NEW ZEALAND ECONOMICS
MARKET FOCUS

29 August 2016

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'TARGETING' TARGETED

ECONOMIC OVERVIEW

Inflation targeting remains in the spotlight, both here and abroad. While some of the scrutiny is fair, some of it isn't. But in a world of unprecedented stimulus yet still-low inflation and lacklustre growth, and frictions across society and the political scene amidst impotent fiscal policy and income inequality challenges, it is a debate that is unlikely to go away (or be solved) any time soon. In the meantime, though, monetary policy challenges will mean more prudential policy tweaks and ongoing interest rate convergence. This week, our *Business Outlook* survey will again provide a timely update of domestic economic momentum, while partial indicators for Q2 GDP (OTIs and building work) will help confirm whether or not there is upside risk to our current GDP expectation of 0.8% q/q.

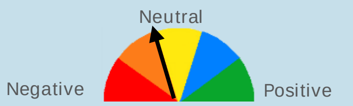
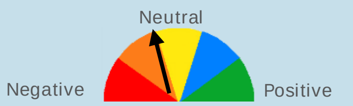
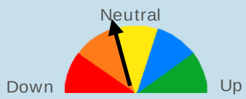
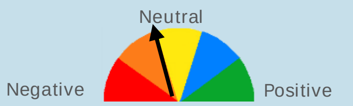
INTEREST RATE STRATEGY

More domestic monetary policy easing is coming, but there is no need to be hasty. That was the key message from RBNZ Governor Wheeler's speech last week. At face value, this suggests that the OCR will go lower, but probably not till November and not in a rapid-fire fashion in response to currency strength. Globally, the key messages from Jackson Hole were three-fold: the Fed is on track to hike this year, as long as the data holds up (so read that as probably one, rather than two hikes); Japan is on track for "ample" additional easing; and Europe will probably "dive deeper" (i.e. be more creative). Against a backdrop of a Fed rate hike ~65% priced in by year-end and US 10-year Treasury yields at the upper-end of trading ranges, we see limited scope for further yield upside. Local yields are high by global standards; we expect further spread compression.

CURRENCY STRATEGY

A hat-tip to higher rates from the Fed would normally see us shift our NZD stance from "buy on dips" to "selling rallies". While we're mindful of such a turning point and ultimately expect the NZD/USD to move a tad lower in coming months, the case for further sustained moves south is not overwhelming. The tenor of NZ data remains strong, carry signals still dominate and global growth conditions are not conducive to the Fed rising rates in a sustained fashion (a tweak in the Fed funds rate is not enough). Growth aside, if ECB and BoJ (easing) vs Fed (tightening) divergences materially manifest, USD strength will batter the Fed into a neutral stance. We continue to see the NZD remaining elevated on a TWI basis.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.4% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	
Unemployment rate	5.0% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	
OCR	1.50% by Jun 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	
CPI	0.7% y/y for 2017 Q2	Low petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	

ECONOMIC OVERVIEW

SUMMARY

Inflation targeting remains in the spotlight, both here and abroad. While some of the scrutiny is fair, some of it isn't. But in a world of unprecedented stimulus yet still-low inflation and lacklustre growth, and frictions across society and the political scene amidst impotent fiscal policy and income inequality challenges, it is a debate that is unlikely to go away (or be solved) any time soon. In the meantime, though, monetary policy challenges will mean more prudential policy tweaks and ongoing interest rate convergence. This week, our *Business Outlook* survey will again provide a timely update of domestic economic momentum, while partial indicators for Q2 GDP (OTIs and building work) will help confirm whether or not there is upside risk to our current GDP expectation of 0.8% q/q.

FORTHCOMING EVENTS

Building Consents Issued – July (10:45am, Tuesday, 30 August). After June showed a 16% m/m surge in the number of dwelling consents and an all-time high in the value of non-residential consents, we suspect both will pull back in July.

ANZ Business Outlook – August (1:00pm, Wednesday, 31 August).

RBNZ Credit Aggregates – July (3:00pm, Wednesday, 31 August). Strength should continue, although a growth peak is likely close at hand.

Overseas Trade Indexes – Q2 (10:45am, Thursday, 1 September). We see the terms of trade falling about 4% q/q, although a trough may be near. Export volumes are expected to rise solidly (~4.5% q/q).

Building Work Put in Place – Q2 (10:45am, Friday, 2 September). After some strong growth, total building work volumes are expected to be largely flat in the quarter, with stronger residential work offset by a fall in non-residential work (although there is more uncertainly over the latter).

ANZ Commodity Price Index – August (1:00pm, Monday, 5 September).

WHAT'S THE VIEW?

The debate surrounding the merits of inflation targeting remains a hot topic around the world. Central bankers (current and former), academics, business commentators, the Economist magazine, politicians and many others have thrown their two cents in of late.

And it is little wonder this debate is occurring. The efficacy of monetary policy is being seriously tested at present. Despite the unprecedented stimulus being delivered, global inflation remains low, and mired below targets in many parts of the world. Growth remains sub-par, and financial stability risks, inequality and market distortions are on the rise. This is being magnified by fiscal policy that is asleep or hamstrung by high debt levels, self-interest (as opposed to group interest) and rising populism.

Inflation targeting is becoming the "target" for a host of issues. On some levels it's grossly unfair. Monetary policy and its instruments can only do so much. Too little attention is paid to the importance of fiscal policy and an economy's broader policy settings via its microeconomic foundations in driving better growth and living standard outcomes. However, it's also clear that inflation targeting – whilst revolutionary when brought in – should be evolutionary over time.

Our own RBNZ Governor laid out his thoughts, albeit briefly, last week. The RBNZ's view is that inflation targeting *"remains the most appropriate monetary policy framework for conducting monetary policy in New Zealand*", as long as there is *"sufficient flexibility*" to respond to external shocks. He also added as further justification for maintaining the status quo that *"I am not aware of any central bank that has moved away from an inflation targeting framework since the GFC".*

We concur with this view. Inflation targeting has served New Zealand well, although we'd put even more weight on the need for it to be flexible at present. Some of the deflation we are seeing is good (it raises purchasing power), and we can't see why it matters whether inflation settles at 1% versus 2% for external-related reasons; there are trade-offs to be mindful of when intentionally trying to overcook the non-tradable side of the economy to compensate for tradable deflation. If inflation expectations settle a <u>little</u> lower than 2% for a while then we don't have a major bug-bear with that. The CPI supposedly measures the cost of living but we don't think anyone really thinks that's going down! Most everyday stuff appears to keep going up! Certainly everything housing-related at least. And while the RBNZ's operating environment is certainly a difficult one at present, the issues it is facing are not nearly as pronounced as those being faced by others offshore.

But the fact remains that inflation has continued to surprise on the downside despite an economy growing above trend, forcing the RBNZ to respond even though it acknowledges it has limited influence over the key drivers of this low inflation to begin with (the strong NZD, weak global inflation pressures, including some that are structural, such as technological advances removing pricing leverage). The response via lower rates then exacerbates asset price inflation and specifically pressures in the housing market, where again the

ECONOMIC OVERVIEW

RBNZ only has (some) influence on demand but none on supply. And while you could argue that the RBNZ now has macro-prudential tools at its disposal to respond to these housing challenges, the very fact it has come to that is clearly not ideal or optimal. Macro-prudential measures – while certainly necessary in this instance – can distort market behaviour, foster increased shadow banking practices, have unintended consequences and are difficult to remove once introduced, particularly if they are in place for an extended period.

To be fair, that's a problem that is more global than local, and it will be ongoing. The debate is intensifying offshore. The influential San Francisco Fed President Williams believes that *"monetary policy frameworks should be critically re-evaluated to identify potential improvements in the context of a low r-star [natural real interest rate]. Although targeting a low inflation rate generally has been successful at taming inflation in the past, it is not as well-suited for a low r-star era."* He proposes pursuing a higher inflation target or replacing inflation targeting with a flexible price-level or nominal GDP targeting framework. We're not convinced on that front. The Bank of Canada is currently in the process of looking at the possibility of a higher inflation target as part of renewing its policy agreement with the Government before the end of the year. And at the Fed's Jackson Hole symposium over the weekend we saw Fed Chair Yellen note that alternative monetary policy frameworks (such as price-level or nominal GDP targeting), while not being actively considered at present, are "important subjects for research".

Meanwhile, and as this debate persists, we're going to see:

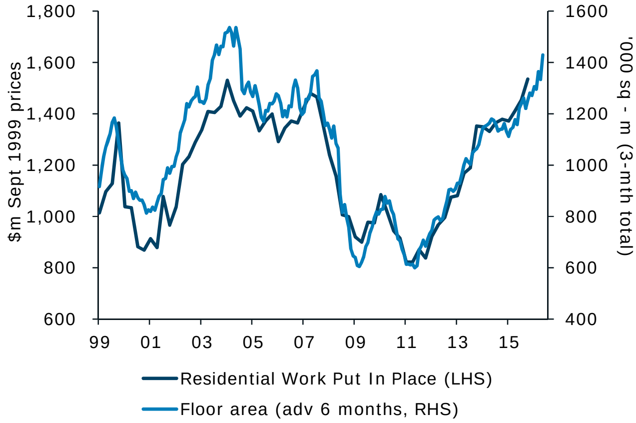
- An even greater dependence on prudential policy as a means of balancing competing challenges. Early indications are the latest batch of RBNZ LVR restrictions are biting and have cooled housing market activity. But whether that extends beyond six months is the key question.
- Interest rate convergence (just to stop the NZD from going up), which means an even lower OCR (we continue to forecast 50bps more of cuts to 1.5%).
- Silly suggestions with regard to what monetary policy could, and should, be doing. Monetary policy is going to increasingly become a political hot potato. It's not helpful but it is what is occurring.
- An ongoing focus on the Fed. It is a key bellwether and key to NZD direction. Chatter is clearly increasing that it is contemplating rate hikes once more, and together with the likes of the ECB and BoJ still contemplating further easing, this divergent policy backdrop should be USD supportive. That may cap the topside for the NZD, although given the domestic growth scene we struggle to see it falling much on a TWI basis.

Turning to the domestic data calendar, the week begins with the usual month-end releases of building consents, business confidence and credit growth.

Building consent issuance is likely to retrace some of June's sharp gain. In June, issuance surged 16% m/m. This was the strongest monthly growth since June 2004 and came after a period where issuance looked like it was struggling to push much higher. Prior to the June gain, issuance had been relatively stable (at reasonable levels admittedly) for roughly around 12 months. The June lift meant that on a three month annualised basis, issuance topped 30K for the first time since mid-2004. While we fully expect to see a degree of pull-back in July, a positive trend should remain.

But the strength in consent issuance was far broader than just dwellings in June. The value of non-residential consents was over $700m in the month, which is an all-time high. Again, even if we see a pull-back in the July figures (which does seem likely), the broad-based positive signal from consent figures clearly reinforces that the construction sector pipeline remains large, with the sector still set to be a source of growth even with the earthquake rebuild becoming far more mature.

FIGURE 1: DWELLING CONSENTS AND WORK PUT IN PLACE



Source: ANZ, Statistics NZ

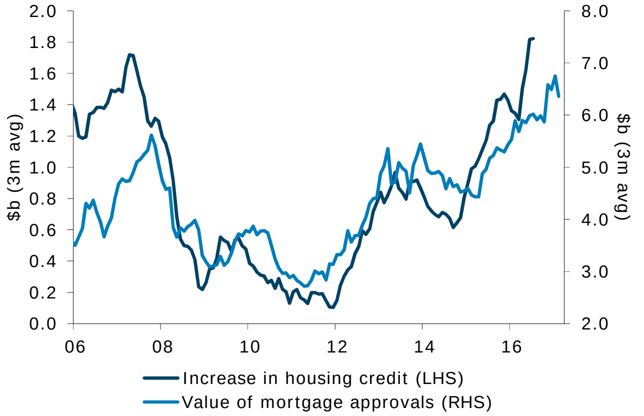
Our Business Outlook survey for August will provide another timely update on economic momentum into the latter part of the year. While headline confidence dipped a touch in July, the underlying activity measures within the survey (own activity, employment, investment, profits

ECONOMIC OVERVIEW

expectations) all remain consistent with a decent pace of economic momentum. This is important. While firms can fret about issues that throw headline confidence around, when it comes to actual growth outcomes, what firms feel about their own prospects and decisions to hire and invest matters far more.

July credit growth should remain strong, but we suspect a growth peak is not too far away. In June, total household claims grew 0.8% m/m (sa), with annual growth rising to 8.3%. With income growth far below that, it points to the widely followed household debt to income ratio lifting further from its already all-time high of 163%. Data last week showed new mortgage lending still running at a strong pace, over $6bn in the month. However, relative to a year ago, growth has cooled from over 18% to just 5%. These figures come ahead of the latest round of LVR restrictions from the RBNZ, which will no doubt see housing lending growth cool (even if only temporarily), but part of the recent cooling relates to banks having already tightened up their lending criteria to certain segments (e.g. foreign buyers and developers).

FIGURE 2: MORTGAGE APPROVALS AND HOUSING CREDIT



Source: ANZ, RBNZ

The week also sees the release of two partial indicators for Q2 GDP growth (due 15 September). Our current pick is that GDP grew 0.8% q/q, although we do see some upside risks to that:

- **Overseas Trade Indexes should show weaker terms of trade.** One of the remarkable things about this cycle is that despite global dairy prices falling close to 60% from their highs, New Zealand terms of trade (on an OTI basis) were only 6% below their peak in the March quarter. Lower oil prices and well-performing non-dairy export commodity prices helped to offset the dairy malaise. We do expect the terms of trade to fall around 4% in Q2, largely due to lagged falls in some commodity exports and the bounce in oil prices off their lows. However, with global dairy prices recovering again and oil prices not expected to push much above US$50/bbl, it does appear that the terms of trade is near to a trough. Associated export volume data is expected to show solid growth of around 4½% q/q.
- **Building Work Put in Place may show modestly softer growth than seen over the past two quarters.** The total volume of building work rose 5.3% and 2.8% q/q in Q1 and Q4 respectively, with both residential and non-residential work contributing to this decent growth. While we expect residential building work rose further in Q2, the earlier softness in the floor-area of non-residential consents suggest (although there is plenty of uncertainty) that non-residential building work is set for a pull-back. Overall, we are looking for broadly flat total building work.

FIGURE 3: FLOOR AREA OF BUILDING CONSENTS

Source: ANZ, Statistics NZ

Finally, our commodity price index is released next Monday, with the focus on whether recent gains can continue. The index has been showing an encouraging turnaround over the recent months, with prices rising 7% in world price terms since April, with gains relatively broad-based. Certainly the recent strength in global dairy prices on the GDT platform will be supportive, so the question is how well non-dairy export commodities perform. Since April, they are up 5.7%. However, the performance is far more mediocre in NZD terms, with prices up just 0.1% over the same period.

LOCAL DATA

Overseas Merchandise Trade – July. A trade deficit of $433m was recorded, although excluding a large one-off import, the deficit was a more modest $175m in the month.

RBNZ New Residential Mortgage Lending – July. New lending again topped $6.0bn. However, it was up only 5.0% y/y, much lower than the 18% annual growth seen over prior months.

INTEREST RATE STRATEGY

SUMMARY

More domestic monetary policy easing is coming, but there is no need to be hasty. That was the key message from RBNZ Governor Wheeler's speech last week. At face value, this suggests that the OCR will go lower, but probably not till November and not in a rapid-fire fashion in response to currency strength. Globally, the key messages from Jackson Hole were three-fold: the Fed is on track to hike this year, as long as the data holds up (so read that as probably one, rather than two hikes); Japan is on track for "ample" additional easing; and Europe will probably "dive deeper" (i.e. be more creative). Against a backdrop of a Fed rate hike ~65% priced in by year-end and US 10-year Treasury yields at the upper-end of trading ranges, we see limited scope for further yield upside. Local yields are high by global standards; we expect further spread compression.

THEMES

- US Federal Reserve Chair Yellen has reiterated that "the case for an increase in the federal funds rate has strengthened in recent months". Market pricing now largely reflects this, with yields also at the upper end of trading ranges.
- Going the other way, the RBNZ remains on track to ease, also gradually. Market expectations for a September cut are optimistic; but expectations for a November cut seem too lean.
- Last week's NZGS 2037 syndication was lapped up by offshore buyers – with 84% going outside Australasia. This is symptomatic of the huge yield gap between NZ and the rest of the world.

MONETARY POLICY AND SHORT END

Market expectations for policy appear somewhat under-cooked given our forecasts, Wheeler's speech, the risk profile and global outlook. The distribution also looks odd. We believe an OCR cut in November is likely whatever happens in September, yet the incremental difference is just ~16bps. Similarly, with just ~36bps of cuts priced in by February, market expectations are too lean compared to our forecasts (they're basically bang on what the RBNZ flagged, but no more). All else equal, this suggests that the bias for the short end remains mildly lower, but the catalyst for this will be the next cut.

GLOBAL MARKETS AND LONG END

When all is said and done, little that was market-moving was said at the Jackson Hole symposium at over the weekend. Yellen has reiterated that the economy has strengthened and that a hike remains on track; and Fischer has said that this week's non-farm payroll data will feature in the September FOMC decision. With expectations now elevated, the risk is we see further disappointment.

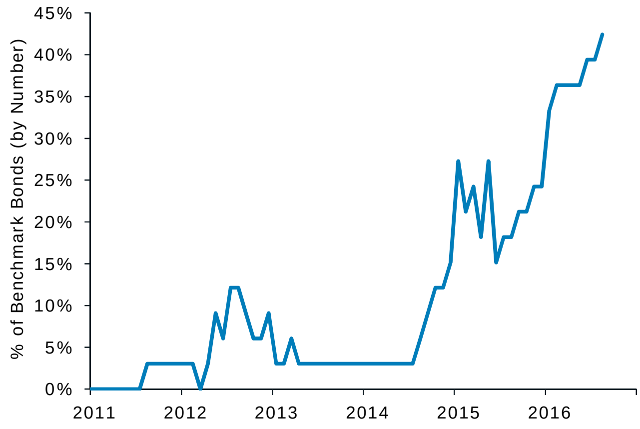
Regardless of the direction of US yields, "easy" will remain the key feature of the European and Japanese policy landscape, keeping a lid on yields. Against that backdrop, with ~40% of G10 sovereign yields in negative territory, it was no surprise that the NZGS 2037 bond largely went offshore. Yields rose into the deal; and will retreat now that it's done and dusted, allowing spreads to narrow. NZ yields are just too high and too attractive – simple as that.

STRATEGY

Investors: We remain mildly bullish and expect yields to fall, and to compress gradually against the US. In OIS markets, we think the Sep/Nov spread ought to be wider. In swaps, we still see the most value in the belly of the curve, which should benefit as 2017 rate hikes get priced out of the curve.

Borrowers: Watching and waiting remains our preferred strategy. We are not confident that the lows are yet in for term yields, despite dramatic falls. With BKBM also biased lower, we favour options.

FIGURE 1: PROPORTION OF BENCHMARK G10 SOVEREIGN BONDS WITH NEGATIVE YIELDS



Source: ANZ, Bloomberg

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Mildly Bullish	Not enough easing priced in given where TWI is tracking. Sep/Nov spread should be nearer ~20-25bps.
Long end	Mildly Bullish	NZGS 2037 syndication done, clearing the air. Yield convergence and homogenisation the main theme still.
Yield Curve	Biased flatter	RBNZ has more scope to ease than any other G10 bank, and has signalled absolute preparedness to do so.
Geographic spreads	Neutral/ Narrower	New Zealand is still the standout G10 bond market in an environment of low inflation and easy liquidity. The numbers have it: 84% of the NZGS 2037 went offshore – no surprise given yield so close to 3%.
Swap spreads	Neutral	NZGS demand solid, but corporate payers have been savvy; unlikely to hedge any time soon.
NZD/TWI	Holding up	We expect the TWI to hold up; unlikely to roll over until growth slows and unless the OCR goes much lower.

CURRENCY STRATEGY

SUMMARY

A hat-tip to higher rates from the Fed would normally see us shift our NZD stance from "buy on dips" to "selling rallies". While we're mindful of such a turning point and ultimately expect the NZD/USD to move a tad lower in coming months, the case for further sustained moves south is not overwhelming. The tenor of NZ data remains strong, carry signals still dominate and global growth conditions are not conducive to the Fed rising rates in a sustained fashion (a tweak in the Fed funds rate is not enough). Growth aside, if ECB and BoJ (easing) vs Fed (tightening) divergences materially manifest, USD strength will batter the Fed into a neutral stance. We continue to see the NZD remaining elevated on a TWI basis.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔/↓	Payrolls and Fed key	Firmer USD to be an eventual "saviour"
NZD/AUD	↔	Steady for now	0.93-0.97 range
NZD/EUR	↔	Yield too attractive	NZ better
NZD/GBP	↔	BOE not done easing	Fully priced. Toppy.
NZD/JPY	↔/↑	BoJ wants yen lower	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- Good growth equals a strong currency. NZ data is yet to roll over in a sustained fashion.
- The RBNZ is reactively responding to currency strength as opposed to proactively trying to bring it down. It would like to do the latter but doubts it would succeed; best it can do is stop the topside until broader sell signals (weak growth) appear.
- Divergences continue:
  - NZD too high for the RBNZ's inflation profile, which means continued pressure for rates to converge via a lower OCR. But no hurry.
  - Fed talks it up while ECB board members emphasise easing biases.
- Fed speakers (Yellen and Fischer) provide a hat tip towards higher rates, with September in play. That looks too early but the spirit is up by year-end.
- Risk appetites remain solid. US payrolls key.

ASSESSMENT

The story for the NZD is akin to the proverbial mouse on the exercise wheel: more of the same.

But homage must be paid to global developments and when the big two at the Fed (Yellen and Fischer) provide a hat-tip to higher rates it needs to be respected. Yellen: *"the case for an increase in the federal funds rate has strengthened in recent months"*. Fischer: *"the Chair's comments are consistent with a possible rate hike in September*." Markets are now ascribing a ~65% chance of a hike by year-end. Markets will be hyper-sensitive to US non-farm payrolls this week. We expect strength, with the USD to adjust higher accordingly.

However, prospects for more than a tweak in the Fed Funds rates are not overwhelming (we think this is a minimum requirement to change the trend for the USD). Global growth remains fractured. Leverage is high in emerging markets; deleveraging is needed. Most central banks still have an easing bias. The world is coupled as opposed to decoupled.

Meanwhile New Zealand's economic story rolls on. Data signals remain consistent with above-trend growth. Carry remains a driver. With inflation targeting coming under the spotlight, and central bank toolkits strained, attention is swivelling to fiscal policy and broader economic conditions / platforms. New Zealand's ease of doing business, competitiveness rankings, political stability and fiscal credibility provide broader pillars of support. There is much focus on the reasons for migration inflows. The same is happening on the capital side for similar reasons.

We are agnostic about picking a turning point for the NZD. While the obvious trend is realignment lower towards fair valuation, there are reasons it may not have yet peaked, despite a shift from the Fed, and the RBNZ prepared to respond. **NZD/USD looks biased a tad lower but a high TWI still beckons.**

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Higher fair value range
Yield	↔/↑	OCR gap to persist into 2017
Commodities	↔/↑	Upside surprises to milk prices
Data	↑	NZ still in a data sweet spot; AU data more mixed
Techs	↔	Price action positive. 0.95 support
Sentiment	↔	Selling likely to emerge ~0.97
Other	↔/↓	AUD offers better liquidity
On balance	↔	**Hard to see break of 0.93-0.97**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	High but USD the main problem
Yield	↔/↑	NZ yield and other factors support
Commodities	↔	NZ commodities rebounding
Risk aversion	↔/↑	Olympics over, liquidity improving
Data	↔/↑	NZ data still looks solid
Techs	↔	Still trending up, dips supported
Other	↔/↑	RBNZ reactive, not proactive
On balance	↔	**More than just a yield story. Will fade once Fed tightens.**

GLOBAL VIEWS AND POSITIONING

The USD has come back, but not to any great degree, and it probably won't until the Fed actually hikes. NZD positioning remains fairly neutral. USD longs have been pared slightly, potentially capping the upside. The street is also long AUD, limiting NZD/AUD downside.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
29-Aug	AU	HIA New Home Sales MoM - Jul	--	8.2%	13:00
30-Aug	US	Personal Income - Jul	0.4%	0.2%	00:30
	US	Personal Spending - Jul	0.3%	0.4%	00:30
	US	Real Personal Spending - Jul	0.2%	0.3%	00:30
	US	PCE Deflator MoM - Jul	0.0%	0.1%	00:30
	US	PCE Deflator YoY - Jul	0.8%	0.9%	00:30
	US	PCE Core MoM - Jul	0.1%	0.1%	00:30
	US	PCE Core YoY - Jul	1.5%	1.6%	00:30
	US	Dallas Fed Manf. Activity - Aug	-3.9	-1.3	02:30
	NZ	Building Permits MoM - Jul	--	16.3%	10:45
	AU	ANZ-RM Consumer Confidence Index - 28-Aug	--	121.8	11:30
	AU	Building Approvals MoM - Jul	1.1%	-2.9%	13:30
	AU	Building Approvals YoY - Jul	-8.3%	-5.9%	13:30
	GE	Import Price Index MoM - Jul	-0.1%	0.5%	18:00
	GE	Import Price Index YoY - Jul	-4.0%	-4.6%	18:00
	UK	Net Consumer Credit - Jul	£1.7B	£1.8B	20:30
	UK	Net Lending Sec. on Dwellings - Jul	£3.1B	£3.3B	20:30
	UK	Mortgage Approvals - Jul	61.9k	64.8k	20:30
	UK	Money Supply M4 MoM - Jul	--	1.1%	20:30
	UK	M4 Money Supply YoY - Jul	--	3.5%	20:30
	UK	M4 Ex IOFCs 3M Annualised - Jul	7.1%	8.0%	20:30
	EC	Economic Confidence - Aug	104.1	104.6	21:00
	EC	Business Climate Indicator - Aug	0.36	0.39	21:00
	EC	Industrial Confidence - Aug	-2.7	-2.4	21:00
	EC	Services Confidence - Aug	11.1	11.1	21:00
	EC	Consumer Confidence - Aug F	-8.5	-8.5	21:00
31-Aug	GE	CPI MoM - Aug P	0.1%	0.3%	00:00
	GE	CPI YoY - Aug P	0.5%	0.4%	00:00
	GE	CPI EU Harmonized MoM - Aug P	0.1%	0.4%	00:00
	GE	CPI EU Harmonized YoY - Aug P	0.5%	0.4%	00:00
	US	S&P CoreLogic CS 20-City MoM SA - Jun	-0.10%	-0.05%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - Jun	5.10%	5.24%	01:00
	US	Consumer Confidence Index - Aug	97.0	97.3	02:00
	UK	GfK Consumer Confidence - Aug	-8	-12	11:05
	NZ	ANZ Activity Outlook - Aug	--	31.4	13:00
	NZ	ANZ Business Confidence - Aug	--	16	13:00
	AU	Private Sector Credit MoM - Jul	0.4%	0.2%	13:30
	AU	Private Sector Credit YoY - Jul	6.1%	6.2%	13:30
	CH	Westpac-MNI Consumer Sentiment - Aug	--	114	13:45
	NZ	Money Supply M3 YoY - Jul	--	5.90%	15:00
	GE	Retail Sales MoM - Jul	0.5%	-0.1%	18:00
	GE	Retail Sales YoY - Jul	0.3%	2.7%	18:00
	UK	Nationwide House PX MoM - Aug	-0.2%	0.5%	18:00
	UK	Nationwide House Px NSA YoY - Aug	4.8%	5.2%	18:00
	GE	Unemployment Change (000's) - Aug	-4k	-7k	19:55
	GE	Unemployment Claims Rate SA - Aug	6.1%	6.1%	19:55
	EC	Unemployment Rate - Jul	10.0%	10.1%	21:00
	EC	CPI Estimate YoY - Aug	0.3%	0.2%	21:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
31-Aug	EC	CPI Core YoY - Aug A	0.9%	0.9%	21:00
	US	MBA Mortgage Applications - 26-Aug	--	-2.1%	23:00
1-Sep	US	ADP Employment Change - Aug	175k	179k	00:15
	US	Chicago Purchasing Manager - Aug	54.5	55.8	01:45
	US	Pending Home Sales MoM - Jul	0.7%	0.2%	02:00
	US	Pending Home Sales NSA YoY - Jul	2.2%	0.3%	02:00
	NZ	Terms of Trade Index QoQ - Q2	-1.5%	4.4%	10:45
	AU	AiG Perf of Mfg Index - Aug	--	56.4	11:30
	AU	CoreLogic House Px MoM - Aug	--	0.8%	12:00
	CH	Manufacturing PMI - Aug	49.9	49.9	13:00
	CH	Non-manufacturing PMI - Aug	--	53.9	13:00
	AU	Private Capital Expenditure - Q2	-4.1%	-5.2%	13:30
	AU	Retail Sales MoM - Jul	0.3%	0.1%	13:30
	CH	Caixin PMI Mfg - Aug	50.1	50.6	13:45
	AU	Commodity Index AUD - Aug	--	90.5	18:30
	AU	Commodity Index YoY - Aug	--	-2.0%	18:30
	GE	Markit/BME Manufacturing PMI - Aug F	53.6	53.6	19:55
	EC	Markit Manufacturing PMI - Aug F	51.8	51.8	20:00
	UK	Markit PMI Manufacturing SA - Aug	49.0	48.2	20:30
2-Sep	US	Nonfarm Productivity - Q2 F	-0.6%	-0.5%	00:30
	US	Unit Labor Costs - Q2 F	2.1%	2.0%	00:30
	US	Initial Jobless Claims - 27-Aug	265k	261k	00:30
	US	Continuing Claims - 20-Aug	2149k	2145k	00:30
	US	Markit Manufacturing PMI - Aug F	52.1	52.1	01:45
	US	Construction Spending MoM - Jul	0.5%	-0.6%	02:00
	US	ISM Manufacturing - Aug	52.0	52.6	02:00
	US	ISM Prices Paid - Aug	54.8	55.0	02:00
	US	ISM New Orders - Aug	--	56.9	02:00
	NZ	Value of All Buildings SA QoQ - Q2	2.0%	5.3%	10:45
	UK	Markit/CIPS Construction PMI - Aug	46.5	45.9	20:30
	EC	PPI MoM - Jul	0.1%	0.7%	21:00
	EC	PPI YoY - Jul	-2.9%	-3.1%	21:00
3-Sep	US	Trade Balance - Jul	-$42.0B	-$44.5B	00:30
	US	Change in Nonfarm Payrolls - Aug	180k	255k	00:30
	US	Change in Private Payrolls - Aug	180k	217k	00:30
	US	Change in Manufact. Payrolls - Aug	-4k	9k	00:30
	US	Unemployment Rate - Aug	4.8%	4.9%	00:30
	US	Average Hourly Earnings MoM - Aug	0.2%	0.3%	00:30
	US	Average Hourly Earnings YoY - Aug	2.5%	2.6%	00:30
	US	ISM New York - Aug	--	60.7	01:45
	US	Factory Orders - Jul	2.0%	-1.5%	02:00
	US	Durable Goods Orders - Jul F	4.4%	4.4%	02:00
	US	Durables Ex Transportation - Jul F	1.5%	1.5%	02:00
	US	Cap Goods Orders Nondef Ex Air - Jul F	--	1.6%	02:00
	US	Cap Goods Ship Nondef Ex Air - Jul F	--	-0.4%	02:00

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. However, downside risks exist (mainly from offshore). But with inflation low and the NZD high, our base case is for OCR cuts in November and early 2017, taking the OCR to 1.5%.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 30 Aug (10:45am)	Building Consents Issued – Jul	Pull back	Following the surge in June, some retracement is likely. But the trend should remain positive.
Wed 31 Aug (1:00pm)	ANZ Business Outlook – Aug	--	--
Wed 31 Aug (3:00pm)	RBNZ Credit Aggregates – Jul	Still strong	Prudential policy changes should eventually cool credit growth, but the figures look set to remain strong in the near term.
Thu 1 Sep (10:45am)	Overseas Trade Indexes – Q2	Fall	The terms of trade have held up remarkably well, although higher oil prices are likely to have dented its performance in Q2.
Fri 2 Sep (10:45am)	Building Work Put in Place – Q2	Flat	The trend is certainly positive, but the sector is expected to pause for breath in Q2, with flat total volumes possible.
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug	--	--
Tue 6 Sep (10:00am)	ANZ Truckometer – Aug	--	--
Wed 7 Sep (early am)	GlobalDairyTrade Auction	Moving on up	The near-term outlook looks better, but key will be whether prices can be maintained beyond the preferential free-trade window with China closing around October.
Wed 7 Sep (10:45pm)	Economic Survey of Manufacturing – Q2	Resilient	The vagaries of agricultural production will throw it around, but manufacturing will continue to be supported by the well-performing construction sector.
Thu 8 Sep (1:00pm)	ANZ Monthly Inflation Gauge – Aug	--	--
Fri 9 Sep (10:45am)	Electronic Card Transactions – Aug	Reasonable trend	The figures are volatile, but we expect a decent underlying trend, with the quarterly pace holding around 1¼% to 1½%.
12-16 Sep	REINZ Housing Market Statistics – Aug	Starting to turn	Anecdotes have starting to emerge that the latest round of LVR restrictions are taking a bite out of market activity and we'd expect to see some signs of this.
Tue 13 Sep (10:45am)	Food Price Index – Aug	Flat	Although fruit and vegetable prices typically rise in August, low commodity prices and NZD strength should cap overall gains.
Wed 14 Sep (10:45am)	Balance of Payments – Q2	Narrower	Courtesy of a larger goods and service surplus, the seasonally adjusted current account deficit should narrow further.
Thu 15 Sep (10:30am)	BNZ-BusinessNZ PMI – Aug	Balance	Activity is holding at respectable levels despite the strong NZD, with the well-performing domestic economy lending support.
Thu 15 Sep (10:45am)	GDP – Q2	Strong	Our current forecast is 0.8% q/q, but we see non-trivial odds of an increase in excess of 1%.
Fri 16 Sep (10:00am)	ANZ Job Ads – Aug	--	--
Fri 16 Sep (1:00pm)	ANZ Roy Morgan Consumer Confidence – Sep	--	--
Mon 19 Sep (10:30am)	BNZ-BusinessNZ PSI – Aug	Stable	The index has softened a little of late, but we are not expecting that to persist for long.
Wed 21 Sep (early am)	GlobalDairyTrade auction	Can they be maintained?	Key is whether recent price gains can be maintained beyond the preferential free-trade window with China closing around Oct.
Wed 21 Sep (10:45am)	International Travel & Migration – Aug	Still strong	Net inflows may be past their highs, but we see little chance of a fall to historical average (~15K) any time soon.
Thu 22 Sep (9:00am)	RBNZ OCR Review	No change	Future OCR cut(s) will be signalled, but the RBNZ is taking it gradually and has shown a preference to move on MPS dates.
On balance		**Data watch**	**Momentum is increasing at present, but with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.7	**0.8**	**0.9**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.8	**3.3**	**3.4**	**3.5**	**3.5**	**3.4**	**3.2**	**2.8**	**2.6**	**2.6**
CPI (% qoq)	0.2	0.4	**-0.2**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.7**
CPI (% yoy)	0.4	0.4	**-0.1**	**0.4**	**0.8**	**0.7**	**1.6**	**1.7**	**1.8**	**1.8**
Employment (% qoq)	1.4	2.4	**-0.4**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	2.0	4.5	**4.3**	**4.0**	**3.1**	**1.1**	**1.9**	**1.7**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.2	5.1	**5.1**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**	**4.8**	**4.8**
Current Account (% GDP)	-3.0	**-3.1**	**-3.5**	**-3.7**	**-4.3**	**-4.4**	**-4.3**	**-4.1**	**-3.9**	**-3.9**
Terms of Trade (% qoq)	4.4	**-4.1**	**-0.7**	**0.6**	**0.8**	**1.9**	**2.9**	**1.9**	**0.8**	**0.8**
Terms of Trade (% yoy)	-0.1	**-5.6**	**-2.5**	**0.1**	**-3.4**	**2.6**	**6.3**	**7.6**	**7.6**	**7.6**

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
Retail ECT (% mom)	0.8	0.1	0.4	0.7	0.1	0.8	-0.3	1.2	0.3	--
Retail ECT (% yoy)	4.6	6.6	5.2	9.2	6.2	7.8	3.3	6.8	5.8	--
Credit Card Billings (% mom)	0.7	-0.7	2.1	-0.7	-1.0	2.6	-0.2	-1.3	2.7	--
Credit Card Billings (% yoy)	8.5	7.5	7.5	6.3	4.3	8.7	5.5	3.3	5.2	--
Car Registrations (% mom)	-1.9	3.1	-2.8	5.8	-3.8	6.2	-3.6	-1.0	-0.5	--
Car Registrations (% yoy)	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9	--
Building Consents (% mom)	1.5	2.4	-8.1	10.6	-9.2	7.8	0.1	16.3	--	--
Building Consents (% yoy)	7.4	17.5	4.9	26.8	0.3	13.5	10.3	39.6	--	--
REINZ House Price Index (% yoy)	12.5	12.6	10.7	11.9	13.3	14.5	14.7	14.2	16.3	--
Household Lending Growth (% mom)	0.6	0.6	0.6	0.6	0.6	0.8	0.7	0.8	--	--
Household Lending Growth (% yoy)	7.2	7.4	7.5	7.6	7.7	7.9	8.1	8.3	--	--
ANZ Roy Morgan Consumer Conf.	122.7	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2	117.7
ANZ Business Confidence	14.6	23.0	..	7.1	3.2	6.2	11.3	20.2	16.0	--
ANZ Own Activity Outlook	32.0	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4	--
Trade Balance ($m)	-795	-42	12	367	189	350	344	110	-433	--
Trade Bal ($m ann)	52648	52510	52764	52831	52599	52626	52854	52661	52158	--
ANZ World Commodity Price Index (% mom)	-5.6	-1.8	-2.3	0.5	-1.3	-0.8	1.1	3.7	2.0	--
ANZ World Comm. Price Index (% yoy)	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8	-11.6	-5.4	2.0	--
Net Migration (sa)	6230	5510	6090	6000	5340	5490	5550	5700	5600	--
Net Migration (ann)	63659	64930	65911	67391	67619	68110	68432	69090	69015	--
ANZ Heavy Traffic Index (% mom)	0.2	2.9	-4.2	1.7	3.3	-2.5	-2.6	4.1	-5.7	--
ANZ Light Traffic Index (% mom)	0.3	0.9	-1.4	2.4	0.7	-1.6	-1.3	2.4	-0.6	--

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	Jun-16	Jul-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.712	0.720	0.722	0.69	0.65	0.64	0.64	0.63	0.63	0.64
NZD/AUD	0.955	0.948	0.959	0.96	0.97	0.97	0.97	0.93	0.90	0.89
NZD/EUR	0.639	0.644	0.645	0.66	0.63	0.62	0.61	0.57	0.57	0.57
NZD/JPY	73.20	73.47	73.64	72.5	68.3	64.0	64.0	63.0	63.0	67.2
NZD/GBP	0.528	0.544	0.550	0.55	0.54	0.52	0.51	0.48	0.47	0.46
NZ$ TWI	74.5	75.0	77.1	74.5	71.9	70.4	69.9	67.3	66.8	67.5
INTEREST RATES	Jun-16	Jul-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.25	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.41	2.28	2.25	2.20	2.00	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.35	2.21	2.30	2.10	2.00	2.20	2.20	2.50	2.50	2.50
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	0.65	0.76	0.83	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.96	1.86	1.73	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	26 Jul	22 Aug	23 Aug	24 Aug	25 Aug	26 Aug
Official Cash Rate	2.25	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.28	2.23	2.23	2.23	2.23	2.23
NZGB 03/19	1.85	1.80	1.77	1.77	1.78	1.79
NZGB 05/21	1.91	1.81	1.78	1.78	1.80	1.82
NZGB 04/23	1.97	1.97	1.94	1.94	1.95	1.95
NZGB 04/27	2.22	2.30	2.25	2.26	2.26	2.26
2 year swap	2.05	2.00	1.99	1.98	1.97	1.97
5 year swap	2.15	2.14	2.11	2.10	2.08	2.08
RBNZ TWI	75.6	76.70	77.34	77.18	77.57	77.68
NZD/USD	0.71	0.72	0.73	0.73	0.73	0.72
NZD/AUD	0.94	0.95	0.96	0.96	0.96	0.96
NZD/JPY	73.64	72.78	73.29	73.09	73.43	73.70
NZD/GBP	0.54	0.55	0.56	0.55	0.55	0.55
NZD/EUR	0.64	0.64	0.65	0.65	0.65	0.65
AUD/USD	0.75	0.76	0.76	0.76	0.76	0.76
EUR/USD	1.10	1.13	1.13	1.13	1.13	1.12
USD/JPY	104.33	100.75	100.27	100.36	100.42	101.84
GBP/USD	1.31	1.30	1.32	1.32	1.32	1.31
Oil (US$/bbl)	42.40	48.48	46.80	47.54	46.29	46.97
Gold (US$/oz)	1318.83	1333.20	1338.50	1336.00	1326.51	1323.74
Electricity (Haywards)	33.47	4.48	5.37	11.95	9.93	6.20
Baltic Dry Freight Index	696	687	692	706	718	720
Milk futures (USD)	44	47	49	47	48	48

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