Research

Markets Outlook

14 October 2024

CPI Preview: Back in the Band

- **CPI inflation back in target band**
- **We see annual inflation at 2.3% in Q3; same as RBNZ**
- **Despite big jump in local authority rates**
- **Core measures expected to trend lower, but slower**
- **PMI/PSI/ECT indicate growth still struggling**

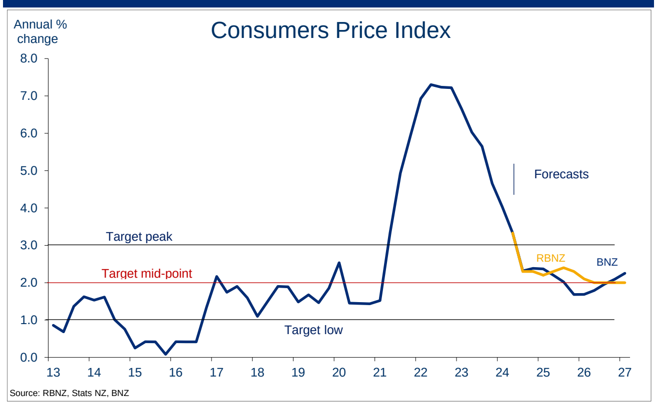
The Q3 CPI, scheduled for release on Wednesday, will command market attention this week. We have long forecast annual inflation to return to the RBNZ's 1% to 3% target band about now and it looks highly likely to do so in this week's figures.

After accounting for last week's selected prices for September, we anticipate inflation in Q3 to be 0.8% q/q and 2.3% y/y. This would see annual inflation inside the target band for the first time since Q1 2021.

An outcome as we see it would match RBNZ expectations as published in its August MPS. Market expectations sit at 0.7% q/q and 2.2% y/y, with most participants clustered either there or a tick higher.

Anything around these sorts of outcomes would surprise few. But confirmation of another large drop in annual inflation (from 3.3% in Q2) to near the midpoint of the target range would add more support to further relaxation of monetary policy restraint. We see this confirmation and associated confidence as being important for the RBNZ, but no reason for the Bank to further quicken the pace of relaxing policy restraint.

Back to the band



We forecast non-tradeable inflation to be 1.4% q/q and 5.1% y/y. The latter would be a decline from Q2's 5.4%.

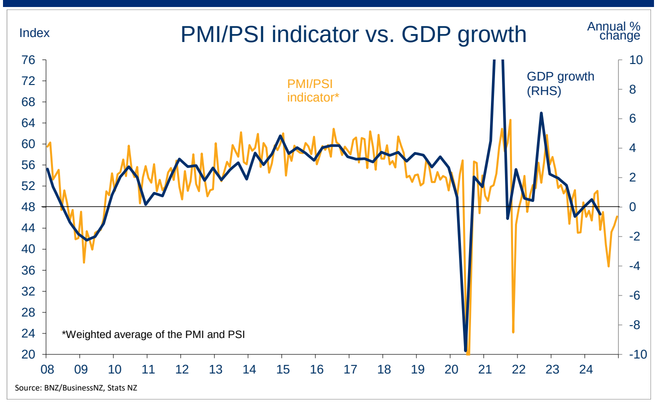
Our non-tradeable inflation forecasts match RBNZ expectations from the August MPS. Market expectations are marginally lower at 1.3% q/q.

We expect tradeable inflation to be -0.1% q/q and -1.5% y/y in Q3, a tick higher than the RBNZ's -0.2% q/q and -1.6% y/y projections. Market consensus looks for tradeable inflation of -0.1% q/q. The disinflationary influence from offshore is evident here.

Beyond the headline numbers, there will be focus on the various core measures like the trimmed means, weighted median, CPI ex fuel and energy and the RBNZ's sectoral factor model reading (which will be released on Wednesday afternoon and was 3.6% y/y in Q2). We expect the general direction of travel in the core inflation measures to be downward, but they are unlikely to be uniform or show the same extent of decline as headline inflation.

Meanwhile, activity remains weak. At its MPR last week, the RBNZ noted that high-frequency indicators point to continued subdued growth in the near term. There has been no respite on that score, with more evidence of such over recent days.

Still below the line



This morning's Performance of Services Index printed at 45.7 for September. That was unchanged from August and, being below 50, indicates the service sector is still in reverse. Combined with last Friday's sub-50 PMI, it is consistent with further economic shrinkage. There was nothing to change our thinking that GDP contracted again in Q3. Indeed, the combined PMI and PSI activity indicator continues to suggest downside risk to growth forecasts.

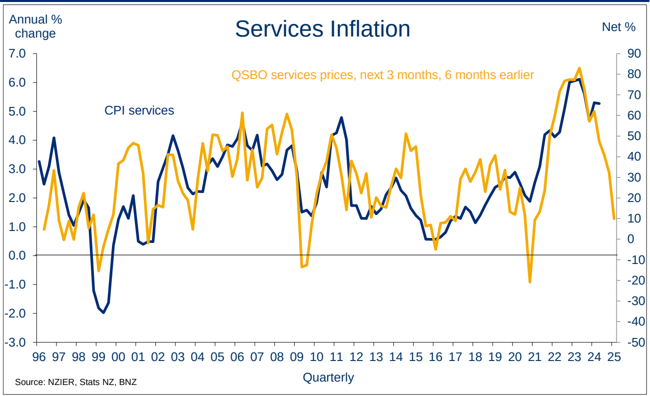
Moreover, the PMI and PSI employment indicators remain contractionary and consistent with our expectation that the unemployment rate will continue to rise.

Today's electronic card transactions were lacklustre. Total transactions did manage to edge up 0.3% m/m while retail transactions were flat. The glass-half-full view is that transactions didn't fall but the lack of momentum given recent income tax relief and the first OCR cut is notable. The nominal (seasonally adjusted) figures for September were 0.7% below year earlier levels overall and 3.7% below for the retail component. The decline in real terms is greater and more so on a per capita basis.

All this adds to the case that activity is subdued and the output gap is becoming increasingly negative. This means additional downward pressure on medium term inflation. That remains the bigger macro picture beyond the CPI on Wednesday.

It is that sort of dynamic that was writ large in the recent QSBO and firms' rapidly depleting intentions to raise prices, including in the services sector. This will likely influence inflation outcomes over coming quarters.

Fewer businesses intend to lift prices



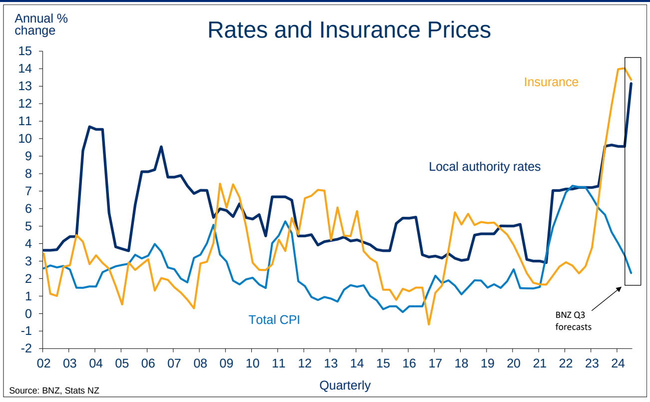
But the QSBO is a business survey and so it does not include direct pricing of the non-business sector such as central government (watch for ACC levy increases next year) and local authorities.

The latter is especially relevant for Q3, given this is when local authority annual rates are struck. As we have long discussed, this year's rate increases look very large, by all accounts. We have assumed a 13% increase on average overall. If true, this alone would add 0.4 percentage points to inflation and 0.7 percentage points to non-tradeable inflation.

On the downside, there is potential for a significant decline in early childhood education prices if recent government policy changes show up in the figures as we have assumed. However, the impact on the CPI is assumed to be less than 0.1 percentage points given the sector's relatively small weight in the CPI basket.

These are the sort of price changes the RBNZ can do nothing about from a monetary policy point of view and would be well advised to look through them in the first instance.

Local rates and insurance in focus



We would suggest the same for fuel prices. This applies on the downside, with the monthly indicators showing petrol prices fell 6.5% in Q3 (some of which relates to the removal of the Auckland fuel tax). Other fuels dropped 8.7% in the quarter. However, looking through fuel price movements also applies on the upside. We say that as higher crude oil prices have put upward pressure on domestic fuel prices, and headline inflation, over recent weeks.

We will be watching the CPI to see if there is any sign that the recently very rapid increases in insurance premiums are starting to slow, at least a little. A dip in reinsurance imports in the balance of payments data offers some hope. But another recent bout of storms both locally and globally are salient reminders that weather risks are not going away.

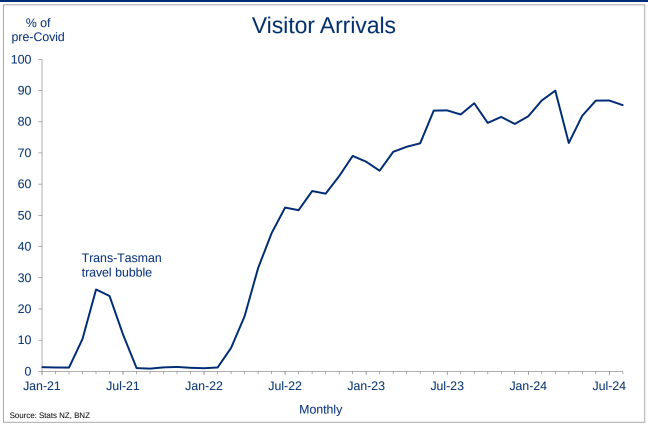
Elsewhere in the Q3 CPI, we expect to see a 1.4% q/q increase in food prices, 0.9% q/q increase in rents, and a 2.3% q/q gain in both domestic and international airfares – as broadly guided by the monthly indicators. We look for prices of tradeable goods like clothing, footwear, and household contents to be generally subdued.

Domestic accommodation prices are expected to decline 3.6% q/q, again guided by the monthly indicators. Some of this weakness is seasonal, but not all of it. Domestic accommodation prices are down 9% on a year ago. This softness fits with anecdotes of less domestic tourism and below normal international visitor numbers.

Yes, last week's data revealed tourist arrival numbers were up 3.6% on a year ago in August. However, they are only at 86% of pre-covid levels for the equivalent month. On that metric, the trend has been broadly flat for a year or more.

Last week's data also contained an update on migration flows. Annual net migration continues to decline as expected, reaching 53,800 in the year to August. It has further to fall. The month-to-month numbers continue to ease, albethey difficult to trust given their propensity to be revised. But the previous hints of monthly stabilisation appear to be fading. Net migration flows will have economic implications including for the labour and housing markets.

Growth stalled



For the latest on housing, REINZ figures for September are expected to be out tomorrow morning. We wouldn't be surprised to see a decent lift in sales, given plenty of available listings, but prices still trailing a touch behind year earlier levels.

This week's commodity price information includes the latest GDT dairy auction in the very early hours of Wednesday morning. Prices anywhere near recent outcomes would maintain healthy and well above year earlier levels, supporting firm forecasts for milk prices paid to local farmers by milk processors.

There are also a few RBNZ speakers on the circuit this week with Governor Orr already out of the blocks this morning (on improving Maori access to capital). Deputy Governor Hawkesby is talking tomorrow (on financial stability), and Assistant Governor Silk speaks on Wednesday (on the transmission of monetary policy to financial conditions).

All will be monitored but, given the speech outlines provided by the RBNZ and the proximity to the recently released Monetary Policy Review (that contained no specific forward guidance on near term policy), we doubt there will be any such guidance in the speech material provided. Note that Assistant Governor Silk talks shortly after the CPI release, but the RBNZ has already stated that Silk will not comment on that data.

Lastly, note that the regular RBNZ six-monthly credit conditions survey is due out on Friday. The September issue might be worth a look with respect to its usual loan demand and credit availability indicators given changes to LVR and DTI settings over the period and the Bank starting its easing cycle in August. Loan demand expectations had already generally perked up a bit in March, but observed loan demand was mixed.

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Global Watch

- **ECB decision, widely expected to cut 25bps**
- **China Q3 GDP and activity indicators due**
- **US and UK retail sales for September**
- **Labour market data in focus for Australia and the UK**

Week in Review

In Australia, it was a quiet week data wise with mostly second-tier data. The RBA September Minutes contained little new information, though some analysts did latch onto the absence of near-term guidance. However, the Governor in her post-Meeting September presser did say "*message clearly from the Board is that in the near term it does not see interest rate cuts*".

Encouragingly consumer confidence appears to be lifting in the Westpac survey (+6.2% to 89.8 and its highest since May 2022). The NAB Business Survey also saw business conditions rebound to their long-run average of around +7. There is a still mixed picture of inflationary pressures with price indicators slowing, but capacity utilisation still high.

In the US, Core CPI came in slightly hotter than expected at 0.3% m/m vs. 0.2% expected, though with limited market reaction. Still, the Fed's Bostic opened the discussion to whether the Fed could pause in November, and the Fed's Daly prior to the CPI numbers said in her mind the discussion was between one or two more rate cuts by the end of 2024.

In China, the weekend briefing on fiscal policy by China's Minister of Finance Lan Fo'an outlined plans to issue more debt to boost the property market, recapitalise banks and assist local governments. Inflation data was released yesterday and highlighted the weakness in domestic demand. CPI increased 0.4% y/y, and the core measure which strips out food and energy, only increased 0.1% y/y. Meanwhile PPI fell 2.8% y/y, extending the period of declining prices to almost two years.

Week Ahead

In Australia, labour market data on Thursday is the main release. NAB expect a 25k employment gain and an unemployment rate stable at 4.2%. The RBA in August forecast an unemployment rate of 4.3% and while that assessment remains on track their focus will instead be on marking progress against their forecast pickup in activity growth and improvement in the inflation backdrop. Also from the RBA is a speech from chief economist Hunter on Thursday.

In Europe, markets expect a 25bp rate cut for the October meeting on Thursday, following a fairly abrupt shift in communication from ECB Governing Council members since their meeting on 12 September. On Tuesday the ECB's Q3 Bank Lending Survey gives an update on lending conditions.

The US data calendar gets some reprieve. Retail sales on Thursday are expected to reflect solid consumption growth continuing through the end of third quarter. FOMC speakers will remain in focus, and markets will be attuned for anything suggestive of a pause. Columbus Day and Indigenous People's Day are Monday, with bond markets closed but equity markets open.

The reporting season also continues with the first of the tech names also featuring. Key names include: Goldmans, BofA, Citigroup (Tuesday); semi fabricator ASML and Morgan Stanley (Wednesday); chip maker TSMC and streaming giant Netflix (Thursday).

In the UK, CPI on Wednesday is seen dripping back to around 1.9% y/y. Core and services prices will remain elevated relative to the headline but are likely to moderate a tenth or two on a year ended basis. Wages data will be in focus in labour market data on Thursday and retail sales is Friday. The data should support a November cut, but the BoE will need to see better news on wages and inflation over the next couple of prints to support another cut in December.

In China, Q3 GDP and September activity data are released on Friday. Elsewhere, CPI data for Canada (Tuesday) and Japan (Friday) are of note.

Important Events Preview

Tuesday 15

EZ ECB Q3 Bank Lending Survey
Following a sharp tightening of lending conditions and thereby demand for loans from corporates/business, house purchases and consumer credit over the past couple of years, conditions have started to become less tight. The Q3 survey may show conditions for corporates and consumer credit follow those for house purchases into actual easier territory. In Q2, loan demand had turned positive for mortgages and consumer credit. A return to positive territory for corporate/business loans would be a positive shift.

UK Average Weekly Earnings Aug, Sep Labour Market
UK wage data revealed a drop to 4% 3M Y/Y at the headline level including bonuses in July, the lowest in this cycle. Stripping out bonuses however, showed earnings at a more stubborn 5.1%. Further, the regular pay measure for the private sector that the BoE likes to focus on was close by at 4.9%. NAB expect believe this will need to drop suitably further to get members of the BoE MPC on board with anything more than a 25bp cut in November and no move in December.

CA CPI
A sharp fall in gasoline prices will flatter Canadian headline inflation, where expectations are for inflation to dip to

1.8% y/y from 2.0%. Core measures should remain comfortably below 3% and keep the BoC on track for more easing, with the question more about whether they will be benign enough to support a 50bp move.

Wednesday 16

AU RBA's Hunter
RBA Assistant Governor (Economic) Hunter is speaking at an investor conference in Sydney, no topic yet available.

UK September CPI
UK headline inflation is expected to drop back to around 1.9% y/y in data released for September from 2.2% in August. Core CPI should also nudge a tenth lower to 3.5% y/y, while services inflation could ease by two-tenths to 5.4%. These measures are still elevated and will ease only very slowly. Moreover, with the headline measure widely expected to move back higher again into year-end and possibly almost reaching 3%, NAB remain very sceptical the BoE will ease more than once to 4.75% in 2024.

Thursday 17

AU September Employment
NAB expect employment growth of 25k and the unemployment rate holding steady at 4.2% in September. That would be tracking near the RBA's forecast 4.3% on average in Q4. Employment growth has been steady and strong recently and NAB pencil in a slower but still solid pace of employment gains in September, which would leave the unemployment rate steady at 4.2%.

Bigger picture, it currently takes an employment gain of about 30k per month to keep pace with population growth if the participation rate is stable. Recent trend employment growth has been stronger than that, met by strength in participation as well as population growth. Looking forward, NAB think employment growth will remain positive but slow from its recent trend pace, seeing the unemployment rate gradually rise a little further before stabilising near 4.5%

EZ ECB Meeting
Markets expect a 25bp rate cut for the October meeting following a fairly abrupt shift in communication from ECB Governing Council members since their meeting on 12 September. After initially warning in September that there was little time for much new information for the coming October meeting preliminary September inflation data at the headline level was markedly lower at 1.8% y/y. Core HICP also eased a tenth to 2.7% and though services inflation (and thereby wage settlements) remains too high, the messaging from the ECB has been a weakening economic growth trajectory is providing increased confidence that inflation will return to target. Not everyone is convinced however, with Slovakia's Kazimir noting rate cut decisions should not be based on just one good number. Nab recently adjusted its ECB rate forecasts to include an October cut to a December easing that will see the Deposit Rate at 3%.

US Retail Sales & Jobless claims
For retail sales, some rebound from recent softness in vehicle sales, but a likely offset from gas sales are likely to leave core measures consistent with still solid consumption outcomes through Q3.

Jobless claims will once again be difficult to interpret, with hurricane/strike effects adding to the usual tricky seasonals.

Friday 18

JN September CPI
Utility subsidies will help the headline rate lower, with the consensus for 2.5% y/y from 2.8%, while the ex-fresh food and energy measure is seen stable at 2.0% y/y. The BoJ looks to be on the sidelines for now, and next month's CPI data, due 22 November, is likely to be more important given it will capture corporate price rises for H2 of the local financial year.

CH Q3 GDP, September Activity indicators
Forecasts are for GDP to slow to 4.5% from 4.7% on a y/y basis on a 1.1% quarterly gain as weakness in consumption and investment weigh. A host of monthly activity data for September is also released this week. The data is expected to confirm a sluggish backdrop in Q3, but the detail on stimulus is likely to be more informative for growth prospects looking forward.

UK Retail Sales
UK retail sales have picked up recently as a consequence of rising real incomes and improved weather after what was a prolonged period of unseasonal precipitation. However, more recent warnings from the UK government about potential tax rises in the 30 October Budget and an overly gloomy message have severely dented consumer confidence.

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Fixed Interest Market

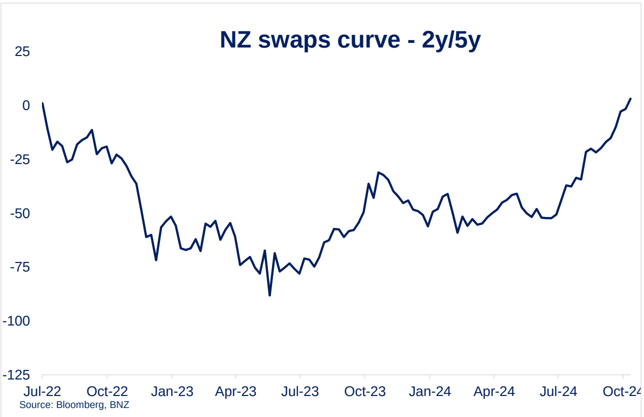
Reuters: BNZL, BNZM Bloomberg: BNZ

There has been a momentum shift across global rates markets since the beginning of October. The move higher has been most impactful for intermediate maturities. The 50bp cut to the Official Cash Rate (OCR) last week, along with a dovish accompanying statement, has restrained the upside for yields at the front end of the swaps curve. The yield curve has continued to steepen with the 2y/5y slope turning positive for the first time since mid-2022.

The statement accompanying the RBNZ's decision outlined that the economy is largely evolving with its projections from the August Monetary Policy Statement (MPS). Annual CPI is converging towards the 2% midpoint of the Bank's target band. It noted that economic activity is subdued, in part due to restrictive policy, and that the economy is in a position of excess capacity.

Although the Committee discussed the benefits of a 25bps and a 50bps cut, a larger reduction was preferred to avoid unnecessary market volatility. This was likely a reference to overnight index swaps (OIS) which implied close to a 90% chance of a 50bps move. We expect the Bank will continue the front-loaded easing cycle with a further 50bps cut in November. After the Monetary Policy Review last week, the OIS market is pricing 55bps for this meeting.

2y/5y swap curve in positive territory



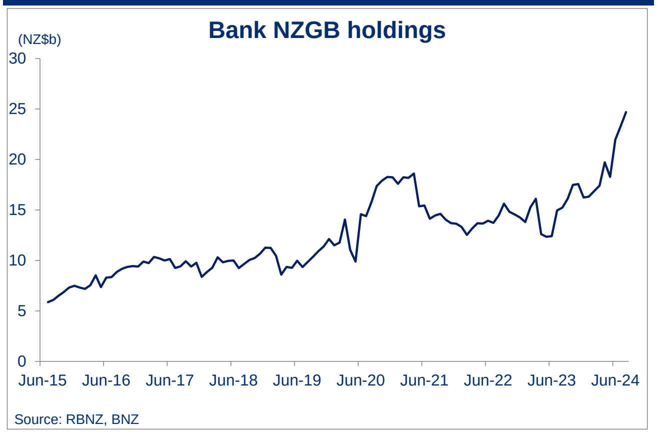
The RBNZ easing cycle is well-priced limiting the downside for NZ rates. It would take a significant, and likely global economic shock, that requires a rapid pace of easing beyond 50bps increments, for front end rates to move meaningfully lower from what is already priced by the forwards. Q3 CPI is the main catalyst for the NZ fixed income market in the week ahead.

New Zealand Debt Management (NZDM) have previously announced a tap syndication of the May-2030 nominal bond will be undertaken before calendar year end. There is a potential execution window next week which is largely clear of first-tier domestic and international economic data. The next window, clear of major risk events and data, isn't until the second half of November. If NZDM opt to use the October window, the syndicate panel should be announced this week.

We estimate that around NZ$8 billion is required from the remaining two tap syndications this fiscal year, which were announced alongside the Budget in May, assuming weekly tender volumes are unchanged. This suggests NZDM will target around NZ$4 billion from the 2030 tap, depending on the interplay between pricing and investor demand. The 5-year sector of the government curve underperformed last week as the market approaches a potential transaction.

The 2030 tap syndication will look to draw on demand from domestic bank balance sheets. Banks have steadily increased their holdings of government bonds over the past twelve months to NZ$25 billion. The composition of bank's debt security holdings has increasingly been allocated towards NZGBs, which now total 40%, a record high.

Bank NZGB holdings increase to NZ$25 billion



Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	4.64	4.64 - 5.10
NZ 2yr swap (%)	3.73	3.51 - 3.76
NZ 5yr swap (%)	3.77	3.46 - 3.77
NZ 10yr swap (%)	4.10	3.75 - 4.10
2s10s swap curve (bps)	37	25 - 37
NZ 10yr swap-govt (bps)	-31	-38 - -30
NZ 10yr govt (%)	4.41	4.09 - 4.40
US 10yr govt (%)	4.10	3.60 - 4.12
NZ-US 10yr (bps)	31	28 - 49
NZ-AU 2yr swap (bps)	-15	-31 - 8
NZ-AU 10yr govt (bps)	18	10 - 32

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the NZD underperformed, alongside other commodity currencies, on deflating expectations about the extent of easier China fiscal policy ahead. Net movements were modest, with NZD/USD down 0.8% to 0.6110. Most NZD crosses were down less than ½%, as the RBNZ's 50bps rate cut met market expectations, while NZD/CAD was up just over ½% to regain an 0.84 handle.

Last week, the RBNZ cut the OCR by 50bps to 4.75%, aligned with economists' expectations and largely discounted by market pricing. No overt forward guidance was provided, and the tone of the accompanying minutes did little to undermine expectations for a follow up 50bps cut in November. As expected, NZD weakness following the announcement was not broadly sustained.

Bigger global forces were in action, with weaker risk appetite, slightly stronger than expected US inflation data, and disappointment in the lack of further policy announcements to support China's economy, all notable factors. Over the weekend, there were further policy announcements by China, but no specific policies to incentivise consumption, and this has seen the NZD and AUD open this morning on a softer note. The market will have to remain patient, with further announcements expected later this month. More optimism on China's economic outlook is needed to support a stronger NZD profile.

US CPI and PPI data were slightly stronger than expected, but the market didn't seem to over-react to that. At the current point in the cycle, with inflation seen to be well under control, labour market data are more important than inflation data. US initial jobless claims rose sharply, but impacted by Hurricane Helene and strikes at Boeing. Hurricane Milton will further distort the data in the weeks ahead, making it tough to assess the signal from the noise.

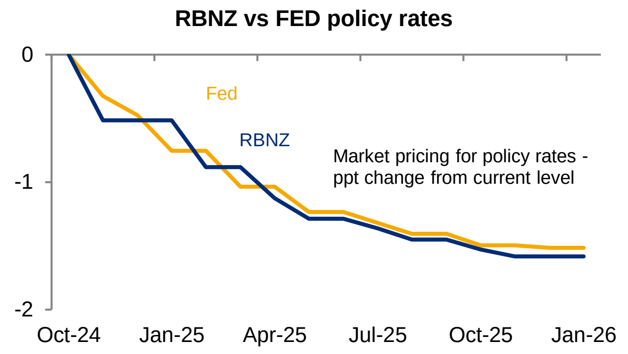
While there is increased uncertainty about the extent of Fed easing over the near term, there remains high conviction that significant easing can still take place over the coming year or so, which should act as a brake on USD performance. RBNZ and Fed monetary policy easing expectations over the coming year are still well aligned (see chart). There is only limited scope for NZ-US rate spreads to fall further. We continue to believe further RBNZ easing as not particularly significant for the path of the NZD. Global forces will remain much more important.

In the week ahead, in the US, retail sales data and comments on the economic outlook by Fed Governor Waller will be on the radar. CPI data for NZ, UK, Canada and Japan will be released. NZ Q3 CPI falling to around 2.2-2.3% yoy, near the mid-point of the target range, would justify the recent easier policy stance adopted by the RBNZ and support the outlook for getting policy back towards a neutral stance sooner rather than later. ECB policymakers have guided a consecutive 25bps rate cut for this week's meeting and this should pass without much reaction, with options likely to be kept open about the pace of further easing.

At the end of the week, China will release Q3 GDP and monthly economic indicators. For China, more focus is on the outlook for further policy stimulus than historical data. Until the government provides fresh policies to support consumer spending, many in the market will remain skeptical about the prospect of stronger growth prospects.

After a notable correction in the NZD through September so far, we expect some near-term consolidation, with 0.60 being a key support level. Ahead of the early November US elections, it will likely be difficult for the NZD to sustainably break back over 0.63, particularly with polls showing some positive momentum for Trump.

Expected RBNZ and Fed policy rate tracks still in sync



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6099	0.6050 - 0.6380
NZD/AUD	0.9045	0.9020 - 0.9220
NZD/GBP	0.4665	0.4630 - 0.4760
NZD/EUR	0.5577	0.5530 - 0.5720
NZD/JPY	90.91	89.40 - 92.30

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6780	-10%
NZD/AUD	0.8620	5%

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Technicals

NZD/USD

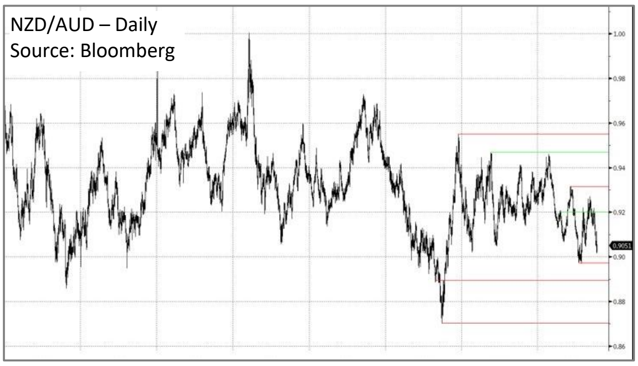
Outlook: Trading range
ST Resistance: 0.6380 (ahead of 0.64)
ST Support: 0.60 (ahead of 0.5850)

After a sharp downward correction, prior support of 0.60 is back on the radar, while resistance of 0.6380 now seems far away.

NZD/AUD

Outlook: Trading range
ST Resistance: 0.92 (ahead of 0.9315)
ST Support: 0.8970 (ahead of 0.89)

The sharp downward correction brings prior support of 0.8970 back into play. We lower resistance to 0.92.



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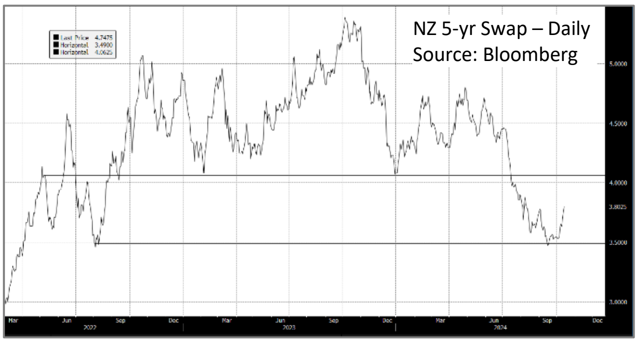
NZ 5-year Swap Rate

Outlook: Lower
ST Resistance: 4.06
ST Support: 3.48

A sharp bounce off the support of 3.48 now sees a retest of the near-term resistance level of 4.00-4.06.



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

Outlook: Steeper
ST Resistance: 0.05
ST Support: -0.10

Strong steepening momentum remains, pushing toward local resistance here at 0.05 and looking for some consolidation before the next move.

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Quarterly Forecasts

Forecasts as at 14 October 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Sep-24 onwards)

	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	0.5	0.8	0.8	0.8	0.8
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)	-7.1	-6.7	-6.7	-6.7	-6.5	-6.2	-5.7	-5.4	-5.1	-4.9
CPI (q/q)	0.5	0.6	0.4	0.8	0.5	0.6	0.2	0.6	0.2	0.6
Employment	0.5	-0.3	0.4	-0.5	-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	5.5	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 %)	3.3	3.2	3.0	2.9	2.9	2.9	3.0	3.0	3.0	3.0
CPI (y/y)	4.7	4.0	3.3	2.3	2.4	2.4	2.2	2.0	1.7	1.7
GDP (production s.a., y/y))	0.0	0.5	-0.5	-0.5	-0.3	0.1	1.2	2.4	3.0	3.2

Interest Rates

Historical data - qtr average
Forecast data - end quarter

			Government Stock			Swaps			US Rates		Spread
		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**
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
	Sep	5.25	4.87	3.79	4.26	3.57	3.55	3.90	4.85	3.80	0.48
Forecasts											
	Dec	4.25	4.25	3.70	4.40	3.20	3.50	4.05	5.00	4.10	0.30
2025	**Mar**	4.00	3.75	3.80	4.35	3.00	3.65	4.05	4.50	4.00	0.35
	Jun	3.50	3.25	3.75	4.30	3.00	3.65	4.05	4.25	3.90	0.40
	Sep	3.00	2.90	3.70	4.25	3.10	3.65	4.05	4.00	3.80	0.45
	Dec	2.75	2.90	3.85	4.25	3.30	3.80	4.10	3.75	3.75	0.50
2026	**Mar**	2.75	2.90	3.90	4.25	3.55	3.90	4.15	3.50	3.75	0.50

Exchange Rates (End Period)

USD Forecasts

	NZD/USD	**AUD/USD**	**EUR/USD**	**GBP/USD**	**USD/JPY**
Current	0.61	0.67	1.09	1.31	149
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	0.66	0.74	1.20	1.37	125

NZD Forecasts

	NZD/USD	**NZD/AUD**	**NZD/EUR**	**NZD/GBP**	**NZD/JPY**	**TWI-17**
Current	0.61	0.90	0.56	0.47	91.0	70.3
Dec-24	0.62	0.90	0.56	0.48	88.7	71.0
Mar-25	0.64	0.90	0.56	0.49	88.9	71.9
Jun-25	0.65	0.90	0.57	0.49	89.1	72.8
Sep-25	0.66	0.89	0.57	0.49	88.4	73.0
Dec-25	0.67	0.89	0.57	0.50	87.8	73.5
Mar-26	0.66	0.89	0.56	0.49	85.1	72.5
Jun-26	0.65	0.89	0.55	0.48	83.9	71.8
Sep-26	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 14 October 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	0.9	2.1	7.4	3.4	0.4	0.7	1.7
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	-2.3	2.5	12.0	3.4	-1.2	-3.0	0.9
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	0.3	2.2	10.0	3.5	-1.8	0.0	1.6
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	2.4	4.3	14.8	4.7	-0.6	2.3	3.7
Real Expenditure GDP	4.7	2.6	0.7	0.1	2.3	5.9	2.2	0.9	0.4	1.5
GDP (production)	**4.6**	**2.7**	**0.3**	**-0.3**	**2.4**	**5.6**	**2.4**	**0.7**	**-0.2**	**1.7**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.5*	*0.1*	*3.2*	*2.6*	*2.2*	*0.0*	*-0.3*	*3.0*
Output Gap (ann avg, % dev)	1.4	2.0	0.1	-1.3	-0.8	1.6	2.1	0.5	-1.0	-1.1
Nominal Expenditure GDP - $bn	358	388	410	422	443	353	381	405	419	437
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.4	1.7	5.9	7.2	4.7	2.4	1.7
Employment	2.5	3.1	1.3	-0.1	2.5	3.3	1.7	2.9	-0.6	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 %)	1.8	0.5	-2.3	-0.1	1.0	3.6	0.2	-2.4	-0.4	1.0
Unit Labour Costs (ann av %)	4.6	6.5	8.4	4.3	2.1	2.4	6.5	8.9	5.0	2.4
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	-26.3	-21.9	-21.3	-35.6	-28.6	-27.6	-22.9
Current Account - % of GDP	-6.8	-8.7	-6.7	-6.2	-4.9	-6.0	-9.4	-7.1	-6.5	-5.1
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-3.1	-3.1	-1.9					
Net Core Crown Debt (ex NZS)	35.5	39.3	42.5	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	71.9	72.5	73.0	72.9	72.0	71.0	73.5
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	4.00	2.75	0.75	4.25	5.50	4.25	2.75
90-day Bank Bill Rate	1.45	5.16	5.64	3.75	2.90	0.92	4.55	5.63	4.25	2.90
5-year Govt Bond	2.90	4.40	4.60	3.80	3.90	2.20	4.30	4.50	3.70	3.85
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	3.00	3.55	2.22	5.21	4.93	3.20	3.30
5-year Swap	3.20	4.50	4.40	3.65	3.90	2.56	4.62	4.43	3.50	3.80
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 14 October			
EC	ECB's Nagel Speaks			
UK	BOE's Dhingra Speaks			
CH	Trade Balance CNY Sep			649.34b
EC	ECB's Villeroy Speaks			
	Tuesday 15 October			
US	Fed's Kashkari and Waller Speak			
NZ	REINZ House Sales YoY Sep			-0.70%
NZ	Vehicle Registrations Sep			
NZ	RBNZ's Hawkesby Speaks			
UK	ILO Unemployment Rate 3Mths Aug	4.10%		4.10%
UK	Average Weekly Earnings 3M/YoY Aug	3.70%		4.00%
EC	ECB's Nagel Speaks			
EC	ECB Bank Lending Survey			
GE	ZEW Survey Expectations Oct	10		3.6
	Wednesday 16 October			
CA	CPI YoY Sep	1.80%		2.00%
US	Empire Manufacturing Oct	3.6		11.5
US	NY Fed 1-Yr Inflation Expectations Sep			3.00%
US	Fed's Daly and Kulger Speak			
NZ	Dairy GDT auction			1.20%
NZ	CPI QoQ 3Q	0.70%	0.80%	0.40%
NZ	CPI YoY 3Q	2.20%	2.30%	3.30%
AU	RBA's Hunter-Speech			
NZ	RBNZ's Silk Speaks			
AU	Westpac Leading Index MoM Sep			-0.05%
JN	BOJ's Adachi Speaks			
UK	CPI YoY Sep	1.90%		2.20%

		Median	Fcast	Last
	Thursday 17 October			
US	New York Fed Services Business Activity Oct			0.5
EC	ECB's Lagarde Speaks			
JN	Trade Balance Sep	-¥263.0b		-¥695.3b
AU	Employment Change Sep	25.0k	25.0k	47.5k
AU	Unemployment Rate Sep	4.20%	4.20%	4.20%
NZ	Benefit Fact Sheets Q3			
EC	Trade Balance SA Aug	17.7b		15.5b
	Friday 18 October			
EC	ECB Deposit Facility Rate Oct-17	3.25%		3.50%
US	Retail Sales Advance MoM Sep	0.30%		0.10%
US	Retail Sales Ex Auto and Gas MoM Sep	0.30%		0.20%
US	Philadelphia Fed Business Outlook Oct	3.5		1.7
US	Initial Jobless Claims Oct-12	253k		258k
US	Continuing Claims Oct-05	1888k		1861k
EC	ECB's Lagarde Speaks			
US	NAHB Housing Market Index Oct	42		41
US	Fed's Goolsbee Speaks			
UK	BOE's Woods Speaks			
JN	Natl CPI YoY Sep	2.50%		3.00%
CH	GDP SA QoQ 3Q	1.10%		0.70%
CH	Industrial Production YoY Sep	4.60%		4.50%
CH	Retail Sales YoY Sep	2.50%		2.10%
CH	Surveyed Jobless Rate Sep	5.30%		5.30%
NZ	RBNZ Six-monthly Credit Conditions Survey			
UK	Retail Sales Inc Auto Fuel MoM Sep	-0.50%		1.00%
	Saturday 19 October			
US	Housing Starts Sep	1350k		1356k
US	Fed's Kashkari and Waller Speak			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	4.75	5.25	5.25	5.50
1mth	4.88	4.99	5.28	5.61
2mth	4.76	4.89	5.17	5.66
3mth	4.65	4.78	5.05	5.71
6mth	4.42	4.56	4.80	5.78
GOVERNMENT STOCK				
05/26	3.95	3.86	3.82	5.43
04/29	3.97	3.83	3.65	5.33
05/31	4.19	4.07	3.86	5.37
05/34	4.40	4.32	4.07	5.44
04/37	4.65	4.60	4.33	5.56
05/41	4.85	4.81	4.51	5.61
05/51	4.97	4.92	4.59	5.60
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	52	54	49	75
Europe 5Y	57	58	54	84

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.73	3.64	3.60	5.68
3 years	3.67	3.54	3.45	5.47
4 years	3.71	3.55	3.43	5.33
5 years	3.79	3.63	3.47	5.25
10 years	4.11	3.99	3.76	5.21
FOREIGN EXCHANGE				
NZD/USD	0.6104	0.6125	0.6202	0.5927
NZD/AUD	0.9051	0.9065	0.9186	0.9346
NZD/JPY	90.99	90.76	87.19	88.61
NZD/EUR	0.5582	0.5581	0.5571	0.5613
NZD/GBP	0.4671	0.4681	0.4693	0.4852
NZD/CAD	0.8401	0.8341	0.8425	0.8067
TWI	70.4	70.5	70.9	70.5

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