ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

21 August 2017

INSIDE

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THE KITTY

ECONOMIC OVERVIEW

A weaker housing market is now a headwind for the economy, and would have historically seen us downgrading our views on the outlook for spending and growth. However, the fact that consumer sentiment remains elevated (indeed it is rising), suggest other positive forces are dominating. LVR restrictions will be removed in time, but not for a while, and likely in stages in the first instance. This week, the Pre-election Economic and Fiscal Update will show a broadly similar economic and fiscal picture to that outlined in the May Budget; in other words, a plentiful kitty for pork-barrel politics. Trade figures should show a modest monthly deficit, while new mortgage lending will likely continue to slow.

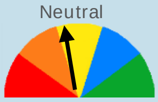
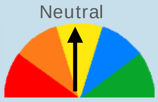
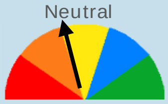
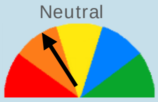
INTEREST RATE STRATEGY

Short-end interest rates have range-traded over the past week, and while we see more scope for downside than up, substantial moves from here face challenges from the NZD, potential LVR removal and fiscal policy. Market expectations are now almost perfectly aligned with our forecasts, but it's the continued lack of inflation that has us favouring the downside. US bond yields were whippy last week, with better US data and Fed posturing going head to head with political uncertainty and geopolitical risks. Local long-end yields have been less volatile. The NZ/US spread continues to narrow, but it has further to go, as does the gradual flattening of the curve as markets ponder lower neutral cash rates and secularly low inflation.

CURRENCY STRATEGY

We continue to have a negative bias towards the TWI and NZD/USD. An improving global growth pulse, central banks inching closer towards the exit door, and an eventual turn in the global liquidity cycle remain at the heart of this view. Domestic credentials remain respectable, although election-related policy uncertainty now needs to be acknowledged too. We favour expressing New Zealand's still-solid domestic credentials view via the NZD/AUD, where the business cycle is more yield and NZD supportive.

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

A weaker housing market is now a headwind for the economy, and would have historically seen us downgrading our views on the outlook for spending and growth. However, the fact that consumer sentiment remains elevated (indeed it is rising), suggest other positive forces are dominating. LVR restrictions will be removed in time, but not for a while, and likely in stages in the first instance. This week, the Pre-election Economic and Fiscal Update will show a broadly similar economic and fiscal picture to that outlined in the May Budget; in other words, a plentiful kitty for pork-barrel politics. Trade figures should show a modest monthly deficit, while new mortgage lending will likely continue to slow.

FORTHCOMING EVENTS

Pre-election Economic and Fiscal Update (12:00pm, Wednesday, 23 August). The starting point is likely to show an even stronger fiscal picture than in the May Budget, but the overall economic and fiscal projections should look broadly similar.

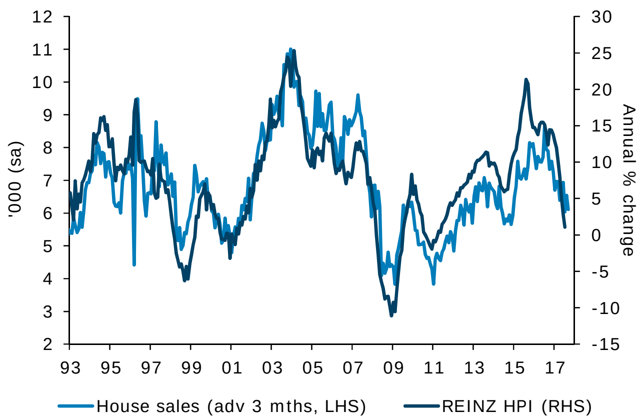
Overseas Merchandise Trade – July (10:45am, Thursday, 24 August). We expect a small monthly trade deficit of $60m.

RBNZ New Mortgage Lending – July (3:00pm, Thursday, 24 August). New lending is likely to have dipped further, and we wouldn't be surprised if investor lending has fallen further as a share of total new lending.

WHAT'S THE VIEW?

History shows that the economy's fortunes (or at least the business cycle) **are tied reasonably closely to the housing market.** And the housing market has certainly softened. Auckland house prices have fallen in five of the past six months and are down 4% since January. Nationwide sales volumes are at their lowest level since 2011.

Figure 1: Nationwide house prices and sales

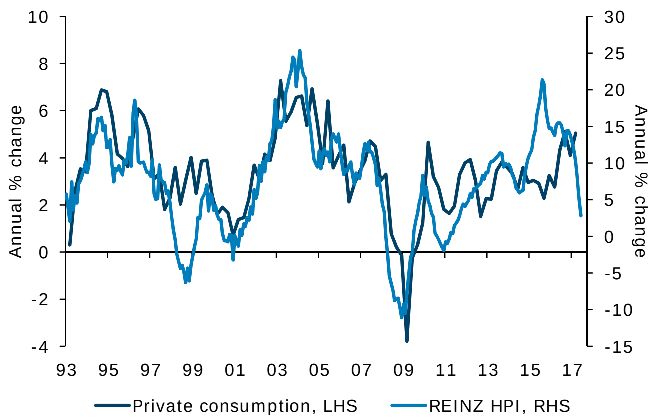


Source: ANZ, REINZ

Typically, a weaker housing market, especially one where prices are falling, would quickly dent sentiment and flow through into weaker spending and broader economic activity. Any seepage into the broader economy is a scenario that could see the RBNZ formally shift to an easing bias. The RBNZ needs above-trend growth to lift non-tradable inflation; the housing cycle is now working against that.

But the broader economy remains in good shape. The ANZ-Roy Morgan measure of consumer confidence shows that consumers remain upbeat. In fact, confidence hit its highest level since July 2014 in August, in seasonally adjusted terms. Consumer spending is also continuing to run at a solid underlying pace, with June quarter retail sales volumes lifting 2.0% q/q. And while this will in part reflect spending associated with recent tourist events, strength was broader than that.

Figure 2: House prices and real consumption growth



Source: ANZ, Statistics NZ, REINZ

Of course, the weakness in the housing market does need to be put in a little context. Auckland prices are off their highs, but they rose 30% over the two years prior, and are still up 90% from their previous peak in 2007. In other parts of the country, the rate of ascent has slowed, but prices are still rising. Overall, the housing market adjustment seen to date has been reasonably orderly and required to quell financial stability risks.

Elevated consumer sentiment shows that other forces are dominating. The labour market is strong, with total gross earnings growth of 5.0% y/y despite soft nominal wage growth. We estimate that overall household income growth is actually running at an even stronger pace than this at present. The combination of the strong NZD, petrol price falls and ongoing retail discounting means a retail dollar spent goes further. We see the terms of trade hitting all-time highs shortly, which is also supporting the economy's purchasing power and rural incomes specifically.

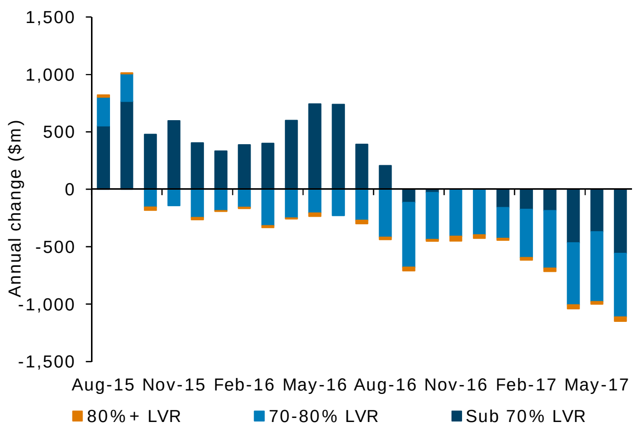
ECONOMIC OVERVIEW

Promises of a little more fiscal spending are on the table, and the election lolly-scramble is well underway. The Budget showed an expansionary fiscal stance in 2018/19 but slightly contractionary on average over the four years to 2020/21, to the tune of -0.2% of GDP per year. It seems inevitable that the fiscal stance will not be that contractionary going by the election promises, which are coming thick and fast.

We're comfortable with our GDP growth forecasts of roughly 3% over the next couple of years. We're watchful, but we don't think housing market weakness warrants a downgrade to our growth views right now. Yes, the growth drivers are shifting. We are at "peak" construction (capacity issues), and perhaps even peak tourism and migration too (if this morning's figures are anything to go by). However, fiscal policy and the spill-overs from terms of trade strength are set to take up the growth baton.

The key is that the housing market adjustment remains orderly, and that is our expectation. Yes, there are risks that a turn in sentiment can become self-fulfilling. And we will be keeping a close eye on market listings from October this year seeing as that will be the first month incorporating the full period of the two-year bright-line test introduced in 2015. A modest turn in the interest rate cycle and banks being a little more restrictive in their lending conditions are also key headwinds, as are affordability constraints and some of the policies proposed by some political parties. Yet net migration remains strong and new housing supply is being challenged by capacity and capital pressures. A demand/supply imbalance remains, which should underpin prices.

Figure 3: New investor lending by LVR



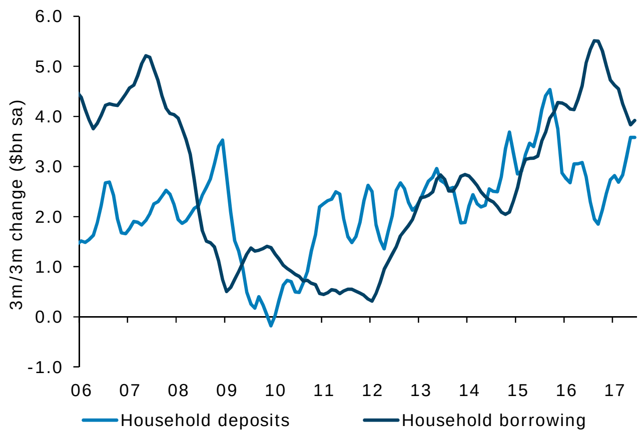
Source: ANZ, RBNZ

An orderly housing market adjustment means that RBNZ LVR restrictions will be unwound in time. They were only meant to be temporary, and they have led to a sharp slowing in lending to investors and helped slow housing lending growth from an annualised pace of 10% around the middle of 2016, to around 6% currently.

However, we doubt the RBNZ is close to removing them yet, despite the possibility of being dragged into the political arena. It's safe to assume its request for an additional tool (debt to income limits) is going nowhere though! **But caution is still needed.**

- **The RBNZ still appears to view the risk to house prices as skewed to the upside.** It stated in its August MPS that "this moderation [in house prices] is expected to persist, although there remains a risk of resurgence in prices given continued strong population growth and resource constraints in the construction sector."
- **It's difficult to untangle the effect LVR restrictions have had given all the other things that have been going on.** Credit has also been tightened for other reasons (banks managing a funding gap), the interest rate cycle has turned, affordability issues have had an impact (which is why Auckland house prices have turned more aggressively), and there is less lending to non-residents. It's the combination that's been key. However, now that the funding gap has closed (looking at the past three months annualised), there is the potential for credit availability to loosen up again, and when credit flows, house prices typically follow.

Figure 4: Bank household lending and deposit growth



Source: ANZ, RBNZ

- **The RBNZ will be cautious around the possible impact of the election**; we've seen the market cool around election time before only to take off again.

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- **Related to this, the RBNZ will likely want to see the outcome of the election and what housing policies are enacted.** Things like non-resident buyer restrictions or a capital gains tax (which have been suggested by opposition parties) could also shift the housing market's risk profile.
- **Any removal of LVR restrictions will not happen all at once.** Unless house prices were to fall sharply (which would most likely need a dramatic lift in forced sales as a catalyst, which is hard to envisage with the unemployment rate falling), the removal of restrictions is likely to be gradual. In the first instance, the 40% deposit requirement for investors would likely be eased to 30%.

Conditions for winding back the LVR restrictions include a sustained moderation in house prices post the election and credit growth remaining subdued. Household credit growth is currently running at close to 8%, and we estimate disposable income growth of around 7%, so technically households are still leveraging (albeit at a slower pace). Household debt to income is 167% compared to 159% in 2007. **The LVR restrictions have taken pressure off the OCR and NZD.** The restrictions are a prudential policy tool first and foremost, but they overlap with monetary policy. So any decision to remove the LVR restrictions will be relevant for monetary policy. Pending decisions on bank capital requirements will be relevant in that regard too.

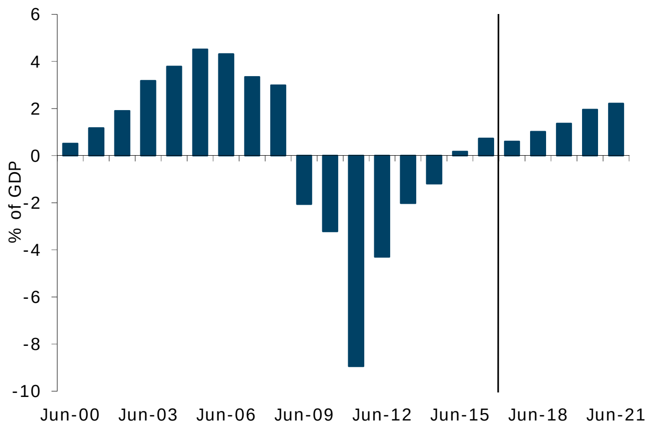
Subject to a number of boxes being ticked, a decision on dialling back the LVR restrictions could be made in the first half of 2018, with the May Financial Stability Report key.

Turning to the week ahead, the Treasury's Pre-election Economic and Fiscal Update is unlikely to throw up too many surprises. In fact, we suspect the overall economic projections (outside of some tweaks) will look broadly similar to those outlined in the May Budget.

The starting point for the fiscal position should look a little better though. In the financial statements for the 11 months to May, tax revenue was running $1.1bn ahead of Budget forecasts, with the Treasury believing that only a modest portion of this (perhaps $250m) reflects timing issues around provisional corporate tax payments. It means that the majority of the upwards surprise is 'real'. In addition, core expenses were $350m below forecast, which also looks 'real'. It suggests that the underlying operating balance (OBEGAL) is likely to be shown to be in surplus in the 2016/17 fiscal year by perhaps close to $3bn, which is over $1bn ahead of forecast.

The temptation could be to feed that positive starting point through into the remaining projection years. But we suspect the Treasury will temper that to a degree. While the fiscal numbers have surprised the Treasury on the upside, economic figures have been a little softer. Growth and inflation have both undershot its expectations and that could lower its views modestly on nominal GDP growth going forward, at the margin at least. In other words, we doubt the projections will sway too far from showing OBEGAL surpluses of 2.2% of GDP by the end of the projection period. In addition, while the Government's cash position is also a little better than expected, we are not expecting any changes in the bond tender programme.

Figure 5: Treasury OBEGAL forecasts (Budget 2017)



Source: ANZ, NZ Treasury

So perhaps the figures will show a little more room for additional fiscal initiatives, but only modestly. The deviations from Budget forecasts are not expected to be overly large. Certainly the figures will show the accounts are in reasonable shape. And in that regard there is room for the purse-strings to be loosened a little. However, it is certainly not a picture conducive to a 'splurge'.

Our own views on the growth outlook are not as rosy as the Treasury's. That is not to say we are pessimistic; we're expecting growth to accelerate from the sluggish pace over late-2016/early-2017. It is just that we think there are limits to how fast the economy can grow at a time when capacity and capital constraints are already evident. In May, the Treasury projected GDP growth of 3.5% and 3.8% in the years to June 2018 and 2019 respectively. That looks a stretch to us. Nevertheless, we suspect that broad positive message will still be contained within the PREFU numbers.

We expect overseas trade figures for July to show a small monthly deficit of $60m. That would be the smallest deficit for a July month since 2012 (when a surplus was actually recorded). Strong

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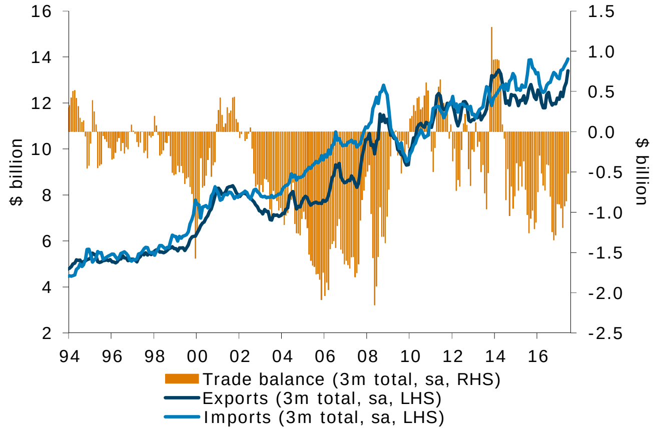
export commodity prices are certainly supportive of overall export values. However, we are a little mindful that export volumes could be a little weaker over Q3 than was likely seen in Q2. While perhaps this could be more of an August/September story, wet weather and production challenges could possibly have affected dairy and horticulture export volumes in July too. Conversely, import values should stay fairly strong, with the lift in the NZD over this time perhaps even used as an opportunity to lift volumes and restock. Offsetting this could be a further fall in petroleum imports after what was a large spike in May (which already partially unwound in June).

Figure 6: Overseas merchandise trade



Source: ANZ, Statistics NZ

New mortgage lending figures for July will likely remain soft. In June, we estimate that new lending fell 3.8% m/m in seasonally adjusted terms, consistent with the drop seen in total housing turnover. It continues a weak trend, with lending down 25% y/y. With the latest REINZ housing market figures showing turnover falling further to the lowest level since mid-2014, we'd not be surprised to see another drop in new lending figures in the month.

Figure 7: New mortgage lending and housing turnover

Source: ANZ, RBNZ, REINZ

The composition is also likely to look familiar. New lending to investors has effectively halved from the levels seen 12 months ago. It now makes up less than 24% of total lending, down from 35% in June last year. The RBNZ's LVR restrictions have undoubtedly had some impact. But as mentioned above, other forces (modestly higher interest rates, banks closing a funding gap, reduced non-resident participation, affordability issues and election uncertainty) are likely to be having an impact too.

LOCAL DATA

GlobalDairyTrade Auction. The GDT-TWI fell 0.4%, with whole milk powder prices falling 0.6%.

PPI – Q2. Input and output prices rose 1.3% and 1.4% q/q respectively.

ANZ-Roy Morgan Consumer Confidence – August. The headline index rose from 125.4 to 126.2.

International Travel and Migration – July. In seasonally adjusted terms, a net inflow of 5,810 migrants was seen. Visitor arrivals fell 5.3% m/m.

INTEREST RATE STRATEGY

SUMMARY

Short-end interest rates have range-traded over the past week, and while we see more scope for downside than up, substantial moves from here face challenges from the NZD, potential LVR removal and fiscal policy. Market expectations are now almost perfectly aligned with our forecasts, but it's the continued lack of inflation that has us favouring the downside. US bond yields were whippy last week, with better US data and Fed posturing going head to head with political uncertainty and geopolitical risks. Local long-end yields have been less volatile. The NZ/US spread continues to narrow, but it has further to go, as does the gradual flattening of the curve as markets ponder lower neutral cash rates and secularly low inflation.

THEMES

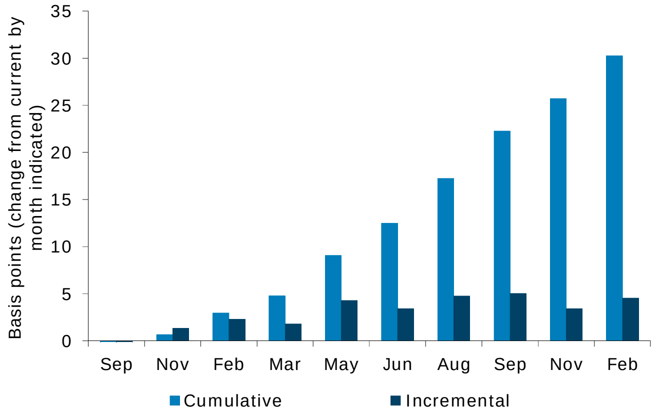
- Downside movement in NZ short end faces challenges from a potentially softer NZD, potential for LVRs to come off and pork-barrel electioneering with implications for the fiscal stance.
- Better US data is going head to head with politics and geopolitics, delivering day-to-day volatility but broadly stable bond yields.
- The Pre-election Economic and Fiscal Update will underscore NZ's sound fiscal picture, while the Fed is expected to underscore its intention to start balance sheet reduction at the Kansas City Fed's annual Jackson Hole symposium (Thurs-Sun).

MONETARY POLICY AND SHORT-END

Short-end rates have stabilised over the past week, with the bellwether 2 year swap now established in a tight 2.15/2.20% short-term trading range. With good interest in either direction at each end of the range, a breakout either way seems unlikely. OCR expectations are aligned with our forecasts (Figure 1).

However, while we do expect an OCR hike to be delivered in November next year, recall that when we did change our forecasts last week, we were tempted to flat-line them, but thought that was a step too far given our expectation of a lower NZD and a pick-up in wage growth. Given low inflation, the conditionality of our forecasts, and the elongated time frame between now and the first hike and the global risk profile, **the risk profile is skewed lower. However, the prospect of fiscal loosening or the removal of LVR restrictions are obstacles to short-end rates falling too far.**

Figure 1: Market expectations for changes to the OCR



Source: ANZ, RBNZ, Bloomberg

GLOBAL MARKETS AND LONG-END

US Treasury bond yields (the global bellwether long-term interest rate) **have been whippy** from day to day, but within the bigger picture they remain low and fairly stable. Although US data is improving and we expect the Fed at this week's Jackson Hole symposium to reiterate its intention to begin reducing its balance sheet soon, **the implied upside risks remain capped by domestic political uncertainty and global geopolitics.**

Local long-end rates continue to outperform as the curve flattens and geographic spreads come in, and we expect this week's PREFU to underscore that theme with a solid fiscal position. While the election is shaping up to be close, **neither of the two major parties are talking about a departure from well-established principles of fiscal responsibility (or projecting deficits) and we doubt the election itself will have a major impact on investor sentiment or bond yields**, even if uncertainty and the prospect of a change in economic direction may leave some investors somewhat nervous over the near-term.

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; our forecast OCR hikes are conditional, and we do not expect long-term rates to rise materially.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/bullish	Biased mildly lower but challenged by talk of LVRs being removed, fiscal impulse and potentially lower NZD.
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 10y bond spread keeps narrowing. With 2029 syndication not likely until year end and the market now focused on 5y5y 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. Local politics becoming more uncertain, but globally still tame.

CURRENCY STRATEGY

SUMMARY

We continue to have a negative bias towards the TWI and NZD/USD. An improving global growth pulse, central banks inching closer towards the exit door, and an eventual turn in the global liquidity cycle remain at the heart of this view. Domestic credentials remain respectable, although election-related policy uncertainty now needs to be acknowledged too. We favour expressing New Zealand's still-solid domestic credentials view via the NZD/AUD, where the business cycle is more yield and NZD supportive.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Mild downside bias.	USD ascendency coming but delayed.
NZD/AUD	↔/↑	Nearer the bottom of trading ranges.	Looks cheap sub-0.93.
NZD/EUR	↔	Looking toppy; EUR up ~10% in 2017.	Euro area faces structural challenges.
NZD/GBP	↔/↑	Brexit negotiations underway; risks to GBP.	Valuation says lower, Brexit higher.
NZD/JPY	↔/↓	At risk of JPY repatriation flows.	USD/JPY heading up as policy diverges.

THEMES AND RISKS

- Attention turns to Jackson Hole and the balance between financial stability and inflation targets.
- USD showing signs of basing though US politics are not helping.
- Closer-looking election in NZ raises spectre of more fiscal spending (yield and currency positive) but questions on economic direction (NZD negative).
- Global growth continues to look reasonable and PMIs will be eyed this week for Japan, the US and Europe. We expect solid numbers.

ASSESSMENT

We continue to retain a negative bias towards the NZD (against the USD and on a TWI basis):

- **The USD is showing signs of basing.** Market positioning remains short the USD at a time when data surprise indexes and the growth narrative are turning more positive.
- **We expect this week's batch of global PMI figures to be solid enough** to keep the spectre of central banks inching towards the QE exit door alive and well.
- **Market positioning is tilted towards** a weak USD, low rates continuing and higher equities – i.e. **classic risk-on positioning. That leaves markets vulnerable to a risk-off episode.**
- **The annual Jackson Hole event could be a key forum for central banks to send signals on financial stability risks versus inflation targeting. Reaction functions are inching towards the former.** A rate hike by the Fed before year-end is a real prospect and not anticipated by markets, despite being mooted by New York Fed President Dudley.
- **New Zealand's election is shaping up to be close.** While we don't envisage any major structural shifts (a centralist policy platform will likely prevail), the reality is that numerous cross-party permutations are now feasible. An element of policy uncertainty needs to be acknowledged. A desire for change is becoming apparent and that shifts the risk profile.
- **New Zealand's relative economic position is slipping as the cycle matures and momentum picks up elsewhere.** While a slower housing market is insufficient to drag the economy's growth rate sub-3%, and the broader economy is in good shape (refer page 2), it is enough to temper the upside at a time global growth momentum is firming.
- While very marginal, **on balance we see more downside risk to short-end rates.** Geographic interest rate spreads continue to compress too.

While we retain a negative bias towards the NZD/USD and NZD TWI, we are more neutral on the NZD/AUD. Valuations are neutral. Expansionary fiscal policy and higher highs for the terms of trade tilt economic performance in the NZD's favour. While both the RBA and RBNZ are firmly on hold, the New Zealand economy is facing more acute capacity pressures.

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	↔/↓	Iron ore rebound helping AUD.
Data	↔	Both countries undershooting CPI target.
Techs	↔/↑	Basing here with good support at 092; but break below 0.91 would be bearish.
Sentiment	↔/↑	Becoming more NZD-biased down here.
Other	↔/↑	No fundamental rationale for range break.
On balance	↔/↑	**Range trading, very mild upside bias.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Close to, but still below fair value (~0.75).
Yield	↔/↓	Delayed OCR hikes a mild NZD negative.
Commodities	↔/↑	Terms of trade strength real.
Risk aversion	↔/↓	Turn in liquidity cycle a red flag.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔/↑	0.72 support has held over past 2 months.
Sentiment	↔/↓	Beginning to fade with price action. Some position unwinding; still long though.
Other	↔/↓	Political uncertainty now real in NZ too.
On balance	↔/↓	**Pressure for reversal building slowly.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Aug	NZ	Credit Card Spending MoM - Jul	--	0.2%	15:00
	NZ	Credit Card Spending YoY - Jul	--	8.3%	15:00
	JN	All Industry Activity Index MoM - Jun	0.4%	-0.9%	16:30
	CH	Foreign Direct Investment YoY CNY - Jul	--	2.3%	UNSPECIFIED
22-Aug	US	Chicago Fed Nat Activity Index - Jul	0.10	0.13	00:30
	AU	ANZ-RM Consumer Confidence Index - 20-Aug	--	111.7	11:30
	UK	Public Finances (PSNCR) - Jul	--	£18.3B	20:30
	UK	Central Government NCR - Jul	--	£17.8B	20:30
	UK	Public Sector Net Borrowing - Jul	£0.3B	£6.3B	20:30
	UK	PSNB ex Banking Groups - Jul	£1.0B	£6.9B	20:30
	GE	ZEW Survey Current Situation - Aug	85.3	86.4	21:00
	EC	ZEW Survey Expectations - Aug	--	35.6	21:00
	GE	ZEW Survey Expectations - Aug	15.0	17.5	21:00
	UK	CBI Trends Total Orders - Aug	9	10	22:00
	UK	CBI Trends Selling Prices - Aug	--	9	22:00
23-Aug	US	FHFA House Price Index MoM - Jun	0.5%	0.4%	01:00
	US	House Price Purchase Index QoQ - Q2	--	1.4%	01:00
	US	Richmond Fed Manufact. Index - Aug	10	14	02:00
	NZ	Pre-election Economic and Fiscal Update -	--	--	12:00
	JN	Nikkei Japan PMI Mfg - Aug P	--	52.1	12:30
	AU	Skilled Vacancies MoM - Jul	--	0.9%	13:00
	GE	Markit/BME Manufacturing PMI - Aug P	57.7	58.1	19:30
	GE	Markit Services PMI - Aug P	53.3	53.1	19:30
	GE	Markit/BME Composite PMI - Aug P	54.7	54.7	19:30
	EC	Markit Manufacturing PMI - Aug P	56.3	56.6	20:00
	EC	Markit Services PMI - Aug P	55.4	55.4	20:00
	EC	Markit Composite PMI - Aug P	55.5	55.7	20:00
	US	MBA Mortgage Applications - 18-Aug	--	0.1%	23:00
24-Aug	US	Markit Manufacturing PMI - Aug P	53.4	53.3	01:45
	US	Markit Services PMI - Aug P	54.9	54.7	01:45
	US	Markit Composite PMI - Aug P	--	54.6	01:45
	US	New Home Sales - Jul	610k	610k	02:00
	US	New Home Sales MoM - Jul	0.0%	0.8%	02:00
	EC	Consumer Confidence - Aug A	-1.8	-1.7	02:00
	NZ	Trade Balance NZD - Jul	-200M	242M	10:45
	NZ	Exports NZD - Jul	4.42B	4.70B	10:45
	NZ	Imports NZD - Jul	4.60B	4.46B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Jul	-3507M	-3661M	10:45
	UK	UK Finance Loans for Housing - Jul	--	40200	20:30
	UK	GDP QoQ - Q2 P	0.3%	0.3%	20:30
	UK	GDP YoY - Q2 P	1.7%	1.7%	20:30
	UK	Private Consumption QoQ - Q2 P	0.4%	0.4%	20:30
	UK	Government Spending QoQ - Q2 P	0.3%	0.7%	20:30
	UK	Gross Fixed Capital Formation QoQ - Q2 P	-0.3%	1.0%	20:30
	UK	Exports QoQ - Q2 P	1.0%	-0.7%	20:30
	UK	Imports QoQ - Q2 P	0.6%	1.7%	20:30
	UK	Index of Services MoM - Jun	0.2%	0.2%	20:30
	UK	Index of Services 3M/3M - Jun	0.5%	0.4%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-Aug	UK	Total Business Investment QoQ - Q2 P	0.2%	0.6%	20:30
	UK	Total Business Investment YoY - Q2 P	0.3%	0.7%	20:30
	UK	CBI Retailing Reported Sales - Aug	14	22	22:00
	UK	CBI Total Dist. Reported Sales - Aug	--	21	22:00
25-Aug	US	Initial Jobless Claims - 19-Aug	236k	232k	00:30
	US	Continuing Claims - 12-Aug	1950k	1953k	00:30
	US	Existing Home Sales - Jul	5.56M	5.52M	02:00
	US	Existing Home Sales MoM - Jul	0.70%	-1.80%	02:00
	US	Kansas City Fed Manf. Activity - Aug	11	10	03:00
	JN	Natl CPI YoY - Jul	0.4%	0.4%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Jul	0.5%	0.4%	11:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - Jul	0.1%	0.0%	11:30
	JN	Tokyo CPI YoY - Aug	0.3%	0.1%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Aug	0.3%	0.2%	11:30
	JN	Tokyo CPI Ex-Fresh Food, Energy YoY - Aug	-0.1%	-0.1%	11:30
	JN	PPI Services YoY - Jul	0.8%	0.8%	11:50
	GE	Import Price Index MoM - Jul	0.0%	-1.1%	18:00
	GE	Import Price Index YoY - Jul	2.3%	2.5%	18:00
	GE	GDP SA QoQ - Q2 F	0.6%	0.6%	18:00
	GE	GDP WDA YoY - Q2 F	2.1%	2.1%	18:00
	GE	GDP NSA YoY - Q2 F	0.8%	0.8%	18:00
	GE	Exports QoQ - Q2	1.2%	1.3%	18:00
	GE	Imports QoQ - Q2	2.0%	0.4%	18:00
	GE	IFO Business Climate - Aug	115.5	116.0	20:00
	GE	IFO Expectations - Aug	106.8	107.3	20:00
	GE	IFO Current Assessment - Aug	125.0	125.4	20:00
26-Aug	US	Durable Goods Orders - Jul P	-6.0%	6.4%	00:30
	US	Durables Ex Transportation - Jul P	0.4%	0.1%	00:30
	US	Cap Goods Orders Nondef Ex Air - Jul P	0.4%	0.0%	00:30
	US	Cap Goods Ship Nondef Ex Air - Jul P	0.1%	0.1%	00:30

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 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 23 Aug (12:00pm)	Pre-Election Economic & Fiscal Update	Similar	It should be a similar picture to the May Budget. If anything, projected surpluses should be a little larger initially.
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	Given lower housing market turnover over the month, a further fall in new lending is likely.
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 (early am)	GlobalDairyTrade Auction	Stable	How the local production season gets underway will be key, but we are expecting broad stability in prices for now.
Wed 6 Sep (10:00am)	ANZ Job Advertising – Aug	--	--
Fri 8 Sep (10:45am)	Economic Survey of Manufacturing – Q2	Solid	The headline often gets 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	Looking okay	The index has been hovering at a broadly decent level. We don't see that changing much.
Mon 18 Sep (10:30am)	BNZ-BusinessNZ PSI – Aug	Ditto	Like its PMI cousin, the index has been holding broadly stable at a decent level.
Wed 20 Sep (early am)	GlobalDairyTrade Auction	Stable	How the local production season gets underway will be key, but we are expecting broad stability in prices for now.
Wed 20 Sep (10:45am)	Balance of Payments – Q2	Stable	We see the current account deficit holding broadly stable around 3% of GDP.
Thu 21 Sep (10:45am)	GDP – Q2	1.0% q/q	We expect some of the temporary factors that have weighed on growth of late to unwind.
Thu 21 Sep (10:45am)	International Travel & Migration – Aug	Holding up	We can't envisage a meaningful turn in net migrant inflows yet.
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**	**-2.9**	**-2.8**	**-2.4**	**-2.3**	**-2.4**	**-2.5**	**-2.4**	**-2.4**
Terms of Trade (% qoq)	5.1	**4.1**	**0.0**	**-1.1**	**-0.9**	**-0.7**	**0.1**	**0.2**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.7	**14.5**	**15.7**	**8.3**	**2.0**	**-2.7**	**-2.6**	**-1.4**	**-0.3**	**0.4**

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Retail ECT (% mom)	0.0	0.1	2.5	-0.5	-0.3	1.0	-0.5	-0.1	-0.5	--
Retail ECT (% yoy)	5.1	5.8	5.6	2.6	5.6	4.5	5.2	4.5	2.0	--
Credit Card Billings (% mom)	-4.1	3.1	0.4	-1.3	1.0	1.0	1.0	0.2	--	--
Credit Card Billings (% yoy)	4.1	8.5	7.1	5.3	7.3	6.6	7.6	8.3	--	--
Car Registrations (% mom)	3.0	-6.4	1.7	0.5	3.4	-3.0	3.5	-3.0	-3.3	--
Car Registrations (% yoy)	18.4	7.8	12.2	7.3	16.5	3.0	13.7	11.1	6.2	--
Building Consents (% mom)	-8.4	-8.2	3.7	15.5	-1.1	-8.1	6.9	-1.0	--	--
Building Consents (% yoy)	2.2	-10.7	-1.0	8.9	17.0	-3.2	6.1	-9.1	--	--
REINZ House Price Index (% yoy)	14.4	13.8	12.8	11.9	10.0	7.9	5.0	2.8	1.1	--
Household Lending Growth (% mom)	0.6	0.8	0.5	0.5	0.5	0.6	0.4	0.6	--	--
Household Lending Growth (% yoy)	8.6	8.8	8.7	8.5	8.4	8.2	7.8	7.6	--	--
ANZ Roy Morgan Consumer Conf.	127.2	124.5	128.7	127.4	125.2	121.7	123.9	127.8	125.4	126.2
ANZ Business Confidence	20.5	21.7	..	16.6	11.3	11.0	14.9	24.8	19.4	--
ANZ Own Activity Outlook	37.6	39.6	..	37.2	38.8	37.7	38.3	42.8	40.3	--
Trade Balance ($m)	-723	-1	-227	-42	262	532	74	242	--	--
Trade Bal ($m ann)	51668	51621	51901	52087	52404	52589	53219	53538	--	--
ANZ World Comm. Price Index (% mom)	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	2.1	-0.8	--
ANZ World Comm. Price Index (% yoy)	13.6	16.5	19.1	20.9	23.0	23.7	26.3	24.6	21.1	--
Net Migration (sa)	6140	5930	6320	5920	6140	5800	5940	6340	5810	--
Net Migration (ann)	70354	70588	71305	71333	71932	71885	71964	72305	72402	--
ANZ Heavy Traffic Index (% mom)	3.6	-0.3	-0.9	2.1	1.6	-2.2	3.9	-0.4	-5.5	--
ANZ Light Traffic Index (% mom)	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	0.731	0.72	0.70	0.69	0.68	0.67	0.67	0.66
NZD/AUD	0.954	0.939	0.922	0.97	0.96	0.96	0.94	0.94	0.94	0.94
NZD/EUR	0.642	0.638	0.622	0.63	0.63	0.63	0.65	0.63	0.61	0.57
NZD/JPY	82.42	82.78	79.91	82.8	78.4	75.9	71.4	67.0	67.0	66.0
NZD/GBP	0.563	0.570	0.568	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	1.94	1.97	1.98	1.99	1.99	2.08	2.34	2.50
NZ 10-yr bond	2.98	2.98	2.84	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	1.31	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

	18 Jul	14 Aug	15 Aug	16 Aug	17 Aug	18 Aug
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.94	1.96	1.96	1.96	1.95	1.95
NZGB 03/19	1.93	1.90	1.90	1.89	1.88	1.87
NZGB 05/21	2.31	2.16	2.18	2.18	2.15	2.14
NZGB 04/23	2.61	2.45	2.48	2.48	2.45	2.43
NZGB 04/27	2.96	2.84	2.89	2.89	2.85	2.83
2 year swap	2.22	2.16	2.18	2.19	2.18	2.18
5 year swap	2.81	2.63	2.65	2.66	2.65	2.64
RBNZ TWI	77.75	77.11	77.23	76.64	77.15	77.07
NZD/USD	0.7355	0.7296	0.7282	0.7242	0.7293	0.7313
NZD/AUD	0.9273	0.9265	0.9289	0.9219	0.9209	0.9223
NZD/JPY	82.46	80.05	80.38	80.25	80.34	79.85
NZD/GBP	0.5646	0.5625	0.5655	0.5626	0.5669	0.5680
NZD/EUR	0.6364	0.6183	0.6197	0.6189	0.6235	0.6219
AUD/USD	0.7931	0.7875	0.7839	0.7855	0.7919	0.7929
EUR/USD	1.1558	1.1799	1.1750	1.1702	1.1698	1.1761
USD/JPY	112.12	109.73	110.39	110.82	110.15	109.18
GBP/USD	1.3025	1.2971	1.2877	1.2872	1.2865	1.2870
Oil (US$/bbl)	46.40	47.59	47.55	46.78	47.09	48.51
Gold (US$/oz)	1237.64	1280.81	1274.68	1270.59	1285.51	1284.13
Electricity (Haywards)	12.62	9.67	8.09	7.84	6.78	6.30
Baltic Dry Freight Index	932	1155	1169	1207	1247	1260
NZX WMP Futures (US$/t)	3130	3195	3195	3225	3230	3230

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