

Monday, 20 July 2020

## Peering Over the Cliff

In an emergency response, action needs to be effective and swift. The response to the COVID-19 pandemic has been no different. Policy and support measures were needed quickly but were also implemented with the intention of these policies being in place for a temporary period.

Governments, federal and state, central banks and the banking sector all provided support measures over this time. However, given the speed at which these measures were implemented, the bulk of support measures were scheduled to expire towards the end of September. The result was that support would be withdrawn at the same time, or a “cliff”.

The problem of the September cliff has been somewhat alleviated today. It has been reported that the government’s key policy support measure, JobKeeper, will be extended three months to December 31. The subsidy is expected to be reduced and criteria for eligibility will be tightened.

Further details will be available this Thursday, July 23, when Federal Treasurer Josh Frydenberg will provide what sounds like a mini-Budget, officially billed as an update on the fiscal and economic outlook. Note that the official Federal Budget date has been postponed to October 6. Along with the long-awaited details on what the new JobKeeper will look like, we expect Thursday will bring other announcements. Flagged measures include an extension to small and medium-sized businesses to allow greater eligibility for cheap funding including an interest-free period. Tax cuts could be brought forward, and other income support measures have also been hinted.

The potential for these additional support measures suggest the issue of the cliff is being addressed. Moreover, the extension of mortgage payment relief for another four months for eligible borrowers also alleviates pressure around the September period.

Further support takes on greater importance given that parts of Victoria have re-entered lockdown and cases of COVID-19 are rising in NSW. The outlook remains extremely uncertain.

It will be a big week for commentary from the RBA. Tomorrow, the Reserve Bank Governor Philip Lowe will be speaking at the Anika Foundation annual event. Unlike previous years, this speech will be available via webcast. The title of his speech will be COVID 19, the Labour Market and Public-sector Balance Sheets. The minutes of the RBA meeting in July will also be released tomorrow. While the RBA is not expected to move policy rates any time soon, any insight into how the RBA is thinking with regards to potential policy measures down the track will be watched for closely.

Other key indicators this week include the ABS preliminary release for retail sales for June. There have been wild swings in retail spending, increasing sharply in March to reflect stockpiling of household goods and medical supplies, a record drop in April following lockdown measures and another record increase in May as restrictions began to ease. We expect some volatility to continue given the uncertainty with regards to the virus and the renewed stay-at-home orders in Victoria as of this month.

On Friday, the ABS will also release a preliminary trade data for June. Exports have been extremely weak, given lower international arrivals from tourists and students. Further, a sharp drop in global demand has weakened demand for exports. However, imports have also fallen significantly, mostly as fewer Australians travel overseas and as domestic demand weakened considerably.

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*Forecasts are detailed on the following page*

## Forecasts

Please note that due to the unprecedented nature of the coronavirus's impact on the economy and the rapid change of developments, there is greater than usual variability attached to these forecasts.

End Period:	Close (July 17)	2020		2021		
		Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	0.25	0.25	0.25	0.25	0.25	0.25
90 Day BBSW, %	0.10	0.10	0.15	0.20	0.25	0.30
3 Year Swap, %	0.21	0.25	0.30	0.35	0.35	0.40
10 Year Bond, %	0.87	0.95	1.00	1.05	1.15	1.25
<b>US Interest Rates:</b>						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.63	0.70	0.75	0.80	0.85	0.90
<b>USD Exchange Rates:</b>						
AUD-USD	0.6996	0.70	0.72	0.73	0.74	0.75
USD-JPY	107.02	106	106	107	107	108
EUR-USD	1.1428	1.13	1.14	1.15	1.16	1.17
GBP-USD	1.2568	1.26	1.27	1.27	1.28	1.29
NZD-USD	0.6557	0.65	0.65	0.64	0.65	0.66
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6996	0.70	0.72	0.73	0.74	0.75
AUD-EUR	0.6120	0.62	0.63	0.63	0.64	0.64
AUD-JPY	74.88	74.2	76.3	78.1	79.2	81.0
AUD-GBP	0.5566	0.56	0.57	0.57	0.58	0.58
AUD-NZD	1.0669	1.08	1.11	1.14	1.14	1.14

	2019	2020 (f)	2021 (f)
GDP, %	2.2	-4.2	3.0
CPI (Headline), %	1.8	0.3	2.0
CPI (Trimmed mean), %	1.6	0.9	1.7
Unemployment Rate, %	5.2	8.4	7.3
Wages Growth, %	2.2	1.8	1.6

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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