ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

22 August 2016

INSIDE

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ROLLING ON

ECONOMIC OVERVIEW

New Zealand's growth picture still looks good, and some downside risks (dairy) are also starting to diminish. Outside of quarterly volatility (strong Q2 and perhaps a softer Q3), it is a growth story we expect to continue. Further capacity pressures should emerge as a result, although new underutilisation figures suggest spare capacity in the labour market remains, giving a little more context to recent benign wage growth. It of course contrasts with firms reporting it is more difficult to find staff, although that just further supports the argument that the "mix" of current strong migration gains is not quite right. This week a small trade deficit is likely, while new lending figures will remain strong ahead of the next round of LVR restrictions.

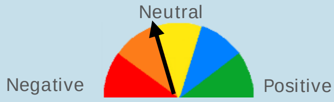
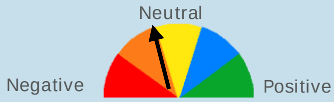
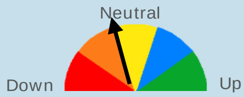
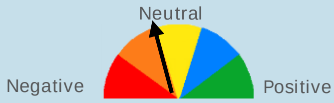
INTEREST RATE STRATEGY

Short-end rates remain biased lower, with market pricing shy of the two OCR cuts by February that we expect. Feedback from investors seen in Asia last week suggests a high degree of suspicion that the RBNZ is genuinely prepared to take the OCR down towards 1%, as implied by the alternative scenarios. This is despite a near-universal expectation that the TWI will hold up (and it has gone higher since the *MPS*) and lukewarm expectations for Fed policy. How quickly the Fed lifts policy rates will clearly have an impact, but with the NZ/US policy gap set to close by 75bps over the next six months, we remain bullish NZGS on a spread to the US, and expect the curve to flatten and spreads to narrow once the NZGS 2037 syndication is priced (probably later this week).

CURRENCY STRATEGY

"Buy on dips" still trumps "sell on rallies". While the NZD looks extended around current levels valuation-wise (TWI 77), sell signals are absent. Commodities have bounced, domestic data is strong, risk appetites are stable and the market is coy about front-running the RBNZ too far with rate cuts – and the Fed with hikes. We expect that to change from a number of sides in a couple of months; less pristine domestic data and firmer expectations towards the Fed. So while we retain a supportive NZD view, it is tempered with an acknowledgement that a turning point is looking near.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.4% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	
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.	
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.	
CPI	0.7% 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.	

ECONOMIC OVERVIEW

SUMMARY

New Zealand's growth picture still looks good, and some downside risks (dairy) are also starting to diminish. Outside of quarterly volatility (strong Q2 and perhaps a softer Q3), it is a growth story we expect to continue. Further capacity pressures should emerge as a result, although new underutilisation figures suggest spare capacity in the labour market remains, giving a little more context to recent benign wage growth. It of course contrasts with firms reporting it is more difficult to find staff, although that just further supports the argument that the "mix" of current strong migration gains is not quite right. This week a small trade deficit is likely, while new lending figures will remain strong ahead of the next round of LVR restrictions.

FORTHCOMING EVENTS

Overseas Merchandise Trade – July (10:45am, Wednesday, 24 August). We expect a small monthly trade deficit of circa $280m. Over the next 12 months, deterioration is still on the cards, although perhaps not as much as was looking the case a few months ago.

RBNZ New Residential Mortgage Lending – July (3:00pm, Wednesday 24 August). Ahead of the latest round of LVR restrictions, we are expecting another strong month of new lending growth, although perhaps not as strong as prior months as banks begin to tighten lending criteria.

WHAT'S THE VIEW?

Evidence continues to reinforce New Zealand's decent growth story. Improving dairy prices are dampening a major source of downside risk, consumer sentiment is holding at decent levels, and the underlying trend in visitor arrivals remains strong. Even if we discount the unbelievable strength in HLFS employment data, buoyancy ties in with other data (job ads, which have risen for six consecutive months) and skill shortages (QSBO and our Small Business Monitor). We continue to see reasonable odds that the economy grew at a pace north of 1% in Q2 and by and large we see this positive story continuing. Our confidence composite gauge is pointing to GDP growth in a 3% to 4% range over the coming year, which is our forecast. There are scant signs the economy is set to roll over.

There will be some volatility ahead, admittedly. The stronger Q2 growth is, the greater the potential for some pay-back in Q3; such are the joys of New Zealand statistics. However, there are some "real" factors to be mindful of too. In particular, we'd not be surprised to see services sector activity ease as the impact of the latest RBNZ LVR limits bite. Certainly, we have heard early anecdotes (even though the restrictions are not yet officially in place) that housing market activity has cooled to a degree. Our Truckometer and the likes of the PSI and PMI figures have softened over the early part of the quarter as well.

But that sort of inter-quarter volatility is nothing new for New Zealand. What matters is the trend and that still looks set to remain a good one. We're not seeing confidence roll or financial conditions become unduly restrictive. Even the global scene is looking remarkably stable (though we doubt that will last long). So it looks like the good times are set to carry on for a while yet, subject to the normal caveat surrounding the global scene.

We were also interested to read reports that British interest in moving to New Zealand has doubled since the Brexit vote. This highlights that:

a. New Zealand simply has a relatively more attractive story than others, and an unheralded part of this is political stability. You can add safety into the mix too. It's not just the likes of Brexit that will influence inflows. We have the American political scene, and the potential for Brexit to spill over into wider Europe. Sizeable inflows are likely for some time yet, further supporting demand. Forget about annual net inflows mean-reverting to 15k for a long time.

b. It will accentuate the local debate over migration policy (which is becoming increasingly sensitive) given the flow-on to housing and infrastructure requirements, and also to the debate about what "levers" can be pulled to slow some of it down. However, that will be hard when you are competing with a tidal wave of demand for resources from the other side. You can see the issue becoming broader than housing alone; it impacts the supply-demand balance in the labour market (and hence wages), education, infrastructure and welfare.

Even parts of the economy that had been struggling or underperforming have shown improved (or less bad) signs of late. Earlier retail sales figures hinted at households coming to life after showing restraint, and the sharp bounce in dairy prices over the past month (~20%) will obviously go some way towards lifting sentiment in the besieged sector.

On the dairy sector specially, we are hesitant to count our chickens (or should we say milk bottles) just yet. We've seen this action before, only for prices to fade again, and so we will be focused on whether gains can be preserved post the preferential free-trade window with China closing around October. There are other indicators that warn against getting overly confident. Global grain and energy prices

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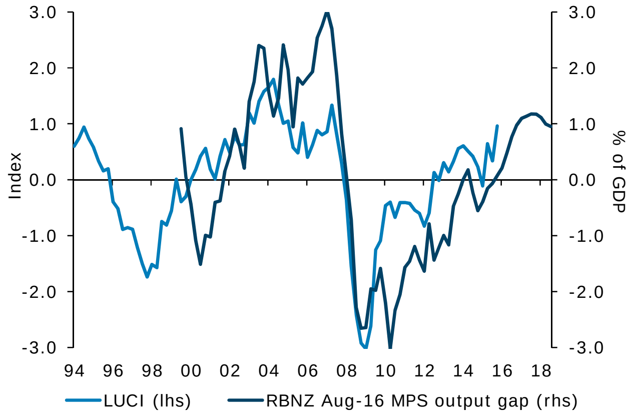
remain low and there is still a significant overhang of skim milk powder. How quickly (or slowly) local milk production ramps up in spring will also have a large bearing on prices.

But the bounce in prices certainly helps to reduce some extreme downside risks. We are sticking with our high-$4/kg MS milk price for 2016/17, and would need to see the price gains achieved persist past October for us to change this view. So it still looks like it will be a while before farm profitability is restored and positive cash flow returns, but things are clearly headed in a better direction. Let's not forget that the NZD is not exactly low either, so the benefits of recovering prices are being eroded.

The domestic growth backdrop will mean more pressure on capacity. And while we are a little hesitant to put too much weight on the results from the latest HLFS, given methodological changes, that is one of the main inferences we take from the labour market overall. In fact, when we update our estimate for the RBNZ's Labour Utilisation Composite Index (which abstracts a broad signal from a number of labour market indicators) it highlights this point too, with the indicator rising to its "tightest" level since 2007 – consistent with the RBNZ's expectations in the August *MPS* about where the economy's output gap is heading.[1]

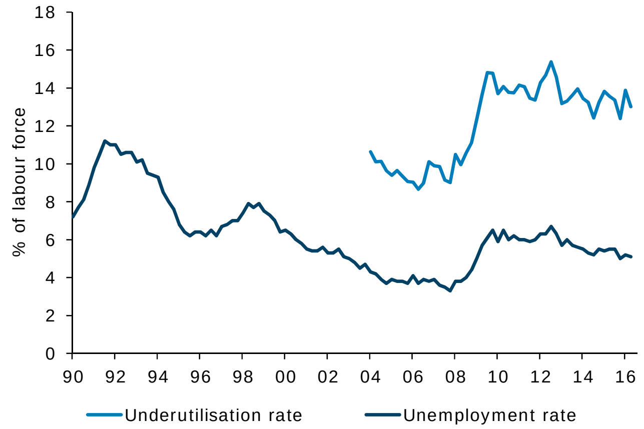
FIGURE 1: LABOUR UTILISATION COMPOSITE INDEX VS OUTPUT GAP



Source: ANZ, RBNZ

That said, underutilisation figures show that while the labour market is tightening, there is still spare capacity. The underutilisation rate (which measures, as a share of the labour force, the number of people officially unemployed, people employed who would like to work more hours, and those who want a job but are not available or actively looking for work) is still at a reasonably elevated level of 13% (in seasonally adjusted terms). That is down from a peak of over 15% in 2012, but only modestly so, and is a way away from the sub-10% rate seen prior to the financial crisis. **It puts benign wage growth figures in a little more context.**

FIGURE 2: UNEMPLOYMENT VS UNDERUTILISATION RATES



Source: ANZ, Statistics NZ

But how do you marry this up with firms reporting it is increasingly difficult to find staff? It points to a high degree of friction and skill mismatch within the labour market. At the overall level, labour supply and demand look to be broadly matching each other and (together with low inflation more generally) this is contributing to benign wage growth, but that is not something that is apparent at the sectoral level. This tension further supports the argument that the "mix" of strong migration gains is not quite right.

That said, you can't point the finger at migration alone for subdued wage growth. With the next industrial (or should we say technological) revolution upon us, there are a host of jobs that will disappear or change in nature. The threat of job elimination is diluting wage bargaining power.

We expect wage growth to lift as spare capacity is gradually absorbed, contributing to a lift in domestic inflation pressures (though some causality will also flow the other way too). But with the global inflationary impulse remaining weak (see our global inflation indicator below, which is the first principal component of headline inflation for 20 trading partners) and the NZD remaining firm (supported by the solid domestic growth picture), overall inflation looks set to remain low for a time yet. In fact, we currently see Q3 CPI at -0.2% q/q (-0.1% y/y), with ACC levy changes and petrol price falls contributing.

[1] For information on this gauge see Armstrong et al (2016), "Developing a labour utilisation composite index for New Zealand", RBNZ Analytical Note (AN2016/04). The gauge does include some HLFS data so some caution is warranted. However, the principal components methodology used should help to lessen the impact of "outliers".

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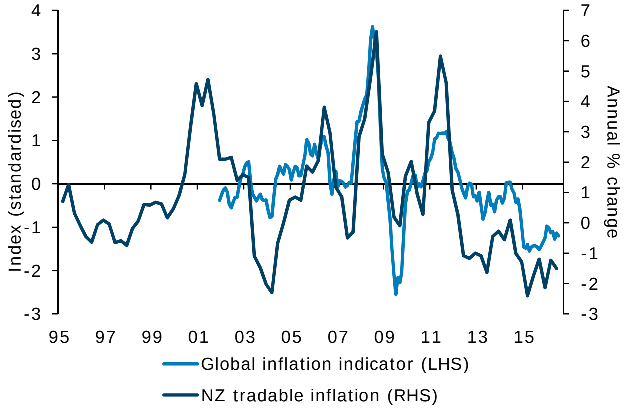
FIGURE 3: GLOBAL INFLATION INDICATOR VS TRADABLE INFLATION

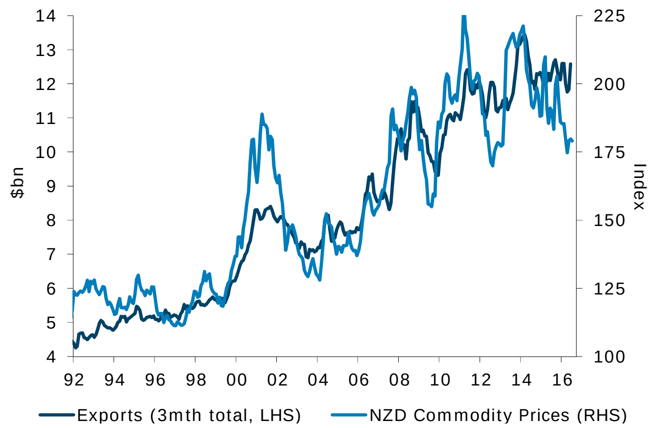


Source: ANZ, Statistics NZ

The week ahead is a relatively quiet one for domestic data. We expect Overseas Merchandise Trade figures to show the unadjusted trade balance returning to deficit in July (~$280m). This follows a modest surplus of $127m in June, with deterioration between June and July a typical seasonal occurrence, led by a slowdown in agricultural exports.

Despite dairy weakness, the underlying trade performance has actually not been that bad. Over the June quarter, the trade deficit was a modest $173m (sa), which was the smallest deficit since Q2 2014. It sets the scene for a further improvement in the current account deficit in Q2, off what was already a two-year low in Q1. This reasonable underlying story has been driven by lower global oil prices and strong non-dairy agricultural exports.

FIGURE 4: NZ EXPORTS AND COMMODITY PRICE INDEX

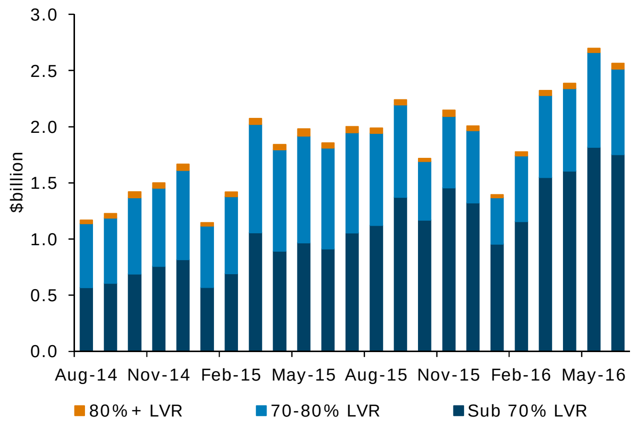


Source: ANZ, Statistics NZ

To assess the broad direction of the trade accounts from here, a number of moving parts need to be considered, including the weather, export commodity prices, the NZD, inventories, import prices (especially oil) and global growth. We still believe the trade balance will deteriorate modestly over the next year or so. But with export prices stabilising (and some rising) and oil prices expected to remain in a $40-$50/bbl range, that deterioration now looks set to be far smaller than seemed likely a few months ago. The terms of trade (OTI basis) is only 6% off its highs, and while we expect Q2 figures to show a decent fall, the terms of trade is arguably close to troughing. This is a remarkable story considering the earlier weakness in dairy prices.

Also this week, new mortgage lending for July should be strong, although perhaps not quite as strong as prior months. In June, new lending was $6.8bn (+18% y/y), with investors continuing to make a large contribution (38% of total growth). While the RBNZ's proposed new LVR limits were announced in the month, it will be too early to see any impact. However, ahead of official implementation, banks were already tightening lending criteria for certain segments (foreign borrowers and developers), so we'd expect to see a more modest pace of new lending growth in July, with this moderation set to continue as the RBNZ's new LVR restrictions bite. The main uncertainty is related to the longevity of any impact.

FIGURE 5: NEW INVESTOR LENDING BY LVR



Source: ANZ, RBNZ

LOCAL DATA

GlobalDairyTrade Auction. The GDT TWI surged 12.7%, with whole milk powder prices up 18.9%.

Household Labour Force Survey – Q2. Quarterly comparisons are a little meaningless, but for what it's worth, the unemployment rate fell to 5.1%.

PPI – Q2. Input and output prices rose 0.9% and 0.2% q/q respectively (0.3% and 0.5% y/y).

ANZ Job Ads – July. Job ads rose 1.4% m/m (sa).

ANZ Roy Morgan Consumer Confidence – July. Headline confidence eased from 118.2 to 117.7.

International Travel & Migration – July. A net inflow of 5,600 (sa) migrants was seen. Visitor arrivals rose 2.9% m/m (sa).

INTEREST RATE STRATEGY

SUMMARY

Short-end rates remain biased lower, with market pricing shy of the two OCR cuts by February that we expect. Feedback from investors seen in Asia last week suggests a high degree of suspicion that the RBNZ is genuinely prepared to take the OCR down towards 1%, as implied by the alternative scenarios. This is despite a near-universal expectation that the TWI will hold up (and it has gone higher since the *MPS*) and lukewarm expectations for Fed policy. How quickly the Fed lifts policy rates will clearly have an impact, but with the NZ/US policy gap set to close by 75bps over the next six months, we remain bullish NZGS on a spread to the US, and expect the curve to flatten and spreads to narrow once the NZGS 2037 syndication is priced (probably later this week).

THEMES

- Market expectations for OCR cuts have been pared back over the past week, despite the TWI going higher.
- Forward rates remain too high, and we continue to favour this part of the curve. This also implies belly-of-the-curve outperformance.
- Yield convergence and policy rate homogenisation remain a key theme. Although the NZD is higher than many would like, it is within historic trading ranges (and near fair value). Yet NZ's interest rates are a mile away from global comparatives.
- This week's NZGS 2037 bond syndication has put the curve under temporary pressure to steepen, and capped swap and geographic spreads. We expect curve flattening and spread compression to resume once the deal is priced.

MONETARY POLICY AND SHORT END

Market expectations have been pared back even more over the past week, despite a stronger TWI and signs that a soft Q3 CPI reading (due out in October) is in prospect. On some levels, this is understandable, particularly given feedback received offshore last week that many investors either don't believe the RBNZ has the appetite to lower rates or don't believe the economy has the need for it.

While this is understandable, with NZ policy rates still way out of line with global comparatives, our sense is that we will see ongoing upwards pressure on the TWI until growth slows, and interest rates spreads contract. This is something to which policy will need to respond.

GLOBAL MARKETS AND LONG END

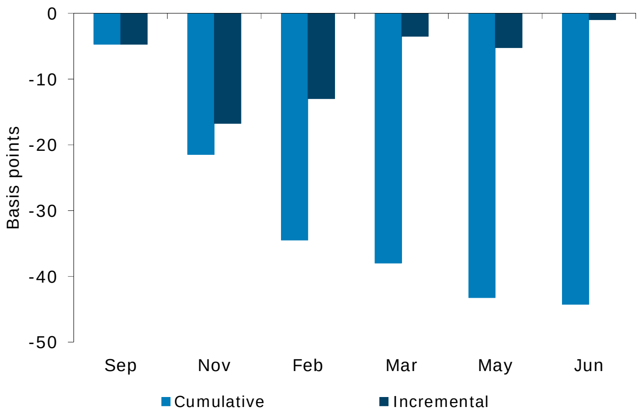
With an all-up yield for the upcoming NZGS 2037 bond (the syndicate panel was announced last week) likely to be in the vicinity of 2.9% (assuming straight line extrapolation of current yields), we expect demand for the new bond to be decent. However, until the deal gets priced, and ahead of the Fed's Jackson Hole symposium, the market is likely to tread water, with curve flattening and spread compression to resume once the deal is priced.

STRATEGY

Investors: The broad strategy remains the same: position for a deeper rally and a flatter curve. November OIS looks undercooked at just 1.78% (Figure 1). NZ 5yr/5yr basis swaps look toppy given more favourable domestic retail funding conditions, with TD rates up as much as 30bps and mortgage rates down by just 5bps.

Borrowers: Watching and waiting remains our preferred strategy. We are not confident that the lows are yet in for term yields, despite dramatic falls. With BKBM also biased lower, we favour options.

FIGURE 1: MARKET EXPECTATIONS FOR THE OCR



Source: ANZ, Bloomberg

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Bullish	November OIS looks light given the non-zero probability of a Sep cut. We see a 25bp cut in Nov as almost assured no matter what happens in Sep. Longer-dated OIS is cheap outright, as are fwd 1y swaps.
Long end	Bullish	Yield convergence and homogenisation ongoing. High TWI means more easing = lower long-end yields.
Yield Curve	Much flatter	RBNZ has more scope to ease than any other G10 bank, and has signalled absolute preparedness to do so.
Geographic spreads	Neutral/ Narrower	Pause for 4/37 syndication, and then game on again. Remains a key thematic for us amid TWI strength and NZ/offshore spreads. NZ remains an attractive and highly rated market, and spreads need to compress.
Swap spreads	Neutral	Syndication a bellwether for demand. Corporate payers have been savvy; unlikely to hedge any time soon.
NZD/TWI	Holding up	We expect the TWI to hold up; unlikely to roll over until growth slows and unless the OCR goes much lower.

CURRENCY STRATEGY

SUMMARY

"Buy on dips" still trumps "sell on rallies". While the NZD looks extended around current levels valuation-wise (TWI 77), sell signals are absent. Commodities have bounced, domestic data is strong, risk appetites are stable and the market is coy about front-running the RBNZ too far with rate cuts – and the Fed with hikes. We expect that to change from a number of sides in a couple of months; less pristine domestic data and firmer expectations towards the Fed. So while we retain a supportive NZD view, it is tempered with an acknowledgement that a turning point is looking near.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Still good growth & interest rate support	Firmer USD to be an eventual saviour
NZD/AUD	↔	Holding steady	To remain above long-run averages
NZD/EUR	↔	Yield too attractive	NZ better
NZD/GBP	↔	More BoE easing coming	Dips to be shallow given cycle variance
NZD/JPY	↔/↑	BoJ wants yen lower	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- Strong data = strong currency. NZ data is modest in an absolute sense but strong in relative sense compared to peers. End of story.
- We're still in a world of currencies diverging from fundamentals, which means continued pressure for rates to converge to drive the former lower.
- Commodity markets are looking better but we question for how long.
- The market doesn't want to push Fed sentiment too far – and the USD the same – but more Fed speakers (the latest includes Fischer) appear to be doing some scene-setting for higher US rates.
- Expect Yellen to perform a fine balancing act at Jackson Hole, but tilted towards higher rates.

ASSESSMENT

We continue to pay homage to the numerous support factors for the NZD.

- There are few signs of cracks in the aggregate economic story, and even the dairy crevice is looking less worrisome, given rebounding prices.
- Yield; NZ has it in spades.
- Political sense and sensibility. We note the migration comments on page 2 regarding enquires from the UK post-Brexit. If labour mobility is saying that, then capital flows will be depicting the same.

That's an environment conducive to further NZD support, despite extended valuations. However, that story is now so enshrined it leaves us looking for the contrarian view.

- We can't see the domestic growth picture folding but can see it becoming less picture perfect. Expect housing to slow as LVR restrictions bite.
- Inflation expectations are likely to ease. That means greater pressure on the RBNZ to do more.
- Expect NZ's current account to garner more attention; borrow-and-spend growth has fallout, with the current account deficit eventually set to widen again.
- We are coy about the lift in dairy prices; we saw the same price action last year and it didn't last.
- Fedspeak needs to be respected. Two of the big three (Fischer and Dudley – both typically more dovish) have alluded to a hike in 2016. We suspect Yellen will provide a hat-tip at Jackson Hole to the perils of keeping rates too low for too long. But markets look to be expecting this already.

So while we remain in a holding pattern, we suspect the current mantra of buying on the dip for the NZD is on borrowed time.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Mildly overvalued.
Yield	↔	Still net NZD-supportive
Commodities	↔	GDT prices have held up well
Data	↑	NZ still in a data sweet spot; Aus more mixed
Techs	↔	Has smashed through resistance at 0.9480 and price action looks good
Sentiment	↔	Top of range but looking good
Other	↔/↓	AUD offers better liquidity
On balance	↔	**Cyclicals suggest close to FV**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	High but USD the main problem
Yield	↔	NZ still has strong yield support
Commodities	↔	NZ commodities rebounding
Risk aversion	↔/↑	Northern summer lull = buy NZD
Data	↔/↑	NZ data still looks solid
Techs	↔	Still trending up, dips supported
Other	↔/↓	Market sceptical re OCR cuts
On balance	↔	**Still waiting for NZ's growth story to turn and the Fed to change USD views**

GLOBAL VIEWS AND POSITIONING

This week's Jackson Hole symposium has potential to create volatility, but **our sense is that the market has already priced in an expectation of upbeat comments.** Ironically, the risk is Yellen fails to live up to expectations (continuing a well-worn theme!). NZD positioning has turned mildly short again. While only small, **it adds to the odds of a short squeeze,** especially with overall USD positioning long.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
23-Aug	US	Chicago Fed Nat Activity Index - Jul	0.20	0.16	00:30
	AU	ANZ-RM Consumer Confidence Index - 21-Aug	--	117.6	11:30
	GE	Markit/BME Manufacturing PMI - Aug P	53.6	53.8	19:30
	GE	Markit Services PMI - Aug P	54.3	54.4	19:30
	GE	Markit/BME Composite PMI - Aug P	55.1	55.3	19:30
	EC	Markit Manufacturing PMI - Aug P	52.0	52.0	20:00
	EC	Markit Services PMI - Aug P	52.8	52.9	20:00
	EC	Markit Composite PMI - Aug P	53.1	53.2	20:00
	UK	CBI Trends Total Orders - Aug	-10	-4	22:00
	UK	CBI Trends Selling Prices - Aug	--	5	22:00
24-Aug	US	Markit Manufacturing PMI - Aug P	52.7	52.9	01:45
	US	Richmond Fed Manufact. Index - Aug	6	10	02:00
	EC	Consumer Confidence - Aug A	-7.7	-7.9	02:00
	US	New Home Sales - Jul	580k	592k	02:00
	US	New Home Sales MoM - Jul	-2.0%	3.5%	02:00
	NZ	Trade Balance - Jul	-325M	127M	10:45
	NZ	Exports - Jul	4.07B	4.26B	10:45
	NZ	Imports - Jul	4.45B	4.13B	10:45
	NZ	Trade Balance 12 Mth YTD - Jul	-2900M	-3313M	10:45
	AU	Skilled Vacancies MoM - Jul	--	0.8%	13:00
	AU	Construction Work Done - Q2	-2.0%	-2.6%	13:30
	GE	Private Consumption QoQ - Q2	0.2%	0.4%	18:00
	GE	Government Spending QoQ - Q2	0.5%	0.5%	18:00
	GE	Capital Investment QoQ - Q2	-1.3%	1.8%	18:00
	GE	Construction Investment QoQ - Q2	-2.8%	2.3%	18:00
	GE	Domestic Demand QoQ - Q2	-0.1%	0.8%	18:00
	GE	Exports QoQ - Q2	0.7%	1.0%	18:00
	GE	Imports QoQ - Q2	-0.3%	1.4%	18:00
	GE	GDP SA QoQ - Q2 F	0.4%	0.4%	18:00
	GE	GDP WDA YoY - Q2 F	1.8%	1.8%	18:00
	GE	GDP NSA YoY - Q2 F	3.1%	3.1%	18:00
	UK	BBA Loans for House Purchase - Jul	38500	40103	20:30
	US	MBA Mortgage Applications - 19-Aug	--	-4.0%	23:00
25-Aug	US	House Price Purchase Index QoQ - Q2	--	1.3%	01:00
	US	FHFA House Price Index MoM - Jun	0.3%	0.2%	01:00
	US	Existing Home Sales - Jul	5.51M	5.57M	02:00
	US	Existing Home Sales MoM - Jul	-1.1%	1.1%	02:00
	GE	IFO Business Climate - Aug	108.5	108.3	20:00
	GE	IFO Current Assessment - Aug	114.9	114.7	20:00
	GE	IFO Expectations - Aug	102.4	102.2	20:00
	UK	CBI Retailing Reported Sales - Aug	0	-14	22:00
	UK	CBI Total Dist. Reported Sales - Aug	--	-11	22:00
26-Aug	US	Durable Goods Orders - Jul P	3.5%	-3.9%	00:30
	US	Initial Jobless Claims - 20-Aug	265k	262k	00:30
	US	Durables Ex Transportation - Jul P	0.4%	-0.4%	00:30
	US	Continuing Claims - 13-Aug	2148k	2175k	00:30
	US	Cap Goods Orders Nondef Ex Air - Jul P	0.1%	0.4%	00:30
	US	Cap Goods Ship Nondef Ex Air - Jul P	0.4%	-0.2%	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Aug	US	Markit Services PMI - Aug P	51.8	51.4	01:45
	US	Markit Composite PMI - Aug P	--	51.8	01:45
	US	Kansas City Fed Manf. Activity - Aug	-2	-6	03:00
	JN	Natl CPI YoY - Jul	-0.4%	-0.4%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Jul	-0.4%	-0.4%	11:30
	JN	Natl CPI Ex Food, Energy YoY - Jul	0.4%	0.5%	11:30
	JN	Tokyo CPI YoY - Aug	-0.4%	-0.4%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Aug	-0.4%	-0.4%	11:30
	JN	Tokyo CPI Ex Food, Energy YoY - Aug	0.3%	0.3%	11:30
	GE	GfK Consumer Confidence - Sep	10	10	18:00
	EC	M3 Money Supply YoY - Jul	5.0%	5.0%	20:00
	UK	GDP QoQ - Q2 P	0.6%	0.6%	20:30
	UK	GDP YoY - Q2 P	2.2%	2.2%	20:30
	UK	Private Consumption QoQ - Q2 P	0.8%	0.7%	20:30
	UK	Government Spending QoQ - Q2 P	0.3%	0.5%	20:30
	UK	Gross Fixed Capital Formation QoQ - Q2 P	0.5%	-0.1%	20:30
	UK	Exports QoQ - Q2 P	0.7%	-0.4%	20:30
	UK	Imports QoQ - Q2 P	0.8%	0.1%	20:30
	UK	Index of Services MoM - Jun	0.1%	-0.1%	20:30
	UK	Index of Services 3M/3M - Jun	0.4%	0.3%	20:30
	UK	Total Business Investment QoQ - Q2 P	-0.9%	-0.6%	20:30
	UK	Total Business Investment YoY - Q2 P	--	-0.8%	20:30
27-Aug	US	Advance Goods Trade Balance - Jul	-$63.0B	-$64.5B	00:30
	US	Wholesale Inventories MoM - Jul P	--	0.3%	00:30
	US	GDP Annualized QoQ - Q2 S	1.1%	1.2%	00:30
	US	Personal Consumption - Q2 S	4.2%	4.2%	00:30
	US	GDP Price Index - Q2 S	2.2%	2.2%	00:30
	US	Core PCE QoQ - Q2 S	1.7%	1.7%	00:30
	US	U. of Mich. Sentiment - Aug F	90.7	90.4	02:00
	UK	BoE's Shafik Speaks at Jackson Hole	--	--	02:30
	CH	Industrial Profits YoY - Jul	--	5.1%	13:30

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 solid. However, downside risks exist (mainly from offshore). Given global forces and low inflation, the RBNZ will cut the OCR further. Our base case is for cuts in November and early 2017, taking the OCR to 1.5%.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 24 Aug (10:45am)	Overseas Merchandise Trade – Jul	Holding	We are expecting a small monthly trade deficit of circa $280m.
Wed 24 Aug (3:00pm)	RBNZ New Mortgage Lending – Jul	Still strong, for now	Ahead of the latest round of LVR restrictions, we are expecting another strong month, although perhaps not as strong as prior months as banks begin to tightening lending criteria.
Tue 30 Aug (10:45am)	Building Consents Issued – Jul	Pull back	Following the surge in June, it would not surprise us to see some retracement. But the trend should remain positive.
Wed 31 Aug (1:00pm)	ANZ Business Outlook – Aug	--	--
Wed 31 Aug (3:00pm)	RBNZ Credit Aggregates – Jul	Still strong	Prudential policy changes should eventually cool credit growth, but the figures look set to remain strong in the near term.
Thu 1 Sep (10:45am)	Overseas Trade Indexes – Q2	Fall	The terms of trade have held up remarkably well, although higher oil prices are likely to have dented its performance in Q2.
Fri 2 Sep (10:45am)	Building Work Put in Place – Q2	Solid	Outside of quarterly volatility, we are expecting the construction sector to remain a key positive source of growth for the economy.
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug	--	--
Tue 6 Sep (10:00am)	ANZ Truckometer – Aug	--	--
Wed 7 Sep (early am)	GlobalDairyTrade Auction	Moving on up	The near-term outlook looks better, but key will be whether prices can be maintained beyond the preferential free-trade window with China closing around October.
Wed 7 Sep (10:45pm)	Economic Survey of Manufacturing – Q2	Resilient	The vagaries of agricultural production will throw it around, but manufacturing will continue to be supported by the well-performing construction sector.
Thu 8 Sep (1:00pm)	ANZ Monthly Inflation Gauge – Aug	--	--
Fri 9 Sep (10:45am)	Electronic Card Transactions – Aug	Reasonable trend	The figures are volatile, but we expect a reasonable underlying trend, with the quarterly pace of spending holding around 1¼% to 1½%.
12-16 Sep	REINZ Housing Market Statistics – Aug	Starting to turn	Anecdotes have starting to emerge that the latest round of LVR restrictions are biting on market activity and we'd expect to see some signs of this.
Tue 13 Sep (10:45am)	Food Price Index – Aug	Flat	Although fruit and vegetable prices typically rise in August, low commodity prices and NZD strength should cap overall gains.
Wed 14 Sep (10:45am)	Balance of Payments – Q2	Narrower	Courtesy of a larger goods and service surplus, the seasonally adjusted current account deficit should narrow further.
Thu 15 Sep (10:30am)	BNZ-BusinessNZ PMI – Aug	Balance	Activity is holding at respectable levels despite the strong NZD, with the well-performing domestic economy lending support.
Thu 15 Sep (10:45am)	GDP – Q2	Strong	Our current forecast is 0.8% q/q, but we see non-trivial odds of an increase in excess of 1%.
Fri 16 Sep (10:00am)	ANZ Job Ads – Aug	--	--
Fri 16 Sep (1:00pm)	ANZ Roy Morgan Consumer Confidence – Sep	--	--
On balance		**Data watch**	**Momentum is increasing at present, but 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)	0.7	**0.8**	**0.9**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.8	**3.3**	**3.4**	**3.5**	**3.5**	**3.4**	**3.2**	**2.8**	**2.6**	**2.6**
CPI (% qoq)	0.2	0.4	**-0.2**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.7**
CPI (% yoy)	0.4	0.4	**-0.1**	**0.4**	**0.8**	**0.7**	**1.6**	**1.7**	**1.8**	**1.8**
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**	**4.6**
Current Account (% GDP)	-3.0	**-3.1**	**-3.5**	**-3.7**	**-4.3**	**-4.4**	**-4.3**	**-4.1**	**-3.9**	**-3.9**
Terms of Trade (% qoq)	4.4	**-4.5**	**-0.8**	**0.6**	**0.8**	**1.8**	**2.8**	**1.8**	**0.9**	**0.9**
Terms of Trade (% yoy)	-0.1	**-6.1**	**-3.1**	**-0.5**	**-3.9**	**2.4**	**6.1**	**7.3**	**7.4**	**7.4**

	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
Retail ECT (% mom)	0.8	0.1	0.4	0.7	0.1	0.8	-0.3	1.2	0.3	--
Retail ECT (% yoy)	4.6	6.6	5.2	9.2	6.2	7.8	3.3	6.8	5.8	--
Credit Card Billings (% mom)	0.7	-0.7	2.1	-0.7	-1.0	2.6	-0.2	-1.3	2.7	--
Credit Card Billings (% yoy)	8.5	7.5	7.5	6.3	4.3	8.7	5.5	3.3	5.2	--
Car Registrations (% mom)	-1.9	3.1	-2.8	5.8	-3.8	6.2	-3.6	-1.0	-0.5	--
Car Registrations (% yoy)	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9	--
Building Consents (% mom)	1.5	2.4	-8.1	10.6	-9.2	7.8	0.1	16.3	--	--
Building Consents (% yoy)	7.4	17.5	4.9	26.8	0.3	13.5	10.3	39.6	--	--
REINZ House Price Index (% yoy)	12.5	12.6	10.7	11.9	13.3	14.5	14.7	14.2	16.3	--
Household Lending Growth (% mom)	0.6	0.6	0.6	0.6	0.6	0.8	0.7	0.8	--	--
Household Lending Growth (% yoy)	7.2	7.4	7.5	7.6	7.7	7.9	8.1	8.3	--	--
ANZ Roy Morgan Consumer Conf.	122.7	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2	117.7
ANZ Business Confidence	14.6	23.0	..	7.1	3.2	6.2	11.3	20.2	16.0	--
ANZ Own Activity Outlook	32.0	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4	--
Trade Balance ($m)	-795	-42	12	367	189	347	348	127	--	--
Trade Bal ($m ann)	52648	52510	52764	52831	52599	52626	52854	52654	--	--
ANZ World Commodity Price Index (% mom)	-5.6	-1.8	-2.3	0.5	-1.3	-0.8	1.1	3.7	2.0	--
ANZ World Comm. Price Index (% yoy)	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8	-11.6	-5.4	2.0	--
Net Migration (sa)	6230	5510	6090	6000	5340	5490	5550	5700	5600	--
Net Migration (ann)	63659	64930	65911	67391	67619	68110	68432	69090	69015	--
ANZ Heavy Traffic Index (% mom)	0.2	2.9	-4.2	1.7	3.3	-2.5	-2.6	4.1	-5.7	--
ANZ Light Traffic Index (% mom)	0.3	0.9	-1.4	2.4	0.7	-1.6	-1.3	2.4	-0.6	--

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	Jun-16	Jul-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.712	0.720	0.726	0.69	0.65	0.64	0.64	0.63	0.63	0.64
NZD/AUD	0.955	0.948	0.952	0.96	0.97	0.97	0.97	0.93	0.90	0.89
NZD/EUR	0.639	0.644	0.641	0.66	0.63	0.62	0.61	0.57	0.57	0.57
NZD/JPY	73.20	73.47	72.82	72.5	68.3	64.0	64.0	63.0	63.0	67.2
NZD/GBP	0.528	0.544	0.555	0.55	0.54	0.52	0.51	0.48	0.47	0.46
NZ$ TWI	74.5	75.0	76.9	74.5	71.9	70.4	69.9	67.3	66.8	67.5
INTEREST RATES	Jun-16	Jul-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.25	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.41	2.28	2.23	2.20	2.00	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.35	2.21	2.26	2.10	2.00	2.20	2.20	2.50	2.50	2.50
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	0.65	0.76	0.82	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.96	1.86	1.74	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	19 Jul	15 Aug	16 Aug	17 Aug	18 Aug	19 Aug
Official Cash Rate	2.25	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.33	2.23	2.21	2.22	2.22	2.22
NZGB 03/19	1.91	1.74	1.75	1.77	1.75	1.77
NZGB 05/21	1.97	1.74	1.75	1.78	1.76	1.78
NZGB 04/23	2.02	1.84	1.85	1.88	1.87	1.91
NZGB 04/27	2.26	2.13	2.15	2.18	2.15	2.21
2 year swap	2.09	1.94	1.95	1.96	1.94	1.97
5 year swap	2.20	2.06	2.07	2.08	2.07	2.10
RBNZ TWI	75.2	76.08	76.38	76.74	76.83	76.80
NZD/USD	0.70	0.72	0.72	0.73	0.73	0.73
NZD/AUD	0.93	0.94	0.94	0.95	0.95	0.95
NZD/JPY	74.25	72.71	72.61	73.06	72.90	72.90
NZD/GBP	0.53	0.56	0.56	0.56	0.56	0.55
NZD/EUR	0.63	0.64	0.65	0.64	0.64	0.64
AUD/USD	0.75	0.76	0.77	0.77	0.77	0.76
EUR/USD	1.11	1.12	1.12	1.13	1.13	1.13
USD/JPY	105.66	101.32	100.44	100.55	100.07	100.34
GBP/USD	1.32	1.29	1.29	1.30	1.30	1.31
Oil (US$/bbl)	45.23	44.47	45.72	46.57	46.81	48.20
Gold (US$/oz)	1330.05	1338.35	1345.29	1341.50	1352.13	1347.62
Electricity (Haywards)	4.79	4.18	5.02	4.68	6.30	5.34
Baltic Dry Freight Index	746	681	687	685	682	683
Milk futures (USD)	45	46	47	48	49	49

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