Research

Markets Outlook

22 July 2024

Vulnerabilities

- **Global IT issue reminder of risk and vulnerability**
- **Low hydro storage another risk to watch domestically**
- **Annual trade deficit narrowing resumes**
- **Import slump reflects weak domestic demand**
- **Q2 export volumes look negative**
- **Nothing to alter our negative Q2 GDP view**

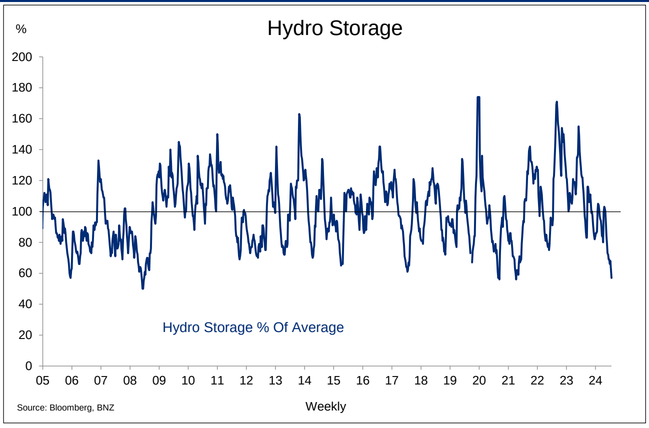
An IT update gone wrong caused major disruption around the globe over the weekend. It affected sectors from airlines, banks, supermarkets, to healthcare among many others. The widespread connectivity outage halted a considerable amount of activity. We will leave it to others to try and estimate the full global losses that will continue to accumulate for a time yet.

The problem update, from US cybersecurity firm CrowdStrike that affected Microsoft devices, has been fixed. Services are gradually returning, although not before significant disruption occurred even if severely only for a relatively short period of time. It will take a bit of time for full restoration.

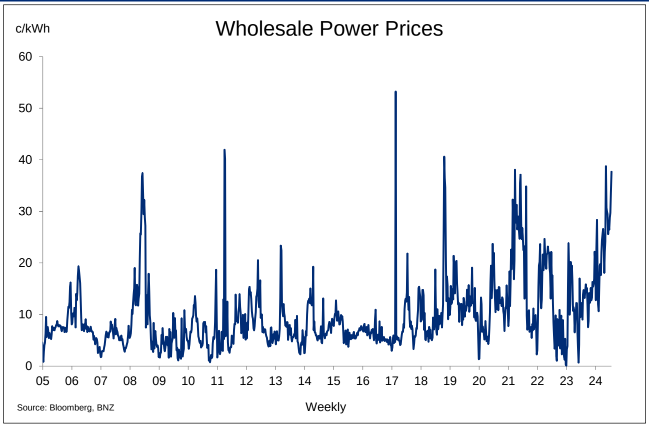
There will be many questions asked about how such things can happen and around back up plans. Even with things increasingly getting back up and running and backlogs clearing, the episode puts the spotlight on IT risk and vulnerability. While the intensity of disruption passes, such risks will command more attention and resource and could see some persistent influence as more resource is directed into contingency planning and cyber security. IT risks might be very well known, but the weekend's event is a stark reminder of the vulnerability of the interconnected world when glitches occur. We will continue to monitor the economic consequences from this event.

Speaking of risks and vulnerabilities, another well-known risk in NZ is that of a dry year influence on hydro electricity generation. It might be on a completely different scale to a global IT outage, but it is important to NZ. This risk is increasing as hydro lake storage continues to slip, recently dropping to as low as 57% of normal for this time of year. Wholesale electricity prices have continued to climb. Demand response notices have been issued to NZ's Aluminium Smelter to help manage hydro storage levels. It is growth negative.

Risk increasing here



Cost impost



We should note that the link between short term movements in wholesale electricity prices and CPI electricity prices is generally minimal to zero over time. That might seem like an odd thing to say when electricity prices rose 3.0% q/q in last week's CPI. That was the biggest quarterly lift since 2014, although not that different to the 2.7% increase in Q2 last year. CPI electricity prices tend to be seasonal.

There is near zero correlation between annual inflation in wholesale electricity prices and CPI electricity prices. So, no reason to overly fret about that from a CPI inflation point of view at least in the near term. However, as we have previously discussed, a recent draft decision by the Commerce Commission around power pricing will likely result in more upward pressure on CPI electricity price increases next year, dry year or not.

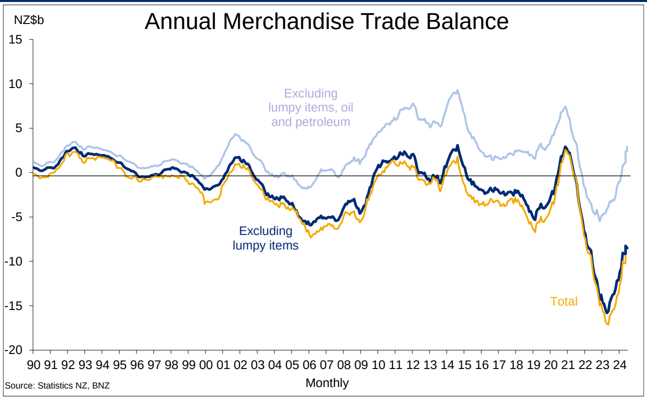
Low hydro storage does present inflation pressures elsewhere, even if not directly in the CPI in the first instance. Recent wholesale electricity price movements will show up in the likes of the Producer Price Indexes through at least Q2 and Q3 this year. For those exposed, it is an additional cost impose, a squeeze on margins, and a clear drag on growth. Not helpful to near term GDP, after what we think was another contraction in Q2.

Our forecasts show retail trade will be part of the GDP weakness in Q2. Even though last week's soft tradeable CPI inflation figures suggested relatively flat retail pricing in the quarter, the extent of weakness in the likes of electronic card transactions means we wouldn't be surprised to see another decline in real retail sales in Q2 (that data are due out 23 August).

Consumer confidence has certainly been at a level consistent with very weak retail sales. We haven't seen anything to change that broad assessment of late. Friday's ANZ-RM consumer confidence survey is likely to remain mired deep in pessimistic territory. The survey's consumer inflation expectations reading will be worth a glance to see if the prior month's blip up was signal or noise amid what still looked like a broad downtrend.

This week's data are already underway with this morning's merchandise trade figures for June. It showed a clear resumption of a shrinking annual trade deficit after some stalling over recent months. The deficit was $9.4b for the 12 months to June, a marked reduction from $16.1b a year ago. This will support further narrowing in the broader current account deficit as we have long anticipated.

Deficit narrowing continues

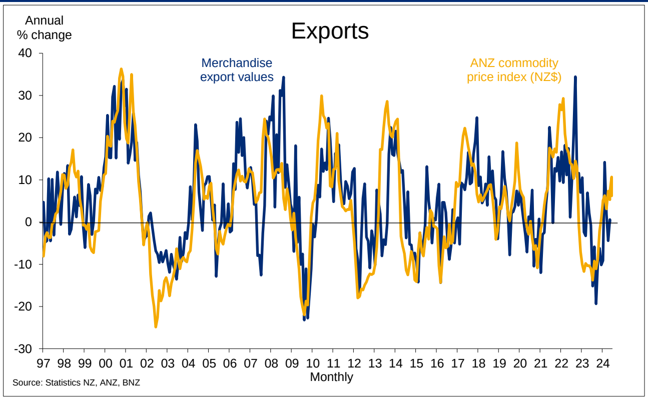


Exports in June were essentially flat to a year earlier, while imports slumped 13% y/y. Both were a bit softer than our expectations for the month.

The monthly data are often noisy and so it was this month, especially for imports. Very weak petroleum imports and the arrival of an aircraft (with a large item of $143m recorded) added to volatility this month. But widespread weakness was evident besides. For example, machinery and plant imports were 12.8% lower than a year ago, while consumption goods imports were down 9%. This reflects soft domestic demand via both business investment and consumer spending as the influence of very soft retail sales feedback through supply chains.

Overall, the trade data are not a good signal for growth. We remain of the view that GDP fell in Q2, a view that is also supported by the balance of export volume indicators for the quarter coming in a bit negative in line with our thinking. However, the slump in imports also illustrates that when domestic demand falls in NZ not all of it translates into changes in domestic production. While true, it will be of little solace to those facing weak demand conditions and we don't think it will be enough to prevent another contraction in GDP.

Flat exports y/y, despite commodity price gains



Wednesday afternoon brings new residential lending figures for June, which look like being well below last year if the number of house sales in the month are any guide. The lending figures pre-date the most recent reductions in some mortgage rates such that it is too soon for any influence from those. But the easing in monetary conditions from increasing market belief that the RBNZ will lower the OCR before too much lower is feeding through into retail rates. This is something to factor in, not only for thinking about confidence and activity ahead but also for when and how much the RBNZ thinks it will need to reduce the OCR itself.

Friday's Household Living-Cost Price Index (HLPI) is mostly another cut of the CPI detail, but with some difference around the treatment of housing and interest costs such that its overall annual inflation figure is likely to print higher than the CPI equivalent. In Q1, HPLI annual inflation was 6.2% against the CPI's 4.0% for that quarter (before the latter eased to 3.3% in Q2 as published last week).

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Global Watch

- **Global IT issue hits activity**
- **President Biden drops out of election race**
- **US Q2 GDP growth seen at 1.9%**
- **US core PCE seen printing at 0.1% m/m again**
- **Global PMIs due**
- **Bank of Canada widely expected to cut again this week**

Week in review

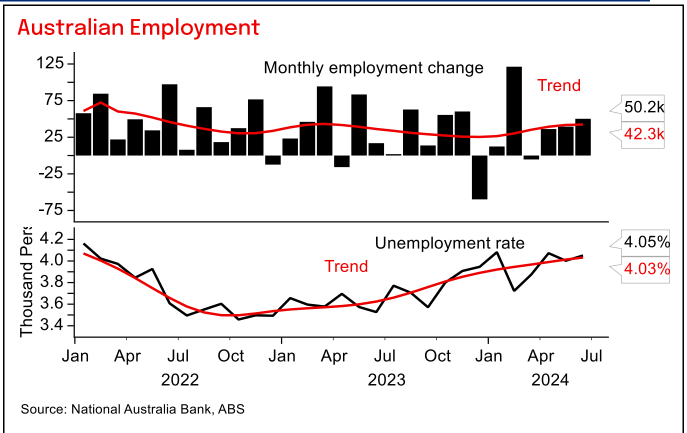
An IT update gone wrong caused major disruption around the globe over the weekend. It affected sectors from airlines, banks, supermarkets, to healthcare among many others. The widespread connectivity outage halted a considerable amount of activity. We will leave it to others to try and estimate the full global losses that will continue to accumulate for a time yet.

The problem update, from US cybersecurity firm CrowdStrike that affected Microsoft devices, has been fixed. Services are gradually returning, although not before significant disruption occurred even if severely only for a relatively short period of time. It will take a bit of time for full restoration. The episode is a stark reminder of the risk and vulnerabilities inherent in a highly connected world.

This morning US President Biden announced he is dropping out of the Presidential race. At the margin, this might see some unwinding of the 'Trump trade' although initial market reaction this morning has been muted.

Australian employment data showed robust employment growth continues amid a resilient labour market. Employment was up 50k in June, well above the 20k expected by the market. Even still, the unemployment rate has continued to trend higher, at 4.1% in June, up 0.6ppt from its lower of 3.5% in 2022. High participation and still strong population growth means expanding labour supply, rather than a tightening labour market, is driving employment growth.

AU employment and unemployment rising



For the RBA, it has expected a resilient labour market, forecasting in May an unemployment rate of 4.2% by year end, rising to 4.3%, around their estimate of levels consistent with full employment, by the end of 2026. Last week's unemployment figures probably didn't shift the dial in terms of risks around the August meeting.

In contrast, employment growth has been stronger than the RBA thought, and hours worked bounced in Q2, up some 1.6% q/q. For a Bank concerned about productivity, the Q2 GDP numbers (4 September) look set to take some gloss off a recent improving trend.

Elsewhere, UK CPI held at 2.0% and services inflation held at 5.7%, though a bounce in travel and accommodation prices hid what was otherwise modest progress, and earnings growth was in line with expectations for modest slowing.

US June Retail Sales ended Q2 on a strong note, and combined with revisions to previous months saw analysts revise a little higher their reckoning of Q2 consumption for GDP on Thursday.

The ECB held rates, as expected, with Lagarde noting the next meeting is 'wide open.' Markets price an 80% chance of a September cut and around 45bp of easing by year end.

Week Ahead in Brief

In the US, the data calendar is dominated by the advanced read of Q2 GDP on Thursday and PCE data on Friday. FOMC participants go quiet from Saturday ahead of the 31 July meeting.

US GDP expectations look likely to settle at 1.9% saar, up on last quarters 1.4% pace, but still markedly below the pace through the second half of last year. The Atlanta Fed's GDPNow sits at 2.7%, having crept higher alongside a string of relatively healthy June activity indicators. Quarterly core PCE is out Thursday alongside GDP data, ahead of the June monthly outcomes on Friday where **core PCE** is expected at 0.1 m/m, which would be a repeat of May's outcome.

Beyond the data, earnings season is in full swing with a raft of corporate earnings including Alphabet and Tesla (Tuesday), IBM and Deutsche Bank (Wednesday), and American Airlines (Thursday).

Preliminary S&P Global PMIs for July are published Wednesday. June outcomes suggested some flagging in growth momentum in Europe, but services indices generally held up despite a 5pt fall in France. The US Services PMI rose in June, in stark contrast to the fallback below 50 in the non-manufacturing ISM.

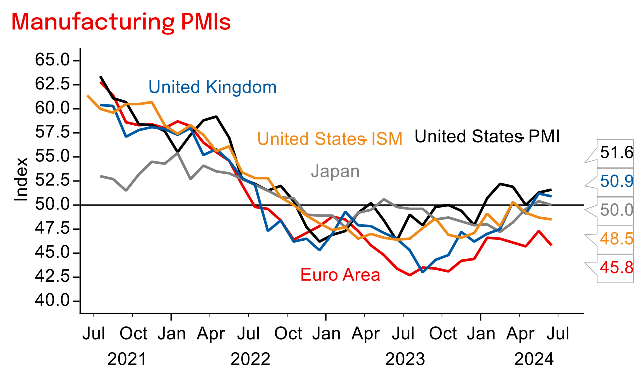
Markets are 90% priced for a follow up cut from the **Bank of Canada on Wednesday**, having crept higher from around 50% 2 weeks ago alongside permissive labour market and inflation prints.

In Asia, China Loan Prime rates are expected unchanged on Monday. A reluctance to add depreciation pressure on the yuan has been a barrier to further monetary easing from the PBoC. Tokyo CPI on Friday is expected to show the core ex food and energy number edging lower in July to 1.6% from 1.8%. That's the last prices data print of note ahead of the July 31 BoJ meeting and forecast update, where markets continue to price about a 50% chance of a 10bp rate increase.

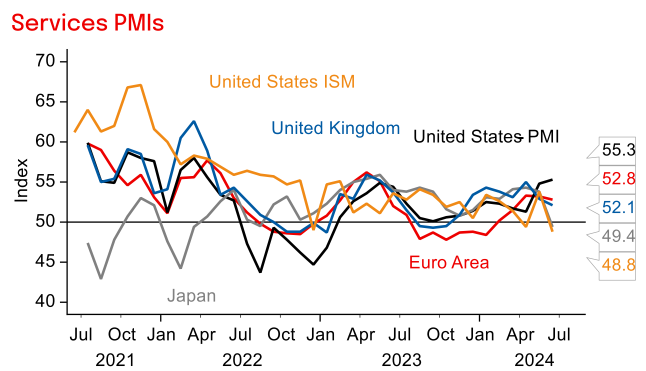
Important Events Preview

Wednesday 24

EZ/UK/US/JN S&P Global preliminary PMIs
Preliminary July PMIs out Wednesday generally get more focus in Europe than the US. Euro area manufacturing fell back in June, and while services did moderate a little they largely held on to levels comfortably above 50 at 52.8. French Services were a key drag in the June outcome. The more established ISMs tend to get more focus in the US, but there will be interest in whether the divergence between the strength in the June Services PMI comes back down to earth after diverging from the softy June Services ISM last month.



Source: National Australia Bank, S&P Global, Institute for Supply Management (ISM), Macrobond



Source: National Australia Bank, S&P Global, Institute for Supply Management (ISM), Macrobond

CA Bank of Canada
Markets have grown more confident in a follow up cut from the BoC over the past couple of weeks, helped by a conducive run of data including a higher-than-expected unemployment rate, which rose two tenths to 6.4% in June, and June CPI that came in a tenth below expectations at 2.7% y/y. Markets currently price a more than 90% chance of a cut from the BoC on Wednesday, up from less than 50% two weeks ago.

Thursday 25

US Q2 GDP, Jobless claims
Consensus for the advanced read of Q2 GDP is at 1.9% saar. That's up from the Q1 pace of 1.4% q/q but would still mark a notable slowdown from the pace of growth in the second half of last year. Upward revisions that came alongside June retail sales means consumption looks on track to grow around 2% saar, but other indicators of private sector activity have been weaker and a widening trade deficit is likely to subtract from growth.

Quarterly core PCE is published alongside the GDP numbers on Thursday, ahead of the June monthly figures on Friday.

Friday 26

JN Tokyo July CPI
National CPI today held at 2.8% y/y, a tenth below expectations, while the core rate excluding food and energy rose to 2.2% from 2.1% as expected. Friday's July Tokyo print is expected to see the ex food and energy core rate edge lower to 1.6% y/y from 1.8% (note the Tokyo number is still weighed down by the earlier introduction of free schooling in the city). The Tokyo numbers are the final inflation data point ahead of the BoJ's 31 July meeting and forecast update, where markets are about 50% priced for a 10bp rate rise and focus will be on revisions to FY2026 CPI forecasts for whether the BoJ is comfortable wages increases and the outlook for spending is robust enough to sustain inflation pressures.

US PCE, Income and Spending
Forecasts for Core PCE look for another reasonably benign print to follow the 0.1% m/m increase in May. With CPI and PPI data in hand, consensus currently sits at 0.1% m/m, which would match May's outcome. A print in line with consensus would see the core rate edge down a tick to 2.5% y/y. Also released on Friday is June consumer spending, seen up 0.3% m/m, while personal income is expected 0.4% m/m higher.

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Fixed Interest Market

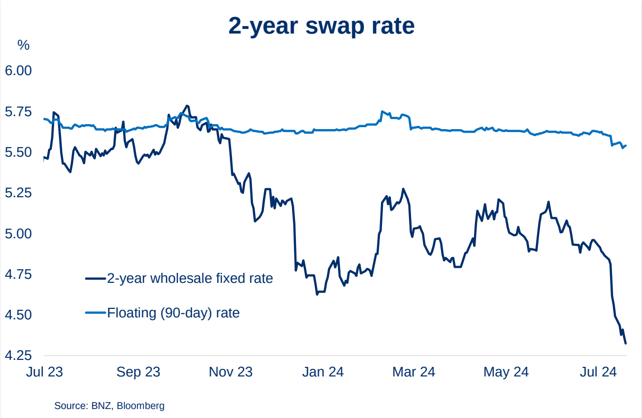
Reuters: BNZL, BNZM Bloomberg:BNZ

NZ rates have outperformed in the recent global fixed income rally, underpinned by supportive domestic data, and a significant change in the RBNZ's tone at the July Monetary Policy Review. The swift adjustment lower in yields is reaching overbought levels and, given the extent of easing priced, we suggest some caution about extrapolating the move. The punitive break-even on front end received positions from the cost of carry may discourage fresh received positions and constrain the downside in yields.

The NZ economy is in a protracted recession with few signs of relief. Business surveys point to very weak activity – the composite PMI covering the manufacturing and services sectors has fallen below Global Financial Crisis levels – reflecting the impact of restrictive monetary policy settings. Along with other consistently weak activity data, risks are skewed to the downside for our -0.2% quarterly pick for Q2 GDP.

Headline CPI for the June quarter increased 3.3%, below the RBNZ's 3.6% projection from May. Although some inertia is evident in segments of the basket, measures of core inflation, including the RBNZ's sectoral factor model, have continued to ease towards the mid-3s. Headline inflation looks set to return within the Bank's target band in Q3. The RBNZ outlined in the statement accompanying its July review that it expects persistent domestic inflation measures to decline.

2-year swap rates extend sharp move lower

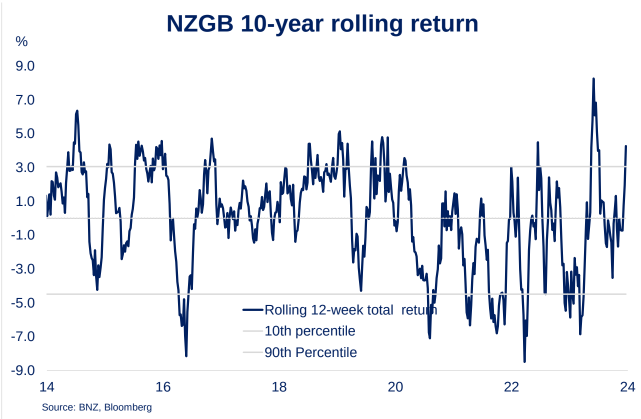


2-year swap rates have overshot estimates of fair value based on our OCR projections. A correction higher is possible, with corporate hedging pay-side flow being largely absorbed by speculative accounts, increasing the risk of a positioning-induced reversal. The domestic economic calendar is largely second tier in the week ahead limiting the scope for fundamentally driven rates moves.

At the longer end, we expect 10Y US treasuries to stabilise above 4% and remain broadly rangebound. Moderating US CPI makes a September easing for the Fed look very credible. But it's well priced, and Treasuries are already at the bottom of the recent range. The likely trading range is lower – we think 4.0-4.5% – but a rally through the lows of early 2024 when there was near seven rate cuts priced for the year is unlikely.

10-year NZGB-UST spreads have continued to narrow and have approached the tightest level since mid-2022. While the compression doesn't appear out of line with the repricing of the OCR path since the July MPR – a regression of the 10-year NZGB-UST spread on 1y3m NZ-US rate differentials implies fair value near current market levels – it does limit the scope for further NZGB outperformance.

Rolling 10-year NZGB in overbought territory.



We think the 10-year NZGB rally has largely run its course for now. Supporting this thesis, rolling 12-week total returns are above the 90th percentile, typically associated with a period of consolidation.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.54	5.53 - 5.63
NZ 2yr swap (%)	4.34	4.33 - 5.00
NZ 5yr swap (%)	3.97	3.94 - 4.50
NZ 10yr swap (%)	4.15	4.11 - 4.56
2s10s swap curve (bps)	-19	-43 - -19
NZ 10yr swap-govt (bps)	-22	-24 - -15
NZ 10yr govt (%)	4.37	4.37 - 4.71
US 10yr govt (%)	4.21	4.14 - 4.49
NZ-US 10yr (bps)	17	14 - 38
NZ-AU 2yr swap (bps)	15	15 - 77
NZ-AU 10yr govt (bps)	8	8 - 41

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, lower risk appetite resulted in the NZD underperforming, with NZD/USD down 1.8% to a two-month low just below 0.6010. Most NZD crosses were down in the order of 1-2%. NZD/GBP fell to an 11-month low just over 0.4650. NZD/AUD fell by only 0.3%, as the AUD was also impacted by weaker risk appetite, but the weekly close of 0.8990 was the lowest since October 2022.

Last week, our risk appetite fell to just over 60%, its lowest level since last November. Markets increasingly seem to be factoring in a Trump victory in the Presidential election, evidenced by price action in various sectors of the equity market and the steepening of the US yield curve. For the currency market, the early price action in anticipation of Trump 2.0 has seen the AUD and NZD underperform, given likely tough policies against China. Trump's expression of concern about the strong dollar, particularly against the yen and yuan, only had a fleeting market impact.

NZ CPI data showed further progress towards the RBNZ meeting its inflation target, with the headline rate down to a three-year low of 3.3% and core measures averaging 3½%. While headline inflation was three-tenths lower than the RBNZ's May projection, non-tradeables inflation was a tenth stronger, at 5.4% y/y, keeping the market finely balanced on the possibility of the first rate cut this cycle coming as early as next month. Still, NZ-global rate spreads narrowed further, contributing to the weaker NZD alongside the risk appetite factor.

There was little market impact from the ECB's decision to leave rates unchanged, as expected. ECB President Lagarde said the September meeting decision was 'wide open', while the market continued to price a high probability of another rate cut. Largely as a result of the RBNZ's dovish pivot two weeks ago, NZD/EUR trades near the bottom end of its range over the past year. There might be some support near 0.55, but the 2023 low around 0.5415 looks like a more solid support level.

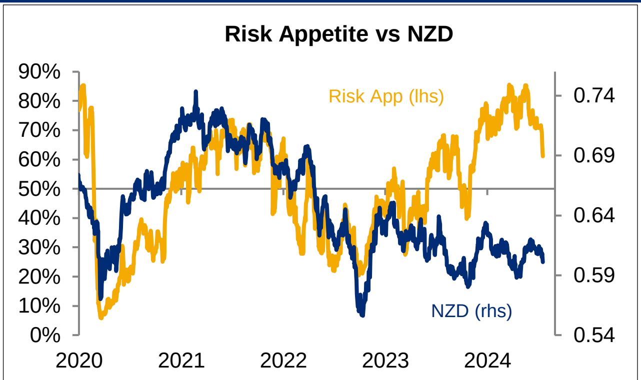
On NZD/USD, the technical picture looks weak and, while there looks to be some support around 0.60, the April lows just below 0.59 are also on the radar – the combination of weaker risk appetite and the RBNZ's recent dovish pivot provide significant headwinds.

While our prevailing end-Q3 target of 0.61 is still well within range, we have previously noted that our FX projections assumed no change to the US political scene, and we have been warning that a Trump victory could cause increased uncertainty and market volatility. The odds of a Trump victory have escalated since the first debate a few weeks ago. It is hard to be certain about the implications for the USD of a Trump victory, but last week's price action hinted of a weaker NZD and AUD, given the strong links to China. To the extent that a Trump victory is increasingly being priced in, this could well result in NZD headwinds over the near-term, well ahead of the November election date.

The breaking news this morning of President Biden withdrawing from the Presidential race changes the calculus a little. A new Democrat nominee – likely to be VP Harris – has a greater shot of winning the Presidency against Trump, but current momentum still lies with a Trump victory. The initial price action this morning has been one of little change.

In the week ahead the economic calendar is light. US Q2 GDP, alongside the core PCE deflator, is the key economic release. Global PMIs will also be of some interest. The Bank of Canada meets, where another 25bps rate cut is widely expected and well-priced, taking the policy rate to 4.5%.

Risk appetite slumps to just over 60%



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6009	0.6010 - 0.6150
NZD/AUD	0.8981	0.8970 - 0.9160
NZD/GBP	0.4651	0.4650 - 0.4830
NZD/EUR	0.5519	0.5520 - 0.5690
NZD/JPY	94.59	94.40 - 99.00

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6640	-10%
NZD/AUD	0.8670	4%

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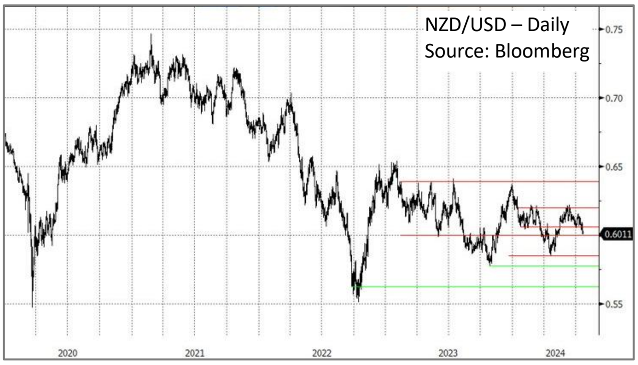
Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6220 (ahead of 0.6390)
ST Support: 0.6000 (ahead of 0.5850)

The technicals are starting to look a little ominous, with lower lows and previous support at 0.60 coming back into play, with 0.5850 seen to be a stronger support base.



NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9200 (ahead of 0.9315)
ST Support: 0.8900 (ahead of 0.8700)

After the weakest weekly close since October 2022 of 0.8990, the technicals look ominous, with the next support level around 0.89.

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NZ 5-year Swap Rate

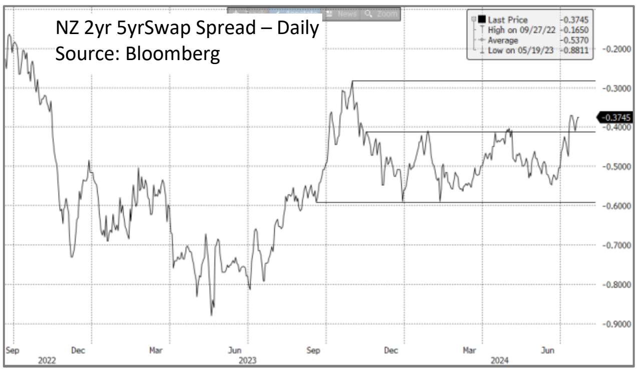
Outlook: Lower
MT Resistance: 4.06
MT Support: 3.48

Last week saw a clean break of 5y swap below the previous support of 4.06% and has provided directionality for lower rates. We now see previous support becoming resistance at 4.06% while new support looks to come in at 3.48%. We will target a move lower in near future towards this support.

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

Outlook: Steeper
MT Resistance: -0.28
MT Support: -0.41

2x5 swap spread last week dipped lower to -41bp before rebounding steeper to unchanged. We have amended our support to -41bp but maintain our view that this spread will continue to steepen over the medium term.



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Quarterly Forecasts

Forecasts as at 22 July 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded)

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (production s.a.)	-0.1	0.2	-0.2	0.3	0.6	0.7	0.7	0.8	0.8	0.8
Retail trade (real s.a.)	-1.8	0.5	-0.5	0.4	0.5	0.8	1.0	1.2	1.1	0.9
Current account (ytd, % GDP)	-6.9	-6.8	-6.9	-6.9	-6.5	-6.0	-5.7	-5.6	-5.4	-5.1
CPI (q/q)	0.5	0.6	0.4	1.1	0.5	0.5	0.4	0.9	0.1	0.5
Employment	0.4	-0.2	0.0	0.0	0.1	0.3	0.5	0.6	0.7	0.7
Unemployment rate %	4.0	4.3	4.6	4.9	5.3	5.5	5.5	5.5	5.4	5.3
Avg hourly earnings (ann %)	6.6	4.8	4.1	3.0	3.3	3.9	3.4	3.2	3.0	3.0
Trading partner GDP (ann %)	3.3	3.2	3.1	2.9	2.9	2.9	3.0	3.1	3.1	3.0
CPI (y/y)	4.7	4.0	3.3	2.6	2.6	2.4	2.5	2.3	1.9	1.9
GDP (production s.a., y/y))	-0.2	0.3	-0.4	0.2	0.9	1.4	2.3	2.8	3.0	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
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
Jun	5.50	5.62	4.50	4.65	4.98	4.47	4.50	5.60	4.30	0.35
Forecasts										
Sep	5.50	5.50	4.40	4.55	4.35	4.35	4.40	5.50	4.25	0.30
Dec	5.25	5.25	4.20	4.45	3.90	4.15	4.30	5.25	4.10	0.35
2025 Mar	5.00	4.75	4.00	4.40	3.55	3.95	4.25	4.75	4.00	0.40
Jun	4.50	4.25	3.85	4.35	3.25	3.80	4.20	4.50	3.90	0.45
Sep	4.00	3.75	3.80	4.30	3.10	3.75	4.15	4.25	3.80	0.50
Dec	3.50	3.50	3.75	4.25	3.05	3.70	4.10	4.00	3.75	0.50
2026 Mar	3.25	3.00	3.75	4.25	3.20	3.75	4.15	0.00	3.75	0.50

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY
Current	0.60	0.67	1.09	1.29	157
Sep-24	0.61	0.67	1.09	1.28	146
Dec-24	0.62	0.69	1.11	1.30	143
Mar-25	0.64	0.71	1.13	1.31	140
Jun-25	0.65	0.72	1.14	1.32	137
Sep-25	0.66	0.74	1.16	1.34	134
Dec-25	0.67	0.75	1.17	1.35	131
Mar-26	0.66	0.74	1.18	1.36	129
Jun-26	0.65	0.73	1.18	1.36	129
Sep-26	0.67	0.73	1.18	1.36	129

NZD Forecasts

	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.60	0.90	0.55	0.47	94.8	70.8
Sep-24	0.61	0.91	0.56	0.48	89.1	71.1
Dec-24	0.62	0.90	0.56	0.48	88.7	71.4
Mar-25	0.64	0.90	0.56	0.49	88.9	72.4
Jun-25	0.65	0.90	0.57	0.49	89.1	73.2
Sep-25	0.66	0.89	0.57	0.49	88.4	73.4
Dec-25	0.67	0.89	0.57	0.50	87.8	74.0
Mar-26	0.66	0.89	0.56	0.49	85.1	73.1
Jun-26	0.65	0.89	0.55	0.48	83.9	72.3
Sep-26	0.67	0.89	0.56	0.48	79.0	72.8
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 22 July 2024	March Years					December Years				
	Actuals					Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.9	1.4	2.6	7.4	3.3	0.6	1.5	2.1
Government Consumption	7.9	2.0	0.5	-3.3	0.4	7.8	4.9	-0.8	-2.2	-0.6
Total Investment	10.2	2.1	-1.7	-3.4	4.0	12.0	3.4	-0.9	-4.3	2.6
Stocks - ppts cont'n to growth	0.5	0.0	-1.5	1.3	0.1	1.4	-0.3	-1.4	0.7	0.5
GNE	7.9	2.5	-1.4	0.7	2.6	10.0	3.4	-1.5	0.2	2.2
Exports	2.5	6.0	6.4	2.8	5.0	-2.7	-0.2	9.8	3.2	4.8
Imports	17.3	4.4	-1.2	3.9	4.1	14.8	4.7	-0.5	3.4	3.8
Real Expenditure GDP	4.7	2.7	0.4	0.5	2.7	5.9	2.3	0.8	0.3	2.3
GDP (production)	**4.6**	**2.7**	**0.2**	**0.5**	**2.8**	**5.6**	**2.4**	**0.6**	**0.2**	**2.4**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.3*	*1.4*	*3.0*	*2.6*	*2.2*	*-0.2*	*0.9*	*3.0*
Output Gap (ann avg, % dev)	1.4	1.9	-0.3	-1.2	-0.5	1.6	2.0	0.2	-1.1	-0.7
Nominal Expenditure GDP - $bn	359	388	409	424	447	353	381	405	420	441
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.4	1.9	5.9	7.2	4.7	2.6	1.9
Employment	2.5	3.0	1.3	0.4	2.5	3.3	1.7	2.7	-0.1	2.1
Unemployment Rate %	3.2	3.4	4.3	5.5	5.3	3.2	3.4	4.0	5.3	5.4
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	-2.3	0.3	1.0	3.6	0.2	-2.3	-0.2	1.1
Unit Labour Costs (ann av %)	4.6	6.5	8.4	3.9	2.2	2.3	6.5	8.8	4.8	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	-27.6	-25.6	-22.6	-20.6	-33.4	-27.9	-27.5	-23.7
Current Account - % of GDP	-6.6	-8.2	-6.8	-6.0	-5.1	-5.8	-8.8	-6.9	-6.5	-5.4
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	71.4	74.0
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	5.00	3.25	0.75	4.25	5.50	5.25	3.50
90-day Bank Bill Rate	1.45	5.16	5.64	4.75	3.00	0.92	4.55	5.63	5.25	3.50
5-year Govt Bond	2.90	4.40	4.60	4.00	3.75	2.20	4.30	4.50	4.20	3.75
10-year Govt Bond	3.20	4.35	4.60	4.40	4.25	2.35	4.25	4.65	4.45	4.25
2-year Swap	3.00	5.15	4.91	3.55	3.20	2.22	5.21	4.93	3.90	3.05
5-year Swap	3.20	4.50	4.40	3.95	3.75	2.56	4.62	4.43	4.15	3.70
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	0.40	0.50	0.90	0.65	0.65	0.35	0.50

(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 23 July			
US	Chicago Fed Nat Activity Index Jun	-0.09		0.18
CH	Bloomberg July China Economic Survey			
EC	ECB's Lane speaks			
	Wednesday 24 July			
US	Philadelphia Fed Non-Manufacturing Activity Jul			2.9
EC	Consumer Confidence Jul P	-13.5		-14
US	Richmond Fed Manufact. Index Jul	-7		-10
US	Richmond Fed Business Conditions Jul			-11
US	Existing Home Sales Jun	3.99m		4.11m
AU	Judo Bank Australia PMI Mfg Jul P			47.2
AU	Judo Bank Australia PMI Services Jul P			51.2
NZ	New residential lending y/y Jun			17.9%
GE	GfK Consumer Confidence Aug	-21		-21.8
EC	ECB's Guindos Chairs Session			
GE	HCOB Germany Services PMI Jul P	53.3		53.1
EC	HCOB EZ Manufacturing PMI Jul P	46.1		45.8
EC	HCOB Eurozone Services PMI Jul P	53		52.8
UK	S&P Global UK Manufacturing PMI Jul P	51.1		50.9
UK	S&P Global UK Services PMI Jul P	52.5		52.1
	Thursday 25 July			
EC	ECB's Lane speaks			
CA	Bank of Canada Rate Decision Jul-24	4.50%		4.75%
US	S&P Global US Manufacturing PMI Jul P	51.7		51.6
US	S&P Global US Services PMI Jul P	54.8		55.3
US	New Home Sales Jun	640k		619k

		Median	Fcast	Last
	Thursday(continued)			
US	Fed's Bowman, Logan speak			
GE	IFO Expectations Jul	89		89
UK	CBI Trends Total Orders Jul	-20		-18
UK	CBI Trends Selling Prices Jul	20		20
EC	ECB's Nagel speaks			
	Friday 26 July			
US	GDP Annualized QoQ 2Q A	1.90%		1.40%
US	Initial Jobless Claims Jul-20	238k		243k
US	Continuing Claims Jul-13	1861k		1867k
US	Durable Goods Orders Jun P	0.50%		0.10%
EC	ECB's Lagarde speaks			
NZ	ANZ Consumer Confidence Index Jul			83.2
EC	ECB 1 Year CPI Expectations Jun			2.80%
EC	ECB 3 Year CPI Expectations Jun			2.30%
	Saturday 27 July			
US	Personal Income Jun	0.40%		0.50%
US	Personal Spending Jun	0.30%		0.20%
US	Real Personal Spending Jun	0.30%		0.30%
US	PCE Price Index MoM Jun	0.00%		0.00%
US	PCE Price Index YoY Jun	2.40%		2.60%
US	Core PCE Price Index MoM Jun	0.10%		0.10%
US	Core PCE Price Index YoY Jun	2.50%		2.60%
US	U. of Mich. Sentiment Jul F	66.4		66
US	Kansas City Fed Services Activity Jul			2
CH	Industrial Profits YoY Jun			0.70%

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	5.61	5.60	5.61
2mth	5.57	5.59	5.61	5.63
3mth	5.54	5.56	5.62	5.66
6mth	5.37	5.39	5.58	5.77
GOVERNMENT STOCK				
05/26	4.40	4.47	4.78	4.96
04/29	4.07	4.17	4.43	4.67
05/31	4.20	4.29	4.47	4.60
05/34	4.37	4.45	4.59	4.63
04/37	4.54	4.62	4.76	4.75
05/41	4.70	4.78	4.90	4.83
05/51	4.74	4.82	4.91	4.77
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	51	49	53	65
Europe 5Y	54	51	60	70

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	4.34	4.44	4.92	5.48
3 years	4.08	4.18	4.62	5.13
4 years	3.99	4.09	4.47	4.88
5 years	3.97	4.06	4.39	4.73
10 years	4.15	4.23	4.41	4.55
FOREIGN EXCHANGE				
NZD/USD	0.6013	0.6075	0.6125	0.6205
NZD/AUD	0.8990	0.8987	0.9201	0.9205
NZD/JPY	94.66	96.02	97.76	87.77
NZD/EUR	0.5524	0.5576	0.5706	0.5608
NZD/GBP	0.4656	0.4685	0.4828	0.4836
NZD/CAD	0.8252	0.8312	0.8364	0.8170
TWI	70.8	71.5	72.4	71.4

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