Research

Markets Outlook

3 February 2025

Labour Market Still Softening

- **Unemployment rate expected to lift to 5.1%**
- **As labour demand softens more than labour supply**
- **Annual wage inflation seen easing further**
- **Supports case for further OCR reduction**
- **Eyes on US-initiated trade war**

As the world watches the opening salvos of a trade war, initiated by the US, there is an obvious risk that domestic proceedings play second fiddle. Nonetheless, there are some important releases to monitor on the domestic calendar this week. It is all scheduled ahead of Waitangi Day, a national holiday, on Thursday.

Wednesday's suite of Q4 labour market data are the key releases. They are the last major scheduled data ahead of the RBNZ's 19 February Monetary Policy Statement.

We look for confirmation of further loosening in the labour market as we assess demand for labour weakened by more than labour supply growth slowed.

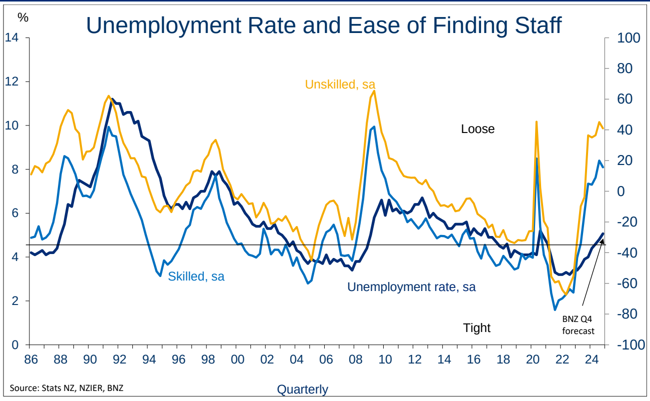
The background to the Q4 labour market reports is that job ads and filled job indicators are lower than what they were in Q3. Business survey measures of employment, including from the PMI and PSI, have been soft (although employment intentions have been extremely varied). And businesses are still reporting labour easier to find, even though net inward migration has eased significantly over the past 12 months.

With all that in mind, we forecast the unemployment rate to rise further. We have pencilled in a lift to 5.1% in Q4 from Q3's 4.8%. This follows from our view that the Household Labour Force Survey (HLFS) measure of employment will fall by 0.2% in Q4, in what would be its second consecutive quarterly decline. That would see employment 0.9%, or 27k, lower than a year earlier.

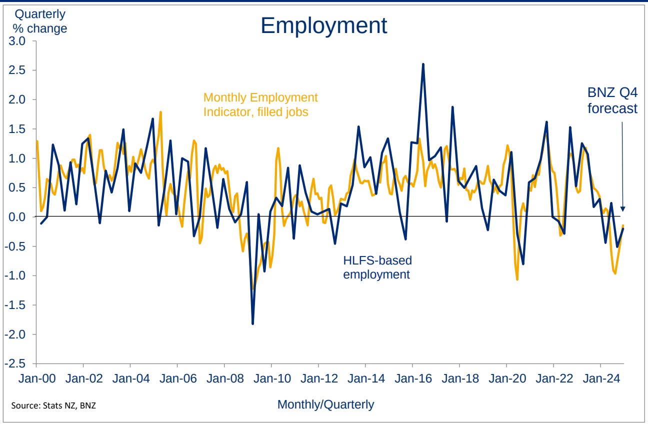
Such estimates build in slow working age population growth, related to lower net immigration, and an assumed nudge lower in the participation rate to 71.1%.

Risks to our view seem evenly balanced. However, there is always scope for surprise with the HLFS and perhaps more so with both labour demand and supply on the move.

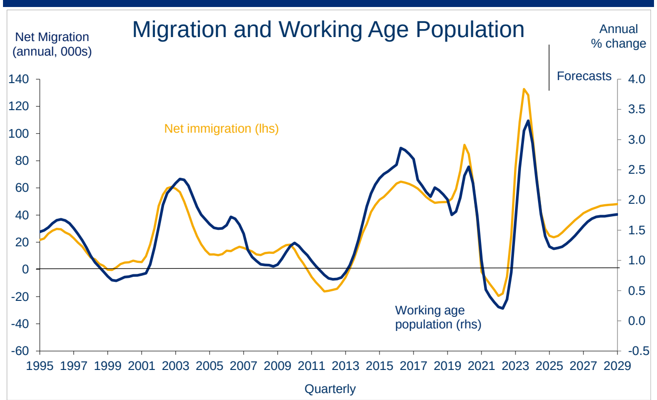
Unemployment rate expected to rise



Labour demand soft



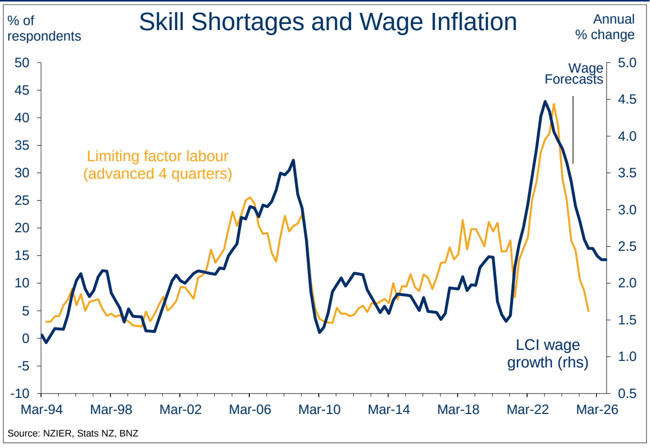
Labour supply growth slows



If we are right, there will be no material surprise for the RBNZ. In its November MPS the Bank projected an unemployment rate of 5.1%, a 0.3% quarterly decline in employment, and a 71.1% participation rate. Market consensus has converged to our forecasts.

The softening in the labour market to date is expected to see further downward pressure on wage inflation. Our forecast 0.7% q/q increase in the private sector LCI would see its annual inflation ease from 3.3% in Q3 to 3.0% in Q4. This is a touch higher than the 2.8% forecast by the RBNZ, albeit in the context of our, and the Bank's, expectation that inflation in this unit labour cost proxy will continue to trend downward. A slowing trajectory is consistent with labour becoming much less of a constraint on output as reported by respondents to NZIER's Quarterly Survey of Business Opinion.

Wage inflation easing, as labour constraints ease



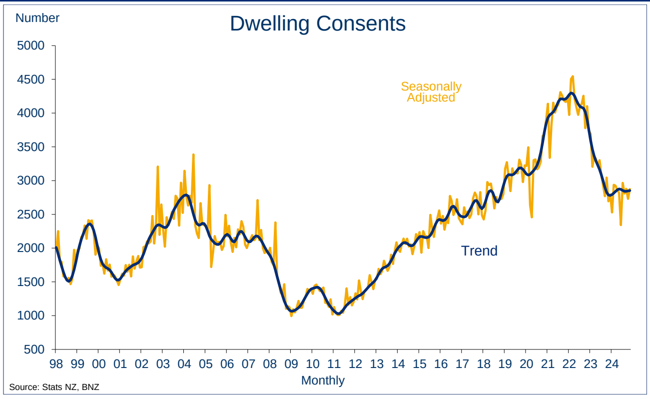
We don't think the outcomes we forecast would substantially alter the RBNZ's view of the world or stand in the way of the Bank's previously signalled intention to reduce the OCR by 50 basis points at its February meeting.

We'll also be keeping an eye on the Quarterly Employment Survey (QES) wage measures but note that they can be thrown around by changes in labour force composition. They can be difficult to interpret from a wage inflation point of view, but we would expect the underlying trend in average hourly earnings to continue slowing in Q4.

Other QES indicators like filled jobs and paid hours will be worth a look, along with hours worked from the HLFS, as more top-down pointers for what looks like subdued economic activity in Q4.

December's building consents are due on Tuesday. The number of residential buildings consented in 2024 look like being down the thick end of 10% from 2023. This largely reflects significant declines through 2023 setting a lower base. The trend looks to have stabilised through last year and we expect to see something similar in this week's figures for December, although monthly movements are often volatile. Positive expectations among industry participants point to some lift in consents through 2025, which fits with our forecasts. Even if that is the case, actual building activity will follow with a lag, as usual.

Stabilised

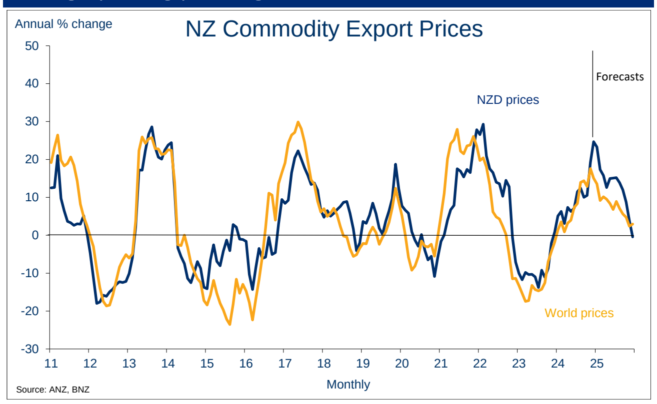


Wednesday brings a couple of commodity price updates, in what has been a recent area of overt strength.

The GDT dairy auction in the early hours of Wednesday morning will provide the very latest on dairy prices. Early indicators look more supportive than not, but a global risk off environment is a headwind. Already buoyant price levels have set up much higher payments to local farmers for this season's milk compared to last.

The ANZ commodity price index, also due on Wednesday, is expected to show world prices for NZ's major primary export products in January significantly higher than a year ago. We have pencilled in a 13.5% y/y gain. A lower NZ dollar adds more gusto to local prices, which we estimate were up 23.3% y/y.

Strong upswing peaking?



Even if commodity price annual comparisons are near a peak about now, as we suspect they are, it takes time for changes in wholesale prices to influence domestic retail prices. We still think there is some near-term upside to retail pricing from this channel.

Likewise, it takes time for commodity price changes to show up in NZ's export data. The long-anticipated impact of higher commodity prices became a lot more visible in last week's export figures for December that were 17.0% higher than a year earlier. Exports growing faster than imports has continued the trend narrowing in the annual trade deficit, to $7.7b in 2024 from $13.6b in 2023 and a recent peak of $17.1b in the year to May 2023. We expect narrowing to continue as part of our expectation that the annual current deficit will continue to shrink from its most recent reading of 6.4% of GDP. This should help ease some rating agency concerns about NZ's external accounts.

Of course, there are always risks to the external trading environment with significant current market focus on the new US administration and its willingness to institute tariffs.

Late last week, the US confirmed import tariffs would be set for Canada and Mexico at 25% and for China at 10%, to begin this week. The only carve out being a 10% tariff on energy products from Canada. Retaliation is underway. Over the weekend, Canada and Mexico announced retaliatory tariffs on the US and China has said it will take 'counteractive measures' and that it will file a lawsuit with the World Trade Organisation.

It is impossible to know, in detail, the impact of such moves with the situation fluid. But there is a clear risk of more inflation in the US and likely tighter than otherwise monetary conditions. Growth is likely to be lower than otherwise in the disputing areas, as trade is disrupted, with flow on influences elsewhere.

For NZ, there is also some upside risk to inflation as the NZ dollar falls. A lower NZD will increase the cost of imports but also support returns to exporters. However, higher than otherwise inflation is not a given. While a lower currency will clearly put upside pressure on local prices, slower global growth exerts some disinflationary pressure. The overall balance of these forces is not obvious.

The bigger question is how global does this become? The wider the impact, the weaker is growth and the weaker is the NZD. A bigger concern for NZ would be if tensions spread between third party countries in addition to unilaterally with the US. So far, we have seen no sign of expansion in tariff barriers beyond the US. It could end up with even greater US isolationism.

It is the indirect impact of trade tensions that appear a bigger risk to the NZ economy. The direct impact of announcements to date may well be relatively contained overall. But lower global growth would be a drag on economic activity in NZ. Of course, the impact on individual firms, products, and sectors will vary significantly depending on supply chain circumstances.

The US has just overtaken Australia as the second largest market for NZ merchandise exports. Yes, the near 13% share of NZ exports headed to the US is significant, but it is dwarfed by the other 87% of NZ exports headed elsewhere. China remains NZ's largest goods export market, accounting for 25%, effectively buying as much of NZ's exports as the US and Australia do put together.

If the US were to impose tariffs on all countries, including NZ, the direct impact would be largest on meat exports. Dairy is exposed. Wine could take a big hit. Some manufacturers would be impacted.

Some mitigating factors for NZ include that we export a lot of primary products for which we can usually find markets. The question is what happens to prices to clear the market and how much of an offset comes via a lower NZD? If oil prices were to dip on reduced global growth prospects, it would be a support for NZ's terms of trade.

The NZ dollar has seen downward pressure over recent months as the uncertainty around the global trading environment has been factored in. A lower NZ dollar is positive for export returns. However, we suggest it should not be seen in isolation. It has been factoring in the risk of more difficult global trading conditions ahead. The balance need not be positive for NZ exporters. A lot is uncertain and unknowable but needs to be monitored closely.

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Global Watch

- **Tariffs to be levied this week**
- **FOMC held rates; BoC cut last week**
- **Many Fed speakers on the circuit**
- **US payrolls seen at 170k; unemployment rate steady**
- **China back from New Year holiday**
- **BoE expected to cut 25bps**
- **EZ core inflation seen easing a tick**
- **Global PMIs due**

Week in Review

Globally, the FOMC was comfortably on hold as expected. Q4 GDP data at 2.3% q/q annualised was weaker than forecast, but the downside was driven by inventories and trade, with the underlying signal from domestic final demand at 3.2% q/q annualised still consistent with a strong pulse of growth. Though a surge in motor vehicle purchases may be a pull forward driven by tariff concerns.

Further north, the Bank of Canada cut 25bp to bring the cumulative rate reduction so far to 200bp, though elevated uncertainty, including from tariffs, meant the BoC stepped back from guidance on the path forward. The ECB also cut 25bp, as widely expected.

In terms of market movements globally central banks and economic data took a back seat. While tariff headlines continued to drive volatility in currency markets, big tech was in focus elsewhere. Deepseek catalysed an AI-led selloff, which has only partially reversed.

The US confirmed that tariffs would be set for Canada and Mexico at 25%, China at 10%, and begin this week. Over the weekend, Canada and Mexico have announced retaliatory tariffs on the US. In addition, China has said it will take 'counteractive measures' and that it will file a lawsuit with the World Trade Organisation. Trade tensions will remain a key market focus.

In Australia, Q4 CPI was the key data point. Both the trimmed mean and headline measures printed in line with our forecasts and a tenth below expectations. Weighing on headline again this quarter was a measured fall in electricity prices which fell 9.9% q/q, without the rebates they would have risen 0.2% q/q. Volatile fuel prices fell 2.0% q/q after a 6.7% fall last quarter.

Housing accounted for almost all of the improvement in trimmed mean inflation in the quarter. To illustrate, while the trimmed mean was 30bp lower in Q4 than in Q3, a trimmed mean calculated on a CPI basket excluding housing components was 6bp lower. Some of the slowdown in Q4 is temporary and NAB expects Q1 CPI to be stronger than Q4, but the plateauing in house construction costs are an important and helpful shift in the CPI backdrop that support downward revisions to the RBA's near term outlook.

Further out, given unemployment has noticeably undershot their forecasts, the extent to which the RBA remains comfortable inflation will stay near target depends on the extent to which they re-assess the degree of spare capacity in the labour market. While there is value in waiting to get a better sense of the labour market trajectory and the growth outlook, that option value is unlikely to be compelling enough to shock market pricing. NAB now expects the RBA will begin a gradual easing cycle in February.

Week Ahead

Offshore focus will be on trade tensions. Datawise it is a big week in the **US** with Payrolls (Friday), and before then ISM Manufacturing (Monday), JOLTS (Tuesday), ISM Services (Wednesday) and Uni Michigan Consumer Sentiment (Friday). For Payrolls consensus sees 150k jobs and the unemployment rate unchanged at 4.1%.

With the US labour market not being seen as a source of inflationary pressure, the Fed (and thus markets) will be more sensitive to a soft print. There is also plenty of Fed speak with the most interesting likely to be Barkin in a fireside chat, Bowman who is giving an economic update and speaking on bank regulation, and Jefferson (all Wednesday).

Australian data flow is heavy, but not top tier with nothing to really shape views ahead of the RBA's 17-18 February meeting where markets are 92% priced for a rate cut. Retail Sales (Monday) are for December and should show some reversal after early Black Friday sales boosted October and November. Also Monday is Dwelling Prices and Building Approvals. The Goods Trade Balance (Thursday) rounds out the week.

In **Europe**, the **BoE** meets (Thursday) and is expected to cut by 25bps. Also on the radar is the **EZ** CPI (Monday) with consensus seeing the core measure ticking down a tenth to 2.6% y/y from 2.7%. Also out in Europe is the final-versions of the PMIs as well as the usual gaggle of ECB speakers with Chief Economist Lane (Wednesday) the most notable.

Canada has labour market data on Friday, which may prove instructive for markets. However, focus has quickly turned to the impact of tariffs.

Elsewhere, **China** is back from its Lunar New Year holidays on Wednesday with the Caixin PMIs out in the week. Finally, the **earnings season** continues, with Amazon (Thursday).

Important Events Preview

Monday 3

AU Retail Sales, Building Approvals, Dwelling Prices

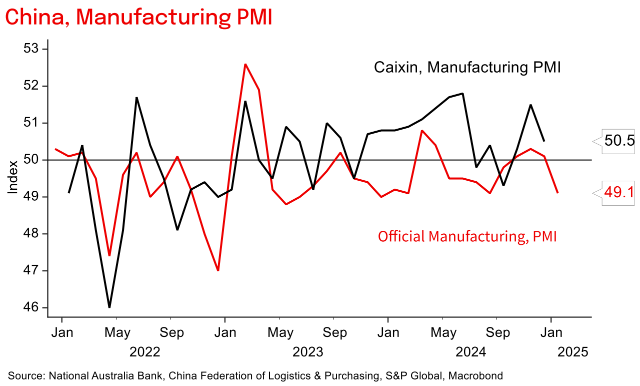
Retail Sales values for December and NAB expect them to fall by -0.7% m/m (consensus -0.7%) with some reversal following the strength seen over sales-boosted October and November. This month also contains the volumes estimate with the volume of retail sales likely up 0.8% q/q (also consensus).

For Building Approvals, NAB expects a 1.0% m/m rise, following November's -3.6% m/m. Also of interest will be dwelling prices given the slight fall in dwelling prices being seen in Sydney and Melbourne.

JN BoJ Minutes from January

CH Caixin Manufacturing PMI

China's official manufacturing PMI fell into contraction territory in January. The Caixin version has been more resilient to date and is expected to be little changed at 50.6 from 50.5.



EZ CPI and final-Manufacturing PMI

As far as headline inflation is concerned within Europe, it looks to be entering a period of uncertainty and volatility for the coming months, thanks to tax and regulatory changes for energy (particularly in Germany and Spain) as general energy price volatility. Complicating the forecasting is an anticipated sharp drop in French electricity tariffs. All-up the preliminary headline rate for January is expected to rise to 2.5% y/y from 2.4%, before easing back through spring, only to rise again towards 3% later in the year. Core prices, however, are expected to ease to 2.6% y/y from 2.7%, while services inflation can ease to 3.9% y/y from 4%. The latter looks to be headed more materially lower over the coming few months and towards 2.5%, which – if seen – will be instrumental for both the ECB and markets.

US ISM Manufacturing, Fed's Bostic

The ISM Manufacturing is expected to nudge higher to 49.9 from 49.3, though the rival US Manufacturing PMI did nudge itself into positive territory in January at 50.1. The Fed's Bostic is also speaking on the economic outlook.

Tuesday 4

US JOLTS, final-Durable Goods

Consensus for job openings in December is 8,000, similar to the prior month.

Wednesday 5

CH Caixin Services PMI, End of New Year Holidays

The Caixin Services PMI has been more resilient than the official PMI to date. Consensus sees this continuing with an expected rise to 52.4 from 52.2. Also worth noting China comes back from the New Year holiday period.

EZ ECB Wage Tracker, ECB's Lane, final-Services PMI

US ISM Services, ADP Employment, Trade, Fed's Bowman & Barkin, Treasury Refunding Announcement

For the ISM Services, consensus sees it unchanged at 54.1. Also garnering attention will be ADP Employment, with the usual caveat that it provides a poor guide to Payrolls on Friday.

There are a few Fed speakers with the most interesting likely being Bowman who is giving an update on the economy and on bank regulation, as well as Barkin who is speaking in a fireside chat. Also on the roster are Goolsbee and Jefferson.

Worth noting too the US Treasury quarterly refunding announcement which gives planned issuance sizes.

Thursday 6

AU Goods trade balance

The monthly trade balance is only for goods and is expected to be in surplus at around $6.5bn

EC Retail Sales

UK BoE Meets (cut expected)

The BoE has lagged most of its peers in this rate cutting cycle with just two 25 bp rate cuts so far to 4.75%. Stubborn services inflation driven by higher wage settlements and other services costs, plus a move higher in both headline and core inflation as previously lower energy prices drop out of annual comparisons have all combined to keep the BoE from cutting more aggressively. Those price pressures look set to build further over the coming months as Budget measures are passed through, but NAB thinks they will be time limited given economic weakness. The BoE acknowledges that policy is restrictive, and it surprised in December with three of nine voting members voting for a cut. NAB have long argued for a 25bps cut to 4.5% this week and markets now agree. While the BoE will continue to remove policy restriction gradually, NAB continues to see markets under-pricing UK rate cuts in 2025. NAB looks for an 8:1 vote this week, though sees 7:2 as possible.

US Jobless Claims

US Amazon earnings

Friday 6

UK BoE's Pill

CA Unemployment

The unemployment rate in Canada has tentatively stabilised at 6.7% with employment growth having strengthened. Consensus is for a tick higher to 6.8% in January.

The latest BoC statement said the risks to the inflation outlook were roughly balanced absent the threat of tariffs. Following the latest rate cut, the policy rate at 3.0% is now within the BoC's neutral range (2¼-3¼%).

A lift in the unemployment rate would challenge the confidence on inflation and bolster the probability the BoC seeks to take policy into stimulatory territory.

US Payrolls, Uni Mich. Consumer Sentiment
Consensus sees 170k jobs and the unemployment rate remaining steady at 4.1%. Average hourly earnings are expected to continue at around 0.3% m/m. Fed Chair Powell, in the January press conference, noted that at 4.1% the unemployment rate "*remains low*" and that "*indicators suggests that conditions in the labor market are broadly in balance*".

The above highlights markets should be more sensitive to a soft print than a strong print. Powell said "*the labor market is not a source of significant inflationary pressures*", while also caveating that "*if the labor market were to weaken unexpectedly or inflation were to fall more quickly than anticipated, we can ease policy accordingly*".

Also worth a look is the University of Michigan Consumer Sentiment Survey, particularly the inflation expectations components amid the talk of tariffs. The 5-10yr inflation expectation does remain elevated relative to its pre-pandemic levels, though this is not reflected in the NY Fed 3yr ahead measure.

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Fixed Interest Market

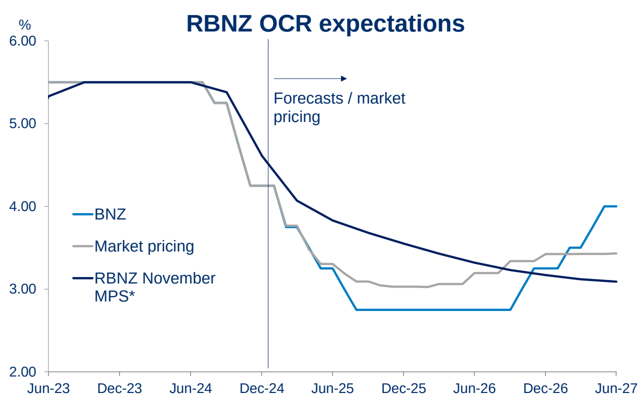
Reuters: BNZL, BNZM Bloomberg:BNZ

NZ fixed income yields traded modestly lower through the course of last week set against the backdrop of limited domestic catalysts. 2-year swap rates have almost fully retraced the positioning driven spike from mid-January and the 2y/10y curve rebounded to +66bp. Further steepening is likely as the RBNZ easing cycle progresses, and term premia builds to compensate investors for heavy supply and macro uncertainty, both in NZ and globally.

The final piece of first-tier economic data ahead of the February 19 Monetary Policy Statement is Q4 labour market figures on Wednesday. Recent employment indicators have been soft and consistent with a further rise in the unemployment rate - we forecast an increase to 5.1% for Q4 - which would be the highest level since 2016, when the volatility in the period surrounding the pandemic is excluded.

The RBNZ Chief Economist, Paul Conway, said in speech last week that the Banks's research indicates the long-term nominal neutral interest rate currently lies between 2.5% and 3.5%. After an expected 50bp cut in February, which is fully reflected by market pricing, the pace of easing is likely to slow to 25bp increments, and be increasingly conditional on incoming data, as the Cash Rate approaches the Central Bank's neutral estimate.

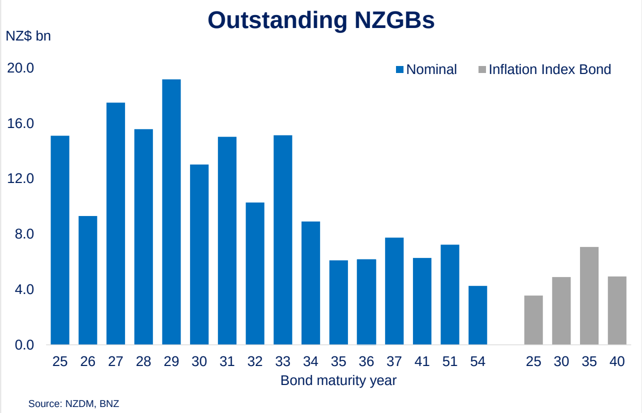
OCR path



Source: BNZ, RBNZ. * RBNZ projections are quarterly averages.

New Zealand Debt Management (NZDM) announced, via the monthly tender schedule, that a tap of the May-2035 nominal maturity will be undertaken this month. This timing was broadly anticipated by the market and the panel banks will likely be announced in coming days. The week beginning 10 February, which is clear of data and other risk events, is a likely execution window with a backup available on 24 February. The pickup in market volatility in response to escalating trade tensions, will be closely monitored by NZDM in terms of timing the launch.

NZDM portfolio



Source: NZDM, BNZ

Issuance volumes from the tap syndication are likely to be in a NZ$4-5 billion range. Assuming issuance at the top end, this would take the total outstanding in the current 10-year benchmark line to around NZ$11 billion. The Waitangi Day public holiday on Thursday means the weekly government bond tender has been brought forward by a day. After the widening trend in January, 10-year swap spreads were broadly stable last week, as the market looks ahead to upcoming supply.

10-year NZ government bond spreads to US treasuries have rebounded to flat from cyclical lows near -20bp during January. We think the market pricing for US monetary policy has more asymmetry relative to the RBNZ where the bulk of the easing cycle is priced. The market implied ~3.9% terminal Fed funds rate is above most estimates for the long-term neutral rate, skewing risks for the cross market bond spread higher.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	3.93	3.93 - 4.17
NZ 2yr swap (%)	3.45	3.37 - 3.65
NZ 5yr swap (%)	3.69	3.51 - 3.89
NZ 10yr swap (%)	4.11	3.93 - 4.30
2s10s swap curve (bps)	66	60 - 66
NZ 10yr swap-govt (bps)	-40	-48 - -39
NZ 10yr govt (%)	4.52	4.45 - 4.70
US 10yr govt (%)	4.54	4.48 - 4.81
NZ-US 10yr (bps)	-2	-16 - 4
NZ-AU 2yr swap (bps)	-31	-57 - -26
NZ-AU 10yr govt (bps)	9	-2 - 18

*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, recovering some ground from the hit taken the previous week, with the market focused on impending tariffs. The US Fed left policy unchanged, breaking a three-meeting run of successive rate cuts. Chair Powell said the Bank didn't need to be in a hurry to cut rates further, citing a strong economy, a labour market in balance and a need to see further progress on reducing inflation. The US economy grew at a 2.3% annualised rate in Q4, slightly below consensus expectations, but closing off another year of robust growth of 2.5% y/y. By comparison, Euro area growth was flat in Q4. The ECB cut rates by 25bps for a fifth time and guided to further cuts.

NZD/USD fell 1.3% to 0.5635. The NZD was flat against CAD and EUR and made a small 0.3% gain against the AUD to 0.9075 after Australian CPI data came on the soft side of expectations. NZD/GBP fell ½% while NZD/JPY fell 1.8%, with the yen recovering and safe-haven currencies well supported.

Last week's focus was on Trump's tariff policies, with plenty of sourced media reports doing the rounds during the week but some uncertainty right until the last minute. It wasn't until Friday afternoon NY time that Trump confirmed that he would be imposing 25% tariffs on Canada and Mexico and raising tariffs on China by 10%. It wasn't until Sunday NZ time that we learnt these would take effect from Tuesday and the only carve out would be a reduced 10% tariff on energy products from Canada. During the week President Trump also threatened tariffs on the EU and industry tariffs at some stage on imports such as semiconductors, pharmaceuticals and metals.

Trump threatened even higher tariffs if countries retaliate, and Canada has responded with 25% tariffs on CAD155bn worth of US-made goods. Mexico and China will also respond with retaliatory tariffs.

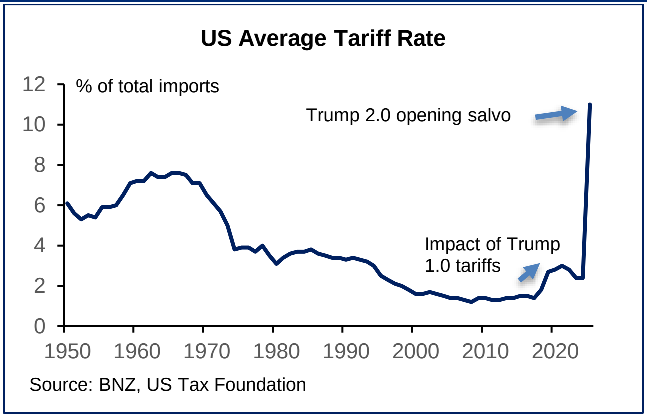
To be clear, the new tariffs imposed by President Trump are large – multiple times bigger in economic terms than all of the tariffs imposed by Trump during his first term of President. This development is going to be the key focus for the market this week, resulting in increased market volatility as investors get their head around the tariff package and implications.

Currency markets have opened this morning with the USD much stronger and the NZD trading back below 0.56. Economic impacts from the tariffs will be significant. We don't know how long the tariffs will be in place but, given Trump's rhetoric, it would be prudent to assume they will be in place for an extended period. Our prevailing currency projections assumed a moderate Trump 2.0 tariff policy. That is the case so far against China, but not so for Canada and Mexico. We see downside risk to our NZD projections based on Trump's policy trajectory so far and how high tariffs ultimately reach for China will be important. We previously suggested 0.55 as a support level, but an upscaling of tariffs directed at China and encompassing Europe would likely threaten that level. The situation is fluid and the outlook is volatile.

In the week ahead the domestic focus will be on the labour market, where the market sees the unemployment rate up to a fresh four-year high of 5.1%, the last key data release ahead of a strong consensus view that the RBNZ will cut the OCR by 50bps at its February meeting.

In the US, Fed speakers will be out in force, while the key economic release will be the employment report at the end of the week. The market attributes only a small chance of the Fed cutting rates at its March meeting and it would take a series of weak labour market and inflation prints to change that view. The imposition of large tariffs raises the chance that no further Fed easing can proceed this year. Also watch out for the JOLTS and ISM manufacturing and services surveys. Elsewhere, a 25bps by the Bank of England is a strong consensus view.

Trump's open tariff salvo is massive in scale



Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5587	0.5540 - 0.5720
NZD/AUD	0.9055	0.9010 - 0.9090
NZD/GBP	0.4541	0.4530 - 0.4610
NZD/EUR	0.5461	0.5410 - 0.5490
NZD/JPY	86.78	86.70 - 89.30

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	model suspended	
NZD/AUD	0.8550	6%

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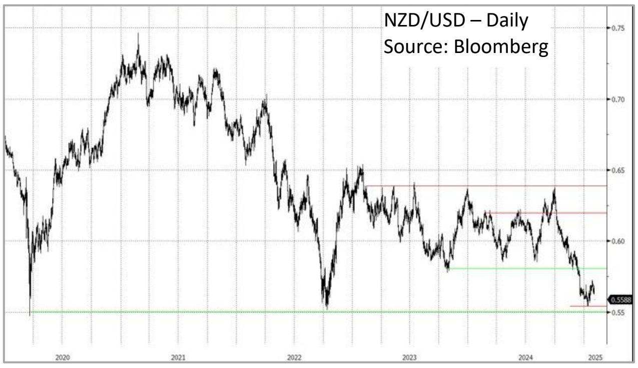
Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.58 (ahead of 0.60)
ST Support: 0.5540 (ahead of 0.55)

Lurch down last week brings support of 0.5540 back into play, ahead of 0.55.


NZD/USD – Daily
Source: Bloomberg

NZD/AUD

Outlook: Trading range
ST Resistance: 0.92 (ahead of 0.9315)
ST Support: 0.89 (ahead of 0.87)

No obvious markers but we see support at 0.89 and some resistance at 0.92.


NZD/AUD – Daily
Source: Bloomberg

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NZ 5-year Swap Rate

Outlook: Neutral
ST Resistance: 4.06
ST Support: 3.48

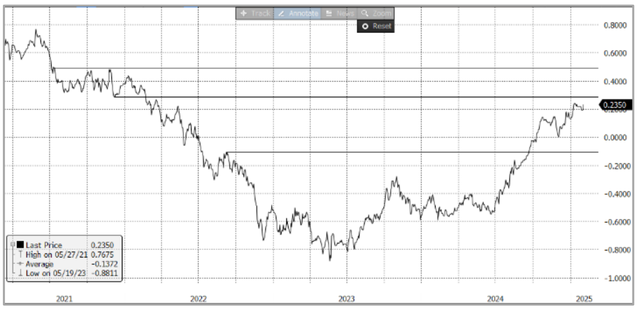
5-year swap saw a small rally lower last week but failed to maintain any momentum.


NZ 5-yr Swap – Daily
Source: Bloomberg

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

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

2x5 swap spread continues to sit just below our resistance and close to its highs. We continue to watch closely for a break higher.


NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

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Quarterly Forecasts

Forecasts as at 3 February 2025

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.)	0.3	0.3	-1.1	-1.0	0.1	0.3	0.7	0.8	0.8	0.9
Retail trade (real s.a.)	-1.8	0.5	-1.2	-0.1	0.0	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-6.9	-6.6	-6.6	-6.4	-6.1	-5.5	-4.9	-4.6	-4.3	-4.0
CPI (q/q)	0.5	0.6	0.4	0.6	0.5	0.8	0.5	0.7	0.4	0.6
Employment	0.3	-0.4	0.2	-0.5	-0.2	0.0	0.2	0.4	0.6	0.7
Unemployment rate %	4.0	4.4	4.6	4.8	5.1	5.3	5.5	5.5	5.4	5.2
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 %)	3.2	3.1	2.9	2.9	3.0	2.8	2.9	2.9	2.9	2.8
CPI (y/y)	4.7	4.0	3.3	2.2	2.2	2.4	2.4	2.5	2.3	2.1
GDP (production s.a., y/y)	0.9	1.3	-0.5	-1.5	-1.6	-1.7	0.0	1.8	2.6	3.1

Interest Rates

Historical data - qtr average			Government Stock			Swaps			US Rates		Spread
Forecast data - end quarter		**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	4.90	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
	Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.85	4.30	0.19
Forecasts											
2025	**Mar**	3.75	3.50	3.70	4.50	3.20	3.55	4.15	4.65	4.30	0.20
	Jun	3.25	3.00	3.45	4.45	2.90	3.35	4.15	4.40	4.25	0.20
	Sep	2.75	2.90	3.45	4.45	3.00	3.40	4.20	4.15	4.25	0.20
	Dec	2.75	2.90	3.55	4.30	3.15	3.50	4.10	3.90	4.00	0.30
2026	**Mar**	2.75	2.90	3.65	4.30	3.40	3.65	4.15	3.90	4.00	0.30

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	0.56	0.61	1.02	1.23	155	0.56	0.91	0.54	0.45	86.6	67.4
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	71.4
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 3 February 2025	March Years					December Years				
	Actuals					Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.3	3.4	1.0	0.2	2.2	7.6	4.2	1.0	0.1	1.6
Government Consumption	8.0	2.7	2.0	-1.3	-0.1	7.9	5.2	0.8	-0.2	-0.6
Total Investment	9.1	3.3	-1.6	-4.9	1.4	10.9	4.2	-0.6	-4.9	-0.9
Stocks - ppts cont'n to growth	0.5	0.3	-1.6	0.2	0.4	1.4	0.0	-1.4	0.1	0.3
GNE	7.9	3.7	-1.1	-0.6	2.1	9.9	4.5	-0.9	-0.8	1.3
Exports	2.5	5.6	8.6	1.4	3.1	-2.7	-0.8	11.4	3.5	2.2
Imports	17.2	4.4	-1.3	1.5	3.6	14.8	4.6	-0.6	1.9	2.4
Real Expenditure GDP	4.6	3.9	1.3	-0.8	2.0	5.8	3.2	1.8	-0.2	0.9
GDP (production)	**4.5**	**3.5**	**1.4**	**-1.3**	**1.9**	**5.6**	**2.9**	**1.8**	**-0.6**	**0.7**
GDP - annual % change (q/q)	*0.5*	*3.0*	*1.3*	*-1.7*	*3.1*	*2.6*	*3.1*	*0.9*	*-1.6*	*2.6*
Output Gap (ann avg, % dev)	1.0	2.0	0.9	-1.4	-1.0	1.3	1.9	1.2	-0.7	-1.3
Nominal Expenditure GDP - $bn	359	394	417	428	450	353	386	412	426	444
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.4	2.1	5.9	7.2	4.7	2.2	2.3
Employment	2.5	3.1	1.1	-0.5	1.9	3.3	1.7	2.8	-0.9	1.2
Unemployment Rate %	3.2	3.4	4.4	5.3	5.2	3.2	3.4	4.0	5.1	5.4
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	1.3	-1.2	-0.7	1.2	3.6	0.7	-1.3	-0.4	0.6
Unit Labour Costs (ann av %)	4.7	5.7	7.2	4.6	1.8	2.3	6.0	7.7	4.9	2.4
House Prices (stratified, qtr)	9.1	-12.8	2.8	-0.4	7.0	22.5	-13.8	0.6	-1.0	6.8
External Balance										
Current Account - $bn	-24.5	-33.8	-27.6	-23.7	-18.2	-21.3	-35.6	-28.6	-25.9	-19.0
Current Account - % of GDP	-6.8	-8.6	-6.6	-5.5	-4.0	-6.0	-9.2	-6.9	-6.1	-4.3
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.7	-2.4	-3.1	-4.1	-3.1					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	35.4	39.3	42.4	45.1	45.1					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	39.3	40.0	40.0					
Bond Programme - % of GDP	5.6	7.1	9.4	9.3	8.9					
Financial Variables [(1)]										
NZD/USD	0.69	0.62	0.61	0.58	0.62	0.68	0.63	0.62	0.57	0.60
USD/JPY	119	134	150	155	144	114	135	144	154	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	0.91	0.89
NZD/GBP	0.52	0.51	0.48	0.46	0.48	0.51	0.52	0.49	0.45	0.47
NZD/EUR	0.62	0.58	0.56	0.56	0.57	0.60	0.60	0.57	0.55	0.56
NZD/YEN	81.5	83.0	91.1	89.9	88.6	77.4	85.6	89.5	88.4	89.3
TWI	73.9	71.0	71.2	69.0	71.4	73.0	72.9	72.0	68.5	70.1
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	3.75	2.75	0.75	4.25	5.50	4.25	2.75
90-day Bank Bill Rate	1.45	5.16	5.64	3.50	2.90	0.92	4.55	5.63	4.26	2.90
5-year Govt Bond	2.90	4.40	4.60	3.70	3.65	2.20	4.30	4.50	3.90	3.55
10-year Govt Bond	3.20	4.35	4.60	4.50	4.30	2.35	4.25	4.65	4.45	4.30
2-year Swap	3.00	5.15	4.91	3.20	3.40	2.22	5.21	4.93	3.53	3.15
5-year Swap	3.20	4.50	4.40	3.55	3.65	2.56	4.62	4.43	3.63	3.50
US 10-year Bonds	2.10	3.65	4.20	4.30	4.00	1.45	3.60	4.00	4.40	4.00
NZ-US 10-year Spread	1.10	0.70	0.40	0.20	0.30	0.90	0.65	0.65	0.05	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 03 February			
AU	S&P Global Australia PMI Mfg Jan F			49.8
JN	BOJ Summary of Opinions (Jan. MPM)			
AU	Melbourne Institute Inflation YoY Jan			2.60%
AU	ANZ-Indeed Job Advertisements MoM Jan			0.30%
AU	Retail Sales MoM Dec	-0.70%	-0.70%	0.80%
AU	Retail Sales Ex Inflation QoQ 4Q	0.80%	0.80%	0.50%
AU	Building Approvals MoM Dec	1.00%	1.00%	-3.60%
CH	Caixin China PMI Mfg Jan	50.6		50.5
EC	ECB's Simkus speaks			
EC	HCOB EZ Manufacturing PMI Jan F	46.1		46.1
UK	S&P Global UK Manufacturing PMI Jan F	48.2		48.2
EC	CPI Estimate YoY Jan P	2.40%		2.40%
EC	CPI Core YoY Jan P	2.60%		2.70%
	Tuesday 04 February			
US	S&P Global US Manufacturing PMI Jan F	50.1		50.1
US	Construction Spending MoM Dec	0.20%		0.00%
US	ISM Manufacturing Jan	49.9		49.3
US	Fed's Bostic speaks			
NZ	Building Permits MoM Dec			5.30%
US	Fed's Musalem speaks			
AU	Household Spending MoM Dec	0.40%		0.40%
SW	Riksbank minutes			
	Wednesday 05 February			
EC	ECB's Villeroy speaks			
US	JOLTS Job Openings Dec	8000k		8098k
US	JOLTS Quits Rate Dec			1.90%
US	Factory Orders Dec	-0.70%		-0.40%
US	Durable Goods Orders Dec F	-2.20%		-2.20%
US	Fed's Bostic, Daly speak			
NZ	GDT Dairy Auction			+1.4%
NZ	Unemployment Rate 4Q	5.10%	5.10%	4.80%
NZ	Employment Change QoQ 4Q	-0.20%	-0.20%	-0.50%
NZ	Pvt Wages Ex Overtime QoQ 4Q	0.60%	0.70%	0.60%
AU	S&P Global AU PMI Services Jan F			50.4
JN	Cash Earnings - Same Sample Base YoY Dec	3.20%		3.50%
JN	Scheduled FT Pay - Same Base YoY Dec	2.70%		2.80%
NZ	ANZ Commodity Price MoM Jan			0.20%
US	Fed's Jefferson speaks			
GE	HCOB Germany Services PMI Jan F	52.5		52.5
EC	HCOB Eurozone Services PMI Jan F	51.4		51.4
EC	ECB Wage Tracker Indicators			
UK	S&P Global UK Services PMI Jan F	51.2		51.2

		Median	Fcast	Last
	Thursday 06 February			
US	ADP Employment Change Jan	150k		122k
US	Trade Balance Dec	-$96.8b		-$78.2b
EC	ECB's Lane speaks			
US	Fed's Barkin speaks			
CA	S&P Global Canada Services PMI Jan F			48.2
US	S&P Global US Services PMI Jan F	52.8		52.8
US	ISM Services New Orders Jan			54.2
US	ISM Services Employment Jan			51.4
US	ISM Services Prices Paid Jan			64.4
US	Fed's Goolsbee, Bowman, Jefferson speak			
AU	Trade Balance Dec	A$6500m		A$7079m
JN	BOJ Board Tamura Speech in Nagano			
GE	Factory Orders MoM Dec	1.80%		-5.40%
EC	Retail Sales MoM Dec	-0.10%		0.10%
	Friday 07 February			
UK	Bank of England Bank Rate Feb-06	4.50%		4.75%
US	Initial Jobless Claims Feb-01	213k		207k
US	Continuing Claims Jan-25	1875k		1858k
UK	DMP 3M Output Price Expectations Jan	3.90%		3.80%
UK	DMP 1 Year CPI Expectations Jan	3.00%		3.00%
EC	ECB's Nagel speaks			
US	Fed's Waller speaks			
SP	ECB's Escriva speaks			
US	Fed's Logan speaks			
JN	Household Spending YoY Dec	0.30%		-0.40%
GE	Industrial Production SA MoM Dec	-0.70%		1.50%
GE	Trade Balance SA Dec	17.0b		19.7b
EC	ECB's Guindos Speaks in Madrid			
	Saturday 08 February			
UK	BOE's Pill speaks			
US	Annual Revisions: Establishment Survey Data			
US	Change in Nonfarm Payrolls Jan	170k		256k
US	Average Weekly Hours All Employees Jan	34.3		34.3
US	Unemployment Rate Jan	4.10%		4.10%
US	Fed's Bowman speaks			
US	U. of Mich. Sentiment Feb P	72		71.1
US	Wholesale Trade Sales MoM Dec			0.60%
US	Fed's Kugler speaks			
	Sunday 09 February			
CH	PPI YoY Jan	-2.20%		-2.30%
CH	CPI YoY Jan	0.40%		0.10%

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	4.25	4.25	4.25	5.50
1mth	4.17	4.24	4.37	5.59
2mth	4.02	4.08	4.24	5.63
3mth	3.89	3.96	4.12	5.67
6mth	3.70	3.77	3.84	5.61
GOVERNMENT STOCK				
04/27	3.64	3.70	3.57	4.54
05/30	4.02	4.07	3.94	4.50
05/32	4.31	4.37	4.28	4.60
05/35	4.59	4.63	4.56	
04/37	4.77	4.79	4.74	4.83
05/41	4.96	4.98	4.95	4.93
05/54	5.12	5.14	5.14	
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	49	49	48	55
Europe 5Y	53	54	55	59

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.42	3.50	3.41	4.88
3 years	3.47	3.55	3.42	4.57
4 years	3.56	3.62	3.49	4.43
5 years	3.66	3.71	3.58	4.37
10 years	4.09	4.12	4.01	4.45
FOREIGN EXCHANGE				
NZD/USD	0.5572	0.5693	0.5643	0.6055
NZD/AUD	0.9068	0.9047	0.9034	0.9340
NZD/JPY	86.47	87.95	88.94	90.01
NZD/EUR	0.5436	0.5426	0.5431	0.5636
NZD/GBP	0.4531	0.4554	0.4508	0.4830
NZD/CAD	0.8201	0.8182	0.8087	0.8198
TWI	67.3	67.9	67.8	71.2

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