AMP Capital Investors Limited
ABN 59 001 777 591, AFSL 232497

Investment Strategy & Economics Multi Asset Group

August 2018

- **Global equities (the MSCI ACWI Index) rose 3% in total return terms in July as global economic data momentum lifted from low levels in June.** Emerging markets and Asian equities managed to stage a slight recovery through the month despite ongoing trade tensions between the US and China. The Chinese Renminbi continued to weaken raising capital outflow concerns. Tech stocks managed to finish the month up but saw a major selloff at the end of July as Facebook missed forecasts and guided earnings for the rest of the year lower. 2Q earnings in the US has been very strong with year-on-year growth of over 25%, but it does look to be peaking this quarter and we are already starting to see clear defensives leadership within equity sectors.

- **Australian growth continues at a moderate pace with jobs growth and activity continuing at respectable levels.** But there is a still quite a large output gap in Australia particularly when looking at unemployment and underemployment combined, and as such wages growth and inflation pressures continue to be fairly muted. House price growth nationally continues to slide into negative year-on-year territory as domestic financial conditions incrementally tighten. The quantum of which should continue to keep the RBA on hold for an extended period, we think till 2020.

- **2Q US GDP grew at 4.1% quarter-on-quarter annualised with consumption adding the vast majority of the increase, but business investment was slightly weaker than 1Q raising concerns that the large US fiscal spending package and tax cuts may not be leading to a strong fiscal multiplier.** And the US bond market, in particular, has been trading with a fairly pessimistic view of the further length of the economic cycle with a slight chance of rate cuts in 2020 being priced in.

- **The Bank of Japan (BOJ) made a slight change to their QQE with Yield Curve Control (YCC) policy, allowing greater flexibility around the 0% target for the 10-year bond yield, switching their ETF purchases from the Nikkei to the Topix and promising to keep rates on hold for an extended period of time**. The BOJ is try to stimulate the credit multiplier in the Japanese economy by steepening the yield curve and making it more attractive for Japanese banks to lend.

- **Chinese policymakers** have continued to ease monetary policy and have also announced new fiscal stimulatory measures, but the Trump administration continues to put pressure on their economy through trade tensions.

CONTACT US
For more information please contact Angus Nicholson (angus.nicholson@ampcapital.com)

Key macro views – Summary

Economic Outlook

> **Global:** Global growth is likely to be around 3.9% in 2018, from 3.8% in 2017. The US economy should see above potential growth. Europe is seeing stronger growth with a solid improvement in economic confidence readings. Chinese growth is likely to be stable around 6.5%, albeit slowing from 6.8%. Deflation fears have receded because of stronger growth and core inflation will slowly rise as global spare capacity declines. The US Federal Reserve is now reducing its balance sheet assets and four rate hikes are likely in 2018. The ECB will phase down its quantitative easing program from September, but rate hikes are still some time away. The BoJ is still actively running its monetary policy asset purchase program and yield targeting measures which will continue until inflation is stronger. Political risks remain with key concerns around US President Trump adopting more populist policies ahead of the US mid-term elections, including the potential for more protectionist measures particularly against China.

> **Australia:** Australian growth is mixed. Activity data indicates an improving non-mining business investment outlook, strong public infrastructure spending and continued growth in net exports. But, there are still risks to the outlook around consumers (consumer confidence is around average, wages growth is soft and house price momentum looks to have peaked which impacts household wealth). The recent decline in the $A is positive for exporters, but some further depreciation in the currency would be positive. An improving growth environment will drive wages and prices higher, but this will take time. We think the RBA is only likely to begin rate hikes in 2020.

Summary of market views

Asset Class	View	Rationale
Global equities	Positive macro backdrop will support risk assets, but investors need to be selective across regions.	Volatility likely to remain high in short-term due to US political noise and a more aggressive Fed. But, reasonable valuations against bonds, good global growth and profits & easy monetary conditions positive for shares.
Australian equities	Australian shares to underperform global equities.	Australian shares will lag global shares because of softer relative earnings growth and a high concentration of yield-sensitive sectors like utilities and REITS as well as impacts from declining homes prices.
Government bonds	Higher bond yields will limit returns.	US inflation is lifting and pushing bond yields higher. Low starting point yields and a rising trend in bond yields mean low expected medium-term returns. But, bonds retain their diversification value.
Corporate bonds	Constrained returns.	Credit spreads may widen as equity market volatility continues constraining returns from corporate debt.
Property & Infrastructure	Returns will be capped by rising bond yields.	Property and infrastructure will continue benefitting from the search for yield, but rising bond yields may cap these gains.
Commodities	Mixed outlook – positive for demand backdrop but supply for some commodities is rising.	Strong global growth is positive for commodity demand but surging supply will cap the upside.
Currencies	$US appreciation close to its peak for now, especially against emerging market currencies.	$US appreciation is due for a short term pull back. But Fed hikes vs no change from other central banks is positive for $US. The $A should trend down as the interest rate gap moves against Australia.

Risks to keep an eye on

> President Trump's trade policies

> Chinese growth

> European politics

> North Korea

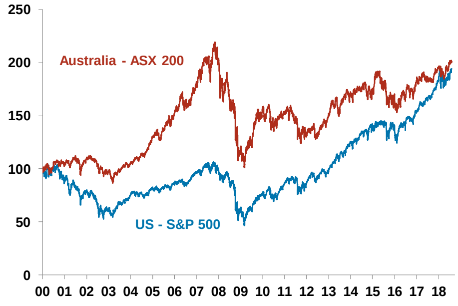
> Rising bond yields

> The Sydney and Melbourne property markets

Trade War Fears

- US-China trade tensions continue to escalate, with Trump threatening proposed tariffs of 25% on US$200bn of Chinese imports, rather than 10%, and with the 25% tariffs on another $16bn confirmed to commence on 23rd August
- Meanwhile, US-EU trade talks produced positive outcomes following the Trump-Juncker agreement to negotiate
- However, with US mid-term elections in November, uncertainty and trade-induced volatility is likely to persist in market as Trump looks to solidify his support base.

GLOBAL SHARES CONSTRAINED BY TRADE WAR FEARS
BUT AUSTRALIAN SHARES RELATIVELY RESILIENT



Source: Bloomberg, AMP Capital

| 2

Overview

- The economic backdrop remains supportive of global growth. Global manufacturing and service sector PMI's which track business conditions point to continued solid growth in 2018.
- Divergence in monetary policy is still a feature of the global economy with the Fed expected to continue raising rates, but other major central banks likely to keep interest rates unchanged for a while yet. Gradually rising inflation will change this in time though. The ECB is still purchasing assets, but at a slower pace and has said that it will end the program in December, tapering asset purchases from September.
- Politics remains a risk factor with uncertainty around US trade (NAFTA, China), Brexit negotiations and political issues in Europe (with a populist government in Italy) and a new minority government in Spain.

ECONOMIC AND INVESTMENT OUTLOOK

- Solid global growth – 2018: 3.9%, 2019: 3.9%
- 2018 GDP growth: China 6.5%, US 2.6%, Eurozone 2.2%, Japan 1.2%, Australia 2.8%
- Inflation starting to rise in the US resulting in a somewhat more aggressive Fed
- But the ECB, BoJ and RBA are all a long way from tightening
- $A to weaken
- Low returns from bank deposits and bonds
- Shares should provide decent returns reflecting solid global growth & profits but low interest rates. But more constrained and volatile as the investment cycle matures
- Key risks: inflation/bond yields, President Trump (trade, Mueller, mid-term elections, Twitter), Italy, China, the Australian property market

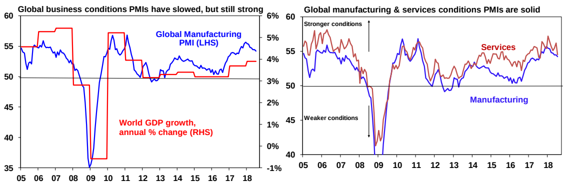
Source: AMP Capital

| 3

Growth indicators still at solid levels

- Developed and emerging economies' manufacturing conditions and services conditions PMI readings have come off highs but remain at levels that indicate solid global growth.
- Global growth forecasts had been continually revised lower over recent years. But the worst looks to be behind us with the IMF (again) revising up its global growth forecasts this year. Growth is expected to rise to 3.9% in 2018.

GLOBAL BUSINESS CONDITIONS HAVE SLIPPED BUT REMAIN SOLID

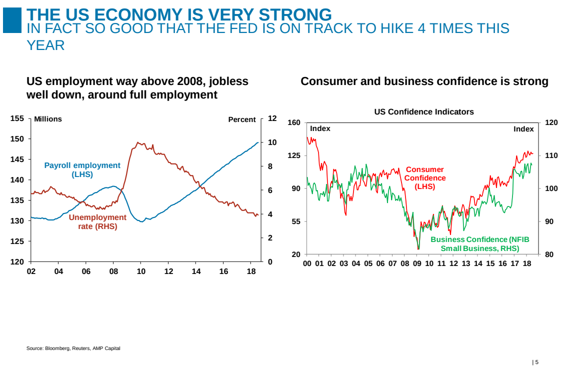


Source: Bloomberg, AMP Capital

| 4

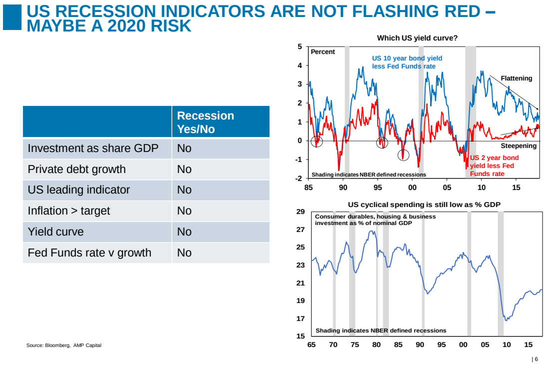
US economy still tracking along well

- The US economy is still performing well and in line with the Federal Reserve's expectations. Business conditions surveys are strong, consumer confidence is high and business investment is improving after a slower patch.
- June quarter GDP grew at 4.1% (annualised) which is well above trend estimates of around 2%. Current forecasts for third quarter GDP are running lower at 3.0% annualised.
- Core inflation is rising and is running at 1.9% over the year (just below the Fed's target). The US labour market continues to tighten with the unemployment rate at 3.8% in July. Wages growth is lifting, but only slowly which shows that there is further room to go in reducing spare capacity. The Fed will continue to normalise its balance sheet (i.e. quantitative tightening) and lift interest rates another two times this year.



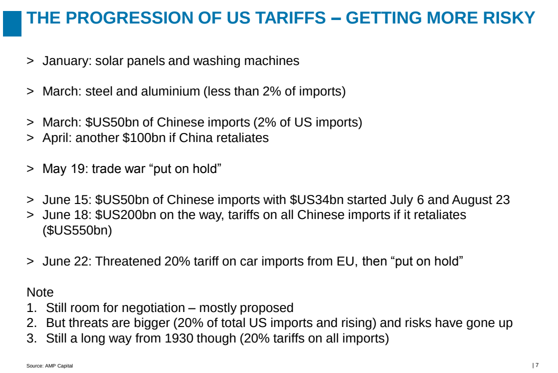
US Recession Risk

- Despite recent focus on the flattening US yield curve, and its status as a recession indicator, other US indicators show little sign of the normal excesses that precede major economic downturns, profit slumps and major bear markets
- The US labour market remains strong and there appears to be remaining 'slack', industrial capacity utilisation remains well below typical pre-recession levels, cyclical spending as share of GDP remains low and US monetary policy is still a long way from being tight, despite the Fed's hikes.



Progression of Tariffs

- The scheduled 25% tariff on $US34bn on Chinese imports came into effect in July and China retaliated August 8 . While the effect of these are small, President Trump has indicated that tariffs on more Chinese imports could be coming, which would have a larger negative economic impact.
- The 20% tariff threatened on EU auto imports seems to be on hold for now following an agreement to negotiate at the Trump-Juncker meeting.
- Our base case remains that some form of negotiated solution will be reached, but trade tensions could get worse in the short-term, before they get better. Negotiations may not occur until after mid-term elections in November.



Eurozone growth is solid, but the ECB is still waiting for inflation to pick up

> Euro business conditions PMIs have weakened but still indicate above potential growth in 2018.

> Eurozone headline inflation has picked up as capacity utilisation has narrowed and energy prices have bounced back. But core inflation is still low and well below the ECB's 2% target. The ECB announced its intentions to being tapering its asset purchase program in September, before ending quantitative easing in December.

> But rate hikes are still some time away, with the ECB stating that rates will be on hold at least through the Northern Hemisphere summer of 2019.

EUROZONE BUSINESS CONFIDENCE MAY HAVE PEAKED BUT REMAINS ELEVATED

Source: Bloomberg, AMP Capital

| 8

Eurozone break up risk

> After lots of noise, Italy's Five Star Movement-Northern League government managed to avoid another election. Support for the Euro has lifted in Italy following recent political situation and its ultimately likely to remain in the Euro. However, fiscal uncertainty looks set to remain given conflict with both the European Commission, and internally with the Finance Minister – both will negative for Italian bonds and shares and weigh on the Euro.

> Spain has a new minority government (centre left Socialists) but this does not threaten Spain's commitment to the Euro as the Socialists are pro-Euro and support for Eurosceptic Podemos is modest at around 17%.

EUROZONE BREAK UP RISK IS LOW – BUT WATCH ITALY

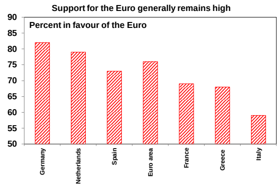
Key issues and what to watch

> The mess in Italy is bad for Italy, but unlikely to threaten the Euro

> Support for the Euro in Italy has increased lately to around 57% (and up to 72% in one poll), and is solid across the Eurozone generally

> Political developments in Spain do not threaten the Euro

Support for Euro remains strong (albeit less so in Italy)



Source: Eurobarometer, AMP Capital

| 8

China's growth remains solid

> Chinese manufacturing conditions PMI's still remain in expansionary territory which argues for continued good growth in GDP. Services sector activity remains solid – with services becoming an increasing share of the economy.

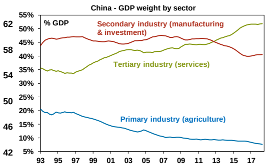
> China's central bank cut bank required reserve ratios, eased the 7-day repurchase rate, and eased restrictions on some off-balance sheet credit. The government is also looking to pick up its fiscal spending to support the economy as trade tensions continue to bite.

> Our forecast for this year is growth of around 6.5% in 2018 after 6.9% in 2017.

CHINESE GROWTH IS LIKELY TO SLOW A BIT THIS YEAR
EXPECT A RENEWED FOCUS ON ECONOMIC REFORM BUT NO GROWTH COLLAPSE

Chinese growth has stabilised

China is in transition from manufacturing & investment to services & consumption



Source: Thomson Reuters, Bloomberg, AMP Capital

| 10

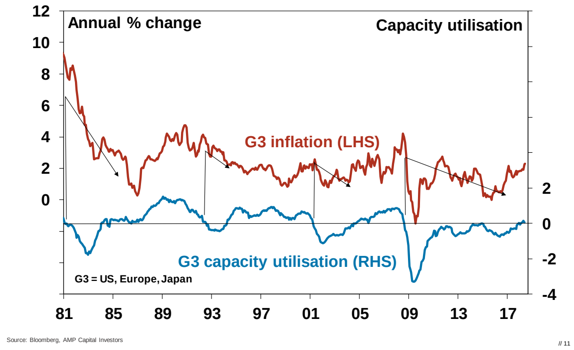
Spare global capacity declining

> In the US, spare capacity continues to decline as the unemployment rate approaches record lows. However, wages growth could be higher, given the strength across the rest of the economy which suggests that there is more room to go to reduce spare capacity.

> Despite the recent run of soft data, Europe's unemployment rate has declined over the past year and is currently sitting at a relatively low level of 8.3%. Japan's unemployment rate has similarly declined, currently at 2.4%. Wage pressures in both economies are lifting, but only very slowly still remain low overall.

> Europe and Japan continue to see low inflationary pressures, whilst US core PCE is sitting just below the Fed's 2% target, indicating the US economy continues to outpace the rest of the world.

SPARE GLOBAL CAPACITY IS BEING USED UP – MAINLY IN THE US



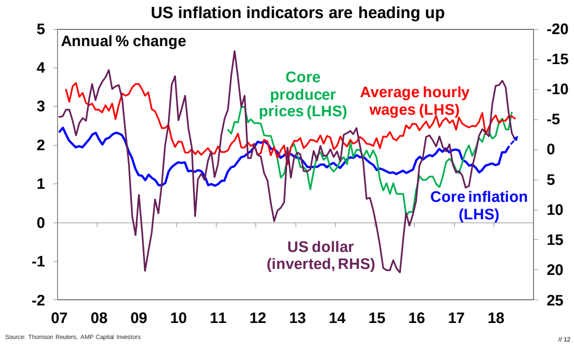
US wages and inflation are lifting

> US wages growth is accelerating as the strength in employment growth is reducing spare capacity.

> Stronger wages growth, rising producer price inflation and the previous fall in the $US will lift core inflation.

> Higher inflation expectations will boost market expectations for Federal Reserve interest rate hikes and cause bond yields to rise.

INFLATIONARY PRESSURES ARE SLOWLY LIFTING IN THE US AS GROWTH RUNS ABOVE POTENTIAL



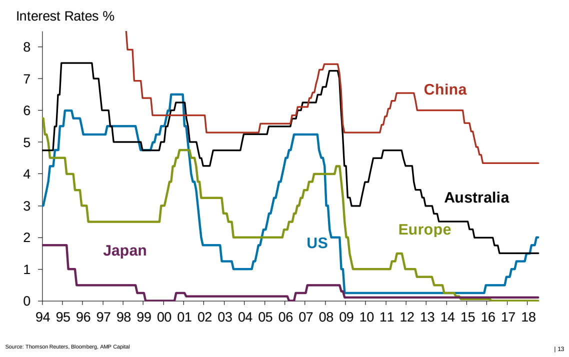
Global interest rates to remain low, but US Fed is getting more aggressive.

> Europe and Japan continue to run stimulatory monetary policy. ECB has signalled the end of its asset purchase program in December, with rates on hold till at least mid-2019. No material change from BOJ despite increase to 20bps trading range for yield curve control/

> The Fed is on track to increase interest rates further. But, market expectations remain dovish with three hikes factored in over the next 12 months and just four over the next two years. We expect another two hikes from the Fed this year and three or four more next year. The overall level of the Fed Funds rate is well below "neutral" which is around 3% but this level is likely to be exceeded by the end of next year.

> The RBA is expected to remain on hold until 2020 (when we see the central bank starting to lift interest rates), with the economy still mixed at present. Employment growth is good, but underlying inflation is low, retail spending is weak, house prices are slowing and banks are tightening lending standards further.

INTEREST RATES TO REMAIN LOW, BUT FED GETTING MORE AGGRESSIVE

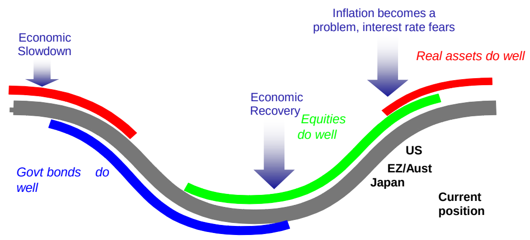


The global investment cycle is still in the sweet spot, but its mature

> The current combination of good global growth and rising profits at the same time as low inflation and interest rates is still favourable for share markets and explains why shares have continued to do well over the last year despite a seeming wall of worries (around Trump, North Korea, elections in Europe, the Fed, etc). This is commonly called the “sweet spot” in the cycle. Signs of a maturing investment cycle need to be watched though.

> While corrections are inevitable the key signs to watch for an end to the sweet spot and increasing risk of a major bear market are: rapidly accelerating inflation pressures – with the US the main country to watch; high levels of capacity utilisation; excessive levels of spending or investment; excessive debt growth; and tight monetary policy.

THE GLOBAL INVESTMENT CYCLE – STILL IN THE SWEET SPOT BUT MATURING IN THE US



Source: AMP Capital

| 13

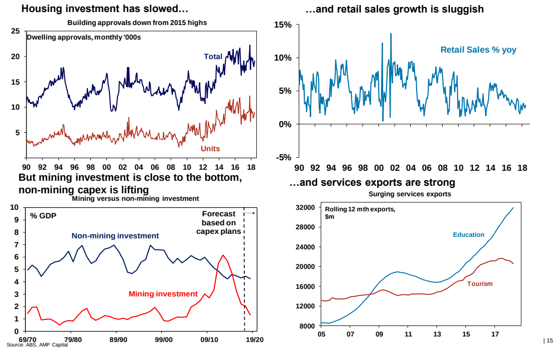
Australian economy still tracking along okay

> Australian growth remains mixed. The labour market is strong, business confidence is good and consumer confidence has improved, stronger commodity prices are benefiting exporters’ incomes but inflation is still running below the RBA’s target, retail spending is weak, house prices are slowing and the $A still needs to be lower.

> Constraints around the consumer including weak wages growth, high debt levels, rising energy costs and slowing wage gains will likely continue over the year ahead but growth should still be able to pick up a bit towards 3% in 2018 thanks to improving investment and infrastructure.

> With property prices slowing, wages growth remaining weak and inflation low an RBA rate hike is unlikely until 2020.

THE AUSTRALIAN ECONOMY STILL MIXED



| 15

State of the States

> On our state tracker, WA and NT are continuing to be negatively impacted by the mining investment drag. Non-mining states are showing reasonable growth, with Vic performing particularly well thanks to strong population growth. NSW performance is benefitting from strong employment growth and SA and Tas also performing well lately, with some solid growth in SA housing and a home price boom in Tas.

VICTORIA STILL DOING WELL, NSW IMPROVING AND NT AND WA STILL AT THE BOTTOM

State of the states, annual % change to latest

	Retail Sales	Building Approvals, trend	Real State Final Demand	Home prices	Employment	Unemployment %	Rank*
NSW	+3.0	-6.0	+3.7	-5.4	+3.9	4.8	4(=3)
Victoria	+5.8	+12.6	+4.9	-0.5	+1.9	5.3	2 (1)
Queensland	+0.6	-5.2	+3.1	+1.2	+3.5	6.1	6 (6)
WA	-0.5	-10.9	+0.8	-2.3	+1.1	6.2	8 (8)
SA	+2.5	+21.2	+2.1	+0.7	+2.1	5.6	5 (=3)
Tasmania	+3.9	+13.0	+3.9	+11.5	+0.6	6.0	3 (=3)
NT	+2.4	+0.0	-7.9	-6.2	+2.2	4.1	7 (7)
ACT	+4.3	+48.4	+1.6	+2.4	+2.9	3.5	1 (2)

* Rank a year ago shown in brackets. Source: Bloomberg, CoreLogic Data, AMP Capital

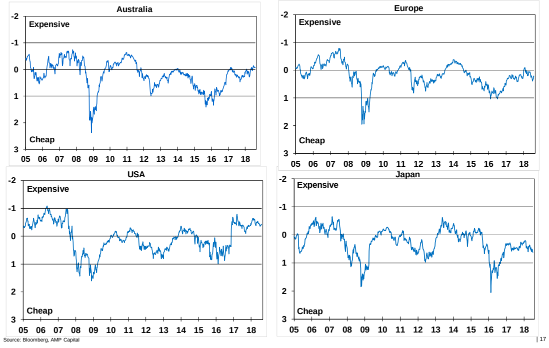
| 16

US shares are slightly expensive, other markets are fair value or slightly cheap

> Based on our valuation indicators, shares remain good value. US shares are a bit expensive (and Australian shares are around fair value, or just over) which reflects the share market rally of the past year or so whereas other markets are fair value or slightly cheap.

> Despite some recent lift in bond yields, government bond yields are still low overall and higher earnings yields from shares and other growth assets should see support for growth assets beyond near term volatility.

US SHARES A BIT EXPENSIVE BUT OTHER MARKETS OKAY
SHARE MARKET VALUATION INDICATORS



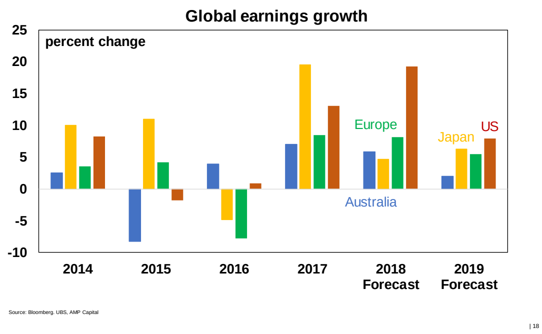
Earnings growth still looking good globally

> After an earnings slump running into 2016, global earnings have turned up solidly assisted by better economic growth.

> Likewise in Australia, earnings rose sharply in 2016-17 thanks to a strong bounce in resource sector profits helped along a surge in commodity prices. Earnings expectations for financial year 2017-18 are for reasonable growth of around 7%, as resource earning have stabilised and non-mining profits are lifting.

> However, profit growth is likely to be stronger globally at around 14% than in Australia at around 7% which means that Australian equities will likely continue to lag global shares.

AUST LISTED COMPANY PROFITS ARE RISING (+6%) BUT THE OUTLOOK IS STRONGER GLOBALLY (+14%)

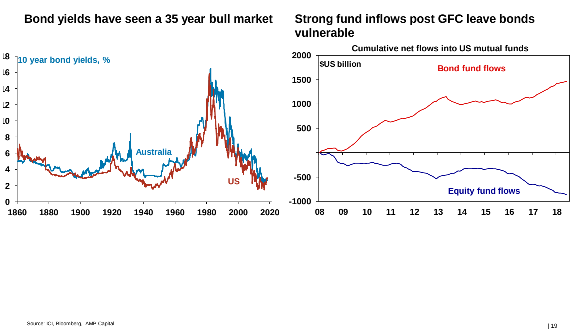


Global sovereign bonds offer poor value

> Global and Australian bond yields have lifted but are still at the bottom of their historical range as global interest rates are low and potential economic growth is below its long-run average in advanced economies.

> Our assessment is that bonds are at the end of a 35-year bull market. Expect poor returns from bonds at these levels. Global growth is now running above potential and leading to a decline in spare capacity, bonds remain over loved with a huge post-GFC inflow into bond funds in the US which leaves them vulnerable to a reversal and central bank buying of bonds is slowing.

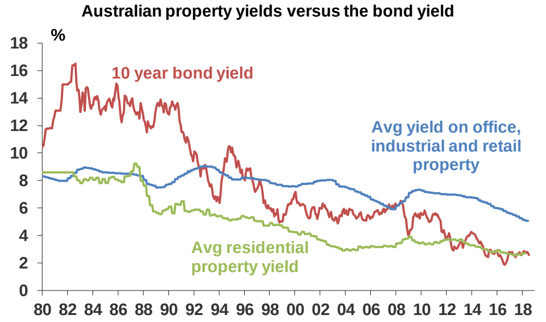
BONDS AT THE END OF A 35 YEAR BULL MARKET
EXPECT POOR RETURNS FROM BONDS



The search (for yield) is likely to weaken

- The search for yield is still in play because bond yields are still relatively low. However, with the rise in bond yields, the search for yield is likely to gradually weaken and become more selective

THE "SEARCH FOR YIELD" CONTINUES FOR UNLISTED ASSETS BUT IS LIKELY TO WEAKEN OVER TIME



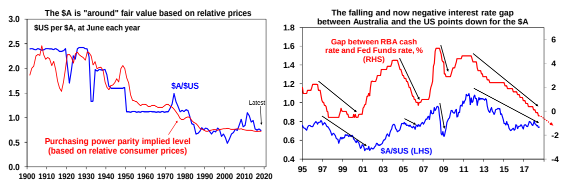
Source: RBA, AMP Capital

| 20

Australian dollar depreciation positive for growth but more needed?

- After bouncing back above the $US0.80 mark earlier this year because of firmer commodity prices, the Aussie dollar has weakened again as expectations around Fed hikes have moved up and concerns over Chinese growth increased, hitting the $A.
- The broad down trend in the $A is likely to resume over the medium-term as the Fed raises rates and reverses its quantitative easing, whilst the RBA remains on hold.

THE $A IS LIKELY TO FALL AS THE FED TIGHTENS AND THE RBA HOLDS



Source: RBA, ABS, Bloomberg, AMP Capital

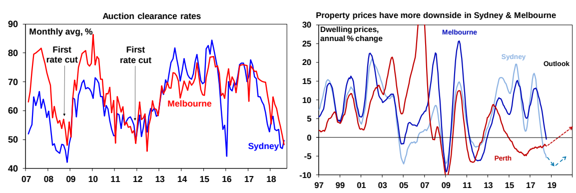
| 21

Cooling in the Sydney & Melbourne property market

- The Sydney and, to a lesser extent, Melbourne property markets continue to slow. Prices have been falling (particularly in Sydney), auction clearance rates are declining and investor demand is softer.
- Another round of tighter lending standards now focussed on borrowers' income and expenses, out-of-cycle bank rate hikes, affordability pressures and a surge in new supply are likely to result in further falls in property prices in Sydney & Melbourne in 2018 of another 4% with more weakness in 2019 and 2020.
- At the other extreme, the Perth and Darwin property markets are likely close to the bottom. Hobart and Canberra are likely to continue benefitting from flow of ("refugee") demand out of Melbourne and Sydney, which will also likely start to help Adelaide and Brisbane.

SYDNEY AND MELBOURNE HOME PRICES TO FALL FURTHER

OTHER CITIES LOOK OKAY



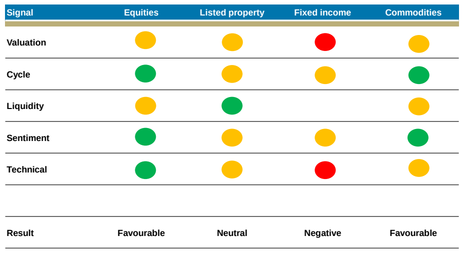
Source: Core Logic, Domain, AMP Capital

| 22

Dynamic Asset Allocation process signals

- Our DAA process signals point to reasonable expected returns from equities.
- Equities continue to show favourable cycle, sentiment and technical scores. Valuations are neutral because of the recent rally in equities. Liquidity is also neutral.
- Commodities also appear favourable, with positive cycle and sentiment scores.
- The signals continue to point to poor expected returns from bonds.

TRAFFIC LIGHT SIGNALS FROM DAA PROCESS



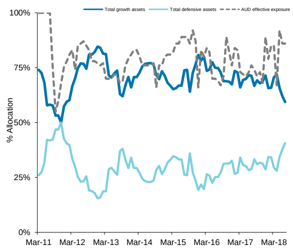
Source: AMP Capital. As at August 2018

Overall investment policy

- Reflecting reasonable process scores the allocation to growth assets is around 58% in the Dynamic Markets Fund. This includes a bias towards Japanese shares and commodities.
- Reflecting the risk of a short-term correction though, the growth allocation has been reduced in favour of some hedges (via currencies and gold) and call options.

DYNAMIC ASSET ALLOCATION
DYNAMIC MARKETS FUND

Change in growth/defensive mix and hedge ratio



Allocations	Range (%)	Current AA (%)
Growth	0 – 90	**57.5**
Australian Shares	0 – 50	9.0
International Shares (Developed Markets)	0 – 50	33.5
International Shares (Emerging Markets)		4.5
Global REITs	0 – 25	0.0
Commodities	0 – 25	10.5
Global High Yield Credit	0 – 25	0.0
Defensive	10 – 100	**42.5**
Australian Sovereign Bonds	0 – 25	0.0
Global Sovereign Bonds	0 – 25	13.5
Global Investment Grade Credit	0 – 25	0.0
Global Inflation Linked Bonds	0 – 25	10.0
Cash & Hedges	0 – 50	19.0
AUD exposure (% of total fund)	0 – 100	**80.0**

Current AA as at August 2018

Key medium-term projections

- Key themes over the next 5 to 10 years are likely to include: slower growth in household and corporate debt; geopolitical tensions; aging and slowing populations; technological innovation & automation; the Asian ascendancy & China's growing middle class; rising environmental awareness; and the energy revolution.
- Most of these will likely constrain growth and hence investor returns. However, technological innovation remains positive for profits and some of these point to inflation bottoming. Aging populations point to an ongoing demand for solid yield bearing investments.
- Our individual asset class return projections point to a medium term return potential for a diversified mix of assets of around 6.1%pa.

PROJECTED MEDIUM TERM RETURNS, %PA, PRE FEES AND TAXES

	Current Yield #	+ Hedge Points	+Growth	=Return
US Equities	1.9	-0.5	4.5	5.9
Asia ex Japan Equities	2.7	-0.6	7.0	9.1
Emerging Equities	2.9	-1.4	7.0	8.5
World Equities, local currencies	2.4	0.6	4.1	7.1
Australian Equities	4.3/5.6*	0.0	3.5	7.8/9.1*
New Zealand Equities	2.8	0.1	3.8	6.6
Unlisted Commercial Property	5.5	0.0	2.0	7.5
Australian REITS	4.4	0.0	2.3	6.6
Global REITS	4.1	0.1	2.0	6.1
Unlisted Infrastructure +	4.5	0.0	3.2	7.7
Global Listed Infrastructure	2.8	0.1	3.0	5.9
Australian Gov't Bonds	2.3	0.0	0.0	2.3
Australian Corporate Debt	3.3	0.0	0.0	3.3
Australian Cash	2.7	0.0	0.0	2.7
Diversified Growth Mix				6.1

Current dividend yield for shares, distribution/net rental yields for property and 5 year bond yield for bonds. * With franking credits added in + Does not include franking credit which could add 0.45% to the return
Source: AMP Capital

Global Economic Forecasts

GDP Growth (year avg.)	2017	2018	2019
World Growth	3.8	3.9	3.9
US	2.3	3.0	2.8
Japan	1.7	1.2	0.8
Eurozone	2.4	2.2	1.9
UK	1.8	1.4	1.1
Australia	2.2	2.8	2.7
Asia Ex Japan	6.9	5.7	5.4
China	6.9	6.5	6.4
India	6.7	7.5	7.5
Inflation (year ended)	**2017**	**2018**	**2019**
US (Headline)	2.1	2.2	2.2
Japan	0.5	0.8	1
Eurozone	1.5	1.5	1.7
UK	2.7	2.5	2.2
Australia	1.9	2.0	2.6
China	1.6	2.3	2.3
India	4.5	4.5	4.5

Interest Rates	Dec-17	Dec-18	Dec-19
US – Federal Funds rate	1.25-1.50	2.25-2.50	3.00-3.25
Japan – policy rate	-0.10	-0.10	0.0
Europe – refi rate	0.00	0.0	0.05
UK Base rate	0.50	0.75	1.00
Australia cash rate	1.50	1.50	1.50
China (Repo Rate)	2.50	2.85	3.50
India (Repo rate)	6.00	6.0	6.25
Bond Yields (10 year)	**Dec-17**	**Dec-18**	**Dec-19**
US	2.4	3.3	3.8
Japan	0.05	0.3	0.5
Germany	0.4	1.0	1.3
UK	1.2	1.8	2.0
Australia	2.6	3.1	3.5
FX (year end)	**Dec-17**	**Dec-18**	**Dec-19**
USD/YEN	112	108	109
EUR/USD	1.20	1.18	1.19
UK£/USD	1.35	1.32	1.31
AUD/USD	0.78	0.72	0.69

Australian Economic Forecasts

	2017				2018 Forecast				Calendar Year		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	2017	2018	2019
Real Economic Activity											
Real GDP (qoq %)	0.3	1.0	0.5	0.5	1.0	0.4	0.7	0.7			
Real GDP (yoy %)	1.8	2.0	2.8	2.4	3.1	2.5	2.6	2.8	2.2	2.8	2.7
Private Consumption (qoq %)	0.3	1.0	0.6	1.0	0.3	0.6	0.5	0.6	2.7	2.5	2.5
Dwelling Investment (qoq %)	-3.2	0.3	-2.1	-0.1	0.9	-0.3	-0.2	-0.5	-2.2	-0.7	-1.1
Business Investment (qoq %)	3.3	-3.2	9.8	-2.1	1.3	0.9	1.0	1.0	2.6	5.1	4.7
Fiscal Policy (Nominal)									**Underlying Cash Balance**		
Underlying Cash Balance ($bn)									-33.2	-13.0	-12
% of GDP									-1.9	-0.7	-0.7
Inflation Rates									**Yr avg**		
Headline (yoy %)	2.1	1.9	1.8	1.9	1.9	2.2	2.1	2.0	1.9	2.0	2.3
Underlying (yoy %)	1.7	1.8	1.9	1.9	2.0	1.9	2.0	2.0	1.8	2.0	2.0
External Sector									**Year balance**		
Current account Bal (A$bn)	-7.3	-10.8	-11.7	-14.7	-10.5	-12.5	-12.5	-12.5	-44.3	-48.0	-57.0
Current account Bal (% of GDP)	-1.6	-2.4	-2.6	-3.2	-2.3	-2.7	-2.7	-2.6	-2.5	-2.6	-2.9
Labour Market & Wages											
Wage Price Index (yoy %)	1.9	1.9	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0	2.2
Employment (yoy %)	1.4	2.2	3.2	3.4	3.0	2.3	2.0	1.8	3.4	1.8	1.7
Unemployment Rate	5.8	5.6	5.4	5.5	5.5	5.7	5.5	5.3	5.6	5.5	5.2
Interest Rates & Bond Yields	**Quarter End**										
Cash rate	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
90 Day Bank Bill	1.7	1.7	1.7	1.7	2.0	2.1					
10 yr Bonds	2.7	2.5	2.8	2.6	2.6	2.6					
Exchange Rates											
AUD/USD	0.76	0.76	0.78	0.78	0.76	0.74					
AUD/EUR	0.71	0.67	0.66	0.65	0.62	0.63					
AUD/JPY	84.9	86.4	88.1	88.0	81.6	82.0					
TWI	66.2	65.5	66.2	64.9	62.3	62.6					