New Zealand Weekly Focus

23 September 2019

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Contents

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A risky game

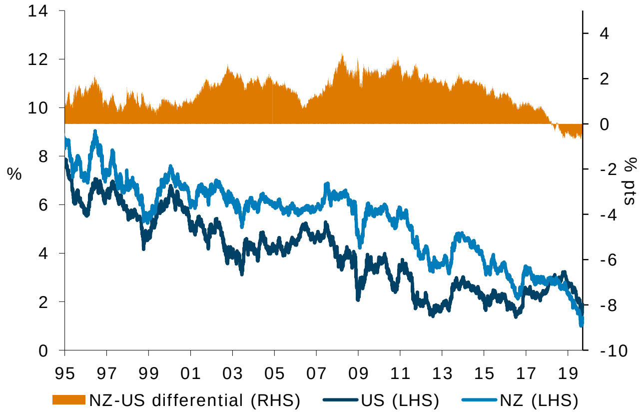
Economic overview

This week we expect the RBNZ to leave the OCR on hold as it waits to see the impact of its actions so far, but by November we think they'll be cutting again. "Lower for longer" is our forecast, and most other forecasters are broadly on the same page, though not yet calling the OCR as low as we are (just 0.25% by May next year). But retail interest rates and wholesale interest rates are not the same thing, and they do not always move together, as we learned in the Global Financial Crisis. There are plausible scenarios around both global risk appetite and bank capital requirements that could see at least some retail interest rates rise, even if the economy fails to bounce back. Broad agreement amongst forecasters that the OCR is going to be low for a long time does not mean there is no upside risk to the interest rate borrowers face.

Chart of the week

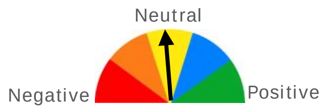
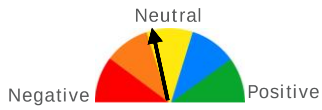
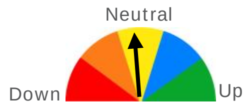
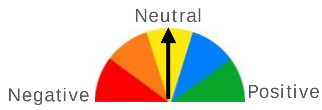
Risk schmisk. The New Zealand Government (with its relatively small tax base, and exposure to both global economic shocks and natural disasters) can borrow more cheaply than the US Government. Sweet as!

NZ and US 10-year bond yield



Source: Bloomberg, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	1.9% y/y for 2020 Q1	Growth has slowed. OCR cuts should support a gradual recovery next year.	
Unemployment rate	4.4% for 2020 Q1	The labour market is "tight", but the weaker economy will push up unemployment. Wage and employment growth to remain modest.	
OCR	0.50% in March 2020	We expect further cuts in November, February and May next year, bringing the OCR to just 0.25%.	
CPI	1.9% y/y for 2020 Q1	There is some near-term upside risk to domestic inflation but spluttering growth will stymie it. OCR cuts should support a gradual rise over time.	

Economic overview

Summary

All agree, "OCR lower for longer"; but that's not the full story for retail interest rates.

This week we expect the RBNZ to leave the OCR on hold as it waits to see the impact of its actions so far, but by November we think they'll be cutting again. "Lower for longer" is our forecast, and most other forecasters are broadly on the same page, though not yet calling the OCR as low as we are (just 0.25% by May next year). But retail interest rates and wholesale interest rates are not the same thing, and they do not always move together, as we learned in the Global Financial Crisis. There are plausible scenarios around both global risk appetite and bank capital requirements that could see at least some retail interest rates rise, even if the economy fails to bounce back. Broad agreement amongst forecasters that the OCR is going to be low for a long time does not mean there is no upside risk to the interest rate borrowers face.

Forthcoming data

Overseas Merchandise Trade – August (Wednesday 25 September, 10:45am). Unadjusted export volumes will be subdued reflecting seasonally low dairy and meat production. We could also see weaker forestry volumes on the back of recent price weakness. On the imports side, moderating domestic demand is likely to weigh on growth. We've pencilled in an unadjusted deficit of $800m for the month.

RBNZ OCR Review – September (Wednesday 25 September, 2:00pm). A dovish statement should set the scene for a 25bp November OCR cut to 0.75%.

ANZ Roy Morgan Consumer Confidence – September (Friday 27 September, 10:00am).

Building Consents – August (Monday 30 September, 10:45am). Consents have held at a high level recently, but we see downside risk looming.

What's the view?

It's all about the OCR this week…

The big event of the week is Wednesday's RBNZ's OCR Review. We expect the RBNZ will leave the OCR on hold at 1.00%, but leave the door open to further cuts. The Bank will most likely want to let the dust settle a little following August's surprise 50bp cut and developments since the August MPS are unlikely to have been significant enough to move the dial just yet. But with this proactive Committee, we wouldn't rule anything out.

There have been a few negative developments to weigh on the Committee's minds:

Growth and inflation expectations are of concern.

- The global outlook has deteriorated further, with broad-based weakness in NZ's trading partners lately.
- Forward-looking activity indicators suggest that the RBNZ's forecast growth acceleration over the next few quarters is not going to eventuate.
- Inflation expectations in our survey, which have tracked the RBNZ's preferred measures well in recent years, have slipped further.
- The expected fiscal stimulus may not come through as fast as the RBNZ needs it to – the KiwiBuild reset and push back in some infrastructure spend may have the RBNZ questioning the degree of fiscal stimulus in their forecasts.

That said, there are a few reasons the RBNZ will nonetheless probably feel comfortable sitting this one out for now, preferring to watch and wait:

But the NZD is down, and employment solid.

- The NZD is tracking a lot lower that the RBNZ expected at the August MPS. However, it's partly because more rate cuts are expected, so the RBNZ should discount this a bit to avoid double-counting.
- The solid Q2 labour market report may indicate that capacity pressures are holding up better than expected. But the focus will be on the outlook – deterioration in both surveyed employment intentions and job ads suggests that the labour market won't stay this tight for long.

Economic overview

For now, a "watch, worry, and wait" stance seems the most likely outcome of the OCR Review. But while the RBNZ may feel comfortable sitting on the side-lines this week, we're confident that an OCR of 1% will not be the low of this cycle. We are forecasting the OCR to fall to just 0.25% by May next year, and to stay there for some time.

The OCR will head lower, but is that a slam dunk for lower retail rates?

Does this mean that households and firms who borrow rather than save will definitely enjoy super-low interest rates for the foreseeable future and need not take any steps to protect themselves against the possibility rates could rise? That's a no. This week we take a look at the reasons why retail interest rates – at least some of them – could rise even if the OCR stays super low. And it's retail rates that matter for the economy, as this is the real price of borrowing to invest in a business, buy a house, or pay for your wedding.

Two potential catalysts for a wider wedge between wholesale and retail interest rates leap to mind: risk pricing returns to 'normal' levels (and quite possibly overshoots along the way), and the RBNZ's bank capital proposals.

Risk pricing

A dramatic repricing of risk?

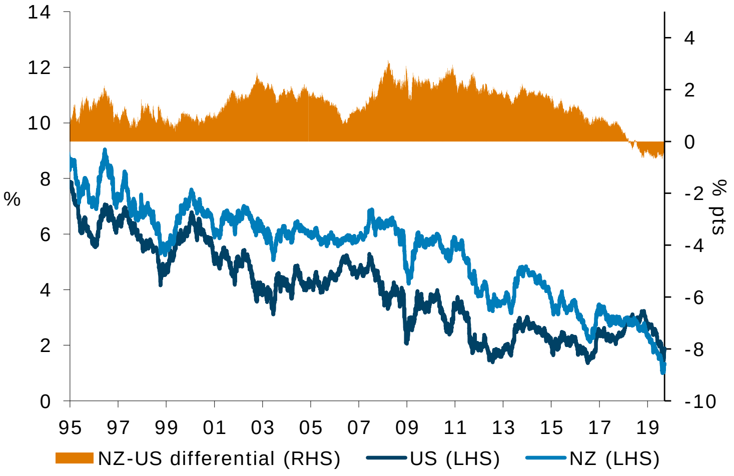
Prolonged super-low interest rates around the globe since the Global Financial Crisis (GFC) have resulted in a desperate search for yield on the part of savers. Due to 'risk-free' rates being zero or even negative, investors (individuals and fund managers, private and public) have taken on ever more risk; some of it understood, some of it possibly not.

Risk premiums have been crushed by a global search for yield.

New Zealand has benefited from this yield hunt. For example, the premium the Government pays to borrow for representing a small, open economy at the end of the world has disappeared. The New Zealand Government can now borrow more cheaply than the US Government can. It certainly makes sense that the 10-year yield differential should have shrunk over the last few years – the US fiscal position has deteriorated, while New Zealand's has improved. But the risk premium changing sign is quite something.

Figure 1. NZ and US 10-year bond yield

There is no longer a yield reward for holding NZ government debt rather than that of the US.



Source: Bloomberg, ANZ Research

One could certainly argue New Zealand, with its very low government debt, is a pretty good bet. But declining reward for taking risk is a global theme. In June 2017 Argentina issued USD2.75 billion worth of a 100-year (not a typo) USD bond at a 7.9% yield, just a year after emerging from default. They received nearly USD10bn in orders at the time. Those bonds were hot property in a world of such low interest rates on the usual bonds of choice. Argentina is now restructuring its debt yet again, and that bond, just over two years into its supposed century-long existence, is trading at 38 cents in the dollar.

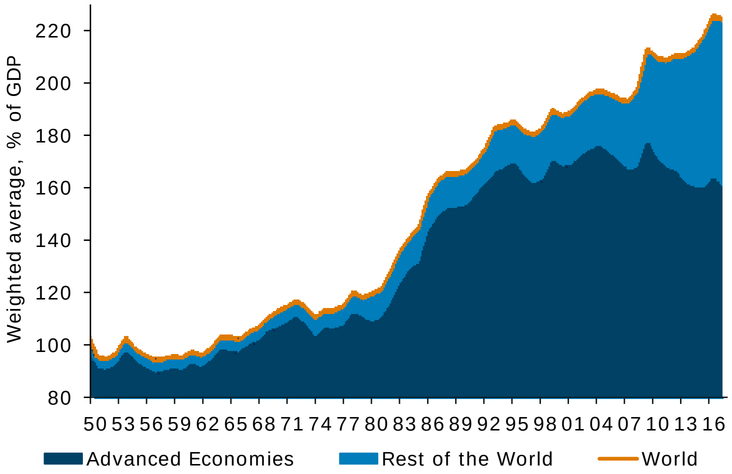
Economic overview

New Zealand is not Argentina. But it is true that as the economy slows, the fiscal position will deteriorate as automatic stabilisers kick in (such as increased spending on unemployment benefit, and a lower tax take, as this depends very much on nominal GDP growth). With monetary policy largely tapped out, pressure is already coming on the Government to step up its fiscal efforts. If the economy were to tank properly, fiscal stimulus would likely follow. New Zealand is not a global safe haven, and can't run the type of deficits the big guys get away with. Any deterioration in the fiscal books will draw attention of the ratings agencies, and in a more 'normal' risk-pricing environment this could be expected to pass through into credit spreads.

And there's plenty of debt out there.

It's fair to say that some of the world's "risk-free" assets are looking decidedly risky if you step back and look at the big picture. Global debt has arguably gotten well beyond the point at which it can all credibly be paid back. The IMF estimates that global debt reached an all-time high in 2017, the equivalent of 225% of GDP (figure 2).

Figure 2. Global debt levels



Source: IMF, ANZ Research

The private sector's debt as a ratio to GDP has tripled since 1950, making it the driving force. An important change since the GFC has been the rise in private debt in emerging markets, led by China, overtaking advanced economies. In terms of public debt, however, the increase has been led by advanced economies, due to both bail-outs following the financial crisis and stimulus efforts since. And super-low bond yields have of course kept the cost of servicing this debt minimal. Loading up on debt has been an entirely rational response to lower interest rates, for both the private and public sectors.

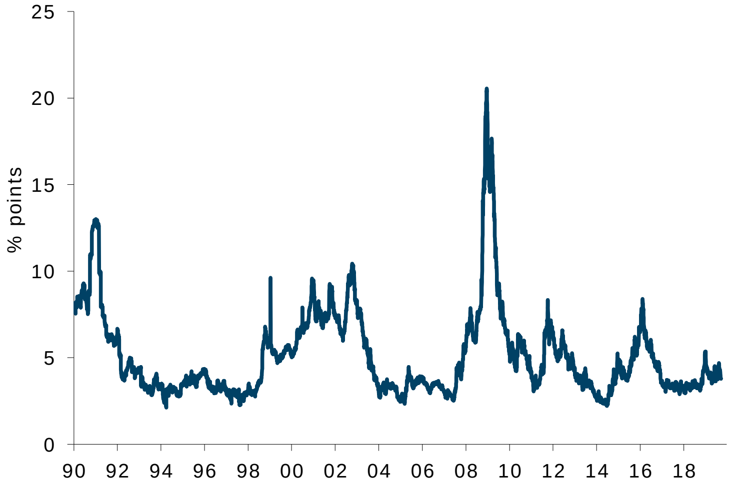
The most indebted economies in the world overall are also the richer ones. The top three borrowers in the world – the United States, China, and Japan – account for more than half of global debt, exceeding their share of global output.

Lack of alternatives mean risk spreads are compressed, but NZ is not a safe haven.

Of course, "risk-free" status is in practice a relative game. The US and Japan may now have eye-watering debt, but it's not obvious what the safer alternative is. But in a global risk-off environment, it's probably not New Zealand, and it would be reasonable to expect the spread between government bond yields to widen were global risk appetite to abruptly wane.

Risk spreads within economies have been compressed in recent years too. For example, spreads between risky and relatively safe corporate bonds in the US have stayed subdued, even amidst the slowdown in global growth (figure 3).

Figure 3. High-yield bond yield spread to 10-year Treasuries



Source: Bloomberg, ANZ Research

The reward for taking all kinds of risk has been eroded.

Credit risk is just one type of investment risk. Liquidity risk also commands relatively little premium these days. Spreads between commercial property yields and bank deposits have also narrowed, for example – investors in highly illiquid property syndicates quite possibly confuse a user-friendly website with an ability to actually withdraw their money at any time they choose. Property is not a liquid asset.

Some less obvious risks could be greater than some participants assume.

At some point there will be a collective global forehead slap, and the reward for taking all kinds of investment risks will return to more normal levels. Higher rewards certainly sound good. And they are, for savers – in the long run. But getting to that long run could be messy, given a fair number of borrowers will inevitably have become a bit too dependent on cheap funding.

A search for yield can quickly switch to a search for safety.

It is impossible to forecast what the catalyst for risk re-pricing might be. But whatever sets it off, in a significant 'risk-off' event, market participants abruptly stop worrying about the return *on* their capital and start to be more concerned about the return *of* their capital. No one wants a haircut. A rush away from all kinds of risk would have implications for New Zealand interest rates well beyond those on government debt.

Global bank funding conditions are currently benign.

In particular, bank funding costs are very important in terms of their impact on retail borrowing rates. Banks have benefited from the compression of risk premiums, with CDS spreads (a measure of default risk) of the major Australian banks near their lowest levels since the GFC (figure 4). This benign environment feeds straight into cheaper funding costs and from there into retail interest rates.

Figure 4. Major Australian banks CDS spreads (5-year senior)

Source: Bloomberg, ANZ Research

But the chart also shows that bank funding conditions can move a lot. Total bank funding costs depend on both domestic deposit rates, and foreign funding markets. Foreign funding conditions are currently quite benign, but costs could increase if the cost of swapping balances funded in USD and EUR back to NZD becomes more prohibitive. Liquidity, risk appetite and differing interest rate outlooks can all affect this cost.

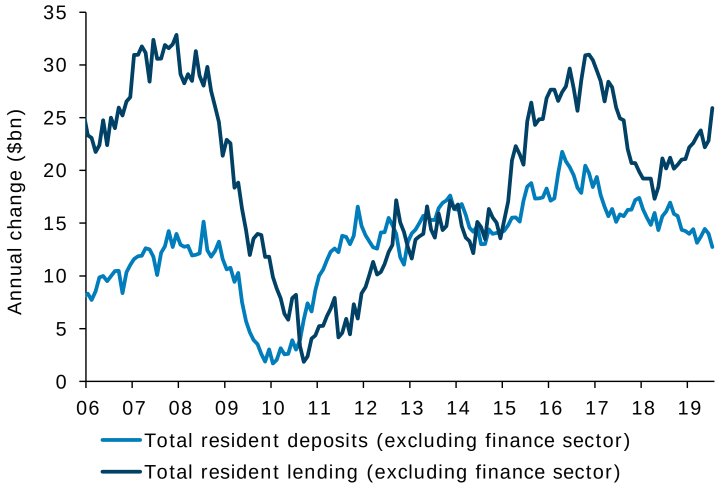
On the domestic deposit side, we've seen banks tentatively feeling their way lower with deposit and mortgage rates following OCR cuts, with the caution a result of the fact that as a result of funding rule changes designed to make banks less dependent on short-term foreign funding, they are now more dependent on domestic deposits.

Meanwhile, deposit funding is limiting pass through from the OCR to retail rates.

As the OCR pushes ever lower, this actually hobbles the most effective channel of monetary policy to some extent. If households follow the RBNZ's request to take their money out of banks and go do something more adventurous with it, it could cap banks' ability to grow their lending, as funding gaps of the sort seen in the last business cycle (figure 5) just can't be allowed to persist anymore. The gap between deposit funding and lending demand is already pretty wide. And if consumers don't take out their savings and spend them, or even rush to put their money *into* the bank in a flight to safety, well, while that might be good for banks' funding positions, it means the OCR cut hasn't 'worked', through this channel at least.

This is a large part of the reason why we think the effectiveness of OCR cuts from here on in will diminish, though the exchange rate channel will remain effective down to the physical lower bound for the OCR.

Figure 5. NZ banks' funding gap



Source: RBNZ, ANZ Research

Reduced effectiveness of OCR cuts matters more if the spread between wholesale and retail interest rates is rising.

The reduced effectiveness of OCR cuts would matter more if the spread between wholesale and retail interest rates were wider. Because then it's a matter of just trying to maintain the status quo and prevent an unwanted tightening in monetary conditions, as opposed to a limited ability to add more stimulus from here. Although banks might benefit somewhat from a flight to safety in terms of deposit growth, that ship largely sailed already with the demise of the finance company sector. It is likely that were global risk aversion and risk premiums to rise markedly, New Zealand bank funding costs would rise. And in theory, given how low the OCR is now, depending on the size of the move, we could even get to the point where the RBNZ does not have sufficient conventional ammunition to prevent retail interest rates rising.

RBNZ bank capital proposals

The RBNZ changes to bank capital requirements are yet to be finalised, but the direction is clear, and this will also lift bank funding costs. We estimate that the bank capital proposals, in their current form, would add upward pressure to lending margins, meaning potentially higher rates for households with mortgages, and the business sector. We

Changes to bank capital requirements could lift funding costs (and reduce credit availability).

estimate that under the changes as proposed, lending rates could be 45-75bp higher in the transition period and anything from 20-120bp higher in the long run (with our best guess being 80bp). Either of those could be tricky to fully offset with the OCR, given we are forecasting it to get so low with only a -25bp placeholder in there for the impact of the capital changes for now. Constraints on the quantity of credit would also be particularly acute for agricultural and SME business lending.

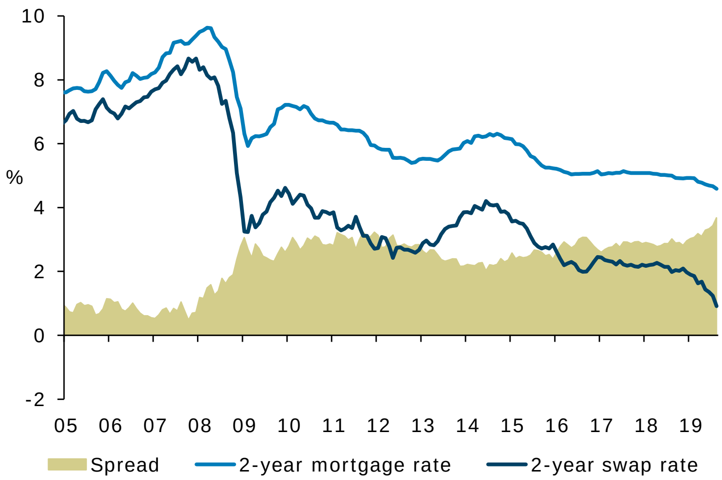
But the final form of the proposal isn't yet known – we'll find out more in November.

Conclusion

All up, higher interest rates are possible, but not a feature of our central outlook.

Given the slowing in both global and domestic growth, too-low inflation and monetary policy bumping against the lower bound remain the order of the day. That should lead to retail interest rates also being lower (or at least very low) for longer. That is our central forecast. But bank margins, ie the wedge between wholesale and retail interest rates, could come under significant upside pressure from either a spike in global risk aversion causing a re-pricing of risk, or changes to bank capital rules. Figure 6 shows that these margins (here, for example, the spread between the 2-year swap rate and the 2-year mortgage rate) can move considerably. Even though banks have become more reliant on deposit funding, a deterioration in global financial market turmoil could raise the cost of wholesale funding and put upward pressure on mortgage rates here. And with the OCR already at record lows, monetary policy could have limited scope to offset the upward impact on retail interest rates, including here in New Zealand.

Figure 6. NZ 2 year swap rate and 2 year mortgage rate



Source: Bloomberg, RBNZ, ANZ Research

Next week, we'll turn to another risk that both borrowers and savers are completely discounting – what if inflation isn't dead, but only sleeping?

The week ahead

Wednesday's OCR Review is the main event this week: we expect a dovish hold.

Looking to the week ahead, the key event will be the RBNZ's OCR Review on Wednesday. We expect the statement will be sufficiently dovish to leave the door open to a November OCR cut to 0.75%. While developments since the August MPS have been negative on balance, we think the RBNZ will want to gauge how August's surprise 50bp cut is transmitting though the broader economy before it decides to go again. Outside of that, we expect that Overseas Merchandise Trade on Wednesday will show export volumes at a seasonal low point as low winter production limits dairy and meat volumes and low prices see log export volumes and returns moderate. On the imports side, moderating domestic demand is likely to weigh on growth. We've pencilled in an unadjusted deficit of $800m for the month. ANZ Roy-Morgan Consumer Confidence on Friday and building consents next Monday will provide a timely update on sentiment and activity in the economy.

Economic overview

Local data

GlobalDairyTrade auction. The GDT Price Index lifted 2%, outperforming expectations. Offer volumes are heavy at this time of the season but strong bidding pushed whole milk powder prices up 1.9% and skim milk powder lifted 3.4%.

Current Account – Q2. The annual current account deficit narrowed from an upwardly revised $10.8bn in Q1 to $10.2bn in Q2 (or in ratio terms, by 0.2%pts from 3.6% of GDP to 3.4%).

Gross Domestic Product – Q2. The economy expanded 0.5% q/q in Q2, led by growth among services industries. As expected, the data continued to reflect an economy that's been slowly running out of puff. Annual growth slowed 0.4%pts from Q1 to just 2.1%. We think the slowdown has a little further to run.

FX / rates overview

No change; to policy or politics.

Summary

The FOMC delivered the much-anticipated 25bp cut, but a split committee highlighted the hurdles for future cuts to policy rates. Meanwhile, markets endured a last minute change in risk appetite as speculation of renewed trade tensions (following President Trump's comments around a trade deal and China's withdrawal from US farm visits) sparked demand for safe-haven assets.

Key events this week

Our time in the spotlight.

RBA Governor Lowe's speech (Tuesday 24 September, 9:55pm). Governor Lowe's speech will be closely watched by participants looking for clues on timing of further easing.

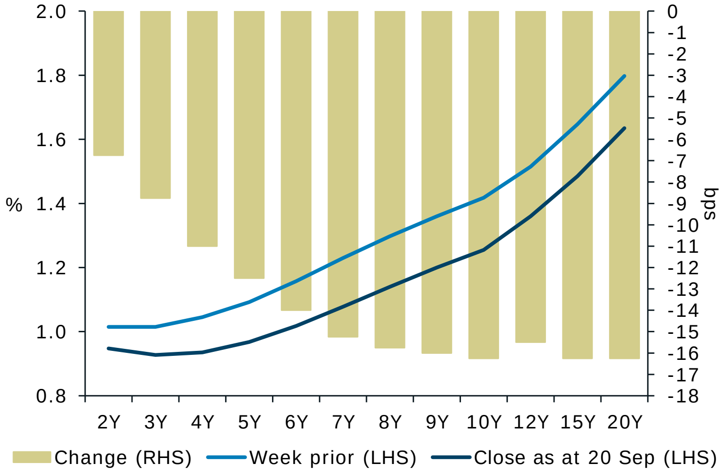
RBNZ OCR Review (Wednesday 25 September, 2:00pm). No change to policy is expected but markets anticipate the RBNZ will hint at a November cut.

Rates

Up the escalator, down the lift.

NZ yields followed global curves lower after the Federal Reserve indicated it is likely to grow its balance sheet in response to ongoing funding pressures in the US. The long end of the NZ curve rallied almost 20bp over the week, whilst the short end rallied 10bp. The odds of a 25bp cut to the OCR at the RBNZ's November MPS rose to 88% last week, whilst the odds of a cut at this week's meeting sit at 24%.

Figure 1. The NZ curve pushes lower



Source: Bloomberg, ANZ Research

FX

NZD remains a cellar dweller, while JPY goes to the top.

NZD was the worst performer last week, followed closely by the AUD. Meanwhile, the JPY and the CAD were the only two currencies to pip the USD.

NZD/USD: NZD struggled as the USD firmed post-FOMC, while NZ Q2 GDP failed to provide any support. A change in risk appetite late in the week saw the NZD set a fresh multi-year low.

NZD/AUD: The AUD unwound recent gains as softer labour data saw markets ratchet up the odds for cuts at the RBA's October policy meeting.

NZD/EUR: EUR went under the radar for much of the week as markets were focused on events in other parts of the world.

NZD/GBP: GBP fared better as markets remained optimistic that there will be an extension to the Brexit deadlines. That said, the currency remains volatile.

NZD/JPY: JPY was the best performer last week as market risk sentiment struggled in the face of renewed trade fears.

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
23-Sep	GE	Markit/BME Manufacturing PMI - Sep P	44.0	43.5	19:30
	GE	Markit Services PMI - Sep P	54.3	54.8	19:30
	GE	Markit/BME Composite PMI - Sep P	51.5	51.7	19:30
	EC	Markit Manufacturing PMI - Sep P	47.3	47.0	20:00
	EC	Markit Services PMI - Sep P	53.3	53.5	20:00
	EC	Markit Composite PMI - Sep P	52.0	51.9	20:00
24-Sep	US	Chicago Fed Nat Activity Index - Aug	0.00	-0.36	00:30
	US	Markit Manufacturing PMI - Sep P	50.4	50.3	01:45
	US	Markit Services PMI - Sep P	51.5	50.7	01:45
	US	Markit Composite PMI - Sep P	--	50.7	01:45
	AU	ANZ-RM Consumer Confidence Index - 22-Sep	--	109.3	11:30
	JN	Jibun Bank PMI Mfg - Sep P	--	49.3	12:30
	JN	Jibun Bank PMI Composite - Sep P	--	51.9	12:30
	JN	Jibun Bank PMI Services - Sep P	--	53.3	12:30
	GE	IFO Business Climate - Sep	94.5	94.3	20:00
	GE	IFO Expectations - Sep	92.0	91.3	20:00
	GE	IFO Current Assessment - Sep	97.0	97.3	20:00
	UK	Public Finances (PSNCR) - Aug	--	-£13.5B	20:30
	UK	Central Government NCR - Aug	--	-8.1B	20:30
	UK	Public Sector Net Borrowing - Aug	£6.5B	-£2.0B	20:30
	UK	PSNB ex Banking Groups - Aug	£7.0B	-£1.3B	20:30
	UK	CBI Trends Total Orders - Sep	-16	-13	22:00
	UK	CBI Trends Selling Prices - Sep	0	-2	22:00
25-Sep	US	FHFA House Price Index MoM - Jul	0.3%	0.2%	01:00
	US	S&P CoreLogic CS 20-City MoM SA - Jul	0.10%	0.04%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - Jul	2.10%	2.13%	01:00
	US	Richmond Fed Manufact. Index - Sep	1	1	02:00
	US	Conf. Board Consumer Confidence - Sep	133.0	135.1	02:00
	US	Conf. Board Present Situation - Sep	--	177.2	02:00
	US	Conf. Board Expectations - Sep	--	107	02:00
	NZ	Trade Balance NZD - Aug	-1350M	-685M	10:45
	NZ	Exports NZD - Aug	4.10B	5.03B	10:45
	NZ	Imports NZD - Aug	5.58B	5.71B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Aug	-5400M	-5463M	10:45
	JN	PPI Services YoY - Aug	0.5%	0.5%	11:50
	AU	Skilled Vacancies MoM - Aug	--	0.4%	13:00
	NZ	RBNZ Official Cash Rate - Sep	1.00%	1.00%	14:00
	GE	GfK Consumer Confidence - Oct	9.6	9.7	18:00
	UK	Finance Loans for Housing - Aug	43233	43342	20:30
	UK	CBI Retailing Reported Sales - Sep	-25	-49	22:00
	UK	CBI Total Dist. Reported Sales - Sep	--	-35	22:00
	US	MBA Mortgage Applications - 20-Sep	--	-0.1%	23:00
26-Sep	US	New Home Sales - Aug	656k	635k	02:00
	US	New Home Sales MoM - Aug	3.3%	-12.8%	02:00
	AU	Job vacancies - Aug	--	-1.1%	13:30
	EC	M3 Money Supply YoY - Aug	5.1%	5.2%	20:00
27-Sep	US	GDP Annualized QoQ - Q2 T	2.0%	2.0%	00:30
	US	Personal Consumption - Q2 T	4.7%	4.7%	00:30

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
27-Sep	US	GDP Price Index - Q2 T	2.4%	2.4%	00:30
	US	Core PCE QoQ - Q2 T	1.7%	1.7%	00:30
	US	Advance Goods Trade Balance - Aug	-$73.5B	-$72.3B	00:30
	US	Wholesale Inventories MoM - Aug P	0.1%	0.2%	00:30
	US	Initial Jobless Claims - 21-Sep	211k	208k	00:30
	US	Continuing Claims - 14-Sep	1666k	1661k	00:30
	US	Pending Home Sales MoM - Aug	0.9%	-2.5%	02:00
	US	Pending Home Sales NSA YoY - Aug	--	1.7%	02:00
	US	Kansas City Fed Manf. Activity - Sep	-4	-6	03:00
	NZ	ANZ Consumer Confidence MoM - Sep	--	1.5%	10:00
	NZ	ANZ Consumer Confidence Index - Sep	--	118.2	10:00
	UK	GfK Consumer Confidence - Sep	-14	-14	11:01
	JN	Tokyo CPI YoY - Sep	0.5%	0.6%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Sep	0.6%	0.7%	11:30
	CH	Industrial Profits YoY - Aug	--	2.6%	13:30
	GE	Import Price Index MoM - Aug	-0.3%	-0.2%	18:00
	GE	Import Price Index YoY - Aug	-2.6%	-2.1%	18:00
	EC	Economic Confidence - Sep	103.0	103.1	21:00
	EC	Business Climate Indicator - Sep	0.12	0.11	21:00
	EC	Industrial Confidence - Sep	-5.8	-5.9	21:00
	EC	Services Confidence - Sep	9.4	9.3	21:00
	EC	Consumer Confidence - Sep F	--	-6.5	21:00
	CH	BoP Current Account Balance - Q2 F	--	$57.0B	UNSPECIFIED
28-Sep	US	Personal Income - Aug	0.4%	0.1%	00:30
	US	Personal Spending - Aug	0.3%	0.6%	00:30
	US	Durable Goods Orders - Aug P	-1.2%	2.0%	00:30
	US	Durables Ex Transportation - Aug P	0.2%	-0.4%	00:30
	US	PCE Deflator MoM - Aug	0.1%	0.2%	00:30
	US	PCE Deflator YoY - Aug	1.4%	1.4%	00:30
	US	PCE Core Deflator MoM - Aug	0.2%	0.2%	00:30
	US	PCE Core Deflator YoY - Aug	1.8%	1.6%	00:30
	US	U. of Mich. Sentiment - Sep F	92.1	92.0	02:00
	US	U. of Mich. Current Conditions - Sep F	--	106.9	02:00
	US	U. of Mich. Expectations - Sep F	--	82.4	02:00
	US	U. of Mich. 1 Yr Inflation - Sep F	--	2.8%	02:00
	US	U. of Mich. 5-10 Yr Inflation - Sep F	--	2.3%	02:00
	UK	Nationwide House PX MoM - Sep	0.1%	0.0%	28 Sep - 4 Oct
	UK	Nationwide House Px NSA YoY - Sep	0.5%	0.6%	28 Sep - 4 Oct

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
Wed 25 Sep (10:45am)	Overseas Merchandise Trade – August	Easing	Unadjusted export volumes will be subdued reflecting seasonally low dairy and meat production.
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	--	--
Wed 9 Oct (10:00am)	ANZ Truckometer – September	--	--
Thu 10 Oct (10:45am)	Food Price Index – September	Small lift	A small lift in food prices from fruit and vegetables is expected.
Thu 10 Oct (10:45am)	Rental Price Index – September	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Thu 10 Oct (1:00pm)	ANZ Monthly Inflation Gauge – September	--	--
Fri 11 Oct (10:30am)	BNZ-BusinessNZ Manufacturing PMI – September	Watching	An easing trend has been at play here. We're looking for a floor.
Mon 14 Oct (10:30am)	Performance Services Index – September	Watching	An easing trend has been in play here too, but recent prints have remained robust.
Wed 16 Oct (early am)	GlobalDairyTrade auction	Steady	Offer volumes remain high limiting upward price movements but market remains supported by slower global milk supply growth.
Wed 16 Oct (10:45am)	Consumer Price Index – Q3	Dip	We're expecting annual CPI inflation to dip to 1.5%, with non-tradable inflation holding up.
Wed 23 Oct (10:45am)	Overseas Merchandise Trade – September	Steady	Export volumes start to lift as dairy production season now well underway, but meat and forestry exports still subdued.
Thu 31 Oct (10:45am)	Building Consents – September	Wary	Consents have held at a high level recently, but we see downside risk looming.
Thu 31 Oct (1:00pm)	ANZ Business Outlook – October	--	--
Fri 1 Nov (10:00am)	ANZ Roy Morgan Consumer Confidence – October	--	--
Tue 5 Nov (1:00pm)	ANZ Commodity Price Index – October	--	--
On balance		**Data watch**	**Domestic and global data has softened and we expect a lower OCR with inflation pressures fading.**

Key forecasts and rates

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
GDP (% qoq)	0.5	**0.4**	**0.5**	**0.5**	**0.5**	**0.6**	**0.5**	**0.6**	**0.6**
GDP (% yoy)	2.1	**2.2**	**2.0**	**1.9**	**1.9**	**2.1**	**2.1**	**2.2**	**2.3**
CPI (% qoq)	0.6	**0.7**	**0.1**	**0.6**	**0.4**	**0.5**	**0.2**	**0.6**	**0.5**
CPI (% yoy)	1.7	**1.5**	**1.5**	**1.9**	**1.7**	**1.5**	**1.6**	**1.6**	**1.7**
LCI Wages (% qoq)	0.8	**0.6**	**0.6**	**0.4**	**0.8**	**0.6**	**0.6**	**0.4**	**0.8**
LCI Wages (% yoy)	2.2	**2.3**	**2.3**	**2.4**	**2.3**	**2.3**	**2.3**	**2.4**	**2.4**
Employment (% qoq)	0.8	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	1.7	**1.0**	**1.3**	**1.7**	**1.2**	**1.2**	**1.3**	**1.3**	**1.3**
Unemployment Rate (% sa)	3.9	**4.1**	**4.3**	**4.4**	**4.4**	**4.5**	**4.5**	**4.5**	**4.5**
Current Account (% GDP)	-3.4	**-3.4**	**-3.4**	**-3.5**	**-3.7**	**-3.8**	**-3.9**	**-4.0**	**-4.0**
Terms of Trade (% qoq)	1.6	**0.4**	**-0.1**	**0.3**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	-0.8	**-0.3**	**2.9**	**2.2**	**0.6**	**0.2**	**0.4**	**0.1**	**0.3**

	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	-0.2	0.3	-0.3	0.0	0.0	1.1
Retail ECT (% yoy)	4.6	0.6	3.5	3.4	0.7	4.5	3.2	1.1	1.6	2.8
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	1.7	1.6	2.9
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)	4780	6090	4610	4470	3570	3560	3770	3990	5100	--
Net Migration (ann)	50293	51818	52258	53211	52747	52224	51490	51529	52723	--
ANZ Heavy Traffic Index (% mom)	-2.3	-4.2	4.8	0.1	-2.1	3.8	0.6	-4.8	3.9	-4.2
ANZ Light Traffic Index (% mom)	0.1	-1.8	2.0	-0.8	0.7	0.2	0.7	-2.1	1.4	0.3
ANZ Monthly Inflation Gauge (% mom)	0.2	-0.1	1.0	0.0	0.0	0.1	0.1	0.3	0.5	0.3

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	0.63	0.63	0.61	0.61	0.63	0.65	0.65
NZD/AUD	0.958	0.940	0.93	0.95	0.94	0.94	0.95	0.97	0.96
NZD/EUR	0.592	0.576	0.57	0.58	0.56	0.56	0.57	0.57	0.56
NZD/JPY	71.35	67.25	67.50	66.2	63.4	62.8	64.3	65.0	65.0
NZD/GBP	0.539	0.521	0.50	0.52	0.50	0.51	0.52	0.51	0.49
NZ$ TWI	71.0	68.7	70.0	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	1.13	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	2.00	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	0.92	0.95	0.95	0.95	0.95	0.95	0.95

	20-Aug	16-Sep	17-Sep	18-Sep	19-Sep	20-Sep
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.18	1.14	1.14	1.14	1.14	1.14
NZGB 05/21	0.79	0.90	0.85	0.85	0.84	0.82
NZGB 04/23	0.77	0.91	0.86	0.85	0.82	0.80
NZGB 04/27	0.94	1.20	1.14	1.11	1.06	1.04
NZGB 04/33	1.24	1.51	1.45	1.44	1.36	1.33
2 year swap	0.95	1.02	0.99	1.00	0.97	0.95
5 year swap	0.98	1.09	1.04	1.03	0.98	0.97
RBNZ TWI	71.55	70.83	70.48	70.57	70.32	70.32
NZD/USD	0.6411	0.6378	0.6326	0.6333	0.6307	0.6258
NZD/AUD	0.9458	0.9278	0.9255	0.9267	0.9290	0.9251
NZD/JPY	68.16	68.73	68.40	68.52	68.07	67.32
NZD/GBP	0.5309	0.5122	0.5100	0.5081	0.5066	0.5016
NZD/EUR	0.5785	0.5778	0.5738	0.5735	0.5700	0.5681
AUD/USD	0.6778	0.6874	0.6834	0.6834	0.6789	0.6766
EUR/USD	1.1082	1.1039	1.1025	1.1044	1.1066	1.1017
USD/JPY	106.32	107.76	108.13	108.19	107.92	107.56
GBP/USD	1.2074	1.2451	1.2403	1.2463	1.2449	1.2478
Oil (US$/bbl)	56.34	62.90	59.34	58.11	58.13	58.09
Gold (US$/oz)	1504.79	1503.05	1499.01	1501.25	1498.71	1516.90
NZX 50	10804	10832	10868	10775	10801	10829
Baltic Dry Freight Index	2059	2311	2283	2266	2192	2131
NZX WMP Futures (US$/t)	3005	3130	3135	3105	3090	3120

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