

# Research Markets Outlook

18 May 2026

## The RBNZ will get it wrong!

- **As will we all, as confusion reigns**
- **The cash rate will rise**
- **To neutral and above**
- **But not until there is greater clarity**
- **Don't forget the Budget**

The only question the Reserve Bank of New Zealand needs to answer when it meets to prepare its May 27 Monetary Policy Statement is: will the current inflation shock take on an air of permanence? And this is a very big problem as there is almost no way to answer this unless you can also answer:

- when will the war end?
- when will oil production meet demand irrespective of whether the war does end?
- what will be the third, fourth, fifth and ensuing rounds of price increases emanating from this shock?

Normally, a central bank decision is based on understanding the shifts in economic conditions from previous statements and then objectively deciding how the interest rate track should evolve based on those changes both in terms of having better knowledge of the economy's starting point and more information to ponder the likely future economic path. On this occasion, however, learning more about the starting point is not very helpful and the future path for economic outcomes can be described as a forever widening fan chart. All of which says that decision making this round will become far more subjective.

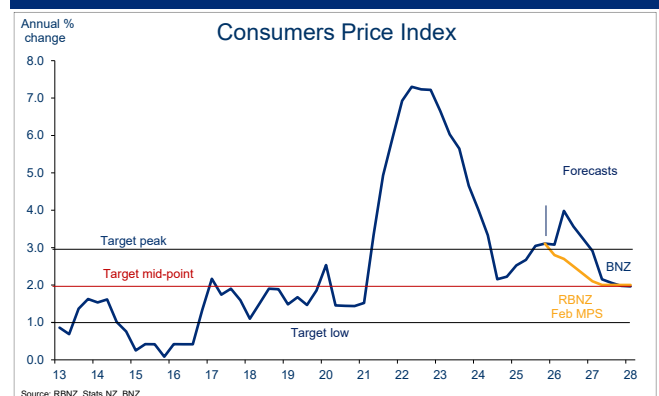
So now we have six decision makers, all of whom will be relatively perplexed about the future of the world, as are all the rest of us, charged with coming up with a consensus view. Amongst our own team we have massive variance in views about likely outcomes, and it would be fair to say that individually it is possible to see why every one of those outcomes could evolve under the right set of circumstances. About the only thing we can conclude with certainty is that the RBNZ will be accused of tightening too quickly or too much and then be blamed for clobbering the economy, or it will be charged with tightening too late and be at fault for any resulting inflation. Who'd want to be a Monetary Policy committee member?

And don't forget that whatever the RBNZ does now will have its greatest impact 12 to 18 months hence so, given the uncertainty that pervades about the likely state of the economy that far out, the chances of getting it wrong are multiplied.

If we start with the key numbers what we do know is:

- Growth, at least in the short term, is likely to be lower than the RBNZ anticipated. The Q4, 2025 GDP print of 0.2% was below the Bank's 0.5% estimate. Q1 looks like it will be there or thereabouts but it is almost certain Q2 and Q3 of this year will be well below the Bank's February MPS forecasts. Q2 may even have a negative sign in front of it.
- June quarter inflation will be miles above the RBNZ's 0.4% pick almost exclusively because of the increase in petrol and diesel prices.
- The March quarter unemployment rate was as expected at 5.3% but employment growth lower at 0.2% compared to an anticipated 0.4%, and we think the labour market will soften from here as opposed to the strengthening assumed by the Bank.
- The NZD TWI currently sits at 66.4 compared to a Bank assumed 68.0 implying extra inflationary pressure.

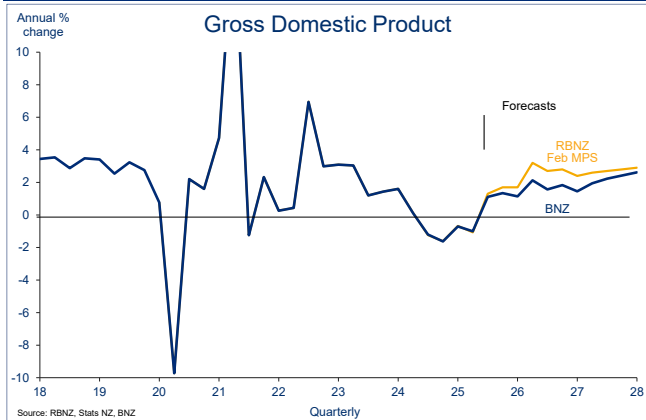
### RBNZ to hike inflation forecasts



Based on these numbers alone you would expect a more aggressive central bank. Despite a weakening real economy path the inflation threat is more elevated than when the February MPS was put together. Moreover, it may well be that weaker activity is being driven at least in part by supply constraints so the output gap may not have

grown anywhere near as much as weaker demand conditions suggest.

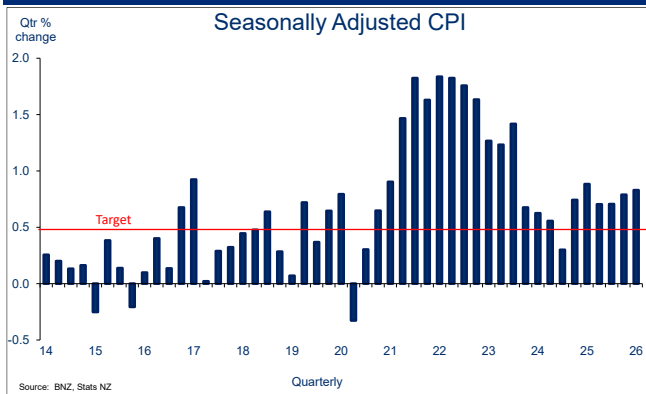
**RBNZ to lower growth forecasts**



It is also worth noting that if the cause of weakening growth is inflation itself, via the erosion of real spending power, then getting rid of that inflation should be prioritised over concerns about growth.

Furthermore, we shouldn't forget that inflation was already elevated before this shock. Most forecasters were picking annual inflation to March 2026 of around 3.0% anyway. We've also had six consecutive quarters where seasonally adjusted inflation was above the mid point of the Bank's target band. And, incidentally, it has been well above target on average over the last five and ten year periods.

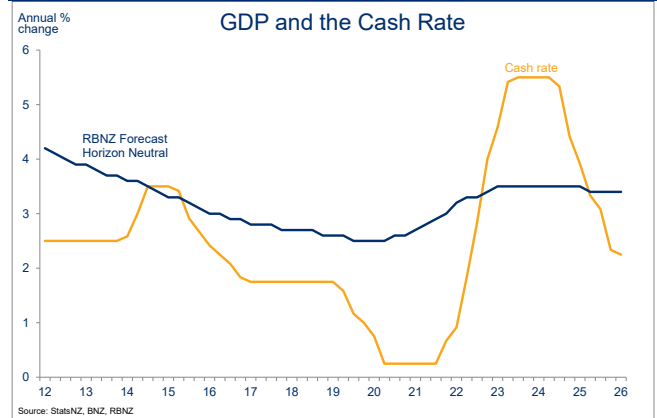
**Inflation too high for starters**



One way or another the Reserve Bank is eventually going to need to pull the trigger and raise rates. You can't keep running stimulatory policy when inflation is problematic no matter the cause and at 2.25% the cash rate is almost definitely well shy of neutral.

The question then is not if the Bank raises rates but when. And this is when we circle back to the subjectivity of the decision makers.

**Too stimulatory?**

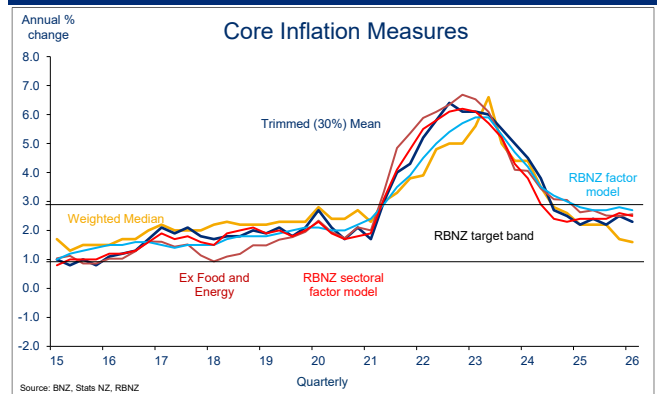


We have been given a few hints from the Governor as to what she is focussed on at the moment. She is clearly focussed on inflation expectations, wage growth and core inflation as measures of current and expected inflation.

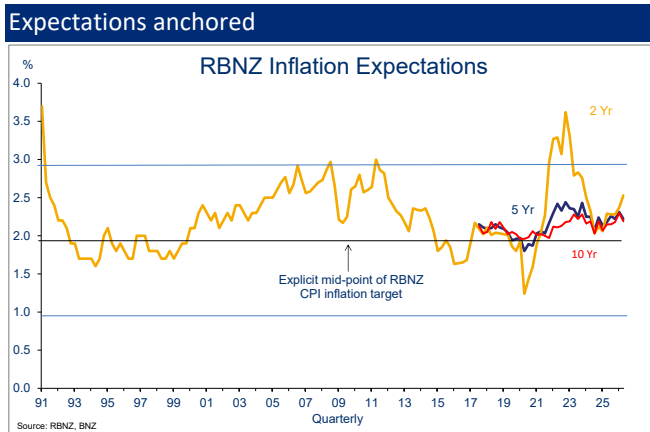
The annual increase in the private sector LCI was just 2.0% which is consistent with the RBNZ meeting its inflation target. To be frank, it has seemed a little odd to us that wage inflation has been front of mind for the Bank. It is a long-lagged indicator so by the time wage growth accelerates you are probably too late with your interest rate response.

Measures of core inflation showed a drop in annual inflation in the March quarter. The key sectoral factor and CPI ex food and energy inflation readings were still well above the mid-point of the band, nonetheless, and we reckon they could soon start rising but, for now, they appear quite acceptable to the Bank.

**Core contained?**



As for inflation expectations, the short-term ones, at least, are clearly on the up. But this will not be a surprise to the MPC. On the other hand, the RBNZ's five year and ten year series fell at the last survey. Bank officials continue to repeat the mantra that inflation expectations are well anchored so there appears to be no major concern here either.



In a recent speech by MPC member Prasanna Gai, he suggested that there was no need for a pre-emptive move by the RBNZ until it became clearer that inflation was becoming more widespread across its components. There is no evidence of this yet. When the March quarter CPI was released 53.8% of the components rose in price. On average the quarterly increase is 53.7%.

To cap things off, we shouldn't forget there is an odds-on chance the Reserve Bank will be able to forecast inflation returning to the mid-point of the target band relatively quickly simply on the basis that petrol and diesel pump prices fall. Already petrol pump prices are down around 7.5% from their peak and diesel 20%. If the Reserve Bank uses the futures strip to forecast oil prices then further substantial declines will be built into their CPI forecasts.

Putting all this together, we think the RBNZ will want to buy itself more time before raising rates so we do not think it will do so in May. In the last MPS the published interest rate track intimated that the first rate hike would most likely be at the December meeting. Given the build up of inflation pressure in the interim we think that the published track will show a slightly earlier increase with potentially a higher end point. We also think that the Bank will repeat its April Review comment that "The Committee is vigilant to any generalised inflationary pressure and stands ready to act to return inflation to its medium-term target." The key phrase in this sentence being "generalised inflationary pressure".

There are some who believe the central bank needs to back down completely on the rate increase rhetoric on the basis that companies cannot pass on price increases and growth will stall if they do. We remind folk that the RBNZ does not have a growth objective, stable low inflation is the aim. And going forward we fear there will be two types of companies those who pass on at least some of the price increases they face and those that go broke. In other words, inflation will remain problematic even as the economy softens.

Under normal circumstances, the Budget coming out the day after an MPS would be problematic. In this instance we think the machinations of government will pale into

insignificance compared to everything else that is going on. Anyway, if the government maintains its attempt to get the budget balance to surplus in 2028/29, as it has said it will, the prospective operating balances should not concern the Bank. At the margin, however the recently announced \$2.2 billion increase in the government's capital allowance may suggest slightly more fiscal stimulus than previously anticipated.

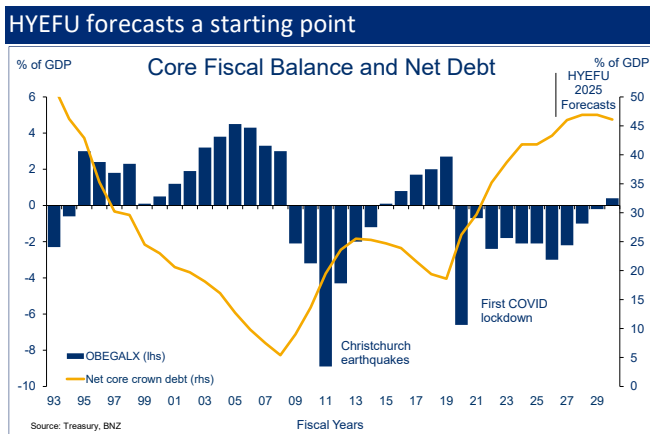
Given the repeated commitment to budget balance, it is highly likely the OBEGALx track is similar to that presented at the Half Year Fiscal Update.

We shy away from trying to be too cute on forecasting the funding requirements and bond programme as there are just too many unknowns including: the exact level of investment activity; the exact timing of spending generally; the amount of over/under funding from the previous year; new policy announcements; the impact of changes in economic forecasts on the government's books; decisions on smoothing the funding; and decisions on how much to fund outside the bond programme. Cumulatively this can add up to many of billions of dollars across the forecast horizon.

There are however some things we do know:

- The capital spending allowance has been raised by \$2.2 billion.
- A softer economy means higher benefit costs and lower tax revenues.
- Higher interest rates will push up government funding costs.
- The core Crown residual cash deficit for the nine months ending March 2026 was \$2.7 billion less than forecast. If this remains intact through to the end of the year then it will, effectively, represent overfunding that can be utilised to fund the upcoming year's needs.
- The operating allowance has been reduced by \$0.3 billion.
- The starting point for the operating deficit is lower and if it sets the base for the June 2027 year could reduce funding needs by \$1.0 billion or more.
- The Chorus debt sale could also reduce funding requirements.

You can't help but think all this will roughly balance out leaving the bond programme little changed though we can't help but think there is upside risk. What we do know, though, is that Budgets rarely have enduring impacts on bond pricing unless the content of the Budget meaningfully changes investor views on inflation or growth. We do not expect this to be the case this time around.



There are several releases in the upcoming week to ponder but we suspect it will only be the Performance of Services Index (PSI) that has any real bearing on the Bank’s thinking.

Friday’s Performance of Manufacturing Index revealed the first real signs of capitulation in the manufacturing sector. Manufacturing has been outperforming services for some time and, as evidenced by today’s PSI outturn, continues to do so. Nonetheless the manufacturing index is now in clear decline. So much so that it looks to have played a big part in lowering the RBNZ’s GDP Now calculation for the June quarter to just 0.1% from 0.4%.

The PSI at 48.9 is further confirmation that the economy did indeed stall in Q2. Moreover, the 29th consecutive month of the employment indicator being sub 50 is a nasty harbinger of a rising unemployment rate. It also helps explain why the proportion of unemployed people who are long-term jobless is rising quickly. Ironically, though, because both the employment and headline readings were higher than last month the PSI data will result in an upward revision to the RBNZ’s GDP Now estimates.

Retail trade for Q1 is released on Friday. We are forecasting ex-auto sales rose 0.8% in real terms while total sales surged 1.2% based on high petrol volumes and strong car sales. Our 4.9% forecast annual increase in spending is a reflection of just how much the economy was bouncing pre the oil price shock. Alas, it will be the peak in growth with a sharp moderation anticipated through Q2 and Q3 as price replaces volume.

We get April electronic cards transaction data on Tuesday. Our card spending data suggest April spending could be below that of March. But these data are highly volatile and it’s not at all clear how the combination of school holidays, Easter and Anzac Day will influence the numbers not to mention, of course, fuel spending.

Thursday sees April merchandise trade data. It might be a bit early for oil price increases to show up but they inevitably will. This will contribute to a significant deterioration in our trade balance and, in turn, current account position. Even with minimal oil price movement in the month of April we see the annual trade deficit climbing from a number close to \$3.0 billion in March to one closer to \$4.0 billion.

Dairy prices clearly play a major role in determining our trade balance too. On Wednesday we expect prices to nudge higher at the GDT auction. This will be the last auction prior to Fonterra announcing its milk price forecast for the 2026/27 season, which could happen any day now. We expect it will come up with a number similar to the 2025/26 \$9.70 estimate with, of course, significant error bounds.

Rounding out the week will be Q1 business price indices. The detail may be interesting but the headline will not be watched by markets.

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## Global Watch

- **Flash PMIs due for major regions**
- **G-7 finance minister talk trade, fx in Paris**
- **China's April activity seen showing small improvement**
- **FOMC minutes and some Fed speakers to monitor**
- **Australia unemployment rate seen remaining at 4.3%**

Flash PMIs for May land across major regions on Thursday. G-7 finance ministers meet in Paris (Monday-Tuesday), with trade and FX policy on the agenda.

In Asia, China's April retail sales, industrial production and fixed asset investment (all today) headline and are expected to see a small improvement in year-ended growth for both retail sales and IP. LPR rates (Wednesday) are seen unchanged. Japan's Q1 GDP (Tuesday) and April CPI (Friday) bookend the data week, with trade and machine orders (Thursday) also due. BoJ's Koeda speaks Thursday.

It is quiet on the US Calendar. FOMC minutes (Wednesday) are the centrepiece, with housing starts (Thursday), the Philly Fed and final May UMich sentiment (Friday) also due. The Fed's Waller speaks Tuesday and Friday, with Fed Vice Chair Barr on Wednesday. Nvidia and Walmart report. In Canada, April CPI (Tuesday) is due.

In Australia, the April labour force data (Thursday) is the key release. NAB expect employment to rise 15k and the unemployment rate to remain unchanged at 4.3%. RBA Assistant Governor Hunter speaks Tuesday morning at the Bloomberg's Investment Managers Forum, ahead of the release of the May minutes. Also on Tuesday is the Westpac-MI consumer sentiment survey, with MI inflation expectations due Thursday to round out the week.

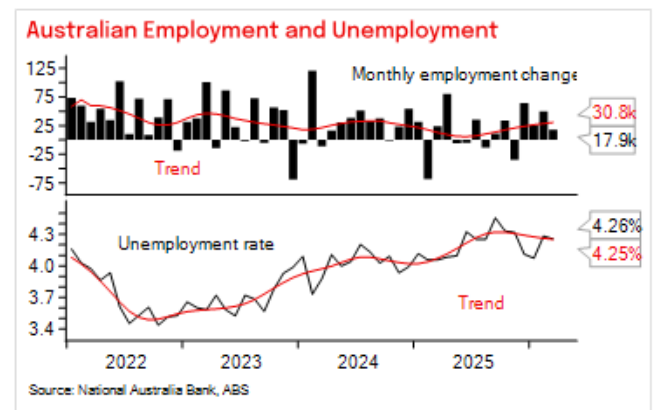
In Europe, UK labour market data (Tuesday) will be watched to see if the decline in regular earnings continues. After dropping unexpectedly to 4.9% in March, unemployment will start to climb back above 5%. Headline CPI for April (Wednesday) should drop back to 2.9% or 3% from 3.3% on measures announced in the last Budget. There will be some offset from higher energy prices, but those likely won't push CPI back towards 3.5% for a few months. The EZ releases final April CPI (Wednesday) and Q1 negotiated wages on Friday.

### Key Event Previews

#### Thursday

#### AU Employment (April)

NAB expects the unemployment rate to remain steady at 4.3% in April and employment to increase by 15k, which is below trend of ~30k. This reflects some softening in labour demand indicated by recent decline in some measures of job ads. The unemployment rate was 4.26% in March, leaving the risk skewed to a 4.2% outcome if the participation rate declines. The RBA's May SoMP forecast near-term resilience in the labour market, anticipating the unemployment rate will average 4.2% in Q2.



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# Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Global rates markets remained under pressure last week. US Treasuries reached fresh cycle highs across the curve as markets priced a greater chance of tightening by the Federal Reserve this year. Money markets now imply around 15bp of tightening by December, up from close to flat a week earlier. The US Senate confirmed Kevin Warsh as the new Federal Reserve Chair, and he takes over a central bank divided on how to respond to the inflationary fallout from the war in Iran. Ten-year Treasury yields pushed above 4.50%, to the highest level since last May.

In NZ, 2-year swap rates traded to a fresh cycle high above 3.70% before retracing as a run of data reduced upward pressure. Although two-year-ahead inflation expectations lifted to 2.53% from 2.37% in the latest RBNZ Survey of Expectations, the market reaction suggested some concern about a larger increase. By contrast, five- and 10-year-ahead expectations dipped marginally to 2.22% and 2.19%, respectively. Soft PMIs and details in the April inflation partials, which contributed to a downward revision in our headline CPI forecast to 4.0% y/y for Q2, also supported the pullback.

Before this retracement, the RBNZ May meeting OIS implied around a 50% chance of a 25bp hike, though this has since fallen to about 25%. There is now limited domestic data left to materially shift the outlook ahead of the Monetary Policy Statement. We continue to think the RBNZ will want greater visibility on any de-escalation in the Middle East before beginning its hiking cycle. Market pricing fully discounts a July hike. From a strategy perspective, we continue to see risks around the peak OCR as skewed to the downside relative to market pricing near 4.0%. If global rates markets continue to sell off, we think the curve is likely to steepen given the magnitude of RBNZ tightening already priced.

## 10-year swap spreads towards the top end of the range

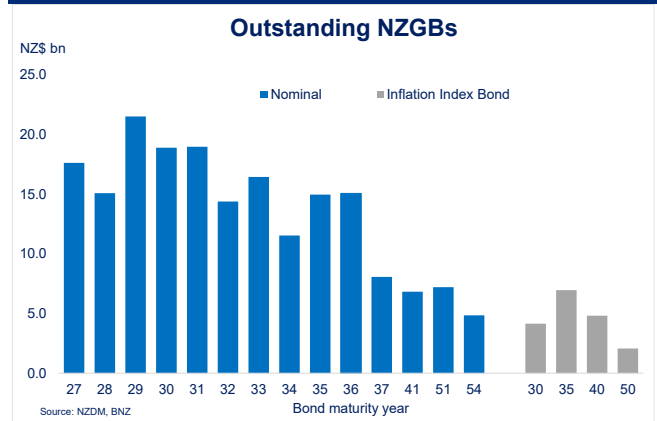


Government bonds have marginally outperformed swaps, with swap spreads widening towards the top of their well-established -40 to -30bp range. We expect that range to hold as the market looks ahead to the borrowing

programme update alongside the 28 May Budget. While the starting point appears favourable - the Crown Financial Statements for the nine months to March were stronger than the Half Year baseline - we expect funding needs to rise given the weaker macro backdrop stemming from the conflict in the Middle East.

In December, gross NZGB issuance for FY27 was projected at NZ\$34 billion. Assuming weekly nominal tenders are maintained at NZ\$450 million, this would raise close to NZ\$20 billion over the 2026/27 fiscal year. The remaining funding requirement would therefore likely be met through nominal syndicated transactions though there would also be room to increase short term borrowing. Inflation-indexed bond issuance is likely to be limited to sporadic small parcels in tenders following last year's syndication of the Sep-2050 line.

## NZDM government bond portfolio



We expect NZ Debt Management (NZDM) to favour a front-loaded issuance approach, with up to two nominal syndicated transactions in the first half of the fiscal year, most plausibly in July and September. Later issuance windows are constrained by the Pre-Election Economic and Fiscal Update period and the General Election in November, while December has not historically been used for syndications. Potential tap candidates include the May-2032 and Apr-2037 lines, both of which have relatively low outstandings and recent issuance patterns have favoured the 5- to 10-year curve segment.

The 2034 green bond is a possible candidate for a smaller tap, although capacity constraints linked to eligible green expenditure may limit the size and could influence the timing of any transaction. We do not expect NZDM to signal the introduction of a new long-end nominal line, with any such announcement likely deferred to future updates. The bond market has become accustomed to gross issuance around the NZ\$35 to NZ\$40 billion range in recent years and a modest upward revision to FY27 is unlikely to have a material impact on swap spreads.

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# Foreign Exchange Market

Reuters pg BNZFWDS Bloomberg pg BNZ

Last week, the USD was broadly stronger against a backdrop of no sign of any imminent US-Iran peace deal, global inflation fears reigniting and stronger-than-expected US inflation and spending data. NZD/USD fell more than 2% to 0.5840. GBP underperformed in the face of a rising political risk premium, pushing NZD/GBP up to a two-month high. However, the NZD underperformed other key majors, including NZD/AUD falling to a fresh 13-year low.

Last week began with Trump saying that Iran’s latest peace proposal was “TOTALLY UNACCEPTABLE” and “a piece of garbage”. That set the tone for the week, with higher oil prices, reduced hope of any imminent peace deal or a reopening of the Strait of Hormuz, and a broadly stronger USD. The Xi-Trump summit had no impact on the market, with China giving no indication that it would be taking an active or urgent role in helping the US reopen the Strait of Hormuz. The new week begins with reports of drone strikes against Saudi Arabia and UAE and chatter about Trump considering his next military options.

The USD was also supported by stronger-than-expected CPI and PPI inflation data. Furthermore, retail sales data were stronger than expected, consistent with resilient consumer spending, and the Atlanta Fed’s GDP nowcast estimate rose to an annualised 4% for Q2. Fed speakers are increasingly focusing on higher inflation risks, with rate hikes increasingly being discussed as a live possibility.

Meanwhile, the balance of NZ data released provided no smoking gun for the RBNZ to be spooked into an early rate hike. While 1-year and 2-year-ahead inflation expectations rose, the Bank would have taken some comfort from the 5-year and 10-year measures falling slightly. Monthly CPI data for April were weaker than expected. The manufacturing PMI fell for a fourth consecutive month to a seven-month low of 50.5.

US Treasury yields across most of the curve rose to their highest level in a year, while the market now prices in a better-than-even chance of a Fed rate hike by the end of the year. Rates were much higher across the world on rising inflation fears. However, NZ rates didn’t rise as much as in other countries, acting as a headwind for NZD performance.

We have no reason to change our view that the NZD will continue to consolidate around the 0.59 mark over the next 4-6 weeks, consistent with our end-Q2 target. Near-term support looks to be just below 0.58, while resistance is just below 0.60. We reiterate our core assumptions that reopening of the Strait of Hormuz is not delayed for months on end and that the RBNZ embarks on a tightening cycle from the third quarter. Failure of either of these two assumptions would be negative for the NZD and would be

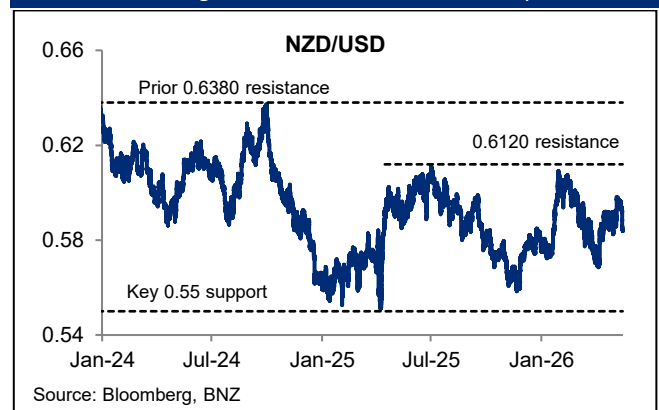
fatal for our stronger NZD projection through the second half.

On NZD crosses, we have repeatedly warned this year about rising UK political risk following the scheduled May local elections. The Labour Party’s showing was as poor as expected, if not a little worse, setting up a challenge to PM Starmer. Any replacement, which still may be several months away, is likely to be left-leaning and less mindful of the UK’s precarious fiscal position, resulting in a sustained weaker GBP. NZD/GBP rose to a two-month high above 0.44, meeting our Q2 target. Our targets for Q3 and Q4 are 0.46 and 0.47 respectively.

While NZD/AUD reached a fresh 13-year low of 0.8165, we still consider the cross rate to be in a bottoming-out phase. We have a constructive view on the cross later in the year, when the RBNZ prepares the ground for a substantial tightening cycle at a time when the RBA’s mini-tightening cycle will be almost over.

In the week ahead, key global economic releases include Australian labour market data, China’s monthly activity data, global PMIs, UK labour market data, Japan GDP and CPI data for Japan, the UK, and Canada. Second-tier NZ and US economic releases do not appear to have much potential to move the market.

## NZD consolidating between 0.58-0.60 over the past month



## Cross Rates and Recent Ranges

	Current	Last wk % chg	Last 3-wks range*
NZD/USD	0.5849	-2.1%	0.5820 - 0.5990
NZD/AUD	0.8185	-0.8%	0.8170 - 0.8260
NZD/CAD	0.8043	-1.6%	0.7960 - 0.8180
NZD/GBP	0.4389	0.1%	0.4320 - 0.4420
NZD/EUR	0.5032	-0.8%	0.4990 - 0.5090
NZD/JPY	92.81	-0.8%	91.30 - 94.30

\*Indicative range over last 3 weeks, rounded

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# Technicals

## NZD/USD

Outlook: Trading range  
 ST Resistance: 0.60 (ahead of 61)  
 ST Support: 0.5790 (ahead of 0.5680)

No change, with the NZD stuck in a range of about 0.58-0.60 over the past five weeks.

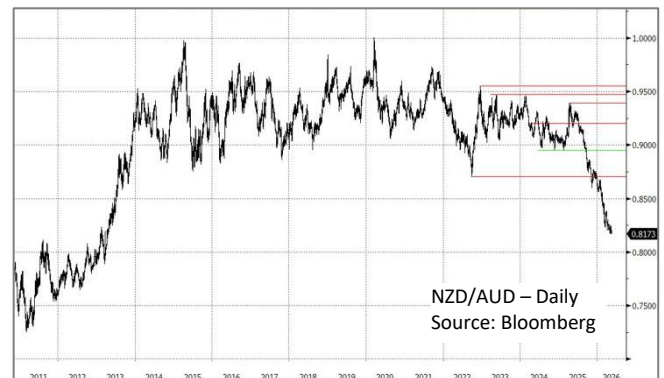


## NZD/AUD

Outlook: Downside risk  
 ST Resistance: 0.87 (ahead of 0.8950)  
 ST Support: none

With the cross rate continuing to drift down to fresh 13-year lows, there is no obvious support level

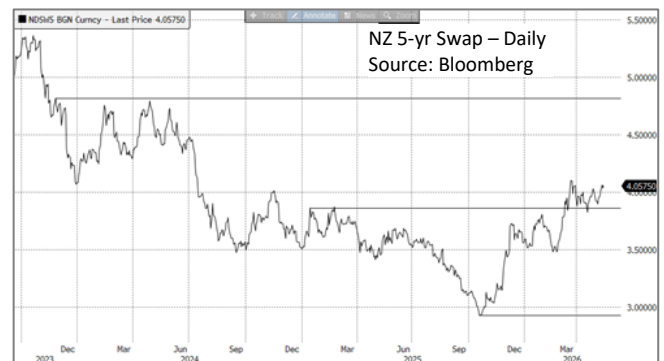
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## NZ 5-year Swap Rate

Outlook: Higher  
 ST Resistance: 4.85  
 ST Support: 3.85

5-year swap retraced the previous week's rally, sitting near the top of the very recent range. Should this prove to provide resistance around 4.10% then we may consider calling it resistance.



## NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: Neutral  
 ST Resistance: 0.67  
 ST Support: 0.26

2x5 swap spread steepened slightly last week in a break from recent curve flattening.

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# Quarterly Forecasts

Forecasts as at 18 May 2026

## Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Jun-25	Sept-25	Dec-25	Mar-26	Jun-26	Sept-26	Dec-26	Mar-27	Jun-27	Sept-27
GDP (production s.a.)	-0.9	0.9	0.2	0.9	0.1	0.3	0.5	0.5	0.6	0.6
Retail trade (real s.a.)	0.8	1.9	0.9	1.2	0.6	0.4	0.5	0.6	0.7	0.8
Current account (ann, % GDP)	-3.7	-3.5	-3.7	-3.7	-3.9	-4.5	-4.8	-4.8	-4.5	-4.2
CPI (q/q)	0.5	1.0	0.6	0.9	1.4	0.6	0.3	0.6	0.7	0.5
Employment	-0.2	-0.1	0.5	0.1	0.2	0.3	0.5	0.5	0.5	0.5
Unemployment rate %	5.2	5.3	5.4	5.3	5.4	5.5	5.6	5.7	5.7	5.7
Pr. avg hourly earnings (ann %)	4.6	4.1	3.5	3.5	2.6	2.6	2.7	3.3	3.2	3.2
Trading partner GDP (ann %)	3.4	3.3	3.3	3.4	3.1	2.9	2.7	2.8	2.8	2.8
CPI (y/y)	2.7	3.0	3.1	3.1	4.0	3.6	3.2	2.9	2.2	2.1
GDP (production s.a., y/y)	-1.0	1.1	1.3	1.1	2.1	1.6	1.8	1.5	1.9	2.2

## Interest Rates

Historical data - qtr average

Forecast data - end quarter

	Cash	Government Stock			Swaps			US Rates		Spread
		90 Day	5 Year	10 Year	2 Year	5 Year	10 Year	SOFR	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Jun	3.33	3.38	3.85	4.55	3.19	3.57	4.10	4.30	4.35	0.19
Sep	3.08	3.09	3.67	4.42	2.99	3.40	3.95	4.20	4.25	0.17
Dec	2.33	2.51	3.54	4.27	2.71	3.26	3.85	3.80	4.10	0.18
2026 Mar	2.25	2.50	3.96	4.52	3.12	3.71	4.15	3.65	4.20	0.33
Forecasts										
Jun	2.25	2.50	3.95	4.75	3.35	3.70	4.35	3.65	4.35	0.40
Sep	2.50	2.75	4.25	4.90	3.70	4.00	4.50	3.65	4.50	0.40
Dec	2.75	3.15	4.35	4.90	3.95	4.15	4.55	3.40	4.50	0.40
2027 Mar	3.25	3.65	4.45	4.90	4.10	4.30	4.60	3.15	4.50	0.40
Jun	3.75	4.05	4.45	4.90	4.15	4.35	4.65	3.15	4.50	0.40
Sep	4.00	4.15	4.35	4.90	4.05	4.30	4.70	3.15	4.50	0.40
Dec	4.00	4.15	4.25	4.90	3.95	4.25	4.75	3.15	4.50	0.40

## Exchange Rates (End Period)

### USD Forecasts

### NZD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.58	0.71	1.16	1.33	159	0.58	0.82	0.50	0.44	92.7	66.4
Forecasts											
Jun-26	0.59	0.71	1.18	1.33	156	0.59	0.83	0.50	0.44	92.0	66.7
Sept-26	0.61	0.72	1.19	1.34	153	0.61	0.85	0.51	0.46	93.3	68.4
Dec-26	0.63	0.73	1.20	1.33	152	0.63	0.86	0.52	0.47	95.4	69.8
Mar-27	0.64	0.74	1.21	1.36	150	0.64	0.87	0.53	0.47	96.2	70.7
Jun-27	0.63	0.73	1.20	1.35	149	0.63	0.87	0.53	0.47	94.2	69.6
Sept-27	0.63	0.72	1.20	1.35	146	0.63	0.88	0.53	0.47	92.0	69.6
Dec-27	0.63	0.72	1.19	1.35	144	0.63	0.88	0.53	0.47	90.7	69.7

### TWI Weights

16.2% 17.8% 9.2% 4.0% 4.7%

Source for all tables: Stats NZ, Bloomberg, Reuters, RBNZ, BNZ

# Annual Forecasts

Forecasts as at 18 May 2026	March Years					December Years				
	Actuals		Forecasts			Actuals			Forecasts	
	2024	2025	2026	2027	2028	2023	2024	2025	2026	2027
<b>GDP - annual average % change</b>										
Private Consumption	1.1	0.0	1.3	1.2	2.4	1.1	-0.2	1.4	0.9	2.1
Government Consumption	1.1	-1.3	3.4	1.3	-0.5	0.1	-0.9	2.4	2.3	-0.4
Total Investment	-1.1	-4.9	-0.4	5.2	3.7	-0.3	-4.9	-1.5	4.2	4.2
Stocks - ppts cont'n to growth	-1.4	0.4	0.4	0.2	-0.1	-1.2	0.4	-0.1	0.6	-0.2
GNE	-0.9	-1.1	1.7	2.3	2.1	-0.7	-1.1	0.8	2.5	2.0
Exports	8.6	3.4	2.6	3.8	3.7	11.5	4.7	2.7	3.9	3.4
Imports	-1.4	1.5	4.9	4.9	2.7	-0.7	1.7	3.4	5.8	2.8
Real Expenditure GDP	1.5	-0.7	0.8	1.8	2.3	2.1	-0.3	0.5	1.7	2.1
<b>GDP (production)</b>	<b>1.8</b>	<b>-0.9</b>	<b>0.6</b>	<b>1.7</b>	<b>2.3</b>	<b>2.2</b>	<b>-0.3</b>	<b>0.2</b>	<b>1.7</b>	<b>2.0</b>
<i>GDP - annual % change (q/q)</i>	1.6	-0.7	1.1	1.5	2.6	1.4	-1.6	1.3	1.8	2.4
Output Gap (ann avg, % dev)	1.3	-0.4	-1.0	-0.7	-0.3	1.4	0.0	-0.9	-0.7	-0.4
Nominal Expenditure GDP - \$bn	417	431	449	474	496	413	427	445	468	491
<b>Prices and Employment -annual % change</b>										
CPI	4.0	2.5	3.1	2.9	2.0	4.7	2.2	3.1	3.2	2.0
Employment	0.9	-0.9	0.4	1.5	2.3	2.6	-1.3	0.2	1.1	2.1
Unemployment Rate %	4.4	5.1	5.3	5.7	5.6	4.0	5.1	5.4	5.6	5.7
Wages - ave. hr. ord. time earnings (private sector)	4.8	3.8	3.5	3.3	3.2	6.6	4.0	3.5	2.7	3.2
Productivity (ann av %)	-0.6	0.1	1.1	0.6	0.3	-0.8	0.1	1.1	0.7	0.2
Unit Labour Costs (ann av %)	6.6	4.4	2.6	2.6	3.0	7.1	4.7	3.0	2.3	3.1
House Prices (stratified, mth)	2.7	-0.7	0.3	-0.5	5.4	0.7	-0.8	-0.3	0.0	4.5
<b>External Balance</b>										
Current Account - \$bn	-23.8	-18.3	-16.6	-22.8	-18.4	-25.8	-20.0	-16.3	-22.4	-19.2
Current Account - % of GDP	-5.7	-4.2	-3.7	-4.8	-3.7	-6.3	-4.7	-3.7	-4.8	-3.9
<b>Government Accounts - June Yr, % of GDP</b>										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.1	-2.1	-3.0	-2.2	-1.0					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	41.8	41.8	43.3	46.0	46.9					
Bond Programme - \$bn (Treasury forecasts)	39.3	42.6	35.0	34.0	34.0					
Bond Programme - % of GDP	9.4	9.9	7.8	7.2	6.9					
<b>Financial Variables <sup>(1)</sup></b>										
NZD/USD	0.61	0.57	0.58	0.64	0.63	0.62	0.57	0.58	0.63	0.63
USD/JPY	150	149	159	150	142	144	154	156	152	144
EUR/USD	1.09	1.08	1.16	1.21	1.18	1.09	1.05	1.17	1.20	1.19
NZD/AUD	0.93	0.91	0.83	0.87	0.88	0.93	0.91	0.87	0.86	0.88
NZD/GBP	0.48	0.44	0.44	0.47	0.46	0.49	0.45	0.43	0.47	0.47
NZD/EUR	0.56	0.53	0.51	0.53	0.53	0.57	0.55	0.49	0.52	0.53
NZD/YEN	91.1	85.4	92.8	96.2	89.5	89.5	88.4	90.3	95.4	90.7
TWI	71.2	67.9	66.8	70.7	69.8	72.0	68.5	66.8	69.8	69.7
Overnight Cash Rate (end qtr)	5.50	3.75	2.25	3.25	4.00	5.50	4.25	2.25	2.75	4.00
90-day Bank Bill Rate	5.64	3.60	2.50	3.65	4.15	5.63	4.26	2.49	3.15	4.15
5-year Govt Bond	4.60	4.00	4.10	4.45	4.15	4.50	3.90	3.90	4.35	4.25
10-year Govt Bond	4.60	4.50	4.65	4.90	4.90	4.65	4.45	4.50	4.90	4.90
2-year Swap	4.91	3.35	3.32	4.10	3.80	4.93	3.53	2.98	3.95	3.95
5-year Swap	4.40	3.65	3.87	4.30	4.15	4.43	3.63	3.61	4.15	4.25
US 10-year Bonds	4.20	4.25	4.25	4.50	4.50	4.00	4.40	4.15	4.50	4.50
NZ-US 10-year Spread	0.40	0.25	0.40	0.40	0.40	0.65	0.05	0.35	0.40	0.40

<sup>(1)</sup> Average for the last month in the quarter

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

## Key Upcoming Events

All times and dates NZT

	Median	Fcast	Last		Median	Fcast	Last
<b>Monday 18 May</b>				JN Trade Balance Apr	-¥44.5b		¥667.0b
CH Used Home Prices MoM Apr			-0.24%	JN Core Machine Orders MoM Mar	-8.60%		13.60%
CH Retail Sales YoY Apr	2.00%		1.70%	AU Employment Change Apr	15.0k	15.0k	17.9k
CH Industrial Production YoY Apr	6.00%		5.70%	AU Unemployment Rate Apr	4.30%	4.30%	4.30%
CH Fixed Assets Ex Rural YTD YoY Apr	1.70%		1.70%	GE S&P Global Germany Services PMI May P	47		46.9
CH Surveyed Jobless Rate Apr	5.30%		5.40%	EC S&P Gbl Eurozone Manufacturing PMI May P	51.8		52.2
UK BOE Rate-Setters Greene, Mann speak				EC S&P Global Eurozone Services PMI May P	47.7		47.6
<b>Tuesday 19 May</b>				UK S&P Global UK Manufacturing PMI May P	53		53.7
US New York Fed Svices Business Activity May			-14	UK S&P Global UK Services PMI May P	51.7		52.7
US NAHB Housing Market Index May	34		34	EC Labour Costs YoY 1Q P			3.30%
NZ PPI Output QoQ 1Q			0.10%	EC ECB's Villeroy speaks			
NZ Card Spending Total MoM Apr			1.30%	UK CBI Trends Total Orders May	-40		-38
AU Treasurer Jim Chalmers speaks				JN BOJ Board Member Koeda speaks			
AU RBA's Hunter speaks				<b>Friday 22 May</b>			
JN GDP SA QoQ 1Q P	0.40%		0.30%	UK BOE Rate-Setter Taylor speaks			
AU RBA Minutes of May Policy Meeting				US Initial Jobless Claims May-16	210k		211k
JN Industrial Production MoM Mar F			-0.50%	US Initial Claims 4-Wk Moving Avg May-16			203.75k
UK Private Earnings ex Bonus 3M/YoY Mar	3.10%		3.20%	US Continuing Claims May-9	1785k		1782k
UK ILO Unemployment Rate 3Mths Mar	4.90%		4.90%	US Philadelphia Fed Business Outlook May	18		26.7
UK BOE Deputy Governor Breeden speaks				US Housing Starts Apr	1410k		1502k
EC Trade Balance SA Mar			7.0b	US S&P Global US Manufacturing PMI May P	53.7		54.5
EC France's Lescure, Bank of France's Villeroy speak				US S&P Global US Services PMI May P	51		51
<b>Wednesday 20 May</b>				EC Consumer Confidence May P	-20.6		-20.6
EC ECB's Lane speaks				EC ECB's Elderson speaks			
US Fed's Waller, Paulson Speaks				US Fed's Barkin speaks			
US ADP Wkly Employment Change May-02			33.000k	NZ Retail Sales Ex Inflation QoQ 1Q	0.50%	1.20%	0.90%
EC ECB's Makhlof speaks				UK GfK Consumer Confidence May	-28		-25
US Pending Home Sales MoM Apr	1.00%		1.50%	GE GDP SA QoQ 1Q F	0.30%		0.30%
UK CPI YoY Apr	3.00%		3.30%	UK Retail Sales Inc Auto Fuel MoM Apr	-0.60%		0.7%
GE PPI YoY Apr	1.50%		-0.20%	EC ECB's Lane speaks			
EC CPI YoY Apr F	3.00%		3.00%	GE IFO Expectations May	83.5		83.3
EC CPI Core YoY Apr F	2.20%		2.20%	EC ECB's Lagarde speaks			
<b>Thursday 21 May</b>				EC Negotiated Wages 1Q	2.60%		2.95%
US Fed's Barr speaks				EC ECB's Vujcic, Kazimir, Muller speak			
US FOMC Meeting Minutes April-04				<b>Saturday 23 May</b>			
EC ECB's Sleijpen speaks				US Fed's Waller speaks			
NZ Trade Balance NZD Apr			698m	US U. of Mich. Sentiment May F	48.3		
UK BOE Rate-Setters Greene, Mann speak				US Kansas City Fed Services Activity May			

## Historical Data

	Today	Week Ago	Month Ago	Year Ago		Today	Week Ago	Month Ago	Year Ago
<b>CASH AND BANK BILLS</b>					<b>SWAP RATES</b>				
Call	2.25	2.25	2.25	3.50	2 years	3.68	3.57	3.36	3.23
1mth	2.47	2.46	2.39	3.44	3 years	3.87	3.75	3.56	3.36
2mth	2.57	2.55	2.47	3.38	4 years	3.99	3.87	3.71	3.50
3mth	2.66	2.64	2.54	3.33	5 years	4.09	3.97	3.83	3.64
6mth	2.85	2.83	2.71	3.24	10 years	4.46	4.32	4.23	4.18
<b>GOVERNMENT STOCK</b>					<b>FORBGN EXCHANGE</b>				
05/28	3.70	3.63	3.43	3.58	NZD/USD	0.5839	0.5965	0.5891	0.5931
05/31	4.27	4.17	4.09	4.19	NZD/AUD	0.8166	0.8228	0.8207	0.9185
04/33	4.49	4.40	4.33	4.48	NZD/JPY	92.73	93.76	93.56	85.91
05/36	4.75	4.67	4.60	4.78	NZD/EUR	0.5024	0.5062	0.4998	0.5276
05/41	5.11	5.03	4.95	5.14	NZD/GBP	0.4385	0.4382	0.4353	0.4439
05/54	5.32	5.23	5.19	5.37	NZD/CAD	0.8029	0.8155	0.8038	0.8274
<b>GLOBAL CREDIT INDICES (ITRXX)</b>					<b>TWI</b>				
Nth America 5Y	54	53	53	55		66.4	67.2	66.6	68.8
Europe 5Y	58	56	57	57					

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