

Monday, 6 July 2020

We Were Warned

A little under two months ago, US infectious disease expert Dr Anthony Fauci warned of “needless suffering and death” if the economy were to open prematurely. Fauci was concerned of a spike in cases potentially triggering an outbreak, and also noted that “it could set you back on the road to get economic recovery”.

Today, cases continue to rise in a number of US States including California, Florida, Arizona and Texas. The Mayor of Phoenix, Arizona has admitted that the city had opened too early. Bars and non-essential services have been ordered shut in Texas, and there have been calls to impose stay-at-home orders. Policymakers have been increasingly torn between avoiding the economic toll from closing down businesses and keeping the virus under control. Sadly, it is becoming a matter of when rather than if restrictions need to be imposed.

However, it isn't just the US raising concerns. New cases are still accelerating across the world. The World Health Organisation (WHO) reported a record 212,326 new cases on Saturday. Most new cases continue to be in the US (at 51,933 new cases), followed by Brazil (42,223 new cases), but India is also now reporting over 20,000 cases a day. In Europe, there has been a lockdown issued in a region in northwestern Spain.

Even New Zealand, which was once declared virus free, reported two new cases last month, highlighting the difficulty in containing the virus.

In Australia, there has been another worrying spike in cases in Victoria. On top of lockdown measures in various hotspots around Melbourne, NSW Premier Gladys Berejiklian has announced that the border will be shut between NSW and Victoria, from midnight Tuesday.

While equity markets and risky currencies have consolidated in recent weeks, risk appetite has not fallen too sharply amid the rising risk of renewed lockdowns. The run of economic data globally has been positive, reflecting an economic recovery from the lifting of restrictions over the past few months. But renewed restrictions, which are becoming increasingly widespread, suggests that recovery is facing a speed hump.

We can hope that the increased awareness among the community, greater ability for contact tracing, better prepared healthcare systems and wider testing will limit the need for the nationwide shutdown that was in place late March and April. Nonetheless, as has been the case over the past few months, there is a significant degree of uncertainty around the outlook given the difficulty in predicting how the virus will evolve.

COVID-19 infection rates will again be watched closely this week by financial markets, with a quieter week on the international calendar.

In Australia, the RBA takes the limelight with the monthly RBA monetary policy board meeting on Tuesday. We expect the RBA to keep monetary policy settings unchanged, but great attention will be on any clues on what the RBA could use in its arsenal to provide further monetary policy support.

Among the economic data releases, housing finance will be released on Thursday. We expect a sharp drop of 10% in May, reflecting the significant fall in housing turnover in earlier months and the lagged impact to loan approvals. It would be the second consecutive month of decline. Housing demand is expected to remain weak, particularly for investors, amid a rise in vacancy rates and falling rental incomes.

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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:	2020			2021		
	Close (July 3)	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)	Q3 (f)
Aust. Interest Rates:						
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, %	0.23	0.30	0.30	0.35	0.35	0.40
10 Year Bond, %	0.90	1.00	1.00	1.05	1.15	1.25
US Interest Rates:						
Fed Funds Rate, %	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond, %	0.67	0.75	0.75	0.80	0.85	0.90
USD Exchange Rates:						
AUD-USD	0.6939	0.70	0.72	0.73	0.74	0.75
USD-JPY	107.51	106	106	107	107	108
EUR-USD	1.1248	1.13	1.14	1.15	1.16	1.17
GBP-USD	1.2483	1.26	1.27	1.27	1.28	1.29
NZD-USD	0.6531	0.65	0.65	0.64	0.65	0.66
AUD Exchange Rates:						
AUD-USD	0.6939	0.70	0.72	0.73	0.74	0.75
AUD-EUR	0.6171	0.62	0.63	0.63	0.64	0.64
AUD-JPY	74.62	74.2	76.3	78.1	79.2	81.0
AUD-GBP	0.5560	0.56	0.57	0.57	0.58	0.58
AUD-NZD	1.0624	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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The Detail

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