

New Zealand Data Wrap

26 June 2020



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Forecast updates

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- [ANZ NZ Forecast Update: Farmgate sheep & beef prices](#)
- [ANZ NZ Forecast Update: Farmgate milk price](#)
- [ANZ Forecast Update: Weaker migration outlook](#)

Our other recent publications are on [page 2](#).

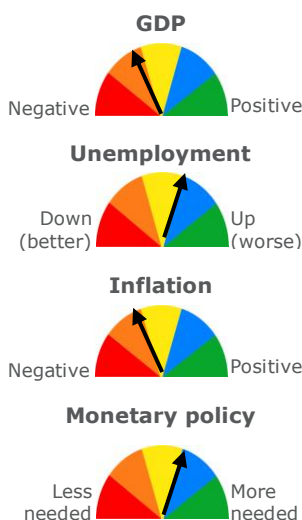
What's the view?

- Currently in the midst of a huge economic blow.
- GDP 7-9% lower this year.
- Unemployment peak: 10%.
- Inflation set to fall.
- QE to rise to \$90bn in August.

Our forecasts are on [page 3](#).

Balance of risks

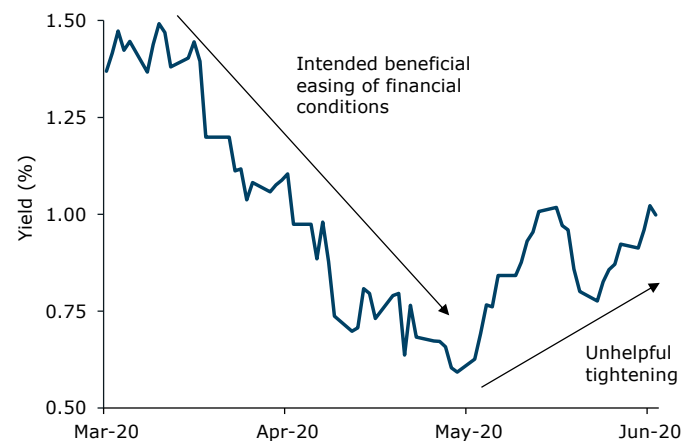
Risks remain skewed to the downside.



How has the view changed?

- The RBNZ was dovish, reaffirming our view that the LSAP ("QE") will increase to \$90bn in August. The RBNZ emphasised that the outlook is uncertain and bleak, and that they have no intention to muck around. Any change in the LSAP will be intended to make a meaningful difference.
- The RBNZ is keeping its options open and **we think** the RBNZ's LSAP indemnity will be widened in August. Foreign asset purchases will be included as an addition, and we expect they will be the first cab off the rank.
- In the meantime, we see scope for the RBNZ to increase the pace of weekly purchases under the existing \$60bn cap, especially at the long end. The introduction of a new long (2041) NZGB is hanging over the market. But even without that, upward pressure on yields has emerged that we see the RBNZ leaning against if it intends to keep monetary conditions easy. See [Markets Outlook](#) for what this might mean for markets from here.

Figure 1. NZGB 2037 Spread to cash



Source: Bloomberg, ANZ Research

What happened this week?

NZGB Bond tender schedule – July. NZDM announced that it was slowing the pace of weekly tenders to \$850-950m per week. NZDM also said that they plan to launch a new May 2041 bond on the week of 13th July, and to tap the 2027 bond in August, as we expected.

RBNZ OCR Review – June. The **RBNZ was dovish**, signalling a willingness to do more, and reaffirming our view that they will up the ante in August.

Overseas Merchandise Trade – May. Data was aligned with expectations with a monthly surplus of \$1.25bn (exports: \$5.4bn; imports \$4.14bn).

NZGB bond tender. \$1.05bn of bonds were sold this week, rounding out \$29bn of issuance for the fiscal year. The tender was well received, with good demand seen in the 2023s and the 2037s.

RBNZ New Mortgage Lending – May. Partially rebounded, but was down more than 33% from year ago levels.

ANZ Roy Morgan Consumer Confidence– June. **Consumer confidence bounced another 8 points to 104.5**, but is still well under its historical average.

RBNZ LSAP purchase. The pace of NZGB LSAP purchases slowed to \$940m from \$1.075bn, catching the market by surprise and steepening the curve a tad.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- [ANZ NZ Insight: Irrigation opportunities](#)
- [ANZ NZ Insight: More QE is on the way](#)
- [ANZ NZ Property Focus – Where the rubber meets the road](#)
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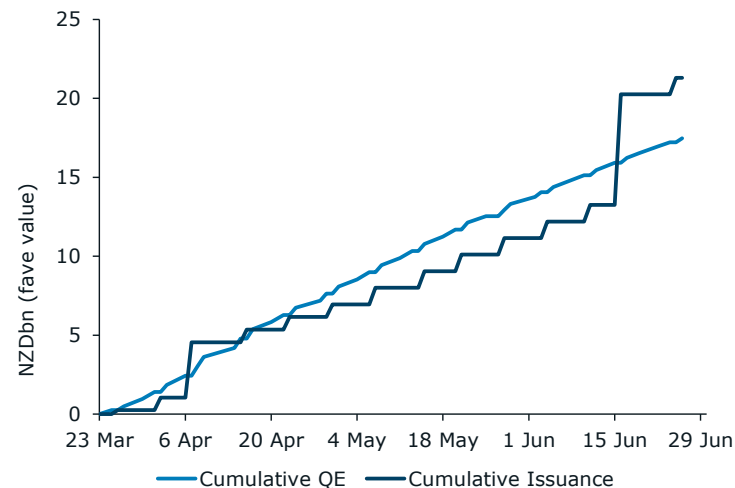
Data calendar

Date	Data/event
Mon 30 Jun (1:00pm)	ANZ Business Outlook – Jun F
Mon 30 Jun (3:00pm)	RBNZ Sectoral Lending – May
Tue 1 Jul (10:45am)	Building Consents – May
Mon 6 Jul (1:00pm)	ANZ Commodity Price Index – Jun
Tue 7 Jul (10:00am)	NZIER QSBO – Q2
Wed 8 Jul (early am)	GlobalDairyTrade auction
Thu 9 Jul (10:00am)	ANZ Truckometer – Jun
Thu 9 Jul (1:00pm)	ANZ Business Confidence – Jul P
Fri 10 Jul (10:45am)	Electronic Card Transactions - Jun
Mon 13 Jul (10:45am)	Food Prices – Jun
Mon 13 Jul (10:45am)	Rental Price Index – Jun
Tue 14 Jul (10:45am)	Net Migration – May
Tues 14 Jul (1:00pm)	ANZ Monthly Inflation Gauge – Jun
Thu 16 Jul (10:45am)	CPI - Q2
Fri 17 Jul (10:30am)	BNZ Manufacturing PMI – Jun
Mon 20 Jul (10:30am)	Performance Services Index – Jun
Tues 21 Jul (15:00)	Credit Card Spending – Jun
Wed 22 Jul (early am)	GlobalDairyTrade auction

What are we watching?

The schedule for the RBNZ's LSAPs in coming weeks will give some indication of the urgency with which the RBNZ thinks yields at the long end of domestic yield curves need to be reduced in order to ensure that more stimulus can be provided to the economy within their existing \$60bn limit. There's still some noise in the data to wade through before we will see where the dust is settling on the underlying demand pulse in the economy. But ultimately, an economy without tourism is a smaller one, and normal recessionary feedback loops will add to the downturn in meaningful ways. The global environment will matter too and over the past week there has been more caution in markets about the slow pace of recovery ahead. The reality is that COVID-19 is still intensifying in some countries, particularly the US, and remains a threat at our border and for the world economy as a whole.

Figure 2. LSAP NZGB purchases and issuance



Source: RBNZ, NZDM, ANZ Research

The week ahead

RBNZ LSAP schedule (Friday 26 June, 2:00pm). The RBNZ has just published next week's LSAP schedule, which calls for \$940m of NZGBs and \$50m of LGFA bonds to be purchased next week, the same as this week. While we do see grounds for purchases to be ramped up, planned issuance of NZGBs next week is lower (\$850m vs \$1.50m this week), so the RBNZ is still buying more bonds in net terms.

ANZ Business Outlook – June (Tuesday 30 June, 1:00pm).

RBNZ sectoral lending data – May (Tuesday 30 June, 3:00pm). Working capital requirements saw business lending lift strongly in May. These higher levels should be maintained in the near term, but the medium term macroeconomic backdrop is less favourable for business investment and therefore credit demand. Household lending looks set to rebound on the back of consumer lending.

Building consents – May (Wednesday 1 July, 10:45am). After two consecutive monthly declines a partial rebound may well be on the cards. But once the dust settles, we expect a weaker trend to emerge.

NZGB bond tender (Thursday 2 July, 2:05pm). NZDM will tender \$850m of NZGBs next week, comprising of \$450m of 2025s, \$350m of 2031s and \$50m of the Linker 2040s. We expect demand to be reasonable given elevated yields and the dovish tone of Wednesday's RBNZ *Monetary Policy Review*.



Markets and forecasts

Markets outlook

Markets have been struck with a sense of caution in recent days, as COVID-19 intensifies and concerns about the pace of recovery weigh. This has weighed on the NZD, and has dampened global yields. However, domestically, the announcement of a new 2041 bond has seen the NZGB curve steepen. We expect the RBNZ to ramp up the pace of LSAP bond purchases and to direct its buying towards the longer end, which will eventually see yield curves re-flatten. The short end remains well anchored, with a negative OCR not in play for now. The possibility of foreign asset purchases would weigh on the NZD, even without pulling the trigger.



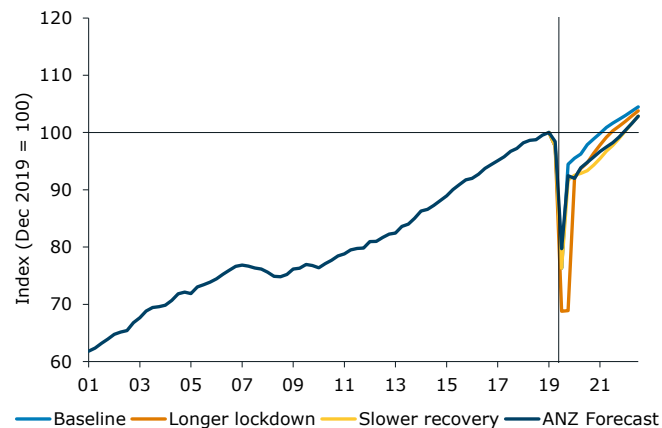
FX rates	Actual			Forecast (end month)					
	Apr-20	May-20	Today	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
NZD/USD	0.613	0.622	0.643	0.64	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.936	0.934	0.935	0.94	0.93	0.93	0.93	0.93	0.93
NZD/EUR	0.563	0.559	0.573	0.57	0.56	0.57	0.57	0.59	0.60
NZD/JPY	65.30	66.66	68.93	68.8	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.489	0.505	0.518	0.52	0.52	0.53	0.54	0.53	0.52
NZ\$ TWI	69.24	70.12	71.49	71.8	71.6	72.0	72.1	72.6	72.9
Interest rates/QE	Apr-20	May-20	Today	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
NZ OCR	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
LSAP (\$bn)	30	33	60	60	90	90	90	90	90
NZ 90 day bill	0.27	0.26	0.30	0.26	0.26	0.26	0.26	0.26	0.26
NZ 10-yr bond	0.88	0.82	0.94	0.75	0.75	1.00	1.00	1.25	1.25

Economic forecasts

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
GDP (% qoq)	-1.6	-19.0	16.0	-0.5	2.0	1.0	1.0	1.0	0.8
GDP (% yoy)	-0.2	-19.3	-7.1	-8.0	-4.6	18.9	3.5	5.1	3.9
CPI (% qoq)	0.8	-0.4	0.1	-0.1	0.5	0.2	0.3	-0.2	0.4
CPI (% yoy)	2.5	1.6	1.0	0.4	0.1	0.7	0.9	0.8	0.7
Employment (% qoq)	0.7	-6.0	-1.9	1.5	1.0	0.7	0.9	0.9	0.9
Employment (% yoy)	1.6	-5.1	-7.1	-5.8	-5.5	1.3	4.2	3.5	3.4
Unemployment Rate (% sa)	4.2	7.6	10.0	9.7	9.3	9.2	8.9	8.4	8.0

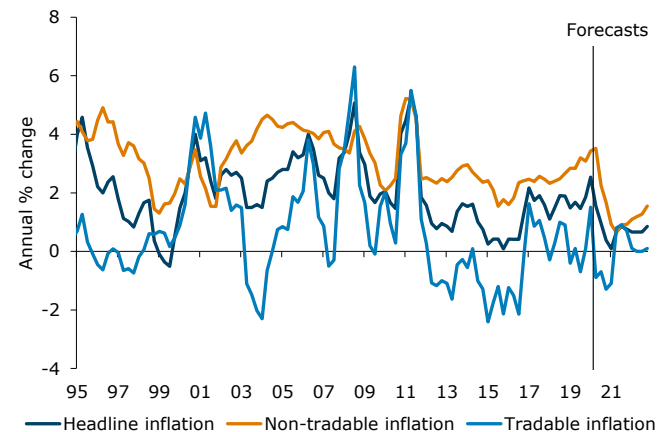
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. ANZ forecasts and RBNZ scenarios



Source: Statistics NZ, RBNZ, ANZ Research

Figure 4. Inflation



Source: Statistics NZ, ANZ Research



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