14 April 2016

Contents

Economic Outlook

We are making a very dangerous assumption: "the RBNZ will hold a consistent line from one rate-set meeting to the next". If it does so, then we believe it has little option but to lower its Official Cash Rate at its 28 April review. And open the door to a further reduction thereafter. Accordingly, we are moving our expected rate track to include 25 point cuts in rates at both the RBNZ's April and June meetings. While this is our central view, we do it with only modest conviction as RBNZ consistency has been lacking of late and our call is also highly dependent on the trajectory of the New Zealand Dollar Trade Weighted Index (TWI) commodity prices (and the Fed). And let's make it clear, we do not believe for a second that this economy will benefit from further reductions in interest rates which, instead, will inevitably create greater economic distortions and volatility than we already have. Between now and the 28 April OCR review the only big piece of NZ data is the 18 April Q1 CPI, for which we expect a 0.1% quarterly increase, for 0.3% y/y. The March MPS estimated 0.2/0.4% respectively.

Interest Rate Outlook and Strategy

We believe the market under-prices the chance of an RBNZ cut in April and the possibility the Bank ultimately cuts again in June (taking the OCR to 1.75%). We recommend receiving June OIS. We have increased conviction that NZ 2-year swap will trade down to 2.0% in coming weeks/months. We also continue to look for a steeper NZ 2-10s curve as the year progresses, though this will be partly dependent on higher US long yields. NZGBs are also likely to outperform US and AU counterparts, in our view. We could see NZGB-UST 10-year spreads trade down toward 70bps and NZGB-ACGB 10-year spreads trade down toward flat. Finally, we believe LGFA-NZGB spreads can compress further. For LGFA-NZGB 2027 spreads we look for a move to the mid-80s from current levels in the high 90s.

Currency Outlook

The recent strength of the NZD has been driven by improved market risk sentiment and stronger global commodity prices. While that could well continue over coming weeks, NZD/USD is looking over-bought and we expect a reversal over coming months. Against the wishes of the BoJ the Yen has strengthened but it still remains the cheapest major currency. A lack of fresh BoJ policy initiatives at the end of the month could see the Yen supported further. NZD/JPY is down 8% for the year-to-date and is well on its way to meeting our year-end target of 71. Looking further ahead, previous cycles would suggest a lot more downside than that.

Forecasting A Policy Mistake

- We pencil in a rate cut for April
- And another for June
- NZD strength, past commitment and consistency demand it
- So too does a dovish Fed
- But it's not a done dea

We are making a very dangerous assumption: "the RBNZ will hold a consistent line from one rate-set meeting to the next". If it does so, then we believe it has little option but to lower its Official Cash Rate at its April review. At the same time consistency would suggest it also open the door to a further reduction thereafter. Accordingly, we are moving our expected rate track to include 25 point cuts in rates at both the RBNZ's April and June meetings.

While this is our central view, we do it with only modest conviction as RBNZ consistency has been lacking of late and our call is also highly dependent on the actions of the Fed, the trajectory of the New Zealand Dollar Trade Weighted Index (TWI) and commodity prices.

And let's make it clear, we do not believe for a second that this economy will benefit from further reductions in interest rates which, instead, will inevitably create greater economic distortions and volatility than we already have. But we are tasked with making a call on what will happen rather than what should.

The other point to make early on is that our call should be put in context with what the market currently prices. Right now the market apportions a 34% chance of a rate cut in April. We think the likelihood of such is higher at around 55%. It is also rather self-fulfilling. If the market pushes to more strongly price in a rate cut then this, of itself, would increase the likelihood of the RBNZ obliging.

A full cut is not priced until August but we reckon a cut by June is a very high probability. Moreover, the market appears unwilling to price in two cuts. We, instead, feel more comfortable that two rate cuts are likely than the comfort we have with regard to timing.

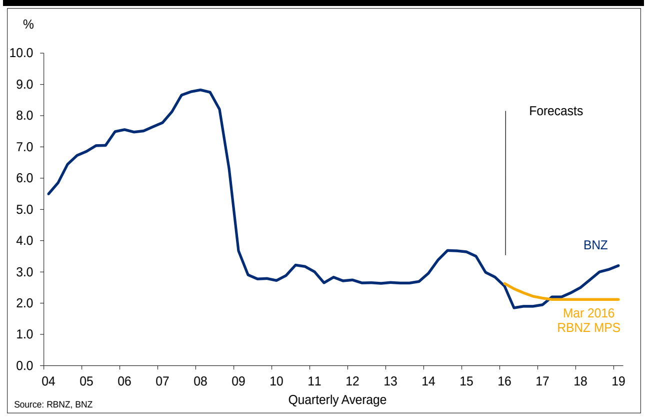
So why April? In short, the major determinant of this call is the ongoing strength in the New Zealand dollar and the direct impact this will have on the RBNZ's inflation forecasts. Of course, it's particularly dangerous to hang calls on currency spot rates as they have a tendency to move. Accordingly, we are quick to point out that if the NZD tumbles from its current levels between now and the April OCR review we will have no hesitation in backing off our call.

As things stand, however, it appears to have more upward momentum than down and, at the time of writing, the NZD TWI sits at 73.12. This is not only higher than where it was when the RBNZ delivered its March rate cut but, more importantly, is 3.1% above the 70.9 level the RBNZ assumed it will average through the June quarter. By our reckoning, if the currency stays where it is, it would take around 0.3% off the RBNZ's year ahead CPI inflation forecasts. That would lower its March 2017 annual pick to 1.0% from 1.3%.

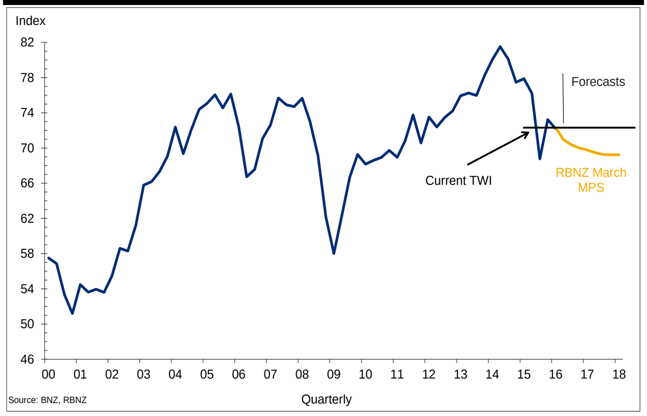
Looking at the RBNZ's March MPS scenario analysis this would require roughly a point for point shift in the cash rate. Consequently, the reduction in CPI inflation forecasts we have estimated the RBNZ will make, necessitates a 25 point cut in rates over and above that already forecast by the Bank.

More immediately, the March quarter CPI, due for release on 18 April, will be worth a close look. The RBNZ has a 0.2% pick for the quarter. We forecast 0.1%. If the outturn does surprise to the downside, as it has been prone to do, then not only will this make the RBNZ more nervous about its own inflation forecasts but also the market will price in a greater risk of a cut, putting further pressure on the RBNZ to follow through.

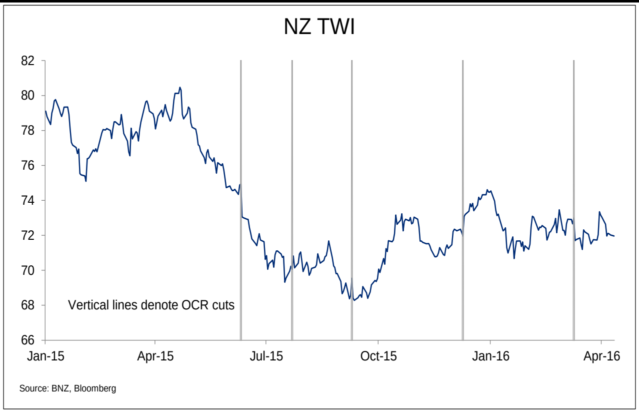
90 Day Bank Bills



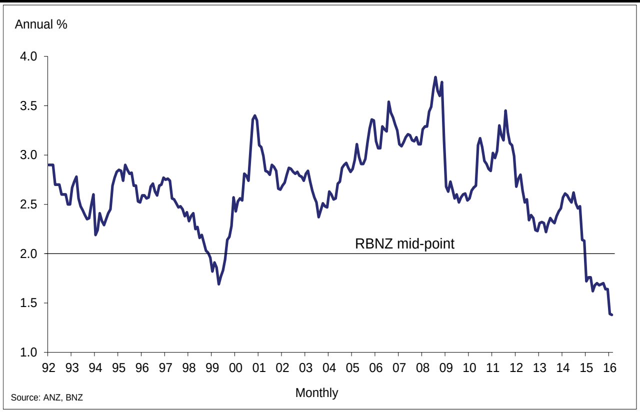
NZ TWI (Qtr Avge)



Rate Cuts Not Working



Inflation Expectations



It is important to remember that the RBNZ already had a further rate cut penciled in as its central scenario. If this is the central assumption why wait anyway? And certainly why wait if your downside risks to inflation forecasts have risen.

Adding weight in the same direction was the fact that the US Fed, in general, and Janet Yellen, specifically, formally moved towards a more dovish stance between the RBNZ's March and April meetings. Going into the March meeting the Fed's dot points had four rate hikes by the end of this year. That has since been marked back to two with the market perceiving even less. We still think there is downside for the NZD against the USD but it's hard to see this being realised until markets re-price the risks of Fed aggression.

To complete the pressure on the RBNZ to move, it would appear that the March rate cut has not had the impact on domestic interest rates that had been anticipated. The RBNZ, in its scenario analysis, looked at the spread between mortgage interest rates and the 90 day bank bill rate. Currently, the spread is around 12.5 basis points higher than the Bank had assumed, again suggesting (at least in its mind) that the cash rate should be lower.

In the March MPS much was also made of the fall in inflation expectations. In our opinion, developments on this front should have been insignificant in shaping policy.

Inflation expectations have remained low but no lower than they were previously. Take the ANZ's inflation expectations survey, by example, which revealed inflation expectations had fallen from 1.39% to 1.38%.

In general, outcomes suggest a greater risk of easing than at the March MPS. But we caution strongly that the RBNZ has had the proclivity to get captured by the "latest news". If it does so again then recent improvements in the global outlook and commodity prices could yet dissuade the RBNZ from making a move. So could data and anecdotes about the booming housing sector.

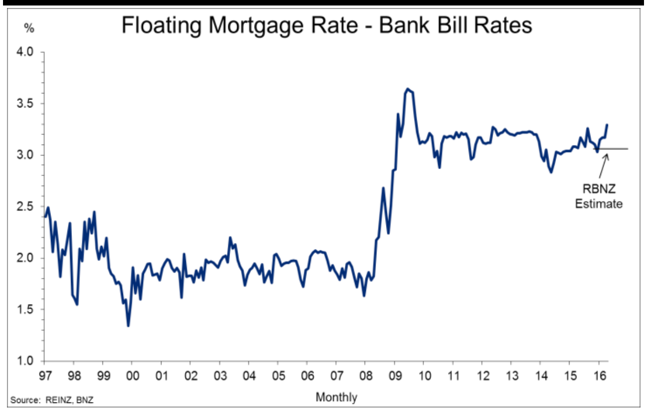
On the global growth front:

- Leading indicators have, by and large, come out on the more optimistic side of the ledger with positive surprises dominating the PMI/ISM indicators around the world. The increases in the United States and China are of particular importance in this regard. On the flipside, Japan continues to look ugly and the partial indicators for US GDP in Q1 are forcing forecasters to aggressively lower their expectations for activity in the quarter.

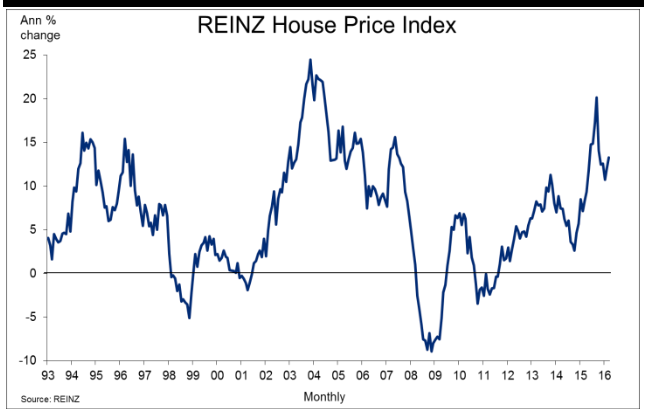
- US labour market indicators remain solid.

- NAB's business confidence survey implies that the Australian economy is more robust than anticipated.

Mortgage Spreads Wider



House Price Excesses



Accompanying this, commodity prices have pushed higher.

- The price of Brent Crude (our oil price proxy) has risen to $44.18 a barrel. This is a meaningful 19.5% increase on the $37 at the time of the MPS. Conceivably this could add around 0.1% to our CPI forecasts.

- More generally, the Bloomberg Commodity Index has edged up 3.1% from 78.8 to 81.2. Be that as it may, New Zealand commodity prices are underperforming. For example, the CBA Index (in SDR terms) is down 1.4% since early March.

- The Global Dairy Trade auction saw wholemilk powder prices increase 2.1%. Not enough to be meaningful but at least a step in the right direction.

But when push comes to shove, these factors should, at most, be only a partial offset not a full offset to the disinflationary impact of the currency's appreciation.

One of the developments that we had thought might prevent the RBNZ cutting further is the tightness in the labour market as reflected in: the low unemployment rate; high participation rate; strong real wage growth; and heightened difficulty in finding labour (both skilled and unskilled). But a recent speech by Deputy Governor Geoff Bascand focused more on the disinflationary aspects of recent labour market developments than the inflationary ones. This despite the fact that the RBNZ's own new labour conditions measure, released at the same time, suggested growing inflationary pressure. Instead, the accompanying press release to the speech has such comments as:

- "Rapid growth of the workforce . . . . has helped create strong economic growth over the past four years without driving up inflation"

- "the higher productive capacity of the economy from rapid growth in the labour force also explains some of the weakness in inflation"

- "Stronger than expected labour supply . . . . has been a factor in our assessment that monetary policy should remain accommodative".

Ongoing solid economic growth and accelerating house price inflation might also be reasons not to ease but the RBNZ's growth forecasts are already optimistic and unlikely to be surprised to the upside and its house price inflation forecasts are also high. Latest housing market data scare us to death but that's been the case for a while and the RBNZ glossed over it in March. So why change now? What it does mean, however, is that the prospect of tighter macro-prudential policy is heightened.

So, putting it all together, we can only conclude that consistency demands a near term rate cut with more to follow. Consistency demands it but (a) we don't think it necessary and (b) we have little confidence that consistency will be the order of the day. Moreover, as already noted, we remain very wary of the potential pitfalls of basing a call heavily influenced by volatile currency and commodity markets, and mixed messages internationally. But to sum it all up the following is how we think things will evolve (with our convictions for such bracketed):

- The RBNZ will cut in April (slight conviction);
- There will be a cut by June (strong conviction);
- There will be at least two rate cuts (moderately high conviction);
- Cutting rates any further at this juncture will probably do more harm than good (very high conviction).

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NZ PMI Solid, But

PMI Looks Solid

New Zealand's Performance of Manufacturing Index (PMI) showed a slower rate of expansion in March (54.7) compared to February (55.9), which itself was slower than January (57.9). A slowdown for sure, but it would have to extend quite a bit further before it became a genuine growth worry. After all, January set a fair blistering pace, so we should not necessarily be alarmed by a slowdown from there. The bigger picture reveals that the PMI in March has returned to around the average set in 2015, which is still comfortably above the longer term average for this index.

Devil In The Detail?

Even though the PMI remains robust overall, there are a few potential devils in the detail. Lower employment and a relatively high inventory reading are worth monitoring from here. The PMI employment indicator posted its second consecutive sub-50 reading in March. This parallels the weaker manufacturers' employment intentions that we saw in the latest Quarterly Survey of Business Opinion (QSBO). This situation might reflect lower confidence to employ given, say, renewed concerns about trading partner growth, while satisfying demand from existing plant (capacity use was elevated in Q1 according to the QSBO). If so, employment may well bounce back if demand growth remains strong.

Are New Orders Up, Down or Sideways?

New orders are a good gauge of near term demand. The problem is the PMI survey and last week's QSBO are giving highly conflicting signals on this front. The PMI new orders index was 58.2 in March, which is a long way above average and symptomatic of strong demand growth. The PMI new orders were even stronger in January and February. But according to the QSBO, manufacturers' new orders plunged in the first quarter with the net reading falling well below-average and to its lowest level since 2009. Adding to the confused demand signals, manufacturers' new orders expectations in the QSBO for the next three month sit at average levels.

NZ Still Stands Out

On a three month average basis, NZ's PMI still stands head and shoulders above similar indicators from major economies around the world. NZ's PMI has consistently out-paced Australia's for several years. However, it is interesting that Australia has moved ahead of NZ in the latest month. The 3.4 index point gap in March is the largest in Australia's favour since mid-2010. This is not necessarily a bad thing. Indeed, it might well be a good thing for NZ if it indicates a growth pickup in the Australian economy as a whole.

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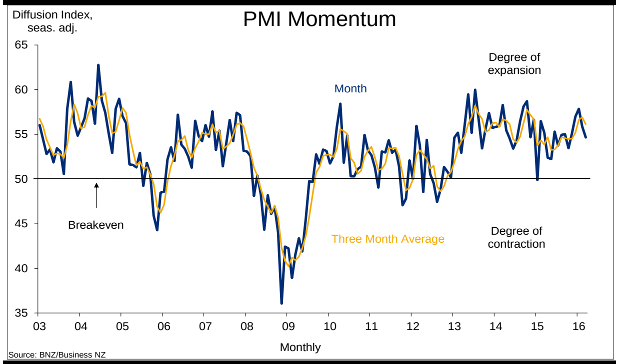
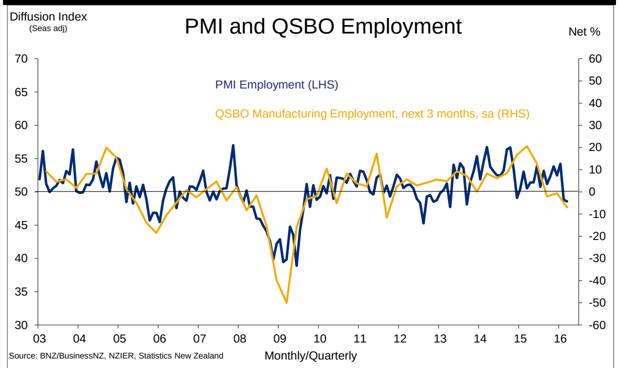
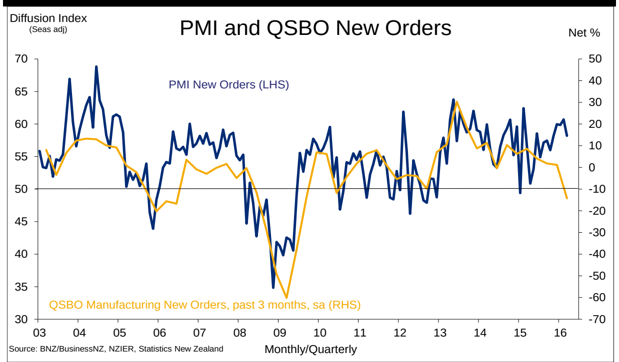
PMI Slower But Not Slow



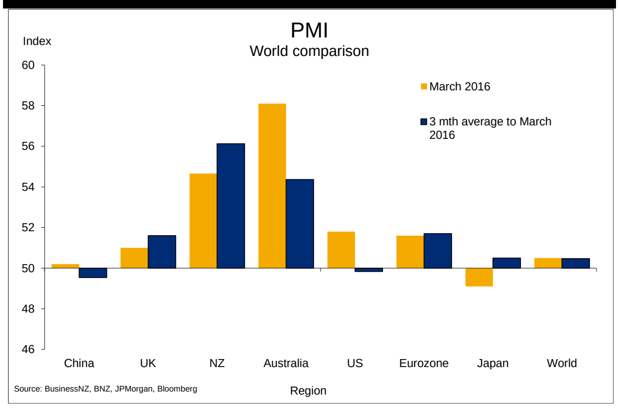
Employment Indicators Weaker



Conflicting Demand Signals



NZ Manufacturing Outperforming Many



A Global & Australian Economic Perspective

- Global GDP growth indication stabilising at sub-trend levels
- Market volatility has abated
- NAB business survey looking better

Global

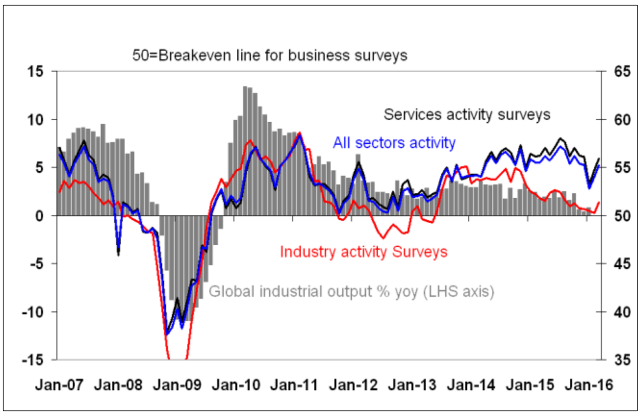
The global economic backdrop remains one of very sluggish sub-trend growth, inflation that is below target in major economies, difficulty in increasing revenue as margins are sacrificed to win modest volume gains, slow wage growth cramping spending increases, high levels of debt and central banks that have used up much of their policy ammunition. Despite the many risks, we still think global growth will muddle through 2016 at around the 3% rate seen last year but it could be a bumpy ride with plenty of further scope for volatility, reflecting the numerous triggers for further bouts of market jitters.

Equity markets in the main northern hemisphere advanced economies have regained around two-thirds of the losses they experienced in the opening 6 weeks of the year. The rising US market has driven much of that price lift; other big markets like Japan and the UK have been weighed down by domestic concerns. Improved market sentiment has also underpinned subsiding financial market volatility with the VIX index back around the low levels recorded through the first half of last year.

The falling trend in global commodity markets has also been arrested with some increase in key prices like oil and iron ore. Recent assurances by Chinese policymakers has helped to stabilise the RMB, which along with an end to the downward trend in share prices, has done much to settle sentiment in global markets. Interest rates remain exceptionally low, pulled down by the below target inflation and weak growth in many advanced economies which has driven several central banks to run negative interest rates and maintain asset buying programmes. The US is the only big economy facing imminent rate rises, the others are either still in easing mode or likely to wait a long time before lifting policy rates.

The major advanced economies have not been very responsive to very low interest rates, a winding back in budgetary retrenchment and lower oil prices. Growth in the G7 group of big advanced economies actually slowed through most of 2015, with little sign of an upturn in early 2016. The increase in spending power for most major advanced economies (which tend to be energy importers) has led to less of an upturn in actual consumption than expected. Business investment has also stayed lacklustre. But while lower oil prices have not delivered as much benefit as expected, they have certainly eroded business investment in the energy sector and that has hit the aggregate numbers. The latest business surveys are consistent with continued modest growth in the big

Industrial Output and Business Activity



advanced economies, driven by a bounce-back in US activity alongside some disappointing numbers in Western Europe and Japan. The US has been the stand-out performer among the big economies, Canada has been hit by lower energy prices, Japan has struggled to recover from the rise in indirect taxes and Brexit hangs over the UK. Euro-zone growth looks better based, despite a higher euro/$US.

Chinese growth has continued its slowing trend with industrial growth down to 5.4% yoy in early 2016, a rate last recorded in the 2008 global financial crisis. The big state owned firms have borne the brunt of the slowdown with their output actually falling below year earlier levels in early 2016. Investment growth has settled around 10% with retail sales volume expansion running at a similar pace. Weakness is concentrated in the industrial sector, accounting for around 40% of the Chinese economy, maybe a quarter of global manufacturing and around half of global metal processing. Sales growth has virtually stopped in Chinese industry as falling output prices offset continued volume growth. This absence of growth in sales represents more than just the pass-through of lower commodity input prices, it reflects fierce competition driven by over-capacity that has meant volume growth has often come at the expense of squeezed margins and lower profits.

Elsewhere among the big emerging economies, India has become the fastest growing big economy and recent central bank rate cuts and other measures should supplement the benefit of lower oil import prices to sustain growth. Brazil (the 7th biggest global economy) is still mired in recession and political uncertainty. Across the rest of East Asia and Latin America growth remains lacklustre and region-wide measures of both industrial output and $US exports are running below year-earlier levels. Export driven economies like Taiwan and Malaysia and commodity reliant nations in the Middle East, Africa and Latin America are the most affected by the sluggish global economic environment.

Australia

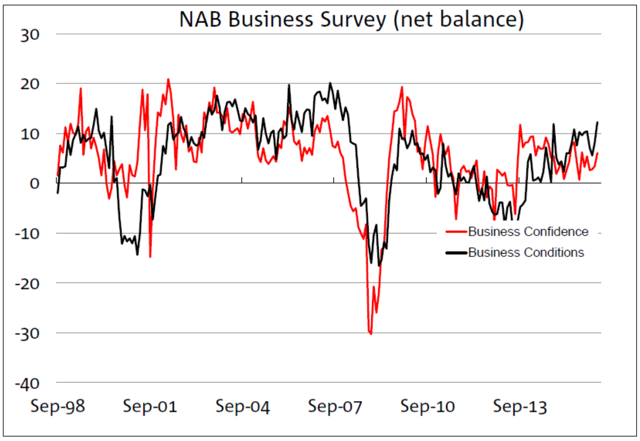
Recent business survey outcomes suggest the recovery across the non-mining economy is on track or indeed gathering speed. Overall, our real GDP forecasts are broadly unchanged at 2.7% in 2016, 3.0% in 2017, and easing to 2.5% in 2018 as the large contribution from net exports dissipates. The unemployment rate is forecast to fall to 5.6% by end-16 and 5.5% by end-17 before ticking up in 2018. We retain our view that the RBA will remain on hold through 2016, although this will depend on the path of the currency, inflation and the labour market. Lower than target inflation in conjunction with an AUD above 80 US cents and any evidence of a faltering non-mining recovery would see further rate cut(s).

This NAB Business Survey revealed a significant improvement in both business conditions and confidence, suggesting the domestic business environment not only remains favourable but appears to be strengthening further. In March, business conditions jumped to its equal highest value since early 2008, reflecting above-average conditions in most industries. All three components of conditions (trading, profits and employment) improved during the month, with the employment index particularly encouraging (the highest read since mid-2011), and indicative of ongoing labour market strength. Forward indicators were a little mixed. Confidence improved and spare capacity fell, but forwards orders were softer.

Employment grew modestly in February, but the unemployment rate fell to 5.8% on a lower participation rate. Despite the loss in momentum, this followed exceptionally strong employment in late 2015. Other indicators of labour market health, such as the employment to population rate and the participation rate, continued to suggest solid underlying conditions. While we may see some volatility in the monthly figures, moderate employment growth in trend terms is expected owing to low wages growth and a shift towards labour-intensive jobs. The unemployment rate is forecast to ease to 5.6% by end-16 and 5.5% by end-17, before returning to 5.6% by end-18. Slowing population growth also suggests a slightly lower rate of job creation will be necessary to keep up with population growth.

Strong employment appeared to support household consumption in H2 2015, despite falling wages growth. Meanwhile, the effects of a "two-speed" Australian economy have become more apparent in retail spending data, with a growing drag from weakness in WA. Retail spending growth in NSW and Victoria, while still positive, also lost some momentum in the first two months of 2016. ABS retail turnover growth for February was flat, consistent with the slowing momentum in the retail sector shown in the monthly NAB Business Survey. Meanwhile, NAB's Online Retail Sales Index for February recorded a 0.8% m/m (10.4% y/y) rise in online spending. The fundamentals for household consumption are mixed amidst solid employment growth but subdued wages.

NAB Business Survey (Net Balance)



A decline in the household savings ratio remains necessary to satisfy our moderate household consumption forecasts.

The housing market was once again a mixed bag in March, with prices in the two largest markets (Sydney and Melbourne) diverging. Dwelling prices in Sydney managed to defy our expectation for further softening, while prices in Melbourne fell. Overall, however, price gains in Q1 have been a little better than expected in the context of weakening fundamentals and restraint in investor credit – although uncertainty over Government policy could be a potential explanation. Nevertheless, we have maintained our expectation for property prices to cool in 2016/17, particularly in the apartment market where the supply response has been largest.

Additional information on non-mining investment has been limited this month, but timely indicators such as the NAB Business Survey suggest reasonable rates of capex growth – albeit softening recently. Levels of capacity utilisation are also reassuring. In contrast, non-residential building approvals have been subdued. Overall, however, we remain hopeful that non-mining investment will improve gradually. On dwelling investment, signs of moderation in the housing market are having flow on effects to residential construction activity. Both housing finance and building approvals have turned lower, driven by a pull-back in investor spending and medium density construction projects (primarily in NSW and Victoria). Nevertheless, the large construction pipeline will continue to drive a positive contribution to growth over 2016, even as the housing market continues to cool.

After dropping below USD 0.69 in mid-January, the AUD has re-appreciated to over USD 0.75. This can be explained by USD weakness as Fed rate hike expectations have been pared back, some recovery in commodity prices (particularly iron ore), and (perhaps most importantly in our models) an improvement in global risk appetite (as measured by the VIX). We have adjusted our 2016 forecasts slightly to reflect the evident dovishness of the Fed, and now see the AUD bottom at around 69 US cents by late 2016, and then picking up very gradually to 73 cents by late 2017.

Based on incoming information, we have modestly revised our GDP forecasts to 2.7% in 2016 and 3.0% in 2017, followed by an easing to 2.5% in 2018. Our forecast continues to envisage weak domestic demand, and a large contribution from net exports. We continue to expect the RBA to remain on hold for a considerable period. That said, the outlook will depend on how the data fall, with the central bank seemingly allowing itself some room to move.

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Carbon and Commodities

- Oil Prices are at highs for the year, leading into the Doha meeting between OPEC and large non-OPEC producers.
- US Crude inventories are at new record highs of 537m barrels.
- US EIA expects US production to fall by 10% in 2017, coupled with an increase in demand.
- Metal prices have continued their recovery, on reducing oversupply fundamentals and positive China trade data.

Commodity	US$	Change (US$)	Change (Fortnight)	Change (Month)	Change (Year)
Brent Crude	43.97	-0.71	12.00%	13.50%	-22.99%
WTI Crude	41.59	-0.57	8.53%	14.45%	-15.36%
Copper	4,849	61.26	-1.00%	-1.05%	-16.22%
Zinc	1,877	55.60	4.74%	6.53%	-6.29%
Aluminium	1,549	23.86	4.17%	-0.05%	-11.45%
Tin	17,110	289.83	1.21%	2.42%	-3.61%
Nickel	8,952	126.00	6.61%	2.59%	-36.04%

Oil prices are at the highest levels since December 2015, as traders position themselves for this weekend's OPEC and large non-OPEC producers meeting in Doha. The expectations are for a loosely framed agreement, where the members freeze production at their January levels. Iran is refusing to participate in the agreement while they build production after sanctions having been removed, but Russia and Saudi Arabia are very much driving the collaborative actions. The agreement will likely resemble a communique of intent and lack any firm commitment, also January production levels were very high and will be unlikely to correct the oversupply conditions this year.

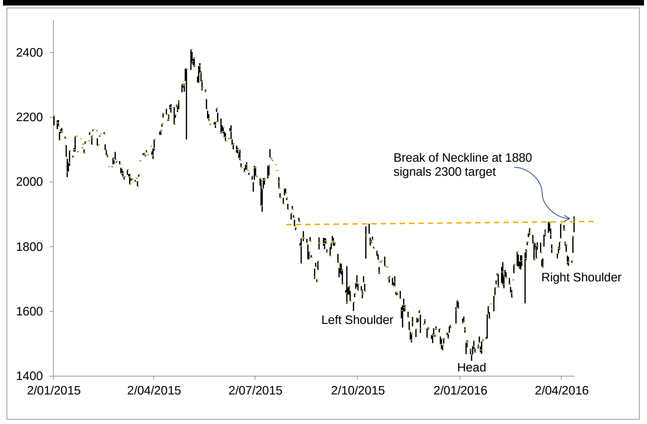
US inventory levels continue to grow, reaching a record 537 million barrels, however there is widespread expectation that this summers' driving season will create significant demand for gasoline and we should start to see inventory draws. US EIA expects US production to fall to 8 million barrels per day in 2017, compared with the 9.7 million bpd production highs seen a year ago, and they also expect demand to increase slightly. If correct the US supply fundamentals will gradually contribute to easing the current global glut.

NZ Diesel prices are nearing the median prices over the last year, however I expect they should ease back if the Doha meeting fails to provide sufficient confidence in easing global oversupply in the medium term. The hedging curve remains steeply upward sloping so consumers should only hedge minimal just in case amounts keeping their powder dry for any drop below 0.40 NZ$/Litre.

Metal prices are recovering off the lows seen earlier in the year, responding to the moves in oil prices, evidence that inventory levels are dropping, and positive trade data from China this week which showed growth in exports. The price action looks especially supportive on the charts for Zinc, where the recent break of US$1880/mt, generates a bullish "head and shoulder" target of 2300.

Singapore Gas Oil

Zinc (USD/MT) Rolling 3 Month Contract



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NZD: Yen In The Spotlight

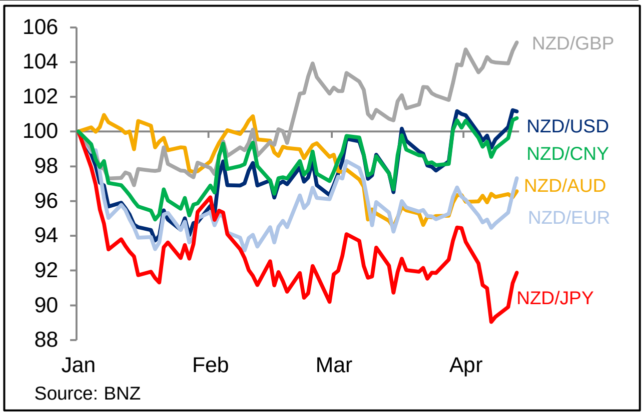
- Against the wishes of the BoJ the Yen has strengthened but it still remains the cheapest major currency. A lack of fresh BoJ policy initiatives at the end of the month could see the Yen supported further.
- NZD/JPY is down 8% for the year-to-date and is well on its way to meeting our year-end target of 71. Looking further ahead, previous cycles would suggest a lot more downside than that.

At the beginning of the year our call was that the NZD would depreciate on all the major crosses we actively monitor. Chart 1 illustrates where we currently sit relative to the start of the year on the major NZD crosses.

NZD/GBP is higher on Brexit concerns. Embodied in our projections is that the UK votes to remain part of the EU. While NZD/GBP can continue to drift higher ahead of the June referendum, a vote to stay in the EU would see it sharply fall back.

NZD/USD and NZD/CNY are little changed, with the early-year depreciation fully unwound on higher risk appetite and the FOMC's move to push out any further rate increases. If Fed tightening in the second half becomes more into focus then these crosses could well reverse their recent recovery.

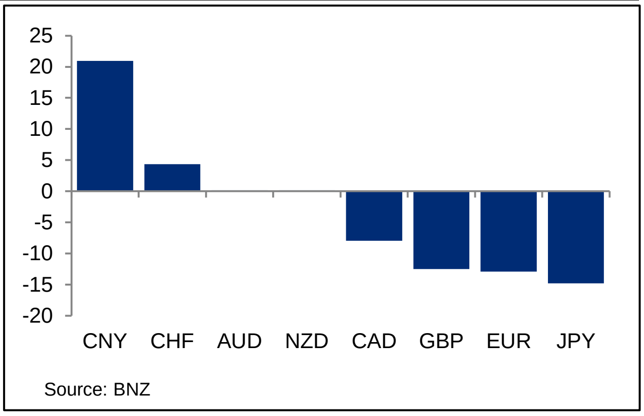
Chart 1: NZD Crosses - YTD



NZD/AUD and NZD/EUR are down a few percent. The relative underperformance of NZ's commodity prices and lower NZ-Australia interest rate spreads explain the weaker NZD/AUD. A focus away from further interest rate cuts by the ECB and towards incentivising banks to lend more, goes some way to explaining EUR strength and therefore NZD/EUR weakness.

The biggest and most interesting move has been on NZD/JPY, with an 8% fall year-to-date, and taking NZD/JPY down to its lowest level since early-2013 (excluding the August 2015 flash crash) late last week. There are a

Chart 2: Currency Over-Valuation vs USD (PPP)



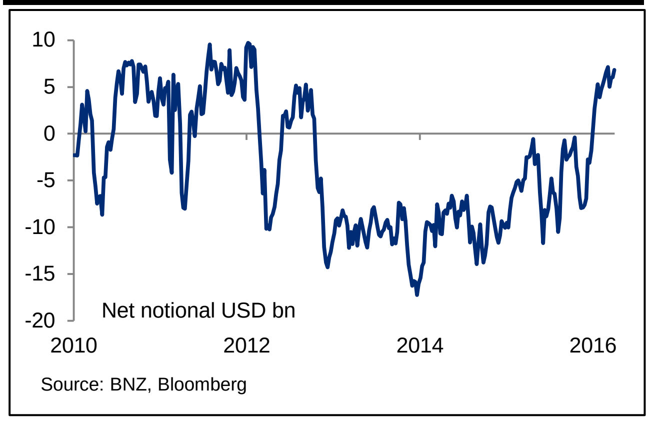
number of plausible reasons why the Yen is so strong, but we'll never know for sure. Before moving onto those reasons, it's useful to point out that the starting point is a Yen that was, and remains, very cheap compared to other currencies.

Chart 2 shows the currency over/under-valuation against the USD based on our PPP modelling framework (using relative CPIs over a 15-year period). The Yen remains the cheapest of the majors, even after its significant appreciation this year. Our PPP estimate of USD/JPY is around 93, suggesting that a circa 15% fall in that cross rate is required before the Yen would be considered "fair-value".

Thus, one obvious reason why the Yen might be strengthening is simply that it is cheap and therefore attractive. However, this explanation is not particularly satisfying, as the Yen has been cheap for the last few years.

One possible reason for recent Yen strength is that speculative accounts have been buying the Yen. Chart 3 shows that the speculative market moved to a net long

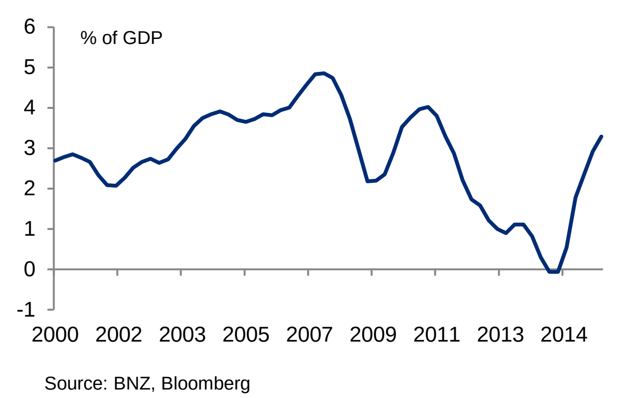
Chart 3: Net Speculative Positioning - Yen



Yen position at the beginning of the year after spending three years with a net short position. The current notional net long position is close to historical extremes.

But real money flows are also likely behind the strength of the Yen as well. Japan's current account balance has improved significantly over the last couple of years, to a surplus of 3.3% of GDP as at the end of last year (Chart 4). An improving trade balance on the back of weaker oil prices has played a key role here. Furthermore, the competitive value of the Yen has supported exports. Exporters have been repatriating funds and a stronger Yen feeds on itself to encourage further appreciation from this source.

Chart 4: Japan Current Account Balance



A rising Yen also encourages Japanese investment funds to increase their hedge ratios and this puts further upward pressure on the Yen. Furthermore, at the retail level, when the Yen was weak the mythical Mrs Watanabe was busy searching for higher yields and stronger currencies. Open-interest data on FX margin contracts from the Tokyo Financial Exchange show stabilisation since the beginning of the year, removing a previous source of Yen selling.

Japanese officials have been out in force trying to jawbone the Yen weaker. Last week it was a daily ritual of Chief Cabinet Secretary Suga to talk of "watching fx markets with vigilance" and "excessive fx moves cause negative impact on economy". Those cries for a reversal went unheeded, with the market discounting the possibility of any intervention at current levels. Intervention against an appreciating Yen would only make sense if the Yen was significantly expensive, or if the market became disorderly. Following the G20 accord in Shanghai earlier in the year, other countries would frown upon any direct Yen intervention to take it weaker from current levels.

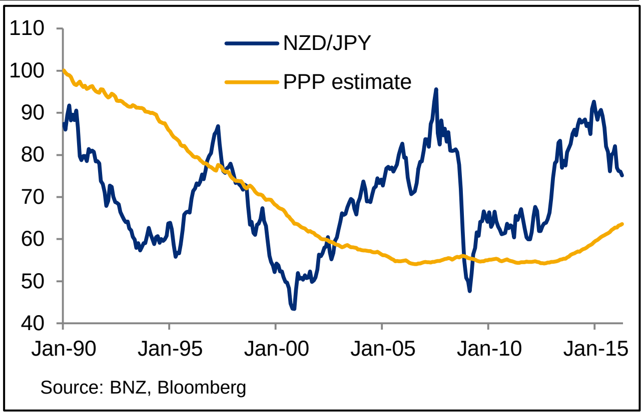
What will be interesting is the reaction of the BoJ at the end of April at its next policy meeting. A bazooka approach which takes monetary policy into new territory such as debt monetisation or "helicopter" money would be one way to shock the market and reverse the trend. We're sceptical that the BoJ would take such a Mugabe-like approach. It's a can of worms that should only be opened once all other policy options are exhausted – and that includes structural reform measures that are barely visible.

With the BoJ already owning 35% of the Japanese government bond market and that projected to increase to 50% next year on the current policy trajectory, quantitative easing is already reaching its limits. A further reduction in interest rates deeper into negative territory could backfire, as it did at the end of January, as it threatens bank profitability and therefore their willingness to lend. A lack of any fresh policy initiatives could drive the Yen even stronger. Some of the recent Yen strength already likely reflects the market's view that monetary policy easing has effectively reached its limits.

NZD/JPY Focus

The recent strength of the Yen offers some relief to NZ exporters to Japan. Chart 5 shows the NZD/JPY cross rate against our long-term fair value PPP estimate. The cross has spent the best part of the last 14 years above fair value. PPP has hovered around 55-60 for much of the past decade. The recent move higher to around 63 is by virtue of our 15-year moving average filter, as the lows of around 2000 gradually disappear from the calculation.

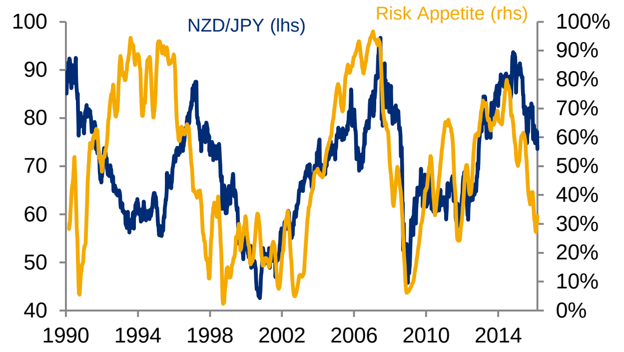
Chart 5: NZD/JPY and PPP Fair-Value Estimate



The NZD/JPY typically has exhibited large cycles. Recent downturns are 1990-1993, 1997-2000, and 2007-2008. The peak to trough moves in NZD/JPY on monthly average data across these cycles were -37%, -48% and -50% respectively. From the December 2014 monthly average peak of 92.64 the current spot of around 75 currently represents "only" a 19% downward correction. Therefore, based on previous cycles, there would appear to be a lot more downside risk for NZD/JPY over the next few years.

Chart 6 shows that the cycles in NZD/JPY, at least since the mid-1990s, can be largely explained by risk appetite. Our risk appetite measure includes the VIX, emerging market bond spreads and a US high yield bond spread. It can be thought of an indicator of the "financial market cycle". Since the NZD is considered a high-risk currency, linked to global commodities and the global economic cycle and the Yen is considered a “safe-haven” currency, the combination of NZD/JPY is effectively another measure of global risk appetite.

Chart 6: NZD/JPY and Risk Appetite



Source: BNZ, Bloomberg

Based on the fall in risk appetite from the high of mid-2014, NZD/JPY should have fallen a lot further than it has over the last 18 months or so. The fact it hasn’t likely reflects the significant expansion of quantitative easing policy in Japan, which has kept the Yen weaker than otherwise. Ongoing QE policy in Japan means that the fall in NZD/JPY is being contained to a certain extent and thus those previous cycles mentioned earlier might over-state the possible peak to trough fall in NZD/JPY this cycle.

Our current year-end target for NZD/JPY is 71 but that assumes the BoJ manages to turn around sentiment and USD/JPY ends the year at 117. Underlying this view is also a significant sell-off of US Treasuries – there is a close relationship between USD/JPY and the US 10-year rate. If the Yen remains on its current trajectory and BoJ policy proves futile, then NZD/JPY could revisit the 60s, something it hasn’t done since 2012. This is where the balance of risk lies over the medium term.

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FX Momentum Model

Model is generally long NZD

– The model has been long NZD/USD since early February and that is paying dividends, with the NZD gradually trending higher. Against our fundamental view, the model just went long NZD/AUD at around 0.9050. The model continues to be long NZD/GBP. A short NZD/JPY position was introduced a week ago, but the bounce-back in that cross has resulted in a small loss so far.

Model is short USD

– The model is still short the USD on all the major crosses apart from GBP. This is proving to be profitable, with particularly strong gains on the AUD and CAD crosses.

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BNZ Foreign Exchange Momentum Model

Our momentum model is used primarily as an indicator of speculative account activity, as opposed to a trading tool. The model provides some indication of the levels at which speculative accounts may be entering into long or short positions in the major currencies. It can also provide a steer on how basic trend following/momentum accounts are positioned.

The basic trading algorithm our model uses is as follows:

1. Buy if the price breaks above recent ranges, or sell if it breaks below recent ranges.
2. In exiting a position, the model uses a trailing stop. The stop is set at the previous10-day high or low, but with an additional adjustment factor that sets a wider stop when markets are more volatile.

Together, these two conditions constitute the core of any momentum model, whose central premise is that a break outside of a range indicates that the price will continue in the direction of the break. A couple of extra conditioning filters have been added to our momentum model to try to stop the model reacting to false breaks.

FX Momentum Model Positions

13-Apr-16 (as at New York Close)

Currency pair	Position	Entry date	Entry level	Mkt	Return	Stop	Long trigger	Short trigger
NZD/USD	Long	04-Feb-16	0.6698	0.6919	3.3%	0.6760		
NZD/AUD	Long	13-Apr-16	0.9053	0.9043	-0.1%	0.8927		
NZD/EUR	Neutral	10-Mar-16	0.5992	0.6137			0.6147	0.5926
NZD/GBP	Long	30-Mar-16	0.4799	0.4872	1.5%	0.4758		
NZD/JPY	Short	07-Apr-16	74.44	75.65	-1.6%	76.65		
AUD/USD	Long	22-Feb-16	0.7243	0.7653	5.7%	0.7492		
AUD/JPY	Short	05-Apr-16	83.35	83.68	-0.4%	85.80		
DXY	Short	16-Mar-16	95.94	94.81	1.2%	95.22		
EUR/USD	Long	16-Mar-16	1.1218	1.1274	0.5%	1.1284		
GBP/USD	Neutral	12-Apr-16	1.4333	1.4204			1.4514	1.4006
USD/JPY	Short	08-Feb-16	115.98	109.34	5.7%	112.81		
USD/CHF	Short	16-Mar-16	0.9796	0.9668	1.3%	0.9672		
USD/CAD	Short	03-Feb-16	1.3909	1.2817	7.9%	1.3219		

Notes: This portfolio represent hypothetical, not actual, investments. Reported returns do not include the cost-of-carry. All trades are entered and exited at triggered levels

The BNZ OIS-ter: Fairly Flat

- Looking across market expectations for key Central Banks activity in coming years, it is striking how relatively flat they all are. The Fed fund's rate is expected to still be below 1.00% in three years' time.
- The market now looks for the RBA and RBNZ's cash rate to be cut to a similar level in the year ahead, despite the starkly divergent paths that cash rates have taken in recent years. The market currently prices that the RBA's cash rate will bottom at 1.75% and the RBNZ's at around 1.88% within the year ahead.
- The market continues to price a greater chance of easing than hiking from the ECB and Bank of England within the coming 12 months.

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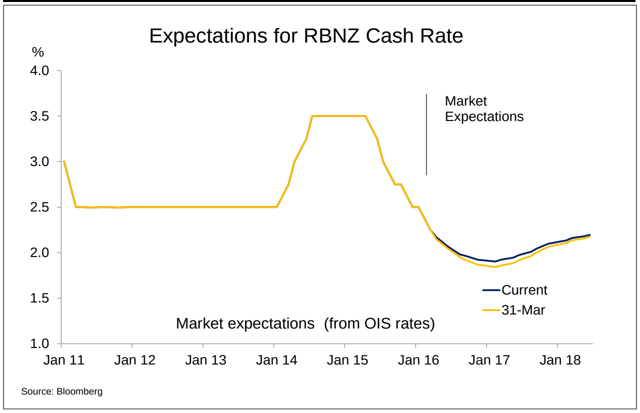
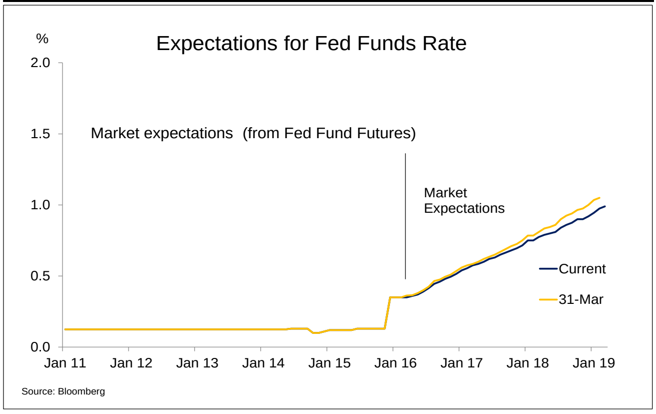
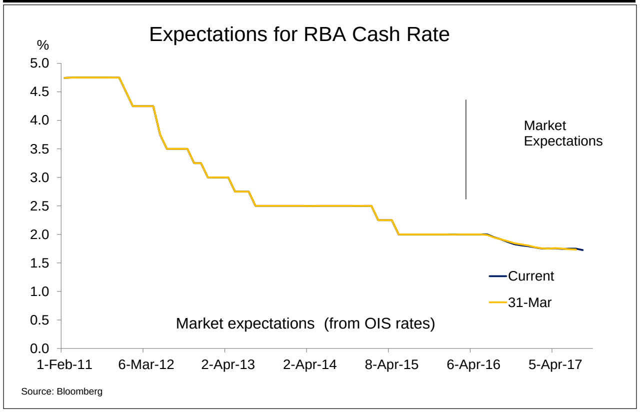
New Zealand



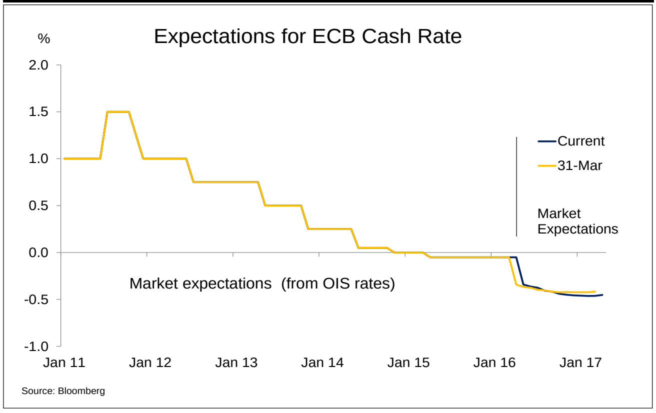
United States



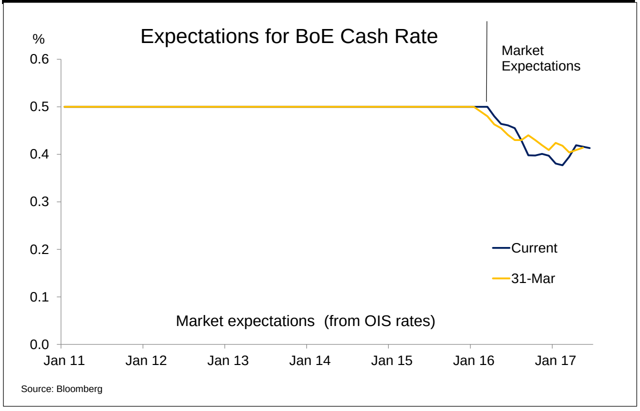
Australia



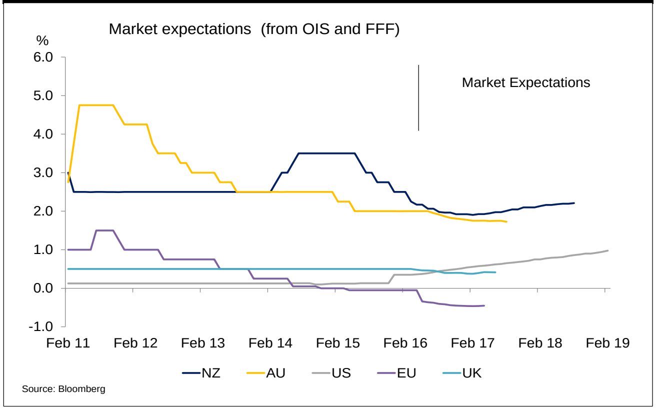
Eurozone



United Kingdom



Cross Country



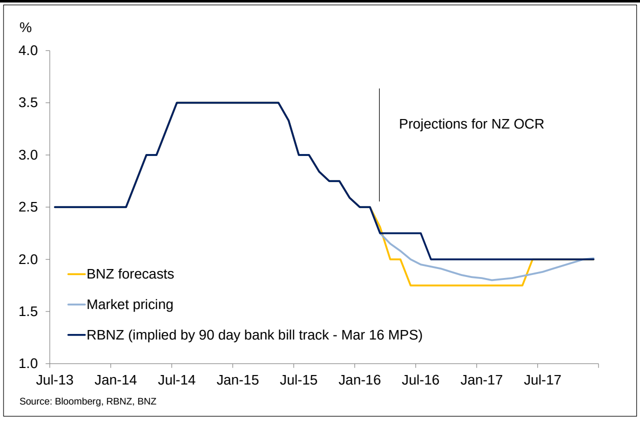
Interest Rate Strategy: Increased Conviction On Key Calls

- We recommend receiving June OIS
- We continue to expect NZ 2-year swap to trade down to 2.0%
- We look for a steeper NZ 2-10s curve as year progresses
- Look for NZGBs to outperform US and AU counterparts
- We believe LGFA-NZGB spreads can compress further

Although there are currently plenty of moving parts (See *Forecasting A Policy Mistake)*, we believe the market under-prices the chance of an RBNZ cut in April and the possibility the Bank ultimately cuts again in June (taking the OCR to 1.75%). On this basis we have recommended receiving June OIS at above 2.05% and would look to take profit

on a move to 1.80%. We would maintain a stop at 2.10%.

Market Under-Estimates Risk Of Near-Term Cuts



We also have increased conviction in our view that NZ 2-year swap to trade down to 2.0% in the months ahead. This is also consistent with our view that the NZ-AU 2-year spreads will trade into negative territory as the year progresses. The possibility that the RBNZ's cash rate falls below the RBA's only adds weight to this view.

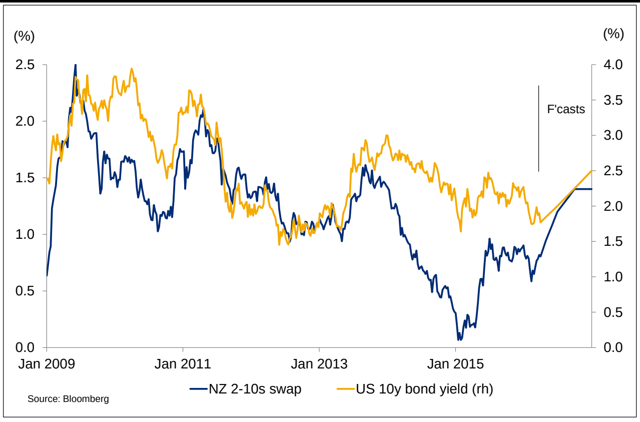
Our core strategic view of NZ curve steepening remains intact. The short-end of the NZ curve will respond more to RBNZ cuts while the long-end is more beholden to moves in offshore yields. But for the curve to really steepen as we expect by year-end, will take not only RBNZ rate cuts, but higher US long yields.

Our core view is that US 10-year yields will ultimately end the year at a higher level than at the end of last, when it traded at 2.30%. This assumes the Fed delivers two rate hikes in H2 this year (consistent with its desire for a "gradual", "cautious" approach) against market pricing of only a 50% chance of one 25bps hike.

However, when trying to forecast US long yields a myopic focus on the prospective path of the Fed funds rate is not very helpful. Quite aside from the fact that expectations for the path of the FFR have continuously been ratcheted down, there are plenty of other factors driving the long-end of the US curve. Easing monetary policy outside of the US, global oil prices, broad risk appetite, to name a few. On this basis, even if the Fed delivers aggressive hikes compared to market pricing, long yields may not rise much.

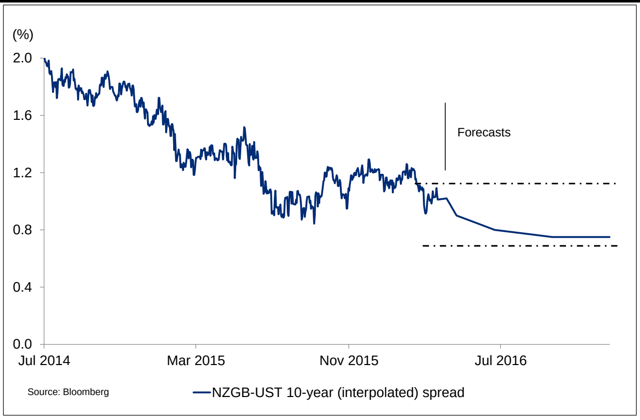
From where US 10-year yields are today (1.76%) there are likely downside risks to our end-year forecasts for US 10-year yields. However, even a move back above 2.00% would likely result in some steepening of the NZ curve, in the backdrop of an easing RBNZ

Steeper Curve Somewhat Dependent On US Long Yields



Our expectations that the RBNZ will cut sooner than the market anticipates increases our conviction that NZGBs will outperform their UST and ACGB counterparts.

NZGB-UST 10-Year Compression Expected



We see longer-dated NZGB-UST spreads as currently being in the upper band of expected trading ranges. We see a 70-120bps range for NZ-US 10-year (interpolated) spreads. An easing RBNZ, limited NZGB supply and low yield world should help the spread compress. But to really perform will, again, require some sell-off in US Treasuries. We would therefore await better timing to enter this trade.

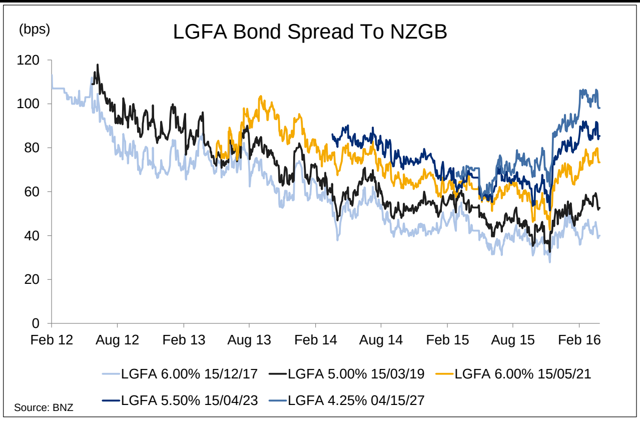
We continue to anticipate that NZ-AU 10-year spreads can trade down toward flat as the year progresses. However, it is relatively rare historically that longer-dated NZGBs have traded below ACGBs, even when RBNZ-RBA cash spreads have been negative.

Finally, we continue to see potential for further compression of LGFA-NZGB spreads. Last week's LGFA tender attracted strong demand, likely supported by attractive relative value and a turn in global risk appetite.

Although spreads have compressed a bit, compression has lagged the general improvement in global/Asia-specific risk appetite. For example, the i-Traxx Australia index is now below the 140 level that we have previously highlighted as the 'danger' level for NZ credit spreads.

On LGFA-NZGB2027 spreads we look for compression back toward the mid-80s, from current levels in the high-90s. For more details see *"What's Driving LGFA Bonds"*

LGFA-NZGB Spreads Can Compress Further



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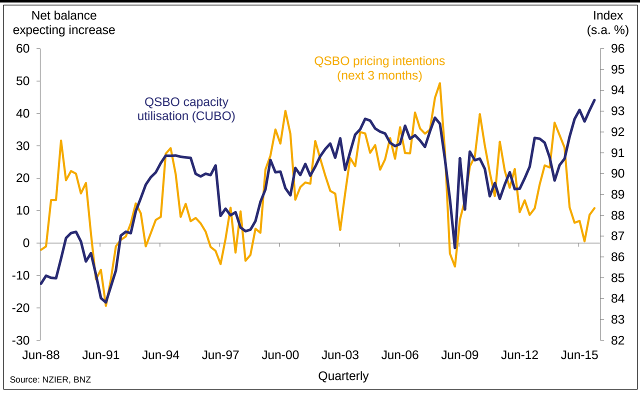
NZ Economic Review

QSBO (Q1) – 5 April
The more we delved into this Quarterly Survey of Business Opinion (QSBO) the less concerned we were with some of its weak headline results. Like the drop in its net confidence measure to +2, from +15, and its much-slower expectations around activity for the coming few months. Investment and employment intentions remained stout, encouragingly so. Sure, selling price intentions were still relatively subdued. However, there were clear signs of cost pressures coming through in this latest QSBO, as its capacity constraint indicators kept telling of stretch being applied.

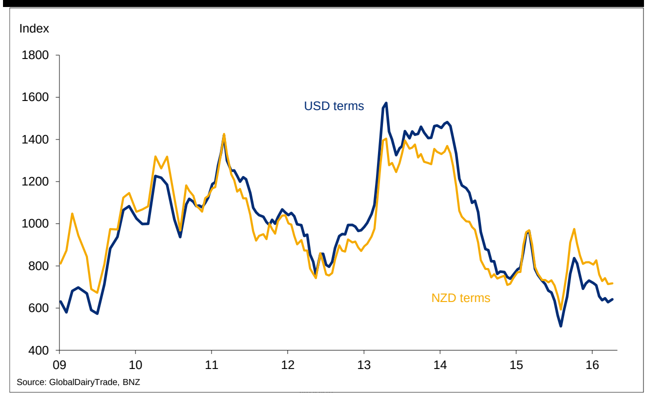
Inflation Indicators



ANZ Commodity Export Prices (Mar) – 5 April
The ANZ commodity export price index fell 1.3% in March, in world price terms. This was mainly the result of a 4.5% fall in dairy prices. No revelations there. Converted into NZ dollars, the overall ANZ commodity index fell 2.9%, to be down 14.2% on a year ago and 18.6% off its February 2014 peak.

Dairy Auction – 6 April
We couldn't get excited by the 2.1% bounce in the GDT price index at this auction. It didn't even make up for the 2.9% drop at the previous event (which caught many by surprise). International dairy prices are bobbling around at very low levels. Those are the facts.

Dairy Auction Prices – GDT



Crown Accounts (Feb) – 8 April
For the 8 months to February 2016, the core (OBEGAL) operating balance came in at +$398m compared to the December HYEFU expectations of -$332m. That's an outperformance of $730m, so maintaining the buffer that had built up in January's accounts.

Electronic Card Transactions (Mar) – 11 April
Electronic card transactions strengthened a seasonally adjusted 0.4% in March. This was a bit better than the +0.1% we were looking for, fortifying our view that retail trade volumes will post a solid gain in Q1.

REINZ Housing Report (Mar) – 12 April
More so than the (6 April) QVNZ data, the Real Estate Institute's results for March were robust. Sales jumped a seasonally adjusted 5%, in spite of the early Easter. The Stratified price index picked up to an annual pace of 13.3%, from 11.9% in February. Importantly, Auckland is back in the thick of this inflation, with 13.3% y/y in March after basing at 11.1% in February. Even fusty old Wellington, where population pressures are not nearly as strong as elsewhere, is experiencing a spike in prices, with annual inflation surging to 12.8%. This suggests interest rates are now playing an even stronger role in the housing market.

REINZ Stratified House Price Index - Wellington

Food Price Index (Mar) – 13 April
The Food Price Index typically eases a tad in March, but rose 0.5% in this one. Technically, it bolstered our Consumers Price Index track; but not quite enough to round it up from the 0.1% quarterly and 0.3% annual results we anticipate for next Monday's Q1 release.

BNZ Manufacturing PMI (Mar) – 14 April
March's Performance of Manufacturing Index – with a seasonally adjusted 54.7 – held together better than the manufacturing component of last week's Quarterly Survey of Business Opinion, and starkly so with respect to new orders.

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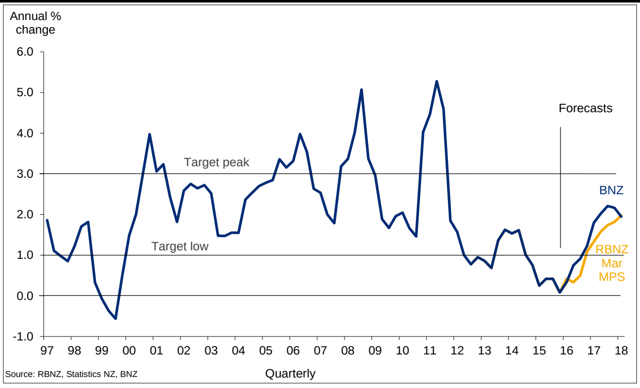
NZ Upcoming Data/Events

CPI (Q1) – 18 April
With "inflation expectations" all the rage at the moment we should say that we anticipate a 0.1% increase in New Zealand's Q1 CPI. This would lift its annual rate of inflation to 0.3%, from 0.1%. The Reserve Bank, in its March MPS, expected an annual CPI outturn of 0.4% (based on a 0.2% increase for Q1).

For the record, we expect annual CPI inflation to move up from Q1, to 1.2% for calendar 2016 and 2.2% for 2017. This is a more assured return into the Bank's 1.0 to 3.0% target band than the March MPS forecast.

Consumers Price Index



As for the Bank's factor-model estimate of core CPI inflation – published later on the day – it will be compared to the 1.6% y/y it nudged up to late last year. However, the RBNZ has more recently been talking about a range of core inflation indicators that it is looking at, many of which were soft in the latter part of 2015.

BNZ Services PSI (Mar) – 19 April
The Performance of Services Index has been slowing since a turbo peak of 59.4 back in November. It was 56.9 in February. So long as it remains in the mid-50s it will be consistent with our still-conservative views around GDP growth for the first half of 2016.

Dairy Auction – 20 April
Yes, global commodity prices continue grapple up off their early-2016 lows, especially in oil. However, we don't think dairy prices will catch much, if any, of this updraft. And whatever the GDT price outcome is for this auction, it will face stiff opposition from the NZD, which is also grappling its way back up. The net result might struggle to be a positive for Fonterra's milk price outlook.

ANZ Job Ads (Mar) – 21 April
As bumpy as they are, ANZ jobs ads have arguably lost a bit of momentum since a hot spot late last year. Any (seasonally adjusted) decline for March would continue this theme. Yet, more broadly, business intentions to hire are still looking pretty good.

Int'l Travel and Migration (Mar) – 21 April
Just when you thought New Zealand's tourism boom couldn't achieve greater momentum, it has. Indeed, try something approaching 20% annual growth in short-term visitor arrivals for the month of March. Sure, some of this reflects the early Easter, particularly evidenced in arrivals from Australia. Still, there's much more driving the tourism boom besides.

As for migrant flows it's a matter of holding one's breath, yet again, to see if another record net inflow number flashes in front of our eyes.

ANZ-RM Consumer Confidence (Apr) – 21 April
There remain sizable negative and positive factors tugging on the heart strings of consumers. This is personified along the lines of farmers versus home owners. Overall, confidence sentiment has been hanging in there. The ANZ Roy Morgan Index form of this has been looking decidedly average – but in a good way. It was 118.0 in March.

Credit Card Billings (Mar) – 21 April

Holiday, ANZAC Day – 25 April

Merchandise Trade (Mar) – 27 April
Merchandise exports are well overdue a big correction, having been flattered in February by timing issues (and the re-export of Alice, the giant drilling machine). We anticipate a 15% fall in March's exports, compared to a year ago. This will reflect not only overall weakness in commodity export prices but air pockets in dairy and meat export volumes, as recent production declines come home to roost. For merchandise imports we are looking for a flat result, y/y. The net result of this is a March deficit of $75m. This would increase the annual goods trade deficit to $4,059m, from the $3,323m it nibbled back to in the 12 months to February.

New Residential Lending (Mar) – 27 April
With sign of re-leveraging in the household sector we'll be paying close attention to these new lending data, as a pointer to the household debt stock variables for March due later in the month.

RBNZ OCR Review – 28 April
We are making a very dangerous assumption: "the RBNZ will hold a consistent line from one rate-set meeting to the next". If it does so, then we believe it has little option but to lower its Official Cash Rate at this review. At the same time consistency would suggest it also open the door to a further reduction thereafter. Accordingly, we are moving our expected rate track to include 25 point cuts in rates at both this OCR Review and June's MPS. See our lead article in today's Strategist for our full preview and discussion.

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Quarterly Forecasts

Forecasts as at 14 April 2016

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts: Mar-16 to Mar-17

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
GDP (production s.a.)	0.9	0.3	0.3	0.9	0.9	0.4	0.6	0.5	0.6	0.6
Retail trade (real s.a.)	1.8	2.1	0.1	1.5	1.2	0.8	0.4	0.5	0.5	0.5
Current account (ytd, % GDP)	-3.1	-3.4	-3.4	-3.3	-3.1	-3.3	-3.5	-3.9	-4.3	-4.5
CPI (q/q)	-0.2	-0.2	0.4	0.3	-0.5	0.1	0.8	0.5	-0.2	0.7
Employment	1.0	0.7	0.2	-0.5	0.9	0.7	0.6	0.5	0.5	0.5
Unemployment rate %	5.8	5.8	5.9	6.0	5.3	5.3	5.5	5.6	5.7	5.8
Avg hourly earnings (ann %)	3.0	2.6	3.2	2.7	2.5	2.6	2.2	2.3	2.7	2.8
Trading partner GDP (ann %)	3.5	3.4	3.3	3.4	3.3	3.1	3.2	3.2	3.3	3.4
CPI (y/y)	0.8	0.3	0.4	0.4	0.1	0.3	0.8	0.9	1.2	1.8
GDP (production s.a., y/y))	4.1	3.0	2.4	2.3	2.3	2.5	2.7	2.4	2.1	2.3

Interest Rates

Historical data - qtr average Forecast data - end quarter	Cash	Government Stock 90 Day Bank Bills	 5 Year	 10 Year	Swaps 2 Year	 5 Year	 10 Year	US Rates Libor 3 month	 US 10 yr	Spread NZ-US Ten year
2015 Mar	3.50	3.65	3.25	3.40	3.65	3.70	3.80	0.25	1.95	1.40
Jun	3.45	3.50	3.15	3.50	3.30	3.60	3.90	0.30	2.15	1.35
Sep	2.95	3.00	2.75	3.20	2.85	3.15	3.65	0.30	2.20	1.00
Dec	2.70	2.85	2.85	3.35	2.75	3.10	3.60	0.40	2.20	1.15
2016 Mar	2.45	2.55	2.60	3.05	2.50	2.80	3.30	0.60	1.90	1.15
Forecasts										
Jun	1.75	1.85	2.35	3.05	2.00	2.50	3.20	0.70	1.40	1.65
Sep	1.75	1.90	2.50	3.25	2.00	2.65	3.40	0.90	2.25	1.00
Dec	1.75	1.90	2.50	3.25	2.10	2.75	3.50	1.10	2.50	0.75
2017 Mar	1.75	1.95	2.70	3.45	2.20	2.90	3.65	1.25	2.75	0.70
Jun	2.00	2.20	2.85	3.55	2.50	3.10	3.80	1.40	2.75	0.80
Sep	2.00	2.20	2.95	3.55	2.80	3.30	3.90	1.80	2.75	0.80
Dec	2.00	2.35	3.05	3.60	3.00	3.45	4.00	2.10	2.75	0.85
2018 Mar	2.25	2.50	3.15	3.65	3.30	3.60	4.10	2.35	2.75	0.90
Jun	2.50	2.75	3.25	3.75	3.40	3.70	4.20	2.45	2.75	0.95

Exchange Rates (End Period)

	USD Forecasts					NZD Forecasts					
	EUR/USD	**USD/JPY**	**GBP/USD**	**NZD/USD**	**AUD/USD**	**NZD/EUR**	**NZD/JPY**	**NZD/GBP**	**NZD/USD**	**NZD/AUD**	**TWI-17**
Current	1.1277	109.42	1.4194	0.6914	0.7660	0.6131	75.65	0.4871	0.6914	0.9026	73.12
Jun-16	1.1200	115.00	1.4300	0.6500	0.7400	0.5804	74.75	0.4545	0.6500	0.8784	69.67
Sep-16	1.1100	115.00	1.4400	0.6300	0.7100	0.5676	72.45	0.4375	0.6300	0.8873	69.19
Dec-16	1.0900	117.00	1.4300	0.6100	0.6900	0.5596	71.37	0.4266	0.6100	0.8841	67.86
Mar-17	1.0900	118.00	1.4300	0.6100	0.6900	0.5596	71.98	0.4266	0.6100	0.8841	67.93
Jun-17	1.0900	120.00	1.4400	0.6200	0.7000	0.5688	74.40	0.4306	0.6200	0.8857	68.65
Sep-17	1.1000	120.00	1.4400	0.6300	0.7200	0.5727	75.60	0.4375	0.6300	0.8750	69.21
Dec-17	1.1000	119.00	1.4500	0.6500	0.7300	0.5909	77.35	0.4483	0.6500	0.8904	70.91
Mar-18	1.1200	119.00	1.4500	0.6600	0.7400	0.5893	78.54	0.4552	0.6600	0.8919	71.51
Jun-18	1.1300	118.00	1.4700	0.6700	0.7500	0.5929	79.06	0.4558	0.6700	0.8933	71.97
Sep-18	1.1400	118.00	1.4600	0.6800	0.7500	0.5965	80.24	0.4658	0.6800	0.9067	72.78
TWI Weights						0.1087	0.0631	0.0434	0.1234	0.2198	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Forecasts

Forecasts as at 14 April 2016	March Years Actuals 2014	2015	Forecasts 2016	2017	2018	December Years Actuals 2014	2015	Forecasts 2016	2017	2018
GDP - annual average % change										
Private Consumption	3.1	2.6	2.7	2.6	1.8	2.7	2.5	2.9	1.8	1.9
Government Consumption	2.2	2.3	2.2	0.7	2.3	2.7	2.2	1.0	1.7	2.9
Total Investment	7.2	9.7	2.8	4.4	2.6	10.9	3.1	4.2	3.4	1.7
Stocks - ppts cont'n to growth	0.2	0.1	-0.2	0.2	0.0	0.0	-0.3	0.3	0.0	0.0
GNE	3.9	4.1	2.4	2.9	2.1	4.4	2.3	3.0	2.2	2.1
Exports	0.0	4.2	5.4	2.2	5.0	3.0	6.7	1.9	4.6	4.1
Imports	8.1	7.4	2.0	2.1	3.1	7.9	3.6	1.2	3.3	2.7
Real Expenditure GDP	1.6	3.2	3.6	2.8	2.6	3.0	3.4	3.1	2.5	2.4
GDP (production)	**2.7**	**3.6**	**2.4**	**2.4**	**2.6**	**3.7**	**2.5**	**2.4**	**2.5**	**2.4**
GDP - annual % change (q/q)	*3.5*	*3.0*	*2.5*	*2.3*	*2.7*	*4.1*	*2.3*	*2.1*	*2.7*	*2.3*
Output Gap (ann avg, % dev)	0.3	1.1	1.2	0.9	0.9	0.9	1.2	1.1	0.9	0.7
Household Savings (gross, % disp. income)	4.9	2.6	2.2	2.7	2.2					
Nominal Expenditure GDP - $bn	231.1	239.5	247.8	257.7	271.0	238.3	246.1	254.2	268.1	279.0
Prices and Employment - annual % change										
CPI	1.5	0.3	0.3	1.8	1.9	0.8	0.1	1.2	2.2	1.6
Employment	3.7	3.2	1.3	2.1	2.3	3.5	1.4	2.3	2.3	2.1
Unemployment Rate %	6.0	5.8	5.3	5.8	5.6	5.8	5.3	5.7	5.7	5.4
Wages - ahote	2.9	2.6	2.6	2.8	3.0	3.0	2.5	2.7	2.7	3.0
Productivity (ann av %)	0.1	0.0	0.3	0.1	0.4	0.1	0.1	0.2	0.3	0.2
Unit Labour Costs (ann av %)	2.6	2.1	2.6	2.6	2.4	2.4	2.5	2.5	2.5	2.8
External Balance										
Current Account - $bn	-5.9	-8.1	-8.1	-11.5	-10.8	-7.5	-7.7	-10.9	-11.2	-10.7
Current Account - % of GDP	-2.5	-3.4	-3.3	-4.5	-4.0	-3.1	-3.1	-4.3	-4.2	-3.8
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	-1.2	0.2	0.0	0.3	0.7					
Net Core Crown Debt (excl NZS Fund Assets)	25.6	25.2	26.7	27.3	26.4					
Bond Programme - $bn	8.0	8.0	8.0	9.0	9.0					
Bond Programme - % of GDP	3.5	3.3	3.2	3.4	3.3					
Financial Variables [(1)]										
NZD/USD	0.85	0.75	0.67	0.61	0.66	0.78	0.67	0.61	0.65	0.69
USD/JPY	102	120	113	118	119	119	122	117	119	117
EUR/USD	1.38	1.08	1.11	1.09	1.12	1.23	1.09	1.09	1.10	1.15
NZD/AUD	0.94	0.97	0.90	0.88	0.89	0.94	0.93	0.88	0.89	0.91
NZD/GBP	0.51	0.50	0.47	0.43	0.46	0.50	0.45	0.43	0.45	0.47
NZD/EUR	0.62	0.69	0.61	0.56	0.59	0.63	0.62	0.56	0.59	0.60
NZD/YEN	87.1	89.9	76.0	72.0	78.5	92.6	82.1	71.4	77.4	80.7
TWI	81.3	78.3	72.2	67.9	71.5	78.2	73.2	67.9	70.9	73.4
Overnight Cash Rate (end qtr)	2.75	3.50	2.31	1.75	2.25	3.50	2.50	1.75	2.00	2.75
90-day Bank Bill Rate	3.06	3.63	2.42	1.95	2.50	3.67	2.74	1.90	2.33	3.08
5-year Govt Bond	4.11	3.20	2.45	2.70	3.15	3.66	2.90	2.50	3.05	3.35
10-year Govt Bond	4.58	3.35	2.95	3.45	3.65	3.85	3.45	3.25	3.60	3.75
2-year Swap	3.97	3.55	2.30	2.20	3.30	3.84	2.80	2.10	3.00	3.60
5-year Swap	4.57	3.65	2.60	2.90	3.60	4.04	3.15	2.75	3.45	3.80
US 10-year Bonds	2.71	2.05	1.90	2.75	2.75	2.20	2.25	2.50	2.75	2.75
NZ-US 10-year Spread	1.87	1.30	1.05	0.70	0.90	1.65	1.20	0.75	0.85	1.00

[(1)] *Average for the last month in the quarter*

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, NZ Treasury, BNZ

Calendar

	Forecast	Median	Last
Friday 15 April			
Aus, Financial Stability Review			
China, Retail Sales, March ytd		+10.4%	+10.2%
China, Industrial Production, March ytd		+5.5%	+5.4%
China, GDP, Q1 y/y		+6.7%	+6.8%
US, Industrial Production, March	-0.1%		-0.5%
US, Mich Cons Confidence, Apr 1st est		92.0	91.0
Monday 18 April			
NZ, CPI, Q1		+0.1%	-0.5%
China, Property Prices, February			
US, NAHB Housing Index, April		59	58
Tuesday 19 April			
NZ, BNZ PSI (Services), March			56.9
Aus, RBA Minutes, 5 Apr Meeting			
Aus, Stevens Speaks, Credit Suisse NY			
Germ, ZEW Sentiment, April			+4.3
US, Housing Starts, March		1,170k	1,178k
Wednesday 20 April			
NZ, Dairy Auction			+2.1%
Jpn, Merchandise Trade Balance, March			+¥243b
UK, Unemployment Rate (ILO), February			5.1%
US, Existing Home Sales, March		5.27m	5.08m
Thursday 21 April			
NZ, ANZ Job Ads, March			+0.9%
NZ, ANZ-RM Consumer Confidence, April			118.0
NZ, External Migration, March s.a.			+6,070
Aus, NAB Business Survey, Q1			+4
Euro, ECB Policy Announcement, Main Refi Rate			0.00%
Euro, Consumer Confidence, April 1st est			-9.7
UK, Retail Sales vol., March			-0.4%
US, Philly Fed Index, April		+6.0	+12.4
US, Leading Indicator, March		+0.4%	+0.1%
Friday 22 April			
Euro, PMI Manufacturing, April 1st est			51.6
Euro, PMI Services, April 1st est			53.1
US, Markit PMI, April 1st est			51.5
Monday 25 April			
NZ, Holiday, ANZAC Day			
Germ, IFO Index, April			106.7
US, New Home Sales, March			512k
Tuesday 26 April			
US, Durables Orders, March 1st est			-3.0%
US, Markit PSI, April 1st est			51.3
US, Consumer Confidence, April			96.2
Wednesday 27 April			
NZ, Merchandise Trade, March			+$339m
NZ, Residential Lending, February			+11.7%
Aus, CPI, Q1			+0.4%
China, Industrial Profits, March y/y			-4.7%
UK, GDP, Q1 1st est			+0.6%
US, FOMC Policy Announcement	0.50%	0.50%	0.50%

			Last
Thursday 28 April			
NZ, RBNZ OCR Review	2.25%	2.25%	2.25%
Aus, Terms of Trade, Q1			-5.1%
Jpn, CPI, March y/y			+0.3%
Jpn, BOJ Policy, Money Base Target		+¥80T p.a.	+¥80T p.a.
Jpn, Household Spending, March y/y (real)			+1.2%
Jpn, Unemployment Rate, March			3.3%
Euro, Economic Confidence, April			103.0
Germ, CPI, Apr y/y 1st est			+0.3%
US, Shiller Home Price Index, February y/y			+5.4%
US, GDP, Q1 1st est			+1.4%
Friday 29 April			
NZ, Building Consents, March (res, #)			+10.8%
NZ, Household Credit, March y/y			+7.6%
NZ, ANZ Business Survey, April			+3.2
Aus, Private Sector Credit, March			+0.6%
Aus, RBA's Debelle Speaks			
Euro, GDP, Q1 1st estimate			+0.3%
US, Chicago PMI, April			53.6
US, Employment Cost Index, Q1			+0.6%
US, Personal Spending, March			+0.1%
Sunday 1 May			
China, PMI (NBS), April			50.2
China, Non-manufacturing PMI, April			53.8
Monday 2 May			
US, Construction Spending, March			-0.5%
US, ISM Manufacturing, April			51.8
Tuesday 3 May			
Aus, RBA Policy Announcement	2.00%	2.00%	2.00%
Aus, Building Approvals, March			+3.1%
China, PMI (Caixin), April			49.7
UK, Markit/CIPS Manuf Survey, April			51.0
Wednesday 4 May			
NZ, HLFS Employment, Q1			+0.9%
NZ, ANZ Comdty Prices (world), April			-1.3%
NZ, QVNZ House Prices, April			+11.4%
NZ, LCI Priv Ord Wages, Q1 y/y			+1.6%
Euro, Retail Sales, March			+0.2%
US, Factory Orders, March			-1.7%
US, ADP Employment, April			+200k
US, ISM Non-Manuf, April			54.5
US, International Trade, March			-$47.1b
Thursday 5 May			
Aus, Retail Trade, March			flat
Aus, International Trade, March			-$3.41b
China, Services PMI (Caixin), April			52.2
Euro, ECB Economic Bulletin			
UK, CIPS Services, April			53.7
Friday 6 May			
Aus, Qtly Monetary Statement			
US, Non-Farm Payrolls, April			+215k

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