

# WEEKLY ECONOMIC COMMENTARY



Week beginning 25<sup>th</sup> November 2013  
**ECONOMIC DATA ROUNDUP**

## DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
DEEWR Internet Vacancies	November	-0.1%	+0.5%
Westpac/MI Leading Index (annualised)	October	+1.2%	+0.6%

The DEEWR Internet Vacancies Index fell by 0.1% in October, while September's gain of 0.5% was revised to a 0.3% fall.

The **Westpac Melbourne Institute Leading Index of Economic Activity**, which indicates the likely pace of economic activity three to nine months into the future increased by 0.1% in September to 98.6. The six month annualised growth rate of the Index rose to 1.2% in October from 0.6% in September.



The **Minutes of the last Reserve Bank Board meeting** were released last week and it was clear that the RBA remains comfortably on hold for now, but is concerned about the "uncomfortably high" exchange rate. While there is evidence that the rate cuts to date are finally gaining traction in the economy, the RBA commented that "a lower level of the exchange rate would likely be needed to achieve balance growth in the economy" suggesting that the RBA's easing bias remains in place. The Minutes conclude that "it was prudent to hold the cash rate steady while continuing to gauge the effects, but not to close off the possibility of reducing (rates) further should that be appropriate to support sustainable growth in economic activity, consistent with the inflation target."

The OECD cut its global growth forecast to 2.7% in 2013 and 3.6% next year, which is down from their May forecast for 3.1% and 4.0% respectively. While the advanced economies are recovering, emerging market growth is easing. For example, in India the OECD now expects growth of 3.4% this year and 5.1% next year, down from 5.7% and 6.6% forecast previously. The OECD's forecast for Brazil has been cut to 2.5% and 2.2% from 2.9% and 3.5% previously. In China the OECD sees growth of 7.7% this year (revised up from 7.4% previously), rising to 8.2% next year (revised down from 8.4%). The US is expected to grow by 2.9% next year while the Eurozone is forecast to grow by 1.0%. For Australia, the OECD expects sub-trend growth of 2.5% this year and 2.6% in 2014 (down from 3.2% previously), with unemployment rising to 6.3%.

## Data over the next week

Economic Data	Date	Period	Forecast	Previous
Construction Work Done	28 Nov	Sept Quarter	+0.5%	-0.3%
Private New Capital Expenditure (CAPEX)	28 Nov	Sept Quarter	-1.2%	+4.0%
Private Sector Credit	29 Nov	October	+0.4%	+0.3%

# ECONOMIC COMMENTARY

## LAST WEEK

With very little economic data released last week that could impact the market, the focus turned to developments offshore as well as a speech late last week by the Reserve Bank of Australia (RBA) Governor. The week started with news that the Dow Jones Index in the US posted a new all time high which pushed yields across the curve higher.

The RBA's November Board Minutes (last Tuesday) restated their mild easing bias, using slightly different language than previously.

RBA Governor Glenn Stevens spoke last Thursday night on "The Australian Dollar: thirty years of floating" giving a bit of a history lesson covering the move to a floating exchange rate and the impact this had on the economy to reduce volatility.

The Governor continued his line of thought believing the currency is overvalued and he remains open minded about possibly intervening in the currency market, although he played down the prospect of any near-term intervention. These comments saw the Australian Dollar trade lower and yields higher.

By the close of trading on Friday, the 90-day bank bill was trading at 2.59% compared to 2.58% a week earlier. At the long end, 3 and 10 year bond yields closed higher at 3.14% and 4.33% from 3.07% and 4.21% a week earlier.

## CURRENCY

The Australian Dollar hit USD0.9448 last Wednesday, its highest level in almost two weeks after China said it would ease restrictions on investment and the value of its local currency. People's Bank of China Governor Zhou Xiaochuan said it would widen the daily range that China allows the renminbi (also called the yuan) to trade in and also would phase out investment caps for foreign and domestic investors. This caused the US Dollar to weaken and the Euro and Australian Dollar rallied. The rally followed an earlier spike in the currency following the release of the RBA Minutes last week where the RBA saw "mounting evidence" that lower rates were supporting activity. From there however the AUD direction was all one way, down, firstly after the Minutes of the US Federal Reserve meeting pushed the US Dollar higher against most major currencies and then following the speech by the RBA Governor late in the week.

By the close on Friday, the AUD was trading at USD0.9183 compared to USD0.9335 a week earlier.

## EQUITIES

Our share market opened the week on its high after a weekend rally on Wall Street saw the Dow record an all time high, breaking through the psychological level of 16,000 for the first time ever.

The Minutes of the US Federal Reserve meeting held earlier in the month revealed that it expects US economic data in the coming months to improve thereby opening the way for the Fed to begin the long-awaited tapering program in the "coming months". This has a negative effect on Wall Street, and our market followed the lead from offshore and sold off.

By the close on Friday the S&P/ASX200 Index was trading at 5,335.9 compared to 5,401.7 a week earlier.

## THIS WEEK

The key economic data release this week will be the September quarter private capital expenditure (CAPEX) survey (this Thursday) to see whether non-mining business investment will pick up enough to re-balance growth in the economy from the mining to the non-mining sectors. We also have September quarter construction work done and October private sector credit data due out. The RBA takes a breather this week although investors will be interested in the release of its financial aggregates data. New weights for the Australian Dollar's Trade Weighted Index (a yearly release) will also be unveiled.

## INTEREST RATE VIEW

Financial markets currently have at most a 25% chance of a 25 basis point rate cut priced by the first half of next year and the first rate hike priced in by February 2015, with subsequent rate hikes thereafter. At best we might find that the next 12 months will produce a stable interest rate environment – but then again, things and views can change very quickly.

<u>Economic Data</u>	<u>12 months ago</u>	<u>6 months ago</u>	<u>3 months ago</u>	<u>1 month ago</u>	<u>Now</u>
Official Cash Rate	3.25	2.75	2.50	2.50	2.50
90 day Bank Bill	3.27	2.80	2.59	2.60	2.59
180 day Bank Bill	3.27	2.78	2.61	2.64	2.63
1 year swap	3.24	2.81	2.69	2.75	2.76
3 year swap	3.34	3.08	3.26	3.31	3.38
5 year swap	3.60	3.45	3.83	3.83	3.97
10 year swap	4.05	4.05	4.64	4.52	4.78
AUD/USD	1.0407	0.9687	0.8993	0.9660	0.9183
S&P/ASX200 Index	4,413.0	4,983.5	5,123.4	5,372.9	5,335.9

# CHART OF THE WEEK

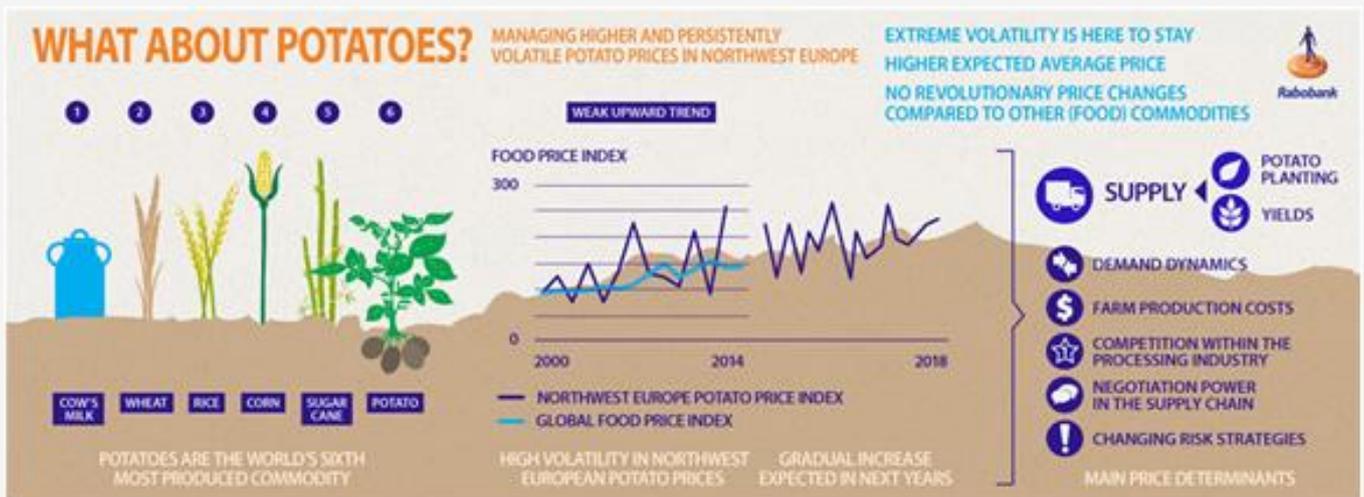
## Potatoes: Managing volatility for profit in northwest Europe

Potatoes are the world's sixth most-produced agricultural commodity. In the past decade, potato-processing capacity in northwest Europe has expanded steadily, especially in Belgium, which now has the most competitive industry in Europe.

However, price pressure has intensified, driven by increasingly powerful food retail and foodservice buyers who have aimed to keep prices as low as possible during the economic crisis. And, like most commodities, prices in recent years have suffered from volatility.

For most producers, price volatility is likely to continue, although market swings for potatoes in northwest Europe are sharper than for almost any other commodity in any other region.

Overall, prices will rise slowly over the next five years, supported by rising demand for frozen products, but risk remains inherent across all participants in the value chain.



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



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