NEW ZEALAND ECONOMICS
MARKET FOCUS

8 June 2015

INSIDE

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ACTION STATIONS

ECONOMIC OVERVIEW

It's action stations for the RBNZ this week and we expect it to act on the "easier" bias evident in its April *OCR Review*. Our Monthly Inflation Gauge will also be a key focus this week, with it being a much more important indicator than the somewhat flawed (although still relevant) signals from inflation expectation surveys. At a time of a shifting economic risk profile, inflation data is highly important in our view. Also this week, there are a number of indicators that will update us on whether or not evidence is mounting that the economy is showing less pep.

JUNE *MPS* PREVIEW

The OCR should be lower. Core inflation has been receding and the RBNZ has an inflation target first and foremost and not a growth or a housing one. The three are connected and asset prices are an OCR consideration, but inflation dominates. Growth risks are becoming more skewed to the downside, although the market is divided over whether the RBNZ will actually deliver or wait for more information following April's conditionality. With the market now loaded for close to 50 bps of cuts by the end of the year, it'll be a challenge to keep the currency down on a no-change decision, even if accompanied by an easing bias.

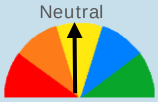
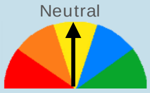
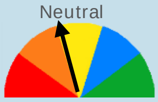
INTEREST RATE STRATEGY

With the market still sitting on the fence, we expect short-term rates to fall as the RBNZ cuts the OCR this week and the prospect of another cut sinks in. While the NZD has fallen of late, this is based on the notion of OCR cuts being delivered, with a broader policy toolkit helping to lessen the importance of the housing market in OCR deliberations. Although longer-term global interest rates are in a "bearish corrective phase", we expect subsequent moves to be gradual considering the slow pace of policy normalisation and impact of central bank support, with scope for local rates to narrow in relation to global peers.

CURRENCY STRATEGY

The NZD is adjusting as export price declines continue to necessitate moves lower, supported by a strong USD. Even after a 5 cent move in May, the current level is restrictive for Kiwi exporters and the NZD needs to continue to adjust lower. We expect this trend to extend this week, via RBNZ action. Also keep a close eye on Chinese data for signs of demand returning.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.0% y/y for 2016 Q2	Confidence gauges suggest solid domestic momentum, but weaker export commodity prices are starting to bite. The global scene is the wildcard.	Neutral  Negative Positive
Unemployment rate	5.5% for 2016 Q2	Unemployment rate to gradually trend lower. Wage inflation contained.	Neutral  Negative Positive
OCR	3.0% by Jun 2016	Subdued inflation pressures can't be ignored. We expect 25bps cuts in June and July.	Neutral  Down Up
CPI	1.4% y/y for 2016 Q2	Sub-1% annual inflation over 2015. Benign global backdrop; domestic pricing pressures contained so far.	Neutral  Negative Positive

ECONOMIC OVERVIEW

SUMMARY

It's action stations for the RBNZ this week and we expect it to act on the "easier" bias evident in its April *OCR Review*. Our Monthly Inflation Gauge will also be a key focus this week, with it being a much more important indicator than the somewhat flawed (although still relevant) signals from inflation expectation surveys. At a time of a shifting economic risk profile, inflation data is highly important in our view. Also this week, there are a number of indicators that will update us on whether or not evidence is mounting that the economy is showing less pep.

FORTHCOMING EVENTS

ANZ Truckometer – May (10:00am, Tuesday, 9 June).

Government Financial Statements – Apr (10:00am, Tuesday, 9 June). These numbers shouldn't diverge too far from the recent Budget forecasts.

Economic Survey of Manufacturing – Q1 (10:45am, Tuesday, 9 June). Dairy and meat manufacturing volumes are likely to have been negatively impacted by the dry weather at the start of the year. Non-primary manufacturing should have fared better.

QV House Prices – May (12:00pm, Tuesday, 9 June). Auckland house prices are growing at break-neck speed and are far outpacing other regions. That is likely to have continued in May.

ANZ Monthly Inflation Gauge – May (1:00pm, Tuesday, 9 June).

Electronic Card Transactions – May (10:45am, Wednesday, 10 June). After a strong Q1, spending retraced sharply in April. We expect a 1% m/m bounce.

REINZ Housing Market Statistics – May (possibly later in the week). It will be too soon to assess the impact of the recent policy announcements, but that will be a key focus going forward. For now, recent regional trends should have continued.

RBNZ *Monetary Policy Statement* (9:00am, Thursday, 11 June). We expect a 25bps cut with the RBNZ to signal that further modest easing is likely. Our full preview can be found on page 5.

BNZ-Business NZ PMI – May (10:30am, Friday, 12 June). Manufacturing sentiment weakened in April. Given the signal from the ANZ Business Outlook, the risk is that further falls are seen in May.

Food Price Index – May (10:45am, Friday, 12 June). Food prices typically lift in May, driven by seasonally higher fruit and vegetable prices.

BNZ-Business NZ PSI – May (10:30am, Monday, 15 June). This index is expected to remain above the equivalent manufacturing gauge.

WHAT'S THE VIEW?

It's action stations for the RBNZ this week and we expect it to act on the "easier" bias evident in its April *OCR Review*. The economy is not "weak" in a pure sense. But a few more cracks have appeared, and it is clear that momentum is beginning to slow from previously strong rates. This makes interpretation of the term "weakens" (which the RBNZ used in April) open to conjecture. Downside risks are also becoming more pronounced. **And this of course is all occurring at a time when the inflation backdrop remains extremely benign.**

This expected RBNZ policy action is not so much about where the economy sits today; that remains a respectable story. Because of that, the decision itself is admittedly not cut and dried (a fact clearly reflected in market pricing and a split economist community). But monetary policy should not be conducted in a reactionary or backward-looking fashion. It is about managing the risks around where activity and inflation in particular are likely to be in the future.

In our view, the shifting risk profile for the economy at a time of limited inflation pressure now requires a response. If inflation has remained so benign when the economy has been so strong, where will it head with the economy moderating towards trend and risks skewed to weaker outcomes?

So what are these risks? Well the dairy sector is clearly at the forefront. Cash-flow strain is intense. But if it were just the dairy sector then we feel the economy would have enough momentum elsewhere to absorb that pressure. **But what is becoming more evident is that sectors that were previously leading the expansion are now showing a few more wobbles too.** Our internal anecdotes have turned a little more mixed than was the case just a few months ago. **The outlook is certainly not gloomy – yet – but is certainly less lively. We note:**

- Building sector activity has experienced four consecutive quarters of rather modest growth and **dwelling consents** data actually points to falls over the coming quarters.
- There is now clear evidence that the impetus from the earthquake **rebuild** is fading. Christchurch business sentiment has plunged and house prices in the region are now heading backwards.
- Sentiment in the **forestry** sector has weakened and there is also some evidence this is weighing on downstream industries, such as transport.

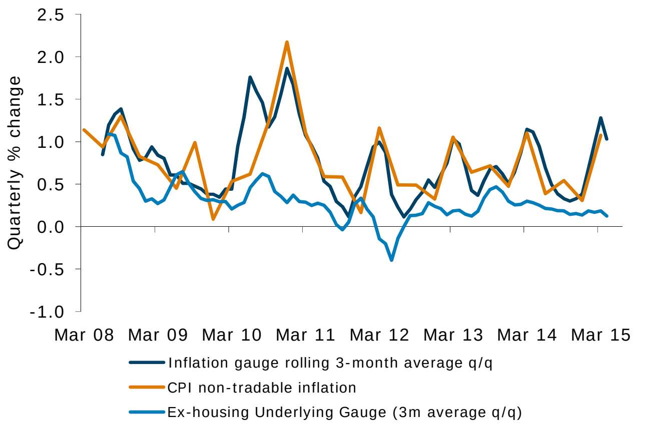
ECONOMIC OVERVIEW

- Barfoot & Thompson reported a surge in new **Auckland property** listings in May to their highest levels since 2008. It is of course far too soon to make sweeping assessments, but this is perhaps some early evidence of a behavioural shift. This might not be about the recently announced policy measures *per se*, but suggests that some are seeing current price levels as an opportunity to sell-up. We are watching this closely.

But the RBNZ decision this week is as much about the NZD as it is about interest rates. The economy requires a lower NZD given more stress in income-generating sectors and widening external imbalances. But in a world of ongoing ultra-stimulatory monetary policies, the RBNZ can no longer just talk about the possibility of cutting in order to get (and keep) the NZD down. It is time for action.

Related to all this, a key indicator this week is our Monthly Inflation Gauge for May. This gauge has proven itself to be an extremely reliable and timely signal of domestic inflation trends. The Gauge fell in April, and confirmed a complete lack of inflation pressure outside of housing and some cost-push pockets. In fact, in April we saw falls in both rents and construction costs, hinting that some of the recent drivers are beginning to soften too. Simply eyeballing the light blue line in Figure 1 below tells the story. **In the context of the shifting economic risk profile discussed above, this benign inflation data is highly important in our view.**

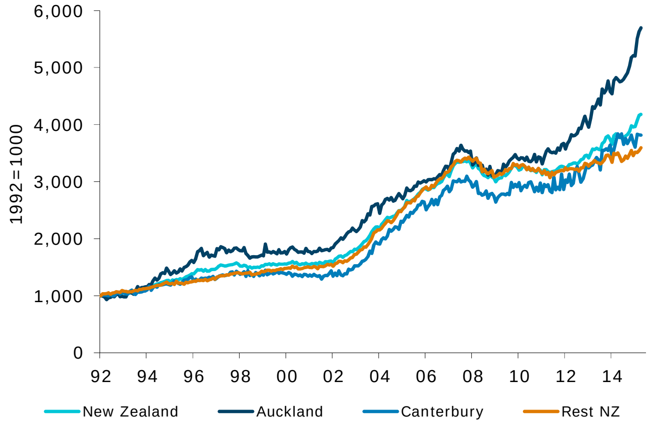
FIGURE 1. MONTHLY INFLATION GAUGE VS NON-TRADABLE CPI



Source: ANZ, Statistics NZ

Outside of the RBNZ and our Monthly Inflation Gauge, there are a number of other data reads due this week. It is possible that REINZ housing market statistics for May will be released later in the week. Clearly there is a considerable amount of focus on Auckland housing at present, although it is far too soon to assess the impact of recent Government/RBNZ policy announcements. Rather, the data will continue to reinforce the current dichotomised regional house price growth picture. Over the past three months, Auckland house prices have grown at a phenomenal annualised pace of 40%. This is clearly not sustainable; perhaps the May data will show a more modest rate of growth as the market begins to slow under the weight of its own extreme valuations. But there is little doubt the data will show the Auckland region continuing to outperform other parts of the country. In fact, what hasn't been focused on much is the fact that house prices in Christchurch are now heading backwards. They have fallen in four of the past five months, with annual growth of -0.6% y/y in April, joining Wellington at -2.8% y/y.

FIGURE 2. REGIONAL HOUSE PRICES



Source: ANZ, REINZ

QV house price data for May (delayed from last week) will also show this dichotomised regional theme. That said, it does typically lag the alternative REINZ measures, given it is based on settlement rather than unconditional sales contracts, and so there will be little "new" information in this data. Annual growth in nationwide prices is likely to sit between 8% and 10%.

Although the broader manufacturing sector faces headwinds from the elevated NZD/AUD and soggy Australian economy, domestic-centric firms have benefited from solid activity, particularly those exposed to the construction sector. Nevertheless, we expect the **March quarter Economic Survey of Manufacturing to likely show the impact of drought.** We estimate that milksolids production fell around 6% sa q/q in Q1, while livestock slaughtering retreated around 5% sa q/q after solid growth over H2 2014. On top of a modest inventory overhang from Q4, we estimate that primary food manufacturing will impart a negative contribution to Q1 GDP growth. Sentiment measures suggest the performance of the non-primary sector should be better, with the Business NZ Manufacturing PMI averaging a reasonable 54.1 over the first three months of the year. As such, we expect this week's survey to show a modest lift in non-primary

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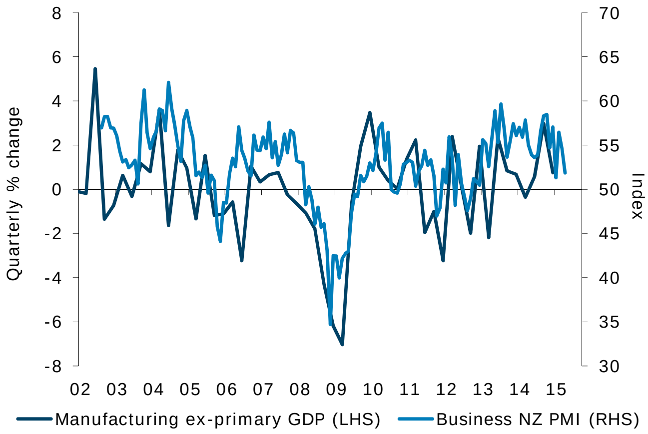
manufacturing volumes. However, we sound one note of caution: this survey did not capture the rise in petroleum, chemical, plastic, and rubber production that underpinned the Q4 GDP result and so there is a risk this component will reverse in Q1.

FIGURE 3. EX-PRIMARY MANUFACTURING GDP VS PMI



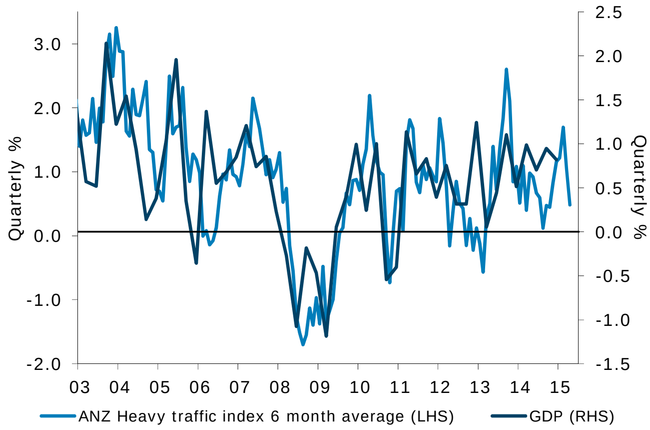
Source: ANZ, Statistics NZ, Business NZ

After a weak April, Electronic Card Transactions data are expected to bounce in May. Total retail ECT spending fell 0.7% m/m in April, although this fall needs to be put in the context of solid gains in both February and March. In fact, Q1 proved to be a very strong quarter for retail, with the Retail Trade Survey showing the volume of spending rising 2.7% q/q – the strongest quarterly growth since December 2006. We suspect the cash-flow boost provided by petrol price falls, broader retail price deflation more generally, as well as a strong contribution from net tourism spending were the main contributors to this strength.

On a monthly basis, ECT data is volatile, but with petrol prices continuing to rebound (we estimate they rose a further 4% in May), this should support a lift in the nominal value of ECT spending in the month. However, it also means less discretionary cash-flow for non-essential retail spending. Even with an expected 1% m/m lift in core ECT spending in May, the underlying trend will soften, with 3m/3m growth easing to around 1½% from over 2% in April. As we discussed in last week's *Market Focus*, while ongoing support from tourism spending and reasonable labour income growth should continue, we see retail spending growth moderating over the course of 2015 as some of the previous support factors begin to wane.

Our *Truckometer* for May will be assessed for whether its recent softer signal re momentum has persisted. In April, the Heavy Traffic Index fell 0.6% m/m, its fourth consecutive monthly fall. Over the three months to April the index was up just 0.2% compared to the three months prior. This is consistent with an expected drought impact on Q1 GDP growth (expected to be confirmed in data next week), but ongoing weakness would be harder to explain away. The Light Traffic Index has been pointing to a more robust pace of growth returning later in the year, but the Heavy Traffic Index is not corroborating it so far. Next week's read will mean we have two thirds of Q2 data, which, according to our *Business Outlook* survey, is starting to look a little vulnerable.

FIGURE 4. ANZ HEAVY TRAFFIC INDEX AND QUARTERLY GDP GROWTH



Source: ANZ, NZ Transport Agency, Statistics NZ

The May Business NZ PMI and PSI results (the latter due next Monday) **will also help gauge any shifts in momentum.** According to the PMI, manufacturing sector activity growth slowed in April, with the index falling 2.8 points to 51.8. Most underlying components were also lower. We suspect we'll see further falls. Within the May ANZ *Business Outlook*, manufacturing firms' own activity expectations plunged 21 points to a net 23% in May – the lowest level since June 2012. Conversely, services sector sentiment is likely to hold at a decent level, supporting the view that the domestic economy, while moderating, is still experiencing a decent pace of expansion overall.

LOCAL DATA

GlobalDairyTrade Auction. The GDT trade-weighted index fell a further 4.3%, with the average winning price (US$2,412/tonne) the lowest since July 2009.

ANZ Commodity Price Index – May. The world price index fell 4.7% m/m (-18% y/y), with NZD prices down 2.7% m/m (-8% y/y).

Barfoot & Thompson Auckland Housing Market Statistics – May. House sales fell 7.5% sa m/m, with new listings surging 15.3% m/m sa to the highest level since January 2008.

Building Work Put in Place – Q1. Total building volumes rose 1.0% q/q (+4.8% y/y), with residential activity rising 2.6% q/q and non-residential activity retreating 1.2% q/q.

JUNE *MPS* PREVIEW

SUMMARY

The OCR should be lower. Core inflation has been receding and the RBNZ has an inflation target first and foremost and not a growth or a housing one. The three are connected and asset prices are an OCR consideration, but inflation dominates. Growth risks are becoming more skewed to the downside, although the market is divided over whether the RBNZ will actually deliver or wait for more information following April's conditionality. With the market now loaded for close to 50bps of cuts by the end of the year, it'll be a challenge to keep the currency down on a no-change decision, even if accompanied by an easing bias.

A MEASURED RESPONSE

Thursday's RBNZ OCR decision and *Monetary Policy Statement* is a polarising event. The rates market is effectively spilt 50/50 on whether a 25bps cut will be delivered, while the currency market is arguably more primed for a cut – though we would expect a currency reaction whatever happens.

The economist community is also split on whether the RBNZ will act as soon as this meeting (we think they should and will), although it is open to the possibility of easing at some stage in the future.

It is little wonder there is a disparity in views when looking at the backdrop at present:

- **The RBNZ set out some conditionality in April that implied caution;** demand needed to "weaken" and price and wage setting behaviour to "settle" at low levels. That "settle" phrasing has caught the attention of a lot of commentators and central banks do need to stick to the script. But only up to a point. When things start to move, such conditionality can be interpreted in a number of ways. The RBNZ were careful to give themselves room to move.
- **The economy is certainly not weak, at least when looking at the lagging data.** We are likely to get a decent Q1 GDP result next week, with the services sector outperforming. Retail spending started the year on a very strong footing and migration inflows continue to set new records. Employment growth remains strong. Our regional trends survey shows a broad-based expansion and most estimates have the output gap positive.
- **Timelier gauges are giving softer signals.** Growth in vehicle registrations – a timely gauge – is slowing, and business confidence is down. Commodity prices are also falling – a leading gauge of nominal GDP growth.
- **It's clear the supply-side capacity of the economy has been underestimated**; unemployment has levelled out (risen a bit) and wage inflation has receded despite strong growth in labour demand and employment.
- **The Auckland housing market continues to surge.** Prices are up 49% in three years and are running at a 3-month annualised pace of close to 40%. Enough said!
- **But policymakers are responding and suddenly actions have become very co-ordinated.** The RBNZ and Government announced measures to target investors and the "speculative" element of the Auckland property market. The coordinated nature of the announcements was striking. Many are saying the RBNZ needs to wait to see the housing market response, which would be prudent if housing was the primary objective in the Policy Targets Agreement. It's not. Inflation is.
- **Inflation nuances remain benign.** Core inflation is tracking closer to 1% than 2%. Inflation expectations are low and – unusually – also below the RBNZ's target midpoint, even though the RBNZ's 2-year-ahead measure did tick up a tad in Q2. Our Monthly Inflation Gauge is still pointing to benign outcomes.
- **The NZD has fallen and mortgage rates are lower.** On a TWI basis, the NZD is around 3% below the RBNZ's March *MPS* assumption. It's doing some of the work for the RBNZ, though with commodity prices lower, it's a moving target. Coupled with lower fixed mortgage rates, this is supporting financial conditions and risks fanning the flames of the property market further.
- **The risk profile across the economy is clearly shifting to the downside.** The dairy sector is facing a very challenging period that could persist into 2017 as cash-flow has evaporated. Forestry sector sentiment is also weak. Internally, we are picking up a few more mixed anecdotes than was the case just a few months ago, and it is becoming clearer that the earthquake rebuild stimulus is fading. Christchurch house prices and rents are softening and regional business sentiment is the weakest since the 2011 earthquake. More broadly, leading indicators point to an economy moderating towards trend, but one where downside risks are apparent.

We expect the RBNZ to act and for the projections to include a further cut within them.

JUNE *MPS* PREVIEW

Such a step is not only a measured response to existing developments, but also recognition that if the OCR is not lowered, a rise in inflation back towards the 2% midpoint might not eventuate. After all, the RBNZ's preferred measure of core inflation has been below the target midpoint for five years!

Key themes in the published projections are expected to be:

- **A 90-day interest rate track that suggests further modest easing.** We expect the 90-day track will fall to around 3¼% in Q3, hinting at easing in July or September (we expect the former). It is expected to be held at this level for the remainder of the projection period (which is again likely to be conveniently truncated as it was in the March *MPS*), despite a likely lowering of the RBNZ's NZD assumptions. Clearly this would imply policy remaining below the RBNZ's view of neutral (circa 4.5% for the 90-day rate), although we suspect the Bank is debating internally whether the neutral rate has moved lower also.
- **A modest lowering of the RBNZ's growth trajectory.** We expect the RBNZ to trim its growth forecasts over 2015 and 2016 in recognition of the shifting risk profile. The overall economic picture presented is likely to still be solid though.
- **Higher near-term potential growth.** While the RBNZ's medium-term view of potential output is likely to hold between 2¾% and 3%, further increases in labour force participation and ongoing strong net immigration inflows imply a higher starting point, and we feel the RBNZ will lift its expectation towards the top part of this range.
- By construction, the projections will show inflation returning to the target mid-point in the latter part of the projection period. **However, the composition of inflation projections may be tweaked.** A bounce in petrol prices and the lower NZD are likely to lead to slightly stronger tradables inflation over the next 12 months. However, non-tradable inflation projections could be lowered, despite the modest upward surprise in Q1, given ongoing soft wage growth and lower inflation expectations.

ANZ EXPECTATIONS FOR RBNZ JUNE *MPS* PROJECTIONS (MAR 2015 *MPS* IN BRACKETS)

	90-Day	TWI (Qtr Average)	CPI (Ann % Chg)	GDP (Ann % Chg)
Q4 2014	3.7 (3.7)	77.5 (77.5)	0.8 (0.8)	3.5 (3.5)
Q1 2015	3.7 (3.7)	77.9 (77.0)	0.1 (0.0)	3.2 (3.0)
Q2	3.5 (3.7)	76.5 (76.7)	0.3 (0.3)	3.1 (3.3)
Q3	3.3 (3.7)	74.5 (76.9)	0.4 (0.3)	3.1 (3.3)
Q4	3.2 (3.7)	74.1 (76.9)	0.5 (0.4)	3.1 (3.5)
Q1 2016	3.2 (3.7)	74.0 (76.9)	1.3 (1.3)	3.2 (3.8)
Q2	3.2 (3.7)	74.0 (76.8)	1.3 (1.3)	3.1 (3.7)
Q3	3.2 (3.7)	74.0 (76.7)	1.6 (1.7)	3.1 (3.3)
Q4	3.2 (3.7)	73.8 (76.5)	1.7 (1.7)	3.0 (3.1)
Q1 2017	3.2 (3.7)	73.7 (76.4)	1.8 (1.7)	2.9 (3.0)
Q2	3.2	73.5 (76.1)	1.9 (1.9)	2.9 (2.9)
Q3	..	73.3 (75.9)	2.0 (2.0)	2.8 (2.8)
Q4	..	73.0 (75.7)	2.1 (2.2)	2.7 (2.7)
Q1 2018	..	72.8 (75.5)	2.1 (2.4)	2.7 (2.6)
Q2	..	72.6	2.2	2.6

FINANCIAL MARKET IMPLICATIONS

With the market loaded for close to 50bps of cuts by the end of the year, the market reaction to a 25bps cut should be modest. That said, we suspect a cut in June would immediately see the market latch onto the likelihood of a follow-up move in July, with the market also moving towards pricing a 50% chance of a third.

Conversely, it will clearly be a challenge to keep the currency down on a no-change decision, even if accompanied by an easing bias.

INTEREST RATE STRATEGY

SUMMARY

With the market still sitting on the fence, we expect short-term rates to fall as the RBNZ cuts the OCR this week and the prospect of another cut sets in. While the NZD has fallen of late, this is based on the notion of OCR cuts being delivered, with a broader policy toolkit helping to lessen the importance of the housing market in OCR deliberations. Although longer-term global interest rates are in a "bearish corrective phase", we expect subsequent moves to be gradual considering the slow pace of policy normalisation and impact of central bank support, with scope for local rates to narrow in relation to global peers.

THEMES

- We expect the RBNZ to deliver a 25bps cut on Thursday. One cut is tinkering so the market will immediately latch onto prospects for another. As such, local short-end rates are expected to rally and the curve to steepen.
- Local activity data will be looked at for signs of whether momentum is slowing, and this week's Monthly Inflation Gauge will provide another key stocktake on the pricing side.
- A light week for offshore developments lies ahead, although event risk remains high.
- Despite their sharp lift last week, we expect a gradual rise in global yields. We also see scope for local spreads to narrow in relation to global peers.

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	Short end lower on RBNZ cuts, with long end to consolidate after sharp moves higher.
Geographic 10yr spread	Narrower	Scope to narrow further against the US and AU.
Swap spreads	Neutral/ wider	Bond demand solid following index extension.

RBNZ CUT TO SEE SHORT-END RATES RALLY

We expect the short-end of the curve to rally as the RBNZ delivers a 25bps cut this week and the market invariably latches onto the prospect of another. The market is currently 'sitting on the fence' with a June cut slightly less than 50% priced in, and the Bloomberg analyst poll showing around one third are opting for a rate cut. While thin liquidity and market positioning has seen pay-side interest linger, current market pricing still places a high likelihood of cuts in the next few months, with about 45bps of cuts priced in by the end of the year. Although 45bps is technically not far away from our expectation of 50bps of cuts, markets are likely to gun for more cuts once the first cut is actually delivered, as the recent Australian experience demonstrated. As such, a cut on Thursday and signals of further easing will see short-end rates fall further, potentially pushing the 2 year swap rate below the 3.38% rate at present.

Granted, much hangs on the decision itself, and **with the market roughly 50/50 priced for a cut, and with almost two cuts prices in overall, perhaps the focus should be on what to do after the decision itself?** We will either see the short-end gap higher on a no-change decision, providing better entry levels against an economic backdrop demanding of cuts; or we'll see the short-end move lower on confirmation of cuts and expectations that we may see more than just two. Clearly our expectation is the latter, but from a strategic perspective, we still think the focus should not just be on the decision, but also on levels to be long at under either scenario.

On the domestic data front, **our Monthly inflation Gauge for May (due tomorrow) will be critical in shaping market expectations** ahead of Thursday, and ahead of Q2 CPI data next month. The dilemma facing the RBNZ is that monetary policy needs to be forward looking, whereas much of the published activity data pertained to earlier this year has remained solid. Manufacturing sentiment points towards a solid Q1 outturn for ex-meat & dairy manufacturing activity. Our Q1 GDP pick is currently a 0.6% q/q increase; solid but not spectacular. Historical house price data is expected to continue to show an Auckland vs. Rest of New Zealand divide, although the announced RBNZ and Government measures to cool investor demand look to be triggering a behavioural response and should help cool sentiment. This is despite likely pending cuts to variable and short-term fixed mortgage interest rates. **The demand outlook is weakening as downside risks crystallise** and these are starting to impact on more forward looking indicators. Readings from the Heavy Traffic Index of the Truckometer have softened of late and the mood of this week's Fieldays is likely to be glum given the hit to dairy incomes. As such, we expect continuing support to remain evident for kiwi rates, adding to steepening pressure.

GLOBAL YIELDS REMAIN VOLATILE

Global bond yields have ground higher over the past week, taking the bellwether US 10 year Treasury bond yield to its highest level since October last year. In that regard, it is worth acknowledging that Friday's strong US non-farm payrolls data has played into the hands of the bond bears, and is likely to see markets gravitate back towards the view of a September start to the Fed's

CURRENCY STRATEGY

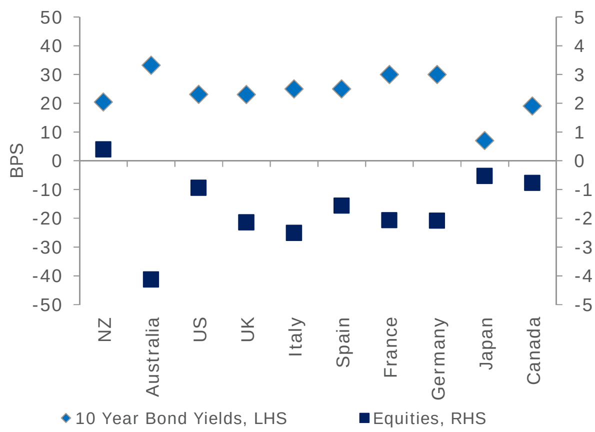
tightening cycle. However, we are equally mindful that last week also saw the release of softer than expected (and lower) core PCE deflator data (this is apparently the Fed's preferred measure of inflation) calls by the IMF for the Fed to delay hikes till H1 2016, and some soft "Fedspeak". Indeed, two FOMC voters have suggested that US Q1 GDP weakness may be more than transitory. All of this argues for caution, and while we fully expect the Fed to hike in September, we expect the cycle to be elongated, gradual and cautious. Against that backdrop, we expect the US 10 year Treasury bond yield to gradually converge on the Fed's end-2017 forecast for the Fed Funds rate (currently 3%) rather to extend significantly beyond it.

Whatever happens, **we do expect the Fed to hike this year, and with the RBNZ in easing mode, we expect this policy divergence to result in a steeper New Zealand yield curve and tighter spreads** to other markets – particularly the US.

German bund yields also rose sharply last week following higher than expected inflation data. Such a reaction is understandable – but importantly, ECB President Draghi did note that the anticipated recovery in inflation and growth is dependent on the full implementation of announced monetary policies. The ECB is thus not going to withdraw QE any time soon. We are also mindful of how much pressure the Bank of Japan are under to deliver additional stimulus, and the impact a weaker JPY will have on NZ bonds, which are the highest yielding bonds in the G10. Equity markets are also on the move, and impacting bonds, with most equity indices down over the week (see figure 2).

FIGURE 2. 10 YEAR BOND YIELDS VS EQUITIES

Movements over the last 7 days



Source: ANZ, Bloomberg

The week ahead is light, with US retail sales, consumer confidence and Eurozone Q1 GDP looked at for signs of further recovery. In Australia, the May employment report is the major release. There are no Fed speeches scheduled for this week, but there are speeches by RBA Governor Stevens and the annual Mansion House speeches in the UK. This week's G7 summit is likely to generate a number of headlines.

PREFERRED STRATEGIES – BORROWERS

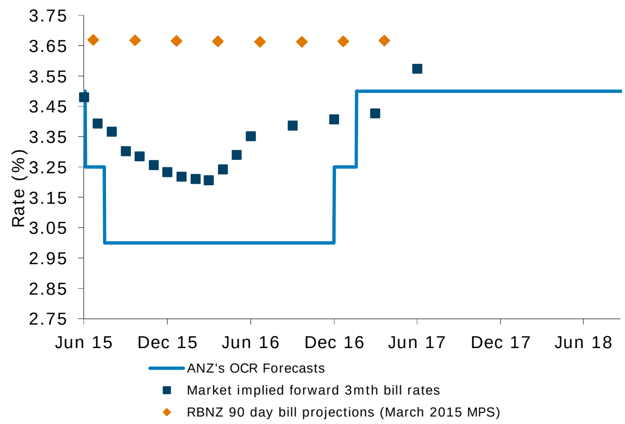
Our preference is to watch and wait. Short-end rates are biased lower given likely OCR cuts. Long-end yields are still comparatively low but the recent steepening in the curve makes hedging a progressively less attractive proposition for the majority of borrowers. Given that we expect subsequent rises in global rates to be gradual, borrowers have time to wait and could benefit from a potential snap lower in yields if it arrives. With the RBNZ in easing mode, we expect local long-end interest rates to compress on a spread to global rates, further containing the lift in local yields.

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	Longer-term rates are still low despite recent climb.
Uncertainty	Elevated	Global markets volatile and policy outlook unclear, but rate cuts here suggest caution.

MARKET EXPECTATIONS

Current market pricing now has 11bps of cuts priced in for June, and 23bps by July. This still looks light to us considering we expect 50bps of OCR cuts by July. Inflation is low and the activity outlook has weakened. We note that recent falls in the NZD are partly in recognition that the OCR will be lower and the failure of the RBNZ to meet the market risks pushing it back up again, compounding the currency headaches facing the RBNZ. The market has provided an opening and we expect the RBNZ to take it.

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



Source: ANZ, Bloomberg

CURRENCY STRATEGY

SUMMARY

The NZD is adjusting as export price declines continue to necessitate moves lower, supported by a strong USD. Even after a 5 cent move in May, the current level is restrictive for Kiwi exporters and the NZD needs to continue to adjust lower. We expect this trend to extend this week, via RBNZ action. Also keep a close eye on Chinese data for signs of demand returning.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↑/↓	The RBNZ holds all cards	USD to strengthen
NZD/AUD	↔/↓	Risks are lower	Topside capped
NZD/EUR	↔/↑	A dip to buy?	EUR remains weak
NZD/GBP	↔/↓	GBP in demand	GBP resurgence
NZD/JPY	↔/↓	Stability	Yen weakness

THEMES AND RISKS

- The RBNZ is the key risk for the NZD. The RBNZ can no longer just talk to keep the NZD down, action is required.
- China is lagging global growth (based on ANZ leading indicators) and Chinese data remains a key driver. In a world where growth is recovering but China and Australia are lagging, the NZD is heading lower.
- The USD has been a key contributor to recent NZD weakness as it goes from strength to strength. US retail sales data later this week should show consumers picking up, continuing this USD trend.
- The GBP has also strengthened notably and NZD/GBP's trend decline looks entrenched. This week's Mansion House speech is typically a forum for major policy announcements.

TABLE 2: KEY UPCOMING EVENT RISK			
EVENT		WHEN (NZDT)	LIKELY IMPACT
CNY	May Trade data	Mon PM	NZD/CNY ↓
EUR	German I/P	Mon 18:00	NZD/EUR ↑
NZD	Truckometer	Tue 10:00	NZD ↔
NZD	Q1 Mfg activity	Tue 10:45	NZD ↔
NZD	QV house prices	Tue 12:020	NZD ↓
AUD	NAB Business Conf	Tue 13:30	NZD/AUD ↓
USD	Small Business Opt.	Wed 01:00	NZD/USD ↓
NZD	Retail card spending	Wed 10:45	NZD ↑
AUD	RBA Stevens	Wed 14:50	NZD/AUD ↑
GBP	Industrial production	Wed 20:30	NZD/GBP ↓
GBP	Mansion House Speech	Wed night	NZD/GBP ↓
NZD	RBNZ	Thu 09:00	NZD ↓↓
AUD	Employment	Thu 13:30	NZD/AUD ↓
CNY	May data	Thu 17:30	NZD/CNY ↑
KRW	BoK	Thu PM	NZD/KRW ↑
USD	Retail sales	Fri 00:30	NZD/USD ↓
NZD	Business PMI	Fri 10:30	NZD ↓
EUR	Industrial production	Fri 21:00	NZD/EUR ↑
USD	May Michigan Conf	Sat 02:00	NZD/USD ↓

EXPORTERS' STRATEGY

NZD/USD exporters could use levels close to 0.70, but we still expect further declines. NZD/AUD exporters may want to remain patient.

IMPORTERS' STRATEGY

NZD/AUD importers should be able to sit back with hedges in place higher; any bounce in NZD/USD will be an opportunity for importers to hedge.

DATA PULSE

Last week belonged to the USD. The ISM surveys, Beige Book and employment indicators all surprised or maintained strong levels **sending USD higher across the board**. Of particular note was Payrolls, which dropped NZD/USD a full cent to a new cycle low.

A further decline in GlobalDairyTrade prices **kept pressure on the NZD**. The ANZ commodity price series was slightly more optimistic showing that ex-dairy most major sector prices were steady, or only down slightly. That said, it is a seasonally strong period for the ex-dairy basket, **so we are cautious of over-interpreting the ex-dairy price stability**.

Australia data continues to deteriorate weighing on AUD. April saw the largest trade deficit on record and retail sales were flat. Markets were sold a dummy by the RBA not including an explicit easing bias and by the strong headline Q1 GDP – but the GDP details were soft and the RBA is not using forward guidance.

The UK economy continues to support GBP. Consumer credit strength, M4 money and inflation expectations offset softer PMI details, with the BoE on hold. **Data also continues to pick up in Europe**, with PMIs and CPI strong. However the ever present Greek drama weighed on Europe with no deal in sight.

TABLE 3: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Still above fair value.
Yield	↔/↓	Yield outlook reversing.
Commodities	↔/↓	Iron ore stabilising.
Data	↔	NZ and AU data soft.
Techs	↔/↓	Test higher failed early.
Sentiment	↔/↓	NZD sentiment more negative.
Other	↔	RBNZ has two way risks.
On balance	↔/↓	**Risks remain lower.**

TABLE 4: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↑	Yield advantage hard to erode
Commodities	↓	Dairy still concerning.
Risk aversion	↓	Chinese and global growth fears.
Data	↓	NZ data falling.
Techs	↓	Breakdown not yet over.
Other	↓	USD picking up momentum.
On balance	↔/↓	**NZD still has downside.**

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TECHNICAL OUTLOOK

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

NZD technical indications remain weak. NZD has convincingly broken lower, creating new cycle lows just ahead 0.70. While the 0.70 is psychologically important, looking back it is fairly porous, with multiple trips through it in 2010. Technically this move could extend as momentum is strong and NZD/USD has only just touched oversold levels.

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

This cross is tracing perfect technical ranges. The rebound off the test of the 0.92 level has stalled, and the technical picture is set up for a test of further support below 0.91. Topside is defined by the 200dma at 0.9368, which is still in ascendancy and does warn about expecting too much of a downside break.

TABLE 5: KEY TECHNICAL ZONES

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6940 – 0.6980 0.6800 – 0.6840	0.7200 – 0.7260 0.7560 – 0.7580
NZD/AUD	0.9190 – 0.9200 0.9050 – 0.9080	0.9420 – 0.9450 0.9530 – 0.9550
NZD/EUR	0.6250 – 0.6300	0.6680 – 0.6720
NZD/GBP	0.4500 – 0.4580	0.4800 – 0.4850
NZD/JPY	86.75 – 87.25	90.00 – 91.00

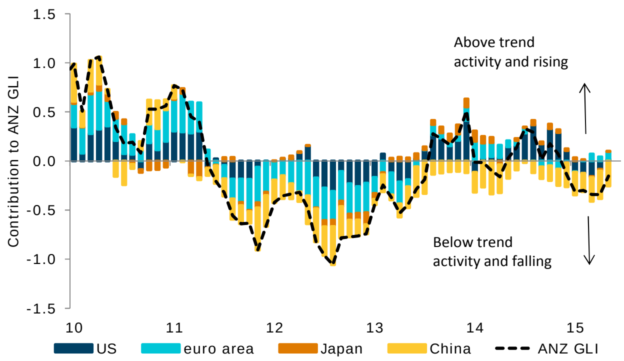
POSITIONING

NZD net short positioning is the largest on record. Short positions of 10.5k eclipse the short observed in the GFC. AUD positioning flipped to net short in an unusually large 20k move. JPY shorts also increased.

GLOBAL VIEWS

ANZ's Global Lead Index (GLI) appears to have based in the past couple of months suggesting that the slowdown in global activity growth may have troughed in early Q2. Momentum should improve in the next couple of months, although the growth pulse remains below trend. China continues to be the weakest link, with no sign yet that the slowing there has troughed yet. For NZD, a return to increasing global growth, but with China weakening, warns of further downside.

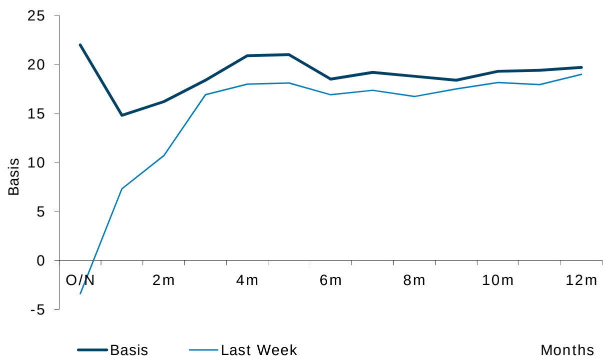
FIGURE 3. ANZ GLI AND REGIONAL CONTRIBUTIONS



Source: Bloomberg, Markit, ANZ Research

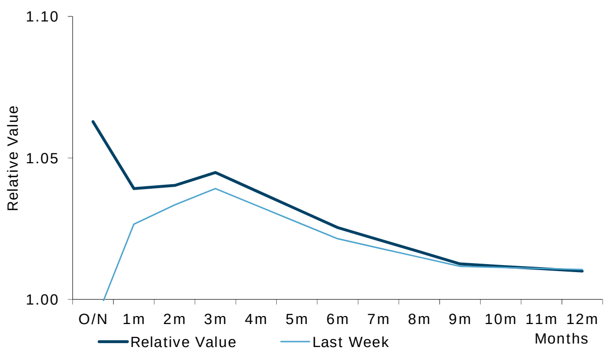
FORWARDS: CARRY AND BASIS

FIGURE 4. NZD/USD SHORT BASIS CURVE



The approaching RBNZ meeting and the IMM roll has again seen a tightening in short basis. We expect this to continue until at least post the RBNZ, and continue to favour receiving basis in the 3m to 5m area.

FIGURE 5. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
8-Jun	JN	BoP Current Account Balance – Apr	--	¥1326.4B(a)	11:50
	JN	Trade Balance BoP Basis – Apr	--	-¥146.2B(a)	11:50
	JN	GDP SA QoQ - Q1 F	--	1.0%(a)	11:50
	JN	GDP Annualized SA QoQ - Q1 F	--	3.9%(a)	11:50
	JN	GDP Nominal SA QoQ - Q1 F	--	2.3%(a)	11:50
	JN	GDP Deflator YoY - Q1 F	--	3.4%(a)	11:50
	GE	Industrial Production SA MoM - Apr	0.6%	-0.5%	18:00
	GE	Industrial Production WDA YoY - Apr	0.9%	0.1%	18:00
	GE	Trade Balance - Apr	€19.4B	€23.0B	18:00
	GE	Current Account Balance - Apr	€20.5B	€27.9B	18:00
	GE	Exports SA MoM - Apr	-0.4%	1.3%	18:00
	GE	Imports SA MoM - Apr	0.5%	2.4%	18:00
	CH	Trade Balance - May	$44.80B	$34.13B	UNSPECIFIED
	CH	Exports YoY - May	-4.4%	-6.4%	UNSPECIFIED
	CH	Imports YoY - May	-10.0%	-16.2%	UNSPECIFIED
9-Jun	NZ	ANZ Truckometer Heavy MoM - May	--	-0.6%	10:00
	NZ	Mfg Activity SA QoQ - Q1	--	-0.7%	10:45
	NZ	Mfg Activity Volume QoQ - Q1	--	0.9%	10:45
	NZ	QV House Prices YoY - May	--	8.3%	12:00
	NZ	ANZ Monthly Inflation Gauge MoM - May	--	-0.2%	13:00
	AU	NAB Business Conditions - May	--	4	13:30
	AU	NAB Business Confidence - May	--	3	13:30
	CH	CPI YoY - May	1.3%	1.5%	13:30
	CH	PPI YoY - May	-4.5%	-4.6%	13:30
	AU	Home Loans MoM - Apr	-2.0%	1.6%	13:30
	AU	Investment Lending - Apr	--	6.4%	13:30
	AU	Owner-Occupier Loan Value MoM - Apr	--	1.6%	13:30
	AU	ANZ Job Advertisements MoM - May	--	2.3%	13:30
	UK	Visible Trade Balance GBP/Mn - Apr	-£9950	-£10122	20:30
	UK	Trade Balance Non EU GBP/Mn - Apr	-£3000	-£3163	20:30
	UK	Trade Balance - Apr	-£2600	-£2817	20:30
	EC	Gross Fix Cap QoQ - Q1	0.6%	0.4%	21:00
	EC	Govt Expend QoQ - Q1	0.4%	0.2%	21:00
	EC	Household Cons QoQ - Q1	0.6%	0.4%	21:00
	EC	GDP SA QoQ - Q1 P	0.4%	0.4%	21:00
	EC	GDP SA YoY - Q1 P	1.0%	1.0%	21:00
10-Jun	US	NFIB Small Business Optimism - May	97.2	96.9	01:00
	US	Wholesale Inventories MoM - Apr	0.2%	0.1%	02:00
	US	Wholesale Trade Sales MoM - Apr	0.6%	-0.2%	02:00
	US	JOLTS Job Openings - Apr	--	4994	02:00
	NZ	Card Spending Retail MoM - May	0.9%	-0.7%	10:45
	NZ	Card Spending Total MoM - May	--	-1.1%	10:45
	AU	ANZ-RM Consumer Confidence Index - 7-Jun	--	113.5	11:30
	AU	Westpac Consumer Conf Index - Jun	--	102.4	12:30
	AU	Westpac Consumer Conf SA MoM - Jun	--	6.4%	12:30
	UK	Industrial Production MoM - Apr	0.1%	0.5%	20:30
	UK	Industrial Production YoY - Apr	0.6%	0.7%	20:30
	UK	Manufacturing Production MoM - Apr	0.1%	0.4%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Jun	UK	Manufacturing Production YoY - Apr	0.4%	1.1%	20:30
	US	MBA Mortgage Applications - 5-Jun	--	-7.6%	23:00
	CH	Aggregate Financing CNY - May	1125.0B	1050.4B	10-15 Jun
	CH	Money Supply M1 YoY - May	4.0%	3.7%	10-15 Jun
	CH	Money Supply M0 YoY - May	4.0%	3.7%	10-15 Jun
	CH	New Yuan Loans CNY - May	860.0B	707.9B	10-15 Jun
	CH	Money Supply M2 YoY - May	10.5%	10.1%	10-15 Jun
	NZ	REINZ House Sales YoY - May	--	27.6%	10-17 Jun
11-Jun	UK	NIESR GDP Estimate - May	--	0.4%	02:00
	US	Monthly Budget Statement - May	-$97.5B	--	06:00
	NZ	RBNZ Official Cash Rate - Jun	3.50%	3.50%	09:00
	UK	RICS House Price Balance - May	36%	33%	11:01
	JN	BSI Large All Industry QoQ - Q2	--	1.9	11:50
	JN	BSI Large Manufacturing QoQ - Q2	--	2.4	11:50
	AU	Consumer Inflation Expectation - Jun	--	3.6%	13:00
	AU	Employment Change - May	15.0K	-2.9K	13:30
	AU	Unemployment Rate - May	6.2%	6.2%	13:30
	AU	Full Time Employment Change - May	--	-21.9K	13:30
	AU	Part Time Employment Change - May	--	19.0K	13:30
	AU	Participation Rate - May	64.8%	64.8%	13:30
	CH	Retail Sales YoY - May	10.1%	10.0%	17:30
	CH	Retail Sales YTD YoY - May	10.4%	10.4%	17:30
	CH	Industrial Production YoY - May	6.0%	--	17:30
	CH	Industrial Production YTD YoY - May	6.2%	6.2%	17:30
	CH	Fixed Assets Ex Rural YTD YoY - May	11.9%	12.0%	17:30
12-Jun	US	Retail Sales Advance MoM - May	1.2%	0.0%	00:30
	US	Retail Sales Ex Auto MoM - May	0.8%	0.1%	00:30
	US	Retail Sales Ex Auto and Gas - May	0.5%	0.2%	00:30
	US	Import Price Index MoM - May	0.9%	-0.3%	00:30
	US	Initial Jobless Claims - 6-Jun	277K	276K	00:30
	US	Import Price Index YoY - May	-10.0%	-10.7%	00:30
	US	Continuing Claims - 30-May	2180K	2196K	00:30
	US	Business Inventories - Apr	0.2%	0.1%	02:00
	US	Household Change in Net Worth - Q1	--	$1517B	04:00
	NZ	BusinessNZ Manufacturing PMI - May	--	51.8	10:30
	NZ	Food Prices MoM - May	--	-0.3%	10:45
	AU	Credit Card Purchases - Apr	--	$A25.6B	13:30
	AU	Credit Card Balances - Apr	--	$A51.5B	13:30
	EC	Industrial Production SA MoM - Apr	0.4%	-0.3%	21:00
	EC	Industrial Production WDA YoY - Apr	1.1%	1.8%	21:00
13-Jun	US	PPI Final Demand MoM - May	0.4%	-0.4%	00:30
	US	PPI Final Demand YoY - May	-1.1%	-1.3%	00:30
	US	PPI Ex Food and Energy MoM - May	0.1%	-0.2%	00:30
	US	PPI Ex Food and Energy YoY - May	0.7%	0.8%	00:30
	US	U. of Mich. Sentiment - Jun P	91.4	90.7	02:00
	GE	Wholesale Price Index MoM - May	--	0.4%	13-18 Jun
	GE	Wholesale Price Index YoY - May	--	-0.9%	13-18 Jun

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

Economic momentum is easing and downside risks are apparent. At a time of subdued core inflation, we expect the RBNZ to act by cutting the OCR by 25bps in June and July.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 9 Jun (10:00am)	ANZ Truckometer – May	--	--
Tue 9 Jun (10:00am)	Government Financial Statements – Apr	Deficit	These numbers shouldn't be too different to the latest Budget forecasts.
Tue 9 Jun (10:45am)	Economic Survey of Manufacturing – Q1	Drought impact	Dairy and meat manufacturing volumes are likely to have been negatively impacted by the dry weather at the start of the year.
Tue 9 Jun (12:00pm)	QV House Prices – May	Regional dichotomy	Auckland house prices are growing at break-neck speed and are far outpacing other regions. That is likely to have continued in May.
Tue 9 Jun (1:00pm)	ANZ Monthly Inflation Gauge – May	--	--
Wed 10 Jun (10:45am)	Electronic Card Transactions – May	Modest bounce	After a strong Q1, spending retraced sharply in April. A modest bounce is expected.
10-17 Jun	REINZ Housing Market Statistics – May	Waiting	It will be too soon to assess any impact of the RBNZ's recent policy announcements, but that will be a key focus going forward.
Thu 11 Jun (9:00am)	RBNZ *Monetary Policy Statement*	25bps cut	Despite the solid growth backdrop, we believe low inflation and a shifting risk profile warrant looser monetary policy.
Fri 12 Jun (10:30am)	BNZ-Business NZ PMI – May	Low 50s	Sentiment weakened in April. The mixed Australian outlook and high NZD/AUD appear to be weighing on sentiment.
Fri 12 Jun (10:45am)	Food Price Index – May	Seasonal bounce	Food prices typically lift in May, driven by seasonally higher fruit and vegetable prices.
Mon 15 Jun (10:30am)	BNZ-Business NZ PSI – May	Relatively strong	This index is expected to remain above the equivalent manufacturing gauge.
Wed 17 Jun (early am)	GlobalDairyTrade auction	Flat	We believe we have seen the bottom in prices for now, although uncertainty over the outlook is high.
Wed 17 Jun (10:45am)	Balance of Payments – Q1	Wider	A wider trade balance should see the annual current account deficit widen to around 4% of GDP.
Thu 18 Jun (10:45am)	GDP – Q1	+0.6% q/q – with upside risk	Another quarter of solid services sector activity growth is expected to be partially offset by weaker activity from primary and goods-producing sectors.
Fri 19 Jun (10:00am)	ANZ Job Ads – May	--	--
Fri 19 Jun (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jun	--	--
Mon 22 Jun (10:45am)	International Travel & Migration – May	Topping out	An average monthly net inflow of around 4.8K has been seen over the past six months. A similar number is expected, which should see the annual total post another record.
Fri 26 Jun (10:45am)	Overseas Merchandise Trade – May	Wider annual deficit	A monthly surplus is typically experienced in May, although it will only be small. The annual deficit should continue to widen.
Tue 30 Jun (10:45am)	Building Consent Issuance – May	Capped	Dwelling consent issuance has shown a softer trend of late. We suspect capacity constraints are capping the upside.
Tue 30 Jun (1:00pm)	ANZ *Business Outlook* – Jun	--	--
Thu 2 Jul (12:00pm)	QV House Prices – Jun	Auckland strength	This data typically lags its REINZ equivalent. It should continue to show Auckland house price outperformance.
Thu 2 Jul (1:00pm)	ANZ Commodity Price Index – Jun	--	--
Tue 7 Jul (10:00am)	NZIER Quarterly Survey of Business Opinion – Q3	Turning	As seen in the timelier Business Outlook survey, confidence and activity measures may ease off highs. Pricing gauges should remain benign.
On balance		**Data watch**	**Growth performance solid but easing, and risks are skewed to the downside. Inflation is subdued.**

KEY FORECASTS AND RATES

	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
GDP (% qoq)	**0.6**	**0.7**	**0.8**	**0.8**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	**3.1**	**3.2**	**3.1**	**3.0**	**3.1**	**3.0**	**2.8**	**2.6**	**2.6**	**2.6**
CPI (% qoq)	-0.3	**0.3**	**0.5**	**0.0**	**0.4**	**0.5**	**0.6**	**0.2**	**0.2**	**0.2**
CPI (% yoy)	0.1	**0.2**	**0.3**	**0.5**	**1.3**	**1.4**	**1.6**	**1.8**	**1.8**	**1.8**
Employment (% qoq)	0.7	**0.6**	**0.5**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	3.2	**3.5**	**3.0**	**2.2**	**1.8**	**1.6**	**1.4**	**1.3**	**1.3**	**1.3**
Unemployment Rate (% sa)	5.8	**5.8**	**5.7**	**5.6**	**5.6**	**5.5**	**5.5**	**5.5**	**5.5**	**5.5**
Current Account (% GDP)	**-4.1**	**-4.4**	**-4.6**	**-4.8**	**-4.8**	**-4.9**	**-4.9**	**-5.0**	**-5.0**	**-5.0**
Terms of Trade (% qoq)	1.5	**-3.7**	**-3.5**	**-2.1**	**0.1**	**-0.3**	**-0.3**	**-0.2**	**-0.2**	**-0.2**
Terms of Trade (% yoy)	-5.3	**-9.0**	**-8.0**	**-7.7**	**-9.0**	**-5.7**	**-2.7**	**-0.8**	**-0.8**	**-0.8**

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Retail ECT (% mom)	0.6	0.1	1.0	0.1	0.0	0.0	1.0	0.7	-0.7	--
Retail ECT (% yoy)	3.6	4.7	5.2	3.2	3.7	4.5	4.0	3.7	3.9	--
Credit Card Billings (% mom)	1.0	0.2	1.3	0.4	-0.6	1.9	-0.1	0.5	-0.6	--
Credit Card Billings (% yoy)	4.3	4.5	6.8	5.2	4.6	6.2	5.8	5.2	7.1	--
Car Registrations (% mom)	-1.4	2.9	-1.4	0.1	2.1	-0.7	-0.3	2.4	-1.6	-0.4
Car Registrations (% yoy)	18.7	31.1	21.3	16.5	21.0	17.1	12.1	11.8	11.2	6.8
Building Consents (% mom)	0.8	-15.1	13.4	11.4	-5.9	-2.8	-5.8	10.3	-1.7	--
Building Consents (% yoy)	22.7	-0.2	13.1	16.0	2.6	7.7	-0.3	7.3	3.0	--
REINZ House Price Index (% yoy)	3.6	3.3	2.6	4.7	5.7	8.5	7.1	8.5	9.3	--
Household Lending Growth (% mom)	0.4	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	5.0	4.8	4.8	4.6	4.7	4.8	4.9	5.0	5.2	--
ANZ Roy Morgan Consumer Conf.	125.5	127.7	123.4	121.8	126.5	128.9	124.0	124.6	128.8	123.9
ANZ Business Confidence	24.4	13.4	26.5	31.5	30.4	..	34.4	35.8	30.2	15.7
ANZ Own Activity Outlook	36.6	37.0	37.8	41.7	37.3	..	40.9	42.2	41.3	32.6
Trade Balance ($m)	-465	-1359	-892	-283	-200	52	83	754	123	--
Trade Bal ($m ann)	1805	667	-56	-492	-1183	-1416	-2130	-2280	-2624	--
ANZ World Commodity Price Index (% mom)	-3.5	-1.3	-0.9	-1.4	-4.4	-0.3	4.2	4.6	-7.4	-4.7
ANZ World Comm. Price Index (% yoy)	-7.3	-9.5	-11.5	-12.5	-17.2	-18.4	-15.8	-11.9	-15.3	-17.8
Net Migration (sa)	4710	4690	5210	4980	4080	5460	4810	4980	4740	--
Net Migration (ann)	43483	45414	47684	49836	50922	53797	55121	56275	56813	--
ANZ Heavy Traffic Index (% mom)	-1.6	2.8	0.8	-2.9	3.4	0.0	-0.5	-0.3	-0.5	--
ANZ Light Traffic Index (% mom)	0.8	0.9	0.3	-1.6	2.1	-1.1	0.7	-0.2	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-15	May-15	Today	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
NZD/USD	0.762	0.711	0.705	0.72	0.69	0.68	0.67	0.67	0.66	0.66
NZD/AUD	0.962	0.930	0.924	0.95	0.93	0.93	0.93	0.94	0.94	0.94
NZD/EUR	0.681	0.647	0.635	0.67	0.67	0.69	0.67	0.64	0.60	0.60
NZD/JPY	90.62	88.23	88.47	86.4	83.5	83.0	82.4	83.1	82.5	82.5
NZD/GBP	0.494	0.465	0.462	0.47	0.45	0.45	0.44	0.43	0.43	0.43
NZ$ TWI	79.6	75.7	74.1	76.8	75.1	75.4	74.2	73.3	71.6	71.6
INTEREST RATES	Apr-15	May-15	Today	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
NZ OCR	3.50	3.50	3.50	3.25	3.00	3.00	3.00	3.00	3.00	3.25
NZ 90 day bill	3.64	3.47	3.46	3.20	3.10	3.10	3.10	3.10	3.20	3.60
NZ 10-yr bond	3.37	3.51	3.90	3.30	3.10	3.00	3.10	3.20	3.40	3.50
US Fed funds	0.25	0.25	0.25	0.25	0.50	0.75	0.75	1.00	1.25	1.50
US 3-mth	0.28	0.28	0.28	0.70	0.70	0.95	1.20	1.45	1.70	1.80
AU Cash Rate	2.25	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
AU 3-mth	2.25	2.15	2.16	2.20	2.30	2.30	2.30	2.30	2.30	2.30

	5 May	1 Jun	2 Jun	3 Jun	4 Jun	5 Jun
Official Cash Rate	3.50	3.50	3.50	3.50	3.50	3.50
90 day bank bill	3.63	3.46	3.46	3.46	3.48	3.48
NZGB 12/17	3.15	3.06	3.08	3.12	3.13	3.13
NZGB 03/19	3.12	3.11	3.14	3.20	3.21	3.21
NZGB 04/23	3.31	3.40	3.48	3.57	3.59	3.59
NZGB 04/27	3.49	3.65	3.75	3.84	3.87	3.87
2 year swap	3.53	3.32	3.30	3.32	3.32	3.32
5 year swap	3.57	3.50	3.50	3.57	3.57	3.57
RBNZ TWI	78.0	74.78	74.77	74.50	74.70	74.70
NZD/USD	0.7526	0.71	0.72	0.71	0.71	0.71
NZD/AUD	0.9614	0.93	0.92	0.92	0.93	0.93
NZD/JPY	90.36	88.72	88.94	88.84	88.90	88.90
NZD/GBP	0.4965	0.47	0.47	0.47	0.46	0.46
NZD/EUR	0.6726	0.65	0.64	0.63	0.64	0.64
AUD/USD	0.7828	0.76	0.78	0.77	0.77	0.77
EUR/USD	1.1190	1.09	1.12	1.13	1.12	1.12
USD/JPY	120.06	124.73	123.96	124.49	124.47	124.47
GBP/USD	1.5159	1.52	1.54	1.53	1.54	1.54
Oil (US$/bbl)	59.10	60.24	61.30	59.67	58.00	59.11
Gold (US$/oz)	1184.50	1187.80	1194.30	1184.45	1178.00	1170.40
Electricity (Haywards)	4.10	3.07	3.73	4.44	3.62	4.52
Baltic Dry Freight Index	580	589	591	598	603	610
Milk futures (USD)	102	96	95	97	97	96

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