

2 July 2018



Pique Performance

- **QSBO to hammer home business worries**
- **But not obviously disinflationary**
- **As cost concerns related to policy and capacity reign**
- **Stuttering TWI 2% below RBNZ assumptions**
- **But as NZ commodity prices exhibit peak?**

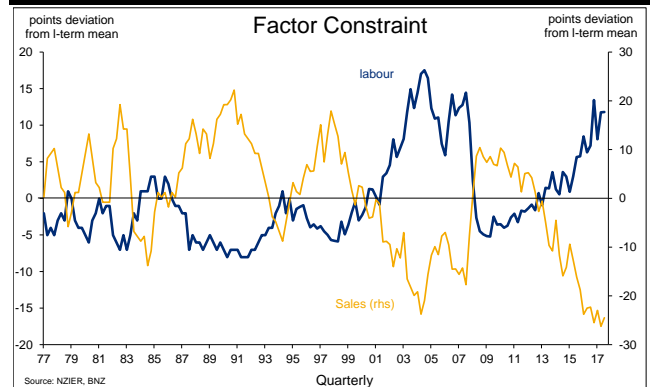
There will be no prizes for guessing that tomorrow's NZIER Quarterly Survey of Business Opinion (QSBO) will offer a shakier view on the economy than it did three months ago. The question is; how much worse? But also bear in mind that a good deal of the angst relates to policies, and capacity constraints, which are bound to inflate costs.

As for the QSBO's net confidence measure, it will surely dive deeper into the red (from its level of -11 back in Q1). Just like the ANZ measure has done over recent months. The activity indicators in tomorrow's NZIER survey will probably fall too.

Still, we don't expect the survey's activity reports to entirely lose the plot. After all, we remain of the view that GDP growth picked up in Q2, as the specific factors that held back Q1 right themselves. Last week's economic data aided this view, with positive signs in May's merchandise trade and, in particular, building consents. Can Wednesday's ANZ job ads, for June, keep this ball rolling?

But even if the GDP path is looking shakier from this point forward – according to the QSBO – be careful not to assume this is necessarily disinflationary. In fact, the survey's rich information on capacity constraint, costs, and pricing, could well keep highlighting that inflationary

The Problem is Relatively Clear



screws are integral to the problems. As will the plethora of government policy change in train.

Such wisps of stagflation would be an awkward mix for the RBNZ, especially with the explicit employment target now in the Policy Targets Agreement.

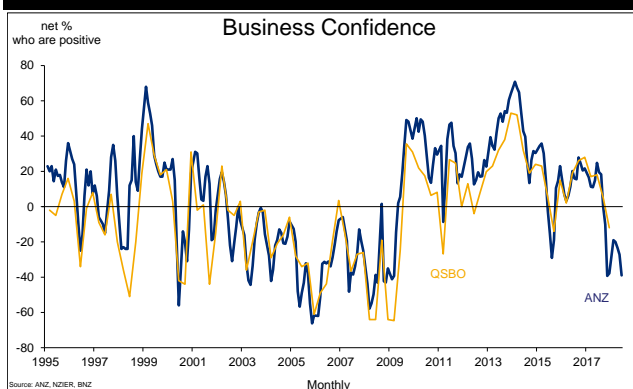
Of course, at last week's OCR review the Bank suddenly sounded more open about moving the cash rate, either way. Granted, the nearer-term data might be prone to encourage a rate-ease view in the markets. However, the markets should also not lose sight of the broader inflationary forces accumulating, in the event the NZ economy does not go pear shaped.

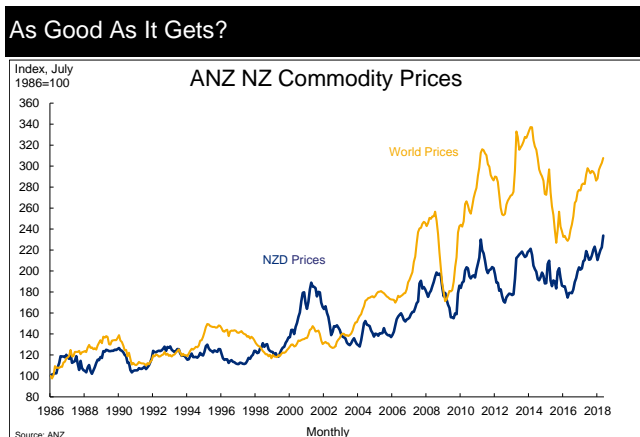
And even if the case for easier NZ monetary conditions does get some sort of credence, there is voluminous potential for the currency to do the work, in the first instance. We've arguably had a taste of this over recent weeks, as the exchange rate has moderated. On a trade-weighted basis it is almost 2% lower than the Bank assumed in its May Monetary Policy Statement. Keep an eye on this.

This is occurring in a context, to be sure. Global jitters are percolating, and China is nuancing a bit more stimulus into its economy.

In this context, we are keeping a wary eye on New Zealand's commodity export prices as a potential transmission mechanism. The next test will come in the early hours of our Wednesday morning, with the latest dairy auction. For this we anticipate another moderate drop in the GDT-weighted (international) price index, but broadly offset by the lower NZD since the previous event.

Deeper Into The Red





It's not clear that currency conversion will aid Wednesday afternoon's ANZ commodity export prices for the month of June however, for which we anticipate a flat result in world price terms. But, it could denote the start of a patchier period for export prices, suggesting the (terms of trade) peak could well be behind us.

There is also some fiscal news due this week. Later this afternoon, the NZ Treasury has a chance to express its feelings on the economy in its MEI document. We

mention this with the feeling the Budget forecasts were pushing the growth envelope (hence the Treasury's relatively hawkish message on interest rates, as you'll recall?).

Any concern about over-optimism can be checked against Friday's Crown Financial accounts. However, in being for the eleven months to May 2018, it might be too soon for any cracks to be showing (and for the fact we expect Q2 GDP growth to have been reasonable). There is also the just-instituted (1 July) suite of fiscal stimulus, directed at parts of the household sector, to note. Still, tomorrow's QSBO will probably feed doubts about the tax revenue basis for the fiscal year 2018/19.

There will also be a monthly update on the NZ housing market this week. At 5:00am Tuesday morning Quotable Value is scheduled to issue its report for June. Its regional variation will be worth noting most of all, with Auckland and Canterbury having been patchy of late, while the rest of the country has appeared robust.

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Global Watch

- **US tariffs on China scheduled for Friday**
- **May overshadow US ISMs and payrolls data**
- **Employment data due in EU and Canada**
- **No change expected from RBA tomorrow**
- **But busy Australian data week: building, retail, trade**
- **Japan's Tankan survey due today**

Australia

It's a busy week, with the RBA Board meeting and the release of May data for: Building Approvals (Tuesday), Retail Sales and Trade (both Wednesday).

The RBA Board is certain to keep the cash rate on hold tomorrow. Not even a single basis point hike is priced in by the market, a reflection of the Bank's clear willingness to wait for a meaningful lift in wages growth and inflation and in no mood to cut either.

On the data, markets will be watching Building Approvals data for two key trends: (1) signs of further slowing in the apartment market, and (2) whether the recent decline in the non-residential office market has bottomed.

Chart 1: Retail Sales Soft In May

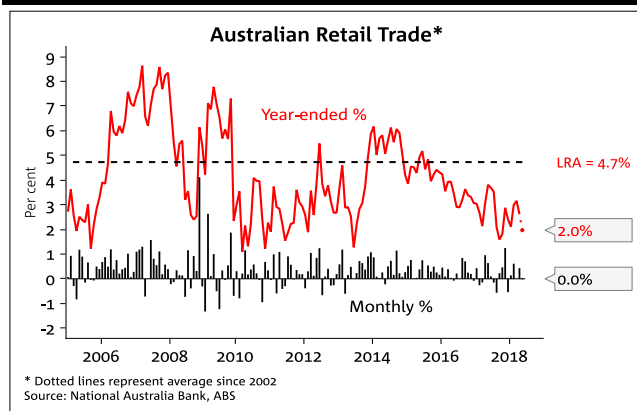


Chart 2: Building Approvals To Tick Up, But Trend To Slow

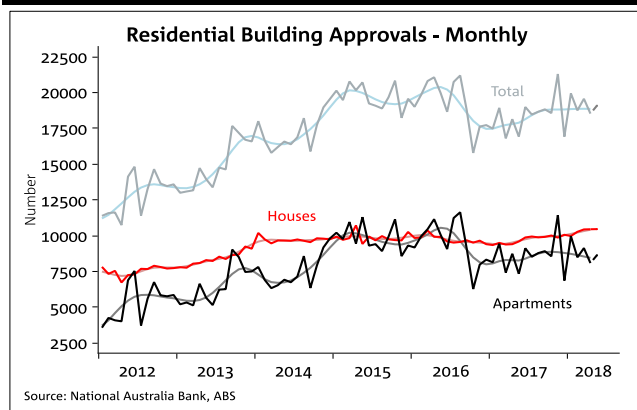
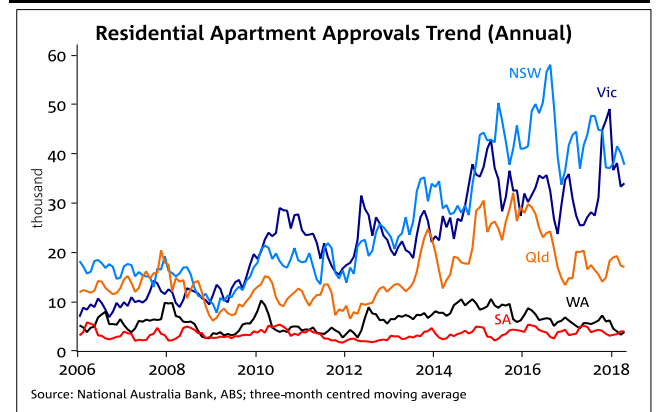
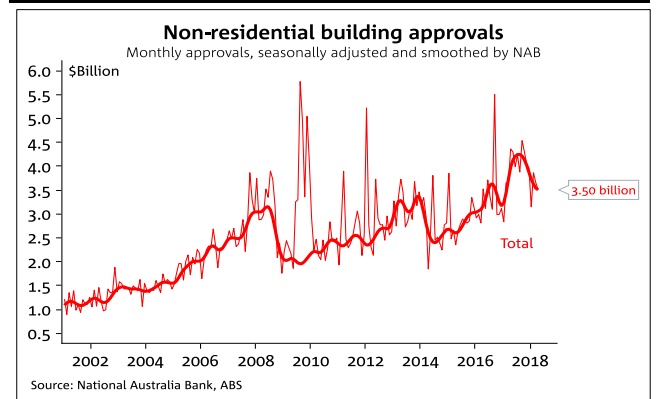


Chart 3: Apartment Approvals Are Still Very Strong



While past the peak, apartment approvals remain at very high levels, supported by ongoing strength in NSW and Victoria. Having said that, Victorian apartment approvals have started slowing in the past few months. As such, while we expect overall apartment approvals to bounce back in the month (+6.8% m/m, after -11.6% in April), a continuation of its see-saw monthly pattern, that's only partial payback and consistent with a softening trend.

Chart 4: Non-Residential Building Approvals

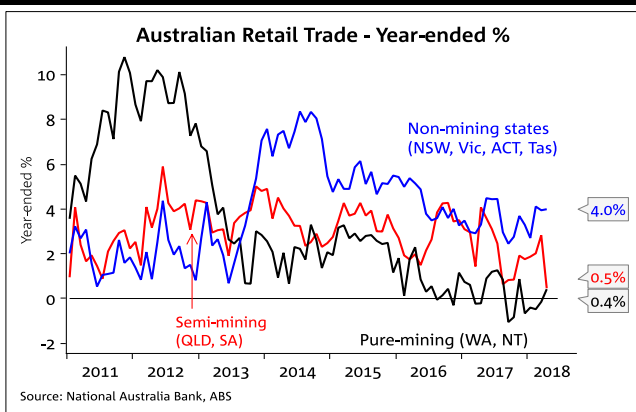


House approvals, on the other hand, have been rising in trend terms. We expect this trend to continue, although approvals might consolidate this month (+0.1% m/m) after a few strong prints. Taken together with apartment approvals, NAB's expectation for May building approvals is +3% m/m (+12.7% y/y).

Also in the same ABS report, non-residential approvals have noticeably declined in the past few months, led by a decline in office approvals. We'll be watching to see if the decline in office approvals begins to trough, particularly given the tight vacancy rates in some East Coast markets and in Sydney at least, rising rents in the office market.

Retail Sales data have been surprising regularly of late, likely due in part to changing seasonality and Easter effects. The NAB Cashless Retail Sales Index points to an unchanged level of Retail Sales in May, following last month's stronger-than-expected growth of 0.4% m/m.

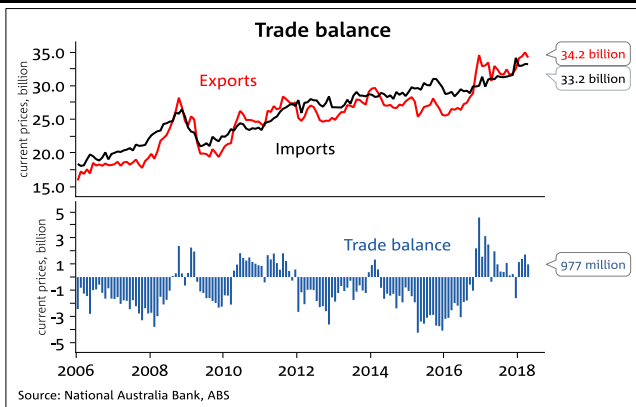
Chart 5: Mining States Have Been A Drag On Retail Sales



We'll also be receiving the NAB Online Retail Sales Index on Tuesday, which will provide another indication for the May retail sales print in the online space.

Also on Wednesday, the May Trade Balance will be published, with NAB expecting a narrowing of the trade surplus, to \$600m. While LNG and iron ore exports are expected to rise, we also expect coal and rural exports to have declined in May. Coal port loadings have declined modestly in May, while rural goods exports have been on the decline for some months now as less favourable harvests impact. In addition, higher oil prices will likely boost imports, which will further reduce the trade surplus, though there'll be some LNG offset in the months ahead, driven by the contract price links to rising oil prices.

Chart 6: Trade Surplus To Shrink A Little



Global

US tariffs loom large with this Friday the date the US has set to impose a 25% tariff on \$34bn of Chinese goods, with China pledging to retaliate in kind if tariffs are enacted. Expect more coverage and volatility on any new developments in the lead up. Focus will also be on emerging markets, which have been hit by a triple whammy of trade war worries, a stronger USD and higher US rates.

US

Along with the trade tension focus, the ISMs and Payrolls will dominate the week ahead. The ISM Manufacturing on Monday and Non-manufacturing on Thursday will be scrutinised for any emerging confidence or activity spillovers from trade tensions. Markets are not expecting a significant impact, but recent Fed anecdotes pick up concerns among businesses considering deferring spending and investment. For Payrolls, markets expect another solid report with +198k jobs, wages growth of 2.8% and an unchanged unemployment rate at 3.8%. The Fed Minutes are also on Wednesday.

China

Focus remains on trade given US tariffs are scheduled to be implemented on Friday. Also under focus is the PBoC and the CNY given recent fixes have shadowed the CNY fall of around 3.5% over the past two weeks. The question then is whether the falls are seen as a little too fast and whether future daily fixes will be used to send a signal to markets.

UK

Focus remains on Brexit with PM May summoning her entire cabinet for a meeting at Chequers on 6 July ahead of a key Brexit whitepaper scheduled for Monday 9 July. There is an increased urgency to Brexit discussions given the March 2019 deadline is coming closer and the Pound has fallen sharply in recent weeks. Datawise the focus will be on the Markit PMIs with Manufacturing on Monday, Construction on Tuesday and Services on Wednesday – consensus is for broadly unchanged on all three. There are also three BoE speakers with the highlight being Governor Carney on Thursday.

Eurozone

The focus will be on the unemployment rate on Monday and Retail Sales on Tuesday. We also get the final PMI reads on Wednesday. Finally, Industrial Production for Germany is out Friday with a small +0.2% m/m rebound expected after last month's 1% decline.

Canada

An important week that will help determine whether the BoC hikes rates next week (around 55% priced for a hike in July). The Markit Manufacturing PMI is out Tuesday and Friday brings the market sensitive Employment report (and Trade), the focus on Hourly Earnings out of the Employment report after last month's 3.9% y/y earnings increase blew expectations out of the water, markets only expecting 3.2%.

Japan

The yen seems impervious to Japanese data in the main but Monday's Tankan is still regarded as the best business barometer.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Last week saw a sizeable fall in short-dated swap rates after the RBNZ OCR Review was interpreted as dovish and the ANZ Business Survey disappointed again. The 2 year swap rate fell from 2.25% to 2.14% at the end of the week, near the lowest levels it has traded over the past 18 months.

The RBNZ sounded less committal to an unchanged OCR, saying that the OCR will remain at 1.75% "for now", rather than "some time". The RBNZ's references to global trade tensions, weaker than expected GDP and a lower than expected fiscal impulse gave the Statement a slightly dovish tone, and the market interpreted the wording changes as implying the RBNZ had opened the door to possible rate cuts. In response, the OIS curve now prices a very small (around 5%) chance of rate cuts over the coming six months and has pushed back the expected start date of the tightening cycle to March 2020. For the first time since the end of the easing cycle, the market now prices less tightening than the RBNZ's projections (see chart to the right).

We think it makes sense that the market is pricing in *balance of risks* towards cuts at the very short-end of the OIS curve (albeit we think an actual rate cut is unlikely). Core inflation is below target and almost certain to remain so by the end of the year. If trade tensions rise further (generating global financial market volatility) or domestic data remains soft, we think the market will start to price a more meaningful risk of an RBNZ rate cut.

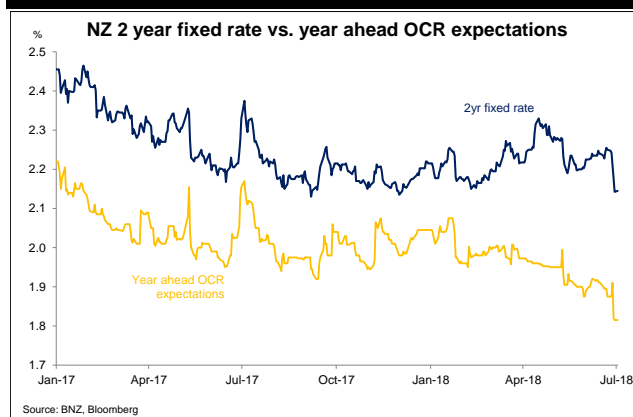
Ultimately, we expect inflation to rise more quickly to target than the RBNZ expects and growth to rebound from temporary weakness in Q1. But the key is core, rather than headline, inflation. We don't expect any correction higher in short-dated swap rates in the near-term.

Locally, the QSBO is released tomorrow with the market expecting a similar result to last week's sobering ANZ Survey. We wouldn't expect much market reaction unless it showed a less pessimistic view of business confidence. Other local data shouldn't move the market. CPI is the next major data release on the 17th July.

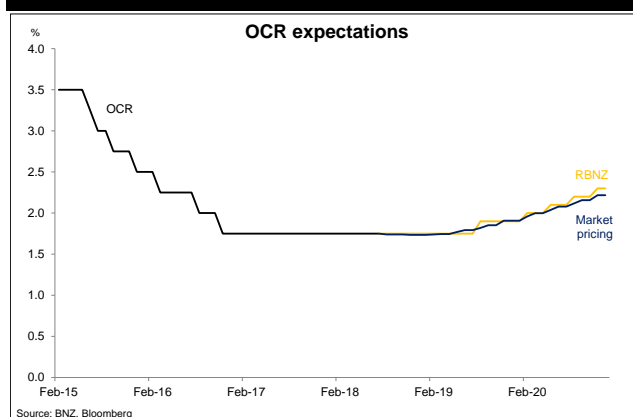
In the week ahead, there is a lot of US data, with non-farm payrolls on Friday the highlight (and in particular the average hourly earnings wage measure). The minutes to the Fed's June meeting will also be closely watched for any references to global trade tensions and how that might affect the committee's tightening plans. Finally, there will be continued focus on trade tensions, with the US set to implement tariffs on \$34b of Chinese imports on Friday and China having promised to retaliate in-kind. Our base case remains that US 10 year Treasury yields will trade within a 2.75% to 3% range over the coming few months (or at least until there is some resolution around

trade). We expect the NZ 10 year swap rate will be similarly range-bound, although the market's dovish interpretation of the OCR Review means it will probably trade a lower range than previously.

2 Year Swap Rate Towards The Lows After OCR Review



Market Pricing Is Now Below The RBNZ OCR Projections



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.99	1.99 - 2.03
NZ 2yr swap (%)	2.15	2.14 - 2.27
NZ 5yr swap (%)	2.54	2.53 - 2.74
NZ 10yr swap (%)	3.03	3.01 - 3.23
2s10s swap curve (bps)	88	85 - 97
NZ 10yr swap-govt (bps)	18	17 - 25
NZ 10yr govt (%)	2.85	2.84 - 3.00
US 10yr govt (%)	2.86	2.82 - 3.01
NZ-US 10yr (bps)	-2	-7 - 4
NZ-AU 2yr swap (bps)	6	5 - 16
NZ-AU 10yr govt (bps)	22	18 - 29

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZFWDS Bloomberg pg BNZ9

The NZ dollar showed a broadly based fall last week, down 1½-3% on the key major crosses. Domestic factors were largely at play, with further weakness in NZ business confidence, a key risk to the economic outlook, and a seemingly more dovish RBNZ OCR Review announcement that was interpreted as the Bank becoming a bit more open-minded about a possible easing in monetary policy. NZ's 2-year swap rate fell by 11bps for the week, the largest weekly move in a year, highlighting the significance of the market reaction.

Other news to note is the escalation of trade tensions that now sees the PBoC encouraging a weaker CNY to counteract the threat of weaker trade and a softer economic outlook. This spilled over into softer Asian currencies and a weaker NZD.

The NZD hit a fresh 2-year low of 0.6736 before a turnaround in the USD saw a slightly better close on Friday. NZD/JPY made a fresh 18-month low while NZD/EUR and NZD/GBP trade near the bottom end of recent trading ranges. NZD/AUD ended the week around 0.9150, back to a level seen in early June.

Where to from here? Technicals don't give a clear picture, with one wondering about the potential for further weakness since the break of key technical levels last week, while the relative strength indicator suggests that the Kiwi is currently oversold. CFTC data showed that speculative short positioning in the NZD extended in the period ending 26 June and we suspect that post business confidence data and the OCR Review last week more short positions were put on. This takes the NZD to historically extreme levels of short positioning, which increases the hurdle for significant further near-term weakness.

More fundamentally, our short-term fair value estimate has slipped towards the bottom end of its range seen over the past year to approach 0.7000. This largely reflects our risk appetite index falling to 57% and falling NZ short-term rates relative to the US. Current spot is around 3% below fair value, not particularly significant, given the standard error of the model.

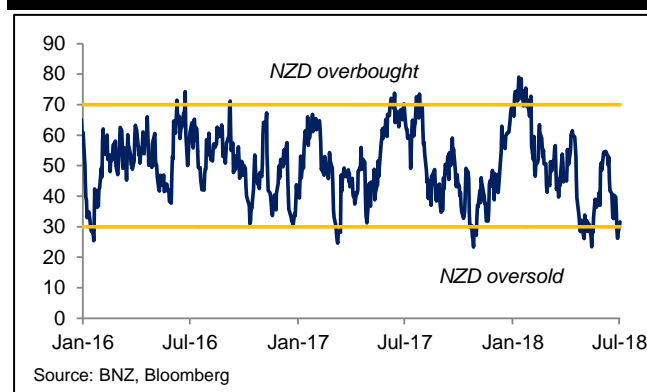
We can see arguments both sides for either a near-term recovery in the NZD after a severe beating, or further slippage as fundamental forces and ongoing negative sentiment weigh on the currency. The biggest near term risk we see for the NZD is the ongoing pressure seen in emerging market asset prices. On that note, it's worth closely monitoring the PBoC's CNY fixes each day for any signal that might indicate further massaging of a weaker CNY. This could continue to spill over into other Asian currencies and the NZD.

In the week ahead, trade tensions might continue to be a negative force on risk assets, if weekend reports by the FT and WSJ are anything to go by, which signal further possible escalation. This Friday, the US is set to impose a 25% tariff on \$34bn of Chinese goods, with China pledging to retaliate in kind if tariffs are enacted. Expect more coverage and volatility on any new developments in the lead-up to this date.

On the economic front, locally the NZIER's quarterly survey of business opinion tomorrow will provide more information on the state of the economy, likely to show further slippage in activity indicators and rising inflationary pressure, an awkward mix as the RBNZ decides the appropriate course of monetary policy.

Globally, the US employment report at the end of the week is the key focus, expected to show a strong labour market with another nudge higher in wage inflation. ISM data and the June FOMC minutes round out the calendar. In Australia, tomorrow's RBA meeting should be a non-event, while retail sales data on Wednesday should be on the soft side.

NZD Oversold on Technical Relative Strength Indicator



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6784	0.6740 - 0.7050
NZD/AUD	0.9165	0.9150 - 0.9380
NZD/GBP	0.5139	0.5120 - 0.5280
NZD/EUR	0.5811	0.5790 - 0.6040
NZD/JPY	75.11	74.40 - 77.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7020	-3%
NZD/AUD	0.9150	0%

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Technicals

NZD/USD

Outlook: Downside risk
 ST Resistance: 0.7050 (ahead of 0.7160)
 ST Support: 0.6735 (ahead of 0.6675)

The key 0.68-0.69 support zone has now been clearly broken and opens up the threat of further near-term downside pressure. A new 2-year low was reached last week of 0.6736, and this makes it the first support level, ahead of the May-2016 low near 0.6675.



NZD/AUD

Outlook: Trading range
 ST Resistance: 0.9400 (ahead of 0.9580)
 ST Support: 0.9120 (ahead of 0.9050)

A fairly messy short-term technical picture, but we see near-term resistance near 0.9400 and near-term support around 0.9120.



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NZ 5-year Swap Rate

Outlook: Lower
 ST Resistance: 2.60
 ST Support: 2.275

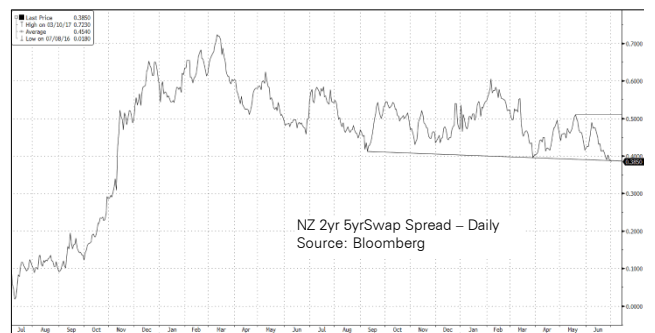
Breakout occurred last week with 2.60 being breached. Very little in the way of support until 2.275. Invested with a stop above 2.60.



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

Outlook: Neutral
 ST Resistance: +51
 ST Support: +38.5

Market making fresh lows but await a clear break of +38 before initiating flatness.



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Quarterly Forecasts

Forecasts as at 2 July 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (production s.a.)	0.8	0.9	0.6	0.6	0.5	0.8	1.0	0.9	0.5	0.6
Retail trade (real s.a.)	1.5	1.8	0.3	1.4	0.1	0.2	1.2	1.2	0.7	0.6
Current account (ytd, % GDP)	-2.6	-2.6	-2.5	-2.7	-2.8	-3.1	-3.5	-3.4	-3.1	-3.0
CPI (q/q)	1.0	0.0	0.5	0.1	0.5	0.6	0.7	0.4	0.8	0.5
Employment	1.1	-0.1	2.2	0.4	0.6	0.5	0.5	0.6	0.6	0.5
Unemployment rate %	4.9	4.8	4.6	4.5	4.4	4.4	4.4	4.3	4.2	4.3
Avg hourly earnings (ann %)	1.1	1.2	2.0	3.1	4.0	4.0	3.8	3.7	3.4	3.4
Trading partner GDP (ann %)	3.5	3.7	4.0	3.9	4.1	3.9	3.8	3.8	3.7	3.7
CPI (y/y)	2.2	1.7	1.9	1.6	1.1	1.7	1.9	2.2	2.5	2.3
GDP (production s.a., y/y)	3.0	2.8	2.6	2.9	2.7	2.6	3.0	3.3	3.2	3.1

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	Libor	US 10 yr	NZ-US
		Bank Bills						3 month		Ten year
2017 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
Jun	1.75	2.00	2.50	2.90	2.25	2.75	3.20	2.30	3.00	-0.10
Forecasts										
Sep	1.75	2.00	2.50	2.95	2.25	2.75	3.25	2.40	3.10	-0.15
Dec	1.75	2.00	2.70	3.10	2.40	2.95	3.40	2.65	3.25	-0.15
2019 Mar	1.75	2.10	2.80	3.20	2.55	3.05	3.50	2.85	3.25	-0.05
Jun	2.00	2.35	3.10	3.45	2.85	3.05	3.50	3.20	3.50	-0.05
Sep	2.25	2.60	3.30	3.60	3.10	3.05	3.50	3.45	3.50	0.10
Dec	2.50	2.85	3.45	3.70	3.35	3.35	3.75	3.45	3.50	0.20
2020 Mar	2.75	3.10	3.55	3.80	3.50	3.35	3.75	3.20	3.50	0.30
Jun	3.00	3.25	3.70	3.80	3.50	3.35	3.75	3.20	3.50	0.40
Sep	3.00	3.25	3.65	3.80	3.50	3.55	3.90	3.20	3.50	0.40

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.68	0.74	1.17	1.32	111
Sep-18	0.69	0.73	1.15	1.32	109
Dec-18	0.70	0.75	1.18	1.38	110
Mar-19	0.70	0.75	1.22	1.45	108
Jun-19	0.71	0.75	1.22	1.47	106
Sep-19	0.71	0.75	1.25	1.53	104
Dec-19	0.70	0.75	1.30	1.55	102
Mar-20	0.70	0.75	1.32	1.55	100
Jun-20	0.69	0.74	1.34	1.57	99
Sep-20	0.69	0.74	1.36	1.60	98
Dec-20	0.68	0.73	1.38	1.60	98

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-1
Current	0.68	0.92	0.58	0.51	75.0	72.
Sep-18	0.69	0.94	0.60	0.52	74.7	73.
Dec-18	0.70	0.93	0.59	0.51	77.0	73.
Mar-19	0.70	0.93	0.57	0.48	75.6	72.
Jun-19	0.71	0.94	0.58	0.48	75.3	73.
Sep-19	0.71	0.94	0.57	0.46	73.8	72.
Dec-19	0.70	0.93	0.54	0.45	71.4	71.
Mar-20	0.70	0.93	0.53	0.45	70.0	71.
Jun-20	0.69	0.93	0.52	0.44	68.3	70.
Sep-20	0.69	0.93	0.51	0.43	67.6	70.
Dec-20	0.68	0.93	0.49	0.43	66.6	69.

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 2 July 2018	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2017	2018	2019	2020	2021	2016	2017	2018	2019	2020
GDP - annual average % change										
Private Consumption	5.5	3.8	3.0	2.2	1.3	5.1	4.4	2.9	2.6	1.4
Government Consumption	1.9	4.9	2.1	1.8	1.7	1.6	4.6	2.7	1.8	1.7
Total Investment	5.6	3.9	3.7	3.9	3.8	6.4	3.5	4.0	4.0	3.6
Stocks - ppts cont'n to growth	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.3	-0.2	0.0
GNE	4.8	4.0	3.3	2.5	2.0	4.7	4.2	3.6	2.6	2.0
Exports	0.7	3.9	3.6	4.2	4.4	1.6	2.3	3.4	4.4	4.3
Imports	5.1	7.0	5.1	3.5	3.0	3.4	6.7	6.2	3.6	3.0
Real Expenditure GDP	3.6	3.1	2.7	2.6	2.3	4.1	3.0	2.6	2.8	2.3
GDP (production)	3.7	2.7	3.0	2.6	2.3	4.0	2.8	2.9	2.8	2.3
GDP - annual % change (q/q)	3.0	2.7	3.2	2.4	2.4	3.4	2.9	3.3	2.4	2.3
Output Gap (ann avg, % dev)	1.3	0.9	1.0	0.8	0.6	1.3	1.0	1.0	0.9	0.6
Household Savings (% disp. income)	-2.8	-2.5	-3.6	-3.4	-2.5					
Nominal Expenditure GDP - \$bn	270.3	286.4	297.5	311.2	325.5	266.1	283.4	294.1	307.8	321.6
Prices and Employment - annual % change										
CPI	2.2	1.1	2.5	2.0	2.0	1.3	1.6	2.2	2.0	2.0
Employment	5.7	3.1	2.2	1.6	1.2	5.8	3.7	2.2	1.9	1.2
Unemployment Rate %	4.9	4.4	4.2	4.3	4.4	5.3	4.5	4.3	4.3	4.5
Wages - ahote	1.1	4.0	3.4	3.3	2.8	1.1	3.1	3.7	3.4	3.0
Productivity (ann av %)	-1.9	-0.8	0.6	0.7	1.0	-0.8	-1.3	0.1	0.8	1.0
Unit Labour Costs (ann av %)	3.8	3.9	3.3	2.7	2.2	2.7	4.0	3.9	2.6	2.4
External Balance										
Current Account - \$bn	-7.2	-7.9	-9.1	-8.5	-7.7	-6.0	-7.7	-10.1	-8.8	-8.1
Current Account - % of GDP	-2.6	-2.8	-3.1	-2.7	-2.4	-2.2	-2.7	-3.4	-2.9	-2.5
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.5	1.0	0.9	1.6	1.5					
Net Core Crown Debt (excl NZS Fund Assets)	21.7	20.8	20.7	19.7	18.3					
Bond Programme - \$bn	8.0	8.0	8.0	9.0	9.0					
Bond Programme - % of GDP	3.0	2.8	2.7	2.9	2.8					
Financial Variables ⁽¹⁾										
NZD/USD	0.70	0.73	0.70	0.70	0.68	0.70	0.70	0.70	0.70	0.68
USD/JPY	113	106	108	100	98	116	113	110	102	98
EUR/USD	1.07	1.23	1.22	1.32	1.38	1.05	1.18	1.18	1.30	1.38
NZD/AUD	0.92	0.94	0.93	0.93	0.93	0.96	0.91	0.93	0.93	0.93
NZD/GBP	0.57	0.52	0.48	0.45	0.43	0.56	0.52	0.51	0.45	0.43
NZD/EUR	0.66	0.59	0.57	0.53	0.50	0.67	0.59	0.59	0.54	0.49
NZD/YEN	79.1	77.0	75.6	70.0	66.6	81.6	78.7	77.0	71.4	66.6
TWI	76.5	74.8	72.6	71.3	69.9	78.1	73.6	73.8	71.5	69.3
Overnight Cash Rate (end qtr)	1.75	1.75	1.75	2.75	2.75	1.75	1.75	1.75	2.50	3.00
90-day Bank Bill Rate	1.98	1.93	2.08	3.08	2.92	2.02	1.88	2.00	2.83	3.17
5-year Govt Bond	2.70	2.35	2.80	3.55	3.65	2.75	2.30	2.70	3.45	3.65
10-year Govt Bond	3.25	2.95	3.20	3.80	3.95	3.30	2.80	3.10	3.70	3.95
2-year Swap	2.30	2.25	2.55	3.50	3.40	2.40	2.20	2.40	3.35	3.50
5-year Swap	3.00	2.70	3.05	3.80	3.90	3.00	2.65	2.95	3.70	3.90
US 10-year Bonds	2.50	2.85	3.25	3.50	3.50	2.50	2.40	3.25	3.50	3.50
NZ-US 10-year Spread	0.75	0.10	-0.05	0.30	0.45	0.80	0.40	-0.15	0.20	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		Forecast	Median	Last
Monday 2 July				Wednesday 4 July...continued			
Aus, Inflation Gauge (Melbourne Institute), June y/y			+2.1%	NZ, ANZ Commodity Prices (world), June			+1.5%
Aus, CoreLogic HPI, June			-0.2%	Aus, International Trade, May	+\$0.60b	+\$1.20b	+\$0.98b
Aus, ANZ Job Ads, June			+1.5%	Aus, Services PMI (AiG), June			59.0
China, PMI (Caixin), June		51.1	51.1	Aus, Retail Trade, May	flat	+0.3%	+0.4%
Jpn, Tankan (Ige manuf), Q2			+24	China, Services PMI (Caixin), June		52.7	52.9
Euro, PPI, May y/y	+2.7%		+2.0%	Euro, PMI Services, June 2nd est		55.0	55.0P
Euro, Unemployment Rate, May		8.5%	8.5%	UK, Markit/CIPS Services, June		54.0	54.0
Euro, PMI Manufacturing, June 2nd est		55.0	55.0P	US, Holiday, Independence Day			
UK, Markit/CIPS Manuf Survey, June		54.0	54.4	Thursday 5 July			
US, Construction Spending, May	+0.5%		+1.8%	NZ, Crown Financial Statements, 11m-ended-May 2018			
US, ISM Manufacturing, June		58.5	58.7	Germ, Factory Orders, May		+1.1%	-2.5%
Tuesday 3 July				UK, Carney Speaks			
NZ, QSB0, Q2			-11	US, ADP Employment, June		+190k	+178k
Aus, Building Approvals, May	+3.0%	flat	-5.0%	US, FOMC Minutes, 13 June meeting			
Aus, RBA Policy Announcement	1.50%	1.50%	1.50%	US, ISM Non-Manuf, June		58.2	58.6
Euro, Retail Sales, May		+0.1%	+0.1%	Friday 6 July			
US, Factory Orders, May		flat	-0.8%	Aus, Construction PMI (AiG), June			54.0
NZ, QVNZ House Prices, June y/y			+6.9%	Jpn, Household Spending, May y/y (real)		-1.5%	-1.3%
Wednesday 4 July				Germ, Industrial Production, May		+0.3%	-1.0%
NZ, Dairy Auction, GDT Price Index			-1.2%	US, Non-Farm Payrolls, June		+195k	+223k
NZ, ANZ Job Ads, June			+2.2%	US, International Trade, May		-\$43.6b	-\$46.2b

Historical Data

	Today	Week Ago	Month Ago	Year Ago		Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS					SWAP RATES				
Call	1.75	1.75	1.75	1.75	2 years	2.15	2.25	2.23	2.38
1mth	1.90	1.91	1.89	1.87	3 years	2.27	2.38	2.37	2.60
2mth	1.94	1.97	1.95	1.93	4 years	2.41	2.52	2.51	2.78
3mth	1.99	2.03	2.01	2.00	5 years	2.54	2.65	2.65	2.94
6mth	2.06	2.10	2.06	2.03	10 years	3.03	3.11	3.12	3.42
GOVERNMENT STOCK					FOREIGN EXCHANGE				
03/19	1.78	1.78	1.78	2.10	NZD/USD	0.6780	0.6903	0.7029	0.7295
04/20	1.80	1.90	1.87	2.31	NZD/AUD	0.9163	0.9302	0.9191	0.9522
05/21	1.93	2.03	2.01	2.43	NZD/JPY	75.05	75.77	77.19	82.71
04/23	2.15	2.26	2.29	2.72	NZD/EUR	0.5810	0.5893	0.6008	0.6419
04/25	2.45	2.54	2.56	2.93	NZD/GBP	0.5135	0.5193	0.5280	0.5638
04/27	2.65	2.72	2.75	3.04	NZD/CAD	0.8918	0.9180	0.9090	0.9488
04/33	3.02	3.10	3.11	3.37					
04/37	3.17	3.25	3.27	3.59	TWI	72.7	73.6	73.9	78.5
GLOBAL CREDIT INDICES (ITRXX)									
Australia 5Y	80	74	69	83					
Nth America 5Y	68	67	64	60					
Europe 5Y	74	73	65	55					

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