



# Australian and financial markets outlook...in the age of Trump

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# Overview: Still clouded, Australia well placed

## **Election implications**

- Governing Labor party re-elected with an increased majority
- First part of the agenda is student debt cut (20%) and super tax reforms ( $\geq$ \$3m balances)
- Size of government in the economy likely to remain high
- We think RBA will get policy quickly to neutral and re-assess international headwinds then

## **Shocks worth contemplating for the outlook**

- Election of Trump, break in US policy, some say accelerated trends that date back to 2016 (when China overtook the US)
- AI/Large language models amid a tight labour market, semi-conductors (GPUs), energy, productivity
- Russia saw a fundamental shift to security, defence security (for Europe), and foreign reserves (eg: gold)

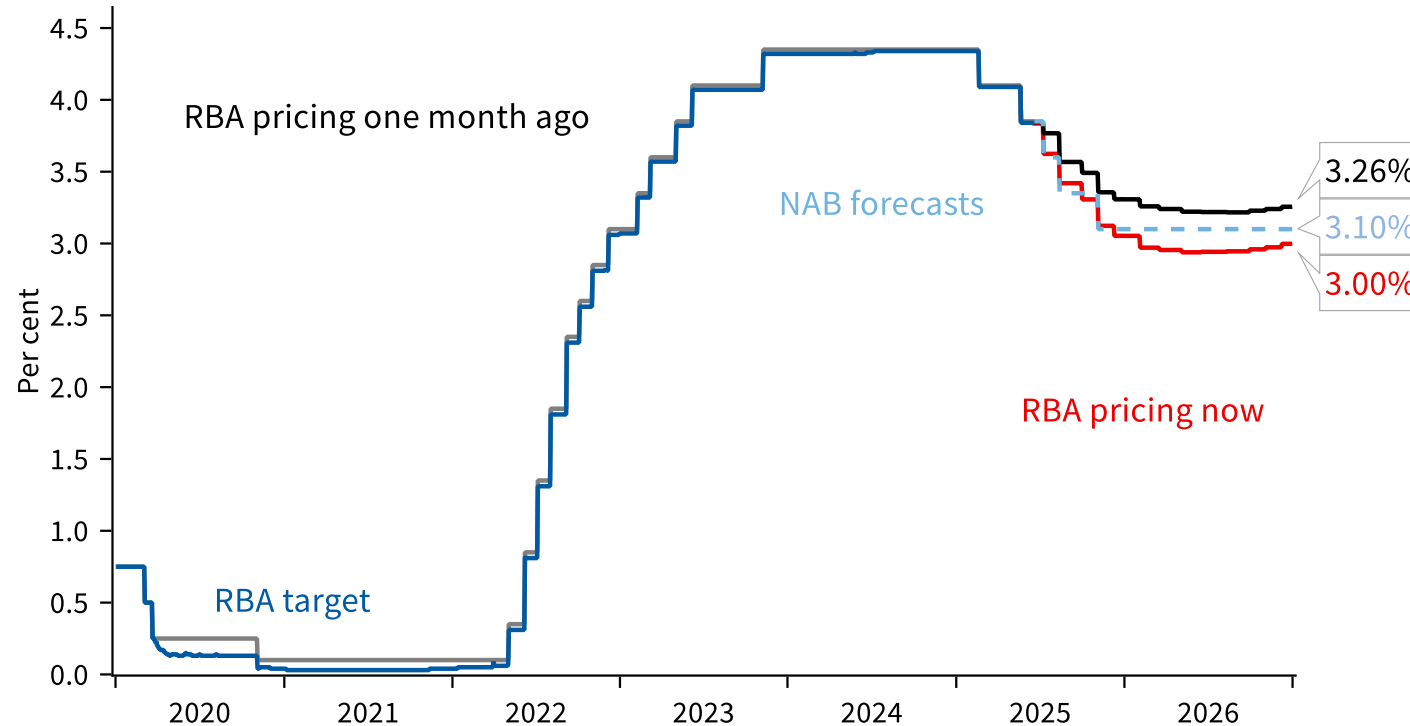
## **Australian economy more positive, but slower than expected pickup in 2025**

- Forecast pick up in economy based on the consumer (though so far is very gradual), not on net exports
- Household balance are still in very good shape, business balance sheets are as well
- Central forecasts: unemployment to rise to 4.4%; wages growth 3.4%; AUD lifting to 0.70 by end 2025 (but very uncertain)
- Expect RBA to cut 25bps in July, followed by 25bps in August and November, with cash rate at 3.10%

# Market pricing for rates

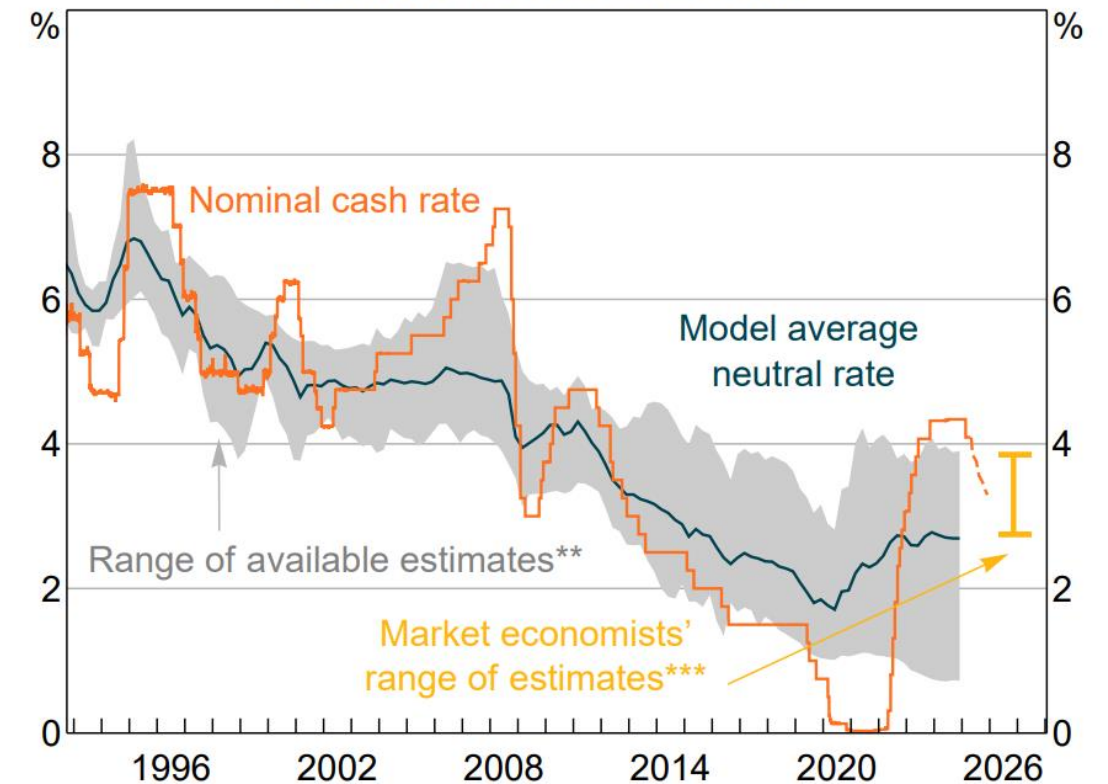
NAB sees the next RBA moving by 25bp in July, see cash rate at 3.10% by November 2025. Still see neutral at around 3.1%

## RBA Cash Pricing



Source: National Australia Bank, Macrobond

## Nominal Neutral Rate\*



\* Nominal neutral rates are defined using trend inflation expectations. Dashed lines show cash rate expectations implied by OIS as at 14 May 2025.

\*\* Range of central estimates corresponding to available models; this range does not reflect considerable uncertainty around the central estimates.

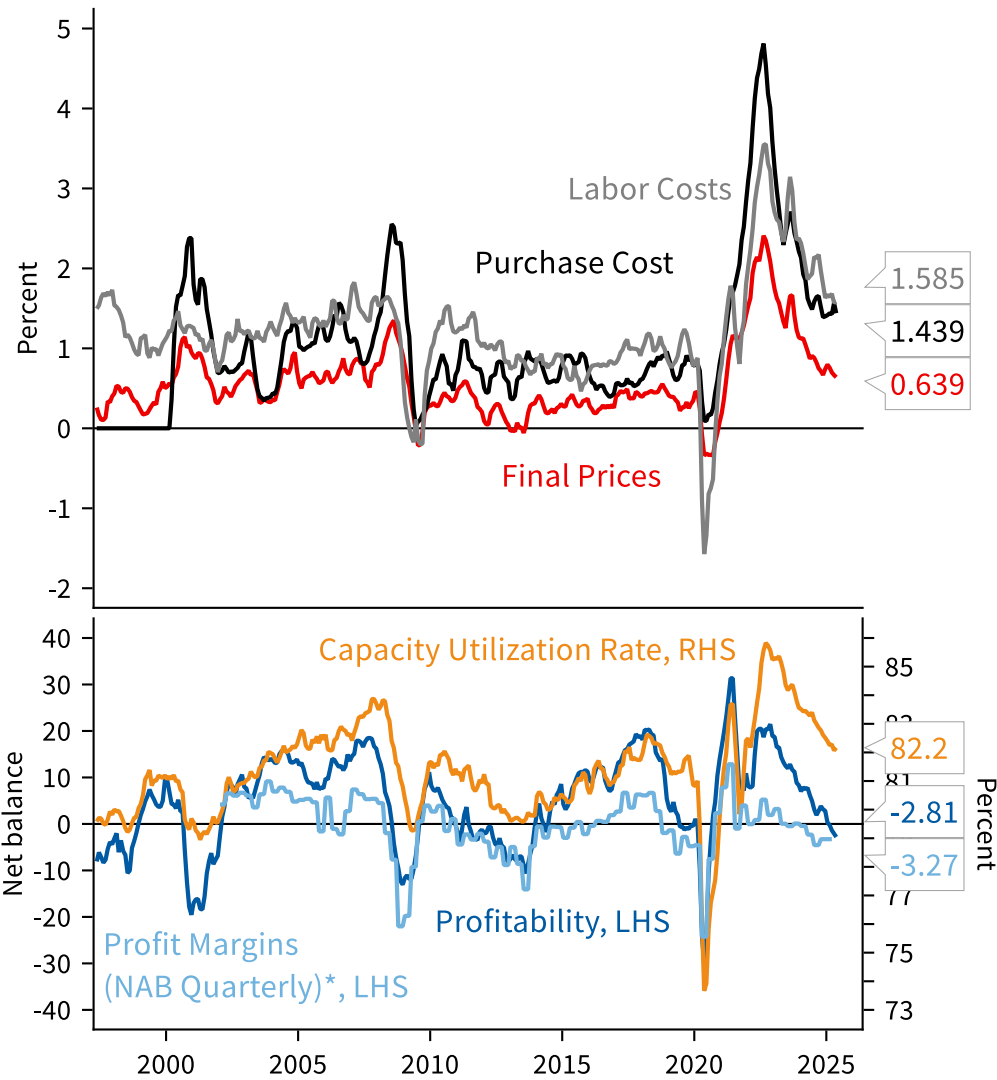
\*\*\* The range of market economists' estimates has been adjusted by excluding the two highest and lowest observations.

Sources: Bloomberg; LSEG; RBA.

# Input prices still a challenge to margins

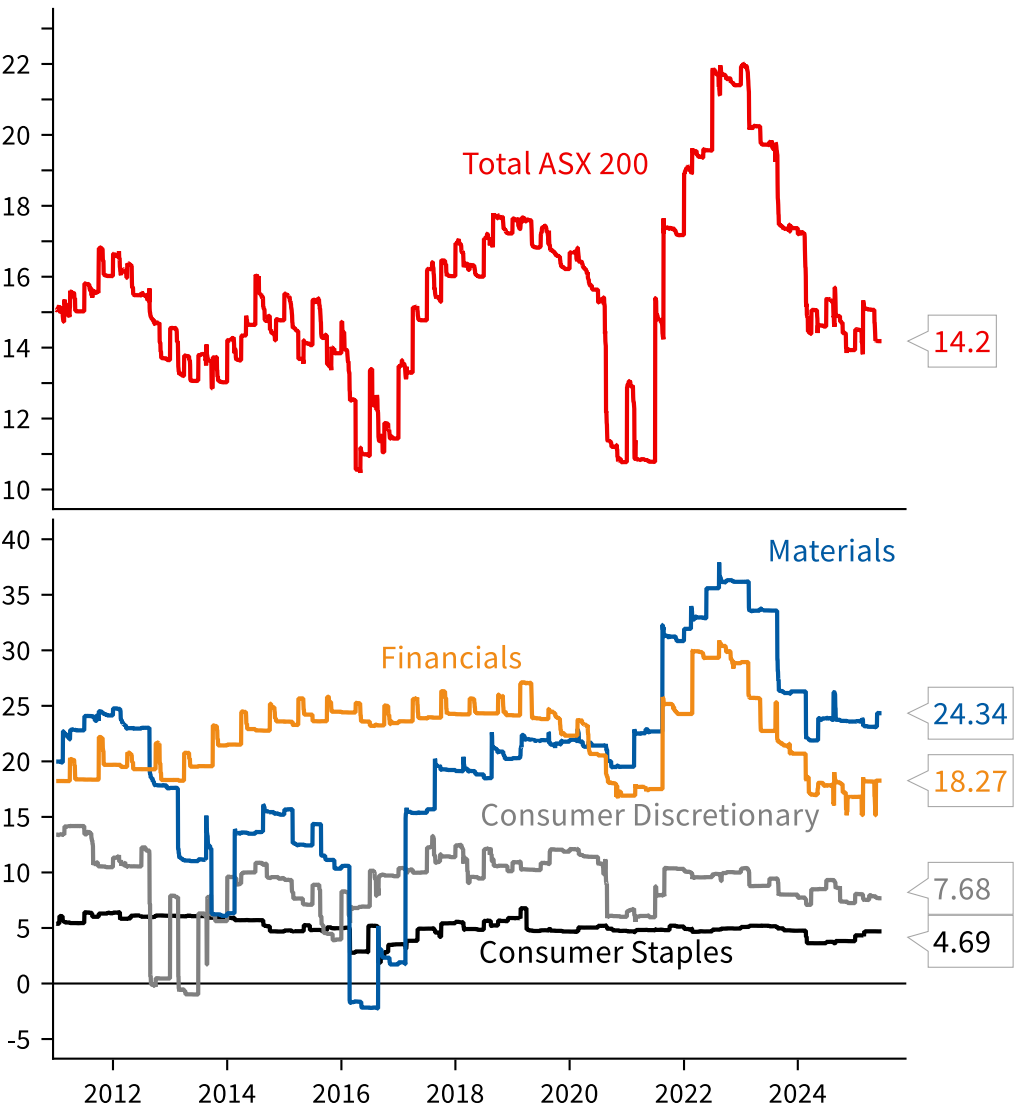
NAB monthly survey shows profitability being challenged amid high input costs

NAB Monthly Business Survey (3m average)



\* Deviation from average  
Source: National Australia Bank, National Australia Bank, Macrobond

ASX200 Operating Margins



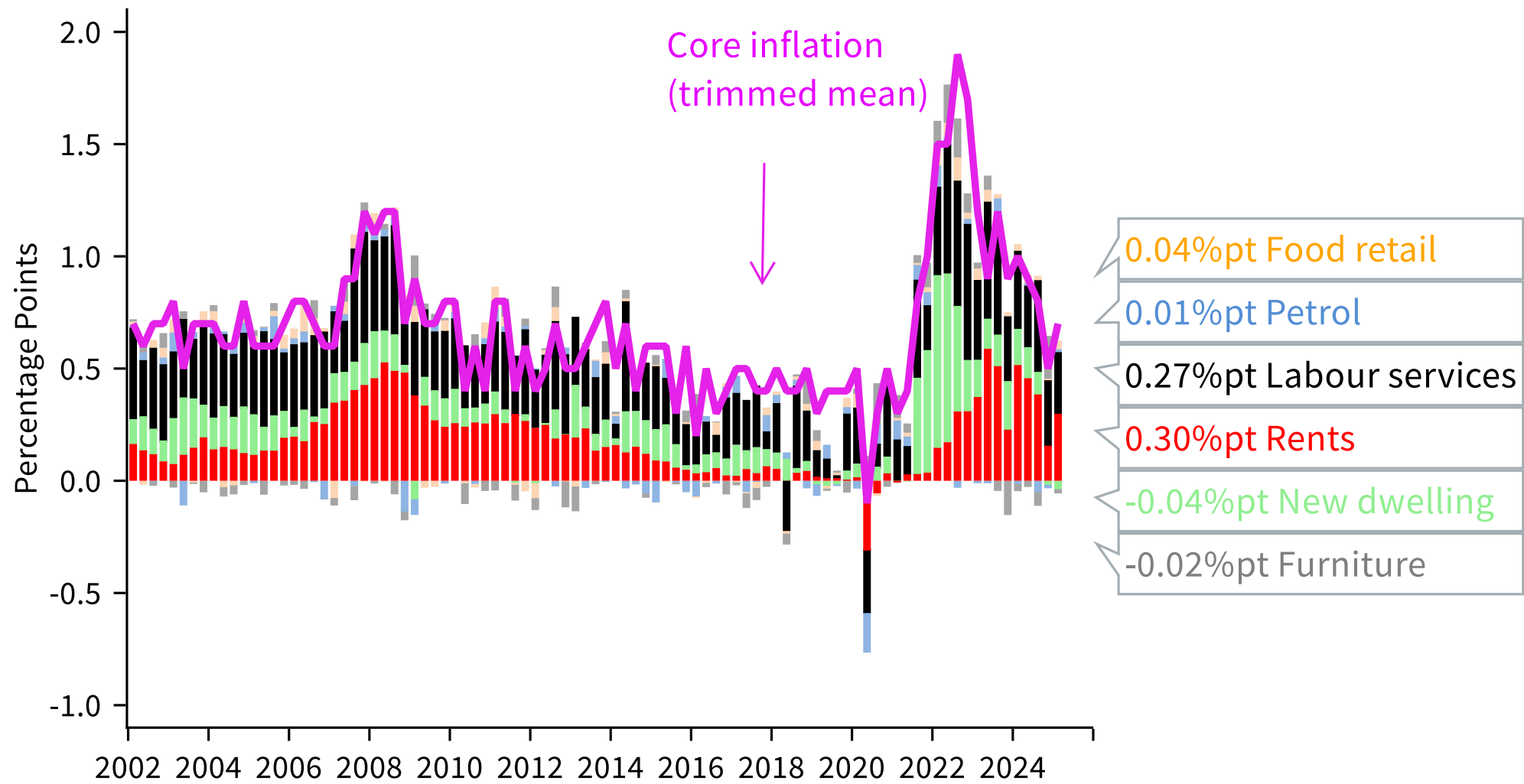
Source: National Australia Bank, Bloomberg



# What is driving inflation

New dwelling costs has driven a lot of the moderation; is that likely to be sustained?

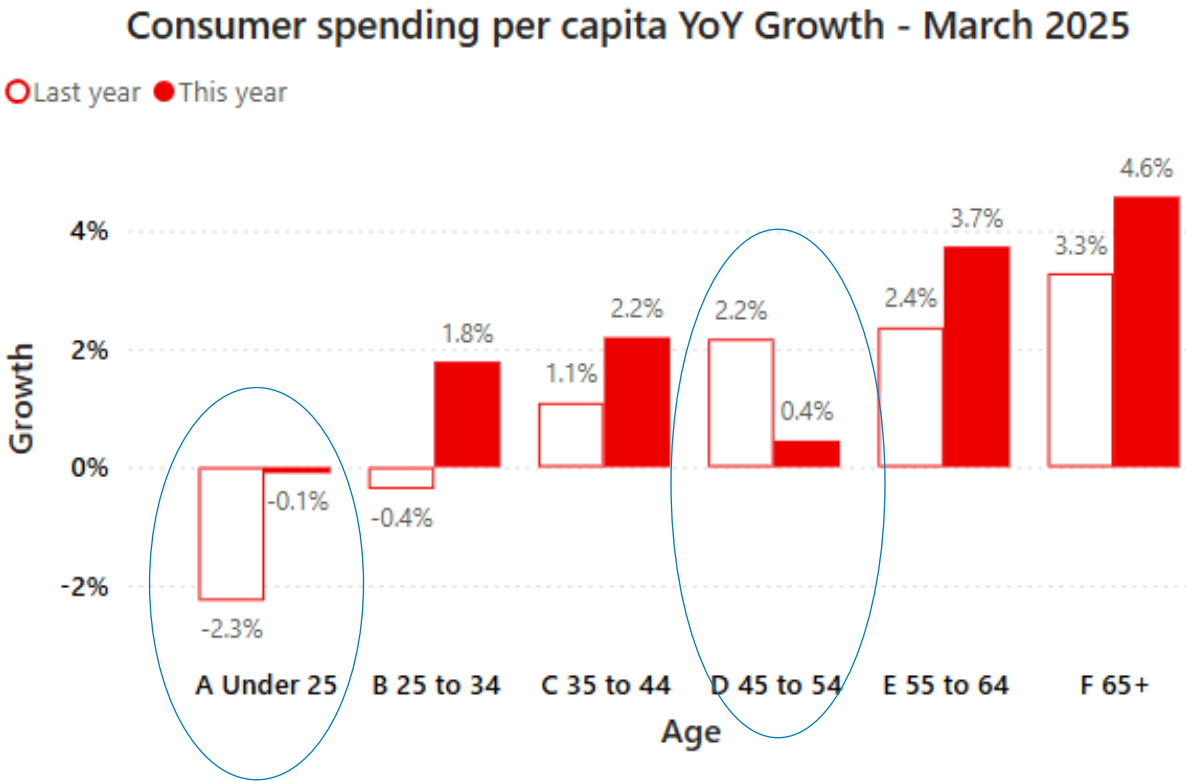
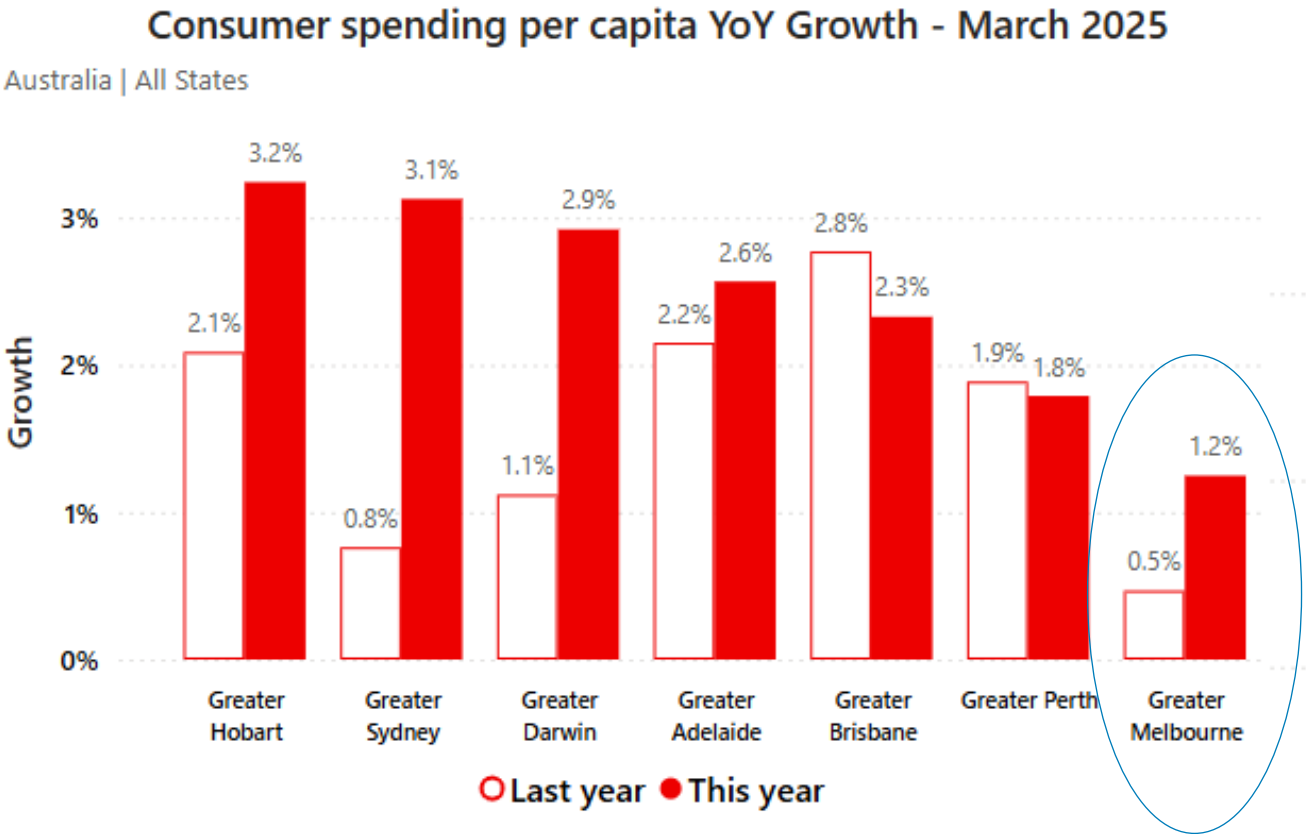
## Six Components Driving Core Inflation



Source: National Australia Bank, Macrobond

# NAB's data shows under 25s and 45-54 years

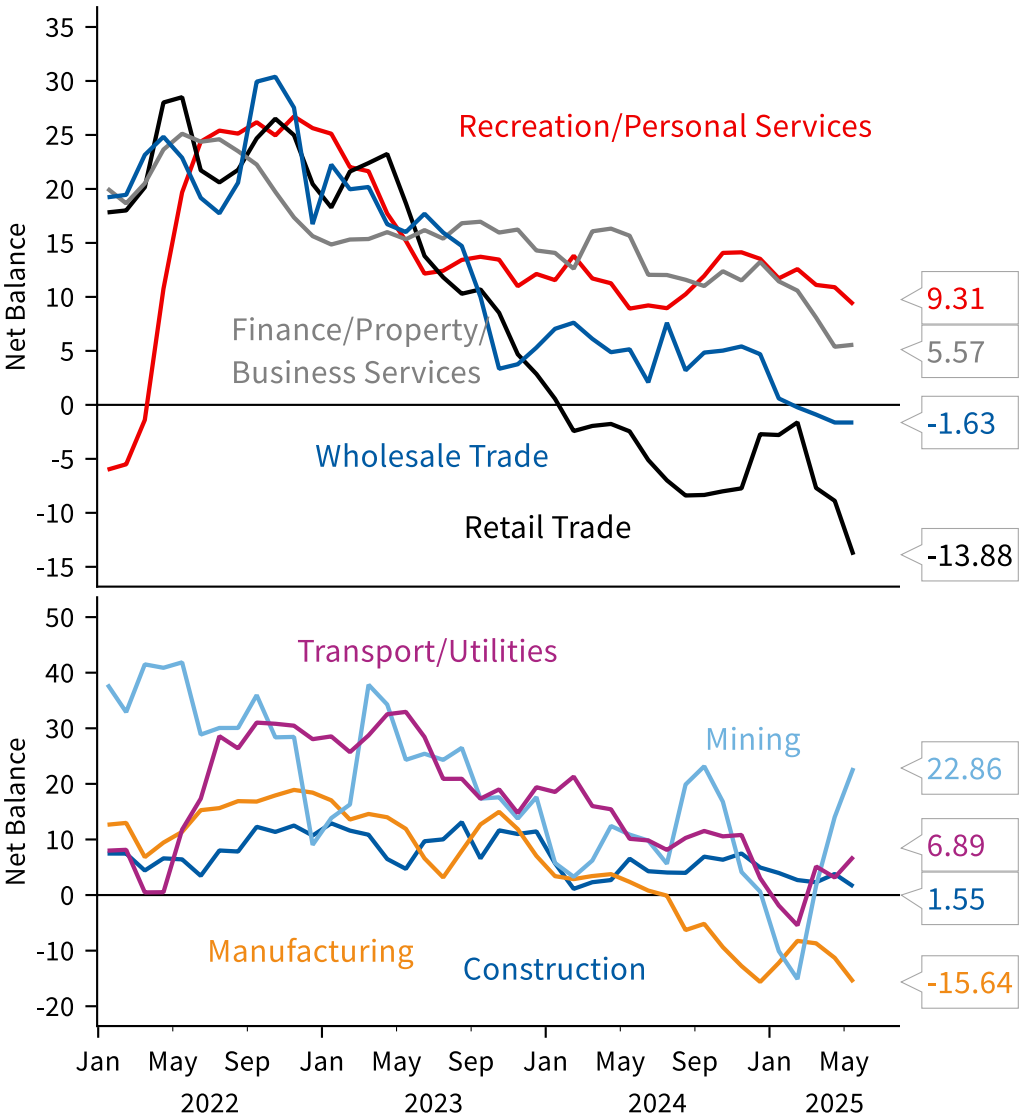
Spending per capita is still soft for under 25s and for those aged 45-54years



# Business sector performance

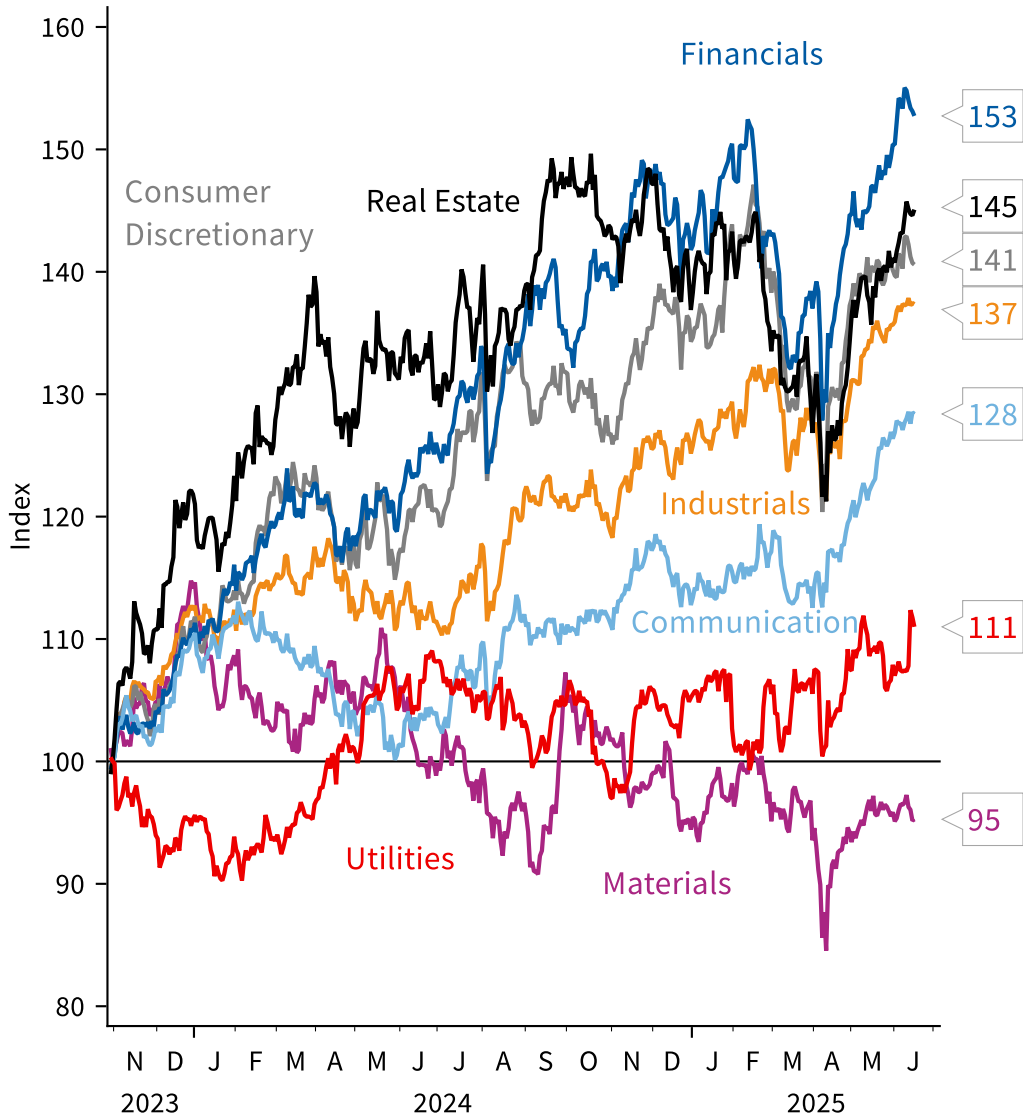
Conditions in services positive, but retail/wholesale and manufacturing are weak

NAB Business Survey - Conditions by Industry



Source: National Australia Bank, National Australia Bank, Account in-house, Macrobond

ASX200 by Sector (30 Oct 2023 = 100)

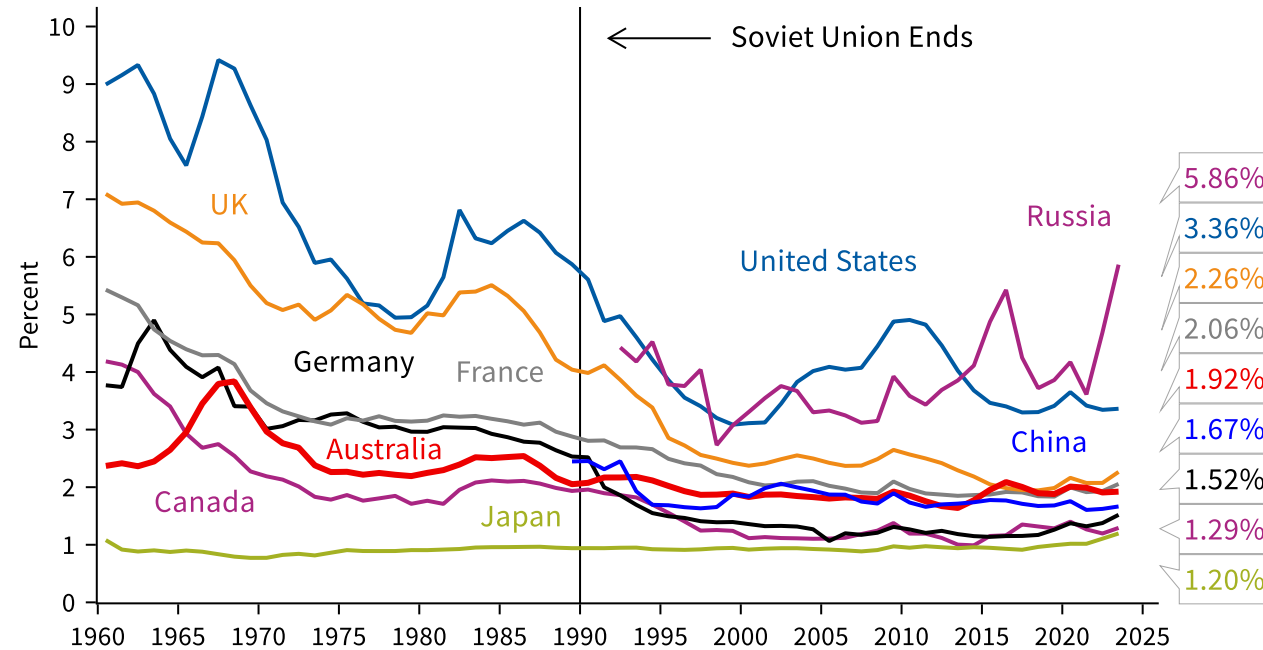


Source: National Australia Bank, Macrobond

# Trump Administration: key observation (1)

Countries 'free ride' on the US security umbrella; As US GDP shrinks as a share of global need burden sharing

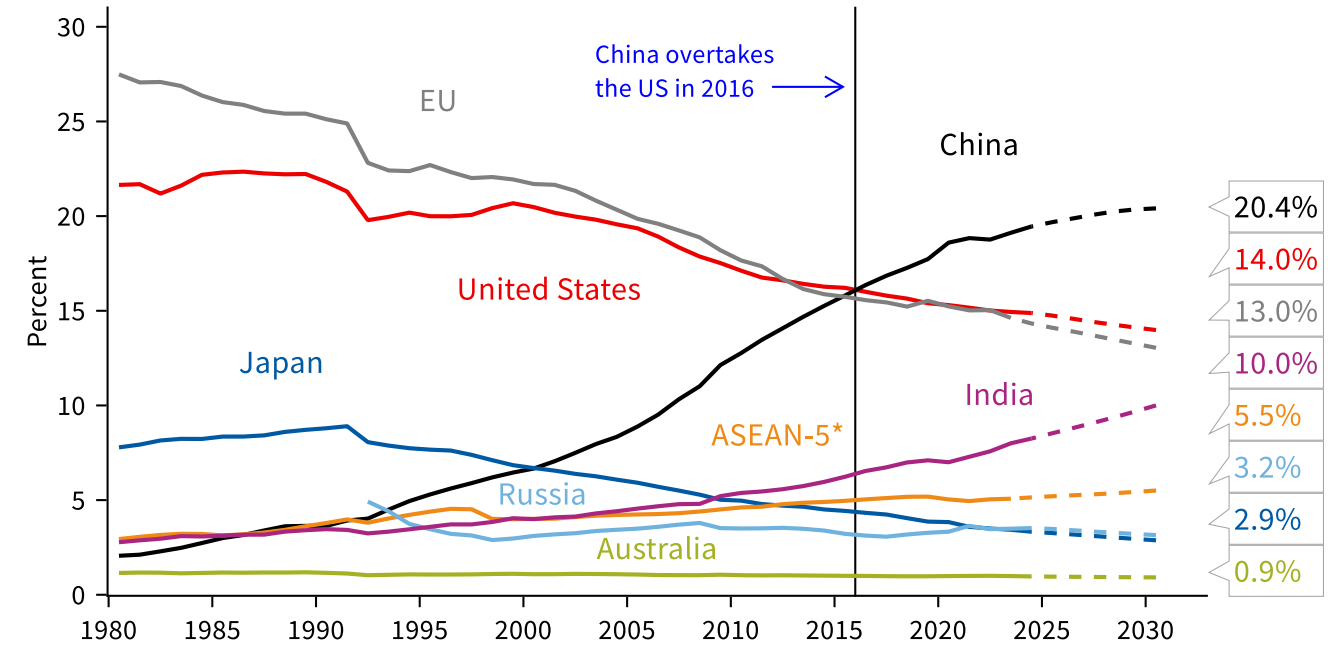
## Military Expenditure, Percent of GDP



Source: National Australia Bank, World Bank, Macrobond

**Polish PM Tusk (2025):** "It's striking but it's true. Right now, 500 million Europeans are begging 300 million Americans for protection from 140 million Russians who have been unable to overcome 50 million Ukrainians for three years."

## Share of World GDP Based on Purchasing-Power-Parity



\* Indonesia, Malaysia, The Philippines, Singapore, Thailand

Source: National Australia Bank, International Monetary Fund (IMF), Macrobond

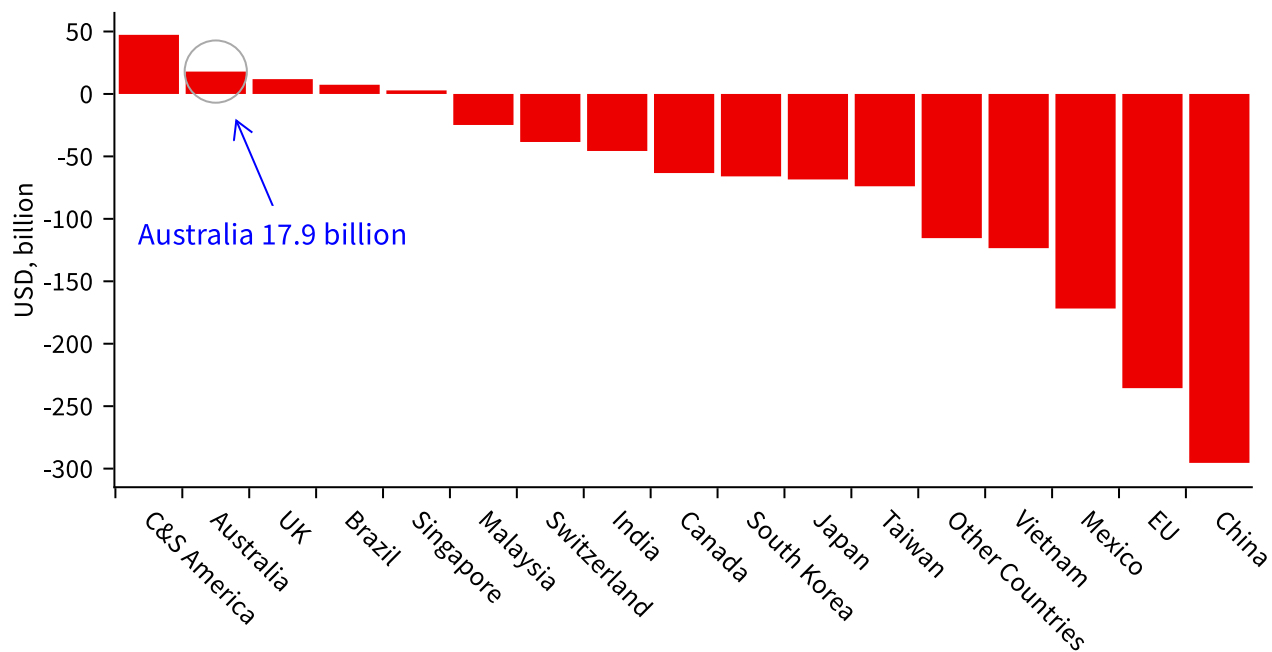
**Stephen Miran (2024):** "...this arrangement becomes more challenging as the United States shrinks as a share of global GDP and military might. As the economic burdens on America grow with global GDP outpacing American GDP, America finds it more difficult to underwrite global security, because the current account deficit grows and our ability to produce equipment becomes hollowed out."



# Trump Administration: key observation (2)

US has run a large and persistent trade deficit and due to reserve status, the USD is not able to correct

## United States Bilateral Goods Balance (2023)



Source: National Australia Bank, U.S. Census Bureau, Macrobond

**Jamison Greer (2024):** “Although this policy of openness allowed some companies to increase exports to China and others to lower their production costs, this came at a high price: the United States’ manufacturing base and employment declined, the country became very dependent on China for critical inputs...”

## USD Valuation – PPP

	AUD/USD	USD/JPY	EUR/USD	GBP/USD
Actual	0.6480	143.10	1.1430	1.3530
PPP-15year	0.8050	98.40	1.2300	1.3860
% Deviation	-19.5	45.5	-7.1	-2.4
z-score	-1.2	2.2	-0.8	-0.2
PPP-25year	0.7600	88.30	1.2620	1.4810

NAB FX Strategist, PPP valuations

**Bessent (2025):** “We do not want a generalized decoupling from China,” “But what we do want is a decoupling for strategic necessities, which we were unable to obtain during Covid and we realized that efficient supply chains were not resilient supply chains.” “We are going to create our own steel. [Tariffs] protect our steel industry...work on critical medicines, on semiconductors,”

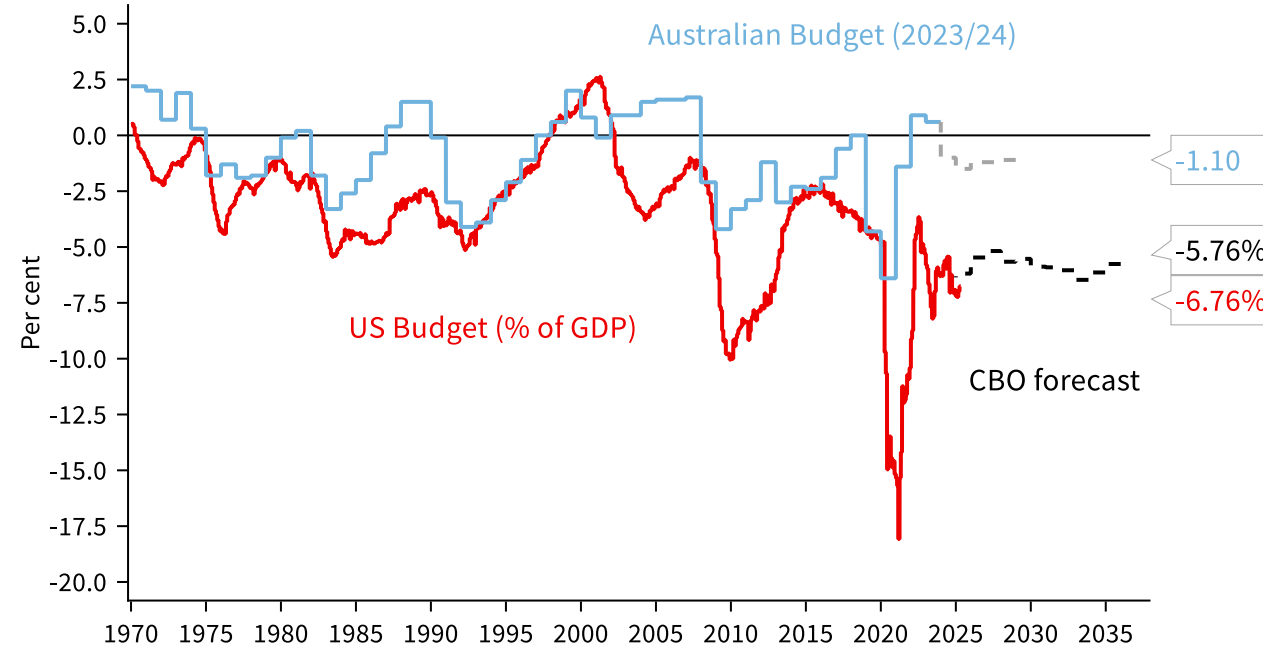
## Colby ‘The Strategy of Denial’ (2021)

“The United States should focus on making denial defence a reality in the Indo-Pacific with respect to its allies... Preventing China’s regional hegemony...China will have to negotiate the terms of its continue rise on equitable rather than dominant terms. This will open opportunities for détente and engagement with Beijing from a position of strength”

# Trump Administration: key observation (3)

Need to address the US federal deficit, but also wants to cut taxes and deregulate; interest an issue

## US Budget vs Australian Budget

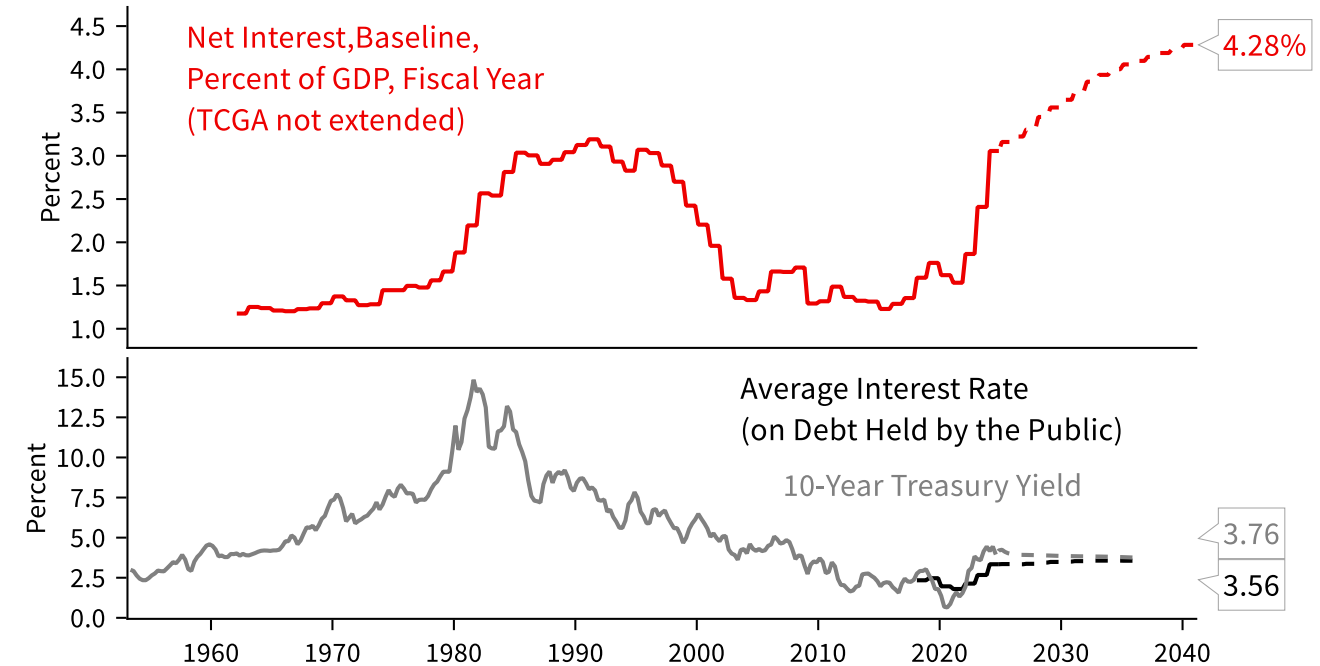


Source: National Australia Bank, Macrobond

**Bessent (2025):** "President Trump has a mandate. He came in to do big things. And one of the big things that this administration wants to do is make the 2017 Tax Cuts and Jobs Act permanent – and that permanency will continue to make the U.S. the number one economy in the world"

**Bessent (2025):** "The president wants lower rates," "He and I are focused on the 10-year Treasury and what is the yield of that."

## US Interest Payments



Source: National Australia Bank, U.S. Congressional Budget Office (CBO), Macrobond

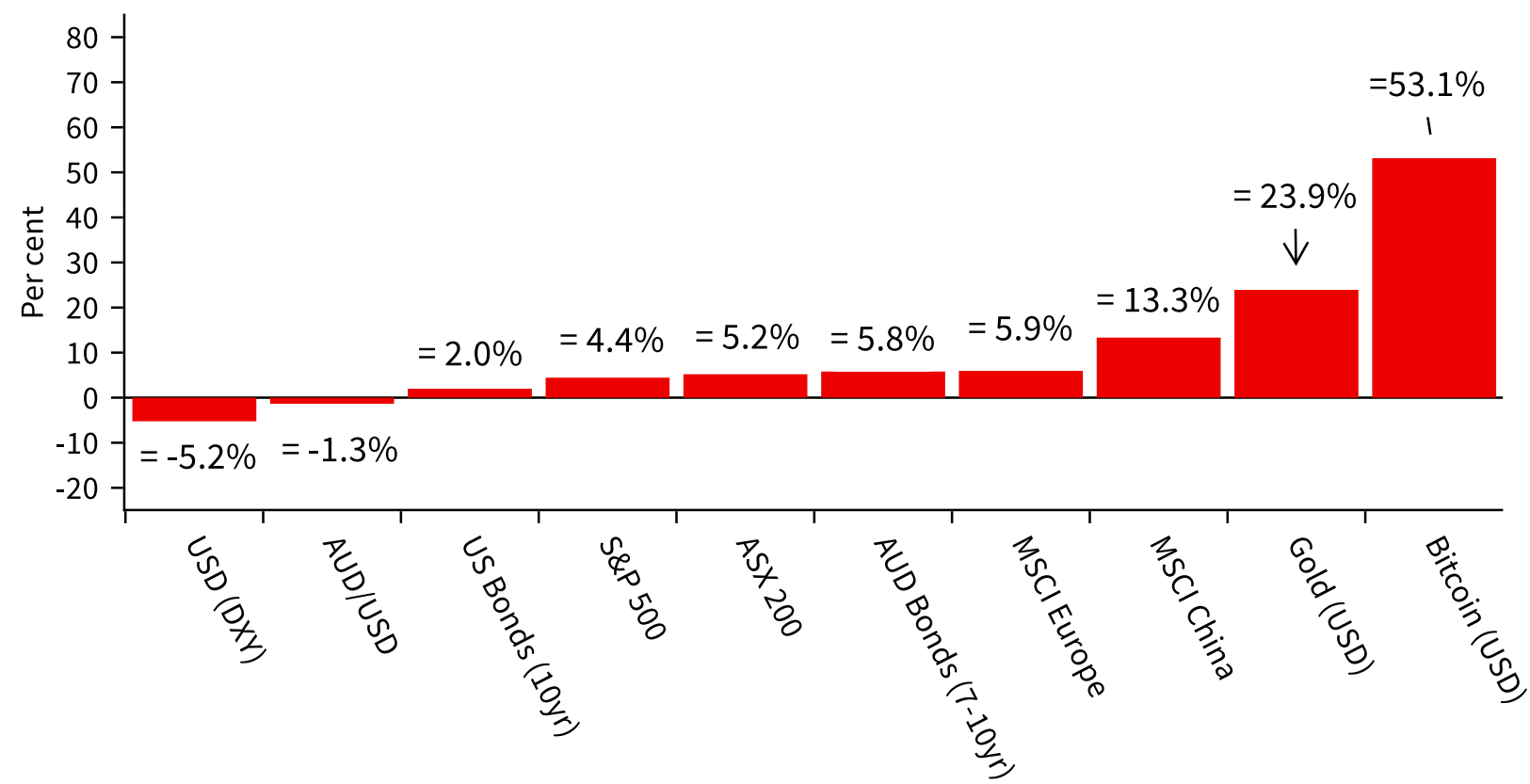
**Trump 2025:** "But if you don't make your product in America, which is your prerogative, then, very simply, you will have to pay a tariff – differing amounts, but a tariff – which will direct hundreds of billions of dollars and even trillions of dollars into our Treasury to strengthen our economy and pay down debt. "

Remarks By President Trump at the World Economic Forum – The White House

# What has been the Trump impact on global markets?

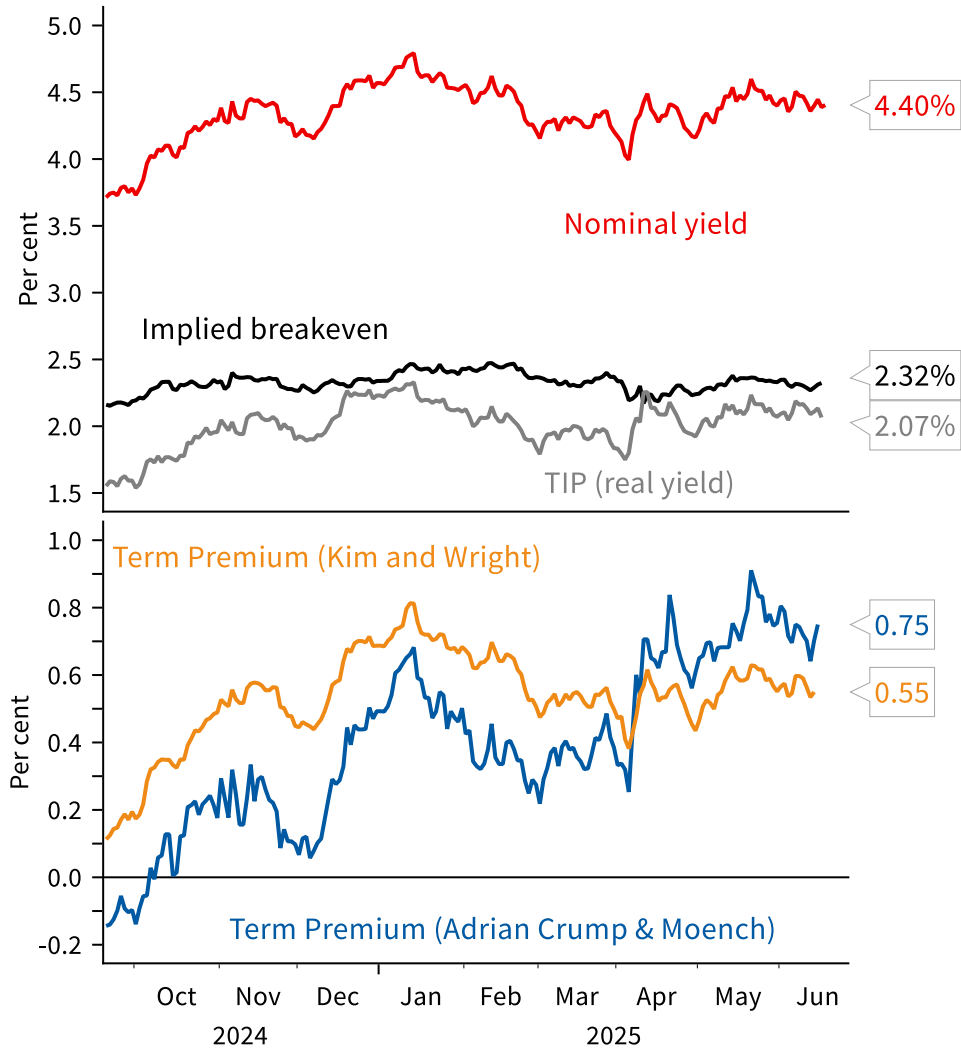
Asset markets broadly positive, USD is down. Gold is up and so is Bitcoin. Yields broadly steady

## Asset Returns Since Trump Was Elected



Source: National Australia Bank, Bloomberg

## US Yield Decomposition & Term Premium

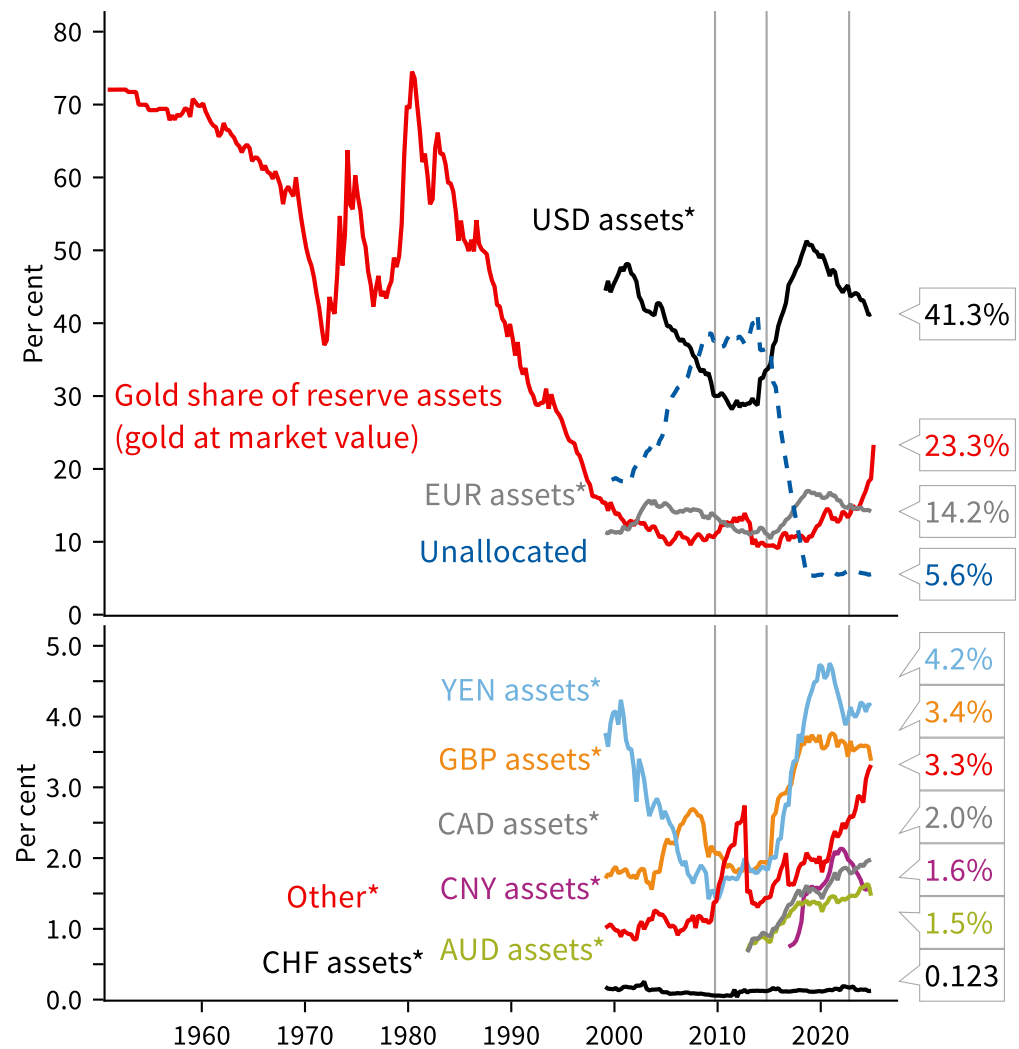


Source: National Australia Bank, Macrobond

# Diversification out of USDs for reserve asset managers

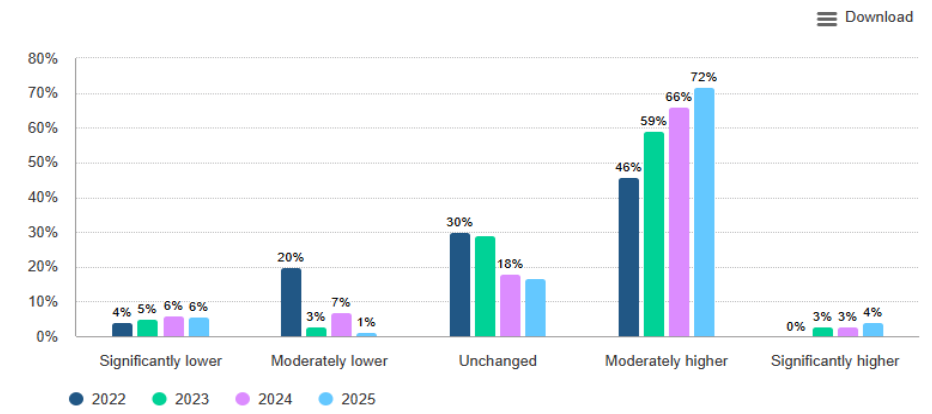
G7 confiscation of Russia’s FX reserves has seen central banks diversify away from USD assets

## Share of official reserves assets



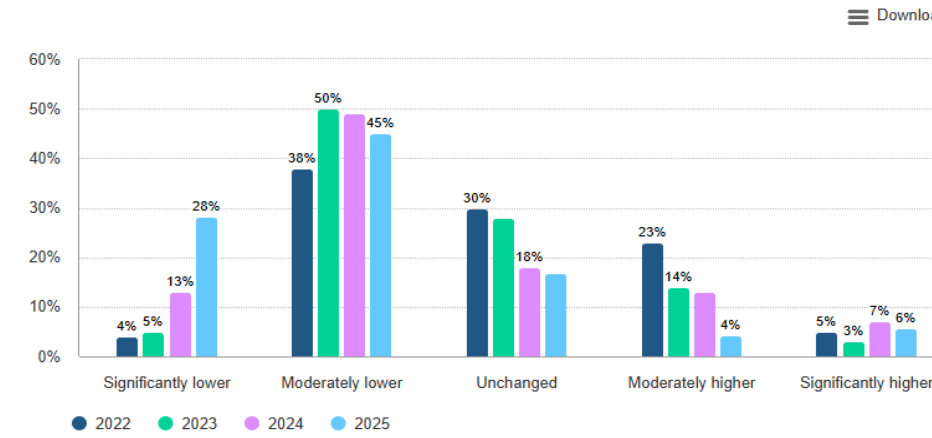
\* Share of reserve assets. Currency assets is from the IMF COFR and then divided by total reserve assets including gold  
Source: National Australia Bank, International Monetary Fund (IMF), Macrobond

Chart 1: What proportion of total reserves (foreign exchange and gold) do you think will be denominated in gold 5 years from now?



Sources: YouGov, World Gold Council; Disclaimer

Chart 2: What proportion of total reserves (foreign exchange and gold) do you think will be denominated in US dollars 5 years from now?

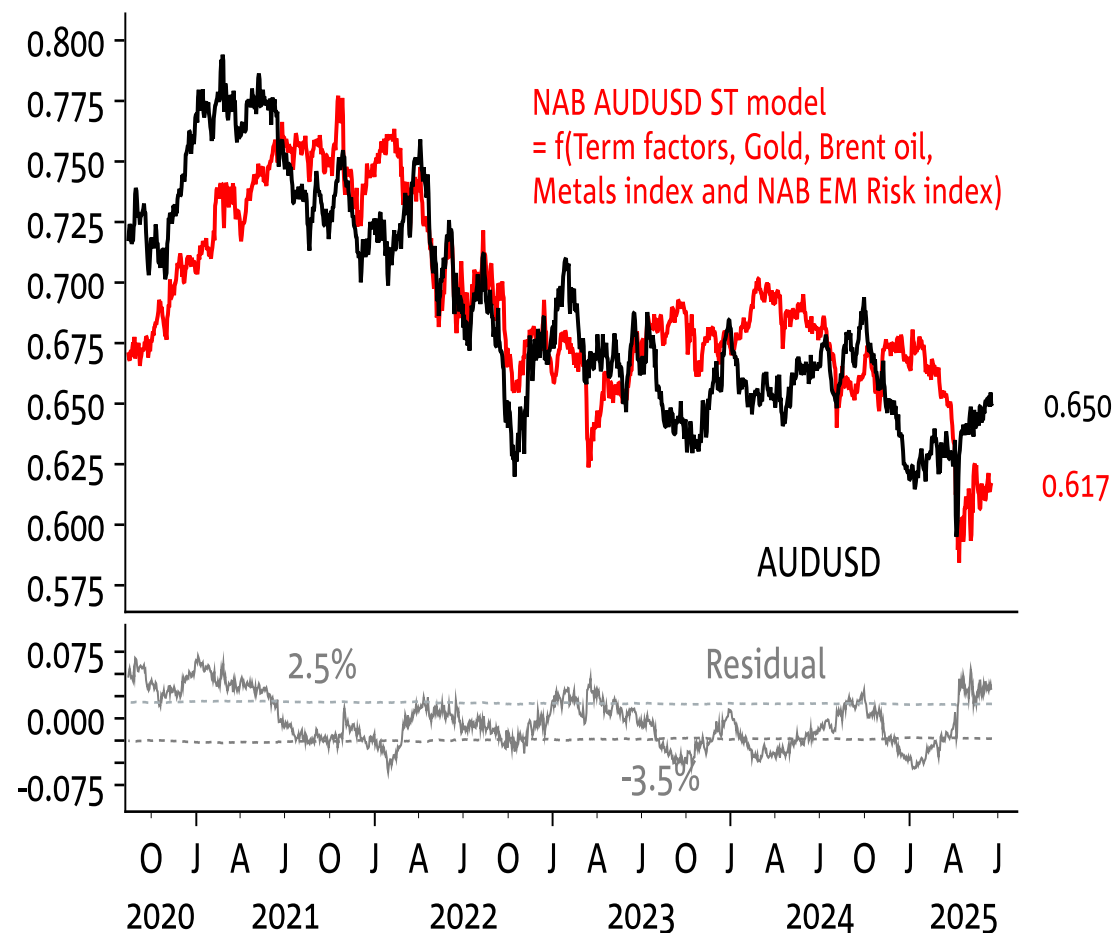


Sources: YouGov, World Gold Council; Disclaimer

# AUD considerations – models giving different views

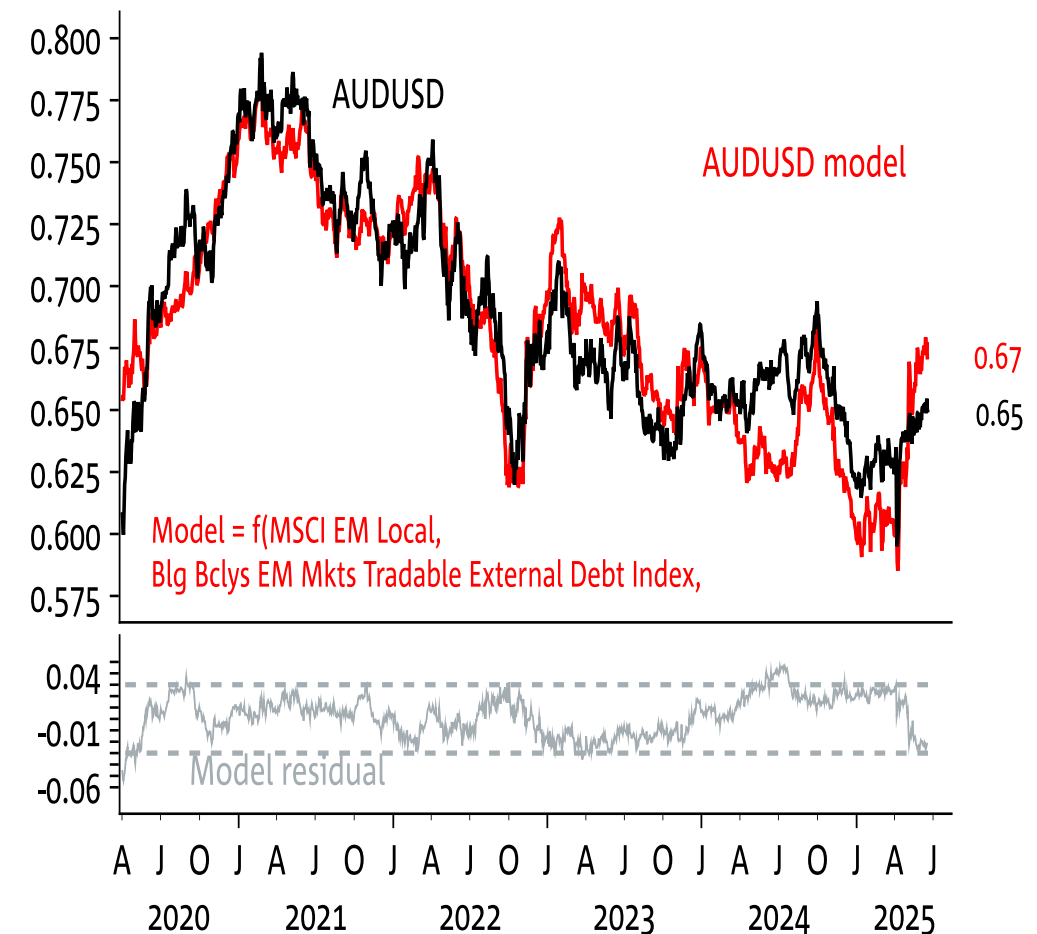
Our central forecast is for the AUD to lift to 0.70 by end 2025, exclusively a USD weakness story. The short-term models of the AUD though giving differing reads in the near-term and much will depend on the pace of USD weakness. On the crosses we expect the AUD to underperform.

AUD/USD Short term model



Source: National Australia Bank, Macrobond

AUD/USD 'EM only' model



Source: National Australia Bank, Macrobond



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# Detailed Economic Forecasts

Australia forecasts table

	% Growth q/q			% Growth y/y		
	Q4-24	Q1-25 (f)	Q2-25 (f)	2024	2025 (f)	2026 (f)
<b>GDP and Components</b>						
Private Consumption	0.7	0.4	0.3	0.9	1.7	2.3
Dwelling Investment	0.7	2.6	0.9	3.5	5.0	1.8
Underlying Business Investment	-1.6	-0.7	1.1	-3.8	1.7	2.9
Underlying Public Final Demand	0.6	-0.4	1.0	5.3	1.5	1.6
<b>Domestic Demand</b>	<b>0.7</b>	<b>0.2</b>	<b>0.4</b>	<b>2.2</b>	<b>1.7</b>	<b>2.3</b>
Stocks (Cont. to GDP)	0.3	0.2	-0.1	0.1	-0.1	0.1
<b>Gross National Expenditure</b>	<b>0.7</b>	<b>0.3</b>	<b>0.3</b>	<b>2.3</b>	<b>1.9</b>	<b>2.3</b>
Exports	0.1	-0.8	0.4	1.3	0.6	1.9
Imports	0.7	-0.4	0.3	6.4	1.0	2.0
Net Export (Cont. to GDP)	-0.1	-0.1	0.1	-1.1	-0.1	0.0
<b>Real GDP</b>	<b>0.6</b>	<b>0.2</b>	<b>0.3</b>	<b>1.3</b>	<b>1.7</b>	<b>2.2</b>
Nominal GDP	1.5	1.4	0.6	3.7	4.4	4.6
<b>Labour Market</b>						
Employment	0.6	0.4	0.7	2.4	1.7	1.9
Unemployment Rate (Q-Ave, End of Period)	4.0	4.1	4.2	4.0	4.4	4.2
Wage Price Index (WPI)	0.7	0.9	0.9	3.2	3.5	3.2
<b>Inflation and Rates</b>						
Headline CPI	0.2	0.9	0.7	2.4	2.9	2.8
Trimmed-mean CPI	0.5	0.7	0.7	3.3	2.6	2.5
RBA Cash Rate (End of Period)	4.35	4.10	3.85	4.35	3.10	3.10
10 Year Govt. Bonds (End of Period)	4.48	4.38	4.35	4.48	4.25	4.05
\$A/US cents (End of Period)	0.62	0.63	0.66	0.62	0.70	0.73

Data are percentage growth rates over the quarter or year as noted, except where specified otherwise.

# Detailed FX Forecasts

		4-Jun-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Majors											
Australian Dollar	AUD/USD	0.6463	0.66	0.68	0.70	0.72	0.73	0.73	0.73	0.74	0.75
New Zealand Dollar	NZD/USD	0.6002	0.61	0.63	0.65	0.67	0.68	0.68	0.68	0.69	0.70
Japanese yen	USD/JPY	143.96	138	130	125	120	119	118	117	116	115
Euro	EUR/USD	1.1379	1.18	1.24	1.23	1.25	1.26	1.27	1.28	1.26	1.25
British Pound	GBP/USD	1.3527	1.37	1.43	1.41	1.44	1.45	1.46	1.47	1.45	1.44
Swiss Franc	USD/CHF	0.8234	0.79	0.74	0.75	0.74	0.73	0.72	0.72	0.73	0.74
Canadian Dollar	USD/CAD	1.3719	1.36	1.33	1.30	1.28	1.28	1.28	1.26	1.24	1.22
Chinese New Yuan	USD/CNY	7.1883	7.25	7.15	7.00	6.90	6.80	6.80	6.80	6.80	6.80
Cross Rates											
	AUD/NZD	1.0768	1.08	1.08	1.08	1.07	1.07	1.07	1.07	1.07	1.07
	AUD/JPY	93.04	91	88	88	86	87	86	85	86	86
	AUD/EUR	0.5680	0.56	0.55	0.57	0.58	0.58	0.57	0.57	0.59	0.60
	AUD/GBP	0.4778	0.48	0.48	0.50	0.50	0.50	0.50	0.50	0.51	0.52
	AUD/CHF	0.5322	0.52	0.50	0.52	0.54	0.53	0.52	0.52	0.54	0.56
	AUD/CAD	0.8867	0.90	0.90	0.91	0.92	0.93	0.93	0.92	0.92	0.92
	AUD/CNY	4.6458	4.79	4.86	4.90	4.97	4.96	4.96	4.96	5.03	5.10
	USD (DXY)	99.2	96.1	91.6	91.6	89.8	89.1	88.5	87.7	88.6	88.9

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