

# WEEKLY ECONOMIC COMMENTARY



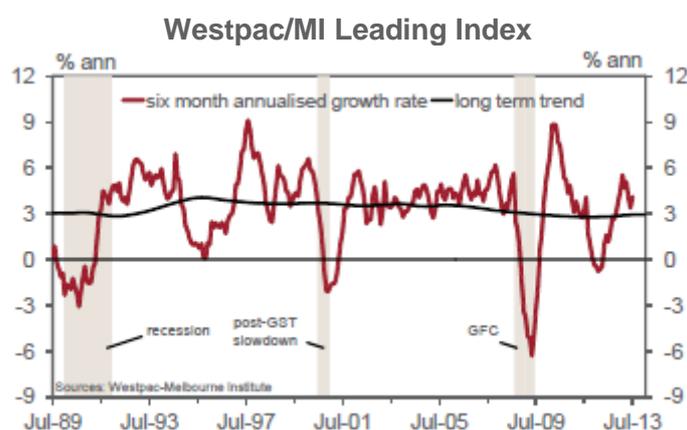
Week beginning 23<sup>rd</sup> September 2013  
**ECONOMIC DATA ROUNDUP**

## DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
New Motor Vehicle Sales	August	+0.8%	-3.5%
Westpac/MI Leading Index (annualised)	July	+4.1%	+3.4%

**Sales of new motor vehicles** rose 0.8% in August, with total sales now only 0.2% higher over the year. Sales of passenger vehicles rose by 2.1% and sports utility vehicles increased by 2.9% while sales of other vehicles decreased by 5.3%.

The **Westpac/Melbourne Institute Leading Index** (which indicates the likely pace of economic activity three to nine months into the future) rose 0.6% in July for an annual growth rate of 4.1%. Three of the four monthly components rose and one was unchanged in July. The All Ordinaries Index increased by 5.2%; dwelling approvals rose 10.8% and the real money supply increased by 0.4%. US industrial production was unchanged. The annualised growth rate of the Coincident Index, which measures current activity, was 2.4% and is now below its long term trend of 2.9%.



The RP Data-Rismark Daily **Home Value Index** for the five mainland state capitals rose by 0.5% in the week ending Sunday 15 September. The rise brought the annual rise in housing prices, which bottomed out in mid-2012, to 5.7%. Aside from Perth, which recorded a fall of 0.2%, the other four capitals in the index posted rises last week. Sydney was at the front of the pack, with a gain of 0.8% for the week and 8.0% for the year. Adelaide had the weakest annual increase of just 0.1%, while Perth had the biggest annual rise at 8.8%.

The Minutes of the September Reserve Bank of Australia (RBA) Board meeting released last week revealed an RBA that was a touch more reserved on monetary policy guidance than suggested by the statement after the board meeting (where the RBA left rates unchanged). In particular, the Minutes conclude by stating: “given the substantial degree of policy stimulus in place, the Board judged that it was appropriate to retain the current setting of interest rates. Members agreed that the Bank should again neither close off the possibility of reducing rates further nor signal an imminent intention to reduce them. The Board would continue to examine the data over the months ahead to assess whether monetary policy was appropriately configured.”

## Data over the next week

Economic Data	Date	Period	Forecast	Previous
DEWR Internet Vacancies Index	25 Sept	August	n/a	+0.7%
ABS Job Vacancies	26 Sept	September	+4.5%	-7.3%

# ECONOMIC COMMENTARY

## LAST WEEK

The RBA Board Minutes last week confirmed that the RBA remains on an easing bias but appears reluctant to cut again soon, suggesting that there is enough stimulus in place to support the economy, but is still open to the possibility that rates may need to be lowered further.

For the early part of last week, financial markets were in a holding pattern as investors awaited the outcome of the two-day US Federal Reserve Open Market Committee meeting that began on Wednesday. However, against what was widely expected, the US Federal Reserve left its bond buying program unchanged after the FOMC Meeting last week – the market was anticipating a tapering (reduction) to its asset purchasing by between USD10bn and USD15bn. The US Fed wanted to see more evidence that the recent improvement in the economy will be sustained before adjusting the pace of purchases. The Fed remains concerned that the rapid tightening of financial conditions in recent months could slow growth, while fiscal concerns were also raised. The effect for financial markets was both immediate and large sparking a global rally, pushing equities and treasuries higher (yields lower) and the US Dollar lower.

By the close of trading on Friday, the 90-day bank bill was trading at 2.55% compared to 2.60% last week. At the long end, 3 and 10 year bond yields closed the week lower at 2.81% and 3.95% from 2.92% and 4.09% a week earlier.

## CURRENCY

The US Dollar plunged to a 7-month low last week after the US Federal Reserve shocked investors by deciding to continue working to its stimulus program. All major currencies were 1% to 2% stronger against the US Dollar with the Australian Dollar trading up nearly 2 cents to around USD0.95. The AUD had its biggest rally in two years (surging 7% since 31 August) and is prompting traders to step up bets that the RBA will again cut interest rates after US policy makers maintained their bond buying.

By the close on Friday, the AUD was up just over two cents and trading at USD0.9456 compared to USD0.9242 a week earlier.

## EQUITIES

US equities rallied to a new all-time high last week after the US Federal Reserve surprised markets by announcing that its stimulus measures would stay in place. Precious metals surged – gold spiked \$56 to \$1,365 and silver was 6.9% higher. Elsewhere, copper rose almost 5% and crude wasn't too far behind up 2.5% (to \$108). Our share market followed the offshore lead posting a new five year high of 5,300.1 last Thursday before seeing some profit taking and pulling back slightly into the close of the week.

By the close on Friday, the S&P/ASX200 Index was trading at 5,276.7 compared to 5,219.6 a week earlier.

## THIS WEEK

We have another relatively quiet week ahead from a data release perspective with only second tier data in the form of Job Vacancies and Internet Vacancies due out. The RBA release of its half-yearly Financial Stability Review is the main highlight and will gain some attention – particularly with respect to the discussion around the housing market given recent data and communications focusing on the recent pick up in activity in this sector.

## INTEREST RATE VIEW

The rise in the Australian Dollar has prompted some discussion in the press and the market about whether or not the recent strength in the currency could 'force' the RBA to cut rates later this year. Financial futures have boosted the probability of another RBA rate cut by February to 47%, from 35% last week. RBA Governor Glenn Stevens reiterated on 3 September that a lower currency was needed to drive growth in the economy as a decline in mining investment sends Australia toward its slowest expansion in 4 years. The latest move (up) in the Australian Dollar has therefore spooked the bulls into talking another rate cut with more conviction.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	3.50	3.00	2.75	2.50	2.50
90 day Bank Bill	3.38	3.06	2.82	2.60	2.55
180 day Bank Bill	3.35	3.12	2.79	2.60	2.58
1 year swap	3.22	3.19	2.87	2.70	2.70
3 year swap	3.23	3.44	3.31	3.29	3.29
5 year swap	3.54	3.78	3.78	3.87	3.84
10 year swap	3.99	4.30	4.44	4.68	4.61
AUD/USD	1.0471	1.0429	0.9223	0.9010	0.9456
S&P/ASX200 Index	4,408.3	4,967.3	4,738.8	5,075.8	5,276.7

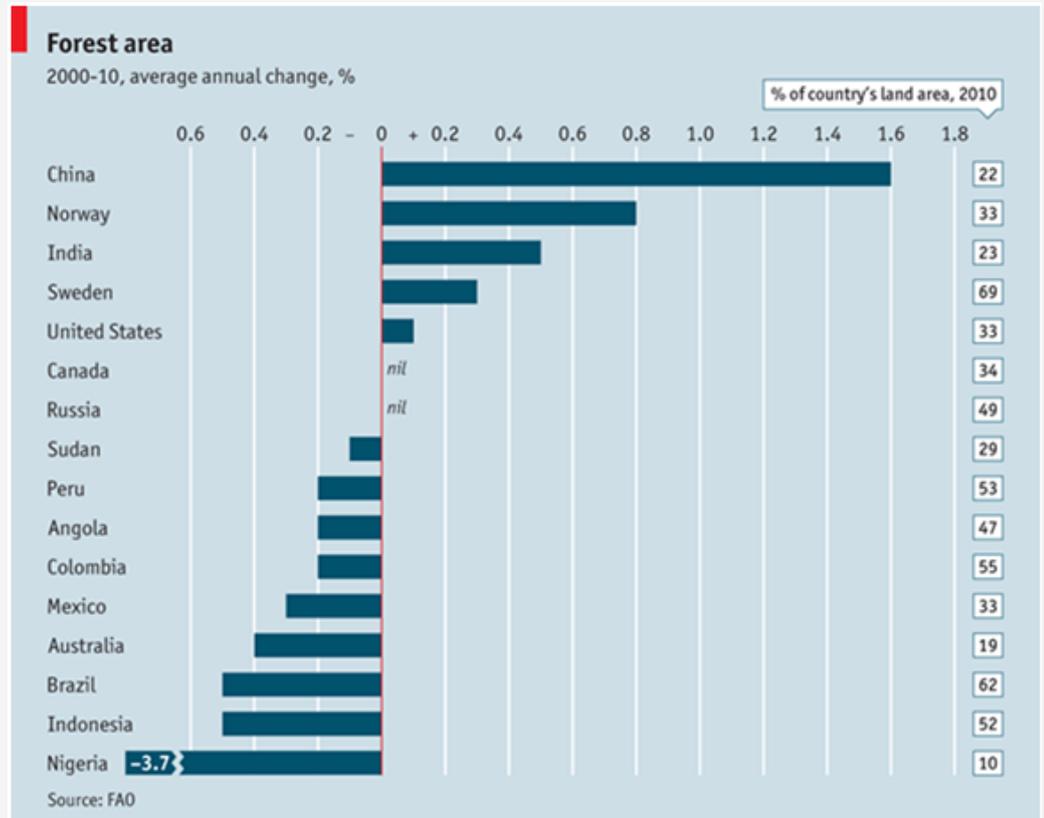
# CHART OF THE WEEK

## TOWARDS A GREEN ECONOMY

**Chart 1 (right)**

Launched in 1978, China's large-scale tree-planting scheme is expected to cover 400 million hectares (or 42% of China's landmass) by 2050, which would be arguably the biggest man-made carbon sponge on the planet.

Over the past three decades, Chinese volunteers have planted about 58.9 billion trees across the country, according to statistics from the State Forestry Administration.



**Investment by Country and Sector 2010 (\$billions)**

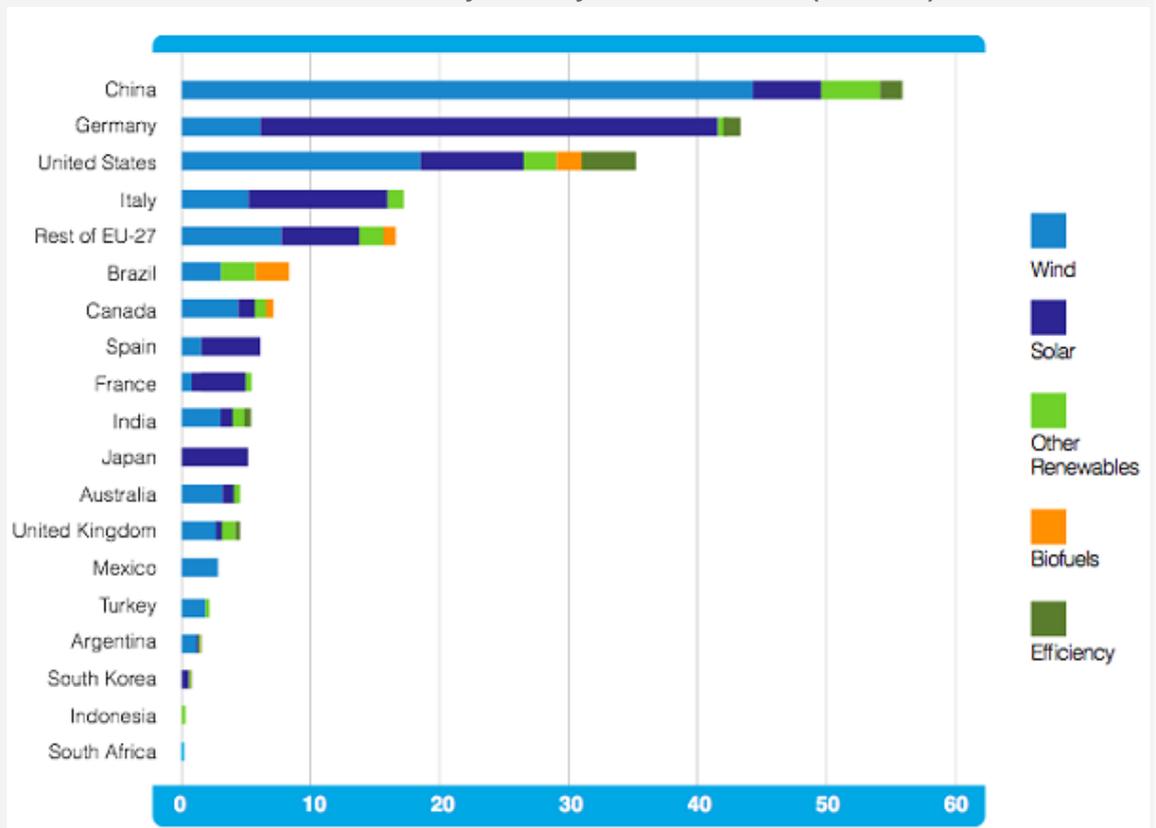
**Chart 2 (right)**

China retained the top spot in 2010 as the world's leading investor in low-carbon energy technology, according to a report by the US Pew Environment Group, which wrote that China's "ascendance has been steady and steep..."

With aggressive clean energy targets and clear ambition to dominate clean energy manufacturing and power generation, China is rapidly moving ahead of the rest of the world."

[Pew Environment Group report "Who's Winning the Clean Energy Race 2010?"

BBC News "China tops global clean energy table" March 29, 2011]



Source: <http://goo.gl/MW5MH>



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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](mailto:service@ruralbank.com.au)

[www.ruralbank.com.au](http://www.ruralbank.com.au)

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