

# AUSTRALIAN MARKETS WEEKLY



## Population 1.6m less than previously projected by 2030

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### Analysis: Population growth 1.6m less than previously projected by 2030

- Australia’s population growth is expected to slow sharply over the next two years, primarily due to net migration given closed international borders. Population growth is expected to be 0.2% in 2020-21 and 0.4% in 2021-22 against its current 1.5% pace.
- Net migration is expected to fall from its usual 200k+ pace to subtracting from growth at -72k in 2020-21 and -22k in 2021-22. Importantly, this forecast dip in migration is temporary with the government forecasting a sharp rise in net migration to 201k by 2023-24. Australia’s high migration-driven population growth strategy remains intact.
- The implications of a sharp temporary fall in population growth are mixed and very geographically concentrated. Migrants have historically settled in Sydney and Melbourne, so other regional localities should be less affected.

### Markets extend pricing for RBA policy easing after Lowe last week

- RBA Governor Lowe’s speech last Thursday saw markets extend their pricing for policy easing. Dr Lowe noted the RBA was evaluating the case for QE in the 5-10yr space as well as having considered the case for policy easing at its recent October meeting.
- Yields fell in response with the 3yr yield falling to 0.12%, well below the current 3yr YCC target of 0.25%. Longer run yields also fell on the prospect of QE with the AU-US 10yr spread now negative. NAB remains of the view that the RBA will cut the cash rate to 0.10%, along with the 3-year yield target (YCC) and the TFF rate in November. We also expect the RBA to announce QE purchases in the 5-10 year area of the curve.

### The week ahead

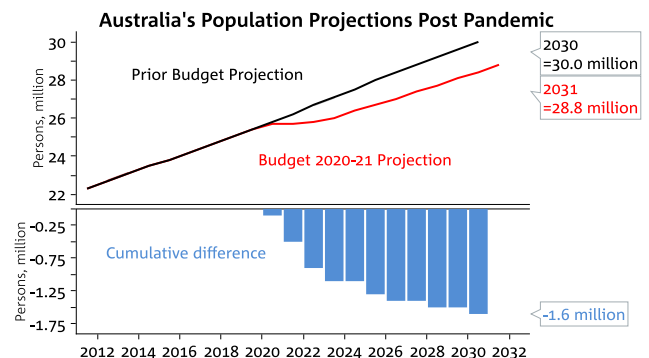
- **Australia:** RBA October Minutes on Tuesday should echo Governor Lowe’s recent speech (see above) and will be watched closely for any hints on the details of a likely easing package come November. Tuesday also sees Payroll data for the week to October 3, where a positive read is possible given some Victorian COVID-19 restrictions were eased from September 17. The preliminary estimate of Retail Sales for September is also out on Wednesday; (goods-heavy) retail sales are already 12.4% higher than pre-COVID levels outside of Victoria.
- **International: CH:** Chinese GDP figures just out (+2.7% q/q) with the level of GDP now 3.2% higher than pre-COVID levels. **NZ:** Weekend election sees Labour’s Ardern re-elected and could govern in her own right. Data wise the QSBO is on Tuesday and Q3 CPI figures are on Friday. **US:** Just over a fortnight until the election where Biden continues to lead, along with the possibility of the Democrats winning the Senate, the final presidential debate on Thursday. Elsewhere earnings season picks up with Netflix on Tuesday the first FAANG to report. Jobless Claims remain under the spotlight. **EU/UK:** Flash PMIs for October on Friday closely watched to see whether increasing virus numbers are weighing on activity. Focus on Brexit negotiations.

### Key markets over the past week

	Last	% chg week		Last	bp/% chg week
AUD	0.7105	-1.5	RBA cash	0.13	0.0
AUD/CNY	4.75	-2.3	3y swap	0.12	0.0
AUD/JPY	74.9	-1.4	ASX 200	6240	1.8
AUD/EUR	0.606	-0.7	Iron ore	115.8	-3.1
AUD/NZD	1.073	-1.1	Brent oil	42.9	2.9

Source: Bloomberg

### Chart of the week: Population 1.6m less than projected



Source: National Australia Bank, Australian Budget 2020-21

## Victoria closer to comprehensive opening

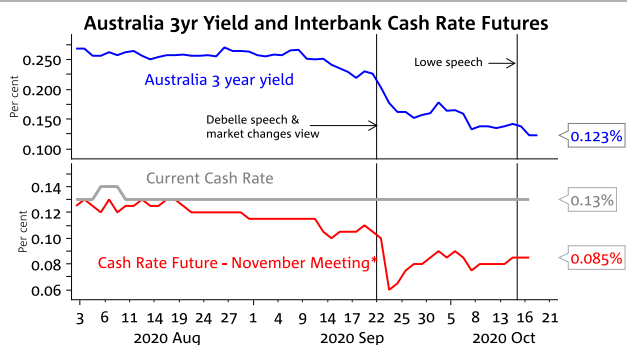
Restrictions were eased modestly in Melbourne today (mostly on the social side) with a more comprehensive re-opening tentatively scheduled for November 2 (see [Vic Gov. for details](#)). This more comprehensive re-opening could also potentially be brought forward by a week. The virus track remains very encouraging with the 14-day moving average for Metro Melbourne now at 7.2 cases virtually back to the prior re-opening hurdle of 5.

## RBA rate cut/QE pricing extended

Last week's speech by RBA Governor Lowe saw markets extend their pricing for further policy easing at the upcoming November meeting. NAB continues to see the RBA cutting the cash rate, 3yr YCC and the TFF rate by 15bps to 0.10%. We also expect the RBA to begin outright QE in the 5-10 year space.

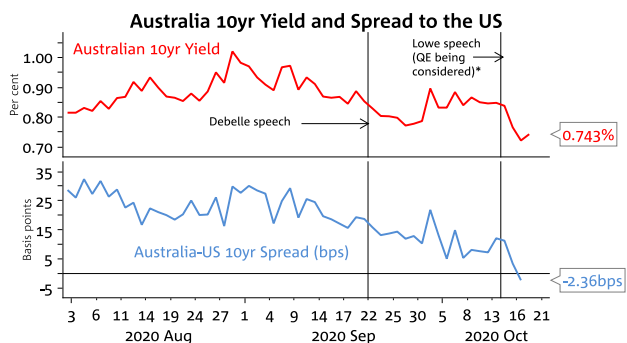
The 3yr yield drifted lower in the wake of the speech, while the probability of the RBA embarking on outright QE was also increased. 5-10yr yields fell sharply with the AU-US 10yr spread now negative at -2.4bps (Chart 2). Press reports with prior known links to Martin Place also note an outright QE program is likely (see [Kehoe](#)).

Chart 1: Markets well priced for a 15bp rate cut to 0.10%



\* 100 - price. Interbank futures are the average of the cash rate over the month  
Source: National Australia Bank, Bloomberg

Chart 2: Markets extend pricing for outright QE



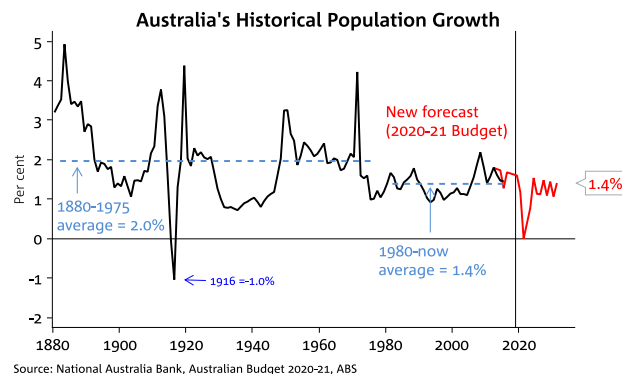
\* Lowe states Board is evaluating the case for QE, noting the 5-10yr part of the curve  
Source: National Australia Bank, Bloomberg

As for the speech itself (titled [The Recovery from a Very Uneven Recession](#)), Dr Lowe noted the Board had been "consider[ing] the case for additional monetary easing" at recent meetings. In the Q&A the Governor re-iterated it was possible to cut the cash rate to 0.10% from 0.25% and that the Board was evaluating the case for outright QE in the 5-10 year space. The Governor also ruled out a further expansion of the TFF at this time.

## Analysis: Population growth 1.6m lower than previously forecast by 2030

Australia's population growth is expected to slow sharply over the next two years, primarily due to net migration given closed international borders. Population growth is expected to be 0.2% in 2020-21 and 0.4% in 2021-22 against its post-mining boom average of 1.5% (Chart 1). Such growth rates would be the weakest since 1916.

Chart 3: Population growth the weakest since 1916

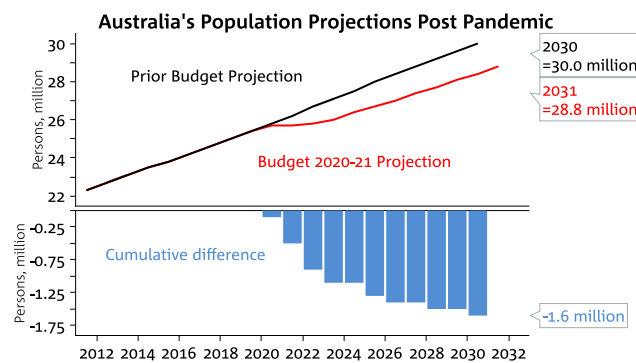


Source: National Australia Bank, Australian Budget 2020-21, ABS

Importantly for the outlook, Australia remains committed to a high migration-driven population growth strategy with a sharp rebound in population growth expected as borders re-open. By 2023-24 population growth is expected to have returned to 1.5% a year.

Nevertheless, in level terms the population size is not expected to recover to prior forecasts with the level of the population 1.6m smaller than that projected prior to the pandemic (Chart 4). The pandemic-induced recession is also expected to have a lasting impact on fertility rates such that population growth averages around 1.3-1.4% a year for the rest of the decade, down from the post-mining boom average of 1.5%, but broadly in line with what Australia has experienced since the 1980s (Chart 3).

Chart 4: Revised population 1.6m less than prior forecast



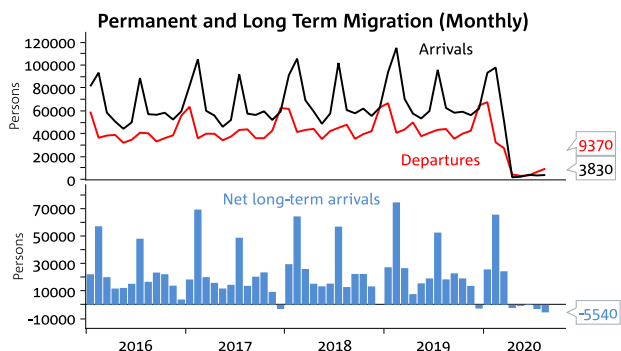
Source: National Australia Bank, Australian Budget 2020-21

## Net migration has turned negative

Permanent and long-term migration into Australia has fallen sharply since the borders were progressively closed from February 2020. Monthly arrivals data for July suggests net migration has now turned negative with permanent and long-term overseas departures picking

up, while arrivals remained steady due to government quarantine caps (Chart 5).

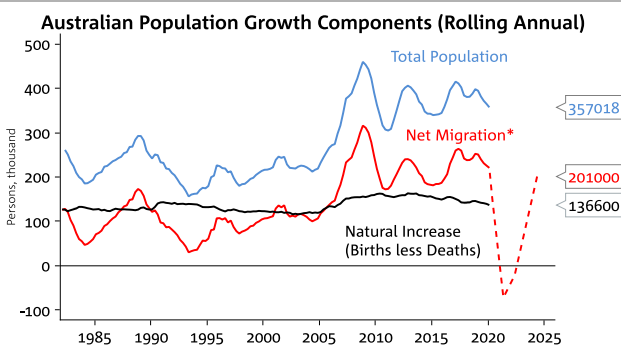
Chart 5: Net migration turned negative in July



Source: National Australia Bank, ABS

Negative net migration is forecast by the government for the rest of 2020-21 (at -72,000) and for 2021-22 (at -22,000), before gradually recovering as borders start to reopen in the later part of 2021 (Chart 6). By 2023-24 net migration is forecast to return to around 201,000. The decline in net migration is critical for Australia’s population growth (Chart 6), net migration having contributed two thirds of total population growth.

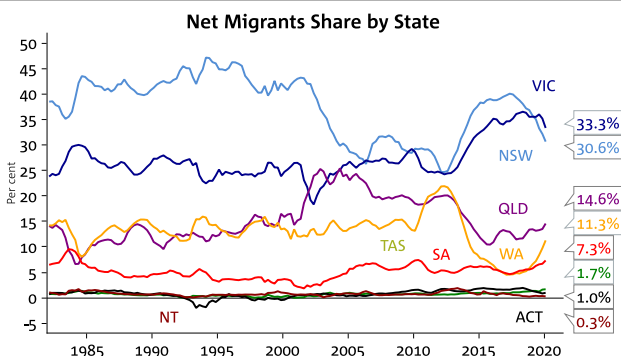
Chart 6: Net migration most of population growth



\* Forecast from the 2020-21 Budget  
Source: National Australia Bank, ABS, Budget 2020-21

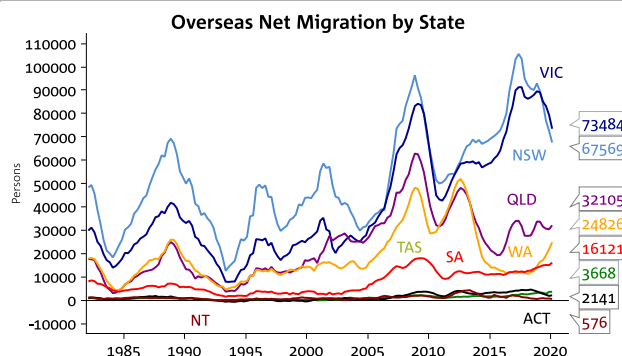
NSW and Victoria have been the most popular destinations for migrants, accounting for 64% in any given year – or around 140k people (Chart 7 and Chart 8). The current absence of inbound migrants is bearing down on impact on Sydney and Melbourne’s population growth to a larger extent.

Chart 7: Vic and NSW take up around 64% of migrants



Source: National Australia Bank, ABS, Budget 2020-21

Chart 8: Net migration in levels strong in NSW and VIC



Source: National Australia Bank, ABS, Budget 2020-21

Migration has also been dominated by temporary forms of visas – 70% of migrants were issued with temporary visas in 2019, with the major classes being Education (+51k), Working Holiday (+21k), Visitor (+57k) and Skilled 457 (+17k). In contrast permanent visas comprised just 30% of migrants with the major streams being skilled (+29k), family (+17k) and humanitarian (+18k) (Table 1)

Table 1: Net Migration by Visa Type

	Net Overseas Migration by Visa Type in 2019	
	2019	Share of Total Migration
<b>Total</b>	<b>210,660</b>	<b>-</b>
<b>Temporary visa - Total</b>	<b>146,710</b>	<b>69.6</b>
Temporary visa - Vocational Education and Training sector	1,050	0.5
Temporary visa - Higher education sector	49,600	23.5
Temporary visa - Student other	21,410	10.2
Temporary visa - Temporary work skilled (subclass 457)	16,650	7.9
Temporary visa - Visitor	57,030	27.1
Temporary visa - Working Holiday	21,170	10.0
Temporary visa - Other temporary visas	20,200	-9.6
<b>Permanent visa - Total</b>	<b>63,440</b>	<b>30.1</b>
Permanent visa - Family	17,310	8.2
Permanent visa - Skill	28,600	13.6
Permanent visa - Special Eligibility and humanitarian	17,920	8.5
Permanent visa - Other permanent visas	390	-0.2
<b>New Zealand Citizen (subclass 444)</b>	<b>7,960</b>	<b>3.8</b>
<b>Australian Citizen (subclass 444)</b>	<b>840</b>	<b>0.4</b>
<b>Other Visas</b>	<b>8,280</b>	<b>-3.9</b>

Source: ABS

**Fertility rates fall after recessions**

While the decline in net migration is forecast to be temporary, the government is expecting a follow-on decline in the fertility rate. The fertility rate is assumed to drop from 1.69 babies per woman in 2019-20 to 1.58 in 2021-22 and is likely to remain lower than its pre-pandemic level, returning only to 1.62 in 2030-31. Our own analysis of the early 1990s recession and GFC finds that the growth in births tends to flatten out after recessions (Chart 9).

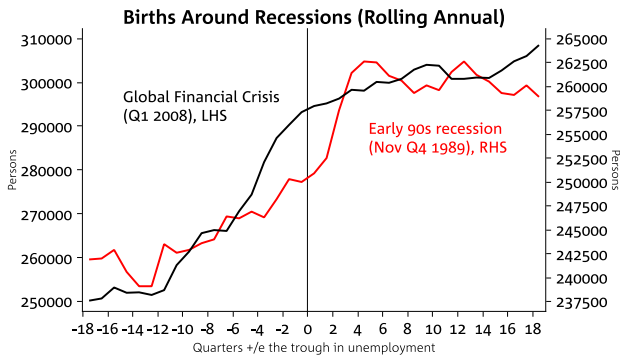
The containment restrictions associated with COVID-19, particularly in Victoria may also see household formation having been delayed. This could further weigh on the near-term outlook for births, which may restrain a recovery in population growth to pre-COVID rates.

**Implications of lower population growth**

The implications of a sharp fall in population growth are mixed and very geographically concentrated due to the sharp fall being driven by net migration. As our analysis shows, around 64% of migrants settle in NSW and

Victoria – predominately in the capital cities of Sydney and Melbourne – so other regional localities should be less affected. The sharp fall in population growth is also expected to be temporary with the government forecasting a sharp rebound in population growth when international borders are eased.

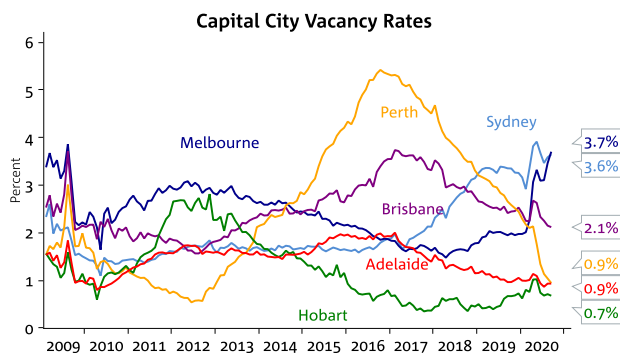
Chart 9: Birth numbers flattened after downturns



Source: National Australia Bank, ABS

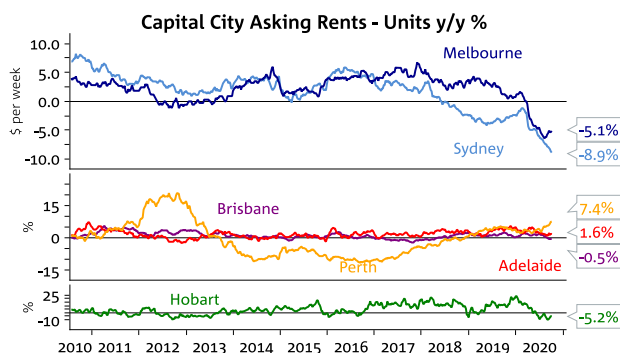
It is no surprise then to see rental vacancy rates rising in Sydney and Melbourne – according to SQM these are hovering at decade highs of around 3.6-3.7%, while vacancy rates are trending lower in other capital cities. These trends are also reflected in rents with asking unit rents falling sharply in Melbourne and Sydney, but lifting in Adelaide and Perth.

Chart 10: Sydney and Melbourne Vacancy rates rise



Source: National Australia Bank, SQM

Chart 11: Rents falling Mel & Syd, but up in Perth



Source: National Australia Bank, SQM

The housing market appears to be taking the fall in rents in its stride, viewing it as temporary given migration is expected to rebound, with house prices stabilising in

Sydney over recent weeks, and lifting in Brisbane, Adelaide and Perth (see Table 2).

Table 2: House Prices stable to higher

Capital city	Weekly change	Monthly change	Yr to date change	12 mth change
Sydney	0.0%	-0.2%	1.4%	6.6%
Melbourne	-0.2%	-0.6%	-3.1%	1.5%
Brisbane	0.1%	0.2%	1.7%	3.7%
Adelaide	0.3%	1.0%	2.8%	4.3%
Perth	0.1%	0.1%	-0.6%	-0.5%
Combined 5 capitals	0.0%	-0.1%	0.0%	4.0%

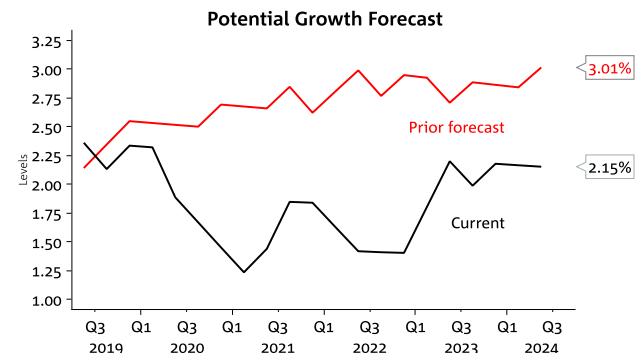
\*The monthly change is the change over the past 28 days.

Outside of the housing market, there will likely be demand impacts in sectors most associated with net migration. As noted above, 70% of migration is of a temporary nature and is dominated by Education (51k), Working Holiday (21k), Visitor (57k) and Skilled 457 (17k). This will have implications for sectors associated with these streams including higher education.

On the supply side, migrants added to the labour supply with anecdotes of labour shortages in lower wage industries such as agriculture, accommodation and hospitality. This is particularly the case for working holiday visas, as well as students who could work a certain number of hours a week. There have also been limited anecdotes of impacts on specialists in certain fields – potentially problematic given there were 46k people in the skilled streams during 2019.

The longer term impact from population growth will depend on whether and how quickly migration (and possibly lower natural increase) return to pre-COVID rates. Just a likely decline in fertility suggests population growth would be 1.3-1.4% after the pandemic, down from 1.5% pre-pandemic. This will act to lower potential growth, with the 2020-21 Budget’s potential growth assumption revised down to 2.2% from 3.0%. The fall in potential growth will continue raise the focus on productivity and participation as post-pandemic growth drivers.

Chart 12: Potential growth has been lowered



Source: National Australia Bank, Budget 2020-21

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## CALENDAR OF ECONOMIC RELEASES

Country	Economic Indicator	Period	Forecast	Consensus	Actual	Previous	GMT	AEDT
<b>Tuesday 20 October 2020</b>								
AU	RBA's Kent speaks			--		--	23.00	10.00
AU	RBA minutes	Sep		--		--	0.30	11.30
AU	Payroll jobs	4-Oct		--		--	0.30	11.30
US	Housing Starts	Sep		1452		1416	12.30	23.30
US	Fed's Williams speaks			--		--	13.00	0.00
US	Fed's Evans speaks			--		--	17.00	4.00
<b>Wednesday 21 October 2020</b>								
AU	Westpac Leading Index MoM	Sep		--		0.48	23.30	10.30
AU	Preliminary retail sales	Sep	0	--		-4	0.30	11.30
NZ	Credit Card Spending YoY	Sep		--		-11.9	2.00	13.00
UK	CPI YoY	Sep		--		0.2	6.00	17.00
CA	CPI YoY	Sep		--		0.1	12.30	23.30
CA	Retail Sales MoM	Aug		--		0.6	12.30	23.30
US	Fed's Mester speaks			--		--	14.00	1.00
<b>Thursday 22 October 2020</b>								
AU	RBA's DeBelle speaks on FX code			--		--	22.30	9.30
US	BOE's Haldane speaks			--		--	8.30	19.30
US	BOE's Bailey speaks			--		--	9.25	20.25
US	Initial Jobless Claims	Oct 10		825		898	12.30	23.30
EC	Consumer Confidence	Oct A		--		-13.9	14.00	1.00
<b>Friday 23 October 2020</b>								
NZ	CPI QoQ	3Q		0.9		-0.5	21.45	8.45
NZ	CPI YoY	3Q		1.7		1.5	21.45	8.45
JN	Natl CPI YoY	Sep		0		0.2	23.30	10.30
JN	Jibun Bank Japan PMI Mfg	Oct P		--		47.7	0.30	11.30
UK	Retail Sales Inc Auto Fuel YoY	Sep		--		2.8	6.00	17.00
GE	Markit Germany Services PMI	Oct P		49.5		50.6	7.30	18.30
GE	Markit/BME Germany Manufacturing PMI	Oct P		54		56.4	7.30	18.30
EC	Markit Eurozone Services PMI	Oct P		47.5		48	8.00	19.00
EC	Markit Eurozone Manufacturing PMI	Oct P		53.1		53.7	8.00	19.00
UK	Markit UK PMI Manufacturing SA	Oct P		--		54.1	8.30	19.30
US	Markit US Manufacturing PMI	Oct P		53.4		53.2	13.45	0.45
<b>Upcoming Central Bank Interest Rate Announcements</b>								
Japan, BoJ		Oct 29	-0.10	-0.10		-0.10		
Canada, BoC		Oct 28	0.25	0.25		0.25		
Europe, ECB		Oct 29	-0.50	-0.50		-0.50		
Australia, RBA		Nov 3	0.25	0.25		0.25		
UK, BOE		Nov 5	0.10	0.10		0.10		
US, Federal Reserve		Nov 5	0/0.25	0/0.25		0/0.25		
New Zealand, RBNZ		Nov 11	0.25	0.25		0.25		

GMT: Greenwich Mean Time; AEDT: Australian Eastern Daylight Time

# FORECASTS

Economic Forecasts																				
	Annual % change				Quarterly % change															
	2019	2020	2021	2022	2019				2020				2021				2022			
<b>Australia Forecasts</b>					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Household Consumption	1.5	-8.6	4.7	4.4	0.4	0.3	0.1	0.4	-1.2	-12.1	2.2	0.9	3.0	2.7	1.9	1.3	0.6	0.8	0.7	0.7
Underlying Business Investment	-1.5	-8.7	-10.4	6.3	0.6	0.0	-1.7	-0.6	-1.0	-3.1	-5.5	-6.9	-2.2	-0.4	1.3	0.6	2.2	2.1	1.8	1.8
Residential Construction	-6.7	-12.4	-10.1	11.3	-2.5	-2.6	-1.0	-2.7	-1.0	-6.8	-5.7	-3.8	-3.5	-0.8	1.5	2.3	3.2	3.2	4.2	3.3
Underlying Public Spending	5.1	7.3	7.2	3.4	1.1	2.0	1.6	0.7	1.7	2.1	2.8	2.0	2.0	1.2	1.2	0.8	0.8	0.8	0.8	0.8
Net Exports (a)	1.0	0.9	-2.1	-1.0	0.3	0.6	0.2	-0.1	0.4	1.0	-0.4	-0.2	-0.7	-0.6	-0.5	-0.3	-0.3	-0.3	-0.3	-0.2
Inventories (a)	-0.2	0.0	0.4	0.0	0.0	-0.3	0.0	0.2	-0.2	-0.6	1.4	-0.2	0.1	0.0	0.1	-0.1	-0.1	0.0	0.0	0.0
Domestic Demand (q/q %)	--	--	--	--	0.3	0.6	0.4	0.4	-0.4	-7.4	1.1	0.2	1.9	1.8	1.6	1.1	1.0	1.0	1.0	1.0
Dom Demand (y/y %)	1.4	-4.8	3.1	4.6	1.2	1.3	1.3	1.6	0.9	-7.0	-6.4	-6.6	-4.4	5.0	5.6	6.6	5.6	4.8	4.2	4.0
Real GDP (q/q %)	--	--	--	--	0.4	0.8	0.5	0.6	-0.3	-7.0	2.4	0.1	1.3	1.1	1.2	0.7	0.6	0.8	0.7	0.7
Real GDP (y/y %)	1.8	-3.6	2.3	3.2	1.7	1.6	1.8	2.3	1.6	-6.3	-4.5	-5.0	-3.5	5.0	3.8	4.4	3.7	3.4	2.9	2.9
CPI headline (q/q %)	--	--	--	--	0.0	0.6	0.5	0.7	0.3	-1.9	2.0	0.7	0.5	0.4	0.4	0.5	0.3	0.5	0.6	0.6
CPI headline (y/y %)	1.6	1.0	2.1	1.8	1.3	1.6	1.7	1.8	2.2	-0.3	1.1	1.1	1.2	3.6	1.9	1.8	1.6	1.8	2.0	2.0
CPI underlying (q/q %)	--	--	--	--	0.2	0.4	0.4	0.4	0.5	0.0	0.4	0.5	0.5	0.4	0.3	0.3	0.3	0.5	0.5	0.3
CPI underlying (y/y %)	1.4	1.4	1.5	1.5	1.4	1.4	1.4	1.4	1.7	1.3	1.3	1.3	1.3	1.8	1.6	1.5	1.3	1.4	1.6	1.6
Private wages (q/q %)	--	--	--	--	0.5	0.5	0.5	0.5	0.5	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5
Private wages (y/y %)	2.2	1.6	1.0	1.6	2.4	2.3	2.2	2.2	2.1	1.7	1.4	1.1	0.8	1.0	1.0	1.0	1.3	1.5	1.8	2.0
Unemployment Rate (%)	5.1	6.7	7.7	6.3	5.1	5.1	5.1	5.2	5.1	7.0	6.9	7.7	8.2	8.0	7.6	7.0	6.7	6.4	6.2	6.0
Terms of trade	5.2	0.7	2.6	1.3	3.2	1.5	0.2	-5.0	3.1	0.2	1.2	1.4	0.1	0.9	0.2	0.2	0.2	0.5	0.5	-0.1
Current Account (% GDP)	0.6	3.1	2.0	0.9	-0.5	0.9	1.5	0.4	1.8	3.8	3.4	3.4	2.7	2.2	1.7	1.4	1.2	1.0	0.8	0.5

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

Exchange Rate Forecasts						
	19-Oct	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<b>Majors</b>						
AUD/USD	0.711	0.74	0.76	0.77	0.77	0.78
NZD/USD	0.66	0.68	0.69	0.70	0.71	0.72
USD/JPY	105.4	103	103	100	100	100
EUR/USD	1.17	1.22	1.23	1.25	1.26	1.27
GBP/USD	1.29	1.36	1.40	1.40	1.43	1.44
USD/CNY	6.69	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	0.92	0.91	0.91	0.91	0.91	0.91

Australian Cross Rates						
	19-Oct	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
AUD/NZD	1.07	1.09	1.10	1.10	1.08	1.08
AUD/JPY	74.9	76	78	77	77	78
AUD/EUR	0.61	0.61	0.62	0.62	0.61	0.61
AUD/GBP	0.55	0.54	0.54	0.55	0.54	0.54
AUD/CNY	4.75	5.11	5.21	5.16	5.16	5.15
AUD/CAD	0.94	0.99	1.01	1.00	0.95	0.97
AUD/CHF	0.65	0.67	0.69	0.70	0.70	0.71

Interest Rate Forecasts						
	19-Oct	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
<b>Australian Rates</b>						
RBA cash rate	0.25	0.10	0.10	0.10	0.10	0.10
3 month bill rate	0.08	0.08	0.08	0.10	0.10	0.10
3 Year Swap Rate	0.12	0.08	0.08	0.08	0.08	0.08
10 Year Swap Rate	0.71	0.68	0.75	0.90	1.00	1.15
<b>Offshore Policy Rates</b>						
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
<b>10-year Bond Yields</b>						
Australia	0.75	0.75	0.85	1.00	1.10	1.20
United States	0.76	0.70	0.80	0.90	1.00	1.10
New Zealand	0.54	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	-3.6	2.3
United States	2.2	-4.1	3.4
Eurozone	1.3	-6.4	5.7
United Kingdom	1.4	-9.2	7.4
Japan	0.7	-5.4	2.8
China	6.1	1.5	9.5
India	4.9	-8.8	13.3
New Zealand	2.3	-5.6	1.8
World	3.0	-4.0	6.3

Commodity prices (\$US)					
	19-Oct	Dec-20	Mar-21	Jun-21	Sep-21
Brent oil	42.9	49	53	55	55
Gold	1901	2030	2050	2100	2200
Iron ore	na	87	85	90	80
Hard coking coal*	129	120	125	140	135
Thermal coal	59	59	59	61	62
Copper	6724	6000	6250	6500	6750
Aus LNG**	6	7	7	8	8

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

\*\* Implied Australian LNG export prices

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