

AUSTRALIAN MARKETS WEEKLY

Across the border: momentum in SA



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- This week's market opens to the background of further news on the latest increase in US-China trade tensions, this time from the Chinese side. That follows Friday's announcement from President Trump that from 6 July there would be a 25% tariff on \$34bn (818 product categories) of Chinese imports, a further \$16bn to come, and threats of more, should China retaliate, which it did on the weekend.
- China announced a 25% tariff on \$34bn of US imports (659 products), a further response on an additional \$16bn to come. (\$50bn is 0.25% of US GDP.)
- The AUD has opened this week on the back foot, US-China trade tensions seeing some pressure on emerging markets and keeping the Australian dollar on the defensive. The US dollar to date has consistently weakened whenever trade tensions have tightened, but has so far been little changed in the latest episode.
- Softness in the AUD/USD in the latter part of last week has taken the Aussie to within sight of its lows for this year (0.7412 on 9 May), so far trading today in the lower 0.74s. The hawkish tilt from last week's accelerated Fed rate projections, a mixed AU Labour Force report for May and somewhat softer readings on Chinese monthly activity indicators for May, are all current AUD headwinds. Highly-traded base metal prices were lower on Friday, though resource export bulk prices were relatively steady. In the context of bulk commodities, note that China has public holidays Monday to Wednesday.
- With that background, the AUD is susceptible. There are no major local data points this week with the RBA Minutes tomorrow unlikely to shift market pricing much at all. It's also quiet for offshore data this week, though the central bankers' conference this week in Sintra, Portugal (at which Lowe is attending, along with Powell, Draghi, and Kuroda) will draw interest.
- In today's Weekly, we take a closer look at the SA economy that's shown a distinct improvement in the past year or so. After lagging activity in NSW and Victoria in 2016 and 2016, SA growth returned last year. Eastern seaboard growth and China are likely to have been major catalysts.
- The State has also benefited from the resurgence in mining and resources activity and spending as well as revitalized agribusiness sectors. There has also been localised re-investment in the Whyalla region, some Olympic Dam expansion spinoff and upbeat wine and wool industries, despite some particular export issues into China reported by a major wine exporter. Agricultural prospects more generally depend on seasonal conditions at this critical time of the year; there have been hints of improvement very recently in SA and across South Eastern Australia.
- Further ahead, SA-located major defence naval projects will become a spur for growth again, including new frigates and submarines into the next decade.

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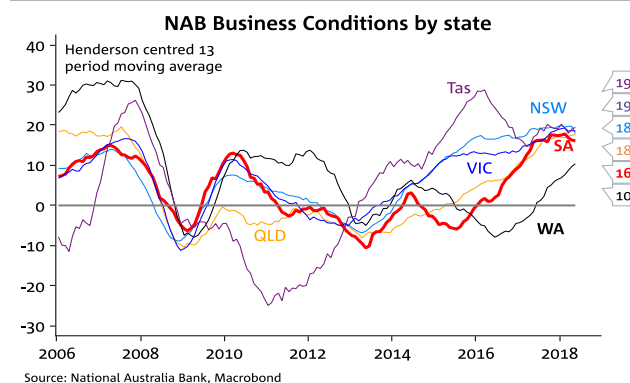
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7429	-2.3	RBA cash	1.50	0
AUD/CNY	4.80	-1.4	3y swap	2.18	-7
AUD/JPY	82.1	-1.9	ASX 200	6,093	0.7
AUD/EUR	0.641	-0.6	Iron ore	68.5	2.5
AUD/NZD	1.073	-0.8	WTI oil	64.2	-2.8

Source: Bloomberg

Chart 1: SA Business conditions at a higher level



SA economic momentum evident

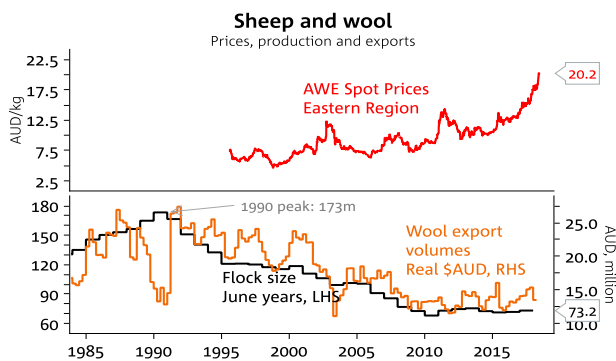
The May NAB Business Survey has been reporting higher levels of business activity in South Australia since last year. After well below average levels in 2015 and 2016 – compared to the national average at the time and SA’s longer term performance – SA Business Conditions have been accelerating for a year or so. This was something that your scribe had been observing not only in a succession of NAB Surveys and other higher frequency data, but from on-the-ground discussions with local clients and colleagues.

After averaging just +2 in 2016 (and -6 in 2015), business activity picked up last year, with the NAB Business Conditions index averaging +17, where it has remained this year. For the past 18 months, SA activity momentum has been above its own long term – and the current national – average. The extended growth cycle in the East of the country seems to have played some part in signs of growth improvement and stability from “across the border”. SA exports have also benefitted from the global upswing and still strong demand out of China.

Primary industries playing a notable part

The SA economy has a particular exposure to primary industries, to the more traditional broadacre sectors, to agribusiness (e.g. meat, seafood, wine) as well as to mining and resources. Top of SA’s exports for is wine exports, accounting for a shade over 10% of the State’s exports of goods and services in 2016-17 or 1.5% of the State’s Gross State Product and over half of national wine exports. Copper exports rival wine exports in size in SA, along with grains and meat exports. There are also more specialised industries such as the Southern Bluefin Tuna Fishery based in Port Lincoln, fine foods and more. The wool industry has been flying high. As the graphic below depicts, wool prices have continued to climb in recent years.

Chart 2: Wool industry seeing good returns



The wine industry has been on a more sustainable footing in recent times, also with buoyant conditions. A better fundamental balance between demand and supply globally, increased purchases from China to be now the number one buyer of wine exports, and the global upswing have all contributed. More recently, one major Australian wine exporter has reported some delays in the processing of wine exports into China, though it’s not clear that other wine exporters into China have experienced such delays.

Adelaide is viewed as a centre for junior explorers, with some exposure to mining-related activity, including production from Olympic Dam (uranium and copper principally, but also gold and some others) where BHP is increasing spending to increase production and efficiency.

Local oil and gas major Santos is also headquartered in Adelaide. It has become evident over the past year or so that mining and resources companies are increasing operational expenditure to maintain production, higher commodity prices in general lifting confidence along with the cash flow now to maintain operational facilities at a high level.

Chart 3: Wine – increased sales to China

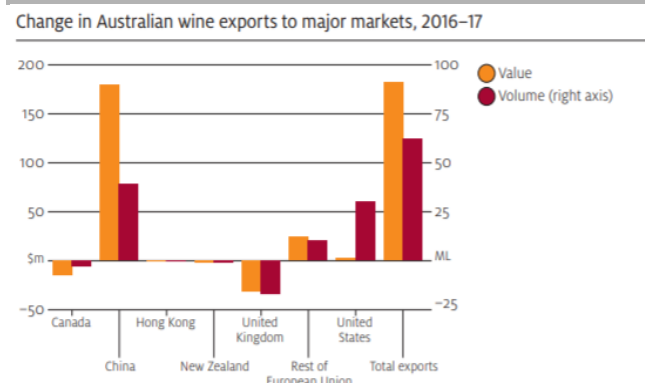
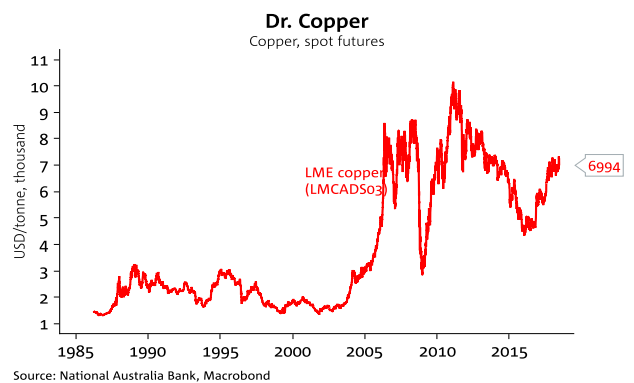


Chart 3: Copper prices so better this year



China has also been prominent in other export industries such as education. Health and education sectors are prominent in South Australia, with exports an important element in the education sector. Property markets remain subdued with steady to modest rises in Adelaide residential property prices and signs of some return to net absorption in the CBD office market. Population growth remains modest, up 0.6% to Q3 '17. A degree of urban renewal is underway.

Looking further ahead, SA’s principal participation in the building of new frigates and submarines at Osborne will support activity in the decade ahead and beyond.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 18 June 2018								
18 - 20 June, ECB Forum on Central Banking in Sintra, Portugal								
NZ	BNZ Services PSI	May			57.3	55.9	21.30	8.30
JN	Trade Balance	May		-205.2	-578.3	625.977	22.50	9.50
US	Dudley, Duke and Gorman Speak on Culture in Finance Panel						11.45	22.45
US	Fed's Bostic Speaks on Economist and Monetary Policy Outlook						16.00	3.00
EC	ECB's Draghi gives opening remarks at Sintra conference						16.30	3.30
US	Fed's Williams Speaks at NY Fed Bank Culture Conference						18.45	5.45
Tuesday, 19 June 2018								
AU	House Price Index QoQ/YoY	1Q	-1.5/1.2	-1/1.7		1/5	0.30	11.30
AU	RBA June Meeting Minutes						0.30	11.30
EC	ECB President Draghi speaks in Sintra, Portugal						7.00	18.00
EC	ECB's Peter Praet is chairing a panel in Sintra, Portugal						7.30	18.30
EC	ECB's Lane and St. Louis Fed Bullard speak in Sintra, Portugal						10.00	21.00
US	Housing Starts/Building Permits	May		1312/1350		1287/1352	11.30	22.30
Wednesday, 20 June 2018								
20 - 21 June, OPEC International Seminar in Vienna, Austria								
NZ	Dairy Auction Whole Milk Powder MT	19 June				3205	19 June to 20 June	
NZ	Westpac Consumer Confidence	2Q				111.2	21.00	8.00
NZ	BoP Current Account Balance % of GDP	1Q	-2.8%	-2.8%		-2.7%	21.45	8.45
JN	BOJ Minutes of Policy Meeting						22.50	9.50
AU	Westpac Leading Index MoM	May				0.19	23.30	10.30
AU	NAB Cashless Retail Index	May					0.30	11.30
JN	BOJ Kuroda speaks at National Credit Union's meeting						5.30	16.30
EC	ECB's Lautenschläger chairs panel in Sintra						7.00	18.00
EC	ECB's Coeure is chairing a panel in Sintra, Portugal						9.30	20.30
US	MBA Mortgage Applications	15 June				-1.5	10.00	21.00
EC	Draghi, Lowe and Powell speak in Sintra, Portugal						12.30	23.30
Thursday, 21 June 2018								
NZ	GDP SA QoQ/YoY	1Q	0.5/2.7	0.5/2.7		0.6/2.9	21.45	8.45
JN	Machine Tool Orders YoY	May F				14.9	5.00	16.00
UK	Public Sector Net Borrowing, Total/Ex Banking	May		4.95/6.3		6.2/7.8	7.30	18.30
UK	Bank of England Bank Rate	21 June		0.5		0.5	10.00	21.00
UK	BOE Asset Purchase Target	Jun		435		435	10.00	21.00
CA	Wholesale Trade Sales MoM	Apr		0.3		1.1	11.30	22.30
US	Initial Jobless Claims	16 June		220		218	11.30	22.30
US	Philadelphia Fed Business Outlook	Jun		29		34.4	11.30	22.30
US	FHFA House Price Index MoM	Apr		0.5		0.1	12.00	23.00
AS	ECB's Nowotny, ECB's Reinesch Speak at Vienna Conference						12.30	23.30
US	Leading Index	May		0.4		0.4	13.00	0.00
EC	Consumer Confidence	Jun A		0		0.2	13.00	0.00
UK	BOE Governor Mark Carney Delivers Mansion House Speech						19.15	6.15
Friday, 22 June 2018								
22 - 23 June, OPEC meeting to decide oil output in Vienna, Austria								
NZ	Net Migration SA	May				4930	21.45	8.45
JN	Natl CPI YoY/Ex Food YoY	May		0.6/0.7		0.6/0.7	22.30	9.30
JN	Nikkei Japan PMI Mfg	Jun P				52.8	23.30	10.30
NZ	Credit Card Spending YoY	May				7	2.00	13.00
JN	All Industry Activity Index MoM	Apr		0.9		0	3.30	14.30
GE	Markit/BME Germany Manufacturing PMI	Jun P		56.2		56.9	6.30	17.30
GE	Markit Germany Services PMI/ Composite PMI	Jun P		52.2/53.3		52.1/53.4	6.30	17.30
EC	Markit Eurozone Manufacturing PMI	Jun P		55		55.5	7.00	18.00
CA	Retail Sales MoM / Ex Auto MoM	Apr		0/0.6		0.6/-0.2	11.30	22.30
CA	CPI NSA MoM/YoY	May		0.4/2.6		0.3/2.2	11.30	22.30
CA	CPI Core- Common YoY%	May		2		1.9	11.30	22.30
CA	CPI Core- Median YoY% / Trim YoY%	May		2.1/2.1		2.1/2.1	11.30	22.30
US	Markit US Manufacturing PMI	Jun P		56.3		56.4	12.45	23.45
US	Markit US Services PMI/Composite PMI	Jun P		56.5/		56.8/56.6	12.45	23.45
Upcoming Central Bank Interest Rate Announcements								
UK, BOE		21-Jun	0.5%	0.5%		0.5%		
New Zealand, RBNZ		28-Jun	1.75%	1.75%		1.75%		
Australia, RBA		3-Jul	1.5%	1.5%		1.5%		
Canada, BoC		11-Jul	1.5%	1.5%		1.25%		
Europe, ECB		26-Jul	-0.4%	-0.4%		-0.4%		
Japan, BoJ		31-Jul	-0.1%	-0.1%		-0.1%		
US, Federal Reserve		1-Aug	1.75-2%	1.75-2%		1.75-2%		

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	0.9	0.6	0.5	0.8	0.3	1.0	0.6	1.0	0.3	0.5	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Underlying Business Investment	-11.8	3.0	3.3	6.6	-3.4	-2.6	-5.6	2.2	3.1	0.0	3.7	-0.5	-0.1	1.3	1.6	0.9	2.1	1.6	2.2	1.2	
Residential Construction	8.7	-2.2	-1.4	-2.6	4.3	1.7	-0.7	2.4	-3.2	0.3	-2.1	-0.1	0.9	-1.1	-0.6	-0.7	-1.0	-0.5	-0.2	-0.2	
Underlying Public Spending	5.2	4.5	4.8	4.3	1.8	1.9	1.1	0.6	1.0	1.3	1.4	1.2	1.5	0.8	0.9	1.0	1.1	1.1	1.1	1.1	
Exports	6.8	3.5	4.4	4.9	2.1	1.4	0.8	3.4	-1.9	2.9	0.7	-1.5	2.4	1.1	1.5	1.4	1.3	1.2	0.7	0.6	
Imports	0.2	7.8	4.2	4.4	-0.8	2.1	0.9	2.5	3.1	-0.1	2.6	1.6	0.5	0.7	0.9	0.8	1.1	1.3	1.5	1.3	
Net Exports (a)	1.2	-1.0	-0.1	0.0	0.9	-0.2	0.0	0.1	-1.1	0.6	-0.4	-0.7	0.3	0.1	0.1	0.1	0.0	0.0	-0.2	-0.2	
Inventories (a)	0.1	-0.1	0.0	-0.1	0.0	0.4	0.2	-0.4	0.4	-0.5	0.1	0.0	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	
Domestic Demand - qtr%					0.1	0.6	-0.1	1.1	0.7	0.9	0.9	0.8	0.6	0.6	0.7	0.6	0.8	0.8	0.9	0.8	
Dom Demand - ann %	1.9	3.0	2.8	3.0	1.5	1.8	1.7	2.5	2.3	2.6	3.6	3.3	3.2	2.8	2.6	2.5	2.6	2.9	3.1	3.3	
Real GDP - qtr %					0.9	0.9	-0.2	1.1	0.3	1.0	0.5	0.5	1.0	0.5	0.7	0.7	0.8	0.7	0.7	0.6	
Real GDP - ann %	2.6	2.2	2.9	3.0	2.7	3.3	2.0	2.4	1.8	2.0	2.8	2.4	3.1	2.6	2.8	3.0	2.8	3.0	3.0	2.9	
CPI headline - qtr %					-0.2	0.4	0.7	0.5	0.5	0.2	0.6	0.6	0.4	0.7	0.4	0.7	0.4	0.5	0.6	0.8	
CPI headline - ann %	1.3	1.9	2.2	2.2	1.3	1.0	1.3	1.5	2.1	1.9	1.8	1.9	1.9	2.4	2.2	2.3	2.2	2.0	2.2	2.2	
CPI underlying - qtr %					0.2	0.5	0.3	0.5	0.4	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	
CPI underlying - ann %	1.6	1.8	2.0	2.1	1.6	1.6	1.5	1.5	1.7	1.8	1.9	1.9	2.0	1.9	2.0	2.0	2.0	2.0	2.1	2.2	
Wages (Pvte WPI - qtr %)					0.5	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	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	1.9	2.0	2.1	2.2	2.4	2.5	2.5	2.6	
Unemployment Rate (%)	5.7	5.6	5.4	5.0	5.8	5.8	5.7	5.7	5.9	5.6	5.5	5.4	5.5	5.5	5.4	5.3	5.2	5.1	5.0	5.0	
Terms of trade	0.6	12.3	-0.4	-0.8	-1.9	2.4	4.0	11.3	5.4	-6.0	-0.1	0.4	3.3	-1.4	-3.4	-0.2	-1.9	-1.4	-0.1	0.2	
G&S trade balance, \$Abn	-14.3	10.2	8.4	-11.2	-8.7	-7.4	-4.3	6.0	6.4	3.4	1.4	-1.0	4.1	3.2	0.4	0.8	-0.9	-2.5	-3.6	-4.2	
% of GDP	-0.8	0.6	0.4	-0.6	-2.1	-1.8	-1.0	1.4	1.4	0.8	0.3	-0.2	0.9	0.7	0.1	0.2	-0.2	-0.5	-0.7	-0.8	
Current Account (% GDP)	-3.1	-2.5	-2.7	-3.7	-3.8	-3.9	-3.4	-1.4	-1.6	-2.4	-2.6	-3.2	-2.3	-2.4	-3.0	-2.9	-3.3	-3.6	-3.8	-3.9	

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

Exchange Rate Forecasts

	18-Jun	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
Majors						
AUD/USD	0.7442	0.77	0.75	0.75	0.75	0.75
NZD/USD	0.6940	0.71	0.70	0.70	0.71	0.70
USD/JPY	110.50	110	108	106	102	99
EUR/USD	1.1594	1.23	1.25	1.26	1.28	1.32
GBP/USD	1.3270	1.42	1.45	1.50	1.53	1.55
USD/CNY	6.4387	6.28	6.20	6.20	6.23	6.25
USD/CAD	1.3180	1.24	1.24	1.22	1.23	1.25
USD/CHF	0.9968	0.98	0.97	0.96	0.95	0.93

Australian Cross Rates						
	18-Jun	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
AUD/NZD	1.0723	1.08	1.07	1.07	1.06	1.07
AUD/JPY	82.2	85	81	80	77	74
AUD/EUR	0.6419	0.63	0.60	0.60	0.59	0.57
AUD/GBP	0.5608	0.54	0.52	0.50	0.49	0.48
AUD/CNY	4.7917	4.84	4.65	4.65	4.67	4.69
AUD/CAD	0.9809	0.95	0.93	0.92	0.92	0.94
AUD/CHF	0.7418	0.75	0.73	0.72	0.71	0.70

Interest Rate Forecasts

	18-Jun	Jun-18	Sep-18	Dec-18	Jun-19	Dec-19
Australia Rates						
RBA Cash rate	1.50	1.50	1.50	1.50	1.75	2.00
3 month bill rate	2.06	1.95	2.15	2.15	2.40	2.65
3 Year Swap Rate	2.18	2.4	2.5	2.6	3.2	3.4
10 Year Swap Rate	2.86	3.3	3.4	3.5	3.9	4.0
Offshore Policy Rates						
US Fed funds	2.00	2.00	2.25	2.50	3.00	3.25
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	2.00	2.50
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
10-year Benchmark Bond Yields						
Australia	2.66	2.80	3.10	3.10	3.40	3.65
United States	2.91	3.00	3.25	3.25	3.50	3.50
New Zealand	2.89	2.90	3.20	3.25	3.60	3.85

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	2.2	2.9	3.0	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)

	18-Jun	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	63.8	67	67	66	65	66	67	68
Gold	1278	1310	1320	1350	1365	1370	1380	1390
Iron ore	66.8	67	63	61	60	58	60	62
Hard coking coal	200	175	130	110	101	99	100	100
Thermal coal	115	90	90	90	90	65	65	65
Copper	7020	6690	6630	6630	6630	6630	6630	6630
Aust LNG (*)	13.0	11.2	11.5	11.8	11.7	11.3	11.7	11.8

(*) Implied Australian LNG export prices.

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