

Monday, 22 June 2020

## When Fears are Realised

How exciting was your first social catch up after lockdown? For me, it was a bit like teenagers going to a bar for the first time. But that excitement has given way to the reality of the situation. The new normal is not so normal. COVID-19 is still out there.

The World Health Organisation (WHO) reported a record daily increase in new COVID-19 cases of 183,020 on Sunday. Total cases stood at 8.7 million. The lifting of restrictions was always accompanied with the risk infections rising once again, and unfortunately, that risk is being realised.

The highest number of new cases was in Brazil of 54,771 followed by the United States at 36,617, then India at 15,413.

However, of most concern is the news of rising infections in places where the virus had been relatively well contained, including parts of the US and China.

Australia has not been immune either. In Victoria, Premier Daniel Andrews imposed new restrictions after new cases hit double-digits and their highest in over two months. Group gatherings have been limited to 5 for households and outside gatherings to 10. The lifting of limits on restaurants, pubs and other private spaces has been postponed, keeping the limit at just 20 people.

There is the direct negative impact from businesses not able to resume operations. However, there will also likely be the negative impact from confidence as consumers become wary about the virus being contained.

At 25 new cases as of June 21 in Australia, it is well below the peak of 468 new cases on March 28, although it is the direction of cases and the uncertainty of the degree of community spread which is troubling. That being said, the degree of testing, temperature checks and contact tracing available now suggests we are better prepared than in the early days of the pandemic.

With a quieter week in terms of economic data and events, new cases of COVID-19 are going to take greater importance this week in driving sentiment and financial markets.

No one wants to see a further escalation in cases, which could lead to the lifting of restrictions being delayed, or restrictions being re-imposed. Financial markets are no exception.

On the data calendar locally, Reserve Bank (RBA) Governor Lowe spoke today on Global Economy and COVID-19 in a panel discussion. There is a minor Australian data release of job vacancies from the Australian Bureau of Statistics (ABS) on Thursday, which could assist with gauging the health of the labour market. After a loss of over 800k jobs over two months to May and the unemployment rate above 7%, we expect further weakness labour market conditions as demand remains soft.

Abroad, the Reserve Bank of New Zealand (RBNZ) will meet on Wednesday, which has been one of the central banks more open to adopting a negative interest rate policy. The RBNZ is widely expected to keep monetary policy settings unchanged with the economy showing more resilience

than previously expected. However, downside risks to the outlook will keep the door open for further support. Markets will be looking for clues to the prospect of raising bond purchases or other forms of monetary policy stimulus.

In the US, some regional surveys will provide some early signs of how manufacturing output is recovering amid the lifting of restrictions. US consumer sentiment will also be a key release given the rising number of COVID-19 cases in some States and the Black Lives Matter protests.

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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 (June 19)	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, %	0.11	0.10	0.15	0.20	0.25	0.30
3 Year Swap, %	0.23	0.30	0.30	0.35	0.35	0.40
10 Year Bond, %	0.86	1.00	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, %	0.69	0.75	0.75	0.80	0.85	0.90
<b>USD Exchange Rates:</b>						
AUD-USD	0.6835	0.70	0.72	0.73	0.74	0.75
USD-JPY	106.87	106	106	107	107	108
EUR-USD	1.1178	1.13	1.14	1.15	1.16	1.17
GBP-USD	1.2350	1.26	1.27	1.27	1.28	1.29
NZD-USD	0.6407	0.65	0.65	0.64	0.65	0.66
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6835	0.70	0.72	0.73	0.74	0.75
AUD-EUR	0.6116	0.62	0.63	0.63	0.64	0.64
AUD-JPY	73.05	74.2	76.3	78.1	79.2	81.0
AUD-GBP	0.5535	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	-4.0	3.0
CPI (Headline), %	1.8	0.2	2.3
CPI (Trimmed mean), %	1.6	1.0	1.8
Unemployment Rate, %	5.2	8.3	7.1
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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