

Australian Markets Weekly

RBA open to cut, but not currently justified by the data; budget will need to deliver restraint

- The RBA has less comfort with monetary settings than it did at the end of 2015. Board meetings in the months ahead are live but to prompt a near-term cut we'd likely need to see: 1) a very low Q1 CPI print; 2) softer activity data; and 3) sustained and unwarranted \$A strength. Possible, but unlikely for now.
- The Commonwealth's debt load is pushing against rating agencies' AAA boundary. To keep ratings agencies comfortable, the May 3 Commonwealth budget will need to show ongoing fiscal restraint. This suggests fiscal policy may remain a modest headwind.

RBA more open to the need to cut again but for now the reasons aren't sufficient.

At the end of 2015 the RBA appeared comfortable with the outlook for the economy and inflation and also that their 2% cash rate was appropriate. Yet at each of their three Board meetings this year that comfort has incrementally diminished.

At the February Board meeting their concern was the volatility in global markets and whether this would impact negatively on either the global or domestic economies. They noted the benign inflation outlook gave them room to respond with a lower cash rate if needed.

At the March Board meeting their concerns were largely the same but they appeared to up their easing bias a little saying the benign inflation outlook "would provide scope for easier policy" if needed whereas in February they said low inflation "may provide scope for easier policy" if needed. A small but deliberate change.

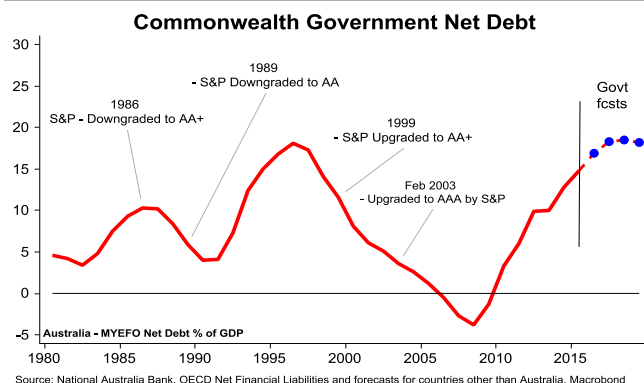
At last week's Board meeting the RBA left the cash rate at 2%. The easing bias remained although their concerns have evolved, with the recovery in global asset prices easing concern of global market volatility, but recent \$A strength has presented a new complication. The Bank noted some of the \$A appreciation was warranted by higher commodity prices but a part was also unwarranted and due to the action of other central banks which have tried to devalue their exchange rates with easier monetary policy. The Bank of Japan and the ECB have eased monetary policy this year. Meanwhile the US Federal Reserve is now going slow on rate hikes, which has weakened the US dollar and contributed to the rise in the \$A. The RBA noted a stronger \$A "would complicate the adjustment under way in the economy".

Key markets over the past week

| | Last | % chg week | | Last | bp / % chg week |
|---------|--------|------------|----------|-------|-----------------|
| AUD | 0.7566 | -0.5 | RBA cash | 2.00 | 0 |
| AUD/CNY | 4.89 | -1.4 | 3y swap | 2.07 | -1 |
| AUD/JPY | 81.9 | -3.3 | ASX 200 | 4,922 | -1.2 |
| AUD/EUR | 0.663 | -0.7 | Iron ore | 54.0 | -1.4 |
| AUD/NZD | 1.110 | -0.3 | WTI oil | 40.3 | 12.9 |

Source: Bloomberg

Chart 1: Australia pushing AAA limits



The Board statement added that “new information should allow the Board to assess the outlook for inflation and whether the improvement in labour market conditions evident last year is continuing.” This is a clear signal that 1) there is a live debate around the Board table as to whether they need to cut the cash rate again; even as early as next month; and 2) data in the next few weeks and months will be crucial to that decision.

The key near term data the Bank and ourselves will be watching are tomorrow's NAB Business Survey, the March labour force data on Thursday and then the Q1 CPI data the week after next on the 27th of April.

Employment and CPI data unlikely to make clear case for a cut

At this stage, we don't think the activity data will be weak enough, nor inflation low enough, to prompt an RBA cut.

For Thursday's labour data, NAB economists expect +40k employment and an unchanged 5.8% unemployment rate (the consensus expects +19k and a 5.9% u/r). Our out of consensus +40k estimate reflects a combination of 1) a statistical correction due to sampling techniques (see our "What to Watch for more detail, where in short sample rotation could produce a rogue +80-100k outcomes) and 2) also that the economy remains on an improving path.

Last week's RBA Board statement has given extra prominence to the Q1 CPI on 27 April. We have two broad approaches to forecasting the CPI – a top-down approach using our econometric models supplemented with a detailed bottom-up add-up of individual CPI components. We will be doing the detailed component work this week but note that our top-down models forecast underlying inflation printing +0.6% qoq and 2.0% yoy.

Such an outcome would likely leave actual and forecast inflation consistent with the RBA target.

RBA inflation forecast revisions important

Just after the 27 April CPI, the RBA will do their usual quarterly forecasting round and update these forecasts at the early May Statement on Monetary Policy. In their latest forecast from February, the RBA forecast underlying inflation edging higher through the forecast horizon and indicated a probable band for underlying inflation of 2-3% at the furthest forecasting point.

The RBA would likely need to lose confidence in that forecast to prompt a rate cut – ie. low confidence that underlying inflation will edge higher in the future and be consistent with the 2-3% target band. To prompt such a shift in the near-term we'd likely need to see: 1) a very low Q1 CPI print; 2) softer activity data; and 3) sustained and unwarranted \$A strength. That's possible, but unlikely for now.

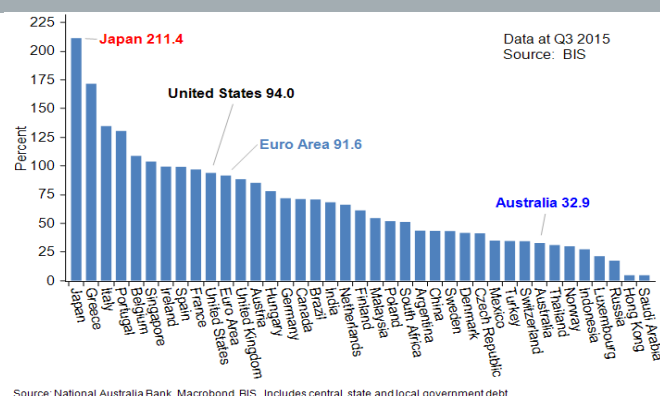
Summary

To summarise, the RBA evidently has less comfort with monetary settings than it did at the end of 2015. At all the Board meetings in 2016 the Bank has indicated a willingness to cut the cash rate again if that would be

helpful. Last week's Board meeting gave extra focus to near term economic data. This means all RBA meetings from here are "live" and "data dependent".

NAB's forecast continues to be for the cash rate to remain on hold at 2% before edging higher from late 2017.

Chart 2: General Government debt globally - % GDP



Source: National Australia Bank Macrobond BIS. Includes central, state and local government debt.

Commonwealth budget restraint required to keep AAA credit rating.

There has been a modest fiscal tightening in recent years, a headwind for the economy of around $\frac{1}{4}$ - $\frac{1}{2}$ % of GDP. With a General Election at some point over the next six months, where the government and opposition will be releasing policy initiatives and making promises, a question for investors is whether fiscal restraint will continue.

The Commonwealth Government Budget on 3 May – just three weeks from now – will be the key signpost. In recent weeks the Prime Minister and Treasurer have indicated the budget will be “prudent and responsible” indicating some fiscal restraint will continue. Press leaks suggest this will mostly be on the expenditure side rather than in the form of new taxes.

A quick look at Australia's recent fiscal trajectory makes it clear why restraint will be required – at least if keeping the AAA rating is a desired policy outcome.

Chart 2 above shows that from a global perspective the gross debts of the Commonwealth, State and local governments remain fairly modest. The BIS calculated Australia's debt load at 32.9% of GDP at Q3 2015, considerably less than levels of 94% in the United States, 92% in Europe, and a staggering 211% in Japan.

While the global comparison is healthy, a comparison to Australia's recent past is less flattering. Chart 1 on page 1 shows the Commonwealth government's net debt as a share of GDP since 1980. The latest ratio of 15% of GDP to June 2015 is above the long run average and is forecast to rise further and peak at 18.5% of GDP by June 2018.

There are more factors than simply debt load that go into a ratings agency's assessment of a sovereign's credit worthiness. Ratings agencies also assess factors like the economy (a strength for Australia), institutional frameworks (a strength), the external liabilities of all of Australia (a weakness), monetary flexibility (a strength), as well the government's fiscal positions (for now a strength).

What's clear from the charts and the ratings agencies' comments is that the Commonwealth is starting to push against the AAA boundary.

On 18 January Standard and Poor's wrote Australia's AAA stable outlook "is based on our assumption that Australia's continued conservative budgetary policies will result in consistently narrowing deficits over the forecast horizon, maintaining the general government debt near or below current levels. We see strong public-sector savings as a necessary countervailing force for private-sector external indebtedness."

The good news is that for now the ball remains in the court of the government. But it's clear that to keep the ratings agencies comfortable with Australia's AAA, the 3 May Budget will need to demonstrate ongoing restraint. That likely means fiscal policy will remain a modest headwind for the economy.

peter.jolly@nab.com.au

Calendar of Economic Releases

| Country | Economic Indicator | Period | Forecast | Consensus | Actual | Previous | GMT | AEST |
|--|--|--------|----------|-----------|--------|----------------|------------------------|--------|
| Monday, 11 April 2016 | | | | | | | | |
| NZ | Credit Spending Retail M/M | Mar | | 0.3 | | 0.7 | 22.45 | 8.45 |
| JN | Machine Orders MoM/YoY | Feb | | -12/-2.4 | | 15/8.4 | 23.50 | 9.50 |
| AU | Home Loans MoM | Feb | 1.8% | 2 | | -3.9% | 1.30 | 11.30 |
| CH | CPI/PPI YoY | Mar | | 2.4/-4.6% | | 2.3/-4.9% | 1.30 | 11.30 |
| CH | New Yuan Loans CNY | Mar | | 1100 | | 726.6 | Anytime from | 10-15t |
| CH | Aggregate Financing CNY | Mar | | 1400 | | 780.2 | Anytime from | 10-15t |
| CH | Money Supply M2 YoY | Mar | | 13.5 | | 13.3 | Anytime from | 10-15t |
| US | Fed's Dudley speaks at a Community Development Conference | | | | | | 13.25 | 23.25 |
| US | Fed's Kaplan speaks in Louisiana | | | | | | 17.00 | 3.00 |
| Tuesday, 12 April 2016 | | | | | | | | |
| NZ | REINZ House Sales YoY | Mar | | | | | Anytime from 12th-13th | |
| CA | Bloomberg Nanos Confidence | Apr 8 | | | | 54.7 | 14.00 | 0.00 |
| UK | BRC Sales Like-For-Like YoY | Mar | | 1.4 | | 0.1 | 23.10 | 9.10 |
| AU | ANZ Roy Morgan Weekly Consumer Confidence Index | Apr 10 | | | | 113.4 | 23.30 | 9.30 |
| AU | Credit Card Balances | Feb | | | | 50.9 | 1.30 | 11.30 |
| AU | NAB Business Conditions | Mar | | | | 8.0 | 1.30 | 11.30 |
| AU | NAB Business Confidence | Mar | | | | 3.0 | 1.30 | 11.30 |
| JN | BoJ's Harada speaks in Shimonoseki | | | | | | 1.30 | 11.30 |
| JN | Machine Tool Orders YoY | Mar P | | | | -22.5 | 6.00 | 16.00 |
| GE | CPI MoM/YoY | Mar F | | 0.8/0.3 | | 0.8/0.3 | 6.00 | 16.00 |
| UK | CPI MoM/Core YoY | Mar | | 0.3/1.3% | | 0.2/1.2 | 8.30 | 18.30 |
| UK | PPI Output NSA MoM/YoY | Mar | | 0.2/-1.0 | | 0.1/-1.1 | 8.30 | 18.30 |
| UK | ONS House Price YoY | Feb | | | | 7.9 | 8.30 | 18.30 |
| US | NFIB Small Business Optimism | Mar | | 93.7 | | 92.9 | 10.00 | 20.00 |
| US | Import Price Index MoM | Mar | | 1 | | -0.3 | 12.30 | 22.30 |
| IMF | IMF's latest forecasts released in April WEO | | | | | | 13.00 | 23.00 |
| US | Fed's Harker speaks on Economic Outlook at Philadelphia | | | | | | 13.00 | 23.00 |
| US | Monthly Budget Statement | Mar | | -104 | | -192.6 | 18.00 | 4.00 |
| US | Fed's Williams Speaks in San Francisco | | | | | | 19.00 | 5.00 |
| US | Fed's Lacker speaks on "Economic Leadership in an Uncertain World" | | | | | | 20.00 | 6.00 |
| Wednesday, 13 April 2016 | | | | | | | | |
| NZ | Food Prices MoM | Mar | | | | -0.6 | 22.45 | 8.45 |
| JN | Money Stock M2 YoY | Mar | | 3.1 | | 3.1 | 23.50 | 9.50 |
| JN | PPI MoM/YoY | Mar | | 0/-3.5 | | -0.2/-3.4 | 23.50 | 9.50 |
| AU | Westpac Consumer Conf Index | Apr | | | | 99.1 | 0.30 | 10.30 |
| EC | ECB's Knot discusses ECB Monetary Policy to Dutch Parliament | | | | | | 8.00 | 18.00 |
| UK | BoE's Credit Conditions Survey | | | | | | 8.30 | 18.30 |
| EC | Industrial Production SA MoM/YoY | Feb | | -0.7/1.3% | | 2.1%/2.8% | 9.00 | 19.00 |
| US | MBA Mortgage Applications | Apr 8 | | | | 2.7 | 11.00 | 21.00 |
| US | Retail Sales Advance MoM | Mar | | 0.1 | | -0.1 | 12.30 | 22.30 |
| US | Retail Sales Ex Auto MoM | Mar | | 0.4 | | -0.1 | 12.30 | 22.30 |
| US | PPI Final Demand MoM | Mar | | 0.3 | | -0.2 | 12.30 | 22.30 |
| CA | Teranet/National Bank HPI YoY | Mar | | | | 6.5 | 12.30 | 22.30 |
| CH | Trade Balance | Mar | | 34.95 | | 32.6 | Anytime on the 13th | |
| CH | Exports YoY | Mar | | 10 | | -25.4 | Anytime on the 13th | |
| CH | Imports YoY | Mar | | -10.1 | | -13.8 | Anytime on the 13th | |
| CA | Bank of Canada Rate Decision | Apr 13 | | 0.5 | | 0.5 | 14.00 | 0.00 |
| US | U.S. Federal Reserve Releases Beige Book | | | | | | 18.00 | 4.00 |
| EC | ECB's Nowotny gives keynote presentation in New York | | | | | | 16.35 | 2.35 |
| EC | ECB's Constancio gives speech on "International Environment for Central Banks" in New York | | | | | | 21.15 | 7.15 |
| Thursday, 14 April 2016 | | | | | | | | |
| NZ | BusinessNZ Manufacturing PMI | Mar | | | | 56.0 | 22.30 | 8.30 |
| UK | RICS House Price Balance | Mar | | 50 | | 50.0 | 23.10 | 9.10 |
| JN | Japan Buying Foreign Bonds | Apr 8 | | | | -1555.1 | 23.50 | 9.50 |
| JN | Foreign Buying Japan Bonds | Apr 8 | | | | 30.2 | 23.50 | 9.50 |
| AU | Consumer Inflation Expectation | Apr | | | | 3.4 | 1.00 | 11.00 |
| AU | Employment Change | Mar | 40k | 17 | | 0.3 | 1.30 | 11.30 |
| AU | Labour Force Report (unemployment) | Mar | 5.8% | 5.9 | | 5.8 | 1.30 | 11.30 |
| NZ | Non Resident Bond Holdings | Mar | | | | 68.3 | 3.00 | 13.00 |
| Oil | International Energy Agency April Oil Market Report | | | | | | 8.00 | 18.00 |
| EC | CPI MoM/YoY | Mar | | -0.1%/1.0 | | -0.1%/1.0 | 9.00 | 19.00 |
| UK | Bank of England Bank Rate | Apr 14 | | 0.5 | | 0.5 | 11.00 | 21.00 |
| CA | New Housing Price Index MoM | Feb | | 0.1 | | 0.1 | 12.30 | 22.30 |
| US | Initial Jobless Claims | Apr 9 | | 270 | | 267.0 | 12.30 | 22.30 |
| US | Continuing Claims | Apr 2 | | 2182.5 | | 2191.0 | 12.30 | 22.30 |
| US | CPI MoM | Mar | | 0.2 | | -0.2 | 12.30 | 22.30 |
| US | Real Avg Weekly Earnings YoY | Mar | | | | 0.6 | 12.30 | 22.30 |
| US | Bloomberg Consumer Comfort | Apr 10 | | | | 42.6 | 13.45 | 23.45 |
| US | Fed's Lockhart speaks in Chicago | | | | | | 14.00 | 0.00 |
| US | Fed's Powell Appears Before Senate Banking Committee | | | | | | 14.00 | 0.00 |
| UK | BoE's Shafik speaks on Fortifying the Global Financial Safety Net at the IMF | | | | | | 20.00 | 6.00 |
| Friday, 15 April 2016 | | | | | | | | |
| AU | RBA Financial Stability Review | | | | | | 1.30 | 11.30 |
| CH | Industrial Production YTD YoY | Mar | | 5.5 | | 5.4 | 2.00 | 12.00 |
| CH | Industrial Production YoY | Mar | | 6 | | 5.9 | 2.00 | 12.00 |
| CH | Retail Sales YoY | Mar | | 10.4 | | 11.1 | 2.00 | 12.00 |
| CH | Retail Sales YTD YoY | Mar | | 10.2 | | 10.2 | 2.00 | 12.00 |
| CH | Fixed Assets Ex Rural YTD YoY | Mar | | 10.4 | | 10.2 | 2.00 | 12.00 |
| CH | GDP SA QoQ/YoY | 1Q | | 1.5/6.7 | | 1.6/6.8 | 2.00 | 12.00 |
| JN | Capacity Utilization MoM | Feb | | | | 2.6 | 4.30 | 14.30 |
| JN | Industrial Production MoM | Feb F | | | | -6.2 | 4.30 | 14.30 |
| UK | Construction Output SA MoM | Feb | | 0 | | -0.2 | 8.30 | 18.30 |
| EC | Trade Balance SA | Feb | | 21.5 | | 21.2 | 9.00 | 19.00 |
| CA | Manufacturing Sales MoM | Feb | | -1.5 | | 2.3 | 12.30 | 22.30 |
| US | Empire Manufacturing | Apr | | 2 | | 0.6 | 12.30 | 22.30 |
| US | Industrial Production MoM | Mar | | -0.1 | | -0.5 | 13.15 | 23.15 |
| US | Capacity Utilization | Mar | | 75.3 | | 76.7 | 13.15 | 23.15 |
| US | U. of Mich. Sentiment | Apr P | | 92 | | 91.0 | 14.00 | 0.00 |
| US | U. of Mich. 5-10 Yr Inflation | Apr P | | | | 2.7 | 14.00 | 0.00 |
| US | Fed's Evans speaks on Economy and Policy in Washington | | | | | | 16.30 | 2.30 |
| US | Total Net TIC Flows | Feb | | | | 118.4 | 20.00 | 6.00 |
| Sunday, 17 April 2016 | | | | | | | | |
| Oil | Major Oil Producers Meet to Discuss Production Freeze | | | | | | | |
| Upcoming Central Bank Interest Rate Announcements | | | | | | | | |
| UK BOE | | 14-Apr | | | | 0.50% | | |
| Canada, BoC | | 14-Apr | | | | 0.50% | | |
| Europe ECB | | 21-Apr | | | | 0.00% | | |
| New Zealand, RBNZ | | 28-Apr | 2.25% | 2.25% | | 2.25% | | |
| Japan, BoJ | | 28-Apr | | | | -0.1% to +0.1% | | |
| US Federal Reserve | | 28-Apr | | | | 0.25-0.50% | | |
| Australia, RBA | | 3-May | 2.00% | 2.00% | | 2.00% | | |

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

Forecasts

Economic Forecasts

| | Annual % change | | Quarterly % change | | | | | | | | | | | |
|--------------------------------|-----------------|------------|--------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| | 2015 | 2016 | 2014 | | | | 2015 | | | | 2016 | | | |
| | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Australia Forecasts | | | | | | | | | | | | | | |
| 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 |
| Real GDP - qtr % | | | 0.9 | 0.5 | 0.4 | 0.4 | 0.9 | 0.3 | 1.1 | 0.6 | 0.6 | 0.7 | 0.6 | 0.7 |
| Real GDP - ann % | 2.5 | 2.7 | 3.0 | 2.7 | 2.6 | 2.2 | 2.2 | 2.0 | 2.7 | 3.0 | 2.7 | 3.1 | 2.6 | 2.7 |
| 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

| | 11-Apr | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|---------------|--------|--------|--------|--------|--------|--------|
| Majors | | | | | | |
| AUD/USD | 0.7540 | 0.74 | 0.71 | 0.69 | 0.69 | 0.70 |
| NZD/USD | 0.6804 | 0.65 | 0.63 | 0.61 | 0.61 | 0.62 |
| USD/JPY | 107.98 | 115 | 115 | 117 | 118 | 120 |
| EUR/USD | 1.1405 | 1.12 | 1.11 | 1.09 | 1.09 | 1.09 |
| GBP/USD | 1.4119 | 1.43 | 1.44 | 1.43 | 1.43 | 1.44 |
| USD/CNY | 6.4636 | 6.55 | 6.60 | 6.65 | 6.60 | 6.55 |
| USD/CAD | 1.3005 | 1.34 | 1.39 | 1.45 | 1.44 | 1.43 |

Australian Cross Rates

| | 11-Apr | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|---------|--------|--------|--------|--------|--------|--------|
| AUD/JPY | 81.4 | 85 | 82 | 81 | 81 | 84 |
| AUD/EUR | 0.6611 | 0.66 | 0.64 | 0.63 | 0.63 | 0.64 |
| AUD/GBP | 0.5340 | 0.52 | 0.49 | 0.48 | 0.48 | 0.49 |
| AUD/NZD | 1.1082 | 1.14 | 1.13 | 1.13 | 1.13 | 1.13 |
| AUD/CNY | 4.8736 | 4.85 | 4.69 | 4.59 | 4.55 | 4.59 |
| AUD/CAD | 0.9806 | 0.99 | 0.99 | 1.00 | 0.99 | 1.00 |
| AUD/CHF | 0.7186 | 0.74 | 0.70 | 0.69 | 0.72 | 0.74 |

Interest Rate Forecasts

| | 11-Apr | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|--------------------------------------|--------|--------|--------|--------|--------|--------|
| Aust rates | | | | | | |
| RBA Cash rate | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.50 |
| 3 month bill rate | 2.25 | 2.25 | 2.25 | 2.25 | 2.50 | 2.85 |
| 3 Year Swap Rate | 2.07 | 2.3 | 2.5 | 2.6 | 2.9 | 3.2 |
| 10 Year Swap Rate | 2.59 | 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 |
| Bol 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 | 2.44 | 3.0 | 3.3 | 3.25 | 3.5 | 3.6 |
| United States | 1.72 | 2.3 | 2.5 | 2.50 | 2.8 | 2.8 |
| Europe/Germany | 0.10 | 0.3 | 0.3 | 0.5 | 0.6 | -- |
| UK | 1.36 | 1.7 | 1.8 | 2.0 | 2.1 | -- |
| New Zealand | 2.83 | 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 |
| MTP Top 5 | 3.9 | 3.8 | 3.8 | 3.7 | 3.7 | 5.0 |

Commodity prices (\$US)

| | 11-Apr | Jun-16 | Sep-16 | Dec-16 | Mar-17 | Jun-17 |
|----------------|--------|--------|--------|--------|--------|--------|
| WTI oil | 40.32 | 34 | 36 | 39 | 40 | 43 |
| Gold | 1247 | 1150 | 1100 | 1060 | 1040 | 1020 |
| Iron ore | 54 | 44 | 42 | 41 | 40 | 41 |
| Hard cok. coal | 89 | 79 | 81 | 82 | 83 | 84 |
| Thermal coal | 50 | 58 | 58 | 58 | 58 | 60 |
| Copper | 4665 | 4730 | 4870 | 5020 | 5070 | 5120 |
| Japan LNG | 8.1 | 5.2 | 5.8 | 6.2 | 6.4 | 6.6 |

Contact Details

Market Economics

Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836
ivan.colhoun@nab.com.au

David de Garis
Senior Economist
+61 3 8641 3045
david.degaris@nab.com.au

Tapas Strickland
Economist
+61 2 9237 1980
tapas.strickland@nab.com.au

Markets Research

Peter Jolly
Global Head of Research
+61 2 9237 1406
peter.jolly@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan_oster@national.com.au

Riki Polygenis
Head of Australian Economics
+61 3 8697 9534
riki.polygenis@nab.com.au

Important Notice

This document has been prepared by National Australia Bank Limited ABN 12 004 044 937 AFSL 230686 ("NAB"). Any advice contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this document, NAB recommends that you consider whether the advice is appropriate for your circumstances. NAB recommends that you obtain and consider the relevant Product Disclosure Statement or other disclosure document, before making any decision about a product including whether to acquire or to continue to hold it.

Please click [here](#) to view our disclaimer and terms of use.