

AUSTRALIAN MARKETS WEEKLY

FX Hedging Trends



In this issue

FX Hedging Trends	2
Calendar of economic releases	3
Forecasts	4

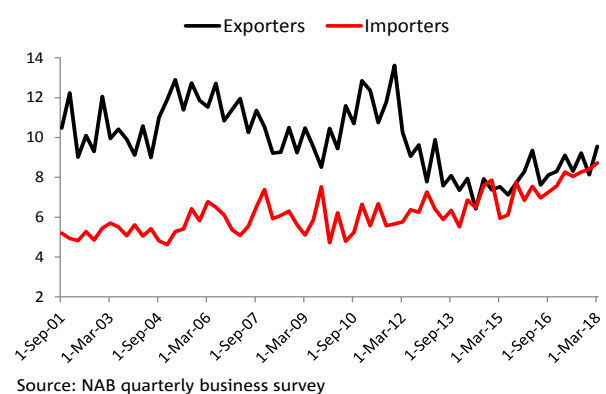
- This week's Australian focus is very much on the release of Q1 CPI and any implications for RBA monetary policy that might flow from this. NAB's forecast is for a 0.4-0.5% q/q outcome for both the headline CPI and the more important core rates of inflation.
- Our full preview note released on Friday shows a slight tick-up in core inflation is broadly occurring as a result of higher rents, higher petrol prices and the influence of a higher lagged headline CPI. (Interesting research from the IMF recently noted that the main reason for lower core inflation globally in recent times was due to lower core services inflation since the GFC, not lower core goods inflation).
- Together these influences place the annual core rate of inflation just below 2%. With inflation still below the RBA's 2-3% medium-term target, little momentum evident in the official wages figures and the unemployment rate still around half a percent above the NAIRU of 5%, the RBA Board continues to see no strong case for a near-term adjustment of monetary policy as revealed in last week's April Board Minutes.
- That said, the NAB Quarterly Business Survey continues to reveal an increase in the number of firms reporting increased difficulty sourcing suitable labour, which suggests the conditions are falling into place for some lift in wages growth.
- The other Australian events of note this week are a speech from RBA Assistant Governor Chris Kent on Tuesday morning on "The Limits of Interest-Only Lending" and the ANZAC Day public holiday on Wednesday.
- Markets meanwhile continue to see bond yields generally under upward pressure, no doubt in part reflecting continuing rises in oil and other commodity prices. Rising bond yields have been a headwind for global equities however, the main story has been recent weakness in some high-flying technology stocks. Aussie equities have outperformed due to support for resource companies.
- The US\$ has strengthened as the US yield curve has bear steepened, seeing most other currencies including the \$A broadly weaker. NAB continues to expect modestly higher bond yields and swap rates and a modestly lower \$A over the next six to nine months.
- This week, our FX Strategists look at some of the changes in the FX hedging policies of corporate Australia, the data drawn from the NAB quarterly business survey.
- In Q1, importers further lengthened their average hedge tenors, at 8.7 months now the longest in the survey's history
- Average exporter hedge tenors also rose in the March quarter, but at 9.5 months are only now in line with their long run averages, though are longer than in recent times.

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7666	-1.5	RBA cash	1.50	0
AUD/CNY	4.83	-0.9	3y swap	2.32	0
AUD/JPY	82.7	-0.8	ASX 200	5,889	0.8
AUD/EUR	0.625	-0.6	Iron ore	67.1	3.5
AUD/NZD	1.064	0.7	WTI oil	68.2	3.0

Source: Bloomberg

Chart 1: Average hedge tenors (months)



FX hedging trends of corporate Australia

Included in NAB’s Quarterly Business survey is a series of questions regarding the impact foreign exchange rates are having on businesses. They also offer insight into: how hedging behaviour is changing over time; whether firms are raising or reducing the proportion of their FX exposures hedged back into AUD; and how views on the AUD/USD exchange rate are evolving.

Importers’ hedge tenors longest on record

As shown in Chart 1, importers in the past couple of years have been steadily raising the average tenor of their hedge books (forward foreign exchange purchases). At 8.7 months in the March 2018 survey, up from 8.4 in Q4 2017, this is the longest hedge period in the 16-year survey history and above the long term average of 6.4 months.

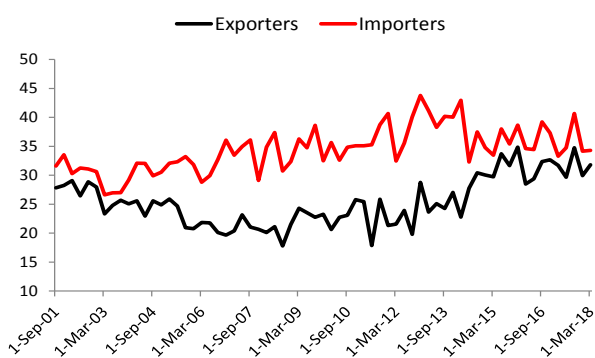
Exporters have on average in the past one to two years been running slightly longer hedge books than three to four years go. In the March quarter survey, the average tenor of exporters’ hedge books rose to 9.5 months, the highest since March 2013 and now exactly in line with the historical average.

The recent lengthening in average importer and exporter hedge tenors is consistent with the notion that AUD/USD levels near 80 cents are perceived to be near range highs and therefore advantageous for importers, but also likely reflect diminished confidence among exporters that the AUD is going to fall significantly any time soon.

Additionally, the progressive erosion of the forward rate discount on AUD/USD, cheapening the cost of hedging forward FX payables, looks to have been reflected in greater enthusiasm for hedging by importers over longer time horizons.

While hedge tenors have lengthened amongst both the exporter and importer communities, the share of FX exposure being routinely hedged hasn’t changed much among importers but has risen in the case of exporters.

Chart 2: Percentage of FX exposure being hedged



Source: NAB quarterly business survey

Chart 2 shows that the percentage of future payables that importers are hedging averaged 34% in the March quarter, unchanged on Q4 2017 and exactly in line with the long-term average. Exporters hedged on average 35% of their forward receivables in the March quarter survey, up from 29% in the December quarter, which is now well above the long term average of 25%. This might reflect the resilience of the AUD in the past

year or so (i.e. broadly unchanged) and hence a desire to protect against the risk of renewed appreciation, as well as loss of confidence in significantly lower AUD levels being achieved.

AUD strength no longer underestimated

In the survey six months ago, the average forecast for the AUD/USD six months forward was 0.7787, very close to the actual outcome (AUD/USD averaged 0.78 during the late February/early March survey period). This follows the previous two years during which the AUD six months forward had been quite consistently under-estimated, by on average 2 cents.

The median forecast for the AUD/USD in six months (i.e. around end-August 2018) in the March survey is 0.7775.

Table 1: Key FX Statistics

	Sep-17	Dec-18	Mar-18
Exporters average months hedged	9.2	8.1	9.5
Importers average months hedged	8.3	8.4	8.7
% of exporter receivables hedged	34.7	29.2	31.8
% of importer payables hedged	40.7	34.2	34.3
AUD expected in 6 months	0.7787	0.7594	0.7775

Ray.Attrill@nab.com.au

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 23 April 2018								
JN	Nikkei Japan PMI Mfg	Apr P				53.1	23.30	10.30
NZ	Credit Card Spending MoM/YoY	Mar		/		0.7/7	2.00	13.00
GE	Markit/BME Germany Manufacturing PMI	Apr P		57.5		58.2	6.30	17.30
EC	Markit Eurozone Manufacturing PMI	Apr P		56.1		56.6	7.00	18.00
EC	Govt Debt/GDP Ratio	2017					8.00	19.00
CA	Wholesale Trade Sales MoM	Feb		0.8		0.1	11.30	22.30
US	Chicago Fed Nat Activity Index	Mar		0.265		0.88	11.30	22.30
US	Markit US Manufacturing PMI	Apr P		55.2		55.6	12.45	23.45
US	Markit US Services PMI/Composite PMI	Apr P		54.1/		54/54.2	12.45	23.45
EC	ECB's Coeure Speaks in Frankfurt						13.00	0.00
US	Existing Home Sales/MoM	Mar		5.55/0.18		5.54/3	13.00	0.00
CA	Bank of Canada's Poloz and Wilkins testify at House Committee						18.30	5.30
Tuesday, 24 April 2018								
AU	RBA's Kent Gives Speech in Sydney: The Limits of Interest-only Lending						21.00	8.00
NZ	Net Migration SA	Mar				4970	21.45	8.45
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	22-Apr				116	22.30	9.30
JN	PPI Services YoY	Mar		0.5		0.6	22.50	9.50
AU	CPI QoQ/YoY	1Q	0.45/1.9	0.5/2		0.6/1.9	0.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	1Q	0.5/1.8	0.5/1.8		0.4/1.8	0.30	11.30
AU	CPI Weighted Median QoQ/YoY	1Q	0.4/1.9	0.5/1.9		0.4/2	0.30	11.30
JN	Leading Index CI	Feb F				105.8	4.00	15.00
JN	Machine Tool Orders YoY	Mar F				28.1	5.00	16.00
GE	IFO Business Climate	Apr		102.8		114.7	7.00	18.00
UK	PSNB ex Banking Groups	Mar		3		1.3	7.30	18.30
FR	ECB's Villeroy Speaks in London						8.30	19.30
US	FHFA House Price Index MoM	Feb		0.6		0.8	12.00	23.00
US	New Home Sales/MoM	Mar		630/1.9		618/-0.6	13.00	0.00
US	Richmond Fed Manufact. Index	Apr		16		15	13.00	0.00
US	Conf. Board Consumer Confidence	Apr		126		127.7	13.00	0.00
Wednesday, 25 April 2018								
ANZAC Day holiday - AU NZ								
JN	All Industry Activity Index MoM	Feb		0.5		-1.8	3.30	14.30
EC	ECB's Villeroy, Knot, Lane Speak in Paris						6.00	17.00
US	MBA Mortgage Applications	20-Apr				4.9	10.00	21.00
Thursday, 26 April 2018								
AU	Export Price Index QoQ/Import Price Index QoQ	1Q		4.1		2.8/2	0.30	11.30
AU	NAB Quarterly SME Survey/ NAB Consumer Behaviour Report	1Q					0.30	11.30
GE	GfK Consumer Confidence	May		10.8		10.9	5.00	16.00
UK	UK Finance Loans for Housing	Mar		37000		38120	7.30	18.30
EC	ECB Deposit Facility Rate	26-Apr		-0.4		-0.4	10.45	21.45
EC	ECB President Draghi's Media Briefing After Policy Decision						11.30	22.30
US	Initial Jobless Claims	21-Apr		230		232	11.30	22.30
US	Wholesale Inventories MoM	Mar P		0.6		1	11.30	22.30
US	Durable Goods Orders/Orders Ex Transportation	Mar P		1.4/0.4		3/1	11.30	22.30
US	Cap Goods Orders Nondef Ex Air/Ship Nondef Ex Air	Mar P		0.6/0.4		1.4/1.4	11.30	22.30
US	Bloomberg Consumer Comfort	22-Apr				58.1	12.45	23.45
Friday, 27 April 2018								
NZ	ANZ Consumer Confidence Index/MoM	Apr		/		128/0.2	21.00	8.00
NZ	Trade Balance NZD	Mar	48	200		217	21.45	8.45
JN	Tokyo CPI YoY	Apr		0.8		1	22.30	9.30
JN	Tokyo CPI Ex-Fresh Food YoY/Ex-Fresh Food, Energy YoY	Apr		0.8/0.5		0.8/0.5	22.30	9.30
JN	Jobless Rate	Mar		2.5		2.5	22.30	9.30
JN	Retail Sales MoM	Mar P		0		0.4	22.50	9.50
JN	Industrial Production MoM/Yoy	Mar P		0.5/2		0/1.6	22.50	9.50
AU	PPI QoQ/YoY	1Q				0.6	0.30	11.30
NZ	New Residential Lending YoY	Mar				6.6	2.00	13.00
JN	BOJ Policy Balance Rate	27-Apr				-0.1		After midday
JN	BOJ Outlook Report					0		
JN	Housing Starts YoY	Mar		-4.8		-2.596	4.00	15.00
GE	Unemployment Claims Rate SA/ Change (000s)	Apr		5.3/-15		5.3/-19	6.55	17.55
UK	GDP QoQ/YoY	1Q A		0.3/1.4		0.4/1.4	7.30	18.30
EC	Consumer Confidence	Apr F				0.4	8.00	19.00
US	GDP Annualized QoQ	1Q A		2		2.9	11.30	22.30
US	Core PCE QoQ	1Q A		2.5		1.9	11.30	22.30
US	Employment Cost Index	1Q		0.7		0.6	11.30	22.30
US	GDP Price Index	1Q A		2.2		2.3	11.30	22.30
Upcoming Central Bank Interest Rate Announcements								
Europe, ECB		26-Apr	-0.4%	-0.40%		-0.4%		
Japan, BoJ		27-Apr	-0.10%	-0.10%		-0.1%		
Australia, RBA		1-May	1.5%	1.5%		1.5%		
US, Federal Reserve		2-May	1.5-1.75%	1.5-1.75%		1.5-1.75%		
New Zealand, RBNZ		10-May	1.75%	1.75%		1.75%		
UK, BOE		10-May	0.5%	0.5%		0.5%		
Canada, BoC		30-May	1.5%	1.375%		1.25%		

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

FORECASTS

		Annual % change				Quarterly % change															
		2016	2017	2018	2019	2016			2017			2018			2019						
Australia Forecasts		2016	2017	2018	2019	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption		2.9	2.7	2.5	2.5	1.0	0.6	0.5	0.8	0.4	0.9	0.5	1.0	0.4	0.6	0.5	0.7	0.6	0.6	0.7	0.7
Underlying Business Investment		-11.9	3.0	4.9	5.5	-3.4	-2.4	-5.4	1.6	3.2	0.3	4.0	-1.2	1.8	1.4	0.9	1.5	1.1	1.4	1.9	1.4
Residential Construction		8.6	-2.4	-3.2	-2.0	4.6	1.5	-1.0	2.5	-3.0	0.2	-1.7	-1.3	-0.4	-1.0	-0.6	-0.3	-1.0	-0.2	0.0	-0.5
Underlying Public Spending		5.3	4.5	3.9	3.7	1.8	2.0	1.0	0.7	1.0	1.1	1.6	1.1	0.8	0.8	0.8	0.9	1.0	1.0	1.0	1.0
Exports		6.8	3.9	4.9	3.7	2.5	1.2	0.8	3.2	-1.7	3.0	1.2	-1.8	2.1	2.1	1.6	1.3	0.3	0.6	0.8	1.0
Imports		0.2	7.6	4.0	4.5	-0.8	2.5	0.8	2.3	2.9	0.8	2.2	0.5	0.8	1.0	0.8	1.2	1.0	1.2	1.5	1.2
Net Exports (a)		1.2	-0.9	0.1	-0.3	1.0	-0.3	0.0	0.1	-1.0	0.4	-0.2	-0.5	0.2	0.2	0.1	0.0	-0.2	-0.1	-0.2	-0.1
Inventories (a)		0.1	-0.1	-0.1	0.0	0.0	0.4	0.2	-0.4	0.4	-0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%						0.1	0.6	-0.1	1.0	0.7	0.9	0.9	0.6	0.5	0.6	0.5	0.7	0.6	0.7	0.9	0.8
Dom Demand - ann %		1.9	2.9	2.6	2.8	1.5	1.8	1.7	2.5	2.3	2.6	3.6	3.1	2.9	2.7	2.3	2.4	2.5	2.6	3.0	3.0
Real GDP - qtr %						1.0	0.8	-0.2	1.1	0.5	0.8	0.7	0.4	0.7	0.9	0.7	0.8	0.5	0.6	0.7	0.7
Real GDP - ann %		2.6	2.3	2.8	2.6	2.7	3.3	2.1	2.4	1.9	2.0	2.9	2.4	2.6	2.7	2.7	3.1	2.8	2.6	2.6	2.5
CPI headline - qtr %						-0.2	0.4	0.7	0.5	0.5	0.2	0.6	0.6	0.5	0.5	0.6	0.8	0.5	0.5	0.6	0.8
CPI headline - ann %		1.3	1.9	2.2	2.4	1.3	1.0	1.3	1.5	2.1	1.9	1.8	1.9	1.9	2.3	2.3	2.4	2.4	2.4	2.4	2.5
CPI underlying - qtr %						0.2	0.5	0.3	0.4	0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6
CPI underlying - ann %		1.5	1.8	1.9	2.2	1.5	1.5	1.4	1.5	1.7	1.8	1.9	1.8	1.8	1.7	1.9	2.0	2.1	2.2	2.2	2.3
Wages (Pvte WPI - qtr %)						0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Wages (Pvte WPI - ann %)		1.9	1.8	2.1	2.5	2.0	2.0	1.9	1.8	1.8	1.8	1.9	1.9	2.0	2.1	2.2	2.3	2.4	2.5	2.5	2.6
Unemployment Rate (%)		5.7	5.6	5.1	5.0	5.8	5.7	5.7	5.7	5.9	5.6	5.5	5.4	5.2	5.1	5.1	5.0	5.0	5.0	5.0	5.0
Terms of trade		0.5	12.2	-0.7	-0.7	-1.9	2.5	4.1	11.2	5.4	-6.0	-0.1	0.2	2.6	-1.5	-3.1	-1.0	-1.7	-2.4	0.9	0.4
G&S trade balance, \$Abn		-14.2	11.8	7.9	-18.2	-8.4	-7.5	-4.3	6.0	6.9	3.0	2.0	-0.1	3.6	3.3	1.0	0.1	-2.4	-5.3	-5.3	-5.2
% of GDP		-0.8	0.7	0.4	-0.9	-2.0	-1.8	-1.0	1.4	1.5	0.7	0.4	0.0	0.8	0.7	0.2	0.0	-0.5	-1.1	-1.1	-1.0
Current Account (% GDP)		-3.1	-2.3	-2.7	-4.0	-3.7	-3.9	-3.3	-1.4	-1.4	-2.4	-2.4	-3.1	-2.4	-2.4	-2.9	-3.1	-3.6	-4.2	-4.2	-4.1

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

Exchange Rate Forecasts

	23-Apr	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
Majors						
AUD/USD	0.7668	0.78	0.77	0.75	0.76	0.75
NZD/USD	0.7206	0.72	0.71	0.70	0.71	0.70
USD/JPY	107.85	110	109	109	107	105
EUR/USD	1.2268	1.28	1.30	1.30	1.27	1.30
GBP/USD	1.4009	1.45	1.47	1.48	1.45	1.46
USD/CNY	6.2964	6.25	6.20	6.18	6.23	6.24
USD/CAD	1.2760	1.22	1.24	1.25	1.21	1.22
USD/CHF	0.9762	0.92	0.90	0.91	0.93	0.92

Australian Cross Rates						
	23-Apr	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
AUD/NZD	1.0641	1.08	1.08	1.07	1.06	1.07
AUD/JPY	82.7	86	84	82	81	79
AUD/EUR	0.6250	0.61	0.59	0.58	0.59	0.58
AUD/GBP	0.5474	0.54	0.52	0.51	0.52	0.51
AUD/CNY	4.8281	4.88	4.77	4.64	4.70	4.68
AUD/CAD	0.9784	0.95	0.95	0.94	0.91	0.92
AUD/CHF	0.7486	0.72	0.69	0.68	0.70	0.69

Interest Rate Forecasts

	23-Apr	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
Australia Rates						
RBA Cash rate	1.50	1.50	1.50	1.75	2.00	2.25
3 month bill rate	2.07	1.80	2.05	2.05	2.30	2.55
3 Year Swap Rate	2.32	2.4	2.5	2.6	3.2	3.4
10 Year Swap Rate	3.03	3.3	3.4	3.5	3.9	4.0
Offshore Policy Rates						
US Fed funds	1.75	2.00	2.25	2.25	2.75	3.00
ECB deposit rate	-0.40	-0.40	-0.40	-0.20	0.00	0.00
BoE repo rate	0.50	0.75	0.75	1.00	1.25	1.50
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	1.75	1.75	1.75	1.75	2.25	2.75
China 1yr lending rate	4.35	4.35	4.35	4.35	4.35	4.35
China Reserve Ratio	17.0	16.0	16.0	16.0	16.0	16.0
10-year Benchmark Bond Yields						
Australia	2.86	2.80	3.10	3.10	3.40	3.65
United States	2.96	3.00	3.25	3.25	3.50	3.50
New Zealand	2.91	3.00	2.95	3.20	3.35	3.80

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2014	2015	2016	2017	2018	2019	20 Yr Avg
Australia	2.6	2.5	2.6	2.3	2.8	2.6	3.4
US	2.6	2.9	1.5	2.3	2.7	2.3	2.6
Eurozone	1.4	2.0	1.8	2.5	2.7	2.5	1.5
UK	3.1	2.3	1.9	1.8	1.8	1.7	2.4
Japan	0.3	1.4	0.9	1.8	1.4	0.9	0.8
China	7.3	6.9	6.7	6.8	6.5	6.3	9.2
India	7.0	7.6	7.9	6.4	6.8	7.2	6.6
New Zealand	3.6	3.5	4.0	2.9	3.0	3.0	3.0
World	3.5	3.4	3.2	3.6	3.8	3.6	3.5
MTP Top 5	4.0	4.1	3.7	4.2	4.1	3.8	5.0

Commodity prices (\$US)

	23-Apr	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	68.2	67	67	66	65	66	67	68
Gold	1333	1320	1330	1360	1380	1370	1380	1390
Iron ore	65.0	67	63	61	60	58	60	62
Hard coking coal	191	175	130	110	101	99	100	100
Thermal coal	93	90	90	90	90	65	65	65
Copper	6969	6690	6630	6630	6630	6630	6630	6630
Aust LNG (*)	12.0	11.2	11.5	11.8	11.7	11.3	11.7	11.8

(*) Implied Australian LNG export prices.

CONTACT DETAILS

Market Economics

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

David de Garis
Director, Economics
+61 3 8641 3045
david.degaris@nab.com.au

Kaixin Owyong
Economist, Markets
+61 2 9237 1980
kaixin.owyong@nab.com.au

Markets Research

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

Group Economics

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

Important Notice

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

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