7 April 2025

Trump's Terrifying Tariffs!

- **Market turmoil as tariffs surprise**
- **US consumer will be hit hard**
- **Global growth under pressure**
- **Uncertainty the real killer**
- **Awful timing for RBNZ decision**

The actions of one President Donald Trump simply beggar belief. In a matter of days one man has almost single-handedly knocked the world economy off its pedestal. Disruptors are a necessary part of both economic and social evolution. They are invaluable at leading change when society is stuck in the status quo. But what we are witnessing right now is simply something else!

While the implications of the US Government's tariff approach are staggering, perhaps what is more bothersome is that Trump's actions are forcing us all to re-evaluate the role of the United States in the world. The US has for many decades been seen as an anchor when global shocks have hit. Even when the US has been at the centre of those shocks, the world has turned to it, and its Federal Reserve, to provide guidance and stability. That's a key reason why the USD typically appreciates in times of global shock and uncertainty no matter its source. The fact that the USD has weakened this time around, notwithstanding a bounce late last week, is a clear sign it has lost some of its mana.

Moreover, the US has been seen as the defender of democracy, rules-based systems and free trade. And, to cap things off, the US constitution has been held up as something that would prevent concentration of power. In its simplest sense Congress has the power to pass laws, the President administers the laws, and the judiciary has the power to interpret and enforce the laws.

Rightly or wrongly, the rest of the world is currently wondering what is going on in this space. A concern that was first raised when President Trump initially utilised the National Emergencies Act to impose tariffs on Canada and Mexico.

We do not pretend to be experts on the US constitution nor its law-making process but we can report that there exists as much concern in financial markets about the process driving current decision as the decisions themselves. In short, the US now has a major credibility issue.

This credibility issue was intensified when details as to how the tariffs were calculated was made public. In short, the bigger your trade surplus with the US, as a ratio of the exports you send there, the bigger the effective tariff you are accused of placing on the US. In New Zealand's case the US suggested our effective tariff on their exports to New Zealand was 20%. No matter how you measure our actual tariffs and non-tariff barriers this seems nonsense. Fortunately, the US then halved the estimated amount before settling on a 10% tariff rate for New Zealand.

Incidentally, if you happen to run a deficit with the US they do not voluntarily agree to compensate you in a symmetrical fashion but, rather, they simply impose a 10% tariff on you for good measure.

We have always argued that for New Zealand the biggest risks around tariffs were not the direct effects but the indirect effects. This remains our view.

In the first instance, the impact of tariffs will fall most heavily on the US consumer. The prices of imported goods will rise and be passed onto the consumer. Some global suppliers may absorb some of these costs through lower margins but, ultimately, there will be a significant number of goods for which there is no immediate substitute so cost increases will be a direct impost on US citizens. In the longer run the US hopes its producers may substitute for what is currently imported but this will take time and such production is still likely to come at a higher price than is the case for imported goods now.

So, initially, at least, higher inflation for the US and lower growth. Federal Reserve Governor Jerome Powell has already warned of the initial price effects and cautions, rightly in our view, that inflation could persist for some time. If so, this means interest rates in the US are likely to be higher than would otherwise be the case further denting US growth. Trump's response to this was "cut interest rates, Jerome, and stop playing politics".

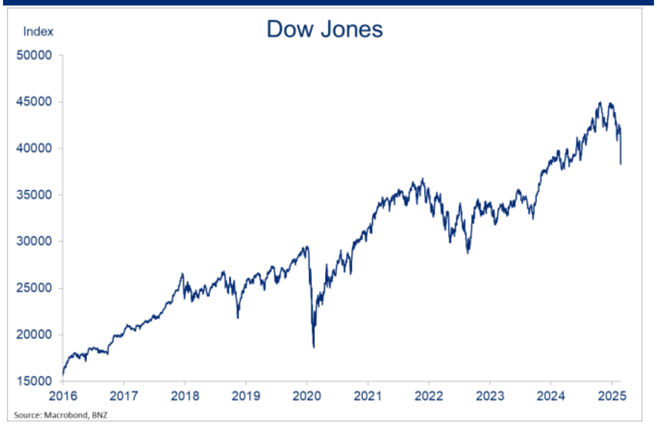
Slower US growth is bad news for all but the potentially worse news is the negative impact it might have on suppliers of goods to the United States. This is particularly problematic for New Zealand as we export a disproportionate amount of our goods to developing Asia, the economies of which, especially China, are facing the highest tariffs. Weaker Asian growth means weaker New Zealand growth.

But the real game changer will be if other nations start applying tit-for-tat tariffs on the United States. Already the Chinese have announced a 34 percentage point increase in tariffs on US goods. It seems like the European Union will not be too far away from doing something similar. This can only add further to inflationary pressures in the countries that impose the tariffs and further impede global growth.

For a country such as New Zealand there is no point in playing this game. Imposing higher tariffs on imported goods would, like everywhere else, add to domestic inflation and weaken growth. There is nothing to gain.

So the global growth environment is now fragile. The sense of this fragility becomes self reinforcing when market pricing starts to reflect the concerns. Take for example the huge declines in equity markets around the planet. Not only does this add to uncertainty but it creates wealth effects that further diminish consumer spending. Ironically, US consumer spending is significantly influenced by its equity market performance because a decent chunk of household wealth in the US is held in that form. In New Zealand's case our relatively low holding of international equities will cushion the blow albeit that our exposure has risen aggressively since the establishment of Kiwisaver.

Ouch!



But is doesn't end here. Uncertainty in and of itself is a major constraint on business fixed capital formation (investment). We would expect the investment component of the national accounts data of many countries to take a hit. The US may be an exception here if investment in domestic businesses rises. In New Zealand's case we already have a business community that is facing into excess spare capacity, margin pressure and local political uncertainty. The last thing it needs now is this tariff fiasco. We fear that our current forecast pick up in economic activity may yet be further delayed.

The uncertainty takes many forms:

- What will be the tariff responses around the world?
- How much will it really affect prices and volumes?
- Will there be positive substitution effects for some countries that end up delivering benefits?
- Is this the end of the US as the economic cornerstone of the world's economy?
- Will China take up that mantle?

But perhaps the biggest uncertainty of all is, are these imposed tariff measures sustainable? Will the legislature or Congress eventually provide the moderation that one might expect of them? What will happen to the support of the current government when the expected economic downturn in the United States takes hold? Will the shape of Congress change following the mid-term elections? And, is this policy path sustainable when President Trump finally departs the Oval Office?

Who knows?! But what is clear is that the United States will be viewed through a very different lens for a very long time.

From a New Zealand perspective, we are going to have to be more reactive to events than proactive in our analysis of the economy. Understanding risk will take precedence over a fraught forecasting process. Nothing is a given including the extent and the duration of the tariffs currently imposed on us. And for specific products substitution effects on both exports and imports will be important to understand and measure. For example, higher tariffs on competing exporters of meat and wine might aid these sectors. And because Asian exporters now have less access to the US they might redirect product at discounted rates to our shores?

Probably the best we can say is that there is a clear risk we need to downgrade our growth expectations but there is two-way risk for inflation. One thing's for sure, unintended consequences and unexpected reactions will come thick and fast. Take for example, OPEC+'s decision to increase oil supply. Oil prices have slumped, which adds a clear disinflationary pulse to the world, generally, and New Zealand specifically. But what was the motivation here? Some say it was to appease Donald Trump who was demanding lower oil prices. Others have a more conspiratorial view in suggesting that OPEC is lowering prices to a level that will make US drilling costs seem prohibitively high.

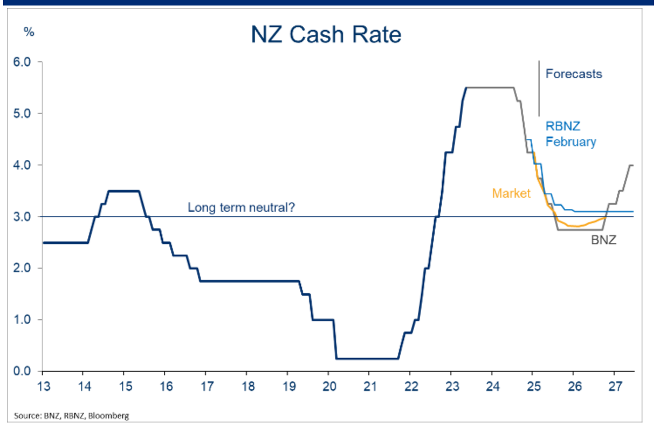
So what does the Reserve Bank of New Zealand do with this on Wednesday? It's hard to believe they will have any greater clue as to what is around the corner than do we or anyone else. And this is not a simple modelling exercise that can be run in the manner that some shocks might provide. Indeed, to start with this is yet another supply shock, and we know from recent past experience that central banks are not well placed to deal with such things.

In our opinion, the best thing that the Bank could do is to keep a very steady hand on the tiller. This means following through with the 25 basis point cut it had suggested when it met back in February.

Where things might well change is in the rhetoric about where to next. Surely the Bank must acknowledge what is going on now and the uncertainty this brings. In so doing, we would not be surprised if its musings about where to next were left wide open. Were this the case we would not read the text as indicating the Reserve Bank thought it had done enough just that it was acknowledging that it would use the time between now and the May Monetary Policy Statement to try to make sense of what is going on.

As you would know, we have been picking a 2.75% low in the cash rate for almost two years now. One of the reasons why we kept to our non-consensus view was the fear that the tariff news out of the States could only be bad. We'd not really pondered it being quite so tempestuous, but we feel our fears have been vindicated. It is our over-riding view that what we are seeing presents a big headwind to growth no matter where it all finally ends up. On this basis we see no reason to change our view at this juncture but, like everyone else, we will be watching the evolution of this nightmare very closely, mindful that while it may argue for higher interest rates it could, yet, also present some downside risk. For the record, domestic financial markets have certainly taken on board the downside risk in finally pushing the expected OCR track sub 3.0%.

Market reprices lower

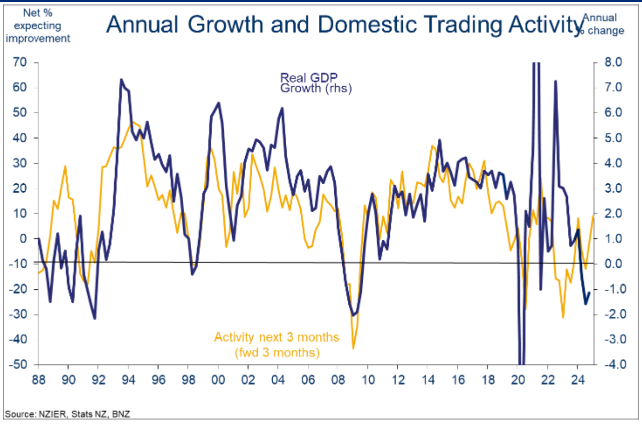


There are other data out during the week. Some might say who cares? And they may well have a point but we would still argue that some focus on domestic affairs is still warranted.

On Tuesday is NZIER's March Quarter Quarterly Survey of Business Opinion (QSBO). We will be looking for further signs the economy is, or at least was, on the mend. The QSBO does not contain the same insights into the agriculture sector as does the ANZ business survey so it may appear a little weaker than last week's ANZ offering given that agriculture and commodity prices are the driving forces of New Zealand's current economic progress.

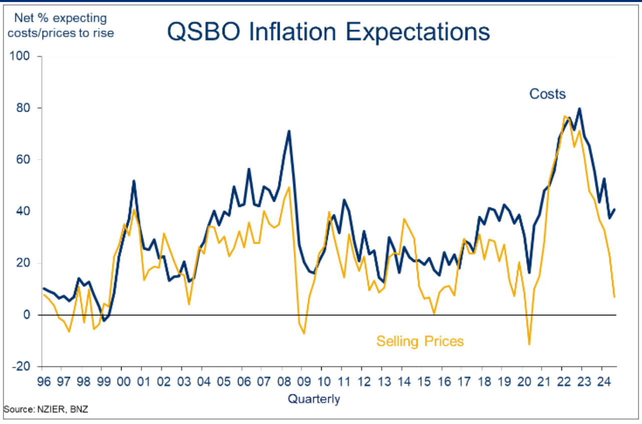
Any signs in this survey that own activity is not pushing higher would be worrying. Seasonal adjustment of this series has been fraught with danger given the noise in the data over the last few years but, to the extent we can adjust appropriately, we'd be hoping for a seasonally adjusted own activity indicator of at least +10 to be consistent with our forecast modest growth rebound.

More confidence please



Of real interest will be the pricing intentions series. The ANZ and QSBO series have been moving in diametrically opposite directions, QSBO down and ANZ up. The former says the RBNZ has nothing to worry about, the latter suggests a little bit of nervousness is warranted. We are hoping the QSBO stays true to form.

Can this be sustained?



On Friday we get the March BNZ-Business New Zealand Performance of Manufacturing Index (PMI) followed up with the Performance of Services Index (PSI) on Monday. The PMI has sprung into positive territory over the last two months while the PSI has returned to a sub 50 position. The composite index suggested economic growth pushing up to around 2.0%. We hope to see more of the same.

If either the QSBO and/or the PMI/PSI combination suggest a weakening in growth we will be very concerned given that these surveys will be reflective of pre-tariff expectations and experiences.

Keep an eye out for HLFS Working Age Population on Wednesday. Our view is that net migration inflows are troughing and that, consequently, the labour supply will start to grow more rapidly than the Reserve Bank has assumed. With labour demand still weak, and the QSBO should reinforce this, the population data should provide some support to our view that the unemployment rate will end up higher than the Reserve Bank currently forecasts. This, in turn, will help keep downward pressure on labour cost inflation, CPI inflation and the cash rate.

Talking of the CPI, Statistics New Zealand will announce changes to the CPI weights on Thursday. Depending on the details, this has the potential to affect CPI forecasts for the year ahead at the margin.

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Global Watch

- **Market focus remains on Trump's tariffs**
- **Negotiations begin between the US and country leaders**
- **US CPI and PPI; core measures for both seen at 0.3% m/m**
- **Uni of Michigan sentiment & inflation expectations due**

Week in Review

The US's Liberation Day tariffs were larger than what most analysts had been expecting and there has been a sharp sell off in risk assets. World equities were down about 9% on the week.

The USD interestingly is lower. The tariffs perhaps a signal of the end of US exceptionalism. Many analysts have downgraded their US growth projections and recession odds are increasing. Our colleagues at NAB revised down their US growth forecasts to 0.6% over 2025 and see 125bps of cuts over H2 2025 and into 2026.

As for the tariffs themselves, China was hit with an additional 34% tariff (on top of the 20% fentanyl tariffs), while Japan will see a 24% tariff and South Korea a 25% tariff. Most of the impact on Australia and New Zealand (both see a 10% tariff) will come through trading partners.

In Australia, the RBA meeting came and went without much fanfare, but the Governor did note the Board had talked a little about downside risks and including global downside risks. Dataflow was not market moving. Retail Sales for February disappointed (0.2% m/m vs. 0.3% exp.), while Job Vacancies fell back to August 2024 levels.

Week Ahead

Offshore, all focus remains on the imposition of US tariffs with the 'Liberation Day' tariffs already effective for the baseline 10%, and the higher tariffs effective from April 9. Key for markets will be whether the US Administration proceeds in full with the announced tariffs, or whether there is room for negotiation.

Also important for markets will be the potential pivot to a pro-growth deregulation/tax cut agenda. On NAB's estimates the tariffs amount to an effective tax increase for the US of 2.5% of GDP. How that revenue is potentially distributed throughout the economy and acts as an offset is important. A failure to pivot early would be a further headwind.

Also out in the US is CPI for March (Thursday), PPI for March (Friday) and the University of Michigan Consumer Sentiment (also Friday). It may be too early to see tariff impacts on CPI/PPI, but over the coming quarters on NAB's numbers the tariffs will add some 1.75 percentage points to inflation, seeing Core PCE peaking at 4.0%. Inflation expectations out of Uni. Mich. will also be closely watched by the Fed.

In Europe it is mostly quiet with focus instead on the political reaction to the US tariffs and what form of retaliation is likely. EZ/EU trade ministers meet (Monday) as do finance ministers and the ECB's Lagarde (Friday). On the data front there is Retail Sales (Monday) and smattering of ECB speakers. It is also mostly quiet in the UK, but monthly GDP figures are out (Friday) and last month was negative.

In China, the focus again is going to be on potential retaliation to the US' tariffs, and on any fiscal monetary response. Datawise the CPI/PPI (Thursday) is likely to take a backseat, while Aggregate Financing figures are due anytime during the week.

In Australia, it is quiet with the NAB Business Survey and W-MI Consumer Confidence (both Tuesday). RBA Governor Bullock also speaks (Thursday) and will no doubt be quizzed about the deteriorating global backdrop and what that might mean for monetary policy.

Important Events Preview

Monday 7

EZ/GE Retail Sales, German Industrial Production

EZ Trade Ministers meet to respond to US tariffs
An important meeting with Europe likely to unveil counter measures to the US tariffs.

Tuesday 8

AU NAB Business Survey; W-MI Consumer Confidence
The survey period for the NAB Survey precedes the latest US tariff developments and equity market sell-off, so the results should be interpreted in that context.

As for W-MI Consumer Sentiment, it rose sharply last month and is up a cumulative 13.6% since Q3 2024. The details suggest the gains in confidence have come from easing inflation fears and from the recent rate cut. The other development worth monitoring is the unemployment expectations index which is now the lowest since early 2023.

US NFIB Small Business Survey, Fed's Daly

Wednesday 9

US Higher tariffs take effect

The baseline tariff of 10% on imports from all countries took effect on April 5. The higher tariffs that apply to more than 50 countries are due to take effect on April 9.

US FOMC Minutes, Inventories, Fed's Barkin
The FOMC Minutes are likely to be seen dated given the size of tariffs flagged by the US Administration is larger than what most forecasters had been expecting. Fed speak

over the past month has emphasised the Fed can afford to wait on the sidelines and that policy is in a good position. Any discussion on inflation expectations should be closely watched given the sharp rise in the University of Michigan 5–10-year expectations.

Thursday 10

AU RBA's Bullock
Governor Bullock is giving the keynote speech at the Chief Executive Women Melbourne Annual Dinner. Given global developments, she will be quizzed on global growth headwinds given the sharp equity market sell-off in response to the US' Liberation Day tariffs'.

Governor Bullock in her press conference noted: "*Monetary policy is well-placed to respond to international developments if they were to have material implications for Australian activity and inflation*". And also stated lot will depend on how Chinese authorities might respond.

CH CPI/PPI (Mar), Aggregate Financing due anytime
Data again is likely to take a back seat with focus instead on potential retaliation to the US' tariff announcements, as well as any possible fiscal/monetary stimulus. As for the data, inflation is expected to remain still very subdued with the PPI at -2.3% y/y and CPI 0.1% y/y. Aggregate financing figures are also due out anytime this week.

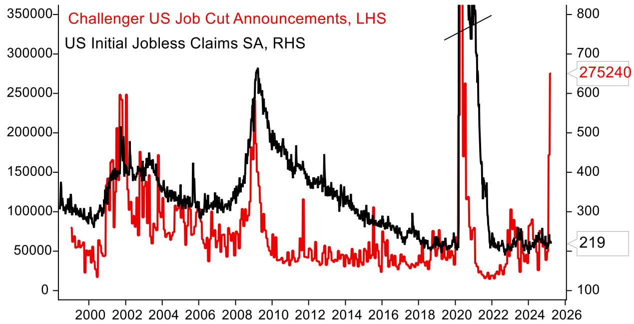
US CPI (Mar), Jobless Claims
The CPI is for March with consensus for core at 0.3% m/m and 3.0% y/y. It may still be too early to see potential tariff impacts on the CPI with the only tariff increases in place during this time being the initial 10% tariff on China that was effective from early February, and the additional 10% tariff that was effective from early March.

A fuller read through to the Fed's preferred PCE version of inflation will be available following the PPI on Thursday.

Looking forward, the CPI should rise if the full swath of tariffs recently announced are fully implemented. The average tariff rate is set to rise to 22%. On NAB's estimates that could see inflation around 1.75 percentage points higher than otherwise, and see Core PCE inflation peak at around 4%.

The other area to keep a close watch on is Jobless Claims with the Challenger Job Cut Announcements surging over recent weeks. Historically such a sharp rise has seen jobless claims rise quickly.

US Jobless Claims and Job Cuts



Source: National Australia Bank, Bloomberg

Friday 11

UK Monthly GDP, Industrial Production

EZ ECB's Lagarde and EZ Finance Ministers
EU Finance Ministers meet, joined by ECB President Lagarde. No doubt will be watched closely to see moves by Europeans to offset potential tariff impacts.

US PPI (Mar), Uni Mich. Con. Sentiment, Fed's Williams
While the PPI has traditionally been viewed as for what it implies for the Fed's preferred PCE measure, Fed officials have been saying they will also be looking at the PPI for price pressures associated with tariffs. Core PPI is expected to rise 0.3% m/m.

Again, it may be too early to see too much tariff impact. The 25% tariff on steel and aluminium imports only became effective from March 12, while initial tariffs on China were only effective from early February and early March.

In the University of Michigan Survey, inflation expectations remain the key to watch given the 5-10yr measure has lifted to 4.10%. So far other measures haven't risen as high, but the Fed will be watching expectations closely in balancing whether they could respond to any prospective softening in the labour market. The Fed's Williams is also speaking on the economic outlook as is Musalem.

US Earnings – JP Morgan, Morgan Stanley, Wells Fargo
The US earnings seasons kicks off in earnest with major banks reporting: JPMorgan, Morgan Stanley, Wells Fargo, Bank of New York Mellon.

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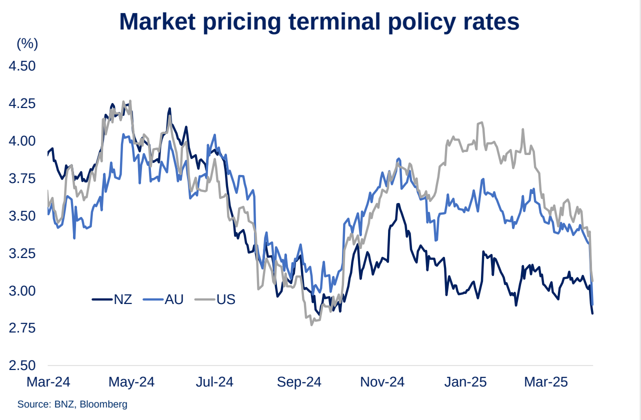
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg: BNZ

There was a huge shift in US rate expectations after President Trump unveiled tariffs which were far larger than expected and will provide a significant headwind for global growth. Five-year US swap rates have fallen to the lowest level since early October and terminal rate pricing for global central banks has ratcheted lower. Dynamics in the US inflation market point towards the tariff hike as being inflationary in the near term but disinflationary long term. One-year inflation swaps have jumped to 3.4%, while the 5y5y forward, has fallen to 2.3%, the lowest level in almost three years.

Terminal rate pricing

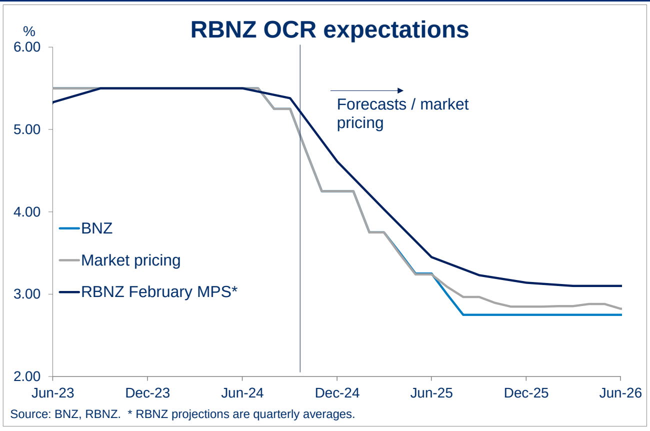


A key question for rates markets will be how the US Federal Reserve responds to higher inflation and rising unemployment? Recent bond market price action suggests that investors do not believe that higher inflation will delay Fed easing. The market is pricing close to 125bp of rate cuts for this year, up from 75bp at the beginning of last week. The growth scare and spiking uncertainty will continue to undermine risk sensitive assets and support flows to fixed income.

The NZ economy will face headwinds from weaker global growth at a time when the contours of the recovery, after an extended period of stagnation, are still uncertain. The Asian region, an important destination for NZ's exports, will face some of the largest tariff increases. Quite apart from the actual tariff increases, uncertainty from US economic policy is likely to constrain business and consumer sentiment which was already showing some weakness.

NZ rates have broken out of well-established ranges. 2-year swap rates traded below 3.30%, having tested this level on several occasions during this year, and reached a fresh cycle low. The market is pricing the terminal OCR at 2.75%, corresponding with our long-held forecast. The terminal rate is below the RBNZ's projected rate track from the February Monetary Policy Statement but rightly incorporates the significant shift in the global macro backdrop.

Market pricing of OCR relative to RBNZ's model track



The RBNZ is unanimously expected to reduce the OCR to 3.50% at its Monetary Policy Review on Wednesday. Overnight index swaps are fully discounting a 25bp cut and indicating the chance of a larger reduction. Given it is a policy review, we expect a short statement acknowledging the outlook uncertainty from the escalating trade war and maintaining an easing bias, while the Bank continues to monitor the incoming data.

The odds of a global recession are rising amid the significant escalation in trade tensions. The backdrop is fluid but risks for rates are skewed to the downside even after the recent large moves lower. We have a positive view on duration further out the curve and expect 10Y NZGBs to retest the cycle lows from last year. The NZ yield curve, which is already elevated in a global context, is expected to steepen further as the RBNZ easing cycle proceeds.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	3.47	3.47 - 3.72
NZ 2yr swap (%)	3.10	3.10 - 3.52
NZ 5yr swap (%)	3.38	3.38 - 3.80
NZ 10yr swap (%)	3.85	3.84 - 4.23
2s10s swap curve (bps)	75	67 - 75
NZ 10yr swap-govt (bps)	-40	-47 - -37
NZ 10yr govt (%)	4.25	4.34 - 4.60
US 10yr govt (%)	3.99	3.86 - 4.40
NZ-US 10yr (bps)	25	20 - 37
NZ-AU 2yr swap (bps)	-11	-30 - -10
NZ-AU 10yr govt (bps)	3	3 - 20

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week, President Trump's Liberation Day announcement on reciprocal tariffs rocked the market with its more punitive and sweeping tariff regime than expected. All asset classes were affected with world equities down about 9%, global rates tumbling, and oil prices plunging over 10% to a four-year low. Safe-haven currencies CHF and JPY outperformed while the NZD and AUD were two of the worst performing. NZD/USD fell over 2% and closed at just under 0.56, essentially back to the level it started the year. NZD/AUD rose almost 2% to 0.9260 as the AUD was hit harder while on the other crosses, falls for the NZD ranged from 1.7% against GBP to 4% against JPY.

New tariffs that President Trump is looking to impose on countries are worse than the worst-case scenario we envisaged back in November when he was re-elected. The average US tariff rate will climb to 22% from the pre-election level of 2.4%, taking it back to levels seen pre-World War I. Further product-based tariffs are still to come. Countries can negotiate lower tariffs, while Trump's executive order allows for even higher tariffs if countries retaliate. China's initial meek response to the extra 20% tariff over February-March was superseded on Friday, with its announcement that it would match the US reciprocal tariff of 34% across all products. A global trade war is now well underway.

This turn of events has increased policy uncertainty from already extreme levels and makes forecasting nigh on impossible. Scenarios from here are wide ranging, from a significant rollback of tariffs to further escalation. The only things we can be certain about is that the odds of a US economic recession have ramped higher and turbulent market conditions are likely to remain for some time as the process of negotiation and retaliation works through.

Our prevailing FX projections had assumed the average US tariff rate would increase by about 10% and on current policy, it is looking to be about double that. While our projections were consistent with a relatively flat NZD in Q3, they built in an upward move over the second half to 0.60 by the end of the year. These figures now only seem achievable if tariffs are significant wound back.

A period of market turbulence isn't a good time to be making forecast revisions. Heightened uncertainty remains and there are wide ranging scenarios ahead. The NZD is sensitive to the global growth outlook. Global economic recessions or major downturns are bad. It would be unusual for the NZD to appreciate when global growth forecasts are being revised downward.

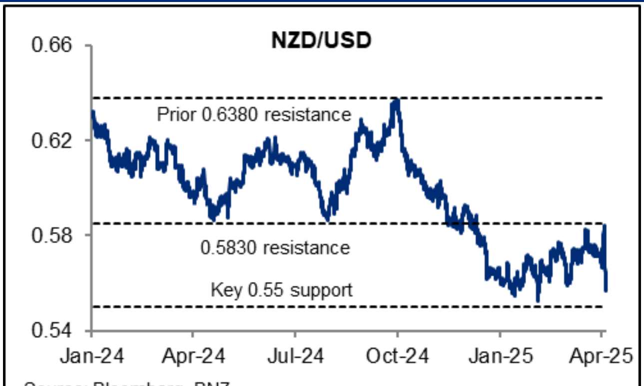
However, risks are not entirely one-sided. There are scenarios where the USD collapses on the re-ordering of world trade, and/or fund flows out of the US and/or the US economy significantly underperforms.

All we can highlight at this point is that 0.55 for NZD/USD remains a key support level but a downward break is entirely plausible if a deep global downturn ensues. See our more comprehensive note released today.

In the week ahead, market focus will remain on tariffs and the beginning of negotiations between country leaders and President Trump. China-US and EU-US developments remain high on our watchlist.

In terms of the market, nothing much else matters, with economic releases over the coming month largely pre-dating this new shock to the world. Domestically, there will be some vague interest in tomorrow's QSBO. On Wednesday, a 25bps rate cut by the RBNZ looks like a done deal, being fully priced, and the Bank would be wise to keep its options open for future meetings in light of the global backdrop. The key global economic releases will be the US CPI, PPI and University of Michigan survey, the latter as a guide to whether consumer confidence collapsed further ahead of Liberation Day. A number of Fed policy makers will be on the speaking circuit to give their updates and on Friday Chair Powell wasn't prepared to offer the market hope for an immediate policy reaction to the evolving tariff situation.

Back towards the bottom end of the 2025 range



Source: Bloomberg, BNZ

Cross Rates and Recent Ranges

	Current	Last 3-weeks range*
NZD/USD	0.5577	0.5650 - 0.5850
NZD/AUD	0.9289	0.9060 - 0.9170
NZD/GBP	0.4341	0.4380 - 0.4490
NZD/EUR	0.5119	0.5220 - 0.5340
NZD/JPY	81.12	84.30 - 87.40

*Indicative range over last 3 weeks, rounded figures

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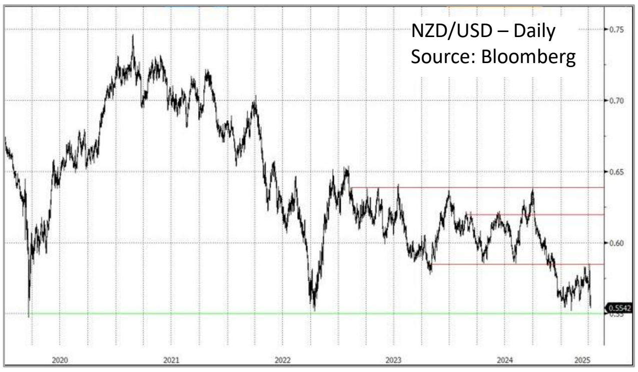
Technicals

NZD/USD

Outlook: Downside risk
ST Resistance: 0.5850 (ahead of 0.60)
ST Support: 0.55 (ahead of 0.50)

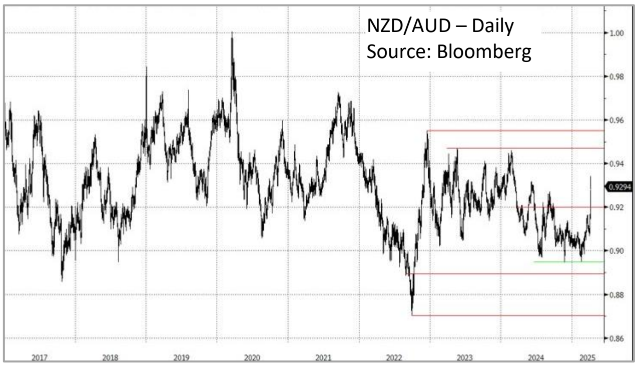
Key support remains at 0.55. A clear break of that would be particularly scary, with no obvious new support level until we get to 0.50.



NZD/AUD

Outlook: Trading range
ST Resistance: 0.9470 (ahead of 0.9550)
ST Support: 0.8950 (ahead of 0.89)

During the current chaos and liquidity vacuum, no level is safe and potential ranges are wide.



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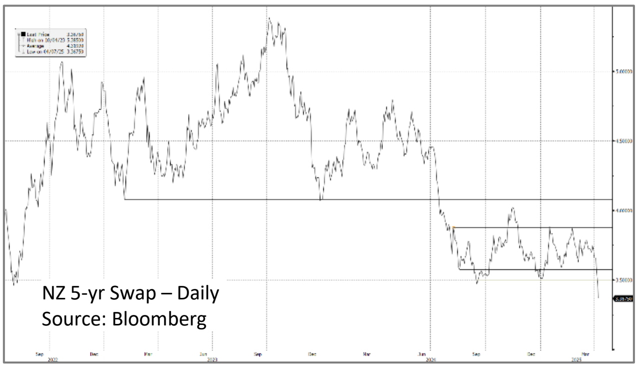
NZ 5-year Swap Rate

Outlook: Lower
ST Resistance: 3.50
ST Support: 3.00

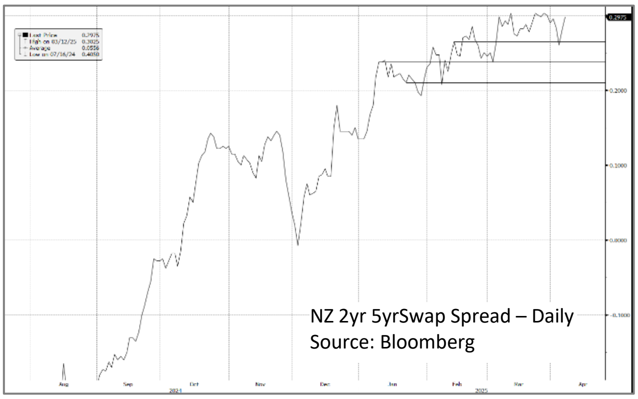
5-year swap has made a convincing break, we look for 3.00 as next level of support



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

Outlook: Neutral
ST Resistance: 0.34
ST Support: 0.20

2x5 swap looks to be trading toward the top of its recent range.



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Quarterly Forecasts

Forecasts as at 7 April 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified Forecasts

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
GDP (production s.a.)	0.7	0.3	0.4	0.6	0.7	0.8	0.7	0.6	0.5	0.5
Retail trade (real s.a.)	0.9	0.4	0.6	1.0	1.2	1.1	0.9	0.8	0.7	0.7
Current account (ann, % GDP)	-6.2	-5.4	-4.6	-4.3	-4.0	-4.0	-4.0	-4.1	-4.1	-4.0
CPI (q/q)	0.5	0.8	0.5	0.8	0.5	0.5	0.2	0.8	0.4	0.5
Employment	-0.1	0.0	0.2	0.4	0.6	0.7	0.7	0.6	0.5	0.5
Unemployment rate %	5.1	5.3	5.5	5.5	5.4	5.2	5.0	4.9	4.9	4.8
Pr. avg hourly earnings (ann %)	4.0	4.5	4.2	3.6	2.9	3.0	3.1	3.2	3.4	3.3
Trading partner GDP (ann %)	3.2	3.0	3.0	2.8	2.6	2.6	2.7	2.8	2.9	2.9
CPI (y/y)	2.2	2.4	2.5	2.7	2.6	2.3	2.0	1.9	1.9	1.9
GDP (production s.a., y/y)	-1.1	-1.2	0.3	1.9	2.0	2.5	2.8	2.8	2.6	2.3

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 SOFR 3 month	US 10 yr	Spread NZ-US Ten year
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.30	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.35	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.05	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.50	4.30	0.19
2025 Mar	3.92	3.84	3.99	4.58	3.47	3.71	4.15	4.30	4.45	0.13
Forecasts										
Jun	3.25	3.00	3.45	4.45	2.90	3.35	4.15	4.30	4.25	0.20
Sep	2.75	2.90	3.45	4.45	3.00	3.40	4.20	3.85	4.25	0.20
Dec	2.75	2.90	3.55	4.30	3.15	3.50	4.10	3.60	4.00	0.30
2026 Mar	2.75	2.90	3.65	4.30	3.40	3.65	4.15	3.35	4.00	0.30
Jun	2.75	2.90	3.90	4.40	3.70	3.90	4.30	3.10	4.00	0.40
Sep	2.75	3.30	4.10	4.40	3.95	4.15	4.45	3.10	4.00	0.40
Dec	3.25	3.55	4.20	4.40	4.10	4.25	4.50	3.10	4.00	0.40

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	0.56	0.60	1.10	1.29	145	0.56	0.93	0.51	0.43	80.9	67.0
Jun-25	0.58	0.65	1.10	1.29	145	0.58	0.90	0.53	0.45	84.5	68.5
Sep-25	0.59	0.66	1.10	1.30	142	0.59	0.90	0.54	0.46	84.1	69.2
Dec-25	0.60	0.67	1.11	1.30	138	0.60	0.90	0.54	0.46	83.1	69.9
Mar-26	0.60	0.67	1.11	1.30	138	0.60	0.90	0.54	0.46	83.1	69.9
Jun-26	0.64	0.71	1.14	1.32	130	0.64	0.90	0.56	0.49	83.2	72.4
Sep-26	0.65	0.72	1.15	1.33	128	0.65	0.90	0.57	0.49	83.2	73.0
Dec-26	0.66	0.73	1.17	1.34	126	0.66	0.90	0.56	0.49	83.2	73.3
Mar-27	0.67	0.74	1.18	1.36	126	0.67	0.90	0.56	0.49	83.8	73.2
TWI Weights						15.6%	18.4%	9.2%	3.9%	5.5%	

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

Annual Forecasts

Forecasts as at 7 April 2025	March Years Actuals 2023	2024	2025	2026	2027	December Years Actuals 2022	2023	2024	2025	2026
GDP - annual average % change										
Private Consumption	3.4	1.0	0.1	2.1	2.8	4.2	1.0	0.2	1.4	2.9
Government Consumption	2.7	2.0	-0.8	0.6	0.0	5.2	0.8	0.0	0.4	0.2
Total Investment	3.3	-1.1	-4.9	0.4	5.8	4.2	-0.1	-4.6	-1.7	5.6
Stocks - ppts cont'n to growth	0.3	-1.6	0.4	0.6	0.1	0.0	-1.4	0.2	0.5	0.2
GNE	3.7	-0.9	-0.6	2.3	3.1	4.5	-0.8	-0.8	1.5	3.2
Exports	5.6	8.6	3.5	4.6	3.9	-0.8	11.4	4.2	5.4	3.7
Imports	4.4	-1.3	2.9	5.2	4.9	4.6	-0.6	2.4	4.9	5.0
Real Expenditure GDP	3.9	1.4	-0.6	2.0	2.6	3.2	1.9	-0.1	1.2	2.7
GDP (production)	**3.5**	**1.4**	**-1.1**	**1.7**	**2.6**	**2.9**	**1.8**	**-0.5**	**0.8**	**2.7**
GDP - annual % change (q/q)	*3.0*	*1.4*	*-1.2*	*2.5*	*2.3*	*3.1*	*0.9*	*-1.1*	*2.0*	*2.6*
Output Gap (ann avg, % dev)	2.0	1.0	-1.1	-0.8	0.0	1.9	1.2	-0.6	-1.0	-0.1
Nominal Expenditure GDP - $bn	394	418	430	451	473	386	413	427	445	468
Prices and Employment - annual % change										
CPI	6.7	4.0	2.4	2.3	1.9	7.2	4.7	2.2	2.6	1.9
Employment	3.1	1.0	-0.6	1.9	2.3	1.7	2.8	-1.1	1.2	2.5
Unemployment Rate %	3.4	4.4	5.3	5.2	4.8	3.4	4.0	5.1	5.4	4.9
Wages - ave. hr. ord. time earnings (private sector)	8.2	4.8	4.5	3.0	3.3	8.1	6.6	4.0	2.9	3.4
Productivity (ann av %)	1.3	-1.1	-0.3	1.0	0.2	0.7	-1.2	-0.2	0.7	0.3
Unit Labour Costs (ann av %)	5.7	7.1	4.8	2.6	3.1	6.0	7.6	4.9	3.2	2.9
House Prices (stratified, qtr)	-12.8	2.7	-0.4	7.0	5.4	-13.8	0.6	-0.9	6.8	6.1
External Balance										
Current Account - $bn	-33.8	-27.6	-23.3	-18.0	-19.0	-35.6	-28.6	-26.4	-17.9	-19.1
Current Account - % of GDP	-8.6	-6.6	-5.4	-4.0	-4.0	-9.2	-6.9	-6.2	-4.0	-4.1
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-1.8	-2.1	-3.0	-2.3	-0.9					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	39.3	42.4	45.1	45.1	46.5					
Bond Programme - $bn (Treasury forecasts)	28.0	39.3	40.0	40.0	38.0					
Bond Programme - % of GDP	7.1	9.4	9.3	8.9	8.0					
Financial Variables (1)										
NZD/USD	0.62	0.61	0.57	0.62	0.67	0.63	0.62	0.57	0.60	0.66
USD/JPY	134	150	149	134	126	135	144	154	138	126
EUR/USD	1.07	1.09	1.08	1.12	1.18	1.06	1.09	1.05	1.11	1.17
NZD/AUD	0.93	0.93	0.91	0.90	0.90	0.94	0.93	0.91	0.90	0.90
NZD/GBP	0.51	0.48	0.44	0.47	0.49	0.52	0.49	0.45	0.46	0.49
NZD/EUR	0.58	0.56	0.53	0.55	0.56	0.60	0.57	0.55	0.54	0.56
NZD/YEN	83.0	91.1	85.4	83.1	83.8	85.6	89.5	88.4	83.1	83.2
TWI	71.0	71.2	67.9	71.1	73.2	72.9	72.0	68.5	69.9	73.3
Overnight Cash Rate (end qtr)	4.75	5.50	3.75	2.75	3.50	4.25	5.50	4.25	2.75	3.25
90-day Bank Bill Rate	5.16	5.64	3.60	2.90	4.05	4.55	5.63	4.26	2.90	3.55
5-year Govt Bond	4.40	4.60	4.00	3.65	4.20	4.30	4.50	3.90	3.55	4.20
10-year Govt Bond	4.35	4.60	4.50	4.30	4.40	4.25	4.65	4.45	4.30	4.40
2-year Swap	5.15	4.91	3.35	3.40	4.15	5.21	4.93	3.53	3.15	4.10
5-year Swap	4.50	4.40	3.65	3.65	4.25	4.62	4.43	3.63	3.50	4.25
US 10-year Bonds	3.65	4.20	4.25	4.00	4.00	3.60	4.00	4.40	4.00	4.00
NZ-US 10-year Spread	0.70	0.40	0.25	0.30	0.40	0.65	0.65	0.05	0.30	0.40

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

Source: Statistics NZ, BNZ, RBNZ, NZ Treasury

Key Upcoming Events

All times and dates NZT

		Median	Fcast	Last
	Monday 07 April			
AU	ANZ-Indeed Job Advertisements MoM Mar			-1.40%
GE	Industrial Production SA MoM Feb	-1.00%		2.00%
GE	Trade Balance SA Feb	18.5b		16.0b
EC	Sentix Investor Confidence Apr	-9		-2.9
EC	Retail Sales MoM Feb	0.50%		-0.30%
EC	ECB's Cipollone Speaks			
	Tuesday 08 April			
US	Fed's Kugler Speaks			
NZ	NZIER Quarterly Survey of Business Opinion			
AU	Westpac Consumer Conf Index Apr			95.9
AU	NAB Business Confidence Mar			-1
JN	Eco Watchers Survey Outlook SA Mar	46.1		46.6
EC	ECB's Guindos Speaks			
US	NFIB Small Business Optimism Mar	99		100.7
	Wednesday 09 April			
EC	ECB's Holzmann, Cipollone & Knot Speak			
UK	BOE's Lombardelli Speaks			
US	Fed's Daly Speaks			
NZ	Working-age Population Q1			
NZ	RBNZ Official Cash Rate 9-Apr	3.50%	3.50%	3.75%
JN	BOJ's Ueda Speaks			
UK	BOE FPC Meeting Record Released			
	Thursday 10 April			
EC	ECB's Cipollone Speaks			
US	Wholesale Trade Sales MoM Feb			-1.30%
US	Fed's Barkin Speaks			
US	FOMC Meeting Minutes 19-Mar			
NZ	CPI Review 2024 - Tables Only			

		Median	Fcast	Last
	Thursday (continued)			
CH	PPI YoY Mar	-2.30%		-2.20%
CH	CPI YoY Mar	0.10%		-0.70%
AU	RBA's Bullock Speaks			
	Friday 11 April			
US	CPI Ex Food and Energy MoM Mar	0.30%		0.20%
US	CPI Ex Food and Energy YoY Mar	3.00%		3.10%
US	Initial Jobless Claims 5-Apr	224k		219k
US	Continuing Claims 29-Apr	1884k		1903k
US	Initial Jobless Claims 4-Week Moving Avg 5-Apr			223k
UK	BOE's Breeden Speaks			
US	Fed's Logan, Goolsbee & Others Speaks			
US	Senate Nomination Hearing for Fed's Bowman			
NZ	BusinessNZ Manufacturing PMI Mar			53.9
UK	Monthly GDP (MoM) Feb	0.10%		-0.10%
UK	Industrial Production MoM Feb	0.10%		-0.90%
GE	CPI YoY Mar F	2.20%		2.20%
UK	Manufacturing Production MoM Feb	0.20%		-1.10%
UK	Trade Balance GBP/Mn Feb	-£1400m		-£596m
EC	ECB's Lagarde Speaks			
	Saturday 12 April			
US	PPI Ex Food and Energy MoM Mar	0.30%		-0.10%
US	PPI Ex Food and Energy YoY Mar	3.60%		3.40%
US	Fed's Williams & Musalem Speak			
US	U. of Mich. 1 Yr Inflation Apr P	5.10%		5.00%
US	U. of Mich. 5-10 Yr Inflation Apr P	4.20%		4.10%
US	U. of Mich. Sentiment Apr P	54		57
UK	BOE's Greene Speaks			
IT	ECB's Panetta Speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	3.75	3.75	3.75	5.50
1mth	3.59	3.70	3.87	5.59
2mth	3.52	3.68	3.75	5.61
3mth	3.47	3.60	3.70	5.63
6mth	3.33	3.49	3.54	5.54
GOVERNMENT STOCK				
04/27	3.32	3.55	3.61	4.58
05/30	3.78	4.01	4.07	4.56
05/32	4.09	4.32	4.36	4.66
05/35	4.34	4.59	4.64	
04/37	4.56	4.78	4.82	4.89
05/41	4.80	5.00	5.02	5.01
05/54	5.01	5.17	5.19	
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	72	61	55	51
Europe 5Y	77	64	56	54

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.12	3.37	3.43	4.95
3 years	3.20	3.46	3.53	4.67
4 years	3.30	3.56	3.63	4.54
5 years	3.40	3.66	3.73	4.48
10 years	3.86	4.10	4.16	4.54
FOREIGN EXCHANGE				
NZD/USD	0.5566	0.5678	0.5699	0.6032
NZD/AUD	0.9281	0.9090	0.9076	0.9133
NZD/JPY	80.85	85.15	83.92	91.56
NZD/EUR	0.5067	0.5250	0.5259	0.5554
NZD/GBP	0.4318	0.4395	0.4425	0.4766
NZD/CAD	0.7909	0.8169	0.8228	0.8186
TWI	67.0	67.7	67.9	70.8

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