



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.

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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.

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