NEW ZEALAND MARKET FOCUS

20 February 2017

INSIDE

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YOU AIN'T SEEN NOTHING YET

ECONOMIC OVERVIEW

The supply side is responding to considerable housing pressures in Auckland, but barely sufficiently to keep up with demand. Two challenges, namely cost escalation and capital constraints (especially in the multi-dwelling space) risk curtailing the supply side response further. Finding skilled labour is an additional issue. While there are some natural ways the 'market' could offset demand-side strength (increased inter-regional migration and larger household sizes), headwinds to supply growth reinforce how correcting Auckland's housing imbalances and affordability challenges is a multi-decade undertaking. In data this week, dairy prices are expected to slip, while trends in migration and visitor arrival figures (next week) should stay strong.

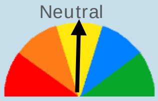
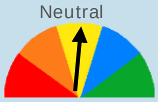
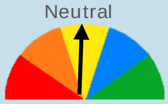
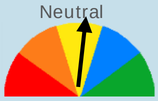
INTEREST RATE STRATEGY

Short-end rates continue to range trade. And while they are yet to gravitate lower towards levels more in line with the RBNZ's projections, they have ample scope to do so. However, with cross-currents aplenty (mortgage-related paying, talk of tax cuts, and upbeat Fedspeak versus the high TWI and RBNZ dovishness), the market is eager to pay into dips, so any dips will be shallow. Better-than-expected US data and the chorus of Fed governors has been noticed at the short-end of the US curve, with a March hike now "live", but US Treasuries remain range-bound. From our viewpoint, the risk is we see a break higher in Treasury yields, with knock-on consequences locally. However, with Japanese bonds holding steady, German bund yields lower and UK gilt yields back at their lows for the year, the overall global bond backdrop is less menacing than it might have been.

CURRENCY STRATEGY

The USD looks set to be in the box-seat over the next month. It has become increasingly clear that the Fed has met its dual mandate, meaning the March FOMC meeting is "live". New Zealand still has solid credentials, so we expect it to remain in a holding pattern for now. And while we can see some pro-cyclical elements of the economy turning, we do not believe they are sufficient to materially influence NZD direction yet. For that we need to see the global liquidity cycle turn.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q3	The economy is recording decent momentum, and we expect that to generally continue at least over the first part of 2017. Downside risk mainly stems from offshore.	Neutral Negative  Positive
Unemployment rate	4.7% for 2017 Q3	We are looking through the Q4 lift in the unemployment rate. Job ads firmly point lower. Finding staff is a huge challenge for firms.	Neutral Negative  Positive
OCR	1.75% by Sep 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	Neutral Down  Up
CPI	1.9% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point early next year. Domestic and core inflation should also gradually lift.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

The supply side is responding to considerable housing pressures in Auckland, but barely sufficiently to keep up with demand. Two challenges, namely cost escalation and capital constraints (especially in the multi-dwelling space) risk curtailing the supply side response further. Finding skilled labour is an additional issue. While there are some natural ways the 'market' could offset demand-side strength (increased inter-regional migration and larger household sizes), headwinds to supply growth reinforce how correcting Auckland's housing imbalances and affordability challenges is a multi-decade undertaking. In data this week, dairy prices are expected to slip, while trends in migration and visitor arrival figures (next week) should stay strong.

FORTHCOMING EVENTS

GlobalDairyTrade Auction (early am, Wednesday, 22 February). Global dairy prices are expected to slip, with NZX futures pointing to a c.5% fall.

International Travel & Migration – January (10:45am, Monday, 27 February). We'd be surprised if the figures were anything other than strong. The number of visitor arrivals should continue to trend higher, although perhaps at a slower pace.

WHAT'S THE VIEW?

The construction sector has been a key contributor to New Zealand's economic activity over recent years. And we expect it to generally remain that way over the years ahead.

The support factors are reasonably obvious: Strong population growth driving housing and infrastructure demand; still historically low interest rates; relative price signals that, despite rising construction costs, still send a signal to build rather than buy given the extent of appreciation in existing house prices (Tobin's Q); increased public capital spending; earthquake repair and strengthening work; and a strong policymaker desire to lift housing supply given increased focus on housing affordability.

Many of these issues are especially pertinent in Auckland, where demographic pressures are most intense. Current annual net international migrant inflows into Auckland are equivalent to 2½% of the resident population. That compares with 1½% for the country as a whole. Statistics NZ project that under its "medium" assumptions for fertility, mortality and net migration, Auckland's population will grow by a further 600k people (37%) by 2043. Right now, the region's population is not only tracking north of that projection, but is actually north of Statistics NZ's "high" scenario (where the population is projected to grow by a further 50%).

So there is little denying the strong fundamental outlook for Auckland housing demand. And that is before you even consider whether or not there is a shortage of dwellings to begin with (we believe there is, perhaps around 20k, but the exact figure is open to plenty of conjecture).

The supply side is responding. Over 2016, Auckland dwelling consents totalled close to 10k, which is the highest since 2004. Consents for multi-dwelling units made up 43% of that (the highest share since 2005), so there is increased evidence of intensification, which is what the region needs to see, although we are yet to reach prior peaks. But of course, part of this growth just reflects catch-up after a material period of underinvestment since around the middle of last decade.

FIGURE 1: AUCKLAND DWELLING CONSENTS ISSUED

Source: ANZ, Statistics NZ

Given the growth picture, chinks in the supply response is the last thing needed right now, but that's precisely what is happening.

There are increasing reports of residential development projects being delayed or canned. In fact, you can see this in the data to some extent, with our estimates of seasonally adjusted Auckland consent issuance actually falling in four of the past six months, to be down around 20% since June 2016. That's a big drop.

Some of this will be noise versus signal. Regional monthly consents figures are volatile so plenty of caution about making strong conclusions is necessary. Moreover, the reasons for project cancelations can be numerous and in many cases unrelated. **But we do believe the overall message of a weakening in the supply picture is consistent with some key challenges the construction sector is facing right now.**

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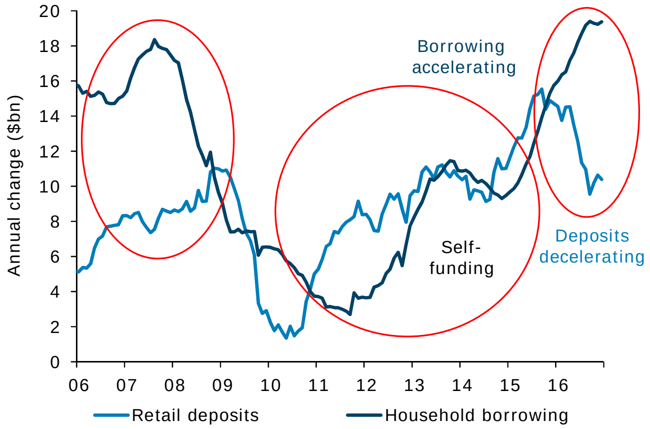
Credit is being rationed. That's prudent at the top of the cycle and also necessary to rein in a bank wide 'funding gap', with deposit growth still trailing credit growth. It's not in New Zealand's long-term interests to let such a gap persist. The current account deficit (and external debt levels) would blow-out, New Zealand's credit rating would likely get reviewed, and inflation would turn up necessitating tighter monetary policy. Credit driven booms invariably end in busts. In playing the long-game though, less credit makes it more difficult for pro-cyclical components of the economy such as housing and construction. A net 32% of respondents to our Business Outlook survey reported it being more difficult obtaining credit in December, the highest since we began asking this question in 2009. So it's having an impact.

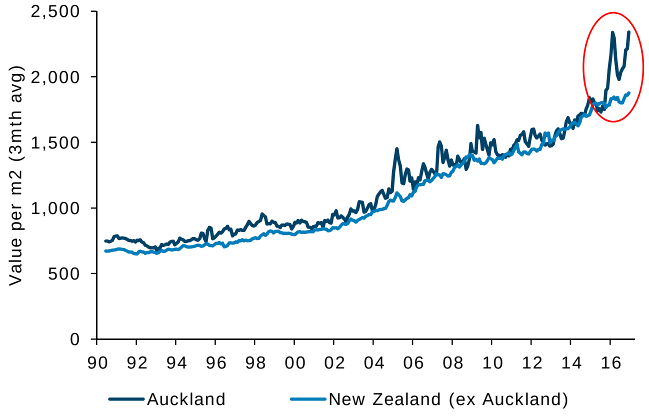
FIGURE 2: BANK FUNDING AND CLAIMS GROWTH



Source: ANZ, Statistics NZ

Another canary in the coalmine is costs, which have exploded, making the viability of projects (and also obtaining credit) more challenging. You can see this in the difference in consent value per square metre in Auckland versus the rest of the country. It has always been a little more expensive to build in Auckland, but the gap is now historically wide, with Auckland around $2,400/m^2 and the rest of the country less than $1,900/m^2 (note these are consented figures and not actual costs so it is not the final word, but a useful gauge). It certainly fits with the Q4 CPI figures that showed implied construction costs rising 8.2% y/y in Auckland versus 5.5% y/y over the rest of the country.

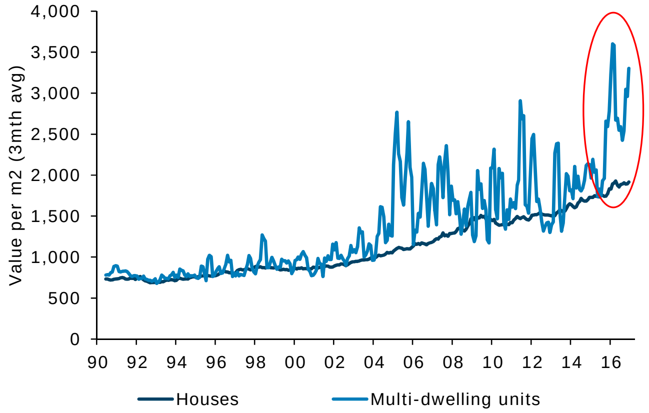
FIGURE 3: CONSENT VALUE PER SQUARE METRE



Source: ANZ, Statistics NZ

The majority of this cost escalation is in the multi-dwelling space. Compared with 'houses', which have seen costs rise steadily over time in Auckland (to about $1,900/m^2), the value of consents per square metre for multi-dwelling units has surged to over $3,500/m^2. Now to be fair, with many developments (apartment developments especially) occurring in the CBD or city fringe, elevated land values means it just doesn't make sense to build low-value dwellings. You need to earn a return somehow. Yet costs still appear to have reached the point where these projects are becoming increasingly difficult to make "work" from a risk-return perspective. And the "spike" in the series of late looks telling.

FIGURE 4: AUCKLAND CONSENT VALUE PER SQUARE METRE



Source: ANZ, Statistics NZ

It all points to growth headwinds intensifying for dwelling supply. In fact, there is a risk that the above pressures actually result in a slower rate of dwelling construction over coming months. And we haven't even mentioned things like the difficulties the construction sector is having in finding skilled staff at present, which is also constraining its ability to respond to demand. At a time when net migration inflows are showing few signs of turning, a weaker

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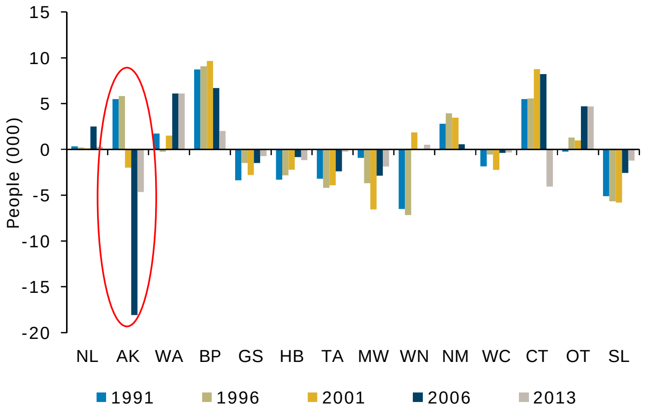
supply story certainly doesn't paint a picture of Auckland housing imbalances and affordability challenges being corrected any time soon. We've already seen some construction cost inflation. However, in the words of Bachman Turner Overdrive, "You ain't seen nothing yet".

Now there are ways for the 'market' to at least partially offset this imbalance. These include:

- **Increased inter-regional migration**. Data is unfortunately limited on this front. But the last three censuses showed that relative to the prior five year period, the Auckland region experienced a net outflow of residents to other regions. Admittedly, the numbers are only small (-18k in 2006; -5k in 2013), but we'd certainly expect that as Auckland's cost of living continues to rise relative to other regions, the attractiveness of moving will increase. Indeed, our own internal anecdotes suggest that attracting workers to Auckland is becoming far harder given the effective pay cut that would be taken.

FIGURE 5: INTER-REGIONAL MIGRATION (5-YEARS)



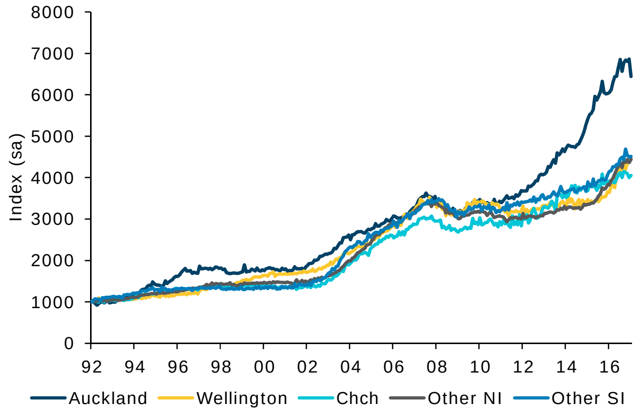
Source: ANZ, Statistics NZ

- **Larger household sizes**. In 2013, the average Auckland household size was 3.0 people compared with 2.6 for the rest of the country. It has also been rising in Auckland but falling elsewhere, though part of Auckland's rise will reflect the realities of deteriorating affordability. It doesn't sound like a big difference, but rates of household formation are sensitive to it. For example, under Statistics NZ's "high" population projections described earlier, Auckland household formation would be around 10k per year if the number of people per house stayed at 3.0. It would fall to around 9.3k per year if it rose to just 3.2 people per house. And given Auckland's affordability problem, it's not hard to imagine this ratio continuing to rise (i.e. children living with parents for longer, adult flatmates etc). But it could be even more fundamental than that because the ethnic make-up of Auckland's population is also projected to change over the coming three decades. Whereas those who identify themselves as Asian, Pacific Islander or Maori made up 49% of Auckland's population in 2013, this is projected to grow to 65% by 2038. These ethnicities have historically had more people per house than the 'European' equivalent.[1]

So there are some ways in which the market could naturally adjust and take some heat out of the demand-supply imbalance. However, we would certainly view this as at the margin rather than changing the story significantly.

What could this all mean then for the outlook for Auckland house prices? Well the market has cooled over recent months. The volume of turnover is down close to 20% since August. Price growth has softened too. We are a little cautious with putting too much weight on the latest figures, but the REINZ Stratified House Price Index actually fell 6.2% m/m in January, which is the largest monthly fall since 1999. This can all be seen in the context of recent LVR restrictions, lifts in mortgage rates, affordability headwinds and possibly the impact of stricter Chinese capital controls. **However, it is hard to see weakness, especially in prices, extending too far, when the demand/supply picture doesn't look set to normalise any time soon.**

FIGURE 6: REGIONAL HOUSE PRICES



Source: ANZ, Statistics NZ

Turning to the week ahead, the domestic data calendar is relatively light. Dairy prices are expected to slip at the next GDT auction. This is as seasonal supply lifts in key Northern Hemisphere markets and on the back of last week's production upgrade from Fonterra. NZX dairy futures are pointing to a 5% fall for WMP and GDT-TWI. Demand indicators appear more stable, with a constant bid from China and stable energy prices no doubt

[1] Please note, some people identify with more than one ethnicity so these shares should be treated as indicative only.

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helping. The risk is that buyers hold-off immediate purchases as they anticipate further increases in milk supply, but it is difficult to see WMP prices falling below US$3,000/t in the immediate future.

The key update last week was a production upgrade from Fonterra, which has seen additional product added to the GDT platform. The production upgrade of 2% equates to around 50,000 MT of WMP equivalent, of which nearly 10,000 MT has been added to the GDT platform. This has been evenly split between WMP and SMP product with returns from either milk stream fairly even at present. As we have previously mentioned, we thought Fonterra's initial forecast of a 7% reduction in milk collections this season was the worst case and relied on the adverse spring seasonal conditions extending into summer/autumn. While seasonal conditions have been fickle across the country, in general things seem to have improved since the start of 2017. Last week's rain across the North Island could lift short-term production prospects further, perhaps making buyers hold-off near term purchases to see if more supply will become available.

Fonterra is obliged to update its milk price forecast (currently $6.00/kg MS) this month too. Synlait updated the market earlier this month, moving its milk price estimate to $6.25/kg MS, which is the same as our forecast. Our model and current market indicators are converging around this level too, but some slight downside could emerge if prices were to slide substantially over coming auctions.

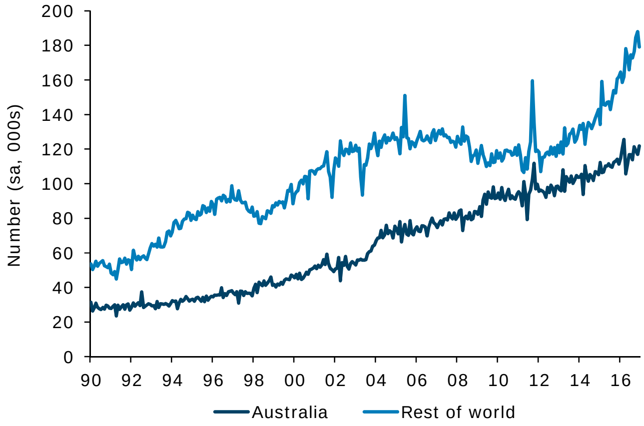
Importantly, the overall stimulus to the economy from any additional milk price upgrade will be offset by the obligation for Fonterra suppliers that drew down loans (over the second half of 2015) to make repayments. This occurs when the milk price moves above $6/kg MS on the advance schedule. This would likely occur in the July to October period, which means industry cash-flow is fairly set (at current levels) until the end of 2017.

Interest will start moving toward the outlook for 2017/18 soon. Current spot prices suggest a milk price around $6.90-$7.10/kg MS. But using a variety of technical and other market information highlights the normal wide range of high-$5/kg MS to low-$7/kg MS. We will look to firm up a view in coming weeks.

Next Monday, net migration figures for January should show strong trends continuing. After looking as though net inflows had peaked around the middle of last year, they have accelerated again. Between September and December, net monthly inflows averaged close to 6.2k, which is nearly 75k in annualised terms. Now perhaps it would be hard for net inflows to accelerate much further from here. But at the same time, we find it difficult to see net inflows slowing dramatically any time soon given the strength of the domestic economy.

Visitor arrival figures should also continue to trend higher, although perhaps at a slower pace. While the number of arrivals dipped 1.3% m/m in seasonally adjusted terms in December, annual growth remains strong at 11%. And this growth is now broad-based. Whereas previously the strong arrivals trend was largely about China, we are now seeing strong growth from other regions. In fact, annual growth in Chinese visitors is now negative (after extremely strong growth of course). Perhaps this reflects issues around capacity, which is one issue the airline, and tourism sector more generally, will increasingly have to grapple with.

FIGURE 7: OVERSEAS VISITOR ARRIVALS



Source: ANZ, Statistics NZ

LOCAL DATA

REINZ Housing Market Statistics – Jan. In seasonally adjusted terms, national house sales fell 6.3% m/m, while the REINZ House Price Index dropped 0.9% m/m (+11.8% y/y).

Food Price Index – Jan. Food prices surged 2.8% m/m, to be up 1.4% y/y.

Government Financial Statements – Jan. An OBEGAL surplus of $9m was recorded, $675m better than forecast.

ANZ-Roy Morgan Consumer Confidence – Feb. Headline confidence eased from 128.7 to 127.4.

BNZ-BusinessNZ PMI – Jan. The index fell 2.6 points to 51.6 – the lowest since January 2015.

Retail Trade Survey – Q4. Total sales volumes rose 0.8% q/q, with core sales volumes up 0.6% q/q.

BNZ-BusinessNZ PSI – Jan. Up 1 point to 59.5.

PPI – Q4. Input prices rose 1.0% q/q, while output prices rose 1.5% q/q.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates continue to range trade. And while they are yet to gravitate lower towards levels more in line with the RBNZ's projections, they have ample scope to do so. However, with cross-currents aplenty (mortgage-related paying, talk of tax cuts, and upbeat Fedspeak versus the high TWI and RBNZ dovishness), the market is eager to pay into dips, so any dips will be shallow. Better-than-expected US data and the chorus of Fed governors has been noticed at the short-end of the US curve, with a March hike now "live", but US Treasuries remain range-bound. From our viewpoint, the risk is we see a break higher in Treasury yields, with knock-on consequences locally. However, with Japanese bonds holding steady, German bund yields lower and UK gilt yields back at their lows for the year, the overall global bond backdrop is less menacing than it might have been.

THEMES

- Markets remain sceptical of the RBNZ's view of the world, believing instead that the Bank is playing its hand tactically. This is understandable, but given past experience of acting too soon, its caution is warranted and we see scope for short-end rates to fall (or at least no reason for them to rise).
- It is clear from speeches that the Fed considers the US economy to be very close to mandated levels of inflation and employment. With expansionary fiscal policy not yet considered, and a March hike just one-third priced in, the risks to US rates seem skewed higher.
- While the case for higher yields is fairly easy to make in the US, the same can't be said for Europe, the UK or Japan.
- We remain on standby for the announcement of the new 2040 NZGS linker syndication, with market conditions ripe for a deal.

MONETARY POLICY AND SHORT-END

Our views with regard to the short-end remain the same as they were a week ago: **rates have ample scope to fall** given the RBNZ's projections, its cautious tone with regard to not acting prematurely, and the low inflation backdrop. **However, we don't see them falling far given the lack of fresh receiving interest, and some scepticism** that the Bank is playing a tactical game in order to avoid driving the NZD higher. Prior to the MPS we saw the bellwether 2 year swap in a 2.3%/2.5% range. We now see a 2.2%/2.4% range. That's only a tweak, but to be fair, **if you believe the RBNZ, the 2 year should be 2.0%. Still, with no further cuts likely, and short-end spreads to the US and Australia already tight, the market simply won't gravitate to that, especially amid mortgage-related paying flow**. But even so, with the 2 year now at 2.36%, we're nearer the top than the bottom of the range.

GLOBAL MARKETS AND LONG-END

Global bond markets are in a holding pattern. At face value, the recent run of strong US data coupled with upbeat Fedspeak suggests that the March FOMC meeting is live, and that **markets have underplayed the degree of Fed tightening that may be delivered over 2017. All else equal, that portends of higher Treasury yields, as does Trump's fiscal overtones**. However, speculative positioning remains extremely short, and markets look to be taking the view that a pre-emptive Fed may hamper the recovery. The USD and Treasury bond yields have certainly not reacted in their customary manner (by going higher) in response to the positive tone of data and speeches last week.

Complicating things further is the fact that **UK gilt yields are at their lows** for the year on disappointing data, **German bund yields have been rallying** as political risk heats up and on continued dovish ECB rhetoric, and 10 year **JGB yields remain anchored.** Taken together, this provides a less bearish bond backdrop for the local market than might have been the case had the outlook for all three markets been bearish. Nonetheless, **we continue to expect local yields to gradually grind higher over 2017, steepening the curve.**

STRATEGY

Investors: We prefer to remain short duration, positioned for steepeners. We also think it makes sense to switch out of nominal duration and into linker duration (we expect the 2040 to be launched soon).

Borrowers: No change. **BKBM is at a record low, but term interest rates are biased higher**. We believe it makes sense to add to hedges on dips. Rates remain low in the context of the past quarter century of controlled inflation.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/ bullish	RBNZ MPS was balanced and neutral. Scope for a small corrective rally, but against the backdrop of significant mortgage paying potential, and no further cuts on the agenda, 2yr will struggle below 2.25%.
Long end	Neutral/ bearish	Positive tone to Fedspeak and data last week a clear signal of risk profile, as are near zero US 10yr real yields. However, widespread short positioning will slow any moves higher, as do rallying gilts and bunds.
Yield Curve	Steeper	Slow grind higher, assisted by positive R+C on steepeners. 2s5s has done better than 2s10s.
Geographic spreads	Neutral/ narrower	Spreads back at mid-range. Should theoretically narrow further with UST yields biased higher (especially given neutral RBNZ tone), but complicated by potential linker supply switching and 2037 tender this week.
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	TWI lower but still elevated. Does matter for inflation, buys the RBNZ time and will keep a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

The USD looks set to be in the box-seat over the next month. It has become increasingly clear that the Fed has met its dual mandate, meaning the March FOMC meeting is "live". New Zealand still has solid credentials, so we expect it to remain in a holding pattern for now. And while we can see some pro-cyclical elements of the economy turning, we do not believe they are sufficient to materially influence NZD direction yet. For that we need to see the global liquidity cycle turn.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	No domestic reason to sell	Firmer USD bias ultimately wins
NZD/AUD	↔/↑	Has struggled to sit below 0.9350	Push higher
NZD/EUR	↔/↑	Politics not euro supportive	Huge growth/politics divide
NZD/GBP	↔/↑	Consumer slowing as BOE feared	Brexit execution woes weighing
NZD/JPY	↔	JPY the new safe-haven	Japan a defensive play; US strong too

THEMES AND RISKS

- With US employment and inflation near Fed mandated levels, every FOMC meeting is "live".
- Expect FOMC members to deliver upbeat nuances this week, as they did last week.
- US markets need more substance behind the pro-growth political rhetoric over the coming weeks.
- Front-end volatility collapsing.
- Unease towards European politics remains, but amidst a rising current account surplus.
- New Zealand data pulse continues to tick along.
- NZD/AUD retracement looks complete.

ASSESSMENT

FOMC members are noting progress towards their dual mandate. In fact, with the unemployment at 4.8% and core CPI inflation at 2.3%, **it increasingly looks like they have met it.**

Upbeat nuances from FOMC speakers are expected to continue over the coming week, providing a crutch of support for the USD. Every meeting – including March which is around one-third priced for a hike – should be considered live. We note the inclusion of an additional speech by Chair Yellen on March 3, which we suspect aims to provide some wiggle room ahead of the Fed's blackout period.

The past week has been notable for a collapse in volatility measures. That collapse doesn't sit well with us when we eye the combination of asset valuations (high), growth (upswing underway but amidst sub-par trend growth), a Fed that is in play and fractured politics. Market attention continues to centre on European politics, with German and French 10-year bond spreads widening, although a soaring current account surplus does need to be respected.

The NZD looks settled in a holding pattern. The usual support suspects are ample; strong domestic growth; on hold RBNZ but market mindful of 2017 hikes amidst rising core inflation; political stability; and fiscal firepower.

However, that all looks fully-factored and **with key pro-cyclical components of the economy (housing and construction) both waning of late, the economic picture is looking less perfect.** Dairy prices also look like they have done their dash.

A less picture perfect local scene arguably takes some support away from the NZD, but we can't see it driving a trend. It's not obvious other currencies (excluding the USD) look any better. Rather, it just accentuates a bias to sell any rally.

We continue to eye global catalysts, with a turn in the global liquidity cycle top of the list. We expect FOMC speakers to continue laying the groundwork to taking us in that direction over coming weeks.

The retracement in the NZD/AUD looks complete. The AUD has benefitted from uplifts in hard commodity prices. But low inflation, sombre employment and structural challenges such as the fiscal position make it difficult for the AUD to kick-on.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Fair value is 0.93.
Yield	↔	NZ/AU spreads wide, but have come in.
Commodities	↔	Decent outlook/performance for both.
Data	↔	A quiet week ahead on the data front.
Techs	↔/↑	Failed to sustain below 0.9350.
Sentiment	↔/↑	Picking up as NZD/AUD consolidates.
Other	↔/↑	NZ growth pulse stronger.
On balance	↔/↑	**Looks to have based.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair value estimate of ~0.75.
Yield	↔/↓	NZ/US spread in.
Commodities	↔	Stabilising after a decent move higher.
Risk aversion	↔/↓	Has potential to add to volatility.
Data	↔	Data flow solid in both countries.
Techs	↔	Clear bid evident below 0.72.
Sentiment	↔/↑	Still very well bid on dips.
Other	↔	USD no longer responding to Trump rhetoric, needs more details.
On balance	↔	**Neutral but bias to fade strength.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
20-Feb	JN	Trade Balance - Jan	-¥625.9B	¥641.4B	12:50
	JN	Trade Balance Adjusted - Jan	¥275.5B	¥356.7B	12:50
	JN	Exports YoY - Jan	5.0%	5.4%	12:50
	JN	Imports YoY - Jan	4.8%	-2.6%	12:50
	UK	Rightmove House Prices MoM - Feb	--	0.4%	13:01
	UK	Rightmove House Prices YoY - Feb	2.8%	3.2%	13:01
	GE	PPI MoM - Jan	0.3%	0.4%	20:00
	GE	PPI YoY - Jan	2.0%	1.0%	20:00
21-Feb	UK	CBI Trends Total Orders - Feb	4	5	00:00
	UK	CBI Trends Selling Prices - Feb	--	28	00:00
	EC	Consumer Confidence - Feb A	-4.9	-4.9	04:00
	AU	ANZ-RM Consumer Confidence Index - 19-Feb	--	116.4	11:30
	GE	Markit/BME Manufacturing PMI - Feb P	56.0	56.4	21:30
	GE	Markit Services PMI - Feb P	53.6	53.4	21:30
	GE	Markit/BME Composite PMI - Feb P	54.8	54.8	21:30
	EC	Markit Manufacturing PMI - Feb P	55.0	55.2	22:00
	EC	Markit Services PMI - Feb P	53.7	53.7	22:00
	EC	Markit Composite PMI - Feb P	54.3	54.4	22:00
	UK	Public Finances (PSNCR) - Jan	--	£36.3B	22:30
	UK	Central Government NCR - Jan	--	£19.3B	22:30
	UK	Public Sector Net Borrowing - Jan	-£14.5B	£6.4B	22:30
	UK	PSNB ex Banking Groups - Jan	-£14.0B	£6.9B	22:30
22-Feb	US	Markit Manufacturing PMI - Feb P	55.3	55.0	03:45
	US	Markit Services PMI - Feb P	55.8	55.6	03:45
	US	Markit Composite PMI - Feb P	--	55.8	03:45
	AU	Westpac Leading Index MoM - Jan	--	0.44%	12:30
	AU	Skilled Vacancies MoM - Jan	--	0.2%	13:00
	AU	Wage Price Index QoQ - Q4	0.5%	0.4%	13:30
	AU	Wage Price Index YoY - Q4	1.9%	1.9%	13:30
	AU	Construction Work Done - Q4	0.5%	-4.9%	13:30
	NZ	Credit Card Spending MoM - Jan	--	3.1%	15:00
	NZ	Credit Card Spending YoY - Jan	--	8.5%	15:00
	GE	IFO Business Climate - Feb	109.6	109.8	22:00
	GE	IFO Expectations - Feb	103.0	103.2	22:00
	GE	IFO Current Assessment - Feb	116.6	116.9	22:00
	UK	GDP QoQ - Q4 P	0.6%	0.6%	22:30
	UK	GDP YoY - Q4 P	2.2%	2.2%	22:30
	UK	Private Consumption QoQ - Q4 P	0.6%	0.7%	22:30
	UK	Government Spending QoQ - Q4 P	0.1%	0.0%	22:30
	UK	Gross Fixed Capital Formation QoQ - Q4 P	0.2%	0.9%	22:30
	UK	Exports QoQ - Q4 P	2.0%	-2.6%	22:30
	UK	Imports QoQ - Q4 P	0.5%	1.4%	22:30
	UK	Index of Services MoM - Dec	0.1%	0.3%	22:30
	UK	Index of Services 3M/3M - Dec	0.8%	1.0%	22:30
	UK	Total Business Investment QoQ - Q4 P	0.0%	0.4%	22:30
	UK	Total Business Investment YoY - Q4 P	0.2%	-2.2%	22:30
	EC	CPI MoM - Jan	-0.8%	0.5%	23:00
	EC	CPI YoY - Jan F	1.8%	1.1%	23:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
22-Feb	EC	CPI Core YoY - Jan F	0.9%	0.9%	23:00
23-Feb	US	MBA Mortgage Applications - 17-Feb	--	-3.7%	01:00
	US	Existing Home Sales - Jan	5.54M	5.49M	04:00
	US	Existing Home Sales MoM - Jan	0.9%	-2.8%	04:00
	US	FOMC Meeting Minutes - Feb	--	--	08:00
	AU	Private Capital Expenditure - Q4	-0.5%	-4.0%	13:30
	GE	GDP SA QoQ - Q4 F	0.4%	0.4%	20:00
	GE	GDP WDA YoY - Q4 F	1.7%	1.7%	20:00
	GE	GDP NSA YoY - Q4 F	1.2%	1.2%	20:00
	GE	Private Consumption QoQ - Q4	0.3%	0.4%	20:00
	GE	Government Spending QoQ - Q4	0.8%	1.0%	20:00
	GE	Capital Investment QoQ - Q4	0.8%	0.0%	20:00
	GE	Construction Investment QoQ - Q4	1.5%	0.3%	20:00
	GE	Domestic Demand QoQ - Q4	0.6%	0.5%	20:00
	GE	Exports QoQ - Q4	1.4%	-0.4%	20:00
	GE	Imports QoQ - Q4	1.8%	0.2%	20:00
	GE	GfK Consumer Confidence - Mar	10.1	10.2	20:00
24-Feb	UK	CBI Retailing Reported Sales - Feb	2	-8	00:00
	UK	CBI Total Dist. Reported Sales - Feb	24	26	00:00
	US	Chicago Fed Nat Activity Index - Jan	-0.03	0.14	02:30
	US	Initial Jobless Claims - 18-Feb	240k	239k	02:30
	US	Continuing Claims - 11-Feb	2065k	2076k	02:30
	US	House Price Purchase Index QoQ - Q4	--	1.5%	03:00
	US	FHFA House Price Index MoM - Dec	0.4%	0.5%	03:00
	US	Kansas City Fed Manf. Activity - Feb	9	9	05:00
	UK	BBA Loans for House Purchase - Jan	42600	43228	22:30
	GE	Import Price Index MoM - Jan	0.5%	1.9%	03/01
	GE	Import Price Index YoY - Jan	5.6%	3.5%	03/01
25-Feb	US	New Home Sales - Jan	571k	536k	04:00
	US	New Home Sales MoM - Jan	6.5%	-10.4%	04:00
	US	U. of Mich. Sentiment - Feb F	96.0	95.7	04:00

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. With inflation showing clearer signs of lifting, the OCR is on hold, although risks of hikes later this year are non-trivial.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 22 Feb (early am)	GlobalDairyTrade Auction	Slipping	After some strong gains over second half of 2016 some moderation is now occurring.
Mon 27 Feb (10:45am)	International Travel & Migration – Jan	More of the same	Net migrant inflows remain strong and it is hard to see that changing much any time soon.
Mon 27 Feb (3:00pm)	RBNZ New Mortgage Lending – Jan	Slowing	Recent trends of slowing in overall new lending growth should have continued.
Tue 28 Feb (10:45am)	Overseas Merchandise Trade – Jan	Small surplus	A small trade surplus is expected on the back of stronger export commodity prices.
Tue 28 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Tue 28 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Slowing	Annual credit growth is likely to keep easing off highs, while deposit growth should continue to accelerate.
Wed 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Up	The terms of trade are expected to record a modest lift.
Fri 3 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Fri 3 Mar (10:00am)	Government Financial Statements – Jan	Ahead	The strong domestic economy should continue to see tax revenue run ahead of forecasts.
Fri 3 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Wed 7 Mar (early am)	GlobalDairyTrade Auction	Slipping	After some strong gains over second half of 2016 some moderation is now occurring.
Wed 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Wed 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Looking good	While volatility associated with agricultural production can throw it around, we suspect another quarter of okay sales volumes.
Fri 10 Mar (10:45am)	Electronic Card Transactions – Feb	Respectable	Within the context of restrained household behaviour overall, spending growth should be reasonable.
13-17 Mar	REINZ Housing Market Statistics – Feb	Cooler	Figures can be volatile around this time of year. We expect turnover to stabilise, but annual house price growth to ease.
Mon 13 Mar (10:45am)	Food Price Index – Feb	Down	After January's large spike, we'd expect to see some retracement.
Wed 15 Mar (10:45am)	Balance of Payments – Q4	Contained	The current account deficit has been remarkably stable around 3% of GDP. We expect that to have remained the case.
Thu 16 Mar (10:45am)	GDP – Q4	0.7% q/q	Our current bottom-up estimate points to growth of 0.7% q/q, which although a little softer than in Q3, is still decent.
Fri 17 Mar (10:30am)	BNZ-BusinessNZ PMI – Feb	Bounce?	The index fell in January. We believe it will bounce, but are keeping an eye on the signal.
Fri 17 Mar (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Mar	--	--
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation is showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (% qoq)	1.1	**0.7**	**0.9**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
GDP (% yoy)	3.5	**3.2**	**3.4**	**3.5**	**3.2**	**3.1**	**2.8**	**2.5**	**2.2**	**2.1**
CPI (% qoq)	0.3	0.4	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**	**0.1**
CPI (% yoy)	0.4	1.3	**1.7**	**1.7**	**1.9**	**1.7**	**2.1**	**2.2**	**2.2**	**2.0**
Employment (% qoq)	1.3	0.8	**0.7**	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	6.1	5.8	**5.2**	**3.4**	**2.5**	**2.1**	**1.8**	**1.6**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.9	5.2	**5.0**	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**
Current Account (% GDP)	-2.9	**-2.9**	**-3.0**	**-3.1**	**-3.1**	**-3.2**	**-3.2**	**-3.2**	**-3.2**	**-3.2**
Terms of Trade (% qoq)	-1.6	**0.5**	**0.8**	**1.0**	**0.8**	**0.6**	**0.3**	**0.5**	**0.0**	**0.0**
Terms of Trade (% yoy)	-1.6	**0.9**	**-2.4**	**0.6**	**3.0**	**3.2**	**2.7**	**2.1**	**1.4**	**0.8**

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Retail ECT (% mom)	-0.3	1.2	0.2	-1.2	2.0	0.5	0.0	0.0	2.7	--
Retail ECT (% yoy)	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8	5.6	--
Credit Card Billings (% mom)	-0.4	-0.9	2.5	-0.9	2.9	3.0	-4.2	3.1	--	--
Credit Card Billings (% yoy)	6.1	4.1	5.6	2.2	8.3	10.1	4.1	8.5	--	--
Car Registrations (% mom)	-4.3	-0.7	0.0	2.6	-4.0	12.2	3.9	-6.3	1.5	--
Car Registrations (% yoy)	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2	--
Building Consents (% mom)	-0.7	16.4	-4.5	-3.1	-0.7	1.6	-9.6	-7.2	--	--
Building Consents (% yoy)	10.1	39.4	8.0	11.8	14.4	13.9	1.3	-10.6	--	--
REINZ House Price Index (% yoy)	14.7	14.2	16.3	11.7	9.7	14.4	14.9	13.5	11.7	--
Household Lending Growth (% mom)	0.7	0.8	0.8	0.8	0.8	0.6	0.6	0.7	--	--
Household Lending Growth (% yoy)	8.1	8.3	8.6	8.7	8.8	8.7	8.6	8.7	--	--
ANZ Roy Morgan Consumer Conf.	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7	127.4
ANZ Business Confidence	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7	--	--
ANZ Own Activity Outlook	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6	--	--
Trade Balance ($m)	343	107	-351	-1240	-1388	-799	-746	-41	--	--
Trade Bal ($m ann)	52854	52660	52078	51900	51938	51944	51669	51627	--	--
ANZ World Commodity Price Index (% mom)	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7	-0.1	--
ANZ World Comm. Price Index (% yoy)	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	19.1	--
Net Migration (sa)	5600	5750	5680	5670	6330	6210	6190	6010	--	--
Net Migration (ann)	68432	69090	69015	69119	69954	70282	70354	70588	--	--
ANZ Heavy Traffic Index (% mom)	-2.5	5.3	-6.3	7.2	-2.3	-0.4	3.7	-0.1	-0.8	--
ANZ Light Traffic Index (% mom)	-1.4	2.7	-0.6	0.9	0.1	-1.6	1.5	0.2	-0.5	--

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	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.693	0.728	0.718	0.69	0.67	0.65	0.64	0.64	0.65	0.65
NZD/AUD	0.962	0.964	0.936	0.93	0.93	0.93	0.94	0.97	0.98	0.94
NZD/EUR	0.659	0.680	0.676	0.67	0.66	0.64	0.64	0.64	0.62	0.62
NZD/JPY	81.10	82.80	81.11	79.4	77.1	74.8	73.6	73.6	74.8	74.8
NZD/GBP	0.562	0.585	0.578	0.57	0.55	0.54	0.54	0.52	0.52	0.52
NZ$ TWI	76.1	78.3	78.4	75.6	74.1	72.5	72.1	72.4	72.5	71.8
INTEREST RATES	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	2.00	1.99	2.03	2.00	2.00	2.00	2.00	2.20	2.30	2.50
NZ 10-yr bond	3.33	3.37	3.32	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	1.00	1.03	1.05	1.13	1.20	1.33	1.45	1.60	1.75	2.00
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	1.82	1.77	1.78	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	17 Jan	13 Feb	14 Feb	15 Feb	16 Feb	17 Feb
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.99	2.03	2.03	2.04	2.04	2.03
NZGB 03/19	2.17	2.18	2.19	2.21	2.23	2.20
NZGB 05/21	2.53	2.54	2.56	2.60	2.65	2.63
NZGB 04/23	2.79	2.81	2.84	2.87	2.92	2.90
NZGB 04/27	3.12	3.21	3.24	3.30	3.34	3.33
2 year swap	2.40	2.35	2.35	2.37	2.39	2.37
5 year swap	2.95	2.96	2.97	3.02	3.05	3.04
RBNZ TWI	78.38	78.56	78.44	78.20	78.84	78.57
NZD/USD	0.7182	0.7194	0.7183	0.7172	0.7225	0.7182
NZD/AUD	0.9521	0.9372	0.9352	0.9342	0.9389	0.9371
NZD/JPY	81.21	81.82	81.46	82.13	82.10	81.04
NZD/GBP	0.5905	0.5746	0.5763	0.5768	0.5774	0.5786
NZD/EUR	0.6725	0.6761	0.6765	0.6796	0.6796	0.6765
AUD/USD	0.7543	0.7676	0.7681	0.7677	0.7695	0.7664
EUR/USD	1.0680	1.0640	1.0618	1.0553	1.0631	1.0616
USD/JPY	113.07	113.73	113.41	114.51	113.63	112.84
GBP/USD	1.2162	1.2519	1.2464	1.2434	1.2514	1.2412
Oil (US$/bbl)	52.36	53.84	52.96	53.21	53.11	53.41
Gold (US$/oz)	1206.33	1229.46	1227.61	1226.58	1235.21	1238.21
Electricity (Haywards)	5.74	4.68	4.40	5.68	4.98	5.45
Baltic Dry Freight Index	922	688	685	688	710	741
NZX WMP Futures (US$/t)	3250	3330	3305	3290	3280	3250

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