

AUSTRALIAN MARKETS WEEKLY

AUD still in tariff and EM cross hairs



In this issue

AUD still in tariff and EM cross hairs	2
Calendar of economic releases	3
Forecasts	4

- The AUD opens the week at 0.7150, having tested below 0.71 in the first half of last week, but rallied later in the week on short covering of AUD positions, a move triggered as the USD receded as the US CPI undershot expectations. A renewed focus on US-China trade and tariffs over the weekend however has stymied this nascent recovery in the AUD.
- In this Weekly, we set out our latest thoughts on the Australian dollar. Our views on the Australian dollar and other currencies are updated each fortnight in NAB's *Global FX Strategist* (targeted for sophisticated investors), with the latest version out today, and monthly in our *Corporate FX Monthly*, for less sophisticated currency exposure managers. To receive either publication please [Ask the FX Strategists](#).
- AUD/USD's bounce from sub-0.71 comes in conjunction with a small-scale recovery in Emerging Markets. Positioning suggests scope for a bigger recovery, but downside risks from trade concerns/EM remain significant. We maintain our end-2018 and 2019 forecasts near 0.75, but a 0.70-0.75 range is looking more likely than 0.75+.
- It's a quieter week ahead for key data here and offshore, the focus more likely on geopolitics, notably US-China tariffs, emerging market strains and Brexit news.
- The market is now waiting to hear an announcement from the White House of tariffs on an additional \$200b of Chinese imports, weekend press tipping an announcement Monday or Tuesday. As the proposed 10% tariff is lower than the earlier-mooted 25% rate, to an extent this is supportive for risk sentiment.
- As a dampener to the mooted lower tariff rate, the press is reporting that moves by US Treasury Secretary Steve Mnuchin to invite his Chinese counterpart Liu He to attend fresh trade talks in Washington appear to have fallen on deaf ears.
- Whether the market can gain any more insight from tomorrow's RBA Board Minutes for September into the thinking and risks around the expected gradual progress toward a return of inflation into the target range remains to be seen. It's unlikely, the RBA Governor having already given great insight into the Board's discussion at his remarks to the post-Board dinner in Perth.
- Chris Kent, RBA Assistant Governor (Financial Markets) is speaking on "Money Creation" on Wednesday. After the glut of economic reports, there's a dearth of local data this week, with only the Statistician's June quarter House Prices report published. This is no longer focused on by the market with CoreLogic having already released house prices for August.
- Offshore, NZ's GDP on Thursday is expected to be reasonable at 0.6% q/q, if lower than consensus. The Bank of Japan meet, likely continuing its emphasis on very accommodative monetary policy, while the South and North Korean leaders are set to meet Tuesday. There are some key EU meetings on Brexit this week.

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

[Ask the Economists](#)

[Ask the FX Strategists](#)

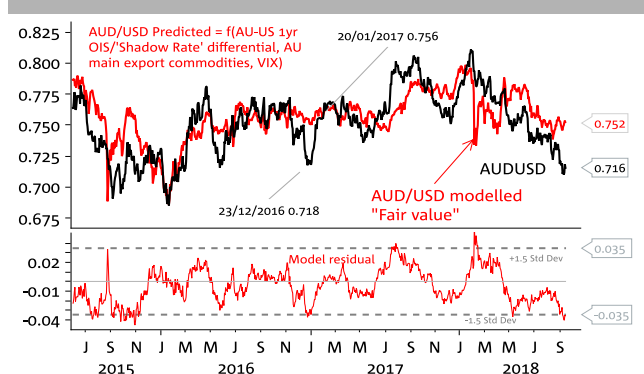
[Ask the Interest Rate Strategists](#)

Key markets over the past week

	Last	% chg week		Last	bp / % chg week
AUD	0.7159	0.5	RBA cash	1.50	0
AUD/CNY	4.92	0.7	3y swap	2.10	3
AUD/JPY	80.2	1.3	ASX 200	6,179	0.7
AUD/EUR	0.615	0.0	Iron ore	68.5	0.6
AUD/NZD	1.092	0.2	WTI oil	68.9	2.0

Source: Bloomberg

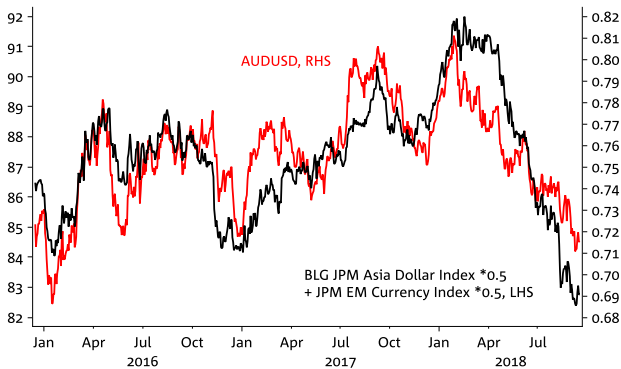
Chart 1: AUD well below NAB's fair value



AUD still buffeted by tariffs and EM news

AUD volatility has continued to be driven for the most part by price action in US-China tariff/trade news and Emerging Market (EM) tensions. The recovery from sub-0.71 to (briefly) above 0.72 in the past week has therefore come in conjunction with the small-scale recovery in emerging markets, initially on the back of news of the US invitation for fresh Sino-US trade talks and subsequently the likes of Turkey's out-sized policy rate rise (Chart 1).

Chart 1 AUD recovers due small EM bounce

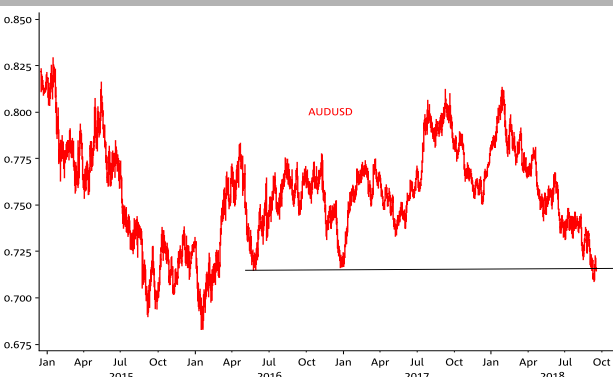


Source: National Australia Bank, Macrobond

Domestic news hasn't been a strong influence of late, though the better than expected Q2 GDP outcome (0.9% q/q) and August employment numbers (+44k) certainly haven't done any harm. Intra-day at least, these data prints saw gains of about 40 and 20 points respectively.

Support from external sources and related USD slippage couldn't have been timelier, coming not long after AUD/USD had broken clean below the 0.7140-60 lows from May and December 2016 and which appeared to open up serious risk of an early test of the August 2015 and January 2016 lows below 0.69 (see Chart 2).

Chart 2: AUD back from break of mid-late 2016 lows



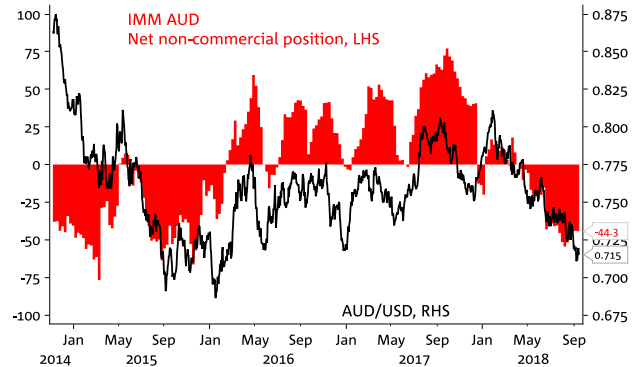
Source: National Australia Bank, Macrobond

Scope for additional (short-covering) gains

In the absence of an immediate fresh lurch lower in EM risk markets, we see scope for a larger short covering correction higher in AUD/USD, although AUD is likely to remain a 'sell on rallies' currency. Speculative positioning, judging from latest IMM/CFTC data as of last Tuesday, is sufficiently short – albeit not extreme - such that it may need no more than an absence of explicit bad news, from EM or elsewhere, to elicit a larger short squeeze.

Our long-standing end-September 2018 forecast of 0.73 (now close to being history and rolled off the Forecast table) looked forlorn a week ago but seems much less so today. And while our end-2018 pick of 0.7500 looks ambitious, we are not rushing to revise it lower. Four months is after all a very long time in FX markets! The same goes for our longer term forecasts.

Chart 3: AUD speculative positioning quite short

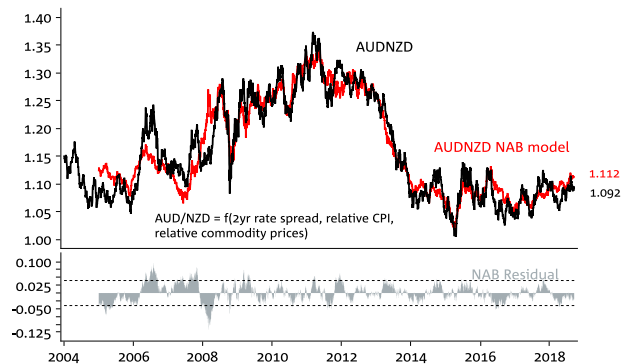


Source: National Australia Bank, Macrobond

Our 0.75 'flat-line' profile for 2019 disguises expectations for a fair amount of volatility. In truth, we're more comfortable in thinking of the currency as now more firmly ensconced inside a 0.70-0.75 range. This is in the context of: 1) EM pressures which are not going to disappear even if President Trump does no more than impose tariffs on an additional \$200bn of Chinese goods at 10% (as per latest 'source' stories), not the previously threatened 25%); and 2) Potential additional USD strength from the ongoing rising US interest rate environment amid very strong incoming economic data. Hence 0.75 is for now seen more as a probable 'best case' range top.

We'll see how trade issues develop in coming weeks before making a call on possible revisions to end 2018 and 2019 forecasts.

Chart 4: NAB's AUD/NZD fair value model



Source: National Australia Bank, Macrobond

AUD crosses can also improve

Alongside scope for the AUD/USD to squeeze higher, several AUD crosses also have scope to rally, albeit within established ranges. This includes AUD/JPY (the *Global FX Strategist* spells out more views on the JPY leg of this cross rate) and the AUD/NZD where our short term model has fair value currently pegged a bit above 1.10 (see Chart 4).

Ray.Attrill@nab.com.au

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 17 September 2018								
NZ	Westpac Consumer Confidence	3Q				108.6	17 to 21 Sep	
NZ	Performance Services Index	Aug				55.1	21.30	8.30
EC	CPI Core YoY	Aug F		1		1	8.00	19.00
EC	CPI MoM / YoY	Aug		0.2/2		-0.3/2.1	8.00	19.00
US	Empire Manufacturing	Sep		23		25.6	11.30	22.30
Tuesday, 18 September 2018								
AU	House Price Index QoQ / YoY	2Q		-0.7/-0.7		-0.7/2	0.30	11.30
AU	RBA Sept. Meeting Minutes						0.30	11.30
NZ	Non Resident Bond Holdings	Aug				58.7	2.00	13.00
CA	Manufacturing Sales MoM	Jul		0.6		1.1	11.30	22.30
Wednesday, 19 September 2018								
NZ	Dairy Auction Avg. Winning Price MT	18 Sep	~-2%			-0.7%	early am	
US	Total Net TIC Flows	Jul				114.5	19.00	6.00
NZ	WMM Consumer Confidence	Q3				108.6	20.00	7.00
NZ	BoP Current Account Balance, annual % of GDP	2Q	-2.7	-2.9		-2.8	21.45	8.45
JN	Trade Balance	Aug		-483.2		-231.211	22.50	9.50
AU	Westpac Leading Index MoM	Aug				0.01	23.30	10.30
AU	RBA's Kent Speech in Sydney						0.30	11.30
JN	BOJ Policy Balance Rate	19 Sep				-0.1	19 Sep	
UK	CPI MoM / YoY	Aug		0.5/2.4		0/2.5	7.30	18.30
UK	CPI Core YoY	Aug		1.8		1.9	7.30	18.30
UK	PPI Output NSA MoM / YoY	Aug		0.2/2.9		0/3.1	7.30	18.30
US	MBA Mortgage Applications	41883				-1.8	10.00	21.00
US	Housing Starts / Building Permits	Aug		1235/1310		1168/1311	11.30	22.30
EC	ECB's Draghi speaks in Berlin						12.00	23.00
Thursday, 20 September 2018								
NZ	GDP SA QoQ / YoY	2Q	0.6/2.4	0.8/2.5		0.5/2.7	21.45	8.45
UK	Retail Sales Inc Auto Fuel MoM / YoY	Aug		-0.2/2.3		0.7/3.5	7.30	18.30
US	Philadelphia Fed Business Outlook	Sep		15.75		11.9	11.30	22.30
US	Initial Jobless Claims	15 Sep		210		204	11.30	22.30
US	Leading Index	Aug		0.5		0.6	13.00	0.00
EC	Consumer Confidence	Sep A		-2		-1.9	13.00	0.00
Friday, 21 September 2018								
NZ	Net Migration SA	Aug				4720	21.45	8.45
JN	Natl CPI YoY	Aug		1.1		0.9	22.30	9.30
JN	Natl CPI Ex Fresh Food YoY	Aug		0.9		0.8	22.30	9.30
JN	Nikkei Japan PMI Mfg	Sep P				52.5	23.30	10.30
NZ	Credit Card Spending YoY	Aug				3.2	2.00	13.00
JN	All Industry Activity Index MoM	Jul		0.1		-0.8	3.30	14.30
GE	Markit/BME Germany Manufacturing PMI	Sep P		55.7		55.9	6.30	17.30
EC	Markit Eurozone Manufacturing PMI	Sep P		54.5		54.6	7.00	18.00
UK	Public Sector Net Borrowing Ex Banking Groups	Aug		3.3		-2	7.30	18.30
CA	Retail Sales MoM / Ex Auto MoM	Jul		0.4/0.6		-0.2/-0.1	11.30	22.30
CA	CPI NSA MoM / YoY	Aug		-0.2/2.8		0.5/3	11.30	22.30
CA	CPI Core- Common YoY%	Aug		1.9		1.9	11.30	22.30
CA	CPI Core- Median YoY%	Aug				2	11.30	22.30
CA	CPI Core- Trim YoY%	Aug				2.1	11.30	22.30
US	Markit US Manufacturing PMI	Sep P		55		54.7	12.45	23.45
US	Markit US Services PMI	Sep P		55		54.8	12.45	23.45
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		19-Sep	-0.1%	-0.1%		-0.1%		
US, Federal Reserve		26-Sep	2-2.25%	2-2.25%		1.75-2%		
New Zealand, RBNZ		27-Sep	1.75%	1.75%		1.75%		
Australia, RBA		2-Oct	1.5%	1.5%		1.5%		
Canada, BoC		24-Oct	1.75%	1.75%		1.5%		
Europe, ECB		25-Oct	-0.4%	-0.4%		-0.4%		
UK, BOE		1-Nov	0.75%	0.75%		0.75%		

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

FORECASTS

		Annual % change				Quarterly % change														
		2017	2018	2019	2020	2017			2018			2019			2020					
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Australia Forecasts																				
Household Consumption	2.7	2.9	2.5	2.5	0.4	0.9	0.6	1.1	0.5	0.7	0.6	0.5	0.6	0.7	0.7	0.6	0.6	0.6	0.7	
Underlying Business Investment	3.3	3.0	5.0	5.8	3.3	0.0	3.8	0.3	0.7	-0.7	1.3	0.1	2.1	1.5	1.8	1.4	1.2	1.7	1.1	1.3
Residential Construction	-2.2	2.7	-5.3	-1.9	-3.3	-0.2	-1.7	0.3	3.6	1.7	-2.6	-0.3	-2.2	-1.9	-0.9	-1.2	-0.3	0.0	0.3	0.6
Underlying Public Spending	4.5	4.6	4.2	4.5	0.9	1.1	1.6	1.1	1.5	0.6	0.9	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Exports	3.5	5.0	4.8	2.5	-1.6	2.3	1.0	-1.5	3.0	1.1	1.7	1.0	1.4	1.3	0.7	0.7	0.5	0.6	0.4	0.7
Imports	7.8	5.0	3.6	4.9	3.0	0.2	2.3	1.7	1.7	0.4	0.5	0.7	0.9	1.1	1.3	1.2	1.1	1.3	1.2	1.4
Net Exports (a)	-1.0	-0.1	0.1	-0.6	-1.0	0.4	-0.3	-0.7	0.2	0.1	0.2	0.0	0.1	0.0	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2
Inventories (a)	-0.1	0.1	-0.1	0.0	0.5	-0.9	0.4	0.0	0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%					0.7	0.8	1.0	0.9	1.0	0.6	0.5	0.6	0.7	0.7	0.8	0.7	0.7	0.8	0.7	0.9
Dom Demand - ann %	3.0	3.2	2.6	3.0	2.3	2.6	3.6	3.4	3.7	3.4	3.0	2.6	2.3	2.4	2.7	2.9	2.9	3.0	3.0	3.1
Real GDP - qtr %					0.4	0.7	0.7	0.7	1.1	0.9	0.6	0.6	0.7	0.7	0.7	0.6	0.5	0.7	0.6	0.7
Real GDP - ann %	2.2	3.3	2.7	2.5	1.9	1.9	2.7	2.4	3.2	3.4	3.3	3.2	2.7	2.6	2.7	2.7	2.5	2.5	2.3	2.5
CPI headline - qtr %					0.5	0.2	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.4	0.6	0.7	0.6	0.6	0.8	0.9
CPI headline - ann %	1.9	2.0	2.0	2.6	2.1	1.9	1.8	1.9	1.9	2.1	2.0	1.9	1.9	1.9	1.9	2.1	2.2	2.5	2.7	2.9
CPI underlying - qtr %					0.4	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.7	0.7
CPI underlying - ann %	1.8	1.9	2.0	2.4	1.7	1.8	1.9	1.9	2.0	1.9	1.9	1.9	1.9	1.9	2.0	2.1	2.2	2.3	2.5	2.7
Wages (Pvte WPI - qtr %)					0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Wages (Pvte WPI - ann %)	1.8	2.1	2.5	2.7	1.8	1.8	1.9	1.9	1.9	2.0	2.1	2.2	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.8
Unemployment Rate (%)	5.6	5.4	5.1	4.9	5.9	5.6	5.4	5.4	5.5	5.5	5.3	5.3	5.2	5.0	5.0	5.0	4.9	4.8	4.8	4.9
Terms of trade	12.2	-0.7	-0.7	0.0	5.2	-5.7	-0.1	-0.1	3.6	-1.3	-1.7	-3.4	-0.8	-1.2	-0.9	0.3	-0.4	0.3	-0.4	0.2
Annual % change (hide)					24.8	14.8	10.2	-1.1												
G&S trade balance, \$Abn	10.0	7.4	-12.7	-27.5	6.8	2.9	1.6	-1.4	3.3	2.8	2.3	-1.1	-1.4	-2.5	-4.2	-4.5	-5.6	-6.1	-7.5	-8.2
% of GDP	0.6	0.4	-0.6	-1.3	1.5	0.7	0.4	-0.3	0.7	0.6	0.5	-0.2	-0.3	-0.5	-0.9	-0.9	-1.1	-1.2	-1.5	-1.6
Current Account (% GDP)	-2.6	-3.0	-4.1	-4.8	-1.6	-2.5	-2.8	-3.6	-2.5	-2.9	-3.0	-3.7	-3.7	-4.0	-4.3	-4.3	-4.6	-4.6	-4.9	-5.0

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

Exchange Rate Forecasts

	17-Sep	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Majors						
AUD/USD	0.7159	0.75	0.75	0.75	0.75	0.75
NZD/USD	0.6556	0.68	0.68	0.69	0.69	0.69
USD/JPY	111.99	110	108	106	104	102
EUR/USD	1.1634	1.18	1.22	1.22	1.25	1.30
GBP/USD	1.3081	1.26	1.28	1.30	1.34	1.40
USD/CHF	0.9674	0.96	0.94	0.95	0.94	0.91
USD/CAD	1.3032	1.26	1.26	1.25	1.25	1.24
USD/CNY	6.8688	6.75	6.70	6.65	6.50	6.45

Australian Cross Rates						
	17-Sep	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
AUD/NZD	1.0920	1.10	1.10	1.09	1.09	1.09
AUD/JPY	80.2	83	81	80	78	77
AUD/EUR	0.6154	0.64	0.61	0.61	0.60	0.58
AUD/GBP	0.5473	0.60	0.59	0.58	0.56	0.54
AUD/CNY	4.9174	5.06	5.03	4.99	4.88	4.84
AUD/CAD	0.9330	0.95	0.95	0.94	0.94	0.93
AUD/CHF	0.6926	0.72	0.71	0.71	0.71	0.68

Interest Rate Forecasts

	17-Sep	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Australia Rates						
RBA Cash rate	1.50	1.50	1.50	1.75	1.75	2.00
3 month bill rate	1.92	1.95	1.95	2.15	2.15	2.40
3 Year Swap Rate	2.10	2.35	2.50	2.80	3.00	3.20
10 Year Swap Rate	2.80	3.20	3.30	3.60	3.70	3.80
Offshore Policy Rates						
US Fed funds	2.00	2.50	2.75	3.00	3.25	3.25
ECB deposit rate	-0.40	-0.40	-0.40	-0.40	-0.20	0.00
BoE repo rate	0.75	0.75	0.75	1.00	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	2.25
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
10-year Benchmark Bond Yields						
Australia	2.62	3.00	3.05	3.30	3.40	3.50
United States	3.00	3.25	3.25	3.50	3.50	3.50
New Zealand	2.58	3.10	3.20	3.45	3.60	3.70

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)

	17-Sep	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19
Brent oil	78.0	72	70	68	67	68
Gold	1195	1305	1327	1331	1344	1368
Iron ore	68.4	60	58	60	62	63
Hard coking coal	203	150	155	145	140	130
Thermal coal	115	93	85	80	75	77
Copper	5951	6825	6875	6950	7050	6900
Aust LNG (*)	14.0	12.3	11.9	11.6	11.4	11.3

(*) 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

FX Strategy

Ray Attrill
Head of FX Strategy
+61 2 9237 1848
ray.attrill@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.