NEW ZEALAND ECONOMICS
MARKET FOCUS

17 October 2016

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LATE CYCLE BEHAVIOUR

ECONOMIC OVERVIEW

The economy is growing strongly and some late-cycle behaviours are now evident. We have housing valuation excesses, deteriorating saving, strong credit growth, re-leveraging households, the prospect of a rising net external liability position, capacity pressures emerging, and a tightening labour market. Such excesses can build up imbalances that weaken an economy's foundations and ultimately require purging and an economic correction / downturn. While the economy is certainly not bulletproof, there are key differences now relative to the past. We are not seeing a wholesale deterioration in structural indicators, policy makers are far more active, banks are leaning against excesses near top of the cycle and inflation is low, and set to remain that way. It gives us confidence that when the domestic growth cycle eventually turns, which it will, it will be a deceleration as opposed to a downturn. Q3 CPI data this week should mark the trough in headline inflation. Dairy prices are expected to be supported by a tighter GDT supply backdrop.

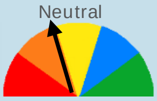
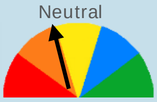
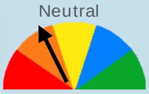
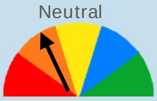
INTEREST RATE STRATEGY

Short-end rates continue to range-trade, with factors arguing for lower rates (RBNZ-speak, low inflation) going head to head with a sound domestic growth picture and global pressure for higher rates. While we expect tomorrow's Q3 CPI data to cement market expectations of an OCR cut next month, fewer now appear to see the need for a follow-up cut, leaving the market vulnerable to the upside on profit-taking. Long-end rates are higher, in line with global rates, with the bellwether US 10-year bond yield now in "clear air" following a technical break higher. Fed Chair Yellen's speech was dovish, and the tone of it would ordinarily be well received by the bond market. But on this occasion, the "bond vigilantes" seem to have taken the upper hand, fearful that an extended period of easy policy will undermine value. Local factors point to a narrowing in the NZ/US bond spread, but this is tempered by an already narrow NZ/AU spread.

CURRENCY STRATEGY

The re-pricing lower of the NZD looks complete. In the absence of the Fed stepping it up, or the RBNZ down, our expectation of a muddle-through global growth world (doing enough to get by) leaves the NZD with solid credentials for support, underscored by sound local fiscal credentials and Fed ramblings of deliberately remaining behind the curve (typically USD negative).

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.3% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	Neutral Negative  Positive
Unemployment rate	5.0% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	Neutral Negative  Positive
OCR	1.50% by Jun 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	Neutral Down  Up
CPI	0.9% 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.	Neutral Negative  Positive

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SUMMARY

The economy is growing strongly and some late-cycle behaviours are now evident. We have housing valuation excesses, deteriorating saving, strong credit growth, re-leveraging households, the prospect of a rising net external liability position, capacity pressures emerging, and a tightening labour market. Such excesses can build up imbalances that weaken an economy's foundations and ultimately require purging and an economic correction / downturn. While the economy is certainly not bulletproof, there are key differences now relative to the past. We are not seeing a wholesale deterioration in structural indicators, policy makers are far more active, banks are leaning against excesses near top of the cycle and inflation is low, and set to remain that way. It gives us confidence that when the domestic growth cycle eventually turns, which it will, it will be a deceleration as opposed to a downturn. Q3 CPI data this week should mark the trough in headline inflation. Dairy prices are expected to be supported by a tighter GDT supply backdrop.

FORTHCOMING EVENTS

CPI – Q3 (10:45am, Tuesday, 18 October). In part due to one-offs (ACC levy cuts), headline inflation will be low. We expect a flat q/q headline result, which would see annual inflation drop to 0.1% y/y.

GlobalDairyTrade Auction (early am, Wednesday, 19 October). Whole milk powder prices are expected to be supported by a tightening in GDT supply.

International Travel & Migration – Sep (10:45am, Friday, 21 October). We expect net migrant inflows to remain around current solid levels. Visitor arrivals growth should continue to trend up.

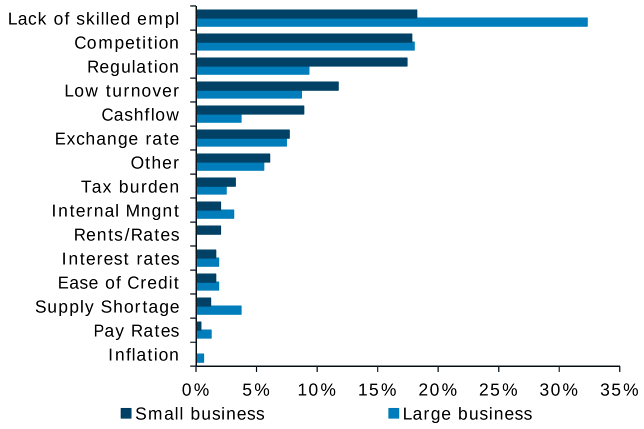
WHAT'S THE VIEW?

The New Zealand economy has tended to show hi-beta characteristics; that is, big booms but also big busts. While real GDP growth has averaged a respectable 2¾% per year since 1990, there have been peaks of close to 8% and troughs where the economy has contracted at a 2½% annual rate over that time. Big swings and a volatile business cycle have been par for the course.

Part of that cyclicality simply reflects the fact New Zealand is a small, open, agriculturally focused economy, dependent on the global backdrop. But it also reflects the tendency for the economy to build up significant internal imbalances late in the economic cycle, which then ultimately require purging. Imbalances can make the economy even more vulnerable in periods of economic uncertainty. Recall that the New Zealand economy headed into both the Asian Financial Crisis and the Global Financial Crisis with weak structural metrics (a large current account deficit, deteriorating household saving, housing market valuation excesses, credit growth running north of 15%, and strong domestic inflation pressures), in effect making the economy far more susceptible to a turn in the international scene. In fact, the economy had already dipped into recession in 2008 before the full brunt of the GFC even hit.

The economy is showing some of that typical late-cycle behaviour once again. Yes, it is growing strongly and a number of our forward-looking indicators imply that that will continue (if not accelerate). But at the same time, releveraging is evident, with household credit running at a 10% annualised pace and household debt-to-income at 165% and rising. Household saving has deteriorated, and while still positive, we estimate that it's only just. There are clear housing market excesses, no longer limited to Auckland. The labour market is tightening rapidly, with our job ads series rising for eight consecutive months; skills are becoming far harder to find. Indeed, skill shortages are now the biggest problem facing firms according to our Small Business Microscope. That's a good thing, but brings other challenges to manage. And stripping out the impact of one-offs, there are some signs that non-tradable inflation is picking up as it responds to capacity pressures.

FIGURE 1: BIGGEST PROBLEM FACED, BY FIRM SIZE



Source: ANZ

Given this, it is quite logical to ask whether we are in for a repeat of past experiences where the economy goes rapidly from boom to bust.

We would argue not. Now we are not proposing that the New Zealand economy is bulletproof. It is almost certain that it wouldn't continue growing at its current strong 3½% pace if there were to be a significant deterioration in the global scene. **But relative to history, we do believe there are some**

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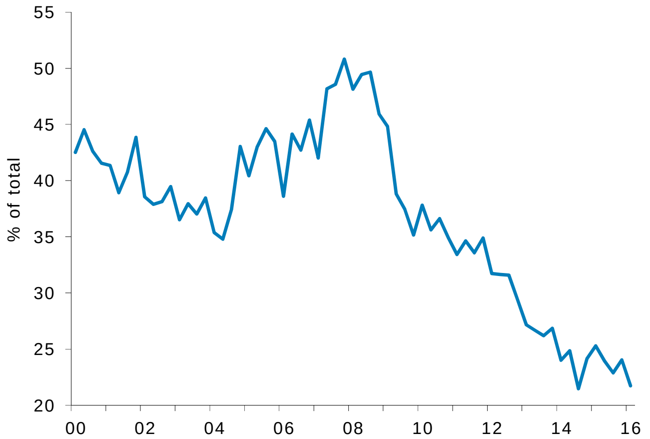
key differences this time around. For a start, in terms of late cycle behaviour it is still early days. The economic party is only now really starting to rock and the output gap is only barely positive. Moreover:

- **Despite housing largesse, external imbalances remain contained.** The current account deficit, at 2.9% of GDP, is below its historical average and has been narrowing, not widening, over the past 12 months. Net external debt, at 56% of GDP, is far lower than its peak of over 80% in 2008. And as a share of global liabilities, those maturing in less than 90 days have fallen from over 50% in 2008 to less than 22% now, meaning global funding risks are much reduced from what they were in the not-too-distant past. To be fair, another year of strong credit growth around current rates would alter all of that. But right here and now, New Zealand's external position is not flagging a risk of extreme excesses that raise the potential for a correction.

FIGURE 2: GROSS INTERNATIONAL DEBT LIABILITIES MATURITY < 90 DAYS



Source: ANZ, Statistics NZ

- **The RBNZ is actively taking away the housing punchbowl via LVR restrictions and the spectre of debt-to-income limits.** Whereas in the past the RBNZ has taken more of a hands-off or arms-reach approach to managing housing market excesses, that is no longer the case. There is certainly room for debate around the impacts and unintended side-effects of such measures like the LVR restrictions, and their longevity in terms of effect on housing market activity – and of course they don't fully mitigate the risk of a future house price correction – but with over 93% of new residential mortgage lending now done with at least a 20% deposit (compared with less than 70% in 2012), the financial system is sounder.

- **There is little in the way of a shadow banking sector to be seen.** One of the risks of macro-prudential restrictions is that they increase the prevalence of (riskier) non-bank lending. That hasn't been apparent at all, with household non-bank lending only $5.9bn, and growing at just 1.9% y/y. At just 2.4% of total household lending, it is down from over 9% in 2006.

- **We still estimate that there is a shortage of housing.** While house price growth has been phenomenal and unaffordability is clearly at extremes, it is hard to envisage a material correction (at least driven by domestic forces) when significant support remains in the form of strong migration, low (and lower) interest rates, and a slow, though ongoing, supply response. Despite supply picking up, we still estimate a 'shortage' of dwellings of close to 20k in Auckland. Some of the areas where the market can be most vulnerable to a correction when the cycle turns (i.e. sections and apartments) are now where more supply is most needed.

- **Banks are now restraining credit at the top of the cycle.** That's a hard thing to do but entirely appropriate if boom-busts are to be averted. The financial sector is far more focused on making the numbers add up: matching deposit growth with lending growth. At present there is not enough of the former and too much of the latter. While that means that lending to some riskier propositions like sections and apartment developments will become harder (which is obviously a catch-22 for increased housing supply), the alternative is increased offshore funding (lifting the current account and net external debt position) and that's a card you can't play for too long.

- **Inflation is low, and set to be for some time.** Data for Q3 this week (discussed more below) will reflect that. Base effects mean that this will likely be the trough, and we do see non-tradable inflation continuing to rise as capacity pressures build. But with structural deflationary forces still evident, inflation expectations low and the NZD unlikely to fall significantly, we don't see inflation returning to the target mid-point until mid-2018. This means little urgency for the RBNZ to lift interest rates, and when it does, it will be slowly. The latter is key. Given the build-up in household leverage, even small movements in rates are going to pack some punch.

Of course there will be swings and roundabouts across the cycle. Night follows day just as day follows night. The current strong momentum across the economy (reinforced by all of last week's activity data, with perhaps the exception of the REINZ house sales figures) won't last indefinitely. Natural

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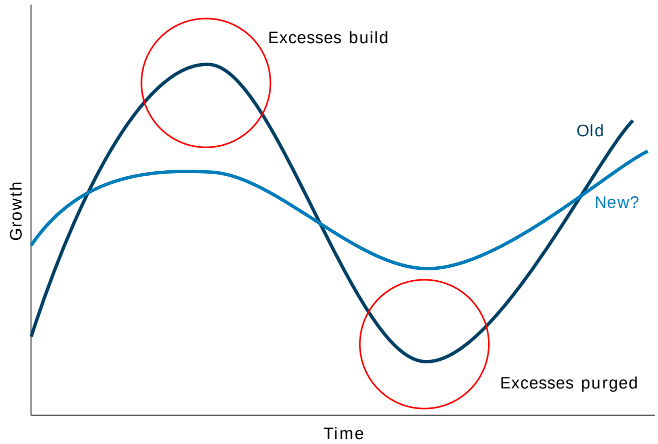
handbrakes to growth (capacity and credit moderation) will eventually see things soften.

Our point is simply that amidst all the cyclical indicators, close attention needs to be paid to structural ones too. It is when they get out of whack that pressure mounts for some purging. New Zealand has clear signs of deterioration in some areas, but not the breadth we've seen in past cycles, and on numerous levels, including policymakers and the finance sector, we are seeing important differences.

This gives us more confidence that when a turn in economic performance does come, and it will, the 'landing' will be mild, unlike previous experience of rapid swings. Or put another way, it puts New Zealand in a far better position to handle swings in the global economy, which is where key challenges reside.

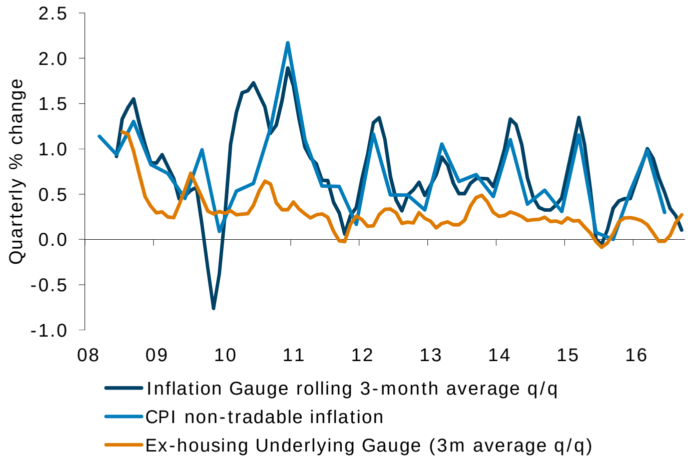
FIGURE 3: A NEW TYPE OF BUSINESS CYCLE FOR NEW ZEALAND?



Source: ANZ

Turning to this week, the Q3 CPI data will reinforce the benign inflation backdrop. We expect a flat quarterly result, which would see annual inflation drop back to just 0.1% – the eighth consecutive quarter below 1%. One-offs (ACC levy reductions) do contribute, but familiar themes beyond that should be evident. We expect to see more signs that non-tradable inflation is lifting off lows (outside of one-offs) as capacity pressures build. But at an estimated 0.2% q/q and 2.1% y/y in Q3, domestic inflation is clearly still low, with price gains outside of housing limited though our ex housing underlying gauge has started to rise (off lows). Simply eyeballing our monthly inflation gauge (refer chart) shows subdued non tradable inflation but some movement (the yellow line). Moreover, the influence of the strong NZD and weak global inflation will again be clear, with tradable inflation estimated to be -0.5% q/q and -2.7% y/y. Together with ongoing weakness in inflation expectation measures, the data will certainly not stand in the way of the RBNZ cutting the OCR again next month, strong domestic growth or not.

FIGURE 4: ANZ MONTHLY INFLATION GAUGE



Source: ANZ, Statistics NZ

A further tightening in GDT supply is expected to provide price support for WMP at this week's auction. Milkfat supply has been reduced too and with New Zealand being the lowest-priced origin, both factors should be price supportive. Such developments continue to suggest a milk price in the low to mid $5/kg MS for 2016/17, but caution is still warranted with demand indicators fickle.

A glimpse of what the rest of the season could entail for milk and wholemilk powder supply via the GDT platform will also be evident. Soft early season milk flow in the Waikato due to excessive rain has seen Fonterra reduce GDT supply by 1.9%, with the majority being WMP (9,086 tonne or 82% of the total cut). This takes the total reduction in GDT WMP supply to 24,133 tonnes (-7%) since the start of August. While much of the South Island is having a better run, providing somewhat of an offset, the reduced use of brought-in supplement and other farm management changes due to cashflow constraints has created the situation where New Zealand supply is now more closely linked to weather and pasture conditions.

Of course this could reverse as temperatures warm up. But by front-loading the reduction of WMP into the November and December auctions, as well as existing inventory levels being tight, it seems Fonterra is effectively saying to the market it won't be adding more product any time soon.

From a farmer, industry and broader point of view, substantially lower New Zealand supply isn't the ideal catalyst for price improvement. This is especially the case if the improvement in prices isn't enough to offset the loss in revenue from lower production. Strong demand, or tighter

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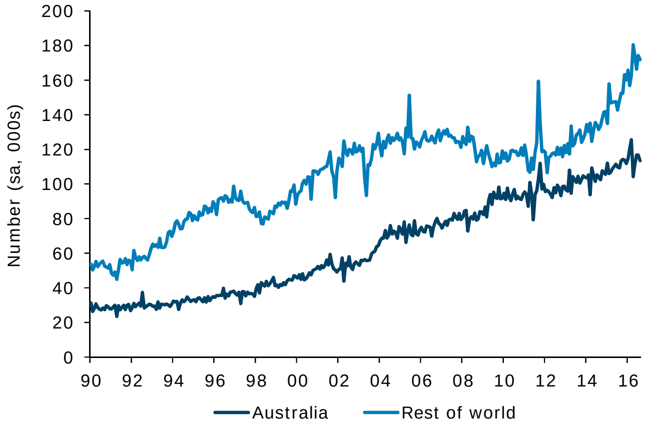
competitor supply, is a far preferable driver. So any price gains from such events need to be kept in perspective of what it means for overall dairy revenue and how this affects individual regions and farm businesses' bottom lines (not so good for Waikato farmers with production down, but improved prices will help returns elsewhere).

We're expecting to see familiar themes within the September International Travel and Migration figures. While net migrant inflows may have passed their peak (they have averaged a little over 5,600 over the past three months compared with close to 6,000 over October-February), we'd disagree with those who argue that net inflows are heading quickly back to the long-run average of around 15k. With the local growth picture remaining strong, the country not grappling with the same pressing political issues that a number of countries and regions are at present, and Australia – while not bad – not outperforming from a labour market point of view to the same degree it has in the past, we have little doubt that New Zealand will remain an attractive place for migrants (and New Zealanders).

The positive underlying trend in visitor arrivals growth should also continue, although perhaps at a more modest pace. While seasonally adjusted arrivals did ease off all-time highs in August, 3-month average growth is still up close to 12% on a year ago. And this is being driven by broad-based arrivals growth across a number of regions, but particularly the US, Asia excluding China, and Europe. Visitor arrivals from China are up on a year ago, but the pace of growth is slowing – hardly surprising given Chinese arrivals (over the past year) are some 60% higher than two years ago. And perhaps this serves as a signal of where overall arrivals growth is heading; still positive, but at a slowing rate. Capacity pressures alone will make it hard for arrivals growth to continue unabated.

FIGURE 5: MONTHLY VISITOR ARRIVALS



Source: ANZ, Statistics NZ

LOCAL DATA

ANZ Monthly Inflation Gauge – Sep. Prices in the Gauge rose 0.2% m/m, a typical seasonal increase for this time of year.

Electronic Card Transactions – Sep. Total retail spending rose 1.9% m/m after a 1.2% m/m drop in August.

REINZ Housing Market Statistics – Sep. In seasonally adjusted terms, sales volumes fell 6.2% m/m, while the REINZ House Price Index rose 1.3% m/m.

ANZ Job Ads – Sep. Total job ads lifted 0.3% m/m – the eighth consecutive monthly gain.

BNZ-BusinessNZ PMI – Sep. The index rose 2.5pts to 57.7 – the highest since January.

Food Price Index – Sep. Prices fell 0.9% m/m (+0.1% y/y).

ANZ-Roy Morgan Consumer Confidence – Oct. The headline index rose from 121.0 to 122.9.

Government Financial Statements – FY16. An OBEGAL surplus of $1.8bn was recorded, over $1bn ahead of Budget forecasts.

BNZ-BusinessNZ PSI – Sep. The headline index fell 3.8pts to 54.1.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates continue to range-trade, with factors arguing for lower rates (RBNZ-speak, low inflation) going head to head with a sound domestic growth picture and global pressure for higher rates. While we expect tomorrow's Q3 CPI data to cement market expectations of an OCR cut next month, fewer now appear to see the need for a follow-up cut, leaving the market vulnerable to the upside on profit-taking. Long-end rates are higher, in line with global rates, with the bellwether US 10-year bond yield now in "clear air" following a technical break higher. Fed Chair Yellen's speech was dovish, and the tone of it would ordinarily be well received by the bond market. But on this occasion, the "bond vigilantes" seem to have taken the upper hand, fearful that an extended period of easy policy will undermine value. Local factors point to a narrowing in the NZ/US bond spread, but this is tempered by an already narrow NZ/AU spread.

THEMES

- RBNZ Assistant Governor McDermott's speech last week all but confirmed that we'll see an OCR cut next month – but tomorrow's Q3 CPI will be the final arbiter. We're more focussed on February, which looks to hang on Q4 CPI, the NZD and inflation expectations.
- Yellen's speech flagged the idea of temporarily allowing a "high-pressure economy", in order to heal post-GFC wounds. That implies easier policy than otherwise, but bonds have reacted to it negatively. Can the "bond vigilantes" overcome the doves? We're reserved on the prospect.
- Solid fiscal and growth credentials are real feathers in the cap of NZGS, and should help drive further spread compression, especially with the RBNZ easing and the Fed tightening.

MONETARY POLICY AND SHORT END

Short-end rates have been range-trading over the past week; that looks set to continue over coming weeks. While there are clear factors supporting lower yields – another OCR cut, the high TWI and low inflation – against a backdrop of solid growth, the market is becoming increasingly sceptical about the merits of a February cut. **The McDermott speech implicitly linked the February decision to Q4 CPI** ("inflation is expected to return to the lower end of the target band in the December 2016 quarter"). **On balance, we still expect a February cut, but with a 3-month gap between OCR decisions, Q4 CPI not released until January, and global rates moving higher, it has become harder to maintain a long position.**

The market mood has also moved from receiving back-ups to taking profit on rallies. This is fully understandable, and while we do think the reversion to tightening that's priced in (from mid-2017) looks premature, that's more of a value trade than an instant gratification trade. **All of this leaves us somewhat neutral on the short end.**

GLOBAL MARKETS AND LONG END

US long-end yields have started the week at a 4-month high, having made a technical break out of trading ranges. Some are assigning the "blame" for the move on Fed Chair Yellen's speech, which, while dovish, flagged the possibility of deliberately remaining "behind the curve". In the days of old, such sentiments were red flags to the "bond vigilantes", with the fear of inflation typically steepening the curve. We have seen echoes of this in the past week, eschewing the post-GFC tendency for bond yields to fall on dovish rhetoric. While we have sympathy for the vigilantes, we wonder if they can prevail just yet.

Regardless of outright levels, **NZGS bonds look set to outperform US Treasuries on the basis of policy divergence, solid growth and sound fiscal credentials.** Progress so far has been slow as yields have risen, but we do think spreads should be closer to 50bps than 70bps. Yellen's rumblings certainly point to it being more likely that the RBNZ will need to keep policy here easier for longer (or tolerate a higher NZD and lower inflation).

STRATEGY

Investors: We favour holding received November OIS trades, but see **limited scope for the short end to move lower, so are more neutral.** We prefer to be long NZGS on a spread than outright, and would rather be long duration in NZ than in other markets.

Borrowers: No change. Watching and waiting is still our favoured strategy. Rates are higher, but we're not inclined to see this as the beginning of the end. With BKBM also biased lower, we favour options.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral	Increasingly starting to question a 2nd OCR cut; depends on Q4 CPI, but market not convinced this far out.
Long end	Neutral/bullish	Have the "bond vigilantes" got a sustainable upper hand? We doubt it (just yet). Mildly bullish on spread.
Yield Curve	Neutral	Somewhat surprised by steepening of US curve, but price action has to be respected. Watching closely.
Geographic spreads	Neutral/ Narrower	NZ/US spread slowly grinding in, but can do more. Fiscal data last week was sound, and underscore NZGS credit quality. Yellen behind curve + strong NZ growth = NZD strength = NZ/US spread compression.
Swap spreads	Neutral	NZGS demand still decent and long end of curve too steep. Corporate payers still cautious.
NZD/TWI	Holding up	Unlikely to roll over until growth slows, or the OCR goes much lower. Will rally if RBNZ doesn't cut again.

CURRENCY STRATEGY

SUMMARY

The re-pricing lower of the NZD looks complete. In the absence of the Fed stepping it up, or the RBNZ down, our expectation of a muddle-through global growth world (doing enough to get by) leaves the NZD with solid credentials for support, underscored by sound local fiscal credentials and Fed ramblings of deliberately remaining behind the curve (typically USD negative).

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Correction lower now complete	USD likely to firm once Fed hikes
NZD/AUD	↔/↓	Price action worrying	0.93 being tested
NZD/EUR	↔/↑	Yield gap massive	NZ growth fillip
NZD/GBP	↔/↑	Brexit realities weigh	More a GBP story
NZD/JPY	↔/↑	Threats of lower rates capping JPY	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- Ultra-flexibility mantra coming more to the fore from the Fed and BoE.
- The re-pricing of the RBNZ towards a cut and Fed a hike looks almost done.
- Economic data pushing against the RBNZ having to follow up a November OCR cut with another.
- Fed Chair Yellen has flagged the possibility of "temporarily running a high-pressure economy". That's good for growth (USD positive) but implies looser policy and higher inflation (USD negative).
- Local interest rate markets are sceptical about the need for another OCR cut beyond November. As expectations level out, so should the NZD.
- Last week's fiscal figures underscore the NZD's resilience. We either get tax cuts or we run bigger surpluses. Where's the bad news in that?

ASSESSMENT

The re-pricing of the NZD into a lower range now looks complete, with the market now overwhelmingly backing a November OCR cut from the RBNZ and erring increasingly towards a dovish hike from the Fed. Moreover, the nudge higher in global yields (or more aptly, movement off absolute lows) needs to be acknowledged.

In the absence of either central bank really stepping it up (RBNZ more cuts and Fed more hikes, with the latter going against the spirit of the Fed Chair Yellen's speech over the weekend), **the potential for the NZD to break even lower resides in the two bell-curve extremes.**

At one end of the spectrum, global growth prospects could improve materially, necessitating a reasonable tightening in monetary policy globally. This is not looking very likely.

On the other side, we could see a sharp downturn in global growth and an associated spike in risk aversion. We can certainly still identify a number of candidates that could cause this, but they are risks at present, and not much more.

In the meantime we continue to back a muddle-through world (doing enough to get by), implying muddle-through elevated ranges for the NZD. This scenario remains backed by:

- a strong local growth picture. Good news across the economy continues to be printed with 3½-4% growth on offer;
- the allure of yield and sound fiscal results, giving the Government significant flexibility;
- nuances of stabilisation in commodity prices; and
- evidence China is undertaking its economic transition in an orderly fashion.

The combination leaves us agnostic on calling for more NZD weakness following recent price action. While in our forecasts we have a modest downward trajectory for the NZD over 2017, the spirit of the forecasts is that a muddle-through world means a shallow currency cycle and range-trading.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Fair value is higher (PPP moved 6 cents in NZ's favour in 5 yrs).
Yield	↔	Yield gap to persist in NZ's favour but not by much.
Commodities	↔/↑	We expect a decent GDT result this week.
Data	↔/↑	NZ growth tipped to lift towards 3½-4%.
Techs	↔/↓	Price action poor. The biggest negative.
Sentiment	↔/↓	Has become a victim of poor price action.
Other	↔/↓	Market not keen to test parity.
On balance	↔/↓	**The break of 200d ma at 0.9335 we warned of last week has occurred.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	>FV but supported by local data.
Yield	↔	A pillar of support, but flagging.
Commodities	↔/↑	GDT bounce in prospect this week.
Risk aversion	↔/↓	The NZD's main Achilles' heel (still).
Data	↔/↑	US pulse ho-hum. NZ strong.
Techs	↔/↓	Bounce of low-mid 0.70s encouraging.
Other	↔	Yellen's rumblings have scope to undermine the USD.
On balance	↔	**Looks to have done its dash (lower) for now.**

POSITIONING

NZD positioning remains short, while USD and AUD positioning remains long. That should help keep a floor under NZD/USD and NZD/AUD, but goes against the grain of poor price action for both. **Sterling shorts are at an extreme**, and conditions for a bounce are ripe.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
17-Oct	EC	CPI MoM - Sep	0.4%	0.1%	22:00
	EC	CPI YoY - Sep F	0.4%	0.2%	22:00
	EC	CPI Core YoY - Sep F	0.8%	0.8%	22:00
	CH	New Yuan Loans CNY - Sep	1000.0B	948.7B	17-18 Oct
	CH	Aggregate Financing CNY - Sep	1390.0B	1469.7B	17-18 Oct
	CH	Money Supply M0 YoY - Sep	7.3%	7.4%	17-18 Oct
	CH	Money Supply M1 YoY - Sep	24.5%	25.3%	17-18 Oct
	CH	Money Supply M2 YoY - Sep	11.6%	11.4%	17-18 Oct
18-Oct	US	Empire Manufacturing - Oct	1.00	-1.99	01:30
	US	Industrial Production MoM - Sep	0.2%	-0.4%	02:15
	US	Capacity Utilization - Sep	75.60%	75.50%	02:15
	US	Manufacturing (SIC) Production - Sep	0.1%	-0.4%	02:15
	NZ	CPI QoQ - Q3	0.0%	0.4%	10:45
	NZ	CPI YoY - Q3	0.1%	0.4%	10:45
	AU	ANZ-RM Consumer Confidence Index - 16-Oct	--	117.5	11:30
	AU	RBA Oct. Meeting Minutes	--	--	13:30
	AU	New Motor Vehicle Sales MoM - Sep	--	0.1%	13:30
	AU	New Motor Vehicle Sales YoY - Sep	--	2.9%	13:30
	NZ	Non Resident Bond Holdings - Sep	--	66.7%	15:00
	UK	CPI MoM - Sep	0.2%	0.3%	21:30
	UK	CPI YoY - Sep	0.9%	0.6%	21:30
	UK	CPI Core YoY - Sep	1.4%	1.3%	21:30
	UK	RPI MoM - Sep	0.1%	0.4%	21:30
	UK	RPI YoY - Sep	2.0%	1.8%	21:30
	UK	PPI Input NSA MoM - Sep	0.4%	0.2%	21:30
	UK	PPI Input NSA YoY - Sep	7.4%	7.6%	21:30
	UK	PPI Output NSA MoM - Sep	0.2%	0.1%	21:30
	UK	PPI Output NSA YoY - Sep	1.1%	0.8%	21:30
	UK	PPI Output Core NSA MoM - Sep	0.2%	0.2%	21:30
	UK	PPI Output Core NSA YoY - Sep	1.4%	1.3%	21:30
	UK	House Price Index YoY - Aug	7.8%	8.3%	21:30
19-Oct	US	CPI MoM - Sep	0.3%	0.2%	01:30
	US	CPI YoY - Sep	1.5%	1.1%	01:30
	US	CPI Ex Food and Energy MoM - Sep	0.2%	0.3%	01:30
	US	CPI Ex Food and Energy YoY - Sep	2.3%	2.3%	01:30
	US	NAHB Housing Market Index - Oct	63.0	65.0	03:00
	US	Total Net TIC Flows - Aug	--	$140.6B	09:00
	US	Net Long-term TIC Flows - Aug	--	$103.9B	09:00
	AU	Westpac Leading Index MoM - Sep	--	0.0%	12:30
	AU	Skilled Vacancies MoM - Sep	--	-0.4%	13:00
	CH	Industrial Production YoY - Sep	6.4%	6.3%	15:00
	CH	Industrial Production YTD YoY - Sep	6.1%	6.0%	15:00
	CH	Retail Sales YoY - Sep	10.7%	10.6%	15:00
	CH	Retail Sales YTD YoY - Sep	10.3%	10.3%	15:00
	CH	Fixed Assets Ex Rural YTD YoY - Sep	8.2%	8.1%	15:00
	CH	GDP YTD YoY - Q3	6.7%	6.7%	15:00
	CH	GDP SA QoQ - Q3	1.8%	1.8%	15:00
	CH	GDP YoY - Q3	6.7%	6.7%	15:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
19-Oct	UK	Claimant Count Rate - Sep	2.2%	2.2%	21:30
	UK	Jobless Claims Change - Sep	3.2k	2.4k	21:30
	UK	Average Weekly Earnings 3M/YoY - Aug	2.3%	2.3%	21:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Aug	2.1%	2.1%	21:30
	UK	ILO Unemployment Rate 3Mths - Aug	4.9%	4.9%	21:30
	UK	Employment Change 3M/3M - Aug	70k	174k	21:30
	EC	Construction Output MoM - Aug	--	1.8%	22:00
	EC	Construction Output YoY - Aug	--	3.1%	22:00
20-Oct	US	MBA Mortgage Applications - 14-Oct	--	-6.0%	00:00
	US	Housing Starts - Sep	1175k	1142k	01:30
	US	Housing Starts MoM - Sep	2.9%	-5.8%	01:30
	US	Building Permits - Sep	1165k	1152k	01:30
	US	Building Permits MoM - Sep	1.1%	0.7%	01:30
	US	US Federal Reserve releases Beige Book	--	--	07:00
	AU	NAB Business Confidence - Q3	--	2	13:30
	AU	Employment Change - Sep	15.0k	-3.9k	13:30
	AU	Unemployment Rate - Sep	5.7%	5.6%	13:30
	AU	Full Time Employment Change - Sep	--	11.5k	13:30
	AU	Part Time Employment Change - Sep	--	-15.4k	13:30
	AU	Participation Rate - Sep	64.8%	64.7%	13:30
	AU	RBA FX Transactions Market - Sep	--	607M	13:30
	GE	PPI MoM - Sep	0.2%	-0.1%	19:00
	GE	PPI YoY - Sep	-1.2%	-1.6%	19:00
	EC	ECB Current Account SA - Aug	--	€21.0B	21:00
	EC	Current Account NSA - Aug	--	€31.5B	21:00
	UK	Retail Sales Ex Auto Fuel MoM - Sep	0.2%	-0.3%	21:30
	UK	Retail Sales Ex Auto Fuel YoY - Sep	4.4%	5.9%	21:30
	UK	Retail Sales Inc Auto Fuel MoM - Sep	0.3%	-0.2%	21:30
	UK	Retail Sales Inc Auto Fuel YoY - Sep	4.8%	6.2%	21:30
21-Oct	EC	ECB Main Refinancing Rate - Oct	0.00%	0.00%	00:45
	EC	ECB Deposit Facility Rate - Oct	-0.40%	-0.40%	00:45
	EC	ECB Marginal Lending Facility - Oct	0.25%	0.25%	00:45
	EC	ECB Asset Purchase Target - Oct	€80B	€80B	00:45
	US	Initial Jobless Claims - 15-Oct	250k	246k	01:30
	US	Continuing Claims - 8-Oct	2060k	2046k	01:30
	US	Philadelphia Fed Business Outlook - Oct	6.0	12.8	01:30
	US	Existing Home Sales - Sep	5.35M	5.33M	03:00
	US	Existing Home Sales MoM - Sep	0.4%	-0.9%	03:00
	US	Leading Index - Sep	0.2%	-0.2%	03:00
	NZ	Net Migration SA - Sep	--	5600	10:45
	NZ	Credit Card Spending MoM - Sep	--	-1.4%	15:00
	NZ	Credit Card Spending YoY - Sep	--	1.9%	15:00
	UK	Public Finances (PSNCR) - Sep	--	£0.7B	21:30
	UK	Central Government NCR - Sep	--	£4.0B	21:30
	UK	Public Sector Net Borrowing - Sep	£8.5B	£10.1B	21:30
	UK	PSNB ex Banking Groups - Sep	£8.5B	£10.5B	21:30
22-Oct	EC	Consumer Confidence - Oct A	-8.0	-8.2	03:00

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 solid, with downside risks mainly stemming from offshore. But with inflation low and the NZD high, our base case is for OCR cuts in November and early 2017, taking the OCR to 1.5%.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 18 Oct (10:45am)	CPI – Q3	0.0% q/q	A reduction in ACC levies and lower petrol prices are the main drags, while housing-related inflation should again make a decent contribution.
Wed 19 Oct (early am)	GlobalDairyTrade Auction	Supply response	Whole milk powder prices are expected to be supported by a tightening in GDT supply.
Fri 21 Oct (10:45am)	International Travel & Migration – Sep	More of the same	Large net migrant inflows should continue and we expect the underlying trend in visitor arrivals to also remain strong.
Thu 27 Oct (10:45am)	Overseas Merchandise Trade – Sep	Deficit	Low carryover inventory for dairy and red meat, as well as lower new season production, should weigh on export values.
Mon 31 Oct (10:45am)	Building Consents Issued – Sep	Positive trend	Issuance has been volatile lately, but we still be a positive underlying trend will continue
Mon 31 Oct (1:00pm)	ANZ Business Outlook – Oct	--	--
Mon 31 Oct (3:00pm)	RBNZ Credit Aggregates – Sep	Close to a peak	New mortgage lending growth has started to slow and that should eventually filter through to a slower growth rate of overall credit.
Wed 2 Nov (early am)	GlobalDairyTrade Auction	Stable	Supply has been curtailed, but we feel it is too early to get overly positive yet with demand indicators still mixed.
Wed 2 Nov (10:45am)	Labour Market Statistics – Q3	Lots of uncertainty	Following last quarter's methodological changes, there is significant uncertainty with the Q3 figures. We expect a pull-back in employment growth, but it is unclear how much.
Wed 2 Nov (3:00pm)	RBNZ Survey of Expectations – Q4	Downside risk	Other surveyed measures have eased of late and that is where we see the risk skewed for the 2-year ahead measure.
Thu 3 Nov (1:00pm)	ANZ Commodity Price Index – Oct	--	--
Tue 8 Nov (10:00am)	ANZ Truckometer – Oct	--	--
Tue 8 Nov (1:00pm)	ANZ Monthly Inflation Gauge – Oct	--	--
Wed 9 Nov (10:45am)	Electronic Card Transactions – Oct	Decent	Monthly volatility aside, a solid underlying pace of retail spending growth is expected to continue.
Thu 10 Nov (9:00am)	RBNZ Monetary Policy Statement	25bp cut	Despite the strong growth picture, low inflation and inflation expectations, together with the strong NZD, mean a 25bp cut is highly likely. We expect an easing bias to be maintained too.
Fri 11 Nov (10:30am)	BNZ-BusinessNZ PMI – Oct	Resilient	The domestic manufacturing sector is riding on the coat-tails of the strong domestic economy more generally.
Fri 11 Nov (10:45am)	Food Price Index – Oct	Seasonal fall	Due to weaker fruit and vegetable prices, food prices typically fall in October months.
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
GDP (% qoq)	0.9	**0.6**	**1.1**	**1.0**	**0.7**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% yoy)	3.6	**3.4**	**3.6**	**3.6**	**3.3**	**3.4**	**2.9**	**2.5**	**2.4**	**2.2**
CPI (% qoq)	0.4	**0.0**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.8**
CPI (% yoy)	0.4	**0.1**	**0.6**	**1.0**	**0.9**	**1.6**	**1.7**	**1.8**	**2.0**	**2.1**
Employment (% qoq)	2.4	**-0.4**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	4.5	**4.3**	**4.0**	**3.1**	**1.1**	**1.9**	**1.7**	**1.6**	**1.6**	**1.5**
Unemployment Rate (% sa)	5.1	**5.1**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**	**4.8**	**4.6**	**4.6**
Current Account (% GDP)	-2.9	**-3.0**	**-3.0**	**-3.2**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-2.1	**-0.9**	**0.5**	**0.9**	**1.1**	**0.8**	**0.6**	**0.3**	**0.4**	**0.0**
Terms of Trade (% yoy)	-3.9	**-1.0**	**1.6**	**-1.6**	**1.6**	**3.4**	**3.5**	**2.8**	**2.2**	**1.3**

	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16
Retail ECT (% mom)	0.4	0.7	0.1	0.8	-0.2	1.2	0.2	-1.2	1.9	--
Retail ECT (% yoy)	5.2	9.2	6.2	7.8	3.3	6.8	5.8	3.2	6.1	--
Credit Card Billings (% mom)	1.7	-0.3	-1.1	2.2	0.2	-0.8	2.4	-1.4	--	--
Credit Card Billings (% yoy)	8.1	7.3	5.0	9.0	6.1	4.1	5.6	1.9	--	--
Car Registrations (% mom)	-2.8	5.7	-3.8	6.3	-3.7	-1.0	-0.4	2.1	-2.7	--
Car Registrations (% yoy)	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	-0.8	--
Building Consents (% mom)	-8.0	10.5	-9.5	7.6	-0.2	19.8	-8.2	-1.0	--	--
Building Consents (% yoy)	5.1	27.0	0.3	13.6	10.2	40.0	7.9	12.1	--	--
REINZ House Price Index (% yoy)	10.7	11.9	13.3	14.5	14.7	14.2	16.3	11.7	9.7	--
Household Lending Growth (% mom)	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8	--	--
Household Lending Growth (% yoy)	7.5	7.6	7.7	7.9	8.1	8.3	8.6	8.7	--	--
ANZ Roy Morgan Consumer Conf.	121.4	119.7	118.0	120.0	116.2	118.9	118.2	117.7	121.0	122.9
ANZ Business Confidence	..	7.1	3.2	6.2	11.3	20.2	16.0	15.5	27.9	--
ANZ Own Activity Outlook	..	25.5	29.4	32.1	30.4	35.1	31.4	33.7	42.4	--
Trade Balance ($m)	12	367	189	350	343	107	-351	-1265	--	--
Trade Bal ($m ann)	52764	52831	52599	52626	52854	52660	52077	51929	--	--
ANZ World Commodity Price Index (% mom)	-2.3	0.5	-1.3	-0.8	1.0	3.5	2.1	3.2	5.1	--
ANZ World Comm. Price Index (% yoy)	-14.7	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	10.6	--
Net Migration (sa)	6080	5990	5340	5490	5550	5700	5620	5600	--	--
Net Migration (ann)	65911	67391	67619	68110	68432	69090	69015	69119	--	--
ANZ Heavy Traffic Index (% mom)	-4.3	1.7	3.3	-2.5	-2.4	5.2	-6.2	6.8	-1.4	--
ANZ Light Traffic Index (% mom)	-1.4	2.4	0.8	0.3	-1.4	-1.6	-0.5	1.0	0.4	--

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	Aug-16	Sep-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZD/USD	0.725	0.729	0.708	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.964	0.951	0.932	0.93	0.93	0.93	0.93	0.94	0.89	0.88
NZD/EUR	0.650	0.649	0.646	0.66	0.66	0.64	0.62	0.60	0.57	0.58
NZD/JPY	74.85	73.84	73.80	74.6	69.0	67.0	65.0	64.0	67.2	71.5
NZD/GBP	0.552	0.562	0.583	0.57	0.56	0.54	0.51	0.48	0.46	0.46
NZ$ TWI	75.9	75.7	76.4	75.4	73.7	72.1	70.1	68.9	67.5	68.5
INTEREST RATES	Aug-16	Sep-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZ OCR	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.28	2.20	2.14	2.00	1.80	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.24	2.27	2.53	2.30	2.20	2.20	2.30	2.40	2.60	2.70
US Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
US 3-mth	0.84	0.85	0.88	0.93	0.93	1.30	1.30	1.55	1.55	1.80
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.74	1.74	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	14 Sep	10 Oct	11 Oct	12 Oct	13 Oct	14 Oct
Official Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.24	2.19	2.17	2.15	2.14	2.14
NZGB 03/19	1.95	1.93	1.91	1.91	1.89	1.89
NZGB 05/21	2.05	2.05	2.05	2.06	2.02	2.02
NZGB 04/23	2.19	2.22	2.22	2.24	2.20	2.19
NZGB 04/27	2.54	2.49	2.50	2.52	2.48	2.49
2 year swap	2.05	2.09	2.06	2.08	2.05	2.07
5 year swap	2.25	2.26	2.25	2.28	2.23	2.25
RBNZ TWI	77.62	76.65	76.26	76.04	75.99	76.44
NZD/USD	0.7274	0.7138	0.7063	0.7064	0.7066	0.7087
NZD/AUD	0.9736	0.9403	0.9369	0.9324	0.9356	0.9303
NZD/JPY	74.70	73.80	73.26	73.18	73.36	73.83
NZD/GBP	0.5511	0.5744	0.5762	0.5764	0.5789	0.5813
NZD/EUR	0.6480	0.6391	0.6375	0.6411	0.6407	0.6459
AUD/USD	0.7471	0.7591	0.7539	0.7576	0.7552	0.7618
EUR/USD	1.1225	1.1168	1.1080	1.1018	1.1029	1.0972
USD/JPY	102.70	103.39	103.73	103.60	103.82	104.18
GBP/USD	1.3198	1.2427	1.2257	1.2255	1.2205	1.2191
Oil (US$/bbl)	44.91	49.76	49.76	50.72	50.14	50.47
Gold (US$/oz)	1320.68	1262.31	1258.93	1257.27	1260.22	1255.71
Electricity (Haywards)	4.92	5.64	5.25	5.23	5.27	6.20
Baltic Dry Freight Index	756	922	922	906	885	892
NZX WMP Futures (US$/t)	2870	2750	2750	2755	2800	2800

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