

AUSTRALIAN MARKETS WEEKLY

S&P still watching – Budget forecasts can't slip



In this issue

S&P thoughts on Australia's AAA credit rating	1
The past week	3
This week	4
Calendar of economic releases	5
Forecasts	6

- NAB hosted S&P analysts at a lunch last week. In this week's edition we review our impression of the key issues for Australia's AAA rating. S&P's negative outlook reflects general concern with Australia's level of net external debt, coupled more recently with the failure of successive governments to return the budget to balance as forecast. S&P reiterated that no further slippage to the current forecast to return the budget to balance by the early 2020s would be tolerated. That said, our assessment was that S&P did not seem closer to downgrading Australia. This is a slight improvement on our assessment before Christmas when we thought a downgrade was quite likely by the middle of this year.
- Trends in Australia's budget over the first six months of 2016-17, suggest, the deficit is tracking marginally worse than forecast, but immaterially so in our opinion. GST and PAYG taxes are growing slowly, though company tax receipts have begun to strengthen. Outlays continue to grow strongly. The latter will likely be (and should continue to be) the focus of the government if it wants to secure its forecasts for a return to balance.
- Fed Chair Yellen's semi-annual testimonies on Tuesday and Wednesday – along with other Fed speakers – will be keenly focused on this week for any further clues as to when the Fed will next raise rates – and by how much over 2017.
- In Australia, the highlights will be Tuesday's January NAB Business Survey (given the sharp improvement in business conditions in December), Wednesday's Consumer Confidence report and the latest update on the Australian labour market (on Thursday). The RBA's Alex Heath and Luci Ellis speak on Wednesday and Thursday, respectively. NAB sees some slight upside risk for employment growth this month, given some undershooting of our models in recent months.

S&P's thoughts on Australia's ratings

Last week, NAB hosted two senior S&P analysts at a lunch with Australian investors. The following points are our impressions of S&P's current views in relation to Australia's AAA rating and the flow-on implications to other ratings in the event of a downgrade to Australia's rating. The flow-on impact to major bank ratings is the main way any sovereign downgrade might affect Australian households and businesses, via the potential impact on the funding costs of the major banks, though of course some of this effect may already be discounted by markets.

The first point to note was that S&P's main concern in relation to Australia's AAA rating continues to be Australia's high level of foreign indebtedness (Chart 1). This is a long-held concern of S&P, which the agency sees representing an inherent vulnerability for debt repayment or market access for Australian borrowers, in the event funding markets were to become disrupted.

To contact NAB's market experts, please click on one of the following links:

[Ask the Economists](#)

[Ask the FX Strategists](#)

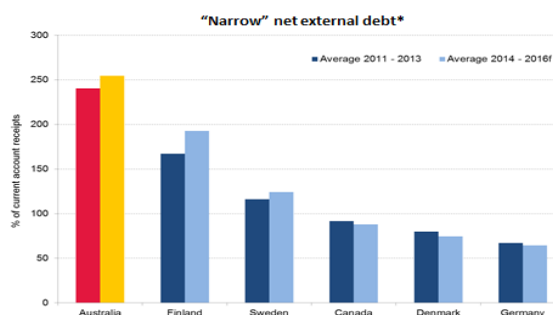
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7668	0.1	RBA cash	1.50	0
AUD/CNY	5.28	-0.1	3y swap	2.11	4
AUD/JPY	87.2	1.9	ASX 200	5,740	2.3
AUD/EUR	0.722	1.3	Iron ore	86.6	5.4
AUD/NZD	1.066	1.9	WTI oil	53.9	1.7

Source: Bloomberg

Chart 1: Australia's external debt



S&P Global Ratings

f—forecast
* External debt net of the liquid external assets of the public and financial sectors only
Sources: IMF, S&P Global

Until recently, Australia’s very strong government finances have provided an important and necessary offset to that key concern. However, the continued failure of successive governments to return the budget to balance as forecast, has reduced Australia’s fiscal flexibility. This led S&P to move the rating to negative outlook in 2016.

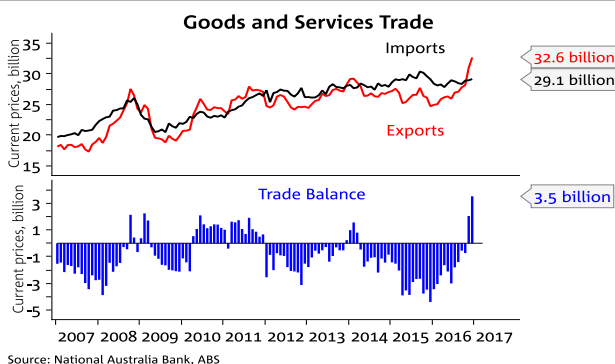
S&P reiterated that other metrics that are taken into account in assessing Australia’s rating remain extremely strong (eg the rule of law, a sound financial system, Australia’s strong policy making institutions and governance framework, the floating currency and an open and resilient economy). It should also be remembered that should the rating be downgraded, a AA+ rating remains an extremely strong credit rating.

S&P outlined two main scenarios for the rating:

- (i) **Downgrade to AA+:** That would likely occur if S&P believed the Parliament was unlikely to enact measures to allow the budget to return to a balanced position by the early 2020s (something S&P will continue to monitor over the next 6-12 months). A downgrade would also occur if there was a further weakening of Australia’s external position; and
- (ii) **Return to stable outlook:** if budget measures were enacted that appear sufficient to reduce fiscal deficits materially over the next few years; or if there was a sharp improvement in Australia’s external position.

S&P noted that the net external debt position did not tend to change significantly over short periods of time, given it’s a stock rather than a flow variable. Nevertheless, it’s worth noting that Australia’s trade balance (admittedly a flow variable) has improved sharply in recent times due to higher commodity prices (Chart 2), which may assist in moderating the change in the stock of debt. S&P also continues to assume iron ore prices will revert to around \$40 a tonne, which is quite a way below the current spot price of \$86 a tonne. This could allow for some further upside surprise on the external debt trend front, which may help a little at the margin.

Chart 2: Record Trade Surplus in December



Most of the onus seems to rest on the track for the budget and budget forecasts in coming years. In this regard, S&P was clear that no further slippage in the forecast return to balance by 2020-21 would be tolerated ie the government needs to make good on the current budget forecasts. That said it did not seem that S&P was much closer to downgrading the rating. The agency

again noted that it would continue to monitor the government’s willingness and ability to pass revenue and expenditure measures through both houses of parliament over the next six to twelve months. At the margin, this was slightly less shrill than NAB expected, reducing our confidence in the view that Australia’s credit rating is likely to be downgraded in the next six months. The next Budget in May will as usual be an important data point for a further update in the budget track.

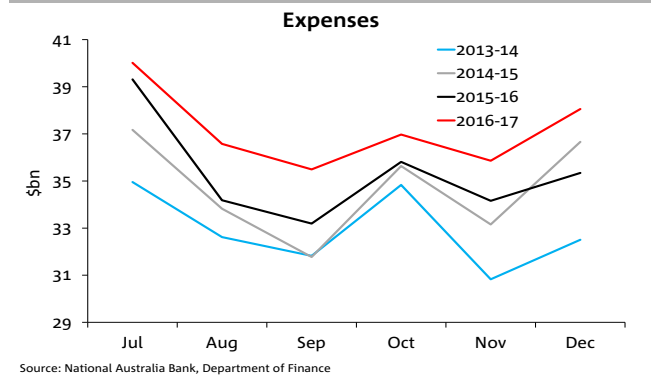
Trends in Australia’s Budget Deficit

With that in mind, we have looked in a bit more detail at the recent trends in Australia’s budget deficit, along with the trends for outlays and tax receipts. It should be noted that year over year growth rates can be somewhat misleading early in the budget year due to changed timing of receipts and/or major one-off outlays, but as the year progresses, comparisons on a year-on-year basis tend to become more reliable.

Looking at the trends for the six months to December 2016, compared to the six months to December 2015, the Department of Finance reports:

- Outlays are running 5.2% higher yoy. This high rate of growth likely in part reflects the fact that the budget forecasts continue to include yet to be passed cuts in spending;

Chart 3: Outlays 5.2% higher 6 mths to Dec v pcp

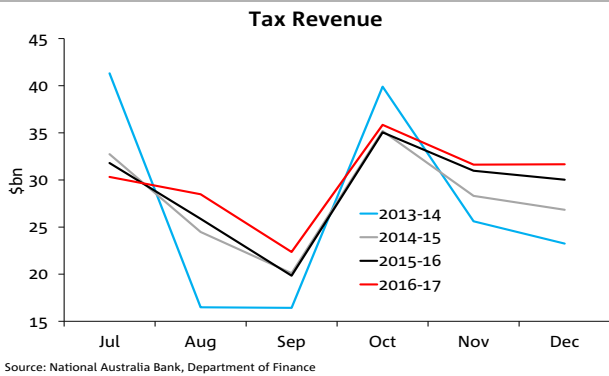


Source: National Australia Bank, Department of Finance

- Revenues have risen 3.9% yoy. This result includes the slowest rates of growth for both GST and PAYG (income) taxes in some years (confirming generally soft growth in wages, prices, employment and consumer spending), but the beginnings of some recovery in company tax receipts (a trend that should strengthen further while commodity prices remain above Budget forecasts. Iron ore prices are currently trading around \$86 a tonne, around \$12 above MYEFO budget forecasts, once freight and insurance costs are taken into account).

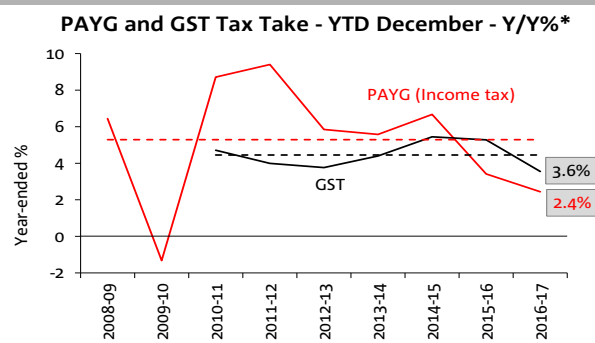
Together, these trends leave the year to date operating balance around \$1.5bn worse off in the first six months of the year, compared to a year earlier, something that is more than incorporated in this year’s MYEFO budget forecasts, which foresaw an operating deficit of around \$37.5bn compared to a year-earlier deficit of \$33.6bn. Chart 6 shows that the budget balance is broadly running similarly to last year’s track, perhaps a few billion dollars worse, though this is not significant given the size of annual outlays and revenues.

Chart 4: Overall revenues better, though some weakness



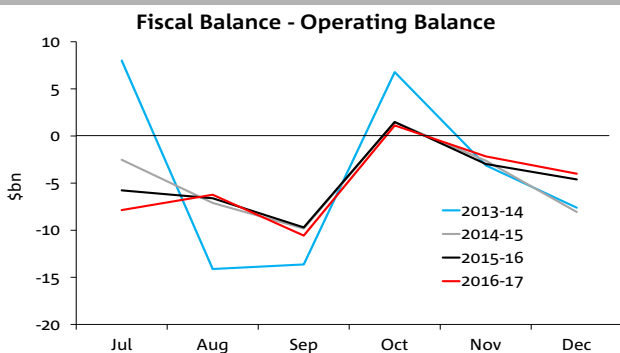
Source: National Australia Bank, Department of Finance

Chart 5: GST and PAYG growth lowest in some years



* Dotted lines represent average since 2006-07
Source: National Australia Bank, Department of Finance

Chart 6: Budget not significantly better/worse this year



Source: National Australia Bank, Department of Finance

The charts for outlays and revenues reveal that the slight deterioration in the deficit year to date – and general failure to improve – reflects the same themes as recent years, namely, outlays continue to grow, while revenue growth remains relatively subdued. While NAB is not recommending a sharp tightening in fiscal policy, the lesson of recent years has been not to rely on overly strong revenue growth assumptions and not to boost government spending too significantly either, given the recurring issue of slow growth in revenues.

Encouragingly, the recent trend in job advertisements suggests Australia may experience slightly stronger employment growth in the months ahead (boosting growth in PAYG receipts), while company tax receipts should continue to receive a boost from better than expected commodity prices.

On the expenses side, the government has been working quietly to progress through Parliament some of the measures that have been held up for the past three years. There have been a number of successes (the recent \$6bn omnibus bill of budget savings is one). And the Government continues to negotiate, introduce and reintroduce legislation to progress other measures held up in the Upper House.

Conclusion

The Australian budget in the first six months of this financial year is tracking a little higher, but not significantly worse than recent budget forecasts. As such, as yet, it does not seem to be clearly failing to meet S&P's requirement of a return to balance in the early 2020s. The trends suggest that the best way to ensure Australia meets these budget targets and the AAA rating is maintained would be slower government spending growth in the out-years. Relative to December when S&P last commented on the rating – and when NAB thought a downgrade was likely this year. The beginnings of an improvement in company tax receipts may be contributing to a reduced probability of a downgrade in the next six months.

Flow-on implications of a downgrade

Last week, S&P also published an advisory on the implications of a possible Australian sovereign downgrade on the ratings for other Australian state governments. While the conclusions reiterated the market's current understanding, S&P made clear that:

- The three other AAA-rated Australian government entities (TCV, NSW TCorp and the ACT government) would also be downgraded to AA+. These entities cannot have higher ratings than the sovereign government (this is a very rare occurrence and only occurs in three of around 360 such S&P ratings globally); and
- Other AA-rated state governments would not automatically be downgraded if the sovereign rating were lowered, these ratings being absolute ratings rather than relative ratings (eg SAFA, Tascorp, WATC, QTC).

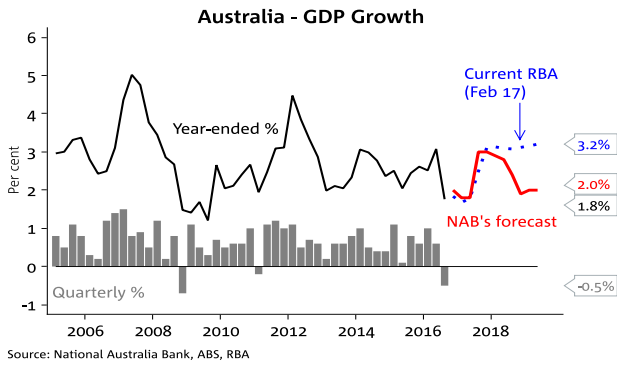
S&P also suggested that a sovereign rating downgrade would flow onto a downgrade for the four major banks' credit ratings.

The past week

The past week in Australia has been RBA focused given the RBA Board Meeting, a speech by Governor Lowe and the Statement on Monetary Policy. The key takeaway from those events is that the RBA has become more upbeat on the economy, seeing GDP growth gradually building to 3% a year, core inflation returning slowly to the 2-3% band by early 2019, while the unemployment rate is likely to remain around 5¾%. This has the market expecting that the RBA will likely keep rates on hold in 2017.

In reaction, the AUD/USD rose, but was unable to breach the 77¢ barrier and currently sits at \$0.7670. The interest rate market is pricing in a 16% chance of the RBA hiking rates over the next 12 months.

Chart 7: RBA optimistic on growth, NAB less so



NAB though still retains the view that the RBA is more likely to cut rates in 2017, with risks to the economy remaining to the downside, especially as the dwelling construction boom peaks and then declines in 2018. NAB sees a weaker economy than the RBA in 2018, which in the absence of further rate cuts, would likely cause the unemployment rate to rise and thus keep domestic cost pressures benign.

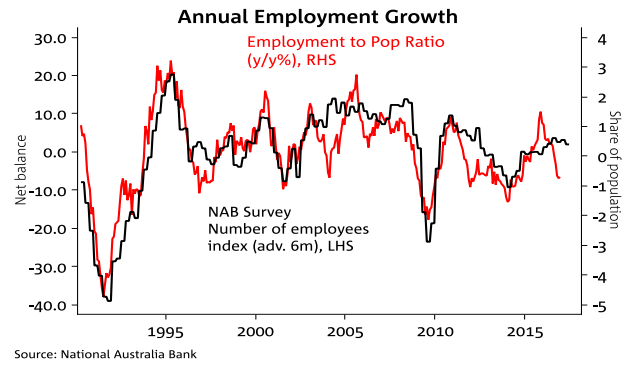
In offshore economic news, focus remained on the fiscal policies of President Trump in a light data week. On Thursday, President Trump flagged an impending “phenomenal” tax announcement (expected in the coming two to three weeks) which gave markets hope that Trump will at last provide the long-awaited details on his fiscal plans (tax cuts and infrastructure spending). That saw equities up on the week (ASX200 +2.5%). The US dollar also strengthened on the news, though retraced on comments by Trump that he will create a “level playing” field which implies actions on currencies that the US views as undervalued.

This week

The key domestic data this week are the January NAB Business Survey on Tuesday, W-MI Consumer Confidence on Wednesday and Labour Force on Thursday. There are also two senior RBA official public appearances, the first a speech and panel participation by Alex Heath on Wednesday and the second a panel participation on housing by Assistant Governor Economic, Luci Ellis on Thursday. These are unlikely to add much more to the RBA’s views given Governor Lowe’s speech and the publication of the Statement on Monetary Policy last week.

For Thursday’s Labour Force release, the market consensus is looking for employment growth of +10k and for the unemployment rate to be unchanged at 5.8%. NAB suggests there may be some upside risk to the employment number and expects growth of around +20k. Over recent months, the official employment numbers have undershot the alternative indicators of employment that we track, so there is a reasonable chance that employment will strengthen and that the divergence will correct over the next couple of months. Job advertising has also begun to strengthen in recent months, which should assist employment growth also.

Chart 8: Employment has undershot the NAB Survey



Internationally, the market will be focused on US Fed Chair Yellen’s testimony to Congress on monetary policy on Tuesday (Senate) and Wednesday (House). This may give further clues as to the number of rate hikes to be expected out of the US this year – and of the possibility of a March move, which is not expected by the markets at this time. Data wise, most focus is likely to be on Wednesday’s US Retail Sales and CPI.

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 13 February 2017								
NZ	REINZ House Sales YoY (Pending release)	Jan				-10.7	10-14 Feb release	
NZ	Card Spending Total/Retail MoM	Jan	0.5/..	/0.7		0.0/-0.1	22.45	8.45
JN	GDP SA QoQ/QoQ saar	4Q P		0.3/1.1		0.3/1.3	0.50	10.50
CA	Bloomberg Nanos Confidence	Feb 10				57.3	16.00	2.00
Tuesday, 14 February 2017								
NZ	Food Prices MoM	Jan	1.7			-0.8	22.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Feb 12				117.5	23.30	9.30
AU	NAB Business Conditions/Confidence	Jan				11/6	1.30	11.30
CH	CPI/PPI YoY	Jan		2.4/6.6		2.1/5.5	2.30	12.30
NZ	Household Inflation Expectations (RBNZ Survey), median, 1Y ahead CPI, YoY					2.0	3.00	13.00
JN	Industrial Production MoM	Dec F				0.5	5.30	15.30
GE	GDP SA QoQ/YoY	4Q P		0.5/1.8		0.2/1.7	8.00	18.00
GE	CPI MoM/YoY	Jan F		-0.6/1.9		-0.6/1.9	8.00	18.00
GE	CPI EU Harmonized MoM/YoY	Jan F		-0.8/1.9		-0.8/1.9	8.00	18.00
UK	CPI MoM/YoY	Jan		-0.5/1.9		0.5/1.6	10.30	20.30
UK	CPI Core YoY	Jan		1.7		1.6	10.30	20.30
UK	PPI Input NSA MoM/YoY	Jan		1/18.5		1.8/15.8	10.30	20.30
UK	PPI Output Core NSA MoM/YoY	Jan		0.3/2.2		0.0/2.1	10.30	20.30
UK	House Price Index YoY	Dec		6.5		6.7	10.30	20.30
EC	Industrial Production SA MoM/YoY	Dec		-1.5/1.7		1.5/3.2	11.00	21.00
GE	ZEW Survey Current Situation/Expectations	Feb		77/15		77.3/16.6	11.00	21.00
EC	ZEW Survey Expectations	Feb				23.2	11.00	21.00
EC	GDP SA QoQ/YoY	4Q P		0.5/1.8		0.5/1.8	11.00	21.00
US	NFIB Small Business Optimism	Jan		104.9		105.8	12.00	22.00
US	PPI Final Demand MoM/YoY	Jan		0.3/1.5		0.3/1.6	14.30	0.30
CA	Teranet/National Bank HPI MoM/YoY	Jan		/		0.3/12.3	14.30	0.30
US	Fed's Lacker to Speak at University of Delaware						14.50	0.50
US	Fed's Yellen Gives Semi-Annual Testimony on Monetary Policy to Senate Banking Panel						16.00	2.00
US	Fed's Kaplan (v) speaks in Houston						19.00	5.00
US	Fed's Lockhart to Speak on Economy in Huntsville, Alabama						19.15	5.15
Wednesday, 15 February 2017								
AU	RBA'S Heath (Chief Economist) Speech and Panel Participation at ABE Conference in Sydney						21.50	7.50
AU	Westpac Consumer Conf Index/MoM	Feb		/		97.4/0.1	0.30	10.30
AU	New Motor Vehicle Sales MoM/YoY	Jan		/		0.3/0.2	1.30	11.30
UK	Jobless Claims Change/ILO Unemployment rate	Jan		1/4.8		-10.1/4.8	10.30	20.30
UK	Average Weekly Earnings/AWE ex bonus 3M/YoY	Dec		2.8/2.7		2.8/2.7	10.30	20.30
EC	Trade Balance SA	Dec		22		22.7	11.00	21.00
US	MBA Mortgage Applications	Feb 10				2.3	13.00	23.00
CA	Manufacturing Sales MoM	Dec		0.3		1.5	14.30	0.30
US	Empire Manufacturing	Feb		7		6.5	14.30	0.30
US	CPI MoM/YoY	Jan		0.3/2.4		0.3/2.1	14.30	0.30
US	CPI Ex Food and Energy MoM/YoY	Jan		0.2/2.1		0.2/2.2	14.30	0.30
US	Retail Sales Advance/Control Group MoM	Jan		0.1/0.3		0.6/0.2	14.30	0.30
CA	Existing Home Sales MoM	Jan				2.2	15.00	1.00
US	Industrial Production MoM	Jan		0		0.8	15.15	1.15
US	Manufacturing (SIC) Production	Jan		0.2		0.2	15.15	1.15
US	NAHB Housing Market Index	Feb		67		67.0	16.00	2.00
US	Fed Chair Yellen Delivers Semi-Annual Testimony to House Panel						16.00	2.00
US	Business Inventories	Dec		0.4		0.7	16.00	2.00
US	Fed's Rosengren to Address NY Assoc for Business Economics						18.00	4.00
US	Fed's Harker Speaks in Philadelphia						18.45	4.45
Thursday, 16 February 2017								
US	Net Long-term/Total Net TIC Flows	Dec		/		30.8/23.7	22.00	8.00
AU	RBA's Ellis (Assistant Governor, Economic) Panel Participation at 2017 Australasian Housing Researchers Conference, Melbourne						23.00	9.00
NZ	Finance Minister Joyce speaks on the Economic Outlook to Auckland Chamber of Commerce						0.00	10.00
NZ	ANZ Consumer Confidence MoM/Index	Feb				3.4/128.7	1.00	11.00
AU	Consumer Inflation Expectation	Feb				4.3	1.00	11.00
AU	Employment Change/Unemployment rate	Jan	20/5.8	10/5.8		13.5/5.8	1.30	11.30
AU	Participation Rate	Jan	64.7	64.7		64.7	1.30	11.30
AU	RBA FX Transactions Market	Jan				1799.0	1.30	11.30
NZ	Non Resident Bond Holdings	Jan				63.2	3.00	13.00
JN	Machine Tool Orders YoY	Jan F				3.5	7.00	17.00
EC	ECB account of the monetary policy meeting						13.30	23.30
EC	EU's Moscovici, ECB's Nowotny on panel in Vienna						14.30	0.30
US	Housing Starts #/MoM	Jan		1226/0		1226.0/11.3	14.30	0.30
US	Building Permits #/MoM	Jan		1230/0.2		1210.0/-0.2	14.30	0.30
US	Initial Jobless Claims	Feb 11		244		234.0	14.30	0.30
US	Philadelphia Fed Business Outlook	Feb		18		23.6	14.30	0.30
Friday, 17 February 2017								
NZ	Crown Financial Statements	Dec					22.00	8.00
NZ	BusinessNZ Manufacturing PMI	Jan				54.5	22.30	8.30
NZ	Retail Sales Ex Inflation QoQ	4Q	0.6	1		0.9	22.45	8.45
EC	ECB Current Account SA	Dec				36.1	10.00	20.00
UK	Retail Sales Ex Auto Fuel MoM/YoY	Jan		0.7/3.9		-2.0/4.9	10.30	20.30
UK	Retail Sales Inc Auto Fuel MoM/YoY	Jan		1/3.4		-1.9/4.3	10.30	20.30
EC	Construction Output MoM/YoY	Dec		/		0.4/0.0	11.00	21.00
CA	Int'l Securities Transactions	Dec				7.2	14.30	0.30
US	Leading Index	Jan		0.5		0.5	16.00	2.00
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		2-Mar	0.5%	0.5%		0.5%		
Australia, RBA		7-Mar	1.50%	1.50%		1.50%		
Europe ECB		9-Mar	-0.4%	-0.4%		-0.4%		
US Federal Reserve		16-Mar	0.5-0.75%	0.5-0.75%		0.5-0.75%		
Japan, BoJ		16-Mar	-0.1%	-0.1%		-0.1%		
UK BOE		16-Mar	0.25%	0.25%		0.25%		
New Zealand, RBNZ		23-Mar	1.75%	1.75%		1.75%		

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings Time

FORECASTS

Economic Forecasts		Annual % change				Quarterly % change															
	2015	2016	2017	2018	2015				2016				2017				2018				
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Australia Forecasts																					
Household Consumption	2.7	2.7	2.3	2.1	0.6	0.6	0.9	0.8	0.8	0.5	0.4	0.7	0.6	0.6	0.5	0.5	0.5	0.6	0.5	0.4	0.4
Underlying Business Investment	-10.1	-11.7	-3.9	4.8	-3.3	-2.0	-5.6	-2.1	-3.4	-2.1	-4.5	-1.1	-0.7	-0.6	0.7	1.3	1.5	1.6	0.9	1.7	1.7
Residential Construction	10.0	9.0	2.8	-1.3	5.1	-1.2	3.6	1.8	4.1	2.6	-1.4	2.3	0.2	0.5	0.9	0.5	-0.8	-1.1	-1.0	-0.8	-0.8
Underlying Public Spending	2.4	4.0	2.5	2.6	1.3	1.9	-0.9	1.8	0.7	2.8	-0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Exports	6.1	7.0	8.6	6.5	3.4	-2.8	4.2	0.8	2.6	2.1	0.3	2.0	2.8	2.2	2.3	2.1	1.5	1.2	0.8	0.9	0.9
Imports	2.0	0.5	5.6	5.5	2.5	0.8	-1.6	0.5	-0.8	2.9	1.3	1.4	1.1	1.1	1.5	1.5	1.3	1.4	1.1	1.3	1.3
Net Exports (a)	0.8	1.3	0.6	0.3	0.1	-0.7	1.2	0.1	1.0	-0.1	-0.2	0.1	0.4	0.2	0.2	0.1	0.1	0.0	-0.1	-0.1	-0.1
Inventories (a)	0.1	0.1	0.0	-0.1	0.6	-0.4	0.1	0.0	-0.1	0.2	0.2	-0.1	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.5	0.5	-0.3	0.6	0.1	0.8	-0.5	0.6	0.4	0.5	0.6	0.6	0.5	0.6	0.4	0.5	0.5
Dom Demand - ann %	1.3	1.5	1.7	2.2	1.1	1.4	1.2	1.3	1.3	1.6	1.5	1.5	1.4	1.0	2.1	2.1	2.3	2.4	2.2	2.1	2.1
Real GDP - qtr %					1.1	0.1	0.8	0.6	1.0	0.6	-0.5	0.9	0.7	0.7	0.7	0.9	0.6	0.6	0.3	0.4	0.4
Real GDP - ann %	2.4	2.4	2.4	2.5	2.5	2.0	2.4	2.6	2.5	3.1	1.8	2.0	1.8	1.8	3.0	3.0	2.9	2.8	2.4	1.9	1.9
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.5	0.5	0.6	0.7	0.6	0.4	0.6	0.6	0.7	0.7
CPI headline - ann %	1.5	1.3	2.4	2.3	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.3	2.5	2.4	2.4	2.3	2.3	2.3	2.4	2.4
CPI underlying - qtr %					0.7	0.5	0.3	0.5	0.2	0.5	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.6	0.6
CPI underlying - ann %	2.2	1.5	1.8	1.9	2.4	2.2	2.1	2.0	1.5	1.5	1.5	1.6	1.8	1.8	1.9	1.9	1.8	1.8	1.8	2.0	2.0
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	2.2	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.9	2.0	2.0	1.9	1.9	2.0	2.1	2.3	2.4	2.4
Unemployment Rate (%)	6.0	5.7	5.7	5.7	6.2	6.0	6.1	5.9	5.9	5.7	5.6	5.7	5.7	5.7	5.7	5.7	5.6	5.7	5.7	5.8	5.8
Terms of trade	-11.6	-0.6	10.2	-1.8	-2.6	-4.3	-2.6	-3.7	-1.9	2.3	4.5	7.7	6.9	-4.4	-2.8	-3.5	-1.9	-1.8	-2.0	-1.4	-1.4
G&S trade balance, \$Abn	-36.7	-18.5	23.0	-10.7	-4.8	-11.3	-9.0	-11.7	-8.4	-7.4	-4.7	1.9	9.6	6.5	4.8	2.1	0.4	-1.6	-3.9	-5.7	-5.7
% of GDP	-2.2	-1.1	1.3	-0.6	-1.2	-2.8	-2.2	-2.8	-2.0	-1.8	-1.1	0.4	2.2	1.5	1.1	0.5	0.1	-0.3	-0.8	-1.2	-1.2
Current Account (% GDP)	-4.8	-2.8	-0.3	-2.2	-3.3	-5.1	-5.0	-5.6	-3.6	-3.8	-2.7	-1.1	0.6	-0.1	-0.5	-1.1	-1.5	-1.9	-2.4	-2.8	-2.8

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

Exchange Rate Forecasts

	13-Feb	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Majors						
AUD/USD	0.7664	0.73	0.72	0.70	0.70	0.69
NZD/USD	0.7191	0.70	0.68	0.67	0.67	0.68
USD/JPY	113.98	115	115	118	118	120
EUR/USD	1.0622	0.98	1.00	1.02	1.04	1.05
GBP/USD	1.2487	1.18	1.16	1.18	1.20	1.20
USD/CNY	6.8898	7.20	7.24	7.18	7.17	7.18
USD/CAD	1.3109	1.33	1.35	1.37	1.37	1.37

	13-Feb	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Australian Cross Rates						
AUD/JPY	87.4	84	83	83	83	83
AUD/EUR	0.7215	0.74	0.72	0.69	0.67	0.66
AUD/GBP	0.6138	0.62	0.62	0.59	0.58	0.58
AUD/NZD	1.0658	1.04	1.06	1.04	1.04	1.01
AUD/CNY	5.2803	5.26	5.21	5.03	5.02	4.95
AUD/CAD	1.0047	0.97	0.97	0.96	0.96	0.95
AUD/CHF	0.7696	0.71	0.69	0.74	0.74	0.73

Interest Rate Forecasts

	13-Feb	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Aust rates						
RBA Cash rate	1.50	1.50	1.25	1.00	1.00	1.00
3 month bill rate	1.77	1.50	1.25	1.25	1.25	1.25
3 Year Swap Rate	2.07	2.0	2.0	2.1	2.2	2.5
10 Year Swap Rate	2.98	3.0	3.0	3.0	3.0	3.3
Offshore Policy Rates						
US Fed funds	0.75	0.75	1.00	1.00	1.25	1.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
BoE repo rate	0.25	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	1.75	1.75	1.75	1.75	1.75	1.75
China 1yr lending rate	4.35	4.35	4.10	4.10	4.10	4.10
China Reserve Ratio	17.0	17.0	16.5	16.5	16.5	16.5
10 Year Benchmark Bond Yields						
Australia	2.73	2.75	2.80	2.75	2.70	2.70
United States	2.41	2.40	2.50	2.50	2.50	2.50
New Zealand	3.23	3.25	3.30	3.35	3.30	3.30

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Avg
Australia	2.1	2.8	2.4	2.4	2.4	2.5	3.4
US	1.7	2.4	2.6	1.6	2.1	2.3	2.6
Eurozone	-0.3	1.1	1.9	1.6	1.5	1.6	1.5
UK	1.9	3.1	2.2	2.0	1.3	1.6	2.4
Japan	2.0	0.3	1.2	1.0	0.8	0.6	0.8
China	7.7	7.3	6.9	6.6	6.5	6.3	9.2
India	6.3	7.0	7.2	7.1	7.2	7.2	6.6
New Zealand	2.4	3.8	2.5	3.4	3.2	2.4	3.0
World	3.4	3.4	3.1	2.9	3.1	3.3	3.5
MTP Top 5	4.1	3.9	4.0	3.7	3.7	3.6	5.0

Commodity prices (\$US)

	13-Feb	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
WTI oil	53.91	54	56	58	59	60
Gold	1234	1170	1150	1140	1130	1110
Iron ore	86.6	66	63	60	58	56
Hard cok. coal	164	215	180	150	125	115
Thermal coal	80	65	65	65	65	60
Copper	6083	5670	5620	5620	5620	5620
Aust LNG (#N/A Invalid Security)		7.9	8.3	8.5	8.9	9.2

(*) Implied Australian LNG export prices.

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.