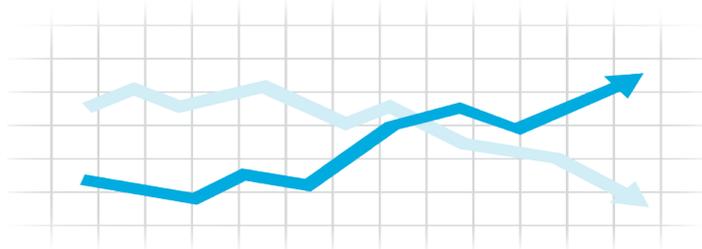


# WEEKLY ECONOMIC COMMENTARY

Week beginning 6<sup>th</sup> August 2018

## ECONOMIC DATA ROUNDUP



### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Building Approvals	June	+6.4%	-3.2%
Private Sector Credit	June	+0.3%	+0.2%
Trade Balance	June	+\$1.873bn	+\$827m
Retail Sales	June	+0.4%	+0.4%

**Residential building approvals** had a solid rise in June, up 6.4% and more than reversing the fall in May (-3.2%) with approvals now up 1.6% over the year. The growth this month was concentrated in Queensland which more than reversed the previous month's fall. Private sector house approvals were up 5.0% in the month to be up 2.1% annually while the volatile private "other" (apartments) approvals increased by 7.2% to be up 0.9% annually.

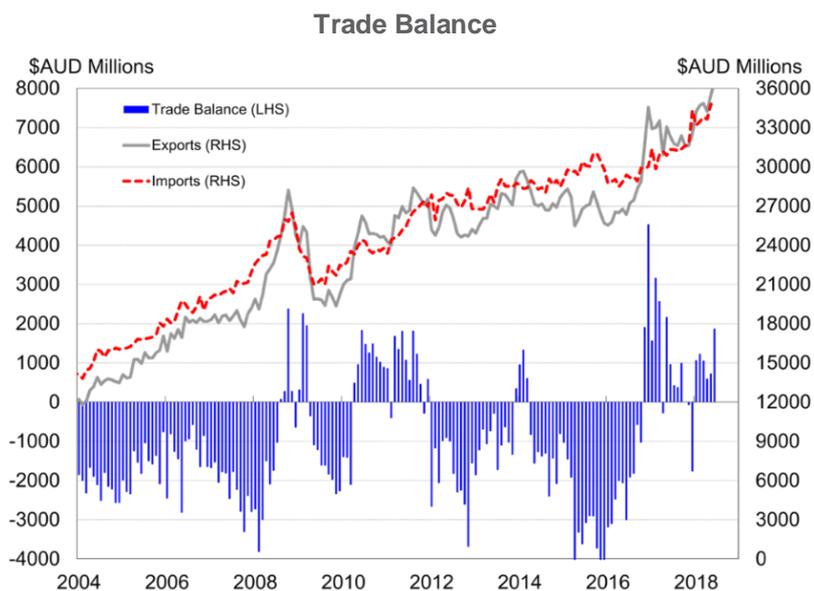
**Private sector credit** was up 0.3% in June to be up 4.5% over the year – the slowest annual growth rate since April 2014. The slowdown mainly reflects weak housing investor credit that has been the target of APRA's measures to improve lending standards. Housing credit was up 0.3% in the month (+5.6% annually), personal credit was steady (-1.3% annually) after falling for the last four months while business credit was up 0.3% (+3.2% annually).

The **trade balance** for June widened to a surplus of \$1.873bn, an 11-month high. Exports were up 2.6% (+12.9% annually – an all-time high) mainly due to a rise resource exports (+1.4%), led by iron ore (+1.5%), LNG (+1.3%) and metals (+7.3%) as well as a 10% rise in cereal exports (triggered by a rise in price due to drought rather than increased volume).

The value of imports fell 0.7% in June (+10.4% annually) mainly due to a 10.8% fall in fuel imports on lower global energy prices including an oil price fall.

**Retail sales** increased by 0.4% in June to be up 2.5% over the year.

The rise in sales was broad-based with food sales up 0.4%, cafes / restaurants up 0.9%, clothing was up 1.7% and household good up 0.4%. These were partially offset by a 1.2% fall in department store sales.



Source: ABS, Citi Research

In other data released last week, the NAB on-line retail sales index increased by 1.2% in June to be up 17.7% over the year.

### Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	06 August	July	n/a	-1.7%
RBA Board Meeting – rate decision	07 August	August	1.50%	1.50%
Housing Finance	08 August	June	+1.0%	-0.6%

# ECONOMIC COMMENTARY

## LAST WEEK

Trade wars re-surfaced again last week with the US administration considering a higher 25% tariff (from 10%) on the proposed \$200bn of Chinese goods which triggered an angry response from China and increased market uncertainty. While the US Federal Reserve left rates unchanged at 1.75% following their meeting last week, there were some minor tweaks to the accompanying commentary. The US economic activity is now described as rising at a “strong rate”, rather than a “solid rate,” unemployment is low and risks to the outlook are “roughly balanced,” with most analysts still forecasting two US rate hikes before year-end. The Bank of England raised its key overnight cash rate by 25 basis points to 0.75% last week – the first rate rise since the GFC.

Locally, interest rate markets drifted slightly higher over the week as solid economic data releases added support for a stable cash rate after this week’s RBA monthly board meeting and no rate hike any time soon.

By the close on Friday, the 90-day bank bill was trading unchanged for the week at 1.97%. In the long term maturities, three and 10 year bond yields closed at 2.12% and 2.73% respectively, from 2.12% and 2.65% a week earlier.

## CURRENCY

The Australian dollar continues to trade in a tight range, oscillating around the 74 cent level for most of the week, influenced largely by the moves in the US dollar. To that end, the US dollar rallied last week, firstly after the Bank of Japan announced that it intends to keep rates low for “an extended period” and then after an escalation in US-China trade talks, pushing most of the G10 currencies lower.

The British pound slid against almost every major currency after the Bank of England raised their cash rate and Governor Mark Carney signalled more tightening is on the way.

Despite the volatility in offshore markets our currency seems unable to break either 73 or 75 cents for some time now.

By the close last Friday, the Australian dollar was trading at USD0.7361 from USD0.7386 a week earlier.

## EQUITIES

Equity markets were buoyed last week by rumours the US and China were trying to re-start trade negotiations aimed at averting a full-blown confrontation over tariffs, although no details were released. As details came out that the US were proposing to increase tariffs and that China would retaliate, equity markets sold off. The fall was limited by a rally in tech stocks after Apple reported stronger than expected earnings which pushed their share price higher.

By the close last Friday, the S&P/ASX200 Index was trading at 6,234.8 compared to 6,300.2 a week earlier.

## THIS WEEK

The RBA board meets again this week and is almost certain to keep the official cash rate unchanged at 1.5% for another month. While there will be an accompanying statement after the “no change” announcement, this is unlikely to be of interest as the market focus will be on the RBA’s latest Statement on Monetary Policy out on Friday. Analysts will look to see if the RBA has made any changes to its forecasts for economic growth, inflation and the unemployment rate.

As for economic data out this week, we only have ANZ Job ads for July and housing finance data for June.

## INTEREST RATE VIEW

The RBA and Reserve Bank of New Zealand meet this week and are both expected to leave monetary policy unchanged at record low interest rates. The main message from the RBA will remain that “there is no strong case for a near-term adjustment in monetary policy” any time soon. Financial markets still see a stable cash rate till late next year.

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	1.69	1.81	2.02	2.06	1.97
180 day Bank Bill	1.82	1.99	2.11	2.18	2.16
1 year swap	1.76	1.84	2.02	2.01	2.04
3 year swap	2.03	2.12	2.25	2.14	2.21
5 year swap	2.40	2.47	2.61	2.47	2.55
10 year swap	2.80	2.79	2.94	2.80	2.91
AUD/USD	0.7968	0.7839	0.7527	0.7375	0.7361
S&P/ASX200 Index	5,720.6	6,122.3	6,062.9	6,215.5	6,234.8

# CHART OF THE WEEK

Apple has made history last week by becoming the first ever company to reach a market valuation of one trillion dollars. Tech peers Amazon, Alphabet and Microsoft aren't far behind with valuations of more than \$US800 billion each.



The tech giant announced last week that its profit had jumped more than 30% to \$US11.5 billion (\$15.5 billion) in the last quarter, despite selling fewer iPhones than analysts projected. Shortly after the news, shares were boosted during after-hours trading, putting the Apple over the history-making, trillion-dollar market value.

While hanging out together as part of the Homebrew Computer Club in 1977, friends Steve Jobs and Steve Wozniak formed Apple from Jobs' garage. Shortly after, Jobs and Wozniak released the Apple I computer. It sold for \$US666.66, and with only 200 computers made, it's a collector's item today. Jobs then unveiled its first Apple Macintosh computer in 1984, with its nine-inch screen and \$US2,500 price tag.

Then in 1999, Apple released its iMac computer, marketing it as 'iCandy'. Two years later, Apple released its first iPod, followed by iTunes. The company then unveiled its revolutionary iPhone in 2007, and iPad in 2010.

In 2011, Jobs passed away after four years living with pancreatic cancer. For some perspective, the value of the company was a mere \$US350 billion back then.

Shortly after, Tim Cook replaced Jobs as chief executive, and announced the Apple Watch in 2016. In 2017, Cook announced the release of the iPhone 8, iPhone 8 Plus and iPhone X, featuring retina high-definition displays, an A11 Bionic chip and wireless charging.

It's easy to forget that Apple was once a niche brand, compared with Microsoft Corp. and IBM. Investors who smelled a good thing in 1980, when Apple went public at \$22 a share, have enjoyed a more than 40,000% return, according to Bloomberg data. As Jobs might say, that's thinking different.

## THE EVOLUTION OF APPLE DESIGN

**1977**

Apple II - 1977

iMac 'Flavors' - 1998

Generation 1 iPod - 2001

iTunes store - 2003

Apple Watch - 2016

iPad 1 - 2010

Macintosh - 1984

Power Mac G3 - 1999

Generation 3 iPod - 2003

MacBook - 2006

iPhone 1 - 2007

iPhoneX - 2017

**2018**

Source: *The NewDaily*, 3 August 2018  
 Article: *by Suzan Delibasic*  
 Chart: *Bloomberg*

## About Rural Bank

Rural Bank has been a wholly-owned subsidiary of Bendigo and Adelaide Bank Limited since 2010. It is the only Australian-owned and operated dedicated agribusiness bank in the country, providing exceptional financial services, knowledge and leadership for Australian farmers to grow.



Postal Address:  
PO Box 3660,  
Rundle Mall, SA 5000  
Telephone: 1300 660 115  
Facsimile: 08 8121 0106  
[service@ruralbank.com.au](mailto:service@ruralbank.com.au)  
[www.ruralbank.com.au](http://www.ruralbank.com.au)

**Disclaimer:** This report has been prepared by Rural Bank Treasury and is based on information obtained from public sources that are believed to be reliable. Whilst all care has been taken in compiling the information in this report, Rural Bank Limited ABN 74 083 938 416 AFSL / Australian Credit Licence 238042 makes no representation as to the accuracy, completeness or timeliness of such information. Opinions, estimates and projections in this report constitute the current judgement of the author as of the date of this report. They do not necessarily reflect the opinions of Rural Bank and are subject to change without notice. Rural Bank has no obligation to update, modify or amend this report or to otherwise notify a recipient thereof in the event that any opinion, forecast or estimate set forth herein changes or subsequently becomes inaccurate. This report is provided for informational purposes only and does not take into account personal circumstances, objectives, financial situation or needs. The information contained within this report should not be relied upon without consulting independent, professional advice carefully to consider the appropriateness of the advice to your personal circumstances. Rural Bank disclaims all liability in relation to any loss or damage suffered by the use of or reliance upon any information contained herein or in any attachment or annexure hereto by any person.

© Copyright Rural Bank Ltd ABN 74 083 938 416 (A250677) (06/17)