28 May 2018

Cattle Disease Adds To Business Angst

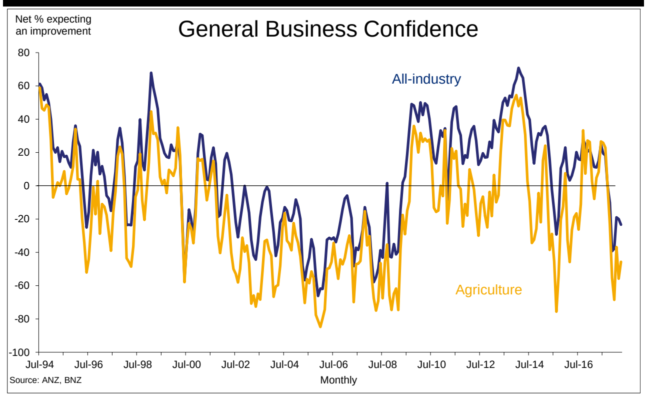
- **ANZ business survey could do with more recovery**
- **Cattle disease becoming a big deal**
- **Yet more from Orr with Wednesday's RBNZ FSR**
- **Overseas Trade Indexes likely damp re Q1 GDP**
- **Also due: building consents and consumer sentiment**

New Zealand has a relatively busy week of economic information. Thursday's ANZ business survey will arguably be the market's focal point. However, the immediate attention will be this afternoon's government announcement on how it plans to tackle the cattle disease Mycoplasma bovis – a factor in the agriculture sector's current pessimism, despite strong commodity prices. And who can overlook Wednesday's RBNZ Financial Stability Report (and attendant press conference and afternoon testimony), with Governor Orr once again intent on getting his views across?

To start with business confidence is to note the government announcement this afternoon, presumed to be 4:00pm. It is expected to go for eradication of Mycoplasma bovis rather than containment. This infers a more aggressive and potentially expensive programme (touted to be as much as $1b, with the industry likely asked to foot about half of this). However, even the path of "mere" containment would be disruptive, and drawn out.

Either way, the rural sector is facing a material amount of angst, inconvenience, and cost. While much of this might be hard to discern in the GDP accounts at large at least initially, it will be very real for the sector concerned. We will monitor this process intently, including for any significant impacts it might have on our macro-economic views.

More Than Just The New Government



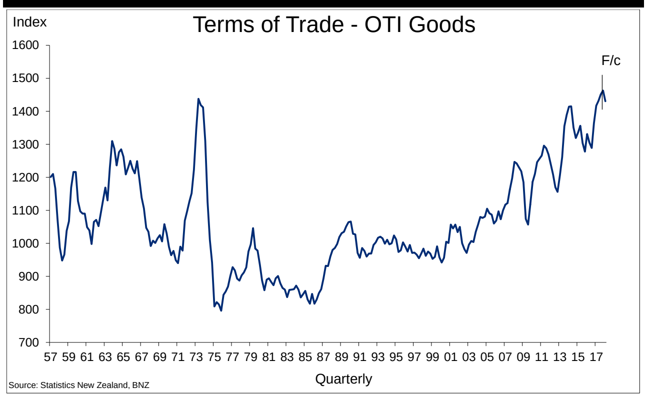
With respect to the ANZ business survey, its May numbers, due Thursday, will be important for steerage. This is after April's lot failed to build on the part-recovery that the survey has managed since a post-election low back in November. This left confidence still well in the red in April (with -23) and activity expectations a tad below par (at +18). As mentioned, agriculture was acting as a drag, when its strong export prices would normally have had it rosy-cheeked.

Friday's Q1 Overseas Trade Indexes will also be worth checking on, as they put some hard numbers on what could be a soft quarter, GDP-wise. For the record, we anticipate a clear fall in March quarter merchandise export volumes, and steady growth in core import volumes. We also figure on a 2.2% fall in the OTI merchandise terms of trade measure (almost identical to market expectations). While this would knock it off its all-time high of Q4 2017, the terms of trade could well reclaim that title in Q2 2018, as export prices outpunch oil-boosted import prices.

This week's monthly data get underway Wednesday morning, with April's building consents. There is a good chance we'll see a big correction in these, especially considering new dwelling consents posted monthly resurgences in February and March of 6.5% and 14.7% respectively. Then again, processing days in April would have been inflated by the early Easter this year, potentially aiding consent issuance in a once-off fashion.

As for credit aggregates, we expect their recent rates of growth to broadly repeat in April (last week's data on new residential lending for the month even looked a bit more encouraging). These figures are due Thursday afternoon.

A Smidge Less Lofty



Friday morning delivers the ANZ–RM consumer confidence report for May. Any further moderation in this, after its index fell to 120.5 in April, would start to ask questions. This is especially considering the fiscal stimulus to (mainly low to middle income) households that is set for 1 July. This is integral to the pick-up in GDP growth we forecast for the second half of this year, and which may yet nourish business confidence over coming months.

With respect to Wednesday's FSR, we wouldn't be surprised if the Reserve Bank coloured in the global concern that it sketched in its May MPS; was implicit to the recent bulletin article about how quantitative easing might look in New Zealand, should it be necessary, and; even the line in Adrian Orr's article last week about New Zealand's financial system not being immune to global threats.

In this we detect not just preparedness but a slight nervousness. If not to engender any further OCR easing, then certainly an obstacle to any cash rate increase any time soon. The broader global financial markets have certainly been choppy since the last FSR, back in November.

We will also be interested in how this week's FSR will characterise the housing market. Will the Bank, for instance, keep admitting that low interest rates remain an important factor in the recent house price cycle? Or skew attention more to the politically-charged excuse of simply not enough land and houses to meet high immigration? In any case, with house price inflation, and expectations thereof, not exactly dying a death yet, we don't expect the RBNZ to announce any further loosening in the LVR restrictions just yet (after it did make some tweaks in this direction on 1 January 2018).

The FSR run-through of the agriculture sector will also be important. The Bank is always thorough, in this regard. Not so long ago it was all about the low dairy pay-out, amid the build-up in debt that had occurred in the industry. Now, Mycoplasma bovis is the immediate issue/threat that everyone is trying to get their heads around.

Note that the RBNZ will, as usual, hold a press conference on the FSR, starting 11:00am. It is also scheduled to give testimony to parliament's Finance and Expenditure Committee (FEC) on the FSR from about 1:10pm Wednesday (and, with the Financial Markets Authority, testifying on Australia's Royal Commission into banking, starting 2:00pm, incidentally). Parliament's website also indicates an FEC session 3:00-3:20pm this Wednesday on the May MPS. But we understand this to simply be the committee's routine wrap-up of its report on the MPS, rather than involving RBNZ staff (again).

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Global Watch

- **More focus on US inflation and wages than payrolls this week**
- **EU inflation and jobs data to watch too, alongside Italian politics**
- **Will China's May PMIs remain at relatively high levels?**
- **AU CapEx data to provide more guidance to Q1 GDP**
- **Majority expect BoC to hold rates steady on Wednesday**

Australia

Chart 1: Q1 Capex To Report Grow Moderately, 0.5% Q/Q

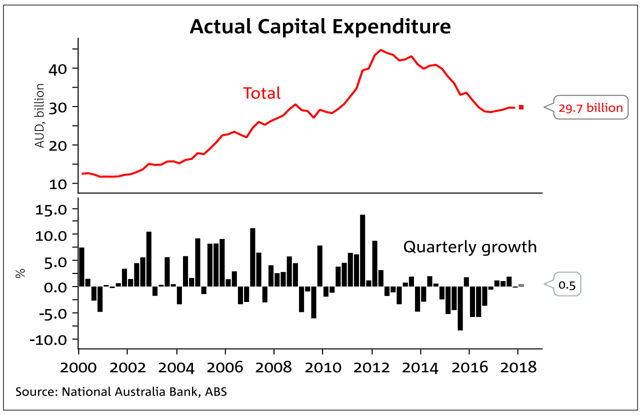
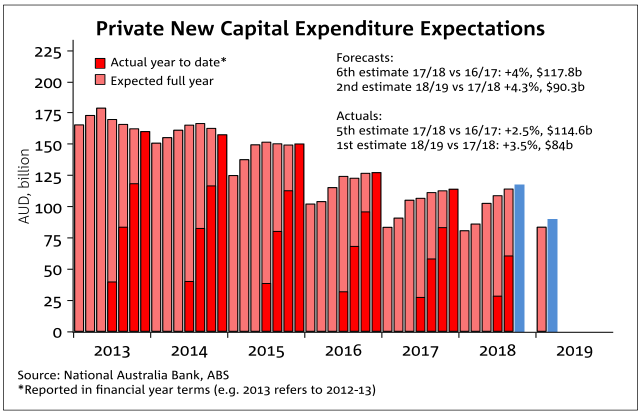


Chart 2: Capex 18/19 Expectations To Rise To $90.3b



The week ahead is quiet for the RBA, but contains a few pieces of interesting data, appetisers in the lead up to Q1 GDP next week (6 June). This week's focus will be on Q1 Capital Expenditure (CapEx) on Wednesday, although market participants will no doubt tune in for April data on Building Approvals and Private Sector Credit (on Tuesday and Wednesday).

As the remaining GDP partial for investment in Q1, CapEx numbers will be watched carefully. NAB is expecting the data to report a modest 0.5% q/q increase in capital spending, below market consensus of 1% q/q.

In the CapEx data, often of equal (if not more) interest is the forward estimates for capital spending. NAB expects these estimates to shows businesses expectations for spending in 2017-18 improved moderately (Estimate 6: $117.8b), while 2018-19 expectations were broadly unchanged (Estimate 2: NAB $90.3b; Mkt $90.5b).

On the upside, mining investment expectations have improved alongside higher commodity prices, and firms have noted intentions to increase sustaining capex and exploratory investment. Further, non-mining investment intentions have also been lifting, supported by a growing pipeline of infrastructure projects. However, a dominant factor in Q1 has been the large increase in economic and financial market uncertainty. We expect the significant volatility has kept firms cautious in their investment outlook, constraining capex expectations in the March quarter.

On the monthly data, NAB expects April Building Approvals to decline 2.1% in the month, but remain 5% higher over the year. Building approvals monthly data tends to bounce around, following apartment approvals. Apartment approvals have been remarkably robust, supported by population growth, notably in Victoria. We expect this volatile component of building approvals to decline 3.3% m/m in April, to bring the trend level down modestly from its current levels. Meanwhile, house approvals grew strongly in March and we expect a decline of 1% this month to reverse some of that strength.

Credit growth will be interesting to watch this month, and in coming months, given discussions of a potential reduction in credit by financial institutions, in response to rising funding costs and regulatory pressure.

The market expects April Credit data to show credit grew at a moderate pace in the month (+0.4% m/m, +5% y/y). NAB is a touch below market, at 0.3%m/m. Last month'scredit data saw business credit rise strongly by 0.8% m/m. We believe this should moderate to 0.2%m/m, keeping year-ended growth around 4%. Housing credit growth is also expected to slow: investor credit growth is

Chart 3: Dip Expected

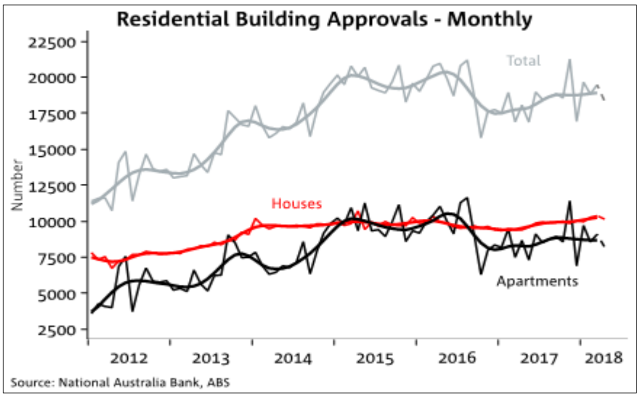
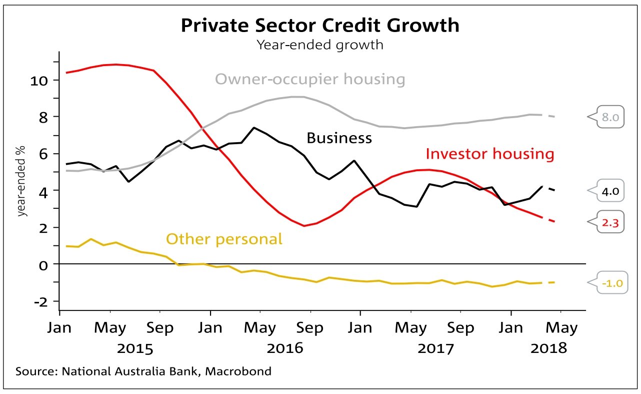


Chart 4: Moderate Growth



expected to continue its downward trend (2.3% y/y); while owner occupier credit growth also softens (8% y/y), but remains at strong levels.

China

Both official and Caixin PMIs are released this week, on Thursday and Friday. Last month's PMIs remained at relatively high level, after a couple of volatile months (likely related to Lunar New Year). Market participants will be tuning in to see if these levels are broadly maintained, as expected.

US

The week ahead will be dominated by PCE Inflation on Thursday and Payrolls on Friday. Core PCE, the Fed's preferred inflation measure, is expected to increase 0.1% m/m and 1.8% y/y in May. While still tame, if Core PCE continues its recent run then annual inflation could lift to 2.4% by the end of the year – one of the reasons that the Fed has been emphasising the symmetry of its inflation target. For Payrolls, the focus again will be on wages growth, with expectations of a 0.3% m/m bounce after April's disappointing 0.1% m/m. Payrolls are expected to rise by a solid 193k and the unemployment rate is expected to remain at the lowest level since 2000 at 3.9%. Other notable data during the week are: the final read on Q1 GDP, Trade Balance data and the Manufacturing ISM. Note the US markets are closed on Monday.

EC

Italian politics will continue to grab headlines with the Premier-designate to test his support in the Parliament early in the week. On data, CPI and Jobs data on Thursday are the clear highlights for the week ahead. CPI will be closely watched for signs of previous oil price increases feeding though. For May, the pace of Headline CPI is expected to shift higher to 1.6% y/y from 1.2% y/y. On jobs data, markets are expecting the unemployment rate to stay at 8.5%.

EM

Once the market darlings, emerging markets have in recent times been highlighted as a source of risk. The desynchronisation in global growth alongside higher oil prices and heightened trade and geopolitical tensions have all combined to make 2018 a more challenging environment for EM markets. For NAB's take on how this see *FX Strategy: The EM risk to AUD stability.*

Canada

The Bank of Canada meets on Wednesday with rates expected to be on hold – 85% of economists expect a hold and markets are 75% priced for a hold. BoC Governor Poloz has previously stated that greater NAFTA certainty will be required to shift the Bank and this has yet to materialise. Datawise, Canada has March GDP figures on Thursday – markets are looking for growth of 0.3% m/m, softening from last month's 0.4% m/m.

UK

A quiet week ahead where focus will likely be on the government's deliberations on what post-EU trading relationship the UK is aiming for. The two options being discussed are a "Customs Partnership" (where the UK would collect and enforce EU duties on goods in the UK and destined for the EU to avoid border checks) and "Maximum Facilitation" (where border check would be minimised through streamlined automation). The choice will need to be finalised ahead of key Brexit bills that are scheduled for Parliament in early June.

Japan

Markets will be tuning in to hear BoJ Governor Kuroda speak at a conference on Wednesday. For Japanese data, it's a quiet week ahead, with only April Industrial Production data on Thursday of note – markets are expecting another 1.4% m/m print.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

The NZ rates market followed offshore core bond yields lower last week. The decline in yields offshore was driven by a combination of:

- Discussion in the Fed Minutes that the FOMC might increase the interest on excess reserves (IOER) by only 20bps at an upcoming meeting.
- The reversal in oil prices towards the end of the week on a potential supply response from OPEC, helping to push inflation expectations lower.
- Growing concerns around the political situation in Italy, causing Italian-German spreads to widen sharply and feeding a safe haven bid to core bond markets (including NZGBs).

The Italian President's decision this morning to veto the coalition's Eurosceptic choice of Finance Minister should be taken positively by the market and may see some reprieve in Italian spreads. Market positioning remains a risk to lower bond yields in the near-term, with speculators still heavily short according to CFTC data.

In the week ahead, the focus domestically will be on the release of the FSR and Adrian Orr's accompanying comments in the press conference and testimony to the Finance and Expenditure Select Committee. There might be a few snippets of relevance to monetary policy and the NZ curve, although we suspect the Governor will stick to the lines from the recent MPS. The ANZ Business Survey should only be of passing interest to the rates market.

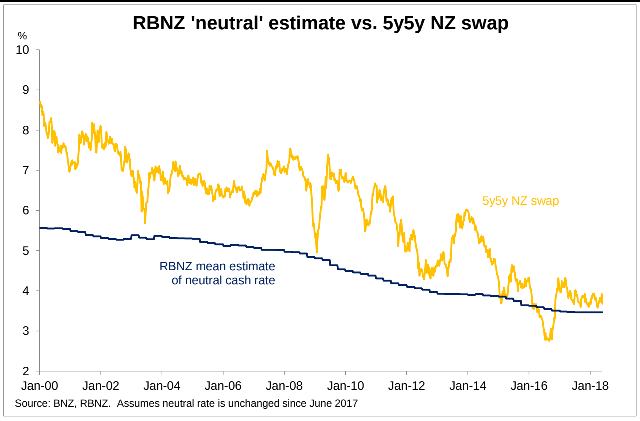
We continue to see the NZ rates market in a range, both the short and the long end of the curve. We suspect 2.15% should provide support in the 2 year swap in the first instance and likewise 3% in the 10 year swap. While we can't rule out a deeper correction in NZ rates if the Italian political situation deepens, we would still consider using dips in the 10 year rate towards 3% to add hedges.

We continue to look at the 5 year 5 year swap as a barometer of value for the long-end of the swaps curve (see chart on right). A 5 year 5 year swap rate below 3.70% implies the market pricing a lower neutral cash rate than the RBNZ (incorporating a 20bp BKBM-OIS spread), which suggests long-end NZ swap rates are starting to look stretched.

Also of interest domestically will be the Government's response to the Mycoplasma Bovis outbreak. A phased eradication approach will purportedly cost around $1b. The implications for the NZDMO's bond programme depend on the actual amount needed and over what time horizon – if $1b funding is required and that is spread over a number of years, it could easily be incorporated within the current bond programme.

Finally, Housing New Zealand Limited (HNZL) announced on Friday its intention to bring a 5 year and/or 7 year NZ$ bond transaction as early as mid this week (subject to the usual caveat around market conditions). This would be HNZL's first bond deal in the domestic market in almost 20 years and there will be keen interest in where it prices. LGFA is a natural reference point domestically for HNZL, given its large stock of bonds outstanding (over $7.5b) and same credit rating. We are inclined to think HNZL's inaugural bond deal(s) might come modestly through LGFA owing to its more direct link to the Crown. We observe that HNZL CP has been issued a few bps inside of LGFA bills in recent months, which may also provide some tentative evidence that the market sees HNZL as a slightly stronger credit. As this is the first transaction, there is high uncertainty around the pricing and we can see scenarios where it prints modestly below to modestly above the LGFA curve.

NZ 5y5y swap towards the bottom of recent range



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.99	1.98 - 2.06
NZ 2yr swap (%)	2.19	2.18 - 2.29
NZ 5yr swap (%)	2.65	2.64 - 2.75
NZ 10yr swap (%)	3.13	3.12 - 3.28
2s10s swap curve (bps)	94	91 - 104
NZ 10yr swap-govt (bps)	41	37 - 44
NZ 10yr govt (%)	2.72	2.70 - 2.86
US 10yr govt (%)	2.93	2.92 - 3.13
NZ-US 10yr (bps)	-21	-27 - -18
NZ-AU 2yr swap (bps)	10	9 - 15
NZ-AU 10yr govt (bps)	-7	-9 - 2

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD continues to show signs of consolidation after its plunge from mid-April through to mid-May. NZD/USD was flat last week and traded in less than a 1-cent range of 0.6885-0.6975. NZD/AUD was down slightly for the week but spent much of it hovering in a tight range around 0.9150. NZD/EUR and NZD/GBP crosses were up about 1%, with euro-area political risk hitting EUR, while soft data and ongoing Brexit uncertainty weighed on GBP. NZD/JPY was down 1% as lower global bond yields supported JPY.

Despite the lack of movement in NZD/USD, there was plenty of news to digest. Globally, we were watching the (temporary?) truce on the US-China trade war, the attack on Turkey's currency and its spillover effects, on again-off again headlines on the US-North Korea summit, and the dovish FOMC minutes. Domestically, NZ retail sales for Q1 were surprisingly weak and negatively impacted the NZD, while Fonterra revised up its milk payout forecast by 3% to $6.75 for FY18 and offered an opening forecast of $7 for FY19, at the very top end of market expectations, signalling optimism on global demand for dairy products.

This week we'll be watching closely developments on NZ's Mycoplasma Bovis outbreak and its economic impacts. This afternoon the Cabinet will sign off the government's plan of attack, with phased eradication the most likely path, potentially costing $1 billion. Up until recently we were relaxed about the outbreak of this disease which largely impacts the dairy sector, but its widespread outbreak now means that it is a more significant risk to the NZ economy and potentially NZD.

Going forward, dairy practices – such as movement of cows – will have to change alongside de-intensification of farming practices. As such, the impact is unequivocally negative for the economy. While the actual impact on the NZD might not end up being material, negative headlines on this issue provide some scope to hold back performance, with the knee-jerk reaction being to sell the NZD.

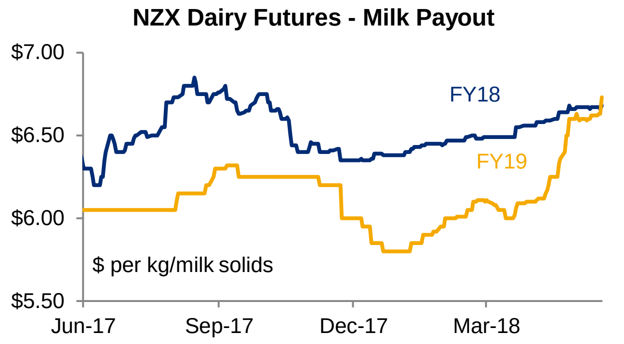
Elsewhere on the domestic event calendar, the ANZ business outlook survey on Thursday and Wednesday's RBNZ Financial Stability Report might be of some interest. It'll provide another opportunity for new Governor Orr to face the media and answer questions on the housing market and his take on macroprudential policy.

Globally, the key data releases to watch are towards the end of the week. US core PCE inflation is expected to come in soft at 0.1% m/m, mimicking the earlier release of soft CPI data for April. The payrolls report on Friday night should continue to show healthy real labour market indicators but focus will remain on the wage data.
If average hourly earnings remain at 2.6% y/y as the consensus expects, then there will be no smoking gun to take US rates and the USD any higher.

Euro-area inflation data are expected to show a little bit more life and should add weight to the view of the ECB completely ending its asset purchase programme this year. EUR has started the week on a positive note as Italy's President has rejected the populist leaders' proposed euro-skeptic Finance Minister. Italian political developments will likely remain a key force on EUR for some time yet as the next steps in trying to form a new government develop.

Overall, we see NZD's consolidation phase continuing. It still remains slightly oversold when benchmarked against our short-term fair value model but we are keeping an eye out from any possible fall-out from the developing risk around Mycoplasma Bovis. The tragedy for some dairy farmers – and the economy – is that the milk payout is on a rising trend and the forced culling of the dairy herd goes against the improved income dynamics.

Higher Dairy Payouts Ahead



Source: NAB/BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6925	0.6850 - 0.7050
NZD/AUD	0.9199	0.9140 - 0.9380
NZD/GBP	0.5141	0.5080 - 0.5190
NZD/EUR	0.5881	0.5780 - 0.5890
NZD/JPY	76.78	75.60 - 77.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7170	-3%
NZD/AUD	0.9180	0%

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Technicals

NZD/USD

Outlook:	Downside risk
ST Resistance:	0.6980 (ahead of 0.7160)
ST Support:	0.6850 (ahead of 0.6800)

The 0.68-0.69 zone is an area of strong support, and a breach of this would threaten much lower levels.

NZD/AUD

Outlook:	Downside risk
ST Resistance:	0.9250 (ahead of 0.9530)
ST Support:	0.9050 (ahead of 0.9400)

After the recent sharp fall, the next area of support kicks in around 0.90-0.9050 and this might prove to be a tougher level to crack.

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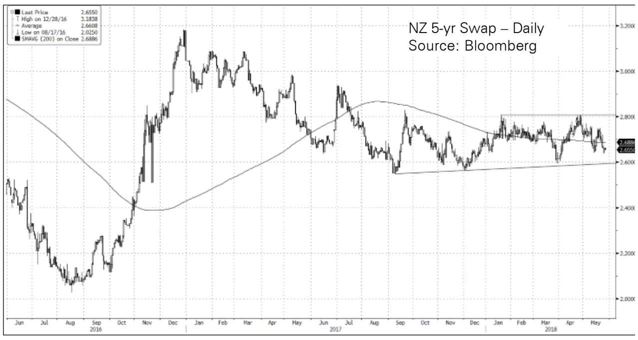
NZ 5-year Swap Rate

Outlook:	Neutral
ST Resistance:	2.80
ST Support:	2.60

Choppy price action, but we remain in the range. Await a break to initiate new position.



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

Outlook:	Neutral
ST Resistance:	+57
ST Support:	+43

No change here, await a break to initiate new position.

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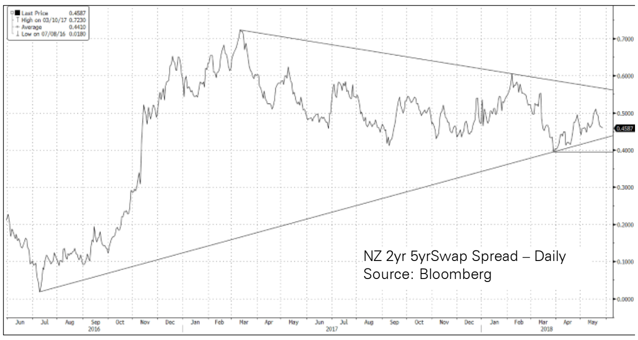

Quarterly Forecasts

Forecasts as at 28 May 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded)

	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	0.7	1.1	0.9	0.6
Retail trade (real s.a.)	1.4	1.5	1.8	0.3	1.4	0.1	0.5	1.3	1.3	0.7
Current account (ytd, % GDP)	-2.2	-2.6	-2.6	-2.5	-2.7	-2.8	-3.1	-3.3	-3.3	-3.1
CPI (q/q)	0.4	1.0	0.0	0.5	0.1	0.5	0.7	0.9	0.3	0.8
Employment	0.9	1.1	-0.1	2.2	0.4	0.6	0.5	0.5	0.6	0.6
Unemployment rate %	5.3	4.9	4.8	4.6	4.5	4.4	4.4	4.4	4.3	4.2
Avg hourly earnings (ann %)	1.1	1.1	1.2	2.0	3.1	4.0	3.8	3.6	3.5	3.1
Trading partner GDP (ann %)	3.6	3.6	3.7	4.1	3.9	3.9	3.9	3.7	3.8	3.8
CPI (y/y)	1.3	2.2	1.7	1.9	1.6	1.1	1.8	2.2	2.4	2.7
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
Forecast data - end quarter

		Government Stock			Swaps			US Rates		Spread
	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**
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
2018 Mar	1.75	1.90	2.40	2.95	2.20	2.70	3.20	2.20	2.85	0.10
Forecasts										
Jun	1.75	2.00	2.50	2.90	2.25	2.75	3.20	2.25	3.00	-0.10
Sep	1.75	2.00	2.65	3.15	2.25	2.90	3.45	2.45	3.25	-0.10
Dec	1.75	2.00	2.75	3.20	2.40	3.00	3.50	2.55	3.25	-0.05
2019 Mar	1.75	2.10	2.85	3.25	2.55	3.10	3.55	2.65	3.25	0.00
Jun	2.00	2.35	3.15	3.55	2.85	3.10	3.55	2.75	3.50	0.05
Sep	2.25	2.60	3.35	3.70	3.10	3.10	3.55	2.75	3.50	0.20
Dec	2.50	2.85	3.50	3.80	3.35	3.40	3.85	2.75	3.50	0.30
2020 Mar	2.75	3.10	3.60	3.85	3.50	3.40	3.85	2.75	3.50	0.35
Jun	3.00	3.25	3.70	3.85	3.50	3.40	3.85	2.75	3.50	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	0.69	0.76	1.17	1.33	110	0.69	0.92	0.59	0.52	76.0	72.9
Jun-18	0.71	0.75	1.20	1.38	111	0.71	0.93	0.59	0.51	78.3	73.3
Sep-18	0.71	0.77	1.23	1.42	110	0.71	0.92	0.58	0.50	78.1	72.9
Dec-18	0.70	0.75	1.25	1.45	108	0.70	0.93	0.56	0.48	75.6	71.8
Mar-19	0.70	0.75	1.26	1.50	106	0.70	0.93	0.56	0.47	74.2	71.6
Jun-19	0.71	0.76	1.27	1.52	104	0.71	0.94	0.56	0.47	73.8	72.4
Sep-19	0.71	0.75	1.28	1.53	102	0.71	0.95	0.56	0.46	72.4	72.4
Dec-19	0.70	0.75	1.30	1.55	100	0.70	0.93	0.54	0.45	70.0	71.2
Mar-20	0.70	0.75	1.32	1.55	99	0.70	0.93	0.53	0.45	69.3	71.1
Jun-20	0.69	0.74	1.34	1.57	98	0.69	0.93	0.52	0.44	67.6	70.2
Sep-20	0.69	0.74	1.36	1.60	98	0.69	0.93	0.51	0.43	67.6	70.1
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 28 May 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	4.0	3.6	2.3	5.0	4.5	3.7	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	3.8	4.0	3.9	6.4	3.3	4.4	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	3.3	2.7	4.7	4.0	3.1	3.0	2.1
Exports	5.6	0.7	4.0	1.7	4.2	1.6	2.5	1.7	4.2	4.5
Imports	2.1	5.1	6.2	3.5	3.6	3.4	6.6	3.7	3.9	3.0
Real Expenditure GDP	4.4	3.6	3.2	2.8	2.8	4.1	3.0	2.7	3.0	2.4
GDP (production)	**3.6**	**3.7**	**2.8**	**3.1**	**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*	*2.4*
Output Gap (ann avg, % dev)	1.0	1.3	0.9	1.3	1.3	1.3	1.0	1.2	1.3	1.3
Household Savings (% disp. income)	-1.3	-2.8	-2.4	-3.6	-3.4					
Nominal Expenditure GDP - $bn	254.7	270.3	287.1	298.8	312.5	266.0	283.5	295.6	309.0	323.2
Prices and Employment - annual % change										
CPI	0.4	2.2	1.1	2.7	2.0	1.3	1.6	2.4	2.1	2.0
Employment	2.0	5.7	3.1	2.2	1.6	5.8	3.7	2.2	1.9	1.2
Unemployment Rate %	5.2	4.9	4.4	4.2	4.3	5.3	4.5	4.3	4.3	4.5
Wages - ahote	2.5	1.1	4.0	3.1	3.1	1.1	3.1	3.5	3.2	2.6
Productivity (ann av %)	1.5	-1.9	-0.8	0.7	0.9	-0.8	-1.3	0.2	1.0	1.1
Unit Labour Costs (ann av %)	1.3	3.8	3.8	3.2	2.4	2.7	4.0	3.8	2.4	2.0
External Balance										
Current Account - $bn	-7.0	-7.2	-8.2	-9.2	-8.6	-6.0	-7.7	-9.7	-8.9	-8.0
Current Account - % of GDP	-2.8	-2.6	-2.8	-3.1	-2.7	-2.2	-2.7	-3.3	-2.9	-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)	24.0	21.7	20.8	20.7	19.7					
Bond Programme - $bn	7.0	8.0	8.0	8.0	9.0					
Bond Programme - % of GDP	2.7	3.0	2.8	2.7	2.9					
Financial Variables (1)										
NZD/USD	0.67	0.70	0.73	0.70	0.70	0.70	0.70	0.70	0.70	0.68
USD/JPY	113	113	106	106	99	116	113	108	100	97
EUR/USD	1.11	1.07	1.23	1.26	1.32	1.05	1.18	1.25	1.30	1.38
NZD/AUD	0.90	0.92	0.94	0.93	0.93	0.96	0.91	0.93	0.93	0.93
NZD/GBP	0.47	0.57	0.52	0.47	0.45	0.56	0.52	0.48	0.45	0.43
NZD/EUR	0.61	0.66	0.59	0.56	0.53	0.67	0.59	0.56	0.54	0.49
NZD/YEN	76.2	79.1	77.0	74.2	69.3	81.6	78.7	75.6	70.0	66.0
TWI	72.2	76.5	74.8	71.6	71.1	78.1	73.6	71.8	71.2	69.2
Overnight Cash Rate (end qtr)	2.25	1.75	1.75	1.75	2.75	1.75	1.75	1.75	2.50	3.00
90-day Bank Bill Rate	2.41	1.98	1.93	2.08	3.08	2.02	1.88	2.00	2.83	3.17
5-year Govt Bond	2.40	2.70	2.35	2.85	3.60	2.75	2.30	2.75	3.50	3.65
10-year Govt Bond	2.90	3.25	2.95	3.25	3.85	3.30	2.80	3.20	3.80	3.95
2-year Swap	2.30	2.30	2.25	2.55	3.50	2.40	2.20	2.40	3.35	3.50
5-year Swap	2.60	3.00	2.70	3.10	3.85	3.00	2.65	3.00	3.75	3.90
US 10-year Bonds	1.90	2.50	2.85	3.25	3.50	2.50	2.40	3.25	3.50	3.50
NZ-US 10-year Spread	1.00	0.75	0.10	0.00	0.35	0.80	0.40	-0.05	0.30	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 28 May			
US, Holiday, Memorial Day			
Tuesday 29 May			
Jpn, Unemployment Rate, April		2.5%	2.5%
US, Consumer Confidence, May		128.0	128.7
Wednesday 30 May			
NZ, RBNZ Fin. Stability Report			
NZ, Building Consents, April (res, #)			+14.7%
Aus, Building Approvals, April		-3.0%	+2.6%
Jpn, Retail Sales, April y/y		+0.9%	+1.0%
Euro, Economic Confidence, May		112.0	112.7
Germ, CPI, May y/y 1st est		+2.0%	+1.6%
US, ADP Employment, May		+190k	+204k
US, GDP, Q1 2nd est		+2.3%	+2.3%P
US, International Goods Trade, Apr advance		-$71.0b	-$68.3b
US, Beige Book			
Can, BOC Policy Announcement			1.25%
Thursday 31 May			
NZ, ANZ Business Survey, May			-23
NZ, Credit Aggregates, Apr (household y/y)			+5.9%
Aus, Private Sector Credit, April		+0.4%	+0.5%
Aus, Private New Capex, Q1		+1.0%	-0.2%
China, PMI (NBS), May		51.4	51.4
Thursday 31 May...continued			
China, Non-manufacturing PMI, May		54.8	54.8
Jpn, Industrial Production, Apr 1st est		+1.4%	+1.4%
Euro, Unemployment Rate, April		8.4%	8.5%
Euro, CPI, May y/y 1st est		+1.6%	+1.2%
US, Personal Spending, April		+0.4%	+0.4%
US, Fed's Brainard Speaks, Mon. Pol. Outlook			
US, Chicago PMI, May		58.0	57.6
Friday 1 June			
NZ, Terms of Trade, Q1	-2.2%	-2.0%	+0.8%
NZ, ANZ-RM Consumer Confidence, May			120.5
China, PMI (Caixin), May		51.2	51.1
Jpn, Capital Spending, Q4 y/y		+3.2%	+4.3%
UK, Markit/CIPS Manuf Survey, May		53.5	53.9
US, ISM Manufacturing, May		58.1	57.3
US, Non-Farm Payrolls, May		+190k	+164k
US, Unemployment Rate, May		3.9%	3.9%
Monday 4 June			
NZ, Holiday, Queen's Birthday			
Aus, Company Profits, Q1			+2.2%
Aus, Retail Trade, April			flat
US, Factory Orders, April			+1.6%

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.89	1.88	1.89	1.87
2mth	1.93	1.93	1.95	1.91
3mth	2.00	1.99	2.02	1.98
6mth	2.04	2.04	2.12	2.01
GOVERNMENT STOCK				
03/19	1.78	1.79	1.81	1.95
04/20	1.86	1.85	1.88	2.11
05/21	2.01	2.02	2.06	2.23
04/23	2.30	2.34	2.37	2.51
04/25	2.57	2.64	2.64	2.72
04/27	2.74	2.83	2.84	2.84
04/33	3.10	3.21	3.21	3.13
04/37	3.26	3.37	3.39	3.38
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	67	66	65	85
Nth America 5Y	63	62	61	62
Europe 5Y	65	60	54	61

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.19	2.21	2.27	2.24
3 years	2.35	2.39	2.44	2.43
4 years	2.51	2.56	2.59	2.60
5 years	2.65	2.71	2.73	2.75
10 years	3.13	3.23	3.21	3.23
FOREIGN EXCHANGE				
NZD/USD	0.6926	0.6946	0.7035	0.7057
NZD/AUD	0.9159	0.9161	0.9344	0.9485
NZD/JPY	76.06	77.14	76.91	78.51
NZD/EUR	0.5925	0.5891	0.5825	0.6321
NZD/GBP	0.5202	0.5174	0.5112	0.5496
NZD/CAD	0.8982	0.8883	0.9036	0.9493
TWI	72.9	72.8	73.5	76.8

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