19 February 2024

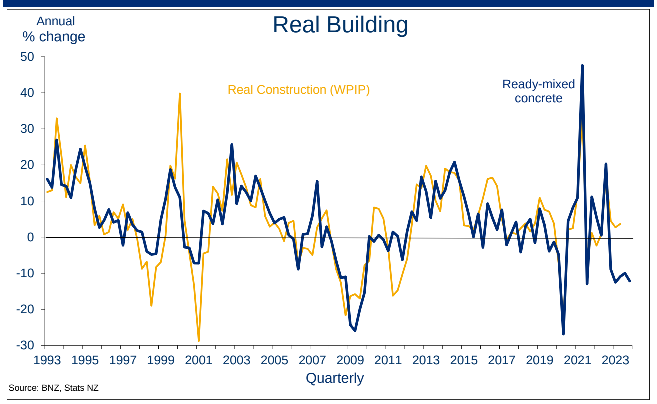
RBNZ February MPS Preview

- **No rate increases needed**
- **Inflation control going broadly to plan**
- **A slew of partials say as much**
- **But tight for longer strongly signalled by RBNZ**
- **So we postpone our expectations of a first rate cut to November 2024**

If you are looking for reasons as to why the RBNZ need not raise its cash rate at its February 28 Monetary Policy Statement, then look no further than at the swathe of partial indicators that have been released over the last week.

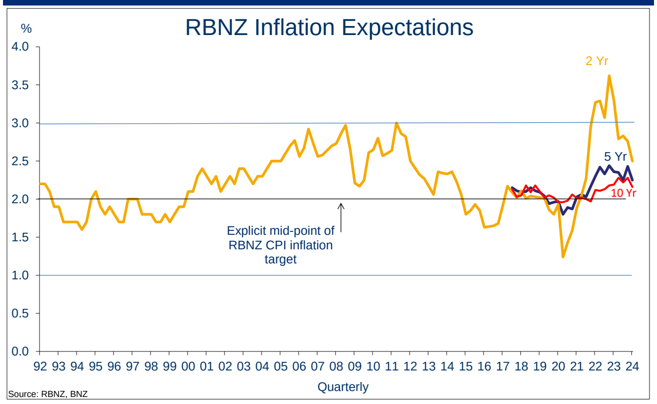
Concrete production fell 4.6% in Q4 2023 to be 12.0% down on a year ago. Production has fallen in each of the last eight quarters. Excluding COVID lockdowns, production is at its lowest level since March 2016. We are forecasting a September 2022 peak to trough drop in residential construction of 15.3% and a non-residential peak to trough decline of 10.6%. The concrete production data are consistent with that.

Construction set to fall



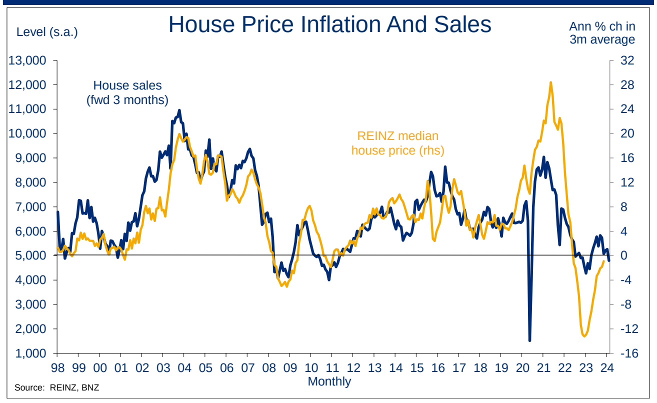
Inflation expectations fell. The 2-yr expectation dropped to 2.50% from 2.76%, the 5-yr to 2.25% from 2.43%, the 10-yr to 2.16% from 2.28%. We don't place a lot of weight on these data but the RBNZ does. The readings might not be 2.0% but the direction is "right" and, frankly, these are incredibly low expectations given the relatively lengthy period that headline inflation has been elevated. Rounding things off, wage inflation expectations fell to their lowest level since Q2 2021, at 2.99%, and house price inflation expectations fell to 5.78% from 6.22%.

Inflation expectations decline



Talking of house prices, the January REINZ data suggest the housing market is being relatively well behaved. This is quite staggering when you consider population growth is at a 76 year high at a time when construction activity is weakening. House sales appear to be slowing while listings are rising. Increased supply and lower demand should keep a cap on house price inflation. Prices did, nonetheless, edge higher by 0.4% in the month to be 2.2% up on a year ago, the strongest increase since May 2022.

Housing still soft



If there was a surprise in the week it was the news that January Electronic Card Transactions rose 2.0% for the month. Does it mean the economy is fundamentally stronger than we think? Probably not. These data are inherently volatile and, interestingly, January 2023 also produced a surprise result.

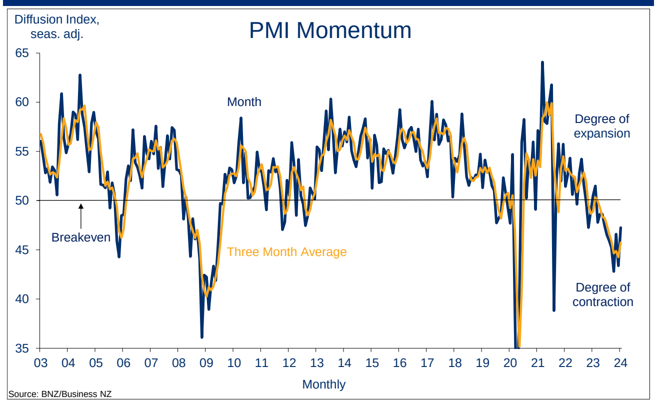
More importantly, if you smooth the data, then spending in the three months ended January is up just 3.2% on the same period a year earlier. In real terms this represents around a 1.5% annual decline. In per capita terms make that a near 4.5% real drop. This is hardly a sign of strength.

That said, we have been waiting for population growth to show up in the spending data. We can't rule out that this might be the first genuine sign of this happening. We will certainly be keeping a close eye on the ensuing data to gauge whether this might be true. Be that as it may, we expect a near zero movement in private consumption for Q1, 2024. The ECT data are broadly supportive of that.

The "big" news for the week was the released of the Selected Price Indices for January. On balance these proved to be weaker than the numbers we had assumed in compiling our Q1, 2024 CPI projection. In particular, both food prices and rents were a little softer than anticipated. It wasn't, however, sufficient for us to lower our Q1 quarterly CPI pick but, thanks to the quirks of rounding, it does mean we have lowered our annual inflation forecast for the first quarter to 3.9% from 4.0%. This is 0.4% below the RBNZ's estimate. Yes, we know that non-tradables inflation remains an issue but headline inflation also feeds into inflation expectations and wage setting behaviour which, in turn, impacts headline inflation down the track. It increases our confidence that inflation will be back within the RBNZ's target band in the second half of this year.

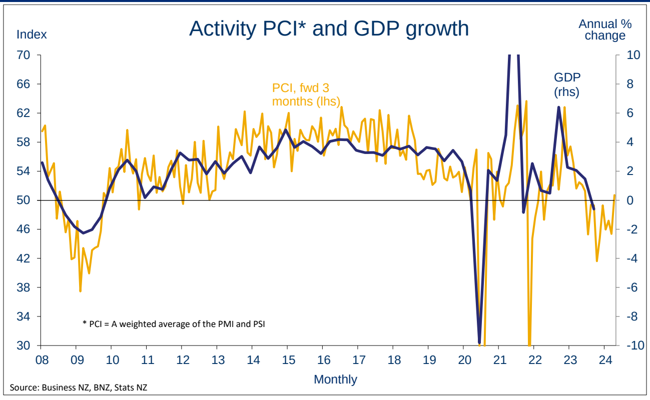
On Friday, in conjunction with Business NZ, we released the January PMI. The good news was that it was the strongest result since June last year and, for the first time since February 2023, employment levels rose. But the bad news is it's the 11th consecutive sub-50 headline reading, and production remains moribund at just 42.1.

Manufacturers struggling



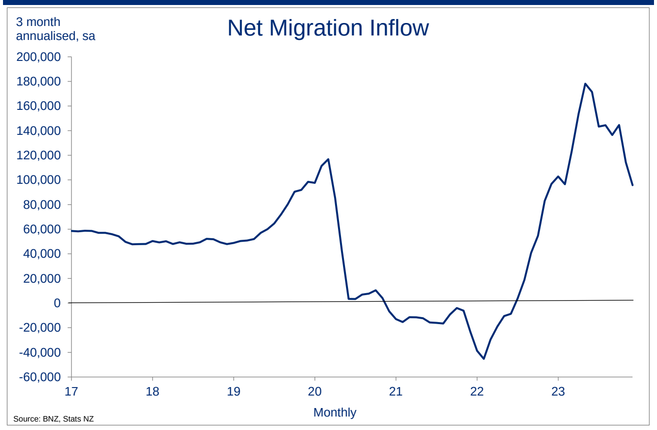
The PMI was followed up with the PSI this morning. We were heartened to see this push back above the magical 50 mark. In fact, the combined PMI and PSI activity indicator suggests annual GDP growth will soon turn positive. That is great news for an economy that has been under pressure. But it still must go a lot further before it will start indicating a return to growth levels that would prevent the spare capacity in the economy growing further. The combined indicator portends growth a smidgen above zero. This certainly does not provide any suggestion that a tightening in monetary conditions is warranted.

Turning the corner?



The Reserve Bank has been very concerned that rising net migration is becoming inflationary. There is certainly evidence of this in areas such as housing. But the latest data suggest the net migration inflow is now diminishing. We always take the latest observation with a pinch of salt but the trend is clear. If this trend continues then net migration will soon be back at pre-COVID levels having been running at almost three times that pace. Note also that the Government is making clear noises that it is perturbed by the pace of inbound migration and will look to implement policy that should help moderate the inflows.

Signs of moderation?

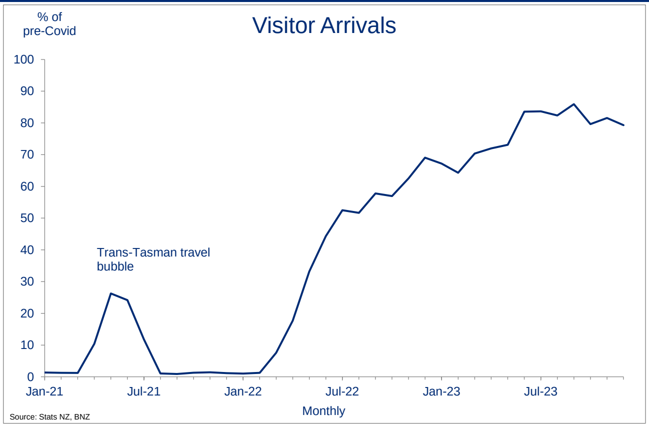


Accompanying the migration data were the latest tourism numbers. Increasingly, it looks like tourism might be weak relative to our forecasts. In the first instance there appears to be some correction from the Women's FIFA World Cup boost but January data also indicate that tourism has stalled. Growth in tourism drives services exports. This has been a key contributor to GDP. Its absence will be noted.

In his speech to the 2024 New Zealand Economics Forum, Governor Orr clearly and effectively laid out the framework as to how the central bank has been approaching, and will approach, its policy setting process.

Both hawks and doves could have used the speech to justify their way of thinking.

Visitor arrivals stall



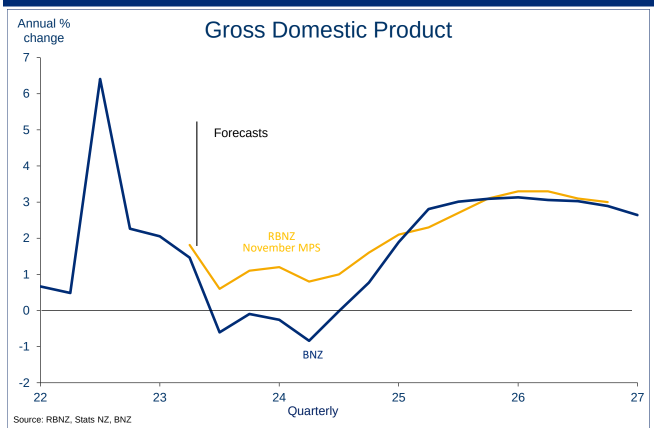
From our perspective, we were heartened by the fact that the Governor highlighted that the Monetary Policy Committee would need to have a focus on core inflation, the amount of available capacity in the economy and inflation expectations. In our opinion, developments in all the above says don't tighten any further.

We were, however, still a bit bothered by the ongoing focus on non-tradable inflation especially the idea that current non-tradables inflation is worrying the Bank because it is primarily domestic demand driven. We don't contest it's a worry, but we do think that the current drivers of non-tradables are largely out of the RBNZ's control.

So that's last week's data. What of the key data since the RBNZ's last Monetary Policy Statement:

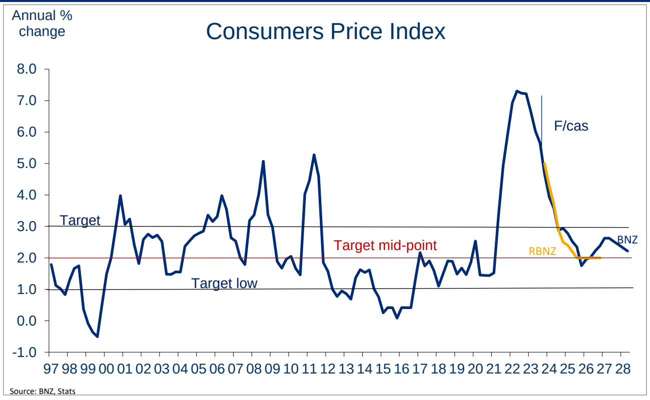
- GDP for Q3 came out at -0.3% whereas the RBNZ was picking a 0.3% increase. In addition, prior quarters were revised lower so the level of activity as at the end of September was 1.8% below the RBNZ's expectations. Moreover, we are forecasting this gap will widen even further as growth again surprises the RBNZ to the downside. All other things being equal, this means the Bank should adopt a more relaxed stance.

Growth surprisingly low



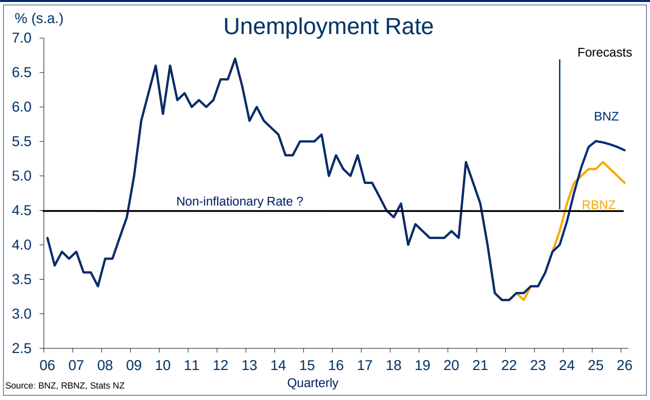
- The Q4 CPI came in 0.3% weaker than the Reserve Bank anticipated which again suggests a softer stance should be adopted. Some core measures of inflation are falling faster than they rose. The inflation correction is well and truly under way.

Inflation on track



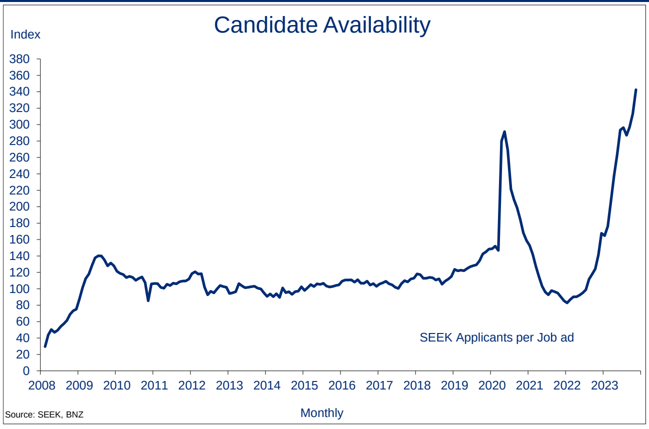
- The labour market data were stronger than the Bank had assumed with the unemployment rate 0.2% lower and LCI inflation 0.2% higher. This is definitely a nudge in the hawkish direction. But these key labour market aggregates are still moving in the "right" direction.

Unemployment headed higher



- And. . . the broader suite of labour market indicators including difficulty in finding labour, labour as a major factor constraint and labour turnover have all eased aggressively. As leading indicators of the future state of the labour market, these data should more than cancel out the hawkish leaning of the coincident indicators. Anyway, the vast majority of the labour market variables that the RBNZ looks at (looked at?) when considering maximum sustainable employment moved in the desired direction and you can add in the underutilisation and underemployment measures into that mix and the job applications to job ads index.

Labour market eases aggressively



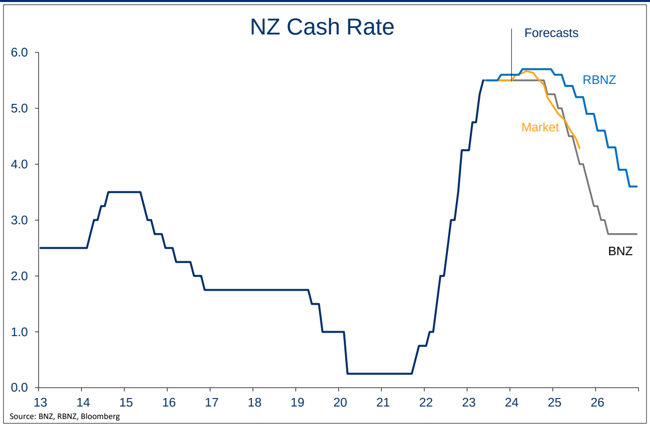
It seems to us that real economy indicators, in sum, say there is no need for the RBNZ to raise rates further. This then begs the question as to why the RBNZ's rhetoric has been so hawkish of late. Is it because the RBNZ is warning that rate hikes are ahead or was it simply to push back against a market that was pricing in four rate cuts this year. The latter would certainly make a lot of sense.

Putting this all together, we acknowledge there is more of a chance the RBNZ lifts its cash rate on February 28 than it lowers it. But we strongly believe that to raise rates at this juncture would be a policy mistake. Accordingly, we will stick with our no change view. That said, we also believe the Reserve Bank will aggressively justify holding interest rates at current levels for an extended period of time. So, its interest rate track is very likely to be much the same as it was in November - namely no rate cuts until H2 2025.

We still think there will be opportunity to lower rates earlier than late 2025 as core inflation pressures dissipate. But for our current call of a rate cut in August to come to fruition it would probably need a big disinflationary shock to shift the Reserve Bank's view of the world. Whether the cash rate is raised or not is a moot point, what is clear, however, is that the Reserve Bank shows zero sign of relaxing monetary policy any time soon. Consequently, we are moving our first projected rate cut back to November 2024. Of course, the longer rates stay elevated, the greater the chance that when the eventual easing comes that the RBNZ needs to go in 50-point clicks. We haven't built this into our forecasts, but it is something that should be considered. Purely by coincidence, our rate track is now very similar to current market pricing.

There's still a bit of data to peruse between now and the MPS but we doubt it will garner too much attention. Perhaps the most interesting release will be December quarter's retail sales, which are released on Friday. We find ourselves perplexed as to what to expect for this quarter. ECT data for the three months ended December suggest the quarter was weak with core sales falling a seasonally adjusted nominal 0.3% Q4/Q3. Obviously, the decline is much bigger in real terms. Also, we note that Q3 real retail trade, ex-auto, rose 0.6%. Was this a reflection of surging population growth or was it because of spending associated with the FIFA Women's World Cup? One can't help but think that Q4 will be a correction from that increase especially given that the five quarters prior to September were all negative. We've pencilled in zero change for ex-auto sales and a 0.5% increase for total sales, due to a recovery in car sales, but there is a very real risk the truth is softer than we have assumed. Note that last Friday Stats NZ issued revised seasonally adjusted data for retail sales. It is those revised data that we refer to above.

Our moderated view



On Tuesday January vehicle registrations are released. On Wednesday Q4 producer prices (both inputs and outputs) are published. These data are largely ignored by the market as the December quarter CPI has already been published. Nonetheless, it's worth noting that annual inputs inflation was just 1.5% for the year ended September and outputs 2.1%. Both should be 2.0% or less when the December numbers come out providing further support to the view that the general level of prices is well under control in NZ.

The latest GDT auction is out on Wednesday. We expect a small increase.

On Thursday we get January Merchandise Trade. The annual deficit has been falling relatively quickly over the last 7 months. We expect this trend to continue. Compared to year earlier levels both imports and exports are in decline. But imports are declining faster than exports a sign that monetary policy is working to limit domestic demand.

Also on Thursday household inflation expectations are released. The RBNZ will no doubt take note of these.

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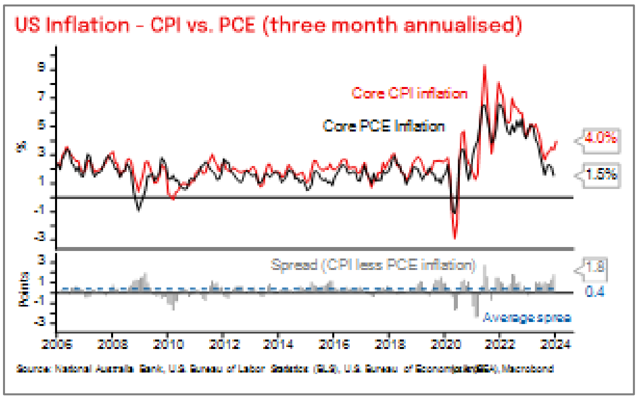
Global Watch

- **FOMC, ECB, RBA minutes due this week**
- **Fed speakers out in number**
- **EZ, UK, US PMIs to provide latest activity pulse**
- **AU Q4 wage inflation to ease back from Q3's blockbuster**

Global week in review

Global yields drifted higher over the past week with a higher than-expected US Core CPI (0.4% m/m vs. 0.3% consensus) the main driver. It is not clear whether the lift in Core CPI will be reflected in the Fed's preferred Core PCE measure and there has been a greater than usual divergence opening up between the two series. US PPIs on Friday night also surprised on the high side.



Most central bank officials globally continue to push back on the prospect of near-term rate cuts. US Fed speak post the CPI though suggests that the miss shouldn't de-rail the prospects of the Fed's December dot plot of 75bps of cuts. The Fed's Gooslbee noted that even if inflation comes in a bit higher for a few months, "*it would still be consistent with our path back to target.*"

Goolsbee also challenged the common view that the proverbial "*last mile*" of bringing down inflation will be more difficult as did the White House National Economic Advisor Brainard. The reasons: (1) supply chains have healed; (2) it is possible prices could come down further as price-sensitive consumers pull back from certain purchases; and (3) expectations of future inflation remain at the Fed's target.

However, it is worth noting most of the disinflation seen globally has been on the traded goods side (which has been in deflation in many categories), while services inflation has not eased enough to be consistent with at target inflation. As a result, central banks will need to see more data before they are comfortable with cuts. NAB's view remains that we are unlikely to see a rate cut in H1 2024 by the RBA, and have pencilled in November 2024.

As for Europe, UK GDP data was softer than expected with the economy having been in a technical recession (Q4 2023 -0.3% q/q; Q3 2023 -0.1% q/q), as has Japan (Q4 -0.1%; Q3 -0.8%).

Australia week in review

Dataflow in Australia has been on the soft side over the summer period. However, NAB cautions over extrapolating the softness given shifting seasonals are causing data flow to be incredibility volatile over the December-January period.

It is very likely retail sales data for January will print strong, and the 'Taylor Swift effect' should also see a strong February. NAB's transactions data shows a strong rebound in January on a seasonally adjusted basis of +1.0% m/m from -0.9% in December, while for the narrower goods retail category it increased by +2.0% m/m from -2.0% in December. Profit reporting season for the retailers has also been very positive. NZ has seen a similar pattern in retail sales indicators with retail card transactions +1.7% m/m in January after -1.7% m/m in December.

Australian labour market data for January last week was softer than expected (unemployment 4.1% vs. 4.0% consensus), but probably not as soft as it looked given shifting seasonals.

There was an unusual number of people about to start work, but recorded as either unemployed or not in the labour force. The statistician noted that, compared to pre-Covid levels, there were an extra 23,400 people waiting to start work that were categorised as being unemployed, and there were an extra 86,800 who were waiting to start work but were categorised as being outside the labour force. If the extra 23,400 'attached but unemployed' workers were counted as employed, the unemployment rate could have been as low as 3.9%.

NAB points out that we will have to wait for February data to see how that washes out, but there are good reasons to say the data flow is not as soft as the headline data surprises would have you believe.

Week ahead in brief – Global

As investors focus on hints on the timing of rate cuts, the January Minutes for the ECB (Thursday) and the FOMC (Wednesday) are both released. With the ECB having been vocal about the second-round threat from wage inflation, any easing back in the Q4 negotiated wages data on Tuesday will be welcomed. February Preliminary PMIs on Thursday give a timelier read on the macro pulse. The European services PMI at 48.4 in January should be heading back above 50 in coming months as headwinds recede.

It is a quieter week for data flow in the US this week and President's Day on Monday see markets closed. Alongside the FOMC Minutes, there is no shortage of Fed speakers, with an especially full roster on Thursday/Friday. Governor Waller speaks on the economic outlook at 1:35 pm NZT Friday.

China returns from lunar new year holidays. 1- and 5-year loan prime rates are out on Tuesday. Consensus is for a 10bp cut to the 5-year rate down to 4.10% and no change in the 1-year rate from 3.45%.

Finally, Canada CPI (Tuesday) might we worth a look amid uncertainty whether goods deflation will continue to offset still too high services inflation.

Week ahead in brief – Australia

Australian Q4 Wages (Wednesday) is the focus of the Australian data calendar in the week ahead, though also not the RBA Minutes are out on Tuesday. While Nvidia on Wednesday headlines the global earnings calendar, locally Rio Tinto, BHP, and Woolworths all report.

Tuesday's RBA Minutes may look different, given the new meeting and publication structure introduced in February. The market has heard a lot from Bullock since the February meeting, so NAB suggests we may not learn too much more. Most interesting will be whether a February hike was actively discussed, and any insight into how open to another hike Board members would be if the data flow were to surprise.

For wages, NAB has pencilled in a 0.9% q/q gain, taking WPI annual inflation to 4.1% y/y. Q3's 1.3% q/q outcome was the strongest in the 26-year history of the series, but was boosted by the high award wage increase and a one off pay level adjustment for aged care workers. It will come back down to earth in Q4.

Important events preview

Tuesday 20 Feb

AU RBA February Minutes
The February decision has been well discussed already, so the likelihood is there won't be much to interest markets in the Minutes. February was the first meeting under the new two-day format, where the SoMP and post meeting statement saw substantive changes. A change to the structure of the Minutes is also a reasonable bet.

Governor Bullock's appearances since the meeting have suggests a reasonable degree of comfort that the policy rate is now high enough, but the guidance remains that "a further increase in interest rates cannot be ruled out."

The Minutes may reveal whether the option to increase the policy rate further was considered in February, or to the degree of concern among the Board the data flow may yet push them to tighten policy further.

EZ ECB Q4 Negotiated Wages
The ECB publishes its Q4 release of negotiated wages. In Q3 wages rose to all-time high of 4.69%. The ECB has been vocal about the second-round threat from wage inflation and any easing back will be welcomed, though NAB expects this indicator to lag, not least due to the nature of collective wage bargaining within Europe.

CA January CPI

Wednesday 21 Feb

AU Q4 Wage Price Index
NAB expects WPI data for Q4 to show wages growth up 0.9% q/q and 4.1% y/y. That's in line with consensus and the RBA's February forecast.

Q3 was the strongest q/q outcome in the 26-year history of the WPI, but award wages and an aged care pay level adjustment drove the stronger outcome, meaning growth will fall back. Shifting seasonals have been a confounder in a lot of recent data flow, and it is worth noting fewer people are likely to have seen a wage adjustment in the 3-month period to November captured in this week's data than in the prior two years when some award wage increases were delayed.

More broadly, labour market tightness has eased and wages outcomes for those most flexible areas are likely in the early phases of modest pullback from their peaks. In contrast, higher public sector and other collectively agreed outcomes, that took longer to respond, are still a support for aggregate wages growth and will take longer to cool.

The RBA has pointed to evidence in their liaison program that wages pressure is likely to moderate in the year ahead, consistent with their forecasts for WPI to be around its peak before moderating towards 3.4% by the end of 2025. With the RBA confident there are reasons for productivity to pick up, that's an outlook it views as consistent with its forecast disinflation path. The Q4 outcome is unlikely to change that forward looking picture, but an upside surprise could give the Bank some pause about its assessment of spare capacity in the labour market or reveal risks of more persistence in elevated wages pressure.

Thursday 22 Feb

Global Preliminary PMIs
Preliminary manufacturing and service sector PMI activity for February is released and where financial markets tend to focus more on the EZ and UK, rather than the US given the latter's larger sample ISM series.

In Europe manufacturing activity remains in recession at 46.6, as it does in the UK at 47, but where an improvement has been seen for several months in line with a less negative picture for global manufacturing. In the US manufacturing activity on this measure did rise back above 50 to 50.7 in January, but where the more trusted ISM measure is at 49.1.

In the services sector the EZ measure has essentially been flatlining for some months just beneath the 50 growth-contraction level. NAB expects a gradual recovery back above 50 as inflation and energy prices ease and as rate cuts later in H1, assist household and business finances. In the UK, services activity on the PMI measure has surged to 54.3 and has been above 50 since October. This despite the economy falling into a technical recession in the final two quarters of 2023. Hence, NAB would not be surprised to see some moderation here. US services PMI improved to 52.5 in January, while the ISM measure is at 53.4.

EZ Final January CPI

Eurostat releases final January HICP inflation, where the consensus is for no change from the preliminary -0.4% m/m and for headline of 2.8% y/y. NAB have been highlighted base effects will be pushing inflation more meaningfully lower over the next three months.

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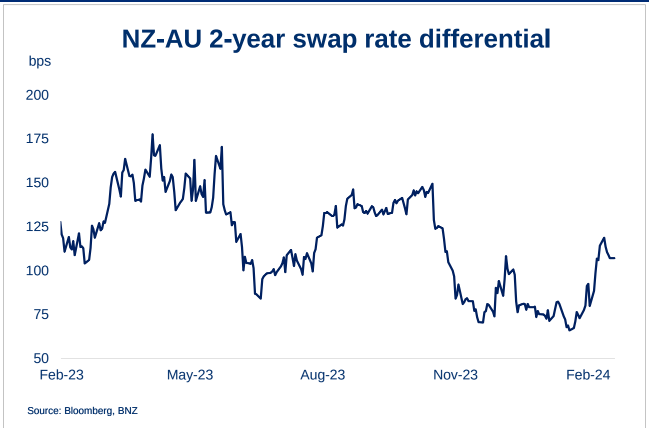
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ yields made fresh highs for 2024 during last week. 2-year swap rates peaked at 5.25%, nearly 70bps higher from early January, before retracing. Yields have spiked in February as the market unwound expectations that the RBNZ would pivot towards easier monetary policy from mid-year. The move higher in yields was exacerbated by position unwinding. A model we use as a proxy for market positioning changed signal and coincided with an unwinding of received positions by investors.

At the start of February, the market was pricing the Official Cash Rate to be close to 100bps lower by the end of this year. There has since been a significant reassessment amid pushback from the RBNZ and global policy makers on the prospect for near term easing in monetary policy. There is about 35bps of easing priced for this year and we think the adjustment in the front end has largely run its course. We continue to think the OCR has peaked at 5.5% and there is scope for the RBNZ to pivot towards easing later in the year.

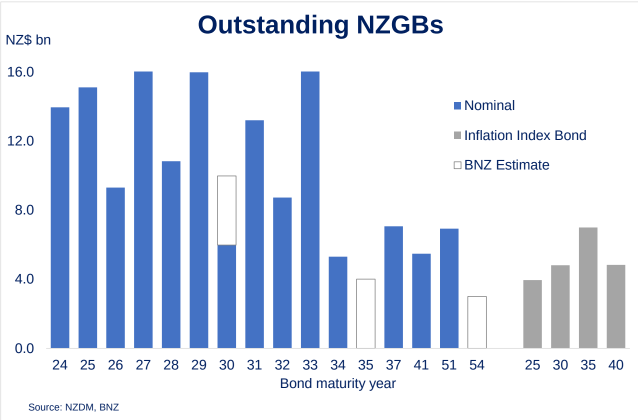
Sharp widening in front-end NZ-AU spread



NZ rates have underperformed on a cross market basis amid the move higher in global yields, particularly relative to Australia. NZ-AU 2-year swap rates reached a peak of ~120bps last week as NZ yields overshot when investors exited positions. This provides an opportunity, and we look for a compression in the NZ-AU spread. Implementing a cross market position against Australia reduces market directionality and the headwind from carry and roll.

Inflation data in the US for January has validated the Federal Reserve's cautious stance towards near-term easing. Monthly CPI and PPI data were higher than expected suggesting price pressures are sticky and point to a relatively large increase in core PCE at the end of the month. However, one month of data does not change the broader disinflationary trend. US yields have reached fresh highs for the year, and the first rate cut implied by market pricing, has been pushed back to June.

May 2054 NZGB syndication expected this week



New Zealand Debt Management (NZDM) have announced the panel for the syndication of the 15 May 2054 nominal bond. This suggests the deal will launch this week with the Tuesday - Thursday window providing an opportunity with limited first-tier economic releases or holidays where the majority of non-resident NZGB investors are domiciled. NZDM expects to issue at least NZ$2.0 billion and the transaction will be capped at NZ$4.0 billion.

Previous long-end bond syndications had relatively large allocations to non-resident investors, and this is where demand is likely concentrated for the new 2054 maturity. Domestic bank balance sheets typically concentrate bond holdings on the short-to-intermediate sector of the yield curve. Meanwhile, domestic fund managers will, at minimum, have rebalancing flow demand for the new 2054 maturity as it enters NZ bond benchmarks.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.71	5.64 - 5.79
NZ 2yr swap (%)	5.16	4.72 - 5.26
NZ 5yr swap (%)	4.64	4.22 - 4.76
NZ 10yr swap (%)	4.68	4.31 - 4.79
2s10s swap curve (bps)	-48	-57 - -32
NZ 10yr swap-govt (bps)	-14	-22 - -13
NZ 10yr govt (%)	4.82	4.44 - 4.92
US 10yr govt (%)	4.28	3.81 - 4.33
NZ-US 10yr (bps)	54	47 - 65
NZ-AU 2yr swap (bps)	109	64 - 118
NZ-AU 10yr govt (bps)	63	39 - 68

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week currency movements were modest, although there was a hint of further USD strength, supported by stronger than expected inflation figures, and the NZD was generally softer, as the market pared back the chance of further tightening in monetary policy. NZD/USD fell 0.4% to about 0.6125 and the NZD fell by less than ½% on all the key crosses, apart from a small gain against JPY.

In our previous weekly report, we noted how the idiosyncratic surge in NZ interest rates had driven broadly based gains in the NZD. Last week we saw some retracement of that move, with the market paring rate hikes expected by May from 23bps at the start of the week down to 10bps by the weekend. NZ's 2-year swap rate fell by 4bps against a lift in US and Australia rates. Lower NZ-global rate spreads were a negative factor for the NZD.

Helping that dynamic, the RBNZ's survey of expectations showed broad-based falls in CPI inflation, wage inflation and house price inflation expectations. The key 2-year CPI inflation expectations figure fell 26bps to 2.50%, the lowest reading since Q3 2021. This will offer some comfort to the RBNZ as they begin deliberations on the next policy round. RBNZ Governor Orr gave a speech where there was no hint that the Bank would need to tighten further, even if the message was that the Bank was focused on delivering its 2% inflation target.

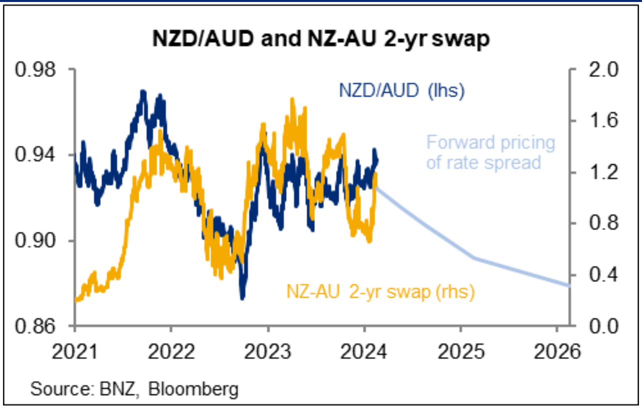
Key global releases included a notable upward surprise to the US CPI for January and a notable downward surprise to US retail sales. At the end of the week, PPI data confirmed the pick-up in inflation in January. The net result was a stronger USD over the week, although the DXY index was only up 0.2%, suggesting that the market's appetite to take the USD higher is limited from here, following a solid recovery in 2024 to date. The stronger inflation data saw a paring of US rate cut expectations and higher US rates across the curve. The market now puts in a less than even chance of a Fed rate cut by May, with the first full cut now priced for June.

There's a chance that the January CPI print was a bit of a rogue figure, distorted by residual seasonality in the figures and an odd lift in the owners' equivalent rent component, going against the grain of softer rental inflation. If true, then February data should show some reversal. With US monetary policy expectations being a key driver of current gyrations of the USD, these details matter. But for now, the data play to the Fed's view that it wants to see more evidence of inflation on a sustainably lower track before cutting rates and as long as that is the case, then the USD will remain well supported. The prevailing 0.60-0.64 range for the NZD remains in play until further notice.

Last week we published a note on NZD/AUD ("Medium-term forces to the downside"), highlighting the skewed downside risks, taking a medium-term perspective. The threat of the cross rate falling below 0.90 this year remains real, as NZ's economy continues to underperform Australia. Interestingly, NZD/AUD still fell last week despite a softer than expected Australian labour market report, which saw Australia's unemployment rate rise to a two-year high of 4.1%, overtaking NZ's last reading of 4.0%. We expect NZ's unemployment rate to rise this year at a faster pace than Australia, and this is a factor in our view of a weaker NZD/AUD cross rate, as that dynamic would drive lower NZ-Australia rate spreads.

The calendar in the week ahead looks light on key events, particularly in the US. Fed speakers will be out in force again with Fed Governor Waller's speech on the economic outlook Friday afternoon NZ time looking to be the one most anticipated by the market. Global PMIs, Australian wages and Canadian CPI data are released. Domestically, there are only second-tier releases.

Higher NZ-AU rate spread drives NZD/AUD higher…for now



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6124	0.6040 - 0.6170
NZD/AUD	0.9377	0.9270 - 0.9450
NZD/GBP	0.4860	0.4800 - 0.4880
NZD/EUR	0.5682	0.5620 - 0.5710
NZD/JPY	91.99	89.30 - 92.10

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6730	-9%
NZD/AUD	0.9160	2%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6175 (ahead of 0.64)
ST Support: 0.6040 (ahead of 0.60)

0.60-0.64 continues to look to be the bigger range, familiar territory last year, with recent gyrations consistent with 0.6040/0.6175 as near-term support and resistance levels.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.9470 (ahead of 0.9550)
ST Support: 0.9350 (ahead of 0.9250)

The topside break of the wedge wasn't convincing and we've nudged just back inside it, hinting of the prevailing trading range, centred around 0.93, remaining important.

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NZ 5-year Swap Rate

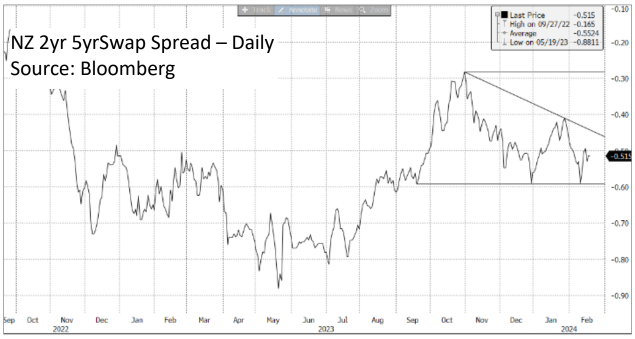
Outlook: Neutral
MT Resistance: 4.76
MT Support: 4.05

5y swap continues to trade with high volatility and limited opportunity for technical levels to hold. A break through our 4.74 resistance failed to hold so for the time being we have nudged up our resistance slightly and maintained the support. We will be watching 4.58 closely as a possible level of support which may provide a tight short term trading range. Our bias remains neutral as we search for more confidence with regard to directionality.

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

Outlook: Neutral
MT Resistance: -0.45
MT Support: -0.59

2x5 swap spread bounced higher last week and in doing so affirmed strong support at -0.59. We continue to watch the descending triangle which provides a new resistance for this week. Given we are in the middle of our technical range, we shift our outlook to neutral and await a break.



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Quarterly Forecasts

Forecasts as at 19 February 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
GDP (production s.a.)	1.8	-0.6	-0.2	0.5	-0.3	-0.1	-0.4	-0.1	0.6	0.7
Retail trade (real s.a.)	-0.5	-0.8	-1.3	-0.9	0.0	0.5	0.2	0.6	0.8	0.9
Current account (ytd, % GDP)	-8.3	-8.8	-8.2	-7.6	-7.6	-7.1	-6.8	-6.6	-6.2	-5.7
CPI (q/q)	2.2	1.4	1.2	1.1	1.8	0.5	0.6	0.7	1.1	0.5
Employment	1.4	0.7	1.1	1.0	-0.1	0.4	0.1	0.0	0.1	0.2
Unemployment rate %	3.3	3.4	3.4	3.6	3.9	4.0	4.4	4.9	5.2	5.5
Avg hourly earnings (ann %)	8.6	8.1	8.2	7.7	7.1	6.6	5.8	5.1	4.0	4.3
Trading partner GDP (ann %)	3.7	2.1	2.9	3.5	3.1	3.2	2.7	2.8	2.7	2.9
CPI (y/y)	7.2	7.2	6.7	6.0	5.6	4.7	3.9	3.6	2.9	2.9
GDP (production s.a., y/y))	6.4	2.3	2.1	1.5	-0.6	-0.1	-0.3	-0.8	0.0	0.8

Interest Rates

Historical data - qtr average Forecast data - end quarter		Cash	Government Stock 90 Day Bank Bills	 5 Year	 10 Year	Swaps 2 Year	 5 Year	 10 Year	US Rates Libor 3 month	 US 10 yr	Spread NZ-US Ten year
2022	**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	5.40	3.60	0.68
	Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
	Dec	5.50	5.63	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
Forecasts											
2024	**Mar**	5.50	5.60	5.00	4.90	5.30	4.90	4.65	5.80	4.40	0.50
	Jun	5.50	5.65	4.80	4.70	4.95	4.70	4.50	5.30	4.20	0.50
	Sep	5.50	5.50	4.50	4.50	4.55	4.45	4.40	4.80	4.00	0.50
	Dec	5.25	5.25	4.20	4.25	4.10	4.15	4.15	4.55	3.75	0.50
2025	**Mar**	5.00	4.75	3.90	4.10	3.70	3.95	4.10	4.05	3.50	0.60
	Jun	4.50	4.25	3.75	4.10	3.35	3.80	4.10	3.80	3.50	0.60
	Sep	4.00	3.75	3.60	4.10	3.10	3.75	4.20	3.30	3.50	0.60
	Dec	3.50	3.50	3.55	4.10	3.00	3.70	4.20	3.05	3.50	0.60

Exchange Rates (End Period)

	USD Forecasts NZD/USD	 AUD/USD	 EUR/USD	 GBP/USD	 USD/JPY	NZD Forecasts NZD/USD	 NZD/AUD	 NZD/EUR	 NZD/GBP	 NZD/JPY	 TWI-17
Current	0.61	0.65	1.07	1.26	151	0.61	0.94	0.57	0.48	91.2	71.3
Mar-24	0.62	0.66	1.09	1.29	147	0.62	0.93	0.57	0.48	91.1	71.8
Jun-24	0.64	0.69	1.13	1.33	142	0.64	0.92	0.56	0.48	90.4	72.6
Sep-24	0.64	0.71	1.16	1.36	138	0.64	0.91	0.55	0.47	88.7	72.3
Dec-24	0.65	0.72	1.17	1.37	135	0.65	0.90	0.56	0.47	87.8	72.3
Mar-25	0.67	0.73	1.18	1.38	130	0.67	0.91	0.56	0.48	86.5	72.8
Jun-25	0.69	0.75	1.19	1.39	125	0.69	0.92	0.58	0.50	86.3	74.5
Sep-25	0.71	0.77	1.21	1.41	120	0.71	0.92	0.59	0.50	85.2	75.8
Dec-25	0.71	0.78	1.22	1.42	118	0.71	0.91	0.58	0.50	83.8	75.3
Mar-26	0.69	0.78	1.23	1.43	116	0.69	0.89	0.56	0.49	80.5	73.6
Jun-26	0.68	0.76	1.23	1.43	115	0.68	0.90	0.55	0.48	78.2	72.7
						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 19 February 2024	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.4	0.5	2.4	7.4	3.3	0.7	-0.1	2.2
Government Consumption	7.9	2.0	-1.2	-3.5	1.4	7.8	4.9	-1.5	-3.9	0.9
Total Investment	10.2	2.1	-1.7	-2.2	4.2	12.0	3.4	-1.0	-3.2	3.1
Stocks - ppts cont'n to growth	0.5	-0.1	-0.3	0.2	0.0	1.4	-0.4	-0.5	0.4	0.0
GNE	7.9	2.4	-1.4	-0.8	2.7	10.0	3.4	-1.0	-1.7	2.2
Exports	2.5	6.0	4.2	3.8	5.5	-2.7	-0.2	7.9	3.6	5.4
Imports	17.3	4.6	-0.6	-0.8	3.8	14.8	4.6	1.2	-1.8	3.2
Real Expenditure GDP	4.7	2.7	-0.4	0.3	3.0	5.9	2.2	0.2	-0.3	2.7
GDP (production)	**4.5**	**2.8**	**0.1**	**0.5**	**3.0**	**5.5**	**2.4**	**0.7**	**-0.1**	**2.7**
GDP - annual % change (q/q)	*0.7*	*2.1*	*-0.3*	*1.9*	*3.1*	*2.5*	*2.3*	*-0.1*	*0.8*	*3.1*
Output Gap (ann avg, % dev)	1.3	1.9	-0.4	-1.3	-0.2	1.5	1.9	0.1	-1.3	-0.5
Nominal Expenditure GDP - $bn	359	388	414	435	459	353	381	408	429	453
Prices and Employment - annual % change										
CPI	6.9	6.7	3.9	2.8	2.0	5.9	7.2	4.7	2.9	1.8
Employment	2.5	3.0	1.4	0.6	2.5	3.3	1.7	2.4	0.4	2.1
Unemployment Rate %	3.2	3.4	4.4	5.7	5.3	3.2	3.4	4.0	5.5	5.5
Wages - ahote (private sector)	5.3	8.2	5.8	3.9	3.0	4.1	8.1	6.6	4.3	3.0
Productivity (ann av %)	1.7	0.6	-2.3	-0.1	1.2	3.5	0.2	-2.1	-0.9	1.3
Unit Labour Costs (ann av %)	4.6	6.4	8.7	5.1	2.0	2.4	6.4	8.6	6.6	2.0
House Prices	13.8	-12.1	2.6	8.6	13.4	27.2	-11.1	-1.6	6.7	13.4
External Balance										
Current Account - $bn	-23.6	-31.8	-28.0	-23.0	-17.8	-20.6	-33.4	-28.9	-24.6	-19.2
Current Account - % of GDP	-6.6	-8.2	-6.8	-5.3	-3.9	-5.8	-8.8	-7.1	-5.7	-4.2
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.8	-1.7	-0.8					
Net Core Crown Debt (excl NZS Fund Assets)	17.0	18.0	22.4	23.2	23.3					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	36.0	34.0					
Bond Programme - % of GDP	5.6	7.2	9.2	8.3	7.4					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.62	0.67	0.69	0.68	0.63	0.62	0.65	0.71
USD/JPY	119	134	147	130	116	114	135	144	135	118
EUR/USD	1.10	1.07	1.09	1.18	1.23	1.13	1.06	1.09	1.17	1.22
NZD/AUD	0.93	0.93	0.93	0.91	0.89	0.95	0.94	0.93	0.90	0.91
NZD/GBP	0.52	0.51	0.48	0.48	0.49	0.51	0.52	0.49	0.47	0.50
NZD/EUR	0.62	0.58	0.57	0.56	0.56	0.60	0.60	0.57	0.56	0.58
NZD/YEN	81.5	83.0	91.1	86.5	80.5	77.4	85.6	89.5	87.8	83.8
TWI	73.9	71.0	71.8	72.8	73.6	73.0	72.9	72.0	72.3	75.3
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	5.00	3.25	0.75	4.25	5.50	5.25	3.50
90-day Bank Bill Rate	1.45	5.16	5.60	4.75	3.00	0.92	4.55	5.63	5.25	3.50
5-year Govt Bond	2.90	4.40	5.00	3.90	3.60	2.20	4.30	4.50	4.20	3.55
10-year Govt Bond	3.20	4.35	4.90	4.10	4.10	2.35	4.25	4.65	4.25	4.10
2-year Swap	3.00	5.15	5.30	3.70	3.15	2.22	5.21	4.93	4.10	3.00
5-year Swap	3.20	4.50	4.90	3.95	3.85	2.56	4.62	4.43	4.15	3.70
US 10-year Bonds	2.10	3.65	4.40	3.50	3.50	1.45	3.60	4.00	3.75	3.50
NZ-US 10-year Spread	1.10	0.70	0.50	0.60	0.60	0.90	0.65	0.65	0.50	0.60

(1) *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 19 February			
NZ	Performance Services Index Jan			48.8
JN	Core Machine Orders MoM Dec	2.70%		-4.90%
UK	Rightmove House Prices YoY Feb			-0.70%
	Tuesday 20 February			
AU	RBA Minutes of Feb. Policy Meeting			
EC	ECB Publishes Euro-Area Indicator of Negotiated Wage Rates			
UK	BOE Governor Bailey testifies			
	Wednesday 21 February			
US	Philadelphia Fed Non-Manufacturing Activity Feb			-3.7
NZ	GDT dairy auction, price index			4.20%
NZ	PPI Output QoQ 4Q			0.80%
AU	Westpac Leading Index MoM Jan			-0.04%
JN	Trade Balance Jan	-¥1925.9b		¥62.1b
AU	Wage Price Index QoQ 4Q	0.90%	0.90%	1.30%
	Thursday 22 February			
UK	CBI Trends Total Orders Feb	-27		-30
UK	CBI Trends Selling Prices Feb	11		9
US	Fed's Bostic speaks			
UK	BOE's Dhingra speaks			
EC	Consumer Confidence Feb P	-15.7		-16.1
US	FOMC Meeting Minutes Jan-31			
NZ	Trade Balance NZD Jan		-1377m	-323m
AU	Judo Bank Australia PMI Mfg Feb P			50.1
AU	Judo Bank Australia PMI Services Feb P			49.1
NZ	Household Inflation Expectations 1Q			
UK	BOE's Greene speaks			
GE	HCOB Germany Services PMI Feb P	48		47.7
EC	HCOB EZ Manufacturing PMI Feb P	47		46.6
EC	HCOB Eurozone Services PMI Feb P	48.8		48.4
UK	S&P Global UK Manufacturing PMI Feb P	47.5		47
UK	S&P Global UK Services PMI Feb P	54.3		54.3
EC	CPI YoY Jan F	2.80%		2.80%
EC	CPI Core YoY Jan F	3.30%		3.30%
	Friday 23 February			
EC	ECB Publishes Account of January Meeting			
US	Chicago Fed Nat Activity Index Jan	-0.25		-0.15
US	Initial Jobless Claims Feb-17	218k		212k
US	Continuing Claims Feb-10	1880k		1895k
US	S&P Global US Manufacturing PMI Feb P	50.5		50.7
US	S&P Global US Services PMI Feb P	52.1		52.5
US	Fed's Jefferson speaks			
US	Existing Home Sales Jan	3.97m		3.78m
US	Fed's Bowman speaks			
US	Fed's Harker speaks			
NZ	Retail Sales Ex Inflation QoQ 4Q	-0.20%	0.50%	0.00%
US	Fed's Cook speaks			
US	Fed's Kashkari speaks			
UK	GfK Consumer Confidence Feb	-18		-19
US	Fed's Waller speaks			
GE	GDP SA QoQ 4Q F	-0.30%		-0.30%
UK	BOE's Greene speaks			
GE	IFO Expectations Feb	83.8		83.5
EC	ECB 3 Year CPI Expectations Jan			2.50%
EC	ECB's Schnabel speaks			
EC	Bundesbank's Nagel speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	4.25
1mth	5.63	5.63	5.58	4.75
2mth	5.67	5.68	5.61	4.91
3mth	5.71	5.74	5.65	5.00
6mth	5.73	5.76	5.58	5.26
GOVERNMENT STOCK				
05/26	4.92	5.02	4.64	4.41
04/29	4.67	4.73	4.46	4.30
05/31	4.74	4.79	4.61	4.31
05/34	4.85	4.87	4.76	4.39
04/37	5.00	5.02	4.94	4.51
05/41	5.10	5.12	5.05	4.58
05/51	5.08	5.11	5.04	4.44
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	53	54	55	73
Europe 5Y	56	57	59	78

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.16	5.23	4.76	5.14
3 years	4.86	4.90	4.48	4.85
4 years	4.71	4.72	4.36	4.66
5 years	4.64	4.65	4.32	4.56
10 years	4.68	4.66	4.45	4.47
FOREIGN EXCHANGE				
NZD/USD	0.6125	0.6131	0.6077	0.6253
NZD/AUD	0.9380	0.9387	0.9250	0.9052
NZD/JPY	92.01	91.55	90.00	83.94
NZD/EUR	0.5684	0.5690	0.5584	0.5852
NZD/GBP	0.4860	0.4854	0.4782	0.5193
NZD/CAD	0.8261	0.8246	0.8191	0.8412
TWI	71.7	71.9	71.5	70.8

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