

Australian Markets Weekly

Musings: Payrolls, RBA, GDP and Apartments

- Fed Chair Yellen's Taylor Rule from her Jackson Hole speech suggests the Fed Funds rate should already be around 1.33%. So while the August payrolls result wasn't strong enough to guarantee a move on 22 September, the market continues to ascribe nearly a 40% chance of a rate hike this month. A US rate increase this year and further moves next year are important to NAB's forecast that the \$A will gradually decline.
- In Australia this week, the RBA Board Meeting and Q2 GDP are the focus. Governor Stevens last meeting should be a non-event: with the Board having eased twice in the past four months, the Bank will now be in monitoring mode for some time. Indeed, NAB does not expect any further rate changes this year, though we look for two further reductions in 2017 on the basis of an expected weaker economy in 2018 as housing construction eases. Q2 GDP should be around the 0.3/0.4% q/q mark (slight upside risk), though this follows the strong 1.1% q/q increase in Q1.
- We also focus on the trend in apartment approvals and vacancy rates, plus cover some anecdotes of recent settlement developments. This is likely to be a key issue to follow over the next 12-24 months as the near 220,000 dwellings currently under construction complete. There are already some media reports of settlement failures – reportedly mainly delays – as purchasers find it harder to complete given tighter lending standards imposed on investors and foreigners. However, with price gains on off-the-plan purchases made some two years ago, there remains a strong incentive for buyers to settle – and protection for developers for non-settlements. The test remains the raft of settlements to come over the next one to two years. So far, it doesn't look like prospective oversupply of apartments in some areas will coincide with either higher interest rates or higher unemployment, which would be a more concerning development.

As seems to be happening frequently these days, there seems to be a veritable smorgasbord of newsworthy items to occupy our pages each week. This week, we thought we would focus on three themes: (i) Friday night's US labour market data; (ii) this week's upcoming Australian Q2 GDP data; and (iii) some thoughts on apartment settlements. Each is newsworthy and has important implications for the Australian economy and markets.

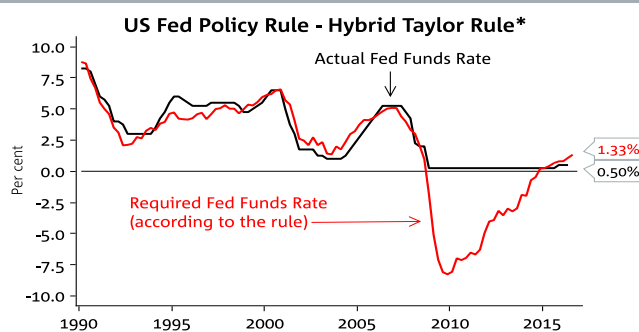
The US economy produced 151,000 new jobs in August, slightly below market expectations of a 180,000 increase. The unemployment rate was unchanged at 4.9%, where a modest decline to 4.8% was expected (Chart 2). While the unemployment rate has been broadly unchanged around 4.9% in recent months, payrolls growth of this quantum should still be sufficient to

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7584	0.2	RBA cash	1.50	0
AUD/CNY	5.07	0.1	3y swap	1.64	2
AUD/JPY	78.9	2.2	ASX 200	5,419	-0.9
AUD/EUR	0.680	0.4	Iron ore	59.4	0.4
AUD/NZD	1.037	-0.6	WTI oil	44.1	-6.2

Source: Bloomberg

Chart 1: Yellen's Taylor rule suggests 1.33% Fed Funds

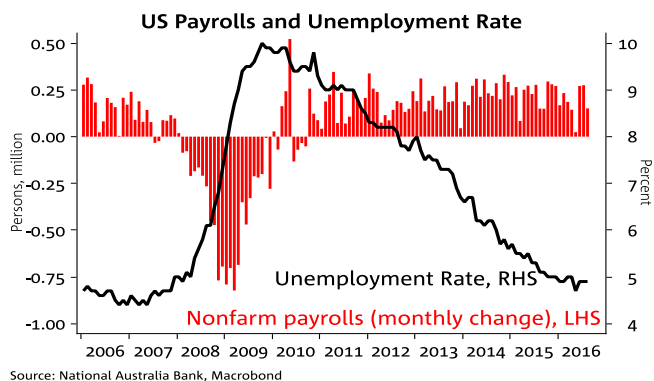


* Yellen (2016) example policy rule incorporating Laubach & Williams natural rate of interest (R*) and the CBO's estimate of the natural rate of the unemployment rate (U*)
Source: National Australia Bank, Macrobond

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Chart 2: US producing enough jobs to lower unemployment



reduce the US unemployment rate across time, with the Atlanta Fed currently estimating that around 120,000 new jobs are required each month to keep the unemployment rate stable. We receive further important US labour market updates this week with the Fed’s Labour Market Conditions Index published on Tuesday and the JOLTS data on Wednesday.

The trend in the US labour markets is seen as important to the track of the US official interest rate which in turn is important for Australian markets as higher US rates would narrow the Australia-US short-term interest rate differential which of late has been the most important variable explaining variations in the \$A/US\$ exchange rate. Expectations about US interest rates have also been important in markets’ pricing of the US\$ more broadly. Following the slightly weaker than expected payrolls outcome, the market still ascribes a 37% chance to a US rate increase in September and a 77% chance to a rate increase by December. NAB continues to see a move by December, which is part of our forecast that the \$A will soften towards US75c by end 2016 and to US70c by end 2017 as the Fed tightens further next year.

Interestingly, Fed speakers continue to sound a little more confident about the need to tighten, suggesting a move this month (22 September) cannot be ruled out. Indeed Fed Chair Yellen recently used a Taylor rule to explain how negative US rates should have been after the Global Financial Crisis. This same rule suggests that the Fed funds rate should already have been 1.25% in June (Chart 1)! We remain optimistic that the US economy can continue to grow moderately and the Fed can continue to tighten gradually over the next 12-18 months and together with potential further modest easing by the RBA, the \$A will track modestly lower across time.

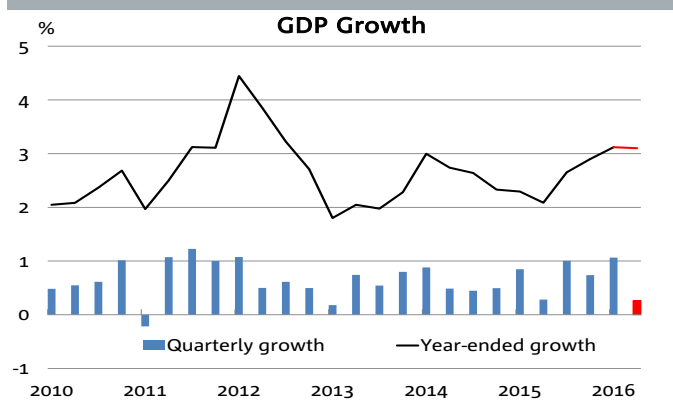
On the latter point, there continues to be a good deal of market chatter about how the RBA desires and the economy needs, a lower \$A. This is not the message we are hearing from businesses. Indeed it has been a long time since we have heard a business complain that the \$A is too high. Most of the current complaints are from importers and retailers experiencing difficulty passing on price increases. It’s worth remembering for those talking about the currency being too high that the \$A remains around US 30 cents lower than two years ago.

The RBA and Australian Q2 GDP (and the final partial indicators of GDP) are the main domestic events on the calendar this week. After easing twice in the past four months, the RBA is expected to enter a monitoring phase to see how the economy responds to these moves. It is too early for any trends to be evident in current data and indeed it’s NAB’s expectation that the RBA will not be moving interest rates again in 2016. Key for the markets will be momentum in the labour market (something the RBA seems unusually uncertain about at the present time, but which the 1.8% bounce in job ads in August suggests is continuing) and house price developments – which have tended to strengthen in recent months (as have clearance rates).

It is very unusual for the quarterly GDP data to dramatically change our view of the Australian economy. The RBA’s quarterly forecasts suggested the Bank is looking for a 0.4% q/q outcome, which is a fraction stronger than NAB’s 0.3% q/q prediction. This of course follows the strong 1.1% q/q increase in Q1 (Chart 3).

The accounts are likely to show an economy where the non-mining economy continues to make forward progress, particularly NSW and Victoria, with useful contributions from housing construction, services and consumption. Restraining growth will be the continuing drag from the completion of major mining projects and lower commodity prices, which is impacting on activity in WA, the NT and parts of Queensland in particular. We’ll be watching the data closely to see if there are any indications that the drag from slower mining investment and lower commodity prices is beginning to lessen.

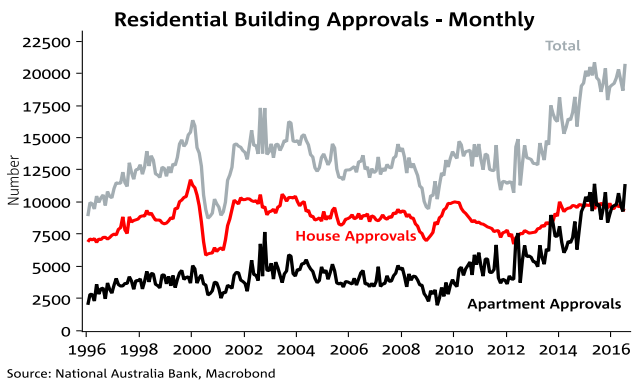
Chart 3: GDP expected +0.3% q/q and +3.1% y/y



Our final musing this week concerns apartments. For some time, commentators have been concerned that there may be too many apartments being constructed in parts of Australia and that this may result in price falls for apartments in these areas. CLSA’s banking analysts put out a report last week suggesting in a worst case scenario, potential apartment oversupply coupled with settlement failures could lead to failures of small property developers, which in turn could lead to an Australian recession. NAB does not see a recession scenario at the present time.

Chart 4 shows the extent to which apartment approvals have risen in recent years. In aggregate, there has been no significant slowdown in approvals trends in recent months, despite rising concerns of oversupply. Chart 5 shows that

Chart 4: Sharp rise in apartment approvals in recent years



not all states are the same, with approvals clearly in decline in WA and Tasmania – the former experiencing both rising vacancy rates and a degree of economic weakness in the wake of the mining downturn. Most observers are most concerned with the possibility of apartment oversupply in Brisbane and Melbourne, given the extended period of elevated approvals in Melbourne and the high levels of approvals in inner-city Brisbane at a time when Queensland population growth has moderated. The prospect for oversupply in NSW is seen as less concerning given the previous years of under-building and the continuation of elevated population growth, though it’s worth noting that population growth in Victoria is now the strongest of any state or territory. As Chart 6 shows, vacancy rates in Sydney, Melbourne and Brisbane currently remain around or slightly below long-term averages – a situation that could persist to the extent that many of the apartments have been

Chart 5: Especially in Sydney, Brisbane and Melbourne

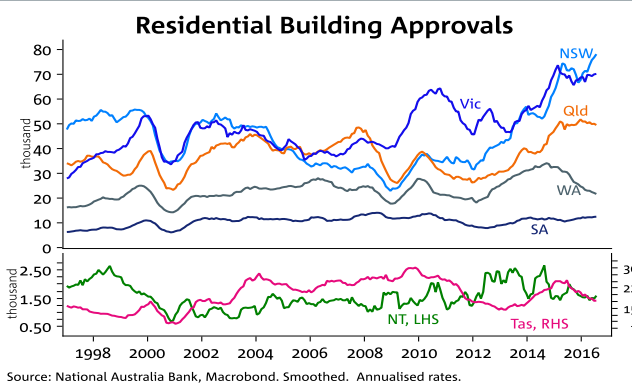


Chart 6: Vacancy rates non-mining states

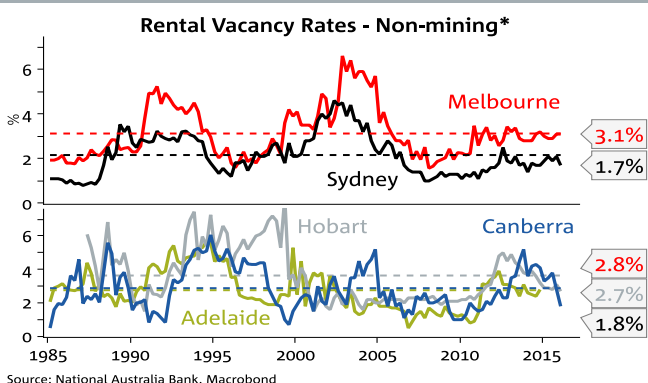
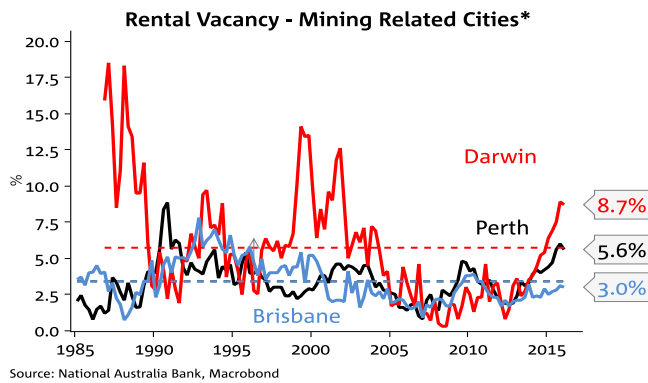


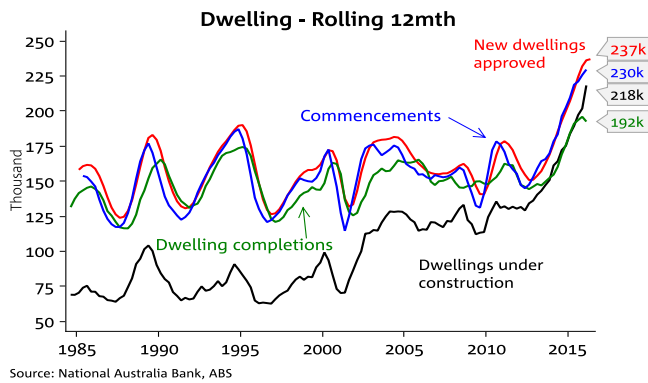
Chart 7: Vacancy rates mining states



purchased by offshore residents and don’t in fact come onto the local rental market.

The challenge for each of these apartment markets likely still lies ahead. Chart 8 notes that there are now some 220,000 dwellings under construction, nearly 40% more than the 150-160,000 annual commencements that occurred in most years between 2006 and 2013. The “absorption” of these apartments into the market will be required over the next 12-24 months, meaning the issue of apartment supply, vacancy rates and apartment prices will be one that receives considerable attention over the next few years. As noted earlier, to the extent overseas buyers have purchased these apartments, they may not enter the local rental market.

Chart 8: 230,000 dwellings have been commenced



The presence of significant numbers of foreign investors in these apartment approvals along with foreign financing of property developers and tightened lending restrictions by APRA and the local banks complicates assessment of the situation, as does the lack of firm data on the exact extent of foreign participation.

We have been monitoring anecdotes regarding apartment settlements in the press in recent times. Recent trends and reports suggest there has been a modest increase in delays in settlement rather than outright non-settlement. And it is typically foreign buyers that are now finding it somewhat harder to access finance and/or expatriate finance (the latter largely from China). That said, given the continuing increase in prices that has occurred in recent years, these off the plan purchases of some two years ago are often currently sitting on reasonable unrealised capital gains. This is providing a strong incentive for owners to settle on the dwellings – and

reportedly – along with the deposit – is currently providing a reasonable buffer for developers that are forced to sell any non-settled properties.

As before, we suspect the main issue to monitor will be with the progress of the raft of settlements that needs to occur over the next 12-24 months. It would seem that the conditions for serious stress in the apartment market are not currently met. The outlook would be more concerning if the potential for oversupply were likely to coincide either with higher interest rates or higher unemployment (particularly the latter). For now, neither of these pressures seems likely to coexist with apartment over-supply, meaning moderate declines in apartment prices in areas with oversupply seem to be the base case scenario, rather than something more concerning at this stage. NAB Group Economics has forecast a 2% decline in apartment prices nationwide in 2017.

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Calendar of Economic Releases

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 5 September 2016								
AU	AiG Perf of Services Index	Aug				53.9	23.30	9.30
JN	Labor Cash Earnings/Real Cash Earnings YoY	Jul		0.4		1.3/1.8	0.00	10.00
AU	Melbourne Institute Inflation MoM/YoY	Aug				-0.3/1.0	1.00	11.00
NZ	ANZ Commodity Price	Aug	4.0%			2.0	1.00	11.00
AU	ANZ Job Advertisements MoM	Aug	2-3%		1.8	-0.8	1.30	11.30
AU	Inventories SA QoQ	2Q	0 ppts	0.3	0.3	0.4	1.30	11.30
AU	Company Operating Profit QoQ	2Q	3.2%	2	6.9	-4.7	1.30	11.30
CH	Caixin China PMI Services/Composite	Aug				51.7/51.9	1.45	11.45
JN	Nikkei Japan PMI Services/Composite	Aug				50.4/50.1	0.30	10.30
GE	Markit Germany Services/Composite PMI	Aug F		53.3		53.3/54.4	7.55	17.55
EC	Markit Eurozone Services/Composite PMI	Aug F		53.1		53.1/53.3	8.00	18.00
UK	Markit/CIPS UK Services/Composite PMI	Aug		50		47.4/47.5	8.30	18.30
EC	Sentix Investor Confidence	Sep		5		4.2	8.30	18.30
EC	Retail Sales MoM/YoY	Jul		0.5		0.0/1.6	9.00	19.00
Tuesday, 6 September 2016								
UK	BRC Sales Like-For-Like YoY	Aug		1.4		1.1	23.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	Sep 4				118.4	23.30	9.30
NZ	QV House Prices YoY	Aug				14.1	0.00	10.00
AU	Net Exports of GDP	2Q		0		1.1	1.30	11.30
AU	BoP Current Account Balance	2Q		-20		-21.0	1.30	11.30
AU	RBA Cash Rate Target	Sep 6	1.5%	1.5		1.5	4.30	14.30
GE	Factory Orders MoM/YoY	Jul		0.5		-0.4/-3.1	6.00	16.00
GE	Markit Germany Construction PMI	Aug				51.6	7.30	17.30
UK	New Car Registrations YoY	Aug				0.1	8.00	18.00
EC	GDP SA QoQ/YoY	2Q F		0.3		0.3/1.6	9.00	19.00
UK	BOE Indexed Long-Term Repo Operation Results							
US	Markit US Services/Composite PMI	Sep P		/		51.0/51.5	13.45	23.45
UK	Bank of England Bond-Buying Operation Results							
CA	Bloomberg Nanos Confidence	Sep 2				59.3	14.00	0.00
US	Labor Market Conditions Index Change	Aug				1.0	14.00	0.00
US	ISM Non-Manf. Composite	Aug		55		55.5	14.00	0.00
US	IBD/TIPP Economic Optimism	Sep		48.1		0.0	14.00	0.00
Wednesday, 7 September 2016								
NZ	Mfg Activity Volume QoQ	2Q				-1.2	22.45	8.45
UK	BRC Shop Price Index YoY	Aug				-1.6	23.10	9.10
AU	AiG Perf of Construction Index	Aug				51.6	23.30	9.30
US	Fed's Williams Speaks on Outlook in Reno, Nevada							
AU	GDP SA QoQ	2Q	0.3/3.1%	0.4/3.2		1.1/3.1	1.30	11.30
JN	Leading Index CI	Jul P		98.6		99.2	5.00	15.00
GE	Industrial Production SA MoM/YoY	Jul		0.1		0.8/0.5	6.00	16.00
UK	Halifax House Prices MoM/YoY	Aug		-0.1		-1.0/8.4	7.30	17.30
UK	Industrial Production MoM/YoY	Jul		-0.2		0.1/1.6	8.30	18.30
UK	BOE's Cunliffe on Panel at Bruegel Think Tank in Brussels							
UK	BOE's Carney, Cunliffe, Forbes, McCafferty Speak in London							
UK	Bank of England Bond-Buying Operation Results							
CH	Foreign Reserves	Aug		3190		3201.1		
CA	Bank of Canada Rate Decision	Sep 7		0.5		0.5	14.00	0.00
UK	NIESR GDP Estimate	Aug				0.3	14.00	0.00
CA	Ivey Purchasing Managers Index SA	Aug		57.5		57.0	14.00	0.00
US	JOLTS Job Openings	Jul		5635		5624.0	14.00	0.00
US	U.S. Federal Reserve Releases Beige Book							
Thursday, 8 September 2016								
AU	RBA's Lowe Introductory Remarks at Sydney Conference							
UK	RICS House Price Balance	Aug		2		5.0	23.10	9.10
JN	BoP Current Account Adjusted	Jul		1573.7		1648.4	23.50	9.50
JN	GDP SA QoQ	2Q F		0		0.0	23.50	9.50
AU	Trade Balance	Jul	-2900	-2700		-3195	1.30	11.30
CH	Trade Balance	Aug		58.35		52.3	3.00	13.00
CH	Exports/Imports YoY	Aug		-4/-5		-4.4/-12.5	3.00	13.00
CH	Trade Balance CNY	Aug		372.35		342.8	3.00	13.00
CH	Exports/Imports YoY	Aug		2.7/1		2.9/-5.7	3.00	13.00
GE	Labor Costs SA QoQ/YoY	2Q				1.7	6.00	16.00
EC	ECB Main Refinancing Rate	Sep 8		0		0.0	11.45	21.45
EC	ECB Deposit Facility Rate	Sep 8		-0.4		-0.4	11.45	21.45
EC	ECB Marginal Lending Facility	Sep 8		0.25		0.3	11.45	21.45
EC	ECB Asset Purchase Target	Sep		80		80.0	11.45	21.45
CA	New Housing Price Index MoM	Jul		0.1		0.1	12.30	22.30
US	Initial Jobless Claims	Sep 3		264.5		263.0	12.30	22.30
CA	Capacity Utilization Rate	2Q		79.6		81.4	12.30	22.30
CA	New Housing Price Index YoY	Jul		2.5		2.5	12.30	22.30
CA	Building Permits MoM	Jul		2.5		-5.5	12.30	22.30
CH	Foreign Direct Investment YoY CNY	Aug		5		-1.6		
US	Consumer Credit	Jul		16		12.3	19.00	5.00
Friday, 9 September 2016								
NZ	Card Spending Retail MoM/YoY	Aug	-0.2%	0.3		0.3/0.4	22.45	8.45
CH	CPI/PPI YoY	Aug		1.7/-0.9		1.8/-1.7	1.30	11.30
AU	Home Loans MoM	Jul	-2.4%	-1.5		1.2	1.30	11.30
AU	Investment Lending	Jul				3.2	1.30	11.30
JN	Tertiary Industry Index MoM	Jul		0.4		0.8	4.30	14.30
GE	Current Account Balance	Jul		24.5		26.3	6.00	16.00
UK	Trade Balance	Jul		-4200		-5084	8.30	18.30
UK	Construction Output SA MoM/YoY	Jul		-0.5		-0.9/-2.2	8.30	18.30
UK	BoE/TNS Inflation Next 12 Mths	Aug				2.0	8.30	18.30
US	Fed's Rosengren to Deliver Economic Forecast						11.45	21.45
CA	Housing Starts	Aug		190		198.4	12.15	22.15
CA	Net Change in Employment/Unemployment rate	Aug				-31.2/6.9	12.30	22.30
NZ	REINZ House Sales YoY	Aug				-10.1		
US	Wholesale Inventories/Sales MoM	Jul F		0.1/0.2		0.0/1.9	14.00	0.00
EC	EU Finance Chiefs, Central Bankers in Bratislava Sept. 10-11							
CH	Aggregate Financing CNY	Aug		914.35		487.9		
CH	New Yuan Loans CNY	Aug		750		463.6		
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		7-Sep				0.50%		
Australia, RBA		6-Sep	1.50%			1.50%		
Europe ECB		8-Sep				0.00%		
UK BOE		15-Sep				0.25%		
Japan, BoJ		21-Sep				-0.1% to +0.1%		
US Federal Reserve		22-Sep				0.25-0.50%		
New Zealand, RBNZ		22-Sep	2.00%	2.00%		2.00%		

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

Forecasts

Economic Forecasts

	Annual % change				Quarterly % change															
	2015	2016	2017	2018	2015				2016				2017				2018			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Australia Forecasts	2015	2016	2017	2018	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.8	2.9	2.4	2.4	0.6	0.6	0.9	0.8	0.7	0.7	0.7	0.5	0.6	0.6	0.7	0.5	0.6	0.6	0.6	0.6
Underlying Business Investment	-10.5	-13.1	-7.8	1.4	-3.3	-2.4	-6.0	-2.7	-3.4	-2.0	-3.0	-3.0	-2.1	-1.5	-1.3	0.1	1.0	1.0	0.8	0.8
Residential Construction	9.8	5.5	0.4	-3.3	4.3	1.0	1.5	2.8	1.4	0.6	0.6	0.1	0.2	0.2	-0.7	-0.6	-1.3	-1.0	-0.8	-0.7
Underlying Public Spending	2.1	2.5	2.6	2.6	1.0	2.4	-0.9	1.4	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Exports	5.9	9.4	9.4	5.5	3.2	-3.4	5.3	0.4	4.4	1.1	2.4	2.6	2.4	2.3	2.3	1.5	1.1	1.0	0.6	0.9
Imports	1.5	-0.2	1.9	3.3	3.4	0.0	-1.7	0.5	-0.8	1.6	-0.1	0.1	0.4	0.7	0.6	0.7	0.9	0.9	0.9	0.9
Net Exports (a)	1.0	2.1	1.8	0.7	0.0	-0.8	1.5	0.0	1.1	-0.1	0.6	0.6	0.5	0.4	0.5	0.2	0.1	0.1	0.0	0.1
Inventories (a)	0.1	0.0	-0.1	0.0	0.4	0.0	-0.2	0.0	0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.0	-0.1
Domestic Demand - qtr%					0.3	0.6	-0.3	0.5	0.1	0.4	0.3	0.1	0.3	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Dom Demand - ann %	1.1	0.9	1.2	1.9	0.7	1.4	1.1	1.1	0.9	0.6	1.2	0.9	1.1	1.1	1.2	1.5	1.7	1.8	2.0	2.1
Real GDP - qtr %	0.8	0.3	1.0	0.7	0.8	0.3	1.0	0.7	1.1	0.3	0.7	0.7	0.8	0.8	0.8	0.7	0.6	0.6	0.6	0.5
Real GDP - ann %	2.5	2.9	2.9	2.6	2.3	2.1	2.7	2.9	3.1	3.1	2.8	2.7	2.4	3.0	3.1	3.1	2.9	2.7	2.4	2.2
CPI headline - qtr %					0.2	0.7	0.5	0.4	-0.2	0.3	0.9	0.7	0.9	0.5	0.8	0.5	0.8	0.4	0.8	0.5
CPI headline - ann %	1.5	1.3	2.8	2.6	1.3	1.5	1.5	1.7	1.3	1.0	1.4	1.7	2.7	2.9	2.8	2.6	2.6	2.5	2.5	2.6
CPI underlying - qtr %					0.6	0.5	0.3	0.5	0.2	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.5	0.5	0.6
CPI underlying - ann %	2.2	1.6	1.9	1.9	2.3	2.2	2.1	2.0	1.5	1.5	1.7	1.7	2.0	1.9	1.9	1.8	1.8	1.8	1.9	2.0
Wages (Pvte WPI - ann %)	2.1	1.9	1.9	2.5	2.3	2.2	2.1	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	2.2	2.4	2.6	2.8
Unemployment Rate (%)	6.0	5.8	5.7	5.6	6.2	6.0	6.2	5.9	5.9	5.7	5.7	5.8	5.7	5.7	5.7	5.6	5.6	5.6	5.6	5.6
Terms of trade	-11.5	-6.6	-4.5	-0.6	-2.7	-4.1	-2.8	-3.2	-1.9	2.4	-2.3	-2.2	-1.4	-0.2	-0.5	-2.0	-0.3	-0.3	-1.2	-0.7
G&S trade balance, \$Abn	-35.9	-28.0	-20.7	-25.0	-5.3	-11.4	-8.3	-10.9	-8.1	-6.7	-6.6	-6.5	-6.2	-5.1	-4.2	-5.2	-5.3	-5.5	-6.8	-7.4
% of GDP	-2.2	-1.7	-1.2	-1.4	-1.3	-2.8	-2.0	-2.7	-2.0	-1.6	-1.6	-1.5	-1.4	-1.2	-0.9	-1.2	-1.2	-1.2	-1.5	-1.6
Current Account (% GDP)	-4.8	-4.7	-4.2	-4.4	-3.5	-5.3	-4.8	-5.5	-5.0	-4.6	-4.6	-4.6	-4.5	-4.2	-4.0	-4.2	-4.2	-4.3	-4.6	-4.7

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

Exchange Rate Forecasts

	5-Sep	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Majors							
AUD/USD	0.7586	0.77	0.75	0.73	0.72	0.70	0.70
NZD/USD	0.7316	0.72	0.70	0.68	0.68	0.67	0.67
USD/JPY	103.96	102	105	103	103	102	101
EUR/USD	1.1161	1.13	1.12	1.10	1.09	1.07	1.06
GBP/USD	1.3305	1.29	1.26	1.22	1.20	1.17	1.16
USD/CNY	6.6796	6.73	6.80	6.78	6.76	6.74	6.73
USD/CAD	1.2980	1.27	1.29	1.33	1.35	1.37	1.37

Australian Cross Rates

AUD/JPY	78.9	79	79	75	74	71	71
AUD/EUR	0.6797	0.68	0.67	0.66	0.66	0.65	0.66
AUD/GBP	0.5702	0.60	0.60	0.60	0.60	0.60	0.60
AUD/NZD	1.0369	1.07	1.07	1.07	1.06	1.04	1.04
AUD/CNY	5.0671	5.18	5.10	4.95	4.87	4.72	4.71
AUD/CAD	0.9847	0.98	0.97	0.97	0.97	0.96	0.96
AUD/CHF	0.7434	0.77	0.73	0.70	0.69	0.68	0.68

Interest Rate Forecasts

	5-Sep	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Aust rates							
RBA Cash rate	1.50	1.50	1.50	1.50	1.25	1.00	1.00
3 month bill rate	1.72	1.75	1.75	1.75	1.50	1.25	1.25
3 Year Swap Rate	1.64	1.6	1.6	1.4	1.3	1.5	1.6
10 Year Swap Rate	2.11	2.1	2.2	2.1	2.2	2.2	2.4
Offshore Policy Rates							
US Fed funds	0.50	0.50	0.75	0.75	1.00	1.00	1.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
BoE repo rate	0.25	0.25	0.10	0.10	0.10	0.10	0.10
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	2.00	2.00	1.75	1.50	1.50	1.50	1.50
China 1yr lending rate	4.35	4.35	4.35	4.10	4.10	4.10	4.10
China Reserve Ratio	17.0	15.5	15.0	15.0	15.0	15.0	15.0
10 Year Benchmark Bond Yields							
Australia	1.91	1.90	2.05	1.95	2.00	2.00	2.15
United States	1.60	1.50	1.75	1.75	2.00	2.00	2.25
New Zealand	2.29	2.10	2.15	2.35	2.55	2.55	2.75

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2013	2014	2015	2016	2017	2018	20 Yr Avg
Australia	2.0	2.7	2.5	2.9	2.9	2.6	3.4
US	1.7	2.4	2.6	1.5	2.1	1.9	2.6
Eurozone	-0.3	0.9	1.6	1.4	1.1	1.5	1.5
UK	1.9	3.1	2.2	1.6	0.6	1.6	2.4
Japan	1.4	-0.1	0.6	0.5	0.6	0.6	0.8
China	7.7	7.3	6.9	6.6	6.5	6.3	9.2
India	6.4	7.0	7.2	7.7	7.7	7.5	6.6
New Zealand	2.4	3.7	2.5	2.9	2.9	1.9	3.0
World	3.3	3.3	3.0	2.8	3.0	3.1	3.5
<i>MTP Top 5</i>	3.9	3.8	3.9	3.5	3.5	3.4	5.0

Commodity prices (\$US)

	5-Sep	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
WTI oil	44.09	45	52	54	56	58	60
Gold	1324	1320	1300	1250	1210	1170	1120
Iron ore	59	44	41	40	41	41	40
Hard cok. coal	89	93	85	83	84	85	85
Thermal coal	69	62	62	62	58	58	58
Copper	4617	4650	4750	4790	4840	4890	4940
Japan LNG	5.9	6.8	7.1	8.0	8.3	8.5	8.6

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