

# AUSTRALIAN MARKETS WEEKLY



## Inside housing: orderly softening

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- It was a subdued end to last week for markets, oil still high in the aftermath of President Trump reimposing sanctions on Iran. In this context, we note that US production and rig count numbers have continued to rise, production up to 10.7mbpd in the latest week, well above the 2015 peak of 9.6mbpd, but now arriving with steady US crude inventories (see chart below.), testimony to resilient demand.
- The AUD opens this week with a firmer 0.75 handle on the back of US CPI inflation failing to accelerate, leading to a mid-week reversal of USD strength. The USD was pulled from its lows on Friday after a slightly better than expected University of Michigan consumer sentiment reading (unchanged at 98.8 against an expected 98.3) but still ended Friday lower. The VIX index ended last week below 13, the lowest since Australia Day (26 January for international readers), providing some background support to the AUD as have firm resource commodity prices, including iron ore.
- Local markets this week will be firmly focussed on the Australian labour market with the two biggest releases, the Wage Price Index (WPI) for the March quarter out Wednesday and the April Labour Force report on Thursday. Wages growth is at the epicentre of the inflation outlook. Wages growth seems to have troughed at around 2% y/y for the WPI, but how quickly will it rise?
- NAB is expecting a virtually unchanged WPI outcome this quarter, wages growing 0.6% q/q and 2.1% y/y. Private sector wages have grown 0.5% for three quarters and this will be under scrutiny given a somewhat more robust employment market if with only a limited reduction in spare capacity as measured by the unemployment rate. NAB looks for Thursday's Jobs data to reveal a strong 25K gain in employment and a slight fall in the unemployment rate from 5.5% to 5.4%.
- Also important for the AUD and local interest rate markets will be tomorrow's speech on the economy from RBA Deputy Governor Debelle and China's April monthly activity data set.
- The housing sector remains under focus, our special topic for this Weekly. Sydney and Melbourne residential weekly auction clearance rates this past weekend have remained on the lower track evident this year. Sydney cleared a preliminary 62.5% vs. last weekend's final 63.1% while Melbourne cleared 61.2%, down from 63.7%.
- Resale hedonic residential prices (also from CoreLogic) for the first half of May show prices as essentially flat for the five major State capitals after a decline of 0.3% in April. Year-to housing inflation rates continue to edge lower (more from base effects)
- Other market metrics also point to softness, but of an incremental nature. Sales volumes have been trending lower overall, as have listings, signs that while prices in the major capitals have been less attractive for potential vendors, it's also likely symptomatic of a market where potential vendors can hold back. Time on the market and vendor discounts have also been rising in some capitals.
- Market participants are also actively discussing the extent to which lending standards might further tighten.

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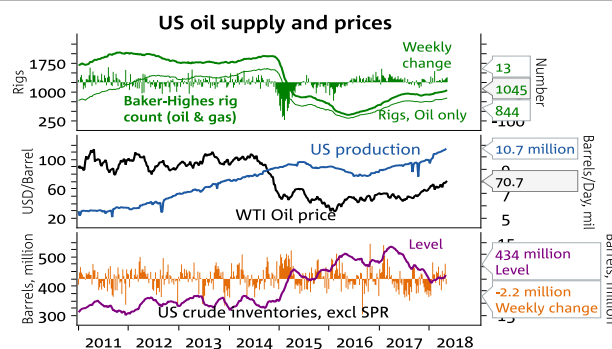
[Ask the Interest Rate Strategists](#)

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7558	0.7	RBA cash	1.50	0
AUD/CNY	4.79	0.1	3y swap	2.20	-3
AUD/JPY	82.6	0.8	ASX 200	6,135	0.8
AUD/EUR	0.632	0.3	Iron ore	67.4	1.7
AUD/NZD	1.085	1.2	WTI oil	70.5	-0.4

Source: Bloomberg

### Chart of the week: US oil production still rising

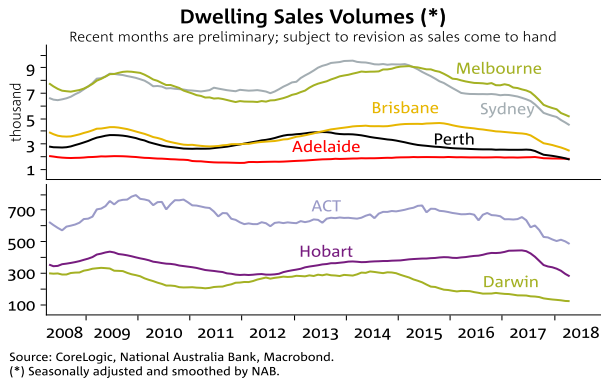


Source: National Australia Bank, Macrobond

## Sales volumes softening

CoreLogic’s sales volume data for the most recent months need to be treated with some caution, given the time taken for settlement and full information to come to hand. Even discounting the very recent months, where the data is only partial, what has been evident is that sales volumes have been tailing off in recent years in most capitals a trend evident looking through episodes of both price strength and weakness.

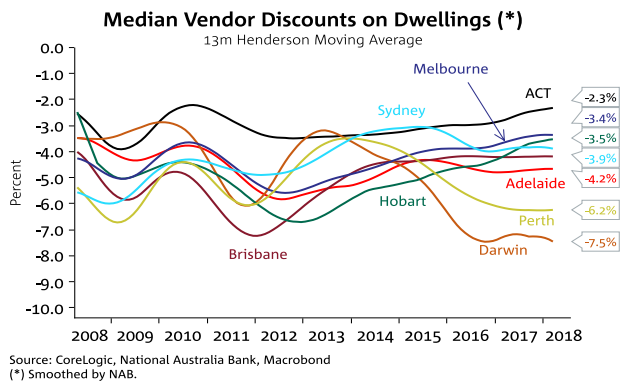
Chart 1: Sydney and Melbourne sales volumes lower



Sales volumes did lift a little in Sydney and Melbourne when the market was more vibrant, with some price-driven supply response, but not unduly so. By the same token, the decline in sales volumes over the past year to eighteen months seems to have been sufficient to have limited much of a decline in prices.

The clear exception among the State/Territory capitals is Hobart where the market has been stronger (again not being distracted by more recent months data, which may likely reflect a lack of stock, rather than reduced sellers) and in Adelaide where volumes have been flatter.

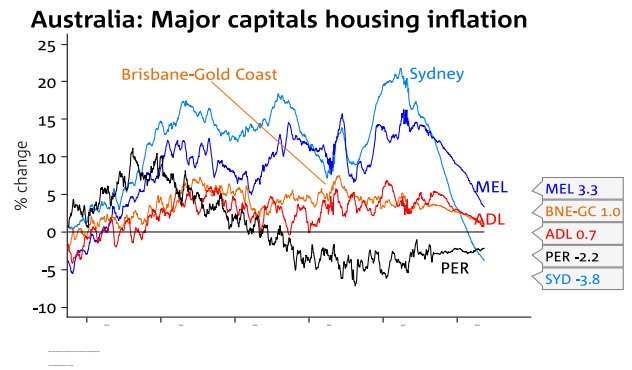
Chart 2: Vendor discounting steady in Syd and Melb



Part of that overall “tailing off” in stock availability could be consistent with some reported shortages in stock. Sydney sales volumes peaked in late 2013, before the APRA tightening started a year later and in recent years prospective vendors appear to have held property back from mostly softening markets, in Sydney, Melbourne, Brisbane, Perth, and Darwin. Sydney and Melbourne sales volumes in recent years look low relative to the stronger population growth still evident. While affordability and

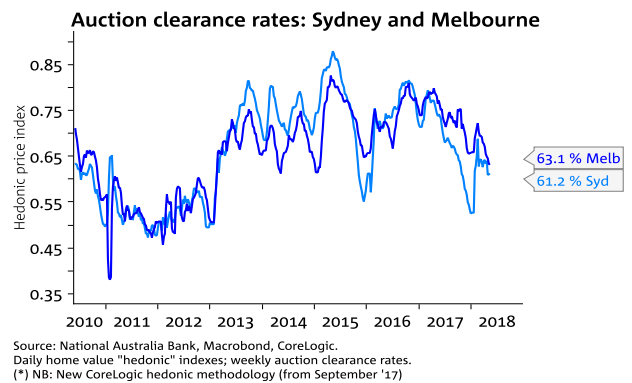
some tightening in credit have been headwinds for the housing markets, it is not yet evident that discounting has stepped up markedly in Melbourne and Sydney. The Sydney market was undoubtedly tighter in 2014 and 2015, but since, there has been some increase in discounting but to still modest levels. The Melbourne market appears to have been even less soft. Among the other states, the Perth and Darwin markets have been at the softer end, with greater discounting in evidence as mining retrenched.

Chart 3: Major capitals’ housing inflation softening



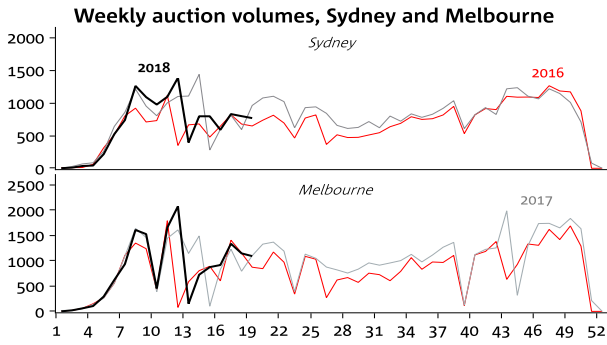
While some stock may have been held back, any apparent shortfall in supply has likely been matched by some pull-back in demand in what have generally been softer markets to varying degrees in the Eastern capitals. Prices continue to soften in Sydney and Melbourne, a trend also evident in Brisbane. Auction clearance rates have been trending lower in Sydney and Melbourne (where auctions are more common place). 80-90% auction clearance rates in Sydney and Melbourne are a thing of the past, rates are now down into the lower 60s, also evident last weekend.

Chart 4: Auction clearance rates still trending lower



While sales volumes have been tailing off and the market softer overall, it’s perhaps a little surprising that auction volumes have been steadier at levels on par with this time of the year in recent years, another indication of a still rather orderly market. The requirements for a sharp decline in house prices still do not seem present – the unemployment rate is relatively low and stable to moderately declining in most markets. Interest rates are mostly stable and are not expected to rise sharply.

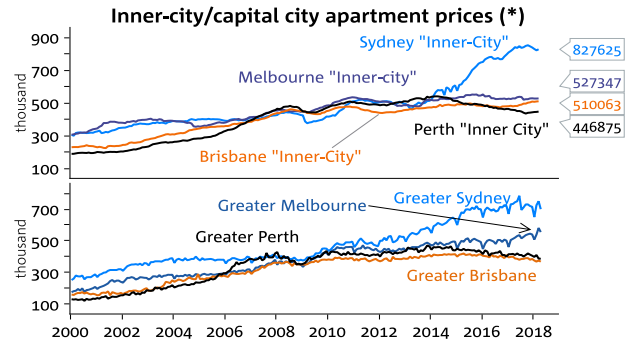
Chart 5: Steady auction volumes



Source: National Australia Bank, Macrobond, CoreLogic

In the apartment space, NAB’s composite price measures combining CBD and near CBD prices have cooled a little, but it’s been very much at the margin. While Melbourne’s composite CBD/near CBD prices (that includes the CBD, Southbank and Docklands) continue to be relatively flat, Melbourne unit prices in the ‘burbs have been getting more price support, supported by more attractive affordability, strong population growth and a still healthy jobs market. In addition, apart from the mining markets, which seem to still have some over-supply of dwellings as reflected in somewhat elevated vacancy rates, for the most part, vacancy rates in most parts of the country remain quite low.

Chart 6: Apartment prices



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

The other issue that remains a topic of discussion in markets at present is the extent to which housing lending standards might further tighten. We will visit this topic in coming weeks, but think it is worth noting that many aspects of housing lending standards have already been tightened in recent years, including macroprudential standards on investor and interest only lending (growth limits on investor lending since reversed) and serviceability constraints (borrowers must be able to service their borrowings at 7% interest rates). More recently, there has been greater focus by APRA and the banks on living expenses included in mortgage applications.

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# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Monday, 14 May 2018</b>								
GE	Wholesale Price Index MoM/YoY	Apr		/		0/1.2	14 to 16 May	
US	Mortgage Delinquencies	1Q				5.17	14 to 18 May	
NZ	Performance Services Index	Apr				58.8	21.30	8.30
JN	PPI MoM	Apr		0.1		-0.1	22.50	9.50
AU	Credit Card Purchases	Mar				25.3	0.30	11.30
EC	ECB's Villeroy Speaks in Paris						5.30	16.30
US	Fed's Mester Speaks at Bank of France Conference						5.45	16.45
EC	Fed's Mester, ECB's Villeroy Speak in Paris						5.45	16.45
CA	Teranet/National Bank HP Index	Apr				218.96	11.30	22.30
US	Fed's Bullard Speaks at Crypto Conference in New York						12.40	23.40
<b>Tuesday, 15 May 2018</b>								
AU	RBA's Debelle Gives Speech in Sydney						22.10	9.10
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	1-May				119.6	22.30	9.30
AU	RBA May Meeting Minutes						0.30	11.30
AU	RBA's Debelle Speech to HK Forum Via Video Link						0.40	11.40
CH	Retail Sales YoY	Apr		10		10.1	1.00	12.00
CH	Industrial Production YoY	Apr		6.4		6	1.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Apr		7.4		7.5	1.00	12.00
GE	GDP SA QoQ/WDA YoY	1Q P		0.4/2.4		0.6/2.9	5.00	16.00
UK	ILO Unemployment Rate 3Mths	Mar		4.2		4.2	7.30	18.30
UK	Weekly Earnings ex Bonus 3M/YoY	Mar		2.9		2.8	7.30	18.30
EC	Industrial Production SA MoM/WDA YoY	Mar		0.7/3.7		-0.8/2.9	8.00	19.00
EC	GDP SA QoQ/ YoY	1Q P		0.4/2.5		0.4/2.5	8.00	19.00
GE	ZEW Survey Current Situation	May		85.2		87.9	8.00	19.00
US	Fed's Kaplan discusses Outlook for Energy Market, Economy						11.00	22.00
US	Empire Manufacturing	May		15		15.8	11.30	22.30
US	Retail Sales Advance MoM	Apr		0.3		0.6	11.30	22.30
CA	Existing Home Sales MoM	Apr		1.4		1.3	12.00	23.00
US	NAHB Housing Market Index	May		70		69	13.00	0.00
US	Fed Nominees Clarida and Bowman Testify Before Senate Panel						13.00	0.00
US	Fed's Williams to Speak at Economic Club of Minnesota						16.00	3.00
US	Total Net TIC Flows	Mar				44.7	19.00	6.00
US	Net Long-term TIC Flows	Mar				49	19.00	6.00
<b>Wednesday, 16 May 2018</b>								
JN	GDP SA QoQ	1Q P		0		0.4	22.50	9.50
AU	Westpac Consumer Conf Index/MoM	May		/		102.4/-0.6	23.30	10.30
AU	Wage Price Index QoQ/YoY	1Q	0.6/2.1	0.6/2.1		0.6/2.1	0.30	11.30
CH	New Home Prices MoM	Apr				0.42	0.30	11.30
NZ	Non Resident Bond Holdings	Apr				59	2.00	13.00
JN	Industrial Production MoM/YoY	Mar F		/		1.2/2.2	3.30	14.30
GE	CPI EU Harmonized MoM/YoY	Apr F		-0.1/1.4		-0.1/1.4	5.00	16.00
EC	CPI Core YoY	Apr F		0.7		0.7	8.00	19.00
EC	CPI MoM/YoY	Apr		0.3/1.2		1/1.3	8.00	19.00
US	MBA Mortgage Applications	11-May				-0.4	10.00	21.00
CA	Manufacturing Sales MoM	Mar		1		1.9	11.30	22.30
US	Fed's Bostic to Give Economic Update						11.30	22.30
US	Housing Starts/MoM	Apr		1310/-0.4		1319/1.9	11.30	22.30
US	Building Permits/MoM	Apr		1350/-2.1		1354/2.5	11.30	22.30
US	Industrial Production MoM	Apr		0.6		0.5	12.15	23.15
US	Capacity Utilization	Apr		78.4		78	12.15	23.15
CA	Bank of Canada's Schembri Speaks at the OEA						15.15	2.15
US	Fed's Bullard Speaks to Media						20.30	7.30
<b>Thursday, 17 May 2018</b>								
JN	Nationwide Dept Sales YoY	Apr				0.1	17 to 22 May	
NZ	PPI Output QoQ/Input QoQ	1Q		/		1/0.9	21.45	8.45
JN	Housing Loans YoY	1Q				2.86	22.50	9.50
JN	Core Machine Orders MoM/YoY	Mar		-3/0.3		2.1/2.4	22.50	9.50
AU	Consumer Inflation Expectation	May				3.6	0.00	11.00
AU	Unemployment Rate	Apr	5.4	5.5		5.5	0.30	11.30
AU	Employment Change/Participation Rate	Apr	25/65.5	20/65.5		4.9/65.5	0.30	11.30
NZ	Federal Budget	2018-19					1.00	12.00
EC	Construction Output MoM/YoY	Mar		/		-0.5/0.4	8.00	19.00
US	Initial Jobless Claims	12 May		215		211	11.30	22.30
US	Philadelphia Fed Business Outlook	May		21.2		23.2	11.30	22.30
US	Leading Index	Apr		0.4		0.3	13.00	0.00
US	Fed's Kashkari Speaks at Moderated Q&A in Minneapolis						13.45	0.45
US	Fed's Kaplan Speaks in Moderated Q&A						16.30	3.30
<b>Friday, 18 May 2018</b>								
JN	Natl CPI YoY	Apr		0.7		1.1	22.30	9.30
GE	PPI MoM	Apr		0.3		0.1	5.00	16.00
US	Fed's Mester Speaks at ECB on Macroprudential, Monetary Policy						6.00	17.00
PO	Bank of Portugal's Costa, Lloyds CEO Speak at Event in Lisbon						6.30	17.30
EC	ECB Current Account SA	Mar				35.1	7.00	18.00
EC	Trade Balance SA	Mar		21.1		21	8.00	19.00
CA	Retail Sales MoM	Mar		0.2		0.4	11.30	22.30
CA	CPI NSA MoM / YoY	Apr		0.3/2.3		0.3/2.3	11.30	22.30
CA	CPI Core- Trim YoY%	Apr		2.1		2	11.30	22.30
US	Fed's Brainard Speaks About Community Reinvestment Act						12.15	23.15
US	Fed's Kaplan Speaks in Moderated Q&A						16.30	3.30
US	Baker Hughes U.S. Rig Count	18 May				1045	16.00	3.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Canada, BoC		30-May	1.375%	1.375%		1.25%		
Australia, RBA		5-Jun	1.5%	1.5%		1.5%		
US, Federal Reserve		13-Jun	1.75-2%	1.75-2%		1.5-1.75%		
Europe, ECB		14-Jun	-0.4%	-0.4%		-0.4%		
Japan, BoJ		15-Jun	-0.10%	-0.10%		-0.1%		
New Zealand, RBNZ		28-Jun	1.75%	1.75%		1.75%		
UK, BOE		21-Jun	0.5%	0.5%		0.5%		

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

# FORECASTS

## Economic Forecasts

	Annual % change				Quarterly % change															
	2016	2017	2018	2019	2016				2017				2018				2019			
Australia Forecasts					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.9	2.7	2.8	2.4	1.0	0.6	0.5	0.8	0.4	0.9	0.5	1.0	0.8	0.5	0.5	0.6	0.6	0.6	0.7	0.7
Underlying Business Investment	-11.9	3.0	4.0	5.4	-3.4	-2.4	-5.4	1.6	3.2	0.3	4.0	-1.2	0.6	1.6	1.3	1.3	1.1	1.5	1.4	1.5
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	4.3	2.5	1.2	0.8	3.2	-1.7	3.0	1.2	-1.8	2.1	1.9	1.8	1.6	0.5	0.8	0.8	0.9
Imports	0.2	7.6	4.2	4.5	-0.8	2.5	0.8	2.3	2.9	0.8	2.2	0.5	1.1	0.9	0.9	1.1	1.0	1.2	1.4	1.3
Net Exports (a)	1.2	-0.9	0.0	-0.2	1.0	-0.3	0.0	0.1	-1.0	0.4	-0.2	-0.5	0.2	0.2	0.2	0.1	-0.1	-0.1	-0.2	-0.1
Inventories (a)	0.1	-0.1	0.0	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	0.7	0.6	0.6	0.7	0.6	0.7	0.8	0.8
Dom Demand - ann %	1.9	2.9	2.7	2.7	1.5	1.8	1.7	2.5	2.3	2.6	3.6	3.1	3.1	2.7	2.4	2.5	2.5	2.6	2.9	3.0
Real GDP - qtr %					1.0	0.8	-0.2	1.1	0.5	0.8	0.7	0.4	0.9	0.8	0.7	0.8	0.5	0.7	0.6	0.7
Real GDP - ann %	2.6	2.3	2.8	2.7	2.7	3.3	2.1	2.4	1.9	2.0	2.9	2.4	2.8	2.7	2.7	3.1	2.8	2.7	2.6	2.5
CPI headline - qtr %					-0.2	0.4	0.7	0.5	0.5	0.2	0.6	0.6	0.4	0.5	0.6	0.7	0.5	0.5	0.6	0.8
CPI headline - ann %	1.3	1.9	2.2	2.3	1.3	1.0	1.3	1.5	2.1	1.9	1.8	1.9	1.9	2.2	2.2	2.3	2.4	2.3	2.3	2.4
CPI underlying - qtr %					0.2	0.5	0.3	0.5	0.5	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6
CPI underlying - ann %	1.5	1.8	1.9	2.1	1.6	1.6	1.5	1.5	1.8	1.8	1.9	1.9	1.8	1.8	1.9	2.0	2.1	2.1	2.1	2.2
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	5.4	5.1	5.8	5.7	5.7	5.7	5.9	5.6	5.5	5.4	5.5	5.5	5.4	5.2	5.2	5.1	5.1	5.1
Terms of trade	0.5	12.2	-1.1	-0.9	-1.9	2.5	4.1	11.2	5.4	-6.0	-0.1	0.2	2.7	-3.0	-3.2	-1.0	-1.9	-2.2	0.3	0.4
G&S trade balance, \$Abn	-14.2	11.8	2.7	-25.1	-8.4	-7.5	-4.3	6.0	6.9	3.0	2.0	-0.1	3.5	1.5	-0.9	-1.4	-4.0	-6.8	-7.2	-7.2
% of GDP	-0.8	0.7	0.1	-1.3	-2.0	-1.8	-1.0	1.4	1.5	0.7	0.4	0.0	0.8	0.3	-0.2	-0.3	-0.8	-1.4	-1.5	-1.5
Current Account (% GDP)	-3.1	-2.3	-3.0	-4.4	-3.7	-3.9	-3.3	-1.4	-1.4	-2.4	-2.4	-3.1	-2.4	-2.8	-3.3	-3.4	-4.0	-4.5	-4.6	-4.6

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

## Exchange Rate Forecasts

	14-May	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
<b>Majors</b>						
AUD/USD	0.7558	0.77	0.75	0.75	0.75	0.75
NZD/USD	0.6967	0.71	0.70	0.70	0.71	0.70
USD/JPY	109.33	110	108	106	102	99
EUR/USD	1.1965	1.23	1.25	1.26	1.28	1.32
GBP/USD	1.3569	1.42	1.45	1.50	1.53	1.55
USD/CNY	6.3387	6.28	6.20	6.20	6.23	6.25
USD/CAD	1.2782	1.24	1.24	1.22	1.23	1.25
USD/CHF	0.9991	0.98	0.97	0.96	0.95	0.93

	14-May	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
<b>Australian Cross Rates</b>						
AUD/NZD	1.0848	1.08	1.07	1.07	1.06	1.07
AUD/JPY	82.6	85	81	80	77	74
AUD/EUR	0.6317	0.63	0.60	0.60	0.59	0.57
AUD/GBP	0.5570	0.54	0.52	0.50	0.49	0.48
AUD/CNY	4.7908	4.84	4.65	4.65	4.67	4.69
AUD/CAD	0.9661	0.95	0.93	0.92	0.92	0.94
AUD/CHF	0.7551	0.75	0.73	0.72	0.71	0.70

## Interest Rate Forecasts

	14-May	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
<b>Australia Rates</b>						
RBA Cash rate	1.50	1.50	1.50	1.75	2.00	2.25
3 month bill rate	1.92	1.95	2.15	2.15	2.40	2.65
3 Year Swap Rate	2.20	2.4	2.5	2.6	3.2	3.4
10 Year Swap Rate	2.93	3.3	3.4	3.5	3.9	4.0
<b>Offshore Policy Rates</b>						
US Fed funds	1.75	2.00	2.25	2.25	2.75	3.00
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.20	0.00
BoE repo rate	0.50	0.50	0.50	0.75	1.00	1.25
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	16.0	16.0	16.0	16.0	16.0	16.0
<b>10-year Benchmark Bond Yields</b>						
Australia	2.77	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	2.71	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 Avge
Australia	2.6	2.5	2.6	2.3	2.8	2.7	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)

	14-May	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	70.5	67	67	66	65	66	67	68
Gold	1321	1320	1330	1360	1380	1370	1380	1390
Iron ore	67.1	67	63	61	60	58	60	62
Hard coking coal	185	175	130	110	101	99	100	100
Thermal coal	102	90	90	90	90	65	65	65
Copper	6909	6690	6630	6630	6630	6630	6630	6630
Aust LNG (*)	12.5	11.2	11.5	11.8	11.7	11.3	11.7	11.8

(\*) Implied Australian LNG export prices.

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