



Monday, 25 November 2019

## All Ears on RBA Governor's Speech

Financial markets will have their best listening ears on for an upcoming speech from Reserve Bank of Australia (RBA) Governor, Phillip Lowe. Lowe is speaking tomorrow night at an Australian Business Economists' (ABE) conference on unconventional policies.

We continue to expect the RBA to deliver another rate cut in February 2020, taking the cash rate to 0.50%. Last week's RBA minutes for their November board meeting gave us no reason to change this forecast. A clear easing bias was evident in the minutes. The RBA is likely to wait until February to allow time to assess the impact of previous rate cuts.

With the RBA approaching the effective lower bound for the cash rate, the odds of unconventional policy being deployed next year has shortened. We believe unconventional policy would involve a "package" of measures and include the buying of government bonds and retail-mortgage-backed securities (RMBS). Term lending to banks is also possible. Previous remarks from various RBA officials have effectively ruled out the possibility of implementing negative interest rates or FX intervention. Lowe's speech should shed a lot more light on the subject.

Another reason why we believe the RBA will continue to pause on cutting rates until February is that the recent minutes suggested the RBA was encouraged by the "decline in pessimism" in financial markets around the global outlook. While financial markets remain hopeful, recent progress on phase one of the US-China trade deal has been mixed.

The data calendar thickens over this week, after a paucity of data in Australia last week. Construction work done (Wednesday) and private new capital expenditure (Thursday) are released later this week. Both of these indicators are proxy inputs to Q3 GDP. Recall, Q2 GDP grew by only 1.4% year-on-year, the slowest pace since the GFC. But Q2 likely represented the low point for the economy and slightly firmer (albeit below trend) annual growth should be in store for Q3.

We are expecting a decline of 1.0% in construction work done in Q3. The downturn in building approvals suggests residential construction activity has further to weaken. And public works, while at a high level, moderated over the year, reflecting a gap in the pipeline for investment projects.

For private new capital expenditure (i.e. new business investment), we anticipate a small fall of 0.5% in Q3, reflecting the challenging environment for demand. In addition to actual spending data, we receive the fourth estimate for business-spending plans for 2019/20. We anticipate estimate 4 to land at \$120 billion. To put this estimate in perspective, it would be a 6% upgrade on estimate 3, in line with the average upgrade of recent years, but well below that of a year ago.

Finally, on Friday, there is private-sector credit data for October. Credit has been growing at a very soggy pace. Monthly gains have averaged only 0.2% this year so far. We expect a slightly stronger growth rate of 0.3% for November, underpinned by the lift to housing credit, led by the rate cuts from the RBA. But underlying trends in business and other credit are unlikely to have shifted.

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**Forecasts**

End Period:	2019		2020			
	Close (Nov 25)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
<b>Aust. Interest Rates:</b>						
RBA Cash Rate, %	0.75	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	0.89	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.77	0.75	0.70	0.70	0.80	0.85
10 Year Bond, %	1.10	1.10	0.90	0.90	1.00	1.10
<b>US Interest Rates:</b>						
Fed Funds Rate, %	1.625	1.625	1.375	1.125	0.875	0.875
US 10 Year Bond, %	1.77	1.70	1.50	1.45	1.40	1.50
<b>USD Exchange Rates:</b>						
AUD-USD	0.6786	0.67	0.66	0.66	0.67	0.67
USD-JPY	108.66	108	107	106	105	105
EUR-USD	1.1021	1.09	1.09	1.10	1.11	1.12
GBP-USD	1.2834	1.30	1.33	1.32	1.32	1.31
NZD-USD	0.6410	0.63	0.62	0.62	0.63	0.63
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6786	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6158	0.61	0.61	0.60	0.60	0.60
AUD-JPY	73.72	72.4	70.6	70.0	70.4	70.4
AUD-GBP	0.5289	0.52	0.50	0.50	0.51	0.51
AUD-NZD	1.0588	1.06	1.06	1.06	1.06	1.06

	2018	2019 (f)	2020 (f)
GDP, %	2.2	2.3	2.4
CPI (Headline), %	1.8	1.7	1.9
CPI (Trimmed mean), %	1.8	1.6	1.9
Unemployment Rate, %	5.0	5.3	5.6
Wages Growth, %	2.4	2.5	2.5

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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