NEW ZEALAND MARKET FOCUS

14 August 2017

INSIDE

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FLIRTING WITH TEMPTATION

ECONOMIC OVERVIEW

We are tempted to flat-line our OCR projections, such is the degree of uncertainty. Secular forces and disinflationary signals are hard to ignore. However, we're resisting that temptation for now, preferring to instead push out the timing for when we see the first OCR hike to November 2018 (from May). However, it seems clear, as we mentioned last week, that these forces have manifested in a lower 'neutral' rate, meaning any tightening will be gradual and modest. In data this week, dairy prices are expected to lift a little, while our consumer confidence gauge will be watched to see if households remain upbeat despite clearer signs of housing market softness.

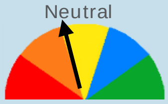
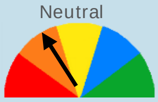
INTEREST RATE STRATEGY

Short-end interest rates continue to grind lower and we expect further downside in coming weeks as markets price in an elongated period of OCR stability. US Treasuries have benefited from de-risking as geopolitical tensions between the US and North Korea have mounted, and on the back of another round of disappointing US PPI and CPI data releases. We don't see either theme going away any time soon, biasing US and global yields lower. And with the OCR outlook here looking low for longer, we expect to see further NZ/US spread compression. We remain attuned to the prospect of further curve flattening as markets adjust to lower neutral rates and secularly low inflation.

CURRENCY STRATEGY

Strength in the NZD continues to frustrate; although to be fair, on numerous levels elevation is warranted and not "unjustified" when we eye some key fundamentals. Still, we remain biased towards fading strength. A turn in the global liquidity cycle remains at the heart of this view. Moreover, the local election is now more uncertain, global geopolitical risks are rising, and the RBNZ is on hold for longer.

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.	Neutral Negative  Positive
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.	Neutral Negative  Positive
OCR	1.75% by Mar 2018	While we can't really make the case for a lower OCR, interest rate hikes are hard to justify too, with inflation impacted by secular forces.	Neutral Down  Up
CPI	1.2% y/y for 2018 Q1	Oil price weakness will weigh on headline inflation, but domestic and core inflation should lift gradually.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

We are tempted to flat-line our OCR projections, such is the degree of uncertainty. Secular forces and disinflationary signals are hard to ignore. However, we're resisting that temptation for now, preferring to instead push out the timing for when we see the first OCR hike to November 2018 (from May). However, it seems clear, as we mentioned last week, that these forces have manifested in a lower 'neutral' rate, meaning any tightening will be gradual and modest. In data this week, dairy prices are expected to lift a little, while our consumer confidence gauge will be watched to see if households remain upbeat despite clearer signs of housing market softness.

FORTHCOMING EVENTS

GlobalDairyTrade Auction (early am, Wednesday, 16 August). NZX dairy futures are pointing to a 3% gain overall (GDT-TWI) and a 4-5% improvement in whole milk powder prices.

PPI – Q2 (10:45am, Thursday, 17 August). The numbers will be thrown around by commodity prices, but higher wholesale electricity prices should boost both input and output prices.

ANZ-Roy Morgan Consumer Confidence – August (1:00pm, Thursday, 17 August).

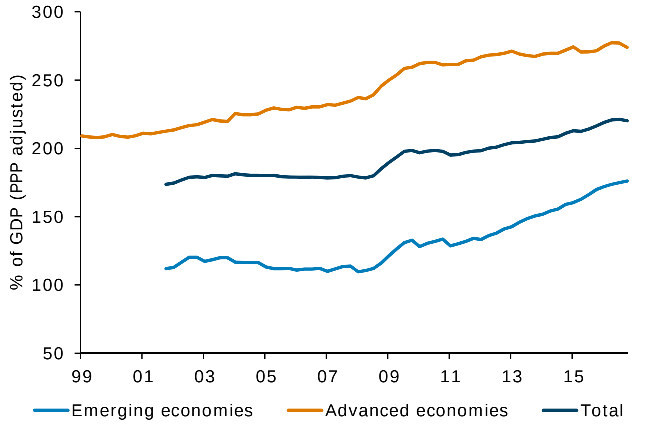
International Travel and Migration – July (10:45am, Monday, 21 August). Strong net migrant inflows should persist. The level of visitor arrivals will also remain elevated, although they will probably at least partially unwind some of last month's strength associated with the B&I Lions rugby tour.

WHAT'S THE VIEW?

We're tempted to flat-line our OCR projections.

- **The global inflation pulse is not accelerating;** witness continued subdued CPI reads (and wage inflation) across a US economy that has an unemployment rate of 4.3% (and falling).
- **It is a similar story domestically.** Month after month our Monthly Inflation Gauge is telling us that there is a lack of inflation outside of housing. And the housing market has now turned!
- **Disruptive technology and technological advancement continue to suppress (and in some instances completely remove) pricing power.** That's not going away; it's intensifying.
- **The world still needs to deleverage, which is deflationary.** Locally, the ratio of household debt to income has never been higher. But New Zealand households are not unique in this regard. In fact, the world has never had as much debt as it does today, with a ratio of 220% of GDP at the end of 2016. By putting the global economy on a borrowing bender, central banks have now created a financial stability risk.

Figure 1: Total (non-financial sector) debt to GDP



Source: ANZ, BIS

- **Statistically the world is "due" for another accident;** it's been close to ten years since the Global Financial Crisis, and there is no shortage of candidates for the catalyst.
- **There is a political mood for changing the Policy Targets Agreement and monetary policy operating framework –** and it won't be a lean towards the strict inflation targeting side; rather a step towards more flexibility.
- **Tighter prudential policy is overlapping with monetary policy.** LVR restrictions have clearly had the desired impact of cooling the Auckland housing market. Even so, the RBNZ wants its toolkit expanded to include debt-to-income restrictions. That comes on top of a review of bank capital (not just the level, but also what qualifies as "capital") and it seems highly unlikely the RBNZ will say that less is needed. Structural changes in the way banks fund themselves has seen increased competition for domestic deposits and opened up what is likely to prove a permanently wider wedge between retail and wholesale interest rates. It is all reducing the need for traditional monetary policy tools (the OCR) to be employed.
- **Globally, the credit accelerator model is broken; that's eliminated the traditionally "easy" way to drive above-trend growth and an inflationary pulse.** Central banks have credit facilitation and creation in their sights and the world has too much debt already.
- **Getting consistently strong above-trend growth – a prerequisite for sustained inflation – faces challenges.** Monetary policy works by encouraging people to shift activity from the future to today, and vice versa. Stimulatory

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policy brings forward consumption and encourages borrowing. However, the world already has a lot of debt; indeed prudential policy is targeting it as a financial stability risk. And are people really going to pull forward their consumption if technological change might eliminate their job? **So we're not seeing asset price booms translate into spending equivalents. It's when the two go hand-in-hand that you get a broad inflation pulse.**

- **The NZD remains persistently high.**

Good luck getting inflation to settle around 2% in that environment. A 2% inflation target is arbitrary anyway. What is so magical about it? If inflation averages 1½% or 2½%, we can't think of why that would materially alter economic outcomes. And is deflation for "goods" – which is what we are seeing – that bad anyway?

Conceivably, these forces could mean the OCR is on hold indefinitely. Some may even argue that these forces mean that the days of inflation targeting (at least in the current form) are numbered. Central banks have been struggling for years to generate higher levels of inflation despite unprecedented amounts of stimulus. Sector deflationary forces mean that those challenges will persist, if not intensify. Yet financial stability risks have risen. **A strategy of pushing economies to run hot to attempt to get inflation higher is not without risks.**

For now, we are more inclined to see some of these forces manifesting in a lower neutral policy rate, rather than replacing a future tightening cycle altogether. As we highlighted a few weeks ago, when it comes to a view around the neutral OCR, we fully agree that it is far lower than where it was historically. In fact, we are inclined to think it is perhaps a little below 3% at present. It all means that future hikes are going to be modest and gradual by historical standards.

However, while it is tempting to flat-line our OCR profile completely, we're resisting that temptation, preferring instead to push out the timing for when we see the first OCR hike to November 2018, from May. Three considerations dominate:

- **The global economy is expected to hold together well enough;** not necessarily sufficiently to drive inflation strictly to target, **but enough that policy needs to be wound back, given central banks' increasing focus on financial stability risks.** The Fed is close to the balance sheet unwind exit door and the ECB is expected to inch towards it in 2018. It's untenable to think New Zealand's interest rates end up below those in the US, but that is precisely what the Fed's dot plot and RBNZ's OCR profile portray; the NZD/USD won't be anywhere near current levels in that situation.
- **The NZD looks set to correct lower** as central bank policy settings shift globally and the liquidity cycle turns. Now we are not expecting it to fall by much, but still enough to alter the tradable inflation pulse.
- **We are forecasting the local labour market to tighten sufficiently to lift wage inflation.** See our *Market Focus* from last week.

On a different tack, what do we make of the recent talk of RBNZ intervention? Not much, in short. Yes, the RBNZ has strengthened its rhetoric towards the NZD, though most of the excitement about potential intervention came after reported comments at the Finance and Expenditure Committee. That's a forum where you can get put on the spot so you need to be careful not to over-emphasize the responses.

Of the RBNZ's four criteria for assessing the appropriateness of intervention, we think two criteria (at most) have been ticked, with clouds over the other two. The NZD is high (although perhaps not "exceptionally" high) and intervention would be consistent with the Policy Targets Agreement given a depreciation would hardly threaten the top of the inflation target band at present. The other two – whether the exchange rate is unjustified by fundamentals, and whether intervention would have a reasonable chance of success – are far more debatable. With the current account deficit in check, the net external liability position (at 59% of GDP) not too bad, and the terms of trade set to hit record highs, calling NZD strength "unjustified" is quite a stretch.

Turning to the week ahead, dairy markets are anticipating a further rise in prices this week. NZX dairy futures are pointing to a 3% gain overall (GDT-TWI) and 4-5% improvement in whole milk powder (WMP). Both sides of the equation (supply and demand) are supporting a move higher in WMP and milkfat prices, although these are now facing some affordability challenges. GDT prices are currently more competitively positioned than Europe and the US too (apart from cheddar).

It's still a little early to get an accurate read on new season production, but recent weather is pointing to a slow start at present. This, combined with low carry-over inventory, is supporting prices. Milkfat volumes have been brought forward to earlier delivery periods to presumably ease near-term supply pressures until more new season milk can be

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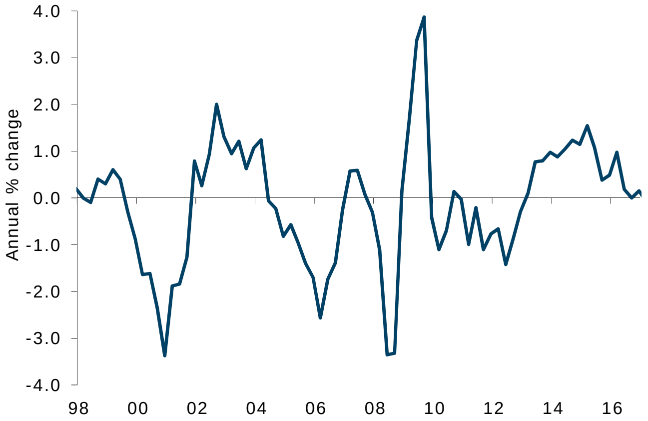
processed (and fulfil strong demand). European milk supply also continues to struggle. Weather conditions still appear challenging in some of the major exporting regions and dairy processors are taking a measured approach to passing on higher product prices to the farm-gate. Demand signals remain strong and more buying from China for the free-trade window is still anticipated.

Producer Price Index data for Q2 is likely to show modestly higher input and output prices. These indices get thrown around from quarter to quarter by movements in commodity prices, especially oil and dairy. Given that, and also the timing of the release, there is usually limited forward-looking information with regards to the outlook for CPI. Over the June quarter, the imported price of oil fell, while New Zealand's export commodity prices posted a decent lift, largely offsetting one another. But what is likely to contribute to higher input and output prices is a decent bounce in wholesale electricity prices, which we estimate rose close to 14% q/q due to lower hydro lack storage levels in the South Island.

With regards to what the data suggest for implied margins, we suspect it will be a broadly stable picture. The ratio of output to input prices, while only a proxy, does give some idea about non-wage margins for businesses. This ratio has risen solidly since 2012, although it has been broadly stable for the past 12 months. In fact, annual growth was -0.1% y/y in Q1. It is consistent with our own estimates of corporate profit margins, and the likes of profitability gauges from business surveys, and we aren't expecting much change in the Q2 figures.

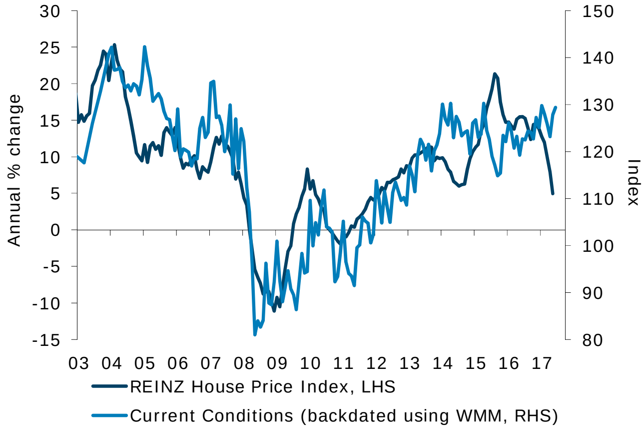
Figure 2: Ratio of PPI output to input prices



Source: ANZ, Statistics NZ

Despite a softer housing market, consumer sentiment has remained elevated recently. The ANZ-Roy Morgan Consumer Confidence measure for August will be watched to see if that has continued. In July, consumer confidence sentiment did ease from 127.8 to 125.4. However, that is consistent with typical moves seen at this time of year. In fact, once we adjust for this seasonality, the index actually rose one point to its highest level since September 2014. Together with strong population and household income growth, it still speaks to a decent pace of spending growth going forward, even if the net wealth effect is set to be far less of a positive crutch that it was.

Figure 3: ANZ Roy Morgan Current Conditions Index and house prices



Source: ANZ, Roy Morgan, WMM, REINZ

Finally, net migration figures for July should remain strong. In June, a new monthly net inflow of 6,350 migrants was recorded, which saw the annual total surpass 72k for the first time. The number of arrivals has been particularly strong of late, which has been led especially by those on work visas and returning New Zealand citizens, both indicative of the strength of the domestic economy. And while there are some elements of the migration story that are now in the political cross-hairs, we suspect the figures will remain strong for some time yet. But outside of any political response, we are keeping an eye on the strength of the Australian labour market. It has been performing better of late, although we are not yet convinced it is at the level that could start drawing large numbers of New Zealanders across the Tasman again.

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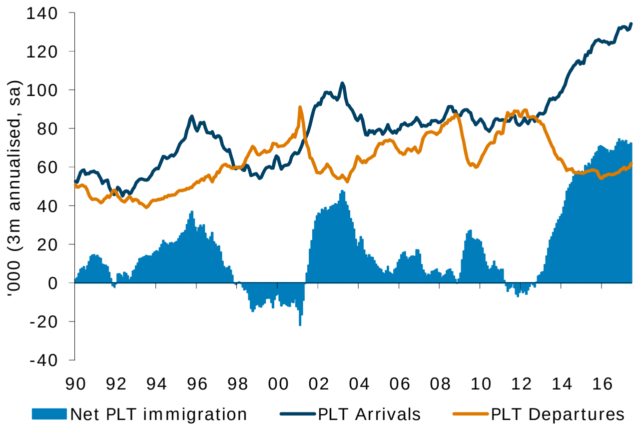
Figure 4: Annualised permanent and long-term net migration

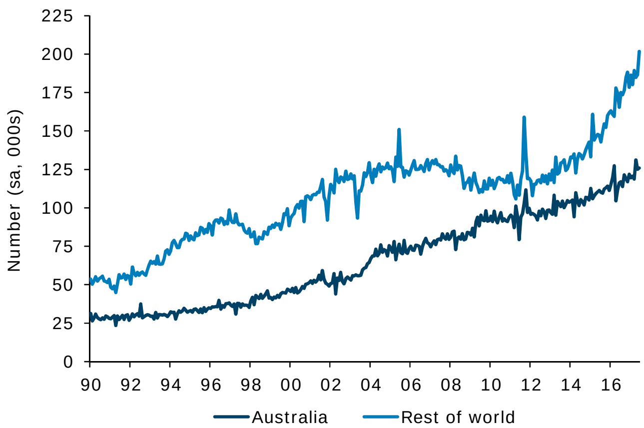


Source: ANZ, Statistics NZ

International visitor arrivals should remain near all-time highs in July. In June, visitor arrivals rose 5.1% m/m, clearly boosted by tourists associated with the British and Irish Lions rugby tour. While the final test match was not until the 8th of July, and could mean that more visitors arrived during the month (especially as the series was tied and one game apiece), we doubt that will be enough for arrivals to push higher. In fact, the most likely outcome is that visitor numbers, at least partially, unwind some of June's strength.

Beyond this event-driven noise, we remain generally constructive on the outlook for visitor arrivals. That said, we do suspect growth will moderate from its previously strong rate. And to be fair, there are already a few signs of this, with the sector increasingly grappling with capacity pressures, and visitors from China beginning to top out at a historically elevated level.

Figure 5: International visitor arrivals



Source: ANZ, Statistics NZ

LOCAL DATA

RBNZ Survey of Expectations – Q3. Two-year ahead inflation expectations fell from 2.17% to 2.09%.

ANZ Monthly Inflation Gauge – July. Prices rose 0.4% m/m, while the Underlying Ex-housing Gauge rose 0.1%.

ANZ Truckometer – July. The Heavy Traffic Index fell 5.5% m/m, while the Light Traffic Index dropped 2.2%.

Electronic Card Transactions – July. Total retail spending values fell 0.5% m/m.

REINZ Housing Market Statistics. In seasonally adjusted terms, the volume of sales fell 9.2% m/m, while the House Price Index dipped 0.4% m/m (+1.2% y/y).

BNZ-BusinessNZ PMI – July. The headline index fell 0.6 points to 55.4.

Food Price Index – July. Prices fell 0.2% m/m (+3.0% y/y).

BNZ-BusinessNZ PSI – July. The headline index fell 2.3 points to 56.0.

Retail Trade Survey – Q2. Total sales volumes surged 2.0% q/q.

INTEREST RATE STRATEGY

SUMMARY

Short-end interest rates continue to grind lower and we expect further downside in coming weeks as markets price in an elongated period of OCR stability. US Treasuries have benefited from de-risking as geopolitical tensions between the US and North Korea have mounted, and on the back of another round of disappointing US PPI and CPI data releases. We don't see either theme going away any time soon, biasing US and global yields lower. And with the OCR outlook here looking low for longer, we expect to see further NZ/US spread compression. We remain attuned to the prospect of further curve flattening as markets adjust to lower neutral rates and secularly low inflation.

THEMES

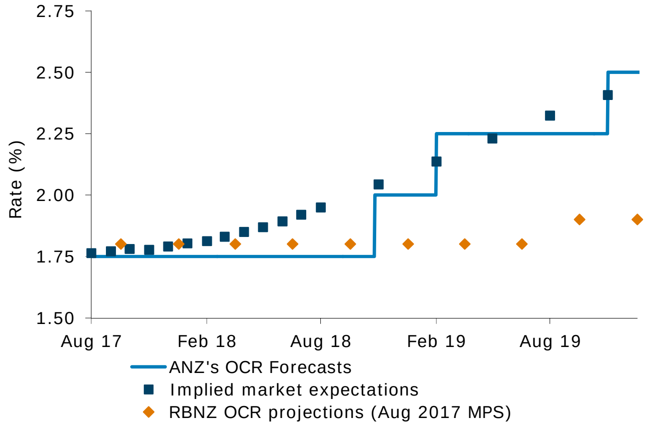
- We have changed our OCR forecasts, pushing back the timing of the first hike by six months (and even then it's really a hat-tip to the risks, rather than a firm view on the exact timing). Against that we see further short-end downside.
- Geopolitical uncertainty and disappointing inflation remain the key themes globally. These thematics will keep a lid on US bond yields, and by extension will cap long-end rates here too.

MONETARY POLICY AND SHORT END

Short-end rates lifted a touch following the RBNZ MPS last week, but the move was short-lived and the market soon ran into receive-side flow that brought the bellwether 2 year back towards prior lows. Looking ahead, given our expectation that the OCR will remain on hold for longer (and even then our forecast of an eventual hike is highly conditional), we expect further downside. However, **incremental progress will be slow, and we will need to see the market start to embrace the idea of cuts for there to be meaningful immediate downside.** While not impossible to conceive, at this stage it is a bridge too far, especially given how much capacity the NZD has to fall should we see a global downside shock.

To be fair, over the longer term, market expectations are similar to our forecasts (figure 1). However, **given the conditional nature of our forecasts**, the elongated time frame between now and the first hike, and the global risk profile, **we still believe the market can adjust lower** to somewhere between the RBNZ's projections and ours.

Figure 1: ANZ forecast against market expectations and RBNZ OCR projections



Source: ANZ, RBNZ, Bloomberg

GLOBAL MARKETS AND LONG END

US 10-year Treasury bond yields moved down further over the past week, spurred on by disappointing inflation data and geopolitics, with the latter driving widespread portfolio de-risking, which tends to favour bonds as an asset class. We expect this pair of thematics to remain in play, and alongside ongoing talk of lower neutral rates, this should cap US and NZ yields, and see curves flatten further.

The NZ/US 10-year spread continues to narrow, but we believe it has further to go. Whereas US 5yr5yr swap yields sit around 50bps below the Fed's 3% terminal fed funds rate (a proxy for neutral), the NZ 5yr5yr sits around 25bps above the RBNZ's 3.5% estimate of the neutral OCR. That speaks to flatter curves and further NZ/US spread compression.

Linker demand has improved following the severe downward re-pricing of BEIs. While it's a bit 'chicken and egg', we view the return of demand as a key step towards BEIs stabilising. BEIs are way off where they should be, and we see strategic value in linkers.

STRATEGY

Investors: Short end remains biased lower, albeit slowly. Focus on the NZ/US spread at the long end.

Borrowers: BKBM still low. Dips in term rates **offer opportunities to add to hedges.** But some caution is needed; the OCR isn't going higher any time soon, and we do not expect long-term rates to rise materially.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/bullish	Set to continue grinding lower, with 2yr on track to make a new low for the year. Next hike a long way off.
Long end	Neutral/bullish	UST yields falling; NZ rates can compress further on spread. Geopolitical tensions won't go away soon.
Yield Curve	Neutral	Our forecasts imply a steeper curve; but longer period of low inflation and spread compression say flatter.
Geographic spreads	Neutral/bullish	NZ/US 10yr bond spread keeps narrowing; with 2029 syndication not likely till year end and the market now focused on 5yr5yr swap convergence, we are bullish the spread. Delayed OCR hikes should also help.
Swap spreads	Neutral	NZGS syndication delayed, countered by lack of corporate paying interest in the wake of recent volatility.
NZD/TWI	Elevated	We are wary of chasing the NZD up here, but the USD has its problems too. US data is better but still ho-hum, and domestic politics isn't helping. NZ's upcoming election will be tame by comparison!

CURRENCY STRATEGY

SUMMARY

Strength in the NZD continues to frustrate; although to be fair, on numerous levels elevation is warranted and not "unjustified" when we eye some key fundamentals. Still, we remain biased towards fading strength. A turn in the global liquidity cycle remains at the heart of this view. Moreover, the local election is now more uncertain, global geopolitical risks are rising, and the RBNZ is on hold for longer.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Neutral but mindful of fading strength.	USD ascendency coming but delayed.
NZD/AUD	↔	Wary of NZD positioning.	Looks cheap sub-0.93.
NZD/EUR	↔	EUR strength likely to fade.	Euro area faces structural challenges.
NZD/GBP	↔/↑	BoE rate hike optimism confirmed as overdone.	Valuation says lower, Brexit higher.
NZD/JPY	↔/↓	At risk of JPY repatriation flows.	USD/JPY heading up as policy diverges.

THEMES AND RISKS

- Soft US CPI data undermines the USD recovery somewhat.
- RBNZ remains in neutral, but intervention talk does the rounds. Both we and the market are now expecting an even later start to the hiking cycle.
- Geopolitical risk on the ascent. VIX up.
- Global growth continues to look reasonable though, with some key hard commodities recovering over the past month.

ASSESSMENT

Strength in the NZD continues to frustrate, but to be fair some elevation is justified when you consider key pillars such as the pending record-high terms of trade, decent activity growth, and a stabilised external debt position. Valuations are neutral and yield / carry attractive in a low volatility world.

However, the pillars are being chipped away at:

- New Zealand's previous enviable political stability story is disappearing fast; the 2017 election is shaping up as anyone's, with numerous cross-party permutations now feasible. This is set to bring policy uncertainty to the fore.
- New Zealand's relative economic position is slipping as the cycle matures and momentum picks up elsewhere. Global growth looks solid and risks to the economic outlook look more balanced than they have been over the past year.
- Global geopolitical risk is rising.
- The liquidity and volatility backdrop look vulnerable. The global liquidity cycle is set to turn; we will be looking for some sort of confirmation from the Fed minutes of a September start date for balance sheet normalisation. However, it's reliant on the combination of abundant official and market liquidity (fuelled by low risk aversion) that has us wary; the latter can move quickly.
- While the NZ-US interest rate differential has been fluctuating from week to week, the trend is for closure. A meagre 64bps separates 3mth rates; the gap was 350bps less than 3 years ago. Not only is the gap closing, the pick-up relative to the US base rate is narrowing too.
- We've pushed out our expectations for the first RBNZ hike from May 2018 to November 2018. That's in line with market expectations, though as noted on page 2, we have a lot of sympathy for the view that the OCR might be on hold for another three years at least.

The spectre of FX intervention by the RBNZ was raised last week; we don't believe all of its four criteria have been met. While the NZD is high (compared to long-run averages, if not the 10-year average), and intervention would be consistent with the Policy Targets Agreement, the two remaining criteria cannot be ticked. The NZD might be high, but it's not unjustified, as the terms of trade says it should be high. The current account is stable. Export performance is neither stellar nor poor. And are conditions opportune? We suspect not, when the USD is caught between politics and economics.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Now much closer to fair value (~0.93).
Yield	↔/↓	NZ/AU 2yr spread back towards lows.
Commodities	↔/↑	Milk price upgrade a tick in NZD's box.
Data	↔	Both countries undershooting CPI target.
Techs	↔/↓	Still in its 12 month range; break below 0.91 would be very bearish.
Sentiment	↓	Wary of NZD positioning.
Other	↔/↓	Hard commodities on the ascent again.
On balance	↔/↑	**Range trading, very mild upside bias.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Close to, but below fair value (~0.75).
Yield	↔/↓	Delayed OCR hikes a mild NZD negative.
Commodities	↔/↑	Terms of trade strength real.
Risk aversion	↔/↓	Watching the liquidity cycle.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔/↑	Support at 0.7250 has held so far.
Sentiment	↔	Bullish, but is it hubris? We're wary of still very extreme long speculative positioning.
Other	↔/↓	Political uncertainty now real in NZ too.
On balance	↔/↓	**Pressure for reversal is building.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
14-Aug	AU	Credit Card Purchases - Jun	--	A$28.3B	13:30
	AU	Credit Card Balances - Jun	--	A$52.3B	13:30
	CH	Retail Sales YoY - Jul	10.8%	11.0%	14:00
	CH	Retail Sales YTD YoY - Jul	10.5%	10.4%	14:00
	CH	Fixed Assets Ex Rural YTD YoY - Jul	8.6%	8.6%	14:00
	CH	Industrial Production YoY - Jul	7.1%	7.6%	14:00
	CH	Industrial Production YTD YoY - Jul	6.9%	6.9%	14:00
	EC	Industrial Production SA MoM - Jun	-0.5%	1.3%	21:00
	EC	Industrial Production WDA YoY - Jun	2.8%	4.0%	21:00
	CH	Money Supply M2 YoY - Jul	9.5%	9.4%	14-15 Aug
	CH	Money Supply M1 YoY - Jul	14.0%	15.0%	14-15 Aug
	CH	New Yuan Loans CNY - Jul	800.0B	1540.0B	14-15 Aug
15-Aug	AU	ANZ-RM Consumer Confidence Index - 13-Aug	--	113.7	11:30
	AU	New Motor Vehicle Sales MoM - Jul	--	1.2%	13:30
	AU	New Motor Vehicle Sales YoY - Jul	--	3.6%	13:30
	AU	RBA Aug. Rate Meeting Minutes	--	--	13:30
	GE	GDP SA QoQ - Q2 P	0.7%	0.6%	18:00
	GE	GDP WDA YoY - Q2 P	1.9%	1.7%	18:00
	GE	GDP NSA YoY - Q2 P	0.6%	2.9%	18:00
	UK	CPI MoM - Jul	0.0%	0.0%	20:30
	UK	CPI YoY - Jul	2.7%	2.6%	20:30
	UK	CPI Core YoY - Jul	2.5%	2.4%	20:30
	UK	Retail Price Index - Jul	272.5	272.3	20:30
	UK	RPI MoM - Jul	0.1%	0.2%	20:30
	UK	RPI YoY - Jul	3.5%	3.5%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Jul	3.7%	3.8%	20:30
	UK	PPI Input NSA MoM - Jul	0.4%	-0.4%	20:30
	UK	PPI Input NSA YoY - Jul	6.9%	9.9%	20:30
	UK	PPI Output NSA MoM - Jul	0.0%	0.0%	20:30
	UK	PPI Output NSA YoY - Jul	3.1%	3.3%	20:30
	UK	PPI Output Core NSA MoM - Jul	0.1%	0.2%	20:30
	UK	PPI Output Core NSA YoY - Jul	2.5%	2.9%	20:30
	UK	House Price Index YoY - Jun	4.3%	4.7%	20:30
16-Aug	US	Import Price Index MoM - Jul	0.1%	-0.2%	00:30
	US	Import Price Index YoY - Jul	1.3%	1.5%	00:30
	US	Export Price Index MoM - Jul	0.2%	-0.2%	00:30
	US	Export Price Index YoY - Jul	--	0.6%	00:30
	US	Empire Manufacturing - Aug	10.0	9.8	00:30
	US	Retail Sales Advance MoM - Jul	0.4%	-0.2%	00:30
	US	Retail Sales Ex Auto MoM - Jul	0.3%	-0.2%	00:30
	US	Retail Sales Ex Auto and Gas - Jul	0.4%	-0.1%	00:30
	US	Retail Sales Control Group - Jul	0.4%	-0.1%	00:30
	US	NAHB Housing Market Index - Aug	64	64	02:00
	US	Business Inventories - Jun	0.4%	0.3%	02:00
	US	Total Net TIC Flows - Jun	--	$57.3B	08:00
	US	Net Long-term TIC Flows - Jun	--	$91.9B	08:00
	AU	Westpac Leading Index MoM - Jul	--	-0.14%	12:30
	AU	Wage Price Index QoQ - Q2	0.5%	0.5%	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
16-Aug	AU	Wage Price Index YoY - Q2	1.9%	1.9%	13:30
	NZ	Non Resident Bond Holdings - Jul	--	61.5%	15:00
	UK	Claimant Count Rate - Jul	--	2.3%	20:30
	UK	Jobless Claims Change - Jul	--	5.9k	20:30
	UK	ILO Unemployment Rate 3Mths - Jun	4.5%	4.5%	20:30
	UK	Employment Change 3M/3M - Jun	97k	175k	20:30
	EC	GDP SA QoQ - Q2 P	0.6%	0.6%	21:00
	EC	GDP SA YoY - Q2 P	2.1%	2.1%	21:00
	US	MBA Mortgage Applications - 11-Aug	--	3.0%	23:00
17-Aug	US	Housing Starts - Jul	1220k	1215k	00:30
	US	Housing Starts MoM - Jul	0.4%	8.3%	00:30
	US	Building Permits - Jul	1249k	1275k	00:30
	US	Building Permits MoM - Jul	-2.0%	9.2%	00:30
	US	FOMC Meeting Minutes - 26-Jul	--	--	06:00
	NZ	PPI Output QoQ - Q2	--	1.4%	10:45
	NZ	PPI Input QoQ - Q2	--	0.8%	10:45
	NZ	ANZ Consumer Confidence Index - Aug	--	125.4	13:00
	NZ	ANZ Consumer Confidence MoM - Aug	--	-1.9%	13:00
	AU	Employment Change - Jul	20.0k	14.0k	13:30
	AU	Unemployment Rate - Jul	5.6%	5.6%	13:30
	AU	Participation Rate - Jul	65.0%	65.0%	13:30
	UK	Retail Sales Ex Auto Fuel MoM - Jul	0.1%	0.9%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Jul	1.2%	3.0%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Jul	0.2%	0.6%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Jul	1.4%	2.9%	20:30
	EC	Trade Balance SA - Jun	€20.3B	€19.7B	21:00
	EC	Trade Balance NSA - Jun	€25.0B	€21.4B	21:00
	EC	CPI MoM - Jul	-0.5%	0.0%	21:00
	EC	CPI YoY - Jul F	1.3%	1.3%	21:00
	EC	CPI Core YoY - Jul F	1.2%	1.2%	21:00
18-Aug	US	Initial Jobless Claims - 12-Aug	240k	244k	00:30
	US	Continuing Claims - 5-Aug	--	1951k	00:30
	US	Philadelphia Fed Business Outlook - Aug	18.3	19.5	00:30
	US	Industrial Production MoM - Jul	0.3%	0.4%	01:15
	US	Capacity Utilization - Jul	76.7%	76.6%	01:15
	US	Leading Index - Jul	0.3%	0.6%	02:00
	GE	PPI MoM - Jul	0.0%	0.0%	18:00
	GE	PPI YoY - Jul	2.2%	2.4%	18:00
	EC	ECB Current Account SA - Jun	--	€30.1B	20:00
	EC	Current Account NSA - Jun	--	€18.3B	20:00
	EC	Construction Output MoM - Jun	--	-0.7%	21:00
	EC	Construction Output YoY - Jun	--	2.6%	21:00
19-Aug	US	U. of Mich. Sentiment - Aug P	94.0	93.4	02:00

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

Although recent GDP data disappointed, we still believe the underlying pace of economic momentum is reasonable, despite housing and credit headwinds. Recent inflation figures have also disappointed, and are consistent with the OCR remaining on hold for some time yet.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 16 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.
Thu 17 Aug (10:45am)	PPI – Q2	Mixed	The numbers will be thrown around by commodity prices, but higher wholesale electricity prices should boost both input and output prices.
Thu 17 Aug (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Aug	--	--
Mon 21 Aug (10:45am)	International Travel & Migration – Jul	No change	Strong net migrant inflows should persist. Visitor arrivals should partly unwind the B&I Lions bounce.
Wed 23 Aug (2:00pm)	Pre-Election Economic & Fiscal Update	Larger surpluses	It should be a similar picture to the May Budget. If anything, projected surpluses should be a little larger.
Thu 24 Aug (10:45am)	Overseas Merchandise Trade - Jul	Better trend	A positive picture for export commodity prices should support export values.
Thu 24 Aug (3:00pm)	RBNZ New Mortgage Lending – Jul	Lower again?	We suspect turnover will begin to stabilise, but a further fall in the month cannot be ruled out.
Wed 30 Aug (10:45am)	Building Consent Issuance – Jul	Capped	Positive demand forces are there, but issuance is being capped by capacity and capital constraints.
Thu 31 Aug (1:00pm)	ANZ Business Outlook – Aug	--	--
Thu 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul	Cooling	Private sector credit growth has cooled to 6% y/y. We see it slowing further.
Fri 1 Sep (10:45am)	Overseas Trade Indexes – Q2	All time high?	There is a decent chance that an all-time high in the terms of trade is achieved.
Tue 5 Sep (10:45am)	Building Work Put in Place – Q2	Flattish	Non-residential construction activity should rebound, but residential work is being capped by capacity pressures.
Tue 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug	--	--
Wed 6 Sep (10:00am)	ANZ Job Advertising – Aug	--	--
Fri 8 Sep (10:45am)	Economic Survey of Manufacturing – Q2	Solid	The headline number tends to get thrown around by timing issues in the primary sector, but the underlying details should be okay.
11-15 Sep	REINZ Housing Market Statistics – Aug	Soft	We suspect the theme of softness in activity and prices is set to persist for a while yet.
Mon 11 Sep (10:45am)	Electronic Card Transactions – Aug	Bounce	Lower petrol prices have weighed heavily on the value of retail spending. That theme has likely played out now.
Mon 11 Sep (1:00pm)	ANZ Monthly Inflation Gauge – Aug	--	--
Tue 12 Sep (10:00am)	ANZ Truckometer – Aug	--	--
Wed 13 Sep (10:45am)	Food Price Index – Aug	Volatile	Commodity prices predict strength but timing effects could create some noise.
Thu 14 Sep (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Sep	--	--
Fri 15 Sep (10:30am)	BNZ-BusinessNZ PMI – Aug	Stable	The index has been hovering at a broadly decent level. We don't see that changing much.
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is low, but should lift gradually.**

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	0.0	**0.2**	**0.2**	**0.8**	**0.6**	**0.7**	**0.3**	**0.7**	**0.6**
CPI (% yoy)	2.2	1.7	**1.6**	**1.3**	**1.2**	**1.8**	**2.4**	**2.5**	**2.4**	**2.3**
Employment (% qoq)	1.1	-0.1	**0.7**	**0.5**	**0.5**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.7	3.1	**2.4**	**2.2**	**1.6**	**2.1**	**1.8**	**1.6**	**1.4**	**1.3**
Unemployment Rate (% sa)	4.9	4.8	**4.8**	**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**	**-1.0**	**-1.0**	**-0.7**	**0.1**	**0.0**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.7	**11.7**	**12.9**	**5.6**	**-0.6**	**-2.7**	**-2.7**	**-1.7**	**-0.5**	**0.3**

	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	0.0	0.1	2.5	-0.5	-0.3	1.0	-0.5	-0.1	-0.5
Retail ECT (% yoy)	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2	4.5	2.0
Credit Card Billings (% mom)	2.8	-4.1	3.1	0.4	-1.3	1.0	1.0	1.0	0.2	--
Credit Card Billings (% yoy)	10.1	4.1	8.5	7.1	5.3	7.3	6.6	7.6	8.3	--
Car Registrations (% mom)	12.9	3.0	-6.4	1.7	0.5	3.4	-3.0	3.5	-3.0	-3.3
Car Registrations (% yoy)	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7	11.1	6.2
Building Consents (% mom)	0.6	-8.4	-8.2	3.7	15.5	-1.1	-8.1	6.9	-1.0	--
Building Consents (% yoy)	13.9	2.2	-10.7	-1.0	8.9	17.0	-3.2	6.1	-9.1	--
REINZ House Price Index (% yoy)	14.5	14.4	13.8	12.8	11.9	10.0	7.9	5.0	2.8	1.1
Household Lending Growth (% mom)	0.6	0.6	0.8	0.5	0.5	0.5	0.6	0.4	0.6	--
Household Lending Growth (% yoy)	8.7	8.6	8.8	8.7	8.5	8.4	8.2	7.8	7.6	--
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	19.4
ANZ Own Activity Outlook	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3	42.8	40.3
Trade Balance ($m)	-798	-723	-1	-227	-42	262	532	74	242	--
Trade Bal ($m ann)	51943	51668	51621	51901	52087	52404	52589	53219	53538	--
ANZ World Commodity Price Index (% mom)	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	2.1	-0.8
ANZ World Comm. Price Index (% yoy)	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3	24.6	21.1
Net Migration (sa)	6180	6140	5940	6340	5930	6150	5810	5940	6350	--
Net Migration (ann)	70282	70354	70588	71305	71333	71932	71885	71964	72305	--
ANZ Heavy Traffic Index (% mom)	-0.4	3.6	-0.3	-0.9	2.1	1.6	-2.2	3.9	-0.4	-5.5
ANZ Light Traffic Index (% mom)	-2.0	1.5	0.3	-0.3	0.8	1.0	-1.4	1.3	1.3	-2.2

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	Jun-17	Jul-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZD/USD	0.733	0.749	0.732	0.72	0.70	0.69	0.68	0.67	0.67	0.66
NZD/AUD	0.954	0.939	0.925	0.97	0.96	0.96	0.94	0.94	0.94	0.94
NZD/EUR	0.642	0.638	0.619	0.63	0.63	0.63	0.65	0.63	0.61	0.57
NZD/JPY	82.42	82.78	79.89	82.8	78.4	75.9	71.4	67.0	67.0	66.0
NZD/GBP	0.563	0.570	0.562	0.55	0.55	0.55	0.55	0.54	0.54	0.51
NZ$ TWI	76.8	77.1	77.2	76.1	74.7	74.1	73.5	71.8	71.2	69.3
INTEREST RATES	Jun-17	Jul-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	1.75	1.75	2.00	2.25
NZ 90 day bill	1.98	1.95	1.96	1.97	1.98	1.99	1.99	2.08	2.34	2.50
NZ 10-yr bond	2.98	2.98	2.82	2.80	2.80	2.85	2.95	3.15	3.30	3.30
US Fed funds	1.25	1.25	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.25
US 3-mth	1.30	1.31	1.32	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	1.71	1.69	1.69	1.70	1.70	1.70	1.70	1.80	1.80	1.80

	11 Jul	7 Aug	8 Aug	9 Aug	10 Aug	11 Aug
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.95	1.95	1.95	1.96	1.96
NZGB 03/19	2.02	1.89	1.86	1.86	1.88	1.87
NZGB 05/21	2.40	2.18	2.14	2.12	2.15	2.12
NZGB 04/23	2.69	2.50	2.45	2.43	2.45	2.42
NZGB 04/27	3.03	2.91	2.85	2.81	2.83	2.79
2 year swap	2.31	2.18	2.17	2.16	2.19	2.15
5 year swap	2.89	2.68	2.65	2.63	2.67	2.62
RBNZ TWI	78.04	78.20	77.71	77.32	77.37	76.74
NZD/USD	0.7216	0.7359	0.7366	0.7320	0.7266	0.7311
NZD/AUD	0.9483	0.9307	0.9282	0.9275	0.9218	0.9271
NZD/JPY	82.50	81.58	81.34	80.40	79.80	79.88
NZD/GBP	0.5591	0.5637	0.5652	0.5630	0.5588	0.5624
NZD/EUR	0.6332	0.6238	0.6233	0.6237	0.6198	0.6190
AUD/USD	0.7610	0.7907	0.7935	0.7892	0.7883	0.7894
EUR/USD	1.1396	1.1798	1.1816	1.1736	1.1724	1.1821
USD/JPY	114.33	110.85	110.43	109.84	109.82	109.19
GBP/USD	1.2906	1.3054	1.3033	1.3002	1.3003	1.3014
Oil (US$/bbl)	45.04	49.39	49.17	49.56	48.59	48.82
Gold (US$/oz)	1210.26	1256.19	1264.08	1267.04	1280.89	1289.31
Electricity (Haywards)	15.42	7.88	8.65	9.90	6.97	7.10
Baltic Dry Freight Index	830	1036	1038	1050	1092	1138
NZX WMP Futures (US$/t)	3120	3210	3200	3200	3195	3195

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