ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

18 April 2016

INSIDE

Economic Overview 2
Interest Rate Strategy 5
Currency Strategy 7
Data Event Calendar 9
Local Data Watch 11
Key Forecasts 12

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DOUBLE, DOUBLE, TOIL AND TROUBLE

ECONOMIC OVERVIEW

While we are forecasting a lower OCR, we continue to feel uneasy about the trade-offs a lower OCR will bring. Regional housing markets are booming, Auckland is coming back to the boil, and construction cost anecdotes are huge. Yet we have the (high) NZD, low inflation expectations and dairy challenges to deal with. Today's CPI figures (low headline, but mixed details) muddy the waters. The odds of more macro-prudential measures are growing by the day, and we wonder whether tighter LVR restrictions for all investors (i.e. not just those in Auckland) are the next step. This week, dairy prices look set to continue to bounce along at low levels, while activity measures (consumer confidence, job ads, PSI) will be watched to see if they join others in pointing to moderation.

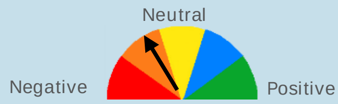
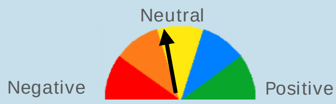
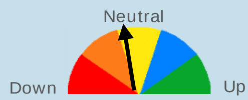
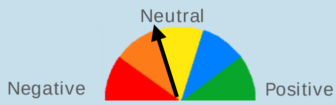
INTEREST RATE STRATEGY

A mixed CPI inflation print has seen the market fractionally pare back the odds of a near-term OCR cut, although June remains about 75% priced. Whilst we expect a June cut, market pricing is broadly consistent with our view of the risk profile. Beyond the near term, our strategic bias remains bullish as our OCR view (50bps of OCR cuts, no hikes until 2018) has not yet been fully reflected in market pricing. We therefore see scope for yields in the belly of the curve to drift lower. With US and global data improving, we expect attention to turn towards the Fed raising rates. We still see global long-term yields biased higher, with spreads to local yields biased to narrow despite already narrowing of late.

CURRENCY STRATEGY

Kiwi is in the thrall of USD direction. Until markets decide to challenge the Fed on its apparent desire to be behind the curve, NZD/USD will trade stronger than broader fundamentals dictate, particularly with the tenor of local dataflow still respectable. Market positioning is creating opportunities in NZD/AUD, as attempts to move the cross lower are rebuffed.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.5% y/y for 2016 Q4	While growth momentum looks reasonable now, tighter financial conditions suggest a more moderate backdrop over 2H 2016.	
Unemployment rate	5.5% for 2016 Q4	The demand for labour has recovered, and labour supply is cooling from strong rates. Wage inflation is contained.	
OCR	1.75% by Dec 2016	A further 50bps of cuts this year. Growth is set to moderate, credit conditions have deteriorated, and global risks abound.	
CPI	0.9% y/y for 2016 Q4	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	

ECONOMIC OVERVIEW

SUMMARY

While we are forecasting a lower OCR, we continue to feel uneasy about the trade-offs a lower OCR will bring. Regional housing markets are booming, Auckland is coming back to the boil, and construction cost anecdotes are huge. Yet we have the (high) NZD, low inflation expectations and dairy challenges to deal with. Today's CPI figures (low headline, but mixed details) muddy the waters. The odds of more macro-prudential measures are growing by the day, and we wonder whether tighter LVR restrictions for all investors (i.e. not just those in Auckland) are the next step. This week, dairy prices look set to continue to bounce along at low levels, while activity measures (consumer confidence, job ads, PSI) will be watched to see if they join others in pointing to moderation.

FORTHCOMING EVENTS

BNZ-Business NZ Services PSI – Mar (10:30am, Tuesday, 19 April). Services sectors have generally been leading the expansion but may be due for some moderation.

GlobalDairyTrade Auction (early am, Wednesday, 20 April). Prices continue to bounce along the bottom, and the fundamental backdrop is not yet conducive to a meaningful recovery.

ANZ Job Advertising – Mar (10:00am, Thursday, 21 April).

International Travel & Migration – Mar (10:45am, Thursday, 21 April). Net inflows have shown little sign of abating and given the solid performance of the New Zealand economy, we see little likelihood that that will happen any time soon.

ANZ-Roy Morgan Consumer Confidence – Apr (1:00pm, Thursday, 21 April).

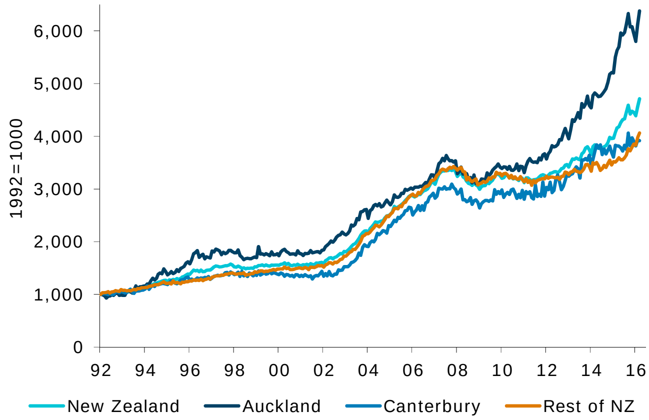
WHAT'S THE VIEW?

We continue to believe the RBNZ will be dragged back to the rate-cutting table. Evidence continues to trickle in that domestic growth momentum is moderating, although let's be clear – it's a deceleration not a downturn. The manufacturing PMI is the latest to join the list of data releases pointing to a slightly less perky economic backdrop. Moreover, dairy challenges are going to get a lot worse as cash-flow pressures mount. The NZD remains stubbornly elevated and the fact that the March cut was not fully passed on was certainly not part of the RBNZ's central view. While the global economy is looking a lot better than it did in January and February, we ultimately suspect it's a head fake. There are of a course a host of positives out there too. However, above-trend growth in H2 2015 is becoming more like trend growth in 2016 at a time inflation is low. So that favours a lower OCR.

However, we remain uneasy about the trade-offs that a lower OCR will bring.

- Households are clearly re-leveraging; we're not seeing credit growth slow. Debt-to-income metrics are at all-time highs and rising, and saving is negative. That kind of behaviour cannot continue indefinitely.
- Regional housing markets are booming, and importantly (and somewhat worryingly) Auckland is coming back to the boil. Throwing more interest rate fuel on that fire risks it turning into an uncontrolled blaze. Sales volumes and prices in Auckland have lifted back to near previous highs. This is important. Previously, RBNZ concern was largely about Auckland. Then as the Auckland market cooled, the focus shifted to watching regional markets. But with all and sundry now on the ascent (outside of Christchurch), we have a different proposition altogether.

FIGURE 1. REGIONAL HOUSE PRICES

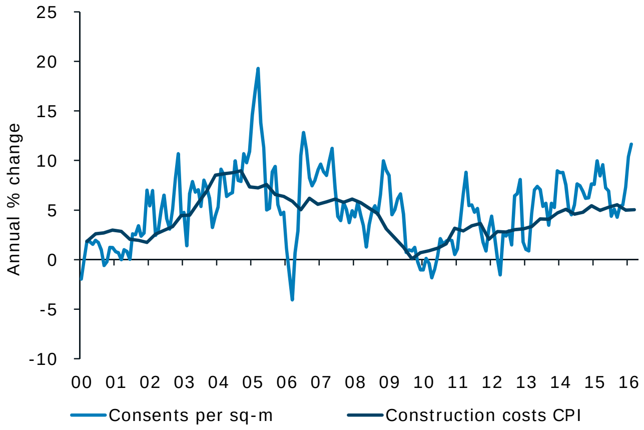


Source: ANZ, REINZ

- Exuberance is not limited to housing. The hunt for yield is as strong as ever. Our internal anecdotes suggest commercial property is increasingly on residential investors' radars, which is forcing prices up and yields down. The local equity market also continues to scale lofty heights. According to Bloomberg, the NZX now has an estimated P/E ratio that is some 25% above its average since 2005. Asset values are being bid higher all over the place.
- Construction cost anecdotes – a key pro-cyclical indicator of the economy – are huge. Today's figures showed nationwide construction cost inflation at 5.0% y/y, with Auckland at a whopping 7.6% y/y. As costs move up, projects such as those addressing Auckland's housing shortage become more difficult to get off the ground. A host are being canned.

ECONOMIC OVERVIEW

FIGURE 2. CONSTRUCTION COST INFLATION



Source: ANZ, Statistics NZ

- More broadly, today's CPI figures threw up the usual mixed bag. Yes, headline inflation at just 0.4% y/y is low, but non-tradable inflation came in above our expectation. The CPI data also showed that some measures of core inflation are not necessarily that soft, with the weighted median unchanged at 1.5%, non-tradable ex government and tobacco at 1.9%, and our estimate of the RBNZ's Sectoral Factor Model also sticky at 1½%. We continue to detect capacity pressures in a number of pockets (accommodation, construction) that highlight that cost-push inflation is not completely dead.
- We continue to ponder the economic impact of low interest rates on savers, and particularly those heading into retirement. The retirement nest egg looks hollow in a lower-yielding world. This will a) increase labour force participation (a good thing); and b) mean more saving is required, from a demographic group that would typically be starting to spend.

These above factors don't preclude the OCR from going lower, but neither can they be ignored. Low interest rates are clearly creating distortions. And while the finger cannot be solely pointed at the RBNZ (we operate in a globalised world after all), it does mean that as the OCR goes lower, the hurdle to additional cuts should be getting higher and higher.

It all means that in this world, the odds of further macro-prudential measures are increasing by the day. We note increasing chatter domestically on this front and we do feel there is inevitability about it. The RBNZ has a price stability mandate; that is paramount. But it also has a financial stability one and sometimes the two clash, as is the case right here and now.

We wonder whether non-Auckland investors are set to come into the firing line. According to QV, investors currently account for 45% of total house sales across the country. A logical first step would therefore be to make the current Auckland LVR restrictions for investors a nationwide policy. In other words, all residential property investors, no matter where they were buying, would be required to have a 30% deposit. It's tweaking something already in place, and hence easy to do. Targeting property investors is also more palatable than something that could affect owner occupiers or first home buyers.

Something wider reaching cannot be ruled out, particularly given the Auckland market is showing signs of life once again. As prices rise, equity of existing property owners rises too, diminishing the impact of LVR restrictions. You simply revalue your portfolio. The RBNZ does have the ability to increase risk weights on sectoral lending or to introduce the counter-cyclical capital buffer (CCB), both of which are far broader-based than the current targeted LVR measures. But if the RBNZ really wanted to settle the investor and speculative side of the housing market down – and we think that's in the economy's medium-term interest – it should limit the amount of interest-only borrowing.

Macro-prudential measures won't be a panacea for housing market strength amidst supply shortages. Yet housing exuberance at present is becoming increasingly difficult to ignore. The RBNZ's *Financial Stability Report* is fast approaching (11 May) and we await it with much interest.

Turning to the remainder of the week, global dairy prices look set to continue to 'bounce along the bottom'. The market is anticipating some further uplift, with NZX futures pointing to a 1-2% lift for milk powders and 1% increase for the GDT-TWI. Near-term not much has changed, but further out the market is anticipating some further improvement.

For skim milk powder, European intervention is anticipated to be full by the middle of the year. This product will need to be re-sold at some point, which is anticipated to cap pricing for some time. Recent auction results have been below intervention levels, but the NZX futures are anticipating a lift closer to US$1,850/t. The other market talk is the possibility that Russia will lift its import sanctions on Europe. This will support sentiment, but wonder how much it will actually help fundamentals. We are certainly not expecting a complete reversal of what happened when the ban was first imposed, given the Russian economy is not as strong as it was, and others (such as Belarus) have stepped in to fill the void.

The said, wholemilk powder has a better chance of outperforming as we move forward. Three things we are watching are New Zealand supply, oil prices and Chinese import demand. NZ supply is expected to be under further pressure in 2016/17 due to lower cow numbers and farm management/system changes. Oil prices are off their January lows and

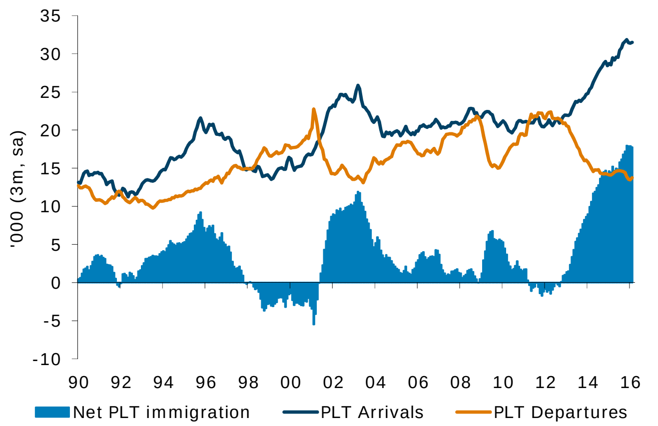
ECONOMIC OVERVIEW

fundamental drivers (lower US supply) are pointing to further improvement over the second half of 2016 (although sentiment is likely to be weak near-term). In China, milk supply appears to be easing back as high production costs and falling milk prices squeeze producer returns. Imported WMP is also more attractively priced than domestic product. China remains something a black box, but as we move past the seasonal peak in local supply, import demand is expected to pick up. The NZX futures curve is anticipating a further lift over the second half of 2016, so it will be interesting to see if the GDT auction starts to reflect similar sentiment.

Meanwhile, job ads data for March will provide a steer on whether the demand for labour has continued to improve. The lift in February job advertising (+0.9% m/m) was somewhat disappointing following January's 2.9% m/m fall. However, we still judge there is a positive trend overall, consistent with the state of the labour market continuing to improve after its mid-2015 weakness. For what it's worth, we do see the unemployment rate recoiling in Q1 following Q4's surprisingly sharp fall to 5.3%. But the overall direction of the unemployment rate is expected to be lower over the course of the next 12 months.

Consumer confidence has held up relatively well, and the April ANZ-Roy Morgan data this week will show whether that has remained the case. The gauge eased to 118 in March, its second consecutive fall. However, it is sitting around its historical average, and has hovered there (particularly on a seasonally adjusted basis) for the past six months. This is despite clear dairy sector struggles and the wobbles occurring offshore. Its resilience is testament to the numerous positive forces that are also in play, including surging housing markets, falling interest rates, the ongoing competitive retail environment and the improving labour market. The tension between these forces look set to linger for some time yet.

FIGURE 3. NET IMMIGRATION



Source: ANZ, Statistics NZ

Large net immigration inflows have shown little sign of abating, and we'd be surprised if it were to start now. On a three-month annualised basis, net inflows are sitting above 71k, with long-term arrivals continuing to trend higher and long-term departures still trending lower. While net migration has both demand and supply-side implications for the economy, we actually see it as a secondary force in the first instance, with it responding to how well the economy is doing, rather than the reverse. With the New Zealand economy continuing to track well overall, and importantly, the labour market now improving again, we suspect large net migrant inflows will remain part of the economic landscape for some time yet.

The trend in monthly overseas visitor arrivals is also expected to remain positive. The figures are volatile and so we won't make a big deal about any seasonally adjusted drop; we are more interested in the trend. According to the Statistics NZ measure, the trend remains positive, although it has moderated a touch year-to-date. But when we continue to pick up unambiguously positive anecdotes with regards to forward bookings and accommodation capacity issues, and take into account ongoing announcements of new airlines servicing the country and opening up new routes, we remain upbeat on the sector's prospects.

The Business NZ PSI will be watched to see if the services sector is joining others in hinting at moderation. The services sector has certainly been an outperformer over the past few years, and with housing across almost the entire country booming, interest rates falling and population growth strong, it is hard to think that this outperformance is going to change significantly going forward. That said, within our own internal anecdotes we have detected a more mixed picture from the services sector of late, with some highlighting a drop-off in workloads and a few more issues with cash flow. We therefore wouldn't be surprised if this indicator joined others and softened a touch in March (from February's 56.9).

LOCAL DATA

REINZ Housing Market statistics – March. Seasonally adjusted sales volumes rose 4.7% m/m, while the REINZ House Price Index lifted 2.2% to be up 13.3% y/y.

Food Price Index – March. Food prices rose 0.5% m/m (-0.1% y/y).

BNZ-Business NZ Manufacturing PMI – March. The index fell 1.2 points to 54.7 – the lowest since October 2015.

CPI – Q1. Headline CPI printed at 0.2% q/q, with annual inflation lifting to 0.4% y/y. Tradable prices fell 0.9% q/q, while non-tradable prices rose 1.0% q/q.

INTEREST RATE STRATEGY

SUMMARY

A mixed CPI inflation print has seen the market fractionally pare back the odds of a near-term OCR cut, although June remains about 75% priced. Whilst we expect a June cut, market pricing is broadly consistent with our view of the risk profile. Beyond the near term, our strategic bias remains bullish as our OCR view (50bps of OCR cuts, no hikes until 2018) has not yet been fully reflected in market pricing. We therefore see scope for yields in the belly of the curve to drift lower. With US and global data improving, we expect attention to turn towards the Fed raising rates. We still see global long-term yields biased higher, with spreads to local yields biased to narrow despite already narrowing of late.

THEMES

- A mixed Q1 CPI print has seen the market slightly reduce the odds to a 25bp cut in April to around 25%. Odds of a June cut have lengthened slightly to about 75%. While we forecast 25bp cuts in June and November, current market pricing seems about "fair" given the risk profile.
- Our strategic bias is still bullish further out in the curve, with scope for the belly to fall further given that implied OCR hikes from next year are premature in our view. As such, 2 and 3 year rates are biased lower.
- Improving global dataflow has supported a modest uptick in yields, although low inflation and perceived economic risks enables the rates market to still price in a low-for-longer global view.
- Curves are biased to eventually steepen, but in the near term we expect long-end rates to hold steady and the curve to remain flat as the market remains hesitant to test the Fed's cautiousness.

PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral/ Bullish	Near-term reasonable; long-end rates still high in global context.
2s10s Curve	Steeper	OCR biased lower, but long-end still biased mildly higher.
Geographic 10yr spread	Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Risk of narrowing, given increased bond supply.

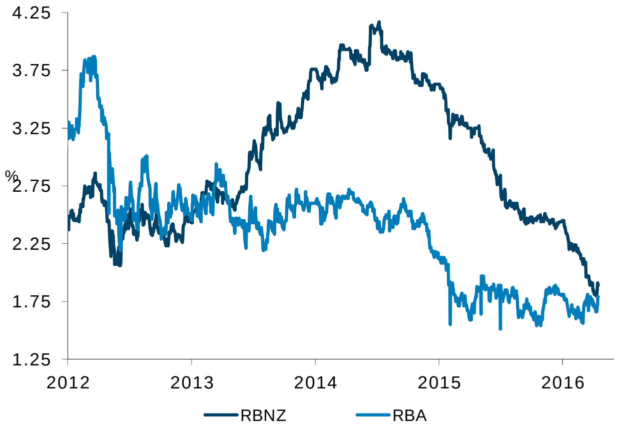
ALL ABOUT INFLATION

Today's mixed CPI report did not provide the smoking gun that would have shifted market odds of an April OCR cut to above 50%. Odds of an April rate cut fell to around 25%, from 36% prior, while the odds of a cut by June eased a touch to 74%. The latter looks reasonable in our view considering the risk profile.

But whilst we see market pricing for near-term rates as reasonable, we remain strategically bullish beyond the near term, given our low-for-longer OCR view relative to market pricing. The market has hikes implied from 2017, which looks premature to us. We therefore see opportunities for the belly of the curve to rally, with 2 and 3 year likely to remain the focal point.

Our bias is also for further outperformance relative to Australia, given the economies' respective monetary policy outlooks. The market is yet to fully embrace our expectation of 50bps of OCR cuts this year. At the same time, we expect market pricing of RBA cuts to be progressively wound back, with our Australian colleagues now forecasting the RBA to remain on hold.

FIGURE 1: 12 MONTH AHEAD CASH RATE EXPECTATIONS



Source: ANZ, Bloomberg

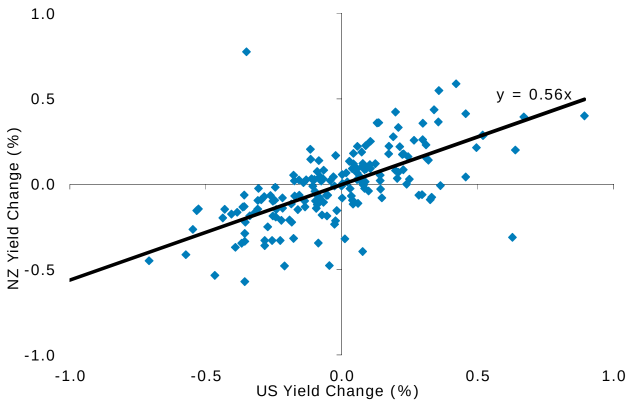
We also see a bias for curves to steepen, although that may be a way away yet, with long-end rates likely to hold steady for the time being. Signs of improvement in the global dataflow – better Chinese partial indicators, US initial jobless claims at a 42-year low, and improved Australian data – have helped drive a modest uptick in global yields and this week's global PMIs will be looked at for further signs of stabilisation. Despite this, persistent low rates of inflation, lower oil prices and the easing biases of central banks – the Bank of Canada last week and the ECB this week – are likely to encourage the Fed to tread carefully, holding down

INTEREST RATE STRATEGY

global yields. The burden of proof looks to remain on the market to prove the Fed is wrong with its cautiousness, but with only second-tier US data released this week, and only a couple of Fed speakers (Dudley & Kashkari) scheduled, the hurdle for a marked shift in yields looks reasonably high in the near term. Indeed, unease with low inflation and too-high currencies keeps the bias tilted towards further easing in other parts of the world.

Ultimately, the trajectory of local longer-term rates will depend on the direction of global counterparts. As US yields drift higher, we expect them to take local yields with them. However, this is unlikely to be one-for-one. Our comparatively high yields – there is still daylight between NZGS yields (2.81% for the 10 year tenor) and comparable G10 sovereigns (just under 1% excluding NZGS) – together with the RBNZ's easing bias and sound fiscal credentials are likely to continue to push the spread narrower over time. Our high domestic yields are also holding up the NZD, at a time of low dairy prices, both of which keeps the bias skewed towards a lower OCR and steeper curve.

FIGURE 2. MONTHLY CHANGES IN NZ AND US 10 YEAR BOND YIELDS



Source: ANZ, Bloomberg

PREFERRED STRATEGIES – BORROWERS

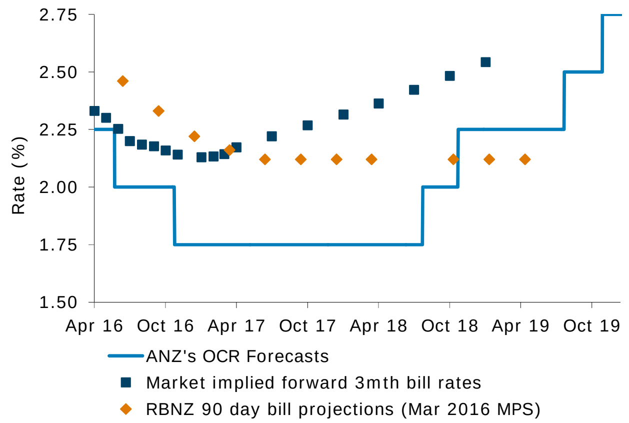
Despite the small lift in swap rates over the past week or so, rates are historically very low and it is cheap to fix. That does not mean, however, that swap rates could not move lower still. With no catalysts on the horizon signalling an impending 'snap' higher in longer-term yields, borrowers have time to wait on the side lines. Credit spreads are likely to remain volatile and subject to episodic widening pressures. If wider credit spreads lead to more RBNZ easing and lower swap rates, swap hedges designed to protect against rising rates will become ineffectual. This, and the volatile trading environment, **has us biased towards favouring an option-based strategy when it comes to new hedging.** Short-term rates could move lower still if the market gravitates more to our low-for-longer OCR view. This makes the decision to take on more expensive term hedging a difficult one.

KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Options preferred so as to maintain exposure to lower floating interest rates.
Value	Cheap	Low, but the catalyst for an immediate rise is absent.
Uncertainty	Elevated	The key reason for caution.

MARKET EXPECTATIONS

Following the mixed CPI print, market odds for OCR cuts have eased slightly. About 7bps of easing is priced in by April (versus -9bps prior to the CPI release), with 18.5bps of cuts by June (-21bps), 28bps by August (-30bps) and 36bps of cuts by the end of the year (-39bps). The near-term rates outlook appears to be reasonably fairly priced in our view, but there is scope for further rallies in 2 and 3 year tenors as markets look to push out the implied policy tightening in 2017.

FIGURE 3: ANZ OCR FORECAST VS MARKET-IMPLIED FWD 3MTH BILL RATES AND RBNZ 90-DAY PROJECTION



Source: ANZ, Bloomberg

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TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔/↑	Awaiting catalysts	Profile still lower
NZD/AUD	↔/↑	Pivotal test coming	Remain above long-run averages
NZD/EUR	↔/↑	Still in range	Political risks for EUR
NZD/GBP	↔/↑	Brexit driving higher	GBP resurgence
NZD/JPY	↓↑	Risks are lower	JPY returning to averages

THEMES AND RISKS

- Local data remains sound, if moderating. Today's Q1 CPI gave markets no clear steer, allowing NZD strength as markets await USD strength.
- The USD is at a pivotal point as markets decide between the solid run of data or the Fed's desire to be behind the curve. Data this week should support USD, but the Fed is next week.
- Markets await the ECB commentary on EUR strength with interest – EUR has rallied since the last meeting (where QE was increased). This will be a pointer to JPY price action for next week's BoJ meeting.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT		WHEN (NZST)	IMPACT RISK
NZD	PSI	Tue 10:30	NZD ↔
AUD	RBA minutes	Tue 13:30	NZD/AUD ↓
EUR	ECB C/A & Bank lending	Tue 20:00	NZD/AUD ↔/↓
EUR	German ZEW	Tue 21:00	NZD/EUR ↔/↓
USD	Housing starts/permits	Wed 00:30	NZD/USD ↔
NZD	GDT auction	Wed am	NZD ↔/↑
AUD	Skilled vacancies	Wed 13:30	NZD/AUD ↔/↓
GBP	Employment	Wed 20:30	NZD/GBP ↓
USD	Existing home sales	Thu 02:00	NZD/USD ↔/↓
NZD	ANZ Job Ads	Thu 10:00	NZD
NZD	Net migration	Thu 10:45	NZD/USD ↑
NZD	ANZ Consumer conf.	Thu 13:00	NZD
SEK	Riksbank	Thu 19:30	NZD/SEK ↓
GBP	Retail sales	Thu 20:30	NZD/GBP ↔/↑
EUR	ECB	Thu 23:45	NZD/EUR ↑
USD	Philadelphia Fed	Fri 00:30	NZD/USD ↓
EUR	EU consumer conf.	Fri 02:00	NZD/GBP ↔/↓
JPY	Tertiary Industry ind.	Fri 16:30	NZD/JPY ↓
EUR	Markit PMIs	Fri 19:30	NZD/EUR ↑
USD	Markit PMI	Sat 01:45	NZD/USD ↓
NZD	ANZAC day	Mon	NZD ↔

EXPORTERS' STRATEGY

Mid 0.66's now looks attractive for those with short-term requirements.

IMPORTERS' STRATEGY

Importers should be ready to take advantage of a NZD squeeze as longer-term factors still suggest strength will be transient.

DATA PULSE

NZD remained solid, as the CPI failed to provide a smoking gun for the RBNZ. Food prices lifted, and while the PMI eased, the level is still solid.

Global risk was supported by Chinese data. The trade data showed a solid increase in exports, while industrial production and retail sales posted solid lifts in March. Aggregate financing also posted a gain in lending, with a 22% increase in M2 money supply.

The AUD was boosted by solid data. AUD business confidence lifted and the unemployment rate dropped. The RBA was also satisfied with moderation in the housing market.

The USD was stable, as data remained mixed. The Fed Beige Book continued to point to "modest to moderate growth" and the NY Empire lifted. On the other hand CPI was a tenth weaker, industrial production and Michigan confidence were soft, and retail sales showed the consumer remains cautious.

GBP was under pressure, as the BoE worried that Brexit concerns were already impacting the economy. The BoE credit conditions survey and bank lending releases showed waning credit demand from small and medium-sized enterprises.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↔	Yield convergence priced.
Commodities	↓	Iron ore has been strong.
Data	↔/↓	NZ data tenor to soften.
Techs	↔/↑	0.88 is a key support.
Sentiment	↔	Equal reactions to sentiment.
Other	↔/↑	NZD has higher beta.
On balance	↔/↑	**Near support.**

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↔	Yield changes well priced.
Commodities	↔/↓	Still risks to the downside.
Risk aversion	↔/↑	Resilience to risk notable.
Data	↓	US data is trending well, while we see a mild softening tone in NZ.
Techs	↔/↑	The break higher has not yet been negated.
Other	↔/↓	Global sentiment improving, which releases the Fed.
On balance	↔/↓	**Factors point lower, but near-term catalysts lacking.**

CURRENCY STRATEGY

TECHNICAL OUTLOOK

FIGURE 1. NZD / USD DAILY CANDLES WITH RSI & MA

The uptrend in NZD / USD has not been negated and the risks of a test toward the 0.72 resistance are growing. To negate potential for the uptrend NZD/USD still needs to break below supports near 0.67 and preferably testing 0.66.

FIGURE 2. NZD / AUD DAILY CANDLES WITH RSI & MA

The prospects for NZD / AUD are still dominated by the head and shoulders formation. At present the pivot (topping at 0.91) is being respected, and while this continues, prospects are for a test lower. However, the neckline still poses significant (2½ year) support levels and it will require a catalyst such as next week's RBNZ to completely break support.

TABLE 5: KEY TECHNICAL ZONES		
CROSS	**SUPPORT**	**RESISTANCE**
NZD/USD	0.6680 – 0.6680 0.6550 – 0.6580	0.6960 – 0.6980 0.7160 – 0.7200
NZD/AUD	0.8780 – 0.8820 0.8700 – 0.8740	0.9050 – 0.9100 0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6280 – 0.6330
NZD/GBP	0.4630 – 0.4660	0.4930 – 0.4980
NZD/JPY	69.80 – 70.20	78.70 – 79.50

POSITIONING

Markets continue to reduce USD long positions as JPY longs continue to increase. EUR and GBP shorts were reduced but remain substantial. NZD longs were increased, but AUD longs reduced slightly.

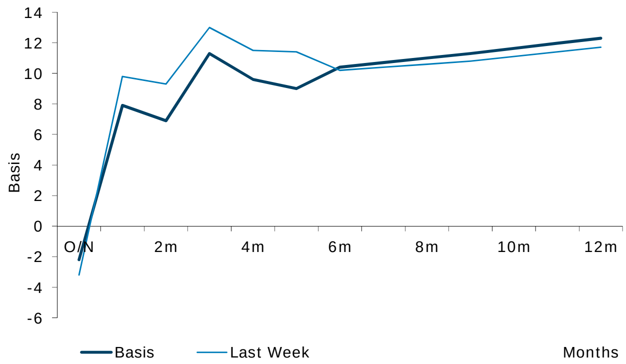
GLOBAL VIEWS

Earlier this year markets were very worried about Chinese prospects, but the data last week shows those fears were misplaced – for now. The improving economic pulse out of China is a promising story for both AUD and NZD.

But the data also has another interpretation. In March, the Fed expressed a changed reaction function due to global fears. Since that meeting, global factors – including China – have improved substantially. This should therefore allow gradual normalisation from the Fed, although it is something markets have been very reluctant to price. For the time being, then, improving global sentiment is lifting NZD and AUD, although there may come a point in time at which that relationship will flip. Because of that, we remain cautious over NZD/USD prospects.

FORWARDS: CARRY AND BASIS

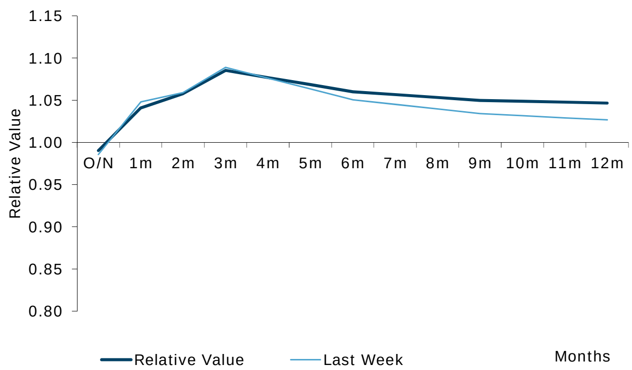
FIGURE 3. NZD / USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

The basis market has been very quiet and cash well behaved, implying steady positions in the spot market. There has been a marginal narrowing in short-end basis, but no real moves of note. Longer basis has lifted a little.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
18-Apr	AU	New Motor Vehicle Sales YoY - Mar	--	2.3%	13:30
	AU	New Motor Vehicle Sales MoM - Mar	--	-0.1%	13:30
19-Apr	US	NAHB Housing Market Index - Apr	59.0	58.0	02:00
	NZ	Performance Services Index - Mar	--	56.9	10:30
	AU	ANZ-RM Consumer Confidence Index - 17-Apr	--	112.0	11:30
	AU	RBA April Meeting Minutes	--	--	13:30
	EC	ECB Current Account SA - Feb	--	€25.4B	20:00
	EC	Current Account NSA - Feb	--	€6.3B	20:00
	EC	Construction Output MoM - Feb	--	3.6%	21:00
	EC	Construction Output YoY - Feb	--	6.0%	21:00
	GE	ZEW Survey Current Situation - Apr	50.8	50.7	21:00
	GE	ZEW Survey Expectations - Apr	8.0	4.3	21:00
	EC	ZEW Survey Expectations - Apr	--	10.6	21:00
20-Apr	US	Housing Starts - Mar	1170k	1178k	00:30
	US	Housing Starts MoM - Mar	-0.7%	5.2%	00:30
	US	Building Permits - Mar	1200k	1177k	00:30
	US	Building Permits MoM - Mar	2.0%	-2.2%	00:30
	JN	Trade Balance - Mar	¥819.1B	¥242.2B	11:50
	JN	Trade Balance Adjusted - Mar	¥450.0B	¥166.1B	11:50
	JN	Exports YoY - Mar	-7.1	-4.0	11:50
	JN	Imports YoY - Mar	-16.5	-14.2	11:50
	AU	Westpac Leading Index MoM - Mar	--	-0.15%	12:30
	AU	Skilled Vacancies MoM - Mar	--	-0.9%	13:00
	GE	PPI MoM - Mar	0.2%	-0.5%	18:00
	GE	PPI YoY - Mar	-2.9%	-3.0%	18:00
	UK	Claimant Count Rate - Mar	2.1%	2.1%	20:30
	UK	Jobless Claims Change - Mar	-10.0k	-18.0k	20:30
	UK	Average Weekly Earnings 3M/YoY - Feb	2.3%	2.1%	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Feb	2.1%	2.2%	20:30
	UK	ILO Unemployment Rate 3Mths - Feb	5.1%	5.1%	20:30
	UK	Employment Change 3M/3M - Feb	60k	116k	20:30
	US	MBA Mortgage Applications - 15-Apr	--	10.00%	23:00
21-Apr	US	Existing Home Sales - Mar	5.26M	5.08M	02:00
	US	Existing Home Sales MoM - Mar	3.5%	-7.1%	02:00
	NZ	ANZ Job Advertisements MoM - Mar	--	0.9%	10:00
	NZ	Net Migration SA - Mar	--	6070	10:45
	NZ	ANZ Consumer Confidence Index - Apr	--	118	13:00
	NZ	ANZ Consumer Confidence MoM - Apr	--	-1.4%	13:00
	AU	NAB Business Confidence - Q1	--	4	13:30
	AU	RBA FX Transactions Government - Mar	--	-496M	13:30
	AU	RBA FX Transactions Market - Mar	--	476M	13:30
	AU	RBA FX Transactions Other - Mar	--	41M	13:30
	NZ	Credit Card Spending MoM - Mar	--	-0.4%	15:00
	NZ	Credit Card Spending YoY - Mar	--	7.3%	15:00
	UK	Retail Sales Ex Auto Fuel MoM - Mar	-0.3%	-0.2%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Mar	3.8%	4.1%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Mar	-0.1%	-0.4%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Mar	4.4%	3.8%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
21-Apr	UK	Public Finances (PSNCR) - Mar	--	£0.1B	20:30
	UK	Central Government NCR - Mar	--	-£0.5B	20:30
	UK	Public Sector Net Borrowing - Mar	£5.4B	£6.5B	20:30
	UK	PSNB ex Banking Groups - Mar	£6.0B	£7.1B	20:30
	EC	ECB Main Refinancing Rate - Apr	0.00%	0.00%	23:45
	EC	ECB Deposit Facility Rate - Apr	-0.40%	-0.40%	23:45
	EC	ECB Marginal Lending Facility - Apr	0.25%	0.25%	23:45
22-Apr	US	Chicago Fed Nat Activity Index - Mar	-0.13	-0.29	00:30
	US	Initial Jobless Claims - 16-Apr	265k	253k	00:30
	US	Continuing Claims - 9-Apr	2178k	2171k	00:30
	US	Philadelphia Fed Business Outlook - Apr	8.0	12.4	00:30
	US	FHFA House Price Index MoM - Feb	0.4%	0.5%	01:00
	EC	Consumer Confidence - Apr A	-9.3	-9.7	02:00
	US	Leading Index - Mar	0.4%	0.1%	02:00
	GE	Markit/BME Manufacturing PMI - Apr P	51.0	50.7	19:30
	GE	Markit Services PMI - Apr P	55.1	55.1	19:30
	GE	Markit/BME Composite PMI - Apr P	54.2	54.0	19:30
	EC	Markit Manufacturing PMI - Apr P	51.9	51.6	20:00
	EC	Markit Services PMI - Apr P	53.3	53.1	20:00
	EC	Markit Composite PMI - Apr P	53.3	53.1	20:00
23-Apr	US	Markit Manufacturing PMI - Apr P	52.0	51.5	01:45

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 reasonable, albeit moderating, at present. However, downside risks exist (mainly from offshore) and with inflation already low, we believe the RBNZ will cut the OCR twice more this year.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 19 Apr (10:30am)	BNZ-Business NZ PSI – Mar	Holding up	Services sectors have generally been leading the expansion but may be due for some moderation.
Wed 20 Apr (early am)	GlobalDairyTrade Auction	Bouncing along the bottom	The fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Thu 21 Apr (10:00am)	ANZ Job Advertising – Mar	--	--
Thu 21 Apr (10:45am)	International Travel & Migration – Mar	Near a peak?	While it is possible that net inflows peak around current record levels, it is hard to see a turn lower without the domestic economy deteriorating.
Thu 21 Apr (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Apr	--	--
Wed 27 Apr (10:45am)	Overseas Merchandise Trade – Mar	Seasonal high	March is the seasonal high point for the trade balance. Once the oil price impact wanes, a deteriorating trend should return.
Thu 28 Apr (9:00am)	RBNZ OCR Review	On hold	A cut can't be ruled out. However, we see the RBNZ pausing, while retaining a clear easing bias.
Fri 29 Apr (10:45am)	Building Consents Issued – Mar	Upward trend	Regional dichotomies are clear. But we expect a modestly positive nationwide trend to remain.
Fri 29 Apr (1:00pm)	ANZ Business Outlook – Apr	--	--
Fri 29 Apr (3:00pm)	RBNZ Credit Aggregates – Mar	Re-leveraging	Credit growth is running well ahead of incomes. This type of behaviour can only be a temporary phenomenon.
Wed 4 May (10:45am)	Labour Market Statistics – Q1	Solid, but unemployment recoil	The tone of the data should be reasonable overall, although the unemployment rate should bounce after Q3's sharp fall.
Wed 4 May (12:00pm)	QV House Prices - Apr	Regional mix	The Auckland market is coming back to the boil, while regional markets are booming.
Wed 4 May (1:00pm)	ANZ Commodity Price Index – Apr	--	--
10-13 May	REINZ Housing Market Statistics – Apr	Boom times	Last month's figures showed that almost every region is strengthening strongly. Another month of that would confirm the trend.
Tue 10 May (10:00am)	ANZ Truckometer – Apr	--	--
Tue 10 May (10:00am)	Government Financial Statements – Mar	Decent	Tax revenue is running ahead of forecast as stronger real activity offsets the impact of low inflation.
Tue 10 May (10:45am)	Electronic Card Transactions – Apr	Holding up	Strong population growth, lower interest rates, improving labour market and low petrol prices are supporting spending.
Wed 11 May (9:00am)	RBNZ Financial Stability Report	Increased concern	More concern will be highlighted, both domestically (dairy, housing) but also re offshore. We wouldn't rule out additional macro-prudential measures being signalled.
Thu 12 May (10:30am)	BNZ-Business NZ Manufacturing PMI – Apr	Moderating	Activity is holding at a reasonable level, but does look to be moderating from the strong pace earlier in the year.
Thu 12 May (10:45am)	Food Price Index – Apr	Benign	A flat to slightly positive increase is expected for the month.
Fri 13 May (10:45am)	Retail Trade Survey – Q1	Solid	Another decent lift in sales volumes is likely, with support from population growth, low interest rates and discounting.
On balance		**Data watch**	**Reasonable momentum at present, but with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
GDP (% qoq)	0.9	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**
GDP (% yoy)	2.3	**2.8**	**3.1**	**2.8**	**2.5**	**2.4**	**2.4**	**2.5**	**2.6**	**2.7**
CPI (% qoq)	-0.5	0.2	**0.3**	**0.4**	**0.0**	**0.6**	**0.4**	**0.7**	**0.3**	**0.6**
CPI (% yoy)	0.1	0.4	**0.3**	**0.4**	**0.9**	**1.3**	**1.4**	**1.7**	**1.9**	**1.9**
Employment (% qoq)	0.9	**0.6**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.4	**1.3**	**1.6**	**2.6**	**2.0**	**1.8**	**1.8**	**1.7**	**1.7**	**1.6**
Unemployment Rate (% sa)	5.3	**5.8**	**5.7**	**5.6**	**5.5**	**5.5**	**5.4**	**5.4**	**5.3**	**5.2**
Current Account (% GDP)	-3.0	**-3.3**	**-3.5**	**-4.0**	**-4.6**	**-5.0**	**-5.1**	**-5.1**	**-4.8**	**-4.6**
Terms of Trade (% qoq)	-2.0	**-1.9**	**-3.0**	**-2.7**	**-0.4**	**0.8**	**1.8**	**2.7**	**1.8**	**0.8**
Terms of Trade (% yoy)	-3.2	**-6.1**	**-10.3**	**-9.3**	**-7.8**	**-5.3**	**-0.6**	**5.0**	**7.3**	**7.2**

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Retail ECT (% mom)	0.5	0.4	0.4	0.9	0.1	0.8	0.2	0.3	0.6	0.1
Retail ECT (% yoy)	5.0	5.6	4.2	6.1	5.8	4.6	6.6	5.2	9.2	6.2
Credit Card Billings (% mom)	0.3	1.7	1.5	-2.0	1.7	0.7	-0.7	1.9	-0.4	--
Credit Card Billings (% yoy)	6.7	9.7	10.4	7.3	7.8	8.5	7.4	8.3	7.3	--
Car Registrations (% mom)	5.2	0.5	-2.3	0.0	-1.3	-1.9	3.1	-2.9	5.7	-3.9
Car Registrations (% yoy)	11.2	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	7.4	-0.2
Building Consents (% mom)	-4.5	23.2	-8.1	-5.1	5.3	1.9	2.8	-7.8	10.8	--
Building Consents (% yoy)	-3.9	22.2	11.1	17.3	14.6	7.3	17.4	5.1	27.1	--
REINZ House Price Index (% yoy)	14.8	14.9	17.3	20.1	14.1	12.5	12.6	10.7	11.9	13.3
Household Lending Growth (% mom)	0.6	0.7	0.6	0.7	0.7	0.6	0.6	0.6	0.6	--
Household Lending Growth (% yoy)	5.6	6.0	6.3	6.7	7.0	7.2	7.4	7.5	7.6	--
ANZ Roy Morgan Consumer Conf.	119.9	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7	118.0
ANZ Business Confidence	-2.3	-15.3	-29.1	-18.9	10.5	14.6	23.0	..	7.1	3.2
ANZ Own Activity Outlook	23.6	19.0	12.2	16.7	23.7	32.0	34.4	..	25.5	29.4
Trade Balance ($m)	-182	-730	-1090	-1140	-905	-795	-45	13	339	--
Trade Bal ($m ann)	51371	51643	52446	52287	52101	52648	52513	52765	52872	--
ANZ World Commodity Price Index (% mom)	-3.1	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	0.5	-1.3
ANZ World Comm. Price Index (% yoy)	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4
Net Migration (sa)	4930	5740	5490	5590	6130	6240	5550	6130	6070	--
Net Migration (ann)	58259	59639	60290	61234	62477	63659	64930	65911	67391	--
ANZ Heavy Traffic Index (% mom)	1.7	-0.1	-0.3	1.8	0.9	0.2	3.0	-4.4	1.7	2.5
ANZ Light Traffic Index (% mom)	0.9	-0.3	-0.5	2.6	-0.4	-1.1	1.0	-1.4	2.3	0.8

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	Feb-16	Mar-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZD/USD	0.661	0.693	0.689	0.65	0.63	0.59	0.58	0.58	0.60	0.62
NZD/AUD	0.925	0.902	0.900	0.88	0.88	0.88	0.88	0.88	0.88	0.89
NZD/EUR	0.606	0.609	0.610	0.59	0.59	0.55	0.52	0.50	0.50	0.51
NZD/JPY	74.62	77.81	74.51	68.3	66.2	62.0	58.0	58.0	60.0	62.0
NZD/GBP	0.477	0.481	0.486	0.48	0.43	0.39	0.37	0.37	0.38	0.38
NZ$ TWI	71.0	72.2	72.9	68.6	67.1	63.4	61.4	60.9	61.8	63.1
INTEREST RATES	Feb-16	Mar-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZ OCR	2.50	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.56	2.34	2.31	2.10	2.10	1.90	1.90	1.90	1.90	1.90
NZ 10-yr bond	2.97	2.93	2.82	2.90	2.90	2.90	3.10	3.20	3.40	3.50
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	0.63	0.63	0.63	0.83	0.83	1.08	1.08	1.33	1.33	1.58
AU Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
AU 3-mth	2.29	2.29	2.29	2.30	2.30	2.40	2.40	2.40	2.40	2.40

	15 Mar	11 Apr	12 Apr	13 Apr	14 Apr	15 Apr
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.37	2.33	2.34	2.36	2.35	2.33
NZGB 12/17	2.17	2.05	2.08	2.14	2.11	2.12
NZGB 03/19	2.30	2.13	2.15	2.21	2.19	2.19
NZGB 04/23	3.07	2.67	2.69	2.74	2.71	2.71
NZGB 04/27	3.38	2.82	2.84	2.89	2.85	2.86
2 year swap	2.29	2.18	2.21	2.23	2.21	2.22
5 year swap	2.45	2.35	2.37	2.42	2.38	2.41
RBNZ TWI	71.4	71.98	72.55	73.03	72.36	72.64
NZD/USD	0.6664	0.68	0.69	0.69	0.68	0.69
NZD/AUD	0.89	0.90	0.90	0.90	0.89	0.89
NZD/JPY	75.83	73.55	74.54	75.63	74.92	75.43
NZD/GBP	0.47	0.48	0.48	0.49	0.48	0.49
NZD/EUR	0.60	0.60	0.60	0.61	0.61	0.61
AUD/USD	0.75	0.76	0.76	0.77	0.77	0.77
EUR/USD	1.11	1.14	1.14	1.14	1.13	1.13
USD/JPY	113.79	107.83	108.22	108.89	109.43	109.64
GBP/USD	1.43	1.41	1.42	1.43	1.41	1.42
Oil (US$/bbl)	37.20	39.74	40.46	42.12	41.70	41.45
Gold (US$/oz)	1229.20	1251.10	1253.50	1250.13	1234.10	1229.45
Electricity (Haywards)	6.14	5.24	6.13	6.38	5.92	7.14
Baltic Dry Freight Index	396	555	560	567	597	635
Milk futures (USD)	38	42	44	43	43	42

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