NEW ZEALAND ECONOMICS
MARKET FOCUS

19 September 2016

INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com
Twitter @ANZ_cambagrie

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
Email: Philip.Borkin@anz.com

David Croy
Senior Rates Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Kyle Uerata
Economist
Telephone: +64 4 802 2357
E-mail: Kyle.Uerata@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

TAKING CARE OF BUSINESS

ECONOMIC OVERVIEW

It's largely a case of business as usual across the New Zealand economy, with Q2 GDP data confirming solid overall momentum and ANZ job ads showing ongoing growth in labour demand. We're not convinced that this is as good as it gets for the economy, with a lack of excess on the consumer side (ex-housing) and reduced risks for the dairy sector suggesting the expansion has legs. That said, we remain wary on a few fronts: the housing market and household debt, global developments, and the endgame associated with cutting rates in the face of a strong and expanding economy. We don't expect the next cut this week – the RBNZ has a preference for moving at *MPS* dates, so we're picking November. This week also brings another GDT auction, where further improvement is expected, and another read on net migration – expected to stay strong.

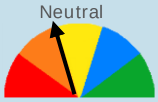
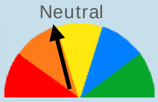
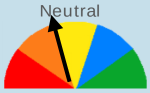
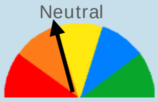
INTEREST RATE STRATEGY

Interest rates look to have topped out near-term, and we expect policy announcements from both the Fed and the RBNZ this week to calm markets. At the moment there is just too much uncertainty (slowing data pulse, politics) for the Fed to be able to flag that a December hike is a done deal, but we do expect December to be kept "live", appeasing nervous markets. The RBNZ also faces a bit of a dilemma, with growth solid but inflation sombre, but when all is said and done, a balanced approach suggests that more easing is likely. Against a backdrop of a market pricing only 60% odds of a cut by November, we see scope for short-end rates to move lower. New Zealand has under-performed G10 peers of late, but we expect that to change after Thursday's central bank announcements, particularly given the strong degree of offshore support for NZGS that remains.

CURRENCY STRATEGY

The NZD is still going head-to-head with contrasting drivers; the domestic picture augurs for continued strength, whereas valuations, rising (or less negative) global yields and firmer prospects for the USD suggests a pullback. We are increasingly drawn to risk aversion holding more influence and expect volatility to remain elevated over coming months as Fed hike sentiment firms, though we expect NZD dips to remain fairly shallow. The Fed will not underwrite the USD and we don't expect evidence of slowing momentum to appear locally. The NZD/AUD is expensive but the rubber band isn't taut; more topside prodding beckons.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	Neutral  Negative / Positive
Unemployment rate	5.0% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	Neutral  Negative / Positive
OCR	1.50% by Jun 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	Neutral  Down / Up
CPI	1.0% y/y for 2017 Q2	Low petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	Neutral  Negative / Positive

ECONOMIC OVERVIEW

SUMMARY

It's largely a case of business as usual across the New Zealand economy, with Q2 GDP data confirming solid overall momentum and ANZ job ads showing ongoing growth in labour demand. We're not convinced that this is as good as it gets for the economy, with a lack of excess on the consumer side (ex-housing) and reduced risks for the dairy sector suggesting the expansion has legs. That said, we remain wary on a few fronts: the housing market and household debt, global developments, and the endgame associated with cutting rates in the face of a strong and expanding economy. We don't expect the next cut this week – the RBNZ has a preference for moving at *MPS* dates, so we're picking November. This week also brings another GDT auction, where further improvement is expected, and another read on net migration – expected to stay strong.

FORTHCOMING EVENTS

GlobalDairyTrade Auction (early am, Wednesday, 21 September). The near-term price outlook remains favourable. But the key issue is whether recent price gains can be maintained once the preferential free-trade window with China closes around October.

International Travel & Migration – August (10:45am, Wednesday, 21 September). Net inflows may be past their highs, but we see little chance of a fall to historical average (~15K) any time soon.

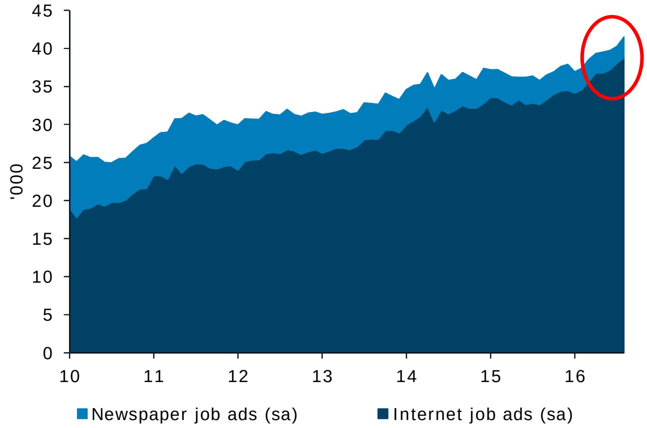
RBNZ OCR Review (9:00am, Thursday, 22 September). Future OCR cut(s) will be signalled, but the RBNZ is taking a measured approach to this easing cycle, and has shown a preference to move on *MPS* dates. See our RBNZ OCR Preview released today.

WHAT'S THE VIEW?

It remains a case of business as usual across the economy.

- **The rear-view mirror showed the economy is driving down the road at a reasonable clip.** GDP growth of 3.6% is historically good – and rock-star status in the current global environment.
- **Forward indicators suggest more of the same; we are seeing little sign of slow-up.** Particularly noticeable of late are firming signs across the labour market; our job ads series has now lifted for seven months in a row. We are hearing more and more from businesses about skilled labour becoming an increasing challenge to manage.
- **The consensus appears to be that this is as good as it gets across the economy; we're not sure we buy into that.** Growth in the back half of 2016 looks strong, though the inventory cycle may bump headline GDP around a bit. **The economy now has a firmer feel under the bonnet than it did in the first half of the year.** If we do see moderation it will partly be owing to capacity constraints, as opposed to anything on the demand side of the equation.
- **With little sign of slowdown across the economy the NZD remains elevated.** You can't say the NZD is seriously out of whack with the economic fundamentals when you are getting 3.6% GDP growth and the current account deficit is not spiralling higher. We have housing exuberance but it's not flowing into outright excesses across the entire economy, which we take as a sign there has been a structural shift in favour of savings. New Zealanders are no longer such profligate spenders; that's a good sign for the economic expansion being more enduring in nature.

FIGURE 1: JOB ADS ACCELERATING SHARPLY



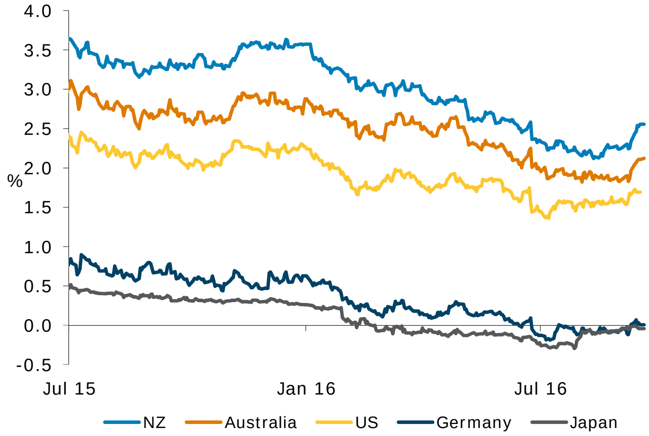
Source: ANZ, Seek, Trade Me, Dominion Post, Hawke's Bay Today, Manawatu Standard, NZ Herald, ODT, The Press, Waikato Times

- **Dairy sector risks are looking more manageable.** We expect another lift in GDT prices this week. It won't eliminate cash-flow stress but is certainly helping to dampen it.
- **The jury is still out on the housing market.** We are seeing some signs of moderation as tighter LVR restrictions bite, but we are not yet convinced credit growth is set to dip back towards income growth rates. Household debt to income has lifted to 165%. It needs to stabilise and that means household credit growth must slow up from its turbo-charged rate of 8.6%. The target is 4.5-5% which is where we see income growth broadly settling; that sort of rate looks a way off.

ECONOMIC OVERVIEW

- **The RBNZ remains caught between the proverbial rock and hard place.** The growth pulse says we don't need lower rates. That's a view for which we have a lot of sympathy. However, the ongoing nature of weak inflation prints and high NZD mean the RBNZ will continue to push ahead with over-cooking (stimulating) the non-tradable side of the economy. As a strategy that's not without risk.
- **We continue to cast a worried eye towards global developments.** Some of the developments are in fact "positives" in terms of market sentiment but we ponder how well they will be navigated.
  - **We note warnings from the BIS over the weekend in regard to China's build-up in corporate debt.** The credit to GDP "gap" (a deviation from trend measure) stands at 30.1%. Readings above 10% signal rising risks, with "gaps" of this magnitude for three years historically associated with most financial crises. China has been above 10% since mid-2009. Of course China has a huge balance sheet that can be mobilised to absorb "problems". But the piper invariably gets paid when investment malfeasance takes place.
  - **The Fed's dual mandate appears to be met (or about to be met)**, depending on whether you follow the core PCE deflator (1.6%) or core inflation (2.3%). The unemployment rate is around the non-accelerating rate of unemployment. Markets won't like it but there is a battle that needs to be fought. Markets need to transition away from the lower-for-longer, bad news is good (ie bad data keeps rates lower which is good for assets) and liquidity-driven mantra that has underpinned asset values. More attention needs to be paid to the economic fundamentals. The world economy is hardly strong, so that transition is going to be wobbly. But keeping rates too low for too long is becoming counter-productive.
  - **Correlations are becoming worryingly high.** When asset classes all start moving in similar directions it's a problem; exit doors get crowded when everyone runs for them.
  - **The recent rise in some global yields back into positive territory is both welcome and worrying.** It's welcome because we consider negative rates unproductive, a tax on savers (pension plans are a disaster), and indicative of excessive reliance on central banks. The gravitation away from low rates is a sign markets are starting to think less about central banks' actions (and the likes of the ECB and BoJ via a failure to kick-on have been flagging more implicit caution). There is a flipside, though. When yields rise, investors make a capital loss. The yield on a 30-year JGB has gone from 0.05% to 0.55%; that's a 15% capital loss. It all goes to show how toxic investing has become. And that's a major problem because the movements themselves are destabilising the system.

FIGURE 2: GLOBAL 10-YEAR BOND YIELDS



Source: ANZ, Bloomberg

Turning to the week ahead, and in particular the RBNZ's OCR Review, the OCR looks biased lower, but like the consensus and market, we don't expect action on Thursday. Further easing will be signalled – the NZD is too high / deflationary to ignore (and doing nothing would send it further skyward) – but the RBNZ has shown a preference to move on *Monetary Policy Statement* dates.

We are in an environment where conventional policy signals (growth, output gap, housing, capacity) **are flagging no change (or hike!), but they are going head-to-head with factors that are by-and-large beyond the RBNZ's control** (global scene, NZD) **amidst some concerns over consistently low inflation influencing price-setting behaviour.**

This environment needs pragmatism, balance and measured messages. We expect further policy easing to be signalled, leaving the door well and truly open to a November cut. The strong NZD will continue to "make it difficult for the Bank to meet its inflation objective". That highlights the direction of risk for the OCR. We suspect that the ~35bps of additional OCR cuts signalled in the August *MPS* is

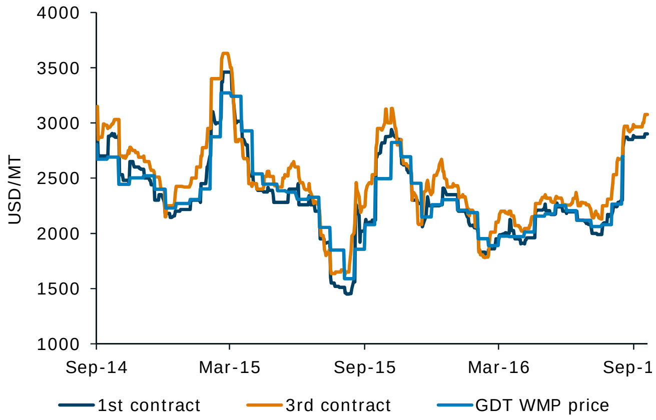
ECONOMIC OVERVIEW

still more-or-less the RBNZ's base case. That's broadly consistent with current market pricing.

Wednesday's GlobalDairyTrade auction should bring more good news. The global dairy market remains bullish with a large Algerian government tender at very high prices further tightening GDT supply. The Algerian Government dairy buying agency (ONIL) secured approximately 27,000 tonnes of WMP and more than 15,000 tonnes of SMP in the first week of September. This product is expected to be delivered over the back end of this year and into early 2017. New Zealand suppliers apparently secured the majority of the tender; hence 12-month GDT powder supply has been further reduced by 2.2%, or 10,025 MT.

Perhaps more importantly, the price from the tender has been reported at US$3,075-3,175/MT for WMP and $2,520/MT for SMP. **In recent weeks the market has been reluctant to push WMP prices through the US$3,000/t level, but** as details of the tender have filtered out **NZX future prices have easily broken through this barrier.** Chinese demand remains key for price sustainability, but broader demand from the Middle East and lower milk supply in key regions highlights **this rally has more durability compared with recent years.**

FIGURE 3: NZX WMP FUTURES AND GLOBALDAIRYTRADE WMP PRICE



Source: ANZ, NZX, GlobalDairyTrade

There has also been a further reduction in 12-month milkfat supply on GDT. These dynamics highlight a tight supply situation outside the GDT platform at present from the recent pick-up in demand and low carryover stocks from 2015/16. Combined with New Zealand milkfat products remaining the most competitively priced from the major sources this should provide price support. **All up NZX futures are pointing toward a 6% lift for the GDT-TWI and 8% increase for WMP at this week's auction.**

Fonterra's financial results for 2015/16 are also due on Thursday. We don't expect any substantial change in the $3.90/kg MS milk price and the dividend seems likely to come in toward the top end of the $0.45-$0.55/share range. Market expectations for the dividend are $0.52/share. If achieved, this could see a dividend of $0.40/share (after retentions), aimed at helping farmers' current tight cashflow situation. This would be slightly higher than earlier flagged.

We'd be surprised if International Travel & Migration data for August provided any major deviations from the themes already dominant. In other words, the figures should remain strong. While net migrant inflows may have passed their peak (they have averaged 5,600 over the past three months compared with close to 6,000 between October and February), we'd disagree with those that argue that because of that, net inflows are heading quickly back to the long-run average of around 15k. With New Zealand's growth picture looking strong, the country not grappling with the same pressing political issues that a number of countries and regions are at present, and Australia – while not bad – not outperforming from a labour market point of view to the same degree as it has in the past, we have little doubt that New Zealand will remain an attractive place for migrants (and New Zealanders).

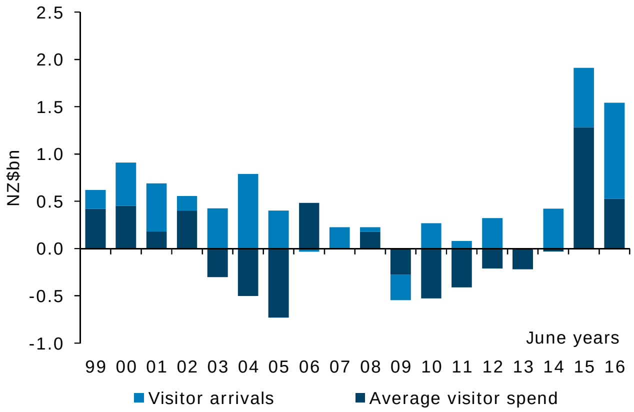
Does that mean the mix of current of large migration gains is right? Well, that is up for debate. But certainly when we see the skill set of those granted short-term or residency visas and match it with the industries where skill shortages appear to be the most acute, and the fact that a large number of students are attending Private Training Institutes and Polytechs opposed to universities, then we do wonder whether the migration framework, and the application of the rules, could be in need of adjustment.

The strong underlying trend in visitor arrivals growth should also continue. While we are mindful of the fact that a delayed start to the ski season in some parts of the country may have an impact on arrivals numbers (particularly from Australia), this would be just a temporary blip in our view. In three-month average terms, arrivals are running at over a 10% annual growth pace, which is remarkable given that this strong rate of growth is occurring with arrivals already at a record level. And while we are mindful of the strong NZD denting average spend per visitor, the sheer number of arrivals (and the composition of those arrivals – skewed increasingly towards Asia and North America)

ECONOMIC OVERVIEW

should mean that the overall tourism story remains a strong one.

FIGURE 4: CONTRIBUTIONS TO TOTAL VISITOR SPEND GROWTH



Source: ANZ, Statistics NZ

LOCAL DATA

Food Price Index – August. Total food prices rose 1.3% m/m, with prices up 0.5% relative to 12 months prior.

REINZ Housing Market Statistics – August. In seasonally adjusted terms, sales volumes rebounded, lifting 9.4% m/m, while the stratified house price index fell 2.2% m/m (+11.7% y/y).

Balance of Payments – Q2. The seasonally adjusted current account deficit widened by $187m to $1,826m. In annual terms, the deficit narrowed to 2.9% of GDP, from 3.1%.

BNZ-BusinessNZ PMI – Aug. The PMI eased a touch to 55.1 from a revised 55.5

GDP – Q2. Production GDP rose 0.9% q/q (3.6% y/y) vs. 1.1% expected. Q1 was revised up from 0.7% to 0.9% q/q. Construction is the #1 driver.

ANZ Job Ads – August. Total job ads rose 3.1% m/m (12.1% y/y 3mma). This was their seventh consecutive lift.

ANZ Roy Morgan Consumer Confidence – September. Confidence rose from 117.7 to 121.0, with confidence in the future increasing markedly.

BNZ-BusinessNZ PSI – Aug. The PSI index bounced from 54.5 in July to 57.9.

INTEREST RATE STRATEGY

SUMMARY

Interest rates look to have topped out near-term, and we expect policy announcements from both the Fed and the RBNZ this week to calm markets. At the moment there is just too much uncertainty (slowing data pulse, politics) for the Fed to be able to flag that a December hike is a done deal, but we do expect December to be kept "live", appeasing nervous markets. The RBNZ also faces a bit of a dilemma, with growth solid but inflation sombre, but when all is said and done, a balanced approach suggests that more easing is likely. Against a backdrop of a market pricing only 60% odds of a cut by November, we see scope for short-end rates to move lower. New Zealand has under-performed G10 peers of late, but we expect that to change after Thursday's central bank announcements, particularly given the strong degree of offshore support for NZGS that remains.

THEMES

- While it would be a stretch to say that the short end has capitulated, it's not far off. We regard 60% odds of an OCR cut by November as too low, and look for the market to return to ~70-80%. The tail (long end) has been wagging the dog (the short end), and that needs to change.
- We remain of the view that the recent correction higher in long-term rates is more reflective of positioning / central bank wariness than growth and inflation fundamentals. This week will be a key test of that thinking.
- Offshore ownership of NZGS hit yet another record high in August. This was expected, and was the result of extraordinary offshore demand for the 2033 at syndication. But even so, it can't be glossed over, and domestic index duration extensions should keep bonds well bid this week.

MONETARY POLICY AND SHORT END

We don't expect an OCR cut this week, but we do expect the short end to finish the week lower, with the RBNZ on track to hold policy steady, but to flag that more easing is likely. Dairy price increases and the robust growth outlook notwithstanding, the high TWI, uncertainty over the trajectory for inflation expectations (partly oil-driven) and prospect of a near-zero CPI outturn remain the elephants in the room, and **we expect cuts in November and February. That's a long way from what's priced in, and suggests that short-end rates have scope to correct**.

GLOBAL MARKETS AND LONG END

Yields look toppy here. While we fully appreciate the array of arguments that have been put forward to justify the recent correction in global yields, none of them are new, and we believe the move is more positioning-related than fundamental. In that regard, this week is a big test for the market. But broadly speaking, we believe **market expectations for Fed policy are about right given the outlook (with a December hike more "live" than "done").** However, with the trading range for the bellwether US 10-year Treasury now in a higher band around 1.7%, **we see more risks to the downside than the upside**, particularly given the flagging pulse of US data and political developments.

But even so, **the real stand-out of late has been how poorly NZGS have performed against their G10 (particularly US) counterparts** amidst currency strength. We attribute this to global fears having had an out-sized impact on the local market, with the paring back of OCR cut expectations due to rising global yields rather than the domestic data pulse – which has been "solid" for some time. With the Fed on track to hold steady and maintain its data-dependent message, and more OCR cuts still on the table, **we see limited further upside for the NZ/US spread.** It will struggle to narrow if US yields do come off, but at a minimum we'd expect NZ bonds to keep pace with the US, particularly given **upcoming index extensions and extraordinarily strong offshore demand for NZGS**, as reflected in record offshore ownership data released on Friday.

STRATEGY

Investors: We favour **wading back into received positions at the short end** ahead of Thursday. We prefer having duration in NZ than the US and don't buy into talk that this is the "beginning of the end" for the low-yield environment.

Borrowers: No change. **Watching and waiting** is still our favoured strategy. Swap rates are up, but we do expect them to correct lower in coming weeks. With BKBM also biased lower, we favour options.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Bullish	We have come far enough. The TWI is too high to ignore, and more easing is coming (in Nov & Feb).
Long end	Neutral/bullish	Have topped out. Even if USTs hold steady, we expect good tender demand ahead of index extensions.
Yield Curve	Neutral	Parallel shift lower beckons. NZ/US spread too wide and more scope to flatten on domestic demand factors.
Geographic spreads	Neutral/ Narrower	New Zealand is still the standout G10 bond market and we believe it's too early to throw in the towel on yield convergence. NZ/US spread now at extremely cheap levels in our view; enough is enough!
Swap spreads	Neutral	NZGS demand still decent; index buying is coming this week. Lower OCR will keep corporate payers away.
NZD/TWI	Holding up	We expect the TWI to hold up; unlikely to roll over until growth slows and until the OCR goes much lower.

CURRENCY STRATEGY

SUMMARY

The NZD is still going head-to-head with contrasting drivers; the domestic picture augurs for continued strength, whereas valuations, rising (or less negative) global yields and firmer prospects for the USD suggests a pullback. We are increasingly drawn to risk aversion holding more influence and expect volatility to remain elevated over coming months as Fed hike sentiment firms, though we expect NZD dips to remain fairly shallow. The Fed will not underwrite the USD and we don't expect evidence of slowing momentum to appear locally. The NZD/AUD is expensive but the rubber band isn't taut; more topside prodding beckons.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔/↓	Local data pulse pretty well priced in	Firmer USD to be an eventual 'saviour'
NZD/AUD	↔	Parity? Maybe.	0.93-0.98 range
NZD/EUR	↔/↑	Yield gap massive	NZ better
NZD/GBP	↔	Brexit still a factor	Fully priced. Toppy.
NZD/JPY	↔/↑	BoJ wants yen lower	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- The ball is in the Fed's court this week. They appear to have almost the reciprocal problem (little growth but some inflation) when compared to the RBNZ (who have growth but no inflation). The core PCE deflator (the Fed's preferred inflation measure) may be below 2%, but CPI core inflation is above and flags a firming pipeline. Unemployment sits around the NAIRU. Expect no move this week, but a greater chorus for a December hike.
- The market is looking for something from the Bank of Japan too, and risks disappointment.
- New Zealand's economic story rolls on. We see little scope for a genuine let-up on the horizon.
- Commodity price action remains fickle though dairy prices are improving.
- China's debt issues are back in the news, with the BIS providing a warning.
- Does the NZD/AUD fully reflect the respective economic stories? We suspect not and the door remains open to squeezes topside.

ASSESSMENT

With little on the domestic horizon we'd consider negative or flagging a turn in New Zealand's economic momentum, "buy the dip" remains in vogue for the NZD. Financial conditions and our growth composite (business and consumer confidence) are flagging a continuation of the 3.5% economic momentum achieved in the first half of 2016 into the second. **Risks emanating from dairying continue to subside** with each nudge higher in dairy prices and we expect another solid auction result this week.

While on many levels, the story is the same, some changes are apparent. Global yields have drifted higher. Better growth outcomes are not driving it, rather it's caution re whether central banks will truly do whatever it takes. Bond movements in some instances (i.e. 30 year JGBs) have been toxic. That's what you get from extremes. Inflation and labour market developments make for an increasingly polarising debate within the Fed. Asset correlations have become worryingly high. Valuations look stretched too.

Do we believe we are about to kick-off a bell-curve extreme (a movement out of our "muddle through" world that keeps the NZD strong by default), which would **place the periphery (currencies) under pressure and favour the core?**

While we have considerable sympathy for the view and expect the market to trade with a risk aversion bias over the coming months, **we can't see that fostering clear currency trends.** Shallow currency cycles and movements are favoured until we get more clarity over the path for global growth and central banks, and we see a clear change in momentum locally. Central banking looks as muddled as global growth.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Fair value is higher (but it has been for a while now)
Yield	↔/↑	OCR gap to persist into early 2017
Commodities	↔/↑	GDT outlook this week positive
Data	↔/↓	RBNZ will highlight NZD strength
Techs	↔/↑	Break of 0.97 ⇨assault on parity
Sentiment	↔	0.9750 proving tough to break
Other	↔/↓	Market wary of valuations here
On balance	↔/↑	**Parity not sustainable, but could spike there this month**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	>FV but supported by local data
Yield	↔	A key pillar of the NZD's support
Commodities	↔/↑	NZ comdty prices up 3.2% in Aug
Risk aversion	↔/↓	The NZD's main Achilles Heel
Data	↔/↑	Pulse still robust
Techs	↔/↑	Good support in low 0.72s
Other	↔	Fed to strike a balance
On balance	↔	**High / elevated for now. Onus still on the Fed to get moving.**

POSITIONING

NZD positioning remains "long", but the big change over the past week has been the jump in overall USD long positioning, perhaps pointing to some post-Fed disappointment. EUR and GBP positions remain very short, and could result in short squeezes.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
19-Sep	EC	ECB Current Account SA - Jul	--	€28.2B	20:00
	EC	Current Account NSA - Jul	--	€37.6B	20:00
	EC	Construction Output MoM - Jul	--	0.0%	21:00
	EC	Construction Output YoY - Jul	--	0.6%	21:00
20-Sep	US	NAHB Housing Market Index - Sep	60.0	60.0	02:00
	AU	ANZ-RM Consumer Confidence Index - 18-Sep	--	118.1	11:30
	AU	RBA Sept. Meeting Minutes -	--	--	13:30
	AU	House Price Index QoQ - Q2	3.0%	-0.2%	13:30
	AU	House Price Index YoY - Q2	5.2%	6.8%	13:30
	GE	PPI MoM - Aug	0.0%	0.2%	18:00
	GE	PPI YoY - Aug	-1.6%	-2.0%	18:00
21-Sep	US	Housing Starts - Aug	1190k	1211k	00:30
	US	Housing Starts MoM - Aug	-1.7%	2.1%	00:30
	US	Building Permits - Aug	1164k	1144k	00:30
	US	Building Permits MoM - Aug	1.8%	-0.8%	00:30
	NZ	Net Migration SA - Aug	--	5600	10:45
	JN	Trade Balance - Aug	¥195.5B	¥513.6B	11:50
	JN	Trade Balance Adjusted - Aug	¥500.0B	¥317.6B	11:50
	JN	Exports YoY - Aug	-4.5	-14	11:50
	JN	Imports YoY - Aug	-16.5	-24.7	11:50
	AU	Westpac Leading Index MoM - Aug	--	0.05%	12:30
	AU	Skilled Vacancies MoM - Aug	--	-0.6%	13:00
	NZ	Credit Card Spending MoM - Aug	--	2.3%	15:00
	NZ	Credit Card Spending YoY - Aug	--	5.6%	15:00
	UK	Public Finances (PSNCR) - Aug	--	-£2.1B	20:30
	UK	Central Government NCR - Aug	--	£3.6B	20:30
	UK	Public Sector Net Borrowing - Aug	£10.4B	-£1.5B	20:30
	UK	PSNB ex Banking Groups - Aug	£10.1B	-£1.0B	20:30
	US	MBA Mortgage Applications - 16-Sep	--	4.2%	23:00
	JN	BoJ Annual Rise in Monetary Base - Sep	¥80t	¥80t	UNSPECIFIED
	JN	BoJ Monetary Policy Statement -	--	--	UNSPECIFIED
	JN	BoJ Policy Rate - Sep	-0.10%	-0.10%	UNSPECIFIED
	JN	BoJ Basic Balance Rate - Sep	--	0.10%	UNSPECIFIED
	JN	BoJ Macro Add-On Balance Rate - Sep	--	0.00%	UNSPECIFIED
22-Sep	US	FOMC Rate Decision - Sep	0.50%	0.50%	06:00
	NZ	RBNZ Official Cash Rate - Sep	2.00%	2.00%	09:00
	EC	ECB Publishes Economic Bulletin -	--	--	20:00
	UK	CBI Trends Total Orders - Sep	-5	-5	22:00
	UK	CBI Trends Selling Prices - Sep	10	8	22:00
23-Sep	US	Chicago Fed Nat Activity Index - Aug	0.13	0.27	00:30
	US	Initial Jobless Claims - 17-Sep	261k	260k	00:30
	US	Continuing Claims - 10-Sep	2143k	2143k	00:30
	US	FHFA House Price Index MoM - Jul	0.3%	0.2%	01:00
	EC	Consumer Confidence - Sep A	-8.2	-8.5	02:00
	US	Existing Home Sales - Aug	5.45M	5.39M	02:00
	US	Existing Home Sales MoM - Aug	1.1%	-3.2%	02:00
	US	Leading Index - Aug	0.0%	0.4%	02:00
	US	Kansas City Fed Manf. Activity - Sep	--	-4.0	03:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
23-Sep	JN	Nikkei Japan PMI Mfg - Sep P	--	49.5	12:30
	CH	MNI September Business Indicator -			13:45
	JN	All Industry Activity Index MoM - Jul	0.2%	1.0%	16:30
	GE	Markit/BME Manufacturing PMI - Sep P	53.1	53.6	19:30
	GE	Markit Services PMI - Sep P	52.2	51.7	19:30
	GE	Markit/BME Composite PMI - Sep P	53.6	53.3	19:30
	EC	Markit Manufacturing PMI - Sep P	51.5	51.7	20:00
	EC	Markit Services PMI - Sep P	52.8	52.8	20:00
	EC	Markit Composite PMI - Sep P	52.8	52.9	20:00
24-Sep	US	Markit Manufacturing PMI - Sep P	52.0	52.0	01:45
	GE	Import Price Index MoM - Aug	--	0.1%	24-29 Sep
	GE	Import Price Index YoY - Aug	--	-3.8%	24-29 Sep

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. But with inflation low and the NZD high, our base case is for OCR cuts in November and early 2017, taking the OCR to 1.5%.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 21 Sep (early am)	GlobalDairyTrade auction	Can they be maintained?	Key is whether recent price gains can be maintained beyond the preferential free-trade window with China closing around Oct.
Wed 21 Sep (10:45am)	International Travel & Migration – Aug	Still strong	Net inflows may be past their highs, but we see little chance of a fall to historical average (~15K) any time soon.
Thu 22 Sep (9:00am)	RBNZ OCR Review	No change	Future OCR cut(s) will be signalled, but the RBNZ is taking it gradually and has shown a preference to move on *MPS* dates.
Mon 26 Sep (10:45am)	Overseas Merchandise Trade – Aug	A wider deficit	Due to softer agricultural exports, the unadjusted trade balance typically widens in August and we expect no different this year.
Mon 26 Sep (3:00pm)	RBNZ New Residential Mortgage Lending – Aug	Cooling off highs	Tighter bank lending criteria are likely to see the rate of new lending growth ease off its current strong pace.
Fri 30 Sep (10:45am)	Building Consents Issued – Aug	Positive trend	Issuance has swung about somewhat of late, but we expect a modestly positive trend to remain.
Fri 30 Sep (1:00pm)	ANZ Business Outlook – Sep	--	--
Fri 30 Sep (3:00pm)	RBNZ Credit Aggregates – Aug	Strong	New lending growth is set to slow, which will eventually flow through into the rate of growth in the overall stock of credit.
Tue 4 Oct (10:00am)	NZIER QSBO – Q3	Decent	Overall business sentiment should be strong, with firms continuing to signal a desire to hire and invest. Increasing capacity pressures should be evident too.
Wed 5 Oct (early am)	GlobalDairyTrade Auction	Can they be maintained?	Key is whether recent price gains can be maintained beyond the preferential free-trade window with China closing around Oct.
Wed 5 Oct (1:00pm)	ANZ Commodity Price Index – Sep	--	--
Thu 6 Oct (10:00am)	ANZ Truckometer – Sep	--	--
Mon 9 Oct (1.00pm)	ANZ Monthly Inflation Gauge – Sep	--	--
10-14 Oct	REINZ Housing Market Statistics – Sep	Cooling?	The latest data hinted at a cooling in house price growth. We'll see if that cooling is maintained.
Tue 11 Oct (10:45am)	Electronic Card Transactions – Sep	Recovery	We are not overly alarmed by the drop in spending in August. We expect a bounce-back, with the underlying trend remaining decent.
Thu 13 Oct (10:00am)	ANZ Job Ads – Sep	--	--
Thu 13 Oct (10:30am)	BNZ-BusinessNZ PMI – Sep		Despite currency and global headwinds, the manufacturing sector continues to benefit from a strong domestic economy.
Thu 13 Oct (10:45am)	Food Price Index – Sep	Retrace	Due to seasonality (and some retracement from August's lift) we expect a small fall in food prices in the month.
Thu 13 Oct (1:00pm)	ANZ Roy Morgan Consumer Confidence – Oct	--	--
On balance		**Data watch**	**Momentum is increasing at present, albeit with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.9	0.9	**0.6**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	3.0	3.6	**3.4**	**3.5**	**3.4**	**3.2**	**3.2**	**2.8**	**2.6**	**2.4**
CPI (% qoq)	0.2	0.4	**0.1**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**
CPI (% yoy)	0.4	0.4	**0.2**	**0.7**	**1.1**	**1.0**	**1.6**	**1.7**	**1.8**	**2.0**
Employment (% qoq)	1.4	2.4	**-0.4**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	2.0	4.5	**4.3**	**4.0**	**3.1**	**1.1**	**1.9**	**1.7**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.2	5.1	**5.1**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**	**4.8**	**4.8**
Current Account (% GDP)	-3.1	-2.9	**-2.6**	**-2.5**	**-2.7**	**-2.9**	**-2.8**	**-2.7**	**-2.5**	**-2.5**
Terms of Trade (% qoq)	4.2	-2.1	**-0.9**	**0.5**	**0.9**	**1.3**	**1.9**	**1.8**	**0.9**	**0.9**
Terms of Trade (% yoy)	-0.4	-3.9	**-1.0**	**1.6**	**-1.6**	**1.8**	**4.7**	**6.0**	**6.0**	**6.0**

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Retail ECT (% mom)	0.1	0.3	0.8	0.1	0.8	-0.2	1.1	0.2	-0.4	--
Retail ECT (% yoy)	6.6	5.2	9.2	6.2	7.8	3.3	6.8	5.8	3.7	--
Credit Card Billings (% mom)	-0.7	2.1	-0.7	-1.0	2.6	-0.2	-1.3	2.7	--	--
Credit Card Billings (% yoy)	7.5	7.5	6.3	4.3	8.7	5.5	3.3	5.2	--	--
Car Registrations (% mom)	3.0	-2.8	5.7	-3.8	6.4	-3.7	-0.9	-0.3	2.1	--
Car Registrations (% yoy)	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	--
Building Consents (% mom)	2.7	-8.3	10.7	-9.4	6.9	-0.2	21.9	-10.5	--	--
Building Consents (% yoy)	17.8	4.9	26.9	0.7	12.8	10.1	41.0	7.3	--	--
REINZ House Price Index (% yoy)	12.6	10.7	11.9	13.3	14.5	14.7	14.2	16.3	11.7	--
Household Lending Growth (% mom)	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.9	--	--
Household Lending Growth (% yoy)	7.4	7.5	7.6	7.7	7.9	8.1	8.3	8.6	--	--
ANZ Roy Morgan Consumer Conf.	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2	117.7	121.0
ANZ Business Confidence	23.0	..	7.1	3.2	6.2	11.3	20.2	16.0	15.5	--
ANZ Own Activity Outlook	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4	33.7	--
Trade Balance ($m)	-42	12	367	189	350	344	110	-433	--	--
Trade Bal ($m ann)	52510	52764	52831	52599	52626	52854	52661	52158	--	--
ANZ World Commodity Price Index (% mom)	-1.8	-2.3	0.5	-1.3	-0.8	1.0	3.5	2.1	3.2	--
ANZ World Comm. Price Index (% yoy)	-12.9	-14.7	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	--
Net Migration (sa)	5510	6090	6000	5340	5490	5550	5700	5600	--	--
Net Migration (ann)	64930	65911	67391	67619	68110	68432	69090	69015	--	--
ANZ Heavy Traffic Index (% mom)	2.8	-4.3	1.7	3.3	-2.5	-2.5	4.1	-5.3	6.7	--
ANZ Light Traffic Index (% mom)	0.9	-1.4	2.4	0.8	0.3	-1.6	2.5	-0.5	1.0	--

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	Jul-16	Aug-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.720	0.725	0.728	0.73	0.71	0.69	0.67	0.65	0.64	0.64
NZD/AUD	0.948	0.964	0.969	0.95	0.93	0.93	0.93	0.93	0.94	0.89
NZD/EUR	0.644	0.650	0.652	0.68	0.68	0.66	0.63	0.59	0.58	0.57
NZD/JPY	73.47	74.82	74.43	76.7	74.6	69.0	67.0	65.0	64.0	67.2
NZD/GBP	0.544	0.552	0.559	0.57	0.57	0.56	0.54	0.49	0.47	0.46
NZ$ TWI	75.0	75.9	78.1	77.0	75.8	73.7	71.5	69.0	68.3	67.5
INTEREST RATES	Jul-16	Aug-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.28	2.28	2.23	2.30	2.00	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.21	2.24	2.57	1.90	1.90	2.10	2.20	2.40	2.40	2.70
US Fed funds	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
US 3-mth	0.76	0.84	0.86	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.86	1.74	1.73	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	16 Aug	12 Sep	13 Sep	14 Sep	15 Sep	16 Sep
Official Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.21	2.26	2.26	2.24	2.24	2.24
NZGB 03/19	1.75	1.91	1.94	1.95	1.93	1.94
NZGB 05/21	1.75	1.99	2.01	2.05	2.04	2.07
NZGB 04/23	1.85	2.11	2.14	2.19	2.18	2.22
NZGB 04/27	2.15	2.44	2.46	2.54	2.53	2.56
2 year swap	1.95	2.05	2.06	2.05	2.08	2.10
5 year swap	2.07	2.21	2.21	2.25	2.24	2.25
RBNZ TWI	76.38	78.09	78.18	77.62	77.80	78.10
NZD/USD	0.7229	0.7298	0.7335	0.7274	0.7264	0.7266
NZD/AUD	0.9407	0.9728	0.9732	0.9736	0.9718	0.9700
NZD/JPY	72.61	74.45	74.96	74.70	74.41	74.32
NZD/GBP	0.5600	0.5502	0.5528	0.5511	0.5493	0.5588
NZD/EUR	0.6457	0.6504	0.6530	0.6480	0.6463	0.6514
AUD/USD	0.7685	0.7502	0.7537	0.7471	0.7475	0.7491
EUR/USD	1.1196	1.1221	1.1232	1.1225	1.1239	1.1155
USD/JPY	100.44	102.02	102.20	102.70	102.44	102.29
GBP/USD	1.2908	1.3265	1.3270	1.3198	1.3223	1.3002
Oil (US$/bbl)	45.72	45.88	46.28	44.91	43.62	43.85
Gold (US$/oz)	1345.29	1328.50	1329.55	1320.68	1321.29	1314.20
Electricity (Haywards)	4.62	5.07	5.11	4.92	5.18	4.66
Baltic Dry Freight Index	687	804	796	756	764	800
Milk futures (USD)	47	47	45	44	45	44

IMPORTANT NOTICE

The distribution of this document or streaming of this video broadcast (as applicable, "publication") may be restricted by law in certain jurisdictions. Persons who receive this publication must inform themselves about and observe all relevant restrictions.

1. Disclaimer for all jurisdictions, where content is authored by ANZ Research:

Except if otherwise specified in section 2 below, this document is issued and distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN11 005 357 522) ("ANZ"), on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (collectively, "recipient"). This document is confidential and may not be reproduced, distributed or published by any recipient for any purpose. It is general information and has been prepared without taking into account the objectives, financial situation or needs of any person. Nothing in this document is intended to be an offer to sell, or a solicitation of an offer to buy, any product, security, instrument or investment, to effect any transaction or to conclude any legal act of any kind. If, despite the foregoing, any services or products referred to in this document are deemed to be offered in the jurisdiction in which this document is received or accessed, no such service or product is intended for nor available to persons resident in that jurisdiction if it would be contradictory to local law or regulation. Such local laws, regulations and other limitations always apply with non-exclusive jurisdiction of local courts. Certain financial products may be subject to mandatory clearing, regulatory reporting and/or other related obligations. These obligations may vary by jurisdiction and be subject to frequent amendment. Before making an investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

The views and recommendations expressed in this publication are the author's. They are based on information known by the author and on sources which the author believes to be reliable, but may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this publication and are subject to change without notice; and, all price information is indicative only. Any of the views and recommendations which comprise estimates, forecasts or other projections, are subject to significant uncertainties and contingencies that cannot reasonably be anticipated. On this basis, such views and recommendations may not always be achieved or prove to be correct. Indications of past performance in this publication will not necessarily be repeated in the future. No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided. Additionally, this publication may contain 'forward looking statements'. Actual events or results or actual performance may differ materially from those reflected or contemplated in such forward looking statements. All investments entail a risk and may result in both profits and losses. Foreign currency rates of exchange may adversely affect the value, price or income of any products or services described in this publication. The products and services described in this publication are not suitable for all investors, and transacting in these products or services may be considered risky. ANZ and its related bodies corporate and affiliates, and the officers, employees, contractors and agents of each of them (including the author) ("Affiliates"), do not make any representation as to the accuracy, completeness or currency of the views or recommendations expressed in this publication. Neither ANZ nor its Affiliates accept any responsibility to inform you of any matter that subsequently comes to their notice, which may affect the accuracy, completeness or currency of the information in this publication.

Except as required by law, and only to the extent so required: neither ANZ nor its Affiliates warrant or guarantee the performance of any of the products or services described in this publication or any return on any associated investment; and, ANZ and its Affiliates expressly disclaim any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this publication.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. ANZ and its Affiliates do not accept any Liability as a result of electronic transmission of this publication.

ANZ and its Affiliates may have an interest in the subject matter of this publication as follows:

- They may receive fees from customers for dealing in the products or services described in this publication, and their staff and introducers of business may share in such fees or receive a bonus that may be influenced by total sales.
- They or their customers may have or have had interests or long or short positions in the products or services described in this publication, and may at any time make purchases and/or sales in them as principal or agent.
- They may act or have acted as market-maker in products described in this publication.

ANZ and its Affiliates may rely on information barriers and other arrangements to control the flow of information contained in one or more business areas within ANZ or within its Affiliates into other business areas of ANZ or of its Affiliates. This document is published in accordance with ANZ's policies on Conflicts of Interest and Information Barriers.

Please contact your ANZ point of contact with any questions about this publication including for further information on these disclosures of interest.

2. Country/region specific information:

Australia. This publication is distributed in Australia by ANZ. ANZ holds an Australian Financial Services licence no. 234527. A copy of ANZ's Financial Services Guide is available at http://www.anz.com/documents/AU/aboutANZ/FinancialServicesGuide.pdf and is available upon request from your ANZ point of contact. If trading strategies or recommendations are included in this publication, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 *Cth*). Persons who receive this publication must inform themselves about and observe all relevant restrictions.

Brazil. This publication is distributed in Brazil by ANZ on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this publication, and no securities have been and will not be registered with the Securities Commission – CVM.

Brunei. Japan. Kuwait. Malaysia. Switzerland. Taiwan. This publication is distributed in each of Brunei, Japan, Kuwait, Malaysia, Switzerland and Taiwan by ANZ on a cross-border basis.

Cambodia. APS222 Disclosure. The recipient acknowledges that although ANZ Royal Bank (Cambodia) Ltd. is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank (Cambodia) Ltd. do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank (Cambodia) Ltd.

European Economic Area ("EEA"): United Kingdom. ANZ in the United Kingdom is authorised by the Prudential Regulation Authority ("PRA"). Subject to regulation by the Financial Conduct Authority ("FCA") and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This publication is distributed in the United Kingdom by ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the PRA and the FCA. **Germany.** This publication is distributed in Germany by the Frankfurt Branch of ANZ solely for the information of its clients. **Other EEA countries.** This publication is distributed in the EEA by ANZ Bank (Europe) Limited ("ANZBEL") which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, to persons who would come within the FCA definition of "eligible counterparty" or "professional client" in other countries in the EEA. This publication is distributed in those countries solely for the information of such persons upon their request. It is not intended for, and must not be distributed to, any person in those countries who would come within the FCA definition of "retail client".

Fiji. For Fiji regulatory purposes, this publication and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this publication.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong. If in doubt about the contents of this publication, you should obtain independent professional advice.

IMPORTANT NOTICE

This document has been prepared by ANZ Bank New Zealand Limited, Level 10, 171 Featherston Street, Wellington 6011, New Zealand,
Ph 64-4-802 2212, e-mail nzeconomics@anz.com, http://www.anz.co.nz