14 September 2020

AUSTRALIAN MARKETS WEEKLY

Loan deferrals are falling as house prices are more resilient than expected

National Australia Bank

In this issue

Loan deferrals are falling, while house prices remain surprisingly resilient

- APRA recently released details on the major banks' home loan deferral scheme. At its peak use in May 11% of all home loans were being deferred. That figure has now fallen back to 9% with some of those customers also restarting repayments. That is an encouraging sign and aligns with the recovery seen in payrolls data with around 50% of the jobs lost in the initial phase of the pandemic having been regained.
- Overall, house prices have been surprisingly resilient with only mild declines seen so far and prices have actually risen in Brisbane, Perth and Adelaide over the past month. Part of the reason is likely due to the loan deferral scheme preventing forced sales (the first phase of the scheme ends on September 30 with an extension to March 31 2021 on a case by case basis), while interest rate cuts and government support packages and access to super have increased household cash flows.
- NAB is still pencilling in house price declines of 10-15% over the coming 12-18 months with Australia's recovery from the pandemic expected to be protracted. GDP is not expected to return to pre-pandemic levels until mid-2023, while unemployment is expected to peak at 10% (currently 7.5%). Notwithstanding, home loan deferrals and extensive fiscal support may continue to see resiliency continue for house prices until later in 2020, when these supports begin to be rolled back.

RBA easing speculation grows, 7 of 11 economists expect an expanded QE program

- The RBA Minutes are set to be watched closely tomorrow after an AFR article today suggested the RBA is contemplating further easing, including an expanded QE program and possibly lowering the cash rate to 10bps from its current 25bps.
- Speculation has been mounting since the September Board Meeting which saw the TFF expanded and an easing bias inserted into the concluding para ("continues to consider how further monetary measures could support the recovery"). A recent Bloomberg survey suggests 7 out of 11 economists are expecting an expanded QE program.

The week ahead

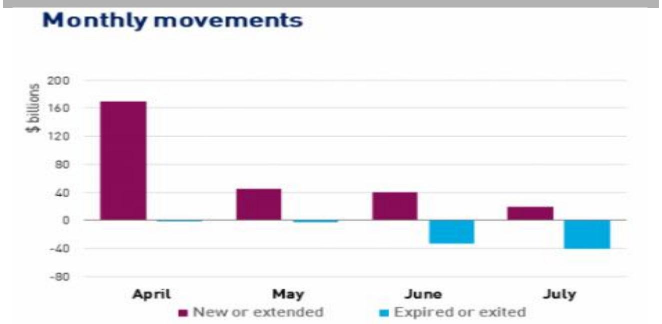
- **Australia:** The RBA Minutes are on Tuesday and will be closely watched to see whether the RBA is indeed contemplating further policy easing (see above). Key employment data on Thursday should show Victoria's lockdown weighing. Weekly payrolls suggest a -40k outcome (also the consensus) and unemployment rate is expected to rise to 7.8%.
- **International:** Across the ditch NZ has Q2 GDP figures on Thursday and the pre-election fiscal update is on Wednesday. **CH:** most focus on the key activity indicators on Tuesday where retail continues to lag the industrial recovery. **EZ/UK:** BoE meets Thursday and while policy is unchanged, could lay some groundwork for further easing. UK-EU trade negotiators also re-convene amid a the current Brexit vacuum. **US:** The FOMC meets with Powell likely to be pushed on what exactly average inflation targeting means.

Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7279	0.0	RBA cash	0.13	0.0
AUD/CNY	4.97	0.0	3y swap	0.16	0.0
AUD/JPY	77.2	-0.3	ASX 200	5889	-0.9
AUD/EUR	0.614	-0.3	Iron ore	124.4	0.6
AUD/NZD	1.087	0.0	Brent oil	40.0	-4.9

Source: Bloomberg

Chart of the week: Housing loan deferrals falling



Michael Bush, Head of Credit Research,

Tapas Strickland, Director, Economics

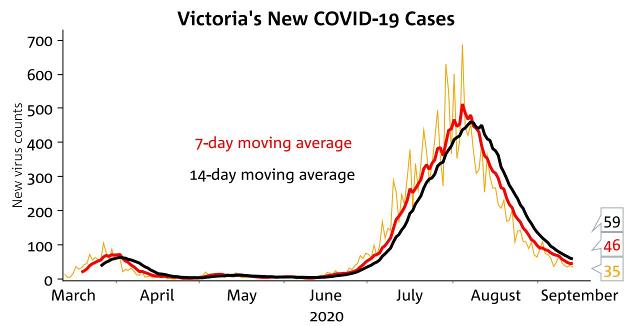
Victorian virus numbers fall to re-opening benchmarks

Victoria is closing in on its first re-opening benchmark of new cases averaging 30-50 over a 14-day period by September 28. There were 35 new virus cases over the past 24 hours, while the 7-day moving average is at 46 and the 14-day moving average is set to fall to below 50 by mid-week according to the state's chief medical officer. Good news. Regional Victoria is currently meeting the second phase roll-back metrics, suggesting a faster rollback outside of Metropolitan Melbourne.

The less encouraging development (from an economic recovery and business perspective) is that the Victorian government has not shifted on its benchmarks for a more comprehensive re-opening of the economy, despite increasing calls from businesses and health professionals about the hurdles being set excessively high. These next reopening steps only occur in Metro Melbourne on October 26 if virus cases average <5 a day over a 14-day period (see link), and importantly an average of 0 cases is required to see restrictions ease back to what they were prior to the latest virus resurgence by November 23.

Not surprisingly business leaders are urging a re-work of the modelling behind the timetable and the virus reopening benchmarks. The 7-day moving average is currently halving every 11 days and Victoria could be back into the single digits by early October. By then a revamped contact tracing program should become an effective tool to control the virus as is the case in NSW and QLD (note NSW only recorded 1 new case outside returned travellers in the past 24 hours and QLD recorded no new cases).

Chart 1: Vic's 2nd phase re-opening threshold in reach



* Solid lines are the 7-day and 14-day moving averages. Victoria's re-openign thresholds are based on a 14-day average
Source: National Australia Bank, government sources gathered by covid19data.com

Could the RBA ease again?

64% of respondents to a recent RBA Bloomberg survey thought the RBA would ease policy again – 7 of 11 respondents expected the RBA to boost its bond buying program and 3 of 11 expected the RBA to cut its cash rate to 0.10% from its current 0.25%. Those views were partly informed by what happened at the September Board meeting where the TFF was extended and dovish wording changes hinted the Board was mulling further easing (*"[the Board] continues to consider how further monetary measures could support the recovery"* see RBA September Statement).

An AFR article today re-ignited this easing speculation with John Kehoe writing the RBA Board "*is*" considering introducing QE for longer-term government and state government bonds and may also lower the cash rate (see AFR p10). The article suggests the RBA has been disappointed that markets did not react more significantly to the expanded TFF. It is unclear to what extent the article was informed by Martin Place. We think tomorrow's Minutes may shed more light on the debate

NAB's view remains that the RBA will keep the cash rate and 3-year yield target unchanged for the foreseeable future. While not our central forecast, we think the RBA could make further tweaks to its QE program by increasing bond purchases, for maturities around the 5-7 year mark.

Loan deferrals fall, housing surprisingly resilient

This week, my colleague Michael Bush and I report on housing loan deferrals which are declining amid wide-spread anecdotes of some borrowers who had deferred being able to resume loan repayments.

The resumption of loan repayments is an encouraging sign that either a tentative recovery is gaining traction or initial reactions/conservatism was overblown. The trend to restarting repayments aligns with higher frequency payroll data that suggests around 50% of all jobs lost in the first phase of the pandemic have so far been recovered. The resumption in loan repayments also highlights the usefulness of the deferral scheme in preventing forced sales.

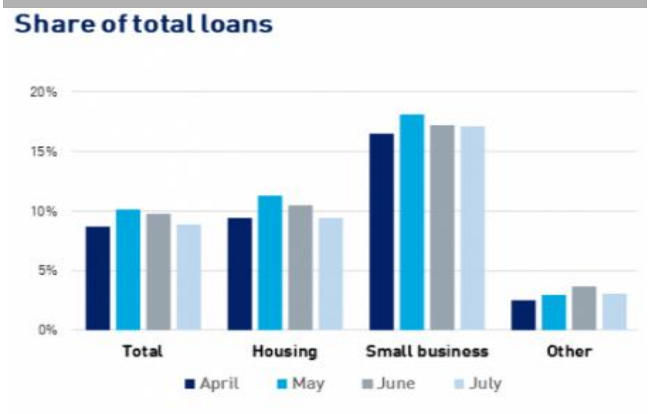
The trend for some restart of interest repayments is part of a generally more resilient than expected housing sector. The market is debating to what extent this simply reflects lags associated with the substantial support provided by government and bank schemes, against whether even lower interest rates are supporting the market.

NAB is still expecting prices to decline 10-15% over the next couple of years with the level of GDP not expected to return to pre-pandemic levels until mid-2023. The recent extension of the loan deferral scheme until March 31 2021 for some borrowers, may mean house prices could remain resilient for longer, though JobKeeper and JobSeeker support packages begin to taper from the end of this month.

Deferrals peaked in May, falling ever since

Home loan deferrals peaked in May with 11% of home loans reported to be in deferral. Since May, deferrals have declined falling to 10% in June and to 9% in July which is the latest we have data for.

Chart 2: Home loan deferrals fall to 9% from 11% in May

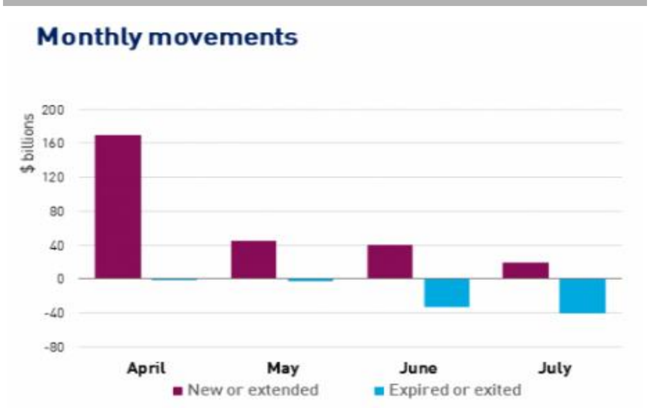


Source: APRA

Looking at the data in gross terms suggests a lessening in the number of people seeking deferral, while those already deferred have started to recommence repayments. Recent anecdotes from banks suggests a high take up rate in starting repayment once clients were contacted. CUA reported that of the initial batch of deferrals it granted, around 95% have started making full repayments. The latest Victorian lockdown has slowed that process, though if activity bounces back as quickly as it did in other states following the easing of lockdown, deferrals may well also continue to trend lower.

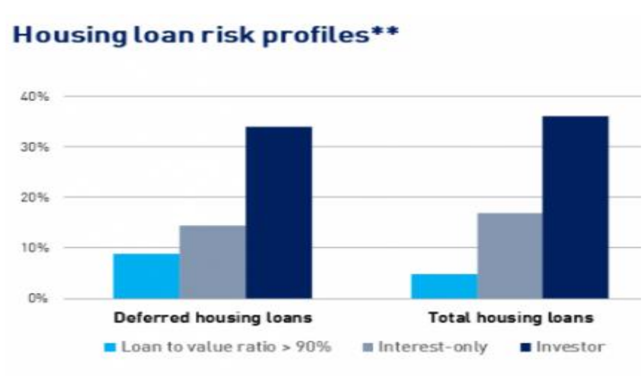
Importantly there is no near-term cliff in terms of assistance being provided. For loan deferrals provided prior to September 30, 2020, these can be extended up to the end of March 2021 on a case by case basis.[1]

Chart 3: Less inflow of new deferrals and more exits



Source: APRA

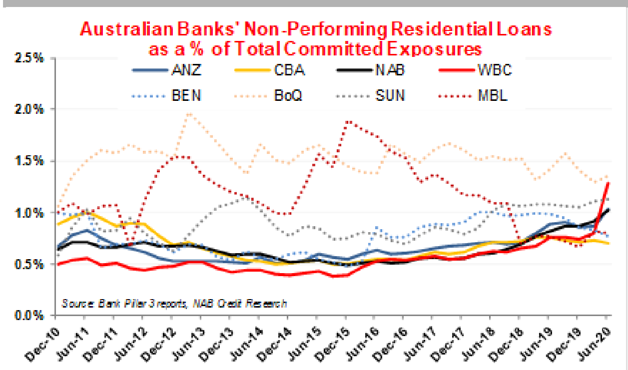
Chart 4: Loan deferral characteristics similar to the total



Source: APRA

In terms of credit implications, it is worth remembering loans under the loan deferral scheme are not currently included in loan arrears as per APRA guidance. In this context it is important to note that a small drift up in non-performing loans in the latest Pillar 3 report. It is possible that some of reduction in home deferrals has been because some borrowers have transferred into formal arrears.

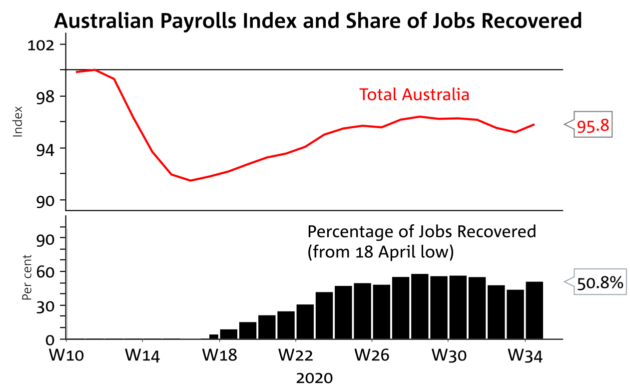
Chart 5: Realised arrear low except for Westpac



Employment bounce presumably one part of the story

Latest payrolls data note Australia has recovered around 50% of the jobs lost associated with the pandemic.

Chart 6: Payrolls suggest 50% of jobs lost are recovered

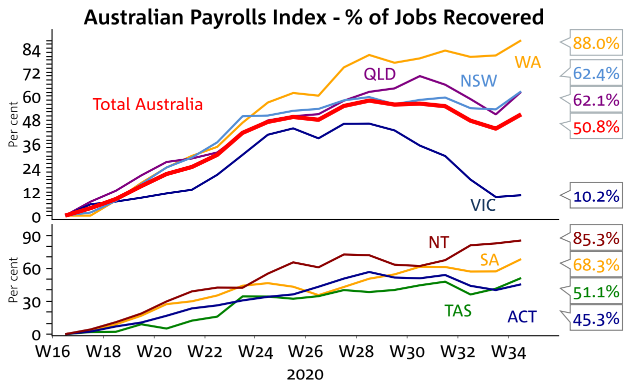


Source: National Australia Bank, ABS

[1] APRA wrote to all ADIS in July advising that the loan deferral scheme would be extended to cover a maximum period of 10 months from the start of a repayment deferral, or until 31 March 2021, whichever comes first. APRA's expectation is that ADIs grant new or extended loan repayment deferral arrangements after undertaking an appropriate credit assessment to ascertain if an extension or new deferral is appropriate for the particular borrower given their circumstances (see APRA for details).

The states that have controlled the virus the most have seen the greatest recovery with WA and the NT recovering around 85-90% of the jobs lost associated with the pandemic. NSW and QLD have recovered around 60% of lost jobs, while VIC has lagged considerably with only 10% of jobs recovered from the initial lockdown with the gain from the initial recovery lost amidst the recent second wave of infections. The ACT and Tasmania are also lagging, likely relatively impacted by travel and border restrictions.

Chart 7: WA and NT lead the jobs rebound; Vic lags

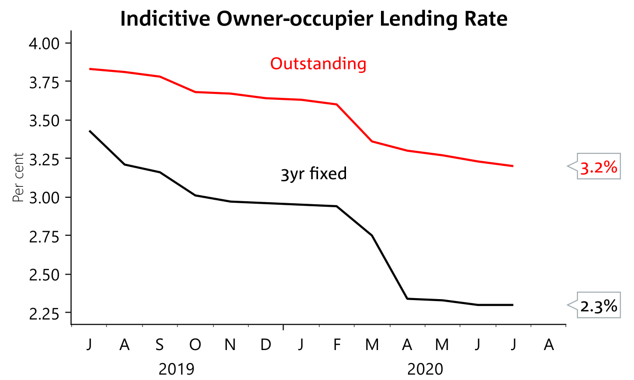


Source: National Australia Bank, ABS

Lower interest rates the other part

Lower interest rates are the other part of the puzzle. Fixed rates have fallen sharply with the 3yr rate falling from 2.94% prior to the pandemic to currently 2.30% according to RBA data and NAB's own headline 3yr fixed rate of 2.19%. The fall in fixed rates is equivalent to a 9% fall in the value of monthly loan repayments, or in a PV model would potentially increase a borrowers' borrowing power by 10% (actual borrowing power of course differs due to repayment buffers and APRA guidance).

Chart 8: Interest rates have declined sharply in Australia



Source: National Australia Bank, RBA

NAB's house price outlook

NAB is still pencilling in house price declines of 10-15% over the next 12-18 months with Australia's recovery from the pandemic still expected to be quite protracted. GDP is not expected to return to pre-pandemic levels until mid-2023, while unemployment is expected to peak at 10% (currently 7.5%).

Home loan deferrals and extensive fiscal support may continue to see relative resiliency for house prices in 2020 before prices decline more significantly in 2021 as government and bank support rolls back. Weekly house price data shows ongoing resiliency outside of Victoria with price rises being seen in Brisbane (+0.3%), Perth (+0.2%) and Adelaide (+0.1%) over the past week (and prices also rising in these three cities over the past month). That's not what might have been expected given the economic environment experienced over the first six months of the year.

Table 1: Weekly house prices lifting in Brisbane, Perth

Capital city home value changes

Capital city	Weekly change	Monthly change	Yr to date change	12 mth change
Sydney	-0.1%	-0.3%	1.6%	8.9%
Melbourne	-0.2%	-0.9%	-2.3%	4.5%
Brisbane	0.3%	0.4%	1.3%	3.8%
Adelaide	0.1%	0.2%	1.6%	3.0%
Perth	0.2%	0.3%	-0.9%	-1.5%
Combined 5 capitals	**0.0%**	**-0.3%**	**0.2%**	**5.7%**

**The monthly change is the change over the past 28 days.*

Source: CoreLogic.

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CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEST
Tuesday 15 September 2020								
NZ	Westpac Consumer Confidence	3Q		--		97.2	20.00	7.00
AU	RBA Minutes - September						0.30	11.30
AU	House Price Index QoQ	2Q		-1.3		1.6	0.30	11.30
CH	Retail Sales YoY	Aug		0		-1.1	1.00	12.00
CH	Fixed Assets Ex Rural YTD YoY	Aug		-0.5		-1.6	1.00	12.00
CH	Industrial Production YoY	Aug		5.1		4.8	1.00	12.00
UK	ILO Unemployment Rate 3Mths	Jul		--		3.9	5.00	16.00
UK	Jobless Claims Change	Aug		--		94.4	5.00	16.00
GE	ZEW Survey Current Situation	Sep		-72.5		-81.3	8.00	19.00
US	Empire Manufacturing	Sep		4.4		3.7	11.30	22.30
US	Industrial Production MoM	Aug		1		3	12.15	23.15
Wednesday 16 September 2020								
NZ	BoP Current Account Balance NZD	2Q	-2.2	-2.1		-2.7	21.45	8.45
AU	Westpac Leading Index MoM	Aug		--		0.05	23.30	10.30
NZ	Pre-election budget update						0.00	11.00
UK	CPI YoY	Aug		--		1	5.00	16.00
US	Retail Sales Advance MoM	Aug		1		1.2	11.30	22.30
CA	CPI YoY	Aug		--		0.1	11.30	22.30
US	FOMC Rate Decision	Sep 16	0/0.25	0/0.25		0/0.25	17.00	4.00
US	Interest Rate on Excess Reserves	Sep 17		--		0.1	17.00	4.00
Thursday 17 September 2020								
NZ	GDP SA QoQ	2Q	-13	-12.5		-1.6	21.45	8.45
NZ	GDP YoY	2Q		-12.9		-0.2	21.45	8.45
AU	Employment Change	Aug	-40	-35		114.7	0.30	11.30
AU	Unemployment Rate	Aug	7.8	7.7		7.5	0.30	11.30
AU	Participation Rate	Aug	64.6	64.6		64.7	0.30	11.30
JN	BOJ Policy Balance Rate	Sep 17		--		-0.1	around 2pm	
EC	CPI Core YoY	Aug F		0.4		0.4	8.00	19.00
EC	CPI YoY	Aug F		-0.2		0.4	8.00	19.00
UK	Bank of England Bank Rate	Sep 17	0.1	0.1		0.1	10.00	21.00
US	Initial Jobless Claims	Sep 5		850		884	11.30	22.30
US	Housing Starts	Aug		1450		1496	11.30	22.30
US	Philadelphia Fed Business Outlook	Sep		15		17.2	11.30	22.30
Friday 18 September 2020								
JN	Natl CPI YoY	Aug		0.2		0.3	22.30	9.30
UK	Retail Sales Inc Auto Fuel YoY	Aug		--		1.4	5.00	16.00
CA	Retail Sales MoM	Jul		--		23.7	11.30	22.30
US	U. of Mich. Sentiment	Sep P		74.9		74.1	13.00	0.00
US	U. of Mich. Expectations	Sep P		--		68.5	13.00	0.00
Upcoming Central Bank Interest Rate Announcements								
US, Federal Reserve		Sep 16	0/0.25	0/0.25		0/0.25		
Japan, BoJ		Sep 17	-0.10	-0.10		-0.10		
UK, BOE		Sep 17	0.10	0.10		0.10		
New Zealand, RBNZ		Sep 23	0.25	0.25		0.25		
Australia, RBA		Oct 6	0.25	0.25		0.25		
Canada, BoC		Oct 28	0.25	0.25		0.25		
Europe, ECB		Oct 29	-0.50	-0.50		-0.50		

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

FORECASTS

Economic Forecasts

	Annual % change				Quarterly % change															
					2019				2020				2021				2022			
Australia Forecasts	**2019**	**2020**	**2021**	**2022**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Household Consumption	1.4	-5.0	1.7	2.9	0.4	0.3	0.1	0.5	-1.1	-7.0	1.5	0.9	0.8	1.0	1.1	0.4	0.7	0.8	0.7	0.7
Underlying Business Investment	-1.7	-23.6	-26.5	3.2	0.8	-0.2	-1.7	-1.5	-1.0	-17.6	-15.5	-8.7	-7.7	-1.8	0.6	0.1	1.4	1.1	1.4	1.2
Residential Construction	-6.9	-16.0	-7.9	14.5	-1.7	-3.5	-0.7	-4.1	-1.7	-10.5	-4.5	-3.8	-2.8	0.9	2.6	3.5	4.0	3.5	4.3	3.1
Underlying Public Spending	4.9	4.7	3.8	3.1	1.1	1.7	1.8	0.4	1.5	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	0.9	1.7	-0.5	-0.8	0.2	0.6	0.1	-0.1	0.5	1.6	-0.2	-0.1	0.0	-0.2	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2
Inventories (a)	-0.2	-0.5	0.8	0.1	0.0	-0.4	0.1	0.2	-0.2	-1.5	1.4	0.3	0.2	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.4	0.4	0.2	-0.5	-6.0	-0.5	-0.1	0.1	0.8	1.0	0.7	0.9	1.0	0.9	0.9
Dom Demand (y/y %)	1.3	-4.8	-0.5	3.6	1.2	1.3	1.2	1.3	0.5	-5.9	-6.8	-7.0	-6.4	0.4	1.9	2.6	3.4	3.6	3.5	3.7
Real GDP (q/q %)	--	--	--	--	0.5	0.6	0.6	0.5	-0.3	-6.1	0.5	0.3	0.6	1.0	0.9	0.5	0.7	0.7	0.7	0.6
Real GDP (y/y %)	1.8	-3.8	0.8	2.9	1.7	1.6	1.8	2.2	1.4	-5.4	-5.5	-5.7	-4.8	2.4	2.9	3.1	3.2	2.9	2.7	2.8
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-1.9	1.6	0.7	0.4	0.3	0.3	0.4	0.2	0.3	0.5	0.7
CPI headline (y/y %)	1.6	0.8	1.6	1.4	1.3	1.6	1.7	1.8	2.2	-0.3	0.7	0.5	0.6	2.9	1.5	1.4	1.2	1.2	1.5	1.7
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.5	0.0	0.4	0.3	0.4	0.3	0.2	0.2	0.2	0.3	0.4	0.5
CPI underlying (y/y %)	1.4	1.3	1.1	1.0	1.4	1.4	1.5	1.4	1.7	1.3	1.2	1.1	1.0	1.3	1.2	1.1	0.8	0.8	1.1	1.4
Private wages (q/q %)	--	--	--	--	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Private wages (y/y %)	2.3	1.8	1.2	2.0	2.4	2.3	2.2	2.2	2.1	1.9	1.6	1.3	1.1	1.0	1.3	1.5	1.8	2.0	2.0	2.0
Unemployment Rate (%)	5.1	7.5	8.6	7.0	5.1	5.1	5.2	5.2	5.2	7.1	8.4	9.2	9.6	8.9	8.2	7.6	7.3	7.1	6.8	6.6
Terms of trade	5.1	0.1	2.2	1.3	3.3	1.4	0.2	-5.2	2.9	0.1	1.1	1.0	0.1	0.9	0.2	0.2	0.2	0.5	0.5	-0.1
Current Account (% GDP)	0.6	2.8	2.9	2.2	-0.6	1.0	1.4	0.3	1.7	3.4	3.2	3.2	3.1	3.1	2.8	2.7	2.5	2.3	2.2	2.0

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

Exchange Rate Forecasts

	14-Sep	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Majors						
AUD/USD	0.728	0.74	0.76	0.77	0.77	0.78
NZD/USD	0.67	0.68	0.69	0.70	0.71	0.72
USD/JPY	106.1	103	103	100	100	100
EUR/USD	1.18	1.22	1.23	1.25	1.26	1.27
GBP/USD	1.28	1.36	1.40	1.40	1.43	1.44
USD/CNY	6.83	6.90	6.85	6.70	6.70	6.60
USD/CAD	1.32	1.34	1.33	1.30	1.23	1.24
USD/CHF	0.91	0.91	0.91	0.91	0.91	0.91
Australian Cross Rates						
AUD/NZD	1.09	1.09	1.10	1.10	1.08	1.08
AUD/JPY	77.2	76	78	77	77	78
AUD/EUR	0.61	0.61	0.62	0.62	0.61	0.61
AUD/GBP	0.57	0.54	0.54	0.55	0.54	0.54
AUD/CNY	4.97	5.11	5.21	5.16	5.16	5.15
AUD/CAD	0.96	0.99	1.01	1.00	0.95	0.97
AUD/CHF	0.66	0.67	0.69	0.70	0.70	0.71

Interest Rate Forecasts

	14-Sep	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Australian Rates						
RBA cash rate	0.25	0.25	0.25	0.25	0.25	0.25
3 month bill rate	0.09	0.15	0.20	0.20	0.20	0.20
3 Year Swap Rate	0.16	0.18	0.17	0.15	0.15	0.20
10 Year Swap Rate	0.81	0.90	1.00	1.15	1.25	1.30
Offshore Policy Rates						
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25
ECB deposit rate	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoE repo rate	0.10	0.10	0.10	0.10	0.10	0.10
BoJ excess reserves rate	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
RBNZ OCR	0.25	0.25	0.25	-0.25	-0.50	-0.50
10-year Bond Yields						
Australia	0.88	1.05	1.15	1.25	1.35	1.35
United States	0.67	0.80	0.90	1.00	1.10	1.10
New Zealand	0.60	1.03	1.28	1.38	1.63	1.73

Sources: NAB Global Markets Research; Bloomberg; ABS

Global GDP

	2019	2020	2021
Australia	1.8	-3.8	0.8
United States	2.2	-5.1	3.7
Eurozone	1.3	-7.0	5.9
United Kingdom	1.4	-8.2	6.5
Japan	0.7	-6.2	3.0
China	6.1	1.5	9.5
India	4.9	-1.5	8.0
New Zealand	2.3	-7.8	3.0
World	3.0	-3.8	5.9

Commodity prices ($US)

	14-Sep	Dec-20	Mar-21	Jun-21	Sep-21
Brent oil	40.0	49	53	55	55
Gold	1949	2030	2050	2100	2200
Iron ore	129	87	85	90	80
Hard coking coal*	114	120	125	140	135
Thermal coal	54	59	59	61	62
Copper	6770	6000	6250	6500	6750
Aus LNG**	8	7	7	8	8

** FOB quarterly contract prices (thermal coal is JFY contract)*

*** Implied Australian LNG export prices*

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