

Weekly Economic Outlook

Monday, 22 July 2019

US Data Deluge Begins

The data calendar locally is thin on the ground this week. Domestic markets instead will take their cue from a keynote address by the Reserve Bank Governor Phillip Lowe on Thursday. Lowe will be speaking to the Anika Foundation / Australian Business Economists' annual event.

The Reserve Bank is widely expected to cut the cash rate again before the end of the year and market speculation is rife around if quantitative-easing policies will be implemented and what shape they will take. Financial market participants will be looking for clues around future rate cuts and the possibility of these alternative measures in Lowe's speech.

Our current view is that the low point for the official cash rate is 0.75%, but there are growing risks that the cash rate might fall to 0.50%. If the cash rate falls to as low as 0.50% and the economy still needs more stimulus, it is then the RBA might consider engaging in quantitative-easing policies.

It is our belief the RBA will only resort to alternative measures of stimulating economic activity if cutting interest rates no longer has the desired impact of bolstering both economic growth and inflation pressures. Quantitative easing is not something the RBA will take on lightly.

Recent remarks from RBA officials suggest that policy makers are reluctant to resort to quantitative-easing measures. Much will depend on the economic data in coming months, especially data relating to the labour market. Last week, the unemployment rate held at 5.2%, yet the RBA will be hoping for a fall in the unemployment rate towards 4.5%.

In the US, it is a data jam-packed week. The data releases include existing home sales, new homes sales, durable good orders and the advance estimate for Q2 GDP. The data comes ahead of a Federal Reserve meeting on 30-31 July where the Fed is likely to start a rate-cutting cycle to counter the growing downside risks to the US economic outlook.

Financial markets have been debating whether the Federal Reserve will cut by 25 basis points or 50 basis points. Our forecast is for a tap on the accelerator of 25 basis points. Recent remarks from Federal Reserve officials are also suggesting that 25 basis points might be the likely scenario. Uncertainty around trade and investment are key reasons for the rate cut.

Trade and investment uncertainty has contributed to a more fragile world economic outlook. An update on the world economic outlook will be provided tomorrow night when the International Monetary Fund (IMF) publish an update to their world economic outlook. The IMF have cut world-growth forecasts twice this year already and another cut is likely.

Financial markets will also be digesting an earnings deluge in the US this coming week. Indeed, just under a third of S&P 500 companies are set to report. The reports will offer a glimpse into every major sector of the economy. Investors will turn a keen eye to how tech giants like Facebook, Amazon, Google and Twitter are standing up to the threat of new regulation.

Forecasts

| End Period: | 2019 | | | 2020 | | | |
|------------------------------|----------------|--------|--------|--------|--------|--------|--------|
| | Close (Jul 22) | Q3 (f) | Q4 (f) | Q1 (f) | Q2 (f) | Q3 (f) | Q4 (f) |
| Aust. Interest Rates: | | | | | | | |
| RBA Cash Rate, % | 1.00 | 1.00 | 0.75 | 0.75 | 0.75 | 0.75 | 0.75 |
| 90 Day BBSW, % | 1.12 | 1.15 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| 3 Year Swap, % | 1.01 | 1.00 | 1.05 | 1.15 | 1.20 | 1.25 | 1.30 |
| 10 Year Bond, % | 1.35 | 1.30 | 1.40 | 1.45 | 1.60 | 1.70 | 1.75 |
| US Interest Rates: | | | | | | | |
| Fed Funds Rate, % | 2.375 | 2.125 | 1.875 | 1.875 | 1.875 | 1.875 | 1.875 |
| US 10 Year Bond, % | 2.06 | 2.10 | 2.05 | 2.10 | 2.20 | 2.25 | 2.30 |
| USD Exchange Rates: | | | | | | | |
| AUD-USD | 0.7042 | 0.6800 | 0.6600 | 0.6600 | 0.6700 | 0.6700 | 0.6800 |
| USD-JPY | 107.71 | 111.00 | 112.00 | 112.00 | 112.00 | 111.00 | 110.00 |
| EUR-USD | 1.1221 | 1.1000 | 1.1000 | 1.1100 | 1.1200 | 1.1300 | 1.1400 |
| GBP-USD | 1.2502 | 1.2800 | 1.2800 | 1.2800 | 1.2900 | 1.2900 | 1.3000 |
| NZD-USD | 0.6764 | 0.6400 | 0.6500 | 0.6500 | 0.6600 | 0.6600 | 0.6700 |
| AUD Exchange Rates: | | | | | | | |
| AUD-USD | 0.7042 | 0.6800 | 0.6600 | 0.6600 | 0.6700 | 0.6700 | 0.6800 |
| AUD-EUR | 0.6275 | 0.6180 | 0.6000 | 0.5950 | 0.5980 | 0.5930 | 0.5960 |
| AUD-JPY | 75.84 | 75.50 | 73.90 | 73.90 | 75.00 | 74.40 | 74.80 |
| AUD-GBP | 0.5632 | 0.5310 | 0.5160 | 0.5160 | 0.5190 | 0.5190 | 0.5230 |
| AUD-NZD | 1.0413 | 1.0200 | 1.0200 | 1.0400 | 1.0200 | 1.0200 | 1.0100 |

| | 2018 | 2019 (f) | 2020 (f) |
|----------------------|------|----------|----------|
| GDP, % | 2.3 | 2.2 | 2.5 |
| CPI (Headline), % | 1.8 | 1.8 | 1.6 |
| CPI (Underlying), % | 1.7 | 1.3 | 1.7 |
| Unemployment Rate, % | 5.0 | 5.4 | 5.6 |
| Wages Growth, % | 2.3 | 2.6 | 2.8 |

AUD cross exchange rates have been rounded.

Financial forecasts are quarter end.

GDP, CPI, employment and wage growth forecasts are year end.

Contact Listing

Chief Economist

Besa Deda
dedab@banksa.com.au
(02) 8254 3251

Senior Economist

Janu Chan
chanj@banksa.com.au
(02) 8253 0898

BankSA Financial Markets

(08) 8424 4305

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