NEW ZEALAND ECONOMICS
MARKET FOCUS

21 November 2016

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RAISING THE (SHAKY) STAKES

ECONOMIC OVERVIEW

The extent of damage from last week's earthquakes, and the economic impact itself, remain highly uncertain, though we are erring towards the higher side, with major questions surrounding the extent of damage in Wellington and Marlborough, let alone Kaikoura. We have shaved our GDP forecasts a touch in Q4 and Q1, offset by a modest lift in mid-2017. However, we are reluctant to upgrade our medium-term figures on account of the rebuild as capacity constraints are already biting and will ultimately require resources to be shifted from elsewhere. Given the resource pressures (and direct inflation consequences from the quakes such as higher insurance premiums), we have lifted our inflation forecasts a touch, but the RBNZ can (and will) look through this.

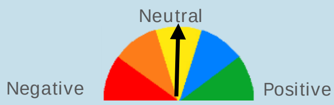
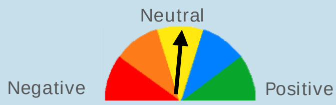
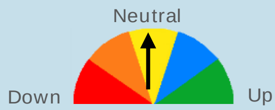
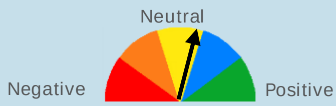
INTEREST RATE STRATEGY

The short end still looks to be a tussle between "end of cycle" fears of payers' panic/capitulation versus carry (2-year 52 bps to OCR)/valuations/the economics. We are agnostic over the front end of the local curve; we like the carry but respect the flows, given the changing shape of the mortgage curve. The worst of the deluge looks behind us though, and we expect data nuances to become more relevant from here and provide neutral signals. The long end remains hostage to USD and payside direction. We're coy about reflation being at hand globally. The world desires higher rates as an economic signal of a self-sustaining upswing, but the path for lower rates has consistently been higher rates!

CURRENCY STRATEGY

The USD remains in the driver's seat as global yields rise and the market questions whether this is the beginning of the end for the liquidity trade. It's too early to tell (we are biased to say no) and we view recent movements in the NZD/USD as having largely done their dash, noting NZD resilience on a TWI basis. This is testament to the wider support factors amidst shaky challenges. The NZD/AUD continues to frustrate those who continue to argue for sustained pushes lower, bouncing each time.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	
Unemployment rate	4.7% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	
OCR	1.75% by Jun 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify.	
CPI	1.4% y/y for 2017 Q2	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

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FORTHCOMING EVENTS

International Travel & Migration – October (possibly this week). Ahead of a possible moderation in the immediate aftermath of the earthquakes, we expect the figures to remain strong.

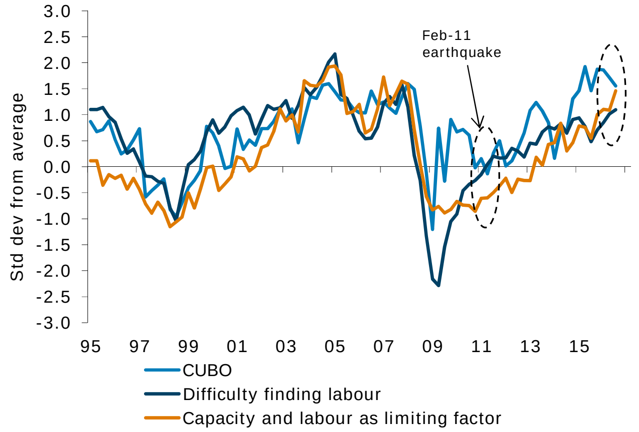
Overseas Merchandise Trade – October (possibly this week). We have pencilled in a large deficit of $1,030m as exports continue to be weighed down by weaker primary production and low inventory levels.

WHAT'S THE VIEW?

The economic impact of last week's earthquake is difficult to assess. We released some brief thoughts last week (available on request), with the key themes as follows:

- **The extent of damage and the costs involved remain up in the air.** While just speculation at this stage, the general consensus looks to be "in the billions."
- **Estimates could easily increase and we think they will** as the damage to key infrastructure is assessed, aftershocks continue, and **questions are asked about some Wellington CBD buildings. That looks like a whole can of worms.** Anything harbour-side of Lambton Quay in Wellington will be especially under the spotlight and we expect a flight to quality for commercial buildings. The impact on the viticulture industry across Marlborough needs to be assessed; the impact is potentially non-trivial. The costs of restoring or redirecting SH1 at the top of the South Island appear astronomical (and impractical); it's Transmission Gully on steroids! Scientists are talking about non-trivial probabilities of further large aftershocks.
- **Any natural disaster wipes out capital stock, curtails the production possibility frontier, diverts resources from other sectors and tends to raise input costs (i.e. insurance).** There is a rebuild boost, but it's not the growth you want to see. The only positive is that rebuilding something does at least give you an option to optimise the capital stock. Nonetheless, **forget about sugar-coating the event on the basis of the rebuild boost.**
- **With the economy already operating at or near capacity, this is a vastly different backdrop than during the 2010/11 quakes.** The economy is now in a full-blown expansion as opposed to a recovery; the latter is easier to snuff out with negative shocks. Finding the necessary resources will present challenges for the reconstruction effort – in a capacity-constrained economy the activity "boost" from a rebuild becomes negligible as you are merely shuffling resources around. There will be inflation consequences but the one-off impact can be looked through. Quality buildings will attract more of a premium and lower-tier properties will be shunned.

FIGURE 1: INDICATORS OF RESOURCE AND CAPACITY PRESSURES



Source: ANZ, NZIER

- **The near-term hit to GDP is also uncertain, but looks modest across the aggregate economy.** We are likely to see a small dent in activity over the next quarter or two, and while there will be the obvious boost once the rebuild gets underway, it will need to be absorbed by reallocating resources. The event is negative overall; capital stock has been destroyed and will need to be rebuilt. That's not productivity enhancing for the existing base.
- **A solid growth and yield backdrop will continue to support the NZD. However, the risk premium associated with NZD will need to rise and this will dent the attractiveness**

ECONOMIC OVERVIEW

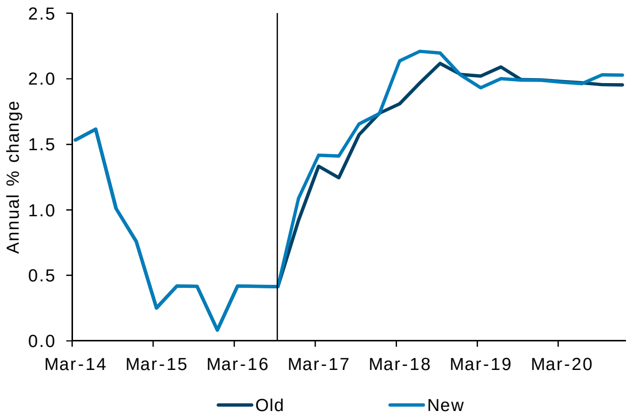
of carry (though not completely undermine it). We do not expect recent NZD softness to extend too far.

- **The Government has the capacity to absorb rebuild costs, either directly or indirectly through the EQC** (for residential damage). We expect larger cash deficits and a slightly higher debt profile but we are talking about a margin-of-excellence tweak. At present, net debt is only 25% of GDP and cash deficits are less than 1% of GDP. The accounts have been buoyed by the stronger economy, with tax revenue running close to $800m ahead of Budget forecasts. Additionally, the EQC has access to $4.7b in reinsurance protection (less the deductible) and there is an explicit Crown guarantee to meet any payments if it is unable to do so (which is possible, given the reduced reserves in the National Disaster Fund). Rebuild requirements in a capacity-constrained environment will lengthen the tail of public sector investment. Talk of a possible credit rating upgrade (which had been speculated on by some) can be put to bed. Rebuild demands will tap any cash that was available for election sweeteners.
- **Some key longer-term strategic questions should be raised** surrounding where investment should be made given earthquake risks, key transport links and the public/private ownership of assets. The case for farming out some Government functions into the regions just got a huge boost and it is a proposal that should be put on the table.
- **It will be the small things** (e.g. shifts in inter-regional migration, business continuity plans, fallout across the insurance sector, the extent of disruption to roading and rail infrastructure) **that are hard to ascertain but critical to understand.** At present we are flying blind.

On account of this thinking, we have made some modest changes to our economic forecasts. As mentioned, gauging the economic impact at this early stage is fraught with uncertainty, but we still feel that some forecast changes are warranted:

- **We have shaved our Q4 and Q1 GDP forecasts.** We have lowered Q4 and Q1 quarterly growth by 0.1 and 0.2 percentage points to 1.0% and 0.8% q/q respectively. This largely reflects assumptions around the disruption to transport and freight links from infrastructure damage in the upper South Island as well as a modest temporary hit to retail spending. In part the latter relates to a likely near-term hit to the tourism sector. After the 2010/11 Canterbury quakes, there was a brief hit to international visitor arrivals. This is offset by a modest boost to mid-2017 growth as activity levels normalise.
- **However, we are reluctant to alter our medium-term forecasts much, if at all.** While the rebuild and repair work will obviously provide an additional boost to the construction sector, the sector is already facing considerable capacity pressures. This additional boost (which will not only include repair work directly, but the ongoing push to strengthen buildings in other regions) will largely require resources to be shifted from elsewhere. We had felt that as the Canterbury rebuild effort matured, resources would head north to assist with pressures in the likes of Auckland. That will be more restricted now.
- **We have lifted our inflation forecasts modestly.** We have already seen some trucking companies impose surcharges to recoup costs associated with detours due to roading damage. Dwelling insurance premiums look set to rise again – they more than doubled after the Canterbury quakes. But more fundamentally, the pressures on capacity, particularly in the construction sector, look set to add further upside to construction costs and wages. We now forecast headline inflation to return to the target mid-point three months earlier than previously (early 2018) and see annual inflation around 0.2-0.3%pts higher over 2018 than previously.

FIGURE 2: HEADLINE CPI FORECAST



Source: ANZ, Statistics NZ

While **we saw additional monetary policy easing after the 2010/11 Canterbury quakes** the New Zealand economy was weak around that time anyway and one could make the case that the quake was an excuse to unwind an unjustified tightening.

A significant hit to confidence and activity would be required to justify further easing, which we

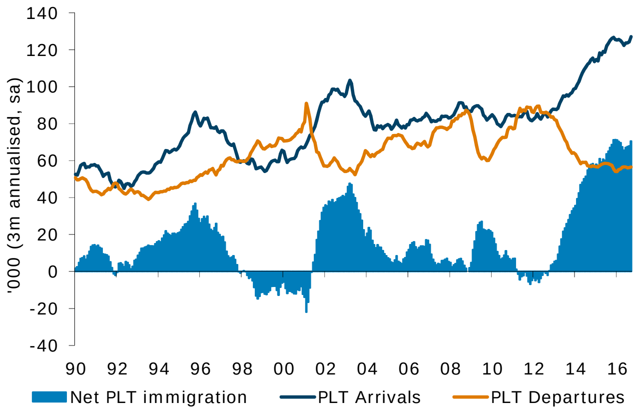
ECONOMIC OVERVIEW

do not envisage at this stage. Unlike back in 2010/11, the economy is currently in a full-blown expansion, as opposed to a recovery. The economic context is important. When an economy is recording strong momentum, it has a great deal more resilience to cope with negative shocks. Last week saw dairy prices lift again, consumer confidence rise further and job ads increase for the ninth month in a row.

Turning to the week ahead, Statistics NZ's functions have been impacted by the quakes, so the data calendar is up in the air at present. Some releases will be delayed and it is unclear if the data due this week will be released on time. But we offer our thoughts on the releases due nonetheless.

International travel and migration data for October should remain strong, but will be interesting to watch going forward for any signs of earthquake fallout. Ahead of the September figures, it had looked as though net migrant inflows, while still strong, had passed their peak. However, a record net inflow in September clearly showed that New Zealand remains an attractive destination for migrants, and New Zealanders themselves. Given political dynamics around the world, and New Zealand's economic outperformance, we expect a strong net inflow theme to remain for some time yet.

FIGURE 3: NET MIGRATION FLOWS



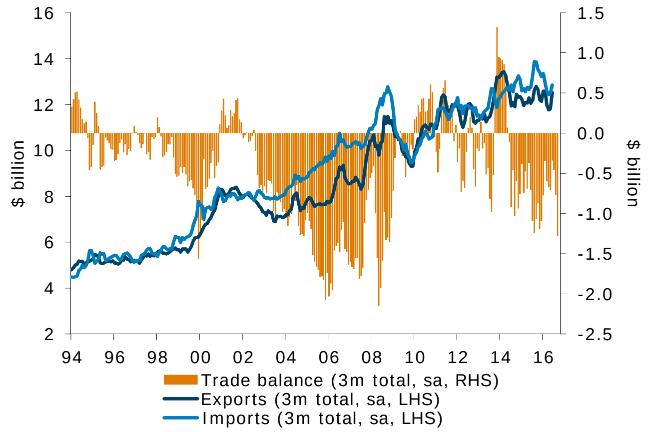
Source: ANZ, Statistics NZ

That said, we could see net inflows temporarily moderate following the earthquakes. That was the case after the 2010/11 Canterbury quakes, which seems natural as people question safety aspects of the move. But given the likely demand for resources, particularly with many sectors already capacity constrained, we don't expect any softening to be meaningful or persist for long.

The same is likely for visitor arrivals. There may be some softening in the near term, although we suspect it will be temporary. Some trips may be cancelled or delayed, which is unfortunate as we head into peak season. However, the impact is likely to be more regional than national, and while North Canterbury is facing some considerable challenges, we still believe the health and outlook for the industry overall is promising.

Overseas merchandise trade figures are expected to show a reasonably large monthly deficit in October. We have pencilled in a deficit of $1,030m. While we have seen commodity prices begin to recover, meaningfully so in the case of dairy, this is expected to be outweighed by other forces for now. In particular, the forward selling of product on GDT means that it takes time for dairy price changes to be reflected in official trade statistics. Additionally, weaker primary volumes are likely to again be seen, with milk production negatively impacted by wet spring weather, farmers in cost-control mode and producers' inventory levels low. There will no doubt be good news from other export sectors (such as horticulture and perhaps forestry), but this is unlikely to be able to pick up the slack of weaker dairy and meat export receipts overall.

FIGURE 4: OVERSEAS MERCHANDISE TRADE



Source: ANZ, Statistics NZ

LOCAL DATA

BNZ-BusinessNZ PSI – October. The index lifted 1.1 points to 56.3.

GlobalDairyTrade Auction. The GDT Price Index rose 4.5%. Whole milk powder prices lifted 3.2%.

ANZ Job Ads – October. Advertising rose 0.6% m/m, to be up 18% y/y (3-month average).

ANZ-Roy Morgan Consumer Confidence – November. The index rose from 122.9 to 127.2, taking confidence to the highest since April 2015.

Retail Trade Survey – Q3. Total retail sales volumes rose 0.9% q/q, while core volumes rose 0.3% q/q.

PPI – Q3. Input and output prices rose 1.5% and 1.0% q/q respectively (0.1% and 0.1% y/y).

INTEREST RATE STRATEGY

SUMMARY

The short end still looks to be a tussle between "end of cycle" fears of payers' panic/capitulation versus carry (2-year 52 bps to OCR)/valuations/the economics. We are agnostic over the front end of the local curve; we like the carry but respect the flows, given the changing shape of the mortgage curve. The worst of the deluge looks behind us though, and we expect data nuances to become more relevant from here and provide neutral signals. The long end remains hostage to USD and payside direction. We're coy about reflation being at hand globally. The world desires higher rates as an economic signal of a self-sustaining upswing, but the path for lower rates has consistently been higher rates!

THEMES

- Short end is a tussle between carry (2 year-OCR gap of 52 bps) and flows. Worst of the correction higher looks behind us.
- Term premium now finding its way back into the curve and expected to remain, with the balance of risks for the economy shifting.
- Asset valuations hold up amidst higher yields.
- Volatility the name of the game. If the pending policy mix out of Government (the USA) is uncertain, volatility must pick up.
- Nothing on the domestic horizon to change market trends, though the impact of last week's earthquake will have a minor flow-on for bond issuance and the inflation profile.

MONETARY POLICY AND SHORT END

We are agnostic over the front end of the NZ curve. Market sentiment is starting to shift towards the next OCR move being up, as per our central forecast (2018 hike), but markets don't do stability very well so is playing this theme with 2017 in mind.

It's hard to see the market going back to pricing in OCR cuts given the reflation thematic globally, and strength of the economy. The NZD at current levels is still problematic inflation-wise but the recent tick lower helps, commodity prices are lifting and inflation expectations have started to lift around the globe. That said, **we think the economic impact of last week's quake is being understated.**

The short end still looks a tussle between "end of cycle" fears of payers' panic/capitulation versus carry/valuations/the economics. The 2-year swap sits a massive 52bps above the OCR. That's a hard level to sustain, let alone a level to push further north from, but flows matter and we are mindful of payside flow given the changing shape of the mortgage curve and pressure for mortgage rates to move up further due to the competition for deposits and lifts in wholesale rates to date; the 2-year swap is around 37 bps off lows.

For now, the worst of the deluge looks behind us and we expect the market to turn back to the tenor of data-flow. On that front, we see **nothing on the horizon to give the market a new thematic.**

GLOBAL MARKETS AND LONG END

We are also fairly neutral at the long end. The market has been quick to embrace the reflation trade on bonds and the potential end of the liquidity trade in FX but there remain more questions than answers. Policy details are scant; we struggle to see how a more inward / less outward (globalised) policy mix is good for productivity growth and hence asset valuations and profits. Just as lower rates were a toxic signal for investment quality, higher yields will reveal the extent of that amidst high leverage. **The world actually needs higher rates but the path for lower rates has consistently been higher rates!** That is, sharply higher rates can cause a growth headwind which results in rates reversing course.

Demand for longer-term New Zealand bonds remains solid despite the global fixed income selloff, with the 2025s tender last week going 3-4bp under interbank mid at the time. The prospect of a tax/family package along with demands from earthquake-related costs raises the spectre of more bond issuance in upcoming budgets. However, we'd expect that to be nothing more than $1-2 billion per year and easily absorbable.

STRATEGY

Investors: It's difficult to have significant conviction ahead of key event risk this week, but on balance we prefer to be neutral (outright and on a spread).

Borrowers: The lows for yields are in. We see merit in adding to hedges.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral	RBNZ doing nothing. Domestic economy and flows need to be respected, but carry looks good.
Long end	Muddling thru	Hard to see a full-blown bear market given leverage challenges around the globe. If lower rates were good for asset values what should a 95bps sell off in US Treasury's mean?
Yield Curve	Steep	Movement has done its dash but hard to see levels changing.
Geographic spreads	Neutral	NZ-US 10 year spread is now in at 75bps. We are into diminishing returns chasing it.
Swap spreads	Neutral	Contained at current levels. Hard to see NZ bonds coming back onshore unless we see a significant strengthening in the NZD and NZGB under-performing NZIRS. NZGB demand remains solid.
NZD/TWI	Elevated	NZD/USD down but NZD still wins the beauty pageant against others.

CURRENCY STRATEGY

SUMMARY

The USD remains in the driver's seat as global yields rise and the market questions whether this is the beginning of the end for the liquidity trade. It's too early to tell (we are biased to say no) and we view recent movements in the NZD/USD as having largely done their dash, noting NZD resilience on a TWI basis. This is testament to the wider support factors amidst shaky challenges. The NZD/AUD continues to frustrate those who continue to argue for sustained pushes lower, bouncing each time.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Unclear from 0.70	Firmer USD bias
NZD/AUD	↔	Another squeeze is on	0.93/0.98 range
NZD/EUR	↔	Would be up if not for the quake	Divided outlooks
NZD/GBP	↔/↓	Pound back in vogue	GBP stabilising
NZD/JPY	↔	Same as NZD/EUR	USD dictating USD/JPY higher

THEMES AND RISKS

- USD in the driver's seat, buoyed by rising yields.
- Is it the end of the global liquidity trade?
- Attention now on European politics.
- RMB continues to weaken.
- Earthquake a reminder of the obvious; New Zealand has some specific risks. We think the impact is large and the NZD needs to be mindful of that.
- New Zealand's macro data pulse remains strong; dairy prices continue to lift.

ASSESSMENT

The USD is in charge due to rising yields in the US and the potential for political fragmentation in Europe.

However, a couple of factors leave us wary of expecting this to extend too far.

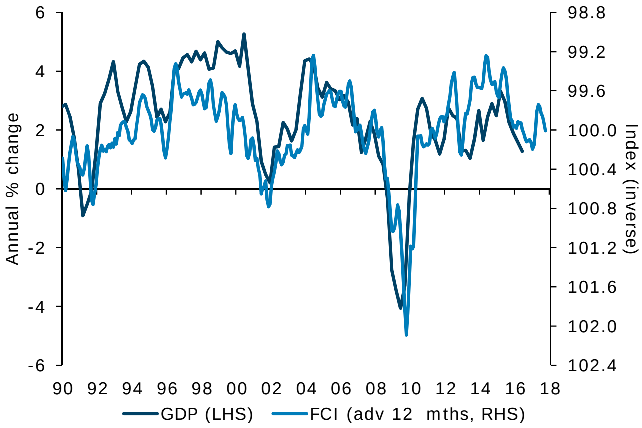
- **Time and time again currencies have proven to be the vehicle through which monetary policy is expressed**; a high currency cannot be ignored by central banks. This in turn "caps" yield movements (divergence across geographies). US financial conditions have started to tighten, though it's not yet flagging a huge turning point. But that is dependent on asset values holding up amidst higher yields.

- **The potential impact of rising yields on balance sheets, leverage and valuations.** If falling yields lowered the risk-free rate and boosted asset valuations then its hocus-pocus to think the reverse won't apply. That is unless we have the growth backdrop to back it up. This is where markets seem to be erring with a glass-half-full view; inflation will be good for profits. We're sceptical. The policy mix is bad for productivity.

- It's too early to call an end to the global liquidity trade.

Some "fact" (economic substance), needs to back up the rumour. We've seen no policy detail yet! If Trump fails to ignite the US economy, what's next? Socialism?

US GDP VS FINANCIAL CONDITIONS INDEX



Source: ANZ, Bloomberg

The NZD still looks strong on a TWI basis. While down against the USD, price action against others has been more demure, and in fact the NZD/AUD is higher. Some of this is acknowledgement that New Zealand's economic story remains strong, amidst obvious earthquake-related challenges. The latter might be a reminder about some risks, but New Zealand 10-year yields now sit at 3.1% and growth is tracking in the 3½-4% zone. Tax cuts are being mooted. That's tough to ignore.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Fair value is 0.93. Not stretched at 0.95.
Yield	↔	Neither central bank doing anything.
Commodities	↔	Heading the same way for both.
Data	↔/↑	Jobs data heavily in NZ's favour.
Techs	↔/↑	Held 0.9390, now looking up.
Sentiment	↔/↑	Has tried numerous times to break lower but hasn't. Market getting frustrated = potential squeezes up.
Other	↓	Quake effect
On balance	↔/↑	**0.93-0.97**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Below fair value estimate of ~0.75.
Yield	↔	Neutral at these levels.
Commodities	↔/↑	Dairy prices up.
Risk aversion	↔	Still a potential Achilles heel.
Data	↔	US pulse better; NZ strong.
Techs	↔/↓	0.70 to be tested.
Other	↔/↓	All about the USD.
On balance	↔	**Latest move looks to have done its dash but USD side holds the key.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
21-Nov	JN	Trade Balance - Oct	¥610.0B	¥497.6B	12:50
	JN	Trade Balance Adjusted - Oct	¥404.3B	¥349.0B	12:50
	JN	Exports YoY - Oct	-8.5%	-6.9%	12:50
	JN	Imports YoY - Oct	-16.1%	-16.3%	12:50
	NZ	Credit Card Spending MoM - Oct	--	2.6%	15:00
	NZ	Credit Card Spending YoY - Oct	--	8.2%	15:00
	JN	All Industry Activity Index MoM - Sep	0.0%	0.2%	17:30
22-Nov	US	Chicago Fed Nat Activity Index - Oct	0	-0.14	02:30
	AU	ANZ-RM Consumer Confidence Index - 20-Nov	--	118.2	11:30
	UK	Public Finances (PSNCR) - Oct	--	£13.3B	22:30
	UK	Central Government NCR - Oct	--	£22.5B	22:30
	UK	Public Sector Net Borrowing - Oct	£6.0B	£10.1B	22:30
	UK	PSNB ex Banking Groups - Oct	£6.0B	£10.6B	22:30
	NZ	Net Migration SA - Oct	--	6340	22-25 Nov
23-Nov	UK	CBI Trends Total Orders - Nov	-8	-17	00:00
	UK	CBI Trends Selling Prices - Nov	--	8	00:00
	US	Richmond Fed Manufact. Index - Nov	0	-4	04:00
	EC	Consumer Confidence - Nov A	-7.8	-8.0	04:00
	US	Existing Home Sales - Oct	5.43M	5.47M	04:00
	US	Existing Home Sales MoM - Oct	-0.7%	3.2%	04:00
	AU	Skilled Vacancies MoM - Oct	--	-1.2%	13:00
	AU	Construction Work Done - Q3	-1.6%	-3.7%	13:30
	GE	Markit/BME Manufacturing PMI - Nov P	54.8	55.0	21:30
	GE	Markit Services PMI - Nov P	54.0	54.2	21:30
	GE	Markit/BME Composite PMI - Nov P	55.0	55.1	21:30
	EC	Markit Manufacturing PMI - Nov P	53.3	53.5	22:00
	EC	Markit Services PMI - Nov P	52.9	52.8	22:00
	EC	Markit Composite PMI - Nov P	53.3	53.3	22:00
24-Nov	US	MBA Mortgage Applications - 18-Nov	--	-9.2%	01:00
	US	Durable Goods Orders - Oct P	1.2%	-0.3%	02:30
	US	Durables Ex Transportation - Oct P	0.2%	0.1%	02:30
	US	Cap Goods Orders Nondef Ex Air - Oct P	0.3%	-1.3%	02:30
	US	Cap Goods Ship Nondef Ex Air - Oct P	0.1%	0.4%	02:30
	US	Initial Jobless Claims - 19-Nov	248k	235k	02:30
	US	Continuing Claims - 12-Nov	--	1977k	02:30
	US	House Price Purchase Index QoQ - Q3	--	1.2%	03:00
	US	FHFA House Price Index MoM - Sep	0.5%	0.7%	03:00
	US	Markit US Manufacturing PMI - Nov P	53.4	53.4	03:45
	US	New Home Sales - Oct	590k	593k	04:00
	US	New Home Sales MoM - Oct	-0.5%	3.1%	04:00
	US	U. of Mich. Sentiment - Nov F	91.6	91.6	04:00
	US	Fed Minutes from November 1-2 FOMC Meeting			08:00
	JN	Nikkei PMI Mfg - Nov P	--	51.4	13:30
	GE	Private Consumption QoQ - Q3	0.3%	0.2%	20:00
	GE	Government Spending QoQ - Q3	0.6%	0.6%	20:00
	GE	Capital Investment QoQ - Q3	0.3%	-1.5%	20:00
	GE	Construction Investment QoQ - Q3	0.6%	-1.6%	20:00
	GE	Domestic Demand QoQ - Q3	0.5%	-0.2%	20:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-Nov	GE	Exports QoQ - Q3	-0.3%	1.2%	20:00
	GE	Imports QoQ - Q3	0.3%	-0.1%	20:00
	GE	GDP SA QoQ - Q3 F	0.2%	0.2%	20:00
	GE	GDP WDA YoY - Q3 F	1.7%	1.7%	20:00
	GE	GDP NSA YoY - Q3 F	1.5%	1.5%	20:00
	GE	IFO Business Climate - Nov	110.5	110.5	22:00
	GE	IFO Current Assessment - Nov	115.0	115.0	22:00
	GE	IFO Expectations - Nov	106.0	106.1	22:00
	UK	BBA Loans for House Purchase - Oct	38975	38252	22:30
25-Nov	GE	GfK Consumer Confidence - Dec	9.7	9.7	01:00
	NZ	Trade Balance NZD - Oct	-950M	-1436M	10:45
	NZ	Exports NZD - Oct	3.72B	3.47B	10:45
	NZ	Imports NZD - Oct	4.64B	4.90B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Oct	-3393M	-3404M	10:45
	JN	Natl CPI YoY - Oct	0.0%	-0.5%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Oct	-0.4%	-0.5%	12:30
	JN	Natl CPI Ex Food, Energy YoY - Oct	0.1%	0.0%	12:30
	JN	Tokyo CPI YoY - Nov	0.2%	0.1%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Nov	-0.4%	-0.4%	12:30
	JN	Tokyo CPI Ex Food, Energy YoY - Nov	0.0%	0.1%	12:30
	JN	PPI Services YoY - Oct	0.3%	0.3%	12:50
	UK	GDP QoQ - Q3 P	0.5%	0.5%	22:30
	UK	GDP YoY - Q3 P	2.3%	2.3%	22:30
	UK	Private Consumption QoQ - Q3 P	0.8%	0.9%	22:30
	UK	Government Spending QoQ - Q3 P	0.4%	0.0%	22:30
	UK	Gross Fixed Capital Formation QoQ - Q3 P	-1.0%	1.6%	22:30
	UK	Exports QoQ - Q3 P	1.0%	-1.0%	22:30
	UK	Imports QoQ - Q3 P	-0.2%	1.3%	22:30
	UK	Index of Services MoM - Sep	0.2%	0.2%	22:30
	UK	Index of Services 3M/3M - Sep	0.8%	0.8%	22:30
	UK	Total Business Investment QoQ - Q3 P	-1.0%	1.0%	22:30
	UK	Total Business Investment YoY - Q3 P	-2.5%	-0.8%	22:30
26-Nov	UK	CBI Retailing Reported Sales - Nov	12	21	00:00
	UK	CBI Total Dist. Reported Sales - Nov	11	26	00:00
	US	Advance Goods Trade Balance - Oct	-$59.0B	-$56.5B	02:30
	US	Wholesale Inventories MoM - Oct P	0.2%	0.1%	02:30
	US	Retail Inventories MoM - Oct	--	0.3%	02:30
	US	Markit Services PMI - Nov P	54.7	54.8	03:45
	US	Markit Composite PMI - Nov P	--	54.9	03:45

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency
Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Domestic economic momentum is solid, with downside risks mainly stemming from offshore. With inflation showing signs of tentatively lifting, the OCR now looks to be on hold at 1.75% for the foreseeable future.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
TBA	International Travel & Migration – Oct	Strong	We don't see much change in the net migrant and visitor arrivals numbers; they should remain strong.
TBA	Overseas Merchandise Trade – Oct	Deficit	While dairy prices have lifted, the impact of weak production and low inventories should weigh on export receipts.
Wed 30 Nov (9:00am)	RBNZ Financial Stability Report	Further changes possible	The financial system is sound, but risks remain. We will be looking for further information on possible debt-to-income restrictions.
TBA	Building Consent Issuance – Oct	Still trending up	Putting monthly volatility aside, a modest upward trend in issuance should continue for a while yet.
Wed 30 Nov (1:00pm)	ANZ Business Outlook – Nov	--	--
Wed 30 Nov (3:00pm)	RBNZ Credit Aggregates – Oct	Peaked	New lending growth has slowed, which should eventually see the rate of overall credit growth slow too.
Thu 1 Dec (10:45am)	Overseas Trade Indexes – Q3	Modest fall	The terms of trade should have dipped a little further, but we're probably close to a cycle low. Export volumes will be soft.
Fri 2 Dec (10:45am)	Value of Building Work – Q3	Tea break	After some strong quarterly growth rates, we suspect Q3 building work volumes eased a touch in the quarter.
Mon 5 Dec (1:00pm)	ANZ Commodity Price Index – Nov	--	--
Tue 6 Dec (10:00am)	ANZ Truckometer – Nov	--	--
Tue 6 Dec (10:00am)	Government Financial Statements – Oct	Running ahead	A solid economic backdrop should see tax revenue continue to run well ahead of Budget forecasts.
Wed 7 Dec (early am)	GlobalDairyTrade Auction	Supply driven	A considerable supply adjustment globally is underway, which should lend further support to prices.
Wed 7 Dec (10:45am)	Economic Survey of Manufacturing – 3Q	Solid	While a weather-related hit to primary production is possible, the manufacturing sector overall is performing well.
Wed 7 Dec (1:00pm)	ANZ Inflation Gauge– Nov	--	--
Thu 8 Dec (1.00pm)	Treasury Half-year Economic and Fiscal Update	Upgrades	With the economy performing well and tax revenue running ahead of forecasts, fiscal projections will be upgraded.
Fri 9 Dec (10:45am)	Electronic Card Transactions – Nov	Chugging on	We believe relative household restraint remains. Nevertheless, a number of positive support factors still exist.
Tue 13 Dec (10:45am)	Food Price Index – Nov	Seasonal falls	Further seasonal weakness in fruit and vegetable prices should drive the overall index lower.
Wed 14 Dec (10:45am)	Balance of Payments – Q3	Contained	The current account deficit looks set to remain well below its historical average at around 3% of GDP.
Thu 15 Dec (10:30am)	BNZ-BusinessNZ PMI – Nov		The sector remains in good heart, riding on the coat tails of the domestic construction sector.
Thu 15 Dec (10:45am)	GDP – Q3	0.6% q/q	Given weaker agricultural production and a drag from net exports, we expect more modest quarterly growth than seen over H1 2016. But a solid underlying trend will remain.
Fri 16 Dec (10:00am)	ANZ Job Ads – Nov	--	--
Fri 16 Dec (1:00pm)	ANZ Roy Morgan Consumer Confidence – Dec	--	--
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation remains low, but looks to be rising.**

KEY FORECASTS AND RATES

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
GDP (% qoq)	0.9	**0.6**	**1.0**	**0.8**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% yoy)	3.6	**3.4**	**3.5**	**3.4**	**3.2**	**3.4**	**3.0**	**2.8**	**2.5**	**2.2**
CPI (% qoq)	0.4	0.3	**0.2**	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**
CPI (% yoy)	0.4	0.4	**1.1**	**1.4**	**1.4**	**1.7**	**1.7**	**2.1**	**2.2**	**2.2**
Employment (% qoq)	2.4	1.4	**0.7**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	4.5	6.1	**5.9**	**5.2**	**3.3**	**2.2**	**1.9**	**1.7**	**1.6**	**1.5**
Unemployment Rate (% sa)	5.0	4.9	**4.8**	**4.8**	**4.7**	**4.6**	**4.6**	**4.5**	**4.4**	**4.4**
Current Account (% GDP)	-2.9	**-3.0**	**-3.0**	**-3.1**	**-3.2**	**-3.2**	**-3.1**	**-3.1**	**-3.1**	**-3.1**
Terms of Trade (% qoq)	-2.1	**-0.8**	**0.5**	**0.8**	**1.0**	**0.8**	**0.6**	**0.3**	**0.4**	**0.0**
Terms of Trade (% yoy)	-3.9	**-0.9**	**1.6**	**-1.6**	**1.5**	**3.3**	**3.3**	**2.8**	**2.1**	**1.3**

	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Retail ECT (% mom)	0.7	0.1	0.8	-0.2	1.2	0.2	-1.2	2.0	0.6	--
Retail ECT (% yoy)	9.2	6.2	7.8	3.3	6.8	5.8	3.2	6.1	4.2	--
Credit Card Billings (% mom)	-0.3	-1.3	2.4	0.2	-1.0	2.5	-1.1	2.6	--	--
Credit Card Billings (% yoy)	7.3	4.9	9.0	6.1	4.1	5.7	2.0	8.2	--	--
Car Registrations (% mom)	5.7	-3.8	6.4	-3.7	-0.9	-0.4	2.3	-2.6	12.6	--
Car Registrations (% yoy)	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	--
Building Consents (% mom)	10.9	-9.8	8.0	-0.7	20.4	-8.7	-1.5	0.2	--	--
Building Consents (% yoy)	26.9	0.4	13.7	10.1	39.9	7.8	11.8	14.5	--	--
REINZ House Price Index (% yoy)	11.9	13.3	14.5	14.7	14.2	16.3	11.7	9.7	14.4	--
Household Lending Growth (% mom)	0.6	0.6	0.8	0.7	0.8	0.9	0.8	0.8	--	--
Household Lending Growth (% yoy)	7.6	7.7	7.9	8.1	8.3	8.6	8.7	8.8	--	--
ANZ Roy Morgan Consumer Conf.	119.7	118.0	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2
ANZ Business Confidence	7.1	3.2	6.2	11.3	20.2	16.0	15.5	27.9	24.5	--
ANZ Own Activity Outlook	25.5	29.4	32.1	30.4	35.1	31.4	33.7	42.4	38.4	--
Trade Balance ($m)	367	189	350	343	107	-351	-1243	-1436	--	--
Trade Bal ($m ann)	52831	52599	52626	52854	52660	52078	51900	51986	--	--
ANZ World Commodity Price Index (% mom)	0.5	-1.3	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	--
ANZ World Comm. Price Index (% yoy)	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	--
Net Migration (sa)	6010	5340	5510	5550	5710	5640	5660	6330	--	--
Net Migration (ann)	67391	67619	68110	68432	69090	69015	69119	69954	--	--
ANZ Heavy Traffic Index (% mom)	1.7	3.3	-2.5	-2.4	5.1	-6.3	7.3	-2.4	-0.2	--
ANZ Light Traffic Index (% mom)	2.3	0.9	0.3	-1.4	2.6	-1.7	0.9	0.2	-2.0	--

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	Sep-16	Oct-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZD/USD	0.729	0.715	0.699	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.951	0.941	0.955	0.93	0.93	0.93	0.93	0.94	0.97	0.98
NZD/EUR	0.649	0.653	0.660	0.66	0.65	0.64	0.63	0.62	0.61	0.62
NZD/JPY	73.84	75.07	77.60	78.1	79.4	77.1	74.8	73.6	73.6	74.8
NZD/GBP	0.562	0.588	0.567	0.58	0.56	0.56	0.55	0.52	0.51	0.52
NZ$ TWI	75.7	75.6	77.3	76.1	75.0	73.7	72.2	71.4	71.4	72.5
INTEREST RATES	Sep-16	Oct-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZ OCR	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.20	2.14	2.03	2.10	2.00	2.00	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.27	2.71	3.11	2.30	2.20	2.20	2.30	2.40	2.60	2.70
US Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
US 3-mth	0.85	0.88	0.92	0.93	0.93	1.30	1.30	1.55	1.55	1.80
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	1.74	1.75	1.76	1.70	1.80	1.80	1.80	1.80	1.80	1.80

	18 Oct	14 Nov	15 Nov	16 Nov	17 Nov	18 Nov
Official Cash Rate	2.00	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.13	2.08	2.07	2.07	2.05	2.05
NZGB 03/19	1.95	2.12	2.12	2.11	2.06	2.11
NZGB 05/21	2.09	2.50	2.48	2.46	2.40	2.46
NZGB 04/23	2.28	2.76	2.75	2.73	2.66	2.74
NZGB 04/27	2.61	3.13	3.09	3.08	2.99	3.10
2 year swap	2.12	2.29	2.27	2.26	2.22	2.26
5 year swap	2.35	2.81	2.78	2.76	2.69	2.78
RBNZ TWI	77.23	77.14	77.70	77.36	77.67	77.39
NZD/USD	0.7206	0.7092	0.7112	0.7062	0.7098	0.7010
NZD/AUD	0.9380	0.9402	0.9412	0.9427	0.9501	0.9553
NZD/JPY	74.83	76.52	76.99	77.43	77.37	77.75
NZD/GBP	0.5868	0.5660	0.5733	0.5674	0.5692	0.5680
NZD/EUR	0.6546	0.6590	0.6597	0.6593	0.6615	0.6621
AUD/USD	0.7682	0.7543	0.7556	0.7491	0.7471	0.7338
EUR/USD	1.1009	1.0762	1.0781	1.0711	1.0730	1.0588
USD/JPY	103.85	107.89	108.26	109.64	109.00	110.91
GBP/USD	1.2280	1.2531	1.2405	1.2446	1.2470	1.2342
Oil (US$/bbl)	49.97	43.39	43.29	45.86	45.56	45.37
Gold (US$/oz)	1259.38	1216.30	1226.10	1230.70	1226.30	1209.00
Electricity (Haywards)	5.22	3.61	4.24	3.12	3.40	2.53
Baltic Dry Freight Index	890	1065	1084	1145	1231	1257
NZX WMP Futures (US$/t)	2810	3350	3350	3480	3480	3475

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