WEEKLY ECONOMIC COMMENTARY

Week beginning 27th July 2015

ECONOMIC DATA ROUNDUP

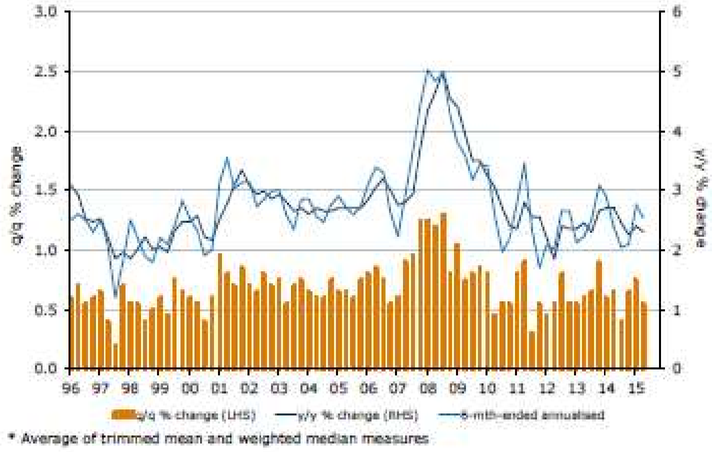
DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Headline Inflation (CPI) - quarterly	March/quarter	+0.7%	+0.2%
Headline Inflation (CPI) - annual	March/quarter	+1.5%	+1.3%
Underlying Inflation (CPI) - quarterly	March/quarter	+0.5%	+0.6%
Underlying Inflation (CPI) - annual	March/quarter	+2.3%	+2.4%

Headline inflation was slightly lower than expected, up 0.7% in the June quarter for an annual CPI number of +1.5%. Similarly, the core or **underlying measure of inflation** was also slightly lower at +0.5% for the quarter and +2.3% annually. The marginally lower than expected core inflation however was “offset” in part by an upward revision to the previous quarter. Within the CPI data there are a number of components where price changes are largely the result of government policies, fees and charges, taxes, and/or regulated prices. The June quarter result meant that the annual CPI number remained below the bottom of the RBA’s target band of 2.0% to 3.0%.

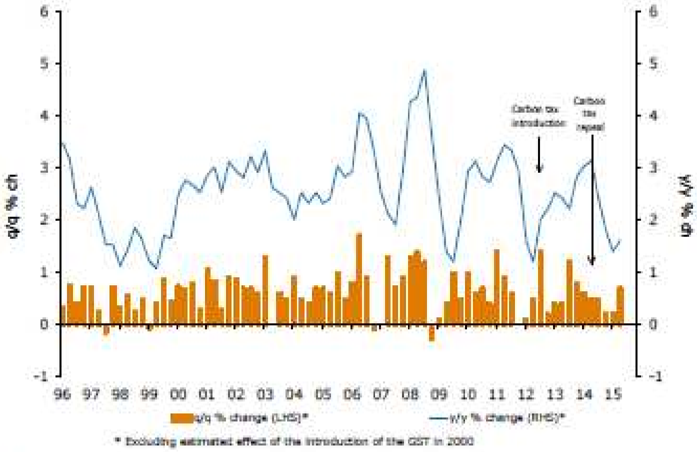
The main sub-component rises this quarter were in transport (+3.4%), reflecting a rise in fuel costs, health (+2.7%), clothing and footwear (+1.3%), and alcohol and tobacco (+1.0%). The main falls were in recreation and culture (+1.4%), communications (-0.6%) and food and non-alcoholic beverages (-0.2%).

Underlying CPI



Source: ABS, ANZ Research

Headline CPI



Source: ABS, ANZ Research

The **minutes of the July Reserve Bank Board meeting** contained little new indication on the evolution of monetary policy, although they suggest that the Bank continues to hold a mild easing bias and the Board is still unsure whether the current monetary policy stance “remained appropriate”. The minutes indicate that the RBA doesn’t believe that the strong March quarter GDP carried through into the June quarter. On employment, “Despite recent improvements in labour market indicators, members reflected that there was still evidence of spare capacity in the labour market”. On the currency, “The decline in the Australian dollar had been more modest in terms of a basket of currencies… and that further depreciation seemed both likely and necessary.” While on the housing market, “Housing prices had continued to rise rapidly in Sydney and to a lesser extent in Melbourne. Elsewhere, there had been little change in housing prices over the past six months or so.

In terms of global financial markets (where volatility had picked up at the time of the Board meeting), the RBA noted that the fall in Chinese equity markets and the potential spill overs from Greece “would require close monitoring”. However, since the meeting, global markets are looking a little more stable. The iron ore price is up 18% from its low, Chinese equity markets are up 12% and the Greek debt crisis has subsided, with Greece agreeing to austerity conditions outlined by its creditors.

Data over the next week

Economic Data	Date	Period	Forecast	Previous
Building Approvals	30 July	June	-3.0%	+2.4%
Private Sector Credit	31 July	June	+0.4%	+0.5%

ECONOMIC COMMENTARY

LAST WEEK

Financial markets were slightly firmer last week following declining concerns around Greece as the country increased taxes, began repaying billions to the IMF and ECB and banks re-opened last Monday. Comments by the US Fed's Bullard suggesting a greater than 50% probability of a September US rate hike contributed to an initial spike in US Treasury yields.

The tone of the Reserve Bank Board minutes last week remains consistent with a mild easing bias, given the comment that "further depreciation (of the exchange rate) seemed both likely and necessary". In a speech later in the week, Reserve Bank Governor Glenn Stevens also maintained the RBA's mild easing bias, but made it clear he sees no hurry to act on it, noting that "there had been better news of late, and while the Bank continues to judge the situation month to month, the balance on rates was about right at the moment". The June quarter CPI data last week confirmed a moderate inflation outlook, which is likely to be neither too strong nor too weak to substantively impact monetary policy deliberations. The Reserve Bank of New Zealand cut their official cash rate by a further 25 basis points to 3.0% last week citing slower economic growth outlook and a sharp fall in the price for dairy exports.

By the close of trading on Friday, the 90-day bank bill was trading at 2.14% compared to 2.15% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.90% and 2.82% respectively, from 2.01% and 2.95% a week earlier.

CURRENCY

The Australian dollar fell below USD0.73 to a six-year low of USD0.7269 last Friday following the release of weak Chinese manufacturing data but was on the back foot all week as commodity prices weakened and US rate hike expectations rose. Surprisingly our currency, which has traditionally shown a high correlation to the gold price, was hardly moved as a result of the fall in the price of gold – probably because it had already fallen considerably over the last few months. By the close on Friday the Australian dollar was trading at USD0.7291 compared to USD0.7405 a week earlier.

EQUITIES

Disappointing offshore earnings results from high-profile firms (including Apple, Caterpillar, 3M, Amex, Microsoft and Yahoo) weighed on sentiment and equity markets last week. For our local share market, it was a weak resource sector that held the market down.

The gold price plunged last week on widespread selling out of Shanghai and New York into an illiquid market owing to Asian holidays which triggered a mini-crash. The gold price fell to $1,106.80, its lowest point since August 2010 and far from the $1,800 high in August 2011. Also hurting the market last week was a fall in the price of oil, iron ore (which was back towards the psychological $50 a tonne) and a disappointing market update by BHP, pushing the share price to a six-year low, dragging mining and energy stocks lower.

By the close on Friday the S&P/ASX200 Index had, trading at 5,566.1 compared to 5,670.1 a week earlier.

THIS WEEK

A relatively quiet week for economic data released with only international trade prices, private sector credit and building approvals for June due for release. Following a large rise in "other-dwellings" last month, building approvals are expected to fall this month.

There will be some focus this week on the US Federal Reserve meeting, not that they are expected to move monetary policy this week, but more for any indication/commentary as to when they plan to start raising rates.

INTEREST RATE VIEW

Last week's CPI data showed that both headline and underlying inflation were in-line with the RBA's forecasts and, as such, provide no new ammunition for a near term rate cut. Equally they leave the door open for more easing in the future if needed given that inflation is firmly in the bottom of the RBA's target range. If the outlook for both economic growth and inflation show no signs of picking up by later this year analysts will expect another rate cut. The market continues to look for about 20 basis points of easing over the next year.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.50	2.25	2.00	2.00
90 day Bank Bill	2.65	2.65	2.26	2.15	2.14
180 day Bank Bill	2.66	2.69	2.30	2.27	2.25
1 year swap	2.63	2.44	2.14	2.12	2.05
3 year swap	2.87	2.39	2.23	2.35	2.17
5 year swap	3.26	2.61	2.51	2.79	2.58
10 year swap	3.83	2.96	2.87	3.40	3.17
AUD/USD	0.9409	0.8001	0.7808	0.7711	0.7291
S&P/ASX200 Index	5,583.5	5,501.8	5,933.3	5,545.9	5,566.1

CHARTS OF THE WEEK

As births slow, Procter & Gamble turns to adult diapers

Firm re-enters market for incontinence products as it takes aim at growing ranks of aging Americans

The Procter & Gamble Company is getting back into a business it left more than a decade ago - making products for adults suffering from incontinence - as it takes aim at the growing ranks of aging Americans.

Births peaked in the US at 4.32 million in 2007 and then declined for five years before levelling off recently.

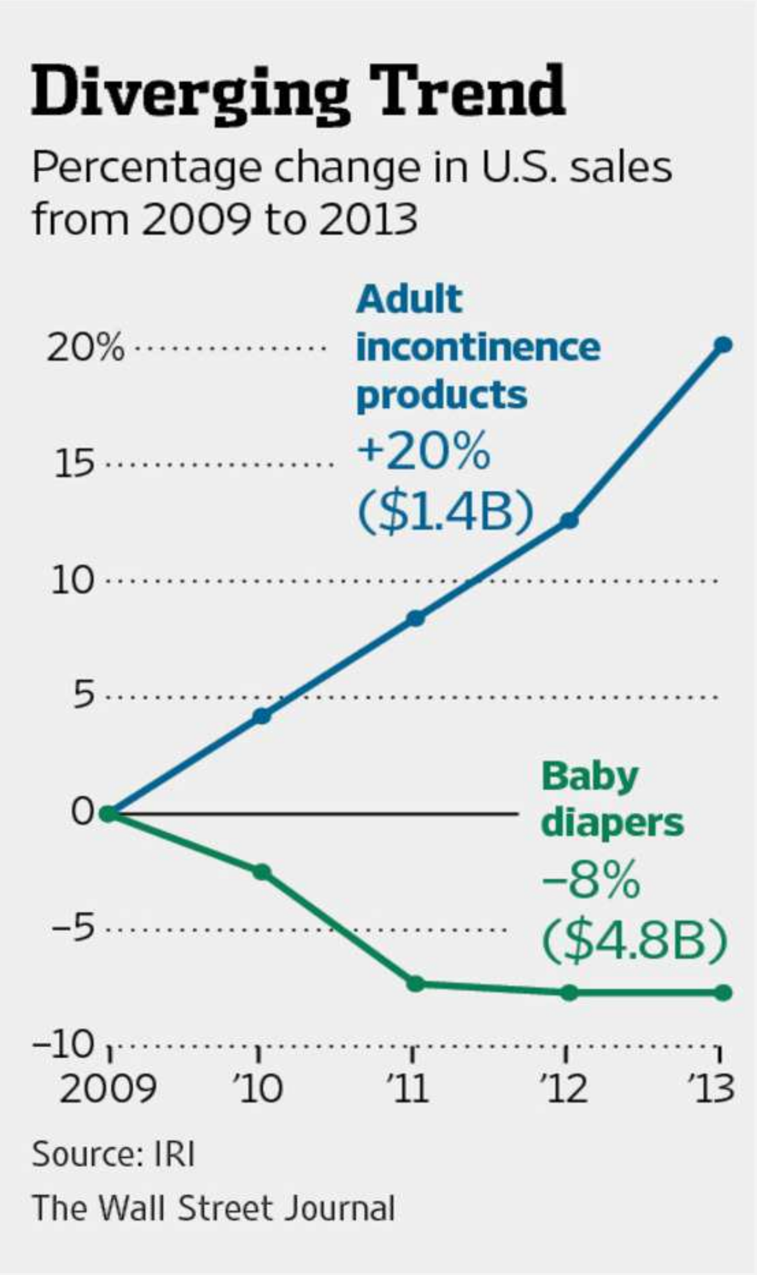
Some 3.96 million babies were born in the US last year, according to preliminary data from the Centres for Diseases Control and Prevention.

The number was up slightly from 2012, but the country's fertility rate dropped to a record low of 62.9 births per 1,000 women of childbearing age. Meanwhile, over 3 million Americans are now turning 65 each year, according to the Pew Research Centre.

"The flip side of the low birth-rate is we're all living longer," Kimberly-Clark Corp. Chief Executive Tom Falk told an investor conference earlier this summer. While demand for the company's Huggies training pants has been weakening, its sales of incontinence products have been growing steadily, he said.

Over the past 15 years, US sales of incontinence products have roughly tripled to around $1.5 billion, according to market-research firms.

Globally, sales of $7 billion are growing at a rate of around 8.4% annually, faster than other paper-based household products, according to Ali Dibadj of Bernstein Research. Mr. Dibadj estimates Procter & Gamble should be able to garner over half a billion dollars in sales of incontinence products within a few years.



Source:
The Wall Street Journal, 16th July, 2014
Article by Serena Ng

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