ASF – AFMA

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AFMA

Presenter

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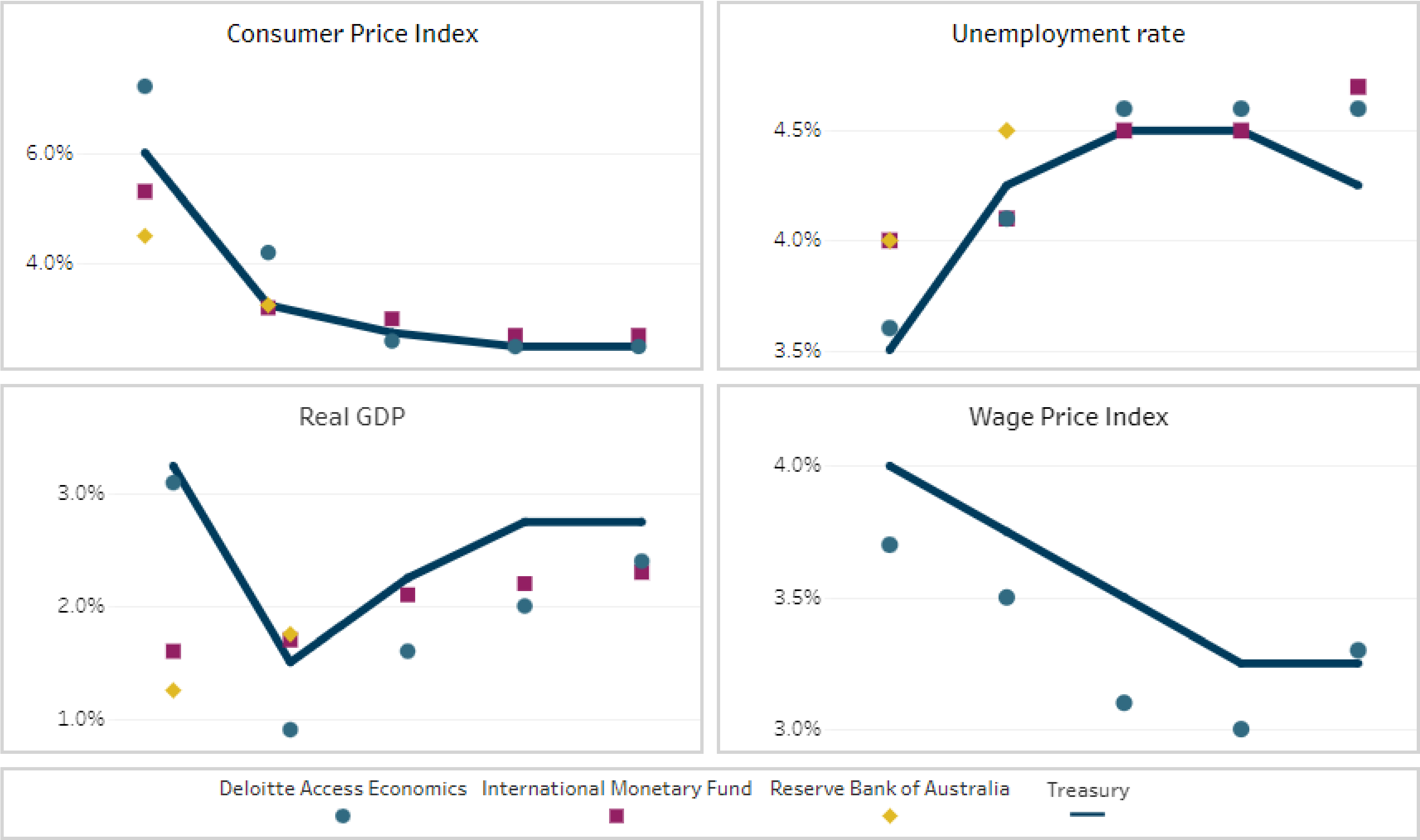
Australian Market Outlook

- **Inflation is still too high because demand is still too strong**.
  - Growth is recovering slowly in many advanced economies, but progress in lowering inflation has been mixed.
  - In Australia, there is still more demand for goods and services than the economy can sustainably supply, causing inflation to be persistent. Conditions in the labour market are easing but still tight, and wages growth remains high even though productivity growth is weak.
  - Economic growth is expected to pick up next year - The outlook for growth is driven by strong public demand as well as a pick-up in household spending as real incomes rise. These factors are expected to be partly offset by stronger growth in imports, and weaker growth in housing construction.

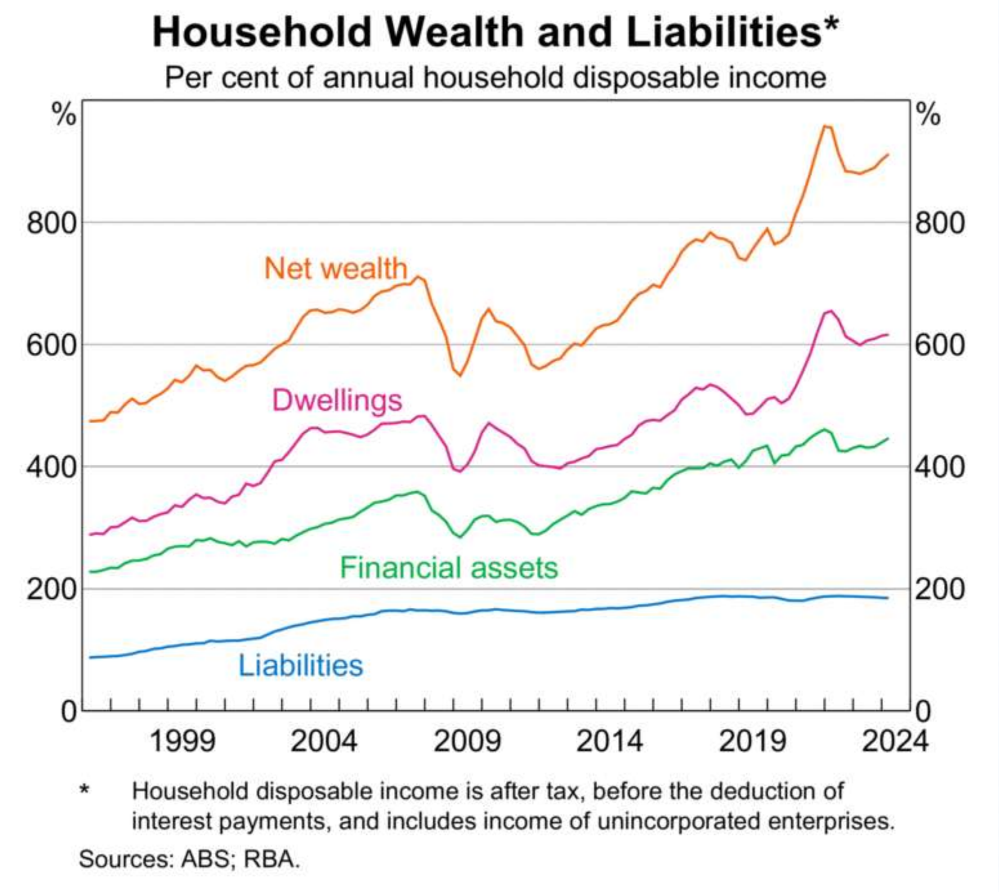
Key Indicators



Australian Economic Outlook

- **The labour market is expected to continue easing gradually but to remain tight**.
  - The participation rate remains strong and average hours worked have proven resilient. Job vacancies have come down, but they are still higher than before the pandemic. The unemployment rate is expected to keep slowly rising until early 2025 but the expected recovery in GDP growth should continue to support demand for labour.
- **Inflation is expected to take longer to return to target.**
  - Demand in the economy is likely to be high for some time due to underlying inflationary pressures. Headline inflation is expected to come down temporarily due to cost-of-living support, before rising again when that support ends. Headline and underlying inflation are expected to track towards the midpoint of the target in 2026.

Financial Markets



- The net wealth position of Australian households is remains high since asset growth has outpaced the increased debt levels.
- Australian households have their main assets are in real estate and financial assets, particularly superannuation.
- The Australian residential property market is valued at over $10.97 trillion, with only around $2.3 trillion worth of debt against this large asset base.

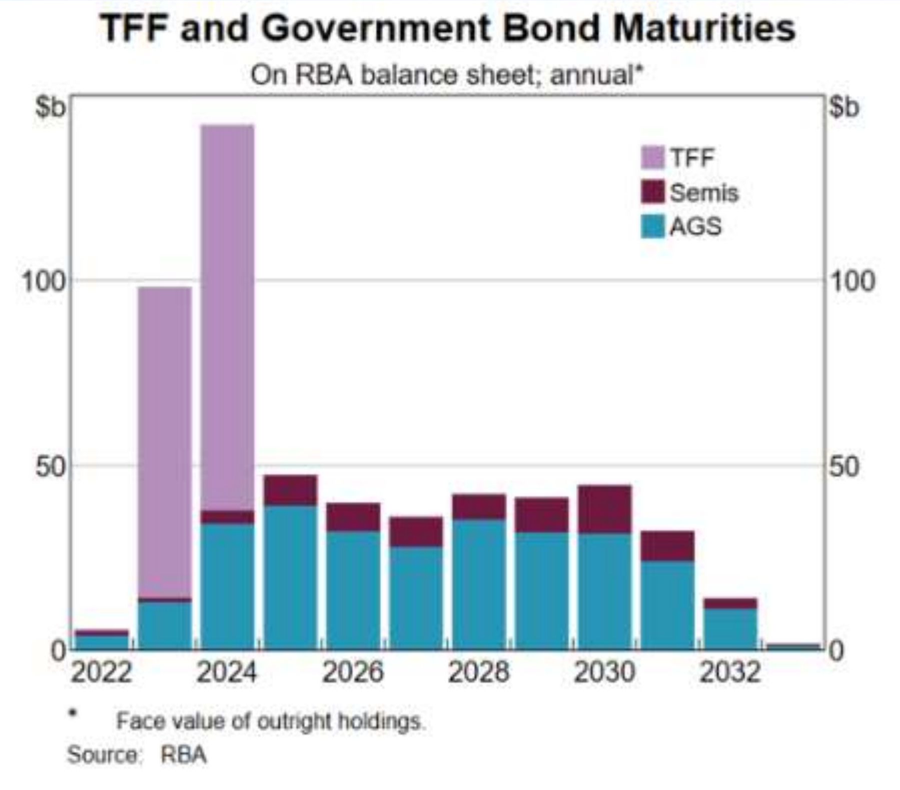
Systemic Resilience & Risks

- Banks are well prepared to handle the increase in loan losses expected to occur as the economy slows in response to past interest rate rises and budget pressures. The Australian banking system could manage an unexpectedly large deterioration in economic conditions as overall capital levels are high and lending standards have been prudent in recent years. Banks are also resilient to temporary funding market disruptions by holding ample reserves of liquid assets and deriving much of their funding from stable sources.

- Financial institutions’ operational resilience is critical to the overall resilience of the Australian financial system and remains a regulatory priority.

- The adoption of new technologies has brought many benefits but also brings risk. These risks are magnified in an environment of escalating cyber threats, geopolitical tensions and increasing use of third-party providers. Good governance and risk management by financial institutions is critical to maintaining operational resilience in this environment.

Bank funding after QE

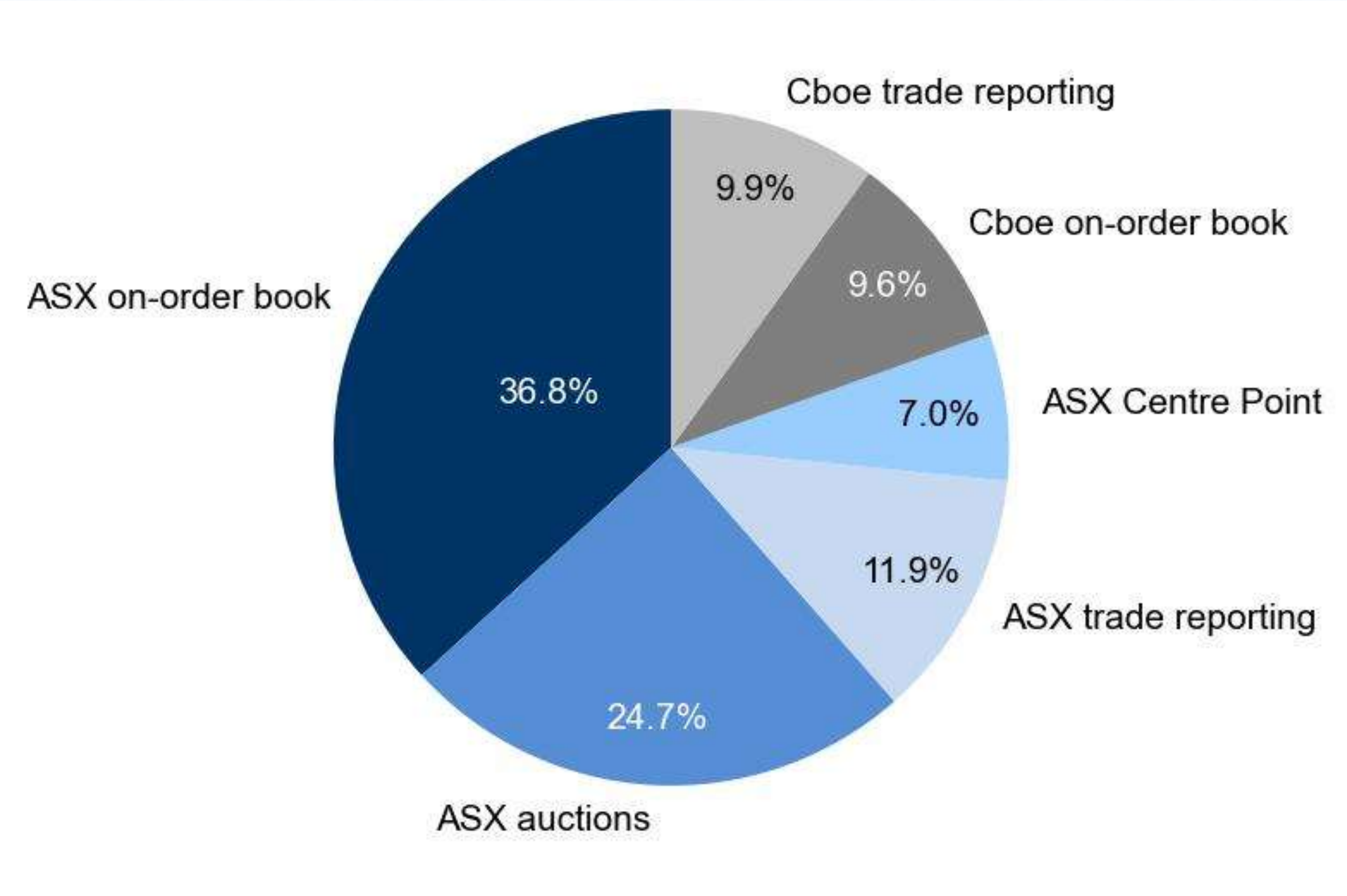


- The Term Funding Facility (TFF) [QE] ended smoothly, though short-term funding rates have tightened modestly since around the end of the financial year (June 2024).
- Despite this sharp reduction, banks' short-term funding markets and money markets have functioned well.
- Nevertheless, Australian dollar short-term funding rates increased a little, including the cash rate trading closer to the target and remained elevated in August.

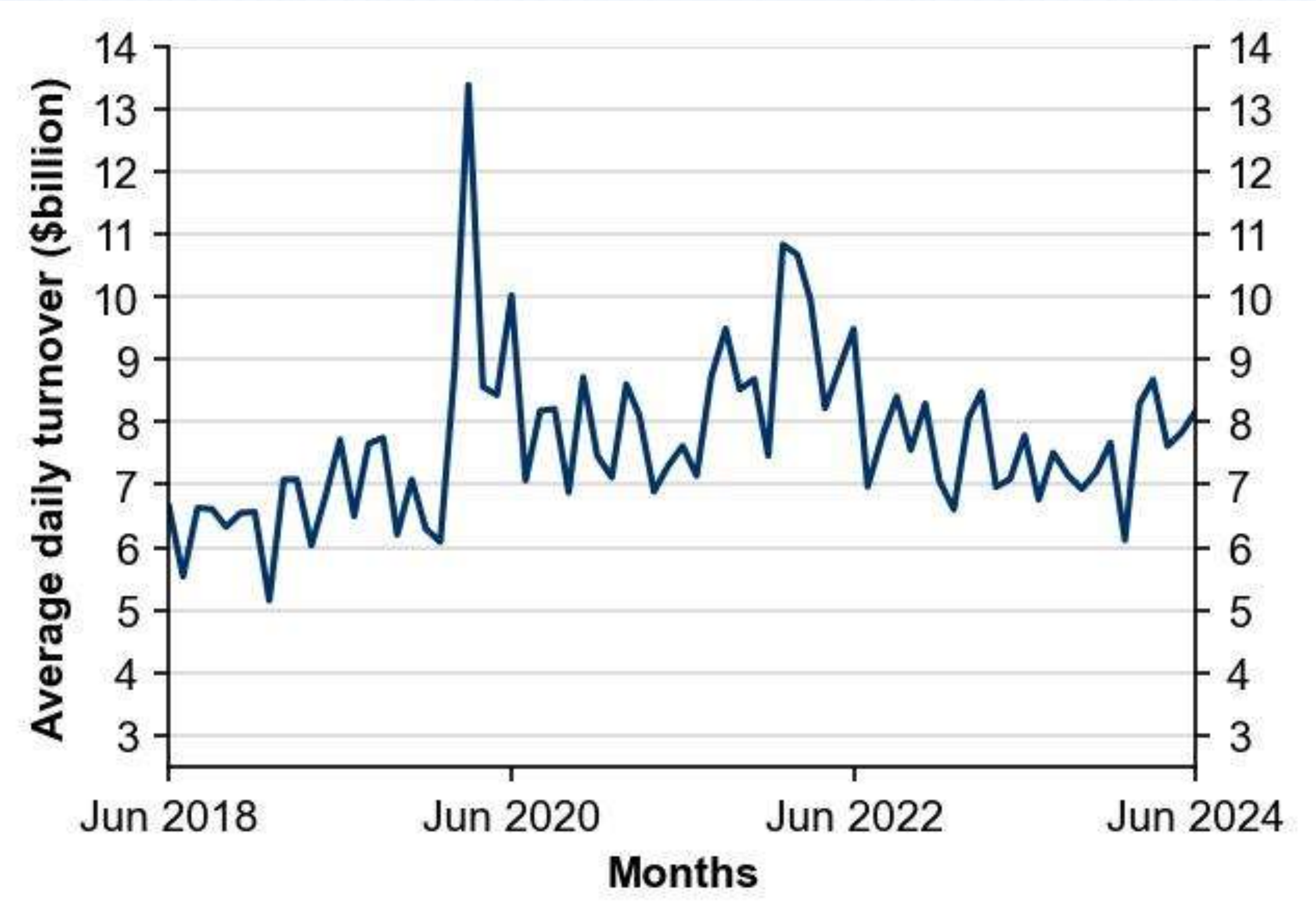
Australian credit markets

- Volumes in the private repo market and at the RBA's market operations have also picked up. Market participants have noted increases in the cost of short-dated repo funding and in the cost of borrowing Australian dollars in the FX swap market.
- The increases have been exacerbated by technical factors in these markets.
  - For example, collateral and balance sheet limits are binding on some repo market participants, and in FX swap markets the liquidation of some major currency positions, including the Australian dollar against the Japanese yen, has also added to increases in short-dated Australian dollar borrowing costs. These increases are comparable with periods following previous financial year-ends, but market participants remain unsure of their likely persistence, resulting in an ongoing tighter level of short-term funding conditions.

Exchange market share – June quarter 2024



Exchange average daily turnover



Average trade size by execution venue