ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

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INSIDE

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HAUNTED HOUSING?

ECONOMIC OVERVIEW

New lending data, together with our own internal anecdotes, suggest that the latest round of LVR restrictions has seen housing market activity cool. History suggests this cooling will be temporary given a shortage of supply, and the market will fire up again in around six months. However, this time looks different as banks are actively attempting to lean against excesses, the interest rate cycle (both domestically and offshore) is maturing, valuations are even more stretched, additional macro-prudential measures are being worked on, and market forces (i.e. more intra-regional migration) will assist. This should temper the market from firing again until the supply side catches up.

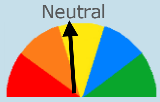
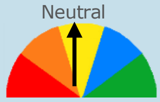
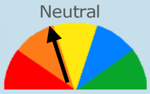
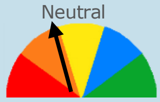
INTEREST RATE STRATEGY

Short-end rates are set to continue to range trade ahead of next week's RBNZ MPS. But within that, deeper nuances run, with the very short end biased a touch lower when an OCR cut is delivered, and the 2-3 year part of the curve under mild upward pressure on a resumption of hedge and mortgage fixing. However, neither bias is sufficient to be labelled a trend. At the long end, it is becoming clear that we have seen the lows in term rates as investors baulk at low yields ahead of the global policy transition from monetary to fiscal support, and recovering energy prices from lows buoy inflation. But there are offsets that suggest that long-end rates are likely to enter a period of "muddle through", rather than a full-blown bear market.

CURRENCY STRATEGY

The USD has gained ascendency but now looks fully priced. Further movement requires shifts in real as opposed to nominal yields. We continue to have a mild strategic bias towards NZD weakness 12 months out, but lack conviction on such a move taking place in the near term given the local picture and fully priced USD. Canaries in the coalmine are numerous but in a world where free capital is being used unproductively, demographics are poor and debt is rising, an initial safe haven may be the USD. That said, ultimate safe havens will be those with policy ammunition and decent microeconomic foundations. We therefore struggle to get too NZD bearish and hence expect shallow moves.

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

New lending data, together with our own internal anecdotes, suggest that the latest round of LVR restrictions has seen housing market activity cool, especially in Auckland. History suggests this cooling will be temporary given a shortage of supply, and the market will fire up again in around six months. However, this time looks different as banks are actively attempting to lean against excesses, the interest rate cycle (both domestically and offshore) is maturing, valuations are even more stretched, additional macro-prudential measures are being worked on, and market forces (i.e. more intra-regional migration) will assist. This should temper the market from firing again until the supply side catches up. If it weren't for earlier methodological changes, we would be looking for this week's labour market data to be strong. However, we are expecting some softer headline figures although that won't be an accurate depiction as the labour market is tightening. Inflation expectations are likely to remain low but stable, while dairy prices look set to rise further.

FORTHCOMING EVENTS

RBNZ Credit Aggregates – September (3:00pm, Monday, 31 October). With the pace of new mortgage lending slowing, overall credit growth figures should also be close to peaking.

GlobalDairyTrade Auction (early am, Wednesday, 2 November). A tightening global supply situation looks set to see prices rise further.

Labour Market Statistics – Q3 (10:45am, Wednesday, 2 November). There is plenty of uncertainty, but we expect some recoil in HLFS employment, participation and hours worked. The unemployment rate is estimated to be stable at 5.1%. Wage growth will be low, but we will be on the lookout for a turn in the cycle.

RBNZ Survey of Expectations – Q4 (3:00pm, Wednesday, 2 November). We expect the 2-year ahead inflation expectations measure to be stable to slightly higher.

ANZ Commodity Price Index – October (1:00pm, Thursday, 3 November).

Government Financial Statements – September (10:00am, Friday, 4 November). The figures should still show the fiscal accounts in decent shape and running ahead of Budget forecasts.

WHAT'S THE VIEW?

Across our internal anecdotes and leading indicators, the message continues to be one of a solid-to-strong economy across many regions. We rely heavily on these anecdotes as not only a cross-check against current and incoming data, but also to pick up on themes that may not yet be obvious in the data itself. Hard data is simply the plural manifestation of anecdote(s) – with a lag.

The usual suspects – construction and hospitality – remain key cogs in this strong growth story. Numerous firms in these sectors are reporting excellent trading conditions, although there are certainly 'growing pains' with regards to capacity and challenges finding and retaining staff. But that is hardly new news now.

Yet one theme that has become increasingly evident over the past month or two is that housing market activity, especially in Auckland, has cooled. There is now hard data evidence of this within the latest REINZ figures and last week's data that showed the pace of new lending continuing to slow. But when anecdotes mention investor participation dropping away significantly, auction clearance rates falling, and phrases such as the market has "turned" or "it's over", it certainly gives credence to an even softer theme than is evident within the data so far. It does look like the latest round of LVR restrictions are biting.

Admittedly, we have seen this type of housing market cooling before, and quite recently. Activity noticeably cooled when the LVR restrictions were first introduced in 2013 and ahead of last election when tax changes were mooted, and again when the LVR restrictions were tweaked to be more regionally specific in 2015. So the fact the market is slowing after further prudential policy changes should hardly come as a surprise.

But in each of those earlier episodes, the slowing proved temporary. The market took a breather only to roar away again. So are we in for the same again? Economics 101 tells us that when there is a supply shortage (and there is one), prices go up so the effect is likely to be temporary!

However, there are important factors that mean this cooling will likely have more longevity to it than before. Now that should not be confused with us saying we are expecting a correction or anything like that. Valuations are certainly stretched and risks have increased, but outright weakness is hard to envisage when net migration flows sit at records, supply is responding only slowly, interest rates remain historically low and the underlying economy is still performing well (although there is a chicken and egg argument of course). "Cooling" is quite different to "cool". But we do feel that it is now less likely that the market bursts away again in a few months' time as it has done before. This is because:

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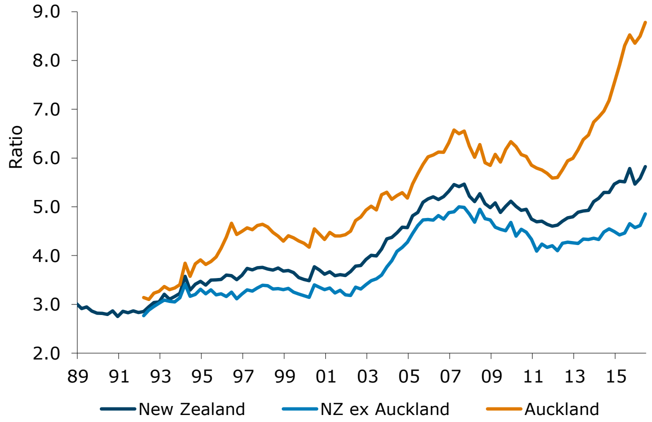
- **Banks are now actively rationing credit and leaning against activity at the top of the cycle.** In an environment where credit growth is still far outpacing deposits, the former needs to slow and the latter rise. Lending criteria have been tightened beyond explicit prudential requirements. That's a) responding to higher economic risks at the top of the cycle; b) trying to bring some balance back to the economy (i.e. stop the current account deficit blowing out); c) responding to shifting regulatory requirements (i.e. deposit and liquidity requirements); and d) common sense; excessive credit can be a key driver of booms and busts. The danger is that curtailed credit restrains housing supply though, so there is no free lunch.
- **The interest rates cycle is maturing.** We no longer see any further OCR cuts after a "final" cut next month, and that cut is already effectively incorporated into current mortgage rates. But it is the international scene that is far more important to watch, where the realisation of higher headline inflation, a shifting focus to fiscal policy, and more hesitancy from some central banks to ease further are seeing yields increase. A spike higher in rates looks unlikely; the world is still far too fragile. But the boost that ongoing interest rate falls have provided the market looks to be behind us.
- **Valuations are even more stretched than they were.** In Auckland, we estimate that the ratio of house prices to income is close to 9 times. When the initial LVR restrictions were introduced, it was 6½ times. Nationwide, the ratio is now close to 6, when it was less than 5 in 2013. Over 50% of average disposable incomes are now needed to service the debt required to buy the median house in Auckland with a 20% deposit. Despite historically low interest rates, that is on par with 2007.

FIGURE 1: REGIONAL HOUSE PRICES TO INCOME



Source: ANZ, REINZ, Statistics NZ

- **More macro prudential measures are coming.** The RBNZ has made it clear that it wishes to introduce, or at least have the ability to introduce, debt-to-income restrictions. Discussions with the Government are ongoing, but we'd expect to get more information in the RBNZ's *Financial Stability Report* next month.
- **Other policymakers are also stepping up their efforts.** Residency visa requirements have been tightened and increased funding for social housing has been mooted. From a political perspective, the pendulum is swinging more actively towards restraining demand and boosting supply. While there is still massive inflow potential for immigration given the global scene and political fracas, signs of improvement in the Australian economy could see departures pick up.
- **Market forces are assisting.** While there is a shortage in Auckland, there is a surfeit of houses in some regions. A migration "push" (Auckland is too expensive), and pull (the regions are cheaper) is playing out. Adjustment factors such as the average number of people per house is rising as valuations force changes. That means the kids staying longer at home too.

This combination is no panacea amidst a housing shortage in Auckland (and Wellington and the Bay of Plenty), but these factors should temper the market's natural push to keep rising, and effectively buy time for the supply side to adjust and respond – which it will, over time.

Turning to the week ahead, September quarter labour market figures are the highlight. While we expect some softer headline figures after the methodologically induced surges in employment, participation and hours worked last quarter, we expect the broad message from the figures to still be a decent one, pointing to the labour market continuing to tighten gradually.

But there is plenty of uncertainty over the figures themselves. It is unclear how much of the gain in employment (2.4% q/q in Q2), for example, was due to these methodological changes and how much was "real". As the changes also alter the seasonal pattern, this adds another element of uncertainty (which could persist for a while, to be fair). While we suspect most of Q2's surge was due to survey changes, when the gains are matched with the likes of our job ads series or firms' hiring intentions – which are both exceptionally strong – there are clearly some consistencies with a strong labour demand backdrop too.

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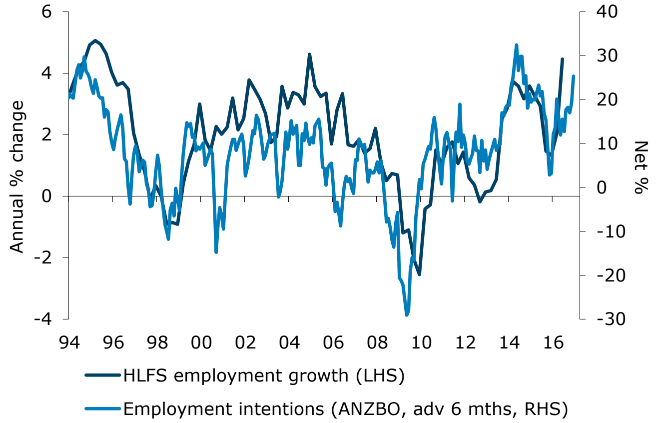
FIGURE 2: EMPLOYMENT AND EMPLOYMENT INTENTIONS



Source: ANZ, Statistics NZ

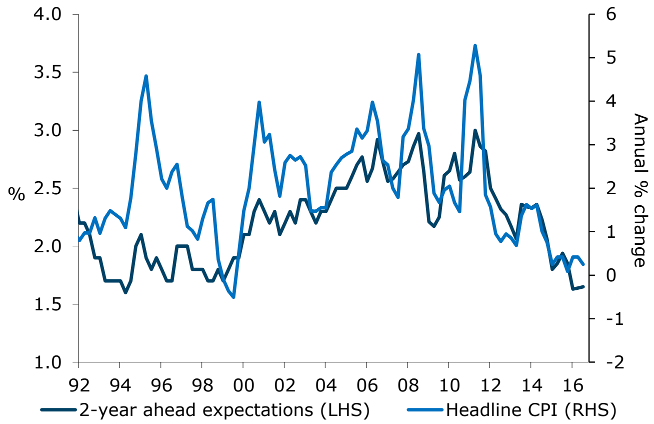
We have pencilled in a flat employment outcome, so are implicitly assuming that the methodological changes have – at least in part – resulted in a level shift in employment. But we don't have a great deal of conviction in this view. A further gain in employment cannot be ruled out (and would be consistent with other labour market gauges). In the same regard, we expect the participation rate and hours worked to partially reverse their Q2 moves, with the unemployment rate – which probably gave the 'cleanest' gauge on the overall market in Q2 – expected to be stable at 5.1%.

The wage growth figures should be of more importance. Commentators and the market will probably look through any outsized moves in components of the HLFS, putting them down to noise. But the wage growth environment will arguably shed more light on labour market conditions overall and the degree of spare capacity that is still evident. Certainly, anecdote suggests that the market is tightening, and our Small Business Microscope tells us that finding labour is now the *biggest* issue businesses are grappling with.

We expect wage growth to remain low in the quarter, which more than anything just reflects the low inflation environment more broadly. Our preferred measure of wage inflation – the private sector LCI – is expected to lift a modest 0.4% q/q (1.7% y/y) in Q3. However, we do believe that conditions are developing for wage growth to start to increase (less spare capacity and a turn in the domestic inflation cycle) and we will be looking at distributional and sectoral measures in the quarter for hints that this process is now underway.

We expect the RBNZ's Survey of Expectations to show stable or perhaps higher inflation expectations. In the Q3 survey, the key 2-year ahead measure of inflation expectations was 1.65%, where it has effectively been for three consecutive quarters now. While low actual inflation outcomes remain a factor weighing on surveyed measures of inflation expectations, with signs that price increases are broadening (41% of the CPI basket had annual inflation above 2% in Q3 – the highest proportion in four years) and petrol prices also lifting of late, we see a possibility of a small lift in these measures in Q4. Certainly, the RBNZ is expecting that as headline inflation moves higher due to base effects, surveyed measures of inflation expectations should follow suit.

FIGURE 3: CPI INFLATION AND INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ, RBNZ

Higher prices look set to be recorded at the next GlobalDairyTrade auction. Late last week, Fonterra aggressively tightened its annual milk supply forecast (circa 4%) and further reduced GDT supply by 11,199 tonnes. This is expected to provide price support despite cautious demand signals. NZX futures are currently pointing toward a 6.6% lift for the GDT-TWI and 10% increase for WMP.

The reduction in supply means that buyers now face a more marked drop-off in the seasonal supply than anticipated just four weeks ago. Historically, this would often have seen prices spike, especially for WMP, but we are not anticipating large gains at this stage. This is because the Chinese free-trade window has now effectively shut (apart from product delivered under the first contract), Middle-East and North African demand is more subdued at current prices, and New Zealand product is facing increased competition in South-East Asia from the US (especially for SMP, which is more competitively priced than NZ product).

The other challenge is that buyers, like us, remain a little wary about the reasons behind this aggressive tightening in supply. Fonterra is now anticipating its annual supply will be back 7%, which follows a 3% reduction the year before. But perhaps what's more notable is that with milk supply

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down only 3% so far this year, this forecast implies supply remains nearly 8% down for the remainder of the season. To us this seems a big assumption so early in the season, with wet soil conditions in the North Island being the main driver of lower supply at present. As temperatures warm up, a surge in milk supply could well occur, which would be particularly meaningful in the context of the fact that South Island production (which constitutes approximately 40% of milk supply) is up around 2% YTD.

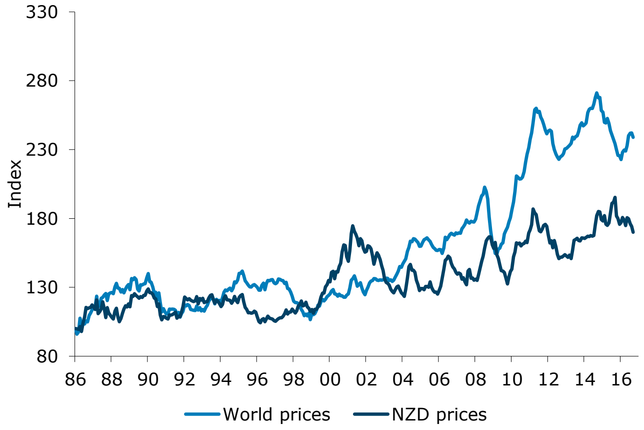
The other piece of information that muddies the water is Fonterra's loss of market share on the supply side. While Fonterra's year-to-date supply is down 3%, total New Zealand supply is down only 0.6%. This means buyers have other options outside of GDT to secure product. Over the last two years Fonterra has lost 3.2% market share (1.6% per annum). This, and other information, implies that while Fonterra is now anticipating its own milk supply to be back 7%, total New Zealand collections may only be down by 5%, which is a more likely outcome in our opinion.

So given this, it will be interesting to see how the market responds. Last time it was somewhat lukewarm. We continue to feel that WMP prices will remain capped below US$3,000/t, although the reduction in supply could see increased hedging activity and a lift in later-delivering contract periods, steepening the forward WMP curve and lifting milk price forecasts further.

What also needs to be kept in context is what price gains from materially lower New Zealand milk supply mean for total dairy revenue and the effects on individual regions and farm businesses. If the improvement in prices isn't enough to offset the loss in revenue from lower production, or there are reduced cost efficiencies (due to animal health impacts, or brought-in feed requirements etc) then there can be little, or no, net financial gain. In this case, North Island dairy farmers won't be feeling quite as optimistic about the start of the 2016/17 season as their South Island counterparts.

Finally, our Commodity Price Index for October will provide an update on the broader export commodity price picture. Strong dairy prices have boosted the gauge over recent months (it hit a 17 month high in September). However, it has been a little more hit-and-miss for other components. In fact, the ex-dairy index fell 1.3% m/m in September to a four month low. In NZD terms, ex-dairy prices fell 2.4%, to the lowest level in over two years. So while farm gate returns do look to be on the mend for one important primary industry (dairy), the strong NZD is presenting some challenges to others and so the October data will be perused to see if those pressures have intensified or not.

FIGURE 4: NON-DAIRY EXPORT COMMODITY PRICES



Source: ANZ

LOCAL DATA

Overseas Merchandise Trade – September. An unadjusted trade deficit of $1,436m was recorded.

New Residential Mortgage Lending – September. New lending totalled $5.8bn, down 10% y/y.

Building Consents Issued – September. Total dwelling consent issuance rose 0.2% m/m.

ANZ Business Outlook – October. Headline confidence dipped 3 points to a net 25%. Firms' own activity expectations fell 4 points to a net 38%.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates are set to continue to range trade ahead of next week's RBNZ MPS. But within that, deeper nuances run, with the very short end (OIS and BKBM) biased a touch lower when an OCR cut is delivered, and the 2-3 year part of the curve under mild upward pressure on a resumption of hedge and mortgage fixing. However, neither bias is sufficient to be labelled a trend. At the long end, it is becoming increasingly clear that we have seen the lows in term rates as investors baulk at low yields ahead of the global policy transition from monetary to fiscal support (implying less sovereign bond demand and more bond supply), and recovering energy prices from lows buoy inflation. But there are offsets – economic and political fragilities and leverage – all of which suggest that long-end rates are likely to enter a period of "muddle through", rather than a full-blown bear market.

THEMES

- The RBNZ is expected to maintain a dovish tone at next week's MPS, courtesy of still-low inflation, TWI considerations and global fragilities (and recalling what has happened on past 'last cuts of the cycle'). But that picture will be somewhat balanced by the obvious; the economy is strong.
- Markets are looking to the next leg (higher) in the OCR. That's understandable given potential flow, but the 2-year is already 40bps higher than where we expect the OCR to base (1.75%). That's a lot.
- 'Black swans' notwithstanding, we now believe we have seen the lows in global long-end bond yields. Phase one of the move – realisation that negative yields aren't sustainable – looks complete. But we believe phase two is more "muddle through" than an outright bear market.

MONETARY POLICY AND SHORT END

Short-end rates look biased a touch higher. However, that view is based on our expectation that it will be flow – rather than economics – that drives markets over coming weeks. In that regard, we're mindful of how quickly market pricing changed after last December's OCR cut, which many felt would be the last. Similar themes are echoing today, and **while the 2yr has already gone a long way** (at ~2.15%), **with limited fresh receiving likely, pent-up corporate hedging and mortgage flow have the potential to drive yields higher still.**

That said; **there are two caveats. First, the very short end (OIS and BKBM) will go lower** (it has to, assuming an OCR cut next week, as it is only ~80% priced in). As that occurs, that will temper paying interest. **Second, we are mindful that the end of cuts doesn't imply that we are on the cusp of imminent hikes** (as has often been the case in the past). Initially, this will be the working assumption, and it (along with the self-fulfilling nature of flows) biases rates higher. **But once the flow has occurred, we expect rates to settle back into a range trade.**

GLOBAL MARKETS AND LONG END

Global sovereign bond yields are now well off their lows, and it has become increasingly clear how unsustainable such low rates were. The increase is the result of investor fatigue with low/negative yields, lifts in inflation courtesy of energy prices (also a big driver of inflation expectations), and fears of monetary policy stimulus transitioning to fiscal policy support, implying a big swing in the supply/demand balance towards the former having the upper hand.

While we have been somewhat surprised by the speed of the move, and have asked ourselves many times if this was just another false start, we believe it is not. **But that doesn't mean we're ready to welcome in a bond bear market – far from it. Instead, we believe phase one – the reality that yields can't be sustained below zero – is complete; phase two will be more of a "muddle through" than a bear market.** This is courtesy of the still-fragile nature of the US recovery, political uncertainties, still-high global leverage, and questions over the outlook for core inflation. The big bogey – the potential for a 1994/2004 style tightening cycle to decimate bond markets – is not in prospect.

STRATEGY

Investors: The NZ/US spread still looks cheap at ~80, but we prefer to pare overall duration back to neutral, and positioned for a steeper curve.

Borrowers: We favour cautiously wading into the market to hedge. We believe the lows are in, but are equally mindful that we will see spikes lower, which we'd take advantage of. With BKBM biased lower, some caution is required.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/higher	Pay flow has the potential to drive yields higher, but economics/valuations prevent us being too bearish.
Long end	Muddling thru	The lows are in for global yields, but we don't expect a full-blown bear market. NZ/US spread can tighten.
Yield Curve	Biased steeper	Not a strong view especially with NZ/US spread narrowing, but the result of opposing short/long end views.
Geographic spreads	Neutral/ Narrower	NZ/US spread slowly grinding in, but can do more. We expect currency markets to play more of a role in global bond allocations going forward, supporting NZ. Nov RBNZ cut not fully priced in, nor is Dec Fed hike.
Swap spreads	Neutral/wider	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 USD has gained ascendency but now looks fully priced. Further movement requires shifts in real as opposed to nominal yields. We continue to have a mild strategic bias towards NZD weakness 12 months out, but lack conviction on such a move taking place in the near term given the local picture and fully priced USD. Canaries in the coalmine are numerous but in a world where free capital is being used unproductively, demographics are poor and debt is rising (thereby heralding a day of reckoning), an initial safe haven may be the USD. That said, ultimate safe havens will be those with policy ammunition and decent microeconomic foundations. We therefore struggle to get too NZD bearish and hence expect shallow moves.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Range-trade, local factors supportive	Muddling through = stability
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

- Tenor of global data looking better and a better tone across commodities (iron ore, coal) too.
- Inflation moving higher courtesy of oil, dragging nominal yields up. But real yields yet to move.
- RBNZ done and dusted after November but easing bias to remain, tempering the currency response.
- Politics set to dominate central banks in the lead-up to the US election = markets on edge.
- New Zealand data pulse still giving a buy as opposed to a sell signal, but usurped by global scene at present, leaving the NZD oscillating.

ASSESSMENT

Global yields are off their lows and that's been enough to knock the top off the NZD over the past month. But with the NZD on a TWI basis still sitting above 77, there's not too much for exporters to get excited about.

Real yields are not moving as much, which means two things. First, risk appetites (US election aside) remain okay, and second, a structural re-pricing in the cost of capital is yet to impact financial conditions and growth. **Such forces temper downside pressures on the high yielders such as the NZD, and in fact provide crutches of support to the commodity bloc through the commodity / growth channel.**

We continue to see the NZD as biased lower over time, but it lacks a clear catalyst to move it sustainably lower in the near term.

- The local data pulse remains strong, and despite NZD strength suppressing tradable inflation, the domestic inflation pulse is ticking up.
- Commodity prices are off lows and China is stable.
- New Zealand real yields have not risen as fast as nominal yields, suggesting near-term fears of low inflation have eased. It's the same globally.
- Expectations for the Fed are gravitating towards what looks to be an inevitable hike in December.
- A fundamental shift from monetary to fiscal policy as the global growth lever faces challenges.

This keeps us biased towards ranges holding.

An issue we continue to ponder is the ability (or catalyst) for currency markets to trend up or down. Such trends would require a break in the trajectory for real yields, commodities and global growth, or a shift in global capital flows. All are interconnected and we can rationalise the arguments to drive such breaks. However, a fundamental issue we keep returning to is the endgame. Capital is being mispriced and hence misallocated. The piper must get paid eventually. That's typically risk-off, commodity bloc negative and USD supportive. However, it's hard to see a nation – current account deficit or not – that has growth, policy ammunition and decent microeconomic foundations being clobbered too hard. The sums up the NZD quite nicely.

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	↔	Heading the same way for both.
Data	↔/↑	NZ growth tipped at 3½-4%.
Techs	↔	Range-trading. 0.93/0.98 range.
Sentiment	↔	Mixed. No reason to break range.
Other	↔/↓	Market not keen to test parity.
On balance	↔	**More range trading beckons.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Our new fair value for NZD/USD is ~0.75.
Yield	↔/↑	Pushing higher, next week's cut the last.
Commodities	↔/↑	GDT bounce this week in prospect.
Risk aversion	↔/↓	Potential for occasional bouts lower.
Data	↔/↑	US pulse ho-hum. NZ strong.
Techs	↔	0.71 – 0.72 range still intact.
Other	↔	Dec Fed hike likely. But 2017 anti-climax.
On balance	↔/↑	**More positives than negatives (still!)**

POSITIONING

NZD positioning remains **close to square**, removing positioning as a factor. GBP, EUR and JPY shorts are all significant, and USD positioning remains long, potentially limiting USD upside.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-Oct	UK	GfK Consumer Confidence - Oct	--	-1	13:01
	AU	Private Sector Credit MoM - Sep	--	0.4%	13:30
	AU	Private Sector Credit YoY - Sep	--	5.8%	13:30
	NZ	Money Supply M3 YoY - Sep	--	5.3%	15:00
	UK	Net Consumer Credit - Sep	--	£1.6B	22:30
	UK	Net Lending Sec. on Dwellings - Sep	--	£2.9B	22:30
	UK	Mortgage Approvals - Sep	--	60.1k	22:30
	UK	Money Supply M4 MoM - Sep	--	0.9%	22:30
	UK	M4 Money Supply YoY - Sep	--	5.4%	22:30
	EC	CPI Estimate YoY - Oct	--	0.4%	23:00
	EC	CPI Core YoY - Oct A	--	0.8%	23:00
	EC	GDP SA QoQ - Q3 A	--	0.3%	23:00
	EC	GDP SA YoY - Q3 A	--	1.6%	23:00
	GE	Retail Sales MoM - Sep	0.2%	-0.3%	31 Oct - 4 Nov
	GE	Retail Sales YoY - Sep	1.6%	3.7%	31 Oct - 4 Nov
	UK	Nationwide House Px NSA YoY - Oct	4.9%	5.3%	31 Oct - 4 Nov
	UK	Nationwide House PX MoM - Oct	0.2%	0.3%	31 Oct - 4 Nov
1-Nov	US	Personal Income - Sep	0.4%	0.2%	01:30
	US	Personal Spending - Sep	0.4%	0.0%	01:30
	US	PCE Deflator MoM - Sep	0.2%	0.1%	01:30
	US	PCE Deflator YoY - Sep	1.2%	1.0%	01:30
	US	PCE Core MoM - Sep	0.1%	0.2%	01:30
	US	PCE Core YoY - Sep	1.7%	1.7%	01:30
	US	Chicago Purchasing Manager - Oct	54.0	54.2	02:45
	US	Dallas Fed Manf. Activity - Oct	1.8	-3.7	03:30
	AU	AiG Perf of Mfg Index - Oct	--	49.8	11:30
	AU	ANZ-RM Consumer Confidence Index - 30-Oct	--	113.6	11:30
	AU	CoreLogic House Px MoM - Oct	--	1.0%	12:00
	NZ	QV House Prices YoY - Oct	--	14.3%	12:00
	CH	Manufacturing PMI - Oct	50.4	50.4	14:00
	CH	Non-manufacturing PMI - Oct	--	53.7	14:00
	CH	Caixin PMI Mfg - Oct	50.1	50.1	14:45
	AU	RBA Cash Rate Target - Nov	1.50%	1.50%	16:30
	AU	Commodity Index AUD - Jul	--	92.1	18:30
	UK	Markit PMI Manufacturing SA - Oct	--	55.4	22:30
	JN	BoJ Policy Rate - Nov	--	-0.10%	UNSPECIFIED
2-Nov	US	Markit Manufacturing PMI - Oct F	--	53.2	02:45
	US	Construction Spending MoM - Sep	0.5%	-0.7%	03:00
	US	ISM Manufacturing - Oct	51.7	51.5	03:00
	US	IBD/TIPP Economic Optimism - Nov	--	51.3	03:00
	NZ	Unemployment Rate - Q3	--	5.1%	10:45
	NZ	Employment Change QoQ - Q3	--	2.4%	10:45
	NZ	Employment Change YoY - Q3	--	4.5%	10:45
	NZ	Participation Rate - Q3	--	69.7%	10:45
	NZ	Pvt Wages Ex Overtime QoQ - Q3	--	0.4%	10:45
	NZ	Pvt Wages Inc Overtime QoQ - Q3	--	0.4%	10:45
	NZ	Average Hourly Earnings QoQ - Q3	--	0.8%	10:45
31-Oct	UK	GfK Consumer Confidence - Oct	--	-1	13:01

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
2-Nov	AU	Building Approvals MoM - Sep	--	-1.8%	13:30
	AU	Building Approvals YoY - Sep	--	10.1%	13:30
	NZ	2Yr Inflation Expectation - Q4	--	1.65%	15:00
	GE	Unemployment Change (000's) - Oct	--	1k	21:55
	GE	Unemployment Claims Rate SA - Oct	--	6.1%	21:55
	GE	Markit/BME Manufacturing PMI - Oct F	--	55.1	21:55
	EC	Markit Manufacturing PMI - Oct F	--	53.3	22:00
	UK	Markit/CIPS Construction PMI - Oct	--	52.3	22:30
3-Nov	US	MBA Mortgage Applications - 28-Oct	--	--	00:00
	US	ADP Employment Change - Oct	158k	154k	01:15
	US	FOMC Rate Decision - Nov	0.50%	0.50%	07:00
	AU	AiG Perf of Services Index - Oct	--	48.9	11:30
	NZ	ANZ Commodity Price - Oct	--	5.1%	13:00
	AU	Trade Balance - Sep	--	-A$2010M	13:30
	CH	Caixin PMI Services - Oct	--	52.0	14:45
	CH	Caixin PMI Composite - Oct	--	51.4	14:45
	UK	Markit/CIPS Services PMI - Oct	--	52.6	22:30
	UK	Markit/CIPS Composite PMI - Oct	--	53.9	22:30
	EC	Unemployment Rate - Sep	--	10.1%	23:00
4-Nov	UK	Bank of England Bank Rate - Nov	--	0.25%	01:00
	UK	BoE Asset Purchase Target - Nov	--	£435B	01:00
	US	Nonfarm Productivity - Q3 P	1.6%	-0.6%	01:30
	US	Unit Labor Costs - Q3 P	1.5%	4.3%	01:30
	US	Initial Jobless Claims - 29-Oct	--	--	01:30
	US	Continuing Claims - 22-Oct	--	--	01:30
	US	Markit Services PMI - Oct F	--	--	02:45
	US	Markit Composite PMI - Oct F	--	--	02:45
	US	ISM Non-Manf. Composite - Oct	56	57.1	03:00
	US	Factory Orders - Sep	0.4%	0.2%	03:00
	US	Factory Orders Ex Trans - Sep	--	0.0%	03:00
	US	Durable Goods Orders - Sep F	--	--	03:00
	US	Durables Ex Transportation - Sep F	--	--	03:00
	AU	RBA Statement on Monetary Policy	--	--	13:30
	AU	Retail Sales MoM - Sep	--	0.4%	13:30
	AU	Retail Sales Ex Inflation QoQ - Q3	--	0.4%	13:30
	GE	Markit Services PMI - Oct F	--	54.1	21:55
	GE	Markit/BME Composite PMI - Oct F	--	55.1	21:55
	EC	Markit Services PMI - Oct F	--	53.5	22:00
	EC	Markit Composite PMI - Oct F	--	53.7	22:00
	EC	PPI MoM - Sep	--	-0.2%	23:00
	EC	PPI YoY - Sep	--	-2.1%	23:00
	CH	BoP Current Account Balance - Q3 P	--	$64.1B	UNSPECIFIED
5-Nov	US	Trade Balance - Sep	-$41.8B	-$40.7B	01:30
	US	Change in Nonfarm Payrolls - Oct	169k	156k	01:30
	US	Unemployment Rate - Oct	4.9%	5.0%	01:30
	US	Average Hourly Earnings MoM - Oct	0.3%	0.2%	01:30
	US	Average Hourly Earnings YoY - Oct	--	2.6%	01:30

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

LOCAL DATA WATCH

Domestic 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
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	Up on lower supply	Supply has been curtailed, which should be price supportive, 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.
10-15 Nov	REINZ Housing Market statistics – Oct	Cooling	Anecdote, together with softer new lending growth figures, suggests that market activity has continued to cool.
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.
Wed 16 Nov (early am)	GlobalDairyTrade Auction	Up on lower supply	Supply has been curtailed, which should be price supportive, but we feel it is too early to get overly positive yet with demand indicators still mixed.
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	--	--
Tue 22 Nov (10:45am)	International Travel & Migration – Oct	Strong	We don't see much change in the net migrant and visitor arrivals numbers; they should remain strong.
Fri 25 Nov (10:45am)	Overseas Merchandise Trade – Oct	Deficit	While dairy prices have lifted, the impact of weak production and low inventories should weigh on export receipts.
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	**0.0**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	4.5	**4.8**	**4.4**	**3.5**	**1.5**	**1.9**	**1.7**	**1.6**	**1.6**	**1.5**
Unemployment Rate (% sa)	5.1	**5.1**	**5.0**	**5.0**	**5.0**	**5.0**	**4.9**	**4.8**	**4.7**	**4.6**
Current Account (% GDP)	-2.9	**-3.0**	**-3.0**	**-3.2**	**-3.3**	**-3.3**	**-3.2**	**-3.2**	**-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)	-8.1	10.9	-9.8	8.0	-0.7	20.4	-8.7	-1.5	0.2	--
Building Consents (% yoy)	4.5	26.9	0.4	13.7	10.1	39.9	7.8	11.8	14.5	--
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	24.5
ANZ Own Activity Outlook	..	25.5	29.4	32.1	30.4	35.1	31.4	33.7	42.4	38.4
Trade Balance ($m)	12	367	189	350	343	107	-351	-1243	-1436	--
Trade Bal ($m ann)	52764	52831	52599	52626	52854	52660	52078	51900	51986	--
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	0.715	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.964	0.951	0.942	0.93	0.93	0.93	0.93	0.94	0.89	0.88
NZD/EUR	0.650	0.649	0.652	0.66	0.65	0.64	0.63	0.62	0.57	0.58
NZD/JPY	74.85	73.84	74.85	74.6	69.0	67.0	65.0	64.0	67.2	71.5
NZD/GBP	0.552	0.562	0.587	0.58	0.56	0.56	0.55	0.52	0.46	0.46
NZ$ TWI	75.9	75.7	77.3	75.5	73.5	72.3	70.8	70.0	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	2.14	2.10	2.00	2.00	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.24	2.27	2.69	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	0.89	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

	28 Sep	24 Oct	25 Oct	26 Oct	27 Oct	28 Oct
Official Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.21	2.12	2.13	2.14	2.13	2.12
NZGB 03/19	1.88	1.94	1.94	1.96	1.98	2.00
NZGB 05/21	1.97	2.08	2.08	2.11	2.14	2.18
NZGB 04/23	2.09	2.26	2.27	2.29	2.33	2.39
NZGB 04/27	2.34	2.59	2.59	2.61	2.66	2.72
2 year swap	2.02	2.09	2.10	2.12	2.14	2.14
5 year swap	2.16	2.32	2.33	2.35	2.39	2.44
RBNZ TWI	77.35	77.34	77.00	77.06	77.09	77.04
NZD/USD	0.7243	0.7163	0.7145	0.7172	0.7146	0.7163
NZD/AUD	0.9448	0.9384	0.9364	0.9337	0.9380	0.9426
NZD/JPY	72.95	74.42	74.71	74.73	74.82	75.03
NZD/GBP	0.5564	0.5852	0.5841	0.5872	0.5829	0.5879
NZD/EUR	0.6457	0.6575	0.6568	0.6567	0.6541	0.6521
AUD/USD	0.7666	0.7633	0.7630	0.7681	0.7618	0.7599
EUR/USD	1.1217	1.0894	1.0879	1.0921	1.0925	1.0985
USD/JPY	100.72	103.90	104.56	104.19	104.70	104.74
GBP/USD	1.3018	1.2240	1.2233	1.2214	1.2260	1.2185
Oil (US$/bbl)	44.65	50.61	50.18	49.45	48.75	49.71
Gold (US$/oz)	1325.43	1263.86	1265.40	1275.00	1266.03	1271.30
Electricity (Haywards)	4.42	4.38	5.20	5.45	4.72	4.33
Baltic Dry Freight Index	912	831	813	802	798	834
NZX WMP Futures (US$/t)	2830	n/a	2940	2960	2960	2960

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