

# NEW ZEALAND ECONOMICS MARKET FOCUS

22 February 2016

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## TWIST AND SHOUT

### ECONOMIC OVERVIEW

Stabilisation in financial markets this past week has been welcome, but the **overriding themes shaping the global backdrop and risks haven't changed**. Bouts of turbulence will return. Locally, the domestic economy continues to show resilience to global wobbles and despite a further fall in surveyed inflation expectations, this resilience, if sustained, should be enough keep the RBNZ on the side-lines. This week, data is expected to be consistent with recent themes, with net migration remaining strong and a small trade deficit likely. Early next week, our first *Business Outlook* for the year will be watched closely for any signs of movement.



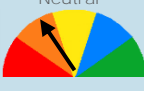

### INTEREST RATE STRATEGY

The two-year swap trading through cash brings short-end rates into "over-bought" territory. While the risk of OCR cuts is building and data on the inflation front have generally been soft, we are simply not yet seeing local activity nuances to corroborate a need for a lower OCR at this stage. The risks of a "flush out" of receive-side interest thus look to be building. Signs of stability in the global scene should pave the way for a steeper curve as long-term rates self-correct from lows. The problem, however, is that there are no immediate catalysts to drive long-term rates markedly higher and any signs of weakness could see yields fall and flattening pressure reassert itself. Yield compression between local and global yields should continue as the hunt for yield intensifies, supporting the NZD.

### CURRENCY STRATEGY

We continue to see NZD somewhat in limbo, caught between a reasonable economic story and global risks. The USD's inability to sustain a rally after January's inflation data was notable, opening the way for a squeeze higher in NZD/USD if US sentiment were to again falter. However, our assessment of risks remains skewed lower, with commodities, China, and global growth still uncertain. NZD/AUD continues to range-trade and we expect this to continue, given the focus on offshore issues.

### THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.6% y/y for 2016 Q4	Moderate growth outlook. Downside risks exist (globe) but some local upside risks also evident.	
Unemployment rate	5.4% for 2016 Q4	The demand for labour has recovered, and labour supply is cooling from strong rates. Wage inflation contained.	
OCR	2.50% by Dec 2016	OCR is back at record lows. We have a flat forecast for 2016, with downside risk.	
CPI	0.8% 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 likely to remain sub 2%.	

## ECONOMIC OVERVIEW

## SUMMARY

Stabilisation in financial markets this past week has been welcome, but the overriding themes shaping the global backdrop and risks **haven't** changed. Bouts of turbulence will return. Locally, the domestic economy continues to show resilience to global wobbles and despite a further fall in surveyed inflation expectations, this resilience, if sustained, should be enough keep the RBNZ on the side-lines. This week, data is expected to be consistent with recent themes, with net migration remaining strong and a small trade deficit likely. Early next week, our first *Business Outlook* for the year will be watched closely for any signs of movement.

## FORTHCOMING EVENTS

**International Travel & Migration – Jan** (10:45am, Thursday, 25 February). Solid visitor arrivals growth is expected and another large net migrant inflow is likely, with the main question being how close to record levels it will be.

**ANZ Regional Trends – Q4** (1:00pm, Thursday, 25 February).

**Overseas Merchandise Trade – Jan** (10:45am, Friday, 26 February). We expect a monthly trade deficit of around \$300m. Overall, a theme of deterioration in the external balance is expected to remain.

**Building Consents Issued – Jan** (10:45am, Monday, 29 February). While a small monthly fall would not be a surprise, a positive underlying trend should remain.

**ANZ Business Outlook – Feb** (1:00pm, Monday, 29 February).

## WHAT'S THE VIEW?

**A semblance of calm appears to have come over markets in recent days.** After some violent moves, the past week has seen bond and equities markets stabilise (there are exceptions), and even credit markets have shown some improvement, with spreads narrowing from wide levels.

**This stabilisation is of course welcome.** At times of heightened volatility, markets have the potential to become irrational as investors rush for the exit door. Herd behaviour then takes over, and pessimism becomes self-sustaining.

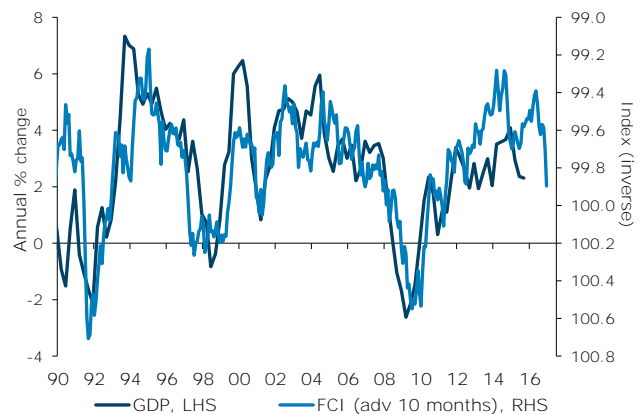
**However, we doubt we have seen the last of the market turbulence.** While we can point to obvious concerns such as emerging market leverage post the GFC, Europe's structural and sovereign debt issues and the unwind of the so-called commodity super-cycle, there are deeper issues. First, there is a growing view that the side effects of aggressive central bank action and the likes of negative interest rates are outweighing the positives; we are in that camp. Second, the December hike from the US Fed was huge in

significance; it signalled a tweak in the global cost of capital over time and was a sign that asset valuations need to shift over time from being driven by liquidity to being based on economic fundamentals. Lacking the **most important fundamental (growth)**, we've seen markets wobble over the transition and more of the same remains on offer.

**Stepping back from the offshore focus, locally it is a case of business as usual.** In particular, the domestic economy continues to show resilience to these pressures and is performing reasonably well. Yes there are strains, and ongoing falls in dairy prices are a clear reminder of the challenges facing an important sector of the economy. Yet consumer confidence is holding at decent levels, and together with strong tourism spending, is supporting solid overall consumption trends.

**Anecdotes on the ground generally continue to have a positive hue.** While there has been some softening in the likes of our latest Truckometer and job ads reads to start the year, at this stage we're putting this down to monthly volatility more than anything else. **Confidence doesn't drive growth. But as long as it remains at decent levels, it is hard to see growth turning sharply south.**

FIGURE 1. GDP VS FINANCIAL CONDITIONS



Source: ANZ, Statistics NZ

**While New Zealand is showing resilience, we remain attuned to the risks.**

**Watching movements in our Financial Conditions Index** (figure 1 above) **has become somewhat of a daily obsession.** Despite the stabilisation in markets this past week, weaker export prices (and not just dairy), a stubborn NZD and rising local funding costs have already delivered a meaningful tightening in local financial conditions, large enough to potentially knock around a percentage point off GDP growth over the next 12 months. That leaves us mindful that reality may eventually set in and domestic prospects will subsequently begin to cool. There is certainly little sign

# ECONOMIC OVERVIEW

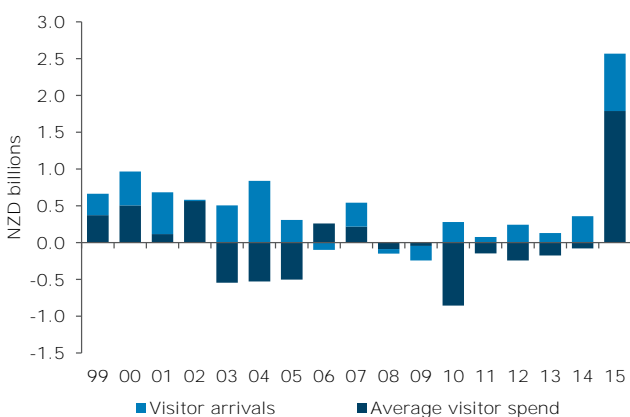
of that on the ground yet so we retain the faith for now. **But our financial conditions indicator is a leading indicator and sentiment on the ground is not.**

**Turning to the week ahead, migration figures for January will no doubt show another large net inflow.** The key question is whether it will be near the monthly records seen in October and November, or rather be consistent with the more modest (albeit still strong) numbers seen in December. In December, a net inflow of 5,510 migrants was recorded. Up until six months ago, that would have been an all-time high. However, as it was down from the prior record rates it does hint at some moderation – perhaps the peak in the migration cycle is now behind us.

**Obviously, more than just one month’s data is needed to confirm whether or not that is the case.** And even if there is some moderation, **given that the New Zealand economy is still strong and the labour market is recovering again, it is hard to see what is really going to drive net migration meaningfully lower.** As such, we expect migration to remain a pillar of the economy for some time yet, with associated demand and supply-side impacts.

**Visitor arrivals figures are also expected to be strong.** In December, arrivals were up 11% on a year ago, with a big part of this growth due to a surge in arrivals from China (+43% y/y). However, that was not the sole reason. Stronger arrivals growth from the US, UK and Europe more broadly has been evident of late too. And beyond just the number of visitors, another big part of the strong tourism sector story (arguably the bigger part) is that the average spend per person has also been increasing. In fact, if we decompose the surge in total visitor spending (up 38% to \$9.4bn in the year to September 2015) into its contributions from stronger visitor arrivals and higher average spending, it is actually the latter that has made the far bigger contribution.

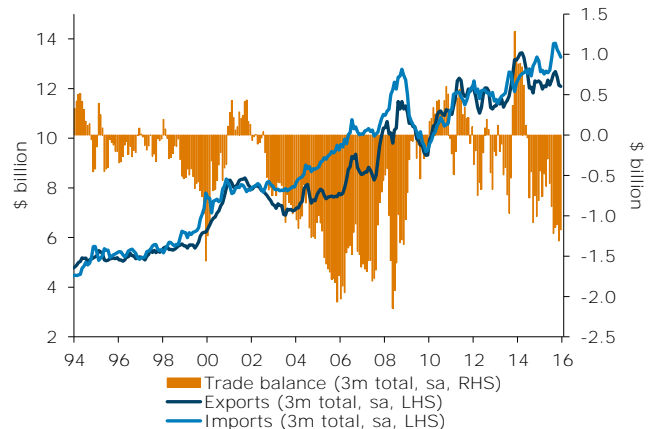
**FIGURE 2. CONTRIBUTION TO TOTAL VISITOR SPEND GROWTH**



Source: ANZ, Statistics NZ

**Overseas trade data for January should show another monthly deficit.** In unadjusted terms, the trade deficit typically widens modestly from December to January and we expect this year to have been no different. After a small \$53m deficit in December, we expect a deficit closer to a \$300m to have been recorded in January. Monthly volatility means there is always the potential for some decent surprises, and we are certainly expecting some movement in dairy export volumes after Fonterra noted “record” exports in December, which weren’t necessarily confirmed by subsequent Statistics NZ figures. However, the overarching themes dominating the external trade environment remain: ongoing falls in export prices, softer agricultural production (although not as soft as earlier envisaged) and weak oil prices. Some of these factors offset, but ultimately we continue to expect the underlying trend in New Zealand’s external trade performance to be one of deterioration.

**FIGURE 3. MERCHANDISE TRADE**



Source: ANZ, Statistics NZ

**Our Regional Trends release for Q4 will provide additional colour on the regional elements of the current economic story.** In Q3, regional economic performance was somewhat mixed,

although 12 of 14 regions still managed to record a lift in activity over the quarter, with the strongest rates of growth, interestingly, seen at the far north and south of the country. While some factors such as migration gains and low interest rates should have a relatively broad-based impact on the regions, others such as dairy weakness and tourism strength are likely to be a little more region-specific.

**Monday next week brings the first Business Outlook survey for the year.** Together with its consumer sentiment equivalent, the business confidence survey is something we will be watching particularly closely to see how (if at all) global financial market turbulence and the tightening in domestic financial conditions year-to-date are affecting sentiment. Movements in financial variables are one thing, but people need to feel it on the ground before

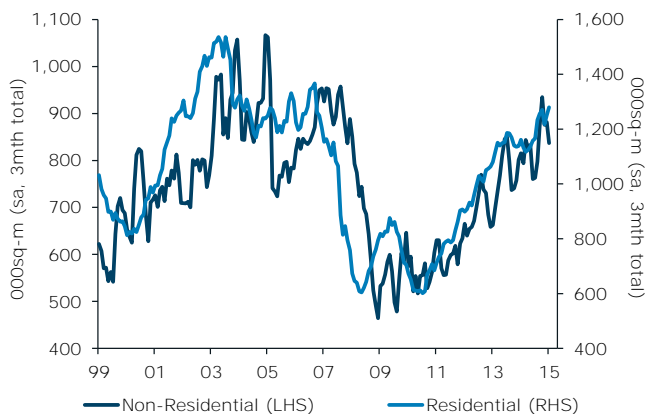


## ECONOMIC OVERVIEW

there is any real impact on growth. Encouragingly, consumer sentiment is holding up well. We will see if businesses are feeling similarly resilient.

**Building consent data for January is also released on Monday, and a positive underlying trend is likely to persist.** To be fair, after a few months of reasonable gains, a **small fall in January wouldn't be** overly surprising given the volatility inherent in this series. But stepping back from this, we suspect further lifts in issuance are likely from the likes of the Auckland region and together with a large pipeline of non-residential work (the value of non-residential consents is sitting at an all-time high on a trend basis), the construction sector should remain a strong contributor to overall GDP growth over at least the next 12 months, irrespective of a plateauing in Canterbury rebuild activity.

**FIGURE 4. FLOOR AREA OF BUILDING CONSENTS**



Source: ANZ, Statistics NZ

## LOCAL DATA

**Retail Trade Survey – Q4.** Total sales volumes rose 1.2% q/q, while core volumes rose 1.4% q/q.

**RBNZ Survey of Expectations – Q1.** The two-year ahead measure of inflation expectations fell to 1.63% from 1.85%.

**GlobalDairyTrade Auction.** The GDT-TWI fell 2.8% to an average of USD2,235/tonne.

**ANZ Job Ads – Jan.** Total job ads fell 3.2% m/m, led by a 22% m/m fall in newspaper advertising. Internet advertising fell 1.3% m/m.

**PPI – Q4.** Input and output prices fell 1.2% and 0.8% q/q respectively.

**ANZ Roy Morgan Consumer Confidence – Feb.** The headline index dipped 2 points to 119.7, but was unchanged once seasonality influences are removed.

**Government Financial Statements – six months to December.** The OBEGAL was close to HYEPU forecasts at a deficit of \$889m.

# INTEREST RATE STRATEGY

## SUMMARY

The two-year swap trading through cash brings short-end rates into “over-bought” territory. While the risk of OCR cuts is building and data on the inflation front have generally been soft, we are simply not yet seeing local activity nuances to corroborate a need for a lower OCR at this stage. The risks of a “flush out” of receive-side interest thus look to be building. Signs of stability in the global scene should pave the way for a steeper curve as long-term rates self-correct from lows. The problem, however, is that there are no immediate catalysts to drive long-term rates markedly higher and any signs of weakness could see yields fall and flattening pressure reassert itself. Yield compression between local and global yields should continue as the hunt for yield intensifies, supporting the NZD.

## THEMES

- Markets are transitioning back from being liquidity driven to the fundamentals. The ride will be bumpy, but we think the risk for both the long end and the short end is higher, not lower. Price action is more akin to 2011 than 2008.
- Local short-term yields have plunged to historic lows, with the 2-year swap rate below the OCR, leap-frogging OCR expectations. A “flush out” looks to be in the cards.
- Long-term global yields ended the week lower as the mild sell-off ran out of puff. While it is our expectation that longer-term yields will drift higher, this is likely to be punctuated by bouts of volatility. But a steeper curve beckons.
- High outright local yields and the ongoing “hunt for yield” (which has been evident in offshore ownership data) should keep the bias in favour of spread compression.

## PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral	All NZGS yields are at or close to all-time lows, but still high in a global comparison.
2s10s Curve	Neutral/ Steeper	Contingent on global yields correcting higher & local supply.
Geographic 10yr spread	Neutral/ Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Long-end spreads at risk of narrowing, given supply.

## A WATCHING BRIEF

**After some violent moves, the past week has seen improved global sentiment:** equities

stabilised, measures of market volatility subsided and even credit markets show some improvement, with spreads narrowing from wide levels. Bull flattening has given way to curve steepening, which has further to run long-term. However, near-term, both the short and the long-end look to be tactically biased higher.

**Receive-side interest has remained prevalent for local short-term yields, and our concern is that the market is “over-bought”.** We now have a 2-year swap rate that is below cash, having completely leap-frogged OCR expectations, which are “only” pricing a cut by August. Granted, the case for OCR cuts is building (at least at face value), with the ‘lower for longer’ view assisted by softening inflation expectations (with 1-year-ahead expectation at a record low and 2-year ahead expectations at a 20+ year low). However, activity data remains robust, and we note the RBNZ has been keen to dispute notions of policy being applied in a mechanistic fashion, dependent on one or two data points. Our view is that the New Zealand economy overall is performing much better (dairy weakness aside) than some would have conjectured, given the global environment. As such, current market pricing still looks overcooked on the downside, and prone to a correction higher.

FIGURE 1: NZD FORWARD RATES



Source: ANZ, Bloomberg

**The global scene is looking less fraught than it did a few weeks ago.** Markets are showing tentative signs of stabilisation; global commodity prices are heading up. Even the global data pulse is showing signs of stabilisation. If anything, recent data out of the US has allayed fears that the world’s largest economy is slowing sharply, with few signs of weak energy prices filtering through into core inflation (which has been above the Fed’s 2% target for three months now, and encouragingly, is on an upward trajectory). The calming tones of the Fed Minutes and comments by Fed voters – which acknowledged downside risks but warned it would be premature to alter the Fed’s assessment of the





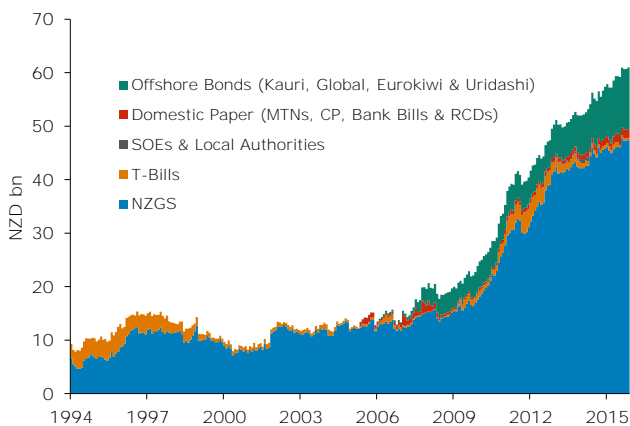
# INTEREST RATE STRATEGY

medium-term outlook – suggest that the next move in rates is still up, albeit in a more gradual fashion.

**Global concerns, however, persist elsewhere, and important questions surrounding many other facets of the global economic backdrop remain unanswered, with some residual flattening pressure present.** Negative rates are in place for Japan and much of Europe. Negative rates are being increasingly viewed with scepticism, given their impact on financial market volatility and the possible undermining of financial institution viability and the monetary policy transmission mechanism. Wider 'Brexit' concerns are weighing on the GBP and rates, with the upcoming referendum on EU membership still too close to call. Low inflation should provide room for China to conduct further monetary policy easing, with 50bps of RRR cuts likely in Q1.

**While the bias for global long-term yields is higher, this is unlikely to be in a straight-line fashion, with the mild sell-off earlier last week paving the way for a market rally.** Bond yields are in outright negative territory out to at least the five-year tenor for France, Germany and Japan (and out as far as 15 years in Switzerland). Feedback from our latest marketing trip to Europe suggests that the "hunt for yield" remains alive and well, and our view remains that **low global rates are likely to maintain investor appetite for yield of NZD denominated assets**, supporting the local market and NZD.

**FIGURE 2: NON-RESIDENT BOND HOLDINGS**



Source: ANZ, RBNZ, Bloomberg

When it comes to flows, as the saying goes, proof is in the pudding. And in that regard, **we are encouraged by the fact that offshore holdings of NZD debt securities hit yet another record high in January** (figure 2). Despite what has become an almost constant fear in local markets that offshore investors might one day all "run for the door" at the same time, we have seen \$327m of net inflows in January (equating to around \$16m of net buying per

trading day).

## PREFERRED STRATEGIES – BORROWERS

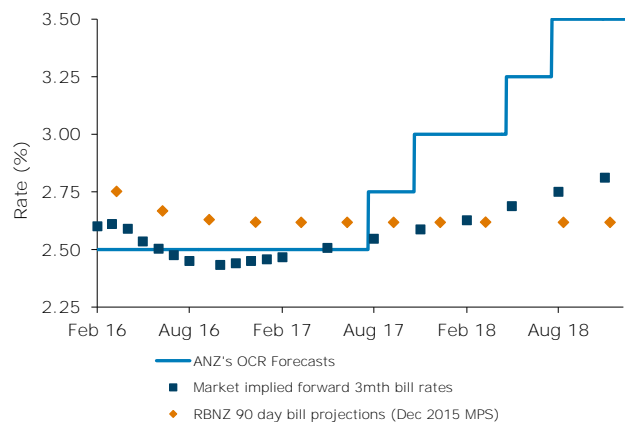
With 10-year swap rates hovering around record lows it is difficult to argue that fixing now does not offer good value, at least from an historical perspective. Given, however, that global rates have yet to find a floor, they may ease further. This – and the volatile trading environment – has us biased towards favouring an **option-based strategy when it comes to new hedging**. We note too that floating rates are also historically cheap, and risks around short-term rates are still biased to the downside. This makes the decision to take on more expensive term cover an even more difficult one (hence our preference for optionality).

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

Improved risk sentiment over the course of last week resulted in a winding back of the earlier rally. A March OCR cut is about 25% priced in, with 27bps of cuts priced in by August and 33bps of cuts priced in by the end of the year.<sup>1</sup> Our core view is for a period of OCR stability, followed by a slow pace of normalisation, but risks remain skewed lower.

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



Source: ANZ, Bloomberg

<sup>1</sup> 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

We continue to see the NZD somewhat in limbo, caught between a reasonable economic story and global risks. **The USD's inability to sustain a rally after January's inflation data was notable, opening the way for a squeeze higher in NZD/USD if US sentiment were to again falter.** However, our assessment of risks remains skewed lower, with commodities, China, and global growth still uncertain. NZD/AUD continues to range-trade and we expect this to continue, given the focus on offshore issues.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Mid-range for now	Volatility will remain high
NZD/AUD	↔	Range trading	Above long-run averages
NZD/EUR	↔/↑	EUR capped	EUR capped by ECB
NZD/GBP	↑	Brexit to drive GBP underperformance	GBP resurgence
NZD/JPY	↔/↓	BoJ in question	JPY finding a range

## THEMES AND RISKS

- With little Australasian data this week, offshore flows remain in control. The inability of USD to rally after last week's data outcomes was notable.
- Markets will continue to focus on JPY and the question of central bank omnipotence. USD/JPY is testing key downside levels, which may provide an answer – of sorts.
- The 'Brexit' debate is likely to weigh on not only GBP but also EUR, leaving topside risks for NZD/GBP & NZD/EUR.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT	WHEN (NZDT)	IMPACT RISK
EUR	Markit PMIs	Mon 22:00 NZD/EUR ↓
USD	Markit PMI	Tue 03:45 NZD/USD ↓
EUR	German IFO	Tue 22:00 NZD/EUR ↑
USD	Consumer confidence	Wed 04:00 NZD/USD ↓
AUD	Q4 wages	Wed 13:30 NZD/AUD ↔/↓
TWD	Export orders	Wed 21:00 NZD ↑
USD	Markit PMI (svcs)	Thu 03:45 NZD/USD ↔/↓
USD	New home sales	Thu 04:00 NZD/USD ↔/↑
NZD	Net migration	Thu 10:45 NZD ↑
AUD	Q4 Capex	Thu 13:30 NZD/AUD ↑
GBP	Q4 GDP (second)	Thu 22:30 NZD/GBP ↔/↓
EUR	Jan CPI (final)	Thu 23:00 NZD/EUR ↔/↓
USD	Durable goods	Fri 02:30 NZD/USD ↔/↑
NZD	Jan Trade balance	Fri 10:45 NZD ↓
JPY	CPI	Fri 12:30 NZD/JPY ↑
EUR	EU Consumer conf.	Fri 23:00 NZD/EUR ↑
EUR	German CPI (Feb)	Sat 02:00 NZD/EUR ↑
USD	Q4 GDP (s)	Sat 02:30 NZD/USD ↔/↑
NZD	Building permits	Mon 10:45 NZD ↑
NZD	ANZ Business conf.	Mon 13:00 NZD

## EXPORTERS' STRATEGY

NZD still looks like it will range trade. Short-term risks are balanced so smaller dips can be sought for imminent receipts. However, we still advocate waiting for bigger dips before taking medium-term hedges.

## IMPORTERS' STRATEGY

Importers should treat rallies as an opportunity to lock in hedging for short to medium-term invoices.

## DATA PULSE

**NZD price action was resilient** in the face of mixed data. Q4 retail sales, at 1.2%, were lower than forecast, ANZ job ads declined 3.2% and Q4 PPI reversed Q3 gains. There were some more optimistic notes with ANZ consumer confidence dropping only 1.4% against a volatile backdrop and the GDT auction declining 2.8% – less than implied by NZX futures.

**The AUD was also resilient** despite the increase in the unemployment rate to 6%, while the RBA minutes reinforced the 'on hold – but alert' message.

**USD was reserved** in the face of data that broadly improved: industrial production, the Philadelphia Fed, CPI and PPI all beat expectations. A counter-point was housing starts and permits missing expectations.

The ECB account of monetary policy showed the ECB debated action in January, and also debated letting inflation run above target – despite being below.

**GBP direction is being dictated by 'Brexit risks'**, but fundamentals remain sound despite core CPI dropping by two tenths to 1.2%. Wages and retail sales both continued to provide optimistic signs.

**China remains a source of volatility.** Aggregate financing surged and FDI lifted. CPI increased but the export numbers were very weak.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↔	Curves look fair.
Commodities	↓	Iron ore stable, milk not so much.
Data	↔/↑	NZ data consistently solid.
Techs	↔	Back to mid-range.
Sentiment	↔	Sentiment improving.
Other	↑/↓	Global flows not local driving.
<b>On balance</b>	↔	<b>Range trading.</b>

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↔/↑	Yield advantage still present.
Commodities	↓	Dairy still a cause for concern.
Risk aversion	↔	Resilience to risk notable.
Data	↔/↑	USD unable to rally on data.
Techs	↔/↑	Price action suggests squeezes.
Other	↓	China remains a key downside.
<b>On balance</b>	↔	<b>Consolidating, with downside risks.</b>

# CURRENCY STRATEGY

## TECHNICAL OUTLOOK

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



**Consolidation continues for the NZD/USD.** The 200dma is expected to converge with the 100dma and 55dma shortly. There is a nascent wedge pattern forming, suggesting a topside break, although the topside is limited by well-defined resistance just short of 0.69. A break higher to test resistance would notably strengthen support below 0.65.

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



**With NZD/AUD comfortably mid-range and few short term signals its worth stepping back a little.** The 5-year view of NZD/AUD shows the importance of the 0.95 area as the right shoulder in a nice head and shoulders formation with 0.89 as the neck line. There is no imminent sign of a break lower, but it shows why from a long-term picture it is worth selling near 0.95.

**TABLE 5: KEY TECHNICAL ZONES**

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6480 – 0.6520 0.6330 – 0.6350	0.6780 – 0.6820 0.6940 – 0.6980
NZD/AUD	0.9080 – 0.9120	0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6280 – 0.6330
NZD/GBP	0.4400 – 0.4440	0.4660 – 0.4700 0.4930 – 0.4980
NZD/JPY	73.50 – 74.00 69.80 – 70.20	79.50 – 80.00 82.40 – 83.00

## POSITIONING

CFTC data continued to show USD longs being pared back. EUR, JPY and GBP buying drove the reduction, but AUD and NZD buying also joined in to a lesser extent.

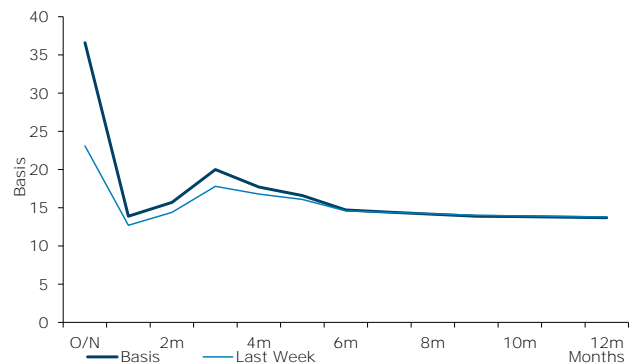
## GLOBAL VIEWS

A referendum on the UK's membership of the EU is to be held on 23 June, with the PM David Cameron pledging his support after the deal. Boris Johnson (Conservative member for Uxbridge and South Ruislip as well as Mayor of London) and other senior Conservatives have come out against the deal, splitting the ruling party on this issue. With too many unanswered questions should the UK vote to leave, uncertainty is likely to weigh on GBP despite the fact that fundamental data shows a strengthening UK economy, leaving NZD/GBP with an upwards bias.

However, this issue has wider risks than just for NZD/GBP. NZD/EUR will also be impacted with the Brexit question likely to open the question of how irrevocable the wider union is, opening topside risks for NZD/EUR as well.

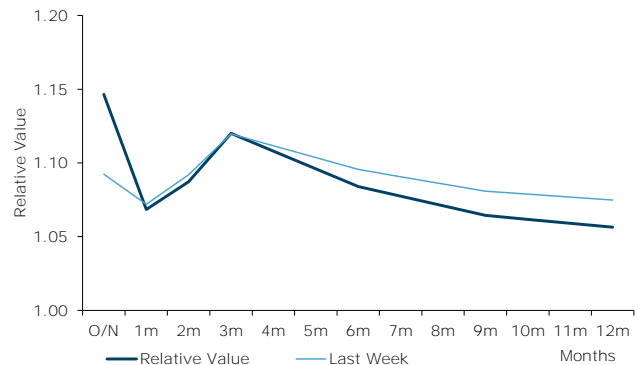
## FORWARDS: CARRY AND BASIS

**FIGURE 3. NZD/USD SHORT BASIS CURVE**



Short-dated basis remain tight and cash continues to trade +40/+50 on an O/N & T/N basis, driven by offshore demand for NZD cash. This suggests the market is short NZD cash, opening the way for a squeeze higher. This onshore/offshore dynamic is being addressed in the FX forward market and those efforts should see basis ease this week.

**FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE**



Source: ANZ, Bloomberg, Reuters



## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
22-Feb	NZ	Credit Card Spending MoM - Jan	--	-0.8%	15:00
	NZ	Credit Card Spending YoY - Jan	--	7.4%	15:00
	GE	Markit/BME Manufacturing PMI - Feb P	52.0	52.3	21:30
	GE	Markit Services PMI - Feb P	55.0	55	21:30
	GE	Markit/BME Composite PMI - Feb P	54.5	54.5	21:30
	EC	Markit Manufacturing PMI - Feb P	52.0	52.3	22:00
	EC	Markit Services PMI - Feb P	53.6	53.6	22:00
	EC	Markit Composite PMI - Feb P	53.5	53.6	22:00
23-Feb	UK	CBI Trends Total Orders - Feb	--	-15	00:00
	UK	CBI Trends Selling Prices - Feb	--	1	00:00
	US	Chicago Fed Nat Activity Index - Jan	--	-0.22	02:30
	US	Markit Manufacturing PMI - Feb P	52.5	52.4	03:45
	AU	ANZ-RM Consumer Confidence Index - 21-Feb	--	113.6	11:30
	GE	Exports QoQ - Q4	-0.5%	0.2%	20:00
	GE	Imports QoQ - Q4	0.1%	1.1%	20:00
	GE	GDP SA QoQ - Q4 F	0.3%	0.3%	20:00
	GE	GDP WDA YoY - Q4 F	1.3%	1.3%	20:00
	GE	GDP NSA YoY - Q4 F	--	2.1%	20:00
	GE	Ifo Business Climate - Feb	107.0	107.3	22:00
	GE	Ifo Current Assessment - Feb	112.2	112.5	22:00
	GE	Ifo Expectations - Feb	102.2	102.4	22:00
24-Feb	US	S&P/CS 20 City MoM SA - Dec	0.80%	0.94%	03:00
	US	S&P/CS Composite-20 YoY - Dec	5.60%	5.83%	03:00
	US	Consumer Confidence Index - Feb	97.5	98.1	04:00
	US	Richmond Fed Manufact. Index - Feb	2	2	04:00
	US	Existing Home Sales - Jan	5.40M	5.46M	04:00
	US	Existing Home Sales MoM - Jan	-1.1%	14.7%	04:00
	AU	Skilled Vacancies MoM - Jan	--	0.4%	13:00
	AU	Wage Price Index QoQ - Q4	0.6%	0.6%	13:30
	AU	Wage Price Index YoY - Q4	2.3%	2.3%	13:30
	AU	Construction Work Done - Q4	-0.8%	-3.6%	13:30
	CH	Westpac-MNI Consumer Sentiment - Feb	--	114.9	14:45
	UK	BBA Loans for House Purchase - Jan	--	43975	22:30
	GE	Import Price Index MoM - Jan	-1.0%	-1.2%	02/29
	GE	Import Price Index YoY - Jan	-3.4%	-3.1%	02/29
25-Feb	UK	CBI Reported Sales - Feb	--	16	00:00
	US	MBA Mortgage Applications - 19-Feb	--	8.2%	01:00
	US	Markit Services PMI - Feb P	53.6	53.2	03:45
	US	Markit Composite PMI - Feb P	--	53.2	03:45
	US	New Home Sales - Jan	520k	544k	04:00
	US	New Home Sales MoM - Jan	-4.4%	10.8%	04:00
	NZ	Net Migration SA - Jan	--	5510	10:45
	NZ	ANZ Regional Trends - Q4	--	0.4%	13:00
	AU	Private Capital Expenditure - Q4	-2.5%	-9.2%	13:30
	GE	CPI EU Harmonized MoM - Jan F	--	-1.0%	20:00
	GE	CPI EU Harmonized YoY - Jan F	--	0.4%	20:00
	GE	GfK Consumer Confidence - Mar	9.3	9.4	20:00
	EC	M3 Money Supply YoY - Jan	4.7%	4.7%	22:00

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-Jan	UK	GDP QoQ - Q4 P	0.5%	0.5%	22:30
	UK	GDP YoY - Q4 P	1.9%	1.9%	22:30
	UK	Exports QoQ - Q4 P	0.7%	-0.3%	22:30
	UK	Imports QoQ - Q4 P	1.8%	2.7%	22:30
	UK	Index of Services MoM - Dec	0.3%	0.2%	22:30
	UK	Index of Services 3M/3M - Dec	0.7%	0.6%	22:30
	UK	Total Business Investment QoQ - Q4 P	--	2.2%	22:30
	UK	Total Business Investment YoY - Q4 P	--	5.8%	22:30
	EC	CPI MoM - Jan	-1.4%	0.0%	23:00
	EC	CPI YoY - Jan F	0.4%	0.2%	23:00
	EC	CPI Core YoY - Jan F	1.0%	1.0%	23:00
26-Feb	US	Initial Jobless Claims - 20-Feb	--	262k	02:30
	US	Continuing Claims - 13-Feb	--	2273k	02:30
	US	Durable Goods Orders - Jan P	2.5%	-5.0%	02:30
	US	Durables Ex Transportation - Jan P	-0.1%	-1.0%	02:30
	US	Cap Goods Orders Nondef Ex Air - Jan P	1.0%	-4.3%	02:30
	US	Cap Goods Ship Nondef Ex Air - Jan P	--	0.2%	02:30
	US	House Price Purchase Index QoQ - Q4	--	1.3%	03:00
	US	FHFA House Price Index MoM - Dec	0.5%	0.5%	03:00
	US	Kansas City Fed Manf. Activity - Feb	--	-9	05:00
	NZ	Trade Balance - Jan	-225M	-53M	10:45
	NZ	Exports - Jan	3.71B	4.43B	10:45
	NZ	Imports - Jan	3.89B	4.48B	10:45
	NZ	Trade Balance 12 Mth YTD - Jan	-3826M	-3549M	10:45
	UK	GfK Consumer Confidence - Feb	3	4	13:05
	EC	Economic Confidence - Feb	104.7	105.0	23:00
	EC	Business Climate Indicator - Feb	0.29	0.29	23:00
	EC	Industrial Confidence - Feb	-3.5	-3.2	23:00
	EC	Services Confidence - Feb	11.5	11.6	23:00
	EC	Consumer Confidence - Feb F	--	--	23:00
27-Feb	GE	CPI MoM - Feb P	0.6%	-0.8%	02:00
	GE	CPI YoY - Feb P	0.2%	0.5%	02:00
	GE	CPI EU Harmonized MoM - Feb P	--	--	02:00
	GE	CPI EU Harmonized YoY - Feb P	--	--	02:00
	US	Advance Goods Trade Balance - Jan	-\$61.10B	-\$61.51B	02:30
	US	GDP Annualized QoQ - Q4 S	0.5%	0.7%	02:30
	US	Personal Consumption - Q4 S	2.3%	2.2%	02:30
	US	GDP Price Index - Q4 S	0.8%	0.8%	02:30
	US	Core PCE QoQ - Q4 S	--	1.2%	02:30
	US	Personal Income - Jan	0.4%	0.3%	04:00
	US	Personal Spending - Jan	0.3%	0.0%	04:00
	US	U. of Mich. Sentiment - Feb F	91.0	90.7	04:00
	US	PCE Deflator MoM - Jan	0.0%	-0.1%	04:00
	US	PCE Deflator YoY - Jan	1.0%	0.6%	04:00
	US	PCE Core MoM - Jan	0.1%	0.0%	04:00
	US	PCE Core YoY - Jan	1.5%	1.4%	04:00

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 activity has re-accelerated after slowing below trend. Low domestic inflation and global events keep future OCR moves biased to the downside, although our base case remains an extended period of OCR stability.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Thu 25 Feb (10:45am)	International Travel & Migration – Jan	Still strong	It is hard to think the figures will be anything other than strong for both population growth and tourism.
Thu 25 Feb (1:00pm)	ANZ Regional Trends – Q4	--	--
Fri 26 Feb (10:45am)	Overseas Merchandise Trade – Jan	Normal service resumes	The boost in December exports was likely temporary, with a deteriorating trade outlook still expected.
Mon 29 Feb (10:45am)	Building Consents Issued – Jan	Positive trend	Monthly volatility aside, a positive trend in issuance (for both residential and non-residential consents) should persist.
Mon 29 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Mon 29 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Topping out	Credit growth remains strong relative to incomes, but we suspect it is close to a peak.
Tue 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Lower terms of trade	While lower oil prices are providing some offset, weaker export prices should see the terms of trade fall again.
Tue 1 Mar (12:00pm)	QV House Prices – Feb	Peaked	Policy changes and affordability constraints have cooled the Auckland market, and with it the nationwide figures.
Wed 2 Mar (early am)	GlobalDairyTrade Auction	Worrying	The fundamental backdrop is not conducive to a meaningful recovery in prices.
Thu 3 Mar (10:45am)	Building Work Put in Place – Q4	Decent	The construction sector is performing solidly, with quarterly gains expected in both residential and non-residential work.
Thu 3 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Tue 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Tue 8 Mar (10:00am)	Economic Survey of Manufacturing – Q4	Solid	Primary volumes may contract. However, core manufacturing production should record some modest growth.
Wed 9 Mar (10:45am)	Electronic Card Transactions – Feb	Respectable	Lower petrol prices may weigh on the headline figure. However, a number of factors should keep spending growth respectable.
Thu 10 Mar (9:00am)	RBNZ <i>Monetary Policy Statement</i>	On hold	Risks to the outlook are clear. However, given the solid domestic growth backdrop, the RBNZ will remain watchful.
Fri 11 Mar (10:30am)	BNZ-Business NZ PMI – Feb	Domestic support	Despite dairy challenges and global turmoil, the sector is benefiting from a strong domestic economy.
Fri 11 Mar (10:45am)	Food Price Index – Feb	Reversal	<b>A partial reversal of January's lift is expected.</b>
Mon 14 Mar (10:30am)	BNZ-Business NZ PSI – Feb	Holding firm	The index has eased off highs, perhaps due to softer housing market activity. But we are expecting it to hold up well.
Wed 16 Mar (early am)	GlobalDairyTrade Auction	Worrying	The fundamental backdrop is not conducive to a meaningful recovery in prices.
Wed 16 Mar (10:45am)	Balance of Payments – Q4	Holding	While a larger seasonally adjusted deficit is likely, the annual current account deficit should hold around 3.2% of GDP.
Thu 17 Mar (10:45am)	GDP – Q4	0.5% q/q	At this stage we see growth of 0.5% q/q, although risks look skewed to the upside.
Fri 18 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Fri 18 Mar (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Mar	--	--
<b>On balance</b>		<b>Data watch</b>	<b>Improvement, but with risks. Inflation remains low.</b>

## KEY FORECASTS AND RATES

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
GDP (% qoq)	0.9	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>
GDP (% yoy)	2.3	<b>1.9</b>	<b>2.2</b>	<b>2.6</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>2.8</b>	<b>2.7</b>	<b>2.7</b>
CPI (% qoq)	0.3	-0.5	<b>0.0</b>	<b>0.4</b>	<b>0.4</b>	<b>0.0</b>	<b>0.6</b>	<b>0.4</b>	<b>0.7</b>	<b>0.3</b>
CPI (% yoy)	0.4	0.1	<b>0.3</b>	<b>0.2</b>	<b>0.3</b>	<b>0.8</b>	<b>1.4</b>	<b>1.4</b>	<b>1.7</b>	<b>1.9</b>
Employment (% qoq)	-0.5	0.9	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
Employment (% yoy)	1.4	1.3	<b>1.2</b>	<b>1.6</b>	<b>2.6</b>	<b>2.1</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>
Unemployment Rate (% sa)	6.0	5.3	<b>5.8</b>	<b>5.7</b>	<b>5.6</b>	<b>5.4</b>	<b>5.3</b>	<b>5.3</b>	<b>5.2</b>	<b>5.1</b>
Current Account (% GDP)	-3.2	<b>-3.1</b>	<b>-3.5</b>	<b>-4.0</b>	<b>-4.9</b>	<b>-5.9</b>	<b>-6.6</b>	<b>-7.0</b>	<b>-6.8</b>	<b>-6.2</b>
Terms of Trade (% qoq)	-3.7	<b>-2.9</b>	<b>-4.1</b>	<b>-6.9</b>	<b>-6.1</b>	<b>-4.2</b>	<b>-0.2</b>	<b>3.0</b>	<b>4.9</b>	<b>3.8</b>
Terms of Trade (% yoy)	-3.4	<b>-3.9</b>	<b>-9.0</b>	<b>-16.5</b>	<b>-18.6</b>	<b>-19.7</b>	<b>-16.5</b>	<b>-7.6</b>	<b>3.2</b>	<b>11.9</b>

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Retail ECT (% mom)	1.3	0.5	0.4	0.5	0.9	0.1	0.8	0.1	0.3	--
Retail ECT (% yoy)	3.2	5.0	5.6	4.2	6.1	5.8	4.6	6.6	5.2	--
Credit Card Billings (% mom)	1.9	0.3	1.7	1.3	-1.9	1.7	0.6	-0.8	--	--
Credit Card Billings (% yoy)	7.3	6.7	9.7	10.4	7.3	7.8	8.4	7.4	--	--
Car Registrations (% mom)	-0.4	5.2	0.6	-2.3	0.1	-1.4	-2.1	2.8	-3.1	--
Car Registrations (% yoy)	6.8	11.2	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	--
Building Consents (% mom)	1.0	-3.6	21.7	-6.9	-5.7	5.1	2.4	2.3	--	--
Building Consents (% yoy)	6.6	-3.8	21.9	12.0	17.1	14.4	8.0	17.3	--	--
REINZ House Price Index (% yoy)	11.8	14.8	14.9	17.3	20.1	14.1	12.5	12.6	10.7	--
Household Lending Growth (% mom)	0.6	0.6	0.7	0.6	0.7	0.7	0.6	0.6	--	--
Household Lending Growth (% yoy)	5.5	5.6	6.0	6.3	6.7	7.0	7.2	7.4	--	--
ANZ Roy Morgan Consumer Conf.	123.9	119.9	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7
ANZ Business Confidence	15.7	-2.3	-15.3	-29.1	-18.9	10.5	14.6	23.0	--	--
ANZ Own Activity Outlook	32.6	23.6	19.0	12.2	16.7	23.7	32.0	34.4	--	--
Trade Balance (\$m)	367	-182	-730	-1090	-1140	-904	-799	-53	--	--
Trade Bal (\$m ann)	50976	51371	51643	52446	52287	52102	52650	52530	--	--
ANZ World Commodity Price Index (% mom)	-4.8	-3.1	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	--
ANZ World Comm. Price Index (% yoy)	-18.0	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	--
Net Migration (sa)	5120	4940	5760	5510	5610	6140	6190	5510	--	--
Net Migration (ann)	57822	58259	59639	60290	61234	62477	63659	64930	--	--
ANZ Heavy Traffic Index (% mom)	-1.0	1.8	-0.2	-0.2	1.8	1.0	0.3	2.8	-4.3	--
ANZ Light Traffic Index (% mom)	-0.7	0.9	-0.3	-0.5	2.7	-1.2	0.2	1.0	-1.4	--

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)						
	Dec-15	Jan-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZD/USD	0.685	0.648	0.663	0.63	0.61	0.59	0.59	0.60	0.61	0.63
NZD/AUD	0.937	0.915	0.928	0.94	0.94	0.92	0.92	0.92	0.92	0.93
NZD/EUR	0.628	0.599	0.596	0.60	0.60	0.55	0.54	0.54	0.53	0.53
NZD/JPY	82.52	78.55	74.58	73.7	70.2	67.9	67.9	67.2	67.1	69.3
NZD/GBP	0.463	0.455	0.464	0.45	0.44	0.41	0.39	0.39	0.39	0.39
NZ\$ TWI	73.7	70.5	72.2	69.7	68.4	65.3	64.6	64.8	64.9	65.8
INTEREST RATES	Dec-15	Jan-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75
NZ 90 day bill	2.75	2.70	2.59	2.80	2.70	2.70	2.70	2.70	2.80	3.10
NZ 10-yr bond	3.57	3.22	3.06	3.80	3.80	3.80	3.90	3.90	3.90	3.90
US Fed funds	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75
US 3-mth	0.61	0.61	0.62	0.83	1.08	1.33	1.33	1.33	1.33	1.33
AU Cash Rate	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.38	2.29	2.28	2.10	2.30	2.40	2.40	2.40	2.40	2.40

	19 Jan	15 Feb	16 Feb	17 Feb	18 Feb	19 Feb
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.75	2.60	2.60	2.60	2.60	2.60
NZGB 12/17	2.53	2.49	2.49	2.47	2.47	2.42
NZGB 03/19	2.63	2.57	2.57	2.56	2.58	2.53
NZGB 04/23	3.27	3.04	3.05	3.05	3.10	3.06
NZGB 04/27	3.65	3.38	3.40	3.40	3.44	3.39
2 year swap	2.65	2.55	2.51	2.50	2.51	2.51
5 year swap	2.92	2.71	2.70	2.68	2.69	2.65
RBNZ TWI	71.5	72.17	71.81	71.49	72.37	72.04
NZD/USD	0.65	0.67	0.66	0.66	0.67	0.66
NZD/AUD	0.94	0.93	0.92	0.92	0.93	0.93
NZD/JPY	75.81	75.73	76.00	74.77	75.95	74.65
NZD/GBP	0.45	0.46	0.46	0.46	0.47	0.46
NZD/EUR	0.59	0.59	0.59	0.59	0.60	0.59
AUD/USD	0.69	0.71	0.72	0.71	0.72	0.71
EUR/USD	1.09	1.12	1.12	1.11	1.11	1.11
USD/JPY	117.25	113.78	114.80	113.89	114.01	112.88
GBP/USD	1.43	1.45	1.44	1.43	1.43	1.43
Oil (US\$/bbl)	29.45	29.32	29.32	29.05	30.68	30.77
Gold (US\$/oz)	1091.83	1221.35	1192.00	1208.40	1209.30	1227.50
Electricity (Haywards)	8.12	7.56	7.76	7.61	6.55	5.34
Baltic Dry Freight Index	363	295	301	307	313	315
Milk futures (USD)	30	n/a	31	33	33	32



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