ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

21 March 2016

INSIDE

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CONCERTED CONCERN

ECONOMIC OVERVIEW

We are back on the familiar treadmill of global unease inspiring more central bank action, softer rhetoric, and markets (who are hooked on the liquidity drug as opposed to watching fundamentals) going back up. While welcome and appropriate to a degree, we are left shaking our heads over the end-game amidst negative rates, currency shenanigans, limited micro reform, high leverage, and liquidity-inspired market behaviour. Locally, the economy continues to perform well. While our core view is still additional policy easing, it is globally dependent and the trade-offs need to be weighed carefully. It is a relatively quiet week for local data, although trade data should show a small monthly surplus, in line with the usual seasonal pattern.

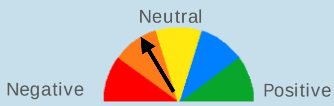
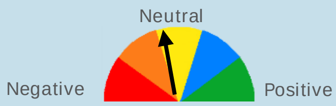
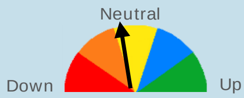
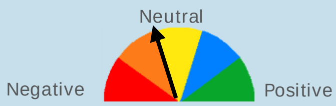
INTEREST RATE STRATEGY

With the market not fully pricing in the 50bps of RBNZ cuts we expect over 2016, there is scope for short-term rates to move lower over time. However, a near-term catalyst for yields to fall is absent, with domestic activity still robust and leading indicators holding up. The long end has taken comfort from the Fed's surprisingly dovish tone. We have lowered our near-term US bond forecasts, but New Zealand's still-high outright yields should help slow the climb in local long-term yields as geographic spreads narrow.

CURRENCY STRATEGY

USD effects are dominating the kiwi as NZD/USD trades above where it was before the RBNZ cut rates. We continue to view the risks to the NZD outlook as being to the downside, but do not see an imminent catalyst, particularly with local data still robust. This leaves us favouring selling NZD/USD at the top of the range, but without any urgency. We do, however, expect the USD to revert from last week's FOMC induced sell-off as the data continues to validate a gradual US rate normalisation path. That might well set off the next raft of unease as tensions between the real economy and financial markets flare.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.3% y/y for 2016 Q4	While growth momentum looks reasonable now, tighter financial conditions suggest a more moderate backdrop over 2H 2016.	
Unemployment rate	5.4% for 2016 Q4	The demand for labour has recovered, and labour supply is cooling from strong rates. Wage inflation is contained.	
OCR	1.75% by Dec 2016	A further 50bps of cuts this year. Growth is set to moderate, credit conditions have deteriorated, and global risks abound.	
CPI	0.9% y/y for 2016 Q4	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain low.	

ECONOMIC OVERVIEW

SUMMARY

We are back on the familiar treadmill of global unease inspiring more central bank action, softer rhetoric, and markets (who are hooked on the liquidity drug as opposed to watching fundamentals) going back up. While welcome and appropriate to a degree, we are left shaking our heads over the end-game amidst negative rates, currency shenanigans, limited micro reform, high leverage, and liquidity-inspired market behaviour. Locally, the economy continues to perform well. While our core view is still additional policy easing, it is globally dependent and the trade-offs need to be weighed carefully. It is a relatively quiet week for local data, although trade data should show a small monthly surplus, in line with the usual seasonal pattern.

FORTHCOMING EVENTS

Credit Card Spending – Feb (3:00pm, Monday, 21 March). Electronic Card Transactions data showed a reasonable increase in February and we expect the same here.

Fonterra Half-Year Results (Wednesday, 23 March). The underlying performance should be better, courtesy of the restructuring and cost reductions that have occurred, the low milk price supporting margins for some key business units, and a better operational performance from areas of previous underperformance.

Overseas Merchandise Trade – Feb (10:45am, Thursday, 24 March). In line with its usual seasonal pattern, we expect an improvement in the unadjusted trade balance (to circa $80m). Lower oil prices have contributed to a better underlying trend of late. That may have a month or two further to go, but weaker export prices should eventually dominate and see a deteriorating trend return.

WHAT'S THE VIEW?

Policymaker angst towards the global economic scene appears to have stepped up a notch of late. It was a clear reason behind the RBNZ's decision to cut the OCR, and has seen the Fed scale back its expected policy tightening this year. It also featured in decisions by the likes of the ECB, Norges Bank and Bank Indonesia to ease policy further, and was singled out as an important downside risk by the BoE, SNB and BoK. To be fair, the global situation was not the only factor contributing to policy easing or the only risk highlighted, but it certainly appeared to be a common one.

We share these concerns. Without going down the conspiracy theory path, we do find it interesting that this renewed policymaker concern appears to have followed recent G20 and BIS central bank meetings, in Shanghai no less. And everyone is talking about China more and more. Read into that what you will.

However, we also continue to ponder the end-game, considering:

- **Leverage; it's still high globally.** Many countries are solvent and house prices affordable only because interest rates are at record-low levels. That's not sustainable. China needs to deleverage next. There will be wobbles.
- **Negative interest rates; where debtors/borrowers are paid to borrow and creditors/investors have to pay to lend.** The economic text-books in 30 or 40 years' time are going to have some fun rationalising that within a free market economy.
- **Savers and the baby-boomers; the retiree nest-egg looks hollow** given current yields. People will work longer to compensate but there is a cash-flow "hole" pending, given where returns will settle.
- **Central banks are doing the heavy lifting; governments – through a lack of micro-economic reform – are not.** That's not good for sustainable medium-term growth prospects.
- **Each time markets throw a wobbly we're given more of the lower-for-longer interest rate steroid.** It's worked of late; the S&P 500 is up 12% in five weeks and back into positive territory for the year after a shocking start. Emerging Asia has roared back. Commodities are off their lows. The world looks a different place from a few weeks ago. Liquidity-driven support is king and economic fundamentals the joker; the latter hasn't changed one iota but market sentiment has swung hugely. Certainly central banks want to act in some instances of market distress, but each passing episode of even lower yields, more liquidity and rigid approaches to inflation targeting by some (turning a blind eye to leverage build-up for instance) makes us more wary of the medium-term consequences and trade-offs.
- **The race to lower policy rates and dovish overtures brings about more currency shenanigans**; the NZD is effectively back where it was before the OCR was cut! And we're not the only ones. The ECB and Norges Bank both delivered further easing (and signalled the possibility of more), yet their currencies are also stronger. Despite the Fed appearing as though it is the only major central bank meeting its

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mandate at present (unemployment is at 4.9% and its preferred measure of core inflation is at 1.7%), it is running gun shy from its tightening cycle and USD strength is being questioned in that environment. Currencies are simply the means by which problems are exported. As the saying goes, a problem shared is a problem halved. There is a lot of sharing going on! All eyes are on the renminbi.

Maybe it's all the sun Wellington has been receiving of late, but the combination of the above has us wondering if recent market behaviour can really continue. The recent rally in risk assets (equities, commodities, credit) certainly has us scratching our heads.

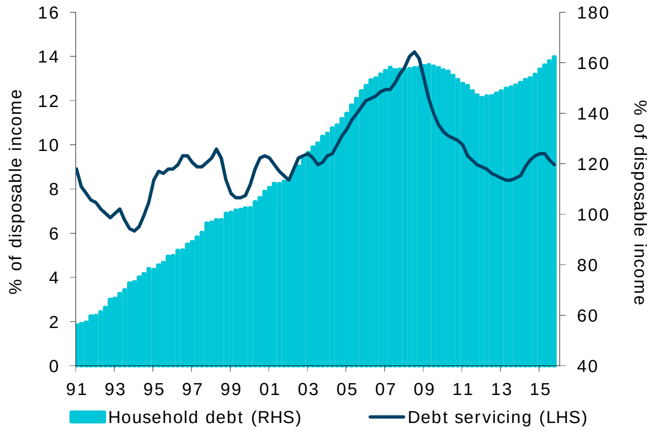
Against this convoluted backdrop, the New Zealand economy is at an interesting juncture and still performing well. The strains in the dairy sector and the increased global risks warrant attention. Yet this stands in complete contrast to the way the economy is performing at present. GDP data last week confirmed the economy ended the year with reasonable momentum, with 3½% annualised growth over the final six months of the year (which belies the 2.3% annual growth figure; 2015 was a real game of two halves). And while the gloss can be taken off the headline figures if you look at them in per capita terms over the calendar year, the economy still expanded at a 1.4% annualised per capita rate over the final six months, which is a decent acceleration from the contraction seen over the first six months. Over this time, unemployment was also falling and core inflation tracking up, so there is some "internal consistency" over the back half of the year.

Importantly, momentum has been maintained at a healthy clip in 2016 to date. Consumer confidence is holding up relatively well, as are a number of our other leading indicators (with the exception of our Financial Conditions Index). Anecdotes on the ground continue to have the positive hue of recent months and we continue to hear mind-blowing stories on the performance of some regional housing markets. There is no denying the emerging strength there. Resource pressures are also tightening.

That's an environment that would typically be flagging no more (or even less) monetary policy stimulus locally, as opposed to more. We're still picking more, but it's dependent on the global scene, and as we noted in last week's *Market Focus*, we're increasingly uneasy about the trade-offs.

On a side note, we have been informed that an error in the RBNZ's data means that the household debt to income ratio we talked about last week was incorrectly reported as being at 167%. It has been corrected to 162%. Not quite as bad, but still in excess of the GFC peak (of 159%). So it doesn't really change our view that there has been deterioration in some important structural metrics within the economy. Household saving has fallen, and while not as extreme, the ratio of household debt to income has still risen considerably. Households are re-leveraging. It needs to be watched.

FIGURE 1. HOUSEHOLD DEBT TO INCOME



Source: ANZ, RBNZ

Turning to the week ahead, as is often the case in the week immediately following the release of GDP figures it is relatively quiet for New Zealand data (it is also a holiday-shortened week, of course).

The main release is overseas trade figures for February, which we expect to show a small monthly surplus (of circa $80m). An improvement in the trade balance between January and February months has occurred in every one of the past ten years. So it is hard to argue against a further improvement from January's small $8 million surplus. That said, the drivers of this improvement have not been that stable over time. More often than not it is driven by a solid lift in export values. However, there are also occurrences where export values have actually fallen, and only because import values have fallen too has the trade balance improved. Perhaps this hints that the seasonal pattern is not necessarily that stable after all.

But stepping back from the volatility in monthly (unadjusted) trade figures, we are more interested in the underlying trend. And over recent months some improvement has sneaked in. On a seasonally adjusted basis, the trade balance has improved over the past two months, and although it remains in deficit (of $106m), this is the smallest deficit in eight months. On a trend basis, the trade

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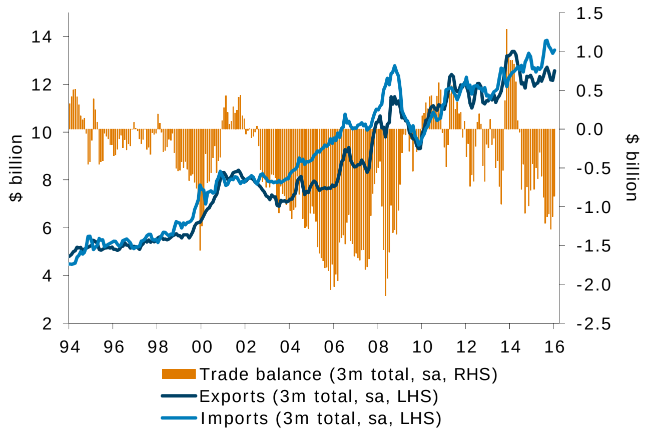
deficit is now the smallest in 10 months. It is hard to go past the impact of lower oil prices as a key driver behind this improvement. The price of New Zealand's crude oil imports (in NZD terms) has fallen close to 50% over the past six months, which is on par with the moves seen in broader oil prices.

But the benefit of this should soon start to wane. Further falls in implied imported oil prices over the next few months cannot be ruled out (there is always a lag between global spot prices and how this flow through into New Zealand's official trade figures – on the export side too). But with oil prices showing signs of stabilisation and our core view being that export price weakness (beyond just dairy) has further to run, we expect this to culminate into an ongoing fall in the terms of trade over 2016. This is also expected to be a driving force of a further widening in the trade deficit over the next year or so, contributing to deterioration in the current account deficit from today's relatively good starting point (3.1% of GDP).

FIGURE 2. MERCHANDISE TRADE BALANCE



Source: ANZ, RBNZ

Finally, Fonterra will release its half-year result on Wednesday. The underlying performance should be better courtesy of the restructuring/cost reductions that have occurred, margin support from the low milk price, and a better operational performance from areas of previous weakness.

The market will be looking at three main things:

1. **Performance of individual business units**. The ingredients and consumer/business are expected to perform strongly. This is in part due to a low milk price (input cost), but also the demand backdrop for many non-reference milk products (i.e. cheese, infant/child formula etc) being more favourable in many markets. The under-performers of recent years, such as Australia and Chinese farms, are also expected to be less of a drag.
2. **Farmer support initiatives**. The best result would be an upgrade to the dividend earnings outlook. But other initiatives might include paying out 100% of the dividend (current guidance 75-80%), relaxing share requirements, or an extension of Fonterra's loan scheme that was cut short when the milk price forecast headed back to $4.60/kg MS.
3. **Balance sheet strength.** There has been a lot of attention on the strength of Fonterra's balance sheet. Debt levels do look high relative to peer companies and to history. But part of this reflects the fact that Fonterra is required to process all milk supplied and therefore have to have appropriate capacity to do so. While the timing and perhaps the type of capacity added in the recent investment cycle hasn't been ideal, from Fonterra's perspective this new capacity will eventual be paid off through the capital charge included in the milk price calculation. The company also still has very large banking facilities which are undrawn (only $1.7 billion of $4.9 billion at end of last financial year). While the half-year results often make it difficult to gauge the underlying direction of the balance sheet, overall there should be some improvement as planned capacity expenditure is scaled back and business units have been made self-funding.

Overall the result should be better, providing some rays of light in what is an otherwise challenging environment for dairying.

LOCAL DATA

GlobalDairyTrade Auction. The GDT-TWI fell 2.9%, with whole milk powder prices down 1-2%.

Balance of Payments – Q4. The seasonally adjusted deficit widened by $221m to $1,948mn, although the annual deficit fell to 3.1% of GDP.

GDP – Q4. Production-based GDP expanded 0.9% q/q (2.3% y/y), with services and construction activity providing the largest contributions.

ANZ Job Ads – Feb. Total job ads lifted 0.9% m/m, following a 2.9% m/m fall.

ANZ-Roy Morgan Consumer Confidence – Mar. The index eased from 119.7 to 118.0. The Current Conditions Index dipped 3 points to 120.8, while the Future Conditions Index eased from 116.7 to 116.2.

Westpac-McDermott Miller Consumer Confidence – Q1. The index fell 1.1 points to 109.6.

International Travel & Migration – Feb. A net inflow of 6,070 (sa) was recorded. Seasonally adjusted visitor arrivals fell 1.6% m/m (+8.7% y/y).

INTEREST RATE STRATEGY

SUMMARY

With the market not fully pricing in the 50bps of RBNZ cuts we expect over 2016, there is scope for short-term rates to move lower over time. However, a near-term catalyst for yields to fall is absent, with domestic activity still robust and leading indicators holding up. The long end has taken comfort from the Fed's surprisingly dovish tone. We have lowered our near-term US bond forecasts, but New Zealand's still-high outright yields should help slow the climb in local long-term yields as geographic spreads narrow.

THEMES

- Global yields have generally fallen, supported by dovish central bank nuances, with curves flattening towards the end of the week. An improving string of US data and slowing market volatility have not been sufficient to appease concerns of nervous central banks.
- We still expect a further 50bps of OCR cuts but that's heavily conditional on the global outlook. We doubt the market can go further near term given the reasonably robust domestic backdrop.
- The Fed is now in an awkward position; real economic data justifies higher rates but will markets (which are driven more by liquidity than fundamentals) cope?
- We have lowered our US bond forecasts, but we still expect yields to rise, with signalled easier Fed policy going head to head with the Fed getting behind the curve, and improving data. Risks are biased towards curve steepening.
- Geographical spreads are expected to narrow, with our high outright local yields and opposing policy biases keeping geographic spreads on a narrowing trajectory, slowing the gradual rise in NZ long-end yields.

PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Neutral/ Bullish	Short end lower, long end rates still high in global context.
2s10s Curve	Steeper	OCR cuts coming, but long end still biased mildly higher.
Geographic 10yr spread	Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Long-end spreads at risk of narrowing, given supply.

BACK INTO THE FOLD

Central banks are once again supporting market sentiment via the allure of cheap money for longer. The last week saw:

- A dovish Fed assessment – highlighting global and financial market developments and a more moderate domestic outlook – largely overshadowed other events last week. The published "dot plots" were scaled back, with 50bps of tightening signalled for 2016 and a lower endpoint for the fed funds rate (see Figure 1).
- Comments by the ECB's Chief Economist Praet did not rule out further ECB easing, as rates "have not reached the physical lower bound" and "a rate reduction remains in our armoury". This pushed against earlier expectations the ECB were 'done'.
- A 25bp cut by the Norges Bank, a signal of a further cut later this year, and not ruling out negative rates despite risks to the financial system. Despite leaving policy unchanged last week, the Swiss National Bank noted the "global economic outlook is somewhat less favourable".
- An unchanged policy decision by the BOJ, but a downgrading of their assessment of current economic conditions. More easing from the BoJ is likely, with all policy options open.
- The odd one out was arguably the BoE, which, despite highlighting these same downside risks from the globe (as well as concerns over Brexit), is sticking to its view that the next move in rates is still likely to be up.

This has led to a sharp rally in global yields and a weaker USD, with the curve flattening, and a mild pullback in interest rate expectations (odds of a 25bp hike over 2016 have fallen from 80% prior to the Fed decision to closer to 70%). Falls in local yields have been milder, with resilient local data helping to partly offset receiving-side pressure.

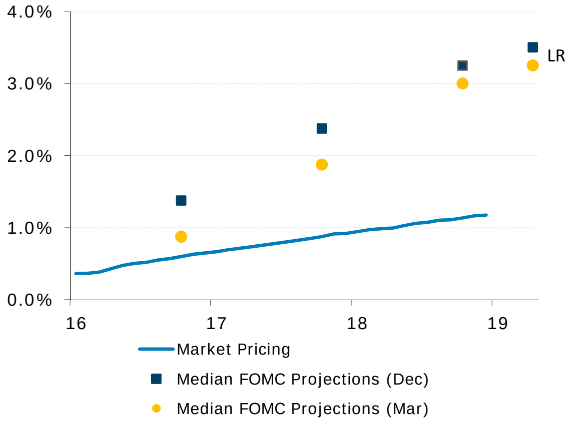
The front end of the New Zealand market continues to err against fully pricing in the 50bps of RBNZ cuts we expect over 2016. That doesn't surprise us. Signs of an improvement in sentiment globally (albeit driven by expectations of more central bank support), the RBNZ's core scenario being one more cut only, and continued positive local nuances are reasons for caution.

Longer term, we still see scope for short-term rates to move lower but it's a strategic bias as opposed to expecting movement right here and now. The focal point is two to three year rates, which are still "within coo-ee" of current OCR settings. Critical here are our views on the global scene (unlikely to remain stable), the NZD (back up to pre-cut highs), and tighter financial conditions. Average carded borrowing rates have declined by roughly half of the 25bp OCR cut, suggesting the RBNZ may have to do

INTEREST RATE STRATEGY

more on the OCR. But that's a story for later in the year – for now we think the short end is reasonably fairly priced given the risk profile, the RBNZ's bias, and opposing domestic/global nuances.

FIGURE 1: FEDERAL FUND RATE PROJECTIONS



Source: ANZ, Bloomberg

Given the dovish Fed, we have shaded down our forecasts for US Treasury yields (but we still expect them to rise) with 10-year rates expected to drift up to 2.2% by the end of this year and 2.8% by late 2017. While the Fed's dovish tone (and easy policy elsewhere) has soothed markets for now, with equities, US core inflation and oil prices looking to be past their lows (helped in part by a lower USD), there is a non-negligible risk that central banks find themselves behind the curve (if they are not there already), adding to steepening pressure. As such, **we are a little more circumspect over the outlook for long-term yields, and prefer to be strategically positioned for higher term rates and a steeper curve, with the short end anchored by expectations for further cuts, and the long end biased higher as US yields rise.**

We also expect NZ/US spreads to continue to narrow, offsetting some of the negativity at the long end. **The persistent theme that continues to play out in global markets is convergence – and the more central banks play the easy policy card, the more convergence we expect to see.** New Zealand yields remain stand-outs compared to G10 counterparts, and offshore ownership continues to rise: latest data (released last week) showed that holdings reached yet another record high in February. There has been some shuffling of maturities (towards shorter maturities), reinforcing the notion that it is the high cash rate and generally high term structure of interest rates that is attracting investors.

PREFERRED STRATEGIES – BORROWERS

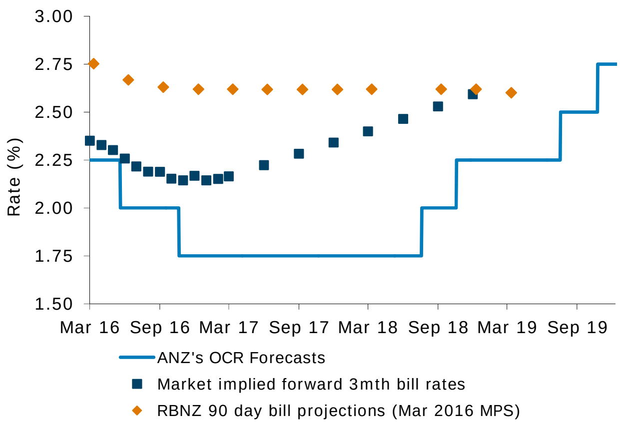
With 10-year swap rates close to record lows, it is difficult to argue that fixing now does not offer good value from an historical perspective. However, rates could move lower still, especially for tenors out to 5 years. But what really concerns us is what happens to hedge effectiveness as credit spreads widen. If wider credit spreads lead to more RBNZ easing and lower swap rates, hedges designed to protect against rising rates will become ineffective, as they don't guard against what's really driving overall funding costs up – i.e. wider spreads. This – and the volatile trading environment – **has us biased towards favouring an option-based strategy when it comes to new hedging.** Floating rates are also historically cheap, particularly with our expectation of a further 50bps of cuts by the end of the year. This makes the decision to take on more expensive term cover an even more difficult one – hence our preference for optionality.

KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Options preferred so as to maintain exposure to lower floating interest rates.
Value	Cheap	Low, but the catalyst for an immediate rise is absent.
Uncertainty	Elevated	The key reason for caution.

MARKET EXPECTATIONS

An April OCR cut is about 35% priced in, with 21bps of cuts by June, 28bps by August, and close to 35bps of cuts by the end of the year.[1] Our core view is for 50bps of OCR cuts this year, and for the OCR to remain on hold until mid-2018. As such, there is potential for short-term yields to rally and for the curve to steepen.

FIGURE 2: ANZ OCR FORECAST VERSUS MARKET-IMPLIED FORWARD 3MTH BILL RATES AND RBNZ 90-DAY BILL PROJECTIONS



Source: ANZ, Bloomberg

[1] From July, the new schedule for OCR decisions will be introduced, with four *MPS* and associated OCR announcements each year (in February, May, August and November) and three intervening OCR Reviews (in March, June and September).

CURRENCY STRATEGY

SUMMARY

USD effects are dominating the kiwi as NZD/USD trades above where it was before the RBNZ cut rates. We continue to view the risks to the NZD outlook as being to the downside, but do not see an imminent catalyst, particularly with local data still robust. This leaves us favouring selling NZD/USD at the top of the range, but without any urgency. We do, however, expect the USD to revert from last week's FOMC induced sell-off as the data continues to validate a gradual US rate normalisation path. That might well set off the next raft of unease as tensions between the real economy and financial markets flare.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔/↓	Too expensive	Downside risks
NZD/AUD	↔/↑	Bottom of the range	Remain above long-run averages
NZD/EUR	↔	Still in range	EUR capped by ECB?
NZD/GBP	↔	Consolidating	GBP resurgence
NZD/JPY	↔/↑	BoJ could do more	JPY finding a range

THEMES AND RISKS

- The Fed was more circumspect despite a lower unemployment rate and higher core inflation. Tension between the real economy and financial markets (which have recovered on dovish nuances) looks around the corner.
- GBP and EUR should remain capped this week, as with little data available markets will re-focus on political considerations in the UK and Europe.
- China warned over leverage in the system at the weekend. This warning marks a return to efforts to rebalance the economy, after a period of effort to stabilise the market.

TABLE 2: KEY UPCOMING EVENT RISK			
EVENT		WHEN (NZDT)	IMPACT RISK
GBP	CBI Trends	Tue 00:00	NZD/GBP ↓
AUD	RBA Stevens	Tue 18:30	NZD/AUD ↑
EUR	German IFO survey	Tue 22:00	NZD/EUR ↓
GBP	CPI, RPI, PPI	Tue 22:30	NZD/GBP ↔/↓
USD	Richmond Fed	Wed 03:00	NZD/USD ↓
NZD	Fonterra results	Wed am	NZD ↓
CAD	Federal Budget	Wed 09:00	NZD/CAD ↓
AUD	Skilled vacancies	Wed 13:00	NZD/AUD ↔/↓
USD	New home sales	Thu 03:00	NZD/USD ↔/↓
EUR	Consumer confidence	Thu 04:00	NZD/EUR ↔/↓
NZD	T/B	Thu 10:45	NZD ↓
SGD	2016 Budget	Thu 21:00	NZD/SGD ↑
EUR	Markit PMIs	Thu 22:00	NZD/EUR ↓
GBP	Retail sales	Thu 22:30	NZD/GBP ↑
USD	Markit PMI	Fri 02:45	NZD/USD ↓
JPY	CPI	Fri 12:30	NZD/JPY ↑
USD	Q4 GDP (third read)	Sat 01:30	NZD/USD ↔/↓
USD	Personal income/spend	Tue 01:30	NZD/USD ↓

EXPORTERS' STRATEGY

The NZD is at the top of the range, with a risk positive rally that continues to confound. As such we favour holding off hedging for now, waiting for better levels.

IMPORTERS' STRATEGY

Importers should consider hedging at current levels. We are near range edges and the TWI remains strong and disconnected with other markets.

DATA PULSE

The USD was broadly sold, as the FOMC struck decidedly dovish tones and halved the number of hikes it projects this year. However, US data was at odds with this given rising core inflation and inflation expectations along with strength in the March Empire and Philadelphia Fed manufacturing surveys. Retail sales, housing starts and jobless claims were also better than expectations.

The NZD/USD rally, driven by USD selling, was aided by a strong Q4 GDP report. However, the GDT auction, and ANZ consumer confidence continued to decline, although falls were modest.

AUD/USD buying was boosted by the employment report, where the unemployment rate dropped back to 5.8% – reversing the prior uplift. The RBA minutes showed the RBA remained relatively unmoved by recent global events.

GBP rallied last week as the employment report remained strong, the BoE downplayed prospects for negative rates, and the UK delivered a mildly expansionary budget. However Brexit fears remain.

NOK rallied despite Norges bank cutting rates to 0.5%, warning that negative rates were possible.

TABLE 3: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages
Yield	↔/↓	More downside risks to NZ rates
Commodities	↓	Iron ore stable, milk not so much
Data	↔/↓	NZ data tenor to soften
Techs	↔/↑	On support
Sentiment	↔	Equal reactions to sentiment
Other	↑↓	Volatility is high
On balance	↔/↑	**Bottom of the two year range**

TABLE 4: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value
Yield	↔/↓	Yield advantage to change
Commodities	↔/↓	Dairy expected to stabilise, but non-dairy is a risk
Risk aversion	↔↑	Resilience to risk notable
Data	↓	Peak NZ optimism/ US pessimism?
Techs	↓	Top of the range
Other	↓	China remains a key downside
On balance	↔/↓	**Downside risks**

CURRENCY STRATEGY

TECHNICAL OUTLOOK

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

NZD/USD is currently testing the top of the channel it has occupied for the last 9 months. This resistance is pivotal as it also represents the 50% retracement of the move from the pessimism of the GFC in 2009 to the peak of optimism with the post-float high. However, a move higher still has to overcome significant resistance near 0.7150-0.72 before the overall downtrend is negated.

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

The oversold nature of NZD/AUD has been easing as it respects the well-defined support level. This level remains pivotal for those with a longer focus as it marks the base for the last two and a half years. Technically, 0.87-0.89 is the buy zone.

TABLE 5: KEY TECHNICAL ZONES		
CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6620 – 0.6630 0.6480 – 0.6520	0.6920 – 0.6940 0.7140 – 0.7160
NZD/AUD	0.8820 – 0.8840 0.8700 – 0.8740	0.9040 – 0.9080 0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6280 – 0.6330
NZD/GBP	0.4630 – 0.4660	0.4930 – 0.4980
NZD/JPY	73.50 – 74.00 69.80 – 70.20	79.50 – 80.00 82.40 – 83.00

POSITIONING

Markets had been reducing USD positions prior to the FOMC, with the exception of EUR shorts, which had been increased. Also notable were GBP shorts, which were significantly reduced. AUD and NZD longs were added to, but overall positions remained small.

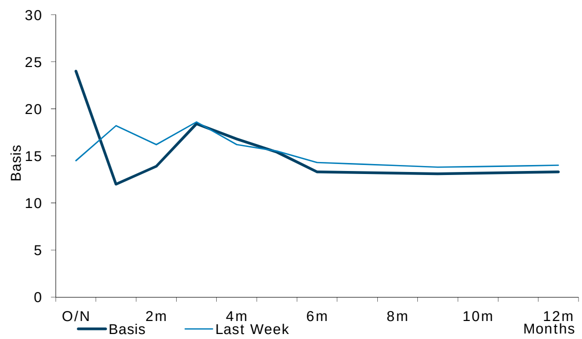
GLOBAL VIEWS

The NZD/USD continued to rally last week primarily driven by USD factors. The FOMC halved its median expectation for the number of Fed hikes, downplayed the firming in US core inflation and raised concern that "global economic and financial developments [will] continue to pose risks". This drove a wholesale liquidation in USD positions, sending NZD/USD to test the top of the channel it has occupied for the last nine months. It also pushed AUD/USD to break the 0.75 resistance that had capped it over the same period.

With such definitive price action, it may seem hard for the USD to reverse these losses in the short term. However, we continue to believe in the US data pulse, which is telling us a different story. The NY Empire and Philadelphia Fed survey have both accelerated in March, and our analysis of CPI suggest the recent rise in core CPI is relatively broad-based, leaving June a live meeting for the FOMC and the USD. Thus we maintain the spirit of our forecasts seeing the risks for NZD/USD remaining to the downside – even if with the USD liquidation there is risk that this view plays out over a longer time frame and allows for greater spikes.

FORWARDS: CARRY AND BASIS

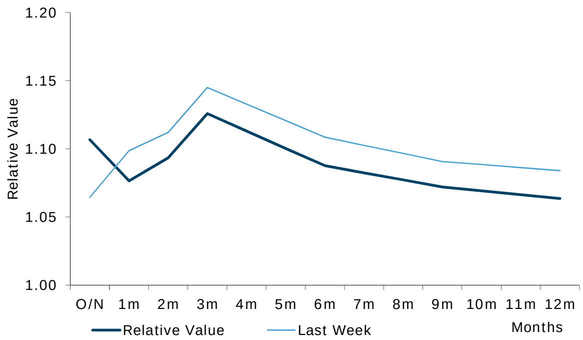
FIGURE 3. NZD/USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

The forward market continues to suggest offshore are short kiwi balances (spot FX) day to day, reflecting the fact that cash has been trading +30/+20 this week. This has driven short basis lower, and we expect this pressure to continue.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Mar	UK	Rightmove House Prices MoM - Mar	--	2.9%	13:01
	UK	Rightmove House Prices YoY - Mar	--	7.3%	13:01
	NZ	Credit Card Spending MoM - Feb	--	2.3%	15:00
	NZ	Credit Card Spending YoY - Feb	--	8.9%	15:00
	EC	ECB Current Account SA - Jan	--	€25.5B	22:00
	EC	Current Account NSA - Jan	--	€41.4B	22:00
22-Mar	UK	CBI Trends Total Orders - Mar	-14	-17	00:00
	UK	CBI Trends Selling Prices - Mar	--	-3	00:00
	US	Chicago Fed Nat Activity Index - Feb	0.25	0.28	01:30
	US	Existing Home Sales - Feb	5.31M	5.47M	03:00
	US	Existing Home Sales MoM - Feb	-2.9%	0.4%	03:00
	AU	ANZ-RM Consumer Confidence Index - 20-Mar	--	116.4	11:30
	AU	House Price Index QoQ - Q4	0.0%	2.0%	13:30
	AU	House Price Index YoY - Q4	8.5%	10.7%	13:30
	GE	Markit/BME Manufacturing PMI - Mar P	50.8	50.5	21:30
	GE	Markit Services PMI - Mar P	55.0	55.3	21:30
	GE	Markit/BME Composite PMI - Mar P	54.1	54.1	21:30
	GE	IFO Business Climate - Mar	106.0	105.7	22:00
	GE	IFO Current Assessment - Mar	112.7	112.9	22:00
	GE	IFO Expectations - Mar	99.5	98.8	22:00
	EC	Markit Manufacturing PMI - Mar P	51.4	51.2	22:00
	EC	Markit Services PMI - Mar P	53.3	53.3	22:00
	EC	Markit Composite PMI - Mar P	53	53	22:00
	UK	CPI MoM - Feb	0.4%	-0.8%	22:30
	UK	CPI YoY - Feb	0.4%	0.3%	22:30
	UK	CPI Core YoY - Feb	1.2%	1.2%	22:30
	UK	Retail Price Index - Feb	260.2	258.8	22:30
	UK	RPI MoM - Feb	0.5%	-0.7%	22:30
	UK	RPI YoY - Feb	1.3%	1.3%	22:30
	UK	RPI Ex Mort Int.Payments (YoY) - Feb	1.4%	1.4%	22:30
	UK	PPI Input NSA MoM - Feb	0.5%	-0.7%	22:30
	UK	PPI Input NSA YoY - Feb	-7.4%	-7.6%	22:30
	UK	PPI Output NSA MoM - Feb	0.0%	-0.1%	22:30
	UK	PPI Output NSA YoY - Feb	-1.2%	-1.0%	22:30
	UK	PPI Output Core NSA MoM - Feb	0.1%	0.1%	22:30
	UK	PPI Output Core NSA YoY - Feb	0.1%	0.0%	22:30
	UK	ONS House Price YoY - Jan	--	6.7%	22:30
	UK	Public Finances (PSNCR) - Feb	--	-£24.9B	22:30
	UK	Central Government NCR - Feb	--	-£20.2B	22:30
	UK	Public Sector Net Borrowing - Feb	£5.1B	-£11.8B	22:30
	UK	PSNB ex Banking Groups - Feb	£5.9B	-£11.2B	22:30
	GE	ZEW Survey Current Situation - Mar	53.0	52.3	23:00
	GE	ZEW Survey Expectations - Mar	5.4	1.0	23:00
	EC	ZEW Survey Expectations - Mar	--	13.6	23:00
23-Mar	US	FHFA House Price Index MoM - Jan	0.5%	0.4%	02:00
	US	Markit Manufacturing PMI - Mar P	51.9	51.3	02:45
	US	Richmond Fed Manufact. Index - Mar	0	-4	03:00
	AU	Skilled Vacancies MoM - Feb	--	0.4%	13:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
24-Mar	US	MBA Mortgage Applications - 18-Mar	--	-3.3%	00:00
	US	New Home Sales - Feb	510k	494k	03:00
	US	New Home Sales MoM - Feb	3.2%	-9.2%	03:00
	EC	Consumer Confidence - Mar A	-8.3	-8.8	04:00
	NZ	Trade Balance - Feb	90M	8M	10:45
	NZ	Exports - Feb	4.01B	3.90B	10:45
	NZ	Imports - Feb	3.90B	3.89B	10:45
	NZ	Trade Balance 12 Mth YTD - Feb	-3562M	-3578M	10:45
	GE	Import Price Index MoM - Feb	-0.2%	-1.5%	20:00
	GE	Import Price Index YoY - Feb	-5.1%	-3.8%	20:00
	GE	GfK Consumer Confidence - Apr	9.5	9.5	20:00
	EC	ECB Publishes Economic Bulletin -			22:00
	UK	Retail Sales Ex Auto Fuel MoM - Feb	-1.0%	2.3%	22:30
	UK	Retail Sales Ex Auto Fuel YoY - Feb	3.5%	5.0%	22:30
	UK	Retail Sales Inc Auto Fuel MoM - Feb	-0.7%	2.3%	22:30
	UK	Retail Sales Inc Auto Fuel YoY - Feb	3.9%	5.2%	22:30
	UK	BBA Loans for House Purchase - Feb	47900	47509	22:30
25-Mar	UK	CBI Retailing Reported Sales - Mar	10	10	00:00
	UK	CBI Total Dist. Reported Sales - Mar	--	19	00:00
	US	Initial Jobless Claims - 19-Mar	268k	265k	01:30
	US	Continuing Claims - 12-Mar	2230k	2235k	01:30
	US	Durable Goods Orders - Feb P	-3.0%	4.7%	01:30
	US	Durables Ex Transportation - Feb P	-0.3%	1.7%	01:30
	US	Cap Goods Orders Nondef Ex Air - Feb P	-0.5%	3.4%	01:30
	US	Cap Goods Ship Nondef Ex Air - Feb P	0.2%	-0.4%	01:30
	US	Markit Services PMI - Mar P	51.4	49.7	02:45
	US	Markit Composite PMI - Mar P	--	50	02:45
	US	Kansas City Fed Manf. Activity - Mar	--	-12	04:00
	JN	Natl CPI YoY - Feb	0.3%	0.0%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Feb	0.0%	0.0%	12:30
	JN	Natl CPI Ex Food, Energy YoY - Feb	0.8%	0.7%	12:30
	JN	Tokyo CPI YoY - Mar	-0.1%	0.1%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Mar	-0.2%	-0.1%	12:30
	JN	Tokyo CPI Ex Food, Energy YoY - Mar	0.5%	0.5%	12:30
	JN	PPI Services YoY - Feb	0.2%	0.2%	12:50
26-Mar	US	GDP Annualized QoQ - Q4 T	1.0%	1.0%	01:30
	US	Personal Consumption - Q4 T	2.0%	2.0%	01:30
	US	GDP Price Index - Q4 T	0.9%	0.9%	01:30
	US	Core PCE QoQ - Q4 T	1.3%	1.3%	01:30

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

Domestic economic momentum is reasonable at present. However, downside risks are present (mainly from offshore) and with inflation already low, we believe the RBNZ will cut the OCR twice more this year.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Thu 24 Mar (10:45am)	Overseas Merchandise Trade – Feb	Deteriorating	Oil price falls have contributed to an improving trend in the trade balance of late. That could last a bit longer yet, although further export price weakness should eventually dominate.
Wed 30 Mar (10:45am)	Building Consents Issued – Feb	Recovery	Dwelling consent issuance fell sharply in January. But we see this as monthly volatility and are expecting a bounce.
Thu 31 Mar (1:00pm)	ANZ Business Outlook – Mar	--	--
Thu 31 Mar (3:00pm)	RBNZ Credit Aggregates – Feb	Peaked	Credit growth is running ahead of income growth, but we do believe a peak is now in place.
Tue 5 Apr (10:00am)	NZIER QSBO – Q1	Services led	Services activity at the forefront of domestic expansion. Benign pricing intentions, although capacity metrics to flag tensions.
Tue 5 Apr (1:00pm)	ANZ Commodity Price Index – Mar	--	--
Wed 6 Apr (early am)	GlobalDairyTrade Auction	Bouncing along the bottom	The fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Wed 6 Apr (12:00pm)	QV House Prices – Mar	Regional mix	The Auckland market has cooled and should be capped by affordability considerations. Regional markets are booming.
Thu 7 Apr (10:00am)	ANZ Truckometer – Mar	--	--
Fri 8 Apr (10:00am)	Government Financial Statements – Feb	In line	The numbers should be relatively close to forecast, with the impact of soft inflation offset by stronger activity.
Fri 8 Apr (1:00pm)	ANZ Monthly Inflation Gauge – Mar	--	--
11-15 Apr	REINZ Housing Statistics – Mar	Regional mix	The Auckland market has cooled and should be capped by affordability considerations. Regional markets are booming.
Mon 11 Apr (10:45am)	Electronic Card Transactions – Mar	Decent	Lower petrol prices, falling mortgage rates, strong population growth and an improving labour market are key supports.
Wed 13 Apr (10:45am)	Food Prices – Mar	Drop	A modest fall is likely as prices continue to unwind the sharp increase in January.
Thu 14 Apr (10:30am)	BNZ-Business NZ Manufacturing PMI - Mar	Holding up	Outside of monthly volatility, sentiment should have held up okay, with support from a solid domestic economy evident.
Mon 18 Apr (10:45am)	CPI – Q1	Soft	Petrol price falls act as a large drag on the headline result, which we expect to lift by a modest 0.1% q/q (0.3% y/y).
Tue 19 Apr (10:30am)	BNZ-Business NZ PSI – Mar	Holding up	Services sectors have generally been leading the expansion.
Wed 20 Apr (early am)	GlobalDairyTrade Auction	Bouncing along the bottom	The fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Thu 21 Apr (10:00am)	ANZ Job Advertising – Mar	--	--
Thu 21 Apr (10:45am)	International Travel & Migration – Mar	Near a peak?	While it is possible that net inflows peak around current record levels, it is hard to see a turn lower without the domestic economy deteriorating.
Thu 21 Apr (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Apr	--	--
On balance		**Data watch**	**Reasonable momentum at present, but with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
GDP (% qoq)	0.9	**0.5**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.3	**2.6**	**2.8**	**2.6**	**2.3**	**2.5**	**2.6**	**2.6**	**2.7**	**2.7**
CPI (% qoq)	-0.5	**0.1**	**0.4**	**0.4**	**0.0**	**0.6**	**0.4**	**0.7**	**0.3**	**0.3**
CPI (% yoy)	0.1	**0.3**	**0.3**	**0.4**	**0.9**	**1.4**	**1.4**	**1.7**	**1.9**	**1.9**
Employment (% qoq)	0.9	**0.6**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.4	**1.3**	**1.6**	**2.6**	**2.1**	**1.9**	**1.8**	**1.7**	**1.7**	**1.7**
Unemployment Rate (% sa)	5.3	**5.8**	**5.7**	**5.6**	**5.4**	**5.3**	**5.3**	**5.2**	**5.1**	**5.1**
Current Account (% GDP)	-3.1	**-3.2**	**-3.5**	**-4.3**	**-5.1**	**-5.9**	**-6.2**	**-6.0**	**-5.5**	**-5.5**
Terms of Trade (% qoq)	-2.0	**-4.1**	**-6.9**	**-6.0**	**-4.4**	**-0.1**	**2.9**	**4.8**	**3.9**	**3.9**
Terms of Trade (% yoy)	-3.2	**-8.2**	**-15.8**	**-17.7**	**-19.7**	**-16.4**	**-7.6**	**3.1**	**12.0**	**12.0**

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Retail ECT (% mom)	0.5	0.4	0.4	0.9	0.1	0.8	0.1	0.4	0.7	--
Retail ECT (% yoy)	5.0	5.6	4.2	6.1	5.8	4.6	6.6	5.2	9.2	--
Credit Card Billings (% mom)	0.3	1.7	1.5	-1.9	1.7	0.7	-0.8	2.3	--	--
Credit Card Billings (% yoy)	6.7	9.7	10.4	7.3	7.8	8.5	7.4	8.9	--	--
Car Registrations (% mom)	5.2	0.5	-2.3	0.0	-1.3	-2.0	3.1	-2.9	5.7	--
Car Registrations (% yoy)	11.2	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	7.4	--
Building Consents (% mom)	-4.2	23.6	-8.1	-5.3	5.3	1.7	2.3	-8.2	--	--
Building Consents (% yoy)	-3.9	22.3	11.4	17.2	14.7	7.5	17.3	4.8	--	--
REINZ House Price Index (% yoy)	14.8	14.9	17.3	20.1	14.1	12.5	12.6	10.7	11.9	--
Household Lending Growth (% mom)	0.6	0.7	0.6	0.7	0.7	0.6	0.6	0.6	--	--
Household Lending Growth (% yoy)	5.6	6.0	6.3	6.7	7.0	7.2	7.4	7.5	--	--
ANZ Roy Morgan Consumer Conf.	119.9	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7	118.0
ANZ Business Confidence	-2.3	-15.3	-29.1	-18.9	10.5	14.6	23.0	..	7.1	--
ANZ Own Activity Outlook	23.6	19.0	12.2	16.7	23.7	32.0	34.4	..	25.5	--
Trade Balance ($m)	-182	-730	-1090	-1140	-905	-796	-38	8	--	--
Trade Bal ($m ann)	51371	51643	52446	52287	52101	52648	52511	52772	--	--
ANZ World Commodity Price Index (% mom)	-3.1	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	0.4	--
ANZ World Comm. Price Index (% yoy)	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	--
Net Migration (sa)	4930	5740	5490	5590	6130	6240	5550	6130	6070	--
Net Migration (ann)	58259	59639	60290	61234	62477	63659	64930	65911	67391	--
ANZ Heavy Traffic Index (% mom)	1.7	0.0	-0.4	2.0	0.9	0.2	2.9	-4.3	1.6	--
ANZ Light Traffic Index (% mom)	0.9	-0.2	-0.5	2.7	-1.1	0.2	0.9	-1.3	2.0	--

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	Jan-16	Feb-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZD/USD	0.648	0.661	0.679	0.63	0.61	0.59	0.59	0.60	0.61	0.63
NZD/AUD	0.915	0.925	0.894	0.94	0.94	0.92	0.92	0.92	0.92	0.93
NZD/EUR	0.599	0.606	0.602	0.59	0.58	0.55	0.54	0.54	0.53	0.53
NZD/JPY	78.55	74.62	75.64	69.3	64.1	62.0	62.0	60.0	61.0	63.0
NZD/GBP	0.455	0.477	0.469	0.46	0.45	0.41	0.39	0.39	0.39	0.39
NZ$ TWI	70.5	71.0	72.1	68.8	67.0	64.2	63.7	63.7	64.1	64.9
INTEREST RATES	Jan-16	Feb-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZ OCR	2.50	2.50	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75
NZ 90 day bill	2.70	2.56	2.34	2.40	2.10	2.10	1.90	1.90	1.90	1.90
NZ 10-yr bond	3.22	2.97	2.98	3.10	3.00	2.90	2.90	3.10	3.20	3.40
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	0.61	0.63	0.62	0.65	0.83	0.83	1.08	1.08	1.33	1.33
AU Cash Rate	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.29	2.29	2.33	2.20	2.30	2.40	2.40	2.40	2.40	2.40

	18 Feb	14 Mar	15 Mar	16 Mar	17 Mar	18 Mar
Official Cash Rate	2.50	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.60	2.38	2.37	2.36	2.35	2.35
NZGB 12/17	2.47	2.17	2.17	2.18	2.14	2.11
NZGB 03/19	2.58	2.29	2.30	2.32	2.27	2.25
NZGB 04/23	3.10	3.04	3.07	3.11	3.05	2.98
NZGB 04/27	3.44	3.36	3.38	3.41	3.35	3.30
2 year swap	2.51	2.31	2.29	2.29	2.24	2.24
5 year swap	2.69	2.46	2.45	2.48	2.43	2.41
RBNZ TWI	72.4	71.96	71.37	70.86	71.95	72.34
NZD/USD	0.67	0.68	0.67	0.66	0.68	0.68
NZD/AUD	0.93	0.89	0.89	0.89	0.89	0.89
NZD/JPY	75.95	76.87	75.83	74.86	76.27	76.14
NZD/GBP	0.47	0.47	0.47	0.47	0.47	0.47
NZD/EUR	0.60	0.61	0.60	0.59	0.60	0.60
AUD/USD	0.72	0.76	0.75	0.75	0.76	0.77
EUR/USD	1.11	1.12	1.11	1.11	1.12	1.13
USD/JPY	114.01	113.86	113.79	113.37	112.73	111.25
GBP/USD	1.43	1.44	1.43	1.41	1.43	1.45
Oil (US$/bbl)	30.68	38.51	37.20	36.32	38.43	40.17
Gold (US$/oz)	1209.30	1252.25	1229.20	1231.85	1256.70	1263.10
Electricity (Haywards)	6.55	6.43	6.31	6.58	6.62	6.63
Baltic Dry Freight Index	313	393	396	393	392	395
Milk futures (USD)	33	39	38	40	42	41

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