



National  
Australia  
Bank

# AUSTRALIAN ECONOMIC AND FINANCIAL OUTLOOK

*USA*

*June 2017*

# KEY AUSTRALIAN QUESTIONS/ISSUES

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- **Housing**

- Housing stress points/what to watch
- What replaces housing in driving Australian growth?
- What are the risks of a significant fall in house prices
- Will recent macro-prudential measures slow the economy/deepen housing slowdown?

- **Current economic conditions and outlook**

- The Australian hard versus soft data debate!
- Momentum in the labour market - unemployment, underemployment and slow wages growth
- Implications of two soft quarterly GDP outcomes, followed by a rebound in Q3/Q4
- Signs of some improvement in mining/mining regions due higher commodity prices

- **China linkages and outlook for major Australian commodities**

- **Markets**

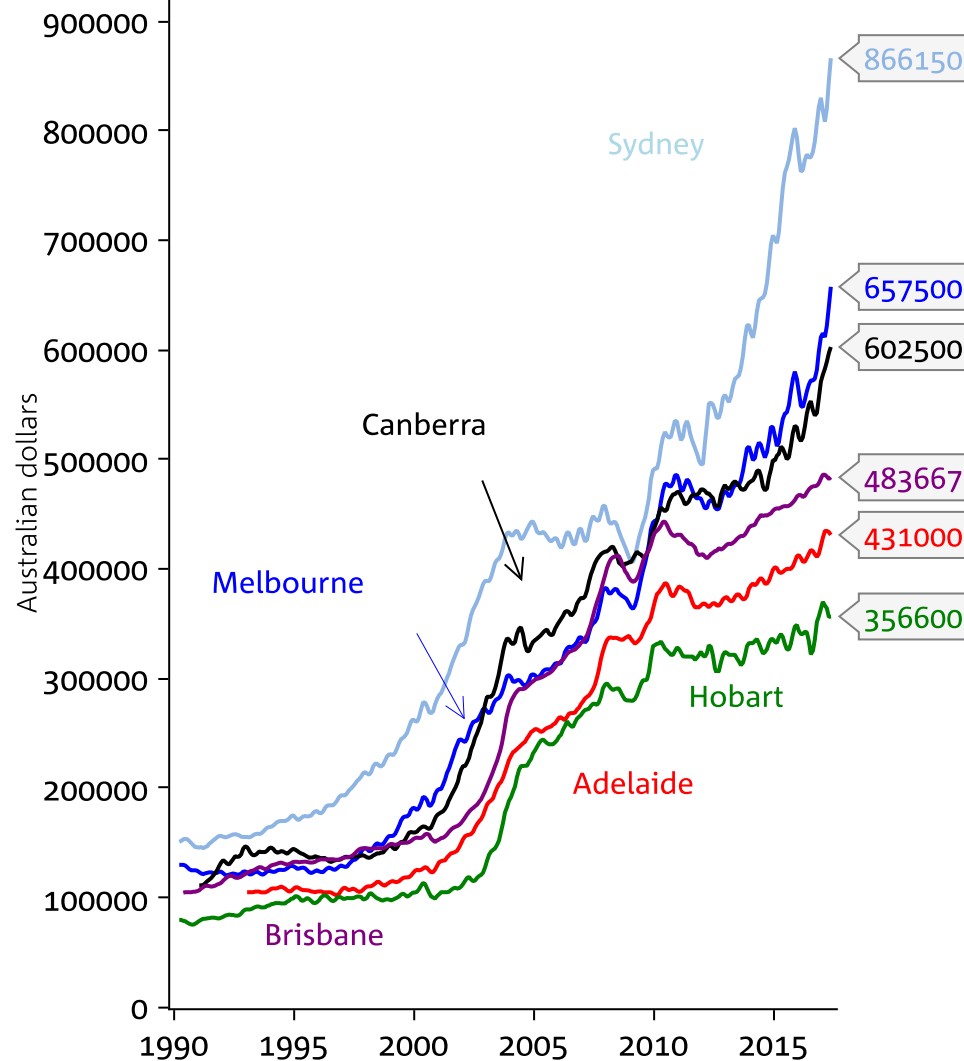
- Unemployment and inflation suggest RBA should ease, but household indebtedness concerns constraining RBA. Bank watching labour and housing market developments closely
- Australian cash rates below US interest rates: implications for the \$A
- Budget and the AAA
- Key bond market trades

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# HOUSING

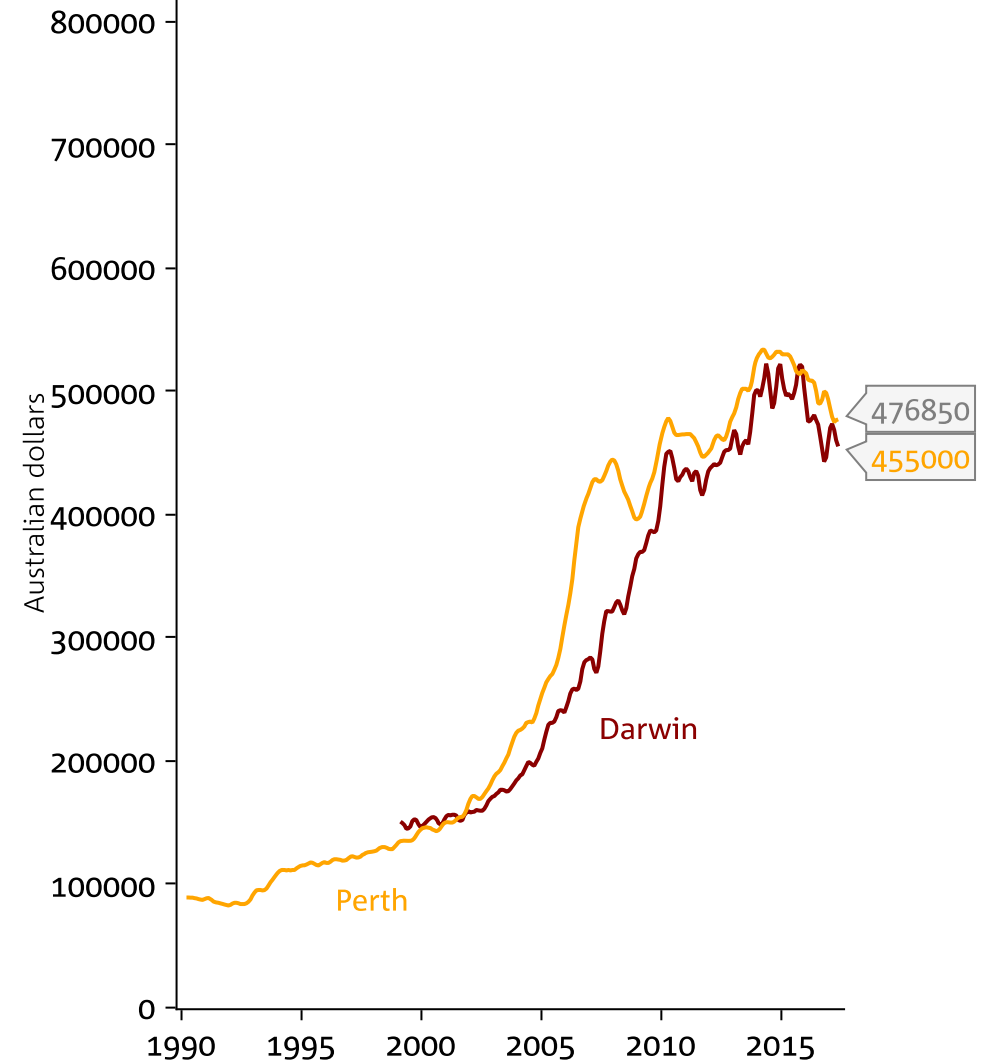
# HOUSING: MORE THAN ONE MARKET – *SYD, MEL, CBR* very strong, but prices have been falling in *Perth & Darwin* (and dramatically in mining towns)

Australian Dwelling Prices - Non-mining Capitals\*



Source: National Australia Bank, Macrobond

Australian House Prices - Mining State Capitals\*

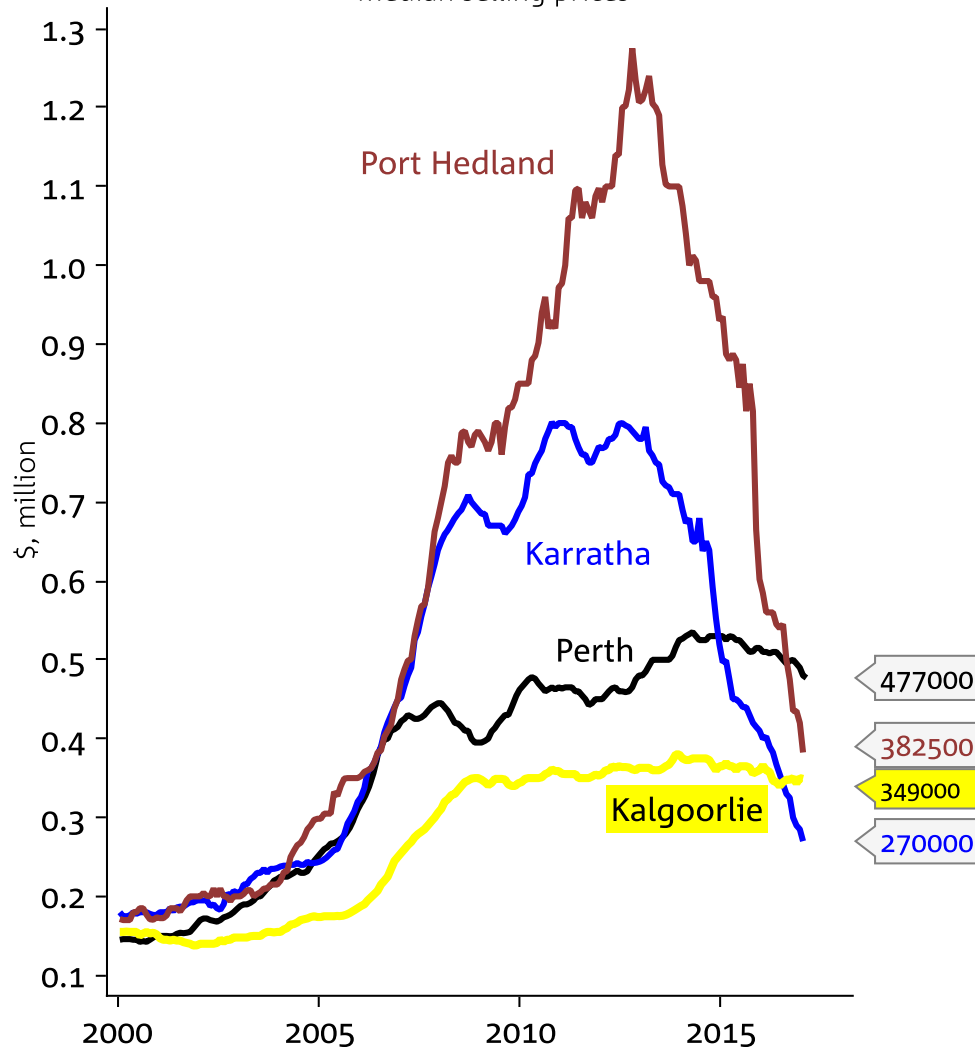


Source: National Australia Bank, Macrobond

# HOUSING: MORE THAN ONE MARKET – *most mining towns/regions very hard hit*

## Resource town prices - WA

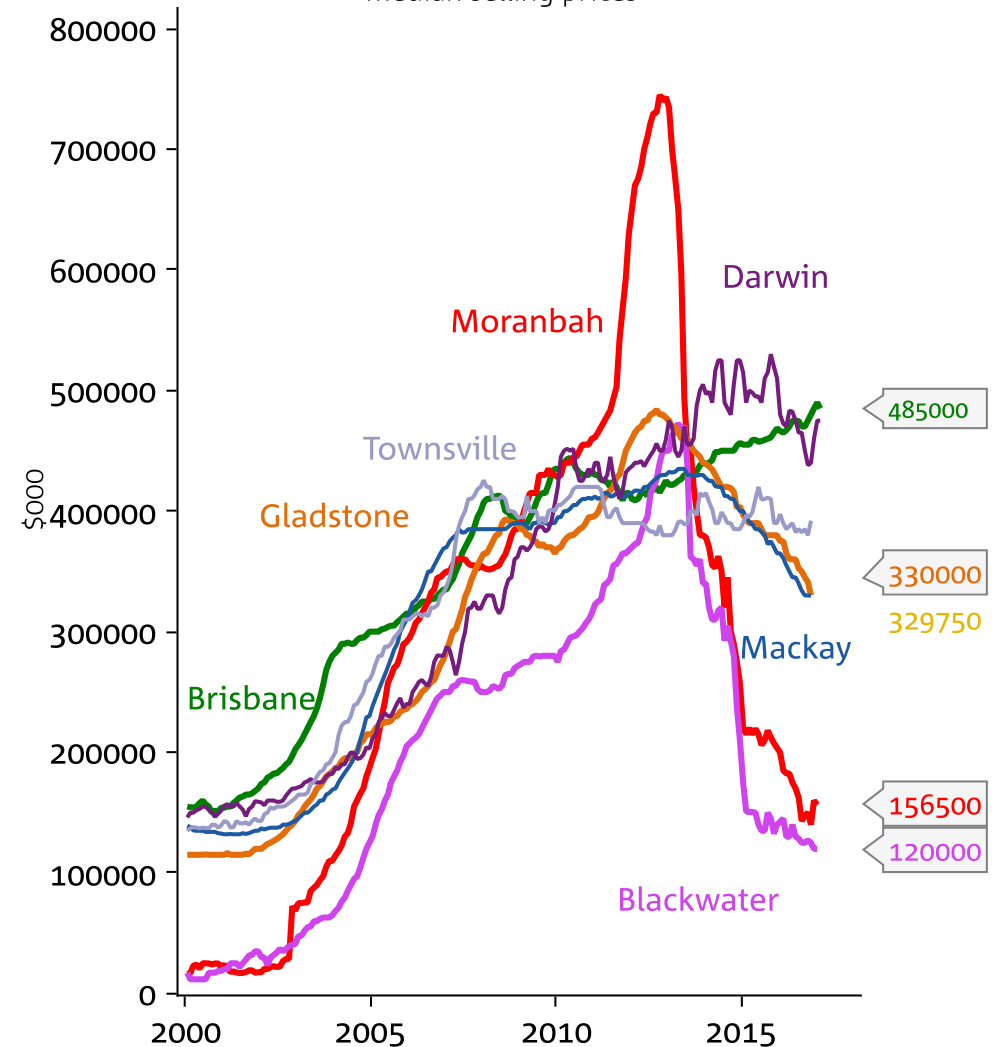
Median selling prices



Source: National Australia Bank, Macrobond

## Resource town prices - QLD/NT

Median selling prices



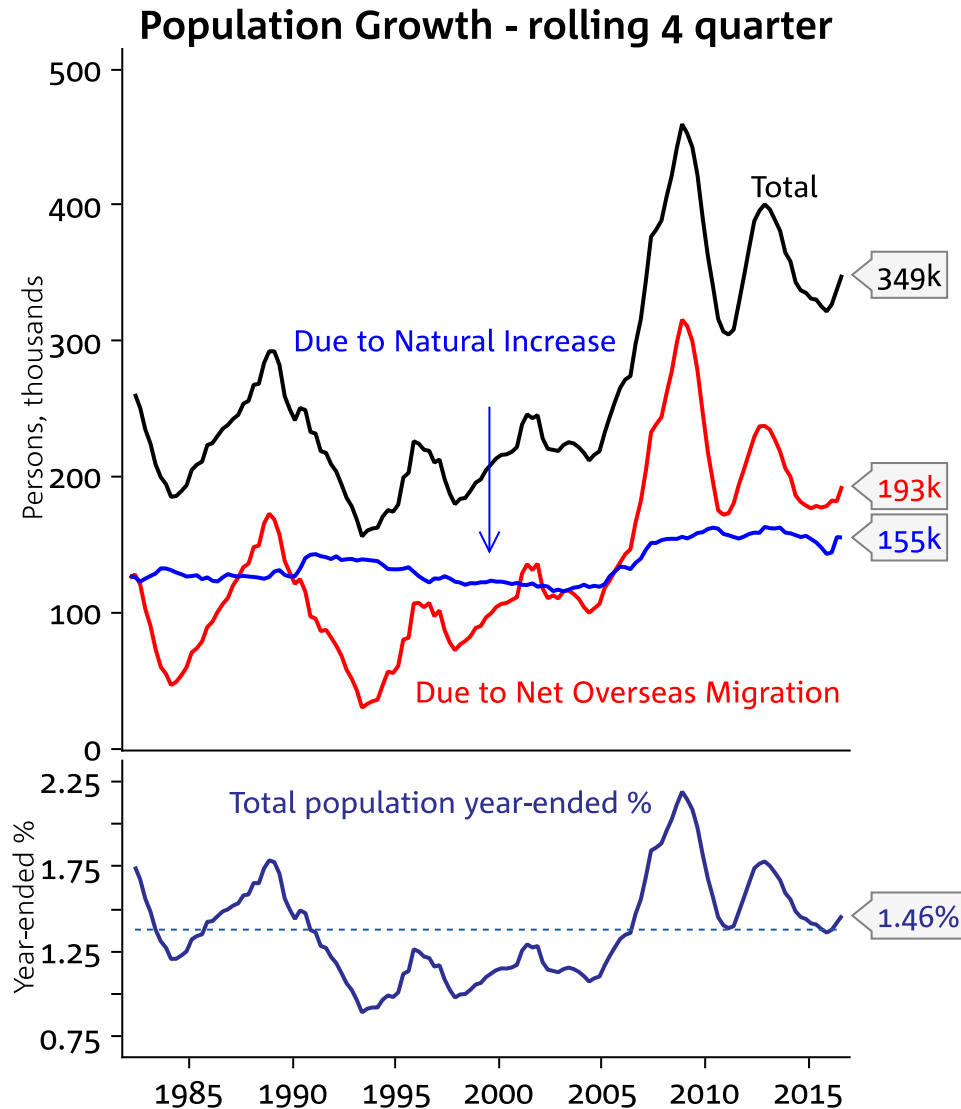
Source: National Australia Bank, Macrobond

# HOUSING ISSUES

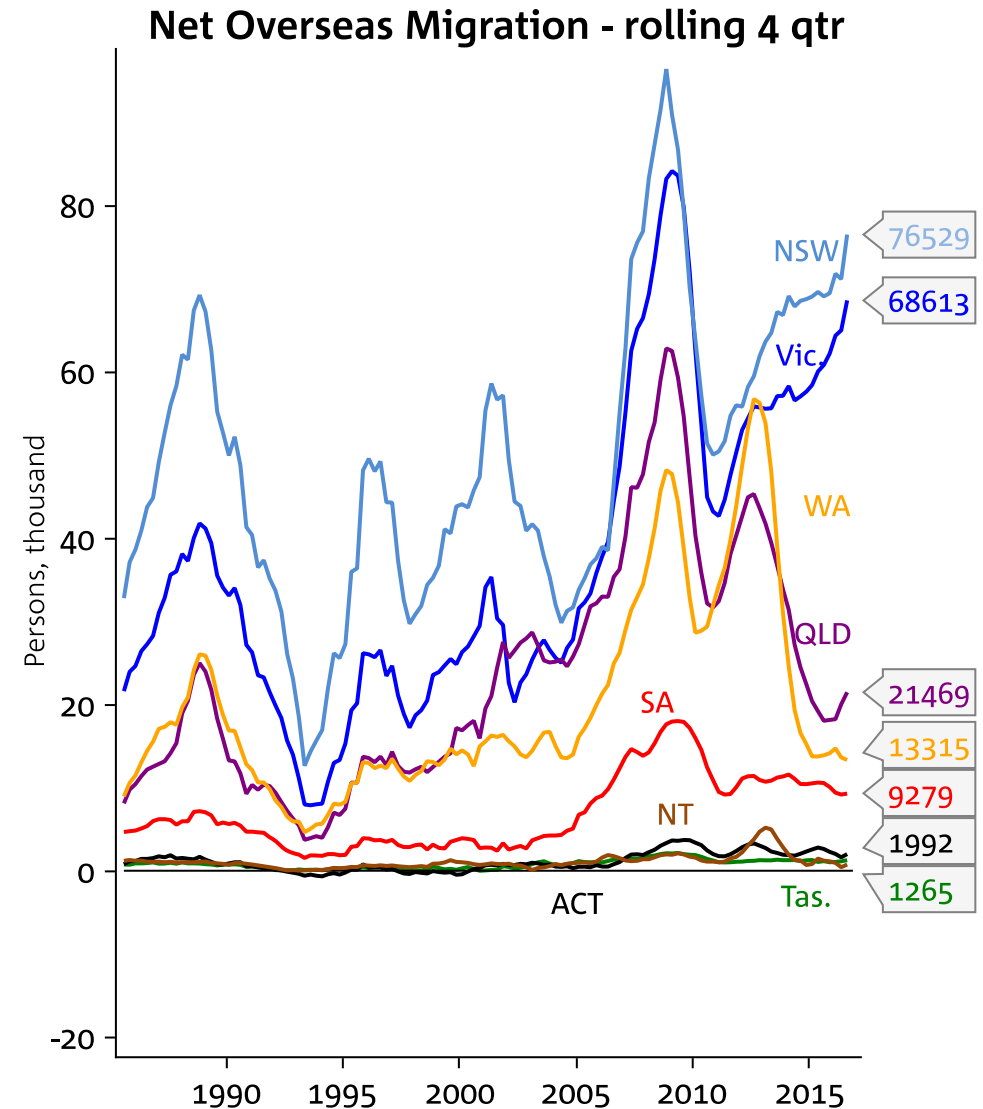
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- Very strong price rises in some cities (SYD, MEL in particular) – but falling prices in mining-related regions
- Affordability
- Population growth extremely strong, due elevated overseas migration levels, of which a significant portion is foreign students, especially from China.
- Infrastructure and land release not keeping pace with demand growth
- Elevated levels of foreign investment in Australian real estate, especially from China
- Tax: is the combination of negative gearing, the capital gains tax discount and low interest rates driving excessive investor interest in housing. SMSF borrowing.
- Ageing population and SMSF borrowing
- Impact of structurally lower interest rates (global hunt for yield) on valuations
- APRA/RBA heightened risk environment
  - House prices high
  - Household debt rising with household income growth subdued
  - Very low interest rates
  - High share of interest-only and investor lending for housing
- Is there a housing bubble/will a downturn in housing deepen the next economic downturn?

# HOUSING DEMAND – Australia's population still growing nearly 1½% per year, underpinned by strong net overseas migration (40%/79K foreign students)

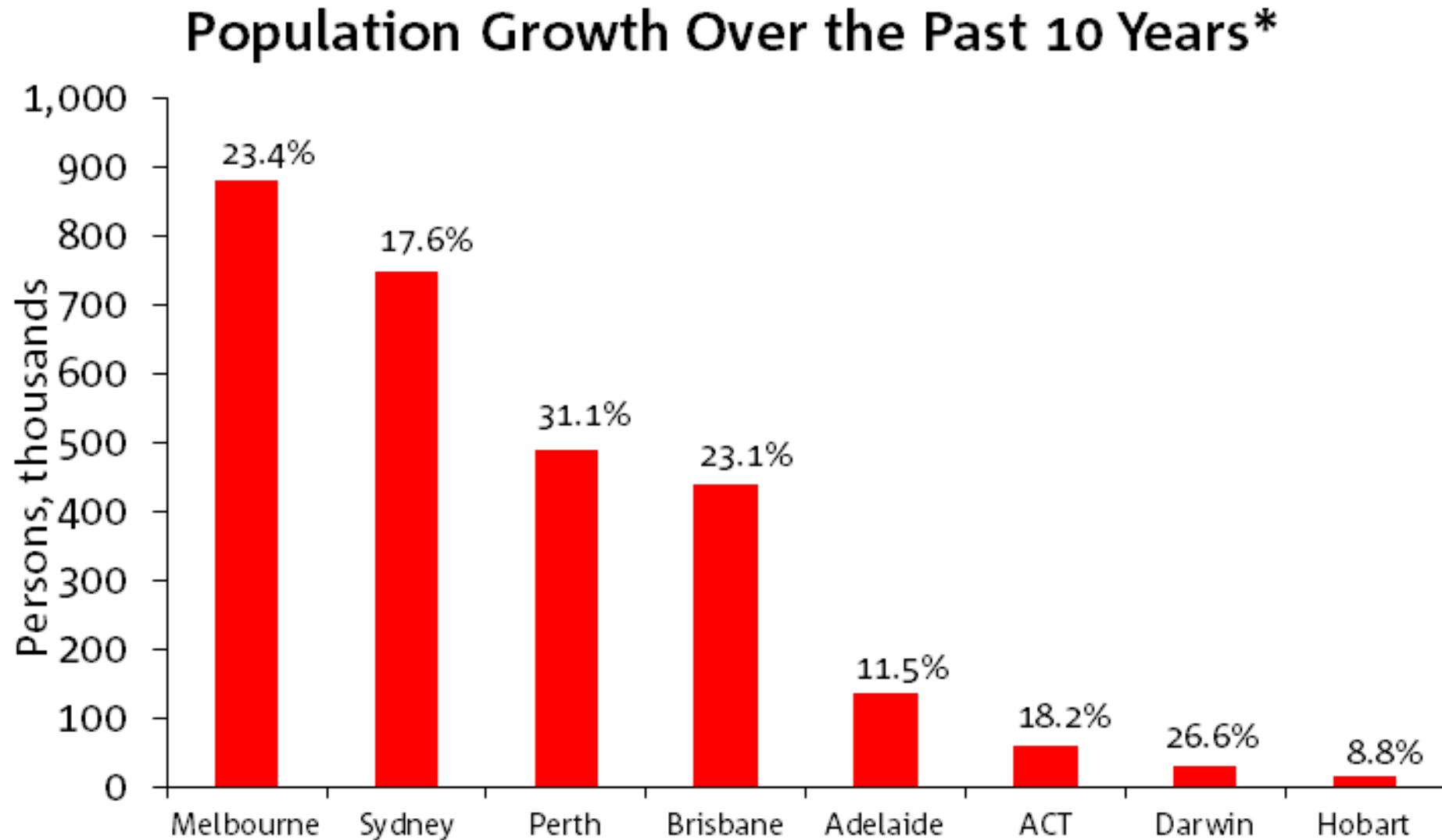


Source: National Australia Bank, Macrobond



Source: National Australia Bank, ABS

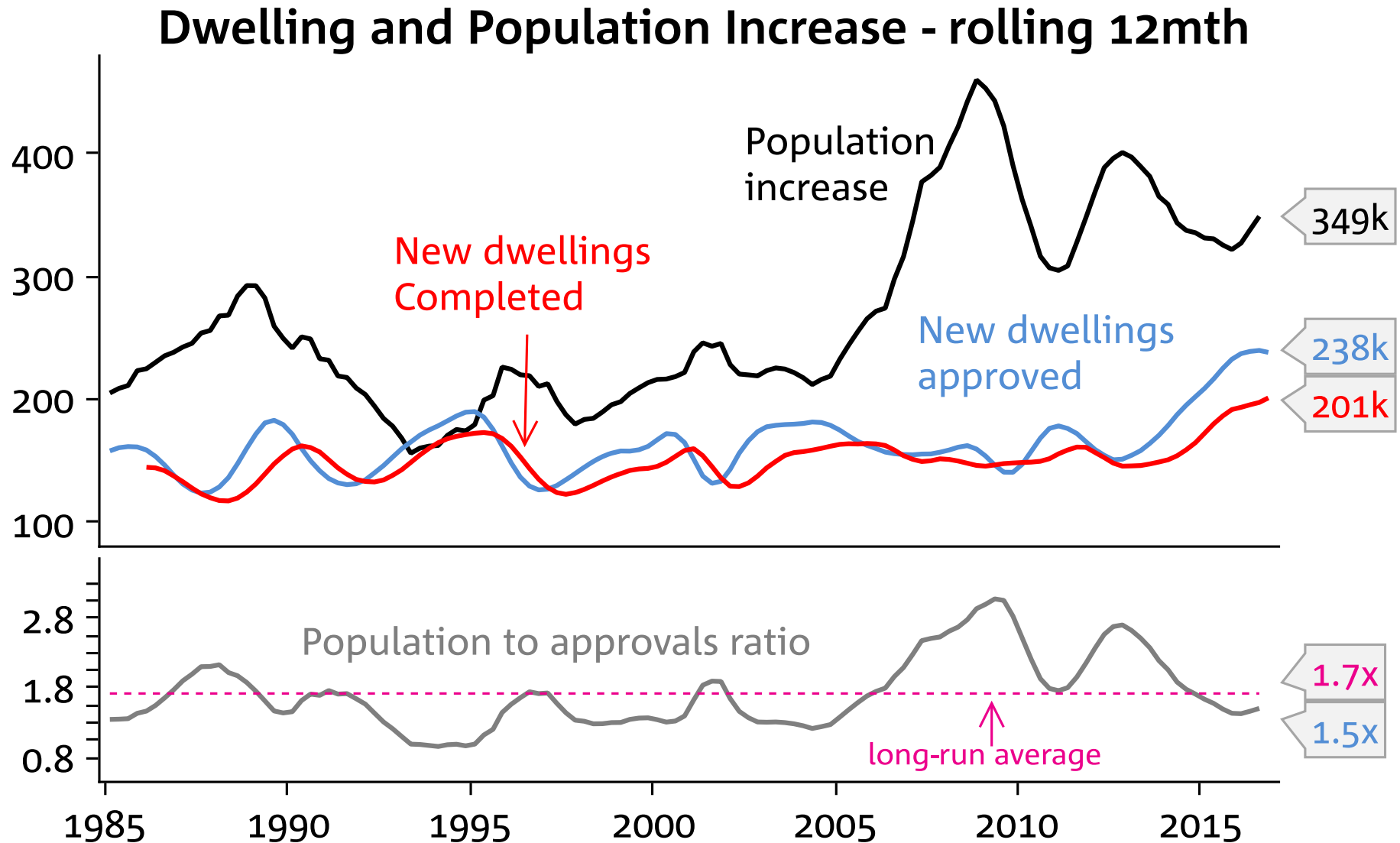
## **DEMAND DRIVER** – cumulative population growth over 10 years exceptional in Melbourne, Sydney and mining capitals



\* Cumulative change in the population from 2006 to 2016



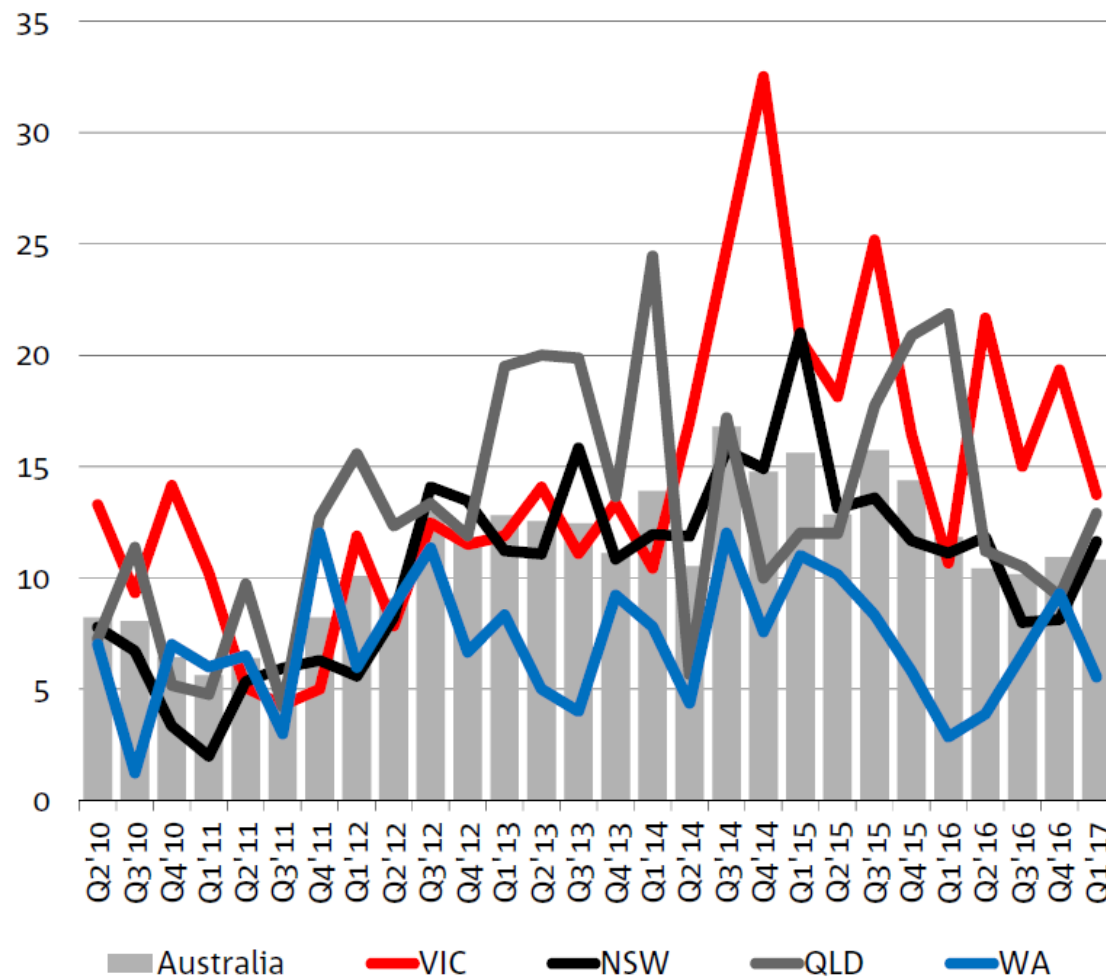
# HOUSING SUPPLY RESPONSE – *slow relative to extended period (10 years) of strong population growth*



Source: National Australia Bank, Macrobond

**DEMAND DRIVER** – investment by foreign residents remains significant but has declined a little

## DEMAND FOR NEW PROPERTY FROM FOREIGN BUYERS (% OF TOTAL)



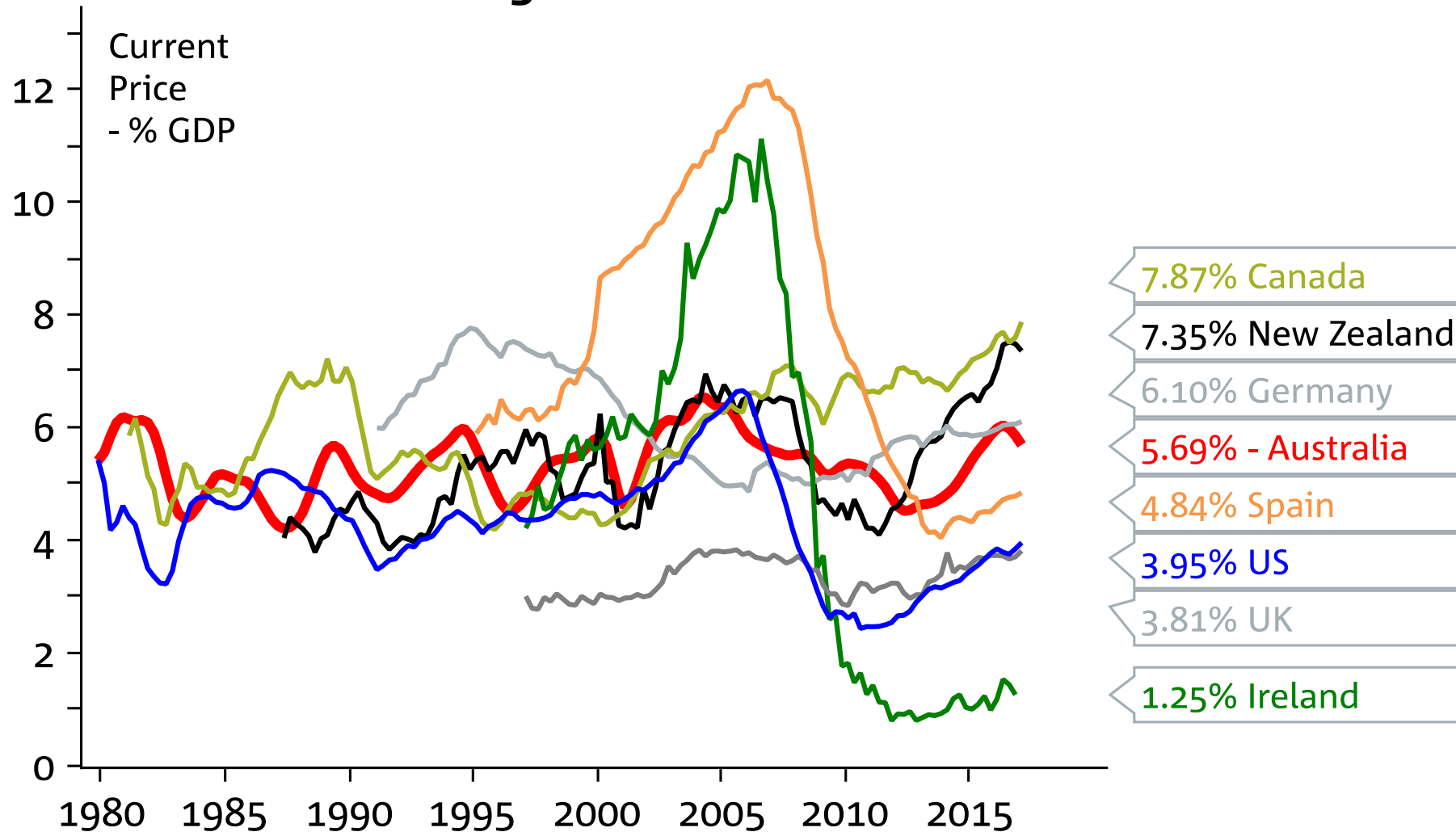
# HOUSING STRESS

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- **What conditions would cause greatest stress in Australian housing markets?**
  - Recession in Australia, which leads to higher unemployment, forced selling and reduced migration
    - Has only been apparent in mining-related areas
  - Sharp increases in interest rates, given relatively high indebtedness
    - Slight increases in interest rates, predominantly on investor & interest-only loans
  - Significant oversupply of dwellings
    - Possible for apartments in certain areas – watch rents, vacancy rates and apartment settlement anecdotes. Need approval rates to slow going forward.
  - Credit restrictions/credit tightening
    - Credit has been tightened for property developers given fears of apartment oversupply
    - APRA/bank tightening for foreigners/investors/interest-only – other capital suppliers
  - Collapse in Chinese economy/Chinese housing market
  - Changes in taxation arrangements (Opposition policy) – a few slight amendments in the budget

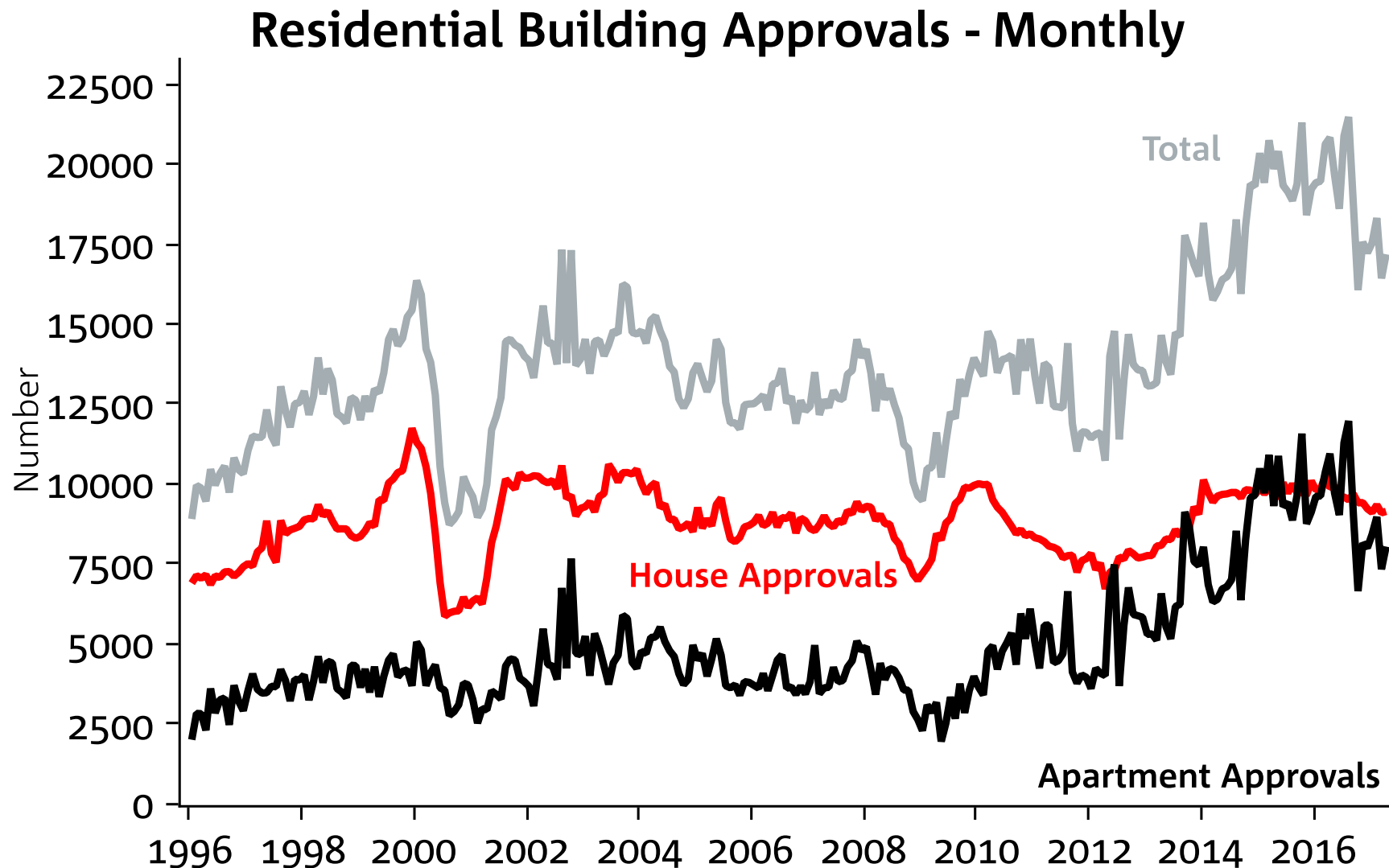
# HOUSING SUPPLY – in a local context, elevated historically, but globally not on the scale of Ireland or Spain (similar to the US)

## Dwelling Investment as a % of GDP



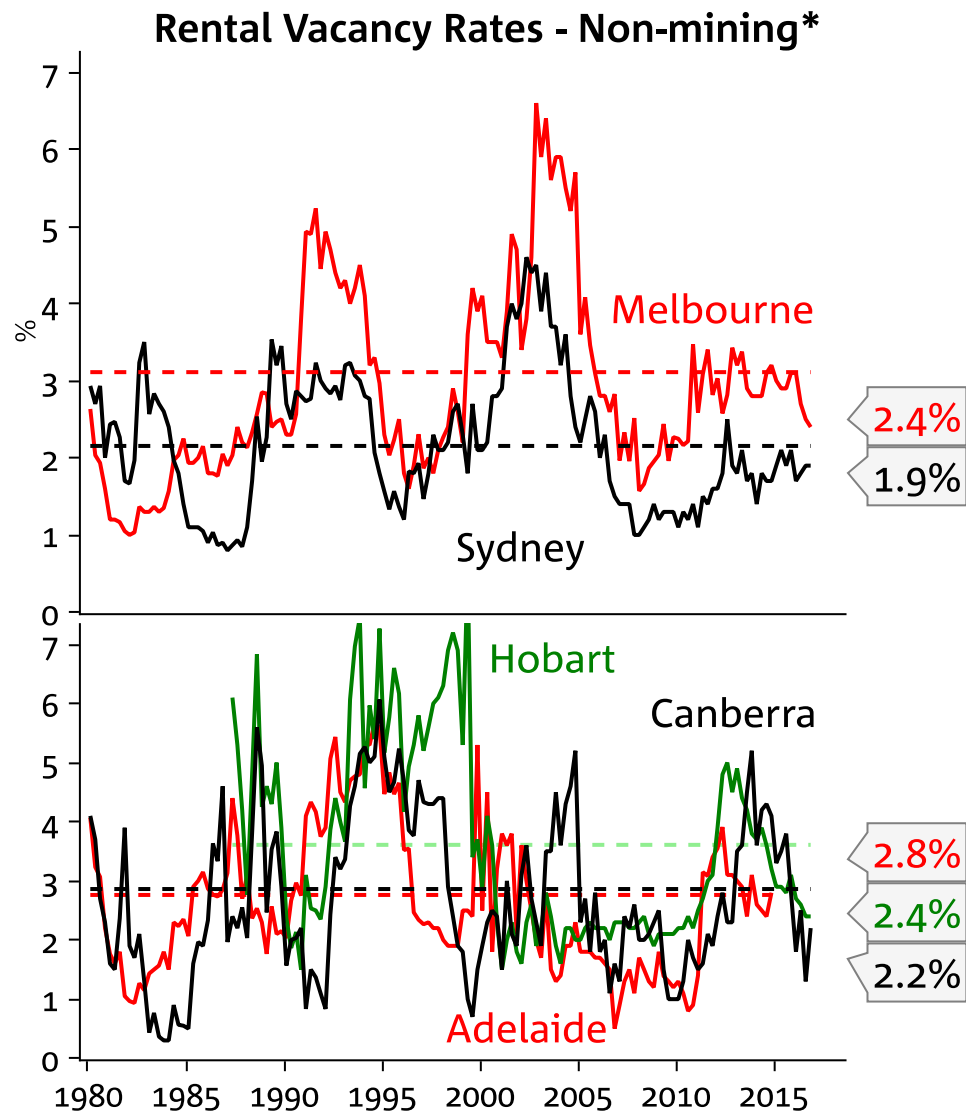
Source: National Australia Bank, Macrobond

# HOUSING CONSTRUCTION – *large increase in apartment approvals*

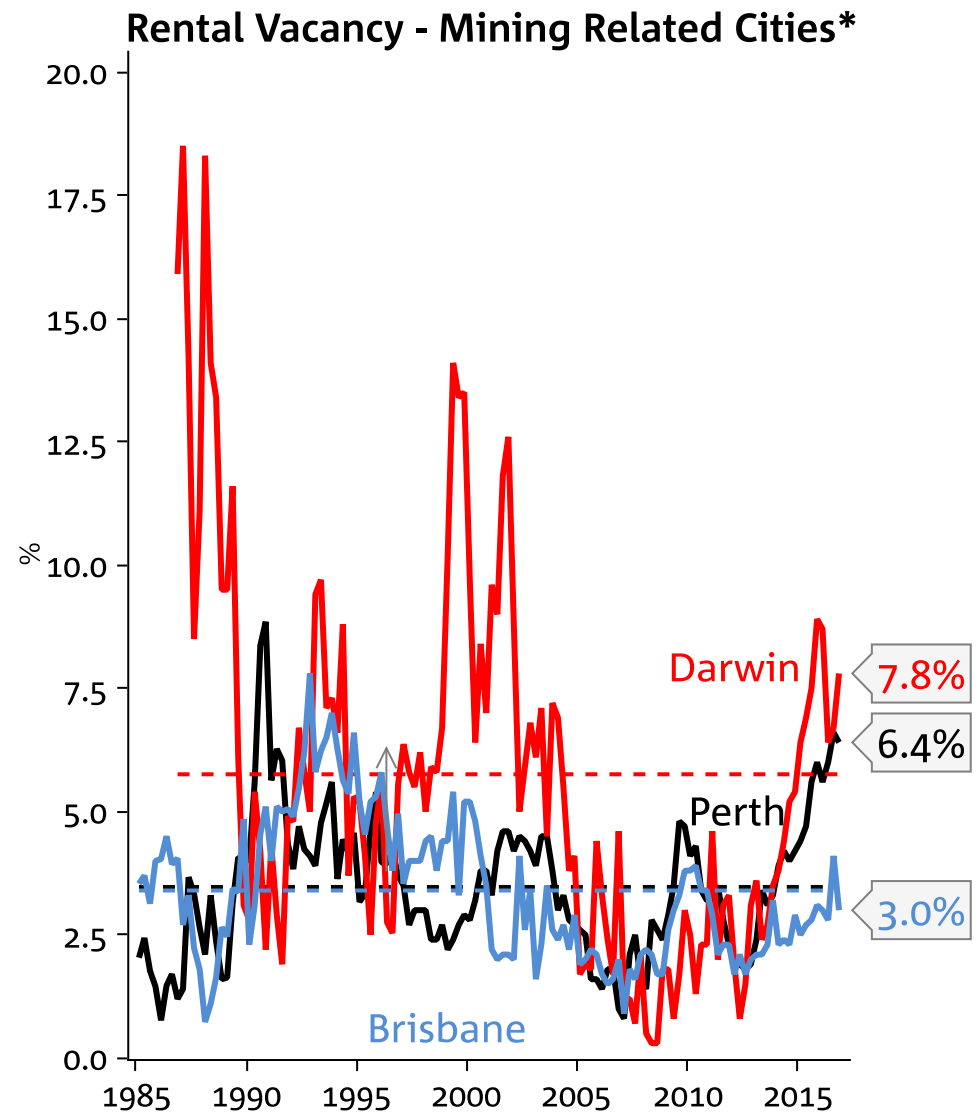


Source: National Australia Bank, Macrobond

# WATCH: VACANCY RATES – Darwin and Perth indicating oversupply. Watching Brisbane

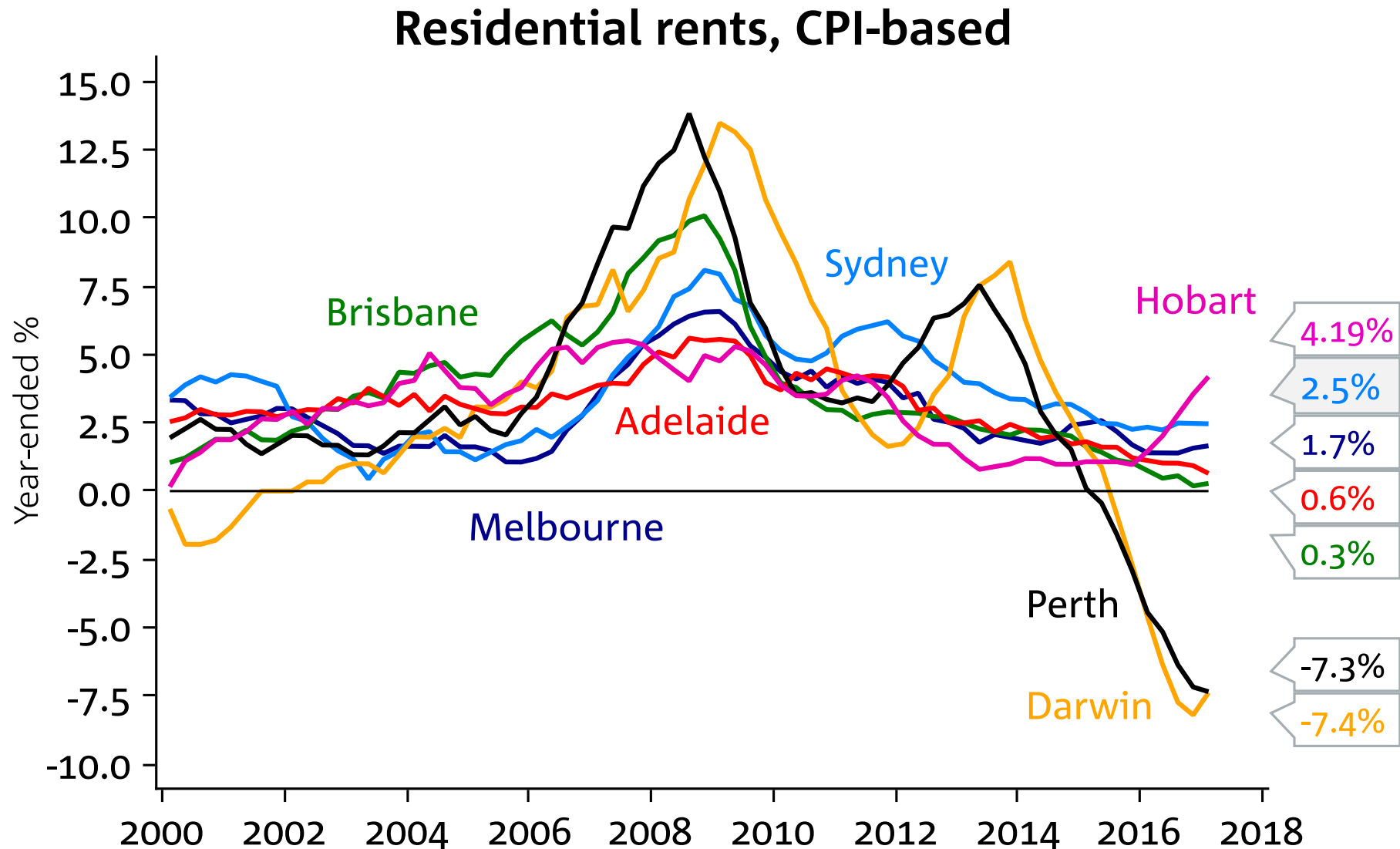


Source: National Australia Bank, REIA



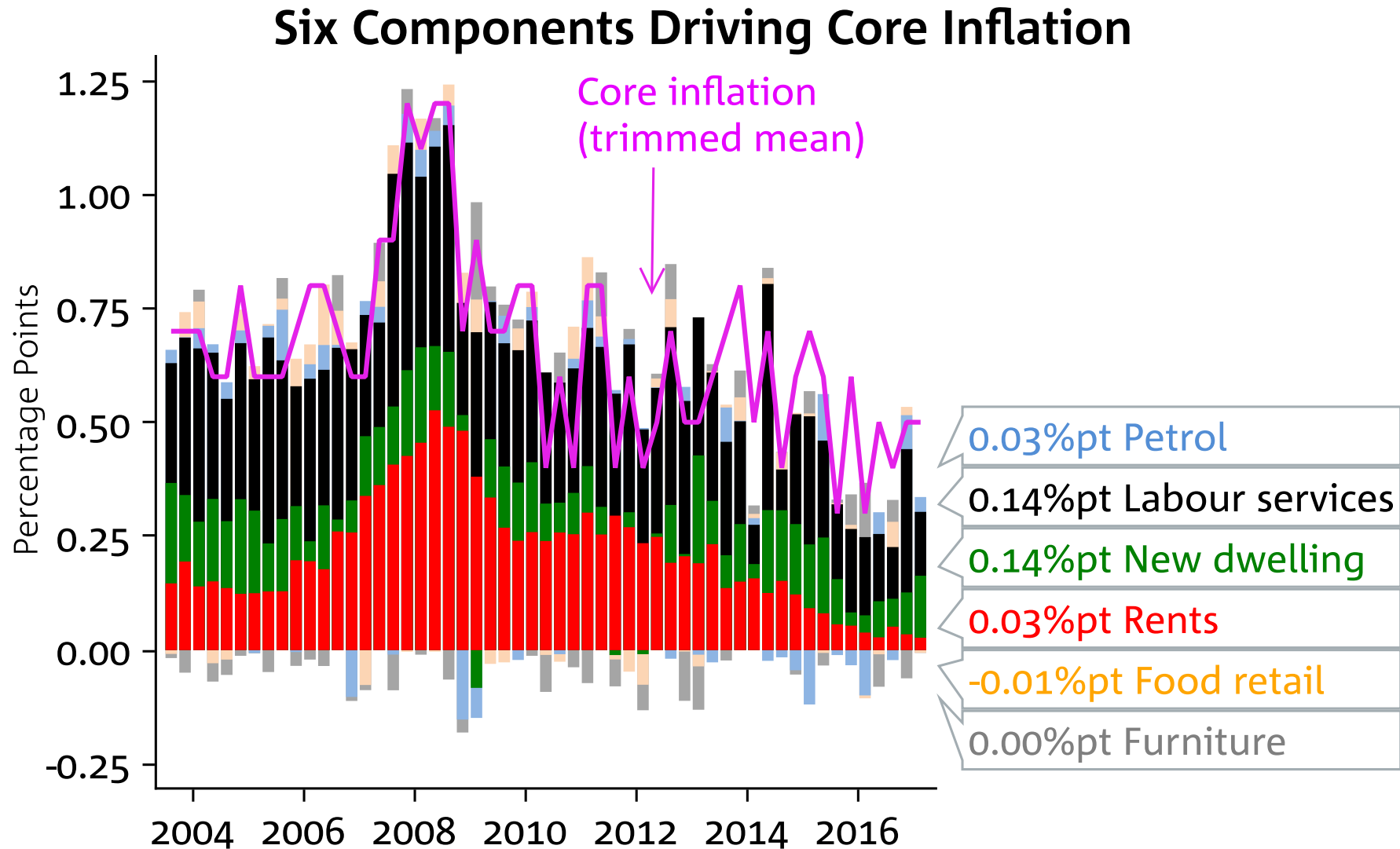
Source: National Australia Bank, Macrobond

**WATCH: RENTS** – especially in Brisbane. Growth slowing most areas except Hobart; over-supply clear in Perth and Darwin



Source: National Australia Bank, ABS

# INFLATION – core inflation broadly expected to remain low due influence of rents



Source: National Australia Bank, ABS



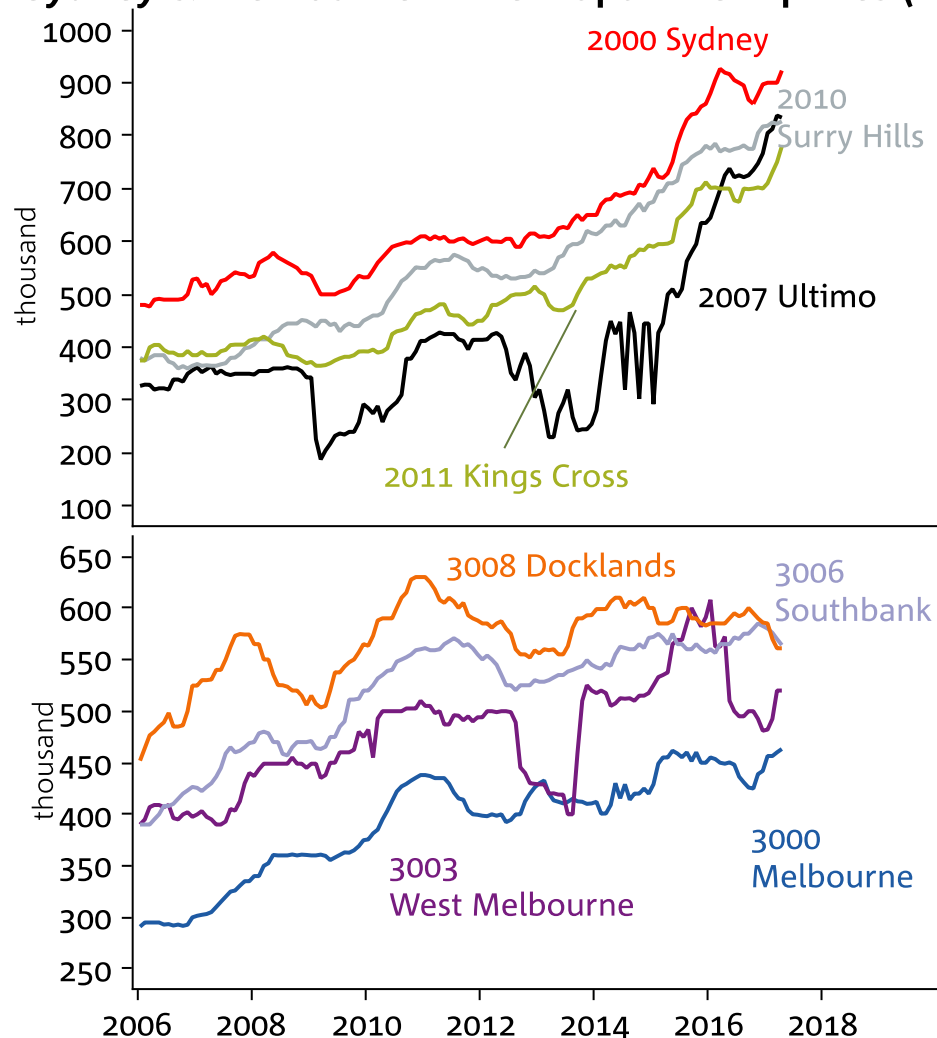
# APARTMENT SETTLEMENT ANECDOTES – *significant apartment settlements over the next 12 months*

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- NAB projects settling with minimal extension/delays/failures to settlements – banks typically require only 40-50% of apartments to settle for senior debt to be repaid
- Brisbane settlement delays running at around 20% in selected projects – split 50/50 local FIRB buyers
- However, project in Woollahra (Brisbane) recently settled with 110 properties placed in rental pool and 80 rented in first 30 days
- Melbourne apartment settlement delays around 5%; some vendor finance extended – valuations holding up
- Fremantle project selling slowly – a number of FIRB sales fell over and over 25% of project yet to sell. Senior bank debt still repaid.
- Sydney settlements proceeding with little reported problems

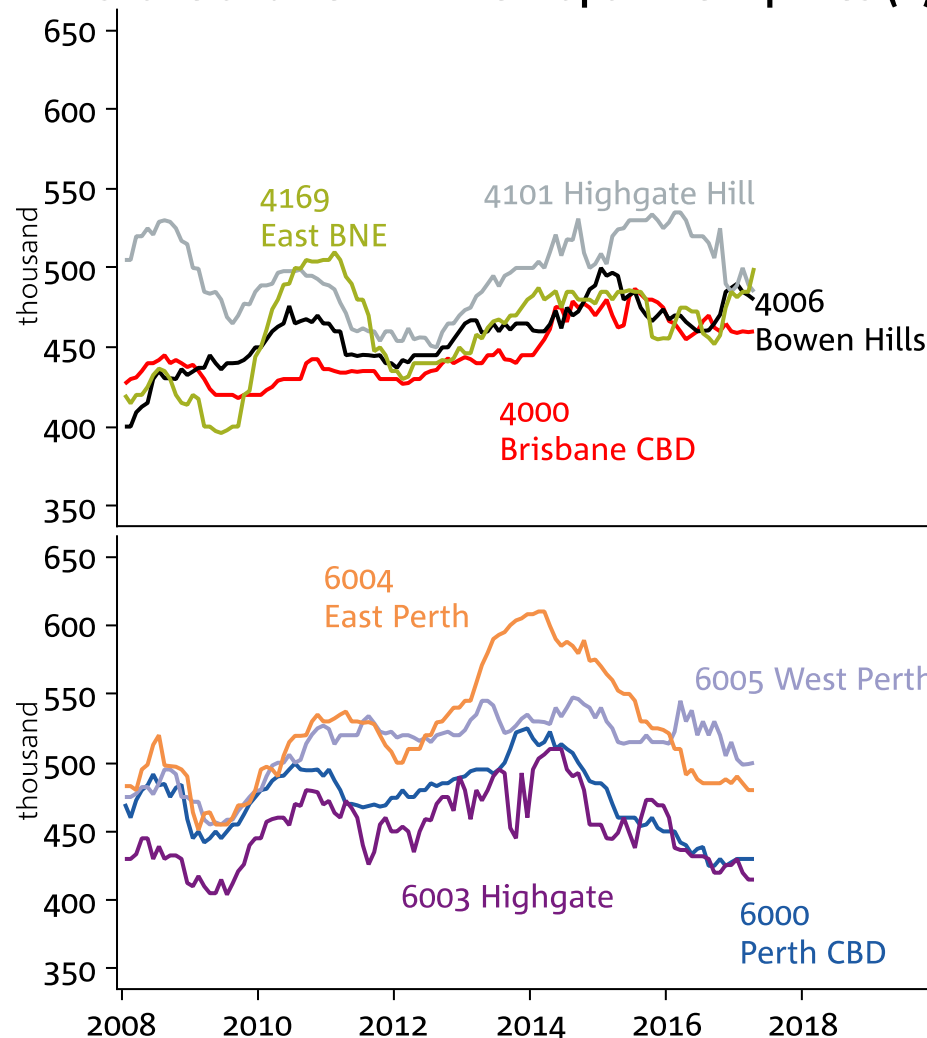
# WATCH: UNIT PRICES – Some Brisbane and Melbourne apartment prices now falling; Sydney holding strong. Perth has been weak.

Sydney & Melbourne "Inner" apartment prices (\*)



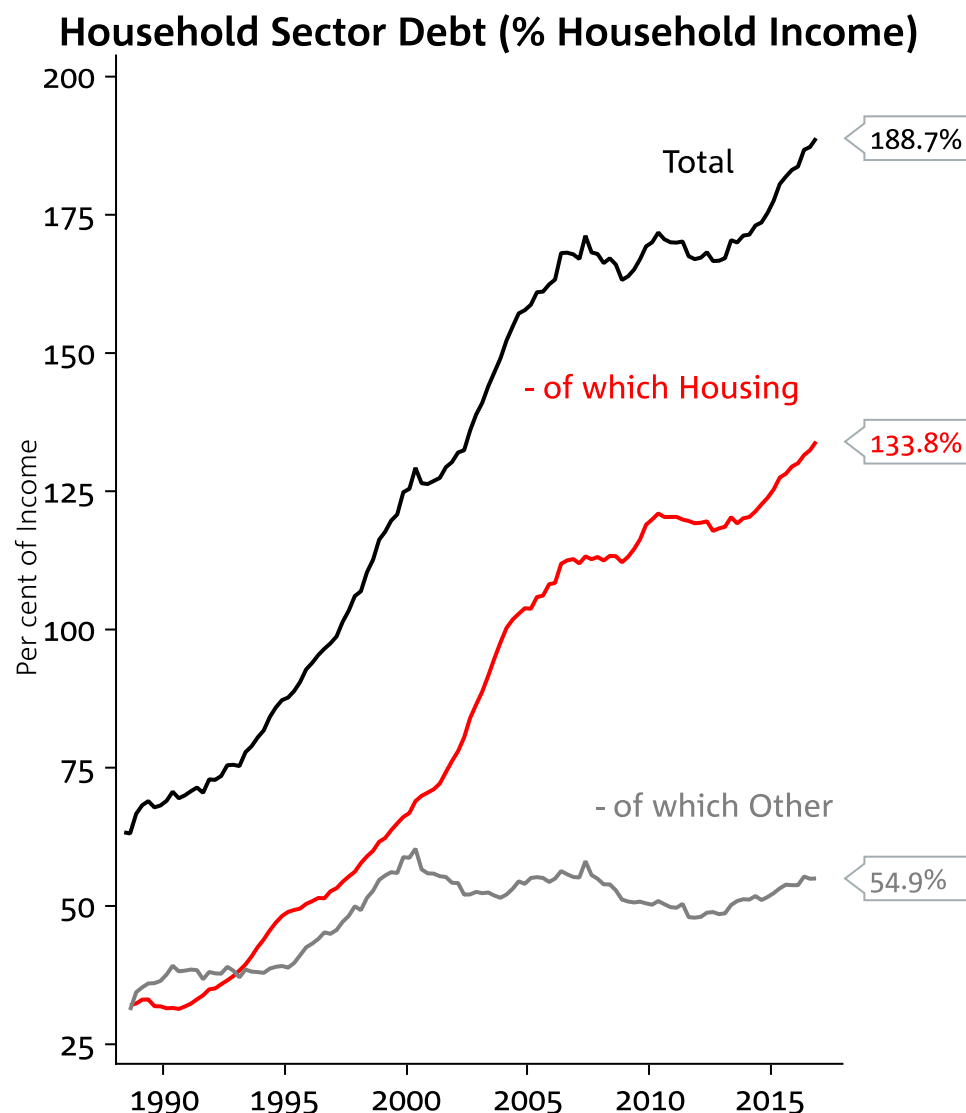
Source: National Australia Bank, CoreLogic. (\*) Inner city is the average selling price among CBD/near-CBD postcodes with sizeable apartment development.

Brisbane and Perth "Inner" apartment prices (\*)

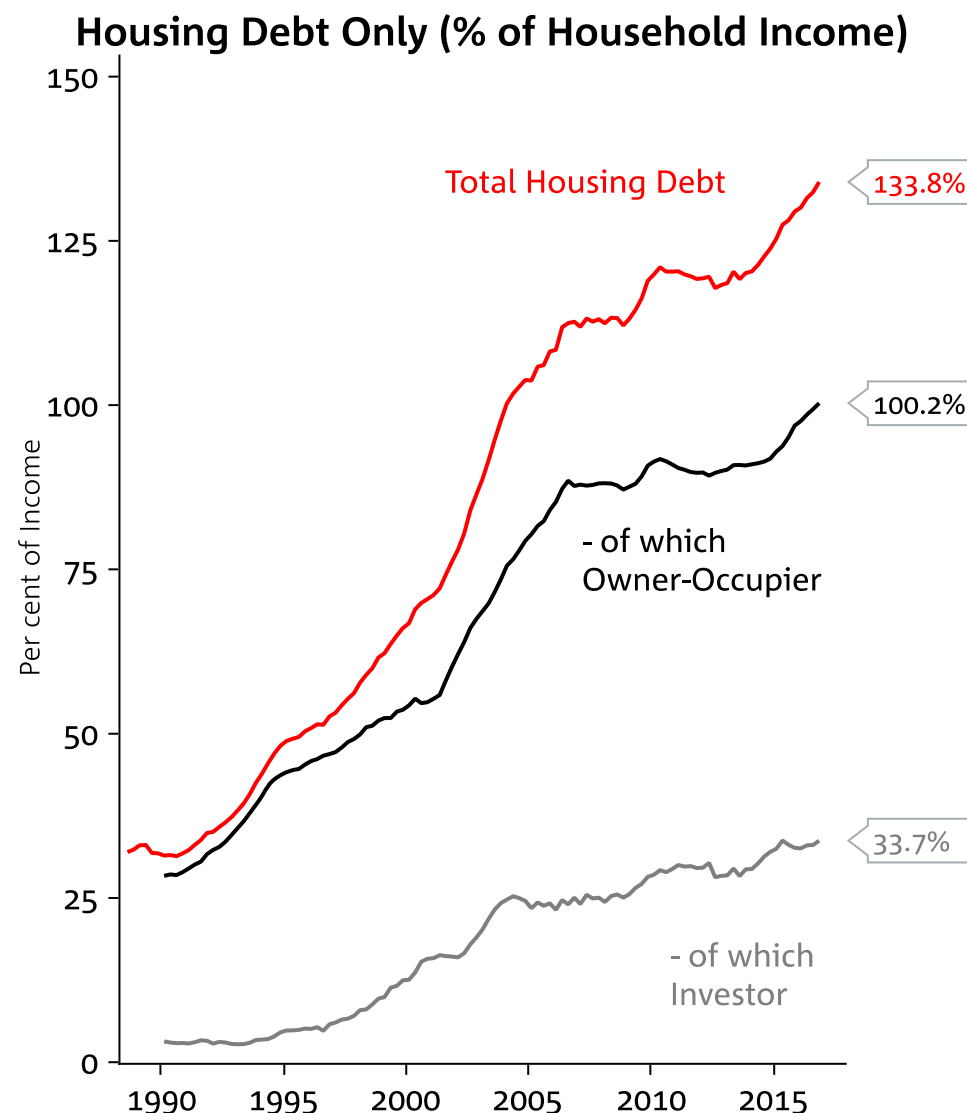


Source: National Australia Bank, CoreLogic. (\*) Inner city is the average selling price among CBD/near-CBD postcodes with sizeable apartment development.

# APRA CONCERNS – rising household debt levels at a time of slow wages growth



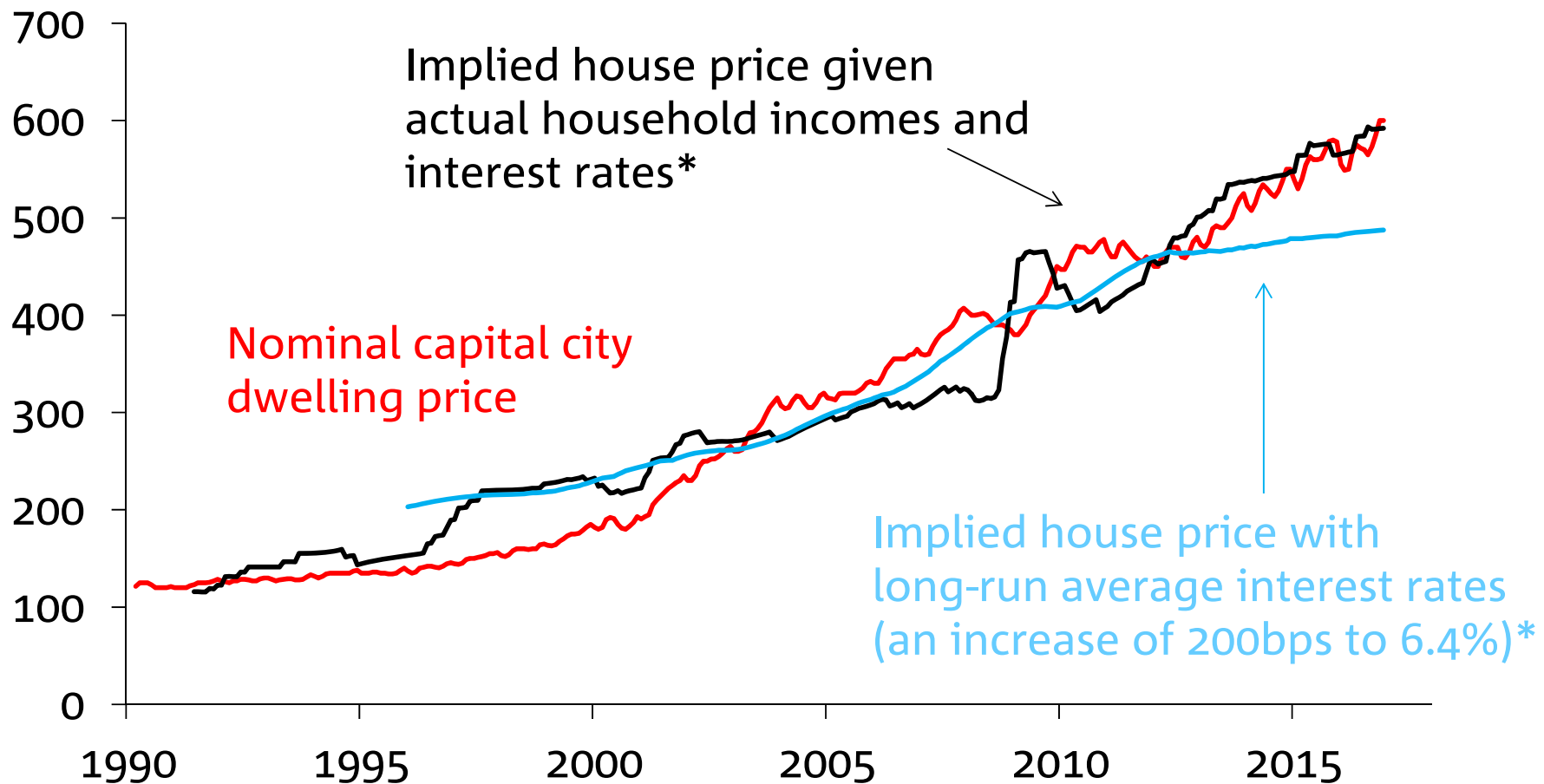
Source: National Australia Bank, RBA



Source: National Australia Bank, RBA

**APRA CONCERNS** – high house prices. Prices seem to reflect current very low interest rates, but could be 15% overvalued if rates rose 200bps cet. par.

## Australian Dwelling Prices

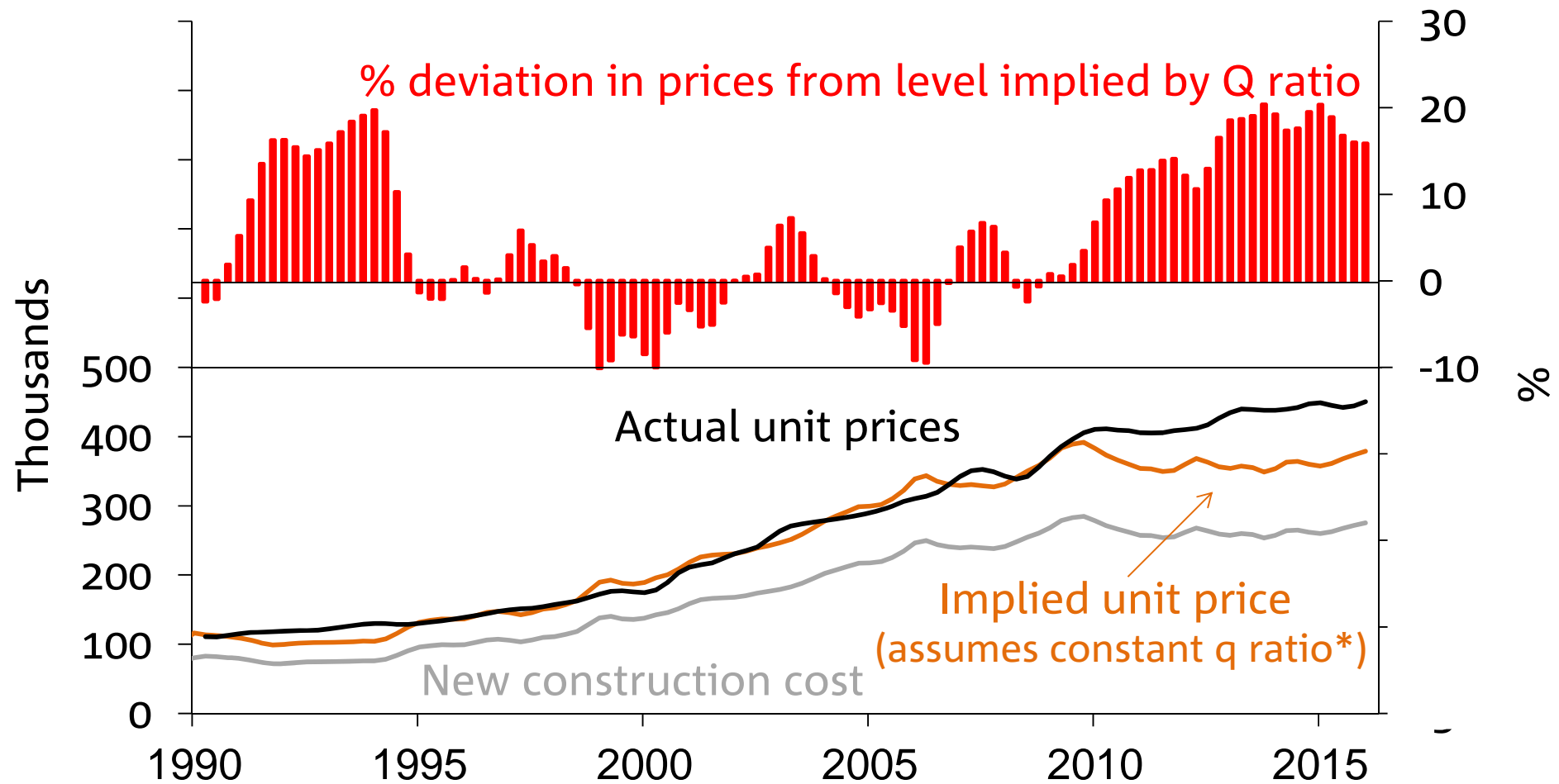


\*Implied house price from a fully amortising mortgage assuming a 20% deposit, movements in household incomes, 3-year fixed mortgage rates, and housing repayments as a share of income at average levels

Sources: NAB calculations; RP-Data CoreLogic

**APRA CONCERNS** – high house prices. Units appear to be around 15% above construction cost/replacement value

## National q-ratio for Units - implied price deviations

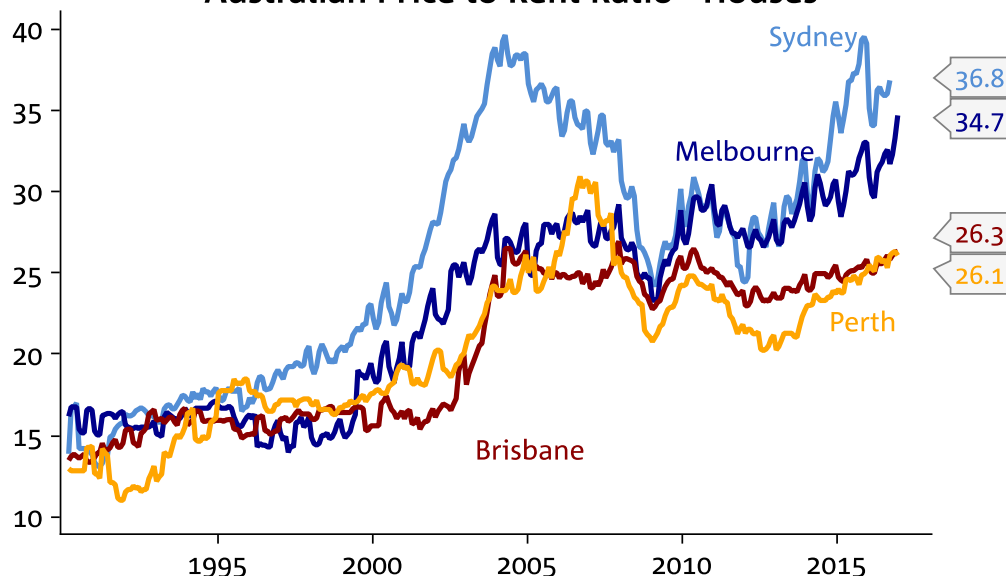


\* Uses the average q-ratio between 1995-2010

Source: National Australia Bank calculations; ABS; CoreLogic RP-Data

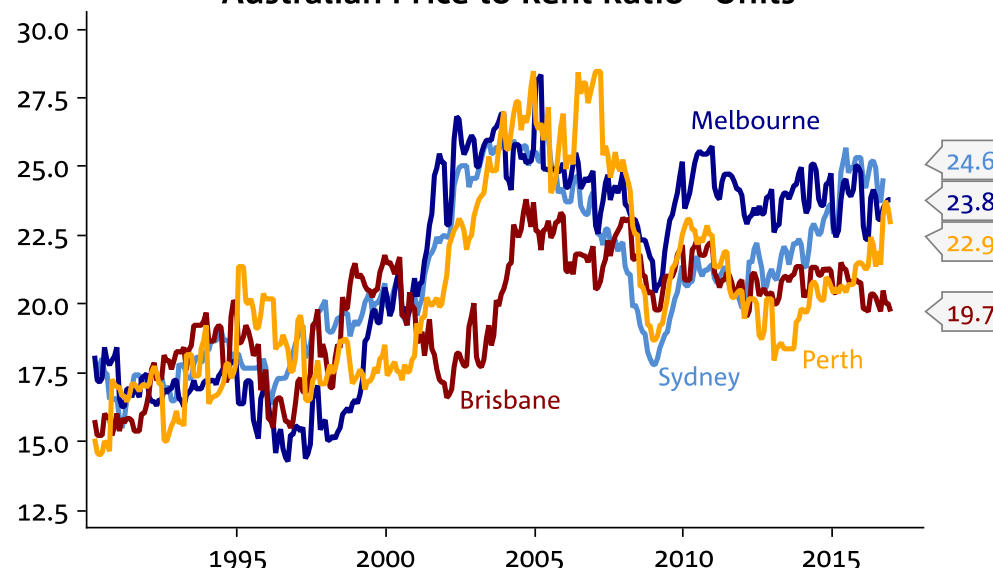
## APRA CONCERNS – high house prices. Price to rent ratios somewhat elevated...

Australian Price to Rent Ratio - Houses



Source: National Australia Bank, Macrobond

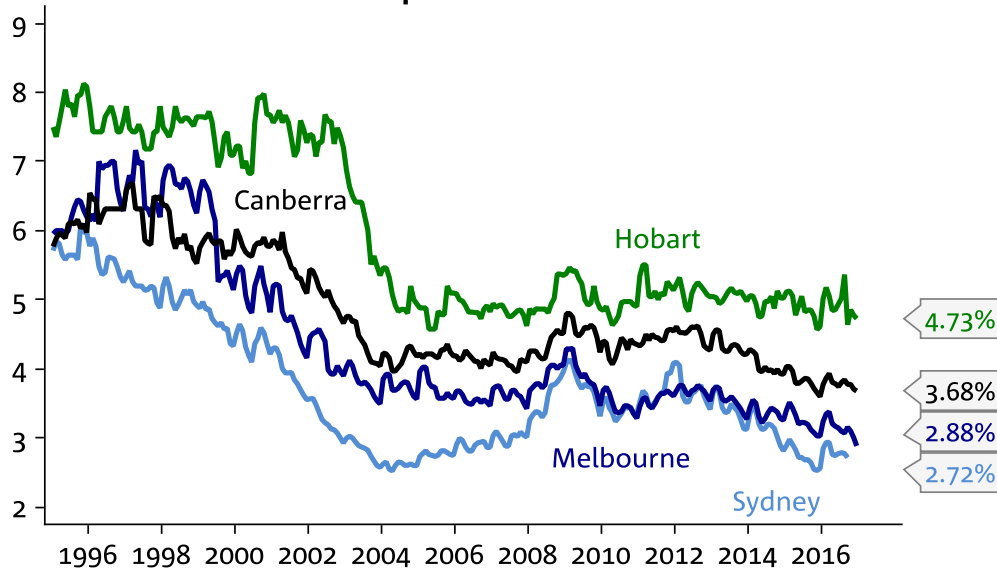
Australian Price to Rent Ratio - Units



Source: National Australia Bank, Macrobond

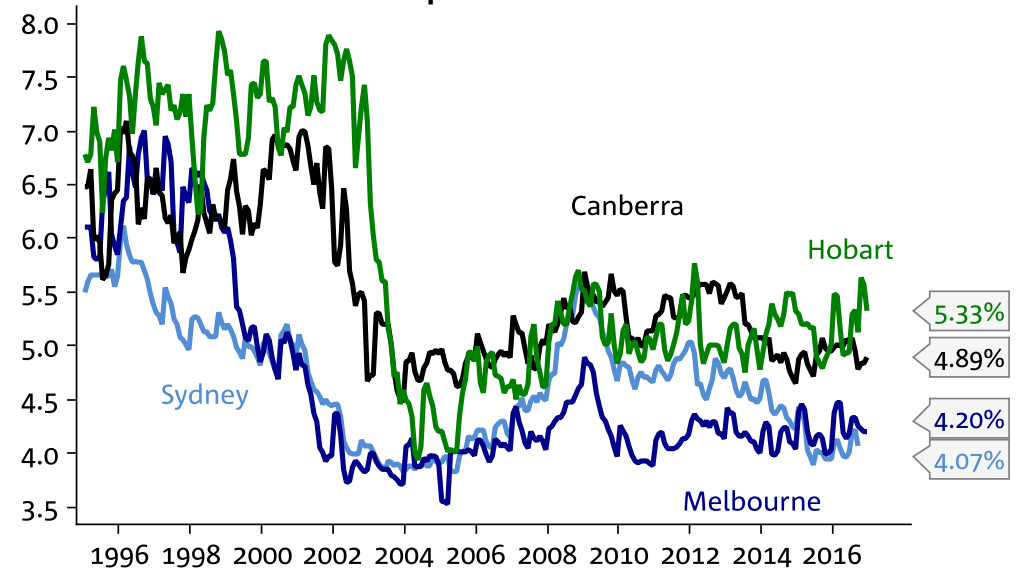
# APRA CONCERNS – however, high house prices in part likely reflect structurally lower interest rates/yields

Australian Implied Rental Yield - Houses



Source: National Australia Bank, Macrobond

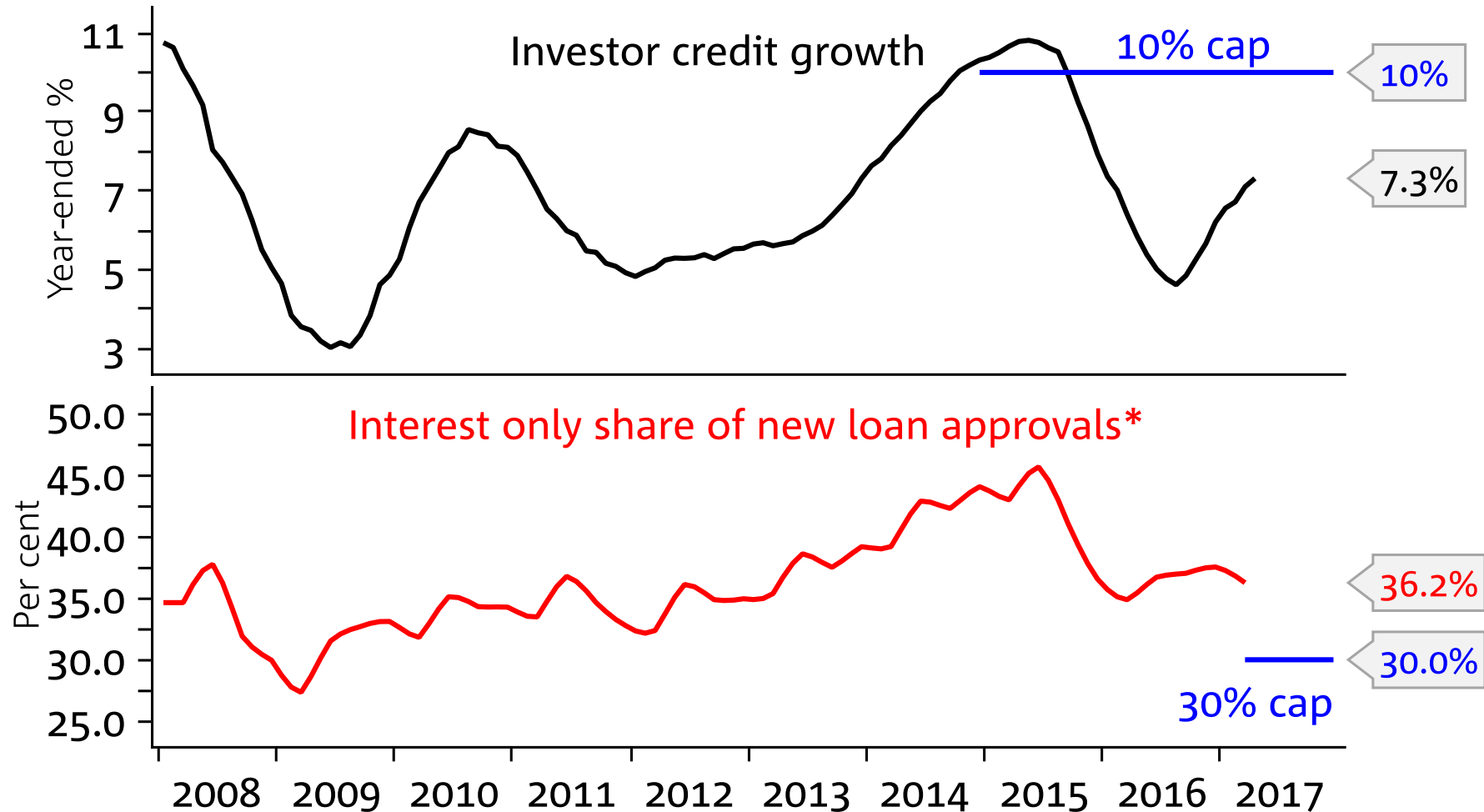
Australian Implied Rental Yield - Units



Source: National Australia Bank, Macrobond

# APRA CONCERNS – APRA worried about two aspects of lending: interest only and high amount of investor lending (considered more risky)

## Quantitative Prudential Measures



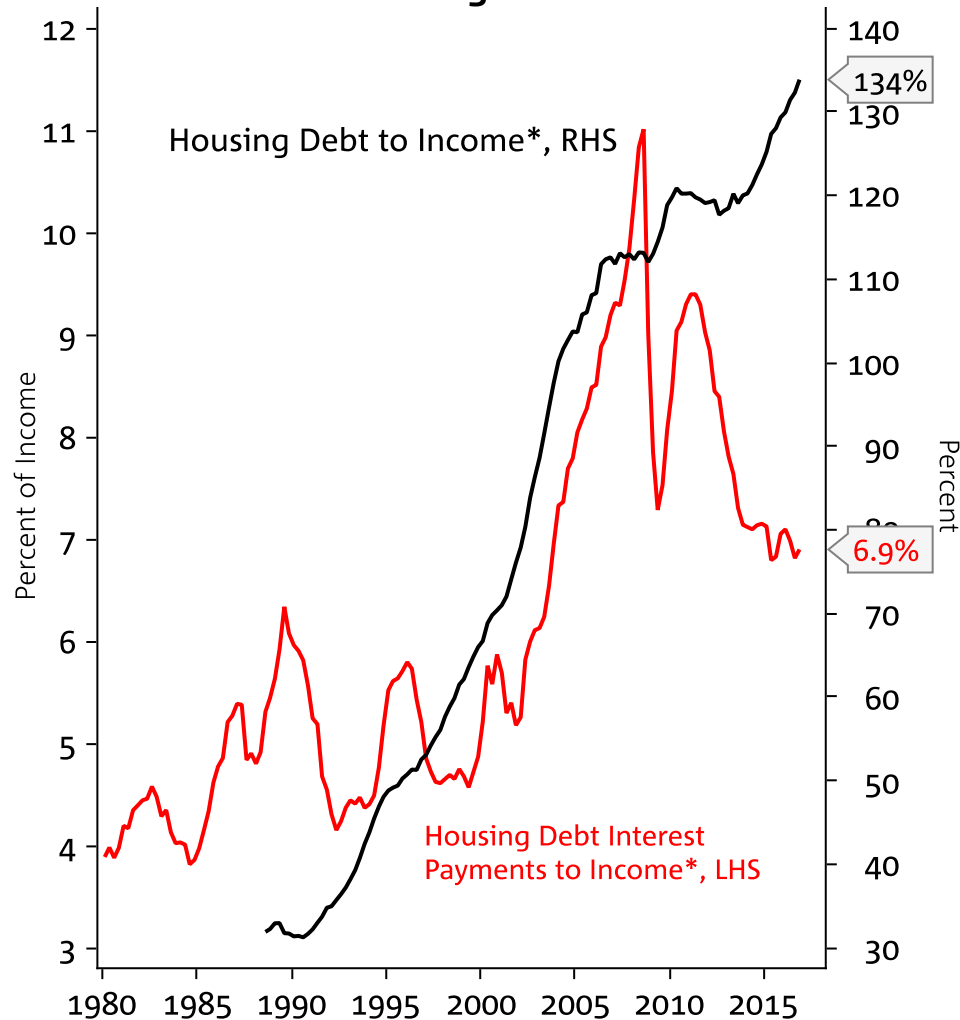
\* Calculated on loans of ADIs with \$1bn or greater in term loans

Source: National Australia Bank, APRA



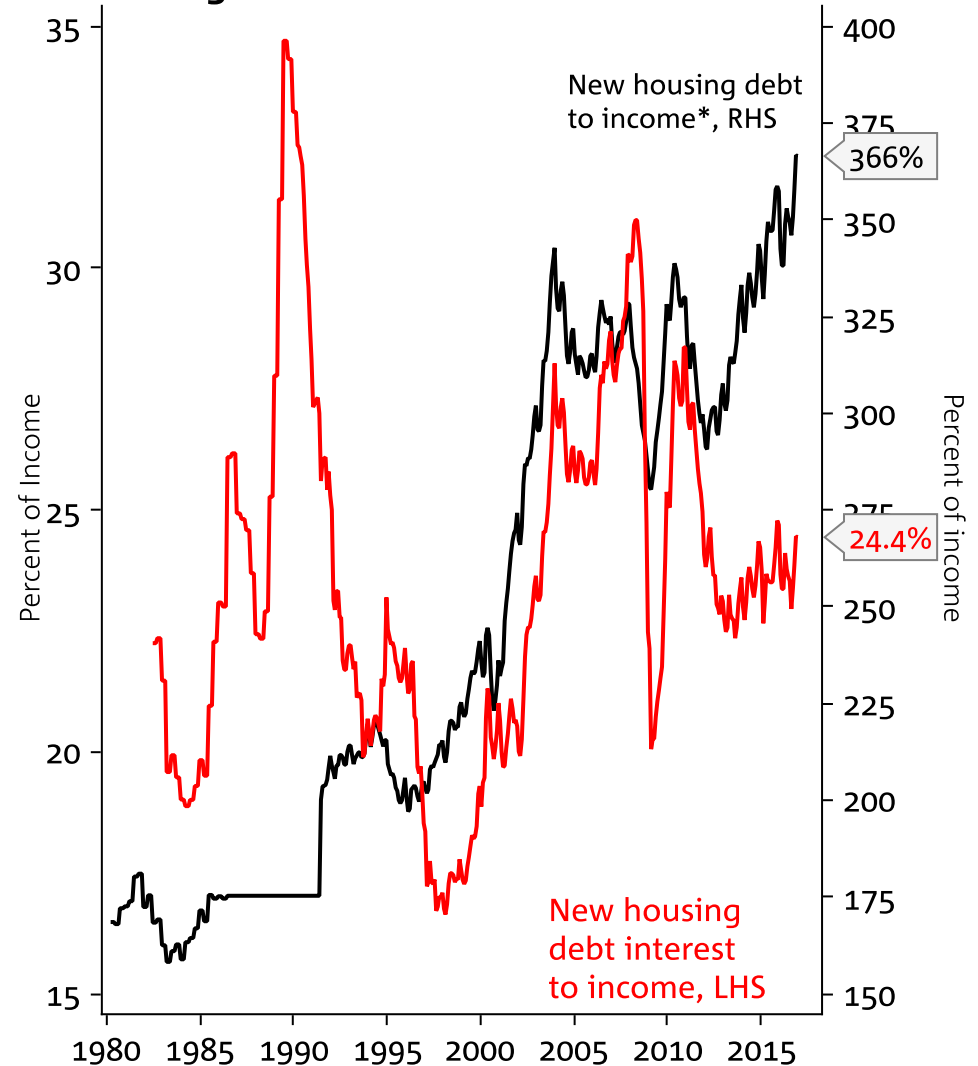
**POLITICAL CONCERN** – *low rates mean overall serviceability OK despite higher debt. Very tough for new entrants to the market though*

**Housing Debt and Interest - Outstanding Households**



Source: National Australia Bank, RBA

**Housing Debt and Interest - New Households**

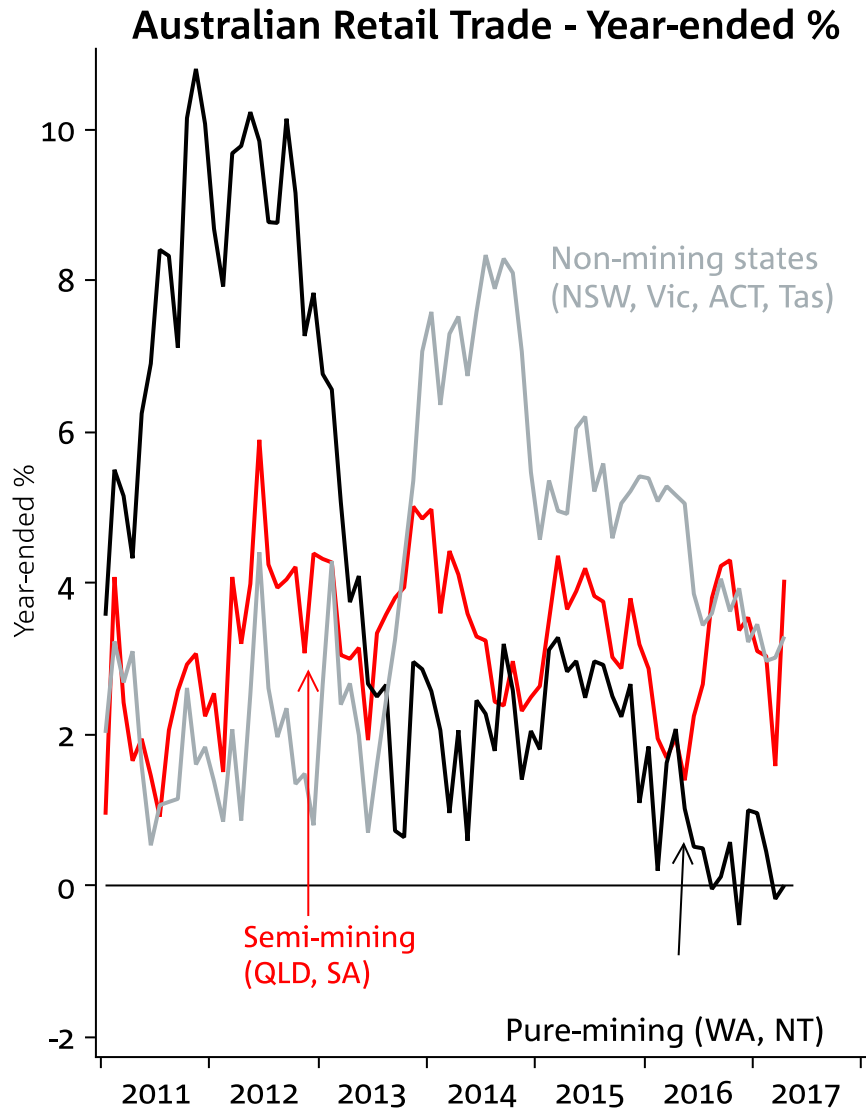


Source: National Australia Bank, ABS

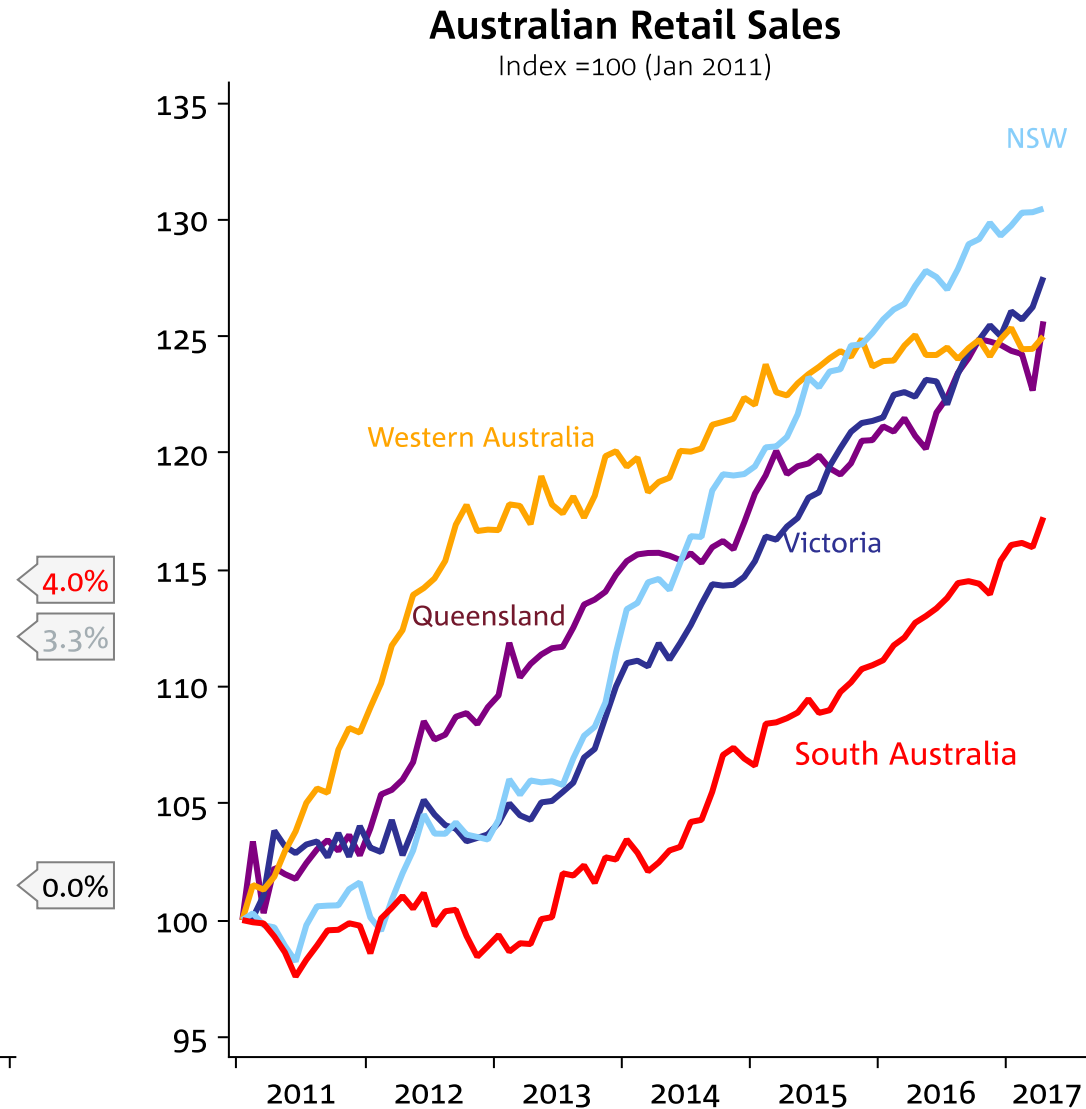
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# CURRENT ECONOMIC CONDITIONS

# RETAIL SPENDING – still subdued in WA; cyclone effect in QLD in March (bounce back April); OK, but not strong, in the other three large states

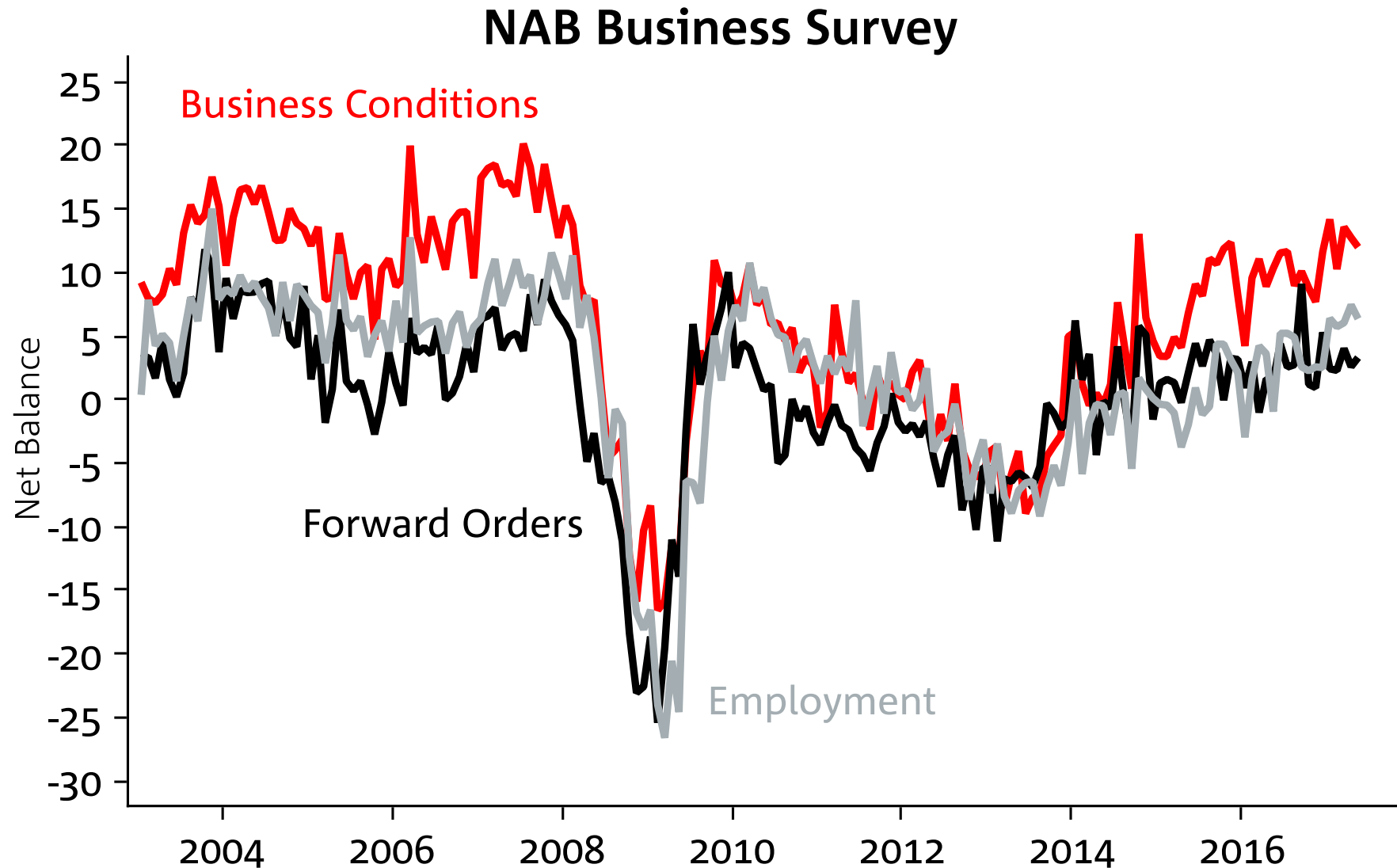


Source: National Australia Bank, ABS



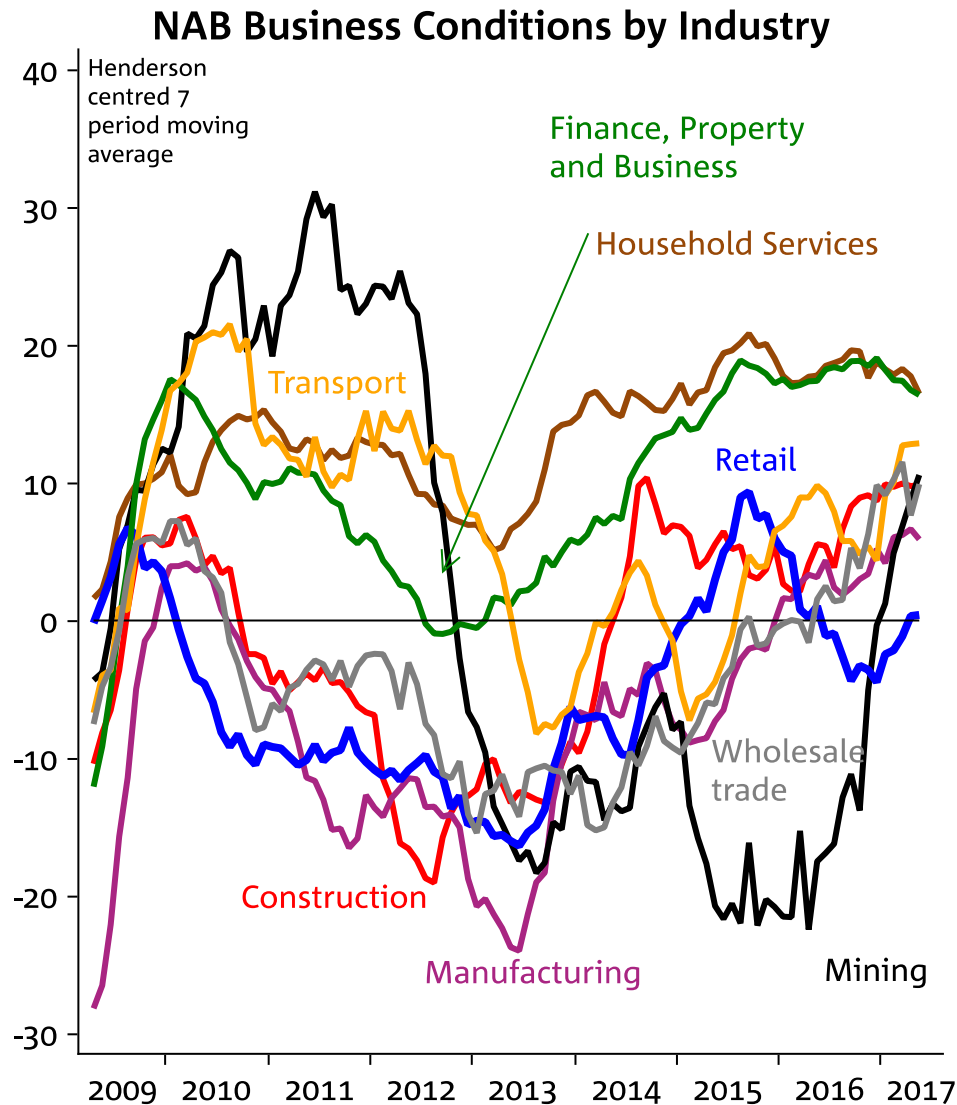
Source: National Australia Bank, Macrobond

## **BUSINESS CONDITIONS** – *Australian businesses report improving business conditions, OK forward orders, but not strong, and employment lifting*

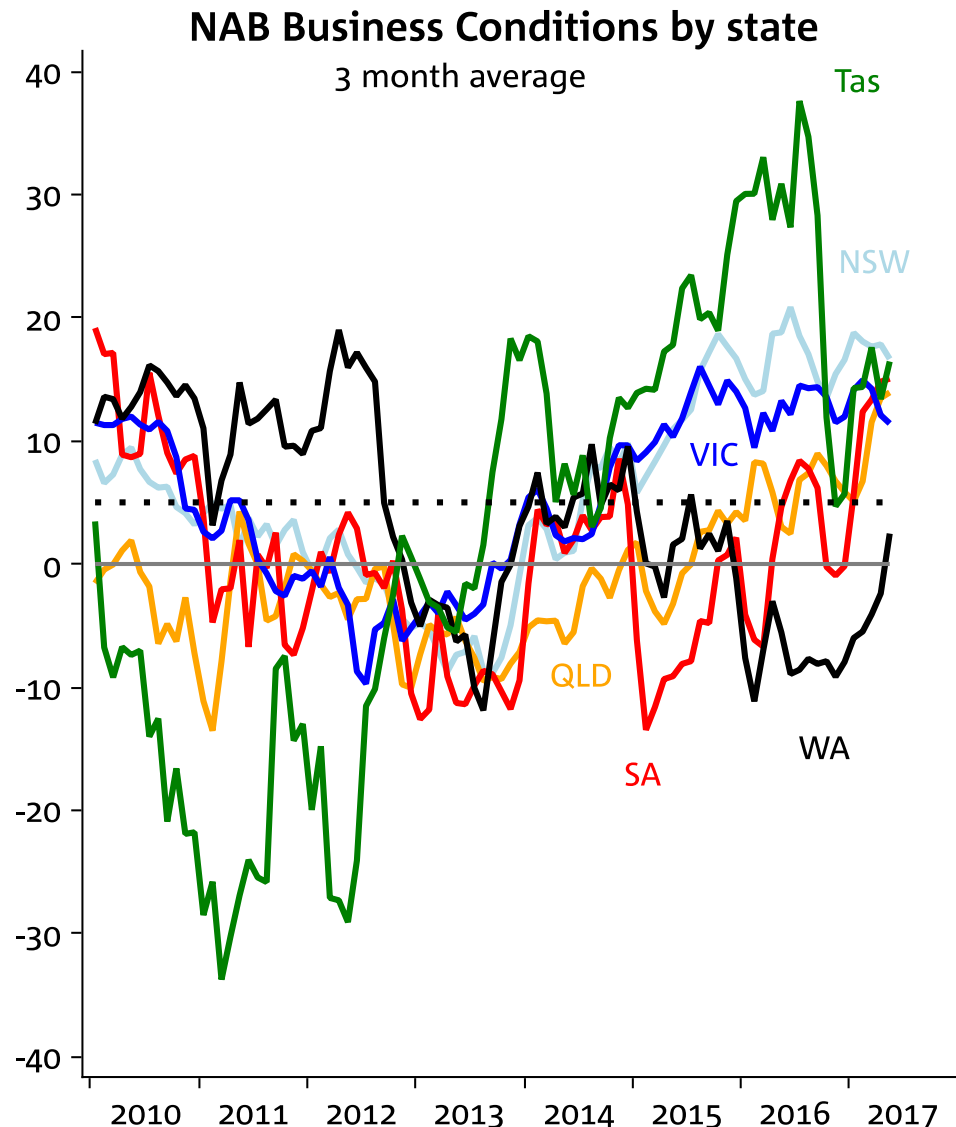


Source: National Australia Bank, Macrobond

# **BUSINESS CONDITIONS** – broad-based improvement: mining/mining regions improving (from recession); services strong; manuf./constr. up; retail weak

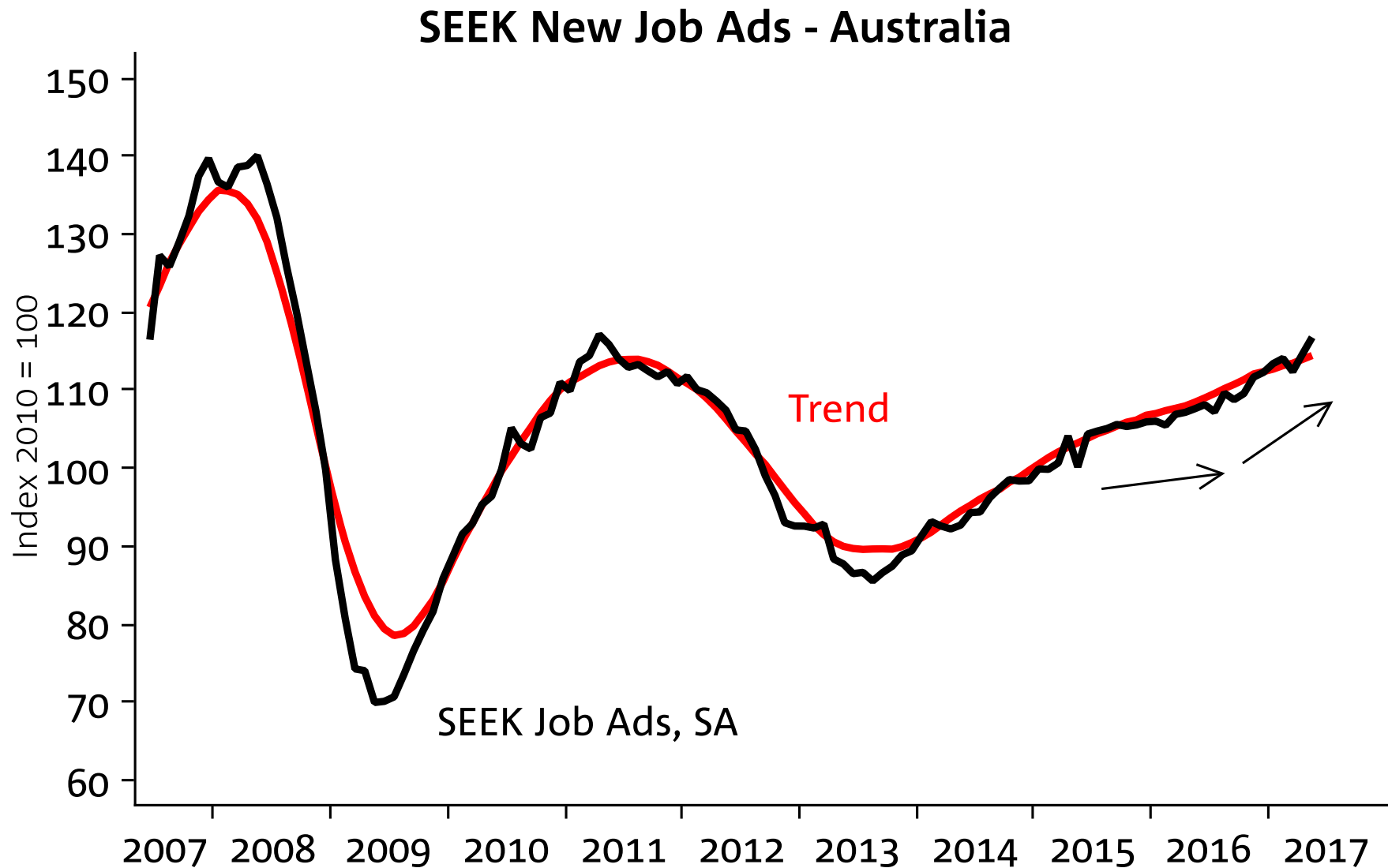


Source: National Australia Bank, Macrobond



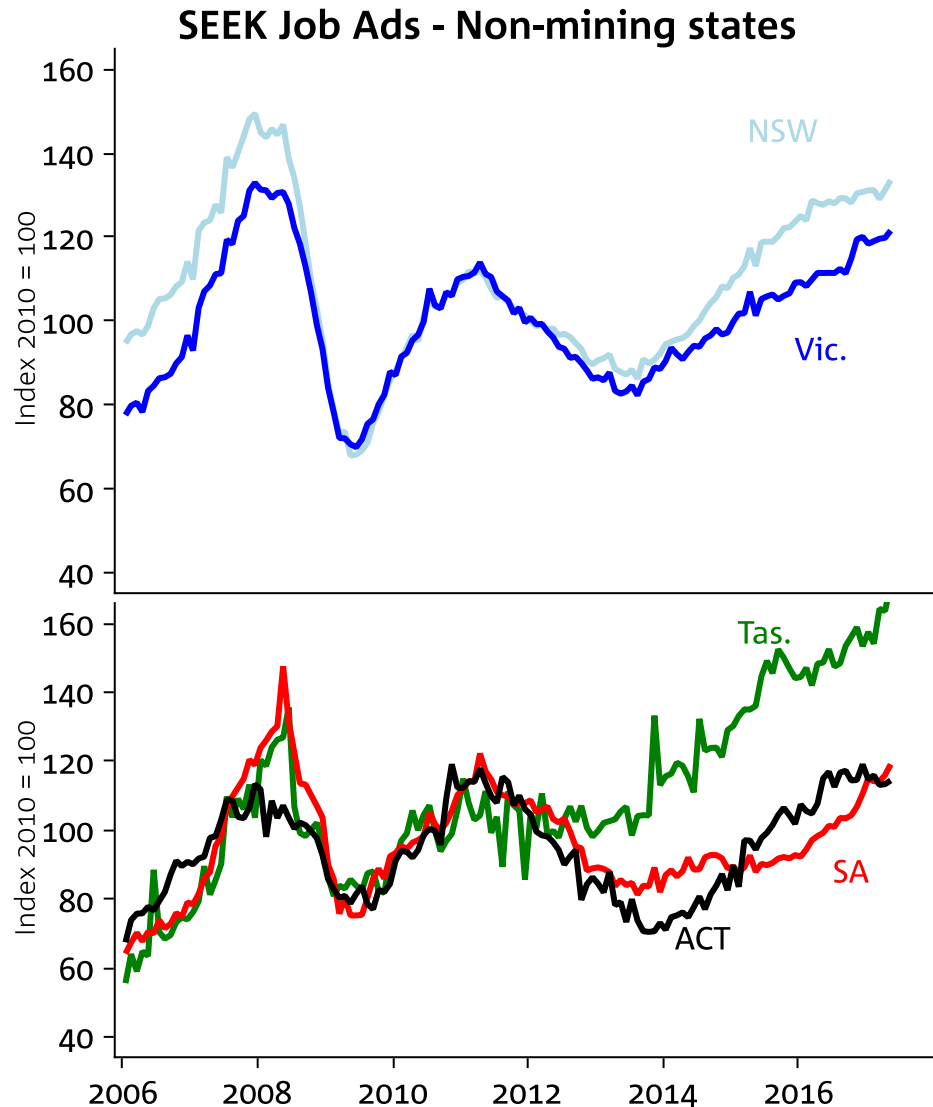
Source: National Australia Bank, Macrobond

## **JOB ADVERTISING** – *increasing again after a softer patch (hard data)*

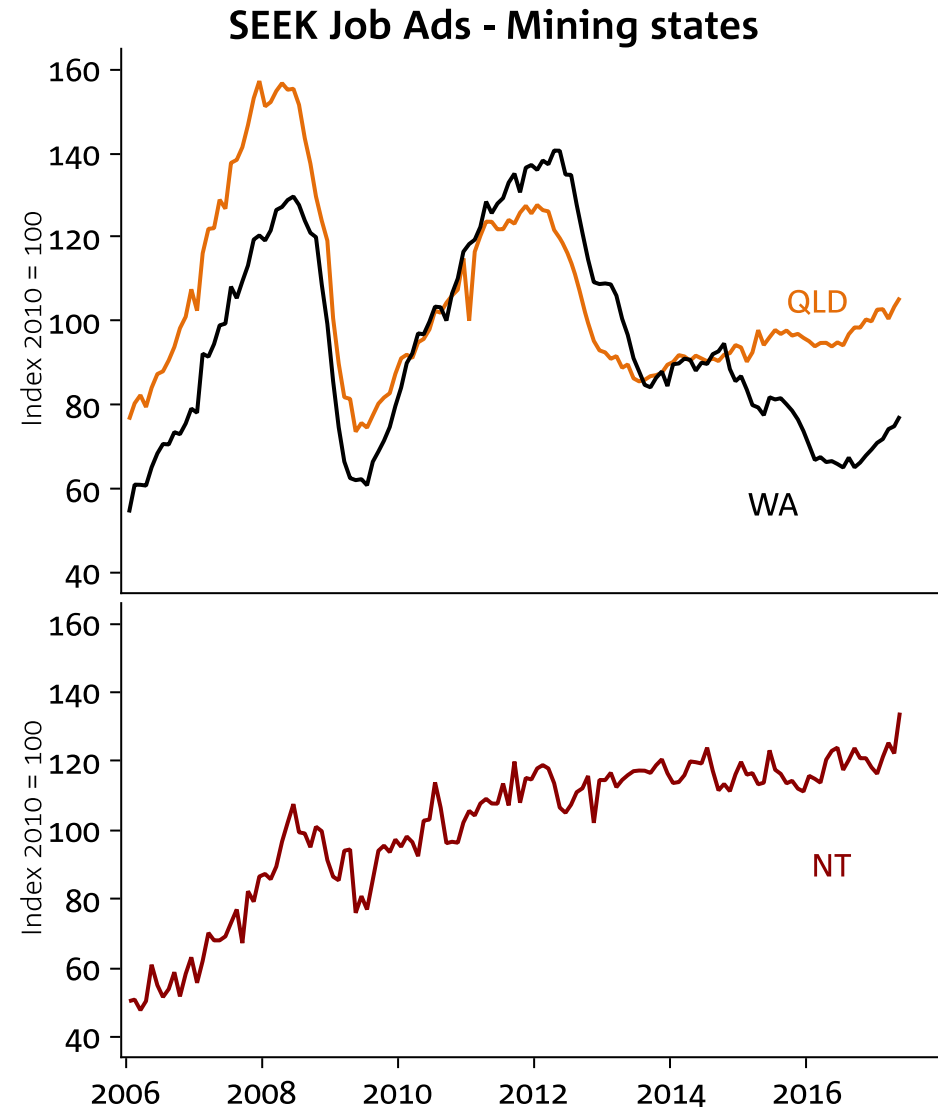


Source: National Australia Bank, Macrobond

# **JOB ADVERTISING** – mining regions recovering. Vic, Tas and SA strong also. NSW slowing, but not falling (hard data)



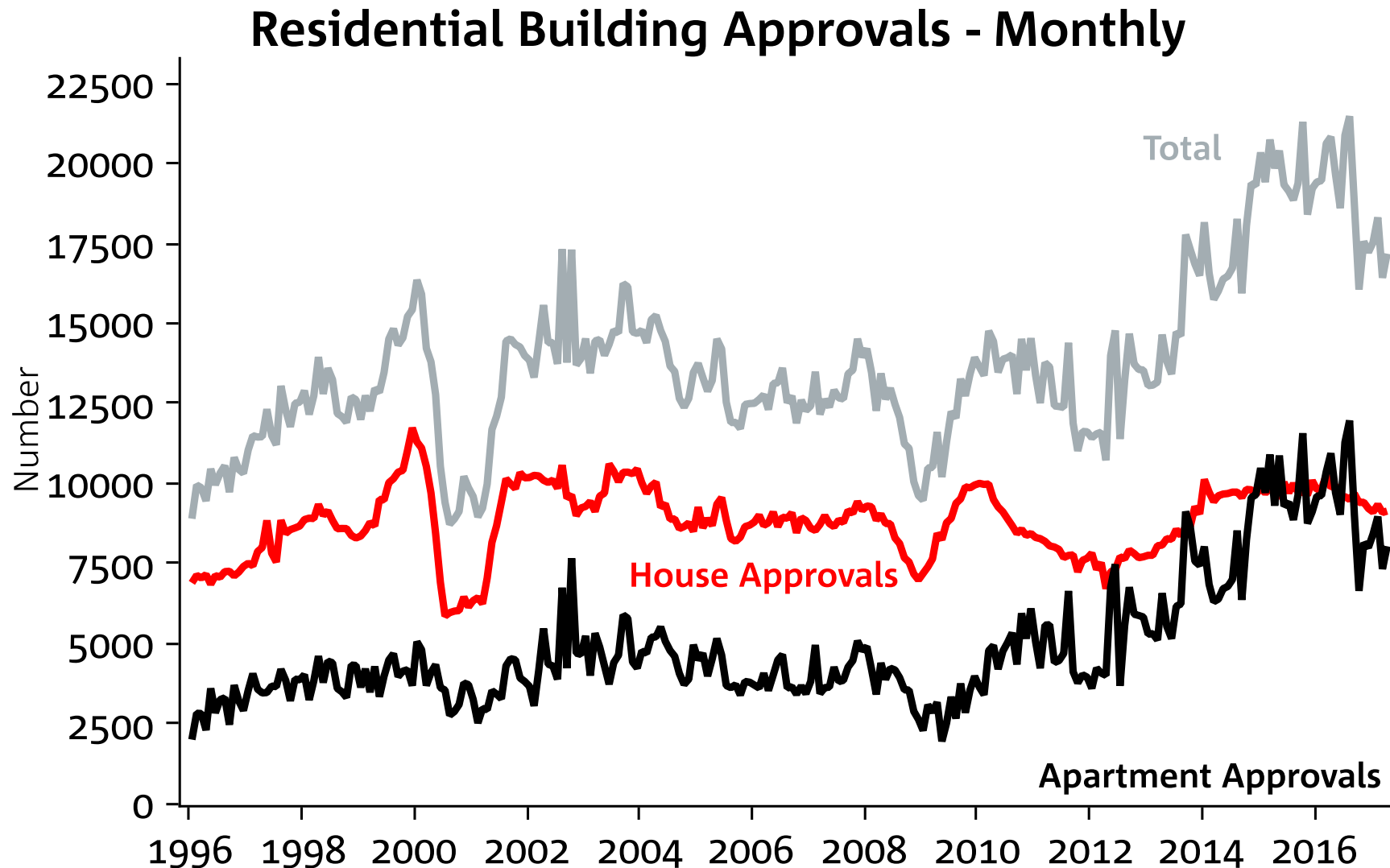
Source: SEEK, National Australia Bank



Source: SEEK, National Australia Bank

# HOUSING CONSTRUCTION - Residential construction to weaken in 2018.

*RBA has a more elongated cycle than NAB*



Source: National Australia Bank, Macrobond



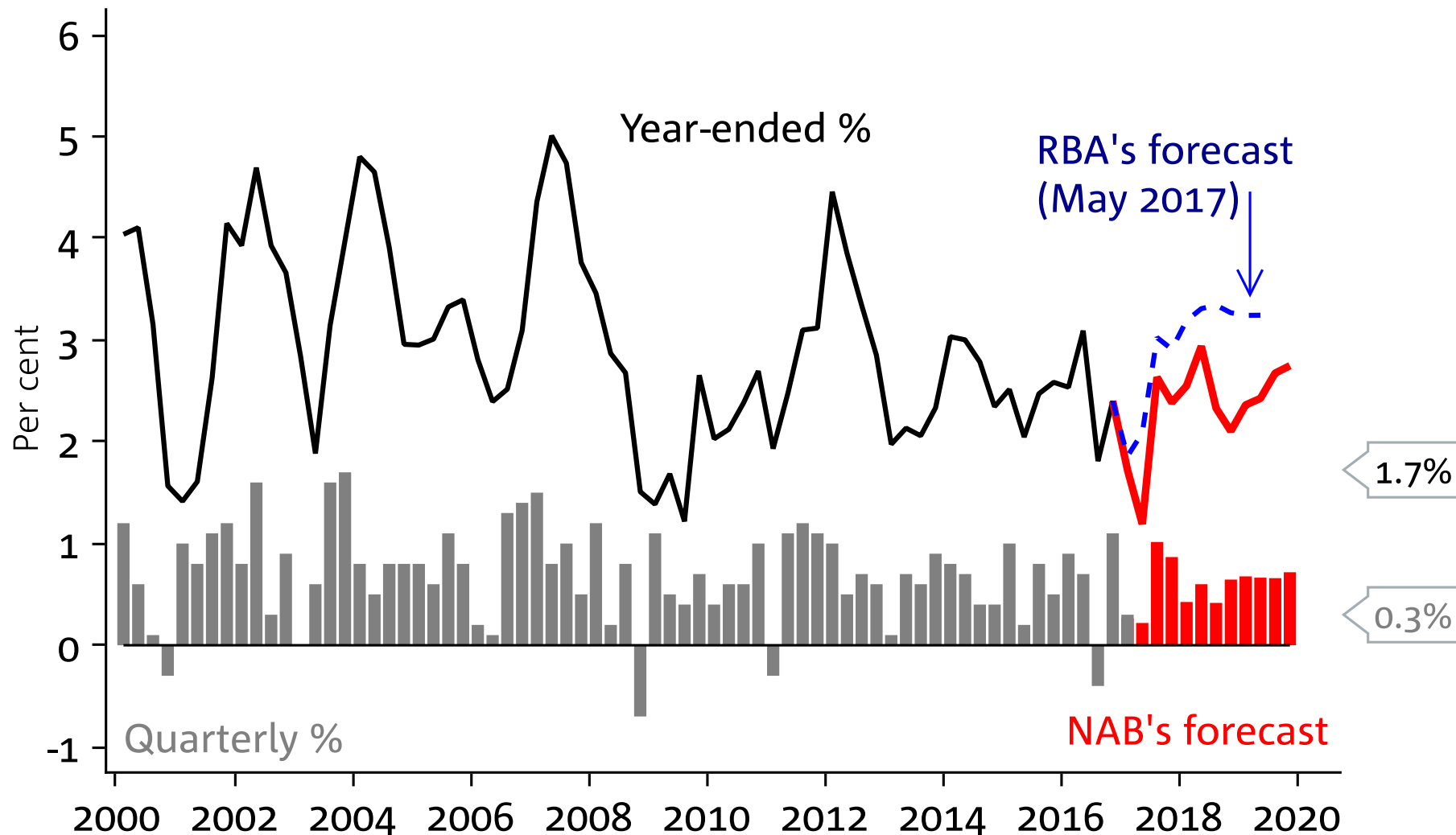
# WHAT REPLACES HOUSING?

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- **Private consumption** – relatively slow growth until unemployment falls and wages pick up
- **Investment** – infrastructure spending; non-residential construction; non-mining investment outside of mining areas and less drag from mining investment reduction
- **Government spending** – strong growth in infrastructure and especially defence spending
- **Exports** – LNG in particular, but export volumes generally remaining elevated and growth continuing to China (especially education and tourism)
- **Support from stronger global growth and expected lower \$A** – and slightly higher commodity prices

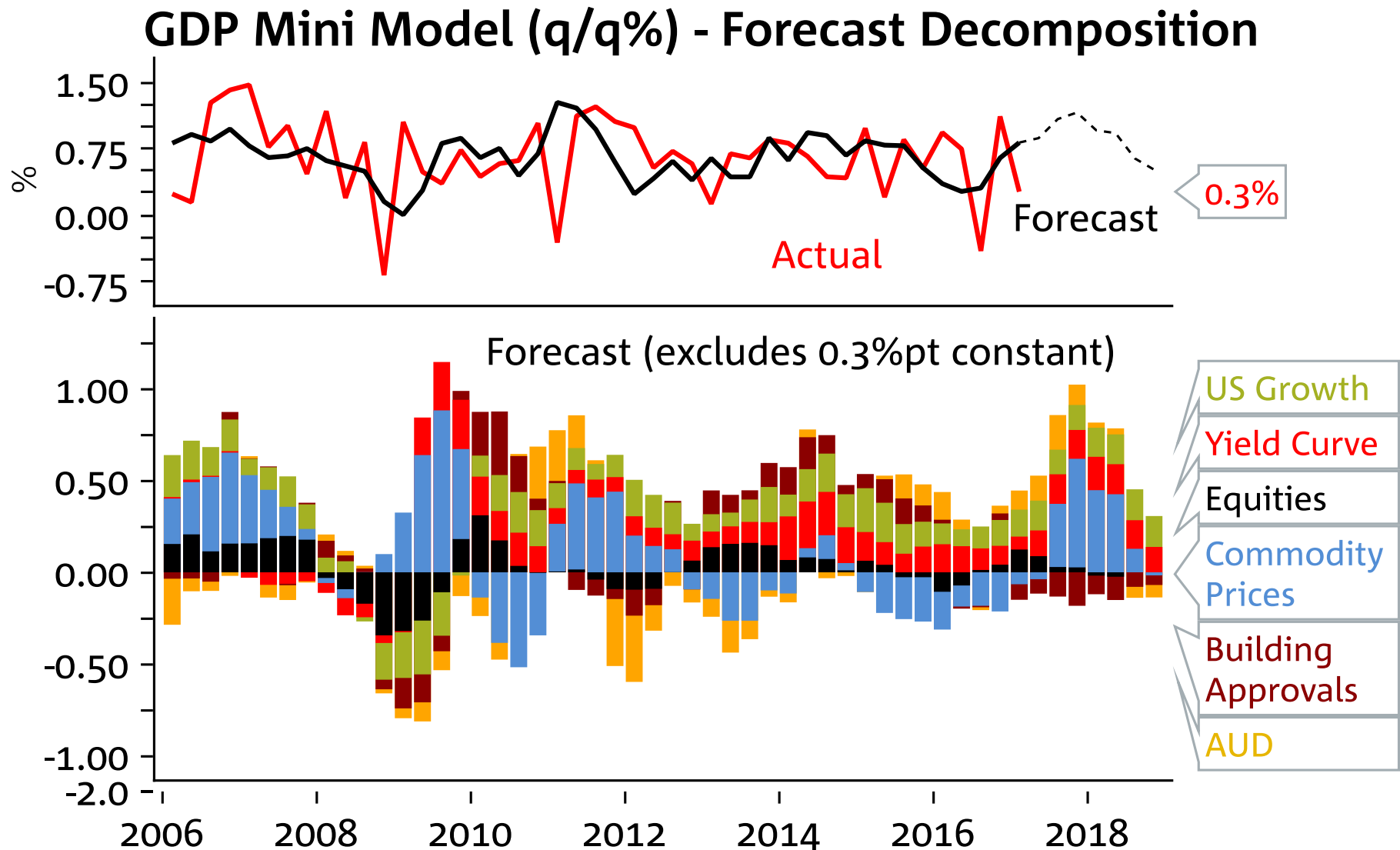
**GROWTH OUTLOOK** – Q1/Q2 soft; growth to accelerate H2 2017 (global growth, commodities), but moderate in 2018 (house building & commodities reverse);

## Australia - GDP Growth



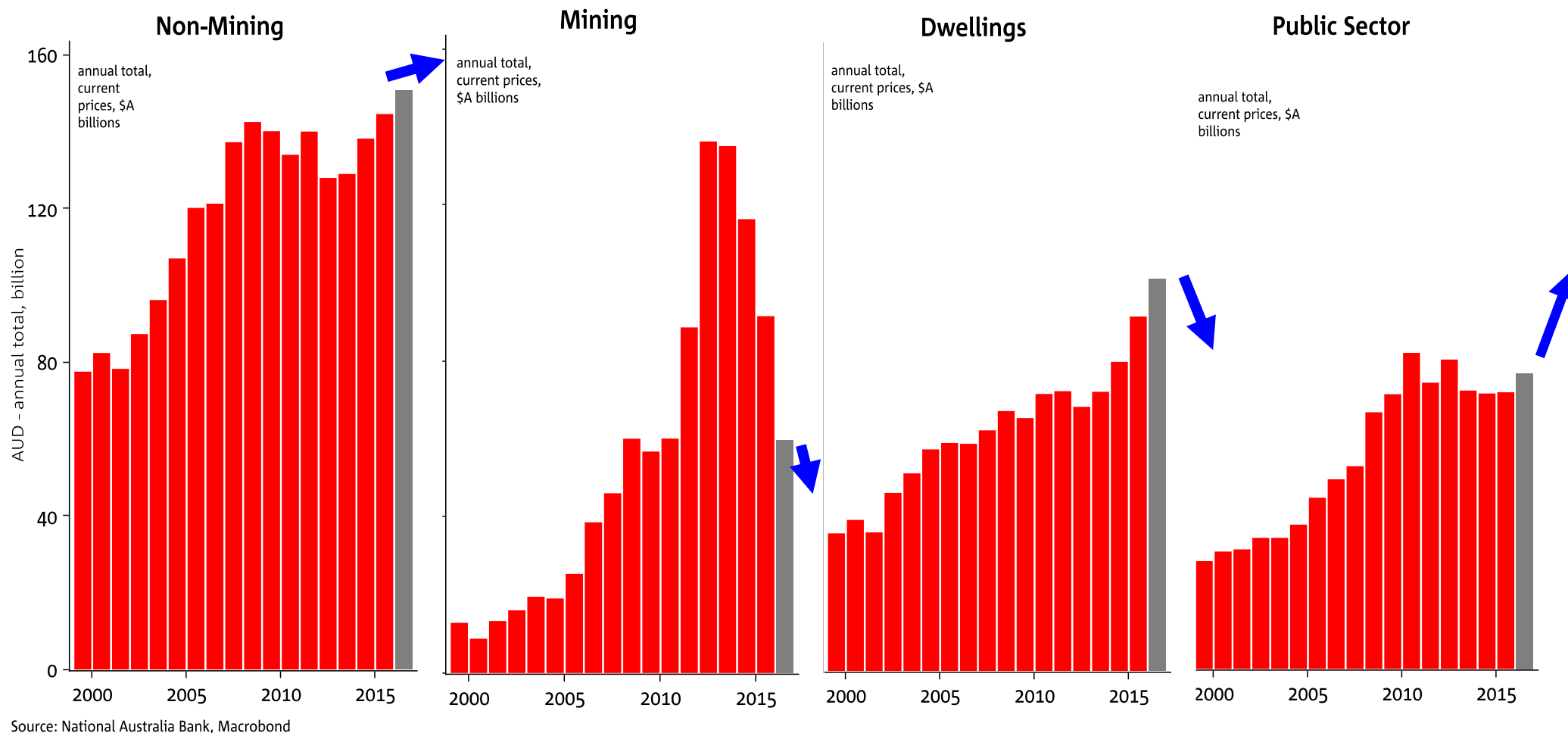
Source: National Australia Bank, ABS, RBA

# AUSTRALIAN MINI-MODEL OF GDP – growth to accelerate in 2017 (global growth, commodities), but slow in 2018 (house building & commodities); Q1/Q2 soft



Source: National Australia Bank, Macrobond

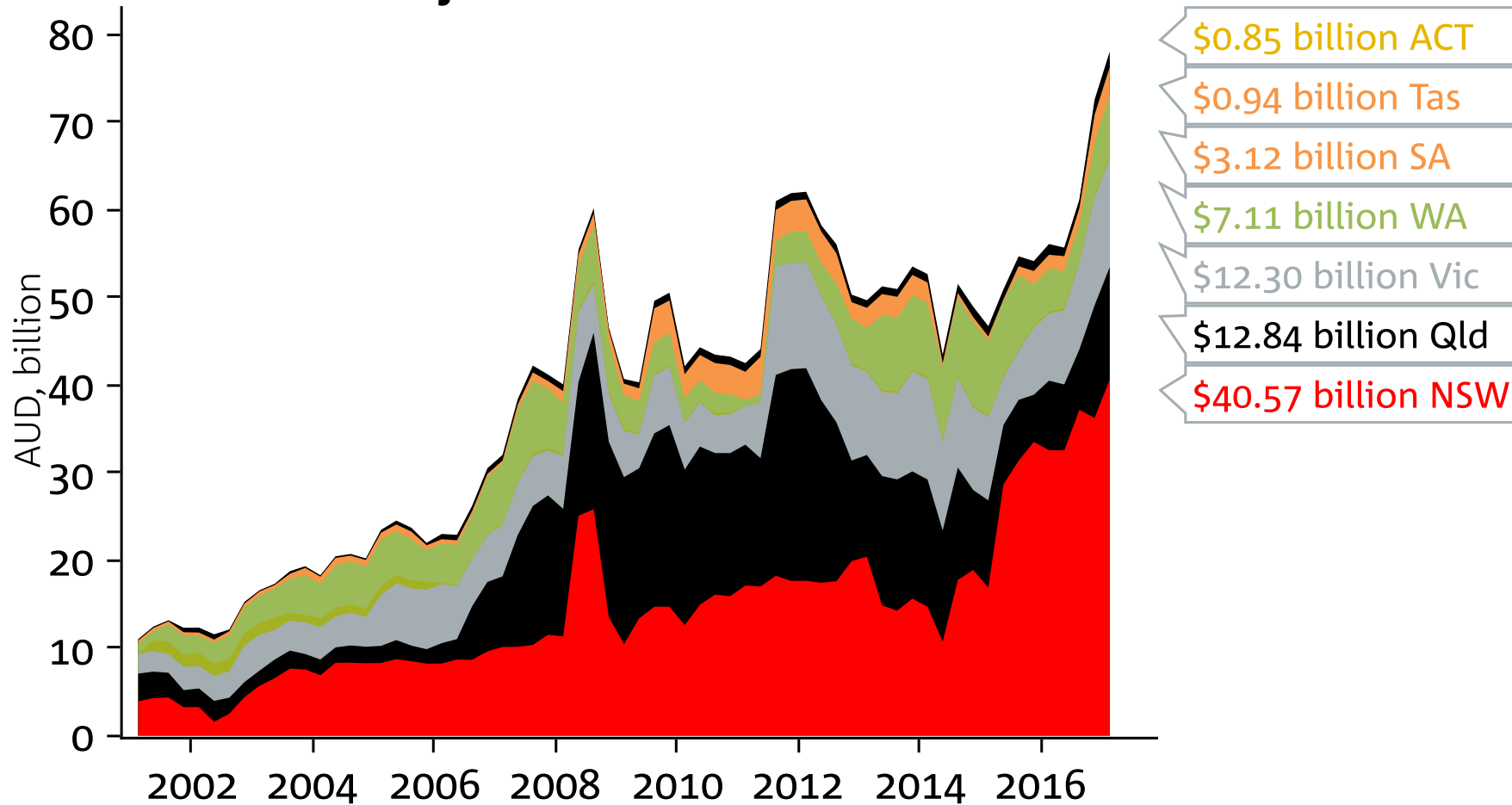
# INVESTMENT - Mining down-turn advanced... dwellings to be a drag in 2018.



Estimate is for Q4 2016 to make up full year. NAB calculation to split mining from non-mining GDP Capex

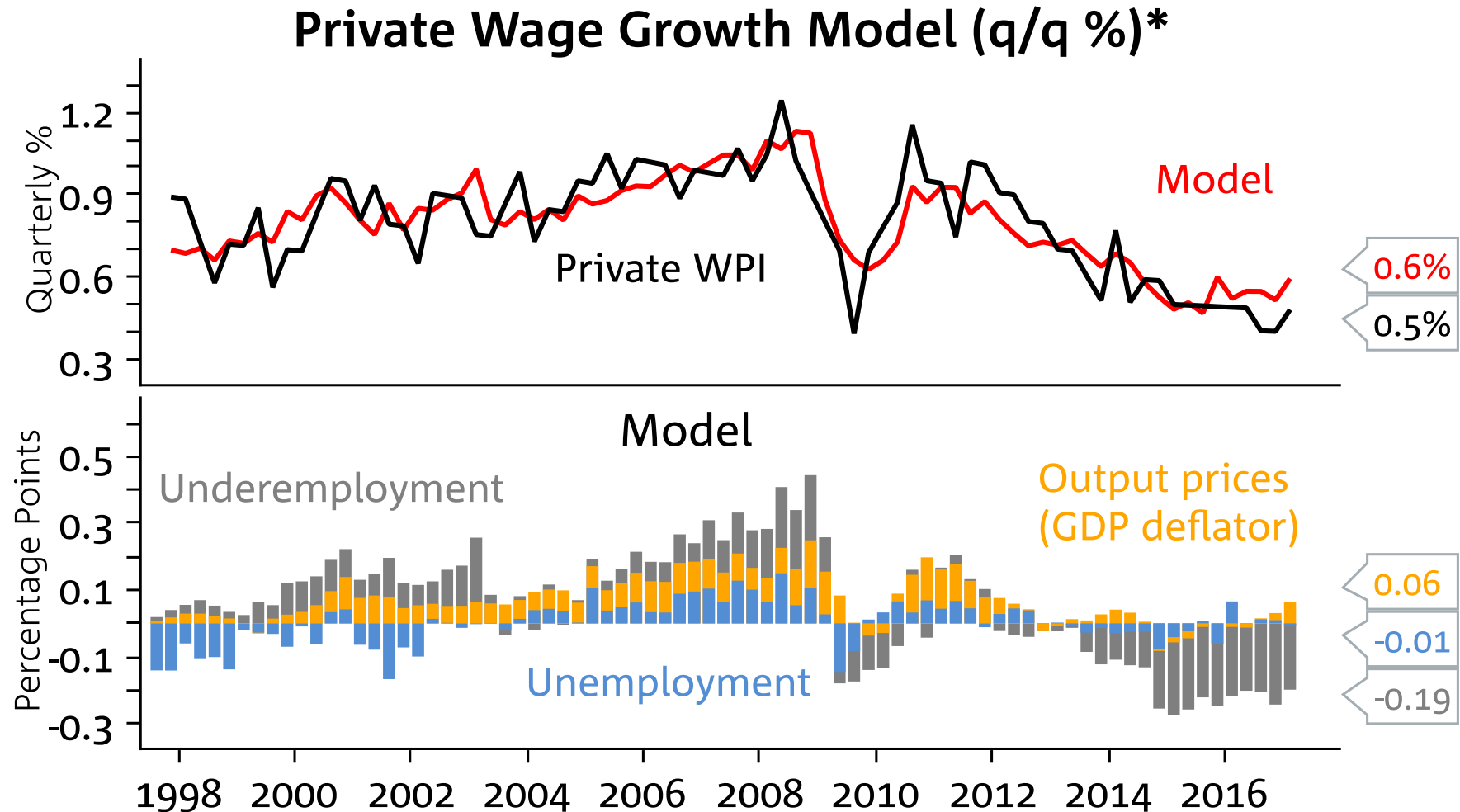
**INFRASTRUCTURE** – government-led infrastructure a support for growth, but bottom line is also need some wages/employment pick up

## Transport and Storage Infrastructure Projects Under Construction



Source: National Australia Bank, Deloitte.

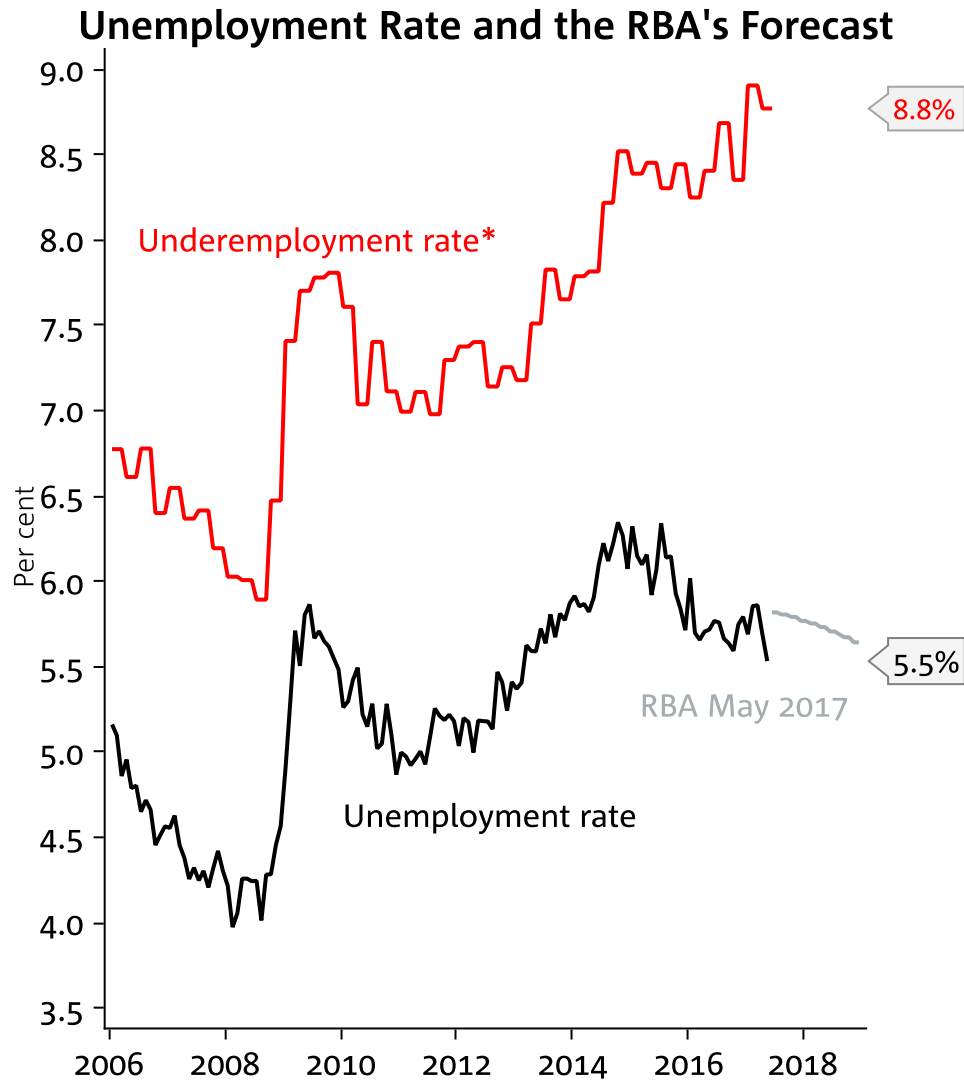
# WAGES & UNDEREMPLOYMENT – IMF modelling suggests underemployment explains recent slowdown in wages growth in Australia – wages stabilising



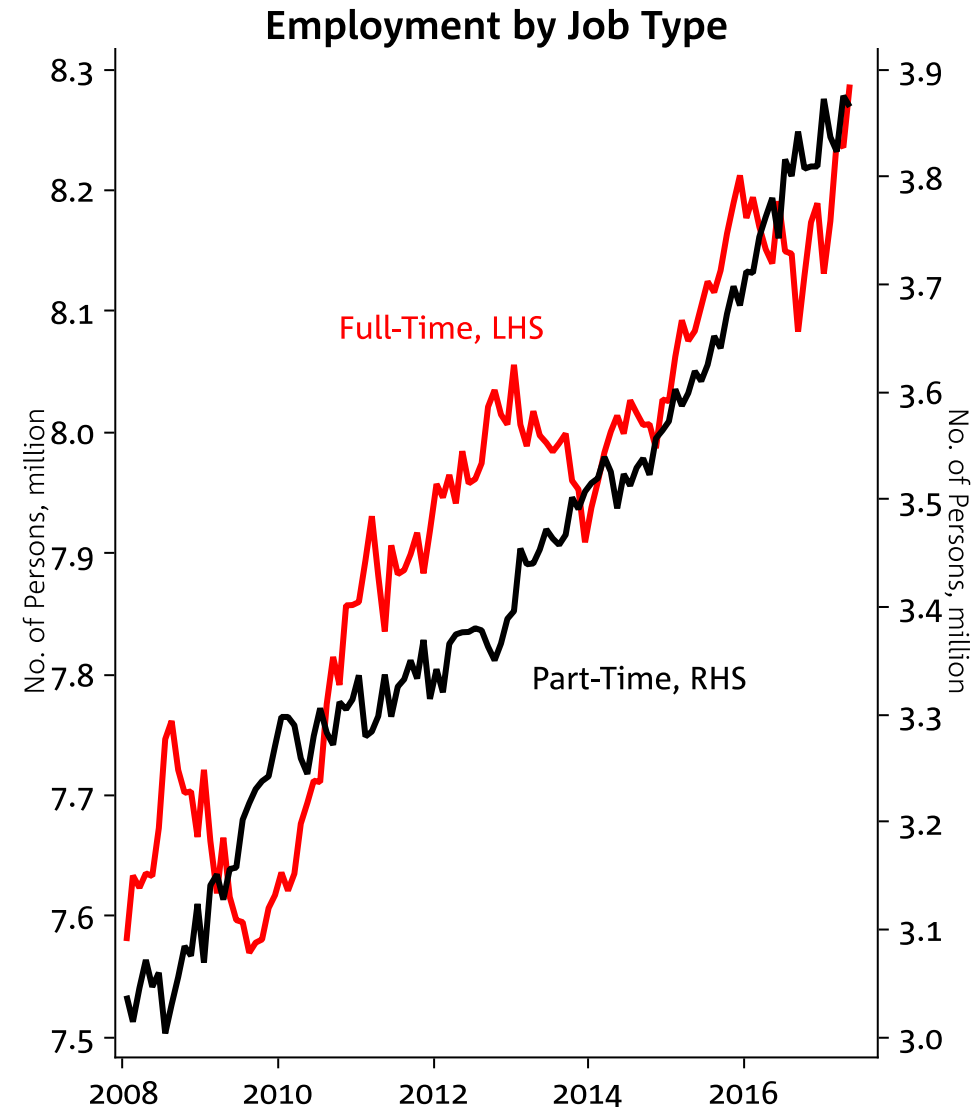
\* IMF (2017) Phillips curve wage model for Australia modified by NAB to incorporate inflation expectations in the constant term

Source: National Australia Bank, ABS, IMF (IMF WP/17/124)

# UNEMPLOYMENT – concerns remain over ABS data. Full-time employment now recovering and unemployment falling, though underemployment remains high

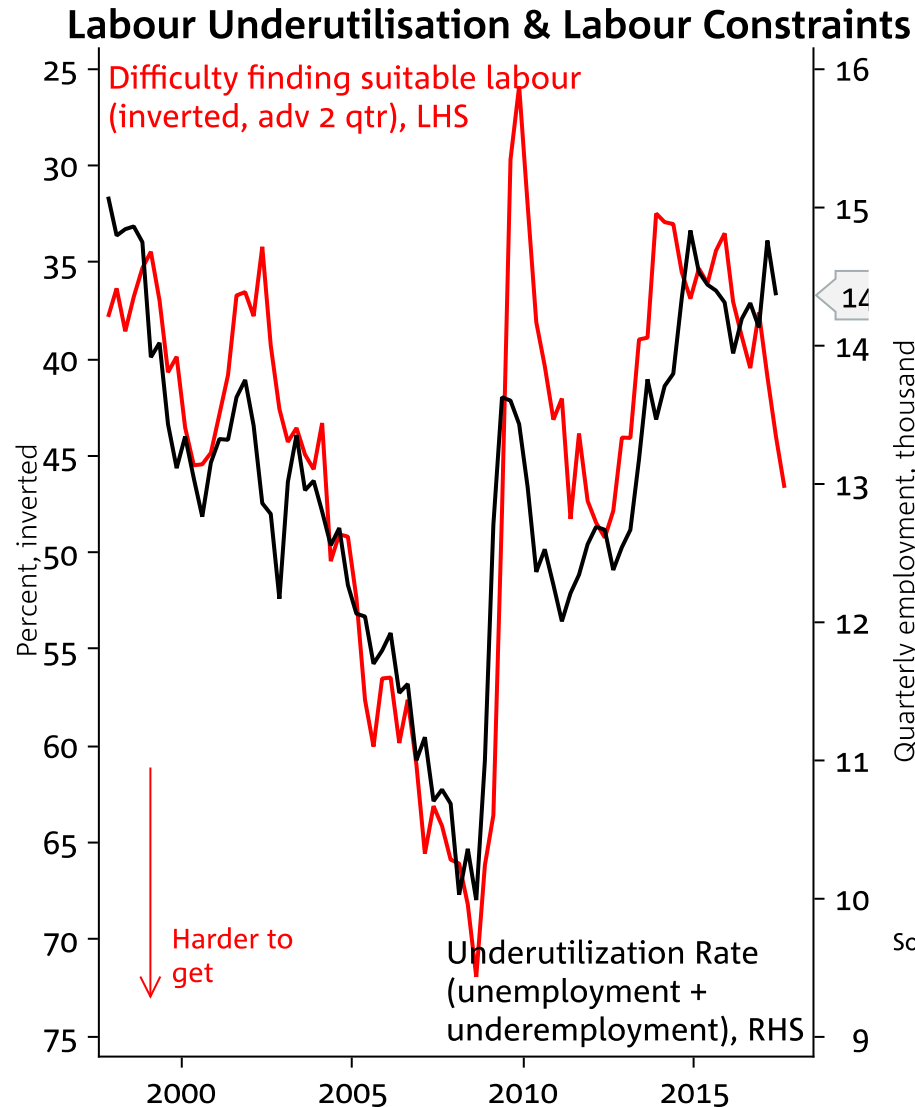


\* Those already employed but wanting to work more hours  
Source: National Australia Bank, ABS, RBA

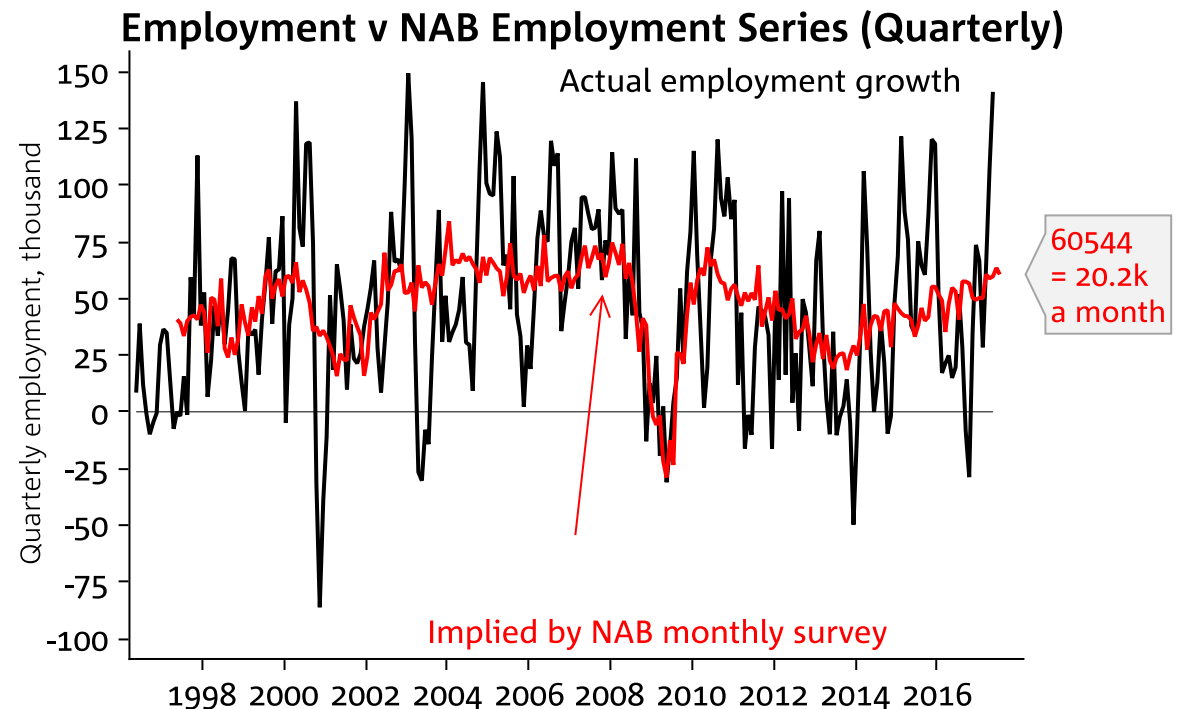


Source: National Australia Bank, ABS

# UNEMPLOYMENT – NAB survey suggests underemployment improving and employment growth has been understated



Source: National Australia Bank, ABS



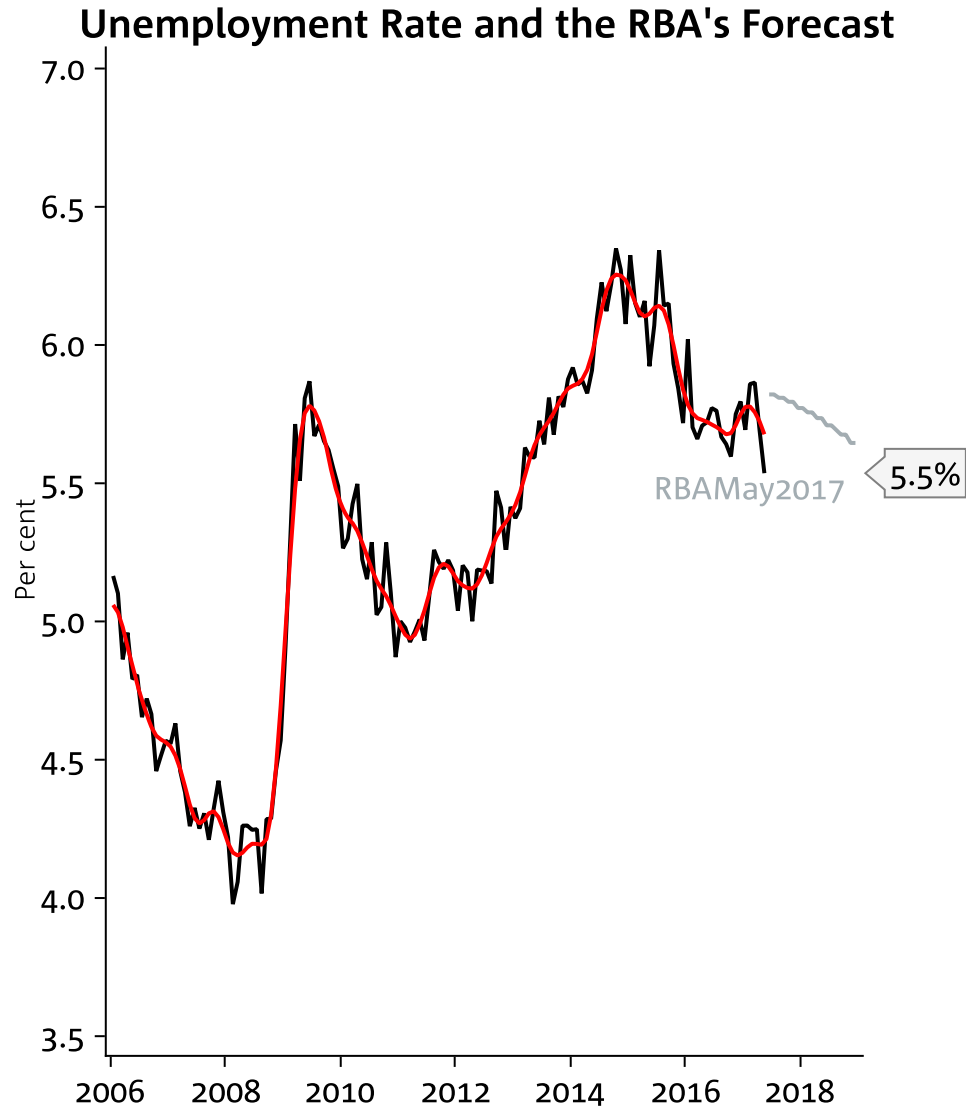
Source: National Australia Bank, ABS



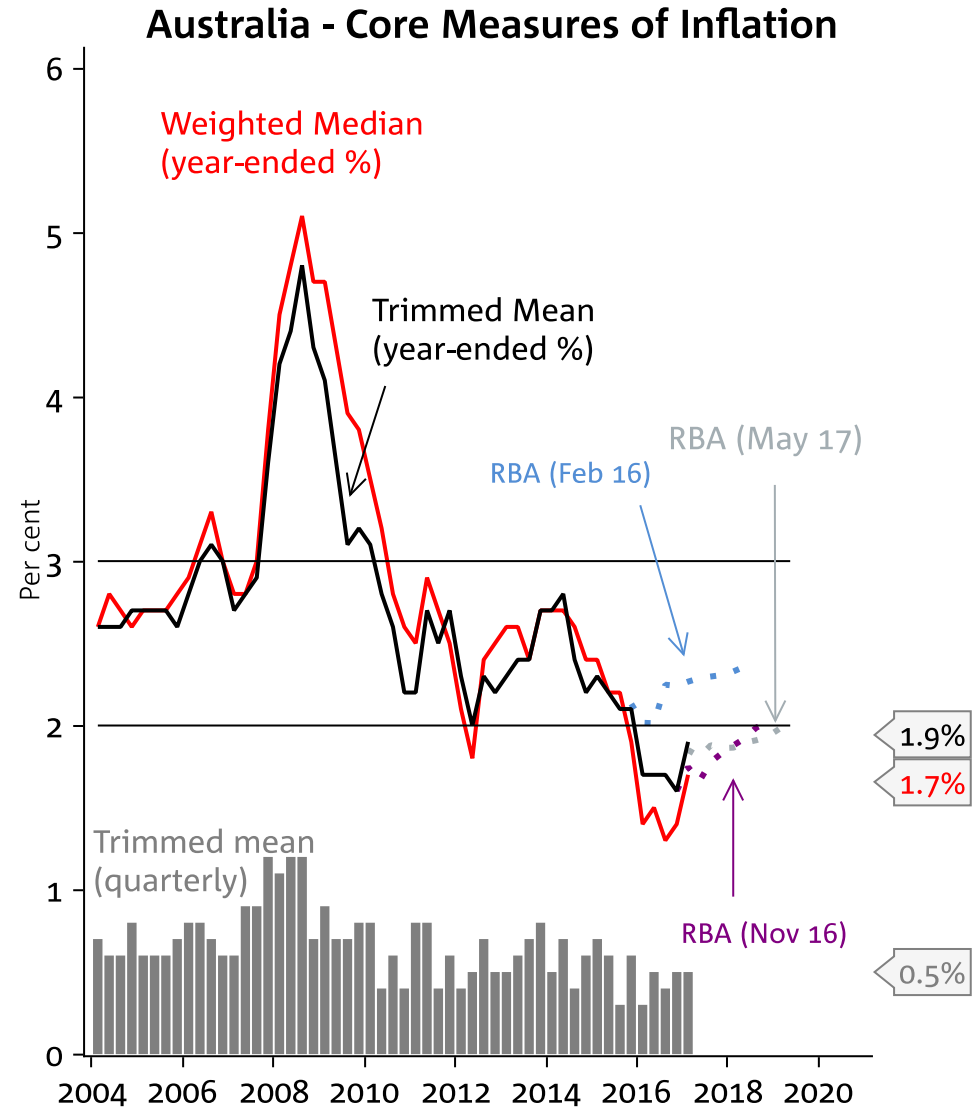
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# INTEREST RATES *and* FOREIGN EXCHANGE

**RBA STUCK** – elevated unemployment, inflation below target suggest ease; concerned about housing/debt → closely watching labour & housing markets



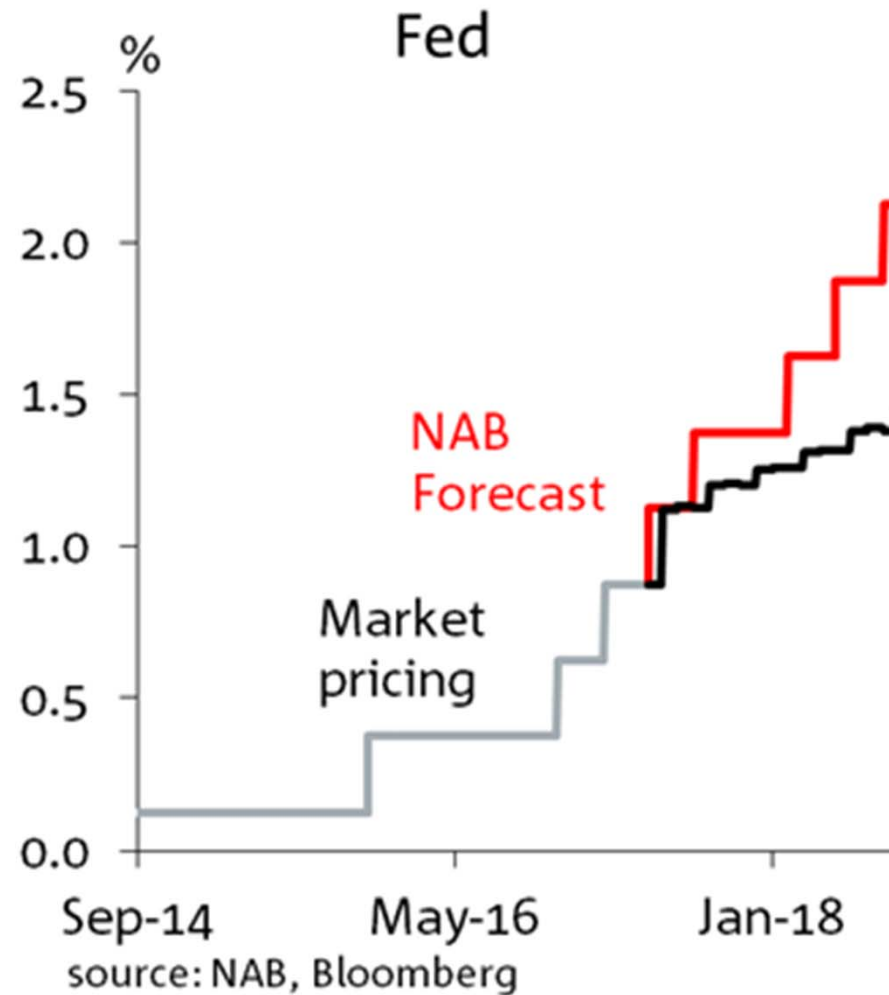
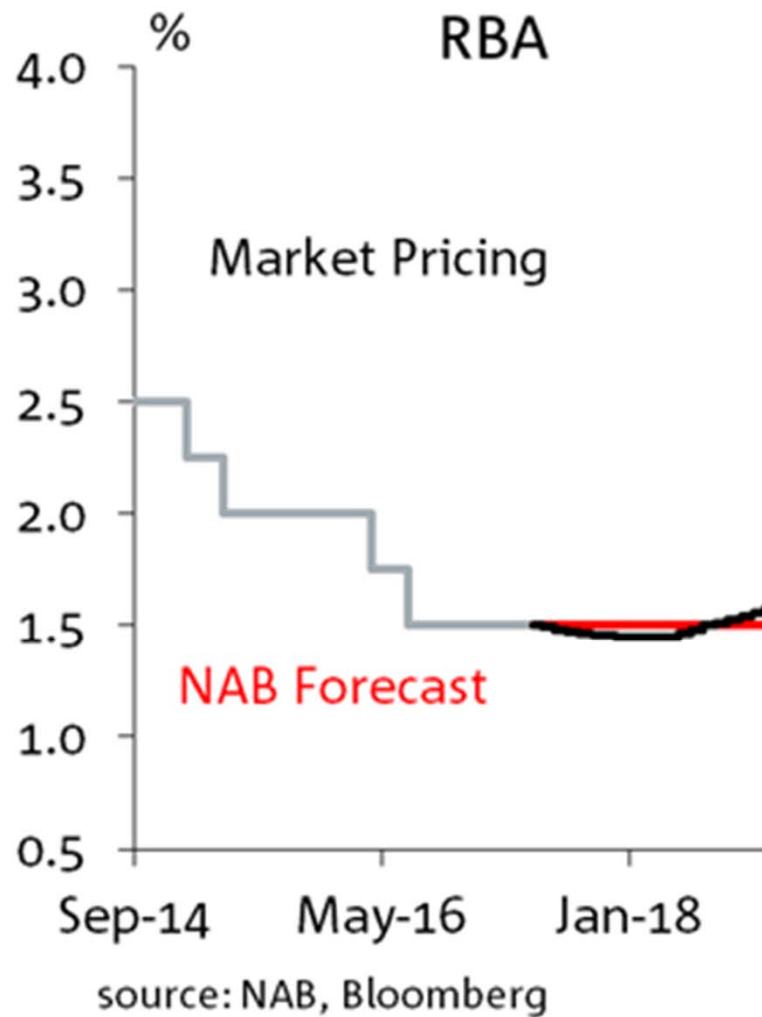
Source: National Australia Bank, ABS, RBA



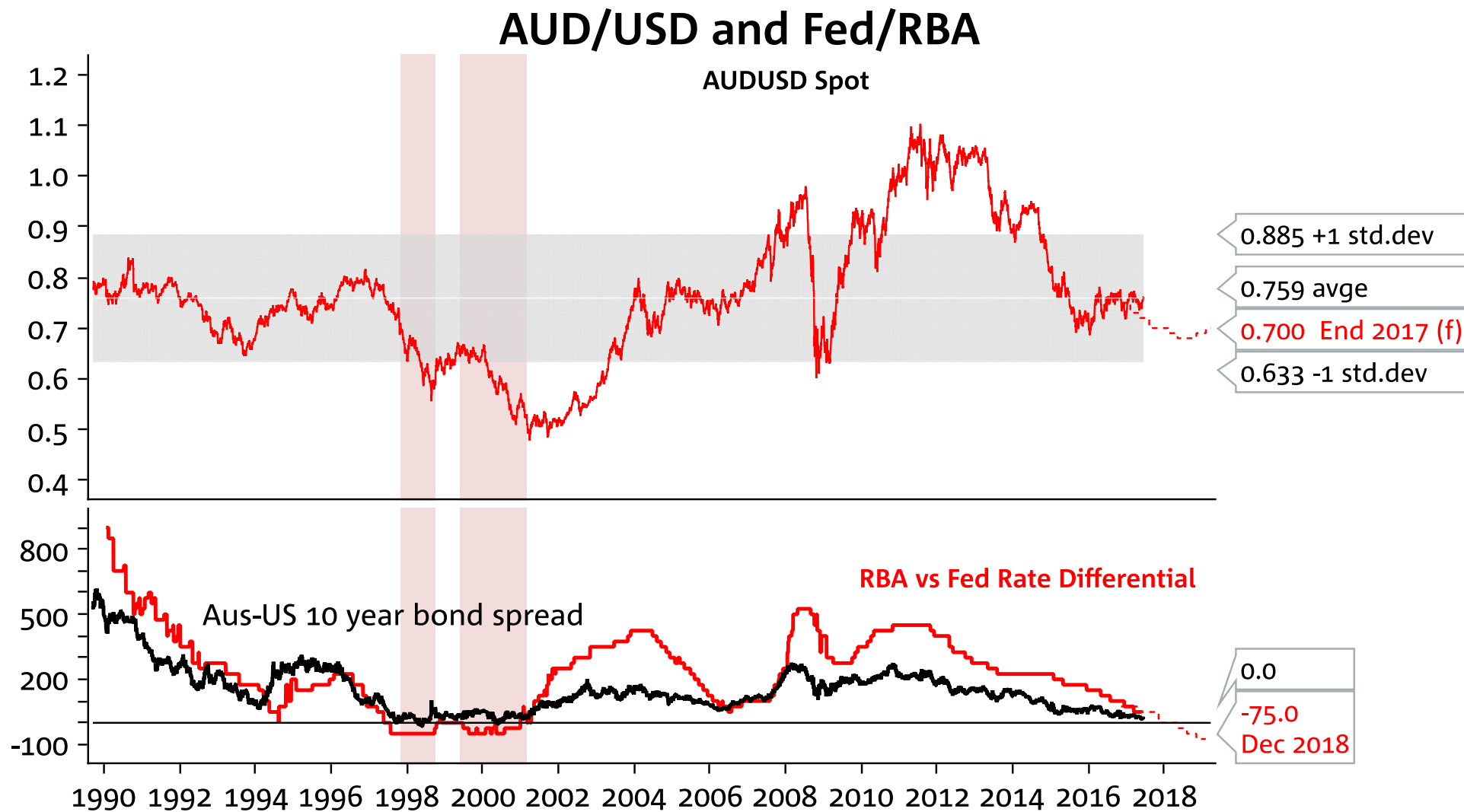
Source: National Australia Bank, ABS, RBA

## POLICY RATES – Australia on hold 2017 and 2018. Market likely under-pricing extent of US rate rises

Central bank forecasts - Mkt vs NAB

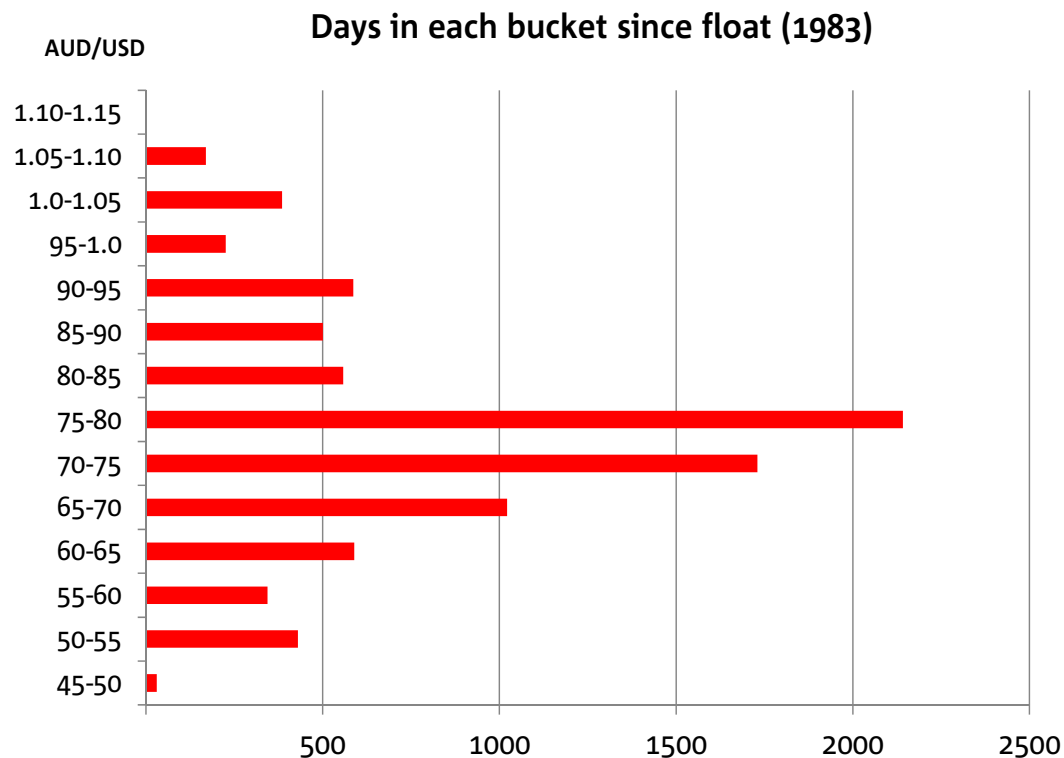


# RATE DIFFERENTIALS – Fed above RBA = risk for \$A

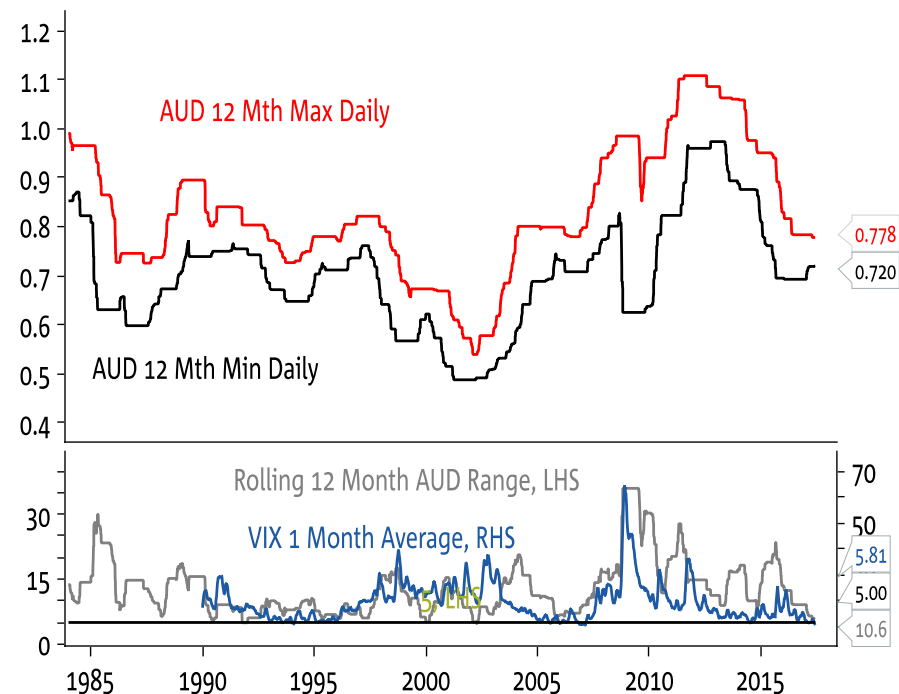


Source: National Australia Bank, Macrobond

# AUD/USD – happiest in 70-80 range; recent annual range at historical lows



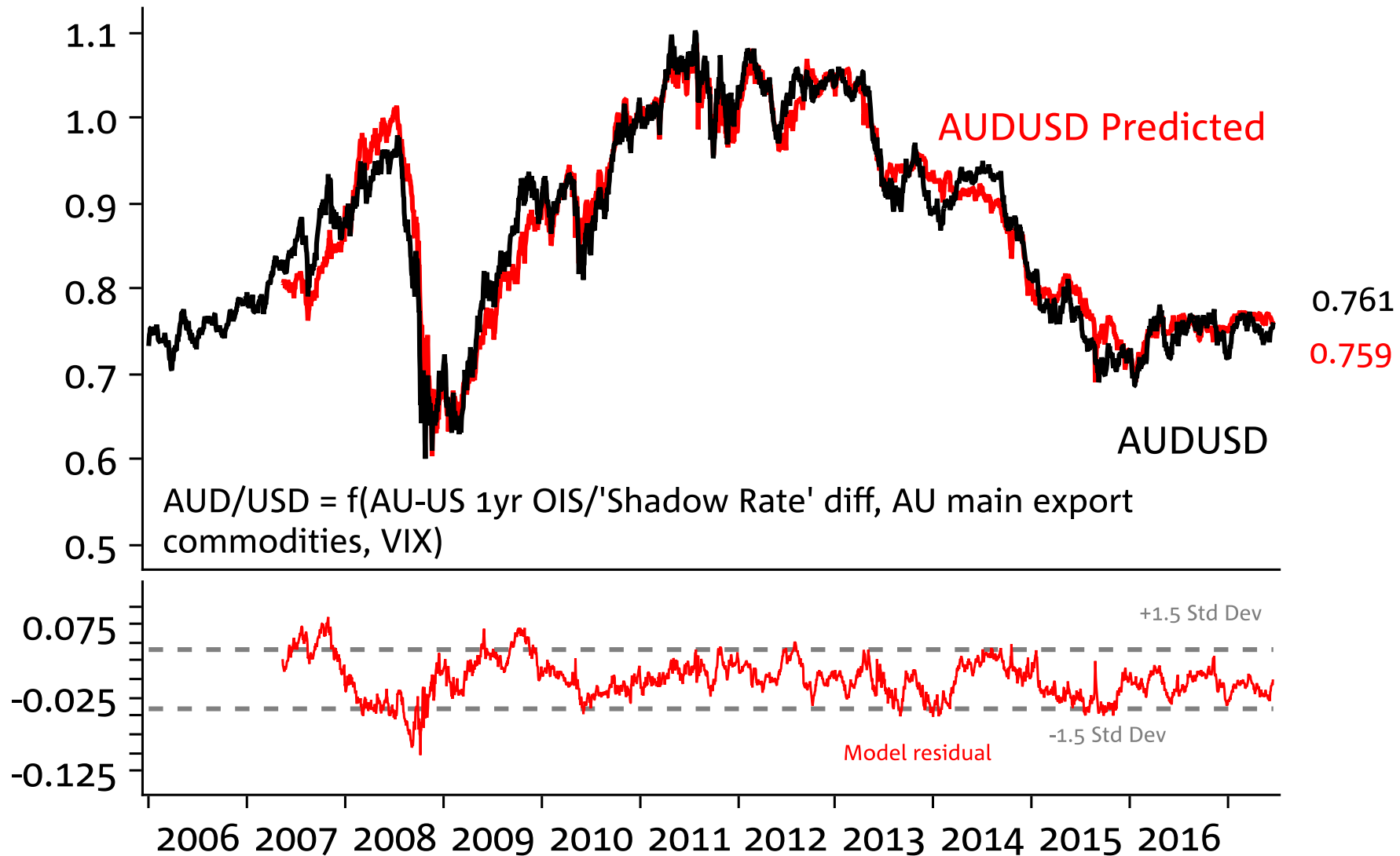
Source: NAB



Source: National Australia Bank, Macrobond

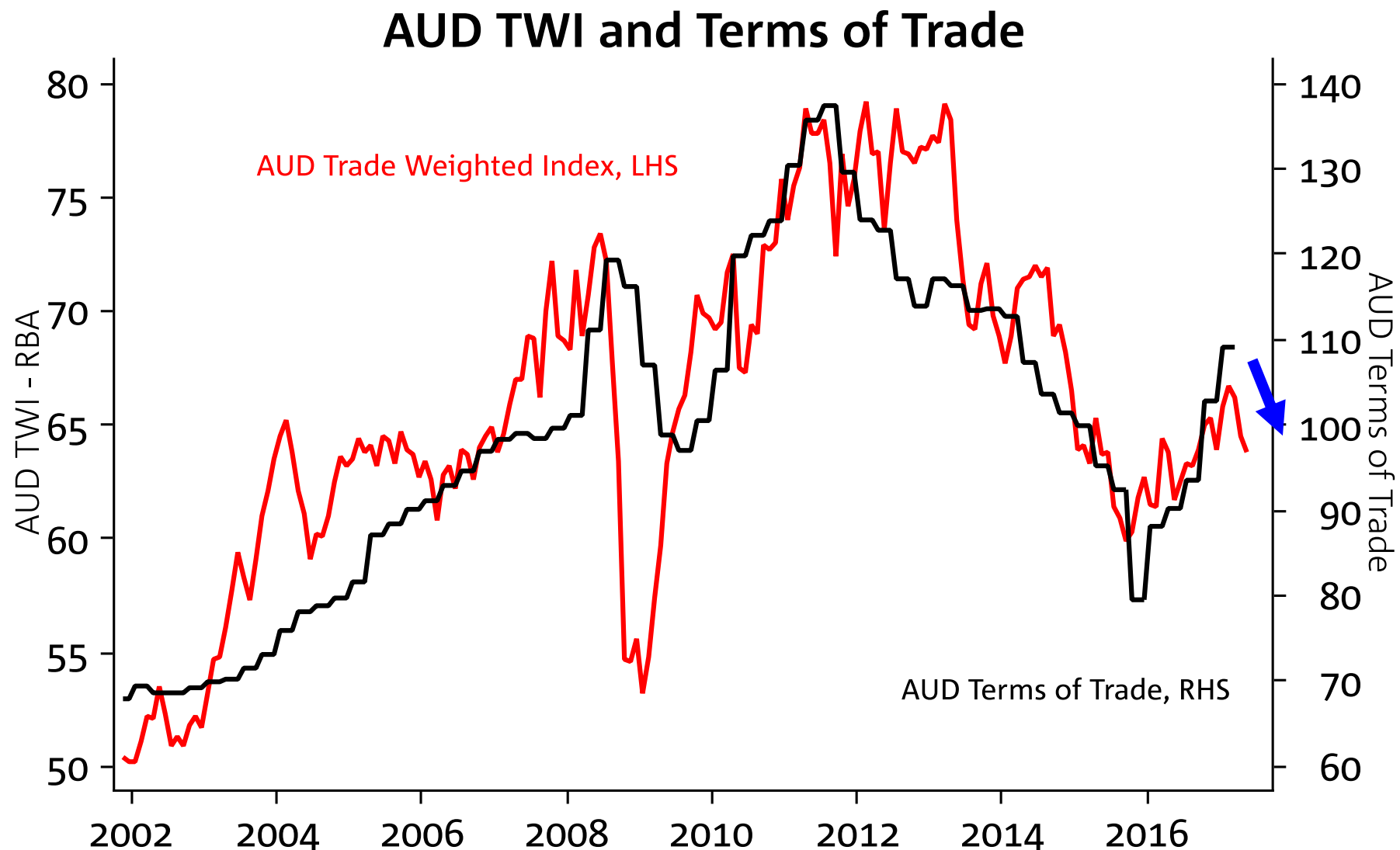
- AUD/USD has spent ~44% of its (floating) life above 0.70 and below 0.80
- Same time spent above 0.80 as below 0.70 (28%)
- Hi/Lo range of past 12 months (<6 cents) is close to historical lows (5 cents)

# NAB'S SHORT-TERM MODEL SUGGESTS \$A/US\$ FAIR VALUE **-0.77** - driven by interest rate differentials, commodity prices, market volatility



Source: National Australia Bank, Macrobond

# COMMODITY PRICES/TERMS OF TRADE – *expected to weaken.....*

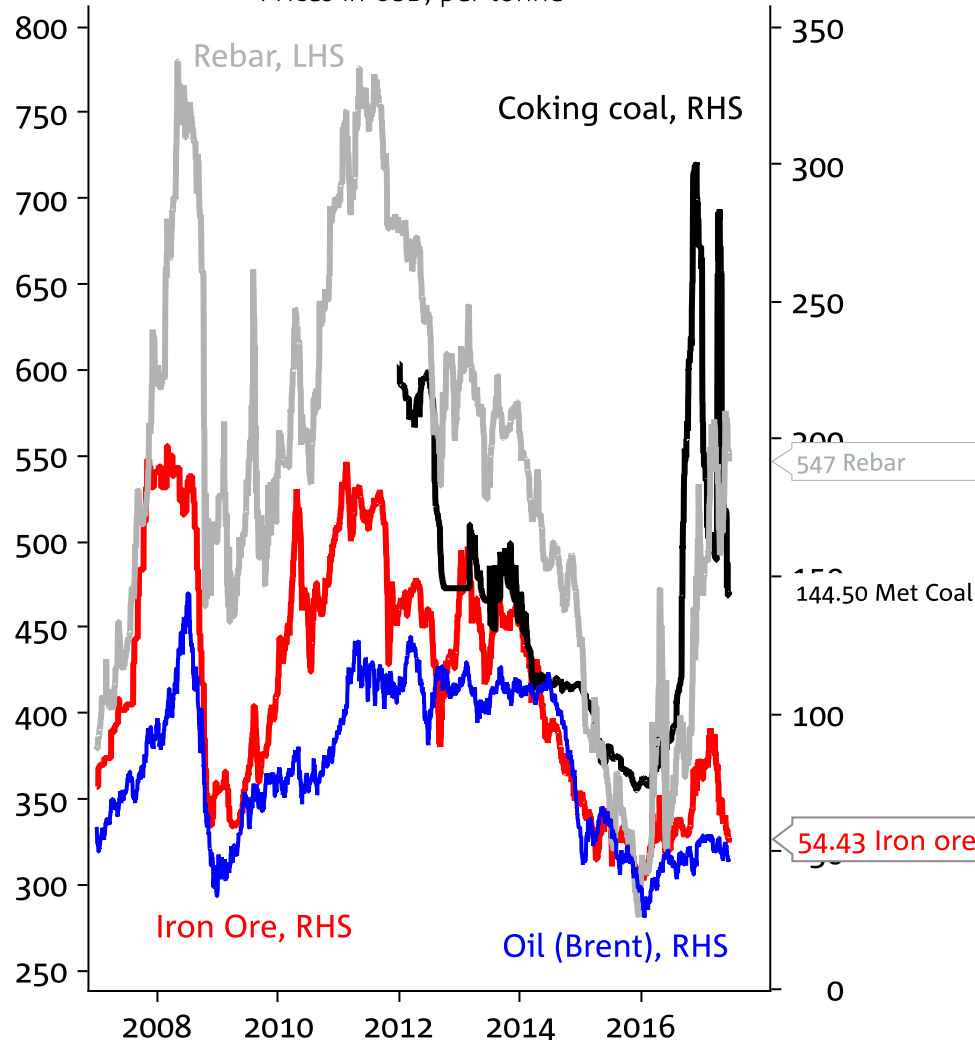


Source: National Australia Bank, Macrobond

# COMMODITY PRICES UP, THEN DOWN – mixture supply cuts, supply disruption (coal), Chinese policy changes and China inventory cycle (hard data)

## Steel, iron ore and met coal prices

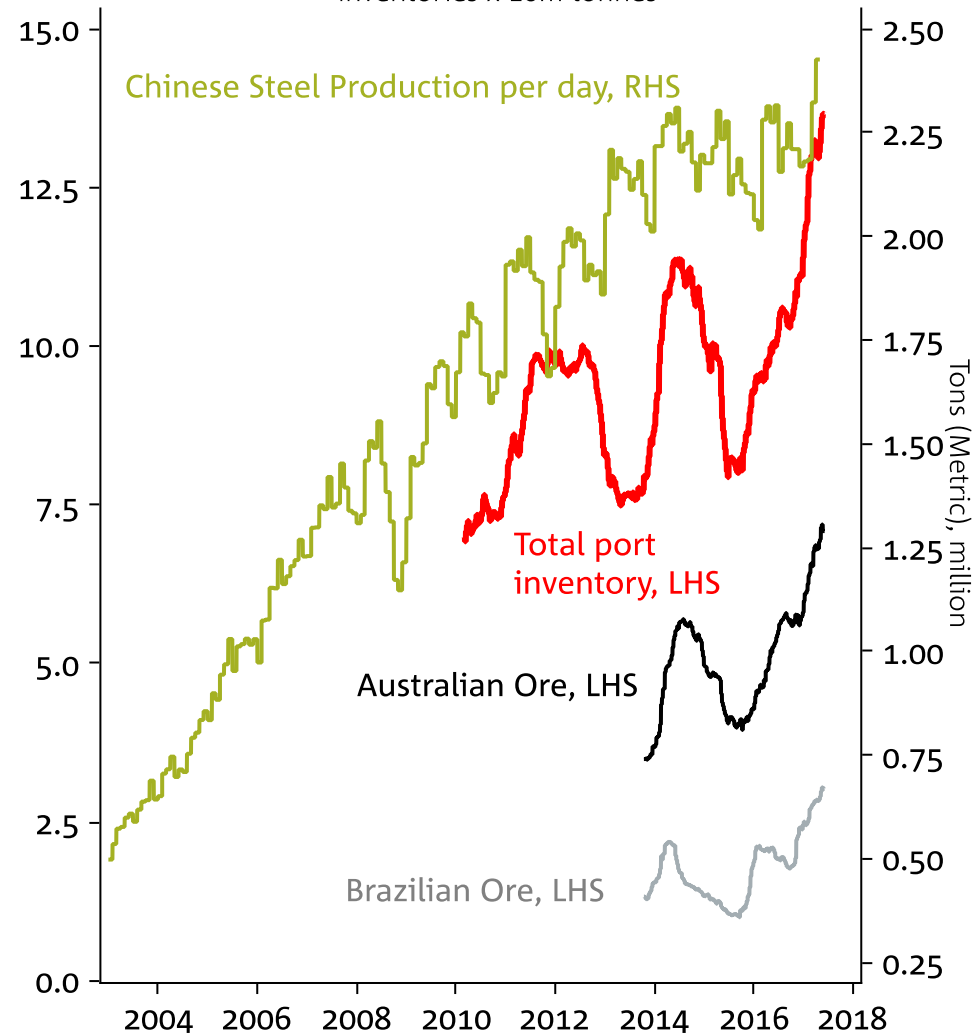
Prices in USD, per tonne



Source: National Australia Bank, Macrobond

## Chinese Steel Production and Iron Ore Inventories

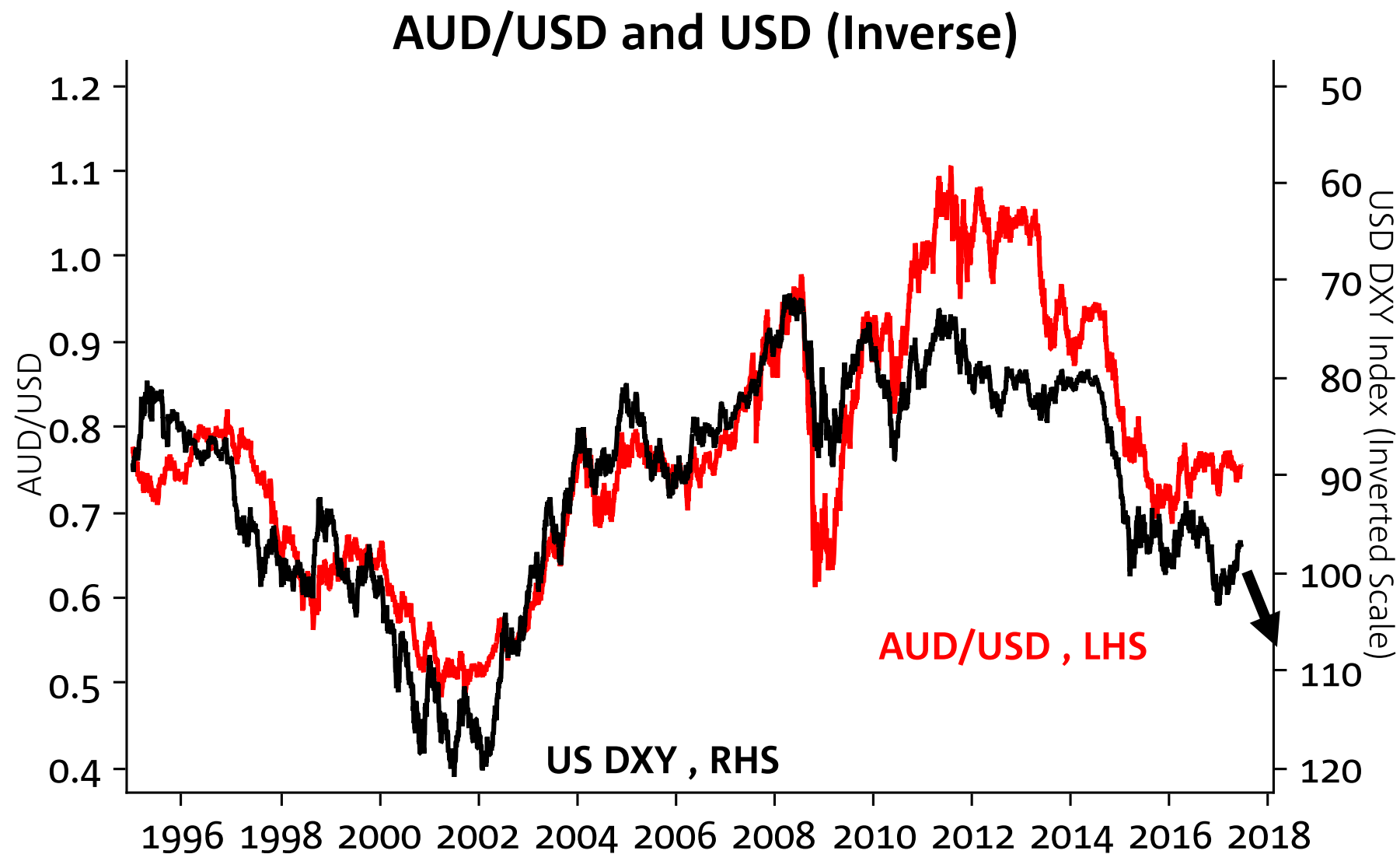
Inventories x 10m tonnes



Source: National Australia Bank, Macrobond



## BROAD USD TREND – *still expected to be up as US raises rates*



Source: National Australia Bank, Macrobond

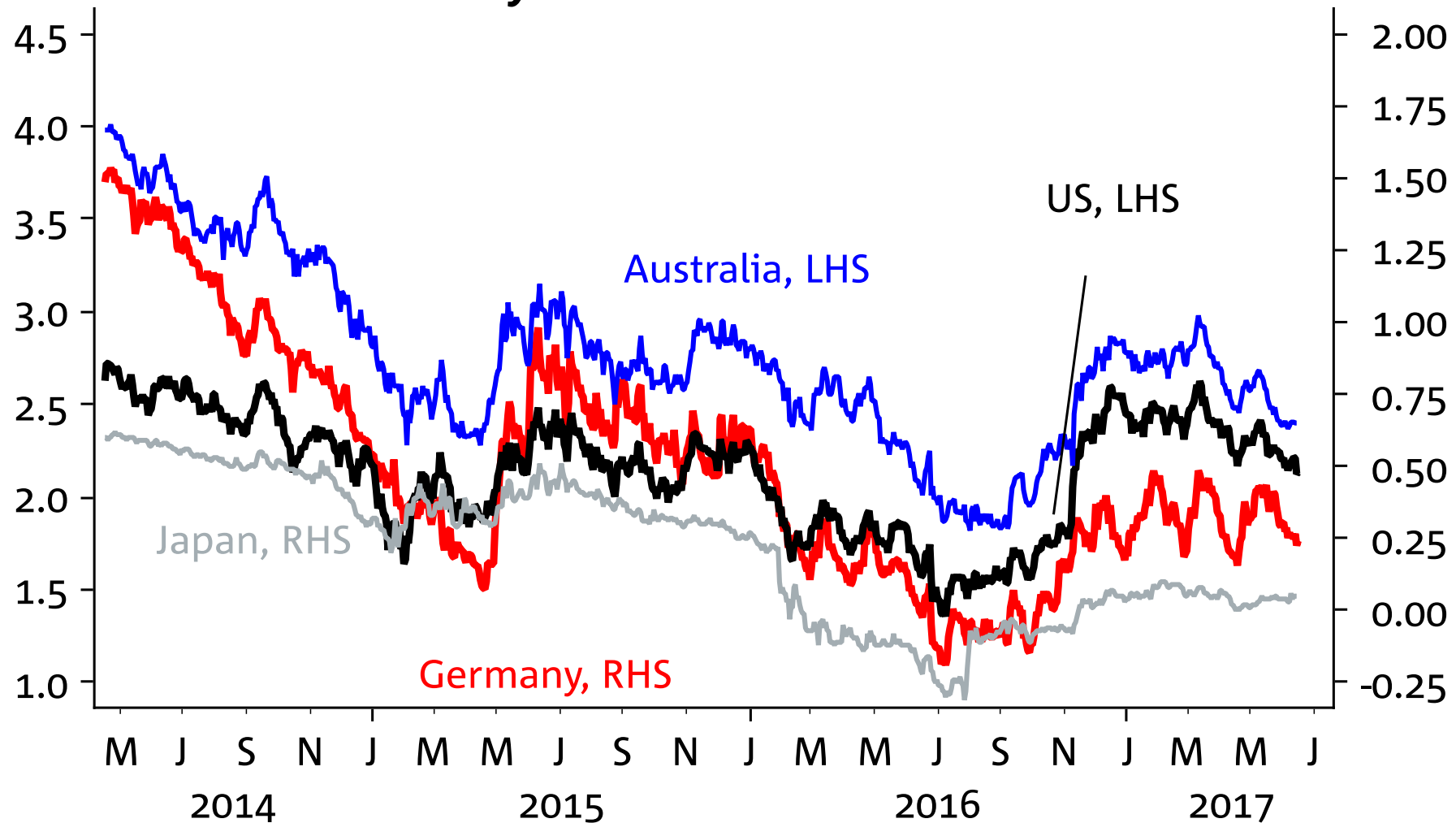
# AUD FORECASTS & KEY VIEWS: RISK OF 60 > RISK OF 80

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- AUD/USD has traded consistently below 'fair value' this year as risk sentiment holds up valuations
- Commodity prices **less** important than believed, interest rate differentials probably **more** important
- Australian economy looks okay in 2017, we are more worried about 2018; AAA rating safe – for now
- AU/US rates cross-over likely in 2018 with RBA on hold for a long time to come
- If so, significant downside risk for AUD/USD versus our point forecasts of ~0.70 in H2 2017 and 2018
- Last time this happened, AUD fell below 50 cents – this time **should** be different
- RBNZ may be forced to change its tune, driving NZD up versus AUD amid near record NZ terms of trade

# LONGER TERM BORROWING RATE TREND NOW UP - *US growth and interest rates, wind back of QE impacting on term premium*

## 10-year Govt. Bond Yields



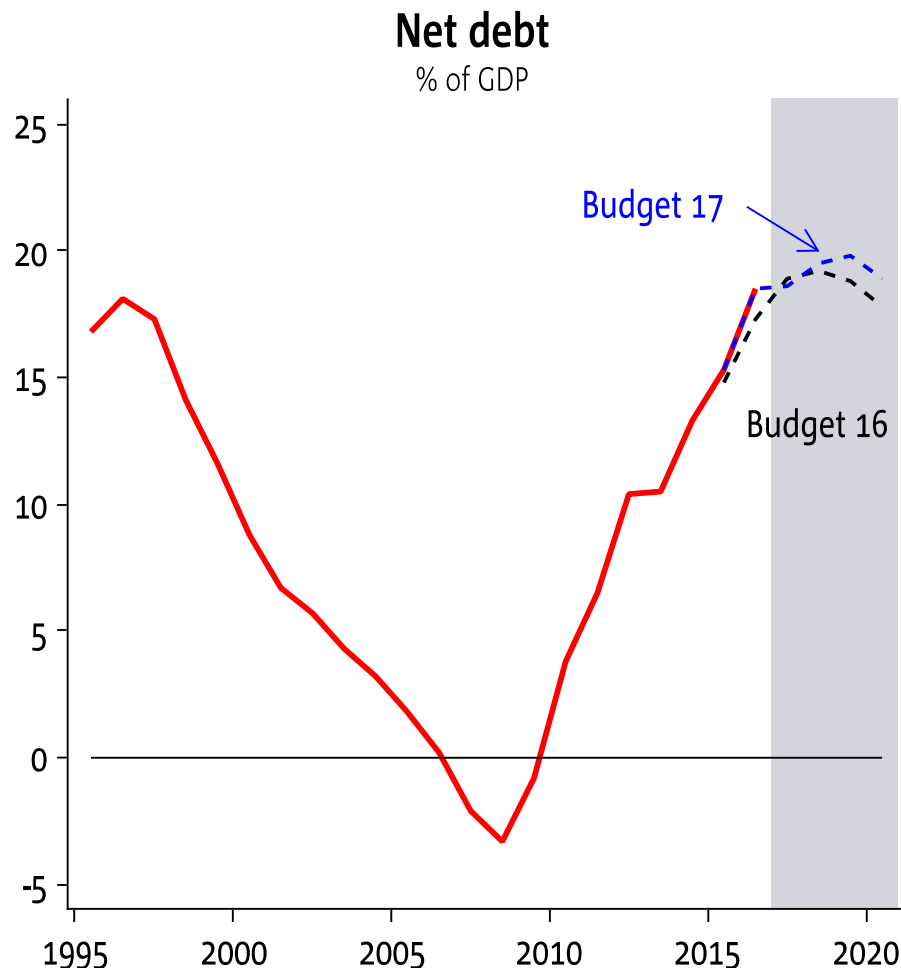
Source: National Australia Bank, Macrobond

# KEY TRADES/VIEWS

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- Short end of curve – range bound (see note published 6 April)
  - RBA on hold for an extended period leaves the front end of the curve range bound. Trade 3y future and 1y1y fwd swap in a range of 25/35bps to 70/80bps over cash. Lower end range being tested.
- Longer end of curve – target short position
  - Developments in US market key. Yields at lower end of range and at risk of positive news. We see yields higher into and possibly post June FOMC. Still target UST10s testing 2.60 in H2-17.
- Yield curve – holding 3y10y steepener (see note published on 22<sup>nd</sup> May)
  - RBA on hold and expected higher treasury yields will result in steeper AU curve. We remain in 3y10y swap curve steepening trade, having entered at 80bps (look to exit near 100bps).
- Yield differential – target compression (see note published on 11<sup>th</sup> May)
  - Post the Federal budget we revised lower our target entry level for AU-US10y bond differential to 30bps. Expect move to 10bps in H2-17. Current level (20bps) is around 6bps below model estimate.
- Swap spreads – targeting compression (again) (see note published on 19<sup>th</sup> April)
  - Trading the range. Re-enter receive 10y EFP at 26bps.
- Semi spreads – target compression
  - QTC Jul 25 to benchmark and WATC Jun 20 to benchmark compression trades remain open.
  - Recommend switching out of long dated NSWTC into QTC (2026 and/or 2028 maturities)

# THE AAA CREDIT RATING – back from the brink but still at risk. 2020-21 return to surplus a hard deadline for S&P – improvement still in out-years

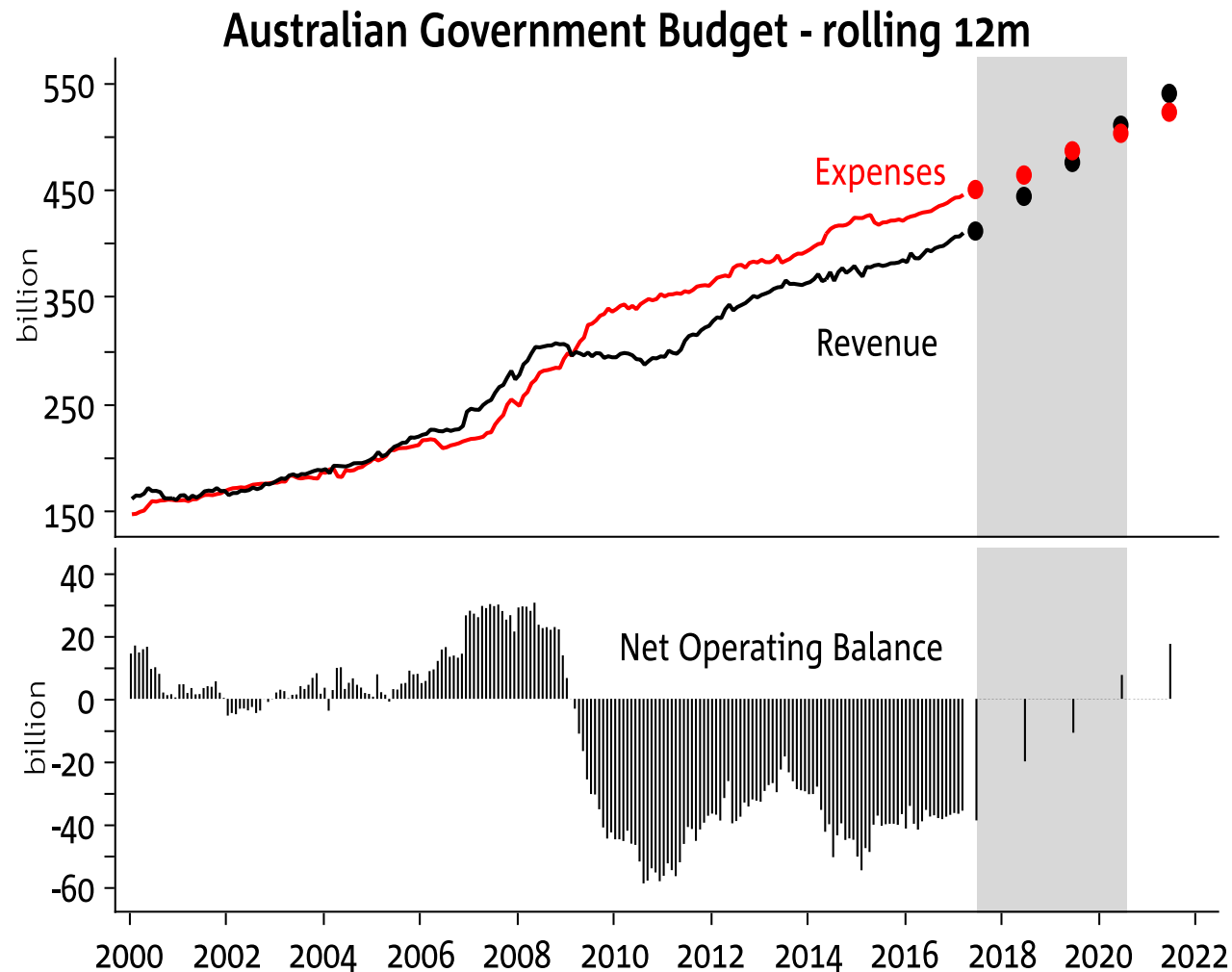


Source: National Australia Bank, Budget 2017.

	2016-17	2017-18	2018-19	2019-20	2020-21
<b>Underlying cash balance</b>	<b>-37.6</b>	<b>-29.4</b>	<b>-21.4</b>	<b>-2.5</b>	<b>7.4</b>
MYEFO - December 2016 - UCB	-36.5	-28.7	-19.7	-10.0	–
Per cent of GDP	-2.1	-1.6	-1.1	-0.1	0.4
<b>Net operating balance</b>	<b>-38.7</b>	<b>-19.8</b>	<b>-10.8</b>	<b>7.6</b>	<b>17.5</b>
Per cent of GDP	-2.2	-1.1	-0.6	0.4	0.8
<b>Net debt</b>	<b>325.1</b>	<b>354.9</b>	<b>375.1</b>	<b>374.7</b>	<b>366.2</b>
Per cent of GDP	18.6	19.5	19.8	18.9	17.6

- Standard and Poor's - AAA negative outlook
  - Reaffirmed AAA but retained negative outlook. Again shrill about the risks of not returning to surplus by early 2020s. Added concern about housing into the equation
- Moody's – Aaa stable
  - “Australia’s fiscal strength “very high” and supportive of Aaa rating... Debt burden and affordability in line with other Aaa rated sovereigns...Latest budget closely aligned to prior year’s budget and mid-year update”
- Fitch – AAA stable
  - “New revenue measures announced in the Budget 17-18 release imply a faster reduction in general government deficit.”

# THE BUDGET PROBLEM – expenditure growing too quickly in aggregate and faster than revenue growth, which has been slow. Population growth a factor.



Source: National Australia Bank, Department of Finance

# BUDGET ECONOMIC FORECASTS – wages forecasts in out-years look optimistic, especially given forecast little change in unemployment

	Forecasts				Projections		
	2016-17		2017-18		2018-19	2019-20	2020-21
	Budget	NAB	Budget	NAB	Budget	Budget	Budget
Real GDP	1.75	1.7	2.75	2.9	3	3	3
Nominal GDP	6	5.5	44	4.1	4	4.5	4.75
Iron ore, spot	55	65	55	60	55	55	55
Unemployment Rate	5.75	5.8	5.75	5.6	5.5	5.5	5.25
CPI	2	1.8	2	1.8	2.25	2.5	2.5
Wages growth	2	1.8	2.5	2.1	3	3.5	3.75

# CHINA AND AUSTRALIA

Major Export Markets (2015)		% of total	\$bn
1	China	27.1	85.6
2	Japan	13.4	42.2
3	United States	7.0	22.1
4	Republic of Korea	6.3	20.0
5	India	4.3	13.4
6	New Zealand	4.0	12.6
7	Hong Kong (SAR of China)	3.6	11.3
8	Singapore	3.5	11.0
9	United Kingdom	2.8	8.8
10	Malaysia	2.5	8.0
Total Exports to All Countries			\$315.7bn

Source: DFAT, Australia's Trade in Goods and Services 2015  
Note: Top 10 export markets = 75% of total exports

Major Exports (2015)		% of total	\$bn
1	Iron ores & concentrates	15.6	49.1
2	Coal	11.7	37.0
3	Education-related travel services	5.9	18.7
4	Natural gas	5.2	16.4
5	Personal travel services	4.8	15.3
6	Gold	4.6	14.5
7	Beef	2.9	9.3
8	Aluminium ores & concentrates	2.4	7.5
9	Crude petroleum	1.9	6.0
10	Wheat	1.8	5.8
Total Exports to All Countries			\$315.7bn

Source: DFAT, Australia's Trade in Goods and Services 2015  
Note: Top 10 exports = 57% of total exports

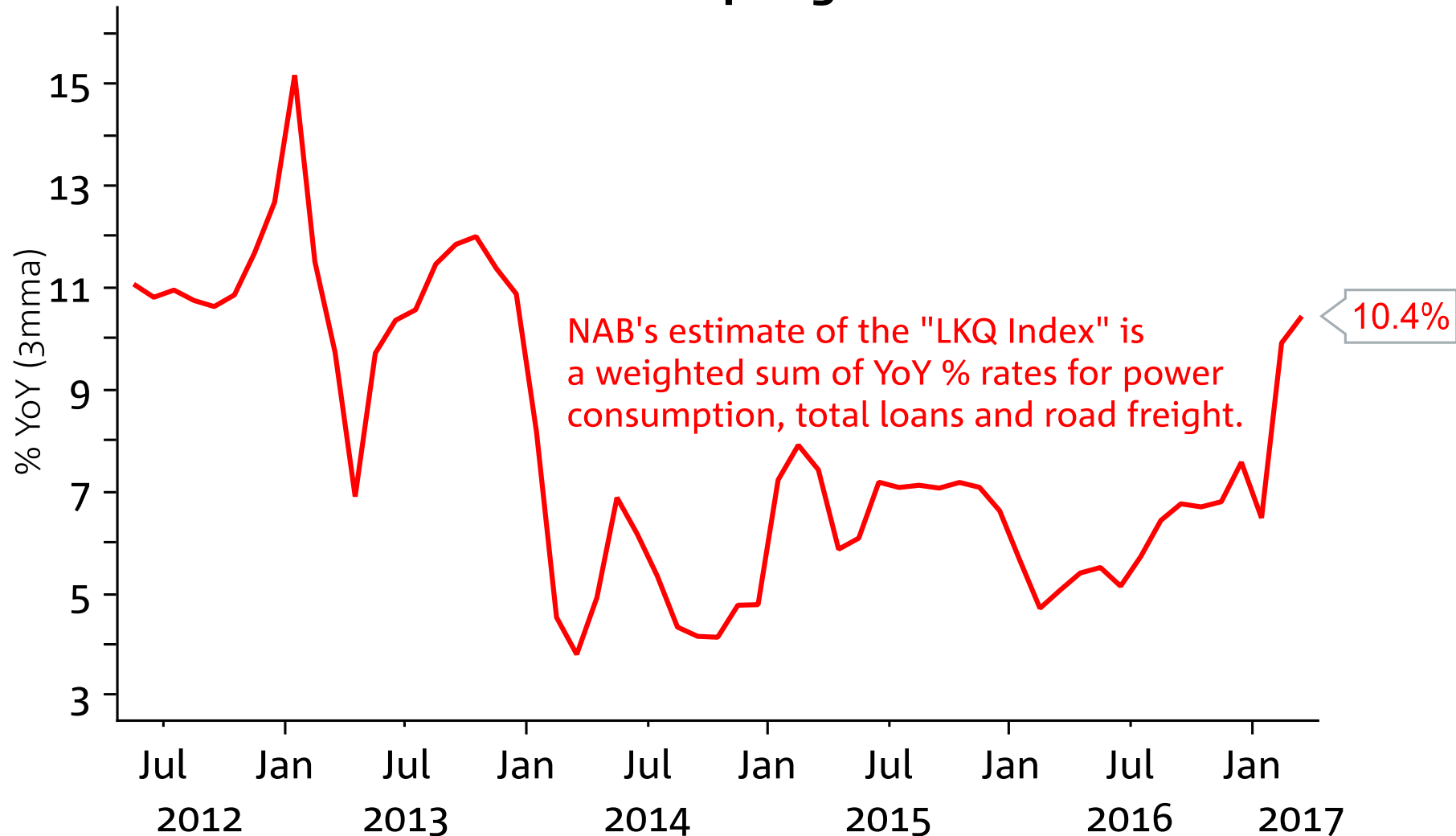
Major Exports to China (2015-16)		Value (\$bn)	% of total
1	Iron ores & concentrates	38.7	42.9
2	Gold	8.8	9.7
3	Confidential items of trade	6.3	7.0
4	Coal	5.5	6.1
5	Education-related travel*	5.0	5.5
6	Copper and copper ores & concentrates	3.6	4.0
7	Personal travel excluding education*	3.0	3.4
8	Wool & other animal hair (incl tops)	2.0	2.3
9	Aluminium ores & conc (incl alumina)	1.0	1.1
10	Edible products & preparations, nes	1.0	1.1

\* 2015 calendar year only  
Source: National Australia Bank; DFAT



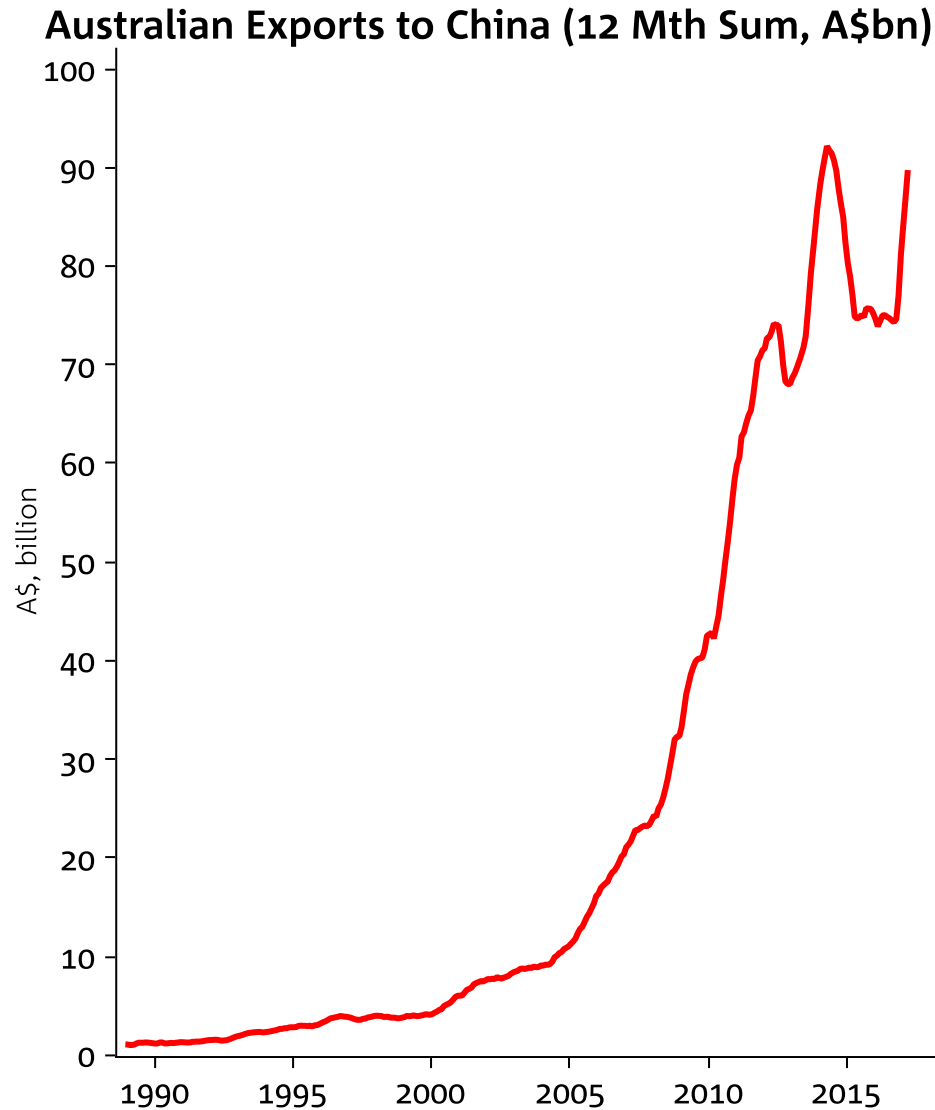
**CHINA** - growth has reaccelerated, though a number of forward indicators suggest will moderate

## NAB Li Keqiang Index

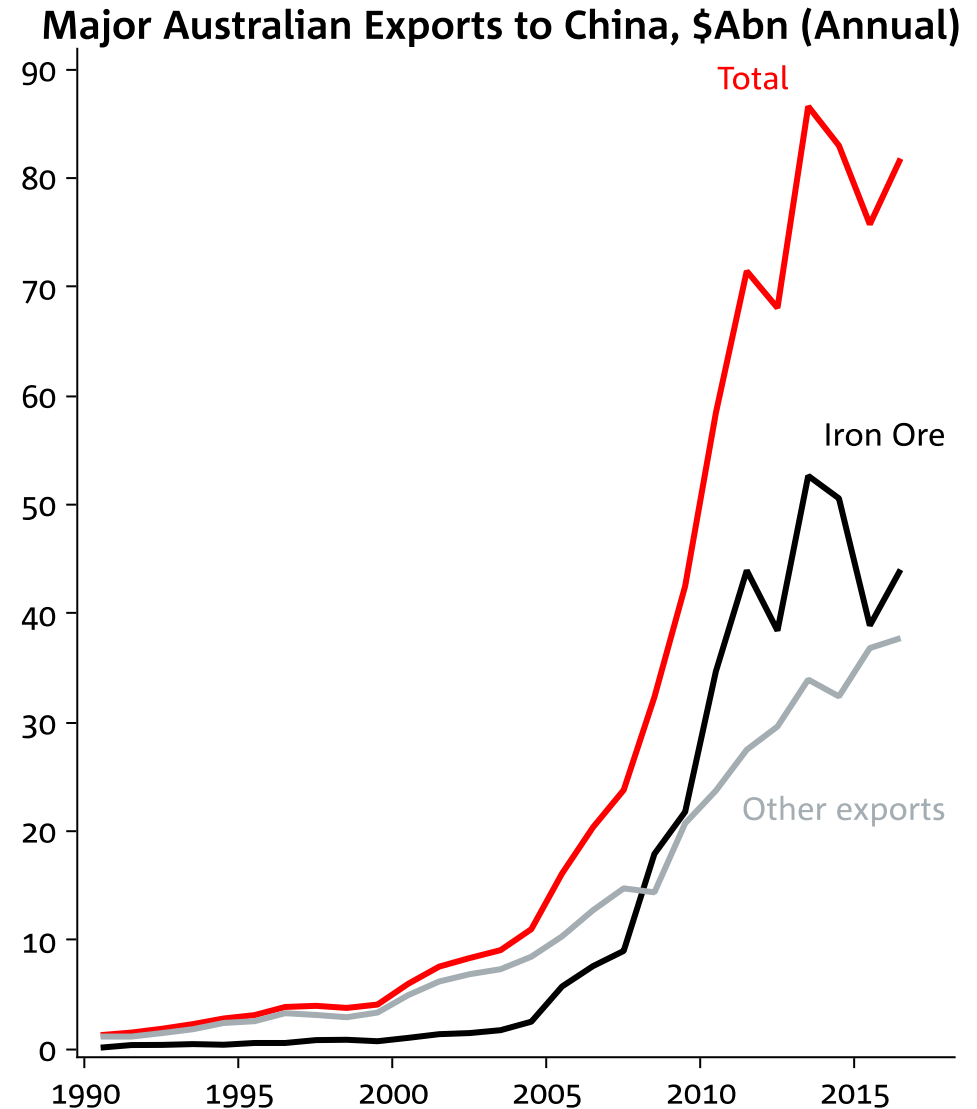


Source: National Australia Bank, Bloomberg, Macrobond

# AUSTRALIAN EXPORTS TO CHINA - recent variations mainly reflect changes in commodity prices rather than any weakness in export volumes



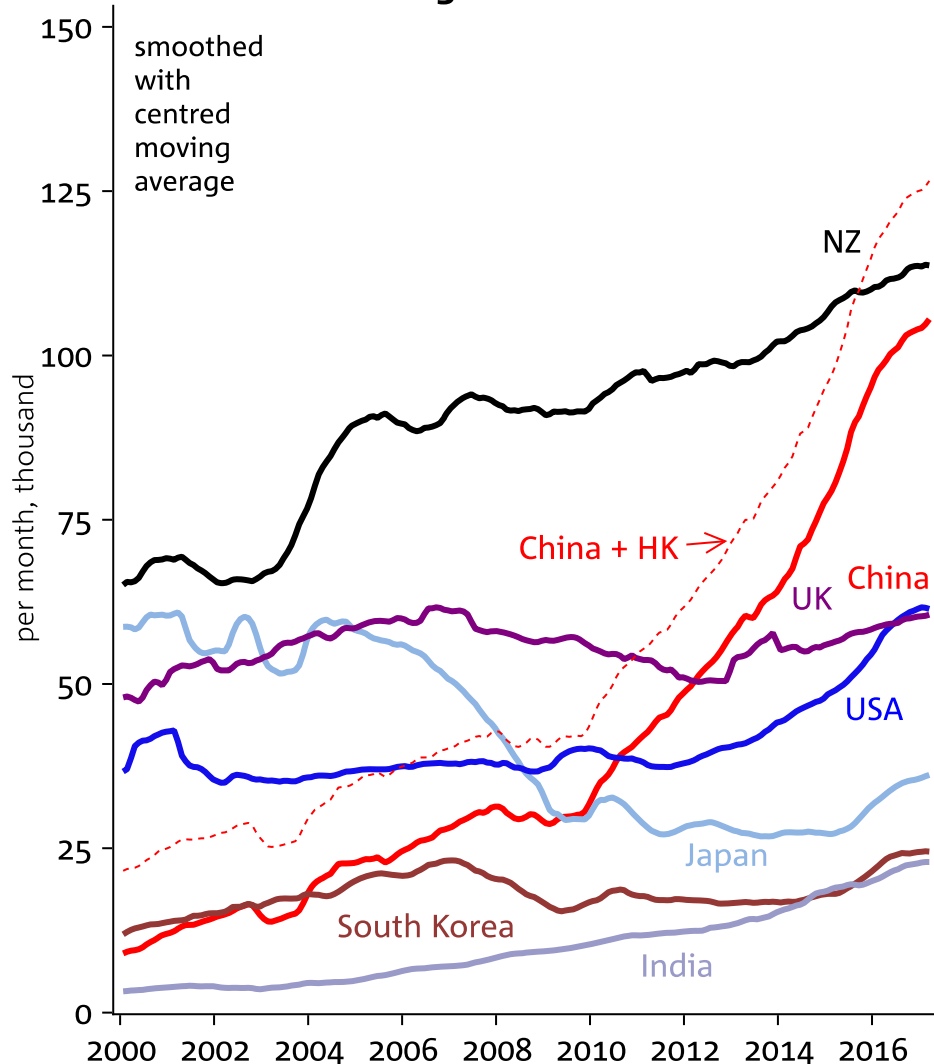
Source: National Australia Bank, Macrobond



Source: National Australia Bank, Macrobond

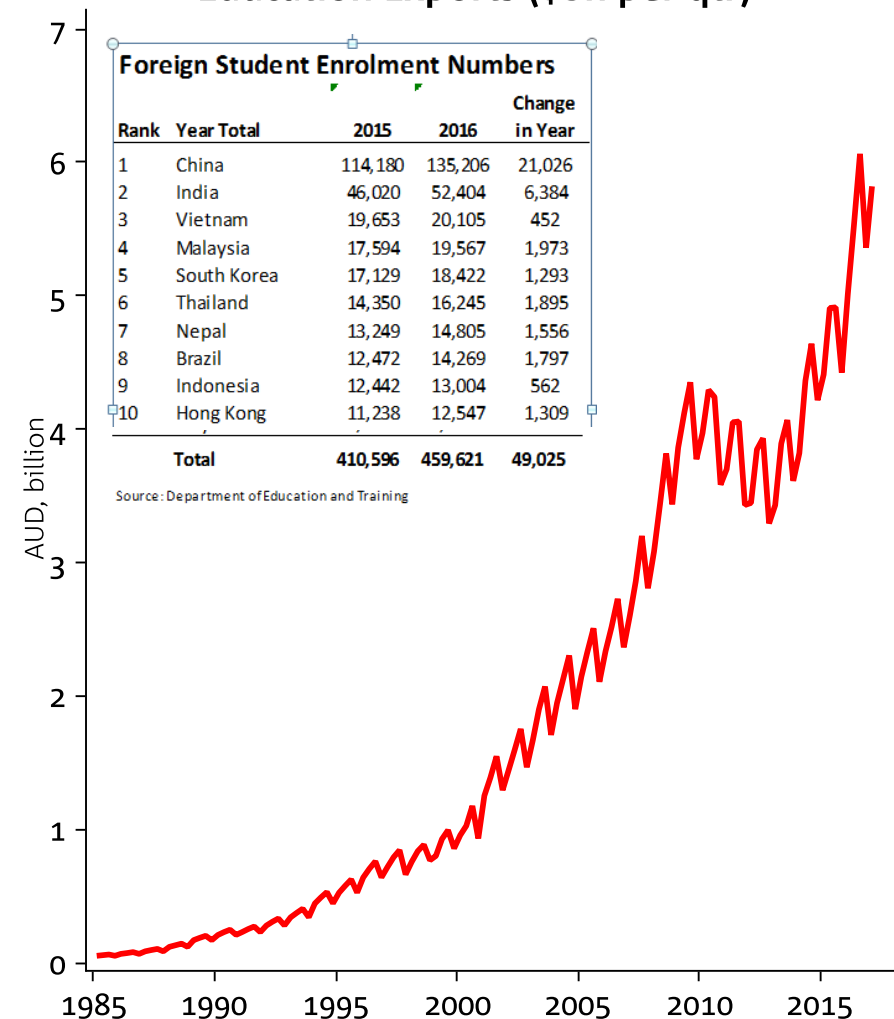
# CHINESE TOURISM AND STUDENT NUMBERS – *very strong*

## Short Term Passenger Arrivals - Per Month



Source: National Australia Bank, ABS

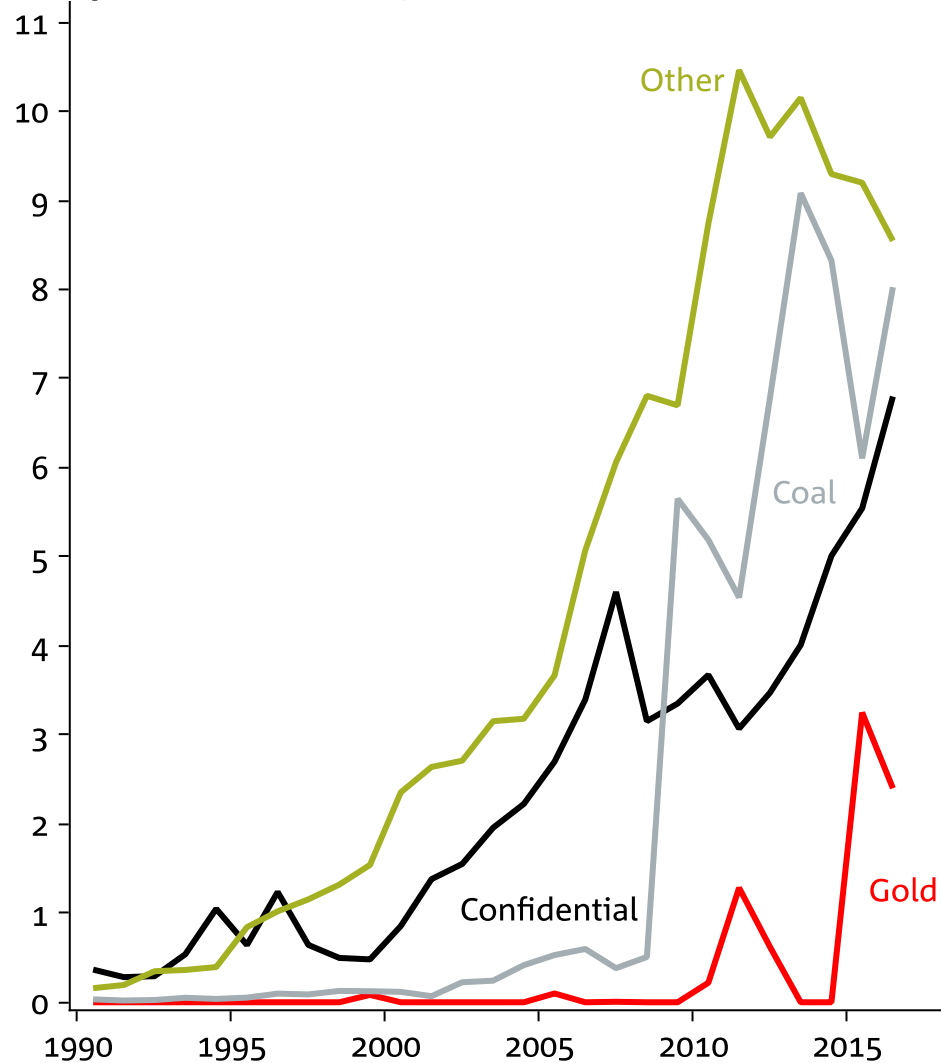
## Education Exports (\$bn per qtr)



Source: National Australia Bank, Macrobond

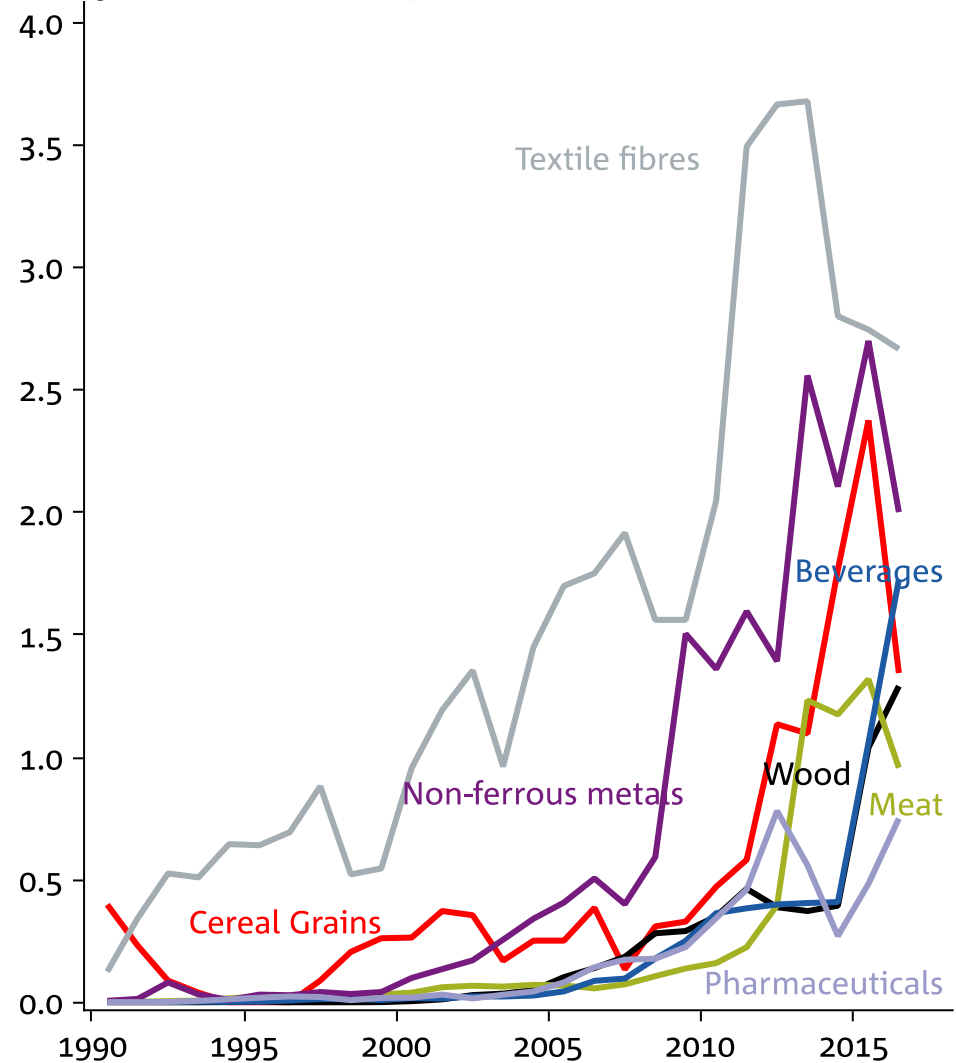
# EXPORTS TO CHINA - strong growth continuing in many other categories of exports (gold, confidential items, meat, wheat, wool, beverages)

Major Australian Exports to China, \$Abn (Annual)



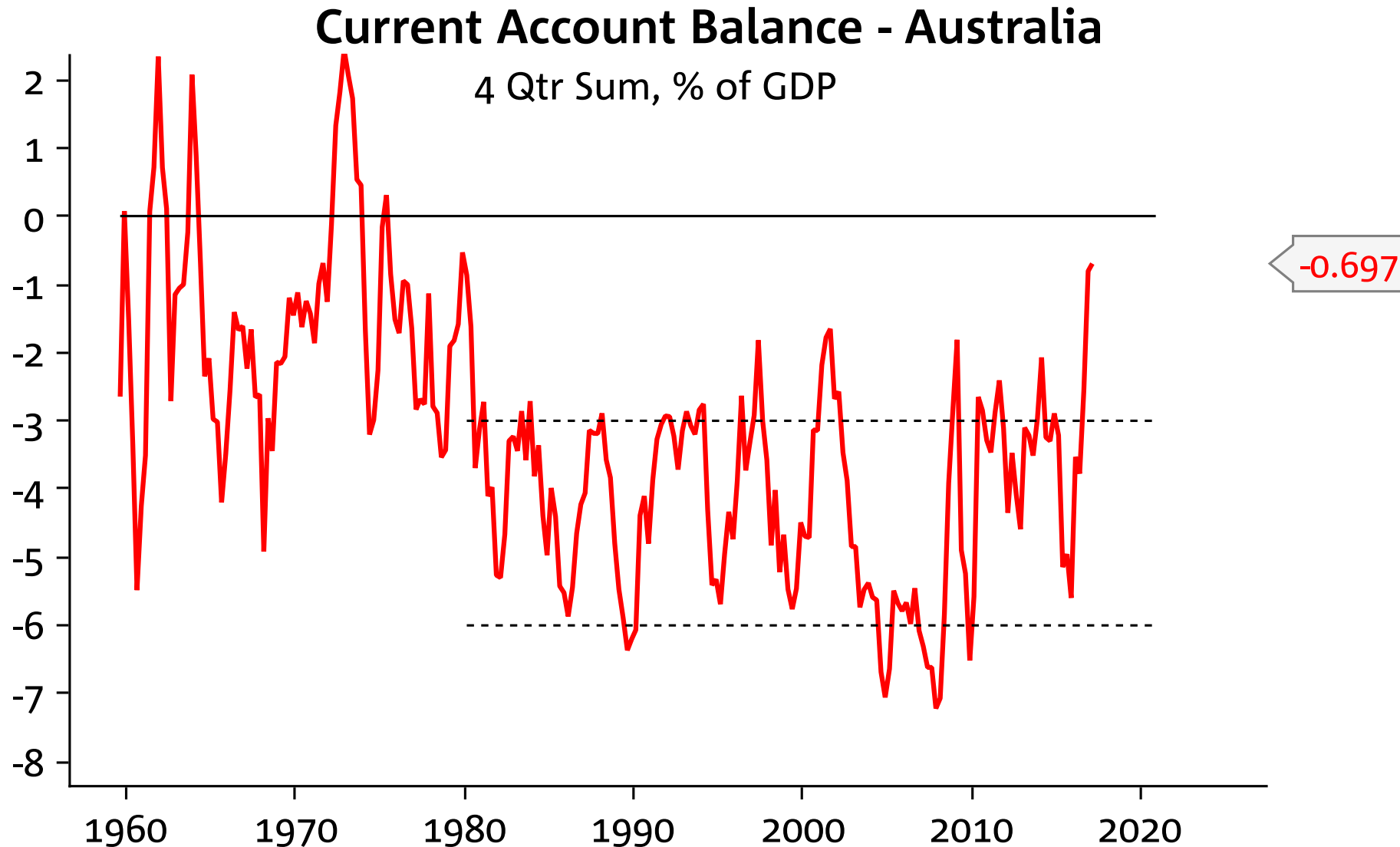
Source: National Australia Bank, Macrobond

Major Australian Exports to China, \$Abn (Annual)



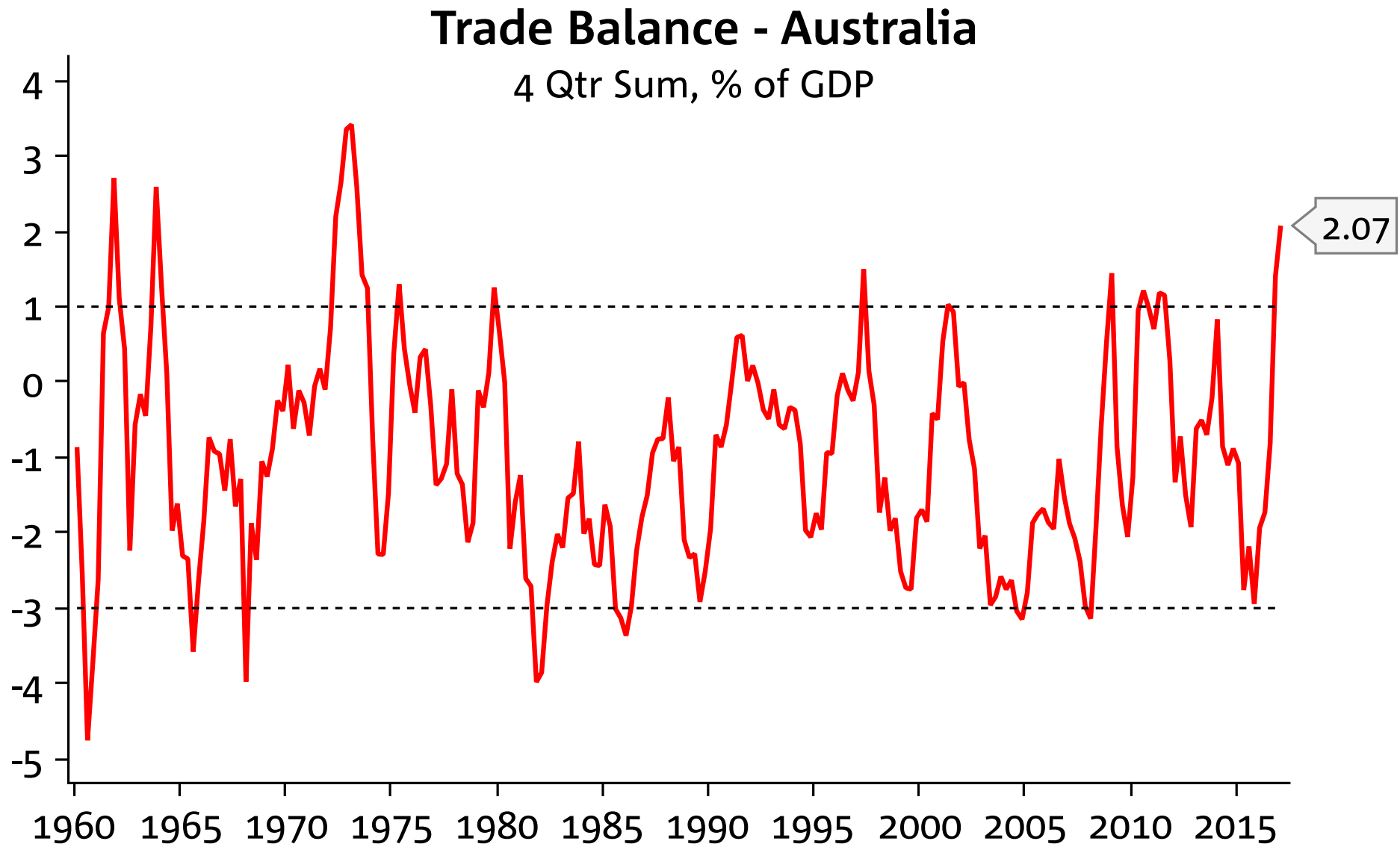
Source: National Australia Bank, Macrobond

**AUSTRALIA'S CURRENT ACCOUNT** – since the early 1980s has cycled mainly between a 3% and 6% of GDP deficit. In the 1960s & 1970s: 0/-3% GDP



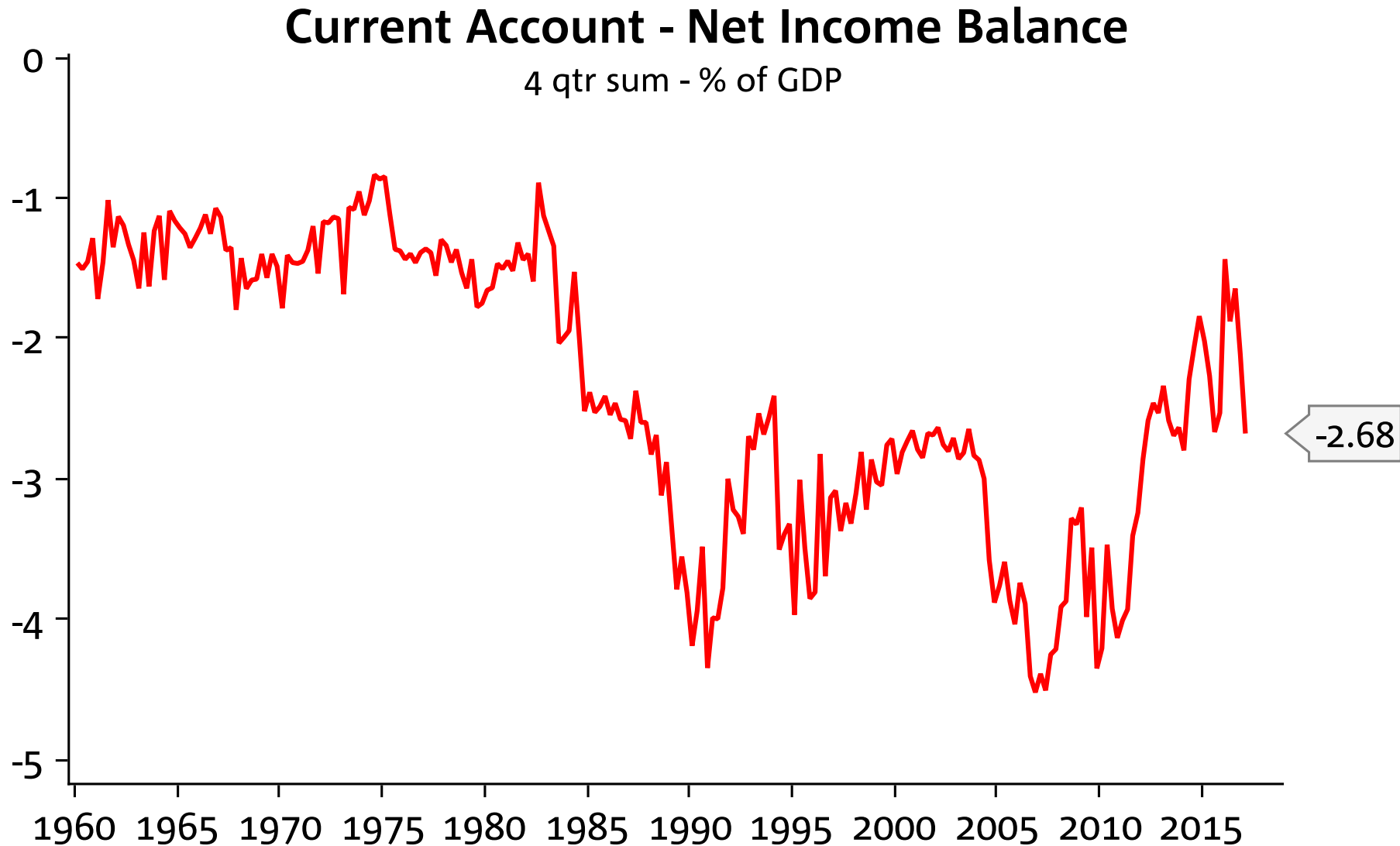
Source: National Australia Bank, Macrobond

**AUSTRALIA'S CURRENT ACCOUNT** – cyclical variations typically reflect cycles in trade balance (either demand or terms of trade driven): -3 to +1% GDP



Source: National Australia Bank, Macrobond

**CURRENT ACCOUNT IMPROVEMENT** – structural changes have reflected changes in the income balance, mainly due to higher/lower interest rates



Source: National Australia Bank, Macrobond

# KEY FORECASTS

## Forecasts

<b>Economics - yoy%</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Markets /Rates</b>	<b>30 May</b>	<b>Sep 17</b>	<b>Dec 17</b>	<b>Mar 18</b>	<b>Jun 18</b>
Household Consumption	2.7	2.7	2.1	2.0	RBA Cash	1.50	1.50	1.50	1.50	1.50
Business Investment	-10.1	-11.2	0.8	4.9	3 Year Swap	1.9	2.1	2.3	2.3	2.6
Domestic demand	1.3	1.6	2.2	2.3	10 Year Swap	2.7	3.0	3.2	3.2	3.4
Net Exports (a)	0.7	1.4	-0.2	0.4	10 year ACGB	2.40	2.8	2.9	2.9	3.1
Real GDP	2.4	2.5	2.0	2.7	Aus-US 10yr bond	15	25	15	15	10
					Fed Funds Rate	1.00	1.25	1.50	1.50	1.75
CPI	1.5	1.3	2.0	2.2	US 10 Year Bond	2.25	2.50	2.75	2.75	3.00
Underlying CPI	2.2	1.6	1.8	1.9						
Wages	2.1	1.9	1.9	1.9	AUD	0.744	0.71	0.70	0.70	0.70
					AUD/NZD	1.06	1.06	1.04	1.03	1.03
Terms of Trade	-11.6	0.0	13.1	-1.6	AUD/JPY	82.8	82	83	84	84
Unemployment rate (%)	6.1	5.7	5.7	5.6	AUD/EUR	0.67	0.64	0.62	0.61	0.61
Current Account - % GDP	-4.7	-2.6	-0.5	-1.7	AUD/GBP	0.58	0.55	0.55	0.56	0.56
Fiscal Balance* - % GDP	-3.2	-2.2	-2.1	-1.4	AUD/CNY	5.1	4.9	4.9	4.9	4.9

Source: Bloomberg; NAB. \* June fiscal year

a. contribution to annual GDP. Inventories and statistical discrepancy not shown



# NAB FX FORECASTS

	13-Jun-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
<b>Majors</b>												
AUD/USD	0.7550	0.73	0.71	0.70	0.70	0.70	0.70	0.70	0.70	0.71	0.72	0.73
NZD/USD	0.7220	0.68	0.67	0.67	0.68	0.68	0.69	0.69	0.71	0.71	0.72	0.73
USD/JPY	110.03	114	116	118	120	120	122	122	120	118	116	114
EUR/USD	1.1194	1.12	1.11	1.13	1.15	1.15	1.17	1.19	1.20	1.20	1.21	1.23
GBP/USD	1.2680	1.26	1.23	1.25	1.26	1.25	1.24	1.22	1.25	1.25	1.27	1.27
USD/CHF	0.9688	0.97	0.98	0.97	0.97	0.98	0.99	1.00	1.00	1.02	1.02	1.02
USD/CAD	1.3289	1.33	1.35	1.37	1.37	1.38	1.37	1.35	1.33	1.33	1.31	1.30
USD/CNY	6.7971	6.92	6.96	6.97	7.00	7.05	7.07	7.07	7.05	7.02	7.00	6.90
<b>Australian Cross Rates</b>												
AUD/NZD	1.0457	1.07	1.06	1.04	1.03	1.03	1.01	1.01	0.99	1.00	1.00	1.00
AUD/JPY	83.07	83	82	83	84	84	85	85	84	84	84	83
AUD/EUR	0.6745	0.65	0.64	0.62	0.61	0.61	0.60	0.59	0.58	0.59	0.60	0.59
AUD/GBP	0.5954	0.58	0.58	0.56	0.56	0.56	0.57	0.57	0.56	0.57	0.57	0.57
AUD/CHF	0.7314	0.71	0.70	0.68	0.68	0.69	0.69	0.70	0.70	0.72	0.73	0.74
AUD/CAD	1.0033	0.97	0.96	0.96	0.96	0.97	0.96	0.95	0.93	0.94	0.94	0.95
AUD/SGD	1.0438	1.04	1.02	1.00	1.01	1.01	1.02	1.02	1.01	1.01	1.01	1.01
AUD/KRW	851.84	829	824	840	840	826	812	812	805	817	792	803
AUD/CNY	5.1318	5.05	4.94	4.88	4.90	4.94	4.95	4.95	4.94	4.98	5.04	5.04
AUD TWI	64.50	63.5	62.3	61.6	61.7	61.9	61.9	61.8	61.3	61.9	62.2	62.4
NZD/JPY	79.44	78	78	79	82	82	84	84	85	84	84	83
NZD/EUR	0.6450	0.61	0.60	0.59	0.59	0.59	0.59	0.58	0.59	0.59	0.60	0.59
NZD/GBP	0.5694	0.54	0.54	0.54	0.54	0.54	0.56	0.57	0.57	0.57	0.57	0.57
NZD/CHF	0.6995	0.66	0.66	0.65	0.66	0.67	0.68	0.69	0.71	0.72	0.73	0.74
NZD/CAD	0.9595	0.90	0.90	0.92	0.93	0.94	0.95	0.93	0.94	0.94	0.94	0.95
EUR/GBP	0.8828	0.89	0.90	0.91	0.91	0.92	0.95	0.98	0.96	0.96	0.95	0.97
EUR/CHF	1.0845	1.09	1.09	1.10	1.12	1.13	1.16	1.19	1.20	1.22	1.23	1.25
USD (DXY)	97.19	97.6	98.9	98.0	97.0	97.2	96.5	95.6	94.4	94.3	93.3	92.1
BBDXY	1194.65	1211.0	1227.0	1227.2	1216.6	1218.7	1216.1	1209.5	1194.5	1190.7	1177.1	1164.8

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