Economic Weekly

12 October 2020

NZ heads to the polls

The NZ general election is now fast approaching, taking place this Saturday (17th October), but the polls are already open. New Zealanders have been encouraged to vote early this year to avoid large queues and are reportedly casting advance votes in record numbers. Polls suggest a centre-left government will be returned, although nothing is certain in politics. In terms of market reaction, its more about getting a clear result rather than who specifically wins – a clear election mandate would provide more surety to markets and the economy, whereas an inconclusive result could see a period of pronounced volatility. Between the two major parties, there are only modest differences in terms of policy - with starker differences between potential support parties (Greens and Act). Both major parties have demonstrated the ability and commitment to be competent fiscal managers. For more background information on NZ's election, see our note by Mark Smith here.

Meanwhile, NZ economic data continues to surprise on the upside, leading us to further revise our GDP forecasts (higher) and unemployment forecasts (lower). The NZ housing market has barely skipped a beat this year, shrugging off the global pandemic. REINZ house sales data for September is likely to be released during the second half of the week and is expected to confirm accelerating housing market momentum.

StatsNZ recently updated its population estimates to account for the census data, and as a result the population is larger than previously reported. The implications of this revision are that housing shortages remain acute (see chart of the week below) and widespread across NZ. Lower mortgage rates are likely just adding fuel to the fire. Despite the NZ economy performing stronger than expected, and the housing market heating up, the RBNZ appears unlikely to back away from their policy stance anytime soon, with the RBNZ Chief Economist commenting last week that "we'd rather do too much too soon, than too little too late". jane.turner@asb.co.nz.

Recent key economics

ASB Economic forecasts and monitoring:

Quarterly Economic Projections

ASB COVID-19 Chart pack

Home Economics

Financial market trends:

Corporate Hedging Toolbox

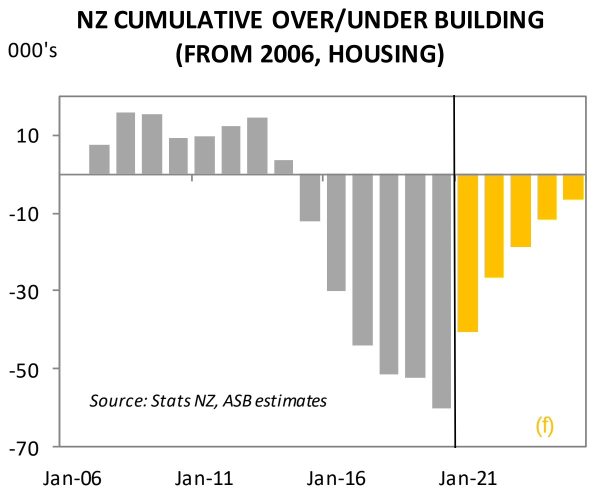
Policy response:

RBNZ September MPR Review

Assessing the RBNZ's bag 'o' tricks

For COVID-19 research, see here

Chart of the week



Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6652	0.6645	0.6662	0.6323	FLAT/UP	0.6530	0.6790
NZD/AUD	0.9221	0.9255	0.9154	0.9327	FLAT	0.9070	0.9315
NZD/JPY	70.38	70.11	70.72	68.26	FLAT/UP	70.00	72.00
NZD/EUR	0.5633	0.5665	0.5629	0.5740	FLAT	0.5600	0.5800
NZD/GBP	0.5108	0.5136	0.5195	0.5083	FLAT	0.5100	0.5270
TWI	71.4	71.6	71.8	70.37	FLAT	N/A	N/A

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

NZD Recap

As we suspected, there wasn't much in the way of news and events to shake the NZD/USD out of its range last week. The currency spent most of the week consolidating but finished the week towards the top end of its recent 0.6500-0.6700 range as the USD once again lost its footing.

The local data pulse remains encouraging, and is an upward force on the NZD. But another reiteration from the RBNZ last week that it remains in favour of additional stimulus despite the improving outlook capped any NZD gains (notably against the AUD).

It was a strong week for equity markets and general risk sentiment. Investors appear to be warming to the idea of a Biden victory in the upcoming US elections and, despite a wealth of confusing headlines and tweets, it appears fiscal stimulus talks are back on track. The prospect of a Democratic clean sweep at the election would also materially bolster the chances of aggressive fiscal stimulus being enacted in the US, another clear positive for risk sentiment.

Outlook

The growing chances of a 'Blue Wave' at the US elections is a positive for the NZD/USD outlook (via a weaker USD). As above, it boosts the chances of more fiscal stimulus and also probably reduces the chances that Trump disputes the election result, causing the sort of untidiness and uncertainty that can upset investors' risk appetite.

It's a relatively quiet week for economic data releases, so financial market sentiment and hence the NZD/USD will be determined by yet more to'ing and fro'ing on the size and timing of additional US fiscal stimulus, as well as changing expectations for the November election.

In contrast, this weekend's NZ General Election is unlikely to be a major source of event risk for NZ financial markets. Current polls are all consistent with either a Labour or Labour/Greens coalition government which is essentially a continuation of the, relatively stable, status quo. Local NZ data this week are largely second tier but there are a few key events in Australia to keep an eye on. Thursday brings the usual potential for volatility via the Aussie jobs report (7% unemployment rate expected) while a speech from RBA Governor Lowe also on Thursday may ratify growing speculation of a small trimming of the RBA's policy rates next month.

Overall, we expect the NZD to trade with a modest upside bias given firming risk appetite. A push back into the 0.6700s looks likely. mike.jones@asb.co.nz

ASB foreign exchange forecasts	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Mar-22	Mar-23
(end of quarter)		<< actual	forecast >>				
NZD/USD	0.64	0.66	0.67	0.67	0.66	0.66	0.66
NZD/AUD	0.93	0.93	0.89	0.88	0.86	0.86	0.86
NZD/JPY	69	70	71	70	69	69	69
NZD/EUR	0.57	0.56	0.54	0.54	0.53	0.53	0.53
NZD/GBP	0.52	0.51	0.50	0.49	0.49	0.49	0.49
NZD/CNY	4.5	4.5	4.6	4.6	4.5	4.4	4.4
NZD TWI	71.4	71.6	69.9	69.4	68.0	67.6	67.6

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	Year ago	ST Bias	MT Bias
Cash rate	0.25	0.25	0.25	1.00	UNCH/DOWN	UP
90-day bank bill	0.28	0.27	0.30	1.03	UNCH/DOWN	UP
2-year swap	0.03	0.06	0.05	0.89	UNCH/DOWN	UP
5-year swap	0.11	0.14	0.13	0.94	UNCH/DOWN	UP
10-year swap	0.50	0.52	0.53	1.26	UNCH/DOWN	UP
10-year govt bond yield	0.56	0.52	0.61	1.16	UNCH/DOWN	UP
Curve Slope (2s10s swaps)	0.48	0.46	0.48	0.37	UNCH	DOWN

** Current as at 9.30am today; week ago as at Monday 5pm. Key UNCH = Broadly unchanged*

Market Recap

NZ yields pressed lower towards the end of last week, touching fresh record lows for shorter-dated tenors. The catalyst was a media interview with RBNZ officials Hawkesby and Ha which signalled the preference towards further stimulus, with a negative OCR still under consideration and with more detail on the Term Lending Facility to be presented at the MPS on November 11. Local data were generally positive but was largely ignored by markets. The RBNZ purchased just $1,050m of NZ government bonds last week under its Large-Scale Asset Purchase Programme (LSAP), but this still outpaced the $650bn in tenders. Total LSAP purchases have climbed above $35bn.

The RBA maintained its 0.25% cash rate and 3-year government bond purchase target, but left the door open to further stimulus, noting “additional monetary easing” was required to support jobs. The yield on the 3-year Australian Government bond (currently 0.14%) is about 10bps lower than a month ago. Markets are biased towards RBNZ and RBA cuts, with 1-year OIS rates for NZ (-0.04%) about 15bp higher than Australian counterparts.

Improved risk appetite saw equities and commodity prices (e.g. oil) make gains over the week. Global yields were more of a mixed bag. US yields firmed with the Fed Minutes not providing an “unconditional commitment” the Fed would keep rates at current lows regardless of the economic outlook, but the continued impasse over the next US fiscal package has capped rises. European yields pushed lower following the downbeat tone of the ECB minutes in which the bank was concerned over the persistent weakness in inflation.

Near-term interest rate outlook

We have retained our downward bias for local yields but are cognisant that this may not be a smooth journey with scope for enhanced volatility leading up to the NZ (October 17) and US elections (November 3). Local data over the last month or so have been resilient and we could well see position-related flows push yields higher. The RBNZ has continued to pare back the LSAP, but the signalled $960m weekly pace of NZ government bond purchases this week remains well above the $600m weekly tender.

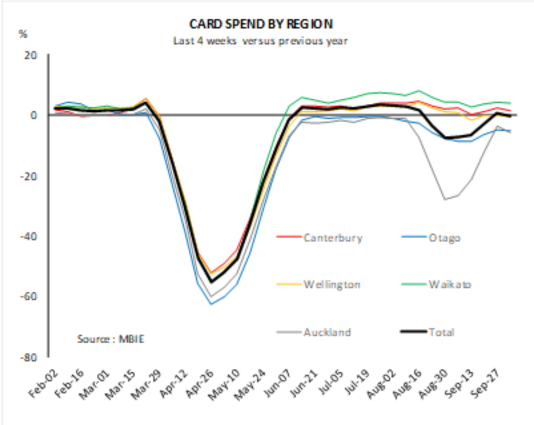
The direction of risk appetite should influence local and global yields and the slope of the yield curve. US Treasury yields could push higher this week if the long-awaited fiscal deal is struck between Democrats and the While House. Speeches by RBA Governor Lowe, September Australian jobs and other global data (including CPI prints for the US and China, US retail sales) may impact yields at the margin.

Medium-term outlook

We expect the RBNZ to launch a Funding for Lending Programme by the end of the year, most likely shortly after the November MPS on November 11. The earlier launch of the FLP reduces the risk of an earlier OCR cut, but we still expect the RBNZ to move the OCR lower in 2021. The RBNZ is expected to continue to front-load asset purchases and employ dovish forward guidance to dampen yields. Low global inflation and subdued global growth prospects should keep NZ yields low and the curve reasonably flat despite high public debt issuance. mark.smith4@asb.co.nz

Domestic events

Data	Date	Time (NZT)	Market	ASB
Retail Electronic Card Transactions, September, % mom	13/10	10:45am	-	+10
REINZ Housing Market data, September	This week	-	-	



We expect a rebound in **September card spending** triggered by the relaxation in Alert Level restrictions over the month. Card spending data from MBIE has shown a broad-based jump across retail store-types, with home and recreational spending well above year-ago levels and food & liquor sales doing well. There has been a notable improvement in apparel and hospitality retail, albeit from low levels. Viewing the regional splits shows the nationwide improvement appears to be largely attributable to the jump in Auckland spending (see chart), following the shift down from Alert Level 3 restrictions. Provided NZ does not shift up Alert levels, the better than expected showing of the labour market and housing market could act to prop up the retail sector. Nevertheless, challenges lie ahead, with the absence of inbound tourists expected to be felt more acutely in the summer months.

REINZ housing market data is due to be released sometime in the back half of the week and will likely confirm other data and anecdotes pointing to accelerating housing market momentum. Activity is likely to continue to pick up from its lockdown-lows and annual house price inflation is expected to maintain a double-digit pace.

Major International Events for the week ahead*

Data	Date	Time (NZT)	ASB
China Trade Balance, September, US$bn	13/10	-	58
Australia CBA Credit and Debit Card Data	13/10	-	-
US Inflation, September, %mom	14/10	1:30 am	0.1
UK Employment, August	13/10	7:00 pm	-
Eurozone Industrial Production PMI, August, points	14/10	10:00 pm	-
Australia Unemployment, September, %	15/10	1:30 pm	7.0
RBA Governor Philip Lowe Speech	15/10	10:45 am	-
China CPI Inflation, September, %yoy	15/10	2:30 pm	2.0
US Industrial Production, September, %mom	17/10	-	0.5

**Originally published by CBA Global Markets Research on Friday 9 October at 2:03 pm*

We expect **China's** exports growth to accelerate to 10%yoy in September because of the continued global recovery. The recovery in domestic demand has accelerated. Hence, imports might have lifted by 2% in September. We predict a $US58bn **trade surplus**.

Our **Australian parent CBA's Weekly Credit and Debit Card publication** will now be released on a fortnightly basis with the two weeks to 9 October being the first fortnightly release. Data for the week ended 25 September showed that in-store spending in Victoria has already passed the deep trough resulting from the second wave of pandemic restrictions, but that it still sits down deeply on year-ago levels. Weak outcomes in Victoria have put a lid on total spending in the economy. Total spending has been tracking sideways around the 4-5% annual change mark.

In **Australia's September labour force survey**, we expect employment to fall by 20k following a surprise lift of 111k in August. On an unchanged participation rate this would see the unemployment rate lift 0.2ppts to 7.0%.

Reserve Bank of Australia (RBA) Governor Philip Lowe is scheduled to speak at the Citi Australia & New Zealand Annual Investment Conference from 8.45am AEDT on Thursday. The market will be monitoring this speech particularly closely to gauge if, and how, the RBA might further ease monetary policy. We expect that any further easing in policy would take the form of additional bond purchases or a further expansion of the term funding facility.

We forecast **China CPI inflation** to ease to 2%yoy in September because of easing pork inflation. PPI deflation may have fallen to 1.8%yoy because the continued recovery has supported commodity prices.

We expect the **US headline CPI** rose a muted 0.1%mom in September. Gasoline prices were flat and will have done little to spur inflation pressures. We expect core inflation rose by 0.2%mom. Nevertheless, the large output gap suggests there is little risk of inflation pressures running away any time soon.

The **UK unemployment rate** rose 0.2pts to 4.1% in the three months to July. The Bank of England projects the jobless rate to peak closer to 7.5% by Q4.

The **Eurozone manufacturing PMI** points to a further improvement in industrial production.

We expect **US industrial production** rose by 0.5%mom. The US manufacturing industry is continuing to recover, albeit at a slower pace than during the initial post-lockdown surge in May and June. But industrial production still remains some 7% below February 2020 levels.

Key Forecasts

ASB NZ economic forecasts	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Mar-22	Mar-23
	<< actual	forecast >>					
GDP real - Q%	-12.2	11.0	0.7	0.3	0.1	0.4	0.8
GDP real - A%	-12.4	-3.4	-3.2	-1.5	12.3	0.7	3.3
GDP real - AA%	-2.1	-3.5	-4.8	-5.1	0.7	3.5	2.3
NZ House Prices (QV Index) - A%	6.1	6.7	6.1	5.3	7.1	5.3	4.4
CPI - Q%	-0.5	1.0	0.0	0.1	0.2	0.5	0.6
CPI - A%	1.5	1.8	1.3	0.7	1.3	1.3	1.3
HLFS employment growth - Q%	-0.3	-2.5	-1.1	0.1	0.5	0.5	0.5
HLFS employment growth - A%	1.5	-1.4	-2.8	-3.7	-2.9	2.2	1.8
Unemployment rate - %sa	4.0	5.8	6.5	6.7	6.5	5.8	5.6

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-20	Sep-20	Dec-20	Mar-21	Jun-21	Mar-22	Mar-23
		<< actual	forecast >>				
NZ OCR	0.25	0.25	0.25	0.25	-0.50	-0.50	-0.25
NZ 90-day bank bill	0.30	0.31	0.15	0.00	-0.50	-0.50	-0.20
NZ 2-year swap rate	0.21	0.06	0.00	-0.15	-0.30	-0.30	0.00
NZ 5-year swap rate	0.35	0.13	0.10	0.00	-0.15	-0.15	0.15
NZ 10-year swap rate	0.74	0.51	0.30	0.10	-0.10	0.10	0.50
NZ 10-year Bond	0.91	0.46	0.45	0.25	0.00	0.20	0.55

ASB foreign exchange forecasts (end of quarter)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Mar-22	Mar-23
		<< actual	forecast >>				
NZD/USD	0.64	0.66	0.67	0.67	0.66	0.66	0.66
NZD/AUD	0.93	0.93	0.89	0.88	0.86	0.86	0.86
NZD/JPY	69	70	71	70	69	69	69
NZD/EUR	0.57	0.56	0.54	0.54	0.53	0.53	0.53
NZD/GBP	0.52	0.51	0.50	0.49	0.49	0.49	0.49
NZD/CNY	4.5	4.5	4.6	4.6	4.5	4.4	4.4
NZD TWI	71.4	71.6	69.9	69.4	68.0	67.6	67.6

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