

Monday, 16 December 2019

Kind of a Big Deal

The ongoing saga of the US-China trade negotiations entered a new phase over the last week. US President Trump tweeted in the early hours of Friday that a “big” trade deal with China was “very close”. Financial markets rose on the anticipation that a phase-one trade deal was about to be signed, almost two months since Presidents Xi and Trump first announced that a deal had been reached. There had been plenty of false starts and it wasn’t until a document was released over the weekend with accompanying details that concrete evidence has emerged.

The deal is no panacea for the more than two years long trade war between the US and China though. The details suggest more of a truce than a substantial deal. Included was the suspension of a new round of US tariffs due to come into effect yesterday and a 50% reduction on around US\$120 billion worth of existing tariffs. This still leaves a 25% tariff on US\$250 billion worth of Chinese imports. For China’s part, it has promised to increase its imports of US agricultural, manufactured and energy products by US\$200 billion over the next two years. Additionally, the deal includes a pledge by China to better protect intellectual property and curb forced technology transfer from US firms operating in China. There was also a promise to avoid the manipulation of its currency.

The realisation that the underlying issues of the US-China trade dispute will take a long time to resolve has already begun to dawn on the markets. Crucially, there has been no word on the subsidisation of state-owned enterprises (SOEs) and it is not clear how effective the intellectual property protections are.

Still, the latest global developments are a positive, including in the UK. Boris Johnson’s conservative party won the UK general election with a convincing majority, removing some uncertainty as to where Brexit is headed. The combination of the phase one US-China trade deal and Boris Johnson’s clear win has reduced some of the near-term risks to the global outlook.

Domestically, the growth outlook remains uncertain. Business and consumer confidence readings last week both pointed to continued challenging economic conditions. Tomorrow, data for new housing lending for October will be released while labour market data for November is released on Thursday. So far this year, three rate cuts by the Reserve Bank (RBA) have increased new lending and boosted house prices, but the lift has been led by owner occupiers. Investors are mostly still sitting it out. The unemployment rate has also recently moved higher.

Tomorrow, the RBA will publish the minutes for its board meeting earlier this month. The previous minutes for November revealed the RBA was closer to cutting the cash rate in November than the market anticipated. The same could be true again in December. The board meeting and minutes preceded the weak GDP outcome for Q3 published last week. The ongoing softness in economic activity amid ongoing slack in the labour market sets the RBA up to cut the cash rate again in 2020. We expect the RBA to cut in February and June, before it has to seriously consider unconventional policies.

Thank you for your readership this year. This will be our last weekly economic outlook until Monday 13th January 2020. We wish you and your families a very happy and safe festive season.

Nelson Aston, Economist

Ph: 02-8254-1316

Forecasts

End Period:	2019		2020			2021
	Close (Dec 9)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)	Q1 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	0.75	0.50	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.90	0.70	0.45	0.45	0.50	0.50
3 Year Swap, %	0.78	0.65	0.50	0.50	0.60	0.65
10 Year Bond, %	1.26	0.90	0.90	0.90	0.90	0.95
US Interest Rates:						
Fed Funds Rate, %	1.625	1.375	1.125	0.875	0.875	0.875
US 10 Year Bond, %	1.82	1.50	1.45	1.40	1.50	1.55
USD Exchange Rates:						
AUD-USD	0.6876	0.66	0.66	0.67	0.67	0.68
USD-JPY	109.38	107	106	105	105	106
EUR-USD	1.1121	1.09	1.10	1.11	1.12	1.13
GBP-USD	1.3331	1.33	1.32	1.32	1.31	1.31
NZD-USD	0.6599	0.64	0.64	0.65	0.65	0.66
AUD Exchange Rates:						
AUD-USD	0.6876	0.66	0.66	0.67	0.67	0.68
AUD-EUR	0.6182	0.61	0.60	0.60	0.60	0.60
AUD-JPY	75.19	70.6	70.0	70.4	70.4	72.1
AUD-GBP	0.5157	0.50	0.50	0.51	0.51	0.52
AUD-NZD	1.0422	1.03	1.03	1.03	1.03	1.03

	2018	2019 (f)	2020 (f)
GDP, %	2.1	2.1	2.1
CPI (Headline), %	1.8	1.7	1.9
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.3	5.6
Wages Growth, %	2.4	2.5	2.5

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

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

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

Economist

Nelson Aston

nelson.aston@bankofmelbourne.com.au

(02) 8254 1316

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St.George has a contract to supply Information, the supply of the Information is made under that contract and St.George’s agreed terms of supply apply. St.George does not represent or guarantee that the Information is accurate or free from errors or omissions and St.George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St.George products and details are available. St.George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St.George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St.George.

Any unauthorised use or dissemination is prohibited. Neither St.George Bank - A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.
