

# Australian Markets Weekly

## More AUD downside beckons

- In today's weekly, we update our AUD views – clients wishing to subscribe to either our Corporate FX Monthly (suitable for SMEs) or Global FX Strategist (suitable for institutional investors) publications, please email [nab.markets.research@nab.com.au](mailto:nab.markets.research@nab.com.au)
- Our broad scenario remains that further USD strength will see the AUD push lower across time down to at least 0.70. Any moves back to near 0.75 should be seen as attractive to importers; for exporters a move back to ~0.73 may be as good as it gets this year with a Fed rate rise on 14 December now fully discounted. A move into the mid 0.60s is possible if the RBA eases further and commodity price gains reverse.
- The big move of last week was the sharp rise in oil prices as OPEC agreed to cut production. This should add further support to the RBA's view that a reduced drag from the resources sector will see Australian economy strengthen over the next 18 months.
- That said, NAB economists continue to monitor recent disappointing momentum in indicators of the NSW economy, employment and – until Friday – also in retail sales. Q3 GDP on Wednesday is expected to print softly (-0.2% q/q) but we expect the RBA to look through this softness awaiting further clarification on the softness of non-mining.

Table 1: FX Forecast Summary

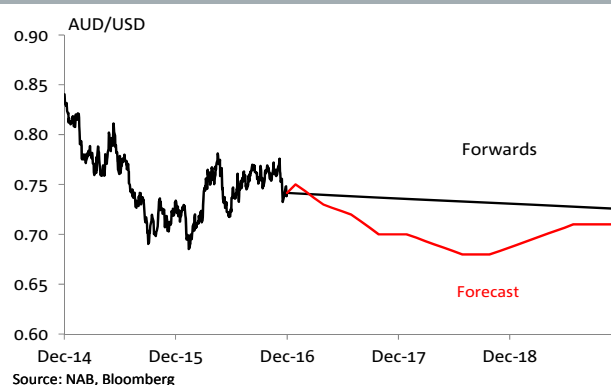
|                      |         | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 |
|----------------------|---------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Australian Dollar    | AUD/USD | 0.75   | 0.73   | 0.72   | 0.70   | 0.70   | 0.69   | 0.68   | 0.68   | 0.69   | 0.70   | 0.71   |
| New Zealand Dollar   | NZD/USD | 0.72   | 0.70   | 0.68   | 0.67   | 0.67   | 0.68   | 0.68   | 0.69   | 0.69   | 0.71   | 0.71   |
| Japanese yen         | USD/JPY | 110    | 112    | 114    | 113    | 112    | 110    | 109    | 108    | 107    | 106    | 105    |
| Euro                 | EUR/USD | 1.02   | 0.98   | 1.00   | 1.02   | 1.04   | 1.05   | 1.06   | 1.08   | 1.10   | 1.11   | 1.12   |
| British Pound        | GBP/USD | 1.23   | 1.21   | 1.20   | 1.19   | 1.20   | 1.20   | 1.21   | 1.22   | 1.22   | 1.25   | 1.25   |
| Chinese New Yuan     | USD/CNY | 6.95   | 7.20   | 7.24   | 7.18   | 7.17   | 7.18   | 7.16   | 7.15   | 7.12   | 7.12   | 7.12   |
| Crosses              |         |        |        |        |        |        |        |        |        |        |        |        |
|                      | AUD/NZD | 1.04   | 1.04   | 1.06   | 1.04   | 1.04   | 1.01   | 1.00   | 0.99   | 1.00   | 0.99   | 1.00   |
|                      | AUD/JPY | 83     | 82     | 82     | 79     | 78     | 76     | 74     | 73     | 74     | 74     | 75     |
|                      | AUD/EUR | 0.74   | 0.74   | 0.72   | 0.69   | 0.67   | 0.66   | 0.64   | 0.63   | 0.63   | 0.63   | 0.63   |
|                      | AUD/GBP | 0.61   | 0.60   | 0.60   | 0.59   | 0.58   | 0.58   | 0.56   | 0.56   | 0.57   | 0.56   | 0.57   |
|                      | AUD/CHF | 0.80   | 0.77   | 0.76   | 0.74   | 0.74   | 0.73   | 0.73   | 0.73   | 0.75   | 0.76   | 0.77   |
|                      | AUD/CAD | 1.01   | 1.00   | 0.99   | 0.99   | 1.00   | 0.98   | 0.97   | 0.96   | 0.97   | 0.97   | 0.97   |
|                      | AUD/CNY | 5.21   | 5.26   | 5.21   | 5.03   | 5.02   | 4.95   | 4.87   | 4.86   | 4.91   | 4.98   | 5.06   |
| Trade-Weighted Index | AUD TWI | 65.9   | 66.1   | 65.7   | 63.6   | 63.3   | 62.1   | 60.9   | 60.4   | 60.8   | 61.4   | 62.2   |

Table 2: Market Moves

|         | Last   | % chg week |          | Last  | bp / % chg week |
|---------|--------|------------|----------|-------|-----------------|
| AUD     | 0.7451 | 0.1        | RBA cash | 1.50  | 0               |
| AUD/CNY | 5.13   | -0.2       | 3y swap  | 2.07  | 3               |
| AUD/JPY | 84.4   | 0.2        | ASX 200  | 5,444 | -1.2            |
| AUD/EUR | 0.701  | -0.2       | Iron ore | 77.8  | -2.3            |
| AUD/NZD | 1.045  | -1.0       | WTI oil  | 51.7  | 12.2            |

Source: Bloomberg

Chart 1: AUD/USD Forecast versus Forwards



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## AUD update

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- **Broad-based US dollar strength since Donald Trump's election victory has pulled AUD/USD down through the bottom of a long-standing 0.7450-0.7750 effective range.**
- **Higher US bond yields have been the big driver, but improved global risk sentiment and rising terms of trade, driven by coal and iron ore, have been AUD-supportive.**
- **There remains huge uncertainty over how 'Trumponomics' will play out in practice and how that will interact with Fed policy next year, but our base case is more US dollar strength that pulls AUD/USD down to at least 0.70.**
- **Risks of a significant reversal of recent commodity price gains and potential RBA easing next year would, if realised, likely mean AUD/USD trading down into the 0.60s. It would also undermine the AUD's recent better showing in cross rate terms (ex-AUD/GBP). We have most crosses forecast to come lower in 2017.**
- **Any moves back to near 0.75 should be seen as attractive to importers; for exporters a move back to ~0.73 may be as good as it gets this year with a Fed rate rise on 14 December now fully discounted**

## AUD/USD

The generally unexpected U.S. presidential election victory by Donald Trump on 8 November has been a game changer. It has spawned expectations of more expansionary fiscal policy in 2017 and bigger budget deficits (already reflected in higher bond yields) increased infrastructure spending (whether publicly or privately funded), higher U.S. inflation, potentially tighter-than-otherwise Federal Reserve policy and (already) a stronger US dollar. It has prompted us to revise many of our forecasts for G10 currency pairs, though not for AUD/USD. We already had a quite aggressive forecast trajectory for 2017 and 2018 (to 0.70 and 0.68 respectively) and while we do now see the risks around our point forecasts as quite heavily skewed to the downside, we have not rushed to revise them.

In particular, there remains a very high level of uncertainty about exactly how much looser U.S. fiscal policy might be in the coming year or more and what that might mean for U.S. growth; how Trump's pre-election stance on issues like trade and immigration policy will play out in practice (and which could harm growth); and, what this might all mean for inflation and Fed policy. The extent, to which US companies may, as part of a broader corporate tax reform, be incentivised to bring profits accumulating overseas back to the U.S., is also a big uncertainty and potentially very significant US dollar (positive) factor<sup>1</sup>.

As things stand, our prevailing view is that even if the US dollar has run a little ahead of movements in yield

differentials (and particularly when looked at in terms of real not nominal yields) there is ample scope for rates spreads to move further in the US dollar's favour next year. For more on this see the recent piece from our BNZ FX Strategy colleague<sup>2</sup>.

As for the AUD side of the AUD/USD equation, we continue to see risks that the RBA ends up cutting rates further next year, given our forecasts for growth in 2017 and 2018 are not quite as optimistic as the RBA's and inflation is expected to run below target at least until 2018. A lower Cash Rate is not something for which local money markets are priced and would add to downside AUD risks were it to eventuate.

Commodity prices and how they feed into Australia's terms of trade are obviously important. Our forecasts assume a quite significant fall-back in iron ore and coking coal in particular, where recent strength is seen to have been driven by stronger - stimulus driven - Chinese demand and local supply shortages (for coal in particular). This is expected to turn a current AUD tailwind into a headwind next year.

Risk sentiment has been particular strong since Trump's victory and would normally be associated with AUD strength (it is currently holding our short term fair value estimate for AUD/USD well above spot). However, we'd note that currency volatility has recently risen at the same time that equity volatility (VIX) has fallen, so directly reducing the attraction of FX-volatility adjusted yields spreads. We'd also note that capital outflows and pressure on Asia Emerging markets (EM) currencies since Trump's victory - which correlate with AUD in part since the AUD is a favoured proxy hedge against EM weakness - may also be suppressing AUD/USD levels vs. our model valuation estimates. This may well persist.

All up, we are comfortable with the view that AUD/USD falls to at least as low as 0.70 in 2017. We see risks that the rate reaches the mid-0.60s in the context of more pronounced USD strength driven by much higher US yields (augmented by significant U.S. corporate profits repatriation), lower commodity prices and if, alongside, the RBA eases further.

## Implications for corporate hedging.

Though we have maintained our 0.75 year-end forecast, we are sceptical AUD/USD can spend much time above 0.75 in coming weeks, and certainly not in 2017. Approaches to (or breaches of) 0.75 therefore look particularly attractive for forward hedging by importers.

Exporters should be seeing better levels to lock in forward hedges on receivables for 2017, though as price action either side of the US elections is teaching us, there is plenty of demand for AUD in the 0.73s. For those with near term hedging needs this may be as good as it gets in coming weeks, pending better levels being presented next year.

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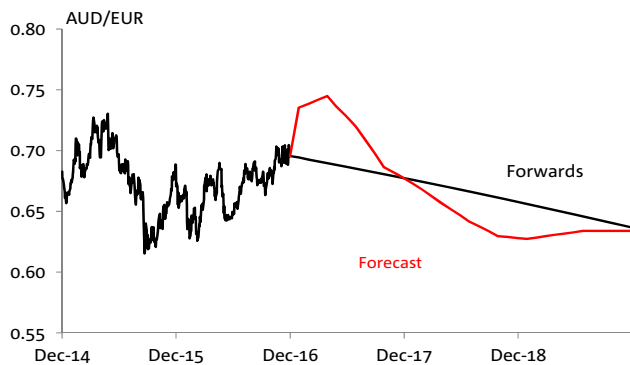
<sup>1</sup> See: *Much Ado About Something: US profits repatriation and the dollar*, 22 November 2016

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<sup>2</sup> *BNZ Currency Research: How much higher for the USD*, 25 November 2016

## The Crosses:

Chart 2: AUD/EUR Forecast versus Forwards



Source: NAB, Bloomberg

### AUD/EUR

The fall in EUR/USD from above 1.11 to the 1.06 area in November has been primarily a USD-driven affair, but with significant underperformance against Sterling and outperformance against the yen. AUD/EUR was little more than 1% higher over November.

We now enter a period where more idiosyncratic influences on the Euro should be determining the course of AUD/EUR. The imminent Italian referendum and Austrian Presidential elections both have some potential to unsettle the Euro – in particular if political uncertainty follows a ‘No’ vote in Italy and undermines efforts to recapitalise the banking system.

[Editor’s note: exit polls have the “No” vote comfortably ahead in the Italian referendum, which has seen the EUR fall to USD1.0550 in early Australian trade].

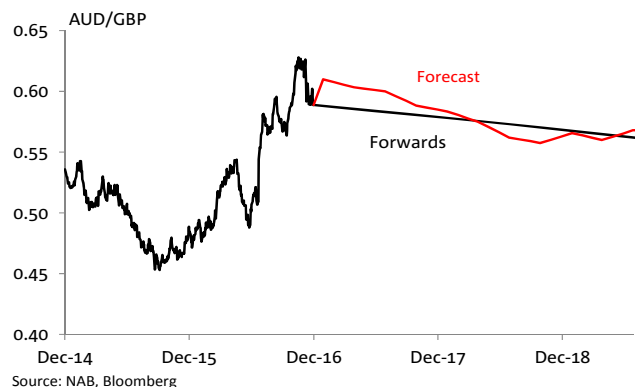
We also have the ECB due to announce its intentions with respect to the current €80bn per month QE bond buying programme, on 8 December. Here, whatever the knee-jerk reaction (and where the risk is for positive EUR response to any hint of tapering after March 2017) ECB policy is destined to keep suppressing core Eurozone bond yields relative to the U.S. through much of 2017. This plus geopolitical concerns centring on next year’s Dutch federal elections (by 15 March) and French Presidential elections (April/May) is seen driving EUR/USD down to – and perhaps through – parity in Q1 next year. This is despite the current very limited likelihood of Marine Le Pen becoming the next French President.

We see EUR under-performing most G10 currencies through Q2 next year, followed by relative strength in H2 2017 and into 2018, assuming political risks to Eurozone stability fade and the ECB starts to wind down its QE programme.

### AUD/GBP

The recouping of more than a third of Sterling’s post-Brexit vote fall over the course of November owes something to Donald Trump and the improved prospects for a fast-track UK-US free trade deal. Sentiment towards a ‘hard’ Brexit – or otherwise – continues to ebb and flow but in the context of a very short speculative/trading market, any news snippets that appear to favour a ‘soft’ Brexit are having a disproportionate positive impact (e.g. a strong positive reaction in recent days to news suggesting that the

Chart 3: AUD/GBP Forecast versus Forwards

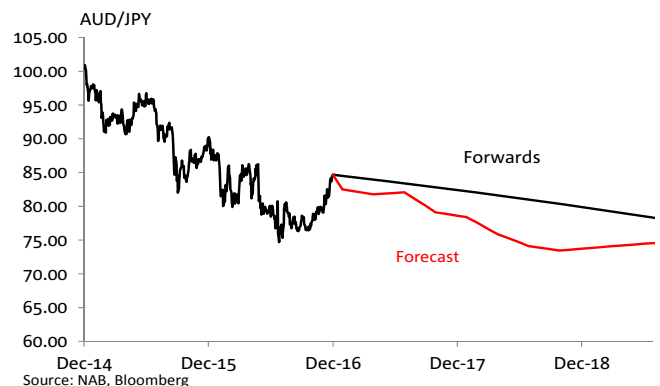


Source: NAB, Bloomberg

UK government would pay to maintain access to the single market). Elimination of thoughts of further Bank of England easing has also aided what has largely been a ‘short covering’ rally.

Assuming ‘Article 50’ is invoked by next March formally triggering the start of Brexit negotiations, we anticipate a sober assessment of the practical economic realities of Brexit to start weighing once more and at least curtailing any further short covering. While we still anticipate GBP/USD falling to the \$1.20 area next year we have revised our forecast modestly higher (from a previous forecast low 1.16). Despite seeing a lower GBP/USD, AUD/GBP strength is likely now behind us in the context of the general AUD weakness we anticipate next year.

Chart 4: AUD/JPY Forecast versus Forwards



Source: NAB, Bloomberg

### AUD/JPY

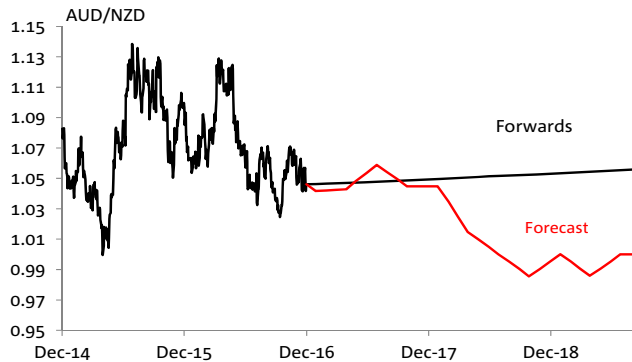
The Yen has been the biggest causality by far of the sharp back-up in US Treasury yields since Trump’s victory. This makes complete sense with the BoJ’s move towards ‘Yield Curve Control’ anchoring Japanese yields at or below zero out to 10 years, at a time when yields in much of the rest of the world are being pulled higher in the slip-stream of rising US yields. The BoJ’s decision to target yields not monetary quantities on 21 September looks – in hindsight – to have been a stroke of genius!

How much further US yields rise in coming months and quarters is evidently going to be key to whether Yen underperformance versus other G10 currencies continues – including the AUD. Our bond strategists, while not ruling out positioning and momentum factors pulling 10-year Treasury yields above 2.5%, do not anticipate a sustained move above this level at least until we see the practicalities

of Trump administration's economic policies, their potential inflation implications and how that is likely to play out for Fed policy in 2107 and beyond.

As such, our forecasts currently have the USD/JPY rally stalling around ¥115 which in conjunction with our AUD/USD forecasts pulls AUD/JPY back lower next year. Risks around our point forecasts are skewed to the upside.

Chart 5: AUD/NZD Forecast versus Forwards



Source: NAB, Bloomberg

## AUD/NZD

Our projections for next year have the cross consolidating in a 1.04-1.075 range. This makes current levels reasonably attractive for Australian exporters hedging NZD receivables back into AUD.

We see NZ's cyclical outlook as more positive compared to Australia and this should be reflected in a tighter labour market and stronger relative inflationary pressure. This should weigh on the cross. The next move from the RBNZ is mostly likely to be a rate hike, while the risk of further RBA easing next year, that NAB foresees, is not currently anticipated by markets. Were it to be, this would likely pull the cross back close to parity, which is something we continue to anticipate, possibly in 2018.

## AUD/CNY

The PBoC has been allowing general USD strength - both before and since Trump's election win - to be reflected in a higher USD/CNY, albeit with a beta of less than one to USD indices (e.g. DXY).

We now forecast USD/CNY up to ~7.25 next year and with that AUD/CNY up to ~5.25, before USD/CNY consolidation - assuming a US-China trade war is avoided - and AUD/USD slippage, brings the cross back lower later in 2017.

## Recent developments

The big move last week was the sharp rise in oil prices following OPEC's agreement to restrict oil production. This saw bond yields rise further in the days after the announcement, however, by the week's end, short investor positioning and event risk over the weekend saw bonds retrace slightly. While NAB's rate strategists think there may be some further near-term consolidation if not retracement in yields, medium term, they remain bearish, expecting higher borrowing costs.

Friday night's November non-farm payrolls - for the most part - delivered the further improvement in the US labour

market the Fed has been looking for, with the unemployment rate dropping to a cycle low of 4.6% and measures of underemployment also hitting the lowest levels for around 8 years. The average hourly earnings figures were the main non-conformer, though our US experts note that these figures are often artificially depressed in months when the second fortnightly pay period falls after the survey week for payrolls. Reported US wages growth seems likely to continue to firm in the months ahead.

The market is fully priced for a further Fed tightening on 13-14 December, which remains NAB's expectation. We look for two further tightenings in 2017.

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## The Week Ahead

There are two key events in Australia this week - Q3 GDP on Wednesday (with important partial data on Monday and Tuesday) and the RBA's final Board meeting of the year on Tuesday (with the focus on global and US economic and market developments since Mr Trump's election, there hasn't been that much of a focus on this meeting).

NAB is expecting a small negative Q3 GDP outcome (-0.2% q/q), which is a bit weaker than the market consensus (+0.2% q/q) and a fair bit below the rate implicit in the RBA's latest forecasts (the Bank appears to have been incorporating a 0.5% q/q Q3 result). The expenditure side of the accounts appears particularly weak, with retail sales weak in the quarter, capital expenditure continuing to be hit by the latter stages of the mining investment downturn and a surprise construction in residential contraction. Net exports are also expected to subtract from growth (-0.3 ppts), while government expenditures are expected to ease back after strength in the previous quarter.

The income and production side of the accounts are likely to be a better, with stronger company profits likely (NAB expects +2.5% q/q; mkt +3%) given the recent rise in commodity prices and the terms of trade (and likely to be stronger again in Q4, given even more recent developments in commodity prices).

Markets do not appear to have been focusing on the RBA's December Board meeting particularly - not surprising given the largely unexpected Trump election and OPEC output cut in recent weeks and related marked market moves. The new Governor seems very relaxed with cash rates at 1.5%, especially as house prices have reaccelerated in some areas. The Bank's forecast is that Australian growth will gradually strengthen over the next 12-18 months as the mining sector subtracts less from growth. Recent rises in commodity prices provide further support for that view - although forward curves currently do not suggest current spot prices will be sustained.

That said, NAB economists continue to monitor some softness in business conditions that has been showing up in retail and NSW for some months. It's not exactly clear what the drivers of these trends are, but they appear to have driven a softening in NSW employment growth, which if maintained, could challenge the RBA's expectation of a

slight improvement in the unemployment rate. Medium term, we continue to see a softer GDP outlook than the RBA in 2018, which is behind our forecast for two further interest rate cuts in mid-2017.

The week rounds out with lesser releases the trade balance on Thursday and housing finance on Friday. The trade balance should again be much improved on a few months ago, due to the sharp rises in coal and iron ore prices, with further improvement likely in the months ahead.

Chart 6: Weak Q3 GDP growth expected

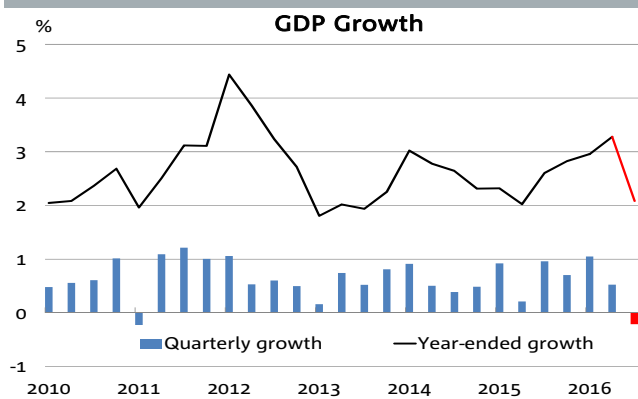


Table 3: Forecast details

| Australian National Accounts (a) |             |             |            |                     |
|----------------------------------|-------------|-------------|------------|---------------------|
|                                  | Q/Q         |             | Y/Y        | Contribution to Q/Q |
|                                  | Jun-16      | Sep-16      | Sep-16     | Sep-16              |
| Household Consumption            | 0.4         | 0.4         | 2.3        | 0.2                 |
| Dwelling Investment              | 1.6         | -2.7        | 3.9        | 0.2                 |
| Underlying Business Investment   | -2.2        | -2.1        | -8.6       | -0.2                |
| Underlying Public Final Demand   | 2.4         | 0.1         | 4.8        | 0.0                 |
| <b>Domestic Final Demand</b>     | <b>0.6</b>  | <b>-0.1</b> | <b>1.5</b> | <b>-0.1</b>         |
| Stocks (a)                       | 0.3         | 0.1         | 0.2        | 0.1                 |
| <b>GNE</b>                       | <b>0.9</b>  | <b>-0.1</b> | <b>1.9</b> | <b>n.a.</b>         |
| <b>Net exports (a)</b>           | <b>-0.2</b> | <b>-0.3</b> | <b>0.5</b> | <b>-0.3</b>         |
| Exports                          | 1.3         | 0.4         | 5.0        | 0.1                 |
| Imports                          | 2.7         | 1.7         | 2.8        | -0.4                |
| <b>GDP</b>                       | <b>0.5</b>  | <b>-0.2</b> | <b>2.1</b> | <b>n.a.</b>         |

(a) Contribution to GDP growth

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# Calendar of Economic Releases

| Country  | Economic Indicator   | Period | Forecast  | Consensus      | Actual | Previous       | GMT   | AEDT  |
|--|--|--------|-----------|----------------|--------|----------------|-------|-------|
| <b>Monday, 5 December 2016</b>                           |  |        |           |                |        |                |       |       |
| AU   | AiG Perf of Services Index                                 | Nov    |           |                |        | 50.5           | 23.30 | 9.30  |
| JN   | Loans & Discounts Corp YoY                                 | Oct    |           |                |        | 2.1            | 0.50  | 10.50 |
| AU   | Melbourne Institute Inflation MoM/YoY                      | Nov    |           |                |        | 0.2/1.5        | 1.00  | 11.00 |
| NZ   | ANZ Commodity Price  | Nov    |           |                |        | 0.7            | 1.00  | 11.00 |
| NZ   | Net Migration SA   | Oct    |           |                |        |                |       |       |
| AU   | ANZ Job Advertisements MoM                                 | Nov    |           |                |        | 1.0            | 1.30  | 11.30 |
| JN   | Nikkei Japan PMI Services/Composite                        | Nov    |           |                |        | 50.5/51.3      | 1.30  | 11.30 |
| AU   | Inventories SA QoQ   | 3Q     | 0.6%      | 0.3            |        | 0.3            | 1.30  | 11.30 |
| AU   | Company Operating Profit QoQ                               | 3Q     | 2.5%      | 3              |        | 6.9            | 1.30  | 11.30 |
| CH   | Caixin China PMI Services/Composite                        | Nov    |           |                |        | 52.4/52.9      | 2.45  | 12.45 |
| JN   | Consumer Confidence Index                                  | Nov    |           | 43             |        | 42.3           | 6.00  | 16.00 |
| GE   | Markit Germany Services/Composite PMI                      | Nov F  |           | 55             |        | 55.0/54.9      | 9.55  | 19.55 |
| UK   | New Car Registrations YoY                                  | Nov    |           |                |        | 1.4            | 10.00 | 20.00 |
| EC   | Markit Eurozone Services/Composite PMI                     | Nov F  |           | 54.1           |        | 54.1/54.1      | 10.00 | 20.00 |
| UK   | Markit/CIPS UK Services PMI                                | Nov    |           | 54             |        | 54.5/54.8      | 10.30 | 20.30 |
| EC   | Sentix Investor Confidence                                 | Dec    |           | 14.25          |        | 13.1           | 10.30 | 20.30 |
| EC   | Retail Sales MoM   | Oct    |           | 0.8            |        | -0.2/1.1       | 11.00 | 21.00 |
| US   | Fed's Dudley Speaks on Economy and Policy in New York      |        |           |                |        |                | 14.30 | 0.30  |
| US   | Fed's Evans Speaks on Economy and Policy in Chicago        |        |           |                |        |                | 15.25 | 1.25  |
| US   | Markit US Services PMI                                     | Nov F  |           | 54.8           |        | 54.7/54.9      | 15.45 | 1.45  |
| CA   | Bloomberg Nanos Confidence                                 | Dec 2  |           |                |        | 55.6           | 16.00 | 2.00  |
| US   | Labor Market Conditions Index Change                       | Nov    |           | -0.2           |        | 0.7            | 16.00 | 2.00  |
| US   | ISM Non-Manf. Composite                                    | Nov    |           | 55.5           |        | 54.8           | 16.00 | 2.00  |
| US   | Fed's Bullard to Speak on U.S. Economic Outlook In Arizona |        |           |                |        |                | 20.05 | 6.05  |
| <b>Tuesday, 6 December 2016</b>                          |  |        |           |                |        |                |       |       |
| NZ   | ANZ Truckometer Heavy MoM                                  | Nov    |           |                |        | -0.20%         | 22.00 | 8.00  |
| JN   | Labor Cash/Real Earnings YoY                               | Oct    |           | 0.2            |        | 0.2/0.9        | 1.00  | 11.00 |
| UK   | BRC Sales Like-For-Like YoY                                | Nov    |           | 1.65           |        | 1.7            | 1.10  | 11.10 |
| AU   | Net Exports contrib/Current account, % of GDP, \$Abn       | 3Q     | -0.3%     | 0              |        | -0.2           | 1.30  | 11.30 |
| AU   | RBA Cash Rate Target                                       | Dec 6  | 1.5%      | 1.5            |        | 1.5            | 4.30  | 14.30 |
| GE   | Factory Orders MoM/YoY                                     | Nov    |           | 0.6            |        | -0.6/2.6       | 8.00  | 18.00 |
| GE   | Markit Germany Construction PMI                            | Nov    |           |                |        | 52.9           | 9.30  | 19.30 |
| EC   | GDP SA QoQ/YoY   | 3Q F   |           | 0.3/1.6        |        | 0.3/1.6        | 11.00 | 21.00 |
| US   | Trade Balance  | Oct    |           | -41.95         |        | -36.4          | 14.30 | 0.30  |
| US   | Nonfarm Productivity                                       | 3Q F   |           | 3.3            |        | 3.1            | 14.30 | 0.30  |
| US   | Unit Labor Costs   | 3Q F   |           | 0.3            |        | 0.3            | 14.30 | 0.30  |
| CA   | Int'l Merchandise Trade                                    | Oct    |           | -2             |        | -4.1           | 14.30 | 0.30  |
| CA   | Ivey Purchasing Managers Index SA                          | Nov    |           |                |        | 59.7           | 16.00 | 2.00  |
| US   | Factory Orders   | Oct    |           | 2.5            |        | 0.3            | 16.00 | 2.00  |
| US   | Cap Goods Ship Nondef Ex Air                               | Oct F  |           |                |        | 0.2            | 16.00 | 2.00  |
| US   | IBD/TIPP Economic Optimism                                 | Dec    |           |                |        | 51.4           | 16.00 | 2.00  |
| <b>Wednesday, 7 December 2016</b>                        |  |        |           |                |        |                |       |       |
| NZ   | ANZ Job Advertisements MoM                                 | Nov    |           |                |        | 0.60%          | 22.00 | 8.00  |
| NZ   | RBNZ's Wheeler at Select Committee for Annual Report       |        |           |                |        |                | 23.00 | 9.00  |
| AU   | AiG Perf of Construction Index                             | Nov    |           |                |        | 45.9           | 23.30 | 9.30  |
| UK   | BRC Shop Price Index YoY                                   | Nov    |           |                |        | -1.7           | 1.10  | 11.10 |
| AU   | GDP QoQ  | 3Q     | -0.2%     | 0.2            |        | 0.5/3.3        | 1.30  | 11.30 |
| AU   | GDP YoY  | 3Q     | 2.1%      | 2.5            |        | 3.3            | 1.30  | 11.30 |
| JN   | Leading Index CI   | Oct P  |           | 101.5          |        | 100.3          | 6.00  | 16.00 |
| GE   | Industrial Production SA MoM/YoY                           | Oct    |           | 0.8            |        | -1.8/1.2       | 8.00  | 18.00 |
| GE   | Industrial Production WDA YoY                              | Oct    |           | 1.6            |        | 1.2            | 8.00  | 18.00 |
| UK   | Halifax House Prices MoM/YoY                               | Nov    |           | 0.2            |        | 1.4/5.2        | 9.30  | 19.30 |
| UK   | Industrial Production MoM/YoY                              | Oct    |           | 0.2            |        | -0.4/0.3       | 10.30 | 20.30 |
| UK   | Industrial Production YoY                                  | Oct    |           | 0.5            |        | 0.3            | 10.30 | 20.30 |
| UK   | Manufacturing Production MoM                               | Oct    |           | 0.2            |        | 0.6            | 10.30 | 20.30 |
| UK   | Manufacturing Production YoY                               | Oct    |           | 0.7            |        | 0.2            | 10.30 | 20.30 |
| US   | MBA Mortgage Applications                                  | Dec 2  |           |                |        | -9.4           | 13.00 | 23.00 |
| CH   | Foreign Reserves   | Nov    |           | 3065.66        |        | 3120.7         |       |       |
| CA   | Bank of Canada Rate Decision                               | Dec 7  |           | 0.5            |        | 0.5            | 16.00 | 2.00  |
| UK   | NIESR GDP Estimate   | Nov    |           | 0.4            |        | 0.4            | 16.00 | 2.00  |
| US   | JOLTS Job Openings   | Oct    |           | 5445           |        | 5486.0         | 16.00 | 2.00  |
| US   | Consumer Credit  | Oct    |           | 18.5           |        | 19.3           | 21.00 | 7.00  |
| <b>Thursday, 8 December 2016</b>                         |  |        |           |                |        |                |       |       |
| JN   | BoP Current Account Adjusted                               | Oct    |           | 1630.4         |        | 1477.3         | 0.50  | 10.50 |
| JN   | Trade Balance BoP Basis                                    | Oct    |           | 606            |        | 642.4          | 0.50  | 10.50 |
| JN   | GDP Annualized SA QoQ                                      | 3Q F   |           | 2.3            |        | 2.2            | 0.50  | 10.50 |
| UK   | RICS House Price Balance                                   | Nov    |           | 26             |        | 23.0           | 1.10  | 11.10 |
| AU   | Trade Balance  | Oct    | -850      | -610           |        | -1227.0        | 1.30  | 11.30 |
| EC   | ECB Deposit Facility Rate                                  | Dec 8  |           | -0.4           |        | -0.4           | 13.45 | 23.45 |
| EC   | ECB Marginal Lending Facility                              | Dec 8  |           | 0.25           |        | 0.3            | 13.45 | 23.45 |
| EC   | ECB Asset Purchase Target                                  | Dec    |           | 80             |        | 80.0           | 13.45 | 23.45 |
| CH   | Trade Balance  | Nov    |           | 46.69          |        | 49.1           |       |       |
| CH   | Exports/Imports YoY  | Nov    |           | -5/-1.8        |        | -7.3/-1.4      |       |       |
| CH   | Trade Balance CNY  | Nov    |           | 307.07         |        | 325.3          |       |       |
| JN   | Eco Watchers Survey Current                                | Nov    |           | 45.5           |        | 46.2           | 6.00  | 16.00 |
| JN   | Eco Watchers Survey Outlook                                | Nov    |           |                |        | 49.0           | 6.00  | 16.00 |
| CH   | Foreign Direct Investment YoY CNY                          | Nov    |           | 2              |        | 1.2            |       |       |
| CA   | Housing Starts   | Nov    |           | 190            |        | 192.9          | 14.15 | 0.15  |
| CA   | Capacity Utilization Rate                                  | 3Q     |           | 81.5           |        | 80.0           | 14.30 | 0.30  |
| CA   | New Housing Price Index YoY                                | Oct    |           |                |        | 2.8            | 14.30 | 0.30  |
| CA   | Building Permits MoM                                       | Oct    |           | 0.7            |        | -7.0           | 14.30 | 0.30  |
| US   | Initial Jobless Claims                                     | Dec 3  |           | 255            |        | 268.0          | 14.30 | 0.30  |
| US   | Bloomberg Consumer Comfort                                 | Dec 4  |           |                |        | 44.9           | 15.45 | 1.45  |
| <b>Friday, 9 December 2016</b>                           |  |        |           |                |        |                |       |       |
| US   | Household Change in Net Worth                              | 3Q     |           |                |        | 1075.0         | 18.00 | 4.00  |
| NZ   | Card Spending Retail/Total MoM                             | Nov    |           | 0.4            |        | 0.6/0.6        | 22.45 | 8.45  |
| NZ   | REINZ House Sales YoY                                      | Nov    |           |                |        | -14.2          |       |       |
| JN   | BSI Large All Industry/Manufacturing QoQ                   | 4Q     |           |                |        | 1.9/2.9        | 0.50  | 10.50 |
| AU   | Home Loans/Investment MoM                                  | Oct    | -1.0%     | -1             |        | 1.6/4.6        | 1.30  | 11.30 |
| CH   | CPI/PPI YoY  | Nov    |           | 2.2/2.2        |        | 2.1/1.2        | 2.30  | 12.30 |
| GE   | Current Account Balance                                    | Oct    |           | 22             |        | 24.2           | 8.00  | 18.00 |
| GE   | Exports SA MoM   | Oct    |           | 0.9            |        | -0.7           | 8.00  | 18.00 |
| GE   | Imports SA MoM   | Oct    |           | 1.1            |        | -0.5           | 8.00  | 18.00 |
| EU   | ECB's Smets Speaks at Banking Conference in Brussels       |        |           |                |        |                | 9.00  | 19.00 |
| UK   | Trade Balance  | Oct    |           | -4300          |        | -5221.0        | 10.30 | 20.30 |
| UK   | Construction Output SA MoM/YoY                             | Oct    |           | 0.2            |        | 0.3/0.2        | 10.30 | 20.30 |
| UK   | BoE/TNS Inflation Next 12 Mths                             | Nov    |           |                |        | 2.2            | 10.30 | 20.30 |
| JN   | Machine Tool Orders YoY                                    | Nov P  |           |                |        | -8.9           | 7.00  | 17.00 |
| US   | Wholesale Inventories MoM                                  | Oct F  |           | -0.4           |        | -0.4/0.2       | 16.00 | 2.00  |
| US   | Wholesale Trade Sales MoM                                  | Oct    |           | 0.7            |        | 0.2            | 16.00 | 2.00  |
| US   | U. of Mich. Sentiment                                      | Dec P  |           | 94.4           |        | 93.8/2.6       | 16.00 | 2.00  |
| US   | U. of Mich. 5-10 Yr Inflation                              | Dec P  |           |                |        | 2.6            | 16.00 | 2.00  |
| CH   | Aggregate Financing CNY                                    | Nov    |           | 1100           |        | 896.3          |       |       |
| CH   | New Yuan Loans CNY   | Nov    |           | 700            |        | 651.3          |       |       |
| <b>Upcoming Central Bank Interest Rate Announcements</b> |  |        |           |                |        |                |       |       |
| Australia, RBA   |  | 6-Dec  | 1.50%     | 1.50%          |        | 1.50%          |       |       |
| Canada, BoC  |  | 7-Dec  |           | 0.50%          |        | 0.50%          |       |       |
| Europe ECB   |  | 8-Dec  |           | 0.00%          |        | 0.00%          |       |       |
| US Federal Reserve                                       |  | 15-Dec | 0.5-0.75% | 0.5-0.75%      |        | 0.25-0.50%     |       |       |
| UK BOE   |  | 15-Dec |           | 0.25%          |        | 0.25%          |       |       |
| Japan, BoJ   |  | 20-Dec |           | -0.1% to +0.1% |        | -0.1% to +0.1% |       |       |
| New Zealand, RBNZ  |  | 9-Feb  | 1.75%     | 1.75%          |        | 1.75%          |       |       |

GMT: Greenwich Mean Time; AEDT: Australian Daylight Savings 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         |
| <b>Australia Forecasts</b>     | <b>2015</b>     | <b>2016</b> | <b>2017</b> | <b>2018</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>  | <b>Q1</b>  | <b>Q2</b>  | <b>Q3</b>  | <b>Q4</b>  |
| Household Consumption          | 2.8             | 2.6         | 2.2         | 2.4         | 0.6                | 0.6        | 0.9        | 0.7        | 0.8        | 0.4        | 0.4        | 0.6        | 0.4        | 0.5        | 0.8        | 1.0        | 0.2        | 0.0        | 1.0        | 1.5        |
| Underlying Business Investment | -10.4           | -8.9        | -4.6        | 3.4         | -4.0               | -1.5       | -6.3       | -2.0       | -3.4       | -2.2       | -0.4       | 1.2        | -3.9       | -1.9       | 0.6        | 0.8        | 1.3        | 1.3        | -0.6       | 3.8        |
| Residential Construction       | 9.7             | 7.4         | 2.7         | -2.4        | 4.6                | 0.6        | 1.5        | 2.8        | 2.1        | 1.6        | 1.3        | 0.9        | 0.7        | 0.5        | 0.0        | -0.3       | -0.5       | -1.1       | -1.5       | -1.0       |
| Underlying Public Spending     | 2.1             | 4.1         | 2.9         | 2.6         | 1.0                | 1.9        | -0.7       | 1.6        | 0.6        | 2.4        | 0.3        | 0.6        | 0.6        | 0.6        | 0.6        | 0.6        | 0.6        | 0.7        | 0.7        | 0.7        |
| Exports                        | 6.0             | 6.9         | 9.3         | 6.8         | 3.5                | -3.1       | 4.8        | 0.2        | 3.1        | 1.3        | 0.4        | 3.3        | 2.4        | 2.4        | 2.5        | 2.2        | 1.6        | 1.2        | 0.8        | 0.9        |
| Imports                        | 1.7             | 0.9         | 4.8         | 5.6         | 3.3                | 0.4        | -1.6       | 0.3        | -0.8       | 2.7        | 1.8        | 1.6        | 0.1        | 0.7        | 1.7        | 2.0        | 1.0        | 0.7        | 1.4        | 3.1        |
| Net Exports (a)                | 0.9             | 1.3         | 1.2         | 0.5         | 0.1                | -0.8       | 1.4        | 0.0        | 1.1        | -0.2       | -0.3       | 0.4        | 0.5        | 0.4        | 0.3        | 0.1        | 0.2        | 0.2        | -0.1       | -0.4       |
| Inventories (a)                | 0.1             | 0.0         | 0.0         | 0.0         | 0.6                | -0.3       | 0.1        | -0.1       | -0.1       | 0.2        | 0.0        | 0.0        | -0.1       | 0.1        | 0.1        | 0.0        | -0.2       | 0.0        | 0.1        | 0.2        |
| Domestic Demand - qtr%         |                 |             |             |             | 0.3                | 0.6        | -0.4       | 0.6        | 0.1        | 0.6        | 0.4        | 0.7        | 0.0        | 0.3        | 0.7        | 0.8        | 0.4        | 0.2        | 0.6        | 1.4        |
| Dom Demand - ann %             | 1.1             | 1.7         | 1.6         | 2.2         | 0.7                | 1.3        | 1.1        | 1.1        | 1.3        | 1.2        | 2.0        | 2.1        | 1.7        | 1.4        | 1.7        | 1.8        | 2.1        | 2.1        | 2.0        | 2.5        |
| <b>Real GDP - qtr %</b>        | <b>0.9</b>      | <b>0.2</b>  | <b>1.0</b>  | <b>0.7</b>  | <b>1.0</b>         | <b>0.5</b> | <b>0.7</b> | <b>1.0</b> | <b>0.5</b> | <b>0.1</b> | <b>1.0</b> | <b>0.4</b> | <b>0.8</b> | <b>1.0</b> | <b>0.9</b> | <b>0.3</b> | <b>0.4</b> | <b>0.5</b> | <b>1.1</b> |            |
| <b>Real GDP - ann %</b>        | <b>2.4</b>      | <b>2.8</b>  | <b>2.7</b>  | <b>2.6</b>  | <b>2.3</b>         | <b>2.0</b> | <b>2.6</b> | <b>2.8</b> | <b>3.0</b> | <b>3.3</b> | <b>2.4</b> | <b>2.7</b> | <b>2.1</b> | <b>2.3</b> | <b>3.2</b> | <b>3.2</b> | <b>3.1</b> | <b>2.7</b> | <b>2.2</b> | <b>2.3</b> |
| CPI headline - qtr %           |                 |             |             |             | 0.2                | 0.7        | 0.5        | 0.4        | -0.2       | 0.4        | 0.7        | 0.7        | 0.5        | 0.6        | 0.7        | 0.6        | 0.4        | 0.6        | 0.6        | 0.7        |
| CPI headline - ann %           | 1.5             | 1.3         | 2.4         | 2.3         | 1.3                | 1.5        | 1.5        | 1.7        | 1.3        | 1.0        | 1.3        | 1.6        | 2.3        | 2.5        | 2.4        | 2.4        | 2.3        | 2.3        | 2.3        | 2.4        |
| CPI underlying - qtr %         |                 |             |             |             | 0.7                | 0.5        | 0.4        | 0.5        | 0.2        | 0.5        | 0.4        | 0.5        | 0.5        | 0.5        | 0.5        | 0.4        | 0.4        | 0.5        | 0.5        | 0.6        |
| CPI underlying - ann %         | 2.2             | 1.5         | 1.8         | 1.9         | 2.4                | 2.3        | 2.2        | 2.1        | 1.6        | 1.6        | 1.5        | 1.5        | 1.8        | 1.8        | 1.9        | 1.9        | 1.8        | 1.8        | 1.8        | 2.0        |
| Wages (Pvte WPI - ann %)       | 2.1             | 2.0         | 2.0         | 2.3         | 2.3                | 2.2        | 2.1        | 2.0        | 2.0        | 2.0        | 2.0        | 2.0        | 2.0        | 2.0        | 2.0        | 2.0        | 2.1        | 2.2        | 2.3        | 2.4        |
| Unemployment Rate (%)          | 6.0             | 5.7         | 5.6         | 5.6         | 6.2                | 6.0        | 6.1        | 5.9        | 5.9        | 5.7        | 5.7        | 5.6        | 5.6        | 5.7        | 5.6        | 5.6        | 5.6        | 5.6        | 5.6        | 5.6        |
| Terms of trade                 | -11.5           | -1.3        | 3.4         | -0.3        | -2.6               | -4.5       | -2.3       | -3.3       | -1.9       | 2.2        | 4.3        | 5.9        | 3.0        | -4.9       | -5.6       | -1.2       | 0.1        | -0.2       | -0.6       | -0.7       |
| G&S trade balance, \$Abn       | -36.3           | -22.3       | 0.4         | -16.7       | -5.0               | -11.5      | -8.6       | -11.3      | -8.6       | -8.0       | -5.8       | 0.2        | 4.8        | 1.8        | -2.6       | -3.6       | -3.0       | -2.8       | -4.0       | -6.9       |
| % of GDP                       | -2.2            | -1.3        | 0.0         | -0.9        | -1.2               | -2.8       | -2.1       | -2.8       | -2.1       | -1.9       | -1.4       | 0.0        | 1.1        | 0.4        | -0.6       | -0.8       | -0.7       | -0.6       | -0.9       | -1.5       |
| Current Account (% GDP)        | -4.7            | -3.1        | -2.4        | -2.8        | -3.4               | -5.2       | -4.8       | -5.5       | -3.6       | -3.7       | -3.2       | -1.8       | -1.3       | -2.0       | -3.0       | -3.2       | -2.5       | -2.5       | -2.8       | -3.4       |

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

## Exchange Rate Forecasts

|               | 5-Dec         | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|---------------|---------------|--------|--------|--------|--------|--------|
| <b>Majors</b> |               |        |        |        |        |        |
| AUD/USD       | <b>0.7434</b> | 0.75   | 0.73   | 0.72   | 0.70   | 0.70   |
| NZD/USD       | <b>0.7110</b> | 0.72   | 0.70   | 0.68   | 0.67   | 0.67   |
| USD/JPY       | <b>113.21</b> | 110    | 112    | 114    | 113    | 112    |
| EUR/USD       | <b>1.0547</b> | 1.02   | 0.98   | 1.00   | 1.02   | 1.04   |
| GBP/USD       | <b>1.2650</b> | 1.23   | 1.21   | 1.20   | 1.19   | 1.20   |
| USD/CNY       | <b>6.8800</b> | 6.95   | 7.20   | 7.24   | 7.18   | 7.17   |
| USD/CAD       | <b>1.3341</b> | 1.35   | 1.37   | 1.38   | 1.42   | 1.43   |

### Australian Cross Rates

|         | 5-Dec         | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|---------|---------------|--------|--------|--------|--------|--------|
| AUD/JPY | <b>84.2</b>   | 83     | 82     | 82     | 79     | 78     |
| AUD/EUR | <b>0.7048</b> | 0.74   | 0.74   | 0.72   | 0.69   | 0.67   |
| AUD/GBP | <b>0.5877</b> | 0.61   | 0.60   | 0.60   | 0.59   | 0.58   |
| AUD/NZD | <b>1.0456</b> | 1.04   | 1.04   | 1.06   | 1.04   | 1.04   |
| AUD/CNY | <b>5.1146</b> | 5.21   | 5.26   | 5.21   | 5.03   | 5.02   |
| AUD/CAD | <b>0.9918</b> | 1.01   | 1.00   | 0.99   | 0.99   | 1.00   |
| AUD/CHF | <b>0.7551</b> | 0.73   | 0.70   | 0.76   | 0.74   | 0.74   |

## Interest Rate Forecasts

|                                      | 5-Dec        | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|--------------------------------------|--------------|--------|--------|--------|--------|--------|
| <b>Aust rates</b>                    |              |        |        |        |        |        |
| RBA Cash rate                        | <b>1.50</b>  | 1.50   | 1.50   | 1.25   | 1.00   | 1.00   |
| 3 month bill rate                    | <b>1.77</b>  | 1.75   | 1.75   | 1.50   | 1.25   | 1.25   |
| 3 Year Swap Rate                     | <b>2.04</b>  | 2.1    | 2.1    | 2.0    | 2.0    | 2.1    |
| 10 Year Swap Rate                    | <b>2.93</b>  | 2.9    | 3.0    | 3.0    | 3.0    | 3.0    |
| <b>Offshore Policy Rates</b>         |              |        |        |        |        |        |
| US Fed funds                         | <b>0.50</b>  | 0.75   | 0.75   | 1.00   | 1.00   | 1.25   |
| ECB deposit rate                     | <b>-0.40</b> | -0.40  | -0.40  | -0.40  | -0.40  | -0.40  |
| BoE repo rate                        | <b>0.25</b>  | 0.25   | 0.25   | 0.25   | 0.25   | 0.25   |
| BoJ excess reserves rate             | <b>-0.10</b> | -0.10  | -0.10  | -0.10  | -0.10  | -0.10  |
| RBNZ OCR                             | <b>1.75</b>  | 1.75   | 1.75   | 1.75   | 1.75   | 1.75   |
| China 1yr lending rate               | <b>4.35</b>  | 4.35   | 4.10   | 4.10   | 4.10   | 4.10   |
| China Reserve Ratio                  | <b>17.0</b>  | 15.0   | 15.0   | 15.0   | 15.0   | 15.0   |
| <b>10 Year Benchmark Bond Yields</b> |              |        |        |        |        |        |
| Australia                            | <b>2.81</b>  | 2.70   | 2.75   | 2.80   | 2.75   | 2.70   |
| United States                        | <b>2.38</b>  | 2.30   | 2.40   | 2.50   | 2.50   | 2.50   |
| New Zealand                          | <b>3.23</b>  | 3.00   | 3.15   | 3.30   | 3.35   | 3.30   |

Sources: NAB Global Markets Research; Bloomberg; ABS

## Global GDP

| Dec year    | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 20 Yr Avge |
|-------------|------|------|------|------|------|------|------------|
| Australia   | 2.0  | 2.7  | 2.4  | 2.8  | 2.7  | 2.6  | 3.4        |
| US          | 1.7  | 2.4  | 2.6  | 1.5  | 2.1  | 1.9  | 2.6        |
| Eurozone    | -0.3 | 1.1  | 1.9  | 1.6  | 1.5  | 1.6  | 1.5        |
| UK          | 1.9  | 3.1  | 2.2  | 1.8  | 0.8  | 1.6  | 2.4        |
| Japan       | 1.3  | -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       | 6.3  | 7.0  | 7.2  | 7.4  | 7.5  | 7.5  | 6.6        |
| New Zealand | 2.4  | 3.8  | 2.5  | 3.4  | 3.1  | 1.9  | 3.0        |
| World       | 3.3  | 3.3  | 3.0  | 2.9  | 3.2  | 3.2  | 3.5        |
| MTP Top 5   | 3.9  | 3.9  | 3.9  | 3.5  | 3.6  | 3.5  | 5.0        |

## Commodity prices (\$US)

|                | 5-Dec | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 |
|----------------|-------|--------|--------|--------|--------|--------|
| WTI oil        | 51.68 | 49     | 51     | 52     | 53     | 55     |
| Gold           | 1175  | 1290   | 1260   | 1240   | 1210   | 1180   |
| Iron ore       | 77.8  | 54     | 49     | 45     | 42     | 41     |
| Hard cok. coal | 288   | 200    | 180    | 106    | 97     | 93     |
| Thermal coal   | 87    | 62     | 62     | 65     | 65     | 65     |
| Copper         | 5756  | 4830   | 4830   | 4800   | 4800   | 4800   |
| Japan LNG      | 6.6   | 6.7    | 7.0    | 7.2    | 7.8    | 8.2    |

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