RESEARCH

Markets Outlook

21 February 2022

Filling the Gaps

- **RBNZ to limit OCR hike to 25bps at Wednesday's MPS**
- **A 50bps lift would be no surprise**
- **But a hard sell given clouded near-term economic optics**
- **Awaiting the Govt's Omicron-Red support package…**
- **"Concrete" signs that Q4 GDP could be beefy**
- **But we judge Q4 Retail Trade recovered "just" 5%**

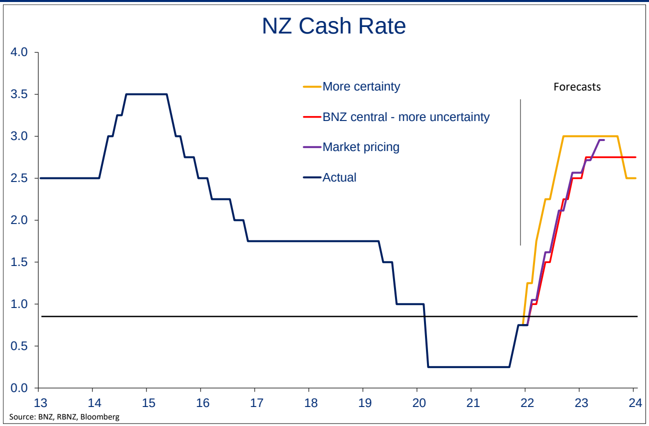
All eyes will be on Wednesday's RBNZ Monetary Policy Statement and press conference. For our full preview on this, please see our note entitled "February 2022 MPS Preview", which we put out last Friday (18 February).

To summarise this, to us the near-term direction for monetary policy is clear, courtesy of high and rising inflation and an extremely tight labour market. The Official Cash Rate (OCR) needs to be hiked and will need to be continually raised until such time that interest rates put a genuine brake on demand.

What is less clear is by how much the Reserve Bank will raise rates at this juncture and where, exactly, the braking point is.

For this week's meeting, our central view is that the RBNZ will increase its cash rate 25 basis points, signal a higher terminal cash rate, and have an even firmer increase in rates through calendar 2022 than was published in the November 2021 MPS. For the most part, this will "meet the market".

The only way is up



Additionally, we expect the Bank's Monetary Policy Committee to provide detail as to how the RBNZ will start to reduce its balance sheet. We anticipate a signal it will soon begin to sell down the bonds in its LSAP. We could imagine the RBNZ selling $5-$10b of bonds per year to NZDM.

While the Bank pushing its OCR up 50 basis points at this week's MPS is not our central view, we would not be surprised if it did so.

One of the reasons we have come down on the side of 25 is the near-term disruption the economy is going through. Much of this is sheeted to Omicron's increasing community spread, and the anxiety this is causing people regarding getting out and about, especially to congested locales. And these are reservations not just of the virus, but the self-isolation requirements should they catch it or be a close/family contact.

There is certainly a lot of pain being felt in people-facing businesses of late, and notably so in the CBD's of Wellington and Auckland. The PSI alluded to this for January (with a contractionary 45.9), and foot-traffic type indicators point to ongoing troubles in February. The spending indicators produced by the Ministry of Business Innovation and Employment have definitely weakened across the first half of February.

What of the government support measures for business, now that the wage subsidies and resurgence support payments went out with the old Alert system?

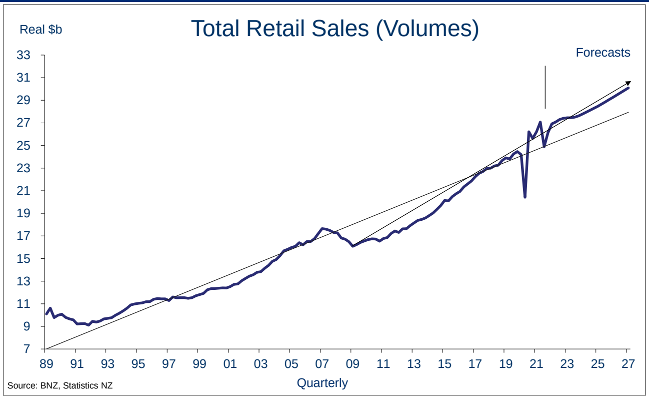
During the transition to the traffic light framework late last year, the government indicated that some business support measures would be available under the Red setting (but not Green, or Orange as most of the country started off at, pre-Omicron). However, scant detail was ever given on this.

Over recent weeks, the government has indicated a support package for businesses is in the wings, but nothing has been announced as of yet. We know a great many businesses will be hanging out for news on this, as well as us.

There are also a few data reports to look out for this week. Prime amongst these is Friday's Q4 Retail Trade report. For this it's a matter of judging how much of rebound we'll see, after volumes dived 8.1% in Q3, amid the Delta-driven lockdowns. We estimate what amounts to a half-hearted recovery in Q4, of 5.0%.

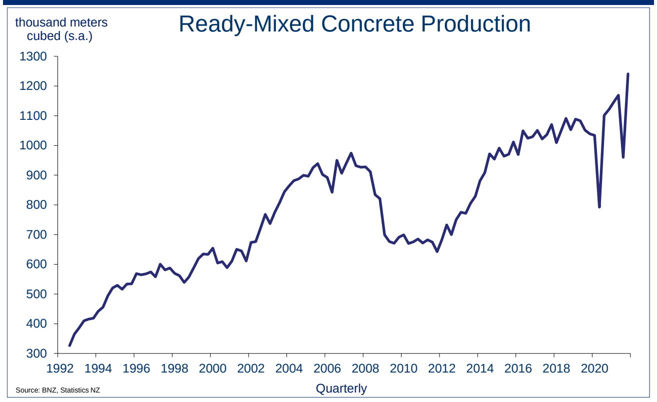
More generally, there seems good potential for Q4 GDP growth to surprise on the high side, if only as a reminder of how depressed Q3 GDP was, on account of the lockdowns.

Room For a Bounce



We saw a good example of this in the December quarter ready-mixed concrete production figures. These rebounded 29%, after slumping 18% in the September quarter. In Auckland (which spent far longer in L4 during Q3 than the rest of the country did), experienced a 66% rebound in ready-mixed concrete production in Q4, after falling 33% in Q3.

Big Bounce, to a Record High



While the concrete production figures don't match the construction activity data one for one, they have been hefty enough to bump up our estimate of Q4 GDP growth to 2.5%, from the 2.0% we had.

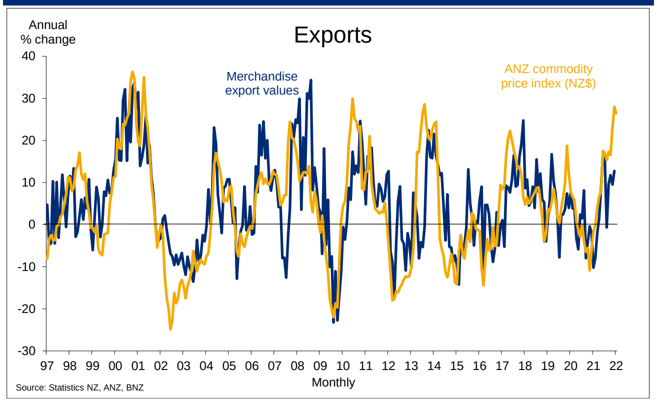
Still, as solid as Q4 GDP might turn out to be, they key thing to assess is how economic activity is going in Q1.

January's vehicle registration data (which have been delayed to Wednesday) will be worth a glance in this respect, as another indicator of consumer spending and business investment early in the New Year.

Friday's merchandise trade figures for January will be instructive too. For the monthly trade data there is no longer recourse to the daily/weekly exports and imports data that Stats NZ used to publish (as a COVID-monitoring thing), which leaves room for proper "news" now.

Still, with commodity export prices up around 25% y/y in January, we don't think we're pushing it, in expecting the value of merchandise exports to be 24% higher than they were a year ago. Price pressure is also highly relevant to the 22% annual growth we estimate for merchandise imports in January. The net result is a deficit of $704m, which would leave the annual trade deficit around the $6.8b mark.

Further Evidence of Pricing Push



As for Friday afternoon's new residential lending figures for January, there will be greater than usual focus on these. This is because they will help gauge the effects of the more prescriptive CCCFA lending rules that came into effect 1 December last year, and in light of the housing market showing signs of losing steam into the start of 2022.

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Global Watch

- **Russia-Ukraine tension commands attention**
- **US PCE core deflators to show inflation still rising**
- **Four Fed speakers due; any more guidance for March?**
- **UK, EU PMIs, German IFO, to monitor for economic pulse**
- **BoE members to testify on Wednesday**
- **AU wages seen accelerating; more GDP partials due**

Russia-Ukraine

The Russia-Ukraine standoff remains in the spotlight and continues to drive day-to-day market movements. Tensions remain heightened with Russian separatists in eastern Ukraine ordering civilians to evacuate to Russia based on what they allege is Ukrainian preparation for an attack. Ukraine strenuously denied the allegations amidst suspicions that Russia is setting a "false flag" incident that could be used to justify an invasion. US President Biden said on Friday that he was convinced Russian President Putin had decided to invade Ukraine, with an estimated 170,000 to 190,000 Russian military personnel now stationed in the region. The WSJ quoted White House officials as saying they expect an attack "in the coming days".

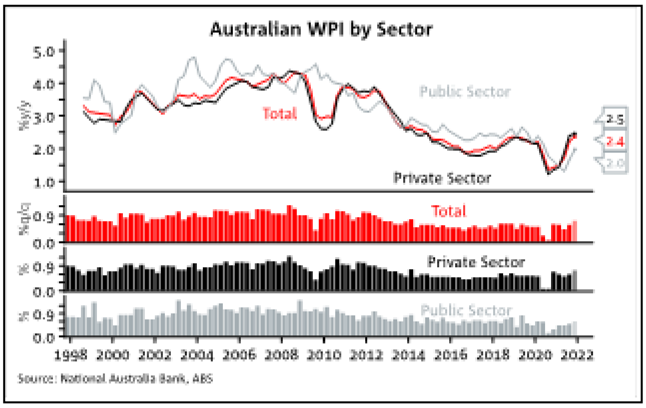
Australia

NAB expects Q4 WPI data on Wednesday to show wages growth continuing to accelerate, rising 0.7% q/q and 2.4% y/y (also the consensus). If realised, that would be the fastest quarterly rise since 2014. The Q3 result showed WPI wage increases broadly back to pre-pandemic patterns, and NAB's forecast for Q4 sees an acceleration in private sector wages growth, led by the two-fifths of employees covered by individual contracts whose wages tend to be more sensitive to labour market conditions. NAB expects private sector wages growth to accelerate to 2.5% y/y. Lending some additional support in the quarter will be a delayed effect of some award wage increases that usually take effect in Q3.

A quarterly rise of 0.7% q/q would be broadly in line with the RBA's February SoMP forecast, though would begin to outpace the RBA's expectations if growth sustains that level or lifts further in Q1 2022. Note 0.7% annualised is 2.8%, and the RBA forecasts WPI at 3.0% in 2023.

On the public sector side, quarterly increases normalised in Q3 after a period where they were weighed down by wage deferrals and freezes instituted during the pandemic. The drag from public sector wages growth will continue to abate in the quarter. Looking forward, public sector wages, even more so than private wages are determined by collective agreements and may lag broader wage increases due to restrictive public sector wage policies. Importantly though, over the next year or so, catch up increases for QLD and Commonwealth government employees after deferral in the 2020/21 fiscal year will be of some support.

WPI growth seen accelerating in Q4



Given the focus on labour costs' response to tighter labour markets, the RBA will be scouring disaggregated data for signs of material upward wage pressure. Difference in state based private sector outcomes will be one area of focus. Pandemic policies will again cloud the data, with the WPI reflecting the three months to November last year, during which lockdown impacts may have played some role in NSW and VIC.

The combination of very low unemployment rates in SA and WA over the period combined with relatively little virus disruption will make these states useful leading indicators. The RBA noted that these two states so far "did not experience a noticeable increase in wages growth despite a tightening in labour market conditions" and RBA External Board Member Ian Harper recently cited the lack of a noticeable rise in WA as one reason why the RBA is unlikely to swiftly follow the US Fed in hiking.

GDP partials also begin in earnest this week.

NAB expects Construction Work Done to rise 2.0% q/q in Q4 after being constrained by lockdown impacts through Q3. NAB sees growth broad-based across the subcomponents of residential, non-residential, and engineering construction, supporting both dwelling and business investment in GDP figures on 1 March.

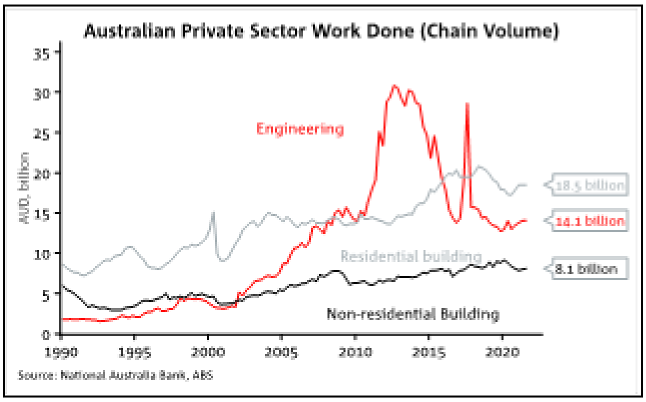
The Capex release on Thursday is expected to show a 3.0% q/q gain led by a rebound in equipment, plant and machinery, investment, which feeds into the GDP figures.

Also in the release is an update on business capex expectations. The Q3 release showed realisation-ratio adjusted capex expectations rose despite the delta wave.

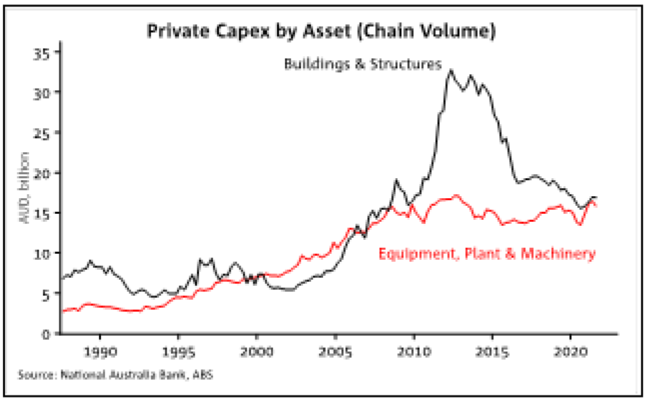
For Q4 GDP overall, NAB currently pencils in growth of around 2.8% q/q, more than recovering Q3 losses and driven by a sharp rebound in consumption.

On the RBA front, note that Assistant governor (Financial Markets) Chris Kent speaks to AFMA tomorrow.

Construction work done



Private Capex



China

A quiet week coming up on the Chinese calendar. Loan Prime rate decisions today are expected to see the one and 5 year rates unchanged, following reductions in January.

US

With less immediate focus on activity, it's the intensified interest in inflation and its near-term outlook that is grabbing the market's interest in the lead up to the March 16 FOMC announcement. The Jan CPI was a reminder inflation hasn't peaked and Friday's January PCE deflators will see annual growth step up for the core from 4.9% to 5.2%. Base effects are likely to see further increases into March. Real personal consumption will also be watched closely for signs of inflation impacting on activity. Friday's final Feb estimate of UoM Consumer Sentiment might be more market sensitive should it deliver anything telling on 5-10y inflation expectations pegged at 3.1% in the preliminary estimate. Tuesday's Markit PMIs could also get some attention, especially regards any further insight on supply side bottlenecks. Four Fed speakers are scheduled. A reminder it is a US holiday on Monday for the President's Day holiday, meaning it will be a slow start for markets. US/Russia/Ukraine headlines will also dominate sentiment for the week.

UK

Among a brace of BoE speakers, Governor Bailey and his team are testifying on Wednesday. The Governor is also opening the Bank's research conference on Thursday. Chief Economist Hugh Pill is speaking at the same conference. Monday's PMIs will draw interest for being such an up to date reading on the economy and inflationary pressure.

Eurozone

Monday's Markit PMIs for France, Germany, and the Eurozone will be scanned for how the major EZ economies are emerging after the Omicron impacts, several economies announcing more plans for the removal of most restrictions. The other major release is the comprehensive German Ifo survey for Feb, out a day after the PMI and expected to rise from 95.7 to 96.5. Both the manufacturing and services PMIs are expected to improve too, with the supply side and inflationary pressures as important as sales and orders.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

It was another volatile week in markets. NZ rates made fresh multi-year highs across the curve during the week before pulling back on renewed Russia-Ukraine tensions to end broadly unchanged. Focus turns to the RBNZ MPS this week.

Investors' perception of the risk of a Russian invasion of Ukraine waxed and waned last week, driving volatility in both bond and equity markets. By the end of the week, the US 10-year rate was back below 2% (ending at around 1.93%) amidst a flurry of warnings from Biden and other Western politicians that a Russian invasion was imminent. As we noted last week, geopolitical events – such as the potential for a Russian invasion of Ukraine – tend to cause an initial flight to safety, with equities and global rates both falling, although the impacts are not usually long lasting, with investors ultimately returning focus to growth and inflation fundamentals after the initial shock subsides. That is our prior for how this episode might play out too, although markets are likely to remain volatile and headline-driven in the interim.

Fed officials appear to be guiding the market towards expecting a 25bps hike next month, the start of what is likely to be a long series of rate hikes. NY Fed President Williams, whose views are seen as closely aligned with Powell, said he didn't see the benefit of big moves at the start of a tightening cycle. The market has reacted accordingly, paring back the probability of a 50bps rate increase by the Fed next month to around 25% (from almost fully priced earlier this month). Meanwhile, the FOMC minutes signalled that most members expected to hike rates faster than the 25bps per quarter pace in the last cycle between 2015 to 2018, implying that the base case is likely for 25bps hikes at consecutive meetings until the cash rate gets closer to neutral. The market is already some way to pricing such a scenario, with more than six hikes priced into the seven FOMC meetings this year, although the market still expects the Fed to stop short of its 2.5% estimate of neutral. We still think there is scope for the market to revise higher its Fed rate expectations for 2023 and 2024, which will likely see a further increase in the US 10-year rate towards around 2.50% later this year.

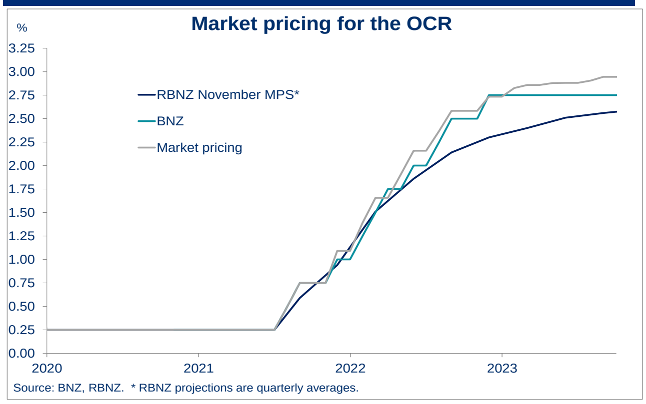
The RBNZ MPS is in focus this week. We're expecting a 25bps rate hike, hawkish messaging and an upward revision to the RBNZ's forecast OCR track. We see a 50bps OCR hike as a significant risk although it's not our central view. Last week we added another OCR hike to our own forecast track, now expecting consecutive 25bps rate hikes through to next February, taking the cash rate to a peak of 2.75%. The market is already well priced for such a scenario, with the market pricing slightly more than seven hikes into the RBNZ's seven meetings this year and a peak in the cash rate of just under 3% by the middle of next year. As such, we wouldn't expect a major increase in NZ short-end rates after the MPS, unless the RBNZ shocked the market and hiked by 50bps.

We nudged up our NZ rates forecasts at the end of last week after our OCR call change. We have now pencilled in the 2-year swap rate peaking at 3% later this year (2.80% previously), which is slightly below forward pricing. We have kept our 10-year forecasts unchanged (a 3.3% peak in the 10-year swap rate later this year).

The RBNZ is also expected to announce details around its plans to 'manage down' its LSAP bond holdings, which currently stand at around $54b. We think the RBNZ is likely to announce its intention to gradually sell back its holdings (to Treasury, not in the secondary market), probably starting around the middle of the year. We think a plausible range for RBNZ LSAP sales is around $5b-$10b per year, with the lower end of that range being the more conservative option. Treasury will need to finance its purchases of the RBNZ's LSAP bonds, which will likely lead to greater bond issuance from the second half of the year. We don't think such a plan should be disruptive for the market (although we can't rule out some announcement effect on Wednesday) considering Treasury slashed its bond programme in December.

Another reason to think the market should be able to cope with RBNZ LSAP sales is that we believe NZGBs have qualified for one of the major global bond indices, the World Government Bond Index (WGBI). We will need to wait for official confirmation late next month that NZGBs have qualified for the index, although we may get provisional confirmation this week some time. If we're right that NZGBs have qualified, they should formally enter the index later this year, likely at the start of November. With an estimated US$2.5 trillion using the WGBI as a benchmark, including a relatively high proportion of 'passive' funds that seek to replicate the benchmark, index inclusion will bring large offshore inflows into the bond market, even with NZGBs having a small weight (around 0.2% on our estimates). WGBI inclusion argues for lower longer-term NZGB rates than otherwise, although (like LSAP sales) this is likely to be very much a second-order factor compared to the OCR outlook, broader macroeconomic developments and trends in major global bond markets.

Market pricing still above our revised OCR forecast track



Source: BNZ, RBNZ. * RBNZ projections are quarterly averages.

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the NZD continued to show signs of consolidation and was in fact the best performing of the majors, meaning it was higher on all the key crosses, although movements were modest. NZD/USD rose by 0.8% to close the week just shy of 0.67. On the crosses, NZD/AUD rose slightly to 0.9330, after trading at a fresh eight-month low of 0.9261 mid-week. The NZD was up ½-1% on the other key crosses.

Last week, the market was focused on Russia-Ukraine war developments which caused some market volatility over confusion on troop movements, while diplomatic efforts to prevent war seemed to go nowhere. The White House continues to run the line that a Russian invasion of Ukraine is imminent and the odds look to be rising of some sort of major conflict proceeding, the key question being one of timing how much of Ukraine is involved. The latest US intelligence over the weekend suggests that any Russian invasion would potentially see it target multiple cities across Ukraine.

Under the circumstances of imminent war, currency markets didn't seem particularly bothered last week. Indeed, currency markets have been relatively well-behaved compared to bonds and equities in response to Russia-Ukraine developments over recent weeks. Our risk appetite index closed the week at 38%, a fresh 16-month low, and the NZD performed surprisingly well against that backdrop, a good sign that a lot of bad news is already priced into the currency.

There is a chance that risk appetite falls further, say to around 20%, and theoretically that would normally be expected to have a downward influence on the NZD. But we'd see any further fall in risk appetite and the NZD as short-lived. Apart from oil and gas, Russia's influence on global markets is fairly limited. NZ has little exposure to the region, as do NZ's key trading regions, Australia, Asia and the US.

So we maintain our playbook that any dips below 0.66, if any, are likely to remain fleeting while the currency can continue to consolidate. We continue to see short-term resistance in a 0.6750-0.68 zone.

The other development last week was a paring back of the odds of a 50bps hike by the Fed next month, with a range of FOMC members hinting that they were comfortable with a series of hikes, but in 25bps clips, suggesting no need to panic on policy. The US 2-year rate traded above 1.6% early in the week, but had fallen by nearly 15bps from that peak by the end of the week to 1.47%, with the spectre of war in Europe adding to downward pressure on US rates.

In the week ahead, Russia-Ukraine developments will remain front of mind but for the NZD the RBNZ Monetary Policy Statement on Wednesday will be another risk factor to consider. While a 50bps hike can't be ruled out, we are aligned to the market view that a 25bps move is the most likely action, alongside a message that a series of further rate hikes is likely needed this year to bring inflation under control.

NZ's inflationary pulse is very high, but the RBNZ doesn't need to confuse the market with a more aggressive rate path than is already priced in. Market pricing is already consistent with about 25bps every meeting this year and further hikes into next year, which take the OCR to about 3%. Economic growth looks to be very soft at the moment, due to the Omicron factor and government-imposed restrictions on isolation period for contacts of infected people. Alongside the hit to disposable incomes from higher inflation and clear signs that the housing market is weakening, we think domestic demand conditions are already quite soft and should act to restrain inflationary pressure from here. Unless the RBNZ thinks otherwise and is more hawkish than already reflected in market pricing, then any post MPS reaction for the NZD should be fleeting.

In economic data this week, the key releases are wages data in Australia, given the RBA's focus on the labour market, and PMI data for Europe.

NZD in consolidation mode after trending down

Source: Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6693	0.6590 - 0.6730
NZD/AUD	0.9339	0.9260 - 0.9380
NZD/GBP	0.4924	0.4870 - 0.4950
NZD/EUR	0.5915	0.5760 - 0.5920
NZD/JPY	76.92	75.50 - 78.00

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6870	-3%
NZD/AUD	0.9060	3%

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Technicals

NZD/USD

Outlook: Downside risk
ST Resistance: 0.6750-0.6800
ST Support: 0.6530 (ahead of 0.6400)

In a consolidation mode, with the recent dip to 0.6530 holding, the first level of support. Resistance looks to be around a 0.6750-0.68 zone.

NZD/USD – Daily
Source: Bloomberg

NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9450 (ahead of 0.9600)
ST Support: 0.9240 (ahead of 0.9140)

It's too early to suggest the downward trend has ended. Initial support is around 0.9240 and there is little resistance ahead of 0.9450.

NZD/AUD – Daily
Source: Bloomberg

NZ 5-year Swap Rate

Outlook: Neutral
ST Resistance: 3.09
ST Support: 2.48

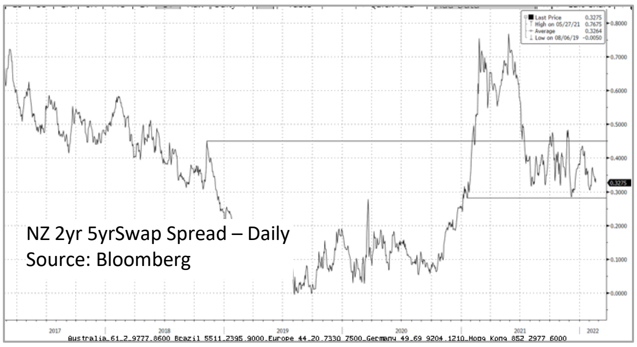
Market is still in consolidation phase. Staying neutral until we get a new strong technical signal.


NZ 5-yr Swap – Daily
Source: Bloomberg

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

Outlook: Steeper
ST Resistance: 0.45
ST Support: 0.28

Support has held look for move to +45.


NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

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Quarterly Forecasts

Forecasts as at 21 February 2022

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Dec-21 to Dec-22 (shaded)

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
GDP (production s.a.)	13.9	-0.4	1.5	2.4	-3.7	2.5	1.5	1.5	0.9	0.4
Retail trade (real s.a.)	28.4	-2.3	2.3	3.3	-8.1	5.0	3.0	0.6	0.8	0.4
Current account (ytd, % GDP)	-0.7	-0.8	-2.5	-3.3	-4.6	-5.6	-5.9	-6.4	-6.6	-6.5
CPI (q/q)	0.7	0.5	0.8	1.3	2.2	1.4	1.4	0.8	1.0	0.4
Employment	-0.7	0.6	0.7	1.0	1.9	0.1	0.2	0.2	0.3	0.2
Unemployment rate %	5.3	4.9	4.6	4.0	3.3	3.2	3.1	3.1	3.0	3.1
Avg hourly earnings (ann %)	3.7	4.6	4.1	4.5	3.6	4.1	4.6	5.1	5.1	4.8
Trading partner GDP (ann %)	-0.9	0.8	6.7	9.7	4.2	3.6	3.8	4.0	4.9	4.5
CPI (y/y)	1.4	1.4	1.5	3.3	4.9	5.9	6.6	6.0	4.7	3.6
GDP (production s.a., y/y))	1.2	0.5	3.3	17.9	-0.3	2.6	2.6	1.7	6.6	4.4

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**
2020 Jun	0.25	0.30	0.40	0.85	0.25	0.40	0.80	0.60	0.70	0.15
Sep	0.25	0.30	0.25	0.65	0.15	0.25	0.60	0.25	0.65	0.02
Dec	0.25	0.25	0.25	0.70	0.15	0.30	0.75	0.20	0.85	-0.15
2021 Mar	0.25	0.30	0.75	1.40	0.40	0.85	1.50	0.20	1.30	0.09
Jun	0.25	0.35	1.00	1.75	0.55	1.20	1.90	0.15	1.60	0.17
Sep	0.25	0.50	1.35	1.75	1.20	1.60	1.95	0.15	1.30	0.41
Dec	0.65	0.80	2.15	2.40	2.10	2.45	2.60	0.20	1.45	0.89
Forecasts										
2022 Mar	1.00	1.35	2.60	2.70	2.45	2.80	2.90	0.50	2.00	0.70
Jun	1.50	1.85	2.75	2.95	2.65	2.95	3.15	0.75	2.20	0.75
Sep	2.25	2.40	2.85	3.05	2.85	3.05	3.25	1.00	2.35	0.70
Dec	2.50	2.75	2.90	3.10	3.00	3.10	3.30	1.25	2.50	0.60
2023 Mar	2.75	2.90	2.90	3.10	3.00	3.10	3.30	1.50	2.50	0.60
Jun	2.75	2.90	2.90	3.10	3.00	3.10	3.30	1.75	2.50	0.60
Sep	2.75	2.90	2.80	3.10	2.90	3.00	3.30	2.00	2.50	0.60

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	0.67	0.72	1.13	1.36	115	0.67	0.93	0.59	0.49	77.0	71.7
Mar-22	0.68	0.72	1.12	1.35	116	0.68	0.94	0.60	0.50	78.5	72.4
Jun-22	0.69	0.73	1.13	1.36	115	0.69	0.94	0.61	0.51	79.4	73.6
Sep-22	0.70	0.75	1.15	1.37	113	0.70	0.93	0.61	0.51	79.1	74.1
Dec-22	0.72	0.77	1.17	1.38	113	0.72	0.92	0.61	0.52	80.8	75.1
Mar-23	0.72	0.78	1.19	1.39	112	0.72	0.92	0.61	0.52	80.6	75.1
Jun-23	0.72	0.78	1.20	1.40	111	0.72	0.92	0.60	0.51	79.9	74.9
Sep-23	0.72	0.78	1.24	1.42	108	0.72	0.92	0.58	0.51	77.8	73.6
Dec-23	0.71	0.77	1.25	1.43	108	0.71	0.92	0.57	0.50	76.7	72.8
Mar-24	0.70	0.76	1.25	1.43	107	0.70	0.92	0.56	0.49	74.9	72.0
Jun-24	0.70	0.76	1.24	1.42	106	0.70	0.91	0.56	0.49	73.7	71.5
						TWI Weights					
						13.6%	17.3%	10.1%	3.2%	5.7%	

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

Annual Forecasts

Forecasts as at 21 February 2022	March Years Actuals 2020	2021	Forecasts 2022	2023	2024	December Years Actuals 2019	2020	Forecasts 2021	2022	2023
GDP - annual average % change										
Private Consumption	2.5	0.4	3.1	3.6	2.1	3.1	-1.1	5.8	2.2	2.4
Government Consumption	5.4	7.5	8.1	2.1	0.9	4.6	6.9	9.0	3.2	1.0
Total Investment	2.6	-4.8	6.9	6.8	-0.6	4.4	-7.0	8.3	6.6	0.2
Stocks - ppts cont'n to growth	-0.2	-0.3	1.1	-0.5	0.0	-0.5	-0.9	1.7	-0.5	-0.1
GNE	2.8	0.2	6.2	3.4	1.2	3.1	-1.9	8.9	2.7	1.5
Exports	0.3	-17.8	5.5	9.6	6.5	2.4	-12.7	-3.1	6.5	10.2
Imports	1.1	-16.1	18.3	10.7	4.1	2.1	-16.1	15.1	10.2	6.5
Real Expenditure GDP	2.6	-0.3	3.6	2.8	1.6	3.2	-1.0	4.5	2.0	1.9
GDP (production)	**2.2**	**-1.3**	**5.3**	**3.9**	**1.6**	**2.8**	**-1.9**	**5.5**	**3.8**	**1.9**
GDP - annual % change (q/q)	*0.6*	*3.3*	*2.6*	*3.2*	*1.8*	*2.3*	*0.5*	*2.6*	*4.4*	*1.4*
Output Gap (ann avg, % dev)	1.3	-1.8	0.7	2.1	0.6	1.7	-2.0	0.4	2.1	0.9
Nominal Expenditure GDP - $bn	324	327	355	379	393	320	324	349	375	389
Prices and Employment - annual % change										
CPI	2.5	1.5	6.6	3.0	2.4	1.9	1.4	5.9	3.6	2.4
Employment	2.5	0.2	3.2	0.8	0.6	1.2	0.6	3.7	0.9	0.4
Unemployment Rate %	4.2	4.6	3.1	3.1	3.8	4.1	4.9	3.2	3.1	3.7
Wages - ahote	3.2	4.1	4.6	4.5	2.8	3.8	2.6	4.6	4.1	4.8
Productivity (ann av %)	0.2	-1.8	2.3	2.7	1.1	0.9	-3.1	3.3	2.0	1.3
Unit Labour Costs (ann av %)	2.9	4.4	3.7	1.7	2.3	2.1	5.6	2.4	2.6	2.4
House Prices	7.8	24.1	11.0	-5.9	0.0	4.6	17.0	20.9	-3.2	-2.5
External Balance										
Current Account - $bn	-7.6	-8.2	-20.8	-22.6	-22.0	-9.3	-2.7	-19.5	-24.5	-22.7
Current Account - % of GDP	-2.3	-2.5	-5.9	-6.0	-5.6	-2.9	-0.8	-5.6	-6.5	-5.8
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-7.3	-1.3	-5.7	-1.0	0.0					
Net Core Crown Debt (excl NZS Fund Assets)	26.3	30.1	38.0	41.0	41.0					
Bond Programme - $bn (Treasury forecasts)	29.0	45.0	30.0	25.0	25.0					
Bond Programme - % of GDP	9.0	13.8	8.5	6.6	6.4					
Financial Variables (1)										
NZD/USD	0.60	0.71	0.68	0.72	0.70	0.66	0.71	0.68	0.72	0.71
USD/JPY	108	109	116	112	107	109	104	114	113	108
EUR/USD	1.11	1.19	1.12	1.19	1.25	1.11	1.22	1.13	1.17	1.25
NZD/AUD	0.97	0.93	0.94	0.92	0.92	0.96	0.94	0.95	0.92	0.92
NZD/GBP	0.49	0.51	0.50	0.52	0.49	0.50	0.53	0.51	0.52	0.50
NZD/EUR	0.55	0.60	0.60	0.61	0.56	0.59	0.58	0.60	0.61	0.57
NZD/YEN	65.1	77.5	78.5	80.6	74.9	72.0	73.6	77.4	80.8	76.7
TWI	68.9	74.8	72.4	75.1	72.0	72.8	74.3	73.0	75.1	72.8
Overnight Cash Rate (end qtr)	0.25	0.25	1.00	2.75	2.50	1.00	0.25	0.75	2.50	2.75
90-day Bank Bill Rate	0.71	0.33	1.35	2.90	2.65	1.23	0.26	0.92	2.75	2.90
5-year Govt Bond	0.80	1.00	2.60	2.90	2.55	1.25	0.40	2.20	2.90	2.70
10-year Govt Bond	1.15	1.75	2.70	3.10	2.95	1.60	0.90	2.35	3.10	3.05
2-year Swap	0.65	0.50	2.45	3.00	2.55	1.25	0.28	2.22	3.00	2.80
5-year Swap	0.80	1.15	2.80	3.10	2.75	1.40	0.49	2.56	3.10	2.90
US 10-year Bonds	0.90	1.60	2.00	2.50	2.50	1.85	0.90	1.45	2.50	2.50
NZ-US 10-year Spread	0.25	0.15	0.70	0.60	0.45	-0.25	0.00	0.90	0.60	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

All times and dates NZT

	Median	Fcast	Last
Monday 21 February			
AU Markit Australia PMI Services, Feb P	--	--	46.6
AU Markit Australia PMI Mfg, Feb P	--	--	55.1
UK Rightmove House Prices YoY, Feb	--	--	7.60%
CH New Home Prices MoM, Jan	--	--	-0.28%
GE PPI YoY, Jan	24.40%	--	24.20%
GE Markit Germany Services PMI, Feb P	53.1	--	52.2
EC Markit Eurozone Manufacturing PMI, FebP	58.7	--	58.7
EC Markit Eurozone Services PMI, Feb P	52.1	--	51.1
UK Markit/CIPS UK Services PMI, Feb P	55.5	--	54.1
UK Markit UK PMI Manufacturing SA, Feb P	57	--	57.3
Tuesday 22 February			
AU RBA's Kent-Speaks			
NZ Credit Card Spending MoM, Jan	--	--	0.20%
GE IFO Expectations, Feb	96.1	--	95.2
Wednesday 23 February			
UK CBI Trends Total Orders, Feb	25	--	24
US S&P CoreLogic CS US HPI YoY NSA, Dec	--	--	18.81%
US Markit US Manufacturing PMI, Feb P	56	--	55.5
US Markit US Services PMI, Feb P	53	--	51.2
US Conf. Board Consumer Confidence, Feb	110	--	113.8
US Richmond Fed Manufact. Index, Feb	10	--	8
US Fed's Bostic speaks			
AU Construction Work Done, 4Q	2.50%	--	-0.30%
AU Wage Price Index QoQ, 4Q	0.70%	--	0.60%
NZ RBNZ MPS; Official Cash Rate, Feb-23	1.00%	1.00%	0.75%
GE GfK Consumer Confidence, Mar	-6.3	--	-6.7
UK BOE's Bailey, Broadbent, Haskel and Tenreyro testify			

	Median	Fcast	Last
Wednesday (continued)			
EC CPI YoY, Jan F	5.10%	--	5.00%
Thursday 24 February			
AU Private Capital Expenditure, 4Q	2.50%	--	-2.20%
Friday 25 February			
NZ Trade Balance NZD, Jan	--	-704m	-477m
UK CBI Retailing Reported Sales, Feb	25	--	28
UK BOE's Bailey speaks			
US Chicago Fed Nat Activity Index, Jan	0.15	--	-0.15
US Initial Jobless Claims, Feb-19	235k	--	248k
US Continuing Claims, Feb-12	1580k	--	1593k
US GDP Annualized QoQ, 4Q S	7.00%	--	6.90%
US New Home Sales, Jan	800k	--	811k
US Fed's Mester speaks			
NZ Retail Sales Ex Inflation QoQ, 4Q	6.10%	5.00%	-8.10%
UK GfK Consumer Confidence, Feb	-17	--	-19
US Fed's Waller speaks			
NZ New residential lending, y/y, Jan			-18.1%
EC Economic Confidence, Feb	113	--	112.7
Saturday 26 February			
US Personal Income, Jan	-0.40%	--	0.30%
US Durable Goods Orders, Jan P	0.80%	--	-0.70%
US Personal Spending, Jan	1.50%	--	-0.60%
US PCE Deflator MoM, Jan	0.60%	--	0.40%
US Pending Home Sales MoM, Jan	1.50%	--	-3.80%
US U. of Mich. Sentiment, Feb F	61.7	--	61.7
Sunday 27 February			
NZ NZ border opens to vaccinated NZers (and eligibles) from Australia			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	0.75	0.75	0.75	0.25
1mth	1.05	1.01	0.84	0.26
2mth	1.15	1.12	0.96	0.27
3mth	1.23	1.22	1.08	0.28
6mth	1.54	1.50	1.30	0.30
GOVERNMENT STOCK				
04/23	1.85	1.85	1.64	0.27
04/25	2.46	2.44	2.25	0.70
04/27	2.64	2.61	2.37	1.05
04/29	2.74	2.71	2.47	1.40
05/31	2.79	2.76	2.51	1.64
04/33	2.86	2.83	2.56	1.85
04/37	3.02	2.99	2.71	2.22
05/41	3.11	3.08	2.85	2.56
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	69	68	58	54
Europe 5Y	71	68	58	49

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	2.54	2.55	2.36	0.39
3 years	2.74	2.74	2.59	0.57
4 years	2.82	2.84	2.70	0.78
5 years	2.87	2.90	2.74	0.99
10 years	2.97	2.96	2.81	1.74
FOREIGN EXCHANGE				
NZD/USD	0.6691	0.6616	0.6700	0.7330
NZD/AUD	0.9337	0.9283	0.9380	0.9258
NZD/JPY	76.92	76.43	76.35	77.02
NZD/EUR	0.5915	0.5853	0.5916	0.6028
NZD/GBP	0.4925	0.4890	0.4967	0.5211
NZD/CAD	0.8535	0.8422	0.8468	0.9247
TWI	71.7	71.0	71.7	75.7

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