ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

29 May 2017

INSIDE

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THE MISSING LINK

ECONOMIC OVERVIEW

The Budget had an enviable mix of social policy initiatives, infrastructure spending, tax cuts and debt repayment. It is hard to have many quibbles with that. But against a backdrop where funding our domestic saving shortfall via offshore borrowing is no longer the preferred modus operandi, domestic saving is going to need to lift in order for our investment needs to be met, and this is the missing link in the Budget. More proactive saving policies are likely to be necessary in time. The economic reality is simple: either saving performance improves or investment wilts. In data and events this week, the RBNZ's Financial Stability Report will likely deliver another 'financial system is sound, but risks exist' message, and terms of trade figures should be strong, while construction and consent data look set to be mixed.

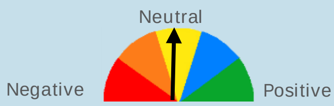
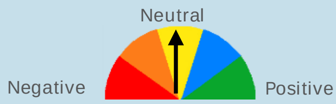
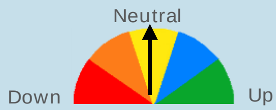
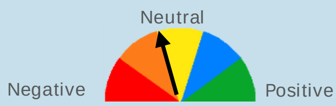
INTEREST RATE STRATEGY

Short-end rates remain range bound; we struggle to see a domestic catalyst for a break-out in the near term. While headlines regarding the RBNZ's FSR this week will be (if anything) dovish, and roll+carry remains attractive, that is going head-to-head with a still-solid data pulse and some signs of corporate paying. Long-end yields have fallen further, and continue to outperform US counterparts, but the extent of the move leaves us wary of a tactical pull-back. Looking forward, we still see US yields higher by year's end, and while we remain strategically bullish on NZGS on a spread to the US, that should lift our long end too. The announcement of a new 04/29 bond should also assist with curve steepening in time. Linker BEIs continue to grind higher, but have some way to go yet.

CURRENCY STRATEGY

The topside squeeze risks for NZD eventuated. Although from a purely technical perspective, the near-term target for NZD/USD is 0.71, we're neutral at these levels. Market pricing for the Fed looks slightly underdone and the AUD is looking vulnerable, which could weigh on the NZD. However, that is countered by a USD that has weakening microeconomic fundamentals and on the NZD's side, economic respectability – particularly with the terms of trade (a key fundamental) set to hit, or at least near, record highs. We continue to retain a constructive view on the NZD/AUD, with the business and inflation cycle more in the NZD's favour.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q4	Soft Q4 GDP figures are not a true reflection of the state of the economy. While momentum is forecast to ease, it should remain decent overall.	
Unemployment rate	4.7% for 2017 Q4	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 Dec 2017	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	2.0% y/y for 2017 Q4	Headline inflation is now back at the target mid-point. Domestic and core inflation are also gradually lifting.	

ECONOMIC OVERVIEW

SUMMARY

The Budget had an enviable mix of social policy initiatives, infrastructure spending, tax cuts and debt repayment. It is hard to have many quibbles with that. But against a backdrop where funding our domestic saving shortfall via offshore borrowing is no longer the preferred modus operandi, domestic saving is going to need to lift in order for our investment needs to be met, and this is the missing link in the Budget. More proactive saving policies are likely to be necessary in time. The economic reality is simple: either saving performance improves or investment wilts. In data and events this week, the RBNZ's Financial Stability Report will likely deliver another 'financial system is sound, but risks exist' message, and terms of trade figures should be strong, while construction and consent data look set to be mixed.

FORTHCOMING EVENTS

Building Consents Issued – April (10:45am, Tuesday, 30 May). Demand support is clear, but the upside is being capped by capacity and credit constraints.

RBNZ Financial Stability Report (9:00am, Wednesday, 31 May). The RBNZ will not be confident that it has won the housing battle yet. Financial stability concerns will remain.

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

Overseas Trade Indexes – Q1 (10:45am, Thursday, 1 June). Strong NZ export commodity prices should more than offset a lift in oil prices, boosting the terms of trade. We have pencilled in a lift of 5.4% q/q.

RBNZ Sectoral Lending – April (3:00pm, Friday, 2 June). We expect the rate of overall private sector credit growth to continue to cool.

Building Work Put in Place – Q1 (10:45am, Tuesday, 6 June). Solid non-residential construction activity is likely to be offset by a more mixed residential picture.

ANZ Commodity Price Index – May (1:00pm, Tuesday, 6 June).

WHAT'S THE VIEW?

The Government has options galore. Earlier hard yards on the spending side, a decent starting point for the fiscal position, and solid growth projections provide the Government with options, and it is choosing to exercise some of those options (it is an election year after all).

The overall mix of initiatives is an enviable one. At the same time as delivering extra funding for social policies, priority spending areas (health and education) and infrastructure, as well as a modest tax cut, operating surpluses are still projected to grow and debt levels projected to fall. We can't think of many countries right now that can deliver that sort of fiscal message.

To be fair, the economic projections look a little bit Pollyanna-like. They are certainly on the rosy side, with Treasury forecasting GDP growth to accelerate towards 4% over 2019 and average over 3% over the next five years. Nominal growth is forecast to average over 5% per year over the next five years. In both cases, that is above the average growth rates achieved over the last five years and it comes at a time when the economy is already grappling with late-cycle constraints in the labour market and credit cycle.

We won't split hairs over this though. Even under our own less optimistic growth forecasts, rising surpluses and falling debt levels are still likely, leaving a still-decent fiscal buffer in the case of any future shocks.

One area where we do take a different view to the Treasury is on the outlook for consumption. One of the reasons the Treasury sees GDP growth accelerating over 2019 is that the lift in household incomes from the 'Family Incomes Package' is expected to provide a further boost to household consumption. Private consumption is forecast to grow 4.6%, 3.9% and 3.7% in each of the next three June years.

Strong consumption is possible. Strong population growth, a lift in wage growth, still-accommodative monetary policy and fiscal stimulus does make for a strong case. **But it brings us back to one of the key overarching themes driving our own economic views right now (and something we have emphasised a lot in recent editions of our *Market Focus*): the balance between national saving and investment and what that ultimately means for spending.**

While the Budget ticks all the right boxes, the missing link, in our view, is saving. Now, it's not completely absent; you see semblances of it through the growth strategy, responsible fiscal management, resuming Super Fund contributions, and little microeconomic tweaks. But we say 'missing link' because the economy is entering a juncture where funding a domestic saving shortfall via international capital is becoming more challenging, and because of that, more domestic saving will be required if New Zealand's investment needs (which no one would deny are strong) are to be met.

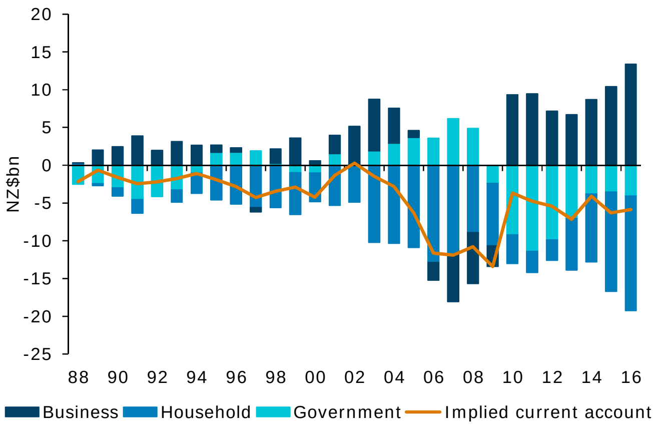
ECONOMIC OVERVIEW

It's a basic accounting identity that investment needs savings, and the local pool is insufficient.

The offshore tap can still be turned on, of course, but we just can't be as dependent on it as we have been historically. Heavily indebted countries are under a brighter spotlight. We can run a current account deficit up to 4 or 4½% of GDP (from today's 2.7% level), so this lever can be pulled to a degree. But anything beyond that will see the stock of net external debt lifting as a share of GDP, drawing (negative) attention. **This is where Treasury's forecasts turn decidedly odd; the current account deficit remains in check despite both consumption and investment surging.**

The reality is, in order for our investment needs to be met, the onus is going to fall more heavily on the saving side of the ledger (households especially), and all else equal, more saving means less spending and growth in the near-term.

FIGURE 1: SECTORAL NET SAVING



Source: ANZ, Statistics NZ

A growth sacrifice is something as a collective we should be prepared to accept to elongate the economic cycle. Of course, it is entirely possible that we have an investment and consumption boom at the same time. We have tried that before, last cycle. However, that would certainly present a different outlook for the current account deficit (and hence perceptions of the economy's risk profile) as well as the outlook for the RBNZ (ie they would have to hike more aggressively). It would increase risks of a nastier economic correction in the future.

So how could this greater swing to better household saving be achieved in practice? Here are a few possibilities:

1. **Stronger income growth.** This is the obvious fix. But it is easier said than done, of course. A decent terms of trade outlook certainly helps, but the productivity story is not signalling much in the way of prospects for a decent lift in real wage growth. Education needs to be more of a focal point, but the pay-offs there are of the long-term variety.

2. **Households lift saving of their own accord.** That is possible, but arguably unlikely based on historical experience. The tendency remains to 'save' via the house.

3. **More money is put in the back pocket.** Tax cuts (driving more incentive to work and get ahead) or additional welfare payments could help, but we have to be mindful that sometimes this is just redistributing income, not creating it. You need to drive the right behaviours, which is why using tax policy is favoured. But if it just means an equivalent drop in government saving, then it won't lift aggregate saving.

4. **Well-targeted social investment.** Improved prospects for the vulnerable mean the same for incomes, and higher incomes lift the ability to save. Some levers are being pulled but this is a multi-decade long investment.

5. **Make it cheaper to live.** New Zealand is not a cheap place to live, particularly housing-wise. The weekly wage gets whittled away pretty quickly. Construction costs are a problem. Local authority rates move up faster than inflation. Thankfully the electricity sector is functioning a lot better than it once was.

6. **Interest rates rise.** That is already happening given the funding pressures banks face, but if domestic saving doesn't lift enough to meet our investment needs, then interest rates will need to keep rising until they do. That's bad for the investment side of the equation.

7. **There is a more proactive push on the policy front.** This is something that we think is increasingly going to be necessary to drive the desired outcomes. And without getting into details, **it is going to require the playing field between housing and other investments to even up.** We have the new bright-line test but that doesn't go far enough. Some tough, but necessary, discussions are in store.

That's a non-exhaustive list. You need other attractive investment avenues for where to put your money, otherwise the 'house' becomes the default. Tourism is booming but how many tourism companies can you invest in on the NZX? A well-rounded regulatory framework is required. Improvements in financial literacy help (there was some money for this in the Budget). Capital markets need to do their job.

ECONOMIC OVERVIEW

So there is a list of options to pull and target, and they are being targeted in multiple areas but we think there is more to come. In particular, we suspect lever "7" will have to be used more proactively at some stage to level the investment playing field between housing and the rest. The economic reality is simple; either saving performance rises or investment wilts. And we are going to see tension manifest in this area over the coming years.

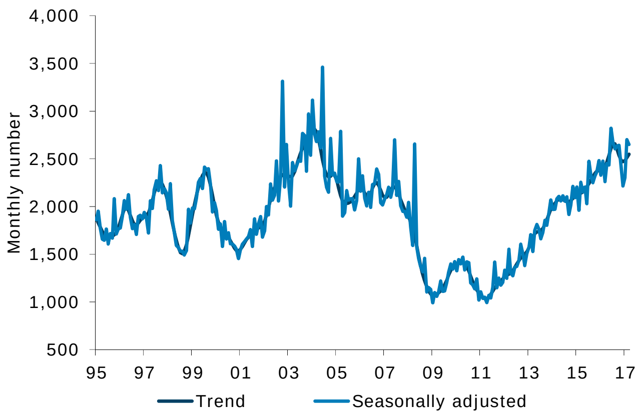
Turning to the week ahead, the RBNZ's bi-annual Financial Stability Report will once again espouse a message that 'the financial system is currently sound, but risks exist'. That has been the view for some time, and while there have been tweaks over recent years, these have been primarily regarding the degree and nature of the precise risks.

We would not be surprised if the risks highlighted are similar to those discussed in November. Back then, the RBNZ singled out vulnerabilities relating to the housing market, bank funding pressures, and indebtedness in the dairy sector. While the housing market has continued to cool, particularly in Auckland, we certainly don't believe the RBNZ will feel confident that it has won the war. It is a similar story in the dairy sector, where although global dairy prices have bounced, easing some risks, the level of indebtedness remains elevated, leaving the sector particularly vulnerable if global prices were to turn south again. And as we have discussed at length over recent months, bank funding pressures have certainly not disappeared either, compounded by changes made by the Australian Prudential Regulation Authority (APRA).

We will also be keeping an eye on some additional elements with regards to prudential policy. While it is possible there are more references to the desire to include debt-to-income restrictions in the RBNZ macro-prudential toolkit (certainly we expect the Governor to be asked about this at the press conference), it is unlikely that there is anything concrete in the works. But with the RBNZ currently undertaking a broad review of bank capital, any comments with regards to this progress will be of interest, as would any response (even preliminary) from the RBNZ to some of the recommendations put forward in the IMF's Financial Sector Assessment Program that was recently conducted.

On the data front, we continue to see Building Consent Issuance caught between two opposing themes, which are likely to see issuance holding broadly around current levels. In March, issuance dipped 1.8% m/m, although that followed a 17% gain in February. While certainly volatile, issuance has effectively been holding around its current level for 12 months now. On the demand side, the strong support from net migration gains and policymaker desire to boost supply show few signs of easing up. In a perfect world, issuance would continue to trend strongly higher as a result. However, that is hard to envisage given the sector is already grappling with considerable capacity pressures and also a more difficult credit backdrop. Those forces do not look like easing any time soon.

FIGURE 2: NATIONAL DWELLING CONSENT ISSUANCE



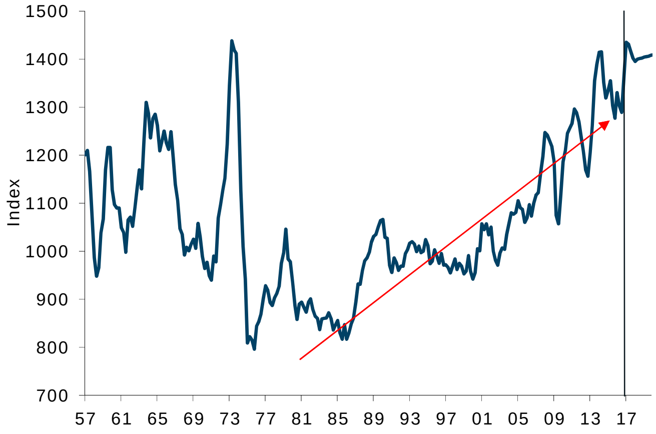
Source: ANZ, Statistics NZ

As always, our Business Outlook survey for May will provide a timely update on economic momentum. Headline confidence is off its highs – it has sat at a net 11% for the past two months now. However, the far more important message is that the broader survey measures generally remain elevated, and consistent with a strong activity backdrop. Given the RBNZ's dovishness towards the inflation outlook, there will also be interest in firms' pricing intentions and inflation expectation measures.

Overseas Trade Indexes data for Q1 is likely to show a surge in the terms of trade. As we wrote in last week's *Market Focus*, we would not be surprised to see the merchandise terms of trade surge to a new all-time high – if not in Q1, then over the next few quarters. This is a key element driving a strong income growth backdrop across the economy at present. On our expectations, the 5.4% q/q lift we have pencilled in for Q1 would put the terms of trade pretty much on par with the highs experienced in the mid-1970s. The increase has been led by a solid recovery in our export commodity prices (signalled by our Commodity Price Index), only partially offset by a lift in import prices (largely oil). Some of this shine will be dulled by a likely fall in export volumes in the quarter, but only modestly so.

ECONOMIC OVERVIEW

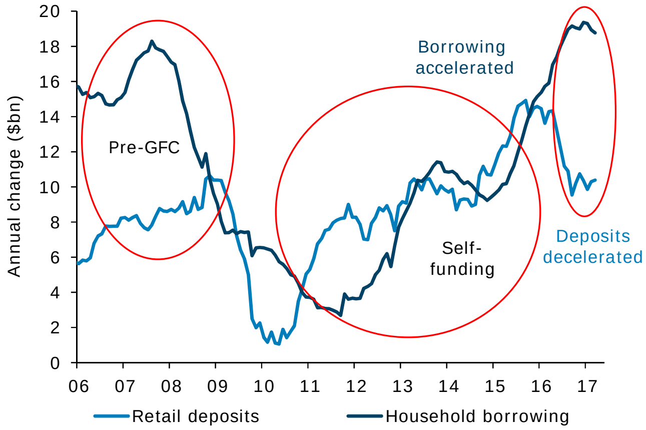
FIGURE 3: TERMS OF TRADE (OTI)



Source: ANZ, Statistics NZ

The suite of new RBNZ sectoral lending and bank funding figures for April should continue to show a slower rate of private sector credit growth. In March, private sector credit grew 0.4% m/m in seasonally adjusted terms, which saw three-month annualised growth of just 4.7%. That was on par with February and effectively the slowest rate since October 2014. Within that, total household lending grew 0.5% m/m, which is the third consecutive month at such a rate. Household deposits, on the other hand, grew at a 0.8% m/m pace for the second consecutive month. In absolute terms that represented a $1.2bn lift, which is the same as the absolute gain seen in household lending, so it points to at least a stabilisation in the funding gap that still exists.

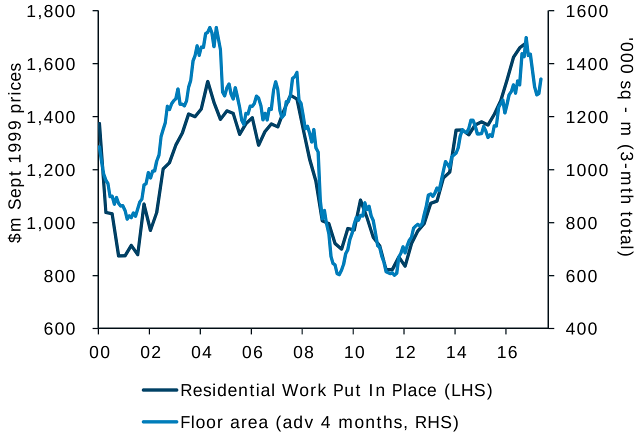
FIGURE 4: BANK HOUSEHOLD FUNDING AND CLAIMS GROWTH



Source: ANZ, RBNZ

Early next week, Building Work Put in Place data for Q1 is expected to show modest construction sector activity growth. However, we suspect it will be mixed at the compositional level. The fall in dwelling consent issuance over the latter part of last year could result in a mild contraction in residential construction activity over the first part of this year. Conversely, we still expect non-residential activity to lift, although given the lumpiness of this work, there is a little more uncertainty surrounding this. Overall, while the sector is certainly grappling with capacity and credit availability challenges, we expect the figures will show it making a small positive contribution to GDP growth in the quarter.

FIGURE 5: CONSENT ISSUANCE AND BUILDING WORK PUT IN PLACE



Source: ANZ, Statistics NZ

LOCAL DATA

Overseas Merchandise Trade – April. An unadjusted trade surplus of $578m was recorded, with a seasonally adjusted surplus of $19m.

RBNZ New Mortgage Lending – April. We estimate that new lending fell 13% m/m in seasonally adjusted terms.

Budget Economic & Fiscal Update. An OBEGAL surplus of 0.6% of GDP for 2016/17 was forecast, with net debt of 23.2% of GDP.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates remain range bound; we struggle to see a domestic catalyst for a break-out in the near term. While headlines regarding the RBNZ's FSR this week will be (if anything) dovish, and roll+carry remains attractive, that is going head-to-head with a still-solid data pulse and some signs of corporate paying. Long-end yields have fallen further, and continue to outperform US counterparts, but the extent of the move leaves us wary of a tactical pull-back. Looking forward, we still see US yields higher by year's end, and while we remain strategically bullish on NZGS on a spread to the US, that should lift our long end too. The announcement of a new 04/29 bond should also assist with curve steepening in time. Linker BEIs continue to grind higher, but have some way to go yet.

THEMES

- The short end remains confined within its now familiar, lower trading range, and we struggle to see a domestic catalyst to drive a range-break.
- Although roll+carry remains attractive, and we suspect headlines surrounding the FSR this week will be (if anything) dovish, the downside is limited by a still-solid domestic data pulse, profit taking, and some signs of corporate paying.
- Long-end yields have continued to fall, with further outperformance against the US. NZD stability has no doubt assisted with NZGS demand.
- While we remain bullish NZGS on a spread to US over the medium term, the extent of the move leaves us a little mindful of the potential for some near-term retracement.
- The DMO announcement of a new 04/29 nominal bond, while in line with our expectations, also leaves us biased towards curve steepening in time.
- Linkers are performing well and BEIs have risen, but they have further to go. A more expansionary fiscal stance should help that along.

MONETARY POLICY AND SHORT END

The short end remains well contained within its now-familiar lower trading range. In fact, we start the week with the bellwether 2-year swap at the lower end of its 2.2%/2.3% range. And the fact the market remains range-bound is hardly surprising given that it is still grappling with the tension of an "aggressively neutral" RBNZ stance, a market that continues to attract decent roll+carry, and a generally upbeat data pulse, which we expect to continue.

We struggle to see the catalysts for a range-break right here and now. Although market pricing (~40% odds of a hike by February) theoretically means we see more scope for short-end yields to fall than rise, and headlines relating to the RBNZ's Financial Stability Report this week are, if anything, likely to be dovish, that needs to be balanced with dataflow that will likely continue to test the RBNZ's mettle, pending modest fiscal stimulus, profit-taking of long positions, and corporate paying as rates push to lows. **Absent a large flow-related move, the story for the short end is really 'move on, nothing to see here'.**

GLOBAL MARKETS AND LONG END

Local long-end yields have fallen further, with NZGS continuing to outperform their US counterparts, driving spreads to effectively their year-to-date lows. And while we remain strategically bullish the NZ/US spread on account of policy divergence and still-strong demand for yield (supported locally by NZD stability), recent moves have been swift, leaving us mindful of a potential retracement. This is on top of what we ultimately suspect will be higher global bond yields by year end, supported, at the margin, by DMO's announcement of a new 04/29 bond.

We remain upbeat on NZGS linkers. BEIs continue to grind slowly higher, but have further to go yet, in our view. We regard the RBNZ's determination to get inflation sustainably back to target as good news for linkers, especially with inflation breakevens (currently around 1.2% to 1.3%) still far below the Bank's inflation target mid-point (2%).

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. **We are bullish linkers** (BEIs are too low).

Borrowers: No change. **BKBM is at a record low, and is set to remain so for a time, but our forecasts have swap rates going higher.** Caution is required given the global scene, but the recent fall in swap rates presents opportunities.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Range bound	Scope to grind gradually lower, with R+C still attractive, but hard to see a range break.
Long end	Neutral	More bullish NZ on a spread than outright, but recent performance has made NZGS expensive and due for a pullback. US yields to rise, but difficult to be extremely bearish bonds given benign core inflation globally.
Yield Curve	Steeper	Strategically favour a steepener, based largely on divergent policy and divergent short/long-end views.
Geographic spreads	Neutral/ narrower	NZ/US spread performance exceptional. Should narrow further over the year as USTs grind higher (especially given the RBNZ's neutral stance). However, a breather seems likely near term.
Swap spreads	Neutral/wider	NZGS demand strong. Some risk that corporate paying picks up with yields back at much lower levels.
NZD/TWI	Consolidating	Has bounced recently, but ultimately in a range. Needs to be lower for longer to matter for OCR.

CURRENCY STRATEGY

SUMMARY

The topside squeeze risks for NZD eventuated. Although from a purely technical perspective, the near-term target for NZD/USD is 0.71, we're neutral at these levels. Market pricing for the Fed looks slightly underdone and the AUD is looking vulnerable, which could weigh on the NZD. However, that is countered by a USD that has weakening microeconomic fundamentals and on the NZD's side, economic respectability – particularly with the terms of trade (a key fundamental) set to hit, or at least near, record highs. We continue to retain a constructive view on the NZD/AUD, with the business and inflation cycle more in the NZD's favour.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Oscillating	Closing yield = USD up
NZD/AUD	↔/↑	Move up not yet complete	Still higher
NZD/EUR	↔	EUR 'soft' data better but 'hard' not	Europe needs structural reform
NZD/GBP	↔/↑	UK election not so clear cut	Valuation says lower, Brexit challenges say higher
NZD/JPY	↔	In a holding pattern	USD/JPY direction doesn't look clear

THEMES AND RISKS

- G7 meeting an 'awkward truce' on key issues.
- UK polls and terror attack flag a less clear election outcome.
- Market swats aside China downgrade.
- Bulls in control: equities up, volatility down.
- OPEC extends cuts, but WTI struggles.
- Attention will turn towards US data and the Fed, with June now upon us.

ASSESSMENT

Frustrating ranges look set to continue. Topside resistance for the NZD/USD sits at 0.71 with support in the 0.6850-0.6880 zone.

There is some argument for squeezes higher:

- Valuations are supportive. It's the USD that's overvalued and not the NZD, according to our model specifications.
- The Fed is flagging a slower rate of balance sheet reduction.
- Positioning continues to get squeezed.
- Global core inflation nuances are not rising in a sustained fashion and while some soft data looks encouraging, hard data is more fickle.
- A strong bounce in NZ's terms of trade needs to be acknowledged. Add this to an expansionary Budget in 2018 and 2019, and the RBNZ's expectation of a 2019 lift in rates is too far out.
- Microeconomics and countries that show 'good' policy elements are going to be rewarded; New Zealand stands tall here.

While respectful of such forces, we're more neutral on NZD direction in the near term.

- Market pricing for a Fed hike in June (~76%) looks slightly underdone still. The Fed's balance sheet might be set to shrink only slowly, but it is still set to reduce. Improvement in European economic indicators (German business confidence at all-time highs) needs to be acknowledged.
- The AUD is looking vulnerable; Q1 GDP growth expectations are close to zero.
- Risks continue to surround the global commodity cycle amidst inventory concerns and attempts to slow China's credit growth. The failure of oil to respond to extended production cuts was notable. We remain cautious in an environment where policy uncertainty is high, and the weekend's G7 meeting, and awkward truce with regard to the climate and trade policy, is a case in point. When policy uncertainty is high, the time value option for firms resides in waiting to put cash to work. Ultimately we expect this to manifest in economic data and market measures of volatility.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	A tad above fair value of 0.93.
Yield	↔/↑	NZ inflation cycle says wider differential.
Commodities	↔/↑	NZ's terms of trade looking good.
Data	↔/↑	NZ Q1 GDP ~1%, AU 0.1%.
Techs	↔	200-day MA support 0.9435, resistance 0.95.
Sentiment	↔	Why does the RBNZ appear more dovish than the RBA?
Other	↑	AU consumer missing in action; NZ not.
On balance	↔/↑	**Move has further to go yet.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔/↓	Fed still set to hike in June.
Commodities	↔/↑	NZ's strengthening terms of trade needs to be respected.
Risk aversion	↔/↓	Tied in with the commodity bloc, China and politics. No shortage of candidates.
Data	↔/↑	NZ data pulse looks good. US mixed.
Techs	↔	0.6850 – 0.7100 range.
Sentiment	↔	NZ positives priced in above 0.70.
Other	↔/↓	AUD looking vulnerable.
On balance	↔	**In a range.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
29-May	EC	M3 Money Supply YoY - Apr	5.2%	5.3%	20:00
30-May	NZ	Building Permits MoM - Apr	--	-1.8%	10:45
	AU	ANZ-RM Consumer Confidence Index - 28-May	--	110.5	11:30
	JN	Retail Sales MoM - Apr	-0.1%	0.2%	11:50
	JN	Retail Trade YoY - Apr	2.2%	2.1%	11:50
	AU	Building Approvals MoM - Apr	3.0%	-13.4%	13:30
	AU	Building Approvals YoY - Apr	-18.1%	-19.9%	13:30
	GE	Import Price Index MoM - Apr	0.1%	-0.5%	18:00
	GE	Import Price Index YoY - Apr	6.3%	6.1%	18:00
	EC	Economic Confidence - May	110.0	109.6	21:00
	EC	Business Climate Indicator - May	1.11	1.09	21:00
	EC	Industrial Confidence - May	3.1	2.6	21:00
	EC	Services Confidence - May	14.2	14.2	21:00
	EC	Consumer Confidence - May F	-3.3	-3.3	21:00
31-May	GE	CPI MoM - May P	-0.1%	0.0%	00:00
	GE	CPI YoY - May P	1.6%	2.0%	00:00
	GE	CPI EU Harmonized MoM - May P	-0.1%	0.0%	00:00
	GE	CPI EU Harmonized YoY - May P	1.5%	2.0%	00:00
	US	Personal Income - Apr	0.4%	0.2%	00:30
	US	Personal Spending - Apr	0.4%	0.0%	00:30
	US	Real Personal Spending - Apr	0.2%	0.3%	00:30
	US	PCE Deflator MoM - Apr	0.2%	-0.2%	00:30
	US	PCE Deflator YoY - Apr	1.7%	1.8%	00:30
	US	PCE Core MoM - Apr	0.1%	-0.1%	00:30
	US	PCE Core YoY - Apr	1.5%	1.6%	00:30
	US	S&P CoreLogic CS 20-City MoM SA - Mar	0.90%	0.69%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - Mar	5.61%	5.85%	01:00
	US	Conf. Board Consumer Confidence - May	119.8	120.3	02:00
	US	Dallas Fed Manf. Activity - May	15.0	16.8	02:30
	NZ	RBNZ Financial Stability Report	--	--	09:00
	UK	GfK Consumer Confidence - May	-8	-7	11:01
	JN	Industrial Production MoM - Apr P	4.1%	-1.9%	11:50
	JN	Industrial Production YoY - Apr P	6.0%	3.5%	11:50
	NZ	ANZ Activity Outlook - May	--	37.7	13:00
	NZ	ANZ Business Confidence - May	--	11	13:00
	CH	Manufacturing PMI - May	51.0	51.2	13:00
	CH	Non-manufacturing PMI - May	--	54.0	13:00
	AU	Private Sector Credit MoM - Apr	0.4%	0.3%	13:30
	AU	Private Sector Credit YoY - Apr	4.9%	5.0%	13:30
	GE	Retail Sales MoM - Apr	0.3%	0.1%	18:00
	GE	Retail Sales YoY - Apr	2.2%	2.3%	18:00
	GE	Unemployment Change (000's) - May	-15k	-15k	19:55
	GE	Unemployment Claims Rate SA - May	5.7%	5.8%	19:55
	UK	Net Consumer Credit - Apr	£1.5B	£1.6B	20:30
	UK	Net Lending Sec. on Dwellings - Apr	£3.0B	£3.1B	20:30
	UK	Mortgage Approvals - Apr	66.0k	66.8k	20:30
	UK	Money Supply M4 MoM - Apr	--	0.3%	20:30
	UK	M4 Money Supply YoY - Apr	--	6.6%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-May	UK	M4 Ex IOFCs 3M Annualised - Apr	--	4.5%	20:30
	EC	Unemployment Rate - Apr	9.4%	9.5%	21:00
	EC	CPI Estimate YoY - May	1.5%	1.9%	21:00
	EC	CPI Core YoY - May A	1.0%	1.2%	21:00
	US	MBA Mortgage Applications - 26-May	--	4.4%	23:00
1-Jun	US	Chicago Purchasing Manager - May	57.0	58.3	01:45
	US	Pending Home Sales MoM - Apr	0.4%	-0.8%	02:00
	US	Pending Home Sales NSA YoY - Apr	--	0.5%	02:00
	NZ	QV House Prices YoY - May	--	11.1%	05:00
	US	US Federal Reserve releases Beige Book -	--	--	06:00
	NZ	Terms of Trade Index QoQ - Q1	3.9%	5.7%	10:45
	AU	AiG Perf of Mfg Index - May	--	59.2	11:30
	AU	CoreLogic House Px MoM - May	--	0.1%	12:00
	AU	Private Capital Expenditure - Q1	0.5%	-2.1%	13:30
	AU	Retail Sales MoM - Apr	0.3%	-0.1%	13:30
	CH	Caixin PMI Mfg - May	50.2	50.3	13:45
	UK	Nationwide House PX MoM - May	0.2%	-0.4%	18:00
	UK	Nationwide House Px NSA YoY - May	2.4%	2.6%	18:00
	AU	Commodity Index AUD - May	--	132.7	18:30
	AU	Commodity Index SDR YoY - May	--	38.6%	18:30
	GE	Markit/BME Manufacturing PMI - May F	59.4	59.4	19:55
	EC	Markit Manufacturing PMI - May F	57.0	57.0	20:00
	UK	Markit PMI Manufacturing SA - May	56.5	57.3	20:30
	US	Challenger Job Cuts YoY - May	--	-42.9%	23:30
2-Jun	US	ADP Employment Change - May	180k	177k	00:15
	US	Nonfarm Productivity - Q1 F	-0.5%	-0.6%	00:30
	US	Unit Labor Costs - Q1 F	2.9%	3.0%	00:30
	US	Initial Jobless Claims - 27-May	239k	234k	00:30
	US	Continuing Claims - 20-May	1920k	1923k	00:30
	US	Markit Manufacturing PMI - May F	52.5	52.5	01:45
	US	ISM Manufacturing - May	54.6	54.8	02:00
	US	ISM Prices Paid - May	67.0	68.5	02:00
	US	Construction Spending MoM - Apr	0.5%	-0.2%	02:00
	AU	HIA New Home Sales MoM - Apr	--	-1.1%	13:00
	UK	Markit/CIPS Construction PMI - May	52.6	53.1	20:30
	EC	PPI MoM - Apr	0.2%	-0.3%	21:00
	EC	PPI YoY - Apr	4.5%	3.9%	21:00
3-Jun	US	Change in Nonfarm Payrolls - May	185k	211k	00:30
	US	Unemployment Rate - May	4.4%	4.4%	00:30
	US	Average Hourly Earnings MoM - May	0.2%	0.3%	00:30
	US	Average Hourly Earnings YoY - May	2.6%	2.5%	00:30
	US	Labor Force Participation Rate - May	--	62.9%	00:30
	US	Trade Balance - Apr	-$46.0B	-$43.7B	00:30

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

Looking through the weak Q4 GDP figures, we still believe domestic economic momentum is solid after a patchy start to the year. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards, but probably not until 2018.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 30 May (10:45am)	Building Consents Issued – Apr	Opposing forces	Demand support is clear, but the upside is being capped by capacity and credit constraints.
Wed 31 May (9:00am)	RBNZ Financial Stability Report	Concerns remain	The RBNZ will not yet feel confident that it has won the housing battle. Financial stability concerns will remain.
Wed 31 May (1:00pm)	ANZ Business Outlook – May	--	--
Thu 1 Jun (10:45am)	Overseas Trade Indexes – Q1	Up	Strong NZ export commodity prices should more than offset a lift in oil prices, boosting the terms of trade.
Fri 2 Jun (3:00pm)	RBNZ Sectoral Lending – Apr	Cooling	We expect the rate of overall private sector credit growth to continue to cool.
Tue 6 Jun (10:45am)	Building Work Put in Place – Q1	Mixed bag	Strong non-residential construction is offsetting a mixed residential picture.
Tue 6 Jun (1:00pm)	ANZ Commodity Price Index – May	--	--
Wed 7 Jun (10:00am)	ANZ Job Advertisements – May	--	--
Wed 7 Jun (early am)	GlobalDairyTrade auction	Stable to up	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Wed 7 Jun (10:45am)	Quarterly Manufacturing Survey – Q1	Solid	Very strong PMI outturns reflect the support the construction boom is providing to the manufacturing sector.
Thu 8 Jun (10:00am)	ANZ Truckometer – May	--	--
TBC	REINZ Housing Market Statistics – May	Cooling	Slowdown likely to remain most marked in Auckland.
Mon 12 Jun (10:45am)	Electronic Card Transactions – May	Restrained	Recoil is likely after a strong April outturn. Looking through the noise, retail trends remain modest.
Mon 12 Jun (1:00pm)	ANZ Monthly Inflation Gauge – May	--	--
Wed 14 Jun (10:45am)	Balance of Payments – Q1	Narrower	A further mild narrowing in the current account deficit is quite possible.
Wed 14 Jun (10:45am)	Food Price Index – May	Temporary	After a large increase over Q1, we suspect prices will start to unwind. That said, poor autumn weather could delay this move.
Thu 15 Jun (10:45am)	GDP – Q1	Bounce	After the soft end to 2016, we expect growth to rebound. At this stage our forecast is 1.1% q/q, although there is admittedly some downside risk to that.
Fri 16 Jun (10:30am)	BNZ-BusinessNZ PMI – May	Decent	Despite construction sector capacity challenges, the manufacturing sector is performing well.
Fri 16 Jun (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jun	--	--
Mon 19 Jun (10:30am)	BNZ-BusinessNZ PSI – May	Bounce?	Perhaps related to weaker housing activity, the index fell sharply in April. We suspect it will bounce modestly.
Wed 21 Jun (early am)	GlobalDairyTrade auction	Stable to up	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Thu 22 Jun (9:00am)	RBNZ OCR Review	Aggressively neutral	The RBNZ has told us that the hurdle for policy action (or a shift in stance) is high. That will not change at this decision.
Thu 22 Jun (10:45am)	International Travel & Migration - May	Near highs	We struggle to see net migrant inflows falling much from near all-time highs. Visitor arrivals numbers should remain strong.
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is gradually lifting.**

KEY FORECASTS AND RATES

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (% qoq)	0.4	**1.1**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**
GDP (% yoy)	2.7	**3.1**	**3.1**	**3.0**	**3.2**	**2.7**	**2.4**	**2.2**	**2.1**	**2.1**
CPI (% qoq)	0.4	1.0	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.6**	**0.2**	**0.7**
CPI (% yoy)	1.3	2.2	**2.0**	**2.2**	**2.0**	**1.7**	**2.0**	**2.1**	**2.2**	**2.2**
Employment (% qoq)	0.7	1.2	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.8	5.7	**3.9**	**2.9**	**2.5**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**
Unemployment Rate (% sa)	5.2	4.9	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**
Current Account (% GDP)	-2.7	**-2.7**	**-2.6**	**-2.4**	**-2.4**	**-2.5**	**-2.7**	**-2.8**	**-3.0**	**-3.1**
Terms of Trade (% qoq)	5.7	**5.4**	**-0.3**	**-1.0**	**-1.1**	**-0.5**	**0.4**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	6.7	**7.9**	**9.8**	**9.9**	**2.9**	**-2.8**	**-2.2**	**-1.1**	**0.0**	**0.6**

	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Retail ECT (% mom)	-1.1	1.9	0.5	0.0	0.1	2.6	-0.6	-0.3	1.1	--
Retail ECT (% yoy)	3.2	6.1	4.2	5.1	5.8	5.6	2.6	5.6	4.5	--
Credit Card Billings (% mom)	-1.0	2.9	2.9	-4.1	3.0	0.3	-1.4	0.8	0.9	--
Credit Card Billings (% yoy)	2.3	8.3	10.1	4.2	8.5	7.1	5.3	7.1	6.4	--
Car Registrations (% mom)	2.5	-3.9	13.0	3.1	-6.4	1.6	0.4	3.4	-2.9	--
Car Registrations (% yoy)	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	3.0	--
Building Consents (% mom)	-2.4	1.1	0.3	-8.4	-8.5	4.1	17.1	-1.8	--	--
Building Consents (% yoy)	11.8	17.1	13.9	2.3	-10.7	-1.0	9.0	17.3	--	--
REINZ House Price Index (% yoy)	11.7	9.7	14.4	14.9	13.5	11.7	10.5	11.1	9.9	--
Household Lending Growth (% mom)	0.8	0.8	0.6	0.6	0.7	0.5	0.5	0.5	--	--
Household Lending Growth (% yoy)	8.7	8.7	8.7	8.6	8.8	8.7	8.5	8.4	--	--
ANZ Roy Morgan Consumer Conf.	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9
ANZ Business Confidence	15.5	27.9	24.5	20.5	21.7	..	16.6	11.3	11.0	--
ANZ Own Activity Outlook	33.7	42.4	38.4	37.6	39.6	..	37.2	38.8	37.7	--
Trade Balance ($m)	-1240	-1388	-798	-723	-1	-227	-58	277	578	--
Trade Bal ($m ann)	51900	51938	51943	51668	51621	51901	52088	52404	52599	--
ANZ World Commodity Price Index (% mom)	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	--
ANZ World Comm. Price Index (% yoy)	11.1	10.6	4.0	13.6	16.5	19.1	20.9	23.0	23.7	--
Net Migration (sa)	5670	6320	6190	6160	5960	6360	5940	6130	5780	--
Net Migration (ann)	69119	69954	70282	70354	70588	71305	71333	71932	71885	--
ANZ Heavy Traffic Index (% mom)	7.2	-2.1	-0.5	3.7	-0.2	-0.9	1.7	1.7	-1.8	--
ANZ Light Traffic Index (% mom)	0.9	0.1	-2.0	1.5	0.2	-0.3	0.9	1.0	-1.5	--

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	Mar-17	Apr-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZD/USD	0.701	0.687	0.705	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.918	0.917	0.947	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.658	0.630	0.631	0.64	0.65	0.67	0.65	0.64	0.62	0.61
NZD/JPY	78.04	76.55	78.39	80.5	79.4	78.2	78.2	78.2	77.1	77.1
NZD/GBP	0.558	0.530	0.550	0.56	0.57	0.58	0.54	0.53	0.52	0.52
NZ$ TWI	75.1	73.3	76.4	75.0	75.0	75.3	74.4	73.7	72.2	71.7
INTEREST RATES	Mar-17	Apr-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	2.00	1.98	1.97	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.19	3.04	2.81	3.30	3.50	3.70	3.70	3.90	3.90	4.00
US Fed funds	1.00	1.00	1.00	1.25	1.50	1.50	1.50	1.75	2.00	2.25
US 3-mth	1.15	1.17	1.20	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	1.80	1.75	1.74	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	26 Apr	22 May	23 May	24 May	25 May	26 May
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.97	1.97	1.97	1.97	1.97
NZGB 03/19	2.11	1.95	1.93	1.93	1.93	1.93
NZGB 05/21	2.46	2.27	2.24	2.24	2.24	2.20
NZGB 04/23	2.75	2.55	2.52	2.52	2.51	2.48
NZGB 04/27	3.07	2.86	2.83	2.84	2.84	2.80
2 year swap	2.32	2.25	2.24	2.24	2.23	2.22
5 year swap	2.90	2.78	2.76	2.78	2.75	2.72
RBNZ TWI	75.42	75.17	75.85	76.13	76.28	76.08
NZD/USD	0.6904	0.6959	0.7040	0.7029	0.7026	0.7061
NZD/AUD	0.9215	0.9329	0.9389	0.9404	0.9406	0.9486
NZD/JPY	76.76	77.54	78.33	78.58	78.59	78.60
NZD/GBP	0.5384	0.5354	0.5429	0.5423	0.5422	0.5518
NZD/EUR	0.6339	0.6198	0.6264	0.6281	0.6264	0.6319
AUD/USD	0.7493	0.7459	0.7498	0.7474	0.7470	0.7448
EUR/USD	1.0892	1.1227	1.1239	1.1191	1.1217	1.1183
USD/JPY	111.18	111.42	111.26	111.80	111.85	111.33
GBP/USD	1.2823	1.2998	1.2968	1.2961	1.2960	1.2804
Oil (US$/bbl)	49.62	50.73	51.47	51.36	48.90	49.80
Gold (US$/oz)	1265.45	1256.04	1260.07	1252.39	1256.75	1266.76
Electricity (Haywards)	5.37	11.06	7.31	6.95	7.19	7.28
Baltic Dry Freight Index	1147	954	949	934	918	912
NZX WMP Futures (US$/t)	3270	3250	3220	3230	3235	3240

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