ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

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INSIDE

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A LITTLE BIT BUCOLIC

ECONOMIC OVERVIEW

Despite an uncertain global backdrop, we are generally positive on the outlook for NZ's major agricultural sectors for 2017/18. We are most cautious on beef, with a large supply increase anticipated from the US and Brazil. For dairy, we expect $6.75/kg/MS in 2017/18 and are biased towards a milk price in the upper end of a high-$5/kg MS to high-$6/kg MS range in the medium term. The main horticulture sectors had challenging growing and harvesting conditions this year, impacting on the overall quality of crops. That said, decent prices are still expected, supporting overall revenue. Turning to the broader economic picture, last week's disappointing Q1 GDP figures play right into the RBNZ's cautious hands and we expect it to maintain a very similar watchful stance this week. But the lower Q1 figures have led us to bump up our growth numbers for the remainder of this year a bit, as we retain faith in the broad story. Our consumer confidence figures will be important in terms of colour on the apparent divergence of late between 'soft' and 'hard' data.

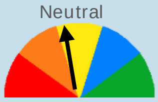
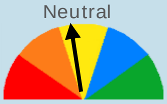
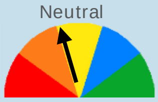
INTEREST RATE STRATEGY

Short-end rates have lifted a touch off last week's lows, but are lower than where they were a week ago and remain in a gradual down-trend. We see more scope for lower, rather than higher, rates as the RBNZ underscores its neutral position and as global markets start to re-question the inflation outlook. Long-end rates remain range-bound too. While the Fed lifted rates last week as expected, it also announced details of how (but not specifically when) it intends trimming its balance sheet. With balance sheet trimming likely to supplant rate hikes and only one more hike in the dot plots by year-end, and inflation still low, the bond market has little to fear in the near term. Against that backdrop, expect long-end rates to range trade (with a bias lower) and for linkers to be challenged.

CURRENCY STRATEGY

Last week was notable for more concerted hawkish tones across some central banks. That signals a need to think more about the prospect of (gradually) tightening liquidity conditions. Markets need to transition from liquidity to growth as the main driver, and the latter is hardly stellar in a world beset by resentment pressure on policy platforms. We expect a pick-up in volatility, and in combination with a less-pristine economic story for New Zealand, this leaves us wary chasing the NZD higher around current levels.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.3% y/y for 2018 Q1	Recent growth has disappointed but forward indicators remain positive despite headwinds from housing, finding staff and capital.	Neutral Negative  Positive
Unemployment rate	4.6% for 2018 Q1	Strong job ads growth suggests the unemployment rate should continue to trend lower. Wage growth is benign, but conditions for change are emerging.	Neutral Negative  Positive
OCR	1.75% by Mar 2018	The case for a lower OCR right now is hard to justify, but a turn in the credit cycle is allowing the RBNZ to be patient.	Neutral Down  Up
CPI	1.7% y/y for 2018 Q1	Headline inflation is now back at the target mid-point. Domestic and core inflation are also gradually lifting.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

Despite an uncertain global backdrop, we are generally positive on the outlook for New Zealand's major agricultural sectors for 2017/18. We are most cautious on beef, with a large supply increase anticipated from the US and Brazil. For dairy, we expect $6.75/kg/MS in 2017/18 and are biased towards a milk price in the upper end of a high-$5/kg MS to high-$6/kg MS range in the medium term. The main horticulture sectors had challenging growing and harvesting conditions this year, impacting on the overall quality of crops. That said, decent prices are still expected, supporting overall revenue. Turning to the broader economic picture, last week's disappointing Q1 GDP figures play right into the RBNZ's cautious hands and we expect it to maintain a very similar watchful stance this week. But the lower Q1 figures have led us to bump up our growth numbers for the remainder of this year a bit, as we retain faith in the broad story. Our consumer confidence figures will be important in terms of colour on the apparent divergence of late between 'soft' and 'hard' data.

FORTHCOMING EVENTS

ANZ Roy Morgan Consumer Confidence – June (1.00pm, Tuesday, 20 June).

GlobalDairyTrade Auction (early am, Wednesday, 21 June). We expect prices to remain broadly unchanged this week.

RBNZ OCR Review (9:00am, Thursday, 22 June). Developments since the May *Monetary Policy Statement* will, by and large, have reinforced the RBNZ's cautious stance. The OCR will be left unchanged at 1.75%, and we see little change in tone overall.

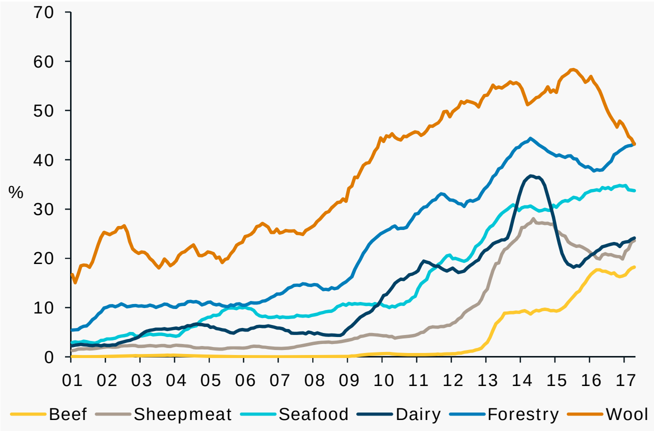
International Travel and Migration – May (10:45am, Thursday, 22 June). Net migrant inflows will remain historically strong, even if, perhaps, easing off all-time highs. Visitor arrivals are likely to unwind some of last month's 3.5% m/m surge.

WHAT'S THE VIEW?

Our *Agri Focus* (released last week) included our annual assessment for key commodities. Given the role the rural sector plays across the economy, it's an important part of the economic story. And it's the broader commodity complex that is important. Low dairy prices didn't sink the economy in 2015 and 2016. The rest of the economy lifted, and non-dairy commodity prices held up.

The outlook for key agricultural sectors remains positive heading into 2017/18. The global macro economy looks challenging, but most sectors have been trading off their own individual supply-demand dynamics since the start of 2017. Key global uncertainties include the outlook for China and policy (political) uncertainty, which is not conducive to global growth. A potential 'game changer' is US trade and tax policies.

FIGURE 1: CHINA SHARE OF KEY NEW ZEALAND EXPORTS



Source: ANZ, Statistics NZ

In terms of key commodities:

- **We expect a milk price of $6.75/kg MS in 2017/18.** Whole milk powder prices have settled into a USD2,800/t to USD3,400/t range. With the NZD/USD trading 0.68 to 0.72 this indicates a high-$5/kg MS to high-$6/kg MS range for 2017/18. We're biased towards the upper end, with demand expected to be able to absorb the increase in supply at reasonable prices. However, if supply increases more than expected due to conducive weather, this could push estimates back towards $6.00/kg MS. Our medium-term view remains $5.50 to $6.50/kg MS for the milk price.
- **We expect farm-gate lamb prices to push toward mid-$6/kg in the winter period and hold through to the start of the new season.** Beyond this, prices are expected to moderate back toward the low-to-mid $5/kg mark as peak seasonal flows are processed. An improvement in Australasian lamb supplies is expected later in 2017. That said, an overall steady demand backdrop; low frozen inventory levels; and the fact the increase is off near all-time lows in New Zealand are expected to see the market absorb the increase. An improved outlook for the GBP and euro helps too.
- **We expect beef bull prices to hold around the high-$4/kg mark into late 2017, before adjusting down** into the low-$4/kg range (net of levies and GST). The supply of beef from both the US and Brazil is forecast to rise more

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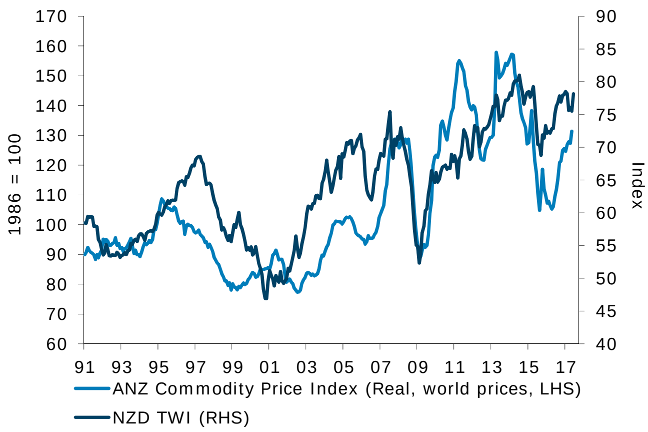
aggressively into 2018. While demand indicators look robust across a range of markets, the size of the increase and the fact Australasian supply is biased higher leave us cautious for 2018. We expect prime steer prices to hold around the $5/kg mark into late 2017, before adjusting down to the low-to-mid $4/kg mark.

- **Coarse wool prices are expected to remain low** until the Northern Hemisphere winter leads to a substantial drawdown in raw wool inventories. In-market prices have found a (low) base, supported by favourable valuation metrics versus other fibres and farmers withholding supply, awaiting better prices. This, combined with steady demand for woollen floor coverings in the US, should support a recovery in prices towards the 5-year average of mid-$3/kg (greasy). Finer micron prices could face pressure from higher Australian supply. Demand growth from both the US and China for luxury items is expected to provide an offset.
- **Tight New Zealand venison production and low inventory levels are expected to support farm-gate returns** moving toward all-time highs in 2017/18, with expectations of at least mid-$9/kg during the chilled/game season peak, with a stronger EUR/GBP. Beyond this, farm-gate prices are expected to settle back toward low-to-mid $8/kg.
- **The domestic feed market is returning to better balance** after prices hit rock bottom this time last year. Drivers have been lower maize grain, maize silage and barley production, a lift in dairy offtake and lower inventory levels. The tighter local feed supply conditions could well lead to a spike in grain prices during the spring or summer period if pasture conditions are affected by weather developments. That said, gains will be capped by still-low international grain prices and likely cautiousness from the dairy sector.
- **Green kiwifruit prices are expected to bounce back toward $6/tray and SunGold to move near $9/tray** this season. For Green the biggest driver of the bounce-back is a better marketing mix oriented toward Asian markets with substantially lower New Zealand supply. Lower Italian production is also expected to support returns from Europe and American countries. For SunGold, lifting volumes are about extending penetration in core markets. Long term the premium aim for Gold over Green is 20% to 40%, but current indications suggest it could be higher until competition increases.
- **The pipfruit sector has experienced a tremendous run since 2012, with all apple varieties achieving marked lifts in prices.** This season the price outlook is a little more mixed, depending on the supply-demand balance for each variety and timing of harvest.
- **A strong export performance in 2016/17 combined with a smaller crop in 2017 will allow wine exporters to be choosier in 2017/18.** This, combined with lower bulk wine exports through the secondary market, should support average earnings per bottle for wineries. All up, these dynamics provide support for grape prices. These have trended up at recent harvests, implying lower margins for the winery part of businesses. With this in mind, Sauvignon Blanc grape prices are expected to ease slightly towards $1,750/t for the 2017 vintage. Other varieties are expected to either ease slightly or be relatively stable.

That's a fairly broad picture of strength across markets. It's a combination that is a) supportive for growth, and b) doesn't suggest a commodity-driven turn in the NZD is pending. Rather, domestic commodity prices look set to help it hold up!

FIGURE 2: COMMODITY PRICES AND THE NZD



Source: ANZ, Bloomberg

Turning to the week ahead, we suspect the RBNZ's OCR Review will ultimately be a case of 'move on, nothing (really) to see here'. The RBNZ deserves some credit. We viewed its tone at the May *Monetary Policy Statement* as "aggressively neutral". Developments since then have by and large justified its cautious, watchful stance. GDP growth has disappointed, the terms of trade has lifted but so too has the NZD, local inflation nuances have been hit and miss, global inflation seems to be rolling over again, and the local housing market has continued to cool. Credit-cycle dynamics (high rates, difficulty obtaining credit and late business cycle cautiousness) continue to see credit growth slow. At the same time, fiscal

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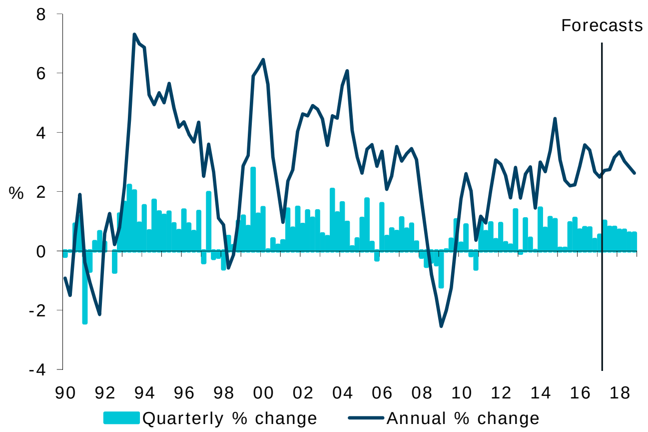
policy is set to be more expansionary and labour market anecdotes are getting hotter. **It is ultimately a combination that validates the RBNZ's existing neutral bias as opposed to challenging it.**

We still have the strategic view that the underlying pace of economic momentum is such that spare capacity is gradually being absorbed. While Q1 GDP clearly disappointed, we have lifted our GDP forecasts modestly for the remainder of 2017 and into 2018. We see quarterly growth rebounding to 1.0% q/q in Q2 as the drag from net exports begins to unwind, and see growth of 0.8% q/q in each of Q3 and Q4. For 2018 as a whole, we see growth averaging 3.0%. Overall, it is still a picture where activity growth is set to run at a rate that will continue to modestly eat into spare capacity, and hence we're still picking an RBNZ hike in 2018.

FIGURE 3: ANZ REAL GDP FORECASTS



Source: ANZ, Statistics NZ

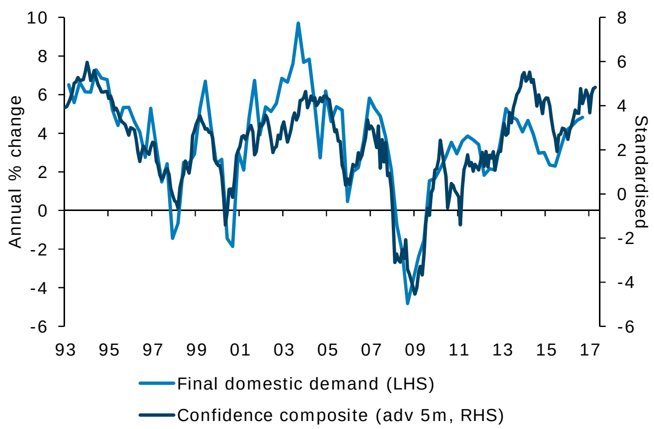
We expect the RBNZ to move to an explicit tightening stance at some stage, but that shift is well down the track. The RBNZ needs evidence that inflation is broadening, and we're simply not seeing that at present. Circumstantial evidence is not enough. We view broader inflation as a late-2018 story, rather than a 2017 one, with an anticipated uplift in wage inflation a key part of our story.

We accordingly expect very similar wording to that in the May *MPS*. Monetary policy will remain accommodative for an extended period.

We believe soft data will take on increasing importance over the coming months for a couple of reasons.

1. **It will help assess the growing disconnection between 'soft' and 'hard' data.** GDP growth (hard data) has undershot strong 'soft' leading indicators. Globally we can point to policy uncertainty (both political and economic), which discourages risk-taking by firms (ie investment). That doesn't seem to be apparent in New Zealand, but questions still need to be asked. We can argue that credit and difficulty finding staff is impacting, with firms having the appetite to grow but finding themselves constrained. However, that's not coming through the inflation picture. It may well be that the pro-cyclical (housing) parts of the economy have turned more aggressively, but that would surely impact on consumer and business confidence. While we are not fully discounting recent GDP weakness, it is notable that it has been dominated by a large drag from net exports (and inventories too, in Q1). We view that as temporary. When looking at the strength in final domestic demand (up 4.8% y/y in Q1), the divergence with 'soft' indicators is far less than it first appears.

FIGURE 4: CONFIDENCE COMPOSITE VS FINAL DOMESTIC DEMAND



Source: ANZ, Statistics NZ

2. **The direction of momentum.** 'Soft' indicators give a read on both the pace of momentum but also whether it is accelerating or slowing. We're eying the directional signal; faster or slower.

Consumers have a lot to weigh up. Jobs are aplenty but wage growth is yet to accelerate. Housing momentum is slowing and the Auckland market is moving backwards. The Government dished out a $2 billion family package in the Budget. **The ANZ-Roy Morgan Consumer Confidence measure for June will give us a read on the net effect.**

Little change in dairy prices is expected at this week's GDT auction. NZX futures are pointing to an unchanged outcome for whole milk powder and a slight lift (+1.0%) for the GDT-TWI. Dairy markets remain largely in a holding pattern with steady demand as they awaiting new supply information. Pricing remains broadly in alignment across the key markets for milk powder, but lifting Northern Hemisphere milkfat prices should continue to provide support for the record-high GDT prices too. The recent lift in the skim milk powder/milkfat product stream has

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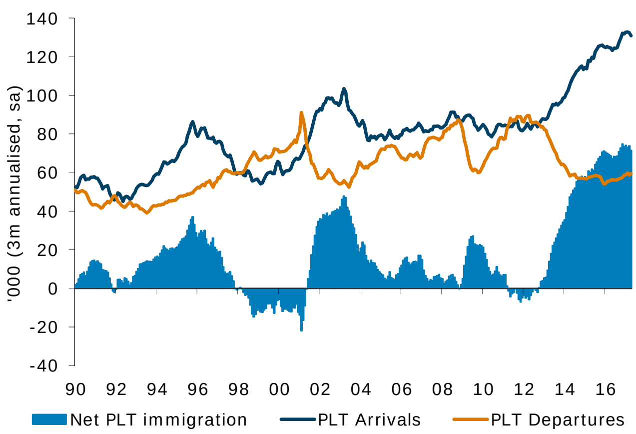
closed the gap with whole milk powder. This reduces the risk of higher New Zealand whole milk powder supply during the seasonal peak for now, which could lift later delivery prices at this week's auction. This could be tempered by higher seasonal supply beginning to be offered next month.

We are not expecting the broad takeaways from the international travel and migration figures for May to change. It will remain a strong picture overall. Although April's net inflow of 5,780 (sa) migrants was actually the smallest since August last year, we don't see this as the emergence of a weaker trend, even with net migration facing greater political scrutiny right here and now. The numbers are still historically strong, and we see that remaining the case for some time yet. The reality is that with the demand for labour remaining strong locally and ongoing policy tweaks being seen internationally (for example tertiary education fee hikes in Australia for New Zealanders or access to the National Health System in the UK), the reality is that New Zealand is going to remain an attractive place for both New Zealanders and potential migrants.

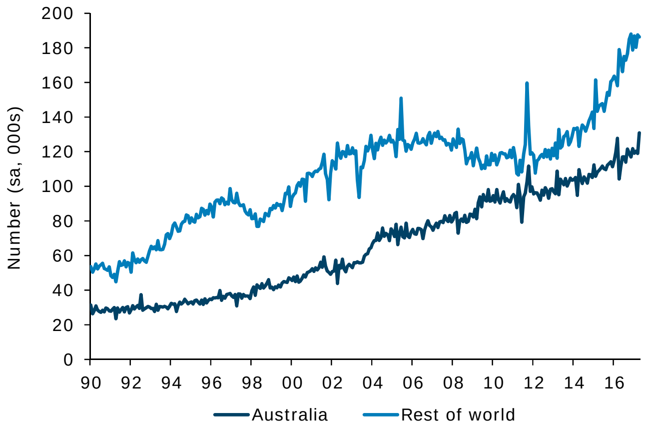
FIGURE 5: NET INTERNATIONAL MIGRATION



Source: ANZ, Statistics NZ

After surging in April, we wouldn't be surprised if visitor arrivals pulled back modestly in May. We suspect a big part of the 3.5% m/m lift in April related to the World Masters Games held in Auckland over the month. That is especially with visitors from Australia jumping an estimated 10% m/m in seasonally adjusted terms. Although visitors arriving for the British and Irish Lions rugby tour could offset any May unwind of the World Masters Games effect, we suspect that will be more evident in the June figures. Overall, the picture for visitor arrivals remains strong, although there is some evidence (outside of the impact of specific events) that the rate of growth is beginning to moderate, with the sector increasingly facing capacity pressures.

FIGURE 6: INTERNATIONAL VISITOR ARRIVALS



Source: ANZ, Statistics NZ

LOCAL DATA

ANZ Monthly Inflation Gauge – May. Prices in the Gauge rose 0.2% m/m, to be up 2.3% y/y.

REINZ Housing Market Statistics – May. In seasonally adjusted terms, sales volumes bounced a modest 4.4% m/m, while the House Price Index fell 0.7% y/y, to be up just 5.0% y/y.

Balance of Payments – Q1. The seasonally adjusted current account deficit widened to $2.8bn, with the annual deficit hitting 3.1% of GDP.

Food Prices – May. Total prices lifted 2.4% m/m, to be up 3.1% y/y.

GDP – Q1. Production GDP growth rose a modest 0.5% q/q, with annual growth easing to 2.5% y/y.

BNZ-BusinessNZ PMI – May. The headline index rose 1.4 points to 58.5.

BNZ-BusinessNZ PSI – May. The index rose 5.6 points to 58.8.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates have lifted a touch off last week's lows, but are lower than where they were a week ago and remain in a gradual down-trend. We see more scope for lower, rather than higher, rates as the RBNZ underscores its neutral position and as global markets start to re-question the inflation outlook. Long-end rates remain range-bound too. While the Fed lifted rates last week as expected, it also announced details of how (but not specifically when) it intends trimming its balance sheet. With balance sheet trimming likely to supplant rate hikes and only one more hike in the dot plots by year-end, and inflation still low, the bond market has little to fear in the near term. Against that backdrop, expect long-end rates to range trade (with a bias lower) and for linkers to be challenged.

THEMES

- Short-end rates have scope to continue grinding lower, albeit at a glacial pace. A jump in Australian short-end rates has slowed progress lower, but we expect the downward drift to resume.
- Fed, BoE and BoC all surprise on the hawkish side. But inflation is absent, and the market is wary.
- The Fed has put forward a reasonable plan. But inflation needs to show and growth rebound.
- The mix of monetary conditions (high NZD, low rates) is not ideal for New Zealand, but global forces are in the driver's seat.

MONETARY POLICY AND SHORT END

Short-end rates remain in a broadly descending range-trade. The recent Australian employment data inspired a lift in their rates that saw geographic spreads narrow, making the local short end less of a stand-out. However, the New Zealand 2 year swap rate is still by far the highest in the G10. Roll and carry is still attractive, and against a backdrop of policy being on hold for the foreseeable future, we expect rates to continue grinding lower.

The RBNZ OCR Review is the major event of the week, but we don't expect much of a reaction in the market. Past RBNZ commentary has tended to surprise the market (which has had a tendency to price in hikes) to the downside; and with daylight between the RBNZ's projections and the market, the risk is we see a mild rally on the day.

At the moment, the market is pricing in one hike (~24bps) by next June. That's in line with our forecasts, but **the risk profile around that is skewed lower, not higher**. And with the NZD acting as a 'pivot' against the dataflow, the role played by interest rates is lessened. And in any case, with global inflation and policy rates still low, and the New Zealand economy (and commodity basket) still in a relatively better position than its peers; we should fully expect the mix of monetary conditions to be skewed towards lower interest rates and an elevated currency. It's not the ideal mix from New Zealand's perspective, but global forces are driving it.

GLOBAL MARKETS AND LONG END

Long-end rates are also range trading, and like the short end have more scope to move lower than higher. There isn't much in it, but the broad picture is one of US rates grinding lower as inflation disappoints, and the Fed's optimism is questioned, while the NZ/US spread gradually contracts as policy rate differentials narrow.

On that note, while the Fed hiked by 25bps as expected, and detailed plans to trim its balance sheet "this year", which seems entirely intuitive, there are two unanswered questions. **1) What does trimming the balance sheet mean for the pace of upcoming hikes; and 2) does any of this matter if inflation fails to fire?** Arguing that the Fed is on the brink of a policy mistake is going a bit far, but the risk is the Fed will be doing less going forward, and all else equal, that's more bond friendly than the Fed's (largely unchanged) dot plots are.

Low inflation has also dented confidence in linkers, with BEIs trending back down again. We believe BEIs are too low, but given recent global inflation misses, **they look set to remain lower for longer.**

STRATEGY

Investors: We remain mildly bullish the short end but there's not much in it. We prefer to be **nimble at the long end** given the split tactical/strategic outlook.

Borrowers: BKBM and all swap rates are at, or close to, the year's lows. While our forecasts have them rising, caution is required given the global scene, but the recent fall in swap rates presents opportunities.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Mildly bullish	Trading range grinding gradually lower. R+C still attractive even now, and RBNZ on hold for a long time.
Long end	Neutral/bullish	Still bullish NZ on a spread, but outlook for outright rates now better after FOMC. Global inflation still low.
Yield Curve	Neutral	Our forecasts imply that the curve will steepen, but near-term catalyst for higher long end yields absent.
Geographic spreads	Neutral/ narrower	NZ/US 10y spread has widened; now too wide. Should narrow over the year as policy spreads narrow (especially given the RBNZ's neutral stance). But the spread will face headwinds if US yields grind lower.
Swap spreads	Neutral/wider	NZGS demand strong. Some risk of corporate paying with yields back at lows, but no obvious sign of it yet.
NZD/TWI	Elevated	NZD is a key channel through which a solid NZ data pulse is being expressed, capping short-end yields.

CURRENCY STRATEGY

SUMMARY

Last week was notable for more concerted hawkish tones across some central banks. That signals a need to think more about the prospect of (gradually) tightening liquidity conditions. Markets need to transition from liquidity to growth as the main driver, and the latter is hardly stellar in a world beset by resentment pressure on policy platforms. We expect a pick-up in volatility, and in combination with a less-pristine economic story for New Zealand, this leaves us wary chasing the NZD higher around current levels.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Elevated but toppy	Closing yield = USD eventually up
NZD/AUD	↔/↑	Holding up well despite data misses	Don't rule out parity
NZD/EUR	↔	ECB not changing tack yet	Europe needs structural reform + ECB to signal unwind
NZD/GBP	↔	Election fading, BoE tone in focus	Valuation says lower, Brexit higher
NZD/JPY	↔	Following NZD/USD price action	USD/JPY direction doesn't look clear

THEMES AND RISKS

- Politics take a temporary back seat, but that won't last long.
- Fed hikes, BoC moving in the same direction and the BoE vote shows more wanting to tighten.
- Is this the start of the inevitable transition from a 'liquidity' to 'growth' mantra? Game on if it is.
- Shine comes off New Zealand's story with the current account widening and GDP undershooting.

ASSESSMENT

The NZD continues to look extended, but not in a manner that suggests a pending correction. However, the risks at current levels are skewed slightly more to the downside.

Subtle (slightly hawkish) nuances across central bank need to be acknowledged. The Fed hiked and kept its dot pots largely intact against a weaker growth backdrop and signs that inflation is rolling over. The market had the hike presented on a plate so the Fed delivered, but it was the extent of sticking to the script that surprised, such that the market doesn't believe it. And the balance sheet is being trimmed. We get a sense asset prices are the implicit target. The BoC and BoE were also more hawkish – the latter particularly so – China is deleveraging and the ECB is slowly moving towards an exit strategy of its own.

That combination signals a need to think more about the prospect of (gradually) tightening liquidity conditions. Abundant liquidity has been the puppeteer supporting asset valuations. Liquidity is set to become less of a driver and growth more so.

The battle between liquidity and growth (or more precisely, economic fundamentals) is long overdue. Central bank nuances signal we are a step closer to that battle being fought.

It's not obvious growth will improve much in a sustained fashion any time soon given policy uncertainty, resentment-driven challenges to the status quo and restrained consumer activity. **It all looks like a game of chicken**, where central banks are becoming more mindful of stability-style risks, but the growth picture hardly validates tighter policy. Volatility is the endgame and that's NZD negative.

At the same time we're not throwing in the towel on the NZD's specific credentials. Q2 GDP should be far stronger than the technical disappointment of Q1. A positive tone to domestic growth signals will continue and that's currency supportive. Soft commodity price trends are boosting the terms of trade, which is already at a multi-decade high.

But some local challenges do need to be respected. The current account cycle has turned, and the deficit could possibly widen a little further in the near term given the local bank funding gap. The domestic backlash against immigration portends election uncertainty, which is not priced. The housing cycle has turned down in Auckland sharply (though winning the Auld Mug may put a stop to that!).

Net-on-net, we're respectful of NZ's credentials, but wary around current (high) levels.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Slightly above fair value of 0.93.
Yield	↔/↑	RBNZ likely to hike before the RBA.
Commodities	↔	Soft commodity move has now peaked.
Data	↔	NZ hard data not so constructive. Australian employment offers hope for the consumer.
Techs	↔	Support at ~0.95, resistance ~0.96.
Sentiment	↔	Neutral at 0.95.
Other	↑	China and commodities vulnerable still.
On balance	↔/↑	**We still favour higher on balance.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔/↓	Fed getting on with it.
Commodities	↔	Soft commodity move has now peaked.
Risk aversion	↔/↓	Liquidity vs growth battle emerging.
Data	↔/↓	NZ good, but not so stellar anymore.
Techs	↔	Upward trading range still intact; in the middle of range. Tried to break lower last week though, leaves us mindful.
Sentiment	↔	Neutral at these levels.
Other	↔/↑	Politics and policy USD negative.
On balance	↔	**Slight downside.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
19-Jun	AU	New Motor Vehicle Sales MoM - May	--	0.3%	13:30
	AU	New Motor Vehicle Sales YoY - May	--	0.1%	13:30
	EC	Construction Output MoM - Apr	--	-1.1%	21:00
	EC	Construction Output YoY - Apr	--	3.6%	21:00
20-Jun	AU	ANZ-RM Consumer Confidence Index - 18-Jun	--	112.9	11:30
	NZ	ANZ Consumer Confidence Index - Jun	--	123.9	13:00
	NZ	ANZ Consumer Confidence MoM - Jun	--	1.8%	13:00
	AU	House Price Index QoQ - Q1	2.2%	4.1%	13:30
	AU	House Price Index YoY - Q1	8.9%	7.7%	13:30
	AU	RBA June Rate Meeting Minutes	--	--	13:30
	GE	PPI MoM - May	-0.1%	0.4%	18:00
	GE	PPI YoY - May	2.9%	3.4%	18:00
	EC	ECB Current Account SA - Apr	--	€34.1B	20:00
	EC	Current Account NSA - Apr	--	€44.8B	20:00
21-Jun	US	Current Account Balance - Q1	-$123.6B	-$112.4B	00:30
	AU	Westpac Leading Index MoM - May	--	-0.12%	12:30
	AU	Skilled Vacancies MoM - May	--	0.1%	13:00
	UK	Public Finances (PSNCR) - May	--	-£15.2B	20:30
	UK	Central Government NCR - May	--	-£15.2B	20:30
	UK	Public Sector Net Borrowing - May	£7.0B	£9.6B	20:30
	UK	PSNB ex Banking Groups - May	£6.8B	£10.4B	20:30
	US	MBA Mortgage Applications - 16-Jun	--	2.8%	23:00
22-Jun	US	Existing Home Sales - May	5.55M	5.57M	02:00
	US	Existing Home Sales MoM - May	-0.4%	-2.3%	02:00
	NZ	RBNZ Official Cash Rate - Jun	1.75%	1.75%	09:00
	NZ	Net Migration SA - May	--	5780	10:45
	NZ	Credit Card Spending MoM - May	--	0.9%	15:00
	NZ	Credit Card Spending YoY - May	--	6.4%	15:00
	UK	CBI Trends Total Orders - Jun	7	9	22:00
	UK	CBI Trends Selling Prices - Jun	20	23	22:00
23-Jun	US	Initial Jobless Claims - 17-Jun	240k	237k	00:30
	US	Continuing Claims - 10-Jun	1928k	1935k	00:30
	US	FHFA House Price Index MoM - Apr	0.5%	0.6%	01:00
	EC	Consumer Confidence - Jun A	-3	-3.3	02:00
	US	Leading Index - May	0.4%	0.3%	02:00
	US	Kansas City Fed Manf. Activity - Jun	10	8	03:00
	JN	Nikkei PMI Mfg - Jun P	--	53.1	12:30
	GE	Markit/BME Manufacturing PMI - Jun P	59.0	59.5	19:30
	GE	Markit Services PMI - Jun P	55.4	55.4	19:30
	GE	Markit/BME Composite PMI - Jun P	57.2	57.4	19:30
	EC	Markit Manufacturing PMI - Jun P	56.8	57.0	20:00
	EC	Markit Services PMI - Jun P	56.1	56.3	20:00
	EC	Markit Eurozone Composite PMI - Jun P	56.6	56.8	20:00
24-Jun	US	Markit Manufacturing PMI - Jun P	52.9	52.7	01:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
24-Jun	US	Markit Services PMI - Jun P	53.5	53.6	01:45
	US	Markit Composite PMI - Jun P	--	53.6	01:45
	US	New Home Sales - May	591k	569k	02:00
	US	New Home Sales MoM - May	3.8%	-11.4%	02:00
	GE	Import Price Index MoM - May	--	-0.1%	24-29 Jun
	GE	Import Price Index YoY - May	--	6.1%	24-29 Jun

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

Although the latest GDP data disappointed, we still believe the underlying pace of economic momentum is reasonable despite housing and credit headwinds. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards – but not for a while.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 20 Jun (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jun	--	--
Wed 21 Jun (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Thu 22 Jun (9:00am)	RBNZ OCR Review	Aggressively neutral	The RBNZ has told us that the hurdle for policy action (or a shift in stance) is high. That will not change at this decision.
Thu 22 Jun (10:45am)	International Travel & Migration - May	Near highs	We struggle to see net migrant inflows falling much from near all-time highs. Visitor arrivals numbers should remain strong.
Tue 27 Jun (10:45am)	Overseas Merchandise Trade – May	Narrowing	Better primary export volumes, together with the recent lifts in export commodity prices, should support overall export values.
Thu 29 Jun (1:00pm)	ANZ Business Outlook – Jun	--	--
Fri 30 Jun (10:45am)	Building Consents – May	Capped	The demand picture is clear. However, capacity and capital constraints are capping the upside for supply.
Tue 4 Jul (10:00am)	NZIER QSBO – Q2	Holding up	Confidence will be off its highs, but the underlying message should still be positive. Capacity pressures will be evident. The key will be whether that is starting to spill into price pressure.
Wed 5 Jul (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Wed 5 Jul (10:00am)	ANZ Job Ads – Jun	--	--
Wed 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun	--	--
Thu 6 Jul (10:00am)	Government Financial Statements – May	Running ahead	Strong nominal growth should continue to boost tax revenue, painting a reasonably positive fiscal picture overall.
10-14 Jul	REINZ Housing Market Statistics – Jun	Cooling	The air continues to be let out of house price growth, especially in Auckland. We see that continuing.
Tue 11 Jul (10:45am)	Electronic Card Transactions – Jun	Bounce	After falling in May, we suspect spending will rebound in June, in part boosted by spending associated with the Lions tour.
Wed 12 Jul (10:00am)	ANZ Truckometer – Jun	--	--
Thu 13 Jul (10:45am)	Food Price Index – Jun	Unwind	It may not happen this month, but the impact that poor weather has had on fruit & vege prices should eventually unwind.
Thu 13 Jul (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jul	--	--
Fri 14 Jul (10:30am)	BNZ-BusinessNZ PMI – Jun	Strong	The manufacturing sector continues to chug along nicely.
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is gradually lifting.**

KEY FORECASTS AND RATES

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (% qoq)	0.5	**1.0**	**0.8**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.5	**2.7**	**2.7**	**3.2**	**3.3**	**3.0**	**2.8**	**2.6**	**2.5**	**2.4**
CPI (% qoq)	1.0	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.6**	**0.2**	**0.7**	**0.6**
CPI (% yoy)	2.2	**2.0**	**2.2**	**2.0**	**1.7**	**2.0**	**2.1**	**2.2**	**2.2**	**2.2**
Employment (% qoq)	1.2	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.7	**3.9**	**2.9**	**2.5**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**	**1.2**
Unemployment Rate (% sa)	4.9	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**	**4.3**
Current Account (% GDP)	-3.2	**-3.2**	**-3.1**	**-3.2**	**-2.9**	**-2.8**	**-2.8**	**-2.8**	**-2.8**	**-2.8**
Terms of Trade (% qoq)	5.1	**-0.1**	**-1.0**	**-1.0**	**-0.4**	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.7	**9.9**	**9.9**	**2.9**	**-2.5**	**-2.2**	**-1.0**	**0.1**	**0.6**	**0.5**

	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Retail ECT (% mom)	-1.1	1.9	0.5	0.0	0.1	2.4	-0.4	-0.3	0.9	-0.4
Retail ECT (% yoy)	3.2	6.1	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2
Credit Card Billings (% mom)	-1.0	2.9	2.8	-4.1	3.0	0.4	-1.3	0.9	0.9	--
Credit Card Billings (% yoy)	2.3	8.3	10.1	4.1	8.5	7.1	5.3	7.2	6.4	--
Car Registrations (% mom)	2.5	-3.9	13.2	2.9	-6.4	1.6	0.5	3.6	-2.6	3.6
Car Registrations (% yoy)	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7
Building Consents (% mom)	-2.3	1.0	0.4	-8.4	-8.4	4.1	15.4	-1.2	-7.6	--
Building Consents (% yoy)	11.5	17.0	14.0	2.2	-10.7	-0.9	8.9	17.1	-3.1	--
REINZ House Price Index (% yoy)	13.8	12.4	14.5	14.4	13.8	12.8	11.9	9.9	7.8	5.0
Household Lending Growth (% mom)	0.8	0.7	0.6	0.6	0.7	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	8.7	8.7	8.7	8.6	8.8	8.7	8.5	8.4	8.0	--
ANZ Roy Morgan Consumer Conf.	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9
ANZ Business Confidence	15.5	27.9	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9
ANZ Own Activity Outlook	33.7	42.4	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3
Trade Balance ($m)	-1240	-1388	-798	-723	-1	-227	-58	277	578	--
Trade Bal ($m ann)	51900	51938	51943	51668	51621	51901	52088	52404	52599	--
ANZ World Commodity Price Index (% mom)	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2
ANZ World Comm. Price Index (% yoy)	11.1	10.6	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3
Net Migration (sa)	5670	6320	6190	6160	5960	6360	5940	6130	5780	--
Net Migration (ann)	69119	69954	70282	70354	70588	71305	71333	71932	71885	--
ANZ Heavy Traffic Index (% mom)	7.2	-2.1	-0.6	3.7	-0.3	-0.9	2.0	1.6	-2.1	4.1
ANZ Light Traffic Index (% mom)	0.9	0.2	-2.1	1.5	0.2	-0.3	0.8	1.3	-1.4	1.2

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	Apr-17	May-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZD/USD	0.687	0.712	0.727	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.917	0.954	0.953	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.630	0.635	0.649	0.63	0.60	0.60	0.62	0.63	0.63	0.63
NZD/JPY	76.55	78.83	80.74	76.3	75.9	76.2	78.2	78.2	77.1	77.1
NZD/GBP	0.530	0.554	0.569	0.54	0.52	0.54	0.54	0.55	0.54	0.54
NZ$ TWI	73.3	75.4	78.3	73.6	72.5	72.4	73.5	73.7	72.6	72.3
INTEREST RATES	Apr-17	May-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	1.98	1.97	1.93	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.04	2.78	2.79	3.30	3.50	3.70	3.70	3.90	3.90	4.00
US Fed funds	1.00	1.00	1.25	1.25	1.50	1.50	1.50	1.75	2.00	2.25
US 3-mth	1.17	1.20	1.27	1.20	1.45	1.70	1.70	1.95	2.20	2.45
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	1.75	1.74	1.72	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	16 May	12 Jun	13 Jun	14 Jun	15 Jun	16 Jun
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.98	1.94	1.93	1.93	1.93	1.94
NZGB 03/19	1.94	1.93	1.93	1.93	1.91	1.93
NZGB 05/21	2.31	2.19	2.19	2.19	2.15	2.18
NZGB 04/23	2.60	2.46	2.46	2.47	2.42	2.45
NZGB 04/27	2.93	2.77	2.78	2.79	2.72	2.77
2 year swap	2.23	2.20	2.20	2.20	2.17	2.20
5 year swap	2.79	2.70	2.69	2.70	2.65	2.68
RBNZ TWI	75.22	77.76	77.81	77.81	77.73	77.74
NZD/USD	0.6868	0.7194	0.7223	0.7249	0.7221	0.7254
NZD/AUD	0.9279	0.9537	0.9577	0.9564	0.9510	0.9519
NZD/JPY	78.05	79.11	79.53	79.92	79.20	80.42
NZD/GBP	0.5327	0.5669	0.5674	0.5695	0.5688	0.5675
NZD/EUR	0.6213	0.6414	0.6446	0.6470	0.6466	0.6478
AUD/USD	0.7402	0.7542	0.7542	0.7579	0.7593	0.7621
EUR/USD	1.1053	1.1217	1.1207	1.1205	1.1166	1.1198
USD/JPY	113.64	109.96	110.11	110.25	109.68	110.88
GBP/USD	1.2893	1.2690	1.2729	1.2729	1.2695	1.2783
Oil (US$/bbl)	48.66	46.08	46.46	44.73	44.46	44.74
Gold (US$/oz)	1234.06	1268.57	1262.08	1267.41	1259.23	1253.73
Electricity (Haywards)	8.51	10.06	11.26	14.22	15.28	13.69
Baltic Dry Freight Index	980	870	870	865	855	851
NZX WMP Futures (US$/t)	3330	3100	3100	3100	3110	3130

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