RESEARCH

MARKETS OUTLOOK

29 October 2019

A Break in Transmission

- **Thursday's business survey checked for "stimulus"**
- **Inflation expectations very much on the radar**
- **Consumer confidence to watch as well**
- **Sept. Crown accounts to better reveal core picture**
- **Building consents and credit aggregates also due**
- **RBNZ sounding uncommitted to Nov. cut?**

If the Reserve Bank's "stimulus" is to work, it needs to do so besides injecting more froth into house prices. This is where Thursday's ANZ business survey will be instructive. It will indicate if respondents are being encouraged by the Bank's ongoing reduction in its cash rate, nearer to naught. This remains an open question.

What we would say is that without a material improvement in the business surveys, it's hard to see the economy expanding as robustly as the RBNZ thinks it will. This couches our view that the Bank will feel the need to keep cutting interest rates.

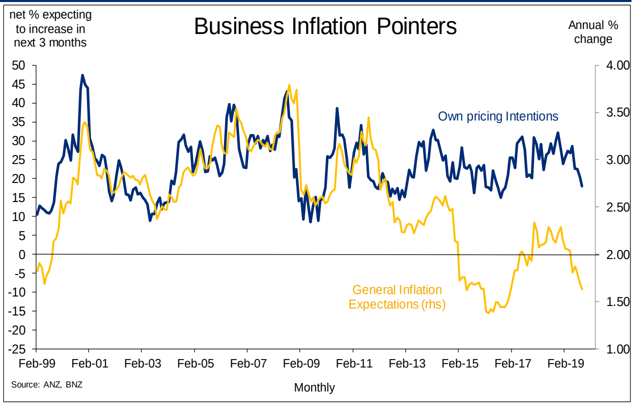
In checking Thursday's business survey, we will, of course, note general confidence levels. How could we not, when it was at 11-year lows in September? However, we will put much more weight, as usual, on firms' expectations regarding their own activity, employment and, especially, investment. While these don't denote contraction, they have certainly been running well below par over recent months.

With respect to investment, in particular, we can't see how lower lows in interest rates will provide a boost, when levels were arguably little impediment to begin with. And the danger is that business investment that is only viable at such low interest rates will be prone to be of poor quality.

But it's not just the business activity indicators that require monitoring. The more direct gauges of inflation have also started to bleep on the radar anew.

Inflation expectations in the ANZ survey fell to 1.63% last month. This was the third fall in as many months, pitching them at their lowest since November 2016. It's worth recalling that falling inflation expectations, back in 2015/16, were instrumental in invoking rate cuts from the RBNZ. For the record, annual GDP growth was pushing 4% at the time, and the unemployment rate was trending lower.

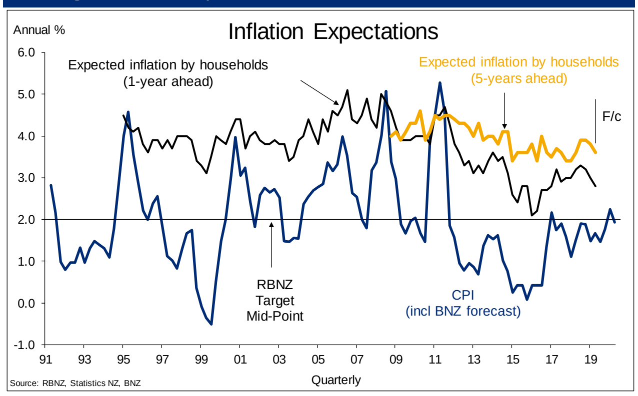
Egregious to RBNZ



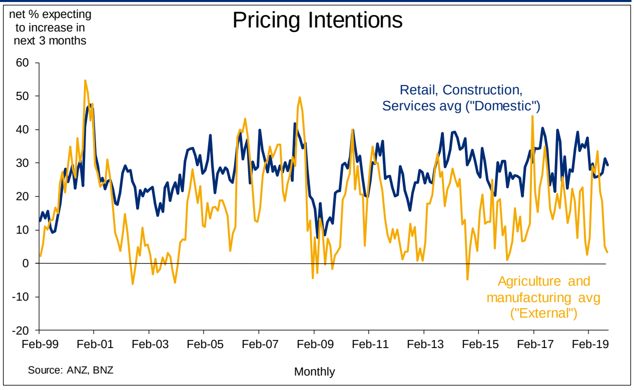
Of course, the RBNZ has taken the view that inflation expectations have become more backward looking, reflecting recent historical CPI inflation as much as being a purely forward looking indicator. If so, then we can look forward to inflation expectations picking up over the coming quarters, with CPI inflation looking set to nudge up to the mid-point of the Bank's 1.0 to 3.0% target band by early next year.

Nor should we interpret too much depression into the ANZ business survey's pricing intentions. To be sure, these have slipped a gear, overall. Notably, however, pricing intentions in manufacturing have weakened and those in agriculture have slumped. The former is understandable, given the global context. The slump in agriculture's pricing outlook is difficult to reconcile, however, considering the still-strong terms of trade of late. But then it might just reflect elements of prices too good to last.

Through The Valley



Divergence Relevant to CPI



Looking at pricing intentions amongst retailers, these were quite strong in September's ANZ survey, and in construction were still above average. And even the slippage in pricing intentions in the services sector was to a level only slightly below the norm.

Considering their better relevance for the CPI, the pricing intentions variables in services, construction and, especially, retailing suggest a robustness, not a crumbling. It will be interesting to see if this is sustained in Thursday's ANZ survey.

For the Reserve Bank's "stimulus" to work we should also expect to see consumer confidence getting a lift, at some stage. Yet it's been wavering over recent months, and worrisomely so in key components. For a further fix on consumer sentiment, Friday delivers October's ANZ Roy Morgan report.

Thursday's Crown financial accounts for the three months to September will also be worth a look. These will give a better feel for the underlying fiscal balance, than the flattered year-to-June accounts did.

Wednesday's working-age population estimates will be relevant to our Q3 unemployment rate calculations. For the latter, we currently estimate a slight uptick, to 4.1%, from the surprisingly low level of 3.9% the jobless rate dipped to in Q2. The Q3 outcome is due next week (6 November). Thursday gives updates on building consents and credit aggregates. We expect each of these to be robust.

Our final comment today, however, is to wonder if the Reserve Bank is starting to sound uncommitted to another 25 basis point cut at its 13 November Monetary Policy Statement (MPS).

Today's release of a speech that RBNZ Assistant Governor, Christian Hawkesby, gave yesterday (in Sydney) was the latest inkling in this respect. To be sure, it emphasised inflation, and inflation expectations, as motivations for recent OCR easing. But the speech also reiterated recent messages from the Bank, about August's 50 point cut being a front-loading of stimulus, in a risk-reward type framework. This follows his comments from last week (to MNI) that he was "very happy" with the way interest rates cuts are feeding through the economy.

Hawkesby, in his speech, also appeared to warn the markets of not over-listening to Reserve Bank forecasts and messaging. This is in recognition of the market's bias to predict what the RBNZ will do with its policy rate, as opposed to what the market thinks the Bank should do with it.

While we appreciate the difference, the fact is that there is no "market" for discussing what any central bank should do, when risk is managed on what it actually does with short-term interest rates. It's all very well saying the market should spend more time figuring out what the central bank should do. But what's the point in devoting resources to this, especially when one can see the central bank is committed to doing something quite different?

The irony is that the Reserve Bank's latest messages inject uncertainty about what the November MPS will say, and do. And this is no matter your view about what the Bank should, and shouldn't, be doing with the OCR. If the Reserve Bank is not comfortable with the market's strong pricing for a rate cut at the November MPS, it needs to be more explicit. Otherwise it's coming across as the Bank starting to hedge its bets.

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Global Watch

- **Fed cut expected on Wednesday**
- **US GDP seen slowing slightly**
- **US payrolls expected to slip under 100k**
- **Chinese PMIs due**
- **EU inflation set sliding further**
- **BoJ, BoC likely on hold this week**
- **RBA's Lowe speaks tonight**
- **AU CPI inflation expected steady tomorrow**

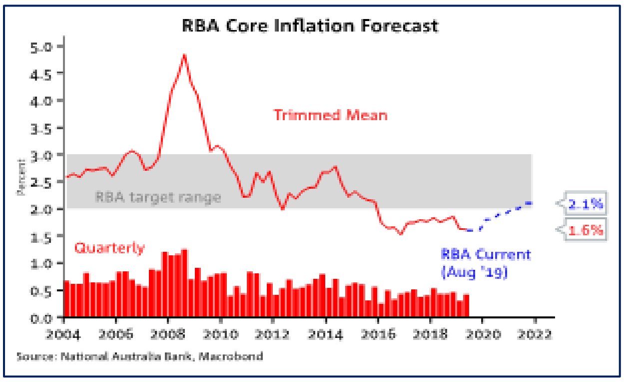
Australia

Reserve Bank Governor Lowe is delivering the annual Sir Leslie Melville Lecture at ANU on Tuesday evening, entitled Some echoes of Melville (Melville led the central banking function at the Commonwealth Bank, which preceded the Reserve Bank). In our view, Governor Lowe's speech provides him with the opportunity to expand on recent remarks on lower global interest rates and their impact on the Reserve Bank's deliberations, where lower global rates reflect an excess of global savings over a reduced appetite for investment appetite. This may lead him to revisit the limitations of monetary policy, arguing that structural reform is needed to drive medium-term growth by providing a stable environment for investment, something that is outside the remit of central banks.

Lowe has previously attributed excess of saving over investment to increased risk aversion, which was offset some of the stimulatory effect of lower interest rates. Risk aversion has created a wedge between saving and investment, where savers are tolerating very low - and in some cases negative – returns, while firms' hurdle rates of return, which are used to assess potential investments in physical capacity, are little changed at 10% or more despite lower interest rates.

Such comments could be read as reluctance to cut rates further, but it is worth stressing that the Reserve Bank has still responded to these global forces – along with persistent domestic spare capacity – by easing policy. As such, we continue to forecast the next cut to 0.5% to occur in December.

NAB forecasts Q3 core inflation



The Q3 CPI is released on Wednesday, where NAB forecasts headline and trimmed mean inflation remained unchanged at 0.4% q/q / 1.6% y/y.

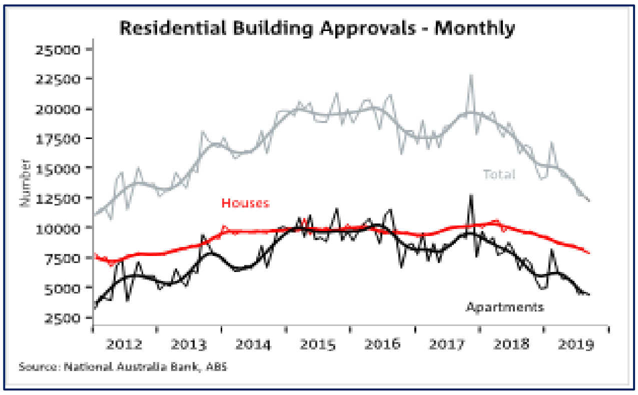
Trimmed mean inflation remains the Reserve Bank's preferred measure of core inflation and the bank's latest forecasts imply a quarterly outcome of 0.4 to 0.5%, broadly in line with our estimate. The market also expects a 0.4% outcome.

For headline inflation, Q3 tends to be a seasonally stronger quarter, printing in the range of 0.4 to 0.7% q/q in recent years. However, we expect a fall in fuel prices, changes to energy market pricing and ongoing weakness in housing-related costs weighed on inflation in the quarter. In contrast, the Reserve Bank forecast for headline inflation is marginally higher at 0.5% in the quarter, the same as the market.

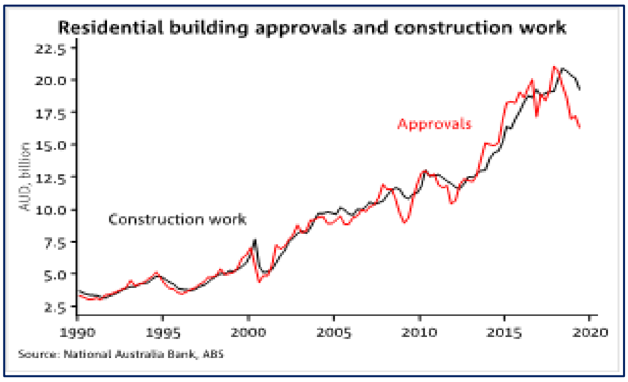
If our forecast for core inflation proves right, the Reserve Bank would likely read the data as continuing to suggest that spare capacity remains in the economy, consistent with below-trend growth and too-high unemployment. Barring a very weak outcome, the Reserve Bank is likely to remain focused on labour market developments as it aims to reach full employment, which should spark a lift in wages growth and inflation.

NAB forecasts private credit growth remained weak in September, lifting 0.2% in the month, which would see annual growth slow to 2.7% from 2.9%. The market expects an increase of 0.3%.

NAB forecasts a further fall in approvals



Foreshadowing a further decline in residential construction



US

Markets will first take stock of the economy with Wednesday's first estimate of Q3 GDP ahead of Friday's October readings on payrolls and the manufacturing ISM. The consensus looks for annualised growth in GDP of 1.6% after a 2.0% increase in Q2, incorporating still-solid consumption. The FOMC is expected to announce its third consecutive rate cut on Wednesday amid continuing trade concerns and recent signs of a slower economy. George and Rosengren are likely to dissent, while Bullard could be more content with the follow-up easing. Payrolls growth is expected to soften from 136K to 85K. The manufacturing ISM to marginally improve to 49 in October after September's 47.8 reading. Fed's Clarida and Williams speak at separate events on Friday.

China

The Communist Party's leadership gathers for its annual plenum from Monday to Thursday. The official and Caixin manufacturing PMIs are released on Thursday and Friday. While the official gauge has signalled contraction for much of 2019, the Caixin measure strengthened last month.

UK

On Brexit, PM Johnson is offering more time to debate the Withdrawal Agreement Bill (WAB) conditional on MPs agreeing to an election on 12 December, where an early election needs a 2/3 majority to push through. The opposition has suggested it would support an early election if a no-deal Brexit is ruled out.

Eurozone

The focus will be on the October CPI, where annual headline inflation is expected to slow to 0.7% from 0.9%, the lowest level since 2016. Core inflation is expected to remain unchanged at 1%.

Japan

The BoJ's policy decision is on Thursday, where the BoJ recently noted it would look at inflation and growth more closely. We think it will stay on hold.

Canada

The BoC is unanimously expected by analysts to leave rates unchanged on Wednesday.

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Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

NZ and global rates continued to head higher last week. The 10 year Treasury yield reached a six-week high of 1.85% while the NZ 10 year swap rate reached a 2½ month high of 1.47% earlier last week before easing back somewhat. The increase in global rates occurred in tandem with rising equity markets in a signal that the market is starting to revise up its growth expectations.

Continued incrementally positive news on US-China trade negotiations and Brexit have supported the moves higher in rates. On trade, both US and Chinese government officials signalled that the so-called Phase-One talks were "basically completed" while Trump noted that talks were "ahead of schedule." This increases the chances that the US suspends tariffs on ~$160b of Chinese imports in December and even that it might remove those implemented in September. The US 10 year Treasury yield was just above 2% when Trump announced those tariffs; this provides a likely target if those tariffs were to be suspended or removed.

Based on recent correlations, a 10 year US Treasury yield of 2% is consistent with the Fed easing cycle finishing this week (after another 25bps rate cut to 1.75%). For the 10 year Treasury yield to break *above* 2%, it's likely to require an upturn in the global data pulse that convinces markets that the balance of risks around future rate movements is towards *hikes*, rather than cuts. That seems like quite a high hurdle at present. The other scenario in which the 10 year Treasury yield breaks above 2% would be where the so-called term premium increases, like during the Taper tantrum (see grey line in chart). If investors unwound positions in bonds amidst an improved global outlook and broader rotation out of safe havens, it's possible that the term-premium could rise and the US 10 year move above 2%. For now, our working assumption is that 2% will be the top of the near-term range and represent strong resistance.

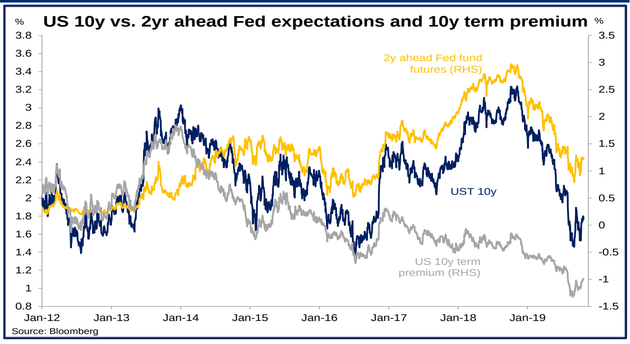
The NZ 10 year swap rate is 5bps higher than this time last week and 30bps off the lows reached early October. The NZ 2 year swap rate likewise is 15bps higher than its lows. The market has reduced its OCR easing expectations, with a November OCR cut now seen as slightly less-than-certain (the market had previously priced-in some chance of a 50bp cut) and the terminal OCR around 0.63%. That implies the market sees around a 50% chance of a follow-up OCR cut in 2020.

The improved global outlook will be a consideration for the RBNZ. After Jackson Hole, Governor Orr told the WSJ that the market's re-pricing of global central bank policy was the key, albeit not the only, driver behind the shock 50bps in August while the RBNZ has previously expressed concern that the NZD could appreciate if it didn't maintain policy rate relativities with other key central banks. So, to the extent that the market prices-in somewhat less easing for the RBA and Fed, this should, in principle, put less pressure on the RBNZ to follow suit next year. Key in that regard this week will be Australian CPI (and RBA Governor Lowe's speech tonight.

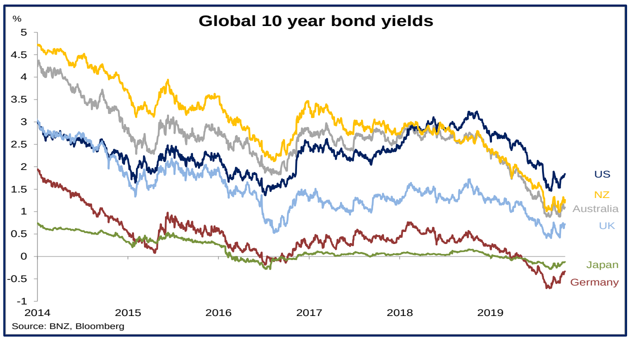
That said, assuming the RBNZ cuts in November, which we still expect it to do, there shouldn't be too much upside to the short-end of the NZ curve in the near-term, unless there is a material change in domestic growth indicators. For the NZ 2 year swap rate to rise sustainably above 1% would require the market to start to price-out RBNZ rate cut risk.

The long-end of the curve remains a more difficult call, even if the RBNZ retains an easing bias in November. For now, our working assumption is that 10 year NZ swap, like the 10 year Treasury yield, should remain range-bound. However, more positive mood music on global growth and the potential for more expansionary NZ fiscal policy next year could lead the market to price in a less pessimistic growth and rates outlook into the long-end. That's a risk we're monitoring.

US10 has moved higher, partly due to higher term premium



NZ long-term rates follow global bond yields higher



Current Rates/Spreads and Recent Ranges

	Current	Last 3-weeks range*
NZ 90d bank bills (%)	1.06	1.03 - 1.06
NZ 2yr swap (%)	0.97	0.82 - 1.02
NZ 5yr swap (%)	1.06	0.84 - 1.13
NZ 10yr swap (%)	1.40	1.12 - 1.47
2s10s swap curve (bps)	43	29 - 45
NZ 10yr swap-govt (bps)	13	10 - 13
NZ 10yr govt (%)	1.27	0.99 - 1.33
US 10yr govt (%)	1.84	1.52 - 1.86
NZ-US 10yr (bps)	-58	-60 - -47
NZ-AU 2yr swap (bps)	16	13 - 21
NZ-AU 10yr govt (bps)	17	10 - 17

*Indicative range over last 3 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week was fairly uneventful for currency markets, but there has been some notable underperformance of the NZD since late last week despite some positive global news. The NZD met some resistance at 0.6435 last week and is now almost a cent lower at 0.6350.

Overnight the S&P500 made a fresh record high and has drifted higher over the past two weeks. Our risk appetite index has climbed to 68%, putting it well into the "risk-loving" zone. Behind the move has been the much reduced chance of a no-deal Brexit – removing an overhanging negative risk factor from the market – and more positive vibes on a US-China trade deal.

On Friday night, China's Ministry of Commerce said parts of the text for phase-one of a trade deal were "basically completed" as the two sides reached consensus in areas including standards used by agricultural regulators. Overnight, Trump said that negotiations over phase-one, which Trump and Xi hope to sign at the APEC meeting in Chile 16-17 November, were ahead of schedule. The improvement in trade relations increases the chance that the US will suspend planned tariffs on ~$160b of Chinese imports due to take place in December.

Last week we published a note on the NZD ("The makings of a recovery?") highlighting the positive fundamental forces that ought to be NZD-positive and the clear upside risk to our published forecasts that see USD/CNY heading up to 7.40 and NZD/USD down to 0.6150. These projections are under-review as our central view edges towards a more positive environment for CNY and the NZD.

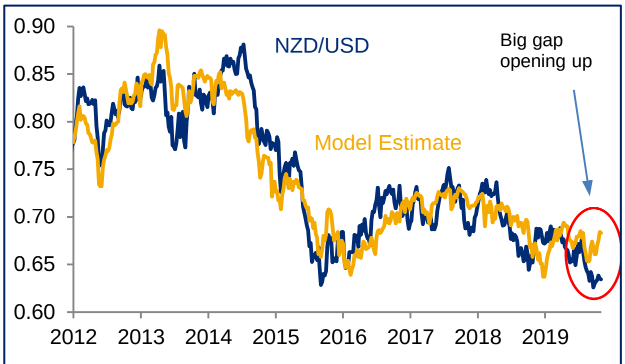
Our short-term fair value NZD model estimate has pushed on up through the 0.68 mark, reflecting the improved fundamental backdrop and therefore we see the NZD as inexplicably weak. The 7% gap between the current spot rate and "fair value" is the greatest in six years. This highlights how much bad news the NZD already currently prices in. This state of affairs is not sustainable – either the NZD pushes on upwards or fair value heads back down because global conditions deteriorate again.

The economic calendar in the week ahead is action-packed and could inject a bit more life into the currency market. The domestic focus will be on the ANZ business outlook survey on Thursday. It wouldn't be surprising to see a modest seasonal lift in confidence and activity indicators, but this would be from depressed levels. Australian CPI data Wednesday are likely to continue to show soft inflationary pressure. Both of these should keep the market biased towards further RBA and RBNZ easing, even if there is much less conviction compared to earlier this month.

In the US, the Fed is expected to cut its Fed Funds target range by 25bps early Thursday NZ time, the third easing this cycle. As a rate cut is well-priced, any currency reaction is likely to be sensitive to Chair Powell's tone at the press conference. Any sense that the "mid-cycle" easing might have run its course would be USD-positive, albeit limited to the extent that later in the week, soft GDP, employment, wages and PCE deflator data are expected to be released. By contrast, odds favour an uptick in the ISM manufacturing index but from a below-average level.

Late in the week sees the release of euro area GDP data (weak) and China PMI data (weak). The BoJ has previously hinted of further policy easing, but we don't think it will deliver on Thursday. In sum, there are plenty of releases this week to keep currency traders on their toes and generate some increased FX volatility compared to what we saw last week.

NZD cheapening up versus fair value



Source: BNZ, Bloomberg

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.6345	0.6240 - 0.6440
NZD/AUD	0.9279	0.9270 - 0.9380
NZD/GBP	0.4935	0.4860 - 0.5180
NZD/EUR	0.5716	0.5650 - 0.5770
NZD/JPY	69.13	67.20 - 70.00

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	0.6830	-7%
NZD/AUD	0.9310	0%

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Technicals

NZD/USD

Outlook: Downside risk
ST Resistance: 0.6450 (ahead of 0.6500)
ST Support: 0.6200 (ahead of 0.6130)

Another week of consolidation sees support/resistance unchanged at 0.6200/0.6450.

NZD/AUD

Outlook: Downside risk
ST Resistance: 0.9400 (ahead of 0.9500)
ST Support: 0.9230 (ahead of 0.9100)

Another week of consolidation, with support at 0.9230 and resistance at 0.94.

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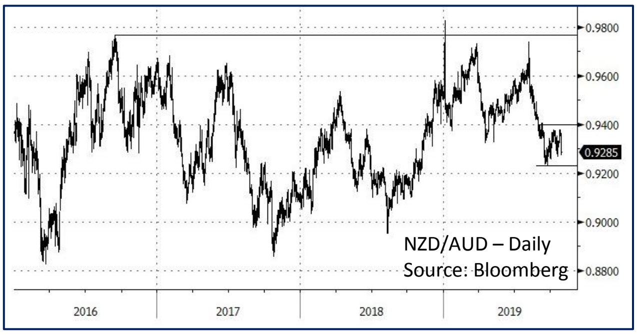
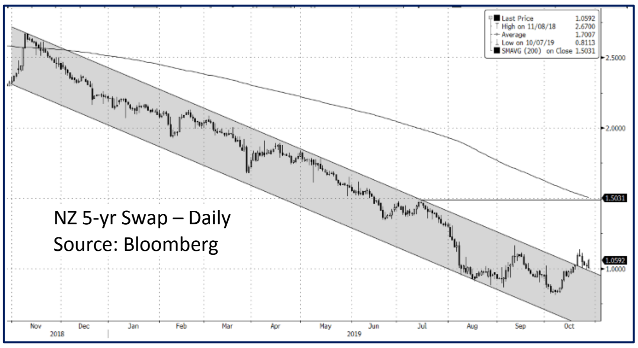


NZ 5-year Swap Rate

Outlook: Higher
MT Resistance: 1.4875
MT Support: 0.985

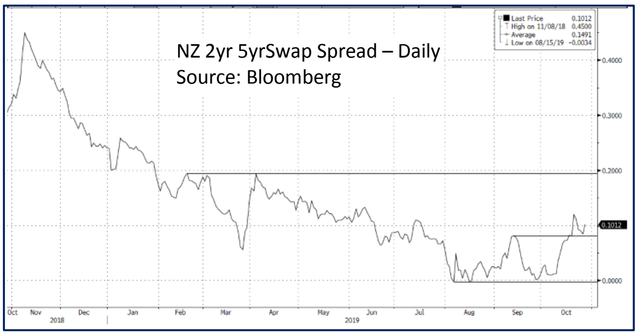
Break of channel opens up higher yields. Target 1.4875



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

Outlook: Steeper
MT Resistance: +19.25
MT Support: -0.25

Break of previous resistance opens up a move steeper. Initial target +19.25.



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Quarterly Forecasts

Forecasts as at 29 October 2019

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded)

	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
GDP (production s.a.)	0.9	0.3	0.7	0.6	0.5	0.3	0.5	0.7	0.6	0.5
Retail trade (real s.a.)	0.9	0.3	1.7	0.7	0.2	0.7	0.6	0.5	0.5	0.5
Current account (ytd, % GDP)	-3.2	-3.6	-3.9	-3.6	-3.4	-3.4	-3.2	-3.1	-3.0	-2.9
CPI (q/q)	0.4	0.9	0.1	0.1	0.6	0.7	0.4	0.6	0.3	1.0
Employment	0.6	1.0	0.0	-0.1	0.8	0.3	0.1	0.2	0.4	0.4
Unemployment rate %	4.4	4.0	4.3	4.2	3.9	4.1	4.3	4.4	4.4	4.4
Avg hourly earnings (ann %)	3.3	3.6	3.7	3.7	4.7	4.4	4.3	4.3	4.0	3.9
Trading partner GDP (ann %)	4.1	3.6	3.4	3.4	3.2	3.2	3.3	3.3	3.3	3.3
CPI (y/y)	1.5	1.9	1.9	1.5	1.7	1.5	1.8	2.2	1.9	2.2
GDP (production s.a., y/y))	3.2	2.7	2.4	2.5	2.1	2.1	1.9	2.0	2.1	2.4

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
2018 Sep	1.75	1.90	2.10	2.60	2.05	2.45	2.95	2.35	3.00	-0.45
Dec	1.75	1.95	2.05	2.55	2.05	2.40	2.85	2.80	2.85	-0.42
2019 Mar	1.75	1.90	1.75	2.15	1.85	2.05	2.45	2.60	2.55	-0.56
Jun	1.60	1.70	1.45	1.80	1.55	1.65	2.05	2.40	2.05	-0.45
Sep	1.15	1.30	1.00	1.30	1.10	1.15	1.45	2.15	1.70	-0.51
Forecasts										
Dec	0.75	0.85	0.75	1.00	0.85	0.85	1.10	2.15	1.50	-0.50
2020 Mar	0.50	0.70	0.65	0.95	0.70	0.75	1.05	2.15	1.50	-0.55
Jun	0.50	0.70	0.70	1.05	0.70	0.80	1.15	2.15	1.60	-0.55
Sep	0.50	0.70	0.80	1.15	0.70	0.90	1.25	2.15	1.70	-0.55
Dec	0.50	0.70	0.95	1.35	0.80	1.05	1.45	2.15	1.80	-0.45
2021 Mar	0.50	0.70	1.15	1.55	1.00	1.25	1.65	2.15	1.90	-0.35
Jun	0.50	0.80	1.40	1.80	1.20	1.50	1.90	2.15	2.00	-0.20
Sep	0.75	1.05	1.70	2.10	1.50	1.80	2.20	2.15	2.10	0.00
Dec	1.00	1.30	1.90	2.25	1.75	2.00	2.35	2.15	2.20	0.05

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	0.64	0.68	1.11	1.29	109	0.64	0.93	0.57	0.49	69.2	70.5
Dec-19	0.62	0.65	1.10	1.24	104	0.62	0.94	0.56	0.50	64.0	70.0
Mar-20	0.62	0.66	1.11	1.25	104	0.62	0.93	0.56	0.49	64.1	69.8
Jun-20	0.63	0.67	1.13	1.26	105	0.63	0.94	0.56	0.50	66.2	70.8
Sep-20	0.65	0.69	1.14	1.27	106	0.65	0.94	0.57	0.51	68.9	72.2
Dec-20	0.65	0.70	1.15	1.28	106	0.65	0.93	0.57	0.51	68.9	71.5
Mar-21	0.66	0.71	1.16	1.28	107	0.66	0.93	0.57	0.52	70.6	72.2
Jun-21	0.67	0.72	1.17	1.28	108	0.67	0.93	0.57	0.52	72.4	72.7
Sep-21	0.68	0.73	1.19	1.28	109	0.68	0.93	0.57	0.53	74.1	73.1
Dec-21	0.69	0.74	1.20	1.30	109	0.69	0.93	0.58	0.53	75.2	73.5
Mar-22	0.69	0.74	1.20	1.32	109	0.69	0.93	0.58	0.52	75.2	73.7
						TWI Weights					
						14.0%	20.7%	10.3%	4.8%	6.8%	

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

Annual Forecasts

Forecasts as at 29 October 2019	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2018	2019	2020	2021	2022	2017	2018	2019	2020	2021
GDP - annual average % change										
Private Consumption	4.1	3.4	2.4	1.9	1.9	4.7	3.3	2.7	2.0	1.9
Government Consumption	2.7	2.4	3.5	2.8	0.6	2.8	2.2	3.2	3.4	0.7
Total Investment	4.7	2.6	1.7	3.1	3.4	3.5	3.6	2.2	2.4	3.6
Stocks - ppts cont'n to growth	-0.2	0.1	-0.1	0.0	0.0	-0.1	0.4	-0.6	0.2	0.0
GNE	3.7	3.1	2.5	2.4	2.1	3.9	3.7	2.2	2.6	2.1
Exports	3.6	2.8	0.6	2.4	3.2	2.3	2.6	2.3	1.3	3.1
Imports	7.2	3.9	0.8	2.8	3.2	6.9	5.8	0.6	2.5	3.1
Real Expenditure GDP	2.8	2.8	2.4	2.2	2.0	2.7	2.8	2.6	2.2	2.0
GDP (production)	**3.2**	**2.7**	**2.0**	**2.2**	**2.0**	**3.1**	**2.8**	**2.2**	**2.2**	**2.0**
GDP - annual % change (q/q)	*3.1*	*2.5*	*2.0*	*2.2*	*2.1*	*3.4*	*2.4*	*1.9*	*2.4*	*2.0*
Output Gap (ann avg, % dev)	1.0	0.9	0.5	0.2	-0.1	1.0	1.0	0.6	0.2	-0.1
Household Savings (% disp. income)	-1.4	-2.6	-3.2	-3.6	-3.2					
Nominal Expenditure GDP - $bn	285.8	296.8	312.0	323.0	330.8	282.7	293.7	308.0	320.8	328.5
Prices and Employment - annual % change										
CPI	1.1	1.5	2.2	2.0	1.6	1.6	1.9	1.8	2.0	1.6
Employment	3.1	1.5	1.4	1.5	1.5	3.7	2.3	1.1	1.4	1.4
Unemployment Rate %	4.4	4.2	4.4	4.3	4.1	4.5	4.3	4.3	4.4	4.2
Wages - ahote	4.0	3.7	4.3	3.6	3.0	3.1	3.7	4.3	3.9	3.2
Productivity (ann av %)	-0.4	-0.2	0.3	1.0	0.6	-1.1	-0.4	0.2	0.9	0.6
Unit Labour Costs (ann av %)	3.5	3.4	3.2	2.3	2.4	3.7	3.7	3.4	2.3	2.5
External Balance										
Current Account - $bn	-8.1	-10.8	-9.7	-8.7	-11.9	-7.7	-11.4	-9.8	-8.8	-10.8
Current Account - % of GDP	-2.8	-3.6	-3.1	-2.7	-3.6	-2.7	-3.9	-3.2	-2.7	-3.3
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	1.9	2.5	0.2	0.1	0.6					
Net Core Crown Debt (excl NZS Fund Assets)	19.9	19.2	19.7	20.5	20.4					
Bond Programme - $bn	8.0	8.0	11.0	12.0	12.0					
Bond Programme - % of GDP	2.8	2.7	3.5	3.7	3.6					
Financial Variables (1)										
NZD/USD	0.73	0.68	0.62	0.66	0.69	0.70	0.68	0.62	0.65	0.69
USD/JPY	106	111	104	107	109	113	112	104	106	109
EUR/USD	1.23	1.13	1.11	1.16	1.20	1.18	1.14	1.10	1.15	1.20
NZD/AUD	0.94	0.96	0.93	0.93	0.93	0.91	0.95	0.94	0.93	0.93
NZD/GBP	0.52	0.52	0.49	0.52	0.52	0.52	0.54	0.50	0.51	0.53
NZD/EUR	0.59	0.60	0.56	0.57	0.58	0.59	0.60	0.56	0.57	0.58
NZD/YEN	77.0	75.9	64.1	70.6	75.2	78.7	76.4	64.0	68.9	75.2
TWI	74.8	74.3	69.8	72.2	73.7	73.6	74.6	70.0	71.5	73.5
Overnight Cash Rate (end qtr)	1.75	1.75	0.50	0.50	1.25	1.75	1.75	0.75	0.50	1.00
90-day Bank Bill Rate	1.93	1.88	0.70	0.70	1.55	1.88	1.98	0.85	0.70	1.30
5-year Govt Bond	2.35	1.65	0.65	1.15	2.05	2.30	1.95	0.75	0.95	1.90
10-year Govt Bond	2.95	2.00	0.95	1.55	2.30	2.80	2.40	1.00	1.35	2.25
2-year Swap	2.25	1.80	0.70	1.00	1.95	2.20	2.05	0.85	0.80	1.75
5-year Swap	2.70	1.95	0.75	1.25	2.15	2.65	2.30	0.85	1.05	2.00
US 10-year Bonds	2.85	2.55	1.50	1.90	2.20	2.40	2.85	1.50	1.80	2.20
NZ-US 10-year Spread	0.10	-0.55	-0.55	-0.35	0.10	0.40	-0.45	-0.50	-0.45	0.05

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

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

Key Upcoming Events

	Forecast	Median	Last
Tuesday 29 October			
Aus, Lowe Speaks, Echoes of Melville			
US, Consumer Confidence, October		128.0	125.1
Wednesday 30 October			
Aus, CPI, Q3	+0.4%	+0.5%	+0.6%
Aus, CPI Weighted Median, Q3	+0.4%	+0.4%	+0.4%
Aus, CPI Trimmed Mean, Q3	+0.4%	+0.4%	+0.4%
Jpn, Retail Sales, September y/y		+6.0%	+2.0%
Euro, Economic Confidence, October		101.1	101.7
Germ, Unemployment Rate, Oct s.a.		5.0%	5.0%
Germ, CPI, Oct y/y 1st est		+1.0%	+1.2%
US, GDP, Q3 1st est		+1.6%	+2.0%
US, ADP Employment, October		+110k	+135k
US, FOMC Policy Announcement		1.75%	2.00%
Can, BOC Policy Announcement			1.75%
Thursday 31 October			
NZ, Credit Aggregates, Sep (household y/y)			+6.0%
NZ, ANZ Business Survey, October			-53.5
NZ, Building Consents, September (res, #)			+0.8%
NZ, Crown Financial Statements, 3m-ended-Sept 2019			
Aus, Terms of Trade, Q3			
Aus, Building Approvals, September	-3.5%	flat	-1.1%
Aus, Private Sector Credit, September	+0.2%	+0.3%	+0.2%

	Forecast	Median	Last
Thursday (continued)			
China, PMI (NBS), October		49.8	49.8
China, Non-manufacturing PMI, October		53.7	53.7
Jpn, BOJ Policy Announcement, Policy Rate		-0.1%	-0.1%
Jpn, Industrial Production, Sep 1st est		+0.4%	-1.2%
Euro, GDP, Q3 1st estimate		+0.1%	+0.2%
Euro, CPI, Oct y/y 1st est		+0.7%	+0.9%
Euro, Unemployment Rate, September		7.4%	7.4%
Germ, Retail Sales, September		+0.2%	+0.5%
US, Chicago PMI, October		48.0	47.1
US, Employment Cost Index, Q3		+0.7%	+0.6%
Friday 1 November			
NZ, ANZ-RM Consumer Confidence, October			113.9
Aus, CoreLogic HPI, October			+1.1%
Aus, Producer Prices, Q3 y/y			+2.0%
China, PMI (Caixin), October		51.0	51.4
Jpn, Unemployment Rate, September		2.2%	2.2%
UK, Markit/CIPS Manuf Survey, October		48.2	48.3
US, Construction Spending, September		+0.2%	+0.1%
US, ISM Manufacturing, October		49.0	47.8
US, Non-Farm Payrolls, October		+85k	+136k
US, Unemployment Rate, October		3.6%	3.5%
US, Fed's Clarida/Williams Speak			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	1.00	1.00	1.00	1.75
1mth	1.14	1.14	1.19	1.84
2mth	1.10	1.10	1.15	1.87
3mth	1.06	1.06	1.10	1.92
6mth	1.05	1.06	1.08	1.96
GOVERNMENT STOCK				
04/20	0.78	0.78	0.83	1.72
05/21	0.79	0.86	0.79	1.76
04/23	0.80	0.89	0.79	1.93
04/25	0.90	1.01	0.89	2.16
04/27	1.06	1.18	1.00	2.36
04/29	1.20	1.33	1.11	2.52
04/33	1.42	1.58	1.31	2.69
04/37	1.59	1.75	1.46	2.83
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	53	55	61	69
Europe 5Y	50	51	55	76

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	0.97	1.01	0.91	2.00
3 years	0.97	1.03	0.90	2.09
4 years	1.01	1.07	0.91	2.19
5 years	1.06	1.12	0.94	2.31
10 years	1.40	1.46	1.23	2.79
FOREIGN EXCHANGE				
NZD/USD	0.6349	0.6405	0.6245	0.6553
NZD/AUD	0.9285	0.9344	0.9314	0.9223
NZD/JPY	69.19	69.49	67.28	74.12
NZD/EUR	0.5721	0.5758	0.5711	0.5776
NZD/GBP	0.4938	0.4976	0.5073	0.5156
NZD/CAD	0.8289	0.8387	0.8256	0.8591
TWI	70.4	71.1	69.9	72.3

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