

Australian Markets Weekly

A weekly outlook for Australia, key global economies and markets

15 June 2015

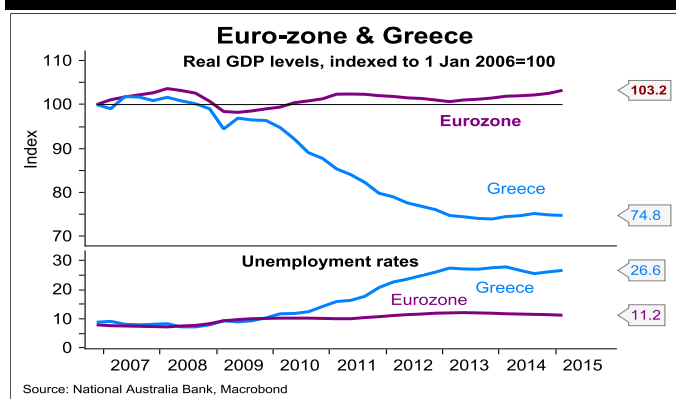
Greece, FOMC focus and more RBA speeches

It's a relatively quiet week as far as local events are concerned. Instead the market is focussed on the next steps after the breakdown in talks between Greece and its European creditors overnight and Thursday's Federal Open Market Committee releasing its latest forecasts and views on Thursday morning our time.

Last Chance Saloon for Greece

As my FX Strategy colleague Ray Attrill has already noted in this morning's *Market Today*, it seems Greece has reached its Last Chance Saloon with news overnight from Brussels that the latest talks aimed at bridging the differences between Greece and her creditors have collapsed. Further pension reforms and widening the VAT are key sticking points, while Greece's plea for a commitment to debt relief continues to be rebuffed.

Chart 1: Greece's economy in dire straights



In a summary posted on the IMF's web site overnight, Olivier Blanchard, Economic Counsellor to the IMF has summarised in a retrospective note what needed to be done to get a deal across the line. (You can read Blanchard's post [here](#).) Looking back at the 2012 bailout, Blanchard says the central point of the 2012 program was about Greece achieving enough of a primary budget balance (non-interest) to limit its indebtedness and agreeing to associated reforms. European creditors were to provide the needed financing and provide debt relief if debt exceeded 120% by the end of the decade.

As part of that 2012 program, by 2015, Greece was to have achieved a 3% of GDP primary surplus, increasing to 4.5% of GDP in 2016. (Such a forecast was still included in the IMF's [Fiscal Monitor](#) released in April this year.) This target will now not be met; indeed, it's now readily apparent from news over recent months that Greece's finances remain in a perilous state with its budget most likely in primary deficit. In other words, even if it had no debt and thus no interest payment, its budget remains in the red and needs external finance to sustain government spending at current levels.

Greece's creditors are demanding pension reform amounting to a cut of 1% of GDP together with a widening of the VAT. (Greece's pensions amount to some 16% of GDP; by contrast, Australia's age, disability and family income support amounts to 5.4% of GDP.) The IMF's Blanchard has noted in his post overnight that the pension reform could be achieved while still protecting the poorest pensioners and that they were always open to alternative pension reform design. It's also understood that such pension reform is a no go area for PM Tsipras and so it is not a surprise that Greece's negotiators have strongly rebuffed the proposed policy reforms and negotiations broken down.

What next?

With its budget still in primary deficit, the Greek Government's finances remain fragile. The ball is now in Greece's court. It is increasingly apparent that Greece really has reached the Last Chance Saloon for political level agreement that avoids an otherwise inevitable default to the IMF on 30 June, and the ECB later in July. A reported meeting of Eurozone finance ministers this Thursday (18 June) is being cited as the next opportunity for an agreement to be reached according to Greek sources.

Today, watch for a possible announcement that the ECB is raising the 'haircut' on Greek collateral currently accepted by the ECB in return for its funding of Greek banks under the Emergency Liquidity assistance (ELA) programme.

Markets in early trade today initially sold the Euro lower, with the Euro lower on the crosses, including against the AUD, the AUD/USD initially getting some support. That initial support for the AUD/USD has since been unwound. Any escalation in market volatility would also be a negative for the AUD/USD.

New Fed funds and economy Fed forecasts

On Thursday morning (4am AEST), the Fed will release its new set of growth, inflation and unemployment forecasts and its "dot point" FOMC member forecasts for the Fed funds rate. No one expects any change in the Fed funds rate, though markets remain priced toward Fed rate lift-off later this year. NAB's core view remains for Fed Funds rate lift-off will be announced at the 18 September FOMC, with clearer evidence of returning US economic growth and thus confidence in the Fed reaching its 2% PCE inflation target.

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7719	0.2	RBA cash	2.00	0
AUD/CNY	4.79	1.2	3y sw ap	2.32	-4
AUD/JPY	95.3	-0.4	ASX 200	5,518	0.4
AUD/EUR	0.689	0.5	Iron ore	65.1	1.1
AUD/NZD	1.107	2.6	WTI oil	59.7	2.7

Source: Bloomberg

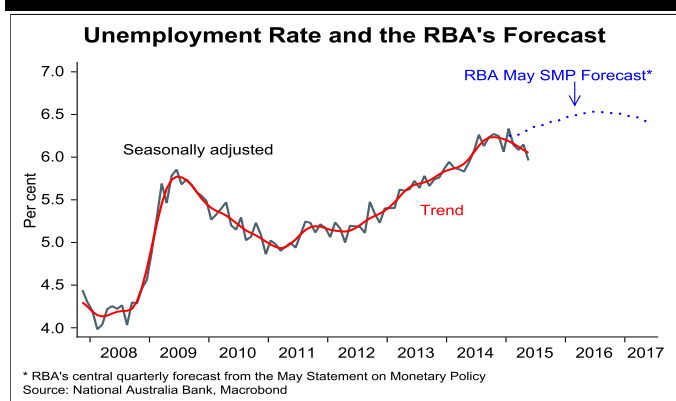
The FX and bond market will be paying close attention to the Fed Policy Statement, to what Fed Chair Yellen has to say in her press conference, and new US economy forecasts, with particular forecasts on those dot point estimates of the Fed funds rate for the end of 2015, 2016 and 2017.

The previous median of the dot points at the March 18 FOMC (its most recent set of forecasts) had a median Fed funds forecast of 50-75 bps for the end of 2015 and 1.75-2% for the end of 2016. The US market at the end of last week was 53% priced for a September 18 lift-off. If the Fed hangs tough and hold to its median Fed Funds forecast for end 2015, that would be supportive of short-term US yields and we expect the USD.

Two RBA speeches the local event highlights

As far as local events are concerned, the week kicks off later this afternoon with a speech from Chris Kent, RBA Assistant Governor (Economic) at 5.30pm. At the time of writing, there was no speech title. Given he is chief economic adviser and that he's speaking at the Australian National University in Canberra, there'll most likely be a good measure of economy focus even though it comes at the heels of Governor Stevens' speech this week that set out the broad policy parameters, including the limits to what monetary policy can do to promote sustainable economic growth.

Chart 2: Unemployment outcomes better than RBA forecasts



There is also a speech tomorrow morning (7.55am) and panel participation by Guy Debelle, Assistant Governor (Financial Markets), at the Launch of Financial Integration in the Asia Pacific: Future of Australian Financial Services, Sydney. Debelle is extremely market savvy and the market always pays close attention to his comments, especially in this environment of Greek uncertainties and in the lead up Thursday's FOMC.

The RBA Minutes of this month's Board meeting are also being released tomorrow. While the market always pays attention to the main headlines of the Minutes, Stevens' speech last week has already provided a good dollop of policy guidance. The market may well be paying closer attention to what Kent and Debelle have to say for any clues on the finer detail on the economy, including any impressions or reaction to the latest set of data this week on confidence and the stronger labour market report which now sees the unemployment rate below the RBA's earlier May forecasts (Chart 2). Besides the above RBA speeches and Minutes, there is also the RBA Bulletin that includes the Bank's latest in-depth research on the economy and wider financial policy issues.

Data-wise, there is the Tuesday's weekly ANZ-Roy Morgan consumer confidence and motor vehicle sales (which may be interesting following the May budget's \$20,000 investment tax allowance-note this is yet to be legislated) and monthly RBA FX transactions detail, released Thursday.

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Calendar of Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 15 June 2015								
NZ	Performance Services Index	May				56.5	22.30	8.30
IN	Wholesale Prices YoY	May				-2.65%	6.30	16.30
AS	ECB's Nowotny Speaks at Austrian Central Bank Conference						7.00	17.00
AU	RBA's Chris Kent, Assistant Governor (Economic) speaks						7.30	17.30
JN	Cabinet Office Monthly Economic Report							
EC	Trade Balance SA	Apr				19.7B	9.00	19.00
AS	ECB's Praet speaks at Austrian Central Bank Conference						9.45	19.45
CA	Manufacturing Sales MoM	Apr				2.90%	12.30	22.30
US	Empire Manufacturing	Jun		5.0		3.09	12.30	22.30
CA	Existing Home Sales MoM	May				2.30%	13.00	23.00
US	Industrial Production MoM	May		0.20%		-0.30%	13.15	23.15
CA	Bloomberg Nanos Confidence	Jun-12					14.00	0.00
US	NAHB Housing Market Index	Jun		56		54	14.00	0.00
US	Net Long-term TIC Flows	Apr				\$17.6B	20.00	6.00
US	Total Net TIC Flows	Apr				-\$100.9B	20.00	6.00
Tuesday, 16 June 2015								
AU	RBA's Debelle Gives Speech in Sydney at Financial Services Forum						21.55	7.55
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun-14				112.1	23.30	9.30
AU	RBA June Meeting Minutes						1.30	11.30
AU	New Motor Vehicle Sales MoM	May				-1.50%	1.30	11.30
GE	CPI MoM/YoY	May F		0.1%/0.7%		0.1%/0.7%	6.00	16.00
UK	CPI MoM	May		0.20%		0.20%	8.30	18.30
UK	PPI Output Core NSA MoM	May		0.00%		0.00%	8.30	18.30
UK	ONS House Price YoY	Apr				9.60%	8.30	18.30
EC	Employment QoQ	1Q				0.10%	9.00	19.00
GE	ZEW Survey Current Situation	Jun		64		65.7	9.00	19.00
EC	ZEW Survey Expectations	Jun				61.2	9.00	19.00
US	Housing Starts	May		1100K/-3.1%		1135K/20.2%	12.30	22.30
CA	Int'l Securities Transactions	Apr				22.50B	12.30	22.30
NZ	Dairy auction (early AM)					-4.30%		
Wednesday, 17 June 2015								
NZ	BoP Current Account Balance	1Q				-3.194B	22.45	8.45
NZ	Current Account GDP Ratio YTD	1Q	-3.70%			-3.30%	22.45	8.45
JN	Trade Balance Adjusted	May		¥204.8B		¥208.7B	23.50	9.50
AU	Westpac Leading Index MoM	May				0.10%	0.30	10.30
SI	Electronic Exports YoY	May				-3.80%	0.30	10.30
JN	Machine Tool Orders YoY	May F				15.00%	6.00	16.00
UK	Jobless Claims Change	May		-13.8K		-6.5K	8.30	18.30
UK	Average Weekly Earnings 3M/YoY	Apr		2.40%		1.90%	8.30	18.30
UK	ILO Unemployment Rate 3Mths	Apr		5.50%		5.50%	8.30	18.30
UK	Bank of England Minutes						8.30	18.30
EC	Construction Output MoM	Apr				0.80%	9.00	19.00
EC	CPI MoM/YoY	May F		0.2%/0.3%		0.2%/0.3%	9.00	19.00
US	MBA Mortgage Applications	Jun-12				8.40%	11.00	21.00
CA	Wholesale Trade Sales MoM	Apr				0.80%	12.30	22.30
US	FOMC Rate Decision	Jun-17		0.00%-0.25%		0.00%-0.25%	18.00	4.00
Thursday, 18 June 2015								
NZ	GDP SA QoQ/YoY	1Q	0.60%	0.60%		0.8%/3.5%	22.45	8.45
CH	Property Prices	May					1.30	11.30
AU	RBA Bulletin						1.30	11.30
AU	RBA FX Transactions Government	May				-419M	1.30	11.30
AU	RBA FX Transactions Market	May				274M	1.30	11.30
AU	RBA FX Transactions Other	May				72M	1.30	11.30
EC	ECB Publishes Economic Bulletin						8.00	18.00
UK	Retail Sales Ex Auto Fuel MoM	May		-0.20%		1.20%	8.30	18.30
EC	Labour Costs YoY	1Q				1.10%	9.00	19.00
US	Current Account Balance	1Q		-\$116.4B		-\$113.5B	12.30	22.30
US	CPI MoM/YoY	May		0.5%/0.0%		0.1%/-0.2%	12.30	22.30
US	Initial Jobless Claims	Jun-13				279K	12.30	22.30
US	Philadelphia Fed Business Outlook	Jun		8.0		6.7	14.00	0.00
US	Leading Index	May		0.4%		0.7%	14.00	0.00
Friday, 19 June 2015								
NZ	ANZ Job Advertisements MoM	May				-0.20%	22.00	8.00
NZ	ANZ Consumer Confidence Index	Jun				123.9	1.00	11.00
NZ	ANZ Consumer Confidence MoM	Jun				-3.80%	1.00	11.00
CH	MNI Business Indicator	Jun				49.7	1.45	11.45
JN	Bank of Japan Policy Statement/Kuroda Press Conference						3.00	13.00
JN	All Industry Activity Index MoM	Apr		0.30%		-1.30%	4.30	14.30
JN	Leading Index CI	Apr F					5.00	15.00
EC	ECB Current Account SA	Apr				18.6B	8.00	18.00
UK	Public Finances (PSNCR)	May				-4.0B	8.30	18.30
CA	CPI Core MoM/YoY	May				0.1%/2.3%	12.30	22.30
CA	Retail Sales MoM	Apr				0.70%	12.30	22.30
CA	Retail Sales Ex Auto MoM	Apr					12.30	22.30
JN	BOJ Annual Rise in Monetary Base	Jun-19				¥80T	14.00	0.00
UK	CBI Trends Total Orders	Jun				-5	14.00	0.00
US	Fed's Mester (alt) Speaks at Fed Policy Summit in Pittsburgh						16.00	2.00
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	18-Jun				0%-0.25%		
Japan	BoJ	19-Jun	0.0%-0.1%	0.0%-0.1%		0.0%-0.1%		
Australia	RBA	7-Jul	2.00%	2.00%		2.00%		
UK	BOE	9-Jul	0.50%	0.50%		0.50%		
Europe	ECB	16-Jul	0.05%	0.05%		0.05%		
Canada	BoC	16-Jul				0.75%		
New Zealand	RBNZ	23-Jul	3.00%	3.00%/3.25%		3.25%		

GMT: Greenwich Mean Time; AEST: Australian Eastern Standard Time

Forecasts

Economic Forecasts

	Annual % change				Quarterly % change											
	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016	2013	2014	2015	2016
Australia Forecasts																
Household Consumption	1.7	2.5	2.5	2.7	0.3	0.4	0.8	0.6	0.5	0.7	0.5	0.8	0.5	0.5	0.5	0.7
Underlying Business Investment	-4.5	-6.4	-10.2	-10.2	-4.9	-1.5	0.8	-3.5	-2.4	-0.9	-1.0	-1.5	-4.6	-2.1	-4.1	-2.0
Residential Construction	0.5	7.9	11.7	6.5	-2.7	3.0	0.3	1.3	4.3	1.7	-1.2	3.9	4.7	2.8	2.3	2.5
Underlying Public Spending	0.4	0.8	0.0	1.1	2.7	-0.2	-0.5	1.3	0.3	0.5	-1.4	0.1	0.2	0.2	0.2	0.2
Exports	6.3	6.8	10.6	8.6	0.9	3.7	-0.6	1.7	4.1	-1.6	3.1	1.6	5.0	2.0	1.9	2.1
Imports	-1.8	-1.6	2.4	1.2	-3.3	2.8	-1.4	-0.5	-2.5	3.1	-1.2	-1.6	3.1	0.4	-0.2	0.6
Net Exports (a)	1.6	1.7	1.8	1.7	0.9	0.1	0.2	0.4	1.4	-0.9	0.9	0.7	0.5	0.4	0.5	0.3
Inventories (a)	-0.3	0.0	0.1	0.0	-0.2	0.3	-0.3	-0.2	-0.3	0.9	0.1	-0.7	0.5	-0.2	-0.1	0.1
Domestic Demand - qtr%					-0.1	0.2	0.5	0.2	0.3	0.6	-0.4	0.5	0.0	0.3	0.0	0.4
Dom Demand - ann %	0.5	1.1	0.8	1.0	0.5	0.0	0.6	0.7	1.1	1.5	0.7	1.0	0.8	0.5	0.9	0.8
Real GDP - qtr %					0.3	0.7	0.4	0.8	1.0	0.6	0.3	0.5	0.9	0.6	0.4	0.8
Real GDP - ann %	2.1	2.7	2.5	2.7	2.0	2.1	1.9	2.2	2.9	2.8	2.7	2.4	2.3	2.3	2.4	2.8
CPI headline - qtr %					0.4	0.4	1.2	0.8	0.6	0.5	0.5	0.2	0.2	0.5	0.8	0.9
CPI headline - ann %	2.4	2.5	1.7	3.1	2.5	2.4	2.2	2.7	2.9	3.0	2.3	1.7	1.3	1.4	1.7	2.5
CPI underlying - qtr %					0.5	0.6	0.6	0.9	0.6	0.7	0.4	0.6	0.6	0.5	0.6	0.7
CPI underlying - ann %	2.4	2.6	2.3	2.6	2.3	2.4	2.3	2.6	2.7	2.8	2.5	2.3	2.4	2.2	2.4	2.4
Wages (Pvt WPI -ann %)	2.9	2.5	2.2	2.2	3.1	3.0	2.8	2.5	2.6	2.4	2.4	2.5	2.2	2.2	2.2	2.2
Unemployment Rate (%)	5.7	6.0	6.3	6.3	5.6	5.7	5.7	5.9	5.8	6.0	6.2	6.1	6.2	6.3	6.3	6.4
Terms of trade	-3.8	-7.4	-10.6	-2.1	1.0	-0.3	-1.3	0.4	-1.9	-4.6	-2.9	-1.5	-2.9	-5.9	-0.4	1.2
G&S trade balance, \$Abn	-10.4	-9.2	-21.8	-4.7	-3.0	-2.8	-3.3	-1.3	2.7	-5.1	-4.0	-2.7	-3.7	-7.6	-6.3	-4.2
% of GDP	-0.7	-0.6	-1.3	-0.3	-0.8	-0.7	-0.9	-0.3	0.7	-1.3	-1.0	-0.7	-0.9	-1.9	-1.5	-1.0
Current Account (% GDP)	-3.3	-2.8	-3.1	-2.0	-3.3	-3.4	-3.6	-3.1	-1.9	-3.6	-3.1	-2.5	-2.7	-3.6	-3.3	-2.7

Source: NAB Group Economics; (a) Contributions to GDP growth

Exchange Rate Forecasts

	15-Jun	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Majors						
AUD/USD	0.7719	0.78	0.76	0.74	0.73	0.73
NZD/USD	0.6973	0.71	0.69	0.68	0.67	0.66
USD/JPY	123.47	123	124	125	126	126
EUR/USD	1.1206	1.08	1.05	1.03	1.02	1.03
GBP/USD	1.5542	1.50	1.46	1.45	1.44	1.43
USD/CNY	6.2084	6.20	6.25	6.20	6.20	6.18
USD/CAD	1.2331	1.25	1.24	1.22	1.21	1.20

Australian Cross Rates

AUD/JPY	95.3	96	94	93	92	92
AUD/EUR	0.6888	0.72	0.72	0.72	0.72	0.71
AUD/GBP	0.4967	0.52	0.52	0.51	0.51	0.51
AUD/NZD	1.1070	1.10	1.10	1.09	1.09	1.11
AUD/CNY	4.7923	4.84	4.75	4.59	4.53	4.51
AUD/CAD	0.9518	0.98	0.94	0.90	0.88	0.88
AUD/CHF	0.7200	0.75	0.75	0.75	0.76	0.75

Interest Rate Forecasts

	15-Jun	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Aust rates						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.00
3 month bill rate	2.16	2.15	2.15	2.15	2.15	2.20
3 Year Swap Rate	2.32	2.3	2.4	2.3	2.7	2.8
10 Year Swap Rate	3.35	3.1	3.2	3.2	3.5	3.5
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.50	0.75	0.75	1.25
ECB refi rate	0.05	0.05	0.05	0.05	0.05	0.05
BoE repo rate	0.50	0.50	0.50	0.50	0.75	1.00
BoJ overnight call rate	0.08	0.10	0.10	0.10	0.10	0.10
RBNZ OCR	3.25	3.50	3.50	3.50	3.50	3.50
China 1yr lending rate	5.10	5.20	5.20	5.20	5.20	5.20
China Reserve Ratio	18.5	19.5	19.5	19.5	19.5	19.5
10 Year Benchmark Bond Yields						
Australia	2.98	2.8	2.9	2.8	3.1	3.1
United States	2.35	2.25	2.50	2.50	2.8	2.8
Europe/Germany	0.83	0.3	0.4	0.6	0.7	0.8
UK	1.99	1.8	2.0	2.1	2.2	2.4
New Zealand	3.83	3.5	3.8	3.8	4.0	4.0

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	20 Yr Ave
Australia	2.1	2.7	2.5	2.7	3.4
US	2.2	2.4	2.5	2.7	2.6
Eurozone	-0.4	0.9	1.4	1.8	1.5
UK	1.7	2.8	2.2	2.4	2.4
Japan	1.6	-0.1	0.8	1.3	0.8
China	7.7	7.4	7.1	6.9	9.2
India	6.3	7.2	7.7	7.9	6.6
New Zealand	2.2	3.3	2.8	2.0	3.0
World	3.3	3.3	3.2	3.4	3.5

Commodity prices (\$US)

	15-Jun	Jun-15	Dec-15	Jun-16	Dec-16
WTI oil	59.73	52	55	60	63
Gold	1181	1180	1150	1070	1060
Iron ore	65	58	60	61	60
Hard cok. coal	112	110	98	95	94
Thermal coal	62	68	68	68	68
Copper	5893	5900	6080	6260	6230
Japan LNG	11.9	12.0	11.0	11.0	11.0

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