ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

13 April 2015

INSIDE

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A MIXED BAG

ECONOMIC OVERVIEW

We are now closer to ticking off three of our "four prongs" needed before OCR cuts become a realistic proposition. Our monthly inflation gauge for March will give an idea of the skew of risks surrounding the Q1 CPI – subdued core inflation is the fourth and most critical "prong". Ahead of the CPI data next week, the focus this week will be on the QSBO, which should be consistent with a solid pace of underlying demand, along with ongoing evidence of capacity pressures. This week's GDT auction will be critical for determining where the opening 2015/16 milk price will be pitched in May. We're still picking $5.75/kg MS, which means cash-flow over 2H 2015 will be very tight.

AGRI FOCUS SUMMARY

Macro drivers such as geopolitical ructions, sluggish global growth, FX volatility/shifts and lower energy/feed prices are creating a challenging environment for many primary sectors. But exposure to these forces varies significantly, implying quite diverse outlooks for 2015/16. Key for how things evolve will be local and offshore supply dynamics, as well as NZD direction. Across some soft commodity markets, such as dairy, global prices are below the cost of production, which will help cap production and drive price tension. But this is against a softer demand backdrop.

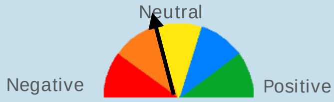
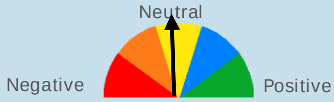
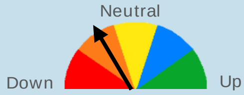
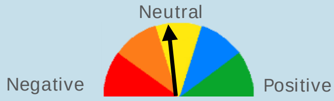
INTEREST RATE STRATEGY

We're neutral on the front end of the NZ curve ahead of next week's inflation figures, expecting continued robust readings across local data outturns – although a softer GDT auction is anticipated. There looks to be something for everyone. US Treasury yields, while volatile, remain below pre-March FOMC levels, with this week's sentiment data watched for signs of a weather-related bounce; we're expecting improvement as April progresses. Weaker signs out of China are expected to emerge, while policy support from the ECB is expected to continue to cap long-term yields there. All up, New Zealand yields continue to stand out in relation to global peers, adding pressure to flatten the curve.

CURRENCY STRATEGY

We continue to view New Zealand's economic story as being more than fully priced at current TWI levels, though there remains scope for individual crosses (NZD/EUR and NZD/AUD) to create further record highs. Markets have demonstrated a willingness to buy the USD on dips, and we expect signs to emerge of a pick-up in US indicators, which will counter any domestic-led NZD/USD strength.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2016 Q1	Confidence gauges suggest solid domestic momentum, but dry weather hit to H1 2015. The global scene is the wildcard.	
Unemployment rate	5.2% for 2016 Q1	Lifts in working age population to boost labour supply. Wage inflation contained.	
OCR	3.5% by Mar 2016	RBNZ on hold for the foreseeable future. Global scene, NZD and commodity prices important but inflation the real key.	
CPI	1.2% y/y for 2016 Q1	Sub 1% annual inflation over 2015. Benign global backdrop, domestic pricing pressures contained so far.	

ECONOMIC OVERVIEW

SUMMARY

Given recent dairy price falls, NZD strength, and an expectation the RBNZ will turn to prudential policy with regards to housing, we are now closer to ticking off three of our "four prongs" needed before OCR cuts become a realistic proposition. Our monthly inflation gauge for March will give an idea of the skew of risks surrounding the Q1 CPI – subdued core inflation is the fourth and most critical "prong". Ahead of the CPI data next week, the focus this week will be on the QSBO, which should be consistent with a solid pace of underlying demand, along with ongoing evidence of capacity pressures. This week's GDT auction will be critical for determining where the opening 2015/16 milk price will be pitched in May. We're still picking $5.75/kg MS, which means cash-flow over 2H 2015 will be very tight.

FORTHCOMING EVENTS

REINZ Housing Market Report – March (likely sometime this week). A further lift in seasonally adjusted sales volumes is likely, while an 'Auckland versus the rest of New Zealand' divide with regard to house price inflation should still be evident.

NZIER QSBO – Q1 (10:00am, Tuesday, April 14). We expect the general tone to mirror trends in the ANZ *Business Outlook*. Headline confidence should lift modestly and while there will be ongoing evidence of capacity constraints and skill shortages, pricing and cost pressures are likely to remain relatively contained, albeit ticking slightly higher in the quarter.

SNZ Food Price Index – March (10:45am, Wednesday, April 15). A small seasonal fall is expected, confirming a 0.7% q/q increase for the March quarter as a whole.

ANZ Monthly Inflation Gauge – March (1:00pm, Wednesday, April 15).

GlobalDairyTrade auction (early am, Thursday, April 16). The NZX futures market is pointing to additional price falls.

ANZ Job Ads – March (10:00am, Thursday, April 16).

BNZ-Business NZ Manufacturing PMI – March (10:30am, Thursday, April 16). We expect a mid-50's outturn. Overall sentiment is positive, but the high NZD continues to cause tension.

ANZ Roy Morgan Consumer Confidence – April (1:00pm, Thursday, April 16).

SNZ Consumers Price Index – Q1 (10:45am, Monday, April 20). We expect consumer prices to fall 0.3% q/q, with annual inflation falling to just 0.2%.

WHAT'S THE VIEW?

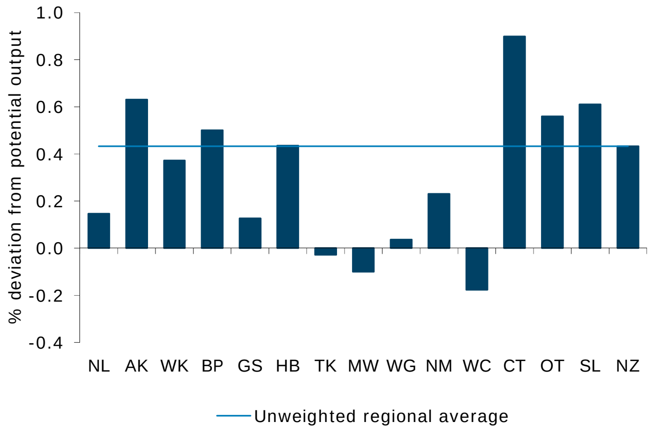
Our monthly inflation gauge will be key this week. It correctly picked softness in underlying inflation over the second half of 2014 and we're looking for a steer ahead of next week's official CPI for the March quarter. This is the final key piece of data ahead of the RBNZ's April *OCR Review*.

Another subdued underlying inflation read would raise more awkward questions about what the RBNZ is really targeting: inflation, growth or housing. Of course you can't separate the three completely, but when they start heading in different directions, inflation should dominate. And the brutal reality is that the inflation genie has remained firmly ensconced in the bottle.

Certainly, the demand picture is solid. Our proprietary indicators continue to point to a decent pace of underlying momentum. It is a story generally backed up by our anecdote network. However, it is also a demand picture that is becoming more fractured; we suspect trend growth – and no more – is on offer going forward. Moreover, with dairy prices falling sharply (joined once more by forestry of late) and the NZD still high (and with people also becoming more vocal about it), **the case for a rate cut from the RBNZ is non-trivial.**

That's not to downplay the obvious upside risks that exist too. The economy does appear to have a positive output gap across an array of regions. Growth is still tracking marginally above trend at present. Employment growth is robust. House prices and construction costs are strong and accelerating. Migration is booming. It is not a case of stripping out all the positives and being left with something negative.

FIGURE 1. REGIONAL OUTPUT GAPS



Source: ANZ

But we're just stating reality. More evidence of low inflation (and this goes well beyond the low headline figure) will bring the obvious question

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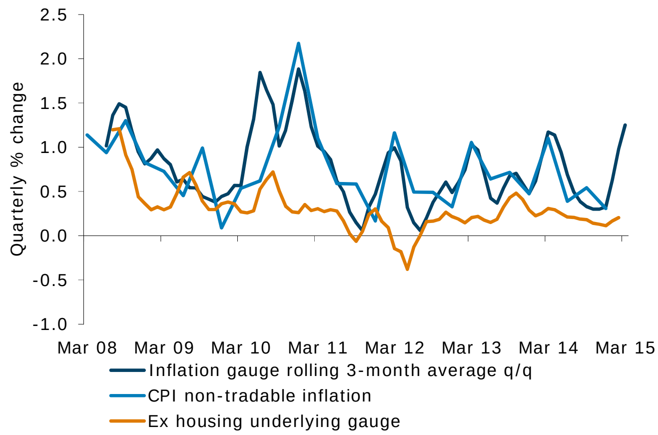
into play – why is the OCR so high relative to peers? This has arguably become a more pressing theme this year as numerous central banks have eased policy. Furthermore, we'd be naïve not to acknowledge that there is going to be a growing political angle too, given recent local developments.

Like the RBNZ, we are attempting to assess the degree to which inflation is being suppressed by temporary versus structural factors. Of course the NZD and petrol prices are playing a key role, but we are looking through their initial impact. They are naturally having a mechanical downward influence on headline inflation – forget about that. The other group – subdued credit growth (although admittedly up modestly of late), global disinflationary forces, the impact of online shopping on retail margins and other technology-driven deflation facets, and greater mobilisation across the labour market internationally (which is reducing wage bargaining power) – these are all relevant. **However, it's a fine judgement to know what degree or weight to assign to them.** Are they themselves set to just have a transitory influence, or will their impact linger?

Our monthly gauge was "neutral" in terms of the signal it provided for the balance of risks following the January and February results. In all likelihood, it would therefore take a material movement in March to really shift that dial or assessment for the Q1 CPI. As such, the debate or conjecture surrounding the evolution of inflation drivers could go on for a while yet.

FIGURE 2. MONTHLY INFLATION GAUGE AND CPI

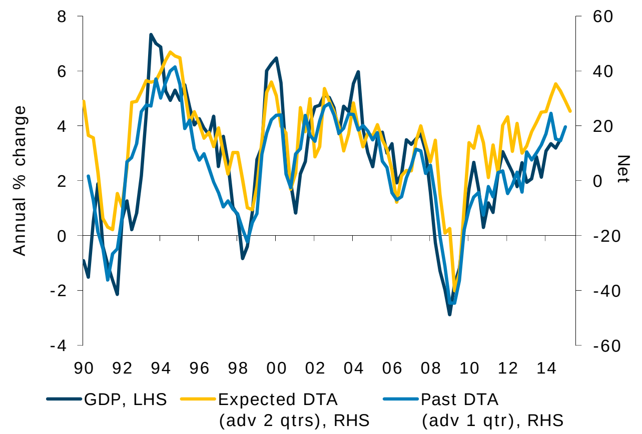


Source: ANZ

Therefore, while we are now close to ticking off three of the four "prongs" needed before OCR cuts from the RBNZ become a realistic prospect, without greater clarity on the inflation process **we still see the most likely outcome as an extended period of OCR stability. For sure, the risk profile is becoming more skewed to the downside**. However, as an aside we recall the RBNZ cutting rates in 2003 after hiking earlier; there was a case but it was not without risk. And those cuts were replaced by aggressive hikes down the track. The focus must be on the medium-term outlook and this makes the transitory – structural debate over the evolution of inflation even more complicated!

Ahead of the Q1 CPI data, and after a couple of quiet weeks, the local data calendar gets busier this week. **The QSBO for Q1 is expected to generally convey the themes contained within recent ANZ *Business Outlook* surveys.** That is, it should highlight an economy with decent underlying momentum and one where there is a broad-based undercurrent of positivity across sectors (particularly as the QSBO doesn't directly survey the agricultural sector). Specifically, it is likely that headline business confidence records a small lift from last quarter's net 21% sa result. While well down on the lofty levels experienced in late 2013 and early 2014, it should still sit at a historically high level. A similar message should be evident from the likes of firms' experienced and expected domestic trading activity. We are not expecting particularly large moves, but they are likely to increase from the +20 sa and +25 sa levels respectively recorded in Q4. This would be consistent with a reasonable pace of activity growth over H1 2015.

FIGURE 3. GDP VS QSBO DOMESTIC TRADING ACTIVITY



Source: ANZ, NZIER, Statistics NZ

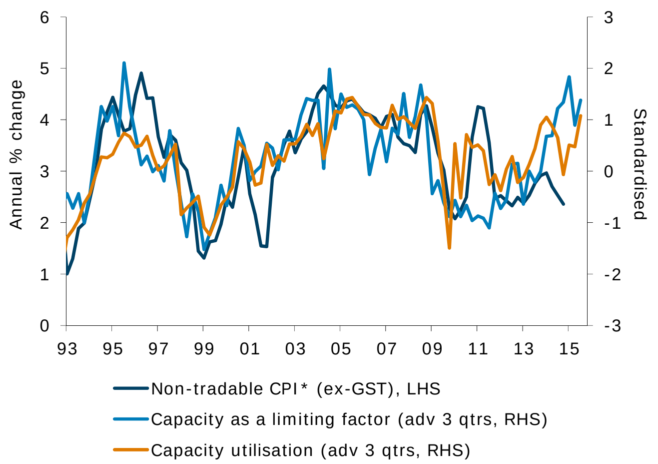
What is also likely to be evident, as was the case in the Q4 QSBO, is that as the expansion has progressed, capacity and resource pressures have begun to build. Capacity utilisation (CUBO) spiked to 91.9% in Q4 – the highest since 2008 – and the number of firms reporting capacity as a limiting factor also rose. Both skilled and unskilled staff are reportedly becoming more difficult to find. For this stage in the cycle (the economy has entered

ECONOMIC OVERVIEW

its fifth year of expansion and the unemployment rate is well down from its peak), these messages are unsurprising. We expect them to generally still be evident in the March quarter survey, although it is possible that some of the lift in the CUBO in Q4 will be unwound.

What is much more surprising (as mentioned above), is that these capacity pressures are not showing up in increases in consumer prices. This observation cannot be solely blamed on NZD strength or oil price falls; domestic inflation pressures (particularly outside of construction) remain benign. Structural influences are at play. As stated, a key question is whether or not these structural inflation suppressants continue to dominate or if instead inflation begins to "catch-up" to where some (historically well-performing) indicators are suggesting it should be. It is likely that firms' pricing intentions will lift slightly in the March quarter survey – consistent with the trend from the latest ANZ *Business Outlook* – but the survey overall is unlikely to clear up this "puzzle" and the uncertainty surrounding the inflation outlook.

FIGURE 4. NON-TRADABLE INFLATION VS CAPACITY MEASURES

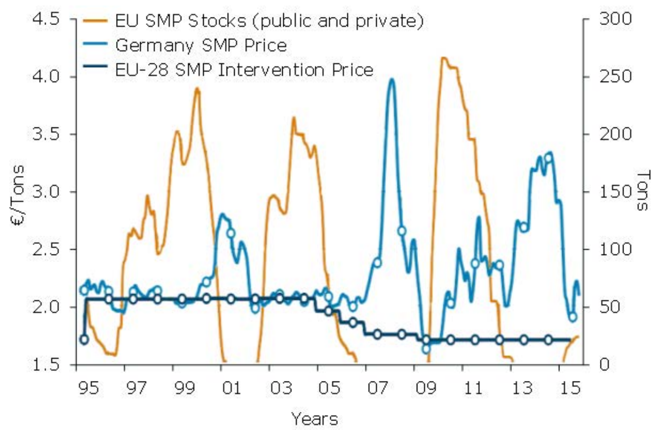


Source: ANZ, NZIER, Statistics NZ

Dairy markets have remained quiet since the last GlobalDairyTrade auction, but further downward pricing pressure has been evident. The NZX dairy futures market points to a 3-4% decline for whole milk powder (WMP) and probably a touch more for skim milk powder (4-7%) at this week's GDT auction. These movements are similar to those seen in other major supplier markets since the last auction. The futures market still maintains an upward sloping curve toward US$3,000/t for WMP at the end of the year. It's important for the opening advance in 2015/16 that the next couple of GDT auctions reflect an upward sloping curve (although we don't expect the level to be at US$3,000/t over next couple of months). Later delivery contracts are now into the new season and peak sales (later in the year) will need to register around the US$3,000/t mark for our milk price forecast of $5.75/kg MS to be achieved. If that doesn't occur, the NZD/USD will need to do more work.

At present the major question is how low prices could head in the near-term and what impact this might have on sentiment later on. For buyers, the present focus in on European supply, with many expecting an increase over coming months post-quota removal (1st April). All major traded dairy product prices from the US, New Zealand and Europe follow each other these days and these three regions account for approximately 75-80% of global trade. In Europe there are still a range of subsides and tariffs that support dairy farmers and these have varying impacts on global markets.

FIGURE 5. EUROPEAN SKIM MILK POWDER DYNAMICS



Source: ANZ, CLAL

In the powder market, the EU can intervene for SMP if prices reach €1,698/t. As the above chart shows, this has formed somewhat of a price floor for the likes of German SMP over the last 20 years. On a WMP equivalent basis the SMP intervention price (US$2,100/t in December) translated into around US$2,400/t in December. December marked the recent low for GDT powder prices. SMP traded around US$2,300-$2,400/t and WMP US$2,200-$2,300/t. While the SMP price at this point was US$200-$300/t above intervention prices, the WMP equivalent was below this reflecting NZ supply and Chinese demand dynamics. At present the focus is much more on Europe, so we think SMP intervention prices play a larger role in determining the bottom of the cycle. At the last GDT auction, prices were around US$2,400-US$2,600/t implying there is more downside on the December numbers, especially for SMP.

However, the other piece of the puzzle is a lower EUR/USD increasing the competitiveness of European sourced product and lowering the

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price floor at which it is equally attractive for European suppliers to offload product in the international market. Since December, the EUR/USD has moved from 1.21 to 1.06 and this has lowered the intervention price in USD terms by another US$250-300/t (SMP US$1,800/t and WMP equivalent US$2,150/t). **This, combined with the on-going fall-out from Russian sanctions, is what we see as the biggest threat to the recovery in international powder prices as opposed to headline milk supply in Europe per se.**

The REINZ housing market report for March is expected to show a further increase in seasonally adjusted sales volumes. In February, the level of sales remained below the 7½ year high recorded in December, and there has been some volatility recently. However, anecdotally, the market is still strong – particularly in Auckland – with investor and overseas buyer interest especially evident. This strong Auckland theme is also likely to be noticeable in prices, with recent QV data (which lags the REINZ data slightly) showing Auckland annual house price growth running at more than twice the pace of the rest of the country. This data is likely to only further reinforce RBNZ financial stability concerns and the likelihood of additional non-OCR measures being introduced (specifically targeting investors) over coming months.

Consumers are optimistic but not euphoric, and another update on consumer sentiment this week will show whether that remains the case. There are a number of reasons why consumers are feeling relatively happy about the world. Petrol prices have fallen, asset prices are rising, employment prospects are strengthening (with job ads data for March providing an update this week), and borrowing costs are ticking lower. However, there remains a degree of restraint and prudence when it comes to actual spending decisions, although we note that there has been a strong trend in core ECT spending lately. Nevertheless, this spending restraint in part will reflect modest wage growth, but it is probably more reflective of what appears to be a structural change in behaviour. Where previously, spending was being fuelled by debt, it is now more a case of spending within one's means. This is clearly having an impact on the retail sector. While some pockets are doing well, specifically hospitality (in part due to strong visitor arrivals) and some durables, it is a struggle for others. We suspect that theme could remain the case for a while yet.

Finally, Business NZ manufacturing sentiment should hold in the mid-50s. This would be consistent with recent moves in manufacturing sentiment in the ANZ *Business Outlook*. Tensions in the sector certainly exist. The domestic backdrop is solid, but exporters to Australia will no doubt be wincing with NZD/AUD almost at parity.

LOCAL DATA

ANZ Truckometer – March. The Heavy Traffic Index fell 0.4% (+0.8% q/q), while the Light Traffic Index was flat (+1.6% q/q).

Crown Financial Statements – February. With tax revenue modestly ahead and expenses modestly below HYEFU forecasts, an OBEGAL deficit of $269m was experienced. This compares with a forecast deficit of $612m.

Electronic Card Transactions – March. Both total and core retail spending rose 0.8% m/m. On a 3m/3m basis, the latter is now running at 2.7% - the fastest since 2007.

ANZ AGRI FOCUS SUMMARY

SUMMARY

Macro drivers such as geopolitical ructions, sluggish global growth, FX volatility/shifts, policy/market access changes and lower energy/feed prices are creating a challenging environment for many primary sectors. But exposure to these forces varies significantly, implying quite diverse outlooks for 2015/16. Across some soft commodity markets, such as dairy, global prices are below the cost of production, which will help cap production and drive price tension over time. Market dynamics look different to oil and iron ore.

In terms of key commodities, we expect:

- A milk price forecast of $4.50-4.70/kg MS for 2014/15 and $5.75/kg MS for 2015/16. While not as significant from a cash-flow perspective, the dividend component for 2015/16 will be key as a signal as to how well Fonterra's strategy is going.
- Better in-market returns are expected for venison, but the strong appreciation in the NZD/EUR is expected to eat up all of these gains plus some.
- The outlook for sheepmeat is more neutral. We are cautiously optimistic on demand, but wary of recent weakness in European markets outside of Germany and China. Reduced domestic and Australian supply is expected to help rebalance key markets.
- Beef prices are expected to remain strong, driven by out-performance across the US market and a slow-down in Australian supply.
- In-market crossbreed wool prices are under pressure from substantially lower synthetic and cotton prices, as well as lacklustre demand growth outside the US.
- Kiwifruit prices will be lower as NZ supply improves, the elevated NZD/JPY bites, and the European fruit market remains soft.
- Pipfruit is mixed, with lower prices expected in Europe, but better Asian prospects.
- A significantly smaller 2015 Sauvignon Blanc vintage is expected to smooth supply between adjoining years, averting the need to reduce prices to shift product.

THE BIG PICTURE

A number of key macro drivers are providing a challenging environment for many parts of the agriculture sector – though prospects remain far sounder than across a lot of other commodities (i.e. oil and iron ore). We're cautious heading into the 2015/16 season. Drivers include:

- **Sluggish economic and real wage growth in many markets outside the US, dampening demand.** The retail channel's constant conditioning of consumers for 'specials' is also proving hard to shake in many markets.
- **Greater uncertainty over the trajectory of some key emerging market economies, including China.**
- **The downstream implications of falls in other commodity prices** such as oil, with oil-exporting nations key buyers of the likes of dairy.
- **Geopolitical ructions** disrupting trade flows and import demand in some key import regions (mainly Europe and the Middle East). Russian sanctions and the dramatic fall in the ruble continue to reverberate through many soft commodity sectors and key markets.
- **Conflicting views on what the impact of European quota and other policy changes will mean for global dairy supply.**
- **Lower feed costs for the Northern Hemisphere** boosting the competitiveness of key competing exporters and products.
- **Generally lower commodity prices for key inputs**, such as oil and fertiliser, weighing on both the cost curve and sentiment.
- **Competitors opening up market access into China and other emerging markets.**
- **Foreign exchange movements altering competitiveness.** The rise of the USD makes imported food products more expensive in some key emerging import markets. The flipside is a weaker NZD/USD and reduced US export competitiveness. While the USD is up, the euro is down. Euro weakness boosts their exporter competitiveness for the likes of dairying, but reduces local earnings for those products such as venison, sheepmeat, pipfruit and kiwifruit that derive a large proportion of earnings from Europe.

Exposure to these forces varies significantly between the different primary sectors, implying quite diverse outlooks for 2015/16. Some of the effects can take a while to work through due to production lifecycles and various government support programs. **Key for how things evolve will be supply dynamics.** These will be governed by inventory positions, seasonal conditions both domestically and for key competitors, as well as how producers respond to lower margins.

AGRI FOCUS SUMMARY

Below is a summary of our main views for each sector from the April Agri Focus. Check out the main document (http://www.anz.co.nz/rural/rural-news-insights/agri-focus/) if you are interested in more detail.

DAIRY

The next three GDT auctions are shaping up as critical in determining where the opening milk price and advance will be pitched for 2015/16 come the end of May. This, combined with the wash-up for 2014/15, will have a large influence on farmers' cash-flow over the first half of the 2015/16 season. While we are holding our $5.75/kg MS milk price forecast for 2015/16, recent auction weakness and NZD strength raises the risk the opening estimate may come in below this.

All of the improvement in auction prices seen in February has now been unwound over the last two auctions. In February there had been fears of an early finish to the New Zealand season as dry conditions spread and milk supply rapidly slowed. Conditions have improved in most areas, easing these concerns, but more follow-up rain is required in many parts. There are still some areas where farmers have had to dry their cows off early and most have shifted to once-a-day, or 16 hourly milking. However, the general improvement in conditions has seen Fonterra add a bit more product to the last few auctions. While the addition isn't much in the scheme of things, and the total amount being offered is still well back on the same period last year, market sentiment is still weak and fragile, meaning the price impact has been considerable.

We project milk powder prices to trade around the US$3,000 per tonne mark as new season supply builds and then gradually increase toward US$3,300 per tonne in early 2016. A key judgement we are making is that with dairy prices sitting below the marginal cost of production, global supply growth will continue to moderate helping rebalance the market after inventories have been utilised. The key risk to our view lies around Europe's export intentions and China's import demand. We suspect the Russian sanctions and lower euro will support European exports, but how much in the face of lower farm-gate returns remains difficult to determine. China's import demand remains difficult to read with domestic milk supply critical. Lower farm-gate prices in China should keep domestic milk supply checked.

We are also eyeing the dividend component for Fonterra. Suffice to say that the downgrade to the 2014/15 estimate caught most (including us) by surprise. While a lot of factors influence the dividend, the bottom line is that lower input prices (read: international powder prices) should have supported margins and the dividend. We won't go into details on the ins and outs; rather what is clear is that farmer sentiment is testy and a continuation of a low dividend payment would raise question marks over the execution of Fonterra's strategy.

SHEEPMEAT

Tradable sheep meat supply from New Zealand and Australia could tighten by up to 10% (5.5m head) over the coming 18 months. This is conditional on seasonal conditions in both countries continuing to improve. This is should help rebalance key markets, but local supply in the UK and China will also be influential in New Zealand's two largest markets. In 2015/16 we are cautiously optimistic on demand in the UK, Germany and the US, but less so on China, the rest of Europe and the Middle East. Therefore, we expect only a small improvement in farm-gate prices to $95/head in 2015/16. Lower-than-expected prices during the peak of the processing period, combined with currency strength, is expected to deliver an all-season average price of $91 per head (for a 17.5kg carcase) in 2014/15.

BEEF

Beef prices are expected to be softer until Australian supply tapers off and New Zealand's main cull cow turn-off is complete at the end of May. Beyond this prices are expected to remain very robust, with lower supply expected from Australia and the low supply of domestic lean beef in the US continuing. Demand from the foodservice sector in the US also looks robust, but increased competition from cheaper meat proteins (namely chicken and pork) is expected as the year progresses. Outside of the US things look fairly steady, but the key growth markets of China and Indonesia will be tougher, with changing market access for New Zealand and key competitors. Key for traditional Asian markets, such as Japan and Korea, will be a slow-down in Australian supply over the second half of 2015. We are cautiously optimistic there could be a bit more upside to farm-gate prices in 2015/16, with the sweet spot likely to again be the second half of the year (spring/early summer). Any upside is critically dependent on lower beef supply from both Australia and the US.

WOOL

Crossbreed auction wool prices are forecast to be lower in 2015 unless the NZD weakens further. In-market prices will be pressured by substantially lower synthetic and cotton prices, as well as lacklustre

AGRI FOCUS SUMMARY

demand growth outside the US. An accelerating US housing market and tight supply conditions provide something of an offset, but on balance factors point toward a further softening into 2016. In a tight supply situation auction prices could be volatile depending on buyer sentiment and the need to fill a specific order.

New Zealand fine wool prices tend to follow Australia's. Australian prices have been weaker in recent months as lower synthetic and cotton prices have weighed. Overall fine wool prices are expected to improve slightly due to tighter Australian export supply (-4%) and continued improvement in US import demand. However, slower growth in apparel sales in China and continued sluggishness in Europe mean only a small improvement is expected.

DEER

Exporters have reported better demand for venison at both the fine dining and manufacturing level, which bodes well. However, the 10% plus appreciation in the NZD/EUR is expected to pressure farm-gate venison returns in 2015/16 despite better in-market prospects. Tighter venison supply is expected to start to emerge later in the year with lower weaner (-7%) numbers heading into 2014/15. Lower production is expected to persist over coming years with a 17% decline in breeding hinds over the last four years. Restricted supply, combined with reportedly lower offshore inventories, should be price supportive and ensure limited product is placed in the highest-returning markets, maximising returns.

Velvet prices remain the bright spot for the deer industry, having surged toward $125/kg in 2014/15, the highest level we have on record. Lower global supplies and solid demand from both Korea and China appear to have been the main catalysts.

GRAINS

Most buyers of feed grain seem fairly well stocked and contracted through to the early winter. Crop yields on non-irrigated land are back this season due to the dry conditions during the growing season, but irrigated area yields have held up. An increase in the area planted is expected to have provided an offset and delivered a similar-sized feed grain crop (wheat, barley and maize grain) to 2014. Contract prices for 2015 feed wheat and barley seem to have ranged between $370-$390/t. Maize is around $400/t at present, but there are some reports of a surplus.

Low inventory levels carried into the 2015 harvest are likely to mean growers won't be in too much of a rush to shift supply that hasn't been contracted, or drop prices. The softening in domestic feed prices over the second half of 2014 and into early 2015 has reduced the attractiveness of imports. However, international prices are not expected to rebound strongly in 2015/16 and this caps any upside for domestic-sourced feed.

Poultry demand is expected to continue to increase, but dairy will continue to drive swings in sentiment for domestic grain prices. An improvement in the 2015/16 milk price should help demand prospects, but given our forecast is still below the medium-term average, a large increasing in feeding, or the ability to pay high feed prices, isn't expected unless seasonal conditions are unfavourable.

KIWIFRUIT

Supply of New Zealand kiwifruit will bounce back to pre-Psa levels this year, capping a remarkable recovery. This will influence the marketing mix, especially for the Gold variety returns. The other headwinds for orchard gate returns will be currency (JPY and euro), a difficult European market, and higher promotional costs for Gold.

Green orchard-gate returns for 2015 are expected to drop back toward the low-mid $5/tray mark after hitting a 12-year high in 2014. There is expected to be increased competition from Chilean supply and within Europe on the shoulders of the season due to the Russian food import bans. Combined with exchange rate challenges in some of the main markets, such as Japan and Europe, this is likely to weigh on net NZD returns. Long-term, with smaller volumes of Green to be produced it will be a game of optimising returns. This is expected to see growth in market penetration to China and South-East Asia, and lower volumes sent to Europe.

Gold orchard-gate returns for 2015 are expected to drop back toward the low $7/tray mark. There will be a less favourable marketing mix, with higher volumes, increased promotional cost, and higher fruit loss. Scarce supply in recent years has seen Asia take 70-80% of the crop, but this is expected to decline with Europe's share growing once more.

Overall the industry appears to be on the rebound, but production risk is being replaced with price risk. Growers should budget accordingly – for Gold the medium-term sustainable price is probably around the $6.5/tray mark.

AGRI FOCUS SUMMARY

PIPFRUIT

The main European markets are expected to be tougher with high carryover stocks from their growing season and the Russian ban on exports. Added pressure is expected to come from the high NZD/EUR and increased supply from both Chile and South Africa. The UK market might not be quite as tough, with stocks at normal levels. Depending on the variety retail prices are back 5-15% on the same time last year. Exporters seem confident that a window will open up for fresh new season supply, but any spare fruit outside set marketing programs is likely to face stiff price pressure.

A smaller exportable New Zealand crop will help, along with extra fruit likely to be directed into Asia and the Middle East. Early market feedback from Asia remains positive, with New Zealand having developed a number of competitive advantages. Taiwan, China, Thailand, Vietnam, Indonesia and UAE look to be offering the best opportunities.

Confidence in the long-term story for pipfruit has returned with two years of profitable returns. New Zealand's relative proximity to Asia and the creation of a "country premium" because of superior quality, an investment in new varieties that are more aligned with tastes in Asia, and better food safety credentials that are encouraging a lift in investment in Hawke's Bay.

VITICULTURE

A significantly smaller 2015 vintage is expected following a difficult growing season. This is expected to smooth Sauvignon Blanc supply between adjoining years, averting the need to reduce prices to shift product. However, sluggish export sales for the other varietals are expected to see a surplus of supply develop for these categories, even with smaller crops.

Offshore the UK and US remain the best-performing of the big three markets. The Australian market is proving tougher, with a slowdown in economic growth and high NZD/AUD. Premium wine sales are expected to continue to grow to both the UK and US over the coming 18 months. Competition from Chilean Sauvignon Blanc is likely to increase in both these markets following a better growing season. US domestic supply of Sauvignon Blanc has also increased in recent years. Outside the big three markets, Southern Europe also looks tough, but some of the wealthier Northern European countries seem to be picking up the slack with solid growth in sales to the Netherlands, Denmark, Finland and Sweden. China and Canada have also taken larger volumes.

The average Sauvignon Blanc grape price is expected to rise toward $1675/t (+4%) for the 2015 vintage. Spot market pricing is reportedly slightly stronger with the smaller vintage, but prices are not at significant premiums to contracted supply with buyers preferring to offer other incentives to attract and retain supply. Grape prices for the other varietals are expected to be largely unchanged due to increased competition from other Southern Hemisphere producers and increasing stocks.

INTEREST RATE STRATEGY

SUMMARY

We're neutral on the front end of the NZ curve ahead of next week's inflation figures, expecting continued robust readings across local data outturns – although a softer GDT auction is anticipated. There looks to be something for everyone. US Treasury yields, while volatile, remain below pre-March FOMC levels, with this week's sentiment data watched for signs of a weather-related bounce; we're expecting improvement as April progresses. Weaker signs out of China are expected to emerge, while policy support from the ECB is expected to continue to cap long-term yields there. All up, New Zealand yields continue to stand out in relation to global peers, adding pressure to flatten the curve.

THEMES

- The QSBO, Monthly Inflation Gauge and GlobalDairyTrade auction will provide local direction over the next week for the front end of the curve. We're expecting offsetting movements.
- US Treasury yields drifted up over the last week, but remain well below March FOMC meeting levels. Last week's Fed minutes signalled interest rate normalisation is coming, although debate persists on the timing. This week's US survey data will be key for ascertaining the likelihood of a weather-related bounce. We're expecting improvement over April.
- Policy support is capping global yields, with yields for some European sovereigns touching record lows. This week's ECB meeting is expected to contribute to holding down global yields.
- New Zealand yields edged up last week and continue to stand out in relation to global peers, with pressure to flatten the curve.

PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Strategically bullish	FOMC gradualism, low Europe bond yields make NZ stand out.
2s10s Curve	Neutral/ flatter	Short end held back by resolute RBNZ, long end "going global".
Geographic 10yr spread	Narrower	Spreads remain wide with Europe and have narrowed with the US and Australia.
Swap spreads	Neutral/ wider	Bond demand ahead of index extension likely to be solid.

LOCAL TRIFECTA

While the market continues to flirt with OCR cuts, our view is that the RBNZ are likely to remain steadfastly on hold. A strong domestic backdrop has been evident, with elevated readings for local business and consumer sentiment. Tomorrow's QSBO is expected to highlight an economy with decent underlying momentum, consistent with a reasonable pace of activity growth over H1 2015. The focus will be the impact of a maturing expansion on capacity and pending inflationary pressures. By contrast, a modest print is expected from tomorrow's NAB business survey, reaffirming the RBA's explicit easing bias.

Ahead of next Monday's local Q1 CPI data, Wednesday sees the release of our March Monthly Inflation Gauge. In contrast to survey measures of expected inflation and pricing intentions, which have overstated the degree of inflationary pressure, **our gauge has proven to be a sound directional indicator for core inflation.** Readings from the January and February gauges provided mixed messages, with no conclusive evidence that we have encountered a period of structurally low inflation, which is one of the "four prongs" we see as necessary preconditions for an OCR cut. Data for March will be critical; we will be finalising our March CPI pick (currently -0.3% q/q, +0.2% y/y) after incorporating insights from the gauge.

Three of our "four prong" criteria for an OCR cut have now either been or are expected to soon be met. 1. The NZD has stopped falling and remains very high on a TWI basis. 2. Prices for whole milk powder have fallen 22% in the previous two events, with prices from NZX whole milk powder futures down 3-4% since the early April Fonterra auction. 3. Technically, a prudential response from the RBNZ to housing is missing, but it has been signalled and we expect that box to be ticked in the coming months. **This leaves further evidence of structurally low core inflation as the missing fourth prong.** As noted above, **readings from our Monthly Inflation Gauge are neutral as to the balance of risks surrounding Q1 CPI.**

GLOBAL INFLUENCES TO SET DIRECTION FOR LONG-TERM YIELDS

US 10-year yields drifted up last week but remain below where they were at the time of the March FOMC meeting. **The Fed minutes from the March meeting signalled that fed fund hikes were a matter of when and not if**, with officials split on whether to begin hiking the fed funds rate in June or to wait until later this year. The degree to which weather-related disruptions can explain the soft patch of recent US data was also discussed. This week's April Beige book, Philadelphia Fed and Empire Fed surveys will be looked at for signs of a weather-related bounce and whether a June start to Fed hikes is on the table. Irrespective of the timing of lift-off, the message from the Fed is that the pace of policy normalisation is likely to be gradual and dependent on the data.

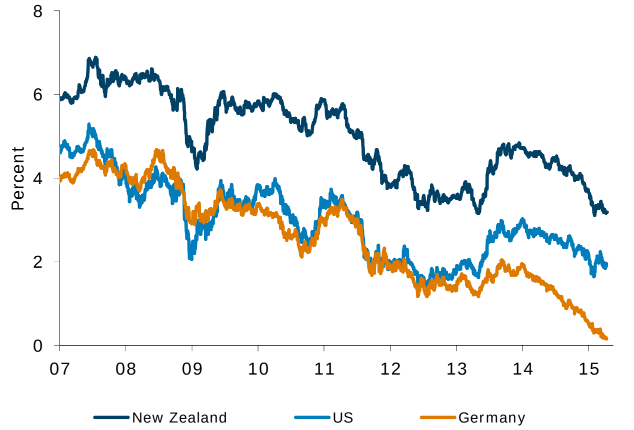
This week also sees the release of key Chinese activity and trade data, including Q1 GDP. The market expectation is for a slowing in annual growth to 7%,

INTEREST RATE STRATEGY

the lowest in close to 15 years. A slowing Chinese economy will have marked implications for both Australasian economies, with prices for steel rebar down one third since the start of the year.

Policy support has been a key factor behind the global financial market environment. Equity indices are either at, or close to, record highs, and the VIX measure of market volatility is around its lowest level this year. Government bond yields are at historically low levels. Ten year yields for Germany touched fresh lows last week. This week's ECB meeting is expected to reaffirm the case for policy support and the €60bn in monthly QE. Sentiment data suggests that the modest cyclical upswing has continued to gain traction, with parts of the Eurozone economy doing very well.

FIGURE 1. 10 YEAR GOVERNMENT BOND YIELDS



Source: ANZ, Bloomberg

Fiscal solvency concerns appear to be having only a limited impact on wider yields. The focus has remained on Greece, with the Greek government last week honouring its EUR450m repayment to the IMF. However, Greek officials have acknowledged that cash reserves are likely to run out by the end of the month unless an agreement can be reached with European creditors to unlock EUR7.2bn in bailout funds. The Greek banking system remains under stress and 10 year yields (10.9%) are the highest in Europe, but fallout to other heavily indebted Eurozone sovereigns has been limited.

Our 'bond ladder' thematic continues to highlight marked differences, with the current 10-year government bond yield in New Zealand (3.16%) high in relation to overseas comparators. US 10-year Treasury yields (1.95%) have been sub 2% since the March FOMC meeting. Yields in Europe remain historically low, not just for Germany (0.15%) but also for highly indebted sovereigns that are not performing particularly well, with 10-year yields currently 1.26% for Italy and 0.43% for France. New Zealand yields are above those of most of Europe despite New Zealand's superior fiscal credentials. Low inflation is impacting on the tax take, but **New Zealand's public finances are on an improving trajectory, and are in considerably better shape than those in most European sovereigns.**

PREFERRED STRATEGIES – BORROWERS

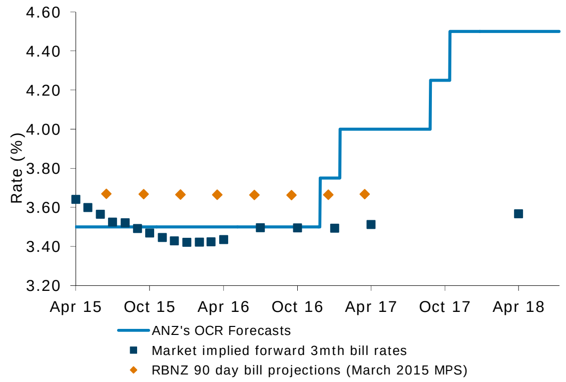
New Zealand interest rates have drifted up since the start of last week, but remain at historically low levels. With the ECB manning the printing presses and with the pace of Fed hikes likely to be gradual there are no immediate catalysts pointing to a snap higher in yields, although much will depend on the tone of forthcoming US data. At present there remains limited appeal in adding to hedges. With the RBNZ content to remain on hold, global risks still skewed to the downside, and historically low European bond yields expected to limit increases in local yields, our preference is to watch and wait, especially for borrowers with historic cover in place.

KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Historic hedges more than adequate. No immediate reason to add to them now.
Value	Cheap	Rates are still low despite having risen off February's extreme lows.
Uncertainty	Elevated	Global inflation still key. RBNZ won't hike for a while, so the rationale to hedge is reduced.

MARKET EXPECTATIONS

A 25bp OCR cut is priced in by the end of the year. The risk profile remains tilted to an OCR cut, but despite three of our "four prong" criteria for an OCR cut either already met or expected to soon be (high NZD, dairy prices, non-OCR measures to slow housing), the jury remains out on whether we are in a period of structurally low inflation. This is the key question.

FIGURE 2. ANZ OCR FORECAST AGAINST MARKET-IMPLIED FORWARD 3MTH BILL RATES AND RBNZ 90 DAY BILL PROJECTIONS



Source: ANZ, Bloomberg

CURRENCY STRATEGY

SUMMARY

We continue to view New Zealand's economic story as being more than fully priced at current TWI levels, though there remains scope for individual crosses (NZD/EUR and NZD/AUD) to create further record highs. Markets have demonstrated a willingness to buy the USD on dips, and we expect signs to emerge of a pick-up in US indicators, which will counter any domestic-led NZD/USD strength.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	USD to find demand	USD to strengthen
NZD/AUD	↔/↑	NZD in better shape than AUD	NZ not immune to global challenges
NZD/EUR	↔/↑	QE/politics keeps EUR weak	EUR remains weak
NZD/GBP	↔/↑	GBP election risk	GBP resurgence
NZD/JPY	↔	Consolidation	Yen weakness

A solid domestic situation belies the skew of downside risks to the NZD.

THEMES AND RISKS

- Chinese trade, March data, and Q1 GDP print are vital for NZD direction. We expect some support from the releases, but risks are firmly lower.
- The GDT auction is not expected to provide any relief to dairy farmers, with further falls expected.
- Q1 CPI (a week today) is likely to show quarterly deflation (ANZ -0.3% q/q), but no real change in the trajectory of the core. This will leave the rates market – which is gunning for a cut – unsure.
- Markets remain comfortable accumulating USD. Signs of strength from US data this week – which we expect to see – would amplify this trend.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT		WHEN (NZDT)	LIKELY IMPACT
CNY	March trade	Mon PM	NZD/CNY ↑
NZD	Q1 QSBO	Tue 10:00	NZD/USD ↑
AUD	NAB B/C	Tue 13:30	NZD/AUD ↑
GBP	CPI	Tue 20:30	NZD/GBP ↔
USD	Retail sales	Wed 00:30	NZD/USD ↓
NZD	ANZ inflation gauge	Wed 13:00	NZD/USD ↔
CNY	March data & Q1 GDP	Wed 14:00	NZD/CNY ↑
EUR	ECB	Wed 23:45	NZD/EUR ↓
NZD	GDT auction	Thu am	NZD ↓
CAD	BoC MPC	Thu 02:00	NZD/CAD ↔↑
USD	Beige Book	Thu 06:00	NZD/USD ↓
NZD	ANZ Job Ads	Thu 10:00	NZD ↑
NZD	Business PMI	Thu 10:30	NZD ↑
NZD	ANZ Consumer conf.	Thu 13:00	NZD ↑
AUD	Employment report	Thu 13:30	NZD/AUD ↓
USD	Philadelphia Fed	Fri 02:00	NZD/USD ↓
GBP	Employment report	Fri 20:30	NZD/GBP ↓
NZD	Q1 CPI	Mon 10:45	NZD ↓

EXPORTERS' STRATEGY

Weakening Fed prospects allow exporters to hedge in dips, but we believe duration should be kept short. NZD/AUD exporters should use any dips to hedge.

IMPORTERS' STRATEGY

Levels around parity NZD/AUD are good long-term levels; however, there are risks of higher still. Thus we advocate caution for the short term. NZD/USD importers should now look at levels toward 0.77.

DATA PULSE

The parity party was put on ice after the RBA disappointed market pricing and held interest rates. However, with NZD/AUD stalled at 0.98, **divergent economic prospects could easily drive another re-test of highs and through parity.**

The US Federal Reserve minutes were consistent with market pricing for a start to hiking later in 2015. While "several" members thought June was a good starting point and NY Fed President Dudley still saw June as possible, the ducks would need to line up neatly in a row to bring the Fed into play. The onus is on US data recovering, which we're expecting to occur.

Other central banks (Bok, BoE, BoJ) held policy rates steady as **the Q1 flurry of policy change fades**.

GBP was dominated by politicking, weakening as markets prices UK election paralysis. However, the fundamental situation continues to shine, with service sector PMIs second only to the US in strength. However, industrial production remains a weak point.

The Greek question is a millstone around EUR's neck, as progress remains elusive. Data releases add to pressure, with German factory orders and industrial production weak, as well as EU retail sales.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Still above fair value.
Yield	↔/↑	Yield differentials remain a focus.
Commodities	↔/↑	Risks to milk prices, but iron ore falling faster.
Data	↑	NZ economically outperforming.
Techs	↑	Topside wide open.
Sentiment	↑	NZD sentiment positive.
Other	↑	RBA still on easing bias.
On balance	↔/↑	**Divergence still evident.**

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↑	Yield advantage still there.
Commodities	↓	Commodities warning.
Risk aversion	↔/↑	Volatility increasing and NZ stable
Data	↔	NZ and US data equally strong.
Techs	↔	Wide 0.72-0.77 range.
Other	↓	USD bull market unabated.
On balance	↔/↓	**NZD fully priced.**

CURRENCY STRATEGY

TECHNICALS

FIGURE 1. NZD/USD DAILY CANDLES WITH RSI & MA

Technically the break of the wedge formation will be important. It seems the weak side is set to be the topside with multiple tests over the past week. A break of the topside would suggest a test back up to the 0.78 area, while a break of the bottom side would merely suggest further sideways consolidation.

FIGURE 2. NZD/AUD MONTHLY CANDLES WITH RSI & MA

So far the picture is textbook; consolidation at the 50% target has been particularly strong (it could have retraced to the 38.2% level of 0.9710 without changing the picture). **The next target is clear and that is the 61.8% extension at 1.0240.**

TABLE 5: KEY TECHNICAL ZONES		
CROSS	SUPPORT	RESISTANCE
NZD/USD	0.7380 – 0.7400 0.7180 – 0.7200	0.7650 – 0.7700
NZD/AUD	0.9750 – 0.9800 0.9650 - 0.9680	1.0000
NZD/EUR	0.6830 – 0.6860	0.73
NZD/GBP	0.4780 - 0.4800	0.5150 – 0.5200 0.5300 – 0.5350
NZD/JPY	87.75 – 88.25	91.50 – 92.00

POSITIONING

The on-hold RBA decision meant the increase in RBA AUD positioning leading up to the decision proved short-lived. NZD long positions were increased, but remain small. Otherwise short positions against USDs were marginally reduced.

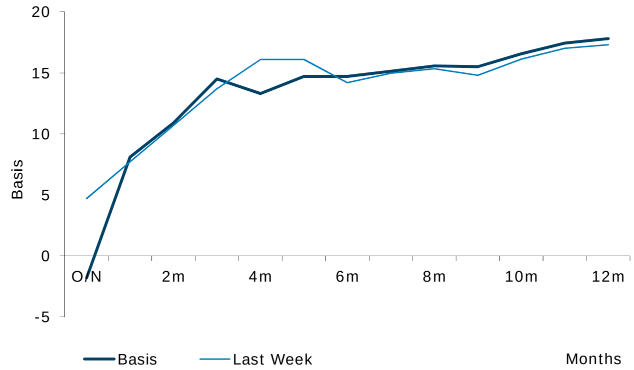
GLOBAL VIEWS

NZD/EUR made further post-float highs last week, trading to 0.7125. However, currency markets are one of the few markets to take account of European risks. With little progress in Greek debt negotiations, it is notable that peripheral bond and stock markets are holding up well, perhaps signalling that Greece is a special case and Europe could survive a "Grexit". Nonetheless, it is difficult not to see risk premia rising across the euro area in the event a 'Grexit'. Thus we see continued topside risks for NZD/EUR, at least until the Greek "can" is kicked one more time.

Meanwhile prospects of mid-year US Federal Reserve hike are fading with softer data. The soft March non-farm payrolls outcome, though likely noisy, added to the case for the Fed to be cautious about when it starts to normalise. The NY Fed's Dudley has indicated that the "bar" for a June hike is higher now, although it's not off the table. Although a pick-up in growth is our base case, the downside risks from USD strength appears to have intensified. This caution means the pace of NZD/USD declines is likely to remain slow.

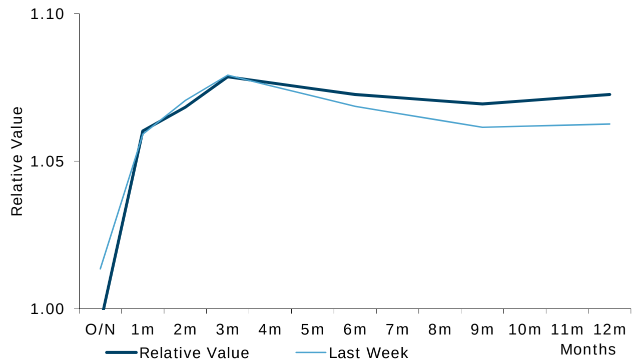
FORWARDS: CARRY AND BASIS

FIGURE 3. NZD/USD SHORT BASIS CURVE



We continue to favour receiving basis. Implied cash yields collapsed late last week: o/n traded as low as -15bps as the market was caught long NZD cash. Short basis has contracted slightly and is set to continue as we approach the April 15's bond maturity by mid-week.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
13-Apr	CH	Trade Balance - Mar	$40.10B	$60.62B	UNSPECIFIED
	CH	Exports YoY - Mar	9.0%	48.3%	UNSPECIFIED
	CH	Imports YoY - Mar	-10.0%	-20.5%	UNSPECIFIED
	CH	Money Supply M2 YoY - Mar	12.4%	12.5%	13-15 Apr
	CH	Money Supply M1 YoY - Mar	5.6%	5.6%	13-15 Apr
	NZ	REINZ House Price Index MoM - Mar	--	0.8%	13-17 Apr
	NZ	REINZ House Sales YoY - Mar	--	12.6%	13-17 Apr
	NZ	REINZ House Price Index YoY - Mar	--	6.1%	13-17 Apr
14-Apr	US	Monthly Budget Statement - Mar	-$43.4B	-$36.9B	06:00
	NZ	NZIER Business Opinion Survey - Q1	--	23	10:00
	AU	ANZ-RM Consumer Confidence Index - 12-Apr	--	109.7	11:30
	AU	NAB Business Conditions - Mar	--	2	13:30
	AU	NAB Business Confidence - Mar	--	0	13:30
	UK	CPI MoM - Mar	0.2%	0.3%	20:30
	UK	CPI YoY - Mar	0.0%	0.0%	20:30
	UK	CPI Core YoY - Mar	1.2%	1.2%	20:30
	UK	Retail Price Index MoM - Mar	0.3%	0.5%	20:30
	UK	Retail Price Index YoY - Mar	1.0%	1.0%	20:30
	UK	PPI Input NSA MoM - Mar	-0.4%	0.2%	20:30
	UK	PPI Input NSA YoY - Mar	-13.5%	-13.5%	20:30
	UK	PPI Output NSA MoM - Mar	0.1%	0.2%	20:30
	UK	PPI Output NSA YoY - Mar	-1.8%	-1.8%	20:30
	UK	PPI Output Core NSA MoM - Mar	0.1%	0.1%	20:30
	UK	PPI Output Core NSA YoY - Mar	0.1%	0.2%	20:30
	UK	ONS House Price YoY - Feb	--	8.4%	20:30
	EC	Industrial Production SA MoM - Feb	0.4%	-0.1%	21:00
	EC	Industrial Production WDA YoY - Feb	0.8%	1.2%	21:00
15-Apr	US	Retail Sales Advance MoM - Mar	1.0%	-0.6%	00:30
	US	Retail Sales Ex Auto MoM - Mar	0.7%	-0.1%	00:30
	US	Retail Sales Ex Auto and Gas - Mar	0.6%	-0.2%	00:30
	US	PPI Final Demand MoM - Mar	0.2%	-0.5%	00:30
	US	PPI Ex Food and Energy MoM - Mar	0.1%	-0.5%	00:30
	US	PPI Final Demand YoY - Mar	-0.9%	-0.6%	00:30
	US	PPI Ex Food and Energy YoY - Mar	0.9%	1.0%	00:30
	US	NFIB Small Business Optimism - Mar	98.2	98	01:00
	US	Business Inventories - Feb	0.2%	0.0%	02:00
	NZ	Food Prices MoM - Mar	--	-0.7%	10:45
	AU	Westpac Consumer Conf SA MoM - Apr	--	-1.2%	12:30
	NZ	ANZ Monthly Inflation Gauge - Mar	--	0.3%	13:00
	CH	Retail Sales YoY - Mar	10.9%	--	14:00
	CH	Retail Sales YTD YoY - Mar	10.8%	10.7%	14:00
	CH	Industrial Production YoY - Mar	7.0%	--	14:00
	CH	Industrial Production YTD YoY - Mar	6.9%	6.8%	14:00
	CH	Fixed Assets Ex Rural YTD YoY - Mar	13.9%	13.9%	14:00
	CH	GDP YoY - Q1	7.0%	7.3%	14:00
	CH	GDP SA QoQ - Q1	1.4%	1.5%	14:00
	CH	GDP YTD YoY - Q1	7.0%	7.4%	14:00
	GE	CPI MoM - Mar F	0.5%	0.5%	18:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
15-Apr	GE	CPI YoY - Mar F	0.3%	0.3%	18:00
	GE	CPI EU Harmonized MoM - Mar F	0.5%	0.5%	18:00
	GE	CPI EU Harmonized YoY - Mar F	0.1%	0.1%	18:00
	EC	Trade Balance SA - Feb	22.0B	22.8B	21:00
	EC	Trade Balance NSA - Feb	21.0B	7.9B	21:00
	US	MBA Mortgage Applications - 10-Apr	--	0.4%	23:00
	EC	ECB Main Refinancing Rate - Apr	0.05%	0.05%	23:45
	EC	ECB Deposit Facility Rate - Apr	-0.2%	-0.2%	23:45
	EC	ECB Marginal Lending Facility - Apr	0.3%	0.3%	23:45
16-Apr	US	Empire Manufacturing - Apr	7.17	6.90	00:30
	US	Industrial Production MoM - Mar	-0.3%	0.1%	01:15
	US	Capacity Utilization - Mar	78.6%	78.9%	01:15
	US	NAHB Housing Market Index - Apr	55	53	02:00
	US	US Federal Reserve releases Beige Book	--	--	06:00
	US	Net Long-term TIC Flows - Feb	--	-$27.2B	08:00
	US	Total Net TIC Flows - Feb	--	$88.3B	08:00
	NZ	ANZ Job Advertisements MoM - Mar	--	0.7%	10:00
	NZ	BusinessNZ Manufacturing PMI - Mar	--	55.9	10:30
	UK	RICS House Price Balance - Mar	15%	14%	11:01
	NZ	ANZ Consumer Confidence Index - Apr	--	124.6	13:00
	AU	New Motor Vehicle Sales MoM - Mar	--	2.9%	13:30
	AU	Employment Change - Mar	15.0K	15.6K	13:30
	AU	Unemployment Rate - Mar	6.3%	6.3%	13:30
	NZ	Non Resident Bond Holdings - Mar	--	65.7%	15:00
17-Apr	US	Housing Starts - Mar	1040K	897K	00:30
	US	Housing Starts MoM - Mar	15.90%	-17.00%	00:30
	US	Building Permits - Mar	1085K	1102K	00:30
	US	Building Permits MoM - Mar	-1.5%	4.0%	00:30
	US	Initial Jobless Claims - 11-Apr	280K	281K	00:30
	US	Continuing Claims - 4-Apr	2320K	2304K	00:30
	US	Philadelphia Fed Business Outlook - Apr	6.3	5	02:00
	EC	ECB Current Account SA - Feb	--	30.5B	20:00
	EC	Current Account NSA - Feb	--	8.8B	20:00
	UK	Claimant Count Rate - Mar	2.3%	2.4%	20:30
	UK	Jobless Claims Change - Mar	-29.5K	-31.0K	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Feb	1.7%	1.6%	20:30
	UK	ILO Unemployment Rate 3Mths - Feb	5.6%	5.7%	20:30
	UK	Employment Change 3M/3M - Feb	170K	143K	20:30
	EC	CPI MoM - Mar	1.1%	0.6%	21:00
	EC	CPI YoY - Mar F	-0.1%	-0.1%	21:00
	EC	CPI Core YoY - Mar F	0.6%	0.6%	21:00
18-Apr	US	CPI MoM - Mar	0.3%	0.2%	00:30
	US	CPI Ex Food and Energy MoM - Mar	0.2%	0.2%	00:30
	US	CPI YoY - Mar	0.0%	0.0%	00:30
	US	CPI Ex Food and Energy YoY - Mar	1.7%	1.7%	00:30
	US	U. of Mich. Sentiment - Apr P	94	93	02:00
	US	Leading Index - Mar	0.3%	0.2%	02:00

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

Our expectation is for no change to OCR settings for the foreseeable future. The risk profile is tilted to the downside, flagging the possibility of OCR cuts in time.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
13-17 Apr	REINZ Housing Data – Mar	Divergence	An Auckland versus the rest of New Zealand divide with regard to house price inflation should continue.
Tue 14 Apr (10:00am)	NZIER Quarterly Survey of Business Opinion – Q1	Robust	Bounce in confidence. Evidence of capacity constraints will exist, but pricing and cost pressures to remain contained.
Wed 15 Apr (10:45am)	Food Price Index – Mar	Down	Small seasonal fall expected. Food prices expected to increase 0.7% in Q1. Global food price backdrop remains benign.
Wed 15 Apr (1:00pm)	ANZ Monthly Inflation Gauge – Mar	--	--
Thur 16 Apr (early am)	GlobalDairyTrade auction	Sentiment is weak	Low (but rising) supply up against weak Chinese demand.
Thur 16 Apr (10:00am)	ANZ Job Ads – Mar	--	--
Thur 16 Apr (10:30am)	BNZ Business NZ PMI – Mar	Mid 50's	High NZD TWI impact to offset strengthening construction sector.
Thur 16 Apr (1:00pm)	ANZ Roy Morgan Consumer Confidence – Apr	--	--
Mon 20 Apr (10:30am)	BNZ Business NZ PSI – Mar	Mid to high 50's	Sentiment in the services sector is solid and a key driver of the expansion.
Mon 20 Apr (10:45am)	CPI – Q1	Disinflation	A 0.3% q/q fall in headline inflation led by petrol price falls. Our Monthly Gauge suggests outside of housing and cost-push areas underlying inflation should remain benign.
Thur 23 Apr (10:45am)	International Travel & Migration – Mar	Solid	Monthly net PLT inflows are likely to hold near 5K. Visitor arrivals should reverse the Chinese New Year effect.
Thur 23 Apr (3:00pm)	RBNZ Credit Card Billings – Mar	Flat	As with ECT data, the Cricket World Cup and Chinese New Year effect should have peaked.
Wed 29 Apr (10:45am)	Merchandise Trade – Mar	Widening annual deficit	Greater signs of a drought impact on dairy export volumes, with the annual deficit continuing to widen.
Wed 29 Apr (1:00pm)	ANZ Business Outlook – Apr	--	--
Thur 30 Apr (9:00am)	RBNZ OCR Review	Neutral	We do not believe the RBNZ is seriously entertaining the idea of cutting just yet. But would another benign CPI print see them shift to a more dovish stance?
Thur 30 Apr (10:45am)	Building Consents – Mar	Topping out?	Despite positive anecdotes, consent issuance has weakened recently. Are higher construction costs beginning to bite?
Thur 30 Apr (3:00pm)	RBNZ Credit Aggregates – Mar	Holding	Economy-wide credit growth should hold near 5% y/y, although there will be further modest lifts for agriculture and housing.
Mon 4 May (1:00pm)	ANZ Commodity Price Index – Apr	--	--
Tue 5 May (12:00pm)	QV House Prices – Apr	Auckland outperforming	Annual growth should hold near last month's 7.7%, with Auckland leading the way.
Wed 6 May (10:45am)	Labour Market Statistics – Q1	Still solid, but wage growth benign	While still solid, employment growth should be display a more modest rate of increase than in Q4. The unemployment rate is forecast to ease to 5.6%. Private sector LCI wage growth is forecast at a relatively benign 1.9% y/y.
On balance		**Data watch**	**Tracking along fine, but the risks are tilted to the downside.**

KEY FORECASTS AND RATES

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
GDP (% qoq)	0.8	**0.5**	**0.7**	**0.9**	**0.8**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	3.5	**3.0**	**3.0**	**3.0**	**3.0**	**3.2**	**3.1**	**2.8**	**2.6**	**2.6**
CPI (% qoq)	-0.2	**-0.3**	**0.3**	**0.5**	**0.0**	**0.4**	**0.5**	**0.6**	**0.2**	**0.2**
CPI (% yoy)	0.8	**0.2**	**0.2**	**0.3**	**0.5**	**1.2**	**1.4**	**1.6**	**1.8**	**1.8**
Employment (% qoq)	1.2	**0.6**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	3.5	**3.2**	**3.4**	**2.9**	**2.1**	**1.7**	**1.5**	**1.4**	**1.3**	**1.3**
Unemployment Rate (% sa)	5.7	**5.6**	**5.5**	**5.4**	**5.3**	**5.2**	**5.2**	**5.2**	**5.1**	**5.1**
Current Account (% GDP)	-3.3	**-4.1**	**-4.4**	**-4.6**	**-4.8**	**-4.8**	**-4.9**	**-4.9**	**-5.0**	**-5.0**
Terms of Trade (% qoq)	-1.9	**-0.5**	**0.5**	**0.6**	**0.3**	**-0.1**	**-0.3**	**-0.4**	**-0.5**	**-0.5**
Terms of Trade (% yoy)	-4.6	**-6.7**	**-6.3**	**-1.3**	**1.0**	**1.4**	**0.5**	**-0.4**	**-1.2**	**-1.2**

	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Retail ECT (% mom)	-0.1	-0.2	0.8	0.1	1.0	-0.3	-0.1	-0.3	1.0	0.8
Retail ECT (% yoy)	4.0	5.1	4.1	5.4	5.7	3.3	3.5	4.0	3.8	3.7
Credit Card Billings (% mom)	0.9	-0.8	1.0	0.2	1.3	0.5	-0.6	2.0	-0.1	--
Credit Card Billings (% yoy)	6.0	4.5	4.3	4.5	6.8	5.2	4.6	6.2	5.8	--
Car Registrations (% mom)	3.0	1.9	-1.3	3.2	-1.8	0.2	2.1	-0.7	-0.3	2.5
Car Registrations (% yoy)	25.2	16.6	18.7	31.1	21.3	16.5	21.0	17.1	12.1	11.8
Building Consents (% mom)	5.3	-2.0	1.3	-13.7	11.2	10.1	-2.5	-4.6	-6.3	--
Building Consents (% yoy)	22.7	22.8	21.8	1.2	13.1	13.9	3.8	7.1	0.3	--
REINZ House Price Index (% yoy)	6.3	5.9	4.8	4.1	3.9	6.0	6.0	7.5	6.1	--
Household Lending Growth (% mom)	0.4	0.3	0.4	0.3	0.4	0.4	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	5.3	5.2	5.0	4.8	4.8	4.6	4.7	4.8	4.9	--
ANZ Roy Morgan Consumer Conf.	131.9	132.7	125.5	127.7	123.4	121.8	126.5	128.9	124.0	124.6
ANZ Business Confidence	42.8	39.7	24.4	13.4	26.5	31.5	30.4	..	34.4	35.8
ANZ Own Activity Outlook	45.8	45.1	36.6	37.0	37.8	41.7	37.3	..	40.9	42.2
Trade Balance ($m)	240	-943	-465	-1359	-892	-283	-199	33	50	--
Trade Bal ($m ann)	1189	1034	1805	667	-56	-492	-1182	-1434	-2181	--
ANZ World Commodity Price Index (% mom)	-1.0	-2.5	-3.5	-1.3	-0.9	-1.4	-4.4	-0.3	4.2	4.6
ANZ World Comm. Price Index (% yoy)	0.0	-3.2	-7.3	-9.5	-11.5	-12.5	-17.2	-18.4	-15.8	-11.9
Net Migration (sa)	4270	4540	4730	4720	5230	5020	4080	5470	4830	--
Net Migration (ann)	38338	41043	43483	45414	47684	49836	50922	53797	55121	--
ANZ Heavy Traffic Index (% mom)	-0.4	2.0	-1.6	2.7	0.9	-2.9	3.3	0.0	-0.4	-0.4
ANZ Light Traffic Index (% mom)	-1.1	0.3	0.8	0.9	0.3	-1.1	2.1	0.5	0.4	0.0

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	Feb-15	Mar-15	Today	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
NZD/USD	0.756	0.748	0.753	0.72	0.70	0.70	0.69	0.69	0.68	0.68
NZD/AUD	0.969	0.982	0.983	0.97	0.96	0.97	0.97	0.97	0.97	0.97
NZD/EUR	0.676	0.696	0.710	0.71	0.71	0.74	0.69	0.66	0.62	0.62
NZD/JPY	90.49	89.68	90.55	88.6	86.8	87.5	86.9	87.6	87.4	88.4
NZD/GBP	0.490	0.505	0.515	0.49	0.47	0.45	0.45	0.45	0.44	0.44
NZ$ TWI	79.3	80.0	79.2	79.1	77.8	78.7	76.7	75.8	74.0	74.2
INTEREST RATES	Feb-15	Mar-15	Today	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
NZ OCR	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75
NZ 90 day bill	3.63	3.63	3.64	3.70	3.80	3.80	3.80	3.80	3.80	4.20
NZ 10-yr bond	3.29	3.23	3.17	3.00	2.80	2.80	2.90	3.10	3.20	3.30
US Fed funds	0.25	0.25	0.25	0.50	0.50	0.75	1.00	1.25	1.50	1.75
US 3-mth	0.26	0.28	0.28	0.70	0.70	0.95	1.20	1.45	1.70	1.80
AU Cash Rate	2.25	2.25	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00
AU 3-mth	2.33	2.23	2.27	2.20	2.30	2.30	2.30	2.30	2.30	2.30

Forecasts finalised as at 13 March 2015

	10 Mar	6 Apr	7 Apr	8 Apr	9 Apr	10 Apr
Official Cash Rate	3.50	3.50	3.50	3.50	3.50	3.50
90 day bank bill	3.64	3.64	3.63	3.64	3.63	3.63
NZGB 12/17	3.27	3.06	3.03	3.08	3.08	3.08
NZGB 03/19	3.29	3.07	3.04	3.08	3.08	3.08
NZGB 04/23	3.44	3.18	3.15	3.19	3.18	3.19
NZGB 04/27	3.52	3.28	3.25	3.29	3.30	3.31
2 year swap	3.60	3.51	3.50	3.52	3.53	3.54
5 year swap	3.69	3.53	3.49	3.51	3.53	3.54
RBNZ TWI	77.0	78.31	78.79	78.96	79.08	79.43
NZD/USD	0.7329	0.75	0.75	0.75	0.76	0.76
NZD/AUD	0.9528	0.98	0.98	0.98	0.98	0.98
NZD/JPY	88.72	89.18	90.23	90.37	90.88	91.30
NZD/GBP	0.4867	0.50	0.51	0.51	0.51	0.51
NZD/EUR	0.6760	0.69	0.69	0.70	0.70	0.71
AUD/USD	0.7692	0.76	0.77	0.77	0.77	0.77
EUR/USD	1.0841	1.08	1.09	1.08	1.08	1.07
USD/JPY	121.05	119.70	119.56	119.78	120.29	120.53
GBP/USD	1.5060	1.48	1.49	1.48	1.49	1.47
Oil (US$/bbl)	49.61	49.13	52.08	53.95	50.44	50.79
Gold (US$/oz)	1170.35	1201.65	1213.45	1211.10	1196.80	1197.20
Electricity (Haywards)	7.84	8.09	9.45	9.68	8.25	9.50
Baltic Dry Freight Index	568	--	583	580	580	580
Milk futures (USD)	108	102	102	102	99	98

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