

Opinion | 5 March 2019

AUSTRALIA

Lowe helps AUD lower

Australian dollar sitting a little above 0.7050. A push below 0.70 wouldn't take too much and the RBA Governor seems happy to help.



Just a little bit further...

It's hard to find outright calls to make on markets these days, with the US Treasury market priced about right, the dollar too, so aside from the INR, there are few conviction calls to make. One of these is the AUD, which we see weaker this year.

It isn't that there is anything particularly wrong with the Australian economy ([see our recent note for reasons why we think this](#)), but there are few other currencies around which are so wholeheartedly wished weaker by their central bank than the AUD.

In this morning's comments, following the no change decision of the RBA on rates yesterday, RBA Governor, Phillip Lowe said, "It's hard to think of a scenario where interest rates would need to go up this year. Inflation pressures are very benign, wage growth remains low, and the current rate of wage growth is unlikely to generate an inflation rate of 2.5%, and there are a number of other factors that are weighing on inflation at the moment"

A growing number of market economists are rushing to add rate cuts to their forecasts. I don't see it. The economy is going forward, not backward. It just has some issues. The following additional remark by Lowe seems to sum up our expectation of nothing for ages. "...I think it's quite unlikely that inflation's going to be a problem anytime soon, and if it's not, then we can

keep the *current setting* of monetary policy for some time" (our emphasis)

BIS warns of risk from Investment Grade bonds

Normally, an investment grade is an indicator of a degree of safety in an investment. But in a very thin day for news, one story has caught my eye, which is the risk posed by the pile of low rated, but still investment grade credit that high yield investors would struggle to absorb in the event of a mass downgrade.

The bit that made me cringe, was an analyst saying words to the effect that "Don't worry, the economic outlook remains benign". in other words, it is a theoretical risk only, but one that is unlikely to occur.

We wrote late last week about Paul Krugman's view that the world is headed for recession. Moreover, the un-named analyst's comments are also a bit chicken-and-egg.

It's an interesting story, but it would be a bit more interesting if high yield credit spreads were at a multiperiod low. We'll leave this one for the credit guys to disentangle. It's a bit too hard for a mere economist.

Day ahead - not much

Aside from Australian GDP, which is released about when this note gets published (expected 0.3%QoQ, 2.6%YoY) there isn't a lot going on in Asia today.

The G-7 is only a bit more lively, with ADP figures providing a prelude to Friday's labour report. Another strong number must surely cause some re-think of the rate cuts priced into the market for the US, though maybe we need to see the March 20 FOMC dot diagram before markets will revise their thinking.

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