

# AUSTRALIAN MARKETS WEEKLY



## Budget preview: tax cuts, infrastructure & politics

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- The RBA remained on hold for the 19<sup>th</sup> consecutive meeting this week. While the RBA expects stronger growth this year and next, it is still expecting only gradual progress in lowering unemployment and thereby raising wages and inflation. As such. The Bank continues to signal no strong case for a near-term rate hike, NAB continues to expect that as the unemployment rate declines further in the next six months, that the RBA will become confident that it can begin to remove some monetary policy accommodation. NAB's forecast calls for the first rise in the cash rate late this year, a forecast contingent on continued improvement in the labour market and signs of rising wages.
- In markets, the main move over the past week has been the continued resurgence in the US\$, which has seen the \$A trade at times below US\$0.75, in spite of relatively strong commodity price performance.
- This Weekly is being released early as a preview of next Tuesday's Federal Budget, likely the last before the next election, which is due by 18 May 2019. This Budget has been framed against the background of an improving economy, stronger business profitability, but a still somewhat constrained consumer. Our What to Watch publication covering the events for the week ahead will be published later today.
- The improvement in the economy, higher commodity prices and restrained government spending have delivered a noticeable near \$10bn improvement in the budget in annual running terms since the MYEFO in December. This provides the Government with the option of the Budget to surplus earlier than the current schedule. Recent leaks make clear that this option will not be pursued and the Government will use the windfall to boost economic growth via income tax cuts aimed at low and middle income earners – and in so doing, hopes to rebuild some political capital.
- In addition, the Government has also been signalling it will maintain a cap on the tax take as a share of the economy at 23.9% of GDP. The Government's forecasts mean that this cap will necessitate a series of income tax cuts over the next ten years, with some relief likely even for high income earners in the latter part of the decade, once the Budget is back in surplus.
- Politically, the Government is setting up a choice for voters between its "lower income and company tax" policy platform and the opposition's "redistributive tax and better budget improvement" platform (with the ALP opposing company tax cuts for companies above \$50m per annum turnover and proposing increasing taxes on the wealthy to fund larger tax cuts for low and middle income earners).
- One likely criticism of the Government's budget/proposed tax share cap is that without an offsetting plan to lower expenditure as a share of GDP, budget surpluses will remain quite small (indeed the Governments seems to be indicating around 0.5% of GDP surpluses in the medium term). This will mean at best a gradual rebuild of fiscal flexibility and reduction in net government debt.

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[Ask the FX Strategists](#)

[Ask the Interest](#)

[Rate Strategists](#)

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7540	-0.5	RBA cash	1.50	0
AUD/CNY	4.77	-0.3	3y swap	2.26	-2
AUD/JPY	82.3	-0.4	ASX 200	6,104	2.5
AUD/EUR	0.629	0.7	Iron ore	66.9	0.9
AUD/NZD	1.071	0.1	WTI oil	68.5	0.6

Source: Bloomberg

### Key Budget balances

	Table 1: Key Budget Aggregates			
	2017-18	2018-19	2019-20	2020-21
<b>Underlying cash balance</b>				
NAB forecast - May 2018	-17.5	-13	-4.2	8.0
(% of GDP)	(-1.0)	(-0.7)	(-0.2)	(0.4)
MYEFO - December 2017	-23.6	-20.5	-2.6	10.2
Budget 2017	-29.4	-21.4	-2.5	7.4
<b>Net operating balance</b>				
NAB forecast - May 2018	-12.1	-2.4	5.2	18.7
(% of GDP)	(-0.7)	(-0.1)	(0.3)	(0.9)
MYEFO - December 2017	-18.2	-9.9	6.8	20.9
Budget 2017	-19.8	-10.8	7.6	17.5

Source: National Australia Bank, Treasury

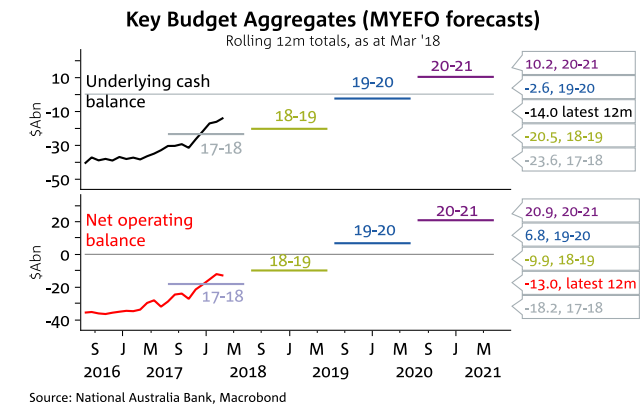
Dave de Garis, Ivan Colhoun, Kaixin Owyong, Alex Stanley

- NAB looks for a 2018-19 Underlying Cash Balance (UCB) deficit of \$A13bn (down from \$A20.5bn at MYEFO). This follows an estimated 2017-18 deficit of \$A17.5bn (around \$12bn lower than at budget time last year). (The 12 months-to run rate for the UCB to March '18 is tracking at -\$14bn.)
- A wafer-thin UCB deficit for 2019-20 of around \$4bn could be achieved, meaning the possibility of surplus being reached a year ahead of the 2020-21 plan, though, in the lead up to the Budget the Treasurer has been signalling still reaching surplus in 2020-21, with the Government preferring to provide tax cuts to support growth (and no doubt its political fortunes)..
- Tax cuts: the Government will continue to push to get its remaining company tax cuts passed in the Budget session of Parliament. These could be presented along with personal tax cuts as a more politically appealing tax package for Senate legislative approval. Gradually phased-in personal income tax cuts to start as early as July 1 would be fiscally manageable and likely would provide some useful support to the consumer especially as targeted to low and middle income earners, who are more likely to spend the tax cuts.
- Infrastructure: Higher Commonwealth infrastructure spending will again be a feature of the Budget. Many potential projects have been pre-announced. Congestion and population growth are important economic issues that resonate with the electorate and impinge on economic performance.
- Fiscal policy stance: with the economy growing near potential, a focus of fiscal policy should be on Budget repair and tilting policies to lift Australia's potential growth through infrastructure. One measure of Budget repair to monitor is the Treasury's estimate of its Structural Budget balance. At MYEFO, the Structural balance was expected to also be in surplus in 2020-21, albeit with no subsequent improvement.
- Ratings: Continuing progress toward a return to surplus in 2020-21, along with an easing back in growth in housing credit and house prices should leave S&P somewhat more relaxed about near-term pressure on Australia's AAA rating. Indeed, if the Government had let the recent lift flow directly through to a quicker return to surplus (rather than giving much of it back as tax cuts) it's almost certain S&P would have removed the negative outlook on the AAA rating at its next annual review (due May to July). As it is, we expect the Agency is likely to make positive noises about the fiscal direction but they may want to see these current favourable trends sustained for some time yet before returning to a stable outlook. Accordingly, we put the odds of a near-term return to a stable outlook at less than 50:50.

## Budget narrative

Income tax cuts and infrastructure spending will feature in this year's "good news" pre-election Budget, likely the last before the next Federal election, which has to be held by mid-May next year. The economy has lent real support to this Budget, thanks especially to a higher than expected terms of trade boosting company taxes. The 12 month rolling deficit as at March was some \$9-10bn better than expected at MYEFO in December.

## Budget tracking nicely ahead of plan



The improvement in the terms of trade, a major driver of swings in nominal GDP, which in turn closely correlates with revenues, mostly reflects higher than expected iron ore and coal prices. With the ramp up in LNG exports, oil prices will also be an increasing influence on the terms of trade. Previously, oil prices have mainly impacted through the prism of domestic inflation and consumer spending forecasts, a focus that continues. In the years ahead, as net taxable export LNG-driven revenues build, the oil price will be an important element of the terms of trade and Company tax and Petroleum Resource Rent Tax (PRRT) receipts.

A less heralded, but equally important guiding light for fiscal policy should continue to centre on medium-term budget repair and a tilt in fiscal policy to support lifting Australia's growth potential. This is where the political and economic focus on infrastructure plays into the fiscal policy and growth framework, if difficult to trace through the specific impacts. With population growth continuing at a strong rate, uplifts to transport-related infrastructure spending should assist in time in containing if not reducing traffic congestion in the major cities, improving liveability and assisting underlying business growth, thus adding to household spirits as well as enhancing the growth potential of the economy.

Higher infrastructure spending is set to be a feature of the economic landscape for some time. As it's built, it will also add to aggregate demand. While the economy is growing around potential, this is useful economic policy support, particularly with consumption growth remaining moderate and non-mining business investment only beginning to lift in the past year or so.

Ideally, fiscal policy should move to moderate its support for the economy as growth nears and then exceeds potential, when inflationary concerns would tend to become more prominent. In this context, we also note that monetary policy settings are expected to remain accommodative for now. NAB's forecasts call for the RBA cash rate to be lifted, forecasts calling for the cash rate to be lifted from 1.50% to 2.25% by the end of next year. Such a rate would still leave monetary policy on the expansionary side of neutral, neutral monetary policy seen by the RBA as around a 1% real cash rate, an implying a neutral nominal cash rate of "3 point something".

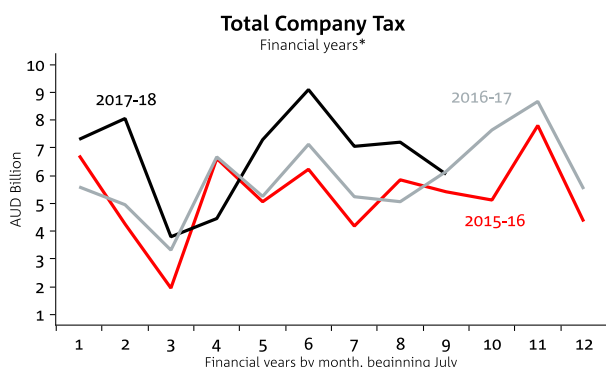
In more normal times, personal tax cuts could be regarded as providing something of a "sugar hit" to an

economy already benefitting from improving business profitability, increased infrastructure spending, and continuing export growth. With slow growth in wages and restrained consumer spending, income tax cuts – being espoused by both major political parties – could be viewed as a useful adjunct to macro policy by supporting household incomes, spending, and confidence, still something of a missing piece of the growth story since the GFC.

### Getting to surplus earlier?

NAB looks for the key UCB for 2017-18 to be revised from a deficit of \$23.6bn at MYEFO, to a shortfall of \$17.5bn. The budget forecast last year was for a deficit of \$29.6bn.

#### The commodity price gift



Source: National Australia Bank, Treasury  
\*1 = July, 12 = June

Favourable base-year effects from an improving economy could conceivably have seen the Treasurer announce a return to surplus as early as 2019-20, a year ahead of the Budget and MYEFO figuring. Indeed, the Underlying Cash balance at MYEFO was already a slim \$2.6bn deficit, while the Net Operating Balance was forecast in the Budget and MYEFO to then be in surplus in 2019-20, (the NOB an accrual measure of the recurrent budget excluding net new capital investment). However, the Treasurer has signalled that the Budget will return to surplus in 2020-21 as previously planned.

### Tax cuts: company and personal

The Government plans to use its better budget position to provide personal income tax cuts and in so doing support stronger economic growth and no doubt hopefully rebuild some political support for its electoral fortunes. The phasing in of personal income tax cuts – initially skewed to low and middle income earners – should provide some support to consumption and overall growth.

In addition, the Treasurer has also confirmed that tax collections as a share of GDP will continue to be capped at 23.9% of GDP. On the basis of the Government’s forecasts, this implies that a series of income tax cuts will be required over the next ten years. Politically, this will provide voters with a clear choice between the Government’s “lower company and income tax” platform and Labor’s “redistributive tax and greater budget repair” platform (Labor seeking to oppose most of the company tax cuts, increase taxation on the wealthy to fund larger income tax cuts for low and middle income earners, while also delivering larger budget surpluses).

The Government’s plan to cap tax receipts at 23.9% is likely to attract some criticism for implicitly capping the size of the surplus – unless a plan to reduce expenditure as a share of GDP is also revealed. The Government has been talking about surpluses being maintained at around 0.5% of GDP, which will produce arguably only limited improvement in Australia’s fiscal flexibility and only a slow reduction in net debt.

### Growth forecasts

The economy’s performance has been supportive of recent Budget improvement. The NAB Business Survey has been pointing to faster growth in business activity for some time and this growth tilt has become evident in the Government’s company tax collections, running comfortably ahead of plan.

While not represented by any material change in real GDP forecasts for 2017-18, nominal GDP has benefited from the stronger terms of trade, thanks to higher bulk commodity prices. NAB looks for some retraction in these prices over time, though to date they remain generally resilient and stronger than our expectations.

The RBA’s May Statement of Monetary Policy foreshadows growth of a little over 3% this year and next year, numbers likely to be included in the budget figuring. The Treasurer suggests commodity price assumptions – and forecasts more generally – will remain conservative, so that surprises are favourable. It will be interesting to see if out-year forecasts are again trimmed as was the case last year (it’s likely as to date, wages growth remains stuck around 2%, despite the first glimmers of some lift).

#### Economy forecasts: again a commodity focus

	2017-18			2018-19		
	Budget May '17	MYEFO Dec-17	NAB Apr-18	Budget May '17	MYEFO Dec-17	NAB Apr-18
<b>Economic</b>						
Real GDP	2½	2½	2.7	3	3	2.7
Employment	1½	1½	2.9	1½	1½	1.9
Unemployment Rate	5½	5½	5.4	5½	5½	5.0
Inflation (CPI)	2	2	2.2	2½	2½	2.4
Wages (WPI)	2½	2½	1.9	3	2½	2.3
Nominal GDP	4	3½	4.3	4	4	2.9
Terms of trade	-2%	-2	1.0	-4%	-5	-6.3
<b>Commodity Prices (*)</b>			(**)			
Iron Ore	55	55	70	55	55	61
Coking Coal	120	120	161	120	120	125
Thermal Coal	85	85	85	85	85	84
Tapis Oil	55	65	64	55	65	72

(\*) Iron ore: The Budget assumed prices would fall to \$55/t.  
Coking Coal: The Budget assumed prices would ease from \$200/t to \$120/t over time  
Thermal Coal: The Budget assumed prices of \$85/t.  
(\*\*) YTD averages. Current prices (3 May '18): \$66.9/t, \$186.5/t, and \$100/t, and \$75/bbl respectively for iron ore, coking & thermal coal, and Tapis oil.  
Sources: Budget papers, NAB

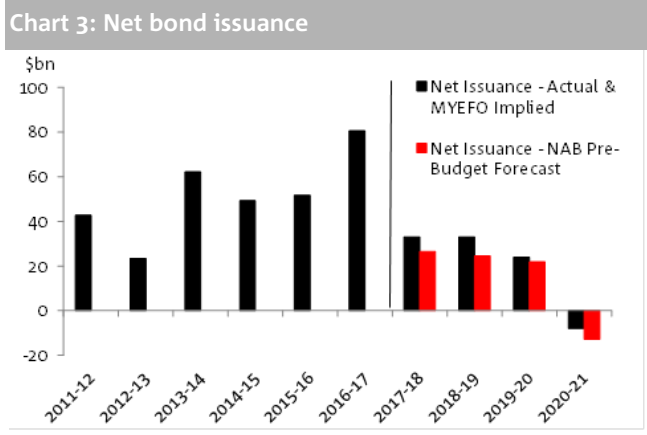
### Market reaction and bond tenders

In recent years, the bond market hasn’t reacted noticeably to the release of the Budget and we see a similar outcome this year. NAB’s expectation for an improvement in the deficit profile should flow through to a lower outlook for debt and issuance. Over time, this is supportive of Australian Commonwealth Government Bonds (ACGBs) at the margin, although we don’t see current valuations relative to swap or global peers as cheap.

So far in 2017-18, we estimate the AOFM has issued \$70.5bn of an \$80bn plan (\$74bn nominal, \$5-6bn of indexed bonds) and is running ahead of a pro-rata pace of issuance. In addition, we estimate the 2017-18 headline cash balance to be around \$6bn ahead of what was assumed at the MYEFO. This affords some flexibility, which could absorb the \$6bn purchase of the Snowy Hydro from NSW and VIC (which the AOFM has said will be funded over the course of calendar 2018).

Looking to 2018-19, NAB's headline cash balance forecasts imply net issuance of around \$25bn, \$8bn lower than at MYEFO. Adding maturities of \$32bn and assuming a similar buyback plan as last year of \$15bn, the gross issuance task could be around \$75bn. As the chart shows, our budget outlook implies a lower net issuance task over the forecast horizon, but it isn't a dramatic change.

NAB will provide detailed coverage of the Budget on Tuesday night (after 7.30pm).



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# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT
<b>Friday, 4 May 2018</b>							
EC	ECB's Constancio Speaks in Malta					6.45	17.45
EC	Retail Sales MoM/YoY	Mar		0.5		8.00	19.00
US	Change in Nonfarm Payrolls	Apr		192		103	22.30
US	Unemployment Rate	Apr		4		4.1	22.30
US	Average Hourly Earnings MoM/YoY	Apr		0.2/2.7		0.3/2.7	22.30
EC	ECB's Weidmann speaks in Frankfurt					12.00	23.00
US	Fed's Dudley Speaks with Bloomberg's Matthew Winkler					15.00	2.00
US	Fed's Williams Speaks at Hoover Institution Policy Conference					18.00	5.00
US	Fed's Quarles Speaks on Liquidity Regulation at Hoover Event					20.30	7.30
US	Fed's George, Bostic and Kaplan Speak at Hoover Institution Co					23.00	10.00
<b>Monday, 7 May 2018</b>							
AU	AiG Perf of Construction Index	Apr				57.2	8.30
US	Fed's Quarles Speaks at Atlanta Fed's Financial Conference					22.00	9.00
JN	BOJ Minutes of Policy Meeting					22.50	9.50
AU	NAB Business Conditions/Confidence	Apr				14/7	11.30
AU	ANZ Job Advertisements MoM	Apr				0	11.30
US	Fed's Bostic Makes Welcome at Financial Markets Conference					11.25	22.25
CH	Foreign Reserves	Apr		3131		3142.82	7 May
US	Fed's Barkin Speaks in Moderated Q&A at GMU					17.00	4.00
US	Consumer Credit	Mar		16		10.601	5.00
CA	Bank of Canada's Tim Lane Speaks on a Panel in Portugal					18.00	5.00
US	Fed's Kaplan Speaks on Panel at Financial Conference					18.30	5.30
US	Fed's Evans Speaks At Atlanta Fed Financial Markets Conference					18.30	5.30
<b>Tuesday, 8 May 2018</b>							
NZ	ANZ Truckometer Heavy MoM	Apr				-0.3	8.00
AU	RBA's Boge Gives Speech in Sydney					22.00	9.00
AU	ANZ Roy Morgan Weekly Consumer Confidence Index	6 May				119.2	9.30
JN	Household Spending YoY	Mar		1.1		0.1	9.30
AU	Retail Sales MoM/ Volumes QoQ	Mar	0.2/0.6	0.2/0.6		0.6/0.9	11.30
NZ	2Yr Inflation Expectation	2Q				2.11	13.00
GE	Trade Balance	Mar		23.1		18.4	16.00
GE	Industrial Production SA MoM/YoY	Mar		0.9/3		-1.6/2.6	16.00
US	Fed's Powell to speak at SNB/IMF event in Zurich					6.15	17.15
UK	Halifax House Prices MoM	Apr				1.5	17.30
AU	Federal Budget		-13			8.30	19.30
US	NFIB Small Business Optimism	Apr		105		104.7	20.00
CA	Housing Starts	Apr		210		225,213	22.15
CH	Trade Balance	Apr		27.7		-4.983	8 May
US	JOLTS Job Openings	Mar				6052	0.00
FI	ECB's Liikanen Speaks on Central Banks Post-Financial Crisis					13.00	0.00
<b>Wednesday, 9 May 2018</b>							
NZ	Card Spending Retail MoM/ Total MoM	Apr		0/		1/0.7	8.45
JN	Real Cash Earnings YoY	Mar		-0.4		-0.5	10.00
JN	Leading Index CI	Mar P		105.1		106	15.00
US	MBA Mortgage Applications	38108				-2.5	21.00
CA	Building Permits MoM	Mar				-2.6	22.30
US	PPI Final Demand MoM	Apr		0.2		0.3	22.30
US	Wholesale Inventories MoM	Mar F		0.6		0.5	0.00
US	Fed's Bostic Speaks on Economic Outlook and Monetary Policy					16.15	3.15
<b>Thursday, 10 May 2018</b>							
NZ	RBNZ Official Cash Rate	10 May	1.75	1.75		1.75	7.00
CA	Bank of Canada's Filipe Dinis Speaks on Cyber Security					20.15	7.15
JN	BOJ Summary of Opinions					22.50	9.50
JN	BoP Current Account Balance/Adjusted	Mar		2929.3/1627.3		2076/1024.1	9.50
AU	Consumer Inflation Expectation	May				3.6	11.00
NZ	RBNZ's Orr at Parliament Select Committee on MPS					0.10	11.10
CH	PPI YoY	Apr		3.4		3.1	11.30
CH	CPI YoY	Apr		1.9		2.1	11.30
EC	ECB Publishes Economic Bulletin					7.00	18.00
UK	Trade Balance	Mar		-2000		-965	18.30
UK	Industrial Production MoM/YoY	Mar		0.3/3.2		0.1/2.2	18.30
UK	Bank of England Bank Rate	10 May		0.5		0.5	21.00
UK	BOE Asset Purchase Target	May		435		435	21.00
UK	Bank of England Inflation Report					10.00	21.00
US	CPI MoM/ Ex Food and Energy MoM	Apr		0.3/0.2		-0.1/0.2	22.30
CA	New Housing Price Index MoM/YoY	Mar		/		-0.2/2.6	22.30
US	Initial Jobless Claims	38473		225		211	22.30
GE	Wholesale Price Index MoM/YoY	Apr		/		0/1.2	10 May to 14 May
CH	Money Supply M2 YoY	Apr		8.5		8.2	10 May to 15 May
NZ	REINZ House Sales YoY	Apr				-9.9	10 May to 14 May
US	Monthly Budget Statement	Apr				-208.743	4.00
<b>Friday, 11 May 2018</b>							
NZ	BusinessNZ Manufacturing PMI	Apr				52.2	8.30
NZ	Food Prices MoM	Apr				1	8.45
AU	Home Loans MoM	Mar	-1	-2		-0.2	11.30
CA	Unemployment Rate	Apr		5.8		5.8	22.30
CA	Net Change in Employment/Participation rate	Apr		19.55/		32.3/65.5	22.30
US	Import Price Index MoM/Ex Petroleum MoM	Apr		0.5/0.2		0/0.1	22.30
US	Export Price Index MoM	Apr		0.3		0.3	22.30
CA	Bank of Canada's Wilkins Speaks at Women's Forum Canada					12.00	23.00
US	U. of Mich. Sentiment	May P		98		98.8	0.00
US	Baker Hughes U.S. Rig Count	40664				1021	3.00
<b>Upcoming Central Bank Interest Rate Announcements</b>							
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	1.375%	1.375%		1.25%	
Australia, RBA		5-Jun	1.5%	1.5%		1.5%	
US, Federal Reserve		13-Jun	1.5-1.75%	1.75-2%		1.5-1.75%	
Europe, ECB		14-Jun				-0.4%	
Japan, BoJ		15-Jun				-0.1%	

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

# 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	2.5	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	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	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	-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	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	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	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	-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	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	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	3.0
Real GDP - qtr %					1.0	0.8	-0.2	1.1	0.5	0.8	0.7	0.4	0.7	0.7	0.7	0.8	0.5	0.6	0.7	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	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	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	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	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	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	0.6	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	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	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	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	-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	-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	-4.1

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

## Exchange Rate Forecasts

	4-May	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
<b>Majors</b>						
AUD/USD	0.7540	0.77	0.75	0.75	0.75	0.75
NZD/USD	0.7041	0.71	0.70	0.70	0.71	0.70
USD/JPY	109.18	103	102	101	100	99
EUR/USD	1.1984	1.24	1.25	1.26	1.28	1.32
GBP/USD	1.3577	1.45	1.48	1.52	1.53	1.47
USD/CNY	6.3537	6.20	6.18	6.20	6.23	6.25
USD/CAD	1.2846	1.24	1.24	1.22	1.23	1.25
USD/CHF	0.9977	0.90	0.91	0.91	0.93	0.92

Australian Cross Rates	4-May	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
AUD/NZD	1.0709	1.08	1.07	1.07	1.06	1.07
AUD/JPY	82.3	79	77	76	75	74
AUD/EUR	0.6292	0.62	0.60	0.60	0.59	0.57
AUD/GBP	0.5554	0.53	0.51	0.49	0.49	0.51
AUD/CNY	4.7907	4.77	4.64	4.65	4.67	4.69
AUD/CAD	0.9686	0.95	0.93	0.92	0.92	0.94
AUD/CHF	0.7523	0.69	0.68	0.68	0.70	0.69

## Interest Rate Forecasts

	4-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	2.02	1.95	2.15	2.15	2.40	2.65
3 Year Swap Rate	2.25	2.4	2.5	2.6	3.2	3.4
10 Year Swap Rate	2.94	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	-0.20	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	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	2.95	3.00	3.25	3.25	3.50	3.50
New Zealand	2.78	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	2.6	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)

	4-May	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	68.5	67	67	66	65	66	67	68
Gold	1313	1320	1330	1360	1380	1370	1380	1390
Iron ore	67.1	67	63	61	60	58	60	62
Hard coking coal	187	175	130	110	101	99	100	100
Thermal coal	100	90	90	90	90	65	65	65
Copper	6796	6690	6630	6630	6630	6630	6630	6630
Aust LNG (*)	12.2	11.2	11.5	11.8	11.7	11.3	11.7	11.8

(\*) Implied Australian LNG export prices.



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