ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

7 February 2017

INSIDE

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MIDDLE OF THE ROAD

ECONOMIC OVERVIEW

While it feels like much has changed since the RBNZ's November decision (and indeed a lot has), we don't think the RBNZ will be ready to embrace a full tightening bias. Yes, it looks like the next move in the OCR is up. Yet with the NZD elevated, global uncertainties remaining, financial conditions tighter (on the back of a higher NZD and retail interest rates), and the RBNZ no doubt not wanting to repeat past policy reversals, caution should prevail. We expect the Bank to deliver a reasonably neutral tone this week. Elsewhere, inflation expectations are likely to rise a tad, while dairy prices could dip again. After prior weakness, we also expect to see bounces in building consents and retail card spending figures.

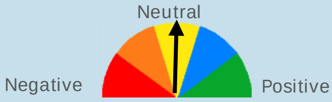
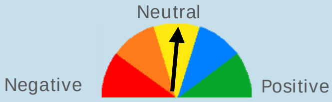
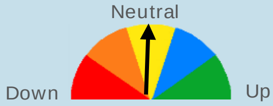
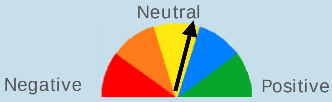
INTEREST RATE STRATEGY

Short-end rates remain elevated vis-à-vis the RBNZ's now dated projections, but markets will get a fresh steer from new projections to be published at the MPS on Thursday. Softer HLFS data last week, higher mortgage rates and the still-elevated NZD are factors that buy the RBNZ time, and while technically the term structure of short-end interest rates should be a tad lower, material corrections are unlikely amid the threat of mortgage-related pay-side flow. Last week's FOMC statement was very neutral, and with US wage growth disappointing (despite a decent non-farm payrolls read), markets are moving to price out odds of a March Fed hike. That leaves US bond yields in something of a holding pattern, with one eye on politics, and the other on the data. But Fed hikes are coming, and longer term, we still expect curves to steepen, led by the long end.

CURRENCY STRATEGY

Reflationary signals from economic data continue to permeate, but there are signs the market is starting to move on, with political risk premiums rising and pro-growth rhetoric needing substance amidst protectionist policy moves. We continue to eye real yields as a barometer for a turn in the liquidity cycle, with no signal apparent yet. Such shifting sands and convoluted signals leave us neutral towards the NZD around current levels as we balance the support factors (growth, political stability and yield) with market price action that looks to be turning less favourable about reflation and more cautious.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q3	The economy is recording decent momentum, and we expect that to generally continue at least over the first part of 2017. Downside risk mainly stems from offshore.	
Unemployment rate	4.7% for 2017 Q3	We are looking through the Q4 lift in the unemployment rate. Job ads firmly point lower. Finding staff is a huge challenge for firms.	
OCR	1.75% by Sep 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	
CPI	1.9% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

While it feels like much has changed since the RBNZ's November decision (and indeed a lot has), we don't think the RBNZ will be ready to embrace a full tightening bias. Yes, it looks like the next move in the OCR is up. Yet with the NZD elevated, global uncertainties remaining, financial conditions tighter (on the back of a higher NZD and retail interest rates), and the RBNZ no doubt not wanting to repeat past policy reversals, caution should prevail. We expect the Bank to deliver a reasonably neutral tone this week. Elsewhere, inflation expectations are likely to rise a tad, while dairy prices could dip again. After prior weakness, we also expect to see bounces in building consents and retail card spending figures.

FORTHCOMING EVENTS

RBNZ Survey of Expectations – Q1 (3:00pm, Tuesday, 7 February). Two-year-ahead inflation expectations are likely to have lifted a touch.

GlobalDairyTrade Auction (early am, Wednesday, 8 February). Prices have weakened modestly over the past month, and we wouldn't be surprised to see another small drop this week.

ANZ Truckometer – January (10:00am, Wednesday, 8 February).

ANZ Monthly Inflation Gauge – January (1:00pm, Wednesday, 8 February).

RBNZ Monetary Policy Statement (9:00am, Thursday, 9 February). The OCR will be left at 1.75%, with the tone of the statement neutral. We doubt the RBNZ is ready to embrace the market's view of late-2017 hikes.

Building Consent Issuance – December (10:45am, Thursday, 9 February). After a sharp drop in November, a bounce is likely.

Electronic Card Transactions – January (10:45am, Monday, 13 February). After two consecutive monthly falls, we have pencilled in a 0.7% m/m lift in total retail spending.

WHAT'S THE VIEW?

There have been plenty of good nuances for the RBNZ since its last policy decision. We have seen continued domestic economic strength, rising headline and underlying inflation (typically a central banks nemesis, but desired now), growing evidence of capacity strains, a better-looking global economy, rising global and local yields, higher commodity prices, a persistently strong NZD (a problem but also a sign of the solid economic backdrop for New Zealand) and of course plenty of political headlines and volatility.

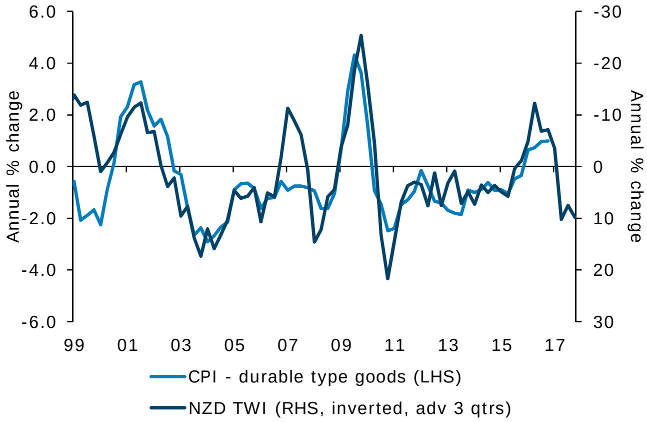
It seems like a lot has changed, and in many ways much has. But the question ahead of the first OCR decision of the year is: has that change been sufficient to alter the RBNZ's views? In November, the RBNZ cut the OCR to an all-time low of 1.75% and projected it to remain there for the foreseeable future, even incorporating within its interest rate projections a small chance of interest rates going even lower.

That soft easing bias is hard to justify now. The market certainly isn't buying it, contemplating interest rate hikes as early as this year. While pricing was pared back a little last week on the Q4 labour market figures and the announcement of a September general election, there is still roughly a full hike priced by November. It's a view for which we have some sympathy.

The (soft) easing bias needs to go, but that doesn't imply a jump to a tightening one is justified – yet.

- **Strong activity growth shouldn't have come as much of a surprise to the RBNZ.** Its forecasts already had annualised GDP growth holding around 4% over the first half of 2017.
- **While the upside surprise in the Q4 CPI and lift in underlying inflation is significant**, when it comes to the Bank's inflation forecasts, this does **need to be balanced against renewed NZD strength** (the TWI is around 4% above its projections) that will weigh on tradable goods prices over the course of 2017. The Federal Reserve might now be helping the RBNZ by lifting rates, but it doesn't help when the President talks the USD down!

FIGURE 1: RETAIL GOODS INFLATION AND NZD



Source: ANZ, Statistics NZ, RBNZ, Bloomberg

- **Wage growth remains stubbornly low.** We believe the labour market is tighter than last week's HLFS figures implied, but the fact that

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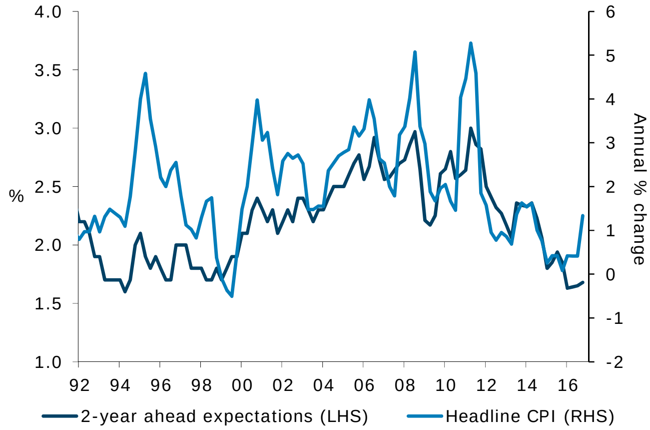
nominal wage growth remains sticky at low levels will not be lost on the RBNZ. It hardly points to domestic inflation racing away.

- **Banks are doing the RBNZ's work for it.** We don't think the RBNZ will be at all unhappy that mortgage and deposit rates have lifted off lows. The effective mortgage rate ended 2016 at 4.86%, but that is likely to be the low, with it set to rise modestly over the course of 2017 as borrowers roll off low fixed mortgage rates. It is still unclear whether the latest LVR restrictions will prove to have a long-lasting impact on the housing market at a time when a demand/supply imbalance still persists, but higher mortgage rates are a headwind the market hasn't faced for some time.
- **Global uncertainties remain.** The RBNZ will no doubt welcome signs of a better global outlook and prospects for more US monetary policy tightening and less easing elsewhere. But there is clearly still enough uncertainty for the Bank to not to count its chickens just yet. Yes, in his December speech Governor Wheeler seemed to take heart from the fact that the trend for ultra-stimulatory central bank policy may be turning, which should take pressure off the NZD. However, USD sentiment has been somewhat fickle of late as markets question what a more isolationist US economy could mean, which suggests the global backdrop is still going to present the RBNZ with plenty of challenges.
- **And let's not forget history.** The RBNZ has had a losing quinella of two tightening cycles since 2009 that ultimately had to be reversed as the threat of higher inflation never transpired. It should be loath to risk a trifecta. To us that means the Bank is more likely to let inflation actually get to 2% (or even above) before responding (the central bank has the tools to cope with that), as opposed to trying to front-run it like it has done before.

We expect the tone of this week's Statement and projections to strike a neutral tone. Forward guidance is likely to be non-committal, reiterating the "numerous uncertainties". The need for the NZD to fall will no doubt be reinforced. And while the Bank's interest rate projection will be lifted a touch, that will be about removing the small implied chance of an additional cut presented in November, with the rate track expected to remain flat overall.

Turning to this week's data, the RBNZ's Survey of Expectations should show a lift in inflation expectations, albeit only a modest one. The two-year-ahead measure, at 1.7%, has effectively been unchanged for the past four quarters (although it has ticked higher at the second decimal point level). But with petrol prices rising, and this now clearly lifting headline inflation too, we'd be surprised if this surveyed measure of inflation expectations did not follow suit and inch closer towards the target mid-point. Other measures, such as market-based estimates and other surveyed-based measures, have certainly been heading in that direction recently.

FIGURE 2: HEADLINE CPI AND INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ, RBNZ

Global dairy prices have softened a touch over the past month, and another modest fall at this week's GDT auction is quite possible. Certainly NZX futures prices are pointing in that direction. That said, any weakness should be seen in the context of the strong gains seen late last year.

While prices will continue to take their lead from European, Chinese and local supply developments, one thing that we have turned our focus to is the increased tension between Mexico and the US. Mexico is the top global importer of skim milk powder (SMP), with most of it (90-95%) sourced from the US. There has been chatter that Mexico has stepped back from buying in part because it is overstocked, but also because of escalating trade tensions with the US and pressure on the peso.

With Mexico accounting for nearly half of US SMP exports, there is going to be increased pressure to shift this into other markets if these political tensions persist. The most likely target will be South-East Asian countries (The US' second-largest market), which are also key markets for New Zealand. The double whammy is that US milk supply and SMP production has been increasing of late. Drought conditions in California have improved and feed costs remain low. This is even more pertinent

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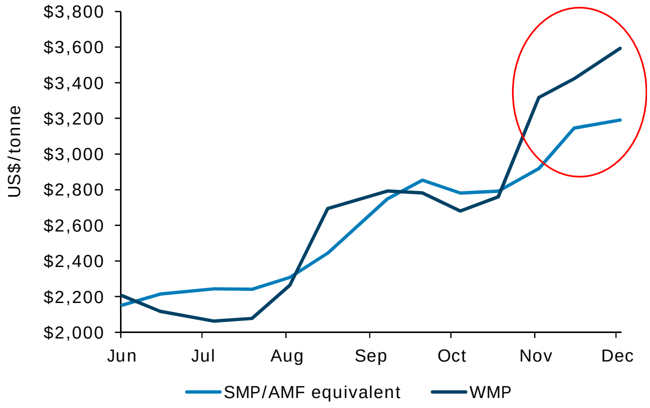
considering New Zealand product has been trading at a significant premium to US and European-sourced product due to lower local seasonal peak supply.

So there are certainly some factors that could weigh on SMP prices over the months ahead. And this matters for whole milk powder (WMP) prices too. They have outperformed the equivalent SMP/milkfat stream of late, which has seen Fonterra increase WMP offered volumes in recent auctions, which in turn has been a factor weighing on WMP prices.

FIGURE 3: WMP VS SMP/AMF EQUIVALENT



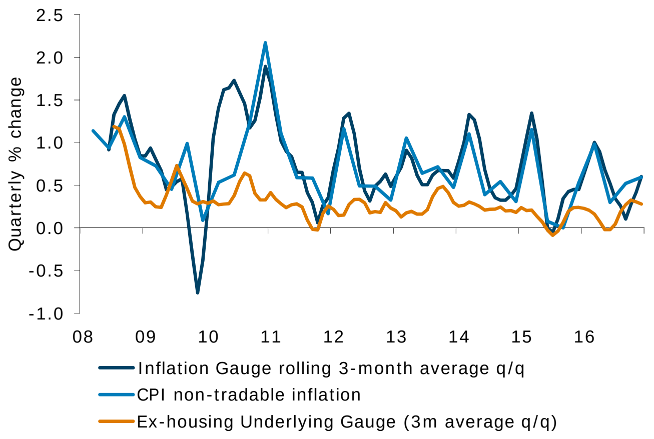
Source: ANZ, GlobalDairyTrade

Two of our key proprietary indicators for January will provide early signals on activity and inflation trends to start 2017.

- **Truckometer:** In December, both the Heavy Traffic and Light Traffic Indexes barely budged, falling 0.1% and rising 0.1% m/m respectively. But the more interesting message is what underlying trends suggest. On a 3-month average basis, the Heavy Traffic Index rose 2.9% over the December quarter, suggesting the economy ended the year with reasonable momentum. However, the Light Traffic Index – which can be thought of as a gauge of future economic momentum – is down 0.6%, which was the first quarterly fall in more than three years. While at face value that sounds stark, in many ways it is consistent with our forecasts that show growth momentum cooling by the end of 2017.

- **Monthly Inflation Gauge:** Prices in the Gauge rose 0.3% in December, to be up 2.3% y/y. And for the quarter as a whole, prices rose 0.6%, which was fully consistent with the subsequent non-tradable data from the Q4 CPI. While price increases within the Gauge continue to be dominated by the housing group, we are beginning to detect increased evidence of broader price pressures. This was also a message from the latest CPI figures. If that were to continue, it would be consistent with greater capacity and resource strains across the economy, which is certainly what we are hearing from front-line anecdotes.

FIGURE 4: MONTHLY INFLATION GAUGE AND NON-TRADABLE CPI



Source: ANZ, Statistics NZ

Building consent figures should show some recovery from November's surprisingly sharp drop. In November, the total number of dwelling consents plunged 9.2% m/m, due largely to an estimated 29% m/m fall in the Wellington region (seasonally adjusted). At the time, we felt this was related to processing disruptions caused by the Kaikoura earthquake, and we had received anecdotes consistent with that notion. However, Statistics NZ has subsequently informed us that the main reason for the drop was in fact volatility associated with apartment or retirement village units in the region. Whatever the cause, it looks temporary, and we see a bounce-back as likely.

We also expect to see some improvement in the value of January Electronic Card Transactions. According to this data, the retail sector had a soggy end to the year, with total retail spending falling 0.1% m/m in both November and December. Core spending fell 0.5% and 0.8% m/m respectively over the same period, and on a three-month average basis grew by just 0.6%, which was the softest quarterly growth since June 2015. While one of our key assumptions is that households continue to show relative restraint, and these figures are fully consistent with that, we still believe that at a time of strong population growth, accelerating labour income growth, and decent levels of consumer confidence, a stronger rate of spending will have kicked off 2017. We have pencilled in a 0.7% m/m lift.

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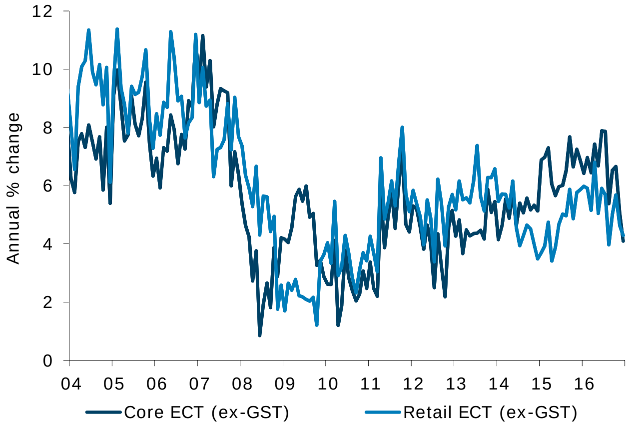
FIGURE 5: ELECTRONIC CARD TRANSACTIONS



Source: ANZ, Statistics NZ

LOCAL DATA

RBNZ New Mortgage Lending – December. New lending was $5.85bn, which is down 2.4% y/y.

International Travel & Migration – December. In seasonally adjusted terms, a net inflow of 6,010 was seen, while visitor arrivals fell 1.3% m/m.

RBNZ Credit Aggregates – December. Total private sector credit grew 0.6% m/m (7.2% y/y).

Labour Market Statistics – Q4. Despite a 0.8% q/q lift in employment, the 0.4%pt increase in the participation rate to 70.5% (plus population growth) lifted the unemployment rate to 5.2%.

ANZ Job Ads – January. Total advertising fell 0.2% m/m, a small breather after 16 consecutive monthly increases.

ANZ Commodity Price Index – January. The world price index dipped 0.1% m/m, while prices fell 1.1% m/m in NZD terms.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates remain elevated vis-à-vis the RBNZ's now dated projections, but markets will get a fresh steer from new projections to be published at the MPS on Thursday. Softer HLFS data last week, higher mortgage rates and the still-elevated NZD are factors that buy the RBNZ time, and while technically the term structure of short-end interest rates should be a tad lower, material corrections are unlikely amid the threat of mortgage-related pay-side flow. Last week's FOMC statement was very neutral, and with US wage growth disappointing (despite a decent non-farm payrolls read), markets are moving to price out odds of a March Fed hike. That leaves US bond yields in something of a holding pattern, with one eye on politics, and the other on the data. But Fed hikes are coming, and longer term, we still expect curves to steepen, led by the long end.

THEMES

- Softer HLFS data has helped contain market nerves after the stronger CPI data, underscoring that with the amount of tightening priced in, the short end will range-trade rather than trend.
- The outlook for the short end is more balanced than it was, with data, the NZD, global markets and politics providing plenty of cross-currents. We expect this week's RBNZ MPS to be neutral.
- Politics continues to overshadow economics across global bond markets, with peripheral (and French) spreads to German bunds rising in Europe. New Zealand stands out against such peers, containing bond spreads here.
- US bond yields are back in a holding pattern for now in the wake of the more neutral FOMC statement and softer wage data, but we still forecast more Fed tightening than is currently priced in. That leaves bond yields biased higher.

MONETARY POLICY AND SHORT END

Softer-than-expected HLFS data last week has seen short-end rates correct a few basis points lower. But the bellwether 2-year swap remains right in the middle of its 2.3% / 2.5% range. This week's RBNZ MPS is likely to underscore a continued period of range trading, acknowledging that while inflation has picked up and the economy is doing well, wage growth remains benign, the NZD remains elevated, housing is cooling and global uncertainties abound. This suggests there is no hurry for the OCR to go higher, especially with mortgage rates moving up.

That said, **while rates do sit above where they ought to be given our OCR forecasts and the expected tone of the MPS, we don't see much scope for them to move materially lower, even if we do see a modest rally on Thursday.** Mortgage paying remains the key threat, with around $145bn of mortgages re-pricing over 2017. With receiving interest more tactical than strategic, **dips are likely to be short, sharp and shallow.**

GLOBAL MARKETS AND LONG END

US long-end rates have drifted lower, succumbing to Trump reflation fatigue, a neutral FOMC statement and softer wages data. Given the news flow, the US bond rally is understandable (and if anything, it has scope to extend further, given extreme short US 10-year bond positioning). However, we'd rather be a strategic seller of rallies than be tactically long, mindful of US fiscal overtones, the longer-term path of Fed policy (upwards), and European politics.

On the latter point, we note that **while the US Treasury note is some 20bps off December's high, European bond yields are around 20bps higher on average.** Political uncertainty is ratcheting higher ahead of elections in a number of countries, adding an upward bias as a higher populist/fiscal/pro-growth risk premium bites. All else equal, that portends higher yields, and while a favourable local political backdrop here will cushion the ride, **the end result will be higher yields and a steeper curve.**

STRATEGY

Investors: We are tactically bullish but prefer to fade the move, looking to get strategically short if we see USTs break below 2.3%. We expect demand for the upcoming 2040 linker to be decent.

Borrowers: No change. BKBM is at a record low, but term interest rates are biased higher. **We believe it makes sense to add to hedges.** But with volatility expected, we prefer to hedge on dips at pre-specified targets. **Rates remain low in the context of the past quarter century** of controlled inflation.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral	RBNZ MPS this week to be more neutral than market pricing. Scope for a small corrective rally, but against the backdrop of significant mortgage-paying potential, we'd be short with 2yr swap around 2.3%.
Long end	Neutral	2.30% also the key figure for the long end (but for USTs). There is glaring technical and tactical scope for a break lower (positioning is extreme), but we still see rates ending the year higher. We prefer to sell rallies.
Yield Curve	Biased steeper	Unlikely to gain traction short term, but should ultimately steepen as global rates rise and OCR on hold.
Geographic spreads	Neutral	'Intuitive' scope to widen short-term given US rally and low beta, but NZ/US spread already elevated just below +100. NZ politics very stable vs Europe/US. RBNZ easing done, but hikes way off, Fed hiking sooner!
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	TWI to remain elevated with NZD particularly strong vs. AUD/EUR/Asia. Will help keep a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

Reflationary signals from economic data continue to permeate, but there are signs the market is starting to move on, with political risk premiums rising and pro-growth rhetoric needing substance amidst protectionist policy moves. We continue to eye real yields as a barometer for a turn in the liquidity cycle, with no signal apparent yet. Such shifting sands and convoluted signals leave us neutral towards the NZD around current levels as we balance the support factors (growth, political stability and yield) with market price action that looks to be turning less favourable about reflation and more cautious.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Local and global data pulse supports	Firmer USD bias ultimately wins.
NZD/AUD	↔	Well bid on dips	Push higher.
NZD/EUR	↔/↑	Politics not euro supportive	Huge growth/politics divide.
NZD/GBP	↔/↑	Near-term Brexit risks elevated	Brexit execution woes weighing.
NZD/JPY	↔	JPY strength re-emerging	Japan a defensive play; US strong too.

THEMES AND RISKS

- The global data pulse continues to firm, adding to the reflation theme. But most data is lagging, not leading.
- There are signs of political risk premiums permeating through bond markets as anti-establishment parties gain traction in Europe.
- Markets are balancing protectionist shifts against pro-growth rhetoric; the latter needs substance to quell rising concerns over the former.
- G3 currencies still being "played" lower by respective central banks and governments.

ASSESSMENT

The reflation thematic that has been reflected in price action continues to manifest in the economic data. US jobs growth is buoyant, manufacturing indicators have picked up, volatility indicators are contained and trade flows across emerging markets have improved.

There are, however, signs the market is starting to move on. A political risk premium is emerging across European bonds (eg wider French and Italian 10-year spreads to German bunds). That is occurring at a time when the inflationary pulse from rising oil prices and broader commodities is close to peaking, and the market's patience waiting for the substance behind US pro-growth rhetoric is starting to be tested amidst a more protectionist stance from the US.

At the same time, FX price action across the G3 continues to be influenced by central bank and central government rhetoric, with no one keen to embrace the notion of currency strength. But they can't all have weaker currencies.

This convoluted backdrop leaves the NZD strong by default. While susceptible to global forces, New Zealand continues to have a lot more knowns than unknowns.

- Domestic growth is strong.
- Core and headline inflation is picking up; with that comes the bias for higher rates.
- Political stability is apparent.
- Fiscal credentials are strong.
- Valuation metrics are not that extended when we eye the terms of trade, commodity prices and modest current account deficit (-2.9% of GDP).

So in the meantime, **the NZD remains well supported, lacking a trigger in the form of a turn in the liquidity cycle** (which our liquidity index is not indicating). While nominal yields have risen globally, real yields have not, and balance sheets continue to expand.

Support will likely get a reality check this week as the RBNZ fails to endorse market pricing, which is factoring in a hike in 2017. We view a shift from a slight easing bias to a tightening one as a step too far for now and expect balanced nuances.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Fair value is 0.93.
Yield	↔	Risk of early OCR hikes already priced.
Commodities	↔	Good for both.
Data	↔/↓	Australian trade data boomer.
Techs	↔/↑	Bottom of upward trend channel.
Sentiment	↔/↑	More in NZD's favour.
Other	↔/↑	NZ growth pulse stronger.
On balance	↔/↑	**To remain elevated in 2017.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair value estimate of ~0.75.
Yield	↔	NZ/US 10y yield spread toppy at ~100.
Commodities	↔	Dairy prices have done their dash.
Risk aversion	↔/↓	Has potential to add to volatility.
Data	↔	Data flow solid in both countries.
Techs	↔/↑	Solid price action, but trading above 0.73 has been sporadic this year.
Sentiment	↔/↑	Dips have been very well supported.
Other	↔	RBNZ won't be happy with TWI here. Expect words to that effect in the MPS
On balance	↔	**Will trade heavily into MPS, but no fundamental reason to expect material correction lower just yet.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
7-Feb	NZ	2Yr Inflation Expectation - Q1	--	1.68%	15:00
	AU	RBA Cash Rate Target - Feb	1.50%	1.50%	16:30
	AU	Foreign Reserves - Jan	--	A$76.1B	18:30
	GE	Industrial Production SA MoM - Dec	0.3%	0.4%	20:00
	GE	Industrial Production WDA YoY - Dec	2.5%	2.2%	20:00
	UK	Halifax House Prices MoM - Jan	0.0%	1.7%	21:30
	UK	Halifax House Price 3Mths/Year - Jan	6.0%	6.5%	21:30
	CH	Foreign Reserves - Jan	$3003.5B	$3010.5B	UNSPECIFIED
8-Feb	US	Trade Balance - Dec	-$45.0B	-$45.2B	02:30
	US	JOLTS Job Openings - Dec	5580	5522	04:00
	US	Consumer Credit - Dec	$20.00B	$24.53B	09:00
	NZ	ANZ Truckometer Heavy MoM - Jan	--	-0.1%	10:00
	JN	BoP Current Account Balance - Dec	¥1183.3B	¥1415.5B	12:50
	JN	BoP Current Account Adjusted - Dec	¥1709.4B	¥1799.6B	12:50
	JN	Trade Balance BoP Basis - Dec	¥738.9B	¥313.4B	12:50
	NZ	ANZ Monthly Inflation Gauge MoM - Jan	--	0.3%	13:00
	CH	BoP Current Account Balance - Q4 P	--	$69.3B	UNSPECIFIED
9-Feb	US	MBA Mortgage Applications - 3-Feb	--	-3.2%	01:00
	NZ	RBNZ Official Cash Rate - Feb	1.75%	1.75%	09:00
	NZ	Building Permits MoM - Dec	--	-9.2%	10:45
	AU	HIA New Home Sales MoM - Dec	--	6.1%	13:00
	UK	RICS House Price Balance - Jan	22%	24%	13:01
	AU	NAB Business Confidence - 4Q	--	5	13:30
	GE	Trade Balance - Dec	€20.5B	€22.7B	20:00
	GE	Current Account Balance - Dec	€24.8B	€24.6B	20:00
	GE	Exports SA MoM - Dec	-1.3%	3.9%	20:00
	GE	Imports SA MoM - Dec	-1.1%	3.5%	20:00
10-Feb	US	Initial Jobless Claims - 4-Feb	249k	246k	02:30
	US	Continuing Claims - 28-Jan	2058k	2064k	02:30
	US	Wholesale Trade Sales MoM - Dec	--	0.4%	04:00
	US	Wholesale Inventories MoM - Dec F	1.0%	1.0%	04:00
	JN	PPI MoM - Jan	0.2%	0.6%	12:50
	JN	PPI YoY - Jan	0.0%	-1.2%	12:50
	AU	Home Loans MoM - Dec	1.0%	0.9%	13:30
	AU	Investment Lending - Dec	--	4.9%	13:30
	AU	Owner-Occupier Loan Value MoM - Dec	--	0.4%	13:30
	UK	Visible Trade Balance GBP/Mn - Dec	-£11450	-£12163	22:30
	UK	Trade Balance Non EU GBP/Mn - Dec	-£3300	-£3577	22:30
	UK	Trade Balance - Dec	-£3500	-£4167	22:30
	UK	Industrial Production MoM - Dec	0.2%	2.1%	22:30
	UK	Industrial Production YoY - Dec	3.2%	2.0%	22:30
	UK	Manufacturing Production MoM - Dec	0.5%	1.3%	22:30
	UK	Manufacturing Production YoY - Dec	1.7%	1.2%	22:30
	UK	Construction Output SA MoM - Dec	1.0%	-0.2%	22:30
	UK	Construction Output SA YoY - Dec	-0.5%	1.5%	22:30
	CH	Imports YoY - Jan	10.0%	3.1%	UNSPECIFIED
	CH	Exports YoY - Jan	3.2%	-6.2%	UNSPECIFIED
	CH	Trade Balance - Jan	$49.00B	$40.71B	UNSPECIFIED

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Feb	CH	Money Supply M2 YoY - Jan	11.3%	11.3%	10-15 Feb
	CH	Money Supply M1 YoY - Jan	20.4%	21.4%	10-15 Feb
	CH	Money Supply M0 YoY - Jan	9.5%	8.1%	10-15 Feb
	CH	New Yuan Loans CNY - Jan	2440.0B	1040.0B	10-15 Feb
	CH	Aggregate Financing CNY - Jan	3000.0B	1626.0B	10-15 Feb
	NZ	REINZ House Sales YoY - Jan	--	-10.7%	10-15 Feb
11-Feb	US	Import Price Index MoM - Jan	0.2%	0.4%	02:30
	US	Import Price Index YoY - Jan	3.3%	1.8%	02:30
	UK	NIESR GDP Estimate - Jan	--	0.5%	04:00
	US	U. of Mich. Sentiment - Feb P	97.8	98.5	04:00
	US	Monthly Budget Statement - Jan	$43.0B	-$27.5B	08:00

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, with downside risks mainly stemming from offshore. With inflation showing clearer signs of lifting, the OCR is on hold, although risks of hikes later this year are non-trivial.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 7 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Ticking up	With headline inflation having lifted off lows, we suspect inflation expectations will tick higher also.
Wed 8 Feb (early am)	GlobalDairyTrade Auction	Consolidating	After some strong price gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
Wed 8 Feb (10:00am)	ANZ Truckometer – Jan	--	--
Wed 8 Feb (1:00pm)	ANZ Monthly Inflation Gauge – Jan	--	--
Thu 9 Feb (9:00am)	RBNZ Monetary Policy Statement	On hold	The conditions justifying an easing bias are no longer as pronounced. While the RBNZ will emphasise that uncertainty is high, we suspect it will shift towards a more neutral stance.
Thu 9 Feb (10:45am)	Building Consents Issued – Dec	Flattening	Positive tailwinds remain, but we believe that capital and capacity constraints will increasingly cap the upside.
10-17 Feb	REINZ Housing Market Statistics – Jan	Stabilised	The housing market has cooled from its strong mid-2016 pace. We expect it to stabilise around this cooler level.
Mon 13 Feb (10:45am)	Electronic Card Transactions – Jan	Bounce	Spending was surprisingly soft to end the year. We wouldn't be surprised to see a bounce.
Tue 14 Feb (10:45am)	Food Price Index – Jan	Still low	While some indicators point to higher future food price inflation, price growth looks set to stay low in the near term.
Thu 16 Feb (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Feb	--	--
Fri 17 Feb (10:00am)	Government Financial Statements – Dec	Ahead	The strong domestic economy should continue to see tax revenue run ahead of forecasts.
Fri 17 Feb (10:30am)	BNZ-BusinessNZ PMI – Jan	Holding up	The manufacturing sector continues to perform relatively well, riding on the coat-tails of a strong domestic economy.
Fri 17 Feb (10:45am)	Retail Trade Survey – Q4	Step down	After a decent pace of spending growth in Q2 and Q3, we expect a more modest rate to end the year.
Mon 20 Feb (10:00am)	BNZ-BusinessNZ PSI – Jan	Decent	While some pull-back is possible, we see the services sector's outperformance continuing for a while yet.
Mon 20 Feb (10:45am)	PPI – Q4	Off lows	With commodity and consumer prices lifting, producing prices shouldn't be too far behind.
Wed 22 Feb (early am)	GlobalDairyTrade Auction	Consolidating	After some strong price gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
Mon 27 Feb (10:45am)	International Travel & Migration – Jan	More of the same	Net migrant inflows remain strong and it is hard to see that changing much any time soon.
Tue 28 Feb (10:45am)	Overseas Merchandise Trade – Jan	Small surplus	A small trade surplus is expected on the back of stronger export commodity prices
Tue 28 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Tue 28 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Slowing	Annual credit growth is likely to keep easing off highs, while deposit growth should continue to accelerate.
Wed 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Up	The terms of trade are expected to record a modest lift.
Fri 3 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Fri 3 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation is showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (% qoq)	1.1	**0.7**	**0.9**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
GDP (% yoy)	3.5	**3.2**	**3.4**	**3.5**	**3.2**	**3.1**	**2.8**	**2.5**	**2.2**	**2.1**
CPI (% qoq)	0.3	0.4	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**	**0.1**
CPI (% yoy)	0.4	1.3	**1.7**	**1.7**	**1.9**	**1.7**	**2.1**	**2.2**	**2.2**	**2.0**
Employment (% qoq)	1.3	0.8	**0.7**	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	6.1	5.8	**5.2**	**3.4**	**2.5**	**2.1**	**1.8**	**1.6**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.9	5.2	**5.0**	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**
Current Account (% GDP)	-2.9	**-2.9**	**-3.0**	**-3.1**	**-3.1**	**-3.2**	**-3.2**	**-3.2**	**-3.2**	**-3.2**
Terms of Trade (% qoq)	-1.6	**0.5**	**0.8**	**1.0**	**0.8**	**0.6**	**0.3**	**0.5**	**0.0**	**0.0**
Terms of Trade (% yoy)	-1.6	**0.9**	**-2.4**	**0.6**	**3.0**	**3.2**	**2.7**	**2.1**	**1.4**	**0.8**

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Retail ECT (% mom)	0.8	-0.3	1.2	0.2	-1.2	1.9	0.5	-0.1	-0.1	--
Retail ECT (% yoy)	7.8	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8	--
Credit Card Billings (% mom)	2.8	-0.4	-0.9	2.5	-0.9	2.9	3.0	-4.2	3.1	--
Credit Card Billings (% yoy)	9.0	6.1	4.1	5.6	2.2	8.3	10.1	4.1	8.5	--
Car Registrations (% mom)	6.8	-4.1	-0.8	-0.1	2.6	-3.9	12.7	3.4	-6.1	1.5
Car Registrations (% yoy)	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2
Building Consents (% mom)	7.8	-0.3	15.8	-4.4	-3.0	-0.8	2.0	-9.2	--	--
Building Consents (% yoy)	13.7	10.2	39.4	7.9	11.9	14.0	14.0	1.5	--	--
REINZ House Price Index (% yoy)	14.5	14.7	14.2	16.3	11.7	9.7	14.4	14.9	13.5	--
Household Lending Growth (% mom)	0.8	0.7	0.8	0.8	0.8	0.8	0.6	0.6	0.7	--
Household Lending Growth (% yoy)	7.9	8.1	8.3	8.6	8.7	8.8	8.7	8.6	8.7	--
ANZ Roy Morgan Consumer Conf.	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7
ANZ Business Confidence	6.2	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7	--
ANZ Own Activity Outlook	32.1	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6	--
Trade Balance ($m)	350	343	107	-351	-1240	-1388	-799	-746	-41	--
Trade Bal ($m ann)	52626	52854	52660	52078	51900	51938	51944	51669	51627	--
ANZ World Commodity Price Index (% mom)	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7	-0.1
ANZ World Comm. Price Index (% yoy)	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	19.1
Net Migration (sa)	5540	5600	5750	5680	5670	6330	6210	6190	6010	--
Net Migration (ann)	68110	68432	69090	69015	69119	69954	70282	70354	70588	--
ANZ Heavy Traffic Index (% mom)	-2.4	-2.5	5.2	-6.3	7.2	-2.3	-0.4	3.8	-0.1	--
ANZ Light Traffic Index (% mom)	0.2	-1.4	2.7	-0.6	1.0	-1.6	-2.1	1.7	0.1	--

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	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.693	0.728	0.732	0.69	0.67	0.65	0.64	0.64	0.65	0.65
NZD/AUD	0.962	0.964	0.956	0.93	0.93	0.93	0.94	0.97	0.98	0.94
NZD/EUR	0.659	0.680	0.681	0.67	0.66	0.64	0.64	0.64	0.62	0.62
NZD/JPY	81.10	82.80	81.83	79.4	77.1	74.8	73.6	73.6	74.8	74.8
NZD/GBP	0.562	0.585	0.587	0.57	0.55	0.54	0.54	0.52	0.52	0.52
NZ$ TWI	76.1	78.3	79.7	75.6	74.1	72.5	72.1	72.4	72.5	71.8
INTEREST RATES	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	2.00	1.99	2.03	2.00	2.00	2.00	2.00	2.20	2.30	2.50
NZ 10-yr bond	3.33	3.37	3.33	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	1.00	1.03	1.03	1.13	1.20	1.33	1.45	1.60	1.75	2.00
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	1.82	1.77	1.77	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	3 Jan	30 Jan	31 Jan	1 Feb	2 Feb	3 Feb
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.00	1.97	1.97	1.97	1.97	1.97
NZGB 03/19	2.26	2.34	2.31	2.29	2.29	2.27
NZGB 05/21	2.67	2.75	2.71	2.70	2.72	2.71
NZGB 04/23	2.95	3.04	3.00	2.98	3.01	3.00
NZGB 04/27	3.33	3.41	3.37	3.35	3.38	3.39
2 year swap	2.46	2.44	2.45	2.43	2.42	2.41
5 year swap	3.04	3.05	3.09	3.07	3.07	3.07
RBNZ TWI	77.77	79.63	79.76	79.64	79.57	79.57
NZD/USD	0.6920	0.7259	0.7277	0.7292	0.7309	0.7315
NZD/AUD	0.9607	0.9607	0.9636	0.9601	0.9531	0.9525
NZD/JPY	81.84	83.18	82.80	82.62	82.12	82.37
NZD/GBP	0.5636	0.5790	0.5853	0.5775	0.5777	0.5860
NZD/EUR	0.6656	0.6789	0.6800	0.6750	0.6761	0.6784
AUD/USD	0.7203	0.7556	0.7552	0.7595	0.7669	0.7680
EUR/USD	1.0397	1.0693	1.0701	1.0803	1.0810	1.0783
USD/JPY	118.26	114.59	113.78	113.30	112.36	112.61
GBP/USD	1.2278	1.2537	1.2433	1.2626	1.2652	1.2484
Oil (US$/bbl)	53.75	52.38	52.38	52.38	52.38	52.38
Gold (US$/oz)	1157.31	1204.49	1204.49	1204.49	1204.49	1204.49
Electricity (Haywards)	3.77	5.06	6.55	5.75	6.75	4.82
Baltic Dry Freight Index	953	816	800	786	770	752
NZX WMP Futures (US$/t)	--	3320	3250	3235	3210	3210

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