

# Economic Weekly

03 April 2018

## Trade tensions continue to trouble markets

Financial markets remained cautious over the past week as trade tensions continue to escalate between the US and China. On Page 2, we look at factors contributing to the recent lift in short-term funding costs (i.e. the Bank Bill – OIS spread). It's a fairly light week for NZ data, with just the fortnightly Global Dairy Trade auction to focus on. Offshore, markets will be awaiting for US employment data and hourly earnings data released at the end of the week.

### Key events and views

|                                      |  |
|--------------------------------------|--|
| <a href="#">Key Insights</a>         | What to make of the increase in Bank Bill-OIS spreads.                     |
| <a href="#">Foreign exchange</a>     | Trade tensions support the USD and JPY.                                    |
| <a href="#">Interest rates</a>       | Risk-off over the week saw NZ interest rates follow offshore yields lower. |
| <a href="#">Domestic events</a>      | Fortnightly Global Dairy Trade auction.                                    |
| <a href="#">International events</a> | US ISM manufacturing survey and US monthly employment report.              |
| <a href="#">Calendars</a>            | NZ and International calendar of upcoming economic events.                 |

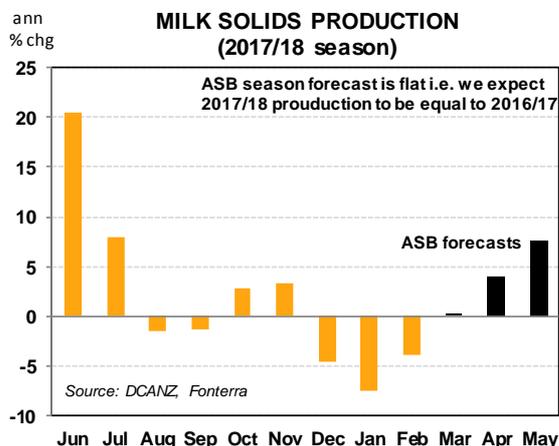
### Chart of the Week: Impact of MPI's decisions to cull 22,000 cattle

The Ministry of Primary Industries (MPI) has decided to cull all cattle on properties infected with *Mycoplasma bovis*. There are 28 infected properties, although there are only 22 with animals left to be culled. In total **22,300 animals are to be culled, equal to 0.3% of the NZ dairy herd.**

We anticipate this will **have a minor and hard-to-discern impact on NZ dairy production this season.** Accordingly, we continue to expect that 2017/18 nationwide production will be equal to 2016/17. Bad weather and the firm milk price remain the dominant drivers of NZ production.

**Importantly, the decision to cull now reflects MPI's view that *Mycoplasma bovis* is not well-established in NZ.** That said, MPI has yet to decide whether it will pursue eradication or long-term management options. Nevertheless, the signs are relatively positive: testing to date of milk from every dairy farm in NZ has only identified one new infected property.

Meanwhile, the **NZ government will compensate the properties where the culling takes place.** Also, a disease-free herd can be rebuilt from scratch following a 60-day stand-down period.



## Key Insights this week: Widening Bank Bill OIS spreads

**Bank Bill** or **Libor-OIS spreads** are widely regarded as a measure of how expensive or cheap it will be for banks to borrow relative to a risk-free rate, **providing a handy signpost for credit conditions and emerging pressures in money market funding**. Since early February, USD Libor-OIS spreads and Australian Bank Bill-OIS spreads have widened significantly. This has been cited as evidence of increased stress in USD and AUD funding markets, with fears this could trigger a seizing up of credit markets. As the accompanying table and charts show, NZD bank bill-OIS spreads have not climbed to the same extent. Libor-OIS spreads remain well below post-2003 averages for EUR and GBP rates.

More than four times global GDP worth of financial assets and derivatives are pegged to Libor, and Libor interest rates are used as baseline for many bonds, business loans, and mortgages, so it is not hard to see what the potential implications could be from a large and protracted blowout in spreads. **While developments can move quickly, to date we do not see the recent widening in US Libor to OIS spreads as being indicative of a looming crisis**. Libor and bank bill rates (and spreads to OIS rates) remain significantly below levels they reached during the worst of the global financial crisis (GFC). The fact that Libor-OIS spreads in most other markets have not blown out and that other proxies for financial market volatility and risk have not blown out in tandem (as they did during the GFC) also supports the view that pressures are not widespread.

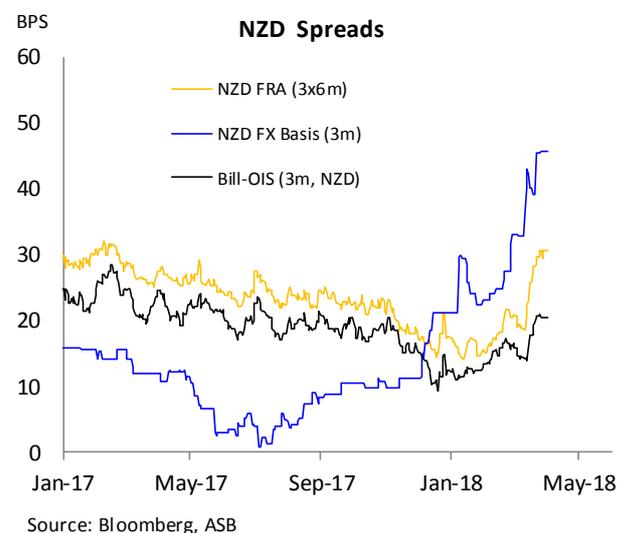
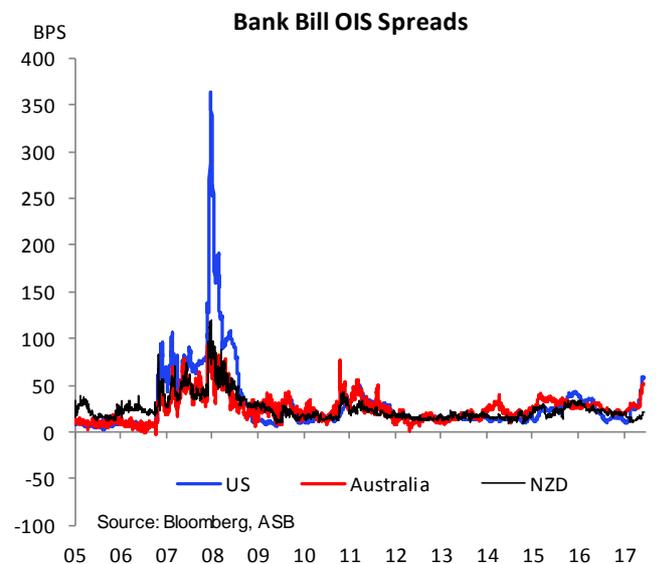
For US funding markets, the widening spread likely reflects a shift in the supply and demand of short-term debt, with the widening in spreads could be attributable to a large volume of funding needing to be done at a time when additional US government debt is being issued. This, and some Australian-specific features, have contributed to the widening in Australian bank bill – OIS spreads. **Wider spreads are likely to be an enduring feature in US markets**, but there is the possibility that spreads in Australia might compress in the coming months.

**While NZD bank bill to OIS spreads have not widened markedly, there have been other impacts on NZD markets**. NZ bank bill futures and 3-6 month [forward rate agreement](#) to OIS spreads have also firmed, with the bellwether 2-year swap rate having edged up over mid-March (although it has retraced in recent weeks). Pressures on offshore credit markets have led to a sharp widening in NZD FX basis (premium paid to borrow in USD in exchange for NZD), increasing the relative costs to NZ banks of funding in USD markets as opposed to funding domestically.

**The New Zealand banking system is considerably less reliant on short-term funding than it was prior to the GFC, buying us more time**. Nevertheless, with global financial markets nervous, with domestic private sector indebtedness high in relation to GDP and with a number of tail risks on the horizon, developments in credit markets will need to be closely monitored over the coming months.

| 3 Month Bank Bill OIS spreads (BPS) |         |           |         |              |
|-------------------------------------|---------|-----------|---------|--------------|
|                                     | Current | Start Feb | Largest | 2003-average |
| USD                                 | 59      | 25        | 364     | 26           |
| AUD                                 | 52      | 27        | 93      | 22           |
| CAD                                 | 44      | 38        | 128     | 25           |
| NZD                                 | 21      | 14        | 120     | 21           |
| GBP                                 | 14      | 5         | 299     | 27           |
| EUR                                 | 3       | 1         | 207     | 24           |

Source: Bloomberg, ASB



## Foreign Exchange Market

| FX Rates | Current* | Week ago | Month ago | Year ago | ST Bias   | Support^ | Resistance^ | MT Bias |
|----------|----------|----------|-----------|----------|-----------|----------|-------------|---------|
| NZD/USD  | 0.7214   | 0.7288   | 0.7267    | 0.7002   | FLAT/DOWN | 0.7100   | 0.7350      | UP      |
| NZD/AUD  | 0.9416   | 0.9412   | 0.9370    | 0.9208   | FLAT      | 0.9280   | 0.9520      | DOWN    |
| NZD/JPY  | 76.37    | 76.98    | 77.04     | 77.95    | DOWN      | 75.20    | 77.50       | UP      |
| NZD/EUR  | 0.5864   | 0.5852   | 0.5917    | 0.6555   | FLAT      | 0.5780   | 0.5950      | FLAT    |
| NZD/GBP  | 0.5135   | 0.5120   | 0.5271    | 0.5582   | FLAT      | 0.5060   | 0.5210      | UP      |
| TWI      | 74.4     | 74.5     | 74.9      | 76.0     | FLAT/DOWN | 73.50    | 75.00       | UP      |

^ Weekly support and resistance levels \* Current as at 9.30am Monday; week ago as at Monday 5pm

### NZD Recap

**Escalating trade tensions between the US and China remained a key theme in foreign exchange markets** over the past week. Fears that trade tensions could materially escalate and weigh on global trade and economic growth result in investment flows back into safe haven assets, which has **supported the USD and JPY over the past week**.

On Tuesday night, **US tech stocks fell in response to speculation that the US Government is considering restrictions on Chinese foreign direct investment (FDI) investment in sensitive US technology** like semiconductors and 5G wireless communications. On Wednesday night, US Commerce Secretary Wilbur Ross warned that there will be limitations on China investment in the US. **On Sunday, China's Customs Tariffs Commission of the State Council issued a statement that the previously-announced extra tariffs of up to 25% on 128 imported goods from the U.S. would take effect on Monday.**

Meanwhile, the **USD was also supported by stronger US economic data**. On Tuesday night, in an interview with the Wall Street Journal, FOMC voter Bostic said the Fed could soon face rising chances the US economy grows faster than forecast. Bostic said a stronger US economy may require a slightly faster pace of rate rises. The USD strengthened further on Wednesday night on news that US Q4 real GDP was revised higher to 2.9% (seasonally adjusted annualised rate) up from 2.7%, led by an upward revision to consumer spending.

### Near-term outlook

**Worries about escalating trade tensions will likely continue to weigh on the NZD this week.** With these fears dominating market attention, NZ data will continue to take a back seat. Meanwhile, in addition to trade tensions fears, the USD is also likely to receive support from Friday's US March employment report. Leading employment indicators point to an above-average increase in US Non-farm Payrolls (consensus: 185k). Importantly, business and consumer surveys of future compensation suggest risks to average hourly earnings growth are skewed to the upside. If this upside risk to US wage growth materialises, it would bode well for the USD in the near term.

### Medium-term outlook

**Our medium-term bias remains for a weaker USD**, reflecting the stronger environment for global growth and narrowing USD interest rate differentials as other central banks contemplate policy tightening ahead of the Fed. **The NZD TWI is expected to remain broadly supported** by NZ's solid economic outlook, strong NZ commodity export prices, historically-high Terms of Trade and strong demand as global central banks/other real money managers continue to increase NZD exposures.

### ASB foreign exchange forecasts

(end of quarter)

|         | Dec-17    | Mar-18 | Jun-18         | Sep-18 | Dec-18 | Mar-19 | Mar-20 | Mar-21 |
|---------|-----------|--------|----------------|--------|--------|--------|--------|--------|
|         | << actual |        | >> forecast >> |        |        |        |        |        |
| NZD/USD | 0.71      | 0.72   | 0.73           | 0.74   | 0.75   | 0.76   | 0.79   | 0.75   |
| NZD/AUD | 0.91      | 0.94   | 0.90           | 0.90   | 0.90   | 0.90   | 0.90   | 0.89   |
| NZD/JPY | 80        | 77     | 78             | 78     | 79     | 79     | 79     | 81     |
| NZD/EUR | 0.59      | 0.59   | 0.59           | 0.59   | 0.59   | 0.60   | 0.60   | 0.59   |
| NZD/GBP | 0.53      | 0.51   | 0.53           | 0.53   | 0.53   | 0.53   | 0.54   | 0.54   |
| NZD TWI | 74.3      | 74.3   | 74.7           | 75.0   | 75.1   | 75.7   | 76.6   | 74.0   |

## Interest Rate Market

| <u>Wholesale interest rates</u> | Current | Week ago | Month ago | Year ago | ST Bias   | MT Bias |
|---------------------------------|---------|----------|-----------|----------|-----------|---------|
| Cash rate                       | 1.75    | 1.75     | 1.75      | 1.75     | FLAT      | UP      |
| 90-day bank bill                | 1.96    | 1.96     | 1.91      | 2.00     | FLAT/UP   | UP      |
| 2-year swap                     | 2.22    | 2.24     | 2.20      | 2.31     | FLAT/UP   | UP      |
| 5-year swap                     | 2.62    | 2.68     | 2.69      | 2.91     | FLAT/DOWN | UP      |
| 10-year swap                    | 3.05    | 3.14     | 3.19      | 3.43     | FLAT/DOWN | UP      |
| 10-year govt bond yield         | 2.71    | 2.79     | 2.93      | 3.16     | FLAT      | UP      |
| Curve Slope (2s10s swaps)       | 0.83    | 0.90     | 0.99      | 1.12     | FLAT/DOWN | FLAT    |

\* Current as at 9.30am Monday; week ago as at Monday 5pm

### Market Recap

**Local interest rates followed global counterparts lower and both NZD and offshore curves have flattened** as ongoing trade tensions between the US and China, volatility in equity markets, signs of stresses in credit markets and question marks over the pending impact of higher US interest rates provided a risk-off tone to markets. Recent data have largely been ignored by markets. Market pricing in NZD and offshore markets has been pared back. During the week, US 10 year Treasury yields touched 2-month lows, with the 10-year yield currently sitting at 2.73%. **NZD swap yields are below USD counterparts out to (and including) the 5-year tenor, with the gap between NZD and USD 10-year swap yields its narrowest in close to 20 years.** Strong offshore interest in NZ Government bonds have seen NZD yields rally further, with spreads to US rates close to their lowest in decades.

### Near-term NZD interest rate outlook

**This week's data are expected to continue to take a backseat, with markets focused on the impact of trade tensions, equity market developments and pressures in credit markets.** Risk appetite is likely to remain on the back-foot and another leg lower in long-term yields is possible. USD Libor-OIS spreads and Australian Bank bill-OIS spreads look to have plateaued, and we will be closely following developments in NZD markets. With the RBA widely expected to hold the cash rate, little market impact is expected from today's announcement.

### Medium-term outlook

Our core macro view is that the RBNZ will start lifting the OCR in Q3 of 2019. We expect a moderate pace of tightening by historical standards, and a low OCR endpoint of around 3.5% this cycle. We now expect a total of five Fed hikes till the end of 2019 (two more in 2018, two in 2019). This should see local wholesale interest rate yields continue to outperform US comparators. **Our expectation of a flatter NZD curve crucially depends on the assumption that local**

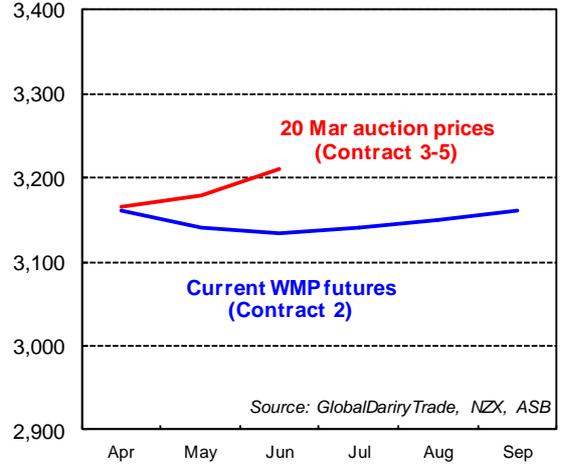
| <b>ASB interest rate forecasts</b> | Dec-17    | Mar-18 | Jun-18      | Sep-18 | Dec-18 | Mar-19 | Mar-20 | Mar-21 |
|------------------------------------|-----------|--------|-------------|--------|--------|--------|--------|--------|
| (end of quarter)                   | << actual |        | forecast >> |        |        |        |        |        |
| NZ OCR                             | 1.75      | 1.75   | 1.75        | 1.75   | 1.75   | 1.75   | 2.25   | 2.75   |
| NZ 90-day bank bill                | 1.88      | 2.0    | 1.9         | 1.9    | 2.0    | 2.0    | 2.5    | 3.0    |
| NZ 2-year swap rate                | 2.21      | 2.2    | 2.2         | 2.3    | 2.4    | 2.5    | 3.0    | 3.5    |
| NZ 10-year Bond                    | 2.75      | 2.7    | 3.2         | 3.3    | 3.3    | 3.4    | 3.5    | 3.5    |

## Major Domestic Events for the week ahead

| Data                                    | Date | Time (NZT) | Previous | Market | ASB  |
|---|------|------------|----------|--------|------|
| GlobalDairyTrade Auction, WMP, % change | 3/4  | Overnight  | 0.1      | -      | -1.0 |

**We expect prices to drift a touch lower at the GlobalDairyTrade auction overnight.** A fortnight ago, whole milk powder (WMP) prices were also largely flat. At the current juncture, futures pricing suggests a similar fall. Better NZ weather recently (i.e. rain) and the recent lift in the milk price forecast has helped improve NZ's production outlook. As a result, we expect WMP prices to drift lower over the remainder of the season.

USD/MT **GLOBALDAIRYTRADE AND WMP FUTURES PRICES**



## Major International Events for the week ahead

| Data  | Date  | Time (NZT) | Market | ASB   |
|---|-------|------------|--------|-------|
| Australia CoreLogic House Prices, March, %mom | 03/04 | 12:00 pm   | -      | 0.2   |
| Australia CBA Manufacturing PMI, March, index | 03/04 | 11:00 am   | -      | -     |
| RBA Interest Rate Announcement, %             | 03/04 | 4:30 pm    | 1.5    | 1.5   |
| US ISM Manufacturing, March, Points           | 03/04 | 2:00 am    | 59.6   | 59.0  |
| Australia Building Approvals, February, %mom  | 04/04 | 1:30 pm    | -5.0   | -5.0  |
| Australia Retail Trade, February, %mom        | 04/04 | 1:30 pm    | 0.3    | 0.2   |
| Australia Trade Balance, February, mn         | 05/04 | 1:30 pm    | 725    | 1,500 |
| US Non-farm Payrolls, March, 000s             | 07/04 | 12:30 am   | 185    | 200   |

**House prices across Australia** have continued to moderate in recent months. This downtrend in prices is expected to have continued over the month of March.

**Australia's CBA manufacturing PMI** remained well above 50 over February, indicating an expanding manufacturing sector.

The **Reserve Bank of Australia is widely expected to leave the cash rate unchanged at 1.5%** at Tuesday's Board meeting. The central bank's take on the future trajectory for wages growth and labour market conditions are key factors for markets and analysts to eyeball as harbingers of the outlook for inflation.

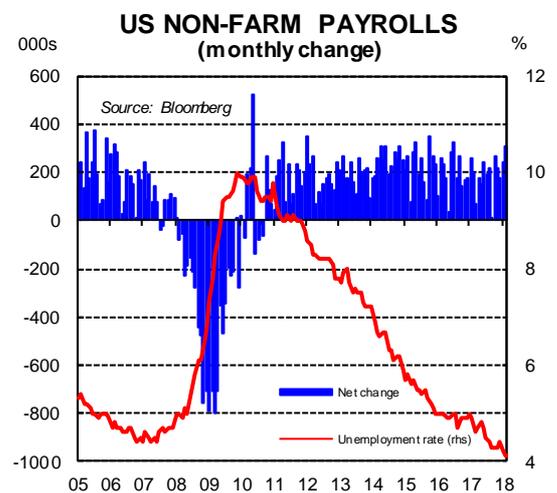
The multi-unit component of **Australia's building approvals** series has been particularly volatile in recent months. We are expecting a sharp drop in multi-unit approvals in February, after a large jump in January. Overall, approvals are forecast to post a 5% contraction over February after January's 17.1% jump.

**Australian retail trade** in recent months has remained lacklustre. In January, a lacklustre 0.1% rise in retail turnover only partially unwound December's 0.5% slump. Annual growth sank further to 2.2% in January from 2.5% in December and 2.9% in November. However, strong competition means there that discounting is still rife in this sector, which is weighing on nominal sales. We are forecasting a modest 0.2% rise in retail trade over February.

We are forecasting a widening in **Australia's February trade surplus** to \$1,500mn after a chunky \$1,055mn surplus in January. A solid lift in commodity prices in the month should help boost export values. Imports are expected to be relatively flat after the 2% decline in January.

The fall in some of the regional manufacturing surveys in the **US** suggest the national **manufacturing ISM** will ease to 59 points in March. However, this is still a very strong level, which suggests a pickup in US economic growth in Q2 from the weakness in Q1.

The low level of **US** jobless claims suggests another strong increase in **payrolls in March** of around 200,000. The risk is tilted to a downside surprise to payrolls following February's unexpected surge. We expect the unemployment rate to ease to a cyclical low of 4.0%. Wage growth should pickup from last month's unexpected weakness.



## Global Data Calendars

### Calendar - Australasia, Japan and China

| Date      | Time (NZT) | Eco | Event                         | Period | Unit   | Previous | Forecast |       |
|-----------|------------|-----|-------------------------------|--------|--------|----------|----------|-------|
|           |            |     |                               |        |        |          | Market   | ASB   |
| Tue 3 Apr | 06:06      | AU  | Melbourne Institute Inflation | Mar    | m%ch   | -0.1     | ~        | ~     |
|           | 11:00      | AU  | CBA Australia PMI             | Mar    | Index  | 55.6     | ~        | ~     |
|           | 12:00      | AU  | CoreLogic house px            | Mar    | m%ch   | -0.3     | ~        | -0.2  |
|           | 16:30      | AU  | RBA cash rate target          | Apr    | %      | 1.5      | 1.5      | 1.5   |
|           | 18:30      | AU  | Commodity index AUD           | Mar    | Index  | 139.8    | ~        | ~     |
| Wed 4 Apr | 10:00      | NZ  | ANZ consumer confidence       | Mar    | Index  | 127.7    | ~        | ~     |
|           | 12:30      | JN  | Nikkei Japan PMI composite    | Mar    | Index  | 52.2     | ~        | ~     |
|           | 13:30      | AU  | Building approvals            | Feb    | m%ch   | 17.1     | ~        | -5.0  |
|           | 13:45      | CH  | Caixin China PMI composite    | Mar    | Index  | 53.3     | ~        | ~     |
| Thu 5 Apr | 05:00      | NZ  | QV house prices               | Mar    | y%ch   | 6.5      | ~        | ~     |
|           | 10:00      | NZ  | ANZ job advertisements        | Mar    | m%ch   | -1.2     | ~        | ~     |
|           | 11:00      | AU  | CBA Australia PMI composite   | Mar    | Index  | 54.3     | ~        | ~     |
|           | 13:00      | NZ  | ANZ commodity price           | Mar    | %      | 2.8      | ~        | ~     |
|           | 13:30      | AU  | Trade balance                 | Feb    | \$mn   | 1,055    | ~        | 1,500 |
| Fri 6 Apr | 11:30      | JN  | Household spending            | Feb    | y%ch   | 2.0      | ~        | ~     |
|           | 17:00      | JN  | Leading index CI              | Feb P  | Index  | 105.6    | ~        | ~     |
| Sat 7 Apr | ~          | CH  | Foreign reserves              | Mar    | CNY bn | 3,134.5  | ~        | ~     |

### Calendar - North America & Europe

| Date      | Time (UKT) | Eco | Event  | Period | Unit  | Previous | Forecast |       |
|-----------|------------|-----|--|--------|-------|----------|----------|-------|
|           |            |     |  |        |       |          | Market   | ASB   |
| Tue 3 Apr | 09:00      | EC  | Markit Eurozone manufacturing                          | Mar F  | Index | 56.6     | 56.6     | ~     |
|           | 09:30      | UK  | Markit UK PMI manufacturing                            | Mar    | Index | 55.2     | 54.8     | ~     |
| Wed 4 Apr | 10:00      | EC  | Unemployment rate                                      | Feb    | %     | 8.6      | 8.5      | ~     |
|           | 10:00      | EC  | CPI core   | Mar A  | y%ch  | 1.0      | 1.1      | ~     |
|           | 13:15      | US  | ADP employment change                                  | Mar    | 000   | 235.0    | 205.0    | ~     |
|           | 14:45      | US  | Fed's Bullard speaks on US Economy and Monetary Policy |        |       |          |          |       |
|           | 14:45      | US  | Markit US composite PMI                                | Mar F  | Index | 54.3     | ~        | ~     |
|           | 15:00      | US  | ISM non-manufacturing                                  | Mar    | Index | 59.5     | 59       | ~     |
|           | 15:00      | US  | Factory orders   | Feb    | %     | -1.4     | 1.7      | ~     |
|           | 16:00      | US  | Fed's Mester speaks on Diversity in Economics          |        |       |          |          |       |
| Thu 5 Apr | 09:00      | EC  | Markit Eurozone composite PMI                          | Mar F  | Index | 55.3     | 55.3     | ~     |
|           | 09:30      | UK  | Markit/CIPS UK composite PMI                           | Mar    | Index | 54.5     | ~        | ~     |
|           | 10:00      | EC  | PPI  | Feb    | m%ch  | 0.4      | ~        | ~     |
|           | 10:00      | EC  | Retail sales   | Feb    | m%ch  | -0.1     | 0.3      | ~     |
|           | 13:30      | US  | Trade balance  | Feb    | \$bn  | -56.6    | -55.8    | ~     |
|           | 13:30      | US  | Initial jobless and cont. claims                       | Mar    | ~     | ~        | ~        | ~     |
| Fri 6 Apr | 09:10      | EC  | Markit Eurozone retail PMI                             | Mar    | Index | 52.3     | ~        | ~     |
|           | 13:30      | US  | Change in nonfarm payrolls                             | Mar    | 000   | 313.0    | 189.0    | 200.0 |
|           | 13:30      | US  | Unemployment rate                                      | Mar    | %     | 4.1      | 4.0      | 4.0   |

## Key Forecasts

### ASB NZ economic forecasts

|  | Dec-17<br><< actual | Mar-18<br>forecast >> | Jun-18<br>forecast >> | Sep-18<br>forecast >> | Dec-18<br>forecast >> | Mar-19<br>forecast >> | Mar-20<br>forecast >> | Mar-21<br>forecast >> |
|--|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| GDP real - Q%                              | 0.6                 | 0.4                   | 0.7                   | 0.8                   | 0.9                   |                       |                       |                       |
| GDP real - A%                              | 2.9                 | 2.6                   | 2.4                   | 2.6                   | 2.8                   | 3.3                   | 3.4                   | 3.0                   |
| GDP real - AA%                             | 2.9                 | 2.8                   | 2.6                   | 2.6                   | 2.6                   | 2.8                   | 3.4                   | 3.2                   |
| CPI - Q%                                   | 0.1                 | 0.4                   | 0.4                   | 0.5                   | -0.1                  |                       |                       |                       |
| CPI - A%                                   | 1.6                 | 1.0                   | 1.4                   | 1.4                   | 1.1                   | 1.4                   | 1.6                   | 2.0                   |
| HLFS employment growth - Q%                | 0.5                 | 1.0                   | 0.6                   | 0.6                   | 0.5                   |                       |                       |                       |
| HLFS employment growth - A%                | 3.7                 | 3.8                   | 4.3                   | 2.7                   | 2.8                   | 2.2                   | 1.8                   | 1.4                   |
| Unemployment rate - %a                     | 4.5                 | 4.3                   | 4.2                   | 4.0                   | 4.0                   | 3.9                   | 3.6                   | 3.5                   |
| Annual current account balance as % of GDP | -2.7                | -2.5                  | -2.7                  | -2.8                  | -2.9                  | -2.9                  | -2.9                  | -3.0                  |

Q% = percentage change on previous quarter

A% = percentage change since same quarter the previous year

AA% = percentage change for year ending quarter since the previous year

### ASB interest rate forecasts

|                     | Dec-17<br><< actual | Mar-18<br>forecast >> | Jun-18<br>forecast >> | Sep-18<br>forecast >> | Dec-18<br>forecast >> | Mar-19<br>forecast >> | Mar-20<br>forecast >> | Mar-21<br>forecast >> |
|---------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| (end of quarter)    |                     |                       |                       |                       |                       |                       |                       |                       |
| NZ OCR              | 1.75                | 1.75                  | 1.75                  | 1.75                  | 1.75                  | 1.75                  | 2.25                  | 2.75                  |
| NZ 90-day bank bill | 1.88                | 2.0                   | 1.9                   | 1.9                   | 2.0                   | 2.0                   | 2.5                   | 3.0                   |
| NZ 2-year swap rate | 2.21                | 2.2                   | 2.2                   | 2.3                   | 2.4                   | 2.5                   | 3.0                   | 3.5                   |
| NZ 10-year Bond     | 2.75                | 2.7                   | 3.2                   | 3.3                   | 3.3                   | 3.4                   | 3.5                   | 3.5                   |

### ASB foreign exchange forecasts

|                  | Dec-17<br><< actual | Mar-18<br>forecast >> | Jun-18<br>forecast >> | Sep-18<br>forecast >> | Dec-18<br>forecast >> | Mar-19<br>forecast >> | Mar-20<br>forecast >> | Mar-21<br>forecast >> |
|------------------|---------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| (end of quarter) |                     |                       |                       |                       |                       |                       |                       |                       |
| NZD/USD          | 0.71                | 0.72                  | 0.73                  | 0.74                  | 0.75                  | 0.76                  | 0.79                  | 0.75                  |
| NZD/AUD          | 0.91                | 0.94                  | 0.90                  | 0.90                  | 0.90                  | 0.90                  | 0.90                  | 0.89                  |
| NZD/JPY          | 80                  | 77                    | 78                    | 78                    | 79                    | 79                    | 79                    | 81                    |
| NZD/EUR          | 0.59                | 0.59                  | 0.59                  | 0.59                  | 0.59                  | 0.60                  | 0.60                  | 0.59                  |
| NZD/GBP          | 0.53                | 0.51                  | 0.53                  | 0.53                  | 0.53                  | 0.53                  | 0.54                  | 0.54                  |
| NZD TWI          | 74.3                | 74.3                  | 74.7                  | 75.0                  | 75.1                  | 75.7                  | 76.6                  | 74.0                  |

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