

Monday, 10 July 2023



Bank of England Refi Rate to Breach 6%

The debate continues about the size of tightening still ahead for central banks to tame inflation. The intensity reached a fever pitch last week in the UK where markets at one stage were pricing in the bank rate to climb from 5.00% to a peak of 6.60% - the highest since 1998.

Interest-rate markets now have the UK's bank rate topping out at 6.30%. Across to the US, and markets are betting there are 1-2 more rate hikes in store by year's end to take the fed funds rate to 5.40%. Pricing is similar for the European Central Bank with two more rate hikes priced to take the refi rate to almost 4%. Closer to home, the Reserve Bank (RBA) is expected by markets to take the cash rate up twice to 4.60% before the year's end. This is in line with our expectation, although we think the peak will come a little earlier than markets expect.

Turning to this week, the Reserve Bank of New Zealand (RBNZ) and Bank of Canada (BoC) meet on Wednesday. The RBNZ should keep rates on hold this month at 5.50% after signalling in May they were done raising rates. The New Zealand economy has recently entered a technical recession. The BoC may hike again by 25 basis points to take their bank rate to 5%.

On Wednesday, US inflation data will be in the limelight after payrolls data on Friday came in weaker than expected, but held above 200k in June. Moreover, average weekly earnings growth stayed steady and resilient at 4.4%. Core consumer prices are expected to rise by 0.3% in the month, leading to a softening in the annual rate from 5.3% in May to 5.0% in June. Between January and April, the core annual rate was sticky in a range of 5.5% and 5.6% after peaking at 6.6% last September.

Domestically, the calendar this week is light, comprising only of confidence indicators. Consumer confidence, published by the Melbourne Institute and Westpac, is out Tuesday. It is for July. Whilst the RBA paused in July and a bounce in confidence is likely, more tightening can't be ruled out. The prospect of more rate hikes should ensure that consumers remain downbeat about the future. Indeed, consumer confidence was 79.2 in June and has been below the critical level of 100 since March last year. In the past twelve months, it has stayed entrenched in a narrow range of 78.0-85.8.

Also, on Tuesday, we receive an update on business confidence and conditions. Business credit growth has been slowing but remains elevated. Capacity utilisation of firms is also elevated. So far in 2023, business conditions have trended lower from 21.2 in January to 8.2 in May, which is a tad below the long-run average. Businesses continue to be more upbeat than their consumer counterparts, but their optimism has waned. Three of the last four readings were below zero, but only modestly so, not reaching the depths of despair recorded during the height of covid.

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Group Forecasts

| End Period: | 2023 | | | 2024 | | | |
|------------------------------|---------------|--------|--------|--------|--------|--------|--------|
| | Close (7 Jul) | Q3 (f) | Q4 (f) | Q1 (f) | Q2 (f) | Q3 (f) | Q4 (f) |
| Aust. Interest Rates: | | | | | | | |
| RBA Cash Rate, % | 4.10 | 4.60 | 4.60 | 4.60 | 4.35 | 4.10 | 3.85 |
| 90 Day BBSW, % | 4.30 | 4.80 | 4.80 | 4.63 | 4.38 | 4.13 | 3.88 |
| 3 Year Swap, % | 4.55 | 4.30 | 4.15 | 4.00 | 3.80 | 3.60 | 3.50 |
| 10 Year Bond, % | 4.26 | 3.90 | 3.70 | 3.50 | 3.30 | 3.20 | 3.10 |
| US Interest Rates: | | | | | | | |
| Fed Funds Rate, % | 5.125 | 5.375 | 5.375 | 4.875 | 4.375 | 3.875 | 3.375 |
| US 10 Year Bond, % | 4.06 | 3.70 | 3.50 | 3.30 | 3.10 | 3.00 | 2.90 |
| USD Exchange Rates: | | | | | | | |
| AUD-USD | 0.6690 | 0.69 | 0.69 | 0.71 | 0.72 | 0.73 | 0.74 |
| USD-JPY | 142.21 | 140 | 138 | 136 | 133 | 130 | 128 |
| EUR-USD | 1.0967 | 1.10 | 1.11 | 1.12 | 1.13 | 1.14 | 1.15 |
| GBP-USD | 1.2839 | 1.27 | 1.27 | 1.28 | 1.28 | 1.29 | 1.29 |
| NZD-USD | 0.6210 | 0.62 | 0.62 | 0.63 | 0.64 | 0.65 | 0.66 |
| AUD Exchange Rates: | | | | | | | |
| AUD-USD | 0.6690 | 0.69 | 0.69 | 0.71 | 0.72 | 0.73 | 0.74 |
| AUD-EUR | 0.6101 | 0.63 | 0.62 | 0.63 | 0.64 | 0.64 | 0.64 |
| AUD-JPY | 95.11 | 96.6 | 95.2 | 96.6 | 95.8 | 94.9 | 94.7 |
| AUD-GBP | 0.5211 | 0.54 | 0.54 | 0.55 | 0.56 | 0.57 | 0.57 |
| AUD-NZD | 1.0776 | 1.11 | 1.11 | 1.13 | 1.13 | 1.12 | 1.12 |

| | 2021 | 2022 | 2023 (f) | 2024 (f) |
|-----------------------|------|------|----------|----------|
| GDP, % | 4.6 | 2.6 | 0.6 | 1.0 |
| CPI (Headline), % | 3.5 | 7.8 | 4.2 | 3.2 |
| CPI (Trimmed mean), % | 2.7 | 6.9 | 4.1 | 3.2 |
| Unemployment Rate, % | 4.7 | 3.5 | 4.2 | 5.3 |
| Wages Growth, % | 2.3 | 3.4 | 4.1 | 3.3 |

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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