AUSTRALIAN MARKETS WEEKLY

Co-ordinated policy easing from the RBA, govt and APRA

National Australia Bank

In this issue

Analysis – Co-ordinated policy easing from the RBA, government and APRA

- RBA Governor Lowe has signalled lower interest rates will be considered at the June board meeting, also suggesting the bank might cut rates twice given its forecasts are based a 1% cash rate. This supports our view that the RBA will cut in June and August, with the risk of additional stimulus by early 2020. Research suggests that two rate cuts will boost growth by about 0.25-0.4pp over 1-2 years, although lower inflation expectations make this task more difficult for the RBA.
- The RBA will be helped by looming personal income tax cuts and a relaxation of prudential regulations on mortgages. The tax cuts could boost growth by up to 0.3% of GDP allowing for some leakage to imports, although some households may use the funds to pay down debt. The planned abolition of the 7% floor in calculating the serviceability of mortgages enhances the effectiveness of rate cuts and allows some borrowers to take out larger loans, but the governor downplayed its significance given most borrowers do not take the maximum mortgage offered by lenders.
- Along with two rate cuts, this additional support has already been factored into the RBA's forecasts, with the RBA concluding that it will still take until mid 2020 for inflation to finally return to the bottom of the 2-3% target band. This suggests to us that the Reserve Bank may still deliver additional stimulus, particularly when we think the economy will continue to underperform relative to the bank's outlook.

The week ahead - an update on firms' investment plans and more on China-US trade tensions

- Thursday's capital expenditure survey includes on investment in Q1 and firms' revised spending plans for 2018-19 and 2019-20. NAB expects overall capex lifted 1% in Q1 (mkt: 0.5%), with a 1.3% lift in equipment investment, which is the component that feeds into GDP. Firms should revise up their investment plans for 2019-20, but the upgrade may be less than we expected given the turn in business conditions. Building approvals and credit data are likely to point to the ongoing deterioration in the housing market. NAB forecasts approvals fell 5% in April (mkt: flat) with monthly credit growth slowing to 0.2% (mkt: 0.3%).
- Overseas, the China-US trade dispute will continue to dominate, where the working market assumption appears to be that both sides are digging in for a more protracted stand-off. The Chinese PMIs are due on Friday, where the market expects a slight deterioration for both the manufacturing and non-manufacturing series. In the US, core PCE inflation continues to print below the Fed's target at 1.6% y/y and there is little sign of a rebound.

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

Ask the Economists

Ask the FX Strategists

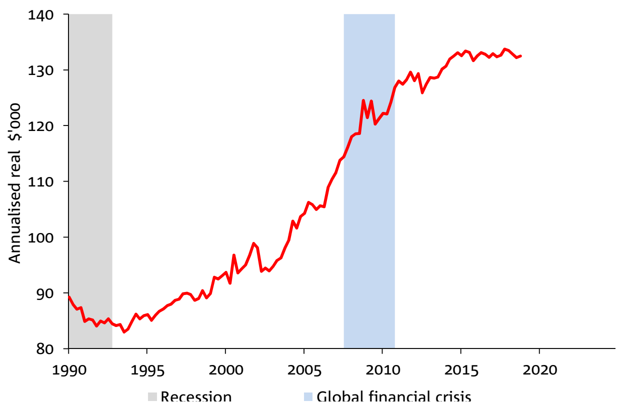
Ask the Interest Rate Strategists

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.6933	0.4	RBA cash	1.50	0
AUD/CNY	4.78	0.0	3y swap	1.22	-12
AUD/JPY	75.9	-0.2	ASX 200	6,451	-0.4
AUD/EUR	0.618	0.0	Iron ore	104	6.9
AUD/NZD	1.058	0.0	WTI oil	58.4	-7.6

Source: Bloomberg

Chart of the week: Real income per h'hold has stalled



Kieran Davies

Co-ordinated policy easing from the RBA, government and APRA

- RBA Governor Lowe has signalled lower interest rates will be considered at the June board meeting, also suggesting the bank might cut rates twice given its forecasts are based a 1% cash rate. This supports our view that the RBA will cut in June and August, with the risk of additional stimulus by early 2020. Research suggests that two rate cuts will boost growth by about 0.25-0.4% over 1-2 years, although lower inflation expectations make this task more difficult for the RBA.
- The RBA will be helped by looming personal income tax cuts and a relaxation of prudential regulations on mortgages. The tax cuts could boost growth by up to 0.3% of GDP allowing for some leakage to imports, although some households may use the funds to pay down debt. The planned abolition of the 7% floor in calculating the serviceability of mortgages enhances the effectiveness of rate cuts and allows some borrowers to take out larger loans, but the governor downplayed its significance given most borrowers do not take the maximum mortgage offered by lenders.
- Along with two rate cuts, this additional support has already been factored into the RBA's forecasts, with the RBA concluding that it will still take until mid 2020 for inflation to finally return to the bottom of the 2-3% target band. This suggests to us that the Reserve Bank may still deliver additional stimulus, particularly when we think the economy will continue to underperform relative to the bank's outlook.

The RBA Governor has signalled lower interest rates

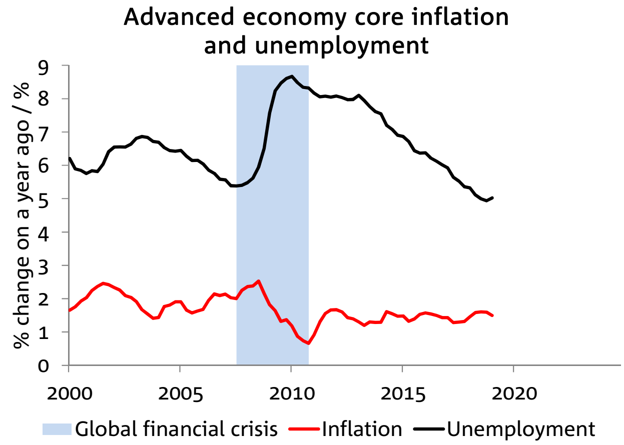
Reserve Bank Governor Lowe has signalled lower interest rates are likely, saying last week that the bank's board would consider the case for lower interest rates at its 4 June meeting.[1] He also suggested that the bank might cut rates twice, noting that the bank's economic forecasts were based on market pricing for the cash rate reaching 1% over the next year.

This marked a considerable shift in the bank's thinking, where as late as December last year the board thought that the next move in rates was likely to be up, albeit not in the near term.[2] Lowe said that the shift in view reflected an accumulation of evidence that the economy had slowed, as well as more confidence that spare capacity was exceeding the bank's earlier estimates.

The extent of spare capacity in the economy and labour market is difficult to quantify because potential output and the NAIRU are unobservable concepts. However, the governor said earlier this year that the bank's estimate of the NAIRU had been revised down from 5% to 4.5%, while the February Statement on Monetary Policy indicated that the bank had reduced its estimate of potential growth from 2.75% to 2.5%.[3]

Judging from his speech, the governor also seemed to draw comfort from international experience, when he noted that "many other advanced economies [had sustained] lower rates of unemployment than previously thought possible without leading to a noticeable uplift in inflation".

Chart 1: The RBA has drawn comfort from the international experience that points to lower NAIRUs in the advanced economies



Note: Unemployment and core inflation are weighted using PPP weights.
Source: Bloomberg, International Monetary Fund, Reserve Bank of Australia, World Bank, National Australia Bank

This is not surprising given the considerable uncertainty surrounding estimates of capacity, which can be revised as more data become available. However, regardless of the exact estimates of the NAIRU and potential growth, falling inflation and rising unemployment both point to *increased* spare capacity, as does falling surveyed capacity utilisation.

NAB expects two rate cuts, with the risk of additional stimulus next year

We read the governor's comments as supporting our view, which is for a 25bp rate cut in June, followed by another cut in August to take the cash rate to 1%, with the risk of additional policy stimulus in early 2020. The timing of the follow-up cut and the decision to deliver additional stimulus in 2020 will hinge on the flow of the data. Fiscal stimulus would also be helpful, although history suggests fiscal policy is implemented with a long lag.

Additional stimulus next year could take the form of either a third rate cut to 0.75% or an alternative policy action, such as adjusting macroprudential standards or quantitative easing. Opting for alternative policy action would depend on the effectiveness of earlier rate cuts, including the impact of a lower cash rate on the functioning of the financial system.

Lower inflation expectations make the RBA's job harder

The case for additional policy stimulus reflects the need for the Reserve Bank to reduce real interest rates in order to support growth and eventually return inflation to the 2-3% target. This task has been made more difficult by lower actual and expected inflation, where low actual inflation can feed back into expected inflation.[4]

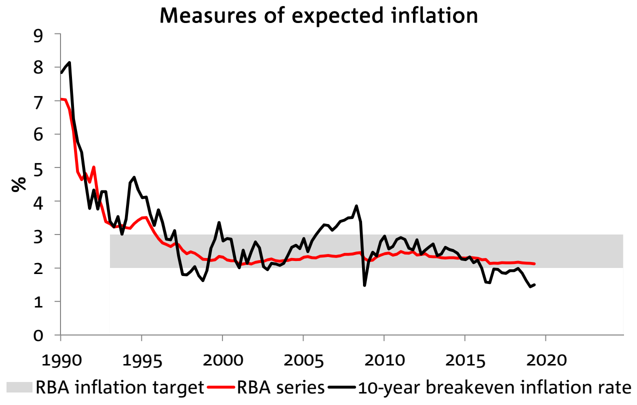
[1] See Reserve Bank Governor Lowe, *The economic outlook and monetary policy*, 21 May 2019.
[2] See Reserve Bank of Australia, *Minutes of the monetary policy meeting of the Reserve Bank Board*, 4 December 2018.
[3] See p. 15, Commonwealth of Australia Official Committee Hansard, House of Representatives Standing Committee on Economics, *Reserve Bank of Australia annual report 2018*, 22 February 2019.

[4] Over the period from 2000 to 2018, the correlation between the various measures of expected inflation and lagged annual headline inflation ranged from 0.5 for both consumer and

In a standard Taylor rule, the Reserve Bank adjusts the nominal cash rate by 1.5 times the change in expected inflation in order to change the real cash rate. The Reserve Bank tracks the inflation expectations of consumers, business, union officials, market economists and financial markets, although historically it has relied on the 10-year bond breakeven inflation rate when modelling inflation. The breakeven inflation rate is currently 1.5%, which is only marginally above the all-time low of 1.4% reached in Q4 2018 and still well below the bank's 2-3% target range.

More recently, the bank has made use of a series constructed by extracting a common signal of long-term expectations from the various survey and market measures after controlling for each measure's co-movement with recent inflation.[5] Our crude updating of this relatively inflexible series suggests it is back to a series low of 2.1%, which compares with the 2.3% level seen the bank was last cutting rates in 2016.

Chart 2: The RBA's task of returning inflation to the 2-3% target band has been made harder by lower expected inflation



Source: Australian Bureau of Statistics, Reserve Bank of Australia, National Australia Bank

Two rate cuts would boost GDP by about 0.25-0.4% over 2019 and 2020

Recent research by bank staff and academics suggests that a 100bp reduction in the cash rate will boost real GDP by 0.5-0.75% over the next 1-2 years. This is slightly less than the 0.8-1% boost estimated in work undertaken in the 1990s and early 2000s, which runs counter to the view that record household debt has enhanced the effectiveness of policy over recent years.

Using this rule-of-thumb, two rate cuts should boost GDP by roughly 0.25-0.4% over the rest of 2019 and 2020, where the Reserve Bank has already factored this into its forecast for growth to recover to 2.7% by mid 2020.

Table 1: The estimated boost to GDP from a 100bp reduction in the cash rate has declined slightly over time

	Peak boost	Duration
1999 - Brischetto and Voss	0.8%	1-3 years
2000 - Beechey, Bharucha, Cagliarini, Gruen & Thompson	0.8%	1-3 years
2005 - Berkelmans	0.8%	1-3 years
2005 - Stone, Wheatley and Wilkinson	1.0%	1-2 years
2009 - Dungey and Pagan	0.25%	1-2 years
2011 - Jaaskela and Nimark	0.4%	1 year
2015 - Rees, Smith and Hall	0.6%	1-2 years
2016 - Rees, Smith and Hall	0.5 to 0.75%	2 years

Source: Berkelmans; Beechey, Bharucha, Cagliarini, Gruen and Thompson; Brischetto and Voss; Dungey and Pagan; Jaaskela and Nimark; Rees, Smith and Hall; Stone, Wheatley and Wilkinson; National Australia Bank

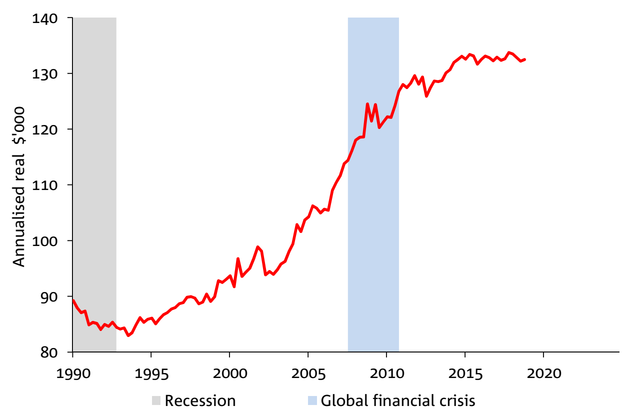
Personal income tax cuts should reinforce easier monetary policy

Assuming the Reserve Bank starts cutting the cash rate in June, there will also be some almost immediate reinforcement from personal income tax cuts in Q3 2019.

The government first announced tax cuts in the 2018-19 Budget and increased them in the 2019-20 Budget. The original tax cuts have been legislated, but the additional cuts may be delayed slightly until the government can secure their passage through the newly-elected parliament.

Although the ratio of income tax to household income is only around its long-term average, the cuts are a welcome boost to households given income per household has stalled in real terms over recent years, remaining broadly unchanged since late 2014.

Chart 3: Income per household has stalled in real terms over recent years



Note: The number of households was sourced from the census and the survey of income and housing. Quarterly estimates were constructed using seasonally adjusted population data as a guide.
Source: Australian Bureau of Statistics, Melbourne Institute, National Australia Bank

On our calculation, the tax cuts should boost real GDP by about 0.3% in 2019-20, where we have allowed for some leakage into imports (note that the larger boost to incomes occurs in 2022-23).

business expectations to 0.8-0.9 for union official, market economist and financial market expectations.

5 See Tom Cusbert, *Estimating the NAIRU and the unemployment gap*, Reserve Bank of Australia Bulletin, June quarter 2017.

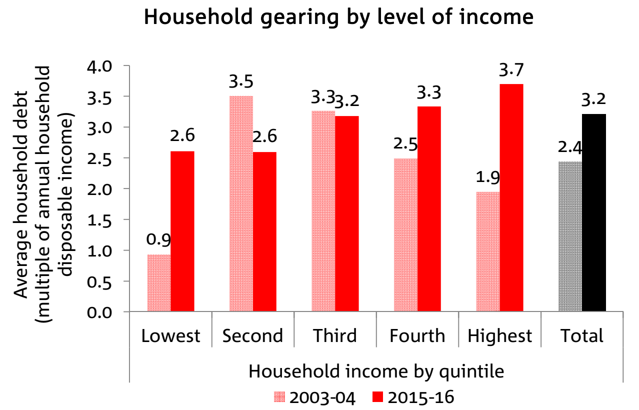
Table 2: Personal income tax cuts will provide a near-term boost to growth

	Tax cuts			Boost to GDP		
	Original $b	Additional $b	Total $b	Original % GDP	Additional % GDP	Total % GDP
2018-19	-0.4	0.0	-0.4	0.0	0.0	0.0
2019-20	-4.1	-3.5	-7.6	0.2	0.2	0.3
2020-21	-4.4	-3.7	-8.1	0.0	0.0	0.0
2021-22	-4.5	-3.8	-8.3	na	na	na
2022-23	-13.4	-8.6	-22.0	na	na	na
2023-24	-11.2	na	na	na	na	na
2024-25	-17.9	na	na	na	na	na
2025-26	-19.6	na	na	na	na	na
2026-27	-21.1	na	na	na	na	na
2027-28	-22.9	na	na	na	na	na
2028-29	-24.6	na	na	na	na	na

Note: The long-term estimates of the original tax cuts were sourced from the Parliamentary Budget Office.
Source: Commonwealth of Australia, Parliamentary Budget Office, National Australia Bank

The cuts in 2019-20 should be mostly spent given they are skewed towards low-income taxpayers that may be cash constrained. That said, some of the cuts could be used to pay down debt given low-income households have increased their gearing.

Chart 4: Low-income households have increased their gearing



Source: Australian Bureau of Statistics, National Australia Bank

APRA has partly relaxed mortgage serviceability calculations, which is also helpful for the RBA

Another development that should help the Reserve Bank at the margin is the plan by Australian Prudential Regulation Authority (APRA) to partly relax the serviceability requirements on residential mortgages.

APRA has written to all deposit-taking institutions about the proposed change.

- Currently, a lender calculates a borrower's ability to service a loan using an interest rate that is the maximum of either: (1) a floor of *at least* 7%; or (2) a buffer of *at least* 2pp above the actual loan interest rate.
- In practice, APRA notes that most lenders rely on the maximum of either: (1) a floor of 7.25%; or (2) a buffer of 2.25pp above the actual loan interest rate.
- In future, APRA plans to scrap the 7% floor and is proposing that a lender calculates the ability to service a loan using a buffer of 2.5pp above the loan interest rate, "ignoring any introductory or honeymoon rates offered at origination of the loan".[6]

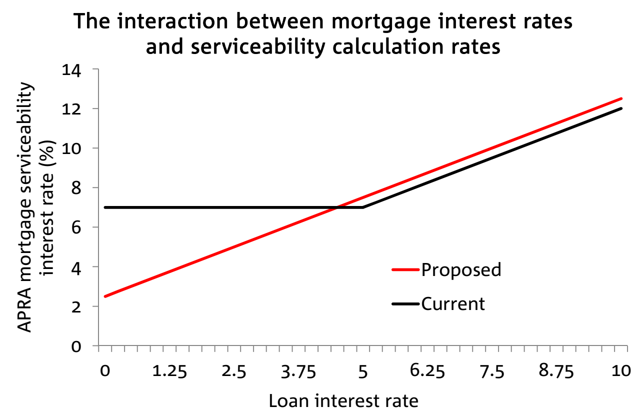
APRA is undertaking a four-week consultation period that closes on 18 June, ahead of releasing updated guidance.

The guidance was introduced in 2014 to "reinforce sound residential lending standards at a time of heightened risk". APRA notes that while "many of those risk factors remain" – namely, "high house prices, low interest rates, high household debt, and subdued income growth" – a review of the guidance was appropriate because "with interest rates at record lows, and likely to remain at historically low levels for some time, the gap between the 7% floor and actual rates paid has become quite wide in some cases – possibly unnecessarily so".[7]

Assuming APRA makes this change in late June, it should increase the borrowing capacity of new borrowers. The change for a borrower will depend on the rate on offer, where the discounted variable mortgage for owner-occupiers is currently 4.68% and the average interest rate paid on principal and interest loans is 4.28% (note that there is a large cluster of borrowers paying around 4%).

Importantly, the change will enhance the effectiveness of the transmission of Reserve Bank rate cuts through the new borrowing channel by removing the floor of at least 7%, as shown in Chart 5.

Chart 5: Scrapping the 7% floor will enhance the effectiveness of RBA rate cuts



Source: Australian Prudential Regulation Authority, National Australia Bank

Interestingly, Governor Lowe, who chairs the Council of Financial Regulators, which oversees macroprudential policy, downplayed this planned change given only 10-15% of households borrow the full amount offered by lenders.[8] Lowe viewed it as "complementary to a monetary easing if that's what takes place", but not a substitute given that lower interest rates have a broader transmission through the economy via the exchange rate and the cash flow of all borrowers.

The RBA has already factored in the support from income tax cuts and APRA

With the Reserve Bank about to embark on an easing cycle, the bank has already factored in the extra support from looming income tax cuts and the partial relaxation of macroprudential policy, concluding that even with two rate cuts it will take until mid 2020 for inflation to finally return to the bottom of the 2-3% target band.

[6] See Chairman Wayne Byers, *Consultation on revisions to prudential practice guide APG 223 residential mortgage lending*, Australian Prudential Regulation Authority, 21 May 2019.

[7] See Australian Prudential Regulation Authority, *APRA proposes amending guidance on mortgage* lending, Media release, 21 May 2019.

[8] See Reserve Bank Governor Lowe, *Transcript of the Q&A session*, 21 May 2019.

This suggests to us that the Reserve Bank may still deliver additional stimulus, particularly when we think the economy will continue to underperform as the downturn in the housing market continues and with the risk that high debt levels restrain consumer spending.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Monday, 27 May 2019								
US, UK - Public Holiday								
JN	Leading Index CI	Mar F				96.3	5.00	15.00
GE	Retail Sales MoM / YoY	Apr		0.1/1.4		-0.2/-2.1	27 May to 3 June	
Tuesday, 28 May 2019								
US	Conf. Board Consumer Confidence	May		130		129.2	14.00	0.00
US	Dallas Fed Manf. Activity	May		5.8		2	14.30	0.30
Wednesday, 29 May 2019								
NZ	RBNZ Publishes Financial Stability Report						21.00	7.00
NZ	RBNZ Governor News Conference on Financial Stability Report						23.00	9.00
JN	BOJ Kuroda speaks in Tokyo						0.00	10.00
NZ	ANZ Business Confidence	May				-37.5	1.00	11.00
NZ	RBNZ Governor at Parliament Select Committee on FSR						1.10	11.10
GE	Unemployment Change (000's)	May		-7.5		-12	7.55	17.55
EC	ECB's Rehn Speaks in London						8.00	18.00
US	MBA Mortgage Applications	24 May				2.4	11.00	21.00
CA	Bank of Canada Rate Decision	29 May	1.75	1.75		1.75	14.00	0.00
US	Richmond Fed Manufact. Index	May		6		3	14.00	0.00
Thursday, 30 May 2019								
NZ	Building Permits MoM	Apr				-6.9	22.45	8.45
AU	Private Capital Expenditure	1Q	1	0.5		2	1.30	11.30
AU	Building Approvals MoM / YoY	Apr	-5/-26.2	0/-22.4		-15.5/-27.3	1.30	11.30
NZ	Finance Minister Delivers Budget						2.00	12.00
US	Wholesale Inventories MoM	Apr P		0.1		-0.1	12.30	22.30
US	GDP Annualized QoQ	1Q S		3.1		3.2	12.30	22.30
US	Core PCE QoQ	1Q S		1.3		1.3	12.30	22.30
US	Initial Jobless Claims	25 May		214		211	12.30	22.30
US	Fed's Clarida Speaks to the Economic Club of New York						16.00	2.00
CA	Speech – Bank of Canada Senior Deputy Governor Wilkins						18.15	4.15
Friday, 31 May 2019								
NZ	Finance Minister Post-Budget Speech						20.00	6.00
NZ	ANZ Consumer Confidence Index	May				123.2	22.00	8.00
JN	Jobless Rate	Apr		2.4		2.5	23.30	9.30
JN	Tokyo CPI YoY / Ex Fresh Food YoY	May		1.2/1.2		1.4/1.3	23.30	9.30
JN	Industrial Production MoM / YoY	Apr P		0.2/-1.5		-0.6/-4.3	23.50	9.50
JN	Retail Sales MoM / YoY	Apr		0.6/0.9		0.2/1	23.50	9.50
CH	Manufacturing PMI	May		49.9		50.1	1.00	11.00
CH	Non-manufacturing PMI	May		54.3		54.3	1.00	11.00
AU	Private Sector Credit MoM / YoY	Apr	0.2/3.8	0.3/3.8		0.3/3.9	1.30	11.30
UK	Mortgage Approvals	Apr		63.5		62.3	8.30	18.30
GE	CPI MoM / YoY	May P		0.3/1.6		1/2	12.00	22.00
CA	Quarterly GDP Annualized	1Q		0.7		0.4	12.30	22.30
CA	GDP MoM / YoY	Mar		0.3/1.2		-0.1/1.1	12.30	22.30
CA	Industrial Product Price MoM	Apr				1.3	12.30	22.30
US	PCE Core Deflator MoM / YoY	Apr		0.2/1.6		0/1.6	12.30	22.30
US	MNI Chicago PMI	May		54		52.6	13.45	23.45
US	U. of Mich. Sentiment / Expectations	May F		101.3/		102.4/96	14.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Canada, BoC		29-May	1.75%	1.75%		1.75%		
Australia, RBA		4-Jun	1.25%	1.5%		1.5%		
Europe, ECB		6-Jun	-0.4%	-0.4%		-0.4%		
US, Federal Reserve		19-Jun	2.25-2.5%	2.25-2.5%		2.25-2.5%		
UK, BOE		20-Jun	0.75%	0.75%		0.75%		
Japan, BoJ		20-Jun	-0.1%	-0.1%		-0.1%		
New Zealand, RBNZ		26-Jun	1.50%	1.5%		1.5%		

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

FORECASTS

Economic Forecasts

	Annual % change			Quarterly % change															
				2018				2019				2020				2021			
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	2.4	0.4	0.9	0.3	0.4	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.5
Underlying Business Investment	1.4	2.2	4.3	0.9	-1.1	-1.8	0.4	1.3	1.3	0.8	1.6	0.5	1.7	0.4	1.5	0.5	1.1	0.6	0.4
Residential Construction	4.4	-7.8	-8.1	3.4	2.2	0.5	-3.4	-2.1	-3.0	-2.9	-2.1	-2.1	-1.8	-1.9	-0.9	-0.2	0.4	0.2	0.8
Underlying Public Spending	5.1	5.6	4.5	1.6	0.6	2.5	1.4	1.4	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Exports	5.0	0.7	2.3	4.1	1.3	-0.1	-0.7	-0.7	1.3	1.0	0.5	0.4	0.4	0.3	0.6	0.5	0.5	0.4	0.6
Imports	4.2	0.7	3.4	1.8	0.6	-1.0	0.1	-0.4	0.9	0.7	1.0	0.7	1.0	0.7	0.9	0.9	1.1	0.9	0.9
Net Exports (a)	0.2	0.0	-0.2	0.5	0.1	0.2	-0.2	-0.1	0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Inventories (a)	0.0	-0.1	0.0	0.1	0.1	-0.3	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1
Domestic Demand - qtr%				0.9	0.7	0.5	0.3	0.6	0.6	0.5	0.7	0.5	0.7	0.5	0.7	0.6	0.8	0.7	0.7
Dom Demand - ann %	3.0	1.9	2.4	3.4	3.3	2.9	2.5	1.7	1.6	2.0	2.4	2.3	2.4	2.4	2.4	2.5	2.6	2.8	2.8
Real GDP - % q/q				**1.1**	**0.8**	**0.3**	**0.2**	**0.5**	**0.8**	**0.5**	**0.6**	**0.4**	**0.6**	**0.4**	**0.6**	**0.5**	**0.7**	**0.6**	**0.5**
Real GDP - % y/y	2.8	2.1	2.2	**3.1**	**3.1**	**2.7**	**2.3**	**1.9**	**1.8**	**2.2**	**2.5**	**2.4**	**2.2**	**2.1**	**2.1**	**2.2**	**2.3**	**2.4**	**2.3**
CPI headline - qtr %				0.4	0.4	0.4	0.5	0.0	0.4	0.5	0.6	0.4	0.4	0.5	0.7	0.5	0.5	0.6	0.8
CPI headline - ann %	1.9	1.4	1.9	1.9	2.1	1.9	1.8	1.4	1.4	1.4	1.5	1.9	1.9	1.9	2.0	2.2	2.3	2.4	2.4
CPI underlying - qtr %				0.5	0.5	0.4	0.4	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.5
CPI underlying - ann %	1.8	1.3	1.6	1.9	1.8	1.8	1.8	1.4	1.3	1.3	1.3	1.5	1.5	1.6	1.8	1.9	2.0	2.1	2.1
Wages (Pvte WPI - qtr %				0.5	0.6	0.5	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Wages (Pvte WPI - ann %)	2.1	2.5	2.7	1.9	2.1	2.1	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.8	2.8	2.8	2.8
Unemployment Rate (%)	5.3	5.0	5.2	5.5	5.6	5.1	5.0	5.0	5.0	5.0	5.0	5.1	5.1	5.2	5.2	5.2	5.3	5.3	5.3
Terms of trade	1.5	0.0	-0.3	3.1	-1.1	0.9	3.1	4.8	-1.2	-2.2	-1.3	-0.4	-0.9	0.4	-0.2	-0.2	-0.8	-0.8	-0.5
G&S trade balance, $Abn	22.1	45.1	25.2	4.1	3.8	5.8	8.4	13.5	12.8	10.5	8.4	7.6	6.0	6.1	5.5	4.9	3.4	2.0	1.3
% of GDP	1.2	2.3	1.2	0.9	0.8	1.2	1.7	2.7	2.6	2.1	1.7	1.5	1.2	1.2	1.1	0.9	0.6	0.4	0.2
Current Account (% GDP)	-2.1	-0.9	-1.9	-2.3	-2.5	-2.3	-1.5	-0.4	-0.6	-1.0	-1.5	-1.6	-1.9	-1.9	-2.0	-2.1	-2.4	-2.6	-2.8

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

Exchange Rate Forecasts

	27-May	Jun-19	Sep-19	Dec-19	Mar-20
Majors					
AUD/USD	**0.6932**	0.70	0.73	0.75	0.76
NZD/USD	**0.6555**	0.67	0.69	0.70	0.70
USD/JPY	**109.47**	113	110	108	107
EUR/USD	**1.1212**	1.13	1.14	1.16	1.18
GBP/USD	**1.2736**	1.33	1.35	1.38	1.40
USD/CHF	**1.0027**	0.98	0.99	0.97	0.98
USD/CAD	**1.3441**	1.33	1.33	1.27	1.25
USD/CNY	**6.8938**	6.85	6.68	6.60	6.50
Australian Cross Rates					
AUD/NZD	**1.0575**	1.04	1.06	1.07	1.09
AUD/JPY	**75.9**	79	80	81	81
AUD/EUR	**0.6183**	0.62	0.64	0.65	0.64
AUD/GBP	**0.5443**	0.53	0.54	0.54	0.54
AUD/CNY	**4.7788**	4.80	4.88	4.95	4.94
AUD/CAD	**0.9317**	0.93	0.97	0.95	0.95
AUD/CHF	**0.6951**	0.69	0.72	0.73	0.74

Interest Rate Forecasts

	27-May	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	**1.43**	1.60	1.35	1.20	na
3 Year Swap Rate	**1.22**	1.45	1.35	1.35	1.40
10 Year Swap Rate	**1.80**	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	**1.50**	1.50	1.50	1.25	1.25
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	**1.55**	1.90	1.90	1.90	2.00
United States	**2.32**	2.60	2.70	2.80	2.80
New Zealand	**1.74**	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)

	27-May	Jun-19	Sep-19	Dec-19	Dec-20
Brent oil	68.7	68	68	70	75
Gold	1287	1300	1300	1310	1380
Iron ore	103	88	79	76	69
Met coal	n.a.	193	178	170	152
Thermal coal	n.a.	82	85	90	93
Copper	5932	6250	6400	6300	6225
Aust LNG (*)	n.a.	11.9	11.9	11.9	12.1

(*) Implied Australian LNG export prices.

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