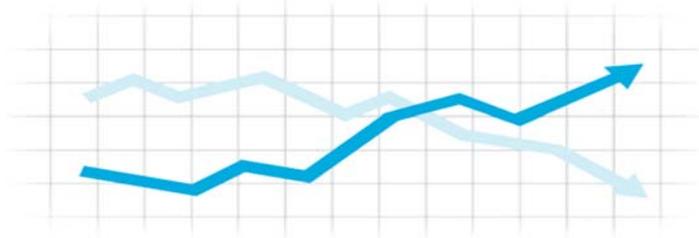


# WEEKLY ECONOMIC COMMENTARY

Week beginning 7th December 2015

## ECONOMIC DATA ROUNDUP



### DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Building Approvals	October	+3.9%	+2.2%
Private Sector Credit	October	+0.7%	+0.8%
National Accounts (GDP)	Sept Quarter	+0.9%	+0.2%
Balance of Payments	Sept Quarter	\$18.1bn	\$19.0bn
International Trade in Goods & Services	October	-\$3.3bn	-\$2.3bn
Retail Sales	October	+0.5%	+0.4%

**Building approvals** were up 3.9% in October to be up 12.3% annually. The rise was due to a larger-than-expected gain in private apartment approvals (+10.6%), which was partially offset by a fall in private house approvals (-2.1%). In addition, building approval values rose by 9.8% for residential structures across both new residential buildings (+10.5%) and alterations and additions (+3.7%). **House prices** fell by 1.5% in October, the first monthly decline since May this year and the largest monthly decline since May 2014. The weak monthly number reflects the fall in prices in both Sydney (-1.4%) and Melbourne (-3.5%). Year-on-year price growth slowed to 8.4%, the lowest in seven months.

**Private sector credit** rose 0.7% in October to be up 6.7% over the year. Housing credit was up 0.6% (+7.5% annually) and business credit rose 1.0% (+6.6% annually) while personal credit continued its run of poor results, falling 0.3% in the month (to be flat over the year).

**GDP** grew by 0.9% in the September quarter to put economic growth for the year at 2.5%, up from 1.9% in the June quarter. Within the details, this quarter's outcome was driven by falling business investment (-4.2%), declining public spending (-1.2%), strong net exports (+1.5%) and a pickup in household consumption (+0.7%). Whilst a good quarterly result, the rise in export volumes is not likely to be repeated.

The **current account deficit** narrowed in the September quarter, falling 12% to -\$18.1bn (or 4.4% of GDP), driven by a fall in the trade deficit. The current account deficit measures flows of income between Australia and the rest of the world. Export values were up 5.0% reversing the resources-driven fall of 6.4% in the June quarter with resource exports up 9.6%. Import values were up only 0.4% compared to a 1.1% rise in the June quarter, the weakness driven by a fall in the value of fuel imports and ongoing softness in imports of services (i.e. outbound tourism).

Australia's **trade deficit** widened by \$900m in October to -\$3.3bn, from a revised -\$2.4bn previously. The increased deficit was due to a 3.0% fall in exports with resource exports down 4.6% (iron ore exports down 5.6%) and rural goods also sharply lower, down 4.3%. Imports were little changed, up only 0.2% in October.

**Retail trade** increased 0.5% in October to be up 3.9% annually. Within the components, the strongest result this month was for department stores (+3.5%) while "cafes, restaurants and takeaways" posted the weakest result (-0.6%).



### Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	07 Dec	November	n/a	+0.4%
NAB Business Conditions/Confidence	08 Dec	November	n/a	+9/+2
Westpac Consumer Confidence	09 Dec	December	+1.0%	+3.9%
Housing Finance	09 Dec	October	-1.0%	+2.0%
Employment	10 Dec	November	-10,000	+58,600
Unemployment	10 Dec	November	6.0%	5.9%

# ECONOMIC COMMENTARY

## LAST WEEK

The Reserve Bank of Australia held the official cash rate steady at its current record-low level of 2.0% last week. Governor Glenn Stevens said the Board again judged that the prospects for an improvement in economic conditions “had firmed a little over recent months” and that leaving the cash rate unchanged was appropriate.

Despite a barrage of data released last week, our markets took direction from offshore where a generally weaker tone emerged following comments from US Fed Chair Janet Yellen who confirmed the US is still on track for an interest rate “lift off” on 17 December (with a rate hike 75% priced in and a further three rate hikes priced in for next year).

The European Central Bank (ECB) disappointed markets last week with their “easing” announcement, reducing the deposit rate from -0.20% to -0.30% (banks have to pay more to have money with the ECB which is expected to entice banks to lend more) and extended their quantitative easing for 6 months, but didn’t increase the QE beyond the current €60bn per month. All markets responded accordingly, with bond yields and currencies rising sharply and equities selling off.

By the close of trading on Friday, the 90-day bank bill was trading at 2.30% from 2.27% a week earlier while in the long term maturities, 3 and 10 year bond yields closed at 2.18% and 2.95% respectively, from 2.10% and 2.85% a week earlier.

## CURRENCY

The Australian dollar hit a one-and-a-half month high last week after the RBA left the cash rate unchanged, and following some strong building approvals data and poor US manufacturing data, which hurt the US dollar. The Aussie traded as high as USD0.7335 before some positive US data and comments by US Fed Chair Yellen, who emphasised that the US would “hike rates slowly”, had the effect of strengthening the US dollar against the cross rates.

Our currency then spiked higher on Friday after the ECB disappointed with their stimulus announcement that fell short of market expectations – the Euro was the spectacular mover, rallying almost four cents against the US dollar on Friday.

By the close on Friday, the Australian dollar was trading at USD0.7316 compared to USD0.7230 a week earlier.

## EQUITIES

Soft commodity prices, a suffering energy sector and a negative lead from offshore equity markets weighed on our local share market last week. Commodity markets such as iron ore, gold and wheat fell to new lows last week while crude oil prices fell heavily, threatening to break the August lows. Share markets sold off further late in the week after the ECB disappointed markets with their delivery of a further stimulus package that fell short of what was expected.

By the close on Friday the S&P/ASX200 Index was trading at 5,151.6 compared to 5,202.6 a week earlier.

## THIS WEEK

Another solid week for economic data releases ahead, and the main focus will be on the latest NAB business survey and Westpac consumer sentiment, as well as November employment data. After a strong rise last month, employment is expected to fall slightly with the unemployment rate rising to 6.0%. Other data out includes monthly ANZ job ads and housing finance ahead of the government’s mid-year budget review next week (on December 15).

## INTEREST RATE VIEW

Markets still have an easing bias but are currently attaching only a less than 20% probability to a rate cut next February when the RBA meets again. This pricing has been scaled back from more than 100% over the last five weeks. The risks for lower rates should be much more focused on May (if at all) – at this time there will have been a lot more economic data releases and the futures market is currently giving a near 50% probability of a rate cut.

**The Rural Bank Treasury Team wishes you compliments of the Season and we look forward to being back with the next edition of the Weekly Economic Commentary in early January 2016.**

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.00	2.00	2.00	2.00
90 day Bank Bill	2.71	2.15	2.15	2.19	2.30
180 day Bank Bill	2.74	2.25	2.21	2.26	2.39
1 year swap	2.53	2.10	1.97	2.04	2.21
3 year swap	2.57	2.34	2.05	2.10	2.29
5 year swap	2.90	2.76	2.45	2.45	2.63
10 year swap	3.47	3.34	3.03	2.95	3.10
AUD/USD	0.8376	0.7692	0.6980	0.7140	0.7316
S&P/ASX200 Index	5,335.3	5,498.5	5,040.6	5,215.0	5,151.6

# CHARTS OF THE WEEK

## Australia wheat crop cut as El Nino brings hot, dry weather

Outlook lowered for Western Australia after below-average rain and fires  
El Nino expected to be among the three strongest since 1950

Source: Bloomberg, by Phoebe Sedgman, 1<sup>st</sup> December 2015

Australia cut its wheat harvest estimate 5.1% after dry and hot weather linked to El Nino curbed yields in the world's fifth-biggest exporter.

Output may total 24 million metric tons in 2015-16 from 25.3 million tons forecast in September, the Australian Bureau of Agricultural & Resource Economics & Sciences said in a report on Tuesday. That compares with 23.7 million tons a year earlier. Winter-crop harvesting is largely complete across Queensland and is progressing in other states.

Futures in Chicago dropped 19% this year amid expectations global inventories will climb to a record. World supply can compensate for a somewhat poorer Australian crop if necessary, according to Commerzbank AG. This year's El Nino, which brings drier spring weather to eastern Australia, will probably rank among the three strongest since 1950, the World Meteorological Organization says. Australian farmers also had to contend with rain and wind in November and recent bushfires in parts of the country's west and south.

"Prospects for Australian winter crop production in 2015-16 weakened during spring," Canberra-based ABARES said in the report. "Rainfall was below average in many cropping regions during September and early October and daytime temperatures were significantly above average in southern Australia during early October."

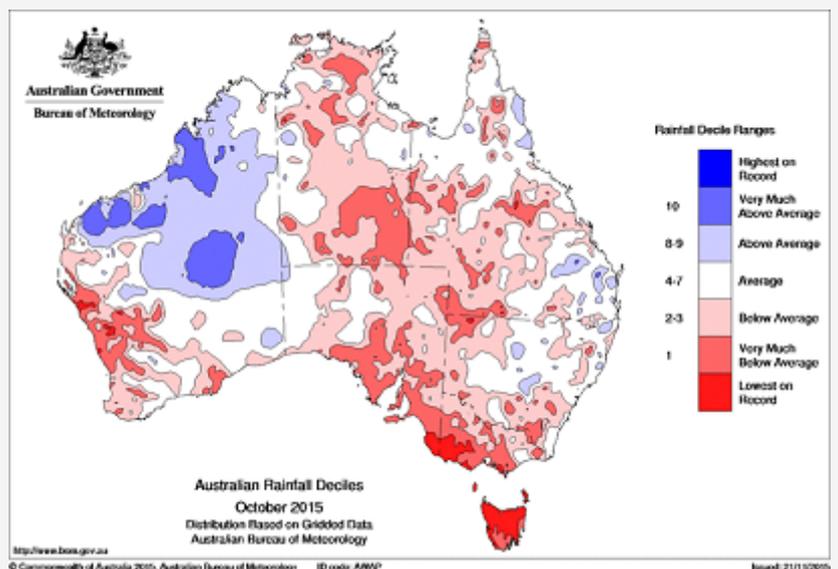
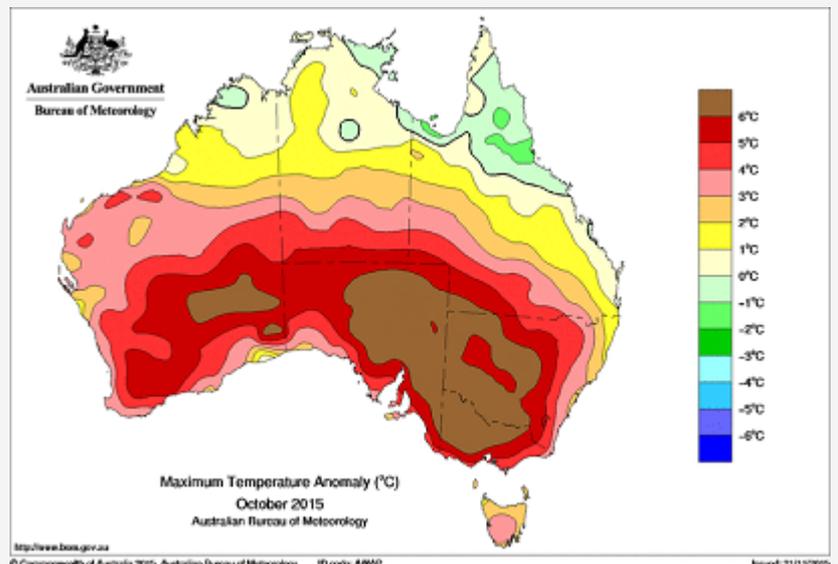
Wheat for March delivery on the Chicago Board of Trade rose 0.3% to \$4.77 a bushel at 12:07 p.m. in Singapore. Futures are heading for a third straight annual decline, the longest slump since 1999.

Western Australia's wheat crop, the country's biggest, may total 8.7 million tons compared with 9.5 million tons estimated in September, ABARES said. Grain quality has been variable, while fire damage in November reduced production prospects in the Esperance region, it said. Farmers in New South Wales, the second-biggest producer, will harvest 7.1 million tons versus 7.2 million tons estimated previously.

Western Australia and New South Wales had their hottest-ever October, while rainfall was the lowest on record for an area spanning the southwest of Victoria and south eastern South Australia, according to the Bureau of Meteorology (refer charts right). El Nino this year is comparable to the record events of 1997-98 and 1982-83, according to the weather bureau.

World wheat production is set to reach a record 732.98 million tons in 2015-16, pushing global reserves to an all-time high, according to the U.S. Department of Agriculture. The agency in November forecast Australia's wheat production at 26 million tons, down from 27 million tons estimated in October.

Australia's canola production will probably be 3 million tons, compared with 3.1 million tons predicted in September, according to ABARES. Barley output may total 8.2 million tons versus 8.6 million tons, the bureau said. Australia's cotton production may reach 560,000 tons in 2015-16, it said.



## 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.



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Merry Christmas

