4 May 2020

MPS Preview – RBNZ Can't Save The World

- **Negative cash rate unhelpful**
- **Modest rate cuts of no use**
- **So 0.25% for much longer**
- **QE the first port of call, and there's lots more to come**
- **But a slowing in the pace of delivery might be in order**

"Grant me serenity to accept the things I cannot change, courage to change the things I can, and wisdom to know the difference".

Whether you are of a religious disposition or not, these words, written by the American theologian Reinhold Niebuhr, have never been so salient as they are, in so many ways, now. As we approach both the Budget (May 14) and the Monetary Policy Statement (May 13) we would plea with officialdom to ponder these sentiments.

Even before the advent of Covid-19, there had developed a rapidly growing belief that central banks and elected governments should, and could, rescue us from everything, no matter the cost. This view is now on steroids. But, given the shock we are now experiencing, the pool of available rescue tools is being rapidly diminished and, in many cases, there are simply no tools held by the authorities to fix the problems that afflict us. They need to accept this and move on.

With all the above in mind, we thus think next week's RBNZ and Treasury pronouncements offer the opportunity for some longer term, and well-considered, thinking now that the knee-jerk phase is behind us. This is not a criticism of what has been done but rather an acknowledgement that we are moving from the rescue to the recovery phase which, in turn, must be steeped in realism.

We will be producing a Budget preview later this week so will focus more, today, on the RBNZ's upcoming MPS. There are three key things that we will be looking out for:

- the cash rate track and indications as to the likelihood of a negative cash rate;
- the expected magnitude of the future QE programme, and how it might be implemented;
- the economic assumptions upon which the Bank's monetary policy decisions have been made.

In our opinion, the most appropriate way of approaching the cash rate in the current environment would be for the RBNZ to flat-line at 0.25% its OCR track for an extended period. It could even pop in a small upward movement in rates at the very tail end of the track, if it so desired, to acknowledge that one day this mess will be behind us.

Presentationally, the rate track is normally displayed to one decimal point. It may be appropriate, in the current circumstances, to display the track to two decimal places. In this way, the Bank will be better able to display whatever biases it might have. It might be appropriate, for example, to have the cash rate drifting lower to, say, 10 basis points by early next year simply as a modelled representation of the risks.

The big question on everyone's lips is will the RBNZ eventually take its cash rate negative? We certainly wouldn't rule this out at some point in time but we think the RBNZ would be ill-advised to do so any time soon. From our perspective, pushing the cash rate sub-zero at this juncture would be a classic case of not having the wisdom to know the difference between what you can and can't change. We would strongly argue that lowering the cash rate further would provide almost no assistance to the economy. The cost of debt is the last thing on anyone's mind now. The lack of availability of debt might be a concern and, for many, the lack of income to repay debt will be a pressing problem. Pushing interest rates sub-zero will do nothing to ameliorate those issues. Moreover, even if the cash rate was to go negative, it would not be fully passed on to borrowers as the banks will still be funding themselves with positive interest rates. Term deposit rates are excruciatingly low for many as it is. The last thing the household sector would want is zero rates across the board. And even at zero, it would mean bank funding costs well above the cash rate.

More generally, we repeat the points we made in last week's Weekly.

- The RBNZ has given very clear guidance that it will maintain the cash rate where it is for a period of twelve months. One of the reasons for doing so is because the New Zealand banking system does not have the systems in place to deal with negative interest rates.
- Perhaps more importantly, Governor Orr noted recently that QE was a much better option to deal with the type of shock that we are facing with negative interest rates being the better tool to use for a low, long economic

contraction. This could still happen but it is far too early to make that call.
- Offshore central banks, which are already at or below the zero bound, seem reluctant to move their cash rates any lower.

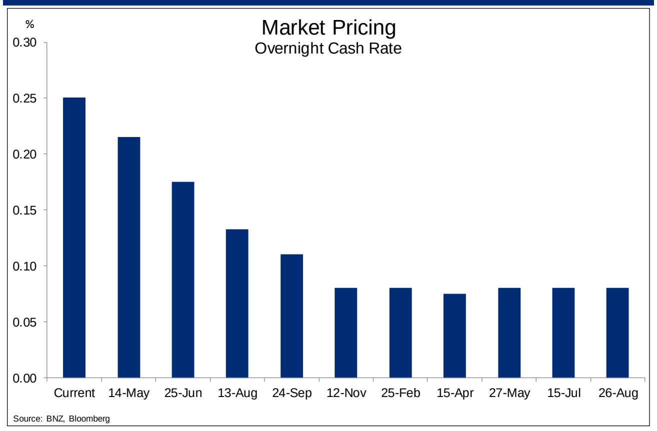
It's also worth noting that when the RBNZ produced its principles for the use of unconventional monetary policy tools it said: The effectiveness of these tools [such as a negative OCR] could be reduced if they are used after other tools which vastly increase the supply of central bank money, such as large scale asset purchases or foreign asset purchases. This reduction in effectiveness reflects that bank profits are more sensitive to very low interest rates if the money supply has been inflated, and so an inflated money supply may reduce the ability of banks to pass on low interest rates to borrowers.

The RBNZ has well and truly increased the supply of central bank money so, by its own admission, assumes negative interest rates would have a lesser impact.

This begs the question as to why the RBNZ seems to be nudging the banks to sort out its systems as quickly as possible. If it is, the answer would be simple: the RBNZ would not want to have bits of its tool kit compromised if it needed to use them.

We would never say never to a negative cash rate but we do not think the time is ripe. Similarly, we see no point in the RBNZ tinkering with the cash rate by lowering it a few basis points here and there. Given this, and given that we think negative interest rates are inappropriate any time soon, current market pricing of a cash rate at 0.215% in May and 0.175% in June seems a little overzealous.

Near-term Expectations Too Aggressive?



While we do not expect the RBNZ to signal an imminent move to a negative cash rate, we do believe the MPC will indicate the likelihood that the RBNZ's QE programme will need to expand significantly. Indeed, there is a very good chance that it will give the RBNZ permission to as much as double its programme if it was needed.

The RBNZ has said it is willing to buy up to 50% of the government bonds on issue. The $30 billion it has tabled so far to do this will cover the government's requirements as currently specified but we know that the government is far from finished expanding its own balance sheet. The problem for the RBNZ is that the May Budget is not until the day after the MPS so it will not want to steal the government's thunder. The RBNZ, Treasury and Government are, however, working more closely together than ever before so the Bank will have been given the nod as to how much might be needed. On this basis, it would be best for the Bank to establish the rights to a war chest when releasing its MPS rather than waiting for detail from the government.

The RBNZ's approach to QE is certainly having an impact:

- it has ensured liquidity in the financial system;
- it has allowed the government to fund itself without any major duress;
- it has supported general confidence about the stability and structure of the New Zealand economy.

The only quibble we have is that the RBNZ may be delivering its programme with an excess of enthusiasm. So great is the volume of its purchases that it might be driving interest rates to problematically low levels, particularly at the short end of the curve.

Our concerns are:

- if the Reserve Bank doesn't ease off gently, and soon, it could, in time, result in an unseemly sell off in the bond market if the market senses a diminution in the RBNZ's presence;
- in other words, if interest rates go too low then it will be harder for the government to fund itself when the RBNZ is absent.

We would thus advocate the RBNZ experimenting with some moderation in the pace of its bond purchases. Such moderation would not be the decision of the MPC at the MPS, however, it would instead be decided upon by the RBNZ in the course of its daily operations.

Finally, we are very keen to see what assumptions the Bank will be basing its decisions upon. No forecast is currently worth the paper it is written on but it is important we understand the framework the RBNZ is using to formulate its decisions. Moreover, whatever it produces will be of value to us in terms of benchmarking our own forecasts in this highly uncertain world.

This week there is quite a bit of data out but none of it will have a significant impact on the RBNZ's machinations.

This morning we received Barfoot and Thompson's housing market data for April. Not surprisingly, the data reflected the fact that it was hard to get anything done during a lock down. Only 239 houses were newly listed in the month compared with 1,192 a year ago. That Barfoot's managed to list 239 houses is probably quite remarkable under the circumstances.

The number of houses sold, 552, wasn't that bad compared with last April's 667. And the median price was still 8.4% higher than a year earlier despite the 2.7% drop in the month. But this is just the very start of a process which is going to see housing market turnover and pricing fall below pre-Covid levels for an extended time.

On Tuesday we get March building consents and March employment indicators. Interest in the latter will be superseded by the release of the Household Labour Force Survey (HLFS) on Wednesday. We would expect to see a marked decline in building consents, as the number of processing days will be down around 20%. We would thus expect permits to drop to around 2,750 for the month, around 14% below year earlier levels. This will mark the beginning of a significant trend lower in annual permit numbers.

Later on Tuesday we see April commodity price data. We are anticipating a 2.0 to 3.0% decline in world prices which will produce an annual decline of around 10%. New Zealand producers will, however, have been insulated against this by an equivalent decline in the New Zealand Dollar leaving NZD returns broadly unchanged on year earlier levels.

But weakness continues to build in commodity land. This should be further highlighted in the Wednesday morning GDT auction, which is expected to reveal a further 3.0 to 4.0% decline in dairy prices as EU and US production increases crash headlong into weaker global demand.

The HLFS is out Wednesday. It is doubtful this survey will be meaningfully impacted by the lockdown. Labour market conditions had already started to soften up, anyway, so we would expect to see employment growth marginally either side of zero and the unemployment rate rise to 4.2% from 4.0% a quarter earlier. Wage growth should continue to accelerate in light of the difficulty in finding labour in pre-Covid times.

Also on Wednesday we get the latest QVNZ data which should have similar characteristics to today's Barfoot's report.

To round out the week, Thursday delivers the latest RBNZ survey of inflation expectations and Friday we'll get a reminder of what our Crown Financial Statements used to look like.

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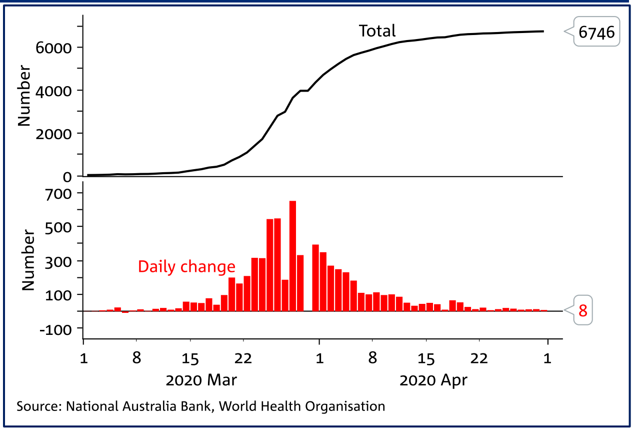
Global Watch

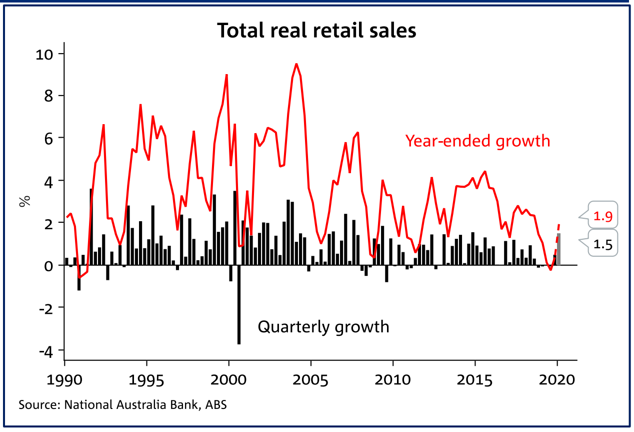
- **US unemployment rate seen at 16% in April**
- **US non-manufacturing PMI to slump**
- **Chinese April trade data to be weak**
- **BoE, RBA expected to keep policy unchanged**
- **Australia, UK to decide relaxing lockdowns**

Australia

Containment measures have slowed the spread



Australian retail volumes to rise strongly on panic buying



The national cabinet meets Friday to discuss easing restrictions amid low COVID-19 case numbers. Some states are already relaxing measures at the margin and cabinet will likely outline its plans, although the PM emphasised "millions more" Australians need to download the government's COVIDSafe tracking app before restrictions are eased.

On Tuesday, the Reserve Bank Board meets and should keep policy unchanged as it monitors data on the extent of economic damage from the pandemic. On Friday, the RBA publishes its Statement on Monetary Policy where it will outline different scenarios for the economic outlook rather than provide the usual point forecasts.

Payrolls on Tuesday will likely show further job losses over early April. Building approvals should show a sharp fall in March. Retail trade on Wednesday and trade balance on Thursday will likely echo preliminary data with strong rises in both sales and the trade surplus. Retail volumes likely rose a sharp 1.5% in Q1.

The federal and state governments meet on Friday to discuss the easing of social distancing restrictions.

The federal and state governments meet on Friday 8 May to discuss easing restrictions, three days earlier than originally planned. Australia's social distancing measures have successfully seen new case numbers fall, such that there are only a handful of new cases each day in a few states. In response, some states have relaxed their measures at the margin, but the more restrictive measures remain in place across nearly all states. The Northern Territory, after weeks of no new cases, has announced a three-stage plan to remove restrictions by mid-June.

Prime Minister Morrison said that currently 11 out of 15 conditions for an easing in restrictions have been met. While he didn't detail the conditions, he had previously noted the government wanted to boost testing, tracing and treatment capacity. These measures need to be in place to limit the risk of a second outbreak, which would raise the large health and economic costs of the pandemic.

Importantly, the PM heavily emphasised that easing restrictions, "depends on how many people have downloaded the COVIDSafe app", the government's contact tracing app. The PM said "millions more" Australians need to download COVIDSafe before restrictions are eased. Currently 3.5 million Australians have signed up, well below the 40% of Australians that have been estimated to be needed for the app to be effective.

The PM also reported that a huge 1.5 million people were now on unemployment benefits, with 0.9m claims processed in six weeks. As such, the PM flagged unemployment could exceed Treasury's forecast of 10% (NAB is forecasting a peak of about 12% by June). Official data have also begun to show a huge social cost; payrolls to early April show a massive 6% of jobs have already been lost and many workers have had hours cut. One-third of households are now reporting a deterioration in their finances.

The hope is that much of the economic damage is quickly reversed once social distancing measures are eased, but the extent and speed of the rebound is highly uncertain.

The RBA should keep policy on hold as it provides different scenarios in lieu of its usual forecast update.

The Reserve Bank Board meets Tuesday, where it is expected to keep monetary policy unchanged. Having already reduced the cash rate to its self-imposed floor of

0.25% and started bond purchases (QE) with a 3-year yield target, the bank has time to assess economic and financial developments amid the pandemic. The post-meeting minutes will likely outline recent developments, while noting the Board is monitoring the data closely.

Given the heightened uncertainty, the Reserve Bank will not publish its usual forecast update in Friday's Statement on Monetary Policy. Instead it will outline different scenarios – likely a central, upside and downside case – as flagged in Governor Lowe's recent speech. In that speech, Lowe detailed a central scenario where containment measures were gradually relaxed towards mid-year.

This would see growth rebound in Q3, where massive fiscal and monetary stimulus would assist. However, Lowe warned not to expect a return to "business as usual". Even if restrictions were eased by mid-year, the bank expected unemployment to remain above 6% and inflation below 2% for years to come.

The Governor also outlined a possible upside scenario of a quicker easing of restrictions and the virus being contained. In contrast, the downside scenario would be when restrictions were in place for longer or needed to be reimposed.

Payrolls data should show further job losses in mid-April.

The ABS publishes its fortnightly update of weekly payrolls data on Tuesday. Its first release showed a massive 6% of jobs lost in the three weeks following the introduction of tougher social distancing measures. We expect an additional 1% of jobs were lost by mid-April.

Building approvals fell sharply in March.

NAB forecasts a sharp 23% fall in approvals in March (mkt: -15%), following a 20% increase in February, as activity is stymied by the pandemic. We forecast a 50% fall in unit approvals and a 1% fall in house approvals.

Retail volumes rose sharply on panic buying in Q1.

Preliminary retail sales data showed nominal sales jumped 8% in the month, spurred by panic buying of essentials. This suggests nominal sales rose by a large 2.6% q/q in Q1.

We forecast that the large rise partly reflects a strong 1.1% increase in prices, where CPI data showed food prices were boosted by drought and panic buying. As such, we forecast sales volumes increased 1.5% in the quarter (mkt: 1.8%). This would suggest retail sales contributed a solid 0.25pp to Q1 GDP growth, although we note that a collapse in spending on services such as travel, healthcare, childcare and entertainment will weigh on overall consumption and the surge in panic buying of essentials would be met by running down stocks.

The trade surplus likely surged in March, as iron exports rebounded, despite a collapse in services trade.

Preliminary data show a 14% rise in goods exports and a 1% rise in goods imports. This would suggest a $3.9b rise in the trade surplus. However, services trade likely collapsed amid travel bans and border closures. We expect around an 80% fall in service exports and a 60% fall in service imports. This results in a trade surplus of around $7b, up from $4.4b (mkt: $6.4b).

China

There are public holidays on Monday and Tuesday, although tourism and a state-sponsored online sales event should show how quickly consumer spending is rebounding. On Thursday the Caixin services PMI likely rose in line with the official non-manufacturing PMI, while the trade balance should deteriorate given the sharp fall in new export orders and anecdotes of cancelled sales.

US

Tuesday's non-manufacturing index is seen falling to 38, which is less dire than comparable European readings. Record-high jobless claims point to a grim 22m fall in non-farm payrolls next Friday, with unemployment expected to rise to a multi-decade high of 16%.

Eurozone

The German constitutional court decides on 5 May whether to proceed with the case to determine if German participation in ECB QE is only constitutional if it includes strict limits. Detailed manufacturing and service-sector PMIs are due Monday and Wednesday, albeit with likely reduced sample sizes. How European countries deal with the gradual relaxation of lockdown measures is also important.

UK

The government decides on 7 May whether to ease lockdown measures (we think unlikely, or not significantly). The BoE meets the same day and we do not expect significant policy changes. Full PMI data for April are due. There is a holiday on Friday.

Japan

There are public holidays from Monday to Wednesday.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

- **NZ rates continue to fall sharply as RBNZ bond buying leaves its imprint on the market.**
- **The market prices 20bps of OCR rate cuts.**
- **We offer some thoughts on the May MPS from the bond market's perspective.**

NZ rates experienced another big fall last week, with swap rates and New Zealand government bond yields falling to new record lows.

The trigger for the fall in NZ rates was continued large bond buying by the RBNZ. In contrast to the Fed and the RBA (which have tapered their bond buying significantly), the RBNZ continues to maintain its government bond buying at a very heavy pace (see second chart on right). The 10-year swap was down 14bps on the week to a new all-time low of 0.72% while the 2037 maturity government bond fell 25bps, to a yield of 0.99%. For context, that 2037 was tendered at a yield of 2.57% in mid-March, illustrating the powerful effect that RBNZ QE has had on the rates market.

The market continues to price a significant risk of an OCR cut by the end of the year. The November meeting is priced at 0.05%, implying 20bps of cuts.

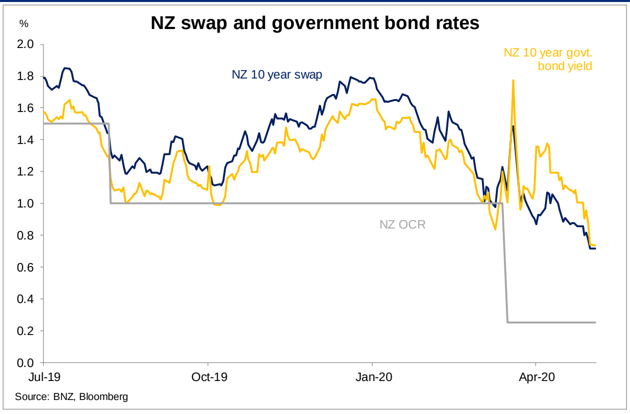
Key for these OCR expectations will be what the RBNZ says at its May MPS. The last time the RBNZ cut the OCR, on March 16th, it said the OCR "*will remain at this level for at least the next 12 months*." But the market is now starting to question that commitment.

Our expectation is that the RBNZ will reiterate its previous commitment (although the wording may be altered slightly). This should see short-end rates rise, probably by 5-10bps on the 2-year swap rate. The market would continue to price the balance of risks towards OCR cuts, but less so than now. Clearly, what the RBNZ communicates about its intentions for a negative OCR *beyond* the 12-month forward guidance period will also have a bearing on the market reaction.

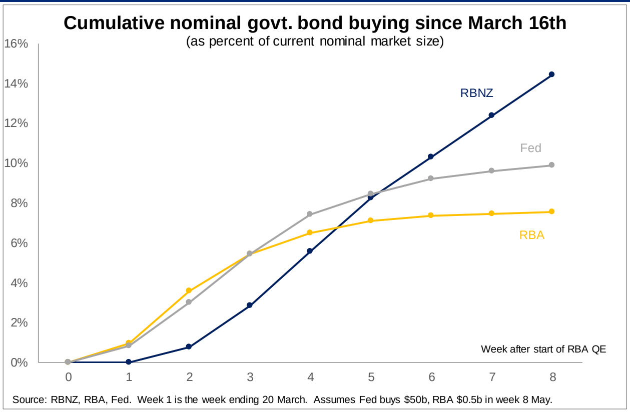
If the RBNZ dropped this commitment, the market would interpret it as a sign that the RBNZ could cut the OCR to negative as soon as banks' systems are operationally ready. There is an uncertain time-line for this to happen, but we think the market will likely price a negative OCR before the end of the year. The market reaction would be significant – we suspect something like 25bps on the 2-year swap rate. We think this is unlikely, but possible.

We also look for the RBNZ to increase its QE programme, which currently stands at $33b ($30b nominal government bonds and $3b LGFA bonds). We think the RBNZ will definitely increase its QE purchases for nominal government bonds from $30b to something between $50-60b. We also think the RBNZ will choose to add a small amount ($2-3b) of inflation-indexed bonds to its QE programme for the first time. We don't think the RBNZ will increase its LGFA bond buying any further nor buy other issuers.

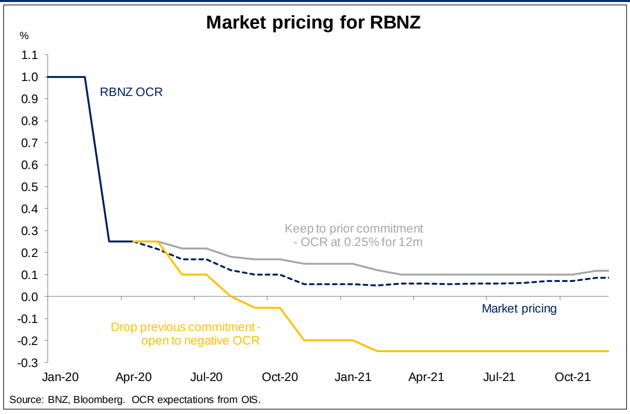
NZ rates continue to push lower



The RBNZ hasn't really tapered back QE, unlike the Fed, RBA



Possible scenarios for OCR expectations at the May MPS



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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD traded a nearly 2-cents range last week, going sub-0.60 early in the week after Westpac became the first local bank to call that the RBNZ will cut the OCR into negative territory later this year. More positive global risk sentiment then took over, taking the NZD up to as high as 0.6175, before risk sentiment turned lower. The net result was a gain of 0.8% against the USD for the week to 0.6060. NZD/AUD fell to as low as 0.9301 before sharply reversing course and ending the week around 0.9450.

After a recovery through April, the NZD has kicked off May on a softer note, not helped by the White House stepping up its negative rhetoric against China at the end of last week. President Trump accuses China for the COVID-19 virus and has threatened to raise tariffs. Trump is lagging Biden in polling ahead of the November Presidential election and playing the popular anti-China card looks like a strategy to regain electorate support. This is a new emerging risk – the last thing the world needs right now – that is negative for risk sensitive currencies like the NZD and AUD.

Alongside renewed trade war risk, seasonally May is a poor month for both currencies. Over the past ten years, both the NZD and AUD have fallen eight times during the month of May. After rebounding during April, this year another weak May looks like a decent bet.

Last week we officially nudged up our NZD end-Q2 projection from 0.56 to 0.59, after losing faith in the view of one final meltdown scenario. However, our view continues to be one of near-term caution for the NZD, as risk sentiment is apt to remain weak as the market grapples with the uncertain outlook presented by the impact of COVID-19. Over the weekend, Warren Buffet suggested that the range of outcomes remained “enormous” and he wasn’t tempted at this point to reduce Berkshire Hathaway’s large $137b cash buffer.

Our view still captures a better performance of the NZD through the second half of the year when we’ll have more clarity on the economic damage and the global economy likely enters the recovery phase. We still see our year-end target of 0.62 as being on the conservative side.

Incidentally, for the first time in over a year, the NZD is trading on the richer side of fair value on our short-term fair value model – not significantly so, with fair value at 0.6030. A steady fall in NZ’s export commodity prices has kept fair value down, even as risk appetite has improved a little. NZ’s commodity prices are now down 15% year-to-date, reflecting weaker global demand conditions. Near-term risk lies towards further modest downside pressure to pricing over the next month or two.

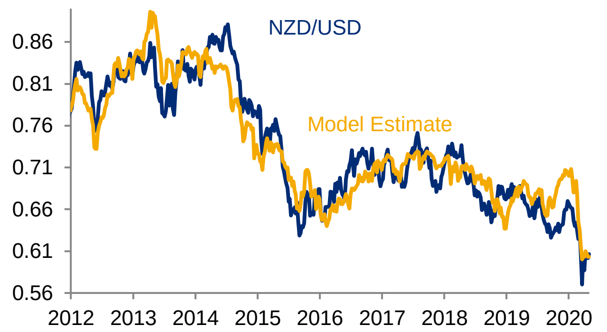
Changes to AUD forecasts see NZD/AUD tick higher over the next month or two to 0.95, as the AUD looks to have overshot to the upside through April. But over the second half we see NZD/AUD continuing to trend lower, with a 0.92 target at year-end (which represents a central view within a 0.89-0.95 range), driven by the RBNZ’s more aggressive bond buying programme than the RBA’s.

NZD is seasonally weak in May

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
10 Yr Avg	.23	.04	.72	.67	-3.04	1.17	1.24	-2.61	-.09	.86	-.61	1.45
2020	-4.09	-3.37	-4.64	2.87	-1.16							
2019	2.93	-1.58	-.04	-1.90	-2.16	2.86	-2.37	-3.52	-1.03	2.40	.14	4.95
2018	3.76	-2.08	.35	-2.79	-.48	-3.33	.74	-2.87	-.05	-1.54	5.45	-2.23
2017	5.45	-1.64	-2.59	-2.00	3.19	3.50	2.44	-4.45	.43	-5.02	-.22	3.89
2016	-5.08	1.63	4.84	.98	-3.07	5.49	.91	.71	.50	-1.85	-.95	-2.10
2015	-6.87	4.17	-1.24	1.97	-6.70	-4.81	-2.56	-3.82	.93	5.92	-2.86	3.75
2014	-1.56	3.75	3.27	-.53	-1.37	3.05	-2.95	-1.62	-6.63	-.24	.67	-.56
2013	1.21	-1.68	1.50	2.29	-7.21	-2.62	3.19	-3.23	7.42	-.45	-1.68	1.11
2012	6.38	.88	-1.85	-.02	-7.92	6.32	.92	-.66	3.32	-.92	-.26	1.02
2011	-.94	-2.65	1.21	6.36	1.73	.64	6.04	-2.87	-10.85	5.95	-3.25	-.42
2010	-3.02	-.40	1.78	2.31	-6.40	.62	6.03	-3.72	5.05	4.39	-3.12	5.06

Source: Bloomberg

NZD fairly priced on our short-term model



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6058	0.5910 - 0.6180
NZD/AUD	0.9446	0.9300 - 0.9550
NZD/GBP	0.4850	0.4760 - 0.4930
NZD/EUR	0.5520	0.5470 - 0.5660
NZD/JPY	64.71	63.70 - 66.10

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6030	0%
NZD/AUD	0.9230	2%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6200
ST Support: 0.5840 (ahead of 0.5600)

Following the strong recovery and some consolidation over recent weeks, downside risk has been mitigated. Support is at 0.5840, while resistance sits just below the 0.62 mark.

NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9500 (ahead of 0.9600)
ST Support: 0.9300 (ahead of 0.9200)

We saw a recovery last week after its recent steep decline, marking 0.93 as the new level of support.

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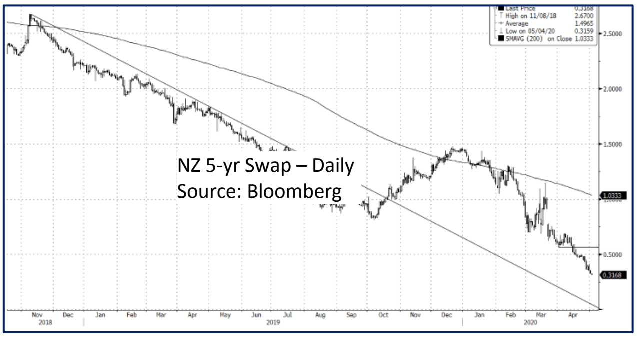
NZ 5-year Swap Rate

Outlook: Lower
MT Resistance: 0.57
MT Support: 0.06

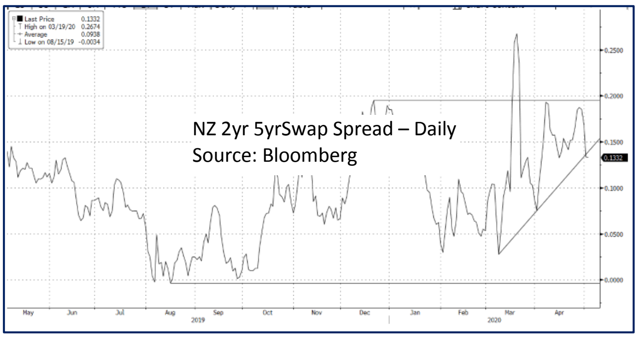
Still trending lower. Next level of support down at 0.06 (trendline).



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

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

Range still looks in place receive towards 0.19.



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Quarterly Forecasts

Quarterly Forecasts

Forecasts as at 4 May 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	-0.8	-18.0	9.0	2.9	1.1
Retail trade (real s.a.)	1.7	0.8	0.2	1.7	0.7	-2.5	-27.0	13.0	4.0	2.0
Current account (ytd, % GDP)	-3.8	-3.6	-3.4	-3.3	-3.0	-3.1	-3.8	-4.2	-5.6	-7.4
CPI (q/q)	0.1	0.1	0.6	0.7	0.5	0.8	-0.6	0.4	0.3	0.4
Employment	0.1	0.0	0.7	0.2	0.0	-0.1	-2.5	-4.0	-1.0	0.0
Unemployment rate %	4.3	4.1	4.0	4.1	4.0	4.2	6.3	9.8	10.3	10.2
Avg hourly earnings (ann %)	3.7	3.7	4.7	3.9	3.0	3.0	-2.7	-2.5	-2.3	-2.6
Trading partner GDP (ann %)	3.4	3.4	3.3	3.2	3.1	reliant on w hen Consensus quarterly GDP forecasts conducted				
CPI (y/y)	1.9	1.5	1.7	1.5	1.9	2.5	1.4	1.1	0.9	0.5
GDP (production s.a., y/y))	3.3	3.0	2.1	2.3	1.8	0.6	-17.5	-10.8	-8.7	-7.0

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
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	1.05	1.00	1.35	1.00	1.10	1.40	1.10	0.90	0.30
Forecasts										
Jun	0.25	0.45	0.55	0.95	0.35	0.45	0.85	1.10	0.60	0.35
Sep	0.25	0.45	0.60	1.05	0.35	0.55	1.00	1.10	0.70	0.35
Dec	0.25	0.45	0.60	1.05	0.35	0.60	1.05	1.10	0.80	0.25
2021 Mar	0.25	0.45	0.65	1.15	0.35	0.65	1.15	1.10	0.90	0.25
Jun	0.25	0.45	0.70	1.20	0.35	0.70	1.20	1.10	1.00	0.20
Sep	0.25	0.45	0.75	1.30	0.35	0.75	1.30	1.10	1.10	0.20
Dec	0.25	0.45	0.75	1.30	0.35	0.75	1.30	1.10	1.10	0.20
2022 Mar	0.25	0.45	0.90	1.45	0.40	0.90	1.45	1.10	1.20	0.25
Jun	0.25	0.45	1.05	1.65	0.45	1.05	1.65	1.10	1.30	0.35

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	0.60	0.64	1.10	1.25	107	0.60	0.94	0.55	0.48	64.3	68.5
Jun-20	0.59	0.62	1.08	1.23	109	0.59	0.95	0.55	0.48	64.3	68.2
Sep-20	0.60	0.64	1.10	1.27	109	0.60	0.94	0.55	0.47	65.4	68.4
Dec-20	0.62	0.68	1.12	1.30	109	0.62	0.92	0.55	0.48	67.6	69.5
Mar-21	0.64	0.69	1.13	1.32	109	0.64	0.93	0.57	0.49	69.8	71.0
Jun-21	0.65	0.70	1.14	1.33	109	0.65	0.94	0.57	0.49	70.9	71.6
Sep-21	0.66	0.70	1.15	1.35	108	0.66	0.94	0.57	0.49	71.3	72.1
Dec-21	0.68	0.72	1.16	1.36	108	0.68	0.94	0.59	0.50	73.4	73.7
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 4 May 2020	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
GDP - annual average % change										
Private Consumption	4.4	3.1	2.1	-10.2	8.5	3.2	2.7	-8.9	6.0	5.6
Government Consumption	3.0	3.9	4.6	3.4	2.0	3.7	4.3	4.0	2.3	1.3
Total Investment	6.9	3.7	2.1	-17.8	9.4	5.2	2.7	-14.3	3.2	7.0
Stocks - ppts cont'n to growth	0.2	-0.2	-0.2	0.1	0.4	0.3	-0.8	0.3	0.3	0.1
GNE	5.0	3.1	2.2	-9.6	7.7	4.0	2.0	-7.8	4.9	5.2
Exports	3.6	2.8	-0.7	-26.3	11.8	2.6	2.4	-22.5	1.4	16.5
Imports	7.2	3.9	1.2	-19.3	13.2	5.8	1.5	-16.2	6.0	15.9
Real Expenditure GDP	4.0	2.8	1.6	-11.0	7.0	3.2	2.2	-9.1	3.8	4.5
GDP (production)	**3.2**	**3.1**	**1.7**	**-11.0**	**7.0**	**3.2**	**2.3**	**-9.1**	**3.9**	**4.5**
GDP - annual % change (q/q)	*3.3*	*3.0*	*0.6*	*-7.0*	*4.2*	*3.3*	*1.8*	*-8.7*	*4.1*	*4.6*
Output Gap (ann avg, % dev)	2.0	3.8	5.0	-6.9	-3.4	3.4	4.9	-4.7	-3.8	-1.1
Nominal Expenditure GDP - $bn	289.1	300.3	313.9	274.6	298.4	297.6	311.0	282.2	293.2	313.4
Prices and Employment - annual % change										
CPI	1.1	1.5	2.5	0.5	1.4	1.9	1.9	0.9	1.2	1.9
Employment	2.5	1.4	0.9	-7.3	3.3	1.9	1.0	-7.4	1.7	6.2
Unemployment Rate %	4.3	4.1	4.2	10.2	8.9	4.3	4.0	10.3	9.5	6.2
Wages - ahote	4.0	3.7	3.0	-2.6	2.5	3.7	3.0	-2.3	2.6	2.2
Productivity (ann av %)	0.1	0.5	0.0	-5.4	6.8	0.5	0.4	-5.7	6.7	-0.7
Unit Labour Costs (ann av %)	2.9	2.6	3.5	4.1	-4.4	2.9	3.1	5.8	-5.5	3.1
House Prices	3.8	1.8	6.0	-11.5	3.0	2.8	3.8	-7.4	-0.5	7.7
External Balance										
Current Account - $bn	-8.1	-10.8	-9.7	-20.1	-21.2	-11.4	-9.2	-15.7	-21.8	-21.0
Current Account - % of GDP	-2.8	-3.6	-3.1	-7.4	-7.4	-3.8	-3.0	-5.6	-7.7	-7.0
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.9	2.4	-7.0	-9.0	-7.0					
Net Core Crown Debt (excl NZS Fund Assets)	19.9	20.1	28.0	40.0	48.0					
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	0.68	0.66	0.62	0.68	0.71
USD/JPY	106	111	108	109	107	112	109	109	108	105
EUR/USD	1.23	1.13	1.11	1.13	1.17	1.14	1.11	1.12	1.16	1.20
NZD/AUD	0.94	0.96	0.97	0.93	0.94	0.95	0.96	0.92	0.94	0.93
NZD/GBP	0.52	0.52	0.49	0.49	0.50	0.54	0.50	0.48	0.50	0.50
NZD/EUR	0.59	0.60	0.55	0.57	0.58	0.60	0.59	0.55	0.59	0.59
NZD/YEN	77.0	75.9	65.1	69.8	72.8	76.4	72.0	67.6	73.4	74.6
TWI	74.8	74.3	68.9	71.0	73.7	74.6	72.8	69.5	73.7	76.1
Overnight Cash Rate (end qtr)	1.75	1.75	0.25	0.25	0.25	1.75	1.00	0.25	0.25	0.25
90-day Bank Bill Rate	1.93	1.88	0.71	0.45	0.45	1.98	1.23	0.45	0.45	0.45
5-year Govt Bond	2.35	1.65	0.80	0.65	0.90	1.95	1.25	0.60	0.75	1.45
10-year Govt Bond	2.95	2.00	1.15	1.15	1.45	2.40	1.60	1.05	1.30	2.05
2-year Swap	2.25	1.80	0.65	0.35	0.40	2.05	1.25	0.35	0.35	0.75
5-year Swap	2.70	1.95	0.80	0.65	0.90	2.30	1.40	0.60	0.75	1.45
US 10-year Bonds	2.85	2.55	0.90	0.90	1.20	2.85	1.85	0.80	1.10	1.50
NZ-US 10-year Spread	0.10	-0.55	0.25	0.25	0.25	-0.45	-0.25	0.25	0.20	0.55

(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 4 May			
Aus, Building Approvals, March		-15.0%	+19.9%
Aus, ANZ Job Ads, April			-10.3%
Euro, PMI Manufacturing, Apr 2nd est			33.6P
US, Factory Orders, March		-9.4%	flat
Tuesday 5 May			
NZ, ANZ Commodity Prices (world), April			-2.1%
NZ, Building Consents, Mar (res, #)			+4.7%
NZ, Employment Indicators, March			+0.1%
Aus, Construction PMI (AiG), April			37.9
Aus, RBA Policy Announcement	0.25%	0.25%	0.25%
Aus, Services PMI (CBA), Apr 1st est			19.6P
Euro, PPI, Mar y/y		-2.7%	-1.3%
UK, Markit/CIPS Services, Apr 2nd est			12.3P
US, Fed's Evans/Bullard Speak			
US, International Trade, March		-$44.2b	-$39.9b
US, ISM Non-Manuf, April		37.8	52.5
Wednesday 6 May			
NZ, HLFS Unemployment Rate, Q1	4.2%	4.4%	4.0%
NZ, HLFS Employment, Q1		-0.1%	flat
NZ, LCI Priv Ord Wages, Q1 y/y	+2.4%	+2.5%	+2.4%
NZ, QVNZ House Prices, Apr y/y			+6.1%
NZ, Dairy Auction, GDT Price Index			-4.2%
Aus, Retail Sales, Mar final			+8.2%P

	Forecast	Median	Last
Wednesday (continued)			
China, Services PMI (Caixin), April			43.0
Euro, PMI Services, Apr 2nd est			11.7P
Euro, Retail Sales, March		-10.9%	+0.9%
Germ, Factory Orders, March		-10.0%	-1.4%
US, Fed's Bostic Speaks			
US, ADP Employment, April		-20,500k	-27k
Thursday 7 May			
NZ, RBNZ 2yr Inflation Expectations, Q2			+1.93%
Aus, Services PMI (AiG), April			38.7
Aus, International Trade, March		+$6.40b	+$4.36b
China, Trade Balance, April			+¥139b
Jpn, BOJ Minutes, 16 Mar Meeting			
Germ, Industrial Production, March		-7.5%	+0.3%
UK, BOE Inflation, and Interim Fin. Stability, Reports			
UK, BOE Policy Announcement			0.10%
US, Fed's Harker Speaks, Response to Covid-19			
US, Jobless Claims, week ended 03/05		3,000k	4,427k
Friday 8 May			
Aus, Qtly Monetary Statement			
Jpn, Household Spending, Mar y/y (real)		-6.1%	-0.3%
Germ, Trade Balance, March		+€18.5b	+€20.8b
US, Non-Farm Payrolls, April		-21,300k	-701k
US, Unemployment Rate, April		16.0%	4.4%

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.25	0.25	0.25	1.75
1mth	0.27	0.28	0.34	1.80
2mth	0.27	0.30	0.41	1.79
3mth	0.27	0.31	0.47	1.80
6mth	0.27	0.34	0.52	1.75
GOVERNMENT STOCK				
04/20	0.25	0.25	0.25	1.46
05/21	0.15	0.24	0.27	1.41
04/23	0.09	0.22	0.36	1.47
04/25	0.23	0.41	0.60	1.57
04/27	0.42	0.63	0.82	1.73
04/29	0.61	0.83	1.02	1.86
04/33	0.82	1.07	1.40	2.06
04/37	0.99	1.23	1.65	2.22
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	90	93	117	59
Europe 5Y	84	81	104	58

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	0.19	0.29	0.48	1.62
3 years	0.21	0.33	0.51	1.63
4 years	0.26	0.39	0.55	1.68
5 years	0.33	0.46	0.60	1.76
10 years	0.71	0.86	0.93	2.17
FOREIGN EXCHANGE				
NZD/USD	0.6052	0.6047	0.5933	0.6614
NZD/AUD	0.9447	0.9355	0.9766	0.9459
NZD/JPY	64.67	64.86	64.94	73.26
NZD/EUR	0.5516	0.5585	0.5503	0.5905
NZD/GBP	0.4847	0.4864	0.4850	0.5049
NZD/CAD	0.8526	0.8487	0.8374	0.8893
TWI	68.6	68.9	68.5	72.5

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