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# Weekly Economic Outlook

Monday, 21 October 2019

# No Big Deal

It was billed as “Super Saturday”. The UK’s parliament convened on a Saturday for the first time in almost 40 years to decide on the fate of British prime minister Boris Johnson’s latest Brexit plan. If the bill were to be passed, it would have finally clarified the manner and timing for when the UK would leave the EU after 3½ years of political turmoil. A rejection would have resulted in more chaos, with Johnson legally required to request an extension to the October 31 deadline from the EU, even though he had previously stated that he would rather be “dead in a ditch” than delay Brexit any longer.

In the event, Saturday turned out to be a very different affair. Instead of voting on Johnson’s EU-backed Brexit agreement, lawmakers instead introduced legislation to effectively defer the decision by requiring all necessary Brexit preparation laws to be passed beforehand. In essence, it was an insurance move designed to mitigate the prospect of a no-deal Brexit. A reluctant Johnson sent a letter to the EU requesting a 3-month extension but vowed to press on with securing an agreement to withdraw the UK from the bloc by the end of the month. A vote is expected early this week.

A paucity of local data this week means that focus will shift to overseas developments.

Prospects for the other deal – the US-China trade negotiations – are cautiously upbeat. China’s top trade negotiator said that there was “substantial progress” in the developing phase one trade agreement and news reports suggest that a deal could be formalised as soon as next month. China’s economy has showed signs of slowing as tariffs begin to bite into its exports. Annual Q3 GDP growth was the slowest on record. Further signs of slowing in the US economy could provide both sides with incentives to come to the table.

Meanwhile, Thursday will mark outgoing European Central Bank (ECB) president Mario Draghi’s final meeting in charge. The event is expected to be somewhat ho-hum with no changes to policy, however it marks the end of an era. Draghi is famously credited for ending the euro zone debt crisis in 2012 with his “whatever it takes” speech. Incoming president Christine Lagarde will inherit a divided board and inflation well below the target band. “Whatever it takes” was enough to save the euro, but it may take more to meet the ECB’s objectives.

Simmering in the background of these significant global events, the future direction of local monetary policy will remain of interest. We estimate rates will be lowered again to 0.5% in February next year, but cannot rule out a move in December. Data releases over the coming weeks will provide further insights.

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## Forecasts

| End Period: | 2019 Close (Oct 18) | 2019 Q4 (f) | 2020 Q1 (f) | 2020 Q2 (f) | 2020 Q3 (f) | 2020 Q4 (f) |
|---|---|---|---|---|---|---|
| **Aust. Interest Rates:** | | | | | | |
| 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, % | 0.83 | 0.70 | 0.70 | 0.75 | 0.80 | 0.85 |
| 10 Year Bond, % | 1.10 | 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, % | 1.75 | 1.45 | 1.40 | 1.45 | 1.50 | 1.55 |
| **USD Exchange Rates:** | | | | | | |
| AUD-USD | 0.6856 | 0.67 | 0.66 | 0.66 | 0.67 | 0.67 |
| USD-JPY | 108.45 | 105 | 104 | 104 | 106 | 108 |
| EUR-USD | 1.1167 | 1.07 | 1.05 | 1.06 | 1.07 | 1.09 |
| GBP-USD | 1.2984 | 1.17 | 1.18 | 1.20 | 1.22 | 1.24 |
| NZD-USD | 0.6382 | 0.63 | 0.62 | 0.62 | 0.63 | 0.63 |
| **AUD Exchange Rates:** | | | | | | |
| AUD-USD | 0.6856 | 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 | 74.36 | 70.4 | 68.6 | 68.6 | 71.0 | 72.4 |
| AUD-GBP | 0.5284 | 0.57 | 0.56 | 0.55 | 0.55 | 0.54 |
| AUD-NZD | 1.0745 | 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, % | 2.4 | 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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