Research
Markets Outlook

4 September 2023

# Hanging in There

- **Q2 Int'l Trade Indexes show interim resilience**
- **Exports jump keeps our Q2 GDP pick at 0.3%**
- **But many more "partials" due this week**
- **Dairy prices starting to stabilise?**
- **Housing's flickering embers (pre-election)**
- **PREFU (still) likely to show deeper deficits, more debt**
- **PM Hipkins speaking at Bloomberg event Wednesday**

This week's swathe of "partials" on Q2 economic activity, underway already, will test our view GDP managed to increase 0.3% over the quarter. There are also updates on key commodity export prices to note. Meanwhile, the political parties have released more on respective policies, in view of the 14 October General Election. With this, we still think the bond programme is set for upward review, which the Pre-Election Economic and Fiscal Update (PREFU), of 12 September, will confirm.

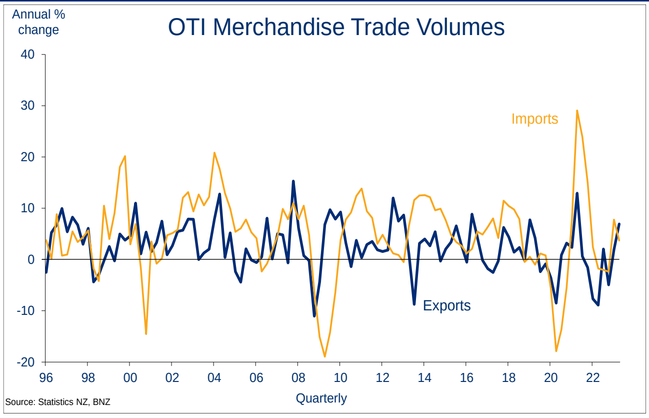
But starting with the GDP "partials", this morning's International Trade Indexes seemed no cause to change our view on Q2 GDP. Central to this, merchandise export volumes posted a 6.8% jump for the quarter. This was aided by bounce-back from what look to be storm-related depressions for some commodity products in Q1. The jump in Q2 is all of what we had in mind. Still, it was a relief to see the big number confirmed in full.

Merchandise import volumes, meanwhile, fell 2.8% in Q2. But because this included a 25% tumble in transport goods – which can be an extremely lumpy line item – and that merchandise import volumes were up 3.7% y/y overall, we don't take today's results as a warning of collapsed domestic demand in Q2. Just a patchy performance in domestic demand, as we anticipate will show in the Q2 GDP accounts (due 21 September).

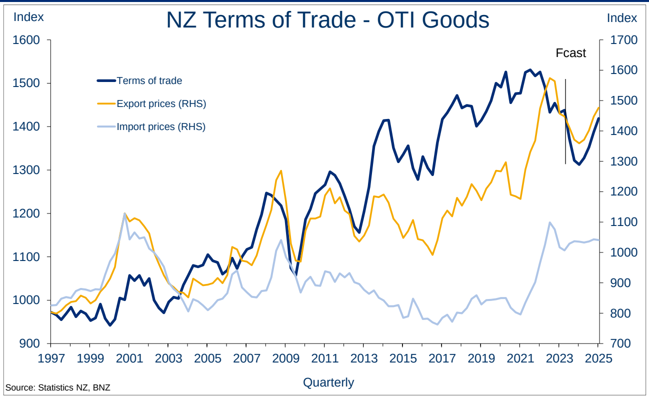
As for the merchandise terms of trade, these squeaked higher by 0.4%, versus our expectation of a 1.5% increase. This reflected import prices (-1.0%) easing by a tad more than export prices (-0.4%), which is all in the ballpark of what we estimated, for these hard-to-nail-down series, quarter to quarter.

If you're wondering where the sharp commodity price correction is in all this, we note it will show up more clearly in the Q3 data, given the quarterly averaging, and other implicit lags, involved. Even so, we point out today's Q2 figures showed an annual fall of 3.6% in the merchandise terms of trade, as export prices eased 5.3% y/y. By Q4 we expect these to be -9.1% y/y and -12.3% respectively, such are the pipeline impacts in train.

A certain resilience




Half-way there




In terms of services exports and imports, the volume inferences we extracted on these were not quite up to the marks we had in mind. To be sure, our back of the envelopes drew a clear increase in services export volumes for Q2, seasonally adjusted, and a relatively bigger gain in services import volumes. Solid growth on both sides of the ledger. Just not as much as we had forecast to occur, for each. The undershoots tend to net off in terms of our Q2 GDP computations, however.

The latter remains at +0.3% (1.0% y/y). However, it is subject to the remaining many "partials", namely Wednesday's building work figures and Thursday's statistics on manufacturing, wholesaling and services.

For Wednesday's Q2 Building Work Put in Place figures, we expect a roughly flat result on volumes, overall. As an underpinning, we are conscious of storm-related building work picking up from a compromised Q1. That said, a lot of the requisite work is in infrastructure – which is not exactly building work, in the nomenclature of Stats NZ. The BWPIP survey also counts only consented work.

Then it will be a matter of looking through the copious detail of Thursday's Business Financial Data, in order to assess and finalise our Q2 GDP growth estimate. We presume these data will infer:

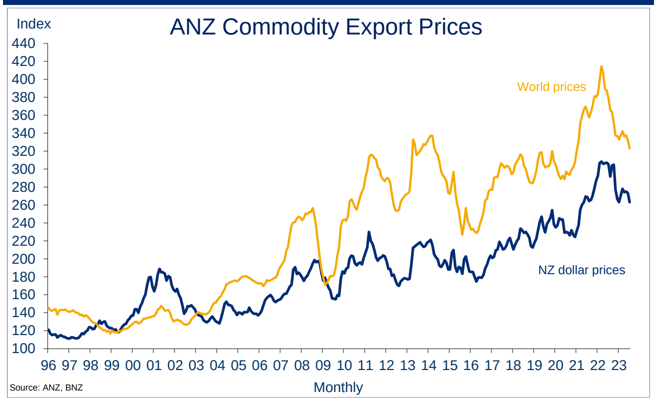
- manufacturing output expanded a quarterly 1.0% or so (significantly aided by a catch-up in food processing – something this morning's trade data tended to verify)
- real wholesale trade rose moderately, and
- the volume of services increased just a fraction in Q2, in aggregate.

Even if GDP does manage to post an increase in Q2 – technically breaking the technical recession made by the declines in Q4 and Q1 – it won't be enough to break the recession that's playing out more clearly in per-capita terms (and which we think will continue into the start of 2024).

In terms of the latest of commodity prices, the ANZ export indices for August are due tomorrow 1:00pm. We expect these to register a fall, on a world price basis, of around 6%, led by meat and dairy (hence the more noticeable drop in exports prices, and the terms of trade, in Q3, that we talked about earlier).

However, with sympathetic softening in the exchange rate, the fall in the price index in local currency terms is likely to be less than half of that. The currency is doing its usual job, of taking the edges off the commodity price cycle for New Zealand.

### Further drop set for August

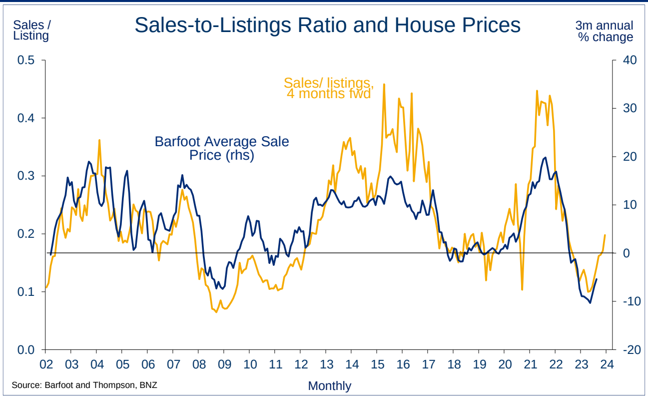



With dairy prices leading the falls in commodity export prices of late, it will be interesting to see how the Wednesday morning (NZT) dairy auction on the GDT platform goes. It will have been three weeks since the last one. We wouldn't be surprised to see a broadly stable result, following the 7.4% drop at the 16 August auction, and cumulative descent of 15.2% since the 21 June event. The relative stability in whole-milk powder prices over recent weeks, such as from the weekly Pulse auctions, helps underpin this expectation of ours.

The housing market has also suffered a sizable correction over the last 18 months or so. But it's now showing some signs of life (when the impending General Election might have argued for ongoing caution). We saw this in last week's housing reports from CoreLogic and realeastate.co.nz.

And this morning's August numbers from Barfoot and Thompson echoed the theme. While its average selling prices rose 2% and its median price increased 3.4%, the meaningful information was that sales were up 52% y/y. This inferred a 19% jump in August compared to July, based on our seasonally adjusted estimate of the series. Quite the recovery. Still, the level is nothing outright strong. New listings were also showing a bit of life, up 13% y/y, while the stock of listings was still well contained. It's an area to watch, especially once October's election is done and dusted.

### Firming up




Lastly though, a word on fiscal matters. More to the point, the fast-approaching 12 September PREFU. While the government has recently announced a (latest) range of spending pare-backs, public spending, overall, will likely continue to far exceed the relatively high tax take (to GDP) forecast, with reference to May's Budget. This will assure operating deficits over the coming years, and likely deeper than were forecast in the Budget.

We are always cautious, however, about point-forecasting what the next government EFU will look like. And especially when it comes to the bottom line for markets – the bond programme. Not only does this require us to accurately forecast the Treasury's macro-economic forecasts, including public investment, but also the discretion Debt Management will employ before it decides upon its path for nominal gross debt issuance.

We have also been reserved in putting any bond programme forecasts on the board, conscious of more election-related party policy coming to light – which there has been over the last week or two – which will have made the exercise something of a moving feast.

Still, these policies, and caveats, being noted, our nominal GDP forecasts, alone, suggest the PREFU will fall seriously short on revenue (tax) generation, compared to what May's Budget projected. With this, it's not hard to imagine core operating deficits being $10-15b worse than Budget, over the four years to June 2027, and a surplus not emerging until that final year. Even with the extra savings the present government has recently announced.

For more on policy, also note PM Chris Hipkins is scheduled to speak at a Bloomberg function Wednesday from about 4:00pm.

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# Global Watch

- **RBA to refrain from hiking Tues; AU Q2 GDP (+0.5%)**
- **Lowe speaking Thursday (as handover to Bullock nears)**
- **US attention on ISM Services and many Fed speakers**
- **China in focus with PMIs and trade data for August**

**Australia**

**Week ahead**

RBA Meeting (Tuesday) and Lowe (Thursday).
RBA Governor Lowe's final Board meeting is widely expected to come and go without incident. Incoming Governor Michelle Bullock takes the reins on 18 September ahead of the October meeting. We don't see anything to suggest that the changing of the guard will lead to a sharp break in policy approach at this stage of the cycle. Governor Lowe has said policy is now in a 'calibration phase.' We heard from Deputy Governor Bullock this week and she indicated that "*we'll be taking decisions for the time being until next year at least month by month*" and that "*We may have to raise interest rates again, but we're watching the data very carefully.*"

Overall, the picture is likely to be more one of continuity than one of significant change. The change to a Monetary Policy Board from 1 July 2024 is likely to be more significant for policy deliberations, with six external parties then voting on monetary policy.

Currently we have an RBA that has been trying to manage the economic cycle by taking interest rates as just as restrictive as necessary to return inflation to target in a reasonable timeframe, so as to preserve as much of the gain in unemployment over the pandemic period as possible. The self-set limit as to what constitutes a reasonable timeframe has been a return to 3% by mid 2025. The August forecast update falls ever so slightly short of that for headline inflation forecasts, but was evidently close enough for the RBA to stand pat. The mild tightening bias is likely to remain as the RBA watches the data closely, and should it make the case that the risks are not yet sufficiently balanced at 4.1%, the RBA will tighten further.

NAB pencils in one additional rate rise in November on an expectation that the inflation data flow through the remainder of the 3rd quarter will be sufficiently strong to see the RBA take out a little more insurance and act on their tightening bias. More broadly, we see an RBA that is close to, and may even be at, the peak in rates, and expect a process of normalisation from current moderately restrictive levels to begin late next year.

As for the September Board meeting on Tuesday, the data flow since August, when the Board saw a credible path to the inflation target with the cash rate remaining at its current level, shouldn't force a re-assessment, and if anything has been somewhat encouraging on balance. Nonetheless, the guidance that 'some further tightening of monetary policy may be required' is likely to remain, and we think risks remain that the inflation data flow over the next couple of months convinces the RBA to act on that tightening bias.

Q2 WPI (AUS: Q2 WPI undershoots expectations, but wages peak is still to come), July Employment (AUS: Employment disappoints expectations in April as unemployment rate rises), and, last week, the July CPI Indicator (AUS: CPI Indicator falls to 4.9% in July, but expect progress to stall or partially reverse in August) each come with a word of caution that they might not be quite as benign as they seem, but individually and collectively they certainly don't push the RBA to upwardly revise their August inflation risk assessment.

More colour on the RBA's thinking and for just how live meetings will be in the near term will likely come on Thursday, with Governor Lowe giving "some closing remarks" at his annual speech to the Anika Foundation. It is also his final speech as RBA Governor. Given the title, Lowe may take the opportunity to zoom out from the balancing act at the current monetary policy juncture. It's likely he will celebrate full employment as he passes the baton for the remainder of the disinflation task to his successor.

**GDP and other data**

The key data in the week ahead is Q2 GDP data on Wednesday, the day after the RBA meeting. While dated, the Accounts will provide a more comprehensive picture of the underlying dynamics in the economy, with the evolution of disposable income growth and the savings rate to provide useful insight into household cash flows and greater services spending information. As always, the broader earnings and productivity measures will receive some focus, but it remains the case that as important as these developments are for the outlook, a clear timely read will be elusive even with the GDP data in hand.

As for the detail, NAB sees a +0.5% q/q (1.9% y/y) GDP print for Q2 2023 which will confirm the slowing in domestic demand we have seen across other indicators. Both ABS retail sales data and our own transactions data points to a flat outcome for consumption following 0.2% growth in Q1. Business investment will provide some support to domestic demand, though the key driver of overall GDP growth this quarter looks to be a solid positive contribution from trade. Over the next two quarters we expect this pattern to persist with household consumption growth to dip slightly as real incomes continue to be squeezed. For NAB economics full preview, see Australian

GDP Preview Q2 2023 – Trade to support growth amidst flat consumption

Ahead of the GDP data**, Monday brings the Quarterly Business Indicators Survey**, which contains information on inventories, but also an update on growth in the private sector wage bill. The **Balance of Payments on Tuesday** provides a strong steer of the trade contribution in Wednesday's GDP data, as well as a swathe of detail in its own right. We pencil in a narrowing of the current account surplus to $5bn from 12bn on the back of a narrower trade surplus.

The July trade balance on Thursday rounds out the data calendar.

**US**

The market will continue to look for confirmation (or not!) that the Fed funds rate is at its peak, a view currently priced by rates markets, and given more force by a material downshift in Job Openings that arrived with sizeable downward revisions as peak unmet labour demand has passed. Last Friday's labour market data for August, while suggesting a bit of relief, didn't have lasting market impacts in that direction.

And following last week's ISM Manufacturing report (47.6, from 46.4 in July) the Services Index is die this Wednesday and is expected to ease a touch to 52.3 from 52.7. There'll be focus too on what those two reports say about upstream goods and services inflation, the former having eased considerably, the latter more ambiguous. The Fed's latest Beige Book, the "on the ground" business contacts' review of activity and inflation is also out Wednesday as well as a host of Fed speakers with their own perspectives.

**China**

The Caixin Services PMI round is expected to remain above 50, falling to 53.5 from 54.1, and will round the suite of PMIs seen this week. Trade data for August follows on Thursday, where base effects should be supportive for exports, but y/y growth is still expected to remain in negative territory at -8.8% from -14.5%,

**UK**

We have to wait until the week of the 10th September for the next official (July) UK wage data. However, the BoE's Decision Maker Panel does release its August survey findings on wages and inflation expectations on Friday 7th. The DMP wage data have been running at a slightly lower level than the ONS series.

A testimony by Governor Andrew Bailey to Parliament on Thursday will of course also be closely watched. His colleague, Chief Economist Huw Pill spoke in Cape Town on 31 August and gave a strong impression he is leaning towards a path of unchanged rates, held steady at a restrictive high level for longer to avoid Financial Stability risks and to ensure inflation is squeezed out of high wage settlements. That speech has started to see markets tentatively entertain the idea the BoE won't necessarily hike rates to 5.5% on 21 September, pulling back from a 50bps hike being priced by >25% a couple of weeks ago, to a 25bp hike now being priced at around 87% likelihood. That view – of the September decision being a discussion on whether to hike by 25bps or pause – rather than a hike being baked in the cake – is one we have sympathy for.

**Eurozone**

Markets are starting to more decisively price the ECB holding rates at 3.75% when the Governing Council meets on 14 September. Preliminary HICP inflation for August, released on the 31 August saw headline inflation unchanged at 5.3% y/y. This after higher than forecast inflation readings in Germany, France and Spain thwarted a consensus decline for EZ HICP to 5.1%. However, core inflation did decline two tenths to 5.3%. That data and a speech from ECB hawk, Executive Board member Isabel Schnabel, who acknowledged latest economic growth points to weaker prospects than the ECB's June forecast base case, have seen markets cut the pricing of a final 25bp rate hike in September to around 25% from above 50% a few days ago. As we have been noting, base effects will result in some sizeable declines in HICP over the next two months, before stabilising.

In the week ahead the only piece of potentially significant new data in this debate is the ECB's 'compensation per employee' wage data on Friday 7 September. Advance readings pointed to wage settlements pausing their run higher, but they remain elevated and the nature of pay bargaining in Europe concerns the ECB they will remain so for some time. This together with the ability of firms to continue passing on higher costs and new economic forecasts are the main factors that will likely drive the ECB's decision, rather than weaker economic growth, as long as the EZ is not forecast to enter a prolonged or deep recession. Thus, the rate decision will be a close call either way. Speeches from hawks Wunsch, Holzmann, Knot and Elderson as well as centrist Villeroy on Friday will all be closely monitored in this regard, alongside 1 and 3-year CPI expectations on Wednesday. Full month PMI readings for August on Wednesday are unlikely to move the dial given the soft preliminary numbers already out – unless there are significant revisions.

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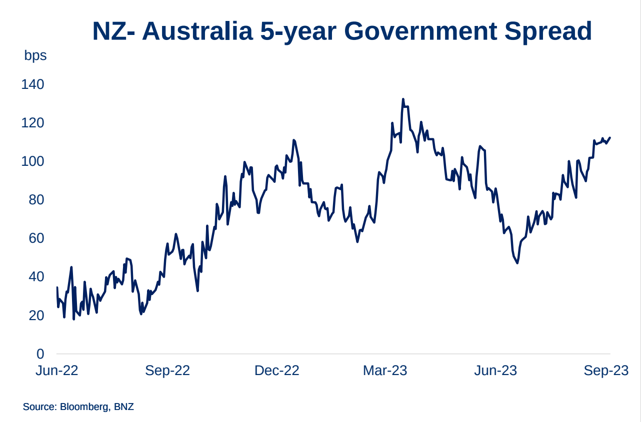
# Fixed Interest Market

**Reuters: BNZL, BNZM Bloomberg:BNZ**

After reaching multi-year highs on 23 August, New Zealand Government Bond (NZGB) yields have retraced sharply. 10-year yields had fallen to 4.83% by Friday's close, nearly 35bp below the recent peak. The move lower in yields over the course of last week took place against a backdrop of lower global yields in the absence of domestic catalysts. NZGBs have outperformed US Treasuries and German Bunds in the recent market rally but spreads to Australia have remained elevated and we see scope for compression on a cross market basis.

NZ-AU spreads expected to narrow

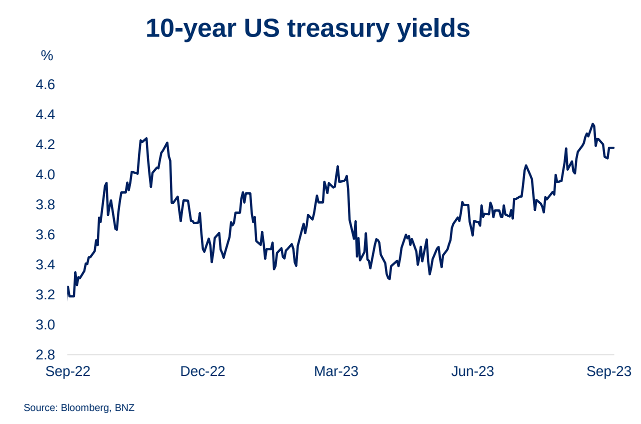



NZ spreads to Australia have been widening across the yield curve since June. 5-year spreads have rebounded from 50bp to 110bp and are approaching the highs from March. This move has taken place against a generally stable outlook for monetary policy in New Zealand. Meanwhile, the market has reduced expectations of further tightening by the Reserve Bank of Australia (RBA). Weakness in NZ activity points towards risks of an earlier pivot to an easing cycle by the RBNZ while we believe the risks are tilted in the opposite direction for the RBA.

The RBA is expected to leave rates on hold this week. Economic data since the August meeting has aligned with the Bank's view that there is a credible path back to the inflation target with the cash rate staying at its current level. However, guidance that 'some further tightening of monetary policy may be required' is likely to be retained. Despite recent developments, we think there are still risks that that RBA will need to act on this bias and the market is only pricing 4bps of tightening for the remainder of 2023.

With cross-market spreads elevated – 5-year bonds are above the 90$^{th}$ percentile for the past 20-years – we think there is room for this spread to compress given attractive valuations and potential for policy divergence amongst the respective central banks.

10-year treasuries remain near the peak




Global bond yields have pulled back from the August highs but remain elevated. 10-year US treasuries have traded a 3.60% - 4.35% range over the past 3 months with current levels only ~20bp below the highs. The backdrop is increasingly consistent with a 'soft-landing' for the US economy. This could lead the US Federal Reserve (Fed) to keep rates higher for longer, without needing to extend the tightening cycle, amid resilient activity and slowing inflation. In this scenario, bond yields could stay higher before gradually declining as the economy moderates.

The US labour market report for August revealed still strong demand for labour albeit on a continued slowing trend. 3-month average payrolls growth has slowed to 150k from close to 300k at the end of March. The unemployment rate unexpectedly increased to 3.8%, which is the highest level since February 2022, as labour force participation picked up. Falling job openings, a declining quits rate and decreasing confidence in the labour market from consumers are pointing towards further moderation in wage growth ahead.

Meanwhile, both headline and core PCE inflation remained subdued increasing 0.2% m/m in July. This is in line with the CPI release and confirms the disinflationary trend remains intact. Futures market pricing continues to imply that the Fed will leave rates on hold at the September meeting with a total of 10bps of tightening priced through to the November meeting. While we continue to believe we are at the top of the interest rate cycle, limiting the upside on bond yields from here, the catalyst for a meaningful move lower is absent while the soft-landing scenario remains dominant.

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# Foreign Exchange Market

**Reuters pg BNZWFWDS Bloomberg pg BNZ9**

The NZD and AUD modestly outperformed last week on higher risk appetite, including improved sentiment on China. Other major currencies showed little net movement against the USD. NZD/USD rose 0.7% to 0.5945. While NZD/AUD was flat and hovered around 0.92 through the week, the NZD made 0.5%-1% gains against the other key majors.

Last week our risk appetite index rose 8pts to 69%, its highest level in over a month. The run of US economic data was one factor, with signs of a "goldilocks" US economy – slowing just enough to maintain downside pressure on inflation, consistent with the coveted soft-landing scenario. Labour market data showed further moderation in employment growth, the unemployment rate up to an 18-month high of 3.8%, and lower wages inflation. Supporting evidence for a weaker economy were a downward revision to Q2 GDP to an annualised 2.1%, and lower consumer confidence. The core PCE deflator showed the smallest back-to-back inflation since late 2020, consistent with previously released CPI data, playing to the disinflation narrative.

Furthermore, sentiment towards China improved, with further incremental policy measures to support the economy and its markets. Following last weekend's series of measures designed to "invigorate capital markets and booster investor confidence", new policies announced last week included reducing down-payments required for mortgages alongside mortgage rate cuts to revive the property market, and a cut to the FX reserves ratio to support the yuan. The latter was another tool in the toolkit and signaled the PBoC's determination to prevent further yuan weakness to avoid capital flight.

Last week's price action gives some credence to the view that the NZD is in a consolidation phase after its recent rapid descent from 0.64 to just below 0.59 that kicked off from mid-July. Our central projection has this consolidation phase continuing through much of the year but with two-sided risks. We can't rule out the chance of further possible weakness, given the risk that still overhangs China and it wouldn't take much for pessimism to deepen further.

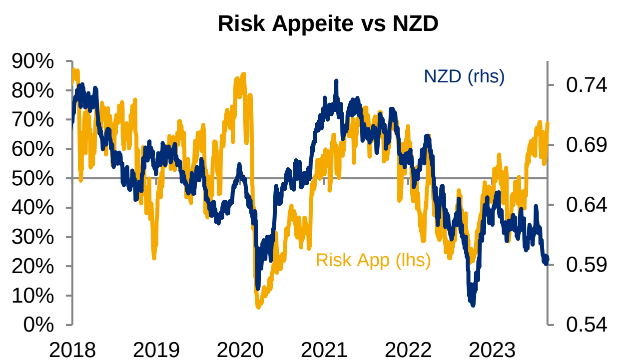
The upside case for the NZD is that US economic data weakens further, the economy becomes perilously close to recession and the market gains more confidence that the Fed is finished hiking. The market is still pricing about 10bps of interest rate hike risk into the Fed Funds curve. A much weaker turn of data from here would see that priced out and an easing in policy brought forward, leading to a broadly weaker USD. An eventual improvement in sentiment around China and weaker US data form our base case for a stronger NZD from late this year and into next year.

The chart below shows a depressed NZD against the backdrop of risk appetite back up to recent highs. This reflects the NZD being dragged down alongside other Asia-Pacific currencies as sentiment on China has soured, and not helped by the steady decline in NZ's export commodity prices to a three-year low. Better sentiment on China and an improved outlook for the global economy would both help support commodity prices and are necessary factors to drive a sustained NZD recovery.

The week ahead is relatively quiet. The RBA and Bank of Canada give policy updates, with the market assigning a very low probability to any chance of rate hikes – both central banks on the sidelines for now, awaiting further data.

The global economic calendar is light, with the US ISM services index and China trade data of some interest, but not much else. On the domestic scene some second-tier data will help firm up our Q2 GDP estimate, which currently stands at a muted 0.3% q/q, following two consecutive negative quarters.

Risk appetite back up, but NZD still depressed



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

| | Current | Last 3-weeks range* |
|---|---|---|
| NZD/USD | 0.5948 | 0.5890 - 0.6020 |
| NZD/AUD | 0.9219 | 0.9180 - 0.9280 |
| NZD/GBP | 0.4725 | 0.4630 - 0.4730 |
| NZD/EUR | 0.5518 | 0.5420 - 0.5530 |
| NZD/JPY | 86.90 | 85.80 - 87.50 |

*Indicative range over last 3 weeks, rounded figures

**BNZ Short-term Fair Value Models**

| | Model Est. | Actual/FV |
|---|---|---|
| NZD/USD | 0.6240 | -5% |
| NZD/AUD | 0.9000 | 2% |

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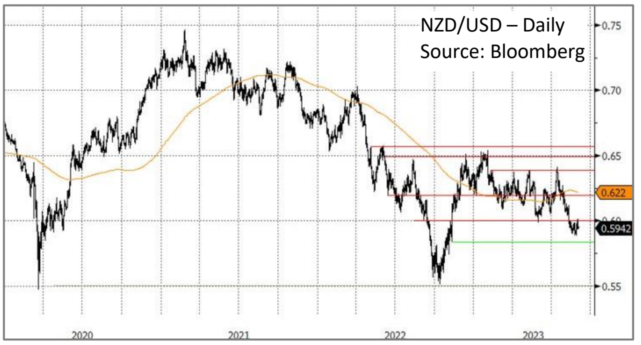
# Technicals

**NZD/USD**

Outlook: Downside risk
ST Resistance: 0.60 (ahead of 0.62)
ST Support: 0.5840 (ahead of 0.55)

Recent signs of consolidation with prior support of 0.60 now indicatively looking to be a level of resistance. Looking at 0.5840 as a possible support level.




**NZD/AUD**

Outlook: Trading range
ST Resistance: 0.94 (ahead of 0.9450)
ST Support: 0.90 (ahead of 0.8890)

No change. Technicals remain consistent with the cross in a broad 0.90-0.94 trading range.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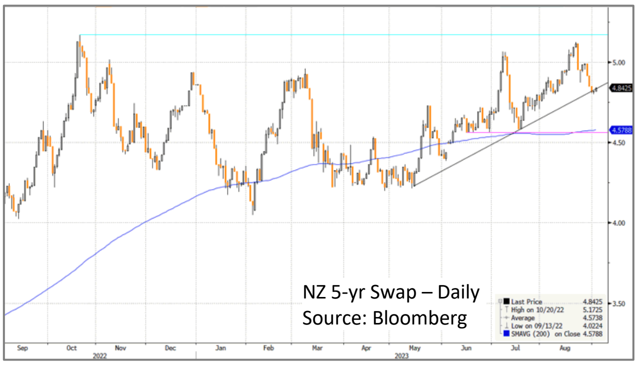
**NZ 5-year Swap Rate**

Outlook: Higher
MT Resistance: 5.18
MT Support: 4.57

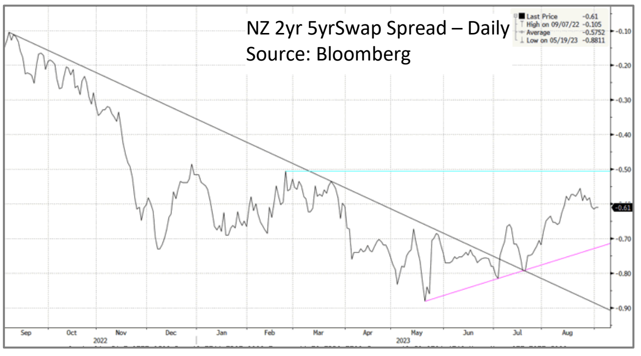
Trendline support here. Tight stop on close below 4.80.




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

Outlook: less inverted
MT Resistance: -0.51
MT Support: -0.88

Target of -51 remains.

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# Quarterly Forecasts

**Forecasts as at 4 September 2023**

## Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

| | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (production s.a.)** | 0.1 | 1.5 | 1.4 | -0.7 | -0.1 | 0.3 | 0.1 | -0.6 | -0.3 | 0.3 |
| **Retail trade (real s.a.)** | -1.2 | -1.9 | 0.2 | -1.1 | -1.6 | -1.0 | -1.0 | -0.5 | 0.2 | 0.6 |
| **Current account (ytd, % GDP)** | -6.8 | -8.0 | -8.5 | -9.0 | -8.5 | -7.9 | -7.8 | -7.5 | -7.3 | -7.4 |
| **CPI (q/q)** | 1.8 | 1.7 | 2.2 | 1.4 | 1.2 | 1.1 | 2.2 | 0.9 | 0.5 | 0.5 |
| **Employment** | -0.1 | -0.1 | 1.2 | 0.7 | 1.1 | 1.0 | 0.5 | 0.3 | 0.1 | 0.0 |
| **Unemployment rate %** | 3.2 | 3.3 | 3.3 | 3.4 | 3.4 | 3.6 | 3.8 | 4.0 | 4.4 | 4.8 |
| **Avg hourly earnings (ann %)** | 5.3 | 7.0 | 8.6 | 8.1 | 8.2 | 7.7 | 6.8 | 6.6 | 5.8 | 5.1 |
| **Trading partner GDP (ann %)** | 3.9 | 2.2 | 3.8 | 2.1 | 2.8 | 3.4 | 2.9 | 3.2 | 2.8 | 2.6 |
| **CPI (y/y)** | 6.9 | 7.3 | 7.2 | 7.2 | 6.7 | 6.0 | 6.1 | 5.5 | 4.7 | 4.1 |
| **GDP (production s.a., y/y))** | 1.1 | 0.7 | 6.6 | 2.3 | 2.2 | 1.0 | -0.4 | -0.2 | -0.5 | -0.5 |

## 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** |
| **2022 Mar** | 0.90 | 1.25 | 2.60 | 2.75 | 2.65 | 2.95 | 3.00 | 0.50 | 1.95 | 0.83 |
| **Jun** | 1.83 | 2.24 | 3.55 | 3.68 | 3.83 | 3.92 | 3.95 | 1.50 | 2.90 | 0.76 |
| **Sep** | 2.83 | 3.33 | 3.65 | 3.77 | 4.12 | 3.95 | 3.95 | 3.00 | 3.10 | 0.67 |
| **Dec** | 4.00 | 4.27 | 4.34 | 4.31 | 5.10 | 4.67 | 4.55 | 4.50 | 3.80 | 0.49 |
| **2023 Mar** | 4.58 | 4.99 | 4.27 | 4.26 | 5.11 | 4.51 | 4.40 | 4.90 | 3.65 | 0.61 |
| **Jun** | 5.42 | 5.62 | 4.23 | 4.27 | 5.19 | 4.44 | 4.30 | 5.55 | 3.75 | 0.75 |
| Forecasts | | | | | | | | | | |
| **Sep** | 5.50 | 5.60 | 4.40 | 4.20 | 5.25 | 4.65 | 4.40 | 5.95 | 3.70 | 0.50 |
| **Dec** | 5.50 | 5.60 | 4.30 | 4.20 | 4.95 | 4.55 | 4.40 | 5.95 | 3.70 | 0.50 |
| **2024 Mar** | 5.50 | 5.45 | 4.15 | 4.10 | 4.55 | 4.40 | 4.30 | 5.70 | 3.50 | 0.60 |
| **Jun** | 5.25 | 5.00 | 4.10 | 4.20 | 4.15 | 4.35 | 4.40 | 5.20 | 3.50 | 0.70 |
| **Sep** | 4.75 | 4.50 | 3.85 | 3.95 | 3.95 | 4.10 | 4.15 | 4.70 | 3.25 | 0.70 |
| **Dec** | 4.25 | 4.25 | 3.70 | 3.95 | 3.45 | 3.95 | 4.15 | 4.20 | 3.25 | 0.70 |
| **2025 Mar** | 4.00 | 3.75 | 3.60 | 3.95 | 3.10 | 3.85 | 4.15 | 3.70 | 3.25 | 0.70 |
| **Jun** | 3.50 | 3.65 | 3.50 | 3.95 | 2.80 | 3.75 | 4.15 | 3.45 | 3.25 | 0.70 |

## Exchange Rates (End Period)

### USD Forecasts

| | NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY |
|---|---|---|---|---|---|
| **Current** | 0.60 | 0.65 | 1.08 | 1.26 | 146 |
| **Sep-23** | 0.59 | 0.64 | 1.09 | 1.28 | 146 |
| **Dec-23** | 0.60 | 0.66 | 1.13 | 1.31 | 138 |
| **Mar-24** | 0.62 | 0.69 | 1.16 | 1.35 | 135 |
| **Jun-24** | 0.64 | 0.71 | 1.17 | 1.34 | 130 |
| **Sep-24** | 0.64 | 0.72 | 1.18 | 1.35 | 125 |
| **Dec-24** | 0.65 | 0.73 | 1.19 | 1.35 | 120 |
| **Mar-25** | 0.67 | 0.75 | 1.21 | 1.37 | 118 |
| **Jun-25** | 0.69 | 0.77 | 1.22 | 1.37 | 116 |
| **Sep-25** | 0.71 | 0.78 | 1.23 | 1.38 | 115 |
| **Dec-25** | 0.71 | 0.78 | 1.23 | 1.38 | 114 |

### NZD Forecasts

| | NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|---|---|---|---|---|---|---|
| **Current** | 0.60 | 0.92 | 0.55 | 0.47 | 87.0 | 69.8 |
| **Sep-23** | 0.59 | 0.92 | 0.54 | 0.46 | 86.1 | 69.3 |
| **Dec-23** | 0.60 | 0.91 | 0.53 | 0.46 | 82.8 | 69.1 |
| **Mar-24** | 0.62 | 0.90 | 0.53 | 0.46 | 83.7 | 70.3 |
| **Jun-24** | 0.64 | 0.90 | 0.55 | 0.48 | 83.2 | 71.3 |
| **Sep-24** | 0.64 | 0.89 | 0.54 | 0.47 | 80.0 | 70.4 |
| **Dec-24** | 0.65 | 0.89 | 0.55 | 0.48 | 78.0 | 70.4 |
| **Mar-25** | 0.67 | 0.89 | 0.55 | 0.49 | 79.1 | 71.8 |
| **Jun-25** | 0.69 | 0.90 | 0.57 | 0.50 | 80.0 | 73.4 |
| **Sep-25** | 0.71 | 0.91 | 0.58 | 0.51 | 81.7 | 75.2 |
| **Dec-25** | 0.71 | 0.91 | 0.58 | 0.51 | 80.9 | 75.2 |
| **TWI Weights** | 13.8% | 16.5% | 9.8% | 3.1% | 6.1% | |

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

# Annual Forecasts

| Forecasts as at 4 September 2023 | March Years | | | | | December Years | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actuals | | Forecasts | | | Actuals | | Forecasts | | |
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2021 | 2022 | 2023 | 2024 | 2025 |
| ***ɔP -*** annual average % change | | | | | | | | | | |
| Private Consumption | 6.0 | 2.4 | 1.1 | 0.8 | 2.0 | 7.5 | 3.0 | 1.3 | 0.3 | 1.9 |
| Government Consumption | 8.0 | 2.0 | -2.5 | -3.3 | 1.4 | 8.2 | 4.5 | -2.1 | -4.3 | 1.4 |
| Total Investment | 10.6 | 3.5 | -0.7 | -1.1 | 4.2 | 12.5 | 3.9 | 0.6 | -2.3 | 3.3 |
| Stocks - ppts cont'n to growth | 0.6 | -0.2 | -0.3 | 0.4 | 0.0 | 1.3 | 0.0 | -0.9 | 0.6 | 0.0 |
| GNE | 8.1 | 2.4 | -0.1 | 0.0 | 2.4 | 10.2 | 3.5 | -0.1 | -0.6 | 2.2 |
| Exports | 2.4 | 6.2 | 6.5 | 4.1 | 5.4 | -2.7 | 0.0 | 9.2 | 4.7 | 5.5 |
| Imports | 17.6 | 4.9 | 3.0 | 0.1 | 2.7 | 15.1 | 5.3 | 3.3 | 0.6 | 2.1 |
| Real Expenditure GDP | 4.8 | 2.6 | -0.1 | 1.0 | 3.1 | 6.0 | 2.3 | 0.4 | 0.2 | 3.0 |
| **GDP (production)** | **5.2** | **2.9** | **0.0** | **1.0** | **3.1** | **6.0** | **2.7** | **0.6** | **0.2** | **3.0** |
| *GDP - annual % change (q/q)* | *1.1* | *2.2* | *-0.5* | *2.7* | *2.9* | *3.3* | *2.3* | *-0.2* | *1.5* | *3.1* |
| | | | | | | | | | | |
| Output Gap (ann avg, % dev) | 1.4 | 1.9 | -0.4 | -1.2 | -0.2 | 1.5 | 2.0 | 0.2 | -1.3 | -0.4 |
| Nominal Expenditure GDP - $bn | 358 | 387 | 401 | 416 | 438 | 352 | 380 | 399 | 410 | 433 |
| | | | | | | | | | | |
| ***ices and Employment -*** annual % change | | | | | | | | | | |
| CPI | 6.9 | 6.7 | 4.7 | 2.3 | 2.1 | 5.9 | 7.2 | 5.5 | 2.3 | 2.2 |
| Employment | 2.5 | 2.9 | 1.9 | 0.9 | 2.0 | 3.3 | 1.7 | 2.9 | 0.5 | 2.0 |
| Unemployment Rate % | 3.2 | 3.4 | 4.4 | 5.3 | 5.3 | 3.2 | 3.4 | 4.0 | 5.2 | 5.3 |
| Wages - ahote (private sector) | 5.3 | 8.2 | 5.8 | 3.6 | 2.8 | 4.1 | 8.1 | 6.6 | 4.0 | 2.9 |
| Productivity (ann av %) | 2.3 | 0.8 | -2.6 | 0.3 | 1.3 | 3.9 | 0.5 | -2.3 | -0.6 | 1.5 |
| Unit Labour Costs (ann av %) | 4.0 | 6.3 | 8.3 | 4.0 | 1.5 | 2.0 | 6.2 | 8.4 | 5.5 | 1.5 |
| House Prices | 13.8 | -12.8 | 3.4 | 8.6 | 10.9 | 27.2 | -10.9 | -1.9 | 6.7 | 12.5 |
| | | | | | | | | | | |
| ***External Balance*** | | | | | | | | | | |
| Current Account - $bn | -24.2 | -33.0 | -29.4 | -25.1 | -18.4 | -21.1 | -34.4 | -29.8 | -28.0 | -19.7 |
| Current Account - % of GDP | -6.8 | -8.5 | -7.3 | -6.0 | -4.2 | -6.0 | -9.0 | -7.5 | -6.8 | -4.6 |
| | | | | | | | | | | |
| ***ɔvernment Accounts*** - June Yr, % of GDP | | | | | | | | | | |
| OBEGAL (core operating balance) | -3.4 | -2.4 | -2.8 | -1.7 | -0.8 | | | | | |
| Net Core Crown Debt (excl NZS Fund Assets) | 17.0 | 18.0 | 22.0 | 21.7 | 20.7 | | | | | |
| Bond Programme - $bn (Treasury forecasts) | 20.0 | 28.0 | 34.0 | 32.0 | 30.0 | | | | | |
| Bond Programme - % of GDP | 5.6 | 7.2 | 8.5 | 7.7 | 6.9 | | | | | |
| | | | | | | | | | | |
| ***nancial Variables*** (1) | | | | | | | | | | |
| NZD/USD | 0.69 | 0.62 | 0.62 | 0.67 | 0.69 | 0.68 | 0.63 | 0.60 | 0.65 | 0.71 |
| USD/JPY | 119 | 134 | 135 | 118 | 112 | 114 | 135 | 138 | 120 | 114 |
| EUR/USD | 1.10 | 1.07 | 1.16 | 1.21 | 1.21 | 1.13 | 1.06 | 1.13 | 1.19 | 1.23 |
| NZD/AUD | 0.93 | 0.93 | 0.90 | 0.89 | 0.91 | 0.95 | 0.94 | 0.91 | 0.89 | 0.91 |
| NZD/GBP | 0.52 | 0.51 | 0.46 | 0.49 | 0.50 | 0.51 | 0.52 | 0.46 | 0.48 | 0.51 |
| NZD/EUR | 0.62 | 0.58 | 0.53 | 0.55 | 0.57 | 0.60 | 0.60 | 0.53 | 0.55 | 0.58 |
| NZD/YEN | 81.5 | 83.0 | 83.7 | 79.1 | 77.3 | 77.4 | 85.6 | 82.8 | 78.0 | 80.9 |
| TWI | 73.9 | 71.0 | 70.3 | 71.8 | 73.8 | 73.0 | 72.9 | 69.1 | 70.4 | 75.2 |
| Overnight Cash Rate (end qtr) | 1.00 | 4.75 | 5.50 | 4.00 | 2.50 | 0.75 | 4.25 | 5.50 | 4.25 | 2.50 |
| 90-day Bank Bill Rate | 1.45 | 5.16 | 5.45 | 3.75 | 2.65 | 0.92 | 4.55 | 5.60 | 4.25 | 2.65 |
| 5-year Govt Bond | 2.90 | 4.40 | 4.15 | 3.60 | 3.40 | 2.20 | 4.30 | 4.30 | 3.70 | 3.40 |
| 10-year Govt Bond | 3.20 | 4.35 | 4.10 | 3.95 | 3.85 | 2.35 | 4.25 | 4.20 | 3.95 | 3.85 |
| 2-year Swap | 3.00 | 5.15 | 4.55 | 3.10 | 2.75 | 2.22 | 5.21 | 4.95 | 3.45 | 2.75 |
| 5-year Swap | 3.20 | 4.50 | 4.40 | 3.85 | 3.65 | 2.56 | 4.62 | 4.55 | 3.95 | 3.65 |
| US 10-year Bonds | 2.10 | 3.65 | 3.50 | 3.25 | 3.25 | 1.45 | 3.60 | 3.70 | 3.25 | 3.25 |
| NZ-US 10-year Spread | 1.10 | 0.70 | 0.60 | 0.70 | 0.60 | 0.90 | 0.65 | 0.50 | 0.70 | 0.60 |

*Average for the last month in the quarter*

Source: Statistics NZ, BNZ, NZ Treasury

# Key Upcoming Events

All times and dates NZT

| | | Median | Fcast | Last |
|---|---|---|---|---|
| | **Monday 04 September** | | | |
| NZ | Terms of Trade Index QoQ 2Q | -0.10% | | -1.50% |
| AU | Melbourne Institute Inflation YoY Aug | | | 5.40% |
| AU | Inventories SA QoQ 2Q | 0.40% | | 1.20% |
| AU | ANZ-Indeed Job Advertisements MoM Aug | | | 0.40% |
| GE | Trade Balance SA Jul | 17.8b | | 18.7b |
| EC | Sentix Investor Confidence Sep | -20 | | -18.9 |
| EC | EU Commission Economic Forecasts | | | |
| | **Tuesday 05 September** | | | |
| EC | ECB's Lagarde Speaks | | | |
| AU | Judo Bank Australia PMI Services Aug F | | | 46.7 |
| UK | BRC Sales Like-For-Like YoY Aug | | | 1.80% |
| JN | Household Spending YoY Jul | -2.50% | | -4.20% |
| NZ | ANZ Commodity Price MoM Aug | | | -2.60% |
| AU | BoP Current Account Balance 2Q | A$8.0b | | A$12.3b |
| AU | Net Exports of GDP 2Q | 0.4 | | -0.2 |
| AU | RBA Cash Rate Target Sep-05 | 4.10% | | 4.10% |
| GE | HCOB Germany Services PMI Aug F | 47.3 | | 47.3 |
| EC | ECB 1 Year CPI Expectations Jul | | | 3.40% |
| EC | HCOB Eurozone Services PMI Aug F | 48.3 | | 48.3 |
| UK | S&P Global/CIPS UK Services PMI Aug F | 48.7 | | 48.7 |
| | **Wednesday 06 September** | | | |
| US | Factory Orders Jul | -2.50% | | 2.30% |
| US | Durable Goods Orders Jul F | | | -5.20% |
| NZ | Volume of All Buildings SA QoQ 2Q | 0.20% | | 0.60% |
| AU | GDP SA QoQ 2Q | 0.30% | | 0.20% |
| JN | BOJ Board Takata Speech in Yamaguchi | | | |
| NZ | PM Hipkins Speaks at Bloomberg Fnctn | | | |
| GE | Factory Orders MoM Jul | -4.00% | | 7.00% |
| EC | Retail Sales MoM Jul | -0.10% | | -0.30% |

| | | Median | Fcast | Last |
|---|---|---|---|---|
| | **Thursday 07 September** | | | |
| US | Trade Balance Jul | -$68.0b | | -$65.5b |
| US | Ex-Fed Official Bullard Speaks at NABE | | | |
| UK | BOE Governor Bailey testifies | | | |
| US | S&P Global US Services PMI Aug F | 51.2 | | 51 |
| CA | Bank of Canada Rate Decision Sep-06 | 5.00% | | 5.00% |
| SW | Riksbank Governor Thedeen speech | | | |
| US | Federal Reserve Releases Beige Book | | | |
| NZ | Mfg Activity Volume QoQ 2Q | | | -2.10% |
| AU | Trade Balance Jul | A$10000m | | A$11321m |
| AU | RBA's Lowe-Speech | | | |
| GE | Industrial Production SA MoM Jul | -0.50% | | -1.50% |
| EC | ECB Speakers | | | |
| EC | GDP SA QoQ 2Q F | 0.30% | | 0.30% |
| EC | Employment YoY 2Q F | | | 1.50% |
| EC | ECB's Holzmann Speaks | | | |
| CH | Trade Balance CNY Aug | | | 575.70b |
| | **Friday 08 September** | | | |
| US | Initial Jobless Claims Sep-02 | 234k | | 228k |
| US | Continuing Claims Aug-26 | 1715k | | 1725k |
| US | Fed's Williams Speaks | | | |
| US | Fed's Bostic Speaks on Eco Outlook | | | |
| US | Fed's Logan Speaks on Monetary Policy | | | |
| JN | GDP SA QoQ 2Q F | 1.40% | | 1.50% |
| JN | Eco Watchers Survey Outlook SA Aug | 53.4 | | 54.1 |
| GE | CPI YoY Aug F | 6.10% | | 6.10% |
| | **Saturday 09 September** | | | |
| US | Wholesale Trade Sales MoM Jul | 0.20% | | -0.70% |
| CH | CPI YoY Aug | | | -0.30% |
| CH | PPI YoY Aug | | | -4.40% |
| CH | New Yuan Loans CNY Aug | | | 345.9b |

# Historical Data

| | Today | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **CASH AND BANK BILLS** | | | | |
| Call | 5.50 | 5.50 | 5.50 | 3.00 |
| 1mth | 5.60 | 5.60 | 5.61 | 3.11 |
| 2mth | 5.63 | 5.62 | 5.63 | 3.32 |
| 3mth | 5.65 | 5.64 | 5.64 | 3.52 |
| 6mth | 5.71 | 5.72 | 5.74 | 3.83 |
| **GOVERNMENT STOCK** | | | | |
| 04/25 | 5.43 | 5.56 | 5.37 | 3.89 |
| 04/27 | 4.97 | 5.12 | 4.86 | 3.90 |
| 04/29 | 4.84 | 5.00 | 4.72 | 3.95 |
| 05/31 | 4.83 | 5.01 | 4.73 | 3.98 |
| 04/33 | 4.83 | 5.02 | 4.75 | 4.04 |
| 04/37 | 4.95 | 5.15 | 4.87 | 4.22 |
| 05/41 | 5.01 | 5.20 | 4.96 | 4.30 |
| 05/51 | 5.00 | 5.20 | 4.92 | 4.27 |
| **GLOBAL CREDIT INDICES (ITRXX)** | | | | |
| Nth America 5Y | 63 | 64 | 67 | 92 |
| Europe 5Y | 70 | 74 | 71 | 119 |

| | Today | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **SWAP RATES** | | | | |
| 2 years | 5.45 | 5.58 | 5.48 | 4.32 |
| 3 years | 5.16 | 5.30 | 5.15 | 4.27 |
| 4 years | 4.96 | 5.10 | 4.94 | 4.21 |
| 5 years | 4.84 | 4.99 | 4.82 | 4.17 |
| 10 years | 4.70 | 4.85 | 4.70 | 4.17 |
| **FOREIGN EXCHANGE** | | | | |
| NZD/USD | 0.5948 | 0.5910 | 0.6106 | 0.6095 |
| NZD/AUD | 0.9218 | 0.9194 | 0.9290 | 0.8967 |
| NZD/JPY | 86.89 | 86.60 | 86.99 | 85.70 |
| NZD/EUR | 0.5514 | 0.5463 | 0.5550 | 0.6138 |
| NZD/GBP | 0.4719 | 0.4690 | 0.4777 | 0.5292 |
| NZD/CAD | 0.8077 | 0.8038 | 0.8163 | 0.8012 |
| TWI | 69.8 | 69.6 | 70.8 | 70.8 |

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