

## New Zealand Weekly Focus

1 July 2019



This is not personal advice. It does not consider your objectives or circumstances. Please refer to the Important Notice.

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## Race to the bottom?

### Economic overview

The global economic outlook has deteriorated over time, but the global monetary policy landscape has changed more abruptly, with further stimulus signalled by key central banks including the US Fed. Global bond yields have dropped dramatically, and local yields have gone with them. This is an important context for the RBNZ's dovish OCR Review last week, in which they said more OCR cuts were "likely".

Although the RBNZ sets the OCR for New Zealand conditions, the importance of interest rate differentials for the NZD means that what other central banks are up to matters. But that doesn't mean we need to keep pace 1:1. The RBA has more immediate work to do than the RBNZ; ANZ is forecasting policy rate cuts tomorrow and August there, whereas we expect the RBNZ to cut in August and November. We also expect two cuts from the US Fed in the second half of this year.

### Chart of the week

NZ is coming a solid second in the NZ/AUS/US race to the bottom for global bond yields.

#### NZ, Australia, US 10-year bond yields



Source: Bloomberg

### The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.3% y/y for 2020 Q1	Growth has slowed, and we expect this process has a little further to run before OCR cuts support a gradual acceleration.	Neutral 
Unemployment rate	4.4% for 2020 Q1	The labour market is "tight", but further improvement appears limited. Wage and employment growth to remain modest.	Neutral 
OCR	1.00% in March 2020	The RBNZ cut the OCR in May. We expect further cuts in August and November 2019.	Neutral 
CPI	2.1% y/y for 2020 Q1	Domestic inflation appears near its peak for now, but OCR cuts should support a gradual rise over the longer term.	Neutral 



## Economic overview

*Context matters for a small open economy where the exchange rate is an important part of overall monetary conditions.*

### Summary

The global economic outlook has deteriorated over time, but the global monetary policy landscape has changed more abruptly, with further stimulus signalled by key central banks including the US Fed. Global bond yields have dropped dramatically, and local yields have gone with them. This is important context for the RBNZ's dovish OCR Review last week, in which they said more OCR cuts were "likely". Although the RBNZ sets the OCR for New Zealand conditions, the importance of interest rate differentials for the NZD means that what other central banks are up to matters. But that doesn't mean we need to keep pace 1:1. The RBA has more immediate work to do than the RBNZ; ANZ is forecasting policy rate cuts tomorrow and August there, whereas we expect the RBNZ to cut in August and November. We also expect two cuts from the US Fed in the second half of this year.

### Forthcoming data

#### **NZIER Quarterly Survey of Business Opinion – Q2 (Tuesday 2 July, 10:00am).**

If the ANZ Business Outlook is anything to go by, businesses remained downbeat in Q2 and activity measures were lacklustre.

**Building Consents – May (Tuesday 2 July, 10:45am).** Consents have held at a high level, but have been volatile m/m. Elevated headwinds mean downside risks are acute.

**GlobalDairyTrade – June (Wednesday 3 July, early am).** Dairy prices are expected to decline for the fourth consecutive event. However, the rate of decline is expected to ease back to about 1%.

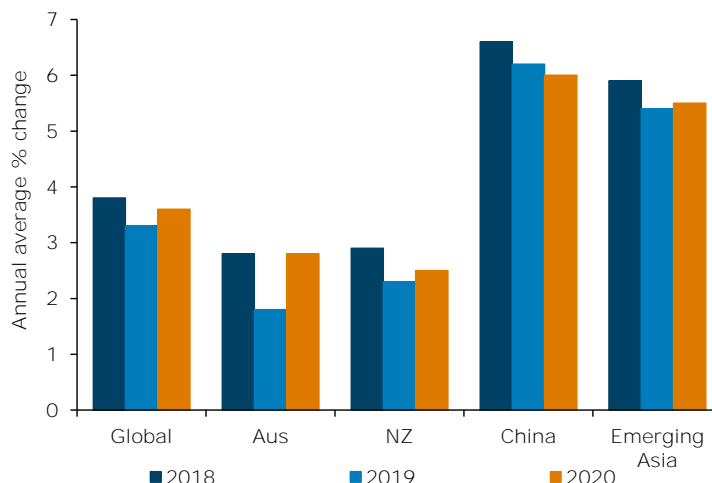
#### **ANZ Commodity Price Index – June (Wednesday 3 July, 1:00pm).**

### What's the view?

The global economic outlook has continued to deteriorate, led by trade and manufacturing in particular. The slowdown from last year to this has been meaningful (particularly for Australia), but ANZ anticipates a rebound in growth in 2020 everywhere except China, though not to the rates seen last year, in most cases (figure 1).

*The global economic outlook has continued to deteriorate.*

**Figure 1. ANZ's global growth forecasts**



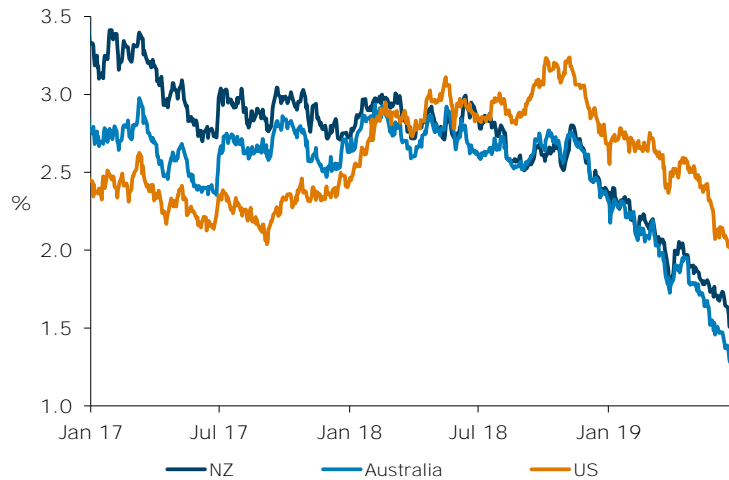
Source: ANZ Research

*The data turn is not new news, but the central banks' turn is.*

While the deterioration in the global dataflow has been occurring for quite some time, the global monetary policy landscape has changed more abruptly. Central banks have changed their tone, with likely further stimulus signalled by key central banks including the US Federal Reserve. Global long bond yields have dropped dramatically, and New Zealand yields have gone with them (figure 2).



**Figure 2. US, Australia, NZ 10-year bond yields**



Source: Bloomberg

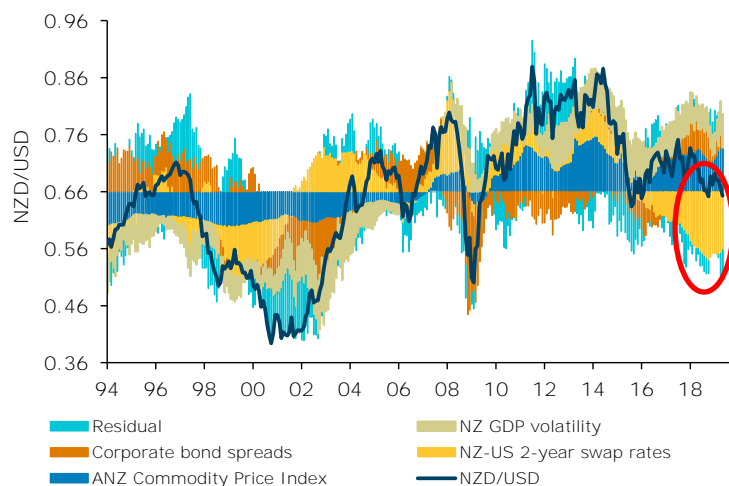
*What other central banks are up to matters.*

This is important context for the RBNZ’s dovish OCR Review last week, at which the Summary Record of Meeting noted that “the members agreed that more support from monetary policy was likely to be necessary.” Although the RBNZ sets policy for New Zealand conditions, the impact of interest rate differentials on the NZD means what other central banks are up to matters.

*Smaller declines in NZ interest rates than elsewhere mean less gravity exerted on the NZD.*

As the chart below shows, the gravity being generated by interest rate differentials (here captured by the difference between NZ and US 2-year swap yields) has been reducing over the last year. Although the RBNZ has gotten significantly more dovish since March – and even cut the OCR in May – the US Federal Reserve has a lot more interest rate ammunition, with the upper bound for the fed funds target rate currently at 2.50% versus an OCR of just 1.5% in New Zealand. The New Zealand 2-year swap rate has declined just short of 90bp since its peak in early November; that for the US has declined about 140bp over the same period.

**Figure 3. Fundamental drivers of NZD/USD**



Source: Bloomberg, ANZ Research

Or turning to the more recent period, figure 4 below shows that even over the very short run, market expectations of monetary policy moves can have implications for the currency.



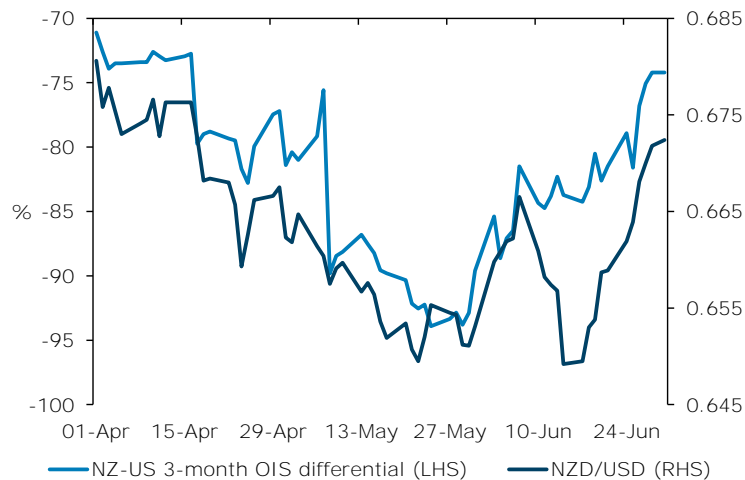
*And the implications can be significant week-to-week – if not always predictable.*

*But a race to the bottom is a dangerous game.*

*The NZ economy is in less urgent need of stimulus than Australia's, but we are forecasting 2 further cuts in both countries.*

*The global economy is looking wobbly.*

**Figure 4. NZD/USD and NZ-US 3-month OIS differentials**



Source: Bloomberg, ANZ Research

**But that doesn't mean** that the RBNZ should necessarily keep pace 1:1. Interest rates need to be set for New Zealand conditions. And cutting interest rates just because **everyone else is wouldn't necessarily achieve much** anyway. As the Governor of the RBA, Philip Lowe, put it last week, "If everyone is easing then there is no exchange rate channel. We trade with one another, not with Mars... It might be possible if you ease a bit more than others you might get a bit of extra growth, but that is a dangerous path to go down... There are limits on what further monetary easing can achieve."

And, it must be noted, based on what the data is currently saying, conditions in Australia justify further monetary stimulus more urgently than in New Zealand:

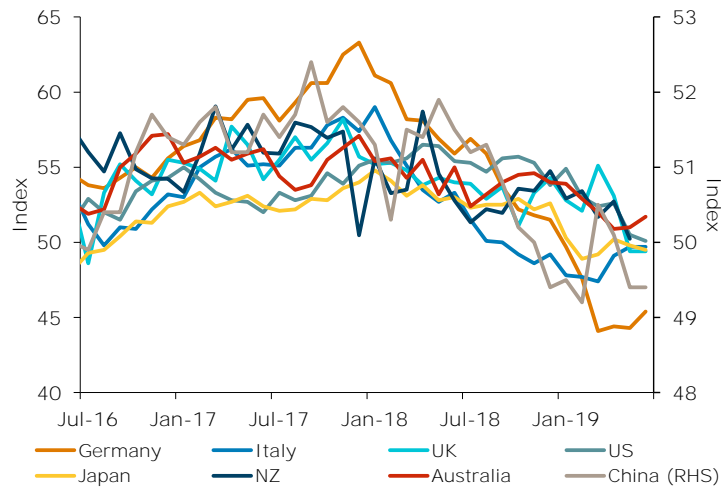
- CPI inflation in Australia is running at just 1.3% versus an RBNZ forecast of 1.7% in the June quarter. And their inflation target midpoint is 2.5% versus 2.0% in New Zealand.
- Unemployment in Australia is 5.2% with 66% of the population of working age in the labour force. Labour market indicators have softened markedly but the RBA has made it clear they now see full employment as an unemployment rate in the mid-to-low 4s. In New Zealand, the unemployment rate is 4.2% with 70% of the population of working age in the labour force, and employment was described in the OCR Review as "near its maximum sustainable level". Risks for wage growth on both the upside and downside warranted a mention in the Summary Record of Meeting.
- ANZ is forecasting 2.3% growth in New Zealand this year but just 1.8% in Australia.

ANZ is forecasting cuts tomorrow and August in Australia, whereas we expect the RBNZ to cut in August and November.

If all were well with the world then the RBNZ's **May cut might** have cut it, so to speak. But the global economy continues to look rather wobbly, as illustrated by the regrettably synchronised falls in manufacturing PMI indexes (figure 5). How much of this is due to tariffs and sabre-rattling and how much is due to traditional macroeconomic swing factors is hard to know, but the weakness in Germany and China in particular has become undeniable.



**Figure 5. Global PMIs**



Source: Markit, Bloomberg, ANZ

*Worries are mounting about the outlook for the US economy.*

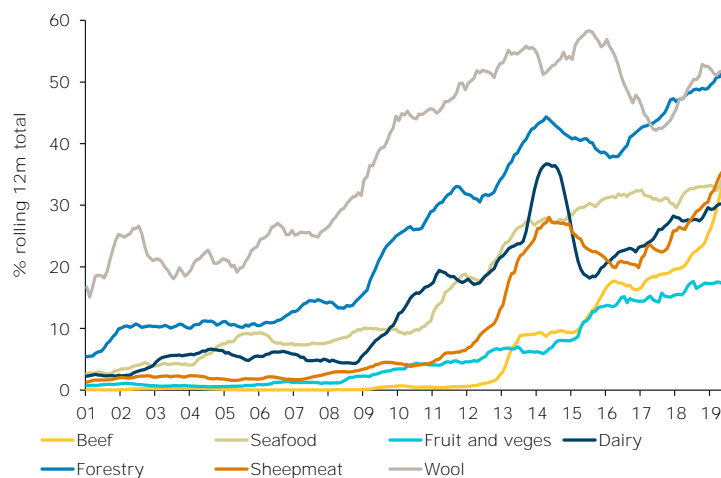
How about the US? Signals are mixed, with the significant fiscal stimulus still working its way through the system, but it's fair to say that worries are mounting. A survey of economists taken in early June by the Wall Street Journal showed a significant jump, on the previous month, in the number of respondents thinking the economy will be in recession in the coming 12 months. This is likely linked to trade tensions with China, given the most recent data on domestic fundamentals have been improving. Indeed, household and small business confidence have both trended up this year and are near post-GFC highs, and household consumption data has been robust of late.

However, the slowdown in industrial production is becoming more widespread, and history shows such cycles tend to have a meaningful impact on the overall economic cycle. Add on the fact that recent inflation developments have disappointed, and we expect two cuts from the US Fed in the second half of the year.

*But for NZ it's all about China.*

But it's China that matters most for New Zealand, with the share of our exports heading to China continuing to rise sharply (figure 6).

**Figure 6. Proportion of selected NZ exports by value going to China**



Source: Statistics NZ, ANZ Research

*It's not clear that natural growth drivers are set to step up.*

Consumer sentiment remains weak in China, but investment data suggests this is not going to come to the rescue. Excavator sales have tumbled, suggesting a subdued pipeline despite solid loan growth in recent months. China's policymakers remain wary of potential property bubbles and are reluctant to ease restrictions. But the slowdown in the real estate sector is concerning due to its negative impact on growth. In addition, the



## Economic overview

*We expect further stimulus.*

*Commodity prices and tourism are two key channels by which a global slowdown can affect NZ, but so far impacts have been muted.*

*Global weakness can also deter investment.*

China-US tensions have evolved from import tariffs into export restrictions, with disruptive impacts on global supply chains. Optimism about a resolution waxes and wanes, with the latest being the right noises but little concrete from the Xi-Trump meeting at the G20 in the weekend. But in the meantime it is placing considerable pressure on China's economy.

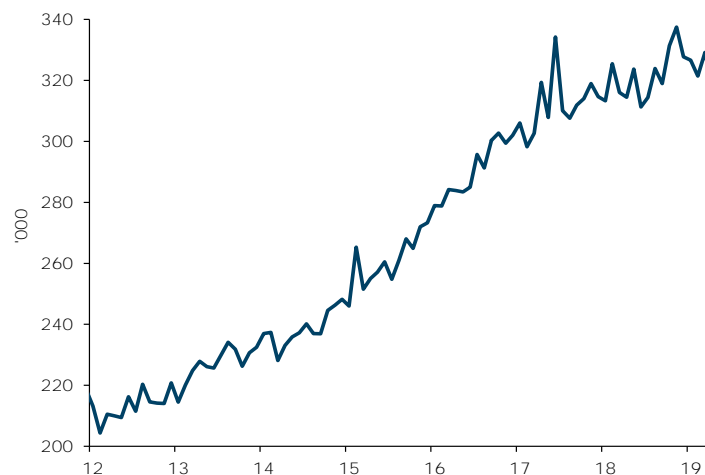
China's financial sector is also coming under some pressure. Corporate bond financing has plummeted, and shadow banking financing continues to slide. This reflects a tension between authorities' desire to reduce financial sector risks, yet at the same time keeping the economy ticking over. More supportive policy from the People's Bank of China is likely forthcoming, both monetary and credit-boosting measures, aimed particularly at the SME sector. Proactive fiscal policy will also need to be part of the mix. However, the fact remains that China's economy has accumulated a vast amount of debt in the past decade, and its policy options are narrowing accordingly. The current account surplus the nation has run for decades has all but disappeared. A nation that is reliant on the savings of other countries has considerably more constrained policy options.

The RBNZ OCR Review noted that "The weaker global economy is affecting New Zealand through a range of trade, financial, and confidence channels." That's true, but impacts have actually been fairly limited so far.

Despite the rising exposure shown in the chart above, New Zealand's commodity prices have been remarkably robust to the slowdown in China's economy. How much the outbreak of swine flu has to do with that is impossible to know, but the lift in beef exports has been nothing short of spectacular. The focus of government stimulus efforts on the consumer rather than infrastructure spending is also helpful. The risks are clearly to the downside but the offsets are winning so far. Long may it continue.

As for tourism, growth in international visitor arrivals has certainly flattened off (figure 7), but that's caused more of a national sigh of relief than widespread alarm at this point, as the growth had well outstripped capacity in the sector. We'll be looking more closely at the outlook for tourism in a coming edition.

**Figure 7. International visitor arrivals**



Source: Statistics NZ

And another channel is the impact on business investment (and to a lesser extent, employment). Investment and employment intentions have been weak in our Business Outlook survey for some time, preceding the drop in indicators for global industrial production. Abstracting from domestic politics, it's possible recent softness is related to global issues. However, with so many moving parts, it's nigh-on impossible to disentangle the impact of global conditions from domestic developments. But nonetheless, for a small open economy such as New Zealand, global developments are difficult for New Zealand businesses to ignore.



## Economic overview

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*The global outlook is uncertain, and its impact on NZ another unknown.*

*In the end, NZ monetary policy needs to be set for NZ conditions.*

Putting it all together, the global growth outlook matters hugely for New Zealand, and particularly the outlook for China. Yet so far the impacts on New Zealand from the observed slowdown have been relatively minor. Some of that might be related to structural change and global supply disruptions; some of it might be a question of timing.

The Reserve Bank of NZ is completely correct to identify global risks as the most important downside risk for New Zealand at present. And what global central banks are up to is important above and beyond the growth outlook, in terms of its potential impact on the currency. But in the end, monetary policy has to be set appropriately for the economy in question. We think the New Zealand economy will keep on muddling on, assuming the global economy and financial markets keep it together. But muddling on **isn't sufficient when core inflation is still south of where it needs to be to deliver CPI sustainably at the inflation target midpoint**, and we expect the Reserve Bank to run out of patience and cut the Official Cash Rate again in both August and November, taking it to just 1.0%.

### The week ahead

The main event this week will be the **NZIER's Quarterly Survey of Business Opinion** (out Tuesday). We suspect this will remain broadly in line with our own Business Outlook Survey, with activity indicators moving broadly sideways at a level consistent with a modest pace of expansion. **We'll also be keeping a close eye on capacity utilisation for confirmation that resource pressures are waning alongside the softer economy.**

Building consents for May are also out on Tuesday. While these data have been volatile **in recent months, the recent soft patch is in line with the signal we're currently getting** from our Business Outlook survey. Should softness continue, residential investment could be dragging on growth by year-end.

**We'll also get some insight into how our export commodity prices are holding up with our Commodity Price Index for June out on Wednesday and another GDT auction in the wee hours of Wednesday morning.** Regarding the latter, we think we will see another fall in the GDT Price Index in the vicinity of 1%. Weakness in whole milk powder and milkfat prices is expected to be offset by stronger prices for skim milk powder. The largest volumes on offer are again in Contract 2 which equates to delivery in August. The NZX dairy futures market reacted positively to the news that **the amount of milk powder that will be offered at this week's event was unchanged from previous guidance.** Both WMP futures and SMP futures traded up on Friday. There is a sense that the dairy markets are starting to turn therefore an upward turn in GDT prices can be expected before too much longer.

### Local data

**Overseas Merchandise Trade – May.** The unadjusted monthly trade surplus of \$264 million was a little weaker than expected, due to higher imports.

**RBNZ OCR Review.** As we anticipated, the Reserve Bank left the OCR unchanged at 1.50% but signalled that future cuts have become more likely.

**ANZ Business Outlook Survey – June.** Most activity indicators were pretty stable.

**ANZ Roy Morgan Consumer Confidence – June.** Consumer confidence lifted 3 points. A net 40% of consumers think it is a good time to buy a major household item, a strong level.



*Both sides agree a truce.*

### Summary

Market risk appetite was on hold awaiting the Trump-Xi meeting over the weekend. While **both made the right 'truce' noises, creating some optimism, little concrete progress was made, unsurprisingly, and tensions will remain a focus for markets.** Rates markets were mixed but a weaker USD kept commodity currencies buoyed.

*Something for everyone.*

### Key events this week

**RBA cash rate decision (Tuesday 02 July, 4:30pm).** We are expecting a 25bp cut. All major forecasters agree, but market pricing is only 70%.

**US non-farm payrolls (Saturday 06 July, 12:30am).** If non-farm payrolls come in weaker for another month, it will cement the case for a cut by the FOMC.

*Market expectations little changed.*

### Rates

Local yields edged higher last week after the RBNZ's OCR Review was relatively less dovish than central banking peers. The market is currently pricing a 74% chance of a 25bp cut to the OCR at the RBNZ's August MPS, with another full cut priced in by February next year. NZ wasn't alone in seeing slightly higher yields, however, with yields mixed globally. US 10-year Treasury yields bobbed around the 2.00% mark whilst markets pared back their odds for a 50bp cut to US interest rates.

### FX

The NZD led its commodity-linked peers higher whilst the USD managed a small bounce. Improvements in risk sentiment were also supportive.

*NZD leads the pack.*

**NZD/USD:** The NZD continued to soar last week. Led by a weaker USD, the NZD benefited from a lift in market sentiment and a relatively less dovish RBNZ.

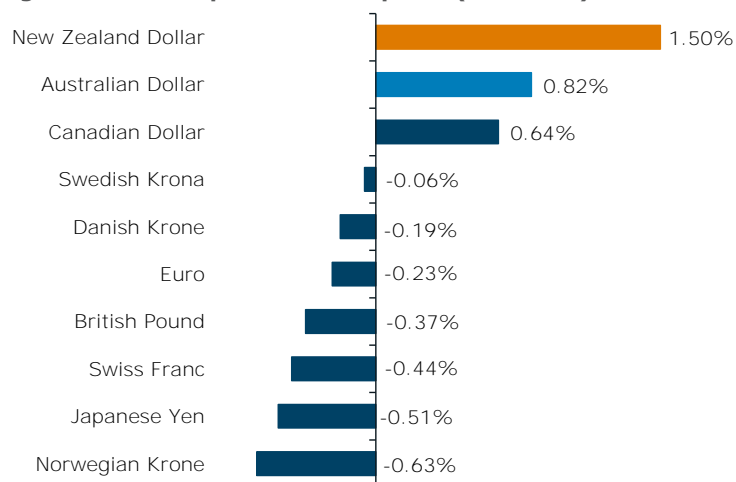
**NZD/AUD:** The AUD was similarly buoyed by the weaker USD but lagged the NZD. Market expectations of future RBA easing also weighed on the currency.

**NZD/EUR:** A soft data pulse continued to weigh on the euro. The common currency struggled to keep up with the NZD amidst a small USD bounce.

**NZD/GBP:** The GBP continued to struggle last week. Uncertainties around Brexit continue to weigh on the currency, with Boris Johnson's 'leave at any cost' policy seeing markets ratchet up the odds of a 'hard' Brexit.

**NZD/JPY:** The safe-haven currency lost its gloss last week as risk sentiment rebounded.

**Figure 1. NZD outperforms G10 peers (USD base)**



Source: Bloomberg, ANZ Research





## Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
1-Jul	AU	CoreLogic House Px MoM - Jun	--	-0.4%	12:00
	JN	PMI Mfg - Jun F	--	49.5	12:30
	AU	Melbourne Institute Inflation MoM - Jun	--	0.0%	13:00
	AU	Melbourne Institute Inflation YoY - Jun	--	1.7%	13:00
	CH	Caixin PMI Mfg - Jun	50.1	50.2	13:45
	AU	Commodity Index SDR YoY - Jun	--	12.6%	18:30
	AU	Commodity Index AUD - Jun	--	125.9	18:30
	GE	Markit/BME Manufacturing PMI - Jun F	45.4	45.4	19:55
	GE	Unemployment Change (000's) - Jun	0.0k	60.0k	19:55
	GE	Unemployment Claims Rate SA - Jun	5.0%	5.0%	19:55
	EC	Markit Manufacturing PMI - Jun F	47.8	47.8	20:00
	EC	M3 Money Supply YoY - May	4.6%	4.7%	20:00
	UK	Net Consumer Credit - May	£0.9B	£0.9B	20:30
	UK	Consumer Credit YoY - May	--	5.9%	20:30
	UK	Net Lending Sec. on Dwellings - May	£4.2B	£4.3B	20:30
	UK	Mortgage Approvals - May	65.5k	66.3k	20:30
	UK	Money Supply M4 MoM - May	--	0.9%	20:30
	UK	M4 Money Supply YoY - May	--	3.0%	20:30
	UK	M4 Ex IOFCs 3M Annualised - May	--	2.9%	20:30
	UK	Markit PMI Manufacturing SA - Jun	49.5	49.4	20:30
EC	Unemployment Rate - May	7.6%	7.6%	21:00	
2-Jul	US	Markit Manufacturing PMI - Jun F	50.1	50.1	01:45
	US	ISM Manufacturing - Jun	51.0	52.1	02:00
	US	Construction Spending MoM - May	0.0%	0.0%	02:00
	NZ	NZIER QSBO - Q2	--	-29	10:00
	NZ	Building Permits MoM - May	--	-8.0%	10:45
	AU	ANZ-RM Consumer Confidence Index - 30-Jun	--	114.3	11:30
	AU	RBA Cash Rate Target - Jul	1.00%	1.25%	16:30
	GE	Retail Sales MoM - May	0.5%	-1.0%	18:00
	GE	Retail Sales NSA YoY - May	2.7%	4.0%	18:00
	UK	Nationwide House PX MoM - Jun	0.2%	-0.2%	18:00
	UK	Nationwide House Px NSA YoY - Jun	0.5%	0.6%	18:00
	UK	Markit/CIPS Construction PMI - Jun	49.2	48.6	20:30
	EC	PPI MoM - May	0.1%	-0.3%	21:00
	EC	PPI YoY - May	1.8%	2.6%	21:00
	3-Jul	NZ	QV House Prices YoY - Jun	--	2.3%
AU		Ai Group Perf of Services Index - Jun	--	52.5	10:30
AU		CBA PMI Services - Jun F	--	53.3	11:00
AU		CBA PMI Composite - Jun F	--	53.1	11:00
JN		Markit PMI Composite - Jun	--	50.7	12:30
JN		Markit PMI Services - Jun	--	51.7	12:30
NZ		ANZ Commodity Price - Jun	--	0.0%	13:00
AU		Building Approvals MoM - May	0.0%	-4.7%	13:30
AU		Building Approvals YoY - May	-21.5%	-24.2%	13:30
AU		Trade Balance - May	A\$5250M	A\$4871M	13:30
CH		Caixin PMI Composite - Jun	--	51.5	13:45
CH		Caixin PMI Services - Jun	52.6	52.7	13:45
GE		Markit Services PMI - Jun F	55.6	55.6	19:55

Continued on following page



## Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time	
3-Jul	GE	Markit/BME Composite PMI - Jun F	52.6	52.6	19:55	
	EC	Markit Services PMI - Jun F	53.4	53.4	20:00	
	EC	Markit Composite PMI - Jun F	52.1	52.1	20:00	
	UK	Markit/CIPS Services PMI - Jun	51.0	51.0	20:30	
	UK	Markit/CIPS Composite PMI - Jun	51.0	50.9	20:30	
	UK	Official Reserves Changes - Jun	--	\$2309M	20:30	
	US	MBA Mortgage Applications - 28-Jun	--	1.3%	23:00	
	US	Challenger Job Cuts YoY - Jun	--	85.9%	23:30	
4-Jul	US	ADP Employment Change - Jun	140k	27k	00:15	
	US	Trade Balance - May	-\$53.5B	-\$50.8B	00:30	
	US	Initial Jobless Claims - 29-Jun	221k	227k	00:30	
	US	Continuing Claims - 22-Jun	1681k	1688k	00:30	
	US	Markit Services PMI - Jun F	50.7	50.7	01:45	
	US	Markit Composite PMI - Jun F	--	50.6	01:45	
	US	Factory Orders - May	-0.5%	-0.8%	02:00	
	US	Factory Orders Ex Trans - May	--	0.3%	02:00	
	US	Durable Goods Orders - May F	-1.3%	-1.3%	02:00	
	US	Durables Ex Transportation - May F	--	0.3%	02:00	
	US	Cap Goods Ship Nondef Ex Air - May F	--	0.7%	02:00	
	US	Cap Goods Orders Nondef Ex Air - May F	--	0.4%	02:00	
	US	ISM Non-Manufacturing Index - Jun	56.0	56.9	02:00	
	AU	Job vacancies - May	--	1.4%	13:30	
	AU	Retail Sales MoM - May	0.2%	-0.1%	13:30	
	GE	Markit Construction PMI - Jun	--	51.4	19:30	
	EC	Retail Sales MoM - May	0.4%	-0.4%	21:00	
	EC	Retail Sales YoY - May	1.6%	1.5%	21:00	
	5-Jul	AU	Ai Group Perf of Construction Index - Jun	--	40.4	10:30
		GE	Factory Orders MoM - May	-0.2%	0.3%	18:00
GE		Factory Orders WDA YoY - May	-6.3%	-5.3%	18:00	
AU		Foreign Reserves - Jun	--	A\$79.9B	18:30	
UK		Halifax House Prices MoM - Jun	-0.4%	0.5%	19:30	
UK		Halifax House Price 3Mths/Year - Jun	5.7%	5.2%	19:30	
UK		Unit Labor Costs YoY - Q1	--	3.1%	20:30	
6-Jul	US	Change in Nonfarm Payrolls - Jun	160k	75k	00:30	
	US	Unemployment Rate - Jun	3.6%	3.6%	00:30	
	US	Average Hourly Earnings MoM - Jun	0.3%	0.2%	00:30	
	US	Average Hourly Earnings YoY - Jun	3.2%	3.1%	00:30	
	US	Average Weekly Hours All Employees - Jun	34.4	34.4	00:30	

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All \$ values in local currency.

Note: All surveys are preliminary and subject to change



## Local data watch

Domestic growth momentum has decelerated and global risks are heightened. As headwinds persist, we expect further OCR cuts will be required later in the year to support growth, inflation and employment. The resilience of domestic data, the trend in inflation and global developments will all bear watching closely.

Date	Data/event	Economic signal	Comment
Tue 2 July (10:00am)	NZIER QSBO – Q2	Downbeat	Headline confidence is likely to remain downbeat. The activity components will provide an early steer on Q2 and Q3 GDP.
Tue 2 July (10:45am)	Building Consents – May	Wary	Consents have held at a high level recently, but have been volatile m/m. We see downside risk looming.
Wed 3 July (early am)	GlobalDairyTrade auction	Stable	Dairy prices are expected to fall slightly.
Wed 3 July (1:00pm)	ANZ Commodity Price Index – June	--	--
Tue 9 July (10:00am)	ANZ Truckometer - June	--	--
Wed 10 July (10:45am)	Food Price Index – June	Small lift	A lift in food prices from fruit, vegetables and meats should support a rise in the food group for the quarter.
Wed 10 July (10:45am)	Rental Price Index – June	Small rise	Continued increases in rental prices should support a solid quarterly rise in CPI rents.
10-15 July	REINZ housing market data – June	Searching	<b>These data have been volatile of late. We'll be looking to see where the trend is settling.</b>
Thu 11 July (10:45am)	Electronic Card Transactions – June	Looking through	<b>Not giving a good read on the household sector. We'll look through the noisy signal; consumption remains robust.</b>
Thu 11 July (1:00pm)	ANZ Monthly Inflation Gauge - June	--	--
Fri 12 July (10:30am)	BusinessNZ-BNZ Manufacturing PMI – June	Risk	The PMI fell to its lowest level since 2012 in May. Any further falls and there could be spillovers to the broader economy.
Mon 15 July (10:30am)	Performance Services Index – June	Watching	Services industries have been leading headline GDP growth, <b>but there's a gradual easing trend at play. Looking for a floor.</b>
Mon 15 July (10:45am)	Permanent and Long-Term Migration – May	Trend	Still not confident in the recent data. Looking at the older data point for confirmation of an easing migration cycle.
Mon 15 July (10:45am)	Short-term Visitor Arrivals – May	High	Arrivals from China have fallen recently, but increased arrivals from elsewhere have filled the gap. Can that persist?
Tue 16 July (10:45am)	Consumers Price Index – Q2	Solid	We expect a solid 0.7% q/q print, supported by higher petrol prices.
Wed 17 July (early am)	GlobalDairyTrade auction	Resilient	Dairy prices remain supported by softer global supply. Slowing global demand remains a risk.
Wed 24 July (10:45am)	Overseas Merchandise Trade – June	Steady	Exports to continue to lift as we head into the winter months with the unadjusted surplus maintained.
Tue 30 July (10:45am)	Building Consents – June	Wary	Consents have held at a high level recently, but we see downside risk looming.
Wed 31 July (1:00pm)	ANZ Business Outlook – June	--	--
Fri 2 Aug (10:00am)	ANZ Roy Morgan Consumer Confidence – June	--	--
<b>On balance</b>		<b>Data watch</b>	<b>Domestic and global data has softened and we expect more OCR cuts from later this year with inflation pressures fading.</b>



## Key forecasts and rates

	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
GDP (% qoq)	0.6	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.7</b>
GDP (% yoy)	2.5	<b>2.1</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>
CPI (% qoq)	0.1	<b>0.7</b>	<b>0.5</b>	<b>0.2</b>	<b>0.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.2</b>	<b>0.7</b>
CPI (% yoy)	1.5	<b>1.8</b>	<b>1.4</b>	<b>1.5</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>
LCI Wages (% qoq)	0.3	<b>0.6</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>0.6</b>	<b>0.5</b>	<b>0.3</b>
LCI Wages (% yoy)	2.0	<b>2.0</b>	<b>2.1</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.1</b>	<b>2.1</b>	<b>2.1</b>
Employment (% qoq)	-0.2	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
Employment (% yoy)	1.5	<b>1.4</b>	<b>0.7</b>	<b>1.1</b>	<b>1.6</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>
Unemployment Rate (% sa)	4.2	<b>4.3</b>	<b>4.3</b>	<b>4.4</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>	<b>4.3</b>
Current Account (% GDP)	-3.7	<b>-3.6</b>	<b>-3.8</b>	<b>-3.9</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-4.0</b>	<b>-4.1</b>
Terms of Trade (% qoq)	1.0	<b>-2.9</b>	<b>0.3</b>	<b>0.1</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>
Terms of Trade (% yoy)	-2.0	<b>-5.2</b>	<b>-4.8</b>	<b>-1.6</b>	<b>-2.3</b>	<b>0.9</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>

	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Retail ECT (% mom)	0.8	0.0	-0.5	-2.2	2.0	0.7	-0.2	0.6	-0.5	--
Retail ECT (% yoy)	5.7	6.2	4.6	0.6	3.5	3.4	0.7	4.5	3.2	--
Car Registrations (% mom)	-4.5	4.9	-11.1	-0.6	4.4	1.4	-2.4	2.0	-1.4	--
Car Registrations (% yoy)	-10.8	-5.4	-17.9	-15.8	-12.1	-3.9	-2.9	-0.5	-12.6	--
Building Consents (% mom)	1.4	6.1	1.4	-3.3	5.4	-0.9	0.8	-4.2	--	--
Building Consents (% yoy)	-4.4	6.3	9.0	6.4	11.1	8.3	8.2	3.6	--	--
REINZ House Price Index (% yoy)	4.0	3.8	3.1	3.1	2.8	3.0	2.4	1.4	1.8	--
Household Lending Growth (% mom)	0.4	0.4	0.6	0.4	0.4	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	5.9	5.8	6.0	5.9	5.9	5.9	5.9	5.9	6.0	--
ANZ Roy Morgan Consumer Conf.	117.6	115.4	118.6	121.9	121.7	120.8	121.8	123.2	119.3	122.6
ANZ Business Confidence	-38.3	-37.1	-37.1	-24.1	..	-30.9	-38.0	-37.5	-32.0	-38.1
ANZ Own Activity Outlook	7.8	7.4	7.6	13.6	..	10.5	6.3	7.1	8.5	8.0
Trade Balance (\$m)	-1580	-1305	-1004	9	-935	-94	825	383	264	--
Trade Bal (\$m ann)	-5309	-5774	-5556	-6161	-6433	-6715	-5740	-5557	-5492	--
ANZ World Comm. Price Index (% mom)	-2.4	-2.4	-0.5	-0.2	2.0	2.8	4.1	2.6	0.0	--
ANZ World Comm. Price Index (% yoy)	-3.5	-5.6	-5.1	-3.4	-2.2	-2.2	0.6	2.2	0.7	--
Net Migration (sa)	4180	4310	4790	5870	4930	5340	4630	4870	--	--
Net Migration (ann)	49975	50491	51214	52135	52820	54560	55101	55832	--	--
ANZ Heavy Traffic Index (% mom)	-1.2	4.3	-2.2	-4.2	4.8	0.4	-2.0	4.0	0.8	--
ANZ Light Traffic Index (% mom)	-1.2	0.3	0.1	-1.7	2.0	-0.8	0.7	0.3	0.9	--
ANZ Monthly Inflation Gauge (% mom)	0.3	0.3	0.2	-0.1	1.0	0.0	0.0	0.1	0.2	--

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year



## Key forecasts and rates

FX rates	Actual					Forecast (end month)			
	May-19	Jun-19	Today	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZD/USD	0.653	0.672	0.67	0.63	0.61	0.61	0.63	0.65	0.65
NZD/AUD	0.941	0.957	0.96	0.94	0.94	0.92	0.93	0.94	0.93
NZD/EUR	0.585	0.591	0.59	0.58	0.55	0.53	0.53	0.54	0.52
NZD/JPY	70.72	72.45	72.88	68.0	65.9	64.1	66.2	68.3	68.3
NZD/GBP	0.517	0.529	0.53	0.50	0.48	0.46	0.46	0.48	0.48
NZ\$ TWI	70.2	71.6	73.5	68.6	66.7	65.2	66.1	67.9	66.9
Interest rates	May-19	Jun-19	Today	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZ OCR	1.50	1.50	1.50	1.25	1.00	1.00	1.00	1.00	1.00
NZ 90 day bill	1.67	1.64	1.62	1.32	1.15	1.15	1.15	1.15	1.15
NZ 10-yr bond	1.71	1.57	1.60	1.50	1.45	1.35	1.35	1.35	1.35
US Fed funds	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00
US 3-mth	2.50	2.32	2.32	2.65	2.40	2.15	2.15	2.15	2.15
AU Cash Rate	1.50	1.25	1.25	1.00	0.75	0.75	0.75	0.75	0.75
AU 3-mth	1.42	1.20	1.20	0.95	0.95	0.95	0.95	0.95	0.95

	28-May	24-Jun	25-Jun	26-Jun	27-Jun	28-Jun
Official Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50
90 day bank bill	1.67	1.58	1.59	1.60	1.63	1.64
NZGB 05/21	1.30	1.12	1.12	1.14	1.17	1.15
NZGB 04/23	1.35	1.13	1.13	1.15	1.19	1.17
NZGB 04/27	1.60	1.37	1.37	1.39	1.44	1.41
NZGB 04/33	1.94	1.72	1.71	1.73	1.79	1.76
2 year swap	1.49	1.30	1.31	1.33	1.35	1.35
5 year swap	1.60	1.38	1.38	1.40	1.45	1.44
RBNZ TWI	72.31	72.18	72.63	72.65	73.11	73.20
NZD/USD	0.6549	0.6604	0.6650	0.6677	0.6690	0.6718
NZD/AUD	0.9461	0.9508	0.9538	0.9561	0.9569	0.9570
NZD/JPY	71.64	70.86	71.14	71.91	72.15	72.45
NZD/GBP	0.5167	0.5184	0.5214	0.5262	0.5261	0.5287
NZD/EUR	0.5853	0.5798	0.5841	0.5874	0.5880	0.5907
AUD/USD	0.6922	0.6946	0.6972	0.6984	0.6991	0.7020
EUR/USD	1.1189	1.1391	1.1385	1.1367	1.1379	1.1373
USD/JPY	109.39	107.29	106.97	107.69	107.84	107.85
GBP/USD	1.2675	1.2741	1.2755	1.2690	1.2716	1.2696
Oil (US\$/bbl)	59.14	57.90	57.83	59.38	59.43	58.47
Gold (US\$/oz)	1283.93	1407.41	1430.17	1406.24	1405.72	1409.55
NZX 50	10123	10388	10418	10408	10431	10501
Baltic Dry Freight Index	1082	1258	1280	1317	1340	1354
NZX WMP Futures (US\$/t)	3155	2880	2875	2875	2875	2910



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