

Australian Markets Weekly

NAB business survey and RBA Deputy Governor speech “Resilience and Ongoing Challenges”

- Price developments over the past week supportive of NAB view that markets had become overly pessimistic on the growth outlook – commodities, equities and the \$A all rally strongly; bond yields rise sharply.
- Australian GDP stronger than expected – and importantly shows non-mining economy back above long-term average growth rates. There’s not much the RBA can do with interest rates about weakness in the mining sector.
- US data also better than expected, with strong payrolls and ISM surveys showing some resilience. Low wages print likely due to survey being taken before the 15th so should be disregarded. Market expectations for the Fed for 2016 have re-priced somewhat over the past week and still look underdone.
- Key local events this week are ANZ job ads (Monday); NAB business survey and RBA Deputy Governor Speech (Tuesday); consumer confidence (Wednesday). Offshore, focus is on central bank meetings in NZ, Canada and the ECB.
- Key market discussion likely to be around the implications of the \$A being back above US\$0.74, but coming with an ongoing recovery in the iron ore price.

Last week’s data supportive of NAB view that markets overly pessimistic on growth

Rather than a special focus article, this week we review developments from last week, given the plethora of economic data and events in Australia and in particular the US. For the most part, the data support NAB’s view that markets had become overly pessimistic on the growth outlook. As table 1 shows, we saw strong pro-growth developments with commodities and the \$A rallying strongly, and equities and bond yields sharply higher.

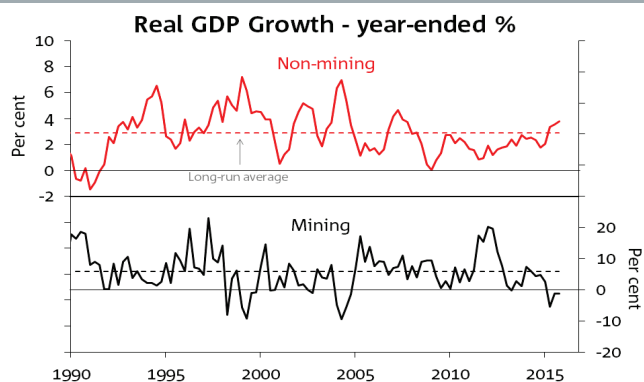
US data was generally better than expected, with non-farm payrolls recording a 242,000 increase in February, a rate, which if maintained, would place ongoing downward pressure on the US unemployment rate and upward pressure on wages. The market may have felt some relief from a low -0.1% m/m hourly earnings read, though as Pantheon Macro notes, months where the survey falls before the 15th of the month tend to see hourly earnings understated.

Table 1: Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7417	3.9	RBA cash	2.00	0
AUD/CNY	4.83	3.1	3y swap	2.15	16
AUD/JPY	84.4	4.7	ASX 200	5,136	5.2
AUD/EUR	0.675	3.0	Iron ore	53.8	11.3
AUD/NZD	1.091	0.9	WTI oil	36.4	7.9

Source: Bloomberg

Chart 1: Non-mining GDP back above trend



The past week saw a collection of stronger than expected US data, which challenged assumptions that the US economy had eased considerably in recent months and also pricing of little further Fed action over the coming year. At the start of this week, markets are priced for just one further rate hike by the Fed this year – something that still looks underdone relative to NAB's forecast of two further increases.

Interest rate markets globally seem to be playing a tug of war between stronger US data developments on the one hand and the implications of very low and in some cases negative policy rates on the other. This week sees the ECB meeting on Thursday with widespread expectations that the main deposit rate will be further reduced from the existing -0.3%. There will also be focus on whether the Bank of Canada or the RBNZ move to lower rates further – our BNZ colleagues do not expect a cut by the NZ central bank and all polled analysts by Bloomberg expect no cut from the BoC.

Australia's RBA last week reiterated its view that it has scope to cut interest rates should that be helpful in supporting demand. The factors the Bank outlined in February for such a move were unchanged in the March Statement namely: (i) whether improvement in employment continues; and (ii) whether recent financial market turbulence is signalling slower global and local demand growth. There was quite a bit of focus on a minor wording change, where the Bank amended "continued low inflation *may* provide" (our emphasis) to "continued low inflation *would* provide scope for easier policy, should that be appropriate to lend support to demand".

Within NAB, there was some debate as to the significance of this change: was it signalling a Bank more prepared to reduce rates or was it a cosmetic change that was largely irrelevant as the low inflation outlook had previously provided such scope in any case, even though the Bank had only written that it "may" provide scope? In either case, the Bank had specified additional considerations which need to be met to satisfy such a change.

The more interesting debate, arguably is what changed at the RBA between December and February to necessitate the significant rewriting of the policy outlook section of recent communications. The Bank's view of the prospects for the economy recording somewhat stronger growth did not seem to alter much between the November and February forecast rounds. That suggests that perhaps it was the assessment of the risks to those forecasts that changed rather than the forecasts themselves especially as a result of the increased volatility in global financial markets in January and early February, along with perhaps the implications of Japan and Europe moving to more negative interest rates for the \$A Tuesday's speech by RBA Deputy Governor Lowe provides the opportunity to clarify some of these deliberations.

In any case, for the most part, the Australian economy continues to display reasonable resilience in the non-mining sectors of the economy, despite the ongoing challenges being experienced in mining (which coincidentally is very close to the title of the Deputy Governor's talk!). As NAB noted in its GDP write-up, the data show ongoing transition to stronger performance in the non-mining parts of the economy (supported by low interest rates, the low \$A and low oil prices) even as the mining sector continues to undergo significant adjustment to much lower commodity prices, including the continuation of job losses in the sector. Non-mining GDP growth is now running above its long-term average (see chart 1), though mining activity is well below average.

The stronger than expected outcome for the December quarter and the prior upward revision, together with the easing back in global market volatility in recent weeks would seem to make it hard for the Bank to downwardly revise its forecasts for the economy at this point. The NAB Business Survey on Tuesday will provide a further update on how these trends were developing in February, while job ads on Monday will also be closely watched given the Bank's focus on the labour market. It's probably also worth noting that Australian data will likely be somewhat more difficult to read in coming months given the presence of an extra trading day in February due to the leap year and the very early Easter in March this year.

On markets, we recently revised our forecasts for the \$A slightly higher, expecting a little stronger for a little longer scenario. That call has been on the money so far. We're still looking for a sub 70 cent currency in H2 2016, and so see the current move higher as providing an opportunity to take additional hedging cover for importers. On interest rates, while we continue to forecast no change by the RBA this year, we expect market pricing to continue to reflect the prospect of a further rate cut in Australia, and the to-and-fro of reasonable US growth fundamentals against negative interest rates in a number of large jurisdictions overseas.

Finally, NAB Group Economics last week released its latest Minerals and Energy Commodities Outlook. Clients that would like to receive a copy and/or be added to the mailing list, please email ivan.colhoun@nab.com.au.

Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
Monday, 7 March 2016								
NZ	Wholesale trade	4Q				3.1	21.45	8.45
AU	AIG Perf of Construction Index	Feb				46.3	22.30	9.30
AU	ANZ Job Advertisements MoM	Feb				1.0	0.30	11.30
CH	Foreign Reserves	Feb		3190		3230.9	1.15	12.15
JN	Leading Index CI	Jan P		101.6		102.1	5.00	16.00
AU	Foreign Reserves	Feb			61.6	5.30	16.30	
EC	Sentix Investor Confidence	Mar		8.325		6.0	9.30	20.30
CA	Bloomberg Nanos Confidence	Mar 4				53.6	15.00	2.00
US	Labor Market Conditions Index Change	Feb		1		0.4	15.00	2.00
US	Fed's Fischer Speaks at Annual NABE Conference in Washington						18.00	5.00
US	Fed's Brainard Speaks at International Banking Conference						18.00	5.00
Tuesday, 8 March 2016								
US	Consumer Credit	Jan		16.5		21.3	20.00	7.00
NZ	ANZ Truckometer Heavy MoM	Feb				-4.3	21.00	8.00
NZ	Mfg Activity/Volume SA QoQ	4Q				4.2/3.5	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Mar 6				111.3	22.30	9.30
AU	RBA's Lowe speaks on "Resilience And Ongoing Challenges" to Urban Development Institute of Australia's (UDIA) National Industry Congress, Adelaide						23.20	10.20
JN	GDP Annualized SA QoQ	4Q F		-1.6		-1.4	23.50	10.50
JN	BoP Current Account Adjusted	Jan		1654.8		1635.4	23.50	10.50
UK	BRC Sales Like-For-Like YoY	Feb		0.45		2.6	0.10	11.10
AU	NAB Business Conditions/Confidence	Feb				5/2	0.30	11.30
CH	Trade Balance	Feb		50.75		63.3	2.00	13.00
JN	Eco Watchers Survey Current/Outlook	Feb		47.5		46.6/49.5	5.00	16.00
JN	Consumer Confidence Index	Feb		42.2		42.5	5.00	16.00
EC	GDP SA QoQ/YoY	4Q P		0.3/1.5		0.3/1.5	10.00	21.00
US	NFIB Small Business Optimism	Feb		94.1		93.9	11.00	22.00
CH	Foreign Direct Investment YoY CNY (released 8-12 Mar)	Feb		3		3.2	9.40	20.40
CA	Housing Starts	Feb		181.5		165.9	13.15	0.15
CA	Building Permits MoM	Jan		-0.8		11.3	13.30	0.30
Wednesday, 9 March 2016								
NZ	Card Spending Retail/Total MoM	Feb	0.1	0.3		0.3/0.6	21.45	8.45
FALSE	Regional GDP	Yr to Mar 15					21.45	8.45
AU	Westpac Consumer Conf Index/MoM	Mar				101.3/4.2	23.30	10.30
UK	BRC Shop Price Index YoY	Mar				-2.0	22.10	9.10
AU	Home Loans MoM	Jan	-1.4%	-3		2.6	0.30	11.30
AU	Investment Lending	Jan				0.6	0.30	11.30
JN	Machine Tool Orders YoY	Feb P				-17.2	6.00	17.00
UK	Industrial Production MoM/YoY	Jan		0.4/0		-1.1/-0.4	9.30	20.30
CA	Bank of Canada Rate Decision	Mar 9		0.5		0.5	15.00	2.00
US	Wholesale Inventories/Sales MoM	Jan		-0.2/-0.3		-0.1/-0.3	15.00	2.00
Thursday, 10 March 2016								
NZ	RBNZ Official Cash Rate	Mar 10	2.5	2.5		2.5	20.00	7.00
AU	Consumer Inflation Expectation	Mar				3.6	0.00	11.00
UK	RICS House Price Balance	Feb		50		49.0	0.10	11.10
CH	CPI/PPI YoY	Feb		1.8/-4.9		1.8/-5.3	1.30	12.30
EC	Main Refi/Deposit rate	Mar 10		0.05/-0.4		0.1/-0.3	12.45	23.45
CH	Aggregate Financing CNY (released 10-15 Mar)	Feb		1790		3420.0		
CH	New Yuan Loans CNY	Feb		1200		2510.0		
CA	Capacity Utilization Rate	4Q		81.7		82.0	13.30	0.30
US	Initial Jobless Claims	Mar 5		275		278.0	13.30	0.30
CA	New Housing Price Index MoM/YoY	Jan		0.15/1.8		0.1/1.6	13.30	0.30
US	Bloomberg Consumer Comfort	Mar 6				43.6	14.45	1.45
US	Household Change in Net Worth	4Q				-1232.0	17.00	4.00
US	Monthly Budget Statement	Feb		-200		55.2	19.00	6.00
Friday, 11 March 2016								
NZ	BusinessNZ Manufacturing PMI	Feb				57.9	21.30	8.30
NZ	Food Prices MoM	Feb	0.8			2.0	21.45	8.45
UK	Trade Balance	Jan		-3000		-2709.0	9.30	20.30
CA	Unemployment Rate	Feb		7.2		7.2	13.30	0.30
US	Import Price Index MoM	Feb		-0.8		-1.1	13.30	0.30
US	Import Price Index YoY	Feb		-6.6		-6.2	13.30	0.30
CA	Net Change in Employment	Feb		10		-5.7	13.30	0.30
Saturday, 12 March 2016								
CH	Industrial Production YTD YoY	Feb		5.6		6.1	5.30	16.30
CH	Retail Sales YTD YoY	Feb		10.9		10.7	5.30	16.30
CH	Fixed Assets Ex Rural YTD YoY	Feb		9.4		10.0	5.30	16.30
Upcoming Central Bank Interest Rate Announcements								
New Zealand, RBNZ		10-Mar	2.50%	2.50%		2.50%		
Europe ECB		10-Mar				0.05%		
Canada, BoC		10-Mar				0.50%		
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%		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Saving Time

Forecasts

Economic Forecasts

	Annual % change			Quarterly % change											
	2014	2015	2016	2014			2015			2016					
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts															
Household Consumption	2.7	2.6	3.0	0.5	0.7	0.6	0.8	0.5	0.6	0.7	0.8	0.9	0.7	0.6	0.5
Underlying Business Investment	-5.0	-10.8	-10.3	-1.8	-2.7	0.1	-1.5	-4.3	-2.0	-5.5	-3.5	-2.8	-0.9	-2.3	-1.1
Residential Construction	7.4	9.1	5.6	4.1	1.8	-1.5	4.0	4.6	0.4	0.9	3.3	1.5	0.8	0.9	-0.4
Underlying Public Spending	-0.7	2.1	2.0	0.2	-1.3	-1.1	0.2	1.1	2.2	-0.9	1.8	-0.4	0.6	0.6	0.6
Exports	6.7	6.4	9.0	3.3	-0.4	2.6	1.5	3.7	-3.3	4.6	1.9	2.5	2.1	2.3	2.4
Imports	-1.6	0.9	0.8	-2.5	3.1	-1.0	-1.7	3.0	0.1	-2.4	0.5	0.4	1.0	0.6	0.6
Net Exports (a)	1.7	1.2	1.8	1.2	-0.7	0.8	0.7	0.2	-0.8	1.5	0.3	0.5	0.3	0.4	0.5
Inventories (a)	0.1	0.1	-0.1	-0.1	0.7	0.3	-0.9	0.5	0.0	0.0	0.0	0.0	-0.1	0.0	0.0
Domestic Demand - qtr%				0.3	0.0	-0.2	0.5	0.2	0.6	-0.5	0.7	0.2	0.5	0.3	0.3
Dom Demand - ann %	1.1	0.9	1.3	1.8	1.4	0.5	0.6	0.5	1.1	0.8	1.0	1.0	0.9	1.7	1.4
Real GDP - qtr %				0.9	0.5	0.4	0.4	0.9	0.3	0.9	0.6	0.7	0.8	0.6	0.7
Real GDP - ann %	2.6	2.3	2.7	3.0	2.7	2.5	2.2	2.1	1.9	2.5	2.7	2.5	3.0	2.7	2.8
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 %	2.5	1.5	1.9	2.9	3.0	2.3	1.7	1.3	1.5	1.5	1.7	1.5	1.6	1.9	2.8
CPI underlying - qtr %				0.6	0.6	0.4	0.6	0.7	0.5	0.3	0.5	0.6	0.7	0.7	0.7
CPI underlying - ann %	2.5	2.2	2.2	2.7	2.7	2.5	2.3	2.4	2.3	2.2	2.0	1.9	2.0	2.4	2.6
Wages (Pvte WPI -ann %)	2.5	2.2	2.5	2.5	2.4	2.5	2.5	2.3	2.2	2.1	2.1	2.2	2.4	2.6	2.7
Unemployment Rate (%)	6.0	6.0	5.7	5.8	6.0	6.2	6.2	6.2	5.9	6.2	5.8	5.8	5.8	5.7	5.6
Terms of trade	-7.4	-12.2	-10.2	-1.7	-4.5	-3.3	-1.5	-2.8	-4.3	-2.3	-7.2	-3.5	0.7	0.3	-0.8
G&S trade balance, \$Abn	-9.4	-35.6	-46.9	2.2	-4.5	-4.3	-2.8	-4.7	-10.9	-7.4	-12.5	-13.7	-12.5	-10.8	-10.0
% of GDP	-0.6	-2.2	-2.8	0.5	-1.1	-1.1	-0.7	-1.2	-2.7	-1.8	-3.1	-3.4	-3.0	-2.6	-2.3
Current Account (% GDP)	-3.0	-4.6	-5.5	-2.4	-3.5	-3.3	-2.9	-3.3	-5.1	-4.4	-5.7	-6.0	-5.6	-5.2	-5.0

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

Exchange Rate Forecasts

	7-Mar	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Majors						
AUD/USD	0.7413	0.72	0.71	0.69	0.67	0.69
NZD/USD	0.6793	0.65	0.64	0.62	0.60	0.61
USD/JPY	113.83	115	116	117	118	119
EUR/USD	1.0990	1.09	1.10	1.09	1.08	1.08
GBP/USD	1.4217	1.35	1.40	1.41	1.42	1.43
USD/CNY	6.5081	6.60	6.70	6.75	6.80	6.80
USD/CAD	1.3330	1.34	1.36	1.43	1.49	1.44
Australian Cross Rates						
AUD/JPY	84.4	83	82	81	79	82
AUD/EUR	0.6745	0.66	0.65	0.63	0.62	0.64
AUD/GBP	0.5214	0.53	0.51	0.49	0.47	0.48
AUD/NZD	1.0913	1.11	1.11	1.11	1.12	1.13
AUD/CNY	4.8245	4.75	4.76	4.66	4.56	4.69
AUD/CAD	0.9882	0.96	0.97	0.99	1.00	0.99
AUD/CHF	0.7375	0.70	0.71	0.69	0.68	0.72

Interest Rate Forecasts

	7-Mar	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Aust rates						
RBA Cash rate	2.00	2.00	2.00	2.00	2.00	2.00
3 month bill rate	2.31	2.25	2.25	2.25	2.25	2.50
3 Year Swap Rate	2.15	2.2	2.4	2.4	2.6	2.9
10 Year Swap Rate	2.71	2.9	3.2	3.4	3.4	3.6
Offshore Policy Rates						
US Fed funds	0.50	0.50	0.50	0.75	1.00	1.00
ECB deposit rate	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
BoE repo rate	0.50	0.50	0.50	0.50	0.50	0.50
Bol excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	2.50	2.50	2.50	2.50	2.50	2.50
China 1yr lending rate	4.35	4.10	3.85	3.85	3.85	0.00
China Reserve Ratio	17.0	17.0	16.5	16.0	16.0	--
10 Year Benchmark Bond Yields						
Australia	2.59	2.8	3.1	3.3	3.3	3.5
United States	1.87	2.0	2.3	2.5	2.5	2.8
Europe/Germany	0.24	0.9	1.0	1.2	1.2	0.0
UK	1.48	2.2	2.3	2.3	2.3	2.6
New Zealand	3.06	3.1	3.3	3.5	3.5	3.7

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	20 Yr Avge
Australia	2.0	2.6	2.3	2.7	3.0	3.4
US	1.5	2.4	2.4	2.2	2.3	2.6
Eurozone	-0.2	0.9	1.4	1.7	1.9	1.5
UK	2.2	2.9	2.2	2.2	2.2	2.4
Japan	1.6	-0.1	0.6	1.1	0.9	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	2.3	3.3	2.2	1.8	2.0	3.0
World	3.3	3.3	2.9	3.0	3.3	3.5

Commodity prices (\$US)

	7-Mar	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
WTI oil	36.38	32	34	36	39	40
Gold	1263	1160	1150	1100	1060	1040
Iron ore	54	43	44	42	41	40
Hard cok. coal	89	81	79	81	82	83
Thermal coal	50	68	58	58	58	58
Copper	5037	4590	4730	4870	5020	5070
Japan LNG	8.4	6.6	5.2	5.8	6.2	6.4

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