

# Australian Markets Weekly

## RBA and \$A focus for the week. US non-farm payrolls still healthy, though Yellen dovish

- RBA will need to say something about the \$A, or the risk is the \$A will rise further. The rise so far is not sufficient to produce a significantly over-valued \$A or provoke a monetary policy response.
- Rates expected unchanged – we will watch closely for any comment on inflationary expectations, though this is more likely in May SOMP after Q1 CPI result incorporated.
- Yellen Speech seen as dovish. Economic concerns were not new to the market – China economy and oil – but with the Fed seeing asymmetric risks, these increased risks reinforce Fed's view that it should tighten only gradually. Recent data has been better (payrolls and ISM). NAB continues to look for two further rate hikes this year, which should see \$A lower in second half of the year.

### Yellen's caution produces broad-based weakness in US\$ and rate rally

The key market development of the past week was what the market interpreted as dovish comments from Fed Chair Janet Yellen in a speech last Tuesday. The Chairman expressed increased concerns over global growth (especially Chinese developments), possible negative consequences of low oil prices and the possibility that inflation expectations may not be as well anchored as previously assumed. With the Fed's ability to respond to any economic surprises being asymmetric (ie. it's much easier to tighten due to upside surprises than to ease due to downside surprises), the Chairman noted that this supported the FOMC's decision not to further tighten at the two meetings so far this year. That said, the Chairman reiterated that the baseline forecasts for both activity and inflation had not changed significantly since December and the FOMC still expected to gradually tighten policy this year and next.

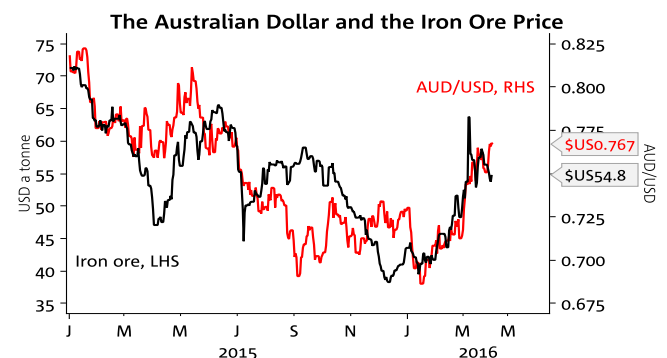
The markets' reaction to the speech saw a sharp rally in yields and broad-based weakness in the US\$ with consequent strength in the \$A, which again rose to near US\$0.77. Broader stock markets were stronger, although the ASX suffered on the back of weaker bank stocks near the end of the week. To be fair, the Fed Chair's concerns about China and oil were not new to the market – this has been a key theme for markets so far in 2016. The focus on inflationary expectations has also been a common global central bank theme for 2016 – and bears

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7639	1.2	RBA cash	2.00	0
AUD/CNY	4.95	0.8	3y swap	2.07	-11
AUD/JPY	85.1	-0.5	ASX 200	5,036	-1.0
AUD/EUR	0.670	-0.6	Iron ore	54.8	-2.8
AUD/NZD	1.110	-1.1	WTI oil	36.4	-7.6

Source: Bloomberg

### Chart 1: \$A/US\$ higher, but iron ore prices also up



Source: National Australia Bank, Macrobond

### Authors:

Ivan Colhoun, Chief Economist, Markets

consideration should Australia's Q1 CPI due in three weeks' time again surprise on the low side.

The Chair concluded that the Fed would remain data dependant – data last week were relatively encouraging with another solid US payrolls result, the ISM bouncing back to the highest level since mid-2015 and China's PMI also back above 50 for the first time since mid-2015. This still suggests the Fed will deliver two further rate hikes this year and that the US\$ will ultimately regain some strength, thereby contributing to a lower \$A in the second half of the year.

### **This week**

The key Australian event of the week will be the RBA Board Meeting tomorrow along with a speech by RBA Assistant Governor Kent on Wednesday (topic: Economic Forecasting at the RBA). We also receive the first of the partial economic indicators for February with ANZ job ads (March: +0.2% m/m), Retail Sales (flat – much weaker than expected) and Building Approvals (+3.1% m/m) – all just published – and the Trade Balance tomorrow morning. Recent data have broadly been suggesting increased weakness in WA and ongoing, though less robust growth in NSW and Victoria.

The FOMC Minutes are likely to be less influential than normal given Yellen's speech of last week – Ms Yellen is speaking again on Thursday and there will as always be considerable interest in the non-manufacturing ISM (Wednesday) given the services sector is much larger than the manufacturing sector in the US, and the considerable bounce back in the ISM in recent months.

### **RBA Board Meeting – watch for any comments on the \$A and inflationary expectations**

The RBA is unanimously expected to leave rates unchanged at its April Board Meeting tomorrow. Markets will be closely watching for any change in communications on the \$A – which is up 5.5% from around US\$0.72 at the start of March – and for any comment on inflationary expectations, which have been occupying more thought time among global central banks in recent months.

The Bank has not especially stepped up its jawboning of the currency in recent times – beyond moderate expressions that a lower currency would be more helpful. It would see some part of the recent rise as fundamentally driven – with oil prices and iron ore prices having risen meaningfully off December/January lows (see Chart 1) – and some part of the currency adjustment as reflecting the market pricing in a slower pace of Fed tightening – which is a factor beyond the RBA's control.

What is within the Bank's control, is how it responds to both the higher \$A and of course to unfolding economic developments. NAB doubts whether the rise in the currency to date would be sufficient to provoke a monetary policy reaction. Further significant strength (above US\$0.80), particularly if supported by weaker labour market lead indicators, would be more concerning. In the short term, our FX strategists suspect the \$A would appreciate further if the RBA fails to express some greater concern about the \$A's recent rise. We don't think the RBA can argue that the currency is significantly over-valued (it would only be 2-3% on the Bank's own models), given the increase in commodity prices. A re-emergence of the phraseology that suggests a lower level of the currency would be more helpful in facilitating rebalancing in the economy seems more likely.

Of more interest, in our opinion, will be the Bank's assessment of recent data trends and any mention of inflationary expectations – a global focus of central banks in recent times, though it would be hard to cover the latter development in any great detail in the relatively short post Board meeting statements. Commentary on this topic would be more likely in the May Statement of Monetary Policy, which will also include updated inflation forecasts incorporating the Q1 CPI.

For the moment, the focus of the RBA will remain on labour market developments. The February labour market report saw the unemployment rate return to a cycle low of 5.8%. We will continue to monitor the NAB survey employment indicator and SEEK job ads in coming months, both of which remain at relatively healthy levels, but which have not shown further improvement, largely due to increased weakness in WA.

The market should also consider whether the RBA might evolve its thinking on monetary policy in light of the March quarter CPI. Between December and February/March, the Bank – like the Fed – became more focused on both global risks and inflation risks, including upgrading its forecast assessment of inflation from consistent with target to "close to target". The data – and the \$A – have not evolved sufficiently negatively to justify a further rate cut at this stage, but we'll be watching the Bank's commentary about inflation and inflationary expectations very closely for any signs of a change.

[ivan.colhoun@nab.com.au](mailto:ivan.colhoun@nab.com.au)

# Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Monday, 4 April 2016</b>								
JN	Monetary Base YoY	Mar				29.0	23.50	9.50
AU	Melbourne Institute CPI gauge MoM/YoY	Mar				-0.2/2.1	1.00	11.00
AU	Retail Sales MoM	Feb	0.4	0.4	0.0	0.3	1.30	11.30
AU	ANZ Job Advertisements MoM	Mar				-1.2	1.30	11.30
AU	Building Approvals MoM/YoY	Feb	1.5/-10.4	2.5/-9.1		-7.5/-15.5	1.30	11.30
UK	Markit/CIPS UK Construction PMI	Mar		54.1		54.2	8.30	18.30
EC	ECB's Praet speaks in Rome						8.30	18.30
EC	Sentix Investor Confidence	Apr		7		5.5	8.30	18.30
US	Fed's Rosengren (voter) speaks at a cybersecurity conference						13.30	23.30
US	ISM New York	Mar		54.05		53.6	13.45	23.45
CA	Bloomberg Nanos Confidence	Apr 1				54.5	14.00	0.00
US	Labor Market Conditions Index Change	Mar				-2.4	14.00	0.00
US	Factory Orders	Feb		-1.8		1.6	14.00	0.00
US	Durable Goods Orders/Core Orders	Feb F		-2.8/		-2.8/-1.8	14.00	0.00
CA	Business Outlook Future Sales	2Q				16.0	14.30	0.30
CA	BoC Senior Loan Officer Survey	2Q				6.6	14.30	0.30
<b>Tuesday, 5 April 2016</b>								
NZ	QSO	Q1					22.00	8.00
US	Fed's Kashkari Holds Town Hall on Too Big to Fail						23.00	9.00
AU	AiG Perf of Services Index	Mar				51.8	23.30	9.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 3				114.5	23.30	9.30
JN	Labor Cash Earnings/Real earnings YoY	Feb		0.2		0.4/0.4	0.00	10.00
NZ	ANZ Commodity Price	Mar				0.4	1.00	11.00
AU	Trade Balance	Feb	-2600	-2500		-2937.0	1.30	11.30
JN	Nikkei Japan PMI Services/Composite	Mar				51.2/51.0	2.00	12.00
AU	RBA Cash Rate Target	Apr 5	2	2		2.0	4.30	14.30
US	Fed's Evans speaks on economy in New York						5.00	15.00
GE	Factory Orders MoM/YoY	Feb		0.3		-0.1/1.1	6.00	16.00
GE	Markit Services/Composite PMI	Mar F		55.5/54.1		55.5/54.1	7.55	17.55
EC	Markit Services/Composite PMI	Mar F		54/53.7		54.0	8.00	18.00
UK	Official Reserves Changes	Mar				1362.0	8.30	18.30
UK	Markit/CIPS Services/Composite PMI	Mar		53.5		52.7/52.8	8.30	18.30
UK	BoE's Financial Policy Committee Record of March 23 meeting						8.30	18.30
EC	Retail Sales MoM	Feb		0		0.4/2.0	9.00	19.00
US	Trade Balance	Feb		-46.2		-45.7	12.30	22.30
CA	Int'l Merchandise Trade	Feb		-0.75		-0.7	12.30	22.30
US	Markit Services/Composite PMI	Mar F		51.2/		51.0/51.1	13.45	23.45
US	ISM Non-Manf. Composite	Mar		54.1		53.4	14.00	0.00
US	IBD/TIPP Economic Optimism	Apr		47.5		0.0	14.00	0.00
US	JOLTS Job Openings	Feb				5541.0	14.00	0.00
NZ	Dairy Auction, GDT price index (early AM, NZ time)					-2.9		
CA	BoC's Wilkins speaks in Vancouver						18.45	4.45
<b>Wednesday, 6 April 2016</b>								
UK	BRC Shop Price Index YoY	Mar				-2.0	23.10	9.10
NZ	QV House Prices YoY	Mar				11.6	0.00	10.00
CH	Caixin PMI Services/Composite	Mar				51.2/49.4	1.45	11.45
JN	Leading Index CI	Feb P		99.8		101.8	5.00	15.00
GE	Industrial Production SA MoM/YoY	Feb		-1.8/0.4		3.3/2.2	6.00	16.00
AU	RBA's Kent Speaks in Hobart: Economic Forecasting at the Reserve Bank of Australia						7.00	17.00
CA	Ivey Purchasing Managers Index SA	Mar		55		53.4	14.00	0.00
US	Fed's Mester speaks in Cleveland						16.00	2.00
US	Fed Releases Minutes from March 15-16 FOMC Meeting						18.00	4.00
<b>Thursday, 7 April 2016</b>								
NZ	ANZ Truckometer Heavy MoM	Mar				1.6	22.00	8.00
AU	AiG Perf of Construction Index	Mar				46.1	23.30	9.30
US	Fed's Kaplan speaks in Dallas						0.00	10.00
JN	BoJ's Kuroda speaks at BoJ's branch manager's meeting						0.30	10.30
AU	Foreign Reserves, \$Abn	Mar				61.2	6.30	16.30
EC	ECB and Its Watchers Conference						6.30	16.30
EC	ECB's Constancio speak at EU Parliament in Brussels						7.00	17.00
CH	Foreign Reserves	Mar		3205.5		3202.3	9.10	19.10
EC	ECB account of the monetary policy meeting						11.30	21.30
EC	ECB's Draghi attends meeting of Portuguese President's Council						14.00	
CA	Building Permits MoM	Feb		4		-9.8	12.30	22.30
US	Initial Jobless Claims	Apr 2		270		276.0	12.30	22.30
US	Bloomberg Consumer Comfort	Apr 3				42.8	13.45	23.45
US	Consumer Credit	Feb		14.9		10.5	19.00	5.00
<b>Friday, 8 April 2016</b>								
CH	Foreign Direct Investment YoY (for release 8-12 Apr)					1.8		
US	Fed's Yellen in New York, with Greenspan, Bernanke and Volcker						21.30	7.30
NZ	Crown accounts	Feb					22.00	8.00
US	Fed's George Speaks in York, Nebraska						0.15	10.15
UK	Industrial production MoM/YoY	Feb		0.1/0		0.3/0.2	8.30	18.30
UK	UK trade balance	Feb		-3400		-3459.0	8.30	18.30
CA	Employment/Unemployment rate	Mar		10/7.3		-2.3/7.3	12.30	22.30
US	Wholesale inventories/sales MoM	Feb		-0.2/0.2		0.3/-1.3	14.00	0.00
US	Fed's George Speaks in York, Nebraska						0.15	10.15
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA	5-Apr	2.00%	2.00%			2.00%		
UK BOE	14-Apr					0.50%		
Canada, BoC	14-Apr					0.50%		
Europe ECB	21-Apr					0.00%		
New Zealand, RBNZ	28-Apr	2.25%	2.25%			2.25%		
Japan, BoJ	28-Apr					-0.1% to +0.1%		
US Federal Reserve	28-Apr					0.25-0.50%		

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

# Forecasts

## Economic Forecasts

	Annual % change		Quarterly % change											
	2015	2016	2014				2015				2016			
<b>Australia Forecasts</b>			<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Household Consumption	2.8	2.9	0.6	0.7	0.7	0.7	0.7	0.5	0.9	0.8	0.8	0.7	0.5	0.5
Underlying Business Investment	-10.1	-8.7	-1.9	-2.5	-0.6	-0.9	-4.3	-1.4	-5.5	-3.2	-1.1	-1.0	-2.5	-1.9
Residential Construction	9.5	5.4	4.3	1.5	-0.9	3.5	4.8	0.6	1.9	2.2	1.8	0.6	0.7	-0.4
Underlying Public Spending	1.9	2.0	0.1	-1.4	-0.9	0.3	1.0	2.0	-0.7	1.3	0.0	0.6	0.6	0.6
Exports	6.1	7.5	3.2	-0.4	2.5	1.7	3.7	-3.9	5.4	0.6	1.6	2.2	2.7	2.5
Imports	1.0	1.3	-2.8	3.2	-1.2	-1.4	2.6	0.3	-2.3	0.6	1.1	0.9	0.3	0.3
Net Exports (a)	1.1	1.4	1.3	-0.7	0.8	0.7	0.3	-0.9	1.6	0.0	0.1	0.3	0.5	0.5
Inventories (a)	0.0	0.0	-0.2	0.8	0.2	-0.9	0.4	0.1	-0.1	-0.2	0.1	0.0	0.0	0.0
Domestic Demand - qtr%			0.3	-0.1	-0.1	0.5	0.3	0.6	-0.3	0.4	0.4	0.5	0.2	0.2
Dom Demand - ann %	1.0	1.3	1.8	1.4	0.5	0.6	0.6	1.3	1.2	1.1	1.2	1.1	1.6	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>1.1</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>
<b>Real GDP - ann %</b>	<b>2.5</b>	<b>2.7</b>	<b>3.0</b>	<b>2.7</b>	<b>2.6</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>	<b>2.7</b>	<b>3.0</b>	<b>2.7</b>	<b>3.1</b>	<b>2.6</b>	<b>2.7</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 %	1.5	2.1	2.9	3.0	2.3	1.7	1.3	1.5	1.5	1.7	1.8	1.8	2.1	2.6
CPI underlying - qtr %			0.6	0.6	0.4	0.6	0.6	0.5	0.3	0.5	0.6	0.6	0.6	0.6
CPI underlying - ann %	2.2	2.2	2.7	2.7	2.5	2.2	2.3	2.2	2.1	2.0	2.0	2.0	2.3	2.5
Wages (Pvte WPI -ann %)	2.1	2.4	2.5	2.4	2.4	2.5	2.3	2.2	2.1	2.0	2.1	2.3	2.5	2.7
Unemployment Rate (%)	6.0	5.7	5.8	6.0	6.2	6.2	6.2	5.9	6.2	5.9	5.9	5.8	5.6	5.6
Terms of trade	-11.4	-6.8	-1.7	-4.5	-3.3	-1.5	-3.2	-3.9	-2.4	-3.2	-3.5	2.1	-0.6	-0.7
G&S trade balance, \$Abn	-33.2	-38.1	2.2	-4.5	-4.1	-2.9	-4.7	-11.3	-7.3	-9.9	-12.3	-9.8	-8.6	-7.5
% of GDP	-2.0	-2.3	0.6	-1.1	-1.0	-0.7	-1.2	-2.8	-1.8	-2.4	-3.0	-2.3	-2.0	-1.7
Current Account (% GDP)	-4.6	-5.0	-2.4	-3.5	-3.3	-2.9	-3.4	-5.2	-4.6	-5.1	-5.7	-5.0	-4.7	-4.4

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

## Exchange Rate Forecasts

	4-Apr	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>Majors</b>						
AUD/USD	0.7639	0.74	0.71	0.69	0.69	0.70
NZD/USD	0.6884	0.65	0.63	0.61	0.61	0.62
USD/JPY	111.45	115	115	117	118	120
EUR/USD	1.1403	1.12	1.11	1.09	1.09	1.09
GBP/USD	1.4235	1.43	1.44	1.43	1.43	1.44
USD/CNY	6.4818	6.55	6.60	6.65	6.60	6.55
USD/CAD	1.3040	1.34	1.39	1.45	1.44	1.43

### Australian Cross Rates

AUD/JPY	85.1	85	82	81	81	84
AUD/EUR	0.6699	0.66	0.64	0.63	0.63	0.64
AUD/GBP	0.5366	0.52	0.49	0.48	0.48	0.49
AUD/NZD	1.1097	1.14	1.13	1.13	1.13	1.13
AUD/CNY	4.9514	4.85	4.69	4.59	4.55	4.59
AUD/CAD	0.9961	0.99	0.99	1.00	0.99	1.00
AUD/CHF	0.7317	0.74	0.71	0.70	0.72	0.74

## Interest Rate Forecasts

	4-Apr	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>Aust rates</b>						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.50
3 month bill rate	2.28	2.25	2.25	2.25	2.50	2.85
3 Year Swap Rate	2.07	2.3	2.5	2.6	2.9	3.2
10 Year Swap Rate	2.60	3.1	3.4	3.4	3.6	3.8
<b>Offshore Policy Rates</b>						
US Fed funds	0.50	0.50	0.75	1.00	1.00	1.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	0.60
BoE repo rate	0.50	0.50	0.50	0.50	0.50	0.50
Bol excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.90
RBNZ OCR	2.25	2.00	2.00	2.00	2.00	2.00
China 1yr lending rate	4.35	3.85	3.85	3.85	0.00	0.00
China Reserve Ratio	17.0	16.5	16.0	16.0	--	--
<b>10 Year Benchmark Bond Yields</b>						
Australia	2.47	3.0	3.3	3.25	3.5	3.6
United States	1.76	2.3	2.5	2.50	2.8	2.8
Europe/Germany	0.13	0.0	0.0	0.0	0.0	0.0
UK	1.41	0.0	0.0	0.0	0.0	0.0
New Zealand	2.88	3.1	3.3	3.3	3.5	3.6

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

Dec year	2013	2014	2015	2016	2017	20 Yr Ave
Australia	2.0	2.6	2.5	2.7	2.9	3.4
US	1.5	2.4	2.4	2.2	2.3	2.6
Eurozone	-0.3	0.9	1.5	1.6	1.7	1.5
UK	2.2	2.9	2.2	2.2	2.2	2.4
Japan	1.4	-0.1	0.5	0.5	0.8	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	2.4	3.7	2.4	2.4	2.5	3.0
World	3.3	3.3	2.9	2.9	3.2	3.5
<i>MTP Top 5</i>	3.9	3.8	3.8	3.7	3.7	5.0

## Commodity prices (\$US)

	4-Apr	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
WTI oil	36.39	34	36	39	40	43
Gold	1218	1150	1100	1060	1040	1020
Iron ore	55	44	42	41	40	41
Hard cok. coal	89	79	81	82	83	84
Thermal coal	51	58	58	58	58	60
Copper	4855	4730	4870	5020	5070	5120
Japan LNG	8.1	5.2	5.8	6.2	6.4	6.6

## Contact Details

### Market Economics

Ivan Colhoun  
Chief Economist, Markets  
+61 2 9237 1836  
ivan.colhoun@nab.com.au

David de Garis  
Senior Economist  
+61 3 8641 3045  
david.degaris@nab.com.au

Tapas Strickland  
Economist  
+61 2 9237 1980  
tapas.strickland@nab.com.au

### Markets Research

Peter Jolly  
Global Head of Research  
+61 2 9237 1406  
peter.jolly@nab.com.au

### Group Economics

Alan Oster  
Chief Economist  
+61 3 8634 2927  
alan\_oster@national.com.au

Riki Polygenis  
Head of Australian Economics  
+61 3 8697 9534  
riki.polygenis@nab.com.au

## Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.