NEW ZEALAND ECONOMICS
MARKET FOCUS

25 July 2016

INSIDE

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ON THE OFFENSIVE

ECONOMIC OVERVIEW

By tightening LVR limits and signalling a lower OCR, the RBNZ has knocked the NZD down a tad as it deals with housing, currency and inflation tensions. We can't argue with the spirit of what is being attempted, though we continue to ponder the endgame. We don't believe it meaningfully alters the outlook for the NZD (reasons for strength remain), and likewise for housing, where a host of problems exist (demand/supply imbalance, capacity etc). Furthermore, low inflation is a global rather than local phenomenon. These announcements go some way towards responding to tensions, but they are tweaks and not much more. A challenging operating environment remains where policy trade-offs are required. This week we expect credit and lending growth figures to be strong, while our *Business Outlook* survey is the first one to capture the impact, or not, of recent global ructions.

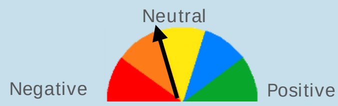
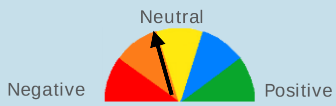
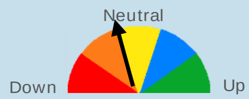
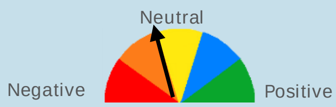
INTEREST RATE STRATEGY

We now expect an OCR cut in August, with the RBNZ signalling that further monetary policy easing is in the offering to offset the deflationary impact of TWI strength, and that the housing boom will primarily be dealt with via macro-prudential policy. Short-end market pricing seems fair and is in line with our forecasts. At face value that leaves us neutral, but with the risk profile skewed downward and the onus on the RBNZ to front foot easing, we expect the short-end to continue grinding lower. Local interest rates remain high by global comparison, and we view yield convergence as a necessary condition to avert TWI strength. Ahead of at least two more OCR cuts, we expect to see more curve-flattening.

CURRENCY STRATEGY

The RBNZ has knocked the top off the NZD, with a clear inclination to push the OCR lower. We're not getting overly excited. The market is now fully priced for easings relative to our core view, which leaves us somewhat agnostic directionally following the pull-back. Ranges beckon. Our "bond ladder" thematic accentuates yield convergence, ultimately putting downward pressure on the NZD, but that's an 18 month view. In the meantime, the tenor of domestic data is not slowing, a 25bps is now priced for August and the Fed is on hold. So the bird looks somewhat directionless for now.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.4% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to continue. Downside risk mainly stems from offshore.	
Unemployment rate	4.7% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, but a turn looks to be in sight.	
OCR	1.75% by Jun 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	
CPI	1.2% y/y for 2017 Q2	Low petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	

ECONOMIC OVERVIEW

SUMMARY

By tightening LVR limits and signalling a lower OCR (at this stage we see cuts in August and early 2017), the RBNZ has knocked the NZD down a tad as it deals with housing, currency and inflation tensions. We can't argue with the spirit of what is being attempted, though we continue to ponder the endgame. We don't believe it meaningfully alters the outlook for the NZD (reasons for strength remain), and likewise for housing, where a host of problems exist (demand/ supply imbalance, capacity etc). Furthermore, low inflation is a global rather than local phenomenon. These announcements go some way towards responding to tensions, but they are tweaks and not much more. A challenging operating environment remains where policy trade-offs are required. This week we expect credit and lending growth figures to be strong, while our *Business Outlook* survey is the first one to capture the impact, or not, of recent global ructions.

FORTHCOMING EVENTS

Overseas Merchandise Trade – June (10:45am, Tuesday, 26 July). We expect a circa $100m surplus, which is slightly less than the average June surplus recorded over the past five years. The impact of higher oil prices should start to see a mild deterioration in the underlying trade balance over the months ahead.

New Mortgage Lending – June (3:00pm, Tuesday, 26 July). New lending growth is running at a strong pace. This is likely to slow over the course of the year, but not yet.

Building Consent Issuance – June (10:45am, Friday, 29 July). We expect a positive upward trend to emerge again. However, capacity constraints appear to be capping the upside right now.

ANZ Business Outlook – July (1:00pm, Friday, 29 July).

RBNZ Credit Aggregates – June (3:00pm, Friday, 29 July). Household lending growth is running at an 8-year high. The household-debt-to-income ratio is still rising from record levels.

WHAT'S THE VIEW?

The RBNZ came out all guns blazing last week in an attempt to tackle low inflation, an elevated NZD and housing strength. Our observations include:

- **An August OCR cut now looks assured.** The RBNZ's economic update noted it likely that further easing "will be" required rather than "may be", leaving little doubt. We don't believe the economy is in need of additional easing right now given accelerating growth, an improving labour market (we're picking strength in the HLFS data next week, which will serve as a reminder of how strong the economy is) and evidence of growing capacity strains. Nevertheless, we're here to pick what the RBNZ will do as oppose to what we think it should do, so there is an element of *mea culpa* from us after we changed our call a few weeks ago to the RBNZ standing pat in August.
- **Beyond August, at least one further OCR cut is likely.** We expect the RBNZ to signal this very fact within the bank bill projects at its August *MPS*, and perhaps in some additional scenarios too. Our forecast remains that the RBNZ will take the OCR to 1.75% by early 2017.
- **We can't argue with the spirit of further rate cuts. While we were calling no move in August, we were still calling cuts.** We have had two additional OCR cuts within our baseline forecasts for some time, with the overarching theme being that in a world of currency divergence (from fundamentals), the pressure is for domestic interest rates to ultimately converge over time. That divergence/convergence theme remains dominant within our thinking.
- **The RBNZ obviously view the NZD as a real problem.** We can't argue with that. Tradable sector performance hasn't been great and annual tradable inflation has effectively been negative since 2012. The RBNZ obviously feels it needs more 'help' from a lower NZD to get within cooee of its inflation objective. That's true too, but it is a dangerous game to play. Monetary policy is working precisely as it should be in the interest rate sensitive sectors (actually too well, such that the RBNZ wants to slow that bit). However, it is being dragged back to the easing table courtesy of other central banks.
- **We doubt the NZD will move aggressively lower in the absence of a global meltdown (a non-trivial risk to be fair).** Relative economic success has its drawbacks. There may be a few more cents left in the current NZD move lower, but the brutal reality is that:
  - New Zealand's growth story remains intact.
  - We have far more political stability than others.
  - Interest rates – while low and set to be lower – are still well above international peers (refer our bond ladder below).

ECONOMIC OVERVIEW

FIGURE 1: G10 SOVEREIGN BOND YIELD MATRIX

Country	2-3 Year	5 Year	10 Year	Average
Switzerland	-0.98	-0.92	-0.54	-0.81
Germany	-0.62	-0.49	-0.03	-0.38
Japan	-0.33	-0.33	-0.23	-0.30
Denmark	-0.55	-0.32	0.11	-0.25
Sweden	-0.65	-0.30	0.17	-0.26
Norway	0.48	0.57	0.98	0.68
UK	0.13	0.35	0.80	0.42
Canada	0.56	0.64	1.10	0.77
USA	0.70	1.12	1.57	1.13
Australia	1.52	1.56	1.91	1.66
New Zealand	1.84	1.90	2.21	1.98

Source: ANZ, Bloomberg

- **So we see the latest RBNZ moves as knocking the extremes off recent currency action as opposed to changing the trend.**
- **A move to impose tighter LVR restrictions is a quantity restriction slowing the pace of credit.** The combination of housing valuation excess and deteriorating structural metrics (weaker household saving, rapid credit growth, re-leveraging behaviour) meant the warning lights were flashing and that's a situation where policymakers can hardly stand idly by after the experience of the GFC, irrespective of what bank stress tests tell them. But there will be trade-offs:
  - Credit is the life-blood of a modern economy; it needs to keep pumping and it will. But it's a fine balancing act. Traditionally, the higher risk areas of the market (section and apartment development) are precisely where the supply-side response is needed. The LVR restrictions have exemptions aimed at keeping the blood pumping into the "new build" and supply-side elements, but the metrics still need to add up for operators in that space. We'll be watching building consent figures closely over the coming months to see if some tailing off occurs.
  - The longer such restrictions are in place the greater the potential for forcing lending beyond the banking system itself and into the unregulated zone. The RBNZ will need to be alert to this. The first bout of restrictions appeared three years ago and we're now into round three of changes. The longer they stay the greater the potential for leakage.
  - You have to feel sorry for some regions that only joined the housing party late and have had the punchbowl removed after a quick sample. That will dampen regional growth at a time headwinds from a low dairy payout are coming to a head.
- **If the household sector is binging on debt and is being sent to rehab, the allure of an OCR cut represents a shot of vodka on entry.** That's somewhat ironic. The fact banks' cost of funds are higher than what they were in 2015 means OCR cuts are unlikely to be fully passed on, but there is still some irony here. The housing market needs higher interest rates not lower ones, yet the NZD needs a much lower OCR. A wider wedge between retail rates (not lower) and wholesale rates (lower) needs to manifest. Individual's desire to borrow more and save less is directly related to the relative price of the two. That price is continuing to tilt towards the former at the expense of the latter.
- **Banks are imposing the tighter LVR regime immediately so forget about a rush to beat the 1 September official D-day.** We have already heard anecdotes of quieter open home day attendance from the weekend. You can see other forms of self-regulation appearing too. Lending to foreign investors had been curtailed and criteria tightened for other segments too. That's a healthy response to (heated) market conditions.
- **More prudential tightening looks inevitable.** Debt-to-income style caps of some sort look around the corner. Central banking moves through swings over time. We've seen the gold standard, nominal income targeting and then inflation targeting. Macro-prudential policy is simply the next wave as attention turns more to financial stability (which is ironically being undermined by incredibly low rates around the globe!).
- **There are still a whole host of problems across the housing market.** Excess demand, insufficient supply and capacity issues (manpower to build the houses) are just a few. Construction costs are up 5.6% across the country, but are up 7.6% in Auckland. We suspect the migration debate will intensify, particularly what is controllable and what is not, and we hopefully will get some clarity on the Auckland Unitary Plan soon, which is clearly relevant to the whole intensification debate.

So while the latest announcements go some way towards responding to the tensions the RBNZ faces, they are tweaks and not much more. It is going to remain an extremely challenging operating environment for the RBNZ for some time yet. In a coupled world, global forces such as low interest rates via the action of other central banks and currency shenanigans become overriding.

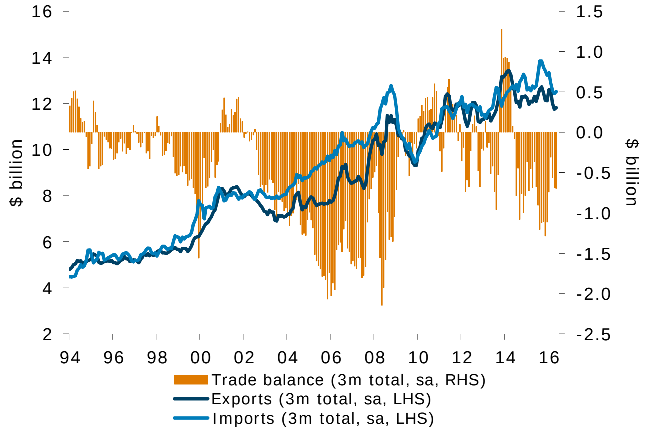
Turning to the week ahead, overseas trade figures are expected to show a small monthly

ECONOMIC OVERVIEW

surplus. We have pencilled in an unadjusted surplus of $100m, which is slightly smaller than the average June surplus (excluding large import items) recorded over the past five years.

To be fair, the underlying performance of New Zealand's trade accounts has not been that bad recently, even with earlier weakness in export commodity prices. In seasonally adjusted terms, a deficit of $93m was seen in May, which is smaller than the average deficit of close to $300m over 2015. In trend terms, the $173m deficit is close to half as small as what it was around the middle of last year. We have seen export commodity prices show some evidence of stabilisation, and that will eventually flow through and support export earnings, but a key factor that is expected to drive a modest deterioration in the trade figures over the next quarter or so is the close to 60% bounce in oil prices since the start of the year.

FIGURE 2: MERCHANDISE TRADE BALANCE



Source: ANZ, Statistics NZ

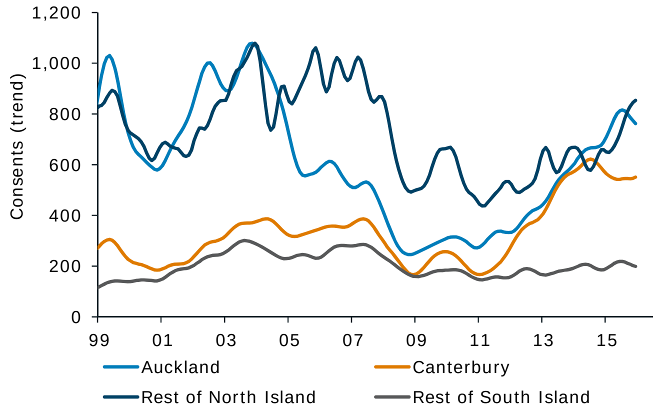
New mortgage lending figures for June will no doubt be strong. In May, the figures showed new lending was close to $7.3bn in the month, which is up 18% compared with May 2015. Lending to investors rose 36% y/y, to be 37% of total new lending in the month. Now we are expecting new lending growth to soften over the months ahead, particularly with the RBNZ now restricting credit availability to investors further. But in the meantime, it should remain strong, with the composition still skewed heavily to investors.

This data will then set the scene for broader credit growth figures released at the end of the week, which are also set to record strong growth. While there is also a decent amount of repayments occurring as households use low mortgage rates to repay loans faster, we are still expecting to see similar monthly growth (0.8% m/m) to that experienced in April and May.

Our *Business Outlook* for July is the first one surveyed since the latest ructions offshore. A fortnight ago, our consumer sentiment measure managed to hold up well despite these offshore wobbles, so the focus will be on whether businesses are feeling the same. Recall that "confidence" is one of our 6 Cs we use to gauge the possible impact of global fragilities and uncertainty on the economy. In June, headline confidence lifted 9 points to a net 20%, a six month high. Most importantly, firms' own activity, investment, employment and profit expectations all remain consistent with a decent pace of activity growth across the economy.

Building consent issuance for June is expected to hold around current levels. In May, total dwelling consent issuance dipped 0.9% m/m, but has effectively held at a similar level for the past year. In fact, Statistics NZ estimates that the underlying trend in issuance has now started to dip slightly. There is certainly considerable tension between demand and supply pressures in the construction sector at present, with low interest rates, net migration gains, policymaker desire and strong existing house price gains going head-to-head with capacity constraints and some signs that credit is being constrained to the likes of developers. We do expect demand-side pressures to eventually win-out, and for consent issuance to continue trending higher, but that might not occur in a smooth fashion and issuance could be capped around current levels for a time yet.

FIGURE 3: DWELLING CONSENT TREND



Source: ANZ, Statistics NZ

LOCAL DATA

BNZ-Business NZ PSI – June. The headline index dipped 0.2 points to 56.7.

CPI – Q2. Headline inflation rose 0.4% q/q (0.4% y/y), with non-tradable prices up 0.3% (1.8% y/y) and tradable prices up 0.6% q/q (-1.5% y/y).

GlobalDairyTrade auction. The GDT-TWI was unchanged, with wholemilk powder prices rising 1.9%.

International Travel & Migration – June. A net inflow of 5,670 (sa) permanent migrants was seen, while visitor arrivals dipped 1.0% m/m (10.9% y/y).

INTEREST RATE STRATEGY

SUMMARY

We now expect an OCR cut in August, with the RBNZ signalling that further monetary policy easing is in the offering to offset the deflationary impact of TWI strength, and that the housing boom will primarily be dealt with via macro-prudential policy. Short-end market pricing seems fair and is in line with our forecasts. At face value that leaves us neutral, but with the risk profile skewed downward (courtesy of weaker global growth and political uncertainty) and the onus on the RBNZ to front foot easing, we expect the short-end to continue grinding lower. Local interest rates remain high by global comparison, and we view yield convergence as a necessary condition to avert TWI strength. Ahead of at least two more OCR cuts, we expect to see more curve-flattening.

THEMES

- Monetary and macro-prudential policies are not perfect substitutes, but their Venn diagrams do intersect. With housing in the sights of tougher LVR restrictions, the Bank is set to ease again next month, and flag more easing after that.
- The IMF's downgraded global growth forecasts cite Brexit and political uncertainty. The RBNZ takes these developments seriously.
- Yield convergence remains the key over-arching theme in bond markets. Ahead of at least two more OCR cuts, the curve should be flatter.

MONETARY POLICY AND SHORT-END

Market pricing seems reasonably fair, with August 95% priced in and a follow up cut priced in by February, in line with our forecasts. That leaves us fairly neutral, save our view of **the risk profile, which suggests yields will continue grinding lower.**

GLOBAL MARKETS AND LONG-END

Last week the IMF cut its 2017 growth forecasts from 3.5% to 3.4%, citing Brexit and political uncertainty. While just a minor tweak, it's actually more significant when you consider that the IMF said that pre-Brexit, it was looking to *upgrade* its global growth forecasts. All else equal, this portends of **global monetary policy remaining easier for longer.**

However, the US bond market remains somewhat on edge ahead of this week's FOMC meeting, with yields at the upper end of trading ranges. **Ordinarily, we'd be nervous given the robust pulse of US data**, together with so little tightening priced (the market is pricing in just 45% odds of a Fed hike by December). **However, Fed governors have been notable by their absence** over the past fortnight, suggesting that this week's FOMC is unlikely to cause a stir.

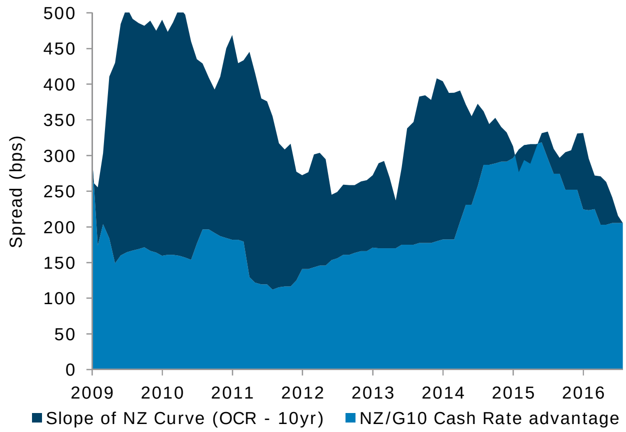
NZ long-end yields remain high in relation to G10 peers, courtesy mainly of the high OCR (Figure 1). However, yields have moved to record lows since last week's RBNZ *Update*. All else equal, more easing should and will drive further spread compression vs the US. It should also drive further curve flattening. Curves typically flatten ahead of easing, and while the NZ curve is historically flat, given the potential easing that could be brought to bear if the TWI holds up, we would expect the curve to flatten further, and possibly to invert. At a minimum, **we would expect rate hikes priced in from mid-2017 to be priced out**, driving the belly of the curve and the long-end lower.

STRATEGY

Investors: We prefer to be **long duration**, adding on dips, and positioned for further curve flattening. Mid-curve forward starting swaps look cheap.

Borrowers: We are not confident that the lows are yet in for term yields, despite dramatic falls. With BKBM also biased lower, **we prefer options.**

FIGURE 1: BUILDING BLOCKS OF NZ 10 YEAR YIELDS



Source: ANZ, Bloomberg

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short-end	Neutral/bullish	Fairly priced for upcoming OCR changes, but risk profile still lower. Forward curve >1yr needs to flatten.
Long-end	Bullish	Compared to a week ago, the risk is that we see more, not less RBNZ easing. This will help drive further yield convergence as the "flight from negativity" continues. Weaker world growth will also help.
Yield Curve	Flatter	RBNZ has more scope to ease than any other G10, and is about to act. Curve should flatten in advance.
Geographic spreads	Narrower	Have performed well of late, helped by UST sell-off. NZ looking more like a safe-haven than a peripheral, with political stability, sensible government, and plenty of scope to ease monetary (and fiscal) policy.
Swap spreads	Neutral	NZGS demand rock solid. Still difficult to see any corporate swap paying near term. Range-bound.
NZD/TWI	Elevated	Shifting RBNZ message has capped NZD, but bid unlikely to disappear unless/until OCR goes much lower.

CURRENCY STRATEGY

SUMMARY

The RBNZ has knocked the top off the NZD, with a clear inclination to push the OCR lower. We're not getting overly excited. The market is now fully priced for easings relative to our core view, which leaves us somewhat agnostic directionally following the pull-back. Ranges beckon. Our "bond ladder" thematic accentuates yield convergence, ultimately putting downward pressure on the NZD, but that's an 18 month view. In the meantime, the tenor of domestic data is not slowing, a 25bp cut is now priced for August and the Fed is on hold. So the bird looks somewhat directionless for now.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Not just the OCR	Needs to fall and will
NZD/AUD	↔	RBNZ on track to ease first but AU CPI due this week	Remain above long-run averages
NZD/EUR	↔	Consolidating	Self-limiting
NZD/GBP	↔	Stretched	Less easy to envisage GBP resurgence
NZD/JPY	↔/↓	Top of range	USD/JPY <100 untenable for BoJ

THEMES AND RISKS

- RBNZ gives a clear signal; rates are moving lower. We don't think the economy needs it but the RBNZ clearly wants the top knocked off the NZD with recent strength hard to ignore, and a lower OCR is the only way to do it.
- It is not just interest rate differentials that are keeping the TWI elevated, it is also supported by above trend growth, a sound fiscal profile and stable political backdrop.
- Continued softness in dairy prices puts pressure on dairy sector incomes this season. We're watchful.
- Our "bond ladder" thematic remains critical to our NZD view. As long as a yield premium is on offer and others are taking yields deeper into negative territory, the NZD will be supported.

ASSESSMENT

Here we go again. The RBNZ is set to cut. Inflation is low and the high NZD means it will remain so, despite signs domestic inflation is accelerating.

Two key issues loom large: First, how low can the RBNZ go; and second, will the NZD, after receding, continue to play ball with the RBNZ's wishes, or find a floor and continue to push against the RBNZ's desired mix to monetary conditions? The implementation of tighter LVR restrictions (and the potential of more to come) provides more scope to cut the OCR.

With regard to the former, **we're cautious about extrapolating OCR cuts too far beyond the 50bps we already have pencilled in.** This is because we are seeing no sign of ease up in our lead indicators. Market expectations are now effectively the same (with the terminal OCR at 1.68%, vs 1.83% a week ago).

We are in no doubt the NZD will not play ball. There remains daylight between NZ yields and other developed markets (refer page 3). Such divergence will continue to pressure for interest rate convergence.

So we are back running in circles, with the NZD set to frustrate the RBNZ's desires. The valuation gap for the NZD is less extreme than it was a week ago; the RBNZ got some follow through. However, until we see other central banks ease up the allure of cheap money, or the most important fundamental rolls over (growth), the NZD looks set to range trade as opposed to remain in a downward trend.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages
Yield	↔/↑	Still favours NZ
Commodities	↔	A risk factor for both
Data	↑	NZ growth solid, AU downgrade?
Techs	↔	Has broken lower
Sentiment	↔/↓	RBNZ easing more immediate
Other	↔/↓	AUD offers better liquidity
On balance	↔	**New, lower range trade <0.95**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Above fair value
Yield	↔/↑	Growth adding to yield support
Commodities	↔/↓	OK ex dairy. Up 3.7% in June
Risk aversion	↔/↑	Resilience to "risk-off" notable
Data	↔/↑	Expect upcoming data to be solid
Techs	↔	Still seems well bid <0.70
Other	↔/↓	RBNZ dissatisfied with strength, but growth, politics, fiscal support
On balance	↔	**More balanced outlook now**

POSITIONING

NZD positioning has flipped from short to long, but is fairly neutral by historic comparison. AUD positioning has also increased, but GBP and EUR shorts are the most notable, suggesting the potential for squeezes lower on NZD/GBP and NZD/EUR crosses.

GLOBAL VIEWS

The **IMF's downgraded global growth forecasts** place NZ in an even better light, and highlight the challenges the RBNZ faces if it wishes to rebalance the mix of monetary conditions. Last week, the attitude to Brexit was "keep calm and carry on"; but the impact is now being felt in PMI surveys, which is a concern. US data has been decent, **but a distinct lack of Fedspeak has us worried about counting on USD strength**, with markets pricing in just 45% odds of a Fed hike by December.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-Jul	GE	IFO Business Climate - Jul	107.5	108.7	20:00
	GE	IFO Current Assessment - Jul	114.0	114.5	20:00
	GE	IFO Expectations - Jul	101.6	103.1	20:00
	UK	CBI Trends Total Orders - Jul	-6	-2	22:00
	UK	CBI Trends Selling Prices - Jul	--	1	22:00
	UK	CBI Business Optimism - Jul	-15	-5	22:00
26-Jul	US	Dallas Fed Manf. Activity - Jul	-10.0	-18.3	02:30
	NZ	Trade Balance - Jun	127M	358M	10:45
	NZ	Exports - Jun	4.20B	4.57B	10:45
	NZ	Imports - Jun	4.11B	4.22B	10:45
	NZ	Trade Balance 12 Mth YTD - Jun	-3297M	-3633M	10:45
	AU	ANZ-RM Consumer Confidence Index - 24-Jul	--	114.9	11:30
	UK	BBA Loans for House Purchase - Jun	39650	42187	20:30
27-Jul	US	S&P/CS 20 City MoM SA - May	0.20%	0.45%	01:00
	US	S&P/CS Composite-20 YOY NSA - May	5.60%	5.44%	01:00
	US	Markit US Services PMI - Jul P	52.0	51.4	01:45
	US	Markit US Composite PMI - Jul P	--	51.2	01:45
	US	Consumer Confidence Index - Jul	95.5	98.0	02:00
	US	Richmond Fed Manufact. Index - Jul	-5	-7	02:00
	US	New Home Sales - Jun	560k	551k	02:00
	US	New Home Sales MoM - Jun	1.6%	-6.0%	02:00
	CH	Industrial Profits YoY - Jun	--	3.7%	13:30
	AU	CPI QoQ - Q2	0.4%	-0.2%	13:30
	AU	CPI YoY - Q2	1.1%	1.3%	13:30
	AU	CPI Trimmed Mean QoQ - Q2	0.4%	0.2%	13:30
	AU	CPI Trimmed Mean YoY - Q2	1.5%	1.7%	13:30
	AU	CPI Weighted Median QoQ - Q2	0.4%	0.1%	13:30
	AU	CPI Weighted Median YoY - Q2	1.3%	1.4%	13:30
	GE	Import Price Index MoM - Jun	0.6%	0.9%	18:00
	GE	Import Price Index YoY - Jun	-4.6%	-5.5%	18:00
	GE	GfK Consumer Confidence - Aug	9.9	10.1	18:00
	EC	M3 Money Supply YoY - Jun	5.0%	4.9%	20:00
	UK	GDP QoQ - Q2 A	0.5%	0.4%	20:30
	UK	GDP YoY - Q2 A	2.1%	2.0%	20:30
	UK	Index of Services MoM - May	0.1%	0.6%	20:30
	UK	Index of Services 3M/3M - May	0.3%	0.5%	20:30
	UK	CBI Retailing Reported Sales - Jul	1	4	22:00
	UK	CBI Total Dist. Reported Sales - Jul	--	14	22:00
	US	MBA Mortgage Applications - 22-Jul	--	-1.3%	23:00
28-Jul	US	Durable Goods Orders - Jun P	-1.1%	-2.3%	00:30
	US	Durables Ex Transportation - Jun P	0.3%	-0.3%	00:30
	US	Cap Goods Orders Nondef Ex Air - Jun P	0.2%	-0.4%	00:30
	US	Cap Goods Ship Nondef Ex Air - Jun P	0.5%	-0.5%	00:30
	US	Pending Home Sales MoM - Jun	1.2%	-3.7%	02:00
	US	Pending Home Sales NSA YoY - Jun	3.0%	2.4%	02:00
	US	FOMC Rate Decision - Jul	0.5%	0.5%	06:00
	AU	Export Price Index QoQ - Q2	3.0%	-4.7%	13:30
	AU	Import Price Index QoQ - Q2	1.5%	-3.0%	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
28-Jul	UK	Nationwide House PX MoM - Jul	0.0%	0.2%	18:00
	UK	Nationwide House Px NSA YoY - Jul	4.5%	5.1%	18:00
	GE	Unemployment Change (000's) - Jul	-4k	-6k	19:55
	GE	Unemployment Claims Rate SA - Jul	6.1%	6.1%	19:55
	EC	Economic Confidence - Jul	103.6	104.4	21:00
	EC	Business Climate Indicator - Jul	0.17	0.22	21:00
	EC	Industrial Confidence - Jul	-3.4	-2.8	21:00
	EC	Services Confidence - Jul	10.3	10.8	21:00
	EC	Consumer Confidence - Jul F	-7.9	-7.9	21:00
29-Jul	GE	CPI MoM - Jul P	0.2%	0.1%	00:00
	GE	CPI YoY - Jul P	0.3%	0.3%	00:00
	GE	CPI EU Harmonized MoM - Jul P	0.3%	0.1%	00:00
	GE	CPI EU Harmonized YoY - Jul P	0.3%	0.2%	00:00
	US	Advance Goods Trade Balance - Jun	-$61.0B	-$60.6B	00:30
	US	Initial Jobless Claims - 23-Jul	263k	253k	00:30
	US	Continuing Claims - 16-Jul	2136k	2128k	00:30
	US	Kansas City Fed Manf. Activity - Jul	4	2	03:00
	NZ	Building Permits MoM - Jun	--	-0.9%	10:45
	UK	GfK Consumer Confidence - Jul	-8	-1	11:05
	NZ	ANZ Activity Outlook - Jul	--	35.1	13:00
	NZ	ANZ Business Confidence - Jul	--	20.2	13:00
	AU	PPI QoQ - Q2	--	-0.2%	13:30
	AU	PPI YoY - Q2	--	1.2%	13:30
	AU	Private Sector Credit MoM - Jun	0.5%	0.4%	13:30
	AU	Private Sector Credit YoY - Jun	6.5%	6.5%	13:30
	NZ	Money Supply M3 YoY - Jun	--	7.3%	15:00
	GE	Retail Sales MoM - Jun	0.1%	0.7%	18:00
	GE	Retail Sales YoY - Jun	1.6%	2.6%	18:00
	UK	Net Consumer Credit - Jun	£1.4B	£1.5B	20:30
	UK	Net Lending Sec. on Dwellings - Jun	£2.7B	£2.8B	20:30
	UK	Mortgage Approvals - Jun	65.8k	67.0k	20:30
	UK	Money Supply M4 MoM - Jun	--	1.2%	20:30
	UK	M4 Money Supply YoY - Jun	--	1.8%	20:30
	UK	M4 Ex IOFCs 3M Annualised - Jun	4.0%	5.2%	20:30
	EC	Unemployment Rate - Jun	10.1%	10.1%	21:00
	EC	CPI Estimate YoY - Jul	0.1%	--	21:00
	EC	CPI Core YoY - Jul A	0.8%	0.9%	21:00
	EC	GDP SA QoQ - Q2 A	0.3%	0.6%	21:00
	EC	GDP SA YoY - Q2 A	1.5%	1.7%	21:00
	JN	BoJ Policy Rate	--	-0.10%	UNSPECIFIED
30-Jul	US	Employment Cost Index - Q2	0.6%	0.6%	00:30
	US	GDP Annualized QoQ - Q2 A	2.6%	1.1%	00:30
	US	Personal Consumption - Q2 A	4.3%	1.5%	00:30
	US	GDP Price Index - Q2 A	1.9%	0.4%	00:30
	US	Core PCE QoQ - Q2 A	1.7%	2.0%	00:30
	US	Chicago Purchasing Manager - Jul	54.0	56.8	01:45
	US	U. of Mich. Sentiment - Jul F	90.0	89.5	02:00

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

LOCAL DATA WATCH

Domestic economic momentum is lifting. However, downside risks exist (mainly from offshore). On balance we see it as likely that the RBNZ will cut the OCR twice more (August and early 2017), although we're still of the view that the economy doesn't need additional stimulus right now.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 26 Jul (10:45am)	Overseas Merchandise Trade – Jun	Holding up for now	The seasonally adjusted deficit has been narrowing. But higher oil prices are a headwind that should see a widening again.
Tue 26 Jul (3:00pm)	RBNZ New Mortgage Lending – Jun	Becoming a little problematic	New lending growth is running at a strong pace. This may slow over the course of the year, but not yet.
Fri 29 Jul (10:45am)	Building Consents Issued – Jun	Hovering	We expect a positive upward trend to emerge again. However, capacity constraints appear to be capping the upside.
Fri 29 Jul (1:00pm)	ANZ Business Outlook – Jul	--	--
Fri 29 Jul (3:00pm)	RBNZ Credit Aggregates – Jun	Strong	Household lending growth is running at an 8-year high. The household-debt-to-income ratio is still rising from record levels.
Tue 2 Aug (12:00pm)	QV House Prices – Jul	The party continues	National house price growth should continue to accelerate, led largely by non-Auckland regions.
Tue 2 Aug (3:00pm)	RBNZ Survey of Expectations – 3Q	NZD impact	Inflation expectations remain low. The strength of the NZD may see the 2-year ahead measure fall a tad.
Wed 3 Aug (early am)	GlobalDairyTrade Auction	Near-term challenge	The global supply situation is changing, which should eventually support prices. But the near term still looks challenging.
Wed 3 Aug (10:45am)	Labour Markets Statistics – Q2	Solid	The unemployment rate should continue to fall, with signs of rising wage pressures.
Wed 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul	--	--
Tue 9 Aug (10:00am)	ANZ Truckometer – Jul	--	--
Tue 9 Aug (10:45am)	Electronic Card Transactions – Jul	Decent trend	After the strong June increase, a more modest lift is likely. Nevertheless, a decent underlying trend will remain.
Tue 9 Aug (1:00pm)	ANZ Monthly Inflation Gauge – Jul	--	--
Thu 11 Aug (9:00am)	RBNZ Monetary Policy Statement	25bp cut	With the RBNZ signalling it likely that further easing "will be" required rather than "may be", it leaves little doubt over action. An easing bias will be retained, with the door well-and-truly left open to additional cuts.
Thu 11 Aug (10:45am)	Food Price Index – Jul	Modest	A seasonal lift in fruit & vegetable prices would typically lead overall prices higher, although low commodity prices and NZD may dampen that.
Fri 12 Aug (10:30am)	BNZ-Business NZ PMI – Jul	Outperforming	Despite currency strength and global wobbles, the sector is performing well on the back of booming construction.
Fri 12 Aug (10:45am)	Retail Trade Survey – Q2	Solid	Electronic Card Transactions data has pointed to a continuation of solid, without being stellar, retail sales growth.
Mon 15 Aug (10:30am)	BNZ-Business NZ PSI – Jul	Carry on	Like the majority of the rest of the economy, the services sector is recording decent activity growth at present.
Wed 17 Aug (10:45am)	PPI – Q2	Benign	Both input and output prices are expected to lift a touch, led largely by a bounce in imported oil prices
Thu 18 Aug (10:00am)	ANZ Job Ads – Jul	--	--
Thu 18 Aug (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Aug	--	--
On balance		**Data watch**	**Momentum is increasing at present, but with risks. Inflation remains low, but has probably troughed.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.7	**0.8**	**0.9**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.8	**3.3**	**3.4**	**3.5**	**3.5**	**3.4**	**3.2**	**2.8**	**2.6**	**2.6**
CPI (% qoq)	0.2	0.4	**0.3**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.7**
CPI (% yoy)	0.4	0.4	**0.4**	**0.9**	**1.3**	**1.2**	**1.6**	**1.7**	**1.8**	**1.8**
Employment (% qoq)	1.2	**0.8**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	2.0	**2.5**	**3.5**	**2.9**	**2.1**	**1.7**	**1.6**	**1.6**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.2	**4.9**	**4.8**	**4.8**	**4.7**	**4.7**	**4.6**	**4.6**	**4.4**	**4.4**
Current Account (% GDP)	-3.0	**-3.1**	**-3.5**	**-3.7**	**-4.3**	**-4.4**	**-4.3**	**-4.1**	**-3.9**	**-3.9**
Terms of Trade (% qoq)	4.4	**-5.7**	**-2.8**	**-0.5**	**0.9**	**1.9**	**2.8**	**1.7**	**0.8**	**0.8**
Terms of Trade (% yoy)	-0.1	**-7.2**	**-6.2**	**-4.8**	**-8.0**	**-0.6**	**5.2**	**7.5**	**7.3**	**7.3**

	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Retail ECT (% mom)	0.1	0.8	0.1	0.4	0.7	0.1	0.9	-0.3	1.2	--
Retail ECT (% yoy)	5.8	4.6	6.6	5.2	9.2	6.2	7.8	3.3	6.8	--
Credit Card Billings (% mom)	1.7	0.7	-0.7	1.8	-0.3	-1.3	2.4	0.0	--	--
Credit Card Billings (% yoy)	7.8	8.5	7.5	8.1	7.3	4.9	9.1	5.9	--	--
Car Registrations (% mom)	-1.3	-2.0	3.1	-2.8	5.8	-3.8	6.1	-3.3	-0.9	--
Car Registrations (% yoy)	3.8	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	--
Building Consents (% mom)	4.9	1.6	2.8	-8.3	10.5	-9.6	6.8	-0.9	--	--
Building Consents (% yoy)	14.6	7.1	17.7	4.9	26.8	0.7	12.8	9.8	--	--
REINZ House Price Index (% yoy)	14.1	12.5	12.6	10.7	11.9	13.3	14.5	14.7	14.2	--
Household Lending Growth (% mom)	0.7	0.6	0.6	0.6	0.6	0.6	0.8	0.8	--	--
Household Lending Growth (% yoy)	6.9	7.2	7.4	7.5	7.6	7.7	7.9	8.1	--	--
ANZ Roy Morgan Consumer Conf.	114.9	122.7	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2
ANZ Business Confidence	10.5	14.6	23.0	..	7.1	3.2	6.2	11.3	20.2	--
ANZ Own Activity Outlook	23.7	32.0	34.4	..	25.5	29.4	32.1	30.4	35.1	--
Trade Balance ($m)	-905	-795	-42	12	367	189	326	358	--	--
Trade Bal ($m ann)	52101	52648	52510	52764	52831	52600	52629	52859	--	--
ANZ World Commodity Price Index (% mom)	7.1	-5.6	-1.8	-2.3	0.5	-1.3	-0.8	1.1	3.7	--
ANZ World Comm. Price Index (% yoy)	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8	-11.6	-5.4	--
Net Migration (sa)	6120	6210	5530	6100	6010	5340	5470	5560	5680	--
Net Migration (ann)	62477	63659	64930	65911	67391	67619	68110	68432	69090	--
ANZ Heavy Traffic Index (% mom)	1.0	0.2	2.9	-4.2	1.7	3.4	-2.4	-2.7	4.7	--
ANZ Light Traffic Index (% mom)	-0.4	0.3	0.9	-1.3	-1.7	0.7	0.4	-1.3	2.8	--

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	May-16	Jun-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.676	0.713	0.700	0.69	0.65	0.64	0.64	0.63	0.63	0.64
NZD/AUD	0.935	0.957	0.938	0.96	0.97	0.97	0.97	0.93	0.90	0.89
NZD/EUR	0.608	0.642	0.639	0.66	0.63	0.62	0.61	0.57	0.57	0.57
NZD/JPY	74.89	73.62	74.43	72.5	68.3	64.0	64.0	63.0	63.0	67.2
NZD/GBP	0.467	0.536	0.533	0.55	0.54	0.52	0.51	0.48	0.47	0.46
NZ$ TWI	71.7	74.8	75.4	74.5	71.9	70.4	69.9	67.3	66.8	67.5
INTEREST RATES	May-16	Jun-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.42	2.41	2.30	2.20	2.20	2.00	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.61	2.35	2.22	2.10	2.00	2.20	2.20	2.50	2.50	2.50
US Fed funds	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
US 3-mth	0.69	0.65	0.72	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.99	1.96	1.90	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	22 Jun	18 Jul	19 Jul	20 Jul	21 Jul	22 Jul
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.35	2.38	2.33	2.35	2.30	2.31
NZGB 03/19	2.15	1.96	1.91	1.92	1.87	1.85
NZGB 05/21	2.19	2.03	1.97	1.98	1.94	1.91
NZGB 04/23	2.25	2.07	2.02	2.02	1.99	1.96
NZGB 04/27	2.55	2.33	2.26	2.27	2.24	2.21
2 year swap	2.33	2.15	2.09	2.11	2.06	2.05
5 year swap	2.49	2.27	2.20	2.22	2.16	2.14
RBNZ TWI	75.8	75.73	75.23	75.66	74.87	75.07
NZD/USD	0.71	0.71	0.70	0.71	0.70	0.70
NZD/AUD	0.96	0.93	0.93	0.94	0.93	0.94
NZD/JPY	74.72	74.83	74.25	74.77	74.81	74.11
NZD/GBP	0.49	0.54	0.53	0.54	0.53	0.53
NZD/EUR	0.63	0.64	0.63	0.64	0.63	0.63
AUD/USD	0.75	0.76	0.75	0.75	0.75	0.75
EUR/USD	1.13	1.11	1.11	1.10	1.10	1.10
USD/JPY	104.57	105.48	105.66	105.96	107.16	105.84
GBP/USD	1.47	1.32	1.32	1.31	1.32	1.32
Oil (US$/bbl)	48.95	45.93	45.23	44.64	44.96	43.96
Gold (US$/oz)	1267.90	1328.50	1330.05	1331.70	1316.25	1327.80
Electricity (Haywards)	4.47	4.60	5.00	5.07	5.12	6.18
Baltic Dry Freight Index	585	748	746	736	726	718
Milk futures (USD)	50	46	45	46	45	45

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