Research

# Markets Outlook

23 September 2024

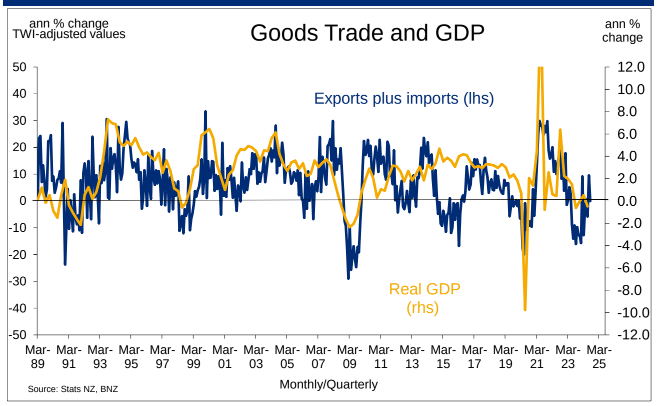
# Trade Subdued

- **Weak trade figures indicative of economy**
- **Annual trade deficit continues to narrow, just**
- **Energy sector issues appearing**
- **Primary export volumes weaker; kiwifruit an exception**
- **Dairy season ahead looks strong**

Limited data this week, but it is already out of the blocks with this morning's August merchandise trade figures. In the month, exports were broadly flat (-0.1% y/y) while imports eased -1.0% y/y.

The mildly negative sum of exports and imports is indicative of a still struggling economy. Last week's GDP figures reveal a contraction in overall activity in Q2. There is nothing in today's trade figures to suggest anything different in Q3.

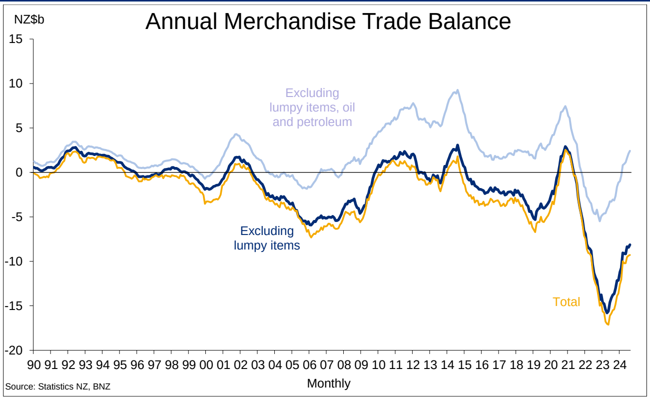
## Subdued




Exports and imports resulted in a monthly trade deficit of $2,203m. That saw the annual trade deficit continue to narrow, shrinking to $9,288m in the year to August. This wasn't much different to the previous month, but the deficit is approaching half of its recent peak of $17,134m in the year to May 2023. Merchandise trade flows remain a narrowing influence on the wider current account deficit. We expect this to remain the case over the year ahead.

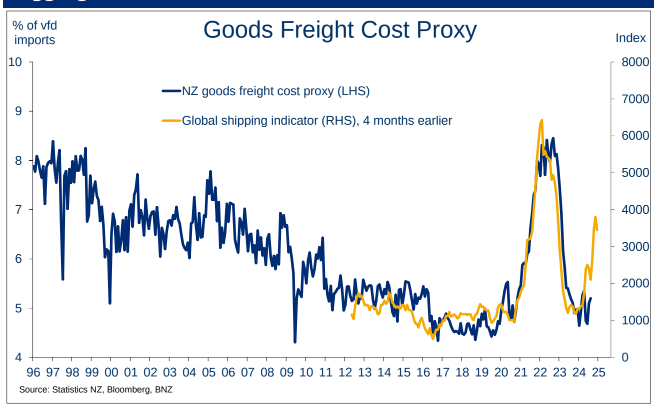
Aircraft boosted import values in August (and will continue to do so as the Defence Force's new Hercules arrive over coming months). Excluding lumpy items like aircraft and volatile petroleum products, imports were down 5.2% y/y reflecting still weak domestic demand. The annual trade surplus excluding those items lifted to $2.4b.

## Trends intact




Interestingly, a proxy for freight costs derived from NZ import figures hasn't lifted to any great extent through to August. This is despite prior strong increases in many global shipping cost indicators. Perhaps this reflects changes in insurance costs offsetting changes in freight costs or maybe it is just the lag is a little longer this time around. Either way this is worth keeping an eye on.

## Lagging?



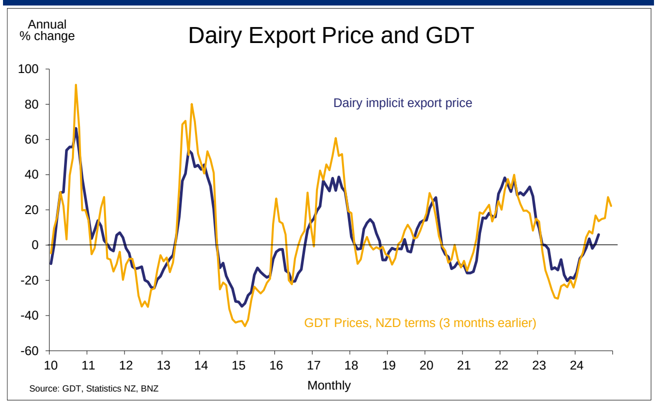

Broadly flat exports reflected many moving parts. Strong support from higher primary product prices was offset by other factors including signs of the winter energy issues hitting exports. For example, aluminium exports were down 33.6% y/y in August. Energy-intensive export-focused industries curbed production when wholesale electricity prices spiked.

While primary product prices were higher than a year ago, volumes were generally down, albeit with some exceptions. Core dairy volumes were down 12% y/y, meat volumes slumped 27% and log exports fell 6%. On the flipside, kiwifruit volumes were up 49% y/y as the selling of the season's larger harvest continues driving export values for that sector to a record high.

The generally lower primary export volumes in August fits with our thinking that goods exports (and GDP) will contract again in Q3. Lower meat volumes fit with significantly lower slaughter numbers of late, while lower log volumes align with various market pressures. In contrast, the decline in dairy volumes looks like monthly noise.

Sticking with dairy, improving prospects for the current season will be export supportive. August's implicit dairy export price was up 6.0% y/y in today's data. And last week's GDT auction was another solid one, with prices edging forward on the day to be 26.1% higher than a year ago. That annual pace will likely slow from about now, but the gains to date have yet to fully show up in export receipts given GDT prices tend to lead export prices.

### Dairy export prices have further to lift

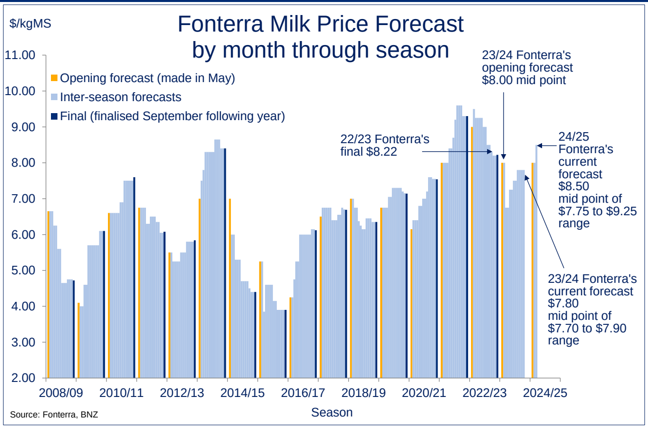



Dairy prices are at healthy levels. And the longer that remains the case, the more chance there is that milk prices paid to farmers will be strong.

Fonterra's (and our) milk price forecast for the 2024/25 season is currently $8.50. On our calculations, if current dairy prices and currency levels were to persist for the remainder of the season, something around $9.00 is possible. So, if various global risks do not derail current firm market conditions a milk price higher than either we or Fonterra currently forecast seems likely.

As things stand, this season's milk price is shaping up to be well north of last season. The prior season's milk price is expected to be finalised at Fonterra's annual results on Wednesday and should be around the current $7.80 midpoint forecast, perhaps a few cents more. The co-op's results announcement also provides it an opportunity to update its view on its 2024/25 $8.50 forecast. If there is any change, it is more likely to be up than down.

### Milk price by season




Encouragingly, dairy prices are solid even as NZ's milking season ramps up into spring – and it has been a very strong start to date. DCANZ figures released last Friday showed NZ milk production in August was up 10.0% on a year ago. That annual growth won't be sustained into the seasonal peak (usually October) but it confirms a flying start and sets up stronger exports ahead.

Firm pricing and more milk is a great mix for dairy sector revenue and export values ahead. Costs are elevated relative to history, but inflation has flattened. With Dairy NZ's current average breakeven estimate at $8.09, prospects for this season's dairy profitability are becoming increasingly positive. And combined with interest rates easing, it is not difficult to understand why farmer confidence has improved.

For all the positivity, dairy prices are a touch elevated relative to the likes of international grain prices (and oil) which usually elicits a milk supply response offshore. That might temper prices in time, but there has been no sign of that to date. We will get an update of wholemilk and skimmilk powder pricing this week via the GDT pulse auction early Wednesday morning.

On Friday, we get RM-ANZ consumer confidence for September. One would think it would be like last week's WMM quarter measure, although perhaps a touch stronger if the recent trend continues. Confidence is well off its lows but still net negative implying that it must lift a long way yet to be consistent with any increase in household spending. Also of some interest in the RM-ANZ survey will be its inflation expectations series which we think will consolidate in its pre-covid range.

Lower inflation and interest rates are supportive of confidence, but a deteriorating labour market is not. There was more evidence of the latter in this morning's SEEK Job ads, which eased 1.3% in August to be down 30.7% y/y.

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# Global Watch

- **FOMC joins the global easing cycle**
- **Fed speakers and US PCE data in focus**
- **RBA decision, no change expected**
- **Global PMIs to show activity pulse for September**

## Week in Review

The FOMC on Wednesday delivered a 50bp cut. Market pricing had moved in that direction early in the week, and combined with an updated dot plot and press conference that emphasised 50bp per meeting is not the baseline going forward there was limited market reaction. The median dot showed two more 25bp cuts this year - just 7 participants saw just one, and 2 saw none at all.

Further out, the median participant now sees a policy rate of 3.375 at the end of 2025 (from 4.125), and 2.875 (from 3.125) at the end of 2026. The 2027 and long run dots are in line with the 2026 outcome.

In relation to the 50bps rate cut, Powell said "*I do not think that anyone should look at this and say oh, this is the new pace"* The larger cut was not a reaction to a sharp deterioration in the economy, but a 'recalibration'. He said that "*the time to support the labor market is when it's strong, and not when we begin to see the layoffs."* The outcome of the September meeting is consistent with NAB's view for 100bp of cuts in total by year end.

In Australia, the unemployment rate fell a tenth but remained at 4.2% rounded to one decimal place on another month of strong employment growth. The RBA's assessment that the labour market is still a little tighter than is consistent with full employment and cooling only gradually remains intact.

The BoE left rates on hold at 5% as expected, and nodded to a second rate cut in this cycle when it meets in November and releases a new set of forecasts. The Bank of Japan also left rates unchanged and signalled it is in no hurry to proceed with further tightening.

## Week Ahead

The RBA meeting on Tuesday is likely to come and go with little shift in messaging from Bullock in the post meeting press conference. NAB and the universal consensus is for policy to be left on hold at 4.35%. Bullock will be pressed to justify the distinction between the US FOMC and the RBA, but the clear message is likely to remain that 1) the RBA has not yet seen enough progress on inflation, 2) activity remains a little stronger and the labour market a little tighter than they consider sustainable, and 3) the level of the policy rate is less restrictive than many offshore peers where central banks have begun to cut.

On the data side, Australia's Monthly CPI Indicator on Wednesday is expected to fall to 2.7% from 3.5%, driven by electricity subsidies and fuel base effects. Job vacancies data on Thursday is the other data of note for the week.

The US data calendar ramps up to the personal spending and income data on Friday, where core PCE is expected to show another 0.2% m/m rise that keeps the focus on labour market developments. Elsewhere in the week, flash PMIs are on Monday, consumer confidence data is out from the Conference Board (Wednesday) and University of Michigan (Friday), the third estimate of GDP is Thursday alongside preliminary August durable goods orders and another week of jobless claims data. Focus will be on Fed speakers for how they are thinking about the path forward, with scheduled appearances including remarks from Bostic (Monday) and Williams (Thursday).

A quiet week for Europe and the UK on the data front. Preliminary S&P manufacturing and services PMI activity for the EZ, US and UK are released on Monday. On Friday, preliminary HICP inflation for France and Spain will be keenly watched as a precursor to broader EZ inflation for September due 1 October.

In Japan, Tokyo CPI is Friday, as is the Leadership contest for Japan's ruling LDP, following which there is a high chance the victor calls snap Lower House elections to take place in October or early November. The outcome has implications for Bank of Japan policy and the Yen, since the three frontrunners span a distinct 'hawk-middle of the road-dovish' spectrum in their views on how fiscal and monetary policy should proceed.

## Important Events Preview

**Monday 23**

**EZ/UK/US September Preliminary PMIs**
In Europe, the picture has seen reasonable service sector activity (with an August reading of 52.9) set against a flatlining and recessionary manufacturing sector (45.8). Little pick up is expected in the latter, with Germany in particular in peril. However, if French services activity drops back after the August Olympics boost, the aggregate reading for the EZ will look less resilient.

In the US, this measure of services activity has been strong at 55.7 and accelerating. However, the alternative ISM measure is running at a less robust 51.5. US manufacturing on the other hand is universally viewed as contracting, with the PMI at 47.9.

In the UK both manufacturing and services are running close to 53; a combination that betters its peers. The recent slowdown in UK GDP – while a lagging indicator – does suggest the risks are to the downside.

**Tuesday 24**

**AU RBA September Meeting**
NAB and the universal consensus see rates left on hold at 4.35%.

Governor Bullock in August pushed back against market pricing saying, "*a near-term reduction in the cash rate doesn't align with the board's current thinking.*" Since the meeting, Q2 GDP was broadly in line with the RBA's thinking and labour market data has showed ongoing robust employment growth. NAB expect similar messaging as at the August meeting.

That said, the RBA board has explicitly considered the case for a hike at the past few meetings. That may well be retained while market pricing is misaligned with the RBA's assessment of the path of policy that returns inflation to target. NAB think the balance of risks in the outlook means the RBA will not be seriously considering a hike. NAB continues to expect the first cut in May, though note the risk skews earlier in 2025.

**Wednesday 25**

**AU August CPI Indicator**
NAB forecast the headline August CPI indicator rose 2.7% y/y, down from 3.5% and in line with the consensus.

Electricity subsidies and fuel base effects drive the lower print, with gradual but ongoing progress expected across other parts of the basket including market services.

Year-ended measures are likely to overstate the sequential progress. NAB expect the detail to be consistent with NAB's Q3 trimmed mean expectation of 0.8% q/q, which would see the year-ended rate fall to 3.5% from 3.9% y/y in Q2, in line with the RBA's forecast.

**Thursday 26**

**AU August Job Vacancies**
RBA's Hunter recently cited elevated job vacancies as a key part of the RBA's assessment that the labour market is still tighter than is consistent with full employment. Data for August is expected to show continued fallback in the still elevated vacancy rate.

**AU Financial Stability Review**
Not particularly market sensitive but will contain an update of some of the more comprehensive measures of cash flow dynamics for households with a mortgage and the evolution of mortgage stresses.

**Friday 27**

**EZ France & Spain Preliminary CPI**

Preliminary September HICP inflation for France and Spain comes ahead of the key EZ data due 1 October. In the latter, NAB expect headline EZ HICP to drop from 2.2% to below 2%. This will be temporary but may spark financial market speculation of faster ECB rate cuts; especially in light of the Fed's 50bps move.

**US PCE & UMich Sentiment**
The core PCE deflator is expected to rise 0.2% m/m, benign enough to keep the focus on the labour market. The spending and earnings data of the release will also be in focus for a broader update of consumption with the FOMC having cut into a growth backdrop that looks to have started Q3 on a healthy footing. The downgraded 2024 dot for core PCE inflation implies monthly outcomes of around 0.15% for the remainder of the year.

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# Fixed Interest Market

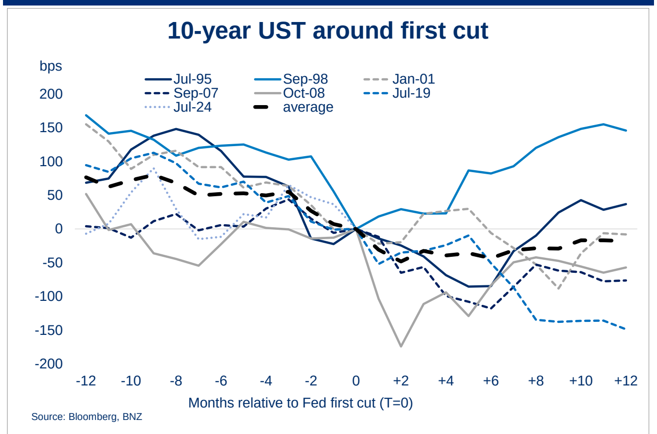
**Reuters: BNZL, BNZM Bloomberg:BNZ**

The rally across NZ fixed income paused last week. Yields at the front end were little changed, while the curve continued to steepen as longer end yields tracked higher, reflecting moves in global markets. The stronger than expected GDP print for the June quarter did little to alter expectations for RBNZ easing - overnight index swaps (OIS) are pricing close to 125bps of easing by the February Monetary Policy Statement - which is aggressive relative to our baseline forecast for 25bps cuts at each of the next three policy meetings.

10-year US treasury (UST) yields moved higher following the Federal Reserve's 50bps rate cut. A breakdown of nominal yields reveals that breakeven inflation, rather than real rates, almost entirely accounted for rise in the 10-year UST yields after the announcement. This likely reflects the increased chance of a pickup in inflation, given a larger than expected cut, into a seemingly resilient economy. US retail sales data for August suggests robust consumption in Q3.

In updated projections, the median FOMC member forecast 50bps of rate cuts by the end of the year and a further 100bps in 2025. The downward revisions to the Fed Funds forecasts, still fall short of the magnitude of cuts, embedded in the OIS curve. The central bank judges the risks to achieving its employment and inflation goals are roughly in balance and it will consider 'additional adjustments to rates' based on incoming data, the evolving outlook and the balance of risks.

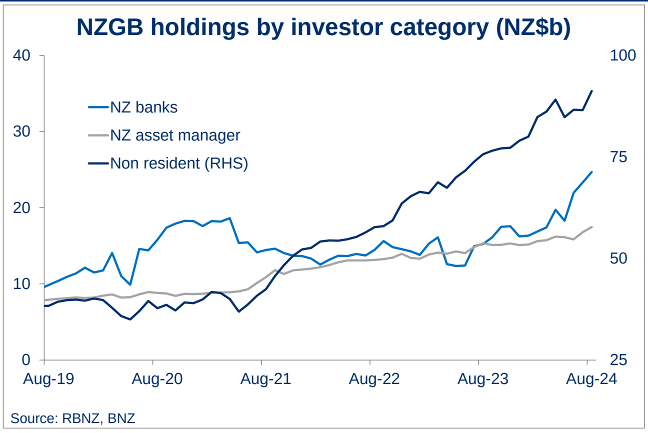
Behaviour of 10y UST around the first rate cut




Fed policy makers also lifted forecasts where they see rates settling over the long term to 2.9% from 2.8% in June. In easing cycles since 1990, 10-year UST yields have typically declined after the first rate cut and stabilised soon after. The brief easing cycle in 1998 was the exception. We expect further modest declines in 10-year UST yields, but the downside is constrained by the amount of easing that is already priced. The 2y/10y UST curve was the flattest ahead of last week's cut compared to the start of any of the easing cycles since 1990.

New Zealand government bonds (NZGB) largely matched the move higher in treasuries with the 10-year NZGB-UST spread remaining stable near 45bps. We continue to think 10-year NZGB spreads against the US and Australia look elevated, conditional on the historic relationship with market pricing, for the respective path of central bank policy rates.

NZGB holdings increasing across all investor categories




NZGBs have continued to underperform against interest rates swaps, with asset swap spreads (ASW) reaching fresh highs for the cycle across the yield curve. Although supply has been a contributing factor, we note there has been broad-based appetite for NZGBs from key investor categories. Non-resident investors, domestic banks and NZ asset managers all increased holdings of government bonds to record levels in August, after the May 2036 syndication. We continue to look for a compression in ASW spreads from historically wide levels.

Current rates and 1-month range

| | Current | Last 4-weeks range* |
|---|---|---|
| NZ 90d bank bills (%) | 4.99 | 4.99 - 5.24 |
| NZ 2yr swap (%) | 3.65 | 3.60 - 3.98 |
| NZ 5yr swap (%) | 3.55 | 3.46 - 3.79 |
| NZ 10yr swap (%) | 3.85 | 3.75 - 4.06 |
| 2s10s swap curve (bps) | 20 | 8 - 20 |
| NZ 10yr swap-govt (bps) | -32 | -34 - -26 |
| NZ 10yr govt (%) | 4.17 | 4.09 - 4.30 |
| US 10yr govt (%) | 3.74 | 3.60 - 3.93 |
| NZ-US 10yr (bps) | 43 | 35 - 52 |
| NZ-AU 2yr swap (bps) | 1 | 0 - 20 |
| NZ-AU 10yr govt (bps) | 25 | 25 - 33 |

*Indicative range over last 4 weeks

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# Foreign Exchange Market

**Reuters pg BNZWFWDS Bloomberg pg BNZ9**

Last week, NZD/USD rose 1.3% to around 0.6235, supported by higher risk appetite after the Fed opted for a 50bps rather than 25bps rate cut. NZD crosses were mixed. Safe-haven currencies under-performed, with yen weakness exacerbated by a dovish BoJ policy update. NZD/JPY rose 3½% to 89.75. The NZD showed small falls against the AUD and GBP but rose ½% against EUR and over 1% against the CAD.

After all the speculation over the past few weeks, the Fed voted to kick off the easing cycle with a 50bps rate cut. Chair Powell noted that the Fed is not on any preset course and that it will continue making decisions meeting by meeting, adding that no one should look at the 50bps cut and say this is a new pace. The new projections show the median member expects 50bps over the remaining two meetings this year, a further 100bps next year, and a terminal rate of 2.9%.

Markets embraced Powell's message that the 50bps cut was from a position of strength, not weakness, as the Fed attempts to engineer a soft-landing for the economy. Powell's performance in selling the message was a masterstroke, with the market not worried that an initial 50bps cut signalled economic concerns.

Risk appetite rose after the jumbo rate cut, supporting the NZD. Some NZD resistance was met just under 0.6270 and the late-August high of 0.6299 wasn't really threatened and therefore remains a key resistance level. Ahead of the meeting we had some concern that a 50bps cut could be interpreted negatively by the market, but the larger move looked to reflect some make-up for the on-hold decision in July and didn't signal larger rate cuts ahead. The Fed will remain data dependent. With that key risk event out of the way, the US Presidential election in early November remains a key risk that could upend our projections for a clear path towards further NZD appreciation. Our current projections, embody a 0.60-0.64 trading range through the last quarter of the year.

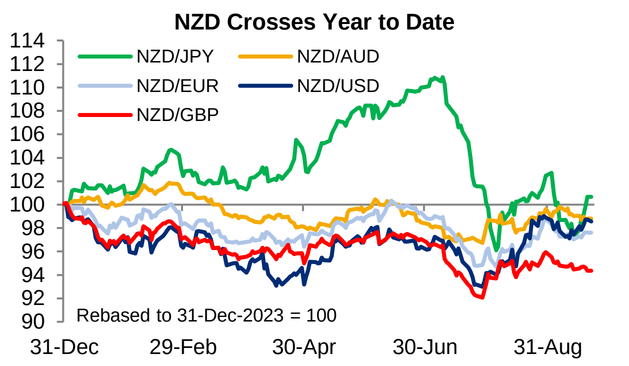
The BoJ left policy on hold, as universally expected, but Governor Ueda showed no urgency to tighten policy further, with the yen weakening after he said that upside risks from the yen's weakness were easing. The BoJ is widely expected to keep policy on hold again in October, with December seen to be the earliest date for the next rate hike. NZD/JPY remains volatile, driven by the yen leg, with the cross rate remaining close to our year-end target level just under 89, which has been unrevised since April.

NZD/AUD nudged lower after strong Australian employment data gave no reason for the RBA to be cutting rates soon. We continue to like playing the cross rate from the short side, in anticipation of further weakness.

In the week ahead, the key US data comes at the end of the week, with consumer spending data for August alongside the PCE deflator. The core measure is expected to be 0.2% m/m, with more chance of a downside than upside miss, and with the annual figure ticking up to 2.7% y/y. We see labour market data, rather than inflation data, as more important regarding the pace of Fed easing from here. Also this week, there will be an array of Fed speakers, giving their own views on the state of the economy and monetary policy.

In Australia, the RBA policy update should pass uneventfully, with policy on hold and the central bank not inclined to cut or lift the cash rate anytime soon. This comes ahead of the next monthly CPI print on Wednesday. Elsewhere, it is an uneventful week, with global PMI data released tonight across Europe and the US.

**NZD within 2½% from beg-2024 levels except vs. GBP**



Source: BNZ, Bloomberg

**Cross Rates and Model Estimates**

| | Current | Last 3-weeks range* |
|---|---|---|
| NZD/USD | 0.6236 | 0.6110 - 0.6270 |
| NZD/AUD | 0.9168 | 0.9140 - 0.9270 |
| NZD/GBP | 0.4681 | 0.4680 - 0.4770 |
| NZD/EUR | 0.5588 | 0.5550 - 0.5660 |
| NZD/JPY | 89.75 | 86.30 - 91.70 |

*Indicative range over last 3 weeks, rounded figures

**BNZ Short-term Fair Value Models**

| | Model Est. | Actual/FV |
|---|---|---|
| NZD/USD | 0.6820 | -9% |
| NZD/AUD | 0.8660 | 6% |

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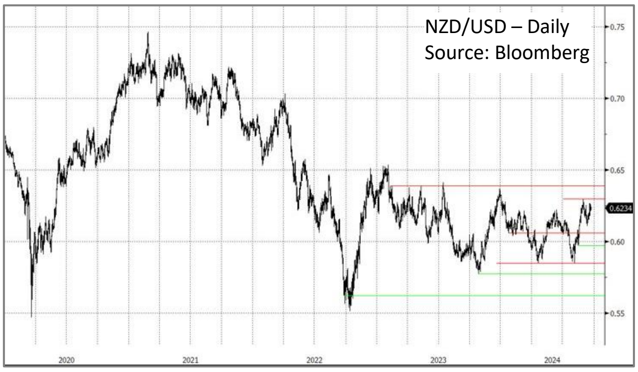
# Technicals

**NZD/USD**

Outlook: Trading range
ST Resistance: 0.6300 (ahead of 0.6390)
ST Support: 0.6060 (ahead of 0.5975)

No change, with resistance remaining at the late-August high just under 0.63. We see some support around 0.6060, ahead of 0.5975.




**NZD/AUD**

Outlook: Trading range
ST Resistance: 0.9315 (ahead of 0.9470)
ST Support: 0.9050 (ahead of 0.8970)

No change, with resistance remaining around 0.9315 and support remaining around 0.9050.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**NZ 5-year Swap Rate**

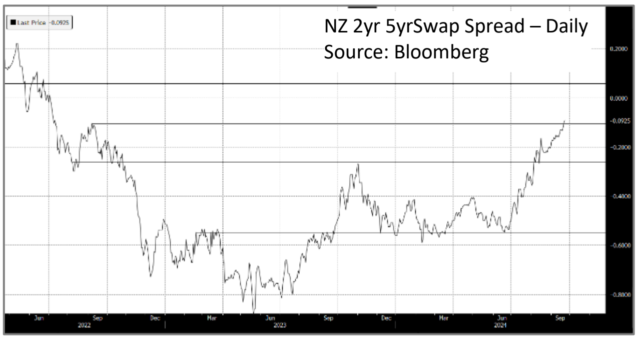
Outlook: Lower
MT Resistance: 4.06
MT Support: 3.48

Strong momentum has driven the 5y to approach medium term support, consolidation looks to have set in for the near term before a break lower.


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

Outlook: Steeper
MT Resistance: -0.10
MT Support -0.28

Strong steepening momentum remains, a break of -10 bps sees +5 the next level to test.

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# Quarterly Forecasts

**Forecasts as at 23 September 2024**

## Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts

| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 |
|---|---|---|---|---|---|---|---|---|---|---|
| **GDP (production s.a.)** | 0.0 | 0.1 | -0.2 | -0.4 | 0.2 | 0.7 | 1.0 | 0.8 | 0.7 | 0.7 |
| **Retail trade (real s.a.)** | -1.8 | 0.4 | -1.2 | 0.0 | 0.5 | 0.8 | 1.0 | 1.2 | 1.1 | 0.9 |
| **Current account (ytd, % GDP)** | -7.0 | -6.8 | -6.7 | -6.7 | -6.5 | -6.2 | -5.8 | -5.5 | -5.2 | -4.9 |
| **CPI (q/q)** | 0.5 | 0.6 | 0.4 | 0.7 | 0.4 | 0.5 | 0.5 | 0.6 | 0.1 | 0.6 |
| **Employment** | 0.5 | -0.3 | 0.4 | -0.4 | -0.2 | 0.2 | 0.5 | 0.6 | 0.7 | 0.7 |
| **Unemployment rate %** | 4.0 | 4.4 | 4.6 | 5.0 | 5.4 | 5.5 | 5.6 | 5.6 | 5.5 | 5.4 |
| **Avg hourly earnings (ann %)** | 6.6 | 4.8 | 4.0 | 2.9 | 3.1 | 3.7 | 3.4 | 3.2 | 3.0 | 3.0 |
| **Trading partner GDP (ann %)** | 3.2 | 3.2 | 3.0 | 2.9 | 2.9 | 2.8 | 3.0 | 3.0 | 3.1 | 3.0 |
| **CPI (y/y)** | 4.7 | 4.0 | 3.3 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | 1.7 | 1.9 |
| **GDP (production s.a., y/y))** | 0.0 | 0.5 | -0.5 | -0.5 | -0.3 | 0.3 | 1.5 | 2.7 | 3.3 | 3.3 |

## Interest Rates

| Historical data - qtr average<br>Forecast data - end quarter | Cash | Government Stock<br>90 Day Bank Bills | <br>5 Year | <br>10 Year | Swaps<br>2 Year | <br>5 Year | <br>10 Year | US Rates<br>Libor 3 month | <br>US 10 yr | Spread<br>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** | 5.25 | 5.00 | 4.10 | 4.40 | 3.85 | 3.95 | 4.15 | 5.30 | 4.10 | 0.30 |
| **Dec** | 4.75 | 4.75 | 4.05 | 4.40 | 3.50 | 3.90 | 4.15 | 5.05 | 4.10 | 0.30 |
| **2025 Mar** | 4.50 | 4.25 | 3.85 | 4.35 | 3.20 | 3.75 | 4.15 | 4.55 | 4.00 | 0.35 |
| **Jun** | 4.00 | 3.75 | 3.75 | 4.30 | 3.05 | 3.70 | 4.15 | 4.30 | 3.90 | 0.40 |
| **Sep** | 3.50 | 3.25 | 3.70 | 4.25 | 2.95 | 3.65 | 4.10 | 4.05 | 3.80 | 0.45 |
| **Dec** | 3.00 | 3.00 | 3.75 | 4.25 | 3.05 | 3.70 | 4.10 | 3.80 | 3.75 | 0.50 |
| **2026 Mar** | 2.75 | 2.90 | 3.80 | 4.25 | 3.30 | 3.80 | 4.15 | 3.55 | 3.75 | 0.50 |

## 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 | 0.67 | 1.10 | 1.30 | 142 | 0.61 | 0.92 | 0.56 | 0.47 | 87.3 | 70.7 |
| **Sep-24** | 0.61 | 0.67 | 1.09 | 1.28 | 146 | 0.61 | 0.91 | 0.56 | 0.48 | 89.1 | 70.6 |
| **Dec-24** | 0.62 | 0.69 | 1.11 | 1.30 | 143 | 0.62 | 0.90 | 0.56 | 0.48 | 88.7 | 70.9 |
| **Mar-25** | 0.64 | 0.71 | 1.13 | 1.31 | 140 | 0.64 | 0.90 | 0.56 | 0.49 | 88.9 | 71.9 |
| **Jun-25** | 0.65 | 0.72 | 1.14 | 1.32 | 137 | 0.65 | 0.90 | 0.57 | 0.49 | 89.1 | 72.8 |
| **Sep-25** | 0.66 | 0.74 | 1.16 | 1.34 | 134 | 0.66 | 0.89 | 0.57 | 0.49 | 88.4 | 73.0 |
| **Dec-25** | 0.67 | 0.75 | 1.17 | 1.35 | 131 | 0.67 | 0.89 | 0.57 | 0.50 | 87.8 | 73.5 |
| **Mar-26** | 0.66 | 0.74 | 1.18 | 1.36 | 129 | 0.66 | 0.89 | 0.56 | 0.49 | 85.1 | 72.5 |
| **Jun-26** | 0.65 | 0.73 | 1.18 | 1.36 | 129 | 0.65 | 0.89 | 0.55 | 0.48 | 83.9 | 71.7 |
| **Sep-26** | 0.66 | 0.74 | 1.20 | 1.37 | 125 | 0.66 | 0.89 | 0.55 | 0.48 | 82.5 | 72.1 |
| | | | | | | **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 23 September 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 | 0.6 | 1.0 | 2.5 | 7.4 | 3.4 | 0.4 | 0.8 | 2.2 |
| Government Consumption | 7.9 | 2.1 | -0.3 | -1.0 | -0.8 | 7.8 | 5.0 | -1.4 | -0.3 | -1.4 |
| Total Investment | 10.2 | 2.1 | -2.0 | -1.7 | 3.3 | 12.0 | 3.4 | -1.2 | -2.8 | 2.2 |
| Stocks - ppts cont'n to growth | 0.5 | 0.0 | -1.4 | 0.7 | 0.6 | 1.4 | -0.3 | -1.3 | 0.3 | 0.8 |
| GNE | 7.9 | 2.5 | -1.7 | 0.6 | 2.7 | 10.0 | 3.5 | -1.8 | 0.1 | 2.2 |
| Exports | 2.5 | 5.6 | 8.6 | 1.8 | 5.3 | -2.7 | -0.8 | 11.4 | 3.6 | 4.3 |
| Imports | 17.2 | 4.4 | -1.3 | 2.6 | 4.6 | 14.8 | 4.7 | -0.6 | 2.3 | 4.1 |
| Real Expenditure GDP | 4.7 | 2.6 | 0.7 | 0.3 | 2.7 | 5.9 | 2.2 | 0.9 | 0.5 | 2.1 |
| **GDP (production)** | **4.6** | **2.7** | **0.3** | **-0.2** | **2.7** | **5.6** | **2.4** | **0.7** | **-0.2** | **2.0** |
| *GDP - annual % change (q/q)* | *0.6* | *2.0* | *0.5* | *0.3* | *3.3* | *2.6* | *2.2* | *0.0* | *-0.3* | *3.3* |
| | | | | | | | | | | |
| Output Gap (ann avg, % dev) | 1.4 | 2.0 | -0.1 | -1.3 | -0.6 | 1.6 | 2.1 | 0.4 | -1.1 | -0.8 |
| Nominal Expenditure GDP - $bn | 358 | 388 | 410 | 427 | 451 | 353 | 381 | 405 | 422 | 445 |
| | | | | | | | | | | |
| ***Prices and Employment*** - annual % change | | | | | | | | | | |
| CPI | 6.9 | 6.7 | 4.0 | 2.0 | 1.9 | 5.9 | 7.2 | 4.7 | 2.1 | 1.7 |
| Employment | 2.5 | 3.1 | 1.3 | 0.0 | 2.5 | 3.3 | 1.7 | 2.9 | -0.5 | 2.0 |
| Unemployment Rate % | 3.2 | 3.4 | 4.4 | 5.5 | 5.4 | 3.2 | 3.4 | 4.0 | 5.4 | 5.5 |
| Wages - ahote (private sector) | 5.3 | 8.2 | 4.8 | 3.7 | 3.0 | 4.1 | 8.1 | 6.6 | 3.1 | 3.0 |
| Productivity (ann av %) | 1.7 | 0.5 | -2.4 | 0.0 | 1.4 | 3.6 | 0.2 | -2.4 | -0.5 | 1.5 |
| Unit Labour Costs (ann av %) | 4.6 | 6.5 | 8.5 | 4.2 | 1.7 | 2.4 | 6.5 | 9.0 | 5.1 | 1.9 |
| House Prices (stratified, qtr) | 9.1 | -12.8 | 2.7 | -0.7 | 7.0 | 22.5 | -13.8 | 0.6 | -1.5 | 6.5 |
| | | | | | | | | | | |
| ***External Balance*** | | | | | | | | | | |
| Current Account - $bn | -24.5 | -33.8 | -27.6 | -26.0 | -21.8 | -21.3 | -35.6 | -28.6 | -27.3 | -22.8 |
| Current Account - % of GDP | -6.8 | -8.7 | -6.8 | -6.2 | -4.9 | -6.0 | -9.4 | -7.0 | -6.5 | -5.2 |
| | | | | | | | | | | |
| ***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 | 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 | 71.9 | 72.5 | 73.0 | 72.9 | 72.0 | 70.9 | 73.5 |
| Overnight Cash Rate (end qtr) | 1.00 | 4.75 | 5.50 | 4.50 | 2.75 | 0.75 | 4.25 | 5.50 | 4.75 | 3.00 |
| 90-day Bank Bill Rate | 1.45 | 5.16 | 5.64 | 4.25 | 2.90 | 0.92 | 4.55 | 5.63 | 4.75 | 3.00 |
| 5-year Govt Bond | 2.90 | 4.40 | 4.60 | 3.85 | 3.80 | 2.20 | 4.30 | 4.50 | 4.05 | 3.75 |
| 10-year Govt Bond | 3.20 | 4.35 | 4.60 | 4.35 | 4.25 | 2.35 | 4.25 | 4.65 | 4.40 | 4.25 |
| 2-year Swap | 3.00 | 5.15 | 4.91 | 3.20 | 3.30 | 2.22 | 5.21 | 4.93 | 3.50 | 3.05 |
| 5-year Swap | 3.20 | 4.50 | 4.40 | 3.75 | 3.80 | 2.56 | 4.62 | 4.43 | 3.90 | 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 | 0.35 | 0.50 | 0.90 | 0.65 | 0.65 | 0.30 | 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 |
|---|---|---|---|---|
| | **Monday 23 September** | | | |
| NZ | Trade Balance NZD Aug | | | -963m |
| AU | Judo Bank Australia PMI Mfg Sep P | | | 48.5 |
| AU | Judo Bank Australia PMI Services Sep P | | | 52.5 |
| EC | HCOB EZ Manufacturing PMI Sep P | 45.7 | | 45.8 |
| EC | HCOB Eurozone Services PMI Sep P | 52.3 | | 52.9 |
| UK | S&P Global UK Manufacturing PMI Sep P | 52.2 | | 52.5 |
| UK | S&P Global UK Services PMI Sep P | 53.5 | | 53.7 |
| | **Tuesday 24 September** | | | |
| US | Fed's Bostic, Goolsbee, and Kashkari Speak | | | |
| EC | ECB's Cipollone Speaks | | | |
| US | S&P Global US Manufacturing PMI Sep P | 48.6 | | 47.9 |
| US | S&P Global US Services PMI Sep P | 55.3 | | 55.7 |
| AU | RBA Cash Rate Target 1/09/2024 | 4.35% | 4.35% | 4.35% |
| GE | IFO Expectations Sep | 86.5 | | 86.8 |
| EC | ECB's Muller, Escrivá, and Nagel Speak | | | |
| | **Wednesday 25 September** | | | |
| US | Fed's Bowman Speaks | | | |
| US | Conf. Board Consumer Confidence Sep | 103 | | 103.3 |
| US | Richmond Fed Manufact. Index Sep | -12 | | -19 |
| NZ | Dairy GDT pulse WMP (reg CP2) | | | |
| NZ | Fonterra Full-year Results | | | |
| NZ | New residential lending YoY Aug | | | 33.1% |
| AU | CPI YoY Aug | 2.70% | 2.70% | 3.50% |
| AU | CPI Trimmed Mean YoY Aug | | | 3.80% |
| | **Thursday 26 September** | | | |
| US | New Home Sales Aug | 695k | | 739k |
| US | Fed's Kugler Speaks | | | |
| JN | BOJ Minutes of July Meeting | | | |
| AU | RBA-Financial Stability Review | | | |

| | | Median | Fcast | Last |
|---|---|---|---|---|
| AU | Job Vacancies QoQ Aug | | | -2.70% |
| SZ | SNB Policy Rate 1/09/2026 | 1.00% | | 1.25% |
| | **Friday 27 September** | | | |
| US | GDP Annualized QoQ 2Q T | 2.90% | | 3.00% |
| US | Durable Goods Orders Aug P | -2.70% | | 9.80% |
| US | Initial Jobless Claims Sep-21 | 225k | | 219k |
| US | Continuing Claims Sep-14 | | | 1829k |
| US | Fed's Powell, Williams, and Others Speak | | | |
| EC | ECB's Lagarde, Schnabel, and Guindos Speak | | | |
| US | Pending Home Sales MoM Aug | -0.80% | | -5.50% |
| NZ | ANZ Consumer Confidence Index Sep | | | 92.2 |
| JN | Tokyo CPI YoY Sep | 2.20% | | 2.60% |
| CH | Industrial Profits YoY Aug | | | 4.10% |
| FR | CPI EU Harmonized YoY Sep P | 1.90% | | 2.20% |
| SP | CPI EU Harmonized YoY Sep P | 1.80% | | 2.40% |
| EC | ECB's Rehn, Lane, Cipollone, and Nagel Speak | | | |
| EC | ECB 1 Year CPI Expectations Aug | 2.70% | | 2.80% |
| EC | ECB 3 Year CPI Expectations Aug | 2.30% | | 2.40% |
| EC | Consumer Confidence Sep F | | | -12.9 |
| EC | Economic Confidence Sep | 96.5 | | 96.6 |
| | **Saturday 28 September** | | | |
| US | Personal Income Aug | 0.40% | | 0.30% |
| US | Personal Spending Aug | 0.30% | | 0.50% |
| US | Real Personal Spending Aug | 0.10% | | 0.40% |
| US | PCE Price Index MoM Aug | 0.10% | | 0.20% |
| US | Core PCE Price Index MoM Aug | 0.20% | | 0.20% |
| US | U. of Mich. Sentiment Sep F | 69.3 | | 69 |
| US | Fed's Bowman Speaks | | | |
| | **Sunday 29 September** | | | |
| NZ | Daylight Savings Begins (+1hr to +13:00 GMT) | | | |

# Historical Data

| | Today | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **CASH AND BANK BILLS** | | | | |
| Call | 5.25 | 5.25 | 5.25 | 5.50 |
| 1mth | 5.23 | 5.28 | 5.36 | 5.62 |
| 2mth | 5.11 | 5.17 | 5.29 | 5.67 |
| 3mth | 4.99 | 5.05 | 5.22 | 5.72 |
| 6mth | 4.74 | 4.80 | 4.95 | 5.79 |
| **GOVERNMENT STOCK** | | | | |
| 05/26 | 3.87 | 3.82 | 3.99 | 5.39 |
| 04/29 | 3.72 | 3.65 | 3.78 | 5.13 |
| 05/31 | 3.95 | 3.86 | 3.97 | 5.13 |
| 05/34 | 4.18 | 4.07 | 4.17 | 5.18 |
| 04/37 | 4.44 | 4.33 | 4.38 | 5.28 |
| 05/41 | 4.65 | 4.51 | 4.54 | 5.34 |
| 05/51 | 4.73 | 4.59 | 4.59 | 5.33 |
| **GLOBAL CREDIT INDICES (ITRXX)** | | | | |
| Nth America 5Y | 52 | 49 | 49 | 73 |
| Europe 5Y | 58 | 54 | 52 | 78 |

| | Today | Week Ago | Month Ago | Year Ago |
|---|---|---|---|---|
| **SWAP RATES** | | | | |
| 2 years | 3.65 | 3.60 | 3.84 | 5.67 |
| 3 years | 3.51 | 3.45 | 3.64 | 5.41 |
| 4 years | 3.51 | 3.43 | 3.60 | 5.23 |
| 5 years | 3.55 | 3.47 | 3.62 | 5.12 |
| 10 years | 3.85 | 3.76 | 3.89 | 5.00 |
| **FOREIGN EXCHANGE** | | | | |
| NZD/USD | 0.6238 | 0.6202 | 0.6204 | 0.5967 |
| NZD/AUD | 0.9165 | 0.9186 | 0.9162 | 0.9289 |
| NZD/JPY | 89.70 | 87.19 | 89.65 | 88.83 |
| NZD/EUR | 0.5589 | 0.5571 | 0.5558 | 0.5632 |
| NZD/GBP | 0.4684 | 0.4693 | 0.4704 | 0.4887 |
| NZD/CAD | 0.8461 | 0.8425 | 0.8366 | 0.8029 |
| TWI | 71.1 | 70.9 | 71.2 | 70.7 |

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