NEW ZEALAND ECONOMICS
MARKET FOCUS

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INSIDE

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FRANKIE GOES TO HOLLYWOOD

ECONOMIC OVERVIEW

The Fed is effectively locked into hike, so all eyes should be on equity markets, emerging Asia and the USD. Domestically, we continue to see economic improvement, and we have more confidence regarding prospects for 2016, global ripples aside. Low inflation and the higher-than-desired NZD are still sticking points for the RBNZ, and that keeps the OCR biased lower (and means a cut this week is a fair chance). But perhaps RBA Governor Stevens summed it up best when he told markets to "chill out" and wait to see how things unfold after Christmas. If we were the RBNZ, we'd do the same.

DECEMBER *MONETARY POLICY STATEMENT* PREVIEW

We expect the RBNZ to leave the OCR at 2.75%, a view that puts us out of consensus. The crux of our view is simply that the economy is clearly improving and the terms of trade hit is less dire than the RBNZ assumed. Uncertainty surrounds the flow-on from this into inflation, with structural and cyclical factors intertwined, and the NZD's recent surge complicates things further. But we simply favour waiting for more clarity on the inflation and global (read US Fed) front. We expect the Statement to indicate a preparedness to ease policy further if required.

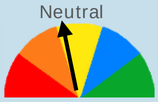
INTEREST RATE STRATEGY

Recent moves in rates have been dominated by market positioning, with the curve steepening as the ECB underwhelmed market expectations. Markets appear to have taken the prospect of a Fed hike in their stride given the promised slow pace of policy normalisation. While we do not expect an RBNZ cut this week (though admittedly that forecast is influenced by what we think the RBNZ "should" do), the low-for-longer message should help to limit upward pressure on local yields. We are past the lows for longer-term rates – both here and abroad – with spreads to US rates set to narrow as local yields go up by less.

CURRENCY STRATEGY

We are at the start of the zone to fade NZD/USD strength. While there is potential for some further lift should the RBNZ hold as we expect, we would expect a clear easing bias and currency commentary to cap the topside. Global commodity prices are weak and Asian economic softness should help limit NZD gains from current levels. However, we still favour NZD on some crosses.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.5% y/y for 2016 Q4	Domestic economic momentum is stabilising. Downside risks exist (globe) and dairy challenges remain but some local upside risks are now evident too.	Neutral Negative  Positive
Unemployment rate	6.1% for 2016 Q4	The demand for labour is slowing, while labour supply remains strong. Wage inflation contained.	Neutral Negative  Positive
OCR	2.50% by Dec 2016	The RBNZ will reverse all of its 2014 hikes. However, the final 25bp cut will be delayed until 2016.	Neutral Down  Up
CPI	1.6% y/y for 2016 Q4	Sub-1% annual inflation over 2015. Some impact of lower NZD, but domestic pricing pressures contained so far.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

The Fed is effectively locked into hiking this month, so all eyes should be on equity markets, emerging Asia and the USD. Domestically, we continue to see economic improvement, and we have more confidence regarding prospects for 2016, global ripples aside. Low inflation and the higher-than-desired NZD are still sticking points for the RBNZ, and that keeps the OCR biased lower (and means a cut this week is a fair chance). But perhaps RBA Governor Stevens summed it up best when he told markets to "chill out" and wait to see how things unfold after Christmas. If we were the RBNZ, we'd do the same. Elsewhere this week, Fonterra looks set to maintain its milk price forecast, but it too faces downside risk.

FORTHCOMING EVENTS

ANZ Truckometer – Nov (10:00am, Tuesday, 8 December).

Government Financial Statements – Oct (10:00am, Tuesday, 8 December). While the OBEGAL should still be running ahead of Budget forecasts, we suspect a few more headwinds will see the gap close.

Economic Survey of Manufacturing – Q3 (10:45am, Tuesday, 8 December). Weaker milk production may weigh, but strong livestock slaughtering should boost overall primary manufacturing production. Core volumes should also remain solid.

Fonterra Board Meeting (9 December). While year-to-date prices imply downside risk to Fonterra's $4.60/kg MS milk price forecast, we expect Fonterra to maintain it for now.

REINZ Housing Statistics – Nov (10-14 December). Partial data has suggested the Auckland market has cooled sharply, with sales volumes falling. However, anecdotes suggest many other regions are experiencing strengthening activity.

RBNZ *Monetary Policy Statement* (9:00am, Thursday, 10 December). A cut cannot be ruled out given the low inflation backdrop and stubbornly high NZD. However, we expect the RBNZ will maintain the OCR at 2.75% for now. Our full preview can be found on page 6.

Electronic Card Transactions – Nov (10:45am, Thursday, 10 December). There are a number of offsetting forces, but we expect reasonable monthly growth of around 0.7%.

BNZ-Business NZ Manufacturing PMI – Nov (10:30am, Friday, 11 December). Despite dairy sector strains and a fickle global scene, a lower NZD and solid domestic demand are supporting activity.

Food Price Index – Nov (10:45am, Friday, 11 December). Prices should be flat to down, driven by seasonal falls in fruit and vegetable prices.

BNZ-Business NZ Services PSI – Nov (10:30am, Monday, 14 December). Low interest rates, very high net migration and housing market strength are supporting services sector activity.

WHAT'S THE VIEW?

Globally, all eyes remain glued to the Fed, with a hike next week effectively locked in. Markets so far seem to be taking the prospect in their stride, no doubt buoyed by a) the hike being well flagged; and b) expectations it will be the most dovish hike in history, with policy expected to be tightened very gradually thereafter.

But we are still mindful of the potential wider fallout. Key focal points include:

- **Asset prices.** How do they adjust to a) a change in the cost of capital, even if small; and b) the transition from liquidity-driven support to valuations based on the economic fundamentals (and that means growth). The former ruled during QE and with interest rates at the zero bound. That era is ending, with the Fed still the key bellwether globally.
- **Debt.** Some countries leveraged heavily (particularly USD funding) post the GFC and are accordingly vulnerable now. China is on that list.
- **Credit markets.** We're watching for signs of strain and seeing some – particularly in global high-yield markets.
- **Commodities.** These were financialised as an asset class during QE and on the back of expectations of a commodity super-cycle. The boom has turned into a bust, and that's deflationary.
- **Volatility.** Take the ECB's decision last week. Despite delivering additional stimulus, it underwhelmed expectations and a considerable positioning clean-out ensued. The 20bp sell-off in core Euro area sovereign bond yields (at a time when monetary policy was eased!) show that when liquidity disappears, market moves can be violent.
- **The USD.** History suggests that once a Fed tightening cycle gets underway, the US dollar actually underperforms. You can see elements of this already.
- **Divergence.** At the same time as the Fed is hiking, the majority of other major central banks

ECONOMIC OVERVIEW

are either easing (ECB) or talking about further easing (BoJ, RBA, Bank of Canada, SNB and RBNZ; and we can probably through the PBoC in there too!). This makes little sense to us; the world is not decoupled. This divergence already appears to be creating tension on the ECB Governing Council.

So we remain in an environment fraught with uncertainties and tensions.

Amidst global ructions, the New Zealand economy has clearly turned the corner in the growth stakes. After averaging just 0.3% quarterly growth over the first six months of the year, quarterly average growth over the second half of the year looks set to be at least double that. In fact, following recent overseas trade, construction and wholesale trade data we have lifted our expectations for Q3 GDP by 0.2%pts to 0.7% q/q. On an annualised basis, this is actually not too far away from trend. The December quarter is shaping up in a broadly similar vein. That should be enough for job creation to absorb growth in the working age population and push the unemployment rate lower in 2016, given the usual lag from activity to the labour market.

We are cautiously optimistic regarding domestic prospects next year. Downside risks are of course still evident. Challenges in the dairy sector remain, and we know that the borrow-and-spend style growth that has returned of late cannot continue indefinitely. The global backdrop adds to the risk profile. But when we see the benefit of the previous easing in financial conditions still flowing through, and the strong anecdotes coming out of the likes of the construction, tourism, and broader services sectors, a return to trend growth next year, while not yet our core view, is no longer out of the question.

This improving domestic growth backdrop is a key reason we'd be holding fire this week and "relax" (for those old enough to remember Frankie Goes To Hollywood) if we were the RBNZ. Certainly a cut is possible, given the low inflation environment, El Nino risks and stubbornly high NZD. But cutting the OCR in order to get the NZD down when the economy is in fact firming is spitting in the wind – upwind. If the economy is weakening you at least have a chance, as you are spitting with the prevailing economic breeze. Changes in monetary policy can have very transitory – if not outright contrary – impacts on the currency.

Task one was to get growth back on track; the RBNZ can tick that box. Task two is for that to flow into inflation. That's the current uncertainty. Inflation is being buffeted by structural and cyclical forces that have diluted the reliability of traditional real economy / inflation linkages. We'd wait for more clarity and be guided more by inflation outcomes from this point.

RBA Governor Stevens summed it up pretty well when he recently told markets to "chill out" and wait and see how things unfold after Christmas. Central banks like to be proactive, but it sometimes pays to abide by the old "when in doubt, do nowt" view as well.

Beyond the RBNZ, another key domestic event this week is Fonterra's Board meeting, where we expect it to hold the line on its 2015/16 payout forecast despite clear downside risks. The latest GDT auction showed dairy prices bouncing, but they remain well short of where Fonterra has stated they need to get to in order to deliver the $4.60/kg MS forecast. Specifically, Fonterra has stated that it needs whole milk powder prices to rise to US$3,000/tonne by Q1 2016. Despite the bounce at the latest GDT, year-to-date pricing only indicates something around the $4.00/kg MS mark at present.

A reduction is therefore entirely possible, particularly as Fonterra has been more conservative in its forecasting this year. However, recent communication suggests otherwise. Miles Hurrell (Co-operatives Affairs Director) last week stated "we would like to think global prices are on the way up, but we need to be cautious". He added that the latest increase in GDT prices "gives us a bit more confidence" around the current 2015/16 milk price forecast of $4.60/kg MS. This suggests no change this week, but **we will be expecting clear communication on what is required to deliver the $4.60/kg MS milk price forecast, which still looks on the high side to us. We struggle to see what will drive prices up to the US$3,000 mark, at least in the time-frame required.** The most obvious catalyst is El Nino biting early, but from a broader farm income perspective, a New Zealand drought is certainly not a desirable way to drive prices higher, particularly with its associated hits to morale and 2015/16 bottom-lines.

A more sustainable and positive turnaround in prices requires two of three things changing: a marked slowdown in competitors' supply (namely Europe), an improved demand backdrop (not just China) and an increase in the cost of production (with energy and feed prices key). Most are not picking a more sustainable turnaround until mid-2016. **Local weather conditions aside, we see prices trading in a US$2,500 to $2,800/tonne range, delivering a milk price between $4.25 to $4.50/kg MS at this stage.**

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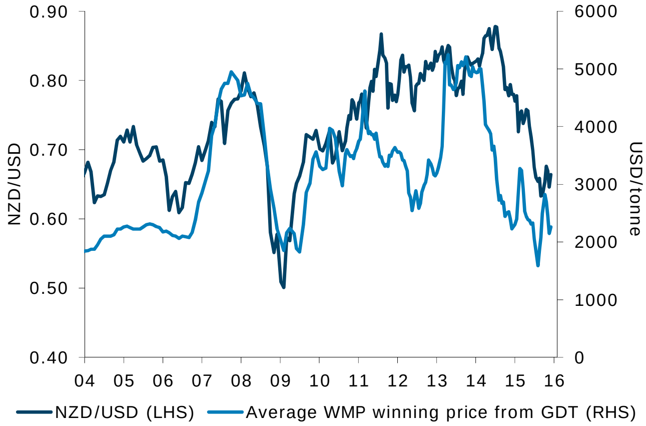
FIGURE 1. GDT AVERAGE WINNING PRICE AND NZD/USD

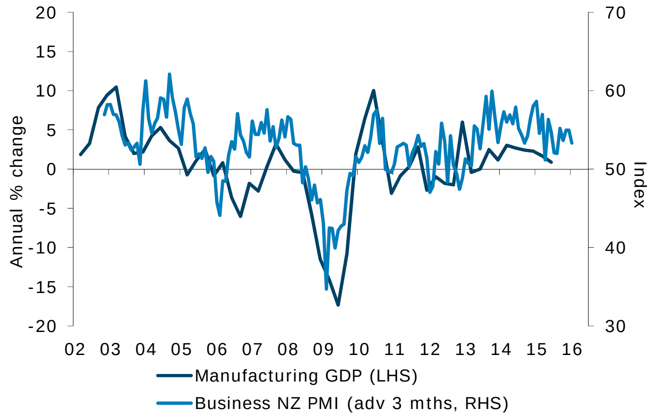


Source: ANZ, GlobalDairyTrade, Bloomberg

Our Truckometer for November will be watched for further evidence that domestic growth prospects are improving. The Heavy Traffic Index in particular has provided a timely read on turning points in domestic economic momentum. After being consistent with the soft pace of activity growth over the earlier part of the year, the index gave an early indication prospects were stabilising when it rose sharply in September (lifting 1.8% m/m), with October posting another 0.9% m/m lift. Another increase in November would be consistent with an improved pace of domestic expansion heading into the end of year.

The Economic Survey of Manufacturing is the final partial indicator ahead of next week's Q3 GDP, and it should show a reasonable performance. Over the quarter we estimate that milk production fell around 6%. However, at the same time, livestock slaughtering surged 16%, so this should see primary manufacturing production volumes still post a gain over the quarter. Excluding primary sectors, sentiment indicators suggest an overall reasonable performance for manufacturing sector activity, with the PMI averaging 54.5 over the quarter as a whole. While dairy sector challenges are certainly a headwind, the manufacturing sector is benefiting from the likes of a strong construction sector performance at present. Overall, we estimate that the total manufacturing sector grew around 1.0% over the quarter, implying around a 0.1-0.2%pt contribution to Q3 GDP growth.

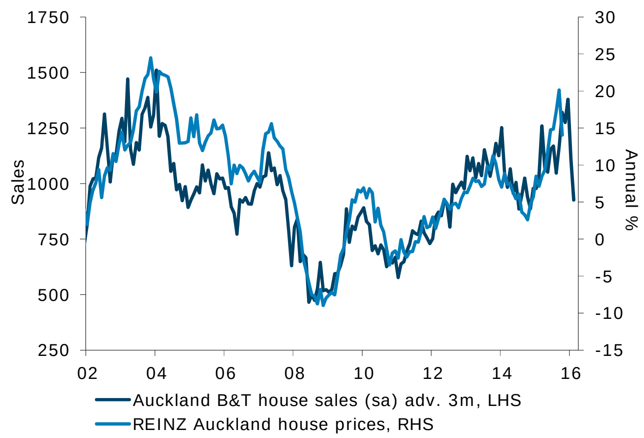
FIGURE 2. MANUFACTURING GDP VS PMI



Source: ANZ, Statistics NZ, Business NZ

REINZ housing market data for November could possibly be released in the second half of this week (if not early the week after). It should confirm that the Auckland market has gone suddenly quiet. Barfoot & Thompson data showed the volume of their seasonally adjusted house sales plunged 17% m/m in November, on top of a 20% m/m fall in October. The level of turnover is now running below that experienced 12 months prior – only two months ago it was up more than 40% y/y. The introduction of additional restrictions from the RBNZ and Government, and increased focus on capital outflow from Chinese authorities, appear to have had a dramatic impact. Historical correlations suggest house price growth should follow suit.

FIGURE 3. B&T AUCKLAND HOUSE SALES VS REINZ PRICES



Source: ANZ, GlobalDairyTrade, Bloomberg

However, the REINZ data should also confirm that regional markets have caught Auckland's bug. Our internal anecdotes suggest that while previously regional strength was limited to Auckland's neighbouring regions such as Tauranga, Hamilton and Whangarei, it is now far broader than that, with the Wellington and Dunedin markets strengthening sharply

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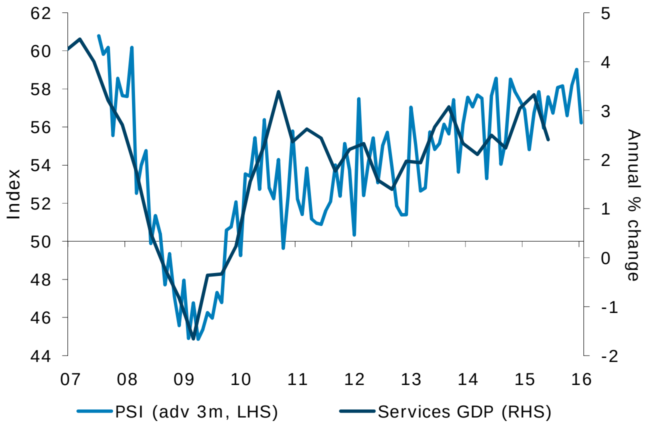
over recent months. This clearly shows monetary policy at work, including the credit channel, with fixed mortgage rates continuing to fall. It is a dynamic we are sure the RBNZ is quite mindful of.

Electronic card transactions data should show spending rebounding in November from a flat October month. Following what had been a reasonable run of increases, the fact that retail spending was flat in October was not overly surprising. When we look at the drivers of retail spending at present there are a number of offsetting forces. Certainly, strong population growth, increased borrow-and-spend behaviour, strong net wealth gains associated with house price strength, and low interest rates are key factors supporting overall spending trends. We expect the overall trend in spending to remain respectable overall, with total retail sales growth of around 0.7% m/m. That said, slowing household income growth (led largely by weaker rural incomes) should cap the upside.

And finally, Business NZ PMI and PSI indicators for November (the latter released next Monday) should also be consistent with a decent pace of activity growth, particularly in the case of the latter. There are not many published indicators for the services sector, which is ironic considering it constitutes the bulk of economic activity. But based on anecdote and our own *Business Outlook* survey, it seems clear that the services sector is continuing to perform well. To be fair, when one considers broadening housing market strength, strong net migration inflows, and low interest rates, this decent performance is not overly surprising. In October, the PSI did dip to 56.2 (from 59.0), but it is still at a healthy level overall and we expect this to remain evident in the November figures.

FIGURE 4. PSI VERSUS SERVICES GDP



Source: ANZ, Statistics NZ, Business NZ

LOCAL DATA

RBNZ Credit Aggregates – Oct. Total private sector credit rose 0.8% m/m, with annual growth at 6.5% y/y.

Overseas Trade Indexes – Q3. The goods terms of trade fell 3.7% q/q. Export volumes rose 3.7% q/q, while import volumes rose a more modest 0.7% q/q.

QV House Prices – Nov. Nationwide prices rose 4.0% over the last three months, with annual price inflation increasing to 15% y/y.

GlobalDairyTrade Auction. The GDT-TWI posted a 3.6% increase, while whole milk powder prices rose 5.3%.

Barfoot & Thompson Auckland Housing Statistics – Nov. Seasonally adjusted house sales fell 16.8% m/m (-11% y/y), although average sale prices still rose 1.9% m/m to $857k.

Building Work Put in Place – Q3. Total building work volumes rose 0.5% q/q, with broadly offsetting movements in residential (+2.9% q/q) and non-residential (-2.6% q/q) work.

ANZ Commodity Price Index – Nov. The headline index fell 5.6% m/m, with NZD prices dropping 4.5%.

ANZ Monthly Inflation Gauge – Nov. The headline Gauge rose 0.2% m/m, to be up 0.3% over the three months to November.

DECEMBER *MPS* PREVIEW

SUMMARY

We expect the RBNZ to leave the OCR at 2.75% on Thursday, a view that puts us out of consensus versus surveyed polls. The crux of our view is simply that the economy is clearly improving and the terms of trade hit is less dire than the RBNZ assumed. Uncertainty surrounds the flow-on from this into inflation, with structural and cyclical factors intertwined, and the NZD's recent surge complicates things further. But we simply favour waiting for more clarity on the inflation and global (read US Fed) front. The 75bps of previous cuts are still flowing through the economy. We expect the Statement to indicate a preparedness to ease policy further if required.

HOLDING BACK

Our expectation that the RBNZ will again leave the OCR unchanged at 2.75% at its December *Monetary Policy Statement* this week puts us out of consensus. According to Bloomberg, we are one of just three surveyed economists (of 18) who expect the OCR to be left unchanged. That said, at the time of writing the market was clearly divided, with odds a tad under 50% for a 25bp cut.

To be fair, a case for easing this week can certainly be made. The RBNZ stated in October that another cut was "likely" after all! Inflation is low and it's been low for an extended period too. Unemployment is rising (which brings in politics), the economy continues to grow at a sub-trend pace, there is chance of El Nino and stress in some sectors (dairy in particular) is as evident as ever. On top of this, the NZD has surged, and with the global scene fickle, risks are predominantly to the downside.

A cut this week in itself would therefore not be overly surprising, and certainly not something we would quibble greatly with.

However, we feel there is merit in holding now, with our view based on the following factors:

- **Domestic growth momentum is undeniably improving.** Business and consumer sentiment have recovered, as have firms' investment and employment intentions. The tourism sector is booming, construction is strong and record net migration inflows and low interest rates are supporting services sector activity. Admittedly, this backdrop may not translate into meaningful upgrades to the RBNZ's growth forecasts, but the risk profile around those forecasts has certainly shifted, and a lift back to trend growth over 2016 is now not out of the question. **We couldn't identify upside growth risks three months ago; we can now. That's a big shift.**
- **The terms of trade outlook is looking less grim.** In September, the RBNZ assumed a 20% peak-to-trough terms of trade adjustment. However, given recent dairy and oil price movements, a figure closer to 15% (if not smaller) now looks more likely. This is still meaningful, but recall that the weak terms of trade were a key motivation for the RBNZ to ease over the June to September period.
- **Key global events are still pending.** While a Fed hike has become well-priced of late, there is still uncertainty over how the market is going to absorb higher USD funding costs – and where the USD will head. The RBNZ may well be better served by saving some bullets until more clarity is evident, particularly if the motivation for easing is about getting the NZD lower.
- **Housing is returning as a "consideration" whereas dairy dominated mid-year.** It's now clear that while the Auckland market has cooled, regional markets have caught the bug and are running a fever. We should also not forget that stimulus has continued to be delivered, with fixed mortgage rates dropping towards (and below) 4% over recent months. The credit channel of monetary policy is alive and well.
- **Growth may be improving but whether that translates into inflation remains the million dollar question.** The RBNZ has cut 75bps and has seen a demand side response. Box ticked; well done. However, there is a vast array of cyclical and structural forces influencing inflation. You can't rely on demand-pull models anymore. Central banks of course want to be proactive rather than reactive, but this is easier said than done. Given traditional inflation models have performed so poorly over recent times, we'd prefer to go with what you know. That means waiting for more clarity on the inflation front.
- **Monetary policy is as much about managing expectations as it is about actually shifting the OCR, and this presents the RBNZ with somewhat of a quandary.** Given the plan was to cut 100bps in total, one wonders how the market (read NZD) would in fact take a 25bp cut accompanied by a flat-lined 90-day bank bill profile thereafter, particularly as economic developments are certainty not worse (we'd say they are clearly better) than in September. As the RBA taught us earlier this year, the prospects of further easing can be just as powerful for the currency as easing itself. Of course, the RBNZ could cut and still signal further cuts in the future (i.e. leave a downward bill projection), but that

DECEMBER *MPS* PREVIEW

would be at odds with its September projections (which showed just one further cut) and the fact the growth and terms outlooks are now better.

So while the chance of a cut is reasonable, the above factors leave us with the view that it is more likely than not that the RBNZ chooses to "watch and wait" a little longer, albeit while maintaining an explicit easing bias. We expect the latter will be achieved through again signalling that more easing is "still likely", with a downwardly sloping 90-day bank bill profile (to a similar end-point as in September: 2.6%). We'd be surprised if the RBNZ removed references to the monetary policy outlook being directly tied to the performance of the NZD. In other words, we see the tone of the statement being consistent with a "dovish hold".

A downside OCR scenario linked to a persistently high NZD or low inflation expectations becoming embedded wouldn't surprise either. In fact, it's probably needed, given that policy is technically approaching the end of "plan A" (100bps of cuts) and when the dust settles the market will invariably latch onto a still-wide yield differential, which will be NZD supportive. It's both the level and projected change in rates that matters.

Within the published projections, we expect the key themes to be:

- **A 90-day interest rate track that is similar to September.** In September, the 90-day bank bill projection signalled one further 25bp OCR cut, followed by a period of stability and an end-point of 2.6%. The decline in the profile was gradual enough as to signal the clear direction of risk as well as provide plenty of ambiguity as to when the final cut would be delivered. We expect something similar this week, giving the RBNZ plenty of "wriggle room" to respond to the emerging flow of economic data.
- **A broadly similar growth profile.** June quarter GDP growth did undershoot the RBNZ's earlier forecasts so there will be some modest starting point adjustments of which to be mindful. However, with timely indicators showing a clear pick-up in domestic economic momentum and the terms of trade outlook looking better than earlier assumed (notwithstanding modestly offsetting NZD strength), we expect the RBNZ to continue to forecast a gradual lift in growth performance through 2016. If anything, the risk is that it upgrades this profile modestly.
- **Given NZD strength (and lower oil prices), headline inflation will be slower to return to the target mid-point.** In September, the RBNZ projected headline inflation back within the target band in early 2016 and back at 2% by mid-year. While base effects mean it is mathematically likely that annual inflation is back above 1% by Q1 2016, a downgrade in the RBNZ's tradable inflation forecasts will see the return of 2% headline inflation delayed by perhaps a quarter or two. However, we are not expecting meaningful changes to the RBNZ's non-tradable inflation forecasts, which in September were for it to fall below 1½% before stabilising and lifting back towards 2%. This comes down to the fact that only modest tweaks in its GDP forecasts are expected and the RBNZ's unemployment rate forecasts now look more reasonable, with it forecast to be 6.1% and 5.9% in the March years to 2016 and 2017 respectively.

ANZ EXPECTATIONS FOR RBNZ DEC *MPS* PROJECTIONS (SEP 2015 *MPS* IN BRACKETS)

	90-Day	TWI (Qtr Average)	CPI (Ann % Chg)	GDP (Ann % Chg)
Q1 2015	3.6 (3.6)	77.9 (77.9)	0.3 (0.1)	3.2 (3.2)
Q2	3.5 (3.5)	76.1 (76.1)	0.4 (0.3)	3.0 (3.0)
Q3	3.0 (3.0)	70.0 (70.0)	0.4 (0.2)	2.6 (2.6)
Q4	2.9 (2.9)	71.6 (67.9)	0.5 (0.5)	2.3 (2.2)
Q1 2016	2.8 (2.8)	70.4 (66.3)	1.2 (1.5)	2.2 (2.1)
Q2	2.7 (2.7)	68.6 (65.3)	1.5 (1.8)	2.2 (2.1)
Q3	2.6 (2.6)	68.2 (64.9)	1.6 (2.1)	2.3 (2.2)
Q4	2.6 (2.6)	68.0 (64.9)	1.8 (2.2)	2.4 (2.4)
Q1 2017	2.6 (2.6)	67.7 (64.9)	2.0 (2.1)	2.6 (2.5)
Q2	2.6 (2.6)	67.7 (64.8)	2.1 (2.0)	2.8 (2.7)
Q3	2.6 (2.6)	67.7(64.9)	2.2 (2.1)	3.0 (2.9)
Q4	2.6	67.8 (65.0)	2.0 (2.0)	3.1 (3.0)
Q1 2018	..	67.9 (65.2)	2.0 (2.0)	3.1 (3.1)
Q2	..	68.0 (65.4)	2.0 (2.0)	3.0 (3.1)
Q3	..	68.0 (65.7)	2.1 (2.1)	2.9 (3.1)
Q4	..	68.0	2.1	2.9

FINANCIAL MARKET IMPLICATIONS

Clearly, an outcome in line with our view would be less dovish than the market and consensus are looking for. That said, with the market still pricing in just over 30 points of easing out to the middle of 2016, and the RBNZ no doubt set to signal that future easing is still likely, this is really just an issue of the timing of easing, rather than the magnitude, for the market to absorb. Therefore, any strength in short-end yields as well as the NZD on the day would be something we'd view as temporary. This is particularly with some larger external forces (Fed hikes, Asian trade recession, and global risks more generally) still dominating market themes.

INTEREST RATE STRATEGY

SUMMARY

Recent moves in rates have been dominated by market positioning, with the curve steepening as the ECB underwhelmed market expectations. Markets appear to have taken the prospect of a December Fed hike in their stride given the promised slow pace of policy normalisation; it would probably take a major global event to delay lift-off now. While we do not expect an RBNZ cut this week (though admittedly that forecast is influenced by what we think the RBNZ "should" do), the low-for-longer message should help to limit upward pressure on local yields. We are past the lows for longer-term rates – both here and abroad – with spreads to US rates set to narrow as local yields go up by less.

THEMES

- Global long-term rates sell-off given market positioning, with the ECB easing measures disappointing market expectations.
- Market odds on a December RBNZ OCR cut hover at just under 50%. Our core view remains that the RBNZ should not cut on Thursday, but the bias for the OCR is still lower.
- Short-term flatteners look attractive; the tick-shaped curve implies late-2016 RBNZ hikes, which looks premature.
- Markets look to be taking the prospect of a Fed hike next week largely in their stride.
- With global rates now likely to have seen their lows, we have tweaked up our US bond forecasts. A low and slow pace of policy normalisation is expected to cap the endpoint for yields at historically low levels.
- Local yields are expected to drift higher with global rates, but the gap should narrow in relation to global yields.

PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Neutral	Low likely in. More about spreads and curves.
2s10s Curve	Steeper	Short end still biased lower with OCR; long end following US up.
Geographic 10yr spread	Narrower	Divergent policy argues for narrowing. NZ tends to outperform on a sell-off.
Swap spreads	Neutral/wider	Market poorly positioned.

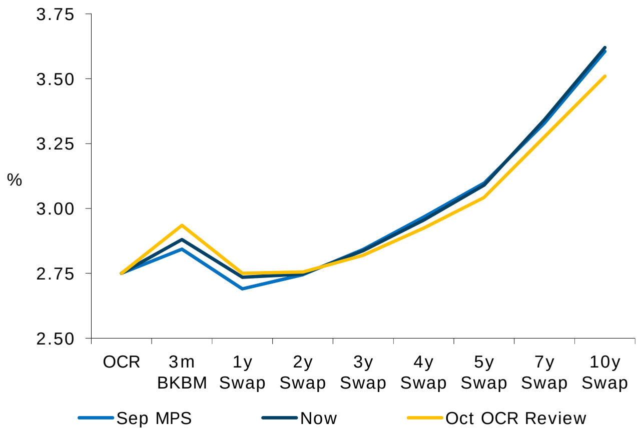
50:50

Recent moves in rates have been dominated by market positioning on light flows. The market is still coming to grips with the ECB underwhelming bullish market expectations, with the 10bp cut in the deposit rate, the 6 month extension of QE, but the purchase target remaining at EUR60bn (markets had been anticipating a EUR10-15bn increase) not proving to be the Bazooka many had hoped for – and positioned themselves for. Moves were larger in longer-term rates as the curve continued to steepen. There remains strong receiving-side interest in shorter-dated kiwi rates, which has helped to temper upward pressure on yields.

On generally light flows, local rates have firmed a touch. **Thursday's *MPS* rates decision looks to be a coin toss for all intents and purposes.** The market is pricing in less than 50% odds of a 25bp cut, whereas the majority of surveyed analysts (ourselves excepted) expect a 25bp cut. Our core view is that the RBNZ will deliver another dovish pause, with an improving domestic growth backdrop, less dire terms of trade outlook and key global events (aka the Fed) meaning there is more value in saving some bullets for potential future use. As such, the RBNZ is expected to signal an easing bias via the policy assessment and the published 90-day bank bill track (although the recent widening of bank bill spreads to OIS rates may complicate this somewhat). This should help temper upward pressure on short-term yields, and should support received-side interest, with short-end (OIS and futures strip) flatteners looking attractive.

At the very least, we do not envisage short-end rates going up any time soon. **We still expect a dovish *MPS* assessment to show little urgency to move rates higher.** As such, we still take issue with the tick-shaped yield curve that implicitly signals rate hikes from H2 next year. With future OCR moves skewed to the downside, the 2 year swap rate could ease over the next few months from its current 2.75% level.

FIGURE 1. NZ SWAP CURVE

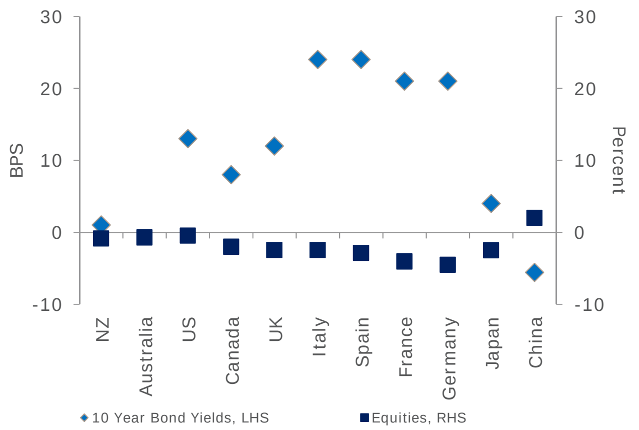


Source: ANZ, Bloomberg

INTEREST RATE STRATEGY

For the first time in close to a decade, the Fed looks to be firmly on course to raise interest rates. Market odds for a December Fed hike sit at around 74%, with the majority of surveyed forecasters also expecting a hike. The tone of US data has been respectable, with the activity data pointing to a moderate rate of expansion, and another solid payrolls print was delivered over the weekend. Recent comments by Fed members have remained 'on message', with Yellen emphasising gradualism and laying out the case for moving pre-emptively so as to minimise financial market disruption and avoid having to play catch-up later. In the lead-up to the Fed decision there are only a few speeches by Fed members (Bullard) and a few data points that look unlikely to sway the Fed**. Markets seem to be taking the prospect of a Fed hike in their stride, and the recent sell-off in global equities has been modest** (see Figure 2).

FIGURE 2. MOVEMENTS IN EQUITIES AND BOND YIELDS SINCE THE START OF THE MONTH



Source: ANZ, Bloomberg

Indeed, for markets it is more about the pace of hikes, rather that the date of lift-off. Signs of rising global inflation remain scant; US wage inflation has remained low; and oil prices have continued to weaken, with OPEC opting not to curtail production. Markets accordingly expect a very gradual pace of normalisation, with a total of just 75-80bps of Fed hikes priced in for next year. Even that looks aggressive to us. Be that as it may, global (and local) long-term rates look to be past their lows and we have tweaked our view on long-term global rates. The economic recoveries in the advanced economies appear to be quite entrenched and inflation still looks like it will pick up as suppressants fade. Even emerging markets appear to be in a healthier state than back in August. This is a tweak, not a sea-change – US 10 year bond yields are expected to hit 2.8% by late 2016 and 3% by late 2017 – rates are expected to remain low by historical standards.

While local rates have taken their cues from US rates, we note that local yields have tended to outperformed US ones at the start of a Fed tightening cycle (i.e. spreads have narrowed) and we expect this to be the case this time around also. Our best-in-class yields remain a magnet to offshore investors. This should contribute to further widening in local swap spreads and a narrowing relative to global bond yields. Despite this, local long-term yields are still expected to be biased higher, which should see the curve steepen.

PREFERRED STRATEGIES – BORROWERS

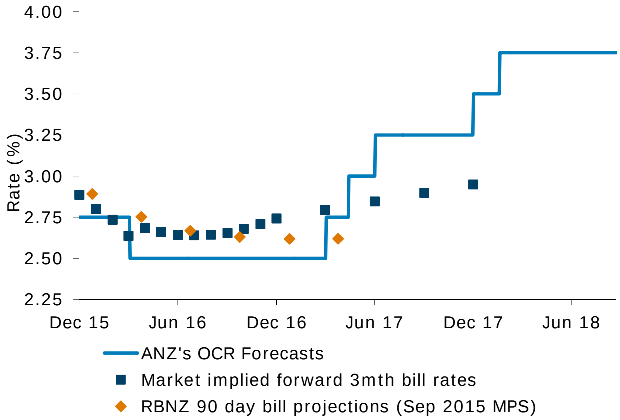
With New Zealand long-term rates looking likely to have troughed, borrowers may wish to consider adding to long-term hedges. However, floating is historically cheap, and short-term rates could well fall further. As such, the key is to strike the right balance between fixed and floating. With term rates set to rise, we now see merit in wading in steadily to cover long-term hedge requirements.

KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Could also add to cover via options, or as part of a highly disciplined strategy.
Value	Cheap	Look to be close to the trough.
Uncertainty	Elevated	The key reason for caution.

MARKET EXPECTATIONS

A 25bp OCR cut in December is about 46% priced in, with the OCR projected to trough at 2.41% in Q3 next year. This is close to our core view and is consistent with the (modestly downward) skew of the risk profile. Not only is the OCR still likely to head lower; there is little on the horizon to suggest it will be going up any time soon.

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



Source: ANZ, Bloomberg

CURRENCY STRATEGY

SUMMARY

We are at the start of the zone to fade NZD/USD strength. While there is potential for some further lift should the RBNZ hold as we expect, we would expect a clear RBNZ easing bias and currency commentary to cap the topside. Global commodity prices are weak and Asian economic softness should help limit NZD gains from current levels. However, we still favour NZD on some crosses. NZD/AUD should rise as we expect some recoil from recent strength in Australian employment. And carry still supports NZD/EUR and NZD/JPY into the year-end.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Fade rallies	Trend is lower
NZD/AUD	↔/↑	Rising into YE	Consolidating
NZD/EUR	↔	Consolidating	EUR capped
NZD/GBP	↔/↓	GBP under priced	GBP resurgence
NZD/JPY	↑	Carry into YE	Yen weakness

THEMES AND RISKS

- ANZ's hold view for the RBNZ could generate some NZD strength. But the recent NZD rally suggests positioning expects the same.
- Commodities are still facing downward pressure, which will translate into currency markets.
- Fed on course; we enter a delicate period in the coming two weeks, eyeing equities and volatility across bond markets – particularly EM markets.
- ECB disappoints, but the EUR/USD trend is still lower as it's hard to fight divergent policy paths.

TABLE 2: KEY UPCOMING EVENT RISK			
EVENT		WHEN (NZDT)	IMPACT RISK
NZD	ANZ Truckometer.	Tue 10:00	NZD
NZD	Q3 Manufacturing act	Tue 10:45	NZD/USD ↓
JPY	Q3 GDP	Tue 12:50	NZD/JPY ↑
AUD	NAB B/C	Tue 13:30	NZD/AUD ↑
CNY	Nov Trade balance	Tue pm	NZD/CNY ↑
GBP	Industrial prod.	Tue 22:30	NZD/GBP ↑
EUR	Q3 GDP (second)	Tue 23:00	NZD/EUR ↓
USD	Small B/C	Wed 00:00	NZD/USD ↓
AUD	Home loans	Wed 13:30	NZD/AUD ↑
CNY	CPI, PPI	Wed 14:30	NZD/CNY ↑
NZD	Fonterra milk price?	Thu 08:30	NZD ↔/↓
NZD	RBNZ	Thu 09:00	NZD ↑
NZD	Card spending	Thu 10:45	NZD ↔
AUD	Nov Employment	Thu 13:30	NZD/AUD ↑
EUR	French IP	Thu 20:45	NZD/EUR ↔/↓
CHF	SNB	Thu 21:30	NZD/CHF ↑
GBP	BoE	Fri 01:00	NZD/GBP ↓
NZD	Business PMI	Fri 10:30	NZD ↑
NZD	ANZ Cons. Conf.	Fri 13:00	NZD
USD	Retail sales/Mich. conf.	Sat 02:30	NZD/USD ↓
CNY	Chinese data	Sat 18:30	NZD ↑

EXPORTERS' STRATEGY

For short term hedging dips should be sought, longer term hedgers can afford to wait for better levels.

IMPORTERS' STRATEGY

Importers should consider this rally as opportunity.

DATA PULSE

The EUR soared as the ECB disappointed markets. This is despite cutting the deposit rate and extending the QE programme. November CPI saw core CPI fall below 1% and should ensure EUR remains capped – although the EU PMIs were solid overall, and other data continues to firm.

The USD was on the back foot as markets switched attention to the pace of hikes rather than the start. The payrolls data gave USD bulls everything they needed, but they were unable to advance USD. The ISM surveys showed softening growth, while the Beige Book was a little more upbeat. Fed speakers emphasised the gradual nature of hikes.

The NZD was boosted by stabilisation. The GDT auction and subsequent NZX price action suggested stabilisation, while the non-dairy component of the ANZ Commodity price series weakened further. The NZ Q3 terms of trade fell, but lower oil prices should help partly offset softer commodity export prices.

The AUD found support from a stable RBA, with Q3 GDP and retail sales both above forecasts. The trade and current account deficits were wider than expected.

China continues to stabilise with rebalancing from manufacturing to services evident in the PMIs.

GBP was weak despite the BoE stating the financial system has moved beyond the "post crisis period" and strength in the service sector.

TABLE 3: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↔/↑	Pricing inconsistent vs ANZ view
Commodities	↔/↑	Milk more resilient than iron ore
Data	↔/↑	NZ data still supportive
Techs	↔/↑	Lower-range
Sentiment	↔	Equivalent reaction functions.
Other	↔/↓	Headline AUD employment strong
On balance	↔/↑	**Still upside potential.**

TABLE 4: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↔/↑	Yield advantage still present.
Commodities	↓	Commodity markets warning.
Risk aversion	↔/↓	Vol of vol still high.
Data	↔/↑	US data is softening
Techs	↔/↑	Supported
Other	↑	USD positioning is at risk.
On balance	↔/↓	**Overall skew of risks is still lower.**

CURRENCY STRATEGY

TECHNICAL OUTLOOK

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

NZD/USD has again strengthened into the base of our sell zone. The 200dma (at 0.6905) remains pivotal as does the whole 0.68 trading area. NZD would need to build a solid base in the 0.68's for any attempt to push higher to be anything other than impulsive. We would look to fade a move to the 0.68's.

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

NZD/AUD is testing the 55dma and should remain well supported by the 100dma at 0.91. We remain of the opinion that this move can extend to test the 200dma at 0.9250 and higher to resistance just above 0.93. Thus dips back toward the 100dma look attractive for accumulation.

TABLE 5: KEY TECHNICAL ZONES

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6400 – 0.6420 0.6330 – 0.6350	0.6750 – 0.6780 0.6880 – 0.6930
NZD/AUD	0.9000 – 0.9040 0.8910 – 0.8950	0.9320 – 0.9360 0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6280 – 0.6330
NZD/GBP	0.4170 – 0.4200	0.4550 – 0.4600
NZD/JPY	78.80 – 79.20 75.00 – 75.50	83.60 – 84.00 84.70 – 85.30

POSITIONING

As of December 1 markets had decreased AUD shorts and also trimmed the marginally short NZD position. GBP positioning flipped to short while the EUR short position was increased and was the largest short since March – explaining the market reaction later in the week.

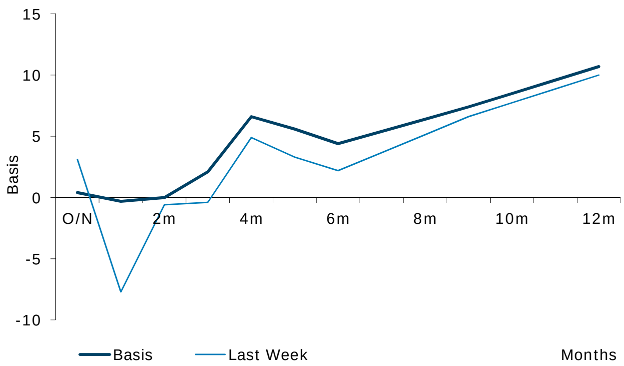
GLOBAL VIEWS

The ECB delivered a policy easing, but distinctly underwhelmed market expectations, sending EUR/USD up four big figures or around 2.5%. The result was a lot of noise in markets, but we caution against over reading, and ask the question has anything fundamentally changed? The Fed continues to inch towards policy normalisation and the extension of the EU QE program will still take the ECB' s balance sheet to about 35% of GDP over the coming 15 months (roughly EUR3.7trn). This liquidity will still help support a world coping with USD liquidity reduction, leaving EUR/USD under pressure, and NZD/EUR supported.

However, the ECB does hold some lessons for markets going into the first Fed hike since 2006. Clearly market positioning is becoming more influential, and the ability of markets to absorb changes in view is limited. This suggests that next week's FOMC meeting – which is fully priced – has risks of a counter consensus USD reaction to a Fed hike.

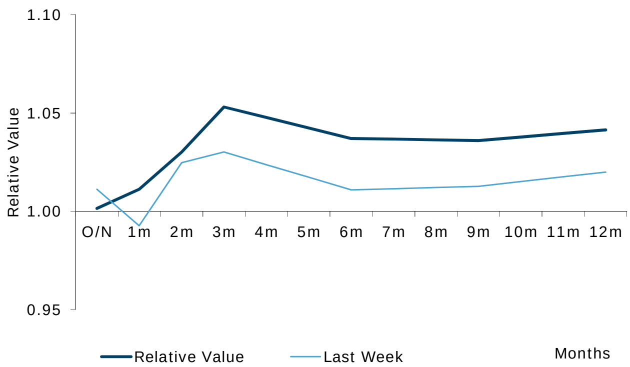
FORWARDS: CARRY AND BASIS

FIGURE 3. NZD/USD SHORT BASIS CURVE



The short end of the basis market has slightly tightened as cash in the system is reduced. Despite the lack of basis in the short end B/S up to two month looks attractive on an outright basis, given ANZ's RBNZ view of a hold in rates.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
7-Dec	AU	ANZ Job Advertisements MoM - Nov	--	0.4%	13:30
	AU	Foreign Reserves - Nov	--	A$64.3B	18:30
	GE	Industrial Production SA MoM - Oct	0.8%	-1.1%	20:00
	GE	Industrial Production WDA YoY - Oct	0.7%	0.2%	20:00
	EC	Sentix Investor Confidence - Dec	17.0	15.1	22:30
	CH	Foreign Reserves - Nov	$3492.5B	$3525.5B	UNSPECIFIED
	UK	Halifax House Prices MoM - Nov	0.2%	1.1%	7-11 Dec
	UK	Halifax House Price 3Mths/Year - Nov	9.5%	9.7%	7-11 Dec
8-Dec	US	Consumer Credit - Oct	$19.0B	$28.9B	09:00
	NZ	ANZ Truckometer Heavy MoM - Nov	--	0.9%	10:00
	NZ	Mfg Activity Volume QoQ - Q3	--	-0.2%	10:45
	NZ	Mfg Activity SA QoQ - Q3	--	0.4%	10:45
	AU	ANZ-RM Consumer Confidence Index - 6-Dec	--	112.8	11:30
	JN	GDP SA QoQ - Q3 F	0.1%	-0.2%	12:50
	JN	GDP Annualized SA QoQ - Q3 F	0.2%	-0.8%	12:50
	JN	GDP Nominal SA QoQ - Q3 F	0.2%	0.0%	12:50
	JN	GDP Deflator YoY - Q3 F	2.0%	2.0%	12:50
	JN	BoP Current Account Balance - Oct	¥1600.0B	¥1468.4B	12:50
	JN	Trade Balance BoP Basis - Oct	¥200.0B	¥82.3B	12:50
	AU	NAB Business Conditions - Nov	--	9	13:30
	AU	NAB Business Confidence - Nov	--	2	13:30
	UK	Industrial Production MoM - Oct	0.1%	-0.2%	22:30
	UK	Industrial Production YoY - Oct	1.2%	1.1%	22:30
	UK	Manufacturing Production MoM - Oct	-0.2%	0.8%	22:30
	UK	Manufacturing Production YoY - Oct	0.0%	-0.6%	22:30
	EC	GDP SA QoQ - Q3 P	0.3%	0.3%	23:00
	EC	GDP SA YoY - Q3 P	1.6%	1.6%	23:00
	CH	Trade Balance - Nov	$64.15B	$61.64B	UNSPECIFIED
	CH	Exports YoY - Nov	-5.0%	-6.9%	UNSPECIFIED
	CH	Imports YoY - Nov	-11.8%	-18.8%	UNSPECIFIED
	CH	Foreign Direct Investment YoY CNY - Nov	1.70%	4.20%	8-12 Dec
9-Dec	US	NFIB Small Business Optimism - Nov	96.4	96.1	00:00
	UK	NIESR GDP Estimate - Nov	--	0.6%	04:00
	US	JOLTS Job Openings - Oct	5540	5526	04:00
	US	IBD/TIPP Economic Optimism - Dec	45.0	45.5	04:00
	AU	Westpac Consumer Conf Index - Dec	--	101.7	12:30
	AU	Westpac Consumer Conf SA MoM - Dec	--	3.9%	12:30
	AU	Home Loans MoM - Oct	-1.0%	2.0%	13:30
	AU	Investment Lending - Oct	--	-8.5%	13:30
	AU	Owner-Occupier Loan Value MoM - Oct	--	3.0%	13:30
	CH	CPI YoY - Nov	1.4%	1.3%	14:30
	CH	PPI YoY - Nov	-5.9%	-5.9%	14:30
	GE	Trade Balance - Oct	21.7B	22.8B	20:00
	GE	Current Account Balance - Oct	23.7B	25.1B	20:00
	GE	Exports SA MoM - Oct	-0.6%	2.6%	20:00
	GE	Imports SA MoM - Oct	-1.0%	3.8%	20:00
10-Dec	US	MBA Mortgage Applications - 4-Dec	--	-0.2%	01:00
	US	Wholesale Inventories MoM - Oct	0.1%	0.5%	04:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Dec	US	Wholesale Trade Sales MoM - Oct	0.2%	0.5%	04:00
	NZ	RBNZ Official Cash Rate - Dec	2.50%	2.75%	09:00
	NZ	Card Spending Retail MoM - Nov	0.4%	0.0%	10:45
	NZ	Card Spending Total MoM - Nov	--	0.0%	10:45
	AU	Consumer Inflation Expectation - Dec	--	3.5%	13:00
	UK	RICS House Price Balance - Nov	48%	49%	13:01
	AU	Employment Change - Nov	-10.0k	58.3k	13:30
	AU	Unemployment Rate - Nov	6.0%	5.9%	13:30
	AU	Participation Rate - Nov	65.0%	65.0%	13:30
	UK	Visible Trade Balance GBP/Mn - Oct	-£9700	-£9351	22:30
	UK	Trade Balance Non EU GBP/Mn - Oct	-£2500	-£2076	22:30
	UK	Trade Balance - Oct	-£1800	-£1353	22:30
	CH	New Yuan Loans CNY - Nov	720.0B	513.6B	12/15
	CH	Money Supply M2 YoY - Nov	13.4%	13.5%	12/15
	CH	Money Supply M1 YoY - Nov	14.0%	14.0%	12/15
	NZ	REINZ House Sales YoY - Nov	--	18.6%	12/14
11-Dec	UK	BoE Asset Purchase Target - Dec	£375B	£375B	01:00
	UK	BoE Bank Rate - Dec	0.50%	0.50%	01:00
	US	Import Price Index MoM - Nov	-0.8%	-0.5%	02:30
	US	Import Price Index YoY - Nov	-9.6%	-10.5%	02:30
	US	Initial Jobless Claims - 5-Dec	268k	269k	02:30
	US	Continuing Claims - 28-Nov	2153k	2161k	02:30
	US	Monthly Budget Statement - Nov	-$67.5B	--	08:00
	NZ	BusinessNZ Manufacturing PMI - Nov	--	53.3	10:30
	NZ	Food Prices MoM - Nov	--	-1.2%	10:45
	NZ	ANZ Consumer Confidence Index - Dec	--	122.7	13:00
	NZ	ANZ Consumer Confidence MoM - Dec	--	6.8%	13:00
	NZ	Non Resident Bond Holdings - Nov	--	68.8%	15:00
	GE	CPI MoM - Nov F	0.1%	0.1%	20:00
	GE	CPI YoY - Nov F	0.4%	0.4%	20:00
	GE	CPI EU Harmonized MoM - Nov F	0.1%	0.1%	20:00
	GE	CPI EU Harmonized YoY - Nov F	0.3%	0.3%	20:00
12-Dec	US	Retail Sales Advance MoM - Nov	0.3%	0.1%	02:30
	US	Retail Sales Ex Auto MoM - Nov	0.3%	0.2%	02:30
	US	Retail Sales Ex Auto and Gas - Nov	0.3%	0.3%	02:30
	US	Retail Sales Control Group - Nov	0.4%	0.2%	02:30
	US	PPI Final Demand MoM - Nov	0.0%	-0.4%	02:30
	US	PPI Final Demand YoY - Nov	-1.4%	-1.6%	02:30
	US	PPI Ex Food and Energy MoM - Nov	0.1%	-0.3%	02:30
	US	PPI Ex Food and Energy YoY - Nov	0.2%	0.1%	02:30
	US	Business Inventories - Oct	0.1%	0.3%	04:00
	US	U. of Mich. Sentiment - Dec P	92	91.3	04:00
	CH	Retail Sales YoY - Nov	11.1%	11.0%	18:30
	CH	Retail Sales YTD YoY - Nov	10.6%	10.6%	18:30
	CH	Industrial Production YoY - Nov	5.7%	5.6%	18:30
	CH	Industrial Production YTD YoY - Nov	6.1%	6.1%	18:30
	CH	Fixed Assets Ex Rural YTD YoY - Nov	10.1%	10.2%	18:30

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

Domestic activity is of reaccelerating after slowing below trend. Low domestic inflation will keep future OCR moves biased to the downside, although we expect the RBNZ to remain on hold until March 2016.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 8 Dec (10:00am)	ANZ Truckometer – Nov	--	--
Tue 8 Dec (10:00am)	Government Financial Statements – Oct	A few headwinds	While still ahead of Budget forecasts, we suspect a few more headwinds will see that gap close further.
Tue 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Modest lift	Weaker meat & dairy production to be offset by higher core volumes, with the latter linked to rising construction activity.
9 Dec	Fonterra Board meeting	Status quo	While spot prices imply downside risk to Fonterra's $4.60/kg MS milk price forecast, we expect it to maintain it for now.
10-14 Dec	REINZ Housing Statistics – Nov	Regional divergence	Auckland has cooled, but many other regions are experiencing strong activity levels.
Thu 10 Dec (9:00am)	RBNZ *Monetary Policy Statement*	Dovish hold	We expect the RBNZ will "watch and wait" a little longer, maintaining the OCR at 2.75%.
Thu 10 Dec (10:45am)	Electronic Card Transactions – Nov	Modest	There are a number of offsetting forces. However, softer income growth should win out, resulting in modest spending growth.
Fri 11 Dec (10:30am)	BNZ-Business NZ Manufacturing PMI – Nov	Offsetting forces	Despite dairy sector strains and a fickle global scene, a lower NZD and solid domestic demand are supporting activity.
Fri 11 Dec (10:45am)	Food Price Index – Nov	Flat to down	Prices should be flat to down, driven by seasonal falls in fruit and vegetable prices.
Fri 11 Dec (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Dec	--	--
Mon 14 Dec (10:30am)	BNZ-Business NZ Services PSI – Nov	Outperforming	Low interest rates, a high net migration inflow and housing market strength are supporting services sector activity.
Tue 15 Dec (1:00pm)	Half-Year Economic and Fiscal Update	Tight	Ongoing fiscal improvement will be forecast, but given low nominal growth, there is likely to be little room to work with.
Wed 16 Dec (10:45am)	Balance of Payments – Q3	Wider	A larger trade deficit should contribute to a further widening in the current account deficit.
Thu 17 Dec (10:45am)	GDP – Q3	Improving	We expect an improved pace of quarterly activity growth versus the subdued pace experienced over the first half of the year.
Fri 18 Dec (10:00am)	ANZ Job Ads – Nov	--	--
Fri 18 Dec (1:00pm)	ANZ Business Outlook – Dec	--	--
Mon 21 Dec (10:45am)	International Travel & Migration – Nov	No turn yet	Despite a softer labour market, net inflows have accelerated over recent months. Strong net inflows should continue.
Wed 23 Dec (10:45am)	Overseas Merchandise Trade – Nov	Deterioration	Deterioration remains a key theme of the trade balance outlook, although we expect the pace of that deterioration to slow.
On balance		**Data watch**	**Improvement is evident, with risks. Inflation is low.**

KEY FORECASTS AND RATES

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
GDP (% qoq)	0.4	**0.7**	**0.5**	**0.5**	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**	**0.6**
GDP (% yoy)	2.4	**2.2**	**1.9**	**2.2**	**2.4**	**2.3**	**2.5**	**2.7**	**2.8**	**2.7**
CPI (% qoq)	0.4	0.3	**-0.2**	**0.5**	**0.4**	**0.5**	**0.2**	**0.6**	**0.4**	**0.7**
CPI (% yoy)	0.4	0.4	**0.4**	**1.1**	**1.0**	**1.2**	**1.6**	**1.7**	**1.7**	**1.9**
Employment (% qoq)	0.1	-0.4	**0.2**	**0.2**	**0.3**	**0.3**	**0.3**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	3.0	1.5	**0.5**	**0.1**	**0.3**	**1.0**	**1.1**	**1.4**	**1.4**	**1.6**
Unemployment Rate (% sa)	5.9	6.0	**6.2**	**6.3**	**6.2**	**6.2**	**6.1**	**6.0**	**5.8**	**5.6**
Current Account (% GDP)	-3.5	**-3.5**	**-3.8**	**-4.4**	**-5.0**	**-5.5**	**-5.7**	**-5.8**	**-5.7**	**-5.6**
Terms of Trade (% qoq)	1.5	-3.7	**-5.1**	**0.0**	**-2.4**	**-0.3**	**0.2**	**0.2**	**0.3**	**0.1**
Terms of Trade (% yoy)	-4.2	-3.4	**-6.1**	**-7.3**	**-10.8**	**-7.7**	**-2.6**	**-2.4**	**0.3**	**0.7**

	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Retail ECT (% mom)	1.0	0.7	-0.6	1.2	0.5	0.4	0.4	0.9	0.0	--
Retail ECT (% yoy)	4.0	3.7	3.9	3.2	5.0	5.6	4.2	6.1	5.6	--
Credit Card Billings (% mom)	0.1	0.7	0.1	1.8	0.3	1.8	1.4	-1.9	--	--
Credit Card Billings (% yoy)	5.8	5.4	7.2	7.3	6.7	9.8	10.4	7.3	--	--
Car Registrations (% mom)	-0.2	2.5	-1.4	-0.2	5.4	0.5	-2.1	0.2	-1.4	-2.2
Car Registrations (% yoy)	12.1	11.8	11.2	6.8	11.2	10.7	7.8	5.0	3.8	1.3
Building Consents (% mom)	-5.5	10.3	-1.4	0.8	-3.6	19.9	-5.3	-5.8	5.1	--
Building Consents (% yoy)	-0.4	7.5	2.4	6.4	-4.0	21.6	11.9	17.0	14.2	--
REINZ House Price Index (% yoy)	7.1	8.5	9.3	11.8	14.8	14.9	17.3	20.1	14.1	--
Household Lending Growth (% mom)	0.5	0.5	0.5	0.6	0.6	0.7	0.6	0.7	0.7	--
Household Lending Growth (% yoy)	4.9	5.0	5.2	5.5	5.6	6.0	6.3	6.7	6.9	--
ANZ Roy Morgan Consumer Conf.	124.0	124.6	128.8	123.9	119.9	113.9	109.8	110.8	114.9	122.7
ANZ Business Confidence	34.4	35.8	30.2	15.7	-2.3	-15.3	-29.1	-18.9	10.5	14.6
ANZ Own Activity Outlook	40.9	42.2	41.3	32.6	23.6	19.0	12.2	16.7	23.7	32.0
Trade Balance ($m)	84	661	184	367	-182	-730	-1087	-1140	-963	--
Trade Bal ($m ann)	51172	51287	51298	50976	51371	51643	52446	52287	52178	--
ANZ World Commodity Price Index (% mom)	4.2	4.6	-7.4	-4.8	-3.1	-5.5	-5.3	5.6	7.1	-5.6
ANZ World Comm. Price Index (% yoy)	-15.8	-11.9	-15.3	-18.0	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3
Net Migration (sa)	4840	5020	4820	5140	4920	5740	5510	5600	6210	--
Net Migration (ann)	55121	56275	56813	57822	58259	59639	60290	61234	62477	--
ANZ Heavy Traffic Index (% mom)	-0.5	-0.5	-0.4	-1.1	1.9	-0.1	-0.3	1.8	0.9	--
ANZ Light Traffic Index (% mom)	0.6	-0.2	0.1	-0.5	0.9	-1.0	-0.5	2.6	-0.3	--

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	Oct-15	Nov-15	Today	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
NZD/USD	0.678	0.656	0.673	0.65	0.62	0.60	0.59	0.59	0.59	0.59
NZD/AUD	0.950	0.910	0.917	0.97	0.95	0.94	0.92	0.92	0.92	0.92
NZD/EUR	0.616	0.620	0.618	0.62	0.58	0.56	0.53	0.51	0.51	0.51
NZD/JPY	81.76	80.65	82.87	78.0	72.5	69.0	67.9	67.9	66.1	64.9
NZD/GBP	0.439	0.437	0.445	0.42	0.39	0.38	0.37	0.36	0.36	0.36
NZ$ TWI	72.9	71.5	72.7	71.7	68.3	65.9	64.0	63.3	63.1	62.9
INTEREST RATES	Oct-15	Nov-15	Today	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
NZ OCR	2.75	2.75	2.75	2.75	2.50	2.50	2.50	2.50	2.75	3.25
NZ 90 day bill	2.96	2.83	2.87	2.90	2.60	2.60	2.70	2.70	3.10	3.40
NZ 10-yr bond	3.30	3.54	3.57	3.70	3.80	3.80	3.80	3.90	3.90	3.90
US Fed funds	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.25	1.25	1.25
US 3-mth	0.33	0.42	0.46	0.66	0.91	1.16	1.33	1.33	1.33	1.33
AU Cash Rate	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.11	2.27	2.31	2.20	2.00	1.70	1.70	1.70	1.70	1.80

	4 Nov	30 Nov	1 Dec	2 Dec	3 Dec	4 Dec
Official Cash Rate	2.75	2.75	2.75	2.75	2.75	2.75
90 day bank bill	2.95	2.84	2.84	2.85	2.87	2.87
NZGB 12/17	2.65	2.67	2.68	2.69	2.66	2.65
NZGB 03/19	2.76	2.83	2.84	2.86	2.82	2.81
NZGB 04/23	3.34	3.53	3.54	3.56	3.51	3.51
NZGB 04/27	3.66	3.88	3.90	3.91	3.87	3.87
2 year swap	2.78	2.69	2.71	2.72	2.73	2.72
5 year swap	2.97	2.91	2.92	2.94	2.91	2.92
RBNZ TWI	73.0	71.43	71.28	72.07	72.30	72.29
NZD/USD	0.6759	0.66	0.65	0.66	0.67	0.66
NZD/AUD	0.9416	0.91	0.91	0.91	0.91	0.91
NZD/JPY	81.60	80.56	80.23	81.44	81.99	81.99
NZD/GBP	0.4384	0.44	0.44	0.44	0.44	0.45
NZD/EUR	0.6137	0.62	0.62	0.63	0.63	0.63
AUD/USD	0.7178	0.72	0.72	0.73	0.73	0.73
EUR/USD	1.1013	1.06	1.06	1.06	1.06	1.06
USD/JPY	120.73	122.63	122.70	122.81	123.05	123.31
GBP/USD	1.5417	1.51	1.50	1.51	1.51	1.49
Oil (US$/bbl)	46.12	41.22	40.57	40.43	40.58	39.93
Gold (US$/oz)	1135.80	1067.75	1055.65	1071.60	1068.30	1051.30
Electricity (Haywards)	6.61	8.21	7.42	7.98	6.63	6.51
Baltic Dry Freight Index	657	584	598	590	574	563
Milk futures (USD)	47	43	43	41	43	41

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