ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

27 March 2017

INSIDE

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IN GOOD (BAD) COMPANY

ECONOMIC OVERVIEW

The latest productivity figures for New Zealand are poor. Some of it can be put down to timing lags, legacy issues, challenges transitioning the economy to a different economic model, recent supply-side (earthquake) shocks that have been disruptive, and perhaps even measurement issues, but all that can't fully explain the extent of weakness. The weaker trend in labour productivity growth is not unique to New Zealand; it has been a global phenomenon and is one reason the global economy is (and will likely remain) in a low-growth rut relative to history. New Zealand has been 'less bad' when we eye relative shifts, though that's cold comfort; absolutes matter, a lot. This week, the question as we await building consent figures is how much supply issues are dominating demand ones, while our Business Outlook survey will be used to assess whether firms remain, on the whole, upbeat.

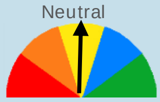
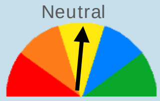
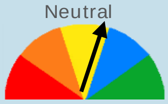
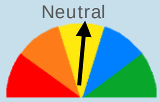
INTEREST RATE STRATEGY

Short-end interest rates remain elevated, but have scope to adjust lower. The tightness of short-end spreads to other markets has been a key factor holding our short end up; they have now corrected lower. Long-end rates have moved into what we consider to be the sell/pay zone, having followed US bond yields lower. In that regard we note that the yield on the bellwether US 10 year Treasury bond has struggled to break through the key 2.40% level. While the failure of Trump's healthcare bill has thrown a spanner in the works for the Trump trade (generally considered as bearish for yields), we believe further downside for US bond yields is unlikely now that short positions have been closed out. With the short end biased lower, and US yields biased higher, we expect the curve to steepen and yield spreads to narrow.

CURRENCY STRATEGY

With little on the domestic horizon to drive the NZD into further correction lower, the market will remain prone to topside squeezes and will look globally for direction. Of three possible scenarios – reflation takes hold further; risk appetite wanes; or the global economy continues to 'muddle-through' – we remain most aligned with the third option, which means elevation by default for the likes of the NZD/USD. We continue to favour the NZD recovering lost ground against the AUD with the respective inflation cycles more NZD (yield) supportive and the active tightening of policy via the credit channel in Australia giving greater scope for divergence in the respective monetary policy outlooks.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q4	Soft Q4 GDP figures are not a true reflection of the state of the economy. While momentum is forecast to ease, it should remain decent overall.	Neutral Negative  Positive
Unemployment rate	4.7% for 2017 Q4	We are looking through the Q4 lift in the unemployment rate. Job ads firmly signal it lower. Finding staff is a huge challenge for firms.	Neutral Negative  Positive
OCR	1.75% by Sep 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	Neutral Down  Up
CPI	2.1% y/y for 2017 Q4	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.	Neutral Negative  Positive

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SUMMARY

The latest productivity figures for New Zealand are poor. Some of it can be put down to timing lags, legacy issues, challenges transitioning the economy to a different economic model, recent supply-side (earthquake) shocks that have been disruptive, and perhaps even measurement issues, but all that can't fully explain the extent of weakness. The weaker trend in labour productivity growth is not unique to New Zealand; it has been a global phenomenon and is one reason the global economy is (and will likely remain) in a low-growth rut relative to history. New Zealand has been 'less bad' when we eye relative shifts, though that's cold comfort; absolutes matter, a lot. This week, the question as we await building consent figures is how much supply issues are dominating demand ones, while our Business Outlook survey will be used to assess whether firms remain, on the whole, upbeat.

FORTHCOMING EVENTS

Building Consent Issuance – February (10:45am, Friday, 31 March). While the demand backdrop for dwelling construction remains strong, supply is facing increased headwinds from both capacity and capital.

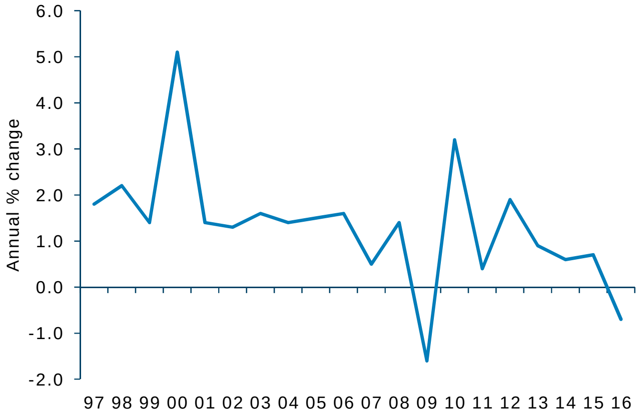
ANZ Business Outlook – March (1:00pm, Friday, 31 March).

WHAT'S THE VIEW?

Productivity figures for New Zealand don't make for pleasant reading. The latest figures showed that in the year to March 2016 labour productivity for the measured sector (which includes all industries except public administration and safety, education and training, health care and social assistance, and ownership of owner-occupied dwellings – thus representing around 80% of GDP) fell 0.7%. This is the weakest result (and the first fall) since 2009. It was driven by a 0.3% fall in the capital-to-labour ratio as well as a 0.4% fall in multifactor productivity.

It was a similar story within the Q4 GDP figures. Although measured on a slightly different basis, they showed GDP divided by hours worked falling for five consecutive quarters to be down 3.8% y/y. Plenty of caution is needed with this measure given that the methodological changes made to the HLFS during the year inflated employment and hours worked figures (diluting productivity). However, GDP divided by hours paid, or GDP per full-time equivalent employee (taken from the Quarterly Survey of Employment) both tell a similar story, with labour productivity on these measures down 0.8% and 0.5% y/y respectively.

FIGURE 1: MEASURED SECTOR LABOUR PRODUCTIVITY GROWTH



Source: ANZ, Statistics NZ

We offer some thoughts:

- **The data needs to be acknowledged, but on a number of levels the productivity picture is a surprise.** Of course we need to be mindful of the *level* versus the *change*, but even the latter doesn't tie in with anecdotes. Cost control is permeating strongly as a theme some seven years into the economic expansion; as productivity wanes it's normally associated with *less* cost control. Weak productivity typically means rising unit labour costs and rising non-tradable inflation (especially from the services sector) and we're not seeing that, at least not across the board. And we're also seeing the economy become more intensive in its energy utilisation, with electricity consumption (on a GWh basis) at its lowest level as a percentage of GDP ever, at 16% in Q4.
- In the agriculture sector specifically we note:
  - **Ongoing on-farm innovations.** These include using drones to monitor livestock, robotic milking plants, renewable energy innovations, cloud accounting that combines physical performance and financial information to inform on-farm decision making, livestock traceability technology being used to monitor performance and disease issues, continued investment in higher-yielding new grass and crop cultivars, and animal, artificial insemination of dairy cows with single-sex semen, mechanical fruit-picking machines for kiwifruit, and the list could go on.
  - **We're seeing off-farm / orchard innovations too:** Examples include new separation and extraction technologies to create new ingredients for specific packaged food products, or the development of a low

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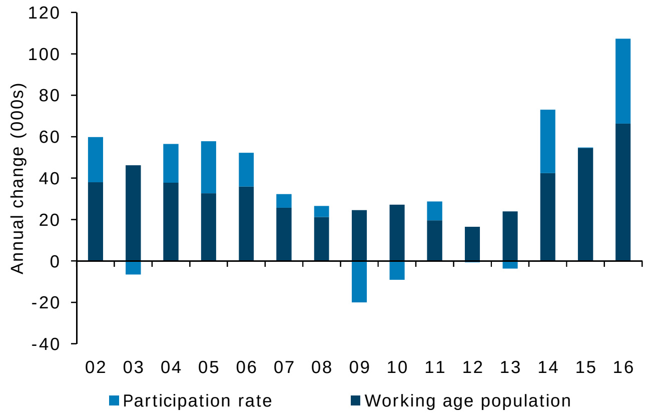
lactose whole milk powder, which could be big in the Asian market, increasing value-add. Again there are numerous other examples.

- **But the official statistics are clearly telling us that such successes are being outweighed by wider forces.**
- **To be fair, the picture is less bad when eyed over a number of years, although it is still soft.** Since 2009, labour productivity in the measured sector has experienced annual average growth of 0.7%. It has effectively been flat for the past three years. That compares with an annual average growth rate of 1.3% between 2001 and 2008.
- **Perhaps part of the issue is that there is still an inherent bias to shove all our eggs in the housing basket.** New Zealand is less bad than it was, but housing still dominates the household balance sheet and that chews up critical savings that could be used productively elsewhere.
- **Under-investment in areas such as roading and housing are legacy issues that carry a sting in their tail – and we're talking decades of underinvestment here**. That's being corrected somewhat now, but the productivity payoff is miles down the track.
- **The economy is transitioning and resources don't shift instantaneously, so there is an implicit cost to carry.** It's the same when businesses re-orientate. A borrow-and-spend economy is being replaced by a more balanced one (though some behaviours of old have returned of late). That re-orientation is not easy when the NZD is not playing ball and is skewing the playing field away from exporters.
- **The phenomenal growth in the labour supply will certainly have played a role too.** As each new worker is drawn into the workforce (be that new migrants, those previously unemployed, or those who were not in the labour force), one would expect that their marginal productivity is lower than a worker who has been employed for some time. The labour force has grown by a strong 13% since the end of 2012 through a combination of working age population growth (net migration) and a rising participation rate.

FIGURE 2: BREAKING DOWN THE CHANGE IN THE LABOUR FORCE



Source: ANZ, Statistics NZ

- **It's hard for an economy to absorb the sheer scale of new migrants arriving at present,** particularly with question marks over their mix of skills (relative to skills demand).
- **The challenges of supply-side shocks need to be acknowledged.** The natural disasters the country has been dealing with, be it the 2010/11 Canterbury earthquakes right up to the latest earthquake in Kaikoura, while temporary, do impact on the efficient allocation of resources. They wiped out or displaced capital stock. People's lives and businesses have been disrupted. We've rebuilt and worked our way around them, but there has been an efficiency loss / cost. The impact cannot be ignored.
- **The economy, as a collective, has chosen to work 'more' over the past few years**, with labour input (effectively the total number of hours paid) up close to 11% since March 2011. That reflects not only more people working, but people working more. Average weekly paid hours lifted to 38.7 hours in Q4, which is the highest since 1995. It has meant that the ratio of capital-to-labour – a key determinant of labour productivity – has effectively been flat since 2011. Getting people into the labour force is fundamentally a good thing, but there are offsets if it comes at the at the expense of productivity.
- **Firms' decisions partly reflect relative price changes.** Whether to invest a marginal dollar in labour or capital will ultimately come down to the relative price between the two. So it is really of no surprise that a flat capital-to-labour ratio since 2011 coincides with effectively no change in the relative price of capital to labour over that same period.

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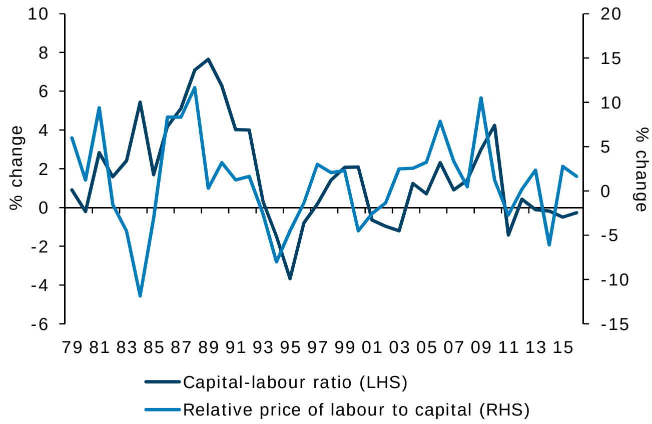
- **That's still cold comfort because with the NZD high, capital investment has been relatively cheap.** It's just that the cost of labour has been relatively cheap too.

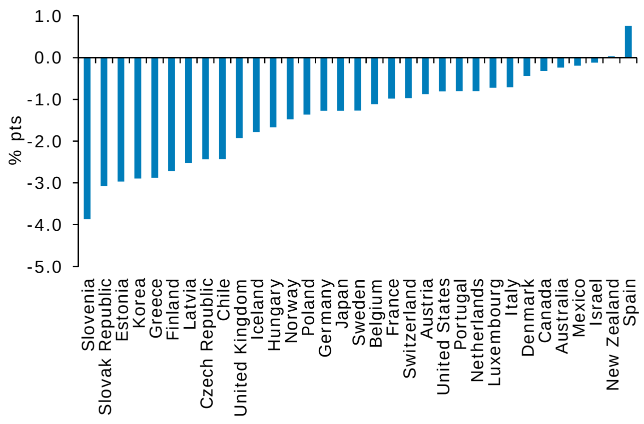
FIGURE 3: CHANGE IN CAPITAL-LABOUR RATIO AND RELATIVE FACTOR PRICES



Source: ANZ, Statistics NZ

- **Productivity typically fades as an expansion matures.** So it's a metric to keep an eye on as it can be a sign of an expansion coming to an end, particularly when you see a build-up in excesses and inflation turn up as well.
- **Weak labour productivity growth is far from an issue unique to New Zealand.** It has been a global phenomenon, with the average annual labour productivity growth across the G7 of just 0.8% between 2009 and 2015, which is less than half the average seen between 1990 and 2008. This soft trend is one of the more perplexing and debated issues right now considering it comes at a time when technology is apparently advancing at an exponential pace.
- **In fact, the softer trend has actually been far less pronounced in New Zealand than elsewhere**. On a GDP versus hours worked basis (and using OECD data), average labour productivity growth between 2009 and 2015 in New Zealand is actually broadly similar to the average between 1990 and 2008. That is a vastly different story to the rest of the OECD – productivity growth has weakened in every country with the exception of Spain and Ireland (although for the latter, changes in the measurement of GDP make this misleading).

FIGURE 4: CHANGE IN LABOUR PRODUCTIVITY GROWTH (2009-2015 AVG LESS 1990-2008 AVG)



Source: ANZ, OECD

- **So it effectively means that New Zealand is a case of being 'less bad'.** Of course the overall level of productivity matters as well (in fact it matters a lot), and New Zealand hasn't – and still doesn't – stack up so well on that front. It is one of the reasons our GDP per capita sits in the bottom half of the OECD. And being less bad in a relative comparison to a prior period doesn't hide the fact New Zealand has still underperformed in an absolute sense.

The direction of productivity growth from here takes on critical importance. A continuation of weakness would be a harbinger of an end to the economic expansion; complacency ends good times. Productivity is a key determinant of living standards. Weak productivity raises unit labour costs and puts pressure on inflation. But for wage rises to be sustainable, productivity needs to lift. The NZD will not hold up if productivity undermines it (although when you eye relative productivity shifts in figure 4, you can see why the NZD has remained supported).

Improving productivity growth is easier said than done. The levers are not always so obvious. For example, we would get a great boost by going back to five day a week shopping. We'd reschedule our busy lives and still purchase what we needed to, and it'd save the retail sector a bundle. Sometimes the choices we make as a society (demanding flexibility) come with an implicit cost. One of the greatest productivity elixirs has been the invention of spectacles; that shows just how subtle big drivers of change can be.

New Zealand seems to be pushing the right buttons (infrastructure, education, better public services) and we rank well across numerous surveys in regard to ease of doing business etc. But there are issues of scale (we are small), the tyranny of distance, economic structure (still primarily a

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commodity exporter and not a value-added one), and legacy issues to deal with such as a poor savings and investment culture. You don't overcome these challenges and play catch-up by thinking inside the square; you need to be outside it.

The economy is naturally approaching limits to its recent modus operandi of ever-increasing rates of labour utilisation. While labour force growth is likely to remain strong given an expectation of strong net migration gains persisting, it will be harder for the labour force participation rate to continue to rise (at least at the rate it has been) when it already sits at an all-time high of 70.6%. With firms telling us that finding skilled staff has become a considerable issue, we already appear to be at the point where constraints to increased labour utilisation are building.

That says to us two things:

1. If wage growth starts to increase as a result, that will swing the incentives back towards capital investment over labour and result in a rise in the capital-to-labour ratio again (capital deepening).

2. If the growth is not going to come from increasing rates of labour utilisation, then productivity growth *has* to lift if we are to enjoy decent rates of per capita growth going forward.

FIGURE 5: NZ GDP GROWTH DECOMPOSITION

Avg annual % change	1998-2008	2009-2016	2016
Real GDP growth	3.1	2.1	3.1
equals			
Population	1.1	1.2	2.1
***plus* Productivity**	1.3	0.5	-2.2
***plus* Labour utilisation**	0.6	0.3	3.2
of which			
Avg. hours paid	-0.3	0.0	0.8
Employment rate	0.7	0.1	1.9
Working age ratio	0.2	0.2	0.5

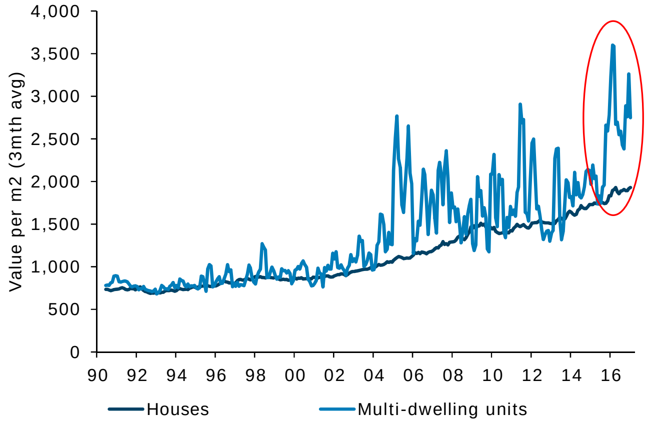
Source: ANZ, Statistics NZ

Turning to this week's data, the focus of the February building consent figures will be whether any stabilisation is taking place after a clearly weaker trend has developed. While overall issuance did lift 0.8% m/m in January, this followed monthly falls of 8.9% and 7.9% in November and December respectively. In fact, the level of seasonally adjusted issuance is sitting 17% below where it averaged between June and October last year.

From a demand perspective, positive forces remain. Net migration gains remain strong, interest rates, while lifting a touch, remain low and there is obviously a strong desire from policymakers to boost housing supply. That is before we even consider the likely shortage of dwellings, especially in Auckland, to begin with. In isolation, these forces would be expected to see issuance not only remain at an elevated level but continue to trend higher.

However, supply issues are clearly creating meaningful headwinds. Whether that be the difficulty the construction sector is having in finding staff, the significant acceleration seen in construction costs (especially in multi-dwelling complexes in Auckland: figure 6) that are bringing into question the viability of some projects, or the fact that banks are taking a more sceptical view when it comes to lending to the sector (in part due to the second point above), these forces are dominating the demand-side story at present. The question is how long that continues before the market finds a natural balance again, and that is unclear at this stage. Certainly we wouldn't rule out further weakness in the near term. The way it stands at present, residential investment activity already looks as though it will act as a reasonable drag on GDP growth over the first half of 2017.

FIGURE 6: AUCKLAND CONSENT VALUE PER SQUARE METRE



Source: ANZ, Statistics NZ

In the face of some more mixed domestic dataflow of late, our Business Outlook survey for March will provide a timely signal on whether or not that is something to be concerned about or whether it is just a natural consequence of the economy reaching a more mature stage in the economic cycle. In February, headline confidence dipped 5 points (from December) to a net 17%, which is a six-month low. Weaker sentiment was noted in the construction sector (which no doubt reflects issues discussed above) and also agriculture. However, when it comes to firms' views towards their own activity, investment, profits and employment, they generally remain optimistic, even if marginally less so than late last year. Across our sectoral composite indices, all sectors are currently experiencing conditions well above average.

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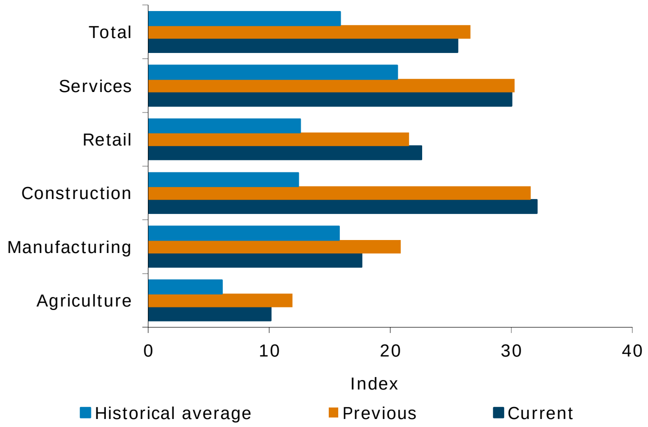
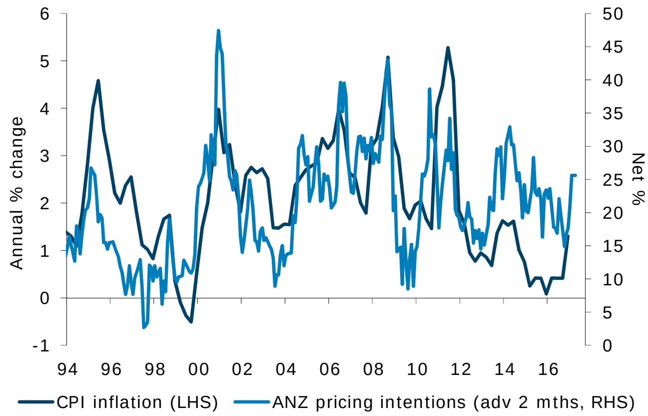
FIGURE 7: ANZ BUSINESS OUTLOOK COMPOSITES



Source: ANZ

Another focus will be on the inflation and pricing metrics. In February, firms' pricing intentions were unchanged from December at a net 25.6%. That is the highest since March 2015. Inflation expectations rose to 1.7%, which is the highest since April 2015. Both are still historically low, admittedly, but directionally are consistent with rising headline inflation.

FIGURE 8: CPI INFLATION AND FIRMS' PRICING INTENTIONS



Source: ANZ, Statistics NZ

LOCAL DATA

International Travel and Migration – February. A net inflow of 6,000 migrants (sa) was seen, while visitor arrivals fell 1.9% m/m (sa).

GlobalDairyTrade Auction. The GDT TWI posted a 1.7% lift, with whole milk powder prices up 2.9%.

Overseas Trade Balance – February. An unadjusted trade deficit of $18m was recorded, with a seasonally adjusted deficit of $467m.

RBNZ New Residential Mortgage Lending – February. We estimate seasonally adjusted new lending fell a further 2.1% m/m, to be down 15% y/y.

INTEREST RATE STRATEGY

SUMMARY

Short-end interest rates remain elevated, but have scope to adjust lower in the wake of the recent falls in US and Australian rates, and the RBNZ's reiteration that it intends to maintain an accommodative policy stance. The tightness of short-end spreads to other markets has been a key factor holding our short end up; they have now corrected lower. Long-end rates have moved into what we consider to be the sell/pay zone, having followed US bond yields lower. In that regard we note that the yield on the bellwether US 10 year Treasury bond has struggled to break through the key 2.40% level. While the failure of Trump's healthcare bill has thrown a spanner in the works for the Trump trade (generally considered as bearish for yields), we believe further downside for US bond yields is unlikely now that short positions have been closed out. With the short end biased lower, and US yields biased higher, we expect the curve to steepen and yield spreads to narrow.

THEMES

- The tone of last week's RBNZ OCR Review was very neutral and cautious, as expected, reiterating that policy would remain "accommodative for a considerable period". With credit growth slowing and dairying still somewhat challenged, we expect the Bank to look through "variable" CPI outcomes.
- The tone of "Fedspeak" continues to underscore a gradualist approach, but it's a tightening phase nonetheless and US bond yields are biased higher.
- The NZ swap curve has flattened sharply over the past week (in a move that has dwarfed moves in outright yields). We believe further downside is limited and now expect the curve to steepen.

MONETARY POLICY AND SHORT END

Short-end rates have edged a touch higher over the past week as the market has digested pay-side flow. This move has occurred despite the RBNZ's reiteration of its very neutral stance and a number of developments (softer lending growth, a slightly more challenged outlook for dairying, the tightening credit channel of monetary policy) that leave us comfortable that the Bank has plenty of time on its side.

Nonetheless, in a market dominated by flow, markets are often disconnected from what the RBNZ thinks, as has been the case over the past six months. And with no realistic prospect for cuts, one can sympathise with participants being unwilling to be "long" near historic lows. **Spreads to other markets like the US and Australia – which tend to be influential given the amount of spread trading that goes on – have widened sharply of late, lifting the attractiveness of NZ.** All else equal, that should help change the tone, and allow short-end rates to grind a little lower over the course of the week.

GLOBAL MARKETS AND LONG END

US long-end rates held steady over the past week, and have been unable to break sustainably below the key 2.40% level. As we noted last week, we believe US Treasury yields are on borrowed time at current levels, against a backdrop of "Fedspeak" continuing to emphasise the likelihood of a further 2-3 hikes this year, and with core inflation now comfortably above the Fed's 2% target. Moreover, **with the recent sharp reduction in speculative short positioning in US markets, there is now less reason to be concerned about a deeper short correction.**

That said; there are a number of cross-currents. While we have no difficulty articulating the bearish case for bond yields when viewed from a "traditional" analytical perspective, the political landscape remains uncertain, as does the outlook for global trade; and markets are questioning the 'Trump trade' in the wake of the defeat of his healthcare bill. We regard these factors, and the gradualist nature of Fed policy, as moderators, **but we still expect yields to be higher by the end of the year.** Given still-high correlations between NZ and US yields, and our expectation that the short end will grind lower**, the net result should be a much steeper yield curve** (note that 2s10s has flattened close to 20bps over the past week).

STRATEGY

Investors: We prefer to remain short duration, and positioned for a steeper curve. We see scope for the NZ/US spread to continue to narrow, and for Linkers to outperform ahead of CPI data next month.

Borrowers: No change. **BKBM is at a record low, but term interest rates are biased higher.** We believe it makes sense to add to hedges on dips. Rates remain low in the context of the past quarter century of controlled inflation.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Bullish	US and AU short-end rally paves the way for a long overdue adjustment here following neutral OCR Review.
Long end	Neutral/Higher	Sharp reduction in US short positioning suggests short squeeze is over. US real yields too low; need to rise.
Yield Curve	Steeper	Strategically favour a steepener, based largely on divergent views. US curve ought to be steeper too.
Geographic spreads	Neutral/ narrower	Spreads mid-range. Should narrow further over the year as USTs grind higher (especially given neutral RBNZ tone). Generally well correlated with the outlook for policy rate spreads (narrower!).
Swap spreads	Neutral	NZGS demand fair. Some risk of corporate paying, but global uncertainties likely to keep payers at bay.
NZD/TWI	Off highs	RBNZ February inflation projections now outdated given food prices and lower TWI. TWI is still high though.

CURRENCY STRATEGY

SUMMARY

With little on the domestic horizon to drive the NZD into further correction lower, the market will remain prone to topside squeezes and will look globally for direction. Of three possible scenarios – reflation takes hold further; risk appetite wanes; or the global economy continues to 'muddle-through' – we remain most aligned with the third option, which means elevation by default for the likes of the NZD/USD. We continue to favour the NZD recovering lost ground against the AUD with the respective inflation cycles more NZD (yield) supportive and the active tightening of policy via the credit channel in Australia giving greater scope for divergence in the respective monetary policy outlooks.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Correction lower now looks complete	Firmer USD bias ultimately wins
NZD/AUD	↔/↑	Consolidation mode	Push higher
NZD/EUR	↔	Euro data lifting. Politics the wildcard	Huge growth/politics divide
NZD/GBP	↔	Consumer slowing as BoE feared	Brexit execution woes weighing
NZD/JPY	↔	JPY the new safe-haven	Japan a defensive play; US strong too

THEMES AND RISKS

- The reflation trade is starting to show cracks with the failure to get the numbers for healthcare reform. This throws Trump's tax and regulatory reform program into doubt.
- But the reflation trade started with China and that should not be forgotten. China's data continues to print okay, though questions surround the inventory cycle and whether it has over-extended. Watch hard commodities.
- Global economic signals remain buoyant with Euro area PMIs positive.
- It's BAU for NZ.com and this week's visit by the Chinese Premier will cement the already-strong NZ-China relationship. It won't be a game-changer but provides a reminder nonetheless.
- New Zealand's downside economic surprises are now fully factored. We expect more neutral data signals going forward.

ASSESSMENT

The NZD remains caught in no-man's land. With the domestic story moving from one of negative surprises (dovish RBNZ, weak dairy prices, soft data) at a time of high valuation, to more neutral (better-looking data and firmer dairy prices) at fairer valuation, there is little locally to dictate trends apart from a squeeze off lows. The muted reaction to the RBNZ's repeated neutral tone – both in the rates space and across FX – signals that downside nuances/surprises are now in the price.

Lacking local triggers, which we expect to remain absent, breaking the NZD's range-trade shackles requires one of two scenarios, which are in effect the two ends of the bell-curve:

1. **Global reflation signals firm;** a concerted global upswing becomes even broader. Europe picks up. The US economy propels ahead and the market re-prices the Fed for three more hikes this year. The liquidity cycle turns.
2. **Risk appetites wane as the reflation trade falters.** Leverage excesses come home to bite.

Either scenario is feasible, but the world economy will continue to 'muddle through' until we get clarity. The reflation trade has suffered a policy setback. The Fed is being cautious. This means a firm, directionless level by default for the NZD, prone to topside squeezes. While the NZD-ROW yield differential has closed, implying a lower NZD, the differential is still a material pickup relative to the ROW's base rates, and this pickup is key.

We continue to favour the NZD recovering ground lost against the AUD. New Zealand's business and inflation cycle is further advanced, which is at odds with central bank rhetoric (RBNZ more dovish than the RBA). While the credit channel of monetary policy is tightening on both sides of the Tasman, this is looking more aggressive in Australia, which in turn provides greater scope for the central bank policy rates to diverge further.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Fair value is 0.93; we're below that.
Yield	↔/↑	NZ/AU spreads wider over past week.
Commodities	↔	Dairy prices stabilising.
Data	↔/↑	NZ data surprises now in the price.
Techs	↔	In consolidation mode around 0.92.
Sentiment	↔/↓	Has swung into AUD's favour.
Other	↔/↑	Credit channel tightening faster in AU.
On balance	↔/↑	**Primed for a bounce off lows.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔	Term yields set to rise in both markets.
Commodities	↔	Dairy stable, others okay.
Risk aversion	↔/↓	Has potential to add to volatility.
Data	↔/↓	Data turning more mixed in NZ.
Techs	↔/↑	Bounce off ~0.69 lows encouraging.
Sentiment	↔/↑	Healthcare reform fail weighing on USD.
Other	↔/↑	Will the Trump trade be unwound?
On balance	↔/↑	**Range-bound, difficult to be bearish**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
27-Mar	JN	PPI Services YoY - Feb	0.5%	0.5%	12:50
	EC	M3 Money Supply YoY - Feb	4.9%	4.9%	21:00
	GE	IFO Business Climate - Mar	111.1	111.0	21:00
	GE	IFO Expectations - Mar	104.3	104.0	21:00
	GE	IFO Current Assessment - Mar	118.3	118.4	21:00
28-Mar	US	Dallas Fed Manf. Activity - Mar	22.0	24.5	03:30
	AU	ANZ-RM Consumer Confidence Index - 26-Mar	--	112.0	11:30
29-Mar	US	Advance Goods Trade Balance - Feb	-$66.6B	-$68.8B	01:30
	US	Wholesale Inventories MoM - Feb P	0.2%	-0.2%	01:30
	US	Retail Inventories MoM - Feb	--	0.8%	01:30
	US	S&P CoreLogic CS 20-City MoM SA - Jan	0.70%	0.93%	02:00
	US	S&P CoreLogic CS 20-City YoY NSA - Jan	5.60%	5.58%	02:00
	US	Conf. Board Consumer Confidence - Mar	114.0	114.8	03:00
	US	Conf. Board Present Situation - Mar	--	133.4	03:00
	US	Conf. Board Expectations - Mar	--	102.4	03:00
	US	Richmond Fed Manufact. Index - Mar	15	17	03:00
	JN	Retail Trade YoY - Feb	0.7%	1.0%	12:50
	JN	Retail Sales MoM - Feb	0.3%	0.2%	12:50
	GE	Import Price Index MoM - Feb	0.4%	0.9%	19:00
	GE	Import Price Index YoY - Feb	7.0%	6.0%	19:00
	UK	Net Consumer Credit - Feb	£1.3B	£1.4B	21:30
	UK	Net Lending Sec. on Dwellings - Feb	£3.5B	£3.4B	21:30
	UK	Mortgage Approvals - Feb	69.1k	69.9k	21:30
	UK	Money Supply M4 MoM - Feb	--	0.9%	21:30
	UK	M4 Money Supply YoY - Feb	--	7.0%	21:30
	UK	M4 Ex IOFCs 3M Annualised - Feb	1.6%	1.8%	21:30
30-Mar	US	MBA Mortgage Applications - 24-Mar	--	-2.7%	00:00
	US	Pending Home Sales MoM - Feb	2.1%	-2.8%	03:00
	US	Pending Home Sales NSA YoY - Feb	--	2.7%	03:00
	AU	HIA New Home Sales MoM - Feb	--	-2.2%	13:00
	AU	Job vacancies - Feb	--	2.2%	13:30
	EC	Economic Confidence - Mar	108.3	108.0	22:00
	EC	Business Climate Indicator - Mar	0.87	0.82	22:00
	EC	Industrial Confidence - Mar	1.4	1.3	22:00
	EC	Services Confidence - Mar	14.0	13.8	22:00
	EC	Consumer Confidence - Mar F	-5	-5	22:00
	CH	BoP Current Account Balance - Q4 F	--	$37.6B	UNSPECIFIED
31-Mar	GE	CPI MoM - Mar P	0.4%	0.6%	01:00
	GE	CPI YoY - Mar P	1.8%	2.2%	01:00
	GE	CPI EU Harmonized MoM - Mar P	0.5%	0.7%	01:00
	GE	CPI EU Harmonized YoY - Mar P	1.9%	2.2%	01:00
	US	GDP Annualized QoQ - Q4 T	2.0%	1.9%	01:30
	US	Personal Consumption - Q4 T	3.0%	3.0%	01:30
	US	GDP Price Index - Q4 T	2.0%	2.0%	01:30
	US	Core PCE QoQ - Q4 T	1.2%	1.2%	01:30
	US	Initial Jobless Claims - 25-Mar	247k	261k	01:30
	US	Continuing Claims - 18-Mar	2037k	1990k	01:30
	NZ	Building Permits MoM - Feb	--	0.80%	10:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-Mar	UK	GfK Consumer Confidence - Mar	-7	-6	12:01
	UK	Lloyds Business Barometer - Mar	--	40	12:01
	JN	Natl CPI YoY - Feb	0.3%	0.4%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Feb	0.2%	0.1%	12:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - Feb	0.1%	0.2%	12:30
	JN	Tokyo CPI YoY - Mar	-0.2%	-0.3%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Mar	-0.2%	-0.3%	12:30
	JN	Tokyo CPI Ex-Fresh Food, Energy YoY - Mar	0.0%	0.0%	12:30
	JN	Industrial Production MoM - Feb P	1.2%	-0.4%	12:50
	JN	Industrial Production YoY - Feb P	3.9%	3.7%	12:50
	NZ	ANZ Activity Outlook - Mar	--	37.2	13:00
	NZ	ANZ Business Confidence - Mar	--	16.6	13:00
	AU	Private Sector Credit MoM - Feb	0.5%	0.2%	13:30
	AU	Private Sector Credit YoY - Feb	5.3%	5.4%	13:30
	CH	Manufacturing PMI - Mar	51.7	51.6	14:00
	CH	Non-manufacturing PMI - Mar	--	54.2	14:00
	GE	Retail Sales MoM - Feb	0.7%	-1.0%	19:00
	GE	Retail Sales YoY - Feb	0.4%	2.3%	19:00
	UK	Nationwide House PX MoM - Mar	0.3%	0.6%	19:00
	UK	Nationwide House Px NSA YoY - Mar	4.0%	4.5%	19:00
	GE	Unemployment Change (000's) - Mar	-10k	-15k	20:55
	GE	Unemployment Claims Rate SA - Mar	5.9%	5.9%	20:55
	UK	Current Account Balance - Q4	-16.0B	-25.5B	21:30
	UK	GDP QoQ - Q4 F	0.7%	0.7%	21:30
	UK	GDP YoY - Q4 F	2.0%	2.0%	21:30
	UK	Index of Services MoM - Jan	0.2%	0.2%	21:30
	UK	Index of Services 3M/3M - Jan	0.7%	0.8%	21:30
	UK	Total Business Investment QoQ - Q4 F	-1.0%	-1.0%	21:30
	UK	Total Business Investment YoY - Q4 F	-0.9%	-0.9%	21:30
	EC	CPI Estimate YoY - Mar	1.8%	2.0%	22:00
	EC	CPI Core YoY - Mar A	0.8%	0.9%	22:00
1-Apr	US	Personal Income - Feb	0.4%	0.4%	01:30
	US	Personal Spending - Feb	0.2%	0.2%	01:30
	US	Real Personal Spending - Feb	0.1%	-0.3%	01:30
	US	PCE Deflator MoM - Feb	0.1%	0.4%	01:30
	US	PCE Deflator YoY - Feb	2.1%	1.9%	01:30
	US	PCE Core MoM - Feb	0.2%	0.3%	01:30
	US	PCE Core YoY - Feb	1.7%	1.7%	01:30
	US	Chicago Purchasing Manager - Mar	56.9	57.4	02:45
	US	U. of Mich. Sentiment - Mar F	97.6	97.6	03:00

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

LOCAL DATA WATCH

Looking through the weak Q4 GDP figures, we still believe domestic economic momentum is solid. However, there are some hints of softening. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards, but probably not until 2018.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Fri 31 Mar (10:45am)	Building Consent Issuance – Feb	More headwinds	While the demand backdrop for housing remains strong, supply is facing increased headwinds from both capacity and capital.
Fri 31 Mar (1:00pm)	ANZ Business Outlook – Mar	--	--
Tue 4 Apr (10:00am)	NZIER QSBO – Q1	Still decent	Confidence may ease off highs, but will still be decent. We'd expect to see more signs of capacity and price tensions.
Wed 5 Apr	New sectoral RBNZ funding and claims data	New format	The RBNZ has changed the structure of many of its bank lending and funding data series. This is the first release.
Wed 5 Apr (early am)	GlobalDairyTrade Auction	Stability?	Improved global supply has shifted sentiment. The key to whether we see ongoing price weakness is Chinese demand.
Wed 5 Apr (10:00am)	ANZ Job Ads – Mar	--	--
Wed 5 Apr (1:00pm)	ANZ Commodity Price Index – Mar	--	--
Thu 6 Apr (10:00am)	Government Financial Statements – Feb	Running ahead	While the fiscal costs of the Kaikoura earthquakes are yet to be incorporated, tax revenue continues to run ahead of projections.
10-14 Apr	REINZ Housing Market Statistics – Mar	Stable at a softer level	Turnover levels are expected to stabilise, although annual house price growth will continue to cool.
Tue 11 Apr (10:45am)	Electronic Card Transactions – Mar	Reasonable	While households are showing restraint overall, there are still enough positive forces to boost overall spending levels.
Tue 11 Apr (1:00pm)	ANZ Monthly Inflation Gauge – Mar	--	--
Wed 12 Apr (10:00am)	ANZ Truckometer – Mar	--	--
Thu 13 Apr (10:30am)	BNZ-BusinessNZ PMI – Mar	Better	More mixed construction sector activity poses some challenges, but we expect activity to hold up overall.
Thu 13 Apr (10:45am)	Food Price Index – Mar	Down?	After January's spike, prices were surprisingly flat in February. We have pencilled in some unwind in March.
Wed 19 Apr (early am)	GlobalDairyTrade Auction	Stability?	Improved global supply has shifted sentiment. The key to whether we see ongoing price weakness is Chinese demand.
Wed 19 Apr (10:30am)	BNZ-Business NZ PSI – Mar		
Thu 20 Apr (10:45am)	CPI – Q1	Back at the midpoint?	There is a non-trivial chance that headline inflation will be back at 2% on the back of food and petrol price increases.
Fir 21 Apr (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Apr	--	--
On balance		**Data watch**	**Momentum is looking a little patchier, but should remain reasonable. Inflation is showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (% qoq)	0.4	**1.1**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**
GDP (% yoy)	2.7	**3.1**	**3.1**	**3.0**	**3.2**	**2.7**	**2.4**	**2.2**	**2.1**	**2.1**
CPI (% qoq)	0.4	**0.7**	**0.4**	**0.7**	**0.2**	**0.7**	**0.5**	**0.6**	**0.2**	**0.6**
CPI (% yoy)	1.3	**1.9**	**1.9**	**2.2**	**2.1**	**2.0**	**2.2**	**2.2**	**2.2**	**2.1**
Employment (% qoq)	0.8	**0.7**	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.8	**5.2**	**3.4**	**2.5**	**2.1**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**
Unemployment Rate (% sa)	5.2	**5.0**	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**	**4.3**
Current Account (% GDP)	-2.7	**-2.6**	**-2.6**	**-2.6**	**-2.8**	**-3.1**	**-3.3**	**-3.3**	**-3.4**	**-3.4**
Terms of Trade (% qoq)	5.7	**0.2**	**-1.8**	**-1.1**	**-0.2**	**0.4**	**0.3**	**0.1**	**0.1**	**0.0**
Terms of Trade (% yoy)	6.7	**2.6**	**2.9**	**2.9**	**-2.8**	**-2.6**	**-0.6**	**0.6**	**0.9**	**0.5**

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Retail ECT (% mom)	1.3	0.2	-1.2	2.0	0.5	0.0	0.1	2.7	-0.6	--
Retail ECT (% yoy)	6.8	5.8	3.2	6.1	4.2	5.1	5.8	5.6	2.6	--
Credit Card Billings (% mom)	-1.0	2.6	-1.0	2.9	2.9	-4.1	3.0	0.4	-1.4	--
Credit Card Billings (% yoy)	4.2	5.7	2.3	8.3	10.1	4.2	8.5	7.1	5.3	--
Car Registrations (% mom)	-0.7	0.1	2.6	-4.0	12.2	3.6	-6.1	1.4	0.2	--
Car Registrations (% yoy)	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	--
Building Consents (% mom)	16.5	-4.4	-3.2	1.1	0.0	-8.9	-7.9	0.8	--	--
Building Consents (% yoy)	39.4	8.0	11.8	17.1	14.0	2.4	-10.6	-1.7	--	--
REINZ House Price Index (% yoy)	14.2	16.3	11.7	9.7	14.4	14.9	13.5	11.7	10.5	--
Household Lending Growth (% mom)	0.8	0.8	0.8	0.8	0.6	0.6	0.7	0.5	--	--
Household Lending Growth (% yoy)	8.3	8.6	8.7	8.8	8.7	8.6	8.7	8.7	--	--
ANZ Roy Morgan Consumer Conf.	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2
ANZ Business Confidence	20.2	16.0	15.5	27.9	24.5	20.5	21.7	..	16.6	--
ANZ Own Activity Outlook	35.1	31.4	33.7	42.4	38.4	37.6	39.6	..	37.2	--
Trade Balance ($m)	107	-351	-1240	-1388	-798	-723	-6	-257	-18	--
Trade Bal ($m ann)	52660	52078	51900	51938	51943	51668	51622	51902	52056	--
ANZ World Commodity Price Index (% mom)	3.5	2.1	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	--
ANZ World Comm. Price Index (% yoy)	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	19.1	20.9	--
Net Migration (sa)	5770	5710	5710	6370	6230	6200	6010	6420	6000	--
Net Migration (ann)	69090	69015	69119	69954	70282	70354	70588	71305	71333	--
ANZ Heavy Traffic Index (% mom)	5.4	-6.4	7.1	-2.1	-0.5	3.7	-0.3	-1.0	2.3	--
ANZ Light Traffic Index (% mom)	2.7	-0.6	1.0	0.1	-2.1	-1.6	0.2	-0.3	0.7	--

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	Jan-17	Feb-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.728	0.719	0.704	0.72	0.70	0.69	0.68	0.68	0.68	0.67
NZD/AUD	0.964	0.938	0.922	0.92	0.92	0.93	0.94	0.94	0.93	0.91
NZD/EUR	0.680	0.679	0.649	0.70	0.69	0.68	0.68	0.68	0.65	0.64
NZD/JPY	82.80	80.79	74.84	82.8	80.5	79.4	78.2	78.2	78.2	77.1
NZD/GBP	0.585	0.578	0.562	0.59	0.58	0.58	0.58	0.55	0.54	0.54
NZ$ TWI	78.3	77.2	76.4	78.0	76.5	76.1	75.7	75.5	74.2	72.9
INTEREST RATES	Jan-17	Feb-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	1.99	2.00	1.98	2.00	2.00	2.00	2.00	2.10	2.30	2.50
NZ 10-yr bond	3.37	3.23	3.19	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.75	0.75	1.00	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	1.03	1.05	1.15	1.13	1.20	1.33	1.45	1.60	1.75	2.00
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	1.77	1.78	1.79	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	24 Feb	20 Mar	21 Mar	22 Mar	23 Mar	24 Mar
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.99	1.95	1.96	1.96	1.97	1.98
NZGB 03/19	2.16	2.09	2.09	2.09	2.12	2.14
NZGB 05/21	2.57	2.51	2.50	2.49	2.51	2.52
NZGB 04/23	2.83	2.80	2.79	2.77	2.79	2.81
NZGB 04/27	3.23	3.23	3.22	3.20	3.21	3.21
2 year swap	2.32	2.28	2.29	2.29	2.31	2.32
5 year swap	2.95	2.95	2.94	2.92	2.92	2.93
RBNZ TWI	78.71	76.49	76.63	76.46	76.39	76.44
NZD/USD	0.7210	0.7043	0.7058	0.7025	0.7042	0.7028
NZD/AUD	0.9380	0.9113	0.9126	0.9177	0.9222	0.9219
NZD/JPY	80.74	79.42	79.44	78.18	78.18	78.18
NZD/GBP	0.5779	0.5671	0.5662	0.5640	0.5629	0.5634
NZD/EUR	0.6818	0.6546	0.6535	0.6507	0.6527	0.6504
AUD/USD	0.7676	0.7728	0.7734	0.7655	0.7635	0.7623
EUR/USD	1.0563	1.0760	1.0801	1.0796	1.0788	1.0798
USD/JPY	112.12	112.76	112.55	111.29	111.03	111.34
GBP/USD	1.2462	1.2418	1.2468	1.2456	1.2510	1.2473
Oil (US$/bbl)	53.99	48.22	47.34	48.04	47.70	47.97
Gold (US$/oz)	1257.19	1233.36	1232.24	1245.47	1247.83	1243.57
Electricity (Haywards)	5.63	3.93	5.86	5.98	6.68	4.99
Baltic Dry Freight Index	875	1205	1200	1190	1196	1240
NZX WMP Futures (US$/t)	3050	2650	2615	2880	2880	2870

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