Research

Markets Outlook

17 June 2024

One After Another

- **Q1 GDP expected to be weak**
- **PMI, PSI show growth struggling beyond Q1**
- **Selected prices affirm disinflationary process**
- **But non-tradeables inflation might still niggle RBNZ**
- **RBNZ's Conway to speak on inflation**
- **Weak growth, current account deficit on rating radars**

In our GDP preview last week, we discussed the prospect of a flat to negative outcome for Q1 growth. Our formal pick remains at -0.1% although is close to rounding up. There remains lots of noise in the data so there is scope for deviation in either direction from our pick or indeed the market consensus that is centred on +0.1%. The RBNZ forecast 0.2% in its MPS. Anything around these sorts of figures would retain the main message that the economy is struggling to grow. GDP data is out Thursday.

The outcome will be important to establish the economy's position in the early part of the year. However, whatever the outcome, the leading indicators continue to look softer by the day. It was one after another last week. For the month of May we saw data showing fewer job ads, lower electronic card transaction values, and further weakening in the Performance of Manufacturing Index (PMI).

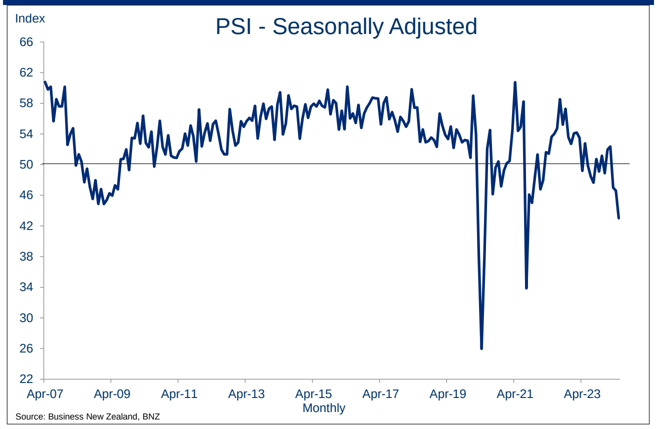
SEEK data saw job ads fall heavily again in May, to be down 30.5% on a year ago. Applications per ad in April were at very elevated levels and continue to trend higher. It is all consistent with underlying growth being absent and a softening labour market.

Electronic card transaction values declined 0.9% m/m in May, with retail transactions down 1.1% m/m. Some of that likely reflected lower fuel prices in the month, but weakness was widespread and appeared more fundamental than that. On an annual basis, nominal retail transactions are down 1.6%. The data strongly support our view that retail sales volumes will resume their decline in Q2. Indeed, sales volumes may well fall by more than the moderate fall we already have pencilled in.

There was no joy in last Friday's Performance of Manufacturing Index for May either. It slipped to 47.2 from 48.4, with particularly weak new orders and production.

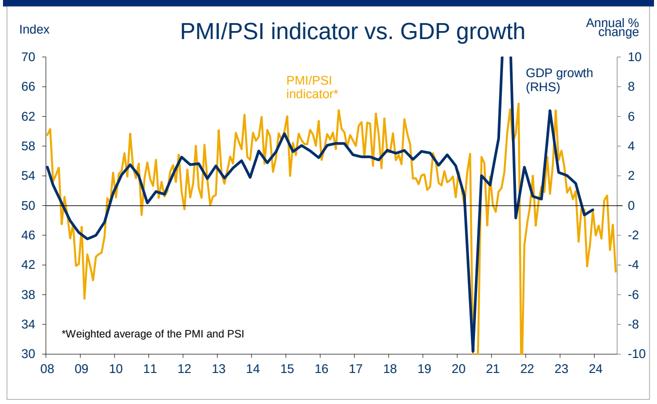
If all that wasn't bad enough, this week's data have kicked off with an exceptionally weak Performance of Services Index (PSI). There really wasn't much to like in the PSI as it slumped to its lowest level ever (besides covid lockdown periods). The decline has been rapid and large over recent months. Demand indicators, like sales and new orders/business, led the slump in May.

Rapid and large softening



Pulling all that together suggests growing downside risk to growth forecasts. A composite production index of the PMI and PSI points to GDP falling by more than many might care to believe. Even if this week's Q1 GDP figures manage something near zero, as we think on an annual basis, the PSI and PMI indicators suggests a larger negative than we currently expect for Q2.

Growth downside risk increasing



Yes, monthly data can be volatile so care must be taken to not overread any single release or single month of information. But looking at the latest run of information it is difficult to deny the direction of risk to growth. It looks disinflationary to us. At face value, the combined PMI and

PSI weakness raise the risk of significantly weaker near-term growth than that published in the RBNZ's May MPS.

Importantly, a lot of the above weakness had elements of softer demand. This increases the chance that the RBNZ may see softer growth as more disinflationary than was the case previously. The Bank recently altered its view on potential growth by more than growth itself had softened. But we cannot be sure the Bank will see it this way, with the Bank also taking cues on potential growth from inflation outcomes themselves.

Enter last Friday's selected prices. There were no polls for these, but the balance was a nudge on the softer side relative to our priors. The data support the case that Q2 CPI will print below Q1's 4.0%. While the data weren't enough to change our 0.6% q/q estimate for Q2 CPI, they see our estimate for that quarter's annual inflation round down to 3.5%. The RBNZ forecast 3.6% in its latest MPS.

The price data didn't alter our view on annual inflation in the second half of this year. However, we see the outcomes as increasing the chances that headline inflation prints below 3% in Q3. The RBNZ forecast 3.0% for annual inflation in Q3.

We think the softening economic data and some affirmation of progress in the disinflationary process increase the chance of a cut in the cash rate this year. But we are not convinced that the RBNZ would necessarily see it that way at present.

Yes, there are growing downside risks to growth and inflation looks like it is still falling. But given the RBNZ's starting point – discussion of hiking rates and including some chance of a hike in its forward track and no cuts until much later next year – the Bank has a long way to move before entertaining the idea of cutting rates this year.

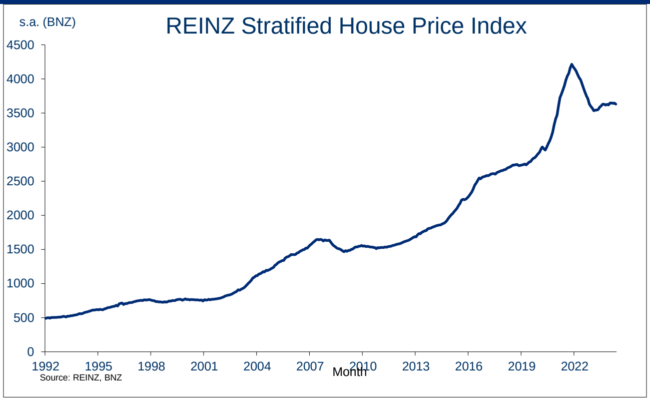
The RBNZ has also expressed concern about non-tradeable prices. We won't relitigate the pros and cons of special attention on that subset of prices here, especially given some of the current drivers. But rather we point out that Friday's selected prices contained a few more favourable looking outcomes in the non-tradeable sphere for such items as restaurant meals and ready-to-eat food, rents, domestic air transport, and domestic accommodation. However, moving in the right direction the indicators may be, it is not clear to us that this means non-tradeable inflation to date is easing any faster than the RBNZ expected.

When we factor all those price outcomes in, we still see non-tradeables inflation a bit above the RBNZ's 5.3% y/y forecast for Q2 (albeit with meaningfully less upside risk now). As the Bank has a focus here, it doesn't look like the kind of outcome that would have it rushing to bring forward its projected rate cuts.

But if the growth indicators remain as weak as they are, and more progress is made on inflation thereby lessening risks to inflation expectations, some bringing forward of the Bank's projected cuts seems more likely. We stick with our central view of February being the most likely timing for the first rate cut, but we see a bit more risk earlier action than before the past week's information.

Today's REINZ housing market data for May played to a softening theme, at the margin. House sales were up 6.8%, aided by more listings, but the level of sales is middling at best. As we thought, annual house price inflation managed to maintain its mild positive appearance, at 2.3% according to the house price index (HPI), while there continues to be a flat-to-negative undercurrent occurring. The HPI fell 1.0% m/m. Some of the weakness is seasonal, but not all of it. On our seasonally adjusted estimates, over the past nine months the average monthly change has been zero.

Flattening



If the RBNZ was starting to think a cut was more likely late this year, we would think it would have to start signalling its possibility by August. It would seem strange to continue signalling a well into the second half of 2025 start to then bring it forward by about a year without indicating that's a possibility in advance. In the first instance, the generally softer looking selected prices and weakening growth indicators may discourage the RBNZ from more talk about lifting the OCR.

It might well be that May's selected prices (overall) help offset, in the RBNZ's thinking, a large impulse coming from ongoing insurance premium increases, local authority rates in Q3, and likely electricity in Q2 next year following the recent Commerce Commission's draft decision.

And it is also worth bearing in mind the RBNZ hasn't yet fully incorporated all the relevant fiscal details from the Budget into its thoughts and forecasts. And, of course, we haven't got Q1 GDP yet. So still a lot of moving parts to consider.

This backdrop makes a speech by RBNZ Chief Economist Paul Conway on Wednesday even more interesting. It is entitled 'Inflation: the road back to 2%'. The speech will be published in full on the RBNZ website at 9am Wednesday. A panel discussion will be held later in the day (with no separate published notes).

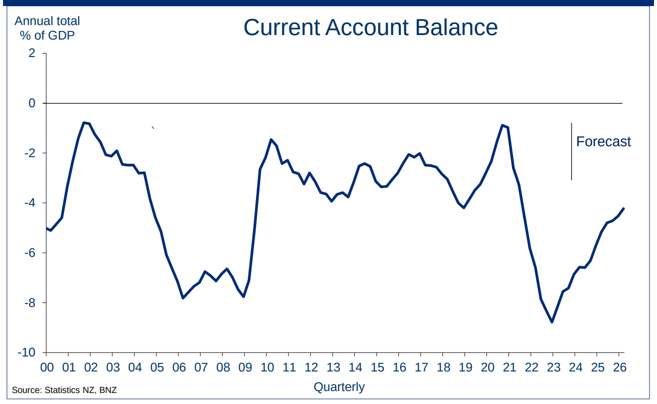
The Bank has said the speech will draw on four Analytical Notes, to be published at the same time, with insights revolving around:

- where inflation is being generated with the CPI basket currently (domestically generated inflation, especially services).
- what is driving this inflation (more supply-side driven, especially via labour).
- how strongly and how this pressure is translating into headline inflation.
- what will drive inflation down in future.

The RBNZ has said that ‘there will be no update on the state of the economy since the May Monetary Policy Statement’. But with the topics above, markets will be all ears, raising the possibility folk read more into any comments than is intended. There is an opportunity for attendees on the livestream to post questions for the Chief Economist to answer at the end of his remarks.

Now turning to other data due this week. Before GDP, we get Q1 Balance of Payments data on Wednesday. The current account deficit stood at 6.9% of GDP in calendar 2023. We expect the annual deficit to narrow to 6.6% in the year to March 2024. The market sees 6.8%. Narrowing yes, but still large in an historical context. That, and the ongoing lack of economic growth, will likely keep NZ on the radar of rating agencies.

Large deficit



Westpac McDermott Millar consumer confidence data for Q2 is scheduled for Tuesday. The general tenor will surely be weak, like the ANZ-RM monthly version. It might be too soon for the survey to fully capture any vibes from the recent fall in petrol prices and/or to gauge any response from the mix of give and take from the Budget.

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Global Watch

- **Fed dots see only one cut this year**
- **But US inflation cools keeping alive the chance of more**
- **Political risk premium lifts in Europe**
- **China activity data due today**
- **BoE, SNB, Norges Bank rate announcements this week**
- **RBA expected to hold rates steady**
- **Global PMIs to show June pulse**

Over the past week or so, the US has seen surprisingly rapid payrolls gains, a cautious FOMC, and the most benign CPI & PPI reports in many months. The net is roughly two rate cuts priced by the end of the year, essentially unchanged since the stronger payrolls report more than a week ago now.

The FOMC June projections saw a median dot for just 1 cut this year, although 8 of the 19 Fed members expect two cuts. CPI came out the morning of the announcement with a core CPI at just 0.16% m/m, the lowest monthly read in almost 3 years. Asked if participants change their projections in that situation, Powell said 'some people do … most people don't.' With the PPI confirming the May PCE picture looks materially better, the dots may have already been overtaken by events.

NAB continues to pencil in a first Fed cut in September on the expectation the data flow will be enough to give the Fed the requisite comfort to begin to inch back the level of restriction by then, though note the risk skews later. There are three more payrolls and CPIs before the September meeting. The median 2024 dots for activity, unemployment and PCE all leave room for the Fed to be surprised from the dovish side.

While US yields were little changed, some political risk premium being built into European markets have seen the euro underperform and sovereign spreads widen. EU Parliamentary elections that took place between the 6-9 June and showed a strong rise of nationalist support in France and Germany, while far right parties in the EU's other 25 nations made fewer inroads.

While the shift to the right was expected, for markets France was at the epicentre given Macron's call for a snap parliamentary election following European parliament results. A two-stage National Assembly vote process takes place on 30 June and 7 July.

On Friday the BoJ said it would reduce debt purchases but delayed providing details until its next policy meeting.

Australian data flow largely met expectations with the unemployment rate in May falling back to 4.0%, alongside 39.7k jobs. The NAB Business Survey saw conditions near average and price indicators lift.

Week Ahead in Brief

In Australia, the RBA announcement on Tuesday is the focal point in what is a quiet week for data. We expect the RBA to be on hold with little change to the "*not ruling anything in or out*" guidance. Governor Bullock made clear the RBA is waiting for the Q2 CPI on 31 July to update the Bank's forecasts and assessment of risks.

While Governor Bullock is conscious of two-sided risk on the RBA's inflation forecasts, there is an obvious high bar to hiking given policy is assessed to be restrictive, activity is soft and there are signs of easing in the labour market.

Elsewhere, three other G10 central banks meet, with the BoE, SNB and Norges (all Thursday). The BoE is expected to be on hold as is Norges, but markets are toying with the possibility of the SNB cutting rates again with markets 56% priced.

A big data week for China with the monthly activity data today and some speculation of a cut to the 1yr lending rate – but consensus is for no change. The recent PMIs were mixed with the unofficial Caixin versions seeing a rebound in services.

The US is very quiet with the Juneteenth Public Holiday (Wednesday) which will see equity, bonds, and most US commodity markets closed. Expect thin trading either side of the public holiday.

As for US data flow, Retail Sales (Tuesday) is the main focal point to see whether it rebounds after a soft April. Jobless Claims (Thursday) are also worth a look for whether difficulty in seasonally adjusting is one factor behind the recent rise. The US PMI also worth a look after last month's bounce in the Services index, even if the ISMs are generally more closely followed. There is also plenty of Fed speak, including Mester, Cook, Goolsbee, Harker, Barkin, Collins, Logan, Kugler, and Musalem.

In Europe global PMIs (Friday) take centre stage. The services sector has picked up strongly and will be closely watched to see if this is continuing especially following the ECB's recent rate cut. The UK also has retail sales on Friday.

Politics in the UK and Europe are also worth watching given the UK election for 4 July is drawing closer, but so too is the snap French parliamentary election (30 June, 7 July). French 10-year yields have risen to around the same as Portugal's, while the EUR has shown some idiosyncratic weakness.

Important Events Preview

Monday 17

CH Monthly Activity & 1yr Lending Rate
China's monthly activity indicators for May will be closely watched amid mixed PMI data on the services side.

Consensus sees retail sales at 3.0% y/y from 2.3%, industrial production 6.2% y/y from 6.7%, and fixed asset investment ytd steady at 4.2%. As for the 1yr medium term lending rate, there is some speculation that China may cut, though the consensus is for unchanged at 2.50%.

US Empire Manufacturing
A quiet week for the US means second tier data is likely to catch some attention. The NY Empire Manufacturing Index is expected to remain in the negative at -11.3 from -15.6. Note the Philly Fed version is on Thursday.

Tuesday 18

AU RBA & Presser (hold, no change to guidance)
The RBA is expected to remain on hold with guidance little changed from last meeting. In short "*not ruling anything in or out*". Last month the case for a hike was debated following the hotter than expected Q1 CPI figures. But with an unchanged interest rate track to mid-2025 and not fully taking signal from Q1 CPI, the RBA was able to forecast inflation at the 2-3% mid-point by mid-2026.

The RBA will wait for the full Q2 CPI (late July) before reassessing the inflation outlook and growth prospects with a full forecast round undertaken for the August Board.

While Governor Bullock is conscious of two-sided risk on the RBA's inflation forecasts, there is an obvious high bar to hiking again given policy is assessed to be restrictive and activity is soft and there are signs of easing in the labour market:

"*If we think we're on the narrow path, we can stay basically pretty much where we are, not ruling anything in or out. But if it turns out, for example, that inflation starts to go up again or it's much stickier than we think and we're not getting it down, then we won't hesitate to move and raise interest rates again. In contrast, if it turns out that the economy is much weaker than expected and that puts more downward pressure on inflation, then we'll be looking to ease*" (Hansard Transcript of RBA Senate Estimates, p.4).

Data since the last RBA meeting has largely met expectations. The unemployment rate fell back to 4.0% (from 4.1%) and Q1 GDP was relatively soft at 0.1% q/q and 1.1% y/y. Against that the monthly inflation indicator was hotter than expected, with goods showing less disinflation progress. On NAB's forecasts that suggests the risks for Q2 Trimmed Mean CPI sit around 0.9% q/q, one tenth above the RBA's forecasts. Housing market data has also come in on the stronger side.

Governor Bullock is reluctant to draw a firm signal from the monthly CPIs, meaning a need to wait until the Q2 CPI on 31 July.

For now, the RBA's preferred strategy for getting inflation back to target given soft activity is to hold for longer, unless inflation reaccelerates or proves stickier than they think. That was highlighted in the recent RBA May Minutes where the Board discussed the current post-pandemic strategy for monetary policy which has been balancing the timeframe of returning inflation to target, with minimising the rise in the unemployment rate. The Board changed the language around this to say they "*expressed limited tolerance for inflation returning to target later than 2026*", whereas the prior assessment in November 2023 was "*it has a low tolerance for inflation returning to target after 2025*" – in effect extending out the horizon to get inflation to target.

EZ Final-CPI & German ZEW
Neither likely to be particularly market moving.

US Retail Sales & Industrial Production
Core retail sales are expected to rebound to 0.4% m/m in May, after -0.3% in April. Given the public holiday on Wednesday, expect light trade.

Wednesday 19

UK CPI
After a disappointing set of inflation data for April where declines in the rate of inflation missed estimates, May CPI is expected to see the disinflation process continue. Crucially this could be the month that headline inflation drops back to the 2% target; even if it is unlikely to stay there for long. Consensus is for 2.0%, in line with NAB expectations of headline CPI dropping to 2%, perhaps 2.1% y/y, in part thanks to base effects. The BoE will be interested to see what happens to services prices, which at 5.9% are proving sticky, no thanks to lagging and stubbornly high wage settlements. Consensus for services prices is 5.5% y/y.

US Public Holiday (Juneteenth)
US equity, bond and for CME Group's markets for US commodities will be closed for observance of the Juneteenth holiday.

Thursday 20

CH Loan Prime Rate
No change expected, but that would change should the 1yr rate see a surprise cut no Monday.

NO Norges Bank Decision (hold)
The Norges Bank is expected to be on hold at 4.50%. A recent Norges Bank Survey showed rising activity and still strong wage growth projections, cooling rate cut bets.

SZ SNB Rate Decision (close decision)
The SNB decision is expected to be close. Markets are pricing in a 56% chance of a rate cut, with a rate cut fully priced by the following September meeting.

UK BoE Rate Decision (hold)
This BoE meeting is not one that is accompanied by new quarterly economic forecasts and markets price in almost

zero chance of a rate cut at this meeting. Indeed, NAB remain of the view the BoE won't be sufficiently confident to push through a first rate cut in this cycle until the 1 August meeting, when new forecasts will be presented. Markets currently price an August easing at just over a 50% probability. The June meeting will be Deputy Governor Ben Broadbent's last. Might he go out by joining two of his colleagues with a vote for a cut? NAB thinks there is a chance the vote to keep rates on hold shifts to 6:3 from 7:2.

US Housing Starts, Initial Jobless Claims
Jobless Claims are worth a look given the recent tick up. However, difficulty in seasonally adjusting at this time of year (as it was in 2023) clouds interpretation. Consensus is for 235k.

Friday 21

EZ/UK/US Global PMIs
It will be interesting to see what impact the first ECB rate cut has on the PMIs, but a reticence to pre-announce further cuts may limit any reaction. Consensus is for some mild improvement in manufacturing (less contractionary) and services (more expansionary). In the UK a pullback last month in the services PMI to 52.9 from 55 might suggest a modest rebound for June release. Consensus is for 53.0 in June.

In the US services activity last month expanded with a surge to 54.8 from 51.3. That increase was pretty well matched by a similar move in the larger sample ISM series. Still, the extent of the jump forewarns of the potential for a pullback of sorts. Consensus is for a pullback to 53.4.

UK Retail Sales
UK retail sales data have been volatile of late, with patchy strength as consumers become more confident as inflation and energy costs ease, interspersed with some soft readings. The last reading for April saw sales fall at their fastest pace this year (-2.3% m/m). That reading and a modest improvement in the weather suggests a pick-up for the May report commensurate with gradually improving confidence and stronger GDP data. Consensus for May retail sales is +1.6% m/m.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income yields moved steadily lower last week supported by domestic data and a rally across global bond markets. A downside surprise to US inflation data and a rise in political risk premium in Europe supported lower yields in core markets. The Federal Open Market Committee (FOMC) left rates on hold and released updated projections that signalled reduced easing this year compared to March, which was broadly in line with expectations.

Domestic economic data for May continued the trend of subdued activity. The manufacturing PMI extended the time in contractionary territory to 15 consecutive months, the services PMI slumped to below Global Financial Crisis levels and electronic card transactions were also weak. Seek job ads fell, and were set against the background of rising applicants, suggesting a further deterioration in the labour market. Q1 GDP is released on Thursday and is likely to show the NZ economy has continued to stagnate.

On the inflation front, selected price indicators for May were generally soft, and rounded down our annual headline inflation forecast for Q2 to 3.5%. That data is released on 17 July. Our forecast is marginally lower than the RBNZ's 3.6% projection from the May Monetary Policy Statement (MPS). RBNZ Chief Economist, Paul Conway will deliver a speech on inflation on Wednesday alongside the publication of four analytical notes. We don't expect any new policy guidance from the Bank from this speech. But a talk on inflation from the Bank will garner attention.

International developments have been supportive for lower yields. US CPI data undershot expectations in May - annual core CPI fell to 3.4% - which is the slowest pace in more than three years. PPI data was also weaker than consensus estimates, and combined with CPI, points to the core PCE deflator, which is the Fed's preferred inflation measure, increasing 0.1% when released at the end of the month.

The statement accompanying the FOMC's decision to leave rates on hold acknowledged 'modest further progress' had been made towards its inflation goal in recent months. The dot plot provided updated FOMC expectations for the path of the policy rate. Most participants continue to anticipate easing in 2024 – albeit less than in March - and all committee members expect it will be appropriate to cut rates over the forecast horizon out to 2026.

Having peaked near 4.90% in late May, 10-year NZ government bond (NZGB) yields have declined towards 4.60%. Aside from early January, the 4.50-4.60% region has contained the downside for 10-year NZGBs through this year. Although yields have declined quickly, the market doesn't appear overbought. Rolling 12-week total returns for 10-year NZGBs are close to flat.

10-year NZGB yields near the bottom of 2024 range

Our base case from a tactical perspective is the market will remain rangebound. A further move lower in yields will face increasing resistance towards the yield lows that have contained price action since February. The market is pricing ~30bps of RBNZ rates by year end. We expect increasing resistance to pricing additional easing absent progress on domestically driven inflation pressures. The RBNZ's reaction function has been less sensitive to the very weak domestic growth backdrop.

NZGBs have underperformed on a cross-market basis against the US. 10-year NZGB-US treasury (UST) spreads have widened to ~40bps from recent tights near 20bps. We anticipate further spread widening in the scenario where treasuries extend lower in yield. Current spread levels can be fully explained by relative moves in RBNZ-Fed monetary policy expectations, and appear close to fair value, based off this metric.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.61	5.61 - 5.64
NZ 2yr swap (%)	4.91	4.89 - 5.21
NZ 5yr swap (%)	4.39	4.39 - 4.74
NZ 10yr swap (%)	4.41	4.41 - 4.77
2s10s swap curve (bps)	-51	-51 - -43
NZ 10yr swap-govt (bps)	-18	-18 - -11
NZ 10yr govt (%)	4.58	3.87 - 4.92
US 10yr govt (%)	4.22	4.19 - 4.64
NZ-US 10yr (bps)	36	19 - 36
NZ-AU 2yr swap (bps)	83	74 - 93
NZ-AU 10yr govt (bps)	46	38 - 56

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, the NZD consolidated roughly between 0.61-0.62 with a net gain for the week of 0.6% to 0.6140. NZD/AUD consolidated just under 0.93, while the NZD was higher on other key crosses as European currencies were negatively impact by the increase in a political risk premium ahead of French elections. NZD/EUR rose 1½% and traded at its highest level this year just over 0.5750. NZD/JPY rose to a fresh 17-year high of 97.25 and ended the week up 1% to 96.6.

There were a few key forces in currency markets last week. Top of the list were weaker than expected US CPI and PPI inflation data. Both indicators suggested that after the surprising blip up in inflation in Q1, possibly caused by unaccounted for seasonal factors, disinflationary forces are back in charge. The Fed's preferred core PCE deflator, released towards the end of the month, is expected to show a rise of just 0.1% m/m.

The Fed left rates unchanged and offered some conservative projections that showed no expected progress in bringing down inflation over the rest of the year and the unemployment rate remaining steady at 4.0%, enabling just one rate cut this year. We see these as low hurdles to meet, with inflation likely to prove weaker and the unemployment rate likely to continue to push higher. Following weaker inflation data, the market sees a September rate cut as very much alive, priced at about a 75% chance, with 50bps of cuts priced by year-end.

These dynamics were USD-negative and both the NZD and AUD recovered some of the hefty losses seen in the wake of the previous week's stronger than expected non-farm payrolls data. The NZD traded a high of 0.6222, a level not seen since January. Similar spikes seen in February, March and the previous week make the 0.6220 area as a key level of short-term resistance.

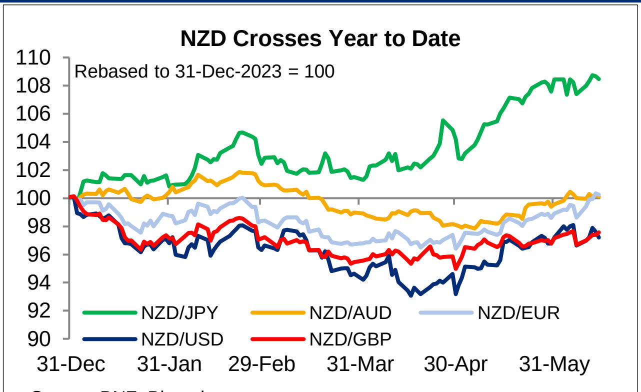
The fallout from the European Parliamentary elections and French President Macron's call for a snap election was a feature in market pricing last week. A European political risk premium was built into European asset prices, centred in France, with some spillover risk – a limiting factor for the NZD's recovery last week, in our view, and causing EUR to underperform. A strong showing in the election by Marine Le Pen's party would likely see European assets remaining under pressure, beyond the election. We see some NZD/EUR resistance around 0.5750, but it wouldn't take much for the cross to head higher, towards 0.60. This is a new risk we are monitoring closely.

The BoJ offered yet another disappointingly cautious outlook regarding the policy outlook, with no colour offered on reduced bond buying activity, with firmer policy deferred until the next meeting. The yen will remain under pressure as long as the BoJ dithers on tightening policy.

In the week ahead, the domestic focus will be Q1 GDP, where another weak result is widely anticipated, with a reasonable chance it undershoots the RBNZ's 0.2% q/q pick. We're at minus 0.1%. The data are likely too dated to perturb the currency market – the poor state of NZ growth is already well acknowledged and the RBNZ is more focused on inflation than economic activity. RBNZ Chief Economist speaks Wednesday and, while he is not expected to say anything new from a policy perspective, his comments could easily be misconstrued by the market and cause a reaction.

Globally, Fed speakers will be out in force and retail sales is the key US economic release. Also on the radar will be China activity data (today), global PMIs and UK and Japan CPI data. UK CPI data are released a day ahead of the BoE's policy update on Thursday night. No rate cut is expected at this meeting, but there is a reasonable chance of a cut at the following meeting in August, as long as inflation data are better behaved. The RBA meets tomorrow, but no change in rates or tone is expected, maintaining guidance of "not ruling anything in or out".

NZD now only down YTD against USD and GBP



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6131	0.6090 - 0.6220
NZD/AUD	0.9277	0.9200 - 0.9320
NZD/GBP	0.4832	0.4790 - 0.4850
NZD/EUR	0.5727	0.5630 - 0.5750
NZD/JPY	96.52	95.30 - 97.20

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6690	-8%
NZD/AUD	0.8930	4%

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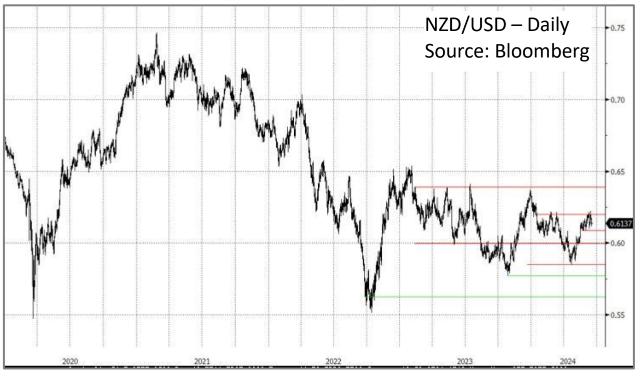
Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6220 (ahead of 0.6390)
ST Support: 0.6085 (ahead of 0.60)



There is notable resistance near the 0.6220 mark, close to recent highs in February, March and the last couple of weeks. Initial support is 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.

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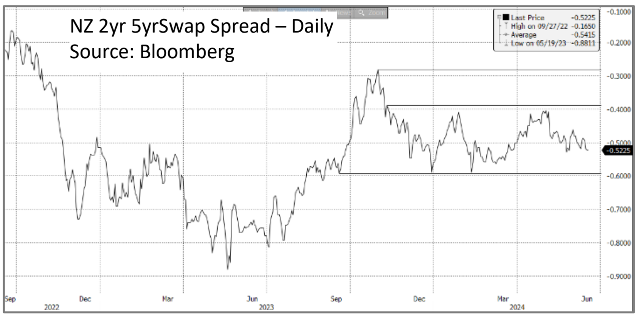
NZ 5-year Swap Rate

Outlook: Neutral
MT Resistance: 4.82
MT Support: 4.06

5y swap broke lower through our upward sloping trend line last week on the back of a rally in global rates. We will remain neutral for now as we test the previous low in May of 4.40%, but should it continue to move lower we may look at switching to a lower bias.

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.

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Quarterly Forecasts

Forecasts as at 17 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	-6.6	-6.6	-6.3	-5.7	-5.2	-4.8	-4.7	-4.5
CPI (q/q)	1.8	0.5	0.6	0.6	1.0	0.5	0.5	0.5	0.9	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	3.5	2.7	2.7	2.6	2.5	2.4	2.0
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	5.64	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024 Mar	5.50	5.66	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	0.61	0.66	1.07	1.27	157	0.61	0.93	0.57	0.48	96.6	72.5
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	73.3
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 17 June 2024	March Years					December Years				
	Actuals		Forecasts			Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.1	0.7	2.5	7.4	3.3	0.3	0.3	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	-2.1	-3.5	4.1	12.0	3.4	-1.1	-4.9	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	-0.9	2.1
Exports	2.5	6.0	6.5	3.5	5.2	-2.7	-0.2	10.0	3.5	5.3
Imports	17.3	4.3	-1.9	0.9	3.9	14.8	4.6	-0.3	-0.4	3.6
Real Expenditure GDP	4.7	2.8	0.1	0.8	2.8	5.9	2.2	0.6	0.4	2.5
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	409	424	447	353	381	405	419	441
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.6	1.9	5.9	7.2	4.7	2.7	2.0
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	0.2	1.0	3.6	0.2	-2.3	-0.3	1.1
Unit Labour Costs (ann av %)	4.6	6.5	8.5	3.9	2.2	2.4	6.5	8.8	5.0	2.3
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	-26.9	-21.9	-18.9	-20.6	-33.4	-27.8	-23.9	-20.0
Current Account - % of GDP	-6.6	-8.2	-6.6	-5.2	-4.2	-5.8	-8.8	-6.9	-5.7	-4.5
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	39.3	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	9.0	8.1					
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
	Monday 17 June			
UK	Rightmove House Prices YoY Jun		0.60%	0.60%
JN	Core Machine Orders MoM Apr	-3.00%	-2.90%	2.90%
CH	Used Home Prices MoM May			-0.94%
CH	Industrial Production YoY May	6.20%		6.70%
CH	Retail Sales YoY May	3.00%		2.30%
CH	Fixed Assets Ex Rural YTD YoY May	4.20%		4.20%
CH	Surveyed Jobless Rate May	5.00%		5.00%
EC	ECB's Lane, Lagarde, Guindos speak			
EC	Labour Costs YoY 1Q F			4.90%
	Tuesday 18 June			
US	Empire Manufacturing Jun	-11.3		-15.6
EC	ECB's Makhlouf speaks			
US	Fed's Williams, Harker speak			
NZ	Westpac Consumer Confidence 2Q			93.2
US	Fed's Cook speaks			
AU	RBA Cash Rate Target Jun-18	4.35%	4.35%	4.35%
GE	ZEW Survey Expectations Jun	49.5		47.1
EC	CPI YoY May F	2.60%		
EC	CPI Core YoY May F	2.90%		2.90%
EC	ECB's Knot, Vujcic, Cipollone speak			
	Wednesday 19 June			
US	New York Fed Services Business Activity Jun			3
US	Retail Sales Advance MoM May	0.30%		0.00%
US	Retail Sales Ex Auto and Gas May	0.40%		-0.10%
US	Retail Sales Control Group May	0.40%		-0.30%
US	Manufacturing (SIC) Production May	0.30%		-0.30%
EC	ECB's Guindos speaks			
US	Business Inventories Apr	0.30%		-0.10%
US	Fed's Barkin, Collins speak			
EC	Villeroy speaks			
US	Fed's Logan, Kugler, Musalem, Goolsbee speak			
NZ	RBNZ Chief Economist Paul Conway speaks on Inflation			
NZ	Current Account GDP Ratio YTD 1Q	-6.80%	-6.60%	-6.90%

		Median	Fcast	Last
JN	Trade Balance May	-¥1280.8b		-¥462.5b
JN	BOJ Minutes of April Meeting			
UK	CPI YoY May	2.00%		2.30%
UK	CPI Services YoY May	5.50%		5.90%
EC	ECB's Centeno speaks			
	Thursday 20 June			
US	NAHB Housing Market Index Jun	45		45
CA	Bank of Canada Releases Summary of Deliberations			
NZ	GDP SA QoQ 1Q	0.10%	-0.10%	-0.10%
GE	PPI YoY May	-2.10%		-3.30%
SZ	SNB Policy Rate Jun-20	1.50%		1.50%
UK	Bank of England Bank Rate Jun-20	5.25%		5.25%
	Friday 21 June			
US	Current Account Balance 1Q	-$206.8b		-$194.8b
US	Initial Jobless Claims Jun-15	235k		242k
US	Continuing Claims Jun-08	1802k		1820k
US	Housing Starts May	1375k		1360k
US	Philadelphia Fed Business Outlook Jun	4.8		4.5
US	Fed's Kashkari, Barkin speak			
EC	Consumer Confidence Jun P	-13.8		-14.3
UK	GfK Consumer Confidence Jun	-16		-17
JN	Natl CPI YoY May	2.90%		2.50%
US	Fed's Daly speaks			
UK	Retail Sales Inc Auto Fuel MoM May	1.60%		-2.30%
EC	ECB's Nagel speaks			
GE	HCOB Germany Services PMI Jun P	54.4		54.2
EC	HCOB EZ Manufacturing PMI Jun P	47.9		47.3
EC	HCOB Eurozone Services PMI Jun P	53.5		53.2
UK	S&P Global UK Manufacturing PMI Jun P	51.3		51.2
UK	S&P Global UK Services PMI Jun P	53		52.9
	Saturday 22 June			
US	S&P Global US Manufacturing PMI Jun P	51		51.3
US	S&P Global US Services PMI Jun P	53.4		54.8
US	Existing Home Sales May	4.09m		4.14m

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	5.61	5.61	5.61	5.64
3mth	5.61	5.62	5.61	5.68
6mth	5.60	5.62	5.57	5.77
GOVERNMENT STOCK				
05/26	4.77	4.91	4.70	4.58
04/29	4.46	4.59	4.45	4.38
05/31	4.50	4.63	4.51	4.38
05/34	4.61	4.73	4.62	4.44
04/37	4.77	4.88	4.77	4.53
05/41	4.89	4.99	4.88	4.60
05/51	4.90	5.00	4.89	4.50
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	54	50	49	69
Europe 5Y	64	53	50	76

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	4.91	5.08	4.90	5.34
3 years	4.63	4.81	4.62	4.98
4 years	4.47	4.66	4.47	4.73
5 years	4.38	4.59	4.41	4.59
10 years	4.40	4.62	4.47	4.44
FOREIGN EXCHANGE				
NZD/USD	0.6139	0.6128	0.6105	0.6201
NZD/AUD	0.9281	0.9271	0.9158	0.9051
NZD/JPY	96.64	96.23	95.39	88.03
NZD/EUR	0.5734	0.5692	0.5624	0.5677
NZD/GBP	0.4839	0.4814	0.4805	0.4847
NZD/CAD	0.8430	0.8431	0.8319	0.8192
TWI	72.6	72.2	71.8	71.2

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