# Australian Markets Weekly

A weekly outlook for Australia, key global economies and markets

National Australia Bank

1 June 2015

## Greece faces very tough few months

It's a busy week on the Australian front, with the RBA's June Board meeting, the remaining GDP partials ahead of Wednesday's Q1 GDP release and Building Approvals and Retail Sales for April. The all-important non-farm payrolls release for May is published Friday night – a result 250K or above would likely see the market become more convinced of a Q3 lift-off in the Federal Funds rate, though the Fed continues to discuss a slow pace of rate rises.

Our main article this week focuses on the Greek situation and the implications for the EUR and the AUD, with our central scenario (60% probability) being for continued muddle through, whereby Greece neither defaults nor exits the EUR. That said, markets at this stage seem to be treating Greek issues as an isolated issue, with for the most part a noticeable lack of contagion pricing into Spanish, Italian and Portuguese bond yields. The next three months see relatively large volumes of interest, loan and debt maturities (nearly EUR20bn in total), which will see Greece occupying a central focus for markets.

**This week in Australia**

This week most local focus is likely to be on whether the RBA reintroduces an explicit easing bias following its June Board meeting and/or comments on last week's Capital Expenditure survey. In that respect, it is worth noting that the March Interest Rate Decision did not mention the release of the Q4 Capex data (but did make clear there was an explicit easing bias in its final paragraph), though the Minutes did comment on these expectations, which were important in the bank's revised forecasts of "slower for longer growth" – though not sufficiently important to make the Bank ease before its May meeting.

With the Bank having recently eased monetary policy twice, the $A renewing its decline in recent weeks, and the Fed inching towards a Q3 lift-off for US rates, it remains likely that the RBA will remain on hold for an extended period, admittedly with a mild easing bias. Last week's weaker-than-expected capex data, revealed the expected sharp slowing in mining capex is upon us, but disappointingly suggested that the hoped for partially offsetting pick-up in non-mining capex is not progressing any more quickly (expectations were actually revised down modestly). This suggests at the very least, that Australian growth may again be slower for longer, and perhaps even somewhat weaker than expected in the near term.

That said, the data also reinforce the thought that monetary policy is reaching its limits in what it can do for the current Australian circumstance: rates cannot directly affect the impact of weaker mining investment in train as major projects complete. Nor can interest rates realistically be used with any degree of precision in stimulating non-mining business investment, with the latter reflecting a complex range of factors including global and Australian business conditions, capacity utilisation, confidence, cash flows and dividend policy to name a few of the important considerations. It remains the case that a lower $A would be the preferred adjustment for the economy at the current juncture. Monetary policy could be used should there be greater evidence that the weakness in mining investment was producing second-round impacts into the non-mining economy.

In that respect, there are a number of interesting puzzles in the current data, namely, that despite these developments, Australian employment and job advertising has strengthened in recent months – sufficient in recent months to stop unemployment rising. This does not exactly fit with the picture of weaker than expected GDP growth producing higher unemployment.

Our GDP expectation, which will be finalised in coming days, is for a 0.6% q/q and 2% y/y advance, with some downside risk suggested on the basis of the partials that have printed so far. While likely to important in the slower (growth) and lower (cash rates) for longer theme in Australian markets, equally important at the end of the week, will be US non-farm payrolls for May. Various Fed Presidents close to the centre of the Fed continue to stress the importance of trends in the US labour market along with core inflation trends, for determining the pre-conditions for the beginnings of interest rate increases by the Federal Reserve. A 250K plus non-farm payrolls result for May, (market expectation 225K) would reinforce expectations of a Q3 first move from the Federal Reserve. The RBA's expectation is that this move will provide some further downward pressure on the $A, something which also needs to be factored into expectations for further RBA moves. NAB's expectation remains that the Australian cash rate will remain at 2% for an extended period.

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Key markets over the past week

| | Last | % chg week | | Last | bp / % chg week |
|---|---|---|---|---|---|
| AUD | 0.7643 | -2.3 | RBA cash | 2.00 | 0 |
| AUD/CNY | 4.74 | -2.4 | 3y swap | 2.18 | -9 |
| AUD/JPY | 95.0 | -0.1 | ASX 200 | 5,724 | 0.0 |
| AUD/EUR | 0.699 | -2.0 | Iron ore | 61.9 | 3.2 |
| AUD/NZD | 1.078 | 0.7 | WTI oil | 59.9 | 0.3 |

Source: Bloomberg

## Greek crisis scenarios

- **Market concern is rising, from low levels, as Greece and its public creditors play a game of "chicken."**
- **The most likely scenario (60%) is the trodden path of scraping through.**
- **The less likely scenario is default but no EUR exit (30%). The least likely scenario is a Greek exit from the EUR (10%).**

The Greek debt saga continues, and we are coming to the pointy end of the current stresses. We examine the known facts and uncertainties.

## The starting point

The stalemate appears to boil down to this: The Greek government continues to make all the right noises about remaining within the Euro Zone; ensuring it isn't defaulting. It thinks the travails of its finances are so well known that any financial 'accident' would be the fault of others, potentially prompting a rescue bid. On the other side, the creditors are signalling Greece only has itself to blame and if the money does run out, this will only be because Greece has not delivered the required reforms. Reform and the money will flow is the message here. As this game of chicken nears its end point, will either side swerve to avoid an accident? There has been more conciliatory talk of late.

With neither side so far publicly prepared to give ground, the potential for a financial accident looks relatively high. Sovereign default isn't all that unusual, but in a G10 context and for a member of the EU it is. And the effects are somewhat unknown.

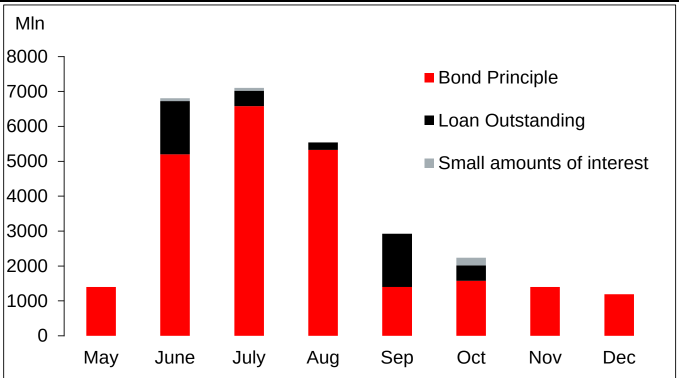
## Timeline from here

Greece faces a number of debt, T-Bill and interest repayments over the coming months (Chart 1). In June, Greece faces a sizeable EUR5.2bn T-bill repayment, plus a further EUR 1.5bn split in various smaller amounts to the IMF. In July, the amount climbs further with EUR3.5bn due to the ECB, plus another EUR3bn in T-bill and IMF repayments due.

From the beginning of June until the end of December Greece needs to find another EUR28bn in total. After that point repayments drop off – one reason why Greece's creditors are keen to ensure new reforms are enacted ASAP.

The inference however is clear: Greece won't make it that far without a new deal. Greece is waiting on further funding from the IMF and the ECB (EUR 7.2bn) in order to meet some of these payments, but with both sides digging in, it isn't a given that Greece will receive the funds.

Chart 1: Ouch! Greece's upcoming repayment schedule




Source: National Australia Bank, Bloomberg

## Possible Scenarios:

It seems to be a common view that however Greece chooses to resolve its present liquidity issues, it shouldn't worry markets too much. There is an element of 'the boy who cried wolf' – nothing bad has happened, so nothing will. That complacency has worked so far; but while the probability of default is rising but outright exit is low, the potential risks remain high.

The question is: what happens now? We outline some of the possible scenarios ranging from the status quo to a full EU exit. Of course each has different probabilities but also different implications for currency markets.

### Stay in the Euro area and keep EUR (status quo,60%)

Both sides may concede; Greece may do just the right amount to allow the IMF to provide them with funds. We then get through the biggest risk months of June to August and the pressure comes down. As we write, there are media reports that a deal is under way; but we need to see evidence that this is the case.

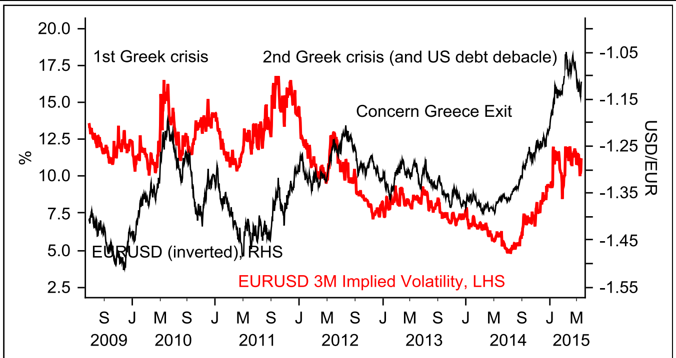
The stumbling block remains the aforementioned wage and pension reforms. PM Alex Tsipras's new found friendship with German Chancellor Angela Merkel, raises the prospect that he is keen to do a deal, but this would likely cause major disruptions within the Syriza Party and may threaten the current government's existence.

This bumble along but stay out of trouble outcome is the most likely outcome and the one that is presently expected by markets. There may be a few nervous days around due dates but markets then let out a sigh of relief after payments are made by both sides.

### The starting point for any EUR Reaction

In prior periods of heightened Greek debt concerns – 2010, 2011, and 2012 there was between an 8 and 12 percent decline in the EUR/USD (Chart 2) during the more intense debates about the future of Greece and the Euro. If there is recognition from markets that there might be a current problem, the prior examples are perhaps the starting point for a possible EUR move through the June to August period.

Chart 2: EUR/USD in Past "Close" Calls




Source: National Australia Bank, Macrobond

### Default but Stay in the EU/EUR (30%)

If neither side backs-down and Greece cannot be thrown out of the EZ/EU (according to the Lisbon Treaty) this then begs a question: Why not default on IMF/ECB payments and continue to use the Euro? This may not be in the spirit of being a good Euro Zone participant, but may offer a way of avoiding a painful exit that Greek citizens say they do not want.

If Greece doesn't pay the IMF then it is up to the IMF to decide how to deal with it. But that process can take up to twelve months to resolve. Given the huge financial market focus on payments, it might be quite difficult to hide the fact that any payment has not been made.

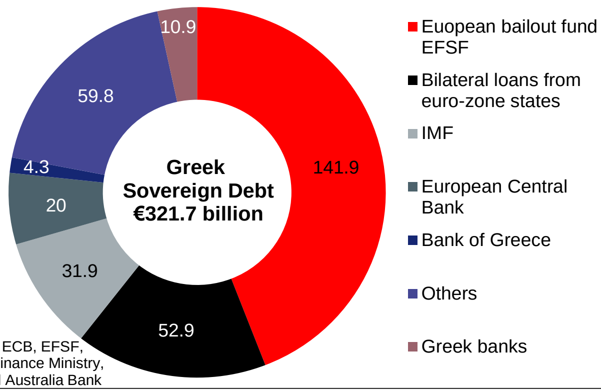
As noted however, Greece's ability to follow this route is only as good as it is able to continue paying non-debt related payments such as salaries and pensions. If the money dries up for these, Greece needs the funding from the IMF as well as the ECB's assistance.

**The ECB Clamps Down on ELA Payments**

Greece owes the ECB a relatively modest EUR20bn (Chart 3) with the first payment of EUR3.5bn due on 20 July. Greece is already paying hardly any interest on its loans to the ECB, but a payment of this size is clearly problematic. With the ECB a little way down the line after the IMF for repayments, we think the issue for the ECB is more likely to be its willingness to keep funding Greek banks' ability to tap the ECB's Emergency Liquidity Assistance (ELA) program.

As things stand the ECB is extending credit to Greek banks (via the latter's placement of collateral) of around EUR80bn. That figure could be raised over the coming weeks towards EUR95bn. However, there is likely to be rising concern in Frankfurt. The ECB may look to increase the haircut applicable on collateral pledged against ELA payments; or it may restrict the ELA to EUR 80bn. The ELA payments are to provide liquidity to Greek banks. This liquidity is required to offset capital outflow from the Greek banking sector by citizens safeguarding assets in the advent of either a banking collapse or an exit from the EUR. Remember, it isn't rational to start a bank run but equally, it is rational to participate in one.

Chart 3: Greek debts: Who owns what?




Source: ECB, EFSF, Greek Finance Ministry, National Australia Bank

If the ECB won't provide more funds to capitalise the banking system then it is likely that Greece may have to implement capital controls. The uncertainty surrounding such a move would generate financial market volatility and a probable move into safe-haven assets. Cyprus successfully implemented such a scheme during its bank-run in 2013, and recently removed them; thus it isn't an unprecedented move but in Greece's case there may be increased concerns of default and EUR exit on such a move.

**Growth is potentially lowered**

If there is a default on the ECB and EFSF bonds there are potential implications for economic growth, as well as inherent volatility associated with uncertainty. The EFSF is the largest component of Greece's sovereign debt; if there is a write down, then there needs to be a recapitalisation of the fund and also probably the ECB and individual European central banks.

As it stands, the members of the euro zone must contribute according to their size – thus Germany is on the hook for 29% or around EUR62bn (Table 1), although perhaps more problematic is France's 22%, Italy's 19% and Spain's 13%, given their high existing levels of debt. This would likely deliver even more contractionary fiscal policy in these countries and place pressure on economic growth. With the ECB already delivering expansionary policy, there is not a lot of leeway to counter these risks.

### Default and exit EUR (10%)

If Greece did decide to leave the EUR, it would also have to leave the European Union. This would be extremely painful with significant adjustment to the banking, social security system and economy more broadly.

Back in 2012 we suggested such a move was akin to the emerging market phenomena of a 'sudden stop", in which a country with a fixed exchange rate suddenly floats its currency and experiences: a rapid devaluation, asset and liability currency mismatch, capital flight and bank runs.

The known unknown in this particular case centres on the wider-reaching effects.

As discussed above, default on the EFSF and ECB raises questions about ECB capital and the cost to member states of recapitalising the central bank. More funds would have to be found by country governments. That would be growth negative.

Table 1: Country EFSF Contribution

| | % | EUR bn |
|---|---|---|
| Austria | 3% | 6.4 |
| Belgium | 4% | 8.0 |
| Cyprus | 0% | 0.0 |
| Estonia | 0% | 0.6 |
| Finland | 2% | 4.1 |
| France | 22% | 47.0 |
| Germany | 29% | 62.6 |
| Greece | 0% | 0.0 |
| Ireland | 0% | 0.0 |
| Italy | 19% | 41.3 |
| Luxemburg | 0% | 0.6 |
| Malta | 0% | 0.2 |
| Netherlands | 6% | 13.2 |
| Portugal | 0% | 0.0 |
| Slovakia | 1% | 2.3 |
| Slovenia | 1% | 1.1 |
| Spain | 13% | 27.4 |

Source: EFSF, NAB. EFSF, ECB and bilateral loans

Second, are the implications for the rest of the periphery, notably contagion. These countries may face capital outflows and a higher cost of capital as markets speculate over their position in the EUR. “If Greece can do it, then why shouldn’t Portugal or Spain?” The pressures on these, bigger, countries represent a significant market risk. This is why the fact that Greece is only ~3% of the Euro area misses the point: it is the contagion that it brings about that is the far greater problem.

One solution to this is to provide a Euro area wide deposit guarantee and a better contingency plan utilising the European Stability Mechanism (ESM). Contagion events are likely to come about very quickly, generating market volatility, and lower liquidity. The problem is if the solutions take longer than the market panic to come about.

**No Priors, But Likely Better With Help**

So while we can debate if this may or may not happen, the legality of it occurring, the timing or even the “bad” versus “good” exit for Greece the reality, if it does occur, is likely to be less clear. There is no exact example of an individual country leaving a currency union of this form. The closest is Argentina’s default but the secondary effects are different and significant here. The plethora of news articles, think-tanks, academics and pundits commentary on the issue highlights just how complex the situation is; and how uncertain is the outcome.

From our point of view, we forecast a 10 percent chance of this happening. This may be in the event of the sub-optimal prisoner’s dilemma being triggered, where neither the new Greek government, nor the creditors, will negotiate on the bailout package.

In the event Greece chooses to withdraw from the EUR; there is no facility for them to be pushed out officially: we would hope for a “good” withdrawal, where there is extensive assistance from the ECB, IMF and Euro group, but the risk of a “bad” withdrawal remains.

The extent of the contagion to other peripheral countries depends on the level of assistance provided to curtail the risks. These include, but are not restricted to, euro-wide bank recapitalisation, deposit guarantees, Eurobonds, loan extensions and re-negotiations.

We can only estimate at what level Greece might want to re-introduce a new Drachma exchange rate, but on the basis of the old drachma’s entry rate of 340.75 and the typical experience of a “sudden stop”, we’d argue that a new drachma would devalue by 50% immediately, followed by a period of further undershoot before stabilisation.

## Conclusion

While we do not believe a Greek default and/or exit is the central scenario, it remains a significant risk. The next few months are critical, given relatively large loan, debt and interest repayments, unless there is a binding agreement between the Greek government and the IMF/ECB/Euro group triumvirate.

We estimate that the risks to the EUR range from a fall of 20% at worst, before recovery, to around 10% if concerns rise without any follow through default.

The AUD tends to underperform the EUR, even if the trouble centres on the EUR; this may yet occur if market concerns rise through the critical June to August repayment period.

In the event of a EUR exit, the EUR is likely to then underperform even the AUD in the first instance.

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**NAB FX Strategy**

## Calendar of Economic Releases

| Country | Economic Indicator | Time Period | NAB Forecast | Consensus | Actual | Previous | *GMT* | AEST |
|---|---|---|---|---|---|---|---|---|
| **Monday, 1 June 2015** | | | | | | | | |
| NZ | Public Holiday (Queen's birthday) | | | | | | | |
| AU | AiG Perf of Mfg Index | May | | | | 48 | *23.30* | 9.30 |
| JN | Capital Spending YoY | 1Q | | | | 2.8% | *23.50* | 9.50 |
| JN | Company Profits/Sales | 1Q | | | | 11.6%/2.4% | *23.50* | 9.50 |
| AU | CoreLogic RP Data House Px MoM | May | -0.9% | | | 0.8% | *0.00* | 10.00 |
| AU | TD Securities Inflation MoM/YoY | May | | | | 0.3%/1.4% | *0.30* | 10.30 |
| CH | Manufacturing PMI | May | | 50.3 | | 50.1 | *1.00* | 11.00 |
| CH | Non-manufacturing PMI | May | | | | 53.4 | *1.00* | 11.00 |
| AU | Company Operating Profit QoQ | 1Q | -2.1% | 0.0% | | -0.2% | *1.30* | 11.30 |
| AU | Inventories SA QoQ | 1Q | -0.7% | 0.1% | | -0.8% | *1.30* | 11.30 |
| AU | Building Approvals MoM/YoY | Apr | 2.0%/25.4% | -1.3%/21.1% | | 2.8%/23.6% | *1.30* | 11.30 |
| AU | Mineral and Petroleum Exploration | 1Q | ↓ | | | 3.2% | *1.30* | 11.30 |
| JN | Markit/JMMA Japan Manufacturing PMI | May F | | | | 50.9 | *1.35* | 11.35 |
| CH | HSBC China Manufacturing PMI | May F | | 49.2 | | 49.1 | *1.45* | 11.45 |
| IN | HSBC India Manufacturing PMI | May | | | | 51.3 | *5.00* | 15.00 |
| AU | Commodity Index SDR, YoY | May | | | | -20.5% | *6.30* | 16.30 |
| GE | Markit/BME Germany Manufacturing PMI | May F | | | | 51.4 | *7.55* | 17.55 |
| EC | Markit Eurozone Manufacturing PMI | May F | | | | 52.3 | *8.00* | 18.00 |
| UK | Markit UK PMI Manufacturing SA | May | | | | 51.9 | *8.30* | 18.30 |
| GE | CPI MoM/YoY | May P | | | | 0.0%/0.5% | *12.00* | 22.00 |
| US | Personal Income/ Spending | Apr | | 0.3%/0.2% | | 0.0%/0.4% | *12.30* | 22.30 |
| US | Inflation Adjusted Personal Spending | Apr | | 0.1% | | 0.3% | *12.30* | 22.30 |
| US | PCE Deflator MoM/YoY | Apr | | 0.1%/0.2% | | 0.2%/0.3% | *12.30* | 22.30 |
| US | PCE Core MoM/YoY | Apr | | 0.2%/1.4% | | 0.1%/1.3% | *12.30* | 22.30 |
| US | Fed's Rosengren (alt) Speaks at Employment Event in Hartford, CT | | | | | | *13.05* | 23.05 |
| CA | RBC Canadian Manufacturing PMI | May | | | | 49 | *13.30* | 23.30 |
| US | Markit US Manufacturing PMI | May F | | 53.8 | | 53.8 | *13.45* | 23.45 |
| US | Construction Spending MoM | Apr | | 0.7% | | -0.6% | *14.00* | 0.00 |
| US | ISM Manufacturing | May | | 52.0 | | 51.5 | *14.00* | 0.00 |
| **Tuesday, 2 June 2015** | | | | | | | | |
| NZ | Terms of Trade Index QoQ | 1Q | 1.7% | 1.9% | | -1.9% | *22.45* | 8.45 |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | May-31 | | | | 113.5 | *23.30* | 9.30 |
| AU | BoP Current Account Balance | 1Q | -11.0B | -10.9B | | -9.6B | *1.30* | 11.30 |
| AU | Net Exports, % points growth contribution to GDP | 1Q | 0.3% | 0.0% | | 0.7 | *1.30* | 11.30 |
| AU | Government spending | 1Q | 0.2% | | | 0.3% | *1.30* | 11.30 |
| AU | RBA Cash Rate Target | | 2.00% | 2.00% | | 2.00% | *4.30* | 14.30 |
| IN | RBI Reverse Repo Rate | | | 6.25% | | 6.50% | *5.30* | 15.30 |
| GE | Unemployment Rate | May | | 6.4% | | 6.40% | *7.55* | 17.55 |
| EC | CPI Estimate YoY | May | | 0.2% | | 0.0% | *9.00* | 19.00 |
| US | ISM New York | May | | | | 58.1 | *13.45* | 23.45 |
| US | Factory Orders | Apr | | -0.10% | | 2.10% | *14.00* | 0.00 |
| NZ | Dairy auction (early AM) | | | | | -2.2% | | |
| **Wednesday, 3 June 2015** | | | | | | | | |
| AU | AiG Perf of Services Index | May | | | | 49.7 | *23.30* | 9.30 |
| NZ | QV House Prices YoY | May | | | | 8.3% | *0.00* | 10.00 |
| NZ | ANZ Commodity Price, NZ$ | May | | | | -8.9% | *1.00* | 11.00 |
| AU | NAB Online Retail Sales Index SA MoM/YoY | Apr | | | | 0.8%/16.8% | *1.30* | 11.30 |
| AU | GDP SA QoQ/YoY | 1Q | 0.6%/2.0% | 0.6%/2.0% | | 0.5%/2.5% | *1.30* | 11.30 |
| JN | Markit Japan Services PMI | May | | | | 51.3 | *1.35* | 11.35 |
| CH | HSBC China Services PMI | May | | | | 52.9 | *1.45* | 11.45 |
| IN | HSBC India Services PMI | May | | | | 52.4 | *5.00* | 15.00 |
| EC | Markit Eurozone Services PMI | May F | | | | 53.3 | *8.00* | 18.00 |
| UK | Markit/CIPS UK Services PMI | May | | | | 59.5 | *8.30* | 18.30 |
| EC | Unemployment Rate | Apr | | 11.2% | | 11.3% | *9.00* | 19.00 |
| EC | Retail Sales MoM/YoY | Apr | | 0.6%/2.0% | | -0.8%/1.6% | *9.00* | 19.00 |
| EC | ECB Main Refinancing Rate | Jun-03 | | 0.05% | | 0.05% | *11.45* | 21.45 |
| US | ADP Employment Change | May | | 200K | | 169K | *12.15* | 22.15 |
| US | Trade Balance | Apr | | -$44.0B | | -$51.4B | *12.30* | 22.30 |
| CA | Int'l Merchandise Trade | Apr | | | | -3.02B | *12.30* | 22.30 |
| US | Markit US Services PMI | May F | | 56.4 | | 56.4 | *13.45* | 23.45 |
| US | ISM Non-Manf. Composite | May | | 57.0 | | 57.8 | *14.00* | 0.00 |
| US | U.S. Federal Reserve Releases Beige Book | | | | | | *18.00* | 4.00 |
| US | Fed's Evans (v) Speaks at Banking Symposium in Chicago | | | | | | *18.15* | 4.15 |
| **Thursday, 4 June 2015** | | | | | | | | |
| NZ | Value of All Buildings SA QoQ | 1Q | | | | 0.3% | *22.45* | 8.45 |
| JN | BOJ Kuroda speaks at BOJ's international conference | | | | | | *0.00* | 10.00 |
| JN | Interview BOJ board member Yutaka Harada | | | | | | *1.00* | 11.00 |
| AU | Trade Balance | Apr | -2300M | -2050M | | -1322M | *1.30* | 11.30 |
| AU | Retail Sales MoM | Apr | 0.1% | 0.3% | | 0.3% | *1.30* | 11.30 |
| NZ | Weekly Mortgage Approvals, 13w apc | 29-May | | | | 1.2% | *3.00* | 13.00 |
| UK | Bank of England Bank Rate | Jun-04 | 0.50% | 0.50% | | 0.50% | *11.00* | 21.00 |
| US | Challenger Job Cuts YoY | May | | | | 52.8% | *11.30* | 21.30 |
| US | Nonfarm Productivity | 1Q F | | -2.9% | | -1.9% | *12.30* | 22.30 |
| US | Initial Jobless Claims | May-30 | | 278K | | 282K | *12.30* | 22.30 |
| CA | Ivey Purchasing Managers Index SA | May | | 55.0 | | 58.2 | *14.00* | 0.00 |
| **Friday, 5 June 2015** | | | | | | | | |
| AU | AiG Perf of Construction Index | May | | | | 47 | *23.30* | 9.30 |
| JN | Leading Index CI | Apr P | | | | 106 | *5.00* | 15.00 |
| GE | Factory Orders MoM/YoY | Apr | | 0.5%/-0.6% | | 0.9%/1.9% | *6.00* | 16.00 |
| UK | BoE/GfK Inflation Next 12 Mths | May | | | | 1.9% | *8.30* | 18.30 |
| EC | GDP SA QoQ/YoY | 1Q P | | 0.4%/1.4% | | 0.4%/1.4% | *9.00* | 19.00 |
| US | Change in Nonfarm Payrolls | May | | 225K | | 223K | *12.30* | 22.30 |
| US | Two-Month Payroll Net Revision | May | | | | | *12.30* | 22.30 |
| US | Change in Private Payrolls | May | | 220K | | 213K | *12.30* | 22.30 |
| US | Change in Manufact. Payrolls | May | | 5K | | 1K | *12.30* | 22.30 |
| US | Unemployment Rate | May | | 5.40% | | 5.40% | *12.30* | 22.30 |
| US | Average Hourly Earnings MoM/YoY | May | | 0.2%/2.2% | | 0.1%/2.2% | *12.30* | 22.30 |
| US | Underemployment Rate | May | | | | 10.8% | *12.30* | 22.30 |
| US | Change in Household Employment | May | | | | 192 | *12.30* | 22.30 |
| US | Labor Force Participation Rate | May | | | | 62.8% | *12.30* | 22.30 |
| CA | Unemployment Rate | May | | 6.8% | | 6.8% | *12.30* | 22.30 |
| CA | Net Change in Employment | May | | 10.0K | | -19.7K | *12.30* | 22.30 |
| US | Fed's Dudley (v) Speaks on Economy and Policy in Minneapolis | | | | | | *16.30* | 2.30 |
| US | Consumer Credit | Apr | | $16.45B | | $20.523B | *19.00* | 5.00 |

| **Upcoming Central Bank Interest Rate Announcements** | | | | | |
|---|---|---|---|---|---|
| Australia, RBA | 2-Jun | 2.00% | 2.00% | | 2.00% |
| Europe ECB | 3-Jun | 0.05% | 0.05% | | 0.05% |
| UK BOE | 4-Jun | 0.50% | 0.50% | | 0.50% |
| New Zealand, RBNZ | 11-Jun | 3.50% | 3.50% | | 3.50% |
| US Federal Reserve | 18-Jun | | | | 0%-0.25% |
| Japan, BoJ | 19-Jun | 0.0%-0.1% | 0.0%-0.1% | | 0.0%-0.1% |
| Canada, BoC | 16-Jul | | | | 0.75% |

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

# Forecasts

## Economic Forecasts

| | Annual % change | | | | Quarterly % change | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | 2013 | | | | 2014 | | | | 2015 | | | |
| **Australia Forecasts** | **2013** | **2014** | **2015** | **2016** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** |
| Household Consumption | 1.7 | 2.5 | 2.7 | 2.9 | 0.3 | 0.3 | 0.8 | 0.5 | 0.6 | 0.6 | 0.6 | 0.9 | 0.5 | 0.6 | 0.7 | 0.7 |
| Underlying Business Inves | -4.5 | -6.1 | -8.5 | -9.9 | -5.7 | -1.2 | 1.2 | -3.1 | -2.5 | -1.1 | -1.2 | -1.2 | -2.2 | -3.6 | -2.9 | -2.5 |
| Residential Construction | 0.3 | 7.9 | 8.4 | 9.2 | -2.0 | 2.7 | -0.2 | 0.9 | 5.7 | 1.1 | -1.2 | 2.5 | 2.6 | 2.6 | 2.6 | 3.0 |
| Underlying Public Spendin | 0.3 | 0.8 | 0.2 | 1.1 | 2.8 | -0.1 | -0.6 | 1.3 | 0.3 | 0.6 | -1.4 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 |
| Exports | 6.2 | 6.8 | 6.5 | 7.7 | 0.9 | 3.7 | -0.4 | 1.4 | 4.1 | -1.6 | 3.6 | 1.0 | 1.9 | 1.4 | 1.6 | 1.8 |
| Imports | -1.8 | -1.7 | -3.1 | -1.1 | -2.5 | 2.1 | -1.3 | -1.0 | -1.3 | 2.0 | -0.7 | -2.5 | -0.5 | -0.7 | -0.4 | -0.1 |
| Net Exports (a) | 1.6 | 1.7 | 2.0 | 1.9 | 0.7 | 0.3 | 0.2 | 0.5 | 1.1 | -0.7 | 0.9 | 0.7 | 0.5 | 0.4 | 0.4 | 0.4 |
| Inventories (a) | -0.3 | 0.0 | -0.1 | 0.1 | -0.2 | 0.4 | -0.3 | -0.2 | -0.4 | 0.9 | 0.1 | -0.8 | 0.1 | 0.1 | 0.1 | 0.0 |
| Domestic Demand - qtr% | | | | | -0.2 | 0.2 | 0.5 | 0.2 | 0.4 | 0.5 | -0.4 | 0.6 | 0.2 | 0.1 | 0.2 | 0.4 |
| Dom Demand - ann % | 0.4 | 1.2 | 0.9 | 1.2 | 0.5 | 0.0 | 0.6 | 0.7 | 1.3 | 1.5 | 0.7 | 1.2 | 1.0 | 0.6 | 1.2 | 0.9 |
| **Real GDP - qtr %** | | | | | **0.3** | **0.7** | **0.4** | **0.7** | **1.1** | **0.5** | **0.4** | **0.5** | **0.6** | **0.7** | **0.7** | **0.8** |
| **Real GDP - ann %** | **2.1** | 2.7 | 2.4 | 3.2 | **2.0** | **2.1** | **1.9** | **2.2** | **3.0** | **2.7** | **2.7** | **2.5** | **2.0** | **2.2** | **2.6** | **2.8** |
| | | | | | | | | | | | | | | | | |
| CPI headline - qtr % | | | | | 0.4 | 0.4 | 1.2 | 0.8 | 0.6 | 0.5 | 0.5 | 0.2 | 0.2 | 0.5 | 0.8 | 0.9 |
| CPI headline - ann % | 2.4 | 2.5 | 1.8 | 3.1 | 2.5 | 2.4 | 2.2 | 2.7 | 2.9 | 3.0 | 2.3 | 1.7 | 1.3 | 1.4 | 1.8 | 2.5 |
| CPI underlying - qtr % | | | | | 0.5 | 0.6 | 0.6 | 0.9 | 0.6 | 0.7 | 0.4 | 0.6 | 0.6 | 0.5 | 0.6 | 0.7 |
| CPI underlying - ann % | 2.4 | 2.6 | 2.4 | 2.7 | 2.3 | 2.4 | 2.3 | 2.6 | 2.7 | 2.8 | 2.5 | 2.3 | 2.4 | 2.2 | 2.4 | 2.5 |
| Wages (Pvte WPI -ann %) | 2.9 | 2.5 | 2.4 | 2.4 | 3.1 | 3.0 | 2.7 | 2.5 | 2.6 | 2.4 | 2.5 | 2.5 | 2.4 | 2.4 | 2.4 | 2.4 |
| Unemployment Rate (%) | 5.7 | 6.0 | 6.3 | 6.3 | 5.6 | 5.7 | 5.7 | 5.9 | 5.8 | 5.9 | 6.1 | 6.2 | 6.2 | 6.2 | 6.4 | 6.4 |
| Terms of trade | -3.9 | -7.5 | -8.4 | -1.2 | 0.7 | 0.4 | -1.9 | 0.4 | -2.1 | -3.9 | -3.5 | -1.8 | -3.2 | -0.8 | -1.0 | -1.1 |
| G&S trade balance, $Abn | -10.2 | -9.1 | -7.8 | 19.1 | -3.7 | -2.3 | -3.3 | -0.9 | 1.7 | -4.5 | -3.9 | -2.4 | -3.3 | -2.2 | -1.5 | -0.8 |
| % of GDP | -0.7 | -0.6 | -0.5 | 1.1 | -1.0 | -0.6 | -0.8 | -0.2 | 0.4 | -1.1 | -1.0 | -0.6 | -0.8 | -0.5 | -0.4 | -0.2 |
| Current Account (% GDP) | -3.3 | -2.8 | -2.9 | -1.3 | -3.5 | -3.3 | -3.5 | -3.0 | -2.2 | -3.4 | -3.0 | -2.4 | -3.3 | -3.0 | -2.8 | -2.6 |

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

## Exchange Rate Forecasts

| | 1-Jun | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 |
|---|---|---|---|---|---|---|
| **Majors** | | | | | | |
| AUD/USD | 0.7644 | 0.78 | 0.76 | 0.74 | 0.73 | 0.73 |
| NZD/USD | 0.7092 | 0.74 | 0.72 | 0.70 | 0.69 | 0.68 |
| USD/JPY | 124.28 | 123 | 124 | 125 | 126 | 126 |
| EUR/USD | 1.0944 | 1.08 | 1.05 | 1.03 | 1.02 | 1.03 |
| GBP/USD | 1.5273 | 1.50 | 1.46 | 1.45 | 1.44 | 1.43 |
| USD/CNY | 6.1976 | 6.20 | 6.25 | 6.20 | 6.20 | 6.18 |
| USD/CAD | 1.2466 | 1.25 | 1.24 | 1.22 | 1.21 | 1.20 |
| | | | | | | |
| **Australian Cross Rates** | | | | | | |
| AUD/JPY | 95.0 | 96 | 94 | 93 | 92 | 92 |
| AUD/EUR | 0.6985 | 0.72 | 0.72 | 0.72 | 0.72 | 0.71 |
| AUD/GBP | 0.5005 | 0.52 | 0.52 | 0.51 | 0.51 | 0.51 |
| AUD/NZD | 1.0778 | 1.05 | 1.06 | 1.06 | 1.06 | 1.07 |
| AUD/CNY | 4.7374 | 4.84 | 4.75 | 4.59 | 4.53 | 4.51 |
| AUD/CAD | 0.9529 | 0.98 | 0.94 | 0.90 | 0.88 | 0.88 |
| AUD/CHF | 0.7207 | 0.77 | 0.78 | 0.77 | 0.75 | 0.00 |

## Interest Rate Forecasts

| | 1-Jun | Jun-15 | Sep-15 | Dec-15 | Mar-16 | Jun-16 |
|---|---|---|---|---|---|---|
| **Aust rates** | | | | | | |
| RBA Cash rate | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| 3 month bill rate | 2.13 | 2.15 | 2.15 | 2.15 | 2.15 | 2.20 |
| 3 Year Swap Rate | 2.18 | 2.3 | 2.4 | 2.3 | 2.7 | 2.8 |
| 10 Year Swap Rate | 3.06 | 3.1 | 3.2 | 3.2 | 3.5 | 3.5 |
| **Offshore Policy Rates** | | | | | | |
| US Fed funds | 0.25 | 0.25 | 0.50 | 0.75 | 0.75 | 1.25 |
| ECB refi rate | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| BoE repo rate | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 1.00 |
| BoJ overnight call rate | 0.07 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| RBNZ OCR | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| China 1yr lending rate | 5.10 | 5.20 | 5.20 | 5.20 | 5.20 | 5.20 |
| China Reserve Ratio | 18.5 | 19.5 | 19.5 | 19.5 | 19.5 | 19.5 |
| **10 Year Benchmark Bond Yields** | | | | | | |
| Australia | 2.75 | 2.8 | 2.9 | 2.8 | 3.1 | 3.1 |
| United States | 2.13 | 2.25 | 2.50 | 2.50 | 2.8 | 2.8 |
| Europe/Germany | 0.49 | 0.3 | 0.4 | 0.6 | 0.7 | 0.8 |
| UK | 1.81 | 1.8 | 2.0 | 2.1 | 2.2 | 2.4 |
| New Zealand | 3.63 | 3.5 | 3.8 | 3.8 | 4.0 | 4.0 |

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

| Dec year | 2013 | 2014 | 2015 | 2016 | 20 Yr Avge |
|---|---|---|---|---|---|
| Australia | 2.1 | 2.7 | 2.4 | 3.2 | 3.4 |
| US | 2.2 | 2.4 | 2.5 | 2.7 | 2.6 |
| Eurozone | -0.4 | 0.9 | 1.4 | 1.8 | 1.5 |
| UK | 1.7 | 2.8 | 2.2 | 2.4 | 2.4 |
| Japan | 1.6 | -0.1 | 0.8 | 1.3 | 0.8 |
| China | 7.7 | 7.4 | 7.1 | 6.9 | 9.2 |
| India | 6.3 | 7.2 | 7.7 | 7.9 | 6.6 |
| New Zealand | 2.2 | 3.3 | 2.8 | 2.0 | 3.0 |
| World | 3.3 | 3.3 | 3.2 | 3.4 | 3.5 |

## Commodity prices ($US)

| | 1-Jun | Jun-15 | Dec-15 | Jun-16 | Dec-16 |
|---|---|---|---|---|---|
| WTI oil | 59.91 | 52 | 55 | 60 | 63 |
| Gold | 1191 | 1180 | 1150 | 1070 | 1060 |
| Iron ore | 62 | 58 | 60 | 61 | 60 |
| Hard cok. coal | 112 | 110 | 98 | 95 | 94 |
| Thermal coal | 62 | 68 | 68 | 68 | 68 |
| Copper | 6010 | 5900 | 6080 | 6260 | 6230 |
| Japan LNG | 11.9 | 12.0 | 11.0 | 11.0 | 11.0 |

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