

Geelong Chamber of Commerce breakfast

Westpac Institutional Bank
Presented by Bill Evans
August 2018



Current Forecasts – July 2017

	Latest	Dec-17	Mar-18	Jun-18	Dec-18
RBA Cash	1.50	1.50	1.50	1.50	1.50
FED FUNDS	1.125	1.375	1.375	1.625	1.875
3 year swap	2.10	2.20	2.40	2.40	2.60
AUD/USD	0.80	0.76	0.74	0.70	0.65

Current forecasts – August 2018

	Latest	Sept-18	Dec 18	Jun-19	Dec 19
RBA Cash	1.50	1.50	1.50	1.50	1.50
Aus 10yr	2.72	2.75	2.95	3.00	3.15
Fed Funds	1.875	2.125	2.375	2.875	2.875
US 10yr	3.00	3.00	3.25	3.40	3.20
3yr swap	2.21	2.30	2.40	2.40	2.50
AUD/USD	0.74	0.74	0.74	0.72	0.70

Source: Westpac Economics.

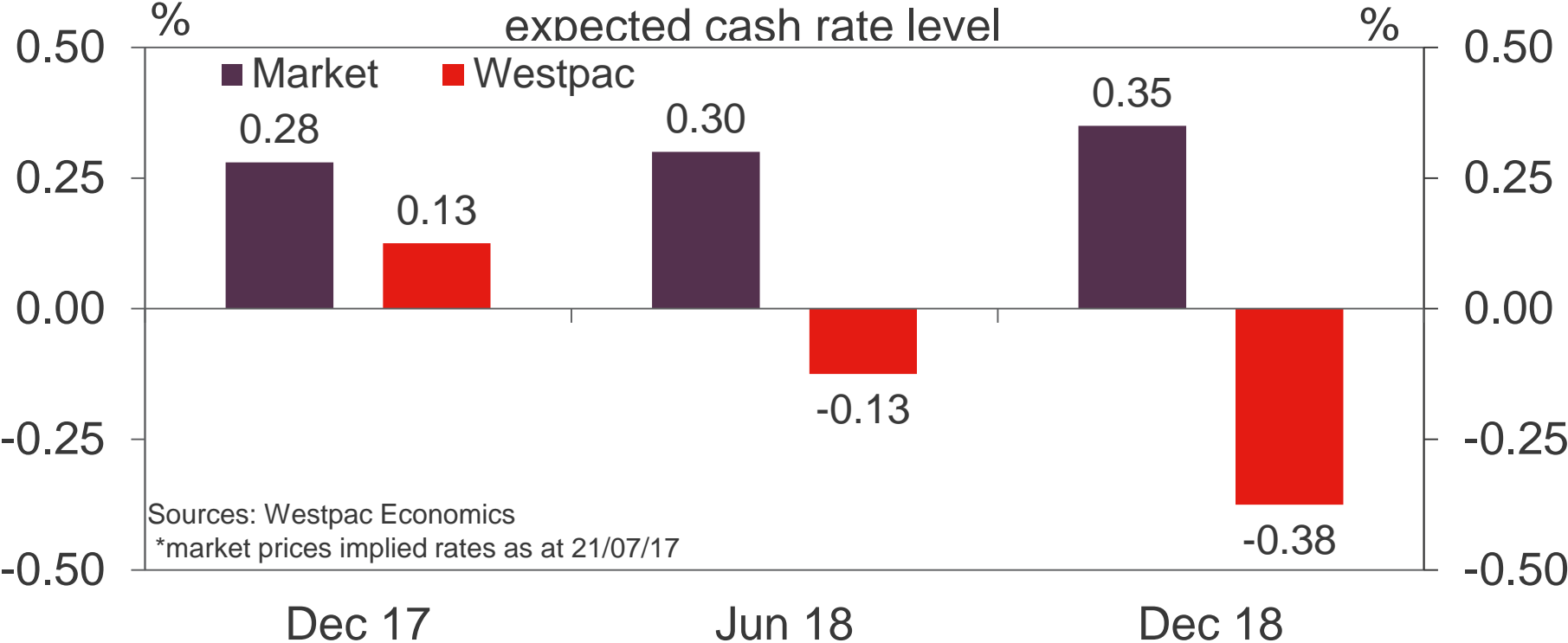
October 20, 2017

Rate outlook (first hike) - 21 forecasters

6 forecasters	2Q 2018 (or earlier)
5 forecasters	3Q 2018
4 forecasters	4Q 2018
WBC Market pricing : 3 hikes	No move 2018 or 2019 by end 2019
Current market pricing	50% of one hike by end 2019

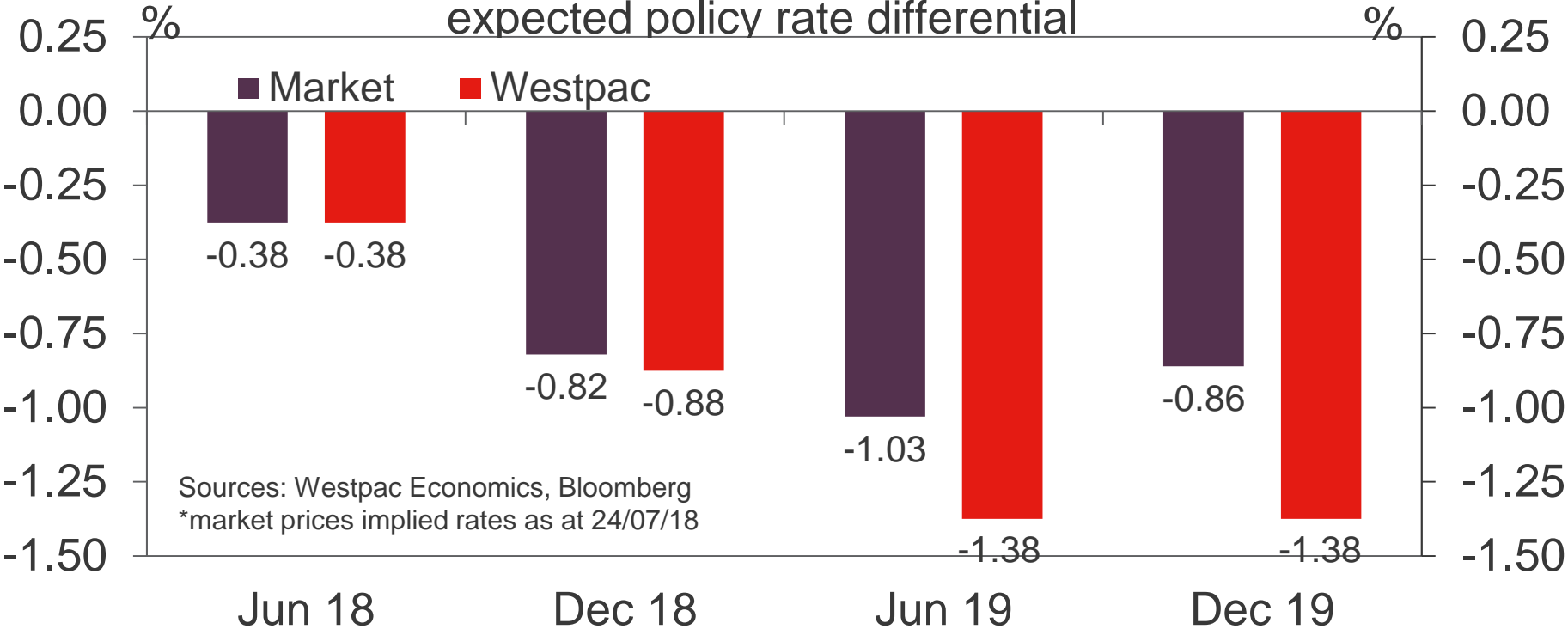
Source: Bloomberg; Westpac Economics.

Westpac: rate differential negative (July)



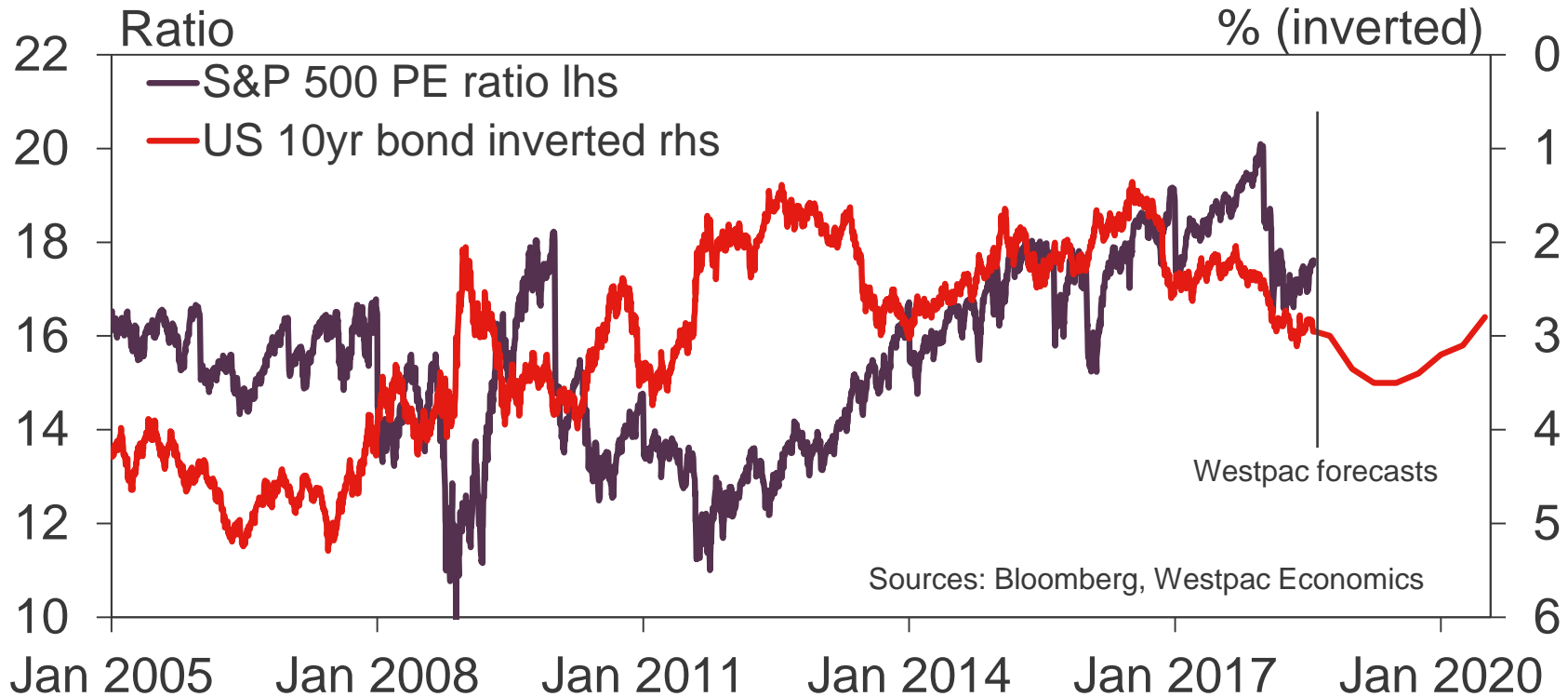
Sources: Westpac Economics
*market prices implied rates as at 21/07/17

Westpac: rate differential negative



Sources: Westpac Economics, Bloomberg
 *market prices implied rates as at 24/07/18

S&P 500 PE ratio and US 10yr bond



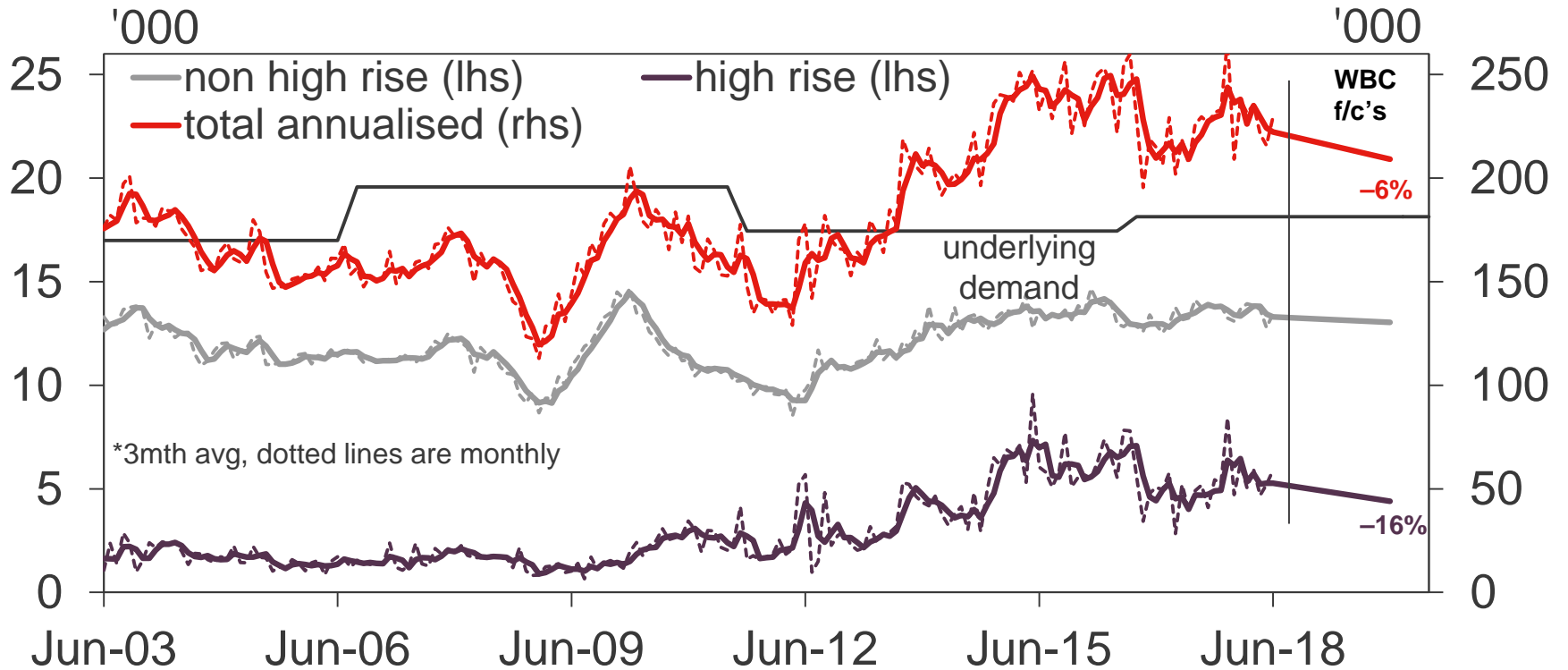
Sources: Bloomberg, Westpac Economics

Australian GDP growth outlook

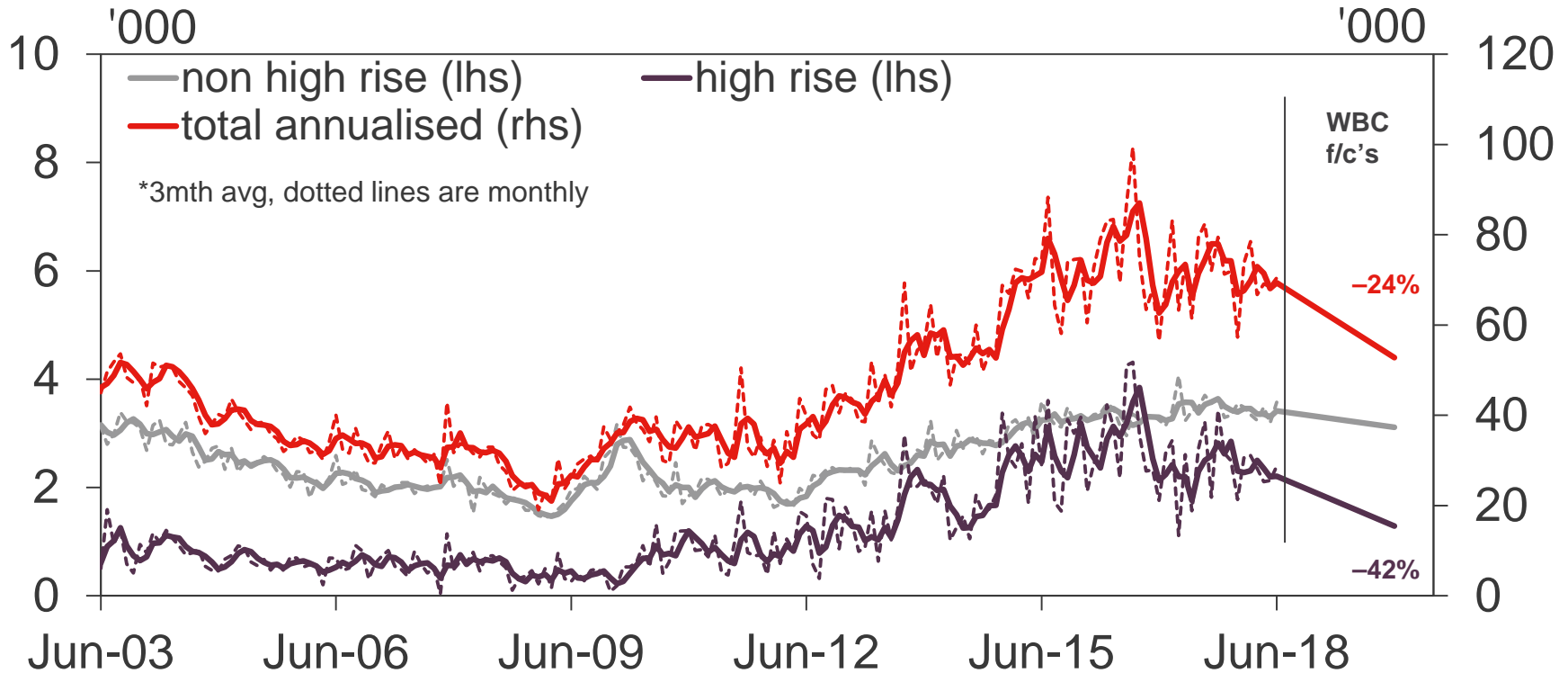
% yr	2017	2018	2019
RBA, GDP	2.40	3.25	3.25
Westpac GDP	2.40	2.7	2.5
RBA consumer	2.9	3.0	3.2
Westpac consumer	2.9	2.6	2.5

Source: ABS, RBA Statement on Monetary Policy, Westpac Economics

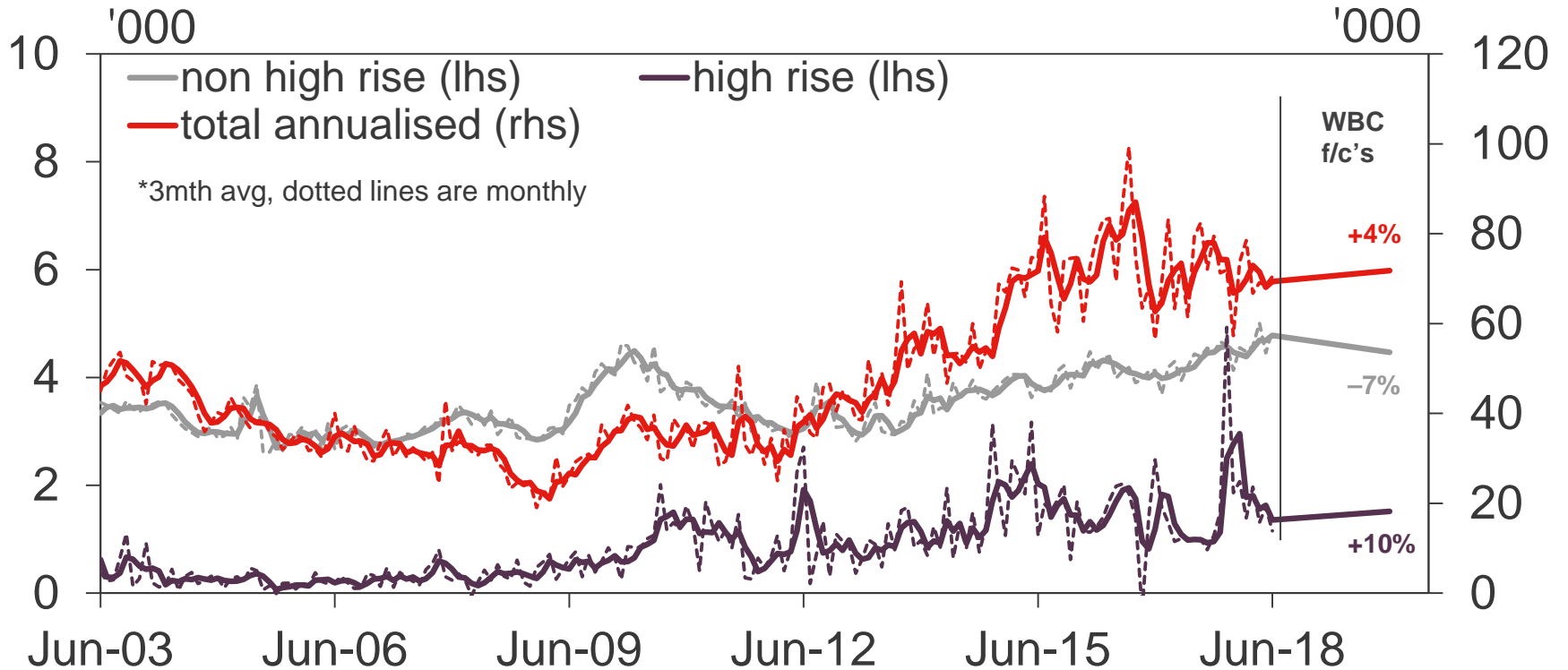
Dwelling approvals



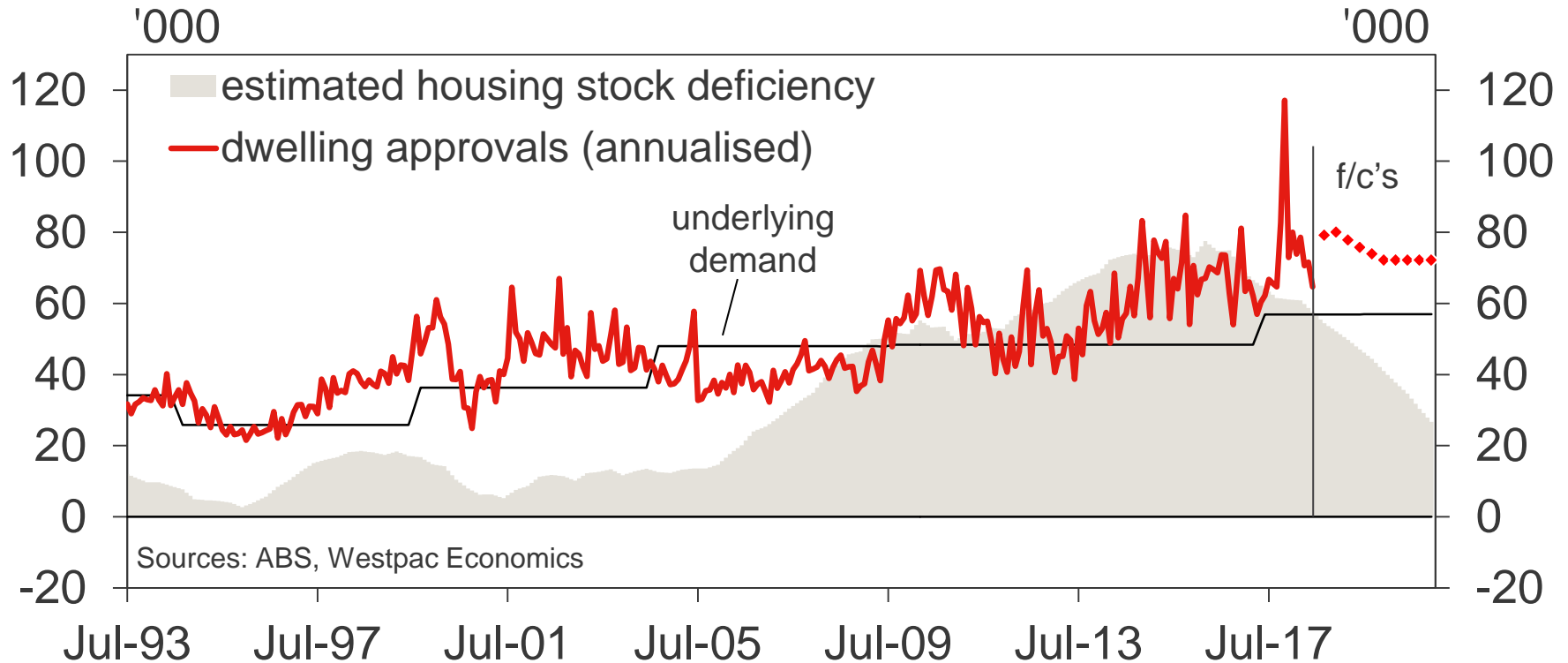
Dwelling approvals: NSW



Dwelling approvals: Vic

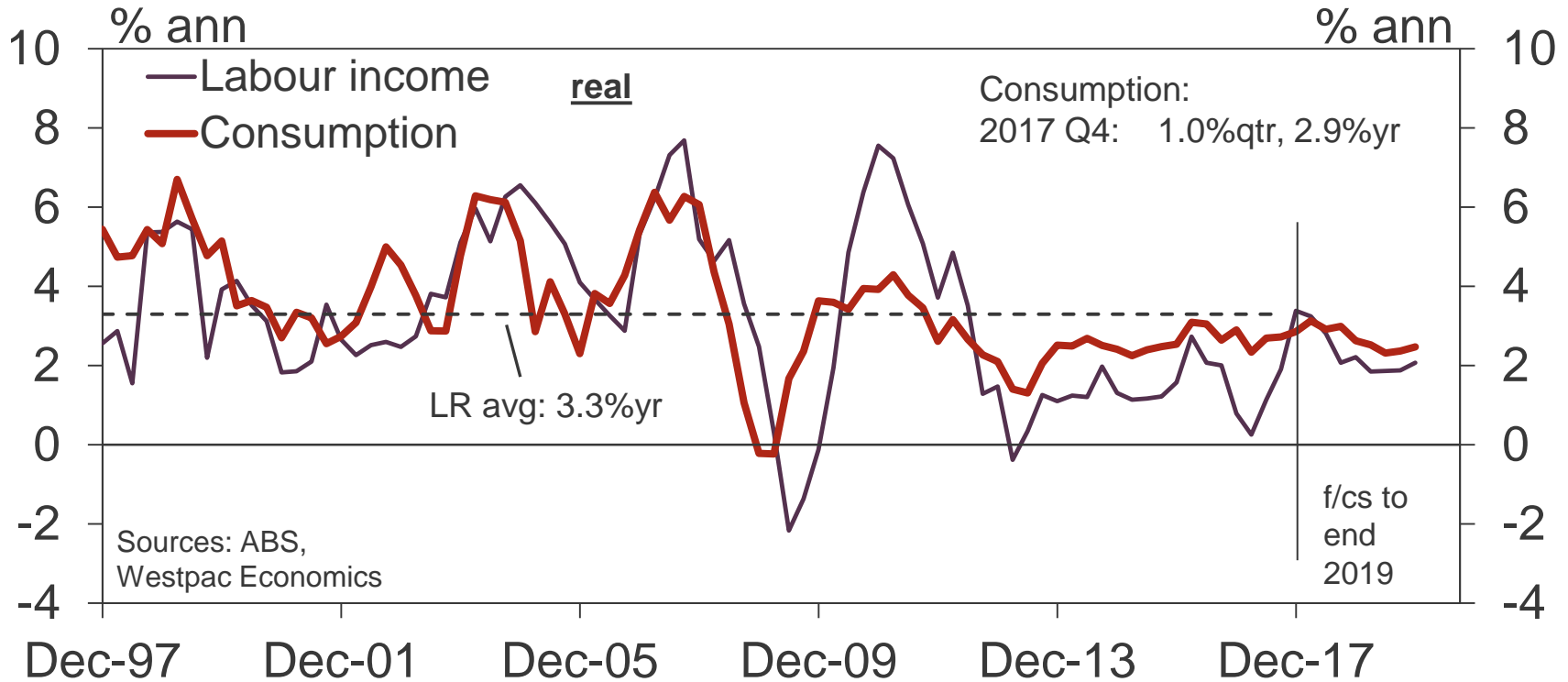


Vic housing stock deficiency

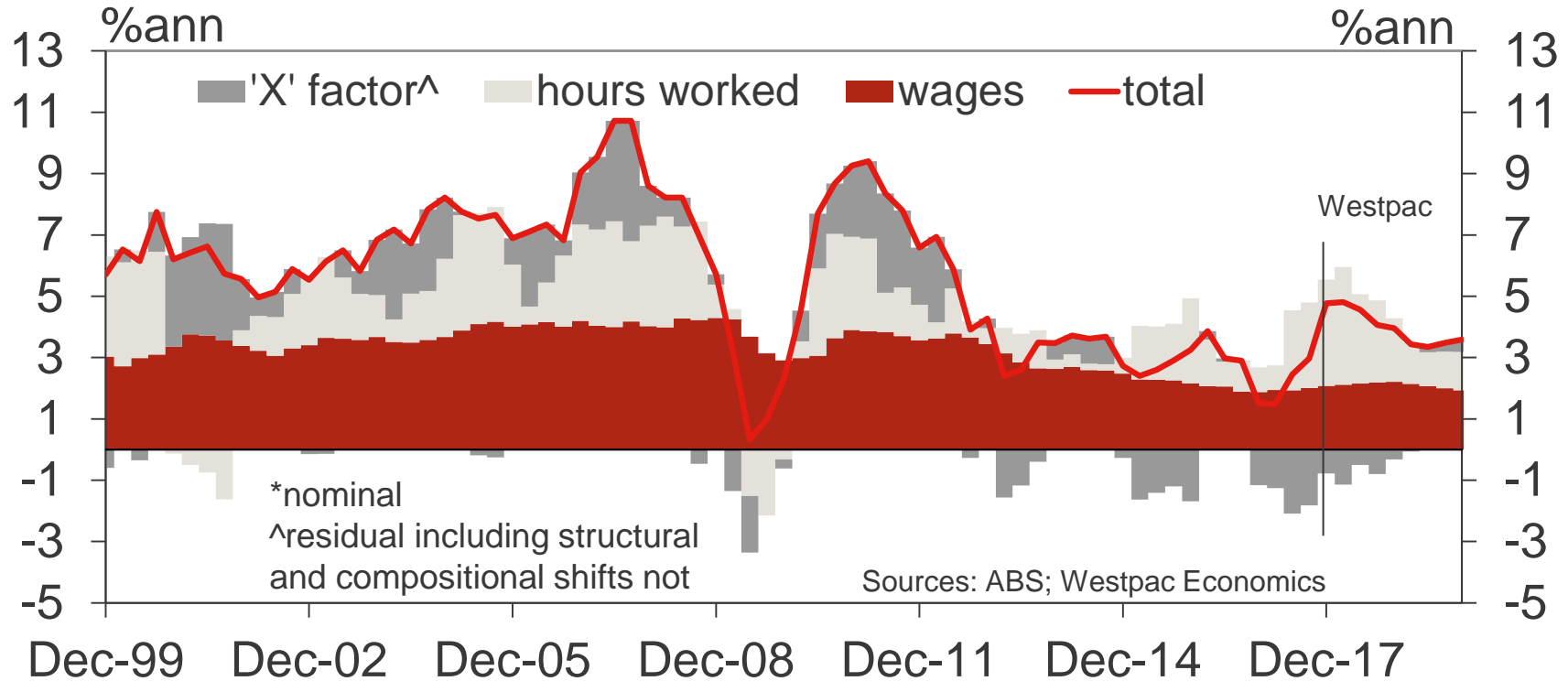


Sources: ABS, Westpac Economics

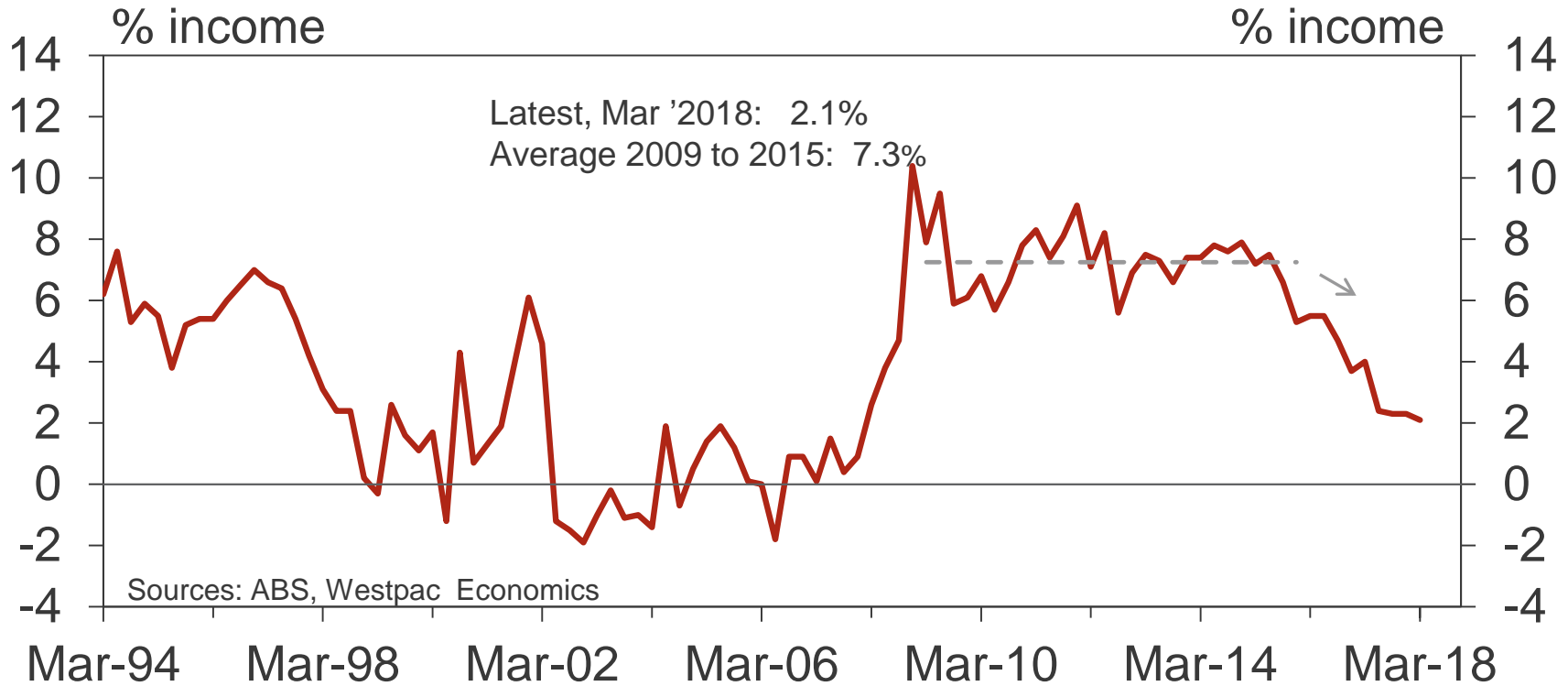
Australia: consumer spending vs labour income



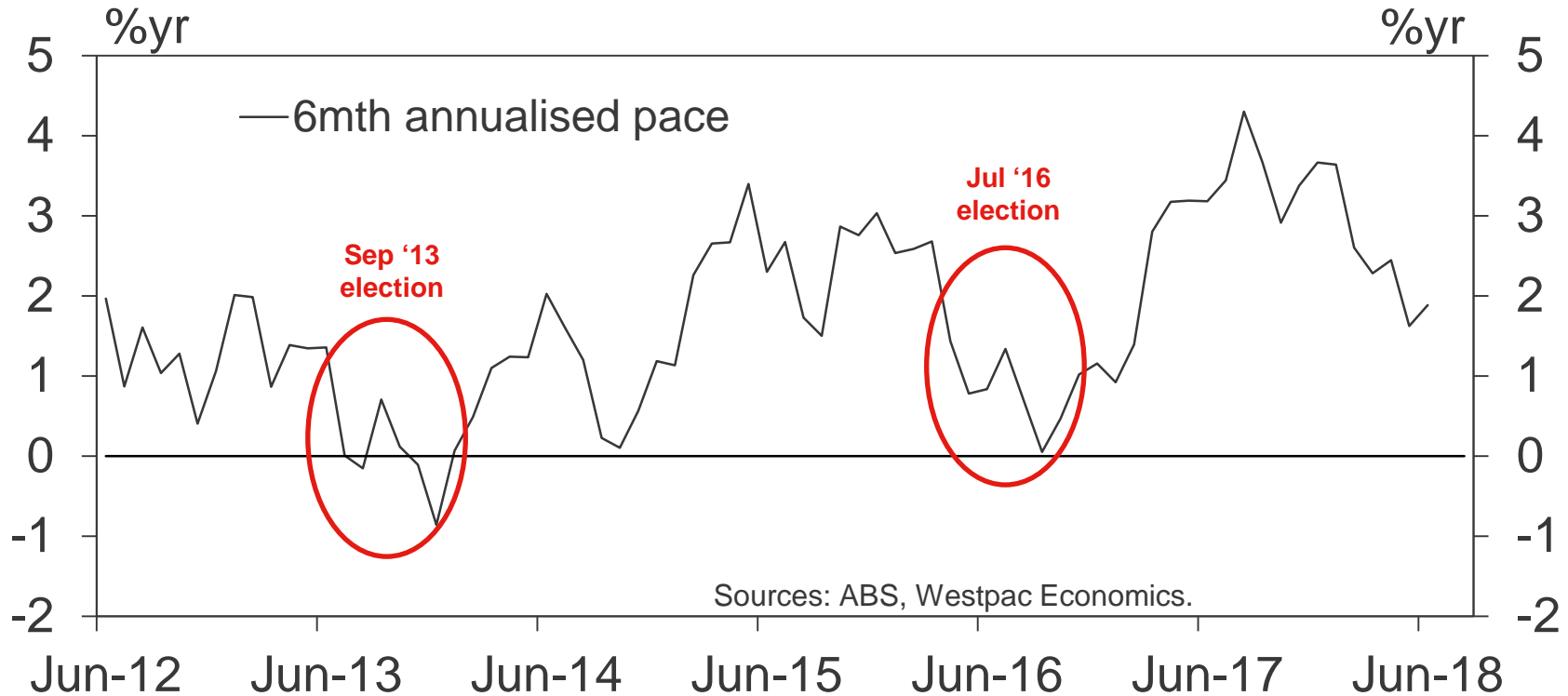
Household labour income: decomposed



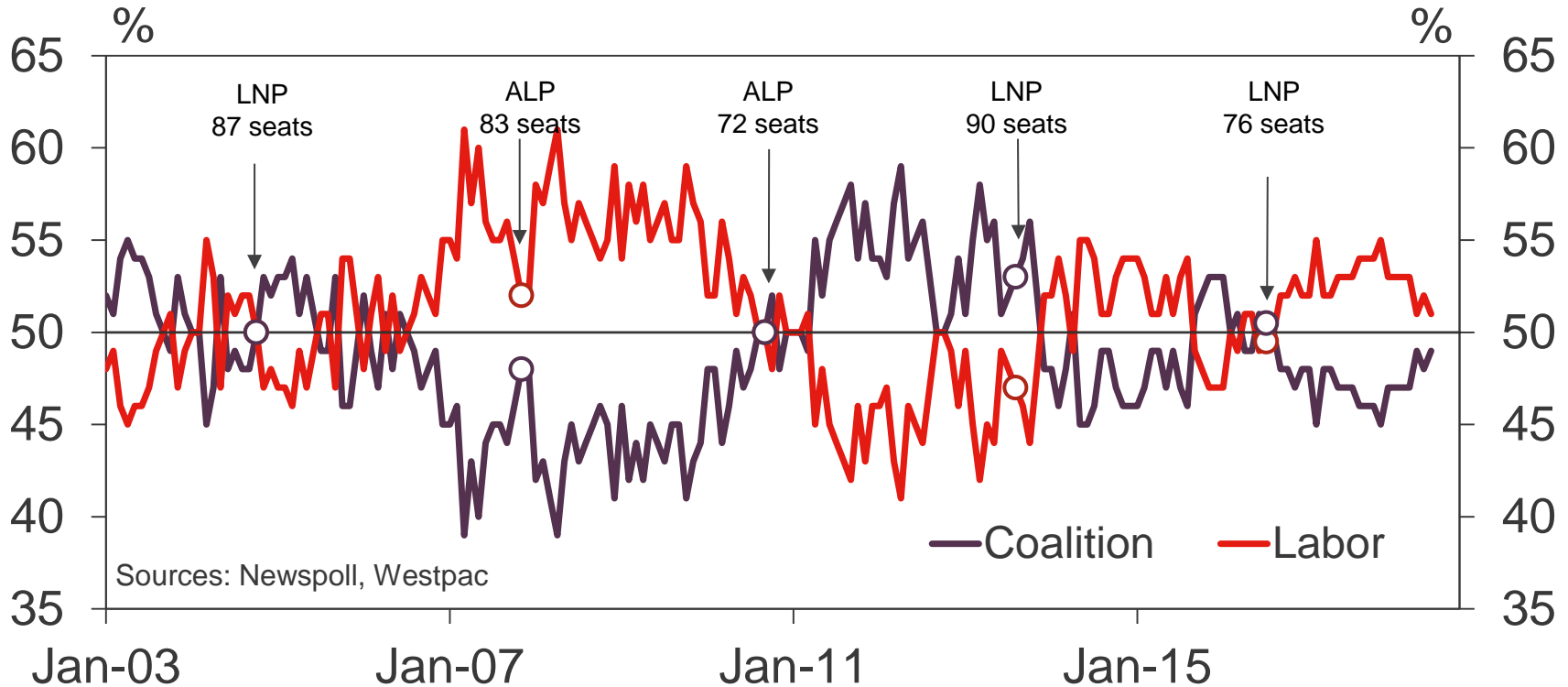
Household savings rate



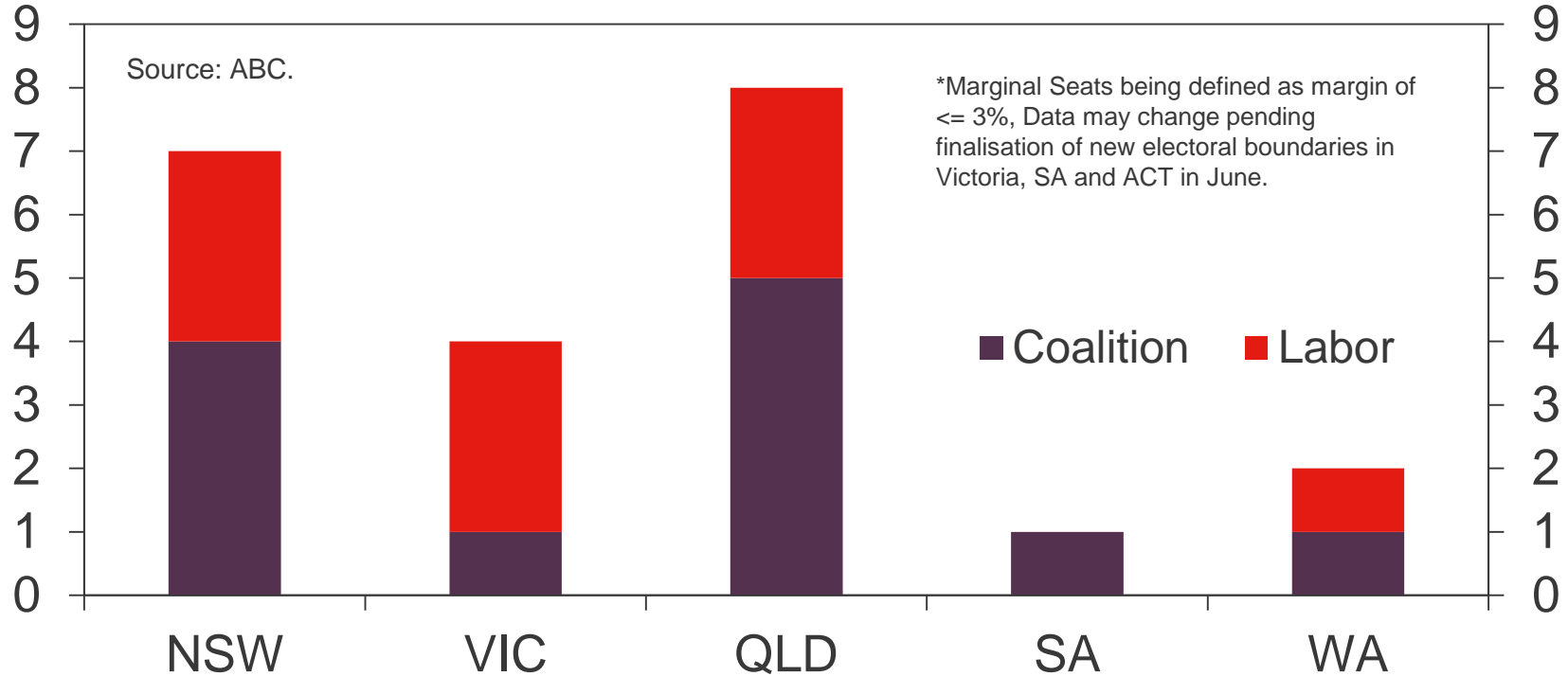
Election uncertainty & employment



Newspoll: recent leads hold for multiple years



Marginal seats* by state



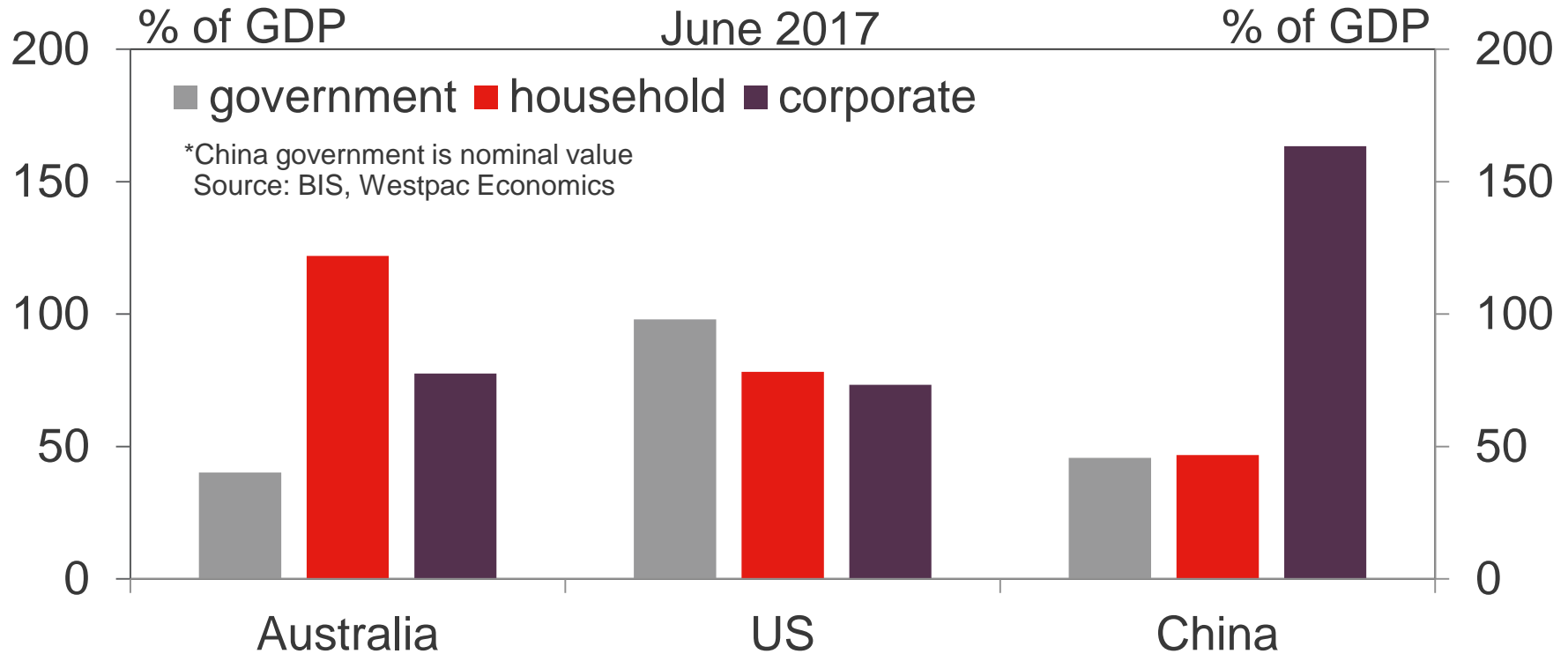
ALP Policy Shifts

(savings over 10 years)

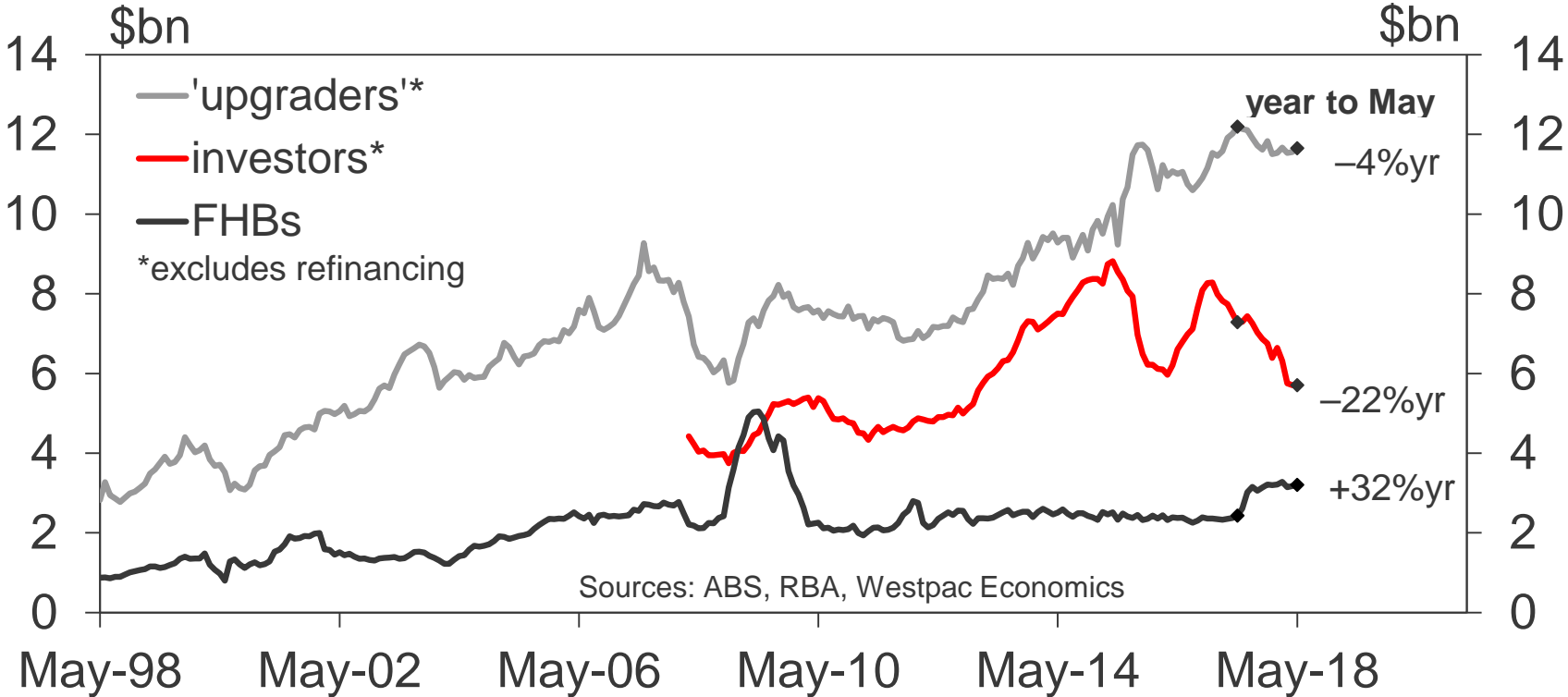
Company Tax:	\$35 billion
Franking Credits:	\$56 billion
Negative Gearing/Capital gains:	\$49 billion
Trusts/Income splitting:	\$17 billion
Budget deficit levy:	\$22 billion
Total	\$180 billion

Source: Westpac Economics

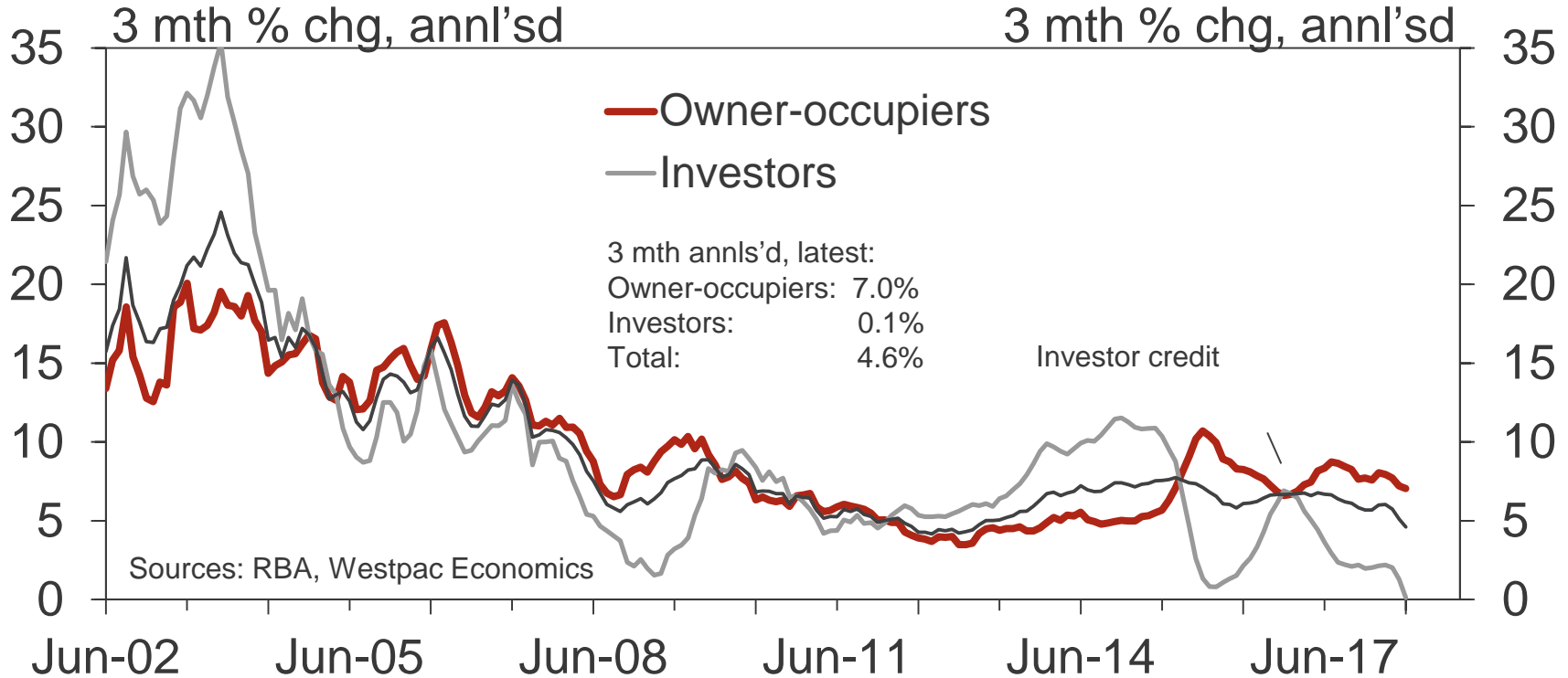
China debt: developed world scale



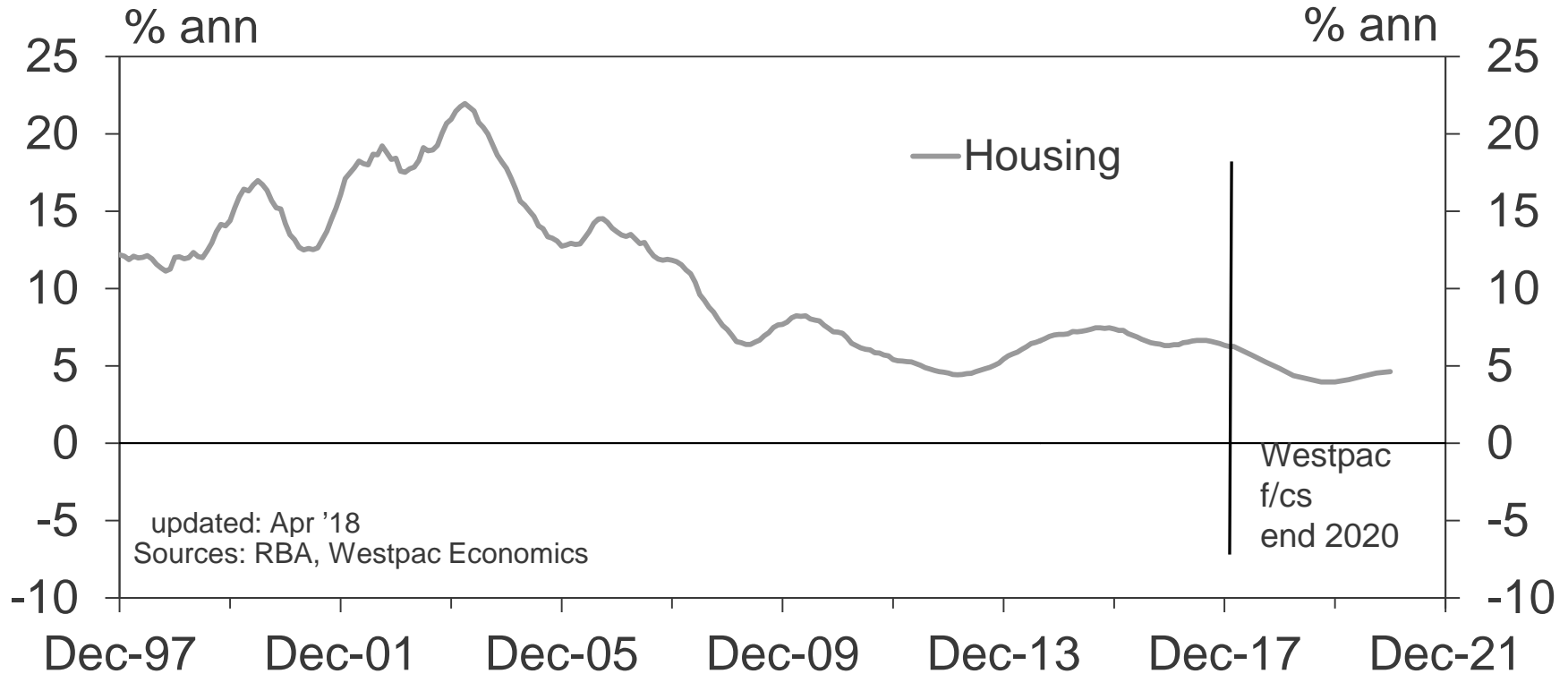
Value of finance approvals by segment



Housing: investor credit stalls



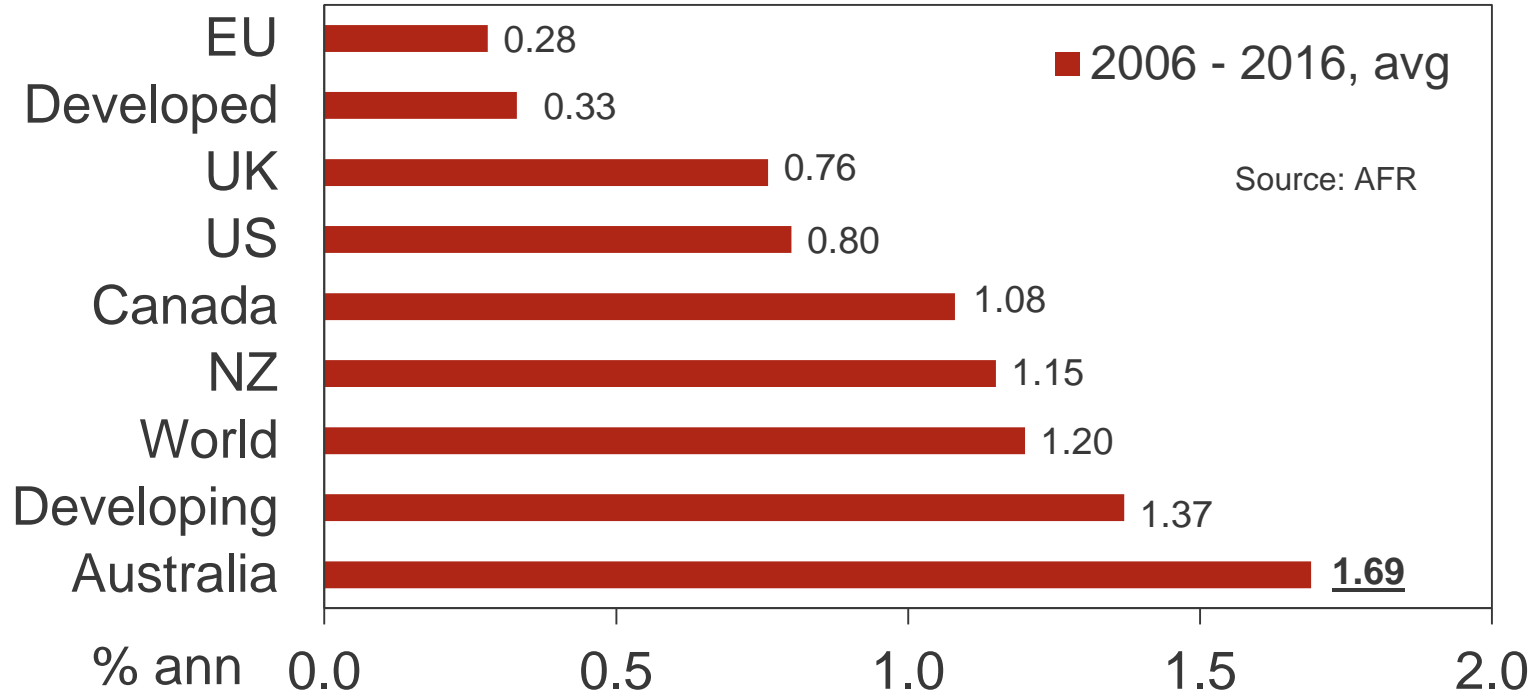
Credit outlook: slowing in 2018 & 2019



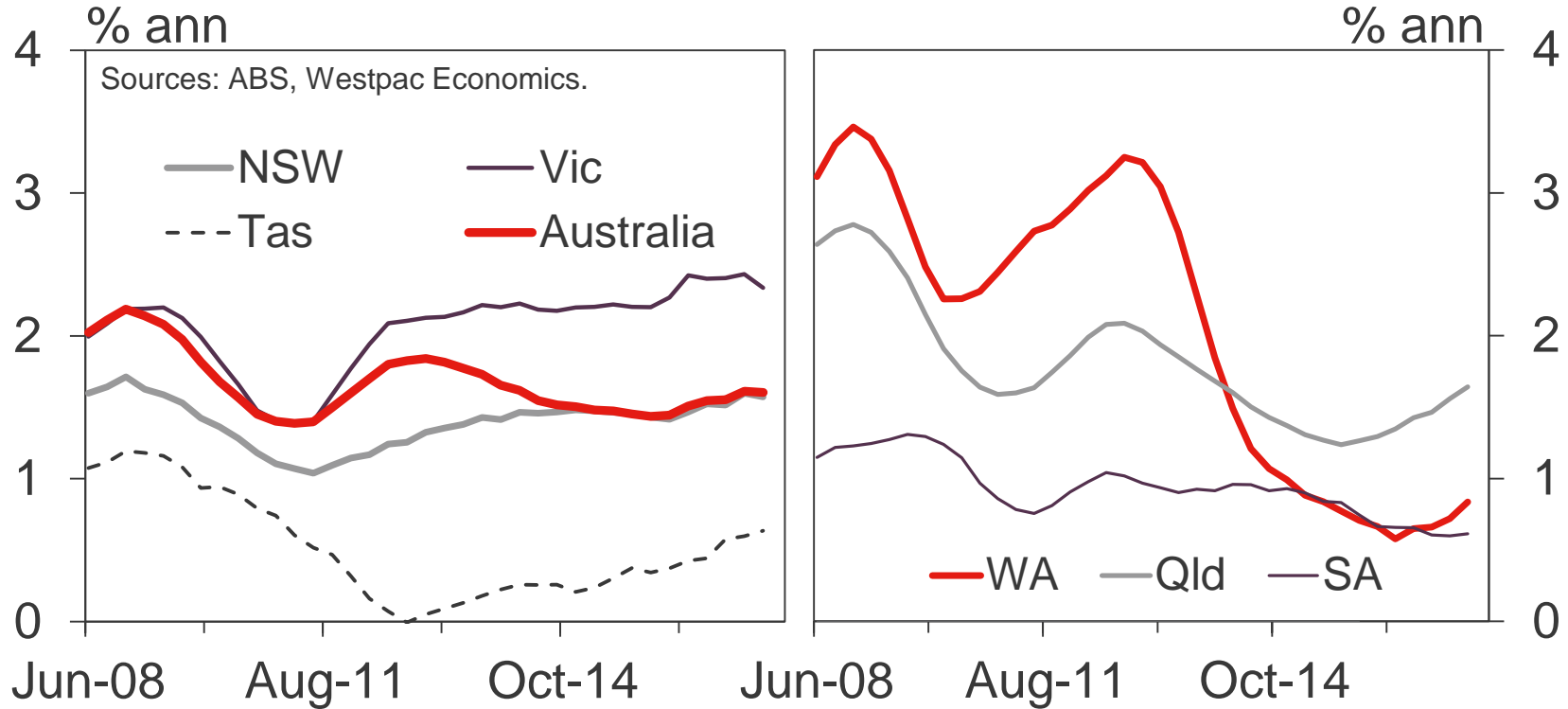
updated: Apr '18
Sources: RBA, Westpac Economics

Westpac
f/cs
end 2020

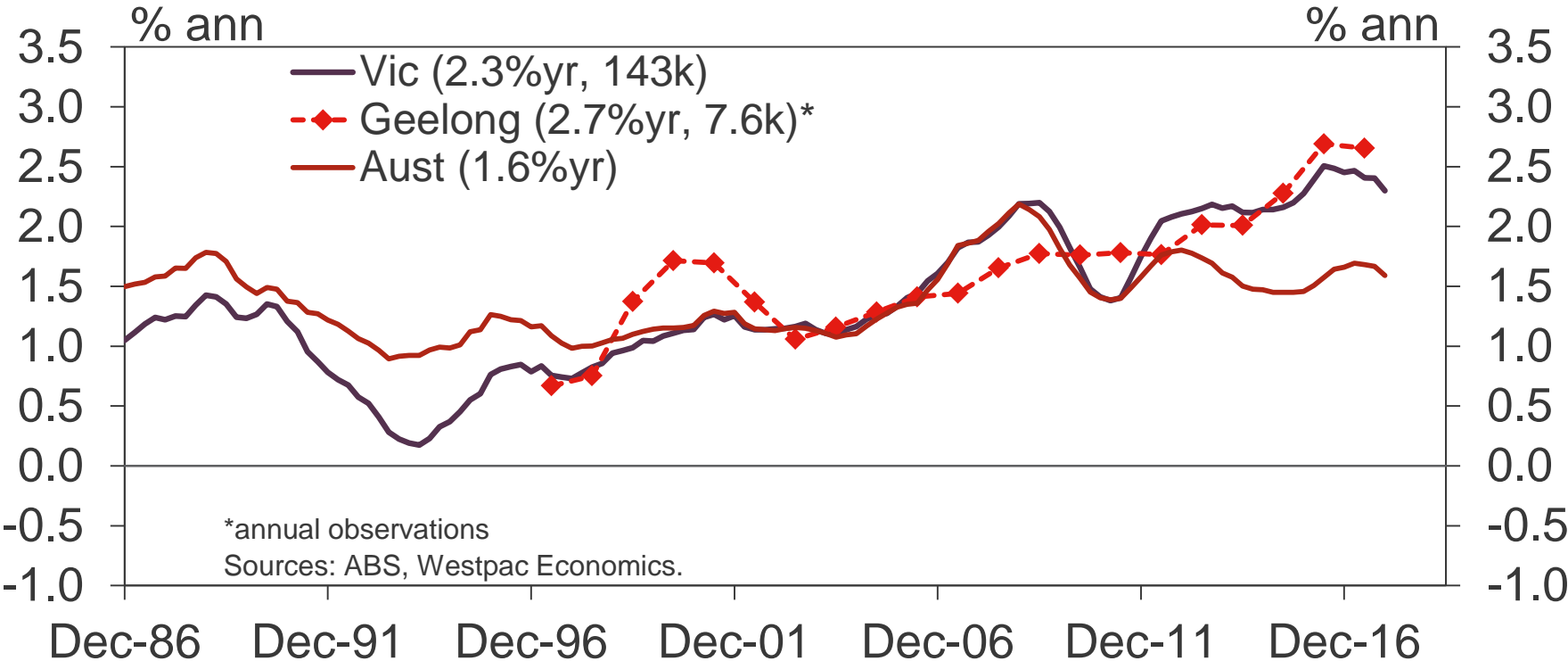
Population growth – international



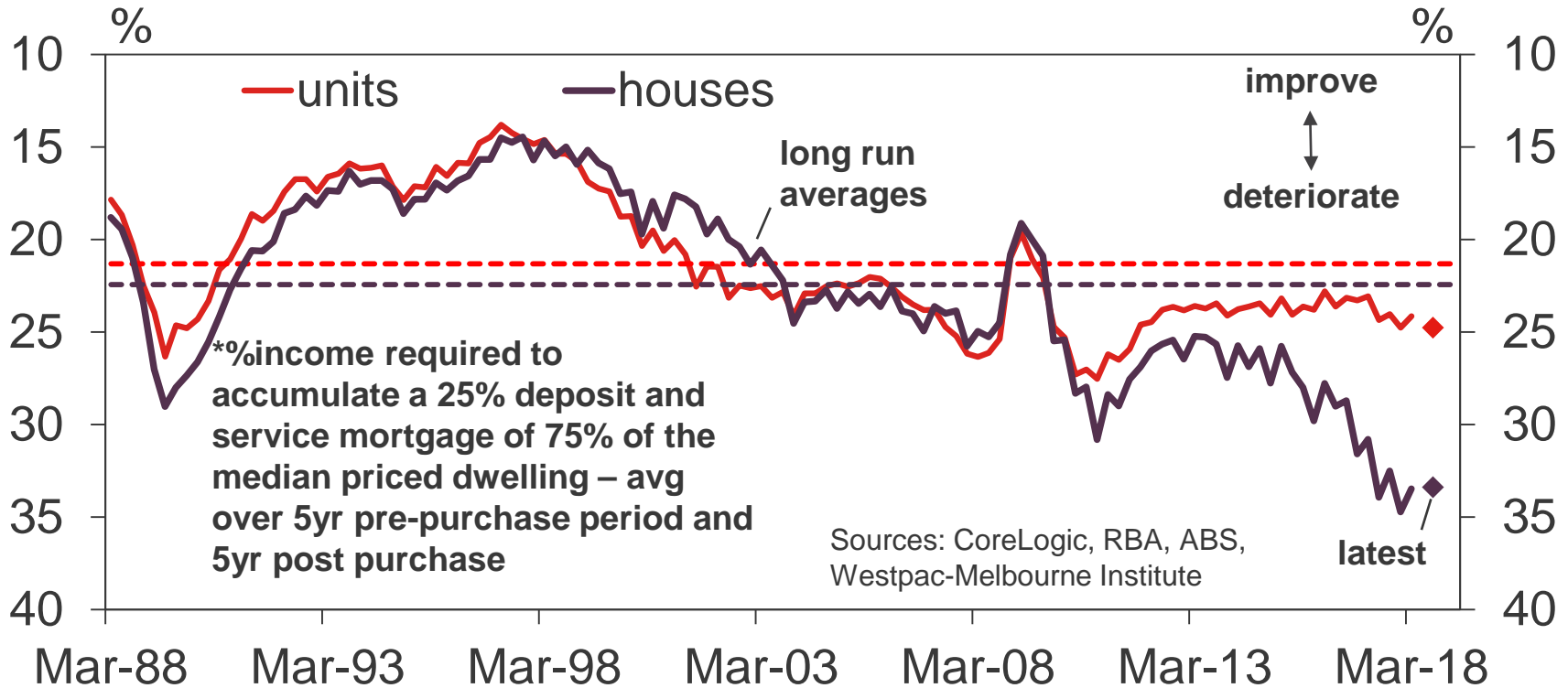
Population growth: NSW lags VICTORIA



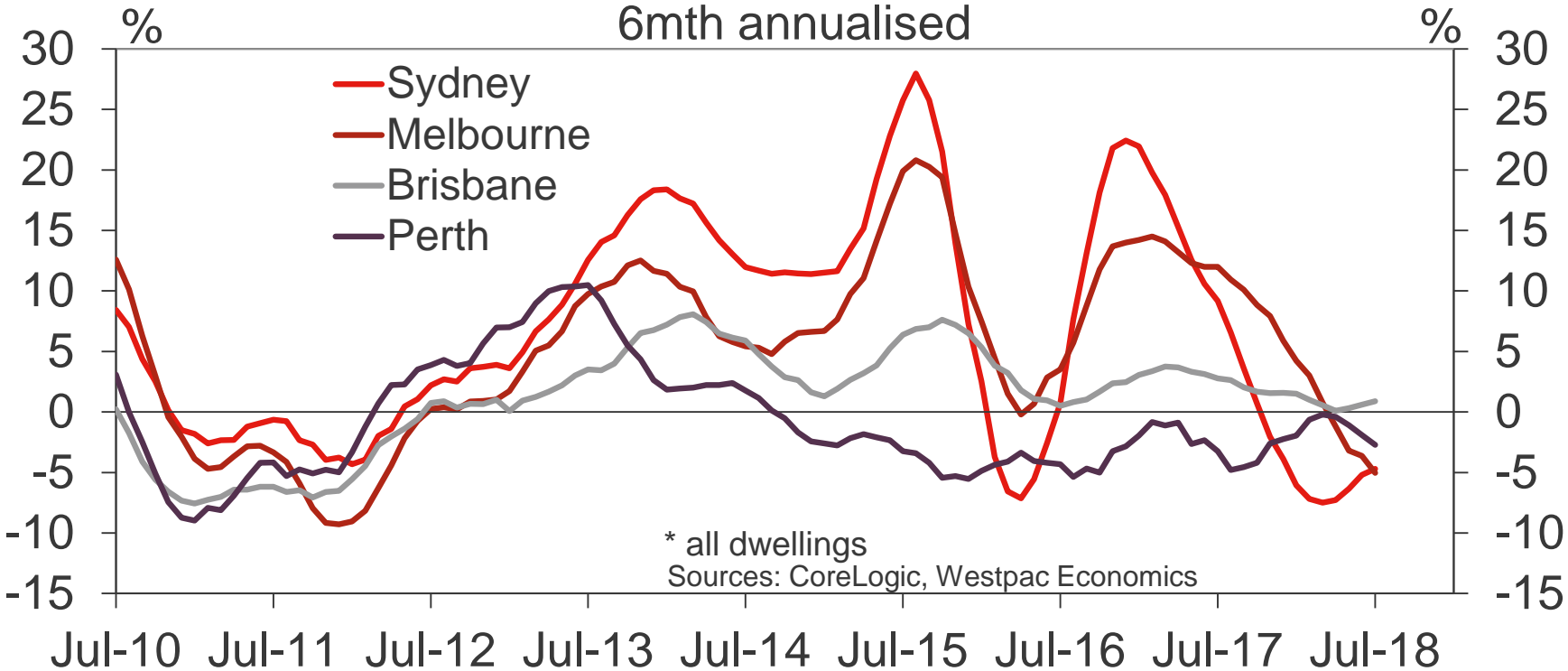
Population growth: Aus, Vic, Geelong



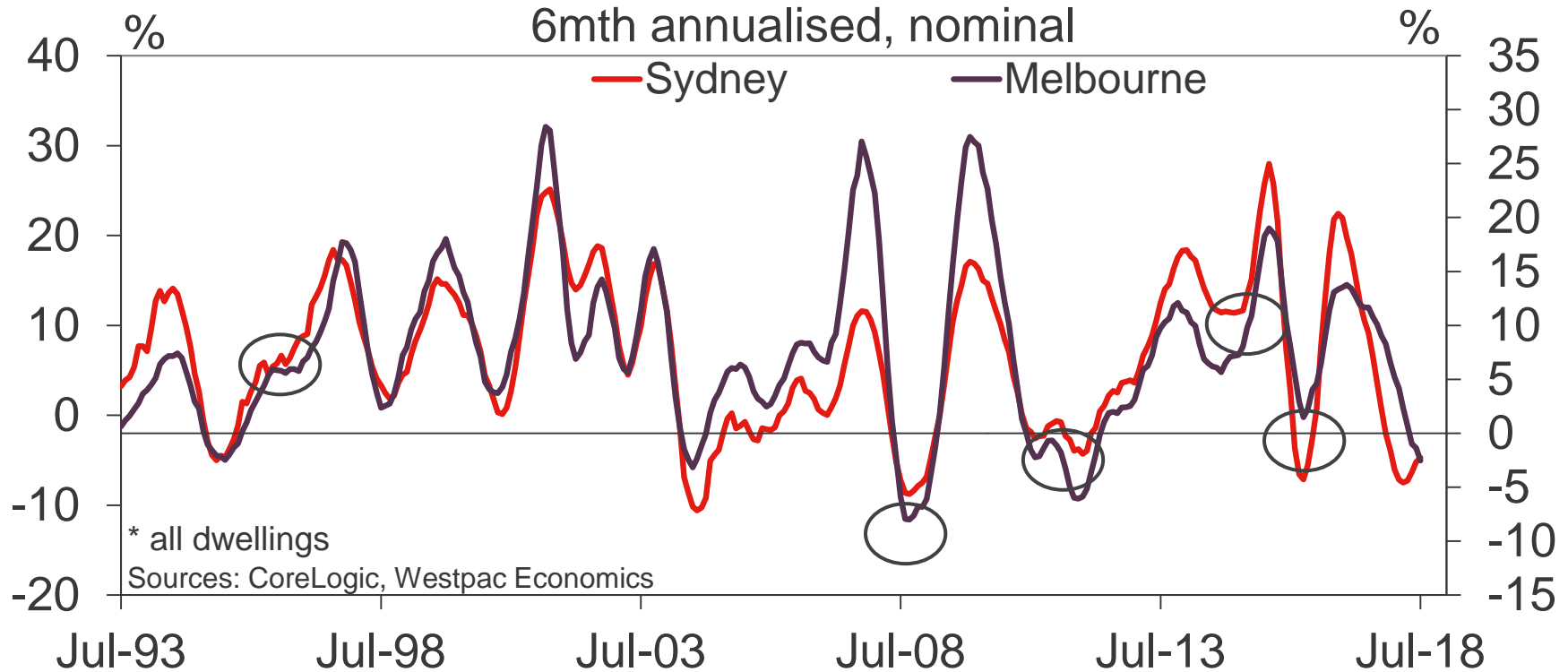
Housing affordability: Vic



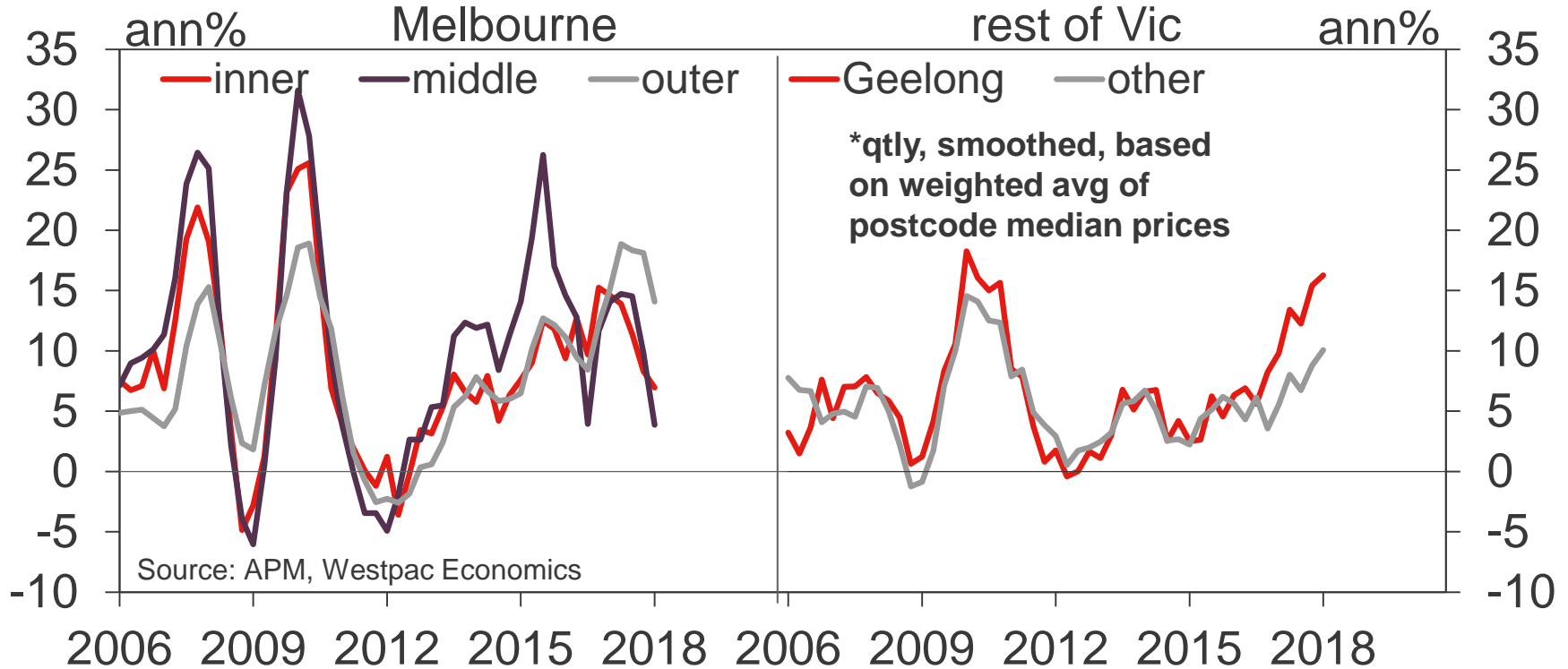
Australian dwelling prices: major cities



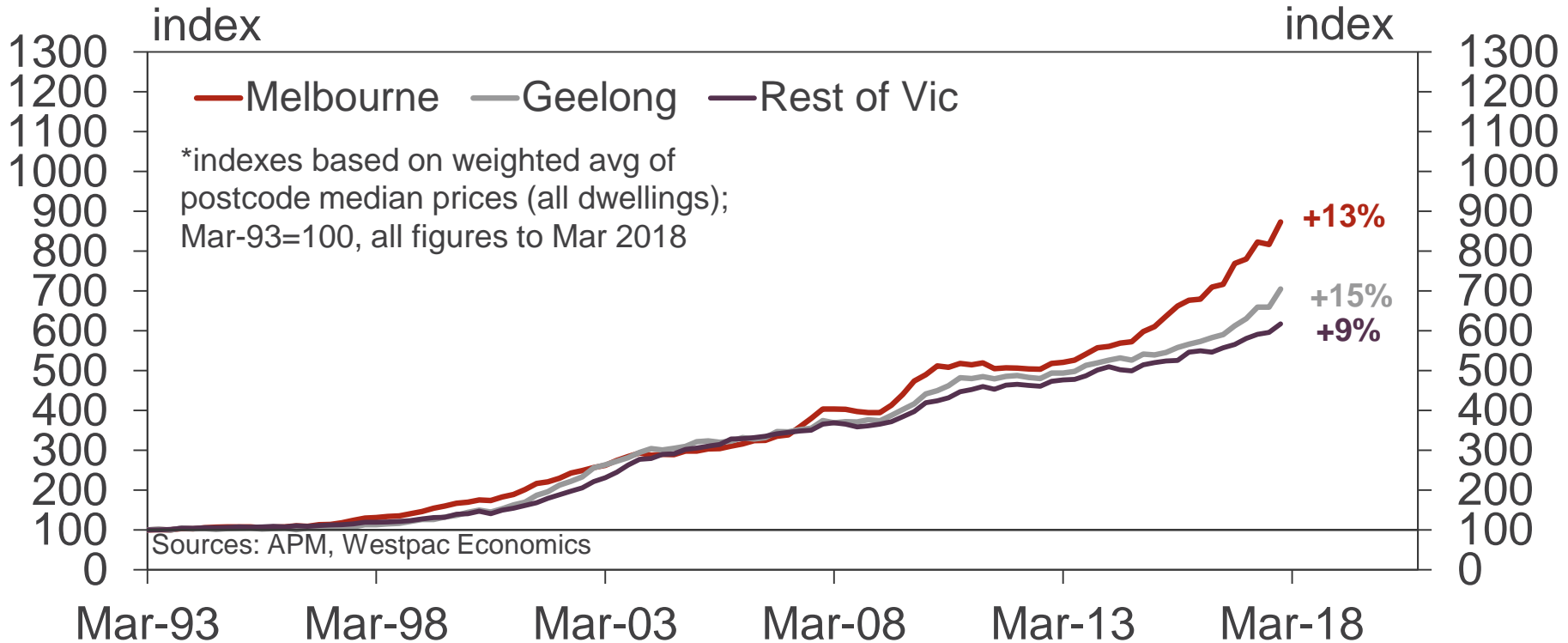
Australian dwelling prices: major capital cities



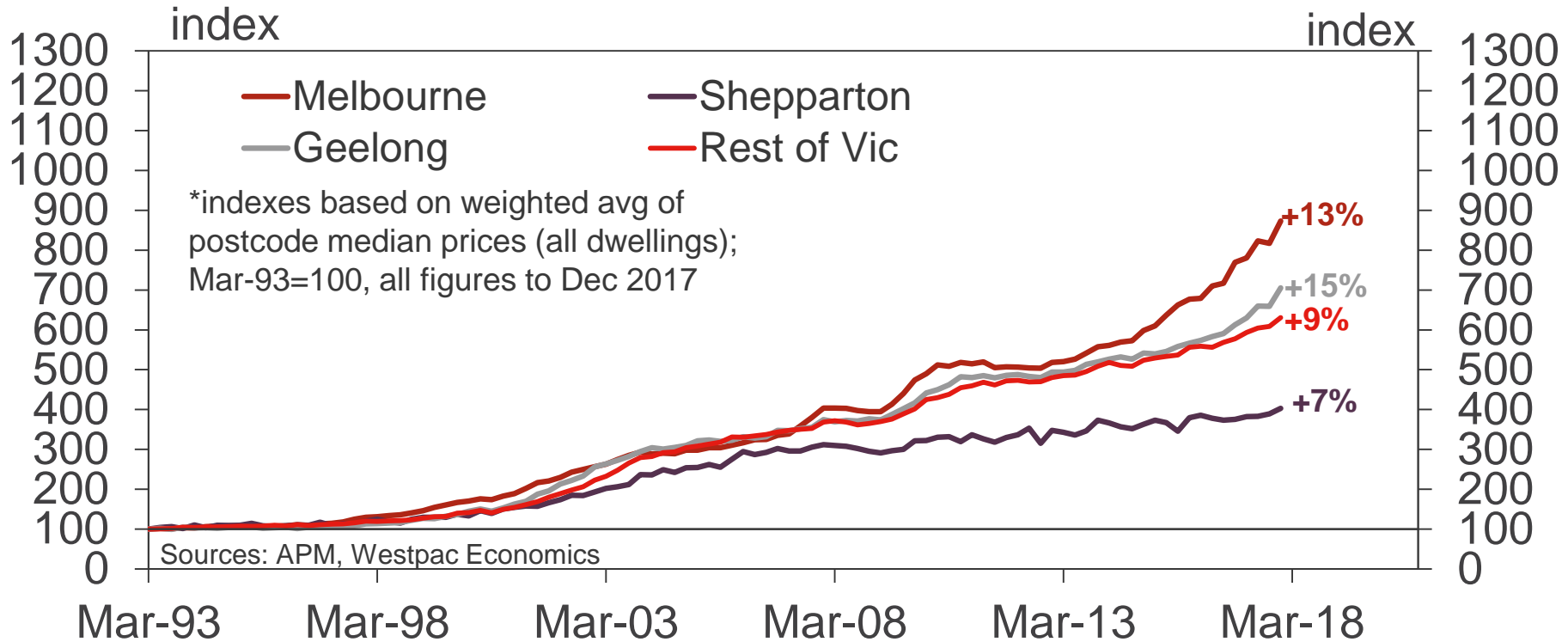
Dwelling prices: Geelong holding up



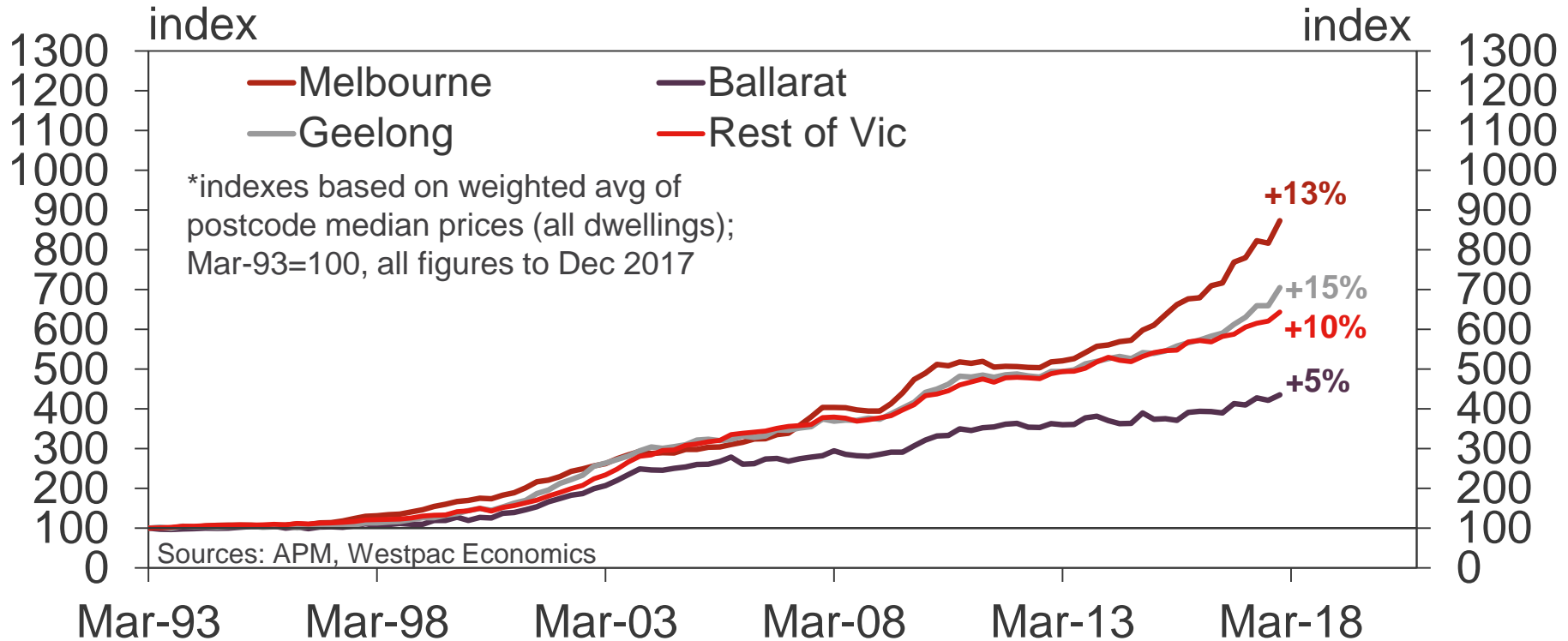
Dwelling prices: Geelong ahead of the Rest



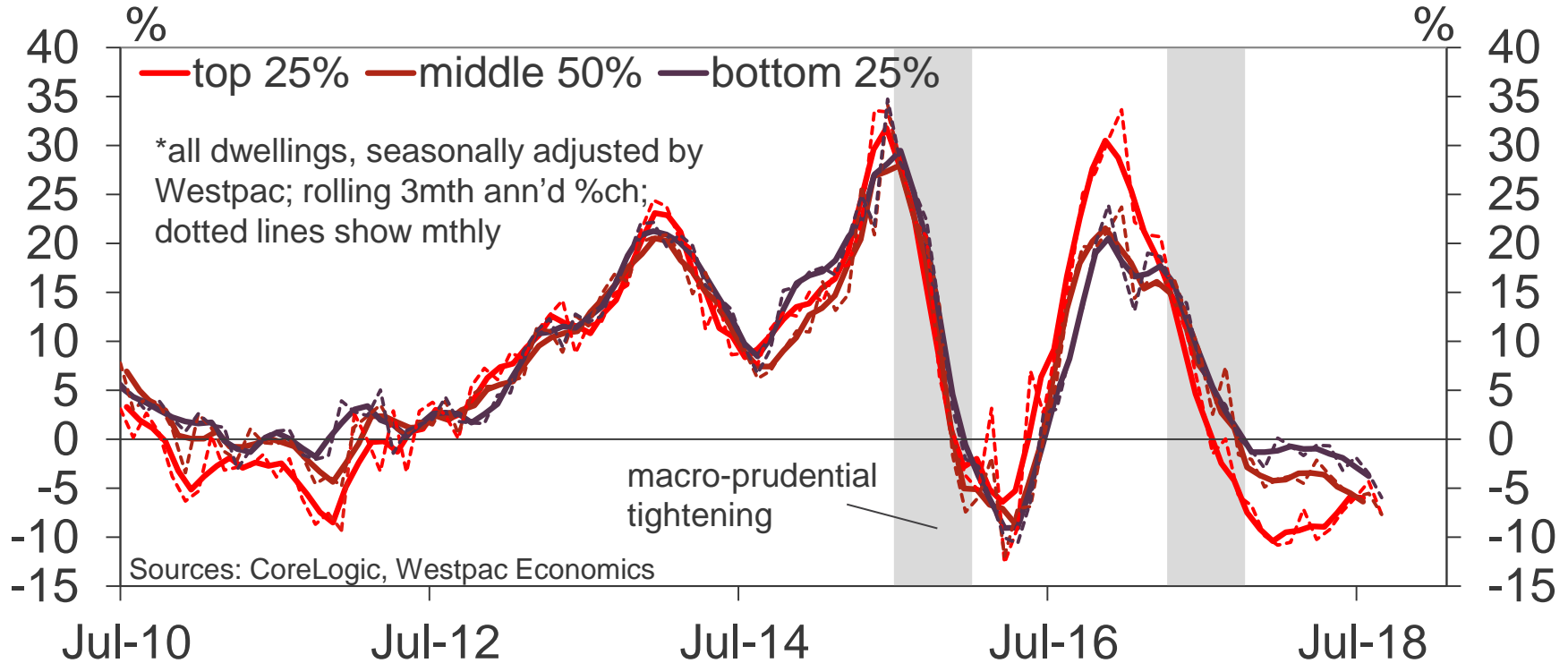
Dwelling prices: Geelong tops Regionals



Dwelling prices: Vic

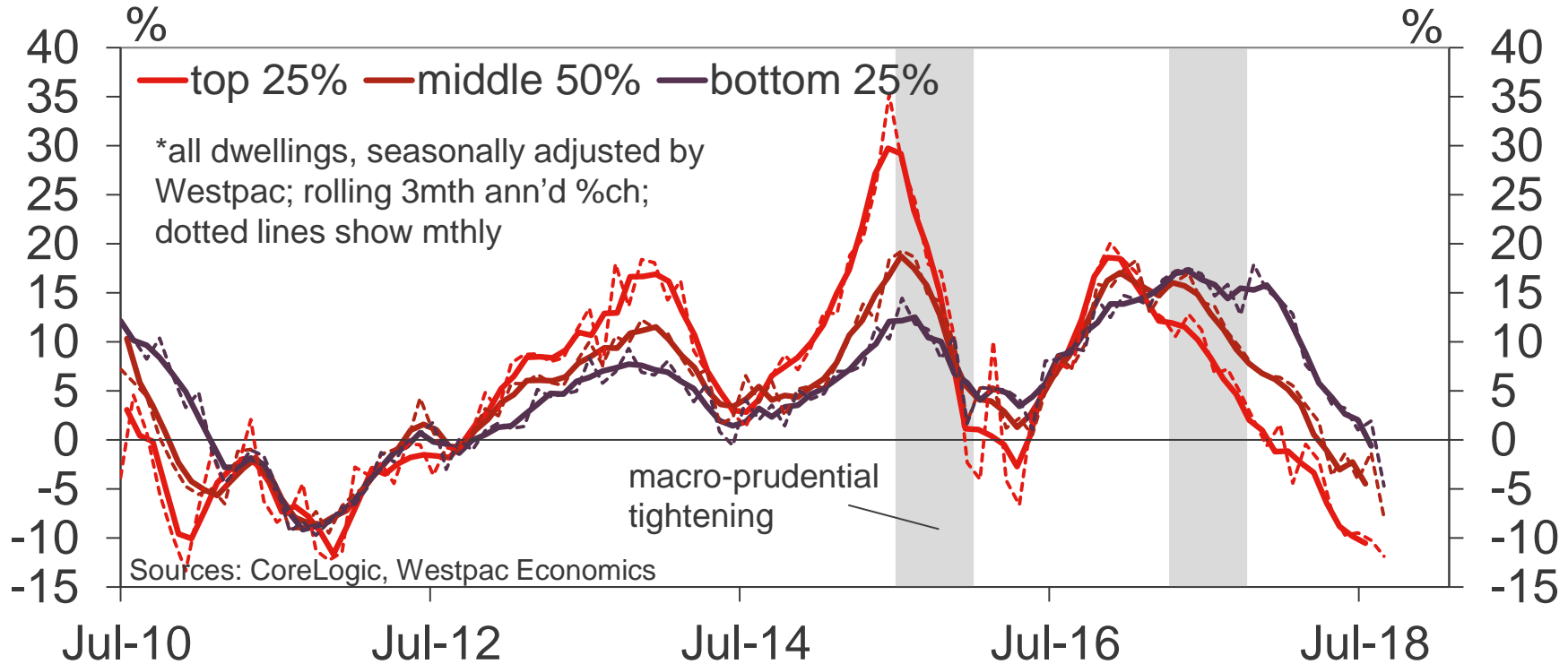


Sydney prices: by property value

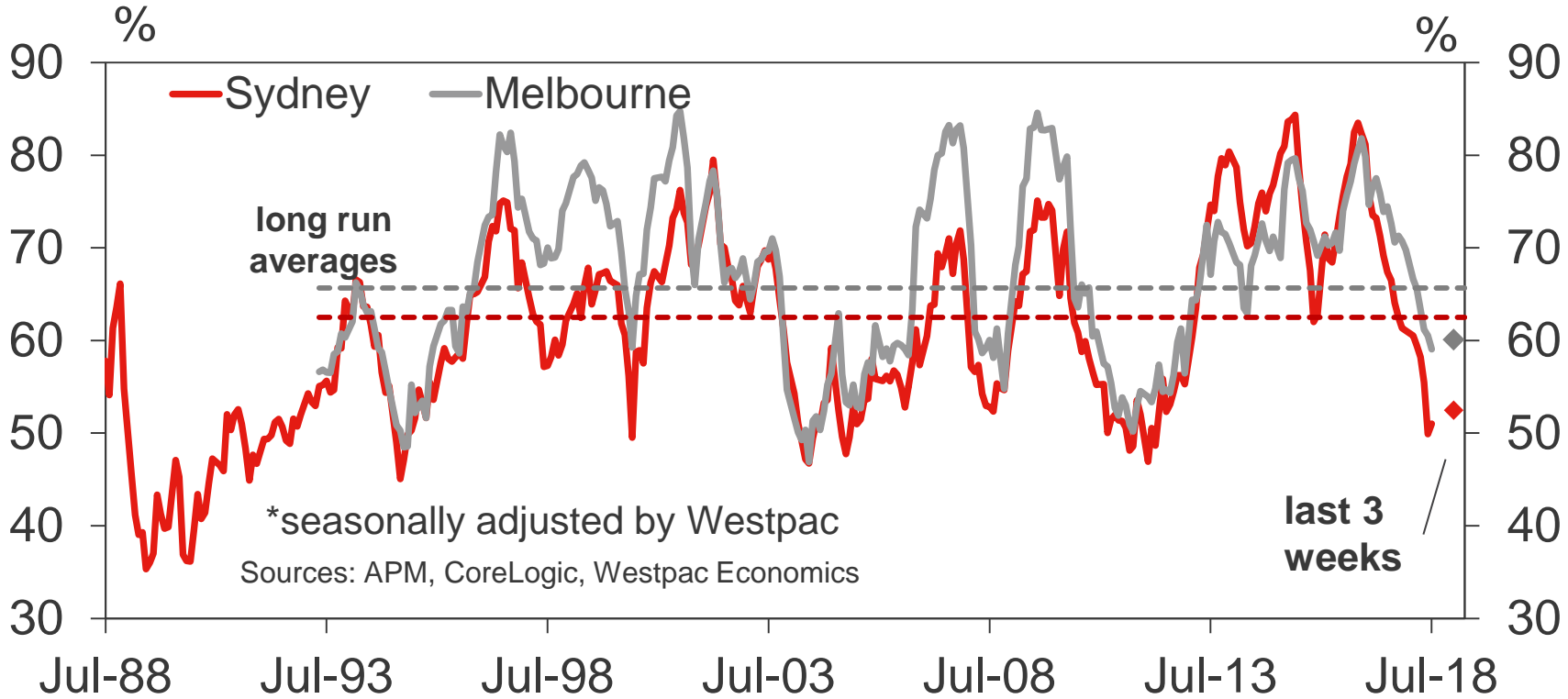


Sources: CoreLogic, Westpac Economics

Melbourne prices: by property value



Auction clearance rates

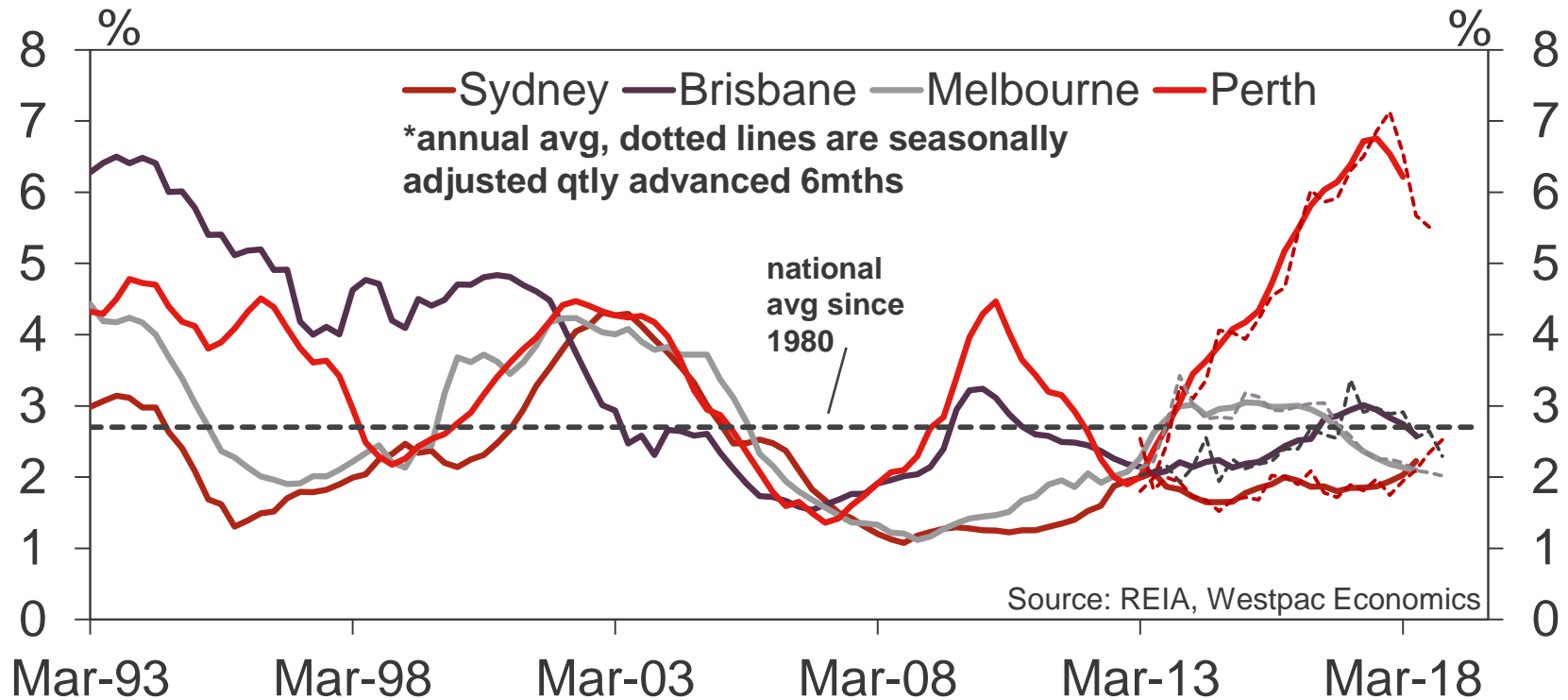


long run averages

*seasonally adjusted by Westpac
Sources: APM, CoreLogic, Westpac Economics

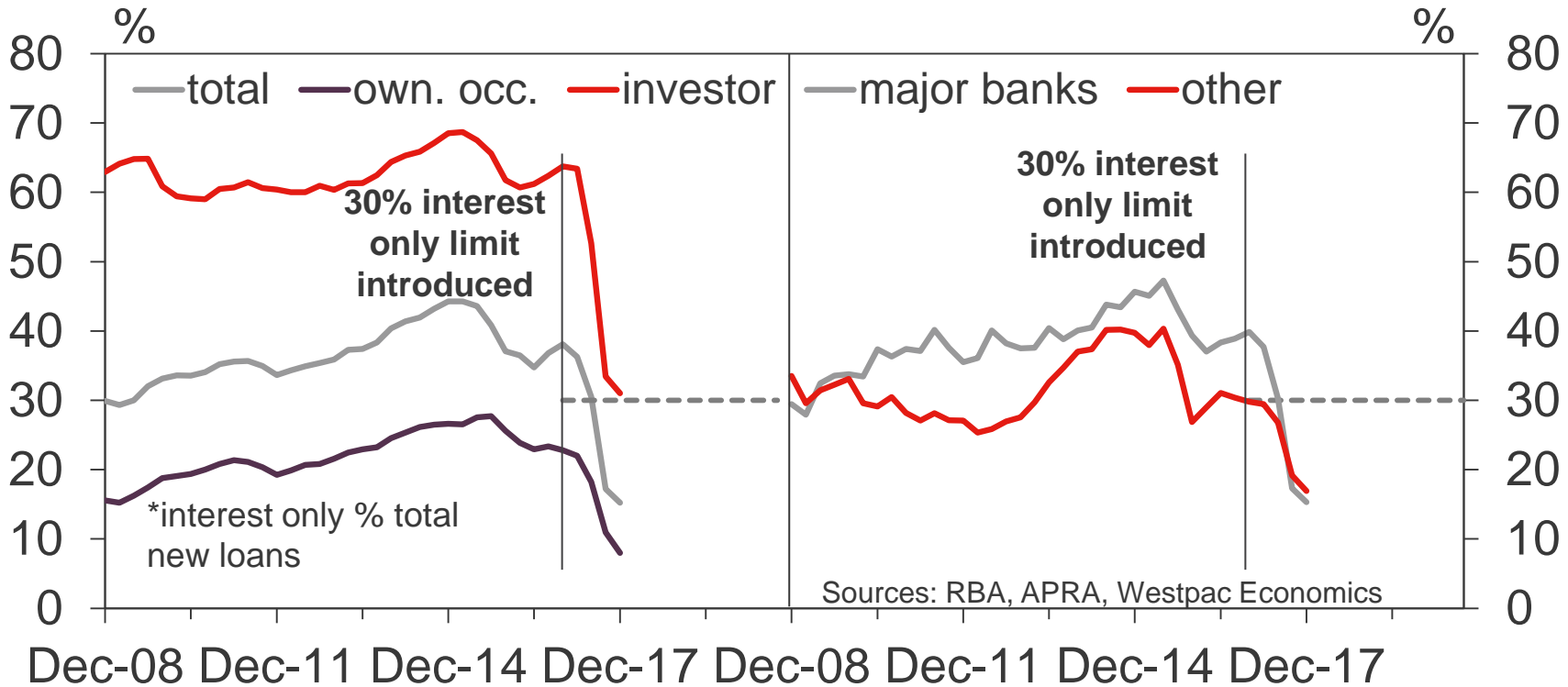
last 3 weeks

Rental markets: vacancy rates

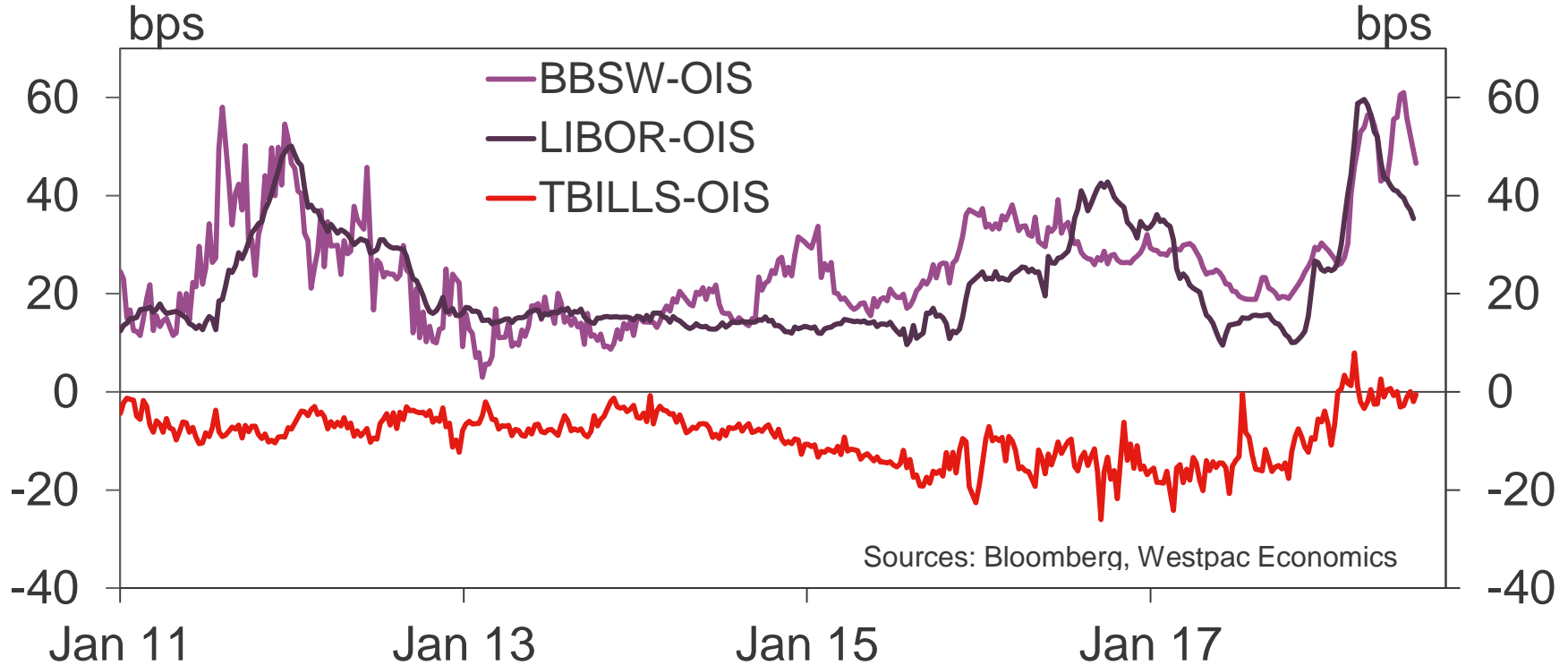


Source: REIA, Westpac Economics

Interest only housing loans

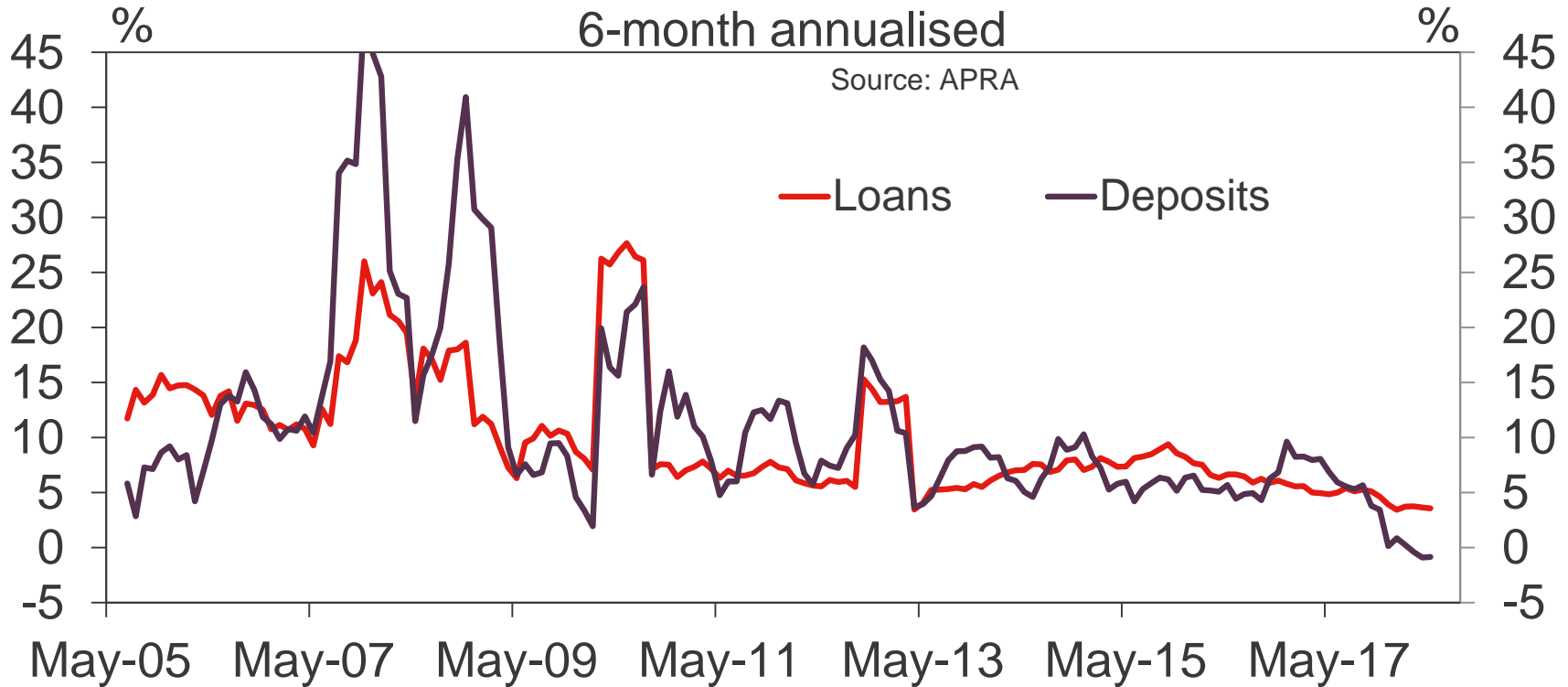


Short term funding spreads (3 month)

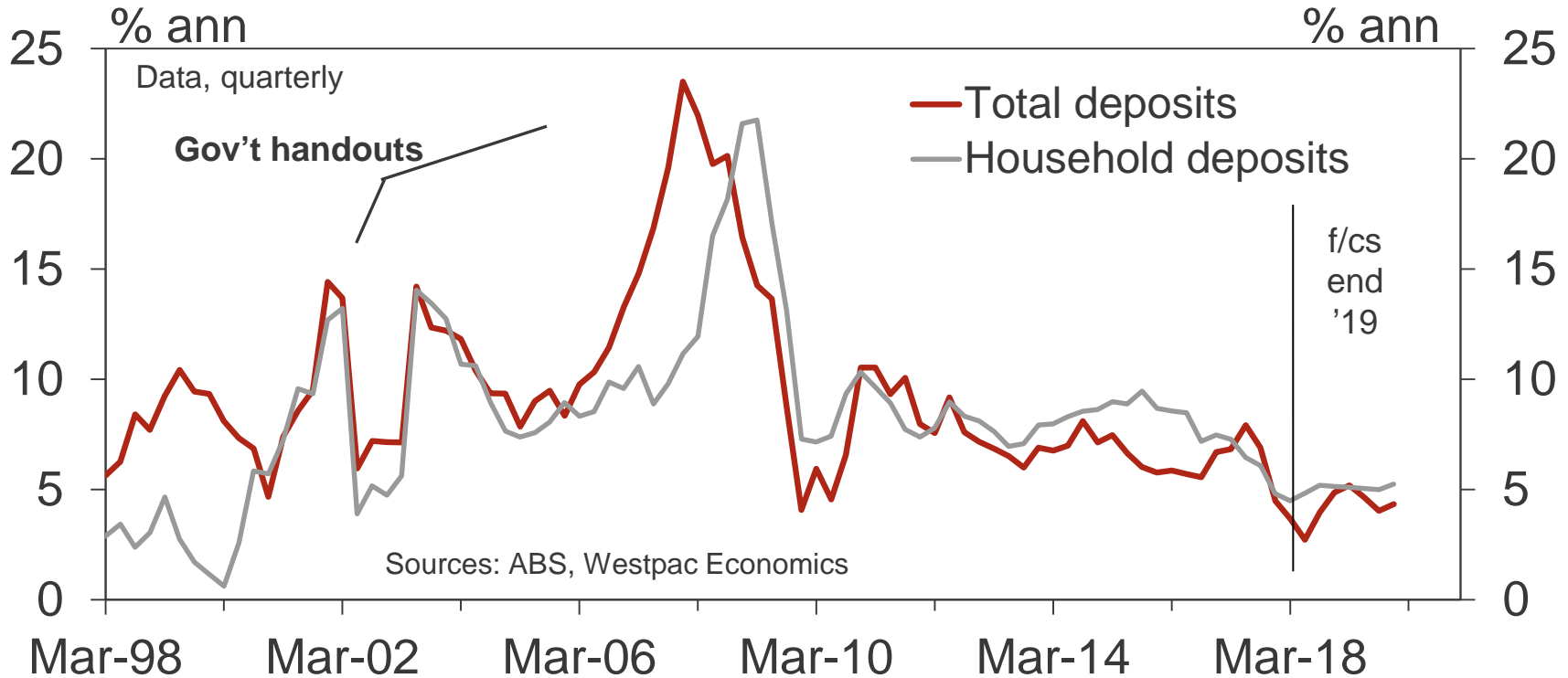


Sources: Bloomberg, Westpac Economics

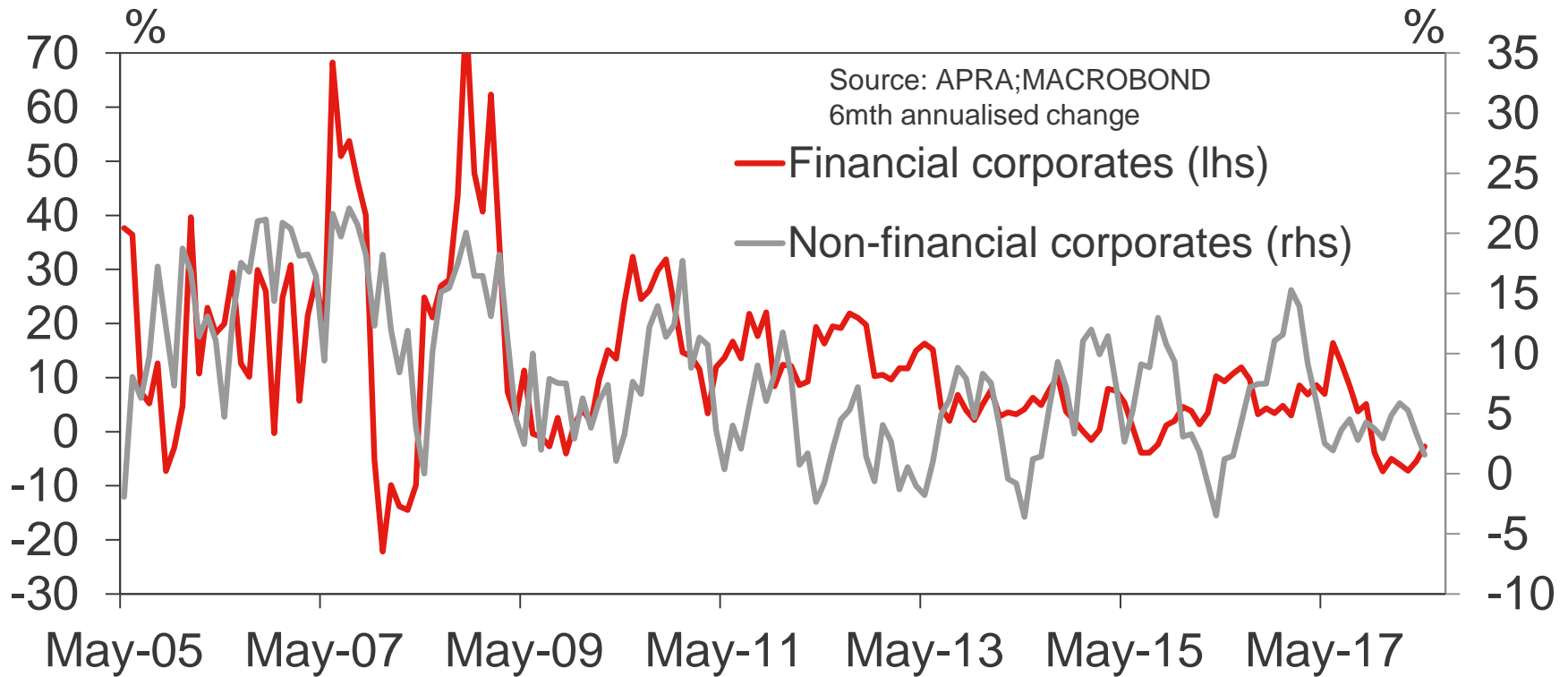
Loan versus deposit growth: majors



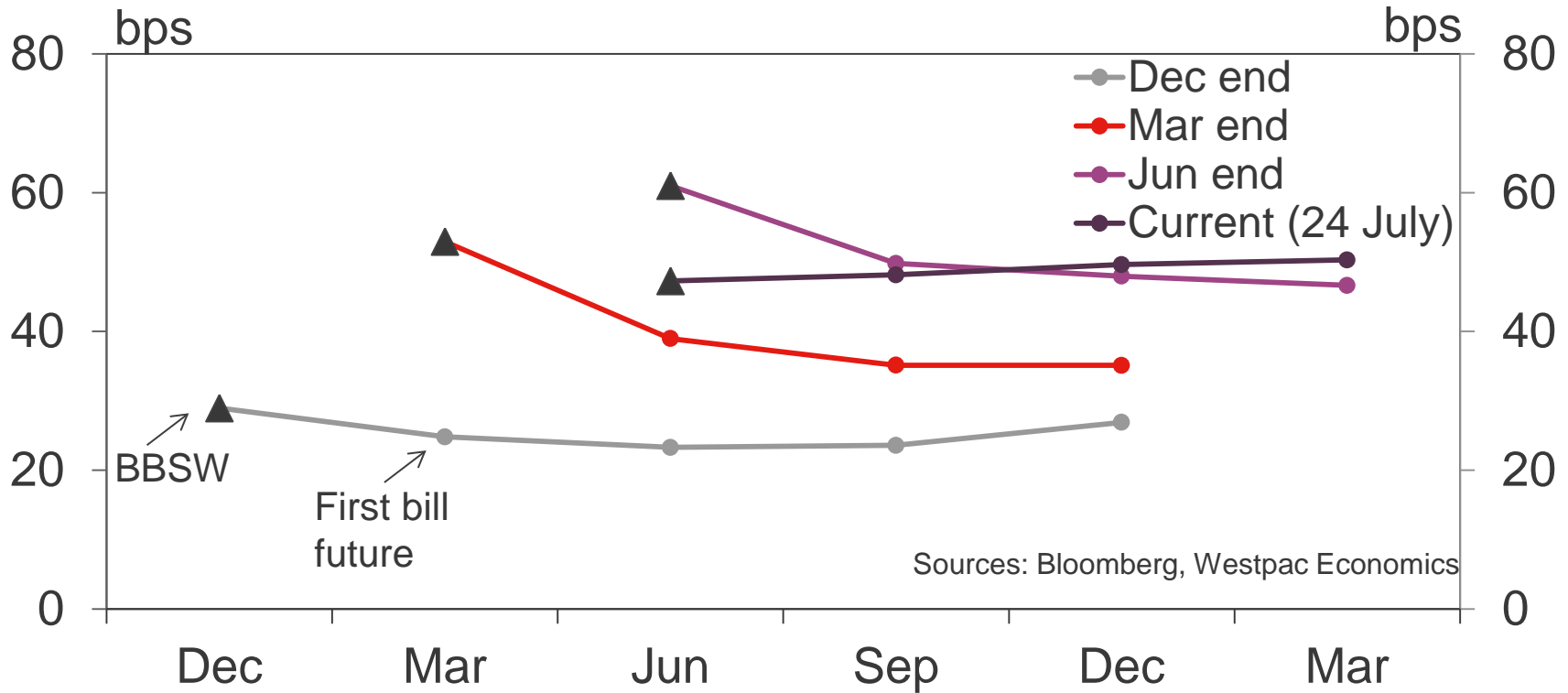
Deposit growth: total vs households



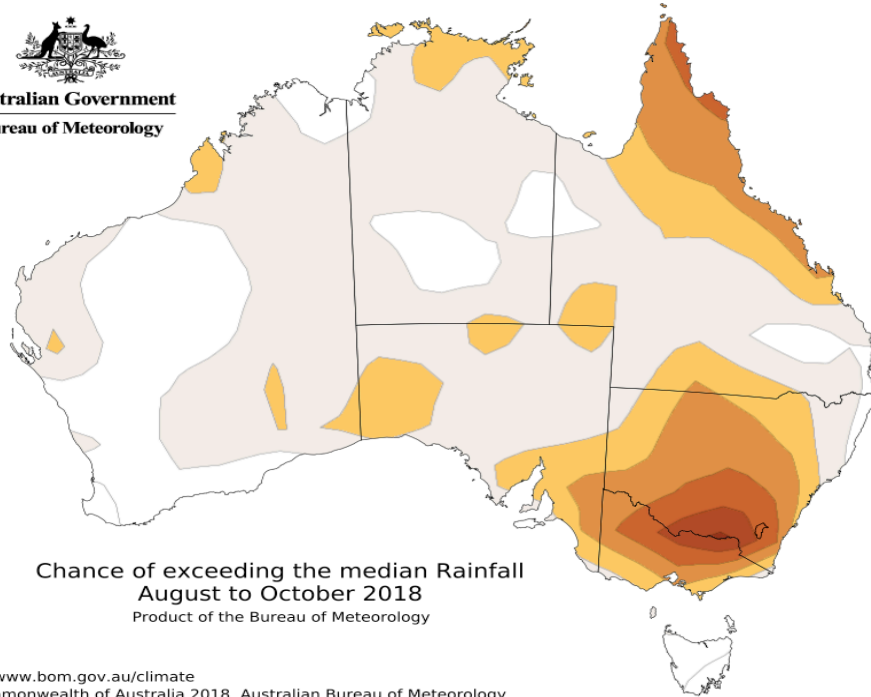
Deposit growth(total) – offshore leakages



Bills/OIS forward curves- to remain elevated

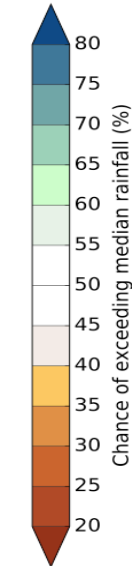


It has been dry, little chance of improvement



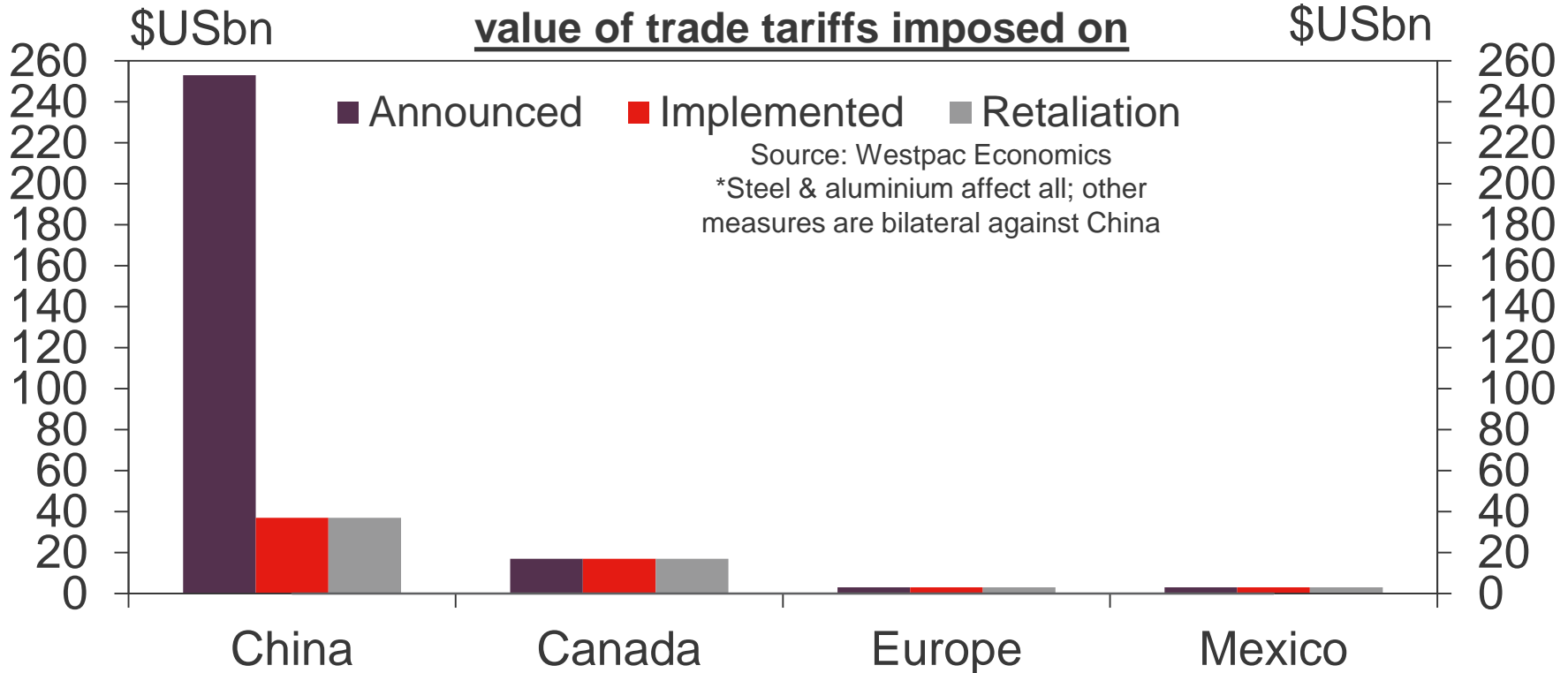
Chance of exceeding the median Rainfall
August to October 2018
Product of the Bureau of Meteorology

<http://www.bom.gov.au/climate>
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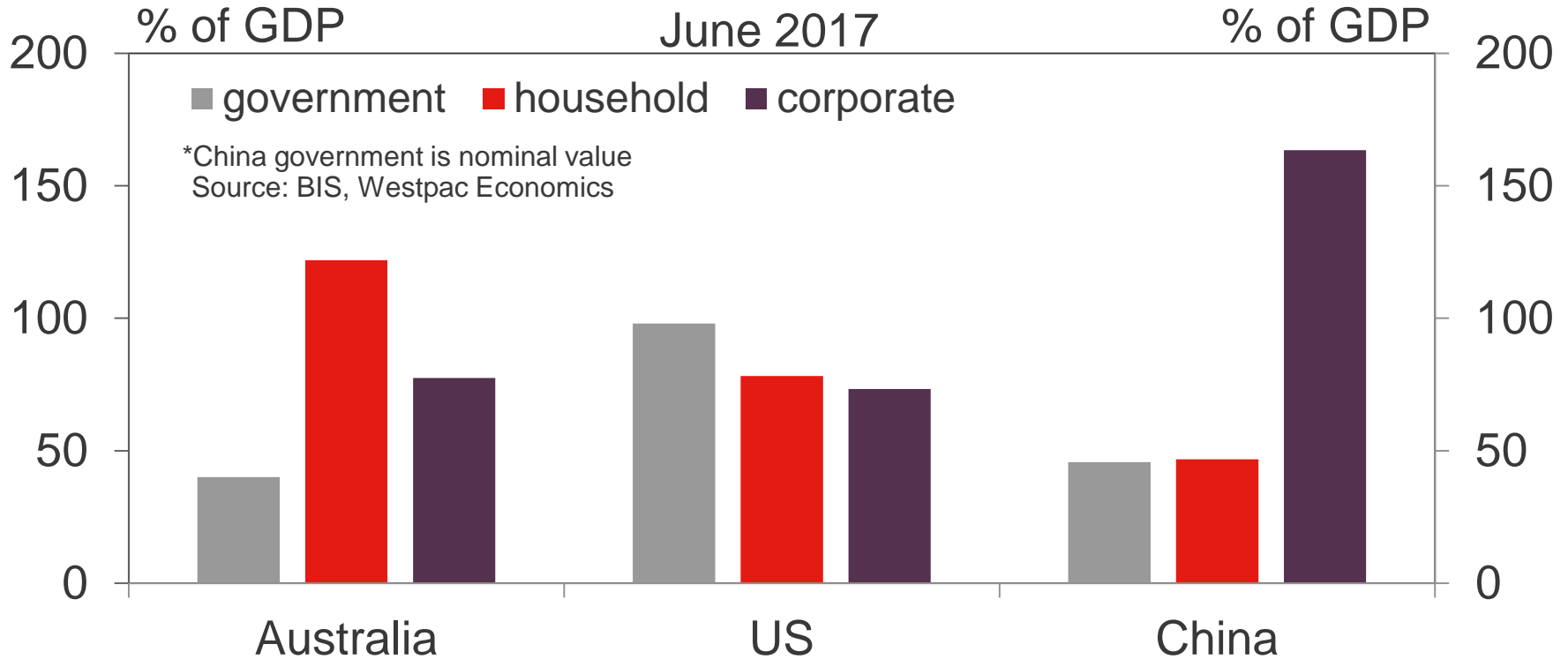


Issued: 12/07/2018
Model Run: 08/07/2018
Base Period: 1981-2010

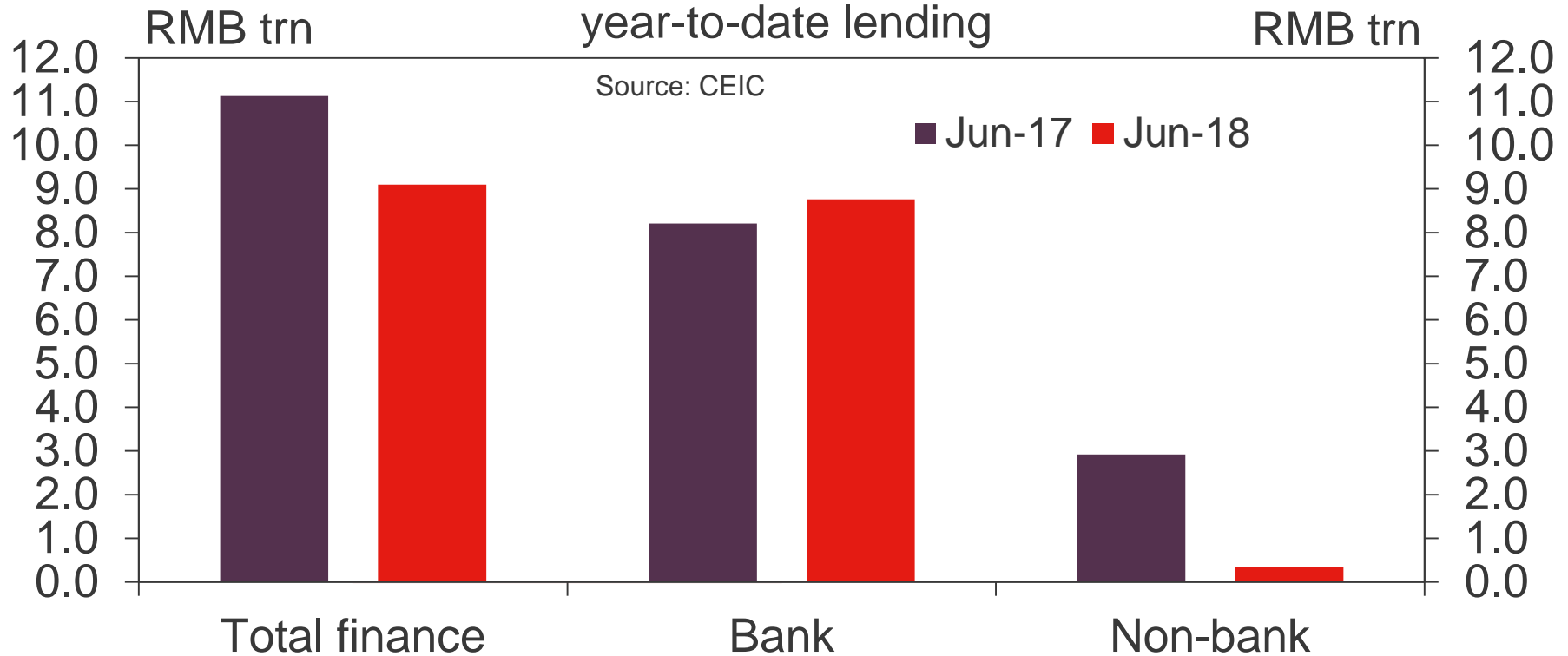
US tariffs primarily target China



China debt: developed world scale



China credit in 2018: a wholesale change



China's Shadow Banking System

Funded by wealth products; banks; insurance

Supports

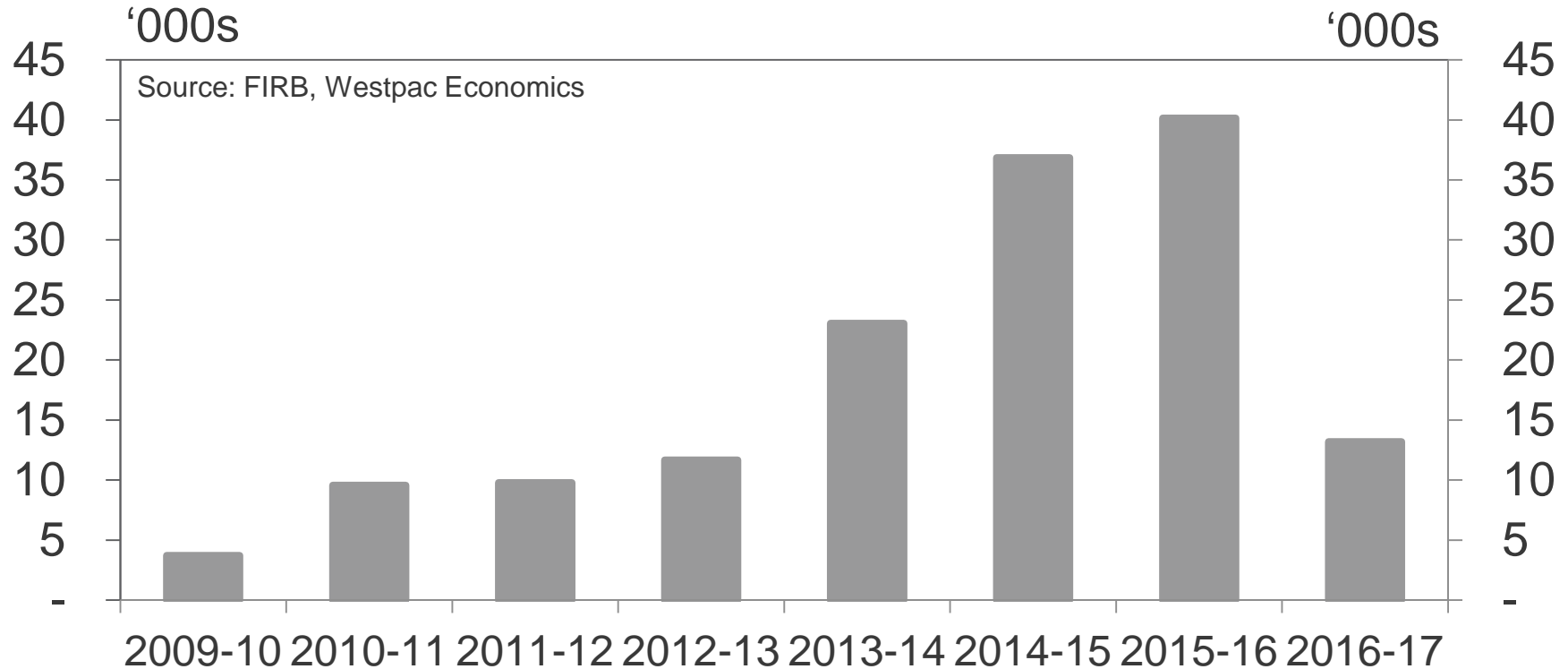
- Offshore investments
- Property investors
- Property developers
- Commodity investors
- Local Government (80% of Infrastructure)
- Corporates, outside banking system

Source: Westpac Economics

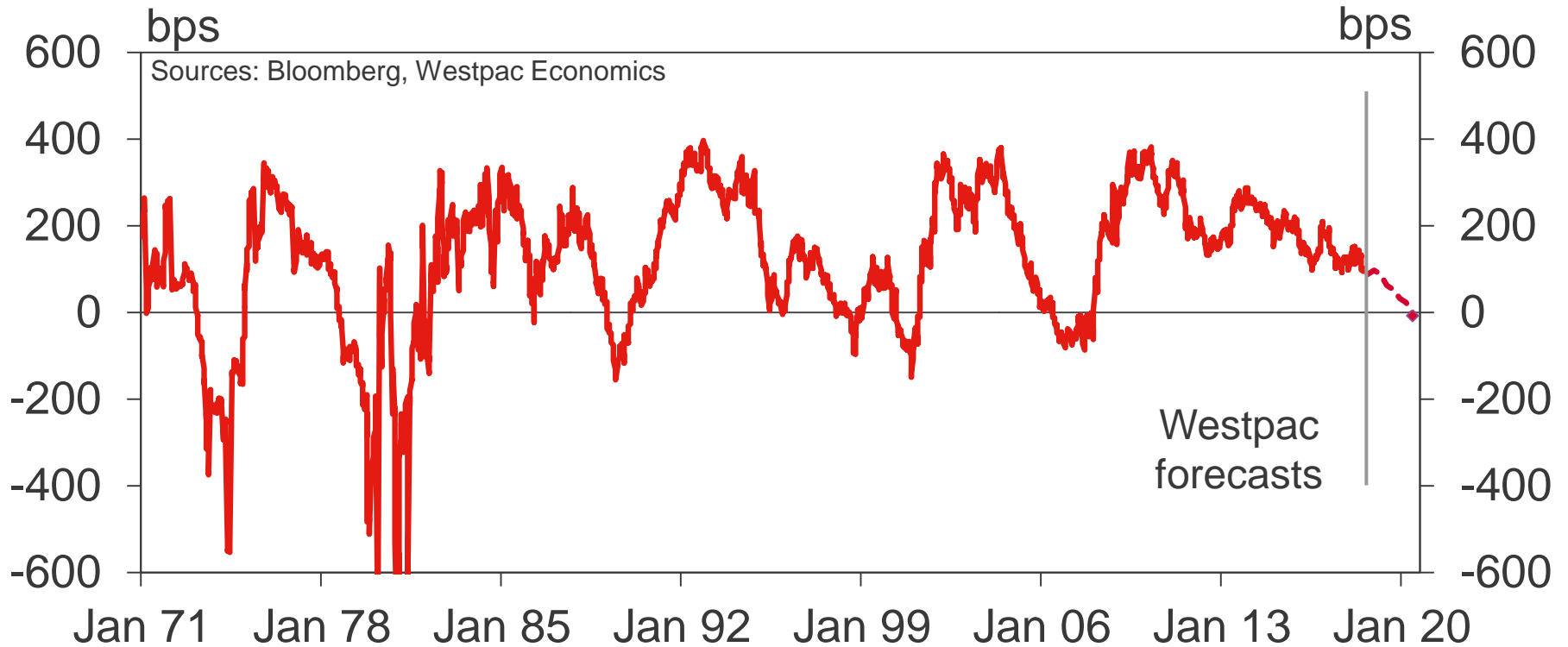
Equity markets jittery but sell off contained



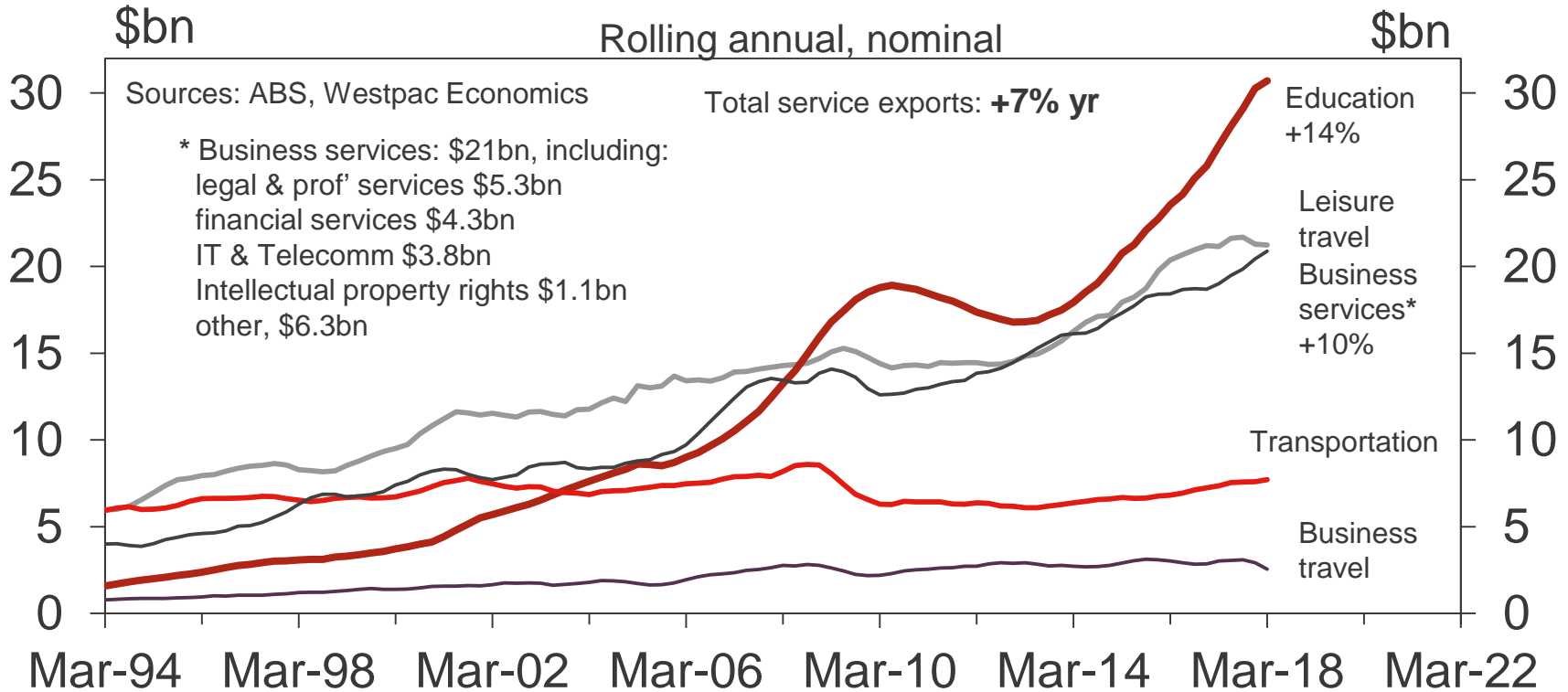
Number of foreign real estate approvals



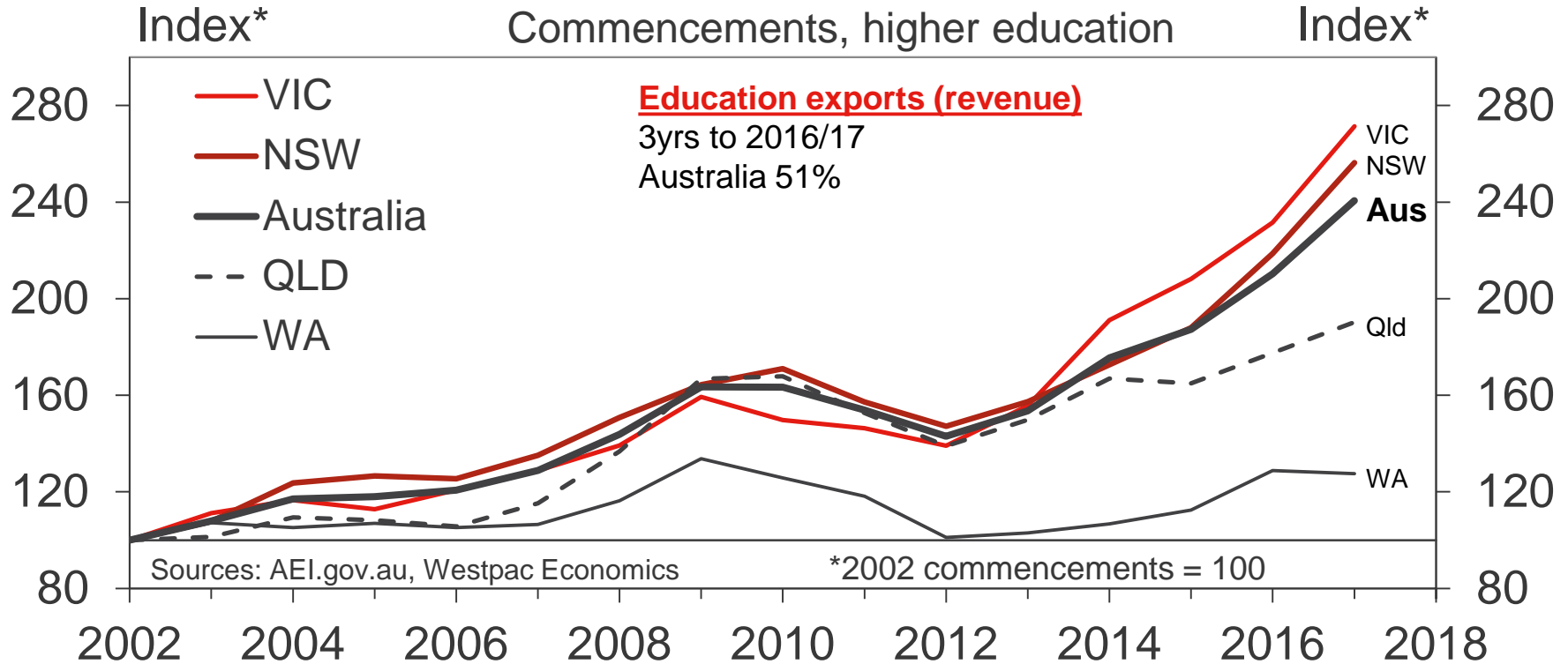
US 10 year minus fed funds rate



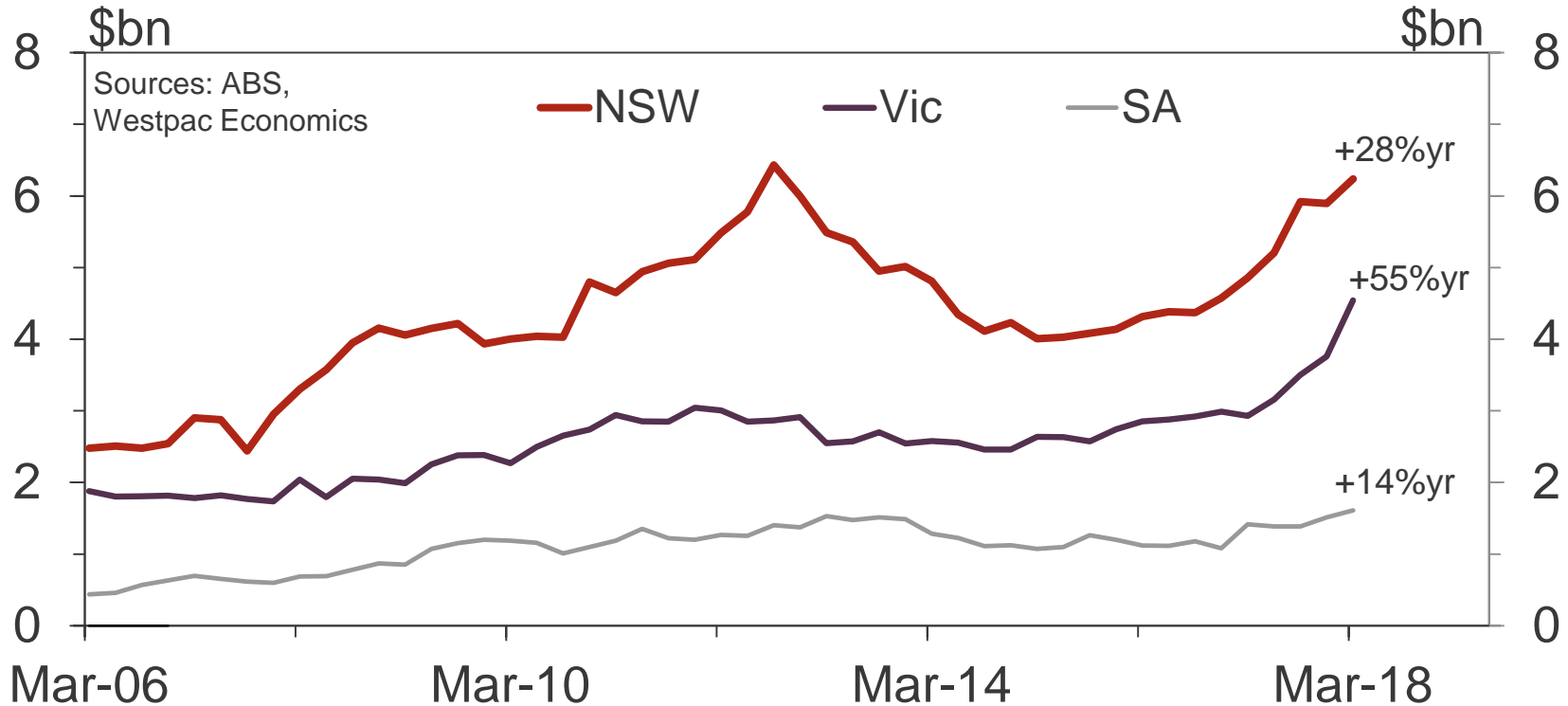
Service exports, Australia



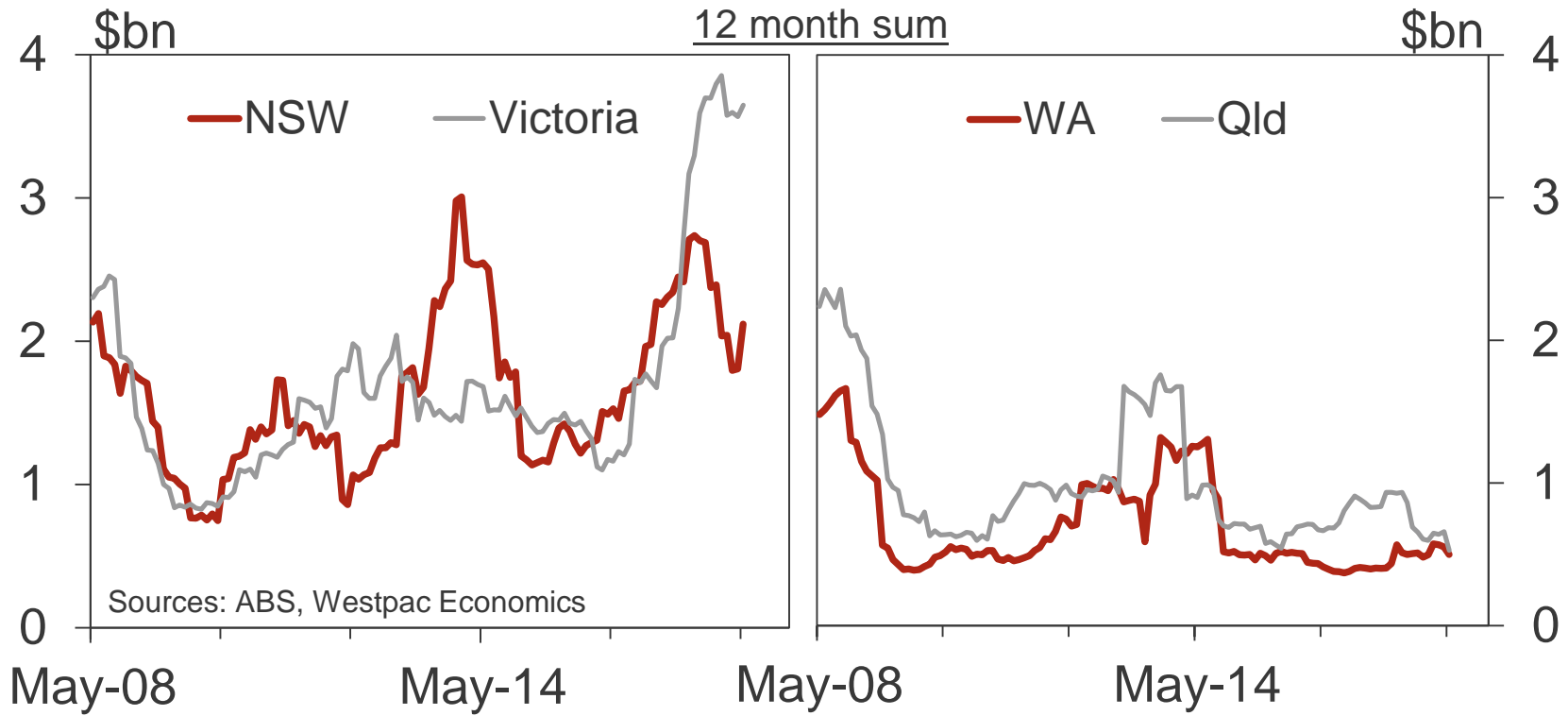
International students numbers by state



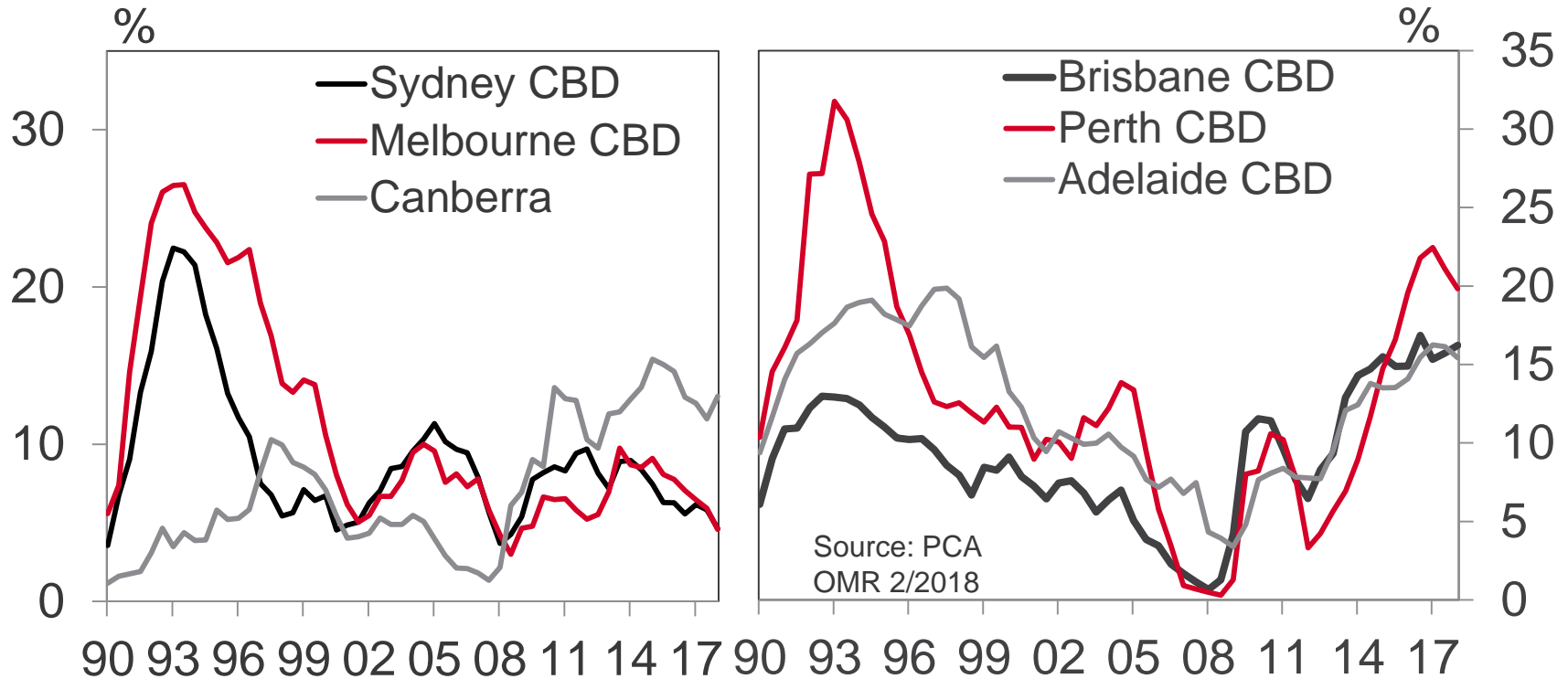
Total Infrastructure: work done, by state



Office approvals: take-off, led by Victoria



CBD office markets: vacancy rates



Source: PCA
OMR 2/2018

Employment by major sector

Growth in the 2 years to May 2018



Conclusion

- RBA on hold in 2018 and 2019; markets and RBA still expect rate hikes.
- House and unit prices in Melbourne to fall further; Geelong holding up.
- Headwinds: household sector; housing; market rates; tight credit; election.
- No RBA rate relief ; banks?; affordability; regulation;
- Bright spots: infrastructure; service exports; population growth; lower AUD.
- RBA/FED margin to peak at 137.5 basis points by June 2019.
- AUD to USD 0.70; bond spread to -40 bp's.
- US bond rates likely to reach 3.5% in 2019 H1 drag on equity market.
- US yield curve to go inverse by 2021 signalling US recession.
- China to slow more than anticipated through 2019 - credit; equities.
- Global growth slows in 2019/2020 even without trade war.

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