Research

Markets Outlook

18 September 2023

A Bounce… Along The Bottom

- **GDP likely rose in Q2**
- **But PMI, PSI sound warning for growth thereafter**
- **Looks more like RBNZ (and our) view than Treasury's**
- **Current account deficit still massive, but narrowing**
- **Dairy auction to confirm some signs of life in prices?**
- **Merchandise trade expected to show value drop**

Thursday's GDP figures headline this week's economic schedule. Should the economy post a rebound in activity in these figures for Q2 – as we think it will – it will no doubt encourage discussion and commentary of the country bouncing out of recession. While that would be technically true, one must also ask the question if a bounce from the initial damage and disruption from extreme weather events is really 'growth'?

If an ensuing discussion of a bounce out of recession bemuses some, imagine how perplexed they would be if the headlines read that recession had been avoided all together. That would only take the previously recorded slight decline in activity in the first quarter of the year to be revised by the smallest of margins higher, to get it to zero or above. We would put the possibility of that at 50/50.

In truth, a lot of this is margin of error stuff. Technical recession or not, there is absolutely no doubting economic conditions are tough for many. Look at consumer confidence, for example. The latest WMM report on such for Sept/Q3 is due on Friday. We'd be surprised if its summary index is much different to its 83.1 result for June/Q2, which would mean near record degrees of despondency, still.

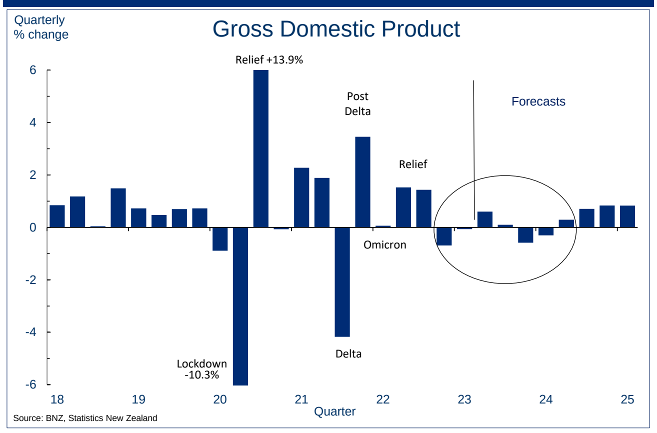
But back to GDP on Thursday. There seems a solid chance of seeing a rebound in Q2, after it slipped 0.1% in Q1 (and fell 0.7% in Q4). We have pencilled in a 0.6% lift in Q2, supported by a bounce-back in manufacturing including a weather-related blush of food processing. From an expenditure perspective, we anticipate a big jump in merchandise trade volumes to counter a pull-back in private consumption.

Looking at growth from an annual perspective reinforces why we think folk shouldn't get over excited by the likely bounce in Q2. A quarterly outcome in line with our view would generate annual GDP growth of just 1.3%. That is slow, but it is that much more so in the context of population growth in excess of 2% over the period. Even the quarterly result we expect would barely match now-high population growth (via net migration) while the annual result would be clearly contractionary if expressed in per capita terms. This perspective is worth bearing in mind, too, given the potential for revisions to recent prior quarters of GDP.

Being for the second quarter of the year, the GDP figures are somewhat historical, but they still matter. In the least, this is because they establish the recorded starting point for which the way forward is based on and projected from, including by the central bank and fiscal authorities. Not that it looks like causing major issues on that front.

If we are accurate with our +0.6% on Q2 GDP, the outcome would be hardly different to what the RBNZ expected. This was for a gain of 0.5% (1.2% y/y), as per its August Monetary Policy Statement. We would note, though, the RBNZ anticipates a far bigger jump in total exports in Q2, and much more of a fall in private consumption, than we do. It's also worth pointing out Treasury, for the purposes of the recent PREFU, figured on a 0.6% increase in Q2 GDP. Bigger differences in growth forecasts develop from Q3, with the Treasury generally seeing a stronger performance than either the RBNZ or we do.

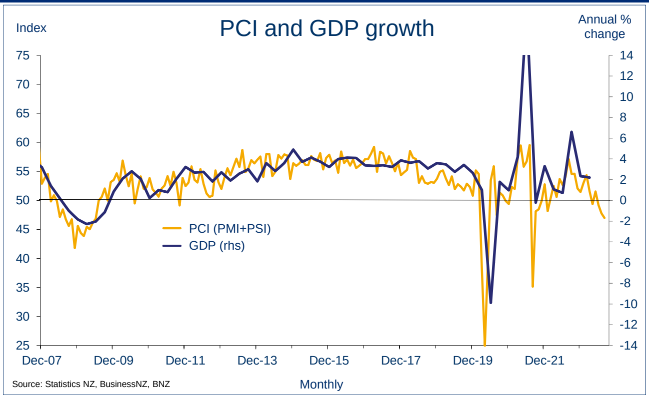
A Bounce, Along The Bottom



For quite some we have been describing economic growth as bouncing along the bottom and this still seems entirely appropriate. We say this as early indicators for Q3 point to ongoing struggles. For example, last week's PMI for August was soft at 46.1. This morning's PSI was similarly weak at

47.1. The combined index (PCI) adds to the notion that economic growth has struggled into the second half of the year. And, in doing so, suggests any bounce in this week's GDP figures, will be short lived.

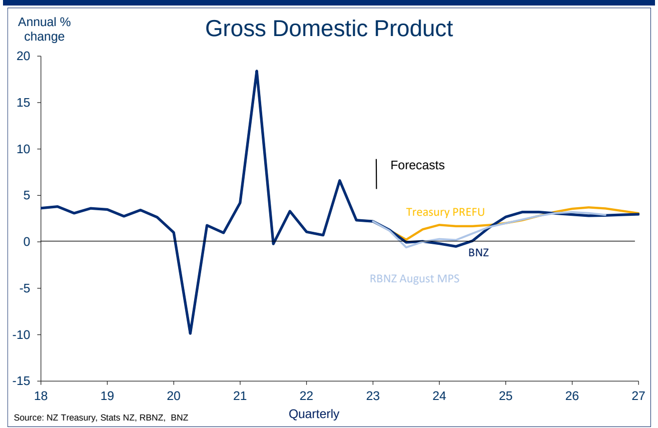
GDP To Struggle Post Expected Q2 Bounce



In this sense, the PMI and PSI results are more consistent with the RBNZ forecast of a return to recession than the Treasury's latest forecasts of moderate growth ahead.

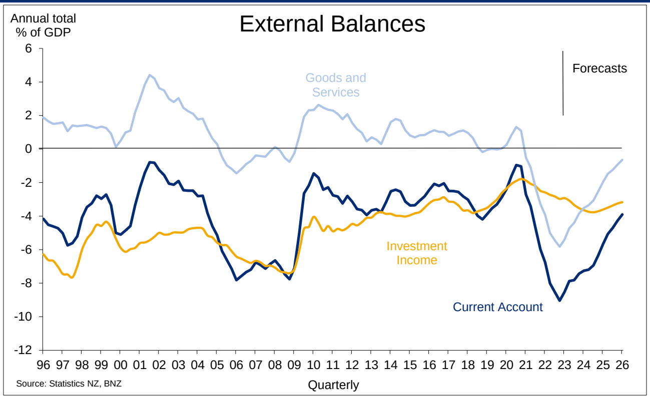
Standing back from the quarterly wriggles, our annual growth forecasts give perspective. After the expected softening to 1.3% in Q2, we see annual growth bouncing around zero for the following five quarters before meaningful expansion resumes on an annual basis. It all looks worse on a per capita basis.

Flat



Ahead of the GDP figures, we get Q2 Balance of Payments data on Wednesday. These accounts have been attracting greater than usual attention because of the size the current account deficit. This struck 9.0% of GDP for calendar 2022, although it came in at 8.5% for the year to March 2023. We expect the deficit continued to come back from the brink in the year to June, albeit still relatively very high at 7.9% of GDP. We will also, as usual, map the current account's export and import data to our Q2 GDP componentry, to see if there is any need to tweak the latter.

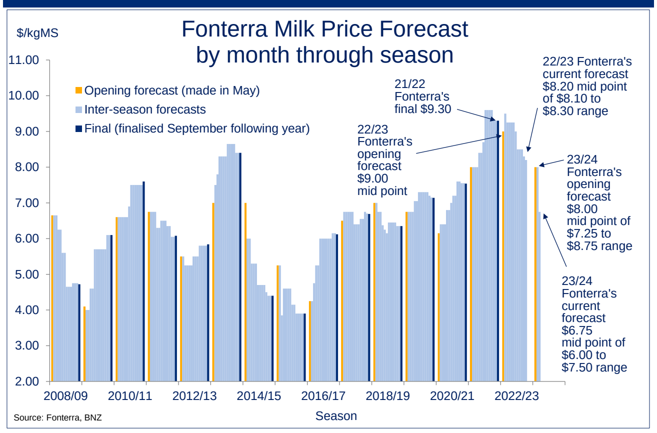
Edging Back From The Brink



There is also some commodity news due this week. Wednesday's early morning dairy auction will be well worth a look. For all the doom and gloom around dairy prices over recent months, this auction has the potential to push further off the recent very low levels. We reckon prices (GDT Price Index) could increase around 4-6% at this event. This follows from Fonterra noting poor weather and high costs affecting early season NZ milk production. There is also increasing focus on the brewing El Nino weather pattern and its potential to dent output ahead. Lower milk production may not be the best way to achieve higher prices, but it is all part off the mix. We think an auction result as we expect would help halt a string of downward revisions to milk price forecasts from all and sundry. It may even have some thinking about revising upwards, albeit from the currently adverse levels.

All this gives more reason to tune into Fonterra's annual result on Thursday. However, this is mainly about the previous season including for the cooperative to finalise 1) its milk price paid to farmers for 2022/23, presently pitched at a midpoint of $8.20 and 2) its earnings, presently indicated as at the top end of 65-80 cents per share (which is historically high). But, you never know, Fonterra might say something about its forecast milk price for the 2023/24 season which currently sits as a range of $6.00 to $7.50.

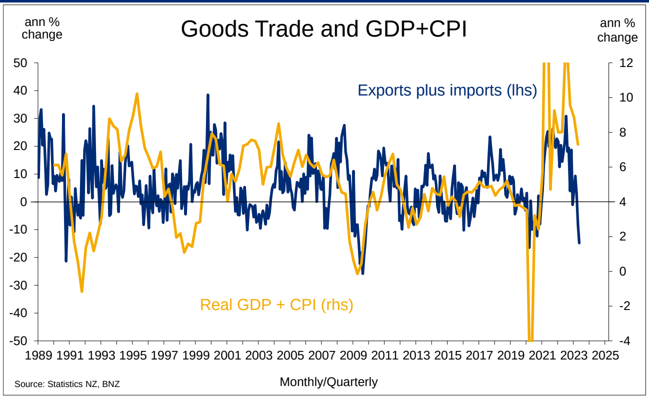
Fonterra To Finalise 2022/23 Milk Price This Week



On Friday, merchandise trade figures for August will provide a further feel for how economic activity is going post the Q2 GDP result (that is sure to show a sizeable contribution from net exports). July's merchandise trade figures suggested exports were losing strength – rapidly. We expect August's results to affirm this, in falling 15% y/y. Meanwhile, we expect imports to be down 10% y/y, as softening domestic demand makes its presence felt. This would tally to a monthly deficit of $2,635m, keeping the annual deficit at $15.8b.

But we think there would be a more important message if large declines in nominal trade values are confirmed. It would add to the accumulating evidence that the trend in either annual economic growth or underlying annual inflation is downward. Most likely both are.

Trade Trends Point To Lower Nominal Growth



On inflation, we continue to monitor the ongoing ascent of oil prices. These are adding to near term headline inflation calculations. It runs the risk of spilling over into inflation expectations which would be of more concern to the RBNZ than the direct inflationary influence of higher fuel prices. That said, it is not clear that the RBNZ would necessarily respond with higher interest rates at least in the first instance. At the same time as putting upward pressure on headline inflation, higher fuel prices are also depleting the purchasing power of disposable income and restricting spending for non-fuel products and services. It is another drag on economic growth to factor in post this week's Q2 outcome.

doug_steel@bnz.co.nz

Global Watch

- **Fed seen on hold this week**
- **BoE possible hike not as likely as markets price**
- **ECB speakers on the circuit post hike**
- **Prelim PMIs due in US, EZ, and UK**
- **RBA minutes from September meet out on Tuesday**

Australia

The RBA Minutes on Tuesday is the only notable item on the schedule this week. The Westpac Leading Index and PMIs are unlikely to materially move markets.

The RBA Minutes are for the September Meeting, the last meeting where Dr Lowe was Governor. Note Michele Bullock has now taken over as RBA Governor. Even though the Minutes pre-date the governor handover, there has been little commentary from the RBA since then, and thus Tuesday's Minutes might be as much opportunity as we get to fill out the evolution of the RBA's thinking before its October meeting.

US

NAB expects the FOMC to hold rates on Wednesday. That is a view shared by all but 2 of the 96 analysts in the Bloomberg Survey and just 2% chance of a hike is priced by the market. Officials have telegraphed openness to a pause. The past three CPI prints have been comforting enough to allow some breathing room even amid resilient labour markets and stronger activity, a dynamic that should also be reflected in upgraded growth forecasts and pared inflation forecasts. But another pause would be far from confirmation that a peak is in and markets will instead be focussed on the press conference and new projections. NAB thinks the 2023 median dot will continue to show one more hike, with room for a couple of officials to lower their dots without the median ticking lower. Note also that projections are extended to 2026 at this meeting. NAB's view is that the FOMC will remain on hold at this level, with cuts not until 2024. PMIs for September are due at the end of the week, with minimal change expected.

China

It is a quiet week in prospect, with the 1- and 5-year Loan Prime Rate sets on Thursday. Both are seen unchanged by almost all analysts.

Eurozone

After the ECB's 'dovish hike' markets have taken a key paragraph in the ECB statement to mean rates have peaked, with the Deposit Rate at 4%. NAB agrees the peak is in, but suspect it'll be a while before inflation data will cool sufficiently to appease ECB hawks. Expect the hawks to be more circumspect on the peak being in and the caveats outlined that can change things. This week we hear from ECB speakers like Guindos, Elderson, and Lane who are generally more centrist/dovish. Only Executive Board Member Isabel Schnabel resides in the hawkish camp and she speaks on Thursday. On the data front final August inflation data on Tuesday should come without much fanfare. More interesting will be Friday's preliminary release of the September manufacturing and services PMIs. The most recent release has shown manufacturing and services activity slide into contraction – something not seen in the US or China. Expectations are for a further deterioration. Also due out are labour costs for Q2 on Tuesday.

UK

The BoE MPC meets on Thursday. Markets ascribe about a three-quarter chance of a 25bp rate hike. NAB thinks it is closer than that – a line-ball call. Either way we do not expect the BoE to use the ECB's strategy of arguably announcing a rate peak. The elevated level of UK wages and services inflation makes for the BoE to remain guarded in its language. Ahead of the BoE decision is the August CPI print on Wednesday. Here the consensus looks for a move higher again to 7.1% at the headline level from 6.8%. Regardless of this the MPC is aware that base effects and lower energy prices will push headline inflation lower in the October print and for this reason have been clear they expect to still see a 'quite marked' fall in inflation this year, while the lagged effect of 510 bps of rate hikes to date will be 'substantial'. Core and services inflation prints on Wednesday will be key for market reaction on the day. The September Rightmove house price index is released on Monday. Retail sales for August are due Friday, which should reflect an improvement from the weather and strike-affected weak July release. The S&P preliminary manufacturing and services PMI release is Friday and where any nudge back above 50 in services activity will be greeted enthusiastically.

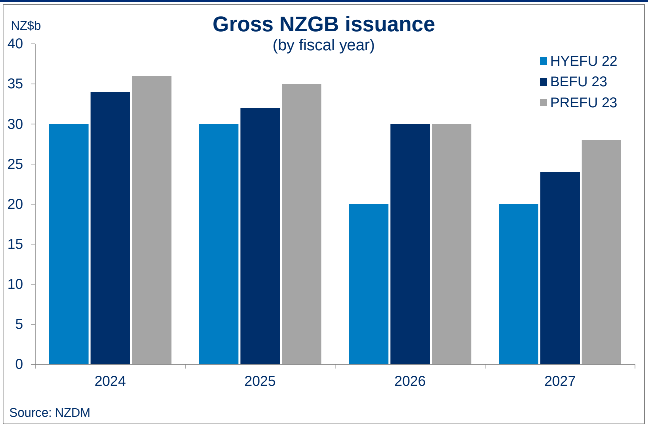
taylor.nugent@nab.com.au / doug_steel@bnz.co.nz

Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ Government bond (NZGB) yields were little changed over the course of last week. 10-year bond yields remain close to 5.0%, not far below the August and multi-year highs at 5.2%. The spread between the April 2033 government bond and the equivalent maturity swap was stable near negative 15bp despite a further upward revision to the Government borrowing programme at the Pre-election Economic and Fiscal Update (PREFU).

Further increase to NZGB issuance at PREFU

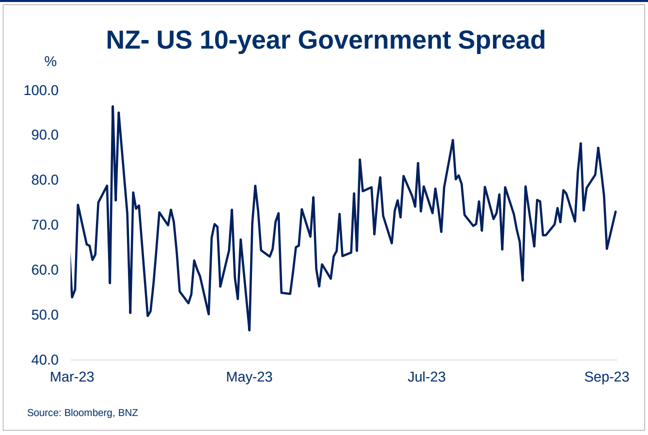


The borrowing programme was increased by NZ$9 billion out to June 2027. FY24 was revised higher by NZ$2 billion to NZ$36 billion. This requires additional volumes to be issued via syndication under our assumption that weekly tender volumes remain constant at NZ$0.5 billion. New Zealand Debt Management (NZDM) announced two new lines – a 2035 and a 2054 maturity – will be launched, via syndication, before the end of the fiscal year.

NZDM have demonstrated a preference to get ahead of the funding task. We expect a further syndicated transaction in 2023 given the large funding requirements and risks skewed towards a further upward revision at the Half Year Economic and Fiscal Update in December. The likely syndication window is in November after the election and associated uncertainty has passed.

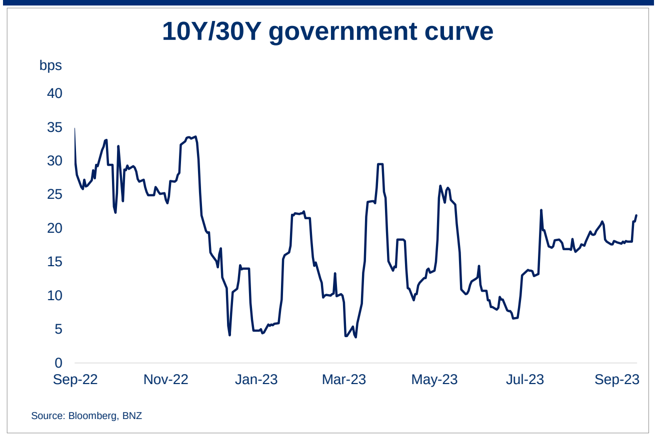
The stability in NZGBs, set against a backdrop of generally higher US treasury yields, has contributed to the 10-year cross market spread compressing to the narrow end of the 60-90bp range from the past 3 months. NZ-US spreads still appear wide relative to a simple fair value model using relative monetary policy outlook as the main input. However, the model estimate doesn't incorporate elevated issuance volumes, which require a premium and will likely limit further tightening from here. NZ spreads to Australia look attractive and we see scope for compression given the relative economic and central bank outlooks.

10-year NZGB spread to US at tighter end of range



We have a general bias for steeper curves ultimately driven by the front end. However, the NZ yield curve has bear steepened since July with the front-end of the curve anchored by the stable outlook for monetary policy while longer maturity yields moved higher. The 2Y/10Y curve reached the maximum inversion for the cycle near -80bp in July and has since retraced to -55bp. Bear steepening episodes have typically been short-lived, and we expect further steepening to be driven by the front end in due course.

2054 syndication to steepen long end



The 10Y/30Y government curve has been trading in a broad 5-25bp range during 2023. The move higher from the range base to current levels has stalled recently. NZDM's announcement of a new 2054 maturity, alongside the PREFU release, will likely contribute to a further steepening in the 10Y/30Y curve.

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the NZD traded a tight range, consolidating around the 0.59 mark and closing the week with a small gain. NZD/AUD and NZD/CAD fell just over ½% as AUD and CAD outperformed. Other NZD crosses showed modest gains, with the largest gain of just under 1% for NZD/GBP.

There was plenty of news to digest last week. The USD DXY index rose for a ninth consecutive week as European currencies faltered. EUR was weaker after the ECB hiked for a tenth consecutive meeting, taking the deposit rate to a record high of 4%, but the accompanying message was that the tightening cycle was likely over. EUR/USD fell to a six-month low and NZD/EUR consolidated just over 0.55.

A weaker EUR spilled over into a weaker GBP, alongside UK data that showed the unemployment rising to a two-year high and underlying wages inflation flattening out. The market slightly pared back expectations of how much higher the BoE would take rates. Almost all economists see the BoE hiking by 25bps this week and some 18bps is priced for the meeting, with expectations that the end of the tightening cycle is now getting close. GBP/USD fell to a three-month low, while NZD/GBP rose last week to 0.4765.

The outperformance of commodity currencies against a backdrop of a robust USD reflected higher oil prices, with Brent crude up to a 10-month high above USD94 per barrel, and a stronger yuan. CNY had a better week after strong language by the PBoC regarding the currency, further policy easing in the form of a cut to the reserve requirement ratio for banks, reports of major Chinese banks selling USD/CNY aggressively, and monthly activity indicators for August that were mostly better than expected. A strong Australian employment report kept alive the chance of a possible RBA hike later in the year and this, alongside less pessimism around China, encouraged NZD/AUD to drift lower, the cross rate closing below 0.92 for the first time in eight weeks.

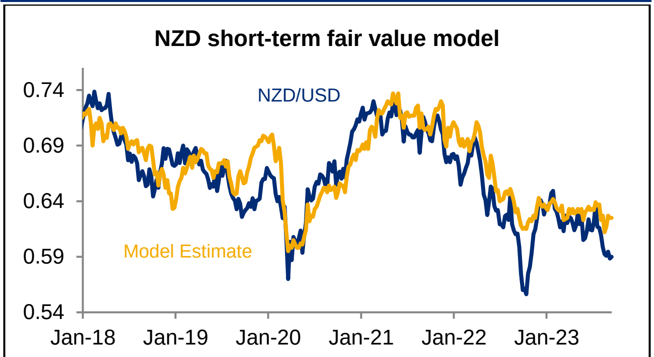
At the start of the week, JPY strengthened following last weekend's newspaper interview with BoJ Governor Ueda, where he seemed open to the chance of moving away from the negative policy rate before year-end, but by the end of the week, leaks from the BoJ suggested that the market over-reacted to the comments and USD/JPY was back up towards 10-month highs near 148. There is a strong consensus that the BoJ will do nothing at its policy meeting at the end of the week.

The key US CPI report was close enough to market expectations to keep the Fed on hold this week at its policy meeting (Thursday morning NZ time), but not low enough to extinguish the view that another rate hike was possible later this year. Fed Chair Powell is likely to convey a sense that it's too early to declare victory on the war against inflation and the Fed will be keeping an eye on the data to judge whether another rate hike is needed.

In addition to the Fed, BoE and BoJ policy meetings noted, UK and Japan CPI data are released, alongside global PMI data at the end of the week. Domestically, NZ current account data should show the deficit narrowing to around 8% of GDP – still too high for comfort – while our estimate for Q2 GDP is in line with the median of the other local bank economists, at 0.6% q/q, just above the RBNZ's 0.5% estimate. Neither of these releases should perturb the market.

So, in the week ahead, there is plenty of event risk that could perturb currency markets. But our NZD views remain unchanged. We see NZD/USD consolidating near 0.59 through the rest of the quarter, with a 1-cent gain embodied in our projections for Q4, with two-sided risks. The NZD is trading on the weak side of our fair value model estimate of 0.6250, reflecting the drag from weaker Asian currencies, but we can't see a near-term catalyst that will close the gap. NZD/AUD can continue to drift lower, in our view, while the NZD should consolidate on the other key crosses.

NZD trading on cheap side of fair value



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5904	0.5860 - 0.6020
NZD/AUD	0.9163	0.9160 - 0.9270
NZD/GBP	0.4768	0.4670 - 0.4780
NZD/EUR	0.5538	0.5440 - 0.5570
NZD/JPY	87.23	86.30 - 87.60

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

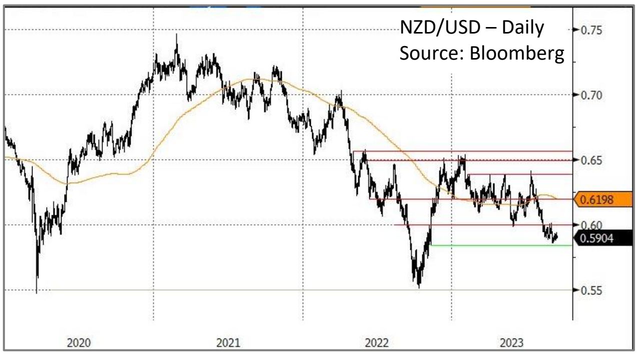
	Model Est.	Actual/FV
NZD/USD	0.6250	-6%
NZD/AUD	0.9010	2%

Jason.k.wong@bnz.co.nz

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 being a level of resistance. Looking at 0.5840 as a possible support level.

NZD/AUD

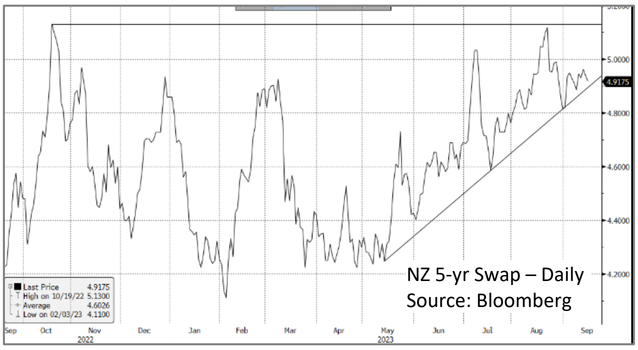
Outlook:	Trading range
ST Resistance:	0.94 (ahead of 0.9450)
ST Support:	0.90 (ahead of 0.8890)

Technicals remain consistent with the cross in a broad 0.90-0.94 trading range. But trading near the bottom edge of the wedge, raising the chance of downside risk ahead on a break.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

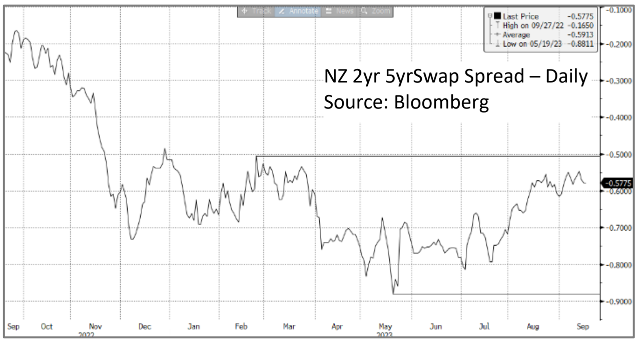
Outlook: Higher
MT Resistance: 5.18
MT Support: 4.57



Maintain bias for 5y swap trending higher. See short term support at 4.90.

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

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



2x5 curve remains steady around current levels. Target remains to steepen towards -51 resistance.

pete_mason@bnz.co.nz

Quarterly Forecasts

Forecasts as at 18 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	0.6	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	-7.4	-7.3	-7.2
CPI (q/q)	1.8	1.7	2.2	1.4	1.2	1.1	2.2	1.0	0.6	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	2.2	2.8	3.4	2.7	3.0	2.5	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	1.3	-0.1	0.0	-0.2	-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	4.90	4.85	5.25	5.05	4.95	5.80	4.25	0.60
Dec	5.50	5.60	4.70	4.70	4.95	4.85	4.80	5.80	4.10	0.60
2024 Mar	5.50	5.45	4.40	4.50	4.55	4.60	4.65	5.55	3.90	0.60
Jun	5.25	5.00	4.20	4.35	4.15	4.40	4.50	5.05	3.75	0.60
Sep	4.75	4.50	3.95	4.10	3.95	4.20	4.30	4.55	3.50	0.60
Dec	4.25	4.25	3.80	4.10	3.45	4.05	4.30	4.05	3.50	0.60
2025 Mar	4.00	3.75	3.70	4.10	3.10	3.95	4.30	3.55	3.50	0.60
Jun	3.50	3.65	3.60	4.10	2.80	3.85	4.30	3.30	3.50	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	0.59	0.64	1.07	1.25	147	0.59	0.92	0.55	0.47	86.8	69.7
Dec-23	0.60	0.66	1.13	1.31	138	0.60	0.91	0.53	0.46	82.8	69.1
Mar-24	0.62	0.69	1.16	1.35	135	0.62	0.90	0.53	0.46	83.7	70.3
Jun-24	0.64	0.71	1.17	1.34	130	0.64	0.90	0.55	0.48	83.2	71.3
Sep-24	0.64	0.72	1.18	1.35	125	0.64	0.89	0.54	0.47	80.0	70.4
Dec-24	0.65	0.73	1.19	1.35	120	0.65	0.89	0.55	0.48	78.0	70.4
Mar-25	0.67	0.75	1.21	1.37	118	0.67	0.89	0.55	0.49	79.1	71.8
Jun-25	0.69	0.77	1.22	1.37	116	0.69	0.90	0.57	0.50	80.0	73.4
Sep-25	0.71	0.78	1.23	1.38	115	0.71	0.91	0.58	0.51	81.7	75.2
Dec-25	0.71	0.78	1.23	1.38	114	0.71	0.91	0.58	0.51	80.9	75.2
Mar-26	0.69	0.76	1.21	1.37	112	0.69	0.91	0.57	0.50	77.3	73.8
						TWI Weights					
						13.8%	16.5%	9.8%	3.1%	6.1%	

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

Annual Forecasts

orecasts as at 18 September 2023	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
› - annual average % change										
Private Consumption	6.0	2.4	1.2	0.9	2.1	7.5	3.0	1.3	0.4	2.0
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	-1.0	-1.0	4.2	12.5	3.9	0.4	-2.2	3.3
Stocks - ppts cont'n to growth	0.6	-0.2	-0.3	0.3	0.0	1.3	0.0	-0.9	0.6	0.0
GNE	8.1	2.4	0.0	0.0	2.5	10.2	3.5	-0.1	-0.6	2.2
Exports	2.4	6.2	5.8	4.0	5.3	-2.7	0.0	8.9	4.3	5.4
Imports	17.6	4.9	1.2	0.0	2.7	15.1	5.3	1.9	0.1	2.1
Real Expenditure GDP	4.8	2.6	0.0	0.9	3.1	6.0	2.3	0.5	0.2	3.0
GDP (production)	**5.2**	**2.9**	**0.3**	**1.0**	**3.1**	**6.0**	**2.7**	**0.8**	**0.3**	**3.0**
GDP - annual % change (q/q)	*1.1*	*2.2*	*-0.2*	*2.7*	*2.9*	*3.3*	*2.3*	*0.0*	*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
es 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	-29.1	-23.6	-17.1	-21.1	-34.4	-29.7	-26.0	-18.5
Current Account - % of GDP	-6.8	-8.5	-7.3	-5.7	-3.9	-6.0	-9.0	-7.4	-6.3	-4.3
ernment Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.5	-2.8	-1.7	-0.8					
Net Core Crown Debt (excl NZS Fund Assets)	17.0	18.1	22.4	23.2	23.3					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	36.0	35.0	30.0					
Bond Programme - % of GDP	5.6	7.2	9.0	8.4	6.9					
ıncial 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	4.40	3.70	3.60	2.20	4.30	4.70	3.80	3.60
10-year Govt Bond	3.20	4.35	4.50	4.10	4.10	2.35	4.25	4.70	4.10	4.10
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	4.60	3.95	3.85	2.56	4.62	4.85	4.05	3.85
US 10-year Bonds	2.10	3.65	3.90	3.50	3.50	1.45	3.60	4.10	3.50	3.50
NZ-US 10-year Spread	1.10	0.70	0.60	0.60	0.60	0.90	0.65	0.60	0.60	0.60

erage 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 18 September			
NZ	Performance Services Index Aug			47.8
UK	Rightmove House Prices YoY Sep			-0.10%
EC	ECB's Guindos speaks			
	Tuesday 19 September			
US	New York Fed Services Business Activity Sep			0.6
US	NAHB Housing Market Index Sep	49		50
AU	RBA Minutes of Sept. Policy Meeting			
EC	CPI YoY Aug F	5.30%		5.30%
EC	CPI Core YoY Aug F	5.30%		5.30%
EC	OECD Publishes Economic Outlook			
	Wednesday 20 September			
EC	ECB's Elderson Speaks			
US	Housing Starts Aug	1437k		1452k
NZ	GDT dairy price index		5.00%	2.70%
CA	BoC's Kozicki speaks			
NZ	Current Account GDP Ratio YTD 2Q	-8.00%	-7.90%	-8.50%
JN	Trade Balance Aug	-¥678.5b		-¥78.7b
AU	Westpac Leading Index MoM Aug			-0.03%
GE	PPI YoY Aug	-12.60%		-6.00%
UK	CPI YoY Aug	7.10%		6.80%
	Thursday 21 September			
EC	ECB's Elderson speaks			
CA	Bank of Canada Releases Summary of Deliberations			
US	FOMC Rate Decision (Upper Bound) Sep-20	5.50%	5.50%	5.50%
NZ	Fonterra full year result			
NZ	GDP SA QoQ 2Q	0.40%	0.60%	-0.10%
SZ	SNB Policy Rate Sep-21	2.00%		1.75%
SW	Riksbank Policy Rate Sep-21	4.00%		3.75%
UK	Bank of England Bank Rate Sep-21	5.50%		5.25%

		Median	Fcast	Last
	Friday 22 September			
US	Current Account Balance 2Q	-$221.3b		-$219.3b
US	Initial Jobless Claims Sep-16	225k		220k
US	Continuing Claims Sep-09	1695k		1688k
US	Philadelphia Fed Business Outlook Sep	-1		12
US	Existing Home Sales Aug	4.10m		4.07m
EC	Consumer Confidence Sep P	-16.5		-16
EC	ECB's Schnabel Speaks			
NZ	Westpac Consumer Confidence 3Q			83.1
NZ	Trade Balance NZD Aug		-2635m	-1107m
EC	ECB's Lane speaks			
AU	Judo Bank Australia PMI Mfg Sep P			49.6
AU	Judo Bank Australia PMI Services Sep P			47.8
UK	GfK Consumer Confidence Sep	-26		-25
JN	Natl CPI YoY Aug	3.00%		3.30%
UK	Retail Sales Inc Auto Fuel MoM Aug	0.50%		-1.20%
GE	HCOB Germany Services PMI Sep P	47.2		47.3
EC	HCOB EZ Mfg PMI Sep P	44		43.5
EC	HCOB Eurozone Services PMI Sep P	47.7		47.9
UK	S&P Global/CIPS UK Mfg PMI Sep P	43.4		43
UK	S&P Global/CIPS UK Services PMI Sep P	49		49.5
UK	CBI Trends Total Orders Sep	-18		-15
EC	ECB's Guindos speaks			
JN	BOJ Policy Balance Rate Sep-22			-0.10%
JN	BOJ 10-Yr Yield Target Sep-22			0.00%
	Saturday 23 September			
US	Fed's Cook speaks			
US	S&P Global US Manufacturing PMI Sep P	48.2		47.9
US	S&P Global US Services PMI Sep P	50.6		50.5
US	Fed's Daly speaks			
US	Fed's Kashkari speaks			

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	3.33
2mth	5.63	5.63	5.63	3.51
3mth	5.66	5.66	5.64	3.69
6mth	5.72	5.71	5.75	3.99
GOVERNMENT STOCK				
04/25	5.49	5.53	5.57	3.97
04/27	5.08	5.12	5.10	3.97
04/29	4.94	4.99	5.00	3.98
05/31	4.92	4.99	5.02	4.00
04/33	4.93	4.99	5.05	4.08
04/37	5.08	5.12	5.20	4.25
05/41	5.15	5.18	5.27	4.38
05/51	5.15	5.17	5.26	4.35
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	63	63	70	87
Europe 5Y	69	70	79	112

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.53	5.52	5.64	4.44
3 years	5.26	5.24	5.35	4.36
4 years	5.07	5.05	5.16	4.28
5 years	4.96	4.95	5.05	4.22
10 years	4.83	4.84	4.94	4.17
FOREIGN EXCHANGE				
NZD/USD	0.5903	0.5919	0.5928	0.5960
NZD/AUD	0.9168	0.9204	0.9242	0.8859
NZD/JPY	87.20	86.76	86.66	85.35
NZD/EUR	0.5534	0.5506	0.5440	0.5943
NZD/GBP	0.4764	0.4732	0.4647	0.5215
NZD/CAD	0.7982	0.8035	0.8029	0.7898
TWI	69.6	69.8	69.6	69.7

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Stuart Ritson
Senior Interest Rate Strategist
+64 9 9248601

Mike Jones
BNZ Chief Economist
+64 9-956 0795

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854