

12 November 2018



Oil Caps CPI, Replenishes Disposable Income

- **RBNZ handing OCR reins to the data**
- **As slumping oil caps CPI inflation upside**
- **Dip in Oct. ECT likely just statistical**
- **Food prices, PMI due later this week**
- **Tuesday's REINZ housing data likely perkier**

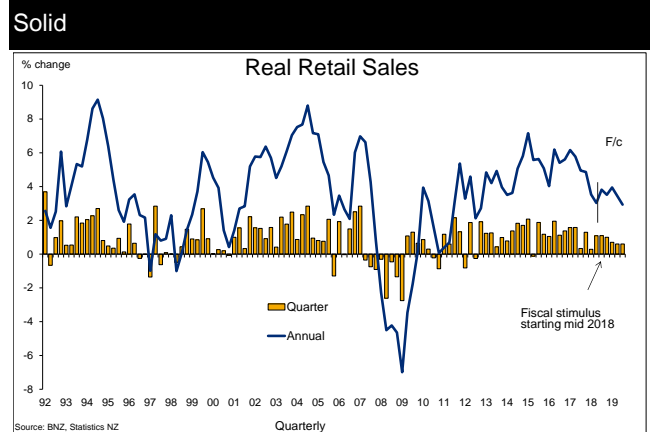
The good thing the Reserve Bank did at last week's Monetary Policy Statement (MPS) was signal that its policy is becoming more data dependant. Gone is the strong signal that the Official Cash Rate will be unchanged for a very long time. Looking to the data, bear in mind there is a full three months' worth before the next RBNZ policy meeting; the 13 February MPS. That's a long time between drinks.

But already, the trajectory on the NZ CPI is being pruned, by the latest wave of reversal in international oil prices.

As a result, New Zealand petrol pump prices are slumping. They have fallen over 10% in less than a month. Accordingly, we have lowered the peak in our annual headline inflation forecasts to 2.1% and it falls below the magical 2.0% mark by September 2019. Our CPI forecasts are now almost identical to the RBNZ's out to 2020. The difference is that we think we will need some upward pressure on interest rates to achieve it.

Given the tradables nature of petrol prices, our view on non-tradables inflation is unaffected, meaning it will continue to head higher and cause some issues for the central bank from a "core" perspective. But to the extent that the headline rate of CPI inflation falls it will also help contain inflation expectations and wage claims.

At the same time, of course, the fall in petrol prices will put more money back into the hands of businesses and, especially, consumers and help support an already robust private consumption track.



With this in mind, don't be concerned by the 0.1% fall in October's electronic card transaction values, as was reported by Statistics NZ this morning. It bears all the hallmarks of a statistical pause – following galloping gains of 1.2% in September and 1.1% in August – rather than any trusted evidence of a stalling.

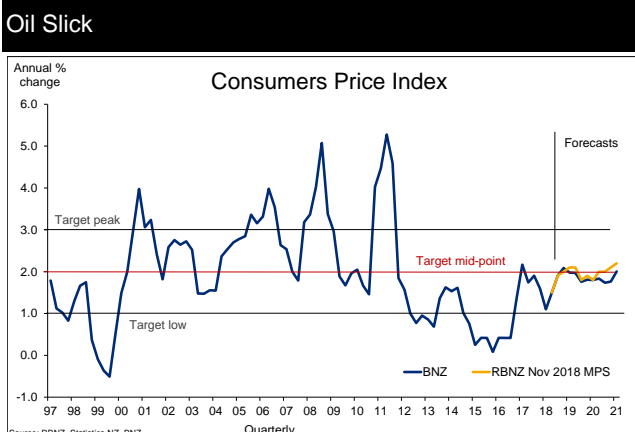
Even with this outturn for October, we are still getting a solid signal around Q4 retail sales growth. The volume part of this is obviously being aided by a slowed view on the Q4 retail deflator, on account of recently softened fuel prices.

As for the Q3 retail trade figures, these are still to be published, due 26 November. We figure on a 1.1% lift in volume, setting annual growth at 3.8%. This will capture the start of the government's Families Package, which came into effect 1 July, as a major offset to the headwinds that were coming from surging petrol prices through the September quarter.

As for the subsequent NZ data this week, they are due to kick on with tomorrow morning's Real Estate Institute housing results for October. We wouldn't be surprised to see these showing more robustness. Even in Auckland, where over-valuation metrics are still by far the highest.

Broadly speaking, we don't believe the market has been going as soft as some punters claim (and certainly not weakening the way Australia's housing is at present). That's hard to square, for example, with Wellington's 45% increase in rating valuations in its just-announced 3-yearly review.

And even if the housing market was on the back foot, in some respects, recent mortgage rate reductions – some



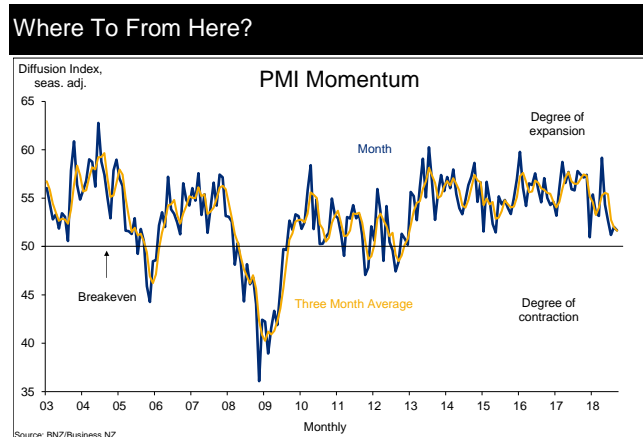
to the lowest levels in generations – has the potential to drive yet another phase of demand pressure.

With this in mind, it will be interesting to see if the RBNZ is bold enough to announce further loosening of its LVR restrictions, at its 28 November Financial Stability Report.

Moving along, we expect Tuesday’s Food Price Index fell 0.6% in October, largely on seasonal grounds. This is implicit to the 0.3% increase we anticipate for the Q4 CPI (for annual inflation of 2.1%, from 1.9% in Q3).

Friday’s Performance of Manufacturing Index will update our impression of expansion in the industry, having been a bit below trend in September, at a seasonally adjusted 51.7.

That’s about it for the followed NZ data. But also spare a thought for the September 2018 population estimates, which Statistics NZ is due to publish on Tuesday. After all, population growth, while slowing, remains a major force in the economy, and pointedly so for some industries. Also, a regional breakdown of the June population estimates is scheduled for Thursday.



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Global Watch

- **Fed’s Powell to speak mid-week**
- **US CPI core inflation forecast to remain at 2.2%**
- **China monthly activity data due**
- **EU GDP, CPI, employment all out this week**
- **Will the Australian unemployment rate stay down?**
- **AU wages, NAB business survey, Debelle speech to monitor too**
- **Japan’s GDP and UK’s CPI also on the agenda**

Australia

The week ahead sees the release of Q3 wages (Wednesday) and October Labour Force (Thursday), key signposts for monetary policy. While markets are expecting a lift in the unemployment rate to 5.1%, partly reversing last month’s sharp fall, NAB expects unemployment to stay at 5%. We expect employment grew 25k in the month (mkt: +20k), and the participation rate lifted a touch to 65.5% (mkt: 65.5%). On wages, NAB is looking for an at-market print of 0.6% q/q, 2.2% y/y.

Chart 1: Unemployment rate to stay around 5%

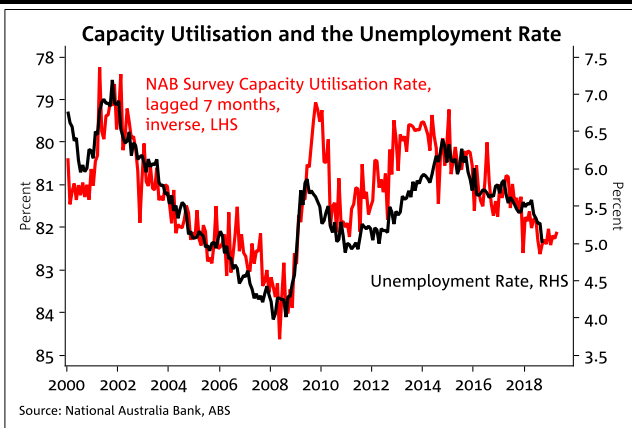
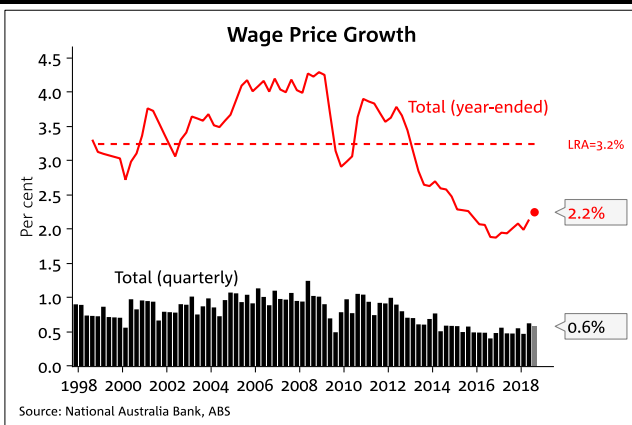


Chart 2: Q3 Wages expected to grow 0.6% q/q

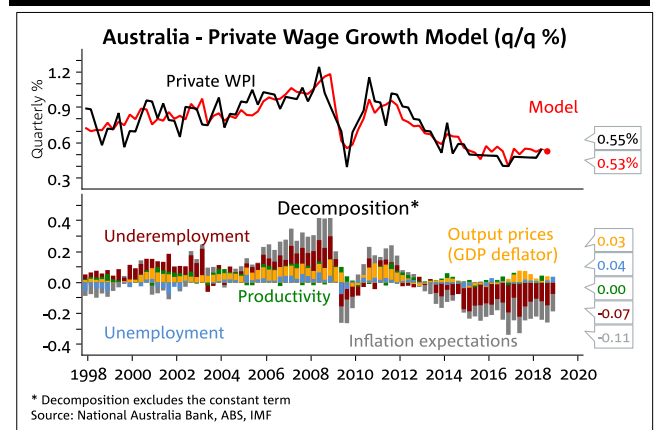


Also important for the RBA and markets will be the October NAB Business Survey, on Tuesday, and Deputy

Governor Guy Debelle’s panel participation on Wednesday. Debelle is appearing at a FINSIA event on regulation, so not directly related to monetary policy, although markets will watch for any interesting remarks.

For **Q3 wages**, our models point to a September quarter outcome in the range of 0.53% q/q to 0.63% q/q, alongside a tightening in the labour market and positive leading indicators. Further, given the large minimum wage (MW) increase this year, and anecdotal evidence of higher pay, we expect a 0.6% q/q rise, with some slight upside risk.

Chart 3: Private WPI growth of 0.5% implies WPI of 0.6%



However, we are cautious of expecting too much of a MW boost to Q3 wages. Compared to 2017, the Fair Work Commission’s decision of a MW increase of 3.5% is 0.2ppt higher than the 2017 decision of 3.3%. The 2017 decision was 0.8 to 0.9ppt higher than the previous two years, but there appeared to be little impact to Q3 wages. Instead Q4 wages seemed to be boosted a touch (by 0.1ppt). Hence we expect only a modest MW effect on wages growth.

Note, while only 2% of employees are on the minimum wage, 23% of employees are affected by the increase due to Australia’s system of award agreements.

The **October labour force** data will be closely watched. The sharp September fall in the unemployment rate was unexpected, and while we suspect it will be partially reversed over coming months, we expect the unemployment rate will stay at 5% in October. This is a result of solid employment growth and sample rotation impacts.

We expect employment grew by 25k in October – supported by NAB’s internal data indicator, leading indicators from SEEK job ads and the NAB Survey (which suggested last month that trend employment growth remains around 22-23k per month). Such a rise in employment growth tends to result in a modest tick up in the participation rate and we see the part. rate at 65.5% (+0.1ppt).

This implies an unemployment rate in the 5 to 5.1% range. However, recall the ABS rotates an eighth of its sample every month. While it is difficult to read into rotation impacts, we note that the outgoing sample group in October has a very high unemployment rate of 5.6%, 0.7ppt higher than the rest of the sample (4.9%). As such, rotation is likely to put downward pressure on the unemployment rate – we expect the unemployment rate to remain at 5%.

The **NAB Business Survey** is the last highlight of the week. (No hints here!) Markets will be watching the key headline conditions and confidence numbers and, given the importance of the labour market, key leading indicators of labour market slack and wage bills.

US

A quiet start with the Veteran's Day Public Holiday on Monday. Powell's speech (with Kaplan) on Wednesday to dominate the week given the recent FOMC meeting was an "interim" meeting with no details apart from the post-meeting Statement. Under focus will be Powell's thoughts on wages growth and the operating framework given the Effective Fed Funds Rate is now at IOER. Datawise CPI on Wednesday and Retail Sales on Thursday are highlights. For CPI, markets are expecting a Core Inflation print of 0.2% m/m and 2.2% y/y. Given inflation has been buffeted by sharp one-off falls in Apparel and Used Car Prices, this month may give the first true hint of the pace of underlying inflation as well as whether the latest round of Chinese tariffs are starting to be passed onto consumers.

China

Monthly activity figures on Wednesday will be scrutinised for signs of how the Chinese economy is responding to the ongoing US-China trade war. Markets expect year-ended retail sales and industrial production growth to remain unchanged, at 9.2 and 5.8% respectively, while year-to-date Fixed Assets growth is expected to lift to 5.5% (from 5.4%).

Eurozone

There's a fair spread of key economic data out this week in Europe, but most of it is unlikely to surprise. Q3 GDP (Wednesday) is expected to show growth slowed to +0.2% q/q from Q2, as suggested by the advance data. That would confirm the weakest outturn since Q2 2014 and pushes annual growth down to 1.7%. Final CPI data for October on Friday will confirm the preliminary release of 2.1% y/y (a touch above target), with the core rate at 1.1%. The labour market is a bright spot and employment growth is expected at +0.4% q/q in Q3 on Wednesday for +1.5% y/y. Merkel speaks on Tuesday on Europe's economy, while EU Commission's Juncker speaks on Monday.

UK

Brexit negotiations remain front and centre with UK PM Theresa May pulling out all the stops to try and reach agreement with the EU27 and her own party over the coming two weeks, before the late November EU summit. The most challenging part is likely to be getting an agreement through the UK Parliament. On the UK data front October CPI and retail sales top the bill, with inflation seen unchanged at 2.4% y/y, while retail sales expected to see a partial rebound from a negative September outturn.

Japan

The preliminary read of Q3 GDP on Wednesday is the highlight for Japanese data. Markets expect growth slumped in the quarter, GDP declining 0.3% q/q, from a 0.7% rise in Q2.

Canada

A very quiet week with mostly second-tier data.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Last week saw sharp moves in NZ rates. On the week, the 2 year swap was 15bps higher, the 5 year was 26bps higher, and the 10 year was 24bps higher. The move in NZ rates was all the more notable for the fact that the 10 year US Treasury yield *declined* slightly on the week.

The trigger for the sharp moves was of course the exceptionally strong NZ labour market report. The 0.6% fall in the unemployment rate to 3.9%, coming after recent upside surprises to GDP and inflation, makes the likelihood of RBNZ rate cuts now look remote. While Governor Adrian Orr refused to rule out the possibility of rate cuts at the post-MPS press conference, his comment that *"it would be pointless to do that, to remove an option"* didn't sound like the RBNZ was seriously considering rate cuts any time soon.

OIS pricing has quickly swung towards pricing the balance of risks in the short-end of the curve towards hikes. A Nov-19 rate rise is almost 50% priced (last week there was still some chance of easing priced into this date). The first rate rise is fully priced for March 2020. The next rate hike is fully-priced for February 2021 (see chart).

We see the sharp reaction in the NZ rates market as an appropriate reaction to the much stronger domestic data, rather than an overreaction. NZ outperformed all other developed markets in both 2017 and 2018, with this outperformance boosted by the RBNZ's previous nod to the possibility of rate cuts. NZ had been the only developed market where rate cuts were priced, rather than hikes. So with rate cuts now looking very a low probability, the NZ market has had to play 'catch-up' to other global rates markets. Even so, NZ is the only country in which the 10 year swap has fallen this year.

The moves higher in NZ rates were given added momentum by unwinds of 'carry trades' (received positions and variants thereof) in NZ swaps. NZ had been perceived as a relatively "safe" carry trade, given the RBNZ's stated intention to keep rates on hold until 2020 (and comments that suggested if it was going to be doing anything in the near-term, it was more likely to be a cut). Given the potential for an earlier RBNZ tightening, there has been heavy unwinding of these positions. The attractiveness of NZ as a carry trade has also been dulled by the recent rise in the 90 day bank bill rate. The 90 day rate increased another 5bps last week, taking its two week increase to 10bps, independent of the OCR outlook.

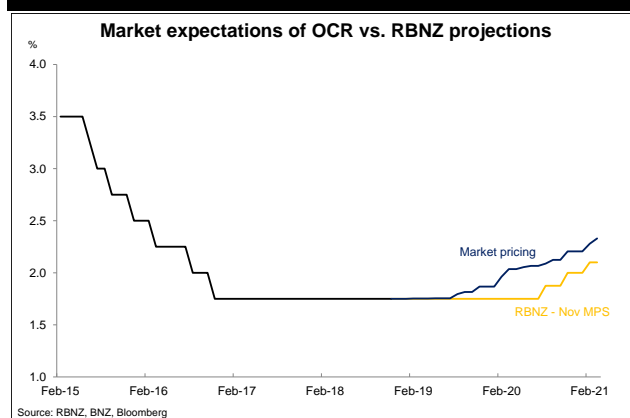
We wouldn't be surprised to see some consolidation in NZ rates over the next few weeks, given the extent of the recent move. Also, there is no major NZ data until GDP shortly before Christmas, and the next RBNZ meeting isn't until February. Even so, we retain our medium-term bias for higher NZ rates, with a preference for paying/hedging the 5 year point of the curve. While there is considerable uncertainty over what the threshold is for the first RBNZ

rate hike (which makes the front-end a difficult call), we have more conviction that the market should price a faster *pace* of rate rises into the curve. In our opinion, NZ rates still look too low compared to other markets as well.

NZDM tendered another \$250m of 2029 maturity bonds last week, with a bid-to-cover ratio a bit lower than recent tenders (2.2 times). Even so, the tender cleared through secondary market yields at the time, indicative of strong demand. We expect NZ swaps spreads to widen in December, as NZDM pauses its issuance over the Christmas period. Interested readers can read more [here](#).

It's a quiet week on the local data-front, but there is plenty to focus on offshore. In Australia, the all-important wage data is released on Wednesday and the labour market report on Thursday. Our NAB colleagues expect the unemployment rate to remain unchanged at 5%, against consensus expectations for a rise to 5.1%. In the US, CPI on Wednesday night and retail sales Thursday night are the highlights, alongside a speech by Fed Chair Powell on Wednesday. Powell has sent some mixed messages in his personal comments recently, so the market will be attuned to his thoughts on the policy outlook.

The market has increased its rate hike pricing significantly



Current Rates/Spreads and Recent Ranges

| | Current | Last 3-weeks range* |
|-------------------------|---------|---------------------|
| NZ 90d bank bills (%) | 1.99 | 1.89 - 1.99 |
| NZ 2yr swap (%) | 2.20 | 1.99 - 2.22 |
| NZ 5yr swap (%) | 2.64 | 2.30 - 2.67 |
| NZ 10yr swap (%) | 3.11 | 2.78 - 3.14 |
| 2s10s swap curve (bps) | 91 | 79 - 91 |
| NZ 10yr swap-govt (bps) | 30 | 24 - 30 |
| NZ 10yr govt (%) | 2.81 | 2.50 - 2.85 |
| US 10yr govt (%) | 3.18 | 3.05 - 3.25 |
| NZ-US 10yr (bps) | -38 | -58 - -38 |
| NZ-AU 2yr swap (bps) | 11 | -3 - 11 |
| NZ-AU 10yr govt (bps) | 9 | -11 - 9 |

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZFWDS Bloomberg pg BNZ9

Last week the NZD performed well again, showing a broadly based rise, including gains of around 1% against the USD and the AUD and larger gains on the other key crosses. Domestic factors were in charge, with the surprisingly strong labour market data triggering a stronger NZD and higher NZ rates.

The labour market data, including a plunge in the unemployment rate to 3.9%, added to the evidence that the NZ economy has been growing above trend and this is adding to pressure on capacity. It follows a run of good "real" economic data and strong inflation data, confirming that weak business confidence is a poor guide as to the true economic picture.

The underlying text and forecasts of the RBNZ's Monetary Policy Statement conveyed a more hawkish bias compared to August, with upside risks to inflation and with employment already near its "maximum sustainable level". Higher NZ rates and a stronger NZD are a fair response, given that the chance of any further RBNZ rate cut this cycle is now surely zero. The market has moved to price in the chance of a rate hike in the second half of next year, now more consistent with our long-held expectation.

Covering of short positions in NZD futures by speculative accounts has been a factor in recent NZD strength, with net short positioning on CFTC data, through to last Tuesday, shed by about a quarter. There was likely more covering of short positions after the strong employment data.

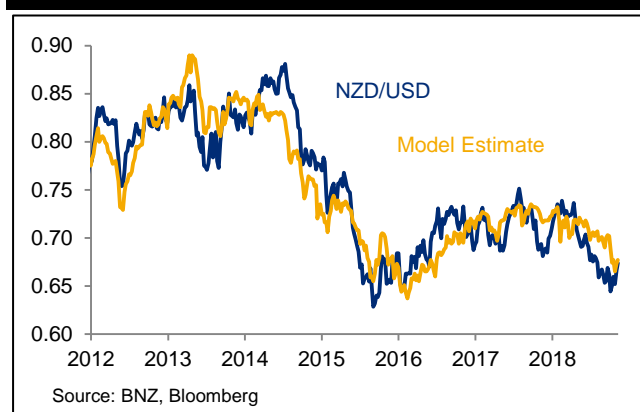
The next key risk event is the Trump-Xi meeting at the G20 summit 30 November-1 December. Soon after we'll see whether Trump's more conciliatory tone towards China trade before the US mid-term elections was just political posturing or a genuine olive branch. If Trump's actions raise the prospect of further tariffs from those currently in place, then some of the recent strong recovery in the NZD is likely to reverse. However, the positive domestic forces are likely to be a more enduring force. A return to "trade war" headlines after the G20 meeting could see 0.65 revisited, but the October low of 0.6425 might be a step too far. On the other hand, a positive outcome from the meeting could see the NZD make further gains. Back in August we wrote a report "NZD at the whim of DJ Trump" and that view remains apt.

Interestingly, the NZD is now within half a cent of our short-term fair value estimate of 0.6770. So after spending much of the past six months in oversold territory, we are now more comfortable with the current spot rate. Our year-end forecast of 0.65 was put in place during a time of heightened US-China trade tensions and we'd need to see US-China trade relations deteriorate again to see that projection realised, as noted above.

In the week ahead, there is no top tier domestic data. US CPI on Wednesday night is the key release, ahead of retail sales later in the week. Midday Thursday sees Fed Chair Powell discussing the economy at an event. The last time Powell talked in October it was a market moving event, driving US rates and the USD higher.

In Australia, wage and employment data will be closely watched as these are key figures the RBA is watching to assess the policy outlook. While UK CPI data are released, the key influence on GBP will be how Brexit negotiations fare. This could be an important week for the UK government itself to agree on the way forward. It seems that a withdrawal agreement between the UK and EU is within grasp but a key stumbling block might be the UK Parliament to get the agreement over the line. The GBP outlook remains binary and the currency will remain choppy until there is more clarity.

Finally, NZD back to close to fair value



Cross Rates and Model Estimates

| | Current | Last 3-weeks range* |
|---------|---------|---------------------|
| NZD/USD | 0.6734 | 0.6470 - 0.6810 |
| NZD/AUD | 0.9329 | 0.9170 - 0.9340 |
| NZD/GBP | 0.5211 | 0.5020 - 0.5200 |
| NZD/EUR | 0.5950 | 0.5690 - 0.5950 |
| NZD/JPY | 76.63 | 72.40 - 77.30 |

*Indicative range over last 3 weeks, rounded figures

| BNZ Short-term Fair Value Models | | |
|----------------------------------|------------|-----------|
| | Model Est. | Actual/FV |
| NZD/USD | 0.6770 | -1% |
| NZD/AUD | 0.9040 | 3% |

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Technicals

NZD/USD

- Outlook: Downside risk
- ST Resistance: 0.6730 (ahead of 0.6850)
- ST Support: 0.6500 (ahead of 0.6425)

We've seen further signs of the downward trend having been broken. The currency broke up through 0.6730 which was, and may remain, a key resistance level. The next key resistance level is 0.6850.



NZD/AUD

- Outlook: Trading range
- ST Resistance: 0.9380 (ahead of 0.9550)
- ST Support: 0.9225 (ahead of 0.9050)

The recent upswing has continued, with prior resistance at 0.93 broken. The next key level is 0.9380.

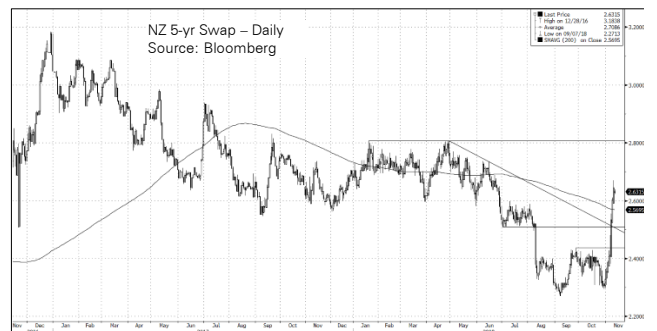


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NZ 5-year Swap Rate

- Outlook: Higher
- ST Resistance: 2.80
- ST Support: 2.50

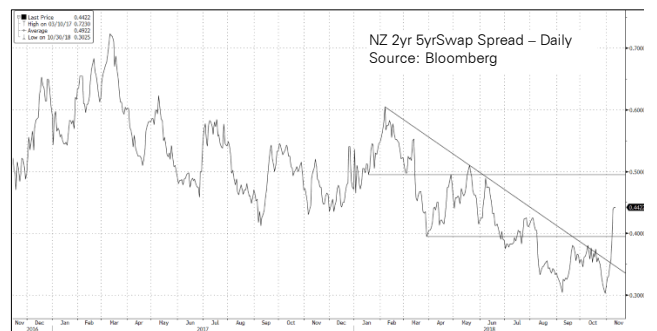
Break out last week above 2.44. Support now at 2.50 but expect extension to 2.80.



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

- Outlook: Steeper
- ST Resistance: +49
- ST Support: +39

Trendline break at +36 signals move towards +49. Support now at +39.



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Quarterly Forecasts

Forecasts as at 12 November 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 | 1.1 | 1.0 | 0.7 | 0.6 | 0.6 |
| Current account (ytd, % GDP) | -2.6 | -2.6 | -2.9 | -3.0 | -3.3 | -3.6 | -3.9 | -4.0 | -4.2 | -4.4 |
| CPI (q/q) | 0.0 | 0.5 | 0.1 | 0.5 | 0.4 | 0.9 | 0.3 | 0.4 | 0.4 | 0.7 |
| Employment | 0.0 | 2.0 | 0.5 | 0.6 | 0.6 | 1.1 | 0.0 | 0.6 | 0.5 | 0.4 |
| Unemployment rate % | 4.7 | 4.7 | 4.5 | 4.4 | 4.4 | 3.9 | 4.2 | 4.0 | 4.0 | 4.1 |
| Avg hourly earnings (ann %) | 1.2 | 2.0 | 3.1 | 4.0 | 3.3 | 3.6 | 3.7 | 3.4 | 4.1 | 3.6 |
| Trading partner GDP (ann %) | 3.7 | 4.0 | 3.9 | 4.1 | 4.1 | 3.9 | 3.8 | 3.8 | 3.7 | 3.7 |
| CPI (y/y) | 1.7 | 1.9 | 1.6 | 1.1 | 1.5 | 1.9 | 2.1 | 2.0 | 2.0 | 1.8 |
| 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 | | | Swaps | | | US Rates | | Spread |
|------------------|------|------------------|--------|---------|--------|--------|---------|---------------|----------|----------------|
| | | 90 Day | 5 Year | 10 Year | 2 Year | 5 Year | 10 Year | Libor 3 month | US 10 yr | 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 | 2.35 | 3.00 | -0.45 |
| Forecasts | | | | | | | | | | |
| Dec | 1.75 | 1.95 | 2.25 | 2.85 | 2.00 | 2.55 | 3.15 | 2.40 | 3.25 | -0.40 |
| 2019 Mar | 1.75 | 1.95 | 2.35 | 2.90 | 2.20 | 2.65 | 3.20 | 2.60 | 3.25 | -0.35 |
| Jun | 1.75 | 2.05 | 2.60 | 3.15 | 2.40 | 2.65 | 3.20 | 2.95 | 3.50 | -0.35 |
| Sep | 2.00 | 2.30 | 2.80 | 3.30 | 2.70 | 2.65 | 3.20 | 2.95 | 3.50 | -0.20 |
| Dec | 2.25 | 2.55 | 3.00 | 3.45 | 3.00 | 2.90 | 3.45 | 3.20 | 3.50 | -0.05 |
| 2020 Mar | 2.50 | 2.80 | 3.15 | 3.55 | 3.20 | 2.90 | 3.45 | 3.45 | 3.50 | 0.05 |
| Jun | 2.75 | 2.95 | 3.30 | 3.55 | 3.20 | 2.90 | 3.45 | 3.45 | 3.50 | 0.15 |
| Sep | 2.75 | 2.95 | 3.35 | 3.55 | 3.20 | 3.10 | 3.60 | 3.45 | 3.50 | 0.20 |
| Dec | 2.75 | 2.95 | 3.35 | 3.65 | 3.40 | 3.10 | 3.60 | 3.45 | 3.50 | 0.25 |

Exchange Rates (End Period)

USD Forecasts

| | NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY |
|----------------|---------|---------|---------|---------|---------|
| Current | 0.67 | 0.72 | 1.13 | 1.29 | 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 | 0.67 | 0.93 | 0.59 | 0.52 | 76.6 | 73.9 |
| 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 | 74.1 |
| 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 | 74.8 |
| 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 12 November 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 | 4.7 | 3.9 | 3.8 | 2.1 | 1.8 | 4.2 | 4.4 | 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 | 0.5 | 0.2 | 1.2 | 0.8 | 0.7 | 0.5 | 0.2 |
| Household Savings (% disp. income) | -2.8 | -1.8 | -4.0 | -4.0 | -3.0 | | | | | |
| Nominal Expenditure GDP - \$bn | 270.6 | 285.9 | 298.6 | 313.6 | 325.4 | 266.5 | 283.0 | 294.8 | 309.8 | 322.9 |
| | | | | | | | | | | |
| Prices and Employment - annual % change | | | | | | | | | | |
| CPI | 2.2 | 1.1 | 2.0 | 1.8 | 2.0 | 1.3 | 1.6 | 2.1 | 1.8 | 1.8 |
| Employment | 5.7 | 3.1 | 2.3 | 1.6 | 1.6 | 5.8 | 3.7 | 2.3 | 1.9 | 1.6 |
| Unemployment Rate % | 4.9 | 4.4 | 4.0 | 4.1 | 4.0 | 5.3 | 4.5 | 4.2 | 4.0 | 4.0 |
| Wages - ahote | 1.1 | 4.0 | 3.4 | 3.9 | 3.4 | 1.1 | 3.1 | 3.7 | 3.8 | 3.6 |
| Productivity (ann av %) | -1.9 | -0.8 | 0.0 | 1.0 | 1.0 | -0.8 | -1.3 | -0.3 | 0.8 | 1.0 |
| Unit Labour Costs (ann av %) | 3.9 | 3.9 | 2.8 | 2.4 | 2.4 | 2.7 | 4.0 | 3.5 | 2.2 | 2.4 |
| | | | | | | | | | | |
| External Balance | | | | | | | | | | |
| Current Account - \$bn | -6.9 | -8.5 | -11.8 | -13.2 | -14.9 | -5.7 | -8.2 | -11.5 | -13.5 | -14.2 |
| Current Account - % of GDP | -2.6 | -3.0 | -4.0 | -4.2 | -4.6 | -2.1 | -2.9 | -3.9 | -4.4 | -4.4 |
| | | | | | | | | | | |
| Government Accounts - June Yr, % of GDP | | | | | | | | | | |
| OBEGAL (core operating balance) | 1.5 | 1.9 | 1.1 | 1.2 | 1.3 | | | | | |
| Net Core Crown Debt (excl NZS Fund Assets) | 21.7 | 19.9 | 19.6 | 19.0 | 17.8 | | | | | |
| 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 | 74.8 | 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 | 3.30 | 2.75 | 2.30 | 2.25 | 3.00 | 3.35 |
| 10-year Govt Bond | 3.25 | 2.95 | 2.90 | 3.55 | 3.75 | 3.30 | 2.80 | 2.85 | 3.45 | 3.75 |
| 2-year Swap | 2.30 | 2.25 | 2.20 | 3.20 | 3.25 | 2.40 | 2.20 | 2.00 | 3.00 | 3.40 |
| 5-year Swap | 3.00 | 2.70 | 2.65 | 3.45 | 3.60 | 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 | 0.25 | 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 | | Forecast | Median | Last |
|---|----------|--------|--------|--|----------|---------|----------|
| Monday 12 November | | | | Wednesday 14 November...continued | | | |
| NZ, Electronic Card Transactions, October | +0.5% | +0.6% | +1.3% | Germ, GDP, Q3 1st est | | -0.1% | +0.5% |
| US, Fed's Daly Speaks, Economic Outlook | | | | UK, CPI, Oct y/y | | +2.5% | +2.4% |
| Tuesday 13 November | | | | US, Powell Speaks, Economic Issues | | | |
| NZ, Food Price Index, October | -0.6% | | -0.1% | US, CPI ex food/energy, Oct y/y | | +2.2% | +2.2% |
| NZ, Population Estimate, At Sep 2018 y/y | | | +1.9% | Thursday 15 November | | | |
| Aus, NAB Business Survey, October | | | +6 | NZ, Subnational Population Estimates, At June 2018 | | | |
| Germ, ZEW Sentiment, November | | -26.0 | -24.7 | Aus, Employment, October | +25k | +20k | +6k |
| Germ, CPI, Oct y/y 2nd est | | +2.5% | +2.5%P | Aus, RBA's Debelle Speaks, FINSIA Panel | | | |
| UK, Unemployment Rate (ILO), September | | 4.0% | 4.0% | Aus, Unemployment Rate, October | 5.0% | 5.1% | 5.0% |
| UK, Average Weekly Earnings, Sept y/y | | +3.0% | +2.7% | Euro, Trade Balance, Sept s.a. | | +€16.3b | +€16.6bn |
| US, NFIB Small Business Optimism, October | | 108.0 | 107.9 | UK, Retail Sales vol., October | | +0.2% | -0.8% |
| Wednesday 14 November | | | | US, Retail Sales, October | | +0.5% | +0.1% |
| Aus, Labour Price Index, Q3 | +0.6% | +0.6% | +0.6% | US, Empire Manufacturing, November | | +20.0 | +21.1 |
| Aus, Consumer Sentiment - Wpac, November | | | 101.5 | US, Business Inventories, September | | +0.3% | +0.5% |
| China, Industrial Production, Oct y/y | +5.8% | +5.8% | +5.8% | US, Philly Fed Index, November | | +20.0 | +22.2 |
| China, Retail Sales, Oct y/y | +9.2% | +9.2% | +9.2% | Friday 16 November | | | |
| Jpn, GDP, Q3 1st est | -0.3% | -0.3% | +0.7% | NZ, BNZ PMI (Manufacturing), October | | | 52.0 |
| Euro, Industrial Production, September | -0.4% | -0.4% | +1.0% | US, Industrial Production, October | | +0.2% | +0.3% |
| Euro, GDP, Q3 2nd estimate | +0.2% | +0.2% | +0.2%P | US, Fed's Evans Speaks | | | |

Historical Data

| | Today | Week ago | Month Ago | Year Ago | | Today | Week ago | Month Ago | Year Ago |
|--------------------------------------|-------|----------|-----------|----------|-------------------------|--------|----------|-----------|----------|
| CASH & BANK BILLS | | | | | SWAP RATES | | | | |
| Call | 1.75 | 1.75 | 1.75 | 1.75 | 2 years | 2.21 | 2.07 | 2.02 | 2.21 |
| 1mth | 1.90 | 1.87 | 1.82 | 1.77 | 3 years | 2.36 | 2.17 | 2.13 | 2.39 |
| 2mth | 1.95 | 1.92 | 1.86 | 1.85 | 4 years | 2.51 | 2.29 | 2.25 | 2.56 |
| 3mth | 1.99 | 1.96 | 1.90 | 1.92 | 5 years | 2.65 | 2.41 | 2.38 | 2.71 |
| 6mth | 2.02 | 1.99 | 1.94 | 1.94 | 10 years | 3.12 | 2.92 | 2.89 | 3.23 |
| GOVERNMENT STOCK | | | | | FOREIGN EXCHANGE | | | | |
| 03/19 | 1.74 | 1.74 | 1.74 | 1.89 | NZD/USD | 0.6733 | 0.6657 | 0.6551 | 0.6903 |
| 04/20 | 1.86 | 1.80 | 1.74 | 2.03 | NZD/AUD | 0.9326 | 0.9242 | 0.9189 | 0.9055 |
| 05/21 | 1.95 | 1.85 | 1.81 | 2.19 | NZD/JPY | 76.62 | 75.32 | 73.21 | 78.43 |
| 04/23 | 2.19 | 2.03 | 2.00 | 2.48 | NZD/EUR | 0.5949 | 0.5839 | 0.5658 | 0.5917 |
| 04/25 | 2.44 | 2.28 | 2.26 | 2.75 | NZD/GBP | 0.5212 | 0.5110 | 0.4981 | 0.5263 |
| 04/27 | 2.64 | 2.48 | 2.47 | 2.94 | NZD/CAD | 0.8890 | 0.8737 | 0.8511 | 0.8788 |
| 04/29 | 2.80 | 2.64 | 2.64 | | | | | | |
| 04/33 | 2.97 | 2.82 | 2.82 | 3.30 | TWI | 74.0 | 73.0 | 71.6 | 73.6 |
| 04/37 | 3.11 | 2.96 | 2.95 | 3.50 | | | | | |
| GLOBAL CREDIT INDICES (ITRXX) | | | | | | | | | |
| Australia 5Y | 77 | 80 | 79 | | | | | | |
| Nth America 5Y | 67 | 65 | 66 | 56 | | | | | |
| Europe 5Y | 70 | 70 | 75 | 52 | | | | | |

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