1 October 2018

Capacity Issues Undermining Business Confidence

- **QSBO prone to show even-weaker confidence**
- **Related to capacity/inflation issues not just politics**
- **Labour market pointers coming into focus**
- **This week's housing data likely resilient in sum**
- **Dairy prices stabilising after recent slippage?**

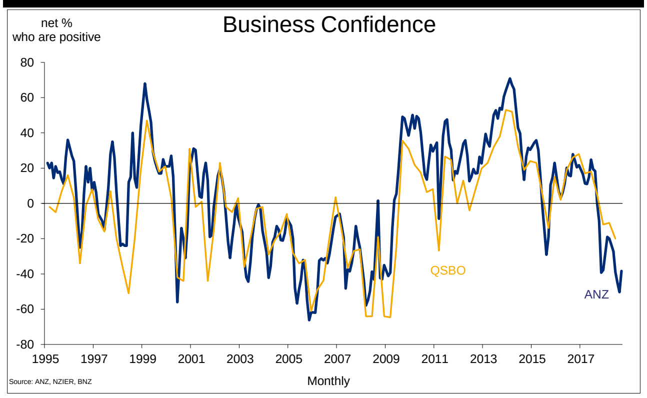
Importantly, tomorrow's NZIER Quarterly Survey of Business Opinion (QSBO) "moves on" from the meaty Q2 GDP outcome, to indicate how the economy is travelling over the second half of 2018. We'll mark this against our own expectation, which is that growth will roll on relatively well over this period, enough to keep upward pressure on inflation.

So we will clearly not be hanging a lot off the QSBO's net confidence measure, per se. Especially as it is prone to print even more negatively than it did in Q2 (-20). This will no doubt further aggravate political debate. But probably at the expense of appreciating the many things that are disconcerting the business sector at the moment, not just government policy. Like rising costs, related to chronic capacity constraints.

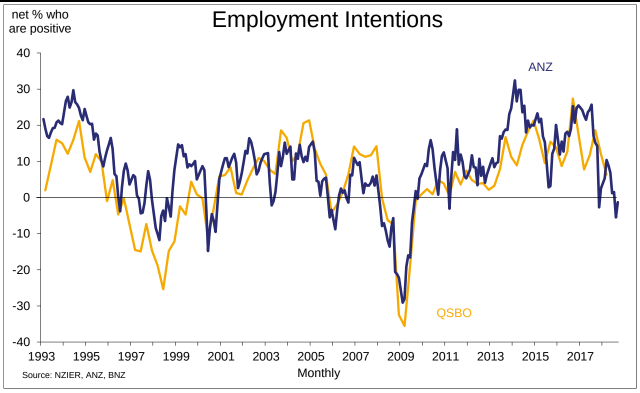
The "real" economic guide, for us, will be in the survey's range of own-activity indicators. And not just with respect to its GDP-aligned output and sales readings. What the QSBO says about employment and investment will also be worth tuning into.

There were some hints of decline in business investment in the Q2 GDP accounts, but nothing obvious. Still, investment intentions have been coming off the boil in the various business surveys, the QSBO included.

Guess What?



In Focus

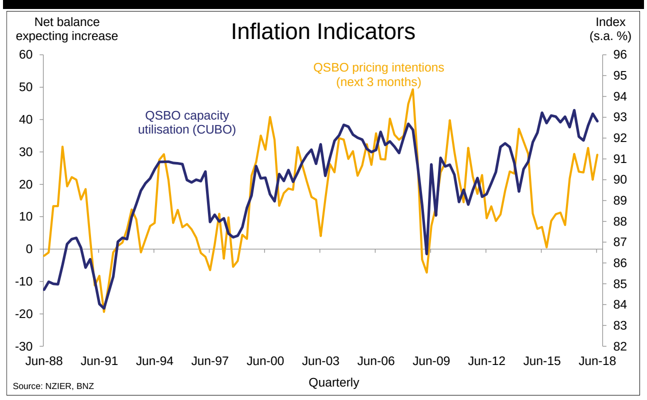


Also, the business surveys have been portraying a stalling in employment growth. And not just in prospect. Employment indicators from the Performance of Manufacturing and Services Indexes, for example, have lost all momentum over recent months. These are reports on outcomes not expectations. It's hard to know whether this is because of cautious hiring on the part of firms or an increasing lack of hireable people to choose from. Either way, slowness is a risk for the September quarter jobs data. These are due Wednesday next week.

Yet, we should also point out ANZ jobs ads have been exhibiting robustness over recent months. It will be interesting to see if this was sustained in September, in figures due 1:00pm Wednesday.

The QSBO will also be uniquely crucial, as usual, for what it says about the extent of stretch (still?) in the economy, and the degree to which this is translating into higher

But Who Can Ignore?



National Australia Bank

selling prices. Many folk have inferred from the lack of generalised inflation that the economy can't be all that stretched. Our view is that not only is there a relative lack of supply in the economy (just ask the business sector), but that structural factors, mainly international, are keeping NZ CPI inflation from reflecting it in full.

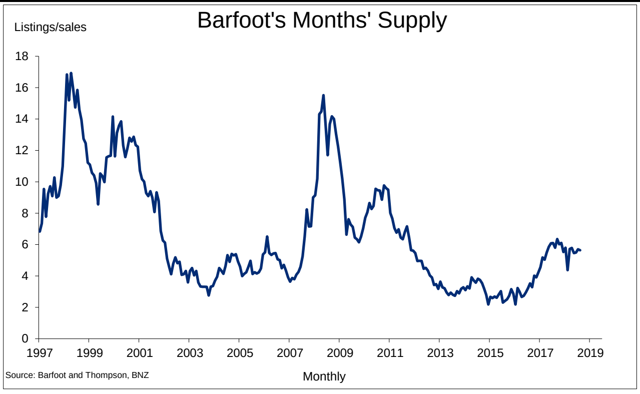
Anyway, traversing weak confidence to strong costs and inflation pressure, we suspect there will be something for everyone in tomorrow's QSBO.

The remainder of the economic news for the week is relatively minor, but they touch on some key areas.

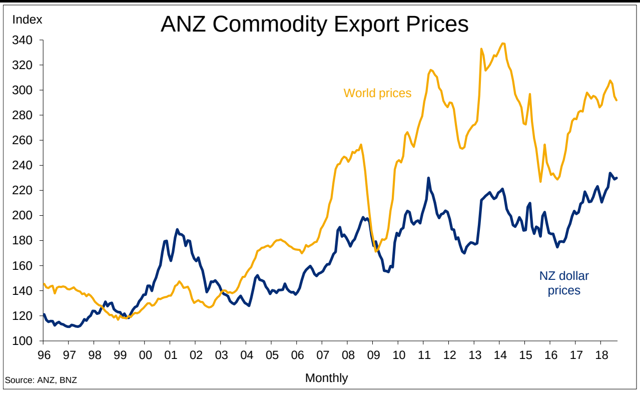
For example, we'll be getting a number of updates on the housing market, regarding September. Already, we've seen the realestate.co.nz results. These came across as upbeat, even for Auckland. Asking prices, already extreme in many places, were still edging up. Most interestingly, listings on realestate.co.nz were picking up the pace (compared to year-ago levels), particularly in Auckland.

For further insight into Auckland's residential property market, the latest Barfoot and Thompson figures will probably be released before the end of the week. Their listings figures - new, and stock-of – will be most interesting in the context of Auckland's house prices having levelled off over the last year (or two?). Is supply better meeting inherently strong demand?

Less Pressure



Peaking



As for Wednesday's QVNZ housing report for September, this will likely confirm a flat-to-uppity message – depending on the region you home in on.

Export price statistics are also in for some updates this week. The context to this is that strong as they are, New Zealand's terms of trade are showing clearer signs of coming off the boil (something to bear in mind for the current account going forward).

This should be in further evidence with Wednesday's ANZ commodity export prices. These are like likely to show a decrease, for September, of about 2% in world price terms. If so, it would be the fourth fall in as many months. Contrast this with rising oil import prices and a downward tendency in the terms of trade can be appreciated.

The fall we anticipate in September's ANZ commodity prices is predicated, once again, on dairy prices. Still, we believe the slippage in dairy prices – ever since the new production season began (starting 1 June) – might have run its course for now. For Wednesday morning's dairy auction, we're picking a relatively steady outcome in the GDT-weighted price index. Of course, we have already downgraded our 2018/19 milk price forecast to $6.30, from $6.60.

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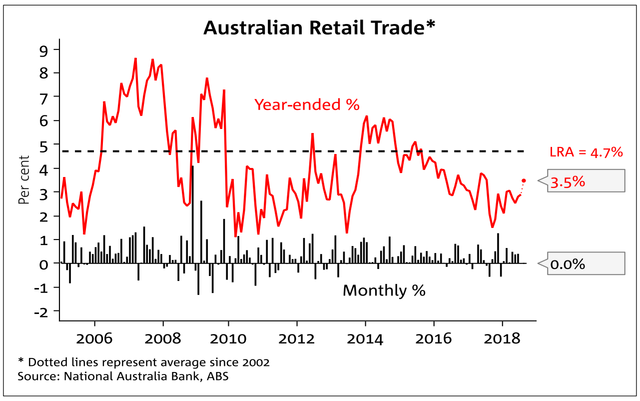
Global Watch

- **RBA Board meeting entrails of interest**
- **Aussie retail sales under pressure**
- **US labour market to tighten further?**
- **Politics dominates in the UK**
- **Japanese Tankan one to watch**

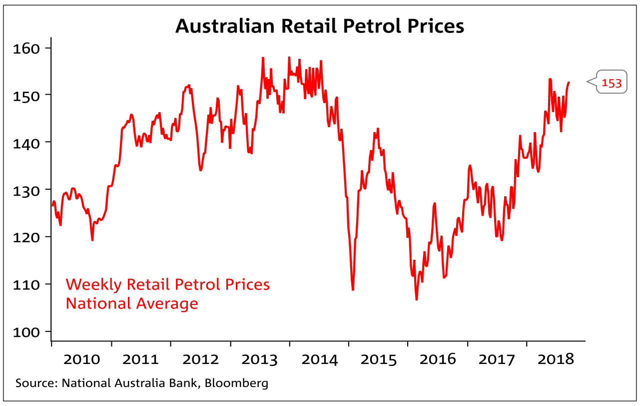
The RBA Board meets on Tuesday. While no change to the cash rate is expected, markets will dissect any changes to the post-meeting statement. Since the last Board meeting, key domestic developments have been the positive data surprises for GDP and employment, and out-of-cycle rate rises at three of the four major banks. Abroad, trade tensions have escalated further, increasing EM risk and dragging the AUD/USD down to be around 1.5 cents lower than when the Board last met.

The data highlight for the week ahead is Wednesday's August retail sales. NAB forecasts a flat result for the month, based on the NAB Retail Sales Index. However, there is slight upside risk to our forecast due to a potential rebound in sales in the non-mining states. Another soft monthly retail sales print would suggest that Q3 consumer spending will be relatively subdued, after a strong Q2 result. Further, with petrol prices sharply higher

Retail Sales expected flat in August, rising y/y



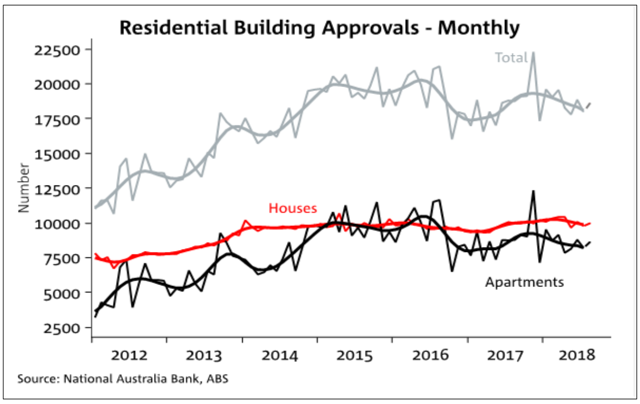
Petrol prices sharply higher in September



in September, spending is likely to face additional headwinds. The potential for a fall off in private consumption is something the RBA has stated it is watching closely, but there's little sign of this yet. If anything year-ended retail sales growth has been on the rise.

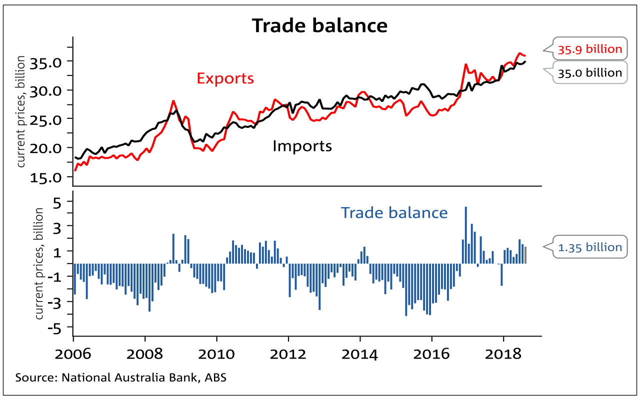
Building approvals data are also released on Wednesday. Last month saw a surprise dip in detached housing, as well as a tick down in apartment approvals. While still at high levels, house approvals appear to have stepped down since April (led by Victoria) and NAB expects a moderate 2% m/m increase in August, which would keep the trend broadly stable. Apartment approvals are expected to rebound 5% m/m, but the trend remains for a gradual decline. Together these suggest a counter-trend rise in approvals of 3.4%.

Watching house approvals



Trade data on Thursday are expected to show the trade surplus shrank modestly (by $200m) in August. On the exports side, non-monetary gold spiked last month, and we expect this impact to reverse this month. Elsewhere, LNG and iron ore exports should continue to lift, while coal is expected to pull back, based on port shipments data. Imports are expected to be little changed overall, as non-fuel imports rebound slightly, offsetting a fall in fuel imports; the latter follows a huge 23.5% m/m rise in July. Overall though, Australia continues to run healthy trade surpluses on account of elevated commodity prices.

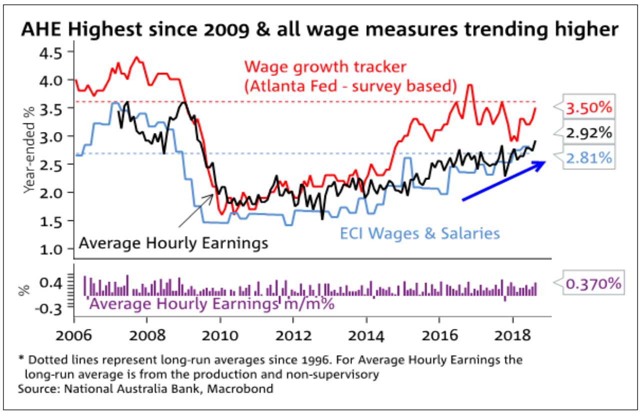
Trade balance to shrink modestly



US

Payrolls on Friday is the clear highlight where all the focus will be on average hourly earnings given last month's 2.9% y/y print was the strongest since 2009. A repeat of that would suggest risk of inflation in excess of that forecast by the Fed at its recent September meeting. Consensus is for earnings of 2.8% y/y, payrolls of +185k and an unemployment rate dropping a tenth to 3.8%. Other important pieces include the manufacturing and non-manufacturing ISMs on Monday and Wednesday respectively. There is also a plethora of Fed speakers to keep an eye on, including Fed Chair Powell who speaks on Wednesday.

US Earnings on the rise



China

Chinese markets are closed all of October 1 to 7 as China goes on 'Golden Week' to celebrate National Day.

UK

Politics will again dominate, with the Tory Party conference the centrepiece Sunday through Wednesday. While there is unlikely to be any real development on Brexit until the conference is out of the way, it is hard to see the headlines being positive. Datawise the key pieces are the PMIs with manufacturing on Monday and services on Wednesday. There are also three BoE speakers (Haldane, Tenreyro and Haskel) speaking at a 'Rebuilding Macroeconomics Annual Conference'.

Canada

Employment on Friday will dominate the week. There are no surveyed estimates as yet, but a strong print will have the market wondering if the BoC needs to move quickly given Deputy Governor Wilkins said the Bank had debated about whether to accelerate the pace of potential hikes. Earlier in the week there is the manufacturing PMI. NAFTA negotiations will also be watched, but there is unlikely to be much progress soon, and the US trade representative said any ratification is unlikely before March 2019.

Japan

The Q3 Tankan Survey on Monday is the focus of an otherwise quiet week. As with other PMIs globally, markets will be interested in any trade-related impact, especially on capex plans.

Eurozone

A quiet week with retail sales on Wednesday and the final versions of the PMIs. Neither should excite markets too much.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ rates were reasonably steady last week, consolidating around the middle of the range that has been in place since the August MPS.

There were no major surprises from the RBNZ OCR Review. The RBNZ stuck to its stance that that the OCR should be on hold through into 2020 and the next move could be either up or down. The recent GDP upside surprise was noted, but the RBNZ said downside risks to the growth outlook remained and, overall, its economic assessment was little changed from August. Market pricing was little changed post the RBNZ with around a 20% chance of a rate cut built in by August next year, and the first hike fully-priced for late 2020. The 2 year swap rate was unchanged on the week, with some receiving interest returning to the front-end after the RBNZ.

The highlight locally this week is the release of the QSBO given the RBNZ's focus on business confidence as the key downside risk facing the NZ economy. While a weak headline confidence number is highly likely, the market focus will be on the own-activity, employment and investment indicators that show a better correlation to real activity. Our sense is that the market would be more sensitive to an improvement in activity indicators from the QSBO, given (a) the ANZ survey has already conditioned expectations towards a weak result and (b) the dovish RBNZ narrative (i.e. keeping open the risk of rate cuts) is heavily weighted on business confidence. We expect the 2 year swap to be range-bound between 1.95% and 2.10% given the RBNZ's central case is that the OCR will be on hold for a long time, and the hurdle to move in either direction is very high.

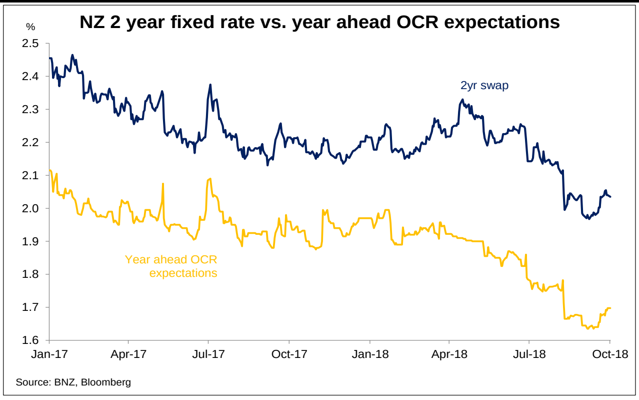
US Treasury yields continued to drift off the recent highs last week, with the 10 year Treasury yield ending the week down 2bps to 3.06%. The Fed hiked rates by 25bps last week, as expected, and the median interest rate projection for the coming two years was unchanged – these indicate a rate hike in December, three more in 2019, and one final hike in 2020. The market prices a 75% chance of a December hike, and close to two additional hikes in 2019 – this is below the Fed's projections, but we don't expect to see any material re-pricing of the US curve until nearer December, when the market will have more visibility on the economic and Fed outlook for 2019.

This week is a busy one for US data, with the ISM surveys released and payrolls on Friday night (with particular focus likely to again be on average hourly earnings). Chair Powell gives a speech mid-week as well, although we'd be surprised if he deviated from the September FOMC message. In the absence of a material upside move in US inflation, we expect the 10 year US Treasury yield to be contained within a 2.90% to 3.15% range for the coming few months.

Likewise, we expect the 10 year NZ swap rate to be contained within a 2.80% to 3% range for the time-being. Ultimately, we expect longer-term NZ rates to move higher, but we think that is more likely to play out in 2019 as US Treasury yields have another push higher and the market refocuses on the next move in the OCR being a hike. See the Post-September OCR Borrowers update for more details on our thoughts on the NZ curve.

The NZDMO announced its tender schedule for the December quarter last week, with $1b of 2029s and $300m each of the 2025s and 2037s to be issued. The bonds are the same as those that were tendered last quarter. The supply was slightly tilted more towards the 2029s than we had thought, but there was little market reaction to the announcement. Separately, the last tender of the quarter, $150m of 2025s on Friday, was extremely strong, with a bid-to-cover ratio of almost 5 and the tender coming 1.5bps through pre-tender mids, suggestive of very strong demand. Long-end swap spreads moved back towards their recent wides after the tender. We expect NZ swap spreads to remain relatively elevated amidst a backdrop of large negative net supply of NZGBs this fiscal year (the outstanding stock of nominal NZGBs and Treasury bills is set to fall almost 10% by the end of June).

NZ short-end rates have been consolidating since August



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*		
NZ 90d bank bills (%)	1.91	1.88	-	1.92
NZ 2yr swap (%)	2.04	1.98	-	2.06
NZ 5yr swap (%)	2.39	2.30	-	2.43
NZ 10yr swap (%)	2.89	2.82	-	2.95
2s10s swap curve (bps)	86	84	-	90
NZ 10yr swap-govt (bps)	28	25	-	28
NZ 10yr govt (%)	2.61	2.54	-	2.69
US 10yr govt (%)	3.06	2.93	-	3.11
NZ-US 10yr (bps)	-45	-45	-	-37
NZ-AU 2yr swap (bps)	1	-12	-	2
NZ-AU 10yr govt (bps)	-6	-7	-	0

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD fell by 1% last week, to around 0.6620, with the move driven by broad-based USD strength rather than NZD weakness. The NZD was flat against AUD and JPY and rose about 0.5% against EUR, the latter driven down by a renewed focus on Italy. A wider than projected Italian fiscal deficit negotiated by the new coalition government raised the possibility of a future credit rating downgrade and a European Debt Crisis (Mark II) that concerned the market.

Fed and RBNZ policy updates didn't surprise, with the former on a clear path towards further rate hikes and the latter on a clear path of keeping policy unchanged for a long time. The ANZ business outlook survey showed a modest improvement in sentiment, while consumer confidence was steady.

Last week one of the more interesting market movements was a 5% increase in Brent crude oil prices. They reached their highest level since 2014, blasting up through the USD82 per barrel mark. This has occurred against a backdrop of weaker NZ commodity prices, weighed down by falling dairy prices. These diverging prices suggest that NZ's terms of trade have weakened, representing a fundamental downside force for the NZD. Looking forward, some analysts see a good chance of oil prices reaching $90-100 over coming months. We expect international dairy prices may soon find some support after NZ milk production passes its peak over the coming month or so and look for some mild price improvement through 2019.

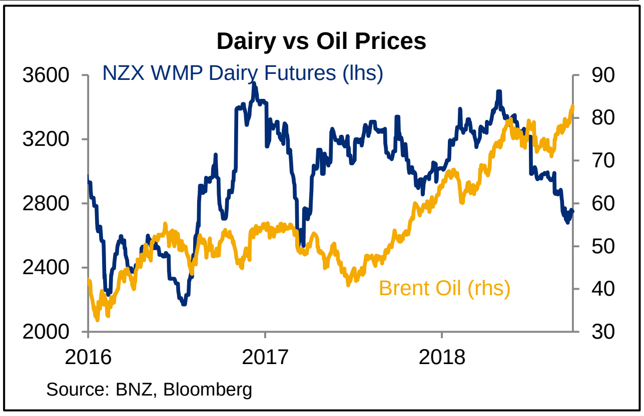
By contrast, Australia benefits from rising oil prices as LNG export prices are linked to the price of crude oil. Gyrations in NZD/AUD can be swayed by relative commodity prices, as we have seen so far this year (see second chart). If oil prices continue to rise and dairy prices underperform, then the risk is that NZD/AUD could nudge lower through the rest of the year. We've had a 0.91-0.95 range trade view for the cross this year, but the bottom of the range is under threat if oil prices keep rising.

So the recent rise in oil prices, with the possibility of further possible price increases, represents a negative terms of trade shock for NZ, and another potential source of downside risk for the NZD as the fourth quarter begins. Last month's low near 0.6500 represents a source of technical support while resistance comes into play around 0.6730. If we can get through the year without breaking down through 0.65, we'd consider that a "win" for the NZD amidst the backdrop of fundamental headwinds. But a downside break remains an ever-present threat over the near-term.

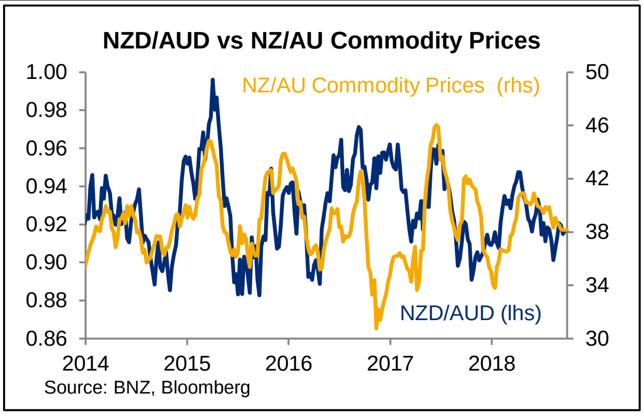
In the week ahead, NZIER's quarterly survey of business opinion is the key release. Widespread declines in sentiment and activity indicators wouldn't surprise, as those would represent a "catch-up" to the timelier ANZ survey.

Elsewhere, the RBA's policy announcement should pass with little reaction, as the Bank remains decisively on hold. US ISM data are expected to show some moderation off a high base, while the employment report at the end of the week might well show slightly weaker wage inflation for the month and year but won't likely affect conviction on further Fed rate hikes.

Oil Prices Higher; Dairy Prices Lower



Relative Commodity Prices Can Swing NZD/AUD



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6623	0.6500 - 0.6700
NZD/AUD	0.9166	0.9090 - 0.9190
NZD/GBP	0.5079	0.4990 - 0.5110
NZD/EUR	0.5699	0.5610 - 0.5720
NZD/JPY	75.33	72.40 - 75.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.7020	-6%
NZD/AUD	0.9080	1%

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Technicals

NZD/USD

Outlook: Downside risk

ST Resistance: 0.6730 (ahead of 0.6830)

ST Support: 0.6500 (ahead of 0.6400)

No change to the technical picture over the past week with the bigger threat being that the NZD downtrend remains intact. Key support remains at 0.65, while initial resistance is near 0.6730.

NZD/AUD

Outlook: Trading range

ST Resistance: 0.9230 (ahead of 0.9400)

ST Support: 0.9050 (ahead of 0.8950)

Trading aimlessly over the past few weeks. Resistance sits just over 0.92. Beyond that level, there is little resistance ahead of 0.94.

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NZ 5-year Swap Rate

Outlook: Bearish

ST Resistance: 2.495

ST Support: 2.34

Still expect a move higher in yield. Target 2.495; stop on a move below 2.34.

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

Outlook: Neutral

ST Resistance: +39.5

ST Support: +30.5

Still neutral awaiting a break to signal new position.

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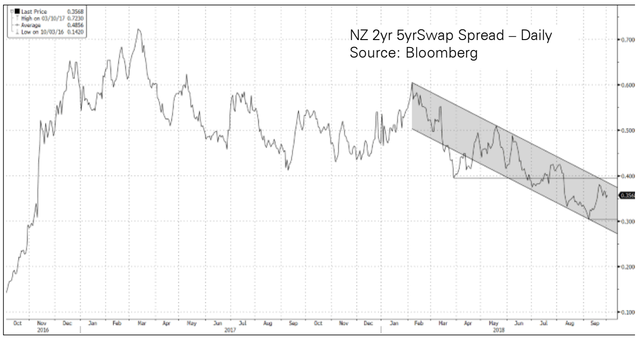

Quarterly Forecasts

Forecasts as at 1 October 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19
GDP (production s.a.)	0.8	0.6	0.6	0.5	1.0	0.8	0.8	0.4	0.7	0.7
Retail trade (real s.a.)	1.6	0.3	1.3	0.3	1.1	1.2	1.2	0.7	0.6	0.6
Current account (ytd, % GDP)	-2.6	-2.6	-2.9	-3.0	-3.3	-3.5	-3.8	-3.8	-4.1	-4.3
CPI (q/q)	0.0	0.5	0.1	0.5	0.4	0.8	0.5	0.6	0.4	0.7
Employment	-0.1	2.2	0.4	0.6	0.5	0.5	0.5	0.6	0.5	0.4
Unemployment rate %	4.8	4.6	4.5	4.4	4.5	4.4	4.3	4.2	4.2	4.3
Avg hourly earnings (ann %)	1.2	2.0	3.1	4.0	3.3	2.9	3.0	2.8	3.4	3.6
Trading partner GDP (ann %)	3.7	4.0	3.9	4.1	4.1	3.9	3.9	3.8	3.7	3.7
CPI (y/y)	1.7	1.9	1.6	1.1	1.5	1.8	2.2	2.3	2.3	2.2
GDP (production s.a., y/y))	2.8	2.6	2.9	2.6	2.8	3.0	3.1	3.0	2.7	2.6

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 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	2.35	2.90	2.25	2.70	3.15	2.35	2.90	-0.06
Sep	1.75	1.95	2.25	2.80	2.20	2.65	3.10	2.45	3.10	-0.40
Forecasts										
Dec	1.75	1.95	2.25	2.85	2.00	2.55	3.15	2.65	3.25	-0.40
2019 Mar	1.75	1.95	2.35	2.90	2.20	2.65	3.20	2.85	3.25	-0.35
Jun	1.75	2.05	2.60	3.15	2.40	2.65	3.20	3.20	3.50	-0.35
Sep	2.00	2.30	2.80	3.30	2.70	2.65	3.20	3.45	3.50	-0.20
Dec	2.25	2.55	3.00	3.45	3.00	2.90	3.45	3.45	3.50	-0.05
2020 Mar	2.50	2.80	3.15	3.55	3.20	2.90	3.45	3.20	3.50	0.05
Jun	2.75	2.95	3.30	3.55	3.20	2.90	3.45	3.20	3.50	0.15
Sep	2.75	2.95	3.35	3.55	3.20	3.10	3.60	3.20	3.50	0.20
Dec	2.75	2.95	3.35	3.65	3.40	3.10	3.60	3.20	3.50	0.25

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	0.66	0.72	1.16	1.30	114	0.66	0.92	0.57	0.51	75.4	72.2
Dec-18	0.68	0.75	1.18	1.26	110	0.68	0.91	0.58	0.54	74.8	72.9
Mar-18	0.73	0.78	1.23	1.40	106	0.73	0.94	0.59	0.52	77.0	74.8
Jun-18	0.69	0.75	1.17	1.33	110	0.69	0.93	0.59	0.52	76.4	73.6
Sep-18	0.67	0.73	1.15	1.25	109	0.67	0.92	0.58	0.54	73.0	72.6
Dec-18	0.68	0.75	1.18	1.26	110	0.68	0.91	0.58	0.54	74.8	72.9
Mar-19	0.68	0.75	1.22	1.28	108	0.68	0.91	0.56	0.53	73.4	72.1
Jun-19	0.69	0.75	1.22	1.30	106	0.69	0.92	0.57	0.53	73.1	72.6
Sep-19	0.69	0.75	1.25	1.34	104	0.69	0.92	0.55	0.52	71.8	71.9
Dec-19	0.69	0.75	1.30	1.40	102	0.69	0.92	0.53	0.49	70.4	71.3
Mar-20	0.70	0.75	1.32	1.43	100	0.70	0.93	0.53	0.49	70.0	71.9
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 1 October 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	5.1	3.8	3.2	2.3	1.6	4.8	4.4	3.0	2.7	1.7
Government Consumption	1.9	4.8	3.9	1.7	1.7	1.6	4.5	4.2	2.1	1.7
Total Investment	5.6	3.8	2.4	3.5	3.8	6.4	3.4	2.9	3.3	3.6
Stocks - ppts cont'n to growth	-0.1	-0.1	0.1	0.0	0.0	0.0	-0.1	0.3	-0.2	0.0
GNE	4.6	3.9	3.8	2.5	2.2	4.6	4.1	4.0	2.7	2.2
Exports	1.3	3.0	4.9	4.0	3.8	2.1	1.8	4.2	4.6	3.9
Imports	5.1	7.2	6.8	3.2	2.5	3.4	7.0	7.4	3.9	2.3
Real Expenditure GDP	3.5	2.8	3.1	2.7	2.5	4.1	2.7	3.0	2.8	2.6
GDP (production)	**3.7**	**2.7**	**3.0**	**2.7**	**2.5**	**4.0**	**2.8**	**2.9**	**2.8**	**2.6**
GDP - annual % change (q/q)	*3.0*	*2.6*	*3.0*	*2.7*	*2.4*	*3.4*	*2.9*	*3.1*	*2.6*	*2.5*
Output Gap (ann avg, % dev)	1.1	0.7	0.7	0.4	0.2	1.2	0.8	0.7	0.5	0.2
Household Savings (% disp. income)	-2.8	-1.8	-3.7	-3.7	-2.8					
Nominal Expenditure GDP - $bn	270.6	285.9	298.7	313.8	325.6	266.5	283.0	294.8	310.0	323.1
Prices and Employment - annual % change										
CPI	2.2	1.1	2.3	2.2	2.1	1.3	1.6	2.2	2.0	2.1
Employment	5.7	3.1	2.1	1.6	1.6	5.8	3.7	2.1	1.9	1.6
Unemployment Rate %	4.9	4.4	4.2	4.3	4.2	5.3	4.5	4.3	4.2	4.2
Wages - ahote	1.1	4.0	2.8	3.9	3.4	1.1	3.1	3.0	3.8	3.6
Productivity (ann av %)	-1.9	-0.8	0.0	0.8	1.0	-0.8	-1.4	-0.3	0.6	1.0
Unit Labour Costs (ann av %)	3.9	3.9	3.5	2.8	2.4	2.7	4.0	4.0	2.9	2.4
External Balance										
Current Account - $bn	-6.9	-8.5	-11.4	-12.5	-14.3	-5.7	-8.2	-11.3	-13.0	-13.5
Current Account - % of GDP	-2.6	-3.0	-3.8	-4.0	-4.4	-2.1	-2.9	-3.8	-4.2	-4.2
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	2.9	2.8					
Financial Variables (1)										
NZD/USD	0.70	0.73	0.68	0.70	0.68	0.70	0.70	0.68	0.69	0.67
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	0.91	0.93	0.92	0.96	0.91	0.91	0.92	0.92
NZD/GBP	0.57	0.52	0.53	0.49	0.44	0.56	0.52	0.54	0.49	0.44
NZD/EUR	0.66	0.59	0.56	0.53	0.49	0.67	0.59	0.58	0.53	0.49
NZD/YEN	79.1	77.0	73.4	70.0	65.7	81.6	78.7	74.8	70.4	65.7
TWI	76.5	74.8	72.1	71.9	69.4	78.1	73.6	72.9	71.3	68.7
Overnight Cash Rate (end qtr)	1.75	1.75	1.75	2.50	2.75	1.75	1.75	1.75	2.25	2.75
90-day Bank Bill Rate	1.98	1.93	1.95	2.78	2.87	2.02	1.88	1.95	2.53	2.95
5-year Govt Bond	2.70	2.35	2.35	3.15	3.40	2.75	2.30	2.25	3.00	3.35
10-year Govt Bond	3.25	2.95	2.90	3.55	3.80	3.30	2.80	2.85	3.45	3.75
2-year Swap	2.30	2.25	2.20	3.20	3.40	2.40	2.20	2.00	3.00	3.40
5-year Swap	3.00	2.70	2.65	3.45	3.70	3.00	2.65	2.55	3.30	3.65
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	-0.35	0.05	0.30	0.80	0.40	-0.40	-0.05	0.25

(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 1 October			
Aus, Manufacturing PMI (AiG), September			56.7
Aus, Inflation Gauge (Melbourne Institute), Sept y/y			+2.1%
Jpn, Tankan (lge manuf), Q3		+22	+21
Euro, Unemployment Rate, August		8.1%	8.2%
Germ, Retail Sales, August		+0.5%	-0.4%
UK, Markit/CIPS Manuf Survey, September		52.5	52.8
US, Construction Spending, August		+0.4%	+0.1%
US, ISM Manufacturing, September		60.0	61.3
US, Fed's Bostic/Kashkari/Rosengren Speak			
Tuesday 2 October			
NZ, QSBO, Q3			-20
Aus, CoreLogic HPI, September			-0.4%
Aus, RBA Policy Announcement	1.50%	1.50%	1.50%
Euro, PPI, August y/y		+3.8%	+4.0%
US, Fed's Quarles Testifies, Banking			
US, Powell Speaks, NABE Conference			
Wednesday 3 October			
NZ, QVNZ House Prices, September y/y			+4.8%
NZ, Dairy Auction, GDT Price Index			-1.3%
NZ, ANZ Comdty Prices (world), September			-1.1%
NZ, ANZ Job Ads, September			+0.6%
Wednesday 3 October*...continued*			
Aus, Building Approvals, August	-0.7%	-2.5%	-5.2%
Aus, Services PMI (AiG), September			52.2
Euro, Retail Sales, August		+0.2%	-0.2%
UK, Markit/CIPS Services, September		54.0	54.3
US, ADP Employment, September		+185k	+163k
US, Fed's Evans/Barkin/Mester Speak			
US, ISM Non-Manuf, September		58.0	58.5
Thursday 4 October			
Aus, International Trade, August	+$1.35b	+$1.45b	+$1.55b
US, Factory Orders, August		+2.2%	-0.8%
Friday 5 October			
Aus, Retail Trade, August	flat	+0.3%	flat
Aus, Construction PMI (AiG), September		51.8	
Aus, RBA's Heath Speaks, BEA Event			
Jpn, Household Spending, August y/y (real)		+0.1%	+0.1%
Germ, PPI, August y/y		+2.9%	+3.0%
Germ, Factory Orders, August		+0.8%	-0.9%
US, Unemployment Rate, September		3.8%	3.9%
US, International Trade, August		-$53.0b	-$50.1b
US, Non-Farm Payrolls, September		+185k	+204k

Historical Date

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.83	1.83	1.82	1.84
2mth	1.87	1.87	1.87	1.89
3mth	1.92	1.93	1.92	1.96
6mth	1.95	1.96	1.94	1.98
GOVERNMENT STOCK				
03/19	1.74	1.73	1.71	1.92
04/20	1.73	1.73	1.63	2.10
05/21	1.77	1.78	1.67	2.25
04/23	1.98	2.00	1.90	2.56
04/25	2.24	2.27	2.16	2.83
04/27	2.44	2.49	2.35	2.99
04/29	2.61	2.66	2.52	
04/33	2.78	2.83	2.69	3.33
04/37	2.91	2.98	2.84	3.54
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	75	68	72	
Nth America 5Y	59	63	60	55
Europe 5Y	69	70	68	56

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.04	2.04	1.97	2.22
3 years	2.15	2.15	2.06	2.42
4 years	2.27	2.28	2.18	2.60
5 years	2.40	2.41	2.30	2.76
10 years	2.90	2.92	2.81	3.29
FOREIGN EXCHANGE				
NZD/USD	0.6623	0.6645	0.6601	0.7196
NZD/AUD	0.9167	0.9163	0.9149	0.9194
NZD/JPY	75.31	74.96	73.31	81.14
NZD/EUR	0.5700	0.5655	0.5681	0.6132
NZD/GBP	0.5078	0.5062	0.5129	0.5419
NZD/CAD	0.8512	0.8609	0.8644	0.9001
TWI	72.2	72.4	71.9	76.3

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