



Monday, 1 July 2019

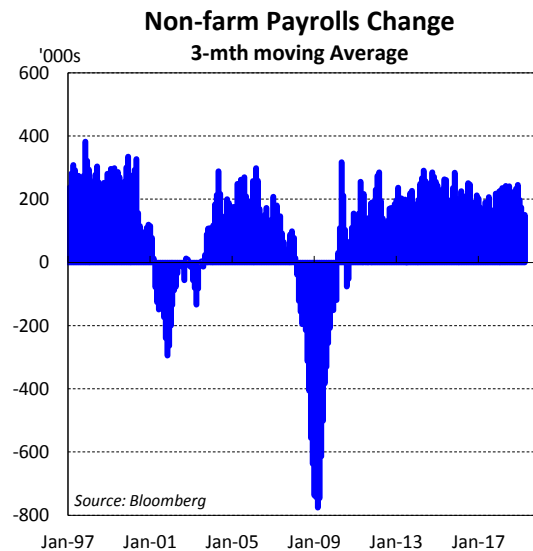
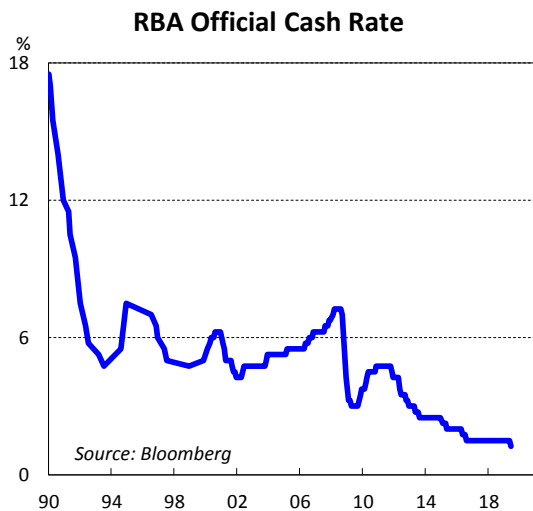
## Is the Only Way Down for Interest Rates?

There was some good news over the weekend after China and the US agreed to restart trade talks. Trump has put off imposing additional tariffs on the remaining \$300 billion worth of Chinese imports. Moreover, Trump hinted that the decision to ban Huawei from buying parts and components from US companies without government approval would be reviewed.

A willingness to negotiate is a positive step in the trade conflict. Nonetheless, there is still uncertainty over details of the agreement and negotiations are likely to continue for quite some time. Most share markets in Asia have rallied today, although the Australian dollar has weakened ahead of a critical RBA decision on Tuesday.

It is a full economic data calendar this week, including house prices, building approvals, retail sales, trade and ABS job vacancies. The RBA board meeting will be held on Tuesday in a widely anticipated decision. It will be a live meeting, given the RBA has signalled that another rate cut is likely needed, although the exact timing will be a close call. Given the clear signal in the minutes and comments by RBA Governor Lowe, we expect a 25 basis point cut at its meeting tomorrow, and we expect the RBA will lower the cash rate to 0.75% by the end of the year. Markets are anticipating a near 80% chance the RBA will cut rates tomorrow. Governor Lowe will follow up the decision with a speech later that night.

Another widely watched piece of data will be US non-farm payrolls, which will be released on Friday. While trade negotiations are back on track, uncertainty will likely linger and continue to pose a downside risk to an economy already losing momentum. A weak payrolls outcome would certainly bolster the case for a rate cut from the Fed, particularly given the data follows a poor result in May. Markets have been aggressively pricing in rate cuts – a 25 basis point rate cut is fully priced in by financial markets at the Fed’s next meeting scheduled later this month and two rate cuts are priced in by the end of the year.



## Forecasts

End Period:	2019			2020			
	Close (Jun 28)	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, %	1.20	1.15	1.00	1.00	1.00	1.00	1.00
3 Year Swap, %	1.03	1.00	1.05	1.15	1.20	1.25	1.30
10 Year Bond, %	1.32	1.30	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, %	2.01	2.10	2.05	2.10	2.20	2.25	2.30
<b>USD Exchange Rates:</b>							
AUD-USD	0.7020	0.6800	0.6600	0.6600	0.6700	0.6700	0.6800
USD-JPY	107.85	111.00	112.00	112.00	112.00	111.00	110.00
EUR-USD	1.1373	1.1000	1.1000	1.1100	1.1200	1.1300	1.1400
GBP-USD	1.2696	1.2800	1.2800	1.2800	1.2900	1.2900	1.3000
NZD-USD	0.6718	0.6400	0.6500	0.6500	0.6600	0.6600	0.6700
<b>AUD Exchange Rates:</b>							
AUD-USD	0.7020	0.6800	0.6600	0.6600	0.6700	0.6700	0.6800
AUD-EUR	0.6172	0.6180	0.6000	0.5950	0.5980	0.5930	0.5960
AUD-JPY	75.71	75.50	73.90	73.90	75.00	74.40	74.80
AUD-GBP	0.5530	0.5310	0.5160	0.5160	0.5190	0.5190	0.5230
AUD-NZD	1.0450	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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