ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

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INSIDE

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STOCK-TAKE

ECONOMIC OVERVIEW

A quick stock-take of our forecasts leaves us reasonably comfortable with our key views for 2017. There are some hits and misses. The boost to growth from construction and tourism looks like it could be a little less than expected, while migration will be stronger. The labour market is tightening, but wage growth is taking time to show up. Nevertheless, we still believe that inflation will lift further. In fact, we see upside risks to our near-term CPI forecasts (but more balanced risks further out). That leaves us comfortable with our view that the next move in the OCR will be up, and earlier than the RBNZ implies.

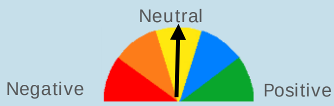
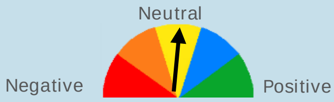
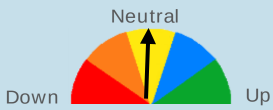
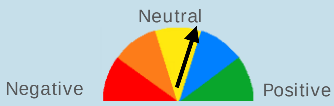
INTEREST RATE STRATEGY

Short-end rates remain elevated. While they have scope to grind lower, given the gap between implied forward rates and the RBNZ's projections (and our expectation that hikes are a 2018, rather than 2017 story), markets are not prepared to chase them lower. Accordingly, more range trading beckons. Confirmation from Fed Chair Yellen that a March hike would be "appropriate" in light of the data pulse has seen US market expectations move. But while March is fully priced in, expectations beyond that are light. That biases US yields higher and will be felt here via a steeper curve. Strong demand for the new 2040 linker at syndication last week was welcome, and paves the way for inflation breakevens to grind higher now that supply has been absorbed.

CURRENCY STRATEGY

NZD/USD starts the week on the back foot, having succumbed to the recent bout of USD strength. Further USD upside can't be ruled out given scope for expectations of Fed policy to ratchet higher yet. Technically, a break below the psychological 0.70 level would turn many bearish, but we are mindful that when one looks beyond the price action, NZ still has a host of positive fundamentals that need to be respected. We have long assumed USD strength would re-assert itself over time, and that may be materialising sooner than expected. But as with past dips, until we see a sea-change in the domestic data pulse, we expect NZD dips to be fairly shallow. NZD/AUD has broken lower, and price action suggests we could test lower still. Recent Australian data has tended to surprise to the upside, but absent a material shift in policy expectations, it's difficult to see this is the beginning of a new trend.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q3	The economy is recording decent momentum, and we expect that to generally continue at least over the first part of 2017. Downside risk mainly stems from offshore.	
Unemployment rate	4.7% for 2017 Q3	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.	
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.	
CPI	1.9% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point early next year. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

A quick stock-take of our forecasts leaves us reasonably comfortable with our key views for 2017. There are some hits and misses. The boost to growth from construction and tourism looks like it could be a little less than expected, while migration will be stronger. The labour market is tightening, but wage growth is taking time to show up. Nevertheless, we still believe that inflation will lift further. In fact, we see upside risks to our near-term CPI forecasts (but more balanced risks further out). That leaves us comfortable with our view that the next move in the OCR will be up, and earlier than the RBNZ implies. This week, softer GDT dairy prices look likely, while Q4 manufacturing data should point to a modest positive contribution to quarterly GDP growth. Our Truckometer and Monthly Inflation Gauge will provide updates on growth and inflation trends respectively.

FORTHCOMING EVENTS

GlobalDairyTrade Auction (early am, Wednesday, 8 March). Lower prices on the back of stronger supply look likely this week.

ANZ Truckometer – February (10:00am, Wednesday, 8 March).

Economic Survey of Manufacturing – Q4 (10:45am, Wednesday, 8 March). While meat and dairy volumes may fall slightly, stronger 'core' volumes are likely.

ANZ Monthly Inflation Gauge – February (1:00pm, Wednesday, 8 March).

Electronic Card Transactions – February (10:45am, Friday, 10 March). Following January's surge, we have pencilled in a 0.6% m/m drop.

Food Price Index – February (10:45am, Monday, 13 March). After January's large spike, we'd expect to see some retracement.

REINZ Housing Market Statistics – February (early next week). Figures can be volatile around this time of year. We expect turnover to stabilise, but annual house price growth to ease.

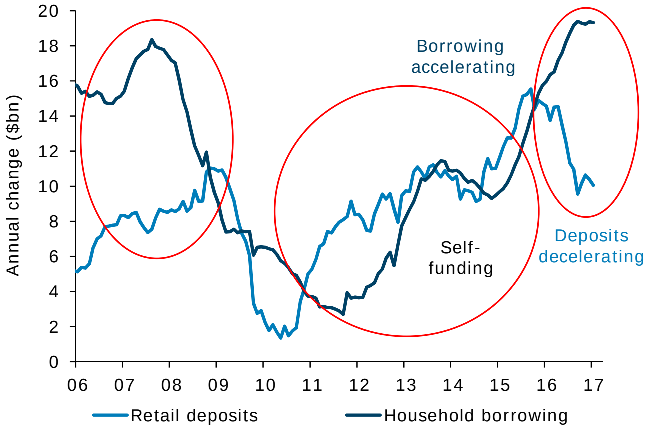
WHAT'S THE VIEW?

We'll start this week with a quick stock-take of some of our key economic views for 2017 and how recent data and information is tracking against those views. It is useful to sit back and do these self-reflection exercises now and then as they force us, as forecasters, to assess the degree of comfort we have in some of the specifics of our projections, but also the validity of our wider views. It is also useful timing as we plan on releasing our next economic outlook publication later in the month.

Some of the key views we hold for this year are:

- **The economy will continue to record decent growth, but momentum will moderate over the course of the year.** The fact that business confidence has eased off highs, the Light Traffic Index has softened, and financial conditions have tightened are consistent with a moderating pace of growth. You can also see softness in other data like house sales, building consents and the manufacturing PMI. Yet it is certainly hard to turn outright bearish when numerous positive forces remain and the economy hasn't built up the same degree of imbalances (especially external imbalances) as it has done at this point of the cycle in the past.
- **Key factors behind the moderation are supply-side issues, namely a lack of skilled employees and reduced credit availability.** It's not a demand-dominated moderation, which would carry different implications. We have seen little of late to sway us from this view.
- **The gap between credit and deposit growth needs to – and will – narrow**, implying increased credit rationing and higher retail mortgage and deposit rates. Elements of this can already be seen, with retail interest rates off their lows. But the narrowing of the 'funding gap' is occurring only slowly. While the $1.3bn increase in household credit in January was the smallest monthly increase in 1½ years, we estimate that household deposits grew by only $828 million in seasonally adjusted terms. A clear gap remains, leaving the risks to retail interest rates skewed to the upside. **The higher this funding channel forces retail interest rates, the less work the RBNZ has to do with the OCR.** We expect the funding gap to close further. If it doesn't, our current account deficit forecasts look too benign.

FIGURE 1: BANK HOUSEHOLD FUNDING AND CLAIMS GROWTH



Source: ANZ, RBNZ

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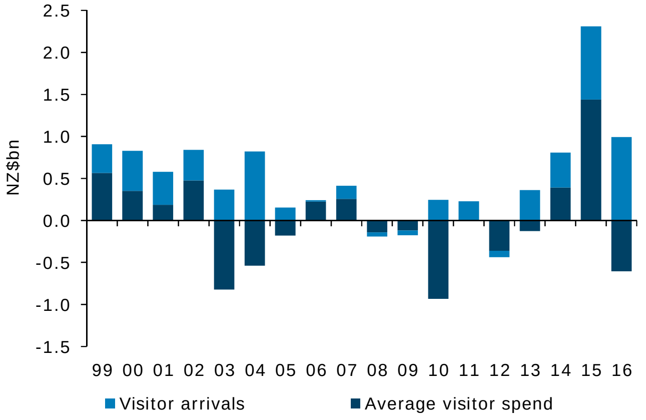
- **Households will show ongoing restraint.** Since 2010, per capita consumption has averaged annual growth of less than 2%, which compares with 3.2% between 2002 and 2007; we've had a housing boom but not the consumption equivalent. Now there were some signs over mid-2016 that behaviours of old were returning, with consumption growth accelerating and the saving rate falling. It is early days to judge year-to-date spending trends, given we really only have January ECT figures (which were strong), but this spending restraint assumption remains our view. We estimate the household saving rate bounced to -0.6% in Q4 from -2.2% in Q3. With household credit growth slowing to a pace more similar to income growth, the likes of the household debt-to-income ratio should also begin to stabilise (at all-time highs of around 170% admittedly).
- **The construction and tourism sectors will continue to support growth.** This remains our view overall, although the near-term outlook looks a little softer. Residential construction in particular faces headwinds in the form of capacity and credit constraints that could actually see activity contract over the first half of this year. On a floor area basis, residential building consents have fallen 22% over the past five months. On the tourism side, although visitor arrivals continue to grow at a pace north of 10% y/y, a fall in the average spend per visitor (on the back of a strong NZD) has seen overall spending growth slow. We estimate total international visitor spending was up only 1.0% y/y in December.

FIGURE 2: CONTRIBUTIONS TO TOTAL VISITOR SPEND GROWTH



Source: ANZ, MBIE

- **Net migrant inflows will ease off highs, albeit gradually.** There is no sign of this yet. In fact, a record net inflow was recorded in January.
- **The housing market will record more modest growth, but a crash is not imminent.** The market has certainly cooled. In fact, last week's Barfoot and Thompson figures for Auckland showed the lowest level of turnover since 2011 and the highest available listings since 2012. Price growth has cooled dramatically (in fact prices are falling modestly in Auckland). However, with demand remaining strong, and the supply response increasingly constrained, demand/supply imbalances will persist, underpinning prices. Housing-related initiatives will feature heavily in the 2017 Budget.
- **The labour market will tighten further, resulting in a lift in wage inflation.** We believe the labour market is tighter than the Q4 figures implied. But other forces are continuing to cap wage inflation.
- **Headline inflation will grind higher, reaching the target midpoint by early 2018.** We actually see reasonable upside risks to our Q1 CPI forecasts (currently 0.5% q/q) on some temporary influences boosting food prices. However, further out the risks are more balanced, with disinflationary forces (NZD especially) still prevalent. Our Monthly Inflation Gauge for January certainly didn't point to strong broad-based domestic price increases.
- **The next move in the OCR will be up, but not until 2018.** The combination of a high NZD, a lift in interest rates via the credit channel of monetary policy, and history (two failed starts to a tightening cycle) will see the RBNZ err towards going later as opposed to pre-emptively. Unlike the RBNZ we don't think the risk profile around the OCR outlook is symmetrical; the risks are firmly skewed towards a hike.

So while there are differences here and there, overall we still see the economy evolving broadly as expected. Of course, there are risks aplenty that could easily change all of the above, especially with regards to the global economy, as Governor Wheeler highlighted last week. Our eyes remain on the Auckland housing market too. But at this stage the risks remain just that, risks.

Turning to the week ahead, it appears likely we will see price falls at the next GlobalDairyTrade auction as sentiment in dairy markets has swung with improved supply prospects in recent weeks. Widespread rain over the North Island in mid-February appears to have revived autumn production prospects (more rain is forecast for later this week). This has seen production

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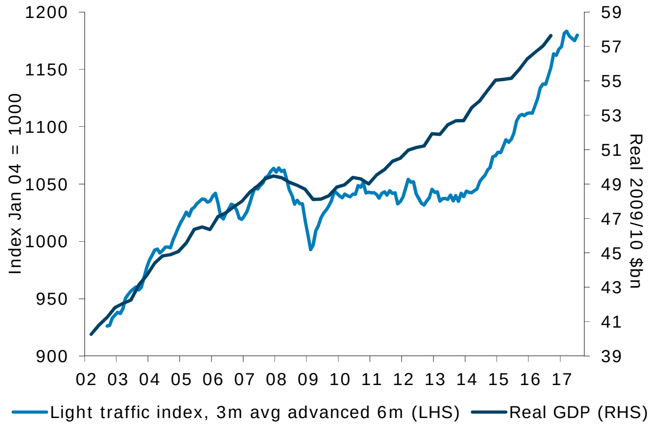
forecasts upgraded by Fonterra for the second time in a month, and some of this product will be sold on the GlobalDairyTrade platform before May. National production is currently tracking 3% behind the same period last year. If the last quarter of the season can match, or beat, the last two autumns, then national production will finish only 2% (or less) behind the 2015/16 session.

In total, 25,000t (4% of annual supply) was added to GDT: 15,000t SMP and 10,000t WMP. The lift in SMP supply is significant, and this week's auction will see 3,655t of NZ-sourced SMP offered – an increase of 49% on the volume previously forecast. Given New Zealand's product has been trading at a significant premium to European and US supply, some normalisation in prices is expected. NZX futures are pointing to a 12% fall in SMP prices. For WMP, there will be 13,335t offered at this week's auction, which is a 6.1% increase on the volume previously forecast. Lifts for WMP are for Contracts 1 to 3 (product to ship April-June). NZX futures suggest a 9% fall in WMP prices.

But while GDT supply has been increased, the biggest unknown is the extent of Chinese demand. Although NZX dairy futures are pointing to a reasonable fall in overall GDT prices, if Chinese demand remains strong, the end result is unlikely to be quite so bad. High participation at the last GDT auction (over 60%) also suggests this, even though the Chinese New Year holiday period could have had some effect too. Normally a high level of imported stocks from buying for the free-trade window, and the seasonal uplift in local supply, together reduce Chinese participation at this time of year. The consensus view seems to be that Chinese dairy import requirements will lift by a further 10% to 20% in 2017 (after the lift of 2016). If this turns out to be the case, this additional Chinese demand will easily absorb the higher GDT volumes on offer.

As always, our latest Truckometer for February will provide a timely signal on economic momentum. In January, the Heavy Traffic and Light Traffic indices fell 0.8% m/m and 0.5% m/m respectively (both seasonally adjusted). However, the underlying trend in the Heavy Traffic Index was still solid, consistent with the economy recording decent growth in late-2016 and early 2017. Interestingly though, the underlying trend in the Light Traffic Index has softened. While not alarming, this does point to a softer pace of economic momentum over the middle-to-latter part of 2017 – consistent with our forecasts.

FIGURE 3: GDP AND THE ANZ LIGHT TRAFFIC INDEX 3-MONTH AVERAGE

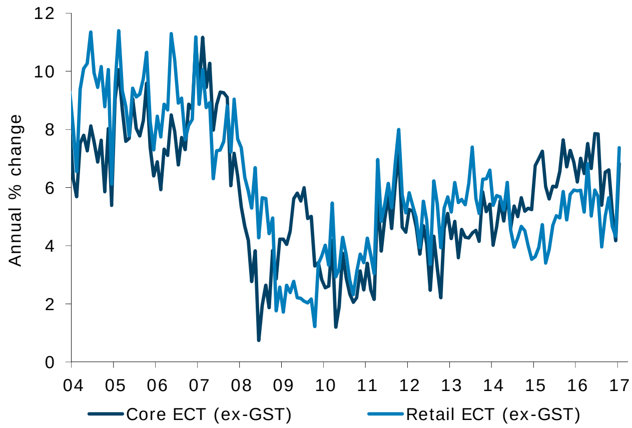


Source: ANZ, NZ Transport Agency, Statistics NZ

Our Monthly Inflation Gauge for February will again be watched for any signs of a broadening in domestic inflation pressures. In January, the Gauge rose 0.5% m/m, but that was confined largely to higher tobacco and cigarette prices, which has become a common occurrence this time of year. Outside of that, price pressures were in fact quite benign, which dampens some of the signal that was developing over earlier months of broader price pressures lifting off lows. While it may be just a consequence of volatile monthly data, and broader price pressures may well continue to lift (which would be consistent with tighter capacity in the economy), the jury is still out.

We wouldn't be surprised if there were to be some recoil in February Electronic Card Transactions spending after January's surge. Total retail spending rose 2.7% m/m in January, which was the largest monthly increase since January 2006.

FIGURE 4: ELECTRONIC CARD TRANSACTIONS



Source: ANZ, Statistics NZ

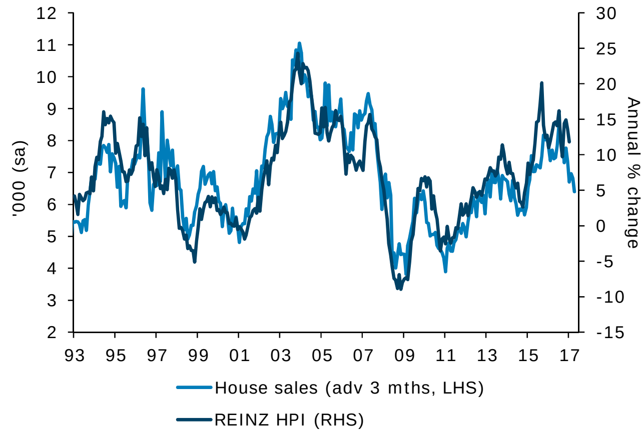
ECONOMIC OVERVIEW

To be fair, this surge did follow flat months in both November and December, so at a time when many positive forces for retail spending remain (strong population growth, tourist spending, low interest rates, elevated confidence, strengthening labour market), the strong growth looks related more to pent-up demand than anything else. But given the inherent volatility with this data some pull-back is likely, although we'd expect the underlying trend to remain reasonable overall.

The last major partial indicators for Q4 GDP are also released this week. Specifically, we are expecting the Economic Survey of Manufacturing to show reasonable sales growth. Weaker milk production and livestock slaughtering will probably see dairy and meat manufacturing volumes contract. However, that should be more than offset by reasonable growth in core manufacturing volumes, which over the latter part of last year will likely still have been supported by strong construction sector activity and decent economic momentum more generally. The outlook into 2017 is a little more clouded, as hinted at by the recent softening in the manufacturing PMI, which may relate to softer construction activity too. But we do believe that the manufacturing sector at least ended 2016 in reasonable heart.

Finally, it is likely that REINZ Housing Market Statistics for February will be released early next week (or at a stretch late this week). We expect annual house price growth to have continued to cool. Some caution is needed in interpreting January figures (even after seasonal adjustment) given typically quiet levels of activity at this time of year, but it does appear to have been a soft month. Nationwide sales volumes fell a seasonally adjusted 6.3% m/m, which was the seventh fall in the past nine months. It is possible that activity will begin to stabilise around current levels (which as a share of the housing stock are the lowest since mid-2014). However, annual house price growth should continue to soften. In January, our preferred measure – the REINZ Stratified House Price Index – was still showing annual growth of 12%. However, that was boosted by base effects, with the 3-month annualised pace showing far more modest growth of 5.2%. We expect headline annual growth measures to converge towards that rate over the coming months.

FIGURE 5: NATIONWIDE HOUSE SALES AND PRICES



Source: ANZ, REINZ

LOCAL DATA

RBNZ New Mortgage Lending – Jan. We estimate total new lending fell 9.8% m/m (sa), to be down 14% y/y.

Overseas Merchandise Trade – Jan. An unadjusted deficit of $285m was recorded, or a $357m in seasonally adjusted terms.

ANZ Business Outlook – Feb. Headline confidence eased 5 points to a net 17%. Firms' own activity expectations also fell (from +40 to +37), although they remain at a historically strong level.

RBNZ Credit Aggregates – Jan. Total household claims rose 0.5% m/m, the softest monthly growth since mid-2015.

Overseas Trade Indexes – Q4. The terms of trade surged 5.7% q/q. Export volumes fell 5.8% q/q (sa), while import volumes rose 1.2% q/q (sa).

ANZ Job Ads – Feb. Total job ads rose 0.4% m/m (sa), to be up 19% y/y (3-month average).

Building Work Put in Place – Q4. Total building volumes rose 1.9% q/q.

ANZ Commodity Price Index – Feb. The world price index rose 2.0% m/m, while prices rose 0.6% m/m in NZD terms.

Building Consent Issuance – Jan. Total dwelling consent issuance lifted 0.8% m/m (sa).

INTEREST RATE STRATEGY

SUMMARY

Short-end rates remain elevated. While they have scope to grind lower, given the gap between implied forward rates and the RBNZ's projections (and our expectation that hikes are a 2018, rather than 2017 story), markets are not prepared to chase them lower. Accordingly, more range trading beckons. Confirmation from Fed Chair Yellen that a March hike would be "appropriate" in light of the data pulse has seen US market expectations move. But while March is fully priced in, expectations beyond that are light. That biases US yields higher and will be felt here via a steeper curve. Strong demand for the new 2040 linker at syndication last week was welcome, and paves the way for inflation breakevens to grind higher now that supply has been absorbed.

THEMES

- No change at the short end: rates are elevated and there's still daylight between implied forward rates and the RBNZ's projections. But the market isn't eager to chase it, so expect rates to remain elevated despite the RBNZ reiterating its very neutral stance in last week's speech.
- US bond yields and market expectations for the March FOMC meeting have seen more volatility in the past week – but it is forward expectations over the next 2 years, not 2 weeks, that need to adjust.
- Leftover demand for last week's NZGS 2040 linker is likely to keep a lid on long-end yields, helping to cap spreads as US yields rise. The curve will still steepen, albeit more gradually.

MONETARY POLICY AND SHORT END

Very little has changed at the short end – with RBNZ Governor Wheeler confirming last week that he remains comfortable with February's MPS projections, and that the risk profile remains balanced. **That's more downbeat than where market expectations sit**, and the implied gravitational pull should, over time, stabilise short-end rates, especially with carry as high as it is.

Despite the RBNZ's reiteration of a super-neutral stance, we are cautious against reading too much into it given the widespread feeling in the market that the RBNZ is playing a strategic game, avoiding any mention of rate hikes so as not to put a rocket under the NZD. That's probably not an unfair thing to say – but even so, we do believe the Bank has time on its side to wait for inflation to actually materialise (as opposed to simply forecasting that it will). **Given market fatigue with the "received" trade** (and with fresh flow at the short end likely to be the result of steepeners being put on, rather than the market trying to squeeze the last few points out of a mature trade), **more range-trading beckons**.

GLOBAL MARKETS AND LONG END

In contrast to last week, when US market pricing was 60/40 in favour of no Fed hike in March, markets are now 80-90% priced for a hike in the wake of Fed Chair Yellen's speech. As a discrete decision, it's no big deal (especially now that it's basically fully priced in). But **what it will do is put the market on notice for hikes being delivered at a roughly one-per-quarter pace, as opposed to the "half a hike" per quarter pace currently priced in**. With 5-6 hikes to go before the real Fed Funds rate reaches zero (which Yellen has said is about where the Fed sees policy being "neutral", and has implied is the immediate priority), and the neutral real Fed Funds rate itself likely to rise, **it's longer-term expectations for policy, and hence the mid-to-long end of the curve, where the real upside risks lie. And as US bond yields rise, they will take NZ rates with them, steepening the curve** (especially with the RBNZ on hold, and the steeper curve delivering a de facto tightening in financial conditions via higher fixed mortgage and deposit rates).

Last week's 2040 linker syndication saw solid demand, allowing the NZDMO to print a deal of maximum size ($1.5bn). Leftover demand is likely to keep a lid on nominal NZGS yields in coming days, and paves the way for BEIs to rise now that the deal has been absorbed.

STRATEGY

Investors: We prefer to remain short duration, positioned for steepeners. We also think it makes sense to switch out of nominal duration and into linker duration (we expect the 2040 to be launched soon).

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	Still daylight between RBNZ projections and market. Scope for rates to grind lower, bit will be slow and patience is required. R+C at attractive levels. Mortgage paying potential exists but is well behaved.
Long end	Bearish	Rejection of rally last week a technical milestone. Market hasn't adjusted to number of Fed hikes coming.
Yield Curve	Steeper	Strategically favour a steepener, based on divergent short/long end views. US curve should be steeper too.
Geographic spreads	Neutral/ narrower	Spreads still at 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	Holding up	TWI lower but still elevated. Does matter for inflation, buys the RBNZ time and will keep a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

NZD/USD starts the week on the back foot, having succumbed to the recent bout of USD strength. Further USD upside can't be ruled out given scope for expectations of Fed policy to ratchet higher yet. Technically, a break below the psychological 0.70 level would turn many bearish, but we are mindful that when one looks beyond the price action, New Zealand still has a host of positive fundamentals that need to be respected. We have long assumed USD strength would re-assert itself over time, and that may be materialising sooner than expected. But as with past dips, until we see a sea-change in the domestic data pulse, we expect NZD dips to be fairly shallow. NZD/AUD has broken lower, and price action suggests we could test lower still. Recent Australian data has tended to surprise to the upside, but absent a material shift in policy expectations, it's difficult to see this is the beginning of a new trend.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	No strong reason to sell or buy.	Firmer USD bias ultimately wins.
NZD/AUD	↔/↑	Has struggled to hold below 0.9325.	Push higher.
NZD/EUR	↔/↑	Politics not euro supportive.	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

- USD strength has been the main theme of the past week as markets have moved to price in a March Fed hike. With more hikes coming, and US market pricing still light, the risk is we see the USD strengthen further.
- However, domestic relatives remain positive and still deserve to be respected.
- USD strength has the potential to cap NZD/USD, but it's less easy to see the TWI coming off.
- AUD price action deserves watching. But have the fundamentals changed? We don't think so.

ASSESSMENT

Having spent most of the past month trading tight ranges centred around 0.72, NZD/USD has now broken lower and is threatening to break below 0.70. Technically, such price action deserves to be respected.

Our forecasts have long been based around the idea that USD strength would reassert itself. The question we have now is; is that coming to fruition now, a few quarters earlier than we thought; or is this just volatility? In the past, we'd have been more dismissive, and recent dips have been bought into. However, this most recent move has coincided with a re-rating of the US policy rate outlook, which itself has potential to run further (as we discuss in the interest rate strategy section). As a driver of currencies, this is a key one, and if we do see US policy rate expectations ratchet higher, that is likely to result in more USD strength.

However, we are equally mindful that the domestic data pulse is still generally strong, with only a few signs of moderation, and even then, these appear more related to supply bottlenecks (which will ultimately be inflationary) than weaker demand. Offshore demand for NZD assets has slipped since the heady days of the "race to the bottom", but with over 60% of the market still held by non-residents and at least 58% of last week's linker syndication going offshore, demand remains decent. Accordingly, while we believe we may be in the earlier stages of a USD reassessment, we don't think it's time to close the door on the NZD itself just yet. All else equal, that portends earlier NZD/USD weakness, rather than "more" NZD/USD weakness – or generalised TWI weakness for that matter.

NZD/AUD has also broken lower, and again, at this stage our feeling is that the move could well extend. But it's too soon to say we're into a new "era". Australian data has surprised to the upside of late, but New Zealand still looks pretty good too, and we're now back near our fair-value estimate. That's hardly suggestive of a sustained break-out.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Fair value is 0.93; we're now below that.
Yield	↔	NZ/AU spreads at average levels.
Commodities	↔/↓	Hards outperforming softs of late.
Data	↔/↓	AU data surprises have been positive.
Techs	↔/↓	Has broken and held below 0.9325.
Sentiment	↔/↓	Gone the same way as price action.
Other	↔/↑	NZ growth pulse stronger, although perhaps less than before.
On balance	↔	**More neutral now.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔	Yields heading higher in both markets.
Commodities	↔/↓	Risk of weaker GDT auction this week.
Risk aversion	↔/↓	Has potential to add to volatility.
Data	↔	Data flow solid in both countries.
Techs	↔	Break below 0.70 would feed the bears.
Sentiment	↔/↓	USD strength the main theme.
Other	↔/↑	Positioning already long USD.
On balance	↔	**Watching price action closely.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
6-Mar	GE	Markit Construction PMI - Feb	--	52.0	21:30
	GE	Markit Retail PMI - Feb	--	50.3	22:10
	EC	Markit Retail PMI - Feb	--	50.1	22:10
	EC	Sentix Investor Confidence - Mar	18.5	17.4	22:30
7-Mar	US	Factory Orders - Jan	1.0%	1.3%	04:00
	US	Factory Orders Ex Trans - Jan	--	2.1%	04:00
	US	Durable Goods Orders - Jan F	1.0%	1.8%	04:00
	US	Durables Ex Transportation - Jan F	0.1%	-0.2%	04:00
	US	Cap Goods Orders Nondef Ex Air - Jan F	--	-0.4%	04:00
	US	Cap Goods Ship Nondef Ex Air - Jan F	--	-0.6%	04:00
	AU	AiG Perf of Construction Index - Feb	--	47.7	11:30
	AU	ANZ-RM Consumer Confidence Index - 5-Mar	--	119.1	11:30
	AU	RBA Cash Rate Target - Mar	1.50%	1.50%	16:30
	AU	Foreign Reserves - Feb	--	A$68.6B	18:30
	GE	Factory Orders MoM - Jan	-2.5%	5.2%	20:00
	GE	Factory Orders WDA YoY - Jan	4.3%	8.1%	20:00
	UK	Halifax House Prices MoM - Feb	0.4%	-0.9%	21:30
	UK	Halifax House Price 3Mths/Year - Feb	5.3%	5.7%	21:30
	EC	GDP SA QoQ - Q4 F	0.4%	0.4%	23:00
	EC	GDP SA YoY - Q4 F	1.7%	1.7%	23:00
	CH	Foreign Reserves - Feb	$2969.0B	$2998.2B	UNSPECIFIED
8-Mar	US	Trade Balance - Jan	-$48.5B	-$44.3B	02:30
	US	Consumer Credit - Jan	$18.00B	$14.16B	09:00
	NZ	ANZ Truckometer Heavy MoM - Feb	--	-0.8%	10:00
	NZ	Mfg Activity Volume QoQ - Q4	--	2.1%	10:45
	NZ	Mfg Activity SA QoQ - Q4	--	0.4%	10:45
	JN	BoP Current Account Balance - Jan	¥254.5B	¥1112.2B	12:50
	JN	BoP Current Account Adjusted - Jan	¥1438.2B	¥1669.2B	12:50
	JN	Trade Balance BoP Basis - Jan	-¥805.0B	¥806.8B	12:50
	JN	GDP SA QoQ - Q4 F	0.4%	0.2%	12:50
	JN	GDP Annualized SA QoQ - Q4 F	1.6%	1.0%	12:50
	JN	GDP Nominal SA QoQ - Q4 F	0.5%	0.3%	12:50
	JN	GDP Deflator YoY - Q4 F	-0.1%	-0.1%	12:50
	NZ	ANZ Inflation Gauge MoM - Feb	--	0.5%	13:00
	GE	Industrial Production SA MoM - Jan	2.6%	-3.0%	20:00
	GE	Industrial Production WDA YoY - Jan	-0.6%	-0.7%	20:00
	CH	Imports YoY - Feb	20.0%	16.7%	UNSPECIFIED
	CH	Exports YoY - Feb	14.0%	7.9%	UNSPECIFIED
	CH	Trade Balance - Feb	$27.50B	$51.34B	UNSPECIFIED
9-Mar	US	MBA Mortgage Applications - 3-Mar	--	5.8%	01:00
	US	ADP Employment Change - Feb	185k	246k	02:15
	US	Nonfarm Productivity - Q4 F	1.5%	1.3%	02:30
	US	Unit Labor Costs - Q4 F	1.6%	1.7%	02:30
	US	Wholesale Inventories MoM - Jan F	-0.1%	-0.1%	04:00
	UK	RICS House Price Balance - Feb	23%	25%	13:01
	CH	CPI YoY - Feb	1.8%	2.5%	14:30
	CH	PPI YoY - Feb	7.5%	6.9%	14:30
10-Mar	EC	ECB Main Refinancing Rate - Mar	0.00%	0.00%	01:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Mar	EC	ECB Marginal Lending Facility - Mar	0.25%	0.25%	01:45
	EC	ECB Deposit Facility Rate - Mar	-0.40%	-0.40%	01:45
	EC	ECB Asset Purchase Target - Mar	€80B	€80B	01:45
	US	Import Price Index MoM - Feb	0.1%	0.4%	02:30
	US	Import Price Index YoY - Feb	4.3%	3.7%	02:30
	US	Initial Jobless Claims - 4-Mar	238k	223k	02:30
	US	Continuing Claims - 25-Feb	2063k	2066k	02:30
	NZ	Card Spending Retail MoM - Feb	-0.4%	2.7%	10:45
	NZ	Card Spending Total MoM - Feb	--	2.5%	10:45
	AU	Home Loans MoM - Jan	-1.0%	0.4%	13:30
	AU	Investment Lending - Jan	--	-1.0%	13:30
	AU	Owner-Occupier Loan Value MoM - Jan	--	1.3%	13:30
	GE	Wholesale Price Index MoM - Feb	--	0.8%	20:00
	GE	Wholesale Price Index YoY - Feb	--	4.0%	20:00
	GE	Trade Balance - Jan	€18.0B	€18.7B	20:00
	GE	Current Account Balance - Jan	€15.5B	€24.0B	20:00
	GE	Exports SA MoM - Jan	2.0%	-2.8%	20:00
	GE	Imports SA MoM - Jan	0.5%	0.1%	20:00
	GE	Labor Costs SA QoQ - Q4	--	0.8%	20:00
	GE	Labor Costs WDA YoY - Q4	--	2.5%	20:00
	UK	Industrial Production MoM - Jan	-0.5%	1.1%	22:30
	UK	Industrial Production YoY - Jan	3.2%	4.3%	22:30
	UK	Manufacturing Production MoM - Jan	-0.7%	2.1%	22:30
	UK	Manufacturing Production YoY - Jan	2.9%	4.0%	22:30
	UK	Construction Output SA MoM - Jan	-0.4%	1.8%	22:30
	UK	Construction Output SA YoY - Jan	0.2%	0.6%	22:30
	UK	Visible Trade Balance GBP/Mn - Jan	-£11100	-£10890	22:30
	UK	Trade Balance Non EU GBP/Mn - Jan	-£2425	-£2114	22:30
	UK	Trade Balance - Jan	-£3100	-£3304	22:30
	CH	Money Supply M2 YoY - Feb	11.4%	11.3%	10-15 Mar
	CH	Money Supply M1 YoY - Feb	15.7%	14.5%	10-15 Mar
	CH	Money Supply M0 YoY - Feb	15.0%	19.4%	10-15 Mar
	CH	New Yuan Loans CNY - Feb	920.0B	2030.0B	10-15 Mar
	CH	Aggregate Financing CNY - Feb	1400.0B	3737.7B	10-15 Mar
	NZ	REINZ House Sales YoY - Feb	--	-14.70%	10-17 Mar
11-Mar	US	Change in Nonfarm Payrolls - Feb	190k	227k	02:30
	US	Unemployment Rate - Feb	4.7%	4.8%	02:30
	US	Average Hourly Earnings MoM - Feb	0.3%	0.1%	02:30
	US	Average Hourly Earnings YoY - Feb	2.8%	2.5%	02:30
	UK	NIESR GDP Estimate - Feb	0.6%	0.7%	04:00
	US	Monthly Budget Statement - Feb	-$160.5B	$51.3B	08:00

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

Domestic economic momentum is solid although 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
Wed 8 Mar (early am)	GlobalDairyTrade Auction	Slipping	After some strong gains over the second half of 2016, some moderation is now occurring.
Wed 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Wed 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Looking good	While meat and dairy volumes may fall slightly, stronger 'core' volumes are likely.
Wed 8 Mar (1:00pm)	ANZ Monthly Inflation Gauge	--	--
Fri 10 Mar (10:45am)	Electronic Card Transactions – Feb	Respectable	Following January's surge, we have pencilled in a fall of 0.6% m/m.
10-17 Mar	REINZ Housing Market Statistics – Feb	Cooler	Figures can be volatile around this time of year. We expect turnover to stabilise, but annual house price growth to ease.
Mon 13 Mar (10:45am)	Food Price Index – Feb	Down	After January's large spike, we'd expect to see some retracement.
Wed 15 Mar (10:45am)	Balance of Payments – Q4	Contained	The current account deficit has been remarkably stable around 3% of GDP. A further narrowing towards 2.7% is possible.
Thu 16 Mar (10:45am)	GDP – Q4	0.7% q/q	Our current bottom-up estimate points to growth of 0.7% q/q, which, although a little softer than in Q3, is still decent.
Fri 17 Mar (10:30am)	BNZ-BusinessNZ PMI – Feb	Bounce?	The index fell in January. We believe it will bounce, but are keeping an eye on the signal.
Fri 17 Mar (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Mar	--	--
Mon 20 Mar (10:30am)	BNZ-BusinessNZ PSI – Feb	Strong	Despite a weaker housing market, services sector activity is being supported by population growth and low interest rates.
Tue 21 Mar (10:45am)	International Travel & Migration – Feb	Holding up	Net migrant inflows are holding near all-time highs and we doubt that picture is going to change much any time soon. Visitor arrivals should still grow, but perhaps at a slower pace.
Thu 23 Mar (9:00am)	RBNZ OCR Review	On hold	The RBNZ made it pretty clear in February that it doesn't intend to move the OCR any time soon. That message will be repeated.
Fri 24 Mar (10:45am)	Overseas Merchandise Trade – Feb	Improving	Stronger export commodity prices should begin to correspond with an improving underlying trend.
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 capacity and capital.
Fri 31 Mar (1:00pm)	ANZ Business Outlook – Mar	--	--
Fri 31 Mar (3:00pm)	RBNZ Credit Aggregates – Feb	Off highs	Overall household credit growth has passed its peak. We expect it to continuing moderating over the course of 2017.
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation is showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (% qoq)	1.1	**0.7**	**0.9**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
GDP (% yoy)	3.5	**3.2**	**3.4**	**3.5**	**3.2**	**3.1**	**2.8**	**2.5**	**2.2**	**2.1**
CPI (% qoq)	0.3	0.4	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**	**0.1**
CPI (% yoy)	0.4	1.3	**1.7**	**1.7**	**1.9**	**1.7**	**2.1**	**2.2**	**2.2**	**2.0**
Employment (% qoq)	1.3	0.8	**0.7**	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	6.1	5.8	**5.2**	**3.4**	**2.5**	**2.1**	**1.8**	**1.6**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.9	5.2	**5.0**	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**
Current Account (% GDP)	-2.9	**-2.7**	**-2.7**	**-2.7**	**-2.7**	**-2.9**	**-3.0**	**-3.1**	**-3.2**	**-3.2**
Terms of Trade (% qoq)	-1.1	5.7	**0.3**	**-0.1**	**-0.4**	**-0.6**	**0.4**	**0.2**	**0.1**	**0.1**
Terms of Trade (% yoy)	-1.1	6.7	**2.7**	**4.7**	**5.4**	**-0.9**	**-0.8**	**-0.4**	**0.1**	**0.8**

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Retail ECT (% mom)	-0.3	1.2	0.2	-1.2	2.0	0.5	0.0	0.0	2.7	--
Retail ECT (% yoy)	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8	5.6	--
Credit Card Billings (% mom)	-0.5	-0.9	2.5	-0.9	2.9	3.0	-4.2	3.2	0.2	--
Credit Card Billings (% yoy)	6.1	4.1	5.7	2.3	8.3	10.1	4.2	8.6	7.1	--
Car Registrations (% mom)	-4.3	-0.7	0.0	2.6	-4.0	12.2	3.9	-6.3	1.5	0.2
Car Registrations (% yoy)	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2	7.3
Building Consents (% mom)	-0.7	16.4	-4.5	-3.1	-0.7	1.6	-9.6	-7.2	0.8	--
Building Consents (% yoy)	10.1	39.4	8.0	11.8	14.4	13.9	1.3	-10.6	-1.7	--
REINZ House Price Index (% yoy)	14.7	14.2	16.3	11.7	9.7	14.4	14.9	13.5	11.7	--
Household Lending Growth (% mom)	0.7	0.8	0.8	0.8	0.8	0.6	0.6	0.7	0.5	--
Household Lending Growth (% yoy)	8.1	8.3	8.6	8.7	8.8	8.7	8.6	8.7	8.7	--
ANZ Roy Morgan Consumer Conf.	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7	127.4
ANZ Business Confidence	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7	..	16.6
ANZ Own Activity Outlook	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6	..	37.2
Trade Balance ($m)	343	107	-351	-1240	-1388	-798	-725	-36	-285	--
Trade Bal ($m ann)	52854	52660	52078	51900	51938	51943	51667	51620	51931	--
ANZ World Commodity Price Index (% mom)	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7	-0.1	2.0
ANZ World Comm. Price Index (% yoy)	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	19.1	20.9
Net Migration (sa)	5610	5770	5700	5690	6340	6220	6210	6050	6460	--
Net Migration (ann)	68432	69090	69015	69119	69954	70282	70354	70588	71305	--
ANZ Heavy Traffic Index (% mom)	-2.5	5.3	-6.3	7.2	-2.3	-0.4	3.7	-0.1	-0.8	--
ANZ Light Traffic Index (% mom)	-1.4	2.7	-0.6	0.9	0.1	-1.6	1.5	0.2	-0.5	--

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	0.702	0.72	0.70	0.69	0.68	0.68	0.68	0.67
NZD/AUD	0.964	0.938	0.927	0.92	0.92	0.93	0.94	0.94	0.93	0.91
NZD/EUR	0.680	0.679	0.662	0.70	0.69	0.68	0.68	0.68	0.65	0.64
NZD/JPY	82.80	80.79	79.97	82.8	80.5	79.4	78.2	78.2	78.2	77.1
NZD/GBP	0.585	0.578	0.572	0.59	0.58	0.58	0.58	0.55	0.54	0.54
NZ$ TWI	78.3	77.2	77.1	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	1.99	2.00	2.00	2.00	2.00	2.10	2.30	2.50
NZ 10-yr bond	3.37	3.23	3.31	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	1.03	1.05	1.10	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

	3 Feb	27 Feb	28 Feb	1 Mar	2 Mar	3 Mar
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.99	2.00	2.00	2.00	2.00
NZGB 03/19	2.27	2.15	2.17	2.19	2.19	2.18
NZGB 05/21	2.71	2.56	2.58	2.60	2.60	2.59
NZGB 04/23	3.00	2.81	2.82	2.86	2.88	2.87
NZGB 04/27	3.39	3.21	3.23	3.29	3.32	3.31
2 year swap	2.41	2.33	2.34	2.35	2.35	2.35
5 year swap	3.07	2.94	2.96	2.99	3.01	3.01
RBNZ TWI	79.42	78.45	78.32	78.10	78.13	78.13
NZD/USD	0.7315	0.7194	0.7192	0.7135	0.7107	0.7031
NZD/AUD	0.9525	0.9376	0.9377	0.9311	0.9327	0.9256
NZD/JPY	82.37	80.76	80.79	81.08	81.18	80.18
NZD/GBP	0.5860	0.5792	0.5783	0.5766	0.5787	0.5720
NZD/EUR	0.6784	0.6798	0.6787	0.6766	0.6751	0.6619
AUD/USD	0.7680	0.7673	0.7670	0.7663	0.7620	0.7596
EUR/USD	1.0783	1.0582	1.0596	1.0546	1.0528	1.0622
USD/JPY	112.61	112.26	112.33	113.63	114.23	114.04
GBP/USD	1.2484	1.2420	1.2436	1.2374	1.2280	1.2291
Oil (US$/bbl)	52.38	53.99	54.04	54.00	53.82	52.63
Gold (US$/oz)	1204.49	1256.55	1253.26	1243.10	1246.70	1233.40
Electricity (Haywards)	4.85	5.10	6.52	5.64	6.30	5.34
Baltic Dry Freight Index	752	878	859	871	904	939
NZX WMP Futures (US$/t)	3210	3035	3020	3010	2980	2920

IMPORTANT NOTICE

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