

# AUSTRALIAN MARKETS WEEKLY

## Mid-year economy and market pulse check



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- Last week we conducted a short survey of our readers' views and outlooks for the Australian economy and key financial market indicators.
- Most have a muddle-through view on the Australian economy – 61% said they were "so-so" on the growth outlook, with 23% bullish and 16% bearish. In line with this result, the unemployment rate is expected to barely edge lower, on average, over the next few years. In fact, quite surprisingly, around 40% of respondents expect the unemployment rate to be higher than it is now by the end of 2019.
- Consequently, most see a very benign inflation outlook – just 2% of respondents see underlying inflation above 2.5% (the mid-point of the RBA's 2 to 3% target band) at the end of 2019, 12% see it at 2.5% and the remaining 86% see it below the target's mid-point. With inflation having been low for a few years – and wages growth quite slow currently – we understand where this result comes from. Nevertheless it is surprising that just 2% see any genuine upside to the current underlying inflation rate of 1.9%.
- Readers had a long list of concerns occupying their minds at the present time. The top four concerns in order were: 1) Global trade tensions; 2) a credit crunch in Australia; 3) China's economy; and 4) Australian Politics. At the other end of the spectrum, few were concerned about Brexit or inflation surprising on the upside.
- Global recession – a slight majority (51%) expect a global recession to start either next year or in 2020. That is interesting, if a little surprising. We'd assess this probability at considerably less than 50%, which holds out the prospect of upside surprises to growth and presumably the chance for re-pricing of assets that presumably somewhat discount this prediction.
- Turning to financial markets, the consensus was for some mild tightening by the RBA by the end of 2019 (one rate hike in weighted-average terms), for the \$A to edge lower (US\$0.72 was the weighted-average pick for end 2019) and for bond yields to edge higher. Equities were the preferred asset class for the next year, with relatively high weightings to cash and alternative assets. Property, commodities and overseas fixed income were not favoured.
- The survey respondents were roughly: 30% NAB/BNZ staff; 30% business/corporates; 30% banks/superannuation funds/wealth managers and 10% "other". 95% of respondents live in Australia.
- The key Australian event this week is the Q2 CPI, where the market and NAB look for 0.5% q/q outcomes for headline and core CPI. Sharp rises in petrol prices are the key influence boosting the CPI. We assess mild upside risk to both the headline and core measures on a reported easing in the supermarket price wars. Overseas, a very strong US Q2 GDP outcome is likely on Friday. Focus will also likely be on EU trade negotiators meeting with President Trump mid-week plus an important update on European flash PMIs on Tuesday, for guidance as to how significantly trade tensions may be impacting business confidence.

To contact NAB's market experts, please click on one of the following links:

[Ask the Economists](#)

[Ask the FX Strategists](#)

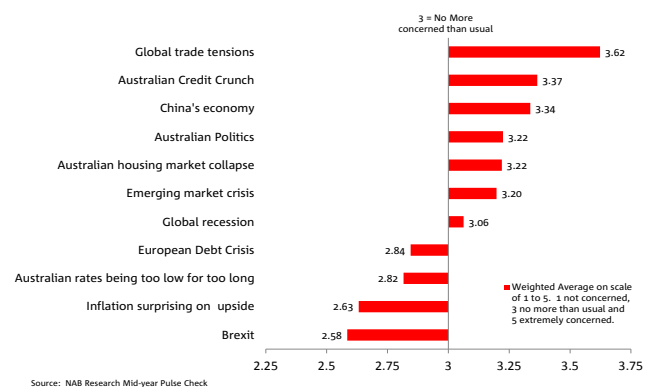
[Ask the Interest Rate Strategists](#)

### Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7431	0.2	RBA cash	1.50	0
AUD/CNY	5.02	1.1	3y swap	2.21	3
AUD/JPY	82.4	-1.1	ASX 200	6,247	0.1
AUD/EUR	0.633	-0.2	Iron ore	65.14	1.7
AUD/NZD	1.090	-0.5	WTI oil	68.2	1.7

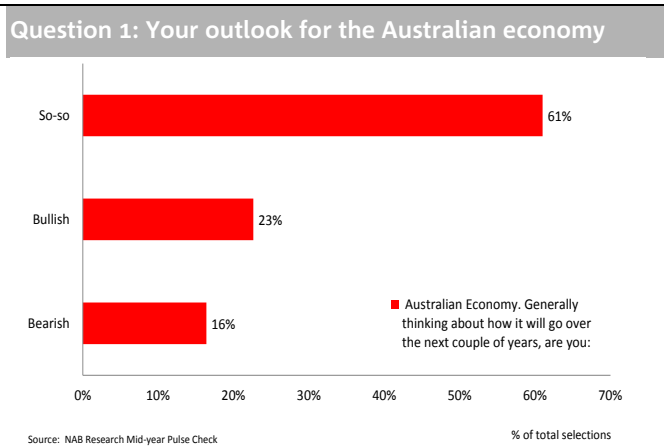
Source: Bloomberg

### Chart 1: The top concerns at the present time



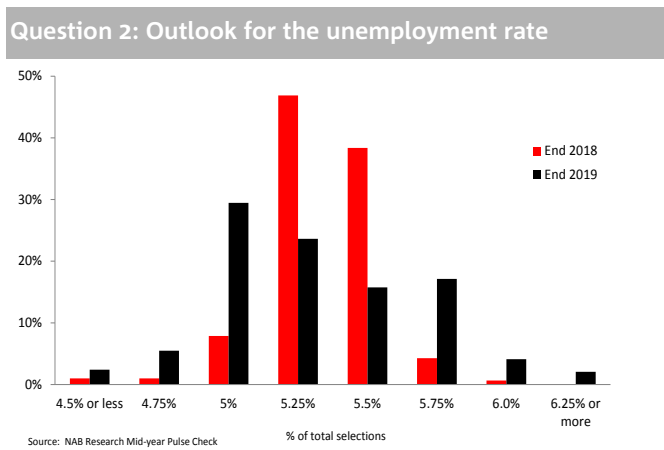
**1. Australian Economy. Generally thinking about how it will go over the next couple of years, are you:**

The majority of respondents expected a so-so economy over the next couple of years, which seems consistent with NAB's economic forecasts. We'd interpret this to mean reasonable but not strong growth, which is likely a consequence of the different cyclical positions of many of the parts of the economy (eg. housing slowing, infrastructure expanding, consumer moderate). Of those that were bullish or bearish, slightly more were bullish.



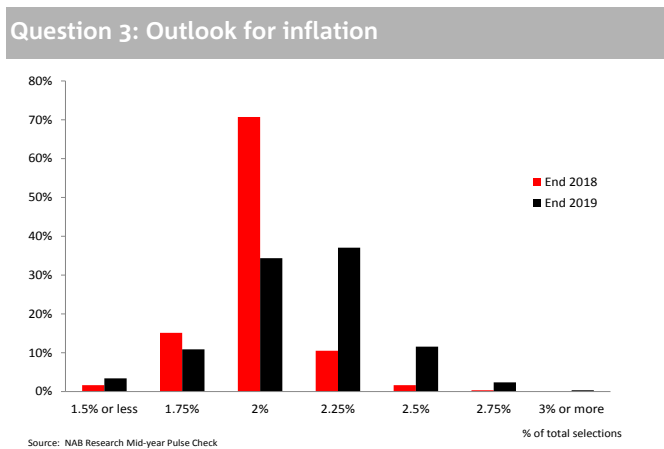
**2. Australian Economy. The unemployment rate is currently 5.4%. At the end of 2018 and 2019 I expect it to be:**

The majority expect the progress in reducing unemployment that the RBA has been expecting, with over a third of respondents expecting a 5% or lower rate by the end of 2019. Surprisingly, however, there was a large minority (nearly 40%) expecting unemployment to be higher in 18 months' time. NAB is forecasting a 5% unemployment rate around the middle of next year.



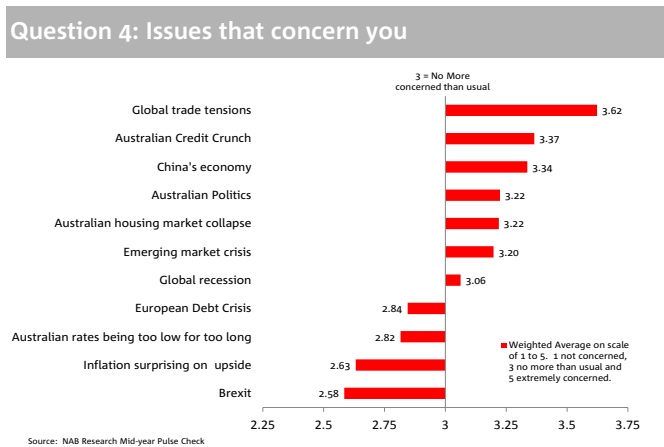
**3. Australian Inflation. Underlying inflation rate is 1.9%. At the end of 2018 and 2019 I expect it to be:**

Respondents generally expect only a slow lift in inflation over the next eighteen months, though a large majority sees core inflation remaining below the RBA's 2.5% midpoint at the end of 2019. Interestingly, still nearly 50% expect core inflation to be 2% or less at the end of next year.



**4. Thinking about risks to the Australian economy over the next few years, rank the following risks by your level of concern: 1 not at all concerned, 3 no more than usual, and 5 extremely concerned.**

Of the issues concerning investors, arguably two are very recent developments, namely trade wars and the prospect of a credit crunch in Australia. China's economy and the Australian housing market have been perennial concerns for many, while interestingly Australian politics is of equal concern to respondents as an Australian housing market collapse. Not unsurprisingly, those surveyed were not too worried about either Brexit or inflation surprising on the upside.



**5. Do have any other concerns not on the above list?**

Apart from the reader concerned about losing their hair, there were a few other concerns that received multiple responses. These are listed at right and highlight the wide variety of factors impacting the confidence of businesses – and no doubt consumers also – at the present time.

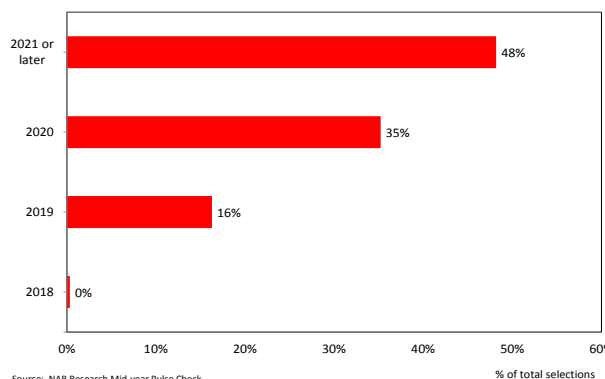
**Question 5: Other issues of concern**

- Prolonged low wage growth/economic stagnation
- Various specific political issues, including a change of government, Trump and populist movements
- Debt issues in Australia and China’s shadow banking system
- Tax reform
- Chinese influence in Australian business and government
- Energy policy
- AI
- Demographics/over-population
- Oil prices

**6. I expect the next Global recession to begin in:**

The response to this question was very interesting (perhaps “anchoring”/question design played a role – ie. what would the result have been if respondents had been asked for how much longer will the global expansion run or provided more options for the timing of the next recession!). Taking the results at face value, surprisingly over half of respondents expected a global recession to begin in the next two and a half years. A number of global commentators are running a US Recession 2020 theme, which might explain this, though without the imbalances that usually precede recessions, this probability looks unusually high to us at the present time. That said we continue to monitor the flattening of the US yield curve, as this is usually a good indicator of recession risk.

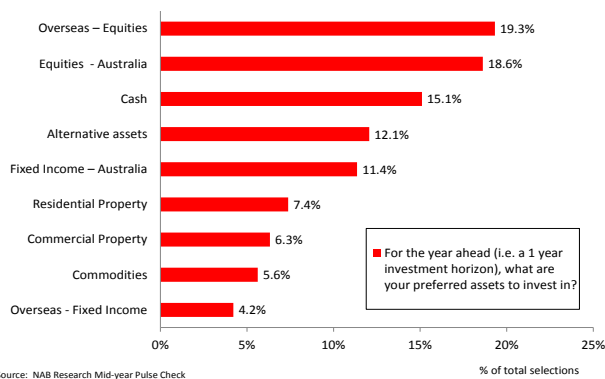
**Question 6: Timing for next global recession**



**7. For the year ahead (ie. a 1-year investment horizon), what are your preferred assets to invest in?**

While the relativities cannot be compared to normal portfolio allocations, allocations to equities dominate, as would normally be expected. Cash and Alternative Assets have higher weightings than might normally be expected (the former perhaps reflecting current concerns of respondents). Property, commodities and overseas fixed income are not favoured to produce strong returns over the year ahead.

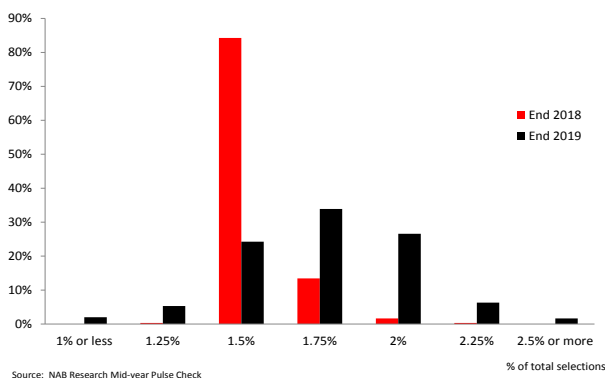
**Question 7: Preferred Asset Class**



**8. The RBA’s Cash Rate is currently 1.50%. At the end of 2018 and 2019 I expect it to be:**

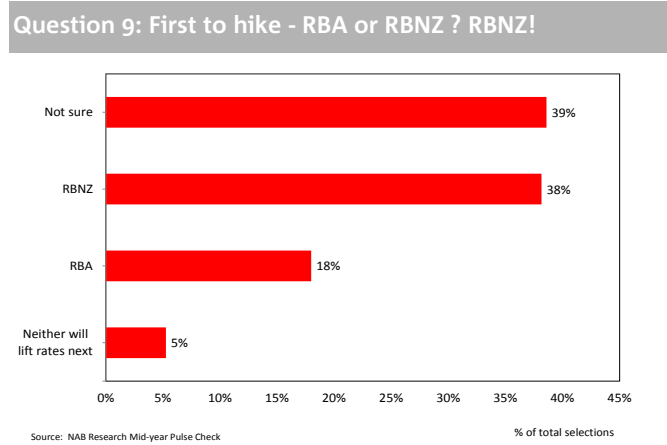
Over 80% of responses saw no change to the RBA cash rate this year, with 13% expecting one rate rise. By the end of 2019, there’s greater expectation that the cash rate may move, with nearly a third each expecting one or two rate increases. That said, a quarter of respondents saw the cash rate remaining at 1.5% next year, while there is a small minority expecting a rate cut or cuts! This produces a weighted-average outcome of one rate increase by the end of 2019.

**Question 8: RBA Cash Rate Outlook – slightly higher**



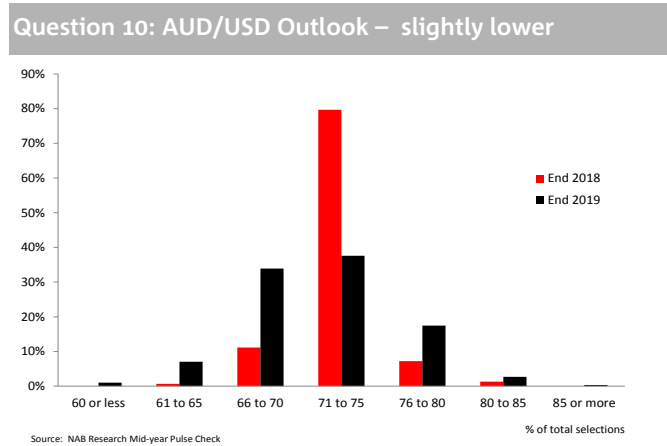
**9. RBA or RBNZ – This is a question for Kiwis and folk interested in NZ. Which central bank will LIFT interest rates first?**

While nearly 40% of those surveyed were not sure which of the Antipodean central banks would lift interest rates first, of those expressing a view, twice as many thought the RBNZ would lift rates ahead of the RBA. There was a small 5% that thought the next move in interest rates would be a cut.



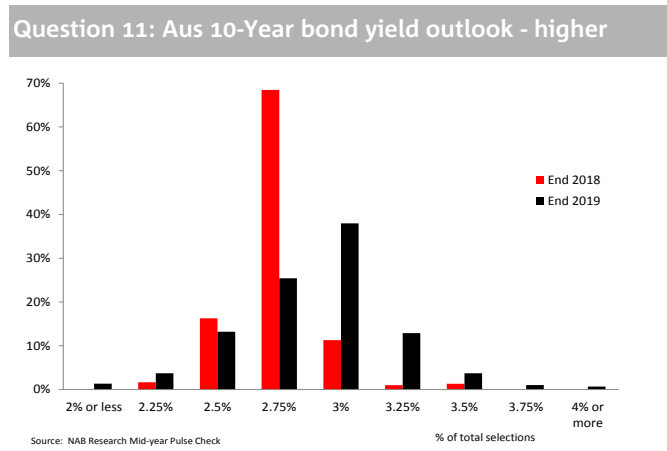
**10. The AUD/USD exchange rate is around 74 cents. At the end of 2018 and 2019 I expect it to be near:**

A very large majority expects the \$A to end the year between 71 and 75 US cents. Next year, there is more diversity of view – more are concerned with a move down into the 66-70 range (around a third of respondents up from 11% this year), but at the same time, 1 in 7 respondents thought the \$A could move up into the 76-80 cent range. The weighted-average results are both slightly to the downside from current levels: 0.73 for end 2018 and 0.72 for end 2019.



**11. The Australian 10-year Government Bond Yield is around 2.65%. At the end of 2018 and 2019 I expect it to be near:**

Respondents expect the mildest of bond sell-offs over the next 6-18 months. This forecast likely reflects the expectation of no significant rise in US yields and little change in monetary policy by the RBA.



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# CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
<b>Monday, 23 July 2018</b>								
CA	Wholesale Trade Sales MoM	May		0.7		0.1	11.30	22.30
US	Chicago Fed Nat Activity Index	Jun		0.25		-0.15	11.30	22.30
EC	Consumer Confidence	Jul A		-0.7		-0.5	13.00	0.00
UK	BOE's Broadbent Speaks in London						16.00	3.00
<b>Tuesday, 24 July 2018</b>								
JN	Nikkei Japan PMI Mfg	Jul P				53	23.30	10.30
JN	Leading Index CI	May F				106.9	4.00	15.00
GE	Markit/BME Germany Manufacturing PMI	Jul P		55.5		55.9	6.30	17.30
GE	Markit Germany Services PMI/Composite PMI	Jul P		54.5/54.8		54.5/54.8	6.30	17.30
EC	Markit Eurozone Manufacturing PMI	Jul P		54.7		54.9	7.00	18.00
EC	Eurozone Composite PMI	Jul P		54.8		54.9	7.00	18.00
US	FHFA House Price Index MoM	May		0.3		0.1	12.00	23.00
US	Markit US Manufacturing PMI	Jul P		55.1		55.4	12.45	23.45
US	Markit US Services PMI/Composite PMI	Jul P		56.5/		56.5/56.2	12.45	23.45
US	Richmond Fed Manuf. Index	Jul		18		20	13.00	0.00
<b>Wednesday, 25 July 2018</b>								
<b>Trump meets European Commission President Juncker and EU Trade Chief Malmstrom</b>								
NZ	Trade Balance NZD	Jun	129	200		294	21.45	8.45
NZ	Working age population	Q2				3.87	21.45	8.45
AU	CPI QoQ/YoY	2Q	0.5/2.3	0.5/2.2		0.4/1.9	0.30	11.30
AU	CPI Trimmed Mean QoQ/YoY	2Q	0.5/1.9	0.5/1.9		0.5/1.9	0.30	11.30
AU	CPI Weighted Median QoQ/YoY	2Q	0.4/1.8	0.5/1.9		0.5/2	0.30	11.30
AU	NAB Commercial Property Survey	2Q				0.30		11.30
NZ	New Residential Lending YoY	Jun				9.2	2.00	13.00
EC	M3 Money Supply YoY	Jun		4		4	7.00	18.00
GE	IFO Business Climate	Jul		101.5		101.8	7.00	18.00
US	MBA Mortgage Applications	20 July				-2.5	10.00	21.00
US	New Home Sales	Jun		669		689	13.00	0.00
<b>Thursday, 26 July 2018</b>								
WTO meets to discuss US-China trade dispute							26 to 27 July	
AU	Export Price Index QoQ/Import Price Index QoQ	2Q		-1.3/1.9		4.9/2.1	0.30	11.30
AU	NAB SME Business Survey	2Q				10.7	0.30	11.30
GE	GfK Consumer Confidence	Aug		10.7		10.7	5.00	16.00
EC	ECB Deposit Facility Rate	26 July	-0.4	-0.4		-0.4	10.45	21.45
EC	ECB Main Refinancing Rate/Marginal Lending Facility	26 July		0/0.25		0/0.25	10.45	21.45
US	Wholesale Inventories MoM	Jun P		0.5		0.6	11.30	22.30
US	Initial Jobless Claims	21 July		215		207	11.30	22.30
US	Durable Goods Orders	Jun P		3		-0.4	11.30	22.30
US	Cap Goods Orders Nondef Ex Air	Jun P		0.5		0.3	11.30	22.30
<b>Friday, 27 July 2018</b>								
GE	Retail Sales MoM/YoY	Jun		1/1.7		-2.1/-1.6	27 July to 3 August	
UK	Nationwide House PX MoM/YoY	Jul		0.1/1.8		0.5/2	27 July to 3 August	
NZ	ANZ Consumer Confidence Index	Jul				120	21.00	8.00
JN	Tokyo CPI YoY	Jul		0.7		0.6	22.30	9.30
AU	PPI QoQ/YoY	2Q		/		0.5/1.7	0.30	11.30
US	GDP Annualized QoQ	2Q A		4.3		2	11.30	22.30
US	Core PCE QoQ	2Q A		2.2		2.3	11.30	22.30
US	U. of Mich. Sentiment/Expectations	Jul F		97.1/		97.1/86.4	13.00	0.00
<b>Upcoming Central Bank Interest Rate Announcements</b>								
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%		
UK, BOE		2-Aug	0.75%	0.75%		0.5%		
Australia, RBA		7-Aug	1.5%	1.5%		1.5%		
New Zealand, RBNZ		9-Aug	1.75%	1.75%		1.75%		
Canada, BoC		5-Sep	1.5%	1.5%		1.5%		

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

# FORECASTS

		Annual % change				Quarterly % change											
		2016	2017	2018	2019	2016			2017			2018			2019		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Australia Forecasts</b>																	
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
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
% 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
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

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

Exchange Rate Forecasts						
	23-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
<b>Majors</b>						
AUD/USD	0.7431	0.73	0.75	0.75	0.75	0.75
NZD/USD	0.6819	0.69	0.70	0.70	0.71	0.71
USD/JPY	110.96	109.0	110.0	108.0	106.0	104.0
EUR/USD	1.1746	1.15	1.18	1.22	1.22	1.25
GBP/USD	1.3148	1.32	1.38	1.45	1.47	1.53
USD/CHF	0.9906	1.02	1.00	0.98	0.98	0.97
USD/CAD	1.3117	1.32	1.28	1.26	1.25	1.25
USD/CNY	6.7697	6.50	6.40	6.30	6.23	6.23

Australian Cross Rates						
	23-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
AUD/NZD	1.0897	1.06	1.07	1.07	1.06	1.06
AUD/JPY	82.5	80	83	81	80	78
AUD/EUR	0.6326	0.63	0.64	0.61	0.61	0.60
AUD/GBP	0.5652	0.55	0.54	0.52	0.51	0.49
AUD/CNY	5.0306	4.75	4.80	4.73	4.67	4.67
AUD/CAD	0.9747	0.96	0.96	0.95	0.94	0.94
AUD/CHF	0.7361	0.74	0.75	0.74	0.74	0.73

Interest Rate Forecasts						
	23-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
<b>Australia Rates</b>						
RBA Cash rate	1.50	1.50	1.50	1.50	1.75	1.75
3 month bill rate	1.99	1.95	1.95	1.95	2.15	2.15
3 Year Swap Rate	2.21	2.15	2.35	2.50	2.80	3.00
10 Year Swap Rate	2.86	2.95	3.20	3.30	3.60	3.70
<b>Offshore Policy Rates</b>						
US Fed funds	2.00	2.25	2.50	2.75	3.00	3.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.20
BoE repo rate	0.50	0.50	0.75	0.75	1.00	1.00
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	2.25
China 1yr lending rate	4.35	4.35	4.35	4.35	4.35	4.35
China Reserve Ratio	15.5	16.0	16.0	16.0	16.0	16.0
<b>10-year Benchmark Bond Yields</b>						
Australia	2.66	2.80	3.00	3.05	3.30	3.40
United States	2.89	3.10	3.25	3.25	3.50	3.50
New Zealand	2.83	2.95	3.10	3.20	3.45	3.60

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP							
Dec year	2015	2016	2017	2018	2019	2020	20 Yr Avg
Australia	2.5	2.6	2.2	2.9	2.9	2.6	3.4
US	2.9	1.5	2.3	2.8	2.3	1.7	2.6
Eurozone	2.1	1.8	2.6	2.1	2.0	1.8	1.5
UK	2.3	1.9	1.8	1.5	1.7	1.6	2.4
Japan	1.4	0.9	1.7	0.9	1.0	0.7	0.8
China	6.9	6.7	6.9	6.5	6.3	6.0	9.2
India	8.2	7.1	6.7	6.8	7.2	6.9	6.6
New Zealand	3.5	4.0	2.8	2.9	2.9	2.7	3.0
World	3.5	3.2	3.8	3.8	3.7	3.5	3.5
MTP Top 5	4.1	3.7	4.2	3.9	3.7	3.1	5.0

Commodity prices (\$US)							
	23-Jul	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	68.2	67	66	65	66	67	68
Gold	1235	1273	1314	1340	1363	1366	1379
Iron ore	65.1	63	61	60	58	60	62
Hard coking coal	183	130	110	101	99	100	100
Thermal coal	118	90	90	90	65	65	65
Copper	6138	6630	6630	6630	6630	6630	6630
Aust LNG (*)	13.5	11.5	11.8	11.7	11.3	11.7	11.8

(\*) Implied Australian LNG export prices.

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