RESEARCH
Markets Outlook

22 January 2019

Headline CPI Inflation to Belie Core Pressure

- **CPI prone to undershoot RBNZ expectations**
- **But core inflation pressures remain in full force**
- **Which should keep the Reserve Bank thinking**
- **Slower PSI (53.0) counters stronger PMI (55.1)**
- **Migration/tourism data due (separately) Friday**

The headline CPI is prone to undershoot recent RBNZ expectations. And not just in Q4 figures due to be published tomorrow, but running into calendar 2019 as well. However, as last week's Quarterly Survey of Business Opinion (QSBO) highlighted, the underlying drivers of inflation remain firmly in force. This should have the Bank thinking twice before acting on its dovish signals.

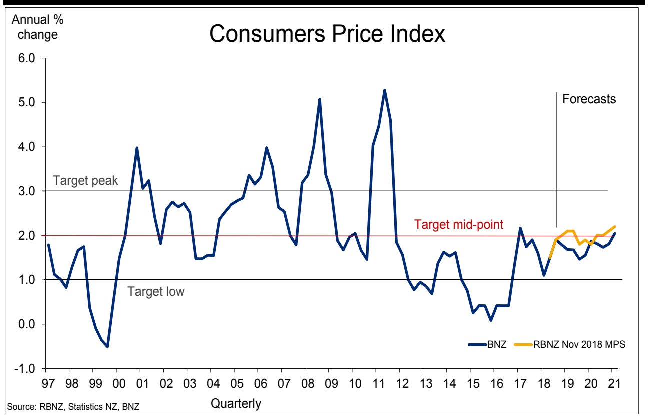
As for the Q4 CPI report, market expectations are for a flat result for the quarter, trimming annual CPI inflation to 1.8%, from 1.9%. We are in line with this.

The Reserve Bank's November MPS anticipated a 0.2% increase in the Q4 CPI, for annual inflation of 2.0%. So this appears set for "disappointment" (albeit partly owing to the sharp correction in local fuel prices since the November MPS was finalised).

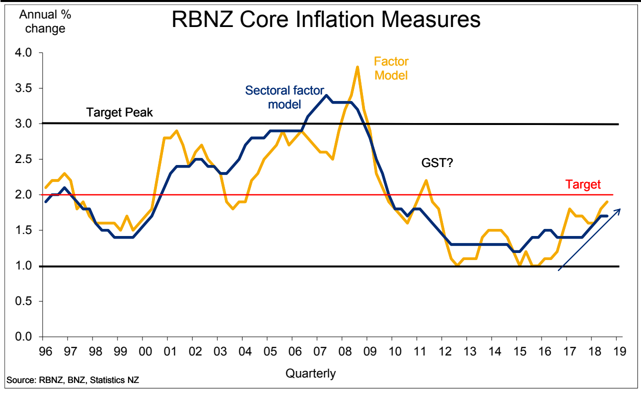
But a miss on the headline doesn't mean core CPI inflation measures are prone to undershoot RBNZ expectations as well. To be sure, even core inflation measures can be noisy from quarter to quarter. But if we reference the Bank's preferred core factor model of inflation as an example, it was running at 1.7% y/y in Q3. We would be a bit surprised if this decelerated in Q4, but not if it picked up a fraction.

In this vein, bear in mind the quarterly flatness in the Q4 CPI captures seasonal weakness in food prices (-1.4%), a 3% fall in fuel prices, and a downshift in health charges.

Not Quite



Getting There



The latter is mainly to do with free visits to GP's having been extended to under-14s, while subsides to low income people with Community Services Cards increased. This policy didn't kick in until 1 December, and it's difficult to predict the precise impact on the CPI. But it will be a factor to assess after the details are published.

A flat Q4 CPI is obviously a hair's breadth away from a being a fractional negative, which might (over)excite the market. Having said this, we think the Q4 CPI result, from a statistical point of view at least, is more prone to round up at the margin.

In any case, it's the annual CPI inflation result that should be the guide. And more so the various core measures of inflation. Relevant to this, we expect non-tradables CPI inflation to be 0.5% for Q4, and 2.5% for calendar 2018. This would be unchanged from an annual inflation of 2.5% that we expect to be reported for Q3 (currently assessed as 2.6%) – as Statistics NZ revises the non-tradables series back a few quarters. The revision is to do with a split in accommodation services that Stats NZ failed to allocate (between non-tradables and tradables CPI) properly when it arose in the reweighting of the CPI that came into effect 2017 Q3.

The RBNZ expected annual inflation of 2.5% for non-tradables in Q4. While this might look the same as ours, the Bank's might well have been a touch lower, absent the historical revisions that we now know Statistics NZ are instigating at tomorrow's CPI release.

As a mirror image of this, the tradables CPI will be revised up very slightly over recent quarters (such that there will be no revision to the CPI overall). Accounting for this, we're looking for the tradables CPI to fall 0.5% on a quarterly basis and rise 0.8% on an annual basis. The RBNZ expected +1.0% y/y.

Our estimates for Q4 CPI, by the way, infer an ex-food-and-energy result of 0.4% q/q. This would bump up the annual to 1.3%, from 1.2%. This of course still has a lot of tradables CPI in it but, as we know, the RBNZ likes to look at it in its suite of core inflation measures.

For a deeper sense of core inflation, last week's QSBO certainly kept ringing a few bells. Capacity constraints are severe and pervasive (in spite of ongoing investment in capital and labour). Costs are accelerating. While this wasn't translating one for one into selling prices, signals on the latter were still consistent with CPI inflation running around the middle of the Bank's current 1.0 to 3.0% target band.

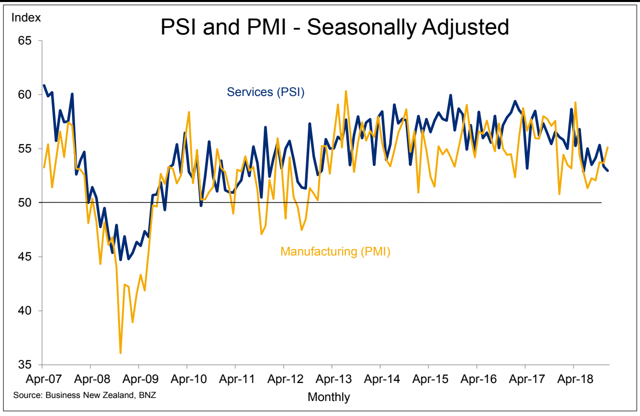
Other than the CPI, it's a quiet week. And this is especially so with December's Performance of Services Index (PSI) having been published already this morning. Its December's reading of 53.0 was not much different to November's 53.4. However, it does reinforce the sense that growth in the service sector has been slower over the past six months (as reflected in the Q3 GDP report, certainly).

As such, the latest PSI offsets the better tone coming through the Performance of Manufacturing Index. The latter improved to 55.1, from 53.7 – a result all the more encouraging given the deceleration in the global PMI into the end of 2018, to 51.5.

Wednesday's credit card billings might serve a purpose this month – as another cross-check on our thesis of trading-day compromise in the December 2018 flow-type data.

Finally, note Friday's international migration and travel figures for November, but also that they will comprise separate reports from now on (coinciding with new methods of data-capture, after the culling of international departure cards in November). We expect these data to remain relatively robust.

Unders and Overs



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Global Watch

- US government shutdown affecting data; jobless claims to rise?
- ECB and BoJ meetings this week
- EU PMIs in focus after Q4's slump
- Solid AU employment data expected
- Brexit still front and centre for the UK

Australia

In the week ahead, focus will be on December Labour Force data (Thursday), where NAB is expecting employment growth remained solid at +25k and the unemployment rate stayed at 5.1% (although there is risk of a 5% print).

Labour force data continues to be an important positive signal on the economy, although recent concerns around retail sales have likely shifted the RBA's focus towards consumer spending. Barring any sharp changes to the unemployment rate, the RBA is on track for its expectation of a 5% average unemployment rate in the December quarter. As such, the Bank will likely continue to expect a gradual tightening in the labour market.

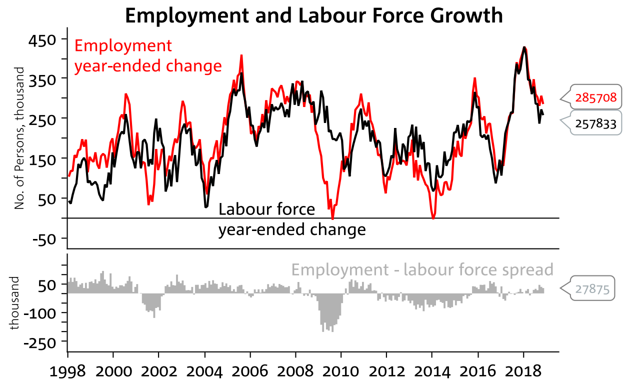
The key question for markets now is: can the RBA still afford to be patient? With building risks on the global outlook and signs of softer household spending, markets have already priced in around a 50% chance of a rate cut by the end of 2019. Further, there's little sign of accelerating progress on inflation.

As such, we believe the RBA's patience will be primarily dependent on retail sales and consumer spending data over the next few months. The Bank needs to have confidence that consumption remains supported if it is to continue to hold and wait for further gradual progress on inflation and unemployment.

On the data, NAB expects December labour force data to confirm that trend employment growth was strong over 2018 with another 25k employed persons added to the economy.

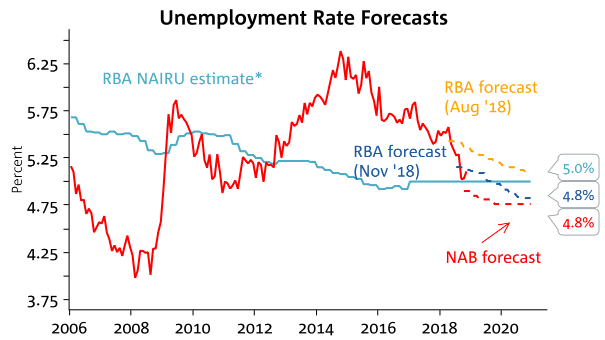
The unemployment rate is currently at 5.1% and NAB expects it remained there in December, although there is some slight risk of a 5% print. In particular, we continue to believe there is downside risk to the participation rate (65.7%), as the 'encouraged worker' effect wanes. For now, our central scenario is for both the unemployment and participation rate to remain unchanged in December, but risks are tilted for a 5% and 65.6% outcome, respectively.

Employment Growth Outpacing Labour Force



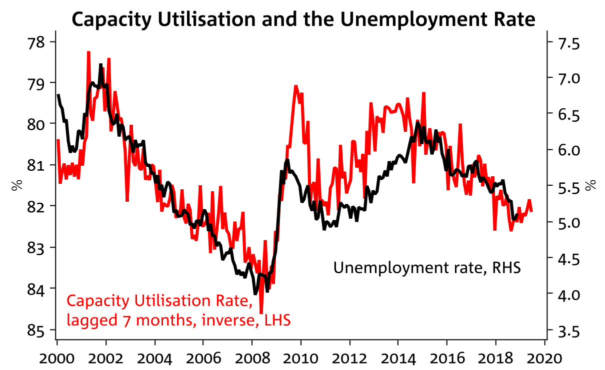
Source: National Australia Bank, ABS

Outlook for Gradual Improvements



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

Cap U Suggests Unemp. Rate stays around 5%



Source: National Australia Bank, ABS

US

The protracted government shutdown continues to delay the publication of most statistics. Of the publications not affected, under focus will be Jobless Claims on Thursday with the shutdown likely to see claims trending higher, likely sharply in coming weeks. Second-tier regional manufacturing surveys will be of interest given the lack of hard data and the sharp fall in the December ISM – Richmond Fed Manufacturing is Wednesday.

UK

No prizes for guessing that Brexit continues to top the agenda, with little interest on economic data releases. PM May has lost a 'meaningful' Parliamentary vote on her Brexit agreement, but survived a vote of no confidence, and is now trying a new tack to get a deal. A second vote on this is due Monday 29 January. The read-through is the debate is moving away from more economically-damaging pathways towards something softer and possibly even no Brexit at all, providing a layer of support for GBP. However, be warned, if pro-leave Tory MPs and the DUP are alienated, they might decide to hijack a no confidence motion to dump May or move to a General Election.

Eurozone

Outside of Brexit, focus will be on Thursday's ECB meeting and January flash manufacturing and service PMIs (Thursday) for Germany, France and the Eurozone. Following the slump in Q4 data – including GDP in Germany that looks to have inched closer to a technical recession – and amid the multi- week 'gilet jeaune' disruptions in France, markets will want to see whether activity levels slumped further. Markets will be keen to hear from the ECB on whether the deterioration in data since its last meeting has shifted its view. In December, the ECB talked about 'continued confidence with increasing caution' and saw the balance of risks as 'moving to the downside but not yet sufficient for a formal change'. Draghi was ambiguous when addressing the EU Parliament last week, saying it's a slowdown but not a recession.

Japan

BoJ meets on Wednesday and no change to policy is expected – although markets will watch any discussion on a global slowdown with interest.

Canada

Retail Sales on Wednesday the focus for the week and under increased scrutiny to see whether the recent oil price falls are starting to weigh on consumers.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

After reaching fresh record lows at the front-end last week, the NZ swap curve has since bounced back. The 2 year swap reached a low of 1.865%, below the level of the 90 day bank bill rate (see chart), but is now 1.92%. Similarly, the 5 and 10 year swap rates are around 5bps higher than their multi-year lows reached last week.

The shift higher in NZ rates mirrored moves offshore, with the 10 year UST yield moving from 2.66% to 2.78%. Increased optimism about a US-China trade deal and higher equity markets have seen the market boost its Fed expectations. Meanwhile, Chicago Fed President Evans said he "wouldn't be surprised" if the Fed funds rate was higher by the end of the year. The market now prices a 25% chance of a rate hike by the end of the year, but it still prices a 25% chance of a cut by the end of 2021.

There was little reaction to the QSBO and PMI surveys last week, both of which showed improvement from their previous readings. The QSBO in particular highlighted the extreme tightness in the NZ labour market. The market continues to price around a 50% chance of a cut by the end of 2019 and a glacial pace of hikes thereafter.

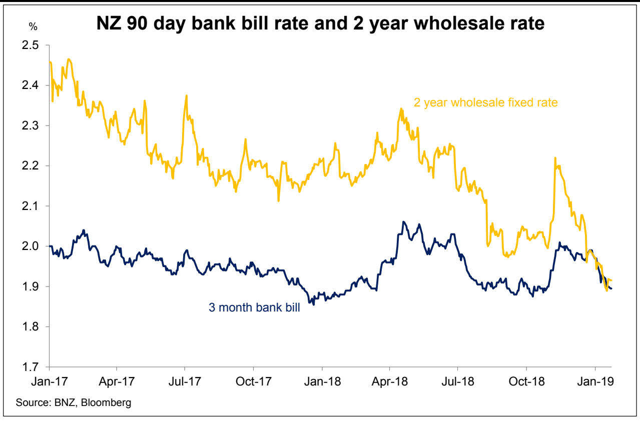
The focus this week is the NZ CPI release. The focus will, as always, be on the non-tradables measure of inflation and the core measures (in particular the Sectoral Factor Model of core inflation that the RBNZ has emphasised in the past). Given the market is pricing a significant chance of a rate cut already (including a 30% chance by May), we think the market is more vulnerable to a stronger than expected CPI release (on the core non-tradables measures). Even if the CPI release is weaker than expected, we think the hurdle for cuts is high, given the tightness in the labour market.

The main risk around OCR cuts stems from the global side, although the market recovery this year is a positive development. The RBNZ's proposal to significantly increase bank capital could also raise the risk of OCR cuts in the future, although much depends on the reaction of the banks (i.e. how much, if any, of the higher costs they pass on to customers) and what the broader macroeconomic context is at the time. There is still a lot of water to go under the bridge, and the RBNZ isn't expected to announce its conclusion until end-June.

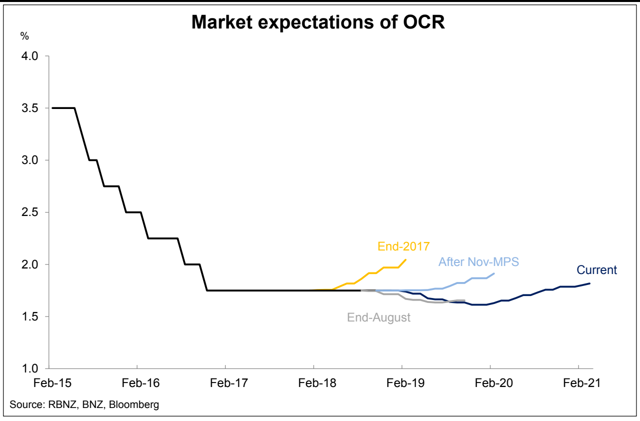
Our core view is now that NZ swap rates will be range-bound this year. We see little chance of an OCR move (up or down) and, as we explained last week, we think US Treasury yields will be range-bound this year (as the Fed tightening cycle is probably complete). That said, we have sympathy with the view that the market is over-pricing the risk of rate cuts into the NZ curve, and think there is a good chance that swap rates could bounce somewhat higher, within a broader trading range.

In the cash market, NZGB and Kauri issuance kicked off last week. NZDM tendered $250m of 2029s, with a bid-to-cover of 1.6 and a tender cut-off yield 2bps higher than the weighted average successful yield. The tender result showed more modest demand than that seen late last year, although that could be a reflection of the time of year, with investor activity still relatively light. IBRD issued $400m of a 5 year Kauri, and we expect more issuance to come this quarter given the nearly $5b in maturities.

NZ 2 year swap traded under the 90 day bank bill last week



The market is pricing around a 50% chance of a rate cut



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.90	1.90 - 1.97
NZ 2yr swap (%)	1.92	1.87 - 1.99
NZ 5yr swap (%)	2.16	2.10 - 2.21
NZ 10yr swap (%)	2.62	2.54 - 2.67
2s10s swap curve (bps)	70	62 - 72
NZ 10yr swap-govt (bps)	29	23 - 30
NZ 10yr govt (%)	2.33	2.25 - 2.43
US 10yr govt (%)	2.78	2.54 - 2.80
NZ-US 10yr (bps)	-46	-46 - -23
NZ-AU 2yr swap (bps)	-1	-4 - 13
NZ-AU 10yr govt (bps)	1	-1 - 13

*Indicative range over last 3 weeks

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Foreign Exchange Markets

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD has drifted lower over the past week or so against all the other major currencies. There has been no obvious catalyst for the move, although it follows some outperformance the previous week.

The drift lower in the NZD has come against the backdrop of improved risk appetite, with our risk appetite index recovering to 52% at the end of last week, now back to the neutral zone. And dairy prices are recovering as EU stockpiles of skim milk powder fall away. The GDT dairy auction has shown positive price gains in the last four auctions. Our short-term fair value model estimate is drifting higher and currently sits just under 0.67, so the current spot rate is close to that level.

US-China trade war news has been mixed this year, with seemingly both parties wanting to do a deal and China offering up some concessions, but agreement on intellectual property and alleged forced technology transfers remain key sticking points. We see eventual agreement, even if there are further delays in the negotiating process. If we're right and this risk factor is removed from the headlines, then that would be a positive catalyst for the NZD when it happens. An extended pause in the Fed's tightening cycle is another factor no longer overhanging the NZD.

Our projections suggest the NZD will be anchored around 0.67-0.70 for much of the year, although of course we don't expect a three-cents range to hold all year and there will be periods of deviation outside that range.

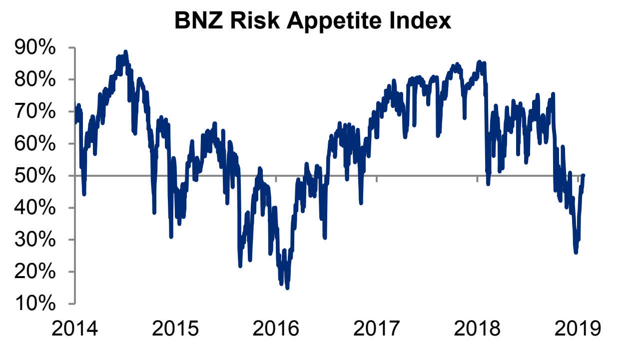
NZD/GBP looks to be on a weaker path as Brexit risks fade. The chances of a no-deal Brexit are reducing by the day and, while negative outcomes still can't be completely ruled out, we are increasingly optimistic that the cross will move sub-0.50 over coming months. Some positive spillover for EUR should see NZD/EUR also head south.

In the week ahead, the key local release is the Q4 CPI report tomorrow. Some of the recent weakness in the NZD might reflect nervousness ahead of this report. Headline CPI inflation for the quarter will be very soft – close to flat – weighed down by much lower petrol prices and seasonal factors. But we expect core inflation to show signs of holding up. Indeed, the risk is that non-tradeables inflation overshoots the RBNZ's estimate of 0.4% q/q. The passing of this risk event for the NZD could see a more positive vibe for the currency after the release, depending on how global forces play out this week.

Policy meetings by the BoJ and ECB should pass with little market reaction. Both central banks are struggling to meet policy targets and policy is expected to be unchanged for an extended period. The ECB has just finished its balance-sheet expansion under QE policy, but there's little prospect of any further tweak to policy anytime soon. European PMIs – which steadily declined last year – will be closely watched for some sign of stabilisation.

Finally, Australian employment data on Thursday will be on the radar. The RBA has a modest tightening bias but some in the market see a rate cut in prospect as the housing market sours. A weak employment report would help feed those expectations and could see the RBA softening its tone next month. A strong employment report would likely keep the RBA's messaging unchanged. NZD/AUD drifted down this year after a very strong Q4. We see this weakness as temporary, ahead of a retest of the 0.96 mark in coming months.

Risk Appetite Recovers to Neutral



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6728	0.6580 - 0.6850
NZD/AUD	0.9397	0.9370 - 0.9830
NZD/GBP	0.5218	0.5200 - 0.5380
NZD/EUR	0.5918	0.5810 - 0.5990
NZD/JPY	73.78	69.10 - 74.50

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6680	1%
NZD/AUD	0.8950	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:	0.9300 (ahead of 0.9200)

The cross is drifting lower after the strong run in Q4. With prior support at 0.94 broken, the next support level is 0.93.

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NZ 5-year Swap Rate

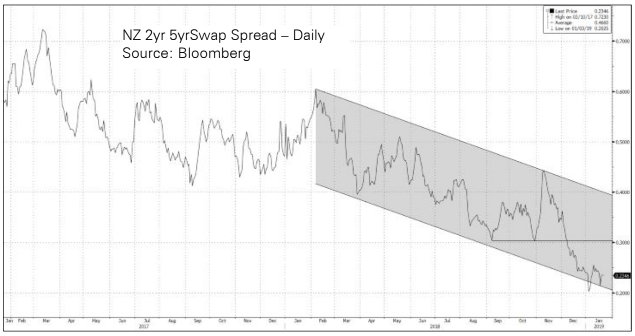
Outlook:	Lower
ST Resistance:	2.27
ST Support:	2.00

Some consolidation here, expect any pullback to be limited to 2.27 level.

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 22 January 2018

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded)

	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	0.7	0.7	0.6	0.6	0.6
Current account (ytd, % GDP)	-2.7	-2.9	-3.0	-3.3	-3.6	-3.7	-3.4	-3.2	-3.1	-3.0
CPI (q/q)	0.5	0.1	0.5	0.4	0.9	0.0	0.4	0.4	0.7	0.1
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	1.7	1.7	1.5	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
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 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	2.00	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

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.68	0.72	1.14	1.29	109
Mar-19	0.68	0.71	1.17	1.35	113
Jun-19	0.67	0.70	1.18	1.40	113
Sep-19	0.69	0.73	1.20	1.43	110
Dec-19	0.70	0.75	1.23	1.45	108
Mar-20	0.70	0.76	1.24	1.46	107
Jun-20	0.71	0.77	1.25	1.47	105
Sep-20	0.72	0.78	1.28	1.48	104
Dec-20	0.73	0.79	1.30	1.50	101
Mar-21	0.72	0.78	1.30	1.50	101
Jun-21	0.72	0.77	1.32	1.52	100

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.68	0.94	0.59	0.52	73.5	73.3
Mar-19	0.68	0.96	0.58	0.50	76.8	74.1
Jun-19	0.67	0.96	0.57	0.48	75.7	72.8
Sep-19	0.69	0.94	0.57	0.48	75.4	72.9
Dec-19	0.70	0.93	0.57	0.48	75.6	73.4
Mar-20	0.70	0.92	0.57	0.48	74.9	72.7
Jun-20	0.71	0.92	0.57	0.48	74.6	73.1
Sep-20	0.72	0.92	0.56	0.49	74.9	73.5
Dec-20	0.73	0.92	0.56	0.49	73.7	73.7
Mar-21	0.72	0.92	0.55	0.48	72.7	73.2
Jun-21	0.72	0.94	0.55	0.47	72.0	73.3
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 22 January 2019	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2017	2018	2019	2020	2021	2016	2017	2018	2019	2020
GDP - annual average % change										
Private Consumption	5.8	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	0.8	0.7	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	1.7	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	-2.9	-3.2	-2.2	-2.9	-3.7	-3.0	-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	74.1	72.7	73.2	78.1	73.6	74.6	73.4	73.7
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
Tuesday 22 January			
NZ, BNZ PSI (Services), December			53.5
Germ, ZEW Sentiment, January		-18.5	-17.5
UK, Average Weekly Earnings, Nov y/y		+3.3%	+3.3%
UK, Unemployment Rate (ILO), November		4.1%	4.1%
US, Existing Home Sales, December		5.24m	5.32m
Wednesday 23 January			
NZ, CPI, Q4 y/y	+1.8%	+1.8%	+1.9%
Jpn, BOJ Policy Announcement, Policy Rate		-0.1%	-0.1%
Jpn, Merchandise Trade Balance, December		-Y42b	-Y737b
Jpn, All Industry Index, November		-0.4%	+1.9%
Euro, Consumer Confidence, Jan 1st est		-6.5	-6.2
UK, CBI Industrial Trends, January		+5	+8
Thursday 24 January			
NZ, Credit Card Billings, December			+0.4%
Aus, Unemployment Rate, December	5.1%	5.1%	5.1%
Aus, Employment, December	+25k	+18k	+37k
Euro, ECB Policy Announcement, Refi	0.00%	0.00%	0.00%
Euro, PMI Services, Jan 1st est		51.5	51.2
Euro, PMI Manufacturing, Jan 1st est		51.4	51.4
US, Jobless Claims, week ended 19/01		219k	213k
US, Markit PMI, January 1st est		53.5	53.8

	Forecast	Median	Last
Thursday 24 January cont'd…			
US, Markit PSI, January 1st est			54.4
US, Leading Indicator, December		-0.1%	+0.2%
Friday 25 January			
NZ, International Migration, Nov s.a.			+4,660
NZ, International Travel, November			
Germ, IFO Index, January		100.7	101.0
UK, CBI Retailing Reported Sales, January		+3	-13
US, Durables Orders, Dec 1st est		+1.5%	+0.8%
US, New Home Sales, November		563k	544k
Monday 28 January			
NZ, Holiday - partial, Auckland Ann (Obs)			
China, Industrial Profits, December y/y			-1.8%
Euro, M3, December y/y			+3.7%
Tuesday 29 January			
NZ, New Residential Lending, Dec y/y			+17.6%
NZ, Merchandise Trade, December			-$861m
Aus, NAB Business Survey, December			+3
US, Consumer Confidence, January			128.1
US, Shiller Home Price Index, Nov y/y			+5.5%
US, GDP, Q4 1st est			+3.5%
US, ADP Employment, January			+271k

Historical Data

	Today	Week ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	1.75	1.75	1.75	1.75
1mth	1.82	1.84	1.86	1.79
2mth	1.86	1.87	1.93	1.84
3mth	1.90	1.90	1.99	1.88
6mth	1.90	1.90	2.02	1.93
GOVERNMENT STOCK				
03/19	1.73	1.74	1.75	1.81
04/20	1.69	1.68	1.73	2.03
05/21	1.69	1.67	1.72	2.24
04/23	1.79	1.78	1.86	2.51
04/25	1.97	1.95	2.06	2.77
04/27	2.13	2.12	2.23	2.97
04/29	2.32	2.30	2.39	
04/33	2.49	2.46	2.57	3.30
04/37	2.66	2.62	2.73	3.45
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	72	76	95	46
Europe 5Y	76	81	92	44

	Today	Week ago	Month Ago	Year Ago
SWAP RATES				
2 years	1.92	1.90	1.98	2.25
3 years	1.98	1.96	2.05	2.45
4 years	2.05	2.04	2.13	2.63
5 years	2.16	2.14	2.23	2.78
10 years	2.62	2.59	2.68	3.30
FOREIGN EXCHANGE				
NZD/USD	0.6729	0.6817	0.6727	0.7355
NZD/AUD	0.9398	0.9466	0.9560	0.9191
NZD/JPY	73.78	74.08	74.21	81.13
NZD/EUR	0.5918	0.5973	0.5905	0.5979
NZD/GBP	0.5219	0.5301	0.5308	0.5252
NZD/CAD	0.8945	0.9044	0.9145	0.9135
TWI	73.2	74.0	73.6	75.5

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