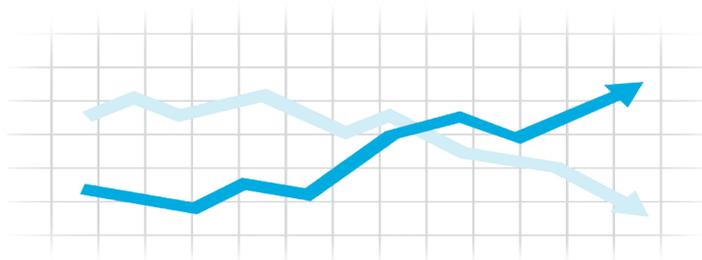


WEEKLY ECONOMIC COMMENTARY

Week beginning 4th April 2016

ECONOMIC DATA ROUNDUP



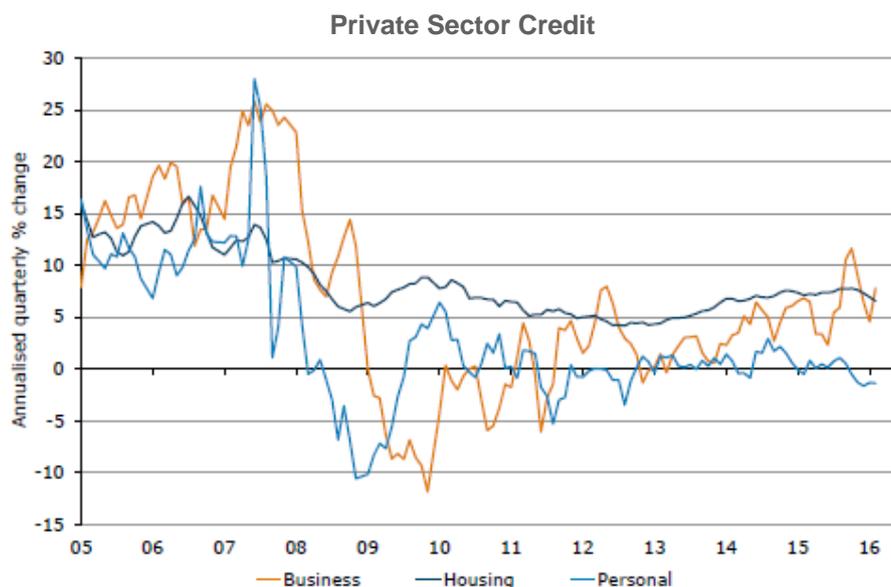
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ABS job vacancies	Feb/quarter	+2.7%	+3.5%
HIA New Home Sales	February	-5.3%	-1.8%
Private Sector Credit	February	+0.6%	+0.5%

The ABS measure of **job vacancies** increased by 2.7% in the February quarter, representing the sixth consecutive quarterly rise, to be up 13.5% over the year. Private job vacancies increased by 2.9% in the quarter while public sector vacancies were down 0.6%, (but this followed a 14.7% increase in the previous quarter).

The Housing Industry Association (HIA) reported that **new home sales** posted a relatively sharp 5.3% decline in February. The HIA New Home Sales Report, a survey of Australia's largest volume builders, reported that detached house sales fell by 3.9% in February while the sale of multi-units declined by 10.6%. New home sales peaked in April last year but have been trending down since then.

Private sector credit was up 0.6% in February and is now 6.6% higher over the year. Housing credit was up 0.5% (+7.3% annually) and has been relatively steady for two-and-a-half years, rising by 0.5% to 0.6% in all but one month over that period. Business credit increased by 0.7% in the month (+6.5% annually) while personal credit fell 0.1% and is now down 0.3% over the year.



Source: RBA, ANZ Research

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Retail Sales	4 April	February	-0.4%	+0.3%
ANZ Job Ads	4 April	March	n/a	-1.2%
Building Approvals	4 April	February	+2.0%	-7.5%
RBA Board Meeting – cash rate decision	5 April	April	2.0%	2.0%
Trade Balance	5 April	February	-\$2.5bn	-\$2.937bn

ECONOMIC COMMENTARY

LAST WEEK

With only secondary data released in Australia last week, markets looked offshore for direction after the Easter break. A speech by US Federal Reserve chair Janet Yellen set a positive tone for markets early on. Yellen reiterated her views that it was appropriate for the US Fed to “proceed cautiously” in normalising monetary policy given the potential fallout from the current uncertain global economic and financial environment.

The comments were interpreted by the market that rates wouldn't be going up any time soon, which resulted in a positive reaction by the market, with equities rallying and yields falling, although the US dollar did weaken.

Despite a small correction and reversal of sentiment as a new month (and quarter) started last Friday, yields across the curve finished the week slightly lower.

By the close of trading on Friday, the 90-day bank bill was trading at 2.28% compared to 2.30% the previous Friday while in the long term maturities, 3 and 10 year bond yields closed lower at 1.94% and 2.53% respectively, from 1.99% and 2.59% a week earlier.

CURRENCY

The US dollar weakened last week after some comments from US central bank officials, pushing the Australian dollar more than a cent higher. The catalyst was US Federal Reserve Chair Janet Yellen's speech in which she said it was appropriate to proceed cautiously in hiking interest rates, which deferred expectations of a US rate hike and saw the US dollar weaken against most other currencies. Our currency rallied to a fifteen-month high of USD0.7723 and even softer commodity prices failed to dent the rally last week. Some profit taking on Friday saw the Aussie fall slightly but it was still nearly two cents higher over the week.

By the close on Friday, the Australian dollar was trading at USD0.7667 compared to USD0.7506 a week earlier.

EQUITIES

Global equity markets received a boost last week from US officials who indicated there would be a degree of cautiousness over raising US interest rates. Wall Street jumped at the prospect of continued easy money and our equity market followed the US lead. Financial and mining stocks led our market higher for most of last week with the All Ords up 4.1% for March, the first monthly increase for the year, but the index finished just over 4% in the red for the quarter. Friday saw a change of sentiment with a new month and quarter, the market digesting a host of updates from companies and renewed selling of bank stocks, closing down 83 points or 1.6% on the day and just below the psychological 5,000 level once again.

By the close on Friday the S&P/ASX200 Index was down trading at 4,999.4 compared to 5,079.0 a week earlier.

THIS WEEK

The calendar picks up again this week with the latest monthly data on retail sales, building approvals and trade balance due for release. The Reserve Bank Board meets this Tuesday and markets are expecting the RBA to hold rates steady with little change to the description of the Bank's monetary policy stance. The higher Australian dollar could receive a bit of focus, but markets are not putting much probability of a rate cut happening at the moment (currently only a 5% chance of a cut this week).

INTEREST RATE VIEW

As mentioned above, the Reserve Bank Board meets this Tuesday and markets are expecting the RBA to hold rates steady with only a 5% probability of a rate cut this week. However, the higher Australian dollar could see the RBA change its stance in future meetings with any talk from the RBA of concern about the high currency increasing the chance of a rate cut going forward. Markets still have one further rate cut factored in by the end of the year.

<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	2.25	2.00	2.00	2.00	2.00
90 day Bank Bill	2.19	2.17	2.38	2.29	2.28
180 day Bank Bill	2.21	2.24	2.48	2.39	2.44
1 year swap	1.95	1.98	2.20	2.07	2.17
3 year swap	2.02	2.04	2.24	1.96	2.13
5 year swap	2.31	2.40	2.60	2.20	2.37
10 year swap	2.73	2.90	3.08	2.51	2.64
AUD/USD	0.7624	0.7052	0.7300	0.7135	0.7667
S&P/ASX200 Index	5,860.8	5,112.1	5,295.9	4,922.3	4,999.4

World Food Prices Sink to lowest since 2009

Global food costs tracked by the United Nation's Food & Agriculture Organization started off 2016 with the 19th decline in 22 months, according to a report on Thursday 4th February from the Rome-based agency.

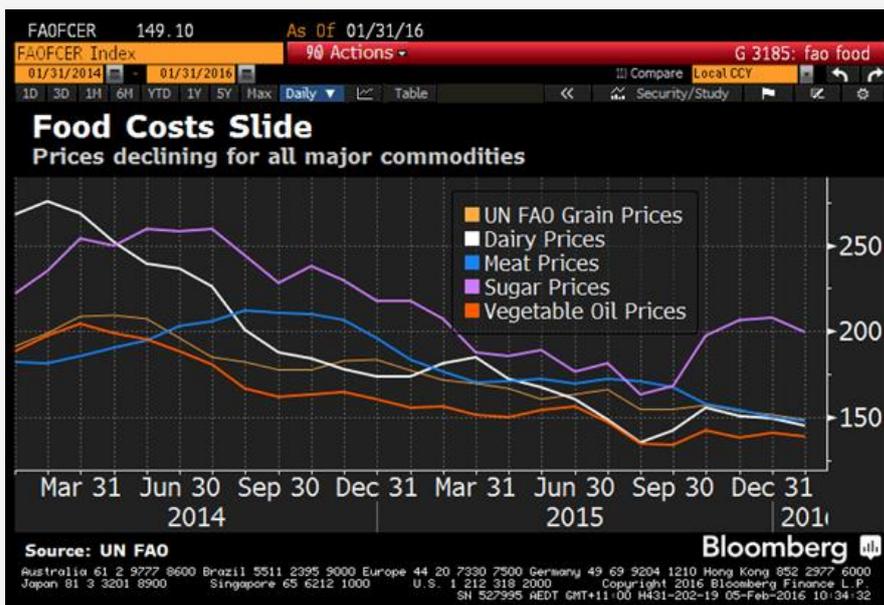
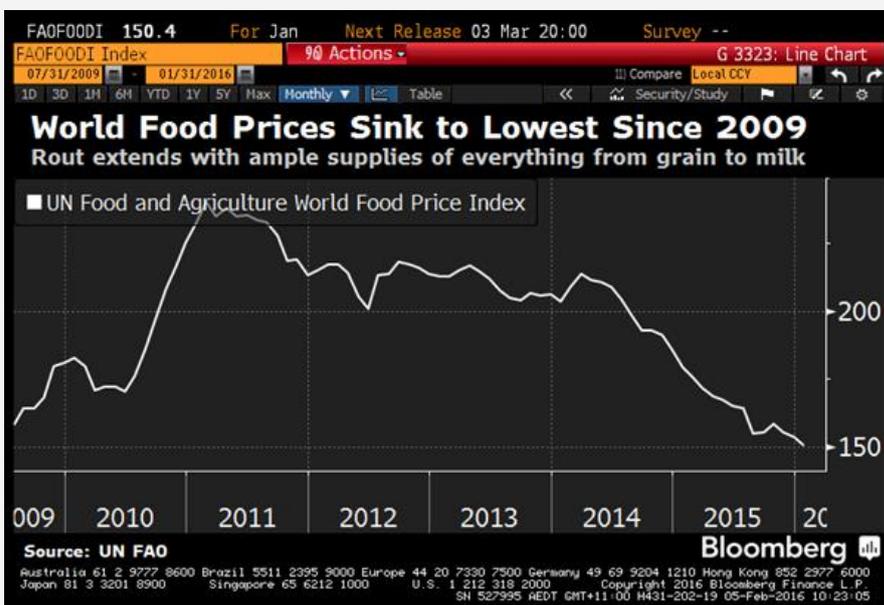
World food costs fell to the lowest since April 2009 last month, the United Nations' Food & Agriculture Organization said in a report Thursday, extending nearly two years of declines as farmers harvested bumper crops worldwide. Prices for all major commodities sank in January in the UN's gauge, which measures costs from grain to milk and sugar.

"The main factors underlying the lingering decline in basic food-commodity prices are the generally ample agricultural supply conditions, a slowing global economy, and the strengthening of the US dollar," the Rome-based UN FAO said.

The FAO Food Price Index slipped 1.9% to 150.4 points in January, Thursday's report showed, falling for 19 of the past 22 months. Declines were led by a 4.1% drop in sugar, though costs of meat, dairy, grain and vegetable oils all slid 1% or more.

In a separate report, the UN raised its estimate for global grain production in the 2015-16 season, citing better-than-expected wheat crops in Russia and Canada and corn supplies in China. Output of all grains is seen reaching 2.531 billion metric tons, up from a December estimate of 2.527 billion tons.

Prospects for grain production in the next year are still uncertain as the El Nino weather pattern lingers and threatens harvests especially in southern Africa, the FAO said. Farmers in the US and Ukraine planted fewer winter wheat crops, but conditions remain favourable in the European Union and Russia, according to the report.



Source: Bloomberg.
article by Whitney McFerron, in London,
5 February 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.



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



RURAL FINANCE
Let's talk

Postal address:
57 View Street
Bendigo VIC 3550
Telephone: 03 5448 2600
Facsimile: (03) 5441 8901
admin@ruralfinance.com.au
www.ruralfinance.com.au

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