16 July 2018

Shoe-Gazing on Inflation

- **Q2 CPI expected to squeak above RBNZ pick**
- **Amid groundswell of inflation drivers/risks**
- **Note sectoral-factor inflation in non-tradables**
- **PSI echoes PMI message of slower growth**
- **REINZ housing data to highlight regional variation**
- **Dairy prices biased to weaken further Wednesday**

Will tomorrow's June quarter CPI inflation figures be robust enough to beat RBNZ forecasts? The market polls think so, albeit by a whisker. However, there is palpable nervousness in the wider market about a weaker than anticipated number.

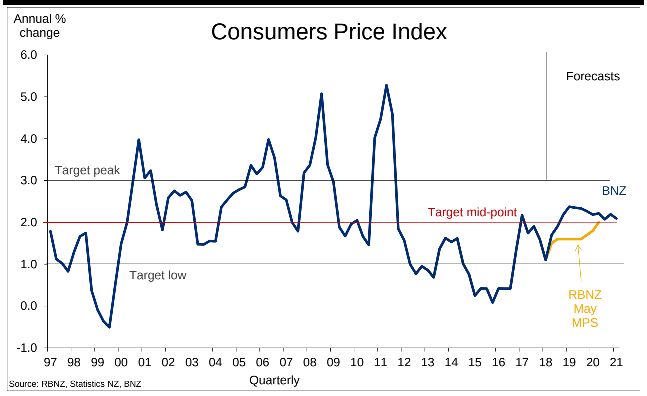
For the record, we do judge the risks for tomorrow's CPI as skewed toward disappointment. And this is in comparison to the market's median expectation of a quarterly increase of 0.5%, for annual inflation of 1.6%.

This might sound like us hedging our bets, considering we are formally picking an increase of 0.6%, for 1.7% y/y. But, technically speaking, it's very close to rounding down to a 0.5%/1.6%. So we wouldn't make a big deal of the difference between us and the analyst community.

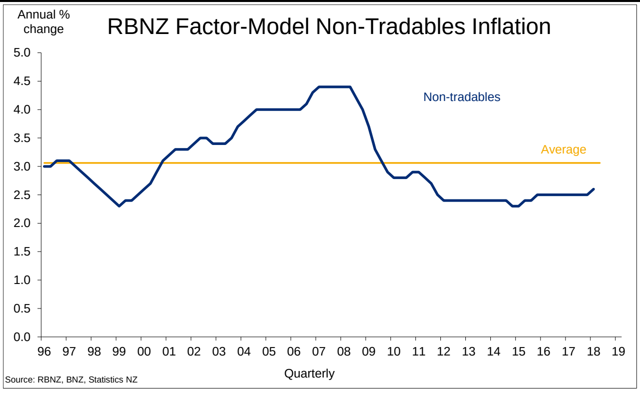
And this is especially so, when the big deal seems to be about whether the CPI fails to strengthen much at all. One local bank is picking a quarterly increase of just 0.1%, albeit very much the outlier to the remainder, who are in a range of 0.4 to 0.7%.

To be sure, the RBNZ, in its May Monetary Policy Statement (MPS), forecast a 0.4% increase in the Q2 CPI. This lifted its annual pace to 1.5%, from the 1.1% it slumped to in Q1. This might appear to give the market a buffer. However, this Reserve Bank expectation was completed largely before the recent ramp up in oil/fuel prices. So we would guess the Bank is effectively anticipating something a bit higher than 0.4%, 1.5% y/y, as of now.

The Starting Point



Watching



To be sure, at one level a big undershoot on Q2 CPI inflation would throw the doves amongst the pigeons (yes, they are different creatures, kind of). Markets would then likely price more chance of a rate cut before the end of this year, carving a chunk from the exchange rate in the process.

However, it's also important to judge the extent to which the market is already positioned for the chance of a disappointing Q2 CPI. If this is the way, then an at-consensus outcome on inflation could nudge NZ wholesale interest rates, and the currency, up on the day.

Then there is the broader story on NZ inflation. We still see this accumulating in force and risk. Base case, we forecast annual CPI inflation firming up to 2.4% by early 2019 – providing tomorrow's outturn comes in at or close to 1.7%.

In any case, it will be important to keep tabs on the various core inflation measures. The annual sectoral-factor version, as produced by the RBNZ, still has prominence in this regard, although it is rare for it change much, when it does budge. At last read it was 1.5% - where it has averaged over the last few years.

But also keep an eye on the non-tradables component of sectoral factor inflation, as insight into underlying inflation trends. Its annual rate ticked up to 2.6% in Q1. This measure tends to dictate the overall sectoral factor model result, while tradables inflation tends to get down-weighted on account of its playing hostage to the exchange rate cycle. These core figures are due from 3:00pm on CPI day.

With respect to the split on the actuals, note that the RBNZ expected a 0.3% increase in the non-tradables CPI for Q2. This would set its annual speed at 2.4%, compared to 2.3% in Q1. Just note that these figures are suppressed by the recent reduction in tertiary education fees in Q1. We estimate a 0.4% increase in the non-tradables CPI for Q2, which would give an annual gain of 2.5%.

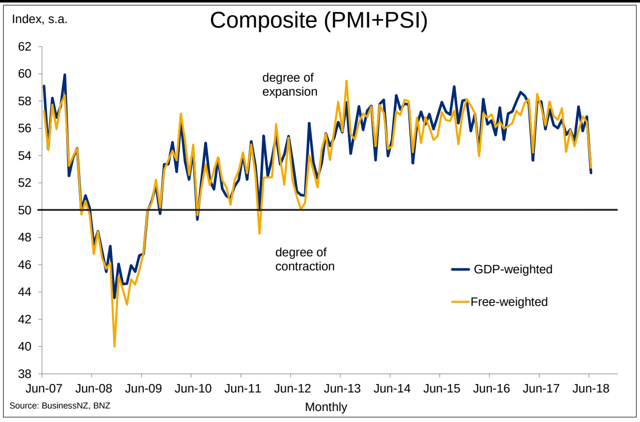
Turning to tradables prices, the May MPS anticipated a 0.6% lift for the June quarter (+0.4% y/y). We anticipate 0.7% (+0.5% y/y), with the advantage of having seen the most recent levels in local petrol, as well as food, prices.

All considered, there seems a good chance of core inflation measures holding up at recent levels, even if there is a sense of disappointment on the headline CPI.

If there is a "real" threat to our inflation view, it's more to do with how GDP growth performs over the next while. In this vein, this morning's Performance of Services Index (PSI) did not aid the cause. It decelerated sharply – from May's handsome 57.1 to 52.8 in June. In doing so, the PSI failed to offset the slowness now in June's PMI too. Combined, the PMI and PSI signal moderate growth in GDP, when we are looking for a strengthening tone.

There is still time for the fiscal stimulus to make a difference. But for the meantime a sense of caution around near-term economic growth is warranted.

Flagging



As for Friday's migration statistics, these will help gauge the extent of slowdown in the net inflow, from a peak last year. June's short-term arrivals, meanwhile, will surely be down noticeably on a year ago. But this is mainly because June last year was inflated by the start of the Lions' rugby tour.

Following the price theme from the CPI, New Zealand also has house prices, and dairy prices, through the week. The house price information will come in the form of Tuesday morning's Real Estate Institute residential report for June. While its overall results will be instructive its regional variance will hold most interest for us.

With respect to Wednesday morning's GDT dairy prices, we anticipate a further fall in the range of 1 to 4%. This would maintain downward pressure on Fonterra's current forecast for the 2018/19 milk price, of $7.00 per kilogram of milk-solids.

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Global Watch

- **Fed Chair Powell to testify Tuesday/Wednesday**
- **US retail, IP, and beige book to monitor**
- **China GDP, monthly data, to confirm slowdown?**
- **Waiting for EU response to Brexit paper**
- **CPI's due in UK, EU, Canada, and Japan**
- **UK employment and retail sales also to watch**
- **AU employment and RBA minutes due**

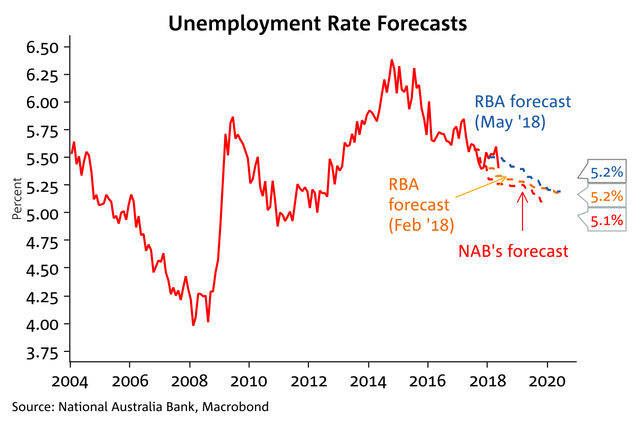
Australia

Only two potentially market-moving Australian events this week: the RBA Minutes (Tuesday) and June Labour Force (Thursday). Market analysts will also be finalising their Q2 CPI forecasts, with the CPI released the following week (25 July). NAB preliminary forecasts are 0.5/0.6% q/q for headline and 0.5% q/q for trimmed mean and 0.4% q/q for weighted median. We will finalise this forecast after the publication of the NZ CPI on Tuesday.

The Minutes have arguably become less significant for markets in the Phil Lowe era, with greater transparency on monetary policy thinking now evident in many RBA speeches. The evolution of the economy and inflation forecasts has also been proceeding quite slowly (or gradually as the RBA would say), meaning fewer significant developments or changes in the monthly Board Meeting Minutes.

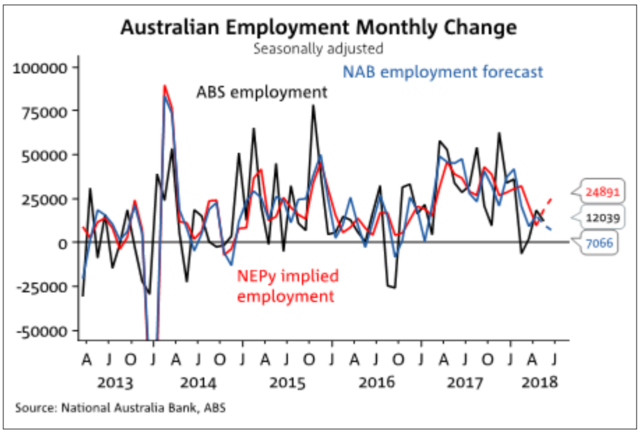
Focus this month is likely to be on any fuller discussion on the short-term funding pressures afflicting Australian short-term. Markets will also be alert to any RBA thoughts on how current trade tensions between the US and China might affect the Australian economy and RBA's forecasts. And with the Bank this month dropping the phraseology that an appreciating currency would restrain economic growth and slow the return of inflation to target, we will scour the Minutes for any insight as to the rationale for this change.

Prior Uptick In Unemployment Reversed



The only data event for the week is June Labour Force data on Thursday. With the all-important unemployment rate dropping to 5.4% last time around, there will be considerable interest in whether the unemployment rate can drop further, as this is the key metric the RBA has been using to assess spare capacity in the labour market – and thus the prospects for a pick-up in wages growth.

NAB Forecasts Softer Employment



NAB expects another slightly below market employment growth outcome: +10K for June, after +12.5K for May. This forecast reflects slightly softer lead employment indicators in recent months (NAB Business Survey and job ads) together with some continuing correction to the official data relative to the NAB survey implied employment indication last year. That said, our experimental internal indicators of employment have rebounded in June, suggesting upside risk to our forecast.

With last month's 5.4% unemployment print actually a 5.40% print, there is a little latitude for the forecast lower employment print to be accommodated without the unemployment rate rising. That said much will depend on whether the participation rate remains at its new lower level this month, or rebounds. We'll know more Thursday, but for now, we're remaining a little more optimistic on the outlook for the unemployment rate than both the RBA and Government, though we are monitoring the recent tentative slowing in job ads and the NAB Survey employment question closely and would not want to see too many further months of easing.

US

Fed Chair Powell delivers his semi-annual Senate and House Testimonies on Tuesday and Wednesday. All eyes will be on his views of the current trade tensions, how this is spilling over to the real economy and what this means for the inflation outlook – and whether the Fed will treat higher inflation related to tariffs as a temporary or permanent feature. Also under focus will be the yield curve with the 2/10s curve now at 26bps, the flattest since late 2007. Data wise, the US releases Retail Sales on Monday which should be strong, followed by Industrial Production on Tuesday and the Fed's Beige Book on Wednesday, focus in the latter no doubt on any confidence effects from trade and tariff tensions and on anecdotal reports about wages. Q2 earnings reports also continue with Bank of America reporting Monday and Goldman's on Tuesday.

China

Q2 GDP is expected to print at 6.7%, down slightly from 6.8% in Q1. The risk is the pace of Chinese growth may have even been a bit slower than this in Q2. The monthly Retail Sales, Industrial Production and Fixed Assets Investment deluge on Monday will be examined for evidence of the continuation of these trends.

EC

A quiet week with only the Trade Balance on Monday and a final version of the CPI on Wednesday. Otherwise focus will continue to be on mooted car tariffs with EU negotiators preparing their positions ahead of trade talks the following week (starting Wednesday 25 July).

UK

Politics will likely outshine what would normally be an important data week. The EU is likely to comment on the just released Brexit White paper, while the UK government itself remains divided with rebel hard-Brexit Tory MPs firmly opposed to the White paper and likely to seek amendments. NAB's view remains that the rebel hard-Brexit MPs do not have the numbers to topple PM May. While PM May remains in place, the risk of a hard Brexit is lower. Data wise, there is Employment/Wages on Tuesday, CPI on Wednesday and Retail Sales on Thursday. While important pieces, none is expected to change the dial on an August rate hike – which is now 82% priced.

Canada

Friday's CPI (and Retail Sales) are the main focuses of the week along with NAFTA negotiations, after US Treasury Secretary Mnuchin stated negotiations were a big priority for the US now that the Mexican election is over (progress though is expected to be slow given the US mid-terms). On CPI, markets are looking for some bounce back after last month's sharp downside surprise. Headline CPI in May came in at 2.2% y/y against expectations of 2.6%, almost entirely due to sharp falls in telephone services (-7.1% y/y) and traveller accommodation (-4.2%). A bounce will play into the Bank of Canada's view that inflation pressures are building and that higher rates are needed to keep inflation close to target; markets are now pricing a 57% chance of a further rate hike by December.

Japan

The key events are on Friday, with the CPI and the release of Japan foreign buying flows. The latter have been running at records recently, helping the JPY weaken even when world markets have been trading in a risk-off fashion. The trade balance on Tuesday and All Industry Activity Index on Friday will also be examined.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ rates fell last week, with the short-end of the swaps curve leading the falls. The 2 year swap is at 2.145%, 4bps lower than this time last week, and near the lowest levels seen over the past year.

The decline in front-end swap rates has been mainly due to the fall in the 90 day bank bill rate (which also declined 4bps over the past week to 1.93%). We explored the state of the NZ funding market week, concluding that the domestic bank system still appears very well-funded and that there were no signs of pressure in either the secured or unsecured markets (unlike in Australia). US funding pressure also continue to normalise, with the spread between 3 month Libor and OIS (the equivalent to the NZ bank bill-OIS spread) declining to its narrowest levels since February.

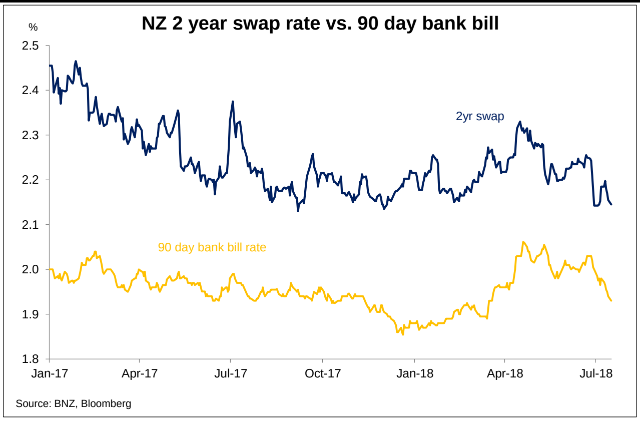
The focus for the domestic market this week will be squarely on CPI released tomorrow. There is a wide range of expectations among economists for headline CPI (0.1% to 0.7% for Q2 – we have a 0.6% pick). We suspect the market will be more sensitive to a negative CPI result given the RBNZ's recent change in language (saying only the OCR will be on hold "for now") and the backdrop of some weakness in NZ activity indicators (such as today's PSI). If headline CPI is close to 0.1% (so a very weak reading) we expect the market to increase its expectations of an RBNZ rate cut (currently priced at around a 10% chance). We wouldn't expect a stronger than expected headline CPI release to have much of a sustained impact on NZ rates, unless the RBNZ's sectoral factor model of core inflation ticks up.

Offshore, rates remain confined to very tight ranges despite the escalation in trade war rhetoric between the US and China. The 10 year Treasury yield has traded an exceptionally narrow 5bp range over the past two and a half weeks. This week, the focus will turn to Fed Chair Powell's semi-annual testimony to the House and Senate. With the market pricing an 85% chance of a September rate rise and a terminal rate of 2.75%, the market will be focused on the risks to Fed policy around trade tensions and whether Powell offers any guidance around what the Fed plans to do when (if) it reaches "neutral".

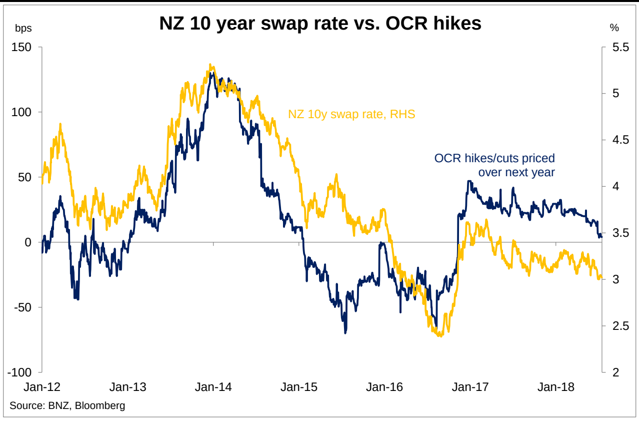
NZ longer-term swap rates remain towards the lower end of recent ranges, consistent with the recent paring back of OCR expectations (see second chart on the right). Our base-case is that longer-term NZ swap rates will be range-bound over the coming few months, although a weaker than expected CPI release would undoubtedly see rates break lower.

Elsewhere, credit rating agency S&P affirmed LGFA's credit rating on Friday after completing its methodological review of the funding agency. LGFA's rating remains at AA+ (local currency, long-term) which is equalised with that of the NZ government. LGFA spreads have been marked around 1bp tighter so far today, and we see the ratings action as removing a key uncertainty over the product and should be supportive of further spread performance.

NZ 90 day bank bill has been declining over recent weeks



NZ 10yr swap rate has declined in line with OCR pricing



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.93	1.93 - 2.03
NZ 2yr swap (%)	2.15	2.13 - 2.25
NZ 5yr swap (%)	2.54	2.52 - 2.65
NZ 10yr swap (%)	3.02	2.99 - 3.11
2s10s swap curve (bps)	88	85 - 88
NZ 10yr swap-govt (bps)	19	17 - 23
NZ 10yr govt (%)	2.83	2.76 - 2.92
US 10yr govt (%)	2.83	2.81 - 2.90
NZ-US 10yr (bps)	0	-9 - 2
NZ-AU 2yr swap (bps)	5	5 - 14
NZ-AU 10yr govt (bps)	20	17 - 26

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The USD had a good week last week, with the DXY around 0.75% stronger and the broader Bloomberg DXY version up around 0.6%. Sentiment towards the USD is reasonably positive at present, as suggested by the CFTC data showing speculative investors are net long USD.

On the trade front, the US administration announced a list of tariffs on $200b of Chinese goods, resulting in a brief pick-up in risk aversion mid-week. China condemned the US action but stopped short of threatening to respond with equivalent measures on US goods. This has raised hopes that the escalating cycle of tit-for-tat trade measures can be broken and the two sides can come to some sort of negotiated solution before the latest measures take effect (there is a two month review process). We suspect there may also be an element of market fatigue with regard to tariff-related headlines, which have been dominating news-flow for the past few months. Global equities were higher on the week.

Against a backdrop of broad-based USD strength, the NZD is around 1% lower on the week. Our fair-value estimate of the NZD actually increased from 0.7050 to 0.7110 last week with the improvement in risk appetite (higher equities, tighter EM bond spreads and a lower VIX) offsetting the continued tightening in NZ-US rate spreads. The NZD is now around 5% lower than our fair value estimate, which is towards the more extreme end of its deviations over the past five years, although we think that our model estimate will eventually shift below 0.70 later this year. The NZD weakness extended to most of the major crosses, with only NZD/JPY higher last week. The NZD/AUD closed last week at 0.9120, its lowest level since February.

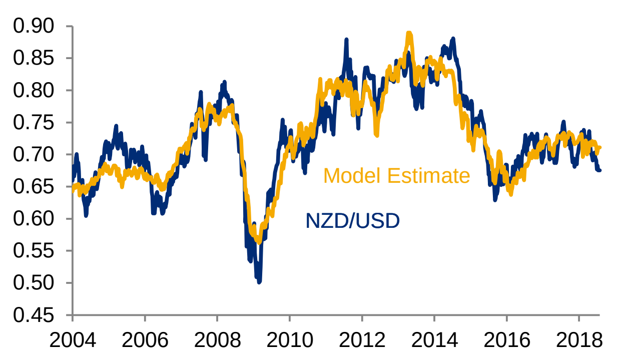
The all-important NZ CPI release dominates the calendar this week. The median expectation is for a 0.5% rise in Q2, slightly above the RBNZ's February MPS forecast of 0.4% but below our 0.6% pick. There is however an unusually wide range of expectations among economists – 0.1% to 0.7%. We suspect some of the weakness late last week in the NZD reflected some concern about the risk of a CPI outturn towards the lower end of economists' estimates. Accordingly, if headline CPI is close to median expectations we would expect to see a bounce in the NZD and some recovery on the crosses.

Technically, the NZD sits a little above its multi-year lows of 0.6688, which should provide the first point of support in a scenario where NZ CPI is weaker than expected. If the CPI release is very weak, we expect market expectations of a possible RBNZ rate cut (which the market currently attributes around a 10% chance) will rise and we would expect the NZD to make new lows. Outside of CPI, the Global Dairy Trade auction is also scheduled to take place on Wednesday morning and we are looking for a fall in the region of 1% to 4%.

Offshore, Chinese activity data released today will be of importance to the NZD and AUD. Readers might recall that weakness across retail sales, industrial production and fixed asset investment last month raised fears about Chinese growth and preceded the near 5% rise in the USD/CNY from mid-month (clearly, increased concerns about US-China trade relations contributed to the move). In the US, Fed Chair Powell delivers his semi-annual testimony to the House and Senate, with the market likely to be attuned to any comments on the impact of trade tensions and any guidance around the path of Fed policy. Retail sales is the main data release in the US.

It's a big week for UK data, with the labour market report, CPI and retail sales all released. UK politics remains a headwind for the GBP, with the government's recent white paper on UK-EU relations seeing a backlash from both Conservative brexiteers and remainers alike and the EU likely to comment on it this week. Crunch time for Brexit (and the GBP) will come later this year.

NZD now 5% below model estimate



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6762	0.6690 - 0.6910
NZD/AUD	0.9114	0.9100 - 0.9310
NZD/GBP	0.5113	0.5100 - 0.5220
NZD/EUR	0.5789	0.5750 - 0.5900
NZD/JPY	76.02	74.10 - 76.40

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7110	-5%
NZD/AUD	0.9140	0%

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Technicals

NZD/USD

Outlook: Downside risk
ST Resistance: 0.6860 (ahead of 0.7050)
ST Support: 0.6690 (ahead of 0.6575)

A fresh 2-year low was reached two weeks ago of 0.6688, and this makes it the first support level. Initial resistance comes in at last week's highs of 0.6860.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9215 (ahead of 0.9400)
ST Support: 0.9030 (ahead of 0.8975)

The year-to-date lows of 0.9030 should provide near-term support. Near-term resistance is at last week's highs of 0.9215, and above that 0.9400.

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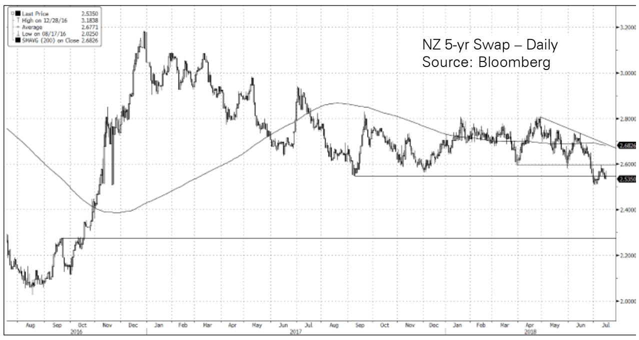
NZ 5-year Swap Rate

Outlook: Lower
ST Resistance: 2.60
ST Support: 2.275

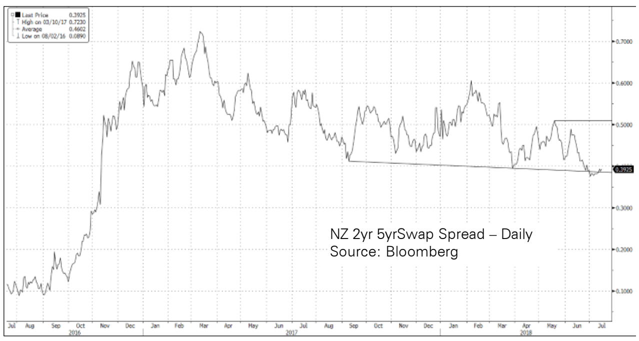
Stop through 2.60



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

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

Still awaiting break at +38 to see if new trend intact.



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Quarterly Forecasts

Forecasts as at 16 July 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts: Jun-18 to Jun-19

	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	0.7
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	-2.9	-3.2	-3.1	-2.7	-2.7
CPI (q/q)	1.0	0.0	0.5	0.1	0.5	0.6	0.7	0.4	0.7	0.6
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	4.0	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	2.4	2.3
GDP (production s.a., y/y))	3.0	2.8	2.6	2.9	2.7	2.6	3.0	3.3	3.3	3.2

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US 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	2.45	2.90	2.25	2.70	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	2.65	3.10	2.40	2.90	3.40	2.65	3.25	-0.15
2019 Mar	1.75	2.10	2.75	3.20	2.55	3.00	3.50	2.85	3.25	-0.05
Jun	2.00	2.35	3.05	3.45	2.85	3.00	3.50	3.20	3.50	-0.05
Sep	2.25	2.60	3.25	3.60	3.10	3.00	3.50	3.45	3.50	0.10
Dec	2.50	2.85	3.40	3.70	3.35	3.30	3.75	3.45	3.50	0.20
2020 Mar	2.75	3.10	3.50	3.80	3.50	3.30	3.75	3.20	3.50	0.30
Jun	3.00	3.25	3.65	3.80	3.50	3.30	3.75	3.20	3.50	0.40
Sep	3.00	3.25	3.65	3.80	3.50	3.50	3.90	3.20	3.50	0.40

Exchange Rates (End Period)

	USD Forecasts NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.68	0.74	1.17	1.32	112	0.68	0.91	0.58	0.51	76.1	72.7
Sep-18	0.69	0.73	1.15	1.32	109	0.69	0.94	0.60	0.52	74.7	73.4
Dec-18	0.70	0.75	1.18	1.38	110	0.70	0.93	0.59	0.51	77.0	73.8
Mar-19	0.70	0.75	1.22	1.45	108	0.70	0.93	0.57	0.48	75.6	72.6
Jun-19	0.71	0.75	1.22	1.47	106	0.71	0.94	0.58	0.48	75.3	73.2
Sep-19	0.71	0.75	1.25	1.53	104	0.71	0.94	0.57	0.46	73.8	72.8
Dec-19	0.70	0.75	1.30	1.55	102	0.70	0.93	0.54	0.45	71.4	71.5
Mar-20	0.70	0.75	1.32	1.55	100	0.70	0.93	0.53	0.45	70.0	71.3
Jun-20	0.69	0.74	1.34	1.57	99	0.69	0.93	0.52	0.44	68.3	70.3
Sep-20	0.69	0.74	1.36	1.60	98	0.69	0.93	0.51	0.43	67.6	70.1
Dec-20	0.68	0.73	1.38	1.60	98	0.68	0.93	0.49	0.43	66.6	69.3
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 16 July 2018	March Years Actuals 2017	2018	Forecasts 2019	2020	2021	December Years Actuals 2016	2017	Forecasts 2018	2019	2020
GDP - annual average % change										
Private Consumption	5.5	3.8	2.9	2.4	1.7	5.1	4.4	2.8	2.6	1.8
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	4.7	3.7	3.8	6.4	3.5	4.8	4.1	3.6
Stocks - ppts cont'n to growth	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.3	-0.1	0.0
GNE	4.8	4.0	3.4	2.6	2.2	4.7	4.2	3.7	2.7	2.2
Exports	0.7	3.9	4.9	4.2	4.0	1.6	2.3	4.3	4.9	4.0
Imports	5.1	7.0	5.2	3.5	2.2	3.4	6.7	6.3	3.7	2.4
Real Expenditure GDP	3.6	3.1	3.2	2.7	2.7	4.1	3.0	3.0	3.0	2.7
GDP (production)	**3.7**	**2.7**	**3.1**	**2.8**	**2.7**	**4.0**	**2.8**	**2.9**	**2.9**	**2.7**
GDP - annual % change (q/q)	*3.0*	*2.7*	*3.3*	*2.6*	*2.8*	*3.4*	*2.9*	*3.3*	*2.6*	*2.8*
Output Gap (ann avg, % dev)	1.4	0.9	1.0	0.8	0.5	1.4	1.0	1.0	0.9	0.6
Household Savings (% disp. income)	-2.8	-1.8	-2.9	-2.8	-2.0					
Nominal Expenditure GDP - $bn	270.3	286.4	300.1	316.5	329.0	266.1	283.4	295.7	312.7	326.2
Prices and Employment - annual % change										
CPI	2.2	1.1	2.4	2.2	2.1	1.3	1.6	2.2	2.3	2.2
Employment	5.7	3.1	2.2	1.6	1.6	5.8	3.7	2.2	1.9	1.6
Unemployment Rate %	4.9	4.4	4.2	4.4	4.3	5.3	4.5	4.3	4.3	4.3
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	0.8	1.2	-0.8	-1.3	0.2	0.9	1.1
Unit Labour Costs (ann av %)	3.8	3.9	3.6	2.7	2.2	2.7	4.0	4.0	2.8	2.3
External Balance										
Current Account - $bn	-7.2	-7.9	-8.1	-8.0	-9.7	-6.0	-7.7	-9.2	-8.3	-9.1
Current Account - % of GDP	-2.6	-2.8	-2.7	-2.6	-3.0	-2.2	-2.7	-3.1	-2.7	-2.8
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.5	1.2	1.0	1.5	1.5					
Net Core Crown Debt (excl NZS Fund Assets)	21.7	20.8	20.6	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	2.8	2.7					
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	2.75	3.50	3.60	2.75	2.30	2.65	3.40	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	3.00	3.75	3.85	3.00	2.65	2.90	3.65	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
Monday 16 July			
NZ, BNZ PSI (Services), June			57.3
China, Fixed Assets (ex rural), June ytd		+6.1%	+6.1%
China, Retail Sales, June y/y		+8.8%	+8.5%
China, Industrial Production, June y/y		+6.5%	+6.8%
China, GDP, Q2 y/y		+6.7%	+6.8%
Euro, Trade Balance, May s.a.		+€18.6b	+€18.1b
US, Retail Sales, June		+0.5%	+0.8%
US, Empire Manufacturing, July		+21.0	+25.0
US, Business Inventories, May		+0.4%	+0.3%
Tuesday 17 July			
NZ, CPI, Q2 y/y	+1.7%	+1.6%	+1.1%
NZ, REINZ Housing Data, June			
Aus, RBA Minutes, 3 Jul Meeting			
UK, Average Weekly Earnings, May y/y		+2.5%	+2.5%
UK, Unemployment Rate (ILO), May		4.2%	4.2%
UK, Carney, Cunliffe, Stheeman Speak, Financial Stability			
US, Industrial Production, June		+0.5%	-0.1%
US, NAHB Housing Index, July		69	68
US, Powell Gives Semi-annual Testimony			

	Forecast	Median	Last
Wednesday 18 July			
NZ, Dairy Auction, GDT Price Index			-5.0%
Euro, CPI, June y/y 2nd est		+2.0%	+2.0%P
UK, CPI, June y/y		+2.6%	+2.4%
US, Beige Book			
US, Housing Starts, June		1,320k	1,350k
Thursday 19 July			
Aus, Unemployment Rate, June	5.4%	5.4%	5.4%
Aus, Employment, June	+10k	+16k	+12k
Aus, NAB Business Survey, Q2			+7
Jpn, Merchandise Trade Balance, June		+¥531b	-¥578b
UK, Retail Sales vol., June		+0.1%	+1.3%
US, Leading Indicator, June		+0.5%	+0.2%
US, Philly Fed Index, July		+21.5	+19.9
Friday 20 July			
NZ, Credit Card Billings, June			-1.6%
NZ, External Migration, June s.a.			+5,090
Jpn, CPI, June y/y		+0.8%	+0.7%
Jpn, All Industry Index, May		flat	+1.0%
Germ, PPI, June y/y		+3.0%	+2.7%

Historical Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.86	1.87	1.90	1.82
2mth	1.89	1.92	1.94	1.88
3mth	1.94	1.98	2.03	1.96
6mth	2.01	2.04	2.07	2.01
GOVERNMENT STOCK				
03/19	1.78	1.78	1.78	1.96
04/20	1.83	1.82	1.87	2.19
05/21	1.94	1.92	2.02	2.35
04/23	2.17	2.14	2.28	2.64
04/25	2.47	2.44	2.55	2.85
04/27	2.65	2.63	2.73	2.97
04/29	2.85	2.83	2.89	
04/33	3.02	3.00	3.08	3.31
04/37	3.17	3.15	3.22	3.53
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	81	82	70	80
Nth America 5Y	61	62	61	57
Europe 5Y	65	68	68	53

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.15	2.19	2.24	2.25
3 years	2.28	2.31	2.39	2.47
4 years	2.41	2.44	2.53	2.66
5 years	2.54	2.57	2.67	2.82
10 years	3.02	3.04	3.13	3.35
FOREIGN EXCHANGE				
NZD/USD	0.6771	0.6837	0.6942	0.7318
NZD/AUD	0.9120	0.9158	0.9342	0.9382
NZD/JPY	76.15	75.78	76.74	82.43
NZD/EUR	0.5797	0.5820	0.5970	0.6376
NZD/GBP	0.5118	0.5158	0.5238	0.5606
NZD/CAD	0.8908	0.8961	0.9167	0.9293
TWI	72.8	73.1	73.8	78.2

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