

Economic Weekly

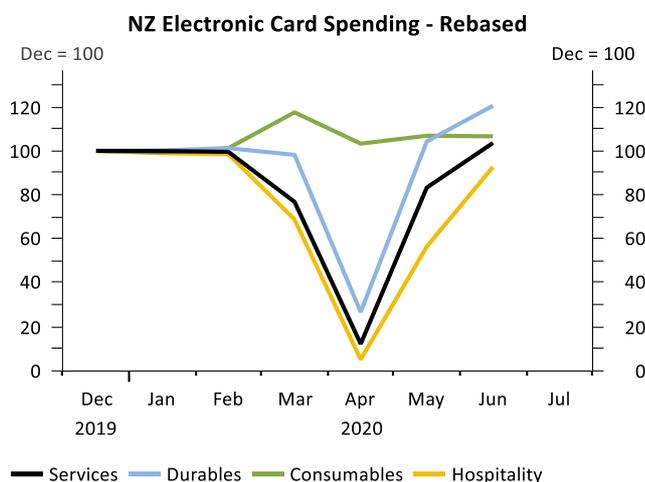
13 July 2020

Ringling the tills

The economic news out of NZ was fairly encouraging last week. Retail transactions paid for on electronic cards rebounded further over June, with seasonally-adjusted retail card spending actually 6% above February’s pre-lockdown level. What was particularly encouraging was that transactions in the hospitality sector were only 6% lower than in February, in a month that started with Level 2 restrictions still in place. The cautionary tale for retail cards transactions is that there may have been some substitution away from cash spending. Against that, current retail spending is not being buoyed by tourist spending in the way that spending was prior to the border closure. The figures look good, in short.

Also positive was the further sharp rebound in business confidence in the ANZ’s preliminary survey results for July. Businesses’ expectations for their own trading activity are now less pessimistic than they were during the depths of the Global Financial Crisis, a huge contrast to the Mariana Trench depths of April. The more dated June quarter NZ Institute of Economic Research business confidence survey wasn’t as weak as it could have been. And dairy prices lifted in last week’s GlobalDairyTrade auction: we will review our milk price forecast at the next auction.

Some local developments this week will show a different slant on NZ’s recovery. Tuesday’s migration figures for May will reinforce that the border restrictions are not only halting tourism but also pulling net migration down (notwithstanding the high media profile of returning Kiwis). Thursday’s CPI will show the start of a fall in inflation to a subdued pace. Meanwhile, house sales figures from the REINZ are likely to show continued recovery in sales activity after the end of lockdown restrictions, although house prices may edge down slightly further. nick.tuffley@asb.co.nz



Source: Macrobond, ASB

Recent COVID-19 publications

ASB Economic forecasts and monitoring:

[Quarterly Economic Projections](#)

[ASB COVID-19 Chart pack](#)

[NZ Sector outlook](#)

[Regional Economic Scoreboard](#)

[NZ Tourism outlook](#)

Financial market trends:

[Corporate Hedging Toolbox](#)

Policy response:

[RBNZ leaves QE target unchanged in June](#)

Where to find support

[ASB financial support package](#)

[Government support package](#)

[COVID-19 alert system explainer](#)

For these publications and more COVID-19 research, see [here](#)

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6572	0.6411	0.6424	0.6681	FLAT	0.6390	0.6600
NZD/AUD	0.9449	0.9357	0.9382	0.9550	FLAT	0.9375	0.9500
NZD/JPY	70.25	68.72	68.85	72.36	FLAT/DOWN	68.00	71.60
NZD/EUR	0.5813	0.5714	0.5686	0.5927	FLAT	0.5650	0.5830
NZD/GBP	0.5202	0.5199	0.5107	0.5327	FLAT	0.5130	0.5260
TWI	72.6	71.4	71.2	73.06	FLAT	N/A	N/A

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

NZD Recap

Improving global growth sentiment continued to blow wind into the NZD's sails last week.

Indicators of general risk sentiment point to retreating fears about a double-dip global recession, despite COVID flare ups in various parts of the world (notably the US). Global equity markets rose through the week, and commodity prices appear to be trending slowly higher again. The more constructive backdrop saw the USD lose ground over the week as demand for safe-havens reduced.

The NZD/USD tended to rise by more than most against the weaker USD. Last week's belter of a GDT auction, and its attendant positive implications for NZ export prices and Terms of Trade, was a prominent factor in this outperformance. Still, the NZD/USD couldn't quite sustain gains above 0.6600 and spent most of the week consolidating a little below the figure.

By contrast, NZD/AUD spent most of last week on the front foot, hitting 0.9450 for the first time since April. This largely reflects the hit to Australia's growth prospects from Victoria's return to lockdown. However, we don't expect the cross's gains to extend given the Victorian lockdown will not upend Australia's economic recovery.

Outlook

There's a smattering of largely second-tier global and NZ economic data due for release this week. Chinese GDP and NZ inflation figures on Thursday stand out as the most relevant for the NZD. Still, we suspect investors' risk appetite – itself driven by perceptions of the COVID impact on the global economy – will remain the most important driver of the NZ dollar for now. The general daily ebb and flow of such will probably see G10 currencies – including the NZD – continue to chop sideways inside recent ranges for the moment.

But we remain wary of the potential for a short-term strengthening in the USD, and consequent pull-back in the NZD/USD. Additional US lockdowns would support the USD because they risk delaying the economic recovery. We're also wary of US economic momentum starting to sputter as the initial burst of activity from pent-up demand starts to peter out. Some high frequency US data have already plateaued.

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ASB foreign exchange forecasts

(end of quarter)

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
		<< actual		forecast >>				
NZD/USD	0.60	0.60	0.64	0.64	0.65	0.66	0.68	0.66
NZD/AUD	0.97	0.97	0.93	0.91	0.90	0.88	0.88	0.86
NZD/JPY	65	65	69	66	66	67	69	67
NZD/EUR	0.54	0.54	0.57	0.55	0.57	0.58	0.60	0.58
NZD/GBP	0.49	0.49	0.52	0.52	0.52	0.52	0.52	0.51
NZD/CNY	4.3	4.3	4.5	4.6	4.6	4.7	4.8	4.6
NZD TWI	68.8	68.8	71.4	71.1	71.7	72.1	73.6	71.4

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	1.50	UNCH	UP
90-day bank bill	0.31	0.31	0.27	1.59	UNCH	UP
2-year swap	0.23	0.23	0.25	1.36	UNCH	UP
5-year swap	0.37	0.38	0.38	1.47	UNCH	UP
10-year swap	0.76	0.79	0.76	1.85	UNCH	UP
10-year govt bond yield	1.01	1.00	0.81	1.62	UP	UP
Curve Slope (2s10s swaps)	0.52	0.57	0.52	0.50	UNCH	DOWN

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

Market Recap

Local yields have been listless, with no immediate catalysts to trigger sizeable moves in either direction, starting the week little changed on a week prior. Global yields have rallied (eased) as the further deterioration in the COVID-19 outlook outweighed the improved tone of economic data.

The RBA maintained its 0.25% cash rate and 3-year bond yield target and signalled that any hike in the cash rate is likely to be a long way away. Australasian yields have eased as the spread of COVID-19 has seen a 6-week lockdown in Melbourne imposed, significantly weighing on the burgeoning recovery. There was little market reaction to the weak Q2 QSBO and the July preliminary ANZ Business Outlook (which showed a sizeable and broad-based lift in sentiment).

Climbing US infections of COVID-19 provided a speed bump to equity markets, with US 10-year Treasury yields falling towards toward 0.60%. The US ISM manufacturing and non-manufacturing ISM surprised with their strength and global data have generally been on the up post-lockdowns.

A further \$950m in conventional NZ Government bonds was tendered last week, which was mostly absorbed by RBNZ asset purchases, limiting the drift higher in longer-term NZ yields.

Near-term interest rate outlook

For markets and policymakers, the next few weeks still look to be a waiting game and we expect yields to remain directionless and very, very low. The tug-of-war between improving data and the spread of COVID-19 is expected to continue and equity market direction should remain a useful guide for yields and curve slope. Market pricing remains skewed towards RBNZ policy easing, with the OCR set to approach zero by mid-2021, with markets pricing in a greater extent of policy easing for NZ than they are for other major central banks.

This week, the NZ Debt Management Office syndicates the May 2041 NZ Government bond, the longest NZGB bond on the curve (the previous long bond was the April 2037 maturity). We do not expect the syndication to approach the \$7bn heights of the 2024 June syndication, but still expect this issuance to push longer-term NZ yields higher. Issuing more bonds via syndication has helped to keep the weekly bond tender low, with just \$800m in conventional NZ Government bonds set to be tendered this week. With the RBNZ to continue with \$NZ940m of NZ Government bond purchases (and \$30m of LGFA purchases), this should help limit the drift up in yields.

Local data this week – including the Q2 CPI (Thurs 10:45am) - is unlikely to be as weak as the May MPS forecasts, but market reaction is likely to be modest. On a peripheral note, the RBNZ Credit Conditions Survey tomorrow may provide insights as to general lending environment. Global data – including the NAB business confidence and June employment data for Australia, Beige book, industrial production, and jobless claims for the US, Chinese China Q2 GDP, June retail sales, industrial production – will be looked at for signs of improvement. Messages by global central banks – this week sees policy decisions by the Bank of Japan and ECB – will reaffirm willingness to do more if needed.

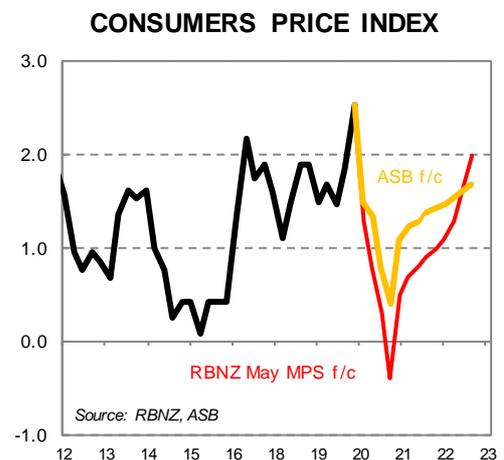
Medium-term outlook

We don't expect the OCR to move above its 0.25% operational lower bound until 2024 at the earliest. If more policy stimulus was needed the RBNZ will likely increase and broaden its \$60bn asset purchase programme before cutting the OCR. We expect the RBNZ to announce changes to its asset purchase programme in August. Subpar global activity and RBNZ asset purchases should help to cap longer-term NZ interest rates despite a flood of global public debt issuance. mark.smith4@asb.co.nz

Domestic events

Data	Date	Time (NZT)	Market	ASB
Consumers Price Index, 2020Q2, % qoq	16/07	10:45am	-	-0.4

We expect a 0.4% Q2 fall in consumer prices, with annual CPI inflation easing to 1.5%. Our Q2 pick for the NZ CPI is firmer than RBNZ expectations (-0.7% qoq, 1.3% yoy), and is largely due to our expectation that tradable goods prices will not be as weak. **Risks to our pick are broadly balanced, but we admit a greater degree of uncertainty than usual around our CPI pick and would not rule out a weaker set of inflation numbers emerging.** Sharply lower fuel prices will subtract roughly 0.7 percentage points for quarterly consumer prices and we'll be looking for moderating signs elsewhere in the CPI. Partly offsetting this will be higher food and housing group prices. After spiking to its highest level in 9 years at the start of this year, we expect annual inflation for both the 10% trimmed mean and 50% weighted median to move closer to the 2% inflation target midpoint in Q2. We don't expect much movement from the RBNZ core inflation measures in Q2. Annual CPI inflation looks set to rapidly cool over 2020 before recovering domestic and global economic activity and firming wages help gradually push prices higher. Our view is that the gradual nature of the local and global recovery will result in annual CPI inflation remaining below 2% over the next few years. Monetary policy settings will likely remain highly expansionary for a concerted period.



Major International Events for the week ahead*

Data	Date	Time (NZT)	ASB
Australia CBA Household Card Spend Data, Jul 10 wk	14/07	-	-
China Trade Balance, June, US\$bn	14/07	-	66
UK GDP, May, %mom	14/07	6:00 pm	-
US CPI, June, %mom	15/07	12:30 am	0.2
UK CPI, June, %mom	15/07	6:00 pm	-
Bank of Japan Interest Rate Announcement, %	15/07	-	-0.1
Australia Unemployment, June, %	16/07	1:30 pm	7.6
US Retail Sales, June, %mom	16/07	-	5.5
ECB Interest Rate Announcement, %	16/07	11:45 pm	-

*Originally published by CBA Global Markets Research on Friday 10th July at 2:58 pm

Australian CBA household card spending data for the week ending 3 July 2020 suggested that spending continued to improve. Spending both online and instore lifted. We expect spending in Victoria to continue to lag behind the other states and territories given the reinstatement of stage 3 lockdowns from 11.59pm on Wednesday 8 July.

We expect the **Australian labour market** to improve in the month of June and have pencilled employment to rise by 170k jobs. Despite the creation of new jobs, we see the unemployment rate to lifting to 7.6% on a 1.1ppt rise in the participation to 64.0%. Hours worked will also offer an important insight into the change in labour demand over June. We expect the unemployment rate to peak in Q3 at around 8.5% before commencing a steady decline.

We forecast **China's** exports expanded by 1%yoy in June. Exports of medical products and electronics remain solid. Imports may improve over the month but were still 8%yoy lower in June. Hence, the monthly **trade surplus** may have lifted to a record US\$66bn in May.

We estimate that headline **US CPI** rose 0.2%mom in June, driven by a 6% rebound in gasoline prices over the month. We expect core inflation remained muted at 0.1%mom. Excess capacity will cap inflation over the remainder of 2020.

The **UK economy** plunged by a record 20.4% in April. The composite PMI suggests the contraction in UK economic activity eased in May. Overall, the Bank of England (BoE) projects GDP to fall by around 25% in Q2 followed by a recovery in the second half of 2020 as lockdown measures in the UK and globally unwind.

UK headline CPI inflation was 0.5%yoy in May, down from 0.8%yoy in April. UK disinflationary pressures are expected to persist. The BoE projects headline CPI inflation to average about 0.5% in Q2 2020 and to ease towards 0% by the end of 2020.

We expect the Bank of Japan to maintain the policy status quo.

A lift in **US** gasoline prices helped **retail sales** lift in June. But more importantly easing restrictions have supported spending. We estimate control group retail sales lifted 5.0%mom. Daily US card spending data continued to recover in June, even in those states facing coronavirus outbreaks.

The European Central Bank (ECB) is expected to make no monetary policy changes. Indeed, ECB President Christine Lagarde pointed-out in an interview with the Financial Times that the ECB is unlikely to announce more stimulus measures for now, saying "we have done so much that we have quite a bit of time to assess [the incoming economic data] carefully".

Key Forecasts

ASB NZ economic forecasts

	Dec-19	Mar-20 « actual	Jun-20 forecast »	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
GDP real - Q%	0.5	-1.6	-16.8	14.7	1.1			
GDP real - A%	1.8	-0.2	-17.1	-5.7	-5.1	-3.8	2.7	4.9
GDP real - AA%	2.3	1.5	-3.3	-5.3	-7.0	-7.9	5.1	4.6
CPI - Q%	0.5	0.8	-0.4	0.5	-0.1			
CPI - A%	1.9	2.5	1.5	1.3	0.8	0.4	1.4	1.6
HLFS employment growth - Q%	0.1	0.7	-2.8	-1.6	-1.1			
HLFS employment growth - A%	0.8	1.6	-1.8	-3.6	-4.8	-4.5	1.7	2.7
Unemployment rate - %sa	4.0	4.2	6.3	7.3	7.7	7.0	7.0	6.0
Annual current account balance as % of GDP	-3.0	-2.7	-2.5	-1.9	-1.8	-2.1	-1.0	-0.5

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-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
(end of quarter)			« actual	forecast »				
NZ OCR	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
NZ 90-day bank bill	0.51	0.51	0.30	0.30	0.30	0.30	0.30	0.30
NZ 2-year swap rate	0.53	0.53	0.21	0.30	0.35	0.40	0.40	0.60
NZ 5-year swap rate	0.63	0.63	0.35	0.40	0.50	0.55	0.65	0.85
NZ 10-year swap rate	0.93	0.93	0.74	0.75	0.85	0.90	0.95	1.05
NZ 10-year Bond	1.03	1.03	0.91	0.75	0.85	0.95	1.05	1.15

ASB foreign exchange forecasts

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Mar-22	Mar-23
(end of quarter)			« actual	forecast »				
NZD/USD	0.60	0.60	0.64	0.64	0.65	0.66	0.68	0.66
NZD/AUD	0.97	0.97	0.93	0.91	0.90	0.88	0.88	0.86
NZD/JPY	65	65	69	66	66	67	69	67
NZD/EUR	0.54	0.54	0.57	0.55	0.57	0.58	0.60	0.58
NZD/GBP	0.49	0.49	0.52	0.52	0.52	0.52	0.52	0.51
NZD/CNY	4.3	4.3	4.5	4.6	4.6	4.7	4.8	4.6
NZD TWI	68.8	68.8	71.4	71.1	71.7	72.1	73.6	71.4

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