14 January 2019

# 2019: A Dawning Sense of Realism

- **QSBO's capacity measures can't be overlooked**
- **Transactions hit by Dec 2018's working-day issues?**
- **0.6% fall in Dec food prices; flat Q4 CPI pick**
- **NZ PMI under scrutiny given global slowing**
- **NZ housing in focus amid Australia's correction**
- **RBNZ dovish (as case for OCR hikes weakens)**

As 2019 gets underway, a sense of realism appears to be setting in to markets. Compared to a few months ago, equities have taken a knock, while measures of volatility/risk have come back on the radar after a long slumber. Realism on the economic front is a matter of accepting that the post-GFC expansion is now very long in the tooth. This brings with it the likelihood of apparently-weak GDP growth, but also the risk of surprisingly resilient inflation.

Of course, global economic growth is already slowing, albeit gradually. This is adding to a cautious tone regarding the NZ economy. However, by and large, the local growth indicators have been holding up. Certainly much better than business confidence alone has indicated. Still, activity expectations amongst firms are not exactly strong. In fact, they are sub-par.

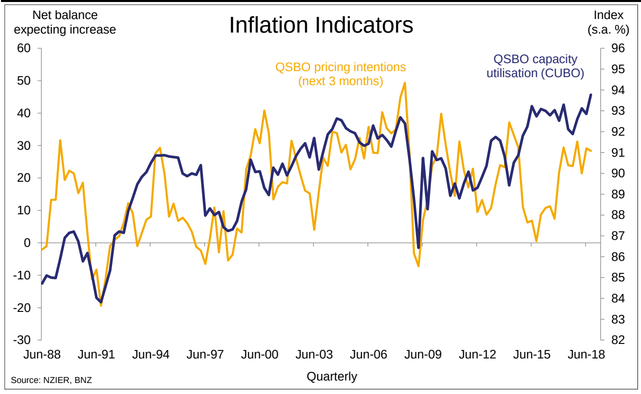
Such things keep us on edge about how the NZ economy will perform over the coming period, even though our baseline forecasts look reasonable enough to the naked eye. To wit, we anticipate GDP growth of 2.6% this year and next. This follows the 2.9% expansion we estimate for calendar 2018, the 3.1% registered for 2017, and 3.9% for 2016.

The reality is that, from a starting point of severe supply-side constraints, and natural impediments to productivity at this (late) stage in the cycle, it is hard to forecast relatively strong GDP growth.

This is something to have in mind when New Zealand's first meaty data report of the New Year is published. That is, tomorrow's NZIER Quarterly Survey of Business Opinion (QSBO). This will help show whether the significant slowdown we saw in Q3 GDP was the start of something to be concerned about, or just a wobble in the context of still-OK growth. We suspect the latter (after all, we anticipate Q4 GDP growth of 0.8%, and an average 0.7% per quarter throughout calendar 2019).

But growth signals to one side, it's worth recounting that the QSBO's capacity measures were still extremely stretched in Q3 (even with supposedly weak GDP growth

**Not To Be Overlooked**

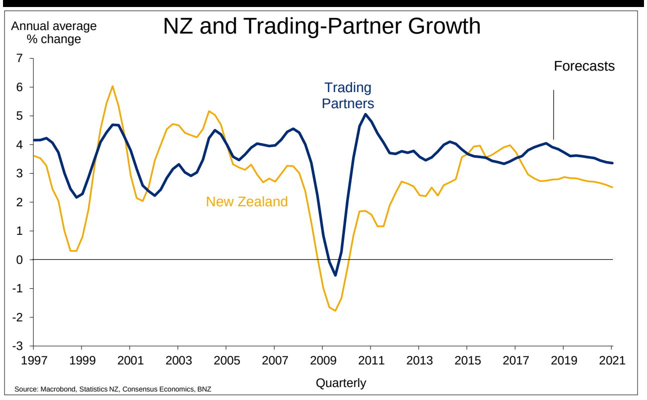



in the quarter). And its cost-pressure variables were outpacing what were still robust pricing trends (echoed in softening profitability gauges). More of that in Q4 would be something to take note of.

The remainder of the domestic data this week is second-tier in nature. Still, a lot of it pertains to December, which had a particularly unproductive business-day pattern in 2018. As well as having just 19 regular business week days, December 2018 contained a couple of "orphan" days. These, while supposedly open for business, would have been prone to be taken as a holiday – for consumers and businesses alike. And this would have an even bigger proportionate effect on a month with relatively fewer trading days at the best of times.

So beware the potential for downside in the likes of Wednesday's electronic card transactions (ECT), Friday's Performance of Manufacturing Index (PMI), and homes sales as per the REINZ report anticipated sometime during the week.

**Best Behind Us?**



Base case, we expect December's ECT declined a seasonally adjusted 0.5%. But trading-day impacts create risks of a (far?) bigger drop. The Paymark spending figures for December were certainly weak. Their annual rate of growth, in value terms, sagged to 1.2%, from 4.4% in November, and 6.4% in October.

Still, it would take a sizable fall in December's ECT to completely squash our growth estimate for Q4 retail volumes. Giving more insight into Q4 retail trade will be Friday's vehicle registrations data for December.

Regarding Friday's BNZ-BusinessNZ PMI, we suspect there will be more focus on this than usual, in light of the slow-to-weak numbers pervading global manufacturing activity over recent months.

Housing is another "hot" topic at the moment. While this has lurked as a gross imbalance, prone to a big correction, Australia's recent falls in house prices appear to have re-focused attention on New Zealand's prognosis. While Auckland's housing market does appear to be coming off the boil, and Canterbury's is steadying off the back of its supply boom, most everywhere else is still experiencing robust conditions, at least in prices.

This morning's asking-price results from auction-site TradeMe alluded to this. They showed annual inflation in Auckland at just 0.1% but 6.8% in Wellington. Further housing data, and anecdote, will come with Wednesday morning's Quotable Value NZ report. There is also the nationwide Real Estate Institute report for December to look forward to, due any day now.

As for Wednesday's early morning dairy auction, we're plumping for a further moderate lift in average prices, amid slower growth in global supply. Just bear in mind the NZD, at 0.6825 this morning, is around 2.5% stronger than it was at the time of the previous auction (3 January).

Also spare a thought for Wednesday's Crown Financial Accounts, whose tax revenue figures for November will give clues to late-2018 economic performance.

What about tomorrow's Food Price Index? We anticipate this fell a further 0.6% in December, in the scheme of regular seasonal patterns. This would lock down a 1.4% fall in food prices over Q4 as a whole (again, mainly seasonal) – integral to the flat result we're picking for the 23 January Q4 CPI (1.8% y/y).

Indeed, we now see headline CPI inflation continuing to slow in calendar 2019, lulling at just 1.4% in Q3. This reflects the pass-through of recent commodity price weakness, globally, as well as NZD proving robust to the international headwinds starting to blow. This doesn't mean core inflation will stop edging higher, however. And we certainly retain our view that wage inflation in New Zealand will become even firmer as the year progresses.

Nevertheless, weak headline CPI inflation, less-than-strong NZ GDP growth, a robust currency, along with global muddiness, dampen our view of OCR hikes anytime soon; and will probably nourish the Reserve Bank's dovish bent for the meantime. But we haven't gone so far as predicting OCR cuts. Yes, the banking capital proposals from the RBNZ promise to put upward pressure on retail interest rates, all else equal. However, between then and now, numerous other pressures on interest rates – downward and upward – need be thought through carefully as well.

| Key Indicators | December Years | | | | | |
|---|---|---|---|---|---|---|
| | Actual | | | Forecasts | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| GDP production (an avg %) | 3.5 | 3.9 | 3.1 | 2.9 | 2.6 | 2.6 |
| Consumers Price Index (ann %) | 0.1 | 1.3 | 1.6 | 1.8 | 1.6 | 1.8 |
| Unemployment Rate (end qtr %) | 5.0 | 5.3 | 4.5 | 4.2 | 4.0 | 4.0 |
| Current Account (% of GDP) | -2.9 | -2.1 | -2.9 | -3.7 | -2.9 | -3.1 |
| Fiscal Balance (% GDP June Yr) | 0.2 | 0.7 | 1.5 | 1.9 | 0.8 | 1.0 |
| NZD/USD (Dec mth avg) | 0.68 | 0.70 | 0.70 | 0.68 | 0.70 | 0.73 |
| Overnight Cash Rate (Dec mth end %) | 2.50 | 1.75 | 1.75 | 1.75 | 2.00 | 2.25 |
| 10 Year Govt Bond (Dec mth avg %) | 3.40 | 3.30 | 2.80 | 2.40 | 2.70 | 2.70 |

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# Global Watch

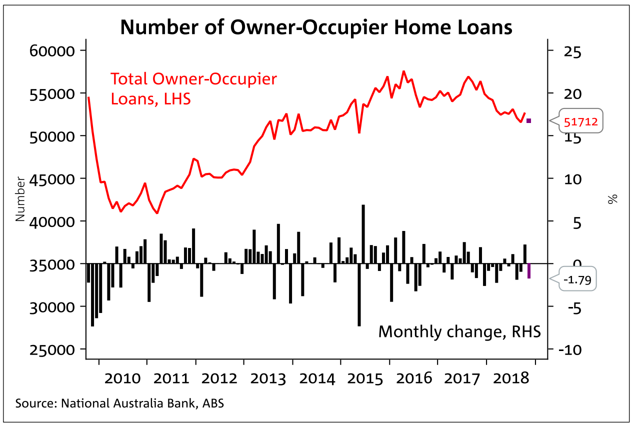
- **Brexit deal vote this week**
- **Fed's beige book, manufacturing indicators due**
- **US consumer confidence post market ructions**
- **Trade to monitor in China, EU, and UK**
- **Will lower oil reduce CPIs in UK, EU, Canada, and Japan?**
- **ECB's Draghi, BoJ's Kuroda speaking**

## Australia

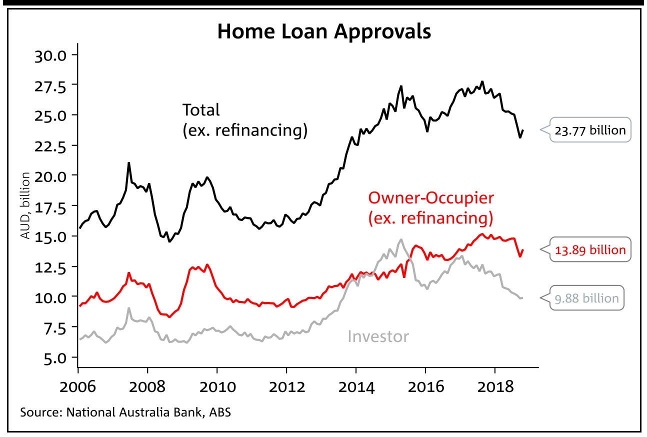
It's a quiet week ahead, with only Home Loans (Thursday) on the local calendar. NAB expects a decline of 1.5% m/m in the number of owner-occupier home loans approved, after the previous month's very strong 2.2% m/m growth.

The value of both owner-occupier home loans and investor loans has been trending down alongside falling house prices in Sydney and Melbourne. November data is expected to record a continuation of these trends as house prices continue to decline.

NAB expects home loan approvals to reverse




Value of approvals is declining




## US

The protracted US government shutdown has delayed the release of many statistics publications. Of the data not affected, focus this week will be on Empire Manufacturing (Tuesday) and the Philly Fed (Thursday) to see whether manufacturing conditions are continuing to deteriorate after the surprisingly sharp fall in the December ISM (to a 2yr low, driven by a sharp decline in new orders). The Fed's Beige Book on Wednesday may also be instructive in this regard with the Fed's Bostic recently stating firms are "growing more concerned about future business conditions" with some reviewing strategies "in anticipation of slowing economic conditions". Markets accordingly price very little chance of a rate increase by the Fed in 2019 with a rate cut actually 55% priced by July 2020. The Uni of Michigan Consumer Sentiment survey on Friday will also be watched closely to see whether recent market gyrations have weighed on consumer confidence. There are also a number of earnings reports (big US banks and Netflix) and Fed speakers – the most important being Williams on Friday.

## China

December Trade data on Monday will be a focal point for markets. The softening in Chinese activity continues to be watched closely, with many pointing the blame at the ongoing US-China trade war. Markets expect export growth to slow to 2% y/y, from 5.4% y/y a month earlier.

## UK

The key event will be the 'meaningful vote' in Parliament on Theresa May's Brexit deal on Tuesday. The universal expectation is the vote will be lost, with the key question being – by what margin? If May loses by around 50 votes, she will likely be emboldened, but a loss of > 100 votes may force the PM to consider alternative tactics. Economic data comes Monday with November trade and industrial production/ manufacturing. Monthly November GDP is also due (mkt: +0.1% m/m) and CPI for December (Wednesday) is expected to ease to 2.2% y/y, from 2.3% y/y.

## Eurozone

If the Brexit vote fails, markets will watch if the EU offers greater assistance in assuring UK voters that the Irish backstop will be time-limited. Data-wise it's a light week. Final December HICP due Thursday, where headline inflation is expected to ease to 1.6% as oil prices decline. The trade balance for November is out on Tuesday. ECB's Draghi speaks Tuesday, presenting the 2018 annual report to the European Parliament.

## Canada

Quiet until Friday when December CPI is printed. Consenus is for headline annual CPI to remain at 1.7% despite low oil prices. Core inflation is seen steady at 1.9%.

## Japan

CPI (Friday) and a speech from BOJ Kuroda and Amamiya on Thursday are the highlights in the week ahead. Headline CPI is expected to slow to 0.4% y/y (from 0.8% y/y) alongside falling oil prices, but core inflation should hold up at 0.8% y/y (from 0.9% y/y).

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# Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

Since we released our last Weekly in mid-December, rates in NZ and offshore have moved lower once more. The NZ 2 year swap reached its lowest level on record earlier this year, while the 5 and 10 year swap rates reached their lowest levels since mid-2016 (a period when the US 10 year rate reached a record low of 1.32%).

The major driver of the move lower in NZ rates has been developments offshore. Heightened risk aversion across markets leading up to Christmas, a weak ISM manufacturing survey early in the New Year, and continued weak data out of Europe and China raised fears that the US economy could be heading for a recession. While a very strong December payrolls report has seen market pricing of a US recession recede somewhat, the Fed has clearly pivoted in a dovish direction. Fed Chair Powell said muted US inflation gave it scope to be "patient" as it watched how the economy evolved this year. Several centrist Fed officials such as Evans and Rosengren, who previously signalled support for the policy rate to move into restrictive territory, have also backed away from those calls and urged caution.

The clear message is that the Fed is highly likely to be on hold in the first half of this year. With the Fed funds rate already close to neutral and US growth set to slow later this year, we think the hurdle for the Fed resuming rate hikes is high and the tightening cycle is likely complete. A resumption of rate hikes is likely to require an increase in underlying inflationary pressure, although there are no signs of that as yet.

The market has already moved in this direction, with rate hikes largely priced out of the curve, and a two-thirds chance of a rate cut priced by the end of 2020. We now expect the US 10 year Treasury yield to be contained within a 2.50% to 3% range for most of this year. The upside to US Treasury yields is likely to be capped in an environment where the hurdle for Fed hikes is high. But conversely, if the Fed is done with its tightening cycle, the risk of a policy mistake (i.e. the Fed "overtightening" and a US recession ensuing) is reduced; this should limit the scope for US yields to fall sharply from here.

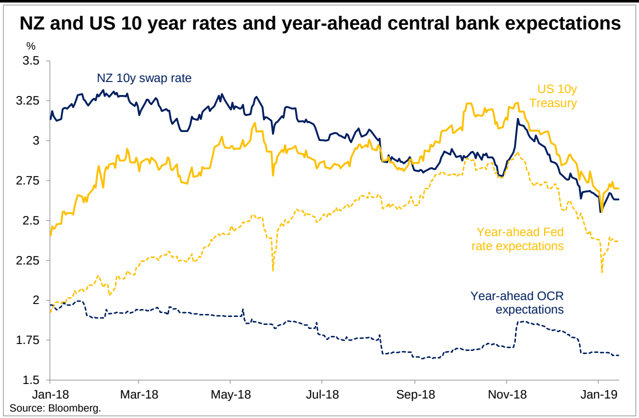
NZ rates have followed US rates lower over the past month. The 10 year NZ swap rate is around 25bps lower than at the start of December, at 2.62%. The NZ-US 10 year spread, in swaps, has been largely range-bound since mid-November (it is currently -10bps) suggesting that global forces have been the primary driver of NZ rates over this period.

The major domestic news since mid-December has been the RBNZ's proposal to significantly increase capital requirements for NZ banks. This could increase the rates at which banks are willing to lend to the real economy and/or result in a tightening in the supply of credit, although the lengthy five year implementation period proposed may mean it takes some time for the effects to become visible. Were banks to pass on the increase in costs to the real economy it would have the effect of reducing the neutral OCR – i.e. it would result in a tightening of monetary conditions independent of the OCR. Alongside the more contained outlook for US Treasury yields, this is another factor which suggests the upside to NZ rates is less than what it was a few months back.

In terms of the short-end of the NZ curve, the 2 year swap has come under downward pressure this year, primarily due to the fall in the 90 day bank bill rate (-5bps this year to 1.92%). The market continues to price a near 50% chance of an OCR cut this year.

The domestic highlight this week is the QSBO tomorrow, although the major focus is the release of CPI next Wednesday. Given the shift in Fed rate expectations, the impending change to NZ bank capital requirements, and the market's perception that the hurdle for RBNZ rate hikes is very high, we expect the market to be more sensitive to a downside surprise to CPI next week.

**NZ and US 10y rates fall due to lower Fed expectations**




**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

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# Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The New Year has begun with a recovery in risk appetite from the prevailing gloom just before Christmas. This sees commodity currencies leading the charge in 2019, with the CAD, AUD and NZD the best performing major currencies so far, in that order. A strong 13% recovery in oil prices has helped the CAD and AUD outperform the NZD.

Supporting sentiment for the commodity currencies has been increasing optimism that a US-China trade deal will be delivered. Talks are progressing well according to President Trump and the inside word is that he wants a deal to be done, given the damage the tariffs and uncertainty has done to the equity market and the spillover effect for the US economy.

The USD begins the year on a soft note as a large number of FOMC members – in what looks like a coordinated message – backpedal on the policy outlook and strongly hint that an extended pause is on the cards for the tightening cycle. The Fed Funds curve is now relatively flat for the year ahead.

The recovery in risk appetite associated with improved sentiment on US-China trade and increasing conviction that the Fed will be on hold for some time makes us constructive on the short-term outlook for the NZD, and we look for a 0.67-0.70 range prevailing.

Our short-term fair value model estimate has risen over the past few weeks as risk appetite has improved to around the 0.66-0.67 level, with the model suggesting that the market already prices in some of the good news around a possible US-China trade deal and is factoring in a further recovery in risk appetite.

After the 5% fall in the NZD last year, we think the odds favour a better year in 2019. As per our last forecast update in early December, our year-end target remains at 0.70. There might well be times when the NZD trades above that level. The best chance for a sustained move higher would be returning focus to the structural headwinds for the USD that seem appropriate in light of the rising US fiscal and current account deficit at a time when the USD is over-valued on long-term models.

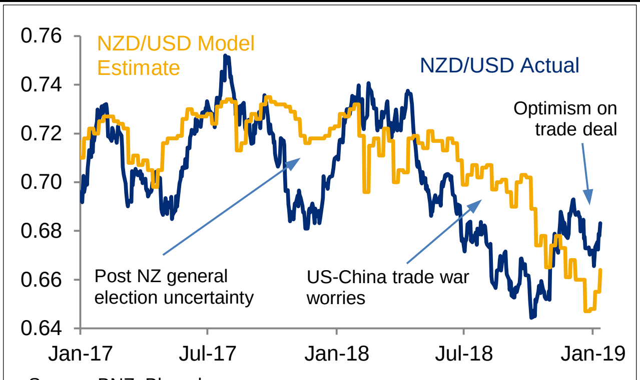
The key downside risk for the NZD would be a potential US-China trade deal turning to custard, or a renewed bout of weaker global risk appetite on fears that the growth environment is taking a turn for the worst, with the US economy on a path towards recession. However, if the Fed doesn't hike rates again we find the recession scenario as unlikely. Linked here is our full report on the NZD published late last week.

In the week ahead, the only key local release is the Quarterly Survey of Business Opinion, which should show an improvement in confidence and activity indicators, as suggested by the timelier ANZ business outlook survey late last year.

The schedule of US data releases has been interrupted by the partial government shutdown so we might only see second-tier releases this week. The government shutdown is already the longest on record and the longer it drags on the weaker Q1 growth will be. The market seems unconcerned as any impact should be seen as temporary, but it adds to downbeat sentiment for the USD at present.

The UK will have a big week, with the Parliamentary vote for the EU Withdrawal Agreement scheduled for tomorrow and expected to be defeated. PM May will have to change tactics after the defeat. We hold a constructive view of the ultimate outcome, given the lack of appetite for a no-deal Brexit, which keeps us upbeat on GBP and negative on NZD/GBP.

**NZD ST Value Discount Now Fully Closed**




Source: BNZ, Bloomberg

**Cross Rates and Model Estimates**

| | Current | Last 3-weeks range* |
|---|---|---|
| NZD/USD | 0.6829 | 0.6580 - 0.6840 |
| NZD/AUD | 0.9469 | 0.9400 - 0.9830 |
| NZD/GBP | 0.5316 | 0.5230 - 0.5420 |
| NZD/EUR | 0.5958 | 0.5800 - 0.5990 |
| NZD/JPY | 74.03 | 69.10 - 75.00 |

*Indicative range over last 3 weeks, rounded figures

**BNZ Short-term Fair Value Models**

| | Model Est. | Actual/FV |
|---|---|---|
| NZD/USD | 0.6640 | 3% |
| NZD/AUD | 0.8990 | 5% |

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# Technicals

**NZD/USD**

| | |
|---|---|
| Outlook: | Trading range |
| ST Resistance: | 0.6890 (ahead of 0.6970) |
| ST Support: | 0.6700 (ahead of 0.6650) |

The NZD looks to be in a consolidation phase. We'd have to see an upside break of 0.6970 to argue that an upward trend is in play. Initial support area is 0.67.


**NZD/AUD**

| | |
|---|---|
| Outlook: | Trading range |
| ST Resistance: | 0.9580 (ahead of 0.9640) |
| ST Support: | 0.9400 (ahead of 0.9300) |

Ignoring the early-year flash crash, the first line of resistance sits around 0.9580. Support at 0.9400.

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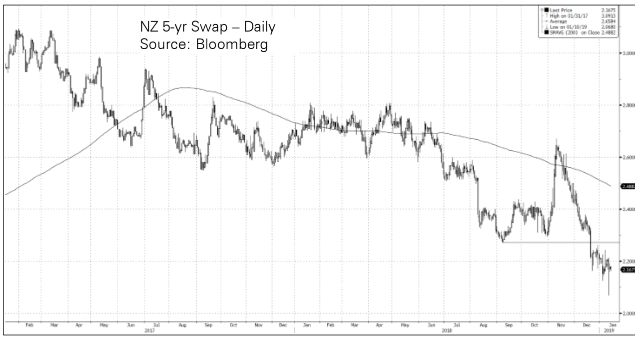
**NZ 5-year Swap Rate**

| | |
|---|---|
| Outlook: | Lower |
| ST Resistance: | 2.27 |
| ST Support: | 2.00 |

Break of 2.27 was major and expect this to be strong resistance now.




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

| | |
|---|---|
| Outlook: | Neutral |
| ST Resistance: | +30.5 |
| ST Support: | +22 |

Back in channel but break below +30.5 was a clear move lower. Put flatteners on towards that level.

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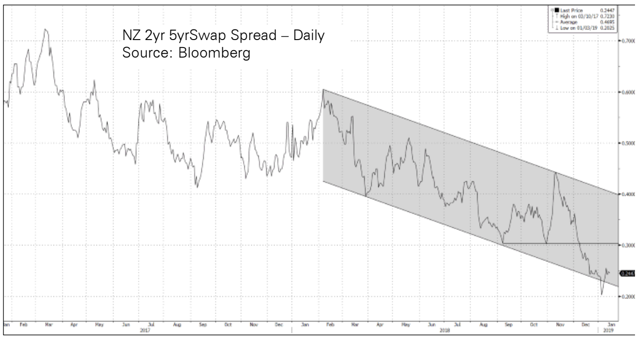

# Quarterly Forecasts

**Forecasts as at 14 January 2018**

## Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Dec-18 to Dec-19)

| | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 | Dec-18 | Mar-19 | Jun-19 | Sep-19 | Dec-19 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (production s.a.)** | 0.9 | 0.7 | 0.6 | 1.0 | 0.3 | 0.8 | 0.5 | 0.7 | 0.7 | 0.8 |
| **Retail trade (real s.a.)** | 0.6 | 1.2 | 0.1 | 1.1 | 0.0 | 1.1 | 0.7 | 0.6 | 0.6 | 0.6 |
| **Current account (ytd, % GDP)** | -2.6 | -2.9 | -3.0 | -3.3 | -3.6 | -3.7 | -3.4 | -3.2 | -3.1 | -2.9 |
| **CPI (q/q)** | 0.5 | 0.1 | 0.5 | 0.4 | 0.9 | 0.1 | 0.3 | 0.4 | 0.7 | 0.2 |
| **Employment** | 2.0 | 0.5 | 0.6 | 0.6 | 1.1 | 0.0 | 0.6 | 0.5 | 0.4 | 0.4 |
| **Unemployment rate %** | 4.7 | 4.5 | 4.4 | 4.4 | 3.9 | 4.2 | 4.0 | 4.0 | 4.1 | 4.0 |
| **Avg hourly earnings (ann %)** | 2.0 | 3.1 | 4.0 | 3.3 | 3.6 | 3.7 | 3.4 | 4.1 | 3.6 | 3.8 |
| **Trading partner GDP (ann %)** | 4.1 | 4.0 | 4.0 | 4.0 | 3.6 | 3.7 | 3.6 | 3.5 | 3.7 | 3.6 |
| **CPI (y/y)** | 1.9 | 1.6 | 1.1 | 1.5 | 1.9 | 1.8 | 1.6 | 1.6 | 1.4 | 1.6 |
| **GDP (production s.a., y/y))** | 3.0 | 3.4 | 3.0 | 3.2 | 2.6 | 2.7 | 2.7 | 2.4 | 2.8 | 2.7 |

## Interest Rates

| Historical data - qtr average<br>Forecast data - end quarter | Cash | Government Stock<br>90 Day Bank Bills | 5 Year | 10 Year | Swaps<br>2 Year | 5 Year | 10 Year | US Rates<br>Libor 3 month | US 10 yr | Spread<br>NZ-US Ten year |
|---|---|---|---|---|---|---|---|---|---|---|
| **2017 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 |
| **Dec** | 1.75 | 1.95 | 1.90 | 2.35 | 1.95 | 2.20 | 2.65 | 2.70 | 3.00 | -0.65 |
| Forecasts | | | | | | | | | | |
| **2019 Mar** | 1.75 | 1.95 | 2.10 | 2.60 | 1.95 | 2.40 | 2.90 | 2.90 | 3.20 | -0.60 |
| **Jun** | 1.75 | 1.95 | 2.20 | 2.70 | 2.05 | 2.40 | 2.90 | 3.25 | 3.35 | -0.65 |
| **Sep** | 1.75 | 2.05 | 2.30 | 2.75 | 2.20 | 2.40 | 2.90 | 3.25 | 3.35 | -0.60 |
| **Dec** | 2.00 | 2.30 | 2.30 | 2.70 | 2.30 | 2.50 | 3.00 | 3.50 | 3.25 | -0.55 |
| **2020 Mar** | 2.25 | 2.45 | 2.30 | 2.65 | 2.40 | 2.50 | 3.00 | 3.75 | 3.10 | -0.45 |
| **Jun** | 2.25 | 2.45 | 2.30 | 2.65 | 2.40 | 2.50 | 3.00 | 3.75 | 3.00 | -0.35 |
| **Sep** | 2.25 | 2.45 | 2.30 | 2.65 | 2.40 | 2.60 | 3.05 | 3.75 | 3.00 | -0.30 |
| **Dec** | 2.25 | 2.45 | 2.30 | 2.65 | 2.40 | 2.60 | 3.05 | 3.75 | 3.00 | -0.30 |
| **2021 Mar** | 2.25 | 2.45 | 2.35 | 2.65 | 2.40 | 2.60 | 3.05 | 3.75 | 3.00 | -0.25 |

## Exchange Rates (End Period)

| | USD Forecasts<br>NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY | NZD Forecasts<br>NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Current** | 0.68 | 0.72 | 1.15 | 1.29 | 109 | 0.68 | 0.95 | 0.60 | 0.53 | 74.1 | 74.0 |
| **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 14 January 2019 | March Years Actuals 2017 | 2018 | Forecasts 2019 | 2020 | 2021 | December Years Actuals 2016 | 2017 | Forecasts 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| ***GDP -*** annual average % change | | | | | | | | | | |
| Private Consumption | 5.8 | 4.0 | 3.0 | 2.2 | 1.7 | 5.4 | 4.7 | 3.0 | 2.4 | 1.8 |
| Government Consumption | 2.1 | 2.8 | 1.6 | 1.3 | 1.7 | 2.0 | 2.9 | 1.9 | 1.2 | 1.7 |
| Total Investment | 3.6 | 4.7 | 2.5 | 3.3 | 3.8 | 4.3 | 3.5 | 3.8 | 2.9 | 3.6 |
| Stocks - ppts cont'n to growth | 0.1 | -0.3 | 0.2 | -0.1 | 0.0 | 0.2 | -0.2 | 0.3 | -0.2 | 0.0 |
| GNE | 4.7 | 3.7 | 3.3 | 2.3 | 2.2 | 4.6 | 3.9 | 3.7 | 2.3 | 2.2 |
| Exports | 1.3 | 3.0 | 4.7 | 4.5 | 3.8 | 2.1 | 1.8 | 4.0 | 5.1 | 3.8 |
| Imports | 5.1 | 7.1 | 5.5 | 3.1 | 2.5 | 3.4 | 6.9 | 6.5 | 3.5 | 2.3 |
| Real Expenditure GDP | 3.7 | 2.6 | 2.9 | 2.7 | 2.6 | 4.2 | 2.6 | 2.9 | 2.7 | 2.6 |
| **GDP (production)** | **3.6** | **3.1** | **2.8** | **2.7** | **2.5** | **3.9** | **3.1** | **2.9** | **2.6** | **2.6** |
| *GDP - annual % change (q/q)* | *3.1* | *3.0* | *2.7* | *2.8* | *2.4* | *3.4* | *3.4* | *2.7* | *2.7* | *2.5* |
| | | | | | | | | | | |
| Output Gap (ann avg, % dev) | 1.0 | 0.9 | 0.9 | 0.6 | 0.4 | 1.1 | 0.9 | 0.9 | 0.7 | 0.5 |
| Household Savings (% disp. income) | -2.8 | -1.8 | -3.5 | -3.3 | -2.2 | | | | | |
| Nominal Expenditure GDP - $bn | 269.9 | 284.7 | 297.1 | 312.0 | 323.8 | 265.6 | 281.9 | 293.5 | 308.2 | 321.3 |
| | | | | | | | | | | |
| ***Prices and Employment -*** annual % change | | | | | | | | | | |
| CPI | 2.2 | 1.1 | 1.6 | 1.9 | 2.0 | 1.3 | 1.6 | 1.8 | 1.6 | 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 %) | -2.0 | -0.4 | -0.2 | 0.9 | 0.9 | -0.9 | -1.1 | -0.3 | 0.7 | 1.0 |
| Unit Labour Costs (ann av %) | 4.0 | 3.5 | 3.0 | 2.4 | 2.4 | 2.8 | 3.7 | 3.6 | 2.3 | 2.4 |
| | | | | | | | | | | |
| ***External Balance*** | | | | | | | | | | |
| Current Account - $bn | -6.9 | -8.5 | -10.0 | -8.9 | -10.5 | -5.7 | -8.2 | -10.8 | -9.1 | -9.9 |
| Current Account - % of GDP | -2.6 | -3.0 | -3.4 | -2.8 | -3.2 | -2.1 | -2.9 | -3.7 | -2.9 | -3.1 |
| | | | | | | | | | | |
| ***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 | 112 | 108 | 101 |
| EUR/USD | 1.07 | 1.23 | 1.17 | 1.24 | 1.30 | 1.05 | 1.18 | 1.14 | 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 | 76.4 | 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 | 2.10 | 2.30 | 2.35 | 2.75 | 2.30 | 1.90 | 2.30 | 2.30 |
| 10-year Govt Bond | 3.25 | 2.95 | 2.60 | 2.65 | 2.75 | 3.30 | 2.80 | 2.35 | 2.70 | 2.70 |
| 2-year Swap | 2.30 | 2.25 | 1.95 | 2.40 | 2.40 | 2.40 | 2.20 | 1.95 | 2.30 | 2.40 |
| 5-year Swap | 3.00 | 2.70 | 2.40 | 2.60 | 2.65 | 3.00 | 2.65 | 2.20 | 2.60 | 2.60 |
| US 10-year Bonds | 2.50 | 2.85 | 3.20 | 3.10 | 3.00 | 2.50 | 2.40 | 3.00 | 3.25 | 3.00 |
| NZ-US 10-year Spread | 0.75 | 0.10 | -0.60 | -0.45 | -0.25 | 0.80 | 0.40 | -0.65 | -0.55 | -0.30 |

(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 14 January** | | | |
| Aus, Inflation Gauge (Melbourne Institute), Dec y/y | | | +1.6% |
| China, Trade Balance, December | | +CNY345b | +CNY306b |
| Euro, Industrial Production, November | | -1.1% | +0.2 |
| **Tuesday 15 January** | | | |
| NZ, QSBO, Q4 | | | -28 |
| NZ, Food Price Index, December | -0.6% | | -0.6% |
| China, Industrial Production, Dec y/y | | +5.3% | +5.4% |
| China, Retail Sales, Dec y/y | | +8.2% | +8.1% |
| Euro, Trade Balance, Nov s.a. | | | +€12.5bn |
| US, PPI ex-food/energy, December y/y | | +3.0% | +2.7% |
| US, Fed's George/Kaplan Speak | | | |
| US, Empire Manufacturing, January | | +11.5 | +10.9 |
| **Wednesday 16** | | | |
| NZ, Electronic Card Transactions, Dec | -0.5% | | -0.2% |
| NZ, Dairy Auction, GDT Price Index | | | +2.8% |
| NZ, QVNZ House Prices, December y/y | | | +3.5% |
| Aus, Consumer Sentiment - Wpac, January | | | 104.4 |
| Jpn, Machinery Orders, November | | +3.0% | +7.6% |
| Jpn, Tertiary Industry Index, November | | -0.5% | +1.9% |
| Germ, CPI, Dec y/y 2nd est | | +1.7% | +1.7%P |

| | Forecast | Median | Last |
|---|---|---|---|
| UK, CPI, Dec y/y | | +2.2% | +2.3% |
| US, NAHB Housing Index, January | | 57 | 56 |
| US, Business Inventories, November | | +0.3% | +0.6% |
| US, Beige Book | | | |
| US, Retail Sales, December | | +0.3% | +0.2% |
| **Thursday 17 January** | | | |
| Aus, Housing Finance, November | | -1.0% | +2.2% |
| Euro, CPI, Dec y/y 2nd est | | +1.6% | +1.6%P |
| US, Housing Starts, December | | 1,253k | 1,256k |
| US, Philly Fed Index, January | | +10.0 | +9.4 |
| **Friday 18 January** | | | |
| NZ, BNZ PMI (Manufacturing), December | | | 53.5 |
| Jpn, CPI, Dec y/y | | +0.4% | +0.8% |
| UK, Retail Sales vol., December | | -1.0% | +1.4% |
| US, Mich Cons Confidence, Jan 1st est | | 96.4 | 98.3 |
| US, Fed's Williams/Harker Speak | | | |
| US, Industrial Production, December | | +0.3% | +0.6% |
| **Monday 21 January** | | | |
| NZ, Holiday - partial, Wellington Ann (Obs) | | | |
| China, GDP, Q4 y/y | | | +6.5% |
| US, Holiday (obs), Martin L King Jnr | | | |

# Historical Data

| | Today | Week ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **CASH & BANK BILLS** | | | | |
| Call | 1.75 | 1.75 | 1.75 | 1.75 |
| 1mth | 1.83 | 1.85 | 1.87 | 1.77 |
| 2mth | 1.88 | 1.88 | 1.93 | 1.82 |
| 3mth | 1.93 | 1.91 | 1.97 | 1.88 |
| 6mth | 1.94 | 1.95 | 2.04 | 1.92 |
| **GOVERNMENT STOCK** | | | | |
| 03/19 | 1.74 | 1.75 | 1.75 | 1.78 |
| 04/20 | 1.70 | 1.70 | 1.76 | 1.98 |
| 05/21 | 1.68 | 1.69 | 1.77 | 2.15 |
| 04/23 | 1.80 | 1.84 | 1.94 | 2.41 |
| 04/25 | 1.99 | 2.04 | 2.14 | 2.67 |
| 04/27 | 2.15 | 2.22 | 2.30 | 2.87 |
| 04/29 | 2.33 | 2.40 | 2.47 | |
| 04/33 | 2.50 | 2.57 | 2.64 | 3.19 |
| 04/37 | 2.66 | 2.73 | 2.81 | 3.34 |
| **GLOBAL CREDIT INDICES (ITRXX)** | | | | |
| Australia 5Y | 88 | 94 | 87 | 54 |
| Nth America 5Y | 78 | 81 | 82 | 47 |
| Europe 5Y | 81 | 86 | 82 | 45 |

| | Today | Week ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **SWAP RATES** | | | | |
| 2 years | 1.92 | 1.95 | 2.07 | 2.22 |
| 3 years | 1.98 | 2.01 | 2.15 | 2.41 |
| 4 years | 2.07 | 2.08 | 2.24 | 2.58 |
| 5 years | 2.17 | 2.18 | 2.34 | 2.73 |
| 10 years | 2.62 | 2.63 | 2.76 | 3.23 |
| **FOREIGN EXCHANGE** | | | | |
| NZD/USD | 0.6827 | 0.6755 | 0.6803 | 0.7300 |
| NZD/AUD | 0.9466 | 0.9448 | 0.9479 | 0.9165 |
| NZD/JPY | 74.10 | 73.44 | 76.74 | 80.69 |
| NZD/EUR | 0.5961 | 0.5886 | 0.5997 | 0.5953 |
| NZD/GBP | 0.5313 | 0.5284 | 0.5393 | 0.5293 |
| NZD/CAD | 0.9057 | 0.8982 | 0.9123 | 0.9073 |
| TWI | 74.0 | 73.6 | 74.7 | 75.2 |

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