ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

26 June 2017

INSIDE

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KEEPING THE FAITH

ECONOMIC OVERVIEW

Recent GDP figures have been disappointing. There has been a perplexing divergence open up between 'hard' and 'soft' data of late. We are keeping faith in the domestic economic story and expect headline growth performance to look stronger in Q2 and Q3. In fact, despite headwinds from capacity and credit constraints, and softer housing activity (which looks set to persist), we see the economy growing at around a 3% pace into 2018. That should be enough to continue to gradually eat into spare capacity. In data this week, an improving trade picture is expected, while our Business Outlook will, as always, give a timely update on economic momentum.

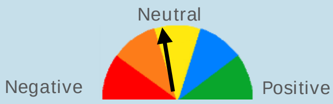
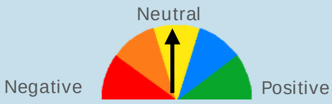
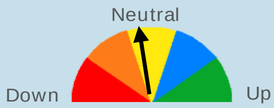
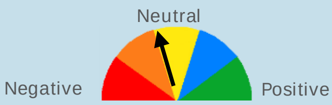
INTEREST RATE STRATEGY

Short-end rates continue to range-trade, having largely shrugged off the RBNZ's OCR Review, which reiterated the Bank's very neutral view. We believe the balance of risks remains skewed mildly to the downside given the carry on offer, but the bias is slight and we are mindful of how tight the bellwether 2 year swap is to its Australian equivalent, which has drawn a near-term line under the short end. Long-end rates continue to dance to a global tune. With the US 10 year Treasury bond yield back at the year's lows, inflation faltering and PMI measures looking like they are rolling over, the risk is we see yields move lower yet. With the Fed poised to trim its balance sheet this year (potentially supplanting hikes), we'd expect this to have more of an impact on equities, keeping a lid on bond yields. Inflation-linked bonds will remain challenged given the softer global inflation pulse.

CURRENCY STRATEGY

It's a case of higher highs, with the RBNZ's soft jawboning, softening global inflation and PMIs, and carry into the Northern Hemisphere summer all supporting NZD strength. However, we're wary chasing strength from current levels given a notable surge in positioning, a prospective turn in the liquidity cycle, and uncertain prospects for global growth in a world beset by policy uncertainty.

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.	
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.	
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.	
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.	

ECONOMIC OVERVIEW

SUMMARY

Recent GDP figures have been disappointing. There has been a perplexing divergence open up between 'hard' and 'soft' data of late. We are keeping faith in the domestic economic story and expect headline growth performance to look stronger in Q2 and Q3. In fact, despite headwinds from capacity and credit constraints, and softer housing activity (which looks set to persist), we see the economy growing at around a 3% pace into 2018. That should be enough to continue to gradually eat into spare capacity. In data this week, an improving trade picture is expected, while our Business Outlook will, as always, give a timely update on economic momentum.

FORTHCOMING EVENTS

Overseas Merchandise Trade – May (10:45am, Tuesday, 27 June). We have pencilled in a monthly (unadjusted) trade surplus of $710 million.

RBNZ New Mortgage Lending – May (3:00pm, Tuesday, 27 June). A small lift in new lending is possible, which would be consistent with slightly higher housing turnover in the month.

ANZ Business Outlook – June (1:00pm, Thursday, 29 June).

Building Consent Issuance – May (10:45am, Friday, 30 June). Some recovery from April's weakness is likely. However, even though a solid demand backdrop is evident, the upside is capped by capacity and capital constraints.

WHAT'S THE VIEW?

The New Zealand economy needs to show a better growth performance. The 'hard' data (like GDP figures) have undershot the 'soft' leading indicators (like business and consumer sentiment). Mother Nature appears to have played a role, but that gap still needs to close if a) above-trend growth is to be achieved (which is clearly relevant for generating the broader inflation pressures the RBNZ is attempting to achieve); and b) GDP per capita is going to look more respectable. Overall GDP growth of 2.5% is respectable enough, but nothing better than solid.

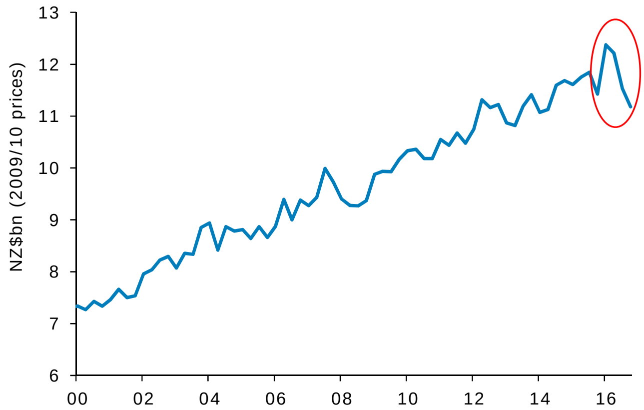
Westernised countries are struggling to achieve rates of growth that have been historically typical. The mismatch between the hard data and soft data recently apparent locally is also evident offshore, as reality undershoots expectations. In addition, productivity growth is weak, debt levels are high and demographics are no longer as supportive. Amidst those challenges, it's a hard slog.

But unlike a lot of countries around the globe, New Zealand's policy manoeuvrability is reasonable, its fiscal credentials are strong (and policy is set to be expansionary for the next couple of years), the commodity cycle (and trend) is supportive, the migration cycle will not taper (though that admittedly does result in challenges for GDP per capita), and the microeconomic policy platform has been moving forward. We're seeing local partial indicators improve at a time the global pulse is showing signs of rolling over; businesses and consumers seem to be getting on with it. That cements reasons for optimism.

However, the economy needs runs on the board up front, and we think a host of factors are pointing to better headline momentum in Q2 and Q3:

- **The initial large negative impact of the LVR restrictions and tighter credit conditions is behind us.** The volume of nationwide house sales fell more than 16% over the second half of 2016. While turnover still appears to be on a weakening trend, it was down only 3% on December 2016 levels in May. These credit-related factors are still a headwind for growth, but less so.
- **Net exports should perform better.** Net exports have averaged a 1.0%pt drag on quarterly GDP growth over the past three quarters. While that partly reflects strong import growth – in itself a decent signal of the strength of the domestic economy – goods export volumes have fallen 10% over the same period. In fact, primary goods export volumes are at their lowest level since mid-2013. We believe that weakness is temporary, and while it might, in part, be offset by a run-down in inventories, we still expect better export performance to contribute to better headline GDP growth.

FIGURE 1: TOTAL GOODS EXPORTS

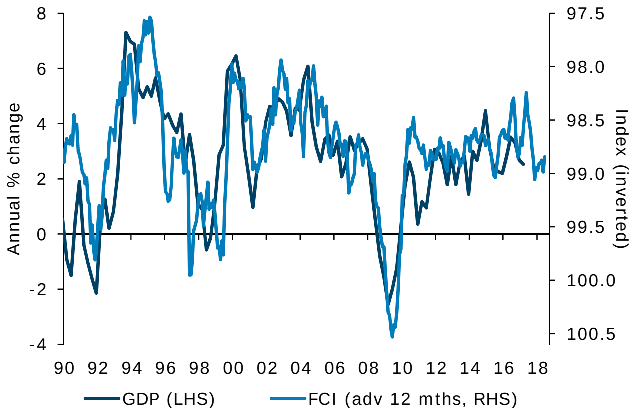


Source: ANZ, Statistics NZ

ECONOMIC OVERVIEW

- **Pastoral production is currently pretty solid after a weak 2H 2016.** In April, milk production was up 7% y/y.
- **Construction activity should bounce.** The construction sector dragged on growth for the first time in close to two years in Q1. That was driven by across-the-board weakness, with perhaps poor weather impacting on work done here too. While we are a little cautious regarding the near-term residential growth outlook given capacity and capital constraints, the pipeline of non-residential and infrastructure work remains large and should be growth-supportive.
- **Financial conditions still look reasonable.** Admittedly, conditions are tighter than they were 12 months ago, with the stronger NZD, modestly higher interest rates, and small falls in house prices contributing. However, the strength in the terms of trade has provided a clear offset.

FIGURE 2: FINANCIAL CONDITIONS AND GDP



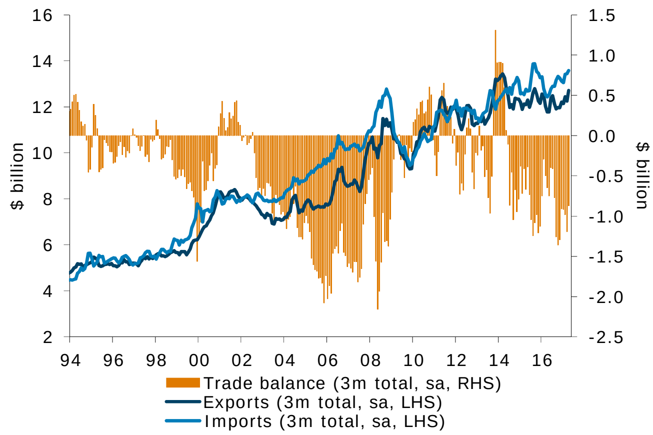
Source: ANZ, Statistics NZ, Bloomberg

- **The British and Irish Lions rugby tour should be a boon for the tourism and hospitality sectors.** There was a clear positive impact seen last time around (2005). And unlike during the 2011 Rugby World Cup, where the positive impact (which should have been larger) arguably wasn't as noticeable, it doesn't appear as though New Zealanders have taken a month off work for this event!
- **The boost from commodity prices will start to diffuse.** The anecdotes out of the likes of the recent Fieldays event were generally positive, with farmers more willing to open their wallets. Not only is cyclical expenditure reportedly rising again, but money is being spent on deferred capex.
- **'Soft' gauges are still providing a strong signal.** Consumer confidence has lifted and our concurrent Truckometer is pointing to a decent lift in activity over Q2. Our overall confidence composite has lifted again, and is pointing to GDP growth picking up over 4%. We don't buy into that magnitude, but directionally the signal is clear.

So overall, we are still believers in the domestic economic picture. In fact, we see average quarterly GDP growth of 0.9% q/q in Q2 and Q3, with annual growth holding broadly around 3% out until the end of 2018. That is a pace at which that we believe spare capacity will continue to be gradually absorbed.

Turning to the week ahead, overseas trade figures for May should continue to show some underlying improvement. We have pencilled in an unadjusted trade surplus of $710 million. A good end of summer and early autumn for most dairy farmers lifted milk flow, which will result in higher volumes of dairy exports. There is still some anticipated catch-up in meat volumes to occur after a slow start. Forestry offtake reportedly remains solid despite wetter conditions. A capped NZD TWI and generally higher commodity prices (ANZ Commodity Price Index: +23.7% y/y, excluding dairy +10.2%) should also support export earnings. The other area of support remains capped oil prices and household restraint resulting in only modest growth in consumption goods imports (perhaps outside of motor vehicles). So it is likely the annual trade deficit will continue to narrow over the months ahead.

FIGURE 3: OVERSEAS MERCHANDISE TRADE



Source: ANZ, Statistics NZ

New residential mortgage lending for May could perhaps show some stabilisation at a lower level. We estimate that new lending plunged 13% m/m in April, consistent with the 12% m/m drop seen in the value of housing turnover in the month. Poor weather and the timing of Easter were at least partly blamed for the weakness. The latest REINZ figures did show turnover recovering in May, but only by around 4%, so while that could correspond with a lift in new mortgage lending, we suspect it will only

ECONOMIC OVERVIEW

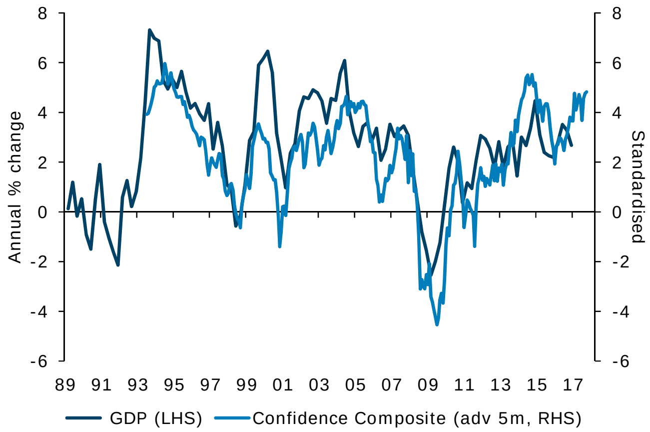
be a small one. We also suspect that the composition of new lending will continue to shift away from investors. In April, new investor lending was down 48% y/y, making up just 25% of total lending. That is down from 34% 12 months prior.

FIGURE 4: HOUSING TURNOVER VS NEW MORTGAGE LENDING

Source: ANZ, REINZ, RBNZ

Our June Business Outlook survey will once again provide a timely signal on economic momentum. And recently that signal has been a decent one, with important activity gauges within the survey (own activity, employment and investment expectations) all remaining at historically strong levels. To be fair, there has been some divergence between the signal provided by the likes of this survey with actual 'hard' economic data, like the recent GDP figures. However, we believe weakness in the latter is largely temporary and still retain faith that the positive signal from 'soft' data should not be discounted.

FIGURE 5: HOUSING TURNOVER VS NEW MORTGAGE LENDING

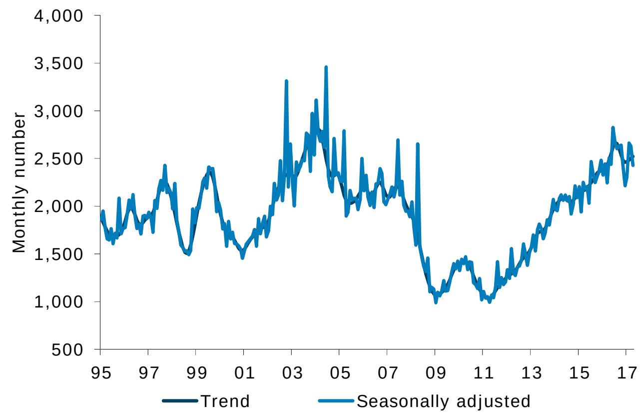


Source: ANZ, Statistics NZ

Some recovery in May building consent issuance is likely. Dwelling consent issuance fell 7.6% m/m in April, with Statistics NZ noting the reduced number of processing days (due to Easter) had some impact on the figures. If that is correct, then there should be some pay-back in May. That said, the weakness in April continues a trend evident for some time now whereby issuance has struggled to push much above the highs seen in mid-2016. At around 2.5k in April, monthly seasonally adjusted issuance is in line with its average over the past 12 months.

The sector is grappling with two clear opposing forces. The demand backdrop is clear, with a housing shortage (at least in Auckland) and strong population growth requiring ongoing lifts in housing supply. However, that supply response is being challenged by capacity and capital constraints in the construction industry. It leaves us a little cautious about expecting much of a lift in residential investment over the quarters ahead.

FIGURE 6: MONTHLY DWELLING CONSENT ISSUANCE



Source: ANZ, Statistics NZ

LOCAL DATA

ANZ Roy Morgan Consumer Confidence – June. The headline index lifted from 123.9 to 127.8.

GlobalDairyTrade Auction. The GDT-TWI eased 0.8%, with whole milk powder prices falling 3.3%.

International Travel and Migration – May. A seasonally adjusted net migrant inflow of 5,910 was seen, with visitor arrivals falling 3.0% m/m.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates continue to range-trade, having largely shrugged off the RBNZ's OCR Review, which reiterated the Bank's very neutral view. We believe the balance of risks remains skewed mildly to the downside given the carry on offer, but the bias is slight and we are mindful of how tight the bellwether 2 year swap is to its Australian equivalent, which has drawn a near-term line under the short end. Long-end rates continue to dance to a global tune. With the US 10 year Treasury bond yield back at the year's lows, inflation faltering and PMI measures looking like they are rolling over, the risk is we see yields move lower yet. With the Fed poised to trim its balance sheet this year (potentially supplanting hikes), we'd expect this to have more of an impact on equities, keeping a lid on bond yields. Inflation-linked bonds will remain challenged given the softer global inflation pulse.

THEMES

- Short-end rates are struggling to move lower in the wake of elevated Australian rates and higher BKBM rates, but remain under mild gravitational pull lower from carry. Near term, expect stability.
- The Moody's downgrade of Australian bank credit ratings has not had an impact on bank funding spreads, but if nervousness does creep in, that will likely elongate the period of policy stability.
- Downside inflation surprises in the US and Canada and signs that PMIs are rolling over in Europe have come just as their central banks have stiffened their tone. The data is not bearish for bonds.
- US markets have backed away from expectations of a Fed hike, with a 'full' hike not priced in until mid-2018. Amid plans for balance sheet reduction, the bigger question is; which asset markets will be more affected by reduced liquidity?

MONETARY POLICY AND SHORT END

Short-end rates continue to range-trade, and although we don't see much prospect of movement in the near term, **the balance of risks is skewed more to the downside than the upside.** The major obstacles standing in the way of lower rates are (1) the lack of prospects for an OCR cut any time soon; (2) respectable economic data; (3) the 'tightness' of NZ/AU and NZ/US 2 year spreads; and (4) the recent widening in the bills/OIS spread. The latter two are technical, but they need to be respected by the market, even if the drivers of them (especially the fourth one) are murky.

However, this is offset by a number of qualitative or 'background' considerations that are biasing rates lower. These include the softening of the global inflation pulse (which will have downside implications for policy rates everywhere); the potential for policy to remain on hold for longer if bank funding markets tighten up (there is no sign of this yet, but the market is somewhat on edge); and carry. **Carry has been a consideration for a long time, and while nothing has changed in that respect, with policy rates on hold it is expensive to retain a short, and appealing to be long.**

GLOBAL MARKETS AND LONG END

NZ long-end rates continue to range-trade too, with the only 'new news' this week being the idea that **a showdown of sorts is looming in the US market, which has the potential to drag down rates here.** The yield on the US 10 year Treasury bond sits around 2.14%, which is within a couple of points of the year's lows. Markets have backed away from the idea of further Fed hikes this year, and if we see any further disappointment on the inflation front, or weaker oil prices, there is scope for a break lower.

Stepping back from the cut and thrust of short-term moves or technical factors – **the bigger question is; how will long bonds react to the Fed's plans to reduce its balance sheet? We think the impact will be more heavily felt by equities, especially if the Fed delays rate hikes as we expect. That's hardly bearish for bonds**, especially with inflation still well below target in the US, Canada, Europe and Japan.

Low oil prices continue to weigh on linkers, with BEIs moving further down last week. 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 but higher BKBM & elevated AU rates weighing.
Long end	Neutral/bullish	Bullish NZ on spread, and outlook for outright rates better after FOMC. Global inflation still surprising lower.
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 10yr spread has turned but still 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

It's a case of higher highs, with the RBNZ's soft jawboning, softening global inflation and PMIs, and carry into the Northern Hemisphere summer all supporting NZD strength. However, we're wary chasing strength from current levels given a notable surge in positioning, a prospective turn in the liquidity cycle, and uncertain prospects for global growth in a world beset by policy uncertainty.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Positioning leaves us wary of chasing	Turn in liquidity cycle = USD eventually up
NZD/AUD	↔	More neutral at 0.96	Favour strength
NZD/EUR	↔	ECB sticking to their script	Europe needs structural reform + ECB to signal unwind
NZD/GBP	↔	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

- Global PMIs show signs of growth peaking / rolling over. Oil enters a bear market phase – albeit with little contagion to date. Eyes are on credit spreads.
- With inflation rolling over, it looks more about reducing the balance sheet for the Fed and less about rate hikes.
- Tension remains for a transition from a 'liquidity' to 'growth' mantra for asset markets.
- Build-up in NZD long positions, with carry favoured heading into Northern Hemisphere summer.
- Softer tone of RBNZ jawboning towards lower NZD is taken as a green light for strength.

ASSESSMENT

We view the NZD as extended around current levels, with risks slightly more to the downside.

NZD positioning has surged as the market continues to chase higher highs. In the week ended 20 June there was a shift of NZD3.9 billion to a total of NZD4.3 billion. Maybe it's the start of the carry ride over the Northern Hemisphere summer, accentuated by rolling inflation and peaking PMIs. Volatility is remarkably contained with the VIX at 10. Or perhaps the market is just more settled with the NZD at current levels. Partial indicators are pointing to a solid Q2 result for New Zealand and commodity prices are elevated. It's a powerful backdrop supporting NZD strength. However, when the market is clustered thinking one way, the reverse is often what eventuates. A commodity currency is strengthening and being bid into a global deceleration phase, with PMIs peaking.

We continue to eye two broader themes.

The first is the inevitable turn in the liquidity cycle. The case for further interest rate normalisation is weakening given core inflation measures continue to undershoot and a major driver of headline inflation (oil) has fallen 20% since the start of the year, creating a deflationary pulse. Ordinarily that would see us turn NZD bullish. Rather, attention will increasingly focus squarely on central banks (notably the Fed in the first instance) reducing balance sheets as the mechanism to cool financial stability risks. That means a turn in the credit pulse. Volatility is the endgame and that's NZD negative.

The second is prospects for global growth in a world beset by policy uncertainty as the resentment vote reshapes economic direction. When policy uncertainty is high, the time-value option for firms is in waiting to put cash to work. Investment accordingly undershoots. We expect this to manifest in softening economic data and increased volatility, with negative implications for the commodity bloc.

On the local front we're not expecting anything trend shifting. The RBNZ's soft jawboning is the green light for NZD strength. We're eying the trade figures; the surge in commodity prices needs to be matched by an improving trade balance to keep the current account in check. **We expect the pulse to support strength, as opposed to challenge it.**

All up, while we still respect NZ's credentials, we are 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	↔/↑	Break up out of 0.95/0.96 range bullish.
Sentiment	↔/↓	Wary of NZD positioning.
Other	↑	China and commodities vulnerable still.
On balance	↔	**Looks settled at around 0.96.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔	CPI challenging Fed's dot-plots.
Commodities	↔	Soft commodity move has now peaked.
Risk aversion	↔/↓	Watching the liquidity cycle.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔	The upward trading range is still intact; but momentum is slowing and positioning leaves us cautious.
Sentiment	↓	Positioning is massively long NZD.
Other	↔/↑	Politics and policy USD negative.
On balance	↔	**Extended but not obvious a move lower is imminent.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Jun	GE	IFO Business Climate - Jun	114.5	114.6	20:00
	GE	IFO Expectations - Jun	106.4	106.5	20:00
	GE	IFO Current Assessment - Jun	123.2	123.2	20:00
	UK	BBA Loans for House Purchase - May	40250	40750	20:30
27-Jun	US	Durable Goods Orders - May P	-0.6%	-0.8%	00:30
	US	Durables Ex Transportation - May P	0.4%	-0.5%	00:30
	US	Cap Goods Orders Nondef Ex Air - May P	0.3%	0.1%	00:30
	US	Cap Goods Ship Nondef Ex Air - May P	0.3%	0.1%	00:30
	US	Chicago Fed Nat Activity Index - May	0.20	0.49	00:30
	US	Dallas Fed Manf. Activity - Jun	16.0	17.2	02:30
	NZ	Trade Balance NZD - May	419M	578M	10:45
	NZ	Exports NZD - May	4.93B	4.75B	10:45
	NZ	Imports NZD - May	4.48B	4.17B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - May	-3398M	-3481M	10:45
	AU	ANZ-RM Consumer Confidence Index - 25-Jun	--	112.4	11:30
	UK	CBI Retailing Reported Sales - Jun	2	2	22:00
	UK	CBI Total Dist. Reported Sales - Jun	15	18	22:00
28-Jun	US	S&P CoreLogic CS 20-City MoM SA - Apr	0.50%	0.87%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - Apr	5.90%	5.89%	01:00
	US	Conf. Board Consumer Confidence - Jun	116.0	117.9	02:00
	US	Richmond Fed Manufact. Index - Jun	7	1	02:00
	GE	Import Price Index MoM - May	-0.6%	-0.1%	18:00
	GE	Import Price Index YoY - May	4.6%	6.1%	18:00
	EC	M3 Money Supply YoY - May	5.0%	4.9%	20:00
	US	MBA Mortgage Applications - 23-Jun	--	0.6%	23:00
	UK	Nationwide House PX MoM - Jun	0.0%	-0.2%	28 Jun - 4 Jul
	UK	Nationwide House Px NSA YoY - Jun	1.9%	2.1%	28 Jun - 4 Jul
29-Jun	US	Advance Goods Trade Balance - May	-$66.0B	-$67.1B	00:30
	US	Wholesale Inventories MoM - May P	0.2%	-0.5%	00:30
	US	Pending Home Sales MoM - May	0.8%	-1.3%	02:00
	US	Pending Home Sales NSA YoY - May	--	-5.4%	02:00
	JN	Retail Sales MoM - May	-1.0%	1.4%	11:50
	JN	Retail Trade YoY - May	2.8%	3.2%	11:50
	NZ	ANZ Activity Outlook - Jun	--	38.3	13:00
	NZ	ANZ Business Confidence - Jun	--	14.9	13:00
	AU	HIA New Home Sales MoM - May	--	0.80%	13:00
	AU	Job vacancies - May	--	1.80%	13:30
	GE	GfK Consumer Confidence - Jul	10.4	10.4	18:00
	UK	Net Consumer Credit - May	£1.4B	£1.5B	20:30
	UK	Net Lending Sec. on Dwellings - May	£2.6B	£2.7B	20:30
	UK	Mortgage Approvals - May	64.0k	64.6k	20:30
	UK	Money Supply M4 MoM - May	--	1.2%	20:30
	UK	M4 Money Supply YoY - May	--	8.2%	20:30
	UK	M4 Ex IOFCs 3M Annualised - May	--	5.6%	20:30
	EC	Economic Confidence - Jun	109.5	109.2	21:00
	EC	Business Climate Indicator - Jun	0.93	0.90	21:00
	EC	Industrial Confidence - Jun	2.8	2.8	21:00
	EC	Services Confidence - Jun	12.8	13.0	21:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
29-Jun	EC	Consumer Confidence - Jun F	-1.3	-1.3	21:00
	CH	BoP Current Account Balance - Q1 F	--	$19.0B	UNSPECIFIED
30-Jun	GE	CPI MoM - Jun P	0.0%	-0.2%	00:00
	GE	CPI YoY - Jun P	1.4%	1.5%	00:00
	GE	CPI EU Harmonized MoM - Jun P	0.0%	-0.2%	00:00
	GE	CPI EU Harmonized YoY - Jun P	1.3%	1.4%	00:00
	US	GDP Annualized QoQ - Q1 T	1.2%	1.2%	00:30
	US	Personal Consumption - Q1 T	0.6%	0.6%	00:30
	US	GDP Price Index - Q1 T	2.2%	2.2%	00:30
	US	Core PCE QoQ - Q1 T	2.1%	2.1%	00:30
	US	Initial Jobless Claims - 24-Jun	240k	241k	00:30
	US	Continuing Claims - 17-Jun	1932k	1944k	00:30
	NZ	Building Permits MoM - May	--	-7.6%	10:45
	UK	GfK Consumer Confidence - Jun	-7	-5	11:01
	JN	Natl CPI YoY - May	0.5%	0.4%	11:30
	JN	Natl CPI Ex Fresh Food YoY - May	0.4%	0.3%	11:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - May	0.1%	0.0%	11:30
	JN	Tokyo CPI YoY - Jun	0.3%	0.2%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Jun	0.2%	0.1%	11:30
	JN	Tokyo CPI Ex-Fresh Food, Energy YoY - Jun	0.1%	0.0%	11:30
	JN	Industrial Production MoM - May P	-3.0%	4.0%	11:50
	JN	Industrial Production YoY - May P	6.8%	5.7%	11:50
	CH	Manufacturing PMI - Jun	51.0	51.2	13:00
	CH	Non-manufacturing PMI - Jun	--	54.5	13:00
	AU	Private Sector Credit MoM - May	0.4%	0.4%	13:30
	AU	Private Sector Credit YoY - May	5.0%	4.9%	13:30
	GE	Retail Sales MoM - May	0.3%	-0.2%	18:00
	GE	Retail Sales YoY - May	2.8%	-0.9%	18:00
	GE	Unemployment Change (000's) - Jun	-10k	-9k	19:55
	GE	Unemployment Claims Rate SA - Jun	5.7%	5.7%	19:55
	UK	Current Account Balance - Q1	-£16.7B	-£12.1B	20:30
	UK	GDP QoQ - Q1 F	0.2%	0.2%	20:30
	UK	GDP YoY - Q1 F	2.0%	2.0%	20:30
	UK	Index of Services MoM - Apr	0.2%	0.2%	20:30
	UK	Index of Services 3M/3M - Apr	0.3%	0.2%	20:30
	UK	Total Business Investment QoQ - Q1 F	--	0.6%	20:30
	UK	Total Business Investment YoY - Q1 F	--	0.8%	20:30
	EC	CPI Estimate YoY - Jun	1.2%	1.4%	21:00
	EC	CPI Core YoY - Jun A	1.0%	0.9%	21:00
1-Jul	US	Personal Income - May	0.3%	0.4%	00:30
	US	Personal Spending - May	0.1%	0.4%	00:30
	US	PCE Deflator MoM - May	-0.1%	0.2%	00:30
	US	PCE Deflator YoY - May	1.5%	1.7%	00:30
	US	PCE Core MoM - May	0.1%	0.2%	00:30
	US	PCE Core YoY - May	1.4%	1.5%	00:30
	US	Chicago Purchasing Manager - Jun	58.0	59.4	01:45
	US	U. of Mich. Sentiment - Jun F	94.5	94.5	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

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 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.
Tue 27 June (3:00pm)	RBNZ New Mortgage Lending – May	Small lift	A small lift in new lending is possible, which would be consistent with slightly higher housing turnover in the month
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.
Tue 4 Jul (3:00pm)	RBNZ Sectoral Lending – May	Still cooling	We expect overall private sector credit growth to continue to moderate. We'd be looking for deposit growth to rise further.
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.
Mon 17 Jul (10:30am)	BNZ-BusinessNZ PSI – Jun	Strong	The services sector continues to benefit from strong population growth.
Tue 18 Jul (10:45am)	CPI – Q2	0.3% q/q	There are plenty of moving parts at present, but petrol prices do look set to be a drag.
Wed 19 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.
Fri 21 Jul (10:45am)	International Travel & Migration – Jun	No change	Net migrant arrivals will remain historically elevated. Visitor arrivals should be strong, given Lions rugby tour.
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)	-3.1	**-3.1**	**-3.0**	**-3.0**	**-2.6**	**-2.5**	**-2.6**	**-2.6**	**-2.6**	**-2.6**
Terms of Trade (% qoq)	5.1	**1.5**	**0.0**	**-1.1**	**-1.0**	**-0.7**	**0.1**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.7	**11.6**	**12.8**	**5.5**	**-0.6**	**-2.8**	**-2.6**	**-1.5**	**-0.4**	**0.4**

	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Retail ECT (% mom)	1.9	0.5	0.0	0.1	2.4	-0.4	-0.3	0.9	-0.4	--
Retail ECT (% yoy)	6.1	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2	--
Credit Card Billings (% mom)	2.9	2.8	-4.1	3.1	0.4	-1.3	1.0	1.0	0.9	--
Credit Card Billings (% yoy)	8.3	10.1	4.1	8.5	7.1	5.3	7.3	6.5	7.6	--
Car Registrations (% mom)	-3.9	13.2	2.9	-6.4	1.6	0.5	3.6	-2.6	3.6	--
Car Registrations (% yoy)	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7	--
Building Consents (% mom)	1.0	0.4	-8.4	-8.4	4.1	15.4	-1.2	-7.6	--	--
Building Consents (% yoy)	17.0	14.0	2.2	-10.7	-0.9	8.9	17.1	-3.1	--	--
REINZ House Price Index (% yoy)	12.4	14.5	14.4	13.8	12.8	11.9	9.9	7.8	5.0	--
Household Lending Growth (% mom)	0.7	0.6	0.6	0.7	0.5	0.5	0.5	0.5	--	--
Household Lending Growth (% yoy)	8.7	8.7	8.6	8.8	8.7	8.5	8.4	8.0	--	--
ANZ Roy Morgan Consumer Conf.	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9	127.8
ANZ Business Confidence	27.9	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9	--
ANZ Own Activity Outlook	42.4	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3	--
Trade Balance ($m)	-1388	-798	-723	-1	-227	-58	277	578	--	--
Trade Bal ($m ann)	51938	51943	51668	51621	51901	52088	52404	52599	--	--
ANZ World Commodity Price Index (% mom)	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	--
ANZ World Comm. Price Index (% yoy)	10.6	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3	--
Net Migration (sa)	6320	6190	6140	5940	6350	5940	6140	5790	5910	--
Net Migration (ann)	69954	70282	70354	70588	71305	71333	71932	71885	71964	--
ANZ Heavy Traffic Index (% mom)	-2.1	-0.6	3.7	-0.3	-0.9	2.0	1.6	-2.1	4.1	--
ANZ Light Traffic Index (% mom)	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	0.728	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.917	0.954	0.962	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.630	0.635	0.650	0.63	0.60	0.60	0.62	0.63	0.63	0.63
NZD/JPY	76.55	78.83	81.02	76.3	75.9	76.2	78.2	78.2	77.1	77.1
NZD/GBP	0.530	0.554	0.572	0.54	0.52	0.54	0.54	0.55	0.54	0.54
NZ$ TWI	73.3	75.4	78.7	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	1.96	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.04	2.78	2.72	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	1.29	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

	23 May	19 Jun	20 Jun	21 Jun	22 Jun	23 Jun
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.93	1.94	1.94	1.96	1.95
NZGB 03/19	1.93	1.95	1.96	1.96	1.96	1.95
NZGB 05/21	2.24	2.19	2.22	2.21	2.21	2.20
NZGB 04/23	2.52	2.46	2.48	2.47	2.47	2.46
NZGB 04/27	2.83	2.77	2.78	2.77	2.76	2.73
2 year swap	2.24	2.20	2.23	2.21	2.21	2.21
5 year swap	2.76	2.69	2.72	2.70	2.69	2.68
RBNZ TWI	75.85	78.52	78.10	78.19	78.39	78.53
NZD/USD	0.7040	0.7268	0.7252	0.7242	0.7256	0.7285
NZD/AUD	0.9389	0.9547	0.9532	0.9563	0.9621	0.9619
NZD/JPY	78.33	80.65	80.89	80.55	80.75	81.06
NZD/GBP	0.5429	0.5678	0.5724	0.5726	0.5727	0.5727
NZD/EUR	0.6264	0.6486	0.6502	0.6496	0.6498	0.6509
AUD/USD	0.7498	0.7613	0.7609	0.7573	0.7542	0.7568
EUR/USD	1.1239	1.1206	1.1153	1.1150	1.1165	1.1194
USD/JPY	111.26	110.97	111.54	111.23	111.29	111.28
GBP/USD	1.2968	1.2800	1.2670	1.2647	1.2670	1.2718
Oil (US$/bbl)	51.47	44.20	43.23	42.53	42.74	43.01
Gold (US$/oz)	1260.07	1251.41	1246.14	1247.33	1250.77	1256.71
Electricity (Haywards)	7.31	11.70	13.56	14.72	11.71	10.81
Baltic Dry Freight Index	949	848	847	844	855	870
NZX WMP Futures (US$/t)	3220	3140	3130	3000	2950	2950

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