

Tuesday, 8 October 2019

## It's Time to Talk Trade

The new shorter week brings with it a range of mounting worries, including for the US economy. In the raft of economic data last week, there were signs of ongoing deterioration in the US manufacturing sector, which has been hit particularly hard by the trade tensions around the world. A slowing in the services sector and employment also point to further signs of slowing in the US economy, although unlike the ISM manufacturing survey last week, these are not yet to the point where recession flags are waving. Nonetheless, we believe that there are enough signs of slowing in the US economy that the Federal Reserve will need to continue to lower official interest rates.

Comments from Federal Reserve officials have been mixed of late. While recognising the downside risks, and while the consumer and employment appear to be holding up, there is hesitancy among some Fed members about supporting further easing. We could gain further clues in the minutes of the September FOMC meeting which will be released on Wednesday. Markets will be looking for signs that there will be more than just a few insurance cuts and whether the Fed will embark on a longer series of easing.

There will however, be big focus this week on trade talks between the US and China, which are scheduled for October 10. Markets are already nervous about the outcome, particularly given the mixed newsflow of late. While it is in everyone's best interest for a deal to be reached, both sides appear to want to take hardline stances. It also appears difficult to see a resolution on some issues, including technology and intellectual property protection and subsidies for Chinese industry. The best-case scenario would likely be a broad strokes agreement, although the fact that President Trump has said that he wants a big deal or no deal at all highlights the real risk the talks fall flat.

In Australia this week, confidence measures for businesses and consumers are released on Tuesday and Wednesday, respectively. They will be watched closely to see whether there is any positive impact of fiscal stimulus measures and RBA rate cuts on sentiment. In other data, housing finance will be released on Thursday. There continue to be signs of demand in the housing market picking up, as reflected in elevated auction clearance rates and a lift in dwelling prices, particularly in Sydney and Melbourne. We expect growth in new lending for both owner occupiers and investors for the third consecutive month in August. Dwelling prices are expected to continue to recover, although the pace of recovery is expected to moderate.

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**Forecasts**

End Period:	2019		2020			
	Close (Oct 7)	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, %	0.84	0.85	0.70	0.70	0.70	0.70
3 Year Swap, %	0.63	0.70	0.70	0.75	0.80	0.85
10 Year Bond, %	0.89	0.95	1.00	1.15	1.20	1.25
<b>US Interest Rates:</b>						
Fed Funds Rate, %	1.875	1.375	1.125	0.875	0.875	0.875
US 10 Year Bond, %	1.56	1.45	1.40	1.45	1.50	1.55
<b>USD Exchange Rates:</b>						
AUD-USD	0.6733	0.67	0.66	0.66	0.67	0.67
USD-JPY	107.26	105	104	104	106	108
EUR-USD	1.0971	1.07	1.05	1.06	1.07	1.09
GBP-USD	1.2293	1.17	1.18	1.20	1.22	1.24
NZD-USD	0.6289	0.63	0.62	0.62	0.63	0.63
<b>AUD Exchange Rates:</b>						
AUD-USD	0.6733	0.67	0.66	0.66	0.67	0.67
AUD-EUR	0.6137	0.63	0.63	0.62	0.63	0.61
AUD-JPY	72.21	70.4	68.6	68.6	71.0	72.4
AUD-GBP	0.5478	0.57	0.56	0.55	0.55	0.54
AUD-NZD	1.0705	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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