ANZ Research

New Zealand Weekly Focus

18 November 2019

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Contents

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Policymakers push pause

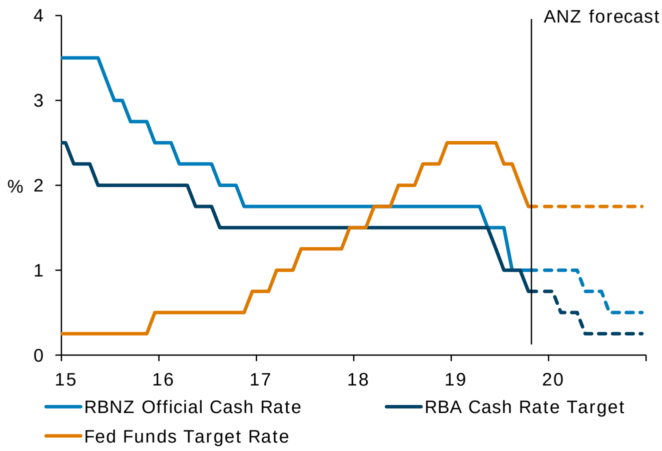
Economic overview

The RBNZ, RBA, and the Federal Reserve have all now joined the Texas Hold'em club, betting – for now – on previous rate cuts doing the job. Most analysts and the market had been expecting one more cut from the RBNZ last week, taking the OCR to an RBA-matching 0.75%. But while the RBNZ did significantly downgrade their near-term outlook, as expected, a lower TWI and a downward revision to their estimate of how fast the economy can grow offset that. There are still aspects of their medium-term outlook that we see as too optimistic, and the RBNZ has yet to take into account the bank capital changes, to be announced 5 December. We are now forecasting two further cuts in May and August next year, taking the OCR to 0.5%. The risks are tilted towards earlier and/or more cuts, depending partly on the outcome of the RBNZ's capital proposals, but also global factors.

Chart of the week

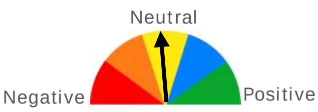
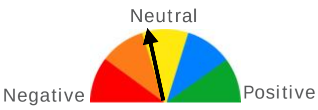
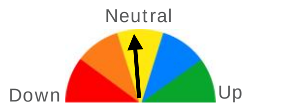
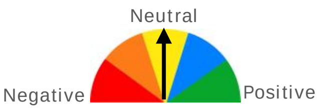
Central bankers appear to have declared "mission (hopefully) accomplished" for now. But we think the OCR and Aussie cash rate have a bit further to fall in time.

Central bank policy rates



Source: Bloomberg, ANZ Research

The ANZ heatmap

Variable	View	Comment	Risks around our view
GDP	2.2% y/y for 2021 Q1	Growth has slowed. OCR cuts should support a gradual recovery next year.	
Unemployment rate	4.5% for 2021 Q1	The labour market is "tight", but the weaker economy will push up unemployment. Wage and employment growth to remain modest.	
OCR	0.5% in March 2021	We expect further cuts in May and August next year, bringing the OCR to 0.5%.	
CPI	1.7% y/y for 2021 Q1	Below-trend growth will stymie domestic inflation. OCR cuts should support a gradual rise over time.	

Economic overview

Summary

The RBNZ surprised most analysts and the market when it held the OCR at 1% last week.

The RBNZ, RBA, and the Federal Reserve have all now joined the Texas Hold'em club, betting – for now – on previous rate cuts doing the job. Most analysts and the market had been expecting one more cut from the RBNZ last week, taking the OCR to an RBA-matching 0.75%. But while the RBNZ did significantly downgrade their near-term outlook, as expected, a lower TWI and a downward revision to their estimate of how fast the economy can grow offset that. There are still aspects of their medium-term outlook that we see as too optimistic, and the RBNZ has yet to take into account the bank capital changes, to be announced 5 December. We are now forecasting two further cuts in May and August next year, taking the OCR to 0.5%. The risks are tilted towards earlier and/or more cuts, depending partly on the outcome of the RBNZ's capital proposals, but also global factors.

Forthcoming data

GlobalDairyTrade auction (Wednesday 20 November, early am). This week's event is expected to deliver another steady price increase with markets anticipating a lift of about 2% in the GDT Price Index.

What's the view?

There are signs that central banks believe they'll be on hold for a while yet…

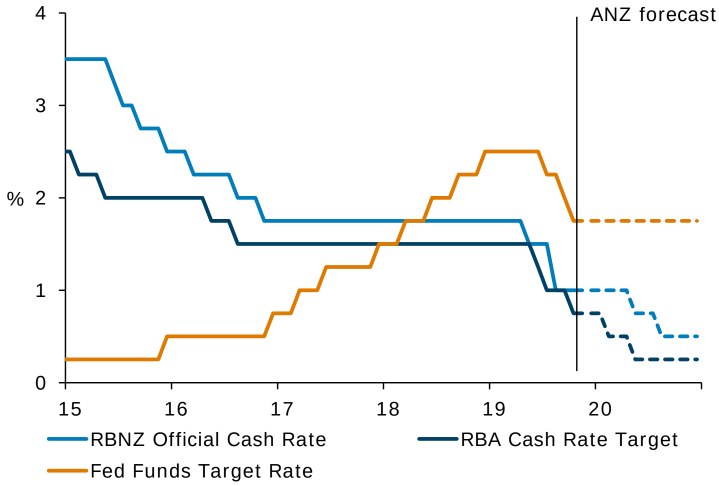
There are signs that central banks believe that their rate-cutting cycle may be near an end. The RBNZ, RBA, and Federal Reserve have all cut their policy rates 75bp this year (figure 1), but they haven't given much away in terms of where they expect to take rates from here, with recent Federal Reserve commentary suggesting that they are reasonably comfortable remaining on hold for some time. And the RBNZ Committee surprised almost everyone again last week, this time by holding the OCR unchanged at 1% despite the expected meaningful downgrade to the near-term growth outlook. The forecasts build in just half a chance of a future cut.

…but we don't think we've seen the bottom for the RBNZ's OCR…

So is it "mission accomplished" for the Fed, the RBA and the RBNZ? It's possible. The New Zealand economy's vibe is certainly picking up in response to easier monetary conditions, though it's yet to show up in the hard data. But with the risks still skewed to inflation undershooting, we don't think we've seen the bottom for the RBNZ's OCR. Nor for the RBA's cash rate even though it's currently lower than New Zealand's. While the soft data in New Zealand has been surprising on the upside recently, recent data on Australian employment and retail sales both missed expectations to the downside. US data remains more mixed, with the consumer in pretty good form but manufacturing continuing to struggle. Meanwhile, Fed Chair Powell has repeated his thoughts on future policy changes in the US. He maintains that the hurdle for rate cuts in the future is greater with a "material weakening" in the US data pulse required to shift the FOMC from its current neutral policy stance.

Economic overview

Figure 1. Central bank policy rates



Source: Bloomberg, ANZ Research

Nor the RBA's cash rate…

Global growth has been slowing gradually…

Global growth has slowed, but it's certainly not 2008 all over again, where global growth fell to -2% y/y. The slowdown has been pretty gradual to date (figure 2) – a bit similar to the gradual but persistent slowdown in New Zealand's growth. But while it's largely been contained in manufacturing, the slowdown has been broad-based across our trading partners. And this is at a time when inflation and inflation expectations are already low globally; central banks (and many governments) are running out of policy room; and there are some indications it will get a bit worse before it gets better.

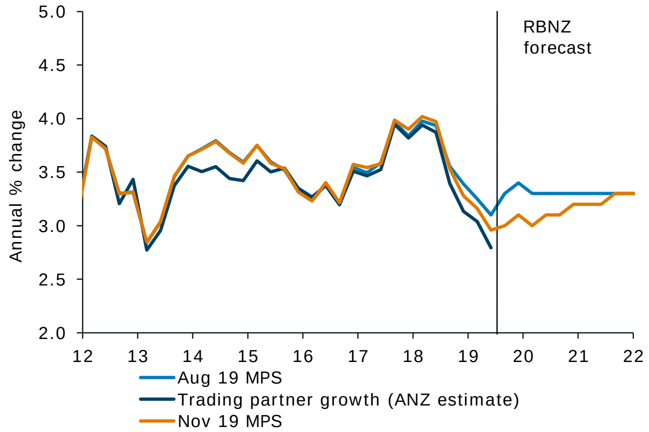
…and we think there's more to come.

Our own model suggests New Zealand's trading partner growth in Q3 is going to fall even further, as we've already got the big releases from China, US, euro area and UK (and they're all down). The RBNZ's forecast stabilisation in trading partner growth therefore appears to be on the optimistic side.

But the RBNZ preferred to focus on still-strong NZ commodity prices.

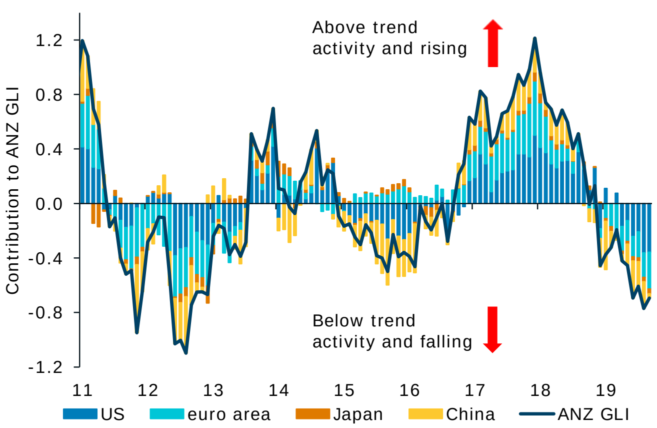
What does the RBNZ make of it? Last week the Committee chose to discount the weaker global growth outlook in the November MPS, preferring rather to focus on the strength in New Zealand commodity prices. It is true that New Zealand's commodity prices are holding up remarkably well in the face of slowing growth. African Swine Fever and subdued global dairy supply growth are responsible. But commodity prices can turn rapidly – and more generally, the fact remains that it would be very unusual for the New Zealand economy to accelerate sustainably while its largest trading partners are experiencing weakening demand conditions.

Figure 2. NZ trading partner growth



Source: Haver Analytics, RBNZ, ANZ Research

Figure 3. ANZ Global Activity Lead Index



Economic overview

A weaker NZD will boost exporter incomes…

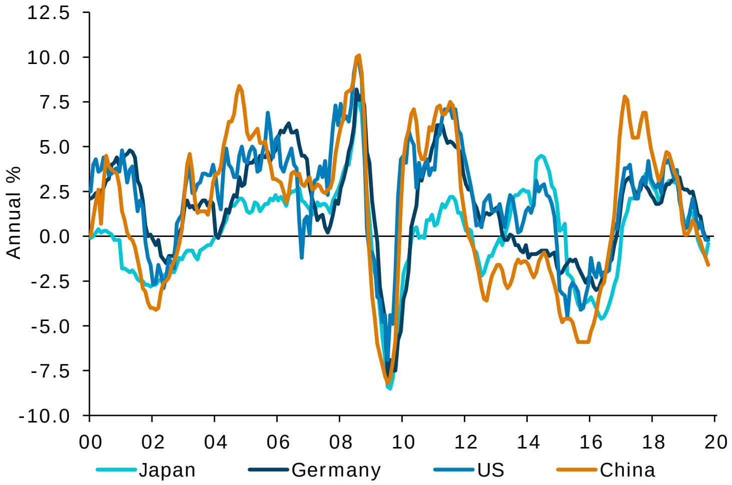
In addition to the (lack of) supply-driven strength in meat and dairy prices, a very useful shield to the global growth slowdown is being provided by the decent fall in the NZD over the past year. This will boost exporters' incomes and raise import prices, supporting tradable inflation.

…and tradable inflation…

But we expect that the significant deflationary impulse coming from the weaker global economy will become a more important factor for tradables inflation over time, with producer price inflation in many major economies falling sharply into deflationary territory recently (figure 4).

…but weaker world price pressures are likely to drag on inflation.

Figure 4. Producer price indices



Source: Bloomberg, ANZ Research

The RBNZ downgraded their judgement of how fast the economy needs to grow before generating inflation…

On the RBNZ front, the single biggest thing that threw us this round was that the RBNZ decided that the speed limit of growth in the economy (ie the potential growth rate) is markedly lower than they had previously assumed. This means that, even though the RBNZ now do indeed expect significantly lower near-term growth, they now estimate that a more muted medium-term pickup in the pace of growth will be sufficient to keep the unemployment rate low and thereby see inflationary pressures build.

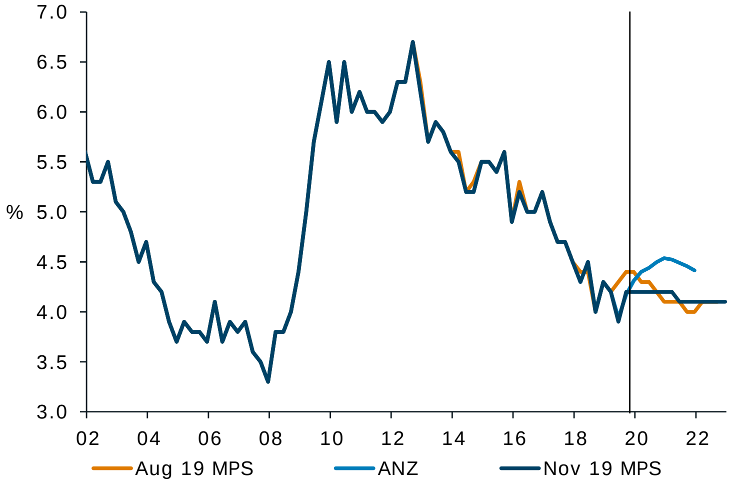
It is certainly true that the labour market has remained surprisingly tight even as growth has slowed – the main observation that has led to this modelling change. But for this capacity pressure to pass through into CPI inflation requires a couple of assumptions – firstly, that firms can afford to pay higher wages, despite weak reported profitability, and secondly – and relatedly – that firms are confident they have the pricing power to pass these higher costs into prices. Neither of these assumptions are a given.

…but we think spare capacity will open up more than they expect…

But perhaps the biggest risk to the RBNZ's forecasts from here is that they are wrong about why the labour market has remained robust to the economic growth slowdown. It may simply reflect the lagging nature of the labour market, rather than indicating that capacity pressure going to hold up from here even as growth remains subdued for some time. The RBNZ expects the unemployment rate to remain around 4.2% from here, before gradually declining. In contrast, we expect the unemployment to move higher to around 4.5%, and to remain elevated for longer (figure 5).

...with a slightly higher unemployment rate over the medium term...

Figure 5. Unemployment rate



Source: Statistics NZ, RBNZ, ANZ Research

...reflecting the fact that we think GDP will disappoint their expectation over the medium term.

Whether the RBNZ's new assumption that less growth is required to hit their inflation target is right or wrong will take some time to become evident, but given they are likely to hold onto it, the assumption matters for the OCR outlook beyond the near term.

Turning to the medium term, despite the downgrade, we still think that the RBNZ's growth forecasts remain too optimistic (figures 6 and 7), particularly regarding business investment. With bank credit availability tightening and firms still wary about what the future may bring, we are sceptical that business investment is going to respond as enthusiastically to lower interest rates as the Reserve Bank's models predict it will. That said, 'the vibe' is certainly improving in response to easier monetary conditions – our Business Outlook survey is showing signs of bottoming out, the PMI bounced impressively last month, and the housing market is definitely lifting around much of the country.

Figure 6. GDP growth RBNZ vs ANZ forecast

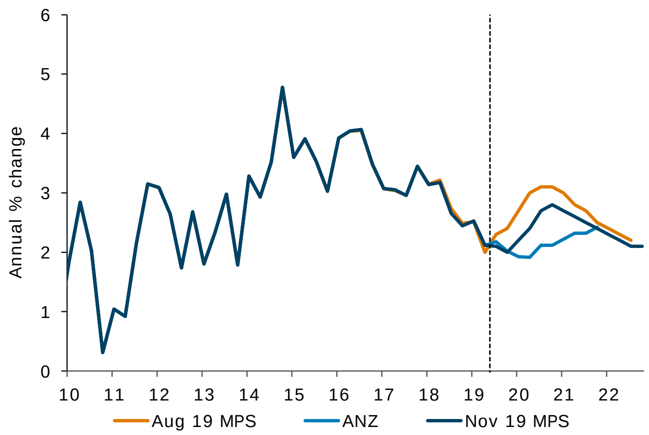
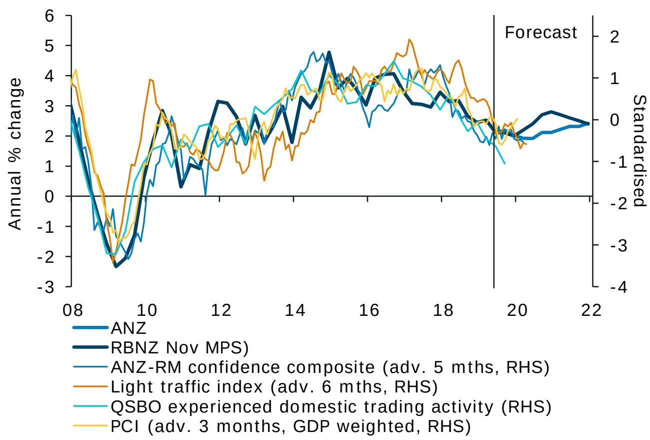


Figure 7. GDP forecasts and forward-indicators



Source: Statistics NZ, RBNZ, ANZ Research

Financial market conditions tightened following last week's hold.

The RBNZ's decision to hold the OCR at 1% last week resulted in a tightening in financial conditions. The NZD TWI jumped over 1% initially, and we saw one of the biggest one-day increases in the 2-year swap rate since the volatility associated with the Global Financial Crisis (GFC), with an initial 20bp rise.

The initial move has softened somewhat, as is typical, with the NZD-TWI now 1% higher (but still 3% lower than the RBNZ's forecast) and the 2-year swap rate currently sitting 15bp higher. Still, the sharp market reaction has now unwound a substantial proportion of the easing in financial conditions achieved with the surprise 50bp rate cut back at the August MPS. Well-anticipated 25bp cuts in August and November could have achieved the same easing in interest rates with a lot less volatility along the way. But of course one can never know how the exchange rate would have responded to a smoother path for the OCR. The NZD dropped 2.1% in the three days following the August 50bp surprise cut, while it's up 1.24% since Wednesday's surprise hold, so one could perhaps make a case that the surprise front-loading was a net win on the currency side of things. But of course there's always lots of other stuff going on in currency markets and so it's impossible to know.

Substantially!

Figure 8. New Zealand 2-year swap yield

Source: Bloomberg

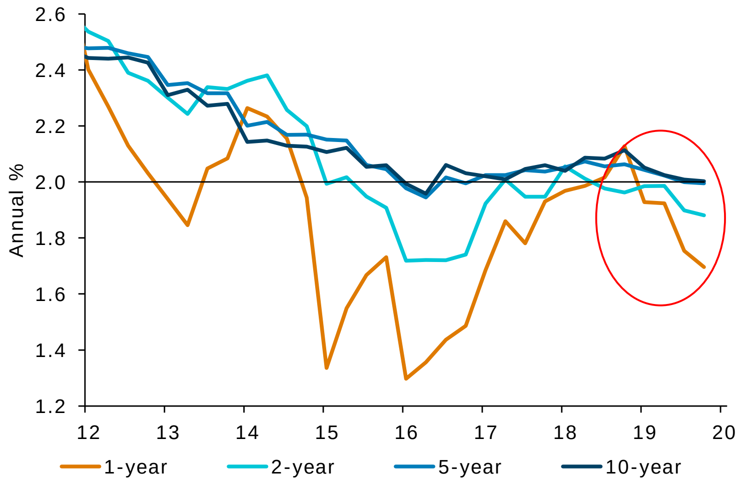
The RBNZ appeared to pay less heed to slipping 2-year inflation expectations than expected.

Another surprise for analysts was the RBNZ's dismissal of the weakness in 2-year inflation expectations, released the day prior. These were discussed as a key driver of the rate decision in August, but this time, the Committee chose to focus on stability in the 5 and 10-year-ahead measures and the (slight) bounce back in market-based breakeven inflation rates, measures they have not talked much about in the past.

But the 5-year and 10-year surveyed inflation expectation measures aren't looking that flash either. While it is true that they are sitting at 2%, this is near their lowest level in decades, having dipped over the past year (figure 9). The slight bounce-back in breakeven inflation doesn't fill us with much confidence, with the rate still extremely low near 1%. Breakeven inflation rates (particularly in New Zealand) are volatile and poor forecasters of future inflation in any case, given very poor market liquidity. They tend to be driven largely by flow and risk premia rather than market participants' inflation expectations.

And slipping inflation expectations more broadly.

Figure 9. Surveyed inflation expectations



Source: Bloomberg, RBNZ, ANZ Research

Economic overview

We expect a lower OCR in time…

Last week, we argued that the path of least regrets for the RBNZ was to lean to the dovish side. Although they weighed the factors up differently, the MPS agreed the risks are skewed to the downside (as evidenced by the fact that the OCR tracks around 10bp lower than the current level, indicating around half chance of a further cut).

…but with the RBNZ switching to a more patient approach…

We expect that in time, the OCR is heading further down. But the RBNZ has now switched to a more patient approach. This has been enabled by a lower exchange rate, a higher non-tradable inflation starting point, and importantly, the new assumption that inflation will lift more for any given growth rate. We expect that the RBNZ will be disappointed by the economy's growth performance, and potentially also by the inflation response to capacity pressures. But that is now more of a medium-term story as the RBNZ has substantially downgraded their near-term growth forecasts (expecting only 0.3% quarterly growth in Q3 GDP).

…we don't expect these until May and August next year.

We are therefore forecasting two further rate cuts in May and August next year, taking the OCR to 0.5%, with the balance of risks tilted to earlier and/or more. One of these cuts is, as before, a placeholder for the need to offset the impact of the RBNZ's bank capital proposals. We will revise our forecasts once the details of this important policy are known in early December.

Downside risks mean a February cut can't be ruled out…

That's not to say a February cut can be ruled out, by any means. Indeed, it was a close-run thing whether to call it or not. In terms of what could prompt it:

- Global markets lost the plot last Christmas. That kind of thing is of course impossible to predict, but there is no shortage of pressure points out there (eg in global credit markets) that could cause the positive vibe to crack.
- New Zealand's commodity prices are holding up remarkably well in the face of slowing global growth, but we are possibly riding our luck to some extent, given the evidence of weakness in global commodity prices more generally. Both the Chinese and Australian economies (our two largest trading partners) are showing signs of strain.
- The RBNZ is now anticipating a pretty weak Q3 GDP outturn. But historical GDP revisions associated with the September quarter release could show a sharper slowdown, causing another rethink of capacity pressures.
- Inflation expectations might refuse to play ball and keep falling.

…but an on-hold for longer OCR is also possible.

But there are upside risks too, that could keep the OCR on hold for longer:

- The housing market is clearly lifting, and might just get the bit between its teeth good and proper.
- The RBNZ might water down its bank capital proposals.
- Cost pressure for firms is real. While firms have limited pricing power at present, maybe this might change. Something has to give at some point; margins are getting very squeezed.

However things evolve over the year ahead, it seems highly likely that interest rates are going to remain low for a long time. The RBNZ is optimistic that low funding costs will offset other sources of uncertainty and see firms take the plunge and invest more. Time will tell.

And looking beyond the year ahead, there are broader challenges facing monetary policy, with question marks accumulating around its effectiveness given limited headroom, particularly if downside risks were to materialise. It's more important than ever to be asking what happens when the well runs dry.

Economic overview

The week ahead

It's a quieter week ahead. The only data of note is the GlobalDairyTrade auction early on Wednesday morning. Dairy prices are expected to lift again with the market factoring in a lift in the vicinity of 2%. Prices have firmed further in the past fortnight and this upward trend is expected to stick around for a few months due to global milk supply being relatively tight at present.

Local data

ANZ Truckometer – October. The Light Traffic Index rose 0.1% m/m while the Heavy Traffic lifted 2.5% m/m, its second strong monthly lift in a row. Annual growth in both indexes remains tepid, suggesting GDP growth is going to continue to be unimpressive for a while yet.

RBNZ Inflation Expectations Survey – Q4. Two-year-ahead inflation expectations dipped further below 2% in Q4, coming in at 1.80%, the lowest level since late-2016. Long-term inflation expectation measures were stable near 2%.

Food Price Index – October. NZ food prices fell 0.3% m/m in October, a bit stronger than the seasonal 0.9% decline we had pencilled in.

Rental Price Index – October. NZ rental price inflation (the stock measure used in the CPI) rose 0.2% m/m in October, a bit weaker than the 0.3% we had pencilled in.

RBNZ Monetary Policy Statement – November. Contrary to analyst and market expectations, the RBNZ left the OCR unchanged at 1.0%, despite significantly lowering the near-term growth outlook. The forecast OCR track was all but unchanged, with a low of 0.90% hinting at further action if required.

REINZ housing data – October. Nationwide, house prices were up 0.9% m/m in October, to be up a strong 2.5% q/q. Annual house price inflation rose to 3.3% from 2.5%. Sales activity also rose, indicating that low rates are reigniting the housing market.

ANZ Monthly Inflation Gauge – October. The ANZ Monthly Inflation Gauge was up 0.2% m/m in October, supported by accommodation services, domestic airfares, and electricity price increases. Annual inflation in the Gauge was flat at 3.1%.

BNZ-BusinessNZ Manufacturing PMI – October. The PMI flipped from contractionary to expansionary mode in October, tentatively suggesting the slowdown in manufacturing GDP will find a floor in Q4. However, these data are volatile, so we'll be watching closely next month to see if an above-50 level will be maintained.

Performance Services Index – October. An easing trend has been in play since 2016, but recent prints have remained robust with the PSI moving sideways in October.

What you may have missed

Please contact us if you would like to be added to the distribution list for any of these publications. Otherwise click on the links below to view reports.

- RBNZ MPS Review: Hold up
- ANZ Monthly Inflation Gauge: Round trip
- ANZ Truckometer: Hanging in there

FX / rates overview

RBNZ dances to the beat of its own drum.

Summary

The NZD enjoyed a first-place finish following the RBNZ's surprise decision to hold policy unchanged last week. Short-end rates, however, managed to recoup some of the move as markets regathered themselves. Optimism over US-China trade talks remains a major driver, with yields and currencies gyrating to new headlines.

Key events this week

Wrap up of previous policy meetings.

RBA November Minutes (Tuesday 19 November, 1:30pm). The decision to hold policy was seen somewhat as a neutral pause; will the minutes say the same?

FOMC October Minutes (Thursday 21 November, 8:00am). The markets will be looking to glean some indication of future Fed moves within the minutes.

Rates

Two year soars as RBNZ holds.

The short end of the NZ curve sold off in response to the RBNZ's decision to hold rates unchanged last week despite markets pricing in an 80% chance of a cut. The NZD 2-year swap rate rose by 21bps following the decision, before retracing some of this move. At present the odds of a 25bp cut in February 2020 sit at 30%, with odds topping out at 40% by August 2020. Contrary to popular belief, the long-end wasn't immune to the RBNZ decision, with the yield on the 10-year NZGB rising by 15bp. A modest risk-off move allowed the curve to unwind some of this move.

FX

USD lost ground against all but one of its G-10 peers. The NZD was the best G-10 performer while its commodity-linked peers, the AUD and CAD, finished last.

NZD/USD: NZD was helped higher by the RBNZ decision to hold the OCR unchanged last week. An improvement in risk appetite, thanks to ongoing US-China trade optimism, late in the week helped solidify the currency's podium finish.

NZD enjoys a first place finish.

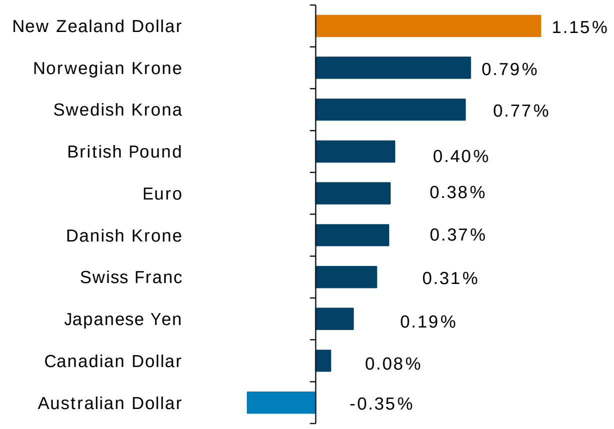
NZD/AUD: A softer-than-expected unemployment number saw the AUD struggle to keep up with the NZD. It saw some modest moves higher in sympathy but this proved to be too little too late.

NZD/EUR: Once again the EUR was left in the middle of the pack. A mixed data pulse provided the market little impetus to push the currency either way.

NZD/GBP: Headlines linked to the upcoming election remain the primary driver for the GBP. Meanwhile, the week's domestic data pulse provided little direction.

NZD/JPY: JPY struggled to hold its ground following a pullback in safe-haven demand. That said, it was not the worst performer last week.

Figure 1. NZD outperforms G-10 group (USD base)



Source: Bloomberg, ANZ Research

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
18-Nov	UK	Rightmove House Prices MoM - Nov	--	0.6%	13:01
	UK	Rightmove House Prices YoY - Nov	--	-0.2%	13:01
19-Nov	US	NAHB Housing Market Index - Nov	71.0	71.0	04:00
	US	Net Long-term TIC Flows - Sep	--	-$41.1B	10:00
	US	Total Net TIC Flows - Sep	--	$70.5B	10:00
	NZ	PPI Output QoQ - Q3	--	0.5%	10:45
	NZ	PPI Input QoQ - Q3	--	0.3%	10:45
	AU	ANZ-RM Consumer Confidence Index - 17-Nov	--	111.1	11:30
	AU	RBA Minutes of Nov. Policy Meeting	--	--	13:30
	NZ	Non Resident Bond Holdings - Oct	--	53.0%	15:00
	EC	ECB Current Account SA - Sep	--	€26.6B	22:00
	EC	Construction Output MoM - Sep	--	-0.5%	23:00
	EC	Construction Output YoY - Sep	--	1.2%	23:00
20-Nov	UK	CBI Trends Total Orders - Nov	-30	-37	00:00
	UK	CBI Trends Selling Prices - Nov	--	-3	00:00
	US	Building Permits - Oct	1380k	1391k	02:30
	US	Building Permits MoM - Oct	-0.8%	-2.4%	02:30
	US	Housing Starts - Oct	1320k	1256k	02:30
	US	Housing Starts MoM - Oct	5.1%	-9.4%	02:30
	AU	Westpac Leading Index MoM - Oct	--	-0.08%	12:30
	JN	Trade Balance - Oct	¥301.0B	-¥124.8B	12:50
	JN	Trade Balance Adjusted - Oct	¥261.2B	-¥97.2B	12:50
	JN	Exports YoY - Oct	-7.5%	-5.2%	12:50
	JN	Imports YoY - Oct	-15.4%	-1.5%	12:50
	AU	Skilled Vacancies MoM - Oct	--	-0.7%	13:00
	GE	PPI MoM - Oct	0.0%	0.1%	20:00
	GE	PPI YoY - Oct	-0.4%	-0.1%	20:00
	UK	Unit Labor Costs YoY - Q2	--	2.1%	22:30
21-Nov	US	MBA Mortgage Applications - 15-Nov	--	9.6%	01:00
	US	FOMC Meeting Minutes - 30-Oct	--	--	08:00
	NZ	Credit Card Spending MoM - Oct	--	-0.1%	15:00
	NZ	Credit Card Spending YoY - Oct	--	4.8%	15:00
	UK	Public Finances (PSNCR) - Oct	--	£2.7B	22:30
	UK	Central Government NCR - Oct	--	£14.8B	22:30
	UK	Public Sector Net Borrowing - Oct	£8.6B	£8.7B	22:30
	UK	PSNB ex Banking Groups - Oct	£9.3B	£9.4B	22:30
22-Nov	US	Philadelphia Fed Business Outlook - Nov	6.0	5.6	02:30
	US	Initial Jobless Claims - 16-Nov	218k	225k	02:30
	US	Continuing Claims - 9-Nov	1683k	1683k	02:30
	US	Leading Index - Oct	-0.2%	-0.1%	04:00
	EC	Consumer Confidence - Nov A	-7.2	-7.6	04:00
	US	Existing Home Sales - Oct	5.49M	5.38M	04:00
	US	Existing Home Sales MoM - Oct	2.0%	-2.2%	04:00
	AU	CBA Australia PMI Mfg - Nov P	--	50.0	11:00
	AU	CBA Australia PMI Services - Nov P	--	50.8	11:00
	AU	CBA Australia PMI Composite - Nov P	--	50.0	11:00
	JN	Natl CPI YoY - Oct	0.3%	0.2%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Oct	0.4%	0.3%	12:30

Continued on following page

Data calendar

Date	Country	Data/event	Mkt.	Last	NZ time
22-Nov	JN	Jibun Bank PMI Mfg - Nov P	--	48.4	13:30
	JN	Jibun Bank PMI Composite - Nov P	--	49.8	13:30
	JN	Jibun Bank PMI Services - Nov P	--	50.3	13:30
	GE	GDP SA QoQ - Q3 F	0.1%	0.1%	20:00
	GE	GDP NSA YoY - Q3 F	1.0%	1.0%	20:00
	GE	GDP WDA YoY - Q3 F	0.5%	0.5%	20:00
	GE	Markit/BME Manufacturing PMI - Nov P	42.9	42.1	21:30
	GE	Markit Services PMI - Nov P	52.0	51.6	21:30
	GE	Markit/BME Composite PMI - Nov P	49.3	48.9	21:30
	EC	Markit Manufacturing PMI - Nov P	46.4	45.9	22:00
	EC	Markit Services PMI - Nov P	52.4	52.2	22:00
	EC	Markit Composite PMI - Nov P	50.9	50.6	22:00
	UK	Markit PMI Manufacturing SA - Nov P	48.8	49.6	22:30
	UK	Markit/CIPS Services PMI - Nov P	50.0	50.0	22:30
	UK	Markit/CIPS Composite PMI - Nov P	--	50.0	22:30
23-Nov	US	Markit Services PMI - Nov P	51.2	51.0	03:45
	US	Markit Manufacturing PMI - Nov P	51.5	51.3	03:45
	US	Markit Composite PMI - Nov P	--	50.9	03:45
	US	U. of Mich. Sentiment - Nov F	95.7	95.7	04:00
	US	U. of Mich. Current Conditions - Nov F	111.2	110.9	04:00
	US	U. of Mich. Expectations - Nov F	--	85.9	04:00
	US	U. of Mich. 1 Yr Inflation - Nov F	--	2.5%	04:00
	US	U. of Mich. 5-10 Yr Inflation - Nov F	--	2.4%	04:00
	US	Kansas City Fed Manf. Activity - Nov	-2	-3	05:00

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
Wed 20 Nov (early am)	GlobalDairyTrade auction	Increase	Prices are expected to lift again as the market remains supported by tight global supply.
Tue 26 Nov (10:45am)	Retail Sales – Q3	Bright spot	A robust household sector is one of the bright spots in this increasingly uncertain environment. Don't fail us now.
Wed 27 Nov (9:00am)	Financial Stability Report – November	Mixed message	The FSR will likely conclude the financial system remains resilient, but also contain a plug for the value of bank capital requirements. A small loosening in the LVR restrictions is likely.
Wed 27 Nov (10:45am)	Overseas Merchandise Trade – October	Steady	Export volumes start to lift as dairy production season peaks and meat returns lift, while forestry exports remain subdued.
Thu 28 Nov (1:00pm)	ANZ Business Outlook – November	--	--
Fri 29 Nov (10:00am)	ANZ Roy Morgan Consumer Confidence – November	--	--
Thu 29 Nov (10:45am)	Building Consents – October	Wary	Consents have held at a high level recently, but we see downside risk looming.
Mon 2 Dec (10:45am)	Terms of Trade Index – Q3	Increasing	Terms of trade are expected to benefit from strong commodity prices relative to the price of imported goods.
Wed 4 Dec (early am)	GlobalDairyTrade auction	Improving	Prices are expected to slowly lift as the season progresses and offer volumes ease back.
Wed 4 Dec (1:00pm)	ANZ Commodity Price Index – November	--	--
Thu 5 Dec (10:45am)	Work Put In Place – Q3	Small rise	Consent issuance points to a rise in both residential and non-residential work put in place for Q3.
Mon 9 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Soft	A manufacturing PMI below 50 over Q3 suggest the ESM will remain soft, and that's after Q2's 2.7% contraction.
Tue 10 Dec (10:00am)	ANZ Truckometer – November	--	--
Wed 11 Dec (1:00pm)	NZ Half-Year Economic and Fiscal Update	Prudence	The Government is expected to stick to its fiscal prudence knitting for now, echoing the RBNZ's patient message.
Thu 12 Dec (10:45am)	Food Price Index – November	Small dip	A seasonal decline in food prices from fruit and vegetables is expected.
Thu 12 Dec (10:45am)	Rental Price Index – November	Small rise	Continued increases in rental prices should support a quarterly rise in CPI rents.
Thu 12 Dec (1:00pm)	ANZ Monthly Inflation Gauge – November	--	--
Fri 13 Dec (10:30am)	BNZ-BusinessNZ Manufacturing PMI – November	Rebound	The PMI flipped from contractionary to expansionary mode last month. But these data are volatile on a m/m basis. We're watching closely to see if recent strength is maintained.
Mon 16 Dec (10:30am)	Performance Services Index – November	Watching	An easing trend has been in play since 2016, but recent prints have remained robust.
Tue 17 Dec (1:00pm)	ANZ Business Outlook – December	--	--
Wed 18 Dec (early am)	GlobalDairyTrade auction	Increasing	Further price increases are expected as the market balance favours exporters rather than importers.
Wed 18 Dec (10:45am)	Balance of Payments – Q3	Contained	The current account should remain contained in Q3 owing to elevated export prices and low global interest rates.
Thu 19 Dec (10:45am)	Gross Domestic Product – Q3	Weak	We've pencilled in quarterly growth of just 0.4%, which absent revisions would see annual growth tick up to 2.2% - a technical bounce opposed to a turning point in momentum.
Fri 20 Dec (10:00am)	ANZ Roy Morgan Consumer Confidence – December	--	--
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	**0.2**	**0.6**	**0.3**	**0.5**	**0.2**	**0.6**	**0.4**
CPI (% yoy)	1.7	1.5	**1.6**	**2.0**	**1.8**	**1.7**	**1.7**	**1.7**	**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**	**2.3**	**2.4**
Employment (% qoq)	0.6	0.2	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**
Employment (% yoy)	1.4	0.9	**1.1**	**1.4**	**1.2**	**1.3**	**1.3**	**1.4**	**1.4**
Unemployment Rate (% sa)	3.9	4.2	**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**

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19
Retail ECT (% mom)	1.8	0.1	-0.1	0.6	-0.5	0.3	0.1	1.3	0.2	-0.6
Retail ECT (% yoy)	3.8	3.6	1.0	5.0	3.4	1.5	2.0	3.1	0.6	1.6
Car Registrations (% mom)	4.3	1.3	-3.0	2.0	-1.5	-2.7	4.4	0.8	6.5	-6.3
Car Registrations (% yoy)	-12.1	-3.9	-2.9	-0.5	-12.6	-11.0	-5.4	-5.2	4.7	-6.6
Building Consents (% mom)	13.1	1.8	-7.0	-7.3	14.7	-3.9	-1.1	0.9	7.2	--
Building Consents (% yoy)	31.9	28.0	2.8	-3.2	8.1	9.9	18.6	12.5	23.7	--
REINZ House Price Index (% yoy)	2.8	3.0	2.4	1.4	1.7	1.7	1.6	2.7	3.3	3.9
Household Lending Growth (% mom)	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	--
Household Lending Growth (% yoy)	5.9	5.9	5.9	5.9	6.0	5.9	5.9	6.0	6.2	--
ANZ Roy Morgan Consumer Conf.	121.7	120.8	121.8	123.2	119.3	122.6	116.4	118.2	113.9	118.4
ANZ Business Confidence	..	-30.9	-38.0	-37.5	-32.0	-38.1	-44.3	-52.3	-53.5	-42.4
ANZ Own Activity Outlook	..	10.5	6.3	7.1	8.5	8.0	5.0	-0.5	-1.8	-3.5
Trade Balance ($m)	-935	-94	825	361	175	330	-706	-1628	-1242	--
Trade Bal ($m ann)	-6433	-6715	-5739	-5578	-5602	-4987	-5490	-5551	-5213	--
ANZ World Comm. Price Index (% mom)	2.0	2.8	4.1	2.6	0.0	-3.9	-1.4	0.3	0.0	1.2
ANZ World Comm. Price Index (% yoy)	-2.2	-2.2	0.6	2.2	0.7	-2.4	-0.5	0.9	3.4	7.2
Net Migration (sa)	4930	4590	3490	4080	3970	4110	4760	4150	3440	--
Net Migration (ann)	54985	56037	55571	55660	55342	55548	56405	55993	54624	--
ANZ Heavy Traffic Index (% mom)	4.8	0.1	-2.1	3.8	0.6	-4.8	3.9	-4.3	2.9	2.5
ANZ Light Traffic Index (% mom)	2.0	-0.8	0.7	0.2	0.7	-2.1	1.4	0.3	-0.3	0.1
ANZ Monthly Inflation Gauge (% mom)	1.0	0.0	0.0	0.1	0.2	0.3	0.5	0.3	0.3	0.2

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	Sep-19	Oct-19	Today	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
NZD/USD	0.626	0.641	0.640	0.62	0.59	0.61	0.61	0.63	0.63
NZD/AUD	0.928	0.930	0.939	0.93	0.91	0.92	0.90	0.91	0.90
NZD/EUR	0.575	0.575	0.579	0.56	0.56	0.58	0.58	0.58	0.57
NZD/JPY	67.69	69.28	69.63	67.0	62.0	64.1	64.1	66.2	66.2
NZD/GBP	0.510	0.496	0.496	0.48	0.45	0.46	0.45	0.46	0.47
NZ$ TWI	68.2	68.9	70.93	67.3	64.8	66.9	66.4	67.8	67.3
Interest rates	Sep-19	Oct-19	Today	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
NZ OCR	1.00	1.00	1.00	1.00	1.00	0.75	0.50	0.50	0.50
NZ 90 day bill	1.15	1.10	1.22	1.23	1.12	0.87	0.70	0.70	0.70
NZ 10-yr bond	1.09	1.31	1.40	1.35	1.35	1.35	1.45	1.55	1.55
US Fed funds	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
US 3-mth	2.09	1.91	1.90	2.15	1.90	1.90	1.90	1.90	1.90
AU Cash Rate	1.00	0.75	0.75	0.75	0.50	0.25	0.25	0.25	0.25
AU 3-mth	0.95	0.93	0.89	0.95	0.70	0.45	0.45	0.45	0.45

	15-Oct	11-Nov	12-Nov	13-Nov	14-Nov	15-Nov
Official Cash Rate	1.00	1.00	1.00	1.00	1.00	1.00
90 day bank bill	1.04	1.15	1.14	1.09	1.27	1.24
NZGB 05/21	0.78	0.89	0.87	1.03	1.00	0.99
NZGB 04/23	0.78	0.94	0.92	1.08	1.04	1.02
NZGB 04/27	1.03	1.25	1.22	1.36	1.31	1.28
NZGB 04/33	1.38	1.58	1.56	1.65	1.59	1.58
2 year swap	0.88	1.06	1.04	1.20	1.17	1.17
5 year swap	0.94	1.20	1.17	1.30	1.25	1.24
RBNZ TWI	70.16	70.10	70.44	70.84	71.03	70.81
NZD/USD	0.6276	0.6365	0.6330	0.6389	0.6395	0.6404
NZD/AUD	0.9290	0.9278	0.9259	0.9360	0.9415	0.9391
NZD/JPY	67.91	69.36	69.10	69.61	69.48	69.68
NZD/GBP	0.4960	0.4965	0.4932	0.4970	0.4974	0.4962
NZD/EUR	0.5697	0.5769	0.5742	0.5802	0.5815	0.5792
AUD/USD	0.6755	0.6861	0.6836	0.6826	0.6792	0.6817
EUR/USD	1.1016	1.1034	1.1024	1.1013	1.0998	1.1051
USD/JPY	108.22	108.97	109.17	108.94	108.65	108.80
GBP/USD	1.2653	1.2820	1.2834	1.2857	1.2856	1.2897
Oil (US$/bbl)	52.81	56.86	56.80	57.12	56.77	57.72
Gold (US$/oz)	1495.41	1465.60	1454.57	1463.78	1468.37	1468.21
NZX 50	11045	10920	10926	10835	10899	10895
Baltic Dry Freight Index	1898	1345	1354	1365	1364	1357
NZX WMP Futures (US$/t)	3105	3240	3245	3260	3255	3255

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