Research
Markets Outlook

10 February 2025

February MPS Preview

- **RBNZ to lower cash rate 50 basis points to 3.75%**
- **Further rate cuts to be signalled**
- **Quicker decline than November MPS likely**
- **An OCR low of around 3.0% repeated**
- **PMI and PSI to confirm moribund economy**

Immediately following the November Monetary Policy Statement Governor Orr (MPS) suggested that if New Zealand's economic evolution turned out broadly as expected the Bank would deliver a 50 basis point cut at the February MPS. While uncertainty has risen (largely thanks to the installation of one Donald Trump), domestic data has been revised (sometimes aggressively) and domestic government policy changes are flying thick and fast, it still seems to us that the broad trajectory of the economy is where the Bank expected it to be. Additionally, financial markets are pricing a 50 point cut as almost a done deal. On these bases, it would be massive surprise if the RBNZ did anything but deliver.

The big interest for markets is what the Bank will intimate about its future rate track. In our opinion, it should publish a quicker decline in rates than it did back in November. To start with, if it goes 50 it will already be a bigger drop than the Bank's model delivered previously. From then on, it would seem strange to us if the Bank stuck to its view that the low in the cash rate won't be achieved until 2027. Indeed, it seemed strange to us when this was mooted in November.

One would have hoped that by 2027 the economy would be well and truly back on its feet, so much so that rate increases would be being contemplated.

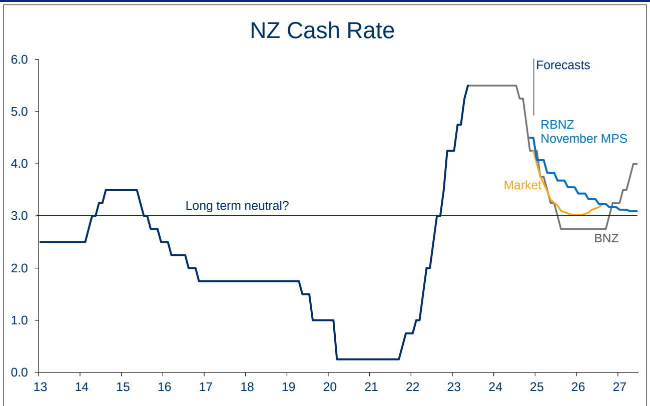
Our view is that the cash rate should be cut 25 basis points per meeting, following the 50 in February, until such time that the Bank thinks it's done enough. In theory, that should mean the cash rate falling to a level deemed as being below neutral i.e one that is outright stimulatory. Sure, as we approach the end of a cycle a pause may be required at some stage, as the Bank ponders the implications of past moves, but to forecast when such a pause should happen is fraught with danger. Nonetheless, as the RBNZ's forward track is largely model driven it can look a little quirky at times and not accurately indicate future decisions.

The big debate, of course, is where is neutral? And how much lower than neutral do you need to go to get the desired outcome. For the most part, it doesn't matter where we think neutral is. The Reserve Bank decides where rates go and will shift them according to where they think neutral is. On this basis, due attention needs to be given to Chief Economist Paul Conway's recent speech in which he confirmed the RBNZ sees neutral as being in a 2.5% to 3.5% band meaning that a working assumption of 3.0% is a good bet.

On this basis we have a low in the cash rate of 2.75% pencilled in. It's the same pencil we have been using since first forecasting this low point in the rate cycle almost two years ago. Any number of reasons mean it might not land there but it still seems to us to be a good working assumption.

As things stand the market has moved to price a very similar rate track as our own. The two key differences are that the market prices a higher low (3.00%) and a relatively early first rate hike. We have no great gripe with the variation in the low which, after all is just one 25 basis point rate cut different, but history shows that rates tend to stay at lows (and highs) for around nine to twelve months in the absence of a major economic shock. We see no reason why this cycle should be any different.

More rate cuts ahead



Source: BNZ, RBNZ Bloomberg

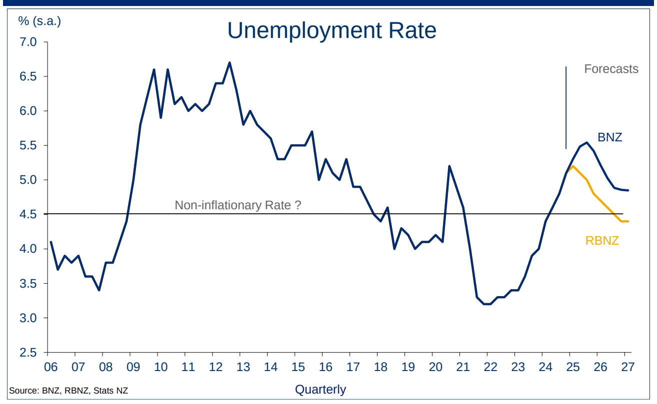
The key message here though is that financial markets have already priced in an aggressive rate cut trajectory. This means that if the RBNZ does not follow through with substantially lower rates then retail interest rates will begin to drift to higher.

With this in mind, it is interesting to note the apparent increasing intent of home owners to fix mortgages at longer durations. There is currently a huge proportion of the mortgage market utilising very short term loans. At some point there will be a rush for the door as folk try to lock in longer term rates. This rush puts upward pressure on swap rates and, in turn, lending rates. Ironically, higher lending rates mean the cash rates has to be lower than would otherwise be the case. This is one of the reasons we believe the cash rate may end up lower than many expect.

There are two other reasons driving lower interest rates:

- The expected rebound in economic activity seems to be taking a little longer than anticipated. While leading indicators remain positive, coincident indicators such as the PMI and PSI are still moribund. We have recently lowered our pick for Q4 GDP to just 0.1% (which means it could easily have a negative sign on it) and 0.3% for Q1.
- Despite the unemployment rate coming in bang on RBNZ expectations for Q4 at 5.1%, we still believe it will peak at 5.5%, higher than the RBNZ's 5.2% forecast.

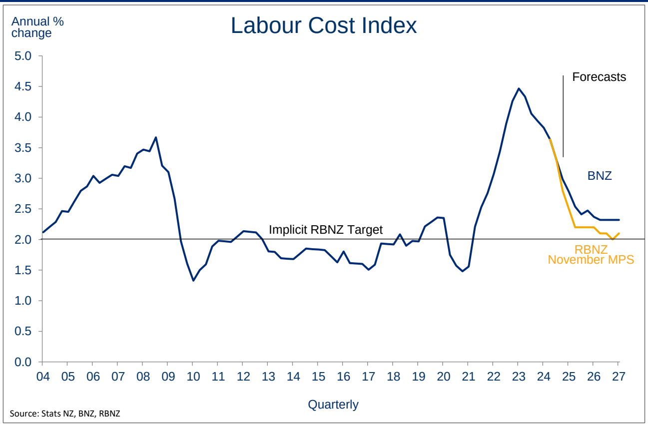
More downward pressure on rates?



We acknowledge, nonetheless, that there remain upside risks to short term inflation.

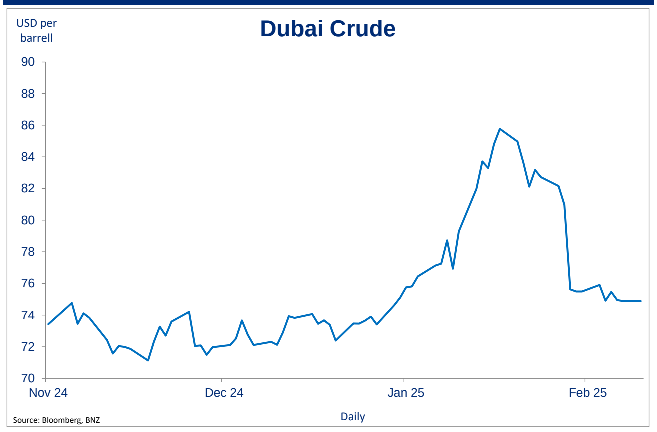
- The NZ TWI is currently sitting at 67.7 which is 2.5% below where the RBNZ assumed it would be at the time of its November MPS. All other things being equal this would add around 0.3% to annual inflation forecasts.
- The labour market is weakening but wages, at least as measured by the Labour Cost Index (LCI), are not falling as fast as the RBNZ has been forecasting. Annual total private sector LCI growth for the year ended December 2024 was reported at 3.0% compared to a RBNZ pick of 2.8%.
- New Zealand commodity prices have been soaring. Export prices impact domestic commodity prices and will put upward pressure on food costs over the next twelve months.

Wages still a worry



We had been concerned about rising oil prices as they looked like they would push NZ CPI inflation higher. Dubai Crude prices rose over 20% from late November to mid January but have slumped 13% since then. This has resulted in our peak CPI inflation forecast in 2025 being revised lower to 2.4% from 2.5%.

The oil price wildcard



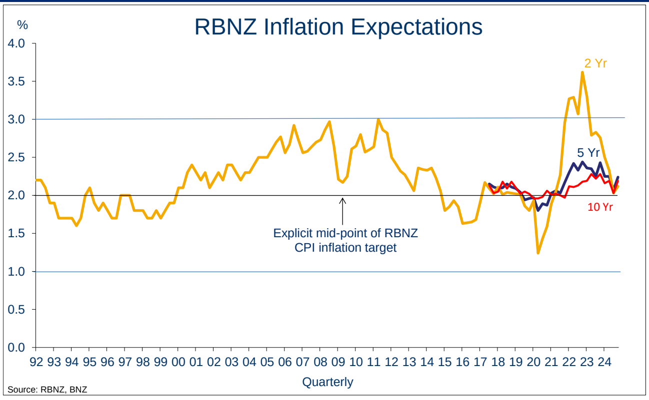
And then, of course, there are the tariffs. To the extent that they put up the price of traded goods they will be inflationary. To the extent they adversely impact global growth they are deflationary. The net effect is not at all certain.

But uncertainty breeds caution. So developments in US policy making are a very good reason for the Reserve Bank not to cut rates any more than 25 basis points per meeting post the February Meeting. Moreover, Bank officials have indicated that a more moderated approach to rate setting would be appropriate as the cash rate approached neutral. If the cash rate is "just" 3.75% after the February meeting then it is within the realms of a more cautious approach.

It won't be a deal breaker, but the RBNZ will be having a close look at the Selected Price Indices for January released on Friday. The first month of the quarter establishes the base for the Q1 CPI. We are now forecasting 0.5% for the quarter, 2.1% for the year. Contributing to that forecast is our expectation that food prices rise 1.1% in the month of January and rents increase 4.0% y/y.

Also of interest to the Bank will be Thursday's business inflation expectations data. Two, five and ten year expectations all rose in December from what seemed unusually low readings in September. The level of the December expectations 2.12%, 2.24% and 2.19% respectively will not be disconcerting but they would start to be if there were signs of upward momentum.

Inflation expectations of interest



Source: RBNZ, BNZ

Our focal point for the week will be Friday's PMI. This series has been nothing short of awful for a very long time. We live in hope that it will climb from December's 45.9 reading but are not confident that will be the case.

The PMI is followed up with the PSI Monday February 17. The PSI has fallen back below the "breakeven" 50 mark to 47.9. Again, we'll be hoping for a small increase but have little conviction that this will be the case.

Other things to keep an eye on over the week are:

- Trump's exploits
- The ANZ Truckometer on Tuesday
- Wednesday's concrete production data for Q4. Concrete production has lifted over the last two quarters. It will need to continue on this path if a recovery in the construction sector is to occur.
- Electronic cards transactions data are released Thursday. We are looking for a small increase in sales to be consistent with our view that private consumption begins to lift in Q1.
- Also on Thursday are the Crown Financial Statements for the six months ended December. The previous release suggested that Budget fiscal forecasts are broadly on track. Hopefully, December data will show likewise, though the risk is that we eventually get an higher than forecast fiscal deficit for the year to June 2025.
- Capping things off, keep an ear open for Finance Minister Willis' keynote speech at the University of Waikato's New Zealand Economic Forum, Thursday, 9.10am and newish, Secretary to the Treasury, Iain Rennie's musings at 7.40am Friday at the same event.

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Global Watch

- **Trump's policy agenda continues to take centre-stage**
- **US CPI and PPI; core measures for both seen at 0.3% m/m**
- **Fed Chair Powell speaks to lawmakers**
- **UK GDP and speech by BoE MPC member Mann**

Week in Review

It was a volatile start to last week with the US initially announcing a 25% tariff on Canada and Mexico (to force action on migration and fentanyl/illegal drugs coming across the US border). Both countries threatened retaliation, while equity futures fell sharply. There were also sharp moves in FX. Following a discussion between leaders the tariffs were suspended for month.

The US though did go ahead with a 10% tariff on China, with China retaliating. President Trump also noted non-country specific tariffs (i.e. broad categories) may be coming in February, while reviews of country specific trade are due to be completed by 1 April. We expect volatility to remain in FX and equity markets, but rates markets being less volatile for now as markets try and discern potential growth and inflation impacts and implications for monetary policy.

During the week the BoE met and cut rates as expected, though there was a further dovish tilt given former hawk Mann dissented in favour of a larger 50bp cut. Two big US tech names reported (Alphabet and Amazon), disappointing expectations, but not having a large impact on the broader equity market given positive earnings from other names.

In Australia, Retail Sales for December came in better than expected with quarterly volumes up 1.0% q/q vs. 0.8% expected. The data support the assessment that consumption growth was improving from the trough in H1 2024 through the end of the year. The extent of the improvement though is still uncertain with the timing of Black Friday and Cyber Monday bleeding into December.

Week Ahead

Offshore focus remains on possible tariff announcements. China's retaliation to the US' 10% tariff is due to come into effect from its today. The scope is limited and is seen as a largely symbolic move, to avoid a full-blown trade war. Additionally, US President Trump noted at the end of January that he would impose tariffs on oil and gas imports, likely next month (i.e. February; a date of 18 Feb was floated), as well as tariffs on CHIP semiconductor technology and pharma, steel, aluminium, and copper.

Datawise the biggest items in the US are Fed Chair Powell giving Testimony (Tuesday and Wednesday), CPI/PPI for January which will pre-date potential tariff impacts (Wednesday and Thursday), and Retail Sales (Friday) which may continue to benefit from front running possible tariffs. Consensus for Core CPI is 0.3% m/m and 3.1% y/y. Given tariff uncertainty it is unlikely the data will be overly market moving.

In Europe, it is very quiet with no top-tier data in the Euro area. In the UK, Q4 GDP (Thursday) is the most notable, along with a speech by BoE MPC member Mann who recently made a road to Damascus conversion from being the most hawkish, to dissenting in favour of a 50bp cut. Canada is quiet with only the BoC Minutes of any note (Wednesday).

In Australia, data flow is light with only the NAB Business Survey and Westpac Consumer Confidence (both Tuesday), but these are unlikely to shape views ahead of the RBA's 17-18 meeting. Profit reporting season also picks up steam with CBA the first domestic bank to report (Wednesday). As for China data, Aggregate Financing figures are due anytime in the week.

Important Events Preview

Monday 10

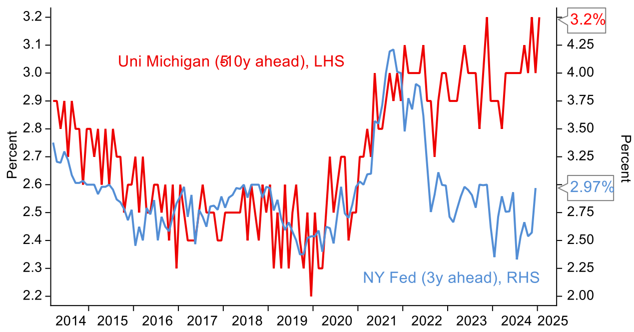
JN Trade Balance; Eco Watchers Survey

CH/US China's retaliatory tariffs on US take effect
China's retaliatory tariffs are due to take effect from today. These include a 15% levy on US coal and LNG, 10% on crude oil, farm equipment and specific trucks.

US NY Fed Inflation Expectations
Fed officials have been citing inflation expectations as a crucial measure to watch amid the threat of tariffs. Fed officials so far have been communicating they are in wait and see mode with no need to be pre-emptive. A 2018 analysis by the Fed staff in Washington concluded that:

"...*the see-through policy would seem an appropriate response to a tariff hike. However, the desirability of this strategy depends on firmly anchored inflation expectations and the pass-through of cost shocks into inflation being relatively short lived*"

US Consumer Inflation Expectations- Longer-run



Source: National Australia Bank, University of Michigan, Federal Reserve Bank of New York, Macrobond, Bloomberg

Note the NY Fed measure gives a 1yr and 3yr measure of consumer expectations. There is no one single measure of inflation expectations, though the Fed staff do publish an experimental Index of Common Inflation Expectations.

Tuesday 11

AU NAB Business Survey; WBC Consumer Confidence
We do not preview the NAB Business Survey given our NAB colleagues publish it. However, RBA Governor Bullock did reference it during the December press conference, noting:

"*It showed, I think, very similar things. Weak private sector activity. But the comment from NAB was capacity utilisation is still high so growth isn't strong but the level of activity is holding up. And that's the story we've been telling, which is that everyone's focusing on the fact that the economy is not growing very quickly, hardly growing at all but the level of activity is still quite elevated…"*

As for WBC Consumer Confidence, while this is not usually market moving, it is notable that the sharp lift in confidence seen in late 2024 was also reflected in a lift in retail sales, where Q4 2024 retail volumes rose 1.0% q/q.

UK BoE's Bailey and Mann speak
BoE MPC Mann might be the one to watch given the road to Damascus conversion from arch hawk to a dovish dissenter. Mann was one of two who dissented in favour of a 50 bp cut at the BoE's February meeting, where the BoE voted 7 v 2 to cut rates by 25bps. The BoE Minutes noted that the rationale for her dissent was that it would:

"*give a clearer signal of financial conditions appropriate for the United Kingdom, even as monetary policy would need to remain restrictive for some time to anchor inflation expectations, and Bank Rate would likely stay high given structural persistence and macroeconomic volatility*"

US Fed Powell Testimony (Senate); other Fed speak
Fed Chair Powell is giving semi-annual Senate Testimony. His remarks are unlikely to deviate much from his most recent post-Meeting press conference. Separately the Fed's Williams and Hammack speak on the economic outlook.

Wednesday 12

AU Lending Indicators (Q4 2024)
This will be the first instalment of the quarterly lending indicators release (previously this was published monthly). Of interest will be lending commitments by state, given divergence in dwelling prices across states.

AU Earnings – CBA, Suncorp
CBA reports with interest from a macro perspective being household and business arrears performance, and from a credit perspective the overall lending book and NIM performance. Suncorp may give some guidance on expected premium increases – important for CPI where insurance has been a large driver.

US CPI (January)
The January CPI will be the last print that pre-dates the possible impact from tariffs. Consensus sees Core CPI at 0.3% m/m and 3.1% y/y.

US Fed Powell Testimony (House); Fed's Bostic too
Expect similar remarks from Powell to the House as he gave to the Senate on Tuesday. The Fed's Bostic is also on the speaking roster, speaking on the economic outlook.

Thursday 13

JN PPI

UK Q4 GDP

US PPI (January); Jobless Claims
Following the PPI, a reasonable estimate of the Fed's preferred PCE measure can be made. Consensus sees Core PPI at 0.3% m/m and 3.3% y/y. Going forward though, the PPI will be looked at more in its own right for the possible impact and pass through of tariffs – this point was made recently by the Fed's Goolsbee: "*I would put special emphasis on things like PPI and industry contacts in monitoring how tariffs might influence prices and inflation".*

Friday 14

EZ Second read on Q4 GDP
A second read on Q4 GDP is expected to be unrevised at 0.0% q/q and 0.9% y/y.

US Retail Sales; Industrial Production
Retail Sales are expected to remain strong, with some front running of possible tariffs one possible driver last month and again this month. Consensus sees the Core Control Group measure up 0.3% m/m. Industrial production meanwhile is also expected to rise 0.3% m/m.

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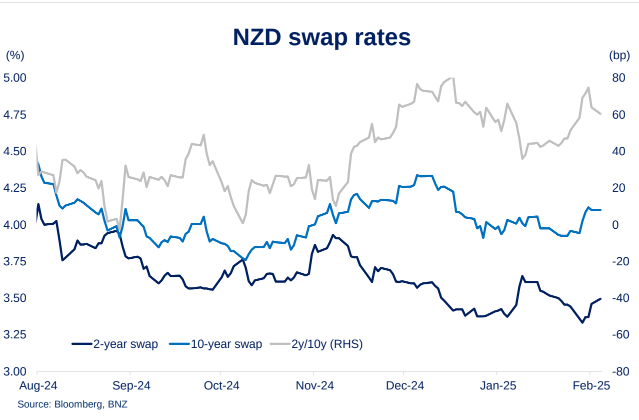
Fixed Interest Market

Reuters: BNZL, BNZM Bloomberg: BNZ

Front end NZ rates traded to marginal new lows for the cycle last week, set against the backdrop of soft activity data, and a further rise in the unemployment rate. However, there was a significant rebound in low liquidity conditions on Friday, which resulted in a sharp flattening of the yield curve. The 2y/10y curve flattened 10bp in one day, an unusually large adjustment, particularly in the absence of economic data or other non-positioning related market catalysts.

2y/10y swap curve retracement



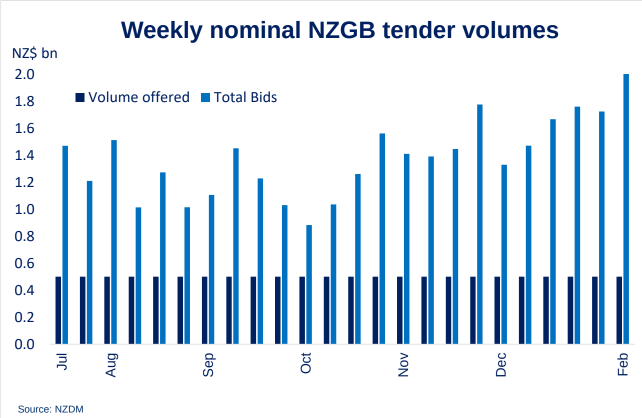
The NZ unemployment rate increased to 5.1% in the December quarter. This is the highest level since 2016 after excluding the volatile period during the pandemic. The data matched the consensus estimate, and the RBNZ's projection from the November Monetary Policy Statement (MPS), but nonetheless illustrates the growing spare capacity in the economy and supports the case for further front-loaded rate cuts.

We maintain a downward bias for front end rates and expect 2-year swaps to retest the cycle lows near 3.3%. The domestic focus for the fixed interest market in the week ahead will centre on monthly activity data including card spending and the manufacturing PMI. In addition, inflation partials for January will give a sense of how CPI is tracking relative our baseline forecast.

Inflation expectations data will be also closely monitored by the market. The 2-year ahead measure, remained steady near the 2% midpoint of the RBNZ's target band, during the second half of 2024. We have previously revised our headline CPI forecasts modestly higher in response to the weaker NZ dollar and higher oil prices (which have subsequently retraced) and the RBNZ will want to see that expectations remain anchored near its target.

NZ government bonds have attracted notable investor demand since the beginning of the year with another strong tender last week. Investor bids totalled NZ$2.3 billion, for the NZ$500 million bonds offered, which was the largest amount since late 2020. The three auctioned lines cleared around 2bp below the prevailing market yields, reflecting robust underlying demand.

Robust investor demand in the weekly NZGB tenders



Ongoing demand sets up well for the tap syndication of the May-2035 nominal line which launched earlier this morning. The deal timing was widely anticipated by the market after the syndicate panel was announced last week. The tap is expected to raise at least $3.0 billion and will be capped at NZ$6.0 billion.

The average amount issued, in the previous three similar maturity transactions since January 2024, was NZ$5 billion. Allocations in these deals were roughly evenly split between domestic and non-resident investors.

Initial price guidance for the transaction is a +10 to +13bp spread above the yield on the May 2034 nominal bond. This compares with a close of +8bp on Friday. The government bond tender on Thursday is cancelled which is typical in a syndication week.

Current rates and 1-month range

	Current	Last 4-weeks range*
NZ 90d bank bills (%)	3.88	3.88 - 4.12
NZ 2yr swap (%)	3.51	3.33 - 3.65
NZ 5yr swap (%)	3.72	3.58 - 3.89
NZ 10yr swap (%)	4.12	4.03 - 4.30
2s10s swap curve (bps)	61	60 - 71
NZ 10yr swap-govt (bps)	-41	-48 - -39
NZ 10yr govt (%)	4.53	4.45 - 4.70
US 10yr govt (%)	4.49	4.38 - 4.81
NZ-US 10yr (bps)	4	-15 - 4
NZ-AU 2yr swap (bps)	-26	-57 - -26
NZ-AU 10yr govt (bps)	18	-2 - 18

*Indicative range over last 4 weeks

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Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

Last week the NZD traded a range of nearly two cents, with a net modest gain of 0.4% to close around 0.5660, after falling to a fresh two-year low of 0.5516 early in the week. The NZD also made modest gains against GBP and EUR. NZD/AUD fell over ½% to 0.9025. JPY was the clear outperformer, seeing NZD/JPY fall 2% to 85.7. CAD also outperformed and NZD/CAD fell 1.3% to 0.8085.

The new week began with the fallout from President Trump's announcement at the end of the previous week imposing "emergency" tariffs on the three largest trading partners of the US, linked to the illegal supply of drugs and migrants. This caused many major currencies to fall to fresh multi-year lows against the USD.

President Trump gave a one-month reprieve to Canada and Mexico for their 25% tariffs, while the proposed 10% lift in China's tariffs was kept. China retaliated, but the scope was limited and was seen as a largely symbolic move, to avoid a full-blown trade war. There was chatter that China would not devalue the yuan to gain competitive advantage, and that proved to be the case in the CNY fixings after the Chinese New Year holidays ended.

The market was left wondering whether Trump's tariffs were simply a negotiating tool or would become a permanent feature of trade policy. On Friday, Trump said he plans to unveil reciprocal tariffs this week, saying the action would affect "everyone", with a plan for a meeting on Monday or Tuesday. These reciprocal tariffs look more targeted, replacing his pre-election policy of universal tariffs. Thus, NZ looks safe, while the EU can probably expect to come under the spotlight.

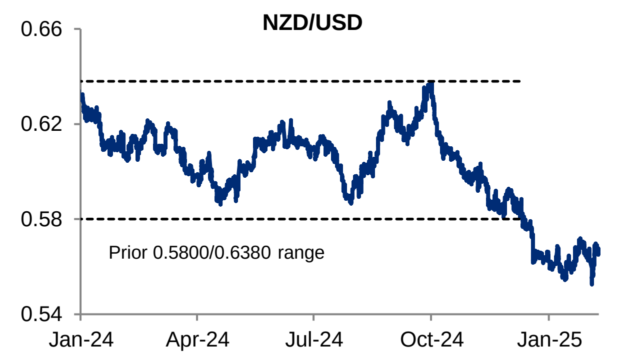
In other news, the US employment report was stronger than expected, seeing the market pare back the scope for Fed easing this year, supporting the USD at the end of the week. The market reacted dovishly to the BoE's third rate cut this cycle, given two members voted for a larger 50bps cut, resulting in GBP underperformance. Strong Japan wage inflation and hawkish soundbites from a BoJ member was supportive for the yen. The yen continues to hold appeal, being historically extremely cheap, the BoJ tightening against the grain of easier policy elsewhere, and the yen's safe-haven characteristics during uncertain times amidst a possible US trade war. Domestically, NZ labour market data, showing weak employment, the unemployment rate rising to a fresh four-year high of 5.1%, and softer wage inflation were in line with market and RBNZ expectations.

In the week ahead the key economic releases will be US CPI, PPI, and retail sales, with only second-tier releases elsewhere, including NZ. Fed Chair Powell will be in front of lawmakers.

However, it looks like Trump's policy agenda will continue to take centre-stage as a key driver of markets. While the NZD has range traded this year after the near-12% plunge in Q4, President Trump's tariff policy overhangs the NZD outlook in the first half of the year. While the trade war with China looks timid so far, things could easily change after 1 April, a key date for which reports on trade will be presented to Trump for his consideration. While reports from China suggest the yuan won't be used as a weapon to counter tariffs, let's see what happens post 1 April. We see the China tariffs, impact on the yuan, and global growth impacts as all key factors that drive the outlook for the NZD this year.

With high policy uncertainty there are wide confidence intervals around our projections, which continue to convey some further downside potential for the NZD over the first half, ahead of a possible turnaround during second half of the year.

NZD relatively stable after plunging in Q4



Source: Bloomberg, BNZ

Cross Rates and Model Estimates

	Current	Last 3-weeks range*
NZD/USD	0.5662	0.5540 - 0.5720
NZD/AUD	0.9033	0.9010 - 0.9090
NZD/GBP	0.4565	0.4530 - 0.4610
NZD/EUR	0.5481	0.5410 - 0.5490
NZD/JPY	85.74	86.70 - 89.30

*Indicative range over last 3 weeks, rounded figures

BNZ Short-term Fair Value Models

	Model Est.	Actual/FV
NZD/USD	model suspended	
NZD/AUD	0.8560	6%

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Technicals

NZD/USD

Outlook: Trading range
ST Resistance: 0.58 (ahead of 0.60)
ST Support: 0.5540 (ahead of 0.55)

Every week the NZD avoids a lurch below 0.55, the stronger that key support level becomes.

NZD/USD – Daily
Source: Bloomberg

NZD/AUD

Outlook: Trading range
ST Resistance: 0.92 (ahead of 0.9315)
ST Support: 0.89 (ahead of 0.87)

No obvious markers but we see support at 0.89 and some resistance at 0.92.

NZD/AUD – Daily
Source: Bloomberg

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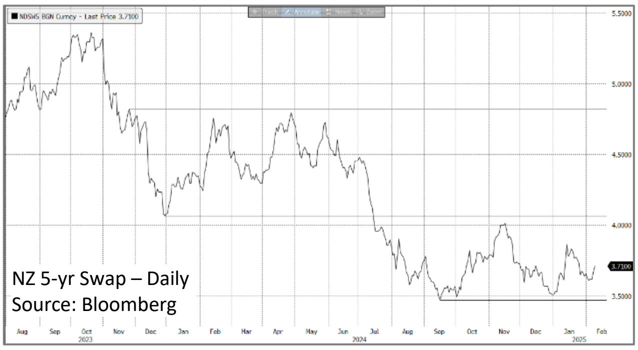
NZ 5-year Swap Rate

Outlook: Neutral
ST Resistance: 4.06
ST Support: 3.48

5-year swap traded a volatile 13bp range last week due to global rates and domestic data. It does however remain middle of the range for now.


NZ 5-yr Swap – Daily
Source: Bloomberg

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

Outlook: Steeper
ST Resistance: 0.28
ST Support: -0.10

2x5 swap spread made new highs last week as it steepened to 26.5bp before failing to break our resistance. We will continue to watch closely for a break.


NZ 2yr 5yrSwap Spread – Daily
Source: Bloomberg

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Quarterly Forecasts

Forecasts as at 10 February 2025

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
GDP (production s.a.)	0.3	0.3	-1.1	-1.0	0.1	0.3	0.7	0.8	0.8	0.9
Retail trade (real s.a.)	-1.8	0.5	-1.2	-0.1	0.0	0.5	0.8	1.0	1.2	1.1
Current account (ytd, % GDP)	-6.9	-6.6	-6.6	-6.4	-6.1	-5.5	-4.9	-4.6	-4.3	-4.0
CPI (q/q)	0.5	0.6	0.4	0.6	0.5	0.5	0.5	0.8	0.5	0.6
Employment	0.4	-0.5	0.1	-0.6	-0.1	0.0	0.2	0.4	0.6	0.7
Unemployment rate %	4.0	4.4	4.6	4.8	5.1	5.3	5.5	5.5	5.4	5.2
Avg hourly earnings (ann %)	6.6	4.8	4.0	3.2	4.0	4.5	4.2	3.6	2.9	3.0
Trading partner GDP (ann %)	3.2	3.1	2.9	2.9	3.0	2.8	2.9	2.9	2.9	2.8
CPI (y/y)	4.7	4.0	3.3	2.2	2.2	2.1	2.2	2.4	2.3	2.4
GDP (production s.a., y/y)	0.9	1.3	-0.5	-1.5	-1.6	-1.7	0.0	1.8	2.6	3.1

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	 5 Year	 10 Year	Swaps 2 Year	 5 Year	 10 Year	US Rates Libor 3 month	 US 10 yr	Spread NZ-US Ten year
2023 Mar	4.58	4.99	4.27	4.26	5.11	4.51	4.40	4.90	3.65	0.61
Jun	5.42	5.62	4.23	4.27	5.19	4.44	4.30	5.40	3.60	0.68
Sep	5.50	5.66	4.87	4.87	5.54	4.90	4.75	5.65	4.15	0.73
Dec	5.50	5.64	4.90	5.07	5.28	4.85	4.90	5.65	4.45	0.64
2024 Mar	5.50	5.66	4.44	4.68	4.92	4.40	4.45	5.60	4.15	0.53
Jun	5.50	5.63	4.56	4.74	5.01	4.53	4.60	5.60	4.45	0.30
Sep	5.33	5.30	3.96	4.31	4.05	3.80	4.05	5.35	3.95	0.37
Dec	4.42	4.44	4.00	4.47	3.65	3.74	4.10	4.85	4.30	0.19
Forecasts										
2025 Mar	3.75	3.50	3.70	4.50	3.20	3.55	4.15	4.65	4.30	0.20
Jun	3.25	3.00	3.45	4.45	2.90	3.35	4.15	4.40	4.25	0.20
Sep	2.75	2.90	3.45	4.45	3.00	3.40	4.20	4.15	4.25	0.20
Dec	2.75	2.90	3.55	4.30	3.15	3.50	4.10	3.90	4.00	0.30
2026 Mar	2.75	2.90	3.65	4.30	3.40	3.65	4.15	3.90	4.00	0.30

Exchange Rates (End Period)

	USD Forecasts NZD/USD	 AUD/USD	 EUR/USD	 GBP/USD	 USD/JPY	NZD Forecasts NZD/USD	 NZD/AUD	 NZD/EUR	 NZD/GBP	 NZD/JPY	 TWI-17
Current	0.56	0.63	1.03	1.24	152	0.56	0.90	0.55	0.46	85.8	67.7
Mar-25	0.58	0.65	1.04	1.27	155	0.58	0.89	0.56	0.46	89.9	69.0
Jun-25	0.57	0.64	1.05	1.27	155	0.57	0.89	0.55	0.45	88.4	68.7
Sep-25	0.59	0.66	1.06	1.28	153	0.59	0.89	0.55	0.46	89.5	69.5
Dec-25	0.60	0.67	1.07	1.28	150	0.60	0.89	0.56	0.47	89.3	70.0
Mar-26	0.62	0.69	1.08	1.29	144	0.62	0.89	0.57	0.48	88.6	71.4
Jun-26	0.64	0.71	1.11	1.32	140	0.64	0.89	0.57	0.48	88.9	72.7
Sep-26	0.65	0.72	1.13	1.34	135	0.65	0.90	0.58	0.49	87.8	73.6
						TWI Weights					
						15.6%	18.4%	9.2%	3.9%	5.5%	

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

Annual Forecasts

Forecasts as at 10 February 2025	March Years					December Years				
	Actuals					Actuals				
	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025
GDP - annual average % change										
Private Consumption	6.3	3.4	1.0	0.2	2.2	7.6	4.2	1.0	0.1	1.6
Government Consumption	8.0	2.7	2.0	-1.3	-0.1	7.9	5.2	0.8	-0.2	-0.6
Total Investment	9.1	3.3	-1.6	-4.9	1.4	10.9	4.2	-0.6	-4.9	-0.9
Stocks - ppts cont'n to growth	0.5	0.3	-1.6	0.2	0.4	1.4	0.0	-1.4	0.1	0.3
GNE	7.9	3.7	-1.1	-0.6	2.1	9.9	4.5	-0.9	-0.8	1.3
Exports	2.5	5.6	8.6	1.4	3.1	-2.7	-0.8	11.4	3.5	2.2
Imports	17.2	4.4	-1.3	1.5	3.6	14.8	4.6	-0.6	1.9	2.4
Real Expenditure GDP	4.6	3.9	1.3	-0.8	2.0	5.8	3.2	1.8	-0.2	0.9
GDP (production)	**4.5**	**3.5**	**1.4**	**-1.3**	**1.9**	**5.6**	**2.9**	**1.8**	**-0.6**	**0.7**
GDP - annual % change (q/q)	*0.5*	*3.0*	*1.3*	*-1.7*	*3.1*	*2.6*	*3.1*	*0.9*	*-1.6*	*2.6*
Output Gap (ann avg, % dev)	1.0	2.0	0.9	-1.4	-1.0	1.3	1.9	1.2	-0.7	-1.3
Nominal Expenditure GDP - $bn	359	394	417	428	450	353	386	412	426	444
Prices and Employment - annual % change										
CPI	6.9	6.7	4.0	2.1	2.4	5.9	7.2	4.7	2.2	2.3
Employment	2.5	3.1	1.0	-0.6	1.9	3.3	1.7	2.8	-1.1	1.2
Unemployment Rate %	3.2	3.4	4.4	5.3	5.2	3.2	3.4	4.0	5.1	5.4
Wages - ahote (private sector)	5.3	8.2	4.8	4.5	3.0	4.1	8.1	6.6	4.0	2.9
Productivity (ann av %)	1.7	1.3	-1.1	-0.6	1.2	3.6	0.7	-1.3	-0.3	0.7
Unit Labour Costs (ann av %)	4.7	5.7	7.2	5.0	2.4	2.3	6.0	7.6	5.1	3.2
House Prices (stratified, qtr)	9.1	-12.8	2.8	-0.4	7.0	22.5	-13.8	0.6	-1.0	6.8
External Balance										
Current Account - $bn	-24.5	-33.8	-27.6	-23.7	-18.2	-21.3	-35.6	-28.6	-25.9	-19.0
Current Account - % of GDP	-6.8	-8.6	-6.6	-5.5	-4.0	-6.0	-9.2	-6.9	-6.1	-4.3
Government Accounts - June Yr, % of GDP										
OBEGAL ex ACC (core op. balance) (Treasury forecasts)	-2.7	-2.4	-3.1	-4.1	-3.1					
Net Core Crown Debt (ex NZS) (Treasury forecasts)	35.4	39.3	42.4	45.1	45.1					
Bond Programme - $bn (Treasury forecasts)	20.0	28.0	39.3	40.0	40.0					
Bond Programme - % of GDP	5.6	7.1	9.4	9.3	8.9					
Financial Variables (1)										
NZD/USD	0.69	0.62	0.61	0.58	0.62	0.68	0.63	0.62	0.57	0.60
USD/JPY	119	134	150	155	144	114	135	144	154	150
EUR/USD	1.10	1.07	1.09	1.04	1.08	1.13	1.06	1.09	1.05	1.07
NZD/AUD	0.93	0.93	0.93	0.89	0.89	0.95	0.94	0.93	0.91	0.89
NZD/GBP	0.52	0.51	0.48	0.46	0.48	0.51	0.52	0.49	0.45	0.47
NZD/EUR	0.62	0.58	0.56	0.56	0.57	0.60	0.60	0.57	0.55	0.56
NZD/YEN	81.5	83.0	91.1	89.9	88.6	77.4	85.6	89.5	88.4	89.3
TWI	73.9	71.0	71.2	69.0	71.4	73.0	72.9	72.0	68.5	70.0
Overnight Cash Rate (end qtr)	1.00	4.75	5.50	3.75	2.75	0.75	4.25	5.50	4.25	2.75
90-day Bank Bill Rate	1.45	5.16	5.64	3.50	2.90	0.92	4.55	5.63	4.26	2.90
5-year Govt Bond	2.90	4.40	4.60	3.70	3.65	2.20	4.30	4.50	3.90	3.55
10-year Govt Bond	3.20	4.35	4.60	4.50	4.30	2.35	4.25	4.65	4.45	4.30
2-year Swap	3.00	5.15	4.91	3.20	3.40	2.22	5.21	4.93	3.53	3.15
5-year Swap	3.20	4.50	4.40	3.55	3.65	2.56	4.62	4.43	3.63	3.50
US 10-year Bonds	2.10	3.65	4.20	4.30	4.00	1.45	3.60	4.00	4.40	4.00
NZ-US 10-year Spread	1.10	0.70	0.40	0.20	0.30	0.90	0.65	0.65	0.05	0.30

(1) *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
	Monday 10 February			
JN	Eco Watchers Survey Outlook SA Jan	49		48.8
EC	Sentix Investor Confidence Feb	-16.5		-17.7
	Tuesday 11 February			
EC	ECB's Lagarde Speaks			
US	NY Fed 1-Yr Inflation Expectations Jan			3.00%
UK	BRC Sales Like-For-Like YoY Jan	1.00%		3.10%
AU	Westpac Consumer Conf Index Feb			92.1
AU	NAB Business Confidence Jan			-2
UK	BOE's Mann Speaks			
	Wednesday 12 February			
US	NFIB Small Business Optimism Jan	104.7		105.1
UK	BOE's Bailey Speaks			
US	Fed's Powell, Williams & Others Speak			
EC	ECB's Schnabel & Elderson Speak			
NZ	Treasury Chief Economist Stephens Speaks			
NZ	Ready-mixed Concrete Production 4Q			0.4%
AU	Home Loans Value QoQ 4Q			
AU	Owner-Occupier Loan Value QoQ 4Q			
AU	Investor Loan Value QoQ 4Q			
	Thursday 13 February			
US	CPI Ex Food and Energy MoM Jan	0.30%		0.20%
US	CPI Ex Food and Energy YoY Jan	3.10%		3.20%
UK	BOE's Greene Speaks			
US	Fed's Powell, Bostic & Waller Speak			
EC	ECB's Nagel & Cipollone Speak			
CA	BoC Summary of Deliberations			
NZ	Finance Minister Willis Speaks			
NZ	N.Z. Government 6-Month Financial Statements			
NZ	Card Spending Total MoM Jan			1.50%
JN	PPI YoY Jan	4.00%		3.80%
NZ	2Yr Inflation Expectation 1Q			2.12%
UK	Monthly GDP (MoM) Dec	0.10%		0.10%
GE	CPI YoY Jan F	2.30%		2.30%
UK	Industrial Production MoM Dec	0.30%		-0.40%
UK	Manufacturing Production MoM Dec	0.10%		-0.30%
UK	Trade Balance GBP/Mn Dec	-£4000m		-£4757m
UK	GDP QoQ 4Q P	-0.10%		0.00%
EC	ECB Publishes Economic Bulletin			
EC	Industrial Production SA MoM Dec	-0.60%		0.20%
	Friday 14 February			
US	PPI Ex Food and Energy MoM Jan	0.30%		0.00%
US	PPI Ex Food and Energy YoY Jan	3.30%		3.50%
US	Initial Jobless Claims Feb-08	217k		219k
US	Continuing Claims Feb-01	1888k		1886k
EC	ECB's Nagel Speaks			
NZ	BusinessNZ Manufacturing PMI Jan			45.9
NZ	Selected Monthly Price Indexes Jan			
NZ	Food Prices MoM Jan			0.10%
EC	GDP SA QoQ 4Q P	0.00%		0.00%
EC	Employment YoY 4Q P			1.00%
	Saturday 15 February			
US	Retail Sales Advance MoM Jan	-0.10%		0.40%
US	Retail Sales Control Group Jan	0.30%		0.70%
US	Manufacturing (SIC) Production Jan	0.10%		0.60%
US	Industrial Production MoM Jan	0.30%		0.90%
US	Fed's Logan Speaks			
EC	ECB's Panetta Speaks			

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH AND BANK BILLS				
Call	4.25	4.25	4.25	5.50
1mth	4.05	4.15	4.37	5.63
2mth	3.96	4.02	4.20	5.68
3mth	3.87	3.89	4.11	5.74
6mth	3.68	3.69	3.85	5.76
GOVERNMENT STOCK				
04/27	3.62	3.57	3.66	4.86
05/30	4.01	3.95	4.06	4.75
05/32	4.28	4.25	4.41	4.82
05/35	4.57	4.53	4.71	
04/37	4.73	4.71	4.90	5.02
05/41	4.92	4.90	5.11	5.12
05/54	5.07	5.06	5.31	
GLOBAL CREDIT INDICES (ITRXX)				
Nth America 5Y	49	49	52	54
Europe 5Y	54	55	59	57

	Today	Week Ago	Month Ago	Year Ago
SWAP RATES				
2 years	3.48	3.36	3.45	5.23
3 years	3.54	3.41	3.50	4.90
4 years	3.62	3.50	3.59	4.72
5 years	3.71	3.60	3.69	4.65
10 years	4.11	4.03	4.14	4.66
FOREIGN EXCHANGE				
NZD/USD	0.5641	0.5630	0.5583	0.6131
NZD/AUD	0.9035	0.9041	0.9039	0.9387
NZD/JPY	85.36	87.09	87.92	91.55
NZD/EUR	0.5480	0.5442	0.5450	0.5690
NZD/GBP	0.4558	0.4522	0.4576	0.4854
NZD/CAD	0.8107	0.8120	0.8028	0.8246
TWI	67.7	67.0	67.2	71.9

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