NEW ZEALAND ECONOMICS
MARKET FOCUS

25 October 2016

INSIDE

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HARDER TO JUSTIFY

ECONOMIC OVERVIEW

We have removed the second OCR cut we had pencilled in our forecasts for early 2017. There are certainly still reasons why the RBNZ could get dragged back to the easing table (a global event, ongoing weak tradable inflation through NZD strength, or failure of inflation expectations to lift). But when balanced against strong domestic growth, emerging capacity strains, rising domestic inflation pressures and some signs of a turn in the global inflation cycle, additional OCR cuts have become harder to justify as a central scenario. After a final cut next month, we now see the OCR stabilising at 1.75%. Overseas trade figures this week should show a large deficit on weaker primary exports, while new mortgage lending should have cooled further.

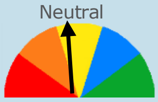
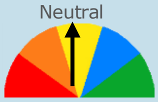
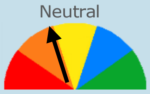
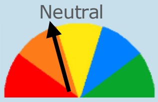
INTEREST RATE STRATEGY

Our revised forecast for no further OCR cuts beyond November leaves us somewhat neutral on the short end. With market expectations already close to our forecasts, we find it difficult to be negative, but the reasons for upping the ante on long or received positions are diminished. The global risk profile remains skewed lower, and while expectations of a Fed hike in December have firmed, 2017 has the potential to be an anti-climax, with further hikes likely to be extremely modest. That leaves us strategically neutral rather than bearish. However, over the short term, we think there are more reasons to buy than to sell long-end bonds. The bellwether NZGS 4/27 yield is up almost 40bps since it bottomed out in August. With the NZ/US cash spread set to end the year at 1%, we think a ~0.8%pt 10-year spread is a bit toppy.

CURRENCY STRATEGY

The NZD has opened the week on the back foot. While it remains higher than it was a week ago, its drop from last week's ~0.7265 high remains front of mind. We expect USD strength to be a feature of the landscape in coming weeks as expectations of a December Fed hike firm up. But there's a difference between "strong" and "stronger", and our sense is that the USD is now fully priced, and needs something new to drive it materially higher. Against that, we have two "new" emerging themes – the first being prospects for a post-Fed hike anti-climax; the second being firming expectations that 2017 OCR rate cuts in New Zealand are not assured. Barring a shift in the global scene, with GDP growth of ~4% beckoning locally, and rates levelling out, at "worst" NZD will be range-bound, at "best" it goes up.

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.	
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.	
OCR	1.75% by Jun 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts beyond one next month are harder to justify.	
CPI	1.1% y/y for 2017 Q2	Headline inflation is past its lows, with base effects seeing it return to the target mid-point in early 2017. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

We have removed the second OCR cut we had pencilled in our forecasts for early 2017. There are certainly still reasons why the RBNZ could get dragged back to the easing table (a global event, ongoing weak tradable inflation through NZD strength, or failure of inflation expectations to lift). But when balanced against strong domestic growth, emerging capacity strains, rising domestic inflation pressures and some signs of a turn in the global inflation cycle, additional OCR cuts have become harder to justify as a central scenario. After a final cut next month, we now see the OCR stabilising at 1.75%. Overseas trade figures this week should show a large deficit on weaker primary exports, while new mortgage lending should have cooled further. The following week's Business Outlook will be watched to see if familiar strong activity themes have continued.

FORTHCOMING EVENTS

Overseas Merchandise Trade – September (10:45am, Thursday, 27 October). We expect a reasonably large monthly deficit (~$1.15bn) as a number of factors weigh on primary export receipts.

New Residential Mortgage Lending – September (3:00pm, Thursday, 27 October). On the back of LVR restrictions and also increased bank credit rationing, new lending growth should continue to soften.

Building Consents Issued – September (10:45am, Monday, 31 October). Issuance has been volatile lately, but we believe a positive underlying trend will continue.

ANZ Business Outlook – October (1:00pm, Monday, 31 October).

WHAT'S THE VIEW?

Absent a global event (which is still a clear risk, to be fair), we now struggle to see why the OCR should be headed any lower after the RBNZ delivers its "well flagged" cut in November. We have therefore removed the 25bp OCR cut we had pencilled into our forecasts for early 2017 and see the OCR being held at 1.75%.

The case for easing is looking more tenuous by the day when you consider:

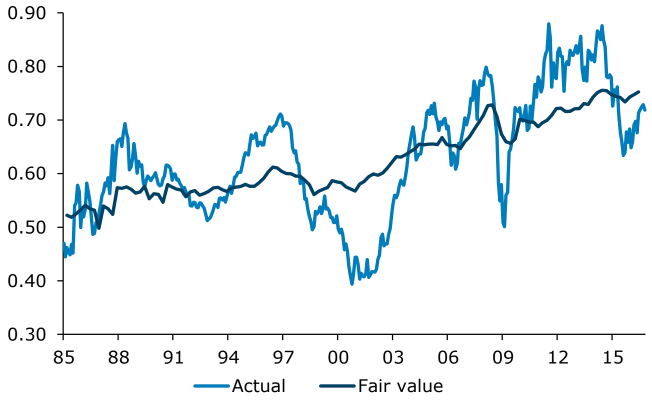
- **The state of domestic demand.** It's already above trend and a number of forward indicators (our confidence composite and financial conditions gauges especially) actually point to acceleration from here. Last week alone, data showed both monthly net migrant and visitor arrival inflows hitting new all-time highs in September.
- **Capacity pressures are emerging.** New Zealand's output gap is positive and expected to become even more so over the course of the next 12 months.
- **The labour market is obviously tightening.** Skills are harder to find, and our job ads series (which has risen for eight consecutive months) points to a further strengthening in labour demand. We see the unemployment rate continuing to fall even with labour supply growth remaining strong. Higher wage inflation should follow.
- **Despite low headline inflation, domestic inflation pressures are now clearly rising** (discussed more below). Inflation expectations should start to drift back up in tandem with a higher headline rate. From a purely mechanical perspective, we expect headline inflation will be back at 1.2% y/y by Q1 2017 as earlier weakness in oil prices drops out.
- **Financial conditions are still incredibly loose and the housing market needs to slow.** As the recent slowing in housing market activity in response to prudential policy changes has been deliberately engineered, it would be strange for the RBNZ to attempt to offset it through its traditional OCR channel.

All that said, there are of course still good reasons why the RBNZ could yet be dragged back to the easing table again in 2017:

- **Global deflationary forces are still evident and significant global spare capacity remains.** In its June update, the OECD estimated that at the end of 2016, 26 of 33 OECD countries would still have a negative output gap. That is hardly inflationary. Structural deflationary forces (high debt levels, demographics, technological change etc) remain in force too.
- **The NZD is not playing ball (nor is it expected to start to do so).** Domestic factors remain NZD supportive, and global factors are too, especially when the likes of the ECB is still talking about the possibility of additional easing. But more fundamentally, an update of our structural fair value estimates has NZD/USD with a 7 handle and NZD/AUD with a 9 handle, so the valuation rubber band is hardly taut or suggestive of a pending correction lower. The NZD looks set to remain a deflationary influence through the tradable inflation channel.

ECONOMIC OVERVIEW

FIGURE 1: NZD/USD STRUCTURAL FAIR VALUE



Source: ANZ, Bloomberg

- **Inflation expectations are lower than ideal.** Q3 marked the eighth consecutive quarter where headline inflation has been below the bottom of the target band. While base effects should see it lift from Q4 (although it is touch and go in our view whether it lifts above 1% in Q4), we don't forecast it to return to the target mid-point until mid-2018. The RBNZ's concern is that the persistence of low inflation increases the risk of it becoming embedded in expectations and behaviours. The RBNZ will certainly be worried if inflation expectation measures don't start to lift from here (in fact that was a scenario in its August MPS).
- **Although financial conditions are highly stimulatory, we are seeing a slight tightening via the availability of credit**, and it is worth watching how far this extends and its impact on certain sectors.

Now we do expect activity growth to moderate in 2017, but it's not the sort of moderation to which the RBNZ should respond. First, we are talking about a 'gallop to a canter' moderation; from 3½-4% to somewhere closer to 3%. Second, it'll be partially driven by capacity constraints. The economy cannot continue to grow at a rate above trend for too long. With each passing day, the capacity anecdotes come more to the fore. And finally, the impact of a required slowdown in credit growth should not be under-estimated. Credit is being rationed more tightly as late cycle excesses become apparent. That's a good thing. A failure to rein in credit growth and associated excesses would only up the odds on a starker turn in the economic cycle down the track, which has been New Zealand's historical experience. In the short term, credit rationing will dampen growth. However, given the momentum in the economy currently and its desirability in a medium-term context, it is not the kind of 'slowdown' that monetary policy needs to concern itself about offsetting.

The inflation picture is worth discussing in greater detail. Over the past week or so we have seen an uplift in the inflation backdrop around the globe. US headline inflation is at a 23-month high, China annual PPI inflation has returned to positive territory for the first time since early 2012 (which has some leading indicator properties for inflation in the likes of the G7) and UK PPI input inflation is running north of 7% y/y. In fact, inflation surprise indices are the highest in close to four years for major economies and near the same for emerging markets.

So it is becoming clear that global headline inflation has based. That shouldn't really be a surprise. Due to the stabilisation in energy prices, base effects alone will naturally see headline inflation rates rise further over the coming quarters. There certainly remains uncertainty over whether underlying inflation is going to follow suit in a world where excess capacity exists, but higher headline inflation rates should at least take some pressure off central banks to deliver easier monetary policies, particularly with market-based measures of inflation expectations now rising again too.

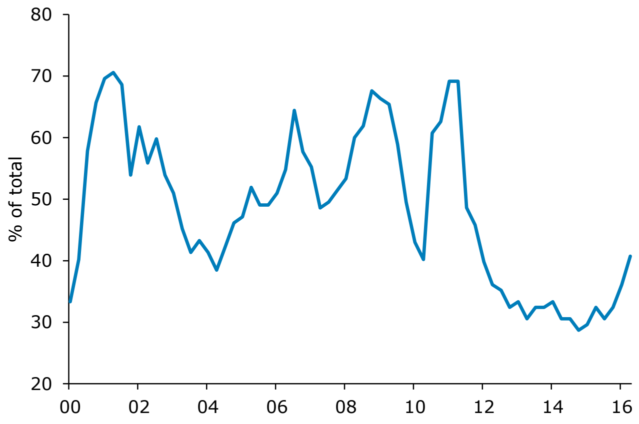
For New Zealand, it is a similar picture. Headline inflation has passed its lows, but like offshore, questions surround whether we will see a sustained lift in core or underlying inflation. Certainly our Monthly Inflation Gauge has continued to provide a benign signal outside of housing. And within the Q3 data, most of the Statistics NZ and RBNZ measures of underlying inflation (trimmed mean, weighted median, Sectoral Factor Model etc) were unchanged in the quarter. Additionally, firms' pricing intentions are historically low.

But then there is this to consider:

- **Price increases are broadening.** The proportion of the CPI basket with annual inflation above 2% has risen to 41% – the highest in over four years (see chart over page). You'd have to think that if the prices of more things are going up, that would influence the formation of peoples' inflation expectations.
- **Some temporary influences dampening non-tradable inflation should normalise.** Central and local government charges (about an 11% weight in the CPI) are currently running at -0.5% y/y. This is in part, but not entirely, due to ACC levy reductions. Since 1995 annual government charges inflation has averaged 3.6%.

ECONOMIC OVERVIEW

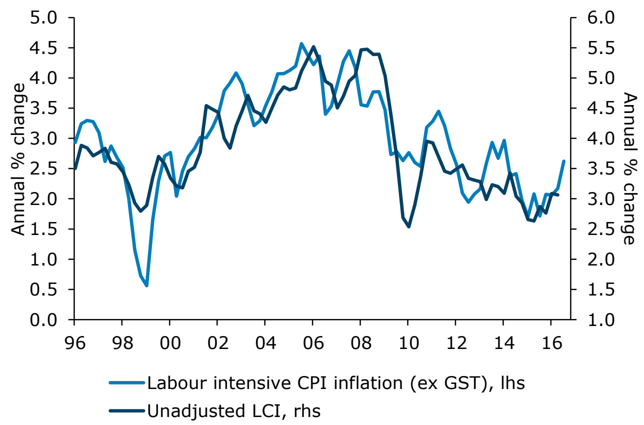
FIGURE 2: PROPORTION OF CPI BASKET WITH ANNUAL INFLATION ABOVE 2%



Source: ANZ, Statistics NZ

- **Excluding 'uncontrollables', domestic inflation does look to be responding to the economic cycle.** Non-tradable inflation excluding central and local government charges and tobacco – a better gauge of pure domestic inflation pressures – is rising at 2.3% y/y. That is still low in a historical context, but is the strongest rate in 2½ years and fully consistent with the tightening in capacity pressures evident across the economy.
- **The prices of labour-intensive services are also rising.** While services-related inflation in general is low overall (-0.5% y/y), when we just look at the ~15% of CPI components that seem likely to have a particularly heavy labour input (eg restaurant meals, hairdressing, repair services etc), we estimate it is running at 2.6%. This is the highest in 2½ years.

FIGURE 3: LABOUR-INTENSIVE CPI COMPONENTS VS WAGE INFLATION



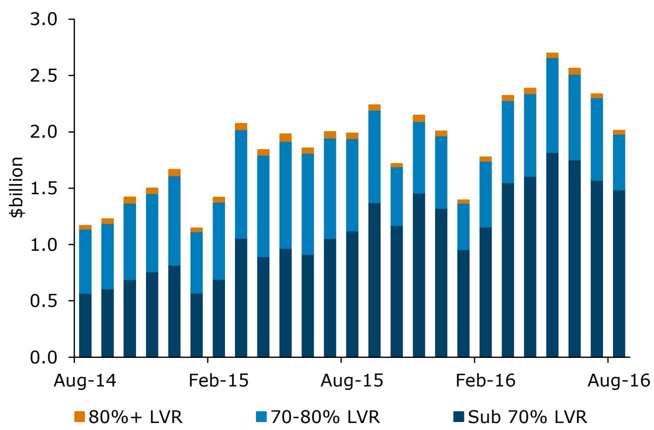
Source: ANZ, Statistics NZ

So there are certainly some elements of the inflation picture that are changing. And while low headline inflation and inflation expectations are important to consider, when there is growing evidence that inflation pressures are now responding to the economic cycle – and "traditional" drivers of inflation are starting to gain prominence again – that is important to consider too. Letting some parts of the economy overheat in order to counter the influence of low inflation in other parts is certainly not a strategy without its risks.

It is a quiet week for local data. Overseas Merchandise Trade figures for September should show a large monthly trade deficit (~$1.15bn). On the export side, while there was some improvement in commodity prices during the month, this was mostly dairy-centric and is expected to be somewhat delayed in coming through the trade statistics. With dairy inventory levels also tight post the end of last season and new season volumes only just starting to ramp up, both aspects are expected to continue to constrain dairy export receipts in September. It's a similar story for meat, with lower seasonal volumes due to earlier stronger sales. Most other sectors experienced slightly lower prices in-market price during September and combined with NZD resilience, this is also expected to weigh on total export receipts. On the import side, an expected increase in the implied imported oil price should support overall import values, as should the strong domestic growth backdrop overall.

New residential mortgage lending data for September should show a further cooling in market activity. In August, new lending remained about $6bn in the month, but the pace of growth softened, to be up just 2.9% y/y. This compares with ~18% growth rates seen in June and July. A large part of the slowing reflects lending to investors, which at 32.9% of the total was at its lowest share of total lending since October 2015.

FIGURE 4: NEW INVESTOR LENDING BY LVR



Source: ANZ, RBNZ

ECONOMIC OVERVIEW

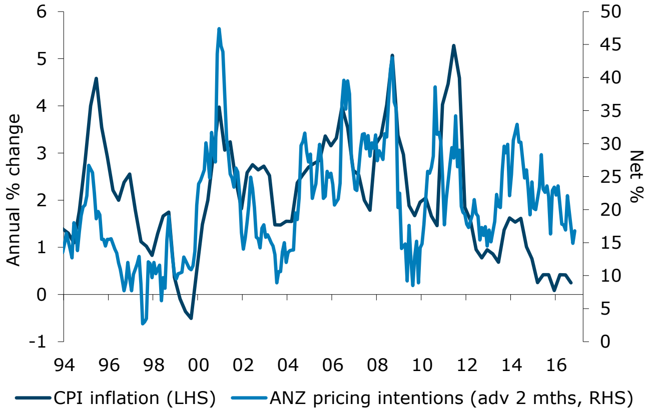
Clearly the latest round of LVR restrictions (which banks largely implemented ahead of the 1 October start date) **is playing a role.** But we suspect it also reflects increased rationing of credit as banks deal with increased funding pressures in a world where credit growth is far outpacing deposit growth. This slowing in new lending growth is something we expect to continue over a number of months yet.

On Monday we get the typical end-of-month releases: Building Consents, our Business Outlook, and RBNZ Credit Aggregates (we will comment on the latter in next week's edition).

Building consent issuance has been volatile lately, but we expect it to continue to trend higher. Despite falling over in both July and August, the level of issuance has retraced only around half of the 20% m/m surge recorded in June, and in three-month annualised terms total issuance is running close to 33K, the strongest since mid-2004. While it is entirely possible that another monthly fall is seen in September, we continue to hold a positive view towards issuance, and the construction sector more generally, overall. We are mindful of capacity pressures and the rationing of credit to some elements of the new development space, but at the same time this is going head-to-head with supportive factors: a housing shortage, ongoing strong population gains, low interest rates and a clear desire from policy-makers to lift supply.

Similar themes will be looked for in our latest Business Outlook survey for October. That is, whether confidence remains elevated and continues to point to strong activity growth, but also whether there has been any shift in the inflationary outlook. In the September survey, a number of activity indicators were consistent with *acceleration* in growth momentum off already strong rates, but firms' pricing intentions remaining at a historically low level.

FIGURE 5: CPI INFLATION AND ANZBO PRICING INTENTIONS



Source: ANZ, Statistics NZ

LOCAL DATA

CPI – Q3. Headline inflation rose 0.2% q/q (0.2% y/y), with flat tradable inflation (-2.1% y/y) and non-tradable inflation rising 0.3% q/q (2.1% y/y).

GlobalDairyTrade Auction. Prices consolidated, with the GDT-TWI rising 1.4%.

International Travel & Migration – Sep. A new record seasonally adjusted net inflow of 6,340 migrants was seen. Seasonally adjusted visitor arrivals rose 3.6% m/m.

INTEREST RATE STRATEGY

SUMMARY

Our revised forecast for no further OCR cuts beyond November leaves us somewhat neutral on the short end. With market expectations already close to our forecasts, we find it difficult to be negative, but the reasons for upping the ante on long or received positions are diminished. The global risk profile remains skewed lower, and while expectations of a Fed hike in December have firmed, 2017 has the potential to be an anti-climax, with further hikes likely to be extremely modest. That leaves us strategically neutral rather than bearish. However, over the short term, we think there are more reasons to buy than to sell long-end bonds. The bellwether NZGS 4/27 yield is up almost 40bps since it bottomed out in August. With the NZ/US cash spread set to end the year at 1%, we think a ~0.8%pt 10-year spread is a bit toppy.

THEMES

- We expect one more OCR cut and that's it. While for some that would be grounds to flee the market, we think the positive message such a forecast sends FX markets, together with the global downside risk profile, mean NZGS will remain well supported.
- Yellen's pondering to remain behind the curve (allowing the US economy to run hot) and Bullard's view that the Fed only needs to hike once to get the Fed Funds rate back to its Taylor Rule estimate point to 2017 being a US policy anti-climax. We think US yields are toppy here.
- Offshore demand for NZGS has eased back a touch in recent weeks. But NZ's credentials look good, and with the rate structure remaining elevated as the RBNZ transitions away from easing, FX becomes a bigger part of the story.

MONETARY POLICY AND SHORT END

Our new OCR forecasts no longer have the RBNZ easing in February next year, leaving next month's cut as the last this cycle. At face value, that leaves us cautious about remaining long, especially at the short end. However, that thinking is tempered by two points. The first is that **the market has already largely moved to price in that view**, with market expectations for the November decision (currently ~21bps) technically shy of pricing in a full cut, and the terminal rate at ~1.68%, technically just a touch more than one cut. Against our second point – that **the risk profile (globally) remains lower** – such pricing seems fair, leaving us more neutral than bearish.

But it is how FX markets take the November decision that will ultimately be the arbiter of where the short end goes. While we fully expect the RBNZ to retain an easing bias (deliberately avoiding "one and done" rhetoric that would likely see the NZD shoot higher), equally we can't see the NZD moving sustainably lower just yet given multiple (improving) legs of support.

With NZD downside limited, that will keep a lid on inflation, and keep offshore participation in the local market going. Both of these factors will also keep a lid on the short end (position squeeze notwithstanding). **All of this leaves us somewhat neutral on the short end.**

GLOBAL MARKETS AND LONG END

US long-end yields remain at the upper end of trading ranges, sitting precariously just above key technical levels. Tactically, the tepid break higher in the US 10-year Treasury bond above its 200-day moving average two weeks ago leaves us somewhat negative. However, we have not seen a significant onward break higher, and recent Fedspeak suggests we are in for an extended period of easy policy. **The latter is not a reason to stay long, but it does temper any potentially extreme bearish views.**

Ordinarily our new OCR call and neutral global view would leave us bearish the NZ long end too. However, we expect the prospect of ongoing NZD strength and the wide NZ/US 10yr spread to support demand for NZGS, biasing outright NZGS yields a touch lower.

STRATEGY

Investors: We are neutral at the short end, but do see some option value in being received February OIS. The NZ/US spread looks cheap at ~80, and we would rather be long duration in NZ than in other markets.

Borrowers: **No change. Watching and waiting is still our favoured strategy.** Rates have consolidated at higher levels, 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	We have taken the 2nd OCR cut (Feb) out of our forecast. FX aside, leaves less scope for downside.
Long end	Neutral/bullish	USTs range-trading. Technical break higher a worry, but Fedspeak supportive L-T. Bullish NZ on spread.
Yield Curve	Neutral	Neutral view courtesy of neutral short end long-end views. If anything, more scope for mild flattening.
Geographic spreads	Neutral/ Narrower	NZ/US spread slowly grinding in, but can do more. Recent fiscal data was sound, and underscores NZGS credit quality. Yellen behind curve + strong NZ growth = NZD strength = NZ/US spread compression.
Swap spreads	Neutral	NZGS demand has eased, but long end of curve (>4/27s) 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 NZD has opened the week on the back foot. While it remains higher than it was a week ago, its drop from last week's ~0.7265 high remains front of mind. We expect USD strength to be a feature of the landscape in coming weeks as expectations of a December Fed hike firm up. But there's a difference between "strong" and "stronger", and our sense is that the USD is now fully priced, and needs something new to drive it materially higher. Against that, we have two "new" emerging themes – the first being prospects for a post-Fed hike anti-climax; the second being firming expectations that 2017 OCR rate cuts in New Zealand are not assured. Barring a shift in the global scene, with GDP growth of ~4% beckoning locally, and rates levelling out, at "worst" NZD will be range-bound, at "best" it goes up.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Range-trade, local factors supportive	2017 US anti-climax suggests elevated
NZD/AUD	↔/↓	Also range-trading	0.93/0.98 range
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

- Odds of a December Fed rate hike continue to firm in the US, with Fedspeak all but confirming it.
- But the longer-term rhetoric remains dovish, giving scope for 2017 to be an anti-climax.
- Local data continues to beat expectations, and if our call for no further cuts beyond November gains momentum, short-end rates will drift higher.
- Our proprietary gauges point to growth knocking on the door of 4%. That's not new (they have for a while), but interest rates and growth are two key planks of NZD strength, and they aren't going away any time soon.
- Other drivers of NZD strength have improved over the past six months. Unemployment and the current account deficit are lower, and NZ's fiscal numbers are better. The opposite is true in the US.

ASSESSMENT

We remain of the view that the NZD has multiple (improving) legs of support, and abstracting from the possibility of a global disaster, will remain elevated over coming months. While the past 72 hours has challenged that view somewhat **(with the USD firming as expectations of a Fed rate hike have firmed), we believe that theme is close to exhaustion** (or is close to reaching its full potential for now). At the moment, **markets are pricing in ~71% odds of a Fed hike by December – that could firm up a bit more, but ahead of the US elections and Italian referendum, we doubt the market can move beyond 80% odds.**

In the meantime, **the new thematic emerging in the US centres on the Fed's dovish overall rhetoric, and the prospects for 2017 to be a policy anti-climax** (just like 2016). Recent Fedspeak certainly suggests the Fed Funds rate will remain below 1% for an extended period.

By contrast, the outlook in New Zealand remains firm, and the multiple legs of support that favour NZD have improved over the past six months. While we wouldn't want to get big-headed and suggest that **our new forecast for no further OCR cuts beyond November** will overly sway markets, we do note that markets have for some time been sceptical about the need for further cuts in 2017. If that thinking intensifies, it's likely to lend the NZD ongoing support.

That said, **at first glance, price action over the past week has been poor. But the recent decline towards ~0.7130 from last week's ~0.7265 high masks the fact that we are in fact higher than where we were a week ago.** In a "muddle through" world, such turbulence is to be expected. The important point continues to be that it is still difficult (and expensive) to be "lifestyle short" the NZD.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Fair value is 0.93, but note PPP has moved 6 cents in NZ's favour in 5 years.
Yield	↔/↑	Going NZ's way. NZ-AU spread elevated.
Commodities	↔	Iron ore and milk both up, oil down.
Data	↔/↑	NZ growth tipped at 3½-4.0%.
Techs	↔	Range-trading. 0.93/0.98 range.
Sentiment	↔	Mixed. No reason to break range.
Other	↔/↓	Market not keen to test parity.
On balance	↔	**Bounce from breach of 200-day MA encouraging. AU CPI tomorrow key.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Our new fair value for NZD/USD is ~0.75.
Yield	↔/↑	We no longer expect OCR cuts in 2017.
Commodities	↔/↑	GDT bounce last week encouraging.
Risk aversion	↔/↓	Potential for occasional bouts lower.
Data	↔/↑	US pulse ho-hum. NZ strong as an ox.
Techs	↔	0.71 – 0.73 range trade.
Other	↔	Dec Fed hike likely. But 2017 anti-climax.
On balance	↔/↑	**More positives than negatives.**

POSITIONING

NZD short positioning has been pared back to close to square, taking positioning "out" as a factor. Sterling shorts remain at an extreme (z-score of -2.2), suggesting the potential for a short squeeze higher in GBP. **Aggregate USD positioning remains long.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-Oct	GE	IFO Business Climate - Oct	109.6	109.5	21:00
	GE	IFO Current Assessment - Oct	114.9	114.7	21:00
	GE	IFO Expectations - Oct	104.5	104.5	21:00
26-Oct	US	FHFA House Price Index MoM - Aug	0.4%	0.5%	02:00
	US	S&P CoreLogic CS 20-City MoM SA - Aug	0.10%	-0.01%	02:00
	US	S&P CoreLogic CS 20-City YoY NSA - Aug	5.00%	5.02%	02:00
	US	Consumer Confidence Index - Oct	101.5	104.1	03:00
	US	Richmond Fed Manufact. Index - Oct	-4	-8	03:00
	US	IBD/TIPP Economic Optimism - Oct	47.5	46.7	03:00
	AU	CPI QoQ - Q3	0.5%	0.4%	13:30
	AU	CPI YoY - Q3	1.1%	1.0%	13:30
	AU	CPI Trimmed Mean QoQ - Q3	0.4%	0.5%	13:30
	AU	CPI Trimmed Mean YoY - Q3	1.7%	1.7%	13:30
	AU	CPI Weighted Median QoQ - Q3	0.4%	0.4%	13:30
	AU	CPI Weighted Median YoY - Q3	1.4%	1.3%	13:30
	CH	Westpac-MNI Consumer Sentiment - Oct	--	115.2	14:45
	GE	Import Price Index MoM - Sep	0.0%	-0.2%	19:00
	GE	Import Price Index YoY - Sep	-1.9%	-2.6%	19:00
	GE	GfK Consumer Confidence - Nov	10	10	19:00
	UK	BBA Loans for House Purchase - Sep	37350	36997	21:30
	US	MBA Mortgage Applications - 21-Oct	--	0.6%	00:00
	US	Advance Goods Trade Balance - Sep	-$60.5B	-$59.2B	01:30
	US	Wholesale Inventories MoM - Sep P	0.1%	-0.2%	01:30
	US	Markit US Services PMI - Oct P	52.5	52.3	02:45
	US	Markit US Composite PMI - Oct P	--	52.3	02:45
	US	New Home Sales - Sep	600k	609k	03:00
	US	New Home Sales MoM - Sep	-1.5%	-7.6%	03:00
	NZ	Trade Balance NZD - Sep	-1145M	-1265M	10:45
	NZ	Exports NZD - Sep	3.53B	3.39B	10:45
	NZ	Imports NZD - Sep	4.68B	4.65B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Sep	-3113M	-3131M	10:45
	AU	Export Price Index QoQ - Q3	2.0%	1.4%	13:30
	AU	Import Price Index QoQ - Q3	-0.8%	-1.0%	13:30
	CH	Swift Global Payments CNY - Sep	--	1.86%	14:00
	CH	Industrial Profits YoY - Sep	--	19.50%	14:30
	EC	M3 Money Supply YoY - Sep	5.1%	5.1%	21:00
	UK	GDP QoQ - Q3 A	0.3%	0.7%	21:30
	UK	GDP YoY - Q3 A	2.1%	2.1%	21:30
	UK	Index of Services MoM - Aug	0.0%	0.4%	21:30
	UK	Index of Services 3M/3M - Aug	0.8%	0.6%	21:30
	UK	CBI Retailing Reported Sales - Oct	-2	-8	23:00
	UK	CBI Total Dist. Reported Sales - Oct	--	17	23:00
28-Oct	US	Durable Goods Orders - Sep P	0.0%	0.1%	01:30
	US	Durables Ex Transportation - Sep P	0.2%	-0.2%	01:30
	US	Cap Goods Orders Nondef Ex Air - Sep P	-0.1%	0.9%	01:30
	US	Cap Goods Ship Nondef Ex Air - Sep P	0.4%	-0.1%	01:30
	US	Initial Jobless Claims - 22-Oct	255k	260k	01:30
	US	Continuing Claims - 15-Oct	2056k	2057k	01:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
28-Oct	US	Pending Home Sales MoM - Sep	1.1%	-2.4%	03:00
	US	Pending Home Sales NSA YoY - Sep	4.0%	4.0%	03:00
	US	Kansas City Fed Manf. Activity - Oct	3	6	04:00
	JN	Natl CPI YoY - Sep	-0.5%	-0.5%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Sep	-0.5%	-0.5%	12:30
	JN	Natl CPI Ex Food, Energy YoY - Sep	0.1%	0.2%	12:30
	JN	Tokyo CPI YoY - Oct	-0.4%	-0.5%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Oct	-0.5%	-0.5%	12:30
	JN	Tokyo CPI Ex Food, Energy YoY - Oct	-0.1%	-0.1%	12:30
	AU	HIA New Home Sales MoM - Sep	--	6.1%	13:00
	AU	PPI QoQ - Q3	--	0.1%	13:30
	AU	PPI YoY - Q3	--	1.0%	13:30
	EC	Economic Confidence - Oct	104.9	104.9	22:00
	EC	Business Climate Indicator - Oct	0.46	0.45	22:00
	EC	Industrial Confidence - Oct	-1.6	-1.7	22:00
	EC	Services Confidence - Oct	10	10	22:00
	EC	Consumer Confidence - Oct F	-8	-8	22:00
	UK	Nationwide House Px NSA YoY - Oct	4.9%	5.3%	28 Oct-4 Nov
	UK	Nationwide House PX MoM - Oct	0.2%	0.3%	28 Oct-4 Nov
29-Oct	GE	CPI MoM - Oct P	0.2%	0.1%	01:00
	GE	CPI YoY - Oct P	0.8%	0.7%	01:00
	GE	CPI EU Harmonized MoM - Oct P	0.1%	0.0%	01:00
	GE	CPI EU Harmonized YoY - Oct P	0.7%	0.5%	01:00
	US	Employment Cost Index - Q3	0.6%	0.6%	01:30
	US	GDP Annualized QoQ - Q3 A	2.5%	1.4%	01:30
	US	Personal Consumption - Q3 A	2.6%	4.3%	01:30
	US	GDP Price Index - Q3 A	1.4%	2.3%	01:30
	US	Core PCE QoQ - Q3 A	1.6%	1.8%	01:30
	US	U. of Mich. Sentiment - Oct F	88.2	87.9	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. While reasons for possible further cuts remain (NZD and low inflation expectations), on balance we now see it as more likely that the RBNZ maintains the OCR at 1.75% after its 'well flagged' cut next month.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
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.
Thu 27 Oct (3:00pm)	New Residential Mortgage Lending – Sep	Cooling	On the back of LVR restrictions and increased bank credit rationing, new lending growth should continue to soften.
Mon 31 Oct (10:45am)	Building Consents Issued – Sep	Positive trend	Issuance has been volatile lately, but we still believe 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 about 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.
Mon 14 Nov (10:30am)	BNZ-BusinessNZ PSI – Oct	Holding up	Although the gauge has eased of late – perhaps due to cooler housing market activity – we expect it to hold up overall.
Tue 15 Nov (10:45am)	Retail Trade Survey – Q3	Solid	Stronger retail-related price gains may dent overall spending relative to Q3, but we still expect a solid lift in sales volumes.
Thu 17 Nov (10:00am)	ANZ Job Ads – Oct	--	--
Thu 17 Nov (10:45am)	PPI – Q3	Lift	Small lifts in input and output prices look likely, led by higher oil and other commodity prices.
Thu 17 Nov (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Nov	--	--
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	0.2	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.8**
CPI (% yoy)	0.4	0.2	**0.8**	**1.2**	**1.1**	**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)	1.8	-0.3	-1.3	2.4	0.2	-1.0	2.5	-1.1	2.6	--
Credit Card Billings (% yoy)	8.1	7.3	4.9	9.0	6.1	4.1	5.7	2.0	8.2	--
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	6010	5340	5510	5550	5710	5640	5660	6330	--
Net Migration (ann)	65911	67391	67619	68110	68432	69090	69015	69119	69954	--
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	0.711	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.964	0.951	0.936	0.93	0.93	0.93	0.93	0.94	0.89	0.88
NZD/EUR	0.650	0.649	0.654	0.66	0.66	0.64	0.62	0.60	0.57	0.58
NZD/JPY	74.85	73.84	74.20	74.6	69.0	67.0	65.0	64.0	67.2	71.5
NZD/GBP	0.552	0.562	0.582	0.57	0.56	0.54	0.51	0.48	0.46	0.46
NZ$ TWI	75.9	75.7	76.8	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	1.75	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.28	2.20	2.13	2.10	2.10	2.10	2.10	2.10	2.10	2.10
NZ 10-yr bond	2.24	2.27	2.56	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

	21 Sep	17 Oct	18 Oct	19 Oct	20 Oct	21 Oct
Official Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.22	2.14	2.13	2.13	2.12	2.12
NZGB 03/19	1.97	1.90	1.95	1.95	1.92	1.92
NZGB 05/21	2.11	2.04	2.09	2.10	2.08	2.07
NZGB 04/23	2.27	2.22	2.28	2.29	2.27	2.26
NZGB 04/27	2.60	2.54	2.61	2.62	2.60	2.59
2 year swap	2.10	2.08	2.12	2.12	2.09	2.09
5 year swap	2.28	2.28	2.35	2.34	2.33	2.32
RBNZ TWI	78.11	76.42	77.23	77.48	77.73	77.34
NZD/USD	0.7329	0.7119	0.7206	0.7204	0.7224	0.7161
NZD/AUD	0.9647	0.9355	0.9380	0.9379	0.9417	0.9412
NZD/JPY	74.35	74.09	74.83	74.48	74.91	74.33
NZD/GBP	0.5639	0.5853	0.5868	0.5856	0.5892	0.5853
NZD/EUR	0.6575	0.6479	0.6546	0.6558	0.6582	0.6579
AUD/USD	0.7597	0.7610	0.7682	0.7681	0.7671	0.7608
EUR/USD	1.1147	1.0988	1.1009	1.0985	1.0975	1.0884
USD/JPY	101.45	104.07	103.85	103.39	103.70	103.80
GBP/USD	1.2998	1.2162	1.2280	1.2302	1.2261	1.2234
Oil (US$/bbl)	43.85	50.35	49.97	50.30	51.59	50.31
Gold (US$/oz)	1311.10	1253.80	1259.38	1262.95	1272.55	1262.38
Electricity (Haywards)	6.19	4.47	5.22	5.04	5.26	4.49
Baltic Dry Freight Index	903	894	890	872	849	842
NZX WMP Futures (US$/t)	3000	2800	2810	2925	2910	2910

IMPORTANT NOTICE

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