



Monday, 30 September 2019

RBA Decision Back in Focus

Who would have thought that in a relatively benign week of economic data releases, there would be so much to digest in regards to the political environment. Then again, it is a sign of the times that the elevated political risks have taken centre stage. Political concerns are increasingly becoming economic concerns.

The key news headline last week, however, the impeachment proceedings against US President Trump, only had a mild impact on financial markets. While the developments add to the environment of political uncertainty, they do not raise the same risks to the real economy as recent trade tensions, which have directly weighed on business decisions and trade flows.

On trade developments, it has been reported that the US and China are scheduled to resume talks on October 10-11. While both sides have offered an olive branch, relations remain far from warm and friendly. Indeed, reports last Friday said that the Trump administration was considering delisting Chinese companies from US stock exchanges.

Ahead on the economic calendar this week, the key highlight will be the RBA board decision on Tuesday. We are expecting the RBA to lower official interest rates by 25 basis points. Below trend growth, persistently low inflation and wage growth and an upward trend emerging in the unemployment rate all support the case for a reduction to the cash rate. Additionally, the global environment remains fragile, and there are few signs as yet of the improvement in the economy expected by the RBA from the middle of this year. Markets are pricing in a 78% probability for a reduction in the cash rate.

Other local economic data of focus will be private sector credit data today, building approvals and house prices on Tuesday, trade on Thursday and retail sales on Friday. Retail sales in August will be of strong interest, in which we expect to see some of the flow through of tax rebates to consumer. According to the latest Westpac-Melbourne Institute consumer sentiment survey, about half of eligible recipients of the tax offset are reported to have received payment. Considering the boost

to incomes, it will be a disappointing result if we do not see some pick up in retail spending. We are expecting a 1% increase in retail spending, but see risks skewed towards the downside. Given the ongoing high debt levels and the falling household savings rate, households may choose to spend less than we expect of their windfalls.



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Forecasts

End Period:	2019	2020				
	Close (Sep 27)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)	Q4 (f)
Aust. Interest Rates:						
RBA Cash Rate, %	1.00	0.75	0.50	0.50	0.50	0.50
90 Day BBSW, %	0.95	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.76	0.70	0.85	0.90	0.95	1.00
10 Year Bond, %	0.95	0.95	1.00	1.15	1.20	1.25
US Interest Rates:						
Fed Funds Rate, %	1.875	1.375	1.125	0.875	0.875	0.875
US 10 Year Bond, %	1.68	1.45	1.40	1.45	1.50	1.55
USD Exchange Rates:						
AUD-USD	0.6764	0.67	0.66	0.66	0.67	0.67
USD-JPY	107.92	105	104	104	106	108
EUR-USD	1.0940	1.07	1.05	1.06	1.07	1.09
GBP-USD	1.2292	1.17	1.18	1.20	1.22	1.24
NZD-USD	0.6296	0.63	0.62	0.62	0.63	0.63
AUD Exchange Rates:						
AUD-USD	0.6764	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6181	0.63	0.63	0.62	0.63	0.61
AUD-JPY	73.01	70.4	68.6	68.6	71.0	72.4
AUD-GBP	0.5503	0.57	0.56	0.55	0.55	0.54
AUD-NZD	1.0746	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), %	1.9	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.

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