8 October 2018

A Little Data to Cross-Check Some Big Stories

- **Sep. FPI to settle our (sturdy) Q3 CPI pick**
- **More to Sep. ECT than fuel price jumps**
- **2017/18 Crown accounts to appear solid**
- **PMI to echo QSBO's manufacturing softness?**

The coming week's New Zealand data are relatively minor. But they could have important things to say about some key topics.

Take inflation. Thursday's Food Price Index (FPI) will settle our judgement on the strength of the Q3 CPI, compared to RBNZ expectations. We anticipate September's FPI will fall 0.8%, but in the context of usual seasonal weakness. An outturn of this order would finalise our Q3 CPI expectation at +0.8%. This would bump up the CPI's annual rate of inflation to 1.8%, from 1.5%.

The August RBNZ Monetary Policy Statement, by way of comparison, anticipated annual CPI inflation of 1.4% for Q3, based on a quarterly increase of 0.4%. The result is due Tuesday next week.

To be fair, some of the upside we see to the Q3 CPI, compared to Reserve Bank expectations, reflects the recent and relentless rise in local fuel prices. So core inflation measures will be all the more important to reference.

The impact of rising petrol prices is also something to bear in mind for Wednesday's electronic card transactions (ECT). After all, spending at fuel store-types (traditionally known as petrol stations) comprises around 9% of the ECT by value. And petrol prices rose about 4% in September, compared to August (based on the reference points we use, at least).

Still, overall, we expect September's ECT value expanded a seasonally adjusted 0.7%, after their 1.0% jump in August (with the market looking for +0.6% on the retail component). This would be good enough to indicate another quarter of solid growth in consumer spending, volume wise.

Q3 spending could be shaping up even stronger, if the already-published Paymark transaction data are any guide to September's ECT outcome.

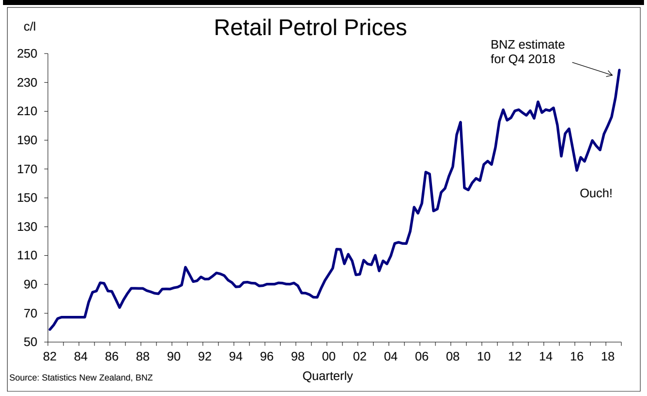
Soaring fuel prices have certainly become a big drain on discretionary spend over recent quarters, but recent fiscal stimulus is providing an offset – at least for some.

Friday's BNZ Performance of Manufacturing Index (PMI) will be interesting to cross-check against the weakness we saw in the manufacturing component of last week's NZIER Quarterly Survey of Business Opinion. At least, that is, with respect to domestic sales. Recall that August's PMI, of 53.2, reinforced the story of a slowdown compared to just a few months ago.

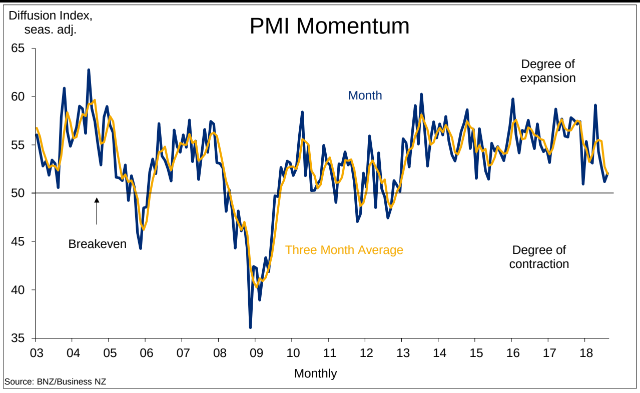
Note too, Tuesday's NZ Crown financial accounts for the year-to-June 2018. These will indicate how well the government is tracking with respect to its self-imposed accounting targets on surpluses and debt. The May 2018 Budget, recall, was looking for a core (OBEGAL) operating surplus in the order of 1.1% of GDP for 2017/18, and net core Crown debt around 20.8% of GDP. We believe these will be comfortably met.

Nonetheless, it's still a moot point as to whether the tax take will be quite as strong as the Budget projected, predicated on the strong GDP forecasts that it was.

Yowser At The Browser



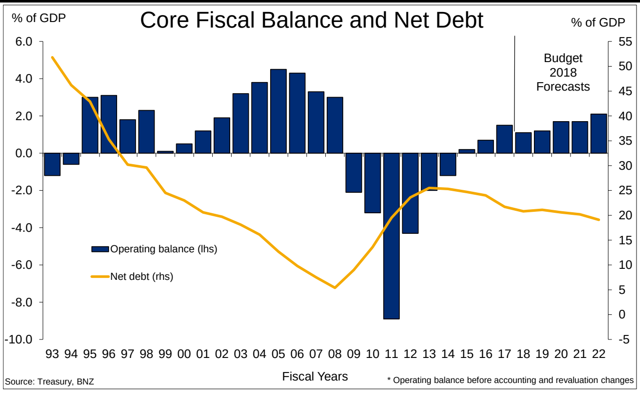
Slowed



December's Economic and Fiscal Update – which could conceivably be in its preliminary stages already – will still be under the microscope, in other words.

Also keep an eye out for the nationwide Real Estate Institute housing report. Covering September, this could well be published before the week is out. Then again, it will probably just echo the main message, namely the regional variation, which we've seen in various other housing market summaries for the month already.
The ongoing drop in local mortgage rates over the last week or two is also something to note in the housing market context.

Looking Good For Now



craig_ebert@bnz.co.nz

Global Watch

- **NAB business survey due Tuesday**
- **Where activity, and inflation, pointers key**
- **US focus on Thursday's Sep. CPI**
- **China returns from Golden Week with trade figures Friday**

Australia

The NAB Business Survey on Tuesday is the key piece of data for Australian market watchers in the week ahead. Other noteworthy data releases include Job Ads (Monday), Consumer Sentiment (Wednesday), and ABS Home Loans data (Friday). NAB expects Home Loans data will report owner-occupier home loan approvals declined 1.4% m/m in August. Elsewhere, markets will be keenly watching a speech by RBA Luci Ellis (Thursday) and the RBA's Financial Stability Review (Friday). Also note that daylight savings begins on Sunday 7 October, Australians winding their clocks an hour forward.

Chart 1: NAB Employment Indices have been positive

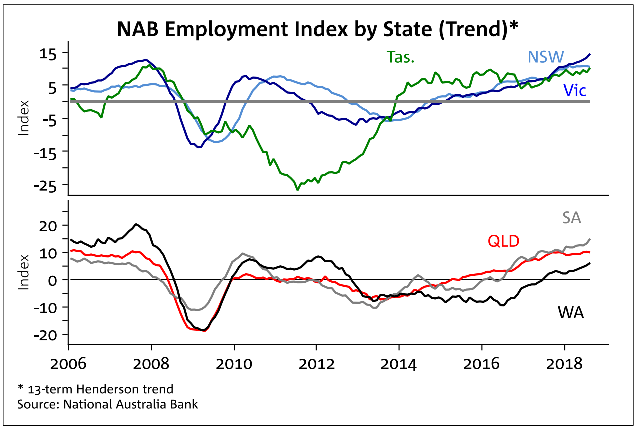
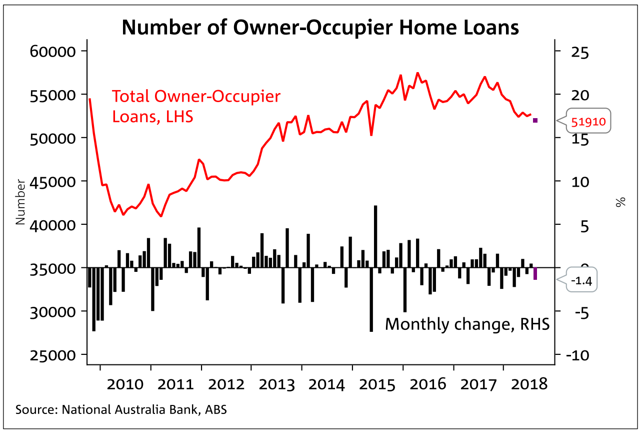
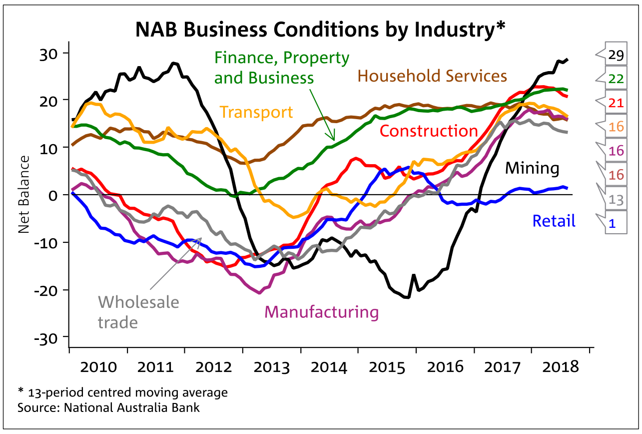


Chart 2: Home Loan Approvals expected to decline



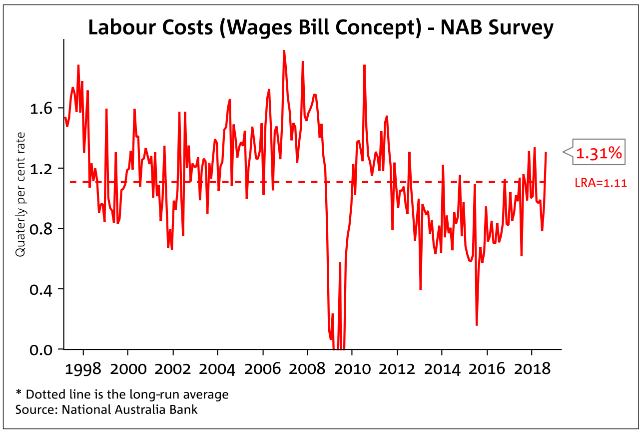
The NAB Survey has been (even more) carefully watched by markets recently amid heightened trade tensions and a moderating housing market as well as a very modest leadership spill effect last month. As such, September NAB Business Conditions will be dissected for any signs whether such risks are affecting the broader economy.

Chart 3: Any trade dispute/housing spillovers?



Also important will be the latest read on Employment conditions and Labour Costs in the Survey. These indicators are all the more important given the RBA's focus on how the labour market tightening is translating into wages growth. Last week's speech by RBA Alex Heath, Head of Economic Analysis, suggested the RBA continues to delve into other labour market factors that may continue to explain low wages growth. The speech highlighted underemployment and cyclical participation as key considerations, in addition to the all-important unemployment rate.

Chart 4: Labour costs rose sharply last month



From the RBA, markets will be carefully listening to the RBA's Chief Economist Luci Ellis, when she delivers a speech on Thursday, for further clues on the monetary policy outlook. While there is no title for the speech released yet, the Assistant Governor of Economic Group always has some interesting insights to share. In addition, Friday sees the release of the RBA's twice-a-year Financial Stability Review (FSR). Given heightened discussion on the wider macroeconomic impact of a housing correction, and higher mortgage rates, the FSR will provide an important insights into the RBA's perspective on housing and lending trends.

In a similar vein, Home Loans data on Friday is expected by NAB (-1.4% m/m) and the market (-1% m/m) to show home loan approvals for owner occupiers declined moderately in the month. Such an outcome would be consistent with gradually lower housing turnover, but expect markets to react if home loan approvals fall more sharply.

US

Friday week, all focus will be on the CPI (Thursday) after last month's Core Inflation missed expectations by a tenth at 0.1% m/m (the y/y missed by two tenths at 2.2%). The miss was largely due to a sharp fall in Apparel prices (-1.6% m/m, the sharpest fall since 1949), very likely a one off. For this month markets are expecting the monthly trend pace to resume with Core CPI expected to be 0.2% m/m and 2.3% y/y. President Trump's 10% tariffs on $200bn of Chinese goods came into effect 24 September so there will be minimal to zero impact re Friday's export and import price data. Also out in the week is the NFIB Small Business Survey (Tuesday), PPI (Wednesday) and Consumer Sentiment (Friday). There are a number of Fed speakers, including Williams (voter, FOMC Vice Chair) on Tuesday.

China

China returns from 'Golden Week' public holidays. Trade data on Friday is the focus – key for assessing the impact of the US-China trade war. Last month, exports growth slowed to 9.8% y/y (from 12.2% y/y) – markets will be keen to see if September shows a further slowdown, as expected (8.7% y/y).

UK

Brexit remains front and centre. Though there is a long way to go, we note the latest discussions point to some compromises and potentially some progress. To be sure the path is littered with obstacles that can derail progress at any time, but we detect a slither of hope reflected in a modest GBP rise. On the data front it's UK house prices for September, trade data for August – which has been more positive of late and manufacturing/industrial production for August. Monthly GDP for August is also due.

Eurozone

It's a quiet data calendar in Europe for the week ahead. German August factory orders and industrial production is released. This has been weak recently thanks to the US-led trade dispute and not helped by large-scale auto sector shutdowns at factories for emissions changes. German Trade data for August will be watched for signs of the trade dispute impact. Broader EZ industrial output is also released. There is just one ECB speech from France's Villeroy. The German state of Bavaria holds elections on Friday 14 October, a litmust test for Chancellor Merkel and her CDU sister party the CSU, which is under pressure from the far right AfD.

Canada

A quiet week with little in the way of data. It's worth noting pricing for an October rate hike lifted to 95% following the tentatively renewed NAFTA agreement, now termed USMCA. (The BoC meets 24 October).

Japan

Current Account and Trade data on Tuesday are watch points. Note Japanese markets are closed on Monday.

Kaixin.Owyong@nab.com.au / Gavin.Friend@eu.nabgroup.com / Tapas.Strickland@nab.com.au

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

The US Treasury market took centre stage in global markets last week after experiencing a large sell-off. The 10 year Treasury yield broke above its year-to-date highs to close the week near 3.25%, its highest level since 2011. NZ rates have significantly lagged the moves elsewhere, and were barely higher on the week at the long-end of the curve. We can't see this behaviour persisting however, and we expect long-end NZ rates to move higher, and the curve steeper, if the Treasury market maintains its recent momentum.

We see the large move higher in the US Treasury curve as reflecting a number of factors. First, US economic data has been very strong – notably the ISM surveys last week – and suggest the US economy is running well above trend. The Fed's rate rises to date have done little to slow the US economy, perhaps a reflection both of the fiscal impulse coming from the Trump tax package as well as the broad-based easing in financial conditions over recent times. Consequently, the market has started taking the Fed's forecast of three rate rises in 2019 more seriously (the market now prices just over 2 hikes, below the median Fed projection of 3 hikes). Second, there has been a notable hawkish tone to Fed officials comments over the past week that reinforced the move higher in rates. Chair Powell and NY Fed President John Williams both said they believed the "neutral" Fed funds rate was some distance away and gave no indication they intended to slow the pace of hikes into 2019.

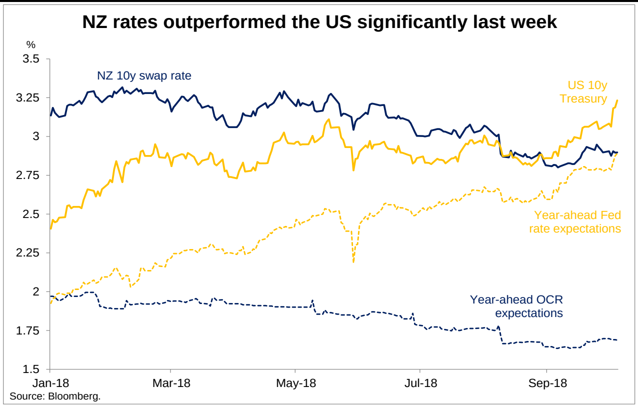
The steepening move in the US yield curve probably also reflects market positioning to a certain extent. The US curve flattener was seen as a popular position among the investor community, so unwinds of these positions likely exacerbated the moves. Finally, the events last week came against a backdrop of more Treasury supply (funding the Trump fiscal stimulus), the Fed paring back its QE holdings of Treasuries, and higher oil prices (with its inflationary implications).

We had been expecting US Treasury yields to ultimately head higher, but we thought that was more likely to play out in 2019 than this year. Where to from here? The market still prices less tightening than the median Fed projections – if the market converged to the 'dots', there is certainly scope for Treasury yields to rise further. But unless US core inflation moves higher – and on that note, US CPI is the key release in the week ahead – we suspect the market won't increase its 2019 Fed rate expectations materially over the next few months. To do so, the market would need to seriously start contemplating four Fed hikes in 2019, which seems a little premature to us at this stage. The more immediate risk is a further increase in long-dated US Treasury yields independent of the Fed outlook – i.e. a restoration of term premia into the long-end of the US curve (investors demanding greater compensation to hold long-dated bonds). This will depend on market sentiment and whether risk assets such as equities can maintain their poise (a big fall in stocks could short-circuit the rise in yields).

NZ rates were remarkably steady compared to the sizeable moves seen offshore. The 10 year swap rate was flat for the week compared to the 17bps rise in the 10 year Treasury. While NZ will likely continue to outperform if the US remains the epicenter of the global bond sell-off, we see long-end NZ rates participating more meaningfully if the US continues to bear steepen. Our analysis has found that NZ long-end rates are more responsive to higher US Treasury rates when the US curve steepens. We think long-end NZ rates have scope to move higher from here, and the yield curve steeper.

The short-end of the NZ curve has been relatively unmoved by the volatility offshore, and market pricing of the OCR outlook hasn't changed materially. There remains around a 20% chance of a cut by mid-2019 priced. A modest move lower in BKBM last week added to the downward pressure on the 2 year swap rate, which closed down 2bps for the week at 2.015%. We expect further moves higher offshore will put some upward pressure on the short-end of the NZ curve. But at least until the NZ CPI release next week, we think the 2 year swap will be capped at 2.10%. There's little domestically likely to move the NZ rates market and focus will be on the US Treasury market for direction.

NZ rates outperformed the US significantly last week



Source: Bloomberg.

Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.89	1.88 - 1.92
NZ 2yr swap (%)	2.02	1.99 - 2.06
NZ 5yr swap (%)	2.39	2.33 - 2.43
NZ 10yr swap (%)	2.92	2.86 - 2.95
2s10s swap curve (bps)	89	84 - 90
NZ 10yr swap-govt (bps)	30	25 - 30
NZ 10yr govt (%)	2.62	2.57 - 2.69
US 10yr govt (%)	3.23	2.98 - 3.25
NZ-US 10yr (bps)	-61	-61 - -38
NZ-AU 2yr swap (bps)	0	-12 - 2
NZ-AU 10yr govt (bps)	-10	-11 - -3

*Indicative range over last 3 weeks

nick.smyth@bnz.co.nz

Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD tumbled across the board last week, down by 2.7% versus the USD and falls versus EUR (-2.1%), CAD (-2.5%), JPY (-2.7%), and GBP (-3.4%). The AUD came under similar pressure, limiting the damage in NZD/AUD to -0.4%. Chinese markets were closed for Golden Week holidays, so an unchanged CNY saw NZD/CNY down by 2.7%.

NZD weakness can be put down to a number of factors. Strong US data (non-manufacturing ISM and the unemployment rate down to a 49-year low) boosted the value of the USD and put downward pressure on emerging market and Asia Pacific currencies. The US 10-year Treasury rate ended the week 17bps higher, rising to a 7-year high just shy of 3.25% in the process. Higher bond yields contributed to valuation concerns, which saw some US equity indices down by over 3% for the week and a higher VIX index. Our risk appetite index fell by 9 percentage points to 64%.

So the ominous downward trend in the NZD continued, with a fresh multi-year low of 0.6432 reached. The next level of technical support is near the 2016 low of 0.6350. Lower risk appetite sliced a cent off our short-term fair value estimate to around 0.69. Still, the NZD trades nearly 7% below this estimate, which is the largest discount in 5 years for this model.

That discount highlights how much bad news is priced into the NZD at present, against a backdrop of very poor fundamentals. The current list of headwinds includes the following: (1) the prospect of risk appetite falling further from an above-average level, (2) a widening gap between NZ and US interest rates as US rates continue to rise, (3) downward pressure on all Asia-Pacific currencies as US-China trade tensions escalate and the PBoC uses a weaker currency and easier monetary policy to counter a weaker growth outlook, (4) falling NZ terms of trade as oil prices rise and dairy prices remain soft, (5) low business confidence which poses a risk to NZ growth, and (6) falling consumer confidence as domestic petrol prices skyrocket, eating into disposable income.

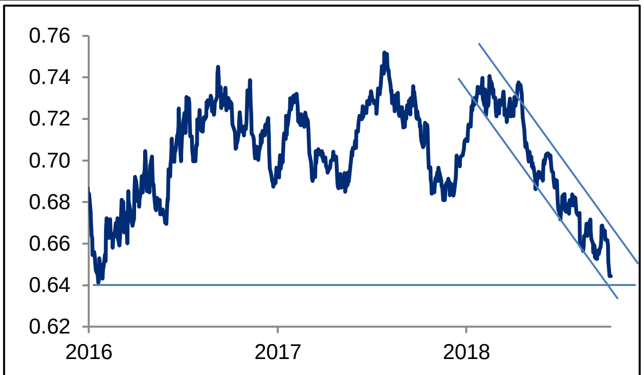
Picking a bottom for the NZD comes down to weighing up the laundry list of negative fundamental forces and deciding whether or not they have been fully priced. It feels like the easier call to make at present is that the trend decline has not yet been arrested.

Last week ([Headwinds Mount For The NZD]) we downgraded our near-term forecasts for the NZD, pitching our central forecast for the next 6 months at 0.65. This doesn't mean we expect the NZD fall to be over, rather that the recent fall is expected to be sustained, on average, through the next six months. There will be more ups and downs along the way and we wouldn't be surprised to see the NZD test 0.63 at some stage. The current large gap between spot and short term fair value makes us reluctant to get too carried away in projecting a significantly lower NZD at this stage.

In the week ahead, the economic calendar is light, with only second-tier domestic releases. Globally, the focus will be on the next US CPI release due Thursday night NZ time, where annual core inflation is expected to tick up to 2.3%.

It might be an interesting start to the week, after the weekend announcement of the PBoC cutting its reserve requirement ratio for banks by 100bps, the fourth easing this year. The CNY reference rate was unchanged last week during the Golden Week holiday. The chunky falls in NZD and AUD last week seem to have already pre-empted, to some extent, the downward pressure on CNY that might prevail. We'll see.

NZD Trend Remains Ominous



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6443	0.6430 - 0.6700
NZD/AUD	0.9130	0.9090 - 0.9190
NZD/GBP	0.4908	0.4910 - 0.5110
NZD/EUR	0.5591	0.5590 - 0.5720
NZD/JPY	73.32	73.10 - 75.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6910	-7%
NZD/AUD	0.9040	1%

jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Downside risk

ST Resistance: 0.6650 (ahead of 0.6730)

ST Support: 0.6400 (ahead of 0.6350)

An ominous trend remains, as the NZD keeps making fresh lows. Next key support is the 2016 low around 0.6350 but it'll have to clear 0.64 first. Trendline resistance is at 0.6650.

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.

jason.k.wong@bnz.co.nz

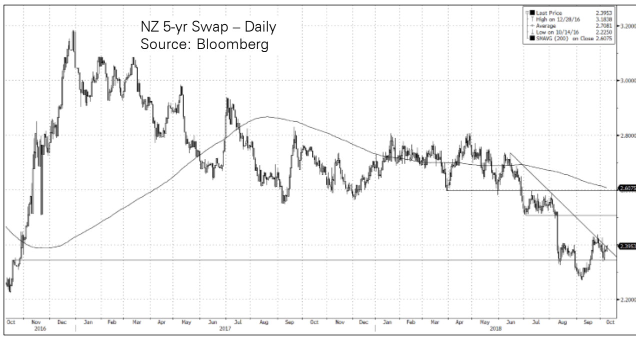
NZ 5-year Swap Rate

Outlook: Bearish

ST Resistance: 2.495

ST Support: 2.34

2.34 held last week on a closing basis. Still expect a move higher to 2.495 possibly extending to 2.5975.



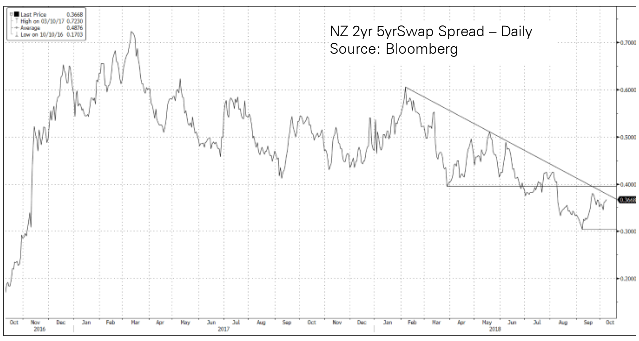
NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: Neutral

ST Resistance: +39.5

ST Support: +30.5

Still neutral awaiting a break to signal new position.



pete_mason@bnz.co.nz

Quarterly Forecasts

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Sep-18 to Sep-19

	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	0.6	0.6	0.5	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	2.3	2.4	2.5	2.4
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	Government Stock 5 Year	Government Stock 10 Year	Swaps 2 Year	Swaps 5 Year	Swaps 10 Year	US Rates Libor 3 month	US Rates 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	2.00	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
Current	0.64	0.71	1.15	1.31	114
Dec-18	0.65	0.71	1.18	1.26	112
Mar-19	0.65	0.72	1.20	1.28	110
Jun-19	0.66	0.73	1.22	1.30	110
Sep-19	0.68	0.75	1.25	1.34	108
Dec-19	0.69	0.75	1.30	1.40	106
Mar-20	0.70	0.76	1.32	1.43	104
Jun-20	0.70	0.77	1.34	1.46	102
Sep-20	0.70	0.76	1.36	1.49	100
Dec-20	0.69	0.75	1.38	1.52	99
Mar-21	0.70	0.75	1.38	1.52	98

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.64	0.91	0.56	0.49	73.3	70.8
Dec-18	0.65	0.91	0.55	0.51	72.5	70.8
Mar-19	0.65	0.90	0.54	0.51	71.5	71.4
Jun-19	0.66	0.90	0.54	0.51	72.6	72.6
Sep-19	0.68	0.91	0.54	0.51	73.4	74.2
Dec-19	0.69	0.92	0.53	0.49	73.1	74.5
Mar-20	0.70	0.92	0.53	0.49	72.8	74.9
Jun-20	0.70	0.91	0.52	0.48	71.4	74.0
Sep-20	0.70	0.92	0.52	0.47	70.0	73.5
Dec-20	0.69	0.92	0.50	0.45	68.3	72.1
Mar-21	0.70	0.93	0.51	0.46	68.6	73.1
TWI Weights	14.0%	20.7%	10.3%	4.8%	6.8%	

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

Annual Forecasts

Forecasts as at 8 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	-3.8	-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	2.4	1.9	1.9	1.3	1.6	2.3	2.2	1.7
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	0.65	0.70	0.70	0.70	0.70	0.65	0.69	0.69
USD/JPY	113	106	110	104	98	116	113	112	106	99
EUR/USD	1.07	1.23	1.20	1.32	1.38	1.05	1.18	1.18	1.30	1.38
NZD/AUD	0.92	0.94	0.90	0.92	0.93	0.96	0.91	0.91	0.92	0.92
NZD/GBP	0.57	0.52	0.51	0.49	0.46	0.56	0.52	0.51	0.49	0.45
NZD/EUR	0.66	0.59	0.54	0.53	0.51	0.67	0.59	0.55	0.53	0.50
NZD/YEN	79.1	77.0	71.5	72.8	68.6	81.6	78.7	72.5	73.1	68.3
TWI	76.5	74.8	71.4	74.9	73.1	78.1	73.6	70.8	74.5	72.1
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%

	Forecast	Median	Last
NZ, ANZ Job Ads, September			+0.6%
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 Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.83	1.82	1.83	1.83
2mth	1.86	1.87	1.86	1.88
3mth	1.89	1.91	1.92	1.94
6mth	1.93	1.95	1.95	2.00
GOVERNMENT STOCK				
03/19	1.75	1.74	1.71	1.92
04/20	1.72	1.73	1.63	2.10
05/21	1.77	1.77	1.67	2.27
04/23	1.97	1.98	1.89	2.57
04/25	2.23	2.23	2.17	2.84
04/27	2.43	2.44	2.37	2.99
04/29	2.61	2.61	2.55	
04/33	2.78	2.78	2.73	3.34
04/37	2.91	2.90	2.88	3.55
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	74	75	73	
Nth America 5Y	61	58	58	54
Europe 5Y	69	67	61	57

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.02	2.03	1.98	2.21
3 years	2.13	2.14	2.07	2.41
4 years	2.26	2.26	2.18	2.59
5 years	2.39	2.39	2.31	2.75
10 years	2.92	2.90	2.83	3.26
FOREIGN EXCHANGE				
NZD/USD	0.6443	0.6616	0.6526	0.7064
NZD/AUD	0.9133	0.9163	0.9173	0.9111
NZD/JPY	73.31	75.37	72.52	79.61
NZD/EUR	0.5591	0.5716	0.5628	0.6017
NZD/GBP	0.4908	0.5076	0.5009	0.5376
NZD/CAD	0.8343	0.8478	0.8590	0.8866
TWI	70.8	72.0	71.5	75.1

Contact Details

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Global Head of Research
+61 2 9237 1406

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+61 2 9295 1100
Fixed Income/Derivatives	+61 2 9295 1166

London

Foreign Exchange	+44 20 7796 3091
Fixed Income/Derivatives	+44 20 7796 4761

New York

Foreign Exchange	+1 212 916 9631
Fixed Income/Derivatives	+1 212 916 9677

Hong Kong

Foreign Exchange	+85 2 2526 5891
Fixed Income/Derivatives	+85 2 2526 5891