RESEARCH
MARKETS OUTLOOK

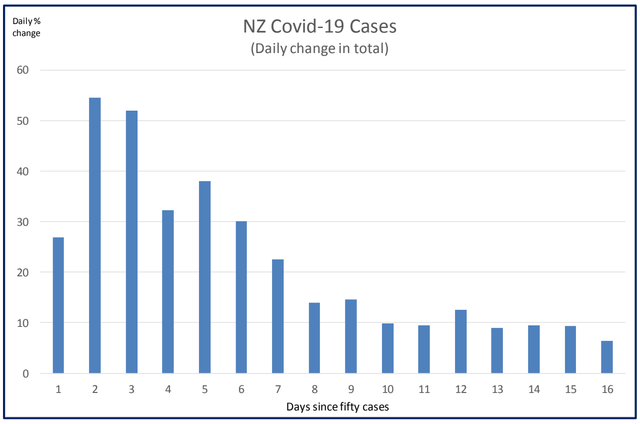
6 April 2020

Dare To Believe!

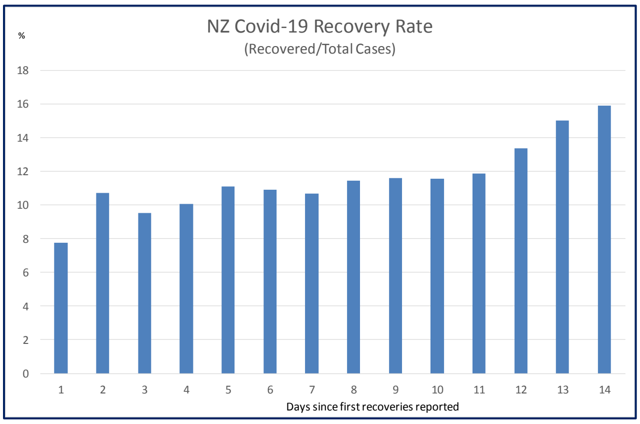
- **Covid-19 contagion not explosive**
- **As lockdown does its thing**
- **Graduated lower-level restrictions a real possibility**
- **But no windfall for business**
- **Cost-benefit analysis so unbelievably difficult**

It's a case of so far, so good. Unlike in many parts of the world, New Zealand has not yet experienced exponential increase in the spread of Covid-19. This is predominantly due to the rigorous containment measures that have been adopted. However, also abetting our relative success is the fact that: we are not a densely populated country; it's the young and fit who so far have been most exposed here rather than the elderly and frail; we have low levels of background pollution; and, by and large, we have space to get outside and enjoy the fresh air in isolation.

So far, so good



Recovery Rate Increasing



Now is not the time for complacency but there is at least a glimmer of hope that some of us, at least, might be able to experience a less-restrictive world. Currently the whole economy is under a Level 4 lockdown but there is now good reason to believe that both Levels 3 and 2 are an option by the end of April/early May if things go to plan.

In short, the determining factors will be clusters and community transmission. The bigger the cluster, the faster its growth, and the more community transmission then the higher the level. But you do not have to get rid of these factors altogether to move down the levels. Level 3 assumes multiple clusters break out and community transmission is occurring. Even Level 2 still has isolated cluster outbreaks but no community transmission. *(See the summary following this note).*

Note, also, that it appears Levels cans be applied locally. So, it is quite conceivable that different parts of the country might have different sets of restrictions.

A shift to a lower level would be a huge psychological boost but it is a moot point as to how much impact it would have on business activity. It seems to us that the biggest impact of moving to Level 3 is that education facilities in non-affected areas could open up and a greater, though not necessarily significant, number of businesses will be allowed to open their doors. On balance a positive, but marginal, impact.

Level 2 seems to offer the opportunity for a greater number of businesses to restart and more community activity will be permitted. This would have a more meaningful impact.

We also get the feeling that work is being done to identify industries that might be able to resume activity rather than just regions. For example, forestry workers, generally, operate in a "distanced" environment so might be able to function with a lower rate of potential disease transmission. Ports might also be in a similar position, as might distribution centres.

A really big problem for businesses is that until such time as we have a cure or a vaccine for Covid-19, the spread of the disease will probably come in waves. This may mean that the country, or specific regions, have to move up and down levels as the need requires. This will be a huge challenge for business operating models. Those that have established a strong online platform may have the flexibility to move relatively seamlessly between levels. But many will not have that luxury.

In particular, businesses that face large start-up costs will be no better placed. Moreover, any business which faces a long period of time between taking orders and making deliveries will struggle to resume activity. For example, who is going to want to order and pay for furniture that has to be made when there is a possibility that the order can't be completed?

A really big consideration if we float across the various levels is what to do with labour. The last thing any business wants is to be taking on and laying off staff with gay abandon. Consequently, the chances of a marked employment pick up, prior to declaring victory over Covid-19, is negligible. For this reason alone, the unemployment rate can be expected to remain elevated for a significant period of time.

Of course, if we were to successfully eliminate Covid-19 from our shores, and people believed this to be the case, then most of the economy could rebuild quickly, with the exception of international tourism and education. Under the assumption, of course, that our borders remain closed for an extended period. Indeed, whatever the level we are on, a closed border looks like a given, and we would be surprised if those borders are freed up significantly at any time this year.

Ironically, the more successful New Zealand is at destroying the virus domestically, the more vulnerable (relative to the rest of the world) we become, as we will have little to no community immunity.

The other factor we need to consider is people's tolerance for an extended lock-down and the costs of doing so versus the benefits. It is wrong to simply frame this debate in terms of economics versus life and death. Yes, right here and now we are making the choice to save lives, more so than jobs, while the Government moderates the impact on the workforce via a number of policy measures. But the status quo is not sustainable. Ongoing economic stasis will eventually see the government exhausting its ability to provide support and businesses will fold even with the help they are receiving. This being the case, and we are seeing some of these things already, the outcome will be increased mental health issues (including higher rates of suicide), more heart attacks, strokes and general health issues brought about by stress and/or heightened impoverishment, and long-term health problems (including reduced life expectancy for some) as a consequence of the pressure (both financial and physical/mental) being faced now. Moreover, as the Government eventually tightens the reins, to repay the costs of the current rescue package, it will also limit the future wealth and wellbeing of the population. To cap things off, we all know this burden will, inevitably, fall disproportionately on those with lower education levels and of lower socio-economic status.

In saying all the above, we are not advocating a particular set of policy actions. All we are simply doing is highlighting that the road ahead will be a troubled one, and the Government is going to have to make some very tough decisions. Importantly, the Government now needs to start giving itself more time to deliberate the decisions it makes to enable it to fully consider the implications of the decisions it makes. Moreover, it remains even more imperative than ever that assistance to those that need it is highly targeted to ensure that the money spent delivers best bang-for-your-buck and is not frittered away by those who do not genuinely need it.

It seems to us that we are now on the verge of achieving a remarkable outcome but only if every player in the economy – households, business and the government - plays their part, and we have a lot of luck.

For businesses, this remains all about adopting survival techniques and developing strategies, as best as can be done, for the probability of the economy moving between the levels that the government has identified, for an extended period.

In the interim, we will continue to monitor available data to try to get a better picture of what is actually happening. Unfortunately, much of the data we are currently getting pre-dates the lockdown so is of no real use.

On Tuesday, we get NZIER's Quarterly Survey of Business Opinion. NZIER tells us that the responses were complete by March 20. So, there will be the first signs of concern in the data but it will predate the big hit the economy has since suffered. We expect a drop in confidence but recognize that it will be just a step along the way to a much bigger fall.

Last month the ANZ took the unprecedented step of providing an early, partial release of its business survey. It will do the same this Wednesday. While this survey will be of interest, we all know what it's going to look like.

In time, the real value of the business surveys will not be in telling us how bad things are getting, it will be when they start turning upward and provide indication that things are about to get better.

Today sees the release of the ANZ Commodity Price Index for March. These data are salient as we believe the prices for New Zealand's commodity basket will hold up relative to those of most other countries. This is important, because a strong Terms of Trade will help offset some of the income hit the nation is currently facing. And the decline in the New Zealand dollar will further abet this effect.

On Thursday, the ANZ, which is seemingly producing more data than Statistics New Zealand at the moment, releases its Truckometer. We don't normally follow this too closely but, under the circumstances, it should provide some insight as to how domestic haulage is being affected.

On Wednesday morning we will witness the next Global Dairy Trade auction. We are expecting a 4.0% decline in USD prices. Given what is happening to international trade, this would not be that bad an outcome. Overall, the current prognosis for dairy is about as good as you could hope for, and the sector is certainly playing its part in buttressing the New Zealand economy.

stephen_toplis@bnz.co.nz

COVID-19 Alert System

The alert system means people can see and plan for the kinds of restrictions we may be required to put in place.

This includes increasing or decreasing limits on human contact, travel and business operations.

Download a table of the COVID-19 Alert Level [PDF, 50 KB]

The alert levels tell us all what public health and social measures need to be taken.

The measures may be updated on the basis of: 1). new scientific knowledge about COVID-19 and 2). information about the effectiveness of intervention measures in New Zealand and elsewhere.

The alert levels may be applied at a town, city, territorial local authority, regional or national level.

Different parts of the country may be at different alert levels.

We can also move up and down alert levels.

In general, the alert levels are cumulative, eg Level 1 is a base-level response.

Always prepare for the next level.

At all levels, health services, emergency services, utilities and goods transport, and other essential services, operations and staff, are expected to remain up and running. Employers in those sectors must continue to meet their health and safety obligations.

The public will notice an increased Police presence with a focus on prevention, through education and encouragement.

Level 4 restrictions will only be enforced if required.

Source: https://covid19.govt.nz/government-actions/covid-19-alert-system/#new-zealand-covid-19-alert-levels

Level 4 - Eliminate

Likely that disease is not contained.

Risk assessment

- Sustained and intensive transmission
- Widespread outbreaks.

Range of measures

These can all be applied **locally** or **nationally**:

- people instructed to stay at home
- educational facilities closed
- businesses closed except for essential services (eg supermarkets, pharmacies, clinics) and lifeline utilities
- rationing of supplies and requisitioning of facilities
- travel severely limited
- major reprioritisation of healthcare services.

Level 3 - Restrict

Heightened risk that disease is not contained.

Risk assessment

- Community transmission occurring OR
- Multiple clusters break out.

Range of measures

These can all be applied **locally** or **nationally**:

- travel in areas with clusters or community transmission limited
- affected educational facilities closed
- mass gatherings cancelled
- public venues closed (eg libraries, museums, cinemas, food courts, gyms, pools, amusement parks)
- alternative ways of working required and some non-essential businesses should close
- non face-to-face primary care consultations
- non acute (elective) services and procedures in hospitals deferred and healthcare staff reprioritised.

Level 2 - Reduce

Disease is contained, but risks of community transmission growing.

Risk assessment

- High risk of importing COVID-19 OR
- Increase in imported cases OR
- Increase in household transmission OR
- Single or isolated cluster outbreak.

Range of measures

These can all be applied **locally** or **nationally**:

- entry border measures maximised
- further restrictions on mass gatherings
- physical distancing on public transport (eg leave the seat next to you empty if you can)
- limit non-essential travel around New Zealand
- employers start alternative ways of working if possible (eg remote working, shift-based working, physical distancing within the workplace, staggering meal breaks, flexible leave arrangements)
- business continuity plans activated
- high-risk people advised to remain at home (eg those over 70 or those with other existing medical conditions).

Level 1 - Prepare

Disease is contained.

Risk assessment

- Heightened risk of importing COVID-19 OR
- Sporadic imported cases OR
- Isolated household transmission associated with imported cases.

Range of measures

These can all be applied **locally** or **nationally**:

- border entry measures to minimise risk of importing COVID-19 cases applied
- contact tracing
- stringent self-isolation and quarantine
- intensive testing for COVID-19
- physical distancing encouraged
- mass gatherings over 500 cancelled
- stay home if you're sick, report flu-like symptoms
- wash and dry hands, cough into elbow, don't touch your face.

Global Watch

- **Lockdown in Wuhan to end**
- **US labour market hit very hard, more support soon?**
- **RBA meets tomorrow, no changes expected**
- **AU business support expected to be extended**

Australia

The government is expected to soon announce an industry code on commercial tenancies, as well as health modelling of the pandemic. The RBA board meets on Tuesday and is expected to keep policy – the cash rate, yield curve control and QE – unchanged. The ABS will release its latest business survey on the impact of COVID-19. Job ads likely fell very sharply in March, while weekly consumer confidence could fall further from its record low.

Government to announce more support for business

The government is expected set to announce further support for business in the days ahead, albeit on a less dramatic scale than the unprecedented wage subsidy (the government's total announced fiscal stimulus is currently worth $198b – or about 10% of GDP – with the wage subsidy amounting to $130b).

The prime minister said that national cabinet and industry representatives were preparing an industry code for commercial tenancies, which will provide relief to tenants on the JobKeeper scheme that have turnover less than $50m. The code is meant to provide tenants with protection against eviction and landlords with protection against the termination of leases. At this stage, the code does not appear to include government rent relief.

In our view the government's response so far has been very encouraging, providing significant support to limit the rise in unemployment and maintain business cashflow. That said, the aggressive easing in both fiscal and monetary policy likely cannot entirely offset the very large near-term shock from the pandemic. NAB thinks unemployment could reach 12% by mid-year given the extent of the shock to the economy, but there is significant uncertainty around the outlook and the exact path of both GDP and unemployment will very much depend on how long it takes to bring the virus under control and the success of government health and economic measures.

Note that Parliament resumes this week to pass the most recent fiscal stimulus measures. The prime minister has also said the government will publish its health modelling of the pandemic this week.

The Reserve Bank will keep policy on hold

Having cut the cash rate and started unconventional policy only two weeks ago in an emergency meeting, it is likely the RBA will keep policy unchanged at its April meeting.

At its emergency March meeting, the bank cut the cash rate to its self-imposed lower bound of 0.25% and began unconventional measures in the form of limited yield curve control, buying government bonds (i.e., quantitative easing) and providing a term funding facility to banks. The purpose of those measures, as emphasised by the RBA, is to provide stability and support into the medium term, so that when the economy begins its recovery monetary policy will provide a significant boost.

In the near term, the RBA will focus on market dislocations as the government provides significant fiscal support to the economy. On that front, the RBA has been successful so far in providing liquidity and buying Commonwealth and semi-government bonds to reduce bond yields. However, NAB's rates strategists note that maintaining the yield target will be more difficult when more long-term government bonds are issued to fund the government's massive fiscal stimulus.

The Reserve Bank's Financial Stability Review is released on Thursday and will probably discuss the ability of the financial system to cope with the shock from the pandemic.

The ABS will update its fortnightly business survey on the impacts of COVID-19

The ABS will release its latest survey results on Wednesday, covering the week of 30 March to 6 April. Its first survey, released last week, showed a widespread impact from COVID-19. Nearly half (49%) of businesses had already been negatively impacted from COVID-19 and the vast majority (86%) expects to be affected in future months.

The update to the survey will be important to see the spread of the negative impact, particularly as the first survey predated the ramp up of containment measures.

March job ads and consumer confidence likely fell sharply

March saw a ramp up in containment measures as the number of coronavirus cases rose rapidly in Australia. That prompted widespread panic buying at supermarkets, while many industries saw a steep fall in demand. As such, the ANZ measure of job ads likely fell very sharply in the month. The weekly ANZ Bank/Roy Morgan Research measure of consumer confidence is already at a record low, but could fall further.

Job ads likely collapsed in March

Note: *Newspaper ads were spliced with total ads to generate a longer history. The March 2002 observation is a National Australia Bank estimate.*
Source: *ANZ Bank, Australian Bureau of Statistics, Indeed, National Australia Bank*

February data for trade will show a sharp fall in service exports due to visitor bans

We forecast an unchanged trade balance of $5.2b, but expect sharp falls in tourism and education exports as bans on Chinese visitors that took place in late January take hold.

February data for home loan approvals will show approvals were rising strongly prior to the outbreak

We forecast another very strong month of approvals in February, although not an exact number as the ABA has temporarily discontinued providing loan data.

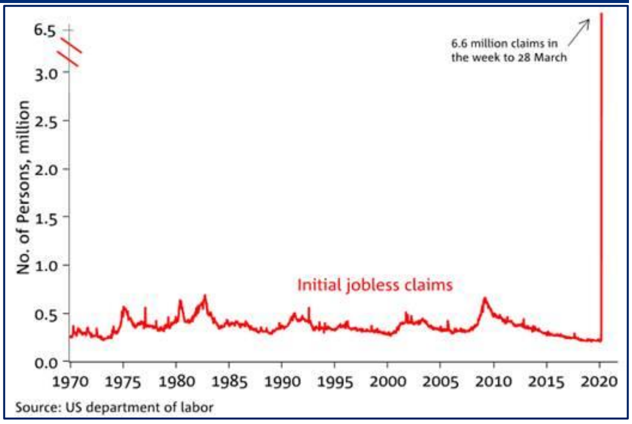
China

A key date is 8 April, when the lockdown of Wuhan officially ends. Wuhan residents with a clean bill of health can leave, but is unclear which cities/provinces – including Beijing – will allow them to enter. Monday is a public holiday. Markets will monitor China's recent lifting of containment measures given a few isolated reports of a COVID-19 outbreak in one county and some re-implementation of social distancing in Shanghai. The CPI/PPI on Friday should show some easing in inflation with wholesale pork prices starting to fall. The consensus looks for annual inflation of 4.9%, down from 5.2% in February.

US

Weekly initial jobless claims – which are at a record 6.65m – make plain the rapidly increasing cost of placing most of the economy on hold to lower the virus's spread. Other data are largely irrelevant for now. There is more interest on what additional support the US administration will announce with current speculation including a more comprehensive employment support package.

Early weekly jobless claims record sharpest rise in history



Eurozone

Very little data due in Europe, although more focus is on virus containment measures in any case. At least at his point, though, the jobless picture in Europe is less dire than the USA thanks to government employment/wage subsidy programmes.

kaixin.owyong@nab.com.au

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

- **Global and NZ rates modestly lower last week**
- **As QE purchases help keep yields contained**
- **NZDM announces huge increase to funding programme**
- **RBNZ confirms it will start small-scale LGFA bond purchases**

There was a bit more stability in NZ (and global rates last week). 10-year bond yields in NZ, Australia and the US fell by between 7 to 15bps. The imprint of large-scale government bond purchases under central banks' respective QE programmes has helped to keep a lid on global bond yields for now, although supply is going to start going up (by a lot) in the not too distant future.

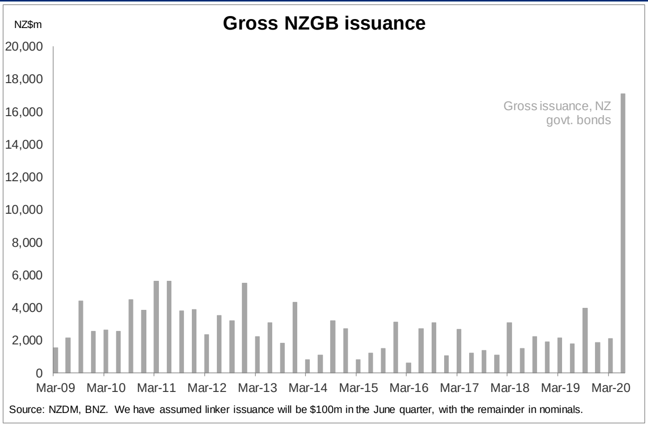
New Zealand Debt Management (NZDM) revealed a huge increase to its bond programme last week, increasing the amount it intends to raise via bond issuance in the June quarter from $5.1b to $17b. This is an unprecedented pace of issuance for the NZGB market (see right-hand chart). The previous biggest quarter for gross issuance was $5.6b.

Such an increase in bond issuance would ordinarily put sizeable upward pressure on NZGB yields, in order to incentivise investors to buy the bonds. The difference this time is that the RBNZ is undertaking QE. The RBNZ announced on Friday that it was increasing its purchase amounts for this week (taking place between Monday to Wednesday) to $1.8b. By way of comparison, the RBA is buying $2b of bonds this week, in what is a much bigger market. The RBNZ has operational flexibility to frontload purchases of its $30b programme, which is what it is doing, in an attempt to mitigate what would otherwise be a big increase in yields.

We think the RBNZ MPC will ultimately decide to upsize its QE programme from the current $30b, with an announcement most probable at its May meeting, in our view. The RBNZ Monetary Policy Committee (MPC) settled on the $30b based on its staff recommendation of "the maximum effective stimulus achievable while maintaining a well-functioning government bond market." But because the bond market is going to be much bigger than the MPC assumed, it can safely increase its QE programme size, without upsetting the functioning of the market. The MPC's May meeting is a day before Budget 2020 which would be a natural time to upsize the programme (the day before NZDM formally lifts its bond programme for FY20/21 and later fiscal years).

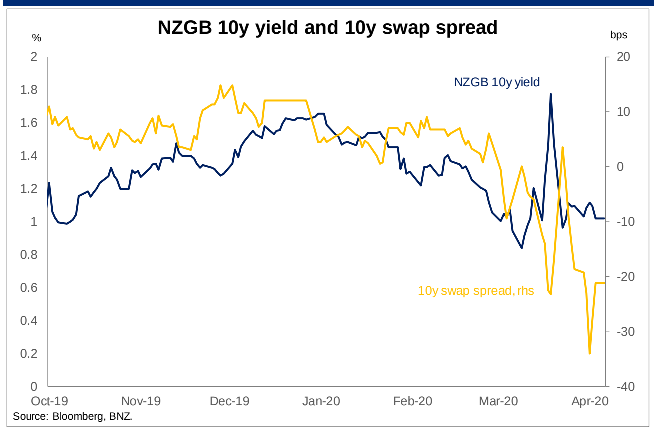
This morning, the RBNZ confirmed it would start making small-scale purchases of bonds issued by the Local Government Funding Agency (LGFA). The motivation for the RBNZ's entry into the non-government market is based on financial stability considerations (to ensure markets remain smooth and orderly). This is quite distinct from purchases signed off by the MPC under its QE programme (which need to be motivated on economic grounds, i.e. adding more stimulus to the economy). The secondary market for LGFA bonds, like those of other non-government issuers, has become increasingly strained and illiquid in recent weeks, and the RBNZ's decision to step into the market as a buyer (albeit on small-scale at this stage) should go some way to providing investors and dealers that there is a deep-pocketed buyer they can sell to, if they need. We think it's likely that the RBNZ MPC will decide to formally add LGFA (and possibly other semi-government issuers like Housing NZ Ltd) to its QE purchase programme in the future.

NZGB issuance is going to be huge this quarter



Source: NZDM, BNZ. We have assumed linker issuance will be $100m in the June quarter, with the remainder in nominals.

NZGB yields stabilize last week, swap spreads come off the lows



Source: Bloomberg, BNZ.

nick.smyth@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD fell by nearly 3% last week, amidst signs of USD strength reigniting, after its poor performance the previous week. This saw the NZD close the week about 0.5860, near its low, although still well above the 0.5470 low at the height of market dislocation on 19 March. NZD/AUD and NZD/EUR were relatively steady, while the NZD fell by over 2% against JPY and just over 1% against GBP and CAD.

The bounce-back in the USD comes at a time when the US is at the epicentre of the spread of COVID-19 and the US economy enters a very deep recession. The poor non-farm payrolls report for March was just the tip of the iceberg, with credible estimates putting the US unemployment rate at 12-14% for the next monthly reading. The US 10-year Treasury rate closed below 0.60%, a level consistent with diminishing interest rate support for the USD.

That the USD remains well-bid at a time when other indicators are USD-negative is consistent with the idea that demand for USD liquidity remains heightened. The Bank for International Settlements notes that demand for USD dollar funding has grown in recent years, reflecting the currency hedging needs of corporates and portfolio investors outside the US. The Fed's USD swap lines with 14 central banks has helped supply USD liquidity, but many emerging market central banks are not part of these swap agreements.

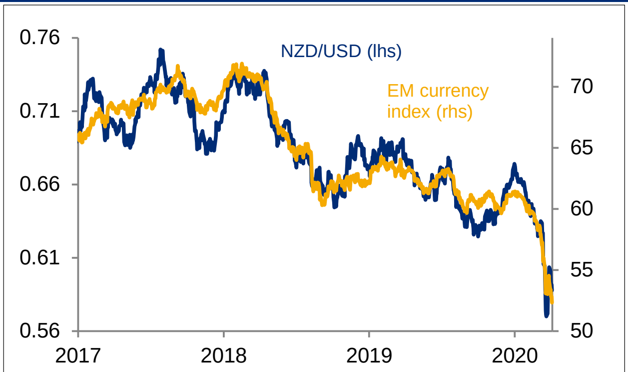
Emerging market countries also have large USD liabilities, given the lack of demand for their bonds priced in local currency, so their economies are vulnerable when the USD is strong, putting downward pressure on their currencies. The NZD is highly correlated with emerging market currencies, so this dynamic remains a major headwind for NZD performance.

As COVID-19 has spread across the world, more countries have been instigating lockdowns to contain the virus and the trend of those with current lockdowns has been to extend them. These lockdowns increase the global economic hit and the extensions delay the ultimate economic recovery. The deeper the global economic shock, the weaker the likely performance of commodity currencies like the NZD. Central banks and governments around the world continue to introduce fresh policy measures to soften the economic blow, but there are limits to these policies.

The bottom line is that the NZD remains highly vulnerable in the current environment. Our central forecast still has the NZD revisiting the 19 March low in a final meltdown but, of course, there are many other plausible scenarios and ultimately the outcome will be determined by how quickly the spread of COVID-19 can be contained, and how quickly the lockdowns can be brought to an end. Despite the risk of further near-term weakness, we still believe that the NZD can recover strongly as economic conditions gradually return to normal.

NZD/AUD went briefly below 0.97 last week, but the move wasn't sustained. With relative monetary policy not expected to be a driver over the next year, relative commodity prices will be a key driver alongside expectations of how each country will fare coming out of the COVID-19 shock. NZ's lockdown is harsher than Australia's suggesting a deeper recession in NZ, but also NZ should fare better coming out of the shock. Even though our short-term model says 0.93 is a fair price, our projections show a cross that is anchored around 0.97-0.99 through the next year.

NZD correlated with (weak) Emerging Market currencies



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5860	0.5470 - 0.6070
NZD/AUD	0.9772	0.9670 - 1.0000
NZD/GBP	0.4791	0.4750 - 0.5030
NZD/EUR	0.5417	0.5020 - 0.5500
NZD/JPY	63.55	59.50 - 65.90

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6110	-4%
NZD/AUD	0.9300	5%

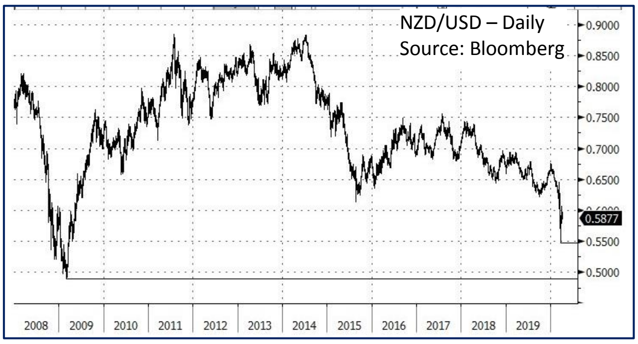
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook:	Downside risk
ST Resistance:	0.6070
ST Support:	0.5470 (ahead of 0.4900)

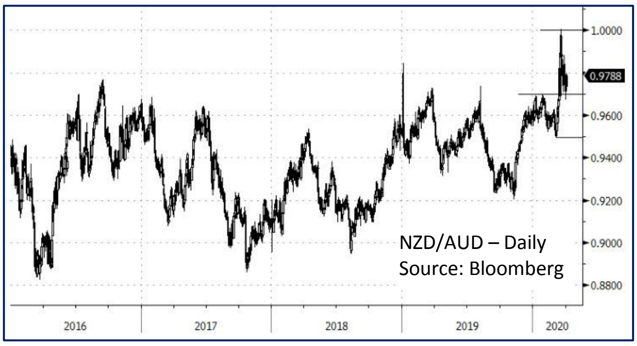
We put support/resistance at the recent low/high of 0.5470/0.6070



NZD/AUD

Outlook:	Trading range
ST Resistance:	1.00
ST Support:	0.9700 (ahead of 0.9500)

The brief move above 1.00 wasn't sustained a few weeks ago, so we'd put that as a level of key resistance. Previous peaks around 0.97 might offer a modicum of support.



jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook:	Neutral
MT Resistance:	0.83
MT Support:	0.50

Still moving lower without much momentum. Awaiting a technical trigger to initiate new position.

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

Outlook:	Neutral
ST Resistance:	+19
ST Support:	zero

Mid range here await move to support/resistance before entering new trade.

pete_mason@bnz.co.nz

Quarterly Forecasts

Forecasts as at 6 April 2020

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
GDP (production s.a.)	1.0	0.4	0.0	0.8	0.5	-0.5	-10.0	0.5	2.3	1.1
Retail trade (real s.a.)	1.7	0.8	0.2	1.7	0.7	0.2	-7.0	0.0	4.0	2.0
Current account (ytd, % GDP)	-3.8	-3.6	-3.4	-3.3	-3.0	-3.6	-4.5	-4.9	-5.7	-6.2
CPI (q/q)	0.1	0.1	0.6	0.7	0.5	0.4	-0.6	0.8	0.4	0.4
Employment	0.1	0.0	0.7	0.2	0.0	0.1	-1.5	-3.1	-1.0	-0.4
Unemployment rate %	4.3	4.1	4.0	4.1	4.0	4.2	5.4	8.2	8.7	8.4
Avg hourly earnings (ann %)	3.7	3.7	4.7	3.9	3.0	3.0	2.6	3.0	3.1	2.8
Trading partner GDP (ann %)	3.4	3.4	3.3	3.2	3.1	1.1	2.7	3.2	3.4	4.0
CPI (y/y)	1.9	1.5	1.7	1.5	1.9	2.1	1.0	1.1	1.0	1.0
GDP (production s.a., y/y))	3.3	3.0	2.1	2.3	1.8	1.4	-3.4	-5.0	-5.3	-5.0

Interest Rates

Historical data - qtr average		Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter	**Cash**	**90 Day Bank Bills**	**5 Year**	**10 Year**	**2 Year**	**5 Year**	**10 Year**	**Libor 3 month**	**US 10 yr**	**NZ-US Ten year**
2019 Mar	1.75	1.90	1.75	2.15	1.85	2.05	2.45	2.60	2.55	-0.56
Jun	1.60	1.70	1.45	1.80	1.55	1.65	2.05	2.40	2.05	-0.45
Sep	1.15	1.30	1.00	1.30	1.10	1.15	1.45	2.15	1.70	-0.51
Dec	1.00	1.15	1.05	1.40	1.10	1.20	1.50	1.90	1.85	-0.27
2020 Mar	0.75	0.95	1.00	1.30	1.00	1.05	1.35	1.70	0.80	0.20
Forecasts										
Jun	0.25	0.45	0.60	0.90	0.60	0.60	0.90	1.70	0.70	0.20
Sep	0.25	0.45	0.55	0.90	0.50	0.55	0.90	1.70	0.70	0.20
Dec	0.25	0.45	0.60	0.95	0.50	0.60	0.95	1.70	0.80	0.15
2021 Mar	0.25	0.45	0.90	1.25	0.80	0.90	1.25	1.70	1.00	0.25
Jun	0.25	0.55	1.05	1.40	0.95	1.05	1.40	1.70	1.00	0.40
Sep	0.50	0.80	1.35	1.70	1.25	1.35	1.70	1.70	1.20	0.50
Dec	0.75	0.95	1.60	1.90	1.50	1.60	1.90	1.70	1.30	0.60
2022 Mar	1.00	1.30	1.70	1.95	1.70	1.70	1.95	1.70	1.30	0.65
Jun	1.25	1.55	1.90	2.05	2.00	1.90	2.05	1.70	1.30	0.75

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	0.59	0.60	1.08	1.23	108	0.59	0.98	0.54	0.48	63.7	67.9
Jun-20	0.56	0.57	1.08	1.23	109	0.56	0.99	0.52	0.46	61.5	66.3
Sep-20	0.60	0.61	1.10	1.27	109	0.60	0.98	0.55	0.47	65.4	69.0
Dec-20	0.62	0.63	1.12	1.30	109	0.62	0.98	0.55	0.48	67.6	70.5
Mar-21	0.64	0.66	1.13	1.32	109	0.64	0.97	0.57	0.49	69.8	71.6
Jun-21	0.65	0.67	1.14	1.33	109	0.65	0.97	0.57	0.49	70.9	72.2
Sep-21	0.66	0.69	1.15	1.35	108	0.66	0.96	0.57	0.49	71.3	72.3
Dec-21	0.68	0.71	1.16	1.36	108	0.68	0.96	0.59	0.50	73.4	73.9
Mar-22	0.68	0.72	1.17	1.37	107	0.68	0.94	0.58	0.50	72.8	73.7
Jun-22	0.69	0.74	1.18	1.39	106	0.69	0.93	0.59	0.50	73.1	74.4
Sep-22	0.70	0.75	1.19	1.40	106	0.70	0.93	0.59	0.50	74.2	75.1
						TWI Weights					
						13.3%	19.2%	10.5%	4.1%	6.4%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

Forecasts as at 6 April 2020	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021
GDP - annual average % change										
Private Consumption	4.4	3.1	2.4	-6.5	3.1	5.1	3.2	2.7	-4.4	0.2
Government Consumption	3.0	3.9	4.6	3.4	2.0	2.9	3.7	4.3	4.0	2.3
Total Investment	6.9	3.7	2.1	-11.5	9.2	5.1	5.2	2.7	-9.4	4.7
Stocks - ppts cont'n to growth	0.2	-0.2	-0.2	0.1	0.3	0.2	0.3	-0.8	0.3	0.3
GNE	5.0	3.1	2.4	-6.0	4.6	5.0	4.0	2.0	-4.0	1.8
Exports	3.6	2.8	-0.8	-17.3	48.8	2.3	2.6	2.4	-20.7	44.8
Imports	7.2	3.9	1.3	-14.0	40.1	6.9	5.8	1.5	-14.9	35.4
Real Expenditure GDP	4.0	2.8	1.8	-6.5	4.7	3.8	3.2	2.2	-5.0	2.2
GDP (production)	**3.2**	**3.1**	**1.7**	**-8.3**	**4.7**	**3.1**	**3.2**	**2.3**	**-6.5**	**1.9**
GDP - annual % change (q/q)	*3.3*	*3.0*	*1.4*	*-5.0*	*3.3*	*3.3*	*3.3*	*1.8*	*-5.3*	*2.5*
Output Gap (ann avg, % dev)	1.7	3.0	3.6	-5.5	-2.2	1.5	2.7	3.7	-3.7	-2.9
Household Savings (% disp. income)	-0.2	-0.3	0.0	0.6	-1.9					
Nominal Expenditure GDP - $bn	289.1	300.3	314.4	300.6	308.8	285.2	297.6	311.0	304.7	305.4
Prices and Employment - annual % change										
CPI	1.1	1.5	2.1	1.0	1.3	1.6	1.9	1.9	1.0	1.1
Employment	2.5	1.4	1.1	-5.9	2.8	3.2	1.9	1.0	-5.4	0.8
Unemployment Rate %	4.3	4.1	4.2	8.4	8.4	4.5	4.3	4.0	8.7	9.3
Wages - ahote	4.0	3.7	3.0	2.8	2.5	3.1	3.7	3.0	3.1	2.6
Productivity (ann av %)	0.1	0.5	0.1	-4.4	5.2	-0.6	0.5	0.4	-4.3	4.7
Unit Labour Costs (ann av %)	2.9	2.6	3.5	8.6	-1.9	3.2	2.9	3.1	8.6	-1.2
External Balance										
Current Account - $bn	-8.1	-10.8	-11.2	-18.6	-15.4	-7.7	-11.4	-9.2	-17.4	-16.3
Current Account - % of GDP	-2.8	-3.6	-3.6	-6.2	-5.0	-2.7	-3.8	-3.0	-5.7	-5.3
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.9	2.4	-4.0	-10.0	-4.0					
Net Core Crown Debt (excl NZS Fund Assets)	19.9	20.1	25.0	35.0	40.0					
Bond Programme - $bn	8.0	8.0								
Bond Programme - % of GDP	2.8	2.7								
Financial Variables (1)										
NZD/USD	0.73	0.68	0.60	0.64	0.68	0.70	0.68	0.66	0.62	0.68
USD/JPY	106	111	108	109	107	113	112	109	109	108
EUR/USD	1.23	1.13	1.11	1.13	1.17	1.18	1.14	1.11	1.12	1.16
NZD/AUD	0.94	0.96	0.97	0.97	0.94	0.91	0.95	0.96	0.98	0.96
NZD/GBP	0.52	0.52	0.49	0.49	0.50	0.52	0.54	0.50	0.48	0.50
NZD/EUR	0.59	0.60	0.55	0.57	0.58	0.59	0.60	0.59	0.55	0.59
NZD/YEN	77.0	75.9	65.1	69.8	72.8	78.7	76.4	72.0	67.6	73.4
TWI	74.8	74.3	68.9	71.6	73.7	73.6	74.6	72.8	70.5	73.9
Overnight Cash Rate (end qtr)	1.75	1.75	0.25	0.25	1.00	1.75	1.75	1.00	0.25	0.75
90-day Bank Bill Rate	1.93	1.88	0.45	0.45	1.30	1.88	1.98	1.23	0.45	0.95
5-year Govt Bond	2.35	1.65	0.70	0.90	1.70	2.30	1.95	1.25	0.60	1.60
10-year Govt Bond	2.95	2.00	1.00	1.25	1.95	2.80	2.40	1.60	0.95	1.90
2-year Swap	2.25	1.80	0.70	0.80	1.70	2.20	2.05	1.25	0.50	1.50
5-year Swap	2.70	1.95	0.70	0.90	1.70	2.65	2.30	1.40	0.60	1.60
US 10-year Bonds	2.85	2.55	0.80	1.00	1.30	2.40	2.85	1.85	0.80	1.30
NZ-US 10-year Spread	0.10	-0.55	0.20	0.25	0.65	0.40	-0.45	-0.25	0.15	0.60

(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 6 April			
NZ, ANZ Commodity Prices (world), Mar	-5.0%	-2.1%	
Aus, ANZ Job Ads, Mar			+0.7%
Germ, Factory Orders, Feb		-2.5%	+5.5%
Tuesday 7 April			
NZ, QSBO, Q1			-21
Aus, RBA Policy Announcement		0.25%	0.25%
Aus, International Trade, Feb		+$3.75b	+$5.21b
Aus, Services PMI (AiG), Mar			47.0
Jpn, Household Spending, Feb y/y (real)		-3.3%	-3.9%
Germ, Industrial Production, Feb		-0.9%	+3.0%
Wednesday 8 April			
NZ, Dairy Auction, GDT Price Index	-4.0%		-3.9%
NZ, ANZ Business Survey, Apr prelim			-63.5
Aus, Housing Finance, Feb $		+2.0%	+4.6%
Jpn, Machinery Orders, Feb		-2.9%	+2.9%
US, FOMC Minutes, 15 Mar meeting			
Thursday 9 April			
NZ, ANZ Truckometer Index			-3.0%
Aus, Financial Stability Review			
Germ, Trade Balance, Feb		+€16.5b	+€13.9b
UK, Industrial Production, Feb		+0.1%	-0.1%

	Forecast	Median	Last
Thursday (continued)			
UK, GDP monthly, Feb		+0.1%	flat
UK, Trade Balance, Feb		+£1.0b	+£4.2b
US, PPI ex-food/energy, Mar y/y		+1.2%	+1.4%
US, Mich Cons Confidence, Apr 1st est		75.0	89.1P
US, Jobless Claims, week ended 04/04			6,648k
Friday 10 April			
NZ, Holiday, Good Friday			
China, CPI, Mar y/y		+4.9%	+5.2%
China, PPI, Mar y/y		-1.1%	-0.4%
US, CPI ex food/energy, Mar y/y		+2.3%	+2.4%
US, Fed's Mester Speaks, US Economy and Virus			
US, Budget Statement, Mar		-$150b	-$235.3b
Monday 13 April			
NZ, Holiday, Easter Monday			
Tuesday 14 April			
NZ, Electronic Card Transactions, Mar			flat
NZ, International Migration, Feb s.a.			+6,490
NZ, International Travel, Feb y/y			+2.9%
Aus, NAB Business Survey, Mar			-4
China, Trade Balance, Mar			-¥42b
US, NFIB Small Business Optimism, Mar			104.5

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.25	0.25	1.00	1.75
1mth	0.35	0.36	1.00	1.85
2mth	0.42	0.43	0.94	1.83
3mth	0.49	0.51	0.87	1.81
6mth	0.54	0.55	0.82	1.79
GOVERNMENT STOCK				
04/20	0.25	0.25	0.85	1.50
05/21	0.26	0.25	0.54	1.46
04/23	0.38	0.44	0.53	1.53
04/25	0.62	0.65	0.63	1.64
04/27	0.83	0.84	0.76	1.81
04/29	1.02	1.03	0.84	1.98
04/33	1.37	1.36	1.05	2.17
04/37	1.63	1.61	1.24	2.34
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	128	108	111	60
Europe 5Y	114	98	105	62

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	0.50	0.51	0.72	1.64
3 years	0.52	0.53	0.71	1.66
4 years	0.56	0.56	0.72	1.72
5 years	0.60	0.60	0.74	1.81
10 years	0.93	0.90	0.96	2.23
FOREIGN EXCHANGE				
NZD/USD	0.5860	0.6011	0.6337	0.6741
NZD/AUD	0.9771	0.9685	0.9623	0.9458
NZD/JPY	63.55	64.33	64.87	75.14
NZD/EUR	0.5420	0.5441	0.5537	0.5985
NZD/GBP	0.4792	0.4843	0.4830	0.5161
NZD/CAD	0.8352	0.8511	0.8682	0.8975
TWI	67.9	69.0	70.2	73.3

Contact Details

BNZ Research

Stephen Toplis	Craig Ebert	Doug Steel	Jason Wong	Nick Smyth
Head of Research	Senior Economist	Senior Economist	Senior Markets Strategist	Interest Rates Strategist
+64 4 474 6905	+64 4 474 6799	+64 4 474 6923	+64 4 924 7652	+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	Alan Oster	Ray Attrill	Skye Masters
Global Head of Research	Group Chief Economist	Head of FX Strategy	Head of Fixed Income Research
+61 2 9237 1836	+61 3 8634 2927	+61 2 9237 1848	+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