ANZ Research

New Zealand Weekly Focus

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Is zero really just a number?

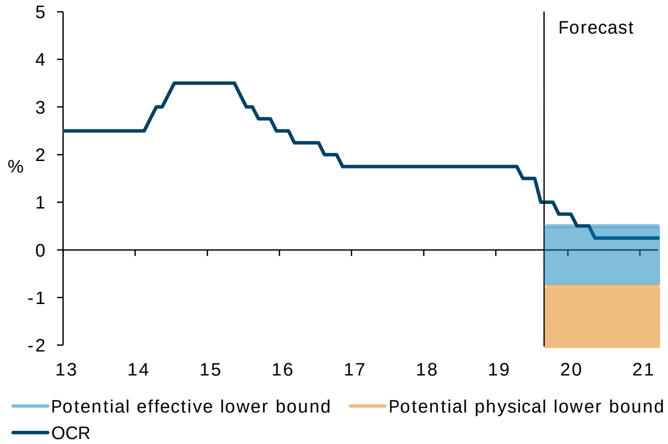
Economic overview

We now expect the OCR to hit 0.25% by mid-next year, and with the global outlook shaky, a negative OCR certainly can't be ruled out. This week we look at some of the international experiences with negative interest rates to glean insights into what it would mean. The good news for households is that they are unlikely to be directly exposed to negative interest rates on their savings accounts. But banks and cash-rich businesses do bear the costs. Ever-lower policy rates don't always mean lower lending rates, and it isn't clear that negative interest rates will be successful in boosting inflation expectations. Negative rates also severely disrupt the normal workings of the banking system. So while a negative OCR is an option in the RBNZ's toolbox, we're not at all convinced that it should be deployed.

Chart of the week

We now expect an OCR of 0.25% by mid-next year. But with that, the OCR is heading into those murky depths where a lower cash rate hits its effective limit.

Official Cash Rate and potential lower bounds



Source: Bloomberg, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.2% y/y for 2020 Q1	Growth has slowed. OCR cuts should support a gradual recovery, but risks are skewed to the downside.	Neutral / Negative / Positive
Unemployment rate	4.2% for 2020 Q1	The labour market is "tight", but the weaker economy will push up unemployment. Wage and employment growth to remain modest.	Neutral / Negative / Positive
OCR	0.50% in March 2020	The RBNZ cut the OCR to 1% in August. We expect further cuts to bring the OCR to 0.25% by mid-2020.	Neutral / Down / Up
CPI	1.8% 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 / Negative / Positive

Economic overview

Summary

We're not expecting a negative OCR, but wouldn't rule it out.

We now expect the OCR to hit 0.25% by mid-next year, and with the global outlook shaky, a negative OCR certainly can't be ruled out. This week we look at some of the international experiences with negative interest rates to glean insights into what it would mean. The good news for households is that they are unlikely to be directly exposed to negative interest rates on their savings accounts. But banks and businesses do bear the costs. Ever-lower policy rates don't always mean lower lending rates, and it isn't clear that negative interest rates will be successful in boosting inflation expectations. Negative rates also severely disrupt the normal workings of the banking system. So while a negative OCR is an option in the RBNZ's toolbox, we're not at all convinced that it should be deployed.

Forthcoming data

ANZ Truckometer - August (Tuesday 10 September, 10:00am).

Food Price Index – August (Thursday 12 September, 10:45am). A small lift in food prices from fruit and vegetables is expected.

Rental Price Index – August (Thursday 12 September, 10:45am). Continued increases in rental prices should support a quarterly rise in CPI rents.

ANZ Monthly Inflation Gauge – August (Thursday 12 September, 1:00pm).

BNZ-BusinessNZ Manufacturing PMI – August (Friday 13 September, 10:30am). An easing trend has been at play here too.

What's the view?

Global interest rates have moved negative…

We're living in a negative interest rate world. The amount of negative-yielding debt globally has increased sharply over the past year, as the global growth and inflation outlook has deteriorated. There is now an astonishing USD17bn in negative-yielding debt globally (figure 1). Most of it is government debt, but even some corporates are being paid to borrow these days.

…and we think the OCR will drop to 0.25%.

We are now forecasting the OCR to be at just 0.25% by mid-next year and with the global outlook shaky, the RBNZ's foray into uncharted territory looks set to continue. But could we pass into the Twilight Zone? Well, it's a choice. Negative policy rates have become far from rare overseas, but certainly not universal – some central banks over this decade eschewed negative policy rates in favour of other unconventional policies (figure 2).

Figure 1. Market value of global negative yielding debt

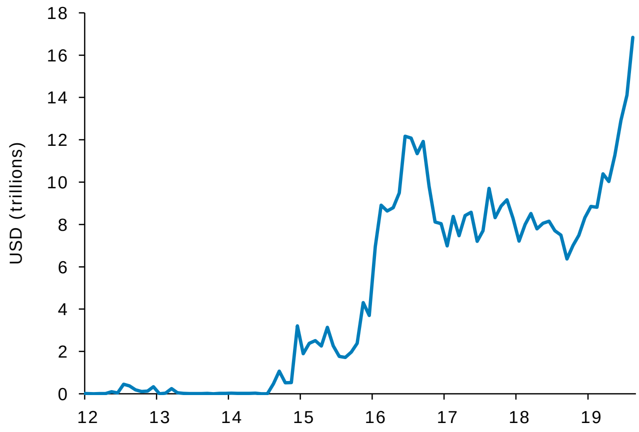
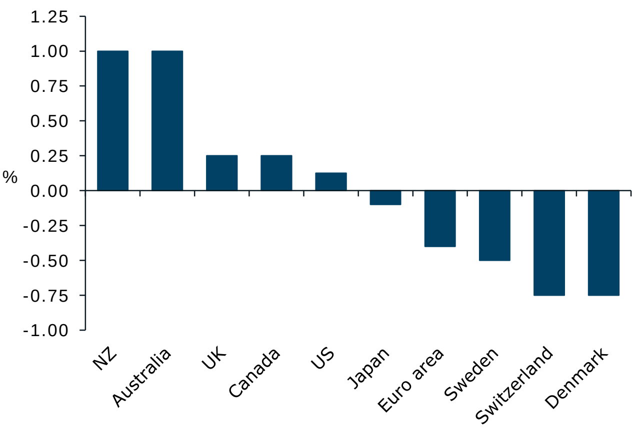


Figure 2. Lows in policy rates since 2008



Source: Bloomberg, ANZ Research

Of course, New Zealand and Australia dodged the question in the post-GFC global slowdown, courtesy of their high policy rate starting points and a 'get out of jail free' card in the form of China's massive debt-fuelled fiscal spend-up. But neither of those things are going to be relevant this time. If economic growth slows more severely than anticipated, the odds are

There are limits to how low the OCR can effectively go.

lifting that uncomfortable decisions will need to be made about whether to head for unconventional policy, and if so, which path to take. At the August MPS, the RBNZ mentioned that negative interest rates are part of the unconventional monetary policy toolkit. In subsequent interviews, the Governor has commented that he prefers negative rates to QE, and in a NZ Herald interview, said "with negative rates, the idea is it's no different," and "if that's where the world goes, then we're part of that."

So that ostensibly sounds like a green light. As we have noted before, we think that an OCR of -0.25% or even lower is technically possible. However, while the Governor argues that policy at ever-lower rates is no less effective, we believe at some point a lower OCR does become ineffective and beyond that, potentially outright contractionary. Where this point might lie is highly uncertain, but we think our +0.25% rate call is close to it. As we discussed in a recent Economic Insight, we are not at all certain that the impact of a negative OCR would be net stimulatory.

We think our 0.25% rate call is near the limit.

There is also increasing recognition that even if it does boost near-term cyclical economic activity, prolonged negative rates cause structural economic harm. The new head of the ECB, Christine Lagarde, was keen to emphasise to critics that "adverse side effects" would be taken into account, while stressing that she's a fan of negative rates overall. But that's a meaty topic we'll save for another day.

This week we look at the international experience with negative interest rates, focusing on the experience for lenders and savers overseas. We look at the effectiveness of negative policy rates from a monetary policy stimulus perspective – via the key channels of lending rates, the exchange rate, and inflation expectations. This casts light on some of the constraints that New Zealand may also face as interest rates move ever lower.

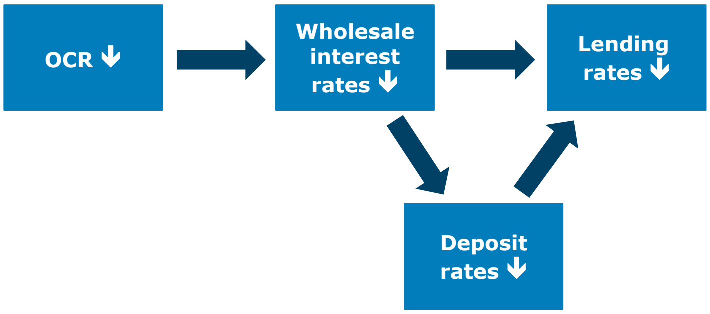
Interest rate transmission at negative interest rates

The OCR affects broader interest rates in the economy…

The Official Cash Rate is an important base interest rate in the New Zealand economy (figure 3). It is the interest rate at which banks get remunerated when they store cash overnight at the RBNZ. Through arbitrage, this then influences other short-term wholesale market interest rates, such as bank bill rates (BKBM) and commercial paper rates. Long-term wholesale interest rates are also affected, via expectations of these base rates in the future.

The transmission through to lending rates, such as mortgage rates, is a bit more complex. Commercial banks needing to take account of a range of funding sources and costs, as well as the usual market dynamics any firm considers when setting margins and prices. Banks are also constrained by regulatory settings.

Figure 3. Interest rate transmission channel



Source: ANZ Research

…but pass-through to deposit and lending rates varies.

Retail deposits are an important source of funds for New Zealand banks (around 60%). Within the regulatory limits (which are strict, as a result of lessons learned in the GFC), banks will optimise their choice of funding: deposits, or wholesale funding. And lower interest rates in wholesale markets can put downward pressure on deposit rates. However, the regulatory constraints matter. Deposit rates don't tend to fall as much when other interest rates in the economy move closer to, or below, 0%. As we discussed in a recent Weekly, the need for stable funding such as deposits (due to the 2010 core funding ratio requirement) means that banks compete aggressively and pay a premium for deposit funding. This limits the pass-through of a lower OCR through to bank funding costs, and hence to lending rates.

A negative OCR would transmit to wholesale markets…

So even if the OCR in New Zealand goes negative, that doesn't mean that all interest rates in the economy will trade with a minus sign.

Globally, negative policy interest rates are typically transmitted effectively through to wholesale interest rate markets, such as 3-month bank bill rates (with a spread) and even longer-term swap rates.

…but not retail rates.

But negative interest rates don't tend to transmit through to retail rates – deposit and mortgage rates – in the economy. The good news for households is therefore that they are unlikely to be directly exposed to negative interest rates on savings, based on overseas experience – it's too easy for small depositors to take out their cash and stick it under the mattress. The possibility of imposing negative rates on retail deposits is also running into political barriers, with the German Finance Minister considering a ban on deposit charges.

Households are sheltered…

So with households largely sheltered, the burden of negative policy rates falls on the commercial banks and larger businesses. The majority of corporate deposit rates have also tended to reach a floor at 0%, although negative interest rates have been charged on large corporate deposits as commercial banks pass on the costs of the negative policy rate.

…but businesses and banks take a hit.

But there is a limit to how negative these commercial deposit rates can go too, because commercial banks or corporates technically have another option – they could withdraw the funds as cash, and then store and insure it. The cost of that storage and insurance determines how low interest rates could fall before mass cash hoarding completely breaks down the monetary policy transmission mechanism – this is known as the 'physical lower bound'. And the longer interest rates are negative, the more time the market has to adapt and find lower costs of storage.

Globally, deposits rates hit 0%…

…limiting falls in lending rates.

In both Sweden and the euro area, deposit rates have hit a floor at 0% as policy rates have turned negative (figures 4 and 5). While a win for household depositors, the 'zero bound' on deposit rates does represent a weakening in the monetary policy transmission. Either lending rates will stop falling as banks try to retain margins, or bank margins become squeezed to a point that hampers credit availability. In Sweden, for example, spreads widened as the policy rate moved negative because mortgage rates didn't decline to the same extent.

Figure 4. Interest rates in Sweden

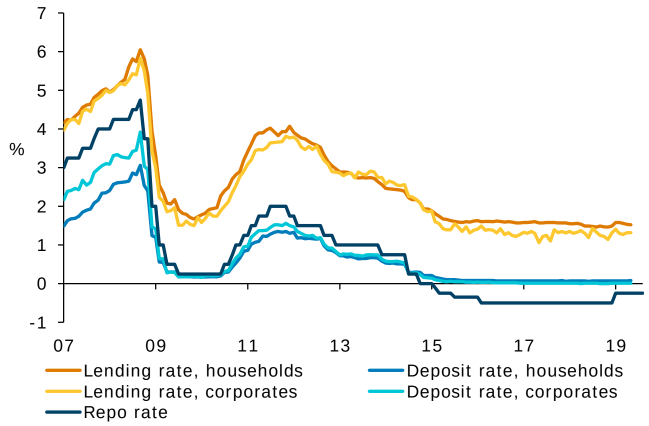
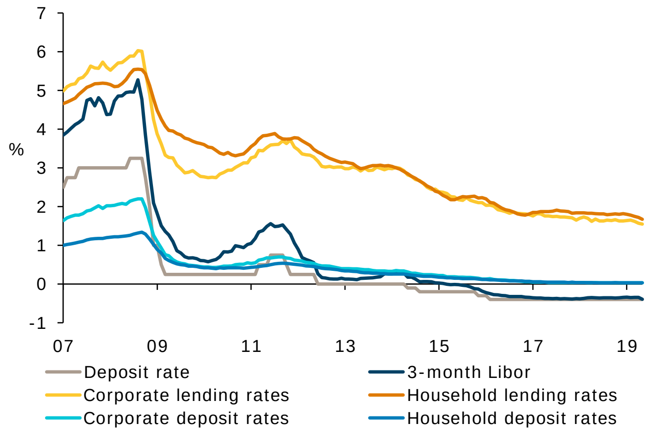


Figure 5. Interest rates in the euro area



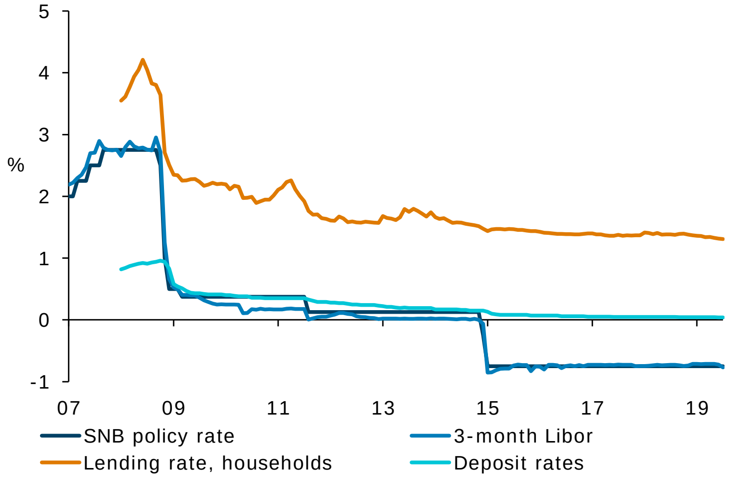
Source: Statistics NZ, ANZ Research

In Switzerland, the drop in the central bank policy rate from 0% to -0.75% was not successfully transmitted through to lower mortgage or deposit rates (figure 6). The average of the floating and 1-5 year mortgage rates (orange line) did not track the policy rate lower, and some longer-term interest rates even rose.[1]

[1] BIS (2016), 'How have central banks implemented negative policy rates?', BIS Quarterly Review, March 2016.

Negative Swiss policy rates didn't pass through.

Figure 6. Interest rates in Switzerland



Source: Swiss National Bank, ANZ Research

These international examples highlight the diminished transmission from policy rates to retail interest rates as rates approach zero and turn negative. In New Zealand, we see the impairment of the bank lending channel as a significant constraint on how low the OCR could go while still being effective.

In NZ, the bank lending channel would become impaired at a negative OCR.

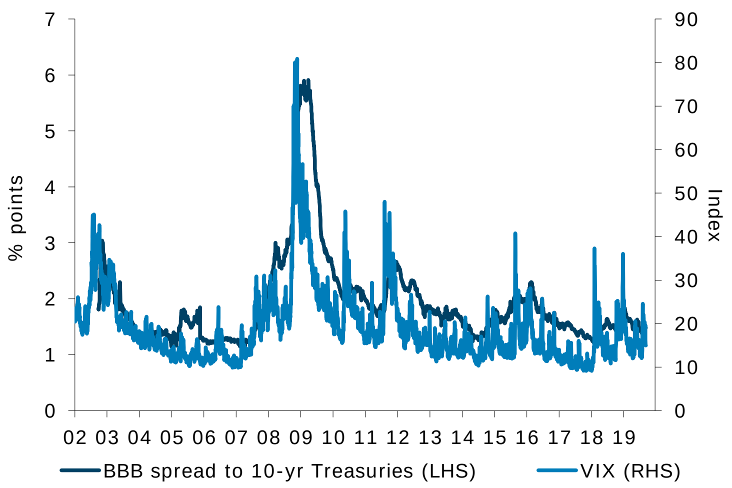
The New Zealand financial system is heavily dependent on banks, and New Zealand banks are heavily reliant on deposit funding. These features of the New Zealand system mean that the bank lending channel of monetary policy could become constrained sooner, through diminished pass-through to mortgage rates or reduced credit availability.

The transmission to corporate borrowers will depend on credit spreads

Corporate borrowers are exposed to risk spreads and bank funding conditions.

The effectiveness of very low, and negative, interest rates in reducing borrowing costs for corporate borrowers will depend very much on what happens to credit spreads. The reward for taking all kinds of risks is currently pretty low. Put another way, the premium a riskier borrower pays over a safe one has shrunk. That's true of both corporates and governments, and it's partly because of investors being forced to take more risk to attain an acceptable return as risk-free rates have hit zero or below. Figure 7 shows how these risk spreads wax and wane with global risk appetite as captured in US equity volatility.

Figure 7. US BBB-rated corporate credit spread to 10-year Treasuries



Source: Bloomberg

Zero floor contracts are another complication…

Even if risk spreads remain where they are, as we've discussed before, the pass-through of negative rates, and therefore the effectiveness of monetary policy at increasingly negative rates, may also be constrained by 0% floors embedded in a variety of debt instruments.[2]

…and corporates could be exposed to mismatch risk.

Another factor to bear in mind is that corporate borrowers can hedge their floating rate risk using a swap transaction, but these swaps are not subject to the same 'zero floor' provisions, meaning that negative rates would result in mismatch risk and impaired hedging.[3]

With potentially limited rate pass-through to corporate customers and increased hedging risk, it doesn't sound like deeply negative rates will necessarily provide significant stimulus to our corporate sector and its investment behaviours.

Negative interest rates are likely to hit the NZD

The NZD would be a key channel…

But there is one channel that is likely to remain effective, even at very low or negative interest rates. The exchange rate channel is very important in a small, open economy such as New Zealand. A negative policy rate would be passed through to wholesale and money markets (as we have seen overseas), which is likely to keep downward pressure on the NZD through narrower interest rate differentials with the rest of the world. A lower NZD would boost exporters' incomes and increase import prices, giving inflation a boost.

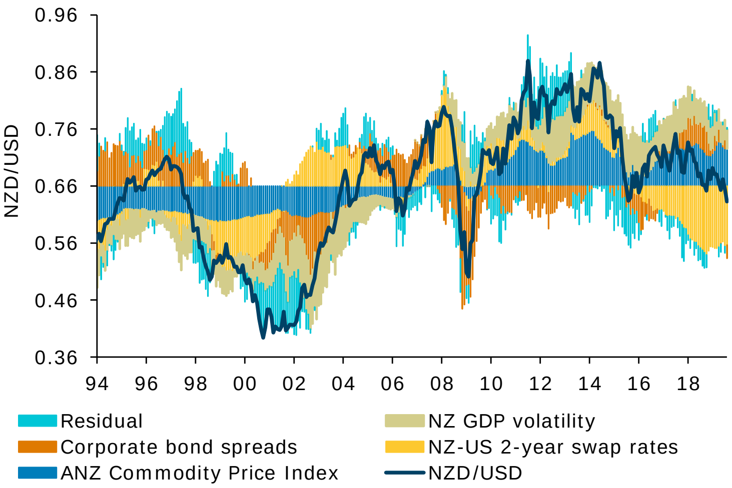
…as it was for other central banks…

In Sweden, the Riksbank note that several transmission channels have been fully active at negative rates, including pass-through to capital market interest rates and the exchange rate. But, consistent with the section above, the bank lending channel had been muted for households.[4]

For the Swiss National Bank (SNB), the exchange rate was a key channel that negative interest rate policy targeted. Negative interest rates, along with expansionary balance sheet policies, have helped to keep downward pressure on the Swiss franc. In fact, the cut in the SNB policy rate from -0.25% to -0.75% was done at the same time they abandoned their exchange rate floor, to try and keep downward pressure on the franc and mitigate the market reaction to the floor removal.

…but not everyone can win the depreciation game.

Figure 8. Drivers of the NZD



Source: Bloomberg, ANZ Research

Here in New Zealand, interest rate differentials are a key driver of the NZD (yellow bars, figure 8), but commodity prices and global risk aversion seize the wheel regularly too. We'd expect that the exchange rate would become an increasingly important channel for the RBNZ

[2] See Constantine and Purchase (2016), 'Life below zero – the impact of negative rates on derivatives activity', Bank Underground Blog, Bank of England.
[3] See Chapman Tripp, (2019), 'Negative interest rates and the corporate borrower'.
[4] Erikson and Vestin (2019), 'Pass-through at Mildly Negative Policy Rates: The Swedish Case', Staff memo, Sveriges Riksbank.

as the OCR moves lower and other channels become impaired. But in the next crisis, other central banks will likely be working hard to hit this channel as well – one economy's currency depreciation is another economy's appreciation.

Inflation expectations are important, but the negative rate impact is mixed

Inflation expectations need a boost…

A key channel for monetary policy is inflation expectations. Inflation expectations are self-reinforcing; if firms expect higher inflation, they will set prices and offer wage rises in line with this. The theory goes that lower interest rates will lead to higher inflation expectations. However, policy rate cuts do tend to bring about bad news stories, including about how inflation is looking likely to undershoot the target.

…but negative rates may not be the answer.

Abroad, the effect of prolonged negative interest rates on inflation expectations (or inflation for that matter) has been mixed. Sweden is a good case study of how unconventional monetary policy (including negative interest rates since 2015) helped to lift inflation expectations back towards target (figure 9). But in Japan, inflation expectations actually fell when negative interest rates were implemented (figure 10).

Figure 9. Inflation expectations in Sweden

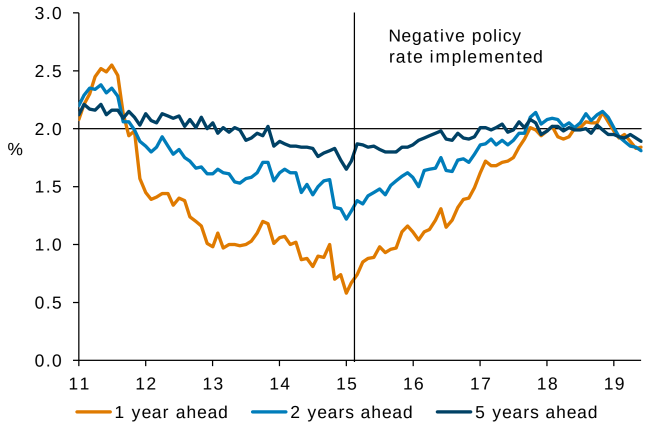
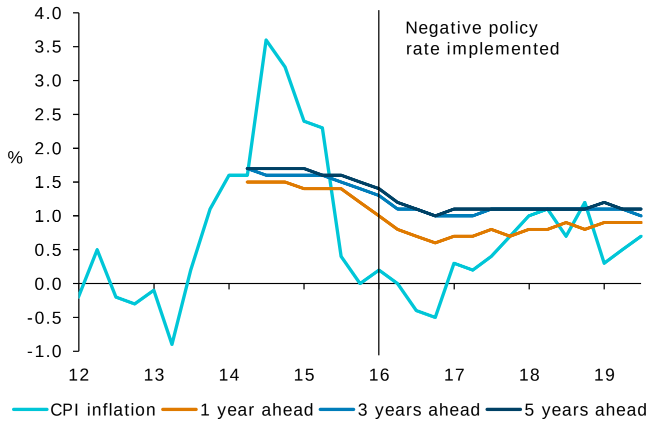


Figure 10. Inflation expectations in Japan



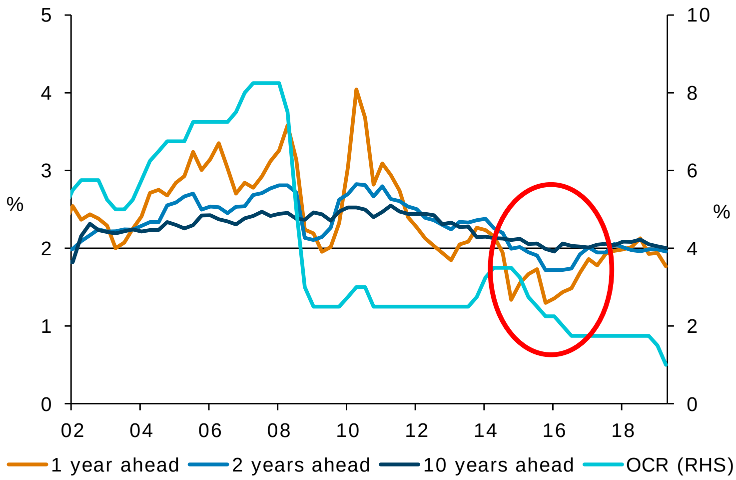
Source: Riksbank, Bloomberg, ANZ Research

Here in New Zealand, there is no evidence yet that the most recent 50bp cut in the OCR has increased inflation expectations, but the OCR cuts of 2016 did help to stem the decline in inflation expectations back then (figure 11).

Inflation expectations are crucial for the RBNZ.

Inflation expectations risked becoming de-anchored to the downside in 2016. The slip in the 2-year measure to 1.7% and dip below 2% in the 10-year measure was a catalyst for further OCR cuts.

Figure 11. Inflation expectations and the OCR



Source: RBNZ, ANZ Research

Inflation expectations did stabilise back around 2% over 2017 and 2018, but this was also aided by a boost to headline inflation from a pick-up in global commodity prices. With global demand weakening, a helpful inflation boost from commodity prices seems unlikely this time around. We will be watching the surveys closely from here. The much lower NZD we've already seen this year will definitely boost imported inflation, which will help headline inflation for a while. But the exchange rate impact on inflation tends to wash through pretty fast and therefore be largely 'looked through' by the RBNZ.

The OCR could go negative… but we're not convinced that it should

We are not certain that a negative OCR would be net stimulatory.

All up, we are not at all certain that a negative OCR would be net stimulatory, but we see -0.25% as a likely limit to how far the OCR could fall. That said, it is possible that the RBNZ could push below this level if it deems it can encourage lending via other means and/or concludes that other channels (in particular, via the NZD) are still effective and likely to outweigh other costs.

Given the uncertainties, it may be prudent as the OCR goes below 0.5% to move in smaller steps to cautiously assess whether policy is transmitting effectively or not – for example, in 10bp increments (similar to the European Central Bank and Bank of Japan), rather than the traditional 25bp steps. Alternatively, the RBNZ could eschew negative rates altogether and turn to quantitative easing measures instead (like the Federal Reserve and Bank of England).

We think 0.25% is close to the effective limit…

Over the next year, we think that the RBNZ will conclude it can't afford to wait and see the full impact of previous OCR cuts play out, and will cut to 0.25% (not "by", "to"!). Each successive cut from here is likely to be less stimulatory than the last, but they'll throw what they've got at it. Our new forecast endpoint for the OCR is right at the limit of where we estimate conventional monetary policy effectiveness ends (figure 12).

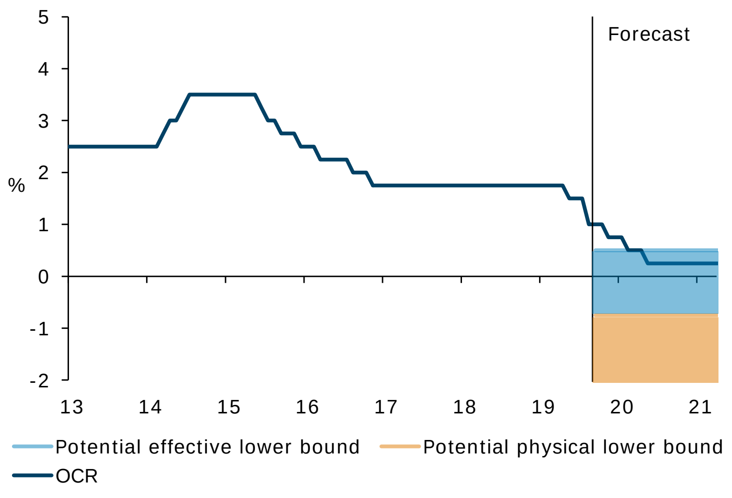
…for both NZ and Australia.

As for our neighbours across the Tasman, the RBA has indicated in various commentaries that it would be very reluctant to take the cash rate into negative territory or perhaps even as low as zero. We think a low of +0.25% for the cash rate is a reasonable estimate of the lower bound that the RBA has in mind, and see the RBA also cutting to 0.25% by May next year.

Negative interest rate policy is not simple.

As interest rates probe ever lower into uncharted territory, the RBNZ Monetary Policy Committee will have to closely watch whether policy is transmitting effectively through the economy, figure out which channels are working well and which are not, and assess what can be done about it. It will need to assess carefully whether further OCR cuts are likely to be a help or a hindrance to the economy overall, and weigh up the pros and cons of negative rates versus quantitative easing or other unconventional options.

Figure 12. The OCR and potential lower bounds



Source: RBNZ, ANZ Research

Economic overview

Or – here's a radical thought – unlike many high-profile global central banks over the past decade, the RBNZ could take inspiration from the famous doctors' mantra of "first do no harm", recognising that unconventional monetary policy imposes major distortions on some of the most important relative prices an economy has, and the long-term costs of this are yet to be determined. New Zealand is fortunate to have plenty of fiscal firepower, and a freely floating exchange rate that tends to helpfully tank in times of trouble. Maybe we don't need to take the risk. Just a thought.

Looking to the week ahead, we'll get a few price and activity updates for the New Zealand economy. We're expecting a small lift in both food and rental prices indices on Thursday, which will be closely followed by the release of our Monthly Inflation Gauge for August. On the activity side, the ANZ Truckometer for August is due on Tuesday, and the BNZ-BusinessNZ Manufacturing PMI – which has been easing lately, not sending great signals for GDP – is due on Friday.

Local data

Terms of trade – Q2. New Zealand's goods terms of trade lifted 1.6% q/q in Q2, with export prices making more gains than import prices over the quarter. Export volumes were down 2.6% q/q, while imports fell 3.5% q/q on a seasonally adjusted basis.

GlobalDairyTrade auction. The GDT Price Index fell just 0.4% with results stronger than expected, particularly for whole milk powder. This result will be seen in a positive light given offer volumes are high at this time of the season.

ANZ Commodity Price Index – August. The ANZ World Commodity Price Index lifted 0.3% m/m in August, following two months of weaker prices. Dairy and forestry sectors lifted in August but this was largely offset by weaker prices for meat and aluminium. In local currency terms the index lifted 3.9% m/m, bolstered by the 2.1% fall in the New Zealand dollar TWI during August.

Volume of Work Put in Place – Q2. The volume of building work put in place fell 1.5% in Q2, following a solid 6.2% rise last quarter. The decrease in volumes was driven by a pullback in non-residential work, which was down 3.4% q/q.

Economic Survey of Manufacturing – Q2. Total manufacturing volumes fell 2.7% q/q in Q2, driven (once again) by the meat and dairy component (down 8.2% q/q). Core manufacturing remained soft, lifting just 0.5% q/q following two consecutive quarterly declines.

FX / rates overview

Shifting sentiments

Summary

After weeks of dampened risk appetite, news that the US and China are set to return to the negotiating table flipped the script for markets. Global yields sold off, alongside safe-haven assets, as risk appetite received a boost. The Brexit saga continued to take unexpected twists and turns. MPs have pushed to block a hard Brexit but the path remains unclear as the 31 October Brexit date fast approaches.

The ECB, and Europe, are in the spotlight.

Key events this week

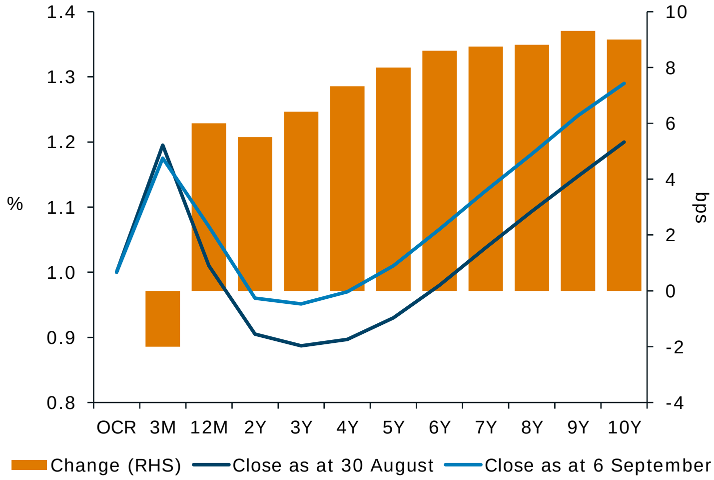
ECB policy meeting (Thursday 12 September, 11:45pm). A raft of poor economic data prints leaves the market almost certain the ECB will cut rates.

Yields sell-off as the US and China look to resume talks.

Rates

NZ yields were up 5-10bps across the curve as optimism around US-China trade talks saw global yields unwind recent gains. This move was also perpetuated by upbeat US dataflow. At the very short end, expectations of OCR cuts were little changed, with participants pricing in only a 10% chance for a 25bp cut to the OCR at the September OCR Review. Meanwhile, the odds of a 25bp cut at the RBNZ's November MPS remain at around 75%.

Figure 1. Week-on-week change in the NZ swap yields



Source: Bloomberg, ANZ Research

FX

Safe-haven currencies weaken.

The USD fell as sentiment shifted in favour of risk currencies. An unwinding in safe-haven positioning saw the JPY and CHF fall and lag their G10 peers last week.

NZD/USD: NZD bounced strongly after hitting a fresh multi-year low early in the week. Risk sentiment favoured the NZD, whilst a broad weakening in the USD provided the currency with additional support.

NZD/AUD: The AUD firmed as the RBA held policy unchanged at its September meeting during the week. The RBA's 'wait and see' statement also saw expectations of near-term easing drop, whilst the domestic AU dataflow aided the currency.

NZD/EUR: The common currency continued to be buffeted by weak economic data. Expectations of a cut to policy by the ECB also weighed on the EUR.

NZD/GBP: GBP endured a whirlwind week as the Brexit saga continued to twist and turn. GBP firmed as MPs moved to block a 'no deal' Brexit but struggled as PM Boris Johnson failed to gather support for a general election, leaving the process in limbo.

NZD/JPY: JPY struggled as the shift in risk sentiment saw an unwinding in safe-haven positioning. The JPY was a consistent underperformer last week.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
9-Sep	JN	BoP Current Account Balance - Jul	¥2046.0B	¥1211.2B	11:50
	JN	Trade Balance BoP Basis - Jul	-¥24.0B	¥759.3B	11:50
	JN	GDP SA QoQ - Q2 F	0.3%	0.4%	11:50
	JN	GDP Annualized SA QoQ - Q2 F	1.3%	1.8%	11:50
	JN	GDP Nominal SA QoQ - Q2 F	0.3%	0.4%	11:50
	JN	GDP Deflator YoY - Q2 F	0.4%	0.4%	11:50
	AU	Home Loans MoM - Jul	1.5%	0.4%	13:30
	AU	Investment Lending - Jul	1.5%	0.5%	13:30
	AU	Owner-Occupier Loan Value MoM - Jul	1.0%	2.4%	13:30
	GE	Trade Balance - Jul	€17.4B	€16.6B	18:00
	GE	Current Account Balance - Jul	€16.4B	€20.6B	18:00
	GE	Exports SA MoM - Jul	-0.5%	-0.1%	18:00
	GE	Imports SA MoM - Jul	-0.3%	0.7%	18:00
	EC	Sentix Investor Confidence - Sep	-13.4	-13.7	20:30
	UK	Monthly GDP (3M/3M) - Jul	-0.1%	-0.2%	20:30
	UK	Monthly GDP (MoM) - Jul	0.1%	0.0%	20:30
	UK	Industrial Production MoM - Jul	-0.3%	-0.1%	20:30
	UK	Industrial Production YoY - Jul	-1.1%	-0.6%	20:30
	UK	Manufacturing Production MoM - Jul	-0.3%	-0.2%	20:30
	UK	Manufacturing Production YoY - Jul	-1.2%	-1.4%	20:30
	UK	Index of Services MoM - Jul	0.1%	0.0%	20:30
	UK	Index of Services 3M/3M - Jul	0.1%	0.1%	20:30
	UK	Visible Trade Balance GBP/Mn - Jul	-£9600M	-£7009M	20:30
	UK	Trade Balance Non EU GBP/Mn - Jul	-£3000M	-£186M	20:30
	UK	Trade Balance GBP/Mn - Jul	-£1500M	£1779M	20:30
10-Sep	US	Consumer Credit - Jul	$16.00B	$14.60B	07:00
	NZ	ANZ Truckometer Heavy MoM - Aug	--	4.1%	10:00
	NZ	Card Spending Total MoM - Aug	--	-0.3%	10:45
	NZ	Card Spending Retail MoM - Aug	0.5%	-0.1%	10:45
	AU	ANZ-RM Consumer Confidence Index - 8-Sep	--	114.4	11:30
	CH	CPI YoY - Aug	2.6%	2.8%	13:30
	CH	PPI YoY - Aug	-0.9%	-0.3%	13:30
	AU	NAB Business Conditions - Aug	--	2	13:30
	AU	NAB Business Confidence - Aug	--	4	13:30
	UK	Claimant Count Rate - Aug	--	3.2%	20:30
	UK	Jobless Claims Change - Aug	--	28.0k	20:30
	UK	Average Weekly Earnings 3M/YoY - Jul	3.7%	3.7%	20:30
	UK	ILO Unemployment Rate 3Mths - Jul	3.9%	3.9%	20:30
	UK	Employment Change 3M/3M - Jul	55k	115k	20:30
	US	NFIB Small Business Optimism - Aug	103.5	104.7	22:00
	NZ	REINZ House Sales YoY - Aug	--	3.7%	10-16 Sep
11-Sep	US	JOLTS Job Openings - Jul	7311	7348	02:00
	NZ	Net Migration SA - Jul	--	3100	10:45
	AU	Westpac Consumer Conf Index - Sep	--	100	12:30
	AU	Westpac Consumer Conf SA MoM - Sep	--	3.6%	12:30
	US	MBA Mortgage Applications - 6-Sep	--	-3.1%	23:00
12-Sep	US	PPI Final Demand MoM - Aug	0.0%	0.2%	00:30
	US	PPI Final Demand YoY - Aug	1.7%	1.7%	00:30

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
12-Sep	US	PPI Ex Food and Energy MoM - Aug	0.2%	-0.1%	00:30
	US	PPI Ex Food and Energy YoY - Aug	2.2%	2.1%	00:30
	US	Wholesale Trade Sales MoM - Jul	--	-0.3%	02:00
	US	Wholesale Inventories MoM - Jul F	0.2%	0.2%	02:00
	NZ	Food Prices MoM - Aug	--	1.1%	10:45
	UK	RICS House Price Balance - Aug	-10%	-9%	11:01
	JN	PPI MoM - Aug	-0.2%	0.0%	11:50
	JN	PPI YoY - Aug	-0.8%	-0.6%	11:50
	NZ	ANZ Monthly Inflation Gauge MoM - Aug	--	0.5%	13:00
	AU	Consumer Inflation Expectation - Sep	--	3.5%	13:00
	GE	CPI MoM - Aug F	-0.2%	-0.2%	18:00
	GE	CPI YoY - Aug F	1.4%	1.4%	18:00
	GE	CPI EU Harmonized MoM - Aug F	-0.1%	-0.1%	18:00
	GE	CPI EU Harmonized YoY - Aug F	1.0%	1.0%	18:00
	EC	Industrial Production SA MoM - Jul	-0.1%	-1.6%	21:00
	EC	Industrial Production WDA YoY - Jul	-1.4%	-2.6%	21:00
	EC	ECB Main Refinancing Rate - Sep	0.0%	0.0%	23:45
	EC	ECB Marginal Lending Facility - Sep	0.3%	0.3%	23:45
	EC	ECB Deposit Facility Rate - Sep	-0.5%	-0.4%	23:45
13-Sep	US	CPI MoM - Aug	0.1%	0.3%	00:30
	US	CPI YoY - Aug	1.8%	1.8%	00:30
	US	CPI Ex Food and Energy MoM - Aug	0.2%	0.3%	00:30
	US	CPI Ex Food and Energy YoY - Aug	2.3%	2.2%	00:30
	US	Initial Jobless Claims - 7-Sep	215k	217k	00:30
	US	Continuing Claims - 31-Aug	1678k	1662k	00:30
	US	Monthly Budget Statement - Aug	-$160.5B	-$119.7B	06:00
	NZ	BusinessNZ Manufacturing PMI - Aug	--	48.2	10:30
	JN	Industrial Production YoY - Jul F	--	0.7%	16:30
	JN	Industrial Production MoM - Jul F	--	1.3%	16:30
	GE	Wholesale Price Index YoY - Aug	--	-0.1%	18:00
	GE	Wholesale Price Index MoM - Aug	--	-0.3%	18:00
	EC	Trade Balance SA - Jul	€17.5B	€17.9B	21:00
	EC	Trade Balance NSA - Jul	--	€20.6B	21:00
	EC	Labour Costs YoY - Q2	--	2.4%	21:00
14-Sep	US	Import Price Index MoM - Aug	-0.5%	0.2%	00:30
	US	Import Price Index YoY - Aug	-1.9%	-1.8%	00:30
	US	Export Price Index MoM - Aug	-0.3%	0.2%	00:30
	US	Export Price Index YoY - Aug	--	-0.9%	00:30
	US	Retail Sales Advance MoM - Aug	0.2%	0.7%	00:30
	US	Retail Sales Ex Auto MoM - Aug	0.1%	1.0%	00:30
	US	Retail Sales Ex Auto and Gas - Aug	0.3%	0.9%	00:30
	US	Retail Sales Control Group - Aug	0.3%	1.0%	00:30
	US	U. of Mich. Sentiment - Sep P	90.4	89.8	02:00
	US	Business Inventories - Jul	0.3%	0.0%	02:00

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 a lower OCR will be required 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 10 Sep (10:00am)	ANZ Truckometer - August	--	--
Thu 12 Sep (10:45am)	Food Price Index – August	Small lift	A small lift in food prices from fruit and vegetables is expected.
Thu 12 Sep (10:45am)	Rental Price Index – August	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Thu 12 Sep (1:00pm)	ANZ Monthly Inflation Gauge - August	--	--
Fri 13 Sep (10:30am)	BNZ-BusinessNZ Manufacturing PMI – August	Watching	An easing trend has been at play here too. We're looking for a floor.
Mon 16 Sep (10:30am)	Performance Services Index – August	Watching	Looking to see if July's rebound was more noise than signal.
Wed 18 Sep (early am)	GlobalDairyTrade auction	Steady	Seasonal increase in offer volumes will test buyers but tightening global milk supply should underpin demand.
Wed 18 Sep (10:45am)	Current Account – Q2	Widen	The annual current account is expected to widen slightly as a share of GDP.
Thu 19 Sep (10:45am)	Gross Domestic Product – Q2	Trough	We think Q1 growth was held up by a few temporary factors, and have pencilled in a soft 0.4% q/q lift for Q2.
Wed 25 Sep (10:45am)	Overseas Merchandise Trade – August	Steady	Export volumes still subdued due to low winter production restricting dairy and meat volumes will low prices moderate log export volumes and returns.
Wed 25 Sep (2:00pm)	RBNZ OCR Review – September	Watching	A dovish statement should set the scene for a November OCR cut to 0.75%.
Fri 27 Sep (10:00am)	ANZ Roy Morgan Consumer Confidence – September	--	--
Mon 30 Sep (10:45am)	Building Consents – August	Wary	Consents have held at a high level recently, but we see downside risk looming.
Mon 30 Sep (1:00pm)	ANZ Business Outlook – September	--	--
Tue 1 Oct (10:00am)	NZIER Quarterly Survey of Business Opinion – Q3	Watching	Business activity and employment intentions have been weak in recent quarters; we expect this weakness to persist for now.
Wed 2 Oct (early am)	GlobalDairyTrade auction	Improving	Slowing global milk supply should spur buyers into action resulting in improving demand.
Thu 3 Oct (1:00pm)	ANZ Commodity Price Index – September	--	--
Tue 9 Oct (10:00am)	ANZ Truckometer – September	--	--
Wed 10 Oct (10:45am)	Food Price Index – September	Small lift	A small lift in food prices from fruit and vegetables is expected.
Wed 10 Oct (10:45am)	Rental Price Index – September	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Wed 10 Oct (1:00pm)	ANZ Monthly Inflation Gauge - September	--	--
On balance		**Data watch**	**Domestic and global data has softened and we expect a lower OCR with inflation pressures fading.**

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	**0.4**	**0.6**	**0.6**	**0.6**	**0.7**	**0.6**	**0.7**	**0.7**
GDP (% yoy)	2.5	**2.0**	**2.2**	**2.2**	**2.2**	**2.5**	**2.5**	**2.6**	**2.7**
CPI (% qoq)	0.1	0.6	**0.4**	**0.1**	**0.7**	**0.3**	**0.6**	**0.2**	**0.6**
CPI (% yoy)	1.5	1.7	**1.2**	**1.2**	**1.8**	**1.5**	**1.6**	**1.7**	**1.7**
LCI Wages (% qoq)	0.3	0.8	**0.6**	**0.5**	**0.4**	**0.8**	**0.6**	**0.6**	**0.4**
LCI Wages (% yoy)	2.0	2.2	**2.3**	**2.3**	**2.3**	**2.3**	**2.2**	**2.3**	**2.3**
Employment (% qoq)	-0.2	0.8	**0.3**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.5	1.7	**1.0**	**1.4**	**1.8**	**1.3**	**1.4**	**1.4**	**1.5**
Unemployment Rate (% sa)	4.2	3.9	**4.1**	**4.2**	**4.2**	**4.3**	**4.3**	**4.3**	**4.2**
Current Account (% GDP)	-3.6	**-3.6**	**-3.7**	**-3.8**	**-3.9**	**-4.0**	**-4.0**	**-4.0**	**-4.0**
Terms of Trade (% qoq)	1.0	1.6	**0.4**	**-0.1**	**0.5**	**0.2**	**0.1**	**0.0**	**0.3**
Terms of Trade (% yoy)	-2.0	-0.8	**-0.3**	**2.9**	**2.3**	**1.0**	**0.6**	**0.8**	**0.6**

	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19
Retail ECT (% mom)	-0.5	-2.2	2.1	0.6	-0.1	0.3	-0.4	0.0	-0.1	--
Retail ECT (% yoy)	4.6	0.6	3.5	3.4	0.7	4.5	3.2	1.1	1.6	--
Car Registrations (% mom)	-10.9	-1.1	4.7	1.3	-2.5	1.7	-1.7	-2.7	4.0	1.0
Car Registrations (% yoy)	-17.9	-15.8	-12.1	-3.9	-2.9	-0.5	-12.6	-11.0	-5.4	-5.2
Building Consents (% mom)	-1.9	4.9	12.9	1.8	-7.0	-7.4	14.7	-4.0	-1.3	--
Building Consents (% yoy)	-3.0	12.5	31.8	28.0	3.0	-3.2	8.2	9.9	18.4	--
REINZ House Price Index (% yoy)	3.1	3.1	2.8	3.0	2.4	1.4	1.7	1.8	1.5	--
Household Lending Growth (% mom)	0.6	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	6.0	5.9	5.9	5.9	5.9	5.9	6.0	5.9	5.9	--
ANZ Roy Morgan Consumer Conf.	118.6	121.9	121.7	120.8	121.8	123.2	119.3	122.6	116.4	118.2
ANZ Business Confidence	-37.1	-24.1	..	-30.9	-38.0	-37.5	-32.0	-38.1	-44.3	-52.3
ANZ Own Activity Outlook	7.6	13.6	..	10.5	6.3	7.1	8.5	8.0	5.0	-0.5
Trade Balance ($m)	-1004	9	-935	-94	825	361	180	331	-685	--
Trade Bal ($m ann)	-5556	-6161	-6433	-6715	-5739	-5578	-5597	-4981	-5463	--
ANZ World Comm. Price Index (% mom)	-0.5	-0.2	2.0	2.8	4.1	2.6	0.1	-3.9	-1.4	0.3
ANZ World Comm. Price Index (% yoy)	-5.1	-3.4	-2.2	-2.2	0.6	2.2	0.7	-2.4	-0.5	0.9
Net Migration (sa)	4550	5780	4520	4300	3690	3290	4130	3100	--	--
Net Migration (ann)	49525	50631	50869	51521	51156	50523	50256	49427	--	--
ANZ Heavy Traffic Index (% mom)	-2.3	-4.2	4.9	0.3	-2.0	4.1	0.7	-4.3	4.1	--
ANZ Light Traffic Index (% mom)	0.1	-1.8	2.0	-0.8	0.7	0.3	0.8	-2.1	1.5	--
ANZ Monthly Inflation Gauge (% mom)	0.2	-0.1	1.0	0.0	0.0	0.1	0.1	0.3	0.5	--

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

Key forecasts and rates

	Actual			Forecast (end month)					
FX rates	Jul-19	Aug-19	Today	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZD/USD	0.656	0.633	0.64	0.63	0.61	0.61	0.63	0.65	0.65
NZD/AUD	0.958	0.940	0.94	0.95	0.94	0.94	0.95	0.97	0.96
NZD/EUR	0.592	0.576	0.58	0.58	0.56	0.56	0.57	0.57	0.56
NZD/JPY	71.35	67.25	68.70	66.2	63.4	62.8	64.3	65.0	65.0
NZD/GBP	0.539	0.521	0.52	0.52	0.50	0.51	0.52	0.51	0.49
NZ$ TWI	71.0	68.7	71.6	68.7	66.9	66.8	68.3	69.1	68.3
Interest rates	Jul-19	Aug-19	Today	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
NZ OCR	1.50	1.00	1.00	1.00	0.75	0.50	0.25	0.25	0.25
NZ 90 day bill	1.50	1.19	1.16	1.18	0.93	0.68	0.51	0.51	0.51
NZ 10-yr bond	1.44	1.06	1.13	1.50	1.45	1.35	1.35	1.35	1.35
US Fed funds	2.25	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00
US 3-mth	2.27	2.14	2.13	2.40	2.15	2.15	2.15	2.15	2.15
AU Cash Rate	1.00	1.00	1.00	1.00	0.75	0.50	0.25	0.25	0.25
AU 3-mth	1.01	0.97	1.00	0.95	0.95	0.95	0.95	0.95	0.95

	6-Aug	2-Sep	3-Sep	4-Sep	5-Sep	6-Sep
Official Cash Rate	1.50	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.42	1.19	1.18	1.17	1.17	1.17
NZGB 05/21	0.97	0.78	0.77	0.77	0.78	0.83
NZGB 04/23	0.97	0.76	0.75	0.74	0.76	0.81
NZGB 04/27	1.17	0.95	0.95	0.93	0.97	1.04
NZGB 04/33	1.50	1.22	1.22	1.20	1.24	1.33
2 year swap	1.19	0.91	0.90	0.90	0.92	0.97
5 year swap	1.19	0.93	0.93	0.91	0.94	1.02
RBNZ TWI	73.00	70.71	70.74	71.08	71.09	71.23
NZD/USD	0.6548	0.6307	0.6286	0.6355	0.6395	0.6404
NZD/AUD	0.9648	0.9394	0.9348	0.9363	0.9372	0.9355
NZD/JPY	69.63	67.11	66.75	67.50	68.19	68.56
NZD/GBP	0.5373	0.5224	0.5224	0.5207	0.5185	0.5229
NZD/EUR	0.5845	0.5752	0.5747	0.5768	0.5784	0.5827
AUD/USD	0.6787	0.6714	0.6725	0.6787	0.6824	0.6846
EUR/USD	1.1202	1.0967	1.0938	1.1017	1.1056	1.1029
USD/JPY	106.34	106.39	106.18	106.22	106.64	106.92
GBP/USD	1.2186	1.2075	1.2034	1.2205	1.2334	1.2283
Oil (US$/bbl)	53.63	55.10	53.94	56.26	56.30	56.52
Gold (US$/oz)	1465.29	1524.25	1530.44	1536.59	1541.58	1506.82
NZX 50	10587	10800	10954	11008	11107	11219
Baltic Dry Freight Index	1734	2442	2501	2518	2499	2462
NZX WMP Futures (US$/t)	3055	3045	3065	3080	3095	3095

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