

# AUSTRALIAN MARKETS WEEKLY

## APRA's recent macro-prudential measures



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- APRA has moved to further tighten lending standards for housing - especially for investor lending and for interest-only loans - in an environment it describes as being of heightened risks. These risks include high house prices, high and rising household debt in a period of slow growth in incomes, low interest rates and continued competition among financial institutions
- RBA Governor Lowe notes that the root cause of the issue is the housing supply demand imbalance - and that more needs to be done on the supply side. That said he does acknowledge that availability of credit can amplify demand and has also previously cited the interaction of tax incentives (negative gearing and the capital gains tax discount).
- Further initiatives are likely:
  - APRA is due to issue an information paper around mid-year that will signal the extent and timeframe for implementing further initiatives to make the Australian banking system "unquestionably strong". The paper may include potential adjustments to risk-weights for housing.
  - The Federal Government is set to release a Housing Affordability Package in the Budget on May 9th (at 7.30pm). A speech today by Treasurer Morrison suggests this will be focused on boosting the stock of rental housing by encouraging institutional investors.
- While inflation remains below target and unemployment somewhat elevated it remains our expectation that policy makers will address housing-related financial and economic stability risks with macro-prudential (and other) measures rather than via interest rates. These concerns would likely also preclude any near-term reduction in interest rates, barring a clear uptrend in the unemployment rate.
- A stable Australian cash rate and a rising US interest rate environment – along with some renewed decline in commodity prices – remains behind NAB's forecast that the \$A will end the year around US\$0.70.

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](#)

### APRA's recent measures

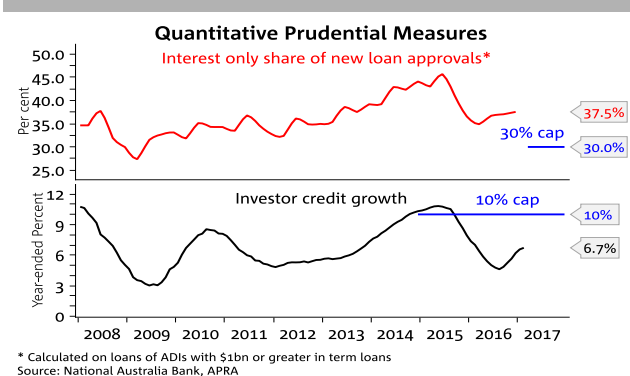
The past week has seen the introduction of further macro-prudential measures, along with comments from RBA Governor Philip Lowe on housing supply and a speech from APRA Chairman Wayne Byres, explaining the rationale for APRA's further moves along with a timetable for the issuance of an information paper mid-year which will provide detail around the extent and timeframe over which further APRA moves will be taken to make Australia's financial system "unquestionably strong".

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7503	-1.3	RBA cash	1.50	0
AUD/CNY	5.19	-1.4	3y swap	1.99	-4
AUD/JPY	83.5	-1.0	ASX 200	5,857	0.0
AUD/EUR	0.709	-0.5	Iron ore	75.5	-6.2
AUD/NZD	1.082	-0.2	WTI oil	52.6	4.7

Source: Bloomberg

Chart 1: Macro-prudential: interest-only above new cap



The three developments/actions over the past week were:

- Friday 31 March: APRA announces further measures to reinforce sound residential mortgage lending practices (see [APRA press release](#))
- Tuesday 4 April: Governor’s Remarks at Reserve Bank Board Dinner (see [Dr Lowe’s Remarks](#))
- Wednesday 5 April: Fortis Futura Adiuvat: Fortune Favours the Strong, Speech by APRA Chairman, Wayne Byres (see [Speech](#))

The measures announced by APRA on 31 March included:

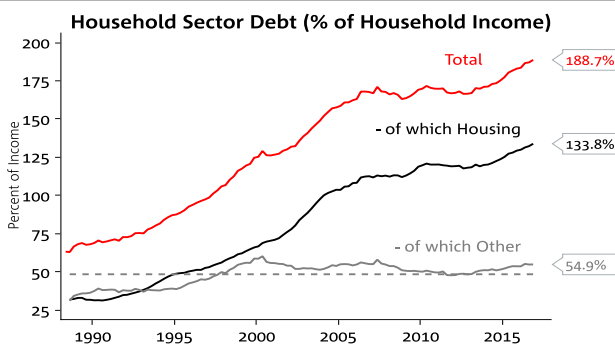
- ADIs to limit the flow of new interest-only lending to 30% of total new residential mortgage lending – currently interest-only lending is running at around 37.5% of new loans. Within that 30% limit, strict internal limits must be placed on the volume of interest-only lending at LVRs (loan-to-valuation ratios) above 80%, with strong scrutiny and justification for any interest-only lending at an LVR above 90%;
- Lenders are to remain “comfortably below” the previously advised 10% cap for growth in investor lending (introduced in December 2014) – system wide investor credit growth is currently running at 6.7%;
- Lenders must review and ensure that serviceability metrics (interest rate and net income buffers) are set at appropriate levels for current conditions; and
- ADIs should continue to restrain lending growth in higher risk segments of the portfolio (high loan-to-income loans, high LVR loans and loans for very long terms).

**Reasons for recent developments**

The APRA Chairman and RBA Governor both make clear that the recent moves reflect a desire to further tighten lending standards in what is considered to be an environment of heightened risks. Chairman Byres describes these heightened risks as including:

- High house prices;
- Subdued household income growth;
- A continuing rise in an already high household debt to income ratio;
- An even lower official cash rate; and
- No diminution of competitive pressures.

**Chart 2: Increasing household debt all due to housing**

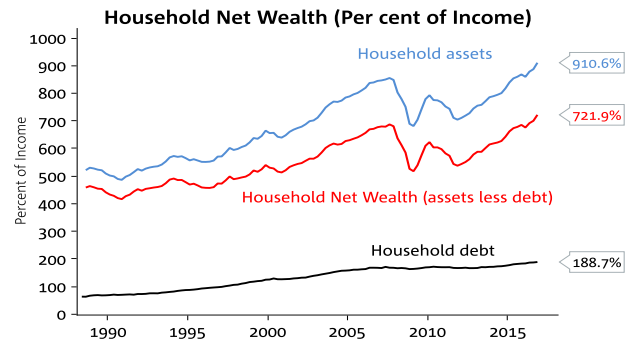


Source: National Australia Bank, RBA

Importantly, however, the Governor noted that the measures taken do not reflect a concern that the stability of the financial system was at risk, with Australian banks “resilient and soundly capitalised. Instead, the concern has been that the longer the recent trends continued, the greater the risk to the future health of the Australian economy. Stretched balance sheets make for more volatility when things turn down”.

That said, it is worth noting that Australian household assets have also risen sharply – meaning net household wealth is much higher, although, a considerable portion of this wealth is concentrated in housing.

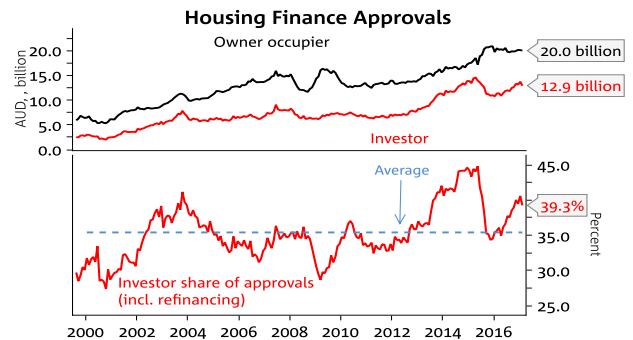
**Chart 3: Household net wealth higher despite debt**



Source: National Australia Bank, RBA

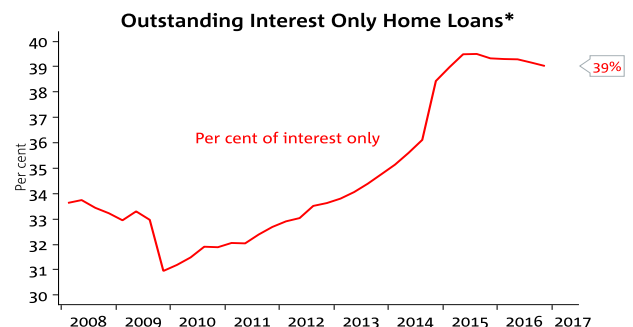
APRA (and the RBA) focus on the significant amount of investor lending currently occurring (although the need to allow sufficient credit availability to finance the large pipeline of apartments completing over the next 12-18 months was behind the decision not to reduce the 10%

**Chart 4: Investor share of lending running around 39%**



Source: National Australia Bank, ABS

**Chart 5: Stock of interest only home loans around 39%**



\* Those ADIs with over \$1bn in mortgages  
Source: National Australia Bank, APRA

speed limit for growth of investor lending) and in particular on the preponderance of interest-only lending, which is seen to be both higher risk and “quite high both by international and historical standards”. In Australia nearly 40 per cent of the stock of residential mortgage lending by ADIs is interest only.

The measures introduced will both allow the new pipeline of apartments to be financed, but reduce the prevalence of interest-only and high LVR loans.

**The underlying problem**

Chairman Byres has noted that it is not APRA’s role or mandate to control house prices, APRA being responsible for protecting depositors in Australian Deposit taking Institutions. While Lowe noted that prudential and monetary policy can have a role in amplifying (or dampening) demand, importantly the Governor noted that house prices were ultimately a demand-supply issue. While the Australian Markets Weekly is not the correct vehicle for a deep-dive on Australian housing demand and supply issues, the following factors are often quoted in relation to the current situation:

- Unexpectedly strong population growth for an extended period, including strong growth in foreign students studying in Australia (foreign students have accounted for around 40% of recent net immigration flows);
- Relative to population growth, a slow response from state and local governments in relation to land release, planning approval and related infrastructure spending;
- Strong demand from foreign investors, especially from China;
- The suggestion that the interaction of negative gearing, the capital gains tax discount and low interest rates may be favouring investment in real estate; and
- Ageing of the population may be increasing demand for investor housing as part of a retirement investment portfolio.

However as Governor Lowe pointed out, it’s a complex issue, with the same trends not apparent in all parts of Australia, with house prices falling in mining-related regions. Prices could also arguably be reasonably reacting to generally structurally lower-levels of interest rates in Australia and globally, and also to higher equity markets and commodity prices.

**What’s next?**

First up, the Government will announce a Housing Affordability Package as part of the Budget on May 9th. Treasurer Morrison today (see [Speech](#)) gave a speech which hinted the government was going to focus its efforts on boosting the stock of rental housing by encouraging investment by institutional investors. The Treasurer again reinforced his opposition to changing the current negative gearing provisions while the papers continue to speculate that the capital gains discount could be reduced from its current 50% (40% is widely cited).

On the prudential front, Chairman Byres has reiterated that APRA will monitor the impact of the recent changes and is prepared to do more if necessary. Byres described the recent changes as “tactical” and has signalled that

APRA is developing a more “strategic” response that recognises that in the Australian banking system, “housing lending risks and capital adequacy are far from independent issues”. An information paper is expected to be published mid-year, which will include details of the additional requirements to be imposed that will make APRA-regulated institutions “unquestionably strong”.

The speech suggests this will include additional capital requirements: “the biggest issue we will need to resolve is ensuring capital is appropriately allocated is whether and how we adjust the risk weights for housing-related exposures”.

**Implications for Monetary Policy**

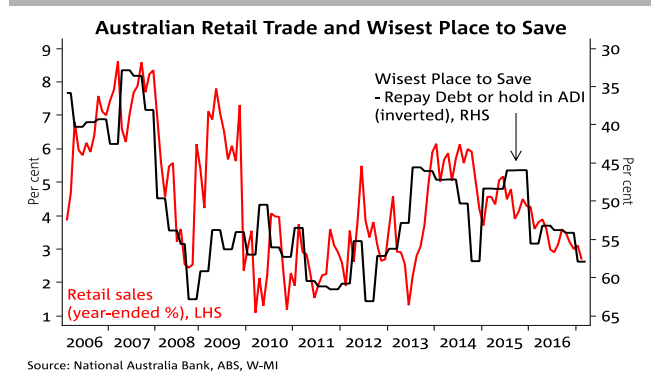
What does all this mean for monetary policy which has the dual task of inflation and financial stability?

A number of commentators/analysts have been arguing that the RBA should raise interest rates to take some heat out of the housing market. Others have been arguing that high levels of household debt mean that the RBA cannot raise interest rates very far this cycle, by virtue of higher levels of household debt. And others (including some at the RBA as the Governor said in his recent parliamentary testimony) are arguing for further cuts given the subdued inflation outlook and elevated unemployment.

While increasing interest rates would assist in controlling the housing market, this is seen to be inconsistent with returning inflation to the 2-3% target range and helping lower the unemployment rate. Hence policy makers’ focus on further macroprudential measures. This notion was further reinforced by the RBA Governor who recently described the labour market as “pretty soft” and that “we want to see an improvement here before we can be confident that growth in the overall economy is strengthening”.

That said, while housing and lending concerns remain, neither is the RBA likely to be thinking about cutting rates any time soon, unless the unemployment rate were to begin to clearly trend higher. In terms of the outlook, high household debt may already be acting to cause households to save more (Chart 6).

**Chart 6: Household debt levels already crimping retail?**



**The past week**

The past week has been permeated with a mild risk-off tone that was broken only by Friday’s US Non-farm Payrolls report. The risk-off tone had developed in recent

weeks amidst US congressional gridlock and a lack of policy detail from President Trump. The US missile salvo on early Friday also added to the tone.

A mixed US payrolls report saw that sentiment turn Friday night. The US unemployment rate fell to a new cycle low of 4.5% despite headline payrolls growth disappointing at +98k. Comments by the Fed's Dudley also helped clarify how long the Fed could pause hiking interest rates when it starts to shrink its balance sheet towards the end of the year – such a pause was described as a “little pause” suggesting the Fed is still anticipating hiking rates twice more this year, and three times in 2018.

The Australian dollar ended the week 1.3% lower and is currently fetching US\$0.7483. Lower iron ore prices acted as a drag on the Aussie with iron ore down 6.2% over the week, ending at \$US75.5 a tonne. NAB expects the \$A to continue to depreciate over the course of the year, ending 2017 around US\$0.70. An expected unchanged Australian interest rate track in 2017 and a continuing rise in US interest rates – along with some continued retracement in commodity prices – remains the rationale.

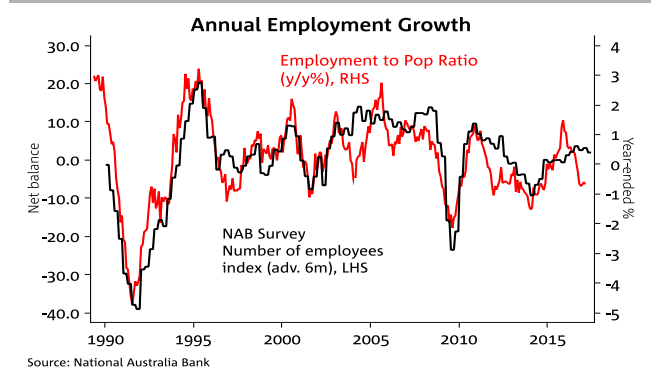
**This week**

It's an Easter shortened week in Australia (Friday and next Monday are public holidays). The main focus for markets will be Thursday's Employment/Unemployment figures, while the NAB Business Survey Tuesday and Monthly Westpac-MI Consumer Confidence Wednesday are also worth watching. There is also plenty of second-tier data including Housing Finance Approvals today and Consumer Inflation Expectations on Thursday. Finally, the RBA releases its semi-annual Financial Stability Review also on Thursday.

Employment/unemployment on Thursday will take on greater than usual importance. The RBA Governor recently described the labour market as “pretty soft” and that “we will want to see an improvement here before we can be confident that growth in the overall economy is strengthening”. A clear break has also emerged

between the official employment figures and leading indicators such as the NAB business survey which has led many to doubt the veracity of recent prints (Chart 7). The RBA (like the market) is holding faith to “forward-looking indicators [which] still point to continued growth in employment over the period ahead. For this month, NAB and the market are looking for employment growth of +20k. For the unemployment rate, NAB looks for a decline to 5.8%, while the market expects this will be unchanged at 5.9%.

**Chart 7: Employment undershooting leading indicators**



Internationally the focus will be on the US Fed Chair on Monday (Tuesday 6.00am AEST) and her thoughts on shrinking the balance sheet and whether she sees this as defacto tightening, which could cause the Fed to pause raising rates. The Fed's Dudley who first suggested the Fed could pause rate hikes clarified what he meant by a pause, stating he only meant a “little pause” and that “a pause is pretty short already, and I think a little pause is even shorter than that”. Other important US data include Retail Sales and CPI Friday, while the Eurozone and Germany have the ZEW survey Tuesday.

For full details please see our *What to Watch* publication (please email [Tapas.Strickland@nab.com.au](mailto:Tapas.Strickland@nab.com.au) if you would like to subscribe to this publication).

# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Monday, 10 April 2017</b>								
JN	BoP Current Account Balance	Feb		2512.9		65.5	0.50	9.50
JN	Trade Balance BoP Basis	Feb		981.7		-853.4	0.50	9.50
AU	Home Loans MoM	Feb	-1.4%	0		0.5	2.30	11.30
US	Fed's Bullard speaks in Australia						2.30	11.30
JN	Bankruptcies YoY	Mar				-4.8	5.00	14.00
JN	Sentix Investor Confidence	Apr		21		20.7	9.30	18.30
EC	Housing Starts	Mar		215.5		210.2	13.15	22.15
JN	Eco Watchers Survey Current SA	Mar		49.8		48.6	6.00	15.00
JN	Eco Watchers Survey Outlook SA	Mar		50.7		50.6	6.00	15.00
CH	Money Supply M2 YoY	Mar		11.1		11.1	between 10/4 to 15/4	
CH	Aggregate Financing CNY	Mar		1500		1150.0	between 10/4 to 15/4	
NZ	REINZ House Sales YoY	Mar				-14.2	unknown date	
CA	Bloomberg Nanos Confidence	Apr 7				58.7	15.00	0.00
US	Labor Market Conditions Index Change	Mar				1.3	15.00	0.00
US	Fed's Yellen in live Q&A						21.00	6.00
<b>Tuesday, 11 April 2017</b>								
NZ	Card Spending Retail MoM	Mar		0.5		-0.6	23.45	8.45
UK	BRC Sales Like-For-Like YoY	Mar		-0.3		-0.4	0.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Apr 9				111.1	0.30	9.30
AU	NAB Business Conditions	Mar		9.0		7.0	2.30	11.30
AU	NAB Business Confidence	Mar		7.0		9.1	7.00	16.00
JN	Machine Tool Orders YoY	Mar P				9.1	7.00	16.00
UK	CPI YoY	Mar	2.3			2.3	9.30	18.30
UK	CPI MoM	Mar		0.3		0.7	9.30	18.30
UK	CPI YoY	Mar	2.3			2.3	9.30	18.30
UK	CPI Core YoY	Mar	1.9			2.0	9.30	18.30
UK	Retail Price Index	Mar	269.5			268.4	9.30	18.30
UK	RPI MoM	Mar		0.4		1.1	9.30	18.30
UK	RPI YoY	Mar		3.2		3.2	9.30	18.30
UK	RPI Ex Mort Int. Payments (YoY)	Mar		3.5		3.5	9.30	18.30
UK	PPI Output Core NSA MoM	Mar		0.2		0.0	9.30	18.30
UK	PPI Output Core NSA YoY	Mar		2.5		2.4	9.30	18.30
UK	House Price Index YoY	Feb		6.1		6.2	9.30	18.30
EC	Industrial Production SA MoM	Feb		0.1		0.9	10.00	19.00
EC	Industrial Production WDA YoY	Feb		1.9		0.6	10.00	19.00
GE	ZEW Survey Current Situation	Apr		77.5		77.3	10.00	19.00
EC	ZEW Survey Expectations	Apr				25.6	10.00	19.00
GE	ZEW Survey Expectations	Apr		14.5		12.8	10.00	19.00
US	NFIB Small Business Optimism	Mar		104.9		105.3	11.00	20.00
US	JOLTS Job Openings	Feb				5626.0	15.00	0.00
US	Fed's Kashkari speaks in Minneapolis in Q&A						18.45	3.45
<b>Wednesday, 12 April 2017</b>								
NZ	ANZ Truckometer Heavy MoM	Mar				2.3	23.00	8.00
JN	Machine Orders MoM	Feb		3.6		-3.2	0.50	9.50
JN	PPI MoM	Mar		0.3		0.2	0.50	9.50
AU	Westpac Consumer Conf Index	Apr				99.7	1.30	10.30
AU	Westpac Consumer Conf SA MoM	Apr				0.1	1.30	10.30
CH	CPI YoY	Mar		1		0.8	2.30	11.30
CH	PPI YoY	Mar		7.5		7.8	2.30	11.30
UK	Average Weekly Earnings 3M/YoY	Feb		2.2		2.2	9.30	18.30
UK	ILO Unemployment Rate 3Mths	Feb		4.7		4.7	9.30	18.30
UK	Employment Change 3M/3M	Feb		70		92.0	9.30	18.30
UK	BoE's Carney speaks at a Fintech event						9.30	18.30
US	MBA Mortgage Applications	Apr 7				-1.6	12.00	21.00
US	Import Price Index MoM	Mar		-0.2		0.2	13.30	22.30
CA	Teranet/National Bank HPI MoM	Mar				1.0	13.30	22.30
US	Export Price Index MoM	Mar				#N/A N/A	13.30	22.30
US	Export Price Index YoY	Mar				#N/A N/A	13.30	22.30
CA	Bank of Canada Rate Decision	Apr 12		0.5		0.5	15.00	0.00
US	Fed's Kaplan (voter) speaks						15.00	0.00
US	Monthly Budget Statement	Mar		-167		-192.0	19.00	4.00
<b>Thursday, 13 April 2017</b>								
NZ	BusinessNZ Manufacturing PMI	Mar				55.2	23.30	8.30
NZ	Food Prices MoM	Mar				0.2	23.45	8.45
UK	RICS House Price Balance	Mar		22		24.0	0.10	9.10
JN	Money Stock M2 YoY	Mar		4.2		4.2	0.50	9.50
AU	Consumer Inflation Expectation	Apr				4.0	2.00	11.00
AU	RBA Financial Stability Review							
AU	Employment Change	Mar	20	20		-6.4	2.30	11.30
AU	Unemployment Rate	Mar	5.8%	5.9		5.9	2.30	11.30
JN	Tokyo Avg Office Vacancies	Mar				3.7	3.00	12.00
GE	CPI MoM	Mar F		0.2		0.2	7.00	16.00
GE	CPI YoY	Mar F		1.6		1.6	7.00	16.00
CA	New Housing Price Index MoM	Feb				0.1	13.30	22.30
CA	New Housing Price Index YoY	Feb				3.1	13.30	22.30
CA	Manufacturing Sales MoM	Feb		-0.7		0.6	13.30	22.30
US	PPI Final Demand MoM	Mar		0		0.3	13.30	22.30
US	PPI Ex Food and Energy MoM	Mar		0.2		0.3	13.30	22.30
US	PPI Ex Food and Energy YoY	Mar		1.8		1.5	13.30	22.30
US	Initial Jobless Claims	Apr 8		245		234.0	13.30	22.30
US	Continuing Claims	Apr 1		2024		2028.0	13.30	22.30
US	Bloomberg Consumer Comfort	Apr 9				50.2	14.45	23.45
CH	Trade Balance CNY	Mar		75.8		-60.4	unknown	unknown
CH	Imports YoY CNY	Mar		15		44.7	unknown	unknown
CH	Exports YoY CNY	Mar		8		4.2	unknown	unknown
CH	Imports YoY	Mar		16		38.1	unknown	unknown
CH	Exports YoY	Mar		3.5		-1.3	unknown	unknown
CH	Trade Balance	Mar		11.75		-9.2	unknown	unknown
GE	Wholesale Price Index MoM	Mar				0.5	unknown	unknown
GE	Wholesale Price Index YoY	Mar				5.0	unknown	unknown
US	U. of Mich. Sentiment	Apr P		96.5		96.9	15.00	0.00
US	U. of Mich. Current Conditions	Apr P				113.2	15.00	0.00
US	U. of Mich. 5-10 Yr Inflation	Apr P				2.4	15.00	0.00
<b>Friday, 14 April 2017</b>								
<b>Public Holiday Friday Australia and NZ</b>								
JN	Industrial Production YoY	Feb F				4.8	5.30	14.30
JN	Industrial Production MoM	Feb F				2.0	5.30	14.30
JN	Capacity Utilization MoM	Feb				0.1	5.30	14.30
US	CPI MoM	Mar		0		0.1	13.30	22.30
US	CPI Ex Food and Energy MoM	Mar		0.2		0.2	13.30	22.30
US	CPI YoY	Mar		2.6		2.7	13.30	22.30
US	CPI Ex Food and Energy YoY	Mar		2.3		2.2	13.30	22.30
US	CPI Core Index SA	Mar		251.651		251.3	13.30	22.30
US	CPI Index NSA	Mar		244.237		243.6	13.30	22.30
US	Real Avg Weekly Earnings YoY	Mar				-0.3	13.30	22.30
US	Real Avg Hourly Earning YoY	Mar				0.0	13.30	22.30
US	Retail Sales Advance MoM	Mar		-0.1		0.1	13.30	22.30
US	Retail Sales Ex Auto MoM	Mar		0.1		0.2	13.30	22.30
US	Retail Sales Ex Auto and Gas	Mar		0.3		0.2	13.30	22.30
US	Retail Sales Control Group	Mar		0.3		0.1	13.30	22.30
US	Business Inventories	Feb		0.3		0.3	15.00	0.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Australia, RBA		2-May	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%		
Japan, BoJ		27-Apr	-0.1%	-0.1%		-0.1%		
US Federal Reserve		4-May	0.75-1.00%	0.75-1.00%		0.75-1.00%		
New Zealand, RBNZ		11-May	1.75%	1.75%		1.75%		
UK BOE		11-May	0.25%	0.25%		0.25%		

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

# FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
	2015	2016	2017	2018	2015				2016				2017				2018			
Australia Forecasts	2015	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.7	2.7	2.2	2.0	0.7	0.6	1.0	0.6	0.9	0.5	0.4	0.9	0.4	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Underlying Business Investment	-10.1	-11.2	0.4	4.7	-3.2	-1.9	-5.5	-2.4	-3.4	-2.3	-5.3	2.1	0.4	1.1	1.2	1.1	0.9	1.4	1.2	1.4
Residential Construction	10.0	7.9	2.1	-0.9	4.8	-1.2	4.3	1.5	3.7	1.9	-1.3	1.2	0.6	0.6	0.4	0.0	-0.2	-0.9	-0.5	-0.3
Underlying Public Spending	2.4	4.6	3.2	2.8	1.2	1.8	-1.0	2.1	0.5	2.7	0.2	1.3	0.3	0.9	0.5	0.8	0.7	0.7	0.7	0.7
Exports	6.0	7.6	7.9	5.5	3.7	-2.9	4.6	-0.1	3.3	2.2	1.0	2.2	2.3	1.3	2.3	2.4	0.9	0.9	0.8	0.9
Imports	2.0	0.4	5.1	3.7	2.7	0.9	-1.3	0.0	-0.8	2.9	1.2	1.4	0.8	1.5	0.9	1.0	0.8	0.8	0.9	0.9
Net Exports (a)	0.7	1.4	0.6	0.4	0.2	-0.8	1.2	0.0	1.1	-0.1	0.0	0.2	0.3	0.0	0.3	0.3	0.0	0.0	0.0	0.0
Inventories (a)	0.1	0.1	-0.2	0.0	0.7	-0.3	-0.1	0.0	0.0	0.3	0.1	-0.2	-0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.5	0.5	-0.2	0.5	0.1	0.7	-0.4	1.2	0.4	0.7	0.6	0.6	0.5	0.5	0.5	0.6
Dom Demand - ann %	1.3	1.6	2.2	2.3	1.1	1.4	1.2	1.3	1.4	1.6	1.4	2.1	1.9	1.9	2.9	2.3	2.4	2.2	2.2	2.2
Real GDP - qtr %					<b>1.1</b>	<b>0.2</b>	<b>0.7</b>	<b>0.5</b>	<b>1.1</b>	<b>0.8</b>	<b>-0.5</b>	<b>1.1</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.9</b>	<b>0.5</b>	<b>0.6</b>	<b>0.5</b>	<b>0.6</b>
Real GDP - ann %	2.4	2.5	2.6	2.6	<b>2.5</b>	<b>2.0</b>	<b>2.4</b>	<b>2.5</b>	<b>2.5</b>	<b>3.1</b>	<b>1.9</b>	<b>2.4</b>	<b>2.0</b>	<b>2.0</b>	<b>3.3</b>	<b>3.1</b>	<b>3.0</b>	<b>2.8</b>	<b>2.5</b>	<b>2.2</b>
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.5	0.5	0.5	0.5	0.6	0.4	0.5	0.6	0.6
CPI headline - ann %	1.5	1.3	2.2	2.1	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.2	2.3	2.1	2.2	2.1	2.1	2.1	2.1
CPI underlying - qtr %					0.6	0.5	0.4	0.4	0.2	0.5	0.4	0.5	0.4	0.5	0.4	0.4	0.4	0.5	0.4	0.4
CPI underlying - ann %	2.2	1.6	1.8	1.7	2.4	2.3	2.2	2.0	1.6	1.6	1.6	1.6	1.9	1.9	1.8	1.7	1.7	1.7	1.7	1.8
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	1.6	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.8	2.0	2.0	1.9	1.8	1.7	1.6	1.6	1.6
Unemployment Rate (%)	6.1	5.7	5.7	5.8	6.2	6.0	6.2	6.0	5.9	5.7	5.6	5.7	5.7	5.6	5.7	5.7	5.7	5.7	5.8	5.8
Terms of trade	-11.6	0.0	16.6	-1.6	-2.5	-4.5	-2.1	-4.2	-1.9	2.1	5.2	9.0	9.4	-2.7	-2.2	-1.6	-1.6	-1.5	-1.6	-1.8
G&S trade balance, \$Abn	-36.8	-14.6	50.1	31.2	-4.7	-11.4	-8.6	-12.0	-8.4	-7.4	-3.5	4.7	14.8	12.1	11.6	11.6	10.2	8.8	7.1	5.3
% of GDP	-2.3	-0.9	2.8	1.7	-1.2	-2.8	-2.1	-2.9	-2.0	-1.8	-0.8	1.1	3.3	2.7	2.6	2.5	2.2	1.9	1.5	1.1
Current Account (% GDP)	-4.7	-2.6	0.2	-0.9	-3.3	-5.2	-4.8	-5.6	-3.6	-3.7	-2.4	-0.9	0.7	0.1	0.0	0.0	-0.4	-0.7	-1.0	-1.4

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

## Exchange Rate Forecasts

	10-Apr	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
<b>Majors</b>							
AUD/USD	<b>0.7485</b>	0.75	0.73	0.70	0.70	0.70	0.70
NZD/USD	<b>0.6934</b>	0.71	0.70	0.67	0.68	0.68	0.69
USD/JPY	<b>111.44</b>	114	116	118	120	120	122
EUR/USD	<b>1.0582</b>	1.05	1.04	1.04	1.05	1.06	1.08
GBP/USD	<b>1.2381</b>	1.25	1.24	1.22	1.20	1.21	1.22
USD/CNY	<b>6.9072</b>	6.92	7.05	7.04	7.03	7.01	7.01
USD/CAD	<b>1.3420</b>	1.33	1.35	1.37	1.37	1.38	1.37

### Australian Cross Rates

	83.4	86	85	83	84	84	85
AUD/JPY	<b>83.4</b>	86	85	83	84	84	85
AUD/EUR	<b>0.7073</b>	0.71	0.70	0.67	0.67	0.66	0.65
AUD/GBP	<b>0.6046</b>	0.60	0.59	0.57	0.58	0.58	0.57
AUD/NZD	<b>1.0795</b>	1.06	1.04	1.04	1.03	1.03	1.01
AUD/CNY	<b>5.1700</b>	5.19	5.15	4.93	4.92	4.91	4.91
AUD/CAD	<b>1.0045</b>	1.00	0.99	0.96	0.96	0.97	0.96
AUD/CHF	<b>0.7494</b>	0.73	0.71	0.67	0.74	0.71	0.71

## Interest Rate Forecasts

	10-Apr	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
<b>Aust rates</b>							
RBA Cash rate	<b>1.50</b>	1.50	1.50	1.50	1.50	1.50	1.50
3 month bill rate	<b>1.78</b>	1.75	1.75	1.75	1.75	1.75	1.75
3 Year Swap Rate	<b>1.97</b>	2.1	2.3	2.3	2.6	2.6	2.5
10 Year Swap Rate	<b>2.88</b>	3.0	3.2	3.2	3.4	3.4	3.3
<b>Offshore Policy Rates</b>							
US Fed funds	<b>1.00</b>	1.25	1.50	1.50	1.75	2.00	2.00
ECB deposit rate	<b>-0.40</b>	-0.40	-0.40	-0.40	-0.30	-0.20	-0.10
BoE repo rate	<b>0.25</b>	0.25	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	-0.10
RBNZ OCR	<b>1.75</b>	1.75	1.75	1.75	1.75	2.00	2.25
China 1yr lending rate	<b>4.35</b>	4.10	4.10	4.10	4.10	4.10	4.10
China Reserve Ratio	<b>17.0</b>	16.5	16.5	16.5	16.5	16.5	16.5
<b>10 Year Benchmark Bond Yields</b>							
Australia	<b>2.59</b>	2.8	3.0	3.0	3.2	3.2	3.2
United States	<b>2.39</b>	2.5	2.8	2.8	3.0	3.0	3.0
New Zealand	<b>3.13</b>	3.3	3.4	3.3	3.3	3.6	3.7

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	2.5	2.6	2.6	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	0.2	1.2	1.0	1.0	0.7	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.2	6.9	7.5	7.5	7.4	7.5	6.6
New Zealand	2.2	3.4	2.5	3.2	2.8	2.5	3.0
World	3.4	3.4	3.1	3.0	3.3	3.5	3.5
MTP Top 5	4.1	3.9	4.0	3.8	3.8	3.6	5.0

## Commodity prices (\$US)

	10-Apr	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
WTI oil	52.37	54	56	58	59	60
Gold	1252	1210	1220	1230	1240	1260
Iron ore	75.5	85	80	75	73	70
Hard cok. coal	260	180	160	140	120	110
Thermal coal	88	65	65	65	65	60
Copper	5805	5610	5550	5550	5550	5550
Aust LNG (*)	5.70	7.9	8.3	8.5	8.9	9.2

(\*) Implied Australian LNG export prices.



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