

Australian Markets Weekly

Brexit and local farm conditions too

- Thursday's UK EU Referendum will occupy market attention this week.
- A poll being conducted by ComRes for the UK Sunday Mirror at the time news of the assassination of British MP Jo Cox hit the wires revealed a switch in voting favouring the remain vote. The percentage of those polled who said they would be 'delighted' if the UK voted to leave the EU fell from 45% before the news to 38% after. The Remain camp received a nine point boost.
- Markets have thus opened this week with a risk-on tone, Sterling benefiting and the AUD/USD is trading back above 0.74.
- We also report on a recent trip to the Riverina and NE Victoria. Clearly the arrival of good rains has lifted spirits with signs also that major local towns report some rise in business and confidence.
- Australian farm sector prospects should be supportive for growth in the year ahead.

Recent developments: Brexit

The market has continued to trade on the results of Brexit polls. While polls over the past week or so had tended to point toward the increased possibility of Brexit, the very latest result, a poll conducted by ComRes for the Sunday Mirror at the time the news of the political assassination of British MP Jo Cox was hitting the wires suggested this news saw a swing back to voting to remain in the EU. This poll revealed that the percentage of those polled who said they would be 'delighted' if the UK voted to leave the EU fell from 45% before the news to 38% after. Likewise, the "Remain" camp received a nine point boost. This latest poll has seen markets open in trade this morning with something of a risk-on tone, Sterling rallying somewhat, with the risk-sensitive AUD/USD trading back above 0.74. Sterling short-term implied volatility for now remains sky-high (see Chart 1).

It's hard to see the markets doing other than looking ahead to the UK referendum as the dominating event for this week. With the polls closing at 10pm UK time on Thursday, the count will take place through the night.

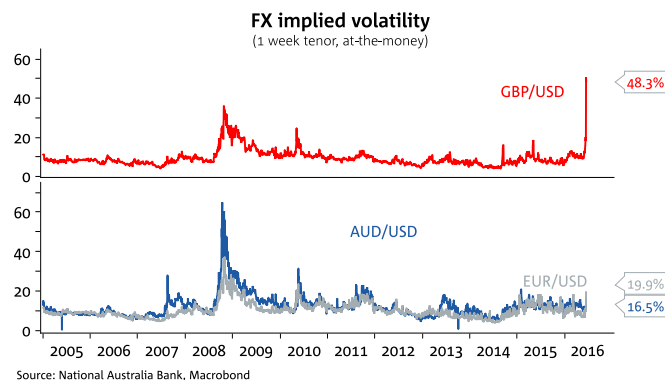
If the Scottish referendum count is any guide, the official result may not be known until late Friday afternoon Australian time. The Scottish referendum for example was declared at 9.00am UK time (18.00 AEST).

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7438	0.7	RBA cash	1.75	0
AUD/CNY	4.90	0.6	3y swap	1.83	4
AUD/JPY	77.9	-0.7	ASX 200	5,225	-1.6
AUD/EUR	0.655	-0.3	Iron ore	51.1	-2.9
AUD/NZD	1.049	0.2	WTI oil	48.2	-1.4

Source: Bloomberg

Chart 1: Sterling short-term volatility through the roof



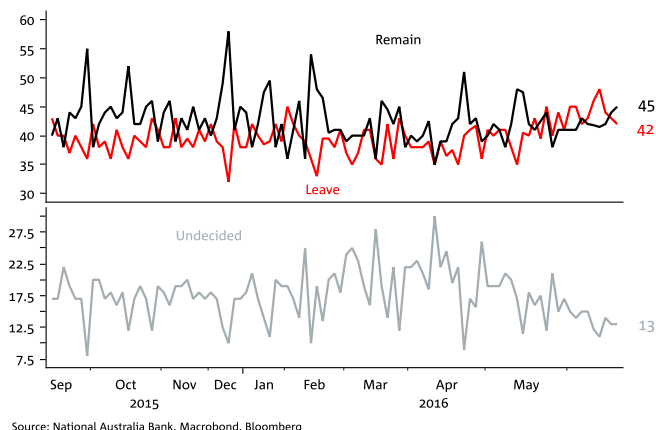
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Yellen and RBA Minutes this week

The other two events that would usually loom large for market attention this week are Fed Chair Yellen's testimony to the US Congress this week (to the Senate on Tuesday and the House on Wednesday) and the Minutes of this month's RBA Board meeting on Tuesday.

Chart 2: Bloomberg poll of polls swings back to "Remain"



As well as the usual questioning from members of Congress on the state of the US economy and the outlook for monetary policy – including the Fed's now lower mid-point trajectory for the Fed funds rate – Yellen is likely to be questioned closely on the upcoming UK referendum and what preparations the Fed is making in the lead up to Thursday's vote and her expectations. One thing that the market can be assured of is that major central banks will ensure that there will be more than adequate liquidity to calm markets, should the vote be to "leave" and market pressures mount.

As far as tomorrow's RBA Minutes is concerned, recall that the post-Board Media Release from the Governor contained no explicit easing bias, the statement also noting that some areas of domestic demand have been growing at or above trend. It was surprising to many there was such a lack of a clear easing bias in the final paragraph of the Governor's statement. Taken at face value, this lack of a bias suggests that the current stance of policy is consistent with both sustainable growth and the return of inflation to target over time. In other words, unless new data or events risk taking the economy and/or inflation off course, it calls into question whether any further easing will be required – certainly in the near-term. Of course the Q2 CPI will be important: another very low CPI that adds material downside risks to the RBA's inflation forecast could yet see a further rate cut. By the same token, also remember that data this year and released since the Board met – notably last week's May NAB Business Survey and the labour market report – has remained relatively upbeat, consistent with reasonable growth in the non-mining economy.

The Minutes are expected to outline in more detail the Bank's more upbeat assessment of growth, the Board noting at the time that many parts of domestic demand were growing at or above trend, and growth overall continuing, despite the big fall in mining investment. Such a more

upbeat assessment of the growth outlook provides the RBA with a little bit more comfort that economic prospects should, over time, be supportive of inflation returning to target. The market will be very alert to any indication in the Minutes that recent indicators of economic activity provide more comfort on this score, calling into question the likelihood of multiple further RBA easings, or even one more.

NAB's baseline forecast continues to be for the RBA to remain on hold.

The farm sector: rain ... and yet more rain coming

This scribe recently spent some time with clients in parts of the Riverina in Southern NSW and also speaking with clients in North-East Victoria. Even an economist is smart enough to realise that when the winter arrives in earnest, farmers are going to be more than contented! And when the local accountants reveal that farmers are speaking with their advisers about tax planning, finances are improving and the mood lifts. And so it is in this part of the country. And if recent anecdotal reports from other parts of the country are any guide, it's a not too dissimilar mood across the country, at least as far as the grain-growing and main grazing regions are concerned. After earlier facing what were very dry planting conditions across the East Coast up to around April, good rains – that have since continued through June – have lifted spirits further, including in this neck of the woods.

Chart 3: Good rains arriving

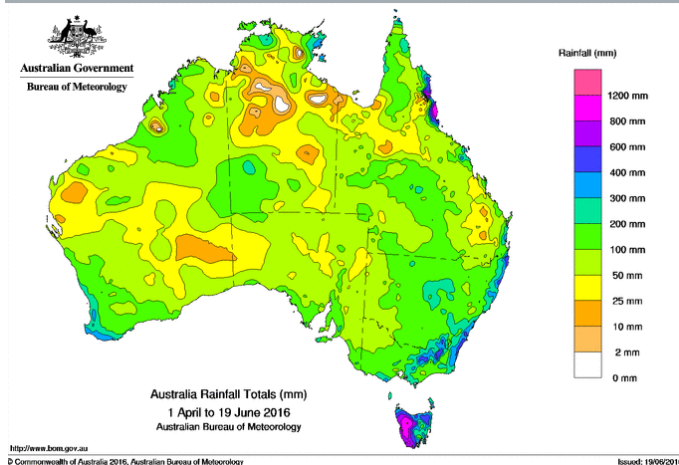
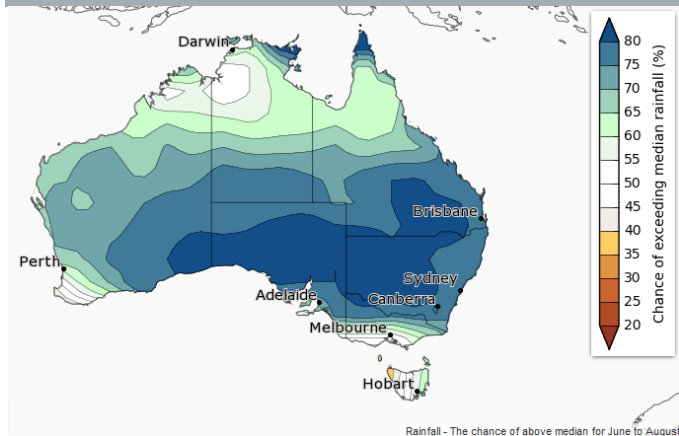


Chart 4: With the prospect of more rain to come



Source: Bureau of Meteorology

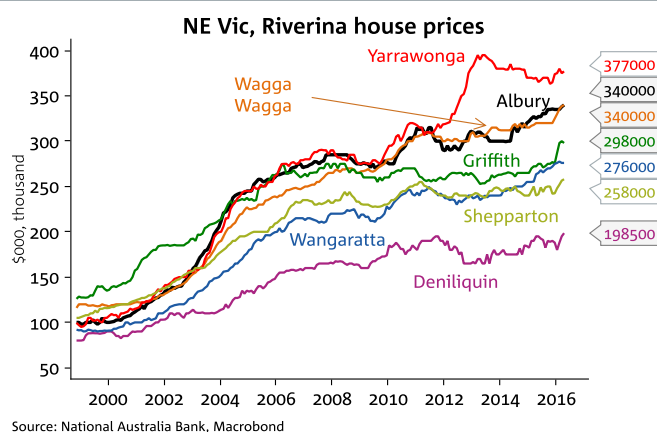
Given how weather conditions are evolving at present, prospects suggest that rural commodity production levels for 2016-17 for wheat and other major rural commodities are likely to rise. The exception is likely to be meat production where the wet weather, including in the northern part of the country will likely see restocking demand restrict market supply.

The weather has been so conducive that some local farmers are even beginning to worry about there being too much rain that could inhibit grain production! It's now an increasingly essential part of crop production that farmers not boost production through the use of fertilisers but also the use of weed control through the growing season to maximise the growing of the main crop. Too much rain could restrict access to crops.

For now the mood is positive. Conditions at the start of winter have seen an excellent start to the growing season with the Bureau of Meteorology forecasting that over the next three months, most areas of the country face a more than 50% chance – some up to 80% - of seeing above average rainfall.

While the mood among farmers was very positive, your scribe also can report that town businesses reported somewhat more positive levels of business activity, including in local property markets where prices in the larger towns are showing signs of having lifted so far this year. Local residential builders also reported relatively positive demand for new dwellings. Farmers also reported that over recent periods, farm values had risen, by 15-20%, with reports of not only good growing conditions but continued interest from foreign investors across the region. The one sector of businesses in local regional towns where selling conditions remain soft is retail. Strong competition and uneven sales conditions were mentioned as contributing factors.

Chart 4: Riverina/NE Vic residential town prices rising



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Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 20 June 2016								
NZ	WMM Consumer Confidence	Q2				109.6	22.00	8.00
NZ	Performance Services Index	May				57.7	22.30	8.30
JN	Trade Balance Adjusted	May		113.4		426.6	23.50	9.50
JN	Convenience Store Sales YoY	May				0.9	7.00	17.00
EC	Construction Output MoM/YYoY	Apr				-0.9/-0.5	9.00	19.00
CA	Wholesale Trade Sales MoM	Apr		0.5		-1.0	12.30	22.30
NZ	Westpac Consumer Confidence	2Q				109.6	22.00	8.00
CA	Bloomberg Nanos Confidence	Jun 17				57.9	14.00	0.00
US	Fed's Kahskari gives prepared remarks on TBTF						16.15	2.15
Tuesday, 21 June 2016								
AU	RBA's Guy Debelle, Assistant Governor (Financial Markets) speaks on "Liquidity in Domestic Fixed Income Markets", Sydney						23.25	9.25
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 19				116.4	23.30	9.30
AU	RBA June Meeting Minutes						1.30	11.30
AU	Speech by RBA's Alex Heath, Head of Economic Analysis Department, at CEDA's NSW Energy Series 2016, Sydney						1.30	11.30
AU	House Price Index QoQ/YoY	1Q	0.6/7.6	0.8/7.5		0.2/8.7	1.30	11.30
JN	All Industry Activity Index MoM	Apr		1.2		0.1	4.30	14.30
UK	Public Finances (PSNCR)	May				-2.4	8.30	18.30
GE	ZEW Survey Current Situation/Expectations	Jun		53/4.8		53.1/6.4	9.00	19.00
EC	ZEW Survey Expectations	Jun				16.8	9.00	19.00
UK	CBI Trends Total Orders/Selling prices	Jun		-10		-8.0/2.0	10.00	20.00
US	Yellen Testifies on Monetary Policy to Senate Banking Panel						14.00	0.00
Wednesday, 22 June 2016								
NZ	Net Migration SA	May				5520	22.45	8.45
AU	Westpac Leading Index MoM	May				0.2	0.30	10.30
AU	Skilled Vacancies MoM	May				0.6	1.00	11.00
NZ	Credit Card Spending MoM/YoY	May				2.5	3.00	13.00
CA	Retail Sales MoM	Apr		0.8		-1.0	12.30	22.30
US	FHFA House Price Index MoM	Apr		0.6		0.7	13.00	23.00
CH	Conference Board Leading Economic Index	May					13.00	23.00
EC	Consumer Confidence	Jun A		-7		-7.0	14.00	0.00
US	Existing Home Sales, #/MoM	May		5.55/1.83		5.5/1.7	14.00	0.00
US	Yellen Testifies on Monetary Policy to House Financial Services Panel						14.00	0.00
US	Fed Governor Powell gives introductory remarks at panel in New York						18.30	4.30
Thursday, 23 June 2016								
NZ	ANZ Job Advertisements MoM	Jun				0.2	22.00	8.00
AU	Panel participation by RBA's Luci Ellis, Head of Financial Stability Department, at the finance and regulation banking event, Sydney						23.00	9.00
CH	MNI Business Indicator	Jun					1.45	11.45
JN	Nikkei Japan PMI Mfg	Jun P				47.7	2.00	12.00
JN	Leading Index CI	Apr F				100.5	5.00	15.00
UK	UK votes on whether to remain in or leave the EU							
GE	Markit/BME Germany Manufacturing PMI	Jun P		52		52.1	7.30	17.30
GE	Markit Germany Services/Composite PMI	Jun P		55/54.3		55.2/54.5	7.30	17.30
EC	Markit Eurozone Manufacturing PMI	Jun P		51.4		51.5	8.00	18.00
EC	Markit Eurozone Services/Composite PMI	Jun P		53.2/53		53.3/53.1	8.00	18.00
AU	Remarks by RBA's Debelle at Sydney Harcourt Visiting Professorship event						8.15	18.15
US	Chicago Fed Nat Activity Index	May		0.11		0.1	12.30	22.30
US	Initial Jobless Claims	Jun 18		270		277	12.30	22.30
US	Bloomberg Consumer Comfort	Jun 19				42.1	13.45	23.45
US	Markit US Manufacturing PMI	Jun P		50.9		50.7	13.45	23.45
US	New Home Sales	May		560		619	14.00	0.00
US	Leading Index	May		0.1		0.6	14.00	0.00
US	New Home Sales MoM	May		-9.5		16.6	14.00	0.00
US	Kansas City Fed Manf. Activity	Jun		-8		-5.0	15.00	1.00
Friday, 24 June 2016								
UK	EU referendum vote counting begins						21.00	7.00
US	Fed's Kaplan Speaks in New York						23.00	9.00
JN	PPI Services YoY	May		0.1		0.2	23.50	9.50
GE	IFO Business Climate	Jun		107.4		107.7	8.00	18.00
GE	IFO Current Assessment/Expectations	Jun		114/101.2		114.2/101.6	8.00	18.00
UK	BBA Loans for House Purchase	May		37850		40104	8.30	18.30
US	Durable Goods Orders/Core orders	May P		-0.4/0.3		3.4/-0.6	12.30	22.30
US	U. of Mich. Sentiment/5-10yr inflation expectations	Jun F		94.1/		94.3/2.3	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Australia, RBA		5-Jul	1.75%	1.75%		1.75%		
UK BOE		14-Jul				0.50%		
Canada, BoC		14-Jul				0.50%		
Europe ECB		21-Jul				0.00%		
US Federal Reserve		27-Jul				0.25-0.50%		
Japan, BoJ		29-Jul				-0.1% to +0.1%		
New Zealand, RBNZ		11-Aug	2.00%	2.00%		2.25%		

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

Forecasts

Economic Forecasts

	Annual % change			Quarterly % change											
	2015	2016	2017	2015				2016				2017			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts															
Household Consumption	2.8	2.6	2.4	0.7	0.5	0.9	0.8	0.7	0.4	0.5	0.6	0.6	0.7	0.7	0.6
Underlying Business Investment	-10.1	-13.9	-8.0	-4.3	-1.4	-5.5	-3.2	-3.4	-3.1	-3.2	-2.5	-2.4	-1.2	-0.8	-1.2
Residential Construction	9.5	5.2	0.9	4.8	0.6	1.9	2.2	1.4	0.8	0.7	0.3	0.3	0.4	-0.6	-0.6
Underlying Public Spending	1.9	3.0	2.6	1.0	2.0	-0.7	1.3	0.9	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Exports	6.1	9.7	9.5	3.7	-3.9	5.4	0.6	4.4	1.2	2.7	2.5	2.4	2.3	2.2	1.5
Imports	1.0	-0.9	2.0	2.6	0.3	-2.3	0.6	-0.8	-0.1	0.3	0.3	0.4	0.8	0.9	0.8
Net Exports (a)	1.1	2.3	1.8	0.3	-0.9	1.6	0.0	1.1	0.3	0.6	0.5	0.5	0.4	0.4	0.2
Inventories (a)	0.0	0.0	0.0	0.4	0.1	-0.1	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%				0.3	0.6	-0.3	0.4	0.1	0.1	0.1	0.2	0.3	0.5	0.4	0.4
Dom Demand - ann %	1.0	0.7	1.2	0.6	1.3	1.2	1.1	0.9	0.4	0.8	0.6	0.8	1.1	1.4	1.5
Real GDP - qtr %				0.9	0.3	1.1	0.6	1.1	0.5	0.6	0.8	0.8	0.9	0.8	0.6
Real GDP - ann %	2.5	3.1	3.0	2.2	2.0	2.7	3.0	3.1	3.3	2.8	3.0	2.7	3.2	3.3	3.0
CPI headline - qtr %				0.2	0.7	0.5	0.4	-0.2	0.7	0.9	0.6	0.8	0.5	0.9	0.4
CPI headline - ann %	1.5	1.6	2.8	1.3	1.5	1.5	1.7	1.3	1.3	1.8	1.9	3.0	2.8	2.8	2.7
CPI underlying - qtr %				0.6	0.5	0.3	0.5	0.2	0.6	0.5	0.5	0.5	0.5	0.5	0.5
CPI underlying - ann %	2.2	1.7	2.0	2.3	2.2	2.1	2.0	1.5	1.6	1.8	1.8	2.1	2.0	1.9	1.9
Wages (Pvte WPI -ann %)	2.1	2.0	2.0	2.3	2.2	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Unemployment Rate (%)	6.0	5.6	5.5	6.2	5.9	6.2	5.9	5.8	5.6	5.6	5.5	5.5	5.5	5.5	5.5
Terms of trade	-11.4	-3.8	-3.0	-3.2	-3.9	-2.4	-3.2	-1.9	4.4	-2.1	-0.9	-1.5	-0.2	-0.8	-1.4
G&S trade balance, \$Abn	-33.2	-11.7	1.6	-4.7	-11.3	-7.3	-9.9	-6.6	-2.1	-2.0	-1.0	-0.6	0.6	1.1	0.5
% of GDP	-2.0	-0.7	0.1	-1.2	-2.8	-1.8	-2.4	-1.6	-0.5	-0.5	-0.2	-0.1	0.1	0.2	0.1
Current Account (% GDP)	-4.6	-3.4	-2.5	-3.4	-5.2	-4.6	-5.1	-4.3	-3.2	-3.1	-2.9	-2.8	-2.5	-2.4	-2.5

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

Exchange Rate Forecasts

	20-Jun	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Majors						
AUD/USD	0.7429	0.73	0.71	0.69	0.69	0.68
NZD/USD	0.7089	0.67	0.65	0.63	0.62	0.62
USD/JPY	104.66	109	110	111	111	112
EUR/USD	1.1352	1.14	1.12	1.11	1.10	1.10
GBP/USD	1.4567	1.46	1.45	1.45	1.44	1.44
USD/CNY	6.5808	6.55	6.60	6.65	6.60	6.55
USD/CAD	1.2842	1.34	1.39	1.45	1.44	1.44

Australian Cross Rates

AUD/JPY	77.8	80	78	77	77	76
AUD/EUR	0.6544	0.64	0.63	0.62	0.63	0.62
AUD/GBP	0.5100	0.50	0.49	0.48	0.48	0.47
AUD/NZD	1.0480	1.09	1.09	1.10	1.11	1.10
AUD/CNY	4.8889	4.78	4.69	4.59	4.55	4.45
AUD/CAD	0.9540	0.98	0.99	1.00	0.99	0.98
AUD/CHF	0.7124	0.73	0.69	0.68	0.70	0.71

Interest Rate Forecasts

	20-Jun	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Aust rates						
RBA Cash rate	1.75	1.75	1.75	1.75	1.75	1.75
3 month bill rate	2.00	1.95	1.95	1.95	1.95	1.95
3 Year Swap Rate	1.82	1.8	1.8	1.8	1.8	2.0
10 Year Swap Rate	2.34	2.5	2.6	2.6	2.6	2.9
Offshore Policy Rates						
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
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.90
RBNZ OCR	2.25	2.00	1.75	1.75	1.75	1.75
China 1yr lending rate	4.35	4.10	3.85	3.85	3.60	3.60
China Reserve Ratio	17.0	16.5	16.0	16.0	16.0	16.0
10 Year Benchmark Bond Yields						
Australia	2.13	2.4	2.5	2.50	2.5	2.7
United States	1.65	2.0	2.3	2.25	2.3	2.5
Europe/Germany	0.02	0.0	0.0	0.0	0.0	0.0
UK	1.14	0.0	0.0	0.0	0.0	0.0
New Zealand	2.48	2.7	2.8	2.8	2.9	3.1

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Avg
Australia	2.0	2.7	2.5	3.1	3.0	2.5	3.4
US	1.5	2.4	2.4	1.8	2.1	1.9	2.6
Eurozone	-0.3	0.9	1.5	1.5	1.5	1.6	1.5
UK	2.2	2.9	2.3	1.8	2.0	2.0	2.4
Japan	1.4	-0.1	0.6	0.5	0.7	0.5	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.3	7.0	7.2	7.7	7.7	7.5	6.6
New Zealand	2.4	3.7	2.5	2.3	2.5	2.4	3.0
World	3.3	3.4	3.0	2.9	3.2	3.1	3.5
<i>MTP Top 5</i>	3.9	3.8	3.8	3.6	3.6	3.2	5.0

Commodity prices (\$US)

	20-Jun	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
WTI oil	48.22	34	36	39	40	43
Gold	1289	1150	1100	1060	1040	1020
Iron ore	51	44	42	41	40	41
Hard cok. coal	89	79	81	82	83	84
Thermal coal	54	58	58	58	58	60
Copper	4551	4730	4870	5020	5070	5120
Japan LNG	7.4	5.2	5.8	6.2	6.4	6.6

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