15 June 2017

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Economic Outlook

We are not down in the mouth about today's reported 0.5% expansion in March quarter GDP (2.5% y/y). Yes, it under-clubbed market expectations of a 0.7% gain and was even further below the Reserve Bank expectation of a 0.9% lift. That being said, we expected Q1 GDP to be this slow, largely on technical/timing issues. More to the point, we still think the economy is fundamentally pressing on, but as its room to expand is diminishing, because of capacity constraints. At the same time, we have today finalised the extent of extra demand impetus through our GDP forecasts (which was still a work in progress at the last Strategist). Much of this stems from the 25 May Budget. This has mainly meant for more sustained growth in private consumption expenditure, with a particular push in calendar 2018. All considered, we now forecast real GDP growth of 3.1% for 2018 and 2.4% for 2019. Pre the Budget (of 25 May) these were 2.5% and 1.8% respectively.

Interest Rate Outlook and Strategy

We expect that the Reserve Bank will maintain its reserved tone at next week's review, while leaving its cash rate at a record low of 1.75%. We judge the recent balance of data no stronger than Bank expectations. Real GDP growth has undershot Bank forecasts and the NZ TWI has been tracking higher than RBNZ projections. Likely providing some offset to these developments has been additional fiscal stimulus and strong terms-of-trade-driven nominal income growth. Overall, we expect next week's near term guidance from the Bank to be neutral and unchanged from May's MPS. Meanwhile, US yields remain pinned near 2017 lows, despite today's Fed hike and hawkish stance relative to market pricing. The next three monthly data points on US wages and CPI between now and the September FOMC meeting will be crucial to how the Fed-market gap is bridged. We still think the balance of risks favours higher US rates over H2 2017, leading to higher long end NZ rates.

Currency Outlook

NZD/USD has recovered strongly recently to close the gap with our short-term fair value model estimate of 0.75. While the NZD has recovered on all the major cross rates, particular weakness in the USD has been a supporting factor. The NZD has been particularly sensitive to US Treasury yields recently. In terms of NZD outlook, we think US inflation data will be one of the most important variables over coming months with NZ specific factors less relevant. Near term, we think NZD is close to resistance. A period of consolidation seems due. We see more downside than upside risk on a 3-6 month view, consistent with a USD recovery.

Slow Q1 GDP Doesn't Deny Demand Pressure Developing

- Real Q1 GDP slows to 0.5%, 2.5% y/y
- Encouraging the view of RBNZ reservation
- But nominal GDP running at 6.2% y/y
- Just as capacity constraints begin to bite
- And we add demand to our GDP forecasts
- Pressure remains in view, in other words

We are not down in the mouth about today's reported 0.5% expansion in March quarter GDP. Yes, it under-clubbed market expectations of a 0.7% gain and was even further below the Reserve Bank expectation of a 0.9% lift. This will no doubt encourage the view that the RBNZ will remain firmly on its heels with respect to its Official Cash Rate (increasing the risk that our expectation of a first hike by the Bank in February 2018 is too early).

That being said, we expected Q1 GDP to be this slow, largely on technical/timing issues. More to the point, we still think the economy is fundamentally pressing on, but as its room to expand is diminishing, because of capacity constraints.

The 0.5% expansion in Q1 production-based GDP trimmed its annual rate of change to 2.5%, from 2.7%. There were no obvious revisions to recent history that we could see. We feel we got the sub-details broadly right as well. Nevertheless, there were, as usual, a few wrinkles. The main ones on the production side were a bigger rebound in agriculture output than we figured on, but ongoing contraction in transportation services that left us scratching our head. Overall, however, these were nothing to perturb our expectation of next quarter's (Q2) GDP growth, which remains at 0.8%.

On the expenditure-GDP side, it was interesting that domestic demand components were, if anything, slightly stronger than we thought, while net exports were a bit weaker (albeit with the latter hinted at by yesterday's balance of payments account). Notably, household consumption lifted a seasonally adjusted 1.3% in the March quarter, taking its annual pace to 5.1%. The twists in the GDP expenditure components for Q1 were in the direction of pressure on the current account, as a signal of potential imbalance.

Expenditure-GDP, in sum, increased just 0.2% in Q1 (about as little as we expected), with its Q4 increase shaved to 0.1%, from 0.2%. Its recent movement has closed the gap to the production-based level of GDP, for those interested in the earlier divergence.

GDP (Production) - 2017 Q1

	Actual	Mkt Expected	May MPS	Previous
s.a qtr % chg	**+0.5**	+0.7	+0.9	+0.4
qtr on qtr year ago %	**+2.5**	+2.7		+2.7
annual average % chg	**+3.0**			+3.1

R - revised

While real GDP measures are always important to acknowledge, it pays also to look at alternate gauges of growth. Per capita growth is one of these. And that has slowed to hardly anything. There was also a 0.9% dip recorded in real gross national disposable income, per capita, for the March quarter. However, this was hit by the big profit "outflow" that we saw in yesterday's current account, and followed a 1.8% jump in Q4, meaning for annual growth of 1.3% in the final wash. This directly reflects the very high terms of trade more than other measures.

	qtr % chg prev qtr	% pt cont to chg (1)	ann avg % chg	ann % chg
GDP by Industry - March 2017 quarter				
Agriculture, Forestry & Fishing	2.8	0.2	-1.1	0.3
Mining	-1.0	0.0	-10.5	-8.6
Manufacturing	1.0	0.1	2.3	2.1
Electricity Gas, Water & Waste Services	2.1	0.1	0.6	1.5
Construction	-2.1	-0.1	9.3	3.8
Wholesale Trade	1.4	0.1	2.6	3.6
Retail, Accom. & Restaurants	1.8	0.1	5.4	5.2
Transport, Postal and Warehousing	-2.0	-0.1	3.1	0.7
Information Media & Telecommunications	0.9	0.0	-0.2	-1.1
Financial and Insurance Services	0.1	0.0	4.0	3.4
Rental, Hiring, Real Estate Services	-0.1	0.0	1.7	1.1
Prof, Scientific, Technical, Admin	0.1	0.0	4.7	4.3
Public Admin and Safety	1.6	0.1	2.1	2.5
Education & Training	0.1	0.0	0.5	0.3
Health Care and Social Assistance	1.6	0.1	5.3	5.4
Arts, Recreation and Other	-0.8	0.0	6.8	7.3
Unallocated (2)	0.6	0.1	4.2	2.5
Balancing Terms (3)	..	0.0	..	..
Gross Domestic Product	**0.5**	**0.5**	**3.0**	**2.5**

(1) Includes the change in inventories and the seasonal adjustment balancing item

(2) Includes unallocated taxes on production and imports, and bank service charge

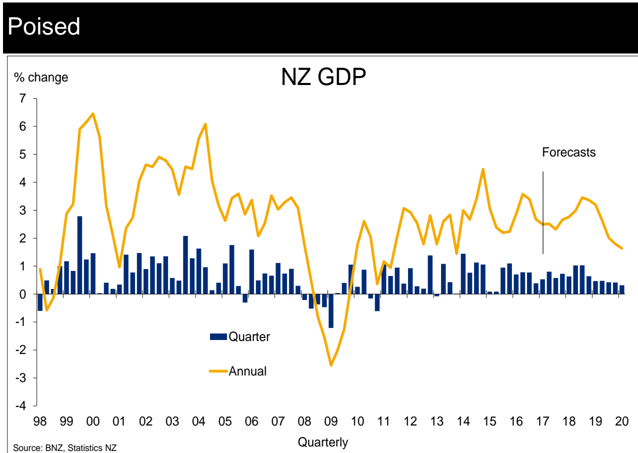
(3) The seasonal adjutment balancing item

	qtr % chg prev qtr	% pt cont to chg (1)	ann avg % chg	ann % chg
Expenditure on GDP - March 2017 quarter				
Final Consumption Expenditure				
Private	1.2	0.7	4.6	5.0
General Government	1.0	0.2	2.6	3.4
Gross Fixed Capital Formation				
Residential Buildings	-1.6	-0.1	10.2	4.0
Other Fixed Assets	2.3	0.4	3.7	5.8
Exports of Good and Service	-0.4	-0.1	1.0	-1.4
Imports of Goods and Services	1.3	-0.4	5.1	7.3
Change in Inv & Bal. Item (4)	..	-0.5	..	..
Expenditure on GDP	**0.2**	**0.2**	**3.1**	**2.0**

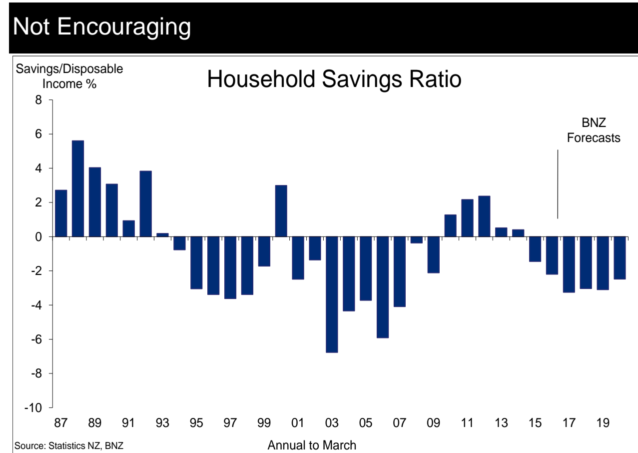
(4) Includes the change in inventories and the seasonal adjustment balancing item.

Source: Statistics New Zealand

Poised



Not Encouraging



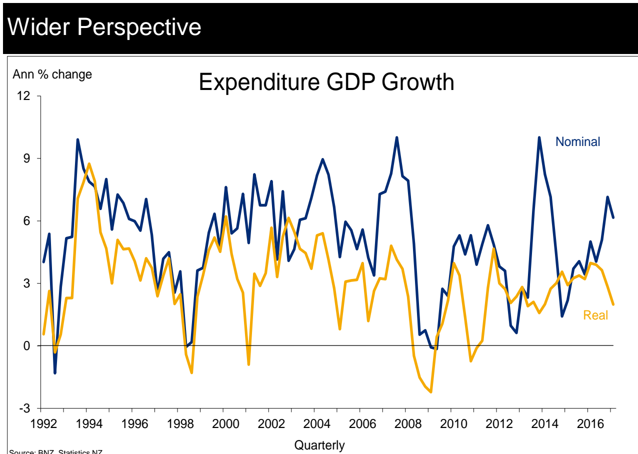
And looking at annual nominal GDP growth, it was 6.2% in the March quarter of 2017. This entailed quarterly increases of 1.4%, 1.9% and 1.7% over Q1, Q4 and Q3 respectively, seasonally adjusted. This also captures the terms of trade strength (and better explains the strength of tax revenue growth of late).

But rather than dwell on the March quarter GDP in any greater granularity, we would like to now talk about the upgrades we've instituted to our macro-economic forecasts. We had much of this pushed through at the time of last fortnight's Strategist, but today we can confirm the all of it. And explain it in some detail (if not in precise numbers, because of the re-forecasting we still have to do on the basis of today's new GDP starting point).

Much of the change we've made is a consequence of the 25 May Budget. This has mainly meant for more sustained growth in private consumption expenditure. Based around the intended Family Incomes Package, this exhibits a particular push in calendar 2018.

Not that we expect all of the extra cash to be spent. Indeed, we reckon the Budget money bolsters the household savings rate. However, only to stop it

Wider Perspective



becoming more negative (as we previously expected) rather than turn things back into the black. And this is even with the money coming back into the household sector by way of farmer income. All things considered, the household sector appears to be chewing into its savings yet again, as another sign of imbalance creeping back in.

We haven't materially changed our view of capital investment over the medium term, given how strong our forecasts already were on this. However, we have altered the composition, with more coming through public investment (Budget related), meaning less of it coming through private investment. In this there are elements of public sector activity "crowding out" private sector activity. And it is not as if the private construction industry isn't battling for resources to begin with, to do all that is being asked of it, including massive home-building projects.

On the back of stronger domestic demand, principally consumption, we've lifted our outlook for imports growth. But our real exports track is largely unchanged. This combines to put a bit of (volume) pressure on the current account. However, this is mostly offset by the heftier terms of trade we're now running with. All up, and with the higher than expected base for the year to March 2017, we still don't see the current account deficit getting worrisome over the next couple of years. However, it will be worth just keeping an eye on.

In terms of real GDP, our changes affirm a growth forecast of 3.1% for 2018 (previously 2.5%) and 2.4% for 2019 (previously 1.8%). Note: this hasn't involved too much change to our forecasts for net inward migration, which is still for a gradual abatement over the coming years. This is in keeping with recent changes to government policy (although vulnerable to any change of government come September's general election).

Our bolstered GDP track doesn't generate a substantively different output gap projection, but it does affirm the likelihood of aggregate demand pressure ahead. While recent GDP outcomes might have shaved the output gap's starting point from a statistical point of view, this has

been (more than?) offset by increasing reports and evidence of capacity constraint in the economy (see our note of 13 June entitled Capacity Constraints!).

But our stronger GDP forecasts have afforded a bit more employment growth in our projections. This, aside still slowly abating immigration, and a participation rate that struggles to hit higher highs, means for a very slight reduction in the unemployment rate. Previously we saw the unemployment rate drifting up a bit, which was beginning to look misaligned to the reports of increasing difficulty finding staff.

These reports also suggest to us that the current unemployment rate, of around 5.0%, is consistent with the macro concept of "full employment" (of course, we wish this equilibrium was a lot lower, but there we have it). This is backed up by the fact New Zealand's participation rate is at record highs, making it difficult to drag more people into the labour market. Still, we are not forecasting a plunge in the jobless rate, in order to generate more wage inflation. We believe the latter will begin to show up, even if the jobless rate stays around recent levels.

Our confirmed changes to our macro-economic forecasts thus keep the pressure on. This is certainly in terms of capacity constraint (in turn warning not to get too exuberant with one's economic growth forecasts from this point), and most probably in terms of CPI inflation too. However, we also appreciate that this might take more time to become obvious, and accepted, such that we don't expect the Reserve Bank to respond in any hurry..

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US Fed Hikes; Not Swayed By Inflation Drop

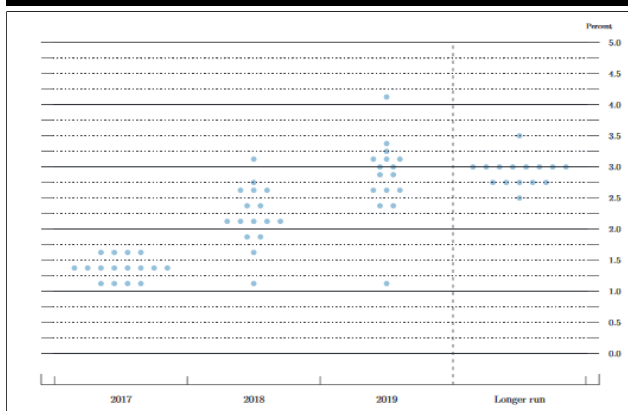
- Fed raises rates 25bp as clearly signaled
- Median 'dot points' for 2017 and 2018 unchanged at 1.375% and 2.1275%, with 2019 at 2.875% (vs 3% March). Longer-term remains at 3.0%
- Fed revises down jobless rate forecasts 2 to 3 tenths for whole of forecast horizon as jobless rate declines
- Core PCE forecasts marked down to 1.6%-1.7% from 1.8%-2%, core inflation seen picking up over forecast horizon; Fed: 'monitoring inflation developments closely'
- Fed says plans for balance sheet reduction and roll-off at $10bn per month 'this year'
- Markets react by lifting yields, USD marginally after earlier heavy losses post soft CPI

Table 1: Economic Projections of Federal Reserve Board:

	2017	2018	2019	Longer run
Change in real GDP	2.1 to 2.2	1.8 to 2.2	1.8 to 2.0	1.8 to 2.0
March Projection	*2.0 to 2.2*	*1.8 to 2.3*	*1.8 to 2.0*	*1.8 to 2.0*
Unemployment rate	4.2 to 4.3	4.0 to 4.3	4.1 to 4.4	4.5 to 4.8
March Projection	*4.5 to 4.6*	*4.3 to 4.6*	*4.3 to 4.7*	*4.7 to 5.0*
PCE Inflation	1.6 to 1.7	1.8 to 2.0	2.0 to 2.1	2.0
March Projection	*1.8 to 2.0*	*1.9 to 2.0*	*2.0 to 2.1*	*2.0*
Core PCE Inflation	1.6 to 1.7	1.8 to 2.0	2.0 to 2.1	n/a
March Projection	*1.8 to 1.9*	*1.9 to 2.0*	*2.0*	*n/a*

Source: Federal Reserve

Chart 1 FOMC 'dot point' assessments



More hawkish than the broadly seen 'dovish' hike …

The US Federal Reserve today hiked interest rates 25bps as widely expected and kept its forecast profile via its so-called 'dot point' projections broadly unchanged. The accompanying statement trod an upbeat line on economic growth and inflation, despite accumulating evidence that core inflation has turned lower.

Fed forecasts for core PCE inflation factor a lower core inflation rate for the medium-term, but then see inflation turning higher again. The Fed added that it is, "monitoring inflation developments closely," but the statement language and Fed Chair Janet Yellen's press conference point to a Committee that has not yet been spooked by the pullback in core inflation.

In her opening comments chair Yellen said the lower rate of core inflation was mainly due to one-off factors such as wireless telephones and prescription drugs. We note today's core CPI of 1.7% from 1.9% y/y and a 3M annualised rate of just 0.5%. Moreover, the decline in today's May data was not related to wireless telephones (-0.1% m/m after two prior months of weakness) and was otherwise broad across numerous sectors.

The Fed also said it would begin its balance sheet normalisation program, "this year, provided the economy evolves broadly as anticipated," with so-called 'roll-off caps' starting at $10bn per month, split between $6bn in US Treasuries and $4bn for Agency bonds. These caps will then be raised by $6bn every three months for USTs and $4bn every three months for Agency debt for a period of twelve months until USTs reach $30bn and Agencies $20bn. Yellen said no decision had been made, but be "relatively soon".

The combination of an upbeat view on economic growth, no apparent concern on inflation and balance sheet reduction is a more hawkish mix than markets had been prepared for – at least certainly on the day given the plunge in yields and the USD earlier after the release of softer CPI and retail sales data (the latter was actually pretty reasonable at the 'control group' level when revisions were taken into account).

Data to decide

Consequently, markets have responded by lifting the USD after heavy falls earlier after the soft CPI report. USD/JPY had fallen from 110.30 to 108.95, rose to 109.60. Benchmark yields, which had seen US 10s at 2.1050% from 2.20% and US 2s at 1.29% from 1.36% rose back to 2.14% and 1.34% respectively. Stocks, which had been building for more of a Fed nod to softer inflation, fell back into the red.

Markets have reacted to what they see as a more hawkish mix from a Fed that does not share some market participants' views of more softness to come. With markets prior to today not sharing the Fed's view of three hikes in 2018 and 2019 and the incoming softer inflation impulse likely adding to the view, it's a debatable point whether markets remain orderly or at some point register some protest that the Fed's forecasts are unrealistic.

Here the data will likely be the arbiter. While there has been something of an immediate hawkish response, markets will want to see the inflation data turning around at some stage. Nab's view remains that benchmark yields will rise through H2, 2017 and that will support the USD.

The Fed gave no hint that it is of mind to slow the pace of rate hikes and repeated its previous line that, "it expects economic conditions to evolve in a manner that will warrant gradual increases in the federal funds rate" That suggests that even with the balance sheet reduction the FOMC wants to press on with hikes in 2017 and beyond.

The mid-pint of the FOMC's dot points remained at 1.375% for 2017 (now 12 of 16 vs previous 14), 2.1275% for 2018, but 2019 was shaved slightly from 3% to 2.875%. The longer-term dot points remained at 3%. The Fed kept GDP central tendency forecasts more-or-less unchanged, but lowered the jobless rate forecasts by between two and three tenths throughout the forecast horizon, to remain in line with the lower rate seen in the data. Yellen said while the Philips Curve appeared to be 'quite flat', that relationship nevertheless 'remains at work', suggesting she sees it as just a matter of time before wage inflation starts to push more aggressively higher.

The economic projections also saw core PCE drop to 1.6%-1.7% for 2017 (current level is 1.5%) and for 1.8%-2.0% for 2018, before returning to 2.0-2.1% in 2019.

FOMC statement:

Information received since the Federal Open Market Committee met in May indicates that the labor market has continued to strengthen and that economic activity has been rising moderately so far this year. Job gains have moderated but have been solid, on average, since the beginning of the year, and the unemployment rate has declined. Household spending has picked up in recent months, and business fixed investment has continued to expand. On a 12-month basis, inflation has declined recently and, like the measure excluding food and energy prices, is running somewhat below 2 percent. Market-based measures of inflation compensation remain low; survey-based measures of longer-term inflation expectations are little changed, on balance.

Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect that, with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace, and labor market conditions will strengthen somewhat further. Inflation on a 12-month basis is expected to remain somewhat below 2 percent in the near term but to stabilize around the Committee's 2 percent objective over the medium term. Near term risks to the economic outlook appear roughly balanced, but the Committee is monitoring inflation developments closely.

In view of realized and expected labor market conditions and inflation, the Committee decided to raise the target range for the federal funds rate to 1 to 1-1/4 percent. The stance of monetary policy remains accommodative, thereby supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation.

In determining the timing and size of future adjustments to the target range for the federal funds rate, the Committee will assess realized and expected economic conditions relative to its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. The Committee will carefully monitor actual and expected inflation developments relative to its symmetric inflation goal. The Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate; the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. However, the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data.

The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee currently expects to begin implementing a balance sheet normalization program this year, provided that the economy evolves broadly as anticipated. This program, which would gradually reduce the Federal Reserve's securities holdings by decreasing reinvestment of principal payments from those securities, is described in the accompanying addendum to the Committee's Policy Normalization Principles and Plans.

Voting for the FOMC monetary policy action were: Janet L. Yellen, Chair; William C. Dudley, Vice Chairman; Lael Brainard; Charles L. Evans; Stanley Fischer; Patrick Harker; Robert S. Kaplan; and Jerome H. Powell. Voting against the action was Neel Kashkari, who preferred at this meeting to maintain the existing target range for the federal funds rate.

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Carbon and Commodities

- Crude prices fall, as IEA forecasts US and non-OPEC production increases will offset OPEC production cuts.
- Summer demand from the US has been slow, causing gasoline stock-build, while US crude inventories ease slightly.
- NZ diesel prices are at 6 months low, from both currency strength and weak gasoline prices.

Commodity	US$	Change (daily US$)	Change (Fortnight)	Change (Month)	Change (Year)
Brent Crude	47.02	-1.64	-6.54%	-8.96%	-6.04%
WTI Crude	44.70	-1.69	-7.49%	-8.14%	-9.09%
Copper	5,672	-17.84	0.11%	1.32%	20.75%
Zinc	2,468	12.56	-4.71%	-2.76%	34.86%
Aluminium	1,870	-6.13	-2.62%	-2.50%	20.93%
Tin	19,520	346.03	-5.01%	-2.42%	13.13%
Nickel	8,887	146.37	-0.49%	-2.17%	3.73%

The recently extended OPEC production cut agreement looks unlikely to rebalance the global supply glut any time soon. The most recent falls in crude prices follow the France-based International Energy Authority (IEA) forecasting that increased production from US and other non-OPEC producers will negate the OPEC cuts into 2018. In addition production has increased from OPEC agreement-exempt countries Libya and Nigeria, further adding to the supply imbalance which the Saudis are fighting so hard to correct. There is a real risk the falls in prices could ultimately incite OPEC to abandon the agreement in favour of restoring market share.

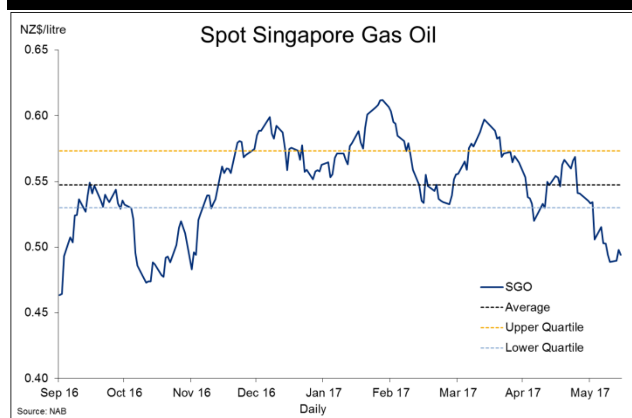
US production is at 9.33 million barrels per day, the highest levels since mid 2015, and a direct result of the increased rig count, which continues to grow steadily every week and now stands at 741.

The most recent US inventory data showed a small 1.7 million barrel draw in crude to 512 million barrels (versus peak levels of 535 million barrels), but this was countered by a surprise 2.1 million build in gasoline stocks.

The normal seasonal demand growth for gasoline as we head into the US summer months has so far been lower than in previous years.

NZ spot diesel prices are at the lowest levels since November last year, as the dual benefit of a firm currency and weak USD crude prices create low local prices. In addition, the forward curve has flattened considerably as both the USD price curve and NZDUSD forward curves level out. The combination of low spot prices and a flat forward curve create an excellent opportunity for consumers to create very attractive long term hedges.

Singapore Gas Oil (NZ$/litre)



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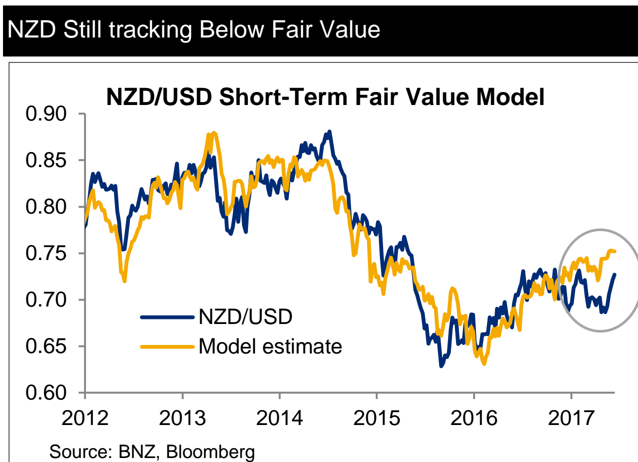
Currency Strategy

- The NZD has recovered strongly recently to close the gap with our short-term fair value model estimate of USD 0.75. While the NZD has recovered on all the major cross rates, particular weakness in the USD has been a supporting factor. A weaker USD acts like an easing in global financial conditions, supporting risk appetite, the global outlook and NZD cross rates.
- The NZD has been particularly sensitive to US Treasury yields recently, themselves influenced by soft inflation data and a more cautious outlook on US monetary policy. We think US CPI inflation data will be one of the most important variables driving the NZD over the rest of the year.
- The NZD looks close to technical resistance and a period of consolidation seems due. Following that, our forecast is consistent with a USD recovery that drives the currency back below the 0.70 mark.

The NZD has been the best performing major currency over the past month, recovering the inexplicable losses seen during February-April. For us, the puzzle is not so much why the Kiwi has recovered strongly but why it was so weak earlier in the year. The NZD has consistently undershot our short-term fair value estimate this year and even at current spot sits below our model estimate of USD 0.75.

NZD Still tracking Below Fair Value



Source: BNZ, Bloomberg

Rising NZ commodity prices have been a key driver in pushing fair value higher. In Q1, NZ's terms of trade rose to their highest level since 1973 and in Q2 they could reach an all-time high on data dating back to 1861. Strong terms of trade are helping underpin nominal GDP growth of over 6% and generally support domestic demand in the economy.

A strong nominal economy has supported strength in NZ's fiscal accounts, allowing the government to simultaneously budget for lower tax income thresholds, higher benefit rates, more capex and lower net debt, quite an achievement in the current election year.

The other supporting factor for the NZD has been a high level of risk appetite, as reflected in the low VIX, narrow credit spreads and lofty global equity markets.

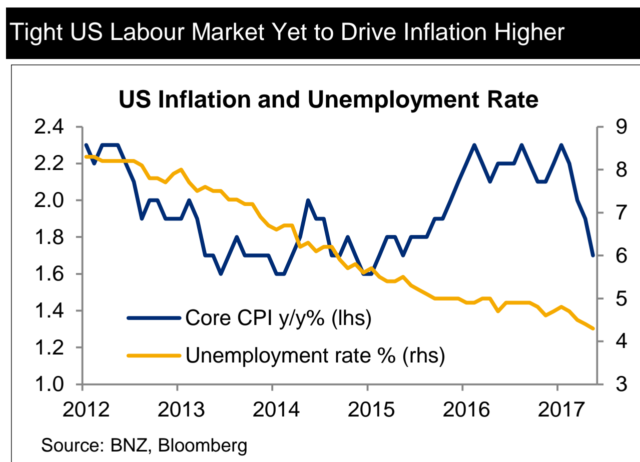
While the NZD has recovered on all the major cross rates, particular weakness in the USD has been a supporting factor. A weaker USD acts like an easing in global financial conditions, supporting risk appetite, the global outlook and NZD cross rates.

Behind the weaker USD have been two key dynamics. Firstly, downward pressure via a reversal of the Trump-election rally. Optimism that a new President at the helm would ease fiscal policy and introduce growth-friendly, USD-friendly policies has faded. Trump has not found support within his own party to push through his policy agenda and some sideshows around his actions are a distraction and add to likely delays for any fresh policy initiatives.

Secondly, US economic data have been underwhelming recently, including very weak inflation indicators. Citigroup's US economic surprise index has been in free-fall, plunging from a 3-year high of plus-60 to a 2-year low of minus-57 in just a few months.

Recent soft US CPI inflation data have raised a question mark over the outlook for US monetary policy and at this stage the Fed has maintained its focus on the medium-term outlook. US core CPI inflation has now been soft for three consecutive months, taking the annual increase down to 1.7% y/y, the weakest rate in two years.

Tight US Labour Market Yet to Drive Inflation Higher



Source: BNZ, Bloomberg

At the press conference after raising the Fed Funds rate another 25bps, Fed Chair Yellen maintained the line that recent soft inflation was likely transitory. She noted that it was important not to over-react to a few inflation readings and that inflation was projected to move higher.

The Fed is paying due respect to the steady fall in the unemployment rate to a 16-year low, believing that ultimately this will prove to be inflationary.

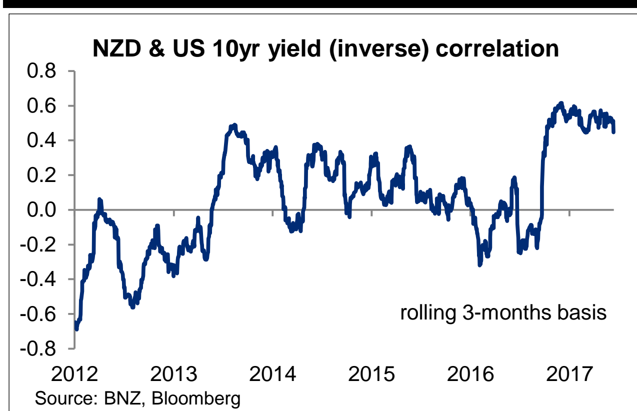
In terms of the outlook for the NZD, we think US CPI inflation data will be one of the most important variables. Another three months of soft inflation data could easily see the Fed back away from further rate hikes. In that case, the expected recovery in the USD would be put on ice and the NZD could climb higher. Low US rates help fuel high levels of risk appetite, support global growth and add to commodity price strength, all NZD-positive factors.

On the other hand, if soft US inflation does prove to be transitory, then Fed rate normalisation would remain well on track. As well as the direct effect on (lower) NZ-US spreads, higher US rates would negatively impact global risk appetite, reduce expectations for emerging market growth and likely have a negative impact on global commodity prices. All those factors would be NZD-negative and in that context our year-end target of 0.67 would be easily achievable.

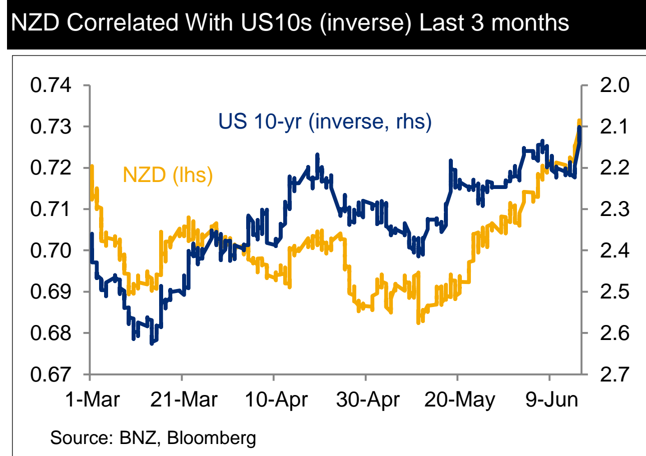
Correlation analysis backs the sensitivity of the NZD to US interest rates, highlighting the importance of US inflation over coming months.

We looked at three-month correlations of the NZD against a wide range of variables. The correlations of NZD/USD against the likes of AUD/USD, an Asian currency basket, VIX, S&P500, commodity prices, and NZ rates are all lower than usual. The only correlation we found that is higher than usual is between the NZD and US 2-year or 10-year rates.

NZD and US10s Correlated Much Higher Than Usual



NZD Correlated With US10s (inverse) Last 3 months



The US 10-year rate has been driven by US monetary policy expectations over the medium term, which have been driven by recent inflation data. The Fed's policy guidance assumes that the increasing tight US labour market will eventually lead to higher wages and core inflation pressure. That relies on the usual laws of economics applying, but as we have seen in the post GFC world, economic relationships have been changing.

It is fair to say that we'll be watching US inflation data very closely – more closely than usual – to guide our narrative on the NZD.

By contrast, the NZ monetary policy outlook is fairly dull, a feature driven by the RBNZ's clear policy guidance that rates won't be changing for a long time.

The RBNZ's OCR review on 22 June should pass without much fanfare. The market currently respects the Bank's view that policy will be on hold for a considerable period. Indeed, current market pricing suggests that the first rate hike is not fully priced until August 2018, more than a year away.

Since the Bank's May MPS, the NZ TWI is some 3% higher and oil prices are more than 5% lower. Q1 GDP data just released have undershot the RBNZ's forecast of 0.9% q/q. These indicators suggest inflationary pressure is certainly running no higher than the Bank believes and shouldn't prompt any significant change to the Bank's narrative.

The hurdle rate for tightening policy remains high and, if anything, those indicators mentioned have slightly increased the hurdle rate. It will take some time before the market moves towards pricing in the chance of near-term hikes. With NZ-global rate spreads likely to remain depressed for some time yet, we don't see NZ monetary policy as a positive driver of the NZD over the course of this year. It is more a story for 2018.

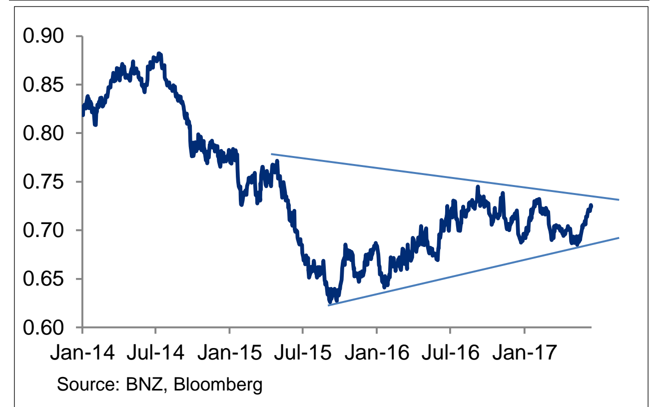
Currency Outlook

It is fair to say that recent soft US data challenges our view that the USD will soon recover. But the NZD has had a strong run over the past month and the USD itself has been under widespread downward pressure. It wasn't that long ago that the NZD had a 0.68 handle and we were contemplating downside risk to our 0.67 year-end target.

The path of the USD remains a crucial factor in determining the road for the NZD ahead. NZ-specific factors will be largely irrelevant. In the absence of some global shock out of the blue which would be NZD-negative, our year-end projection relies on US inflation data recovering, which would give the market more confidence that the Fed will go through with its planned normalisation of monetary policy.

Looking at the technical picture, the NZD struggled to break 0.7500 in September. After falling, it then struggled to break 0.7400 in November. After falling, it then struggled to break 0.7350 in February. And after falling again, it only briefly breached 0.73 in the early hours this morning.

Technical Resistance Ahead for the NZD



Source: BNZ, Bloomberg

Thus, near-term, we think that the NZD is close to resistance and we still harbour some doubt that the gap with our short-term fair value model estimate of 0.75 will be closed by the NZD moving higher. We see a more likely scenario being the model estimate moving lower.

A period of consolidation seems due and following that our forecast is consistent with a USD recovery that drives the currency back below the 0.70 mark. That is, we see more downside than upside risk on a 3-6 month view.

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The BNZ OIS-ter: US Fed the only active central bank for now

- This morning the Fed hiked rates for the fourth time this cycle and maintained its outlook for another hike this year and three more in each of 2018 and 2019. The market remains sceptical of this view and prices in a much shallower hiking profile than the Fed, with a less than even chance of another hike this year and less than 1½ hikes through the end of next year. Inflation data over coming months will be critical, with some recovery likely required for the Fed to hike again.
- Ahead of the RBNZ OCR Review next week, the curve is flat with the first hike for the cycle not priced until August 2018. The market sees little chance of rate hikes this year. The rates curve remains flat in Australia, with the bias still seen as a rate cut, rather than a rate hike this year.
- Post the shock UK election, the rates curve has flattened, with any thought of tightening pushed out into the distant future. There seems little prospect of ECB hikes either in the foreseeable future.

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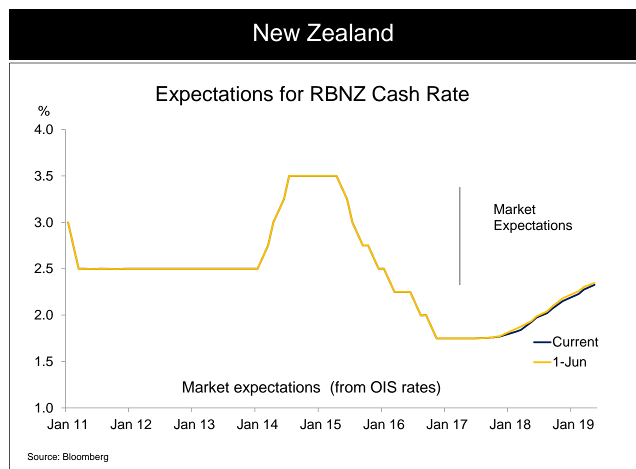
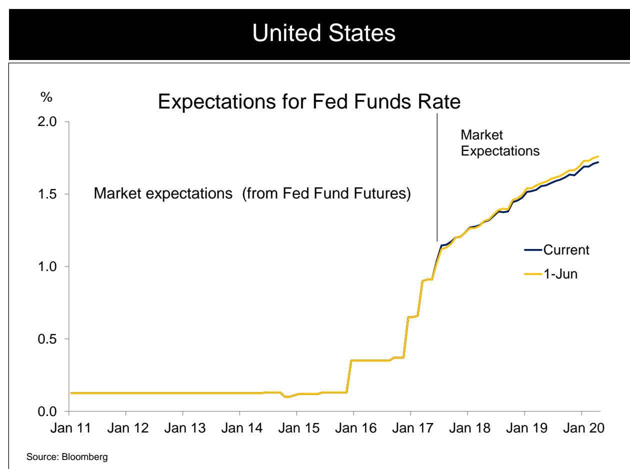
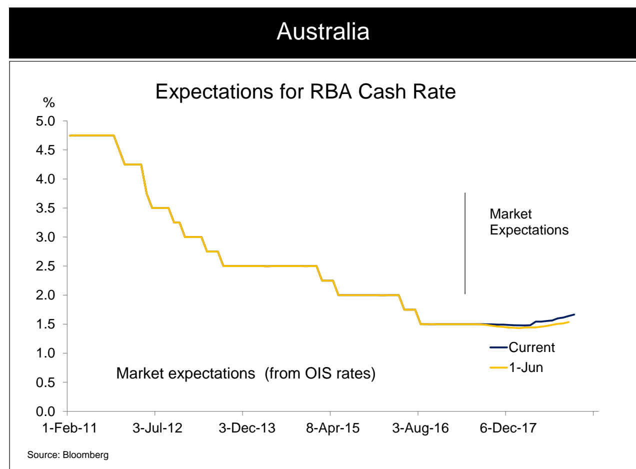
New Zealand



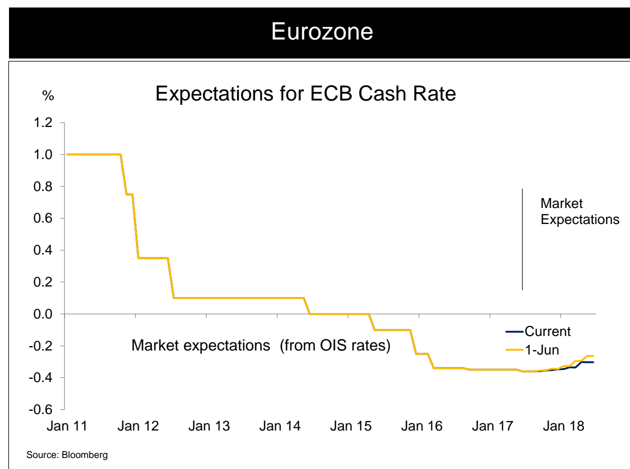
United States



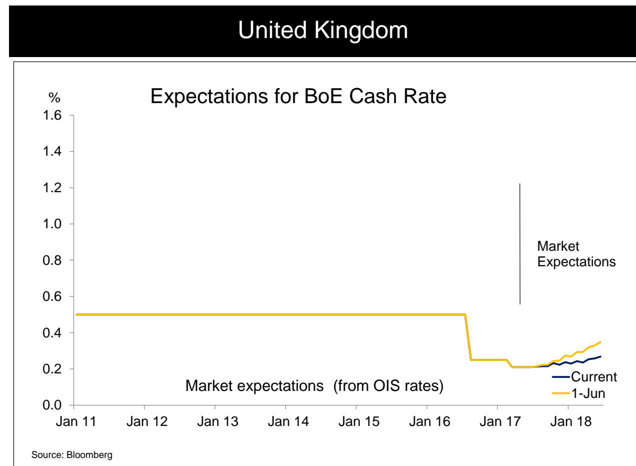
Australia



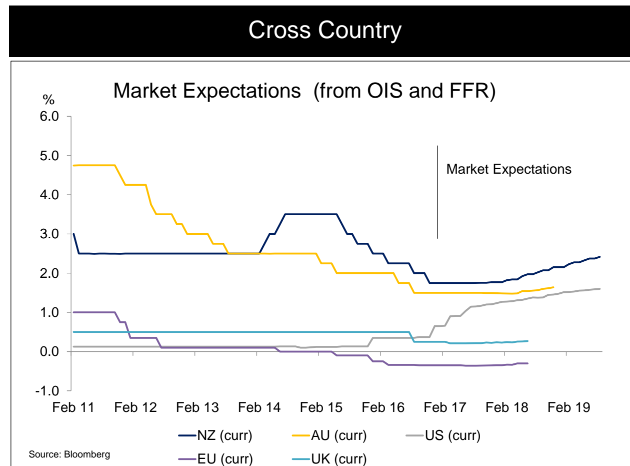
Eurozone



United Kingdom



Cross Country



Interest Rate Strategy:The post-Fed wash-up

- US yields remain pinned near 2017 lows, despite the Fed's hawkish stance relative to market pricing.
- The next three wages and CPI prints between now and the September FOMC will be crucial to how the Fed-market gap is bridged.
- We still think the balance of risks favours higher US yields over H2 2017, leading to higher long end NZ rates.
- NZ-US rates likely to tighten further - still see more room for compression in swap than bond

The Fed vs the market and the inflation conundrum

Since our last BNZ Strategist, long term global bond yields have made new lows for the year, but have held to tight ranges, while measures of implied volatility have plunged to multi-year lows. The NZGB 10yr yield hit a low of 2.70% and the US 10yr yield hit a low of 2.10%. NZ-specific drivers of rates have been limited and it's the global backdrop largely driving NZ rates lower.

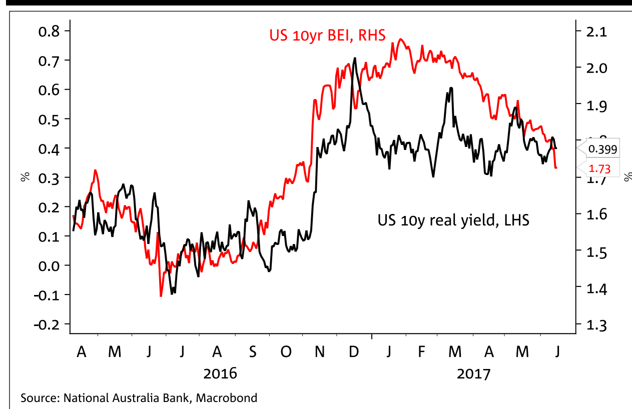
This morning the FOMC met market expectations for a 25bp hike to 1.0-1.25%. The "dot plot" maintained forecasts for a median Fed Funds rate of 2.125% in 2018, 2.94% in 2019 (-6bp) and the long run rate is unchanged at 3.0%. At face value, the Fed was hawkish relative to the market, which prices a Fed Funds rate of just 1.5% by the end of 2018 and 1.75% by the end of 2019. However, yields finished the day up to 8bp lower and curves flattened, as earlier disappointing retail sales and CPI data outweighed the Fed.

The Fed remains confident in its outlook that lower unemployment will underpin a further uplift in inflation and justify a funds rate of 2.5-3.0%. After a 0.5ppt decline in the unemployment rate year-to-date to 4.3%, the Fed expects only a further 0.1% decline over the next two years. Meanwhile, core PCE is expected to hold around 1.8-2.1% - the current y/y rate is 1.5%. To our minds, the barrier for either of these forecasts to be eclipsed is low. However, bond market sensitivity to inflation and wages data appears to be growing relative to unemployment and growth data, as the rally last night and increasingly after payrolls reports demonstrates (wages carry the day, rather than the headline jobs number). Chart 1 confirms that the fall in yields over the last two months is almost entirely in the BEI, rather than real yield component.

The next three wages and CPI prints between now and the September FOMC will be crucial to how the Fed-market gap is bridged

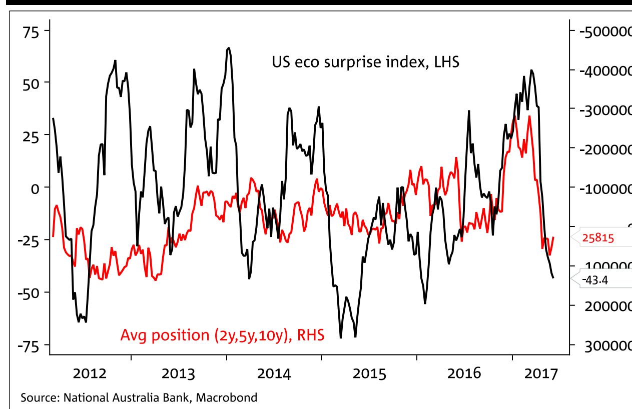
We think the market will ultimately re-price higher, although not immediately to the Fed's forecasts.

Chart 1: US 10y yield breakdown



This view is based on how low the 2-3 year US forward rate pricing has run and given the view of our economists that US CPI and wages growth will pick-up in the coming months. We would also add that positioning has moved very long in US rates as data have underwhelmed (Chart 2), leaving the market more at risk to positive, than negative, macro news.

Chart 2: US economic surprises and positioning



The Fed has also updated its guidance on the balance sheet. The plan is to start reducing it by USD10bn a month (USD6bn treasuries and USD4bn agencies) for the first three months and then step up by USD10bn at 3 month intervals over the 12 months until the total balance sheet shrinkage is at USD50bn a month (USD30bn treasuries and USD20bn agencies).

This is roughly consistent with our thinking for 2018, but implies a faster pace of run-off thereafter. In recent research we suggested upwards of a 45bp impact on the term premium from balance sheet run-off by the end of 2019 based on a constant $20bn per month run-off, with the caveat that some of the impact may already be priced. The faster pace suggested by the Fed suggests some upside risks to our view.

There are downside risks to our forecasts for US 10yrs to reach 2.75% and NZGB 10yrs to 3.10% by year-end. However, at current low levels the balance of risks to the outlook still leaves us looking for higher US yields over H2 2017 and for this to drag NZ long end yields higher. With the RBNZ likely to be slow to abandon its neutral bias, we think the NZ curve will steepen. Timing the low point in global yields is proving a difficult task – for now we advocate keeping positioning light until the expected US data pulse and washout of long US rates positioning comes through.

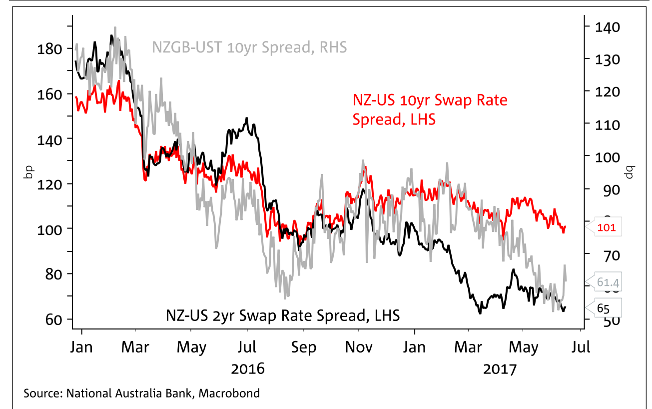
NZ-US spreads

With the RBNZ keen to maintain a neutral bias, we think the NZ-US spread compression trend will continue.

In recent Strategist notes, we have suggested more value in positioning for NZ-US rates compression in swaps, than bonds. As Chart 3 shows, over the last week NZ swap rates have outperformed but the NZGB-UST 10yr spread has moved wider, as NZ swap spreads widened. This appears to reflect some unwinding of earlier strong inflows into NZGBs - offshore real money buying appears more prevalent in this part of the NZ curve. Given the strong recent performance, strength of the NZD and relatively light supply and liquidity in NZGBs, the consolidation seen in recent weeks is not that surprising.

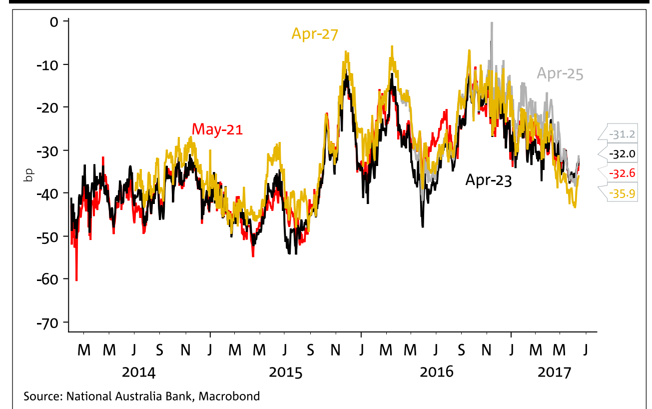
As Chart 4 shows, NZGBs are still trading at relatively rich levels against swap. So we still see more room for NZ-US compression in swaps, than bonds.

Chart 3: NZ-US rate spreads



Source: National Australia Bank, Macrobond

Chart 4: NZGB spreads to swap (I-Spread)



Source: National Australia Bank, Macrobond

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NZ Economic Review

Credit Aggregates (Apr) – 2 June
Credit growth continued to slow around housing (8.2% y/y, from 8.7% in March) although for consumer finance picked up to 5.5%, from 4.9%. For agriculture it remained restrained (at 2.7% y/y) but strengthened for the business sector (with 7.6% y/y, from 7.1%).

Crown Financial Statements (Apr) – 6 June
April's Crown accounts surpassed the new Budget baselines by a whopping $1.55b. This mostly reflected a spike in corporate tax, which is expected to time out in May. Even so, tax revenue growth appears solid still.

Wholesale Trade (Q1) – 6 June
The value of wholesale sales rose a seasonally adjusted 2.1% in the March quarter. This inferred volume growth of around 1.0%, in line with our expectations.

Building Work Put in Place (Q1) – 6 June
We were worried that Q1 building work might take a dive, given the late-2016 slump in building consents, and it did. Building work put in place fell 3.5% in the quarter, concentrated in non-residential work (down 7.2%) while residential work slipped a minor 0.8%. We see the dip as statistical noise with forward indicators positive.

ANZ Commodity Export Prices (May) – 6 June
Indicators gave a good steer to the 3.2% lift in the overall world price index and 4.0% price gain in NZ dollar terms. This supports our view that NZ's terms of trade will hit a record high in 2017. It's a big boost to nominal income.

GDT Dairy Auction – 7 June
The GDT Price Index rose 0.6%%, its sixth consecutive gain. A near 3% fall in wholemilk powder prices was offset by an almost 8% lift in skimmilk powder and gains in butter and cheese. Overall, there were no major dramas for the first auction of the new dairy season.

Manufacturing Sales (Q1) – 7 June
The mix of manufacturing sales and inventory inferred a smaller bounce than we envisaged such that we finalised our GDP growth forecast at 0.5% for Q1. Total manufacturing sales volumes fell 0.3% in the quarter, weighed down by meat and dairy. Excluding the meat and dairy industries, manufacturing sales volumes rose 1.7% in the quarter to be 4.0% higher than a year earlier.

ANZ Job Ads (May) – 7 June
After such a strong run, we wouldn't read too much into the 0.6% m/m dip in job ads in May. Job ads are still double-digit up on a year ago.

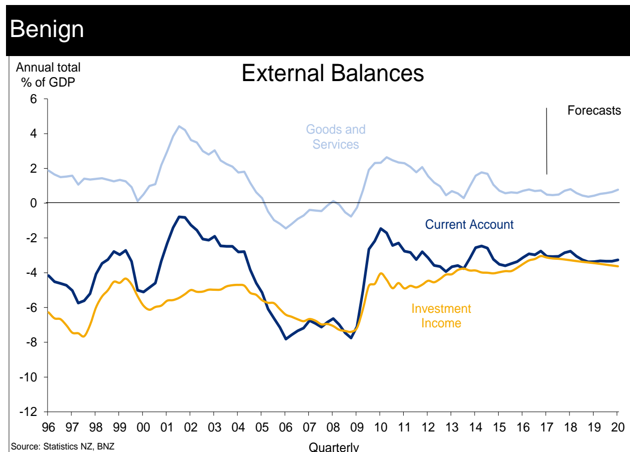
Electronic Card Transactions (May) – 12 June
May's total electronic card transactions slipped 0.2% m/m. It dents our expectation for Q2 retail trade volume growth to modest from strong, following a hefty Q1.

REINZ (May) – 14 June
Auckland housing is still coming off the boil, but with some momentum continuing around the rest of the country, albeit a bit mixed. Overall, the REINZ's new (SPAR) House Price Index is 5.0% higher than a year ago. House sales were down 18.4% y/y. The latter wasn't as bad as the 31.0% y/y fall in April, implying a sideways move month to month on a seasonally adjusted basis.

Food Price Index (May) – 14 June
Food prices bolted 2.4% higher in May, driven by a sharp 16.2% increase in vegetables on account of extreme weather (remember the cyclones). While the weather effect will unwind in time, the price lift in May is enough to nudge our Q2 CPI pick up to +0.2% q/q and +1.9% y/y.

Balance of Payments (Q1) – 14 June
The current account deficit for the year to March 2017 was 3.1% of GDP. A bigger deficit than the market or we expected (both 2.7%). The main surprise was higher investment income debits, essentially higher profits accruing to offshore entities (which is a positive indicator for profitability across the economy as a whole). It says good things about nominal income growth. The current account deficit remains well below average.

Benign



GDP (Q1) – 15 June
Q1 GDP lifted 0.5% q/q matching our expectations, although lower than the 0.7% market consensus and the 0.9% anticipated by the RBNZ. We have long had reservations about growth in the first quarter, on technicalities, but, in the bigger picture, we view the economy is still expanding relatively well. For more discussion on today's GDP figures, see the front article in today's Strategist.

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NZ Upcoming Data/Events

BNZ PMI (May) – 16 June
April's Performance of Manufacturing Index, at 56.8, did well to stay in touch with March's stellar result of 58.0, especially with April's holidays and awful weather. Anything circa this in May would be a grand result.

BNZ PSI (May) – 19 June
April's Performance of Services Index, at 52.8, was the slowest since late 2012. We said at the time we thought it was a wobble, potentially weather related, rather than the true temperance. Nonetheless, we'll need to see a good bounce in May's PSI in order to fit with our stance.

ANZ-RM Consumer Confidence (June) – 20 June
This consumer confidence measure improved to 123.9 in May. This compared more favourably to its long-term average of 119.0, although not above the 130 level that typically denotes boom times.

Dairy Auction – 21 June
Dairy prices have positive momentum. But at the time of writing, the balance of indicators suggests little change in the GDT Price Index at this event following six consecutive gains.

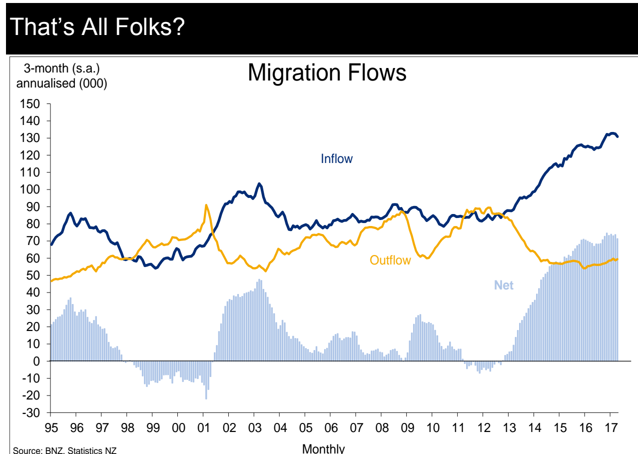
RBNZ OCR Review – 22 June
We expect that the Reserve Bank will maintain its reserved tone at this review, while leaving its cash rate at a record low of 1.75%. We judge the recent balance of data no stronger than Bank expectations. Real GDP growth has undershot Bank expectations and the NZ TWI has been tracking higher than RBNZ projections. Likely providing some offset is additional fiscal stimulus and strong terms-of-trade-driven nominal income growth, reflected in improving confidence. Overall, we expect near term guidance from the Bank to be neutral and unchanged from May's MPS.

Int'l Travel and Migration (May) – 22 June
While the net inflow of migrants looks to be peaking, it's doing so at a record high level, and with scant sign of imminent abatement. But we'll continue to watch for any cracks beginning to appear.

With respect to short-term arrivals, their 22% jump in April, from a year prior, reflected holiday timings and the Masters Games. Still, we expect May's numbers to post annual percentage growth in the high single digits.

Merchandise Trade (May) – 27 June
With May's commodity export prices, in $NZ terms, up 22% y/y we might yet be too pessimistic, in estimating just a 12% lift in goods exports over the period.

That's All Folks?

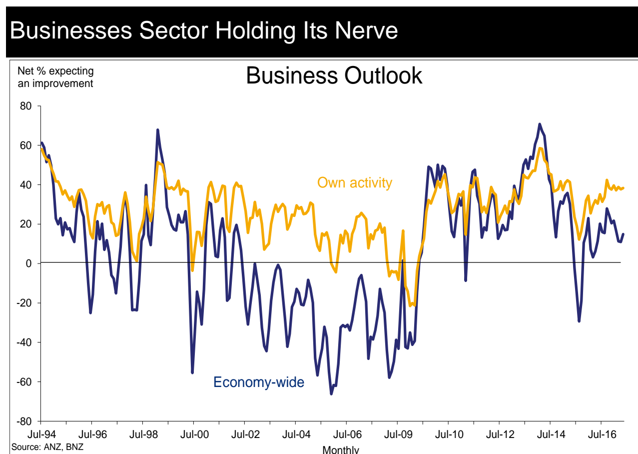


For imports we estimate a 4% gain y/y. This would deliver a monthly surplus of $721m – good enough to lessen the annual trade deficit to $3.1b, from $3.5b in April, and $3.8b back in February 2017.

New Residential Mortgages (May) – 27 June
At face value, April's new residential lending looked awful; down 30% on the same month last year, having posted an annual fall of just 9.0% in March. However, this likely reflects the timing of Easter. The true rate of moderation is probably somewhere in between, which May's results might well expound.

ANZ Business Survey (Jun) – 29 June
May's ANZ business survey bolstered its positivity, including around inflation. We would expect this to be broadly repeated in this May issue. However, we are alert to any election nerves that may start to creep in.

Businesses Sector Holding Its Nerve



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Quarterly Forecasts

As at 15 June 2017

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Jun-17 to Jun-18

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (production s.a.)	0.7	0.8	0.8	0.4	0.5	0.8	0.6	0.7	0.6	1.0
Retail trade (real s.a.)	0.8	2.2	0.7	0.9	1.5	0.6	0.6	0.5	0.7	1.6
Current account (ytd, % GDP)	-3.1	-2.9	-3.0	-2.8	-3.1	-3.0	-3.0	-2.8	-2.7	-2.9
CPI (q/q)	0.2	0.4	0.3	0.4	1.0	0.2	0.5	0.2	0.7	0.7
Employment	1.2	2.3	1.4	0.7	1.2	0.7	0.7	0.6	0.6	0.5
Unemployment rate %	5.2	5.0	4.9	5.2	4.9	4.9	4.9	4.9	4.8	4.8
Avg hourly earnings (ann %)	2.5	2.1	1.6	1.1	1.1	1.1	1.9	2.6	2.7	2.6
Trading partner GDP (ann %)	3.1	3.3	3.2	3.5	3.4	3.3	3.5	3.4	3.4	3.4
CPI (y/y)	0.4	0.4	0.4	1.3	2.2	1.9	2.1	1.9	1.6	2.2
GDP (production s.a., y/y))	2.9	3.6	3.4	2.7	2.5	2.5	2.3	2.7	2.8	3.0

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
2016 Mar	2.45	2.60	2.60	3.05	2.50	2.80	3.25	0.60	1.90	1.10
Jun	2.25	2.35	2.20	2.60	2.25	2.45	2.90	0.65	1.75	0.85
Sep	2.10	2.30	1.95	2.25	2.05	2.15	2.50	0.80	1.55	0.70
Dec	1.85	2.10	2.45	2.95	2.25	2.65	3.10	0.90	2.10	0.80
2017 Mar	1.75	2.00	2.70	3.25	2.35	3.00	3.50	1.15	2.50	0.80
Forecasts										
Jun	1.75	1.95	2.35	2.80	2.20	2.75	3.25	1.20	2.25	0.55
Sep	1.75	1.95	2.45	3.00	2.20	2.85	3.45	1.30	2.50	0.50
Dec	1.75	2.05	2.50	3.00	2.30	2.90	3.45	1.45	2.50	0.50
2018 Mar	2.00	2.30	2.60	3.05	2.45	2.95	3.45	1.55	2.50	0.55
Jun	2.25	2.55	2.90	3.40	2.65	3.25	3.75	1.70	2.75	0.65
Sep	2.50	2.80	3.05	3.45	2.90	3.40	3.85	1.95	2.75	0.70
Dec	2.75	3.05	3.15	3.50	3.10	3.50	3.90	2.20	2.75	0.75
2019 Mar	3.00	3.30	3.35	3.60	3.35	3.65	3.95	2.55	2.75	0.85
Jun	3.25	3.55	3.50	3.65	3.60	3.65	3.95	2.80	2.75	0.95

Exchange Rates (End Period)

USD Forecasts

	EUR/USD	USD/JPY	GBP/USD	NZD/USD	AUD/USD
Current	1.12	110	1.27	0.72	0.76
Jun-17	1.12	111	1.26	0.72	0.75
Sep-17	1.11	116	1.23	0.67	0.71
Dec-17	1.13	118	1.25	0.67	0.70
Mar-18	1.15	120	1.26	0.68	0.70
Jun-18	1.15	120	1.25	0.68	0.70
Sep-18	1.17	122	1.24	0.69	0.70
Dec-18	1.19	122	1.22	0.69	0.70
Mar-19	1.20	120	1.25	0.71	0.70
Jun-19	1.20	118	1.25	0.71	0.71
Sep-19	1.21	116	1.27	0.72	0.72

NZD Forecasts

	NZD/EUR	NZD/JPY	NZD/GBP	NZD/USD	NZD/AUD	TWI-17
Current	0.64	79.3	0.57	0.72	0.95	77.8
Jun-17	0.64	79.4	0.57	0.72	0.95	78.1
Sep-17	0.60	77.7	0.54	0.67	0.94	75.0
Dec-17	0.59	79.1	0.54	0.67	0.96	75.2
Mar-18	0.59	81.0	0.54	0.68	0.96	75.7
Jun-18	0.59	81.6	0.54	0.68	0.97	76.2
Sep-18	0.59	83.6	0.55	0.69	0.98	76.6
Dec-18	0.58	84.2	0.57	0.69	0.99	76.9
Mar-19	0.59	84.6	0.56	0.71	1.01	78.2
Jun-19	0.59	83.8	0.57	0.71	1.00	78.4
Sep-19	0.60	83.5	0.57	0.72	1.00	78.7
TWI Weights	0.1135	0.0635	0.0456	0.1398	0.2073	

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

Annual Forecasts

As at 15 June 2017

	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
GDP - annual average % change										
Private Consumption	3.1	2.8	4.6	3.3	3.5	2.9	4.1	3.8	3.4	2.5
Government Consumption	3.1	2.7	2.6	2.7	1.7	2.6	2.4	3.1	1.8	1.4
Total Investment	6.8	2.5	5.6	4.2	3.6	2.1	5.5	4.3	4.1	1.9
Stocks - ppts cont'n to growth	0.5	-0.2	-0.2	0.2	0.0	-0.3	0.0	0.2	-0.1	0.0
GNE	3.9	2.5	4.2	3.4	3.2	2.3	4.0	3.8	3.1	2.1
Exports	4.3	5.5	1.0	2.1	3.7	6.8	1.9	0.2	4.0	4.0
Imports	7.4	2.1	5.1	4.2	3.6	3.7	3.4	5.0	3.6	3.1
Real Expenditure GDP	3.1	3.4	3.1	2.5	3.2	3.2	3.6	2.2	3.2	2.4
GDP (production)	**3.4**	**2.4**	**3.0**	**2.6**	**3.3**	**2.5**	**3.1**	**2.5**	**3.1**	**2.4**
GDP - annual % change (q/q)	*3.1*	*2.9*	*2.5*	*2.8*	*3.2*	*2.2*	*2.7*	*2.7*	*3.4*	*1.8*
Output Gap (ann avg, % dev)	0.8	0.9	1.0	0.9	1.3	0.8	1.0	0.9	1.2	1.1
Household Savings (gross, % disp. income)	1.8	1.2	0.4	0.2	0.2					
Nominal Expenditure GDP - $bn	240.8	250.6	264.7	281.6	295.9	247.5	260.8	277.8	292.2	304.7
Prices and Employment - annual % change										
CPI	0.3	0.4	2.2	1.6	1.9	0.1	1.3	1.9	1.9	1.7
Employment	3.2	2.0	5.7	2.6	1.7	1.4	5.8	3.2	2.0	1.2
Unemployment Rate %	5.4	5.2	4.9	4.8	4.9	4.9	5.2	4.9	4.9	5.1
Wages - ahote	2.6	2.5	1.1	2.7	2.8	2.5	1.1	2.6	2.6	2.8
Productivity (ann av %)	-0.1	0.3	-2.6	-0.6	1.1	0.1	-1.7	-1.4	0.8	1.0
Unit Labour Costs (ann av %)	2.2	2.5	4.6	3.2	1.9	2.6	3.6	3.9	2.3	2.1
External Balance										
Current Account - $bn	-8.5	-7.8	-8.1	-7.5	-9.5	-8.3	-7.2	-7.8	-9.4	-9.6
Current Account - % of GDP	-3.5	-3.1	-3.1	-2.7	-3.2	-3.4	-2.8	-2.8	-3.2	-3.1
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	0.2	0.7	0.6	1.2	1.6					
Net Core Crown Debt (excl NZS Fund Assets)	25.0	24.4	23.2	22.6	21.7					
Bond Programme - $bn	8.0	7.0	8.0	7.0	7.0					
Bond Programme - % of GDP	3.3	2.8	3.0	2.5	2.4					
Financial Variables (1)										
NZD/USD	0.75	0.67	0.70	0.68	0.71	0.67	0.70	0.67	0.69	0.73
USD/JPY	120	113	113	120	120	122	116	118	122	114
EUR/USD	1.08	1.11	1.07	1.15	1.20	1.09	1.05	1.13	1.19	1.23
NZD/AUD	0.97	0.90	0.92	0.96	1.01	0.93	0.96	0.96	0.99	1.00
NZD/GBP	0.50	0.47	0.57	0.54	0.56	0.45	0.56	0.54	0.57	0.57
NZD/EUR	0.69	0.61	0.66	0.59	0.59	0.62	0.67	0.59	0.58	0.59
NZD/YEN	89.9	76.0	79.2	81.0	84.6	82.1	81.7	79.1	84.2	83.2
TWI	78.3	72.2	76.5	75.7	78.2	73.2	78.1	75.2	76.9	79.1
Overnight Cash Rate (end qtr)	3.50	2.25	1.75	2.00	3.00	2.50	1.75	1.75	2.75	3.75
90-day Bank Bill Rate	3.63	2.41	1.98	2.28	3.28	2.78	2.02	2.03	3.03	3.95
5-year Govt Bond	3.20	2.40	2.70	2.60	3.35	2.95	2.75	2.50	3.15	3.65
10-year Govt Bond	3.35	2.90	3.25	3.05	3.60	3.45	3.30	3.00	3.50	3.85
2-year Swap	3.55	2.30	2.30	2.45	3.35	2.80	2.40	2.30	3.10	3.80
5-year Swap	3.65	2.60	3.00	2.95	3.65	3.15	3.00	2.90	3.50	4.00
US 10-year Bonds	2.05	1.90	2.50	2.50	2.75	2.25	2.50	2.50	2.75	2.75
NZ-US 10-year Spread	1.30	1.00	0.75	0.55	0.85	1.20	0.80	0.50	0.75	1.10

(1) *Average for the last month in the quarter*

Calendar

	Forecast	Median	Last
Friday 16 June			
NZ, BNZ PMI (Manufacturing), May			56.8
Jpn, BOJ Policy Announcement, Policy Rate		-0.1%	-0.1%
Euro, CPI, May y/y 2nd est		+1.4%	+1.4%P
US, Fed's Kaplan Speaks			
US, Housing Starts, May		1,218k	1,172k
US, Mich Cons Confidence, June 1st est		97.1	97.1
Monday 19 June			
NZ, BNZ PSI (Services), May			52.8
China, Property Prices, May			
Jpn, Merchandise Trade Balance, May			+Y482b
Tuesday 20 June			
NZ, ANZ-RM Consumer Confidence, June			123.9
Aus, RBA Minutes, 6 June Meeting			
Aus, House Prices, Q1 y/y			+7.7%
China, Leading Index (Conference Bd), May			+1.2%
US, Fed's Fischer Speaks, Amsterdam			
Wednesday 21 June			
NZ, Dairy Auction, GDT Price Index			+0.6%
Jpn, BOJ Minutes, 26/27 Apr Meeting			
US, Existing Home Sales, May		5.55m	5.57m
Thursday 22 June			
NZ, External Migration, May s.a.			+5,780
NZ, RBNZ OCR Review	1.75%	1.75%	1.75%
Euro, Consumer Confidence, June 1st est			-3.3
Euro, ECB Economic Bulletin			
UK, CBI Industrial Trends, June			+9
US, Leading Indicator, May		+0.4%	+0.3%
Friday 23 June			
Euro, PMI Manufacturing/Services, June 1st est			57.0/56.3
US, Fed's Mester Speaks			
US, Markit PMI/PSI, June 1st est			52.7/53.6
US, New Home Sales, May		600k	569k
Monday 26 June			
Jpn, BOJ Summary of Latest Meeting, 15/16 June Meeting			
Germ, IFO Index, June			114.6
US, Durables Orders, May 1st est			-0.8%
Tuesday 27 June			
NZ, Merchandise Trade, May	+$721m		+$578m
NZ, Residential Lending, May y/y			-29.9%
China, Industrial Profits, May y/y			+14%
UK, CBI Retailing Reported Sales, June			+2
US, Consumer Confidence, June			117.9
US, Shiller Home Price Index, April y/y			+5.8%
Wednesday 28 June			
US, International Goods Trade, May advance			-$67.6b
Thursday 29 June			
NZ, ANZ Business Survey, June			+14.9
Jpn, Retail Sales, May y/y			+3.2%
Euro, Economic Confidence, June			109.2

	Forecast	Median	Last
Thursday 29 June (cont'd)...			
Germ, CPI, June y/y 1st est			+1.5%
US, GDP, Q1 3rd est			+1.2%P
Friday 30 June			
NZ, Building Consents, May (res, #)			-7.6%
Aus, Private Sector Credit, May			+0.4%
China, Non-manufacturing PMI, June			54.5
China, PMI (NBS), June			51.2
Jpn, Industrial Production, May 1st est			+4.0%
Jpn, Household Spending, May y/y (real)			-1.4%
Jpn, Unemployment Rate, May			2.8%
Jpn, CPI, May y/y			+0.4%
UK, GDP, Q1 3rd est			+0.2%P
US, Chicago PMI, June			59.4
US, Personal Spending, May			+0.4%
Monday 3 July			
Aus, Building Approvals, May			+4.4%
Aus, Inflation Gauge (Melbourne Institute), June y/y			+2.8%
Aus, CoreLogic HPI, June			-1.1%
China, PMI (Caixin), June			49.6
Jpn, Tankan (lge manuf), Q2			+12
Euro, Unemployment Rate, May			9.3%
UK, Markit/CIPS Manuf Survey, June			56.7
US, Construction Spending, May			-1.4%
US, ISM Manufacturing, June			54.9
Tuesday 4 July			
NZ, Credit Aggregates (new format/series),			
NZ, QSBO, Q2			+17
Aus, Retail Trade, May			+1.0%
Aus, RBA Policy Announcement	1.50%	1.50%	1.50%
US, Holiday, Independence Day			
Wednesday 5 July			
NZ, ANZ Comdty Prices (world), June			+3.2%
NZ, QVNZ House Prices, June			+9.7%
China, Services PMI (Caixin), June			52.8
Euro, Retail Sales, May			+0.1%
UK, Markit/CIPS Services, June			53.8
US, FOMC Minutes, 13/14 June meeting			
US, Factory Orders, May			-0.2%
Thursday 6 July			
Aus, International Trade, May			+$0.55b
Euro, ECB Minutes, 8 Jun Meeting			
Germ, Factory Orders, May			-2.1%
US, ISM Non-Manuf, June			56.9
US, ADP Employment, June			+253k
US, International Trade, May			-$47.6b
Friday 7 July			
Germ, Industrial Production, May			+0.8%
UK, Industrial Production, May			-0.8%
US, Non-Farm Payrolls, June			+138k

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