AUSTRALIAN MARKETS WEEKLY

RBA: Inflation-targeting with low unemployment

National Australia Bank

In this issue

- **Australia:** There's little in the way of Australian data this week in the lead-up to the 7 May RBA meeting and 10 May RBA Statement on Monetary Policy forecast update. Both private-sector credit (NAB, mkt: 0.3% m/m) and building approvals (NAB: -23% m/m, mkt: -12% m/m) are due and we expect they will continue to show a housing-related downtrend.
- **International:** The highlights in the week ahead will be official Chinese PMIs on Tuesday, the US manufacturing ISM and FOMC meeting on Wednesday, and Friday's April payrolls report. The US earnings season is currently under way, with Alphabet of note on Tuesday.

Analysis - RBA: inflation-targeting with low unemployment

- The RBA's central case of further progress in lowering both unemployment and inflation has been challenged by weak GDP growth and now weak underlying inflation, even as unemployment has held around 5%.
- We have pencilled in the RBA cutting rates in July and November, while the RBA recently said lower rates would be appropriate if inflation did not move higher and unemployment trended up. The low inflation results makes next week a close call, but we narrowly favour the RBA holding fire given the relative stability in unemployment.
- If, though, the RBA decided to cut next week, then history would point to a relatively quick follow-up move, most likely in July or August. The timing and likelihood the second move would be shaped by: (1) the behaviour of the unemployment rate; (2) indicators of domestic demand and forward-looking indicators (including those in the NAB Survey); and (3) to a lesser extent the housing outlook

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Ask the Economists

Ask the FX Strategists

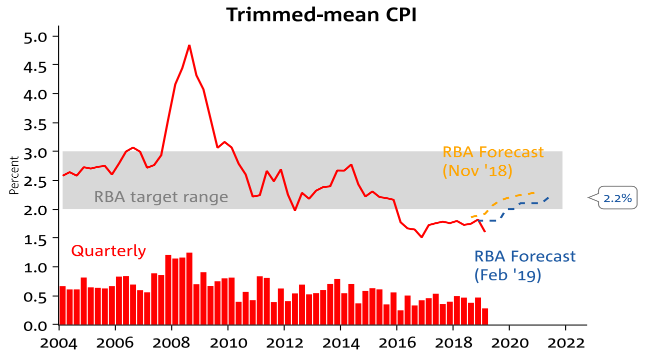
Ask the Interest Rate Strategists

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7055	-1.1	RBA cash	1.50	0
AUD/CNY	4.75	-0.8	3y swap	1.40	-14
AUD/JPY	78.8	-1.4	ASX 200	6,361	1.7
AUD/EUR	0.632	-0.2	Iron ore	92	1.2
AUD/NZD	1.057	-1.0	WTI oil	62.9	-4.1

Source: Bloomberg

Chart of the week: Underlying inflation is low



Source: National Australia Bank, Macrobond

Ivan Colhoun, Chief Economist, Markets and Global Head of Research

RBA: Inflation-targeting with low unemployment

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Recent data have challenged the RBA's optimism

Reading through recent RBA commentary, where we have reprinted extracts in the appendix, the key issues considered by the Board have been:

- A central scenario for the economy that involves making further progress in lowering both unemployment and inflation. In February, the Governor spelled out that this scenario was defined as growth of around 3%, inflation around 2% and unemployment at 5%.
- An alternate scenario in which rate cuts are appropriate. This scenario was outlined in April and involves inflation not moving any higher and a trend increase in unemployment.
- A policy judgment, which was repeated as recently as April, that there was not a strong case for a near-term rate cut given the expectation of making further progress on unemployment and inflation.

Things have turn out differently to the RBA's central scenario and one of the two conditions raised in the rate cut scenario has been met.

- Growth was again below RBA expectations in Q4, which will necessitate a material downgrade to the staff's near-term GDP forecasts. However, the Bank knew this revision was likely at the time of the April Board meeting and did not cut rates.
- The Q1 CPI showed underlying inflation actually moved lower in the quarter as it undershot the RBA's forecast with the smallest increase since the low-point reached in 2015-16 and one of the smallest increases on record.

Importantly, though, unemployment has held at 5%, which is part of the RBA's central scenario and the second condition of rising unemployment in the rate cut scenario has not been met.

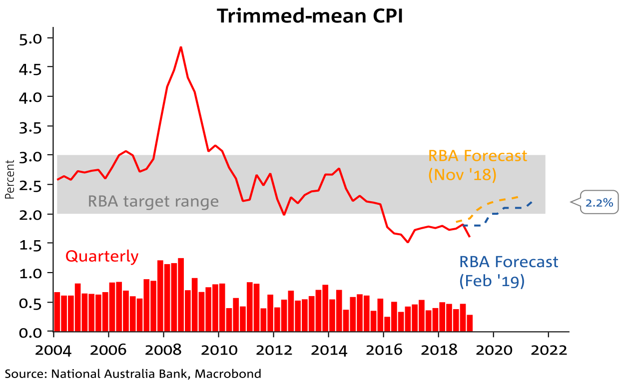
The RBA has been grappling with the inconsistency between weak GDP data and ongoing strength in the labour market that has been reflected in both employment and unemployment. Searching for a cross-check on these conflicting data, the RBA's read of the business surveys and the feedback from its extensive liaison programme support the view of an economy that is growing around trend.

Now, though, the very low result for underlying inflation has landed on the side of weak GDP as it suggests that there is still spare capacity in the economy and that the downturn in housing is having a more pervasive effect on inflation than was anticipated by the RBA.

The weak housing market is spilling over to weak underlying inflation

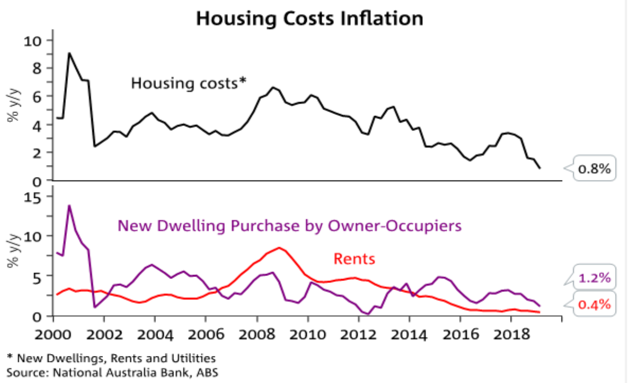
The CPI was important for the RBA because it showed that all measures of underlying inflation were weak, with the RBA's preferred trimmed-mean measure printing at 0.3% q/q and 1.6% y/y. This was below the RBA's 0.5% q/q implicit forecast from the February Statement on Monetary Policy (SoMP), indicating that the Bank's forecast return of core inflation to the lower part of the 2-3% target will be further delayed (see Chart 1).

Chart 1: Underlying inflation has tracked below the RBA's forecast



A key driver of the result is the weaker housing market. This enters the CPI directly via the impact on rents and costs of new homes (excluding land) and indirectly via the impact on prices of consumer goods and services from weaker housing-related spending and the wealth effect from lower house prices.

Chart 2: Weakness in housing has contributed to weaker underlying inflation



Low inflation and low growth translate to large revisions to the RBA's outlook

With growth and inflation both tracking below the RBA's February forecasts, we think there will be substantial downgrades in next week's SoMP, which will be presented to the Board next Tuesday.

On our calculation, the return of inflation to the low end of the target band will be delayed until late 2020 or even the first half of 2021. The latter would mean core inflation had undershot the target for just over four years.

With growth also weaker, the RBA may revise its profile for unemployment. The RBA previously had it edging down to 4.8% by 2021 and we now expect it hold broadly around 5% (our own forecasts show it rising over the forecast horizon).

Table 1: The RBA will downgrade its growth and inflation forecasts in May

	Dec-18		Jun-19		Dec-19		Jun-20		Dec-20		Jun-21	
	Feb	Actual	Feb	May	Feb	May	Feb	May	Feb	May	Feb	May
GDP growth (y/y %)	2.8	2.3	2.4	1.8	3.0	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Unemployment rate (%)	5.0	5.0	5.0	5.0	5.0	5.0	4.9	5.0	4.9	5.0	4.8	5.0
Trimmed mean CPI (y/y %)	1.8	1.6	1.8	1.8	2.0	1.8	2.1	2.0	2.1	2.0	2.2	2.1

(a) Feb '19: RBA technical assumptions: $A at US$0.72, TWI at 62; Brent crude at US$63 per barrel.
Highlighted figures differ to NAB's latest Forward View due to updated forecasts for Q4 2018
Sources: NAB; RBA Statement on Monetary Policy

We see the RBA narrowly keeping rates on hold in May

NAB changed its view on policy a number of months ago, on the basis of forecast slower economic growth ultimately preventing further progress being made lowering unemployment.

We pencilled in two rate cuts, one in July and the second in November, taking the cash rate to 1%. However, the Q1 CPI was also less than we expected and raises a clear risk the RBA moves sooner.

In particular, the low result makes us question whether the low result negates:

1) the RBA's judgment that there is no strong case for a near-term rate cut given the central scenario appears dead in the water; and/or
2) the RBA's second condition of rising unemployment in the rate cut scenario as weak inflation helps resolve the tension between weak GDP and a strong labour market.

If the RBA was strictly targeting inflation, then we would expect a 25 basis point cut in interest rates next week to account for the continued inflation undershoot.

However, the Bank's recent communications complicate the matter, with the rate cut scenario discussed requiring both little progress on inflation and a trend increase in unemployment.

Given that the latter condition has not been met, in what we judge as an extremely close call, we think the RBA will signal that monetary policy remains appropriate for the time being, but warn that further disappointment in inflation and/or an upward trend in unemployment would require a policy response.

Risks around our view

With the market effectively pricing two full interest rate cuts by the end of 2019, the other important questions to consider are:

1) if the RBA does (or does not) cut in May, when might the next rate cut be delivered;
2) how much lower might the interest rate be reduced in Australia?

For the first question, if the RBA holds fire, then it will require a few months of higher trend unemployment to generate a rate cut (or a marked deterioration in the forward indicators of employment).

If, though, the Bank cuts next week, history would point to a follow-up move, most likely in July or August. However, the timing and likelihood of a second cut would be influenced by: (1) the behaviour of the unemployment rate; (2) indicators of domestic demand and forward-looking indicators (including those in the NAB Survey); and (3) to a lesser extent the housing outlook.

As for the second question, NAB's forecast of two interest rate cuts should underpin growth about trend, inflation ticking back toward the inflation target, and the unemployment rate stable around 5%.

Should the outlook unexpectedly deteriorate, something we rate as a low risk at present, the RBA would likely continue to cut interest rates. A weaker outlook would potentially call into play fiscal policy and ultimately non-standard monetary policy could be considered – including possibly measures aimed at further lowering bank lending costs and improving their willingness to lend faster .

ivan.colhoun@nab.com.au

APPENDIX – SELECT RECENT RBA COMMENTARY

(1) Semi-Annual Testimony on Monetary Policy
22 February 2019

- *"… we are still expecting further progress towards our goals. The unemployment rate is forecast to decline further, and inflation is forecast to increase only gradually. If we do make that progress, it remains the case that higher interest rates will be appropriate at some point. It's also possible that the economy is softer than we expect and that progress towards our goals is limited. If there were to be a sustained increase in the unemployment rate and a lack of further progress towards the inflation objective, lower interest rates might be appropriate at some point. …*
- *The central scenario is for growth of 3 per cent, inflation of 2 percent and unemployment of five per cent. …*
- *(in relation to inflation having been below target for an extended period): No, I wouldn't say it's a lower-priority concern. I want to deliver for the Australian community an average inflation rate of two point something, and hopefully close to 2 ½ per cent. I'm confident that we'll do that. But over a fairly long period of time – since we've had the inflation targeting regime – we've delivered an average rate of inflation of 2.4-something. So, we want to do that, but we're realistic enough that it's going to take time. This is kind of what happens in every other country. Inflation's come down and it's taking time to get it back up. Whether I'm more relaxed – whether it's lower or higher – I don't know. But what I have been concerned about is the labour market. And whenever the country is generating jobs and the unemployment rate's coming down, having inflation a bit low is not particularly problematic. It'd be good to see it higher, and we want to see it higher, but the most important thing is that people are getting jobs and their incomes are rising.*

(2) RBA April 2 Board Meeting Minutes

- "Members noted that the sustained low level of interest rates over recent years had been supporting economic activity and had contributed to progress in reducing the unemployment rate and returning inflation towards the midpoint of the target, albeit only gradually. The central scenario was for further gradual progress to be made on both unemployment and inflation. Members observed that a pick-up in growth in household disposable income was an important element of these forecasts. Given this outlook for further progress towards the Bank's goals, members agreed that there was not a strong case for a near-term adjustment in monetary policy. Members recognised that it was not possible to fine-tune outcomes and that holding monetary policy steady would enable the Bank to be a source of stability and confidence." …
- "Members agreed that inflation was likely to remain low for some time. Wages growth had remained low, there continued to be strong competition in the retail sector and governments had been working to ease cost of living pressures, including through their influence on administered prices. In these circumstances, members agreed that the likelihood of a scenario where the cash rate would need to be increased in the near term was low.
- Members also discussed the scenario where inflation did not move any higher and unemployment trended up, noting that a decrease in the cash rate would likely be appropriate in these circumstances. They recognised that the effect on the economy of lower interest rates could be expected to be smaller than in the past, given the high level of household debt and the adjustment that was occurring in housing markets. Nevertheless, a lower level of interest rates could still be expected to support the economy through a depreciation of the exchange rate and by reducing required interest payments on borrowing, freeing up cash for other expenditure.
- Taking account of the further progress expected towards the Bank's goals, members assessed that it was appropriate to hold the cash rate steady. Looking forward, the Board will continue to monitor developments, including how the current tensions between the domestic GDP and labour market data evolve, and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time.

(3) The State of the Economy – Speech by Deputy Governor, Guy Debelle, 10 April 2019

- Taking account of the further progress expected towards the Bank's goals, members assessed that it was appropriate to hold the cash rate steady. Looking forward, the Board will continue to monitor developments, including how the current tensions between the domestic GDP and labour market data evolve, and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time.
- The two lenses on economic growth provided by the labour market and the GDP data are in stark contrast. A third lens, in the form of business surveys, sits in between the two (Graph 11). Business conditions have declined from their high levels of the first half of 2018 but still remain consistent with around trend growth in the economy. This is also the sense I get from the Bank's extensive business liaison program.
- The tension highlighted by these different lenses on economic growth is of crucial importance. Hopefully we will get some resolution of this tension in the coming months with the incoming flow of data.
- How those tensions are resolved will play a critical role in whether we continue to make satisfactory progress in achieving the goals of full employment and the inflation target.

CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 29 April 2019								
EC	M3 Money Supply YoY	Mar		4.2		4.3	8.00	18.00
UK	Bank of England Governor Carney Speaks in London						8.10	18.10
US	PCE Core Deflator MoM / YoY	Mar		0.1/1.7		0.1/1.8	12.30	22.30
US	Dallas Fed Manf. Activity	Apr		10		8.3	14.30	0.30
Tuesday, 30 April 2019								
CH	Non-manufacturing PMI	Apr		54.9		54.8	1.00	11.00
CH	Manufacturing PMI	Apr		50.5		50.5	1.00	11.00
NZ	ANZ Business Confidence	Apr				-38	1.00	11.00
AU	Private Sector Credit MoM / YoY	Mar	0.3/4	0.3/4		0.3/4.2	1.30	11.30
GE	Unemployment Change (000's) / Rate	Apr		-6/4.9		-7/4.9	7.55	17.55
EC	GDP SA QoQ / YoY	1Q A		0.3/1.1		0.2/1.1	9.00	19.00
GE	CPI MoM / YoY	Apr P		0.5/1.5		0.4/1.3	12.00	22.00
CA	GDP MoM / YoY	Feb		0/1.4		0.3/1.6	12.30	22.30
US	MNI Chicago PMI	Apr		59		58.7	13.45	23.45
US	Conf. Board Consumer Confidence	Apr		126.5		124.1	14.00	0.00
Wednesday, 1 May 2019								
NZ	QV House Prices YoY	Apr				2.6	17.00	3.00
AU	AiG Perf of Mfg Index	Apr				51	22.30	8.30
NZ	Unemployment Rate	1Q	4.1	4.3		4.3	22.45	8.45
NZ	Employment Change QoQ / YoY	1Q	0.6	0.5		0.1	22.45	8.45
NZ	Private Labour Cost Index	1Q	2.1	0.8		2	22.45	8.45
AU	CoreLogic House Px MoM	Apr				-0.7	0.00	10.00
JN	Nikkei Japan PMI Mfg	Apr F				49.5	0.30	10.30
AU	Commodity Index SDR YoY	Apr				11	6.30	16.30
UK	Markit UK PMI Manufacturing SA	Apr		53.1		55.1	8.30	18.30
US	ADP Employment Change	Apr		180		129	12.15	22.15
CA	Markit Canada Manufacturing PMI	Apr				50.5	13.30	23.30
US	Markit US Manufacturing PMI	Apr F		52.4		52.4	13.45	23.45
US	ISM Manufacturing	Apr		55		55.3	14.00	0.00
US	Construction Spending MoM	Mar		0.1		1	14.00	0.00
US	FOMC Rate Decision	1 May	2.25/2.5	2.25/2.5		2.25/2.5	18.00	4.00
Thursday, 2 May 2019								
NZ	Building Permits MoM	Mar				1.9	22.45	8.45
CH	Caixin China PMI Mfg	Apr		50.9		50.8	1.45	11.45
GE	Markit/BME Germany Manufacturing PMI	Apr F		44.5		44.5	7.55	17.55
EC	Markit Eurozone Manufacturing PMI	Apr F		47.8		47.8	8.00	18.00
UK	Bank of England Bank Rate	18 Apr	0.75	0.75		0.75	11.00	21.00
UK	Bank of England Inflation Report						11.00	21.00
UK	BOE's Carney speaks at press conference in London						11.30	21.30
US	Durable Goods Orders	Mar F				2.7	14.00	0.00
Friday, 3 May 2019								
AU	AiG Perf of Services Index	Apr				44.8	22.30	8.30
AU	Building Approvals MoM / YoY	Mar	-23/-33	-12/-25.1		19.1/-12.5	1.30	11.30
EC	CPI Core YoY / Estimate YoY	Apr A		1/1.6		0.8/1.4	9.00	19.00
US	Wholesale Inventories MoM	Mar P		0.2		0.2	12.30	22.30
US	Change in Nonfarm Payrolls / Unemployment Rate	Apr		185/3.8		196/3.8	12.30	22.30
US	Average Hourly Earnings MoM / YoY	Apr		0.3/3.3		0.1/3.2	12.30	22.30
US	Markit US Services PMI	Apr F		52.9		52.9	13.45	23.45
US	ISM Non-Manufacturing Index	Apr		57		56.1	14.00	0.00
US	Fed's Evans Speaks at NABE International Forum in Stockholm						14.15	0.15
US	Fed's Clarida Speaks at Hoover Institute Policy Conference						15.30	1.30
US	Fed's Williams Speaks at Hoover Institute Policy Conference						17.45	3.45
US	Fed's Bullard, Daly, Kaplan and Mester Speak at Hoover Event						23.45	9.45
Upcoming Central Bank Interest Rate Announcements								
US, Federal Reserve		1-May	2.25-2.5%	2.25-2.5%		2.25-2.5%		
UK, BOE		2-May	0.75%	0.75%		0.75%		
Australia, RBA		7-May	1.5%	1.5%		1.5%		
New Zealand, RBNZ		8-May	1.75%	1.75%		1.75%		
Canada, BoC		29-May	1.75%	1.75%		1.75%		
Europe, ECB		6-Jun	-0.4%	-0.4%		-0.4%		
Japan, BoJ		20-Jun	-0.1%	-0.1%		-0.1%		

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

FORECASTS

Economic Forecasts

	Annual % change			Quarterly % change															
				2017				2018				2019				2020			
Australia Forecasts	2018	2019	2020	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	2.6	2.2	2.2	0.4	0.7	0.7	1.0	0.4	0.9	0.3	0.4	0.6	0.7	0.5	0.5	0.5	0.6	0.6	0.6
Underlying Business Investment	1.4	1.7	5.2	3.4	0.2	3.9	0.2	0.9	-1.1	-1.8	0.4	0.2	1.6	1.4	1.7	0.9	1.6	0.6	1.3
Residential Construction	4.4	-7.8	-8.1	-4.1	-0.1	-1.4	0.9	3.4	2.2	0.5	-3.4	-2.1	-3.0	-2.9	-2.1	-2.1	-1.8	-1.9	-0.9
Underlying Public Spending	5.1	5.6	4.5	1.3	1.3	1.1	0.7	1.6	0.6	2.5	1.4	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Exports	5.0	2.5	2.3	-2.2	2.9	0.8	-1.4	4.1	1.3	-0.1	-0.7	1.1	1.3	1.0	0.5	0.4	0.5	0.3	0.6
Imports	4.2	1.7	3.5	2.8	0.1	3.2	1.0	1.8	0.6	-1.0	0.1	0.6	1.0	0.8	0.9	0.8	1.0	0.8	1.0
Net Exports (a)	0.2	0.2	-0.2	-1.0	0.6	-0.5	-0.5	0.5	0.1	0.2	-0.2	0.1	0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Inventories (a)	0.0	-0.1	0.0	0.4	-0.7	0.3	0.1	0.1	0.1	-0.3	0.2	0.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Domestic Demand - qtr%				0.7	0.8	0.9	0.8	0.9	0.7	0.5	0.3	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.7
Dom Demand - ann %	3.0	1.9	2.4	2.2	2.5	3.5	3.3	3.4	3.3	2.9	2.5	1.7	1.6	2.0	2.3	2.3	2.3	2.4	2.5
Real GDP - % q/q				**0.4**	**0.8**	**0.6**	**0.6**	**1.1**	**0.8**	**0.3**	**0.2**	**0.6**	**0.8**	**0.6**	**0.5**	**0.5**	**0.6**	**0.5**	**0.6**
Real GDP - % y/y	2.8	2.1	2.2	**2.2**	**2.1**	**2.8**	**2.4**	**3.1**	**3.1**	**2.7**	**2.3**	**1.9**	**1.8**	**2.2**	**2.5**	**2.4**	**2.1**	**2.1**	**2.1**
CPI headline - qtr %				0.5	0.2	0.6	0.6	0.4	0.4	0.4	0.5	0.1	0.5	0.7	0.8	0.5	0.6	0.6	0.7
CPI headline - ann %	1.9	1.7	2.6	2.1	1.9	1.8	1.9	1.9	2.1	1.9	1.8	1.4	1.6	1.8	2.1	2.6	2.6	2.6	2.5
CPI underlying - qtr %				0.5	0.6	0.4	0.4	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.5
CPI underlying - ann %	1.8	1.8	2.3	1.8	1.9	1.9	1.9	1.9	1.8	1.8	1.8	1.6	1.6	1.8	2.0	2.2	2.3	2.4	2.2
Wages (Pvte WPI - qtr %				0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Wages (Pvte WPI - ann %)	2.1	2.5	2.7	1.8	1.8	1.9	1.9	1.9	2.1	2.1	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.7	2.8
Unemployment Rate (%)	5.3	5.0	5.2	5.9	5.6	5.5	5.4	5.5	5.6	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.2	5.2
Terms of trade	1.5	-1.1	-0.3	5.4	-5.9	-0.1	-0.1	3.1	-1.1	0.9	3.1	0.3	-1.2	-2.2	-1.3	-0.4	-0.9	0.4	-0.2
G&S trade balance, $Abn	22.1	29.0	8.9	6.6	3.3	1.0	-1.3	4.1	3.8	5.8	8.4	9.5	8.6	6.4	4.4	3.6	2.0	2.0	1.3
% of GDP	1.2	1.5	0.4	1.5	0.7	0.2	-0.3	0.9	0.8	1.2	1.7	1.9	1.8	1.3	0.9	0.7	0.4	0.4	0.2
Current Account (% GDP)	-2.1	-1.7	-2.7	-1.6	-2.4	-2.8	-3.4	-2.3	-2.5	-2.3	-1.5	-1.3	-1.4	-1.9	-2.3	-2.4	-2.7	-2.7	-2.9

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

Exchange Rate Forecasts

	29-Apr	Jun-19	Sep-19	Dec-19	Mar-20
Majors					
AUD/USD	**0.7055**	0.70	0.73	0.75	0.76
NZD/USD	**0.6677**	0.67	0.69	0.70	0.70
USD/JPY	**111.61**	113	110	108	107
EUR/USD	**1.1156**	1.13	1.14	1.16	1.18
GBP/USD	**1.2935**	1.33	1.35	1.38	1.40
USD/CHF	**1.0192**	0.98	0.99	0.97	0.98
USD/CAD	**1.3454**	1.31	1.27	1.27	1.25
USD/CNY	**6.7301**	6.70	6.68	6.60	6.50
Australian Cross Rates					
AUD/NZD	**1.0566**	1.04	1.06	1.07	1.09
AUD/JPY	**78.7**	79	80	81	81
AUD/EUR	**0.6324**	0.62	0.64	0.65	0.64
AUD/GBP	**0.5454**	0.53	0.54	0.54	0.54
AUD/CNY	**4.7481**	4.69	4.88	4.95	4.94
AUD/CAD	**0.9492**	0.92	0.93	0.95	0.95
AUD/CHF	**0.7190**	0.69	0.72	0.73	0.74

Interest Rate Forecasts

	29-Apr	Jun-19	Sep-19	Dec-19	Mar-20
Australia Rates					
RBA Cash rate	**1.50**	1.50	1.25	1.00	1.00
3 month bill rate	**1.56**	1.80	1.60	1.35	na
3 Year Swap Rate	**1.39**	1.45	1.35	1.35	1.40
10 Year Swap Rate	**2.04**	2.08	2.08	2.08	2.20
Offshore Policy Rates					
US Fed funds	**2.50**	2.50	2.50	2.50	2.50
ECB deposit rate	**-0.40**	-0.40	-0.40	-0.40	-0.20
BoE repo rate	**0.75**	0.75	0.75	1.00	1.00
BoJ excess reserves rate	**-0.10**	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	**1.75**	1.75	1.75	2.00	2.25
China 1yr lending rate	**4.35**	4.35	4.35	4.35	4.35
China Reserve Ratio	**13.5**	12.5	12.0	12.0	12.0
10-year Benchmark Bond Yields					
Australia	**1.79**	2.40	2.50	2.60	2.60
United States	**2.50**	2.80	3.00	3.00	3.00
New Zealand	**1.90**	3.10	3.20	3.30	3.40

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

Dec year	2015	2016	2017	2018	2019	2020	20 Yr Avge
Australia	2.5	2.8	2.4	2.8	2.1	2.2	3.4
US	2.9	1.6	2.2	2.9	2.1	1.8	2.6
Eurozone	2.0	1.9	2.5	1.8	1.2	1.6	1.5
UK	2.3	1.8	1.8	1.4	1.3	1.6	2.4
Japan	1.3	0.6	1.9	0.8	0.5	0.7	0.8
China	6.9	6.7	6.9	6.6	6.3	6.0	9.2
India	8.2	7.1	6.7	7.3	7.1	7.2	6.6
New Zealand	3.5	3.9	3.1	2.8	2.4	2.6	3.0
World	3.5	3.3	3.8	3.7	3.5	3.5	3.5
MTP Top 5	4.1	3.7	4.3	4.0	3.5	3.4	5.0

Commodity prices ($US)

	29-Apr	Jun-19	Sep-19	Dec-19	Dec-20
Brent oil	71.7	68	68	70	75
Gold	1287	1300	1300	1310	1380
Iron ore	91.9	88	79	76	69
Met coal	204	193	178	170	152
Thermal coal	87	1850	1875	1900	1950
Copper	6397	1950	1900	1850	1725
Aust LNG (*)		11.9	11.9	11.9	12.1

(*) Implied Australian LNG export prices.

CONTACT DETAILS

Market Economics

David de Garis
Director, Economics
+61 3 8641 3045
david.degaris@nab.com.au

Kieran Davies
Director, Economics
+61 2 9237 1406
kieran.davies@nab.com.au

Kaixin Owyong
Economist, Markets
+61 2 9237 1980
kaixin.owyong@nab.com.au

Markets Research

Ivan Colhoun
Chief Economist, Markets and Global Head of Research
+61 2 9237 1836
ivan.colhoun@nab.com.au

Group Economics

Alan Oster
Chief Economist
+61 3 8634 2927
alan.oster@nab.com.au