

Monday, 17 June 2019

## US Federal Reserve in Focus

It is a much quieter week on the data calendar locally, although State governments from NSW and South Australia will hand down their Budgets tomorrow. Like other State governments and nationally, both governments are spruiking further spending on transport infrastructure, adding to an already bulging pipeline. However, NSW stamp duty revenues are being hit by the downturn in the housing market, which suggest limited scope for a further strong ramp-up in infrastructure spending. Moreover, current construction in the infrastructure space is already facing bottlenecks.

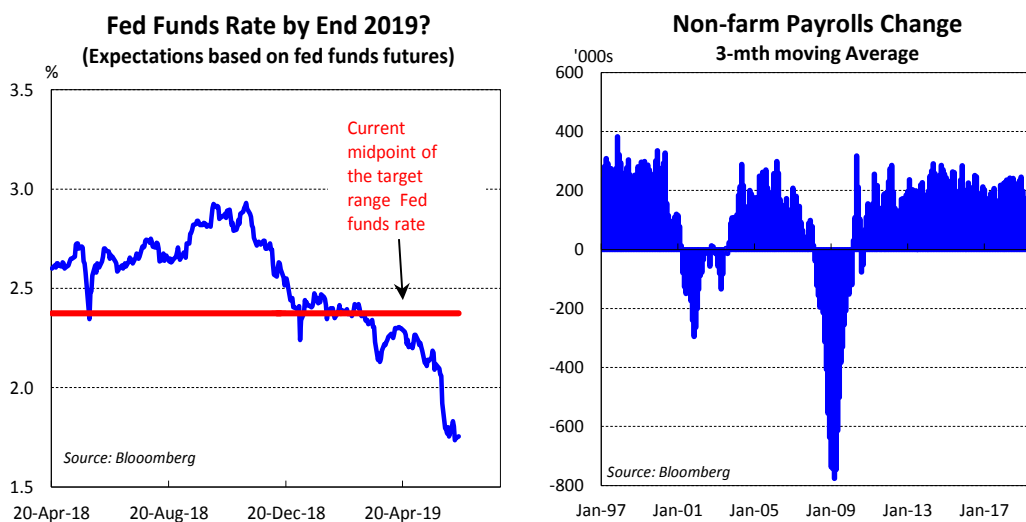
Internationally, markets will be watching the geopolitical environment with the protests in Hong Kong and ongoing trade tensions. On Tuesday, there will be a second ballot to choose UK Prime Minister May's successor, which will have key implications for Brexit.

There will also be focus on central banks this week, in particular the Federal Reserve. The decision and press conference from the Fed's two-day meeting will be due on Thursday morning AEST. No change in interest rates is expected, but there are growing expectations that the Federal Reserve could cut official interest rates later this year in response to the downside risks to the economy from trade disputes. US economic data has also been more mixed of late, including soft payrolls data for May, although consumer spending is holding up relatively well.

A deal between Mexico and the US has prevented tariffs on Mexican goods going ahead. However, the initial threat highlights the increasing uncertainty firms face about tariffs and the future trading environment. Indeed, the conflict with China is far from resolved. US President Trump is still threatening that further tariffs on China will go ahead if he is unable to reach a deal with Chinese President Xi at the G20 Summit (scheduled June 28-29).

With global tensions likely to continue, markets have fully priced in two 25 basis-point rate cuts by the Federal Reserve before the end of this year. Federal Reserve Chair Powell and other policymakers have fallen short of signalling rate cuts, although they have expressed an openness to do so. Markets would be looking for a clearer signal in Powell's comments in the press conference or in the Fed's forecasts, although a dovish stance is already factored into markets.

Among other major central banks, the Bank of England and the Bank of Japan will also meet this week.



## Forecasts

End Period:	2019			2020			
	Close (Jun 14)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
<b>Aust. Interest Rates:</b>							
RBA Cash Rate, %	1.25	1.00	0.75	0.75	0.75	0.75	0.75
90 Day BBSW, %	1.30	1.25	1.00	1.00	1.00	1.00	1.00
3 Year Swap, %	1.06	1.15	1.10	1.15	1.20	1.25	1.30
10 Year Bond, %	1.37	1.40	1.40	1.45	1.60	1.70	1.75
<b>US Interest Rates:</b>							
Fed Funds Rate, %	2.375	2.125	1.875	1.875	1.875	1.875	1.875
US 10 Year Bond, %	2.08	2.10	2.05	2.10	2.20	2.25	2.30
<b>USD Exchange Rates:</b>							
AUD-USD	0.6872	0.6800	0.6600	0.6600	0.6700	0.6700	0.6800
USD-JPY	108.56	111.00	112.00	112.00	112.00	111.00	110.00
EUR-USD	1.1208	1.1000	1.1000	1.1100	1.1200	1.1300	1.1400
GBP-USD	1.2589	1.2800	1.2800	1.2800	1.2900	1.2900	1.3000
NZD-USD	0.6492	0.6400	0.6500	0.6500	0.6600	0.6600	0.6700
<b>AUD Exchange Rates:</b>							
AUD-USD	0.6872	0.6800	0.6600	0.6600	0.6700	0.6700	0.6800
AUD-EUR	0.6131	0.6180	0.6000	0.5950	0.5980	0.5930	0.5960
AUD-JPY	74.61	75.50	73.90	73.90	75.00	74.40	74.80
AUD-GBP	0.5458	0.5310	0.5160	0.5160	0.5190	0.5190	0.5230
AUD-NZD	1.0586	1.0200	1.0200	1.0400	1.0200	1.0200	1.0100

	2018	2019 (f)	2020 (f)
GDP, %	2.3	2.2	2.5
CPI (Headline), %	1.8	1.8	1.6
CPI (Underlying), %	1.7	1.3	1.7
Unemployment Rate, %	5.0	5.4	5.6
Wages Growth, %	2.3	2.6	2.8

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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