

Weekly Commentary

30 May 2016



Running to stand still

A low-key Budget was the main feature of a low-key week for local economic news. The picture remains one of an economy in reasonable shape in the near term; our eyes remain turned towards the challenges that are likely to emerge in the years ahead.

The 2016 Budget contained few surprises, with its general shape having been well signalled by the Minister of Finance in recent weeks. A stronger set of economic forecasts from the Treasury provided the Government with a greater range of options this year. And while some planned spending in much-needed areas has been brought forward, the Government has largely opted to devote future surpluses towards debt reduction. For those readers looking for a detailed consideration, our Budget review is available online.¹

Here, we'd like to expand on an issue that we touched on in our Budget review: population growth. Net inward migration has continued to run ahead of forecasts in the past year, with the result that the Treasury's population forecast for June 2017 is around 1.7% higher than it was in last year's Budget. In that light, the upgraded nominal GDP and tax revenue forecasts don't look quite as impressive.

It also means that the Government's spending plans are more austere than they might seem at first blush. While some planned spending has been brought forward to address the pressures of a burgeoning population, the overall spending allowances for the next five years were actually lowered. That implies quite a meaningful trimming of per-capita spending plans, in order to preserve future surpluses.

Our main concern around the Budget projections – and this is not a new one – is that the economic forecasts underpinning them in the later years seem optimistic. We expect economic growth to have slowed significantly by 2018-19, as the Canterbury earthquake rebuild enters its wind-down phase, and the borrow-and-spend dynamic that has powered household spending in recent times runs out of steam.

We don't dispute, however, that the economy can continue to generate reasonable growth in the short term. The recent flow of data has generally been positive – indeed, some of the April releases have recorded some unusually strong gains. We suspect that this reflects difficulties with adjusting for the different timing of Easter this year, with a number of indicators recording a soft March but a strong April (our next issue of Local Knowledge, released later this week, will make this abundantly clear).

The dairy sector remains the greatest point of weakness for the New Zealand economy, despite the modest improvement in recent GlobalDairyTrade auctions. This week Fonterra revealed an opening forecast of the farmgate milk price for next season of \$4.25 per kg of milksolids – indicating another difficult year for dairy farmers after payments of \$4.40 and \$3.90 in the previous two seasons. We still expect the milk price to end the 2016/17 season at

¹ www.westpac.co.nz/assets/Business/Economic-Updates/2016/Bulletins-2016/NZ-Budget-May-2016-Review.pdf

Running to stand still continued

\$4.60; this early in the season there's plenty of scope for differing views on the strength of the global economy and the exchange rate.

In contrast, the construction sector continues to heat up, even with quake-related activity in Canterbury having levelled off. This week will bring two updates in this area: building consents for April, which could see a strong Easter-related bounce, and the volume of building work put in place in the March quarter, where we expect further gains in both residential and non-residential construction.

Right now the Reserve Bank will be weighing up the effects of these competing forces, and others, on the outlook for inflation. We currently expect one further rate cut from the RBNZ in the June *Monetary Policy Statement*, and we'll be putting out our preview for that event later this week. But ahead of that, it's worth making a few comments on how market opinion appears to have swung away from interest rate cuts recently.

Interest rate markets are now only pricing a 30% chance of an OCR cut in June, and a two-in-three chance of a cut by August. These odds seem on the low side to us. Back in the March *Monetary Policy Statement*, the RBNZ's projections suggested a 2% low in the cash rate (from 2.25% currently, after the March cut). Developments since then suggest to us that the June interest rate projections will be no higher than last time, and quite possibly lower, with a stronger than expected exchange rate outweighing the positives.

Shifts in the outlook for other central banks, particularly in the US and Australia, seem to have influenced market thinking on the RBNZ as well. The recently released Fed minutes have sharply raised expectations that the Fed could hike interest rates in June, while recent RBA comments have dampened the prospect that it will follow up May's surprise rate cut with another cut as early as June. These shifting views should only matter to the RBNZ to the extent that they lead to a weaker New Zealand dollar; instead, the trade-weighted NZD has actually risen in that time.

The resurgence in the housing market has also played a part in the market's thinking, and the RBNZ is clearly becoming more concerned from a financial stability point of view. But it's worth noting that house prices are not tracking any higher than the RBNZ's already-strong forecasts in the March *MPS*.

Finally, we acknowledge that the near-term inflation picture is looking less weak. Petrol prices have risen substantially from their lows earlier this year, and this year's Budget included a continuation of the 10% annual increases in tobacco excise duty (without this continuation, the inflation rate would have dropped back by 0.2 percentage points from the start of next year). Putting these together, the RBNZ can probably be more confident that inflation will be back within the 1-3% target band by next year. However, it's still far from certain that current monetary policy settings will be enough to return inflation to the 2% target midpoint on a sustained basis.

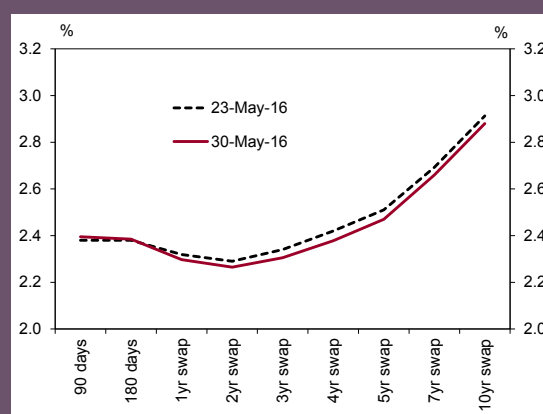
Fixed vs Floating for mortgages

Fixed rates have fallen a long way recently, and are becoming a more attractive option for borrowers.

For borrowers with a deposit of 20% or more, the best value probably lies in the two-year rate or shorter terms. Four- and five-year rates seem high relative to where we think shorter-term rates are going to go over the next four or five years. That said, fixing for a longer term does offer the borrower greater stability.

Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six-month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

NZ interest rates



The week ahead

NZ Apr building consents

May 31, Last: -9.8%, WBC f/c: 10.0%

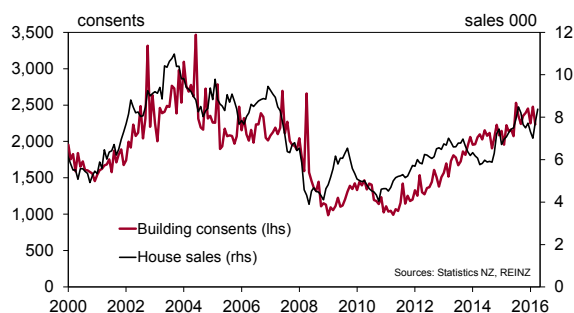
- Residential building consents fell sharply in March (-9.8%) after surging in February.
- We expect a solid rise again in residential consent numbers this month, led by Auckland where the overall picture for residential consents is still up strongly.
- We expect to see Canterbury residential consents to continue to head south in seasonally adjusted terms as the residential component of the rebuild eases back.
- Strength in the Hamilton and Tauranga residential markets will likely continue in the latest data.

NZ May business confidence

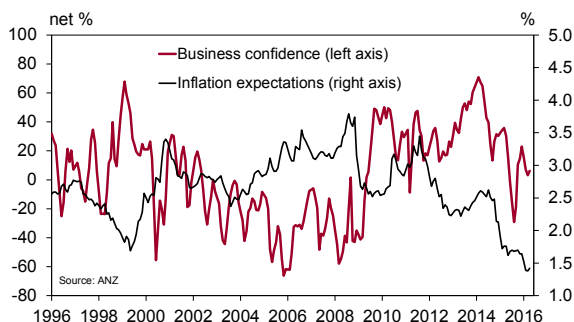
May 31, Last: 6.2

- Businesses' confidence in the general economic environment remained low in April. However, most businesses are more upbeat about their own economic prospects, with activity expectations at solid levels in all sectors except agriculture.
- One area that we will be paying close attention to are the survey's inflation gauges. In March the RBNZ highlighted the fall in inflation expectations as a key influence on their decision to cut the OCR. Since then, inflation expectations have remained low, but the decline seen earlier in the year appears to have been arrested.

NZ housing activity



NZ business confidence and inflation expectations



NZ Q1 terms of trade

Jun 1, Last: -2.0%, WBC f/c: 5.0%, Mkt f/c: 1.0%

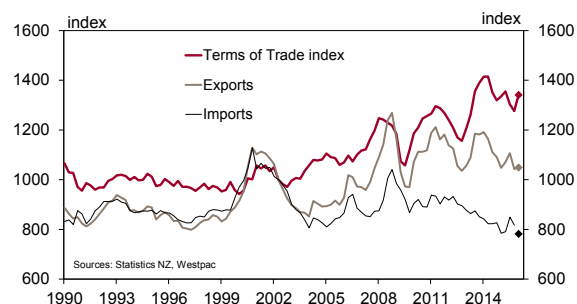
- New Zealand's trade position has weathered the plunge in world dairy prices surprisingly well. Falling oil prices over the last two years have significantly reduced New Zealand's import bill, with the result that at the end of 2015, the terms of trade was just 10% down from its multi-decade highs.
- We expect about half of that decline to be reversed in the March quarter alone. On the export side, dairy prices experienced a modest 5% rebound, balancing out a 6% fall in meat prices. Overall, we expect a 0.5% rise in export prices.
- Meanwhile, a 24% drop in oil prices dominates the import side of the ledger. We estimate that import prices overall fell by 4.3%.

NZ Q1 building work put in place

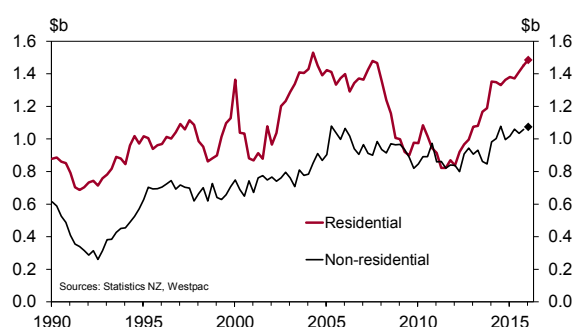
Jun 3, Last: 2.5%, WBC f/c: 2.1%, Mkt f/c: 1.0%

- The last quarter of 2015 saw a strong rebound in building work put in place after a weak September quarter.
- We expect that strength to continue in the March figures, on the back of several months of strong building consent volumes in the second half of 2015, now translating into construction work.
- Capacity constraints in delivering the wall of work that has been consented, and an early Easter may prove to be the biggest barriers to building work put in place in March rising even faster.
- Capacity constraints are expected to see build times pushed out, meaning several more quarters of rising volumes of building work put in place.

NZ Terms of Trade



NZ real building work put in place



The week ahead

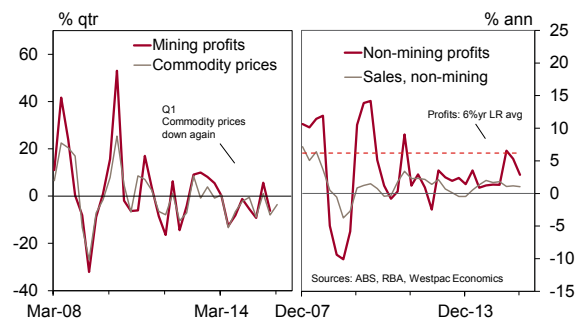
Aus Q1 company profits

May 30, Last: -2.8%, WBC f/c: -0.5%

Mkt f/c: 0.4%, Range: -1.8% to 2.5%

- The Business Indicators survey reported a 2.8% fall in company profits for Q4. Mining profits slumped 6.2% and non-mining declined by 1.5%.
- However, this is a misleading estimate, with the survey measure impacted by the accounting treatment of changes in the value of inventories. The national accounts report that profits actually rose in the quarter, up 0.9% (ex-finance sector).
- Profits are expected to begin the year on a soft note, -0.5%qtr.
- Mining profits (which account for 25% of total profits in this survey) were once again hit by falling commodity prices, -3.6% in AUD terms. Non-mining profits are expected to be little changed, edging a forecast 0.5% higher, with conditions mixed across industries.

Company profits: Q1, mining hit by price falls



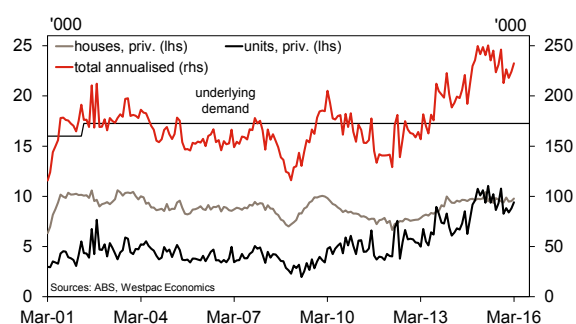
Aus Apr dwelling approvals

May 31 Last: 3.7%, WBC f/c: -4.0%

Mkt f/c: -3.0%, Range: -5.0% to 3.0%

- Dwelling approvals posted a 3.7% rise in March, the detail showing a surprisingly strong bounce in 'high rise' approvals. Total approvals ex 'high rise' – arguably a more useful proxy for underlying trend activity – declined 4% but are still tracking a slight rising trend nationally.
- The April update is expected to reinstate a clear underlying downtrend. We expect approvals to show a 4% decline. Given the high-rise bounce in March there is some risk of a heftier fall although broader housing market conditions have been somewhat firmer in early 2016.

Dwelling approvals



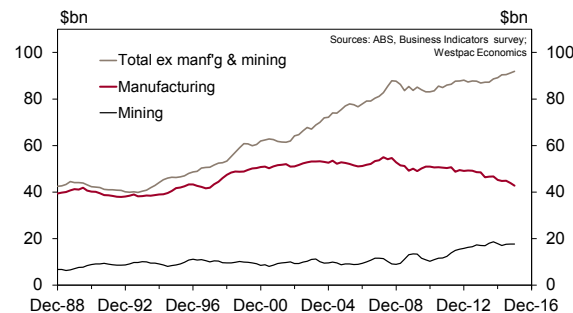
Aus Q1 inventories

May 30, Last: -0.4%, WBC f/c: -0.2%

Mkt f/c: flat, Range: -0.4% to 0.2%

- Private business inventories have trended sideways for the past three years, inching 0.1% lower over this entire period. Having said that, inventories softened at the end of 2015, declining by 0.4% in Q4, including a large fall for manufacturing associated with a trend decline ahead of the shutdown of the vehicle assembly industry.
- For the March quarter 2016, we anticipate a reversion towards a more neutral outcome, forecasting inventory levels to decline slightly, down 0.2%. This implies private non-farm business inventories will add a soft 0.1ppt to Q1 GDP
- By industry, we anticipate: a further sizeable fall for manufacturing; but a small rise in mining inventories, as output expanded; and ongoing inventory accumulation, to meet rising demand, across other industries.

Business inventories: by industry



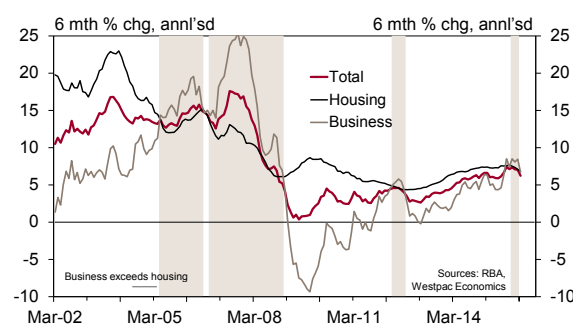
Aus Apr private sector credit

May 31, Last: 0.4%, WBC f/c: 0.4%

Mkt f/c: 0.5%, Range: 0.4% to 0.6%

- Credit to the private sector has lost a little momentum after lending conditions were tightened somewhat and mortgage rates moved higher over the second half of 2015. In the March quarter 2016, monthly gains in credit averaged 0.5%, moderating from 0.65% for the September quarter 2015.
- For April, we anticipate a 0.4% rise in total credit, matching the outcome for the month of March.
- Housing credit grew by 0.5%, 7.2% in March. Notably, 3mth annualised growth has slowed to 6.2% from 7.7% in October.
- Business credit advanced by a more modest 0.3% in March, half the average gain over the previous 9mths. We expect this more moderate pace to continue in April, consistent with a softening of commercial finance in recent months.

Credit momentum



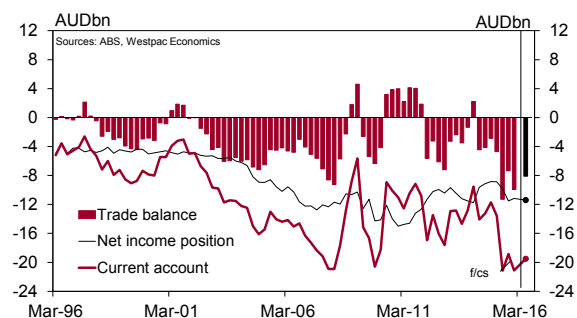
The week ahead

Aus Q1 current account, AUDbn

May 31, Last: -21.1, WBC f/c: -19.5
Mkt f/c: -19.3, Range: -20.8 to -14.5

- Australia is running sizeable current account deficits as export earnings are hit by tumbling commodity prices.
- For Q1, the current account deficit is a forecast \$19.5bn (-4.7% of GDP). This is a slight improvement on a \$21.1bn deficit for Q4, which will potentially be revised to \$22.2bn
- The trade deficit narrowed to \$8.1bn in Q1, from \$9.9bn for Q4 (revised to \$11bn), centred on positive real net exports. Export volumes advanced and import volumes weakened, we estimate.
- The terms of trade, having slumped by 3% in Q4, declined by a more modest 0.5% in Q1, we estimate, as commodity prices moved slightly lower on a quarter average basis.
- The net income deficit is expected to widen by \$0.2bn to \$11.4bn on rising income debits.

Current account: f/c -\$19.5bn in Q1

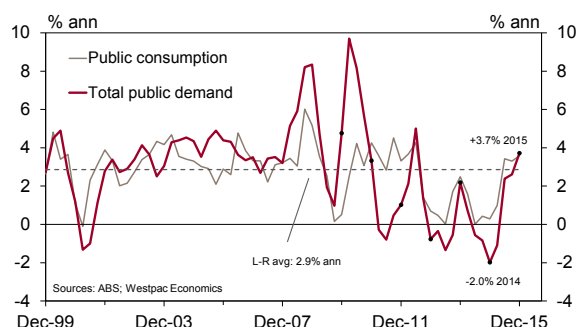


Aus Q1 public demand

May 31, Last: 1.3%, WBC f/c: 0.5%

- Public demand, representing just over 20% of the economy, advanced at a healthy clip in 2015, notwithstanding the challenging backdrop.
- In Q4, public demand grew by 1.3%qtr, 3.7%yr. Public consumption, increased by 0.7%qtr, 3.6%yr as governments enhanced front-line services, including health. Investment rebounded in the December quarter, up 4.7%, to be 4.5% higher than a year earlier.
- For Q1, a more modest rise in public demand, of 0.5%, is expected. Investment advances further, but is unlikely to match the bounce of Q4. Consumption growth may moderate following the burst of 2015. Notably overall employment numbers consolidated in early 2016, which, in part, could be due to the public sector.

Public demand: rebounded in 2015

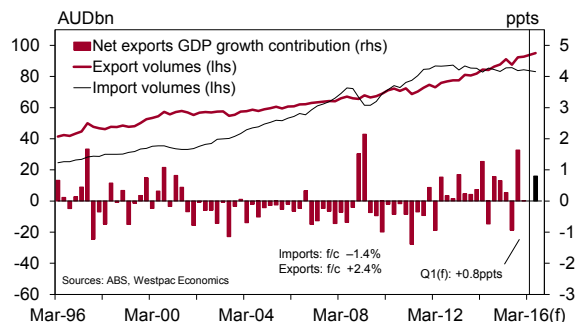


Aus Q1 net exports, ppt cont'n

May 31, Last: 0.0, WBC f/c: 0.8
Mkt f/c: 0.7, Range: 0.2 to 1.1

- Net exports will likely be a sizeable positive for growth in the March quarter, contributing a forecast 0.8ppts. That is after a volatile profile in 2015: +0.3ppts, -0.9ppts, 1.6ppts and 0.0ppts for Q4.
- Export volumes grew by a forecast 2.4%qtr, 4.3%yr in the quarter. That follows a disappointing 0.6% gain in Q4. Resource shipments recovered, rural goods stabilised after a sharp drop and services surged ahead, benefitting from the sharply lower Australian dollar.
- Import volumes contracted by a forecast -1.4%qtr, -2.8%yr in the opening quarter of 2016, more than reversing a 0.6% rise in Q4. Weakness was centred on a further, and sharp, fall in capital goods, against the backdrop of the mining investment downturn.

Net exports: f/c +0.8ppts in Q1

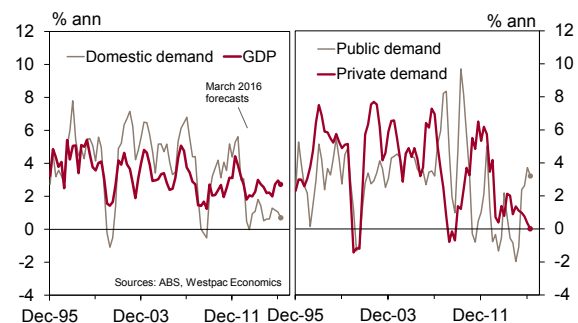


Aus Q1 GDP

Jun 1, Last: 0.6%qtr, 3.0%yr, WBC f/c: 0.6%qtr, 2.7%yr
Mkt f/c: 0.6%qtr, Range: 0.4%qtr to 0.8%qtr

- Real GDP growth surprised to the high side in 2015, being a little above trend, boosted by low rates and a lower dollar. However, conditions remained uneven. The mining investment downturn is a major headwind, so too the falling terms of trade.
- For 2016 Q1, real GDP growth is forecast to return to a more moderate pace, at 0.6%qtr. Annual growth slows to 2.7% from 3.0%, with a 0.9%qtr falling out of the calculation.
- Exports are the key growth driver in Q1, adding a f/c 0.8ppts. Exports, services and mining advance, while imports dip. Farm inventories are a partial offset, reversing a Q4 contribution. Domestic demand softens, from a rise of 0.4%qtr in Q4 to be flat in Q1, with a broadly based moderation. This is consistent with the labour market, with hours worked consolidating, up only 0.1% after a 0.9% gain in Q4.

Australian economic conditions



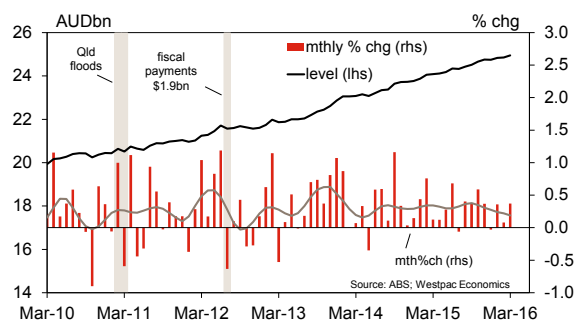
The week ahead

Aus Apr retail trade

Jun 2, Last: 0.4%, WBC f/c: 0.4%
Mkt f/c: 0.3%, Range: 0.1% to 0.6%

- Retail sales rose 0.4% in March with previous estimates nudged up slightly. This still leaves a profile for 2016 although the Q1 wash-up highlighted that much of this related to price discounting rather than weak sales volumes.
- Consumer sentiment softened in April, posting a strong bounce following the RBA interest rate cut in May. Private sector business surveys suggest retail conditions were still fairly lacklustre in April although these have a 'loose' relationship with surveyed sales. On balance we expect April to show another 0.4% gain.

Monthly retail sales

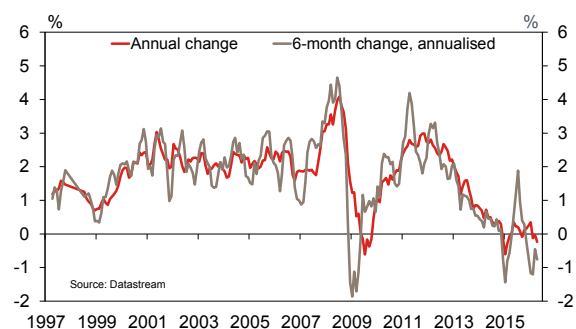


Jun ECB policy decision

Jun 2, Last: -0.40%, WBC -0.40%

- The ECB currently finds itself in an interesting predicament. Of late, activity growth has firmed (to 1.5%/yr in Q1), and there has also been renewed positive momentum in consumer credit, the focus of the ECB's alternative liquidity actions.
- However, at the same time, inflation can only be described as extremely weak, the headline CPI down 0.2%/yr and core up just 0.7%/yr. Further, it is clear that the momentum noted above by and large rests on the consumer and their willingness to dissave - progress on jobs and income is very slow going and firms are also reluctant to invest. Consequently, while a higher oil price is likely to see an upward revision to the near-term inflation forecast, we expect President Draghi and the Governing Council to cast a hopeful but cautious tone over the outlook. They know full well that further accommodation will likely prove necessary at some point.

Euro deflation the ECB's pressing concern

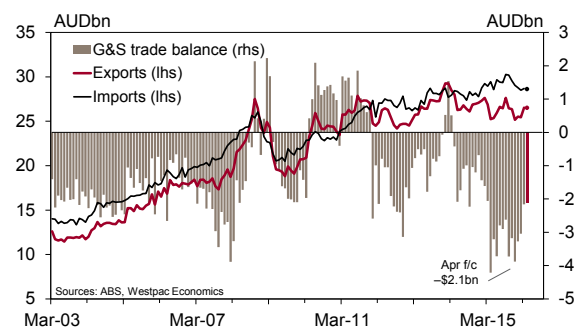


Aus Apr trade balance, AUDbn

Jun 2, Last: -2.2, WBC f/c: -2.1
Mkt f/c: -2.1, Range: -3.7 to -1.5

- Australia's trade deficit, while still sizeable, narrowed in March to \$2.2bn, an improvement on -\$3.0bn in February and -\$3.9bn in December - in part due to the rebound in the iron ore price.
- For April, the deficit is expected to be little changed, at \$2.1bn.
- Export earnings are forecast to be broadly flat. The iron ore price recovered further, but potentially offsetting this, there is the risk of a pull-back in gold after a 58% (\$660mn) jump.
- Imports are forecast to inch lower, down 0.2%, with a stronger currency (+1% against the TWI) dampening prices.
- **NOTE: From January there is greater uncertainty around the import and trade forecast as the ABS no longer publishes custom imports data ahead of the trade release.**

Australia's trade position



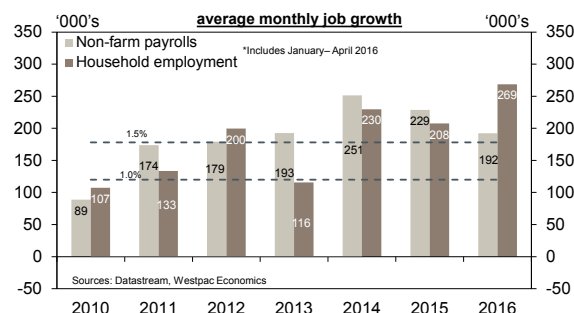
US May nonfarm payrolls and unemployment

Jun 3, nonfarm payrolls, Last: 160k, WBC 160k

Jun 3, household unemployment, Last: 5.0%, WBC 5.0%

- Nonfarm payrolls disappointed in April, the 160k monthly gain some 40k below expectations with -19k in back revisions adding to the more sombre mood.
- Regardless, annual growth in payrolls employment remained strong at 1.9%/yr, well in excess of population and labour force growth.
- Come May, there is an added element of uncertainty: for the past six weeks almost 40k Verizon workers have been on strike and there is a reasonable chance their absence from work will impact negatively on the payrolls head-count.
- Given this risk and the weak April outcome we are looking for another circa-160k gain in May. At that level, risks are broadly balanced. Note that the household survey is unaffected by strikes, hence unemployment should remain at 5.0%.

US job creation remains strong



Data calendar

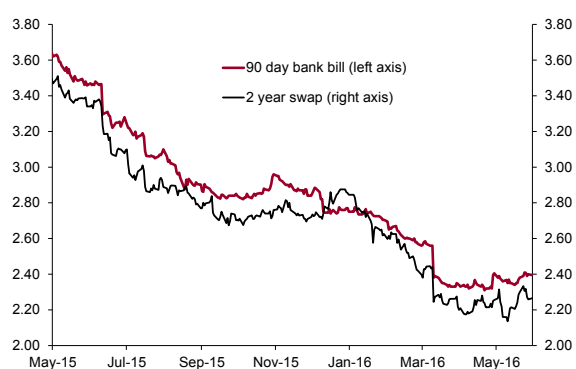
		Last	Market median	Westpac forecast	Risk/Comment
Mon 30					
Aus	Q1 company profits	-2.8%	0.4%	-0.5%	Overall profits edge lower, as mining hit by falling commodity prices.
	Q1 business inventories	-0.4%	flat	-0.2%	Falling manufacturing stocks outweigh gains elsewhere.
Eur	May economic confidence	103.9	104.4	-	Continues to depend on the ECB.
	May business climate indicator	0.13	-	-	Firms continue to question strength of outlook.
	May consumer confidence	-7	-7	-	Above average, but has wavered somewhat.
Ger	May CPI, %yr	-0.4%	0.3%	-	Flash estimate.
US	Fedspeak	-	-	-	Bullard Speaks in Seoul.
Tue 31					
NZ	Apr building permits	-9.8%	-	10.0%	Strong bounce expected after early Easter affected March numbers.
	ANZBO business confidence	6.2	-	-	Business confidence has picked up but remains low.
Aus	Apr dwelling approvals	3.7%	-3.0%	-4.0%	Slowdown should become clearer. High-rise drove March gain.
	Apr private sector credit	0.4%	0.5%	0.4%	Some loss of momentum. Tighter lending conditions impacted housing.
	Q1 net exports, ppt cont'n	-21.1	-19.3	-19.5	Trade deficit narrowed, centred on positive real net exports.
	Q1 net exports, ppt cont'n	0.0	0.7	0.8	Export strength resumes, led by mining and services, while imports dip.
	Q1 public demand	1.3%	-	0.5%	A consolidation following upside surprise in 2015.
Eur	Apr M3 money supply %yr	5.0%	5.0%	-	Credit data also due.
	Apr unemployment rate	10.2%	10.2%	-	Substantial labour market slack remains in all nations but Germany.
	May CPI %yr	-0.2%	-0.1%	-	Flash estimate. Despite oil price gain, will remain very weak.
US	Apr personal income	0.4%	0.4%	0.4%	Wages starting to gain a little more momentum.
	Apr personal spending	0.1%	0.6%	0.5%	Spending supported by stronger retail but higher oil price also a factor ...
	Apr PCE deflator	0.1%	0.3%	0.3%	... including for inflation.
	Mar S&P/CS home price index	0.7%	0.7%	-	Annual pace remains above 5.0%/yr.
	May Chicago PMI	50.4	50.7	-	The manufacturing sector has lost momentum.
	May consumer confidence index	94.2	96.0	-	Conference Board measure.
	May Dallas Fed index	-13.9	-8.0	-	Regional gauges of manufacturing have pulled back recently.
Can	Q1 GDP ann'd %	0.8%	2.8%	3.2%	Strength in retail spending outweighing mining weakness.
Wed 1					
NZ	Q1 terms of trade	-2.0%	1.0%	5.0%	Small bounce in dairy, big drop in oil.
	May QV house prices %yr	12.0%	-	-	House price gains have been widespread, Auckland has rebounded.
Aus	Q1 GDP	0.6%	0.6%	0.6%	Exports key positive, but broad based moderation in domestic demand.
	Q1 GDP, %yr	3.0%	2.7%	2.7%	Slows from a little above trend, partly on base effects (0.9% falling out).
	May CoreLogic RP Data home value index	1.7%	-	1.6%	Daily measure points to another surprisingly strong Sydney-led gain.
	May AiG manufacturing PMI	53.4	-	-	Index remains above 50, sector boosted by lower AUD & housing.
Chn	May manufacturing PMI	50.1	50.0	-	NBS measure; growth remains absent.
	May non-manufacturing PMI	53.5	-	-	Momentum in sector modest, but growth is positive.
	May Caixin China PMI	49.4	49.3	-	More focused on larger exporters than broader NBS measure.
UK	Apr net mortgage lending, £b	7.4	3.8	-	Likely pull back following the surge prior to the stamp duty increase.
US	May ISM manufacturing	50.8	50.5	-	Risks to the downside for US manufacturing.
	Apr construction spending	0.3%	0.5%	-	Structures spending has been week and will remain so.
	Federal Reserve's Beige book	-	-	-	Conditions across the Fed regions.
Thu 2					
NZ	GlobalDairyTrade Auction	-	-	-	
Aus	Apr retail sales	0.4%	0.3%	0.4%	Patchy sales year to date, aggressive discounting a factor.
	Apr trade balance, AUDbn	-2.2	-2.1	-2.1	Consolidation after narrowing in March. Exports flat, imports edge lower.
Eur	ECB policy decision, deposit rate	-0.40%	-0.40%	-	Inflation weak despite oil spike; growth doing well, for now.
US	May ADP employment change	156k	178k	165k	Private sector measure; of little help for payrolls forecasting.
	Initial jobless claims	268k	-	-	Have lifted a little, but remain historically low.
	Fedspeak	-	-	-	Powell discusses prudential reg; Kaplan on economy.
	May ISM New York	57.0	-	-	Has softened, but remains at moderate levels.
Fri 3					
NZ	Q1 building work put in place	2.5%	1.0%	2.1%	Strong consents in H2 of 2015 expected to translate into construction.
Aus	May AiG PSI	49.7	-	-	Mixed conditions across services sector, broadly stable in aggregate.
US	Fedspeak	-	-	-	Evans on economy & policy in London.
	Apr trade balance US\$bn	-40.4	-42.0	-	Net exports drag on growth to remain material in 2016.
	May non-farm payrolls	160k	160k	160k	Verizon strike a wildcard for May. Should still see robust jobs growth.
	May unemployment rate	5.0%	4.9%	5.0%	Participation and jobs have been offsetting of late.
	May ISM non-manufacturing	55.7	55.3	-	... we will continue to favour ISM survey as best indicator.
	Apr factory orders	1.5%	0.8%	-	Investment trend weak.
Sat 4					
US	Fedspeak	-	-	-	Mester Speaks at on Macro and Financial Stability.

New Zealand forecasts

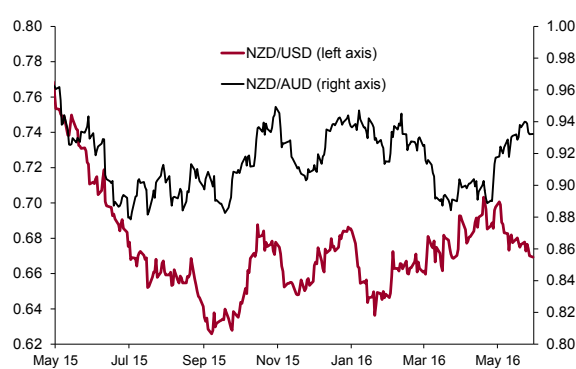
Economic Growth Forecasts	March years				Calendar years			
	% change	2014	2015	2016f	2017f	2014	2015	2016f
GDP (Production) ann avg	2.7	3.6	2.4	2.6	3.7	2.5	2.7	2.6
Employment	3.8	3.2	2.0	2.5	3.6	1.4	2.9	2.4
Unemployment Rate % s.a.	6.0	5.8	5.7	5.4	5.8	5.4	5.7	5.0
CPI	1.5	0.3	0.4	1.1	0.8	0.1	1.1	1.8
Current Account Balance % of GDP	-2.5	-3.4	-3.0	-3.4	-3.1	-3.1	-3.2	-3.6

Financial Forecasts	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
Cash	2.00	2.00	2.00	2.00	2.00	2.00
90 Day bill	2.10	2.10	2.10	2.10	2.10	2.10
2 Year Swap	2.10	2.10	2.10	2.20	2.20	2.20
5 Year Swap	2.50	2.70	2.80	2.90	3.00	3.10
10 Year Bond	2.80	2.90	3.00	3.20	3.40	3.50
NZD/USD	0.67	0.66	0.64	0.63	0.62	0.62
NZD/AUD	0.92	0.92	0.91	0.90	0.89	0.87
NZD/JPY	73.7	73.9	73.6	73.7	74.4	74.4
NZD/EUR	0.60	0.61	0.59	0.59	0.58	0.58
NZD/GBP	0.48	0.48	0.47	0.46	0.46	0.44
TWI	71.1	70.9	69.4	68.9	68.2	67.5

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 30 May 2016

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.25%	2.25%	2.25%
30 Days	2.25%	2.27%	2.30%
60 Days	2.33%	2.32%	2.36%
90 Days	2.40%	2.36%	2.41%
2 Year Swap	2.27%	2.23%	2.26%
5 Year Swap	2.47%	2.45%	2.51%

NZ foreign currency mid-rates as at Monday 30 May 2016

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.6693	0.6766	0.6974
NZD/EUR	0.6022	0.5983	0.6086
NZD/GBP	0.4582	0.4712	0.4780
NZD/JPY	73.90	73.51	74.11
NZD/AUD	0.9323	0.9316	0.9182
TWI	72.42	72.70	73.51

International forecasts

Economic Forecasts (Calendar Years)	2012	2013	2014	2015f	2016f	2017f
Australia						
Real GDP % yr	3.5	2.0	2.6	2.5	2.8	2.8
CPI inflation % annual	2.2	2.7	1.7	1.7	1.7	2.1
Unemployment %	5.3	5.8	6.2	5.8	5.6	5.5
Current Account % GDP	-4.4	-3.4	-3.0	-4.6	-4.4	-4.5
United States						
Real GDP %yr	2.2	1.5	2.4	2.4	2.0	2.1
Consumer Prices %yr	2.1	1.5	1.6	0.1	1.1	1.7
Unemployment Rate %	8.1	7.4	6.2	5.3	4.7	4.5
Current Account %GDP	-2.9	-2.3	-2.2	-2.3	-2.3	-2.3
Japan						
Real GDP %yr	1.7	1.4	0.0	0.5	0.7	0.7
Euroland						
Real GDP %yr	-0.9	-0.3	0.9	1.6	1.4	1.3
United Kingdom						
Real GDP %yr	1.2	2.2	2.9	2.2	1.9	2.1
China						
Real GDP %yr	7.7	7.7	7.3	6.9	6.5	6.2
East Asia ex China						
Real GDP %yr	4.6	4.2	4.1	3.7	3.9	4.1
World						
Real GDP %yr	3.5	3.3	3.4	3.1	3.3	3.5

Forecasts finalised 13 May 2016

Interest Rate Forecasts	Latest	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
Australia						
Cash	1.75	1.75	1.50	1.50	1.50	1.50
90 Day Bill	1.97	2.05	1.80	1.80	1.80	1.80
10 Year Bond	2.25	2.40	2.50	2.60	2.65	2.75
International						
Fed Funds	0.375	0.375	0.625	0.625	0.875	0.875
US 10 Year Bond	1.83	2.00	2.15	2.25	2.35	2.50
ECB Deposit Rate	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40

Exchange Rate Forecasts	Latest	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
AUD/USD	0.7229	0.73	0.72	0.70	0.68	0.68
USD/JPY	109.72	110	112	115	117	120
EUR/USD	1.1193	1.14	1.10	1.08	1.06	1.06
AUD/NZD	1.0709	1.09	1.09	1.09	1.08	1.10

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