19 May 2025

RBNZ to continue easing

- **25 point cut expected on May 28**
- **Signal of further easing to be delivered**
- **Growth under threat**
- **Inflation pick up transitory**
- **Budget broadly contractionary**

Who'd want to be central banker right now? There is always significant uncertainty about the economic outlook and the corresponding appropriate monetary policy. But rarely is there the sort of uncertainty we are experiencing now thanks largely to Donald Trump's tariff policy gyrations.

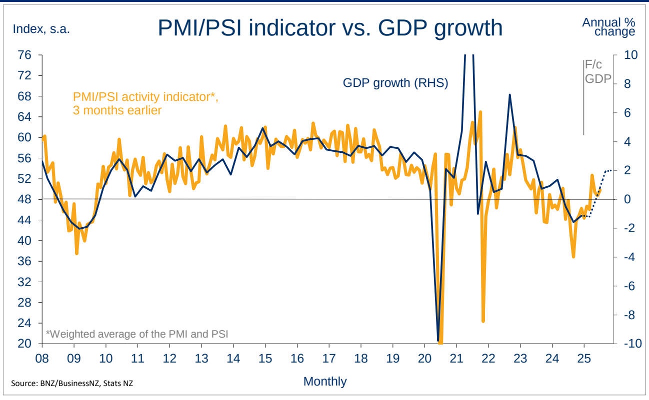
Despite the backdowns of the last week, and the expectation of more to come, we continue to believe the net impact of Trump's machinations are negative for growth globally and, hence, for New Zealand.

On this basis alone it is reasonable to assume the RBNZ will either lower its growth forecasts or, at the very least, raise the perceived risk of lower growth. All other things being equal this means medium term inflationary pressures should also be reduced.

Sure, the starting point for activity was raised when Q4 GDP came in at 0.7% q/q compared to an RBNZ pick of 0.3% but it looks to us that this was an aberration that will be fully offset when the March Quarter 2025 GDP results are announced.

Leading indicators continue to suggest growth will accelerate through the latter part of this year but the potential for a stumbling start seems to be rising by the day and/or any acceleration will be muted.

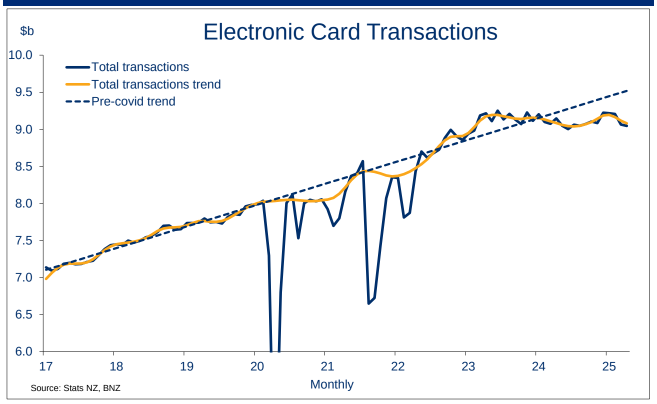
More please



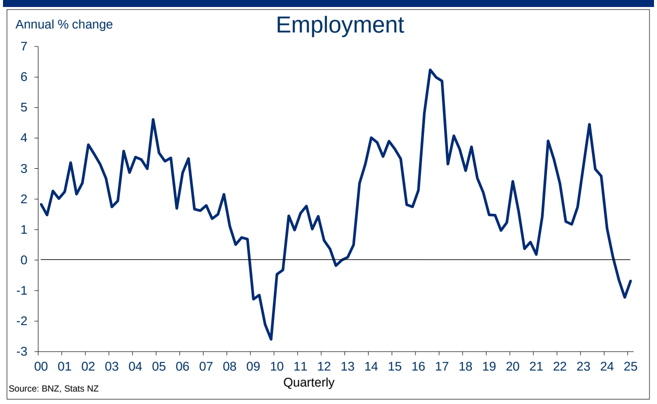
We, and the Reserve Bank, follow the BNZ-Business NZ PMI and PSI closely for indications of the current state of the economy. Unfortunately, these indicators, when combined suggest that the acceleration in growth that we had bargained on starting soon may be under threat. The combined activity index needs to be around 54 to indicate annual GDP growth of 2.0%. It's currently 49.8 which is more consistent with growth of less than 1.0%. The broad trend is still in the right direction, but we are going to need to see more progress and soon.

Last week we also saw Electronic Card Transactions figures for April. Total ECT fell 0.2% for the month to be down 1.1% annually. This suggests that Q2 household consumption remains constrained. It seems hard to believe but the current level of spending is no higher than what it was back in 2022. Adjust this for inflation and population growth and it looks very ugly indeed.

Spending stalled



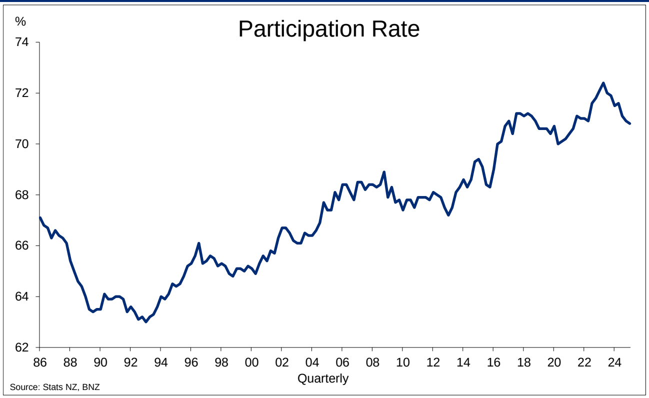
Labour market soft



Latest employment data provide no cause for optimism that retail spending will lift either. Employment fell 0.7% in the year ended March 2025; a smidgen lower than the 0.6% decline the RBNZ had forecast.

The unemployment rate was actually 0.1% lower than the RBNZ had anticipated at 5.1% but this was simply because the participation rate fell more than expected not because the labour market was stronger.

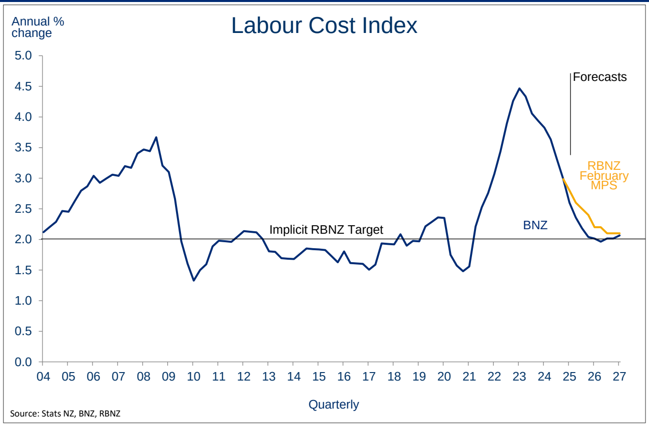
Participation rate falling



Importantly, the private sector labour cost inflation came in at an annual 2.6% compared with the RBNZ's expectation of 2.8%. And the printed annual increase in the QES average hourly earnings was 3.8% compared to a 4.6% RBNZ pick.

The lower-than-expected wage data are important because they should help subdue generalised inflation. And, of course, it's inflation that really matters.

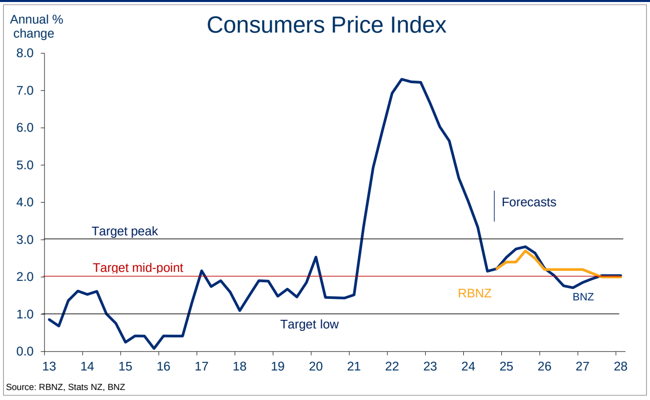
Labour cost inflation slowing



But therein lies a problem. The March quarter CPI was a tad higher than the RBNZ had expected (at 0.9% against a 0.8% pick) and it looks very much like the Q2 outturn could be an even bigger miss at 0.6% versus 0.4%. Add in a rounding error and annual inflation to June 2025 climbs to 2.8%, according to our estimates, a full 0.4% above the RBNZ's February prediction.

We are fairly relaxed about this because we think falling fuel prices will reverse the upside miss by early 2026. But there is a risk that a headline rate approaching 3.0% pushes up inflation expectations. The RBNZ would not be happy with this.

Inflation contained



Central banks around the world seem bamboozled as to how they should approach the Trump disruptions. In brief:

- The Bank of Canada published no forecasts
- The ECB provided no forward guidance
- The Fed doesn't know whether to focus on rising inflation or the rising unemployment rate but is raising its estimates of both
- PBOC is simply easing to prop up the Chinese economy
- The BOE cut its cash rate 25 basis points but two committee members wanted no change, five wanted the 25 point cut and two wanted 50.

Be that as it may, we think there remains enough evidence the economy is still moving in the direction that the RBNZ suggested when it produced its 9 April Monetary Policy Review that it should continue on the path then intimated.

In April the Bank said that "As the extent and effect of tariff policies become clearer, the Committee has scope to lower the OCR further as appropriate". It would be fair to say that we are still lacking clarity as to extent but it is clear global (and NZ) growth is under pressure so it would still be appropriate to cut the cash rate again. We would go so far as to say that it would have been appropriate even without the uncertainty and dislocation created by the US administration.

The Bank rightly noted that "Future decisions will be determined by the outlook for inflationary pressure over the medium term". "Medium term" is the key here. We are concerned about the potential for a near term increase in inflation but feel that the disinflationary impact of weaker growth should dominate in the medium term.

Importantly, the last thing New Zealand needs now is a tightening in monetary conditions. Already the TWI is around 1.7% higher than when the Bank produced its February Monetary Policy Statement and higher still compared to the TWI at the time of the MPR. Not only does this represent tighter monetary conditions but it also suggests, all other things being equal, that this alone could knock around 0.2% off the Bank's CPI forecasts.

Also note that current lending rates are already priced on the assumption that the RBNZ cuts at the upcoming meeting and then follows through with two further cuts. Was the Bank to rule this out lending rates could well rise and tighten monetary conditions even further.

Thus, in our opinion, there is a very strong argument for the RBNZ to cut 25 on May 28 and then indicate in its rate track further reductions. If it wanted to be hyper cautious it could leave the low point in the track unchanged from February at 3.1% while repeating its line "as the extent and effect of tariff policies become clearer, the Committee has scope to lower the OCR further as appropriate". Were it to do this we doubt current market pricing would change much.

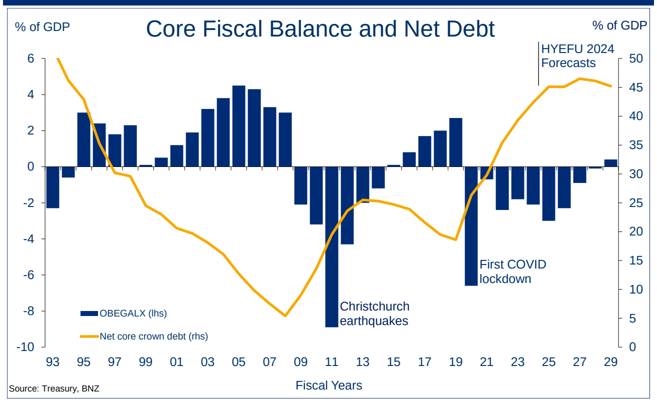
Some might argue that, with the risk of the wheels falling off, the RBNZ should cut 50 at the upcoming meeting. We do not buy into this. To do so would suggest a degree of certainty about future outcomes that simply cannot be contemplated at this juncture.

There have been some hints from the RBNZ that scenarios could be provided. Generally speaking, we would not be averse to this approach but given that the number of potential scenarios now verges on infinite, scenario analysis might indicate a degree of certainty about potential outcomes that is currently unwarranted.

Whatever the Bank does, it needs to highlight, and highlight again, the massive uncertainty that is pervasive and the fact that such uncertainty means very little about the future can be taken for granted including future interest rate settings.

Something else the Reserve Bank will have to take into consideration is the detail of Thursday's Budget. It should pale into insignificance compared to the other confronting issues but will, nonetheless, be worthy of some attention.

HYEFU fiscal forecasts



Of note, we expect the fiscal impulse to remain negative for much of the forecast horizon. This being so its contractionary forces will be supportive of the RBNZ delivering further monetary stimulus.

On balance, we expect the government to produce a set of fiscal forecasts little different to that presented at the December Half Year Fiscal Update. On this basis the Government's books return to surplus in the June year 2029. Revenues are likely to be lower due to a weaker nominal GDP profile, but further cost cutting will act as an offset. We also expect significant reallocation of spending.

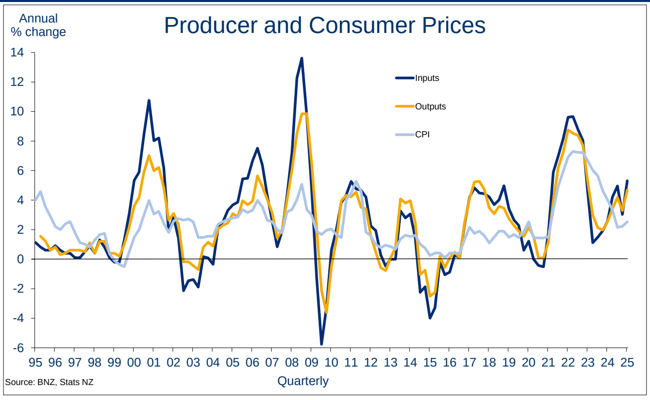
Net core crown debt was forecast to rise to a peak of 46.5% of GDP at the HYEFU. We doubt this will change much though there may be some upside pressure from infrastructure investment.

We are not expecting much change to the bond programme. At face value there is some upward pressure but the significant pre-funding that has already occurred may fill the gap.

Amongst all the bedlam around Trump, a Monetary Policy Statement and a Budget, there will still be a few data releases to ponder.

Already we have seen the business price indices for the March quarter this morning. As expected, soaring wholesale electricity prices had a big impact on the March quarter outcomes. Output prices rose 2.1% in the quarter to be up 3.9% for the year. Input prices rose 2.9% and 4.4% respectively. While these prices do not feed directly into the CPI, rising cost pressures on business certainly increase the pressure on businesses to raise selling prices.

Business price inflation accelerates

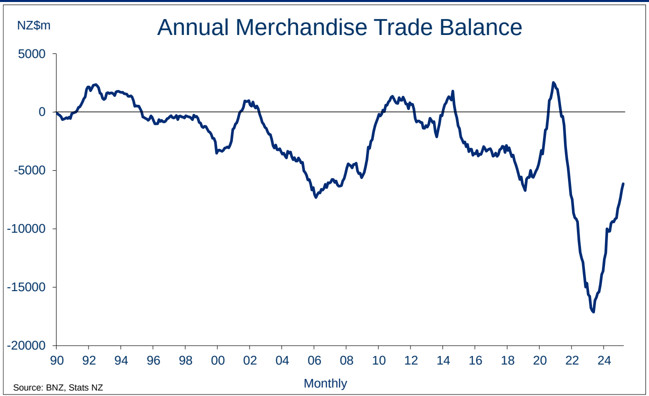


On Wednesday morning the Reserve Bank releases its first quarterly business expectations survey. The Bank "anticipates that the results of this survey will become key statistical series used by central banks, researchers, financial institutions and commentators". If that's what the Bank thinks then clearly it's a series we should all follow with some interest. That said, it will take some time before the time series are long enough for us to be able to interpret the data meaningfully.

On Friday we will get an update on household inflation expectations. We wouldn't be surprised to see these nudge higher.

On Wednesday will be merchandise trade figures for the month of April. We expect these data to further support the strong trend reduction in the annual merchandise trade deficit that began mid-2023. The continued "improvement" in this balance is a strong driver of our expectation that the current account deficit will continue its reduction from a current 6.2% of GDP to under 4.0% of GDP by December of this year.

Heading the "right" way

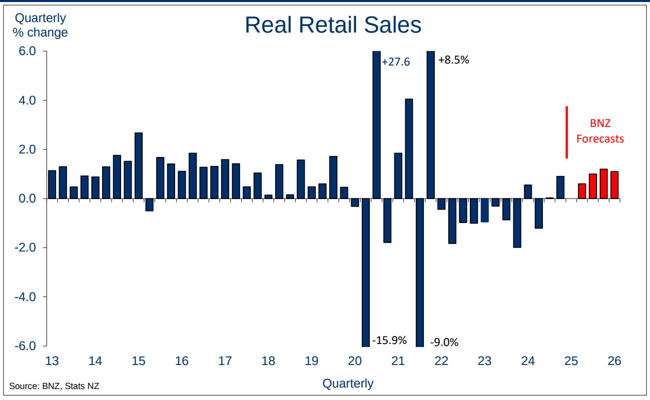


Commodity price strength is a key part of this trade balance trend. Wednesday morning's GDT auction will give the latest dairy price update. The balance of indicators are a tad more down than up for this auction, but prices are at strong levels ahead of dairy companies starting to announce their first forecasts for the coming season over coming weeks.

On Friday Q1 retail trade is released. We are expecting a near zero real change for both the quarter and the year. This means that per capita growth, at least on an annual basis, will continue to be negative. Relative weakness in consumer spending is a key factor behind our assumption that Q1 GDP growth will be relatively soft. Currently we are forecasting GDP growth of just 0.3% for that quarter.

Our bigger concern is Q2 spending. We always felt that any recovery in spending would get off to a slow start in 2025, but we had been hopeful that Q2 would reveal genuine signs of increasing momentum. That hope is fading. The weak ECT data didn't help and nor did retail trade's softness in today's PSI.

Retail sales still struggling



stephen_toplis@bnz.co.nz

Global Watch

- **Global PMIs to show activity pulse for May**
- **CPI data for the UK, Japan and Canada**
- **China activity indicators watched for tariff impacts**
- **RBA decision, expected to cut rates**

Week in Review

After successful talks, last week started with a joint announcement by China and the US to reduce tariffs. The US agreed to lower the recently imposed 145% tariff on Chinese goods to 30%, and China agreed to lower the recently imposed 125% tariff on US goods to 10%. The agreement lasts 90-days, while the two sides continue negotiations to work on a broader trade deal.

The path to get here created significant disruption to activity. With negotiations and sector specific tariff workstreams ongoing, significant uncertainty remains, but the reset reduces the headwinds to global and US growth. Large shifts in policy continue to drive large shifts in any baseline outlook.

Australian wages and labour market data were both out last week. Q1 WPI rose 0.9% q/q, supported by administered pay rises. That was broadly in line with the RBA's expectation. Employment surged 89k in April, well above expectations, but the unemployment rate continues to go nowhere, steady at 4.1%. That circle is squared by a 3 tenth jump in the participation rate, payback for a sharp fall in February. Looking through the noise, the takeaway is that trend employment growth near 26k is keeping pace with population growth.

Week Ahead

Globally, with the US' 90-day tariff pause in effect for China and other trading partners, focus is on whether trade deals are finalised with countries. The contents of those prospective deals are key, particularly in regard to any currency commitments or purchase commitments of US goods or even financial assets such as Treasuries.

US data is relatively quiet with most focus likely to be on budget discussions and retailer earnings (Home Depot on Tuesday and Target on Thursday) for inflation and consumer anecdotes. Hard data is mostly housing related and the S&P Global preliminary PMIs.

EZ/UK is where the S&P Global PMIs (Thursday) take most prominence. Consensus is for a tick up in both services and manufacturing following the US' 90-day tariff pauses. Also in Europe there is a UK-EU Summit (Monday) and the European Commission's latest forecasts for the bloc (Monday). In the UK, CPI (Wednesday) is expected to rise given higher utility and other prices combine with the introduction of higher minimum wages.

In Australia, the RBA meets (Tuesday) and is widely expected to cut rates. The uncertainty is whether it will be 25bps or 50bps. The consensus and market pricing tip 25bps and that is where the clear risk is relative to our NAB colleagues' forecast of a 50bp move.

Alongside the decision is the latest Statement on Monetary Policy which contains more detailed assessments and the staff's central forecasts for the economy. There could be some downward revision to their near-term growth forecast, but NAB do not expect much change to their unemployment or inflation projections.

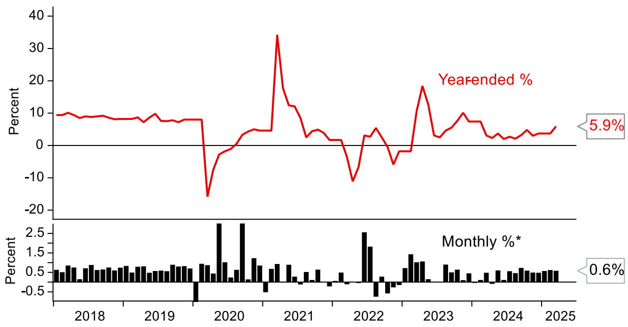
In China, the monthly activity figures (Monday) will provide a key guide to momentum amidst heightened uncertainty.

Economic Events Preview

Monday 19

CH Retail Sales, Industrial Production, FAI (Apr)
Data is for April and could pick up some of the tariff uncertainty. However, April trade data did surprise with a fall in exports to the US offset by a rise to ASEAN and Europe. Consensus sees Industrial Production at 5.7% y/y from 7.7% and Retail Sales at 5.8% y/y from 5.9%. Note retail sales growth has been very stable at 0.6% m/m.

China Retail Sales



Source: National Australia Bank, China National Bureau of Statistics (NBS), Macrobond

EZ UK-EU Summit, EC Spring Forecasts, Final CPI (Apr)
UK and EU leaders will meet in London to discuss a resetting of post-Brexit relations. The key area of focus will be in deeper cooperation on defence and security.

US Budget mega bill heads for floor debate
There is a lot of uncertainty around the embryonic 'big beautiful' budget bill. Press report Speaker Johnson wants to prepare the bill for floor debate and will be meeting with the House Rules Committee on Monday. Markets are likely to increasingly focus on the debt and deficit trajectory from the proposals emanating from the House and Senate before they head for reconciliation.

US Fed's Wiliams, Bostic, Logan and Jefferson
The Atlanta Fed is holding its financial markets conference with the topic this year being 'Financial Intermediation In

Transition'. Of interest will be discussion on private credit. Not linked to the conference, the Fed's Williams is in moderated conversation, and Kashkari in moderated Q&A.

Tuesday 20

AU RBA Meeting (cut)
The RBA is widely expected to cut rates by 25bps to 3.85%. NAB's view has been that the deterioration in the global back drop which occurred in early April had warranted the RBA moving more quickly to neutral and eventually into stimulatory territory, starting with a 50bp move in May.

The global backdrop is now clearly less pessimistic following the US' 90-day pauses. Domestically, consumption indicators point to downside risk to the RBA's expected pickup in consumption. Retail volumes were flat in Q1 as was the household spending indicator. The RBA's February SoMP forecasts had expected consumption growth to average 0.7% q/q in Q1 and Q2.

The RBA will likely have to trim their GDP forecasts and pushout the pace of pickup in consumption growth. As such NAB still think the RBA should take policy to a neutral policy setting relatively quickly. On Tuesday NAB see the RBA deciding whether to move rates by 25bps or 50bps. They may also discuss the merits of keeping policy unchanged – note a three-option discussion was common during the prior hiking cycle.

As for the other data flow relative to the RBA's prior February SoMP forecasts, they have broadly come in line.

UK BoE Chief Economist Pill

CA CPI (Apr)

US Home Depot Earnings, Fed's Bostic, Daly, Hammack, Musalem
Earnings by Home Depot will be parsed for inflation anecdotes. Walmart recently said it planned to raise prices in May and into the summer, when tariff-affected merchandise hits its store shelves.

CFO Rainey said: "*We're wired for everyday low prices, but the magnitude of these increases is more than any retailer can absorb… It's more than any supplier can absorb. And so I'm concerned that consumer is going to start seeing higher prices. You'll begin to see that, likely towards the tail end of this month, and then certainly much more in June*".

WD G-7 Finance Ministers through to May 22

Wednesday 21

JN Trade Balance

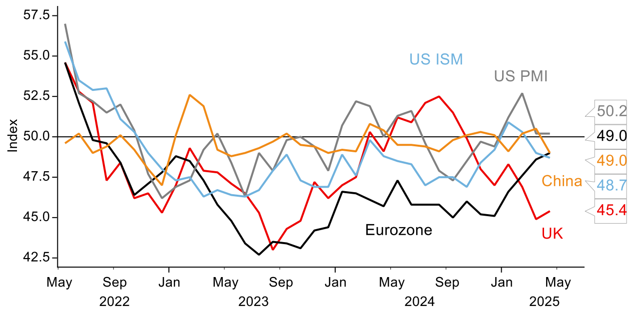
UK CPI (Apr)
UK inflation is set to record a sizeable jump in April as a raft of higher utility and other prices combine with the introduction of higher minimum wages and as employers pay higher National Insurance costs. NAB expect headline CPI to rise from 2.6% in March to 3.5%. The risks are on the upside with the BoE forecasting a 3.4% average in Q2, rising to 3.5% in Q3. Core inflation should rise from 3.4% to 3.9%. Headline inflation is unlikely to decline back below 3% until early 2026.

Thursday 22

AU RBA Deputy Gov. speaks
RBA Deputy Governor is speaking on "*Open the Door and See the Mountain: Reflections from a Recent Trip to China*" at the Lowy Institute in Sydney. His views on China will be of high interest given China accounts for around 34% of Australia' goods exports.

EZ/UK Prelim. PMIs (May), ECB Minutes
Services PMI activity across jurisdictions collectively took a hit in April as tariff uncertainty bit and pushing most to the 50 boom-bust level. NAB doubt the preliminary May numbers will show much improvement. In manufacturing the UK stands out among the weaker reports while the US measure remains below that of the ISM.

Global Manufacturing PMIs



Source: National Australia Bank, S&P Global, Institute for Supply Management (ISM), China Federation of Logistics & Purchasing, Macrobond

US PMIs (May), Jobless Claims, Fed's Williams, Target
Aside from the PMIs mentioned above, Jobless will continue to garner focus. Claims to date remain low, while Challenger job cut announcements have retraced. Retailer Target also worth a look for inflation anecdotes.

Friday 23

JN CPI (Apr)
Consensus sees core CPI (ex food and energy) at 3.0% y/y from 2.9%.

UK Retail Sales

matt_brunt@bnz.co.nz

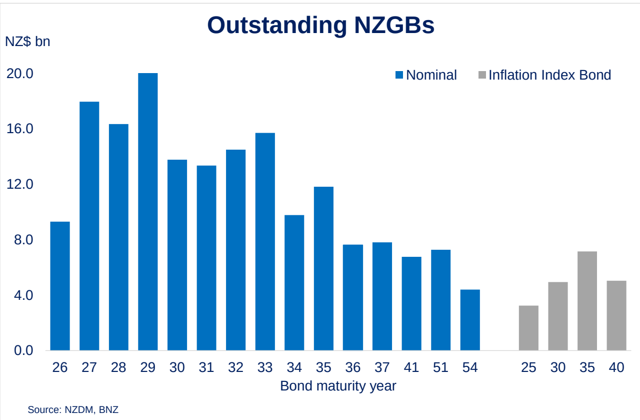
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg: BNZ

The partial de-escalation in the US-China trade war, at the beginning of last week, contributed to a move higher in global interest rates. The paring of rate cut expectations for major central banks has seen a modest lift in NZ swap rates off the recent lows. Market pricing for the terminal Official Cash Rate has increased to 2.85%, 10bp higher than a week ago. We maintain our bias for lower front-end NZ rates and a steeper yield curve.

NZ Debt Management (NZDM) will update the government bond programme alongside the Budget on Thursday. The government's financial accounts have been tracking in line with the Treasury's December projections. However, Finance Minister Willis has previously indicated the Treasury has downgraded its GDP forecasts, which will impact revenues, and skews the risk towards a larger funding requirement.

NZDM NZGB portfolio (end April)

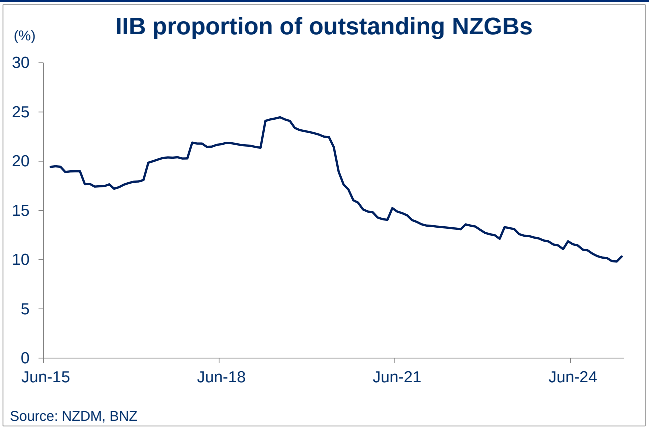


Gross issuance has been revised higher, at each borrowing programme update since December 2021, reflecting ongoing fiscal pressures. At the Half Year Economic and Fiscal Update (HYEFU) in December, forecast gross issuance for 2025/26 was NZ$40bn. NZDM have already undertaken ~NZ$2bn of prefunding for the next fiscal year, which will provide an offset, in the event of an increase in funding requirements.

Assuming gross issuance of NZ$40bn in 2025/26, and that the lower NZ$450mn weekly tender volumes are maintained, we expect four nominal syndications totalling NZ$20 billion in the new fiscal year. This would repeat the approximate 50/50 split between tenders and syndications in 2024/25.

Syndications are expected to be a mixture of taps and new lines. We don't expect NZDM will move to multiple maturities per year. This means a new nominal line will fill gaps beyond the existing April-2037 bond. We think a new 15- or 20-year maturity is the most likely. An announcement of a longer end syndication, could contribute to a re-steepening of the curve beyond 10 years, which has retraced off the April highs. Tap syndications will likely be concentrated in the 5-10y curve segment.

Declining proportion of IIB



NZDM has continued to offer small parcels of inflation-indexed bonds (IIB) in the weekly tenders, but market activity is limited and issuance is trivial in the context of total funding. IIBs have fallen to a 10% proportion of outstanding NZGBs from a 25% peak in 2019. An update to the funding strategy could indicate the likelihood of a future IIB syndication, with the shortest linker due to mature in September. Otherwise, IIB issuance will likely be maintained at less than NZ$1bn for the upcoming fiscal year.

We don't expect changes to short-term borrowings - TBills and Euro-Commercial Paper (ECP) - which are forecast at NZ$20 billion for June 2026 (currently NZ$16bn). The composition is skewed toward ECP given the relative cost. Short term borrowings could be increased, if funding requirements rise in the future, to reduce pressure on the NZGB programme.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	3.34	3.34 - 3.48
NZ 2yr swap (%)	3.22	3.05 - 3.25
NZ 5yr swap (%)	3.61	3.40 - 3.66
NZ 10yr swap (%)	4.14	3.92 - 4.20
2s10s swap curve (bps)	92	87 - 97
NZ 10yr swap-govt (bps)	-46	-53 - -46
NZ 10yr govt (%)	4.60	4.48 - 4.63
US 10yr govt (%)	4.48	4.12 - 4.55
NZ-US 10yr (bps)	13	10 - 29
NZ-AU 2yr swap (bps)	-30	-33 - -9
NZ-AU 10yr govt (bps)	15	11 - 30

*Indicative range over last 4 weeks

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week was another one of currency market consolidation. While the USD was broadly stronger, weekly changes for the majors were modest. NZD/USD fell ½% to 0.5880 after trading a monthly low just below 0.5840 early in the week. On the crosses, the NZD was down modestly – about 0.3-0.4% on most – but gained 0.3% against EUR, with the euro being the weakest of the majors.

Last week kicked off with a joint announcement by the US and China to reduce tariffs, following successful talks by both parties in Switzerland. The outcome of the talks was much better than anyone imagined.2 The US agreed to lower the recently imposed 145% tariff on Chinese goods to 30% (representing the 10% baseline that applies to all countries and the 20% "fentanyl" tariffs). The sector specific tariffs that apply to most countries will remain. China agreed to lower the recently imposed 125% tariff on US goods to 10% and also said it would cancel or suspend some non-tariff measures, including easing export restrictions on critical minerals. The agreement is temporary, lasting 90-days, while the two sides continue negotiations to work on a broader trade deal.

The announcement had more impact on US equities than other assets, with the S&P500 index up 5.3% for the week and the USD TWI up less than 0.5%. Economists began revising up their growth forecasts for the US and China and reduced the probability of the US economy entering a recession this year. US consumers still face an overall average effective tariff rate of 17.8%, the highest since 1934, but down from 27.6%.

Our negative USD outlook depends on both cyclical and structural forces driving the currency lower over the next year or two. On the cyclical side, the effective end of the US trade embargo with China is clearly positive for the US and China's economic outlooks, assuming that such high punitive tariffs will never be reintroduced. But any currency impact for the NZD outlook looks modest, with offsetting forces – the upward revision to the US economic outlook needs to be considered against upward revision to China's and the world growth outlook.

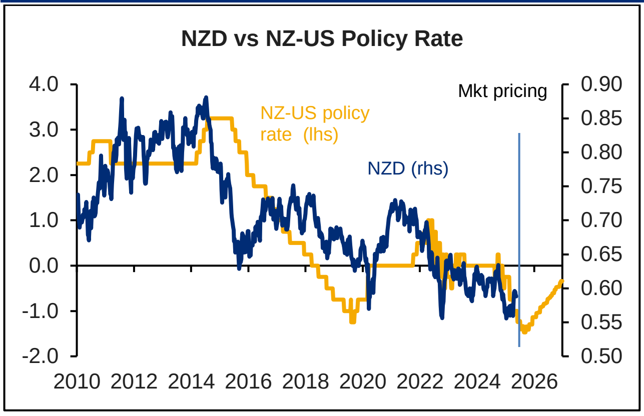
The de-escalation of the trade war doesn't change our negative structural view for the USD. The late-Friday downgrade by Moody's of the US sovereign credit rating, and the inability of President Trump's tax and spending bill to get past the first hurdle were timely reminders of the significant risks overhanging US fiscal policy and the unsustainably large path of future deficits. Our core view remains that investors will want to be de-weighting exposure to US assets and the USD over time, a negative headwind for the USD over the medium term.

US economic data were mostly weaker than expected, including consumer sentiment probing record low levels and most consumers citing the impact of tariffs. US inflation data were softer than expected, but it's still too early to expect to see much impact from the tariffs. Surveys show significantly higher inflation expectations, even if market-based measures of inflation expectations remain contained. It's not the sort of environment that gives the Fed confidence it can ease monetary policy at this stage.

NZ economic data show a sluggish economy with weak spending, while inflation and inflation expectations are moving higher. The inflation backdrop should make the RBNZ cautious about the extent of any further monetary policy easing to consider this year. Mapping NZ-US policy rates expectations embedded in market pricing against the NZD shows a higher probability of NZ rate cuts than US rate cuts over the very short term, but that reversing course the further one looks into the future (see chart). Thus, while relative NZ-US monetary policy considerations are currently a headwind for the NZD, they will eventually develop into a tailwind.

In the week ahead, most expect the RBA to cut its policy rate by 25bps to 3.85% tomorrow and this is fully priced. Following China activity data today, CPI data for Canada, UK, Japan and global PMIs will be released during the week. The NZ Budget is released Thursday, but this doesn't usually have any impact on the NZD.

NZ-US rate gap negative for NZD short term, before reversing



Cross Rates and Recent Ranges

	Current	Last 3-weeks range*
NZD/USD	0.5883	0.5850 - 0.6020
NZD/AUD	0.9176	0.9160 - 0.9310
NZD/GBP	0.4428	0.4410 - 0.4510
NZD/EUR	0.5259	0.5190 - 0.5320
NZD/JPY	85.47	84.20 - 87.70

*Indicative range over last 3 weeks, rounded figures

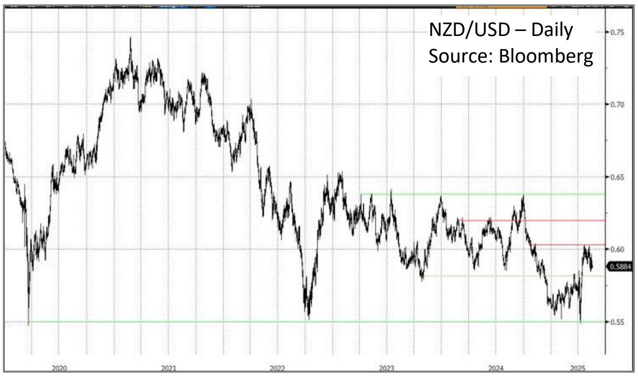
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook:	Trading range
ST Resistance:	0.6030 (ahead of 0.62)
ST Support:	0.5820 (ahead of 0.55)

No change, with the first level of resistance at the recent high around 0.6030, ahead of 0.62. The 0.55 mark remains the key support level, but some earlier support might come around 0.5820.



NZD/AUD

Outlook:	Trading range
ST Resistance:	0.9390 (ahead of 0.9470)
ST Support:	0.9070 (ahead of 0.8950)

No change, with intial support and resistance levels at 0.9070/0.9390.

jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook:	Neutral
ST Resistance:	3.85
ST Support:	3.47

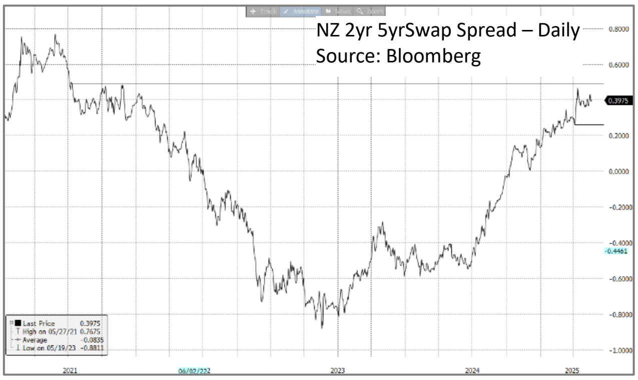
5-year swap has moved back higher in volatile market conditions. We switch our bias to neutral following the failed break lower and await new technical signals.

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

Outlook:	Neutral
ST Resistance:	0.50
ST Support:	0.25

2x5 year swap spread continues to trade around 40bp. We await further guidance.

matthew.herbert@bnz.co.nz



Quarterly Forecasts

Forecasts as at 19 May 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (production s.a.)	0.7	0.3	0.4	0.6	0.7	0.8	0.7	0.6	0.5	0.5
Retail trade (real s.a.)	0.9	0.0	0.6	1.0	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.2	-5.5	-4.6	-4.2	-3.8	-3.7	-3.9	-4.0	-4.1	-4.1
CPI (q/q)	0.5	0.9	0.6	0.7	0.4	0.5	0.4	0.4	0.3	0.7
Employment	-0.2	0.1	0.2	0.4	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.1	5.2	5.3	5.3	5.1	5.0	4.9	4.8	4.8
Pr. avg hourly earnings (ann %)	4.0	3.8	3.5	3.0	2.3	3.0	3.1	3.2	3.4	3.3
Trading partner GDP (ann %)	3.2	3.1	2.8	2.6	2.4	2.5	2.7	2.8	2.8	2.8
CPI (y/y)	2.2	2.5	2.8	2.8	2.6	2.2	2.0	1.8	1.7	1.9
GDP (production s.a., y/y)	-1.1	-1.2	0.3	1.9	2.0	2.5	2.8	2.8	2.6	2.3

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 SOFR 3 month	 US 10 yr	Spread NZ-US Ten year
2024	**Mar**	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
	Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
	Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
	Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
2025	**Mar**	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Forecasts											
	Jun	3.25	3.00	3.50	4.45	2.90	3.30	4.05	4.30	4.25	0.20
	Sep	2.75	2.90	3.50	4.45	3.00	3.40	4.15	3.80	4.25	0.20
	Dec	2.75	2.90	3.50	4.30	3.15	3.50	4.10	3.55	4.00	0.30
2026	**Mar**	2.75	2.90	3.60	4.30	3.40	3.65	4.15	3.30	4.00	0.30
	Jun	2.75	2.90	3.80	4.40	3.70	3.90	4.30	3.05	4.00	0.40
	Sep	2.75	3.30	3.95	4.40	3.95	4.10	4.35	3.05	4.00	0.40
	Dec	3.25	3.55	4.00	4.40	4.10	4.20	4.40	3.05	4.00	0.40

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	0.59	0.64	1.12	1.33	145	0.59	0.92	0.53	0.44	85.4	68.6
Jun-25	0.61	0.66	1.18	1.37	138	0.61	0.92	0.52	0.45	84.2	70.3
Sep-25	0.63	0.68	1.24	1.43	130	0.63	0.93	0.51	0.44	81.9	71.2
Dec-25	0.65	0.70	1.23	1.41	125	0.65	0.93	0.53	0.46	81.3	72.5
Mar-26	0.65	0.70	1.23	1.41	125	0.65	0.93	0.53	0.46	81.3	72.5
Jun-26	0.68	0.73	1.26	1.45	119	0.68	0.93	0.54	0.47	80.9	74.1
Sep-26	0.68	0.73	1.27	1.46	118	0.68	0.93	0.54	0.47	80.2	73.9
Dec-26	0.68	0.73	1.28	1.47	117	0.68	0.93	0.53	0.46	79.6	73.7
Mar-27	0.69	0.74	1.26	1.45	116	0.69	0.93	0.55	0.48	80.0	74.6
TWI Weights						15.6%	18.4%	9.2%	3.9%	5.5%	

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

Annual Forecasts

Forecasts as at 19 May 2025	March Years Actuals 2023	2024	2025	2026	2027	December Years Actuals 2022	2023	2024	2025	2026
GDP - annual average % change										
Private Consumption	3.4	1.0	0.1	2.1	2.8	4.2	1.0	0.2	1.4	2.9
Government Consumption	2.7	2.0	-0.8	0.6	0.0	5.2	0.8	0.0	0.4	0.2
Total Investment	3.3	-1.1	-4.9	0.4	5.8	4.2	-0.1	-4.6	-1.7	5.6
Stocks - ppts cont'n to growth	0.3	-1.6	0.4	0.6	0.1	0.0	-1.4	0.2	0.5	0.2
GNE	3.7	-0.9	-0.6	2.3	3.1	4.5	-0.8	-0.8	1.5	3.2
Exports	5.6	8.6	3.5	4.5	3.9	-0.8	11.4	4.2	5.3	3.7
Imports	4.4	-1.3	2.9	5.2	4.9	4.6	-0.6	2.4	4.9	5.0
Real Expenditure GDP	3.9	1.4	-0.6	2.0	2.6	3.2	1.9	-0.1	1.1	2.7
GDP (production)	**3.5**	**1.4**	**-1.1**	**1.7**	**2.6**	**2.9**	**1.8**	**-0.5**	**0.8**	**2.7**
GDP - annual % change (q/q)	*3.0*	*1.4*	*-1.2*	*2.5*	*2.3*	*3.1*	*0.9*	*-1.1*	*2.0*	*2.6*
Output Gap (ann avg, % dev)	2.0	1.0	-1.1	-0.8	0.0	1.9	1.2	-0.6	-1.0	-0.1
Nominal Expenditure GDP - $bn	394	418	430	451	473	386	413	427	445	468
Prices and Employment - annual % change										
CPI	6.7	4.0	2.5	2.2	1.9	7.2	4.7	2.2	2.6	1.7
Employment	3.1	1.0	-0.7	1.9	2.3	1.7	2.8	-1.2	1.3	2.5
Unemployment Rate %	3.4	4.4	5.1	5.1	4.8	3.4	4.0	5.1	5.3	4.8
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	3.8	3.0	3.3	8.1	6.6	4.0	2.3	3.4
Productivity (ann av %)	1.3	-1.1	-0.2	1.2	0.2	0.7	-1.2	-0.1	1.0	0.3
Unit Labour Costs (ann av %)	5.7	7.1	4.7	2.4	3.1	6.0	7.6	4.9	2.9	2.9
House Prices (stratified, qtr)	-12.8	2.8	-0.6	7.0	5.4	-13.8	0.6	-0.9	6.8	6.1
External Balance										
Current Account - $bn	-33.8	-27.6	-23.5	-16.8	-19.4	-35.6	-28.6	-26.4	-17.1	-19.4
Current Account - % of GDP	-8.6	-6.6	-5.5	-3.7	-4.1	-9.2	-6.9	-6.2	-3.8	-4.1
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-3.0	-2.3	-0.9					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	39.3	42.4	45.1	45.1	46.5					
Bond Programme - $bn (Treasury forecasts)	28.0	39.3	40.0	40.0	38.0					
Bond Programme - % of GDP	7.1	9.4	9.3	8.9	8.0					
Financial Variables [1]										
NZD/USD	0.62	0.61	0.57	0.67	0.69	0.63	0.62	0.57	0.65	0.68
USD/JPY	134	150	149	120	116	135	144	154	125	117
EUR/USD	1.07	1.09	1.08	1.25	1.26	1.06	1.09	1.05	1.23	1.28
NZD/AUD	0.93	0.93	0.91	0.93	0.93	0.94	0.93	0.91	0.93	0.93
NZD/GBP	0.51	0.48	0.44	0.47	0.48	0.52	0.49	0.45	0.46	0.46
NZD/EUR	0.58	0.56	0.53	0.54	0.55	0.60	0.57	0.55	0.53	0.53
NZD/YEN	83.0	91.1	85.4	80.4	80.0	85.6	89.5	88.4	81.3	79.6
TWI	71.0	71.2	67.9	73.6	74.6	72.9	72.0	68.5	72.5	73.7
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.75	3.50	4.25	5.50	4.25	2.75	3.25
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	4.05	4.55	5.63	4.26	2.90	3.55
5-year Govt Bond	4.40	4.60	4.00	3.60	4.05	4.30	4.50	3.90	3.50	4.00
10-year Govt Bond	4.35	4.60	4.50	4.30	4.40	4.25	4.65	4.45	4.30	4.40
2-year Swap	5.15	4.91	3.35	3.40	4.15	5.21	4.93	3.53	3.15	4.10
5-year Swap	4.50	4.40	3.65	3.65	4.25	4.62	4.43	3.63	3.50	4.20
US 10-year Bonds	3.65	4.20	4.25	4.00	4.00	3.60	4.00	4.40	4.00	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.30	0.40	0.65	0.65	0.05	0.30	0.40

[1] *Average for the last month in the quarter*

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Monday 19 May			
CH	Retail Sales YoY Apr	5.80%		5.90%
CH	Industrial Production YoY Apr	5.70%		7.70%
CH	Fixed Assets Ex Rural YTD YoY Apr	4.20%		4.20%
CH	Surveyed Jobless Rate Apr	5.20%		5.20%
EC	European Commission Spring Economic Forecasts			
EC	CPI YoY Apr F	2.20%		2.20%
EC	CPI Core YoY Apr F	2.70%		2.70%
EC	ECB's Muller Speaks			
	Tuesday 20 May			
US	Fed's Williams, Bostic & Others Speaks			
AU	RBA Cash Rate Target 20/05/2025	3.85%	3.60%	4.10%
EC	ECB's Wunsch, Knot & Cipollone Speak			
UK	BOE's Pill Speaks			
	Wednesday 21 May			
CA	CPI YoY Apr	1.60%		2.30%
US	Philadelphia Fed Non-Manufacturing Activity May			-42.7
US	Fed's Bostic, Collins & Others Speak			
EC	Consumer Confidence May P	-16		-16.7
NZ	Dairy GDT auction			
NZ	Trade Balance NZD Apr			970m
JN	Trade Balance Apr	¥224.2b		¥559.4b
UK	CPI YoY Apr	3.30%		2.60%
UK	CPI Core YoY Apr	3.60%		3.40%
EC	ECB's Guindos & Centeno Speak			
	Thursday 22 May			
EC	ECB's Lane, Escriva & Others Speak			
US	Fed's Barkin & Bowman Speak			
AU	S&P Global Australia PMI Mfg May P			51.7
AU	S&P Global Australia PMI Services May P			51
JN	BOJ's Noguchi Speaks			
NZ	Budget 2025			
GE	IFO Expectations May	87.9		87.4
EC	HCOB EZ Manufacturing PMI May P	49.3		49
EC	HCOB EZ Services PMI May P	50.5		50.1
AU	RBA's Hauser-Speech			
UK	S&P Global UK Manufacturing PMI May P	46		45.4
UK	S&P Global UK Services PMI May P	50		49
UK	BoE's Breeden & Dhingra Speak			
EC	ECB Publishes Account of April Meeting			
	Friday 23 May			
UK	BoE's Pill Speaks			
US	Chicago Fed Nat Activity Index Apr	-0.22		-0.03
US	Initial Jobless Claims 17-May	230k		229k
US	Continuing Claims 10-May	1884k		1881k
EC	ECB's Lane, Nagel & Others Speak			
US	S&P Global US Manufacturing PMI May P	49.9		50.2
US	S&P Global US Services PMI May P	51		50.8
US	Existing Home Sales Apr	4.10m		4.02m
US	Fed's Williams Speaks			
NZ	Retail Sales Ex Inflation QoQ 1Q	0.00%	0.00%	0.90%
UK	GfK Consumer Confidence May	-22		-23
JN	Natl CPI Ex Fresh Food, Energy YoY Apr	3.00%		2.90%
NZ	Household Inflation Expectations 2Q			
UK	Retail Sales Inc Auto Fuel MoM Apr	0.40%		0.40%
EC	Indicator of Negotiated Wage Rates			
	Saturday 24 May			
US	Fed's Musalem, Schmid & Cook Speak			
US	New Home Sales Apr	690k		724k
US	Kansas City Fed Services Activity May			3

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	3.50	3.50	3.50	5.50
1mth	3.46	3.50	3.62	5.60
2mth	3.41	3.44	3.55	5.61
3mth	3.34	3.37	3.48	5.61
6mth	3.23	3.23	3.29	5.57
GOVERNMENT STOCK				
04/27	3.32	3.28	3.27	4.54
05/30	3.93	3.87	3.82	4.46
05/32	4.30	4.25	4.21	4.56
05/35	4.61	4.55	4.53	4.67
04/37	4.83	4.77	4.74	4.77
05/41	5.06	5.01	4.99	4.88
05/54	5.29	5.23	5.21	4.92
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	55	55	74	49
Europe 5Y	57	58	72	50

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.21	3.13	3.13	4.90
3 years	3.34	3.25	3.24	4.62
4 years	3.47	3.38	3.36	4.47
5 years	3.61	3.51	3.50	4.41
10 years	4.15	4.03	4.04	4.47
FOREIGN EXCHANGE				
NZD/USD	0.5883	0.5855	0.6001	0.6105
NZD/AUD	0.9182	0.9189	0.9351	0.9158
NZD/JPY	85.49	86.92	84.52	95.39
NZD/EUR	0.5264	0.5281	0.5211	0.5624
NZD/GBP	0.4428	0.4443	0.4485	0.4805
NZD/CAD	0.8212	0.8182	0.8306	0.8319
TWI	68.6	68.9	70.1	71.8

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
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