NEW ZEALAND ECONOMICS
MARKET FOCUS

5 September 2016

INSIDE

NZ ECONOMICS TEAM

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

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

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

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

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

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

PASTORAL PULSE

ECONOMIC OVERVIEW

Beyond the now-familiar themes affecting the outlook here and abroad, this week we take a quick look at the key forces shaping the price outlook for New Zealand's major agricultural sectors. The dichotomy across key sectors is expected to continue in 2016/17. The operating environment still looks challenging for key livestock sectors despite some expected improvement for dairying. In contrast, the main horticultural crops are on track to post near-record export volumes and still achieve solid prices in most cases. This week, manufacturing data will allow us to firm up our Q2 GDP growth expectation, while our Truckometer and Monthly Inflation Gauge will provide early reads on how growth and inflation are tracking.

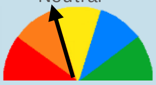
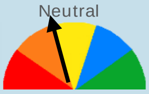
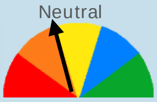
INTEREST RATE STRATEGY

Local interest rates look set to continue range-trading over coming weeks, with solid activity data and profit taking hinting at near-term upside. But the realities of where monetary policy is eventually headed and the easy G10 policy backdrop will keep a lid on moves. With the market still pricing in fewer OCR cuts than we expect, and TWI strength a sustained reality, we do eventually see the short end going lower and expect geographic bond spreads to continue grinding lower. Disappointing (though not weak) US labour market data looks to have scuttled prospects for a September Fed rate hike, but most economists still expect a December hike. That's too far away to dramatically bump the US bond market into action, but we are wary of how unusually tight trading ranges have been, which suggests it wouldn't take too much to create a bit of volatility – although what the catalyst for that might be is not yet clear.

CURRENCY STRATEGY

The NZD remains in an elevated holding pattern, courtesy of solid 'buy-on-dips' credentials (commodities + growth + yield) and nothing pressing globally to change that position. The US economic story still looks conducive to a rate hike by year-end, but there is no burning desire to chase the USD materially higher unless more is on offer – and that's hard to envisage given the linkages between Fed policy and broader global economic outcomes. The NZD/AUD continues to gravitate higher and while we expect a very balanced assessment from the RBA's Stevens (fostering a temporary NZD/AUD pullback), we retain a positive bias overall, absent a substantive reason to sell besides valuations.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.1% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	Neutral Negative  Positive
Unemployment rate	5.0% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	Neutral Negative  Positive
OCR	1.50% by Jun 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	Neutral Down  Up
CPI	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.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

Beyond the now-familiar themes affecting the outlook here and abroad, this week we take a quick look at the key forces shaping the price outlook for New Zealand's major agricultural sectors. The dichotomy across key sectors is expected to continue in 2016/17. The operating environment still looks challenging for key livestock sectors despite some expected improvement for dairying. In contrast, the main horticultural crops are on track to post near-record export volumes and still achieve solid prices in most cases. This week, manufacturing data will allow us to firm up our Q2 GDP growth expectation, while our Truckometer and Monthly Inflation Gauge will provide early reads on how Q3 growth and inflation are tracking.

FORTHCOMING EVENTS

ANZ Truckometer – August (10:45am, Tuesday, 6 September).

GlobalDairyTrade Auction (early am, Wednesday, 7 September). Further solid price gains are likely over the month of September.

Economic Survey of Manufacturing – Q2 (10:45am, Wednesday, 7 September). We expect non-primary sales volume growth to be solid.

ANZ Monthly Inflation Gauge – August (1:00pm, Thursday, 8 September).

Electronic Card Transactions – Q2 (10:45am, Friday, 9 September). We have pencilled in a 0.3% m/m increase, which would maintain the quarterly pace of spending growth around 1¼% to 1¾%.

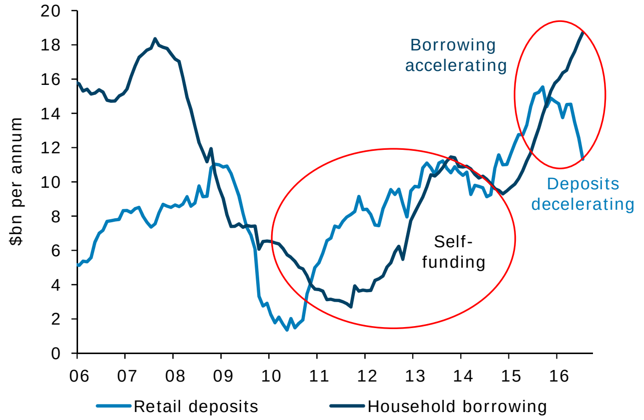
REINZ Housing Market Statistics – August (possibly Friday). Anecdotes have emerged that the latest LVR restrictions are taking a bite out of market activity and we'd expect to see some signs of this.

WHAT'S THE VIEW?

When we peruse the flow of news and economic data here and abroad, familiar themes continue to emerge:

- **Domestic activity growth looks strong.** The latest building work data adds to evidence the economy grew strongly in Q2 and we have lifted our GDP forecast accordingly (to 1.1% q/q). Business sentiment and supportive financial conditions suggest this momentum will continue.
- **Inflation pressures remain low.** Firms' pricing intentions have dropped, as have near-term inflation expectations. Despite above-trend growth, inflation remains MIA. Our Monthly Inflation Gauge will give an update on Thursday.
- **The gap between credit and deposit growth continues to widen**, intensifying funding pressures for banks. That's an environment where we doubt OCR cuts will be passed on in full to borrowers as competition for deposits intensifies (the other side of the balance sheet).

FIGURE 1: BANK FUNDING AND CLAIMS GROWTH



Source: ANZ, RBNZ

- **The economy is looking good in a structural sense.** The terms of trade is down *only* 8% from its highs and the outlook is looking brighter from here. Remarkably, the current account deficit looks set to narrow to around 2½% of GDP in Q2, well below its historical average. That's a sign the housing and debt exuberance party has not turned into an economy-wide free-for-all. It's when structural indicators deteriorate in tandem with valuation metrics that the risk of problems down the track increases exponentially.
- **There remain plenty of reasons for NZD strength.** The above points certainly don't paint a picture of the NZD coming off meaningfully any time soon. While the Fed is inching towards further rate hikes, the NZD looks set to remain elevated on a TWI basis irrespective of the RBNZ narrowing interest rate differentials.
- **The global economy remains fragile.** Things have looked a little better of late, but we are sceptical that that will persist. We are mindful of numerous issues (negative interest rates, excess leverage, overvalued asset prices, political shenanigans, growing anti-trade sentiment – which is now being highlighted by the G20, etc).

None of this is really new. But stepping away from these familiar themes, we thought we'd touch on something a little different this week. Below are some brief thoughts on the outlook for farm-gate agricultural prices from our rural economist Con Williams. It is a brief synopsis (including a table on page 3), with more details to follow in the next edition of the *Agri Focus* due for release shortly. New Zealand is no longer one big farm in an economic sense, but it's still the backbone and critically important.

ECONOMIC OVERVIEW

AGRICULTURAL PRICE PREVIEW					
June Year End	**2013/14**	**2014/15**	**2015/16p**	**2016/17f**	**% change**
Dairy ($ per kilogram of milksolid) after retentions					
Fonterra Milk Price	8.40	4.40	3.90	4.75-5.00	+25%
Dividend per share after retentions	0.10	0.25	0.40	0.40	Unchanged
Tatua	8.90	7.10	6.20	6.20	Unchanged
Westland	7.57	4.80	3.80	4.75-5.00	+28%
Open Country Dairy	8.40	4.61	3.94	4.75-5.00	+24%
Synlait	8.31	4.54	3.90	4.75-5.00	+25%
Wool ($ per kilogram greasy, whole of clip net of costs)					
Fine (<24 micron)	10.35	9.30	9.70	9.50	-2%
Medium (25-31 micron)	5.55	5.70	7.40	6.00	-19%
Crossbred (>31 micron)	3.75	3.90	4.35	4.05	-7%
Sheep ($ per head, weighted averages, GST exclusive and net levies at farm gate)					
Lamb (17.5 kg carcass)	96	91	89	90	+1%
Mutton (24.5 kg carcass)	74	66	63	65	+3%
Stores (LW 30-35 kg)	75-90	60-90	60-80	60-80	Unchanged
Beef ($ per kilogram of carcass weight, weighted averages, GST exclusive and net levies at farm gate)					
Steer (296-320 kg carcass)	4.05	4.65	5.15	4.90	-5%
Heifer (195-220 kg carcass)	3.95	4.50	4.80	4.60	-4%
Bull (296-320 kg carcass)	3.90	4.40	4.60	4.40	-4%
M Cow (160-195 kg carcass)	2.75	3.20	3.40	3.10	-9%
Deer ($ per kilogram of carcass weight, weighted averages, GST exclusive and net levies at farm gate)					
Stag (60 kg carcass)	6.35	6.30	7.15	7.60	+6%
Hind (50 kg carcass)	6.25	6.25	7.05	7.50	+6%
Velvet ($ per kg)	100	125	125	115	-8%
Grains ($ per tonne, AgriHQ prices grower bids delivered nearest store or mill, net levies and freight to this point)					
Milling Wheat	410 to 450	400 to 450	340 to 400	340 to 400	Unchanged
Feed Wheat	380 to 440	370 to 445	290 to 360	290 to 360	Unchanged
Feed Barley	370 to 435	360 to 445	255 to 340	255 to 340	Unchanged
Maize Grain	440 to 500	390 to 460	380 to 420	380 to 420	Unchanged
Palm Kernel	300 to 370	225 to 310	200 to 250	200 to 250	Unchanged
Kiwifruit ($ per tray OGR, crop year)					
Zespri™ Green	5.23	6.01	5.13	4.20	-18%
Zespri™ Gold	12.91	9.80	8.21	8.20	Unchanged
Apples (Weighted FOB returns $ per TCE, crop year, % change 2015 to 2016 crop)					
Braeburn	22.4	24.4	26.1	29.0	11%
Royal Gala	26.3	27.9	30.0	33.9	13%
Fuji	26.4	32.0	34.0	42.0	24%
Jazz™	28.5	31.4	31.3	33.4	7%
Pacific Rose	36.7	38.2	46.2	42.5	-8%
Grapes ($ per tonne, national average, vintage year, % change 2015 to 2016 vintage)					
Sauvignon Blanc	1,602	1,605	1,689	1,800	7%
Merlot	1,771	1,768	1,753	1,750	Unchanged
Pinot Noir	2,983	2,931	2,992	3,000	Unchanged
Chardonnay Mendoza	1,457	1,692	1,829	1,850	1%
Chardonnay Other	1,427	1,690	1,613	1,650	2%
Pinot Gris	1,486	1,530	1,535	1,550	1%

ECONOMIC OVERVIEW

The dichotomy across key agricultural sectors is expected to continue in 2016/17, with a variety of forces shaping the outlook for each sector.

In terms of key commodities:

- **Dairy: we continue to hold a high-$4/kg MS milk price forecast for 2016/17.** If recent price gains can be held onto in October/November when the Chinese free-trade window closes – and the NZD doesn't get turbo-charged further – then this would create upside toward the mid-$5/kg MS range. Milk companies' underlying returns from "value-add" strategies are set to continue to provide some additional earnings too.
- **Sheepmeat: it's a mixed outlook for sheep meat prices**, with downside risks due to Brexit impacts. On the positive side, tradable supply is expected to tighten during New Zealand's main production window. Chinese and US demand is solid too. The challenges come from Brexit *et al*: a higher NZD/GBP, likely lower end-demand in the UK, and more competition within Europe.
- **Beef: the beef market looks finely balanced.** Australian and New Zealand supply is forecast to fall, but this will be offset by further increases in US supply. When combined with solid demand indicators for beef consumption, this points to a continuation of current prices in the US. That said, there are some headwinds in the US and other key secondary markets in Asia. Combined with an elevated NZD/USD, this is likely to see slightly lower farm-gate returns in the 2016/17 season.
- **Wool: at the finer end of the wool clip, prices are expected to be supported** by lower Australian supply, a pick-up in US woollen apparel demand, and continued demand growth for luxury items within China. At the coarser end of the clip, demand looks fairly steady and supply constrained. As long as the NZD/USD heads back toward 0.70 this should support farm-gate prices, albeit not quite at the levels achieved in 2015/16.
- **Venison: tight New Zealand venison production is expected to support farm-gate returns** at multi-year highs in 2016/17. The industry has also had some success in growing demand in non-European markets and for products/channels outside the game season in more traditional markets. This provides plenty of inter-market competition and allows average returns to be optimised with tight supply.
- **Grain: trading activity and prices for the domestic grain market are very depressed.** Dairy demand could pick up with an improved outlook for the milk price. Domestic supply could tighten quickly too, with growers having planted less feed grain in the winter/autumn and low intentions for spring planting. But while these indicators suggest an improvement at some point, international grain prices look biased even lower.
- **Kiwifruit: Green kiwifruit prices have come under pressure** from higher New Zealand volumes and a bounce-back in Chilean supply, as well as improving quality standards. Green volumes are expected to be steadier long term, which – with an improved marketing mix more targeted to Asia – should support returns in the $4.5 to $5.0/tray range. **The industry's expectations of Gold3 returns have been re-rated higher.** Orchard-gate returns look like they will still be above $8/tray for 2016, but there is likely to be some moderation into 2020 from a changing market mix.
- **Pipfruit: the pipfruit sector has had another very good export season**, which will mark four years of very profitable returns. Asian markets continue to drive the growth in returns. European markets have been less of a priority due to lower earnings.
- **Viticulture: despite a large 2016 vintage across the viticulture sector, a supply imbalance is not expected.** In fact an increase in supply was required after the small 2015 vintage and continued demand growth in North American markets created a deficit situation over the last year. Looking forward, the Northern American and domestic markets are expected to remain buoyant, while Australia and the UK are likely to be tougher.

Turning to the week ahead, our Truckometer and Monthly Inflation Gauge will provide timely updates on activity momentum and domestic inflation pressures respectively. Both were on the soft side in July.

- **Truckometer:** In July, the Heavy Traffic Index plunged 5.7% m/m. While this degree of monthly movement is not unusual, what is notable is that it follows what was already a softer trend. In fact, on a three-month rolling average basis, the Heavy Traffic Index was down 1.5% in July. So with the Index already suggesting prospects of weaker economic growth in Q2 (counter to most other indicators), it suggested Q3 has started poorly too. Whether or not we see a recovery in August will be critical for whether or not this soft patch is something that should be a little more concerning.
- **Monthly Inflation Gauge:** The headline Gauge dropped 0.3% m/m in July, fully reversing June's

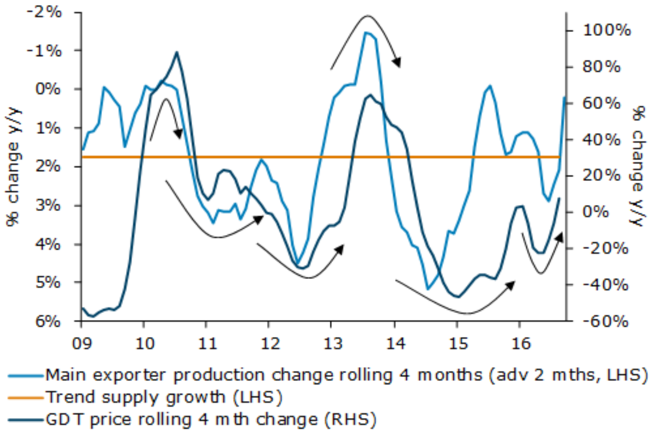
ECONOMIC OVERVIEW

0.3% m/m gain. The biggest cause of the decline was a fall in motor vehicle relicensing fees (due to ACC levy reductions). This underpinned a 4.4% fall in the transport group. More broadly, inflationary pressures were by-and-large non-existent in the month. We therefore continue to have a benign inflationary environment. In prior months we noted the indications of an uptick within housing and headline seasonally adjusted estimates as signs the inflationary pulse was accelerating. That failed to roll into July. Annual inflation in the gauge eased to 2.1% from 2.5%. The underlying ex-housing gauge is up a meagre 0.6% on last year.

This week's GlobalDairyTrade auction looks set for another scramble to secure product, creating further upward pressure for dairy prices in September. Milk supply appears to be tightening more quickly than first thought, prompting more buyers into action. Anecdotally, New Zealand has had a slow start to the new season, and with carry-over inventories from last season tight, this is forcing more buyers onto the GDT platform to secure product. European production was down 1.5% y/y in June, with notable softness across the three largest producing countries – Germany, France and the UK (which account for 47% of annual European production).

A variety of sources have also suggested milk supply has tightened in China due to dry conditions across the northwest of the country where the majority of milk is produced. Additionally, low farm-gate prices mean most operations are unprofitable. These dynamics, combined with a three-week hiatus between auctions, lower GDT supply versus the last event, and "strengthened supervision" for Australian product into China makes for a favourable GDT mix.

FIGURE 2: MILK PRODUCTION GROWTH VS GDT PRICE CHANGES



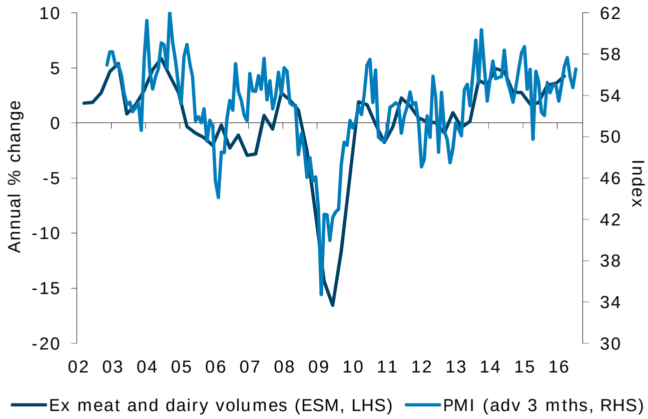
Source: ANZ, Dairy Australia, DCANZ, CLAL, Datum, USDA, European Commission

In terms of price expectations, NZX futures are pointing to an 11% lift for the GDT-TWI in the month of September and a 9% increase for WMP to US$2,938/t. For WMP, the market appears nervous about pushing prices above the US$3,000/t mark at present. For this to occur there would need to be continued tightness in milk supply from New Zealand, Europe and China. Much will depend on the weather over coming months and how quickly the pass-through of higher international prices to farm-gate occurs.

As mentioned earlier, we continue to hold a high-$4/kg MS milk price forecast for 2016/17, with upside risk if recent price gains can be held onto in October/November when the Chinese free-trade window closes. **While milk supply is slowing, which will support higher prices than in 2015/16, we remain wary of a few factors: the health of end-demand in key importing regions, low input costs** (feed, finance and energy) for intensive dairy systems, **the US re-entering the export market, and an overhang of skim milk powder in Europe.**

Wednesday's Economic Survey of Manufacturing will allow us to firm up our pick for Q2 GDP growth, with underlying manufacturing activity expected to be solid. While the vagaries of agricultural production and primary goods manufacturing will throw the headline sales figures around, it is the underlying 'core' figures that we are more interested in from a GDP accounts perspective. On this metric, we are expecting the figures to confirm a reasonable lift in non-primary manufacturing activity over the quarter. The survey has a reasonable correlation with the 'new orders less inventories' component of the BusinessNZ PMI. This rose to its highest level since early 2014 on a three-month average basis in June, pointing to decent sales volume growth.

FIGURE 3: MANUFACTURING VOLUMES AND SENTIMENT



Source: ANZ, BusinessNZ, Statistics NZ

ECONOMIC OVERVIEW

Electronic Card Transactions data for August should show a reasonable underlying pace of spending growth. We have pencilled in a similar increase as was seen in July (0.3% m/m), which would maintain the quarterly pace of nominal spending growth in a 1¼% to 1¾% range. While we estimate that petrol prices fell modestly over the month of August, which would typically weigh on the headline nominal sales figures, there are certainly a number of factors continuing to support the retail spending environment: strong population growth, an improving labour market, strong tourism, low mortgage interest rates and the wealth effects of a strong housing market.

It is also possible that the latest REINZ housing market figures for August will be released later this week. The focus with this data will be whether there are any signs of cooling activity. While the RBNZ's latest round of LVR restrictions are not officially implemented until October, given the need to manage pipelines the finance sector has largely implemented the policy change already, and we are hearing anecdotes that this has affected market activity. If that is the case, we'd expect to see early signs of that in these figures. Up until now, outside of weaker sales volumes – which we put largely down to a lack of new market listings – there have certainly been few signs of cooler house price growth. In fact, in July, nationwide stratified house prices rose by 2.4% m/m, which was the strongest monthly price growth in close to a year. What is more meaningful though is that monthly growth was already strong. In fact, on a 3-month annualised basis, nationwide price growth is running at 26%.

LOCAL DATA

Building Consents Issued – July. Seasonally adjusted dwelling consents fell 11% m/m after a 22% m/m gain in June.

ANZ Business Outlook – August. Both headline confidence and firms' own activity expectations were largely unchanged, although they rose solidly in seasonally adjusted terms.

RBNZ Credit Aggregates – July. Total household credit rose 0.9% m/m (8.6% y/y), the strongest monthly growth since November 2007.

Overseas Trade Indexes – Q2. The terms of trade fell 2.1% q/q, while export volumes surged 10% q/q.

Building Work Put in Place – Q2. The volume of total building work rose 5.5% q/q (16% y/y).

INTEREST RATE STRATEGY

SUMMARY

Local interest rates look set to continue range-trading over coming weeks, with solid activity data and profit taking hinting at near-term upside. But the realities of where monetary policy is eventually headed and the easy G10 policy backdrop will keep a lid on moves. With the market still pricing in fewer OCR cuts than we expect, and TWI strength a sustained reality, we do eventually see the short end going lower and expect geographic bond spreads to continue grinding lower. Disappointing (though not weak) US labour market data looks to have scuttled prospects for a September Fed rate hike, but most economists still expect a December hike. That's too far away to dramatically bump the US bond market into action, but we are wary of how unusually tight trading ranges have been, which suggests it wouldn't take too much to create a bit of volatility – although what the catalyst for that might be is not yet clear.

THEMES

- US Federal Reserve Chair Yellen has reiterated the lack of any potential for instant gratification has led to more profit taking, lifting the local short end to the top of trading ranges. While there is scope for mild further upside, it will be limited by the medium-term policy outlook.
- As we discuss in the currency strategy section, it is difficult to envisage the TWI being anything but elevated, and that tips the balance of risks in favour of more, not less RBNZ policy easing.
- All else equal, déjà vu and tight trading ranges beckon – but we are mindful that the market is vulnerable to a break-out at some stage.

MONETARY POLICY AND SHORT END

Last week's wrap of data and events has done little to alter the outlook for policy, and **we continue to expect two more OCR cuts – in November and February. Although market expectations are shy of this, which suggests rates have scope to go lower, the short end has succumbed to profit-taking.** With no immediate catalyst for a move lower, and a September rate cut unlikely, the market is understandably reluctant to chase yields much lower. **More range-trading beckons.**

GLOBAL MARKETS AND LONG END

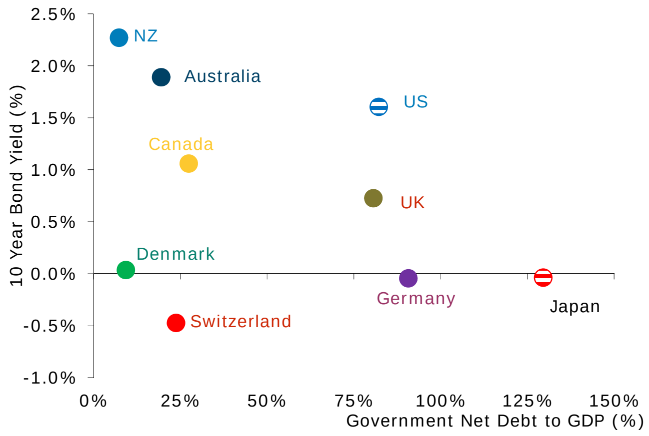
Global long-term bond yields have also been stuck in range-trading mode, with **the main feature across most markets over the past two months being a lack of volatility.** While it goes without saying that the risk is that something happens to jolt markets out of tight ranges, **we still find it difficult to get bearish on bonds just yet, especially with the next Fed move likely to be December at the earliest.** We also note that while there is a host of potential candidates that may create volatility (ISM data, Fedspeak, politics, central bank meetings), **none of them look to have the potential to dramatically up-end long-standing themes: low inflation, excessively easy policy, mass mis-pricing of risk (demonstrated neatly by Figure 1), and yield convergence.**

STRATEGY

Investors: Short-end rates are likely to consolidate at elevated levels for the next few weeks, and we see limited value in chasing the market. We still believe the Sep/Nov OIS spread ought to be wider, and the belly of the curve offers the best value. But we see limited scope for a material shift in levels this week.

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: G10 SOVEREIGN 10YR BOND YIELDS VS GOVT DEBT TO GDP: AN IMPROPER RELATIONSHIP!



Source: ANZ, Bloomberg

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/bullish	Neutral for now, largely thanks to there being no immediate catalyst for a rally. But will ultimately go lower.
Long end	Neutral/bullish	No immediate catalyst for a rally, but yield convergence and homogenisation the main themes still.
Yield curve	Biased flatter	Ironically, near-term flattening boosted by short-end complacency. More eventual easing = flatter curve.
Geographic spreads	Neutral/ Narrower	New Zealand is still the standout G10 bond market in an environment of low inflation and easy liquidity. The numbers have it: 84% of the NZGS 2037 went offshore – no surprise given yield close to 3%.
Swap spreads	Neutral	NZGS demand still okay, but 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 until the OCR goes much lower.

CURRENCY STRATEGY

SUMMARY

The NZD remains in an elevated holding pattern, courtesy of solid 'buy-on-dips' credentials (commodities + growth + yield) and nothing pressing globally to change that position. The US economic story still looks conducive to a rate hike by year-end, but there is no burning desire to chase the USD materially higher unless more is on offer – and that's hard to envisage given the linkages between Fed policy and broader global economic outcomes. The NZD/AUD continues to gravitate higher and while we expect a very balanced assessment from the RBA's Stevens (fostering a temporary NZD/AUD pullback), we retain a positive bias overall, absent a substantive reason to sell besides valuations.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔/↓	NZ the tallest poppy	Firmer USD to be an eventual "saviour"
NZD/AUD	↔	Risks going higher	0.93-0.97 range
NZD/EUR	↔	NZ yield attractive	NZ better
NZD/GBP	↔	BoE not done easing	Fully priced. Toppy.
NZD/JPY	↔/↑	BoJ wants yen lower	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- There was enough in payrolls to keep the US rates market attuned to the prospect of a Fed hike but no smoking gun for immediate action. The USD has a bid tone to it, but it's not universal.
- The New Zealand domestic data pulse remains strong and downside risks from dairying are dissipating with another strong auction expected.
- Attention is swivelling globally away from central banks towards the G20; we doubt there is a burning desire for change and reform yet, despite a clear need for it. Fiscal policy needs to be more proactive and central banks less so.
- The market mood remains sanguine but September and October have historically been 'wobbly'.
- The NZD/AUD looks extended valuation-wise but is lacking reasons to sell beyond that.

ASSESSMENT

We're struggling to identify material reasons for the NZD to go lower besides mildly stretched valuations. That's a reason but only a partial one.

- The most important currency fundamental is growth, and New Zealand has it in spades. Neither financial conditions nor business confidence are flagging any waning in momentum.
- The market is wary of chasing the USD with the Fed likely to be cautious and a September hike looking a tad early.
- Other central banks retain easing biases.
- The domestic data pulse remains solid.
- Downside risks in the form of a low dairy payout are dissipating, with another strong GDT auction result expected this week.
- The G20 could provide a shot in the arm for global growth and lessen pressure on central banks to do most of the heavy lifting, but we struggle to see any burning desire for change.

GLOBAL VIEWS

We see the global environment as remaining one of 'muddling through'. All else equal, this supports shallow cycles and ranges for currencies, as local considerations such as growth maintain a status quo view.

It is the 'bell curve' extremes that could foster a sharp move lower for kiwi and a range-break in the USD. There are two scenarios: 1) a more concerted US and global economic uplift results in ongoing Fed tightening and sees other central banks drop easing biases; or 2) a sharp deterioration in the global economy results in a spike in risk aversion (and we note we are entering a period traditionally prone to such spikes). **We remain sceptical that a decent uplift in global growth is around the corner**, but are closely watching for any reversal of the recent liquidity-driven rally across a number of markets and also JPY price action, which does look at odds with other 'risk' metrics.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Higher fair value range
Yield	↔/↑	OCR gap to persist into early 2017
Commodities	↔/↑	GDT auction looking to be strong
Data	↑	NZ still in a data sweet spot
Techs	↔/↑	Break of 0.97 ⇨assault on parity
Sentiment	↔	Sellers lining up ~0.965
Other	↔/↓	Market wary of valuations here
On balance	↔/↑	**Best chance of a break higher we've seen in months**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↓	High but USD the main problem
Yield	↔	NZ yield and other factors support
Commodities	↔/↑	GDT auction looking to be strong
Risk aversion	↔/↓	The NZD's main Achilles heel
Data	↔/↑	NZ data pulse still very strong
Techs	↔/↑	Good support in low 0.72s
Other	↔/↑	RBNZ reactive, not proactive
On balance	↔	**More than just a yield story. Will fade once Fed tightens.**

POSITIONING

Positioning changes have been unremarkable, but large shorts in EUR and GBP may give rise to short squeezes.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
5-Sep	NZ	ANZ Commodity Price - Aug	--	2.0%	13:00
	AU	ANZ Job Advertisements MoM - Aug	--	-0.8%	13:30
	AU	Inventories SA QoQ - Q2	0.3%	0.4%	13:30
	AU	Company Operating Profit QoQ - Q2	2.0%	-4.7%	13:30
	CH	Caixin PMI Services - Aug	--	51.7	13:45
	CH	Caixin PMI Composite - Aug	--	51.9	13:45
	GE	Markit Services PMI - Aug F	53.3	53.3	19:55
	GE	Markit/BME Composite PMI - Aug F	54.4	54.4	19:55
	EC	Markit Services PMI - Aug F	53.1	53.1	20:00
	EC	Markit Composite PMI - Aug F	53.3	53.3	20:00
	UK	Official Reserves Changes - Aug	--	$219M	20:30
	UK	Markit/CIPS Services PMI - Aug	50.0	47.4	20:30
	UK	Markit/CIPS Composite PMI - Aug	50.8	47.5	20:30
	EC	Sentix Investor Confidence - Sep	5	4.2	20:30
	EC	Retail Sales MoM - Jul	0.5%	0.0%	21:00
	EC	Retail Sales YoY - Jul	1.8%	1.6%	21:00
6-Sep	NZ	ANZ Truckometer Heavy MoM - Aug	--	-5.7%	10:00
	AU	ANZ-RM Consumer Confidence Index - 4-Sep	--	118.4	11:30
	NZ	QV House Prices YoY - Aug	--	14.1%	12:00
	AU	Net Exports of GDP - Q2	0.0	1.1	13:30
	AU	BoP Current Account Balance - Q2	-20.0B	-20.8B	13:30
	AU	RBA Cash Rate Target - Sep	1.50%	1.50%	16:30
	GE	Factory Orders MoM - Jul	0.5%	-0.4%	18:00
	GE	Factory Orders WDA YoY - Jul	-0.2%	-3.1%	18:00
	GE	Markit Construction PMI - Aug	--	51.6	19:30
	GE	Markit Retail PMI - Aug	--	52	20:10
	EC	Markit Retail PMI - Aug	--	48.9	20:10
	EC	GDP SA QoQ - Q2 F	0.3%	0.3%	21:00
	EC	GDP SA YoY - Q2 F	1.6%	1.6%	21:00
7-Sep	US	ISM Non-Manf. Composite - Aug	55.0	55.5	02:00
	US	IBD/TIPP Economic Optimism - Sep	48.1	48.4	02:00
	NZ	Mfg Activity Volume QoQ - Q2	--	-1.2%	10:45
	NZ	Mfg Activity SA QoQ - Q2	--	-2.6%	10:45
	AU	AiG Perf of Construction Index - Aug	--	51.6	11:30
	AU	GDP SA QoQ - Q2	0.4%	1.1%	13:30
	AU	GDP YoY - Q2	3.2%	3.1%	13:30
	GE	Industrial Production SA MoM - Jul	0.1%	0.8%	18:00
	GE	Industrial Production WDA YoY - Jul	0.2%	0.5%	18:00
	AU	Foreign Reserves - Aug	--	A$66.0B	18:30
	UK	Halifax House Prices MoM - Aug	-0.1%	-1.0%	19:30
	UK	Halifax House Price 3Mths/Year - Aug	7.0%	8.4%	19:30
	UK	Industrial Production MoM - Jul	-0.2%	0.1%	20:30
	UK	Industrial Production YoY - Jul	1.9%	1.6%	20:30
	UK	Manufacturing Production MoM - Jul	-0.3%	-0.3%	20:30
	UK	Manufacturing Production YoY - Jul	1.7%	0.9%	20:30
	US	MBA Mortgage Applications - 2-Sep	--	2.8%	23:00
	CH	Foreign Reserves - Aug	$3191.0B	$3201.1B	UNSPECIFIED
8-Sep	UK	NIESR GDP Estimate - Aug	--	0.3%	02:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
8-Sep	US	JOLTS Job Openings - Jul	5635	5624	02:00
	US	US Federal Reserve Releases Beige Book	--	--	06:00
	UK	RICS House Price Balance - Aug	2%	5%	11:01
	JN	BoP Current Account Balance - Jul	¥2073.3B	¥974.4B	11:50
	JN	BoP Current Account Adjusted - Jul	¥1590.3B	¥1648.4B	11:50
	JN	Trade Balance BoP Basis - Jul	¥579.4B	¥763.6B	11:50
	JN	GDP SA QoQ - Q2 F	0.0%	0.0%	11:50
	JN	GDP Annualized SA QoQ - Q2 F	0.2%	0.2%	11:50
	JN	GDP Nominal SA QoQ - Q2 F	0.2%	0.2%	11:50
	JN	GDP Deflator YoY - Q2 F	0.8%	0.8%	11:50
	NZ	ANZ Monthly Inflation Gauge - Aug	--	-0.3%	13:00
	GE	Labor Costs WDA YoY - Q2	--	3.1%	18:00
	GE	Labor Costs SA QoQ - Q2	--	1.7%	18:00
	EC	ECB Main Refinancing Rate - Sep	0.00%	0.00%	23:45
	EC	ECB Deposit Facility Rate - Sep	-0.40%	-0.40%	23:45
	EC	ECB Marginal Lending Facility - Sep	0.25%	0.25%	23:45
	EC	ECB Asset Purchase Target - Sep	€80B	€80B	23:45
	CH	Trade Balance - Aug	$58.35B	$52.31B	UNSPECIFIED
	CH	Exports YoY - Aug	-3.9%	-4.4%	UNSPECIFIED
	CH	Imports YoY - Aug	-5.0%	-12.5%	UNSPECIFIED
9-Sep	US	Initial Jobless Claims - 3-Sep	265k	263k	00:30
	US	Continuing Claims - 27-Aug	2151k	2159k	00:30
	US	Consumer Credit - Jul	$16.00B	$12.32B	07:00
	NZ	Card Spending Retail MoM - Aug	0.3%	0.3%	10:45
	NZ	Card Spending Total MoM - Aug	--	0.4%	10:45
	CH	CPI YoY - Aug	1.7%	1.8%	13:30
	CH	PPI YoY - Aug	-1.0%	-1.7%	13:30
	AU	Home Loans MoM - Jul	-1.5%	1.2%	13:30
	AU	Investment Lending - Jul	--	3.2%	13:30
	AU	Owner-Occupier Loan Value MoM - Jul	--	1.8%	13:30
	GE	Trade Balance - Jul	€23.7B	€24.7B	18:00
	GE	Current Account Balance - Jul	€24.5B	€26.3B	18:00
	GE	Exports SA MoM - Jul	0.3%	0.2%	18:00
	GE	Imports SA MoM - Jul	0.5%	1.1%	18:00
	UK	Visible Trade Balance GBP/Mn - Jul	-£11650	-£12409	20:30
	UK	Trade Balance Non EU GBP/Mn - Jul	-£3600	-£4159	20:30
	UK	Trade Balance - Jul	-£4200	-£5084	20:30
	NZ	REINZ House Sales YoY - Aug	--	-10.1%	10-14 Sep
10-Sep	US	Wholesale Inventories MoM - Jul F	0.1%	0.0%	02:00
	US	Wholesale Trade Sales MoM - Jul	0.2%	1.9%	02:00
	CH	Money Supply M0 YoY - Aug	7.2%	7.2%	10-15 Sep
	CH	Money Supply M1 YoY - Aug	24.0%	25.4%	10-15 Sep
	CH	Aggregate Financing CNY - Aug	900.0B	487.9B	10-15 Sep
	CH	New Yuan Loans CNY - Aug	750.0B	463.6B	10-15 Sep
	CH	Money Supply M2 YoY - Aug	10.5%	10.2%	10-15 Sep

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency
Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Domestic economic momentum is solid, with downside risks mainly stemming from offshore. But with inflation low and the NZD high, our base case is for OCR cuts in November and early 2017, taking the OCR to 1.5%.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
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 we expect non-primary sales volume growth to be solid.
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 decent underlying trend, with the quarterly pace holding around 1¼% to 1½%.
12-16 Sep	REINZ Housing Market Statistics – Aug	Starting to turn	Anecdotes have started to emerge that the latest round of LVR restrictions are taking a bite out of 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	We have lifted our forecast to 1.1% q/q, with broad-based growth, but particularly from goods-producing industries.
Fri 16 Sep (10:00am)	ANZ Job Ads – Aug	--	--
Fri 16 Sep (1:00pm)	ANZ Roy Morgan Consumer Confidence – Sep	--	--
Mon 19 Sep (10:30am)	BNZ-BusinessNZ PSI – Aug	Stable	The index has softened a little of late, but we are not expecting that to persist for long.
Wed 21 Sep (early am)	GlobalDairyTrade auction	Can they be maintained?	Key is whether recent price gains can be maintained beyond the preferential free-trade window with China closing around Oct.
Wed 21 Sep (10:45am)	International Travel & Migration – Aug	Still strong	Net inflows may be past their highs, but we see little chance of a fall to historical average (~15K) any time soon.
Thu 22 Sep (9:00am)	RBNZ OCR Review	No change	Future OCR cut(s) will be signalled, but the RBNZ is taking it gradually and has shown a preference to move on MPS dates.
Mon 26 Sep (10:45am)	Overseas Merchandise Trade – Aug	A wider deficit	Due to softer agricultural exports, the unadjusted trade balance typically widens in August and we expect no different this year.
Mon 26 Sep (3:00pm)	RBNZ New Residential Mortgage Lending – Aug	Cooling off highs	Tighter bank lending criteria are likely to see the rate of new lending growth ease off its current strong pace.
Fri 30 Sep (10:45am)	Building Consents Issued – Aug	Positive trend	Issuance has swung about somewhat of late, but we expect a modestly positive trend to remain.
Fri 30 Sep (1:00pm)	ANZ Business Outlook – Sep	--	--
Fri 30 Sep (3:00pm)	RBNZ Credit Aggregates – Aug	Strong	New lending growth is set to slow, which will eventually flow through into the rate of growth in the overall stock of credit.
On balance		**Data watch**	**Momentum is increasing at present, albeit with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.7	**1.1**	**0.6**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.8	**3.6**	**3.4**	**3.5**	**3.5**	**3.1**	**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**	**4.8**
Current Account (% GDP)	-3.0	**-2.6**	**-2.6**	**-2.5**	**-2.7**	**-2.9**	**-2.8**	**-2.7**	**-2.5**	**-2.5**
Terms of Trade (% qoq)	4.2	-2.1	**-0.9**	**0.5**	**0.9**	**1.3**	**1.9**	**1.8**	**0.9**	**0.9**
Terms of Trade (% yoy)	-0.4	-3.9	**-1.0**	**1.6**	**-1.6**	**1.8**	**4.7**	**6.0**	**6.0**	**6.0**

	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)	1.8	2.7	-8.3	10.7	-9.4	6.9	-0.2	21.9	-10.5	--
Building Consents (% yoy)	7.4	17.8	4.9	26.9	0.7	12.8	10.1	41.0	7.3	--
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	0.9	--
Household Lending Growth (% yoy)	7.2	7.4	7.5	7.6	7.7	7.9	8.1	8.3	8.6	--
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	15.5
ANZ Own Activity Outlook	32.0	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4	33.7
Trade Balance ($m)	-795	-42	12	367	189	350	344	110	-433	--
Trade Bal ($m ann)	52648	52510	52764	52831	52599	52626	52854	52661	52158	--
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	Jul-16	Aug-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.720	0.725	0.729	0.73	0.71	0.69	0.67	0.65	0.64	0.64
NZD/AUD	0.948	0.964	0.964	0.95	0.93	0.93	0.93	0.93	0.94	0.89
NZD/EUR	0.644	0.650	0.654	0.68	0.68	0.66	0.63	0.59	0.58	0.57
NZD/JPY	73.47	74.82	75.88	76.7	74.6	69.0	67.0	65.0	64.0	67.2
NZD/GBP	0.544	0.552	0.549	0.57	0.57	0.56	0.54	0.49	0.47	0.46
NZ$ TWI	75.0	75.9	77.9	77.0	75.8	73.7	71.5	69.0	68.3	67.5
INTEREST RATES	Jul-16	Aug-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.28	2.28	2.23	2.30	2.00	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.21	2.24	2.27	2.20	1.90	2.00	2.20	2.40	2.40	2.70
US Fed funds	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
US 3-mth	0.76	0.84	0.84	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.86	1.74	1.73	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	2 Aug	29 Aug	30 Aug	31 Aug	1 Sep	2 Sep
Official Cash Rate	2.25	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.26	2.25	2.27	2.28	2.24	2.23
NZGB 03/19	1.80	1.81	1.81	1.81	1.82	1.83
NZGB 05/21	1.83	1.84	1.83	1.82	1.83	1.84
NZGB 04/23	1.91	1.97	1.95	1.94	1.95	1.96
NZGB 04/27	2.15	2.28	2.24	2.24	2.25	2.26
2 year swap	2.04	1.97	1.98	1.99	2.01	2.00
5 year swap	2.13	2.09	2.08	2.09	2.10	2.10
RBNZ TWI	76.48	77.23	77.27	77.57	77.65	77.95
NZD/USD	0.72	0.72	0.72	0.72	0.73	0.73
NZD/AUD	0.95	0.96	0.96	0.96	0.96	0.96
NZD/JPY	73.66	74.00	74.08	74.82	75.33	75.72
NZD/GBP	0.54	0.55	0.55	0.55	0.55	0.55
NZD/EUR	0.64	0.65	0.65	0.65	0.65	0.65
AUD/USD	0.75	0.76	0.76	0.75	0.75	0.76
EUR/USD	1.12	1.12	1.12	1.11	1.12	1.12
USD/JPY	102.48	102.18	102.33	103.24	103.67	103.92
GBP/USD	1.32	1.31	1.31	1.31	1.32	1.33
Oil (US$/bbl)	40.05	47.64	46.97	46.32	44.68	43.17
Gold (US$/oz)	1349.35	1318.04	1323.42	1315.45	1309.20	1313.00
Electricity (Haywards)	3.80	4.97	5.10	4.65	4.94	4.64
Baltic Dry Freight Index	645	--	715	711	712	720
Milk futures (USD)	40	48	47	45	44	45

IMPORTANT NOTICE

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

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

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

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

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

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

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

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

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

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

2. Country/region specific information:

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

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

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

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

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

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

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

IMPORTANT NOTICE

India. This publication is distributed in India by ANZ on a cross-border basis. If this publication is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing. Further copying or duplication of this publication is strictly prohibited.
Myanmar. This publication is intended to be of a general nature as part of customer service and marketing activities provided by ANZ in the course of implementing its functions as a licensed bank. This publication does not take into account your financial situation or goals and is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013). The contents of this publication have not been reviewed by any regulatory authority in Myanmar. If in doubt about the contents of this publication, you should obtain independent professional advice.
New Zealand. This publication is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008.
Oman. This publication has been prepared by ANZ. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this publication is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and by receiving this publication, the person or entity to whom it has been dispatched by ANZ understands, acknowledges and agrees that this publication has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this publication is intended to constitute Omani investment, legal, tax, accounting or other professional advice.
People's Republic of China ("PRC"). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If and when the material accompanying this document is distributed by Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) ("ANZ") or an affiliate (other than Australia and New Zealand Bank (China) Company Limited ("ANZ C")), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ C, the following statement and the text below is applicable: This document is distributed by ANZ C in the Mainland of the PRC.
Qatar. This publication has not been, and will not be lodged or registered with, or reviewed or approved by, the Qatar Central Bank ("QCB"), the Qatar Financial Centre ("QFC") Authority, QFC Regulatory Authority or any other authority in the State of Qatar ("Qatar"); or authorised or licensed for distribution in Qatar; and the information contained in this publication does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this publication have not been, and will not be registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar. Accordingly, the financial products or services described in this publication are not being, and will not be, offered, issued or sold in Qatar, and this publication is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this publication and distribution of this publication is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this publication must abide by this restriction and not distribute this publication in breach of this restriction. This publication is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.
Singapore. This publication is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with the distribution of this publication in Singapore, contact your ANZ point of contact.
United Arab Emirates. This publication is distributed in the United Arab Emirates ("UAE") or the Dubai International Financial Centre (as applicable) by ANZ. This publication: does not, and is not intended to constitute an offer of securities anywhere in the UAE; does not constitute, and is not intended to constitute the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or the United Arab Emirates Ministry of Economy; does not, and is not intended to constitute an offer of securities within the meaning of the Dubai International Financial Centre Markets Law No. 12 of 2004; and, does not constitute, and is not intended to constitute, a financial promotion, as defined under the Dubai International Financial Centre Regulatory Law No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority ("DFSA"). The financial products or services described in this publication are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office ("ANZ Representative Office") in Abu Dhabi regulated by the Central Bank of the United Arab Emirates. ANZ Representative Office is not permitted by the Central Bank of the United Arab Emirates to provide any banking services to clients in the UAE.
United States. ANZ Securities, Inc. ("ANZSI") is a member of the Financial Industry Regulatory Authority ("FINRA") (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). Except where this is an FX- related publication, this publication is distributed in the United States by ANZSI (a wholly owned subsidiary of ANZ), which accepts responsibility for its content. Information on any securities referred to in this publication may be obtained from ANZSI upon request. This publication or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this publication you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this publication and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this publication in any way. Non-U.S. Analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with subject company, public appearances and trading securities held by the analysts. Where this is an FX-related publication, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163). Commodity-related products are not insured by any U.S. governmental agency, and are not guaranteed by ANZ or any of its affiliates. Transacting in these products may involve substantial risks and could result in a significant loss. You should carefully consider whether transacting in commodity-related products is suitable for you in light of your financial condition and investment objectives.
Vietnam. This publication is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ. Please note that the contents of this publication have not been reviewed by any regulatory authority in Vietnam. If you are in any doubt about any of the contents of this publication, you should obtain independent professional advice.

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