

SECONDARY MARKETS

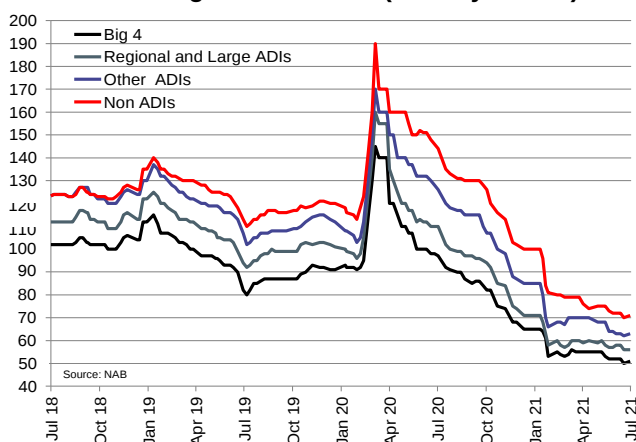
With \$4.5bn of RMBS notes priced in the primary market since the 14th of July and another circa \$3bn to potentially come over the next two weeks, it's not surprising to see activity in secondary market starting to take a back seat to the primary market. Flows going through the secondary market have remained very much centred in the short WAL (<2yrs) non-ADI RMBS notes, but there has also been a small BWIC run out of the northern hemisphere on a couple consumer-backed junior tranche ABS lines.

Domestic Secondary Market Senior Prime Spreads (Mid-Levels)

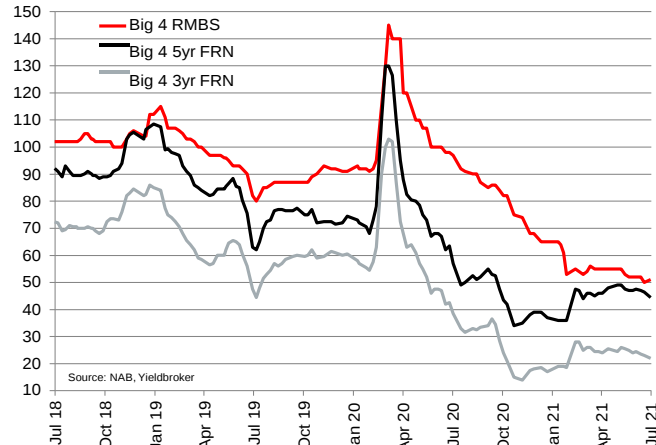
	21 July	1Mth	3 Mths	6 Mths	12 Mths
Big 4 RMBS	47-52	-1	-4	-14	-46
Senior 5yr FRN	45	-3	-2	9	-13
Regional and Large ADIs	55-60	-1	-3	-15	-54
Other ADIs	60-65	-1	-7	-22	-63
Non ADIs	65-75	-1	-5	-29	-73

Each category represents an estimate of (mid) secondary market spreads over BBSW of selected AUD prime senior AAA rated RMBS, with current WALs between 2.5yrs to 3.5yrs. Please note these levels are highly indicative, are not estimates of new primary market levels, and should be used as a rough guide only.

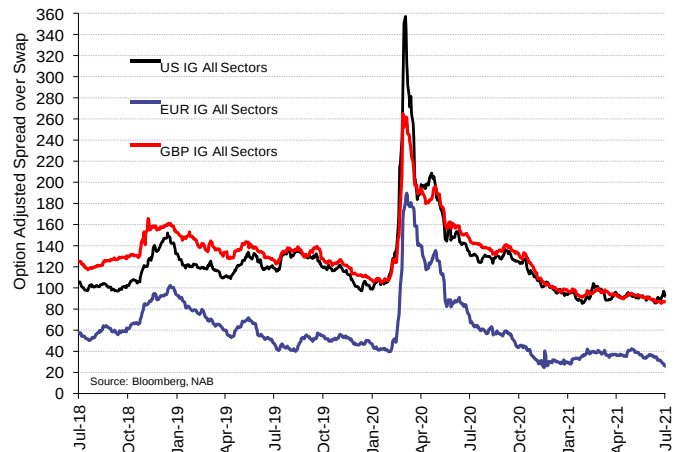
Average Prime RMBS (2.5-3.5yr WALs)



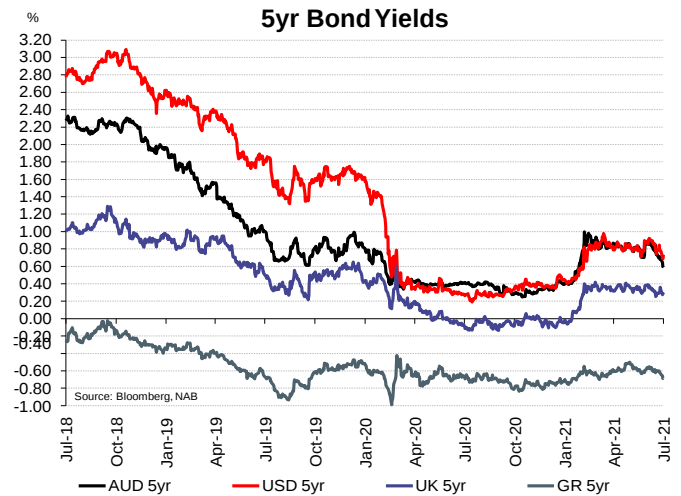
Big 4 RMBS (3yr WALs) vs 3yr & 5yr FRNs



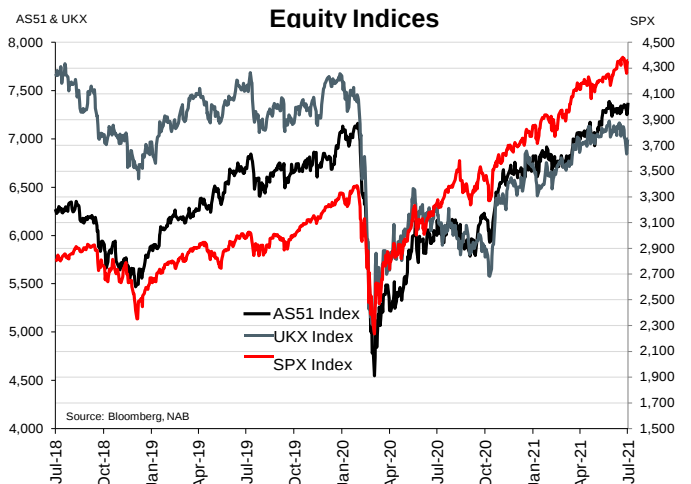
Investment Grade Cash Bond Indices



5yr Bond Yields



Equity Indices



FROM THE ECONOMISTS

On Tuesday, **NAB** released its **Monthly Business Survey** for June and on Wednesday, **Westpac** its monthly **Consumer Sentiment** report for July.

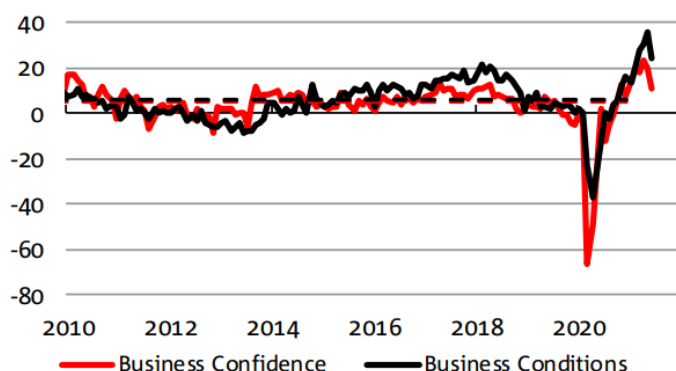
The NAB survey (conducted between the 18th and the 30th of June – overlapping the Sydney current lockdown which came into effect on the 26th of June but predating the current Victorian and now South Australian lockdowns) revealed broadbased declines in the Confidence and Conditions indices due to the developing yet varied COVID-19 situations amongst the states.

Coming from elevated levels, the Confidence index fell 9 points in June to +11 index points (still nearly 2x higher than its long run average of +6) and the Conditions index came off its all-time high of +36 points to a still very elevated +24 points.

NAB reported the decline in confidence was led by declines in NSW and QLD, and to a lesser extent WA. “Confidence was also softer across the other states likely reflecting the uncertainty of escalating border closures.” The decline in conditions was driven by a softening in VIC reflecting the lockdown (separate to the current one) which was eased in a series of steps over the month. “That said, conditions softened in all other states except WA in the month. This may reflect the impact of higher uncertainty over the progression of current lockdowns, including the impact of state borders again closing.”

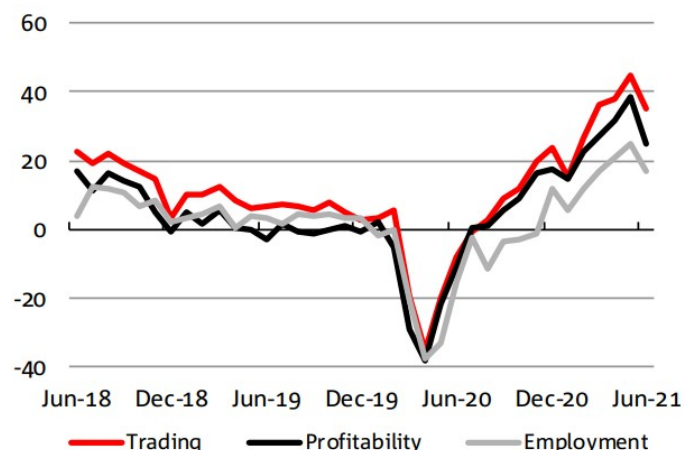
The fall in the Conditions index was also driven by a decrease in each subcomponent. Trading fell 10 points to +25 index points, profitability fell 14 points to +25 index points and the employment index pulled back 8 points to +17 index points – which was still signalling ongoing gains in the labour market albeit at a slowing rate. Despite the declines in each subcomponent in June, they are all coming off record levels and are still at elevated levels; that is at least for now, but with further sharp declines expected in next month’s survey.

Business Conditions and Confidence



* Dotted lines are long-run averages since Mar-97.

Components of Business Conditions, Net Balance S.A.



Westpac’s Consumer Sentiment Index rose 1.6 index points from June’s 107.2 to 108.9. With the survey taken between the 5th and the 9th of July, divergent state outcomes was the overarching theme of the report with a sharp decline in consumer confidence in NSW offset by gains in other states, notably VIC and WA, with these states recording strong bounce backs from previous COVID-related disruptions in June.

In its report Westpac said, “The main takeaway is that concerns around the current virus outbreak and associated restrictions in NSW are not spilling over to the rest of the country”. However, a week later, this is clearly not the case.

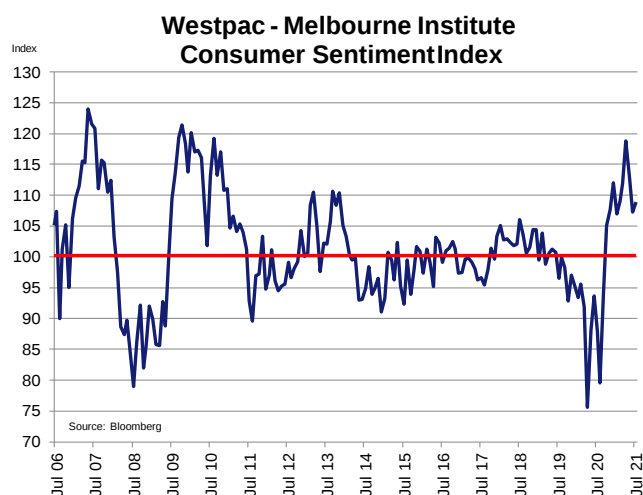
In April and June, the sentiment index for VIC fell 16% and 18% for WA with both experiencing intermittent lockdowns as their governments sought to contain a lift in COVID cases. Consumer sentiment in NSW remained steady throughout these months.

The moves were reversed in July. “The sharp rise in COVID cases and associated move to lock-down in Sydney hit NSW consumer confidence hard, the state index dropping 10.2%, including a 13.6% fall in Sydney. However, this was fully offset by strong recoveries in VIC (up 15%) and WA (up 11.5%) as both states came out of lockdowns.

The current fall in Sydney compares with a 7.3% fall in Sydney during the Northern Beaches lockdown at the start of the year and the 18.7% fall in Melbourne heading into the ‘second wave’ lockdown in June-August last year.”

With both greater Sydney and all of VIC and SA now in lockdown and state borders shutting, recent improvements will be undone and we expect there will be a broad based decline in consumer sentiment reported when the next report is released on the 11th of August.

Westpac’s Unemployment Expectations Index (which we follow from a securitisation stakeholders’ perspective) was relatively steady – lifting slightly from 108.4 to 109.6 index points (a higher read means more respondents expect the unemployment rate to increase in the year ahead). “Despite the softening, the latest index read is still one of the strongest we have seen for 10 years – it compares to reads of 134.4 in July 2019 and 140.0 in July 2020. Again we would expect this measure will decline when the next report is released.



With respect to the RBA, Westpac said there will be more interest in the RBA's revised economic forecasts to be released in the Statement on Monetary Policy on the 6th of August than there will be in the RBA Board meeting on the 3rd of August.

Heading up to this "The Bank will have a few more weeks to assess the impact of the NSW lock-down on the economy" and Westpac said it expects the "RBA will assess the outlook from the perspective of earlier lock-downs where economies bounced back quickly once restrictions were eased (note the surge in confidence in Victoria in this month's survey)."

We would have agreed with this statement at the time it was made, however, things have moved over the last week and the August Board meeting now appears to be a live one with RBA signalling, via the print media, that should the current lockdowns in Sydney and Victoria extend into August, it will probably have to consider amending its July decision to taper QE from \$5bn to \$4bn a week following the end of the current QE2 tranche in September.

Last Wednesday, **NAB Group Economics** released its latest assessment and forecasts on the Australian economy in its monthly publication entitled **The Forward View – Australia**.

NAB economists made some modest downward tweaks to their 2021 and 2022 GDP growth forecasts "based on current developments" as well as their unemployment rate forecasts which have been revised lower following a better than expected run of labour force data.

Importantly, these forecasts were released on Wednesday morning at 11.30am, which was 30 minutes after the Sydney lockdowns were extended (initially) by another two weeks to 30 July and Victoria announcing (shortly after on Thursday) its five-day lockdown (also since extended to 27 July) covering the whole state.⁴ Ahead of these events, NAB economists said "The current virus outbreak in NSW and associated lockdowns/border closures highlights the significant uncertainty around economic forecasting at present. We have made a modest tweak to our forecasts for GDP based on current developments. At this stage we do not see the recovery as having been derailed, given the significant momentum heading into the current disruptions

but there are some downside risks to our forecasts if we see material extension to the lockdown."

Unfortunately, the transmissibility of the Delta strain means that until the Australian population reaches a yet to be determined "living with the virus" vaccination threshold, further lockdowns and lockdown extensions will present material risks to the economic outlook. To emphasise this point, over the last week NAB's preliminary 3Q21 GDP growth estimate has changed from a +0.6% QoQ growth outcome to a QoQ contraction of around -1.5% (and other forecasters are making similar revisions also). This assumes the Sydney restrictions being in place for 8 weeks, the construction shutdown lasting 2 weeks and the Victorian lockdown also lasting 2 weeks. The major impact to the labour market is expected to first come from lowered hours, though the unemployment rate is also likely to rise in a protracted lockdown situation.

As at the 19th of July, 35.7% of the adult Australian population (16+ years) have had one vaccine dose administered and 14.0% have had two doses and are now fully vaccinated⁵. Around 80% seems to be a popular number currently being reported in the media (presumably based on comments made by various state premiers), but we won't actually know what the vaccination threshold will be until the Doherty institute issues its report to the Federal Government at the end of this month.

NAB's assessment that it is plausible that 80% of the adult population (16 years+) could be vaccinated by November 2021. Importantly, this is based on an acceleration in the vaccine rollout as supply of the Pfizer vaccine increases in line with government guidance. In contrast, a continuation at the current vaccine pace would only see 80% vaccination reached by January 2022. Supply and vaccine hesitancy remain clear risks to reaching a vaccination threshold.

Two weeks ago, the RBA Governor said there will be some upside revisions to the RBA's current forecasts in its upcoming Statement on Monetary Policy (SoMP) scheduled for 6 August (from the May forecasts which we have provided below). With 3Q21 GDP growth now expected to be negative, these RBA's revisions will hinge firmly on how long the RBA expects the various lockdowns will remain in place and to the extent economic growth can bounce back (which recent history suggests it can) in the 4Q21 or 1Q22 periods.

As a result of these developments, the uncertainty around economic forecasting has increased materially and we can't see how it would be possible for the RBA to shift the reporting of its forecasts within the context of baseline, upside and downside scenarios in this upcoming or the next (November 2021) SoMP..

With respect to monetary policy and further out, NAB has affirmed its view that the cash rate target will remain at 0.10% until 2024 and "had" updated its view that there will be a further \$100bn of QE bond purchases from September, with the weekly rate (initially set for \$4bn per week) tapered gradually before ending in mid-to-late 2022. As mentioned above, it's a very real possibility that the RBA will announce an amendment to its QE tapering plans in its upcoming Board meeting on the 3rd of August.

⁴ South Australia has also since announced a seven-day lockdown.

⁵ Source: <https://www.health.gov.au/resources/publications/covid-19-vaccine-rollout-update-20-july-2021>

NAB Key Economic Forecasts as at calendar year end* (Where different, previous month's forecasts are in brackets)

	2020	2021-F	2022-F	2023-F
GDP (annual avg)	-2.4%	5.0% (5.1%)	2.5% (2.6%)	2.2%
GDP (y/e to Dec)	-1.0%	3.8% (3.9%)	2.3% (2.4%)	2.1% (2.2%)
Core CPI	1.3%	1.4% (1.4%)	1.8%	2.3% (2.2%)
Unemployment Rate	6.7%	4.8% (4.9%)	4.6% (4.7%)	4.2% (4.5%)
RBA Cash Rate	0.10%	0.10%	0.10%	0.10%
AUD/USD	0.77	0.83	0.80	0.75

*GDP growth forecasts represent average annual growth.
Source: NAB Group Economics as at 14 July and 9 June 2021

RBA Baseline GDP, Unemployment and Inflation Forecasts

	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	June 2023
GDP growth	-1.1	9%	4%	4	3½	3
(previous)	(-2)	(7¾)	(3½)	(3¼)	(3½)	(3)
Unemployment rate^(b)	6.8	5¼	5	4¾	4½	4½
(previous)	(6.8)	(6½)	(6)	(5½)	(5½)	(5¼)
CPI inflation	0.9	3¼	1¾	1¼	1½	2
(previous)	(0.9)	(3)	(1½)	(1½)	(1½)	(1¾)
Trimmed mean inflation	1.2	1½	1½	1½	1¾	2
(previous)	(1.2)	(1¼)	(1¼)	(1½)	(1½)	(1¾)
	Year-average					
	2020	2020/21	2021	2021/22	2022	2022/23
GDP growth	-2.4	1	5¼	5	4	3¼
(previous)	(-2¾)	(¼)	(4)	(3¾)	(3¼)	(3¼)

(a) Forecasts finalised on 5 May. Forecast assumptions (February Statement in parenthesis): TWI at 64 (63), AS at US\$0.77 (US\$0.76), Brent crude oil price at US\$68bbl (US\$56bbl), population growth of 0.2 per cent over 2021 (0.2 per cent) and 0.4 per cent over 2022 (0.4 per cent); cash rate in line with market pricing out to 2022 (and held constant thereafter); and other elements of the Bank's monetary stimulus are in line with the announcement made following the February 2021 Board meeting. Forecasts are rounded to the nearest quarter point. Shading indicates historical data, shown to the first decimal point.

(b) Average rate in the quarter

Source: RBA

RBA GDP, Unemployment and Inflation Forecasts – Baseline, Upside and Downside Scenarios

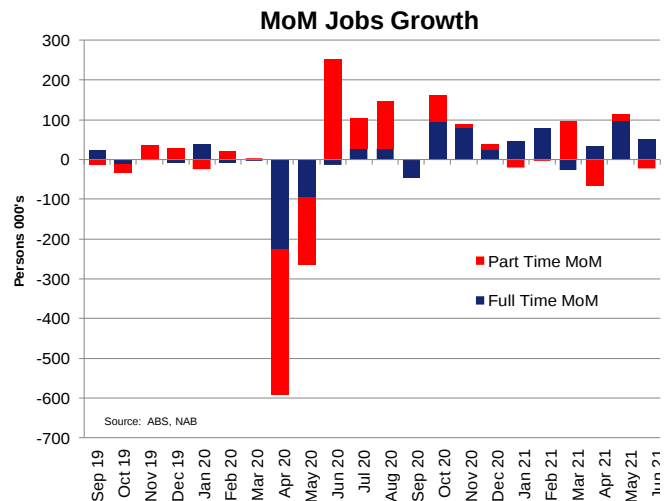
	Scenario	Dec 2020	June 2021	Dec 2021	June 2022	Dec 2022	June 2023
Gross domestic product	Baseline	-1	9%	4%	4	3½	3
	Upside	-1	10¼	6	5	4½	3¾
	Downside	-1	8½	3¼	2½	2¼	2
Unemployment rate (quarterly)	Baseline	6.8	5¼	5	4¾	4½	4½
	Upside	6.8	5¼	4½	4¼	4	3¾
	Downside	6.8	5¼	5¼	5¼	5½	5½
Trimmed mean inflation	Baseline	1.2	1½	1½	1½	1¾	2
	Upside	1.2	1½	1½	1¾	2	2¼
	Downside	1.2	1½	1½	1½	1½	1½

(a) Forecast assumptions (February Statement in parenthesis): TWI at 64 (63), AS at US\$0.77 (US\$0.76), Brent crude oil price at US\$68bbl (US\$56bbl), population growth of 0.2 per cent over 2021 (0.2 per cent) and 0.4 per cent over 2022 (0.4 per cent); cash rate in line with market pricing out to 2022 (and held constant thereafter); and other elements of the Bank's monetary stimulus are in line with the announcement made following the February 2021 Board meeting. Forecasts are rounded to the nearest quarter point. Shading indicates historical data, shown to the first decimal point.

Source: RBA

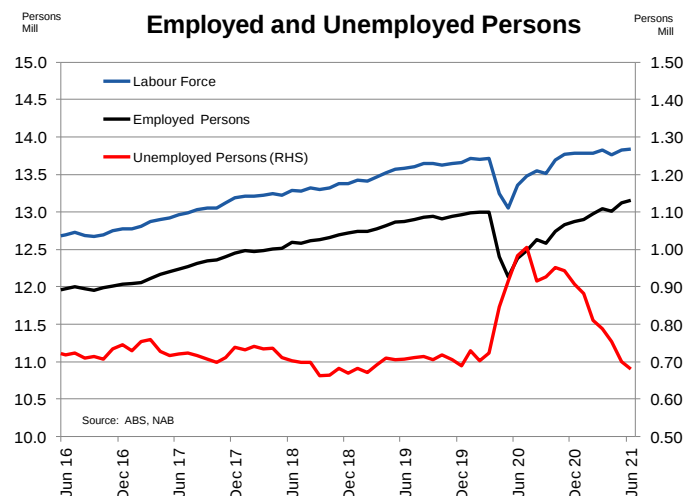
Last Thursday, the **ABS** released a stronger than expected **Labour Force** report for June. At a high level, the data confirmed the labour market was continuing to improve at a solid clip on a national level (notwithstanding there being an 8% decline in hours worked in Victoria due to its 27 May to 10 June lockdown), but unfortunately it predates the current Sydney, Victorian and now South Australian lockdowns and as a result, has been largely dismissed by the financial markets.

Following May's month-on-month (MoM) rise of 115.2k persons, total jobs were up 29.1k with full-time jobs up 51.6k (+97.5k in May) and part-time jobs down -22.5k persons (+17.7k in May).

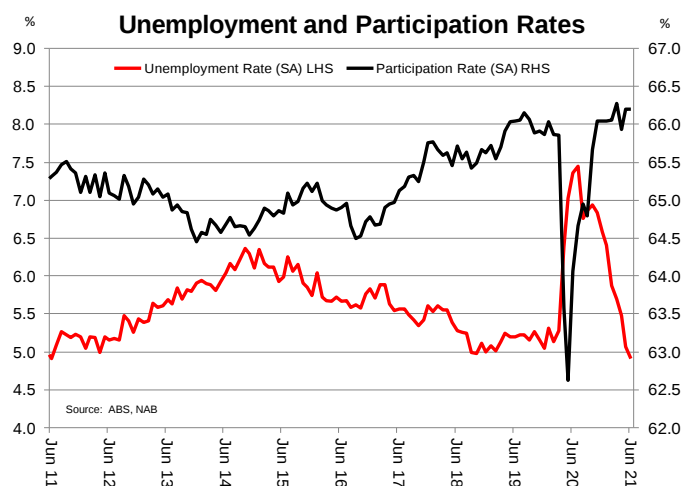


Employed persons were up 777.9k persons or 6.6% year-on-year (YoY) at 13.2m and were 159.4k persons / 1.2% above the pre-COVID-19 level of 13.0m persons as at March last year. Full-time jobs were up 487.2k / 5.7% YoY at 9.0m persons and were up 151.7k / 1.7% from March last year. Part-time jobs were up 290.7 / 7.6% YoY at 4.1m persons and were up 7.8k / 0.2% from March last year.

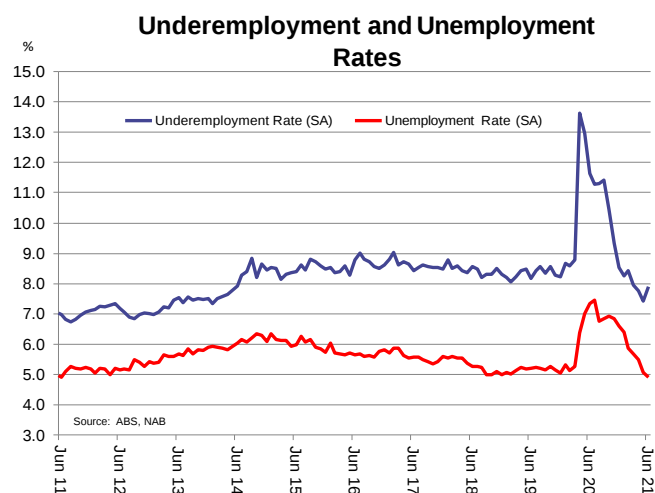
Unemployed persons were down -303.7k persons or down -31% YoY at 679.1k and were down -44.4k / -6.1% from 723.5k as at March last year.



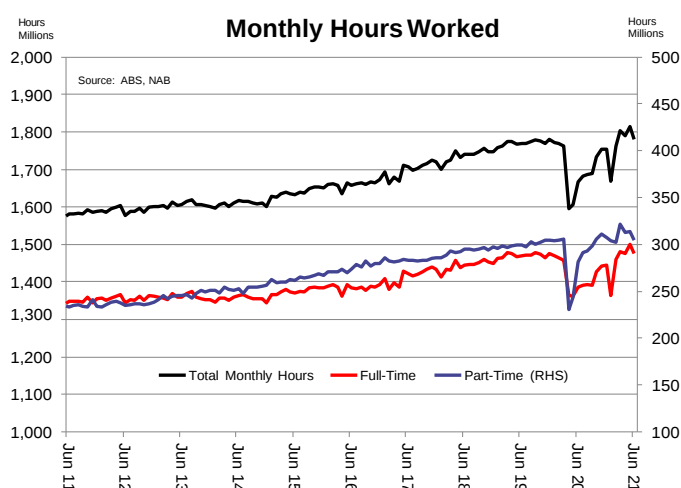
The participation rate was steady in June at a near all-time high of 66.2%, whilst the unemployment rate fell from a pre-COVID-19 comparable rate of 5.1% to 4.9% - a rate which to date has outpaced nearly all expectations and is now at the lowest level in over a decade. With respect to this, the ABS reported "The declining unemployment rate continues to coincide with employers reporting high levels of job vacancies and difficulties in finding suitable people for them", which no doubt is partially due to the lack of supply from the closed international border.



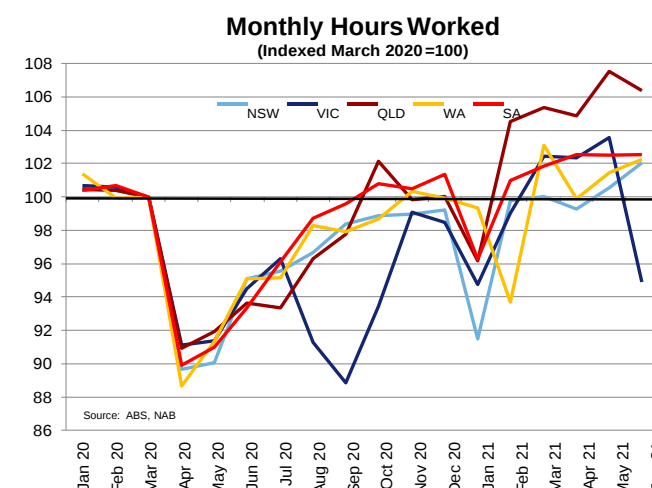
The underemployment rate on the other hand rose 0.5% MoM from 7.4% to 7.9%. It was the largest MoM rise since the COVID-19 driven spike in April last year and before that, June 2016 and October 2000. The driver behind this large increase was due to Victorian full-time workers temporarily working reduced hours⁶ and depending to what extent the current Sydney, Victorian and South Australian lockdowns remain in place, it certainly looks like the underemployment rate will rise from here.



Total monthly hours worked (seasonally-adjusted) were down – 1.8% MoM with full-time hours down -1.6% and part-time hours down -3.0%.



The decline in monthly hours worked was due to the Victorian lockdown which resulted in total hours worked in the state falling by -8.4% MoM, whereas elsewhere, hours worked rose by 0.5%, with a -1.1% fall in QLD more than by a 1.5% rise in NSW. Notably, monthly hours worked in VIC in June fell back below the pre-COVID April 2020 levels and we would expect the same will happen in NSW when the next Labour Force report for July is released on the 19th of August.



NAB economists have said the unemployment rate at 4.9% is continuing to outpace the RBA (as well as its own) expectations, but the re-emergence of virus outbreaks and associated lockdowns, "is likely to stymie continued further improvement in the labour market in the near term. What we do know from prior lockdowns is that most adjustment is through reduced hours worked rather than employment, with employees on the whole maintaining their connection to their employer given government assistance. As long as these connections are maintained, activity should rebound sharply once lockdown restrictions are eased."

For now (and hopefully for only a relatively short time), a renewed focus on the level of hours worked will likely take on increased importance when assessing the state of the labour market.

⁶ Noting that full-time workers working fewer than 35 hours are still recorded as full time.