17 December 2018

Advance New Zealand Fair

- **Q3 GDP expected at 0.6% (2.8% y/y)**
- **RBNZ looking for 0.7%**
- **Nov. PSI and PMI say growth's OK**
- **And Massey's GDP Now-casting says solid**
- **BNZ Business Bankers survey net positive**
- **RBNZ bank capital proposals counsel thought**

The more we look around, the more resilience we see in New Zealand's economic data and anecdotal evidence. This is not to say the economy is roaring away, or is immune from a marked slowdown at some stage. But, for now, it is emanating a tone of fortitude.

This is nicely expressed in expectations for Thursday's Q3 GDP report. The market is looking for a 0.6% expansion, as are we. Technically, this would be a slowdown from Q2's surprisingly strong lift of 1.0%. However, recall that Q2 GDP had elements of catch-up, from what held down Q1's GDP growth to 0.5%. Agriculture production stood out in this respect, along with construction, forestry production, even electricity value-add to a degree.

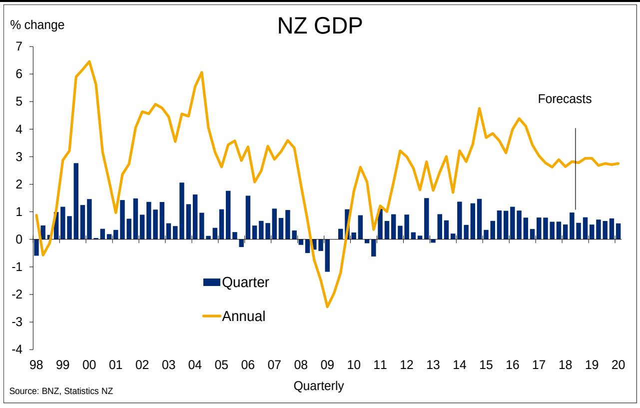
For perspective, it's also worth noting that in its November Monetary Policy Statement, the Reserve Bank anticipated a 0.7% increase in Q3 GDP. If this is prone to disappointment – not only are market expectations at 0.6%, but a few of the locally-based banks are at 0.5% – it's also worth pointing out that the Bank forecast a mild 0.5% expansion in Q4 GDP. So it's not a high hurdle that the RBNZ has for the second half of 2018 as a whole.

We expect Q3 GDP to be underpinned, once again, by general services sector expansion, along with solid contributions from wholesaling and a big bounce-back in gas production (after its major disruption of Q2). On the other side of the ledger, we are looking for a slight decline in agriculture output and a dip in electricity value-add (as generators protected hydro lake levels, amid low rainfall during the September quarter). We anticipate a relatively flat result for manufacturing, as meat and dairy volumes come down a bit from a bumper Q2.

From an expenditure point of view, we expect to see a 0.8% increase in real Q3 GDP. This reflects moderate expansion in private consumption, construction, and inventory, something of a pause in other types of business investment, and a further strong gain in merchandise export volumes in the quarter.

However, given the recent noise in the quarterly GDP accounts, we would also recommend the annual rates of

Steady, At Heart

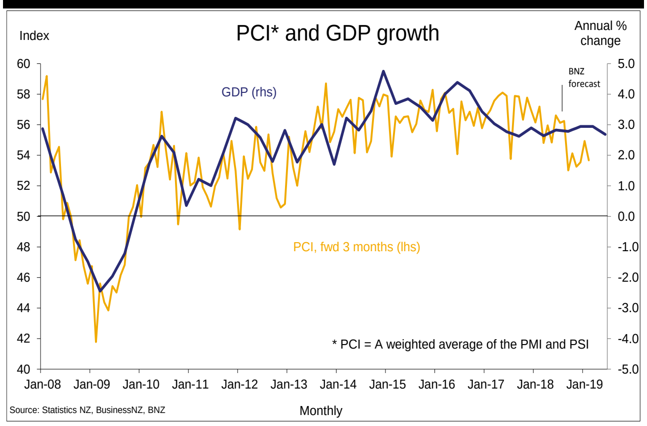


growth as a good way of assessing Thursday's outcome. This is anticipated to be 2.8%, so the same as it was in Q2. Steady annual growth, close to trend.

Of course, this presumes there aren't any significant revisions. While this remains to be seen regarding recent quarters, Statistics NZ does look unlikely to revise broader GDP history to any material extent. This is different to this time last year, when the annual revisions, which occur at this time of the year, proved significant – to the upside.

Thinking ahead to Q4 GDP, we presently have a growth estimate of 0.8%. Granted, this is a little stronger than is indicated by the recent Performance of Manufacturing and Performance of Services Indices. The PMI came in at 53.5 in November as did the PSI. While these indices appear to be stabilising at a reasonable level they are slower than they were earlier in the year.

Almost



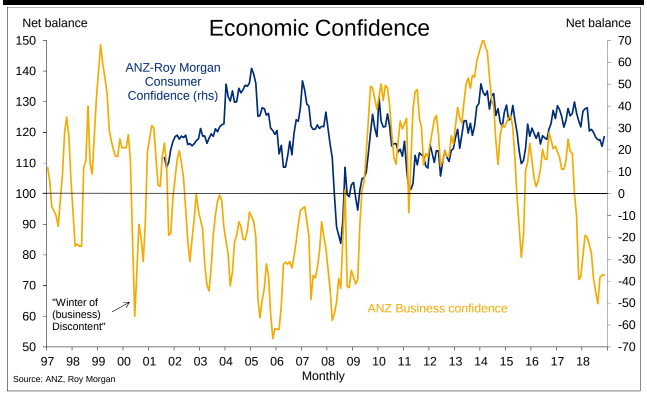
We've certainly been encouraged by the new NZ GDP Nowcast being produced by Massey University. Based on "big data" sources, and purported machine learning, this currently suggests real GDP growth of 0.73% for Q3 2018, 0.66% for Q4 and 0.75% for Q1; to be precise. Of course, it will be interesting to see a track record of its accuracy. But the GDP Nowcast information certainly appears another demonstration of the fortitude we've been talking about.

If GDP is still expanding relatively well, then it will continue to be flying in the face of business confidence, which remains weak. Well, at least with reference to the monthly ANZ business survey. We will get an update of this tomorrow afternoon. Then again, it's not even been three weeks since the last one, of late November. So it's hard to imagine the survey's key series have shifted a lot in that space of time.

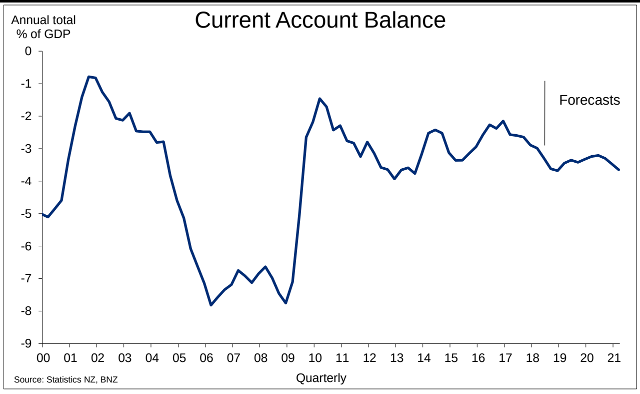
In any case, we also note that business sentiment is not all as weak as that portrayed in the monthly ANZ business survey. This morning's inaugural BNZ Business Bankers survey, for example, registered a net-positive (+4) confidence level in its scan of clients. Its business conditions index was +17. For more on this quarterly survey, including what is seen as the most influential issues for businesses, please see our "BNZ Bankers Survey".

Of course, consumer confidence has been doing a lot better than business confidence for a good while already. Even so, it has come off the boil since late last year. Is it beginning to stabilise? We'll get to judge this from the quarterly Westpac McDermott Miller report, due Wednesday, and Friday's monthly ANZ Roy Morgan reading.

Chalk And Cheese



Manageable



As for Wednesday's current account deficit, we expect this to expand to an annual 3.6% of GDP, from 3.3% (in line with the market). While this continues an expansion that has been underway since a low point of 2.1% for calendar 2016, it is hardly different to its long-term average.

We'll be more interested in the current account's exports and imports data, of goods and services, to see if they colour our view on Q3 GDP late in the piece.

November's merchandise trade figures are due Thursday morning. These are likely to show a still-expanding deficit, as exports' annual rate of growth continues to run slower than that of imports, in part because we anticipate a large aircraft to enter the accounts on the imports side. Note: we are picking a higher deficit than the market.

As for the Global Dairy Trade auction, overnight Tuesday, this looks biased toward another increase in prices of at least as much as the +2.2% we saw a fortnight ago. There are also some monthly credit aggregates to note for Thursday, which will probably retain their recent rates of growth.

After this very busy week it's quiet on the NZ data front until around mid-January. And the next RBNZ meeting and OCR announcement is not until 13 February.

Meantime, everyone will have some time to also think about the Reserve Bank's proposal to lift local banks' capital requirements by no small margin (as was announcement last Friday). We believe it will take some time to get a proper handle on what it all means. Quite apart from being subject to a consultation period, the implementation is proposed to be phased in over a period of many years. This is not to downplay its potential significance, and the sense of caution it injects nearer term. But we wouldn't want to over-react to the proposal at this early stage either.

craig_ebert@bnz.co.nz

Global Watch

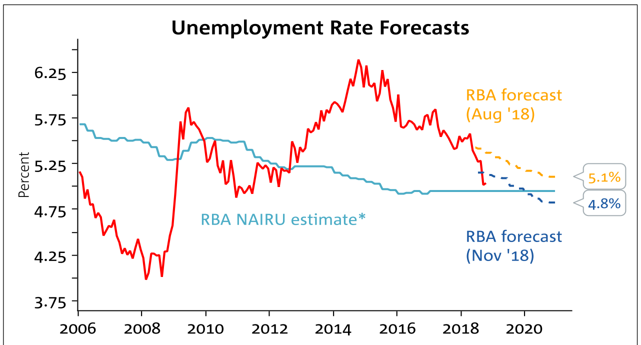
- **Fed hike expected this week; outlook toned down**
- **No change anticipated from BoE and BoJ**
- **Inflation data due in US, EU, Japan, UK, and Canada**
- **RBA minutes and AU employment due this week**

Australia

With the Mid-Year Economic and Fiscal Outlook (MYEFO) already out of the way, RBA Minutes (Tuesday) and Labour force data (Thursday) are focal points in an otherwise quiet week ahead.

NAB expects employment grew 20k in November and that the unemployment rate stayed at 5% (alongside an unchanged participation rate.

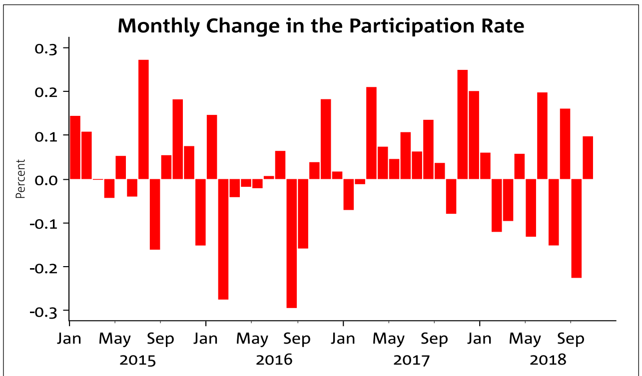
Chart 1: Unemployment rate to stay at 5%?



* Q2 2017 Bulletin
Source: National Australia Bank, ABS, RBA
NAIRU is the Non-Accelerating Inflationary Rate of Unemployment, below which infalaiton accelerates.

There's a risk that the unemployment rate could tick down, given the see-saw pattern of movements in the participation rate over much of this year and our expectation that the participation rate should decline from its high level over the next year. Should the participation rate decline by more than 0.03 ppt, with 20k employment growth, the unemployment rate would tick down to 4.9%.

Chart 2: Part. rate tends to tick up then down



Source: National Australia Bank, ABS

Over at the RBA, at its December meeting, the Bank continued to keep the cash rate at 1.5%. With GDP data (released the day after) surprising to the downside, there appears little incentive for the Bank to bring forward any rate hike plans. While the Meeting Minutes will be watched with the usual amount of scrutiny for any policy clues – markets will likely have to wait until the New Year for any clues on how the soft GDP figures have impacted the RBA's growth outlook. Our expectations are that the RBA will be forced to shift down its forecast growth track, but being in little rush, any shifts to the Bank's assessment will require a few more prints of data. Markets will likely focus closely on any Board discussion on housing market developments, given some concerns surfaced in recent speeches concerning undue credit tightening moves by some banks.

US

The Fed meets Wednesday with markets 91% priced for a rate hike (Fed Funds Target +25bps to 2.25-2.50%; IOER +20bps to 2.40%). Markets will be focused on the Fed dots, and whether they are lowered given markets now only price one rate hike in 2019 compared to the Fed's current dots of three hikes. The hurdle for a move to a median of two hikes next year is low, as only one member has to lower their expectation. The Fed will also likely formally adopt a heightened sensitivity to data dependence and drop the words "further gradual increases [in rates]" from its post-meeting Statement. Data-wise the important releases are Durable Goods on Friday along with the PCE Deflators. Regional manufacturing indexes and Housing Permits may also garner some interest given some notions of the US economy slowing perhaps a little faster than expected from the 'fiscal sugar rush' – Empire State is Monday, Housing Permits on Monday and Philly Fed Thursday.

China

It's a very quiet week for Chinese economy reports with markets focused even more on any US-China trade announcements.

UK

As PM May continues to drive toward eking out a refashioned Brexit deal, the market might pay some attention to data and the BoE meeting (on Thursday). Data is headlined by the CPI and Retail Sales.

EU

It's a relatively quiet week ahead with trade and the final November CPI due.

Canada

Quiet until CPI late in the week.

Japan

For markets, the BoJ leaving policy settings unchanged on Thursday will be no surprise. Friday's CPI might draw some interest as market liquidity dissipates into year-end holidays.

Kaixin.Owyong@nab.com.au / David.deGaris@nab.com.au

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

There was little movement in NZ rates last week. The 2 year swap rate was 2bps higher, while the 5 year rate was flat and the 10 year rate was down 2bps. The 2s10s swap curve flattened to its lowest level since late 2016.

The big news from a New Zealand perspective last week was the release of the RBNZ's consultation paper on NZ bank capital requirements. The RBNZ is proposing to increase the required amount of Tier 1 capital for the "Big 4" NZ banks from 8.5% to 16%, phased-in over five years.

There was little immediate rates market reaction to the RBNZ release when it came out on Friday. From a macro perspective, higher capital requirements for NZ banks would imply a higher average funding cost, which may in turn impact lending rates to the real economy and/or the supply of credit. Directionally, this would point to a higher hurdle for rate hikes and a lower neutral OCR, depending on the degree of pass-through to lending rates. The RBNZ said it expected minimal impact on lending rates to the real economy.

The RBNZ's survey of international evidence suggests that each 1% increase in Tier 1 capital might the price of bank credit by 0.06%, so if banks increased Tier 1 capital by 7.5%, this might lead to a 45bp increase in average funding costs over 5 years. If this were fully passed onto real economy lending rates, the neutral OCR would be expected to fall by this magnitude (the RBNZ's latest median estimate from 2017 was that the neutral OCR was 3.5%).

The market had already moved to price a small chance of OCR cuts (around 10%) before the proposal with the first hike not priced until 2021. But the proposed increase to capital requirements will likely play to the market's perception that the hurdle for OCR hikes is very high.

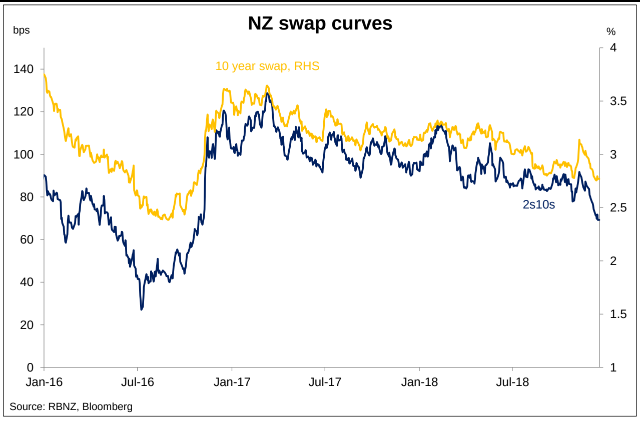
The proposed increase in capital requirements should also be very positive for senior bank debt and Tier 2 paper, given the large increase in equity capitalization. There will also likely be less supply of senior bank debt going forward than in the absence of the proposed changes. Finally, if foreign currency debt issuance is reduced, then it points to a lower NZD cross-currency basis.

In the week ahead, the major focus domestically is the release of GDP on Thursday. We are looking for a 0.6% increase in Q3, which is in-line with the median estimate on Bloomberg. A weaker than expected GDP outturn would certainly encourage the market to price a greater chance of rate cuts into the NZ curve, given the market's perception that the RBNZ is very dovish. If GDP either matches or beats expectations, we would expect NZ rates to be contained with established ranges for the coming few months.

In terms of the bond market, there were no major surprises from the HYEFU, with the bond programme remaining unchanged from the last update in May ($8b gross issuance this fiscal year). There was no change to the bonds that will be tendered next quarter. The last NZGB tender of the year took place on Friday and issuance will now pause until 18th January.

Offshore, the focus is on the FOMC on Thursday morning NZT. The market seems to be well set-up for a lowering of the median 'dot' for 2019 from three hikes to two hikes and the dropping of reference to 'further gradual increases' in the funds rate target. Policy will be more data-dependent in 2019. The market prices 21bps of rate hikes in 2019 and 10bps of rate cuts in 2020. Ultimately, we think the US economy will hold up better than implied by the signals implied by the market and that the Fed will hike by more than discounted by the forwards. We expect a higher US 10 year Treasury yield next year.

2s10s curve reaches flattest level since late-2016



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.97	1.97 - 1.99
NZ 2yr swap (%)	2.08	2.04 - 2.13
NZ 5yr swap (%)	2.36	2.32 - 2.49
NZ 10yr swap (%)	2.77	2.75 - 2.96
2s10s swap curve (bps)	70	70 - 84
NZ 10yr swap-govt (bps)	29	27 - 35
NZ 10yr govt (%)	2.48	2.43 - 2.66
US 10yr govt (%)	2.89	2.82 - 3.07
NZ-US 10yr (bps)	-41	-48 - -40
NZ-AU 2yr swap (bps)	11	6 - 12
NZ-AU 10yr govt (bps)	2	-4 - 4

*Indicative range over last 3 weeks

nick.smyth@bnz.co.nz

Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD traded in a tight range for most of last week until much weaker China data and a deterioration in risk appetite sent the currency south on Friday afternoon. For the week, NZD/USD was down 1% and the crosses were slightly weaker – apart from NZD/GBP being slightly higher, as clarity around Brexit remained elusive.

Newsflow on the US-China trade war was generally positive. China will reduce tariffs on US cars and restarted purchases of US soybeans. President Trump tweeted that "…China wants to make a big and very comprehensive deal. It could happen, and rather soon!". But any positive news here is currently being swamped by concerns about the bigger macroeconomic picture of the Chinese economy slowing – as evidenced by weaker industrial production and retail sales data – and the ongoing weakness in European economic data. European PMIs for December were much weaker than expected and follow a couple of quarters of soft data.

Against this global backdrop, the NZD is likely to struggle. Our short-term fair value model estimate remains around the 0.66 mark and our central forecast of the NZD for the next 3-6 months is 0.67-68.

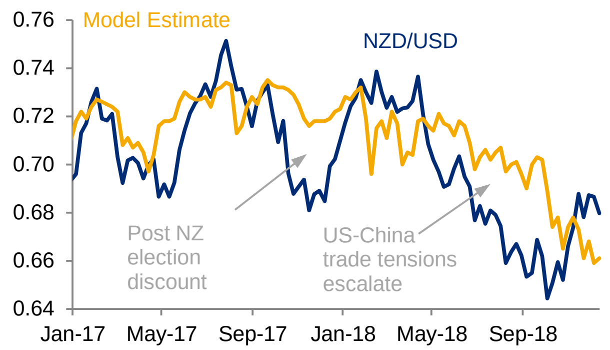
The week ahead is a busy one on the domestic calendar, with the ANZ business outlook survey, current account and GDP data in the mix amongst other releases. Q3 GDP data have the most potential to trigger a market reaction. Market estimates are centred around 0.5-0.6% q/q. A weaker GDP outcome than the 0.7% q/q figure estimated by the RBNZ would play to the RBNZ's downside risks it sees to the growth outlook, adding to the case for keeping policy unchanged for an extended period.

The Bank of Japan, Bank of England and US Fed all publish monetary policy updates this week. The BoJ and BoE statements should pass with little reaction, the former still struggling to get inflation higher and with limited policy options, the latter's policy outlook swamped by Brexit risks. The US FOMC statement on Thursday morning NZ time should be of more interest to the market. Another rate hike is well anticipated by the market, but the messaging is likely to offer a more dovish tilt, with the Fed likely to tweak its previous language about "further gradual increases" in the Fed Funds rate. A tightening bias will remain, but with further hikes towards neutral more dependent on the data flow. On that note, the recent data flow should see a reduction in the extent of projected Fed Funds hikes by FOMC members over the next few years. Much of this is well anticipated by the market so it is not obvious what the USD reaction will be on the day.

In Australia, employment data on Thursday is the key data release, with the risk of the unemployment rate ticking down to 4.9%. NZD/AUD has had a strong run recently and is due for some consolidation. Still, we see fundamental forces keeping the cross at the higher end of the trading range we've seen this year, through into early 2019.

UK Brexit uncertainty remains the dominant force on GBP, with the vote in Parliament delayed until further notice. Through the fog we are becoming more confident of a positive outcome, with seemingly no appetite for a "no-deal" exit, so the choice comes down to PM May's plan, or an extension of the exit date that might include a second referendum. These possible outcomes point to eventually a much lower NZD/GBP cross rate after the significant rise over the past couple of months.

NZD Looking a Little Over-Bought



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6794	0.6750 - 0.6970
NZD/AUD	0.9470	0.9310 - 0.9580
NZD/GBP	0.5391	0.5270 - 0.5520
NZD/EUR	0.6012	0.5960 - 0.6120
NZD/JPY	77.01	76.60 - 78.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6610	3%
NZD/AUD	0.9000	5%

jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6970 (ahead of 0.7050)
ST Support: 0.6730 (ahead of 0.6500)

The recent peak of 0.6970 now feels like a distant memory, and that level marks the first level of resistance. We see (weak) support around 0.6730/50, ahead of the 0.65 mark.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9580 (ahead of 0.9640)
ST Support: 0.9300 (ahead of 0.9200)

Strong upward momentum was broken last week. The peak around 0.9580 forms the new resistance level while support sits at 0.93.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook: Neutral
ST Resistance: 2.53
ST Support: 2.27

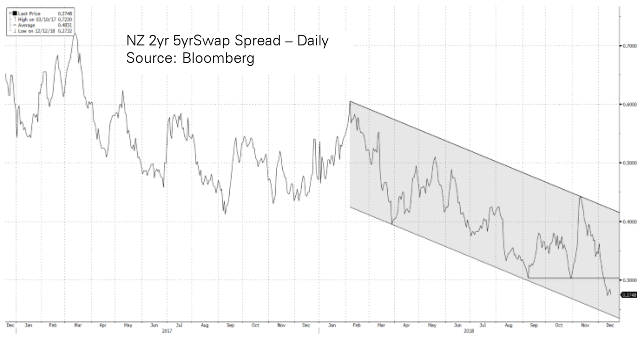
Major support at 2.27. Pay with a tight stop near this level.

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

Outlook: Neutral
ST Resistance: +42
ST Support: +24

In downward channel. Await breakout to initiate new position,.

pete.mason@bnz.co.nz



Quarterly Forecasts

Forecasts as at 17 December 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Sep-18 to Sep-19 (shaded)

	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	1.1	0.7	0.6	0.6
Current account (ytd, % GDP)	-2.6	-2.6	-2.9	-3.0	-3.3	-3.6	-3.7	-3.4	-3.4	-3.4
CPI (q/q)	0.0	0.5	0.1	0.5	0.4	0.9	0.0	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	1.8	1.6	1.6	1.4
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	2.10	2.60	2.05	2.40	2.90	2.70	3.00	-0.40
2019 Mar	1.75	1.95	2.20	2.70	2.05	2.50	3.00	2.90	3.20	-0.50
Jun	1.75	1.95	2.30	2.80	2.15	2.50	3.00	3.25	3.35	-0.55
Sep	1.75	2.05	2.35	2.80	2.25	2.50	3.00	3.25	3.35	-0.55
Dec	2.00	2.30	2.40	2.80	2.40	2.60	3.10	3.50	3.25	-0.45
2020 Mar	2.25	2.45	2.40	2.75	2.50	2.60	3.10	3.75	3.10	-0.35
Jun	2.25	2.45	2.40	2.75	2.50	2.60	3.10	3.75	3.00	-0.25
Sep	2.25	2.45	2.45	2.75	2.50	2.65	3.10	3.75	3.00	#NUM!
Dec	2.25	2.45	2.45	2.75	2.50	2.65	3.10	3.75	3.00	#NUM!

Exchange Rates (End Period)

USD Forecasts / NZD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.68	0.72	1.13	1.26	113	0.68	0.95	0.60	0.54	77.0	74.6
Mar-19	0.68	0.71	1.17	1.35	113	0.68	0.96	0.58	0.50	76.8	75.1
Jun-19	0.67	0.70	1.18	1.40	113	0.67	0.96	0.57	0.48	75.7	74.6
Sep-19	0.69	0.73	1.20	1.43	110	0.69	0.94	0.57	0.48	75.4	75.3
Dec-19	0.70	0.75	1.23	1.45	108	0.70	0.93	0.57	0.48	75.6	76.0
Mar-20	0.70	0.76	1.24	1.46	107	0.70	0.92	0.57	0.48	74.9	75.4
Jun-20	0.71	0.77	1.25	1.47	105	0.71	0.92	0.57	0.48	74.6	75.8
Sep-20	0.72	0.78	1.28	1.48	104	0.72	0.92	0.56	0.49	74.9	75.9
Dec-20	0.73	0.79	1.30	1.50	101	0.73	0.92	0.56	0.49	73.7	76.1
Mar-21	0.72	0.78	1.30	1.50	101	0.72	0.92	0.55	0.48	72.7	75.3
Jun-21	0.72	0.77	1.32	1.52	100	0.72	0.94	0.55	0.47	72.0	74.7
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 17 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	3.8	1.7	1.7	1.6	4.5	4.1	2.0	1.7
Total Investment	5.6	3.8	2.2	3.4	3.8	6.4	3.4	2.8	3.2	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	3.4	2.4	2.2	4.6	4.1	3.7	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	5.7	2.9	2.5	3.4	7.0	6.7	3.3	2.3
Real Expenditure GDP	3.5	2.8	3.1	2.7	2.5	4.1	2.7	2.9	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	-0.2	1.0	0.9	-0.8	-1.3	-0.4	0.8	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	-10.3	-10.2	-11.9	-5.7	-8.2	-10.8	-10.3	-11.2
Current Account - % of GDP	-2.6	-3.0	-3.4	-3.2	-3.6	-2.1	-2.9	-3.7	-3.3	-3.5
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.5	1.9	0.8	1.0	1.2					
Net Core Crown Debt (excl NZS Fund Assets)	21.8	20.0	20.7	20.8	20.5					
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	0.68	0.70	0.73
USD/JPY	113	106	113	107	101	116	113	113	108	101
EUR/USD	1.07	1.23	1.17	1.24	1.30	1.05	1.18	1.13	1.23	1.30
NZD/AUD	0.92	0.94	0.96	0.92	0.92	0.96	0.91	0.95	0.93	0.92
NZD/GBP	0.57	0.52	0.50	0.48	0.48	0.56	0.52	0.54	0.48	0.49
NZD/EUR	0.66	0.59	0.58	0.57	0.55	0.67	0.59	0.60	0.57	0.56
NZD/YEN	79.1	77.0	76.8	74.9	72.7	81.6	78.7	77.0	75.6	73.7
TWI	76.5	74.8	75.1	75.4	75.3	78.1	73.6	74.6	76.0	76.1
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 17 December			
NZ, BNZ PSI (Services), November			55.4
Aus, Government MYEFO			
Euro, CPI, Nov y/y 2nd est		+2.0%	+2.0%P
Euro, Trade Balance, Oct s.a.		+€14.0b	+€13.4bn
US, Empire Manufacturing, December		+20.0	+23.3
US, NAHB Housing Index, December		61	60
Tuesday 18 December			
NZ, ANZ Business Survey, December			-37.1
Aus, RBA Minutes, 4 Dec Meeting			
Germ, IFO Index, December		101.7	102.0
US, Housing Starts, November		1,230k	1,228k
Wednesday 19 December			
NZ, Dairy Auction, GDT Price Index			+2.2%
NZ, WMM Consumer Confidence, Q4			103.5
NZ, Balance of Payments, Q3	-3.6%	-3.6%	-3.3%
Jpn, Merchandise Trade Balance, November		-¥630b	-¥449b
UK, CPI, Nov y/y		+2.3%	+2.4%
UK, CBI Industrial Trends, December		+6	+10
US, FOMC Policy Announcement	2.50%	2.50%	2.25%
US, Existing Home Sales, November		5.20m	5.22m

	Forecast	Median	Last
Thursday 20 December			
NZ, Merchandise Trade, November	-$1,493m	-$880m	-$1,295m
NZ, Credit Aggregates, Nov (household y/y)			+5.8%
NZ, GDP, Q3	+0.6%	+0.6%	+1.0%
NZ, New Residential Lending, Nov y/y			+20.0%
Aus, Unemployment Rate, November	5.0%	5.0%	5.0%
Aus, Employment, November	+20k	+20k	+33k
Jpn, BOJ Policy Announcement, Policy Rate		-0.1%	-0.1%
UK, BOE Policy Announcement	0.75%	0.75%	0.75%
UK, CBI Retailing Reported Sales, December		+15	+19
UK, Retail Sales vol., November		+0.3%	-0.5%
US, Philly Fed Index, December		+15.5	+12.9
US, Leading Indicator, November		+0.1%	+0.1%
Friday 21 December			
NZ, ANZ-RM Consumer Confidence, December			118.6
Jpn, CPI, Nov y/y		+0.8%	+1.4%
Euro, Consumer Confidence, Dec 1st est		-4.3	-3.9
UK, GDP, Q3 2nd est			+0.6%P
US, Durables Orders, Nov 1st est		+1.7%	-4.3%
US, Personal Spending, November		+0.3%	+0.6%
US, GDP, Q3 3rd est		+3.5%	+3.5%P

Historical Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.89	1.90	1.92	1.77
2mth	1.93	1.94	1.96	1.82
3mth	1.97	1.98	2.00	1.86
6mth	2.05	2.05	2.04	1.91
GOVERNMENT STOCK				
03/19	1.75	1.76	1.75	1.78
04/20	1.76	1.75	1.82	1.93
05/21	1.77	1.76	1.90	2.08
04/23	1.94	1.92	2.14	2.31
04/25	2.15	2.11	2.36	2.57
04/27	2.31	2.28	2.54	2.71
04/29	2.48	2.44	2.69	
04/33	2.65	2.61	2.86	3.04
04/37	2.82	2.76	2.99	3.24
GLOBAL CREDIT INDICES (ITRXX)				
Australia 5Y	88	90	83	
Nth America 5Y	79	81	77	50
Europe 5Y	81	88	80	47

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.08	2.05	2.17	2.19
3 years	2.16	2.13	2.30	2.36
4 years	2.25	2.23	2.42	2.50
5 years	2.36	2.34	2.54	2.64
10 years	2.77	2.76	3.00	3.10
FOREIGN EXCHANGE				
NZD/USD	0.6792	0.6871	0.6839	0.6995
NZD/AUD	0.9468	0.9557	0.9376	0.9126
NZD/JPY	77.00	77.87	76.96	78.72
NZD/EUR	0.6009	0.6050	0.5971	0.5937
NZD/GBP	0.5391	0.5469	0.5321	0.5227
NZD/CAD	0.9092	0.9205	0.9007	0.8997
TWI	74.7	75.4	74.7	74.1

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

Ivan Colhoun
Global Head of Research
+61 2 9237 1836

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