AUSTRALIAN MARKETS WEEKLY

View from the US

In this issue

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Ask the Economists

Ask the FX Strategists

Ask the Interest Rate Strategists

- **This week, we report on the views of US investors on the Australian economy and US markets. In general, investors remain relaxed about investments in Australia, even if the government's AAA rating were to be downgraded.**
- **Most conversation was about whether the RBA might be closer to beginning to normalise Australian interest rates, given the signal by the Bank of Canada last week in this direction. We saw this as a low likelihood for this year and suggested that the course of labour market indicators and the unemployment rate were the most important indicators to follow. Interestingly, RBA Board member Ian Harper was interviewed in the press on the weekend sounding more upbeat on the labour market, but signalling that the RBA was unlikely to rush to normalise rates until wages growth began to strengthen.**
- **There was quite a deal of discussion about the implications of Australian interest rates slipping below US rates as the Fed continued to tighten. A number have noted that the last time Australian rates were below US rates was in the early 2000s when the $A traded to a record low below US$0.50. NAB sees the interest rate differential development as a mild negative for the $A going forward, but does not see conditions as negative as in the early 2000s, a period when the US$ was extremely strong due to significant capital inflows associated with the tech boom.**
- **Investors were focused on Australian housing, but not as significantly as usual – the Canadian housing market was also being monitored as some early warning of how the Australian housing market might play out, given similar fundamentals. NAB's view is that while the construction market and house prices are likely to slow, the triggers for a substantial correction remain absent at the present time. At this time, we continue to monitor the progress of apartment settlements, as this seems to present the most significant risk of a short term over-supply situation, albeit limited to an extent by continued very strong population growth.**
- **On bond markets, investors retained a modestly bearish stance, mainly driven by an expectation of stronger growth, rising official interest rates and a reduction in central bank balance sheets. Inflation was not seen as a concern anywhere for bond investors.**
- **Key events this week include the RBA's Minutes (Tues), RBNZ meeting (Thurs) and a host of Fed speakers.**

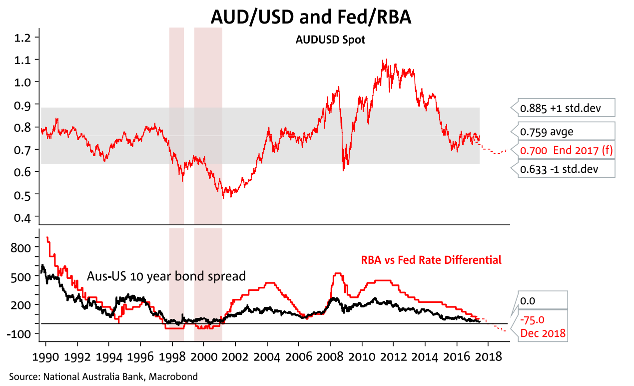
I spent the past week and a half presenting to US investors on the outlook for the Australian economy and financial markets. A copy of the presentation is attached. Stephen Toplis, BNZ's Head of NZ Research, similarly presented on the outlook for the NZ economy. Here are the main points of interest along with some of the key charts/themes presented on Australia:

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7619	1.0	RBA cash	1.50	0
AUD/CNY	5.19	1.4	3y swap	1.95	5
AUD/JPY	84.5	2.0	ASX 200	5,866	1.7
AUD/EUR	0.680	1.0	Iron ore	55.8	2.5
AUD/NZD	1.048	0.0	WTI oil	44.6	-3.1

Source: Bloomberg

Chart 1: AUD/NZD and Fed/RBA



Ivan Colhoun, Chief Economist, Markets

- **Strong focus on the implications of the beginning of normalisation of rates by the Bank of Canada.** This news broke early in our trip (and was closely followed by news that the Bank of England's monetary policy vote was closer to tightening than expected). Clients were interested in whether the RBA might similarly begin to hint at rate normalisation.

  Our belief is that the RBA will lag both the Bank of Canada and RBNZ, given Australian inflation remains below target and unemployment slightly elevated. That said, one could argue that the RBA has made around one percentage of emergency rate cuts (half a percent in H1 2015 after the Bank of Canada and other central banks cut on falling commodity prices and a further half a percent in 2016 on the temporary oil-price deflation scare that spooked central banks everywhere). Some of this easing could be reversed given the improvement in global economic conditions.

  RBA Board member Ian Harper gave an interview in the Australian press on the weekend signalling that the improvement in the labour market is encouraging, but saying that inflation is not going to threaten until wages growth begins to pick up. This suggests investors' focus should remain closely focused on leading indicators of the labour market and the progress of the unemployment rate towards 5%, in gauging when the RBA may begin to remove some of its accommodation. This is unlikely to be this year.

- **Almost every investor was bearish on the $A, although not extremely so.** This accords with the NAB view, which sees the $A trading down to US$0.70 over the next 6-12 months as the US$ strengthens, US interest rates continue to rise – against stable Australian rates – and as some expected moderation in coal prices occurs. (Coal prices have been elevated due to weather-related disruptions in supply). The two investors that we met that were not negative on the $A, held this view, first as a result of continuing strong foreign investment flows into Australia, and second, because of a bearish US$ view.

  A number of investors were discussing the chart (page 1) and/or theme below, whereby Australian interest rates could be 50-75bps below US rates at the end of 2018. The last time Australian interest rates were below US interest rates was in the early 2000s, which was of course when the $A traded to a record low below US$0.50. While acknowledging that the rate spread was likely to be a negative for the $A, we pointed out that the early 2000s situation was quite different, as then the US$ was super strong (on the back of strong capital flows into the US in turn related to the tech boom), US real interest rates were very high and capital flows to Australia were relatively suppressed by views that Australia was an "old economy" and why would anyone ever invest in mining again?!

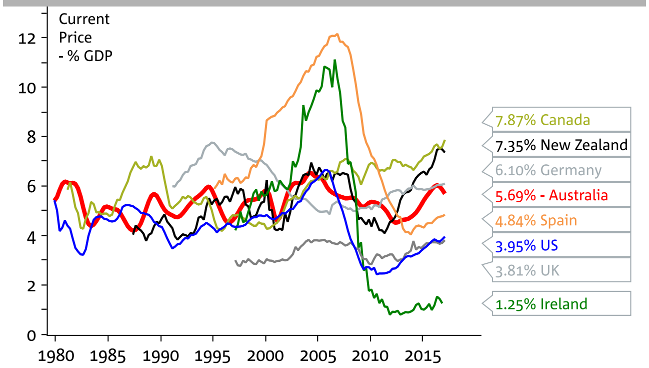
  Relatedly, one investor suggested the $A might become a funding currency as rate differentials narrowed, with the added attraction being that there could be the possibility of a large windfall gain if the Australian housing market were to strike trouble. There was also some discussion as to whether the RBA might soon change its wording in relation to the currency (which has consistently been that an appreciation in the currency would complicate the adjustment of the economy). We suggested this was unlikely. The RBA's models suggest that the $A remains slightly over-valued in trade-weighted terms. As a result, while the Bank is not openly talking the currency down, it would likely still not wish to see an appreciation at the current juncture. That said, in our interactions, the business community had not been concerned with the $A's level for the past 18 or so months (a strikingly similar occurrence was true in NZ, with the RBNZ seemingly the main agent concerned about the NZ$'s strength).

- **There seemed less extreme focus on Australian housing markets than usual.** That said, investors were still keenly following developments, while at the same time monitoring the Canadian housing market closely. The latter was seen as sharing many of the same characteristics as Australian housing – strong population growth and significant Chinese investor interest – and thus might give some warning as to how the Australian housing market might play out.

  We noted (Chart 2 below) that as a share of the economy, residential construction (thankfully) was not at the extremes seen in either Spain or Ireland, before their housing crashes. At around 6% of GDP, however, residential construction is close to prior cyclical peaks, though those peaks have typically occurred as a result of rising Australian interest rates. The current elevated level of activity is not directly comparable with previous cycles as foreign investor interest was not as large in previous cycles.

  Our main thesis on housing was that while construction activity and prices remained elevated – and were likely to slow – the main triggers for a substantial fall in activity or prices (namely an Australian recession, sharply higher interest rates or significant over-supply) remain absent at this time. Strong population growth remains a supportive factor, though this would likely reduce in the case of recession, not something that seems likely on a one to two year outlook. Our current focus remains on monitoring for a significant increase in settlement failures for the large volume of apartments due to settle over the next 12 months, as this could bring about a sharper slowing in construction and price falls, than currently expected.

Chart 2: Dwelling Investment as a % of GDP

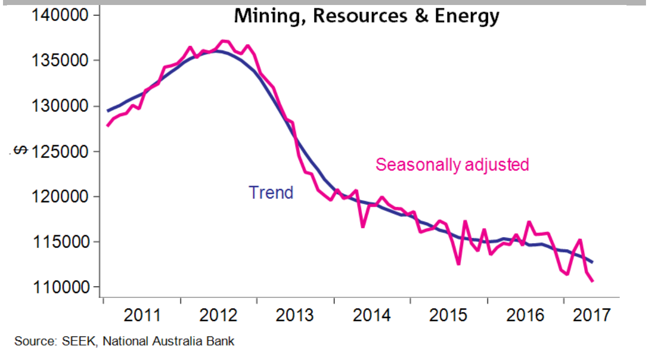


Source: National Australia Bank, Macrobond

- **Most investors were more optimistic on the global growth outlook.** This has been a common theme in markets – and among central banks – recently. Importantly, global growth developments are increasingly a reason for thinking that the Chinese economy will not slow dramatically, as this would be unusual with the US and European economies performing more strongly.
- **Virtually all investors were of the view that there did not seem to be any significant inflationary threat anywhere at the current time.** Automation was a frequent topic of discussion, as was the impact of Amazon in Australia, which is obviously getting a deal of airplay with overseas investors. The Phillips curve (the relationship between unemployment and wages) was discussed at a number of meetings, and while a number thought wages growth in the US would strengthen, there was less confidence that this stronger wages growth might show up in inflation. One very interesting point was the suggestion that the reduction in the US unemployment rate due to population ageing, might mean that Taylor rules are no longer as relevant as before, though of course some of this effect should be captured in a lower natural rate of interest (R*).
- **Investors moderately bearish on bond yields.** One investor summarised the above two points by noting that he thought yields would rise modestly due to higher real yields associated with stronger growth, but that inflationary expectations would remain very low. In general, the consensus mild bearish view for US rates was predicated on a continued improvement in the US economy, the US Fed continuing to tighten interest rates and some rise in yields related to the unwind of the Fed's balance sheet, though there was little consensus about exactly how significant the latter would be for bond yields. There were only a few investors that were quite bearish on US yields, believing that the Fed would deliver its so-called dot points, which imply significantly higher short-term US interest rates than currently priced by markets. In general, investors had been surprised about the extent of the recent rally in bond yields, though a number observed that the market had now broadly fully unwound the so-called Trump reflation trade and was now vulnerable to Trump being able to prosecute any of his reform agenda.
- **Commodity markets were expected to remain relatively subdued.** This was also NAB's message, with there remaining no significant shortages of major Australian commodities or oil. Coal prices were expected to unwind from temporary high prices related to weather-related supply disruptions. A number wondered whether the recent improvement in business conditions and job advertising in WA and QLD might fully reverse given the recent falls in iron ore prices. This is something to watch, however, we suspect this won't be the case as commodity prices remain off their lows, and the latest two months' readings for each of these indicators have been positive in spite of the concurrent retracement in commodity prices.

  On the other side of the coin, there were a few questions as to whether the rebound in the terms of trade could see a significant pick-up in wages growth. This was a low likelihood in our opinion as anecdotal reports suggest mining company workers are being rehired well below boom-time wage conditions, something also suggested by the average wage advertised for Mining, Resource & Energy jobs on seek.com.au (Chart 3). It's also worth remembering that strong wages growth was broad-based in the economy before the Global Financial Crisis, which reflected a very low unemployment rate nationally (around 4%) and broad-based strong economic conditions.

Chart 3: SEEK avg advertised salary



Source: SEEK, National Australia Bank

- **Bond investors were playing the short end of Latin American markets and there was interest in Australian and NZ government inflation-indexed bonds.** The search for yield continues, with numerous bond investors attracted to the high yields on offer at the short-end of Latin American bond markets, given some greater signs of stability in recent times in their economies and currencies. A number had reduced Australian holdings in favour of these markets. There were also a number of investors inquiring about inflation-indexed securities in both Australia and NZ. In general, Australia continued to be seen as a sound country to invest in and there was little questioning about the outlook for Australia's AAA rating, or indeed concern should that rating be lost.
- **Investors were more interested in our views of US politics than in our views of Australian political developments!** Most meetings included a sheepish question as to what our perspective was of US political developments. The subsequent discussion revealed that most investors thought the US political system was in fact working correctly in constraining the President's ability to do whatever he wants and that President Trump was providing an opportunity for China to take more of a global leadership role. That said, a number opined that the President would quickly learn. Many noted that the mid-term elections would be very important if a significant swing to the Democrats occurred as seemed possible.

  There was a deal of focus on the upcoming NZ election, which could see a change to the RBNZ's mandate if there was a change in government, though that currently was assessed as only a 40% probability. The main question on Australian politics remained on whether there was any shift to the same populism – particularly anti-immigration – that had been witnessed in the Brexit and Trump votes. Thankfully, to date, there has been little such shift, with immigration continuing to be viewed relatively favourably, with the main reservations in this regard manifesting themselves in concerns over housing affordability.

- **Our bottom line on the Australian economy was that economic conditions have improved a little, mainly due to an improvement in commodity prices, albeit with an improved global economic backdrop also important. The outlook for the economy and interest rates was likely to be importantly influenced by how labour market data developed in coming months.**

  Indicators of the labour market are likely to remain key as they will be important both in driving stronger consumption growth (along with weak business investment, the main missing ingredient in a move to self-sustaining recovery) and in signalling greater upside risks to wages and inflation. We have been encouraged by recent improving trends for both the employment question in the NAB survey, SEEK job ads and indeed an increase in the reported difficulty finding suitable labour, all of which were suggesting the previously-reported weakness in the official labour market was likely overstated. These data are consistent with over 20,000 jobs growth per month on average, which is a rate sufficient to slowly reduce Australia's unemployment rate.

  Recent stronger official data seem to have removed a lot of the RBA's concern, with RBA Board member Harper noting in an interview over the weekend that the recent drop in the unemployment rate and growth in full-time jobs were signs that the labour market was strengthening and getting closer to the point where those who wish to work or work more hours find those opportunities available. That said, Harper also suggested that there was no need to rush the normalisation of monetary policy in Australia, with inflation unlikely to pick up significantly before wages growth began to strengthen.

Week ahead

It's a quiet week ahead domestically with only the RBA June Minutes on Tuesday of note. The shorter post-meeting statement was little changed and the Statement did not add anything new to the messaging from the Bank. An AFR interview with RBA Board Member Harper emphasised that the RBA is confident about the economy: "on a steady track towards a recovery" given a strengthening labour market and upbeat business sentiment, so a neutral to slight positive tone could permeate the Minutes.

International focus will be on the RBNZ meeting Thursday. While no-one expects anything from the RBNZ, 14 out of 20 economists see rate hikes by Q3 2018 (against the RBNZ OCR track that suggests no move until later in 2019). Central bank speak will also dominate the US amidst mostly second tier data –voters Dudley (Monday) and Fischer (Tuesday) are the ones to watch.

The past week

The US Fed hiked rates on Wednesday and kept its dot points mostly unchanged. However, weaker than expected inflation data has the market questioning the Fed's resolve. That sentiment was reinforced on Friday with dovish soundings from the usually hawkish Kaplan (voter) "I'm not calling it a pause yet…But I'm basically saying that before I'd be comfortable taking the next step in raising the fed funds rate, I'm going to want to see more evidence that we're making progress in reaching our 2 percent inflation objective." Further complicating the picture has been a 14.5% fall in the oil price since late May which is likely to weigh on headline inflation in the months ahead. Against that background, it's no surprise to see 10-year treasuries 4.9bps lower on the week to 2.15% while the US dollar (BBDXY) fell 0.3% over the week.

Closer to home, strong employment data for May, combined with a weaker US dollar has helped buoy the Australian dollar – up 1.0% over the past week. A weekend AFR interview with RBA Board Member Harper indicated the RBA is viewing the employment data positively and plays into the view of the RBA being content to hold rates unless conditions were to deteriorate sharply: "Bluntly, at this juncture, there would be no reason to try and rush this. It's recovering nicely and there are other reasons to do with financial stability why you wouldn't rush".

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 19 June 2017								
NZ	Performance Services Index	May				52.8	23.30	8.30
UK	Rightmove House Prices MoM	Jun		/2.8		1.2/3.0	0.10	9.10
AU	RBA's Lowe Participates in Panel at 2017 Crawford Australian Leadership Forum in Canberra						0.30	9.30
JN	Trade Balance Adjusted	May		345.5		97.6	0.50	9.50
AU	New Motor Vehicle Sales MoM/YoY	May		/		0.3/0.1	2.30	11.30
CH	Property Prices	May					2.30	11.30
EC	Construction Output MoM/YoY	Apr		/		-1.1/3.6	10.00	19.00
US	Fed's Dudley Holds Business Rountable in Plattsburgh, NY						13.00	22.00
NZ	Westpac Consumer Confidence	2Q				111.9	19-23 Jun release	
CA	Bloomberg Nanos Confidence	Jun 16				57.8	15.00	0.00
Tuesday, 20 June 2017								
US	Fed's Evans Speaks in New York						0.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Jun 18				112.9	0.30	9.30
NZ	ANZ Consumer Confidence Index/MoM	Jun		/		123.9/1.8	2.00	11.00
AU	House Price Index QoQ/YoY	1Q	1.6/9.5	2.2/8.9		4.1/7.7	2.30	11.30
AU	RBA June Rate Meeting Minutes						2.30	11.30
US	Fed's Fischer Speaks in Amsterdam (this event is closed press)						8.15	17.15
UK	BoE's Carney speaks at Mansion House event in London						8.30	17.30
EC	ECB Current Account SA	Apr				34.1	9.00	18.00
US	Fed's Rosengren to Speak at Macroprudential Conference						12.45	21.45
CA	Wholesale Trade Sales MoM	Apr		0.5		0.9	13.30	22.30
US	Current Account Balance (incl. revisions)	1Q		-123.6		-112.4	13.30	22.30
CH	Conference Board Leading Economic Index	May					14.00	23.00
US	Fed's Kaplan Speaks in San Francisco						20.00	5.00
Wednesday, 21 June 2017								
JN	BOJ Minutes of April 26-27 Meeting						0.50	9.50
AU	Westpac Leading Index MoM	May				-0.1	1.30	10.30
AU	Skilled Vacancies MoM	May				0.1	2.00	11.00
JN	All Industry Activity Index MoM	Apr		1.6		-0.6	5.30	14.30
JN	Machine Tool Orders YoY	May F				24.4	7.00	16.00
JN	BOJ Kuroda speaks in Tokyo						7.36	16.36
UK	Public Sector Net Borrowing	May		7		9.6	9.30	18.30
UK	BoE's Haldane speaks in Yorkshire						12.00	21.00
US	Existing Home Sales, #/MoM	May		5.55/-0.39		5.6/-2.3	15.00	0.00
Thursday, 22 June 2017								
EU	EU Leaders Two-Day Summit (Thursday and Friday)							
NZ	RBNZ Official Cash Rate	Jun 22		1.75		1.8	22.00	7.00
NZ	Net Migration SA	May				5780.0	23.45	8.45
JN	BOJ Iwata speaks in Aomori						2.30	11.30
NZ	Credit Card Spending MoM/YoY	May		/		0.9/6.4	4.00	13.00
EC	ECB Publishes Economic Bulletin						9.00	18.00
UK	CBI Trends Total Orders/Selling Prices	Jun		7/20		9.0/23.0	11.00	20.00
CA	Retail Sales MoM	Apr		0.3		0.7	13.30	22.30
US	Initial Jobless Claims	Jun 17		240		237.0	13.30	22.30
CA	Retail Sales Ex Auto MoM	Apr		0.7		-0.2	13.30	22.30
US	Fed's Powell Speaks Before Senate Banking Committee						14.00	23.00
US	FHFA House Price Index MoM	Apr		0.5		0.6	14.00	23.00
EC	Consumer Confidence	Jun A		-3		-3.3	15.00	0.00
US	Leading Index	May		0.4		0.3	15.00	0.00
US	Kansas City Fed Manf. Activity	Jun		10		8.0	16.00	1.00
UK	BoE's Forbes speaks in London						19.00	4.00
Friday, 23 June 2017								
JN	Nikkei Japan PMI Mfg	Jun P				53.1	1.30	10.30
GE	Markit/BME Germany Manufacturing PMI	Jun P		59		59.5	8.30	17.30
GE	Markit Germany Services/Composite PMI	Jun P		55.4/57.2		55.4/57.4	8.30	17.30
EC	Markit Eurozone Manufacturing PMI	Jun P		56.8		57.0	9.00	18.00
EC	Markit Eurozone Services/Composite PMI	Jun P		56.1/56.6		56.3/56.8	9.00	18.00
CA	CPI NSA MoM/YoY	May		0.3/1.5		0.4/1.6	13.30	22.30
CA	CPI Core- Common/Trim YoY%	May		1.4/		1.3/1.3	13.30	22.30
CA	CPI Core- Median YoY%	May				1.6	13.30	22.30
US	Markit US Manufacturing PMI	Jun P		52.9		52.7	14.45	23.45
US	Markit US Services/Composite PMI	Jun P		53.5/		53.6/53.6	14.45	23.45
US	New Home Sales, #/MoM	May		590.5/3.8		569.0/-11.4	15.00	0.00
US	Fed's Bullard Speaks about Monetary Policy in Nashville						16.15	1.15
US	Fed's Mester Speaks in Cleveland						17.40	2.40
US	Fed's Powell Speaks in Chicago on Central Clearing						19.15	4.15
Monday, 26 June 2017								
JN	BOJ Summary of Opinions at June 15-16 Meeting						0.50	9.50
JN	PPI Services YoY	May				0.7	0.50	9.50
JN	Leading Index CI	Apr F				104.5	6.00	15.00
JN	Coincident Index	Apr F				117.7	6.00	15.00
GE	IFO Business Climate	Jun				114.6	9.00	18.00
GE	IFO Current Assessment/Expectations	Jun		/		123.2/106.5	9.00	18.00
UK	BBA Loans for House Purchase	May				40750	9.30	18.30
US	Durable Goods Orders/Core Orders	May P		-0.7/		-0.8/0.1	13.30	22.30
US	Chicago Fed Nat Activity Index	May				0.5	13.30	22.30
JN	Small Business Confidence	Jun				48.9	26-30 Jun release	
CA	Bloomberg Nanos Confidence	Jun 16				57.8	15.00	0.00
US	Dallas Fed Manf. Activity	Jun				17.2	15.30	0.30
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		22-Jun	1.75%	1.75%		1.75%		
Australia, RBA		4-Jul	1.50%	1.50%		1.50%		
Canada, BoC		13-Jul				0.5%		
Japan, BoJ		20-Jul	-0.1%	-0.1%		-0.1%		
Europe ECB		20-Jul	-0.4%	-0.4%		-0.4%		
US Federal Reserve		27-Jul				1.00-1.25%		
UK BOE		3-Aug				0.25%		

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

FORECASTS

Economic Forecasts

Australia Forecasts	Annual % change 2015	2016	2017	2018	Quarterly % change 2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4
Household Consumption	2.7	2.6	2.3	2.0	0.6	0.6	0.9	0.6	0.8	0.5	0.3	1.0	0.5	0.6	0.4	0.5	0.4	0.5	0.5	0.5
Underlying Business Investment	-10.0	-11.5	-1.0	4.5	-3.2	-1.8	-5.1	-2.6	-3.4	-2.1	-4.9	1.3	0.4	0.2	0.1	1.5	1.1	1.6	1.0	1.8
Residential Construction	10.1	7.6	0.0	-0.3	4.9	-1.3	4.8	0.7	4.0	1.4	-1.2	1.9	-4.4	3.2	2.2	-0.4	-0.8	-0.6	-1.1	-0.7
Underlying Public Spending	2.6	4.6	2.9	2.8	1.1	1.9	-0.8	2.3	0.5	2.9	-0.3	0.9	0.5	0.8	0.5	0.8	0.7	0.7	0.7	0.7
Exports	6.0	7.9	4.2	5.1	3.3	-2.9	4.8	0.3	2.7	2.0	1.4	3.7	-1.6	-0.6	3.4	2.1	0.8	0.7	0.7	0.9
Imports	2.0	0.2	6.5	3.9	2.1	1.1	-1.2	0.1	-0.8	3.4	0.8	1.9	1.6	1.6	1.1	1.1	0.8	1.0	0.7	1.0
Net Exports (a)	0.7	1.5	-0.5	0.3	0.2	-0.8	1.2	0.0	1.1	-0.3	0.1	0.4	-0.7	-0.5	0.5	0.2	0.0	-0.1	0.0	0.0
Inventories (a)	0.1	0.1	0.1	-0.1	0.7	-0.3	-0.1	0.0	-0.1	0.3	0.2	-0.4	0.5	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.5	0.6	-0.1	0.6	0.1	0.8	-0.5	1.1	0.3	0.8	0.5	0.6	0.5	0.6	0.5	0.6
Dom Demand - ann %	1.3	1.5	2.1	2.2	1.1	1.4	1.3	1.4	1.4	1.6	1.2	1.8	1.7	1.7	2.8	2.3	2.4	2.2	2.2	2.1
Real GDP - qtr %					**1.0**	**0.2**	**0.9**	**0.5**	**0.9**	**0.7**	**-0.4**	**1.1**	**0.3**	**0.2**	**1.0**	**0.9**	**0.4**	**0.6**	**0.4**	**0.6**
Real GDP - ann %	2.4	2.5	2.0	2.5	**2.5**	**2.0**	**2.5**	**2.6**	**2.5**	**3.1**	**1.8**	**2.4**	**1.7**	**1.2**	**2.6**	**2.4**	**2.6**	**2.9**	**2.3**	**2.1**
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.4	0.7	0.6	0.4	0.3	0.6	0.7	0.5	0.5	0.6	0.7
CPI headline - ann %	1.5	1.3	2.1	2.2	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.5	2.1	2.1	2.0	2.1	2.1	2.2	2.3	2.3
CPI underlying - qtr %					0.6	0.5	0.4	0.5	0.2	0.5	0.4	0.5	0.4	0.4	0.5	0.4	0.5	0.5	0.5	0.5
CPI underlying - ann %	2.2	1.6	1.8	1.9	2.4	2.2	2.2	2.0	1.6	1.6	1.6	1.6	1.9	1.8	1.9	1.8	1.9	1.9	2.0	2.0
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	1.9	2.2	2.2	2.1	2.0	2.0	2.0	1.9	1.8	2.0	2.0	1.9	1.8	1.8	1.8	1.9	2.0
Unemployment Rate (%)	6.0	5.7	5.8	5.7	6.1	6.0	6.2	5.9	5.8	5.7	5.7	5.6	5.9	5.8	5.7	5.7	5.7	5.7	5.7	5.7
Terms of trade	-11.7	0.1	13.6	-1.4	-2.0	-4.3	-2.8	-4.1	-1.9	2.5	4.3	9.5	6.6	-1.3	-4.1	-1.7	-1.6	-1.3	-1.3	-1.5
G&S trade balance, $Abn	-36.6	-12.6	23.7	1.3	-4.4	-11.2	-9.0	-12.1	-8.0	-7.3	-3.4	6.1	9.2	6.1	4.5	4.0	2.5	1.0	-0.3	-1.8
% of GDP	-2.2	-0.7	1.3	0.1	-1.1	-2.8	-2.2	-2.9	-1.9	-1.7	-0.8	1.4	2.1	1.4	1.0	0.9	0.5	0.2	-0.1	-0.4
Current Account (% GDP)	-4.7	-2.6	-1.6	-3.0	-3.2	-5.1	-5.0	-5.6	-3.5	-3.8	-2.6	-0.8	-0.7	-1.6	-1.9	-2.1	-2.5	-2.8	-3.1	-3.4

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

Exchange Rate Forecasts

	19-Jun	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Majors						
AUD/USD	**0.7616**	0.73	0.71	0.70	0.70	0.70
NZD/USD	**0.7268**	0.68	0.67	0.67	0.68	0.68
USD/JPY	**110.94**	114	116	118	120	120
EUR/USD	**1.1201**	1.12	1.11	1.13	1.15	1.15
GBP/USD	**1.2775**	1.26	1.23	1.25	1.26	1.25
USD/CNY	**6.8105**	6.92	6.96	6.97	7.00	7.05
USD/CAD	**1.3214**	1.33	1.35	1.37	1.37	1.38
Australian Cross Rates						
AUD/JPY	**84.5**	83	82	83	84	84
AUD/EUR	**0.6799**	0.65	0.64	0.62	0.61	0.61
AUD/GBP	**0.5962**	0.58	0.58	0.56	0.56	0.56
AUD/NZD	**1.0479**	1.07	1.06	1.04	1.03	1.03
AUD/CNY	**5.1869**	5.05	4.94	4.88	4.90	4.94
AUD/CAD	**1.0064**	0.97	0.96	0.96	0.96	0.97
AUD/CHF	**0.7413**	0.71	0.68	0.74	0.71	0.68

Interest Rate Forecasts

	19-Jun	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
Aust rates						
RBA Cash rate	**1.50**	1.50	1.50	1.50	1.50	1.50
3 month bill rate	**1.72**	1.75	1.75	1.75	1.75	1.75
3 Year Swap Rate	**1.95**	1.8	2.0	2.3	2.6	2.6
10 Year Swap Rate	**2.68**	2.7	2.9	3.1	3.4	3.4
Offshore Policy Rates						
US Fed funds	**1.25**	1.25	1.25	1.50	1.75	2.00
ECB deposit rate	**-0.40**	-0.40	-0.40	-0.40	-0.30	-0.20
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	0.90
RBNZ OCR	**1.75**	1.75	1.75	1.75	1.75	2.00
China 1yr lending rate	**4.35**	4.10	4.10	4.10	4.10	4.10
China Reserve Ratio	**17.0**	16.5	16.5	16.5	16.5	16.5
10 Year Benchmark Bond Yields						
Australia	**2.42**	2.50	2.65	2.85	3.10	3.05
United States	**2.15**	2.30	2.50	2.75	3.00	3.00
New Zealand	**2.78**	2.80	2.90	3.10	3.35	3.40

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	2.5	2.0	2.5	3.4
US	1.7	2.4	2.6	1.6	2.1	2.3	2.6
Eurozone	-0.2	1.3	1.9	1.7	2.0	1.9	1.5
UK	1.9	3.1	2.2	1.8	1.6	1.6	2.4
Japan	2.0	0.2	1.1	1.0	1.2	0.9	0.8
China	7.7	7.3	6.9	6.7	6.5	6.3	9.2
India	6.1	7.0	7.5	7.9	7.3	7.2	6.6
New Zealand	2.2	3.4	2.5	3.1	2.5	3.1	3.0
World	3.4	3.5	3.2	3.1	3.3	3.5	3.5
MTP Top 5	4.1	3.9	4.0	3.8	3.8	3.7	5.0

Commodity prices ($US)

	19-Jun	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
WTI oil	44.63	54	56	58	59	60
Gold	1254	1210	1220	1230	1240	1260
Iron ore	55.8	65	61	60	58	60
Hard cok. coal	144	210	160	140	120	110
Thermal coal	81	81	81	81	81	65
Copper	5640	5610	5550	5550	5550	5550
Aust LNG (*)	6.26	7.9	8.3	8.5	8.9	9.2

(*) Implied Australian LNG export prices.

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