WEEKLY ECONOMIC COMMENTARY

Week beginning 3rd June 2019

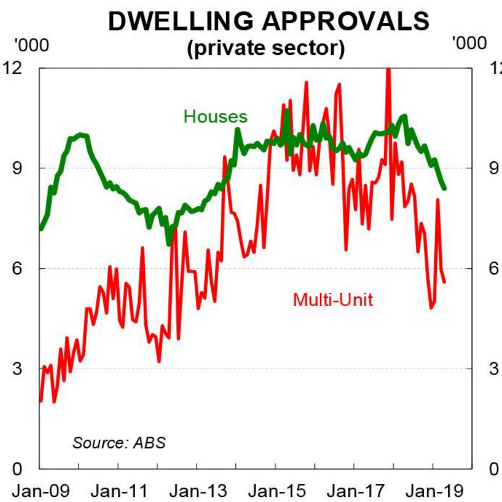
ECONOMIC DATA ROUNDUP

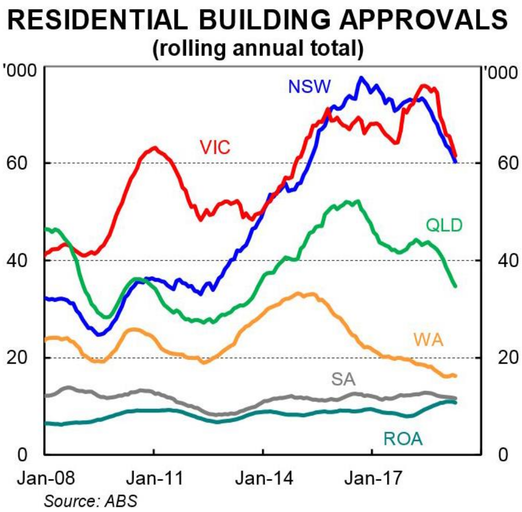
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Private New Capital Expenditure (Capex)	March quarter	-1.7%	+2.0%
Building Approvals	April	-4.7%	-15.5%
Private Sector Credit	April	+0.2%	+0.3%

Private New Capital Expenditure (Capex) was down 1.7% in the March quarter and is now down 1.9% over the year. Last quarter was also revised lower to show a 1.3% rise, compared to 2.0% previously. The 1.3% drop in mining investment was less pronounced than the 5.0% plunge in private engineering construction in the construction work done data released a week earlier. Non-mining capex fell by 1.9% in the quarter, driven by a large 7.4% fall in manufacturing capex in the quarter. Investment in building and structures dropped by 2.8% in the quarter, equipment spending fell 0.5%, while non-residential building construction was up 7.6%.

The number of **residential building approvals** fell 4.7% in April, adding to the upwardly revised 13.4% decline seen in March with approvals now down 24.2% over the year. Private sector house approvals were down 2.6% in April and are now down 20.5% over the year. The more volatile private sector unit approvals were down 6.5% in the month to be down 28.8% over the year.





Private sector credit was up 0.2% in April to be up 3.7% over the year. Housing credit increased by 0.3% and is up 3.9% over the year with owner-occupier credit up 0.4% in April and investor credit flat. Business credit was flat for the month and 4.5% higher over the year while personal credit was down 0.3% in April and down 2.8% over the year.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	03 June	May	n/a	-0.1%
Current Account	04 June	March Quarter	-$3.7bn	-$7.2bn
Retail Sales	04 June	April	+0.2%	+0.3%
RBA Board Meeting – rates decision	04 June	June	1.25%	1.50%
Economic Growth (GDP)	05 June	March Quarter	+0.4%	+0.2%
Trade Balance	06 June	April	$4.5bn	$4.95bn
Housing Finance	07 June	April	-0.5%	+2.8%

ECONOMIC COMMENTARY

LAST WEEK

The week started on a quiet note for financial markets with no major data releases and public holidays in both the US and UK leaving markets with nothing to trade on. Economic data released last week was weaker than expected with Capex and building approvals both recording a decline.

A week ago, RBA Governor Lowe, signalled lower interest rates will be considered at their June board meeting (this week), also suggesting the RBA might cut rates twice given its economic forecasts are based on “market pricing” for the cash rate to reach 1% over the next year.

Offshore, after a series of rate hikes last year, market expectations of the US Federal Reserve delivering a rate cut have continued to build with the market now pricing an almost 80% chance of a September rate cut. The deadline is approaching for further increases on tariffs between the US and China with no signs of surrender from either side. Trade sentiment continued to weight on markets as President Trump warned that the US isn’t ready to make a deal with tariffs having the potential to rise substantially, while China news agencies spoke of retaliatory action including restrictions on rare earth exports to the US (an import currently excluded from tariffs). Rare earth elements are used in rechargeable batteries for electric and hybrid cars, computers, wind turbines and lighting. President Trump is also now saying he will impose a 5% tariff on Mexico from 5th June.

As a result of all this rate cut expectation and increased pessimism, global bonds yields continued to fall last week with local bonds now trading near eighteen-month lows, our 10-year bond yield at one stage trading below the cash rate.

By the close on Friday, the 90-day bank bill was trading at 1.42% compared to 1.44% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 1.09% and 1.46% respectively, from 1.10% and 1.52% a week earlier.

CURRENCY

Global risk sentiment has soured dramatically in the space of just a few weeks, which has been bad news for the Australian dollar. A strong US dollar, predominantly on safe-haven flows and expectations of an imminent RBA rate cut saw the Australian dollar weaken last week but the sell-off was limited thanks to support from higher commodity prices, especially iron ore. The AUD is very slightly weaker but still holding above 69 cents.

By the close last Friday, the Australian dollar was trading at USD0.6915 compared to USD0.6897 a week earlier.

EQUITIES

Global equity markets were on the defensive last week, hurt by growth fears associated with an expected prolonged US-China trade war. European share markets fell on concern that Italy may be fined by the European Commission for breaking debt and deficit rules. Our local share market took the lead from Wall street, but losses were restricted thanks to a rally in the resource and mining stocks which benefited from a surge in iron ore prices after it was revealed that further delays in mines re-opening were imposed by Brazil’s safety auditors.

By the close last Friday, the S&P/ASX200 Index was trading at 6,396.9 compared to 6,456.0 a week earlier.

THIS WEEK

With a busy week ahead for economic data releases, the main focus will be on the RBA board meeting on Tuesday where, in light of the unprecedented forward guidance from the RBA Governor, a rate cut is widely expected to be delivered. March quarter GDP data will gain some attention to see whether there is any upside to economic growth from the weak December quarter result. Other data out includes monthly retail sales, trade balance and housing finance.

INTEREST RATE VIEW

It is widely expected that the RBA will deliver a 25 basis point rate cut at its meeting on Tuesday and our market is well-priced for the expected cut. Markets will be looking to the accompanying statement for some further guidance that the RBA is prepared to ease monetary policy further and the possible timing of the next move. Market consensus is that August will deliver the next cut.

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	1.99	1.95	1.87	1.55	1.42
180 day Bank Bill	2.10	2.13	1.99	1.60	1.41
1 year swap	1.99	1.95	1.81	1.41	1.25
3 year swap	2.21	2.12	1.79	1.38	1.19
5 year swap	2.56	2.45	2.05	1.64	1.39
10 year swap	2.89	2.79	2.40	2.04	1.73
AUD/USD	0.7543	0.7315	0.7090	0.7019	0.6915
S&P/ASX200 Index	5,990.4	5,667.2	6,192.7	6,338.4	6,396.9

CHART OF THE WEEK

#	Country	Total sites
1	Italy	54
2	China	53
3	Spain	47
4	France	44
5	Germany	44
6	India	37
7	Mexico	35
8	UK	31

Source: *Amazing maps*
https://www.instagram.com/p/BxdAoERoolU/?utm_source=ig_web_button_share_sheet

Rural Bank news

From today, Rural Bank will be operating as a division of its parent company, Bendigo and Adelaide Bank Group and will no longer be a stand-alone Authorised Deposit-Taking institution (ADI). Rural Bank has been operating as a wholly-owned subsidiary of Bendigo and Adelaide Bank since December 2010. Until now, Rural Bank has retained its own individual banking licence, operating as an agricultural-specialist bank providing financial products and services to Australian farmers.

The Bank's brand will remain the same and there will be no change to relationship managers, products or services that we currently deliver to Australian farmers.

We will continue to be an agricultural-specialist bank.

RURAL BANK
Farmer focused.
Future driven.

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