WEEKLY ECONOMIC COMMENTARY

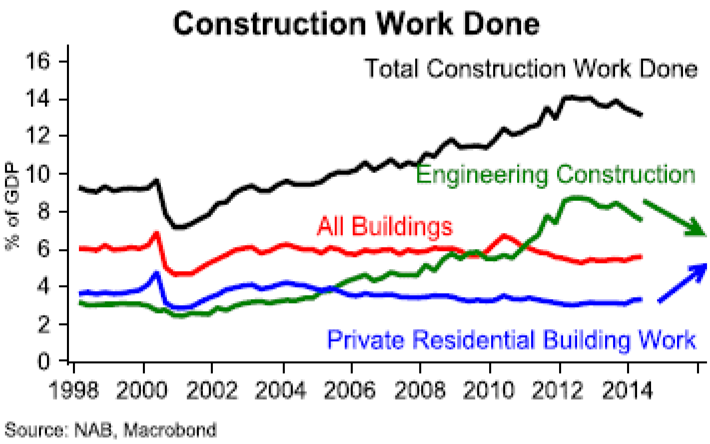
Week beginning 1st December 2014

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Construction Work Done	Sept/Quarter	-2.2%	-1.2%
Private Sector Capital Expenditure (CAPEX)	Sept/Quarter	+0.2%	+1.1%
Private Sector Credit	October	+0.6%	+0.5%

Construction work done fell 2.2% in the September quarter, to be down 5.1% annually, as the wind-back in the mining investment boom continued to weigh on the construction sector. Across the sub-categories, building work done fell 1.0% while engineering construction posted a solid decline of 3.2%. The biggest surprise in the quarter was a 1.6% fall in residential building construction, which followed a rise of 2.8% previously. Non-residential building construction posted a little better than expected result, falling only 0.1% in the quarter.



Private Sector Capital Expenditure (CAPEX) rose 0.2% in the September quarter, following an upwardly revised 1.6% increase in the June quarter. This was driven by a 4.4% rise in plant and machinery equipment expenditure partially offset by falls in mining (-3.5%) and manufacturing (-1.3%) expenditure. CAPEX remains down 5.9% over the year. While private "non-mining non-manufacturing" investment intentions have improved since 2013-14, this remains insufficient to offset the sharp slowdown witnessed in mining sector investment. The back-to-back positive growth over the last two quarters is encouraging, given the accelerating decline in mining investment. Mining investment grew at its weakest annual pace in 14 years.

Private sector credit increased by 0.6% in October to be up by 5.7% over the year. Personal credit was flat in the month, after rising by 0.3% in September (+7.9% annually), business credit rose by 0.7% (+0.5% previously) to be up 4.3% annually and housing credit grew by 0.6% (the same as in September) to be up 7.0% annually.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Current Account Balance	02 Dec	Sept/Quarter	-$13.1bn	-$13.7bn
Building Approvals	02 Dec	October	+7.5%	-11.0%
RBA Board Meeting – Cash Rate Decision	02 Dec	December	2.5%	+0.5%
GDP	03 Dec	Sept/Quarter	+0.7%	+0.5%
Retail Sales	04 Dec	October	+0.2%	+1.2%
Trade Balance	04 Dec	October	-$2.1bn	-$2.3bn

ECONOMIC COMMENTARY

LAST WEEK

Risk sentiment was boosted globally last week after the People's Bank of China lowered its official interest rates over the weekend, the one-year lending rate by 40 basis points and the one-year deposit rate by 25 basis points. The last time these rates were changed was in 2012. The move reflects the determination of Chinese policymakers to keep annual growth above 7.0% and to lower real borrowing costs of businesses.

Sentiment was also helped by comments from European Central Bank's Mario Draghi that the ECB would do what it must to raise inflation (and avoid deflation) as fast as possible.

By the close of trading on Friday, the 90-day bank bill was trading at 2.75% compared to 2.74% a week earlier. In the long term maturities, 3 and 10 year bond yields closed the week lower at 2.40% and 3.03% respectively, from 2.53% and 3.27% a week earlier.

CURRENCY

The Australian dollar opened last week just above USD0.87 as investors cheered the potential impact of the announcement of an interest rate cut by the People's Bank of China over the weekend. From the open however, the currency weakened, falling below USD0.85 for the first time in four years to a low of USD0.8480. Driving the fall was better than expected third quarter US economic growth data which supported the US dollar, as well as comments from Reserve Bank of Australia Deputy Governor Philip Lowe, who again warned the Australian dollar was "unusually high". The currency did manage to recover some ground as disappointing US employment and lower than expected US consumer sentiment data put the US dollar under pressure.

By the close on Friday the Australian dollar was still trading near its weekly low at USD0.8505 compared to USD0.8624 a week earlier. The Australian dollar has gapped lower over the weekend (to USD0.8450) after a Swiss referendum to require the Swiss National Bank to hold at least 20% of its assets in gold failed. Gold was trading lower, dragging the Australian Dollar with it.

EQUITIES

Our share market was back in the black early last week on a resurgence in resource and materials stocks over the weekend. This rally was only short-lived as concerns remained about the uncertainty around commodity prices and the slowing Chinese economy. While iron ore prices remain low, the focus last week was on the price of oil which was down over 10% in the week, crashing to a four year low of $66 per barrel after OPEC took no action to ease the global oil-supply glut. Not surprisingly, energy company shares also fell.

As an aside, Medibank Private, the country's second-largest IPO on record, listed on the ASX last week with shares trading above the retail offer price of $2.00 and rallying to a high of $2.23 on their opening day on the ASX.

The index is now almost exactly square for the year to date after last week's move (but down slightly since the start of the financial year). By the close on Friday the S&P/ASX200 Index was trading at 5,313.0 compared to 5,304.3 a week earlier.

THIS WEEK

The highlight on the data releases this week will be the September quarter economic growth (GDP) numbers on Wednesday where the market is looking for a 0.7% quarterly gain in GDP. Also out this week are retail sales, building approvals and the trade balance for October. In addition, the RBA's final meeting of the year takes place on Tuesday. The market is unanimous in their view that the year will end as it started with no change in the cash rate and the RBA Board reaffirming its guidance that a period of stability in interest rates is the most prudent course.

INTEREST RATE VIEW

The market is currently giving a massive 50% probability to another rate cut next year - this was less than 30% only a week earlier. This argument is based on the still relatively high Australian dollar, falling real wages, increasing unemployment and below trend economic growth. Against this view is the argument that the RBA clearly doesn't want to add more stimulus to the housing market (with another rate cut), this view reinforced by the recent statement by RBA Governor Glenn Stevens that the RBA's preference is for ongoing "stability", with rates to remain low and accommodative for a considerable time.

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	2.61	2.71	2.63	2.74	2.75
180 day Bank Bill	2.63	2.71	2.64	2.76	2.81
1 year swap	2.59	2.68	2.60	2.69	2.65
3 year swap	3.19	2.95	2.83	2.83	2.69
5 year swap	3.78	3.36	3.18	3.19	2.98
10 year swap	4.58	4.01	3.66	3.69	3.46
AUD/USD	0.9096	0.9316	0.9356	0.8866	0.8505
S&P/ASX200 Index	5,320.1	5,492.5	5,625.9	5,447.7	5,313.0

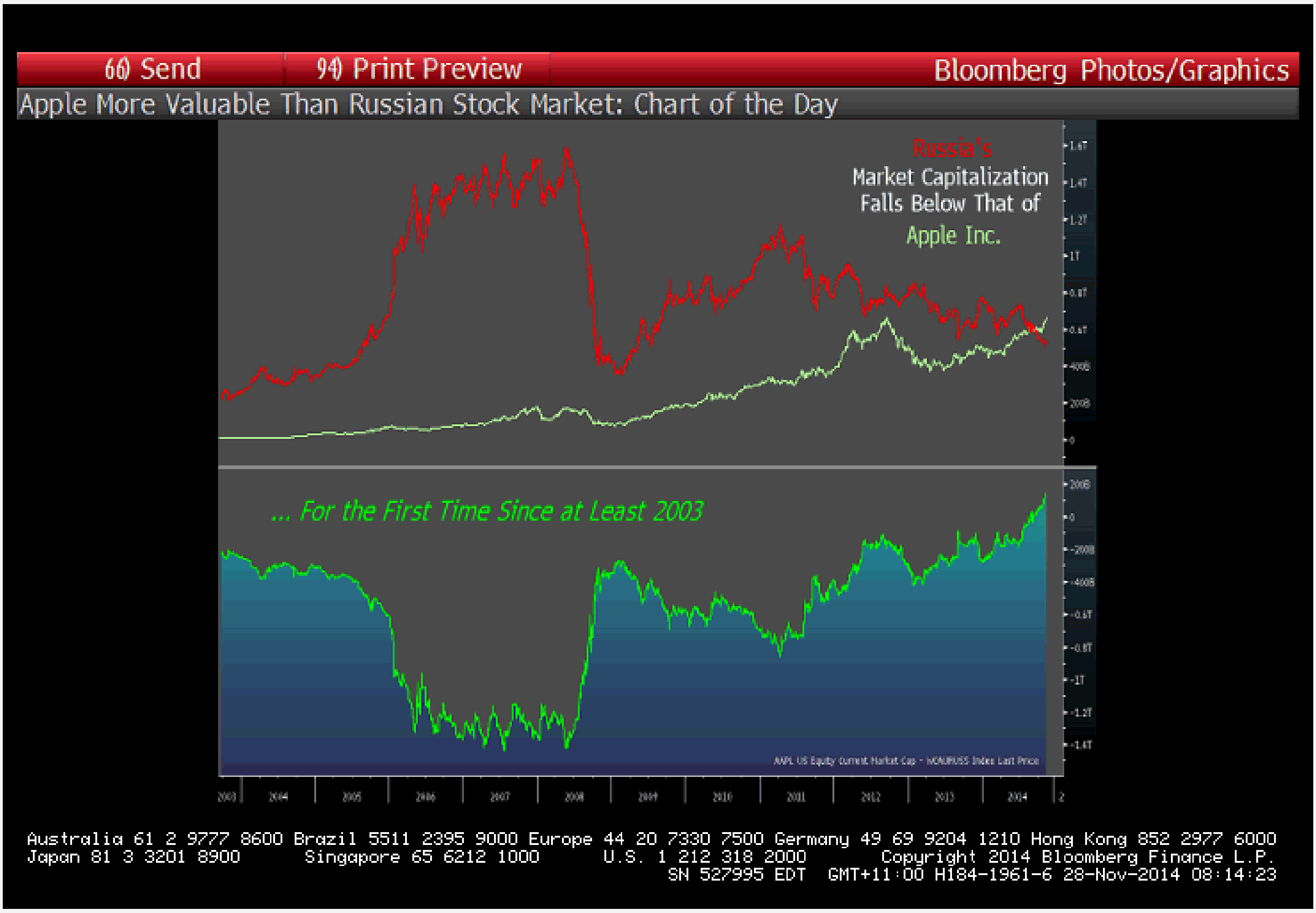
CHART OF THE WEEK

Apple more valuable than Russian Stock Market

Source: Bloomberg, 14th November 2014, by Srinivasan Sivabalan

If you owned Apple Inc., and sold it, you could purchase the entire stock market of Russia, and still have enough change to buy every Russian a new iPhone 6 Plus.

The chart below shows the total market capitalization of all public companies in the world's largest country slipped below that of the world's most-valued company for the first time on record. The gap, at $121 billion on 12th November, is about the price of 143 million contract-free 64-gigabyte iPhones, based on Apple Store prices.



The value of Russian equities has slumped $234 billion to $531 billion this year, while Apple gained $147 billion to $652 billion, according to data compiled by Bloomberg. The technology company's innovation and brand value attract investors, while Russia's political conflicts, sanctions and the threat of economic stagnation next year make them nervous, according to Vadim Bit-Avragim, a portfolio manager who helps oversee about $4 billion at Kapital Asset Management LLC in Moscow.

"Apple works with shareholders to maximize returns and is based where property is protected by law," Bit-Avragim said. "In Russia, the legislative protection for property is not as good, most state-run companies have poor corporate governance, resources are concentrated in state hands and borrowing costs are shooting up. After all this, when you get involved in conflicts with your neighbours, it becomes very hard to persuade investors from all over the world to invest here."

Russia faces a 70% chance of recession in the next 12 months, economists surveyed by Bloomberg project. The country is buckling under sanctions punishing its involvement in Ukraine, while a plunging rouble stokes inflation and the sinking oil price erodes export revenue.

Russia, the 20th largest among the world's major markets, is not the only one Apple has surpassed. The company, which forecasts a record holiday-sales quarter and has $155 billion in cash, is also bigger than 17th-ranked Singapore and 18th-ranked Italy.

Rural Bank Limited is a wholly owned subsidiary of Bendigo and Adelaide Bank Limited and specialises in providing banking products and services to the Australian Agribusiness sector. Our customers are predominantly based in rural and regional Australia, although many of our deposit customers are from metropolitan areas.

Rural Bank's heartland is in rural Australia. We are fully committed to providing a leading, specialised banking service to primary producers, agribusiness participants and individuals or businesses seeking business loans. As part of the Bendigo and Adelaide Bank Group, we also offer customers the benefit of the broader capabilities offered by Bendigo and Adelaide Bank.

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