WEEKLY ECONOMIC COMMENTARY

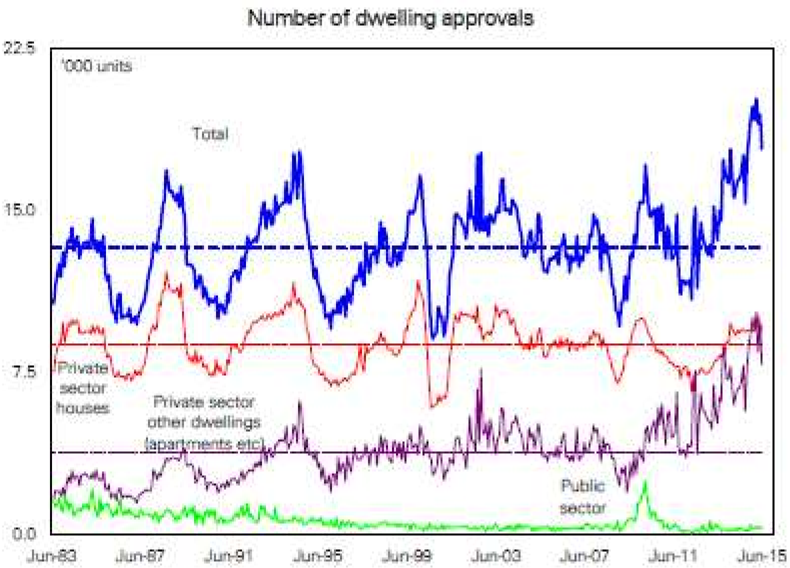
Week beginning 3rd August 2015

ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Building Approvals	June	-8.2%	+2.4%
Private Sector Credit	June	+0.4%	+0.5%

The Australian Bureau of Statistics figures on **building approvals** for June showed the biggest monthly decline in nearly a year. The number of buildings approved fell by 8.2% in June, the largest monthly fall since September 2014, with approval now up 8.6% over the year. This month's fall was driven by a large decline in the approval of "other dwellings", (including apartment blocks and townhouses) which were down 20.4% in the month, but remained 16.3% higher over the year. The lumpy nature of high-rise apartment projects means the sector is prone to monthly volatility. The number of approvals for private houses rose by 4.3% in June to be up 3.3% over the year.



Source: ABS, Deutsche Bank

Total **private sector credit** rose 0.4% in June to be up 5.9% over the last year. Housing credit growth continues to increase, rising 0.6% in June (and +7.3% annually) with investor credit increasing by 1.0% (+10.7% annually). This is more than double the growth rate of owner-occupiers at +0.4% (+5.5% annually). Personal credit was up 0.1% in June (+0.4% annually) while business credit was flat in the month (+4.3% annually).

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	03 Aug	July	n/a	+1.3%
Trade Balance	04 Aug	June	-$3.0bn	-$2.75bn
Retail Sales	04 Aug	June	+0.3%	+0.3%
RBA Board Meeting – Rate Decision	04 Aug	August	2.0%	2.0%
Employment	06 Aug	June	+13,000	+7,300
Unemployment	06 Aug	June	6.0%	6.0%
Housing Finance	07 Aug	June	+3.0%	-6.1%

ECONOMIC COMMENTARY

LAST WEEK

As we close in on month-end, we have seen a bit of stability return to markets after some volatile trading over the last few weeks. The main economic news last week followed the US Federal Reserve Board meeting which confirmed that they look to be on track to start raising US interest rates later this year. This had the effect of pushing bond yields, equities and the US dollar higher into the close of the week.

By the close of trading on Friday, the 90-day bank bill was trading at 2.15% compared to 2.14% a week earlier. In the long term maturities, 3 and 10 year bond yields closed at 1.91% and 2.76% respectively, from 1.90% and 2.82% a week earlier.

CURRENCY

The short positions in the Australian dollar, generated by waves of selling over the last few weeks, was squeezed last week as markets took advantage of a stabilisation in commodities and the Chinese share market pushed the currency higher. A weaker US dollar, on the back of some softer US economic data releases, also added to the Aussie's rally.

By the close on Friday the Australian dollar was trading at USD0.7278 compared to USD0.7291 a week earlier.

EQUITIES

The resumption of China's stock market rollercoaster ride last week has shaken local investors, leading to see-sawing trade on the Australian share market after a global equity sell-off early. The week started on a negative note with the Shanghai Composite Index posting an 8.5% fall last Monday (the second-worst trading session ever) that sent global equity markets lower. Efforts by Beijing to support the market and restore some faith had the desired effect with sentiment and the equity markets rebounding late in the week. A bounce in commodity prices, with base metals (especially iron ore) rallying from six-year lows, also had a positive effect, however sentiment remains fragile in commodity markets despite the recent pause in declines.

By the close on Friday the S&P/ASX200 Index had, trading at 5,699.2 compared to 5,566.1 a week earlier.

THIS WEEK

The economic calendar picks up this week with the latest monthly job ads and labour force data as well as retail sales, trade deficit and housing finance data for June. In addition to the regular monthly Reserve Bank Board meeting, the RBA's Statement on Monetary Policy release is also a key event this week. While no rate change is almost a certainty the RBA's message is expected to retain an easing bias. With little evidence of inflationary pressure, and with consumer confidence remaining relatively subdued, the RBA will likely seek to ensure that monetary policy remains consistent with facilitating further depreciation in the currency that it considers "both likely and necessary".

INTEREST RATE VIEW

Data over the last month has shown stronger than expected employment and a slightly lower unemployment rate and better business sentiment. However, housing finance weakened by more than expected and consumer sentiment fell further into negative territory. Commentary out since the last Reserve Bank Board meeting, including a speech by the RBA Governor, suggested that monetary policy will remain unchanged for at least a few months. Whilst the market is still expecting the next move in rates to be down, there is no persuasive argument for any change in monetary policy this week with virtually no rate cut priced in by the market. It is a different story however a few months forward with almost a 60% probability of a rate cut in November and 80% by early next year. But this may change after the latest Statement on Monetary Policy this week.

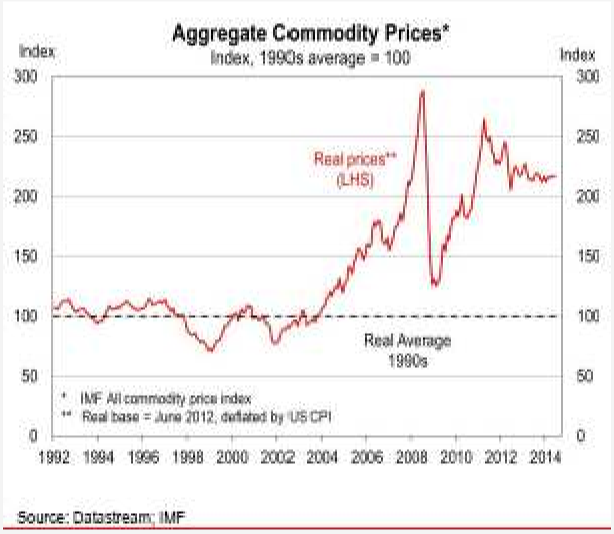
Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.50	2.50	2.25	2.00	2.00
90 day Bank Bill	2.64	2.48	2.20	2.15	2.15
180 day Bank Bill	2.67	2.52	2.26	2.27	2.25
1 year swap	2.63	2.32	2.08	2.12	2.06
3 year swap	2.91	2.27	2.23	2.35	2.18
5 year swap	3.31	2.47	2.57	2.81	2.57
10 year swap	3.88	2.78	3.02	3.46	3.12
AUD/USD	0.9282	0.7784	0.7880	0.7619	0.7278
S&P/ASX200 Index	5,556.4	5,625.3	5,814.4	5,599.8	5,699.2

CHARTS OF THE WEEK

This week's chart comes from HSBC's update on global commodities and shows the long-term trend in real commodity prices from 1865.

Slower growth in emerging economies has led to concerns that commodity prices could fall. But, so far, these fears have proved largely unwarranted.

Despite slower growth in a range of emerging economies over the past year, commodity prices remain structurally high. Indeed, the IMF commodity price index is broadly flat over the past year in nominal terms. A longer term comparison shows that commodity prices are still 115% higher than their 1990s average in inflation-adjusted terms (chart right).



Whilst real commodity prices have fallen 18% since 2011, they are still 115% above their 1990s average in inflation-adjusted terms and are currently around their 150-year average in inflation-adjusted terms (chart below). It is expected that commodity demand will remain strong in the medium term as emerging economies continue on their commodity-intensive development path. On the supply side, production costs for a range of commodities, particularly energy and metals, are higher than they were in the 1990's.

China is expected to continue to be a key source of commodity demand, as urbanisation continues and its rising middle class drives strong demand for higher-quality foods. The recent change of government in India is expected to result in greater demand for energy and metals, as better infrastructure is a priority for the Modi administration.

Source: HSBC Global Research
More Super, less cycle, an update on global commodities
By Paul Bloxham, chief economist Aust. & NZ
10 September 2014

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