

New Zealand Weekly Data Wrap

21 August 2020



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Forecast updates

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- [GDP and labour market: Renewed restrictions will hamper recovery](#)
- [Current account outlook](#)
- [Farmgate sheep & beef prices](#)
- [Farmgate milk price](#)

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

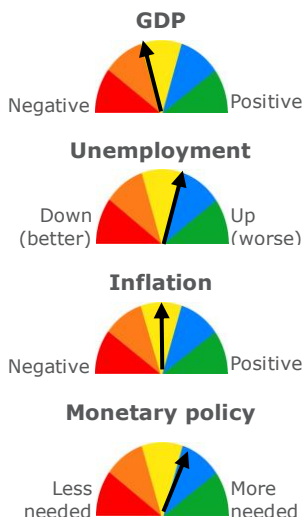
What's the view?

- GDP to remain below pre-COVID level until 2022.
- Unemployment peak: 10%.
- Inflation set to fall.
- Risks are to the downside.
- We see a negative OCR in April next year.

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

Balance of risks

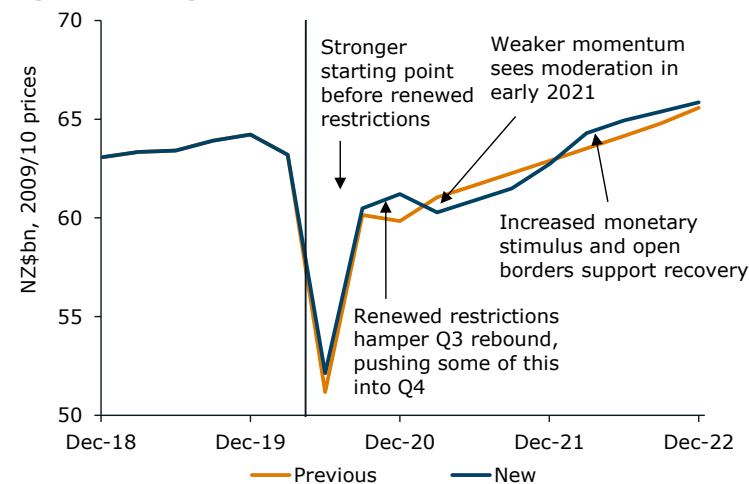
Risks remain skewed to the downside.



How has the view changed?

- We **now expect** the RBNZ to take the OCR negative next year, with a 50bp cut to -0.25% expected in April, alongside the introduction of a bank 'funding for lending' programme (FLP).
- Between now and then, the RBNZ will signal a steadfast intent to support the economy, with another increase in the LSAP expected in November, potentially to \$120bn over two years.
- The economic outlook is simply too dire and the downside risks are too great for the RBNZ to sit back and wait. We've **updated our GDP and labour market forecasts** to incorporate recent developments. These include a stronger starting point, the negative impacts of renewed lockdown and weakening in underlying momentum, and the supportive impacts of increased fiscal and monetary stimulus.
- For markets, RBNZ words and actions should cap the NZD and pave the way for yields to go lower and geographic spreads to narrow. We've updated our **Market Forecasts** to reflect these changes to the outlook.

Figure 1. Change to GDP forecast



Source: Stats NZ, ANZ Research

What happened this week?

Performance Services Index – July. Broadly stable at an expansionary level, but renewed lockdown measures are likely to weigh from August.

GlobalDairyTrade auction. The GDT Price Index fell 1.7%, with prices for nearly all commodities softening. Skim milk powder was the only exception with prices lifting 1.1%.

NZGB bond tender. NZDM sold \$450m of 2023s, \$350m of 2029s and \$150m of 33s today. Demand was solid as expected, with investors eager to snap up bonds ahead of next year's OCR cuts and as US bond yields resume falling.

Week-ahead LSAP schedule: The RBNZ flexed its muscles as we expected, and lifted the pace of purchases next week to \$1.4bn (from \$1.1bn this week), consistent with the Bank's new tactical approach to bond purchases. Few in the market expected the move, and this new approach should result in the NZGB curve remaining lower and flatter than otherwise, and reduce yield volatility.



Looking ahead



Recent Publications

ANZ produces a range of in-depth insights.

- **NZ OCR call change:** RBNZ to cut OCR 50bp to -0.25% in April
- **ANZ NZ Agri Focus:** All that glitters is gold
- **ANZ NZ Insight:** A straight-line recovery looks unlikely
- **ANZ NZ Property Focus:** Turn of the tide
- **ANZ NZ Insight:** Exchange rate a headwind
- **ANZ NZ Insight:** Negative OCR – an introduction

[Click here for more.](#)

Data calendar

Date	Data/event
Mon 24 Aug (10:45am)	Retail Sales – Q2
Wed 26 Aug (10:45am)	Merchandise Trade – Jul
Wed 26 Aug (3:00pm)	RBNZ New Mortgage Lending – Jul
Thu 27 Aug (2:05pm)	NZGB Bond Tender
Fri 28 Aug (10:00am)	ANZ Consumer Confidence – Jul
Mon 31 Aug (1:00pm)	ANZ Business Outlook – Aug F
Mon 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul
Tue 1 Sep (10:45am)	Terms of Trade – Q2
Tue 1 Sep (10:45am)	Building Permits – Jul
Wed 2 Sep (early am)	Global Dairy Trade auction
Thu 3 Sep (1:00pm)	ANZ Commodity Price Index – Aug
Fri 4 Sep (10:45am)	Building Work Put in Place – Q2
Wed 9 Sep (10:00am)	ANZ Truckometer – Jul
Wed 9 Sep (10:45am)	Economic Survey of Manuf – Q2
Wed 9 Sep (1:00pm)	ANZ Business Outlook – Sep P
Thu 10 Sep (10:45am)	Electronic Card Transactions – Aug
Fri 11 Sep (10:45am)	Food Price Index – Aug
Fri 11 Sep (10:45am)	Rental Price Index – Aug

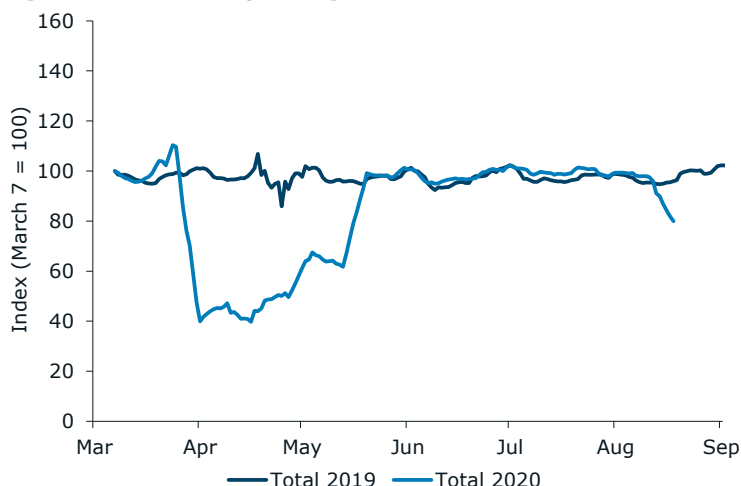
What are we watching?

The RBNZ have opened the door to a negative OCR as wide as possible, short of actually committing to doing it. Wholesale interest rates have fallen in anticipation and some may trade negative, even in advance of a negative OCR being deployed. While retail rates would still be positive in a negative OCR world, the same is not true in wholesale markets.

The downward pressure that we have seen in wholesale interest rates since the August MPS is set to continue: the RBNZ's tactical approach to the LSAP will reduce yield volatility and keep the NZGB curve lower and flatter than it otherwise would have been. We expect the eventual move to a lower OCR will drive the whole term structure of wholesale rates lower (rather than just flatter), keeping downward pressure on retail interest rates.

On the activity front, ANZ card spending data is already beginning to show the impacts of renewed lockdown measures. This will hamper the Q3 rebound in GDP, but provided renewed restrictions are relatively short-lived the rebound should continue into Q4. However, the likelihood of a spending overshoot appears slim (we didn't get one last time). That suggests another permanent hole in spending is on the cards. We'll be watching these data closely.

Figure 2. ANZ card spending



Source: ANZ

The week ahead

Retail Trade Survey – Q2 (Monday 24 August, 10:45am). These data mark the first of the partial Q2 GDP indicators. We expect sharp falls across most categories and an overall contraction of around 17.5%, but uncertainty is extreme. Like headline GDP, the Q2 read is going to be noisy. A surprise in either direction is more likely to see us tweak our Q3 pick than make material changes to our medium-term view.

Overseas Merchandise Trade – July (Wednesday 26 August, 10:45am). The weekly data suggest exports will come in at \$4.9bn and imports at \$4.6bn.

RBNZ new mortgage lending data – July (Wednesday 26 August, 3:00pm). REINZ house sales remained robust in July, so new lending ought to follow suit.

NZGB bond tender (Thursday 27 August, 2.05pm). NZDM have advised that next week's scheduled bond tender will be cancelled if the planned tap syndication of the NZGB 2027s proceeds. ANZ is on the syndicate panel.

ANZ Roy Morgan Consumer Confidence – August (Friday 28 August, 10:00am).



Markets and forecasts

Markets outlook

Softer than expected US data and the more subdued tone of the Fed minutes arrested the rise in US 10-year bond yields, but at around 0.65%, they remain well above the 0.50% low seen in early August. Next week is shaping up as key for US markets, with Fed chair Powell scheduled to deliver a speech on the Fed's monetary policy framework review, and key conclusions on its new inflation strategy. Many expect the Fed to adopt a strategy that will allow inflation to stray above target for longer after earlier episodes of below-target inflation. While that's a longer term threat to bonds, in the near term it speaks to policy remaining easier for longer, suppressing yields. Locally, the focus remains squarely on the RBNZ's active preparation for a negative OCR. With most economists now forecasting OCR cuts to negative next year, we have seen swap and bond yields move lower, but they have further to go in our view. And as New Zealand interest rates go lower, we expect that to contain the NZD, even amid a backdrop of generalised USD weakness. The RBNZ's decision to lift the pace of LSAP purchases next week was a bold one, demonstrating the potency of its newfound tactical approach to bond purchases. This should reduce yield volatility and put greater than otherwise downward/flattening pressure on the NZGB yield curve.



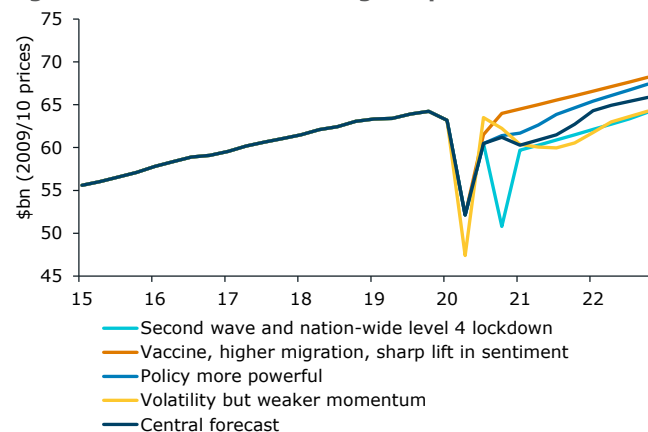
FX rates	Actual					Forecast (end month)			
	Jun-20	Jul-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZD/USD	0.641	0.663	0.654	0.65	0.65	0.65	0.65	0.65	0.65
NZD/AUD	0.935	0.928	0.908	0.93	0.93	0.93	0.93	0.93	0.93
NZD/EUR	0.571	0.563	0.551	0.55	0.54	0.54	0.55	0.55	0.57
NZD/JPY	69.0	70.1	69.1	69.6	69.6	69.6	69.6	69.6	69.6
NZD/GBP	0.522	0.507	0.494	0.50	0.50	0.49	0.49	0.48	0.47
NZ\$ TWI	71.4	72.5	70.9	71.3	70.9	71.1	71.4	71.3	71.7
Interest rates/QE	Jun-20	Jul-20	Today	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
NZ OCR	0.25	0.25	0.25	0.25	0.25	0.25	-0.25	-0.25	-0.25
LSAP (\$bn)	60	60	100	100	120	120	120	120	120
NZ 90 day bill	0.30	0.30	0.27	0.26	0.25	-0.08	-0.25	-0.25	-0.25
NZ 10-yr bond	0.93	0.74	0.63	0.40	0.30	0.30	0.30	0.40	0.40

Economic forecasts

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
GDP (% qoq)	-1.6	-17.5	16.0	1.2	-1.5	1.0	1.0	2.0	2.5
GDP (% yoy)	-0.2	-17.8	-5.4	-4.7	-4.6	16.8	1.7	2.5	6.7
CPI (% qoq)	0.8	-0.5	0.5	0.1	0.4	0.2	0.1	-0.1	0.4
CPI (% yoy)	2.5	1.5	1.3	0.9	0.5	1.1	0.8	0.6	0.6
Employment (% qoq)	1.0	-0.4	-1.2	-1.5	-0.5	-0.5	0.9	1.2	1.4
Employment (% yoy)	2.2	1.2	-0.5	-2.1	-3.6	-3.7	-1.6	1.1	3.0
Unemployment Rate (% sa)	4.2	4.0	6.5	8.0	8.8	9.8	9.3	8.5	7.4

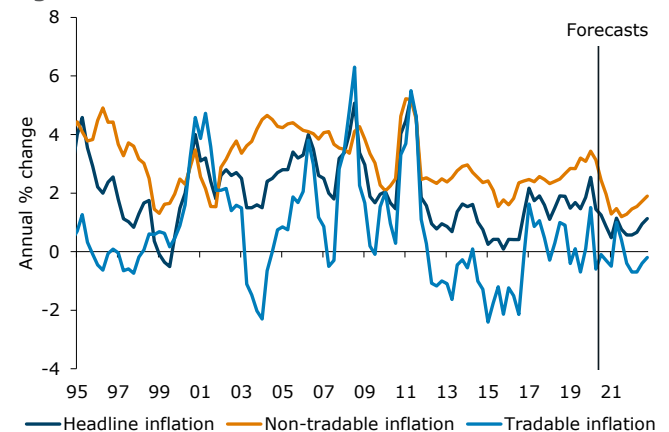
Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

Figure 3. GDP forecast and high-impact scenarios



Source: Statistics NZ, ANZ Research

Figure 4. Inflation



Source: Statistics NZ, ANZ Research



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