WEEKLY ECONOMIC COMMENTARY

Week beginning 15th September 2014

ECONOMIC DATA ROUNDUP

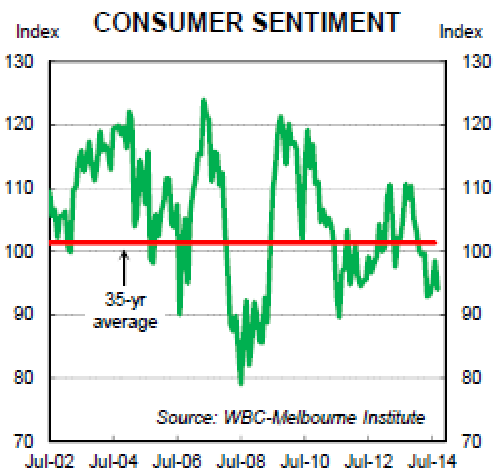
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
ANZ Job Ads	Aug	+1.5%	+0.3%
Housing Finance	July	+2.6%	+0.2%
Westpac Consumer Sentiment	Sept	-4.6%	+3.8%
Employment	Aug	+121,000	-300
Unemployment	Aug	6.1%	6.4%

ANZ Job advertisements increased by 1.5% to a 17-month high in August, to be up 8% since January. Both newspaper (+1.8%) and internet (+1.4%) job ads rose in August. While moves in internet job ads are the key driver of ANZ job ads (as they represent approximately 95% of the index), it was encouraging to see newspaper job ads record a rise after two months of declines.

Housing finance (excluding refinancing) was up 2.6% in July and is now up 17.2% annually. The rise this month was driven by investor finance, up 6.8% (and +29.6% annually), while owner-occupier finance fell 1.3% (+7.1% annually).

The **Westpac MI Consumer Sentiment Index** fell 4.6%, from 98.5 in August to 94.0 in September, unwinding the previous two month's gains. The monthly fall was attributed to declines in most of the subcomponents including current conditions, economic conditions 1-year ahead and whether it was a good time to buy a household item. The latest rise in the unemployment rate as well as renewed concerns about the state of the Federal Budget and the negotiations between the Government and minor parties over proposed spending and taxation policies also weighed on sentiment this month.



Employment exceeded most forecasts, increasing by a massive 121,000 in August, the largest monthly increase since 1978. This month's jump was driven almost entirely by gains in part-time employment (up 106,700), however full-time employment also posted a small gain (up 14,300). Importantly, the **unemployment rate** fully retraced last month's sharp spike higher to 6.4% and settled at 6.1% in August with the **participation rate** rising solidly from 64.9% to 65.2%.

In other data releases the NAB measures of business confidence and conditions declined in August, partly unwinding the very sharp increases recorded in July. **Business confidence** fell to +8 in August from +10 in July. It remains resilient, supported by positive forward orders, subdued cost pressures and more stable consumer confidence. Confidence varies significantly across industries, with construction firms the most optimistic by a large margin. Retail confidence remains positive, but fell sharply from last month. **Business conditions** fell 4 points to +4 in August, unwinding much of the 5 point gain recorded in July. The trading, profitability and forward orders components all fell in the month, while employment conditions were flat.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
New Motor Vehicle Sales	15 Sept	Aug	+0.5%	-1.3%
Westpac Leading Index	127 Sept	Aug	n/a	-1.0%

ECONOMIC COMMENTARY

LAST WEEK

The big news last week locally was the extraordinary 121,000 rise in monthly employment numbers and the sharp drop in the unemployment rate which had economists scratching their heads. The data immediately moved markets (yields and currency up) but after things settled down the data was treated with a heavy dose of scepticism. Economists also believe the RBA will be treating all aspects of this labour market report with a generous dose of caution and as a result, markets reacted by retracing the earlier moves on the day.

Speculation that the US Federal Reserve could decide to lift interest rates earlier than currently expected by markets also weighed on sentiment, pushing US bond yields and the US Dollar higher and equities lower.

In New Zealand, the Reserve Bank of NZ board left the cash rate unchanged at 3.50% as expected last week.

A bit of excitement in the UK last week after Bank of England Governor Carney said that the UK recovery has exceeded expectations with the decision on rates becoming more balanced, and that a spring (June quarter) rate rise would be consistent with the BoE's mandate.

By the close of trading on Friday, the 90-day bank bill was trading at 2.65% compared to 2.63% a week earlier. In the long term maturities, 3 and 10 year bond yields closed higher at 2.84% and 3.61% respectively, down from 2.73% and 3.47% a week earlier.

CURRENCY

It was only a week ago that the Australian Dollar seemed to be on a move upwards, touching USD0.94, but sentiment in the Aussie has quickly turned, with the currency losing ground not only against the stronger US Dollar, but against most other currencies and trading at a six month low.

The Aussie opened last week on a negative note against a stronger US dollar and after news of weaker-than-expected China imports data, which weighed on commodities and pushed the currency lower. The Australian dollar encountered one of its worst two-day spans since the global financial crisis, with the local currency losing close to 1c on two consecutive days as well as being unable to hold onto the rally after the employment data. More importantly, the currency has now broken out of the narrow range that it has traded in for the past five months. Also weighing on the Australian dollar was persistent weakness in the commodities space, the spot iron ore price taking another hit last week, down a further 2.5% to $81.90 per tonne to be around 15% lower over the past month and now at a 5-year low.

By the close on Friday, the Australian Dollar was trading at USD0.9064 compared to USD0.9350 a week earlier.

EQUITIES

Wall St fell to a three-week low last week as concerns about the Ukraine ceasefire and expectations of faster than expected US rate hikes weighed on sentiment. The looming Scottish independence referendum continued to weigh on European share markets, negating the effect of some solid data releases.

Our local market followed the offshore lead and also closed the trading week lower -- its largest weekly fall in a month.

By the close on Friday the S&P/ASX200 Index was trading at 5,531.1 compared to 5,598.7 a week earlier.

THIS WEEK

A very light week ahead for data releases in Australia this week with only motor vehicle sales on Monday, ANZ Roy Morgan weekly consumer confidence data on Tuesday and the Westpac leading index on Thursday. The RBA Minutes from their September board meeting are also released this week and are likely to reflect that the chance of a further rate cut have reduced as well as reinforce that the RBA remains "on hold" for some time.

Offshore, the US Federal Reserve meets this week. Recent US economic data has continued to surprise to the upside which has increased market focus on what the US Fed might say in its commentary, particularly as to whether there has been any change in the forward guidance with respect to the timing of the first rate hike.

INTEREST RATE VIEW

The positive economic data out last week has continued to reduce market expectations of further rate cuts by the RBA. At the time of writing, financial futures were pricing the probability of another rate cut at just under 10%, compared to a better than 50% chance just over two weeks ago.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.50	2.50	2.50	2.50
90 day Bank Bill	2.60	2.67	2.71	2.64	2.65
180 day Bank Bill	2.61	2.68	2.72	2.65	2.70
1 year swap	2.78	2.85	2.91	2.78	2.88
3 year swap	3.45	3.31	3.23	3.00	3.20
5 year swap	4.04	3.85	3.66	3.40	3.62
10 year swap	4.79	4.59	4.30	3.98	4.15
AUD/USD	0.9242	0.9006	0.9420	0.9305	0.9064
S&P/ASX200 Index	5,219.6	5,329.4	5,405.1	5,548.5	5,531.1

CHART OF THE WEEK

Australian Agriculture Seen Luring Foreign Buyers on Demand

Source: Bloomberg, September 10th, by Phoebe Sedgman

Overseas investment in agricultural assets in Australia, the world's third-biggest beef and sugar exporter, is set to expand as countries outside of China step up their push to secure access to farms and food supplies.

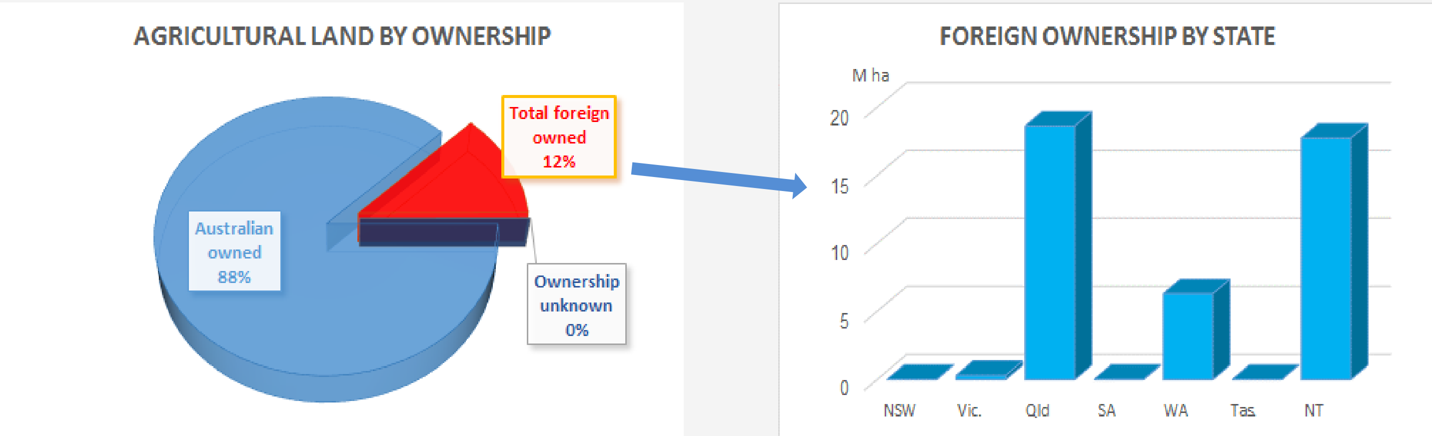
There's no shortage of money interested in investing in Australian agriculture and food, said David Williams, managing director of corporate adviser Kidder Williams Ltd. Investment in the grain industry will continue until there aren't any assets left to buy, according to John Murray, managing director at Emerald Grain Pty, a Melbourne-based grain handler.

Overseas investors are boosting their presence in Australia to meet rising demand for food, spurring concern about levels of foreign ownership. While Prime Minister Tony Abbott vowed after his election win last year that the country is open for business, during the campaign he promised to lower the threshold for review of land deals.

The government last year blocked the sale of GrainCorp Ltd., eastern Australia's biggest grain handler, to Illinois-based Archer-Daniels-Midland Co.

"The importance of China is really overestimated in terms of where the investment is coming from," Williams said yesterday at Bloomberg's "Beyond the Boom: Mining to Dining" seminar in Melbourne. The Chinese are "interested and they're kicking tires but they're not doing the transactions. The money is coming from everywhere and not all of it is China-driven."

Foreign Ownership



As the chart above shows, about 87.5% of agricultural land is Australian owned, according to the Australian Bureau of Statistics. China may own less than 1% of Australian farmland, according to a report by KPMG and the University of Sydney's China Studies Centre in October 2013.

Saputo Inc., Canada's biggest milk processor, won control of Warrnambool Cheese & Butter Factory Co. this year and Japan's Sumitomo Corp. gained full control of Emerald Grain. Noble Group Ltd., Glencore Plc and Bunge Ltd. are investing in grain handling and export facilities on Australia's east coast.

Singapore-based Wilmar International Ltd. and Thailand's Mitr Phol Sugar Corp. own Australian sugar assets "Most of them believe that unless you've got physical assets attached to their trading business, in the long run they won't be sustainable," said Emerald's Murray, referring to grain investors. "Most of the buyers of the assets of grain in Australia will invest where it's sensible."

Wheat futures dropped 13% in Chicago this year on expectations that global production will climb to a record. Australia, the fifth-biggest wheat exporter, is set to harvest 24.2 million metric tons, the government forecasts. Raw sugar declined 9.3% and cotton tumbled 22% in New York on signs of ample global supplies.

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Our products and services are available at over 400 regional locations nationally including Bendigo Bank branches, Elders Rural Services branches and our Investment Centre in Adelaide.

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