ASB

Economic Weekly

05 February 2018

RBNZ won't rock the boat

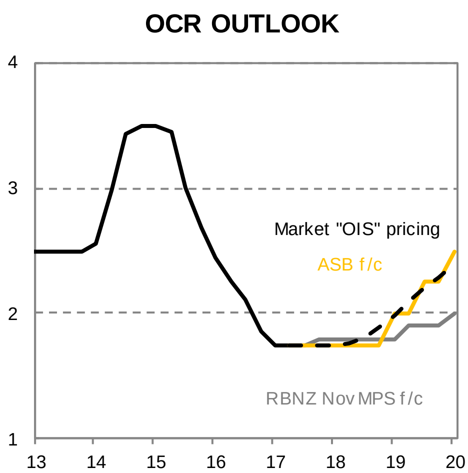
NZ economic developments will be front and centre this week, with key events for domestic markets including the **RBNZ OCR announcement on Thursday and Q4 employment figures on Wednesday**. In particular, we see **some risk that the tone of Q4 labour market data could be more muted than the market is expecting**, reinforcing that NZ OCR hikes are still some time away. Offshore, the **RBA and Bank of England also have policy announcements**, while a heavy schedule of **FOMC speakers** could also be a source of weekly market volatility.

Key events and views

Key Insights	NZ-US interest rate convergence and implications for hedging.
Foreign exchange	USD should remain supported by US yields, and NZD/USD may consolidate further.
Interest rates	US rates lift, whilst NZ rates remain anchored by modest OCR expectations.
Domestic events	The unemployment rate may tick higher; RBNZ to leave OCR unchanged at 1.75%.
International events	Monetary policy announcements also due from the RBA and BoE.
Calendars	NZ and International calendar of upcoming economic events.

Chart of the Week: RBNZ to reiterate OCR on hold for prolonged period

On Thursday, the RBNZ delivers its final Monetary Policy Statement, and penultimate Official Cash Rate (OCR) decision under the current Policy Target Agreement. Grant Spencer has been acting Governor since Wheeler's 5-year term ended in September (just after the General Election). Adrian Orr has subsequently been announced as the new Governor, taking over on March 27th (just days after the March 22nd OCR review). It's widely expected Adrian Orr will sign a Policy Targets Agreement that incorporates a second target of maximizing employment, alongside price stability. The details of such are yet to be announced.

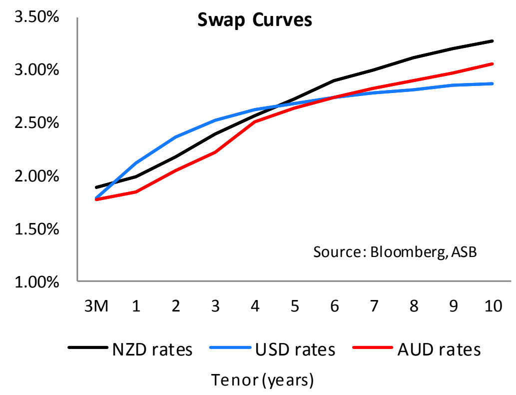


With a change in team, rules and referee taking place at the RBNZ, along with the **general consensus that there is no urgency to move rates** (see chart of the week), there **little need for the RBNZ to offer anything more than an update on where it sees inflationary pressure heading**. The published forecasts should depict a solid outlook for economic outlook. A weaker inflation starting point and higher-than-expected NZD could **result in marginal downward tweaks in the published OCR profile.** However, due to pending changes in the monetary policy framework, financial markets would be best to interpret the rate profile cautiously.

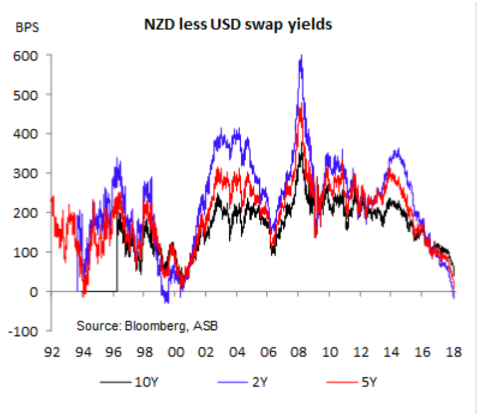
Key Insights this week: Impacts of NZD Rates convergence for FX Hedging

One of the key thematics we have been emphasising is interest rate convergence, with rising (but lower) global interest rates converging with upwardly drifting (but higher) NZD rates.

While our 1.75% OCR is currently above equivalent policy rates for most OECD comparators, global short-term rates are expected to play catch-up. Current market pricing has close to three Fed hikes fully priced in for 2018, versus our on hold for 2018 OCR view and market pricing of around 15bps of OCR hikes by the end of the year. The removal of policy accommodation is also expected by the ECB and Bank of England, contributing to further compression with NZD rates. Australian short-term rates are also expected to edge up, albeit gradually.



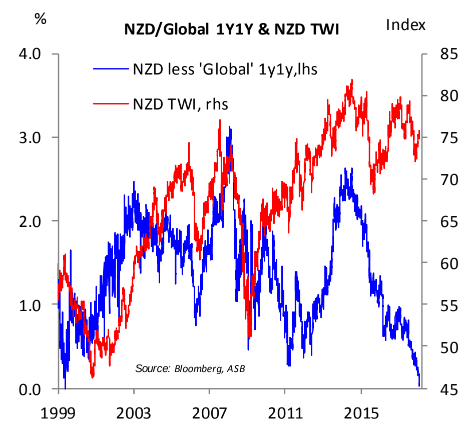
To a large extent the expected moves in policy rates have already been "priced in" to the curve, particularly for short-to-medium-term horizons. Viewing wholesale interest rate curves shows that NZD rates are below USD counterparts over the 6-month to the 4-year tenor. **This convergence is taking place amid a backdrop of a trend decline in assessments of where policy interest rates will settle in the longer term.** Estimates of the neutral NZ policy rate OCR rate at around 3.5% (as compared to 6-7% back in 1999) are only 75 bps above current estimates of where the Fed policy rate will gravitate to in the longer-term. Potential catalysts include the achievement of low inflation and low inflation expectations given disinflation by the RBNZ, weaker productivity growth, a potential "glut" of savings over investment and the likelihood that policy moves have greater traction, due to the climb in indebtedness.



There has also been closer convergence for longer-term yields. At present, 2-year US swap yields are close to 20bps above our own, 5-year NZ and US swap spreads are around zero, whilst NZD 10-year swaps are just 40bps above those in the US. As the chart suggests, these spreads are the narrowest they have been for about 20 years. The gap between the NZ 10-year Government bond and 10-year US Treasuries is currently about 12bps, close to (or at) record lows.

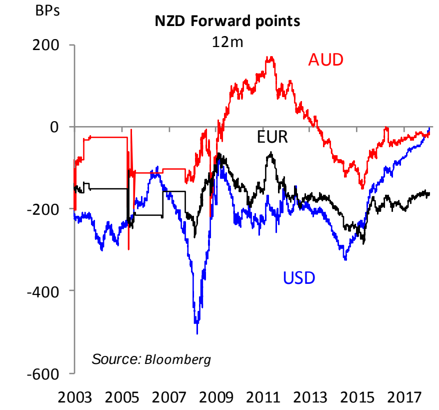
What then are the impacts?

NZD. The narrowing in NZD interest rate differential, removes one leg of support to the NZD. However, as we discussed last week, there are other NZD supports including historically high goods Terms of Trade and the solid NZ domestic outlook. Our FX forecasts on page 4 suggest that the NZD TWI should remain reasonably elevated.

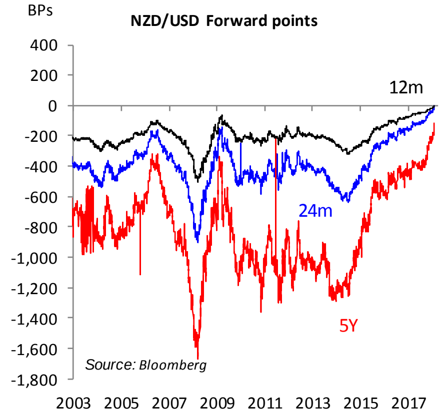


FX hedging. There are a number of methods for individuals to address FX risk, including FX options and Forward exchange contracts, which enable market participants to lock in an exchange rate on a specific date. An option provides the holder with the option of being able to buy (or sell) NZD at an agreed to rate are a certain date. Forward exchange rate contracts, by contrast lock in an exchange rate for the exchange of specified funds at a future value (delivery) date. The "forward rate" or the price of an outright forward contract is based on the spot rate at the time the deal is booked, with an adjustment for "forward points" which represents the interest rate differential between the two currencies concerned. They can be positive or negative depending on which currency has the lower or higher interest rate. In effect, the higher yielding currency will be discounted going forward and vice versa.

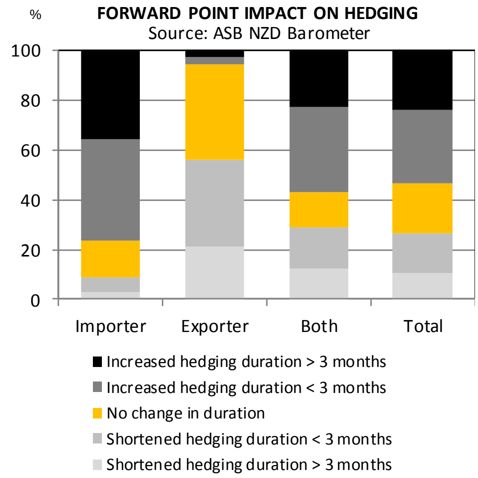
In general, the narrowing in NZD interest rate differentials relative to our key trading partners has resulted in the reduction of NZD forward points. As the chart to the right shows, however, the magnitude of forward points varies according to which NZD bilateral you look at. Of late, there has been a significant compression in NZD/USD forward points for 12 month hedging rates as compared to a more gradual narrowing for Eurozone rates. Forward points for NZD/AUD rates are narrower, but there have been times when Australia has positive forward points relative to NZD rates.



The change in forward points also depends on the duration of hedging expected. The narrowing in NZD interest rate differentials has not been uniform across the curve, so too has been the impact on forward points. As the accompanying chart suggests there has been a more significant narrowing in NZD/USD forward points for longer –term hedges than they have been for shorter terms. This will affect the costs (and benefits) of hedging for certain durations.



This, in turn, has affected hedging costs, by making it relatively cheaper for importers but relatively more expensive for exporters to hedge. The change in costs is having an impact on behaviour. According to our December NZD Barometer, the **narrowing in NZD forward points had an impact on hedging duration for close to 80% of respondents surveyed.** The reduction in NZD forward points has resulted in more than three quarters of importers in the survey increasing their hedging duration (i.e. it was relatively cheaper to take out longer-term cover). By contrast, more than half of the exporters surveyed said that they intended to shorten duration (it was relatively less favourable to hedge for longer periods).



Is there scope for further yields compression? Part of the compression we have seen of late between NZD and global yields reflects structural facets, which may have a little further to run. There is also a cyclical aspect to the rates convergence. US interest rates are steadily climbing off their lows, and with the RBNZ towards the back of the queue for rate hikes, there is the possibility that NZD rates will continue to narrow in relation to US yields, at least until the RBNZ steps up to the plate.

How much further could this compression go? This is the $64,000 question. We caution, however, that picking the peaks and troughs is extremely difficult, given the myriad of influences determining local interest rates, let alone the NZD. In the context of firming global yields, we look to be close to (or past) the trough of NZD interest rates this cycle. However, in the past, those having hedged for higher rates have been caught out as the foreshadowed lift in rates has failed to materialise.

In such an environment, a prudent approach to hedging is called for, where the pros and cons of a strategy need to be carefully weighed up. **Any decision would need to be consistent with the broader strategic direction in which the business would like to head.** Enterprises may also wish to add a degree of optionality to their hedging decisions and take advantage of any natural hedges that are available.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support^	Resistance^	MT Bias
NZD/USD	0.7293	0.7334	0.7156	0.7275	DOWN	0.715	0.7350	UP
NZD/AUD	0.9219	0.9104	0.9105	0.9506	FLAT	0.91	0.930	DOWN
NZD/JPY	80.31	80.21	80.73	82.26	FLAT	79.50	81.00	DOWN
NZD/EUR	0.5864	0.5900	0.5926	0.6764	FLAT/DOWN	0.575	0.595	FLAT
NZD/GBP	0.5170	0.5169	0.5275	0.5808	FLAT/DOWN	0.510	0.520	FLAT
TWI	74.9	74.7	74.3	79.1	FLAT/DOWN	73.50	76.00	FLAT

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

NZD Recap

The NZD TWI starts the week, largely where it was a week ago, with the NZD strengthening against the yen and Australian dollar, but falling against the USD and euro. **Yield differentials look to have been more of a currency driver of late**, with the USD index recovering from 3-year lows as the Fed gave the green light to rate hikes over 2018, which has been motivated by the strong US economy and signs that inflation may be starting to firm. Market pricing has shifted close to the three 2018 Fed hikes signalled in the December Dot Plots following the Fed meeting, with the USD and US yields up on stronger than expected US labour market data. Higher US yields have seen some retracement in global stocks markets and general risk sentiment, with the NZD falling below 73 US cents. The yen has also fallen, although positive data have supported the euro. The AUD fell modestly on slightly weaker Q4 Australian CPI, and lower interest rate differentials, with signs of pressures in Chinese credit markets pushing the AUD below 80 US cents.

Near-term Impact

With increased focus on yields as a currency driver, we expect the USD to remain on the ascendancy. This week's central bank decisions by the RBA (tomorrow), RBNZ and BOE (both Thursday) will be closely scrutinised. No change in policy rates are expected for all three, although the tone of the policy assessments and some central bank speeches that could contribute to some currency volatility. As we discussed in our OCR preview the RBNZ may marginally shade down its published Official Cash Rate track, which could place the NZD under slight downward pressure. We also expect Wednesday's NZ Q4 labour market detail to be marginally less NZD-supportive, with the prospect of a Q4 fall in employment and with low quarterly growth in wage inflation. However, with key tailwinds still intact - a still-supportive global backdrop, synchronised global upswing, high export commodity prices (a further lift is expected for prices on Wednesday's dairy auction), the extent and duration of any NZD weakness is likely to be limited.

Medium-term outlook

Despite recent strengthening, our medium-term bias remains 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 its solid economic outlook, strong NZ commodity export prices and 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	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20
(end of quarter)			<< actual	forecast >>					
NZD/USD	0.73	0.72	0.71	0.72	0.73	0.74	0.75	0.76	0.79
NZD/AUD	0.95	0.92	0.91	0.90	0.90	0.90	0.90	0.90	0.90
NZD/JPY	82	81	80	79	78	78	79	79	79
NZD/EUR	0.64	0.61	0.59	0.60	0.59	0.59	0.59	0.60	0.60
NZD/GBP	0.56	0.54	0.53	0.53	0.53	0.53	0.53	0.53	0.54
NZD TWI	78.4	76.4	74.3	74.6	74.7	75.0	75.1	75.7	76.6

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Interest Rate Market

Wholesale interest rates	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	1.89	1.88	1.87	2.01	FLAT	UP
2-year swap	2.18	2.18	2.18	2.41	FLAT/DOWN	UP
5-year swap	2.74	2.70	2.65	3.07	FLAT/UP	UP
10-year swap	3.28	3.22	3.13	3.59	UP	UP
10-year govt bond yield	2.95	2.97	2.77	3.38	UP	UP
Curve Slope (2s10s swaps)	1.10	1.05	0.95	1.18	UP	DOWN

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

Market Recap

US longer-term Treasury yields were the big movers last week, with US 10-year Treasury yields lifting roughly 14bp over the week to a 4-year high. Last week, the combination of the Federal Reserve rate announcement (and accompanying comments) and the strong US Non-farm Payrolls release further entrenched the likelihood that the Fed will be raising interest rates further this year. Over the week, market pricing for Fed hikes lifted towards three rate hikes in 2018, reflecting growing optimism that the US economy will continue to outperform and inflation pressures will rise as a result. This saw further upward pressure on NZ long-term rates over the week. However, last week's soft CPI result is still fresh in the minds of participants. Market pricing for OCR hikes remains low (around a 14% chance by year-end) which kept NZ short-term rates anchored at low levels and saw the curve steepen.

Near-term NZD interest rate outlook

There is a risk shorter-term local yields move slightly lower this week following Wednesday's Q4 employment release and Thursday's RBNZ Monetary Policy Statement. We expect Wednesday's employment release to show wage pressures remain muted (+0.4% qoq) and for employment to fall by 0.3% qoq. Although the fall in employment follows a particularly strong Q3, there is a chance markets react to the headline given last week's soft CPI result. Combine the chance for a soft employment read with our expectation that the RBNZ will lower its inflation forecasts and potentially its interest rate track, and this could further dampen short-term rates in NZ this week. **Longer-term rates will likely continue to be impacted by offshore moves and the risk is they continue to grind higher if we see the recent sell-off in US bonds continue this week.** And, with no major US data due to change current perceptions, the risk is that the sell-off continues. **As a result, we are likely to see the NZ yield curve steepen again this week**.

Medium-term outlook

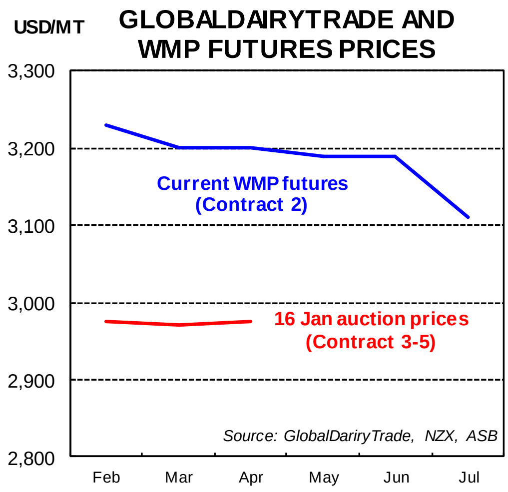
Our core macro view is that the RBNZ will start lifting the OCR in early 2019, with the risk of a later start. We expect a moderate pace of tightening by historical standards, and a low OCR endpoint of around 3.5% this cycle. Combined with our expectation of at least two Fed hikes over 2018, this should see local yields move closer to offshore equivalents. **This should help push up short-term NZD rates and help to flatten the local curve. Our expectation of a flatter NZD curve crucially depends on the assumption that local yields remain reasonably well anchored to global counterparts and that the lift in global yields is modest.** With still-considerable uncertainties over the persistence of low global inflation and a downward global risk profile, we expect long-term global yields to drift higher.

ASB interest rate forecasts	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20
(end of quarter)			<< actual	forecast >>					
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.50
NZ 90-day bank bill	1.96	1.96	1.88	1.9	1.9	2.0	2.1	2.3	2.8
NZ 2-year swap rate	2.33	2.21	2.21	2.3	2.4	2.5	2.7	2.8	3.3
NZ 10-year Bond	2.97	2.96	2.75	3.1	3.2	3.3	3.4	3.4	3.6

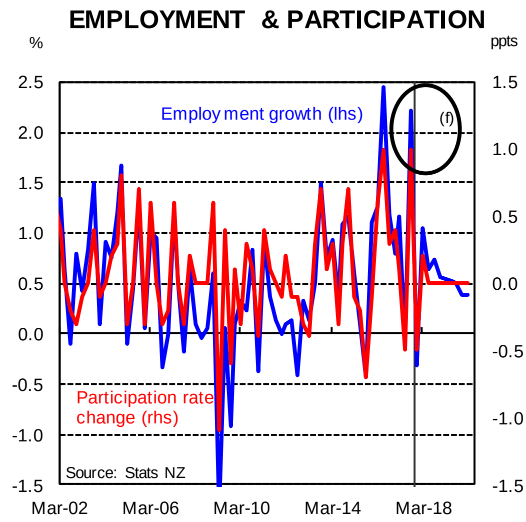
Major Domestic Events for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
GlobalDairyTrade Auction, whole milk powder, % change	06/02	Overnight	+5.1	-	+3 to +5
HLFS Unemployment Rate	07/02	10:45 am	+4.6	+4.6	+4.7
HLFS Employment growth, qoq	07/02	10:45 am	2.2%	+0.5	-0.3
LCI Wage Growth, private sector ordinary time, % qoq	07/02	10:45 am	+0.4	+0.5	+0.7
RNBZ Interest Rate Announcement	08/02	9:00am	1.75	1.75	1.75

We expect prices to rise at the GlobalDairyTrade auction overnight Tuesday. A fortnight ago, whole milk powder (WMP) prices rose by 5.1%. At the current juncture, futures pricing suggests WMP will lift by between 7% and 9%. However, the futures market has overestimated price moves at recent auctions. Accordingly, we discount this indicator. Meanwhile, Fonterra has recently cut both its production and auction volumes forecasts on the back of weak recent production. In addition, auction volumes are falling as production begins to tail off as we get closer to the end of the season. All up, **we expect WMP prices to lift by between 3% and 5% at this auction**.



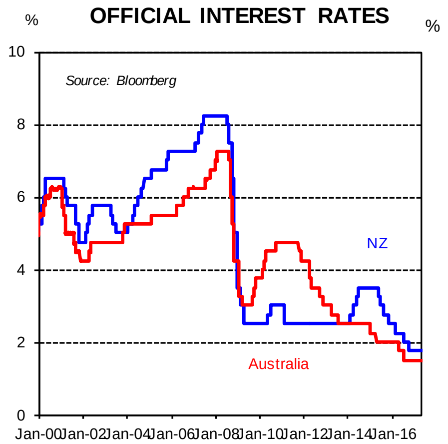
We expect a 0.3% qoq fall in Q4 employment from the Household Labour Force Survey (HLFS). Note that we largely view this fall as a statistical recoil in light of the 2.2% qoq Q3 increase, rather than signalling a sharp slowdown in the demand for labour. A small fall is also expected in the labour force participation rate, which should cap the unemployment rate at 4.7%, its second-lowest level since 2008. Other metrics should depict a still-tight labour market, with elevated levels of labour utilisation. Following the pay-equity settlement and the minimum-wage generated lift in Q3, we expect a return to moderate quarterly increases for wages, with private sector Labour Cost Index (LCI) wages up just 0.4% qoq (+1.9% yoy). Further pay-equity and minimum-wage increases, along with tight labour market capacity, are expected to gradually lift overall LCI wage inflation over the next few years. However, there is still the risk that wages fail to firm, which along with a backdrop of low headline CPI inflation and inflation expectations, mean that the risks of a lower OCR should not be entirely ruled out.



The RBNZ is widely expected to leave the OCR on hold at 1.75%, depict a balanced assessment and continue to emphasise that interest rates are likely to remain low for a considerable period. With changes to the monetary policy framework pending and with Adrian Orr set to start as Governor in March, the RBNZ is expected to keep changes to a minimum. The brighter global outlook and widespread number of supports to the domestic economy should keep the tone of the policy assessment reasonably upbeat, with a solid outlook for domestic economic activity depicted in the published forecasts. Concrete details on much of the new Government's policy programme are still sketchy and are unlikely to markedly shift from estimates the RBNZ made back in November. However, the low inflation starting point and a higher-than-expected NZD could result in marginal downward tweaks in the published Official Cash Rate profile. That said, and given pending changes in the monetary policy framework, financial markets should tread cautiously on reading too much into this.

Major International Events for the week ahead

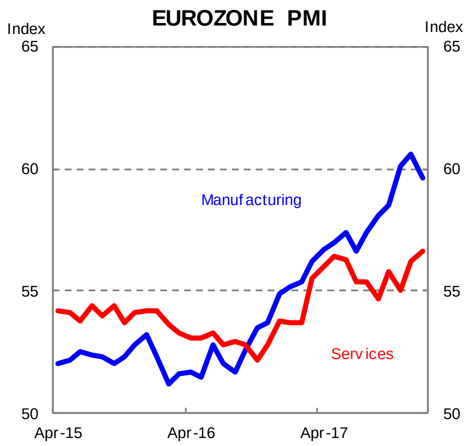
Data	Date	Time (NZT)	Market	ASB
Eurozone Composite PMI, January, Index	05/02	10:00 pm	58.6	59.0
Australia Trade Balance, December, $mn	06/02	1:30 pm	200	300
Australia Retail Sales, December, %mom	06/02	1:30 pm	-0.2	0.0
Reserve Bank of Australia interest rate announcement, %	06/02	4:30 pm	1.5	1.5
China exports, January, %yoy	08/02	-	11.3	17.0
Japan Current Account Balance, December, ¥bn	08/02	12:50 pm	1,059	1,500
Reserve Bank of Australia Monetary Policy Statement	09/02	1:30 pm	-	-
China CPI, January, %yoy	09/02	2:30 pm	1.5	1.6
Bank of England Interest Rate Announcement, %	09/02	1:00 am	0.5	0.5
Bank of England Inflation Report	09/02	1:00 am	-	-



Australia's trade balance should recover from a weak November number. Improvements in iron ore export volumes and prices should help, as well as support from LNG shipments.

Australian retail sales are likely to normalise after a strong 1.2% gain in November from iPhone and Black Friday sales, with a weaker consumer backdrop still dominating the sector.

We expect no change at the **Reserve Bank of Australia's first meeting** for 2018. The RBA will likely comment on global growth upgrades, US tax stimulus, commodity price resilience, strong domestic labour market data and AUD strength.



Minimal changes to forecasts are expected when the **Reserve Bank of Australia releases its Statement on Monetary Policy** later in the week. It would be difficult for the RBA to justify a downgrade to its economic growth projections. We expect those projections to show GDP growth running above trend by end 2018. We also don't see any significant changes to inflation projections, even with a higher AUD assumption.

We expect **China's total exports** in January to have grown 17%yoy, whereas imports should have risen by 15% from a year ago, reflecting the base effect from shifting the Chinese New Year holiday. Last year, the Chinese New Year day fell on 28th January, compared to 16th February in 2018. On that note, economic data have been always volatile in the first two months of the year, and should be read with caution.

Already-released customs data showed a large fall in **Japan's trade balance**. Consequently, we expect Japan's current account surplus to ease to a still-large ¥1,500bn.

We expect **China's headline CPI for January** to have risen by 1.6% versus a year ago, as higher food inflation was partially offset by the Chinese New Year base effect. Nonetheless, the core measure – which excludes volatile food and energy prices – should have held steady at 2.2%, or its six-year high.

We anticipate the **Eurozone's January composite PMI** will print around a strong 59 index level, reflecting robust conditions amongst the Eurozone manufacturing and services industries.

We anticipate **the Bank of England (BoE)** will leave interest rates and asset purchases on hold at 0.5% and £435bn respectively.

Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast Market	Forecast ASB
Mon 5	12:45	CH	Caixin China PMI composite	Jan	Index	53.0	~	~
Tue 6	09:30	AU	ANZ Roy Morgan Confidence Index	Feb	Index	120.9	~	~
	11:30	AU	Trade balance	Dec	$mn	-628.0	~	300
	14:30	AU	RBA cash rate target	Feb	%	1.5	1.5	1.5
Wed 7	08:45	NZ	Unemployment rate	Q4	%	4.6	4.6	4.7
	09:30	AU	Ai-Group PCI	Jan	Index	52.8	~	~
	16:00	JN	Leading index CI	Dec P	Index	108.3	~	~
Thu 8	~	JN	Eco. watchers survey current	Jan	Index	53.9	~	~
	~	CH	Trade balance	Jan	CNY bn	54.7	~	~
	07:00	NZ	RBNZ Official Cash Rate	Feb	%	1.75	1.75	1.75
	11:30	AU	NAB Business Confidence	Q4	~	7.0	~	~
	12:30	JN	BOJ Suzuki makes a speech in Wakayama					
	20:00	AU	RBA Governor Lowe gives speech in Sydney					
Fri 9 Feb	11.30	AU	Housing Finance	Dec	m%ch	2.1		-1.9
		CH	CPI	Jan	y%ch	1.8	~	~

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast Market	Forecast ASB
Mon 5 Feb	09:00	EC	ECB's Weidmann, BIS's Carstens speak in Frankfurt					
	15:00	US	ISM non-manufacturing composite	Jan	Index	56.0	56.5	~
Tue 6 Feb	13:30	US	Trade balance	Dec	$bn	-50.5	-52.1	~
	13:50	US	Fed's Bullard speaks on U.S. Economy and Monetary Policy					
Wed 7 Feb	08:00	US	Consumer credit	Dec	$bn	28.0	19.7	~
	08:30	UK	Halifax house prices	Jan	m%ch	-0.6	~	~
	09:00	EC	ECB's Nouy and Launtenschlaeger speak in Frankfurt					
	10:00	EC	European Commission Economic Forecasts					
	11:00	US	Fed's Kaplan speaks in Frankfurt					
	13:30	US	Fed's Dudley speaks in Moderated Q&A					
	15:15	US	Fed's Evans speaks on Economic and Policy Outlook					
	22:20	US	Fed's Williams speaks in Hawaii					
Thu 8 Feb	08:45	EC	ECB's Weidmann speaks in Frankfurt					
	09:00	EC	ECB Publishes Economic Bulletin					
	10:30	EC	ECB's Mersch speaks in London					
	12:00	UK	Bank of England bank rate	Feb	%	0.5	0.5	
	13:00	US	Fed's Harker speaks on economy: outlook and impact for college					
	14:00	US	Fed's Kashkari speaks in Moderated Q&A					
Fri 9 Feb	02:00	US	Fed's George speaks on the economy					
	09:30	UK	Industrial production	Dec	m%ch	0.4	~	~
	12:00	UK	NIESR GDP estimate	Jan	%	0.6	~	~
Sat 10 Feb	10:30	EC	ECB's Visco speaks at Annual Assiom Forex Event in Verona					

Key Forecasts

ASB NZ economic forecasts

	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20
	<< actual	forecast >>							
GDP real - Q%	1.0	0.6	0.6	0.5	0.9	1.0	1.0		
GDP real - A%	2.8	2.7	2.9	2.6	2.6	3.0	3.4	3.9	3.3
GDP real - AA%	3.3	3.0	2.9	2.8	2.7	2.8	2.9	3.2	3.6
CPI - Q%	0.0	0.5	0.1	0.4	0.4	0.5	-0.2		
CPI - A%	1.7	1.9	1.6	0.4	1.4	1.5	1.1	1.5	1.7
HLFS employment growth - Q%	-0.1	2.2	-0.3	1.0	0.6	0.7	0.6		
HLFS employment growth - A%	3.1	4.1	3.0	2.9	3.6	2.1	3.0	2.5	1.8
Unemployment rate - %sa	4.8	4.6	4.7	4.5	4.3	4.0	3.9	3.8	3.5
Annual current account balance as % of GDP	-2.7	-2.6	-2.7	-2.5	-2.7	-3.0	-3.1	-3.0	-2.9

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

(end of quarter)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20
			<< actual	forecast >>					
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.50
NZ 90-day bank bill	1.96	1.96	1.88	1.9	1.9	2.0	2.1	2.3	2.8
NZ 2-year swap rate	2.33	2.21	2.21	2.3	2.4	2.5	2.7	2.8	3.3
NZ 10-year Bond	2.97	2.96	2.75	3.1	3.2	3.3	3.4	3.4	3.6

ASB foreign exchange forecasts

(end of quarter)	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Mar-20
			<< actual	forecast >>					
NZD/USD	0.73	0.72	0.71	0.72	0.73	0.74	0.75	0.76	0.79
NZD/AUD	0.95	0.92	0.91	0.90	0.90	0.90	0.90	0.90	0.90
NZD/JPY	82	81	80	79	78	78	79	79	79
NZD/EUR	0.64	0.61	0.59	0.60	0.59	0.59	0.59	0.60	0.60
NZD/GBP	0.56	0.54	0.53	0.53	0.53	0.53	0.53	0.53	0.54
NZD TWI	78.4	76.4	74.3	74.6	74.7	75.0	75.1	75.7	76.6

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