NEW ZEALAND ECONOMICS
MARKET FOCUS

3 June 2014

INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com

David Croy
Head of Global Markets Research, NZ
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

Mark Smith
Senior Economist
Telephone: +64 9 357 4096
E-mail: Mark.Smith2@anz.com

Steve Edwards
Economist
Telephone: +64 9 357 4065
E-mail: Steve.Edwards@anz.com

Carrick Lucas
Strategist
Telephone: +64 4 802 2357
E-mail: Carrick.Lucas@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sam Tuck
Senior FX Strategist
Telephone: +64 9 357 4086
E-mail: Sam.Tuck@anz.com

MARGINS OF EXCELLENCE

ECONOMIC OVERVIEW

The economic story looks less picture perfect, but that needs to be put in perspective: it never was. The economy is now settling into a glide-path expansion; there are still massive positives. If we were the Reserve Bank we certainly wouldn't be closing the door on a July hike. In the wake of the small adjustments to the Fonterra payout, this week's commodity price data will set the tone. While the direction of recent commodity price and confidence readings has been downwards, levels clearly matter. Data inputs for Q1 GDP are expected to convey a reasonable pace of base momentum, but with sector differences.

HOUSING SUPPLY AND DEMAND BALANCES

The demand and supply for housing in NZ is broadly in balance. However, there are clear regional differences. Auckland, Christchurch, Wellington and the Bay of Plenty have a shortage of stock; the rest of New Zealand has a surfeit of supply. While Auckland has a clear housing shortage, updated estimates using last year's Census figures are not as dire as previously thought and help explain, in part, why the rental market has not followed general house price trends and gone ballistic.

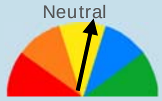
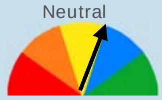
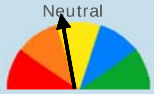
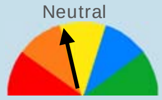
INTEREST RATE STRATEGY

We remain cautious at the long end, preferring to shorten duration via optionality. Expectations of ECB easing are driving a renewed search for yield, and while the corridor of policy rates is likely to be cut on Thursday we ultimately expect the ECB to disappoint. US bond yields look stretched with solid payroll gains expected to add to the improved US data flow. NZGS geographical spread tightening and strategic steepeners remain favoured trades. The NZ front-end rates are likely to remain capped by carry-related receiving, although we favour paying short-dated OIS with next week's June MPS unlikely to be dovish.

CURRENCY STRATEGY

We expect the NZD/USD to continue to range-trade in coming months, with downside risks emanating from the stronger USD offset by a persistently large interest rate advantage. While growth in NZ has peaked, the market looks to be under-pricing near-term RBNZ decisions. Absent a strong USD story, the NZD's recent move doesn't look set to turn into a trend. NZD/AUD is likewise lower, but we expect it to hold above 0.9110. We need to see a genuine bounce in Australian growth for this cross to break meaningfully lower, and that's not in prospect yet.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile
GDP	3.3% y/y for 2015 Q2	Confidence gauges suggest strong momentum, financial conditions still supportive despite elevated NZD.	
Unemployment rate	5.5% for 2015 Q2	Following the economy but ongoing volatility.	
OCR	3.75% by Jun 2015	+25bps in the next meeting, then a pause. Moderate OCR endpoint.	
CPI	2.1% y/y for 2015 Q2	Contained near-term. Upside risks to domestic inflation countered by high NZD impact.	

ECONOMIC OVERVIEW

SUMMARY

The economic story looks less picture perfect, but that needs to be put in perspective: it never was. The economy is now settling into a glide-path expansion, which naturally sees more oscillation in indicators. Amidst the negativity some are focusing on, there are still massive positives. With demand still outpacing supply, the RBNZ has more work to do, and if we were them we certainly wouldn't be closing the door on a July hike in the upcoming *Monetary Policy Statement*. In the wake of the small adjustments to the Fonterra payout, this week's commodity price data will set the tone. While the direction of recent commodity price and confidence readings has been downwards, levels clearly matter in terms of the impact on inflationary pressure and the amount of work the RBNZ has to do. Data inputs for Q1 GDP are expected to convey a reasonable pace of base momentum, but with sector differences.

FORTHCOMING EVENTS

GlobalDairyTrade auction (early am, Wednesday June 4). Prices are likely to stabilise around the USD4,000/MT level.

SNZ Work Put in Pace – Q1 (Wednesday, 4 June, 10:45am). A 6% rise in volumes is expected, with both residential (+5%) and non-residential (+7.5%) work up strongly.

ANZ Commodity Price Index – May (Wednesday, 4 June, 1:00pm).

Crown Financial Statements – March (Friday, June 6, 10:00am). This is expected to closely track Budget 2014 estimates. Likely to show a continued (but closing) tax revenue undershoot versus earlier HYEFU projections.

SNZ Wholesale Trade – Q1 (Monday, June 9, 10:45am). Recoil after Q4 strength expected (small fall expected for nominal wholesale trade sales), with this component expected to make a negative contribution to Q1 GDP.

WHAT'S THE VIEW?

The economic story no longer looks so picture perfect. Well, it never was in our eyes – strong growth was always masking frictions and tensions – but we're now seeing downwards adjustments across economic indicators. Credit growth has slowed, business confidence has waned, the terms of trade are starting to recede more markedly, and anecdotes on the ground suggest the housing market has softened a lot price-wise.

It all needs to be put in perspective.

- **The economy is slowing from a gallop to a canter;** our composite growth indicator is still foretelling booming momentum.
- **Credit growth needs to remain below nominal GDP growth – as it is now**; an economy with NZ's net external debt position cannot borrow and spend its way out of a debt-fuelled consumption jam.
- **The fall in the dairy milk price (from \$8.40/kg MS to \$7/kg MS) is overplayed.** The projection for the coming season, while down substantially on this season, will still be the fourth-highest on record and farmer cash-flow in the coming season won't be too dissimilar to the prior one.
- **If you strip out all the positives you end up with a negative picture, but the positives are substantial:** the construction pipeline is still massive; employment growth is strong; migration inflows are huge; and there was a material change in the fiscal stance in the 2014 Budget which has been glossed over (the stance is still restrictive over 4 years but it moved from -3.4% to -2.3% – that's a net boost of more than 1% of GDP).

Nonetheless, the less picture perfect nuances have been enough to help knock the top off the NZD. We say "help" because a firmer USD has assisted. That said, one can see more NZD specifics coming through in the NZD/AUD, which has retreated down to just above 91 cents, even as prices for iron ore, Australia's largest commodity export, continue to fall.

We now characterise the economy as settling into a glide-path; growth is still robust, though less breakneck in pace, and it is still putting ample pressure on resources. **Right here and now growth is tracking around 3.5% – down from the 4% pace seen in late 2013. That's a margin of excellence adjustment.**

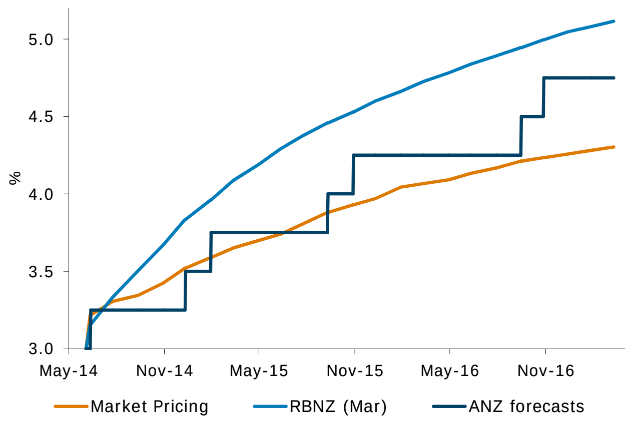
Markets have naturally latched onto signs of waning momentum and market pricing is now calling the RBNZ "one and done"; that is, one more hike then a bit of a pause. Indeed, it is notable how far below the RBNZ's March projections the market is now trading.

Three hikes up front then a pause fits with our long-held view, but we're going to offer some words of caution here; **if we were the RBNZ we'd be keeping the door wide open to a July hike as**

ECONOMIC OVERVIEW

well, and we believe the odds on a follow-up move are now under-priced.

FIGURE 1. OCR EXPECTATIONS



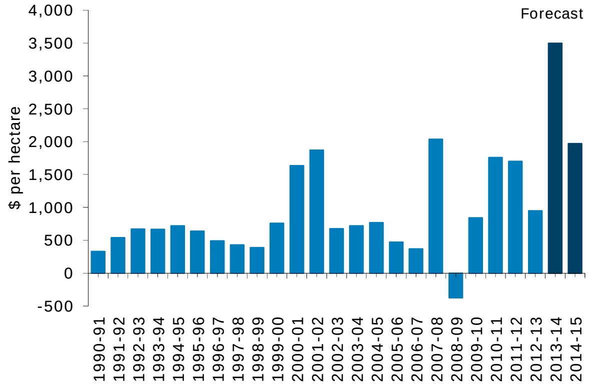
Why?

- **The RBNZ needs the curve working in its favour,** and we note 2 and 3 year fixed mortgages are now below where they were when the RBNZ first hiked in March.
- **Competition across financial intermediaries – the credit channel of monetary policy – is fierce;** all power to the consumer etc, but that can dilute monetary policy's effectiveness.
- **The change in the fiscal stance – as noted above – is material.**
- **While growth is moderating, it's still outpacing supply** (which we now put as 2.75-3%); **demand needs to "glide" back further.**

Turning to the week ahead, **this week's GlobalDairyTrade auction will be closely perused** in light of the modest reduction in the 2013/14 milk price and the $7/kg MS opening 2014/15 forecast. Prices have slipped a cumulative 22% since the early February event, but are still at historically high levels, with the lift in longer-dated contracts suggesting they might be close to basing. Even at $7/kg MS the milk price would still be one of the highest on record.

The ANZ Commodity Price Index will provide a stocktake on how the remainder of our commodity export basket is faring. Recent anecdotes point to a fall in Chinese log prices and we will be looking for signs of slippage in the wider commodity export price basket.

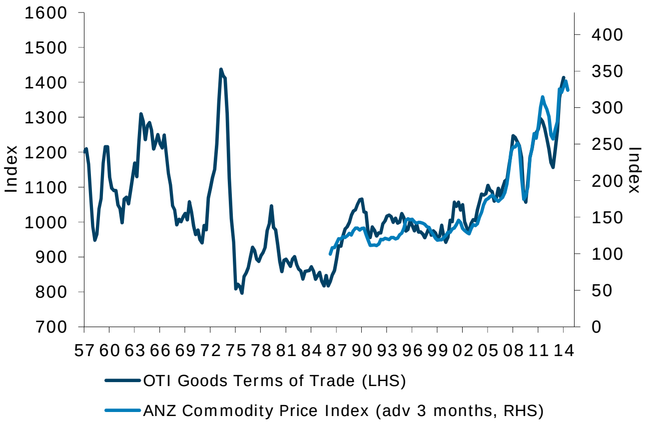
FIGURE 2. AVERAGE DAIRY FARM PROFITABILITY BEFORE TAX



Sources: ANZ

The lift in the Q1 goods terms of trade to yet another 40-year high reflected the tail-end of the strong uplift in commodity prices. Our goods terms of trade are more than 35% above historical averages, a major source of economic support. What matters is for how long they hold up, and while some near-term weakness is to be expected given the recent slippage in commodity prices, strong demand from (faster growing) emerging economies is likely to cap price falls. **Developments on the import side of the ledger, however, will have a bearing, with the fall in import prices pointing to a benign external pricing environment.** The trade volume data suggests a milder than expected negative net trade contribution to Q1 GDP, suggesting some upside risk to our Q1 +0.8% GDP pick. Consumption import volumes were mild, and while statistical quirks contributed to a reported fall in capital goods volumes in Q1, they were 44% higher than a year earlier, with the lift in capital intensity a plus for enhancing supply side capacity.

FIGURE 3. TERMS OF TRADE AND COMMODITY EXPORT PRICES



Sources: ANZ, Statistics NZ

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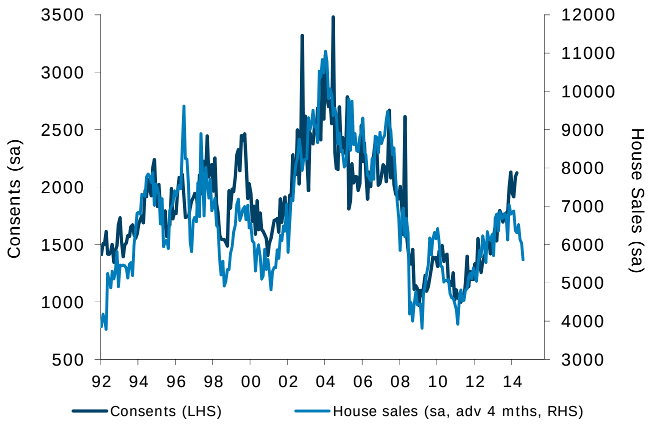
Earlier strength in both residential and non-residential consent issuance and a strengthening in cement production point to a sizeable Q1 lift in construction sector work, which is expected to contribute about 0.3 percentage points to quarterly GDP growth. While the rate of increases in non-residential issuance is easing, our internal anecdotes point to a more geographically widespread uplift in activity beyond Canterbury (where residential earthquake-related repair work is starting to wind down). **The growth baton is also being increasingly passed to the non-residential construction sector.** Pessimists tend to view the slowing housing market as a precursor to a more generalised slowdown in the NZ economy, but we prefer to focus on the bigger picture. The NZ economy is riding on a wave of demand-side supports, which go beyond solely focusing on the residential property market.

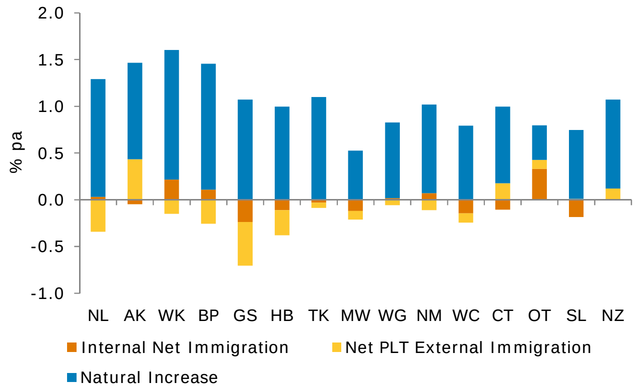
FIGURE 4. NEW DWELLING CONSENTS AND HOUSE SALES



Source: ANZ, REINZ, Statistics NZ

Last week we received the post-enumeration population estimates from the 2013 Census. These revised up the resident population on census night by 103,800 persons (to 4.345 million persons), but this was still well below earlier projections. Our updated regional housing demand and supply estimates on page 6 suggest that on a nationwide basis the demand and supply sides are broadly in balance. However, **a regional mismatch remains between where surplus dwellings are located and where they are needed. Price signals point to the further allocation of housing investment in Auckland and Canterbury, albeit with stronger activity elsewhere as well.** The pricing side of the economy is directing the provision of greater housing in Auckland in particular, and while our estimates suggest that internal migration out of Auckland is playing an offsetting role, this is being swamped by other forces.

FIGURE 5. AVERAGE ANNUAL POPULATION GROWTH
(From 2006 to 2013 Census)



Source: ANZ, Statistics NZ

Fiscal policy is another consideration, with Budget 2014 showing a less restrictive stance (-2.3% over next 4 years as opposed to -3.4% of GDP previously signalled). All else equal this will mean more work will need to be done by the OCR. The crown account figures are expected to track close to the Budget figures, but we will be closely watching the tax numbers for any sign the shortfall seen earlier in the year has returned.

Given strength in wholesale trade sales late last year, a flat to negative result is expected for Q1. We expect motor vehicle sales to have remained robust, but some pullback is expected in the other components that had displayed earlier strength. There is not a particularly close match between the wholesale trade data and its respective GDP component, although we also expect falls in the latter for Q1.

The RBA are widely expected to stick with the status quo and reaffirm that the most prudent course is for interest rates to remain on hold for some time to come. Australian current account and GDP data is released early this week. Our Australian economists are picking a 1.1% advance in Q1 GDP, with sizeable lifts in export volumes and dwelling investment and mixed signs for business investment. Eurozone data for Q1 GDP is expected to show the economy barely in expansion mode, and with inflation in the region low (worryingly, German EU harmonised CPI inflation fell to 0.6% y/y), the ECB are likely to follow through and cut rates and undertake some form of unconventional easing – most likely targeted measures to kick-start lending. US payrolls data at the end of the week will show the extent to which the US pick-up is filtering through to the labour market.

ECONOMIC OVERVIEW

RECENT LOCAL DATA

ANZ Business Outlook – May. General business confidence (+53.5) and firms' own activity expectations (+51) fell but remain at historically high levels, as did pricing (+28) and investment intentions (+23). Employment intentions were unchanged at +30.

SNZ Building Consents – April. There was a 1.5% sa rise in residential consent numbers (+18.6% y/y), with ex-apartment consent numbers falling 5.2% sa. Non-residential consent values rose 12% sa t0 $45m.

RBNZ Credit Aggregates – April. Private sector credit (R, ex-repo) growth slowed to 4.1% y/y. Annual household credit (+5.4% y/y) and business credit (+2.6% y/y) slowed, with agricultural credit steady at 2.3% y/y.

SNZ Overseas Trade Indexes – Q1. The goods terms of trade rose 1.8% q/q (17.3% y/y). Export volumes rose 1.6% sa (4.1% y/y), with imports up 2.3% (12.4% y/y).

FEATURE ARTICLE – HOUSING DEMAND-SUPPLY BALANCES

SUMMARY

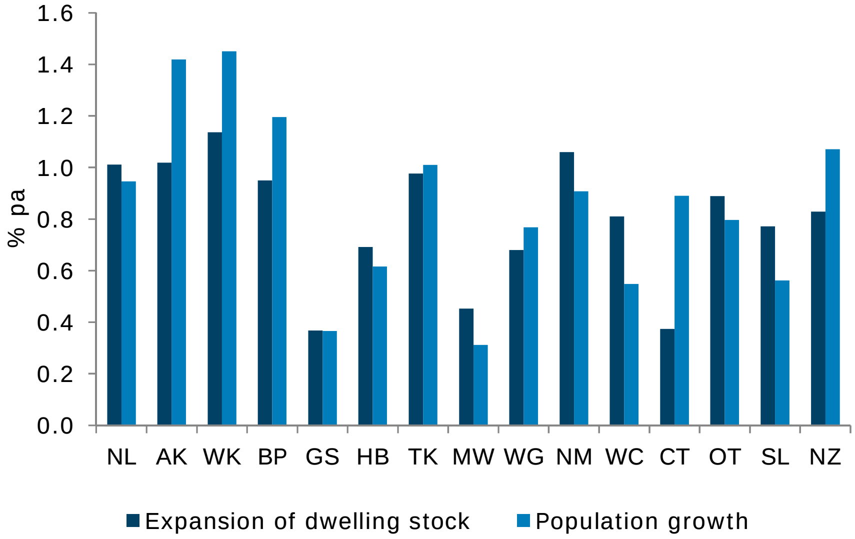
The demand and supply for housing in New Zealand is broadly in balance. However, there are clear regional differences. Auckland, Christchurch, Wellington and the Bay of Plenty have a shortage of stock; conversely the rest of New Zealand has a surfeit of supply. While Auckland has a clear housing shortage, updated estimates using last year's Census figures are not as dire as previously thought and help explain, in part, why the rental market has not followed general house price trends and gone ballistic.

HOUSING SUPPLY AND DEMAND

In this article we update our analysis of regional housing supply and demand balances that last appeared in our August 2012 edition of *Property Focus*. It provides an indication of whether each particular region is supplying enough dwellings to meet the demands posed by the number of households in the region. The provision of housing has important societal implications and the provision of housing and housing affordability are key election issues. There are also wider policy implications, with the housing market a focus of monetary policy and financial stability attention on the part of the RBNZ.

Household formation depends on population growth as well as changes in the number of persons per dwelling, with the latter reflecting societal preferences as well as demographic changes. Partly as a consequence of the ageing of the population structure and smaller family sizes, the number of persons per dwelling has been on a steady downward trend since at least the early 1970s. As a rough rule of thumb we tend to monitor what is happening to the size of the dwelling stock in the region relative to trends in population in the region. In regions where rates of household formation exceed those of dwelling construction, the number of persons per dwelling would tend to go up. The chart below compares respective growth rates in the dwelling stock vs that of the resident population between the 2006 and 2013 census. **Given that the residential construction sector is still recovering from its pre-Global Financial Crisis slump it is not surprising to see that the expansion of the dwelling stock has been more modest than population growth.**

FIGURE 1. POPULATION GROWTH VS NUMBER OF DWELLINGS
(Between 2006 and 2013 Census)



Source: ANZ, Statistics NZ

This, however, has not been a regionally uniform trend. In regions such as **Auckland, the Waikato, Bay of Plenty, Taranaki, Wellington and Canterbury, the construction of dwellings has undershot resident population growth.** In Canterbury, an estimated 20,000 fall in the dwelling stock as a result of the earthquakes resulted in more static growth in dwelling numbers. In other regions, notably Manawatu-Whanganui, Southland and Nelson-Marlborough, growth in the dwelling stock has outpaced that of the resident population.

FEATURE ARTICLE – HOUSING DEMAND-SUPPLY BALANCES

So where do we stand at present? As an illustration, Table 1 provides estimates for March 2014 that were extrapolated from 2013 census data. It shows estimates of the regional demand and supply balance as well as two estimates of the numbers of persons per dwelling for each region: what they were estimated to be in March 2014 and what they would have needed to be such that there was no excess demand or supply. The supply of dwellings is based on the 2013 census numbers for each region, which is then updated using dwelling consent numbers after making adjustments for the time to construct a dwelling and the conversion rates between consent issuance and the completion of a dwelling. The demand for dwellings is based on the resident population in the region and trends in the number of persons per dwelling. Given our estimates are based on a number of assumptions we encourage our readers to concentrate on the general themes implied by our analysis, rather than to focus on the point estimates in the table.

TABLE 1: REGIONAL DEMAND AND SUPPLY BALANCES

Regional excess dwelling demand and (supply) balances (March 2014 year)				
Region	**Net balance**	**% of Stock**	**Persons per dwelling**	
			Now	**Balanced**
Northland	-970	-1.6	2.62	2.61
Auckland	14,310	3.0	3.05	3.08
Waikato	-2,720	-1.8	2.75	2.73
BOP	3430	3.3	2.69	2.73
Gisborne	-1100	-6.8	2.81	2.75
Hawke's Bay	-1,210	-2.1	2.64	2.62
Taranaki	-1,990	-4.6	2.58	2.53
Manawatu/Whanganui	-4,930	-5.6	2.58	2.52
Wellington	3,020	1.7	2.66	2.68
Nelson/Marlborough	130	0.2	2.47	2.47
West Coast	-1640	-11.8	2.35	2.23
Canterbury	7,581	3.6	2.64	2.67
Otago	-3,720	-4.5	2.53	2.48
Southland	-6,770	-17.7	2.48	2.30
New Zealand	**3,421**	0.2	2.58	2.59

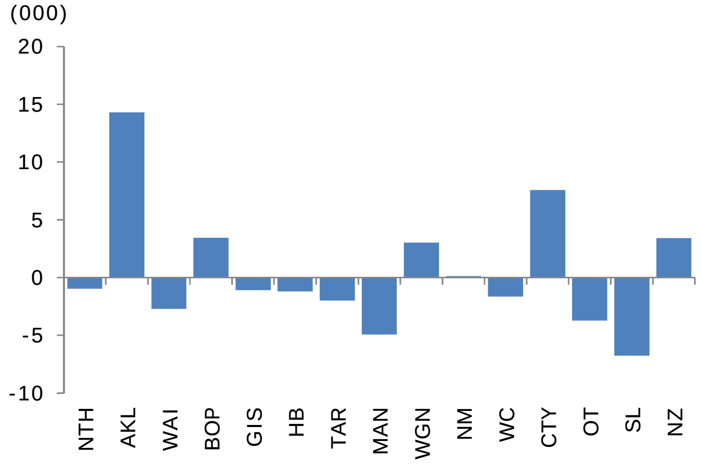
Source: ANZ, Statistics NZ

The table shows that in the March 2014 year, there was an 'excess demand' of around 3,400 dwellings nationwide, equating to approximately 0.2 percent of the nationwide dwelling stock. **Given the margin of error around such estimates, this suggests the nationwide situation is broadly in balance.** It compares to earlier estimates of a nationwide housing shortage of more than 10,000 units, with the lower positive balance largely attributable to lower than expected population numbers provided by the post-enumeration figures from the 2013 Census (104,000 more persons than the provisional census estimates, but still around 125,000 persons lower than suggested by earlier projections). The population revision was particularly acute for the Auckland region (around 84,000 persons). **The table highlights still-marked regional differences, with an excess demand situation primarily in Auckland and Canterbury, but also in Wellington and the Bay of Plenty.** In these regions the rate of household formation has clearly exceeded the construction of new dwellings. In contrast, the remaining regions appear to be in an excess supply situation.

A shortage of 14,000 units in Auckland (3 percent of the housing stock) is problematic but far from disaster material, and to some degree partially explains why the rental market has not gone ballistic. Recall, early estimates put the housing shortage in Auckland as high as 30,000 units; revised and updated census figures have cut that by more than half. One of the peculiarities about Auckland's housing issues has been the disconnect between the shortage thesis and lack of movement in dwelling rents. According to the March 2014 CPI, the annual increase in Auckland dwelling rents was 2.3%, not much above that of the 2% nationwide average and half the 4.9% rise in Canterbury. Other motives, including the focus on capital gain, may be behind small movements in rents, but with rental yields in the Auckland residential market (around 4% according to our estimates) already very low in relation to (rising) interest costs, something has to give – either rents move up more sharply or prices fall.

FEATURE ARTICLE – HOUSING DEMAND-SUPPLY BALANCES

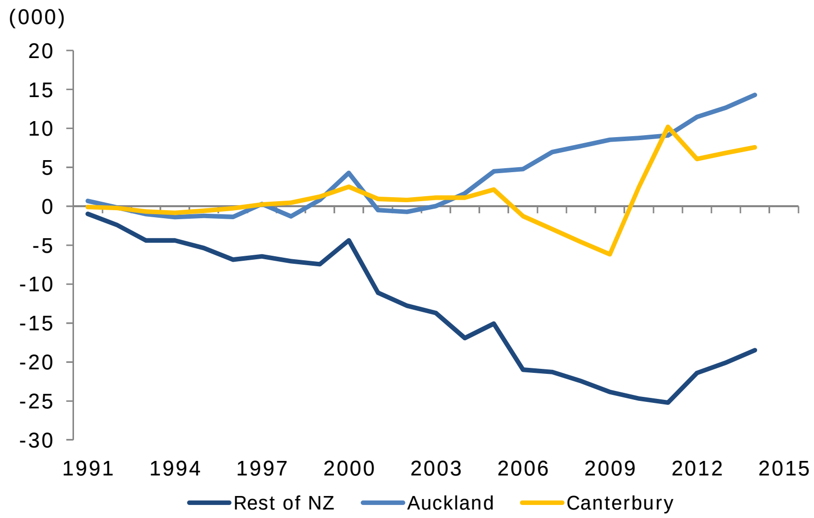
FIGURE 2. REGIONAL HOUSING DEMAND AND SUPPLY BALANCES



Source: ANZ, Statistics NZ

Figure 3 shows our estimates of the cumulative housing and supply balances for Auckland, Canterbury and the remainder of New Zealand over the past 20 years. The impact of the Canterbury earthquakes on that region's balance is apparent. It is also evident that the trends in the net balances for all three areas are now pointing up, so with an improving economy, surfeit supply situations are being eaten away (and this will be assisted by the massive turnaround in emigration; that is, more New Zealanders staying at home).

FIGURE 3. HOUSING BALANCES OVER THE LAST 20 YEARS



Sources: ANZ, Statistics NZ

THE UPSHOT

New Zealand has a housing shortage nationally, but the real issues are region-specific. At the national level, the housing shortage is modest at best. Certainly the economy has experienced a substantial period of under-building since 2008, but this follows the reciprocal in years prior, and ultimately it is the cumulative investment that matters.

While Auckland gathers most attention, it is notable that as a proportion of the housing stock, Canterbury and the Bay of Plenty are facing similar challenges.

INTEREST RATE STRATEGY

SUMMARY

We remain cautious at the long end, preferring to shorten duration via optionality. Expectations of ECB easing are driving a renewed search for yield, and while the corridor of policy rates is likely to be cut on Thursday we ultimately expect the ECB to disappoint. US bond yields look stretched with solid payroll gains expected to add to the improved US data flow. NZGS geographical spread tightening and strategic steepeners remain favoured trades. The NZ front-end rates are likely to remain capped by carry-related receiving, although we view the market as under-estimating the extent of RBNZ tightening and favour paying short-dated OIS with next week's June *MPS* unlikely to be dovish.

THEMES

- Global bond yields are likely to remain anchored ahead of expected ECB easing on Thursday. However, we favour selling rallies with US bond valuations stretched and the ECB set to disappoint.
- An OCR hike at next week's June *MPS* appears a done deal. A July hike remains data dependent, though market pricing of 25% looks a little light.

PREFERRED STRATEGIES – INVESTORS

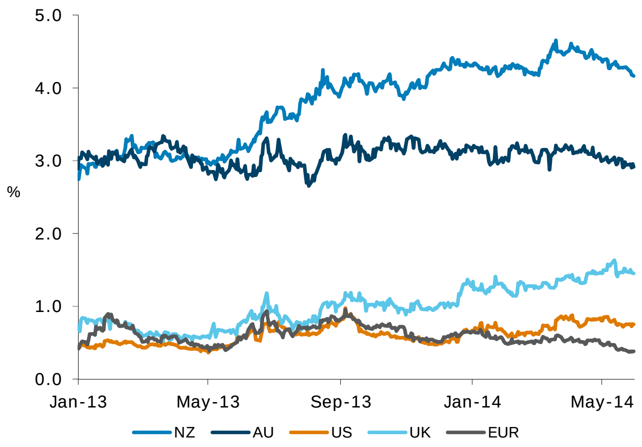
Global bond valuations remain stretched, although expectations of ECB easing and the renewed search for yield leaves us cautious on directional trades in the near term. With uncertainty high but volatility still low, we favour adding to strategic shorts via optionality ("NZGS puts" or "payer swaptions"). The US data flow continues to improve, positioning has become more balanced, and ultimately we expect the ECB to under-deliver. We see **little fundamental value in US 10yr yields below 2.50%,** although we need to respect the recent price action. We expect US bond yields to gradually lift as the Fed funds rate is hiked from mid-2015.

KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Strategic Shorts	Sell rallies. ECB risk near term. Consider optionality.
2s10s Curve	Steeper	Wade into steepeners at 80bps with long end biased higher.
NZ-US 10yr spread	Tighter	Geo spreads offer value and will outperform as yields normalise.
Swap spreads	Neutral / Wider	Mid-range. Biased higher as offshore NZGS demand returns.

However, NZGS continue to offer decent relative value opportunities, with the NZ-US 10yr spread expected to outperform in a rising yield environment. A **NZ-AU 10yr spread of 65-70bps also looks attractive** with relative monetary policy expectations fairly mature (the first RBA hike isn't priced until Q4 2015). Returning offshore demand for NZGS (on dips in NZD and value in NZGS geographical spreads) should contribute to **gradual swap spread widening.** The next regular NZGS supply isn't scheduled until 19 June.

Carry also remains a key factor capping rates at the front end of the curve and we still view the bellwether 2 year swap as range bound. With global yields exceptionally low, investors are seeking out better returns in peripheral markets. NZ front-end rates are a stand-out given the positive carry on offer. **However, we believe the market is now under-pricing the likely extent of RBNZ tightening** with only 95bps of OCR hikes priced by the end of 2015. Next week's RBNZ *MPS* is likely to provide a reality check.

FIGURE 1. GLOBAL 1YR/1YR RATES



Source: ANZ Research, Bloomberg

We likewise favour wading into strategic 2s/10s steepeners below 80bps with long-end yields to drift higher while front-end rates remain anchored.

PREFERRED STRATEGIES – BORROWERS

We continue to see good medium-term value at the long end of the curve, with the 10 year swap rate back to 9-month lows below 4.75%. Term swap rates remain well below historical averages; and with global bond yields close to their 2014 lows **we like paying term swap outright** at close to current levels. For those borrowers with duration constraints, target dips in the 5 year swap rate towards 4.30% – a level which we view to be unsustainable in the medium term (given our forecast that the OCR peaks at 4.75%).

KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Stay majority hedged. Blend and extend hedge cover.
Value	Long end still cheap	Decent value in hedging for terms of 5-10yrs.
Uncertainty	Elevated	ECB, RBNZ meetings. UST technical levels.

INTEREST RATE STRATEGY

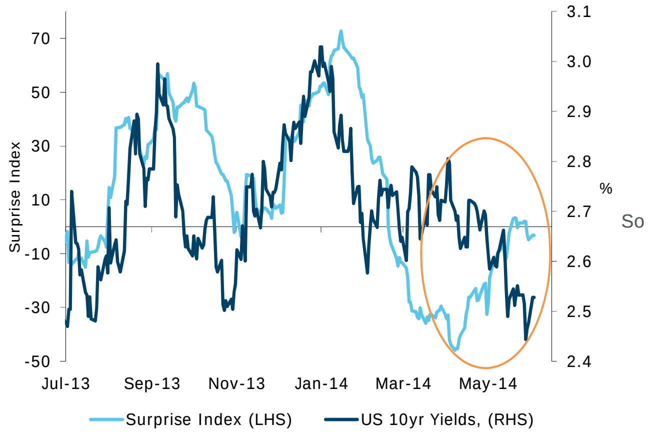
There is less value on offer for shorter dates, and **we continue to favour blend-and-extend strategies in light of recent curve flattening.** Take profit on existing short-dated hedges and embed that profit into longer duration hedges at below-market rates. **With implied volatility still low, borrowers may also wish to consider "payer swaptions"** which give the holder the right (but not the obligation) to hedge at a fixed rate in the future.

GLOBAL SCENE

Global bond yields have rallied in anticipation of ECB policy easing, although US yields look stretched at current levels. Expectations that the ECB will cut its corridor of interest rates by 10-15bps this week (and potentially signal QE for later in the year) are driving a renewed "global reach for yield", making the US 10yr yield of 2.5% look relatively attractive. However, **we think the market could be setting itself up for disappointment** following Thursday's ECB meeting. We're also somewhat bemused by the rally in US bond yields in the face of better US data and more balanced positioning, although we must respect the recent price action.

We're expecting to see a continuation of the improved US data flow, which at face value should limit the downside for US bond yields. Notably, **the US economic surprise index has been rising since mid-April** although yields are yet to follow.

FIGURE 2. US 10YR vs ECONOMIC SURPRISE INDEX



urce: ANZ Research, Bloomberg, Citi

In contrast the US dollar has strengthened in response to the better US data flow. Looking ahead to the current week, **we're expecting to see another solid US payrolls print on Friday and further improvements to the non-manufacturing ISM** (to 55.5 in May). Markets are expecting May non-farm payroll gains of 215k (which would see the 3 month average lift to 235k, from 150k three months earlier). In contrast, the US unemployment rate is forecast to lift 0.1ppts to 6.4%. Our central scenario remains for **US 10 year yields to maintain a 2.5-3.0% range over the second half of the year.**

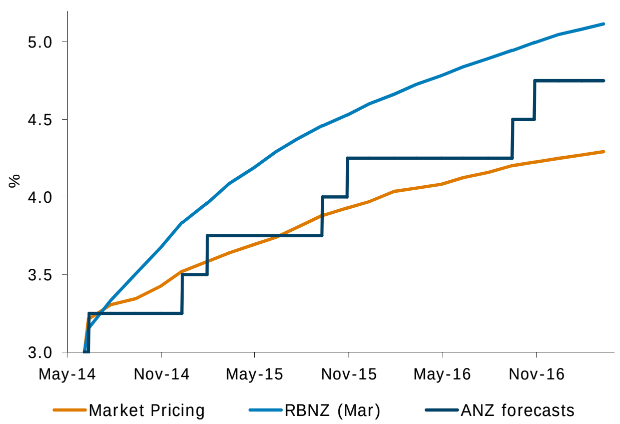
Solid Australian Q1 GDP data will limit the downside for Australian bond yields, with our economists expecting a solid print of 1.1% q/q (3.4% y/y) on Wednesday. The RBA will today reiterate that its Cash Rate Target will be on hold for the foreseeable future.

DOMESTIC SCENE AND MARKET EXPECTATIONS

ANZ's confidence indicators eased in May, but continue to signal a solid pace of underlying momentum. We take a glass half-full view, with **the economy still on track for above-trend growth** in 2014 and trend growth in 2015. Notably, the NZD has weakened in response to the cooling domestic data pulse, which will help allay RBNZ concerns over the high currency (**the TWI is now only 0.8% above RBNZ projections,** from a peak of 3.3% in early May). The market's focus is now firmly on next week's RBNZ June *MPS,* with little domestic data due in the intervening period (commodity prices, housing and manufacturing data).

We continue to view an OCR hike at the June *MPS* as a done deal, and thus favour paying June OIS here at 3.22%. We also believe the market is under-pricing the odds of a follow-up hike in July, and **view paying July OIS at 3.31% to be a good risk/reward trade** (implying a 24% probability of a hike, assuming June is a done deal). **The market also appears to be underestimating the extent of overall RBNZ tightening.** We're expecting only minor tweaks to the RBNZ's bank bill track next week, whereas the offshore market appears to be positioned for a lower track. A slightly higher NZD and lower terms of trade are likely to be offset by a looser fiscal stance, aggressive competition in the mortgage market, and stronger net migration inflows.

FIGURE 3. OCR EXPECTATIONS



Source: ANZ Research, Bloomberg

CURRENCY STRATEGY

SUMMARY

We expect the NZD/USD to continue to range-trade in coming months, with downside risks emanating from the stronger USD offset by the realities of what remains a persistently large interest rate advantage. While growth in NZ has peaked, the moderation is a margin of excellence story and the market now looks to be under-pricing near-term RBNZ decisions at this juncture. Absent a strong USD story, the NZD's recent move doesn't look set to turn into a trend. NZD/AUD is likewise lower, but has bounced off key support and we expect it to hold above 0.9110 given the collapse in confidence in Australia. We need to see a genuine bounce in Australian growth for this cross to break meaningfully lower, and that's not in prospect yet.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Yield vs mature growth cycle.	Wider ranges and volatility beckon.
NZD/AUD	↔/↑	Technical bounce	Ranging strength.
NZD/EUR	↔/↑	ECB fights fundamentals.	EUR to gain on fundamentals.
NZD/GBP	↔/↑	Consolidation	GBP resurgence.
NZD/JPY	↔	Awaiting further "arrows".	Yen weakness.

The growth cycle in NZ is mature. But interest rates still matter and the RBNZ will not shut the door on a July hike. This hasn't been appreciated.

THEMES AND RISKS

- Carry is fading as a driver, to the detriment of the NZD. But at the same time, we believe **the market has underestimated the RBNZ**.
- **NZD/AUD looks set to consolidate**, but a break of 0.9100 would see us question the outlook.
- **Thursday's ECB meeting takes on added significance** given the speculation they need to step up to the plate with something material. Odds of disappointment appear high.

TABLE 2: KEY UPCOMING EVENT RISK		
EVENT	WHEN (NZT)	LIKELY IMPACT
AUD: RBA Decision	Tue 16:30	NZD/AUD ↑
EUR: CPI	Tue 21:00	NZD/EUR ↑
USD: ISM NY	Wed 01:45	NZD/USD ↑
NZD: Building Consents	Wed 10:45	NZD/USD ↑
NZD: Commodity Prices	Wed 13:00	NZD/USD
AUD: GDP	Wed 13:30	NZD/AUD ↓
EUR; GDP	Wed 21:00	NZD/EUR ↑
USD: ADP Employment	Thu 00:15	NZD/USD ↑
AUD: Trade Balance	Thu 13:30	NZD/AUD ↓
GBP: BOE Rate Decision	Thu 20:30	NZD/GBP ↑↓
EUR: ECB Rate Decision	Thu 23:45	NZD/EUR ↑
NZD: QVNZ House Prices	Fri 12:00	NZD/USD ↑
USD: Non-farm payrolls	Sat 00:30	NZD/USD ↓
USD: Unemployment	Sat 00:30	NZD/USD ↓

EXPORTERS' STRATEGY

Exporters have been afforded an opportunity to add to cover, but we believe the **downward move has largely run its course near-term**. Below 0.8500 represents decent value for near-term needs.

IMPORTERS' STRATEGY

Patience is the name of the game given the recent fall, and prohibitive forward points. Expect the **NZD to get more support after the June rate hike**.

DATA PULSE

The pulse of NZD data has softened, but we are talking about degrees of excellence, rather than a faltering. Annual growth and terms of trade have both peaked, but interest rates have yet to. While there is a lot of tightening priced in, the market has become complacent about the possibility of a July hike (we see the odds as closer to 50/50, yet the market has it at 20%, assuming June is a done deal).

The pulse of US data has been mixed, with ISM improving but missing expectations, and inflation ticking higher, but ho-hum housing data still a key concern for the Fed. Expectations for US non-farm payrolls data this week are reasonably high, centring on a +215k gain, but unemployment is expected to rise. Wages will be crucial to watch given the lack of a lift so far, and the role wage growth has to play in lifting consumption.

Today's **RBA decision is unlikely to have a huge impact on the NZD/AUD cross**, but the collapse in Australian consumer confidence puts the mild moderation in consumer (and business) confidence here in perspective.

TABLE 3: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to cyclical fair value.
Yield	↔	Yield differentials priced.
Commodities	↔	NZD advantage in the price.
Data	↔↑	AU confidence fall jaw-dropping.
Techs	↑	0.9110 the next key support.
Sentiment	↓	Different risk discounts applied.
Other	↔	NZD dairy story unappreciated.
On balance	↔	**Well supported from here.**

TABLE 4: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Above, but closer to fair value.
Yield	↑	Yield advantage to persist.
Commodities	↔	Dairy versus the rest.
Risk aversion	↓	NZD not pricing a risk discount.
Data	↔	US data trends mixed.
Techs	↑	Strong support at 0.8350.
Other	↑	Third parties like ECB becoming influential in carry currencies.
On balance	↔/↑	**NZD well supported on dips.**

CURRENCY STRATEGY

TECHNICALS

Chart 1: NZD/USD daily candles with RSI and MA

Technically, NZD/USD relents. The NZD/USD resisted several attempts at the strong support in the .8500/30 zone last week before it finally relented. Now that it has, **the bearish divergence highlighted in early May has borne fruit and we now look for a test of key support around the 200-day moving average at .8350.** There is some minor support at .8430. Expect any bounces to be limited to the breakdown zone at .8530. The technical picture thus looks to be in contrast with the fundamental picture (which is one of consolidation, rather than weakness).

Chart 2: NZD/AUD daily candles with RSI and MA

NZD/AUD forced lower by weaker NZD/USD. The break in NZD/USD highlighted above took the NZD/AUD down through key support at .9150 but the 200-day moving average at .9110 is providing support for the time being. The big picture is that we are in a **medium-term trading range between 0.9000 and 0.9500** with current momentum suggesting we should tend towards the bottom of that range.

TABLE 5: KEY TECHNICAL ZONES

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.8430 – 0.8440 0.8340 – 0.8450	0.8530 – 0.8575 0.8595 - 0.8625
NZD/AUD	0.9100 – 0.9110 0.9050 – 0.8950	0.9130 – 0.9150 0.9200 – 0.9400
NZD/EUR	0.6140 – 0.6170	0.6250 – 0.6290
NZD/GBP	0.4950 – 0.4910	0.5060 – 0.5100
NZD/JPY	85.85 – 84.50	87.30 – 87.95

POSITIONING

NZD long positioning has been pared back in recent weeks, but remains reasonably significant. So although we believe bearish nuances attached to the “levelling out” macro drivers of the NZD are maturing, positioning remains a risk. AUD positioning is reasonably square, as is total USD and EUR positioning, leaving these currencies freer to trade the data flow.

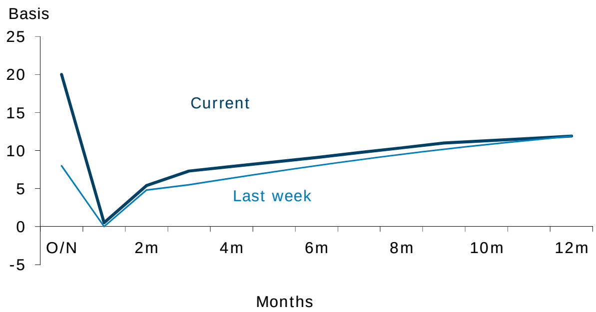
We don’t normally comment on bond positioning, but it is worth mentioning that **now that overall interest rate positioning has moved from short to square, there is less standing in the way of US rates rising,** adding further mild upside risk to the USD/downside risk to the NZD.

GLOBAL VIEWS

As we noted last week, ANZ’s global macro momentum indicators have yet to indicate a shift to above-trend growth. The improvement seen in the ISM survey bears this out, with the mild improvement in headline and activity indicators offset by a build-up in inventories and a softening in employment. Forward expectations continue to decline in the regional surveys, with the Dallas Fed survey joining the ranks last week. But it is ECB policy that will be the swing factor this week. Further stimulus is universally expected, but it is the form that matters for FX markets.

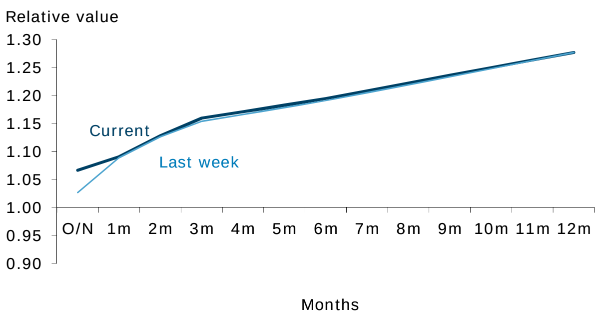
FORWARDS: CARRY AND BASIS

FIGURE 3. NZD/USD SHORT BASIS CURVE



Short basis jumped, making short hedges attractive.

FIGURE 4: RELATIVE ATTRACTION OF THE FWD CURVE



DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
3-Jun	AU	BoP Current Account Balance - 1Q	-7.0B	-10.1B	13:30
	AU	Net Exports of GDP - 1Q	0.8	0.6	13:30
	AU	Retail Sales MoM - Apr	0.3%	0.1%	13:30
	JN	Labor Cash Earnings YoY - Apr	0.4%	0.7%	13:30
	CH	HSBC China Manufacturing PMI - May F	49.7	49.7	13:45
	AU	RBA Cash Rate Target - June	2.5%	2.5%	16:30
	UK	Nationwide House PX MoM - May	0.6%	1.2%	18:00
	EC	Unemployment Rate - Apr	11.8%	11.8%	21:00
	EC	CPI Estimate YoY - May	0.6%	0.7%	21:00
	EC	CPI Core YoY - May A	0.8%	1.0%	21:00
4-Jun	US	Factory Orders - Apr	0.5%	1.1%	02:00
	US	IBD/TIPP Economic Optimism - Jun	46.8	45.8	02:00
	NZ	Value of All Buildings SA QoQ - 1Q	5.5%	-1.0%	10:45
	AU	AiG Perf of Services Index - May	--	4860.0%	11:30
	NZ	ANZ Commodity Price - May	--	-4.0%	13:00
	AU	GDP SA QoQ - 1Q	0.9%	0.8%	13:30
	AU	GDP YoY - 1Q	3.1%	2.8%	13:30
	JN	Markit Japan Services PMI - May	--	46.4	13:35
	JN	Markit/JMMA Japan Composite PMI - May	--	46.3	13:35
	GE	Markit/BME Germany Composite PMI - May F	56.1	56.1	19:55
	EC	Markit Eurozone Composite PMI - May F	53.9	53.9	20:00
	UK	Markit/CIPS UK Composite PMI - May	58.7	59.2	20:30
	EC	GDP SA QoQ - 1Q P	0.2%	0.2%	21:00
	EC	GDP SA YoY - 1Q P	0.9%	0.9%	21:00
	EC	Gross Fix Cap QoQ - 1Q	0.0%	1.1%	21:00
	EC	Govt Expend QoQ - 1Q	0.2%	-0.2%	21:00
	EC	Household Cons QoQ - 1Q	0.1%	0.1%	21:00
	US	MBA Mortgage Applications	--	-1.2%	23:00
	US	Domestic Vehicle Sales - May	12.70M	12.65M	/2014
	US	Total Vehicle Sales - May	16.10M	15.98M	/2014
	UK	Halifax House Prices MoM - May	0.007	-0.002	06/07
5-Jun	US	ADP Employment Change - May	213K	220K	00:15
	US	U.S. BEA Releases International Trade Report Revisions -	0	0	00:30
	US	Trade Balance - Apr	-$40.8B	-$40.4B	00:30
	US	Nonfarm Productivity - 1Q F	-3.0%	-1.7%	00:30
	US	Unit Labor Costs - 1Q F	5.3%	4.2%	00:30
	US	Markit US Services PMI - May F	58.2	58.4	01:45
	US	Markit US Composite PMI - May F	--	58.6	01:45
	US	ISM Non-Manf. Composite - May	55.5	55.2	02:00
	US	U.S. Federal Reserve Releases Beige Book -	0	0	06:00
	AU	Trade Balance - Apr	510M	731M	13:30
	CH	HSBC China Services PMI - May	--	51.4	13:45
	CH	HSBC China Composite PMI - May	--	49.5	13:45
	GE	Factory Orders MoM - Apr	1.4%	-2.8%	18:00
	EC	Markit Eurozone Retail PMI - May	--	5120.0%	20:10
	EC	Retail Sales MoM - Apr	0.0%	0.3%	21:00
	EC	Retail Sales YoY - Apr	1.2%	0.9%	21:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
5-Jun	UK	Bank of England Bank Rate – June	213K	220K	23:00
	UK	BOE Asset Purchase Target - Jun	0	0	23:00
	US	Challenger Job Cuts YoY - May	-$40.8B	-$40.4B	23:30
	US	RBC Consumer Outlook Index - Jun	-3.0%	-1.7%	23:30
	EC	ECB Announces Interest Rates	5.3%	4.2%	23:45
	EC	ECB Marginal Lending Facility	58.2	58.4	23:45
	EC	ECB Deposit Facility Rate - 38504	--	58.6	23:45
6-Jun	US	Initial Jobless Claims – May 31	310K	300K	00:30
	US	Continuing Claims – May 24	2623K	2631K	00:30
	NZ	QV House Prices YoY - May	--	8.4%	12:00
	JN	Coincident Index - Apr P	110.9	114.5	17:00
	GE	Industrial Production SA MoM - Apr	0.4%	-0.5%	18:00
	GE	Industrial Production WDA YoY - Apr	2.7%	3.0%	18:00
	GE	Trade Balance - Apr	15.1B	16.4B	18:00
	GE	Current Account Balance - Apr	15.6B	19.5B	18:00
	UK	BoE/GfK Inflation Next 12 Mths - May	--	0.028	20:30
	UK	Visible Trade Balance GBP/Mn - Apr	-£8650	-£8478	20:30
	UK	Trade Balance - Apr	-£1500	-£1284	20:30
7-Jun	US	Change in Nonfarm Payrolls - May	215K	288K	00:30
	US	Two-Month Payroll Net Revision - May	--	--	00:30
	US	Change in Private Payrolls - May	210K	273K	00:30
	US	Change in Manufact. Payrolls - May	10K	12K	00:30
	US	Unemployment Rate - May	6.4%	6.3%	00:30
	US	Average Hourly Earnings MoM - May	0.2%	0.0%	00:30
	US	Average Hourly Earnings YoY - May	2.0%	1.9%	00:30
	US	Average Weekly Hours All Employees - May	34.5	34.5	00:30
	US	Change in Household Employment - May	--	-73	00:30
	US	Underemployment Rate - May	--	12.3%	00:30
	US	Labor Force Participation Rate - May	--	62.8%	00:30
	US	PCE Core YoY - Apr	1.4%	1.2%	00:30
	US	ISM Milwaukee - May	--	47.3	01:00
	US	Univ. of Michigan Confidence - May F	60.8	63.0	01:45
	US	Chicago Purchasing Manager - May	82.5	81.8	01:45

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency
Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Commodity prices will be the major focus this week and while some slippage is likely they are likely to find demand-side support at elevated levels. Despite a contained inflation backdrop the RBNZ are expected to continue unwinding policy stimulus, with a further 25 basis point hike in the OCR in June, and the risk of a follow-up move in July. The speed and magnitude of further hikes remains conditional on local and global developments, with a moderate OCR endpoint expected.

DATE	DATA / EVENT	ECONOMIC SIGNAL	COMMENT
Wed 4 Jun (early am)	GlobalDairyTrade auction	Holding	Prices are likely to stabilise around the USD4,000/MT level. Upward-sloping forward contract prices provide comfort.
Wed 4 Jun (10:45am)	Work Put in Place – Q1	Lifting	A 6% rise is expected, with both residential and non-residential work up strongly.
Wed 4 Jun (1:00pm)	ANZ Commodity Price Index – May	- -	- -
Fri 6 Jun (10:00am)	Crown Financial Statements – April	Closing	This is expected to closely track Budget 2014 estimates. Will be watching tax revenues as barometer of activity.
9-13 Jun	REINZ Housing Market – May	Under control	Small rise in sales volumes expected, but from low levels. Annual house price inflation to ease from 8.5% in April.
Mon 9 Jun (10:45am)	Wholesale Trade Survey – Q1	Down	Recoil after Q4 strength. Will detract from Q1 GDP.
Tue 10 Jun (10:00am)	ANZ Truckometer – May	- -	- -
Tue 10 Jun (10:45am)	Economic Survey of Manufacturing – Q1	Up	Sentiment gauges point to a strong quarter. A 1-1.5% rise in sales volumes is expected, driven by ex-primary sectors.
Wed 11 Jun (10:45am)	Electronic Card Transactions – May	Up	A 0.6% rise is expected. Spending restraint will temper the OCR profile.
Thur 12 Jun (9:00am)	June *Monetary Policy Statement*	+25	Removal of interest rate stimulus appropriate given the strong outlook. July a close call. Published 90-day rate endpoint to fall between March MPS and current market pricing.
Fri 13 Jun (10:30am)	BNZ Business NZ – PMI – May	Mid 50s	Construction tailwinds vs elevated NZD.
Fri 13 Jun (10:45am)	Food Price Index – May	Flat	A 0.2% rise expected, with seasonal lifts in fruit and vegetables. Overseas commodity food prices are benign.
Mon 16 Jun (10:30am)	BNZ Business NZ – PSI – May	Late 50s	Easing consumer sentiment suggests risk of slight fall from the 58.9 April reading. Signal of strong pace of activity.
Wed 18 Jun (early am)	GlobalDairyTrade auction	Holding	Prices are likely to stabilise around the USD4,000/MT level. Upward-sloping forward contract prices provide comfort.
Wed 18 Jun (10:45am)	Balance of Payments – Q1	Sub 3?	Large trade surplus to deliver $1bn Q1 deficit, with annual deficit easing to $6.6bn (2.9% of GDP).
Thur 19 Jun (10:45am)	GDP – Q1	Solid	A 0.8% q/q rise expected. Lifts in construction, services, partly offset by lower primary, electricity, wholesale trade activity.
Fri 20 Jun (10:00am)	ANZ Job Ads – May	- -	- -
Fri 20 Jun (10:00am)	ANZ Consumer Confidence – June	- -	- -
Mon 23 Jun (10:45am)	International Travel & Migration – May	Staying put	A circa 4k net PLT inflow expected. If PLT departures stay low, on track to approach 45k net PLT inflow.
Fri 27 Jun (10:45am)	Merchandise Trade – May	Still in the black	A trade surplus of $200m is expected, with the annual trade surplus lifting to $1.4bn.
On Balance		**Strengthening**	**Economy strengthening, with a total of 100bps of OCR hikes over 2014.**

KEY FORECASTS AND RATES

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
GDP (% qoq)	**0.8**	**0.9**	**0.8**	**0.8**	**0.8**	**0.8**	**0.7**	**0.7**	**0.7**	**0.6**
GDP (% yoy)	**3.4**	**3.9**	**3.6**	**3.5**	**3.4**	**3.3**	**3.1**	**3.0**	**2.9**	**2.7**
CPI (% qoq)	0.3	**0.4**	**0.7**	**0.2**	**0.6**	**0.6**	**0.8**	**0.3**	**0.7**	**0.7**
CPI (% yoy)	1.5	**1.8**	**1.5**	**1.7**	**1.9**	**2.1**	**2.2**	**2.3**	**2.4**	**2.5**
Employment (% qoq)	0.9	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	3.7	**3.8**	**2.9**	**2.2**	**1.6**	**1.4**	**1.3**	**1.2**	**1.1**	**1.1**
Unemployment Rate (% sa)	6.0	**5.7**	**5.6**	**5.6**	**5.5**	**5.5**	**5.5**	**5.5**	**5.5**	**5.5**
Current Account (% GDP)	**-2.9**	**-2.8**	**-2.6**	**-3.2**	**-3.7**	**-4.1**	**-4.5**	**-4.8**	**-5.0**	**-5.1**
Terms of Trade (% qoq)	1.8	**-2.1**	**-1.7**	**-1.5**	**-1.3**	**-1.0**	**-0.8**	**-0.6**	**-0.5**	**-0.4**
Terms of Trade (% yoy)	17.9	**10.5**	**1.0**	**-2.8**	**-6.3**	**-5.5**	**-4.5**	**-3.7**	**-2.9**	**-2.3**

	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14
Retail ECT (% mom)	0.6	-1.2	1.9	0.7	0.6	-0.4	0.8	0.0	0.3	--
Retail ECT (% yoy)	6.4	3.5	7.0	6.7	5.5	6.1	5.7	5.1	5.7	--
Credit Card Billings (% mom)	0.9	-0.4	-1.4	4.6	-0.6	1.2	0.4	1.2	-3.1	--
Credit Card Billings (% yoy)	5.9	3.9	2.1	6.9	5.0	9.0	5.9	7.5	3.2	--
Car Registrations (% mom)	-4.5	-7.7	7.2	2.7	-1.2	2.6	4.1	3.2	-0.5	--
Car Registrations (% yoy)	23.0	15.8	16.2	23.0	20.3	20.2	23.6	26.8	17.5	--
Building Consents (% mom)	2.5	1.8	0.8	11.7	6.8	-8.7	-1.5	9.1	1.5	--
Building Consents (% yoy)	20.5	15.1	18.2	40.6	39.2	23.7	15.4	36.6	20.8	--
REINZ House Price Index (% yoy)	9.5	9.8	9.9	9.6	9.2	7.7	8.2	9.2	8.5	--
Household Lending Growth (% mom)	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	--
Household Lending Growth (% yoy)	5.4	5.6	5.7	5.6	5.7	5.7	5.7	5.6	5.4	--
ANZ Roy Morgan Consumer Conf.	123.0	118.8	122.3	128.4	129.4	135.8	133.0	132.0	133.5	127.6
ANZ Business Confidence	48.1	54.1	53.2	60.5	64.1	..	70.8	67.3	64.8	53.5
ANZ Own Activity Outlook	43.3	45.3	47.1	47.1	53.5	..	58.5	58.2	52.5	51.0
Trade Balance ($m)	-1236	-221	-169	153	492	285	795	935	534	--
Trade Bal ($m ann)	-2129	-1559	-1014	-274	-317	262	625	827	1191	--
ANZ World Commodity Price Index (% mom)	0.7	1.1	1.3	-0.3	1.0	1.2	0.9	-0.1	-4.0	--
ANZ World Comm Price Index (% yoy)	25.7	22.9	22.8	21.3	21.5	22.6	22.4	14.0	-2.8	--
Net Migration (sa)	2170	2750	2950	2730	2930	3150	3560	3890	4080	--
Net Migration (ann)	12848	15174	17490	19478	22468	25666	29022	31914	34366	--
ANZ Heavy Traffic Index (% mom)	-1.7	-0.1	0.4	-1.9	2.2	0.0	2.3	-1.0	0.5	--
ANZ Light Traffic Index (% mom)	-0.2	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	1.1	0.1	--

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Apr-14	May-14	Today	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
NZD/USD	0.862	0.850	0.845	0.83	0.83	0.81	0.79	0.78	0.77	0.76
NZD/AUD	0.928	0.930	0.914	0.94	0.95	0.95	0.94	0.93	0.92	0.90
NZD/EUR	0.621	0.611	0.621	0.60	0.59	0.57	0.56	0.55	0.53	0.51
NZD/JPY	88.10	87.36	86.54	87.2	88.8	89.1	86.9	85.8	84.7	83.6
NZD/GBP	0.511	0.501	0.505	0.49	0.48	0.47	0.45	0.45	0.44	0.43
NZ$ TWI	79.8	78.9	79.0	78.0	78.1	76.6	74.8	73.7	72.5	71.1
INTEREST RATES	Apr-14	May-14	Today	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
NZ OCR	3.00	3.00	3.00	3.25	3.25	3.50	3.75	3.75	4.00	4.25
NZ 90 day bill	3.33	3.42	3.42	3.50	3.50	3.90	4.00	4.00	4.40	4.50
NZ 10-yr bond	4.41	4.48	4.26	4.50	4.70	4.80	5.00	5.20	5.30	5.40
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.00
US 3-mth	0.22	0.28	0.23	0.30	0.40	0.50	0.60	0.80	1.10	1.40
AU Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50
AU 3-mth	2.68	2.67	2.69	2.70	2.70	2.70	2.90	3.20	3.40	3.70

Forecasts finalised as at March 28, 2014

	30 Apr	26 May	27 May	28 May	29 May	30 May
Official Cash Rate	2.75	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.30	3.41	3.40	3.39	3.41	3.42
NZGB 12/17	4.12	3.90	3.87	3.87	3.85	3.79
NZGB 03/19	4.24	4.03	4.00	3.99	3.97	3.91
NZGB 05/21	4.42	4.20	4.17	4.17	4.14	4.07
NZGB 04/23	4.52	4.33	4.30	4.30	4.27	4.20
2 year swap	4.04	3.97	3.95	3.93	3.92	3.88
5 year swap	4.59	4.41	4.38	4.36	4.35	4.30
RBNZ TWI	80.0	79.92	79.72	79.86	79.71	79.19
NZD/USD	0.8601	0.86	0.85	0.86	0.85	0.85
NZD/AUD	0.9262	0.93	0.92	0.92	0.92	0.91
NZD/JPY	88.20	87.17	87.00	87.29	87.06	86.31
NZD/GBP	0.5110	0.51	0.51	0.51	0.51	0.51
NZD/EUR	0.6224	0.63	0.63	0.63	0.63	0.62
AUD/USD	0.9286	0.92	0.92	0.93	0.93	0.93
EUR/USD	1.3819	1.37	1.36	1.37	1.36	1.36
USD/JPY	102.55	101.77	101.92	101.96	101.94	101.73
GBP/USD	1.6832	1.69	1.68	1.69	1.68	1.67
Oil (US$/bbl)	101.69	104.03	105.01	105.01	104.78	103.37
Gold (US$/oz)	1285.13	1294.68	1292.30	1289.85	1262.78	1258.30
Electricity (Haywards)	6.73	5.20	6.62	4.38	3.47	3.61
Baltic Dry Freight Index	943	964	973	954	940	934
Milk futures (USD)	181	180.3	180.8	180.8	179.8	179.5

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Ph 64-4-802 2199, Fax 64-4-496 8639, e-mail nzeconomics@anz.com, http://www.anz.co.nz