# ANZ RESEARCH

# AUSTRALIA MARKET FOCUS

14 March 2016

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## CENTRAL BANK FIREPOWER IN FOCUS

### ECONOMIC OVERVIEW

- Better-than-expected commodity prices will flow through to the Budget bottom line.
- But a higher AUD will provide a headwind to the non-mining recovery.
- The focus this week is on the minutes from the RBA's March meeting and the February Labour Force Survey.
- The ECB eased policy by more than expected last week, but markets fretted about the central bank's future firepower.
- Although no change is expected from the Fed, Yellen is expected to keep the door open to rate hikes in coming months if the data stay resilient.

### INTEREST RATE STRATEGY

- The FOMC meeting this week is key for the direction of US rates.
- Funding markets are relatively steady.

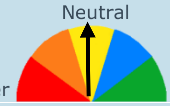
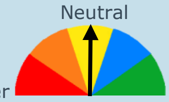
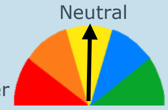
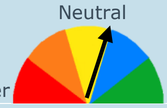
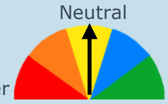
### CURRENCY STRATEGY

- The AUD continues to rally strongly as markets price out the risk of global recession. In the near term, the risk of further upside is growing.
- That said, this move remains cyclical and structural headwinds remain in place.
- Any further extension should be used as an opportunity to reset short positions.

### COMMODITY STRATEGY

- Further improvement in fundamentals is required to drive oil prices higher.
- No fundamental reason for an 18% one day rally in iron ore.
- Wheat prices continue to rally as markets reprice a weather risk premium.

### THE ANZ HEATMAP

| VARIABLE | VIEW | COMMENT | ANZ VIEW RISK PROFILE* |
|---|---|---|---|
| **GDP** | 3.3% y/y for Q1 2017 | Household spending remains a key risk for the outlook, in both directions. |   |
| **Unemployment rate** | 5.8% for Q1 2017 | Jobs growth looks set to moderate this year. |   |
| **CPI** | 2.2% y/y for Q1 2017 | Weak global inflation and soft wage growth will keep inflation on the low side of the RBA's 2-3% target band. |   |
| **RBA cash rate** | 1.50% by Mar 2017 | We continue to expect the RBA to cut the cash rate this year but risks are skewed to it happening later than May/Aug. |   |
| **AUD** | USD0.64 by Sep 2016 | The global environment remains uncertain and local markets continue to price in RBA rate cuts. |   |

* Risks to ANZ's view

# AUSTRALIA ECONOMIC OVERVIEW

## KEY POINTS

- Better-than-expected commodity prices will flow through to the Budget bottom line.
- But the higher AUD will provide a headwind to the non-mining recovery.
- The focus this week is on the minutes from the RBA's March meeting and the February Labour Force Survey.

## WHAT WE'RE WATCHING THIS WEEK

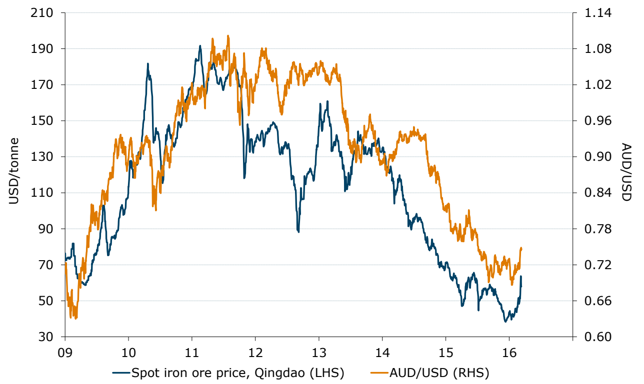
**RBA March Meeting Minutes (15 Mar):** We will be looking for context around the change in wording around low inflation and easier policy.

**Labour Force Survey, Feb (17 Mar):** we are expecting an okay report, with employment up 18k and the unemployment rate at 6.0%.

## PEDAL TO THE METAL

Commodity markets had a good run last week: our ANZ CCI was up 2.9%, driven by bulks. The price of iron ore increased by an unprecedented 19% in one day driven by a combination of short-covering as well as the announcement of a range of policy measures by the Chinese authorities. While the price eased somewhat over the remainder of the week, the move builds on a broad sentiment improvement across the commodity complex over the past month or so.

**FIGURE 1. IRON ORE HAS RALLIED RECENTLY, SUPPORTING AUD STRENGTH**

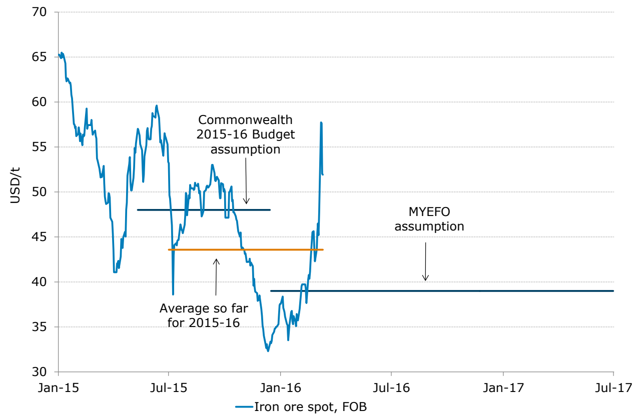



Source: ABS, Bloomberg, ANZ Research

**This is a good sign for the Commonwealth Budget, which factored in a USD39/tonne (FOB) assumption for iron ore over the forecast period** in the Mid-year and Economic and Fiscal Outlook, released in December. We estimate that the average year-to-date price for 2015-16 is tracking about 11% higher than that figure. On its own, this suggests upward revisions to the revenue estimates for 2016-17 in the upcoming Budget in May, although there are many other factors affecting revenues.

The year-to-date average iron ore price for 2015-16 is about USD43/tonne (FOB), which is still some way from the USD48/tonne price used in the 2015-16 Budget before a market rout in mid-2015 forced Treasury forecasters to adjust the forecast down by USD10, wiping out AUD7bn over the forward estimates (Figure 2).

**FIGURE 2. THE IRON ORE RALLY COULD HAVE UPSIDE IMPLICATIONS FOR THE BUDGET IN MAY**



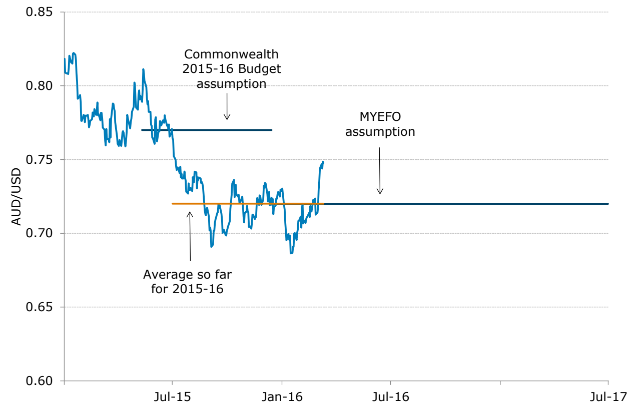

Source: Bloomberg, Commonwealth Budget, ANZ Research

## BREAKING IT DOWN

The Commonwealth Budget papers describe succinctly the impact of higher commodity prices on the economy and Government tax receipts. Higher commodity prices lift corporate profits and hence company tax receipts. But it also supports aggregate demand through employment and wages, and hence increased income tax receipts. The associated increase in consumption yields higher GST receipts.

In contrast with stronger commodity prices, the AUD/USD assumption in the budget has been tracking well with actual data, although if the recent rally was sustained it would quickly become challenging (Figure 3).

**FIGURE 3. THE AUD/USD ASSUMPTION IS ON TRACK**




Source: Bloomberg, Commonwealth Budget, ANZ Research

# AUSTRALIA ECONOMIC OVERVIEW

## IT'S NOT ALL SMOOTH SAILING

If a better-than-expected commodity environment continues to play out, and the Australian dollar remains stubbornly high this could crimp the recovery in our non-mining trade exposed sectors and domestic consumption.

Indeed, Phillip Lowe in a speech last week noted that the resilience of the Australian economy "reflects, in part, the flexibility of three key prices: the exchange rate, the price of money (or interest rates), and the price of labour". These prices act as stabilisers, allowing the economy to adjust from an unprecedented mining boom.

Although it's not our base case (see Currency Outlook on page 6), ongoing strength in the AUD would be unhelpful for the broader recovery.

The RBA is likely to share this view. The Bank has so far been relatively content with the pace of structural adjustment in the economy – a process that is slowly improving our competiveness in the region and globally. But with unemployment set to stay elevated for some time, the RBA would much prefer a lower currency to provide some further stimulus than lower interest rates.

## READING BETWEEN THE LINES

The focus this week will be on the RBA's March Meeting Minutes tomorrow and the February Labour Force Survey for February on Thursday.

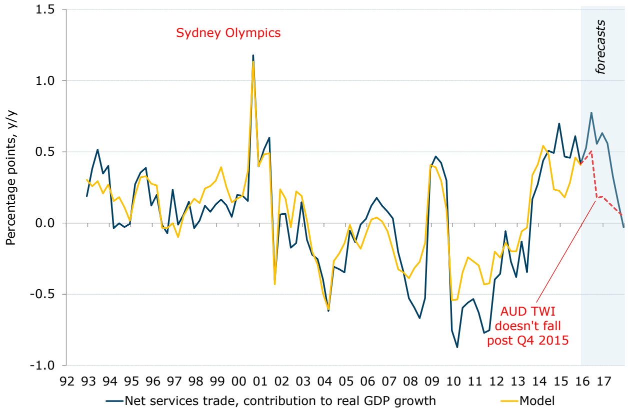
The RBA left interest rates on hold at its board meeting earlier this month. While there was little change to the tone of the statement, some small tweaks to the wording suggested to us a slightly stronger easing bias. Specifically, the RBA noted that "continued low inflation **would** provide scope for easier policy, should that be appropriate to lend support to demand" rather than the previously used "**may** provide scope".

Perhaps there is nothing in this, but tweaks in the language, especially in the last paragraph, are likely to be very carefully considered, and we will be looking to the minutes tomorrow for further evidence of the strength of the Bank's easing bias.

For the labour force report on Thursday, we are looking for an 18k rise in employment and a 6% unemployment rate. Overall jobs growth looks to be slowing sharply in Q1. We have been expecting some statistical payback given the exceptional strength in Q4 2015 when employment growth ran ahead of other indicators.

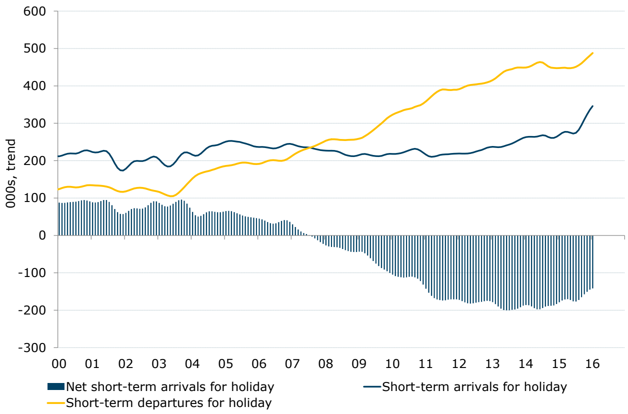
Moreover, job ads and surveyed hiring intentions have also lost momentum in recent months, pointing to a slowing in underlying jobs growth. Business surveys confirm this with the NAB measure of profits (which has a tight relationship with employment growth) trending lower over the past few months (Figure 6).

**FIGURE 4. THE HIGH AUD IS A KEY RISK TO TRADE...**



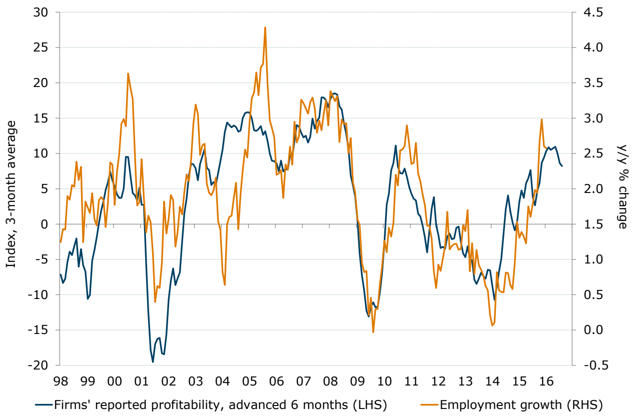

Source: ABS, ANZ Research

**FIGURE 5. ...DEPARTURES HAVE PICKED UP AGAIN**




Source: ABS, ANZ Research

**FIGURE 6. JOBS GROWTH MOMENTUM SLOWING**




Source: ABS, NAB, ANZ Research

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# GLOBAL ECONOMIC OVERVIEW

## KEY POINTS

- The ECB eased policy by more than expected last week, but markets fretted about the central bank's future firepower.
- Although no change is expected from the Fed, Yellen is expected to keep the door open to rate hikes in coming months if the data stay resilient.
- The BoJ is set to sit tight this week, though pressure is mounting for more easing.

## WHAT'S THE VIEW?

Although the ECB presented a major easing package last week, the market reaction was skittish. Markets are worried that central banks are running out of firepower to support growth. We are concerned too much heavy lifting is being done by central banks.

## US

It's a busy week with plenty of data and the FOMC meeting. Confirmation of the resilience of the domestic economy will be looked for in both the CPI and retail sales data. On the other hand, some parts of the economy remain vulnerable to a stronger USD and soft external demand. Thus, the Philly Fed and Empire series are likely to remain subdued.

In recent months US jobs growth has been solid. Although nominal wage growth has been subdued, real wages (ex-inflation) have performed well by historical standards. These favourable fundamentals should see households continue to support growth via consumption. The market is looking for a modest 0.1% m/m rise in the 'control' group retail sales in February after a robust 0.6% m/m gain in January.

Core inflation appears to be rising. A continuation of this trend in February would likely make Fed officials more confident that inflation is on track to rise gradually toward its 2% y/y objective.

No change in policy is widely expected this week. As such the focus will be on the Fed's assessment of the economy and risks. We expect the FOMC to be more upbeat than in January when they were cautious about the possible negative spillover effects from elevated financial market volatility. Since then, volatility has eased and the domestic data have proved resilient. Fed Chair Yellen's comments on inflation will be scrutinised given mixed views on the price outlook, with Brainard, Bullard and Dudley being dovish recently.

There is unlikely to be much of a change to the FOMC's macro forecasts: headline CPI may be revised down a little. In addition, the path of the fed fund rates may be tweaked lower. We expect Yellen to leave open the possibility of FOMC hikes in coming months should the data continue to prove resilient. We expect the Fed to raise rates in June, and again twice more by the end of 2016 to take the funds rate to 1-1.25% target range from current 0.25-0.50%.

### WHAT WE'RE WATCHING THIS WEEK

**JN BoJ (15 Mar):** No change is expected, though pressure mounts for more easing.

**US FOMC (16 Mar):** The focus on risks and inflation will be key.

**UK BoE (17 Mar):** Policy on hold and tone little changed from February.

## EURO AREA

The ECB's bold policy easing last week was multi-pronged: a 5-10bps cut in the three key interest rates; an increase of EUR20bn in its monthly QE to EUR80bn; an extension of eligible assets for purchase to investment grade euro area corporate bonds; four new TLTROs; and an increase in the limit on issue purchases to 50% from 33%. The easing was justified on the grounds of a very weak inflation outlook: the HICP forecast was downgraded to just 0.1% in 2016 (previously 1%), largely due to the fall in oil prices.

However, markets reacted badly to ECB President Draghi's admission that interest rates were unlikely to be eased further into negative territory. This was initially interpreted as meaning the ECB is running out of ammunition. Subsequently markets have unwound some of the unfavourable reaction after they more fully digested his comments. Draghi didn't rule out a further negative cut, rather he said the ECB's preference would be to use other unconventional tools if they needed to guide expectations of long-term interest rates lower.

## UK

The BoE is not expected to adjust policy this week. We continue to think that an increase sometime in H2 2016 is likely, well ahead of the current market pricing in short sterling of Q4 2017. It will be interesting to see if the BoE acknowledges the lift in oil prices since mid-February and whether it has any impact on its inflation outlook. BoE Governor Carney last week gave a 'neutral' testimony to the Treasury Select Committee on Brexit, focusing on the near-term impact on financial stability rather than longer-term macro-economic implications.

Chancellor Osborne will hand down the 2016-17 UK Budget on Wednesday. A mildly easier fiscal stance could be presented given talk in the press of a shift in tax bands (effectively yielding a tax cut).

## JAPAN

The BoJ is set to sit tight this week given Kuroda's upbeat view on the economy and his positive assessment of the central bank's adoption of a negative policy rate in January. More easing is likely in the coming months as it becomes apparent to the BoJ that it can't hit its 2% inflation goal by H2 FY 2017.

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# INTEREST RATE STRATEGY

## KEY POINTS

- Markets fret over the future firepower of the ECB.
- Markets reduce expectations of RBA cuts further.
- BBSW curve continues to steepen and BBSW rates are rising.

## WHAT'S THE VIEW?

The central bank 'reporting season' continues with the RBA, RBNZ and ECB having gone. The BoJ, BoE and FOMC are this week.

Thus far, central banks have been more dovish. The RBA modestly strengthened its easing bias, the RBNZ provided a surprise cut while the ECB delivered a triumvirate of cuts in addition to further unconventional measures (expanding QE, adding four new TLTROs, introducing purchases of non-bank corporate paper, and increasing the limit on issues purchases).

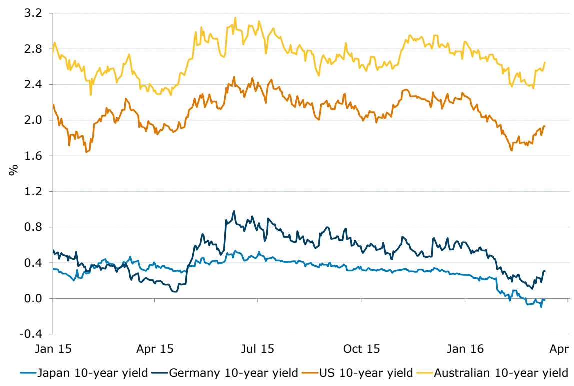
Although the ECB eased policy by more than expected, markets fretted about the central bank's future firepower as President Draghi signalled that there may be no further cuts negative. These worries proved exaggerated, but highlight that sentiment is fragile.

Central bank meetings this week are likely to reinforce the sell-off in rates. The BoJ is likely to sit tight while the Fed is expected to leave open the possibility of hikes at the April and June meetings.

Longer-term, the implication of the ECB's decision will likely be less liquidity in European rates markets. A similar reduction in liquidity in Japan has contributed to increasingly wild moves in JGBs. For example, the 30-year JGB last week saw two consecutive days of 20-25bp moves.

More broadly, the ECB's decision will also likely reinforce doubts about central banks' ability to stimulate economic activity and hit their inflation targets. Given central bank liquidity has been an important circuit breaker of market volatility in recent years, this suggests that bouts of volatility are likely to increase. **As such, for corporates who can access the bond market, we recommend taking advantage of periods of calm to issue.**

**FIGURE 1. RATES SELL-OFF; JAPAN AN EXCEPTION**




Source: Bloomberg, ANZ Research

## PUSHING OUT THE RBA

Despite a more dovish RBA, the front end of the rates curve continues to push out and reduce expectations of further RBA cuts, reflecting a combination of stronger commodity prices, the solid Q4 GDP result, reduced market stress and a repricing of the Fed. While the recent strength in the AUD would usually make us cautious on the front-end of the curve, we are more sanguine at present given it has occurred alongside a spike in the iron ore price and better data in China.

In terms of fixed rate markets, the 3-year swap rate continued to move higher and is up almost 20bps in the month thus far. The 3-year swap remains well through the 3-month BBSW rate but that spread has narrowed.

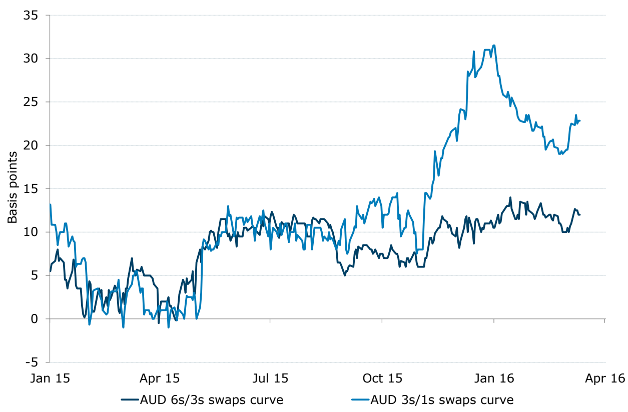
**FIGURE 2. FUNDING COSTS ARE MOVING ON UP…**


Source: Bloomberg, ANZ Research

The BBSW curve also continues to steepen with the 3s/1s and 6s/3s spreads moving higher. This likely reflects the increase in global funding rates seen across markets. Note, it is important to separate the rise in funding costs with the movements in market yields.

**With the steepening in 3s/1s BBSW, corporates are slightly better off continuing to pay loan payments on a monthly basis.**

**FIGURE 3. …AS ARE BBSW RATES**




Source: Bloomberg, ANZ Research

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# CURRENCY STRATEGY

## KEY POINTS

- The AUD continues to rally strongly as markets price out the risk of global recession. In the near term, the risk of further upside is growing.
- That said, this move remains cyclical and structural headwinds remain in place.
- Any further extension should be used as an opportunity to reset short positions.

## WHAT'S THE VIEW?

The AUD has rallied strongly, but the long term depreciation cycle does not look complete. As such, we do not think that the January low of USD0.68 represents a trough for the AUD in this cycle. While current levels for the AUD do not look significantly out of line with economic fundamentals – most notably the terms of trade and interest rate differentials – the AUD has rarely ended a cycle at fair value. Previous cycles have always overshot and we find no evidence as to why this cycle should be different.

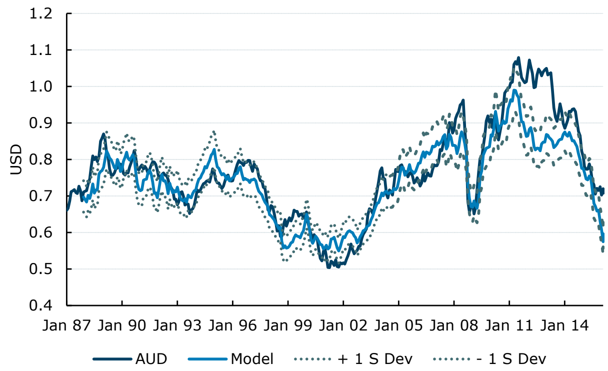
We cannot identify any factors that convinced us that something had structurally changed for the AUD and thus think that our framework of overshoot remains valid. Inflows remain strong, but not unprecedented, while the current account has widened. Further, the risk/return profile for AUD assets has continued to deteriorate.

That said, it looks increasingly likely that our near term bearish forecasts will not be met. In the near term, stability in China, commodity markets, and in the Australian domestic economy all pose risks to our view. In particular, the potential for stabilisation in China can drive a short term reprieve for the AUD.

**TABLE 1. CURRENT VIEWS**

| CROSS | WEEK | MONTH | YEAR |
|---|---|---|---|
| AUD/USD | ↓ | Short term dynamics are mixed, structural factors a headwind, cyclical a tailwind | Decline in line with terms of trade and rising USD |
| AUD/NZD | ↑ | Near term upside as risks get better priced into NZD | Building a base to rally back to long term average levels |
| AUD/EUR | ↔ | The cross is increasingly behaving like a risk proxy | A bit more upside, but the future path is lower for this cross |
| AUD/JPY | ↑ | The cross is increasingly behaving like a risk proxy | Risks of a downside break are rising |
| AUD/GBP | ↓ | We view the current up-move as counter-trend and likely to prove temporary | Strong fundamentals in the UK will drive GBP outperformance |

**FIGURE 1. VALUATION WILL BECOME AN INCREASING FOCUS**




Source: Bloomberg, ANZ Research

This stability is important. If the Fed is tightening policy into a more balanced growth environment, the market reaction to the tightening will change. Most notably, it is less likely to spark market volatility and as such is less likely to drive an overshoot in the AUD. Should this manifest, then the depreciation of the AUD will be delayed. However, pre-existing leverage will limit the duration of any China upswing and as such the coming rally will simply provide better levels to sell from.

Given this setup, the Fed meeting this week, together with the raft of US data releases, will be a huge focus. While we expect the Fed to remain relatively dovish, its interpretation of the recent improvement in the data, and the clearer up-trend in inflation and inflation expectations will be key. Given current pricing, there is a bit of upside risk for the USD, particularly against the EUR and JPY.

Domestically, while the employment print will be important, as ever, this week the RBA Minutes will be a focus. Investors will look closely to try determine whether the subtle changes in language seen in the last statement were in fact providing any clues to future RBA action. Should this prove the case the AUD is due for some underperformance on the crosses.

**TABLE 2. UPCOMING EVENT RISK**

| EVENT | WHEN (AEDT) | LIKELY IMPACT | |
|---|---|---|---|
| AUD: RBA Minutes | Tue 11:30 | AUD/USD | ↓ |
| USD: Retail Sales | Tue 23:30 | AUD/USD | ↓ |
| USD: CPI | Wed 23:30 | AUD/USD | ↓ |
| USD: FOMC | Thu 05:00 | AUD/USD | ↓ |
| NZD: GDP | Thu 08:45 | AUD/NZD | ↓ |
| AUD: Employment | Thu 11:30 | AUD/USD | ↑ |

## BOTTOM LINE

Our bearish near-term view is being tested, but we continue to expect that in the medium term the AUD will test a new low.

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# COMMODITY STRATEGY

## KEY POINTS

- Further improvement in fundamentals required to drive oil prices higher.
- No fundamental reason for an 18% one day rally in iron ore.
- Wheat prices continue to rally as markets reprice a weather risk premium.

## WHAT'S THE VIEW?

Further potential supply cuts and strong demand continue to support **oil** prices. While the market is focused on a potential cap on current output, disruptions to current supply are increasing in regularity. The latest was the bombing of a Nigerian oil pipeline, which could cut output by over 250kb/d. At this stage, the outage could last a couple of months. Low prices are also slowly impacting US output. Since the start of the year, production has fallen by 150kb/d and is down over 500kb/d since its peak in June 2015. The market was buoyed by data showing gasoline demand remained strong. According to EIA data, US gasoline demand averaged 9.33 Mb/d during the past four weeks, while inventories fell to 250.5 million barrels. The bounce in prices in February does provide the market with a degree of breathing space, however supportive fundamentals will be needed to drive prices higher.

The 18% one-day rally in the **iron ore** price last week was unprecedented. There remains little evidence that it was driven by any improvement in underlying fundamentals. An improvement in sentiment, due to a combination of the recent policy measures in China, the moves to restructure the Chinese steel industry, and the pro-growth rhetoric coming out of the weekend's National People's Congress, has clearly played its part. This all suggest that the market is starting to price in the probability steel production could actually grow this year in China. We are currently forecasting output to fall 5% in 2016, which implies a 70Mt surplus in the iron ore market. However, to get the iron ore market back to a more balanced position in 2016 would require growth in steel demand in China to the order of 2%. While it's not implausible, it remains highly unlikely. As such, this rally may be short-lived.

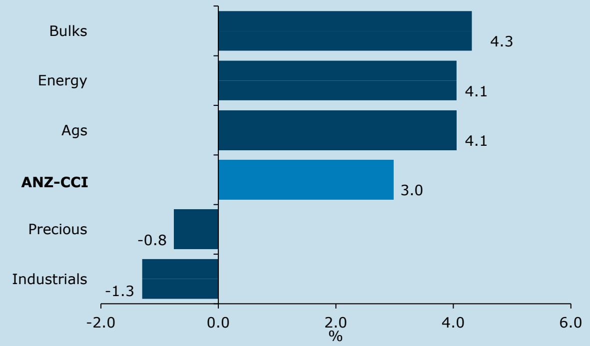
Grain and oilseed prices firmed last week. Wheat was one of the best performing ag commodities, as prices continued to stage a recovery from the lows reached in early March. At that time, Chicago wheat futures were trading with little premium for a major weather event in any of the key northern hemisphere wheat crops. But with March and April weather critical in determining the bulk of northern hemisphere wheat production for 2016-17, prices have rebounded as markets focus on emerging production risks. One risk for the Russian crop is that continued warm weather and rapid crop development leaves the crop exposed to a late March freeze event, while in the US forecast wet weather may cause flooding in the Delta region, damaging crops.

## ANZ CHINA COMMODITY INDEX (CCI)

The ANZ CCI registered another strong gain last week. The higher price moves in commodities were widespread. Iron ore, oil, and agriculture prices all rose sharply. However, copper prices were weaker. Some market participants believe that the rally in copper is overdone in the absence of any concrete policy measures to boost demand.

The precious metals complex was little changed over the week. Gold prices traded in a wide range; between USD1,237-1,280/oz. The ECB's move to cut rates and expand QE supported prices. This is likely to keep investor demand in gold strong.

**FIGURE 1. ANZ-CCI WEEKLY PERFORMANCE**




Source: ANZ Research

**TABLE 4. CURRENT VIEWS**

| SECTOR | WEEK | MONTH | YEAR |
|---|---|---|---|
| Energy | ↓ | Supply closures or disruptions continue to mount | Market surplus seen increasing through 2016 |
| Agriculture | ↔ | Key window for northern hemisphere wheat development | Close to the bottom of the cycle |
| Industrials | ↔ | The number of supply outages expected to increase | Supply cutbacks to tighten markets |
| Precious | ↔ | Negative yields driving strong investor demand | USD headwind to subside, supporting gold |
| Bulks | ↓ | Supply to recover after disruptions earlier in the year | Rising seaborne supply to keep market in surplus |

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# DATA AND EVENT CALENDAR

| DATE | REGION | DATA/EVENT | PERIOD | MARKET | ANZ | LAST | GMT | AEDT |
|---|---|---|---|---|---|---|---|---|
| Monday | AU | **Public holiday (Labour Day in Victoria and Tasmania)** | | | | | | |
| 14-Mar | EA | Industrial Production sa m/m | Jan | 1.7% | -- | -1.0% | 10:00 | 21:00 |
| Tuesday | NZ | **Global Dairy Auction** | | | | | | |
| 15-Mar | AU | ANZ Roy Morgan Weekly Consumer Confidence Index | 13-Mar | -- | -- | 114.8 | 22:30 | 09:30 |
| | | **RBA March Meeting Minutes** | | | | | **00:30** | **11:30** |
| | JN | BOJ Annual Rise in Monetary Base | 15-Mar | ¥80t | -- | ¥80t | -- | -- |
| | | **BOJ Policy Rate** | **15-Mar** | **-0.1%** | **--** | **-0.1%** | **--** | **--** |
| | | Capacity Utilization m/m | Jan | -- | -- | -1.0% | 04:30 | 15:30 |
| | | Industrial Production m/m | Jan F | -- | -- | 3.7% | 04:30 | 15:30 |
| | EA | Employment q/q | Q4 | -- | -- | 0.3% | 10:00 | 21:00 |
| | US | Empire Manufacturing | Mar | -11.5 | -- | -16.64 | 12:30 | 23:30 |
| | | PPI Ex Food and Energy m/m | Feb | 0.1% | -- | 0.4% | 12:30 | 23:30 |
| | | PPI Final Demand m/m | Feb | -0.2% | -- | 0.1% | 12:30 | 23:30 |
| | | Retail Sales Advance m/m | Feb | -0.1% | -- | 0.2% | 12:30 | 23:30 |
| | | Retail Sales Ex Auto m/m | Feb | -0.2% | -- | 0.1% | 12:30 | 23:30 |
| | | NAHB Housing Market Index | Mar | 59 | -- | 58 | 14:00 | 01:00 |
| Wednesday | NZ | BoP Current Account Balance | Q4 | -2.950b | -2.690b | -4.749b | 21:45 | 08:45 |
| 16-Mar | | Current Account GDP Ratio YTD | Q4 | -3.3% | -3.2% | -3.3% | 21:45 | 08:45 |
| | AU | ANZ Stateometer | Jan | | | | 22:00 | 09:00 |
| | JN | Machine Tool Orders y/y | Feb F | -- | -- | -22.6% | 06:00 | 17:00 |
| | UK | Average Weekly Earnings 3M/y/y | Jan | 2.0% | -- | 1.9% | 09:30 | 20:30 |
| | | Claimant Count Rate SA | Feb | 2.2% | -- | 2.2% | 09:30 | 20:30 |
| | | Employment Change 3M/3M | Jan | 144k | -- | 205k | 09:30 | 20:30 |
| | | ILO Unemployment Rate 3Mths | Jan | 5.1% | -- | 5.1% | 09:30 | 20:30 |
| | US | MBA Mortgage Applications | 11-Mar | -- | -- | 0.2% | 11:00 | 22:00 |
| | | Building Permits m/m | Feb | -0.2% | -- | -0.2% | 12:30 | 23:30 |
| | | CPI Ex Food and Energy m/m | Feb | 0.2% | -- | 0.3% | 12:30 | 23:30 |
| | | CPI Ex Food and Energy y/y | Feb | 2.2% | -- | 2.2% | 12:30 | 23:30 |
| | | CPI m/m | Feb | -0.2% | -- | 0.0% | 12:30 | 23:30 |
| | | CPI y/y | Feb | 0.9% | -- | 1.4% | 12:30 | 23:30 |
| | | Housing Starts m/m | Feb | 4.6% | -- | -3.8% | 12:30 | 23:30 |
| | | Capacity Utilization | Feb | 76.9% | -- | 77.1% | 13:15 | 00:15 |
| | | Industrial Production m/m | Feb | -0.3% | -- | 0.9% | 13:15 | 00:15 |
| | | **FOMC Rate Decision (Lower Bound)** | **16-Mar** | **0.25%** | **--** | **0.25%** | **18:00** | **05:00** |
| | | **FOMC Rate Decision (Upper Bound)** | **16-Mar** | **0.50%** | **--** | **0.50%** | **18:00** | **05:00** |
| Thursday | NZ | GDP sa q/q | Q4 | 0.7% | 0.6% | 0.9% | 21:45 | 08:45 |
| 17-Mar | | GDP y/y | Q4 | 2.1% | 2.0% | 2.3% | 21:45 | 08:45 |
| | AU | **RBA's Debelle speaks in Sydney on 'Global Code of Conduct for the FX Market'** | | | | | **22:05** | **09:05** |
| | | Employment Change | Feb | 13.5k | 18.0k | -7.5k | 00:30 | 11:30 |
| | | Participation Rate | Feb | 65.2% | 65.2% | 65.2% | 00:30 | 11:30 |
| | | Unemployment Rate | Feb | 6.0% | 6.0% | 6.0% | 00:30 | 11:30 |
| | JN | Exports y/y | Feb | -3.0% | -- | -12.9% | 23:50 | 10:50 |
| | | Imports y/y | Feb | -15.8% | -- | -17.8% | 23:50 | 10:50 |
| | | Trade Balance | Feb | ¥395.1b | -- | -¥648.8b | 23:50 | 10:50 |
| | | **BOJ's Kuroda to make a brief remark at Settlement System Forum** | | | | | **06:30** | **17:30** |
| | EA | Construction Output m/m | Jan | -- | -- | -0.6% | 10:00 | 21:00 |
| | | CPI Core y/y | Feb F | 0.7% | -- | 0.7% | 10:00 | 21:00 |
| | | CPI m/m | Feb | 0.1% | -- | -1.4% | 10:00 | 21:00 |
| | | CPI y/y | Feb F | -0.2% | -- | -0.2% | 10:00 | 21:00 |
| | | Trade Balance sa | Jan | 19.5b | -- | 21.0b | 10:00 | 21:00 |
| | UK | **Bank of England Bank Rate** | **17-Mar** | **0.5%** | **--** | **0.5%** | **12:00** | **23:00** |
| | | **BOE Asset Purchase Target** | **Mar** | **375b** | **--** | **375b** | **12:00** | **23:00** |
| | US | Current Account Balance | Q4 | -$117.4b | -- | -$124.1b | 12:30 | 23:30 |
| | | Initial Jobless Claims | 12-Mar | 266k | -- | 259k | 12:30 | 23:30 |
| | | Philadelphia Fed Business Outlook | Mar | -1.7 | -- | -2.8 | 12:30 | 23:30 |
| | | JOLTS Job Openings | Jan | 5550 | -- | 5607 | 14:00 | 01:00 |
| Friday | NZ | ANZ Job Advertisements m/m | Feb | -- | -- | -3.2% | 21:00 | 08:00 |
| 18-Mar | | ANZ Consumer Confidence Index | Mar | -- | -- | 119.7 | 00:00 | 11:00 |
| | | ANZ Consumer Confidence m/m | Mar | -- | -- | -1.4% | 00:00 | 11:00 |
| | AU | **RBA's Ellis speaks in Sydney on 'Booms, Busts, Cycles and Risk Appetite'** | | | | | **22:30** | **09:30** |
| | EA | Labour Costs y/y | Q4 | -- | -- | 1.1% | 10:00 | 21:00 |
| | GE | PPI m/m | Feb | -0.1% | -- | -0.7% | 07:00 | 18:00 |
| | US | **Fed's Dudley (Voter) Gives Opening Remarks at Supervision Conference** | | | | | **13:00** | **00:00** |
| | | U. of Mich. Sentiment | Mar P | 92.2 | -- | 91.7 | 14:00 | 01:00 |
| | | **Fed's Rosengren (Voter) Speaks on a Panel at Supervision Conference** | | | | | **15:00** | **02:00** |
| | | **Fed's Bullard (Voter) Speaks at Policy Forum in Frankfurt** | | | | | **18:00** | **05:00** |
| | CA | CPI Core m/m | Feb | 0.5% | -- | 0.3% | 12:30 | 23:30 |
| | | CPI Core y/y | Feb | 2.0% | -- | 2.0% | 12:30 | 23:30 |
| | | Retail Sales m/m | Jan | 0.6% | -- | -2.2% | 12:30 | 23:30 |

# DATA AND FORECASTS

## AUSTRALIAN ECONOMIC ACTIVITY

| | Sep 15 | Dec 15 | Mar 16 | Jun 16 | Sep 16 | Dec 16 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Real GDP (q/q, %)** | | | | | | | | | | |
| Consumption | 0.9 | 0.8 | **0.7** | **0.7** | **0.8** | **0.8** | 2.8 | 2.8 | **3.0** | **3.4** |
| Dwelling investment | 1.9 | 2.2 | **1.0** | **0.5** | **-0.1** | **-0.1** | 7.4 | 9.5 | **4.0** | **1.1** |
| Business investment* | -4.5 | -2.7 | **-3.9** | **-2.5** | **-1.6** | **-1.6** | -4.2 | -8.9 | **-11.2** | **-0.8** |
| Public demand* | -0.8 | 1.4 | **0.5** | **0.9** | **0.9** | **0.9** | -0.7 | 1.9 | **3.0** | **3.5** |
| Inventories (contribution) | -0.2 | 0.2 | **0.0** | **0.0** | **0.0** | **0.0** | 0.1 | 0.0 | **0.1** | **0.0** |
| Gross national expenditure | -0.4 | 0.5 | **0.0** | **0.4** | **0.4** | **0.4** | 1.1 | 1.1 | **1.0** | **2.7** |
| Exports | 5.4 | 0.6 | **1.7** | **1.3** | **1.5** | **1.5** | 6.7 | 6.1 | **5.9** | **6.8** |
| Imports | -2.3 | 0.6 | **-1.2** | **-1.3** | **-0.8** | **-0.8** | -1.6 | 1.0 | **-3.2** | **4.0** |
| Net exports (contribution) | 1.6 | 0.0 | **0.6** | **0.6** | **0.5** | **0.5** | 1.7 | 1.1 | **2.0** | **0.8** |
| GDP | 1.1 | 0.6 | **0.7** | **0.8** | **0.8** | **0.8** | 2.6 | 2.5 | **3.0** | **3.2** |
| **Labour Market** | | | | | | | | | | |
| Unemployment rate (%) | 6.2 | 5.8 | **5.9** | **5.8** | **5.8** | **5.8** | 6.1 | 6.1 | **5.8** | **5.7** |
| Employment growth | 0.6 | 1.0 | **0.3** | **0.4** | **0.4** | **0.4** | 0.7 | 1.9 | **2.1** | **1.7** |
| Wages (WPI) | 0.6 | 0.5 | **0.5** | **0.5** | **0.6** | **0.6** | 2.5 | 2.2 | **2.1** | **2.4** |
| **Inflation** | | | | | | | | | | |
| Headline | 0.5 | 0.4 | **0.1** | **0.5** | **0.6** | **0.6** | 2.5 | 1.5 | **1.6** | **2.3** |
| Core (Avg. RBA measures) | 0.3 | 0.5 | **0.5** | **0.5** | **0.4** | **0.4** | 2.5 | 2.2 | **1.9** | **2.1** |
| **External Sector** | | | | | | | | | | |
| Terms of trade | -2.5 | -3.2 | **-1.7** | **-1.2** | **0.3** | **0.3** | -7.4 | -11.4 | **-6.7** | **2.4** |
| Current account balance** | -4.6 | -5.1 | **-4.6** | **-4.4** | **-4.0** | **-4.0** | -3.0 | -4.6 | **-4.1** | **-3.5** |

Forecasts in bold. Annual data and forecasts are year-averages. * Net of second-hand asset transfers. ** % of GDP

## COMMODITY PRICES

| | Units | Current | Mar 16 | Jun 16 | Sep 16 | Dec 16 | Mar 17 | Jun 17 | Sep 17 | Dec 17 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Base Metals** | | | | | | | | | | |
| Copper | USD/t | 4,987 | 4,750 | 4,800 | 4,850 | 5,000 | 5,500 | 5,600 | 5,800 | 6,000 |
| Aluminium | USD/t | 1,552 | 1,550 | 1,525 | 1,563 | 1,600 | 1,600 | 1,650 | 1,700 | 1,850 |
| Nickel | USD/t | 8,798 | 8,600 | 8,800 | 9,100 | 9,500 | 10,000 | 11,500 | 13,500 | 15,000 |
| Zinc | USD/t | 1,799 | 1,700 | 1,750 | 1,800 | 1,850 | 1,875 | 1,900 | 2,000 | 2,100 |
| **Precious Metals** | | | | | | | | | | |
| Gold | USD/oz | 1,248 | 1230 | 1260 | 1220 | 1250 | 1300 | 1325 | 1350 | 1400 |
| Silver | USD/oz | 15 | 15.5 | 15.5 | 16.1 | 16.4 | 17.0 | 17.2 | 17.4 | 18.1 |
| Platinum | USD/oz | 962 | 850 | 860 | 875 | 880 | 900 | 900 | 900 | 900 |
| Palladium | USD/oz | 575 | 480 | 525 | 550 | 550 | 600 | 750 | 775 | 800 |
| **Energy** | | | | | | | | | | |
| WTI crude | USD/bbl | 38 | 35 | 36 | 40 | 44 | 47 | 48 | 51 | 53 |
| Brent crude | USD/bbl | 40 | 36 | 38 | 42 | 45 | 48 | 50 | 51 | 53 |
| **Bulks**** | | | | | | | | | | |
| Iron ore | USD/t | 57 | 55 | 48 | 48 | 50 | 55 | 52 | 52 | 55 |
| Coking coal | USD/t | 80 | 81 | 85 | 90 | 90 | 85 | 88 | 90 | 92 |
| Thermal coal | USD/t | 52 | 68 | 55 | 55 | 55 | 55 | 60 | 60 | 60 |
| **Agriculture** | | | | | | | | | | |
| Corn | USc/bu | 366 | 370 | 400 | 350 | 360 | 390 | 400 | 370 | 360 |
| Wheat | USc/bu | 470 | 480 | 520 | 530 | 540 | 610 | 590 | 600 | 610 |
| Soybeans | USc/bu | 888 | 860 | 870 | 860 | 940 | 980 | 920 | 910 | 990 |
| Cotton | USc/lb | 65 | 67 | 64 | 63 | 67 | 70 | 69 | 68 | 72 |
| Sugar | USc/lb | 15 | 13.9 | 15.7 | 15.2 | 16.8 | 17.9 | 16.7 | 16.2 | 17.0 |
| Live cattle | USc/lb | 140 | 128 | 119 | 115 | 123 | 121 | 114 | 110 | 117 |

Agriculture forecast are period averages, all others are end-period.

** Iron ore is spot price (62% fines) including freight to Qingdao Port, China.

** Coking coal is Australian coking coal free on board price. Thermal coal is Newcastle futures contract.

# DATA AND FORECASTS

## FINANCIAL MARKETS

| | Current | Mar 16 | Jun 16 | Sep 16 | Dec 16 | Mar 17 | Jun 17 | Sep 17 | Dec 17 |
|---|---|---|---|---|---|---|---|---|---|
| **Interest Rates (%)** | | | | | | | | | |
| RBA cash rate | 2.00 | 2.00 | 1.75 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| 90-day bank bill | 2.33 | 2.21 | 2.27 | 2.38 | 2.37 | 2.36 | 2.36 | 2.35 | 2.35 |
| 3-year bond | 1.94 | 2.02 | 2.01 | 2.01 | 2.00 | 2.13 | 2.25 | 2.38 | 2.50 |
| 10-year bond | 2.56 | 3.09 | 3.30 | 3.40 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |
| Curve - 3s10s (bps) | 61 | 107 | 129 | 139 | 150 | 138 | 125 | 113 | 100 |
| 10-yr spread to US (bps) | 69 | 109 | 118 | 117 | 115 | 99 | 82 | 66 | 50 |
| 3y swap | 2.15 | 2.10 | 2.10 | 2.20 | 2.30 | 2.44 | 2.58 | 2.71 | 2.85 |
| 5y swap | 2.39 | 2.32 | 2.55 | 2.68 | 2.80 | 2.95 | 3.10 | 3.25 | 3.40 |
| 10y swap | 2.66 | 3.19 | 3.30 | 3.40 | 3.50 | 3.58 | 3.65 | 3.73 | 3.80 |
| US fed funds | 0.50 | 0.50 | 0.75 | 1.00 | 1.25 | 1.25 | 1.50 | 1.50 | 1.75 |
| US 2-year note | 0.89 | 1.14 | 1.31 | 1.39 | 1.53 | 1.53 | 1.78 | 1.78 | 2.03 |
| US 10-year note | 1.87 | 2.00 | 2.12 | 2.23 | 2.35 | 2.51 | 2.68 | 2.84 | 3.00 |
| ECB refi rate | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| BoE Bank Rate | 0.50 | 0.50 | 0.50 | 0.75 | 1.00 | 1.00 | 1.25 | 1.50 | 1.50 |
| **Foreign Exchange** | | | | | | | | | |
| AUD/USD | 0.74 | 0.67 | 0.65 | 0.64 | 0.64 | 0.65 | 0.66 | 0.68 | 0.70 |
| AUD/EUR | 0.67 | 0.63 | 0.62 | 0.59 | 0.58 | 0.58 | 0.57 | 0.57 | 0.57 |
| AUD/GBP | 0.52 | 0.49 | 0.48 | 0.44 | 0.42 | 0.42 | 0.42 | 0.43 | 0.43 |
| AUD/JPY | 83.8 | 73.7 | 68.3 | 67.2 | 67.2 | 65.0 | 66.0 | 68.0 | 70.0 |
| AUD/CNY | 4.83 | 4.39 | 4.29 | 4.26 | 4.29 | 4.37 | 4.46 | 4.60 | 4.76 |
| AUD/NZD | 1.10 | 1.06 | 1.07 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 | 1.08 |
| AUD/CHF | 0.74 | 0.68 | 0.67 | 0.65 | 0.65 | 0.64 | 0.64 | 0.63 | 0.64 |
| AUD/IDR | 9745 | 9514 | 9360 | 9344 | 9472 | 9653 | 9834 | 10166 | 10500 |
| AUD/INR | 49.97 | 45.36 | 44.20 | 43.65 | 43.84 | 44.66 | 45.54 | 47.12 | 48.65 |
| AUD/KRW | 895 | 811 | 800 | 794 | 800 | 819 | 838 | 870 | 903 |
| USD/JPY | 113 | 110 | 105 | 105 | 105 | 100 | 100 | 100 | 100 |
| EUR/USD | 1.10 | 1.07 | 1.05 | 1.08 | 1.10 | 1.12 | 1.15 | 1.20 | 1.22 |
| USD/CNY | 6.51 | 6.55 | 6.60 | 6.65 | 6.70 | 6.72 | 6.75 | 6.77 | 6.80 |
| AUD TWI | 63.30 | 57.80 | 56.24 | 55.35 | 55.37 | 55.76 | 56.54 | 58.00 | 59.64 |

Bond yields are on government-issued securities at constant maturity. Forecasts are for quarter-end.

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