

# AUSTRALIAN MARKETS WEEKLY

## Australian monetary policy history lesson



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- The market is now pricing two interest rate hikes in Australia by the end of 2018.
- The experiences of 1994 and 2002 seem relevant to consider – in 1994 the RBA waited for nearly eight months before following the Fed. In 2002, an overheating housing market saw the RBA remove some monetary policy accommodation.
- Despite these similarities, there are important differences at this time, not least that inflation is below the target. NAB’s forecasts continue to see a weaker 2018 economic outlook than the RBA and a slow return of inflation to the target.

### What can the history of Australian monetary policy tell us about the current monetary policy debate?

In a week when the US Federal Reserve is expected to increase the Fed Funds rate, the market is now pricing that the Australian cash rate will be 2% by the end of 2018 (i.e two 25bps rate hikes). There have also been a number of commentators arguing that the RBA will be forced to raise interest rates to attempt to slow very strong house price growth. These developments occur as the RBA Governor has recently stated that he would prefer unemployment to come down more quickly and inflation to return to target more quickly, but is more concerned about the financial stability considerations of too rapid an increase in household debt, to consider reducing rates further.

We thought a consideration of recent Australian monetary policy history might help shed some light on some of the different factors likely to be debated by markets. Of course, policy will ultimately be determined by how the Australian economy, labour market and in particular inflation turn out over the next few years.

Two periods seem relevant for special consideration, given the current confluence of events: (i) the experience of 1994, a period when the Fed began tightening after a long period of easing, as the US economy strengthened; and (ii) the experience of 2002, a period which saw an improvement in Australian (and global) growth along with very strong Australian house price and credit growth (though then the house price rises were more uniform nationally than is presently the case).

The first overall point worth making is that anyway you measure it, this has been a particularly long easing cycle around the world and in Australia. The Fed cut and then held US interest rates near zero for over eight years, before the first increase in December 2015. Only one further rise occurred at the end of 2016, though as the Fed Chair has warned, a faster pace of rate rises is seen as appropriate this year as the Fed is nearing its dual inflation and unemployment mandates.

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

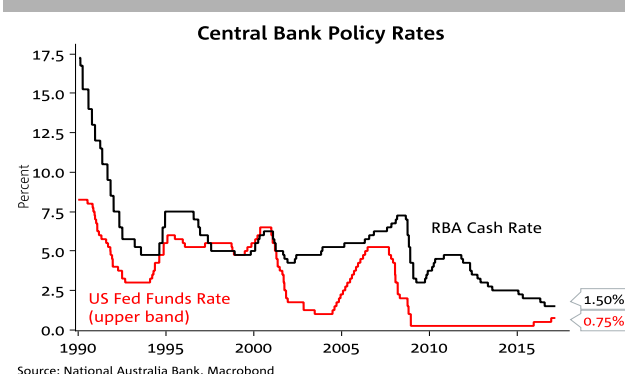
- [Ask the Economists](#)
- [Ask the FX Strategists](#)
- [Ask the Interest Rate Strategists](#)

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7541	-0.5	RBA cash	1.50	0
AUD/CNY	5.21	0.0	3y swap	2.22	7
AUD/JPY	86.6	0.3	ASX 200	5,760	0.1
AUD/EUR	0.706	-1.5	Iron ore	86.7	-5.0
AUD/NZD	1.090	0.6	WTI oil	48.0	-9.7

Source: Bloomberg

Chart 1: Australian and US official cash rates



In Australia, it's also been a long easing cycle, with cash rates beginning to decline in November 2011 and the latest interest rate cut in August 2016, rates having been unchanged since. Australia's easing cycle may have been longer still, had the RBA not been in the fortunate position of being able to unwind some of the emergency easing put in place during the Global Financial Crisis, as China and commodity prices rebounded.

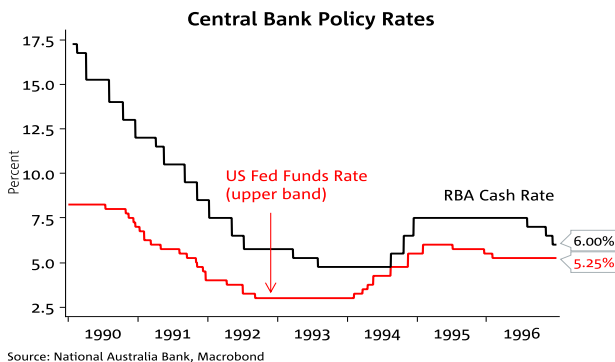
**Australian monetary policy during 1994**

1994 is an interesting period to review Australian monetary policy developments as there are a number of similarities to the current situation. Then, as now, Australia and the US had each experienced a long period of falling interest rates. Then both countries suffered from the deep early 1990s' recession, though obviously Australia has not suffered recession in the past few years.

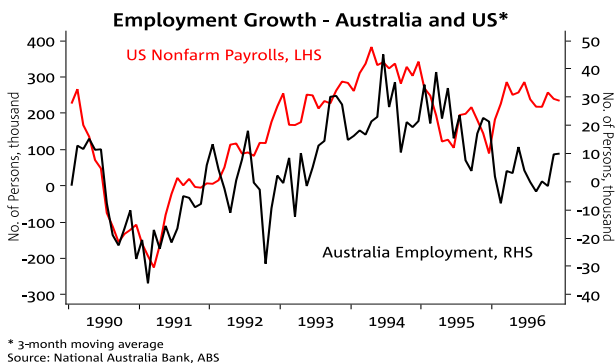
During 1993, US employment growth strengthened and the unemployment rate declined so that by early 1994, the Fed began raising interest rates. As the US unemployment rate continued falling throughout 1994, the Fed raised rates from 3% to around 5.5%.

Australia on the other hand, did not move rates up as early as the Fed in 1994, as the unemployment rate, while falling through 1994, remained quite elevated at over 10.5% through the first six months of year. As Australian unemployment fell and employment strengthened in the second half of the year, the RBA saw fit to begin to remove some of the very accommodative monetary policy setting in place, raising rates by some 275bps from 4.75% to 7.5% between August and December that year.

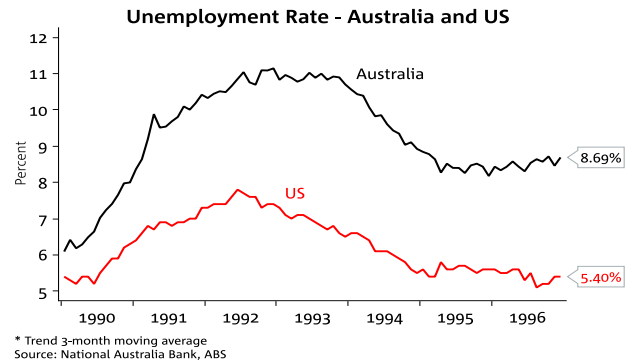
**Chart 2: Policy rates during the 1990s – US moved first**



**Chart 3: US labour market improved first in 1991**



**Chart 4: US labour market improved first – UR lower**

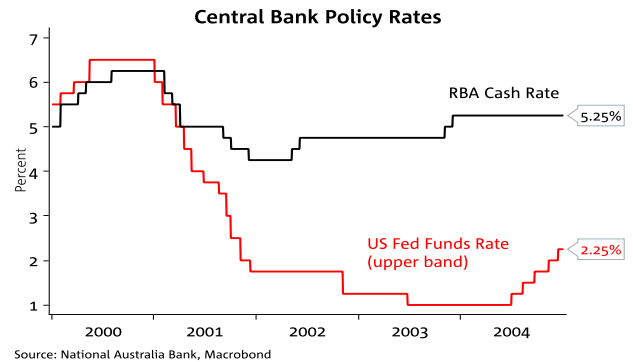


**Australian monetary policy during 2002**

2002 is another particularly interesting period to consider, as then the Bank raised rates twice during the year. The underpinning of those rate increases included: firmer prospects for growth in both Australia and abroad; the Board's assessment that it was no longer appropriate to have a level of cash rates at the bottom of the range of recent experience as persisting with a strongly expansionary policy setting would risk amplifying inflation pressures and, over time, could fuel other imbalances such as the current overheating in the housing market. "The Board judged that an increase in the cash rate would reduce these risks and, therefore, enhance the prospects for sustained growth consistent with the inflation target".

A number of important aspects of this period of time, arguably not all present now, were: (i) the inflation rate

**Chart 5: RBA hiked twice in 2002 while US was on hold**



**Chart 6: Inflation near the top of the band contributed**

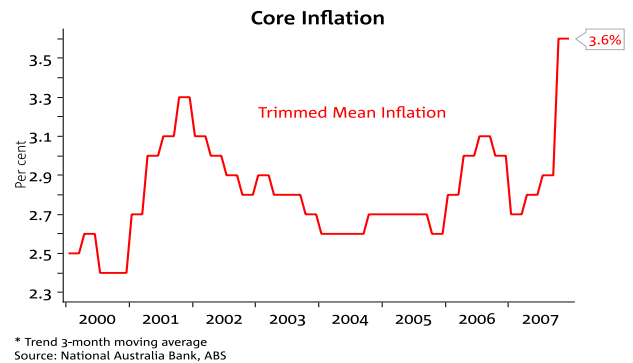


Chart 7: Overheating housing market also contributed

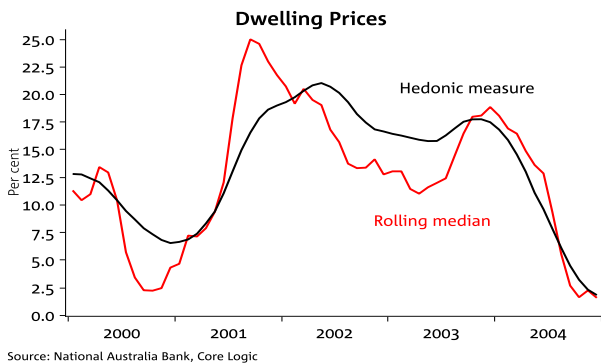
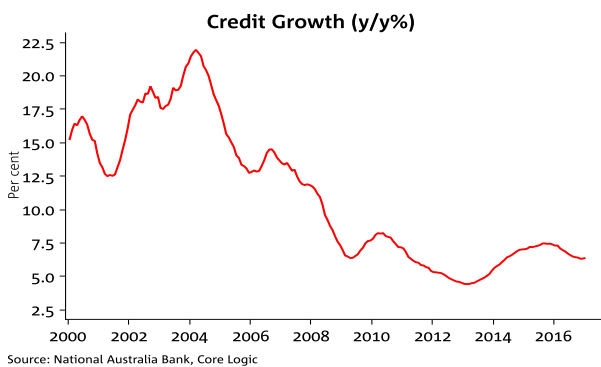


Chart 8: Credit growth very strong during that period



was close to the top of the target range (at 2.9% y/y), whereas currently inflation is below target; (ii) credit growth was exceptionally strong at around 15% y/y; and (iii) the RBA considered the housing market to be overheating.

**The current situation – similarities and differences**

These two previous periods give some guidance as to how thinking about Australian monetary policy might unfold, though of course, there are some important differences.

1994 counsels that just because the Fed is tightening, does not automatically mean the RBA will follow suit in short order. The performance of the Australian economy will be the ultimate determinant. Then the RBA sought to reduce spare capacity in the economy (especially unemployment) – something the Bank is also likely to seek to achieve in the current cycle. Now, quite differently to the situation in both 1994 and 2002, the RBA also wishes to see a return of inflation to target, which again would argue against any early following of Fed rate hikes.

The experience of both 1994 and 2002 however does highlight that an improvement in global and Australian growth saw the RBA Board decide to remove some of the monetary accommodation that was in place at the time. It is important therefore to remember the current starting point for Australian monetary policy is also considered to be a stimulatory setting, though that’s appropriate when unemployment is somewhat elevated and inflation is below target.

This inevitably brings us to the question of how recent sharp increases in house prices in some cities might enter into monetary policy thinking. As Peter Jolly wrote last week, it seems unlikely that the RBA would seek a near-term tighter monetary policy setting on account of household debt levels/house price increases as that would risk unemployment beginning to rise or inflation moving further from target (or taking an even longer period to return to target).

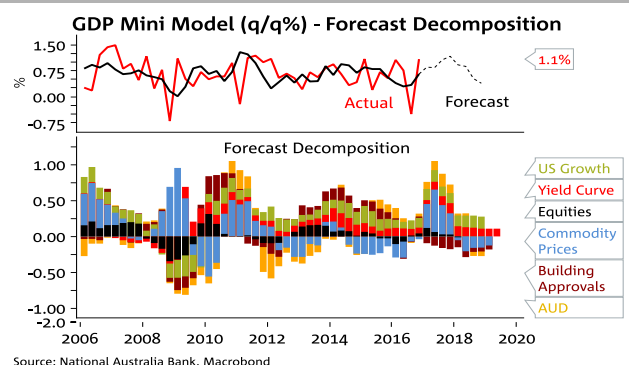
Given the primacy of the RBA’s inflation target, this could instead suggest the possibility of additional macroprudential moves or other changes in government housing policy. [Housing affordability has become an important political issue in recent times and a package of measures is set to be introduced in the May budget, while the press today reports the government has limited foreign purchases in new building developments to less than 50% of dwellings].

That said, the experiences of 1994 and 2002 both remind that when the unemployment rate is improving and inflation moving back to target, the Bank’s Board usually begins to consider when and at what pace to remove monetary accommodation in Australia. Strong increases in household debt or house prices would likely accelerate these decisions all else equal.

**The growth and inflation outlook**

The growth and inflation outlook will ultimately be key. NAB’s forecasts see the 2017 growth outlook as reasonably favourable as the economy benefits from higher commodity prices and a strengthening in US growth. However, the 2018 growth outlook is not currently seen as favourably, with commodity prices expected to unwind recent gains, hence becoming a drag, while housing construction is expected to be a drag both in 2017 and 2018. Together these forces suggest at best slow progress on the unemployment front (and possibly some upward pressure in 2018).

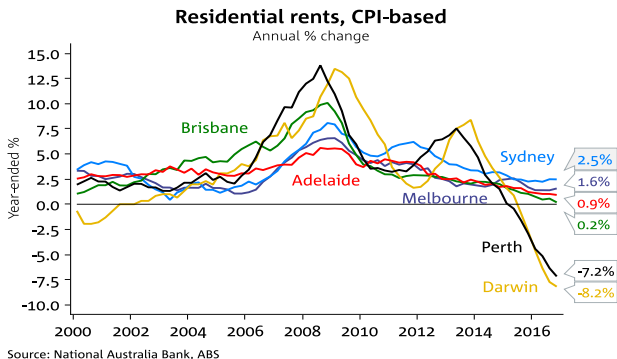
Chart 9: GDP likely strong in 2017, but weaker in 2018



Core inflation has been heavily influenced by slower growth and in some cases falling rents in recent times. The decline in rents in mining cities should likely ease in coming quarters, though, the influx of new apartments on the eastern seaboard should keep rental growth subdued in Australia’s three largest cities. This should see core inflation returning only slowly to target. It may also be useful for analytical purposes, to examine the

trend in core inflation excluding rents so as to ascertain the underlying trend for other parts of core inflation, given rental growth will likely remain slow in the near term Overall, neither unemployment or inflation trends currently suggest an early increase in Australian rates.

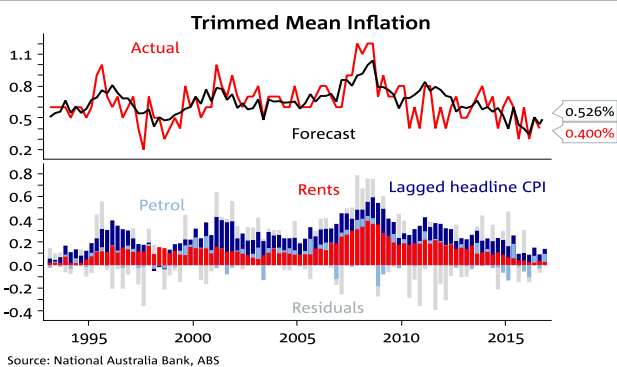
**Chart 10: Rent growth slowing, partly mining related**



containing some boost related to the earlier timing of Chinese New Year, however, importantly the result suggested the weaker readings of July-November were not the start of a trend.

The local highlight will be the notoriously volatile Australian labour market data on Thursday. NAB looks for a near top of market 25,000 employment gain (market +16K) and a slight decline in the unemployment rate to 5.6% (market unchanged at 5.7%). Our more upbeat forecast reflects the improved trend for job advertising in recent months (five successive months of increases), the recent improvement in the NAB survey and a sense that jobs have previously been under-reported in NSW.

**Chart 11: Subdued rents weighing on core inflation**



## The past week

The \$A continued to slip against most major currencies over the past week as the Fed Chair reinforced a faster pace of US rate hikes is in store this year, while February non-farm payrolls printed at a robust 235K and the unemployment rate dropped to 4.7%, both more than sufficient for the Fed to lift rates later this week. Yields overall continued their upward drift as a result. Oil prices dropped sharply on concerns about continuing ample supplies, while iron ore prices also dropped sharply, with most market participants expecting prices lower in the medium term. The EUR continued to improve a little as concerns about the French election continued to ease.

## The week ahead

It's a big week both globally and in Australia. Globally, we have an expected rate rise by the Fed early Thursday morning Australian time, Dutch elections on Wednesday, the US Draft Budget on Wednesday, the possible triggering of Article 50 by the UK, the Reintroduction of the US's Debt Ceiling on March 15th and the G20 Finance Ministers' meeting at the end of the week.

In Australia, there are two key focuses. NAB's February Business Survey on Tuesday will be examined to see the extent to which the previous two months' sharp rises are sustained, including the pleasing lift in employment last month. NAB assessed last months' result as possibly

# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Monday, 13 March 2017</b>								
CH	Foreign Direct Investment YoY CNY	Feb		-4.15		-9.2	10-18 Mar release	
NZ	REINZ House Sales YoY (pending)	Feb				-14.7	12.30	7.30
NZ	Food Prices MoM	Feb	-0.9			2.8	22.45	8.45
JN	Machine Orders MoM/YoY	Jan		-0.1		6.7/6.7	0.50	10.50
JN	Tertiary Industry Index MoM	Jan		0.1		-0.4	5.30	15.30
CA	Bloomberg Nanos Confidence	Mar 10				57.4	15.00	1.00
EC	ECB President Draghi speaks in Frankfurt						14.30	0.30
US	Labor Market Conditions Index Change	Feb				1.5	15.00	1.00
<b>Tuesday, 14 March 2017</b>								
AU	RBA Bullock (Assistant Governor, Financial System) speaks						22.30	8.30
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 12				113.9	23.30	9.30
AU	NAB Business Conditions/Confidence	Feb		/		16.0/10.0	1.30	11.30
CH	Retail Sales YTD YoY	Feb		10.6		10.4	3.00	13.00
CH	Fixed Assets Ex Rural YTD YoY	Feb		8.2		8.1	3.00	13.00
CH	Industrial Production YTD YoY	Feb		6.2		6.0	3.00	13.00
GE	CPI EU Harmonized MoM/YoY	Feb F		0.7/2.2		0.7/2.2	8.00	18.00
EC	Industrial Production SA MoM/YoY	Jan		1.4/0.9		-1.6/2.0	11.00	21.00
GE	ZEW Survey Current Situation/Expectations	Mar		77.8/13		76.4/10.4	11.00	21.00
EC	ZEW Survey Expectations	Mar				17.1	11.00	21.00
US	NFIB Small Business Optimism	Feb		105.6		105.9	11.00	21.00
US	PPI Final Demand MoM/YoY	Feb		0.1/1.9		0.6/1.6	13.30	23.30
CA	Teranet/National Bank HPI MoM/YoY	Feb		/		0.5/13.0	13.30	23.30
<b>Wednesday, 15 March 2017</b>								
NZ	BoP Current Account Balance NZD/% of GDP YTD	4Q	../-2.7	-2.425/-2.7		-4.9/-2.9	22.45	8.45
AU	Westpac Consumer Conf Index/MoM	Mar		/		99.6/2.3	0.30	10.30
JN	Industrial Production MoM/YoY	Jan F		/		-0.8/3.2	5.30	15.30
UK	Jobless Claims Change/Average Weekly Earnings 3M/YoY	Feb		/2.4		-42.4/2.6	10.30	20.30
UK	Employment Change/ILO Unemployment Rate 3M	Jan		80/4.8		37.0/4.8	10.30	20.30
EC	Employment QoQ/YoY	4Q		/		0.2/1.2	11.00	21.00
US	MBA Mortgage Applications	Mar 10				3.3	12.00	22.00
US	Empire Manufacturing	Mar		15		18.7	13.30	23.30
US	CPI MoM/YoY	Feb		0/2.7		0.6/2.5	13.30	23.30
US	CPI Ex Food and Energy MoM/YoY	Feb		0.2/2.2		0.3/2.3	13.30	23.30
US	Retail Sales Advance MoM	Feb		0.1		0.4	13.30	23.30
US	Retail Sales Ex Auto and Gas/Control Group	Feb		0.2/0.2		0.7/0.4	13.30	23.30
CA	Existing Home Sales MoM	Feb				-1.3	14.00	0.00
US	NAHB Housing Market Index	Mar		65		65.0	15.00	1.00
US	Business Inventories	Jan		0.3		0.4	15.00	1.00
US	FOMC Rate Decision (Lower/Upper Bound)	Mar 15	0.75/1.00	0.75/1		0.5/0.75	19.00	5.00
US	Total Net TIC Flows	Jan				-42.8	21.00	7.00
<b>Thursday, 16 March 2017</b>								
NZ	GDP SA QoQ/YoY	4Q	0.4/2.8	0.7/3.2		1.1/3.5	22.45	8.45
AU	Consumer Inflation Expectation	Mar				4.1	1.00	11.00
AU	Employment Change/Unemployment Rate	Feb	25/5.6	16/5.7		13.5/5.7	1.30	11.30
AU	Participation Rate	Feb	64.6	64.6		64.6	1.30	11.30
AU	RBA FX Transactions Market	Feb				557.0	1.30	11.30
AU	RBA Bulletin						1.30	11.30
JN	BOJ Policy Balance Rate	Mar 16				-0.1	4.00	14.00
JN	Machine Tool Orders YoY	Feb F				9.1	7.00	17.00
EC	CPI MoM/YoY	Feb		0.4/2		-0.8/1.1	11.00	21.00
EC	CPI Core YoY	Feb F		0.9		0.9	11.00	21.00
UK	Bank of England Bank Rate	Mar 16	0.25	0.25		0.3	13.00	23.00
CA	Int'l Securities Transactions	Jan				10.2	13.30	23.30
US	Housing Starts/MoM	Feb		1260/1.1		1246.0/-2.6	13.30	23.30
US	Building Permits/MoM	Feb		1260/-2.6		1285.0/4.6	13.30	23.30
US	Philadelphia Fed Business Outlook	Mar		28		43.3	13.30	23.30
US	Initial Jobless Claims	Mar 11		240		243	13.30	23.30
US	JOLTS Job Openings	Jan		5562		5501.0	15.00	1.00
<b>Friday, 17 March 2017</b>								
G20	G20 Finance Ministers and Central Bank Governors meet for two days							
NZ	BusinessNZ Manufacturing PMI	Feb				51.6	22.30	8.30
NZ	ANZ Consumer Confidence Index/MoM	Mar		/		127.4/-1.0	1.00	11.00
CH	Property Prices	Feb					2.30	12.30
EC	Trade Balance SA	Jan		22		24.5	11.00	21.00
CA	Manufacturing Sales MoM	Jan		-0.4		2.3	13.30	23.30
US	Industrial Production MoM	Feb		0.2		-0.3	14.15	0.15
US	U. of Mich. Sentiment/5-10 Yr Inflation	Mar P		97		96.3	15.00	1.00
US	Leading Index	Feb		0.4		0.6	15.00	1.00
<b>Monday, 20 March 2017</b>								
NZ	Performance Services Index	Feb				59.5	22.30	8.30
UK	Rightmove House Prices MoM	Mar				2.0	1.10	11.10
UK	Rightmove House Prices YoY	Mar				2.3	1.10	11.10
AU	RBA's Ellis Speech in Canberra						2.30	12.30
GE	PPI MoM	Feb				0.7	8.00	18.00
GE	PPI YoY	Feb				2.4	8.00	18.00
EC	Labour Costs YoY	4Q				1.5	11.00	21.00
CA	Wholesale Trade Sales MoM	Jan				0.7	13.30	23.30
US	Chicago Fed Nat Activity Index	Feb				-0.1	13.30	23.30
NZ	Westpac Consumer Confidence	1Q				113.1		
CA	Bloomberg Nanos Confidence	Mar 10				57.4	15.00	1.00
US	Fed's Evans Speaks on Economy and Policy in New York						18.10	4.10
<b>Upcoming Central Bank Interest Rate Announcements</b>								
US	Federal Reserve	16-Mar	0.75-1.00%	0.75-1.00%		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%		
Australia	RBA	4-Apr	1.50%	1.50%		1.50%		
Canada	BoC	12-Apr	0.5%	0.5%		0.5%		
Europe	ECB	17-Apr	-0.4%	-0.4%		-0.4%		

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	
<b>Australia Forecasts</b>																					
Household Consumption	2.7	2.8	2.5	2.1	0.6	0.6	0.9	0.8	0.8	0.5	0.4	0.9	0.7	0.5	0.6	0.6	0.5	0.6	0.5	0.4	0.4
Underlying Business Investment	-10.1	-11.7	-4.4	4.8	-3.3	-2.0	-5.6	-2.1	-3.4	-2.1	-4.5	-1.2	-1.0	-0.7	0.9	0.8	1.8	1.4	1.0	1.7	1.7
Residential Construction	10.0	9.0	2.8	-1.4	5.1	-1.2	3.6	1.8	4.1	2.6	-1.4	2.3	0.2	0.5	0.9	0.4	-0.8	-1.1	-1.0	-0.8	-0.8
Underlying Public Spending	2.4	4.1	2.8	2.6	1.3	1.9	-0.9	1.8	0.7	2.8	-0.6	1.0	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
Exports	6.1	6.7	7.3	6.4	3.4	-2.8	4.2	0.8	2.6	2.1	0.3	1.0	2.4	2.2	2.3	2.1	1.5	1.2	0.8	0.9	0.9
Imports	2.0	0.5	5.7	5.4	2.5	0.8	-1.6	0.5	-0.8	2.9	1.3	1.5	1.2	1.1	1.5	1.4	1.3	1.3	1.1	1.2	1.2
Net Exports (a)	0.8	1.2	0.4	0.2	0.1	-0.7	1.2	0.1	1.0	-0.1	-0.2	-0.1	0.3	0.2	0.2	0.2	0.0	0.0	-0.1	-0.1	-0.1
Inventories (a)	0.1	0.1	-0.1	-0.1	0.6	-0.4	0.1	0.0	-0.1	0.2	0.2	0.0	-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	0.8	0.5	0.4	0.6	0.6	0.6	0.6	0.5	0.5	0.5
Dom Demand - ann %	1.3	1.5	1.8	2.2	1.1	1.4	1.2	1.3	1.3	1.6	1.5	1.6	1.6	1.2	2.4	2.2	2.3	2.4	2.2	2.1	2.1
<b>Real GDP - qtr %</b>					<b>1.1</b>	<b>0.1</b>	<b>0.8</b>	<b>0.6</b>	<b>1.0</b>	<b>0.6</b>	<b>-0.5</b>	<b>1.1</b>	<b>0.6</b>	<b>0.6</b>	<b>0.9</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>
<b>Real GDP - ann %</b>	2.4	2.4	2.3	2.4	<b>2.5</b>	<b>2.0</b>	<b>2.4</b>	<b>2.6</b>	<b>2.0</b>	<b>3.1</b>	<b>1.8</b>	<b>2.4</b>	<b>1.7</b>	<b>1.7</b>	<b>3.1</b>	<b>2.8</b>	<b>2.9</b>	<b>2.7</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.5	0.5	0.6	0.6	0.7	0.4	0.5	0.6	0.7	0.7
CPI headline - ann %	1.5	1.3	2.3	2.2	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.2	2.4	2.2	2.4	2.3	2.2	2.2	2.3	2.3
CPI underlying - qtr %					0.6	0.5	0.4	0.4	0.2	0.5	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.5
CPI underlying - ann %	2.2	1.6	1.9	1.9	2.4	2.3	2.2	2.0	1.6	1.6	1.6	1.6	1.9	2.0	2.0	1.9	1.8	1.8	1.9	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 (%)	6.1	5.7	5.7	5.7	6.2	6.0	6.2	6.0	5.9	5.7	5.7	5.7	5.8	5.7	5.7	5.7	5.6	5.7	5.7	5.7	5.7
Terms of trade	-11.6	0.6	17.5	-1.8	-2.6	-4.3	-2.6	-3.7	-1.9	2.3	4.5	12.4	11.3	-5.6	-3.0	-3.4	-1.9	-1.8	-1.9	-1.5	-1.5
G&S trade balance, \$Abn	-36.7	-15.6	45.8	11.2	-4.8	-11.3	-9.0	-11.7	-8.4	-7.4	-4.7	4.9	16.5	12.0	10.0	7.4	5.8	3.9	1.7	-0.2	-0.2
% of GDP	-2.2	-0.9	2.5	0.6	-1.2	-2.8	-2.2	-2.8	-2.0	-1.8	-1.1	1.1	3.7	2.6	2.2	1.6	1.3	0.9	0.4	0.0	0.0
Current Account (% GDP)	-4.8	-2.6	1.0	-1.0	-3.3	-5.1	-5.0	-5.6	-3.6	-3.8	-2.7	-0.4	2.1	1.1	0.6	0.1	-0.3	-0.7	-1.2	-1.6	-1.6

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

## Exchange Rate Forecasts

	13-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
<b>Majors</b>						
AUD/USD	<b>0.7594</b>	0.77	0.75	0.73	0.70	0.69
NZD/USD	<b>0.6966</b>	0.72	0.71	0.70	0.67	0.68
USD/JPY	<b>113.74</b>	112	114	116	118	120
EUR/USD	<b>1.0563</b>	1.05	1.05	1.04	1.04	1.05
GBP/USD	<b>1.2202</b>	1.25	1.25	1.24	1.22	1.20
USD/CNY	<b>6.9018</b>	6.90	6.92	7.05	7.04	7.03
USD/CAD	<b>1.3410</b>	1.31	1.33	1.35	1.37	1.37

## Australian Cross Rates

	13-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
AUD/JPY	<b>86.4</b>	86	86	85	83	83
AUD/EUR	<b>0.7189</b>	0.73	0.71	0.70	0.67	0.66
AUD/GBP	<b>0.6224</b>	0.62	0.60	0.59	0.57	0.58
AUD/NZD	<b>1.0902</b>	1.07	1.06	1.04	1.04	1.01
AUD/CNY	<b>5.2412</b>	5.31	5.19	5.15	4.93	4.85
AUD/CAD	<b>1.0184</b>	1.01	1.00	0.99	0.96	0.95
AUD/CHF	<b>0.7699</b>	0.75	0.72	0.77	0.71	0.70

## Interest Rate Forecasts

	13-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
<b>Aust rates</b>						
RBA Cash rate	<b>1.50</b>	1.50	1.50	1.50	1.25	1.25
3 month bill rate	<b>1.80</b>	1.75	1.75	1.50	1.50	1.50
3 Year Swap Rate	<b>2.22</b>	2.1	2.1	2.1	2.1	2.2
10 Year Swap Rate	<b>3.17</b>	3.0	3.0	3.0	3.0	3.0

## Offshore Policy Rates

	13-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
US Fed funds	<b>0.75</b>	1.00	1.00	1.25	1.50	1.50
ECB deposit rate	<b>-0.40</b>	-0.40	-0.40	-0.40	-0.40	-0.40
BoE repo rate	<b>0.25</b>	0.25	0.25	0.25	0.25	0.25
BoJ excess reserves rate	<b>-0.10</b>	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	<b>1.75</b>	1.75	1.75	1.75	1.75	1.75
China 1yr lending rate	<b>4.35</b>	4.35	4.10	4.10	4.10	4.10
China Reserve Ratio	<b>17.0</b>	17.0	16.5	16.5	16.5	16.5

## 10 Year Benchmark Bond Yields

	13-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Australia	<b>2.95</b>	2.75	2.80	2.75	2.70	2.70
United States	<b>2.58</b>	2.40	2.50	2.50	2.50	2.50
New Zealand	<b>3.38</b>	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 Avge
Australia	2.1	2.8	2.4	2.4	2.3	2.4	3.4
US	1.7	2.4	2.6	1.6	2.1	2.3	2.6
Eurozone	-0.3	1.1	1.9	1.7	1.9	1.8	1.5
UK	1.9	3.1	2.2	2.0	1.8	1.7	2.4
Japan	2.0	0.3	1.2	1.0	0.8	0.6	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.3	7.0	7.2	7.1	7.2	7.2	6.6
New Zealand	2.2	3.4	2.5	3.2	2.9	2.5	3.0
World	3.4	3.4	3.1	2.9	3.2	3.4	3.5
MTP Top 5	4.1	3.9	4.0	3.8	3.8	3.6	5.0

## Commodity prices (\$US)

	13-Mar	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
WTI oil	48.04	53	54	56	58	59
Gold	1206	1180	1170	1150	1140	1130
Iron ore	86.7	75	66	63	60	58
Hard cok. coal	161	285	215	180	150	125
Thermal coal	79	62	65	65	65	65
Copper	5717	5730	5670	5620	5620	5620
Aust LNG (*)		7.3	7.9	8.3	8.5	8.9

(\*) Implied Australian LNG export prices.

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