19 March 2018

RBNZ to Stick Loosely to Its Script

- **RBNZ expected steady with its OCR and text**
- **Although mindful of near-term inflation dip**
- **Market awaiting cues from impending Governor Orr**
- **Higher bill yields reflect squeeze not OCR pricing**
- **PSI (55.0) and PMI (53.4) decent albeit slower**
- **Fonterra announcing its financials Wednesday**

On Thursday morning the Reserve Bank will be making its latest policy announcement. No one, even remotely, expects any change to the Official Cash Rate, presently 1.75%. The accompanying page of wording will very likely be non-committal too, we reckon (and not because of the handover to the new Governor scheduled for next week). Indeed, the text could easily be copied and pasted from the previous meeting and still cover things off very well.

Since February's very steady-as-she-goes Monetary Policy Statement, economic considerations have hardly tilted much, if any, either way. Even the currency is very close to the Bank's assumptions.

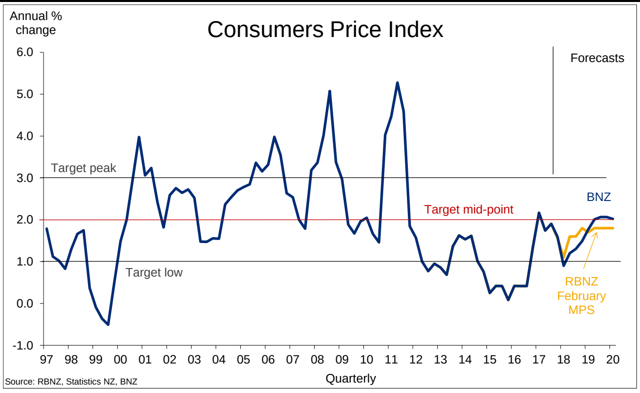
Sure, Q4 GDP growth was 0.1% below what the Bank anticipated. Still, the February MPS expected that "growth eased over the second half of 2017" and, in any case, domestic demand was robust in Q4 (with consumption, for instance, up 1.2%, for 4.2% y/y). Yes, the Bank might have over-estimated GDP growth for the first half of 2018. However, it is arguably under-estimating the second half of it, given the fiscal stimulus coming into play mid-year.

A more tangible issue for the Bank is probably the path of the CPI. To be sure, the February MPS already forecast annual CPI inflation to slump in Q1, to 1.1%, from 1.6% in Q4. But it then had it rebounding to 1.6% in Q2 2018 and 1.8% by the end of the year. For comparison, we expect annual CPI inflation to dip to 0.9% in Q1 and to be slow in increasing, to 1.5% by the end of 2018.

With this in mind, inflation expectations will be important to monitor. However, to date these have proved robust, including to the moderation we saw in CPI inflation in Q4, down to 1.6% y/y.

Bigger picture, it also bears recalling that the February MPS didn't have annual CPI inflation getting back up to the supposed ideal, of 2.0%, until late 2020. In this there is a sense of vulnerability, but also a hint of the Bank being a flexible inflation targeter (akin to the approach the RBA is taking).

On The Radar

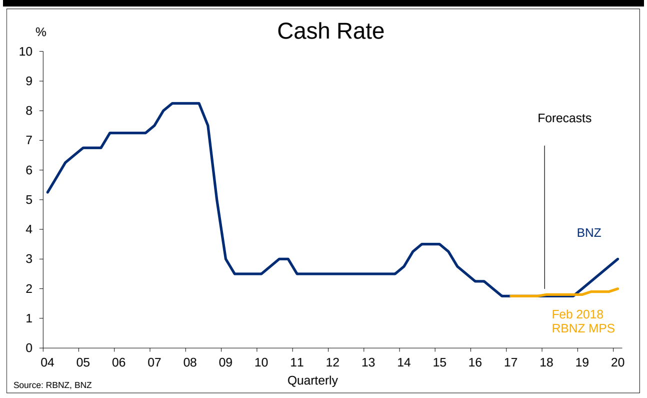


It's not as though interest rates aren't already very low in New Zealand, and proving strongly influential in spheres quite apart from the CPI. While the OCR has stayed at its record low, local mortgage and deposit rates have fallen over the last month or so. Coincidentally, the housing market is showing a bit more starch than the Bank has forecast.

And, lest we forget, financial markets, which were looking quite vulnerable at the time of February's MPS, have since stabilised.

As for market pricing on the RBNZ/OCR, be careful not to read too much into recent upward pressure on bank bill yields. This is being influenced by global trends in money market spreads, rather than any change to OCR expectations. As it stands, the OIS strip implies no first full 25bp OCR hike until May 2019 (albeit with a third of a chance still seen for the November 2018 MPS, which is interesting). We still expect the next move in the cash rate to be up, starting February 2019.

Flat For The Meantime



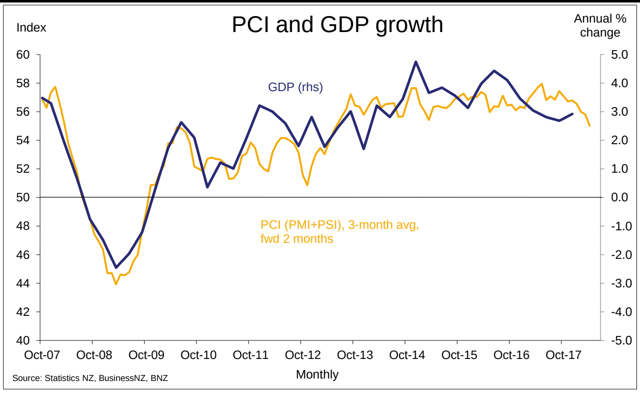
Currency markets would also appear to be expecting a non-eventful OCR review this week. Rather, the main focus seems the global machinations, which have most recently put NZD on the back foot. The so-called "trade wars" have been part of this. NZD might also be prone to downside if new US Federal Reserve Chair, Jerome Powell, solidifies a hawkish tone on US policy rates, at the FOMC meeting Wednesday (Thursday 7:00am, NZ time).

As we've been saying for a good many months, the RBNZ will probably not be keen to follow the global tendency, toward less monetary stimulus – at least not soon. If there is a risk around Thursday's OCR review it is that the Bank comes across a touch dovish, perhaps with reference to the near-term CPI. However, all up, we believe the Bank will affirm a steady-as-she-goes message.

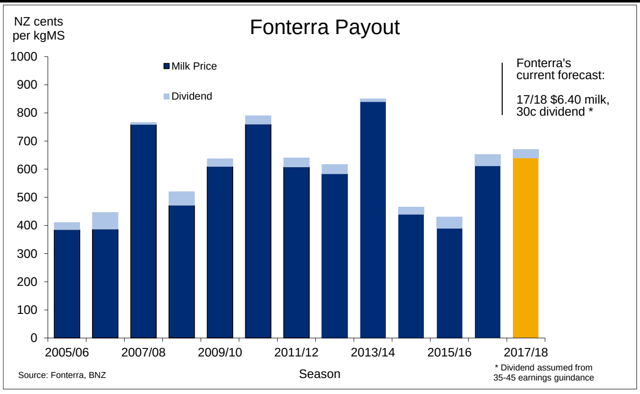
If there are any emerging issues to budge the Bank from its firmly on-hold mind-set, these can be well left to the next Monetary Policy Statement, of early May. This Statement will also, of course, have the new Governor, Adrian Orr, for consideration – along with the new RBNZ Policy Targets Agreement. This is expected to be signed 27 March and coalesce with the phase one outcome of the RBNZ Act review. To repeat: we don't expect the new Governor, or the new RBNZ mandates, to materially impact our monetary views, but we'll see.

With respect to this week's local data, it's already underway with this morning's Performance of Services Index (PSI). At a seasonally adjusted 55.0 it was a fraction below January's result, of 55.7, but still above its long-term average of 54.4. The recent PSI readings, along with those of the Performance of Manufacturing Index, while still encouraging, have certainly come off the boil. Melded, they point to annual GDP growth just under 3%. As it happens, we expect annual GDP growth to ease a fraction, to 2.8%, in Q1 2018.

Near-Term Caution



Dented?



The quarterly Westpac McDermott Miller consumer confidence report is due for release on Tuesday. We would expect that its headline index has improved a bit, from its half-disappointing result of 107.4 back in December. Then again, it has lagged compared to the more upbeat tone coming from the monthly ANZ consumer confidence reading.

Wednesday's local news begins, in the wee hours, with the latest Global Dairy Trade auction, for which we expect a flat to slightly down outcome on prices. Also on Wednesday, Fonterra is scheduled to release its half-year financial results (probably around the start of the business day). While the co-op has already indicated the impact of the Danone settlement on its earnings it has yet to confirm any impact on its dividend. Fonterra also has the opportunity on Wednesday, of course, to make any changes it sees fit for its 2017/18 milk price, although we don't see any strong reason for it to change from its recently forecast $6.40.

Later on Wednesday morning, February's migration numbers will be perused for any sign of reversal from recent highs, while the month's tourist numbers will likely resume a strong rate of annual growth, aided by China and the Americas, after something of a pause in January. At the same time, Statistics NZ is due to publish the Regional GDP accounts. Covering the year to March 2017 they will be viewed by the markets as old hat. Nonetheless, the relative performance of Auckland and Canterbury, compared to elsewhere, will be interesting to check (as remains the case for much of the NZ data at the moment). February's credit card billings are due Wednesday afternoon.

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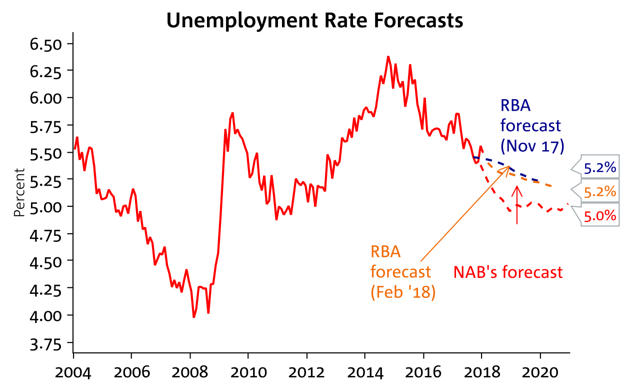
Global Watch

- **Fed to hike rates this week; market watching the dots**
- **European leaders to meet in Brussels; Brexit details awaited**
- **Employment data the focus in AU**
- **No rate change expected from BoE**
- **But lots of UK data to watch: CPI, jobs, retail sales**

Australia

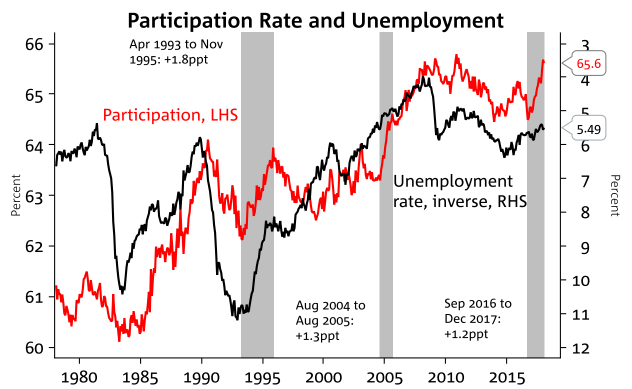
Labour market conditions are a key signpost for the RBA's policy setting and it's no surprise that the Labour Force data on Thursday is the focus for the week. The RBA's meeting minutes, released on Tuesday, and any potential comments from Assistant Governor (Financial Systems) Bullock shortly after, is likely to maintain the RBA's recent narrative on the outlook for the economy and the labour market: the economy is improving, progress is being made on unemployment and inflation – but improvements will be gradual.

Unemployment Forecast To Decline To 5%



Source: National Australia Bank, ABS

Rate Has Risen Sharply To Record Highs

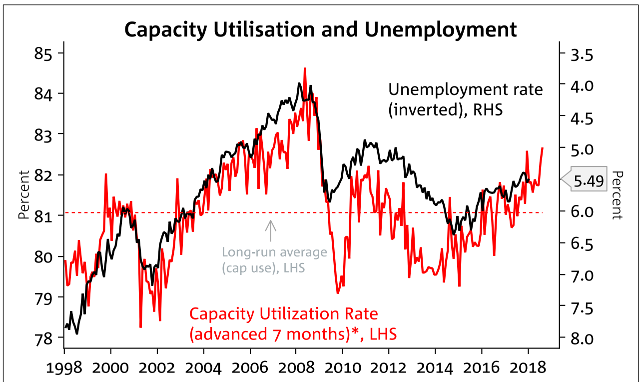


Sources: National Australia Bank, ABS

Markets expect the upcoming jobs data to be consistent with the RBA's "improving, but gradually" outlook – markets are looking for an unchanged unemployment rate (5.5%), an unchanged participation rate (65.6%) and a robust +20k in jobs growth. NAB is also expecting unchanged unemployment rate, but for jobs growth to be much softer (+8k), and the participation rate to soften a touch (65.5%).

The NAB survey employment sub-index suggests that employment growth should be running at around 27k per month. This is well below the average growth of around 35k we've seen over the past 12 months, and we are expecting the ABS measure to show softer jobs growth this year. Taken alongside our internal leading indicators, which have been much softer this month, we are looking for a below-market jobs growth of +8k.

Capacity Utilisation Leads Unemployment



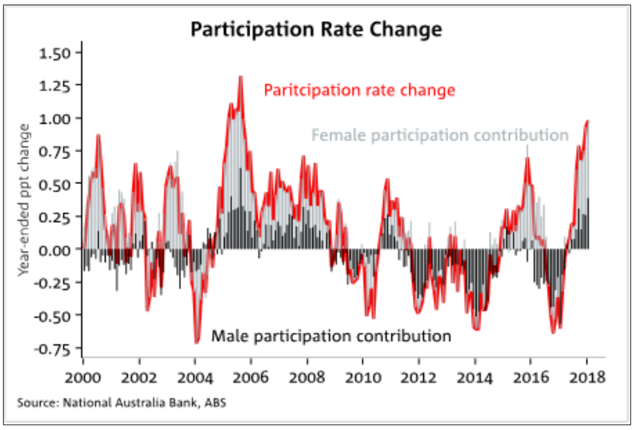
* Dotted line represent the long run average of capacity utilisation since 1997
Source: National Australia Bank, ABS

When employment growth is softer, the participation tends to decline as well. As such we are looking for the participation rate to come down a touch, to 65.5% - these factors in combination will keep the unemployment rate at 5.5%.

The participation rate, while less important than unemployment, will also be interesting to watch over the coming year. Over the past year the participation rate has risen sharply to record highs, which has left unemployment stubbornly little changed, despite record jobs growth.

However, while the participation is at a record high level, this is unlikely to be a ceiling on participation, although we expect growth in the participation rate to slow this year. The sharp rise in participation has been led by the participation of women and older workers – but also a rebound in male participation. While the recent growth in female participation is correlated with the strong employment growth in household services (which includes healthcare and education), a segment of the economy that has a large female share of employment, the strong pick-up in male participation has largely been seen in the mining states as the recovery in mining has gathered momentum. We expect these two factors will continue to have a positive, but less strong, impact on participation over 2018.

Part. Rate Growth Led By Female Participation



US

FOMC meeting on Tuesday will be a focal point for markets globally, and the markets are fully pricing in a rate hike. While a lift in the target rate is expected, the more interesting information for markets will be the new Fed dots and the post-meeting statement – will we see the median shift up to 4 hikes in 2018? NAB doesn't think so, given that quite a number of Fed members will have to shift up their outlook, a hurdle that looks too high for this meeting (but we could see it happening in June). However, for the 2019 dots, with Yellen having left there will only be 15 dots this month, and given their current position, we think it's likely we'll see a slight upwards shift of the 2019 median. The post-meeting statement, and a speech by the Fed's Bostic on Friday, will be carefully scrutinised for hints of a changed outlook, particularly in the face of the large US fiscal stimulus and protectionist policies.

US current account will be released shortly before the FOMC on Wednesday, and Markit PMIs are released the day after. While the trade balance is largely already known from the more timely monthly data – with the recent protectionist policies and rhetoric from the White House, markets will be wary of any reactions to the expected widening of the deficit. PMIs will be watched as a leading indicator for the ISMs, which will be published in a couple of weeks.

UK

It's a big week in the UK, with some long-awaited details around Brexit expected to be revealed during the European Summit in Brussels, plus the BoE meeting and a range of key data releases – CPI, jobs and retail sales.

The markets are expecting the BoE to keep their policy rate unchanged this meeting, particularly given the lack of clarity around Brexit. Nevertheless, BoE communication will be carefully dissected for any hint on when the next hike will be. We think May is looking likely, although it depends on the Brexit negotiations and, of course, the data. As such, markets will be watching Feb CPI data on Tuesday, jobs data on Wednesday and retail sales on Thursday.

Other

It's a fairly quiet week elsewhere. The ECB will be publishing its Economic Bulletin, which markets will be reading closely for any hints of a more hawkish outlook. Canada and Japan both have Feb CPI releases on Friday. Japan's leading Tokyo CPI data showed a tick up in inflation, so markets will be watching to see if the aggregate data reflects the same improvement, and Canada is also expected to report higher year-ended inflation as base-effects flow through.

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Fixed Interest Market

Reuters: BNZL, BNZM   Bloomberg:BNZ

NZ 2 year swap moved up 5bps last week to 2.27%, its highest level since July last year. RBNZ expectations – based on the OIS curve – have been broadly unchanged since the NZ CPI release in late January. Instead, the move higher in the 2 year swap rate has been driven by wider NZ FRA-OIS spreads. The NZ swaps curve flattened, driven by higher short-end swap rates.

As we have noted in recent weeks, USD Libor-OIS has increased sharply since late last year (see second chart on the right). To date, this has only had a limited impact on the NZ 3 month bank bill rate. The NZ 3 month bank bill rate moved up 3.5bps to 1.93% last week but the spread between the 3 month bank bill and 3 month OIS is still quite low by historical standards, at 18bps. NZ banks still appear to be in a strong liquidity position, which has probably contributed to keeping the NZ 3 month bank bill rate relatively low.

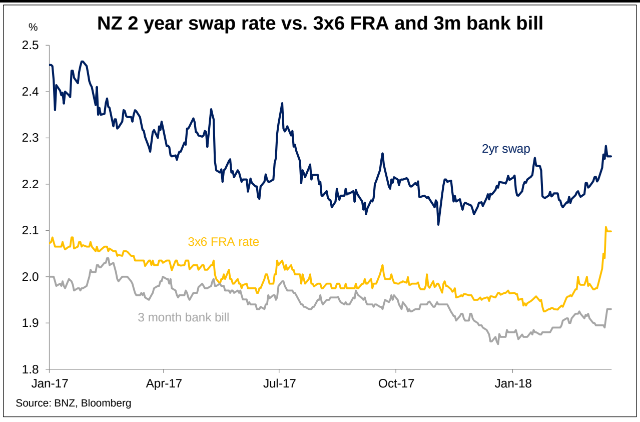
However, the rise in USD Libor-OIS, and more recently the surge higher in the Australian dollar equivalent, has started to filter through into higher NZ FRAs and bank bill futures contracts (i.e. expectations that the NZ bank bill-OIS spread will increase in the future). While there has historically been a relationship between NZ bills-OIS and USD Libor-OIS, the correlation is not perfect. In theory, domestic banks should be incentivised to issue more short-term funding in NZ rather than via USD commercial paper (although as noted above, if anything, domestic banks appear well funded at present).

This week, the highlight will be the RBNZ meeting on Thursday morning, although we don't expect much change from the February Statement, so the market impact should be muted. The market is instead focused on the first meeting with the new RBNZ Governor in May and, ahead of that, the detail of the new Policy Targets Agreement. Other NZ data this week is second-tier and unlikely to move the local rates market.

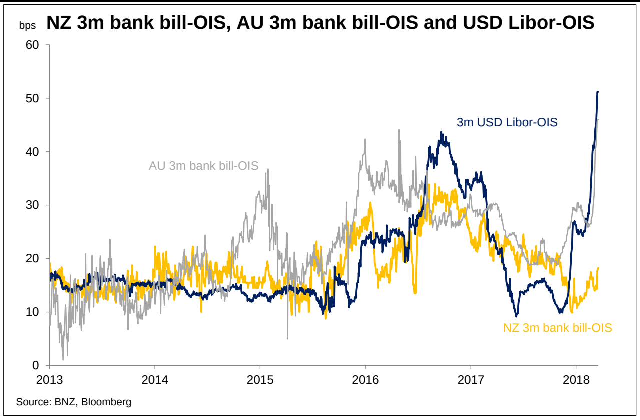
Last week, the NZDMO issued $2b of a new 2029 maturity nominal bond via syndication at a yield of 3.135%. The bond was issued at the tight end of price guidance (a spread of 16bps to the existing 2027 bond) and attracted an order book of over $5b, indicative of strong demand. Longer-dated NZGB-swap spreads had been narrowing leading up to the syndication announcement, but have since widened back, and are again mid-range. The move wider in NZ FRA-OIS spreads has also contributed to widening NZGB-swap spreads.

Offshore, the focus will be on the FOMC meeting Thursday morning and in particular the Fed's rate projections for 2018 (the 'dots'). We suspect the 2018 median 'dot' will remain at 3 hikes for this year which could lead to a modest decline in UST yields on the day, although the market reaction will also depend on Powell's press conference. In the medium term, we expect US Treasury yields to head higher, although they remain range-bound between 2.80% to 2.95% for now.

2 year swap has been pushed higher by rising 3x6 FRA



NZ 3m bank bill-OIS is well below levels in US and AU



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.93	1.89 - 1.94
NZ 2yr swap (%)	2.27	2.18 - 2.29
NZ 5yr swap (%)	2.73	2.68 - 2.77
NZ 10yr swap (%)	3.20	3.16 - 3.28
2s10s swap curve (bps)	93	93 - 104
NZ 10yr swap-govt (bps)	35	24 - 35
NZ 10yr govt (%)	2.85	2.83 - 3.04
US 10yr govt (%)	2.84	2.79 - 2.92
NZ-US 10yr (bps)	0	0 - 13
NZ-AU 2yr swap (bps)	23	14 - 23
NZ-AU 10yr govt (bps)	14	14 - 21

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Commodity currencies underperformed last week, with CAD (-2.2%) and AUD (-1.7%) hit the hardest and the NZD less so, down about 0.9% against the USD for the week. A moderate risk-off mood prevailed, with further turmoil in the White House as Trump sacked his Secretary of State Tillerson and talk of further sackings for his key staff. And hints of further trade protectionism continued, with Trump targeting a $100b reduction in the US trade deficit with China, about a quarter of last year's deficit. Trump's new economic advisor Kudlow talked up the USD, saying that a strong dollar was a sign of economic strength.

The NZD remains close to fair value on our short-term model. We have previously talked of a 0.7175-0.7440 range for technical support and resistance. Breaching the lower end of the range is the immediate threat and there are a number of possible triggers this week.

A further reduction in risk appetite is an obvious source. Trump talking tough on China trade might be enough. Finance Ministers and central bankers of the G20 meet early this week and trade protectionism will be high on the agenda. In anticipation of the meeting some leaders are already giving interviews and these have the chance to move the market as the new week begins.

The FOMC meeting on Thursday morning NZ time also provides an opportunity for the NZD to break out of its range, more likely to the downside than upside. The Fed is widely expected to deliver its sixth rate hike for the cycle. The maths suggest a high hurdle for the median projection of the Fed Funds rate to be upgraded to four rate hikes for this year, but the mean should increase and it's easier to see an extra hike built into next year's Fed Funds rate projection. None of this should surprise the market, but there's still plenty of scope for the USD to react, with the combination of a likely upgrade to inflation forecasts and higher interest rate projections further out looking positive for the USD on paper. New chair Powell will be delivering his first post-FOMC conference and his testimony to Congress hinted of a possible bias towards the more hawkish side of the ledger.

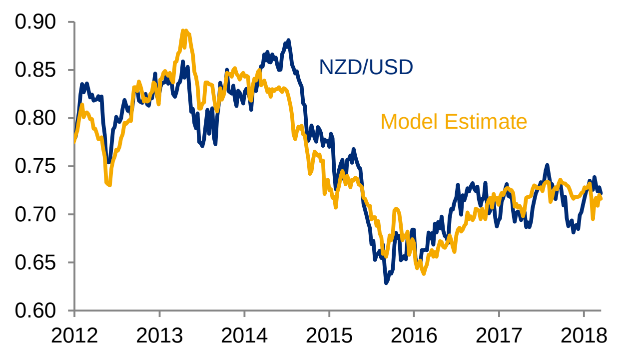
On the local calendar the focus for the week ahead will be the RBNZ's OCR review on Thursday. But we see this as a non-event for the market, with little scope for any lasting impact on the NZD. The statement is expected to show only minor tweaks, leaving the final paragraph unchanged. Being the last statement by the outgoing Spencer makes it even less relevant for the market. Governor-in-waiting Orr soon takes over and his views on the policy outlook, which remain unknown, matter much more for the outlook of monetary policy.

The following evening the Bank of England gives its policy update, and the market believes that the best chance for the next rate hike is in May, so will be alert to any possible guidance which firms that view up. Ahead of the meeting, UK CPI data will be crucial. Perhaps as important for the trajectory for GBP this week is the EU summit, where further negotiations around Brexit will be hammered out and a possible transitional deal announced. We have long expected this to occur to support our stronger GBP and negative NZD/GBP view for this year.

Japan CPI is out on Friday, but JPY is being driven by greater forces, such as softer risk appetite, yen repatriation ahead of fiscal year end, and the political scandal around Aso and Abe. The near term risk is a break of key technical support for NZD/JPY of 76 to the downside.

NZD/AUD remains tightly range-bound between 0.92-0.94. Australian employment data on Thursday offer their usual chance to inject some volatility into the market but we think the cross is broadly fairly priced at present.

NZD Fairly Priced But Downside Break is the Greater Risk



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.7217	0.7190 - 0.7360
NZD/AUD	0.9356	0.9240 - 0.9380
NZD/GBP	0.5177	0.5170 - 0.5290
NZD/EUR	0.5874	0.5840 - 0.5950
NZD/JPY	76.44	75.90 - 78.60

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7160	1%
NZD/AUD	0.9140	2%

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Technicals

NZD/USD

Outlook:	Trading range
ST Resistance:	0.7440 (ahead of 0.7550)
ST Support:	0.7175 (ahead of 0.7050)

There are some well-defined support and resistance levels at 0.7175 and 07440, given trading behaviour over the past couple of months. A break up through 0.7440 would open up the 2017 high of 0.7558. Support of 0.7175 is the nearer term threat, a breach of which would open up the 0.70 area.

NZD/AUD

Outlook:	Trading range
ST Resistance:	0.9420 (ahead of 0.9640)
ST Support:	0.9040 (ahead of 0.8975)

A tight trading range has prevailed over recent weeks. Resistance near 0.9420 remains in play, with support well down at 0.9040, reflecting the upward move in early February.

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NZ 5-year Swap Rate

Outlook:	Higher
ST Resistance:	2.93
ST Support:	2.66

Choppy price action but with 200 day moving average at 2.70 and trendline support at 2.66 still expect a move higher. STOP should we close below 2.66.

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

Outlook:	Neutral
ST Resistance:	+60.5
ST Support:	+41

Stopped on the move through +50 and are now neutral in the near term.

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Quarterly Forecasts

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts (shaded: Mar-18 onwards)

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (production s.a.)	0.4	0.7	0.9	0.6	0.6	0.6	0.8	1.1	0.9	0.6
Retail trade (real s.a.)	1.4	1.4	1.8	0.3	1.7	1.0	0.7	1.3	1.3	0.7
Current account (ytd, % GDP)	-2.3	-2.7	-2.6	-2.5	-2.7	-2.7	-2.9	-3.2	-3.3	-3.2
CPI (q/q)	0.4	1.0	0.0	0.5	0.1	0.3	0.3	0.6	0.3	0.6
Employment	0.9	1.0	0.0	2.2	0.5	0.6	0.5	0.5	0.5	0.5
Unemployment rate %	5.3	4.9	4.8	4.6	4.5	4.4	4.4	4.3	4.2	4.4
Avg hourly earnings (ann %)	1.1	1.1	1.2	2.0	3.1	3.2	3.0	2.8	2.6	2.8
Trading partner GDP (ann %)	3.5	3.5	3.7	4.0	3.9	4.0	3.8	3.6	3.7	3.6
CPI (y/y)	1.3	2.2	1.7	1.9	1.6	0.9	1.2	1.3	1.5	1.8
GDP (production s.a., y/y))	3.5	3.0	2.8	2.7	2.9	2.8	2.6	3.1	3.4	3.4

Interest Rates

Historical data - qtr average		Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter	**Cash**	**90 Day Bank Bills**	**5 Year**	**10 Year**	**2 Year**	**5 Year**	**10 Year**	**Libor 3 month**	**US 10 yr**	**NZ-US Ten year**
2016 Dec	1.85	2.10	2.45	2.95	2.25	2.65	3.10	0.90	2.10	0.80
2017 Mar	1.75	2.00	2.70	3.25	2.35	3.00	3.50	1.15	2.50	0.80
Jun	1.75	1.95	2.45	2.95	2.25	2.80	3.25	1.25	2.20	0.75
Sep	1.75	1.95	2.45	2.95	2.20	2.70	3.20	1.30	2.20	0.75
Dec	1.75	1.90	2.35	2.90	2.20	2.65	3.15	1.60	2.40	0.40
Forecasts										
2018 Mar	1.75	1.95	2.50	3.00	2.20	2.75	3.30	1.80	3.00	0.00
Jun	1.75	1.95	2.50	2.95	2.20	2.75	3.25	1.95	3.00	-0.05
Sep	1.75	1.95	2.70	3.20	2.35	2.95	3.50	2.20	3.25	-0.05
Dec	1.75	2.05	2.80	3.25	2.50	3.05	3.55	2.30	3.25	0.00
2019 Mar	2.00	2.30	2.95	3.35	2.75	3.20	3.65	2.45	3.25	0.10
Jun	2.25	2.55	3.25	3.65	3.05	3.20	3.65	2.55	3.50	0.15
Sep	2.50	2.80	3.45	3.80	3.30	3.20	3.65	2.55	3.50	0.30
Dec	2.75	3.05	3.60	3.90	3.45	3.50	3.95	2.55	3.50	0.40
2020 Mar	3.00	3.20	3.70	3.95	3.65	3.50	3.95	2.55	3.50	0.45

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.72	0.77	1.23	1.39	106
Mar-18	0.72	0.78	1.25	1.40	106
Jun-18	0.72	0.78	1.28	1.43	104
Sep-18	0.71	0.77	1.30	1.45	103
Dec-18	0.70	0.75	1.30	1.46	102
Mar-19	0.70	0.75	1.28	1.46	101
Jun-19	0.71	0.76	1.27	1.45	100
Sep-19	0.71	0.76	1.28	1.45	100
Dec-19	0.70	0.75	1.30	1.46	99
Mar-20	0.70	0.75	1.32	1.47	99
Jun-20	0.69	0.74	1.34	1.48	98

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.72	0.94	0.59	0.52	76.5	74.6
Mar-18	0.72	0.93	0.58	0.52	76.7	74.1
Jun-18	0.72	0.92	0.56	0.50	74.9	73.1
Sep-18	0.71	0.92	0.55	0.49	73.1	71.9
Dec-18	0.70	0.93	0.54	0.48	71.4	71.2
Mar-19	0.70	0.93	0.55	0.48	70.7	71.3
Jun-19	0.71	0.93	0.56	0.49	71.0	72.2
Sep-19	0.71	0.94	0.56	0.49	71.0	72.4
Dec-19	0.70	0.93	0.54	0.48	69.3	71.3
Mar-20	0.70	0.93	0.53	0.48	69.3	71.3
Jun-20	0.69	0.93	0.52	0.47	67.6	70.4
TWI Weights	14.0%	20.7%	10.3%	4.8%	6.8%	

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

Annual Forecasts

Forecasts as at 19 March 2018	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
GDP - annual average % change										
Private Consumption	3.9	5.4	4.1	3.8	2.3	5.0	4.5	3.9	2.7	1.4
Government Consumption	2.5	2.0	4.9	2.9	2.2	1.7	4.7	3.3	2.5	1.9
Total Investment	4.7	5.6	3.9	4.1	3.9	6.4	3.3	4.5	4.0	3.6
Stocks - ppts cont'n to growth	-0.3	-0.1	-0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
GNE	3.5	4.8	3.5	3.4	2.7	4.7	4.0	3.2	3.0	2.1
Exports	5.6	0.7	4.2	2.2	4.3	1.6	2.5	2.4	4.2	4.5
Imports	2.1	5.1	6.2	3.6	3.6	3.4	6.6	3.7	3.9	3.0
Real Expenditure GDP	4.4	3.6	3.3	3.1	2.8	4.1	3.0	3.1	3.1	2.4
GDP (production)	**3.6**	**3.7**	**2.8**	**3.2**	**2.8**	**4.0**	**2.9**	**3.0**	**3.0**	**2.4**
GDP - annual % change (q/q)	*4.0*	*3.0*	*2.8*	*3.4*	*2.5*	*3.5*	*2.9*	*3.4*	*2.6*	*2.3*
Output Gap (ann avg, % dev)	1.0	1.3	0.8	1.1	1.1	1.3	1.0	1.0	1.1	1.0
Household Savings (% disp. income)	-1.3	-2.8	-1.8	-2.4	-2.2					
Nominal Expenditure GDP - $bn	254.7	270.0	286.0	298.2	311.7	266.0	282.3	295.0	308.3	322.3
Prices and Employment - annual % change										
CPI	0.4	2.2	0.9	1.8	2.0	1.3	1.6	1.5	2.1	2.0
Employment	2.0	5.7	3.3	2.0	1.6	5.8	3.7	2.1	1.8	1.2
Unemployment Rate %	5.2	4.9	4.4	4.4	4.4	5.3	4.5	4.2	4.4	4.6
Wages - ahote	2.5	1.1	3.2	2.8	2.7	1.1	3.1	2.6	2.8	2.4
Productivity (ann av %)	1.5	-1.9	-0.9	0.6	1.0	-0.8	-1.3	0.1	1.1	1.0
Unit Labour Costs (ann av %)	1.3	3.9	3.9	3.1	2.1	2.7	4.0	3.8	2.0	1.8
External Balance										
Current Account - $bn	-7.0	-7.2	-7.6	-9.4	-7.6	-6.0	-7.7	-9.7	-8.1	-7.9
Current Account - % of GDP	-2.8	-2.7	-2.7	-3.2	-2.4	-2.3	-2.7	-3.3	-2.6	-2.5
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	0.7	1.5	1.0	0.9	1.6					
Net Core Crown Debt (excl NZS Fund Assets)	24.5	22.2	23.3	23.2	22.2					
Bond Programme - $bn	7.0	8.0	8.0	9.0	10.0					
Bond Programme - % of GDP	2.7	3.0	2.8	3.0	3.2					
Financial Variables (1)										
NZD/USD	0.67	0.70	0.72	0.70	0.70	0.70	0.70	0.70	0.70	0.68
USD/JPY	113	113	106	101	99	116	113	102	99	97
EUR/USD	1.11	1.07	1.25	1.28	1.32	1.05	1.18	1.30	1.30	1.38
NZD/AUD	0.90	0.92	0.93	0.93	0.93	0.96	0.91	0.93	0.93	0.93
NZD/GBP	0.47	0.57	0.52	0.48	0.48	0.56	0.52	0.48	0.48	0.46
NZD/EUR	0.61	0.66	0.58	0.55	0.53	0.67	0.59	0.54	0.54	0.49
NZD/YEN	76.2	79.1	76.7	70.7	69.3	81.6	78.7	71.4	69.3	66.0
TWI	72.2	76.5	74.1	71.3	71.3	78.1	73.6	71.2	71.3	69.5
Overnight Cash Rate (end qtr)	2.25	1.75	1.75	2.00	3.00	1.75	1.75	1.75	2.75	2.75
90-day Bank Bill Rate	2.41	1.98	1.95	2.28	3.20	2.02	1.88	2.03	3.03	2.87
5-year Govt Bond	2.40	2.70	2.50	2.95	3.70	2.75	2.30	2.80	3.60	3.60
10-year Govt Bond	2.90	3.25	3.00	3.35	3.95	3.30	2.80	3.25	3.90	3.95
2-year Swap	2.30	2.30	2.20	2.75	3.65	2.40	2.20	2.50	3.45	3.40
5-year Swap	2.60	3.00	2.75	3.20	3.95	3.00	2.65	3.05	3.85	3.85
US 10-year Bonds	1.90	2.50	3.00	3.25	3.50	2.50	2.40	3.25	3.50	3.50
NZ-US 10-year Spread	1.00	0.75	0.00	0.10	0.45	0.80	0.40	0.00	0.40	0.45

(1) *Average for the last month in the quarter*

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, NZ Treasury, BNZ

Key Upcoming Events

	Forecast	Median	Last
Monday 19 March			
NZ, BNZ PSI (Services), February			55.8
China, Property Prices, February			
Jpn, BOJ Summary of Latest Meeting, 9 Mar Meeting			
Jpn, Merchandise Trade Balance, February		+¥89b	-¥943b
Euro, Trade Balance, January s.a.		+€22.3b	+€23.8b
Tuesday 20 March			
NZ, WMM Consumer Confidence, Q1			107.4
Aus, House Prices, Q4 y/y		+3.9%	+8.3%
Aus, RBA Minutes, 6 Mar Meeting			
Euro, Consumer Confidence, Mar 1st est		flat	+0.1
Germ, PPI, Feb y/y		+2.0%	+2.1%
Germ, ZEW Sentiment, March		+13.0	+17.8
UK, CPI, February y/y		+2.8%	+3.0%
Wednesday 21 March			
NZ, External Migration, February s.a.			+6,210
NZ, Dairy Auction, GDT Price Index			-0.6%
NZ, Regional GDP, Year to March 2017			
NZ, Fonterra Financial Results			
NZ, Credit Card Billings, February			-0.6%
UK, Unemployment Rate (ILO), January		4.4%	4.4%
UK, CBI Industrial Trends, March		+8	+10

	Forecast	Median	Last
Wednesday 21 March*...continued*			
US, Current Account, Q4 s.a.		-$125.0b	-$100.6b
US, FOMC Policy Announcement	1.75%	1.75%	1.50%
US, Existing Home Sales, February		5.40m	5.38m
Thursday 22 March			
NZ, RBNZ OCR Review	1.75%	1.75%	1.75%
Aus, Unemployment Rate, February	5.5%	5.5%	5.5%
Aus, Employment, February	+8k	+20k	+16k
Jpn, All Industry Index, January		-1.8%	+0.5%
Euro, PMI Manufacturing, Mar 1st est		58.1	58.6
Euro, PMI Services, Mar 1st est		56.0	56.2
Euro, ECB Economic Bulletin			
Germ, IFO Index, March		114.6	115.4
UK, Retail Sales vol., February		+0.4%	+0.1%
UK, BOE Policy Announcement	0.50%	0.50%	0.50%
US, Markit PSI, Mar 1st est		56.0	55.9
US, Markit PMI, Mar 1st est		55.6	55.3
US, Leading Indicator, February		+0.5%	+1.0%
Friday 23 March			
Jpn, CPI, February y/y		+1.5%	+1.4%
US, Durables Orders, Feb 1st est		+1.7%	-3.6%
US, New Home Sales, February		624k	593k

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.81	1.78	1.79	1.84
2mth	1.87	1.84	1.86	1.89
3mth	1.93	1.91	1.92	1.98
6mth	2.01	1.97	1.97	2.02
GOVERNMENT STOCK				
03/19	1.76	1.77	1.77	2.09
04/20	1.88	1.95	1.86	2.33
05/21	2.04	2.13	2.06	2.51
04/23	2.33	2.46	2.40	2.80
04/25	2.62	2.78	2.73	3.12
04/27	2.83	2.99	2.97	3.23
04/33	3.18	3.35	3.33	3.60
04/37	3.33	3.50	3.48	3.87
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	57	56	64	91
Nth America 5Y	54	54	51	68
Europe 5Y	49	49	52	77

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.26	2.23	2.17	2.28
3 years	2.42	2.42	2.37	2.54
4 years	2.58	2.60	2.55	2.76
5 years	2.71	2.76	2.72	2.95
10 years	3.19	3.27	3.27	3.51
FOREIGN EXCHANGE				
NZD/USD	0.7216	0.7296	0.7372	0.7055
NZD/AUD	0.9355	0.9269	0.9317	0.9126
NZD/JPY	76.44	77.64	78.58	79.40
NZD/EUR	0.5873	0.5916	0.5941	0.6569
NZD/GBP	0.5176	0.5246	0.5266	0.5709
NZD/CAD	0.9447	0.9369	0.9260	0.9418
TWI	74.5	75.2	75.7	76.6

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