

NEW ZEALAND ECONOMICS MARKET FOCUS

29 March 2016

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RISK PROFILING

ECONOMIC OVERVIEW

The economy continues to perform pretty well, but most of our focus is on the risk profile. While not all risks are downside ones, we are paying particularly close attention to the flow-on impact of dairy strains and the global scene. Together with the stubbornly high NZD and structural shift in funding costs, the OCR remains biased lower. But a lower OCR still remains a view that sits a little uneasy with us, especially with re-leveraging behaviour evident, regional housing markets booming and a few stronger inflation nuances we are now detecting. **Another OCR cut by June (which remains our view) shouldn't be taken for granted.** This week, our *Business Outlook* will be used as a gauge of domestic momentum, while building consents data should rebound.



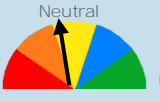

INTEREST RATE STRATEGY

Markets continue to under-price our core view of a further 50bps of OCR cuts. For now, that doesn't bother us as solid data-flow needs to be respected. But we expect a turning point down the track, with our leading indicators key to watch re the timing of this turning point into the hard data. We now expect the RBA to leave policy on hold, paving the way for further spread convergence as the RBNZ eases. Safe-haven buying has prevented the long-end from seriously entertaining the idea the Fed is behind the curve, but we still believe risks are biased towards higher long-term yields. We expect our still-high outright yields to help slow the climb in local long-term yields as geographic spreads narrow.

CURRENCY STRATEGY

NZD/USD touched mid-range (0.66's) over the Easter break, but it remains entrenched in the top half of the range. We expect NZD to continue to trade resiliently, although USD factors should ensure minimal opportunity for a real test of topside resistance. NZD/AUD remains within its two and a half year range, respecting support. We continue to see this as an opportunity for some exporter hedging, with global factors in control of both AUD and NZD fortunes.

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	1.0% 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 low.	

ECONOMIC OVERVIEW

SUMMARY

The economy continues to perform pretty well, but most of our focus is on the risk profile. While not all risks are downside ones, we are paying particularly close attention to the flow-on impact of dairy strains and the global scene. Together with the stubbornly high NZD and structural shift in funding costs, the OCR remains biased lower. But a lower OCR still remains a view that sits a little uneasy with us, especially with re-leveraging behaviour evident, regional housing markets booming and a few stronger inflation nuances we are now detecting. Another OCR cut by June (which remains our view) shouldn't be taken for granted. This week, our *Business Outlook* will be used as a gauge of domestic momentum, while building consents data should rebound.

FORTHCOMING EVENTS

Building Consents Issued – February (10:45am, Wednesday, 30 March). Dwelling consent issuance fell sharply in January. We put this down to monthly volatility and are expecting a bounce.

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

RBNZ Credit Aggregates – February (3:00pm, Thursday, 31 March). Credit growth is running ahead of income growth, but we do believe a peak is now in place.

WHAT'S THE VIEW?

Our base case for the New Zealand economy remains one of respectability. We do see growth moderating over the course of this year, but from a gallop to a canter (by that we mean annualised GDP growth is expected to ease from over 3% to closer to 2½%), and the labour market continuing to improve (outside of quarterly volatility). While additional OCR cuts are expected, this is more a result of the global backdrop, stubbornly high NZD, low inflation expectations and a structural shift in the funding environment than a weak economy per se. Overall it is an outlook that while not remarkable, is still solid.

However, we are not naïve enough to think that this is set in stone. The backdrop remains one where our focus is largely on the risk profile. Confidence bands around any set of projections are reasonably wide at present.

Risks are certainly not universally downside ones (migration inflows continue to set new records, regional housing markets are booming and tourist spending has lifted strongly). Households are also showing signs of borrow-and-spend behaviour of old. But we are paying particularly close attention to:

- **The flow-on impact of dairy sector strains.** To date, pressures have been contained, with increased working capital and generally favourable weather conditions helping to at least partly offset the low farm-gate price. Yet anecdotally it has got much tougher of late, as cash flow strain has morphed into balance sheet pressure. Downstream industries are now noting a drying up in sales given the intense focus on farm costs. The longer global milk prices languish, the wider the domestic fallout will be. Land prices are beginning to adjust lower.
- **The international scene.** We do not believe for one moment that recent signs of market stability will continue. China has a leverage (debt) and credit allocation problem, and these issues will be exported. Furthermore, with the tenor of the US data continuing to improve (on-the-whole), and a series of Fed speakers drawing attention to it, we are facing the possibility once again of a re-pricing in Fed rate hike expectations and "good news" becoming decidedly "bad" for markets in the coming months, setting off the next bout of volatility. To be fair, we feel this "good news is bad news" theme is as equally as daft as when bad news is seen as good for markets (through lower interest rates supporting higher asset values), but it is the world we live in. Policymakers are trying to avoid such tensions between real economic data and valuations but there is a battle to be staged between liquidity-driven support and the economic fundamentals. We side with the latter and don't think the economic fundamentals look that flash; debt levels are high, capital has been misallocated, the world is unbalanced in terms of saving pools, and growth expectations are being lowered not raised.

Overall, we still see the New Zealand economy navigating these challenges relatively well, within the context of more modest growth. But the combination of the above, together with structural funding market pressures and an elevated NZD does mean that further OCR cuts are more likely than not.

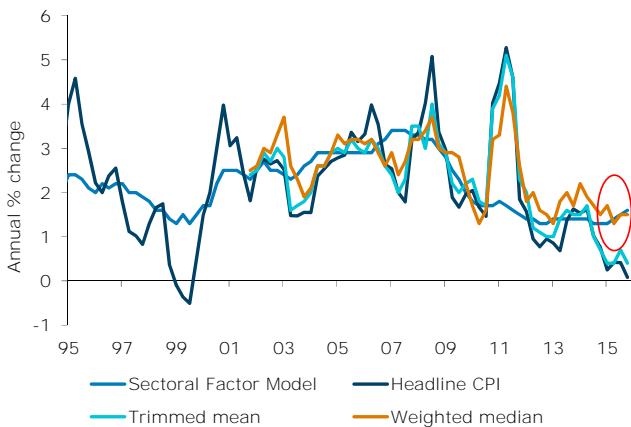
That said (and as we have mentioned previously), our view of further easing is one that does sit a little uneasy with us. Apart from an economy that is still performing pretty well at present, a few bug-bears include:

- **Firm evidence of re-leveraging behaviour** (credit growth in excess of income growth). If that continues too far we'll see problems down the track.

ECONOMIC OVERVIEW

- Regional housing markets catching the Auckland bug.** They are of course coming after a well-behaved period, but there is some real fire in some regions (and city centres such as Wellington) at present. We'll take this as a good thing for now given the support it provides to confidence and spending, but are wary of things going too far.
- A lift in core inflation.** According to our modelling work, one of the RBNZ's key inflation measures (the Sectoral Factor Model) is likely to tick up further in the March quarter. It is a measure that is somewhat of a black box, but we have attempted to model it nonetheless. Based on our Q1 "inputs" to a headline forecast of 0.2% q/q, we're picking the core measure to rise to 1.7%, which would be the fourth quarterly lift in a row. Rising core inflation (according to this measure) fits with the broader real economic data and falling unemployment rate and it is far less volatile gauge than other indicators of core inflation. Admittedly, our Monthly Inflation Gauge is certainly not showing widespread pressures. But we are picking up anecdotes of capacity and resource strains in the likes of the tourism and construction sectors and the Gauge started to shift in some pockets late last year.

FIGURE 1. CORE INFLATION MEASURES



Source: ANZ, Statistics NZ, RBNZ

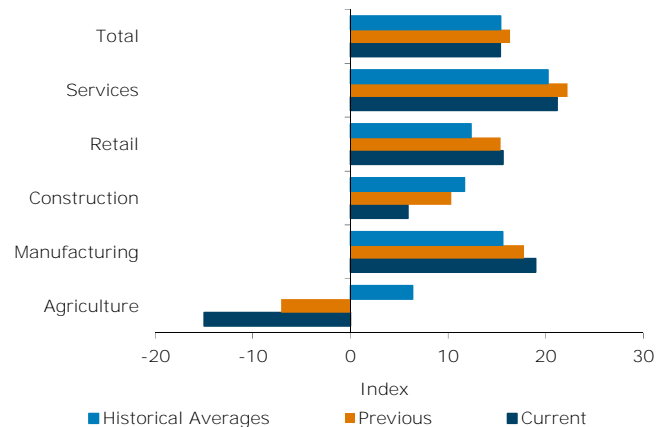
- The tendency for inflation expectation surveys to be thrown around by petrol price movements.** Our analysis of the drivers of inflation expectation surveys has shown that together with the exchange rate, output gap and food prices, petrol price movements play a key role in most survey measures. This is particularly the case for the RBNZ's 1- and 2-year ahead measures, and the measure from the ANZ *Business Outlook*. Petrol prices appear to have stabilised of late, so we will be on the look-out for whether inflation expectations measures do the same.

- Rising core inflation in the US.** To be fair, the Fed's preferred measure (the core PCE deflator) was unchanged in February, at 1.7% y/y. However, this is still up from 1.3% at the end of 2015. Soft inflation has in part been a global phenomenon, and there are still massive disinflationary forces around. But we take notice when an economy that is getting a) decent growth; and b) falling unemployment (which is also New Zealand at present), sees core inflation nudging up.

So, what does this all mean? While we still see the RBNZ cutting the OCR another couple of times this year, a cut by June (which is our view) shouldn't be taken for granted. A lot hinges on how we think the world will unfold; we are not optimistic that volatility will remain as contained as it has of late. **The odds still clearly favour a lower OCR, if not by June, then down the track further. But our point is simply that there are a lot of balls in the air at present.**

Locally, the week ahead is dominated by the usual end-of-month releases, with our *Business Outlook* survey for March set to provide a timely update on the state of economic momentum. In February, business sentiment fell from a net 23% (in December) to a net 7%. With the exception of manufacturing, confidence fell across all sectors, with a particularly sharp plunge seen in agriculture. The likes of firms' own activity and profit expectations, as well as hiring intentions, also fell, although moves were more modest and consistent with moderation as opposed to a full-blown deceleration. The survey was taken at the height of recent global financial market volatility, so it was hard not to point to this as a key factor behind the moves.

FIGURE 2. ANZ BUSINESS OUTLOOK COMPOSITES



Source: ANZ

Since that time, there have been a number of potential sentiment moving events. These

ECONOMIC OVERVIEW

include, but are not limited to, the fact that international markets have stabilised somewhat, Fonterra announcing another downgrade to its 2015/16 milk price forecast to \$3.90/kg MS, and the RBNZ delivering a surprise cut in the OCR (and signalling the strong possibility of more). The Survey will provide a gauge on how these developments are affecting domestic prospects on the ground.

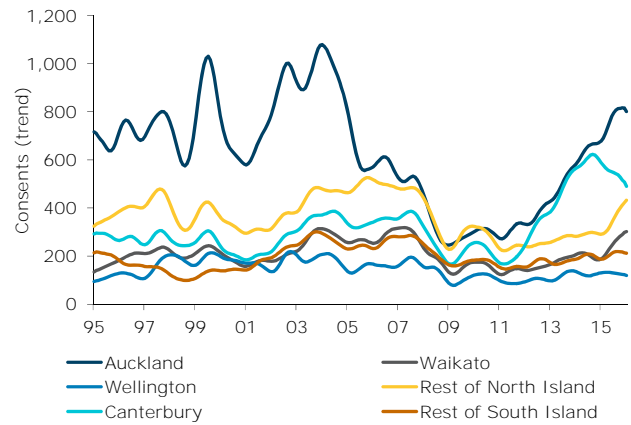
Given the RBNZ's renewed attention on measures of inflation expectations, the pricing gauges within the survey are likely to get some attention too. One-year-ahead inflation expectations fell to an all-time low of 1.4% in February, while firms' pricing intentions eased to +17.8, relative to an average over 2015 of 22.9.

After the sharp drop in January, we expect a recovery in dwelling consent issuance in February. The number of consents dropped 8.2% m/m in January, with consents for both "houses" and multi-dwelling units falling over the month. We are always a little hesitant to place much weight on month-on-month figures given this data is volatile at the best of times. But arguably even more caution should be placed on January figures given the unstable nature of seasonal factors at that time of year. The fall also follows a string of decent gains (with housing consents at the highest level since August 2007 in December) so despite the fall, the level of issuance remains reasonable.

We expect volatility to continue, but within the context of a modestly positive upward trend.

There are polarising movements occurring across regions at present, with issuance in Canterbury well off its peak, but positive trends seen in the likes of Auckland and other North Island regions. While Canterbury issuance should continue to ease, we believe the other positive trends have further to run, particularly in the context of housing shortages in Auckland. Together with an expectation for ongoing solid gains in non-residential issuance, we continue to believe the construction sector will contribute positively to growth overall.

FIGURE 3. DWELLING CONSENT TREND



Source: ANZ, Statistics NZ

Credit growth numbers should remain strong, although we are not expecting a further acceleration from current rates. Total private sector credit was running at a circa 7% annual pace in January, and we expect a broadly similar figure to be recorded in February. Each of three main sectors (household, business and agriculture) have all accelerated over the past year and while agriculture credit (which is the strongest of the three, at close to 9% y/y) could lift further given cash flow strains in the dairy sector, we believe a peak has been seen in household credit given the softening in Auckland housing market activity (balanced of course with strength in the regions).

LOCAL DATA

Credit Card Spending – Feb. Spending fell 0.4% m/m, following a 1.9% m/m increase in January.

Overseas Merchandise Trade – Feb. A trade surplus of \$339m was seen, although stripping out a large one-off export, the surplus was \$72m.

INTEREST RATE STRATEGY

SUMMARY

Markets continue to under-price our core view of a further 50bps of OCR cuts. For now, that doesn't bother us as solid data-flow needs to be respected. But we expect a turning point down the track, with our leading indicators key to watch re the timing of this turning point into the hard data. We now expect the RBA to leave policy on hold, paving the way for further spread convergence as the RBNZ eases. Safe-haven buying has prevented the long-end from seriously entertaining the idea the Fed is behind the curve, but we still believe risks are biased towards higher long-term yields. We expect our still-high outright yields to help slow the climb in local long-term yields as geographic spreads narrow.

THEMES

- Steeper curves and spread convergence as Fed tightening and an on-hold RBA go head to head with RBNZ easing.
- Timing is crucial, with resilient local data putting a floor under yields in the short term, but tighter financial conditions flagging a softening in the data, and an eventual fall in yields later on.
- Global markets are conflicted, with post-Belgium terror attack safe-haven demand running counter with an improved data pulse and more upbeat rhetoric from the Fed.
- Stirring US inflation has seen US real yields sink to historic lows, paving the way for a snap higher as the Fed catches up, adding to steepening pressure.

PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral/Bullish	Short-end lower, long-end rates still high in global context.
2s10s Curve	Steeper	OCR cuts coming, but long-end still biased mildly higher.
Geographic 10yr spread	Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Long-end spreads at risk of narrowing, given supply.

CONVERGENCE OR DIVERGENCE?

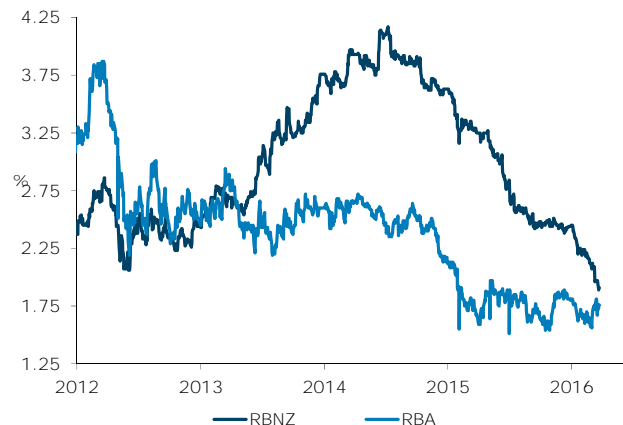
Markets have unwound some of the Fed inspired rally on improving optimism and solid dataflow.

Global equities have firmed, whilst measures of market volatility have fallen. Despite safe haven demand supporting bonds, global curves have steepened (after flattening last week). There were mild moves evident for New Zealand yields compared to last week, although the local curve steepened too. Increases in local yields have been milder, given receiving-side support.

The front-end of the New Zealand market continues to err against fully pricing in the 50bps of additional RBNZ cuts we expect over 2016. Given the improved global vibe and the solid domestic dataflow, this is not surprising. **But it is not really the here-and-now that concerns us, it is the future.** We expect the impact of tighter financial conditions and dairy sector headwinds to percolate through the local economy and to slow growth to below trend rates. Against this backdrop, **we prefer to add to received positions at the short-end on back-ups as opposed to actively chasing it lower.**

We also expect no OCR hikes until well into 2018, and this low-for-longer view has also not filtered through into market expectations, which are signalling RBNZ rate hikes from early 2017 (see Figure 3). As such, two to three year rates – which are at or above the current OCR – are all biased lower. From a relative value, we see better value in higher yielding and higher "roll+carry" trades like 2yr/1yr and 2yr/2yr (as opposed to the bellwether 1yr/1yr).

FIGURE 1: 12 MONTH-AHEAD POLICY RATE EXPECTATIONS



Source: ANZ, Bloomberg

We have changed our RBA call and now expect it to keep its rate at 2% over 2016 and 2017. As a consequence, our new forecasts will put the New Zealand OCR below the RBA cash rate by the end of the year, supporting further long-end spread compression to Australia. While we have already seen a dramatic compression in spreads, and much of the upcoming policy adjustment is now priced in, the Australian market is pricing in a cash rate *below* our forecasts, while the local market is pricing in a cash rate *above* our forecasts (Figure 1). This suggests we will see continued pressure on spreads to narrow.

Global yields have been choppy. Safe-haven demand following the Brussels terrorist attacks is running head to head with a reasonable US data pulse and more upbeat rhetoric from Fed members Bullard, Williams, Lacker and Lockhart vis-à-vis the dovish

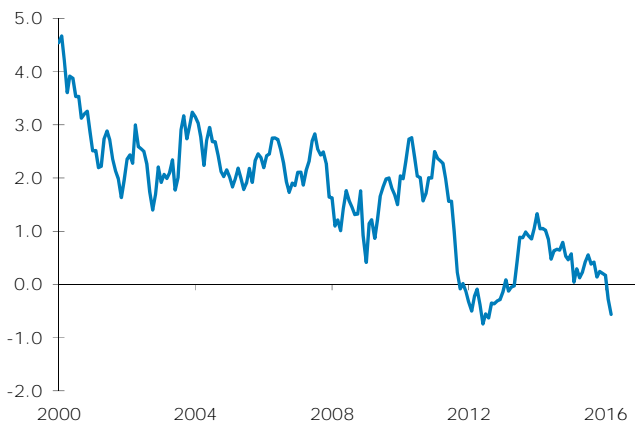
INTEREST RATE STRATEGY

Yellen view. There have been a plethora of Fed comments on the inflation outlook, and with inflation drifting up and the unemployment rate low there are concerns the Fed is falling (or has fallen) behind the curve. Annual inflation from the Fed's preferred measure – the core PCE deflator – ticked up a touch to 1.68% in March, and is consistent with our view that the recent drift up is not a temporary phenomenon. Linked to this is a solid US data pulse – the tone of the data over the next 10 days (which includes March ISM and Payrolls reports) will be pivotal. US surprise indices have lifted sharply since February's pessimism-laden slump, and this has only been met with a mild rise in US bond yields.

Real yields are also flagging that a showdown is looming, and are in our view on borrowed time.

Indeed, on a variety of measures, US real 10-year yields are very low and we see a real risk that they snap higher as the Fed plays catch-up. Odds of June Fed hike are around 50:50, but it is clear from recent "Fedspeak" that the meeting is very much "live", and for our part, we expect a June hike.

FIGURE 2: US REAL 10 YEAR TREASURY YIELD



Source: ANZ, Bloomberg

Accordingly, we prefer to be strategically positioned for higher term rates and a steeper curve. Given the upward bias to long-term rates – our forecasts have 10-year Treasury yields hitting 2.2% by the end of the year and 2.8% by late 2017 – local long-term yields are also expected to drift higher over time. New Zealand yields (3.07% for the 10-year tenor) remain stand-outs compared to G10 counterparts (0.9% average excluding New Zealand), and are expected to contribute to a further narrowing in NZ/US spreads, which will slow the drift higher in local yields.

Respective central bank outlooks will also help narrow geographical spreads. The Fed remains an outlier relative to easing-to-neutral policy biases elsewhere (ECB, PBOC, RBA, RBNZ). At the margin this is expected to see increased convergence between US and local rates. If easing policy biases elsewhere are

acted upon, our high relative yields should help attract capital flows, supporting local rates and the NZD.

PREFERRED STRATEGIES – BORROWERS

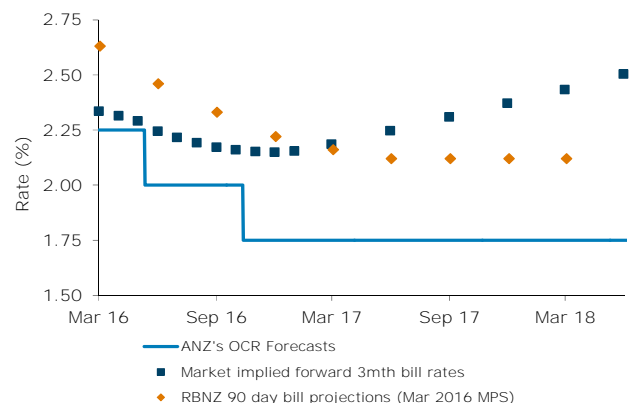
With local swap rates sitting around record lows, it has never been cheaper to fix. However, rates could move lower still, especially for tenors out to 5 years. But **what really concerns us is what happens to hedge effectiveness as credit spreads widen.** If wider credit spreads lead to more RBNZ easing and lower swap rates, hedges designed to protect against rising rates will become ineffective, as they don't guard against wider credit spreads. This – and the volatile trading environment – **has us biased towards favouring an option-based strategy when it comes to new hedging.** Floating rates are also historically cheap, particularly with our expectation of a further 50bps of cuts by the end of the year. This makes the decision to take on more expensive term hedging more difficult.

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

About 9bps of easing is priced in by April, 20bps by June, 28bps by August, and close to 35bps of cuts by the end of the year, broadly unchanged on a week ago.¹ Our core view is for 50bps of OCR cuts this year, and for the OCR to remain on hold until mid-2018.

FIGURE 3: ANZ OCR FORECAST VERSUS MARKET-IMPLIED FORWARD 3MTH BILL RATES AND RBNZ 90-DAY BILL PROJECTIONS



Source: ANZ, Bloomberg

¹ From July, the new schedule for OCR decisions will be introduced, with four *MPS* and associated OCR announcements each year (in February, May, August and November) and three intervening OCR Reviews (in March, June and September).

CURRENCY STRATEGY

SUMMARY

NZD/USD touched mid-range (0.66's) over the Easter break, but it remains entrenched in the top half of the range. We expect NZD to continue to trade resiliently, although USD factors should ensure minimal opportunity for a real test of topside resistance. NZD/AUD remains within its two and a half year range, respecting support. We continue to see this as an opportunity for some exporter hedging, with global factors in control of both AUD and NZD fortunes.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Consolidating	Downside risks
NZD/AUD	↔/↑	Bottom of the range	Remain above long-run averages
NZD/EUR	↔	Still in range	EUR capped by ECB?
NZD/GBP	↔	Consolidating	GBP resurgence
NZD/JPY	↔/↑	BoJ could do more	JPY finding a range

THEMES AND RISKS

- Currency markets are still fixated on the USD, with a slew of US events this week (Yellen, ISM and Payrolls) to drive it. We remain in the USD supportive camp.
- Global activity releases (particularly China based) will also influence currencies; we expect support for risk-based currencies.
- The monthly ANZ *Business Outlook* is a key indicator for NZD.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT	WHEN (NZDT)	IMPACT RISK
USD Fed Chair Yellen	Tue 05:20	NZD/USD ↓
GBP BoE FPC	Tue 23:00	NZD/GBP ↓
USD Consumer confidence	Wed 03:00	NZD/USD ↓
NZD Building permits	Wed 10:45	NZD ↑
JPY Industrial production	Wed 12:50	NZD/JPY ↓
EUR German CPI	Thu 01:00	NZD/EUR ↓
USD ADP Employment	Thu 01:15	NZD/USD ↓
NZD ANZ Business Conf.	Thu 13:00	NZD
NZD M3	Thu 15:00	NZD ↔
AUD Private Credit	Thu 13:30	NZD/AUD ↔/↑
GBP Q4 GDP	Thu 21:30	NZD/GBP ↔/↓
USD Chicago PM	Fri 02:45	NZD/USD ↔/↓
JPY Q1 Tankan survey	Fri 12:50	NZD/JPY ↓
CNY March PMIs	Fri 14:00	NZD/CNY ↑
AUD Commodity prices	Fri 18:30	NZD/AUD ↑
EUR Markit PMIs	Fri 21:00	NZD/EUR ↓
GBP Markit PMIs	Fri 21:30	NZD/GBP ↓
USD Payrolls	Sat 01:30	NZD/USD ↓
USD ISM	Sat 03:00	NZD/USD ↓
USD Michigan Confidence	Sat 03:00	NZD/ USD ↑

EXPORTERS' STRATEGY

The NZD is near the top of the range. As such we favour holding off hedging for now, waiting for better levels. However, mid 0.66's look attractive for those with short-term requirements.

IMPORTERS' STRATEGY

Importers should consider hedging if we again test the tops of the recent range. Levels over 0.68 look attractive from medium-term perspective.

DATA PULSE

USD data continues to dominate currency markets leaving USD swinging with sentiment.

Regional Fed surveys continue to point to a rebound in activity. Fed speakers have also been correcting the market's dovish reaction to the FOMC statement. Finally, Q4 GDP was revised up thanks to strong personal consumption, but the February report and negative revisions to January left markets worried.

Domestically, NZ data contained little direction.

The trade surplus was larger, but thanks to one-offs. Fonterra results showed value add, but little new in the way of farmer support.

European data was contradictory, with stronger German IFO confidence but weaker ZEW confidence. The European PMIs lifted, but German and French manufacturing was soft.

The Canadian Budget was expansionary, helping CAD. It is worth noting, as markets have been calling for fiscal stimulus to compliment monetary stimulus.

The AUD was relatively unchanged by domestic factors as RBA Stevens remained upbeat. ANZ now expects no change from the RBA.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↔/↓	More downside risks to NZ rates.
Commodities	↓	Iron ore stable, milk not so much.
Data	↔/↓	NZ data tenor to soften.
Techs	↔/↑	On support
Sentiment	↔	Equal reactions to sentiment
Other	↑/↓	Volatility is high.
On balance	↔/↑	Bottom of the two year range.

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↔/↓	Yield advantage to change.
Commodities	↔/↓	Dairy expected to stabilise, but non-dairy is a risk
Risk aversion	↔/↑	Resilience to risk notable.
Data	↓	Peak NZ optimism/ US pessimism?
Techs	↓	Top of the range.
Other	↓	China remains a key downside.
On balance	↔	Consolidating.

CURRENCY STRATEGY

TECHNICAL OUTLOOK

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



NZD/USD continues to respect resistance, which defines the nine month consolidation. However, kiwi still remains in and above the pivot and needs to get back below 0.66 to remove the threat of continued challenges to the topside of the range.

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



The oversold nature of NZD/AUD has eased and for the moment NZD/AUD is respecting the well-defined support level. This level remains pivotal for those with a longer focus as it marks the base for the last two and a half years. Technically, 0.87-0.89 is the buy zone.

TABLE 5: KEY TECHNICAL ZONES		
CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6620 – 0.6630	0.6830 – 0.6860
	0.6480 – 0.6520	0.6920 – 0.6940
NZD/AUD	0.8820 – 0.8840	0.9040 – 0.9080
	0.8700 – 0.8740	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	73.50 – 74.00	78.70 – 79.50
	69.80 – 70.20	82.40 – 83.00

POSITIONING

The leverage long USD position was mostly unaffected by the dovish Fed. EUR, CAD and AUD saw net buying, with EUR recording the first net buy in four weeks. GBP shorts were increased as Brexit remains a concern. NZD positioning was relatively unchanged.

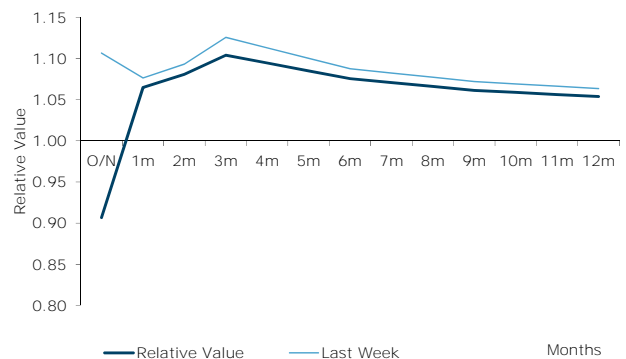
GLOBAL VIEWS

The direction of the USD is still the focal point for currency markets. Markets are currently debating whether the US data flow is strong enough for continued Fed normalisation, amidst rate market expectations that have been pared back considerably. It is resulting in USD buying, as that conclusion is being redrawn. We view the rates market as now under-estimating the Fed's rate hiking path.

This repricing of a stronger US economy is currently supportive of global 'risk' and hence the NZD. However, there are limits to how far this dynamic can run before it starts to have the opposite impact. As was the case last year, markets remain wary of global corporates that are over-exposed to USD denominated debt, particularly in emerging markets. There are already signs of stress emerging in the likes of Brazil and Egypt. As USD funding costs rise, the potential is therefore for this to be destabilising for global growth, and with a high beta to global prospects, this is highly relevant for the NZD.

FORWARDS: CARRY AND BASIS

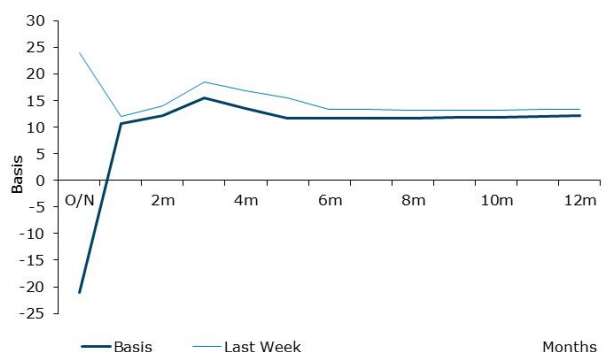
FIGURE 3. NZD/USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

Demand for cash has diminished as spot declines with cash trading below OCR. Short-end basis contracted as the forward market reduced long cash balances and imply a relatively balanced spot market. We prefer waiting for a back-up in basis before receiving.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
29-Mar	JN	Retail Trade YoY - Feb	1.6%	-0.2%	12:50
	JN	Retail Sales MoM - Feb	-0.9%	-0.4%	12:50
	EC	M3 Money Supply YoY - Feb	5.0%	5.0%	21:00
	CH	Leading Index - Feb	--	98.12	29-31 Mar
30-Mar	US	S&P/CS 20 City MoM SA - Jan	0.7%	0.8%	02:00
	US	S&P/CS Composite-20 YOY NSA - Jan	5.75%	5.74%	02:00
	US	Consumer Confidence Index - Mar	94.0	92.2	03:00
	NZ	Building Permits MoM - Feb	--	-8.2%	10:45
	AU	ANZ-RM Consumer Confidence Index - 27-Mar	--	116.0	11:30
	JN	Industrial Production MoM - Feb P	-5.9%	3.7%	12:50
	JN	Industrial Production YoY - Feb P	-1.7%	-3.8%	12:50
	CH	Westpac-MNI Consumer Sentiment - Mar	--	111.3	14:45
	EC	Economic Confidence - Mar	103.8	103.8	22:00
	EC	Business Climate Indicator - Mar	0.08	0.07	22:00
	EC	Industrial Confidence - Mar	-4.3	-4.4	22:00
	EC	Services Confidence - Mar	10.8	10.6	22:00
	EC	Consumer Confidence - Mar F	-9.7	-9.7	22:00
31-Mar	US	MBA Mortgage Applications - 25-Mar	--	-3.3%	00:00
	GE	CPI MoM - Mar P	0.6%	0.4%	01:00
	GE	CPI YoY - Mar P	0.1%	0.0%	01:00
	GE	CPI EU Harmonized MoM - Mar P	0.7%	0.4%	01:00
	GE	CPI EU Harmonized YoY - Mar P	0.0%	-0.2%	01:00
	US	ADP Employment Change - Mar	195k	214k	01:15
	UK	GfK Consumer Confidence - Mar	-1	0	12:05
	AU	HIA New Home Sales MoM - Feb	--	3.1%	13:00
	NZ	ANZ Activity Outlook - Mar	--	25.5	13:00
	NZ	ANZ Business Confidence - Mar	--	7.1	13:00
	AU	Job vacancies - Feb	--	3.5%	13:30
	AU	Private Sector Credit MoM - Feb	0.5%	0.5%	13:30
	AU	Private Sector Credit YoY - Feb	6.5%	6.5%	13:30
	NZ	Money Supply M3 YoY - Feb	--	7.6%	15:00
	GE	Retail Sales MoM - Feb	0.4%	-0.1%	19:00
	GE	Retail Sales YoY - Feb	2.2%	-0.8%	19:00
	GE	Unemployment Change (000's) - Mar	-6k	-10k	20:55
	GE	Unemployment Claims Rate SA - Mar	6.2%	6.2%	20:55
	UK	Net Consumer Credit - Feb	£1.3B	£1.6B	21:30
	UK	Net Lending Sec. on Dwellings - Feb	£3.6B	£3.7B	21:30
	UK	Mortgage Approvals - Feb	73.5k	74.6k	21:30
	UK	Money Supply M4 MoM - Feb	--	0.0%	21:30
	UK	M4 Money Supply YoY - Feb	--	0.8%	21:30
	UK	M4 Ex IOFCs 3M Annualised - Feb	4.0%	4.3%	21:30
	UK	GDP QoQ - Q4 F	0.5%	0.5%	21:30
	UK	GDP YoY - Q4 F	1.9%	1.9%	21:30
	UK	Current Account Balance - Q4	-£21.2B	-£17.5B	21:30
	UK	Index of Services MoM - Jan	0.2%	0.2%	21:30
	UK	Index of Services 3M/3M - Jan	0.8%	0.7%	21:30
	UK	Total Business Investment QoQ - Q4 F	--	-2.1%	21:30
	UK	Total Business Investment YoY - Q4 F	--	2.4%	21:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-Mar	EC	CPI Estimate YoY - Mar	-0.1%	-0.2%	22:00
	EC	CPI Core YoY - Mar A	0.9%	0.8%	22:00
	CH	BoP Current Account Balance - Q4 F	--	\$84.3b	UNSPECIFIED
1-Apr	US	Challenger Job Cuts YoY - Mar	--	21.80%	00:30
	US	Initial Jobless Claims - 26-Mar	265k	265k	01:30
	US	Continuing Claims - 19-Mar	2194k	2179k	01:30
	US	ISM Milwaukee - Mar	--	55.22	02:00
	US	Chicago Purchasing Manager - Mar	50.5	47.6	02:45
	AU	AiG Perf of Mfg Index - Mar	--	53.5	11:30
	AU	CoreLogic RP Data House Px MoM - Mar	--	0.5%	12:00
	JN	Tankan Large Mfg Index - Q1	8	12	12:50
	JN	Tankan Large Mfg Outlook - Q1	7	7	12:50
	JN	Tankan Large Non-Mfg Index - Q1	24	25	12:50
	JN	Tankan Large Non-Mfg Outlook - Q1	20	18	12:50
	JN	Tankan Large All Industry Capex - Q1	-0.5%	10.8%	12:50
	CH	Manufacturing PMI - Mar	49.3	49.0	14:00
	CH	Non-manufacturing PMI - Mar	--	52.7	14:00
	CH	Caixin China PMI Mfg - Mar	48.3	48.0	14:45
	AU	Commodity Index AUD - Mar	--	73.2	18:30
	AU	Commodity Index YoY - Mar	--	-21.6%	18:30
	UK	Nationwide House PX MoM - Mar	0.4%	0.3%	19:00
	UK	Nationwide House Px NSA YoY - Mar	5.1%	4.8%	19:00
	GE	Markit/BME Manufacturing PMI - Mar F	50.4	50.4	20:55
	EC	Markit Manufacturing PMI - Mar F	51.4	51.4	21:00
	UK	Markit PMI Manufacturing SA - Mar	51.2	50.8	21:30
	EC	Unemployment Rate - Feb	10.3%	10.3%	22:00
2-Apr	US	Change in Nonfarm Payrolls - Mar	210k	242k	01:30
	US	Change in Manufact. Payrolls - Mar	-1k	-16k	01:30
	US	Unemployment Rate - Mar	4.9%	4.9%	01:30
	US	Average Hourly Earnings MoM - Mar	0.2%	-0.1%	01:30
	US	Average Hourly Earnings YoY - Mar	2.2%	2.2%	01:30
	US	Average Weekly Hours All Employees - Mar	34.5	34.4	01:30
	US	Markit Manufacturing PMI - Mar F	51.5	51.4	02:45
	US	ISM Manufacturing - Mar	50.7	49.5	03:00
	US	ISM Prices Paid - Mar	44.0	38.5	03:00
	US	ISM New Orders - Mar	--	51.5	03:00
	US	Construction Spending MoM - Feb	0.1%	1.5%	03:00
	US	U. of Mich. Sentiment - Mar F	90.5	90.0	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

Domestic economic momentum is reasonable at present. However, downside risks are present (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
Wed 30 Mar (10:45am)	Building Consents Issued – Feb	Recovery	Dwelling consent issuance fell sharply in January. We put this down to monthly volatility and are expecting a bounce.
Thu 31 Mar (1:00pm)	ANZ Business Outlook – Mar	--	--
Thu 31 Mar (3:00pm)	RBNZ Credit Aggregates – Feb	Peaked	Credit growth is running ahead of income growth, but we do believe a peak is now in place.
Tue 5 Apr (10:00am)	NZIER QSBO – Q1	Services led	Services activity at the forefront of domestic expansion. Benign pricing intentions, although capacity metrics to flag tensions.
Tue 5 Apr (1:00pm)	ANZ Commodity Price Index – Mar	--	--
Wed 6 Apr (early am)	GlobalDairyTrade Auction	Bouncing along the bottom	The fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Wed 6 Apr (12:00pm)	QV House Prices – Mar	Regional mix	The Auckland market has cooled and should be capped by affordability considerations. Regional markets are booming.
Thu 7 Apr (10:00am)	ANZ Truckometer – Mar	--	--
Fri 8 Apr (10:00am)	Government Financial Statements – Feb	In line	The numbers should be relatively close to forecast, with the impact of soft inflation offset by stronger activity.
Fri 8 Apr (1:00pm)	ANZ Monthly Inflation Gauge – Mar	--	--
11-15 Apr	REINZ Housing Statistics – Mar	Regional mix	The Auckland market has cooled and should be capped by affordability considerations. Regional markets are booming.
Mon 11 Apr (10:45am)	Electronic Card Transactions – Mar	Decent	Lower petrol prices, falling mortgage rates, strong population growth and an improving labour market are key supports.
Wed 13 Apr (10:45am)	Food Prices – Mar	Drop	A modest fall is likely as prices continue to unwind the sharp increase in January.
Thu 14 Apr (10:30am)	BNZ-Business NZ Manufacturing PMI - Mar	Holding up	Outside of monthly volatility, sentiment should have held up okay, with support from a solid domestic economy evident.
Mon 18 Apr (10:45am)	CPI – Q1	Soft	Petrol price falls act as a large drag on the headline result, which we expect to lift by a modest 0.2% q/q (0.5% y/y).
Tue 19 Apr (10:30am)	BNZ-Business NZ PSI – Mar	Holding up	Services sectors have generally been leading the expansion.
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	--	--
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	0.5	0.4	0.5	1.0	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	-3.6	-4.2	-4.7	-5.0	-5.1	-4.9	-4.6	-4.3
Terms of Trade (% qoq)	-2.0	-2.0	-3.0	-2.7	-0.3	0.8	1.8	2.7	1.8	0.8
Terms of Trade (% yoy)	-3.2	-6.2	-10.4	-9.4	-7.8	-5.3	-0.6	5.0	7.2	7.3

	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	0.1	0.4	0.7	--
Retail ECT (% yoy)	5.0	5.6	4.2	6.1	5.8	4.6	6.6	5.2	9.2	--
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	-2.0	3.1	-2.9	5.7	--
Car Registrations (% yoy)	11.2	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	7.4	--
Building Consents (% mom)	-4.2	23.6	-8.1	-5.3	5.3	1.7	2.3	-8.2	--	--
Building Consents (% yoy)	-3.9	22.3	11.4	17.2	14.7	7.5	17.3	4.8	--	--
REINZ House Price Index (% yoy)	14.8	14.9	17.3	20.1	14.1	12.5	12.6	10.7	11.9	--
Household Lending Growth (% mom)	0.6	0.7	0.6	0.7	0.7	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	--	--
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	--
ANZ Own Activity Outlook	23.6	19.0	12.2	16.7	23.7	32.0	34.4	..	25.5	--
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	0.4	--
ANZ World Comm. Price Index (% yoy)	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	--
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	0.0	-0.4	2.0	0.9	0.2	2.9	-4.3	1.6	--
ANZ Light Traffic Index (% mom)	0.9	-0.2	-0.5	2.7	-1.1	0.2	0.9	-1.3	2.0	--

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Jan-16	Feb-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZD/USD	0.648	0.661	0.672	0.63	0.65	0.63	0.59	0.58	0.58	0.60
NZD/AUD	0.915	0.925	0.892	0.94	0.88	0.88	0.88	0.88	0.88	0.88
NZD/EUR	0.599	0.606	0.600	0.59	0.59	0.59	0.55	0.52	0.50	0.50
NZD/JPY	78.55	74.62	76.28	69.3	68.3	66.2	62.0	58.0	58.0	60.0
NZD/GBP	0.455	0.477	0.472	0.46	0.48	0.43	0.39	0.37	0.37	0.38
NZ\$ TWI	70.5	71.0	71.8	68.8	68.6	67.1	63.4	61.4	60.9	61.8
INTEREST RATES	Jan-16	Feb-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZ OCR	2.50	2.50	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75
NZ 90 day bill	2.70	2.56	2.35	2.40	2.10	2.10	1.90	1.90	1.90	1.90
NZ 10-yr bond	3.22	2.97	3.03	3.10	3.00	2.90	2.90	3.10	3.20	3.40
US Fed funds	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
US 3-mth	0.61	0.63	0.63	0.65	0.83	0.83	1.08	1.08	1.33	1.33
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	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.40

	25 Feb	21 Mar	22 Mar	23 Mar	24 Mar	25 Mar
Official Cash Rate	2.50	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.58	2.34	2.33	2.34	2.33	2.33
NZGB 12/17	2.32	2.11	2.13	2.16	2.13	2.13
NZGB 03/19	2.43	2.25	2.26	2.30	2.27	2.27
NZGB 04/23	2.98	2.98	3.01	3.07	3.04	3.04
NZGB 04/27	3.29	3.30	3.34	3.40	3.37	3.37
2 year swap	2.45	2.23	2.23	2.24	2.23	2.23
5 year swap	2.58	2.40	2.41	2.45	2.45	2.45
RBNZ TWI	72.4	71.80	71.92	71.50	71.53	71.53
NZD/USD	0.6650	0.68	0.68	0.67	0.67	0.67
NZD/AUD	0.93	0.89	0.89	0.88	0.89	0.89
NZD/JPY	74.70	75.34	75.87	75.65	75.53	75.53
NZD/GBP	0.48	0.47	0.47	0.47	0.48	0.48
NZD/EUR	0.60	0.60	0.60	0.60	0.60	0.60
AUD/USD	0.72	0.76	0.76	0.76	0.75	0.75
EUR/USD	1.10	1.13	1.13	1.12	1.12	1.12
USD/JPY	112.33	111.34	111.98	112.28	112.75	112.75
GBP/USD	1.39	1.44	1.44	1.42	1.41	1.41
Oil (US\$/bbl)	30.35	39.47	39.91	41.45	38.28	38.14
Gold (US\$/oz)	1233.65	1252.15	1246.30	1241.30	1219.35	1217.00
Electricity (Haywards)	5.95	6.80	6.86	6.67	6.13	3.09
Baltic Dry Freight Index	325	398	398	401	406	--
Milk futures (USD)	35	42	42	41	41	--

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