

# Australian Markets Weekly

## Labour market suggests RBA on hold but keep an eye on inflation expectations

- Markets again moving around sharply with a less aggressive Fed (two rate hikes now expected in 2016 versus four previously) seeing the US\$ broadly weaker and \$A stronger.
- Australian labour market data show slower trend employment growth in recent months, though some of this likely reflects a payback from previously overstated strength. The unemployment rate however was back down to cycle lows of 5.8% driven by trend improvement in NSW, QLD and Victoria but continued deterioration in WA.
- While the RBA is clearly focused on the labour market and global developments, recent communications – especially in the context of a number of recent global moves – highlight that inflationary expectations also need to be watched – especially if actual inflation undershoots. The RBA slightly changed its description of inflation from “consistent with” to “close to” target at its February interest rate decision.

### Fed rate downgrade sees sharp moves in markets

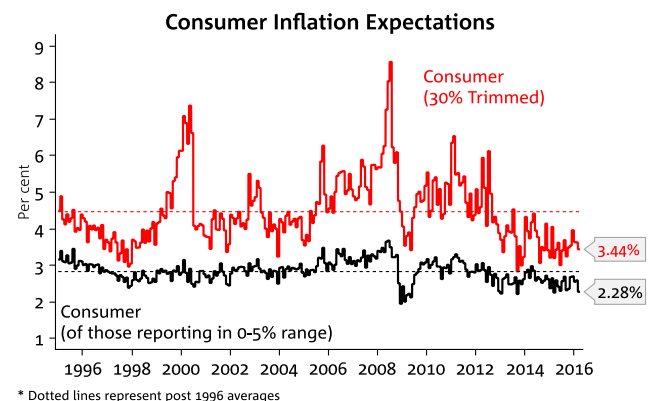
The downgrade by the Federal Reserve of its expectations of US interest rate increases this year – from the four moves expected at its December meeting to now forecasting only two further 25bps increases in 2016, saw the US\$ weaken across the board and the \$A strengthen. Along with the return of the Australian unemployment rate to a cycle low of 5.8%, this was sufficient to propel the \$A still higher against the US\$ (currently just under US\$0.76, up 1.1% on the week, but off a high of US\$0.7680, the highest level in 8 months). Commodity markets were also relatively volatile, with oil prices moderately stronger over the week but off the highs (Brent) and while iron ore prices have given up some of last week's huge one-day spike, in general, they remain close to the highest level in around six months (and are arguably a further source of fundamental support for the \$A). In general, we have seen a significant retracement of much of the volatile moves experienced in markets over the late December/January/early February period when markets became very pessimistic about the US and global growth outlook and concerned about the implications of the further fall in oil prices.

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7593	1.0	RBA cash	2.00	0
AUD/CNY	4.93	0.1	3y swap	2.17	-3
AUD/JPY	84.6	-1.1	ASX 200	5,182	-0.1
AUD/EUR	0.673	-0.5	Iron ore	57.5	0.7
AUD/NZD	1.120	-0.5	WTI oil	39.1	5.0

Source: Bloomberg

### Chart 2: Consumer inflation expectations stable



### Authors:

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## This week

A quiet week in Australia this week in the lead up to the Easter holiday break beginning on Thursday. This Easter is particularly early, which may affect the seasonal adjustment of some series for March, though usually, there is a more notable effect when Easter occurs very early in April.

The key event this week is a speech by the RBA Governor tomorrow at ASIC's Annual Forum, which the flyer suggests is on the topic "Can we withstand a major global shock?." It's most unlikely that the Governor would conclude anything but in the affirmative. It is likely he will highlight the monetary policy ammunition remaining in Australia (as opposed to many other countries), the role of the floating currency, our strong institutional and bank regulatory framework (strengthened by recent global initiatives in the wake of the GFC) and remaining relatively greater flexibility with fiscal policy (given Australia's low levels of government debt). There may also be a caution for households not to over-extend themselves.

Markets will also be watching to see whether there is any renewed jawboning of the \$A, and we will watch for any discussion or comment on inflationary expectations, which seem to have been very prominent in recent global central bank communications (including in the RBNZ's easing decision). It's possible that this was a major topic of discussion at February's G20 meetings.

## Review of labour market and inflationary expectations developments

The RBA further elevated focus on Australia's labour market statistics at its February Board meeting, when it included the phrase "whether the recent improvement in labour market conditions is continuing" as one of its decision points in deciding whether further monetary policy easing might be appropriate (the other decision point was of course whether recent volatility in financial markets portends slower global or local demand). Importantly, at each of the recent Board meetings, while monitoring both of these developments, the Board concluded that the prospects for continued growth remained good.

However, there was also another important difference between the December RBA communication and the February statement. In December the RBA noted "the prospects for an improvement in economic conditions had firmed a little over recent months....with inflation **consistent with the target**, but in February (and March) "that there were reasonable prospects for continued growth in the economy, with inflation **close to target**" (our emphasis). The latter shift might also explain why the Bank upgraded its inflation assessment at the March statement from "**may** provide" to "**would** provide" scope to ease, though arguably, this might also reflect increased global concerns about inflationary expectations with the RBNZ highlighting developments in inflationary expectations at its surprise easing in March. The topic was also important in the Fed's deliberations last week and recent Fed speeches.

For now, it still seems like the main activity pre-requisites for the Bank moving rates any time soon have not been met and while the inflation characterisation has changed slightly, it has not changed dramatically. The labour market continues to hold up relatively well, with the unemployment rate back at cycle lows of 5.8% (Chart 2). This reflects the net effect of recent declining trends for the unemployment rate in NSW, Victoria and Queensland but a trend rise in unemployment in WA (Chart 3).

Chart 2: Unemployment rate back at cycle lows

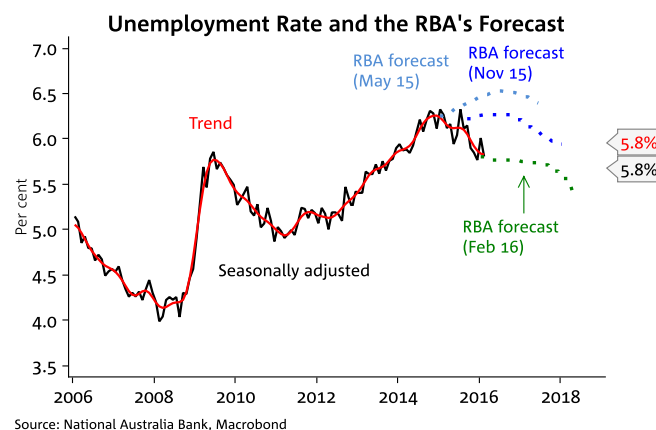
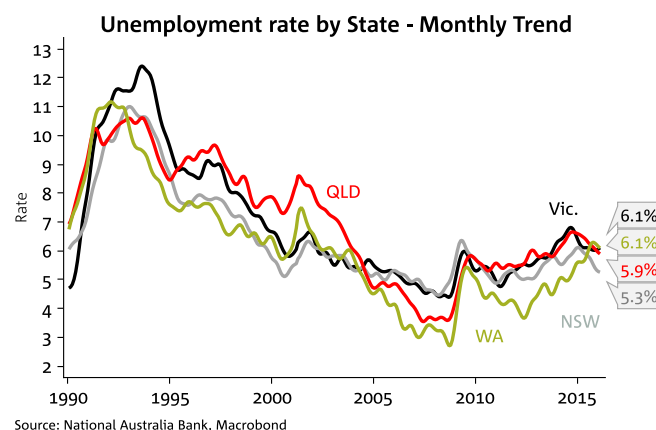


Chart 3: Unemployment rate trend in four largest states

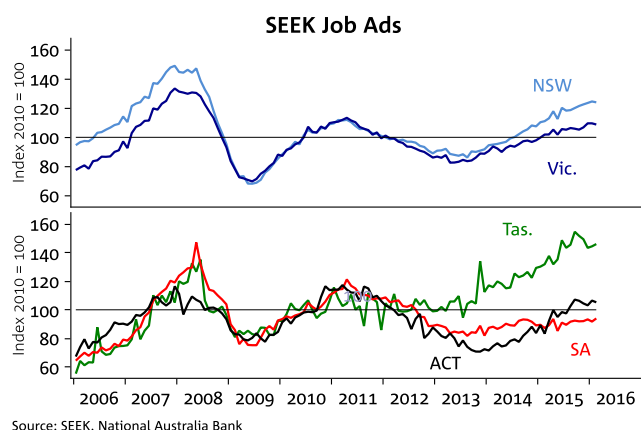


## SEEK job ads reflect weaker pace of job advertising in WA, but some signs of modestly stronger advertised wages

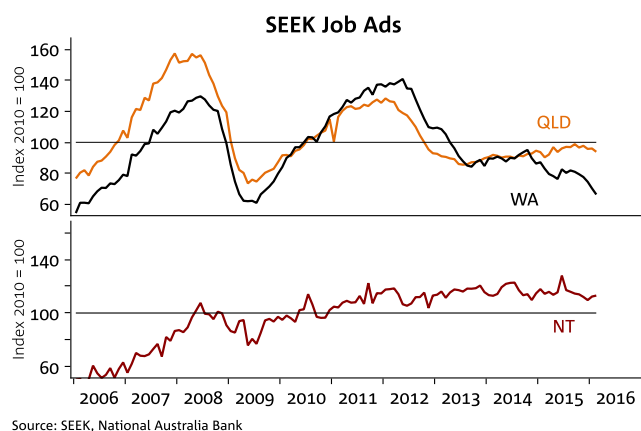
SEEK also released its latest job ads data last week, which provide an important cross check of the ABS data, which have of course been incredibly volatile in recent times. The latest data show deepening weakness in WA job advertising (with job ads having fallen for three months in a row by around 4-5% each month) and a softening in the rate of job advertising growth in NSW and Victoria (trend rates of job ads growth have slowed to around a third to a half the rate of growth evident 6-12 months ago, though in each state, jobs ads continue to increase). In Queensland, the trend for job advertising has recently turned negative, however, we suspect this may be heavily influenced by the latest month's data (-2.2% m/m), which does not accord with other recent data prints on Queensland, including the NAB Business Survey employment sub component for Queensland, which was markedly stronger.

The weakening trends in WA and Queensland are important as if sustained they are currently large enough to more than offset the positive trends for job advertising being recorded in NSW and Victoria. Again, it's worth noting, that at this stage, these trends do not confirm the relatively stronger message of the NAB Business Survey, but are similar in suggesting a slightly less strong picture of the economy and labour market than existed between May and November last year, with the further weakening in WA the key development. It will also be interesting to see whether the sharp jump in iron ore prices in recent weeks helps confidence and conditions in WA in March.

**Chart 4: Slower growth in job ads in NSW and Victoria**

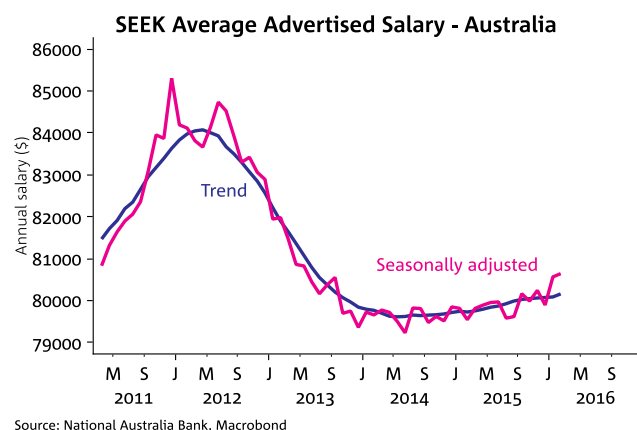


**Chart 5: Much weaker job advertising in WA**

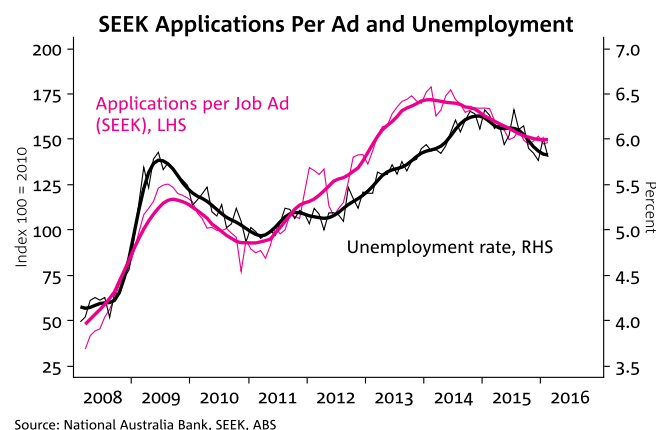


Interestingly the latest SEEK data also reveals a continued very slight strengthening in the average wage advertised in all ads placed on SEEK (Chart 6) and a continued decline in the number of applications being received for each job advertised (Chart 7). This suggests the labour market may be tightening up slightly, which could be expected to produce some greater pressure on wages if sustained. The number of applications per advertisement is also a useful leading indicator of the trend for the unemployment rate, which tends to corroborate the trend decline for unemployment reported by the ABS in recent months.

**Chart 6: Modest rise in advertised wages**



**Chart 7: Applications per ad confirm lower unemployment**



That said – and as noted earlier – we are closely watching whether the RBA has become more concerned about inflationary expectations developments, as seems to have been the case with its global central bank brethren. This development may have been behind some of the subtle changes in the Bank's language in recent months and future communications bear close monitoring in this regard. As our final charts show, market-based measures of inflationary expectations eased sharply in the early months of the year, before partially retracing as oil prices have rebounded, though they remain around 20bps lower than in the December quarter. Developments in the oil price seem to have been an important influence on market-based measures, though the fact that much of this reflects additional supply does not seem to have been a significant consideration for global central banks. Equally it is worth noting that not all measures of inflationary expectations are trending below the RBA target – including economists' expectations. And we should not forget that the December quarter CPI showed the first concrete signs of exchange rate pass through.

Looking again at the Governor's December 2015 AFR interview, it is clear that Stevens doesn't think low inflation is a problem unless:

*It, sort of, locks into a permanently lower rate than people expect, and then expectations have to start shifting, and so on, but I don't think we see that at the moment. So, you know, I'm not especially worried by inflation being too low, as a problem" RBA Governor December 2015*

At this stage, while market based inflation expectations have fallen relative to the end of 2015 (and importantly have bounced off the lows in February), consumer-based measures have been broadly stable since 2015. Inflationary expectations are therefore not likely to be particularly worrying for the RBA as yet, not to mention some important hurdles to clear on the activity front for the Bank to move rates lower again.

NAB remains optimistic on the outlook for the Australian non-mining economy and forecasts continued moderate falls in the unemployment rate. Inflationary expectations have become an increasing focus of global policy makers and hence likely deserve greater focus by Australian markets.

Chart 8: Market-based expectations volatile but lower

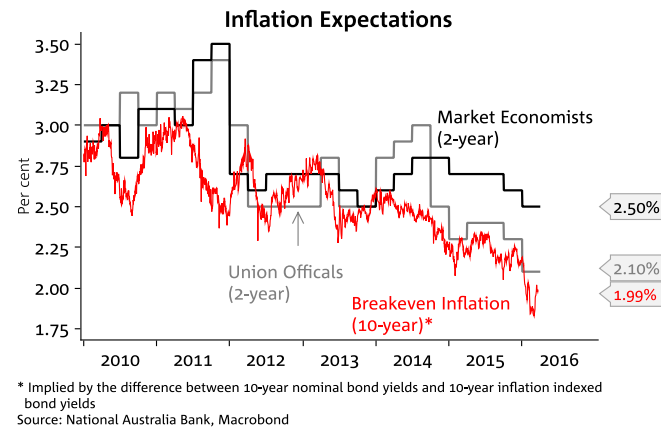


Chart 9: But consumer expectations stable since mid-2015

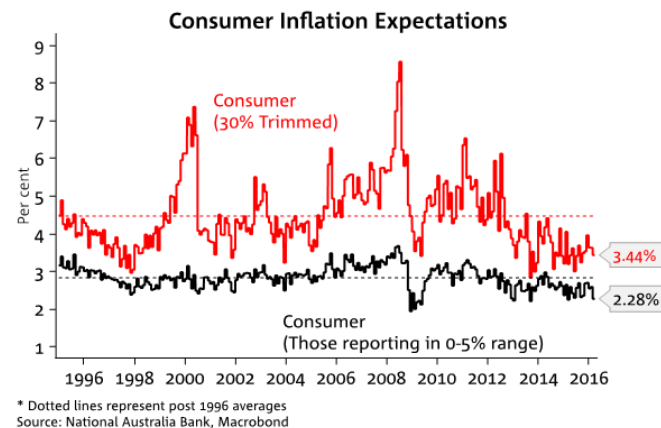
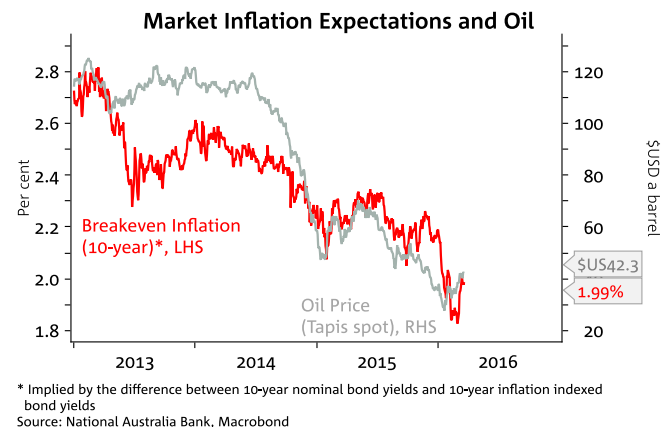


Chart 10: Oil prices seem to be a large part of the story



# Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Monday, 21 March 2016</b>								
NZ	NZ Westpac Consumer Confidence	1Q			110.7		21.00	8.00
NZ	Net Migration SA	Feb				6130.0	21.45	8.45
UK	Rightmove House Prices MoM	Mar				2.9	0.10	11.10
CH	MNI Business Indicator	Mar				49.9	1.45	12.45
NZ	Credit Card Spending MoM	Feb				2.3	2.00	13.00
EC	Current Account NSA	Jan				41.4	9.00	20.00
EC	ECB's Coeure speaks in Paris on EMU governance						7.45	18.45
US	Fed's Lacker (non voter) speaks on the outlook for inflation and inflation expectations						8.15	19.15
EC	ECB's Constancio speaks in London on expanding market based financing for growth						9.30	20.30
UK	CBI Trends Total Orders	Mar		-14		-17.0	11.00	22.00
UK	BoE's Forbes speech at the Official Monetary and Financial Institutions Forum in London						11.00	22.00
US	Chicago Fed Nat Activity Index	Feb		0.25		0.3	12.30	23.30
CA	Bloomberg Nanos Confidence	Mar 18				54.0	14.00	1.00
US	Existing Home Sales MoM	Feb		-2.93		0.4	14.00	1.00
US	Fed's Lockhart (non voter) Speaks on U.S. Economy in Savannah, Georgia						16.40	3.40
JN	BoJ Nakaso speak in Stockholm on unconventional monetary policies and bank profitability						16.30	3.30
<b>Tuesday, 22 March 2016</b>								
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 20				116.4	22.30	9.30
AU	House Price Index QoQ	4Q		0		2.0	0.30	11.30
AU	House Price Index YoY	4Q		8.5		10.7	0.30	11.30
US	RBA's Edey Panel Participation in Sydney						0.45	11.45
JN	All Industry Activity Index MoM	Jan		1.9		-0.9	4.30	15.30
JN	Small Business Confidence	Mar				47.9	5.00	16.00
AU	RBA's Stevens Speech at ASIC Forum in Sydney						5.30	16.30
GE	IFO Business Climate	Mar		106		105.7	9.00	20.00
GE	IFO Current Assessment	Mar		112.7		112.9	9.00	20.00
EC	Markit Eurozone Manufacturing PMI	Mar P		51.4		51.2	9.00	20.00
EC	Markit Eurozone Services PMI	Mar P		53.3		53.3	9.00	20.00
UK	CPI MoM	Feb		0.4		-0.8	9.30	20.30
UK	CPI YoY	Feb		0.4		0.3	9.30	20.30
UK	CPI Core YoY	Feb		1.2		1.2	9.30	20.30
UK	PPI Output Core NSA MoM	Feb		0.1		0.1	9.30	20.30
UK	PPI Output Core NSA YoY	Feb		0.1		0.0	9.30	20.30
UK	ONS House Price YoY	Jan				6.7	9.30	20.30
UK	Public Finances (PSNCR)	Feb				-24.9	9.30	20.30
GE	ZEW Survey Current Situation	Mar		53		52.3	10.00	21.00
GE	ZEW Survey Expectations	Mar		5.4		1.0	10.00	21.00
EC	ZEW Survey Expectations	Mar				13.6	10.00	21.00
EC	Bank of France's Villeroy de Galhau at Breugel Institute						12.00	23.00
UK	BoE's Forbes speaks at Royal Economic Society in London						13.30	0.30
US	FHFA House Price Index MoM	Jan		0.5		0.4	13.00	0.00
US	Richmond Fed Manufact. Index	Mar		0		-4.0	14.00	1.00
US	Fed's Evans (non voter) Speaks in Chicago						17.30	4.30
CA	Canada's Federal Budget						20.00	7.00
US	Fed's Harker (non voter) Speaks in New York on "The Growth and Role of Economic Policies"						23.00	10.00
<b>Wednesday, 23 March 2016</b>								
AU	Skilled Vacancies MoM	Feb				0.4	0.00	11.00
JN	BoJ Funo speaks in Kobe						1.30	12.30
US	MBA Mortgage Applications	Mar 18				-3.3	11.00	22.00
US	Fed's Bullard (voter) speaks on Bloomberg TV & Radio						13.00	0.00
US	New Home Sales	Feb		510		494.0	14.00	1.00
US	New Home Sales MoM	Feb		3.2		-9.2	14.00	1.00
EC	Consumer Confidence	Mar A		-8.3		-8.8	15.00	2.00
<b>Thursday, 24 March 2016</b>								
NZ	Trade Balance	Feb		90		8.0	21.45	8.45
JN	Nikkei Japan PMI Mfg	Mar P		50.5		50.1	2.00	13.00
EC	ECB Publishes Economic Bulletin						9.00	20.00
UK	Retail Sales Ex Auto Fuel MoM	Feb		-1		2.3	9.30	20.30
UK	Retail Sales Ex Auto Fuel YoY	Feb		3.5		5.0	9.30	20.30
UK	BBA Loans for House Purchase	Feb		47900		47509.0	9.30	20.30
UK	CBI Retailing Reported Sales	Mar		10		10.0	11.00	22.00
UK	CBI Total Dist. Reported Sales	Mar					11.00	22.00
US	Fed's Bullard (voter) speaks on economy and monetary policy in New York							23.15
US	Initial Jobless Claims	Mar 19		268		265.0	12.30	23.30
US	Durable Goods Orders	Feb P		-3		4.7	12.30	23.30
US	Markit US Manufacturing PMI	Mar P		51.9		51.3	13.45	0.45
US	Kansas City Fed Manf. Activity	Mar				-12.0	15.00	2.00
UK	BoE's Bailey speaks on the "Future of Green Finance"						16.15	3.15
<b>Friday, 25 March 2016</b>								
AU	Good Friday public holiday							
JN	Natl CPI YoY	Feb		0.3		0.0	23.30	10.30
JN	Natl CPI Ex Food, Energy YoY	Feb		0.8		0.7	23.30	10.30
JN	Tokyo CPI YoY	Mar		-0.1		0.1	23.30	10.30
JN	Tokyo CPI Ex Food, Energy YoY	Mar		0.5		0.5	23.30	10.30
JN	PPI Services YoY	Feb		0.2		0.2	23.30	10.50
JN	Natl CPI Ex Fresh Food, Energy YoY	Feb		1.1		1.1	5.00	16.00
JN	Leading Index CI	Jan F				101.4	5.00	16.00
US	GDP Annualized QoQ	4Q T		1		1.0	12.30	23.30
US	Personal Consumption	4Q T		2		2.0	12.30	23.30
US	GDP Price Index	4Q T		0.9		0.9	12.30	23.30
US	Core PCE QoQ	4Q T		1.3		1.3	12.30	23.30
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Japan, BoJ		15-Mar	-0.1% to +0.1%	-0.1% to +0.1%		-0.1% to +0.1%		
UK BOE		17-Mar				0.50%		
US Federal Reserve		17-Mar				0.25-0.50%		
Australia, RBA		5-Apr	2.00%	2.00%		2.00%		
Canada, BoC		14-Apr				0.50%		
Europe ECB		21-Apr				0.00%		
New Zealand, RBNZ		28-Apr				2.25%		
GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time								

# Forecasts

## Economic Forecasts

	Annual % change		Quarterly % change											
	2015	2016	2014				2015				2016			
<b>Australia Forecasts</b>			<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Household Consumption	2.8	2.9	0.6	0.7	0.7	0.7	0.7	0.5	0.9	0.8	0.8	0.7	0.5	0.5
Underlying Business Investment	-10.1	-8.7	-1.9	-2.5	-0.6	-0.9	-4.3	-1.4	-5.5	-3.2	-1.1	-1.0	-2.5	-1.9
Residential Construction	9.5	5.4	4.3	1.5	-0.9	3.5	4.8	0.6	1.9	2.2	1.8	0.6	0.7	-0.4
Underlying Public Spending	1.9	2.0	0.1	-1.4	-0.9	0.3	1.0	2.0	-0.7	1.3	0.0	0.6	0.6	0.6
Exports	6.1	7.5	3.2	-0.4	2.5	1.7	3.7	-3.9	5.4	0.6	1.6	2.2	2.7	2.5
Imports	1.0	1.3	-2.8	3.2	-1.2	-1.4	2.6	0.3	-2.3	0.6	1.1	0.9	0.3	0.3
Net Exports (a)	1.1	1.4	1.3	-0.7	0.8	0.7	0.3	-0.9	1.6	0.0	0.1	0.3	0.5	0.5
Inventories (a)	0.0	0.0	-0.2	0.8	0.2	-0.9	0.4	0.1	-0.1	-0.2	0.1	0.0	0.0	0.0
Domestic Demand - qtr%			0.3	-0.1	-0.1	0.5	0.3	0.6	-0.3	0.4	0.4	0.5	0.2	0.2
Dom Demand - ann %	1.0	1.3	1.8	1.4	0.5	0.6	0.6	1.3	1.2	1.1	1.2	1.1	1.6	1.4
<b>Real GDP - qtr %</b>			<b>0.9</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.9</b>	<b>0.3</b>	<b>1.1</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>
<b>Real GDP - ann %</b>	<b>2.5</b>	<b>2.7</b>	<b>3.0</b>	<b>2.7</b>	<b>2.6</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>	<b>2.7</b>	<b>3.0</b>	<b>2.7</b>	<b>3.1</b>	<b>2.6</b>	<b>2.7</b>
CPI headline - qtr %			0.6	0.5	0.5	0.2	0.2	0.7	0.5	0.4	0.3	0.7	0.8	0.9
CPI headline - ann %	1.5	2.1	2.9	3.0	2.3	1.7	1.3	1.5	1.5	1.7	1.8	1.8	2.1	2.6
CPI underlying - qtr %			0.6	0.6	0.4	0.6	0.6	0.5	0.3	0.5	0.6	0.6	0.6	0.6
CPI underlying - ann %	2.2	2.2	2.7	2.7	2.5	2.2	2.3	2.2	2.1	2.0	2.0	2.0	2.3	2.5
Wages (Pvte WPI -ann %)	2.1	2.4	2.5	2.4	2.4	2.5	2.3	2.2	2.1	2.0	2.1	2.3	2.5	2.7
Unemployment Rate (%)	6.0	5.7	5.8	6.0	6.2	6.2	6.2	5.9	6.2	5.9	5.9	5.8	5.6	5.6
Terms of trade	-11.4	-6.8	-1.7	-4.5	-3.3	-1.5	-3.2	-3.9	-2.4	-3.2	-3.5	2.1	-0.6	-0.7
G&S trade balance, \$Abn	-33.2	-38.1	2.2	-4.5	-4.1	-2.9	-4.7	-11.3	-7.3	-9.9	-12.3	-9.8	-8.6	-7.5
% of GDP	-2.0	-2.3	0.6	-1.1	-1.0	-0.7	-1.2	-2.8	-1.8	-2.4	-3.0	-2.3	-2.0	-1.7
Current Account (% GDP)	-4.6	-5.0	-2.4	-3.5	-3.3	-2.9	-3.4	-5.2	-4.6	-5.1	-5.7	-5.0	-4.7	-4.4

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

## Exchange Rate Forecasts

	21-Mar	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>Majors</b>						
AUD/USD	0.7589	0.71	0.69	0.67	0.69	0.70
NZD/USD	0.6766	0.64	0.62	0.60	0.61	0.62
USD/JPY	111.41	116	117	118	119	119
EUR/USD	1.1278	1.10	1.09	1.08	1.08	1.09
GBP/USD	1.4449	1.40	1.41	1.42	1.43	1.44
USD/CNY	6.4848	6.70	6.75	6.80	6.80	6.75
USD/CAD	1.3049	1.36	1.43	1.49	1.44	1.43

### Australian Cross Rates

AUD/JPY	84.5	82	81	79	82	83
AUD/EUR	0.6729	0.65	0.63	0.62	0.64	0.64
AUD/GBP	0.5252	0.51	0.49	0.47	0.48	0.49
AUD/NZD	1.1216	1.11	1.11	1.12	1.13	1.13
AUD/CNY	4.9213	4.76	4.66	4.56	4.69	4.73
AUD/CAD	0.9903	0.97	0.99	1.00	0.99	1.00
AUD/CHF	0.7357	0.71	0.69	0.68	0.72	0.74

## Interest Rate Forecasts

	21-Mar	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>Aust rates</b>						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.50
3 month bill rate	2.32	2.25	2.25	2.25	2.50	2.85
3 Year Swap Rate	2.16	2.3	2.5	2.6	2.9	3.2
10 Year Swap Rate	2.69	3.1	3.4	3.4	3.6	3.8

### Offshore Policy Rates

US Fed funds	0.50	0.50	0.75	1.00	1.00	1.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	0.60
BoE repo rate	0.50	0.50	0.50	0.50	0.50	0.50
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	0.90
RBNZ OCR	2.25	2.00	2.00	2.00	2.00	2.00
China 1yr lending rate	4.35	3.85	3.85	3.85	0.00	0.00
China Reserve Ratio	17.0	16.5	16.0	16.0	--	--

### 10 Year Benchmark Bond Yields

Australia	2.56	3.0	3.3	3.3	3.5	3.6
United States	1.87	2.3	2.5	2.5	2.8	2.8
Europe/Germany	0.21	1.0	1.1	1.2	0.0	0.0
UK	1.45	2.3	2.3	2.3	2.6	0.0
New Zealand	2.98	3.1	3.3	3.3	3.5	3.6

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

Dec year	2013	2014	2015	2016	2017	20 Yr Ave
Australia	2.0	2.6	2.5	2.7	2.9	3.4
US	1.5	2.4	2.4	2.2	2.3	2.6
Eurozone	-0.3	0.9	1.5	1.6	1.7	1.5
UK	2.2	2.9	2.2	2.2	2.2	2.4
Japan	1.4	-0.1	0.5	0.5	0.8	0.8
China	7.7	7.3	6.9	6.7	6.5	9.2
India	6.4	7.1	7.5	7.6	7.4	6.6
New Zealand	2.4	3.7	2.4	2.4	2.5	3.0
World	3.3	3.3	2.9	2.9	3.2	3.5

## Commodity prices (\$US)

	21-Mar	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
WTI oil	38.95	34	36	39	40	43
Gold	1254	1150	1100	1060	1040	1020
Iron ore	58	44	42	41	40	41
Hard cok. coal	89	79	81	82	83	84
Thermal coal	52	58	58	58	58	60
Copper	5060	4730	4870	5020	5070	5120
Japan LNG	8.4	5.2	5.8	6.2	6.4	6.6

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