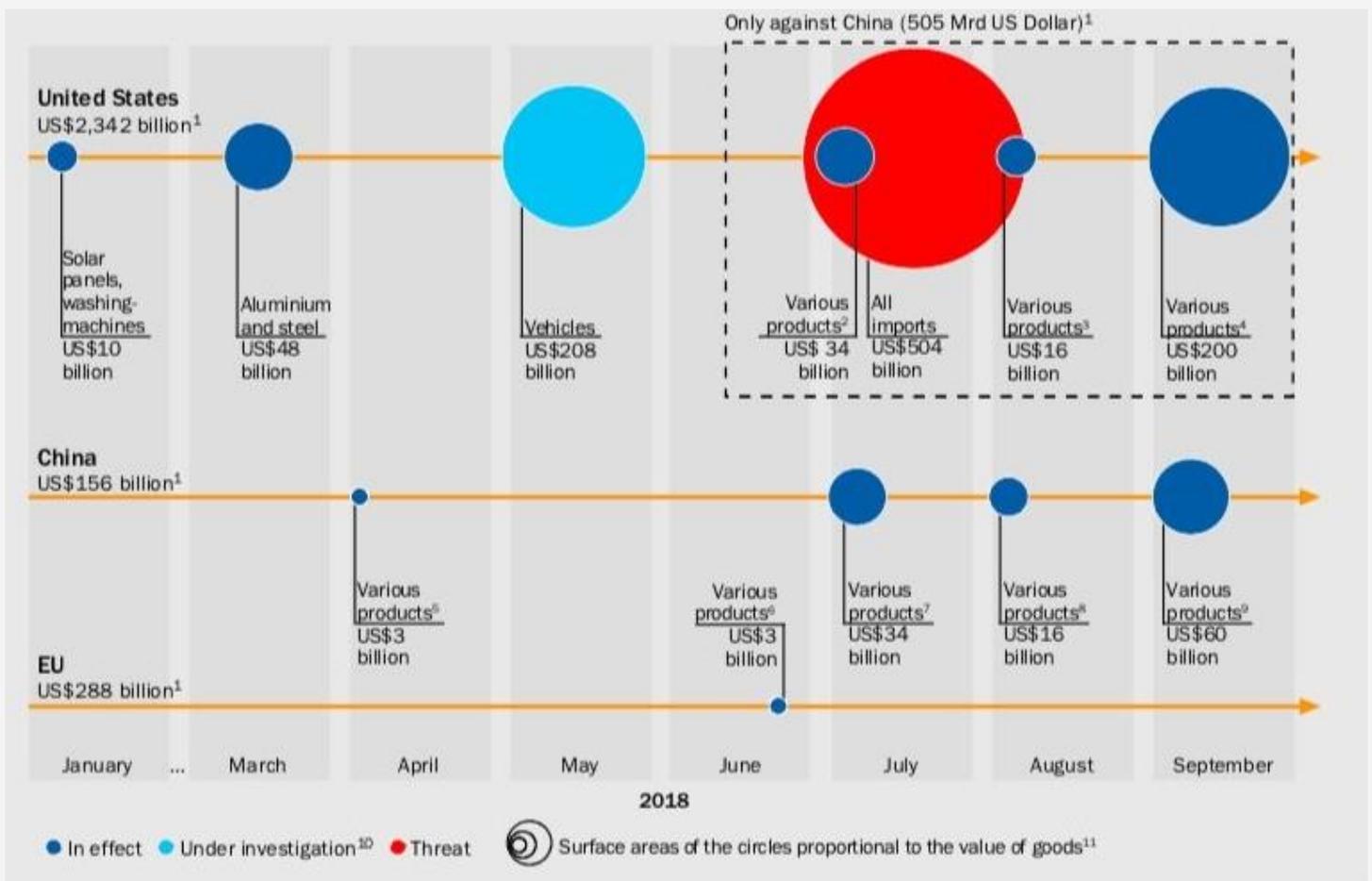
Despite the change in stance by the US Federal Reserve with respect to future rate hikes (refer above), our official cash rate remains clearly on hold for now with the futures market not pricing in an RBA rate hike till early to mid-2020.

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	1.75	1.99	1.95	1.93	1.95
180 day Bank Bill	1.92	2.10	2.14	2.10	2.13
1 year swap	1.80	1.99	1.97	1.97	1.95
3 year swap	2.01	2.21	2.04	2.16	2.12
5 year swap	2.36	2.56	2.37	2.51	2.45
10 year swap	2.73	2.89	2.71	2.88	2.79
AUD/USD	0.7567	0.7543	0.7248	0.7237	0.7315
S&P/ASX200 Index	5,989.8	5,990.4	6,319.5	5,849.2	5,667.2

CHARTS OF THE WEEK



US Tariff increases and relation by largest trading partners in 2018



1 - Value of goods of imports from respectively to the United States in 2017. 2 - Amongst others vehicles, aircraft und computer parts, phase 1. 3 - Amongst others vehicles, aircraft und computer parts, phase 2. 4 - Amongst others computer und vehicle parts; 10 % tariffs (25 % from January 2019). 5 - Amongst others aluminium waste, pork, fruits und nuts from the United States. 6 - Steel and aluminium, various agricultural products, food und consumer goods. 7 - Amongst others vehicles und soybeans, phase 1. 8 - Amongst others vehicles und soybeans, phase 2. 9 - Amongst others various agriculture products, pharmaceutical products und clothing. 10 - United States Department of Commerce. 11 - Value of goods in 2017.

Quellen: Eurostat, National Bureau of Statistics of China, Peterson Institute for International Economics, Office of the United States Trade Representative, United States Census Bureau, United States Department of Commerce

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