Research

Markets Outlook

1 July 2024

RBNZ MPR Preview

- **No change in rates**
- **No change in the central story**
- **We see the November MPS as providing the point of inflection**
- **Though not necessarily the first cut**
- **QSBO of key interest this week**

The clear consensus in the investor community is that the RBNZ will have to ease monetary conditions a lot earlier than it has been suggesting. This is fully revealed in the fact that a rate cut in November of this year is fully priced. Indeed, there is even a small chance of an October cut in the mix.

We too believe rate cuts will eventually occur sooner than the Q4 2025 indicated in the May Monetary Policy Statement but while we understand that markets, focussed on the demise of the economy, want action now we, equally, stress that it remains inflation that is the focus of the central bank and it, rightly or wrongly, has been giving a clear message that there is much work to be done on this front.

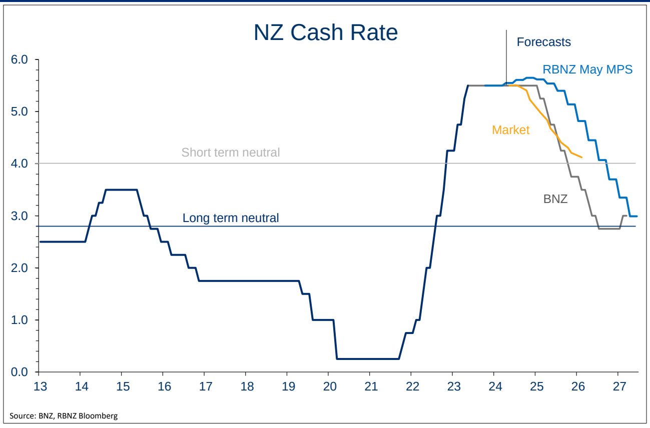
With this in mind, we think the RBNZ will stick to its knitting at the upcoming July Monetary Policy Review. It will likely acknowledge that economic activity is faltering but continue to warn that it is in no rush to respond to that.

Importantly, this is a Monetary Policy Review, not a Monetary Policy Statement so there will be no interest rate track for nervous financial market participants to focus on so it will simply be the words of the record of meeting that will inform market pricing. With this in mind, folk will be looking for any repeated comment that the committee pondered raising interest rates at this meeting as it did in May.

In an ideal world, we think the Bank would like to see the market take back some of its relative dovishness but it is hard to see how it might achieve this. The May warning of a possible rate hike was quickly dismissed by markets as investors focused on the plethora of weak real economy data. With that data likely to remain equally as weak it's hard to see anything other than a short term blip in rates even if the RBNZ hawks fly. In contrast, any sign of a shift towards a softening stance could well see an October cut fully priced.

Currently, our view is that the first rate cut will be in February 2025. We have to admit that we are starting to feel more nervous that a November 2024 cut is a possibility but a lot has to happen to make that our central view.

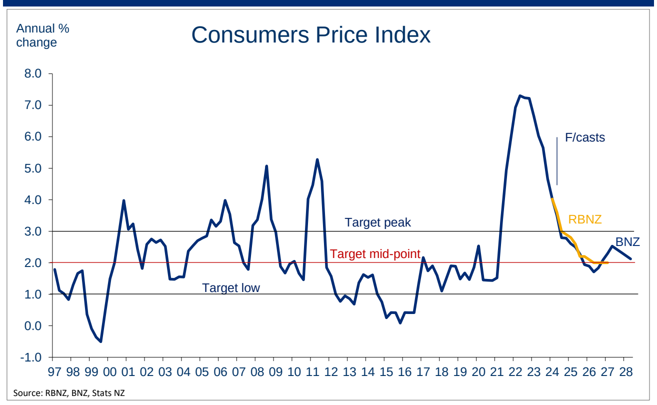
Sooner but not yet



From our perspective there are two necessary, but not sufficient, developments that have to occur before the Bank moves. And then there are a series of "desired" outcomes that must occur as well.

In our opinion the most important necessary condition is that annual CPI inflation must be inside the target band before the Reserve Bank will feel relaxed enough to contemplate any softening in its stance. It's said as much in the past.

Into the band



We are forecasting annual inflation will still be 3.5% in the June quarter. However, we are angling for it to be 2.8% in the September quarter. At the May MPS the RBNZ was forecasting 3.0%.

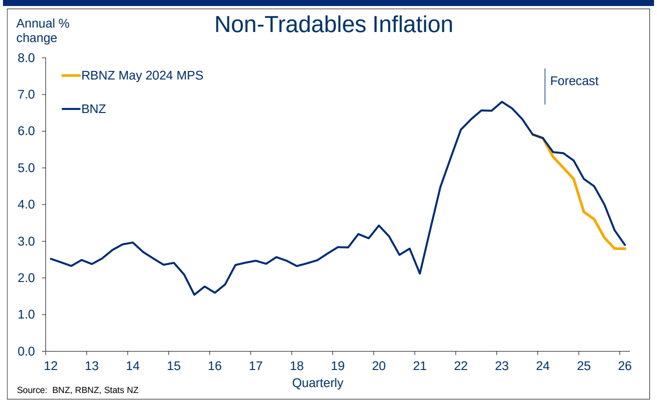
The September CPI is published on October 16. If our forecast proves correct, then this potentially makes the November Monetary Policy Meeting live for a rate change.

We think a secondary necessary condition is that the Fed has begun easing. The Fed easing in and of itself doesn't mean the RBNZ needs to follow suit but if the Fed moves it (a) suggests weakness in the US economy which will dampen global demand and (b) might help support the NZD on an interest rate differential basis.

Other key factors to take into consideration are: non-tradables inflation, fiscal policy, and productivity.

The RBNZ has made it clear it wants to see lower non-tradables inflation. We hope the Bank will eventually accept that there are a number of relative price increases such as insurance and rates that can be looked through. Nonetheless, it has been made abundantly clear that more progress needs to be made on this front. We will be monitoring this very closely but fear it could be as late as next year before annual non-tradables inflation falls below 5.0%. It appears that there is a very real chance that the Bank continues to be surprised on the upside in this respect.

The achilles heel

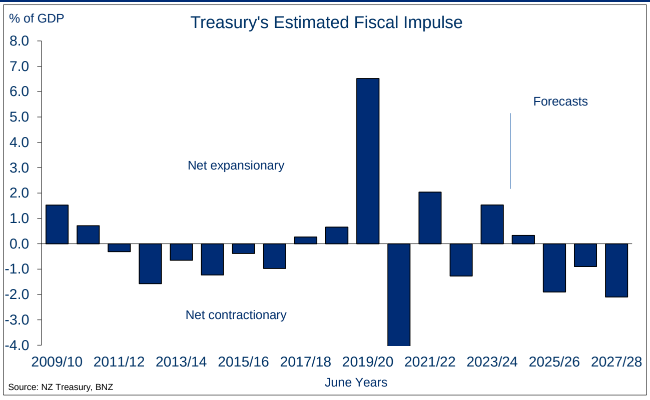


On the fiscal policy front, the RBNZ will want to feel more confident fiscal policy is not only not adding to inflation but countering it. This will require some satisfaction the negative fiscal impulse the Government is forecasting can be achieved.

From a starting point perspective note that the tax cuts were not included in the Bank's May forecasts nor was the heightened fiscal impulse that was revealed in the recent Budget. This means that, all other things being equal, the fiscal situation would have moved the RBNZ closer to a rate hike. But all other things are not equal so we don't think rate hikes will really be on the agenda at this meeting.

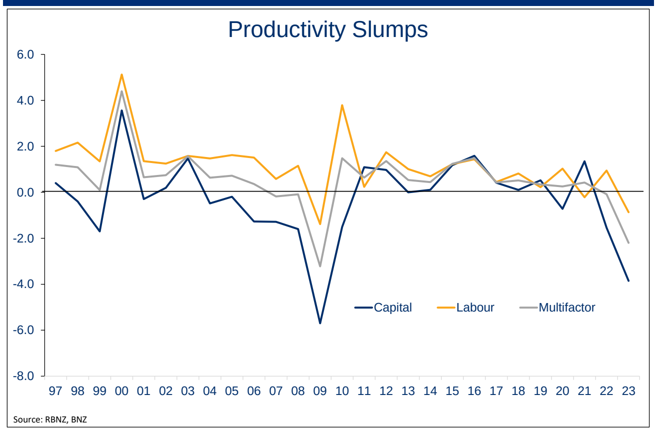
The productivity issue is a difficult one. Weaker productivity means weaker potential growth means higher inflation at any given level of growth than would previously have been the case. Be that as it may, we were a little surprised the Reserve Bank got so excitable about this at its MPS. Productivity is highly cyclical and is a residual in short term forecasts albeit that it plays into the inflation story directly via unit labour costs.

Fiscal contraction needed



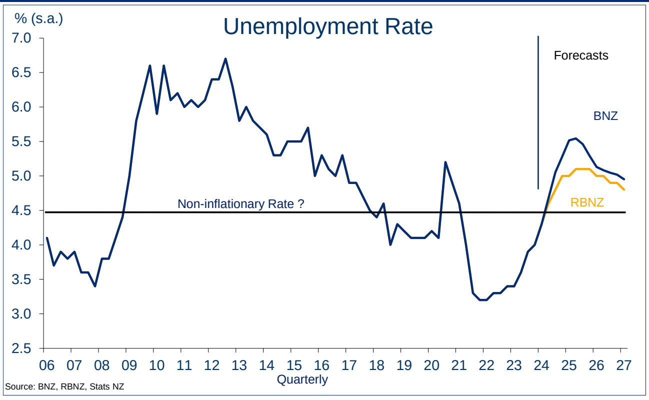
Understanding trend productivity is very useful for longer term forecasting but not as much so for the short term. As economies contract productivity almost always falls, in the first instance, as labour shedding lags declining growth. But eventually the inevitable labour market correction will see some sort of reversal of the drop in productivity.

Productivity dip transitory



With this in mind perhaps the unemployment rate becomes a good near term proxy for likely shifts in productivity. Given this we think a weaker than expected labour market will also eventually be a driver of the Bank's decision to ease earlier than it currently assumes. But it might take a while for the Bank to reach this conclusion. It already has a steep rise in the unemployment rate built into its near-term forecasts. We think the surprise will be that the increase continues unabated rather than the unemployment rate peaking at the 5.1% the RBNZ currently assumes. The data are not likely to seriously surprise the Bank for several quarters but its forecasts could well change earlier based on the ongoing deterioration in the economy.

Unemployment to surprise



Putting all this together we think that by November the Reserve Bank will have sufficient information to give clear updated guidance as to the easing track ahead. We still don't think the RBNZ will ease in November but will instead set things up for a first move in February.

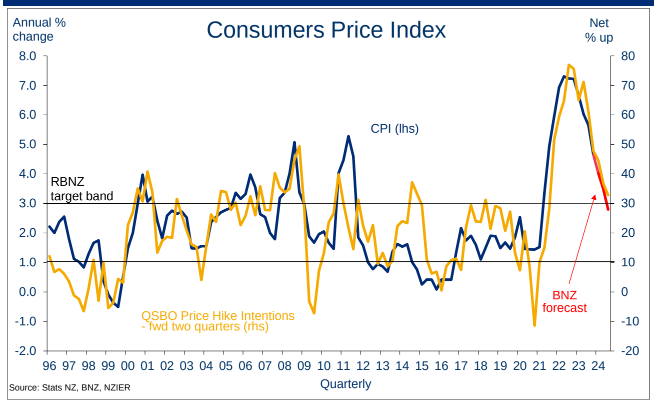
For now, though, the upcoming meeting will give the RBNZ the opportunity to play another straight bat in deflecting away any thought of an immediate rate cut even while acknowledging the parlous state of the economy.

Of course, in the week ahead there are data that could influence the wording of the Bank's statement, but which are unlikely to change the final verdict.

The big news for the week will be Tuesday's NZIER Quarterly Survey of Business Opinion. There is no reason to believe the results from this survey will be anything other than miserable. There are simply too many other indications that the economy has stalled to assume the QSBO will say anything different.

In many ways the real economy indicators matter little unless there is clear accompanying indication that inflationary pressures are diminishing. For this we will be looking very carefully at the reported and expected price series for confirmation of our view that inflation is on the wane.

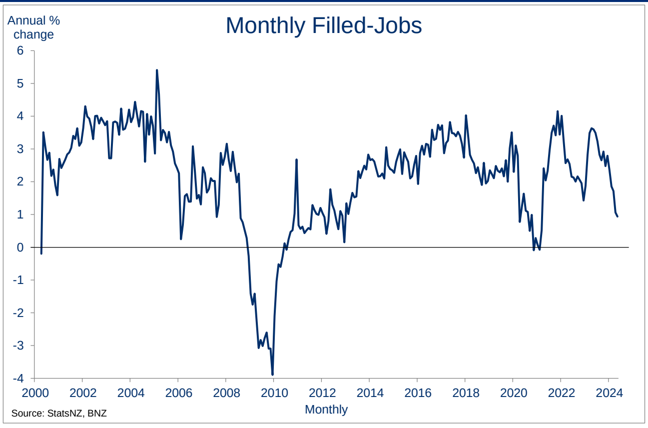
Pricing intentions need to fall further



The other key indicator for us will be employment intentions. So far, the unemployment rate has risen because the supply of labour has outstripped demand growth not because of labour shedding. We fear outright job losses could soon be the order of the day and will be looking for signs of this.

The employment indicators for May, as released this morning, certainly reveal a weakening labour market with filled jobs flat for the month and an outright decline now reported for April. All things being equal it is starting to look like there will be near zero growth in jobs in the June Quarter Household Labour Force Survey putting upward pressure on our already pessimistic unemployment track.

Jobs growth slowing rapidly



On Tuesday we get building consents for May. There have been signs that residential consents may have troughed. We will be looking for confirmation that this is so.

Rounding things off is ANZ's Commodity Price Index on Wednesday. We are looking for an increase of around 1.0% in the month, but this will still convert to a drop in earnings for New Zealand producers thanks to the appreciation of the NZD over the period.

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Global Watch

- **ECB's central bank forum: Lagarde, Powell to speak**
- **Global PMIs to show growth pulse**
- **US payrolls seen slowing to 190k; unemployment steady**
- **EZ inflation expected to slow marginally**
- **French elections, second round this weekend**
- **UK election on 4 July**
- **FOMC, RBA minutes due**

Week in review

Last week was a big one for Australian financial markets. The monthly inflation indicator printed hotter than expected at 4.0% y/y vs. 3.8% consensus. Mapping the two prints so far for the quarter is suggestive of a Q2 trimmed mean inflation print of 1.0% q/q (published on 31 July). A print of 1.0% or greater, would be well above the 0.8% the RBA had expected in their May SoMP.

The clear risk is the RBA may feel compelled to hike rates again as soon as August. Either way the print also suggests little likelihood of a near term cut. Following the data, NAB pushed out its first rate cut call to May 2025 (from November 2024), while also acknowledging the risk the RBA hikes again.

Australian bonds sold off and rate hike pricing lifted sharply. Markets currently sit around a 55% chance of a hike by November 2024, paring some chance following non-committal comments by the RBA Deputy Governor Hauser: "*There's a whole series of data coming out…It would be a bad mistake to set policy on the basis of one number.*"

RBA Assistant Governor Kent also gave a speech on 'Restrictive Financial Conditions'. An update to the RBA's nominal neutral pegs it a little above 3½%.

In other markets, the Fed's preferred gauge of inflation decelerated in May. The core PCE deflator rose 0.1% from the prior month, which is the smallest increase since November 2020, and matched consensus estimates. This took the annual core rate to 2.6%. Several months of sub 0.2% core readings, will increase confidence amongst US policymakers that inflation is moving sustainably lower, and increase the likelihood of 2024 rate cuts. Market pricing for Fed monetary policy has been stable over the past week with around 45bps of rate cuts priced by December.

US real consumption rose by 0.3% in May which was in line with the median estimate. Separately, a University of Michigan report showed consumer sentiment moved higher while inflation expectations moderated.

China PMIs came in at 49.5 for manufacturing, which met consensus expectations. Non-manufacturing printed at 50.5, lower than then 51.0 expected.

Canadian CPI printed on the high side, with BoC rate cut expectations pared. The Riksbank kept rates on hold and guided towards two more cuts for 2024.

President Biden-Trump had their first debate, with the consensus being that Trump won the debate. Democratic strategists were reported as debating whether Biden should continue as candidate for the November election. One to watch for markets.

The spread between French and German 10-year bonds widened to 84bps, which is the highest level since 2012, before retracing ahead of the first round of voting in France's elections. Initial projections this morning show Marine Le Pen's National Rally gaining the most vote amid high turnout which is in line with prior expectations. The focus will turn to whether the party can get an absolute majority in the second round of voting next weekend.

Week Ahead in Brief

US markets are closed for the Independence Day holiday on Thursday so markets are likely to be thinner than usual.

Australian May retail sales are due on Wednesday and RBA June meeting Minutes are out on Tuesday. Building approvals and goods trade data are also released during the week. For AU retail sales, NAB has pencilled in modest nominal growth of 0.2% m/m, and expect the trend to remain consistent with soft consumption growth through Q2. From the RBA Minutes any hints about how seriously a hike was debated will be of interest as we look ahead to the August Meeting.

The UK election is 4 July, where Labour has a commanding 20pt lead and where the main question is how large its majority in parliament will be. The US political media cycle will also remain a focus, with renewed questions of Biden's candidacy in the wake of the first Presidential debate.

Away from politics, there are some key data to look out for as well. US Payrolls dominates the calendar on Friday, where the early consensus is for slower but still robust payrolls growth (190k) and an unemployment rate staying at 4.0%. Ahead of that is the usual run of second tier labour market indicators.

PMIs also feature. US ISMs will also be in focus as investors size up how much stock to put in tentative signs US growth has continued to moderate. Manufacturing is on Tuesday, Services is Thursday, each alongside the release of final S&P Global PMIs.

In China, the Caixin Manufacturing PMI is due today and Caixin Services PMI is out Wednesday, where both are seen easing marginally from the previous month.

Eurozone Preliminary June CPI likely slowed a tick from the 2.6% y/y headline and 2.9% y/y core reads in May.

From Central Banks, the FOMC June meeting minutes are published Wednesday. Also expect plenty of commentary alongside the ECB's annual central banking forum in Sintra. The title is 'Monetary Policy in an era of transformation.' The conference runs Monday to Wednesday. Among the likely highlights, Lagarde gives opening remarks Monday and appears on a panel alongside Fed Chair Powell on Tuesday.

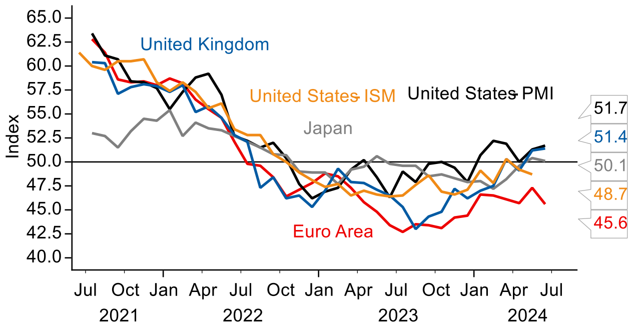
Important Events Preview

Monday 1

EU/UK/US Manufacturing - US ISM & Final PMIs

The US ISM Manufacturing will be closely watched given the S&P Global version sits at 51.7. Consensus sees the ISM at 49.1 from 48.7 previously. In Europe the final versions of the PMIs are out with no revisions expected.

Manufacturing PMIs



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

EU ECB 2024 CBK Forum from Sintra, Portugal

The ECB's annual central banking forum from Sintra runs from 1-3 July, with the title this year of 'Monetary Policy in an era of transformation'. ECB President Lagarde's opening address (1 July). Exec Board Member Schnabel also chairs an afternoon session on 'geopolitical shocks and inflation.' Lagarde and Fed chair Powell attend a panel with Brazil CBK Governor Campos Neto. Chief Econ Lane and New York Fed's Williams are among a panel discussing equilibrium interest rates on 3 Jul.

EZ Germany June Preliminary HICP Inflation

German CPI comes a day before the wider Eurozone figure.

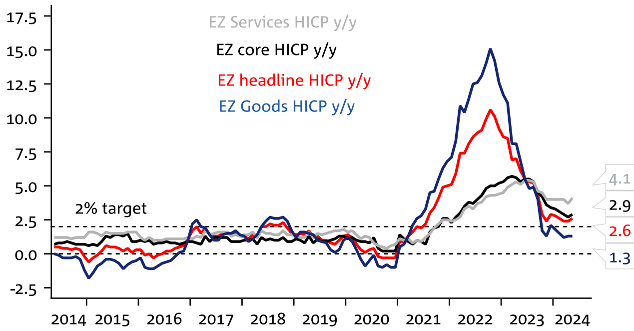
Tuesday 2

AU RBA Minutes

The RBA considered the case for a hike or a hold at the last two meetings. The June minutes will be scoured for hints as to how finely balance that decision really was and how high the bar is for the RBA to come off the side lines so late into a tightening cycle.

EZ ECB June Preliminary HICP Inflation

EZ headline inflation fell from cycle peak of 10.7% in late 2022 to a low of 2.4% in November 2023, but since then has chopped around between there and 2.9%. The June data is expected to see a slight decrease from 2.6% to 2.5%, with risks on the downside from a reasonable drop in German prices. Core EZ inflation is also expected to ease back from May's 2.9% upturn to 2.8%. Services prices remain the point of discussion after showing a reluctance to move and stay below 4% – in part due to the staggered nature of wage payments. Still, the ECB is expressing confidence that forward-looking indicators of wage settlements signal these will moderate.



Source: National Australia Bank, Macrobond

EZ/US Powell and Lagarde Panel at Sintra

Wednesday 3

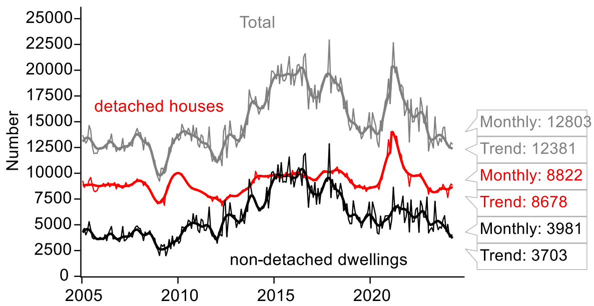
AU Retail Sales

NAB has pencilled in a 0.2% m/m outcome for retail sales in May. RBA's Hauser cited retail sales among the list of indicators they get ahead of the August meeting, but NAB thinks it would be hard for it to swing the dial much given it is only a partial indicator of consumption and can be volatile month to month.

AU May Building Approvals

Building approvals for detached house approvals have been trending sideways at soft levels, while apartment approvals threatening to weaken even further.

Private Dwelling Approvals



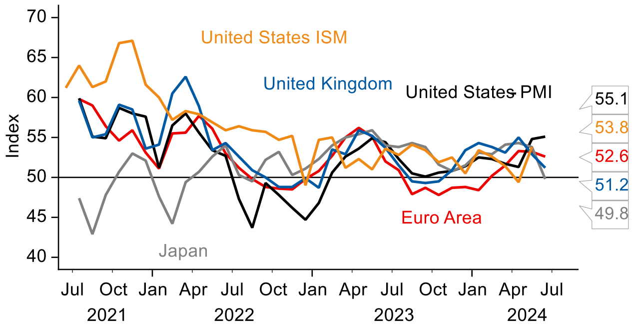
Source: National Australia Bank, ABS

EU/UK/US S&P Final June Services PMIs

US Services ISM

The Services ISM will be under focused after the preliminary S&P global version rose to 55.1. The consensus for the Services ISM is for a pull back to 52.5 from 53.8.

Services PMIs



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

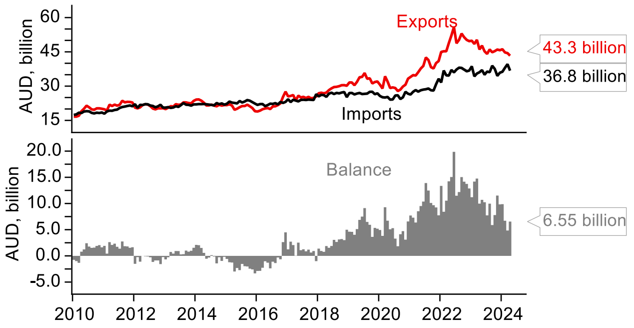
US FOMC June Minutes

Thursday 4

AU Goods Trade Balance

The goods trade balance has trended lower with recent volatility driven by swings in import values. NAB pencils in a $6bn surplus in May, after $6.5bn in June.

Monthly Trade in Goods



Source: National Australia Bank, ABS

UK General Election

The UK goes to the polls, which close at 22.00 BST. Results will filter out over the following hours and through Friday, though the result will be clear at some stage during APAC's Friday session. The current Opposition party, Labour has a commanding 20pt lead and where the main question is how large will its majority in parliament be?

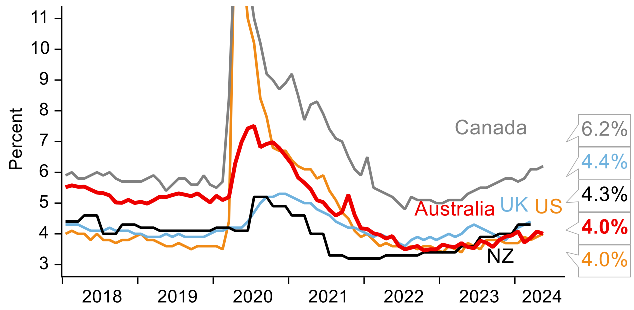
US Independence Day Public Holiday

Friday 5

CA Employment

The lift in the unemployment rate in Canada from its post-pandemic lows has been more stark than advanced economy peers. BoC Governor Macklem last week said *"we continue to think that we don't need a large rise in the unemployment rate to get inflation back to the 2% target"* though hotter than expected May CPI has seen cut pricing pared. Note that Canadian employment definitions include some passive job seekers, it would be around 1ppt lower on US definitions, but the comparison to pre-pandemic and recent cooling would be the same. The early consensus for the unemployment rate in June is for another push higher to 6.4%.

Unemployment rates

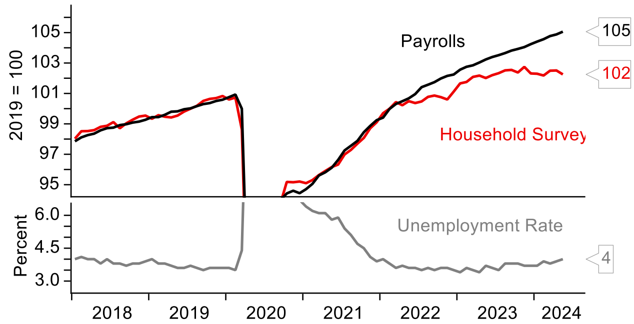


Source: National Australia Bank, U.S. Bureau of Labor Statistics (BLS), U.K. Office for National Statistics (ONS), Statistics New Zealand, Statistics Canada, Australian Bureau of Statistics

US Payrolls

Consensus once again looks for some moderation in still strong payrolls growth, at 190k. Last month saw a strong 272k jobs added. Despite strength in reported payrolls growth, the unemployment rate has been gradually trending higher and openings and quits have largely normalised. The Fed's June dots see the unemployment rate unchanged through the end of the year. Average hourly earnings are expected at 0.3%.

US Employment and Unemployment



Source: National Australia Bank, U.S. Bureau of Labor Statistics (BLS), Macrobond

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Fixed Interest Market

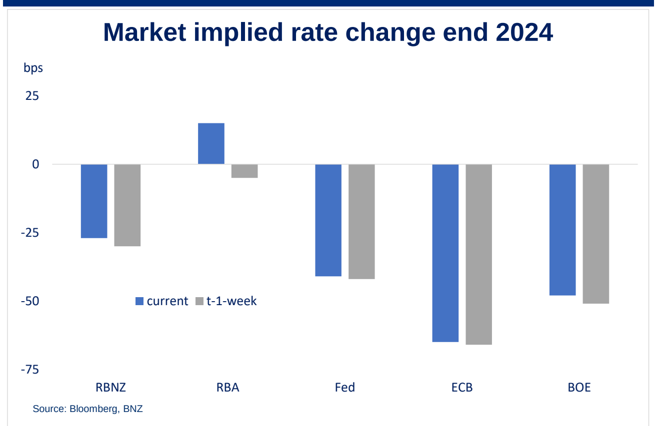
Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income yields moved higher last week as the base of the range continued to hold. 10-year NZ government bonds (NZGB) rebounded off the 4.50%-4.60% region which has constrained the downside for yields on several occasions since February. In the absence of first-tier domestic data, the directional bias was driven by offshore markets. An upside surprise to May CPI data in Australia, prompted a significant move higher in Australian yields, which spilled over to NZ.

The market is pricing an increased chance of the Reserve Bank of Australia (RBA) extending the tightening cycle. There is around 15bps of hikes priced by December, compared with modest easing a week ago, which contributed to a sharp contraction in NZ-AU cross market spreads. 10-year NZGB – ACGB (Australian government bond) spreads fell to 30bps during last week which is the narrowest level in two years. We estimate there is potential for further modest tightening based off the relative path for RBNZ and RBA policy rates.

It seems likely NZ fixed income will remain confined to recent ranges for now. However, there are several potential catalysts in the week ahead to challenge this view. The main domestic economic data is the Quarterly Survey of Business Opinion which will provide indicators on activity and inflation. Global PMIs will present an update on international economic activity and the key release is monthly US labour market data.

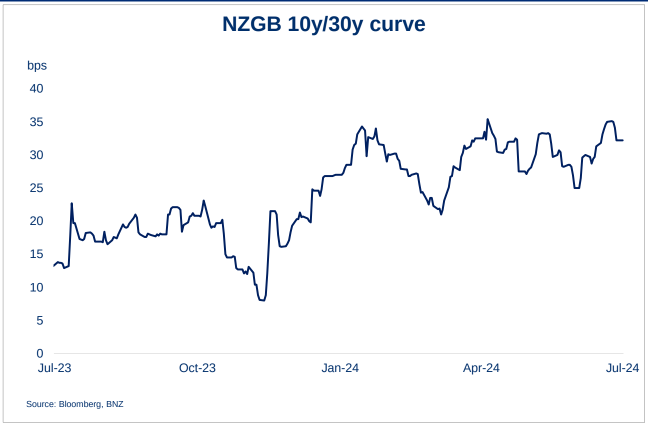
Market pricing a chance of a RBA hike



New Zealand Debt Management (NZDM) released the tender schedule for July last week and kept the weekly issuance volumes constant at NZ$500 million. We had flagged a chance of an increase, but weak bid cover ratios in June, support leaving volumes unchanged. With tender volumes constant, we estimate the three syndications slated for 2024/25, will need to raise NZ$5 billion on average. This is large in the context of syndications in the past three years. The tap of the April-2033 line, in July 2023, is the only transaction which has raised NZ$5 billion.

There were no further details about future syndications provided in the tender schedule. NZDM announced alongside the Budget Economic and Fiscal Update that it expects to undertake three nominal bond syndications in 2024/25. One syndication is expected to be the establishment of a new bond line – we expect a 2036 maturity – as well as two tap syndications of existing nominal bond lines. After the series of syndications in recent months, we expect NZDM will wait until late August, at the earliest, to bring a further transaction to market.

NZGB 10y/30y curve too steep



The 10y/30y NZGB curve has steepened towards the top of the 2024 trading range in recent weeks. The move has been idiosyncratic with US treasury and ACGB curves broadly trading sideways during the same period. Part of the move higher in the NZGB curve can be attributed to the relative sensitivity of the curve segments to the decline in yields in June. However, after conditioning for the level of yields the 10y/30y curve appears too steep, and we expect a move back towards 25bps.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	5.63	5.00 - 5.63
NZ 2yr swap (%)	4.96	4.88 - 5.14
NZ 5yr swap (%)	4.46	4.33 - 4.68
NZ 10yr swap (%)	4.51	4.36 - 4.72
2s10s swap curve (bps)	-45	-52 - -45
NZ 10yr swap-govt (bps)	-16	-18 - -11
NZ 10yr govt (%)	4.67	3.84 - 4.88
US 10yr govt (%)	4.40	4.19 - 4.57
NZ-US 10yr (bps)	27	26 - 38
NZ-AU 2yr swap (bps)	59	54 - 90
NZ-AU 10yr govt (bps)	36	26 - 51

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, the NZD was on the weaker side of the ledger, with NZD/USD down 0.4% to about 0.6090. The yen was even weaker, reaching multi-decade lows and NZD/JPY closed the week up slightly to just over 98, its highest level since 1986. NZD/AUD fell nearly 1% to 0.9130 after stronger than expected Australian inflation data brought a possible RBA rate hike into play. The NZD fell around ½% against the CAD, EUR and GBP.

Last week NZD/USD broke below the previous support level we indicated of 0.6085, to reach a six-week low of 0.6058. Not helping was downward pressure on the yuan and yen and a poor performance by President Biden in the first Presidential election debate, which resulted in broad USD strength at the time. On unrounded figures, the NZD continues to consolidate in the 0.61-0.62 range it has been mostly confined to since mid-May, although clearly the downside is being tested. Our published end-Q3 target is 0.61, consistent with continued consolidation over coming months and, broadly, a 0.59-0.63 trading range.

The path of the yen remains a concern as a possible ongoing headwind for the NZD. With the yen making fresh multi-decade lows, there is no technical support and it all stems from the BoJ's reluctance to tighten monetary policy, even though inflation in Japan has been above the 2% target for 26 consecutive months. Japan stepped up verbal intervention on the yen, with vice Finance Minister Kanda warning that authorities stand ready to intervene in currency markets 24 hours a day if necessary, but these daily verbal interventions are hollow. Forthcoming intervention on further yen weakness could create some market volatility.

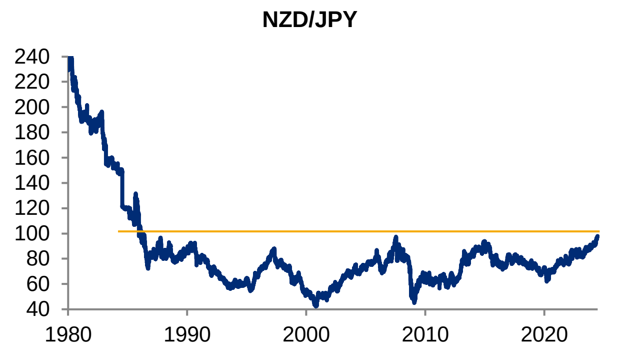
The weaker yen is exuding downward pressure on the yuan. The PBoC weakened the reference rate for CNY for seven consecutive days through to Thursday. This cumulated to a depreciation of just 0.17% but the symbolism of the move was notable. USD/CNY continues to trade near the upper 2% limit of its daily trading range, suggesting market pressure to take the yuan lower, but the PBoC is tightly managing the process. The weaker yen is forcing the hand of the PBoC. Earlier in the year we saw the weaker yen/yuan combo spilling over to a weaker NZD. The risk is that this factor lingers for a little longer.

AUD outperformance last week followed Australia's monthly CPI indicator showing an annual lift of 4.0% y/y, two-tenths higher than the market consensus. Given the RBA's low tolerance for upside inflation surprises, the market moved to increase the chance of a rate hike, with a move as soon as the August meeting possible, depending on how the CPI print for Q2 fares, released at the end of July. The data played to our view that NZD/AUD can fall a lot further from here. A hawkish pivot from the RBA and a dovish pivot from the RBNZ would be just the recipe to get the cross below the 0.90 level we have been warning about for some time.

On the economic calendar this week, NZ's QSBO tomorrow will be the key domestic release for guidance on just how weak the NZ economy is, but the measures of capacity pressures and inflation indicators will be more important. There are a number of top-tier US economic releases, including the ISM manufacturing and services surveys and, at the end of the week, the employment report. The JOLTs survey, with its array of labour market indicators, has also been market-moving of late.

Key central bankers will be meeting at the ECB's annual symposium in Portugal, so there will be plenty of central bank speeches during the week. Elsewhere, CPI data in the euro area will be released. On the political scene, the second round of the French elections next weekend is more important than the first round, while the UK general election on 4 July looks like a forgone conclusion and a dominant Labour Party victory should already be well priced.

NZD/JPY at highest level since 1986



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6092	0.6060 - 0.6220
NZD/AUD	0.9133	0.9120 - 0.9310
NZD/GBP	0.4818	0.4790 - 0.4850
NZD/EUR	0.5687	0.5650 - 0.5750
NZD/JPY	98.01	95.50 - 98.10

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6730	-9%
NZD/AUD	0.8920	2%

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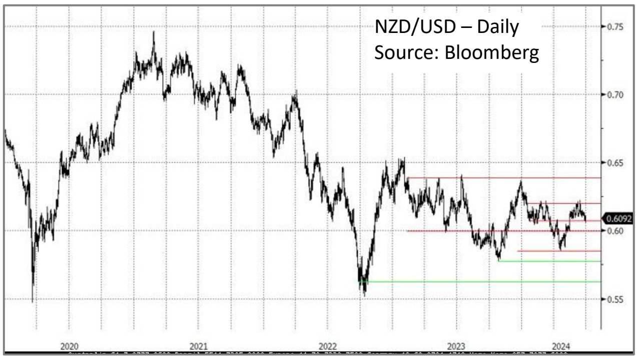
Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.6220 (ahead of 0.6390)
ST Support: 0.6060 (ahead of 0.60)

We've nudged the first support level down to last week's low around 0.6060, ahead of 0.60. There is notable resistance near the 0.6220 mark.



NZD/AUD

Outlook: Trading range
ST Resistance: 0.9315 (ahead of 0.9470)
ST Support: 0.9120 (ahead of 0.9050)

There might be some support around last week's low of 0.9120, otherwise around 0.90/0.9050 looks more prominent.

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NZ 5-year Swap Rate

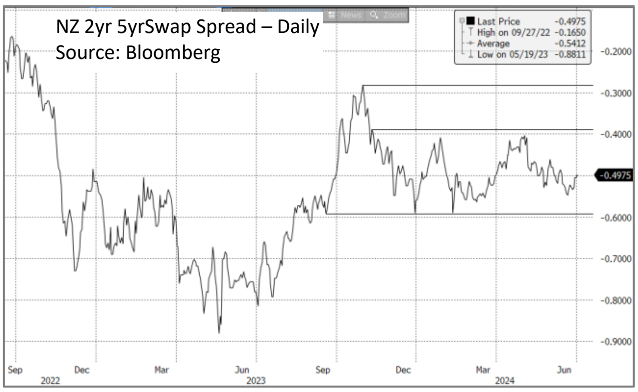
Outlook: Neutral
MT Resistance: 4.82
MT Support: 4.06

A move higher last week in 5y swap sees it sitting in the middle of the range. We will sit neutral and await new technical signals.

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

Outlook: Neutral
MT Resistance: -0.38
MT Support: -0.59

The 2y-5y swap spread rebounded higher last week to sit near the middle of the range. Again we sit neutral and await new technical signals.



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Quarterly Forecasts

Forecasts as at 1 July 2024

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Jun-24 onward)

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
GDP (production s.a.)	-0.3	-0.1	0.2	-0.2	0.3	0.6	0.7	0.7	0.8	0.8
Retail trade (real s.a.)	-0.8	-1.8	0.5	-0.5	0.4	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-7.4	-6.9	-6.8	-6.9	-6.8	-6.5	-6.0	-5.7	-5.6	-5.4
CPI (q/q)	1.8	0.5	0.6	0.6	1.1	0.5	0.5	0.5	0.9	0.1
Employment	0.0	0.4	-0.2	0.0	0.1	0.2	0.3	0.5	0.6	0.7
Unemployment rate %	3.9	4.0	4.3	4.7	5.1	5.3	5.5	5.5	5.5	5.3
Avg hourly earnings (ann %)	7.1	6.6	4.8	4.1	3.0	3.3	3.9	3.4	3.2	3.0
Trading partner GDP (ann %)	3.1	3.3	3.2	3.1	2.9	2.9	2.9	3.0	3.0	2.9
CPI (y/y)	5.6	4.7	4.0	3.5	2.8	2.8	2.6	2.5	2.3	1.9
GDP (production s.a., y/y))	-0.6	-0.2	0.3	-0.4	0.2	0.9	1.4	2.3	2.8	3.0

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	 5 Year	 10 Year	Swaps 2 Year	 5 Year	 10 Year	US Rates Libor 3 month	 US 10 yr	Spread NZ-US Ten year
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.64	4.48	4.67	4.93	4.43	4.50	5.65	4.00	0.67
2024 Mar	5.50	5.66	4.41	4.64	4.91	4.38	4.40	5.60	4.20	0.44
Jun	5.50	5.62	4.50	4.65	4.98	4.47	4.50	5.60	4.30	0.35
Forecasts										
Sep	5.50	5.65	4.50	4.75	4.40	4.55	4.65	5.50	4.25	0.50
Dec	5.50	5.50	4.25	4.60	3.95	4.30	4.50	5.25	4.10	0.50
2025 Mar	5.25	5.00	4.15	4.60	3.60	4.20	4.60	4.75	4.00	0.60
Jun	4.75	4.50	4.00	4.50	3.35	4.05	4.50	4.50	3.90	0.60
Sep	4.25	4.00	3.90	4.40	3.25	3.95	4.40	4.25	3.80	0.60
Dec	3.75	3.75	3.85	4.35	3.25	3.90	4.35	4.00	3.75	0.60
2026 Mar	3.50	3.25	3.90	4.35	3.35	4.00	4.40	0.00	3.75	0.60

Exchange Rates (End Period)

USD Forecasts / **NZD Forecasts**

	NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.61	0.67	1.07	1.26	161	0.61	0.91	0.57	0.48	98.1	72.0
Sep-24	0.61	0.67	1.09	1.28	146	0.61	0.91	0.56	0.48	89.1	71.2
Dec-24	0.62	0.69	1.11	1.30	143	0.62	0.90	0.56	0.48	88.7	71.5
Mar-25	0.64	0.71	1.13	1.31	140	0.64	0.90	0.56	0.49	88.9	72.4
Jun-25	0.65	0.72	1.14	1.32	137	0.65	0.90	0.57	0.49	89.1	73.3
Sep-25	0.66	0.74	1.16	1.34	134	0.66	0.89	0.57	0.49	88.4	73.4
Dec-25	0.67	0.75	1.17	1.35	131	0.67	0.89	0.57	0.50	87.8	74.0
Mar-26	0.66	0.74	1.18	1.36	129	0.66	0.89	0.56	0.49	85.1	73.1
Jun-26	0.65	0.73	1.18	1.36	129	0.65	0.89	0.55	0.48	83.9	72.4
Sep-26	0.67	0.73	1.18	1.36	129	0.67	0.89	0.56	0.48	79.0	72.8
TWI Weights						14.5%	17.7%	9.5%	3.4%	5.6%	

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

Annual Forecasts

Forecasts as at 1 July 2024	March Years					December Years				
	Actuals			Forecasts		Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.0	2.7	0.9	1.4	2.6	7.4	3.3	0.6	1.5	2.1
Government Consumption	7.9	2.0	0.5	-3.3	0.4	7.8	4.9	-0.8	-2.2	-0.6
Total Investment	10.2	2.1	-1.7	-3.3	4.1	12.0	3.4	-0.9	-4.3	2.8
Stocks - ppts cont'n to growth	0.5	0.0	-1.5	1.3	0.1	1.4	-0.3	-1.4	0.7	0.5
GNE	7.9	2.5	-1.4	0.8	2.7	10.0	3.4	-1.5	0.2	2.2
Exports	2.5	6.0	6.4	2.8	5.0	-2.7	-0.2	9.8	3.2	4.8
Imports	17.3	4.4	-1.2	3.9	4.1	14.8	4.7	-0.5	3.4	3.8
Real Expenditure GDP	4.7	2.7	0.4	0.5	2.8	5.9	2.3	0.8	0.3	2.4
GDP (production)	**4.6**	**2.7**	**0.2**	**0.5**	**2.8**	**5.6**	**2.4**	**0.6**	**0.2**	**2.4**
GDP - annual % change (q/q)	*0.6*	*2.0*	*0.3*	*1.4*	*3.0*	*2.6*	*2.2*	*-0.2*	*0.9*	*3.0*
Output Gap (ann avg, % dev)	1.4	1.9	-0.3	-1.2	-0.5	1.6	2.0	0.2	-1.1	-0.7
Nominal Expenditure GDP - $bn	359	388	409	425	447	353	381	405	420	442
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.6	1.9	5.9	7.2	4.7	2.8	1.9
Employment	2.5	3.0	1.3	0.6	2.5	3.3	1.7	2.7	0.1	2.1
Unemployment Rate %	3.2	3.4	4.3	5.5	5.1	3.2	3.4	4.0	5.3	5.3
Wages - ahote (private sector)	5.3	8.2	4.8	3.9	3.0	4.1	8.1	6.6	3.3	3.0
Productivity (ann av %)	1.8	0.5	-2.3	0.2	0.9	3.6	0.2	-2.3	-0.2	1.0
Unit Labour Costs (ann av %)	4.6	6.5	8.4	4.0	2.3	2.3	6.5	8.8	4.9	2.4
House Prices	13.8	-12.1	2.8	3.0	7.7	27.2	-11.1	-0.7	2.0	6.9
External Balance										
Current Account - $bn	-23.6	-31.8	-27.6	-25.6	-22.6	-20.6	-33.4	-27.9	-27.5	-23.7
Current Account - % of GDP	-6.6	-8.2	-6.8	-6.0	-5.0	-5.8	-8.8	-6.9	-6.5	-5.4
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-2.7	-2.4	-2.7	-3.1	-1.9					
Net Core Crown Debt (ex NZS)	35.5	39.3	43.1	43.5	43.0					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	38.0	38.0	36.0					
Bond Programme - % of GDP	5.6	7.2	9.3	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	72.4	73.1	73.0	72.9	72.0	71.5	74.0
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	5.25	3.50	0.75	4.25	5.50	5.50	3.75
90-day Bank Bill Rate	1.45	5.16	5.64	5.00	3.25	0.92	4.55	5.63	5.50	3.75
5-year Govt Bond	2.90	4.40	4.60	4.15	3.90	2.20	4.30	4.50	4.25	3.85
10-year Govt Bond	3.20	4.35	4.60	4.60	4.35	2.35	4.25	4.65	4.60	4.35
2-year Swap	3.00	5.15	4.91	3.60	3.35	2.22	5.21	4.93	3.95	3.25
5-year Swap	3.20	4.50	4.40	4.20	4.00	2.56	4.62	4.43	4.30	3.90
US 10-year Bonds	2.10	3.65	4.20	4.00	3.75	1.45	3.60	4.00	4.10	3.75
NZ-US 10-year Spread	1.10	0.70	0.40	0.60	0.60	0.90	0.65	0.65	0.50	0.60

(1) *Average for the last month in the quarter*

Source: Statistics NZ, BNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Monday 01 July			
JN	Tankan Large Mfg Index 2Q	11		11
AU	Melbourne Institute Inflation YoY Jun			3.10%
AU	ANZ-Indeed Job Advertisements MoM Jun			-2.10%
CH	Caixin China PMI Mfg Jun	51.5		51.7
EC	HCOB EZ Manufacturing PMI Jun F	45.6		45.6
UK	S&P Global UK Manufacturing PMI Jun F	51.4		51.4
EC	ECB Forum on Central Banking in Sintra			
	Tuesday 02 July			
GE	CPI YoY Jun P	2.30%		2.40%
EC	ECB's Nagel speaks			
US	S&P Global US Manufacturing PMI Jun F	51.7		51.7
US	Construction Spending MoM May	0.20%		-0.10%
US	ISM Manufacturing Jun	49.1		48.7
EC	ECB's Lagarde speaks			
NZ	NZIER QSBO			
NZ	Building Permits MoM May			-1.90%
AU	RBA Minutes of June Policy Meeting			
EC	ECB's Guindos, Elderson speak			
EC	CPI Estimate YoY Jun	2.50%		2.60%
EC	CPI Core YoY Jun P	2.80%		2.90%
EC	Unemployment Rate May	6.40%		6.40%
EC	ECB's Schnabel speaks			
	Wednesday 03 July			
EC	Powell, Lagarde, Campos Neto speak in Sintra			
US	JOLTS Job Openings May	7864k		8059k
NZ	GDT dairy auction			-0.50%
NZ	Working Age Population 2Q			4.298m
AU	Judo Bank Australia PMI Services Jun F			51
NZ	ANZ Commodity Price MoM Jun			1.10%
AU	Retail Sales MoM May	0.30%	0.20%	0.10%
AU	Building Approvals MoM May	1.70%	1.00%	-0.30%
GE	HCOB Germany Services PMI Jun F	53.5		53.5
EC	HCOB Eurozone Services PMI Jun F	52.6		52.6
EC	ECB's Guindos speaks			
UK	S&P Global UK Services PMI Jun F	51.2		51.2
EC	ECB's Cipollone, Lane speak			

		Median	Fcast	Last
US	Fed's Williams speaks on Panel at ECB Forum			
	Thursday 04 July			
NZ	CoreLogic House Px MoM Jun			-0.20%
US	ADP Employment Change Jun	158k		152k
US	Trade Balance May	-$76.0b		-$74.6b
US	Initial Jobless Claims Jun-29	235k		233k
US	Continuing Claims Jun-22			1839k
EC	ECB's Knot speaks			
US	S&P Global US Services PMI Jun F	52.3		55.1
US	Factory Orders May	0.30%		0.70%
US	ISM Services Prices Paid Jun			58.1
US	ISM Services Employment Jun			47.1
US	Durable Goods Orders May F			0.10%
US	ISM Services New Orders Jun			54.1
EC	ECB'S Lagarde speaks			
US	FOMC Meeting Minutes Jun-12			
NZ	N.Z. Government 11-Month Financial Statements			
AU	Trade Balance May	A$6328m		A$6548m
AU	Exports MoM May			-2.50%
AU	Imports MoM May			-7.20%
GE	Factory Orders MoM May	0.50%		-0.20%
UK	DMP 3M Output Price Expectations Jun	3.80%		3.90%
UK	DMP 1 Year CPI Expectations Jun	2.80%		2.90%
UK	Bank of England Bank Liabilites/Credit Conditions Surveys			
EC	ECB Publishes Account of June Policy Meeting			
	Friday 05 July			
EC	ECB's Cipollone speaks			
JN	Household Spending YoY May	0.20%		0.50%
GE	Industrial Production SA MoM May	0.10%		-0.10%
EC	ECB's Nagel speaks			
EC	Retail Sales MoM May	0.20%		-0.50%
US	Fed's Williams speaks			
	Saturday 06 July			
US	Change in Nonfarm Payrolls Jun	190k		272k
US	Unemployment Rate Jun	4.00%		4.00%
US	Av Weekly Hours All Employees Jun	34.3		34.3
EC	ECB's Lagarde, Villeroy			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	5.50	5.50	5.50	5.50
1mth	5.60	5.60	5.60	5.61
2mth	5.61	5.61	5.62	5.66
3mth	5.63	5.62	5.63	5.70
6mth	5.62	5.58	5.63	5.79
GOVERNMENT STOCK				
05/26	4.88	4.78	4.91	4.82
04/29	4.52	4.43	4.65	4.55
05/31	4.56	4.47	4.70	4.54
05/34	4.67	4.59	4.82	4.62
04/37	4.83	4.76	4.95	4.73
05/41	4.95	4.90	5.05	4.80
05/51	4.97	4.91	5.04	4.72
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	53	53	50	66
Europe 5Y	61	60	51	73

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	4.97	4.92	5.10	5.46
3 years	4.69	4.62	4.83	5.08
4 years	4.54	4.47	4.69	4.82
5 years	4.48	4.39	4.62	4.66
10 years	4.53	4.41	4.66	4.47
FOREIGN EXCHANGE				
NZD/USD	0.6101	0.6125	0.6193	0.6153
NZD/AUD	0.9136	0.9201	0.9257	0.9219
NZD/JPY	98.16	97.76	96.65	89.01
NZD/EUR	0.5683	0.5706	0.5679	0.5638
NZD/GBP	0.4823	0.4828	0.4835	0.4848
NZD/CAD	0.8340	0.8364	0.8439	0.8153
TWI	72.1	72.4	72.5	71.4

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