

WEEKLY ECONOMIC COMMENTARY

Week beginning 7th July 2014 ECONOMIC DATA ROUNDUP

DATA RELEASED LAST WEEK

Economic Data	Period	Actual	Previous
Private Sector Credit	May	+0.4%	+0.5%
HIA New Home Sales	May	-4.3%	+2.9%
International Trade Balance	May	-\$1.9bn	-\$122m
Building Approvals	May	+9.9%	-5.6%
Retail Sales	May	-0.5%	+0.2%

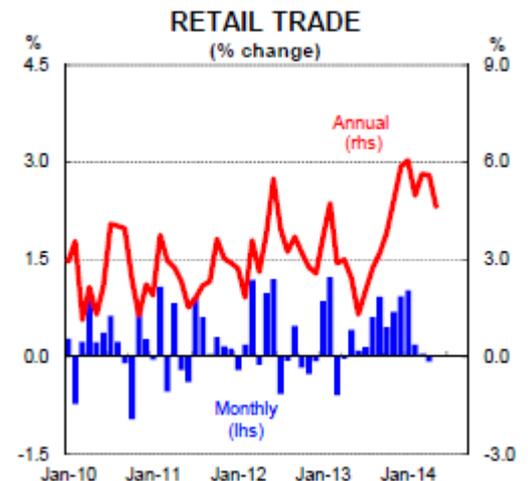
Private Sector Credit continued to increase in May, rising by 0.4% and is now up 4.7% annually, led in particular by solid growth in housing finance. While momentum in the housing market has softened in recent months, housing market sales remain elevated compared to recent years. Within the details, housing finance credit rose 0.5% (+6.2% annually) with the investor housing component up 0.8% (+8.3% annually) and business credit up 0.2% (+2.7% annually). This was partially offset by a fall in personal credit of 0.3% (+0.3% annually).

The Housing Industry Association **New Home Sales** index fell for the first time in five months in May; declining by 4.3% but still up 21% annually. Detached house sales fell by 2.2% in May, while sales of multi-units dropped 16.1%.

Australia's **trade deficit** widened dramatically in May to -\$1.9bn, largely thanks to a fall in commodity exports of 4.6%, with resource exports falling sharply (the value of metal ores and mineral exports (primarily iron ore) fell 9.1% in May). Imports were virtually flat, down 0.6% in May, largely reflecting a 6.0% fall in capital goods.

Building approvals rose 9.9% in May to be up 14.2% annually. Almost the entire rise this month was driven by a 25.5% rise in the volatile "multi-dwelling approvals" (apartments), while approvals to build detached houses rose 0.5%.

Retail sales fell 0.5% in May to be up 2.6% annually, its lowest point since December 2013. Falls were recorded across most components with consumers registering a protest over the Budget with their wallets. The fall this month was a product of the recent deterioration in consumer confidence plus the effect the warmer-than-usual weather (department stores sales (-2.6%), clothing & soft goods (-2.3%) and household goods (-0.9%) posted the largest falls in May).



In a widely expected move, the Reserve Bank of Australia left the official cash rate unchanged at its July board meeting last week, and there are only a few changes to the accompanying statement relative to last month's commentary. The RBA retained its cautious outlook for the domestic economy, with only very minimal changes to the statement compared with last month. The RBA still expects growth to be a little below trend over the year ahead, with a significant decline in mining investment expected to be partly offset by strength in housing construction and "moderate growth" in consumer demand. They continue to expect inflation to stay "moderate" and the unemployment rate not to decline for some time. The comments on the exchange rate were altered slightly, with the Bank likely to be increasingly uncomfortable with the level of the AUD. The last two paragraphs of both the June and July's statements are identical, leaving the ultimate conclusion unchanged that "On present indications, the most prudent course is likely to be a period of stability in interest rates".

Data over the next week

Economic Data	Date	Period	Forecast	Previous
ANZ Job Ads	7 July	June	n/a	-5.6%
Westpac/MI Consumer Sentiment	9 July	July	n/a	+0.2%
Employment	10 July	June	+10,000	-4,800
Unemployment	10 July	June	5.9%	5.8%
Housing Finance	11 July	May	-1.0%	+1.7%

ECONOMIC COMMENTARY

LAST WEEK

While data released last week gave a mixed view of the economy (retail sales down, weak trade data but building approvals up) the events that moved our market last week came late in the week following a speech by the Reserve Bank Governor and some positive offshore data. RBA Governor Glenn Stevens reiterated that interest rate hikes were some time away and once again tried to “jaw-bone” the currency lower by stating that the currency was overvalued (“uncomfortably high”), causing interest rate markets to delay the timing of any prospective rate hike from the RBA. News that the European Central Bank left rates on hold (at record lows) and solid US non-farm payrolls data with a corresponding fall in the US unemployment rate to 6.1% (the lowest since September 2008) pushed bond yields higher last week.

By the close of trading on Friday, the 90-day bank bill was trading at 2.67% compared to 2.71% a week earlier. At the long end, 3 and 10 year bond yields closed virtually unchanged at 2.61% and 3.59% from 2.60% and 3.55% a week earlier.

CURRENCY

The Australian dollar saw increased price volatility last week initially shooting up above USD0.95 last Tuesday after the Reserve Bank of Australia gave a more neutral statement than the market expected following its “no change” interest rate decision. Some strong Chinese manufacturing data and US stocks hitting record highs also helped the local currency, which rose through key resistance levels to a nine-month high of USD0.6506 early last week.

The rally however didn't last long and the Australian dollar dropped over a cent and below USD0.94 after RBA governor Glenn Stevens during a speech in Tasmania last Thursday said the currency was “overvalued, and not by just a few cents” and warned that investors were “under-estimating the likelihood of a significant fall in the Australian Dollar”.

By the close on Friday, the Australian Dollar was trading at USD0.9354 compared to USD0.9431 a week earlier.

EQUITIES

Risk appetite rose last week with offshore equities rallying across the board and pushing markets to new highs. The big news was the Dow closing above the 17,000 level for the first time. Our market followed the offshore lead but was also supported by talk of a possible further rate cut by the RBA if needed, which boosted buying in yield-related stocks. The iron ore price has pushed back above \$96.00 a tonne and hit its highest point in more than a month on the back of upbeat manufacturing data out of China. This in turn helped our resource sector post solid gains last week.

By the close on Friday the S&P/ASX200 Index was trading at 5,525.0 compared to 5,445.1 a week earlier.

THIS WEEK

The highlight of the week ahead will be the release of the June labour force figures on Thursday. After posting a small fall last month, employment is forecast to rise by 10,000 but won't be enough to stop the unemployment rate from rising to 5.9%. Consumer sentiment data on Wednesday will also gain some attention to see whether the modest rise in June (following the large budget-related 6.8% fall in May) will be backed up with another rise this month.

INTEREST RATE VIEW

The interbank interest rate futures market has increased the probability of pricing in another rate cut following the weak retail sales data and as RBA Governor Stevens expresses comfort with the housing market but highlights concern about the strength of the Australian Dollar. The front end of the yield curve is currently pricing in almost 40% chance of a rate cut by the end of 2014. We think this is unlikely as it would take the accumulation of some months of weak economic data for this to occur. It is not until November 2015 that 30-day interbank futures has the probability of a rate hike occurring.

Economic Data	12 months ago	6 months ago	3 months ago	1 month ago	Now
Official Cash Rate	2.75	2.50	2.50	2.50	2.50
90 day Bank Bill	2.83	2.62	2.68	2.69	2.67
180 day Bank Bill	2.81	2.65	2.73	2.72	2.69
1 year swap	2.88	2.86	2.91	2.89	2.81
3 year swap	3.35	3.44	3.41	3.20	3.06
5 year swap	3.85	4.04	3.93	3.64	3.49
10 year swap	4.54	4.91	4.65	4.31	4.15
AUD/USD	0.9142	0.8945	0.9238	0.9336	0.9354
S&P/ASX200 Index	4,841.7	5,324.9	5,422.8	5,464.0	5,525.0

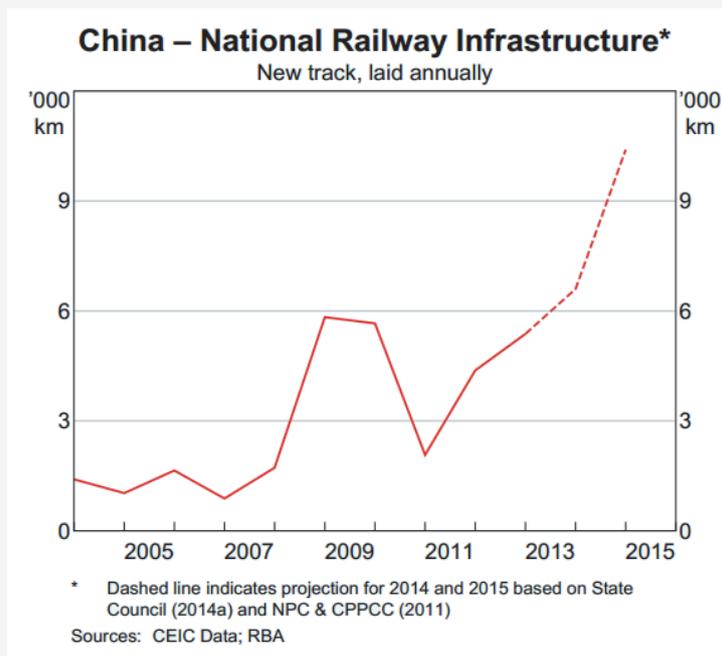
Six unexpected graphs from the RBA's latest report

We've all heard of Christmas in July. Well, for business reporters around Australia, it's Christmas in June thanks to the Reserve Bank of Australia's quarterly bulletin.

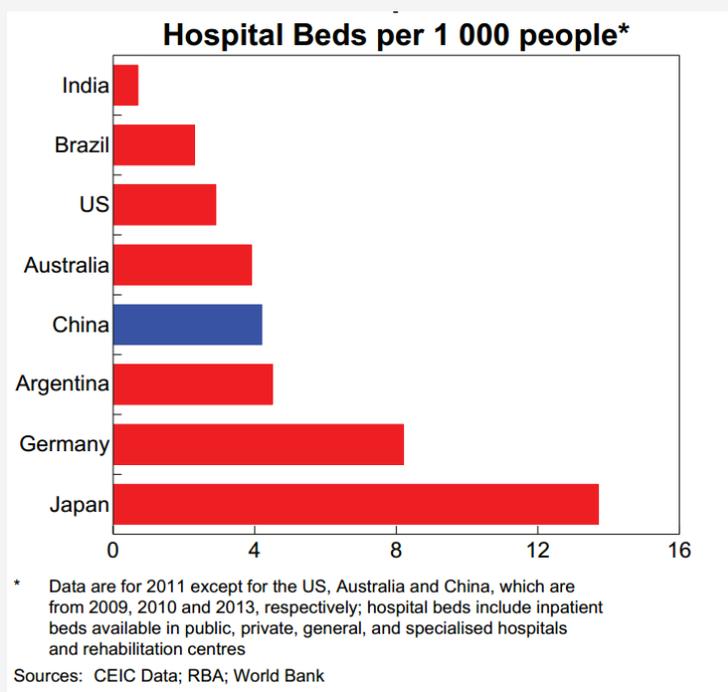
The bulletin is set to generate countless analysis and commentary articles over the next couple of weeks.

To give you a taste of what you can expect from the boffins at our central bank, we pored through the 76-page document and pulled out six unexpected graphs that the RBA has produced for its analysis.

1. While Australia is building roads, China is building rail. Lots and lots of rail.

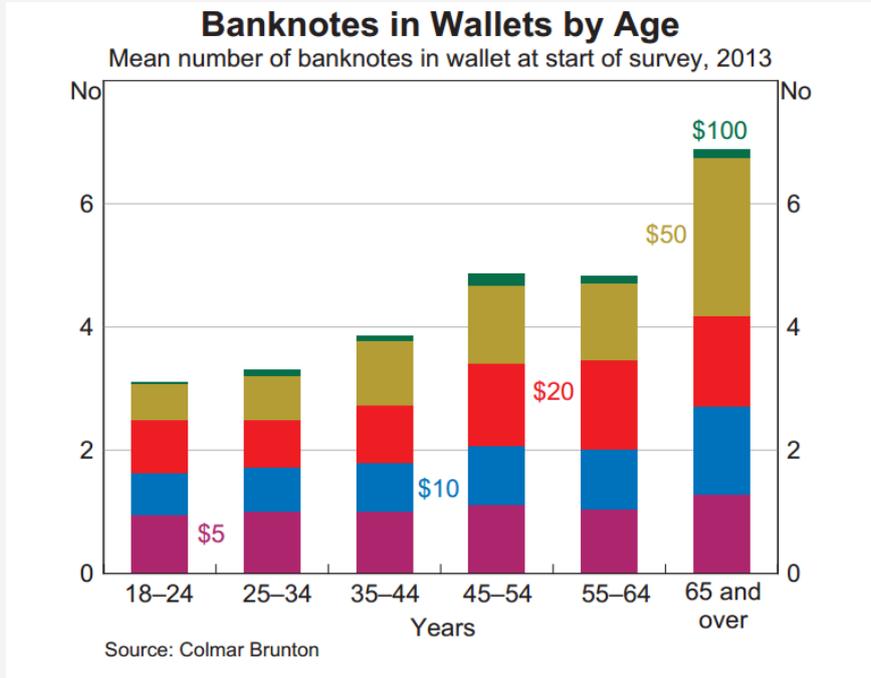


2. But perhaps it should consider building more hospital beds for its ageing population.

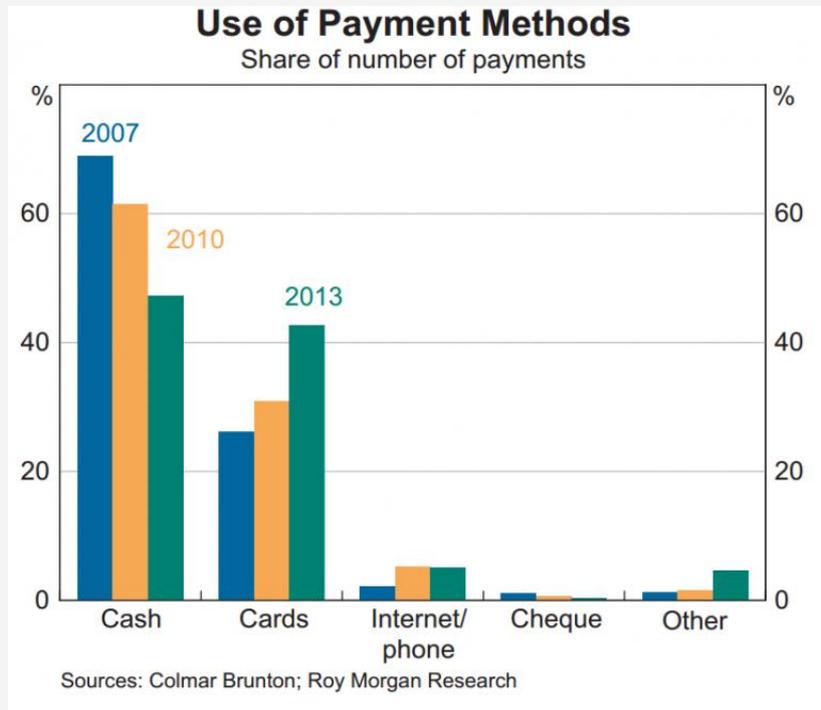


CHARTS OF THE WEEK

3. In Australia, the older you are, the more likely you are to hold copious amounts of cash in your wallet.

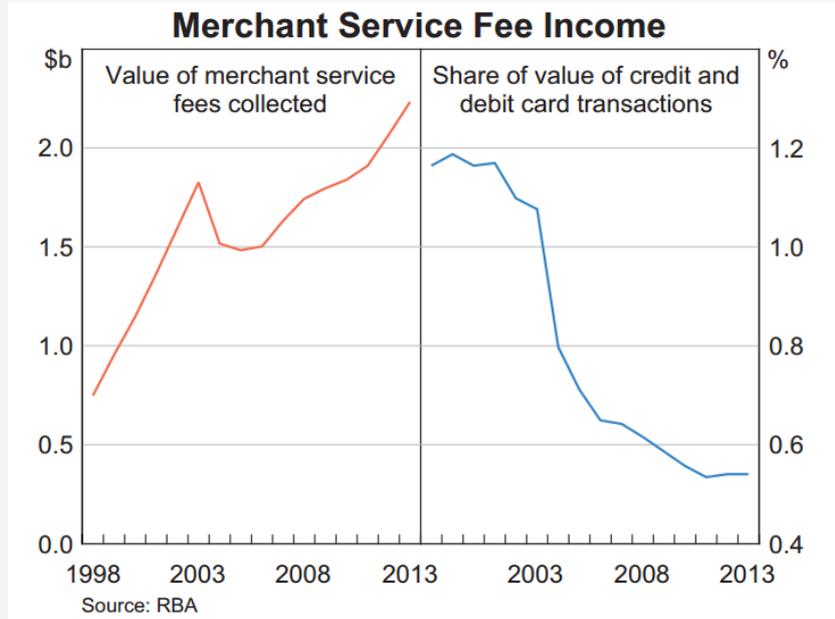


4. Talking about cash, despite the rise of card and contact payments, it's still the predominant means of paying for goods in Australia.

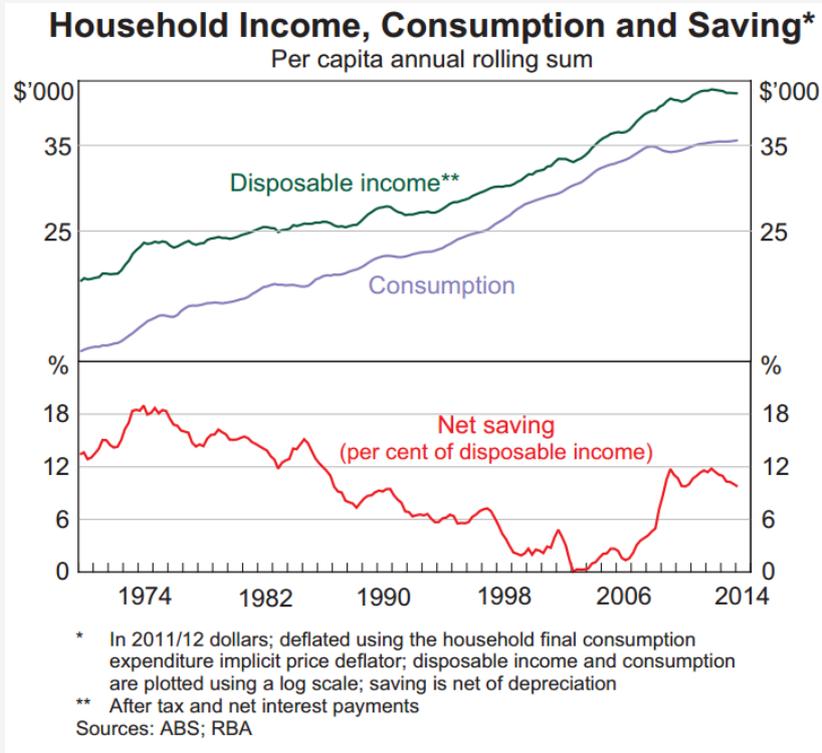


CHARTS OF THE WEEK

5. And this may be why: merchant fees for credit card charges are skyrocketing.



6. But, after decades of growth, household consumption, which accounts for a bit over half of Australia's GDP, has remained fairly stagnant after the Global Financial Crisis.



Source: *Business Spectator*
19 June 2014

Article by: *Harrison Polites*

The full June Quarter 2014 report is available at: www.rba.gov.au/publications/bulletin/2014



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