

# Research Markets Outlook

12 February 2024

## Rate Hikes Ahead?

- **Market now prices rate hike by May**
- **We're not convinced but accept the risk**
- **This week's inflation data something to watch**
- **So too growth indicators which should look poorly**
- **Inflation expectations important too**

The fear that the Reserve Bank of New Zealand might resume its tightening cycle has well and truly taken hold. It wasn't that long ago when financial markets were trying to price in a very near term easing by the Bank. Indeed, it was only a matter of days ago that four rate cuts were priced before the end of this calendar year. Since that time Nov 2024 OIS pricing has backed up almost 60 basis points and the market now prices a full rate hike by May of this year.

A marked change in view



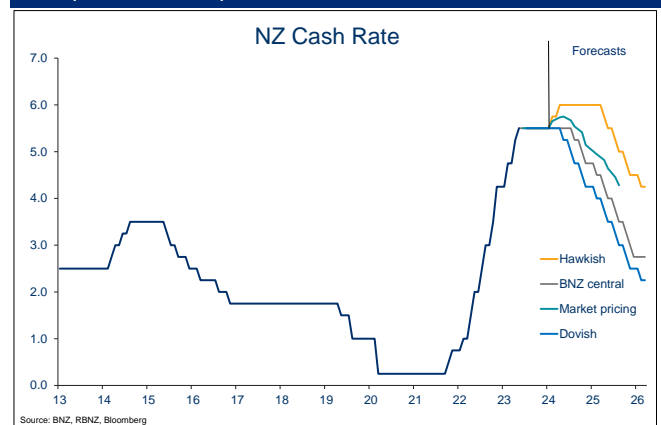
While we believe the recent data flow might convince the RBNZ to maintain its tightening stance we don't think it justifies further tightening. In short, inflationary pressures may not be diminishing as rapidly as the Bank would like but directionally everything is going to plan: the economy is going backwards, the labour market is easing, core and headline inflation are falling and there is a bucket-load of tightening that hasn't yet fully impacted the economy.

Nonetheless, the RBNZ has been doing its very best to suggest it is VERY nervous about what it sees as persistent inflation. It has downplayed weaker than expected growth and inflation and focussed on the components of the data releases that suggest upside pressure. And the Chief Economist delivered extremely hawkish responses to questions post his recent speech.

More recently, central bankers across the planet have been pushing back expectations of early rate cuts. This will not have been lost on the RBNZ either. We would, nonetheless, note that the RBNZ has already been well ahead of the others in stating that it expects no rate cut until late 2025. Other central banks are hinting that rate cuts could still happen late 2024/early 2025.

Whatever the reality of the situation, you can't fight the central banks. They always win. So, if the Reserve Bank of New Zealand has lost confidence that current monetary settings will contain inflation in the manner desired then it could well respond by raising interest rates. We have been highlighting the genuine risk that this might happen for several weeks now.

Multiple scenarios plausible



While our risk assessment is clear, we haven't yet seen enough to push us over the line to make this our central scenario. And we are wary of adjusting our calls with gay abandon. A year ago we were forecasting the easing cycle would begin in mid-2024. We've made a few minor tweaks to the exact size and timing of the cycle in the interim but nothing of substance. We do feel the pressure to do so now more than we have for some time but in our heart of hearts we still feel that further tightenings are not justified.

But this all brings us full circle back to market pricing. In this environment it might just matter. If the RBNZ is sitting on the fence, in a do we or don't we state, then if the market is pricing in a tightening the Bank is much more

likely to pull the trigger. We'll be keeping a very close eye on this as we get closer to the decision day.

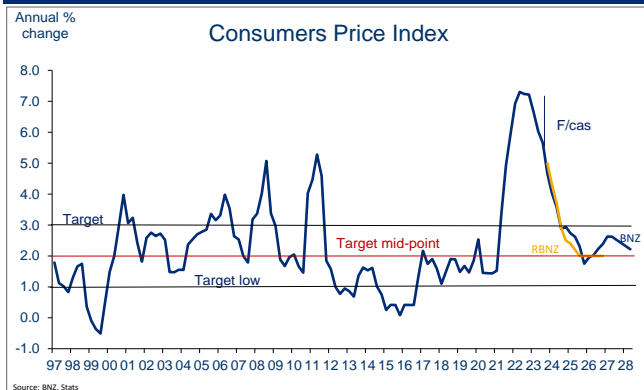
Of course, there's still a fair bit of data to mull over the next couple of weeks.

Wednesday's selected price indices for January are what the sad folk of market land have to look forward to for their Valentine's Day treat. Both ourselves and the RBNZ have forecast a 0.6% quarterly increase in the CPI for the quarter. This would take annual CPI inflation down to an 11 quarter low of 4.0%. We'll be looking for supporting evidence of this assumption in the data.

What will be of equal interest to us is what the partials indicate for non-tradables inflation, the measure the RBNZ seems most focussed on at the moment.

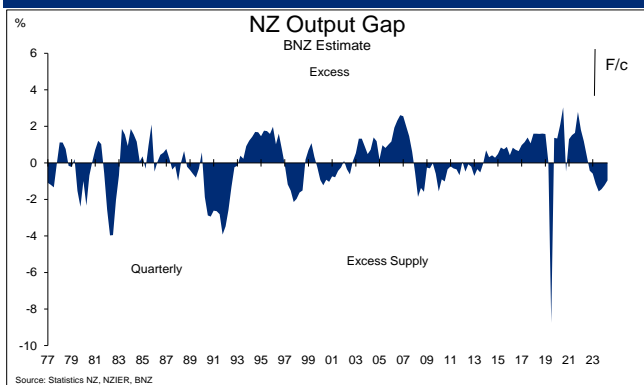
We don't forecast all the subcomponents but we have pencilled in a 1.2% increase in food prices for the month and a 0.5% increase in rents.

**Inflation under control**



Ultimately, the amount of spare capacity in an economy determines how much inflation it generates. We reckon there is a fair bit at the moment and that ongoing softness in the economy will keep it that way. We will get further key insight into the current state of the economy with Friday's Performance of Manufacturing Index (PMI) and the following Monday's Performance of Services Index (PSI), both for January. The PMI has been below the "breakeven" 50 level for 10 consecutive quarters. We see little reason to assume this will change.

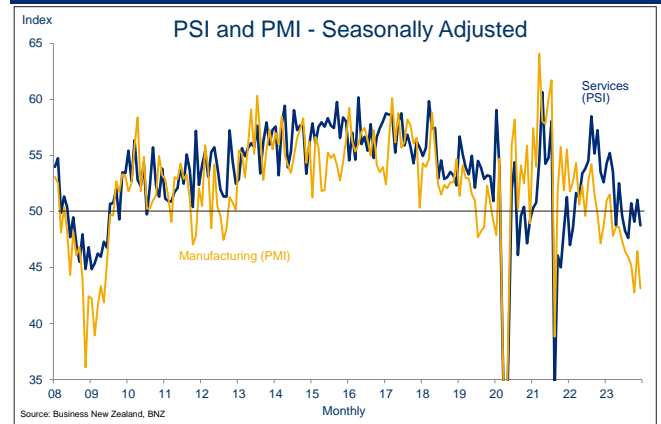
**Spare capacity galore**



Services have been performing better than manufacturing. Again, we expect more of the same. It will be disappointing, though, if the series sub-50 outturn for December is repeated.

There are several other indicators due for release which should give insight as to the state of the economy.

**Looking sick**



On Tuesday we get to see concrete production for Q4. Indicative of a deteriorating economy, seasonally adjusted concrete production has now fallen in each of the last seven quarters. We expect this trend to continue.

Wednesday is electronic card transactions data for January. The monthly number could be almost anywhere as there is a lot of volatility in this series. But the key messages will be unchanged namely that on a trend basis nominal sales growth is not keeping up with inflation. Real spending compared with this time last year will be significantly negative and a complete horror story if it is further adjusted for the 3.0% population growth that has occurred over the period.

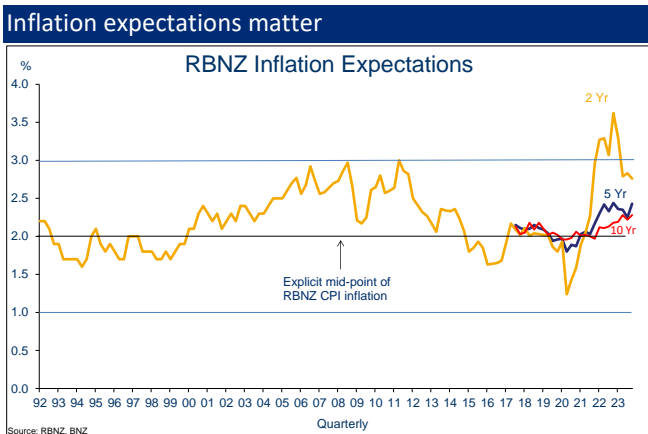
On Thursday we get the latest migration and tourism data. Tourism continues to support the wider economy but there is now evidence that the pace of increase is moderating so the contribution to New Zealand's growth is doing likewise. We will be looking for further affirmation of this.

The migration data are very important because the Reserve Bank has consistently expressed its concern that migration inflows are too high and, hence, inflationary. The problem remains that the data are subject to substantial revision. For many months now the most recent number has been prone to implying a marked slowdown in net migration only to be revised substantially higher at the time of the next release. On this basis we're not so interested in the December

reading but more whether the currently reported actual net figures for the month of November of 4637 is revised up and by how much.

But wait, there’s more . . .

On Tuesday we also have the release of the RBNZ’s inflation expectations data. The RBNZ has expressed some consternation about the level of the longer-term expectations. It will be keen to see them fall from last month’s levels. For the record the 2-yr expectation was 2.76%, 5-yr 2.43% and 10-yr 2.28%. We actually see these as being healthily low but it’s not the Bank’s view.



Talking of the Bank’s view, Governor Adrian Orr is delivering a keynote speech at 7.40am NZT on Friday at the

New Zealand Economics Forum hosted by the University of Waikato. According to the RBNZ, “Mr Orr will speak about the changing drivers of inflation over the past couple of years and the shift from transitory to more stubborn underlying inflation. He will also discuss why – despite these challenging years – the Reserve Bank continues to believe that a flexible inflation target centred on 2% still makes sense.” While the Governor will not be intending to share views on the upcoming MPS, it seems clear from the provided speech overview that he will be highlighting the Bank’s concerns about persistent non-tradables inflation and the imperative to get annual inflation to the target point of 2.0%. This should help support the view that the RBNZ could tighten further.

One of the drivers of the RBNZ’s outlook is the state of the country’s fiscal settings. On Thursday we get the latest update on the Crown Financial Statements. Recently these have shown the tax take to be above expectations but so too the government’s funding requirements. The government will be happy with the former but not the latter.

And to cap things off, we are expecting REINZ’s January house price data on Wednesday. There have been signs that a surge in listings has tempered house price growth. We will be looking for more of the same. Any significant acceleration in house prices would be seen as unwelcome by the RBNZ.

[stephen\\_toplis@bnz.co.nz](mailto:stephen_toplis@bnz.co.nz)

# Global Watch

- US core CPI seen printing another 0.3% m/m
- Fed, ECB, BoE speakers galore
- UK, EZ GDP seen weak / recessionary
- AU unemployment rate to tick higher

## AU

Employment data on Thursday is the key data this week. The data has been incredibly volatile recently on a month-to-month basis. NAB doesn't take too much signal from the surprising 65k decline in employment measured in December, but it does suggest the strength in measured outcomes in October and November was overstated. The ABS points to some shifting in seasonal patterns relative to previous years as a likely culprit. Some payback in January is a risk, though once again the unemployment rate is likely to paint a clearer picture. NAB pencilled in +30k for employment and a further inch higher in the unemployment rate to 4.0% (from 3.9%).

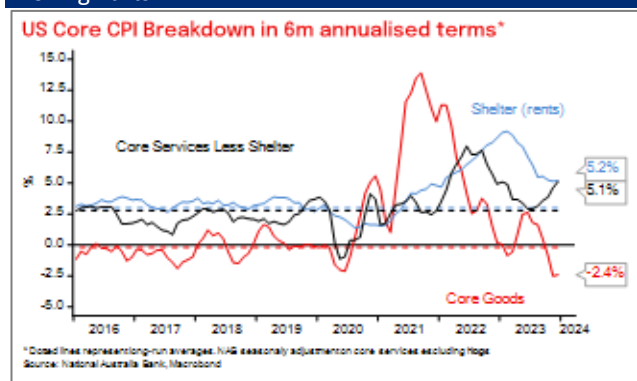
Before the employment data, RBA's Kohler speaks on Tuesday at the Australian Business Economists Annual Forecasting Conference. She is expected to outline again the RBA's updated February forecasts. Also on Tuesday, Consumer Confidence and the NAB Business Survey are released. Can consumer confidence show some signs of life in response to the moderation in inflation?

## US

January CPI data on Tuesday will be the focal point. Consensus looks for another 0.3% m/m for core CPI, which would see the year-end rate slow to 3.7%.

The sharp moderation in CPI over the past six months has seen the Fed pivot towards the possibility of rate cuts with Powell recently re-affirming the FOMC December dot plot of three cuts in 2024. There are numerous Fed speakers on the circuit this week.

### Moving Parts



Fed officials have been citing they want a few more months of good data to be confident that inflation will remain low, given a lot of disinflation has been driven by the goods side of the economy. A low inflation print would help shore up market expectations of a rate cut. Any softness in Friday's PPI data would support that view.

Retail sales for January are due on Tuesday, where consensus looks for -0.2% m/m due to soft car sales, but +0.2% after stripping out autos and gas.

Other data during the week include NFB small business survey, NABH housing, University of Michigan Consumer Sentiment survey, and housing permits and starts.

## Europe and UK

It's a big week for data in the UK. Consensus for Q4 GDP data on Thursday is for -0.1% growth which would match the -0.1% q/q in Q3, meaning headlines citing a technical recession are on the cards. UK CPI is on Wednesday, where temporarily unhelpful base effects could see headline up at 4.3% from 4.0%. Unfavourable base effects however turn around next month (February release in March) and the UK will enjoy several months of lower headline and core inflation prints. These are expected to see the headline rate drop below the BoE's 2% target rate.

UK monthly GDP is likely to be soft (consensus -0.2%). Anecdotal evidence from retailers and extremely soft retail sales for December (-3.2% m/m for -2.4% y/y) corroborates a likely weak outturn.

UK average weekly earnings for December should show a further correction lower from November. This pace of deceleration in this lagging series has been slow, though in November the pullback in earnings was more marked. In November whole economy total pay (including bonuses) rose 6.6% 3m y/y from 7.2% in the prior month. Total regular pay rose 6.5% from 7.2% in October. Meanwhile labour market data has shown a slowdown in employment growth and a modest rise in jobless claims. Unemployment remains an experimental data series.

UK retail sales tanked (-3.2% m/m) in December, with some bounce expected in January. The consensus forecast is -0.5% m/m for Friday's data.

And, last but not least in the UK, BoE Governor Bailey speaks on Monday.

In Europe, the data calendar is comparatively quiet, but there are no fewer than nine ECB speakers scheduled to give markets something to mull over.

Germany's ZEW February survey is out on Tuesday. European analyst's current assessment of the German economic situation has been flatlining near pandemic lows since last August. There is little reason to expect much change from the -77.3 in January. The forward-looking expectations survey has shown a modest tick higher in recent months to 15.2 from -12.8 a year ago.

Wednesday sees Preliminary Q4 GDP data released. The advance release unexpectedly kept the Eurozone from dipping into a technical recession with a flat 0% outturn, following -0.1% in Q3. Soft industrial production in Germany and Italy in December as well as weak EZ retail sales raise the possibility of a modest downward revision to Q4 GDP.

[taylor.nugent@nab.com.au](mailto:taylor.nugent@nab.com.au) / [doug.steel@bnz.co.nz](mailto:doug.steel@bnz.co.nz)

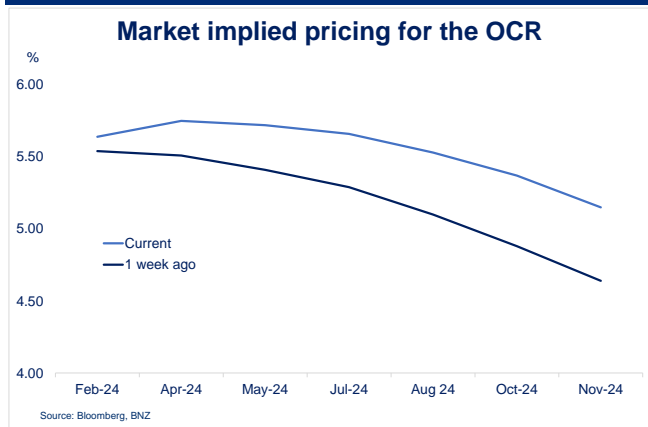
# Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg:BNZ

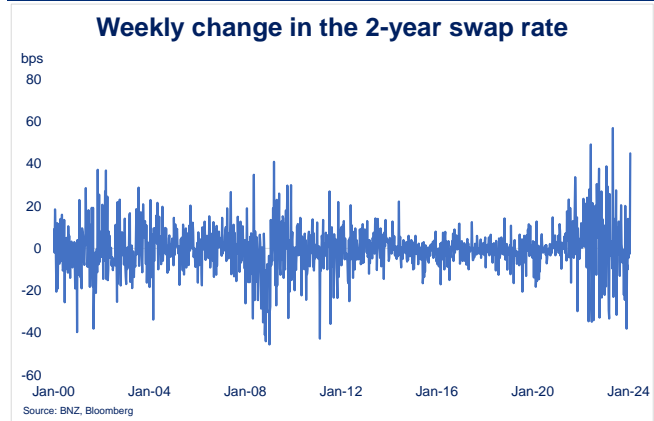
Stronger than expected Q4 labour market data last week has contributed to a significant repricing across NZ fixed income markets. Although the unemployment rate increased to 4% from 3.9% in Q3, it was below the market median of 4.3% and wage growth surprised to the topside. Both indicators were stronger than the Reserve Bank’s projections from the November Monetary Policy Statement (MPS) and prompted a repricing of the market implied track for the Official Cash Rate (OCR).

government bond spreads have widened to 70bps against Australia which is 30bps higher since the start of February.

## A 25bps RBNZ hike is almost fully priced by May



## Significant adjustment in front end rates



The market is now pricing a high likelihood that the RBNZ resumes its hiking cycle - a 25bps OCR increase is almost fully priced by the May MPS - and expected easing for this year has been significantly pared back. This position-driven move appears out of line with the underlying economic drivers and risk-reward favours fading the move. Although the RBNZ holds a hawkish bias, this is not the same as endorsing even more restrictive policy when activity is soft, and inflation is retracing towards its target.

There was a pickup in demand for New Zealand Government Bonds (NZGBs) at the weekly tender last week. Investors had NZ\$1.5 billion of demand for the NZ\$500 million offered with the bid cover ratio picking up from subdued levels since the start of the year. There is NZ\$22 billion of issuance required for the second half of the fiscal year which will be met by weekly tenders and 3 syndicated transactions.

2-year swap rates increased by an outsized 45bps last week. To put this adjustment in context, it is one of the largest 5 absolute moves in 2-year swap rates over the past 20 years. The move higher was exacerbated by position unwinding as investors exited received positions. There are no clear patterns for future yield moves after such a large weekly change. After taking a subset of the 5% of the largest yield increases since January 2000, the change on the subsequent week was evenly distributed between further increases and falls.

It is likely New Zealand Debt Management (NZDM) will provide further details of the May 2054 syndication in coming days. The deal has been confirmed to take place before end-March, and the week beginning 19 February provides a good issuance window, with limited domestic or international economic data releases. We expect NZDM will target issuance volumes near NZ\$3 billion.

The move in NZ has corresponded with generally higher global yields as policy makers continue to push back against the prospect of near-term rate cuts. However, NZ has underperformed on a cross market basis with spreads widening against both Australia and the US. 10-year

## Current rates and 1-month range

|                         | Current | Last 4-weeks range* |
|-------------------------|---------|---------------------|
| NZ 90d bank bills (%)   | 5.78    | 5.64 - 5.79         |
| NZ 2yr swap (%)         | 5.26    | 4.67 - 5.26         |
| NZ 5yr swap (%)         | 4.66    | 4.21 - 4.67         |
| NZ 10yr swap (%)        | 4.67    | 4.31 - 4.70         |
| 2s10s swap curve (bps)  | -59     | -59 - -28           |
| NZ 10yr swap-govt (bps) | -20     | -22 - -16           |
| NZ 10yr govt (%)        | 4.87    | 4.44 - 4.88         |
| US 10yr govt (%)        | 4.18    | 3.81 - 4.20         |
| NZ-US 10yr (bps)        | 69      | 47 - 69             |
| NZ-AU 2yr swap (bps)    | 122     | 60 - 122            |
| NZ-AU 10yr govt (bps)   | 71      | 37 - 71             |

\*Indicative range over last 4 weeks

stuart\_ritson@bnz.co.nz

# Foreign Exchange Market

Reuters pg BNZFWDS Bloomberg pg BNZ9

For a change, last week domestic factors were a key driver of the NZD. Stronger than expected labour market data and a local trading bank rate change call triggered a significant lift in NZ interest rates, driving NZD/USD up 1½% to 0.6150. On the key crosses, the NZD rose between 1-2%, highlighting this was an idiosyncratic NZD move.

NZ labour market data continued to show an easing in pressures, but likely not fast enough for the RBNZ’s liking. The unemployment rate rose to a 2½ year high but “only” to 4.0%. The labour cost index also rose by a stronger than expected 1.0% q/q. The data played to the view that the RBNZ will maintain a hawkish stance at its policy update later this month. This pushed up NZ rates and spreads to global rates, contributing to a stronger NZD.

On Friday, ANZ bank abandoned its call that the RBNZ would be easing in August (BNZ’s current view) and predicted two further rate hikes over the next two meetings, taking the OCR to 6.0%, an out-of-consensus call. This surprising call drove NZ rates and the NZD even higher. For the week, NZ’s 2-year swap rate rose a hefty 45bps to 5.19% against an 11bps lift in Australia’s 2-year rate. The OIS market now prices the February meeting as a near-even probability between a 25bps hike and the OCR remaining unchanged.

We continue to believe that another rate hike is unnecessary, given the current poor state of domestic demand and inflation pressures easing nicely. Labour market data are lagging indicators and we still expect the unemployment rate to climb rapidly beyond 5% over the coming year. There will be increasing attention this week on NZ inflation expectations data due tomorrow, selected CPI prices on Wednesday, migration data on Thursday, and Governor Orr’s speech on Friday. The RBNZ’s MPS on the 28<sup>th</sup> can now be considered a “live” event. While the RBNZ is likely to continue to sound hawkish, we are not picking another rate hike this cycle and, based on current pricing, an on-hold decision would be NZD-negative.

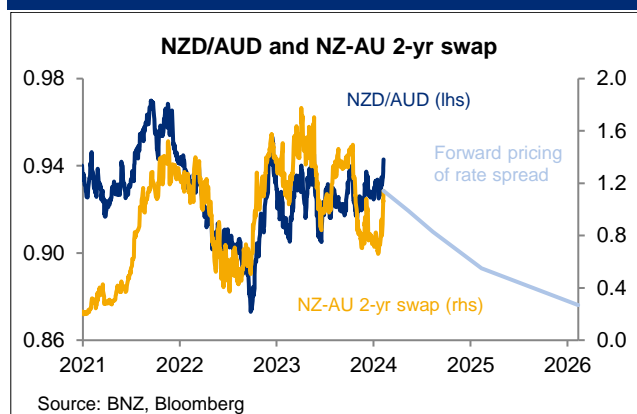
Turning to global news last week, a plethora of FOMC members gave speeches and interviews that supported Chair Powell’s view that the central bank was in no rush to ease monetary policy. The Fed wants to see more evidence that inflation has fallen on a sustainable basis before pulling the trigger. ECB speakers also offered some pushback to an early rate cut, with some lingering concern about still high wage inflation that could cause CPI inflation to hold up higher for longer.

In the week ahead, in addition to the domestic releases noted above, the key focus will be on the US CPI report due Tuesday night, NZ time, where an in-line or strong

result would likely rule out a March rate cut by the Fed, but a surprisingly weak result would keep the faint possibility alive. Given the strong correlation between the NZD and the US monetary policy outlook over the past couple of years, any deviation from consensus could spark a decent market reaction. US retail sales and PPI data will also be on the radar. Elsewhere, UK CPI and wages figures and Australia’s employment report are the other notable releases.

Despite last week’s significant lift in NZ rates, the NZD remains comfortably within the 0.60-0.64 trading range we see it tracking this quarter. The two crosses that have broken out to the topside of prior ranges are NZD/AUD and NZD/JPY. These can be explained by higher NZ rate spreads, but that doesn’t mean the moves are justified beyond the short-term. If the RBNZ doesn’t hike again, then we can expect these NZD crosses to fall back to within their familiar ranges. We remain bearish on both crosses on a medium-term view (beyond six months).

### Higher NZ-AU rate spread drives NZD/AUD higher...for now



### Cross Rates and Model Estimates

|         | Current | Last 3-weeks range* |
|---------|---------|---------------------|
| NZD/USD | 0.6150  | 0.6040 - 0.6170     |
| NZD/AUD | 0.9428  | 0.9230 - 0.9450     |
| NZD/GBP | 0.4870  | 0.4780 - 0.4880     |
| NZD/EUR | 0.5702  | 0.5580 - 0.5710     |
| NZD/JPY | 91.81   | 89.30 - 91.90       |

\*Indicative range over last 3 weeks, rounded figures

| BNZ Short-term Fair Value Models |            |           |
|----------------------------------|------------|-----------|
|                                  | Model Est. | Actual/FV |
| NZD/USD                          | 0.6730     | -9%       |
| NZD/AUD                          | 0.9140     | 3%        |

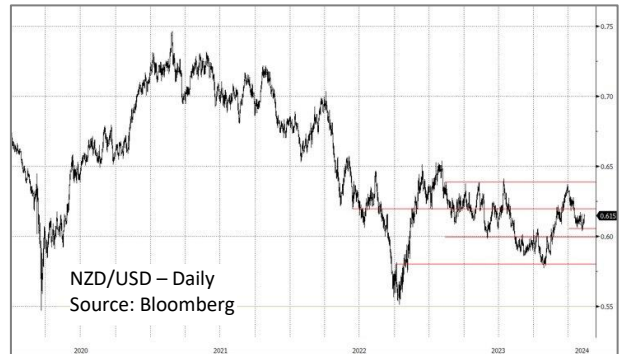
Jason.k.wong@bnz.co.nz

# Technicals

## NZD/USD

Outlook: Trading range  
 ST Resistance: 0.64 (ahead of 0.65)  
 ST Support: 0.60 (ahead of 0.58)

0.60-0.64 continues to look to be the bigger range, familiar territory last year. Last week's low near 0.6040 might be considered an initial support level.

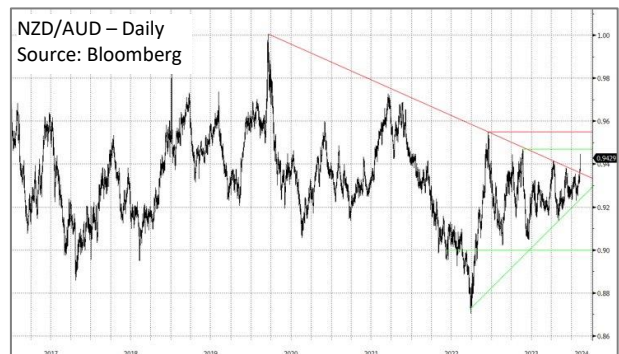


## NZD/AUD

Outlook: Upside risk  
 ST Resistance: 0.9470 (ahead of 0.9550)  
 ST Support: 0.9350 (ahead of 0.9250)

Last week the cross made a clean topside break out of the prevailing wedge. New resistance levels are now 0.9470, ahead of 0.9550. New support level of 0.9350.

[jason.k.wong@bnz.co.nz](mailto:jason.k.wong@bnz.co.nz)



## NZ 5-year Swap Rate

Outlook: Neutral  
 MT Resistance: 4.74  
 MT Support: 4.05

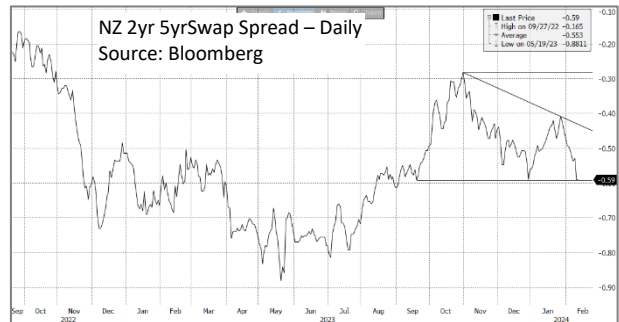
5y swap found itself moving aggressively higher last week closing the week just through our resistance. We have moved our new resistance to 4.74 for the time being but need to see a sustained break higher before losing our neutral bias.



## NZ 2-year - 5-year Swap Spread (yield curve)

Outlook: Steeper  
 MT Resistance: -0.28  
 MT Support: -0.59

2x5 swap spread broke lower through last week's upward sloping channel and now sits on our support. We will hold our bias for steeper curve here but should it sustain a break lower through our support then we will lose this outlook.



[matthew.herbert@bnz.co.nz](mailto:matthew.herbert@bnz.co.nz)

# Quarterly Forecasts

Forecasts as at 12 February 2024

## Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

|                              | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
|------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| GDP (production s.a.)        | 1.8    | -0.6   | -0.2   | 0.5    | -0.3   | -0.1   | -0.4   | -0.1   | 0.6    | 0.7    |
| Retail trade (real s.a.)     | -0.5   | -0.8   | -1.3   | -0.9   | 0.0    | 0.5    | 0.2    | 0.6    | 0.8    | 0.9    |
| Current account (ytd, % GDP) | -8.3   | -8.8   | -8.2   | -7.6   | -7.6   | -7.1   | -6.8   | -6.6   | -6.2   | -5.7   |
| CPI (q/q)                    | 2.2    | 1.4    | 1.2    | 1.1    | 1.8    | 0.5    | 0.6    | 0.6    | 1.1    | 0.5    |
| Employment                   | 1.4    | 0.7    | 1.1    | 1.0    | -0.1   | 0.4    | 0.1    | 0.0    | 0.1    | 0.3    |
| Unemployment rate %          | 3.3    | 3.4    | 3.4    | 3.6    | 3.9    | 4.0    | 4.3    | 4.8    | 5.1    | 5.4    |
| Avg hourly earnings (ann %)  | 8.6    | 8.1    | 8.2    | 7.7    | 7.1    | 6.6    | 5.8    | 5.1    | 4.0    | 4.3    |
| Trading partner GDP (ann %)  | 3.7    | 2.1    | 2.9    | 3.5    | 3.1    | 3.2    | 2.7    | 2.8    | 2.7    | 2.9    |
| CPI (y/y)                    | 7.2    | 7.2    | 6.7    | 6.0    | 5.6    | 4.7    | 4.0    | 3.6    | 2.9    | 2.9    |
| GDP (production s.a., y/y)   | 6.4    | 2.3    | 2.1    | 1.5    | -0.6   | -0.1   | -0.3   | -0.8   | 0.0    | 0.8    |

## Interest Rates

Historical data - qtr average

Forecast data - end quarter

|                  | Cash | Government Stock |        |         | Swaps  |        |         | US Rates         |          | Spread<br>NZ-US<br>Ten year |
|------------------|------|------------------|--------|---------|--------|--------|---------|------------------|----------|-----------------------------|
|                  |      | 90 Day           | 5 Year | 10 Year | 2 Year | 5 Year | 10 Year | Libor<br>3 month | US 10 yr |                             |
| <b>2022 Sep</b>  | 2.83 | 3.33             | 3.65   | 3.77    | 4.12   | 3.95   | 3.95    | 3.00             | 3.10     | 0.67                        |
| <b>Dec</b>       | 4.00 | 4.27             | 4.34   | 4.31    | 5.10   | 4.67   | 4.55    | 4.50             | 3.80     | 0.49                        |
| <b>2023 Mar</b>  | 4.58 | 4.99             | 4.27   | 4.26    | 5.11   | 4.51   | 4.40    | 4.90             | 3.65     | 0.61                        |
| <b>Jun</b>       | 5.42 | 5.62             | 4.23   | 4.27    | 5.19   | 4.44   | 4.30    | 5.40             | 3.60     | 0.68                        |
| <b>Sep</b>       | 5.50 | 5.66             | 4.87   | 4.87    | 5.54   | 4.90   | 4.75    | 5.65             | 4.15     | 0.73                        |
| <b>Dec</b>       | 5.50 | 5.63             | 4.48   | 4.67    | 4.93   | 4.43   | 4.50    | 5.65             | 4.00     | 0.67                        |
| <b>Forecasts</b> |      |                  |        |         |        |        |         |                  |          |                             |
| <b>2024 Mar</b>  | 5.50 | 5.60             | 4.85   | 4.90    | 4.90   | 4.75   | 4.65    | 5.80             | 4.40     | 0.50                        |
| <b>Jun</b>       | 5.50 | 5.50             | 4.60   | 4.70    | 4.50   | 4.50   | 4.50    | 5.55             | 4.20     | 0.50                        |
| <b>Sep</b>       | 5.25 | 5.00             | 4.30   | 4.50    | 4.05   | 4.25   | 4.40    | 5.30             | 4.00     | 0.50                        |
| <b>Dec</b>       | 4.75 | 4.75             | 4.00   | 4.25    | 3.60   | 3.95   | 4.15    | 4.80             | 3.75     | 0.50                        |
| <b>2025 Mar</b>  | 4.50 | 4.25             | 3.70   | 4.10    | 3.25   | 3.75   | 4.10    | 4.30             | 3.50     | 0.60                        |
| <b>Jun</b>       | 4.00 | 3.75             | 3.60   | 4.10    | 3.00   | 3.65   | 4.10    | 3.80             | 3.50     | 0.60                        |
| <b>Sep</b>       | 3.50 | 3.15             | 3.55   | 4.10    | 2.90   | 3.70   | 4.20    | 3.30             | 3.50     | 0.60                        |
| <b>Dec</b>       | 2.75 | 2.90             | 3.55   | 4.10    | 2.95   | 3.70   | 4.20    | 3.05             | 3.50     | 0.60                        |

## Exchange Rates (End Period)

### USD Forecasts

|                | NZD/USD | AUD/USD | EUR/USD | GBP/USD | USD/JPY |
|----------------|---------|---------|---------|---------|---------|
| <b>Current</b> | 0.61    | 0.65    | 1.08    | 1.26    | 149     |
| <b>Mar-24</b>  | 0.62    | 0.69    | 1.13    | 1.31    | 145     |
| <b>Jun-24</b>  | 0.64    | 0.71    | 1.16    | 1.35    | 138     |
| <b>Sep-24</b>  | 0.64    | 0.72    | 1.17    | 1.34    | 135     |
| <b>Dec-24</b>  | 0.65    | 0.73    | 1.18    | 1.35    | 130     |
| <b>Mar-25</b>  | 0.67    | 0.75    | 1.19    | 1.35    | 125     |
| <b>Jun-25</b>  | 0.69    | 0.77    | 1.21    | 1.37    | 120     |
| <b>Sep-25</b>  | 0.71    | 0.78    | 1.22    | 1.37    | 118     |
| <b>Dec-25</b>  | 0.71    | 0.78    | 1.23    | 1.38    | 116     |
| <b>Mar-26</b>  | 0.69    | 0.76    | 1.23    | 1.38    | 115     |
| <b>Jun-26</b>  | 0.68    | 0.75    | 1.21    | 1.37    | 114     |

### NZD Forecasts

|                | NZD/USD | NZD/AUD | NZD/EUR | NZD/GBP | NZD/JPY | TWI-17 |
|----------------|---------|---------|---------|---------|---------|--------|
| <b>Current</b> | 0.61    | 0.94    | 0.57    | 0.49    | 91.7    | 72.1   |
| <b>Mar-24</b>  | 0.62    | 0.90    | 0.55    | 0.47    | 89.9    | 71.0   |
| <b>Jun-24</b>  | 0.64    | 0.90    | 0.55    | 0.47    | 88.3    | 72.1   |
| <b>Sep-24</b>  | 0.64    | 0.89    | 0.55    | 0.48    | 86.4    | 71.3   |
| <b>Dec-24</b>  | 0.65    | 0.89    | 0.55    | 0.48    | 84.5    | 71.3   |
| <b>Mar-25</b>  | 0.67    | 0.89    | 0.56    | 0.50    | 83.8    | 72.5   |
| <b>Jun-25</b>  | 0.69    | 0.90    | 0.57    | 0.50    | 82.8    | 73.8   |
| <b>Sep-25</b>  | 0.71    | 0.91    | 0.58    | 0.52    | 83.8    | 75.4   |
| <b>Dec-25</b>  | 0.71    | 0.91    | 0.58    | 0.51    | 82.4    | 75.3   |
| <b>Mar-26</b>  | 0.69    | 0.91    | 0.56    | 0.50    | 79.4    | 73.6   |
| <b>Jun-26</b>  | 0.68    | 0.91    | 0.56    | 0.50    | 77.5    | 73.2   |

### TWI Weights

13.8% 16.5% 9.8% 3.1% 6.1%

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ



# Annual Forecasts

| Forecasts<br>as at 12 February 2024            | March Years |            |             |            |            | December Years |            |             |             |            |
|------------------------------------------------|-------------|------------|-------------|------------|------------|----------------|------------|-------------|-------------|------------|
|                                                | Actuals     |            | Forecasts   |            |            | Actuals        |            | Forecasts   |             |            |
|                                                | 2022        | 2023       | 2024        | 2025       | 2026       | 2021           | 2022       | 2023        | 2024        | 2025       |
| <b>GDP - annual average % change</b>           |             |            |             |            |            |                |            |             |             |            |
| Private Consumption                            | 6.0         | 2.7        | 0.4         | 0.5        | 2.4        | 7.4            | 3.3        | 0.7         | -0.1        | 2.2        |
| Government Consumption                         | 7.9         | 2.0        | -1.2        | -3.5       | 1.4        | 7.8            | 4.9        | -1.5        | -3.9        | 0.9        |
| Total Investment                               | 10.2        | 2.1        | -1.7        | -2.2       | 4.2        | 12.0           | 3.4        | -1.0        | -3.2        | 3.1        |
| Stocks - ppts cont'n to growth                 | 0.5         | -0.1       | -0.3        | 0.2        | 0.0        | 1.4            | -0.4       | -0.5        | 0.4         | 0.0        |
| GNE                                            | 7.9         | 2.4        | -1.4        | -0.8       | 2.7        | 10.0           | 3.4        | -1.0        | -1.7        | 2.2        |
| Exports                                        | 2.5         | 6.0        | 4.2         | 3.8        | 5.5        | -2.7           | -0.2       | 7.9         | 3.6         | 5.4        |
| Imports                                        | 17.3        | 4.6        | -0.6        | -0.8       | 3.8        | 14.8           | 4.6        | 1.2         | -1.8        | 3.2        |
| Real Expenditure GDP                           | 4.7         | 2.7        | -0.4        | 0.3        | 3.0        | 5.9            | 2.2        | 0.2         | -0.3        | 2.7        |
| <b>GDP (production)</b>                        | <b>4.5</b>  | <b>2.8</b> | <b>0.1</b>  | <b>0.5</b> | <b>3.0</b> | <b>5.5</b>     | <b>2.4</b> | <b>0.7</b>  | <b>-0.1</b> | <b>2.7</b> |
| <i>GDP - annual % change (q/q)</i>             | <i>0.7</i>  | <i>2.1</i> | <i>-0.3</i> | <i>1.9</i> | <i>3.1</i> | <i>2.5</i>     | <i>2.3</i> | <i>-0.1</i> | <i>0.8</i>  | <i>3.1</i> |
| Output Gap (ann avg, % dev)                    | 1.3         | 1.9        | -0.4        | -1.3       | -0.2       | 1.5            | 1.9        | 0.1         | -1.3        | -0.5       |
| Nominal Expenditure GDP - \$bn                 | 359         | 388        | 414         | 435        | 459        | 353            | 381        | 408         | 429         | 453        |
| <b>Prices and Employment - annual % change</b> |             |            |             |            |            |                |            |             |             |            |
| CPI                                            | 6.9         | 6.7        | 4.0         | 2.7        | 2.0        | 5.9            | 7.2        | 4.7         | 2.9         | 1.8        |
| Employment                                     | 2.5         | 3.0        | 1.4         | 0.9        | 2.4        | 3.3            | 1.7        | 2.4         | 0.5         | 2.3        |
| Unemployment Rate %                            | 3.2         | 3.4        | 4.3         | 5.5        | 5.4        | 3.2            | 3.4        | 4.0         | 5.4         | 5.4        |
| Wages - ahote (private sector)                 | 5.3         | 8.2        | 5.8         | 3.9        | 3.0        | 4.1            | 8.1        | 6.6         | 4.3         | 3.0        |
| Productivity (ann av %)                        | 1.7         | 0.6        | -2.3        | -0.2       | 0.9        | 3.5            | 0.2        | -2.1        | -0.9        | 1.0        |
| Unit Labour Costs (ann av %)                   | 4.6         | 6.4        | 8.7         | 5.2        | 2.2        | 2.4            | 6.4        | 8.6         | 6.6         | 2.4        |
| House Prices                                   | 13.8        | -12.1      | 2.6         | 8.6        | 13.4       | 27.2           | -11.1      | -1.6        | 6.7         | 13.4       |
| <b>External Balance</b>                        |             |            |             |            |            |                |            |             |             |            |
| Current Account - \$bn                         | -23.6       | -31.8      | -28.0       | -23.0      | -17.8      | -20.6          | -33.4      | -28.9       | -24.6       | -19.2      |
| Current Account - % of GDP                     | -6.6        | -8.2       | -6.8        | -5.3       | -3.9       | -5.8           | -8.8       | -7.1        | -5.7        | -4.2       |
| <b>Government Accounts - June Yr, % of GDP</b> |             |            |             |            |            |                |            |             |             |            |
| OBEGAL (core operating balance)                | -2.7        | -2.4       | -2.8        | -1.7       | -0.8       |                |            |             |             |            |
| Net Core Crown Debt (excl NZS Fund Assets)     | 17.0        | 18.0       | 22.4        | 23.2       | 23.3       |                |            |             |             |            |
| Bond Programme - \$bn (Treasury forecasts)     | 20.0        | 28.0       | 38.0        | 36.0       | 34.0       |                |            |             |             |            |
| Bond Programme - % of GDP                      | 5.6         | 7.2        | 9.2         | 8.3        | 7.4        |                |            |             |             |            |
| <b>Financial Variables <sup>(1)</sup></b>      |             |            |             |            |            |                |            |             |             |            |
| NZD/USD                                        | 0.69        | 0.62       | 0.62        | 0.67       | 0.69       | 0.68           | 0.63       | 0.62        | 0.65        | 0.71       |
| USD/JPY                                        | 119         | 134        | 145         | 125        | 115        | 114            | 135        | 144         | 130         | 116        |
| EUR/USD                                        | 1.10        | 1.07       | 1.13        | 1.19       | 1.23       | 1.13           | 1.06       | 1.09        | 1.18        | 1.23       |
| NZD/AUD                                        | 0.93        | 0.93       | 0.90        | 0.89       | 0.91       | 0.95           | 0.94       | 0.93        | 0.89        | 0.91       |
| NZD/GBP                                        | 0.52        | 0.51       | 0.47        | 0.50       | 0.50       | 0.51           | 0.52       | 0.49        | 0.48        | 0.51       |
| NZD/EUR                                        | 0.62        | 0.58       | 0.55        | 0.56       | 0.56       | 0.60           | 0.60       | 0.57        | 0.55        | 0.58       |
| NZD/YEN                                        | 81.5        | 83.0       | 89.9        | 83.8       | 79.4       | 77.4           | 85.6       | 89.5        | 84.5        | 82.4       |
| TWI                                            | 73.9        | 71.0       | 71.0        | 72.5       | 73.6       | 73.0           | 72.9       | 72.0        | 71.3        | 75.3       |
| Overnight Cash Rate (end qtr)                  | 1.00        | 4.75       | 5.50        | 4.50       | 2.75       | 0.75           | 4.25       | 5.50        | 4.75        | 2.75       |
| 90-day Bank Bill Rate                          | 1.45        | 5.16       | 5.60        | 4.25       | 2.90       | 0.92           | 4.55       | 5.63        | 4.75        | 2.90       |
| 5-year Govt Bond                               | 2.90        | 4.40       | 4.85        | 3.70       | 3.55       | 2.20           | 4.30       | 4.50        | 4.00        | 3.55       |
| 10-year Govt Bond                              | 3.20        | 4.35       | 4.90        | 4.10       | 4.10       | 2.35           | 4.25       | 4.65        | 4.25        | 4.10       |
| 2-year Swap                                    | 3.00        | 5.15       | 4.90        | 3.25       | 3.00       | 2.22           | 5.21       | 4.93        | 3.60        | 2.95       |
| 5-year Swap                                    | 3.20        | 4.50       | 4.75        | 3.75       | 3.80       | 2.56           | 4.62       | 4.43        | 3.95        | 3.70       |
| US 10-year Bonds                               | 2.10        | 3.65       | 4.40        | 3.50       | 3.50       | 1.45           | 3.60       | 4.00        | 3.75        | 3.50       |
| NZ-US 10-year Spread                           | 1.10        | 0.70       | 0.50        | 0.60       | 0.60       | 0.90           | 0.65       | 0.65        | 0.50        | 0.60       |

<sup>(1)</sup> Average for the last month in the quarter

Source: Statistics NZ, BNZ, NZ Treasury

## Key Upcoming Events

All times and dates NZT

|                                                 | Median | Fcast | Last   |                                                | Median | Fcast | Last   |
|-------------------------------------------------|--------|-------|--------|------------------------------------------------|--------|-------|--------|
| <b>Monday 12 February</b>                       |        |       |        | AU Employment Change Jan                       | 30.0k  | 30.0k | -65.1k |
| NZ RBNZ's Hawkesby testifies                    |        |       |        | AU Unemployment Rate Jan                       | 4.00%  | 4.00% | 3.90%  |
| NZ RBNZ's Quigley, Orr testifies                |        |       |        | AU CBA Household Spending MoM Jan              |        |       | -3.90% |
| EC ECB's De Cos speaks                          |        |       |        | JN Industrial Production MoM Dec F             |        |       | 1.80%  |
| EC ECB's Lane speaks                            |        |       |        | UK Monthly GDP (MoM) Dec                       | -0.20% |       | 0.30%  |
| <b>Tuesday 13 February</b>                      |        |       |        | UK Industrial Production MoM Dec               | -0.10% |       | 0.30%  |
| US Fed's Bowman speaks                          |        |       |        | UK Trade Balance GBP/Mn Dec                    | £2000m |       | £1408m |
| EC ECB's Cipollone speaks                       |        |       |        | UK GDP QoQ 4Q P                                | -0.10% |       | -0.10% |
| US NY Fed 1-Yr Inflation Expectations Jan       |        |       | 3.01%  | EC ECB's Lagarde speaks                        |        |       |        |
| US Fed's Barkin speaks                          |        |       |        | EC Trade Balance SA Dec                        | 15.6b  |       | 14.8b  |
| US Fed's Kashkari speaks                        |        |       |        | US Revisions: PPI                              |        |       |        |
| UK BOE's Bailey speaks                          |        |       |        | <b>Friday 16 February</b>                      |        |       |        |
| NZ Ready Mixed Concrete 4Q                      |        |       | -0.80% | EC ECB's Lane speaks                           |        |       |        |
| AU RBA's Kohler speaks                          |        |       |        | UK BOE's Greene speaks                         |        |       |        |
| AU NAB Business Confidence Jan                  |        |       | -1     | US Empire Manufacturing Feb                    | -11.8  |       | -43.7  |
| NZ 2Yr Inflation Expectation 1Q                 |        |       | 2.76%  | US Retail Sales Advance MoM Jan                | -0.10% |       | 0.60%  |
| UK ILO Unemployment Rate 3Mths Dec              | 4.00%  |       |        | US Retail Sales Ex Auto and Gas Jan            | 0.30%  |       | 0.60%  |
| UK Payrolled Employees Mthly Chng Jan           | -18k   |       | -24k   | US Retail Sales Control Group Jan              | 0.20%  |       | 0.80%  |
| GE ZEW Survey Expectations Feb                  | 17.5   |       | 15.2   | US Philadelphia Fed Business Outlook Feb       | -8.6   |       | -10.6  |
| <b>Wednesday 14 February</b>                    |        |       |        | US Initial Jobless Claims Feb-10               | 220k   |       | 218k   |
| US NFIB Small Business Optimism Jan             | 92.1   |       | 91.9   | US Continuing Claims Feb-03                    | 1880k  |       | 1871k  |
| US CPI Ex Food and Energy YoY Jan               | 3.70%  |       | 3.90%  | UK BOE's Mann speaks                           |        |       |        |
| NZ REINZ housing report                         |        |       |        | US Manufacturing (SIC) Production Jan          | 0.00%  |       | 0.10%  |
| NZ Card Spending Total MoM Jan                  |        |       | -0.60% | US Business Inventories Dec                    | 0.40%  |       | -0.10% |
| NZ Food Prices MoM Jan                          |        | 1.20% | -0.10% | US NAHB Housing Market Index Feb               | 46     |       | 44     |
| UK CPI YoY Jan                                  | 4.10%  |       | 4.00%  | EC ECB's Nagel speaks                          |        |       |        |
| EC ECB's Vujcic speaks                          |        |       |        | US Fed's Waller speaks                         |        |       |        |
| EC ECB's Guindos speaks                         |        |       |        | NZ RBNZ's Orr speaks                           |        |       |        |
| EC GDP SA QoQ 4Q P                              | 0.00%  |       | 0.00%  | NZ BusinessNZ Manufacturing PMI Jan            |        |       | 43.1   |
| EC Employment YoY 4Q P                          |        |       | 1.30%  | US Fed's Bostic speaks                         |        |       |        |
| EC Industrial Production SA MoM Dec             | -0.20% |       | -0.30% | UK Retail Sales Inc Auto Fuel MoM Jan          | 1.60%  |       | -3.20% |
| <b>Thursday 15 February</b>                     |        |       |        | EC ECB's Schnabel speaks                       |        |       |        |
| EC ECB's Cipollone speaks                       |        |       |        | <b>Saturday 17 February</b>                    |        |       |        |
| US Fed's Goolsbee speaks                        |        |       |        | US Housing Starts Jan                          | 1460k  |       | 1460k  |
| UK BOE's Bailey speaks                          |        |       |        | US New York Fed Services Business Activity Feb |        |       | -9.7   |
| EC ECB's Nagel speaks                           |        |       |        | US PPI Ex Food and Energy YoY Jan              | 1.70%  |       | 1.80%  |
| NZ N.Z. Government 6-Month Financial Statements |        |       |        | US Fed's Barr speaks                           |        |       |        |
| US Fed's Barr speaks                            |        |       |        | US U. of Mich. Sentiment Feb P                 | 80     |       | 79     |
| NZ Net Migration SA Dec                         |        |       | 2740   | US Fed's Daly speaks                           |        |       |        |
| JN GDP SA QoQ 4Q P                              | 0.30%  |       | -0.70% | UK BOE's Pill speaks                           |        |       |        |

## Historical Data

|                                      | Today | Week Ago | Month Ago | Year Ago |                         | Today  | Week Ago | Month Ago | Year Ago |
|--------------------------------------|-------|----------|-----------|----------|-------------------------|--------|----------|-----------|----------|
| <b>CASH AND BANK BILLS</b>           |       |          |           |          | <b>SWAP RATES</b>       |        |          |           |          |
| Call                                 | 5.50  | 5.50     | 5.50      | 4.25     | 2 years                 | 5.26   | 4.88     | 4.68      | 5.23     |
| 1mth                                 | 5.63  | 5.59     | 5.58      | 4.77     | 3 years                 | 4.92   | 4.57     | 4.40      | 4.90     |
| 2mth                                 | 5.69  | 5.63     | 5.61      | 4.95     | 4 years                 | 4.74   | 4.43     | 4.27      | 4.68     |
| 3mth                                 | 5.75  | 5.67     | 5.64      | 5.10     | 5 years                 | 4.66   | 4.37     | 4.22      | 4.56     |
| 6mth                                 | 5.73  | 5.61     | 5.56      | 5.38     | 10 years                | 4.68   | 4.45     | 4.34      | 4.45     |
| <b>GOVERNMENT STOCK</b>              |       |          |           |          | <b>FOREIGN EXCHANGE</b> |        |          |           |          |
| 05/26                                | 4.99  | 4.69     | 4.46      | 4.45     | NZD/USD                 | 0.6141 | 0.6055   | 0.6200    | 0.6358   |
| 04/29                                | 4.70  | 4.45     | 4.25      | 4.26     | NZD/AUD                 | 0.9426 | 0.9340   | 0.9310    | 0.9128   |
| 05/31                                | 4.76  | 4.55     | 4.41      | 4.25     | NZD/JPY                 | 91.72  | 90.01    | 90.34     | 84.20    |
| 05/34                                | 4.85  | 4.67     | 4.58      | 4.32     | NZD/EUR                 | 0.5696 | 0.5636   | 0.5662    | 0.5930   |
| 04/37                                | 4.99  | 4.83     | 4.76      | 4.45     | NZD/GBP                 | 0.4864 | 0.4830   | 0.4871    | 0.5238   |
| 05/41                                | 5.10  | 4.93     | 4.86      | 4.53     | NZD/CAD                 | 0.8270 | 0.8198   | 0.8325    | 0.8477   |
| 05/51                                | 5.09  | 4.93     | 4.85      | 4.40     | TWI                     | 72.0   | 71.2     | 71.9      | 71.6     |
| <b>GLOBAL CREDIT INDICES (ITRXX)</b> |       |          |           |          |                         |        |          |           |          |
| Nth America 5Y                       | 54    | 55       | 55        | 71       |                         |        |          |           |          |
| Europe 5Y                            | 59    | 59       | 61        | 77       |                         |        |          |           |          |

# Contact Details

## BNZ Research

**Stephen Toplis**

Head of Research  
+64 4 474 6905

**Doug Steel**

Senior Economist  
+64 4 474 6923

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Stuart Ritson**

Senior Interest Rate Strategist  
+64 9 9248601

**Mike Jones**

BNZ Chief Economist  
+64 9-956 0795

## Main Offices

**Wellington**

Level 2, BNZ Place  
1 Whitmore St  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

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