Research
Markets Outlook

4 June 2024

Oil, Power, and Growth Indicators

- **GDP 'partial' indicators monitored for any Q1 growth**
- **Downside risk remains around growth forecasts for H2**
- **OPEC+ and Com Com decisions infer opposing pressures**
- **RBNZ should largely ignore both**
- **Smelter deal looks growth positive**
- **Fiscal accounts to be lined up against Budget baselines**

For all the massive amount of detail released last week in the Government's Budget, there were no major macro surprises to us as we pointed out in our post-Budget note.

All considered, our economic growth forecasts are little changed. We have now factored in lower public consumption as guided by Treasury's fiscal forecasts. The growth pickup we see in the second half of 2024 depends on some uplift in private consumption. This will be aided by tailwinds from the tax threshold changes from 31 July, among other tax changes.

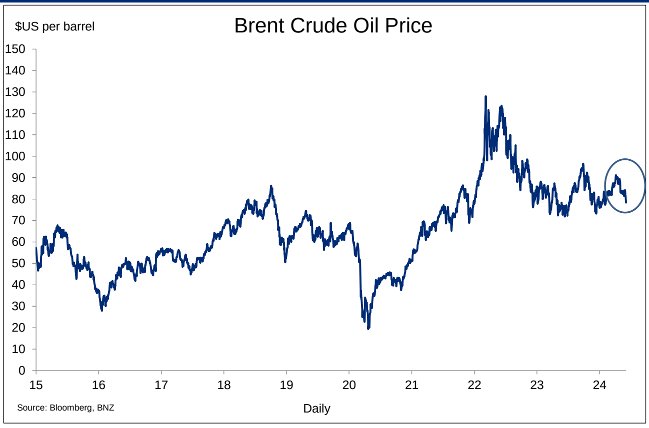
We continue to wonder, however, if the moderate pick up in growth we have for the second half of this year might be a bit strong. Recent economic indicators continue to suggest downside risk and we recently nudged down our house price forecast for 2024, seeing less support to spending, other things being equal.

It remains a case of monitoring the data to gauge how people and businesses respond to the multitude of influences, including the spending and tax changes in the Budget, and what it all might mean for inflationary pressures.

Speaking of inflation, petrol prices have fallen over recent weeks and a bit earlier than we had factored into our CPI forecasts. These look like being sustained and extended, given OPEC+'s latest decision to phase out its production cuts from October. Brent crude prices have dropped below US$80/bbl. Oil prices remain in their prevailing range, but this year's falls contrast with gains from about now a year ago. Along with a push higher in the NZD, this adds to the chances that annual CPI inflation re-enters the RBNZ's target band in the second half of this year.

Lower petrol prices are helpful to lower estimates of near-term inflation with the possibility of flow on effects to inflation expectations. At the current juncture, such things would seem more important than is sometimes the case. But lower petrol prices also leave more disposable income to be spent elsewhere with potentially offsetting price pressures.

Pushing Lower



A similar, but opposite, effect is possible regards electricity prices next year given the release, last week, of the Commerce Commission's draft decision on higher revenue limits for transmission and distribution companies.

If the decision goes ahead as proposed (final decision in November) and flows through to retail prices, the Commission estimates it would mean approximately $15 (+GST) extra per month on the average residential customer's electricity bill, from 1 April 2025. On its own, on our calculations, that would equate to around 0.25ppt contribution to the CPI and about 0.4ppt contribution to its non-tradeable component. Something to think about for Q2 2025 CPI.

As an aside, it is interesting that the Commerce Commission pointed to the higher cost of borrowing (since the previous review in 2019) that the relevant companies now face as one of the factors behind its proposed increase. It is an example of higher interest rates having upward influence on some prices rather than restricting them, albeit over time and with a long lag. The channels of monetary policy are many and varied.

We are of the view that monetary policy should look through the direct effects of each of the above (petrol and electricity) on the CPI and focus on any second-round effects including any influence on inflation expectations. The fact that one product (petrol) is tradeable and the other (electricity) is non-tradeable would seem a difference of little importance. However, the RBNZ may not see it that way if it were to focus on the CPI's non-tradeable component.

Also last week, major long-term electricity deals between Rio Tinto's New Zealand Aluminium Smelter (NZAS) and several power generators were announced (subject to such things as regulatory approval).

In light of the CPI discussion above, the deals are also a timely reminder of some strong links between the tradeable sector and the so-called non-tradeable sector.

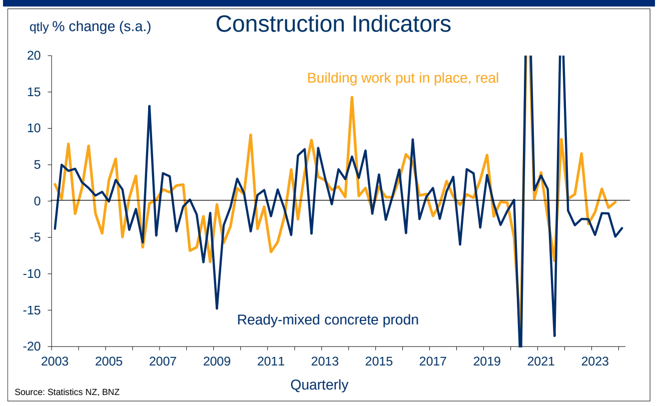
Without getting into the specifics of the various electricity supply arrangements, they set up the smelter to be operating for at least the next 20 years. That looks growth supportive itself (aluminium makes up around 2.2% of NZ's merchandise exports), as does the associated electricity generation.

But in also significantly reducing uncertainty, the deals should help support broader confidence and encourage investment to take place both within the renewable electricity sector and beyond. 'Demand response agreement' elements of the arrangements will be useful during periods of low hydro lake levels, providing critical dry year cover to the electricity system. It all looks helpful for growth.

Speaking of growth, this week's data are mainly about a collection of surveys that will give guidance to Q1 GDP.

Wednesday's international trade data are expected to indicate a positive net export contribution to Q1 growth, while Thursday's building work put in place is expected to show a clear decline in the quarter, given previous declines in lead indicators like consents and concrete production.

Building lower

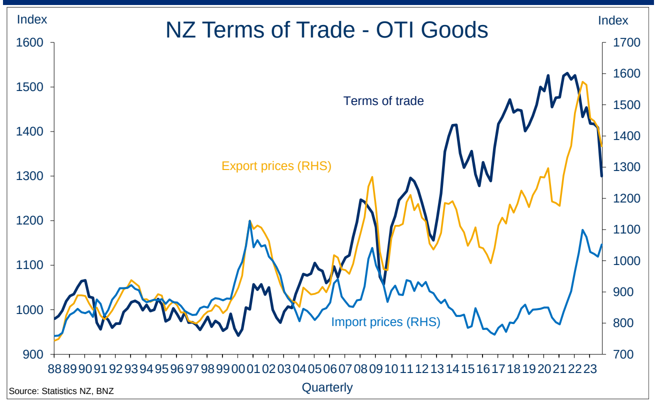


Friday's manufacturing sales and stocks data are expected to imply a mild decline in production and wholesale trade's equivalent a modest expansion. The eclectic mix of service sector indicators are expected to point to about flat activity for the sector overall, on net.

Any material deviation from these themes could have implications for thoughts on Q1 GDP. We sense more upside risk than downside to our current overall growth pick of -0.1% but we will see what the week's last-of-the-major-partial indicators have to say for themselves before finalising our estimate. We wouldn't be surprised to have a small positive on the board by the end of the week. Such an outcome shouldn't trouble the RBNZ given it estimated a 0.2% gain for the quarter in its May MPS. Q1 GDP data are due on 20 June.

Wednesday's trade data are also expected to show a decent bounce in merchandise terms of trade. We have a 3.6% q/q gain pencilled in, but that needs to be seen in the context of not even recouping half of Q4's 7.7% plunge. The 3.6% lift is the result of an expected 2.8% lift in export prices and a 0.8% drop in import prices.

Terms of trade to bounce after Q4 plunge



We think May's ANZ commodity prices on Thursday will be roughly flat in world terms for the month but a touch lower in NZ dollar terms (as more influence of a firming NZD flows through). That would still have NZD prices up about 6% on a year ago and enough to set up export price (and terms of trade) gains in Q2 overall.

Commodity prices are higher than a year ago, but they are not strong. That fits with the message we took from Fonterra's first milk price forecast for the new season last week. The co-op's $8.00 midpoint forecast for the 2024/25 season is higher than the $7.80 for the prior 2023/24 season but is below average on an inflation adjusted basis. Fonterra said it was taking a cautious approach. Tomorrow morning's GDT auction will be the first for the new season.

The latest Crown Financial Statements for the 10 months to April are out on Wednesday and will be the first to be lined up against the newly minted Budget baselines. We still harbour concerns that pressure on business profitability will, over time, adversely impact the corporate tax take by more than anticipated. GST and other tax lines will be worth a look too as a cross-check on spending and income growth.

Corelogic house prices for May are due overnight Tuesday / Wednesday. We wouldn't be surprised to see things remain subdued, after the annual house price index dipped its toe back into negative territory in the previous month. Other housing market indicators have remained lacklustre, including this morning's realestate.co.nz figures showing average residential property asking prices fell for the third straight month in May, to be down 1.6% y/y.

The RBNZ confirmed last week that it is proceeding with the introduction, from 1 July, of its debt-to-income (DTI) ratios and tweak to its loan-to-value ratios (LVR). These changes were well signalled and are to be implemented as proposed with the DTIs starting at non-binding levels. It looks like a mild loosening in conditions, at the margin, to start via the LVR changes, while the DTIs are likely to be become more binding during booms. This confirmation hasn't altered our broad views on housing or the economy.

doug_steel@bnz.co.nz

Global Watch

- **OPEC+ surprise production cut phasing out guidance**
- **ECB is primed to cut rates this week**
- **US payrolls seen confirming slower growth**
- **AU Q1 GDP growth expected to be soft**

Week in review

The Australian Monthly CPI Indicator printed hotter than expected that moved markets (3.6% y/y vs. 3.4% expected). The first month of the quarter is goods-heavy, but the data did reinforce that there has been little further disinflationary progress on goods, while the housing components continue to suggest capacity constraints. One has to wait until next month for a better read on services.

For the RBA, they did not take the full signal from the hotter Q1 CPI, which suggests if Q2 CPI surprises materially as well, it would certainly challenge the Bank's inflation path and markets should price in a low probability of an August hike in case that eventuates. As for Q2 CPI, trimmed mean could print around 0.9% q/q, the RBA had pencilled in 0.8%.

The combination of Friday's US PCE deflator data, which was in line with expectations at 2.8% y/y, and the soft ISM have increased Fed rate cut expectations. There is about 40bps of easing priced by the end of 2024. Policy makers, who are now in the blackout ahead of the FOMC meeting next week, are likely to require additional inflation data to gain confidence it is moving sustainably to target before cutting rates later this year.

In China, The Caixin manufacturing PMI for May was marginally ahead of expectations at 51.7 and is at the highest level since June 2022. However, the Caixin measure contrasted with the official manufacturing PMI, which unexpected fell into contractionary territory, and combined provide mixed signals for the industrial sector.

The ECB still looks prime to cut rates, but a run of better-than-expected data suggests we should not expect an aggressive cycle. Indeed, the EZ unemployment rate just hit its lowest level since the bloc was created at 6.4%.

In commodity markets, Brent crude fell more than 3%. OPEC+ outlined that its production cuts will remain in place through the September quarter and then be gradually phased out over the following 12 months. Most commodity analysts had expected the production cuts to be maintained till the end of the year.

Week Ahead in Brief

In Australia, Q1 GDP data headlines the data, while the RBA's Hauser talks on Friday.

For Q1 GDP, NAB expects 0.0% q/q and 1.0% y/y which would be another quarter of very soft growth, with consumption and business investment broadly flat. Balance of Payments and final GDP partials today will help firm up estimates. Consensus is at 0.2% q/q.

A 'fireside chat' on the Australian Economic Outlook with the recently appointed RBA Deputy Governor Hauser is on Friday.

From central banks we have the ECB (Thursday) set to deliver a well telegraphed cut, and the BoC (Wednesday) a closer run thing, with analyst split 17-10 in favour of a cut. Markets and analysts are in agreement, with a cut 98% priced for the ECB and 65% priced for the BoC. Markets are not pricing in an aggressive rate cut cycle to follow.

In the US, Payrolls on Friday looms large ahead of the FOMC next Wednesday (12 June). Early consensus looks for +185k, near the 175k in April and confirming a step down from the pace of growth in Q1, and an unemployment rate stable at 3.9%. Ahead of Payrolls is JOLTs data (Tuesday) and ADP Payrolls (Wednesday). Also watched closely will be the services ISM on Wednesday.

In China, the Caixin Services PMI is out Wednesday and May Trade data is due on Friday.

In Europe, an announcement from the European Commission on provisional tariffs on Chinese electric cars had been expected on 5 June, but will reportedly be delayed until after the European Parliament election on 9 June. In the UK it is a quiet week ahead of the BoE later in the month (20 June).

Important Events Preview

Tuesday 4

AU BoP, Business Indicators/Public Finance

The final pre-GDP partials are all out on Tuesday. For net exports NAB pencils in a -0.7ppt subtraction from Q1 growth. For inventories NAB pencils in a much smaller decline in private inventories, which will add to growth. Also out of the business indicators survey is information on private sector wage bill growth, profits and real total sales.

US JOLTs
JOLTS data for April are expected to show ongoing gradual moderation in the level of openings, consistent with the message out of Indeed Ads data. While openings remain elevated relative to pre-pandemic, turnover indicators out of the JOLTs survey have been pointing to a materially rebalanced labour market. The quits rate was 2.1% in March, below its 2019 level. Hires and quits have both slowed, keeping net payrolls growth resilient with layoffs remaining historically low.

Wednesday 5

AU Q1 GDP
NAB sees a +0.0% q/q (1.0% y/y) GDP print for Q1 2024 (consensus 0.2% q/q). That would be another quarter of very soft growth, with consumption and business investment broadly flat, dwelling investment slightly lower and volatile outcomes for inventories and trade.

CH Caixin Services PMI
While the official composite PMI speaks to a loss of momentum, it was Manufacturing (and to a lesser extent construction) led. The official Services PMI actually rose to 50.5 from 50.3. The Caixin version has been stronger still, expected to stay at 52.5 when it prints on Wednesday.

EZ/UK/US Final Services PMIs

US Services ISM
The US Services ISM will be closely watched to see whether it replicates the sharp rise in the S&P PMI version which rose to 54.8 from 51.3. Consensus for the Services ISM sits at 51.0 from 49.4.

CA Bank of Canada
The BoC is getting ready to start easing policy with its required 'further declines' in favoured core inflation falling into line with a recent 2.75% annual print, down from 3.05%. While this was the fourth consecutive monthly decline there remains a question over whether the BoC is sufficiently confident that required inflation declines will be sustained for it to move at the 5 June meeting. Regardless of the outcome, NAB continues to see the BoC easing policy in a gradual manner with three cuts of 25bps to 4.25% by the end of the year, though like with the ECB and the BoE, such a path will continue to be questioned should the Fed not be in a position to ease in 2024.

Thursday 6

AU Goods Trade Balance
The goods trade balance fell back to $5.0bn in March on a sharp lift in imports. That was reasonably broad-based but was led by a surge in computing and similar equipment. NAB pencils in small widening to $5.5bn in April.

EZ ECB Policy Meeting
The ECB has long talked itself into a 25bp rate cut at its June meeting and so delivery will come as no surprise. The big question is what follows viz-a-viz the path for further monetary easing and how will the ECB communicate its decision? The June cut will be justified by sufficient progress made on inflation moving down closer to the 2% target and new staff forecasts to support this. However, incoming data reveals – as elsewhere – that the closer to target, the harder it is getting, and services prices are sticky.

Services prices have been drifting sideways around 3.7% for a while. Latest quarterly wage data surprised to the upside at 4.7% (back to the cycle peak) and there is sufficient uncertainty on energy, geopolitics and the US rate cycle to suggest the ECB will be non-committal on future easing, following a data-dependent approach. This will be backed up be clear division between ECB doves and hawks and is consistent with NAB's unchanged view that the next ECB easing will come in September.

Friday 7

AU RBA's Hauser
RBA Deputy Governor Andrew Hauser appears in a 'fireside chat' with Sky News Business Editor Ross Greenwood. He will discuss "the state of Australia's economy, monetary policy, and the global fight against inflation". Hauser remains a relatively unknown quantity in his approach to public communication, or indeed his level of comfort with the RBA's approach. The RBA is looking for a path back to target by 2026 and has a remarkable tolerance for cumulative misses in the meantime.

NAB sees the risks to the RBA's Q2 CPI trimmed mean forecast of 0.8% firmly to the high side, but nothing in the activity or labour market data flow indicates the Bank are wrong to assess they are making progress reducing excess demand. The question now is how steadfast the RBA will be holding their nerve on the assessment of the outlook for inflation given uncertainty about the extent of the output gap. The May meeting and SoMP suggests a high bar for the Bank to think they have policy in the wrong place. Will Hauser's appearance suggest a similar level of comfort?

US Payrolls
Early consensus is +185k, similar to the +175k published in April. That would give greater comfort the reacceleration in jobs gains in December to March is not sustaining and is consistent with ongoing but only gradual cooling in the US labour market. While there is large uncertainty about the level of migration, at the moment payrolls growth in the 150-200k range over time look to be broadly consistent with a stable unemployment rate. The early consensus is for stable unemployment at 3.9%.

This is the last Payrolls report ahead of the June FOMC meeting ending Wednesday 12 June, the same day as the May CPI report. Evidence of softening in the labour market would make it easier for the Fed to feel comfortable edging away from restrictive settings.

tapas.strickland@nab.com.au / doug_steel@bnz.co.nz

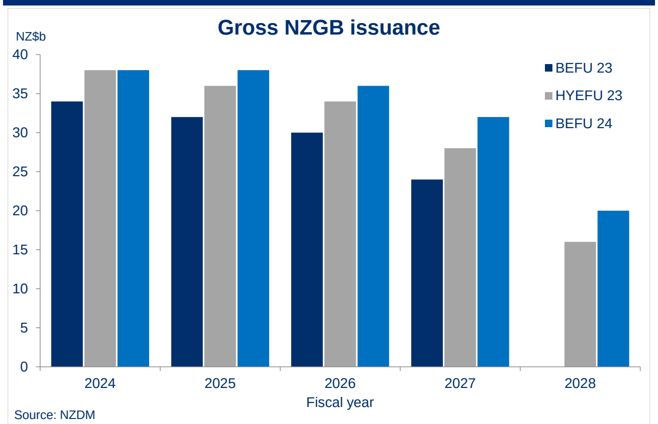
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income yields reversed lower over the past week reflecting the moves in offshore markets. The US Federal Reserve's preferred inflation gauge, the core PCE deflator, matched expectations at 2.8% y/y and led to a relief rally for US treasuries after the recent upside inflation surprises. The softer than expected manufacturing ISM contributed to a further extension lower in US yields – 10-year treasuries are 20bps below the peak above 4.60% from last week.

NZ fixed income markets remain confined to the ranges that have contained price action in recent months. 2-year swap rates reversed sharply off the 5.20-5.25% level, which corresponds with multiple highs for this year. We expect this level will continue to cap the topside. The market will likely incorporate some chance of the RBNZ easing policy this year, set against the backdrop of weak activity and moderating inflation, which we forecast will return within the Bank's 1-3% target band in the September quarter.

Forecast issuance changes at economic and fiscal updates

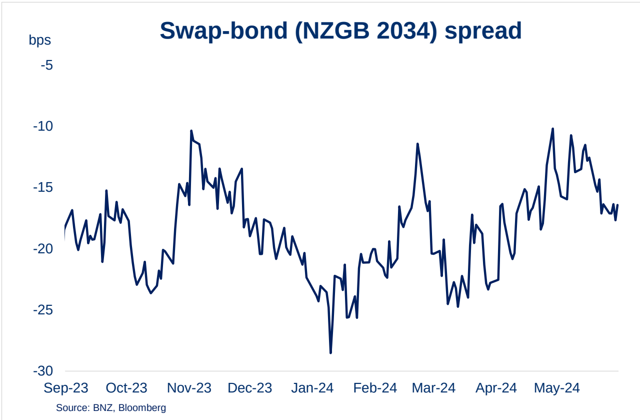


New Zealand Debt Management (NZDM) updated the borrowing programme alongside the Budget Economic and Fiscal Update (BEFU). Government funding requirements have increased by a further NZ$12 billion over the forecast horizon to June 30 2028, compared to the Half Year Economic and Fiscal Update (HYEFU) in December, reflecting a weaker fiscal outlook than previously expected. The further increase in the bond programme takes place against a backdrop of already elevated issuance from a historical perspective.

NZDM has completed NZ$34 billion of the targeted NZ$38 billion issuance for FY24. The remainder will be met by the weekly tenders and the syndicated tap of the 15 May 2028 nominal bond. NZDM has confirmed the tap can prefund part of the FY25 programme. We expect the transaction to be launched this week and will target issuance volumes around NZ$4 billion.

NZDM expects to undertake three nominal bond syndications in FY25. One new bond line will be established alongside two tap syndications of existing nominal bond lines. We expect the new line will be a nominal 2036 maturity. The total outstanding NZGBs is forecast to increase to NZ$221 billion by June 30 2028.

Fade rallies in 10-year swap spreads towards -10bps



10-year swap spreads have been confined to a -25/-10 bps range in recent months and there is little in the updated bond programme to suggest an imminent break. Although supply is elevated, and is likely to continue to depress swap spreads, demand for bonds is consistently evident at the base, constraining bond underperformance. We believe risks are skewed towards larger future fiscal deficits, set against the backdrop of a very weak economy, and that NZGB investor demand will be tested. Our preference is to fade rallies in 10-year swap spreads towards the top end of the range at -10bps.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.63	5.61 - 5.64
NZ 2yr swap (%)	5.04	4.87 - 5.21
NZ 5yr swap (%)	4.56	4.37 - 4.74
NZ 10yr swap (%)	4.59	4.43 - 4.77
2s10s swap curve (bps)	-45	-52 - -41
NZ 10yr swap-govt (bps)	-13	-18 - -11
NZ 10yr govt (%)	4.72	4.57 - 4.92
US 10yr govt (%)	4.39	4.31 - 4.64
NZ-US 10yr (bps)	33	19 - 35
NZ-AU 2yr swap (bps)	83	67 - 93
NZ-AU 10yr govt (bps)	35	34 - 56

*Indicative range over last 4 weeks

stuart_ritson@bnz.co.nz

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week was uneventful for currency markets. NZD/USD range traded, consolidating the mid-month move above 0.61 and ended the week up less than ½% at 0.6140. NZD cross movements were small, with the NZD flat to higher against the key majors, with the largest move being a ½% gain against the yen. The new week has begun with a broadly weaker USD, seeing the NZD push up towards a three-month high above 0.6190, while NZD/AUD has pushed above its 200-day moving average to 0.9260.

Last week, the economic dataflow for key releases was light and market movements were well contained. The US Conference Board measure of consumer confidence unexpectedly rose for the first time in four months. However, later in the week, US Q1 GDP was revised down to an annualised rate of just 1.3%, with private consumption revised down to an annualised 2.0%. Real personal spending contracted 0.1% in April, consistent with further slowing in private consumption in Q2. The core PCE deflator rose 0.2% m/m in April, but the Fed will want to see further signs of softer inflation before beginning the easing cycle. Overnight, the ISM manufacturing index unexpectedly fell, driving US rates and the USD lower.

JPY was the weakest of the majors last week and yesterday NZD/JPY traded at a fresh 17-year high of 96.8. Japan spent a record ¥9.8 trillion (USD62b) in the past month to defend the yen and doesn't have a lot to show for it. JPY was the second weakest major in May, with only the USD proving to be slightly weaker. The yen was weak in May despite its 10-year government bond rate rising to its highest level in more than a decade, and yields falling elsewhere (apart from the Euro area). The key for a yen turnaround is a more decisive tightening bias by the BoJ, but the market doesn't expect any rate hike at the next meeting mid-June.

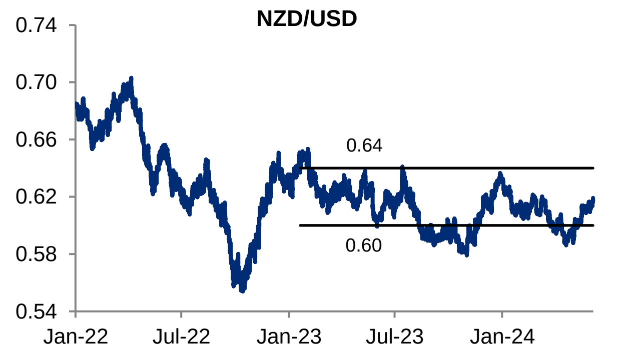
Following the strong recovery in NZD/USD through May where it gained a substantial 4½%, we look for some consolidation over the short-term and remain positive on a medium-term view. Our short-term fair value model estimate remains around the 0.67 mark, which we read as a sign that risks for the NZD are still skewed higher rather than lower. The currency could meet some near-term resistance around 0.62 before its next leg higher. Fed Funds pricing remains a key driver of direction and market pricing of only modest Fed rate cuts over the next year provides room for further Kiwi upside.

In the week ahead, the key economic data releases will be centred in the US, with the key employment report at the end of the week and head of that the ISM services index. The consensus expects non-farm payrolls to rise 185k in May, the unemployment rate to be steady at 3.9% and average hourly earnings to be steady at 3.9% y/y. The only other economic release of note is Australian Q1 GDP, where the market expects a modest 0.2% q/q gain.

NZ data released will help finalise our estimate of Q1 GDP, which looks to be another poor quarter and quite possibly show further economic contraction if this week's indicators don't suggest any improvement.

Central bank meetings will be held by the Bank of Canada and the ECB. The ECB has previously guided to a 25bps cut in its policy rates and will deliver on that. The central bank is expected to be cautious about the scope and timing of further cuts, with last week's slightly stronger than expected CPI inflation figures consistent with that message. There is also a good chance that the Bank of Canada also kick starts its easing cycle with a 25bps cut, with the market 80% priced for such a move.

NZD near the middle of its (old) familiar 0.60-0.64 range



Source: Bloomberg, BNZ

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6191	0.6030 - 0.6190
NZD/AUD	0.9257	0.9110 - 0.9260
NZD/GBP	0.4835	0.4790 - 0.4840
NZD/EUR	0.5679	0.5570 - 0.5690
NZD/JPY	96.65	94.20 - 96.80

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6730	-8%
NZD/AUD	0.8860	4%

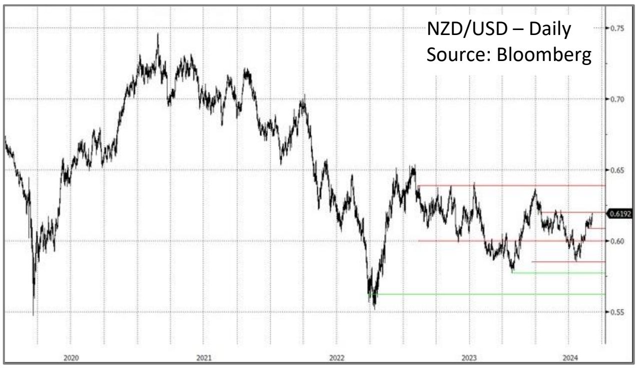
Jason.k.wong@bnz.co.nz

Technicals

NZD/USD

Outlook:	Trading range
ST Resistance:	0.62 (ahead of 0.6390)
ST Support:	0.6085 (ahead of 0.60)

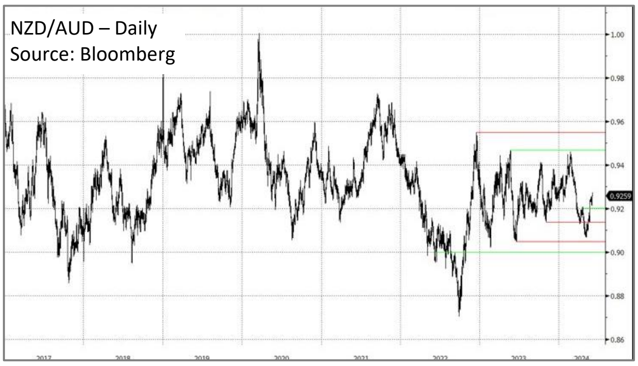
After a strong run, the RSI is just under the oversold trigger of 70. Resistance around 0.62. We lift support to 0.6085.



NZD/AUD

Outlook:	Trading range
ST Resistance:	0.9470 (ahead of 0.9550)
ST Support:	0.9140 (ahead of 0.9050)

There's no obvious resistance points ahead of 0.9470, while support remains at 0.9140.

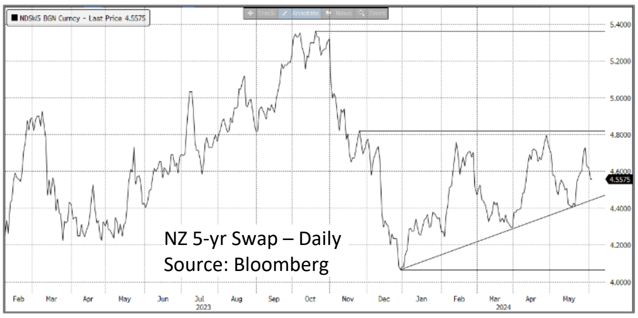


jason.k.wong@bnz.co.nz

NZ 5-year Swap Rate

Outlook:	Neutral
MT Resistance:	4.82
MT Support:	4.06

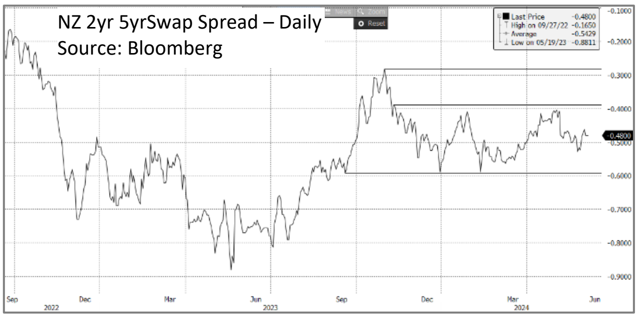
5 year swap continued with the same volatile price action we have seen for some time now. We are watching 4.45 as a potential support in the short term as we appear to be making higher lows.



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

Outlook:	Neutral
MT Resistance:	-0.38
MT Support:	-0.59

The 2y-5y swap spread remained stable and near the middle of the range over the past week. We continue to wait for further technical guidance.



matthew.herbert@bnz.co.nz

Quarterly Forecasts

Forecasts as at 4 June 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
GDP (production s.a.)	-0.3	-0.1	-0.1	0.0	0.5	0.6	0.7	0.7	0.8	0.8
Retail trade (real s.a.)	-0.8	-1.8	0.5	-0.5	0.4	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-7.4	-6.9	-6.4	-6.4	-6.3	-5.8	-5.5	-5.2	-5.0	-4.7
CPI (q/q)	1.8	0.5	0.6	0.6	0.9	0.5	0.6	0.6	0.8	0.1
Employment	0.0	0.4	-0.2	0.0	0.1	0.2	0.3	0.5	0.6	0.7
Unemployment rate %	3.9	4.0	4.3	4.7	5.1	5.3	5.5	5.5	5.5	5.3
Avg hourly earnings (ann %)	7.1	6.6	4.8	4.1	3.0	3.3	3.9	3.4	3.2	3.0
Trading partner GDP (ann %)	3.1	3.3	3.2	3.1	2.9	2.9	2.9	3.0	3.0	2.9
CPI (y/y)	5.6	4.7	4.0	3.6	2.6	2.6	2.6	2.6	2.5	2.1
GDP (production s.a., y/y))	-0.6	-0.3	0.0	-0.5	0.3	0.9	1.7	2.5	2.8	3.0

Interest Rates

Historical data - qtr average			Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter		Cash	90 Day Bank Bills	5 Year	10 Year	2 Year	5 Year	10 Year	Libor 3 month	US 10 yr	NZ-US Ten year
2022	**Sep**	2.83	3.33	3.65	3.77	4.12	3.95	3.95	3.00	3.10	0.67
	Dec	4.00	4.27	4.34	4.31	5.10	4.67	4.55	4.50	3.80	0.49
2023	**Mar**	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
	Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
	Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
	Dec	5.50	5.63	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024	**Mar**	5.50	5.64	4.41	4.64	4.91	4.38	4.40	5.60	4.20	0.44
Forecasts											
	Jun	5.50	5.65	4.65	4.90	4.75	4.70	4.70	5.75	4.50	0.40
	Sep	5.50	5.65	4.50	4.75	4.40	4.55	4.65	5.50	4.25	0.50
	Dec	5.50	5.50	4.25	4.60	3.95	4.30	4.50	5.25	4.10	0.50
2025	**Mar**	5.25	5.00	4.15	4.60	3.60	4.20	4.60	4.75	4.00	0.60
	Jun	4.75	4.50	4.00	4.50	3.35	4.05	4.50	4.50	3.90	0.60
	Sep	4.25	4.00	3.90	4.40	3.25	3.95	4.40	4.25	3.80	0.60
	Dec	3.75	3.75	3.85	4.35	3.25	3.90	4.35	4.00	3.75	0.60

Exchange Rates (End Period)

	USD Forecasts					NZD Forecasts					
	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.62	0.67	1.09	1.28	156	0.62	0.93	0.57	0.48	96.7	72.8
Jun-24	0.60	0.65	1.07	1.25	150	0.60	0.92	0.56	0.48	90.0	70.9
Sep-24	0.61	0.67	1.09	1.28	146	0.61	0.91	0.56	0.48	89.1	71.2
Dec-24	0.62	0.69	1.11	1.30	143	0.62	0.90	0.56	0.48	88.7	71.5
Mar-25	0.64	0.71	1.13	1.31	140	0.64	0.90	0.56	0.49	88.9	72.4
Jun-25	0.65	0.72	1.14	1.32	137	0.65	0.90	0.57	0.49	89.1	73.2
Sep-25	0.66	0.74	1.16	1.34	134	0.66	0.89	0.57	0.49	88.4	73.4
Dec-25	0.67	0.75	1.17	1.35	131	0.67	0.89	0.57	0.50	87.8	74.0
Mar-26	0.66	0.74	1.18	1.36	129	0.66	0.89	0.56	0.49	85.1	73.1
Jun-26	0.65	0.73	1.18	1.36	129	0.65	0.89	0.55	0.48	83.9	72.4
						TWI Weights					
						14.5%	17.7%	9.5%	3.4%	5.6%	

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

Annual Forecasts

Forecasts as at 4 June 2024	March Years Actuals 2022	2023	Forecasts 2024	2025	2026	December Years Actuals 2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.0	0.6	2.5	7.4	3.3	0.3	0.0	2.2
Government Consumption	7.9	2.0	-0.3	-3.2	0.5	7.8	4.9	-1.1	-2.8	-0.2
Total Investment	10.2	2.1	-2.0	-3.2	4.1	12.0	3.4	-1.1	-4.4	3.0
Stocks - ppts cont'n to growth	0.5	0.0	-1.2	1.0	0.0	1.4	-0.4	-1.1	0.7	0.2
GNE	7.9	2.5	-1.9	0.0	2.6	10.0	3.4	-1.5	-1.0	2.2
Exports	2.5	6.0	7.5	5.0	5.4	-2.7	-0.2	10.0	6.2	5.2
Imports	17.3	4.3	-2.1	0.8	3.9	14.8	4.6	-0.3	-0.7	3.7
Real Expenditure GDP	4.7	2.8	0.3	1.2	2.8	5.9	2.2	0.6	1.0	2.4
GDP (production)	**4.6**	**2.7**	**0.1**	**0.6**	**2.8**	**5.6**	**2.4**	**0.6**	**0.2**	**2.5**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.0*	*1.7*	*3.1*	*2.6*	*2.2*	*-0.3*	*0.9*	*3.0*
Output Gap (ann avg, % dev)	1.4	1.9	-0.4	-1.2	-0.3	1.5	2.0	0.2	-1.2	-0.5
Nominal Expenditure GDP - $bn	359	388	410	428	451	353	381	405	423	446
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.6	1.9	5.9	7.2	4.7	2.6	2.1
Employment	2.5	3.0	1.3	0.6	2.5	3.3	1.7	2.7	0.1	2.1
Unemployment Rate %	3.2	3.4	4.3	5.5	5.1	3.2	3.4	4.0	5.3	5.3
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.3	3.0
Productivity (ann av %)	1.8	0.5	-2.4	0.4	1.2	3.6	0.2	-2.3	-0.2	1.4
Unit Labour Costs (ann av %)	4.6	6.5	8.5	3.8	2.0	2.4	6.5	8.8	4.9	2.0
House Prices	13.8	-12.1	2.8	3.0	7.7	27.2	-11.1	-0.7	2.0	6.9
External Balance										
Current Account - $bn	-23.6	-31.8	-26.1	-23.5	-19.8	-20.6	-33.4	-27.8	-24.5	-21.1
Current Account - % of GDP	-6.6	-8.2	-6.4	-5.5	-4.4	-5.8	-8.8	-6.9	-5.8	-4.7
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.7	-3.1	-1.9					
Net Core Crown Debt (ex NZS)	35.5	39.2	43.1	43.5	43.0					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	38.0	36.0					
Bond Programme - % of GDP	5.6	7.2	9.3	8.9	8.0					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.61	0.64	0.66	0.68	0.63	0.62	0.62	0.67
USD/JPY	119	134	150	140	129	114	135	144	143	131
EUR/USD	1.10	1.07	1.09	1.13	1.18	1.13	1.06	1.09	1.11	1.17
NZD/AUD	0.93	0.93	0.93	0.90	0.89	0.95	0.94	0.93	0.90	0.89
NZD/GBP	0.52	0.51	0.48	0.49	0.49	0.51	0.52	0.49	0.48	0.50
NZD/EUR	0.62	0.58	0.56	0.56	0.56	0.60	0.60	0.57	0.56	0.57
NZD/YEN	81.5	83.0	91.1	88.9	85.1	77.4	85.6	89.5	88.7	87.8
TWI	73.9	71.0	71.2	72.4	73.1	73.0	72.9	72.0	71.5	74.0
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	5.25	3.50	0.75	4.25	5.50	5.50	3.75
90-day Bank Bill Rate	1.45	5.16	5.64	5.00	3.25	0.92	4.55	5.63	5.50	3.75
5-year Govt Bond	2.90	4.40	4.60	4.15	3.90	2.20	4.30	4.50	4.25	3.85
10-year Govt Bond	3.20	4.35	4.60	4.60	4.35	2.35	4.25	4.65	4.60	4.35
2-year Swap	3.00	5.15	4.91	3.60	3.35	2.22	5.21	4.93	3.95	3.25
5-year Swap	3.20	4.50	4.40	4.20	4.00	2.56	4.62	4.43	4.30	3.90
US 10-year Bonds	2.10	3.65	4.20	4.00	3.75	1.45	3.60	4.00	4.10	3.75
NZ-US 10-year Spread	1.10	0.70	0.40	0.60	0.60	0.90	0.65	0.65	0.50	0.60

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

Source: Statistics NZ, BNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Tuesday 04 June			
AU	Net Exports of GDP 1Q	-0.7	-0.7	0.6
AU	BoP Current Account Balance 1Q	A$5.2b	A$3.0b	A$11.8b
AU	Inventories SA QoQ 1Q	0.70%	-0.40%	-1.70%
GE	Unemployment Claims Rate SA May	5.90%		5.90%
	Wednesday 05 June			
NZ	CoreLogic House Px MoM May			-0.10%
US	JOLTS Job Openings Apr	8350k		8488k
US	Factory Orders Apr	0.60%		1.60%
US	Durable Goods Orders Apr F	0.70%		0.70%
NZ	N.Z. Government 10-Month Financial Statements			
NZ	Terms of Trade Index QoQ 1Q	3.20%	3.60%	-7.80%
AU	Judo Bank Australia PMI Services May F			53.1
AU	RBA's Bullock-Testimony			
AU	GDP SA QoQ 1Q	0.20%	0.00%	0.20%
EC	HCOB Eurozone Services PMI May F	53.3		53.3
UK	S&P Global UK Services PMI May F	52.9		52.9
	Thursday 06 June			
US	ADP Employment Change May	175k		192k
CA	Bank of Canada Rate Decision Jun-05	4.75%		5.00%
US	S&P Global US Services PMI May F	54.8		54.8
US	ISM Services Prices Paid May	59		59.2
US	ISM Services Employment May	47.2		45.9
US	ISM Services New Orders May	53.2		52.2
NZ	Volume of All Buildings SA QoQ 1Q	-0.50%		-0.10%
NZ	ANZ Commodity Price MoM May			0.50%
AU	Home Loans Value MoM Apr	1.50%	1.50%	3.10%
JN	BOJ Board Nakamura Speech in Sapporo			
AU	Trade Balance Apr	A$5500m	A$5500m	A$5024m
AU	Exports MoM Apr			0.10%
AU	Imports MoM Apr			4.20%
GE	Factory Orders MoM Apr	0.60%		-0.40%
UK	DMP 3M Output Price Expectations May	3.90%		4.00%

		Median	Fcast	Last
	Thursday (continued)			
UK	DMP 1 Year CPI Expectations May	2.80%		2.90%
UK	BOE Decision Maker Panel survey			
EC	Retail Sales MoM Apr	-0.30%		0.80%
	Friday 07 June			
EC	ECB Main Refinancing Rate Jun-06	4.25%		4.50%
EC	ECB Marginal Lending Facility Jun-06	4.50%		4.75%
EC	ECB Deposit Facility Rate Jun-06	3.75%		4.00%
US	Revisions: Trade Balance			
US	Trade Balance Apr	-$76.5b		-$69.4b
US	Initial Jobless Claims Jun-01	220k		219k
US	Continuing Claims May-25	1790k		1791k
NZ	Mfg Activity Volume QoQ 1Q			-0.60%
JN	Household Spending YoY Apr	0.50%		-1.20%
AU	RBA's Hauser-Fireside Chat			
GE	Industrial Production SA MoM Apr	0.20%		-0.40%
GE	Trade Balance SA Apr	22.7b		22.3b
EC	ECB's Nagel Speaks in Berlin			
AS	ECB's Holzmann Speaks in Vienna			
EC	ECB's Schnabel Speaks in Berlin			
EC	ECB's Schnabel Speaks			
EC	GDP SA QoQ 1Q F	0.30%		0.30%
EC	Employment YoY 1Q F			1.00%
CH	Trade Balance CNY May			513.45b
	Saturday 08 June			
US	Change in Nonfarm Payrolls May	185k		175k
US	Unemployment Rate May	3.90%		3.90%
US	Av Weekly Hours All Employees May	34.3		34.3
US	Wholesale Trade Sales MoM Apr	0.50%		-1.30%
US	Fed's Cook Gives Commencement Speech			
	Sunday 09 June			
CH	New Yuan Loans CNY YTD May			10190.0b
CH	Aggregate Financing CNY YTD May			12730.0b

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	5.50
1mth	5.60	5.60	5.60	5.60
2mth	5.62	5.62	5.62	5.65
3mth	5.63	5.63	5.63	5.69
6mth	5.63	5.63	5.60	5.78
GOVERNMENT STOCK				
05/26	4.91	4.93	4.74	4.49
04/29	4.65	4.64	4.53	4.35
05/31	4.70	4.70	4.59	4.37
05/34	4.82	4.82	4.72	4.46
04/37	4.95	4.96	4.88	4.56
05/41	5.05	5.06	5.01	4.63
05/51	5.04	5.07	5.01	4.52
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	50	50	50	71
Europe 5Y	51	51	52	76

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	5.04	5.15	4.99	5.25
3 years	4.77	4.88	4.72	4.86
4 years	4.63	4.73	4.58	4.63
5 years	4.56	4.65	4.51	4.50
10 years	4.59	4.65	4.59	4.39
FOREIGN EXCHANGE				
NZD/USD	0.6194	0.6141	0.6002	0.6078
NZD/AUD	0.9255	0.9235	0.9097	0.9110
NZD/JPY	96.69	96.51	92.84	84.86
NZD/EUR	0.5677	0.5656	0.5580	0.5684
NZD/GBP	0.4834	0.4812	0.4798	0.4892
NZD/CAD	0.8439	0.8379	0.8239	0.8147
TWI	72.8	72.5	70.8	70.3

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior 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