Research

Markets Outlook

16 December 2024

The Christmas Rush: GDP, HYEFU And All That

- **Q3 GDP expected to contract**
- **Accompanied by significant revisions**
- **PMI/PSI suggest GDP still struggling in Q4**
- **Govt. half year update to reflect economic pressures**
- **November selected prices hold our Q4 CPI pick**
- **Annual current account deficit still seen large in Q3**
- **Commodity prices expected to boost November exports**
- **Consumer and business confidence data due**

The week before Christmas traditionally brings a heap of economic news and data in NZ. This year is no different. Q3 GDP and the Government's Half Year Economic and Fiscal Update (HYEFU) are headline grabbers. November's Selected Prices and PSI have already been published this morning. And there's a ton of other data due including the Balance of Payments, Merchandise Trade, and no less than three confidence surveys.

Q3 GDP is due Thursday. We have long expected a contraction in the quarter, with our estimate finalising at -0.4% q/q. We anticipate clear declines in the likes of construction, wholesale trade and manufacturing. The latter suffering from an energy crunch in the quarter which is also expected to be reflected in a large drop in utilities valued added. Service sector activity is seen close to flat, overall. Some growth is expected in the primary sector thanks to more milk production and a significant bounce in forestry from the previous quarter's sharp drop.

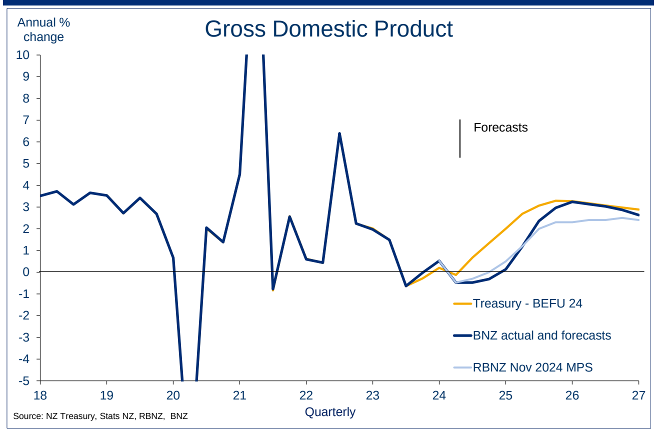
Market estimates from local institutions have progressively been toned down over recent weeks, as partial data have come in softer than some expected. Consensus sits at -0.2%, but with something of a geographic split. Major local banks are at -0.4%, while many offshore institutions see something less negative. The market range is -0.4% to +0.1%. The RBNZ, in its November MPS, forecast -0.2%.

Despite all the focus on the quarterly outturn, we caution that there will be significant revisions included in this release. We already know that real GDP has been revised up significantly for March years 2023 and 2024 (accumulating to around 1.9%). That means the level of real GDP seems all but assured to be above prior considerations.

Moreover, it is not just the level of GDP that will change, but also the quarter-to-quarter profile as Stats NZ is incorporating a new seasonal adjustment methodology. What all that means for the output gap and implications for policy remains to be seen.

Another quarterly decline in GDP will spark more talk of NZ re-entering recession. That would seem academic to us. Economic activity per person has gone backwards. This quarter's revisions will alter (recorded) GDP history, but it won't change the fact that the unemployment rate has increased over the past two years. Technical recession or not, there is no denying challenging economic conditions.

Weak

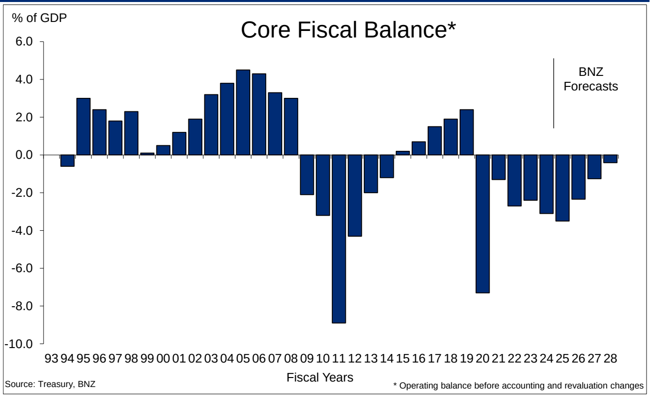


Last week's PMI, and this morning's PSI, show challenges continued into November. The PMI was very weak at 45.5. The PSI offered some encouragement lifting to 49.5, from October's 46.2 but is still well below its long run average. The composite (PCI) index, which combines the PMI and PSI, suggests GDP is still tracking below year earlier levels.

The Government's HYEFU is scheduled for release tomorrow. The economy has been underperforming Treasury's Budget economic forecasts. The Treasury's Chief Economic Adviser has indicated the economic downturn has been deeper, and the recovery may begin later, than forecast in May. And he suggested Treasury's long term productivity assumption will be nudged lower.

We have talked about such economic pressures before and expect them to be reflected in the HYEFU figures with OBEGAL (on the current definition) deficits forecast until a small surplus in 2028/29, a year later than was projected in the Budget. Net core Crown debt is expected to remain above 40% of GDP, although should begin to trend towards 40% later in the forecast period. For the near term, the forecast 2024/25 deficit may be around 3.5% of GDP, a nudge higher from the Budget's 3.1%.

Deficits forecast



Revised GDP or not, there has been some undershoot in the fiscal accounts. In the four months to October, the OBEGAL deficit was tracking around $0.9b bigger than Budget baselines. Some of this was due to SoE's and other Crown Entities. Smoothing through a lot of noise (including related to the timing of holidays), we suggest the core Crown cash deficit was running around $400m behind Budget in an underlying sense, through to October.

A cash shortfall, recent economic pressures, and likely lower growth forecasts suggest upward pressure on the Government's funding requirements compared to Budget expectations. Amid a lot of moving parts, it could be in the order of $2b per annum on average over the forecast period – a bit less in the initial years and a little more in the latter years (all dependent on how much Treasury lowers its growth forecasts).

For 2024/25, while there is upward pressure on debt funding, some pre-funding in the previous fiscal year may be enough to keep this year's gross bond issuance at $38b. Something similar could be expected for the following 2025/26 year. We assume most of the additional funding requirements are catered for via the bond programme, rather than other instruments. We also assume the Budget operating allowances of $2.4b remain intact, and capital requirements and timing are not materially altered from the May Budget.

Beyond the figures, the Budget Policy Statement will be worth a look too for its insight into the Government's priorities for Budget 2025 as well as an update on the Government's long-term fiscal objectives.

One thing to watch for is more discussion at HYEFU around whether to continue to include SoE's and Crown entities in the OBEGAL deficit or remove some. The Finance Minister has recently noted arguments to exclude such entities (especially the self-funding ones like ACC) from the OBEGAL measure. There is the possibility of a change to OBEGAL or introduction of an additional measure.

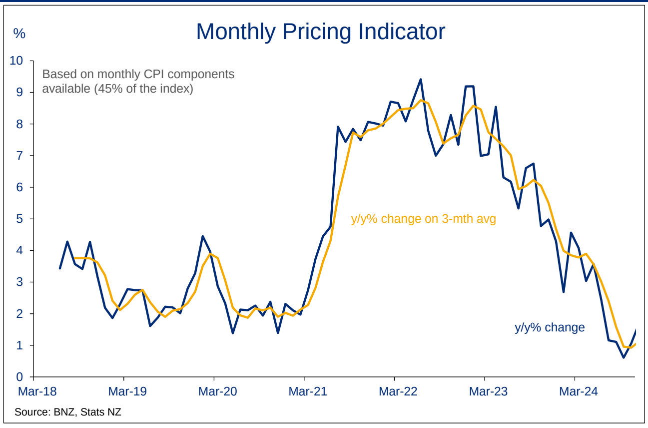
Selected Prices for November were released this morning. These indicators are tradeable-heavy and volatile, but there looks to be some stabilisation in their annual inflation over recent months albeit a lower NZD will add some upward pressure ahead.

The key food price index eased 0.1% m/m. This was a slightly smaller decline that we have pencilled in.

Rents rose 0.2% m/m as expected and along with subdued restaurant meal prices are supportive of downward pressure on non-tradeable inflation. However, a 10.8% m/m jump in domestic airfares will do the opposite.

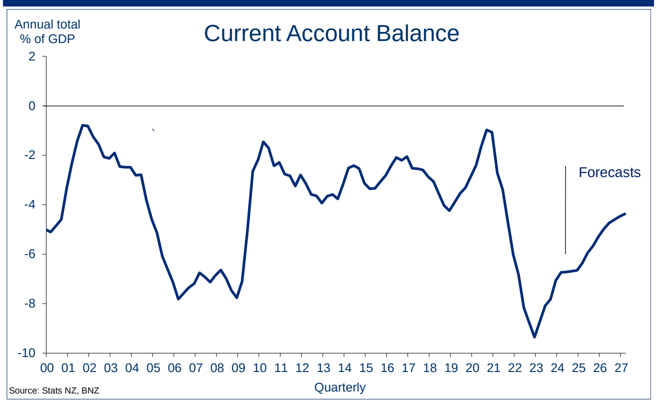
Overall, the balance of November's selected prices was marginally stronger than we had factored in. It was not enough to change our Q4 CPI pick, which stays at 0.6% q/q. The RBNZ forecast 0.4% q/q in its November MPS.

Monthly annual inflation indicator stabilising



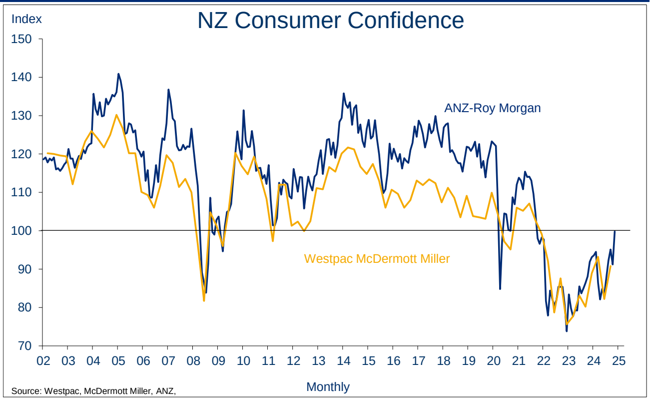
Wednesday's Q3 Balance of Payments data will continue to show a large current account deficit. We think the annual deficit as a percent of GDP is trending lower but could pause this quarter at 6.7%. That said, the upward revisions to nominal GDP might be enough to nudge the deficit a tick smaller on that metric. The deficit still looks large enough to remain on the radars of rating agencies.

Narrowing trend



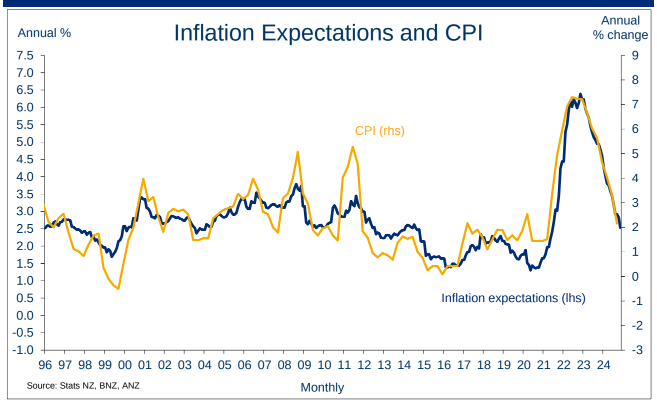
Consumer confidence readings come in the form of Wednesday's WMM Q4 survey and Friday's ANZ December survey. There have been signs of improvement from a low base recently, but further improvement is required to indicate a sustained pickup in spending.

Moving in the right direction

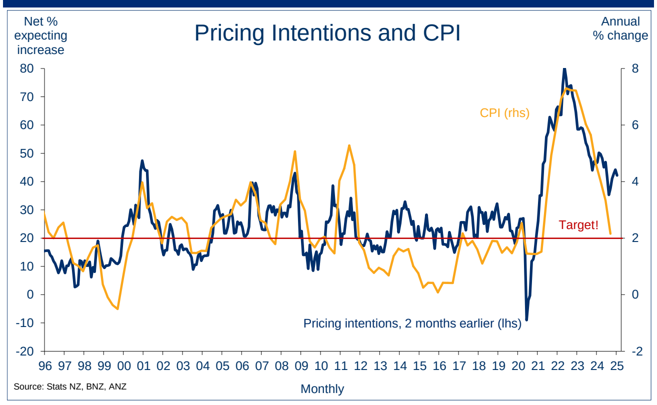


ANZ's Business Outlook survey for December is due on Thursday afternoon. We think the recent theme will continue, namely buoyant confidence in the outlook but still negative reports of recent activity compared to year earlier levels. More interest will be in the inflation gauges, with inflation expectations still trending lower but pricing intentions stubbornly elevated.

Expectations on target



Intentions elevated



If you want a prime example of high confidence in the future but recent weak activity – look no further than agriculture. Farmer confidence is at 30-year high, but annual tractor registrations are at their lowest since 2001. Lower interest rates and higher commodity prices are part of the mix in lifting farmer confidence.

For the latest on dairy prices, the last GDT auction of the year is due early Wednesday morning. We have no strong view for this event, but price gains to date have set up markedly stronger revenues for the dairy sector this season. That will be a big support to economy-wide activity next year.

At the risk of spoiling the surge in positivity, it is worth keeping an eye on the weather over summer. Not only for holiday making, but because it is already getting drier than normal for this time of year especially in the north and east of both the North and South Islands. Intensification, or spreading of this, has the potential to disrupt primary production by more than the initial dent already made.

For now, the agriculture sector is generally looking up and this is starting to show through in the trade numbers. November's merchandise trade figures round out the data week and the data year on Friday. We expect materially higher commodity prices to drive exports upwards. We have pencilled in a 14% y/y gain. Imports are also expected to post a strong gain, up 9% y/y, on our assumption of more aircraft imports entering the data this month. These flows should result in a monthly trade deficit of around $1.1b. That would see the annual trade deficit continue to shrink, to around $8.8b, maintaining its trend narrowing pressure on the broader current account deficit into year's end.

Speaking of year's end, we would like to wish all our readers a happy and safe festive season and we look forward to connecting with you again in the New Year. This will be our last Markets Outlook for 2024. Our first 2025 issue will be on 13 January.

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Global Watch

- **FOMC expected to cut 25bps; 2025 outlook in focus**
- **BoE, BoJ, Norgesbank seen on hold**
- **Riskbank expected to cut 25bps**
- **Global PMIs to give latest activity pulse check**
- **German government faces no confidence vote**
- **China sees 'moderately loose' policy; activity data due**
- **US core PCE seen at 0.2% m/m; retail sales out too**

Week in Review

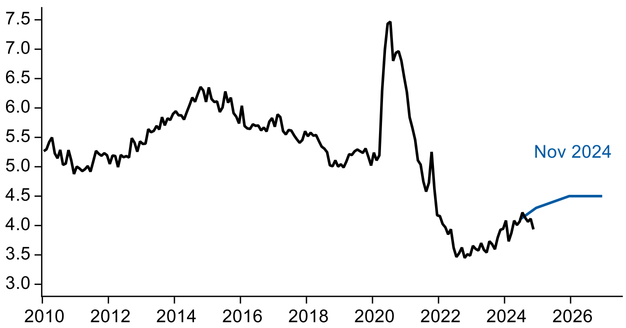
The RBA's dovish shift on Tuesday showed their concern about upside risk to inflation had faded. That opened the path to a February cut a bit wider, but the data flow was still going to have to make a compelling case given the RBA's only modestly restrictive starting point.

On Thursday, Australian November labour market data was stronger than expected. The unemployment rate fell 2 tenths to 3.9%, its lowest since March and comfortably undershooting the RBA's November forecasts.

The RBA has rightly taken some comfort from the fact that the still-tight labour market has not proven particularly wage-inflationary, but yesterday's labour market data continues to show that sluggish growth is not translating into spare capacity in the labour market.

The combination of the two suggests that the RBA may be viewing the labour market as closer to balance than they had earlier assessed, but also that it is not obviously cooling further as they had been forecasting.

RBA Unemployment Rate Forecasts



Source: National Australia Bank, RBA

Globally, the ECB cut 25bp as expected, and US CPI and PPI data did not stand in the way of a December FOMC cut, seeing market pricing pen in 25bp from the Fed this week.

China's Politburo also hinted at more stimulus, with the use of the term "*moderately loose*" to define monetary policy in 2025, the first time since the aftermath of the GFC in 2009.

Week Ahead

Australia has a quiet lead into the festive season with mostly second tier data, though budget updates are expected sometime in the week from the Commonwealth (MYEFO) and from some states (NSW and perhaps a few others).

Westpac Consumer Sentiment (Tuesday) is probably the most notable of the data to see whether the rebound in sentiment is sustained. Others include Credit (Friday) and the RBA Minutes (the following Tuesday, 24 December).

A busy week for central banks with the US Fed (Wednesday), BoJ (Thursday), BoE (Thursday), Norges bank (Thursday) and Riksbank (Thursday) all meeting.

The US Fed is widely expected to cut rates by 25bps, but more focus on the path for 2025 and an updated neutral rate estimate given a still strong economy and the prospect of tariffs and tax cuts.

The BoJ is expected to hold rates if media reports are to be believed with January now seen as the most likely meeting date for further normalisation. The BoE is also expected to hold rates steady, as is the Norgesbank. In contrast the Riskbank is expected to cut rates by 25bps.

Europe sees the PMIs (Monday) as well as UK Unemployment (Tuesday) and CPI (Wednesday). EZ services activity is expected to remain below the 50 breakeven with consensus at 49.5. That contrasts sharply with the US Services PMI at 56.1 and in general US data flow has continued to surprise, in contrast with Europe. In politics, a no-confidence vote in the German government is likely, paving the way to fresh elections in February 2025.

In the US, the PMI read is also likely to garner more focus than usual to see whether it follows the alternative ISM lower. The strong lift in the small business NIFB survey suggests it shouldn't. Also in the US is Retail Sales (Tuesday), the last data print before the FOMC decision on Wednesday. Later in the week is the PCE figures (Friday). North of the border Canada has its November CPI (Tuesday).

China's monthly activity indicators (Monday) see the usual Retail Sales, Industrial Production and FAI. With stimulus notions in the air, it is hard to see this being overly market moving. Note official PMIs are published on New Years Eve.

Important Events Preview

Monday 16

CH Retail Sales, Industrial Production, FAI
November data may read as dated given Chinese authorities have flagged further stimulus to come, especially in the context of trade/tariff uncertainty in 2025. Consensus sees retail sales lifting to 5.0% y/y from 4.7%. Industrial production is expected to be little changed at 5.4% y/y and FAI at 3.5% y/y.

EZ German no-confidence vote
A no-confidence vote in German Chancellor Scholz's minority government is scheduled Monday. It is widely expected he will lose the vote with the President then dissolving parliament and paving the way for snap elections scheduled for 23 February 2025.

EZ/UK/US Global PMIs
European services activity is expected to remain below the 50 breakeven with the consensus at 49.5. That contrasts sharply with the US Services PMI at 56.1. The US read is also likely to garner more focus than usual to see whether it follows the alternative ISM lower. The strong lift in the small business NIFB survey suggests it shouldn't.

On the manufacturing side, reports are that freight activity is picking up in the US which could see the US Manufacturing PMI lift above 50 from its current 49.7. The consensus for Europe though is for the Manufacturing PMI to remain subdued at 45.6.

US Empire Fed Manufacturing

Tuesday 17

AU Westpac Consumer Confidence
Consumer confidence has lifted sharply over the past few months and has correlated with the pickup seen in retail sales over recent months. The lift in overall confidence also saw a fall back in unemployment expectations to its lowest since April 2023.

EZ German IFO and ZEW surveys
The German IFO is less market moving these days given the PMIs are generally published the day prior.

UK Unemployment, Jobless Claims
Average earnings are expected to continue to tick gradually lower in October. Whole economy regular wages (ex-bonus) eased to 4.8% 3m y/y in September, the same as those in the private sector, a measure the BoE watches closely. NAB expect wage settlements to start to ease a little more quickly in 2025 as firms start to factor in higher employment costs from the recent Budget. The ILO measure of unemployment spiked to 4.3% in Sep, but the data continue to suffer from low survey returns.

US Retail Sales, Industrial Production
Retail sales for November is the last data point before Wednesday's FOMC decision. Consensus sees the core control measure at 0.4% m/m from -0.1% previously.

CA CPI (November)
Consensus sees the core measures ticking back a tenth with trimmed at 2.5% y/y and median at 2.4% y/y.

Wednesday 18

EZ CPI (final)

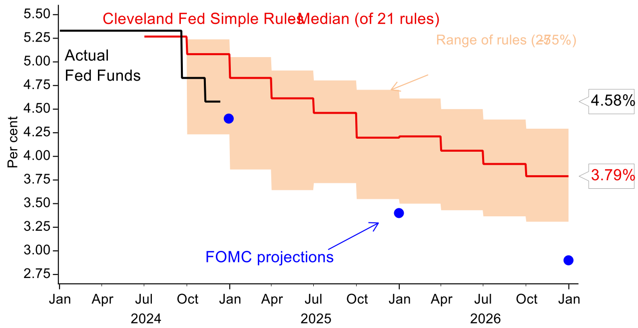
UK CPI (November)
UK inflation for November will see headline CPI continue its rebound from a cycle low of 1.7% in September and 2.3% in October to 2.6% y/y in the November release. Base effects, particularly in the goods sector, higher energy tariffs and VAT on tobacco will all combine to continue pushing prices above the 2% target. In addition, core and services inflation are also likely to add 2/10ths and 1/10th respectively to 3.5% y/y and 5.1%. It will likely be some months and well into 2025 before all measures peak and start to decline again. This a central factor in the BoE's gradual approach to cutting interest rates.

US FOMC & Presser (Cut), Housing Starts/Permits
The US Fed is widely expected to cut rates by 25bps, and this would also be in line with the FOMC's September dot plot for 2024. That dot though was very evenly split, so there is an outside chance of dissent.

Where the Fed goes in 2025 is much less certain given a resilient economy and the prospect of tariffs and tax cuts. The September dot plot had pencilled in 100bps of cuts in 2025 to 3.4% vs. current market pricing of 57bps of cuts to 3.8%.

Simple Taylor rules such as those compiled by the Cleveland Fed point to an even more moderate cutting cycle. A simple median of 21 rules gives an appropriate Fed Funds Rate for 2025 of 4.2% and for 2026 of 3.8%.

US Taylor Rules vs. FOMC Median Dot Plot

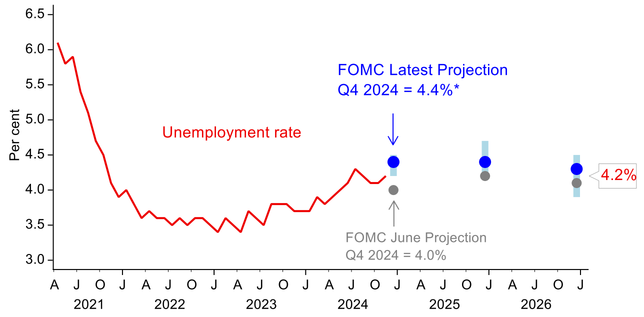


Source: National Australia Bank, Federal Reserve Bank of Cleveland, Federal Reserve, Macrobond

The US economy is still growing at an above trend rate. The Atlanta Fed GDP Now for Q4 is 3.3% vs. the FOMC longer-run estimate of 1.8%. The labour market is not softening as sharply as feared. The unemployment rate at 4.2% is below the FOMC's Q4 2024 ave. of 4.4%. Core inflation is also a touch higher than projections.

In that context there is some talk around whether neutral rates have risen. The FOMC longer-run median dot had pegged this at 2.9% with a range of 2.4-3.8%. Expect that range to lift with a few officials noting that the Fed may not be far off neutral.

US Unemployment Rate vs. Fed Projections



* Shaded region is the range of FOMC projections
Source: National Australia Bank, Federal Reserve, U.S. Bureau of Labor Statistics (BLS), Macrobond

Thursday 19

JN BoJ Decision (Hold)
As much as the data is making the case for a December hike, reading the BoJ tea leaves, it is clear the Bank has a preference to wait a little bit longer. One Reuters' article citing sources was explicit, noting: "*… is leaning toward keeping interest rates steady*". And "*'Japan isn't in a situation where imminent rate hikes are needed,'. 'With inflation benign, it can afford to spend time scrutinising various data'*".).

Looking to 2025 it is important to note that the BoJ has scheduled a speech and press briefing by Deputy Governor Himino right before the Bank's 24 January meeting. The speech has been deemed as unusual given there is no record of speeches before the first meeting of the year in over a decade. NAB sees the Bank hiking in January with the policy rate ending 2025 at 0.75%.

NO Norges Bank (Hold)
The Norges Bank has signalled its rate cutting cycle is unlikely to start until 2025. Markets do not price a full cut until the March meeting.

SK Riksbank (Cut)
A 25bps rate cut to 2.5% this week is only 50% priced, with markets reacting to latest higher than forecast inflation data. However, economists are united the Riksbank will deliver a further 25bps easing.

UK BoE (Hold)
The BoE is universally expected to keep rates unchanged at 4.75% at its December policy meeting. NAB has long forecast the BoE will cut just twice in 2024 from a peak of 5.25% but will pick up the pace a little in 2025, with 4 x 25bp cuts in Feb, May, Aug and Nov to 3.75%. The BoE has been very clear that it continues to believe a gradual approach to removing policy restraint remains appropriate. At this meeting there will be no new economic forecasts or press conference, with just the Minutes of the meeting released at the same time as the decision. NAB anticipates an 8:1 decision with dove Dhingra dissenting.

US Jobless Claims, Philly Fed

Friday 20

AU Credit
Credit stats are rarely market moving, but we resumed coverage earlier in the year given the citing of strong credit growth by the RBA for why "*there had been a modest easing*" in financial conditions.

Consensus sees another solid 0.6% m/m outcome, but it is the business credit line that continues to garner the most interest, up 1.0% m/m and 8.3% y/y. Notably the annual growth rate is now the strongest since the mining boom outside of the post-pandemic rebound.

JN CPI (November)
Consensus sees the core-core measure (excl. energy and fresh food) lifting to 2.4% y/y from 2.3%.

CH Loan Prime Rates
No change expected to either 1yr or 5yr rate.

UK Retail Sales

US PCE, Uni Michigan Consumer Sentiment
The last major data piece of the year. Core PCE inflation is expected to be 0.2% y/y and 2.9% y/y.

Monday 23

US Conference Board Consumer Confidence

Tuesday 24 (Christmas Eve)

AU RBA December Minutes
The Minutes are unlikely to add much to the debate given we have heard from both the RBA Governor and Deputy Governor recently. The dovish tilt at the December meeting widened the path to a February cut, but the data flow still needs to make the case given the RBA's only modestly restrictive starting point.

The fall back in the unemployment rate to 3.9% should challenge the degree of confidence the Board has in the inflation outlook. As below trend growth is not translating into spare capacity in the labour market and may be challenging from a productivity view.

That should leave little urgency for the RBA to adjust policy settings. NAB expect inflation data will look a little better than the RBA feared in Q4, but our central case is that it will take a little longer for the RBA to gain enough comfort to cut (RBA inclined to look through subsidy-buffeted Q4 CPI). NAB expects a first cut from the RBA in May.

US Durables

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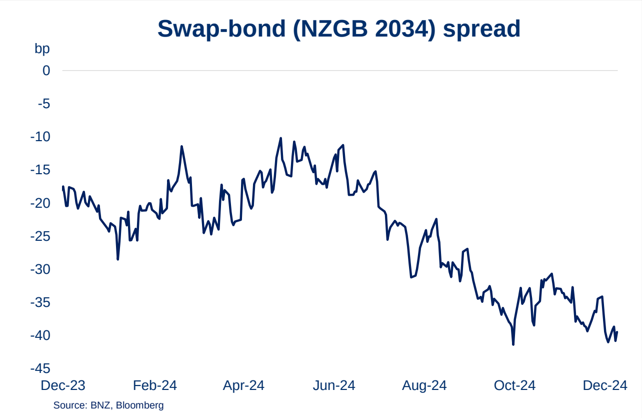
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

The NZ yield curve steepened last week. Front end yields were little changed, as activity data remained weak, and supported the case for the front loaded RBNZ easing cycle. After the release of GDP partials, we forecast the economy contracted by 0.4% in the September quarter. A move higher in global rates, led by US treasuries, contributed to upward pressure on the longer end of the NZ curve. Government bonds continued to underperform relative to interest rate swaps.

10-year swap spreads have returned to the multi-year low near -40bp. Bonds appear cheap, but lack a catalyst for a reversal, amid heavy issuance from the fiscal deficit and ongoing quantitative tightening. The Reserve Bank has reduced its Large Scale Asset Purchase government bond portfolio to NZ$28 billion, from a peak of NZ$53 billion, with the additional supply to the market needing to be absorbed by price sensitive private sector investors.

10-year swap spreads back at multi-year lows

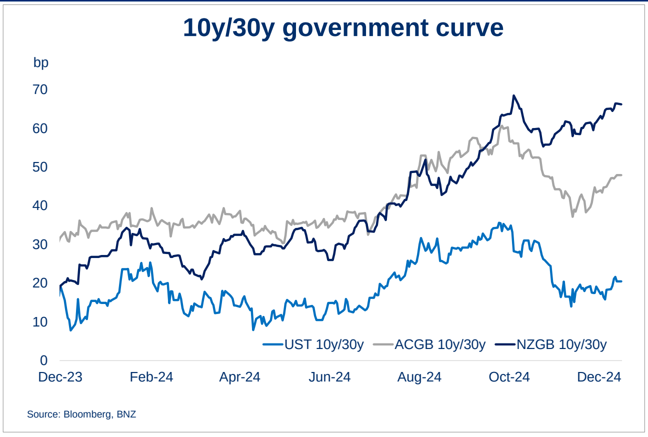


The Half Year Economic and Fiscal Update is released tomorrow. Recent commentary by Treasury officials and the finance minister has set the scene for an increase in funding requirements. The Treasury is expected to project a weaker economic outlook relative its Budget forecasts, and a deterioration in the fiscal backdrop, which will require additional government bond issuance over the forecast horizon.

Gross government bond issuance of NZ$38 billion for 2024/25 is already large from a historical perspective. New Zealand Debt Management (NZDM) have issued NZ$22 billion bonds in the first half of the fiscal year, split evenly between weekly tenders, and the two nominal syndications. Ahead of any revisions to the programme, we estimated about NZ$3 billion was required from a NZGB syndication ahead of June 30.

There has been strong investor demand in the syndications this fiscal year. This suggests room to target larger volumes from the remaining transaction, a tap of an existing nominal line, that was announced alongside the Budget in May. In addition, funding requirements may be smoothed across future fiscal years and could be accommodated by increasing short term borrowing. Outstanding T-Bill and European Commercial Paper volumes have declined by NZ$3 billion since the September peak.

Tepid NZGB long end demand impacting performance



The NZGB 10y/30y curve has steadily moved higher in recent weeks, and has underperformed both the US and Australian curves, since the collective peak in October. Investor demand for the 30Y NZGB sector has remained tepid. There has only been NZ$100 million 30-year NZGBs tendered in 2024/25, suggesting a lack of indicated demand by market participants. Non-resident investors hold the bulk of the ultras, but in the three months to the end of October, they have been net sellers, which has weighed on the long end of the curve.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	4.29	4.29 - 4.45
NZ 2yr swap (%)	3.60	3.55 - 3.93
NZ 5yr swap (%)	3.69	3.59 - 4.04
NZ 10yr swap (%)	4.02	3.91 - 4.36
2s10s swap curve (bps)	42	29 - 48
NZ 10yr swap-govt (bps)	-40	-40 - -32
NZ 10yr govt (%)	4.42	4.33 - 4.67
US 10yr govt (%)	4.40	4.13 - 4.50
NZ-US 10yr (bps)	3	3 - 27
NZ-AU 2yr swap (bps)	-30	-43 - -17
NZ-AU 10yr govt (bps)	13	-2 - 19

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, the USD was broadly stronger and the NZD underperformed, with NZD/USD down 1.2% and closing the week just over 0.5760 after falling to a fresh 2024 low of 0.5754 during Friday night trading. All NZD crosses were modestly weaker apart from NZD/JPY which rose 1.2% to 88.5, against a backdrop of higher global yields and the market deciding that the BoJ will not likely hike at its meeting this week.

The NZD's poor run through Q4 continues, having fallen over 9% after reaching its highest level for the year at the end of September. The NZ economy's poor relative performance against peers, including the exceptional US economy, and fears about the Trump 2.0 policy agenda have been key driving forces.

US inflation data were not strong enough to dissuade the Fed from cutting rates again later this week but, with inflation stabilising well above target and the economy still growing above trend, there is a strong consensus building for a pause in the easing cycle next year, and perhaps only two further rate cuts.

The ECB cut its policy rates by 25bps for a third successive meeting, taking the deposit rate down to 3.0% and the Bank of Canada cut rates by 50bp to 3.25% taking the cumulative easing since the cycle began in June to 150bps. Both central banks gave more guarded comments about the policy outlook and both NZD/EUR and NZD/CAD were weaker.

Surprising the market, the RBA made a dovish pivot, with the statement saying "the Board is gaining some confidence that inflation is moving sustainably towards target". The previous comment of not ruling anything in or out regarding policy was removed. However, later in the week, Australia's employment report was strong, with the unemployment rate falling two-tenths to an eight-month low of 3.9% in November, defying market expectations for a nudge up to 4.2%. The NZD/AUD's recent foray above 0.91 proved temporary, with the currency down 0.7% for the week to 0.9060.

The week ahead calendar is busy, including policy meetings by the Fed, BoE and BoJ. Thus, there is plenty of event risk to perturb currency markets, although we suspect currency positions are lighter than normal at this time of year.

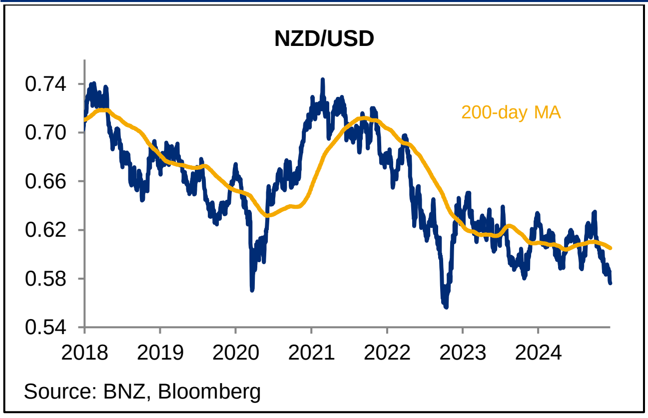
With the market fully pricing a 25bps rate cut by the Fed, the focus will be on the new projections and Chair Powell's tone. The market seems positioned for a hawkish cut, with the projections likely to convey less scope for easing next year, a possibly higher terminal Fed Funds rates and Powell strongly hinting that a pause in the easing cycle might be in order. The market sees little chance of the BoE cutting again at this meeting, while expectations for a BoJ hike have evaporated, more so after last week Bloomberg reported that BoJ officials see little cost to waiting before raising interest rates.

Domestically, the focus will be on NZ Q3 GDP, where yet another contraction (-0.4% q/q expected by all four major banks) is likely, but upward revisions to prior GDP data should help negate the vibe after another poor quarter. The half-year fiscal update, which will show further deterioration in NZ's fiscal accounts, is not normally a market moving event for the NZD.

On the global economic calendar, watch out for US retail sales and the PCE deflators, China monthly economic indicators, European and US PMIs, UK labour market data, and CPI reports for Canada, UK CPI, and Japan.

As we head into 2025, the NZD seems to be weakening at a more rapid rate than expected, with no positive seasonality yet seen in December. Trump's tariff policy will set the scene for how the NZD performs in the early part of 2025. Our bias remains negative for the currency for the first half of the year, and we still think that 0.55 is a key level to watch, which the NZD could weaken to.

NZD at fresh lows; Eyes on 0.55 next year on tariff policy



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5762	0.5760 - 0.5930
NZD/AUD	0.9056	0.8950 - 0.9150
NZD/GBP	0.4567	0.4530 - 0.4680
NZD/EUR	0.5489	0.5490 - 0.5620
NZD/JPY	88.53	87.00 - 90.60

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6970	-17%
NZD/AUD	0.8560	6%

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Technicals

NZD/USD

Outlook: Downside risk

ST Resistance: 0.58 (ahead of 0.60)

ST Support: 0.5600 (ahead of 0.55)

With a clear sustained break below prior key support of 0.58, that level now becomes resistance, and the next support level is well south, around 0.56, ahead of 0.55.

NZD/AUD

Outlook: Trading range

ST Resistance: 0.92 (ahead of 0.9315)

ST Support: 0.89 (ahead of 0.87)

A bit jumpy over recent weeks with no obvious support/resistance levels, but 0.89/0.92 should cover it for now.

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NZ 5-year Swap Rate

Outlook: Neutral

ST Resistance: 4.06

ST Support: 3.48

We have changed our outlook on 5 year swap to neutral as it appears to be rangebound for the time being. We may look to enter positions to fade any move toward resistance or support.

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

Outlook: Steeper

ST Resistance: 0.28

ST Support: -0.10

2x5s swaps spread was largely flat last week with nothing of note to impact our existing view.

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Quarterly Forecasts

Forecasts as at 16 December 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	0.5	0.8	0.8	0.8	0.8
Retail trade (real s.a.)	-1.8	0.5	-1.2	-0.1	0.5	0.8	1.0	1.2	1.1	0.9
Current account (ytd, % GDP)	-7.1	-6.7	-6.7	-6.7	-6.7	-6.4	-5.9	-5.7	-5.3	-5.0
CPI (q/q)	0.5	0.6	0.4	0.6	0.6	0.6	0.2	0.6	0.1	0.6
Employment	0.3	-0.4	0.2	-0.5	-0.2	0.2	0.5	0.6	0.7	0.7
Unemployment rate %	4.0	4.4	4.6	4.8	5.2	5.3	5.5	5.4	5.3	5.3
Avg hourly earnings (ann %)	6.6	4.8	4.0	3.2	3.4	3.9	3.6	3.0	2.9	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	2.2	2.3	2.3	2.1	2.1	1.6	1.6
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	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	4.90	5.07	5.28	4.85	4.90	5.65	4.45	0.64
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.60	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.60	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.35	3.95	0.37
Forecasts										
Dec	4.25	4.25	3.95	4.50	3.50	3.75	4.15	4.70	4.30	0.20
2025 Mar	4.00	3.75	3.70	4.50	3.20	3.55	4.15	4.45	4.30	0.20
Jun	3.50	3.25	3.45	4.45	2.95	3.35	4.15	4.20	4.25	0.20
Sep	3.00	2.90	3.45	4.45	3.00	3.40	4.20	3.95	4.25	0.20
Dec	2.75	2.90	3.55	4.30	3.15	3.50	4.10	3.70	4.00	0.30
2026 Mar	2.75	2.90	3.70	4.30	3.45	3.70	4.15	3.70	4.00	0.30

Exchange Rates (End Period)

	USD Forecasts NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.58	0.64	1.05	1.26	154	0.58	0.91	0.55	0.46	88.5	68.6
Dec-24	0.60	0.66	1.05	1.27	153	0.60	0.90	0.57	0.47	91.0	70.0
Mar-25	0.58	0.65	1.04	1.27	155	0.58	0.89	0.56	0.46	89.9	69.0
Jun-25	0.57	0.64	1.05	1.27	155	0.57	0.89	0.55	0.45	88.4	68.7
Sep-25	0.59	0.66	1.06	1.28	153	0.59	0.89	0.55	0.46	89.5	69.5
Dec-25	0.60	0.67	1.07	1.28	150	0.60	0.89	0.56	0.47	89.3	70.1
Mar-26	0.62	0.69	1.08	1.29	144	0.62	0.89	0.57	0.48	88.6	71.5
Jun-26	0.64	0.71	1.11	1.32	140	0.64	0.89	0.57	0.48	88.9	72.7
Sep-26	0.65	0.72	1.13	1.34	135	0.65	0.90	0.58	0.49	87.8	73.6
						TWI Weights					
						15.6%	18.4%	9.2%	3.9%	5.5%	

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

Annual Forecasts

Forecasts as at 16 December 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	2.1	7.4	3.4	0.4	0.8	1.8
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	-2.4	2.5	12.0	3.4	-1.2	-3.1	0.8
Stocks - ppts cont'n to growth	0.5	0.0	-1.4	0.7	0.6	1.4	-0.3	-1.3	0.4	0.8
GNE	7.9	2.5	-1.7	0.5	2.2	10.0	3.5	-1.8	0.1	1.6
Exports	2.5	5.6	8.6	1.2	5.1	-2.7	-0.8	11.4	3.2	3.9
Imports	17.2	4.4	-1.3	2.7	4.4	14.8	4.7	-0.6	2.5	3.9
Real Expenditure GDP	4.7	2.6	0.7	0.0	2.2	5.9	2.2	0.9	0.3	1.4
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	-1.4	-0.9	1.6	2.1	0.5	-1.1	-1.2
Nominal Expenditure GDP - $bn	358	388	410	422	442	353	381	405	419	437
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.3	1.6	5.9	7.2	4.7	2.3	1.6
Employment	2.5	3.1	1.1	-0.3	2.5	3.3	1.7	2.8	-0.9	2.0
Unemployment Rate %	3.2	3.4	4.4	5.3	5.3	3.2	3.4	4.0	5.2	5.3
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.4	2.9
Productivity (ann av %)	1.7	0.5	-2.2	0.2	1.0	3.6	0.2	-2.4	-0.1	1.0
Unit Labour Costs (ann av %)	4.6	6.5	8.3	3.6	1.9	2.4	6.5	8.9	4.5	2.0
House Prices (stratified, qtr)	9.1	-12.8	2.8	-0.6	7.0	22.5	-13.8	0.6	-1.0	6.5
External Balance										
Current Account - $bn	-24.5	-33.8	-27.6	-26.8	-22.1	-21.3	-35.6	-28.6	-27.9	-23.1
Current Account - % of GDP	-6.8	-8.7	-6.7	-6.4	-5.0	-6.0	-9.4	-7.1	-6.7	-5.3
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-3.1	-3.5	-2.3					
Net Core Crown Debt (ex NZS)	35.5	39.3	42.5	44.3	44.1					
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	0.58	0.62	0.68	0.63	0.62	0.60	0.60
USD/JPY	119	134	150	155	144	114	135	144	153	150
EUR/USD	1.10	1.07	1.09	1.04	1.08	1.13	1.06	1.09	1.05	1.07
NZD/AUD	0.93	0.93	0.93	0.89	0.89	0.95	0.94	0.93	0.90	0.89
NZD/GBP	0.52	0.51	0.48	0.46	0.48	0.51	0.52	0.49	0.47	0.47
NZD/EUR	0.62	0.58	0.56	0.56	0.57	0.60	0.60	0.57	0.57	0.56
NZD/YEN	81.5	83.0	91.1	89.9	88.6	77.4	85.6	89.5	91.0	89.3
TWI	73.9	71.0	71.2	69.0	71.5	73.0	72.9	72.0	70.0	70.1
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	3.70	3.70	2.20	4.30	4.50	3.95	3.55
10-year Govt Bond	3.20	4.35	4.60	4.50	4.30	2.35	4.25	4.65	4.50	4.30
2-year Swap	3.00	5.15	4.91	3.20	3.45	2.22	5.21	4.93	3.50	3.15
5-year Swap	3.20	4.50	4.40	3.55	3.70	2.56	4.62	4.43	3.75	3.50
US 10-year Bonds	2.10	3.65	4.20	4.30	4.00	1.45	3.60	4.00	4.30	4.00
NZ-US 10-year Spread	1.10	0.70	0.40	0.20	0.30	0.90	0.65	0.65	0.20	0.30

(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 16 December			
JN	Core Machine Orders MoM Oct	1.10%		-0.70%
UK	Rightmove House Prices YoY Dec			1.20%
CH	Used Home Prices MoM Nov			-0.48%
CH	Industrial Production YoY Nov	5.40%		5.30%
CH	Retail Sales YoY Nov	5.00%		4.80%
CH	Fixed Assets Ex Rural YTD YoY Nov	3.50%		3.40%
CH	Surveyed Jobless Rate Nov	5.00%		5.00%
EC	ECB's Lagarde, Simkus, Guindos speak			
GE	HCOB Germany Services PMI Dec P	49.3		49.3
EC	HCOB EZ Manufacturing PMI Dec P	45.3		45.2
EC	HCOB Eurozone Services PMI Dec P	49.5		49.5
UK	S&P Global UK Manufacturing PMI Dec P	48.5		48
UK	S&P Global UK Services PMI Dec P	51		50.8
EC	Labour Costs YoY 3Q			4.70%
	Tuesday 17 December			
EC	ECB's Wunsch, Escriva speak			
US	Empire Manufacturing Dec	10		31.2
US	S&P Global US Manufacturing PMI Dec P	49.5		49.7
US	S&P Global US Services PMI Dec P	55.8		56.1
EC	ECB's Schnabel speaks			
CA	Bank of Canada Governor Tiff Macklem speaks			
NZ	Half-Year Economic & Fiscal Update			
UK	ILO Unemployment Rate 3Mths Oct	4.30%		4.30%
UK	Payrolled Employees Mthly Chnge Nov	-5k		-5k
GE	IFO Expectations Dec	87.5		87.2
EC	ECB's Kazimir, Rehn speak			
GE	ZEW Survey Expectations Dec	6.6		7.4
EC	Trade Balance SA Oct	10.0b		13.6b
	Wednesday 18 December			
US	Retail Sales Advance MoM Nov	0.50%		0.40%
US	Retail Sales Ex Auto and Gas Nov	0.40%		0.10%
US	Retail Sales Control Group Nov	0.40%		-0.10%
US	New York Fed Services Business Activity Dec			-0.5
US	Manufacturing (SIC) Production Nov	0.50%		-0.50%
NZ	GDT dairy auction			1.20%
US	Business Inventories Oct	0.10%		0.10%
US	NAHB Housing Market Index Dec	47		46
NZ	Westpac Consumer Confidence 4Q			90.8
NZ	Current Account GDP Ratio YTD 3Q	-6.60%	-6.70%	-6.70%
AU	Westpac Leading Index MoM Nov			0.18%
JN	Trade Balance Nov	-¥688.8b		-¥461.2b
UK	CPI YoY Nov	2.60%		2.30%
UK	CPI Services YoY Nov	5.10%		5.00%
EC	ECB's Muller, Land, Nagle, speak			
SW	Riksbank monetary policy meeting			
EC	CPI YoY Nov F	2.30%		2.30%

		Median	Fcast	Last
EC	CPI Core YoY Nov F	2.70%		2.70%
	Thursday 19 December			
UK	CBI Trends Total Orders Dec	-22		-19
UK	CBI Trends Selling Prices Dec			11
EC	Bundesbank Publishes Monthly Report			
US	Housing Starts Nov	1343k		1311k
US	Current Account Balance 3Q	-$287.1b		-$266.8b
US	FOMC Rate Decision (Upper Bound) Dec-18	4.50%	4.50%	4.75%
NZ	GDP SA QoQ 3Q	-0.20%	-0.40%	-0.20%
NZ	ANZ Business Confidence Dec			64.9
GE	GfK Consumer Confidence Jan	-22.8		-23.3
SW	Riksbank Policy Rate Dec-19	2.50%		2.75%
JN	BOJ Target Rate Dec-19	0.25%		0.25%
	Friday 20 December			
UK	Bank of England Bank Rate Dec-19	4.75%	4.75%	4.75%
US	GDP Annualized QoQ 3Q T	2.80%		2.80%
US	Philadelphia Fed Business Outlook Dec	2.9		-5.5
US	Initial Jobless Claims Dec-14	229k		242k
US	Continuing Claims Dec-07			1886k
US	Existing Home Sales Nov	4.08m		3.96m
NZ	ANZ Consumer Confidence Index Dec			99.8
NZ	Trade Balance NZD Nov		-1075m	-1544m
JN	Natl CPI YoY Nov	2.90%		2.30%
AU	Private Sector Credit MoM Nov	0.50%		0.60%
UK	Retail Sales Inc Auto Fuel MoM Nov	0.50%		-0.70%
	Saturday 21 December			
US	Fed's Daly speaks			
US	Personal Income Nov	0.40%		0.60%
US	Personal Spending Nov	0.50%		0.40%
US	Real Personal Spending Nov	0.30%		0.10%
US	PCE Price Index YoY Nov	2.50%		2.30%
US	Core PCE Price Index MoM Nov	0.20%		0.30%
US	Core PCE Price Index YoY Nov	2.90%		2.80%
EC	Consumer Confidence Dec P	-14		-13.7
US	U. of Mich. Sentiment Dec F	74		74
US	Kansas City Fed Services Activity Dec			9
	Monday 23 December			
NZ	Household credit Nov			3.40%
NZ	New residential lending Nov			30.40%
UK	Current Account Balance 3Q			-28.4b
UK	GDP QoQ 3Q F			0.10%
	Tuesday 24 December			
US	Chicago Fed Nat Activity Index Nov			-0.4
US	Conf. Board Consumer Confidence Dec	113		111.7
JN	BOJ Minutes of Oct. Meeting			
AU	RBA Minutes of Dec. Policy Meeting			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	4.25	4.25	4.75	5.50
1mth	4.38	4.38	4.51	5.58
2mth	4.39	4.39	4.44	5.61
3mth	4.29	4.30	4.42	5.63
6mth	4.04	4.06	4.20	5.59
GOVERNMENT STOCK				
04/27	3.76	3.76	4.02	4.45
05/30	4.04	4.00	4.34	4.43
05/32	4.29	4.22	4.54	4.50
05/35	4.51	4.42	4.74	
04/37	4.68	4.59	4.89	4.72
05/41	4.89	4.80	5.07	4.81
05/54	5.06	4.96	5.22	
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	48	47	49	58
Europe 5Y	54	53	56	62

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.61	3.60	3.86	4.80
3 years	3.59	3.57	3.85	4.51
4 years	3.64	3.60	3.91	4.37
5 years	3.71	3.66	3.98	4.30
10 years	4.05	3.95	4.31	4.36
FOREIGN EXCHANGE				
NZD/USD	0.5763	0.5864	0.5893	0.6212
NZD/AUD	0.9056	0.9106	0.9057	0.9262
NZD/JPY	88.59	88.66	91.14	88.68
NZD/EUR	0.5491	0.5557	0.5560	0.5687
NZD/GBP	0.4569	0.4600	0.4649	0.4911
NZD/CAD	0.8205	0.8311	0.8259	0.8323
TWI	68.6	69.3	69.2	72.0

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