

# Australian Markets Weekly

## RBA to hold the line on rates

- RBA to keep monetary policy unchanged at tomorrow's Board meeting – the key question will be whether the Bank still sees prospects for a pick-up in growth
- Global market volatility likely makes the RBA watchful but global outlook has not materially changed
- Australian labour market outperformance a continuing centrepiece of discussion
- The Board has time to continue reviewing domestic economic signals as global economic/financial developments evolve
- NAB expects the Reserve Bank to remain on hold through this year
- Friday's quarterly Statement on Monetary Policy likely to reveal little change in Australia's key macroeconomic forecasts
- Inflation continues to provide scope to ease if required. CPI forecasts to be little altered, though RBA to recognise greater exchange rate pass-through in latest quarter
- RBA to reduce unemployment rate forecast – a key question is whether non-mining growth is stronger than recognized and/or potential growth is even lower than estimated

### Domestic economy still arguing for unchanged RBA policy

"...I think the power of policy to just dial up more growth is perhaps not as strong as it was. My own feeling has been if you think things are shaping up to deliver an improvement, let's see how that goes for a while, and we still have some firepower to use if it makes sense to. So I maintain the view that we can ease further if that's helpful. Right now, I think with the improvement we're seeing, the prudent and obviously sensible thing to do is to see how that goes." RBA Governor Stevens interview with the AFR, 15 December 2015

### Cloudy international outlook for the RBA to ponder

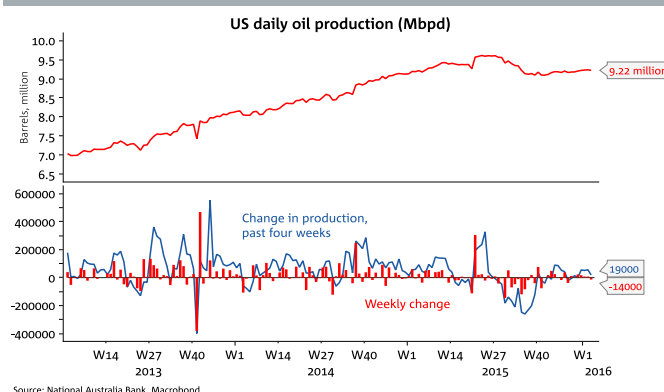
If RBA Governor Stevens paraphrases this statement when he opens tomorrow's meeting, no one would be particularly surprised. Australian monetary policy settings are now on an accommodative setting, the domestic economy still shows signs of growth resilience amid signs of heightened global volatility with the collapse in the price of oil and a move away from "risk" assets under the spotlight. In its January forecast update, the IMF downgraded its forecasts for world growth, largely on the back of reduced growth from emerging markets

### Key markets over the past week

|         | Last   | % chg week | Last     | bp / % chg week |
|---------|--------|------------|----------|-----------------|
| AUD     | 0.7066 | 1.6        | RBA cash | 2.00 0          |
| AUD/CNY | 4.65   | 1.1        | 3y swap  | 2.04 -4         |
| AUD/JPY | 85.7   | 4.1        | ASX 200  | 5,054 2.9       |
| AUD/EUR | 0.651  | 1.6        | Iron ore | 41.7 -1.1       |
| AUD/NZD | 1.091  | 1.3        | WTI oil  | 33.0 8.7        |

Source: Bloomberg

Chart 1:



### Author:

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(Russian, Brazil). NAB is expecting little change in global economic growth this year and next, close to 3.0% after estimated growth of 2.9% for 2015. Australia's terms of trade appear to be evolving much as expected. Iron ore prices have been steadier of late.

Oil prices have been the centre of market attention since the start of the year. Brent crude at the time of the December RBA Board meeting was \$US44.44. It has since fallen to a low of close to \$27 on January 20, before recovering recently to \$35.91 at the end of last week. The biggest factor weighing on oil prices remains oversupply, from the United States, OPEC, and elsewhere. US production – the biggest swing producer in recent years from the boom in shale oil – remains resilient: after peaking at over 9.6mbpd in May 2015, output has since remained steady at over 9.2mbpd for some months despite signs that new exploration activity continues to be cut.

It's still to be revealed whether the collapse in oil prices ultimately proves to be a net positive or negative for the global economy. So far, there is earlier weakness in oil and gas spending and related manufacturing, while the effects on the consumer remain relatively modest (though these are often somewhat lagged). Friday's US fourth quarter GDP report revealed that consumer spending grew at a 2.2% annualised rate in the fourth quarter down from 2¾% in the first three quarters of the year. Also on the negative side, some signs of financial stress among global oil producers are emerging, with reports that Azerbaijan and Nigeria are seeking international financial assistance.

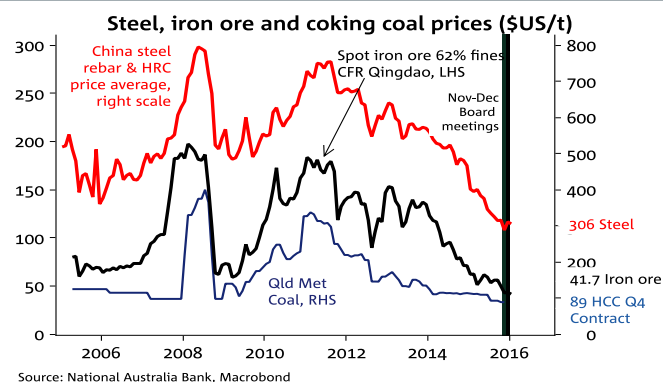
The apparent resilience of spot iron ore prices over the past two months is likely to provide the RBA with a little more confidence that it need not take the knife to its formal forecast of Australia's terms of trade.

### Domestic economy still outperforming

The Board will likely be briefed that the Australian economy remains on a somewhat below potential growth path with confidence levels at around long term average levels. Reported in early December after the December Board meeting, September quarter GDP rebounded as expected after the weather interrupted coal exports in Q2. And even discounting some of the reported incredible net rate of job creation in the November-December labour market data, the Australian labour market continues to exhibit some strength, questioning how far Australian growth is actually below trend. Retail sales continued to grow at a healthy clip through November, a theme we expect will be reinforced in this week's retail sales report for December out Friday.

Also, the NAB business survey has shown close to average levels of business confidence – notwithstanding elevated levels of market volatility – and above-average levels of business conditions suggest that the non-mining/domestic side of the Australian economy has continued to make progress.

Chart 2: Stability in iron ore prices through year end

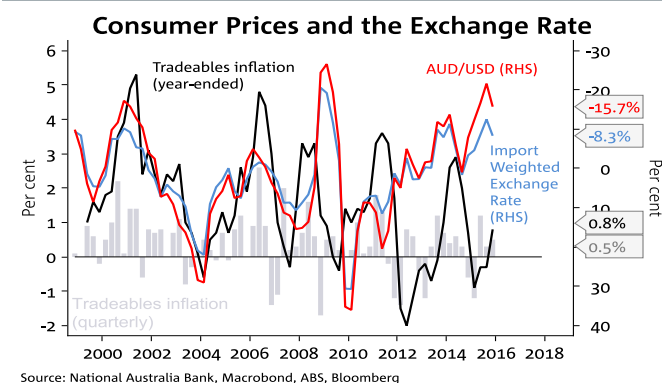


For Australia, China remains at the top of Australia's export watch list, as always. As best as can be ascertained, Chinese reports on the performance of the economy reveal continued growth – if it a somewhat slower pace – into the end of last year, the economy overall expanding at a 6.9% pace for 2015 down from 7.3% for 2014. There is however much slower growth in the industrial side of the Chinese economy compared to consumer-oriented spending.

NAB expects Chinese growth to slow further to 6.5% by 2017. Today's just-released manufacturing and non-manufacturing PMIs for January point to some further slowing in Chinese economy at the start of the year.

While oil prices have fallen further, iron ore prices have changed little overall since the RBA Board last met in December, the spot price of 62% Quingdao fines remaining close to US\$42/t, though coal prices have eased further.

Chart 3: Some exchange rate pass-through appearing



Last week's December quarter inflation report revealed that inflation in the December quarter was right in line with the RBA's November Statement on Monetary Policy forecasts. One aspect of the inflation report worth noting was the appearance of some pass-through from the lower exchange rate into consumer prices into the likes of clothing prices and electronic goods. To the extent that we can glean anything from this, it plays to the theme of better demand facilitating retail price rises and margin protection through the latter part of 2015.

### Labour market a key focus

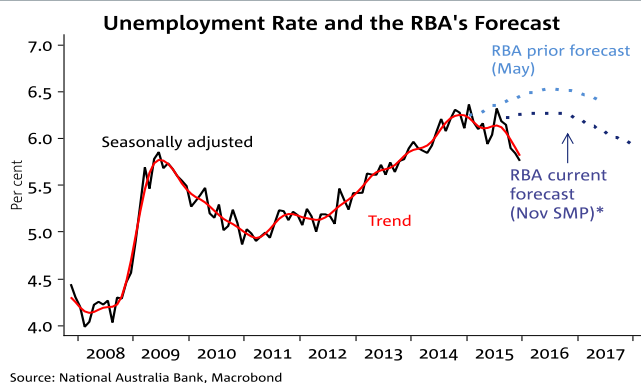
The outperformance of the Australian labour market, including the rate of new job creation should remain a major focus for the Reserve Bank and the market.

To say that the Reserve Bank and the market have been astounded by the improvement of the Australian labour market over the past year would not be a stretch of the imagination. While the contraction in mining/resource capital investment had been widely foreseen, what has

caught everyone's attention has been the much better than expected labour market outcomes produced by the non-mining economy, particularly in the Eastern states.

Growth has tilted to the more labour-intensive sectors and industries, with labour demand bolstered by continued wage moderation and increased labour supply despite slower rates of population growth. Increased labour supply has appeared thanks to increased workforce participation with new workforce entrants responding to higher levels of job opportunity. That has been a consistent theme through the second half of last year.

Chart 4: Australia's astounding labour market



Source: National Australia Bank, Macrobond

Even looking through the unbelievable rate of net new job creation in November-December, the RBA's November Statement forecasts for unemployment will need to be refreshed. The November Statement forecast that "the unemployment rate is projected to remain within its recent range of 6 to 6 ¼% over the next year and to decline only gradually towards the end of the forecast period". Without overreacting to the most recent labour market reports we suspect that the characterisation of the RBA's outlook for the unemployment rate in Friday's Statement will be something along the lines of "the unemployment rate is expected to decline gradually over time from around the 5.75-6% mark".

Understanding what recent labour market developments mean for Australia's potential growth rate, or indeed Australia's growth rate overall, remains a work in progress. For now, the improvement and resilience seen both in the labour market and other high-frequency economic reports is buying the Reserve Bank more time to remain on hold, while low inflation provides scope to ease if demand disappoints or the anticipated firming fails to realise.

# Calendar of Economic Releases

| Country  | Economic Indicator  | Period | Forecast       | Consensus      | Actual | Previous       | GMT   | AEDT  |
|--|---|--------|----------------|----------------|--------|----------------|-------|-------|
| <b>Monday, 1 February 2016</b>                           |   |        |                |                |        |                |       |       |
| NZ   | Auckland Anniversary Day holiday  |        |                |                |        |                |       |       |
| NZ   | Net Migration SA  | Dec    |                |                |        | 6260           | 21.45 | 8.45  |
| AU   | AiG Perf of Mfg Index   | Jan    |                |                |        | 51.9           | 22.30 | 9.30  |
| AU   | CoreLogic RP Data House Px MoM  | Jan    | 0.9%           |                |        | -1.5           | 23.00 | 10.00 |
| AU   | TD Securities Inflation MoM/YoY   | Jan    |                |                |        | 0.2/2          | 23.30 | 10.30 |
| CH   | Manufacturing PMI   | Jan    |                | 49.6           | 49.4   | 49.7           | 1.00  | 12.00 |
| CH   | Non-manufacturing PMI   | Jan    |                |                | 53.5   | 54.4           | 1.00  | 12.00 |
| CH   | Caixin China PMI Mfg  | Jan    |                | 48.1           | 48.4   | 48.2           | 1.45  | 12.45 |
| JN   | Nikkei Japan PMI Mfg  | Jan F  |                |                |        | 52.4           | 2.00  | 13.00 |
| AU   | Commodity Index AUD   | Jan    |                |                |        | 71.2           | 5.30  | 16.30 |
| GE   | Markit/BME Germany Manufacturing PMI  | Jan F  |                | 52.1           |        | 52.1           | 8.55  | 19.55 |
| EC   | Markit Eurozone Manufacturing PMI   | Jan F  |                | 52.3           |        | 52.3           | 9.00  | 20.00 |
| UK   | Mortgage Approvals  | Dec    |                | 69.55          |        | 70.4           | 9.30  | 20.30 |
| UK   | Markit UK PMI Manufacturing SA  | Jan    |                | 51.6           |        | 51.9           | 9.30  | 20.30 |
| US   | Personal Income/Spending  | Dec    |                | 0.2/0.1        |        | 0.3/0.3        | 13.30 | 0.30  |
| US   | Real Personal Spending  | Dec    |                | 0.2            |        | 0.3            | 13.30 | 0.30  |
| US   | PCE Deflator MoM/YoY  | Dec    |                | 0/0.6          |        | 0/0.4          | 13.30 | 0.30  |
| US   | PCE Core MoM/YoY  | Dec    |                | 0.1/1.4        |        | 0.1/1.3        | 13.30 | 0.30  |
| CA   | RBC Canadian Manufacturing PMI  | Jan    |                |                |        | 47.5           | 14.30 | 1.30  |
| US   | Markit US Manufacturing PMI   | Jan F  |                | 52.7           |        | 52.7           | 14.45 | 1.45  |
| US   | ISM Manufacturing   | Jan    |                | 48.5           |        | 48.2           | 15.00 | 2.00  |
| US   | Construction Spending MoM   | Dec    |                | 0.6            |        | -0.4           | 15.00 | 2.00  |
| <b>Tuesday, 2 February 2016</b>                          |   |        |                |                |        |                |       |       |
| AU   | ANZ Roy Morgan Weekly Consumer Confidence Index   | Jan 31 |                |                |        | 112.2          | 22.30 | 9.30  |
| NZ   | ANZ Commodity Price   | Jan    |                |                |        | -1.8           | 0.00  | 11.00 |
| AU   | RBA Cash Rate Target  | Feb 2  | 2              |                |        | 2              | 3.30  | 14.30 |
| GE   | Unemployment change/rate  | Jan    |                | -8/6.3         |        | -14/6.3        | 8.55  | 19.55 |
| EC   | PPI MoM/YoY   | Dec    |                | -0.55          |        | -0.2/-3.2      | 10.00 | 21.00 |
| EC   | Unemployment Rate   | Dec    |                | 10.5           |        | 10.5           | 10.00 | 21.00 |
| NZ   | World Dairy Auction, GDT price index (early AM, NZT time)   |        |                |                |        | -1.40%         |       |       |
| US   | ISM New York  | Jan    |                |                |        | 62             | 14.45 | 1.45  |
| US   | Fed's George Speaks on U.S. Economy in Kansas City  |        |                |                |        |                | 18.00 | 5.00  |
| <b>Wednesday, 3 February 2016</b>                        |   |        |                |                |        |                |       |       |
| NZ   | Unemployment Rate   | 4Q     | 6.1            | 6.1            |        | 6              | 21.45 | 8.45  |
| NZ   | Employment Change QoQ   | 4Q     | 0.5            | 0.8            |        | -0.4           | 21.45 | 8.45  |
| NZ   | Average Hourly Earnings QoQ   | 4Q     |                | 0.5            |        | 0.9            | 21.45 | 8.45  |
| AU   | AiG Perf of Services Index  | Jan    |                |                |        | 46.3           | 22.30 | 9.30  |
| NZ   | RBNZ Governor Wheeler Speaks "The Global Economy, New Zealand's Economic Outlook, and the Policy Targets Agreement"       |        |                |                |        |                | 0.00  | 11.00 |
| AU   | NAB Residential Property Survey   | Q4     |                |                |        |                | 0.30  | 11.30 |
| AU   | Trade Balance   | Dec    | -2500          | -2450          |        | -2906          | 0.30  | 11.30 |
| AU   | Building Approvals MoM/YoY  | Dec    | 4.9/-7.2       | 4.5/-7.2       |        | -12.7/-8.4     | 0.30  | 11.30 |
| CH   | Caixin PMI Services/Composite   | Jan    |                | /              |        | 50.2/49.4      | 1.45  | 12.45 |
| JN   | Nikkei PMI Services/Composite   | Jan    |                |                |        | 51.5/52.2      | 2.00  | 13.00 |
| JN   | Consumer Confidence Index   | Jan    |                | 42.5           |        | 42.7           | 5.00  | 16.00 |
| GE   | Markit Services/Composite PMI   | Jan F  |                | 55.4/54.5      |        | 55.4/54.5      | 8.55  | 19.55 |
| EC   | Markit Services/Composite PMI   | Jan F  |                | 53.6/53.5      |        | 53.6/53.5      | 9.00  | 20.00 |
| UK   | Markit/CIPS UK Services/Composite PMI   | Jan    |                | 55.4/55        |        | 55.5/55.3      | 9.30  | 20.30 |
| EC   | Retail Sales MoM  | Dec    |                | 0.3            |        | -0.3           | 10.00 | 21.00 |
| US   | ADP Employment Change   | Jan    |                | 190            |        | 257            | 13.15 | 0.15  |
| US   | Markit Services/Composite PMI   | Jan F  |                | 53.7           |        | 53.7           | 14.45 | 1.45  |
| US   | Markit US Composite PMI   | Jan F  |                | /55.2          |        | 53.7/55.3      | 14.45 | 1.45  |
| US   | ISM Non-Manufacturing   | Jan    |                | 55.2           |        | 55.3           | 15.00 | 2.00  |
| <b>Thursday, 4 February 2016</b>                         |   |        |                |                |        |                |       |       |
| NZ   | RBNZ Assistant Governor John McDermott speaks (from Sydney) "Forward Guidance – Enhancing Monetary Policy in New Zealand" |        |                |                |        |                | 22.30 | 9.30  |
| AU   | NAB Business Confidence (Quarterly survey)  | 4Q     |                |                |        | 0.47           | 0.30  | 11.30 |
| AU   | NAB Online Retail Sales Index MoM/YoY   | Dec    |                |                |        | 0.7%/11.4%     | 0.30  | 11.30 |
| GE   | Markit Germany Construction PMI   | Jan    |                |                |        | 55.5           | 8.30  | 19.30 |
| UK   | New Car Registrations YoY   | Jan    |                |                |        | 8.4            | 9.00  | 20.00 |
| EC   | ECB Publishes Economic Bulletin   |        |                |                |        |                | 9.00  | 20.00 |
| UK   | Bank of England Bank Rate   | Feb 4  |                | 0.5            |        | 0.5            | 12.00 | 23.00 |
| UK   | BOE Asset Purchase Target   | Feb    |                | 375            |        | 375            | 12.00 | 23.00 |
| UK   | Bank of England Inflation Report  |        |                |                |        |                | 12.00 | 23.00 |
| US   | Challenger Job Cuts YoY   | Jan    |                |                |        | -27.6          | 12.30 | 23.30 |
| US   | Nonfarm Productivity  | 4Q P   |                | -2             |        | 2.2            | 13.30 | 0.30  |
| US   | Initial Jobless Claims  | Jan 30 |                | 280            |        | 278            | 13.30 | 0.30  |
| US   | Bloomberg Consumer Comfort  | Jan 31 |                |                |        | 44.6           | 14.45 | 1.45  |
| US   | Factory Orders  | Dec    |                | -2.8/          |        | -0.2/-0.3      | 15.00 | 2.00  |
| US   | Factory Orders Ex Trans   | Dec    |                |                |        | -0.3           | 15.00 | 2.00  |
| US   | Durable Goods Orders  | Dec F  |                |                |        | -5.1           | 15.00 | 2.00  |
| <b>Friday, 5 February 2016</b>                           |   |        |                |                |        |                |       |       |
| AU   | AiG Perf of Construction Index  | Jan    |                |                |        | 46.8           | 22.30 | 9.30  |
| AU   | Retail Sales MoM  | Dec    | 0.6            | 0.4            |        | 0.4            | 0.30  | 11.30 |
| AU   | Retail Sales Ex Inflation QoQ   | 4Q     | 1.0            | 0.9            |        | 0.6            | 0.30  | 11.30 |
| AU   | RBA Statement on Monetary Policy  |        |                |                |        |                | 0.30  | 11.30 |
| JN   | Leading Index CI  | Dec P  |                | 102.7          |        | 103.5          | 5.00  | 16.00 |
| GE   | Factory Orders MoM  | Dec    |                | -0.5           |        | 1.5            | 7.00  | 18.00 |
| US   | Trade Balance   | Dec    |                | -43.2          |        | -42.37         | 13.30 | 0.30  |
| US   | Change in Nonfarm Payrolls/Unemployment rate  | Jan    |                | 190/5          |        | 292/5          | 13.30 | 0.30  |
| US   | Average Hourly Earnings MoM/YoY   | Jan    |                | 0.3/2.2        |        | 0/2.5          | 13.30 | 0.30  |
| CA   | Net Change in Employment/Unemployment rate  | Jan    |                | 6.5/7.1        |        | 22.8/7.1       | 13.30 | 0.30  |
| CA   | Int'l Merchandise Trade   | Dec    |                | -2.25          |        | -1.99          | 13.30 | 0.30  |
| CA   | Ivey Purchasing Managers Index SA   | Jan    |                | 50.25          |        | 49.9           | 15.00 | 2.00  |
| US   | Consumer Credit   | Dec    |                | 16             |        | 13.951         | 20.00 | 7.00  |
| <b>Sunday, 7 February 2016</b>                           |   |        |                |                |        |                |       |       |
| CH   | Foreign Reserves  | Jan    |                |                |        | 3330           |       |       |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |   |        |                |                |        |                |       |       |
| Australia, RBA   |   | 2-Feb  | 2.00%          | 2.00%          |        | 2.00%          |       |       |
| UK BOE   |   | 4-Feb  |                |                |        | 0.50%          |       |       |
| New Zealand, RBNZ  |   | 10-Mar | 2.50%          | 2.50%          |        | 2.50%          |       |       |
| Europe ECB   |   | 10-Mar |                |                |        | 0.05%          |       |       |
| Canada, BoC  |   | 10-Mar |                |                |        | 0.50%          |       |       |
| Japan, BoJ   |   | 15-Mar | -0.1% to +0.1% | -0.1% to +0.1% |        | -0.1% to +0.1% |       |       |
| US Federal Reserve                                       |   | 17-Mar |                |                |        | 0.25-0.50%     |       |       |

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

# Forecasts

## Economic Forecasts

|                                | Annual % change |            |            | Quarterly % change |            |            |            |            |            |            |            |            |            |            |            |
|--------------------------------|-----------------|------------|------------|--------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                                | 2014            | 2015       | 2016       | 2014               |            |            | 2015       |            |            | 2016       |            |            |            |            |            |
|                                |                 |            |            | Q1                 | Q2         | Q3         | Q4         | Q1         | Q2         | Q3         | Q4         | Q1         | Q2         | Q3         | Q4         |
| <b>Australia Forecasts</b>     |                 |            |            |                    |            |            |            |            |            |            |            |            |            |            |            |
| Household Consumption          | 2.7             | 2.6        | 3.0        | 0.5                | 0.7        | 0.6        | 0.8        | 0.5        | 0.6        | 0.7        | 0.8        | 0.9        | 0.7        | 0.6        | 0.5        |
| Underlying Business Investment | -5.0            | -10.8      | -10.3      | -1.8               | -2.7       | 0.1        | -1.5       | -4.3       | -2.0       | -5.5       | -3.5       | -2.8       | -0.9       | -2.3       | -1.1       |
| Residential Construction       | 7.4             | 9.1        | 5.6        | 4.1                | 1.8        | -1.5       | 4.0        | 4.6        | 0.4        | 0.9        | 3.3        | 1.5        | 0.8        | 0.9        | -0.4       |
| Underlying Public Spending     | -0.7            | 2.1        | 2.0        | 0.2                | -1.3       | -1.1       | 0.2        | 1.1        | 2.2        | -0.9       | 1.8        | -0.4       | 0.6        | 0.6        | 0.6        |
| Exports                        | 6.7             | 6.4        | 9.0        | 3.3                | -0.4       | 2.6        | 1.5        | 3.7        | -3.3       | 4.6        | 1.9        | 2.5        | 2.1        | 2.3        | 2.4        |
| Imports                        | -1.6            | 0.9        | 0.8        | -2.5               | 3.1        | -1.0       | -1.7       | 3.0        | 0.1        | -2.4       | 0.5        | 0.4        | 1.0        | 0.6        | 0.6        |
| Net Exports (a)                | 1.7             | 1.2        | 1.8        | 1.2                | -0.7       | 0.8        | 0.7        | 0.2        | -0.8       | 1.5        | 0.3        | 0.5        | 0.3        | 0.4        | 0.5        |
| Inventories (a)                | 0.1             | 0.1        | -0.1       | -0.1               | 0.7        | 0.3        | -0.9       | 0.5        | 0.0        | 0.0        | 0.0        | 0.0        | -0.1       | 0.0        | 0.0        |
| Domestic Demand - qtr%         |                 |            |            | 0.3                | 0.0        | -0.2       | 0.5        | 0.2        | 0.6        | -0.5       | 0.7        | 0.2        | 0.5        | 0.3        | 0.3        |
| Dom Demand - ann %             | 1.1             | 0.9        | 1.3        | 1.8                | 1.4        | 0.5        | 0.6        | 0.5        | 1.1        | 0.8        | 1.0        | 1.0        | 0.9        | 1.7        | 1.4        |
| <b>Real GDP - qtr %</b>        |                 |            |            | <b>0.9</b>         | <b>0.5</b> | <b>0.4</b> | <b>0.4</b> | <b>0.9</b> | <b>0.3</b> | <b>0.9</b> | <b>0.6</b> | <b>0.7</b> | <b>0.8</b> | <b>0.6</b> | <b>0.7</b> |
| <b>Real GDP - ann %</b>        | <b>2.6</b>      | <b>2.3</b> | <b>2.7</b> | <b>3.0</b>         | <b>2.7</b> | <b>2.5</b> | <b>2.2</b> | <b>2.1</b> | <b>1.9</b> | <b>2.5</b> | <b>2.7</b> | <b>2.5</b> | <b>3.0</b> | <b>2.7</b> | <b>2.8</b> |
| CPI headline - qtr %           |                 |            |            | 0.6                | 0.5        | 0.5        | 0.2        | 0.2        | 0.7        | 0.5        | 0.4        | 0.3        | 0.7        | 0.8        | 0.9        |
| CPI headline - ann %           | 2.5             | 1.5        | 1.9        | 2.9                | 3.0        | 2.3        | 1.7        | 1.3        | 1.5        | 1.5        | 1.7        | 1.5        | 1.6        | 1.9        | 2.8        |
| CPI underlying - qtr %         |                 |            |            | 0.6                | 0.6        | 0.4        | 0.6        | 0.7        | 0.5        | 0.3        | 0.5        | 0.6        | 0.7        | 0.7        | 0.7        |
| CPI underlying - ann %         | 2.5             | 2.2        | 2.2        | 2.7                | 2.7        | 2.5        | 2.3        | 2.4        | 2.3        | 2.2        | 2.0        | 1.9        | 2.0        | 2.4        | 2.6        |
| Wages (Pvte WPI -ann %)        | 2.5             | 2.2        | 2.5        | 2.5                | 2.4        | 2.5        | 2.5        | 2.3        | 2.2        | 2.1        | 2.1        | 2.2        | 2.4        | 2.6        | 2.7        |
| Unemployment Rate (%)          | 6.0             | 6.0        | 5.7        | 5.8                | 6.0        | 6.2        | 6.2        | 6.2        | 5.9        | 6.2        | 5.8        | 5.8        | 5.8        | 5.7        | 5.6        |
| Terms of trade                 | -7.4            | -12.2      | -10.2      | -1.7               | -4.5       | -3.3       | -1.5       | -2.8       | -4.3       | -2.3       | -7.2       | -3.5       | 0.7        | 0.3        | -0.8       |
| G&S trade balance, \$Abn       | -9.4            | -35.6      | -46.9      | 2.2                | -4.5       | -4.3       | -2.8       | -4.7       | -10.9      | -7.4       | -12.5      | -13.7      | -12.5      | -10.8      | -10.0      |
| % of GDP                       | -0.6            | -2.2       | -2.8       | 0.5                | -1.1       | -1.1       | -0.7       | -1.2       | -2.7       | -1.8       | -3.1       | -3.4       | -3.0       | -2.6       | -2.3       |
| Current Account (% GDP)        | -3.0            | -4.6       | -5.5       | -2.4               | -3.5       | -3.3       | -2.9       | -3.3       | -5.1       | -4.4       | -5.7       | -6.0       | -5.6       | -5.2       | -5.0       |

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

## Exchange Rate Forecasts

|               | 1-Feb  | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
|---------------|--------|--------|--------|--------|--------|--------|
| <b>Majors</b> |        |        |        |        |        |        |
| AUD/USD       | 0.7067 | 0.67   | 0.66   | 0.68   | 0.69   | 0.69   |
| NZD/USD       | 0.6477 | 0.62   | 0.60   | 0.61   | 0.61   | 0.61   |
| USD/JPY       | 121.28 | 120    | 120    | 121    | 121    | 123    |
| EUR/USD       | 1.0845 | 1.09   | 1.07   | 1.06   | 1.07   | 1.07   |
| GBP/USD       | 1.4263 | 1.42   | 1.39   | 1.36   | 1.39   | 1.39   |
| USD/CNY       | 6.5788 | 6.60   | 6.70   | 6.75   | 6.80   | 6.80   |
| USD/CAD       | 1.3999 | 1.47   | 1.47   | 1.46   | 1.46   | 1.44   |

## Australian Cross Rates

|         | 1-Feb  | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
|---------|--------|--------|--------|--------|--------|--------|
| AUD/JPY | 85.7   | 80     | 79     | 82     | 83     | 85     |
| AUD/EUR | 0.6516 | 0.61   | 0.62   | 0.64   | 0.64   | 0.64   |
| AUD/GBP | 0.4955 | 0.47   | 0.47   | 0.50   | 0.50   | 0.50   |
| AUD/NZD | 1.0911 | 1.08   | 1.10   | 1.11   | 1.13   | 1.13   |
| AUD/CNY | 4.6492 | 4.42   | 4.42   | 4.59   | 4.69   | 4.69   |
| AUD/CAD | 0.9893 | 0.98   | 0.97   | 0.99   | 1.01   | 0.99   |
| AUD/CHF | 0.7223 | 0.65   | 0.66   | 0.69   | 0.72   | 0.74   |

## Interest Rate Forecasts

|                                      | 1-Feb | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
|--------------------------------------|-------|--------|--------|--------|--------|--------|
| <b>Aust rates</b>                    |       |        |        |        |        |        |
| RBA Cash rate                        | 2.00  | 2.00   | 2.00   | 2.00   | 2.00   | 2.00   |
| 3 month bill rate                    | 2.27  | 2.25   | 2.25   | 2.25   | 2.25   | 2.50   |
| 3 Year Swap Rate                     | 2.04  | 2.2    | 2.3    | 2.4    | 2.6    | 3.0    |
| 10 Year Swap Rate                    | 2.73  | 3.1    | 3.4    | 3.4    | 3.4    | 3.8    |
| <b>Offshore Policy Rates</b>         |       |        |        |        |        |        |
| US Fed funds                         | 0.50  | 0.50   | 0.75   | 1.00   | 1.25   | 1.50   |
| ECB deposit rate                     | -0.30 | -0.30  | -0.30  | -0.30  | -0.30  | -0.30  |
| BoE repo rate                        | 0.50  | 0.50   | 0.50   | 0.75   | 0.75   | 1.00   |
| Bol excess reserves rate             | 0.10  | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  |
| RBNZ OCR                             | 2.50  | 2.50   | 2.50   | 2.50   | 2.50   | 2.50   |
| China 1yr lending rate               | 4.35  | 4.10   | 3.85   | 3.85   | 3.85   | 0.00   |
| China Reserve Ratio                  | 17.5  | 17.0   | 16.5   | 16.0   | 16.0   | --     |
| <b>10 Year Benchmark Bond Yields</b> |       |        |        |        |        |        |
| Australia                            | 2.61  | 3.0    | 3.3    | 3.3    | 3.4    | 3.6    |
| United States                        | 1.92  | 2.4    | 2.8    | 2.8    | 2.8    | 3.0    |
| Europe/Germany                       | 0.33  | 0.9    | 1.0    | 1.2    | 1.2    | 0.0    |
| UK                                   | 1.56  | 2.2    | 2.3    | 2.4    | 2.4    | 2.8    |
| New Zealand                          | 3.18  | 3.6    | 3.9    | 3.8    | 3.8    | 4.0    |

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

| Dec year    | 2013 | 2014 | 2015 | 2016 | 2017 | 20 Yr Avge |
|-------------|------|------|------|------|------|------------|
| Australia   | 2.0  | 2.6  | 2.3  | 2.7  | 3.0  | 3.4        |
| US          | 1.5  | 2.4  | 2.4  | 2.3  | 2.3  | 2.6        |
| Eurozone    | -0.2 | 0.9  | 1.4  | 1.7  | 1.9  | 1.5        |
| UK          | 2.2  | 2.9  | 2.2  | 2.2  | 2.2  | 2.4        |
| Japan       | 1.6  | -0.1 | 0.6  | 1.1  | 0.9  | 0.8        |
| China       | 7.7  | 7.3  | 6.9  | 6.7  | 6.5  | 9.2        |
| India       | 6.4  | 7.1  | 7.5  | 7.6  | 7.4  | 6.6        |
| New Zealand | 2.3  | 3.3  | 2.2  | 1.8  | 2.0  | 3.0        |
| World       | 3.3  | 3.3  | 2.9  | 3.0  | 3.3  | 3.5        |

## Commodity prices (\$US)

|                | 1-Feb | Mar-16 | Jun-16 | Sep-16 | Dec-16 | Mar-17 |
|----------------|-------|--------|--------|--------|--------|--------|
| WTI oil        | 32.97 | 46     | 49     | 52     | 55     | 58     |
| Gold           | 1120  | 1030   | 1010   | 980    | 960    | 930    |
| Iron ore       | 42    | 42     | 44     | 42     | 41     | 40     |
| Hard cok. coal | 89    | 82     | 84     | 85     | 83     | 85     |
| Thermal coal   | 50    | 68     | 62     | 62     | 62     | 62     |
| Copper         | 4569  | 4670   | 4690   | 4700   | 4720   | 4770   |
| Japan LNG      | 9.4   | 10.1   | 10.6   | 11.0   | 11.4   | 11.2   |

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