

WEEKLY ECONOMIC COMMENTARY

Week beginning 5th November 2018

ECONOMIC DATA ROUNDUP

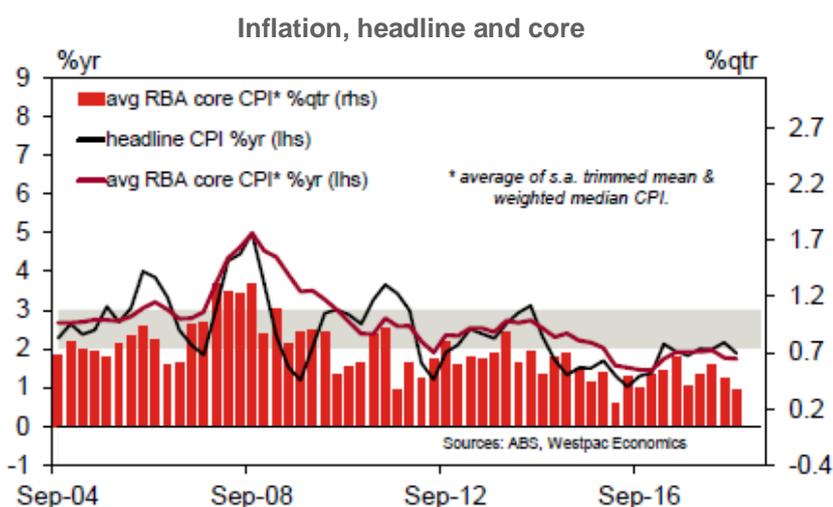
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Building Approvals	Sept	+3.3%	-9.4%
Private Sector Credit	Sept	+0.4%	+0.4%
Headline CPI - quarterly	Sept quarter	+0.4%	+0.4%
Headline CPI - annual	Sept quarter	1.9%	2.1%
Underlying CPI - quarterly	Sept quarter	+0.3%	+0.5%
Underlying CPI - annual	Sept quarter	1.7%	1.9%
Trade Balance	Sept	\$3.017bn	\$1.604bn
Retail Sales	Sept	+0.2%	+0.3%

Residential **building approvals** increased by 3.3% in September to be down 14.1% over the year. Private sector house approvals fell 2.7% in September to be down 7.1% over the year while the volatile high rise unit segment, which had fallen sharply over the previous two months, was up 9.2% in the month to be down 21.4% annually.

Private sector credit growth was up 0.4% in September to be up 4.6% over the year. Housing credit growth was up 0.3% in the month (+5.2% annually – the lowest in five years), business credit was up 0.6% (+4.6% annually) while personal credit was flat in the month and down 1.5% annually.

Headline inflation was up 0.4% in the September quarter for an annual CPI of 1.9% (down from 2.1% in the June quarter). The RBA's preferred average measure of core inflation or **underlying inflation** was also up 0.3% in the quarter for an annual underlying CPI of 1.7%. Some of the weakness this quarter was due to one-off's, in particular, the introduction of a new child care subsidy which resulted in child care prices falling by 11.8%. This was more than offset by changes in property rents (+0.2%), dwellings purchased (+0.1%), alcohol and tobacco (+1.3%), utilities (+0.8%), other financial services (+0.2%) and health (-0.4%) all smaller than expected and petrol prices (+1.4%). The drought resulted in only a 0.5% rise in food prices (with fruit prices up only 2.3% in the quarter versus a +13% forecast).



The **trade balance** jumped from an upward-revised surplus \$2.3bn in August to a larger than expected +\$3.0bn in September. Exports were up 0.8% in the month (+15.9% annually) due to a 1.0% rise in rural exports (despite the drought) thanks to a 6.8% surge in meat offsetting a 14% decline in cereals. Metals and mineral exports were also up, a 7.4% rise in iron ore exports was offset by a fall of 2.5% coal exports and a 26% fall in gold exports. Imports surprisingly fell 1.1% mostly due to a 9% plunge in capital goods imports (reversing last month's rise).

Retail sales were up 0.2% in September and up 4.8% annually. Only two sub-components of the index record positive growth in September with supermarket and grocery retailing up 0.6% and cafes, restaurants and takeaway food up 0.5%.

In other data releases, the CoreLogic house price index covering house prices in the eight capital cities fell 0.6% in October to be down 4.6% over the year with the largest fall in Sydney and Melbourne, both down 0.7% this month.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	5 November	Oct	n/a	-0.8%
RBA Board Meeting – rates decision	6 November	Nov	1.5%	1.5%
Housing Finance	9 November	Sept	-1.0%	-2.1%

ECONOMIC COMMENTARY

LAST WEEK

In a very busy week for economic data releases the much awaited September quarter CPI couldn't shift market pricing last week, even though inflation was slightly weaker (lower) than forecast.

Risk sentiment remained poor early last week after President Donald Trump threatened to tariff more Chinese goods. The sentiment did turn around after investors reacted optimistically to comments made by Trump mid-week that "I think we will make a great deal with China" on tariffs and North Korea – although no details were given. US consumer confidence rose to an 18-year high last week which kept the US rate hikes on track for this and next year.

As the week progressed, local sentiment also improved, helped by some support for equities and some positive data releases, the higher risk appetite pushing bond yields higher.

By the close on Friday, the 90-day bank bill was trading at 1.93% from 1.92% a week earlier. In the long-term maturities, three and 10 year bond yields closed at 2.06% and 2.70% respectively, from 2.00% and 2.60% a week earlier.

CURRENCY

A stronger US Dollar, posting a 16-month high against a basket of key currencies last week has seen the Australian dollar trade to a two-and-a-half year low of USD0.7021 last Monday. A rally to just above 71 cents was reversed after the weaker than expected CPI data which cemented views that the RBA will keep rates on hold for longer.

Positive risk sentiment, driven by more constructive rhetoric around the China-US trade discussions, demand for riskier currencies including the AUS and a weaker US dollar drove the AUD higher, spiking above 72 cents late last Friday.

By the close last Friday, the Australian dollar was trading at USD0.7237 from USD0.7032 a week earlier.

EQUITIES

It turned out to be a week of two halves last week. Early losses on news that the Trump administration is contemplating new tariffs against China reversed as end-of-month book-squaring and the return of some positive sentiment brought out some buying interest late in the week.

Despite the late rally, equity markets recorded a shocking month of trading in October, the US Dow Jones was down 7% over the month and our share market had its largest monthly fall since August 2015, falling 367 points or 6.0% in October. By the close last Friday, the S&P/ASX200 Index was trading at 5,849.2 compared to 5,665.2 a week earlier.

THIS WEEK

After a busy schedule of releases a week earlier, the ANZ Job Ads for October and September housing finance are the only data releases this week. There is almost a unanimous view that the RBA will leave the official cash rate unchanged at 1.5% at its Board meeting on Melbourne Cup Tuesday and for their policy assessment to remain unaltered. The RBA's latest statement on monetary policy is out on Friday which will include an update of the RBA's economic forecasts into 2021.

The US Federal Reserve meet this week but are not expected to move rate, but pencil in a 25 basis point US rate rise next month.

INTEREST RATE VIEW

The RBA's overall monetary policy assessment after last week's weaker than expected CPI data confirms that there is "not a strong case to adjust the cash rate in the near term". However at the margin, the RBA's consideration of what time frame covers the "near-term" might just have been pushed out a little bit longer.

<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	1.70	2.02	1.97	1.94	1.93
180 day Bank Bill	1.88	2.11	2.16	2.11	2.10
1 year swap	1.76	2.02	2.04	1.94	1.97
3 year swap	1.99	2.25	2.21	2.11	2.16
5 year swap	2.36	2.61	2.55	2.49	2.51
10 year swap	2.77	2.94	2.91	2.88	2.88
AUD/USD	0.7684	0.7527	0.7361	0.7088	0.7237
S&P/ASX200 Index	5,959.9	6,062.9	6,234.8	6,176.3	5,849.2

CHART OF THE WEEK

Argentina's wheat exports expected to exceed Australia's for the first time in a decade

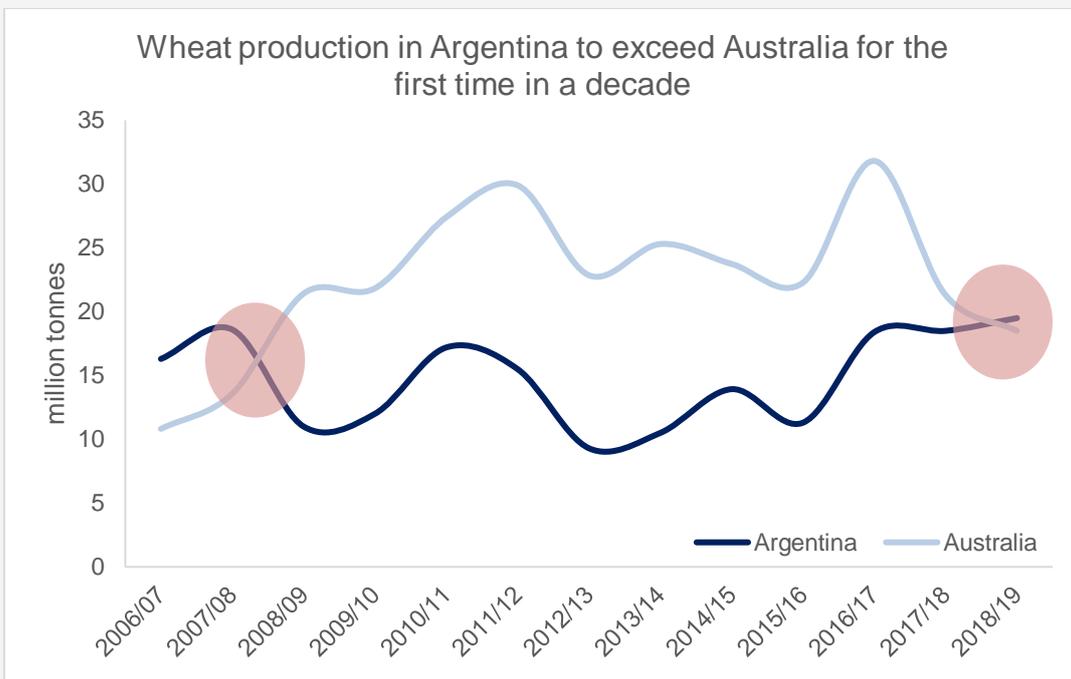
Argentina is on course to push Australia off its pedestal as the top producer and exporter of wheat in the Southern Hemisphere.

Drought conditions in Australia will slash the Australian harvest to below 30m tonnes, down by almost 30% on last year and the smallest winter crop for a decade. Winter crop production will be lower year-on-year in Queensland (-61%), New South Wales (-55%) Victoria (-23%) and South Australia (-18%), while increasing in Western Australia (+11%).

Despite the dry conditions, Australia will produce enough grain this year and combined with stocks will satisfy domestic demand. However, there is a marked difference between where the crop is produced (Western Australia) and where it is needed (east coast) and total grain exports could be 50% lower this season.

Argentina is facing some bad weather of its own, but is still set for a record wheat crop - beating Australia for the first time since 2008 - and exports of 12.8 million tons, according to Buenos Aires Grain Exchange estimates.

One consolation is that global wheat prices are forecast to remain in the higher range reached this year into 2019.



Source: United States Department of Agriculture
Rural Bank, Ag Answers.

Rural Bank's Ag Answers team have just released the "Australian Crop Annual Review" for 2018. The report provides a comprehensive account of the Australian winter crop by commodity and details the flow-on impact for producers. You can view the full [Australian Crop Annual Review 2018](https://www.ruralbank.com.au/crop) at <https://www.ruralbank.com.au/crop>.

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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

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