ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

17 July 2017

INSIDE

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MIND THE GAP

ECONOMIC OVERVIEW

Credit and interest rates sensitive parts of the economy (housing especially) have cooled as banks have attempted to close a 'funding gap' and the regulator (RBNZ) hit the market with LVR restrictions. Timely measures suggest that the hard work has been done and the 'gap' has closed. While we doubt this means that conditions are set to loosen significantly, it does imply less intense competition for domestic deposits and a little more wriggle room on the credit front. Tempering at the top of the cycle lessens future vulnerabilities, and we remain constructive on the economic outlook over the coming years. In data this week, headline inflation is expected at 1.9%, while core measures will be broadly stable. Dairy prices are expected to be broadly stable, while visitor arrivals figures will be strong on account of the Lions tour.

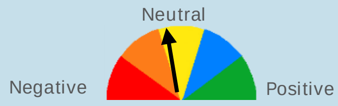
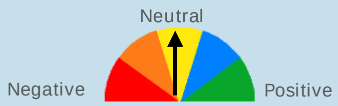
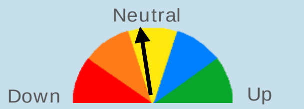
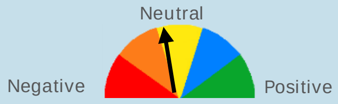
INTEREST RATE STRATEGY

Short end rates continued grinding lower last week and have now recovered the bulk of the ground lost in the wake of the global yield spike that reached a crescendo in the first week of July. We see scope for yet further downside, but the market won't move too boldly ahead of NZ Q2 CPI data tomorrow, beyond which we see scope for 2017 OCR hikes to be gradually priced out should our CPI pick be realised. Lower global yields are also playing a role, with US 10 year bond yields down in response to the Trump/Russia drama and soft CPI figures, which have also helped lift the NZD – which is a positive for both the short end (via tighter financial conditions) and the long end (because of the depth of offshore participation). With the NZGS 2029 syndication window "open", we don't expect NZGS outperformance, adding to pressure for the curve to steepen as the short end rallies.

CURRENCY STRATEGY

Recent NZD strength can largely be attributed to USD weakness; while underperformance against peers like the AUD is a hat-tip to softer nuances locally. We have long said the NZD's credentials deserve respect, and that remains the case. But we had been eying a mild NZD decline as "the majors" caught up on the policy front and as a reversal of the liquidity cycle got underway. However, recent weaker data in the US and the Trump/Russia drama have undermined the USD. We remain of the view that NZD strength will fade, albeit on a more delayed timetable.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.3% y/y for 2018 Q1	Recent growth has disappointed but forward indicators remain positive despite headwinds from housing, finding staff and capital.	
Unemployment rate	4.6% for 2018 Q1	Strong job ads growth suggests the unemployment rate should continue to trend lower. Wage growth is benign, but conditions for change are emerging.	
OCR	1.75% by Mar 2018	The case for a lower OCR right now is hard to justify, but a turn in the credit cycle is allowing the RBNZ to be patient.	
CPI	1.5% y/y for 2018 Q1	Oil price weakness will weigh on headline inflation, but domestic and core inflation should continue to gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

Credit and interest rates sensitive parts of the economy (housing especially) have cooled as banks have attempted to close a 'funding gap' and the regulator (RBNZ) hit the market with LVR restrictions. Timely measures suggest that the hard work has been done and the 'gap' has closed. While we doubt this means that conditions are set to loosen significantly, it does imply less intense competition for domestic deposits and a little more wriggle room on the credit front. Tempering at the top of the cycle lessens future vulnerabilities, and we remain constructive on the economic outlook over the coming years. In data this week, headline inflation is expected at 1.9%, while core measures will be broadly stable. Dairy prices are expected to be broadly stable, while visitor arrivals figures will be strong on account of the Lions tour.

FORTHCOMING EVENTS

RBNZ Deputy Governor Bascand Speech (1.30pm, Monday, 17 July). The Deputy Governor will speak on "New Zealand's net foreign liabilities: What lies beneath, and ahead?". We doubt there will be any direct monetary policy implications, but it may serve as another reminder that the regulator is keeping a close eye on New Zealand's external borrowing.

CPI – Q2 (10:45am, Tuesday, 18 July). We expect a 0.2% q/q lift in the headline CPI, which would drop annual inflation back to 1.9%. Core measures are likely to remain in a 1.5-2.2% range.

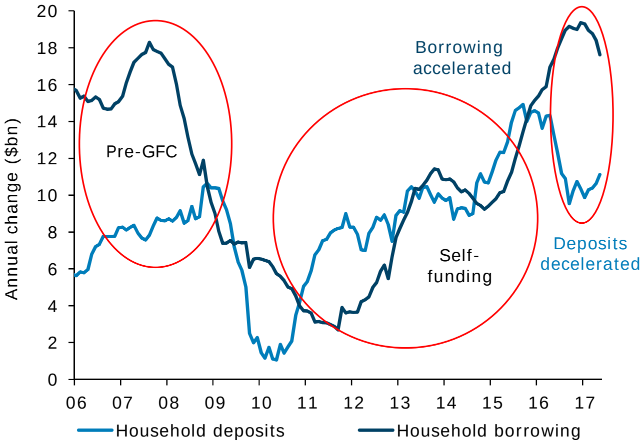
GlobalDairyTrade Auction (early am, Wednesday, 19 July). Global dairy prices have outperformed other commodities of late despite a stronger supply backdrop. NZX futures prices are pointing to an unchanged result for whole milk powder and the GDT-TWI.

International Travel and Migration – June (10:45am, Friday, 21 July). Visitor arrival figures should be strong on the back of the British and Irish Lions rugby tour, while net migrant inflows are likely to be stable at an elevated level.

WHAT'S THE VIEW?

The bank 'funding gap', and its spill-over implications, has been a key theme shaping our thinking on the domestic economy for some time. A burgeoning gap between credit and deposit growth was unsustainable, especially at a time of increased regulator and credit rating agency scrutiny on the economy's level of overseas borrowing, and it needed to close. It pointed to intensifying competition for domestic deposits, higher retail interest rates and credit increasingly being rationed. It would allow the RBNZ to be patient seeing as banks would effectively be doing its work for it.

Figure 1: Bank household funding and claims annual growth

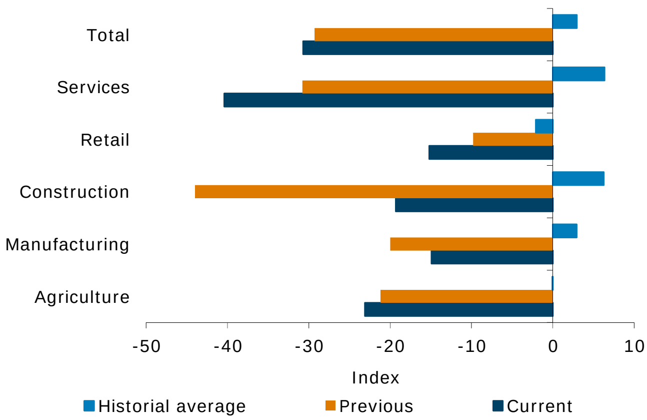


Source: ANZ, RBNZ

This theme has manifested via a number of channels.

- **Retail interest rates increased despite some wholesale rates falling**. Since the end of September, we've seen term deposit rates with 12 month terms and longer lift by an average of 50bps, as competition for deposits intensified. That's against a backdrop where the OCR fell. Mortgage rates lifted by a similar amount over the same period. If banks were paying more for deposits then borrowing rates needed to reflect the same; credit spreads widened.
- **Lending criteria tightened.** While in part reflecting prudential restrictions, it goes beyond this. Within our June Business Outlook survey, a net 31% of firms reported that credit was more difficult to obtain, which is on par with the highest number since 2009 (when we started asking this question). It is a broad-based message across all sectors within the survey.

Figure 2: ANZ Business Outlook ease of getting credit



Source: ANZ

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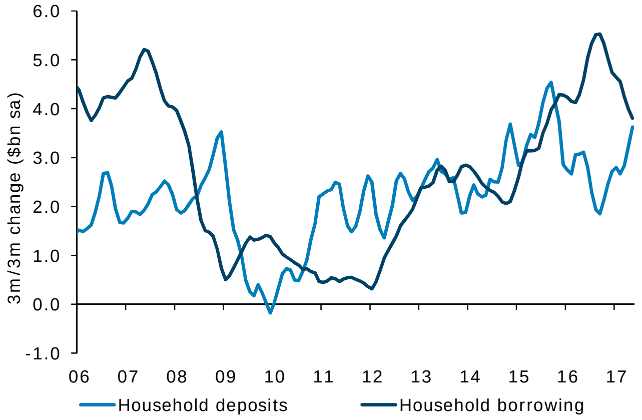
- **Credit growth slowed**. In seasonally adjusted terms, monthly new mortgage lending has fallen 23% since June 2016. New lending to investors has fallen particularly sharply, now making up less than 25% of the total, which is nearly 10%pts lower than 12 months prior. The latest LVR restrictions have obviously had an impact too. Total household credit grew at just 0.4% m/m in May, which is the softest monthly growth in over two years. Overall private sector credit is now growing at roughly a 5% annualised pace compared with over 8% in Q3 last year.
- **The housing market cooled**. Nationwide turnover is down 25% y/y, the median number of days to sell is up around five days and annual house price growth is now just 2.7% – the softest since 2011. And while Auckland has borne the brunt of this slowing (Auckland prices are heading modestly backwards and the region is one of only a handful where properties are now taking longer to sell than the historical average), a slowing theme is evident across most regions, highlighting that it is not really about any regional-specific factors.
- **Building consent issuance struggled to push higher**. Despite strong population growth, a housing shortfall (at least in Auckland) and clear policymaker desire to lift supply, dwelling consent issuance has effectively hovered around the same annualised pace of ~30k for the past 12 months. Capacity pressures will no doubt be playing a role – the construction sector is crying out for staff – but access to capital is capping the upside too.
- **Financial conditions tightened** courtesy of waning house price growth and slower credit growth, flagging more moderate GDP growth.

That's a cocktail for slower activity growth and a tempering of topside [irrational] exuberance, which is what we've seen. To be fair, it hasn't been the only factor weighing on the market and economic growth, but it is a significant one.

But timely measures now show that this 'funding gap' has narrowed considerably. A gap remains when comparing annual household credit and deposit growth (figure 1), but over the past three months credit and deposit growth have actually run at a very similar pace (figure 3). **So much of the hard work appears to have been done.**

Figure 3: Bank household funding and claims quarterly growth



Source: ANZ, Statistics NZ

This doesn't mean some of the themes described above are set to reverse. We've simply seen the level adjust to a new equilibrium.

However, it does suggest competition for deposits could ease a tad and there is a little more wriggle room on the lending side of the equation. We'll certainly be watching for any signs of stabilisation in upcoming credit growth figures and how firms report overall ease of credit access going forward.

Even if credit growth doesn't accelerate from here and only stabilises, the drag on growth from the earlier tightening, together with the introduction of the latest LVR restrictions, should now start to wane. It leaves us comfortable with our expectation that GDP growth momentum will accelerate after the sluggish late-2016, early-2017 performance.

Turning to the week ahead, we expect June quarter CPI figures to show annual inflation easing back to 1.9%. Food prices will make another positive contribution (+0.1%pts) despite already recording the largest quarterly lift in 6½ years in Q1. Poor autumn weather has led to a spike in fruit and vegetable prices, which is looking unlikely to unwind until new season product hits the shelves in spring. However, a drop in petrol prices will largely offset this (-0.1%pts). We are also expecting to see typical seasonal movements in the likes of domestic airfares (down), clothing and footwear (up) and accommodation services (down).

The housing group should again make a positive contribution, but we suspect the broader domestic inflation picture will be more hit and miss. That has certainly been the signal from our Monthly Inflation Gauge of late, where non-housing related price pressure is few and far between. In fact, we see

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overall non-tradable inflation at just 0.3% q/q in Q2, which would hold annual growth at 2.5% y/y.

Figure 4: ANZ Q2 CPI component-level forecast

Groups	q/q%	%pt cont.
Food	0.7	0.1
Alcoholic beverages and tobacco	0.1	0.0
Clothing and footwear	0.6	0.0
Housing and household utilities	0.8	0.2
Household contents and services	-1.0	0.0
Health	0.2	0.0
Transport	-1.4	-0.2
Communication	-0.6	0.0
Recreation and culture	0.2	0.0
Education	0.3	0.0
Miscellaneous goods and services	0.3	0.0
Total	**0.2**	**0.2**

Source: ANZ, Statistics NZ

Core inflation measures should be broadly steady. In Q1, some measures of core inflation were actually back above the target-midpoint. The weighted median and 10% trimmed mean were both at 2.2%. However, it wasn't across the board. Headline inflation excluding food, petrol and energy was steady at 1.6%, and the RBNZ's Sectoral Factor Model was stable at 1.5% – where it has been for six consecutive quarters. We are not expecting much change in this picture in Q2.

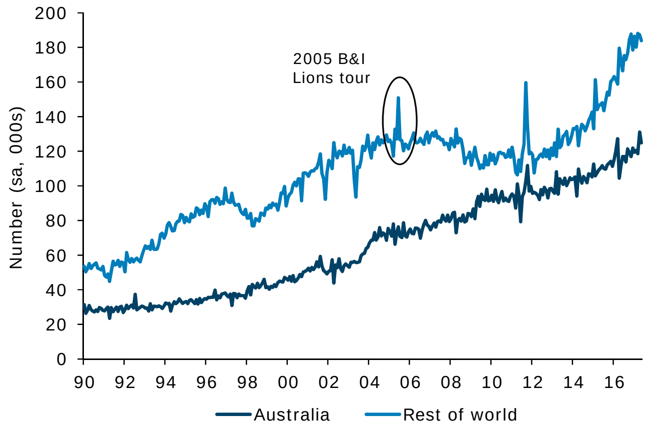
We can't see the data shifting the RBNZ from its cautious stance. Forward indicators for inflation remain mixed. The economy is hitting capacity pressures and more anecdotes of wage pressures are emerging, but there is little evidence of this in the data. Oil price declines will likely see headline inflation fall back to the lower half of the RBNZ's target band over the coming 12 months and that can alter inflation expectations. The recent spike in food prices should at least partly unwind at some stage, although the lift in New Zealand's export commodity prices does mean it is not all one-way traffic. The deflationary impact of technology is ever present and there remain numerous questions over the global inflationary environment, with core inflation measures rolling over in some countries of late (but especially in the US).

Overall NZX futures are pointing to an unchanged result for whole milk powder and the GDT-TWI at this week's auction. Near-term WMP futures prices are anticipating some downward pressure from lower Chinese participation at the last two auctions (circa a third vs 50% plus participation previously). However, the last auction saw price support from increased buying out of South-East Asia suggesting some restocking activity. This reinforces the view that many buyers outside of China have been purchasing hand-to-mouth on the expectation of higher milk flows over the second half of 2017. This has also been a dynamic evident for nearly the last 12 months – every time Chinese participation has fallen demand from other parts of the globe has emerged to support prices. Further out, product to be delivered in December is expected to be supported by Chinese demand for their seasonal lull in local fresh milk supply and the free-trade window (lower tariffs at start of calendar year).

At present the market is anticipating higher supply out of both Europe and New Zealand over the second-half of 2017. If this doesn't emerge milk powder prices could well be biased higher and milkfat prices could stay at record highs for longer. Both farm-gate and supplementary feed prices in Europe and New Zealand point to higher supply, but weather conditions remain the wild card. At present Europe looks too dry in some key regions and New Zealand too wet. A better gauge on New Zealand's seasonal lift in supply will only be available in 6-8 weeks' time, so until then things are likely to be largely in a holding pattern.

There should be a clear boost to June international visitor arrivals from the British and Irish Lions rugby tour. In June 2005, the last time the tour was held, seasonally adjusted arrivals surged 14% m/m in that month. We are not expecting that sort of growth this time around, largely because the base of arrivals is now far greater (over 50% bigger in fact). More specifically, if we saw 25,000 visitors arrive for the event like we reportedly did in 2005, then that would only lift total arrivals by around 8% in the month. But looking through this spike, an upward trend in arrivals is still likely to be evident, although it is now one that is slowing as the sector increasingly grapples with capacity pressures.

Figure 5: International visitor arrivals



Source: ANZ, Statistics NZ

ECONOMIC OVERVIEW

We suspect net migrant figures will be roughly stable at an elevated level. In May, the seasonally adjusted net inflow was 5,190, which was enough to see the 12-month running total hit a new high of close to 72k. While migration is in the political cross-hairs and immigration criteria are being tightened domestically, Australia and the UK are making it harder for New Zealanders to go offshore. When we look at our assumptions for annual net immigration flows we see it holding at a pace of around 70k well into 2018, before easing towards around 55k by the end of 2019.

LOCAL DATA

Electronic Card Transactions – June. Total retail spending was flat, while core rose 0.8% m/m.

ANZ Monthly Inflation Gauge – June. Prices rose 0.1% m/m, to be up 2.1% y/y.

ANZ Truckometer – June. The Heavy Traffic Index was flat, while the Light Traffic Index rose 1.3% m/m.

REINZ Housing Market Statistics – June. In seasonally adjusted terms, sales volumes fell 7.8% m/m, while the House Price Index fell 0.7% m/m.

Food Price Index – June. Prices rose 0.2% m/m.

ANZ-Roy Morgan Consumer Confidence – July. Headline confidence eased from 127.8 to 125.4.

BNZ-BusinessNZ PMI – June. The index fell 2 points to 56.2.

BNZ-BusinessNZ PSI – June. The index eased 0.2 points to 58.6.

INTEREST RATE STRATEGY

SUMMARY

Short end rates continued grinding lower last week and have now recovered the bulk of the ground lost in the wake of the global yield spike that reached a crescendo in the first week of July. We see scope for yet further downside, but the market won't move too boldly ahead of NZ Q2 CPI data tomorrow, beyond which we see scope for 2017 OCR hikes to be gradually priced out should our CPI pick be realised. Lower global yields are also playing a role, with US 10 year bond yields down in response to the Trump/Russia drama and soft CPI figures, which have also helped lift the NZD – which is a positive for both the short end (via tighter financial conditions) and the long end (because of the depth of offshore participation). With the NZGS 2029 syndication window "open", we don't expect NZGS outperformance, adding to pressure for the curve to steepen as the short end rallies.

THEMES

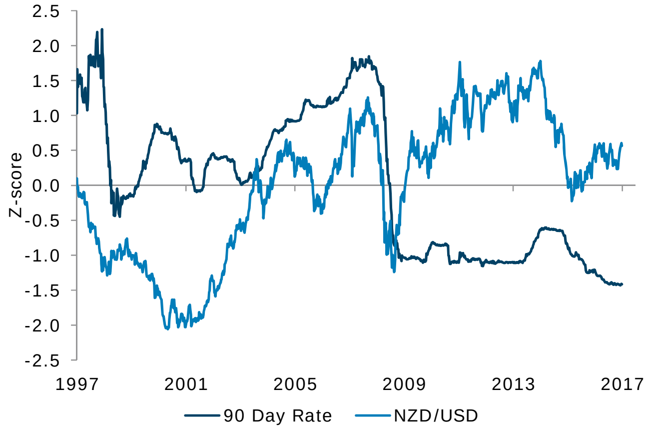
- Short end carry is very attractive. Along with the downbeat inflation vibe (soft details of our Monthly Inflation Gauge and soft US CPI), it suggests rates will continue to edge lower, albeit slowly.
- Global bond yields have been given a reprieve by the Trump/Russia drama and some disappointing US data. But even so, we think there are other more fundamental reasons not to get too bearish.
- NZD strength matters for interest rates.

MONETARY POLICY AND SHORT END

Short end rates continued falling last week, but remain somewhat elevated vis-à-vis the outlook for the OCR, which suggests the bellwether 2-year swap should be closer to 2.2%. While the magnitude of the disconnect is fairly small (around 0.1%pts), with our Inflation Gauge showing that domestic inflation is still nowhere to be seen outside of housing, and NZD elevation ongoing, the risk is the RBNZ will be on hold for longer; not shorter. NZ Q2 CPI data this week will play a role in re-calibrating the market; but it's more about the outlook than the past quarter. Any chance of hikes priced into the market over 2017 has scope to be stamped out completely.

New Zealand's monetary policy mix has not been ideal for some time (Figure 1 – low rates have over-stimulated housing while the high NZD has crimped exports). We expect the mix will improve and rebalance as global liquidity conditions normalise, but it won't happen overnight, and low inflation in the US (and Fed Chair Yellen's dovish tone last week) point to this being a "later" rather than "sooner" eventuality.

Figure 1: NZ 90 day rate and NZD/USD – standard deviations from respective 20yr averages



Source: ANZ, Bloomberg

GLOBAL MARKETS AND LONG END

Global long end rates have retreated lower in the past week, and look set to consolidate as the Trump/Russia drama plays out and as the market reassesses the outlook for Fed policy following softer US CPI data. Most now also expect next week's FOMC meeting to be somewhat dovish given the data and Fed Chair Yellen's dovish tone during her testimony last week. For now, that is likely to keep a lid on US rates, and by extension, NZ bond yields.

We also remain focussed on basic valuations. As noted last week, with the Fed's estimate of the long-run Fed Funds rate at just 3%, and downside risks to inflation still prevalent, **there is a limit to how high US Treasury bond yields can go**. Longer term, we see long end yields going higher, but it will be gradual.

STRATEGY

Investors: Short end biased further lower; carry is attractive. Stay **nimble at the long end** for now.

Borrowers: BKBM remains low but term rates are on the move higher. Further upside limited for now.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/Bullish	Price action encouraging. CPI data this week likely to bring market to the RBNZ's view. High NZD an issue.
Long end	Neutral	Hard to be strategically bearish given adjustment to more reasonable levels. Price action no longer bearish.
Yield Curve	Neutral	Our forecasts imply a steeper curve; locally that will be underpinned by long end NZ/US underperformance.
Geographic spreads	Neutral	We had been bullish NZ on spread, owing to opposing policy biases. However supply considerations ahead of 2029 syndication leave us cautious. Strong NZD a S-T positive; but unless sustained will be a liability.
Swap spreads	Bias to Narrow	Window now open for NZGS syndication. Corporate paying will dry up now that yields have lifted.
NZD/TWI	Elevated	We remain cautious on the NZD given change in global bias, but softer US CPI and Yellen tone suggests we will see a delayed USD catch-up. Crucial to how short end rates evolve (via financial conditions link).

CURRENCY STRATEGY

SUMMARY

Recent NZD strength can largely be attributed to USD weakness; while underperformance against peers like the AUD is a hat-tip to softer nuances locally. We have long said the NZD's credentials deserve respect, and that remains the case. But we had been eying a mild NZD decline as "the majors" caught up on the policy front and as a reversal of the liquidity cycle got underway. However, recent weaker data in the US and the Trump/Russia drama have undermined the USD. We remain of the view that NZD strength will fade, albeit on a more delayed timetable.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔/↓	USD weakness gives NZD reprieve	Turn in liquidity cycle = USD eventually up
NZD/AUD	↔	To consolidate around 0.94	Favour strength
NZD/EUR	↔/↓	Euro growth looking better	Region and euro faces structural challenges
NZD/GBP	↔/↑	Bad run of data	Valuation says lower, Brexit higher
NZD/JPY	↔	USD/JPY rally dominating.	USD/JPY heading up as policy diverges

THEMES AND RISKS

- Soft US CPI data and somewhat dovish testimony from Fed Chair Yellen has seen US markets re-assess the Fed outlook; and US bond yields fall.
- We continue to eye a turn lower in the NZD as we transition from a "liquidity" to a "growth" mantra for asset markets, but it will be delayed.
- NZD positioning continues to extend (to record speculative longs); this represents a blockage to further upside.
- Politics now on the radar as the election nears; countered by bigger issues in the US (with the Trump/Russia drama).

ASSESSMENT

The NZD's solid credentials are well-known and deserve respect, make no doubt. It's something we have spoken about a lot in recent months, with support coming from things like:

- Leading indicators that suggest the economy "should" be growing at something like 3.5-4%;
- Elevated export commodity prices;
- Decent (albeit fading) interest rate differentials;
- A sound micro-economic agenda;
- Evidence of strong buy flows (positioning);
- In the weeks to come, likely buying of NZD by foreigners participating in the NZGS 2029 government bond syndication.

Against that backdrop, with the market becoming increasingly disillusioned with the US political situation, it is not difficult to see why the NZD has done so well.

Be that as it may; the NZD faces a number of challenges too:

- **A notable change in the tone of commentary coming from some of the major central banks.** It's now not just the Fed who is tightening, the Bank of Canada delivered a hike last week.
- **A prospective turn in the liquidity cycle.** Soft US CPI data last week has seen the market re-assess the outlook for Fed rate hikes; but that probably won't derail balance sheet reduction.
- **Politics.** We have seen how damaging this has been for the USD, and for now the NZD/USD is benefitting from that. But the NZ general election is now on the visible horizon. To be fair, we aren't likely to see seismic change as in the US or UK, but it does mean uncertainty.
- **NZ's "clear #1" positon across a number of key "relativities"** (growth, yield, unemployment and debt) **is now being challenged.**
- **Positioning.** The "nothing short of staggering" build-up of "longs" has doubtless played a role in driving the kiwi higher of late; but the bigger the positioning the bigger the risks of an exit.

That combination tells us that NZD strength probably won't last. Without doubt the latest round of disappointing US data releases and political wobbles is a threat to this view, but for now we see it as more of a factor delaying the NZD's downward adjustment, rather than a reason to completely abandon it.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Now much closer to fair value at ~0.93.
Yield	↔/↑	NZ inflation cycle more advanced.
Commodities	↔/↓	Risk now that dairy comes off highs.
Data	↔/↓	NZ CPI data this week a risk.
Techs	↔/↓	Break of 0.9440 not encouraging.
Sentiment	↔/↓	Wary of NZD positioning.
Other	↑	Australian economy just not humming.
On balance	↔	**Consolidating, albeit at lower level.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Now closer to fair value (~0.75).
Yield	↔	Yield gap not enough, but still positive.
Commodities	↔/↓	Soft commodity move has now peaked.
Risk aversion	↔/↓	Watching the liquidity cycle.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔/↓	Break above 0.73 convincing, but super long positioning leave us cautious.
Sentiment	↔/↓	Strength to be respected, but faded too.
Other	↔/↑	Politics and policy USD negative.
On balance	↔/↓	**Top out coming, but delayed.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-Jul	CH	Retail Sales YoY - Jun	10.6%	10.7%	14:00
	CH	Retail Sales YTD YoY - Jun	10.3%	10.3%	14:00
	CH	Fixed Assets Ex Rural YTD YoY - Jun	8.5%	8.6%	14:00
	CH	Industrial Production YoY - Jun	6.5%	6.5%	14:00
	CH	Industrial Production YTD YoY - Jun	6.7%	6.7%	14:00
	CH	GDP YoY - Q2	6.8%	6.9%	14:00
	CH	GDP SA QoQ - Q2	1.7%	1.3%	14:00
	CH	GDP YTD YoY - Q2	6.8%	6.9%	14:00
	EC	CPI MoM - Jun	0.0%	-0.1%	21:00
	EC	CPI YoY - Jun F	1.3%	1.4%	21:00
	EC	CPI Core YoY - Jun F	1.1%	1.1%	21:00
18-Jul	US	Empire Manufacturing - Jul	15.0	19.8	00:30
	NZ	CPI QoQ - Q2	0.2%	1.0%	10:45
	NZ	CPI YoY - Q2	1.9%	2.2%	10:45
	AU	ANZ-RM Consumer Confidence Index - 16-Jul	--	113.0	11:30
	AU	New Motor Vehicle Sales MoM - Jun	--	2.9%	13:30
	AU	New Motor Vehicle Sales YoY - Jun	--	4.9%	13:30
	AU	RBA July Rate Meeting Minutes	--	--	13:30
	NZ	Non Resident Bond Holdings - Jun	--	61.4%	15:00
	UK	CPI MoM - Jun	0.2%	0.3%	20:30
	UK	CPI YoY - Jun	2.9%	2.9%	20:30
	UK	CPI Core YoY - Jun	2.6%	2.6%	20:30
	UK	RPI MoM - Jun	0.4%	0.4%	20:30
	UK	RPI YoY - Jun	3.6%	3.7%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Jun	3.8%	3.9%	20:30
	UK	PPI Input NSA MoM - Jun	-0.9%	-1.3%	20:30
	UK	PPI Input NSA YoY - Jun	9.3%	11.6%	20:30
	UK	PPI Output NSA MoM - Jun	0.1%	0.1%	20:30
	UK	PPI Output NSA YoY - Jun	3.4%	3.6%	20:30
	UK	PPI Output Core NSA MoM - Jun	0.1%	0.1%	20:30
	UK	PPI Output Core NSA YoY - Jun	2.8%	2.8%	20:30
	UK	House Price Index YoY - May	3.0%	5.6%	20:30
	GE	ZEW Survey Current Situation - Jul	88.0	88.0	21:00
	EC	ZEW Survey Expectations - Jul	--	37.7	21:00
	GE	ZEW Survey Expectations - Jul	18.0	18.6	21:00
19-Jul	US	Import Price Index MoM - Jun	-0.2%	-0.3%	00:30
	US	Import Price Index YoY - Jun	1.3%	2.1%	00:30
	US	Export Price Index MoM - Jun	0.1%	-0.7%	00:30
	US	Export Price Index YoY - Jun	--	1.4%	00:30
	US	NAHB Housing Market Index - Jul	67.0	67.0	02:00
	US	Total Net TIC Flows - May	--	$65.8B	08:00
	US	Net Long-term TIC Flows - May	--	$1.8B	08:00
	AU	Westpac Leading Index MoM - Jun	--	-0.02%	12:30
	EC	Construction Output MoM - May	--	0.3%	21:00
	EC	Construction Output YoY - May	--	3.2%	21:00
	US	MBA Mortgage Applications - 14-Jul	--	-7.4%	23:00
20-Jul	US	Housing Starts - Jun	1160k	1092k	00:30
	US	Housing Starts MoM - Jun	6.2%	-5.5%	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
20-Jul	US	Building Permits - Jun	1201k	1168k	00:30
	US	Building Permits MoM - Jun	2.8%	-4.9%	00:30
	JN	Trade Balance - Jun	¥488.0B	-¥204.2B	11:50
	JN	Trade Balance Adjusted - Jun	¥129.5B	¥133.8B	11:50
	JN	Exports YoY - Jun	9.5%	14.9%	11:50
	JN	Imports YoY - Jun	14.4%	17.8%	11:50
	AU	NAB Business Confidence - Q2	--	6	13:30
	AU	Employment Change - Jun	15.0k	42.0k	13:30
	AU	Unemployment Rate - Jun	5.6%	5.5%	13:30
	AU	Full Time Employment Change - Jun	--	52.1k	13:30
	AU	Part Time Employment Change - Jun	--	-10.1k	13:30
	AU	Participation Rate - Jun	64.9%	64.9%	13:30
	AU	RBA FX Transactions Government - Jun	--	-A$760M	13:30
	AU	RBA FX Transactions Market - Jun	--	A$735M	13:30
	AU	RBA FX Transactions Other - Jun	--	A$35M	13:30
	GE	PPI MoM - Jun	-0.1%	-0.2%	18:00
	GE	PPI YoY - Jun	2.3%	2.8%	18:00
	EC	ECB Current Account SA - May	--	€22.2B	20:00
	EC	Current Account NSA - May	--	€21.5B	20:00
	UK	Retail Sales Ex Auto Fuel MoM - Jun	0.5%	-1.6%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Jun	2.5%	0.6%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Jun	0.4%	-1.2%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Jun	2.6%	0.9%	20:30
	EC	ECB Main Refinancing Rate - Jul	0.00%	0.00%	23:45
	EC	ECB Marginal Lending Facility - Jul	0.25%	0.25%	23:45
	EC	ECB Deposit Facility Rate - Jul	-0.40%	-0.40%	23:45
	EC	ECB Asset Purchase Target - Jul	€60B	€60B	23:45
	JN	BoJ Policy Balance Rate - Jul	-0.10%	-0.10%	UNSPECIFIED
21-Jul	US	Initial Jobless Claims - 15-Jul	245k	247k	00:30
	US	Continuing Claims - 8-Jul	1950k	1945k	00:30
	US	Philadelphia Fed Business Outlook - Jul	22.9	27.6	00:30
	EC	Consumer Confidence - Jul A	-1.1	-1.3	02:00
	US	Leading Index - Jun	0.4%	0.3%	02:00
	NZ	Net Migration SA - Jun	--	5900	10:45
	NZ	Credit Card Spending MoM - Jun	--	0.9%	15:00
	NZ	Credit Card Spending YoY - Jun	--	7.6%	15:00
	UK	Public Finances (PSNCR) - Jun	--	£13.4B	20:30
	UK	Central Government NCR - Jun	--	£10.5B	20:30
	UK	Public Sector Net Borrowing - Jun	£4.2B	£6.0B	20:30
	UK	PSNB ex Banking Groups - Jun	£4.9B	£6.7B	20:30

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

Although the latest GDP data disappointed, we still believe the underlying pace of economic momentum is reasonable despite housing and credit headwinds. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards – but not for a while.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 18 Jul (10:45am)	CPI – Q2	0.2% q/q	Annual inflation is expected to ease back to 1.9%, while core inflation measures will remain in a 1.5-2.2% range.
Wed 19 Jul (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese and South-East Asian demand is lending support.
Fri 21 Jul (10:45am)	International Travel & Migration – Jun	No change	Net migrant arrivals will remain historically elevated. Visitor arrivals should be strong, given the Lions rugby tour.
Wed 26 Jul (10:45am)	Overseas Merchandise Trade – Jun	Improving	Petrol imports were strong in May, which we suspect will unwind. Export values should be decent.
Wed 26 Jul (3:00pm)	RBNZ New Mortgage Lending – Jun	Stabilising	New lending has fallen sharply, but we suspect it will start to stabilise around current levels.
Mon 31 Jul (10:45am)	Building Consent Issuance – Jun	Capped	While positive demand forces are evident, the topside is capped by capacity and capital constraints.
Mon 31 Jul (1:00pm)	ANZ Business Outlook – Jul	--	--
Mon 31 Jul (3:00pm)	RBNZ Sectoral Lending – Jun	Cooler	At ~6%, annual private sector credit growth is back on par with income growth. We suspect it will stay roughly there.
Wed 2 Aug (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese and South-East Asian demand is lending support.
Wed 2 Aug (10:45am)	Labour Market Statistics – Q2	Tightening	Despite strong labour supply growth, decent labour demand should see the unemployment rate continue to tick lower.
Thu 3 Aug (10:00am)	ANZ Job Ads – Jul	--	--
Thu 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul	--	--
Mon 7 Aug (3:00pm)	RBNZ Survey of Expectations – Q3	Stable to down	Recent petrol price falls could see the 2-year ahead measure ease off its recent highs.
Tue 8 Aug (1:00pm)	ANZ Monthly Inflation Gauge – Jul	--	--
Wed 9 Aug (10:00am)	ANZ Truckometer – Jul	--	--
Thu 10 Aug (9:00am)	RBNZ Monetary Policy Statement	On hold	Recent developments have been consistent with the RBNZ's cautious stance. No change in message – the OCR is on hold for some time yet.
Thu 10 Aug (10:45am)	Electronic Card Transactions – Jul	Petrol drag	If petrol prices stabilise, we should see total retail spending rebound from its recent weaker trend.
Fri 11 Aug (10:30am)	BNZ-BusinessNZ PMI – Jul	Holding	Manufacturing sector sentiment should continue to hold at a reasonable level.
Fri 11 Aug (10:45am)	Food Price Index – Jul	Waiting	It may not be until new season produce hits the shelves in spring before we see fruit & vege prices unwind their recent spike.
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is gradually lifting.**

KEY FORECASTS AND RATES

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (% qoq)	0.5	**1.0**	**0.8**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.5	**2.7**	**2.7**	**3.2**	**3.3**	**3.0**	**2.8**	**2.6**	**2.5**	**2.4**
CPI (% qoq)	1.0	**0.2**	**0.2**	**0.3**	**0.8**	**0.6**	**0.7**	**0.3**	**0.7**	**0.6**
CPI (% yoy)	2.2	**1.9**	**1.7**	**1.6**	**1.5**	**2.0**	**2.4**	**2.4**	**2.3**	**2.2**
Employment (% qoq)	1.2	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.7	**3.9**	**2.9**	**2.5**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**	**1.2**
Unemployment Rate (% sa)	4.9	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**	**4.3**
Current Account (% GDP)	-3.1	**-3.1**	**-3.0**	**-3.0**	**-2.6**	**-2.5**	**-2.6**	**-2.6**	**-2.6**	**-2.6**
Terms of Trade (% qoq)	5.1	**1.5**	**0.0**	**-1.1**	**-1.0**	**-0.7**	**0.1**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.7	**11.6**	**12.8**	**5.5**	**-0.6**	**-2.8**	**-2.6**	**-1.5**	**-0.4**	**0.4**

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Retail ECT (% mom)	0.5	0.1	0.1	2.4	-0.4	-0.3	0.9	-0.4	0.0	--
Retail ECT (% yoy)	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2	4.5	--
Credit Card Billings (% mom)	2.8	-4.1	3.1	0.4	-1.3	1.0	1.0	0.9	--	--
Credit Card Billings (% yoy)	10.1	4.1	8.5	7.1	5.3	7.3	6.5	7.6	--	--
Car Registrations (% mom)	13.2	2.8	-6.4	1.7	0.5	3.3	-2.7	3.7	-2.8	--
Car Registrations (% yoy)	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7	11.1	--
Building Consents (% mom)	0.8	-8.6	-8.2	3.9	16.7	-2.4	-7.4	7.0	--	--
Building Consents (% yoy)	14.0	2.3	-10.8	-1.0	9.1	16.6	-3.0	6.0	--	--
REINZ House Price Index (% yoy)	14.4	14.4	13.8	12.8	11.9	10.0	7.9	5.0	2.7	--
Household Lending Growth (% mom)	0.6	0.6	0.8	0.5	0.5	0.5	0.6	0.4	--	--
Household Lending Growth (% yoy)	8.7	8.6	8.8	8.7	8.5	8.4	8.2	7.8	--	--
ANZ Roy Morgan Consumer Conf.	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9	127.8	125.4
ANZ Business Confidence	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9	24.8	--
ANZ Own Activity Outlook	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3	42.8	--
Trade Balance ($m)	-798	-723	-1	-227	-42	270	536	103	--	--
Trade Bal ($m ann)	51943	51668	51621	51901	52087	52404	52590	53224	--	--
ANZ World Commodity Price Index (% mom)	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	2.1	--
ANZ World Comm. Price Index (% yoy)	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3	24.6	--
Net Migration (sa)	6190	6140	5940	6350	5940	6140	5790	5910	--	--
Net Migration (ann)	70282	70354	70588	71305	71333	71932	71885	71964	--	--
ANZ Heavy Traffic Index (% mom)	-0.4	3.7	-0.5	-0.9	2.1	1.6	-2.1	4.0	0.0	--
ANZ Light Traffic Index (% mom)	-2.0	1.5	0.2	-0.3	0.8	1.2	-1.5	1.3	1.3	--

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	May-17	Jun-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZD/USD	0.687	0.712	0.735	0.72	0.70	0.69	0.68	0.67	0.67	0.66
NZD/AUD	0.917	0.954	0.940	0.97	0.96	0.96	0.94	0.94	0.94	0.94
NZD/EUR	0.630	0.635	0.641	0.63	0.63	0.63	0.65	0.63	0.61	0.57
NZD/JPY	76.55	78.83	82.78	82.8	78.4	75.9	71.4	67.0	67.0	66.0
NZD/GBP	0.530	0.554	0.561	0.55	0.55	0.55	0.55	0.54	0.54	0.51
NZ$ TWI	73.3	75.4	78.4	76.1	74.7	74.1	73.5	71.8	71.2	69.3
INTEREST RATES	Apr-17	May-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25	2.25
NZ 90 day bill	1.98	1.97	1.95	1.98	1.99	2.08	2.33	2.50	2.50	2.59
NZ 10-yr bond	3.04	2.78	2.94	2.80	2.80	2.85	2.95	3.15	3.30	3.30
US Fed funds	1.00	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.25
US 3-mth	1.17	1.21	1.30	1.40	1.65	1.75	2.05	2.20	2.45	2.45
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	1.75	1.74	1.70	1.70	1.70	1.70	1.70	1.80	1.80	1.80

	14 Jun	10 Jul	11 Jul	12 Jul	13 Jul	14 Jul
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.93	1.97	1.97	1.97	1.97	1.96
NZGB 03/19	1.93	2.05	2.02	2.01	1.97	1.98
NZGB 05/21	2.19	2.41	2.40	2.38	2.33	2.35
NZGB 04/23	2.47	2.70	2.69	2.66	2.62	2.64
NZGB 04/27	2.79	3.03	3.03	2.99	2.95	2.97
2 year swap	2.20	2.33	2.31	2.29	2.27	2.27
5 year swap	2.70	2.91	2.89	2.87	2.83	2.85
RBNZ TWI	77.81	78.30	78.04	77.62	77.96	78.46
NZD/USD	0.7249	0.7267	0.7216	0.7237	0.7334	0.7347
NZD/AUD	0.9564	0.9572	0.9483	0.9460	0.9480	0.9384
NZD/JPY	79.92	83.00	82.50	82.15	82.86	82.67
NZD/GBP	0.5695	0.5644	0.5591	0.5628	0.5675	0.5608
NZD/EUR	0.6470	0.6379	0.6332	0.6319	0.6441	0.6406
AUD/USD	0.7579	0.7592	0.7610	0.7650	0.7736	0.7832
EUR/USD	1.1205	1.1391	1.1396	1.1453	1.1388	1.1470
USD/JPY	110.25	114.22	114.33	113.50	112.97	112.53
GBP/USD	1.2729	1.2874	1.2906	1.2859	1.2923	1.3098
Oil (US$/bbl)	44.73	44.40	45.04	45.49	46.08	46.54
Gold (US$/oz)	1267.41	1208.35	1210.26	1217.20	1222.59	1228.70
Electricity (Haywards)	14.22	13.04	15.42	144.62	91.20	38.57
Baltic Dry Freight Index	865	820	830	859	888	900
NZX WMP Futures (US$/t)	3100	3120	3120	3120	3120	3120

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