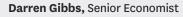
# **WESTPAC ECONOMIC BULLETIN Updated New Zealand FX and bond**

yield forecasts.

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	Latest (6 Sep)	Dec-23	Mar-24f	Jun-24f	Sep-24f	Dec-24f	Mar-25f	Jun-25f	Dec-25f
New Zealand									
Cash	5.50	5.75	5.75	5.75	5.50	5.25	5.00	4.75	4.25
10 Year Bond	5.04	4.85	4.65	4.45	4.25	4.10	3.95	3.85	3.75
10 Year Spread to US (bps)	78	75	75	75	75	70	65	65	65
US									
Fed Funds	5.375	5.375	5.125	4.875	4.625	4.375	4.125	3.875	3.375
US 10 Year Bond	4.26	4.10	3.90	3.70	3.50	3.40	3.30	3.20	3.10
NZD/USD	0.5863	0.61	0.61	0.62	0.62	0.62	0.63	0.63	0.64

Yesterday our Australian colleagues published a note revising their view on the outlook for the US economy and US interest rates. In summary, they point out that the US economy and the equity market have proved much more resilient to the FOMC's tightening cycle than earlier anticipated. As a result, their forecast of annual growth in 2023 and 2024 has been revised up from 1.0%yr in both years to 2.0%yr and 1.3%yr. Their early estimate for 2025 is also benign at 1.5%yr.

They have retained their forecast of a modest rise in the unemployment rate from 3.8% to around 5.0% in 2025, which they expect will occur principally as a result of the ongoing recovery in participation and population growth rather than outright job losses. Their expectation for inflation to mid-2024 is also unrevised. They argue that current trends in the inflation detail and leading indicators for shelter inflation are consistent with 6-month annualised inflation back at 2.0% by end-2023 and the annual rate around 2.0%yr by mid-2024. It is the second half of 2024 and into 2025 where they see risks of inflation re-accelerating in the absence of even a small technical recession. From 2.0%yr at June 2024, they see a headline inflation rate around 2.5%yr by mid-2025, with upside risks.

Less concern around a US recession coupled with prospects of re-accelerating inflation is consistent with a much more cautious FOMC than had been previously anticipated. Because they expect that signs of headline inflation reaching 2.0%yr by mid-2024 will be apparent by March, they retain their view that the first rate cut will occur at the March meeting. But they no longer expect the cycle to accelerate to 50bps per quarter from the June quarter. Rate cuts are also expected to pause in late-2025 as inflation remains above 2.0%yr. From 5.375% at February 2024, the fed funds rate is now expected to be cut to 4.375% by end-2024 and 3.375% in December 2025. As a result, the forecast decline in the US 10-year bond yield now starts later and is shallower than previously projected. Meanwhile. higher US interest rates and stronger GDP growth are also likely to support a slower descent for the US dollar.

At this stage our view regarding the outlook for the New Zealand economy, the OCR and swap rates is unchanged, However, in light of these updated US forecasts, we have revisited our forecasts for New Zealand bond yields and the New Zealand dollar (see the table below). We now anticipate slightly higher government bond yields, especially in the near term when an elevated level of domestic bond supply is also weighing on the market. So we now expect the 10-year bond

yield to end this year at 4.85% (40bps higher than previously) before declining to 4.10% by the end of new year (15bps higher than previously). And we have pegged slightly lower our forecast for the New Zealand dollar. We now see the NZD ending the year at USDO.61 (down from USDO.63 previously). Thereafter, we now look for a more gentle rise in the NZD, rising to USD0.62 end-2024 (down from USD0.66 previously). Our view regarding AUD/NZD remains essentially unchanged.

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