

Monday, 14 October 2019

Glimmers of Hope?

With all the political uncertainty in the world, there has finally been some good news. China and the US are talking again and a deal is emerging. The beginnings of this deal is reported to cover agriculture, currency and intellectual property protections. Moreover, the US president agreed not to proceed with a hike in tariffs from 25% to 30% on \$250 billion worth of Chinese goods that was due to take effect on Tuesday.

In the UK, the prospects of a Brexit deal has also opened up. The end of last week saw encouraging comments from both the Irish and British prime ministers who said that they could see a “pathway to a possible deal”. There appears to have been a shift in position from the UK, which is now considering a customs border in Ireland.

Nonetheless, there is no doubt some skepticism in regards to both the US-China trade deal and Brexit. Details are lacking in a US-China agreement and while there appears to be an understanding, nothing is on paper. Over the weekend, the European Commission has said that “a lot of work remains to be done” on Brexit.

A lot of the damage to the global economy has already been done, by hitting confidence, trade flows and investment decisions. It would take a major turnaround in developments to shift the uncertainty which has become more entrenched among businesses.

This week, the focus on the local calendar is the RBA minutes on Tuesday, in which we will gain further insight into the RBA’s decision to lower official interest rates for the third time this year. There has not been any strong signal that the RBA will lower official interest rates again as soon as November, but the lack of response to stimulus by the consumer, an ongoing outlook for below trend growth and the likelihood that wages and inflation will remain subdued, all suggest that the RBA will lower official interest rates again in this cycle. We continue to favour the timing to be February, but cannot rule out December.

Employment data will be critical to these upcoming decisions, and will be in the spotlight this Thursday. We continue to expect a further solid pace of employment growth but leading indicators and a soft pace of economic growth still suggests that this pace will slow. Given a record high participation rate and ongoing strong population growth, progress towards “full-employment” which the RBA has been hoping for, seems like a remote possibility.

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Forecasts

End Period:	2019		2020			
	Close (Oct 11)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.75	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	0.84	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.77	0.70	0.70	0.75	0.80	0.85
10 Year Bond, %	1.02	0.95	1.00	1.15	1.20	1.25
US Interest Rates:						
Fed Funds Rate, %	1.875	1.375	1.125	0.875	0.875	0.875
US 10 Year Bond, %	1.73	1.45	1.40	1.45	1.50	1.55
USD Exchange Rates:						
AUD-USD	0.6794	0.67	0.66	0.66	0.67	0.67
USD-JPY	108.29	105	104	104	106	108
EUR-USD	1.1042	1.07	1.05	1.06	1.07	1.09
GBP-USD	1.2668	1.17	1.18	1.20	1.22	1.24
NZD-USD	0.6337	0.63	0.62	0.62	0.63	0.63
AUD Exchange Rates:						
AUD-USD	0.6794	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6152	0.63	0.63	0.62	0.63	0.61
AUD-JPY	73.56	70.4	68.6	68.6	71.0	72.4
AUD-GBP	0.5370	0.57	0.56	0.55	0.55	0.54
AUD-NZD	1.0717	1.06	1.06	1.06	1.06	1.06

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.3	2.4
CPI (Headline), %	1.8	1.7	1.9
CPI (Trimmed mean), %	1.9	1.5	1.8
Unemployment Rate, %	5.0	5.4	5.6
Wages Growth, %	2.3	2.5	2.6

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

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