

Monday, 19 August 2019

Central Bankers' Meet as Risks Rise

It's a rare event next week – economic data will slow to a trickle. However, economists, as always, will have plenty to get excited about with the annual symposium in Jackson Hole Wyoming kicking off on Thursday.

The Jackson Hole event is the key gathering of central bankers, policymakers, academics and economists all around the world to discuss the big economic issues of the day. This year, the theme of the event is “Challenges for Monetary Policy”. There are challenges indeed, given that central banks around the world are looking to provide further stimulus for their economies, but interest rates are close to, and even below, zero in some economies.

Global attention will be on the speech by Federal Reserve Chair Powell. Powell will be speaking publically for the first time since the latest escalation in the trade tensions between the US and China. At the Fed's last rate decision, Powell emphasised that the move to lower rates (by 25 basis points) was a “mid-cycle adjustment to policy” designed to “insure against downside risks” and that it was “not the beginning of a long series of rate cuts”. Interest-rate markets will be watching to hear Powell's take on the downside risks to the global economy that are increasingly crystallising and at what point does an insurance cut turn into the beginning of a rate cutting cycle.

We will also hear from Australia's Reserve Bank Governor, Phillip Lowe. Lowe will be speaking at the symposium on Sunday. In addition to Lowe's speech, we will gain further insights from the RBA in the RBA's board meeting minutes for August 6; these are released tomorrow and pre-date some of the sharper trade-related movements in financial markets.

The RBA board minutes also pre-dates a batch of key data last week, which included labour-market data. Jobs growth in July was robust, rising by 41.1k and well ahead of consensus expectations. Despite the solid employment gain, the unemployment rate stayed sticky at 5.2% due to a rise in the participation rate to a new record. The RBA has indicated a desire to see the unemployment rate down near 4.5%, a rate consistent with full employment. The RBA has more rate cuts to deliver to achieve this outcome, however, the solid jobs outcome might buy the RBA a little time in delivering rate cuts. How much time could depend on global and trade developments, which are outside of the RBA's control.

In a speech last week, RBA Deputy Governor Debelle discussed risks around the economic outlook, including concerns around global trade and domestic household consumption. While flagging “near-term downside risks to the consumption outlook, including from a softer labour market”, Debelle noted Australia was relatively insulated from the downturn in global manufacturing and that several factors, including tax cuts and a stabilising housing market, should help support domestic growth. Whilst we also agree there should be some improvement to flow through to economic activity over the remainder of this year and through next year, we are more pessimistic on the growth outlook. We expect the Australian economy to grow below trend this year and next year, making it tough to push the unemployment rate down towards 4.5%, which is necessary for stronger wages and inflation growth.

Forecasts

End Period:	2019			2020			
	Close (Aug 16)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:							
RBA Cash Rate, %	1.00	1.00	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	0.97	0.95	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.69	0.70	0.70	0.75	0.80	0.85	0.90
10 Year Bond, %	0.88	0.90	0.90	1.00	1.00	1.10	1.10
US Interest Rates:							
Fed Funds Rate, %	2.125	1.875	1.375	1.375	1.375	1.375	1.375
US 10 Year Bond, %	1.55	1.60	1.55	1.60	1.60	1.65	1.65
USD Exchange Rates:							
AUD-USD	0.6779	0.67	0.67	0.66	0.66	0.67	0.67
USD-JPY	106.38	106	106	107	108	110	111
EUR-USD	1.1090	1.09	1.08	1.08	1.08	1.09	1.11
GBP-USD	1.2149	1.18	1.19	1.20	1.22	1.24	1.26
NZD-USD	0.6429	0.64	0.64	0.63	0.63	0.64	0.64
AUD Exchange Rates:							
AUD-USD	0.6779	0.67	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6112	0.61	0.62	0.61	0.61	0.61	0.60
AUD-JPY	72.12	71.0	71.0	70.6	71.3	73.7	74.4
AUD-GBP	0.5581	0.57	0.56	0.55	0.54	0.54	0.53
AUD-NZD	1.0548	1.05	1.05	1.05	1.05	1.05	1.05

	2018	2019 (f)	2020 (f)
GDP, %	2.4	2.2	2.5
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.

Contact Listing

Chief Economist

Besa Deda

dedab@bankofmelbourne.com.au

(02) 8254 3251

Senior Economist

Janu Chan

chanj@bankofmelbourne.com.au

(02) 8253 0898

The Detail

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 Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne 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 Bank of Melbourne products and details are available. Bank of Melbourne 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. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- 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.