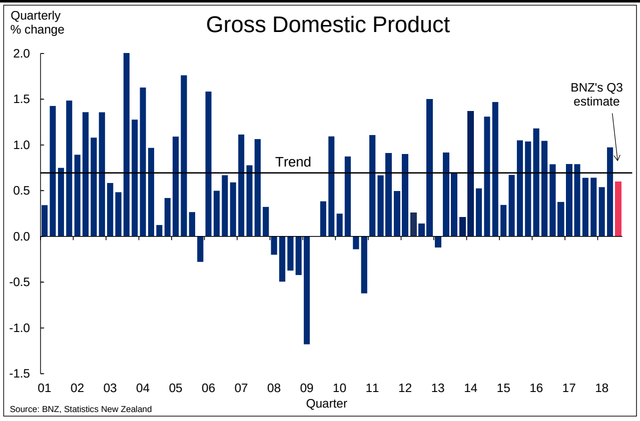
10 December 2018

Manufacturing Clobbers GDP

- **We lower our Q3 GDP pick**
- **As manufacturing underwhelms**
- **Further reason for the RBNZ not to hike**
- **Soft GDP threatens future surpluses**
- **Is PMI bounce sustainable?**

The suite of data released last week, and this morning's Economic Survey of Manufacturing, has seen us lower our Q3 GDP forecast by 0.1% to 0.6% (2.8% annual).

Q3 GDP estimate lowered

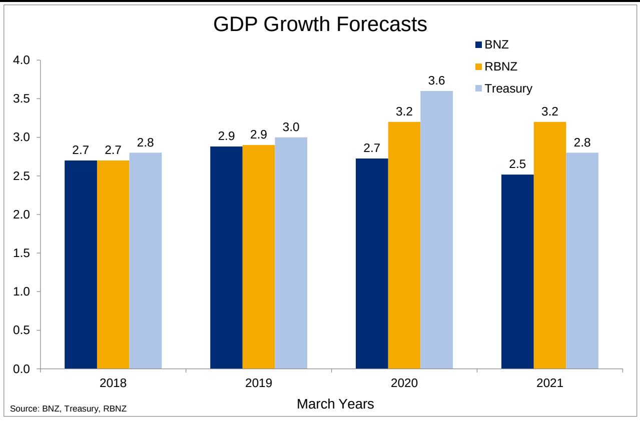


Prior to this morning's Economic Survey of Manufacturing we were feeling confident that our 0.7% call was on the mark but the data today were much weaker than we had anticipated. We are quick to point out, nonetheless, that the 1.6% drop in manufacturing sales volumes, as reported in the survey, does not translate one-for-one into the GDP measure of manufacturing output. Were it to do so then our estimate would be much lower again.

Last week we saw building work put in place rise 0.7%, which was a little below our expectation but any negative impact from this was more than offset by booming wholesale trade. Based on 2.5% growth in the headline reading, we think this translates into real growth in the wholesale sector of 1.7% for the quarter – higher than we had anticipated.

Further adding support to our GDP pick was the stronger-than-anticipated net export result from last Monday with export volumes up 1.8% for the quarter while import volumes fell 0.9%. Alas, though, strengthening net exports and very robust wholesale trade were simply not enough in the face of manufacturing's weakness.

Treasury a tad optimistic?



Ongoing strength in GDP is a key factor maintaining strength in the Government's accounts. This Thursday's Half Yearly Economic and Fiscal Update (HYEFU) will report on both recent and future expected developments in those accounts. Since the May Budget, progress seems to have been very much as expected. The big question for us is can it stay that way?

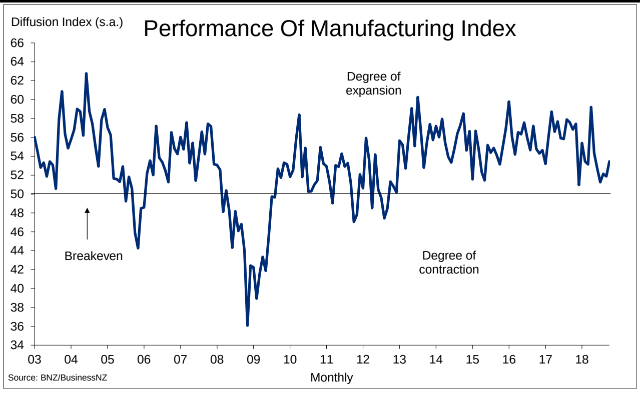
When the Government released its Budget, back in May, we expressed our concern that it appeared overly optimistic about the medium term outlook for the economy. We noted at the time that its growth projections were around 0.4% per annum higher than our own and that this would put future surpluses under pressure. We remain of the view that the economy will not grow as fast as Treasury assumed. Accordingly, we will be looking closely to see whether the official expectations for growth and fiscal surpluses are downgraded or whether Treasury will maintain its previously optimistic stance.

Whatever the outcome, New Zealand fiscal updates rarely have a meaningful impact on markets unless there are policy announcements that significantly impact expectations for growth and inflation. In this regard, this HYEFU will be no different.

What is different is that Finance Minister Grant Robertson will use this update to reveal how future fiscal pronouncements will also report on the Government's new Living Standards Framework (https://nztreasury.shinyapps.io/lsfdashboard/). The Minister is keen that societal progress is not defined solely by such things as and the Government's financial accounts but also by wider measures of well-being. We are proponents of this approach but wonder whether tying its reporting into the Budget cycle is the best way for it to gain traction. Both the Government's fiscal accounts and the Living Standards Framework are very important in their own right. It would be unfortunate if either one got its message lost.

The other key release for us in the coming week is Friday's BNZ-Business New Zealand PMI. We had become a bit worried that this indicator might fall to a level consistent with manufacturing contraction but in October it bounced nicely to a level (53.5) just above average. We would interpret any reading near this as a very solid result indeed and it would support our view that the Q3 weakness in manufacturing GDP should prove transitory.

Can the PMI bounce be sustained?



To cap things off, there are three interesting partial indicators to keep an eye on this week:

- November ECT data are released Tuesday. We are looking for a small decline in spending (0.4%) largely reflecting the significant fall in fuel prices that occurred during the month. Of course to the extent that falling fuel prices freed up cash for spending elsewhere this may act as an offset.
- On Thursday, November's Food Price Index is released. We have assumed that food prices fell 0.3% for the month. This largely reflects seasonal declines in fresh fruit and vege prices. Our food price estimate has a significant bearing on our Q4 CPI pick which currently stands at 0.1% for the quarter, 1.9% for the year. This is a slightly below the RBNZ's 0.2% forecast largely because of falling fuel prices.
- At some stage this week, REINZ may release its latest housing update. If it does so, we would expect a repeat of recent data showing Auckland stabilizing, Christchurch flat to negative and the rest of the country, on average, showing ongoing strength.

Putting all this together, it appears that the pressure on the Reserve Bank to hike interest rates any time soon is dissipating. Not only are petrol prices and the NZD depressing short term inflation measures but it now also looks like growth could come in on the lower side of RBNZ expectations (0.7% for Q3 GDP). Given this, it wouldn't be surprising if fixed interest markets started to adopt a less aggressive approach to future tightening expectations. Be that as it may, we are quick to note that the pace of the current economic expansion remains near the economy's potential growth rate meaning that current capacity constraints, particularly in the labour market, will not be alleviated any time soon. Accordingly, there is no argument for an easing bias any time soon.

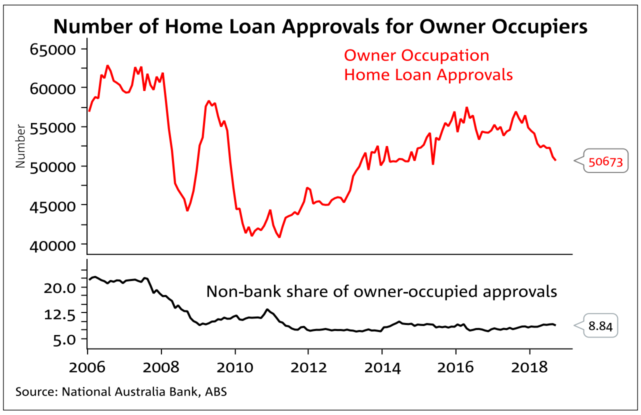
stephen_toplis@bnz.co.nz

Global Watch

- **UK Brexit deal vote due this week**
- **Will Chinese activity data indicate slowing?**
- **ECB forecasts in focus, as QE set to end**
- **US CPI, retail, PMIs, industrial production data due**
- **AU housing indicators, business survey due; Kent to speak**

Australia

Chart 1: Home loan approvals on the decline



Source: National Australia Bank, ABS

After a barrage of data in the past week, the week ahead promises a calmer schedule. The highlights will be a Speech by Assistant Governor (Financial Markets) Chris Kent, titled *US Monetary Policy and Australian Financial Conditions* and the NAB Business Survey for October (Tuesday). Housing market related data will also, as always, attract interest – Home Loans (Monday) and quarterly ABS House Prices (Tuesday). On the home loans data NAB expects another tick down in the number of owner-occupier home loan approvals, by -0.5% m/m (mkt: -0.5% m/m).

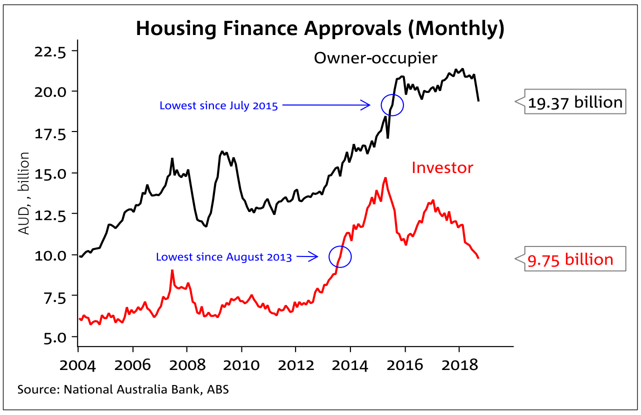
Recent revisions to GDP data and soft growth in Q3 have seen economic growth softening to 2.8% y/y – roughly around RBA estimates of trend. These data challenge the RBA's outlook for above-trend growth into 2019 and increase the downside risk to the Bank's household consumption outlook.

The NAB Survey will be closely watched. (No clues here!) While still elevated, conditions have been broadly softening of late, notable in NSW. It's likely the decline is related in some part to the housing cycle and a slowdown in employment growth after recent record strength – but this remains something to watch. As always, prices data in the survey will be monitored for any signs of life.

Home Loan approvals and ABS House Prices will likely show a continuation of existing trends. While ABS House Prices for Q3 will likely confirm the timelier data from CoreLogic, which shows house prices are down 8% y/y to November, home loans continues to be watched closely as market watchers attempt to gauge the extent of tightening credit conditions.

A focal point for us remains owner-occupier loans. While a big factor behind a cooling in housing lending has been the longer decline in investor approvals, to date owner-occupier lending has also weakened in recent months.

Chart 2: Investor loans leading decline in values



Source: National Australia Bank, ABS

US

Wednesday sees CPI, while Friday sees Retail Sales, Industrial Production and Flash PMIs. There are no Fed speakers in the lead up to the 19 December FOMC meeting.

China

November activity indicators (Friday) will be important to gauge whether growth momentum has slipped further – Retail Sales, Industrial Production and Fixed Assets. In October, Retail Sales surprised on the downside (8.6% y/y), Fixed Assets on the upside (5.7% YTD y/y), while Industrial Production was at-market(5.9% y/y).

UK

The UK Parliament has started four days of intensive debate on PM Theresa May's deal with the EU. These debates continue this week with the main vote on her deal expected around 20.00 to 21.00 GMT on Tuesday (9am AEDT Wednesday). Current voting arithmetic suggests May could be up to 90 votes short and there are reports that May could delay the vote. 3. If May's deal passes (unlikely), we expect the GBP will rally strongly.

Eurozone

The ECB meets on Thursday with QE set to end this month, and the ECB likely reiterate it remains on hold "at least through the Summer of 2019". Markets will focus on whether the ECB downgrades its forecasts for growth and inflation given the sharp decline in oil prices and lower growth outcomes recently. On the data, EZ Flash PMIs on Friday will be closely watched for further signs that growth is slowing.

Canada

There's no data of note in the week ahead.

Japan

It's a quiet week for Japan with final readings for Q3 GDP and Tankan PMIs the highlight.

kaixin.owyong@nab.com.au

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ and global rates continued to fall last week. The 10 year Treasury yield fell 14bps, to 2.85%, as equities came under renewed pressure and the market started to question how much (if at all) the Fed will tighten in 2019. In Australia, the market has started pricing a small chance of rate cuts for next year amid the ongoing weakness in the Australian housing market and greater downside risks to global growth.

There wasn't any domestic news to affect NZ rate expectations, but the moves offshore pushed the 10 year swap rate down to 2.775%, its lowest level since late-2016. The NZ swaps curve has now completely reversed the sharp sell-off seen in the wake of the NZ employment report last month. The 2s10s swap curve also flattened to its lowest level since late-2016, at 72bps.

The front-end of the NZ curve saw less movement, but still moved lower on the week. The 2 year swap fell 4bps to 2.05%, its lowest level since early November. OCR tightening expectations continue to be gradually pushed back, although the market still does not price any chance of cuts into the curve. The first hike is now priced for early-2021. The 90 day bank bill rate has been relatively stable (currently 1.98%), amid some upward pressure on funding spreads offshore (the US and Australian equivalents of the bank bill-OIS spreads have been moving higher in recent weeks).

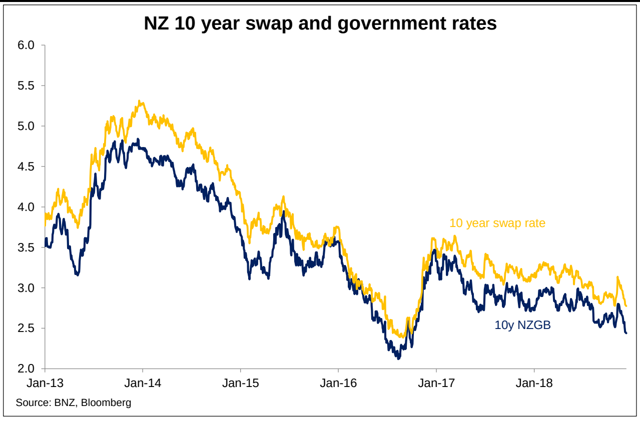
The next major market-moving domestic release is GDP next week. Our preliminary estimate is for a 0.6% quarterly increase (slightly below the RBNZ's 0.7% November MPS forecast). Were GDP to undershoot the RBNZ's forecasts materially, the market will likely start to price some chance of RBNZ rate cuts into the curve again, which would drive a further decline in NZ rates. The market's perception is that the RBNZ is very dovish, and so weaker economic data would likely play into fears that the RBNZ might cut rates next year.

The major domestic focus this week is the release of the HYEFU, and the accompanying release of the bond programme by New Zealand Debt Management (NZDM). As far as our expectations go, we don't think there will be major changes to the bond programme and expect it to remain unchanged at $8b gross issuance for this fiscal year. That would mean NZDM would be forecasting negative *net* issuance of NZ government bonds this fiscal year (i.e. maturities and buy-backs of government bonds exceeding gross issuance). The supply backdrop remains supportive of NZ government bonds, and has contributed to the 10 year swap spread (ie. the difference between the 10 year swap rate and government bond yield) reaching its widest level since mid-2017 last week, at 37.5bps.

NZDM will also release its bond tender schedule for the March quarter on Thursday. Our expectation is that NZDM will continue to tender 2025s, 2029s and 2040 maturity inflation-indexed bonds. We see some chance that NZDM switches from monthly tenders of the 2037s to the 2033s, although such a change (were it to eventuate) would be unlikely to have a material impact on yields or the curve.

Offshore, the focus is will be on equity market performance, and any fresh developments on US-China trade relations. The release of core CPI in the US is the economic data highlight – the market is looking for a 2.2% year-on-year increase – although retail sales on Friday will also garner attention. With Fed rate expectations having been pared back significantly over the past month, we see upside risks to US 10 year Treasury yields from current levels, although that is contingent on risk assets stabilizing.

10 year swap and NZGB yields at lowest level since late-16



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.98	1.97 - 2.00
NZ 2yr swap (%)	2.05	2.05 - 2.18
NZ 5yr swap (%)	2.35	2.35 - 2.56
NZ 10yr swap (%)	2.78	2.77 - 3.03
2s10s swap curve (bps)	72	72 - 87
NZ 10yr swap-govt (bps)	34	29 - 35
NZ 10yr govt (%)	2.44	2.43 - 2.73
US 10yr govt (%)	2.85	2.82 - 3.09
NZ-US 10yr (bps)	-41	-48 - -35
NZ-AU 2yr swap (bps)	11	6 - 12
NZ-AU 10yr govt (bps)	2	-4 - 3

*Indicative range over last 3 weeks

nick.smyth@bnz.co.nz

Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD was flat last week. It opened strongly after last weekend's ceasefire on the US-China trade war, agreed between Presidents Xi and Trump. The currency reached a six-month high of 0.6970, before optimism faded and the currency reversed course. Relations between the US and China took a new turn lower after Huawei's CFO was arrested in Canada, at the request of the US, to face charges of violating sanctions against Iran. This new source of confrontation strikes at the heart of President Xi's ambitions to make the country a technology superpower.

Our risk appetite index fell to a fresh 2½-year low of 38%, with a higher VIX index and wider credit spreads. Adding to weaker sentiment was the front end of the US yield curve going inverted for the first time, a leading indicator of US recession, although the lead time is long and variable. Weaker risk appetite dragged our short term fair value model estimate of the NZD down to around 0.66.

It wasn't all bad news for the NZD, with the first positive GDT dairy auction this season. We're more confident that dairy prices have now bottomed. NZX futures for wholemilk milk powder have picked up over recent weeks. Alongside lower oil prices, NZ's commodity terms of trade have recently shown a decent recovery after a big fall through to October.

Our updated NZD forecasts suggest that we see more downside than upside risk over the next 3-6 months, with our central forecast anchored around 0.67-0.68. This suggests that any run towards 0.70 or slightly higher is likely to be met with some resistance, while also allows for the chance of a return to 0.65 if the US-China trade war turns nasty again.

We see NZD/AUD sustaining a higher trading range through mid-2019. The cross has made a fresh year-to-date high of 0.9560 and from a fundamental perspective we see good reasons for the strong level, including Australia's relatively weaker housing market and commodity terms of trade. Next year's Federal election is likely to see a change to a Labour government, with an associated increase in uncertainty about economic policy. Our updated forecasts have 0.95-0.96 being the new mid-point of a trading range that might well now be 0.93-0.98 through mid-2019.

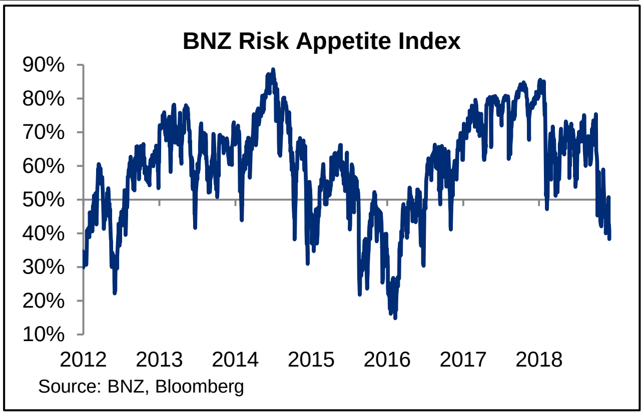
In the week ahead the domestic calendar is quiet, with some vague interest in the Government's budget update on Thursday, with a risk of a less rosy economic outlook in the medium-term, as Treasury's May forecasts were overly optimistic.

Globally, the key data releases are towards the end of the week. In the US, the CPI is expected to show headline inflation weak as lower oil prices kick in, while annual core inflation ticks up to 2.2%. Recently, the trend has been for inflation data to underwhelm market expectations. China's data dump of real economic indicators on Friday will be watched for further evidence of a slowing economy.

The ECB's meeting announcement overnight Thursday is expected to show downgraded inflation and growth estimates, but the central bank still ending its asset purchase programme at the end of the year. The Bank will be keen to emphasise that any rate hikes are still some way off, with rates on hold at least "through the summer of 2019".

More important for EUR (and GBP) will be Brexit developments. We expect PM May to lose the vote in Parliament Wednesday morning NZ time, but what happens then is open to a number of permutations and this remains a key source of uncertainty for these currencies.

Tread Carefully, as Risk Appetite Continues to Fall



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6855	0.6750 - 0.6970
NZD/AUD	0.9543	0.9310 - 0.9550
NZD/GBP	0.5393	0.5270 - 0.5470
NZD/EUR	0.6021	0.5960 - 0.6120
NZD/JPY	77.17	76.30 - 78.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6590	4%
NZD/AUD	0.9010	6%

jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Upside risk
ST Resistance: 0.6970 (ahead of 0.7050)
ST Support: 0.6730 (ahead of 0.6500)

After a very strong run we saw a sharp reversal after peaking at 0.6970 last week, so we'll make that the first level of resistance, with nothing much else in the way ahead of 0.7050. We'd put support around 0.6730/50.

NZD/AUD

Outlook: Upside risk
ST Resistance: 0.9640 (ahead of 0.9700)
ST Support: 0.9300 (ahead of 0.9200)

Strong upward momentum continues. The topside trendline was broken last week, with the next level of resistance around 0.9640.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook: Neutral
ST Resistance: 2.55
ST Support: 2.295

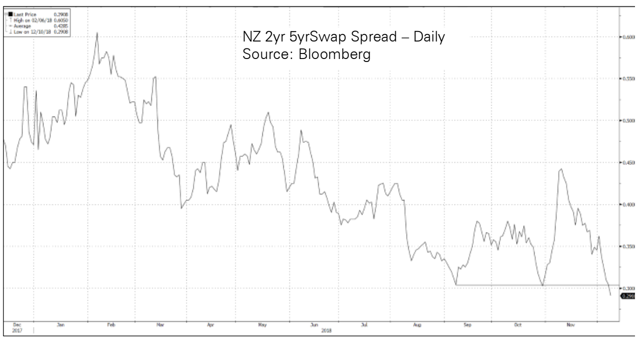
Support at 2.295 await a signal to initiate new position.

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

Outlook: Steepener
ST Resistance: +44
ST Support: +30

On support here at +30. Tight stop on close below +28.

pete.mason@bnz.co.nz



Quarterly Forecasts

Forecasts as at 10 December 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts (Sep-18 onward shaded as 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	0.6	0.8	0.5	0.7	0.7
Retail trade (real s.a.)	1.5	0.6	1.2	0.1	1.1	0.0	1.2	0.7	0.6	0.6
Current account (ytd, % GDP)	-2.6	-2.6	-2.9	-3.0	-3.3	-3.7	-3.7	-3.5	-3.4	-3.4
CPI (q/q)	0.0	0.5	0.1	0.5	0.4	0.9	0.1	0.3	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	3.8	3.8	3.7	3.7	3.7
CPI (y/y)	1.7	1.9	1.6	1.1	1.5	1.9	1.9	1.7	1.7	1.5
GDP (production s.a., y/y))	2.8	2.6	2.9	2.6	2.8	2.8	2.9	2.9	2.7	2.8

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	1.90	2.10	2.60	2.05	2.45	2.95	2.35	3.00	-0.45
Forecasts										
Dec	1.75	1.95	2.35	2.85	2.15	2.65	3.15	2.65	3.25	-0.40
2019 Mar	1.75	1.95	2.35	2.85	2.15	2.65	3.15	2.90	3.25	-0.40
Jun	1.75	1.95	2.55	3.10	2.25	2.65	3.15	3.25	3.50	-0.40
Sep	1.75	2.05	2.65	3.20	2.35	2.65	3.15	3.25	3.50	-0.30
Dec	2.00	2.30	2.75	3.30	2.45	2.85	3.40	3.50	3.50	-0.20
2020 Mar	2.25	2.45	2.85	3.40	2.60	2.85	3.40	3.75	3.50	-0.10
Jun	2.25	2.45	2.90	3.40	2.60	2.85	3.40	3.75	3.50	-0.05
Sep	2.25	2.45	2.95	3.40	2.60	2.95	3.50	3.75	3.50	0.00
Dec	2.25	2.45	2.95	3.45	2.60	2.95	3.50	3.75	3.50	0.00

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.69	0.72	1.14	1.27	113
Mar-19	0.68	0.71	1.20	1.28	110
Jun-19	0.67	0.70	1.22	1.30	110
Sep-19	0.69	0.73	1.25	1.34	108
Dec-19	0.70	0.75	1.30	1.40	106
Mar-20	0.70	0.76	1.32	1.43	104
Jun-20	0.71	0.77	1.34	1.46	102
Sep-20	0.72	0.78	1.36	1.49	100
Dec-20	0.73	0.79	1.38	1.52	99
Mar-21	0.72	0.78	1.38	1.52	98
Jun-21	0.72	0.77	1.38	1.53	98

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.69	0.95	0.60	0.54	77.3	75.1
Mar-19	0.68	0.96	0.57	0.53	74.8	74.9
Jun-19	0.67	0.96	0.55	0.52	73.7	74.4
Sep-19	0.69	0.94	0.55	0.51	74.0	75.1
Dec-19	0.70	0.93	0.54	0.50	74.2	75.6
Mar-20	0.70	0.92	0.53	0.49	72.8	74.9
Jun-20	0.71	0.92	0.53	0.49	72.4	75.1
Sep-20	0.72	0.92	0.53	0.48	72.0	75.2
Dec-20	0.73	0.92	0.53	0.48	72.3	75.5
Mar-21	0.72	0.92	0.52	0.47	70.6	74.6
Jun-21	0.72	0.94	0.52	0.47	70.6	74.4
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 10 December 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	2.7	2.2	1.6	4.8	4.4	2.7	2.4	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	2.3	3.4	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	3.5	2.4	2.2	4.6	4.1	3.8	2.5	2.2
Exports	1.3	3.0	4.7	4.2	3.8	2.1	1.8	4.1	4.7	3.8
Imports	5.1	7.2	5.6	2.8	2.5	3.4	7.0	6.7	3.2	2.3
Real Expenditure GDP	3.5	2.8	3.2	2.8	2.5	4.1	2.7	3.0	2.9	2.6
GDP (production)	**3.7**	**2.7**	**2.9**	**2.7**	**2.5**	**4.0**	**2.8**	**2.8**	**2.8**	**2.6**
GDP - annual % change (q/q)	*3.0*	*2.6*	*2.9*	*2.8*	*2.4*	*3.4*	*2.9*	*2.9*	*2.7*	*2.5*
Output Gap (ann avg, % dev)	1.1	0.7	0.7	0.4	0.1	1.2	0.8	0.7	0.4	0.2
Household Savings (% disp. income)	-2.8	-1.8	-3.5	-3.3	-2.2					
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	1.7	1.8	2.0	1.3	1.6	1.9	1.7	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	-0.1	1.0	0.9	-0.8	-1.3	-0.4	0.9	1.0
Unit Labour Costs (ann av %)	3.9	3.9	2.9	2.4	2.4	2.7	4.0	3.6	2.2	2.4
External Balance										
Current Account - $bn	-6.9	-8.5	-10.4	-10.2	-11.9	-5.7	-8.2	-10.9	-10.3	-11.2
Current Account - % of GDP	-2.6	-3.0	-3.5	-3.2	-3.7	-2.1	-2.9	-3.7	-3.3	-3.5
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	0.68	0.70	0.72	0.70	0.70	0.69	0.70	0.73
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	1.14	1.30	1.38
NZD/AUD	0.92	0.94	0.96	0.92	0.92	0.96	0.91	0.96	0.93	0.92
NZD/GBP	0.57	0.52	0.53	0.49	0.47	0.56	0.52	0.55	0.50	0.48
NZD/EUR	0.66	0.59	0.57	0.53	0.52	0.67	0.59	0.60	0.54	0.53
NZD/YEN	79.1	77.0	74.8	72.8	70.6	81.6	78.7	77.3	74.2	72.3
TWI	76.5	74.8	74.9	74.9	74.6	78.1	73.6	75.6	75.6	75.5
Overnight Cash Rate (end qtr)	1.75	1.75	1.75	2.25	2.25	1.75	1.75	1.75	2.00	2.25
90-day Bank Bill Rate	1.98	1.93	1.95	2.45	2.45	2.02	1.88	1.95	2.28	2.45
5-year Govt Bond	2.70	2.35	2.35	2.85	2.95	2.75	2.30	2.35	2.75	2.95
10-year Govt Bond	3.25	2.95	2.85	3.40	3.55	3.30	2.80	2.85	3.30	3.50
2-year Swap	2.30	2.25	2.15	2.60	2.60	2.40	2.20	2.15	2.45	2.60
5-year Swap	3.00	2.70	2.65	3.15	3.25	3.00	2.65	2.65	3.05	3.25
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	-0.40	-0.10	0.05	0.80	0.40	-0.40	-0.20	0.00

(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 10 December			
NZ, Manufacturing Sales, Q3 vol s.a.			-1.2%
Aus, RBA's Kent Speaks			
Aus, Housing Finance, October	-0.5%	-0.4%	-1.0%
Jpn, GDP, Q3 2nd est		-0.5%	-0.3%P
UK, GDP monthly, October		+0.1%	flat
US, JOLTS Job Openings, October		7,100	7,009
Tuesday 11 December			
NZ, Electronic Card Transactions, Nov	-0.4%	+0.3%	-0.1%
Aus, House Prices, Q3 y/y		-2.0%	-0.6%
Aus, NAB Business Survey, November			+4
Jpn, BSI Business Survey, Q3			+3.8
Germ, ZEW Sentiment, December		-25.0	-24.1
UK, Average Weekly Earnings, Oct y/y		+3.0%	+3.0%
UK, Parliament Vote, PM May's Brexit Plan			
UK, Unemployment Rate (ILO), October		4.1%	4.1%
UK, Industrial Production, October		+0.1%	flat
US, PPI ex-food/energy, November y/y		+2.5%	+2.6%
US, NFIB Small Business Optimism, November		107.0	107.4
Wednesday 12 December			
Aus, Consumer Sentiment - Wpac, December			104.3
Jpn, Machinery Orders, October		+10.2%	-18.3%

	Forecast	Median	Last
Euro, Industrial Production, October		+0.2%	-0.3%
Euro, Eurozone Employment, Q3 y/y		+1.3%	+1.3%
US, CPI ex food/energy, Nov y/y		+2.2%	+2.1%
Thursday 13 December			
NZ, Government's HYEFU			
NZ, Food Price Index, November	-0.3%		-0.6%
Euro, ECB Policy Announcement, Refi	0.00%	0.00%	0.00%
Germ, CPI, Nov y/y 2nd est		+2.3%	+2.3%P
US, Jobless Claims, week ended 08/12		225k	231k
Friday 14 December			
NZ, BNZ PMI (Manufacturing), November			53.5
China, Industrial Production, Nov y/y		+5.9%	+5.9%
China, Retail Sales, Nov y/y		+8.8%	+8.6%
Jpn, Tankan (lge manuf), Q4		+18	+19
Euro, PMI Manufacturing, Dec 1st est		51.85	51.8
Euro, PMI Services, Dec 1st est		53.4	53.4
Euro, Labour Costs, Q3 y/y			+2.2%
US, Business Inventories, October		+0.6%	+0.3%
US, Industrial Production, November		+0.3%	+0.1%
US, Retail Sales, November		+0.1%	+0.8%
US, Markit PSI, December 1st est		55.0	54.7
US, Markit PMI, December 1st est		55.1	55.3

Historical Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.90	1.90	1.90	1.77
2mth	1.94	1.94	1.95	1.83
3mth	1.99	1.97	2.00	1.88
6mth	2.04	2.02	2.03	1.93
GOVERNMENT STOCK				
03/19	1.76	1.75	1.74	1.82
04/20	1.75	1.76	1.86	1.96
05/21	1.76	1.82	1.95	2.11
04/23	1.93	2.03	2.19	2.40
04/25	2.13	2.25	2.44	2.68
04/27	2.29	2.42	2.64	2.83
04/29	2.45	2.58	2.80	
04/33	2.62	2.75	2.98	3.19
04/37	2.77	2.90	3.11	3.39
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	90	89	83	
Nth America 5Y	83	75	67	50
Europe 5Y	86	79	72	47

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.06	2.10	2.20	2.17
3 years	2.15	2.22	2.35	2.34
4 years	2.25	2.34	2.50	2.50
5 years	2.36	2.46	2.64	2.64
10 years	2.79	2.91	3.11	3.13
FOREIGN EXCHANGE				
NZD/USD	0.6857	0.6927	0.6710	0.6912
NZD/AUD	0.9548	0.9415	0.9355	0.9184
NZD/JPY	77.18	78.73	76.39	78.48
NZD/EUR	0.6021	0.6102	0.5981	0.5872
NZD/GBP	0.5397	0.5444	0.5223	0.5181
NZD/CAD	0.9143	0.9142	0.8889	0.8885
TWI	75.0	75.3	74.1	73.5

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