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Global Markets Research



RBA will be key focus this week. Australian data cupboard is bare.

Economic Developments & Interest Rate Outlook: A spate of local economic data over the past month has signalled an economy picking up momentum in late 2009 and early 2010. In particular, the labour market data is flashing strongly that jobs market conditions are tightening rapidly. Indeed, after five months of very strong growth in which a “shade” under 200k jobs were created, the headline employment increase in February was a modest 400. The unemployment rate has dropped by ½% to 5¼%. However, as they say, “every silver lining has a cloud”, and in this case, the rapidly rebounding labour market brings with it the danger of potential intensifying wage pressures which could flow through into underlying inflation, against the backdrop of a strong upturn in economic activity over the next year or two. Tellingly, consumers don’t seem too frightened by the latest RBA move, and plenty of media talk about multiple rate hikes ahead. On that score, we see the RBA’s next 0.25% rate hike in May after the QI CPI in late April. We expect a cash rate of 5.00% by the end of 2010, and 5.50% by mid 2011. Consistent with this, we see Oz swap rates tracking higher in 2010 as the RBA tightens policy and as global rates track up on recovering global growth and central bank policy tightening.

This week, in the absence of any major scheduled economic data releases, local central bank tidings will take centre stage. RBA head honcho Stevens will be making a speech to the ACI World Congress on Friday. Assistant Governor Lowe will address an AiG Conference on the economy on Thursday. Moreover, the semi-annual Financial Stability Report will be scrutinised for any possible problems or worries about the local financial system’s health. Also, the ABS’s latest demographic data will be watched by markets. Strong population growth was one of the key buffers or shock absorbers for the local economy against the negative growth waves from the GFC induced meltdown in global economic growth in 2009