NEW ZEALAND MARKET FOCUS

18 April 2017

INSIDE

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CORPORATE CHALLENGE

ECONOMIC OVERVIEW

The economy needs to generate more domestic saving to fund its investment needs. The business sector has been a key source of saving over this economic cycle and will need to step up further at a time when investment risks being constrained by credit re-pricing and rationing. More retained earnings will need to be invested. A strong business sector profitability environment feeds into that, and the backdrop is generally still a good one. However, there are challenges developing, with waning productivity, skilled labour shortages, competitive forces and cost pressures more generally threatening to eat into margins. Navigating those challenges will not be plain sailing, but if successful, should help to keep the economy on an even keel at a time when tighter financial and credit conditions threaten softer growth outcomes. CPI data this week should show headline inflation back at target (or close to it), but the broader inflationary pulse will likely remain tame. Dairy prices are expected to lift modestly.

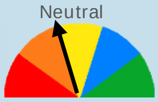
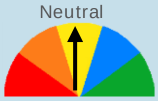
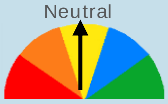
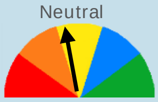
INTEREST RATE STRATEGY

Short-end rates continue to grind gradually lower, but remain in familiar ranges. Lower global rates and the mildly stronger TWI have played a role, as has carry-driven receiving, but the focus this week is Q1 CPI. Headline inflation will be higher, but we don't think an outcome at or near target changes the outlook for the OCR, given the role played by base effects and the benign state of inflation outside of housing, as our Inflation Gauge showed last week. As such, we prefer to be long rather than short, particularly given the tense global geopolitical backdrop. Such tensions also point to lower long-end yields, especially in the wake of last week's downside US CPI print (which comes after a soft payrolls number) and the sustained break through the key 2.3% level by the US 10-year bond. Although we can easily articulate reasons why US bond yields should rise, positioning and tactical considerations point to yields holding steady or falling further.

CURRENCY STRATEGY

Currency signals remain mixed as cyclical, secular, and political dynamics collide. We continue to back a firmer USD whilst at the same time respecting the NZD's solid credentials with partial indicators showing renewed growth vigour. Market expectations towards the Fed remain light, while our core expectation towards the RBNZ is slightly behind market expectations. As such, we lean towards a weaker NZD/USD profile. The trajectory for the NZD/AUD remains higher.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q4	Soft Q4 GDP figures are not a true reflection of the state of the economy. While momentum is forecast to ease, it should remain decent overall.	
Unemployment rate	4.7% for 2017 Q4	We are looking through the Q4 lift in the unemployment rate. Job ads firmly signal it lower. Finding staff is a huge challenge for firms.	
OCR	1.75% by Dec 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	
CPI	2.1% y/y for 2017 Q4	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

The economy needs to generate more domestic saving to fund its investment needs. The business sector has been a key source of saving over this economic cycle and will need to step up further at a time when investment risks being constrained by credit re-pricing and rationing. More retained earnings will need to be invested. A strong business sector profitability environment feeds into that, and the backdrop is generally still a good one. However, there are challenges developing, with waning productivity, skilled labour shortages, competitive forces and cost pressures more generally threatening to eat into margins. Navigating those challenges will not be plain sailing, but if successful, should help to keep the economy on an even keel at a time when tighter financial and credit conditions threaten softer growth outcomes. CPI data this week should show headline inflation back at target (or close to it), but the broader inflationary pulse will likely remain tame. Dairy prices are expected to lift modestly.

FORTHCOMING EVENTS

GlobalDairyTrade Auction (early am, Wednesday, 19 April). We are expecting a modest lift in milk powder prices of around 2-4%.

BNZ-BusinessNZ PSI – March (10:30am, Wednesday, 19 April). The services sector has generally been performing well despite recent housing market softness.

CPI – Q1 (10:45am, Thursday, 20 April). We expect a 0.7% q/q lift in headline inflation, taking annual inflation to 1.9% y/y. *(Refer to our CPI Preview released on 13 April).*

ANZ-Roy Morgan Consumer Confidence – April (1:00pm, Friday, 21 April).

WHAT'S THE VIEW?

The economy needs to generate more domestic saving to fund its investment needs. This is especially the case right now with investment at risk of being constrained by credit rationing as the finance sector, quite prudently, pays greater attention to the funding gap and regulatory challenges. We say "prudently" because closing that gap will help keep the current account and external balance position in check, and also ensure the economy does not follow its usual tendency to boom and bust.

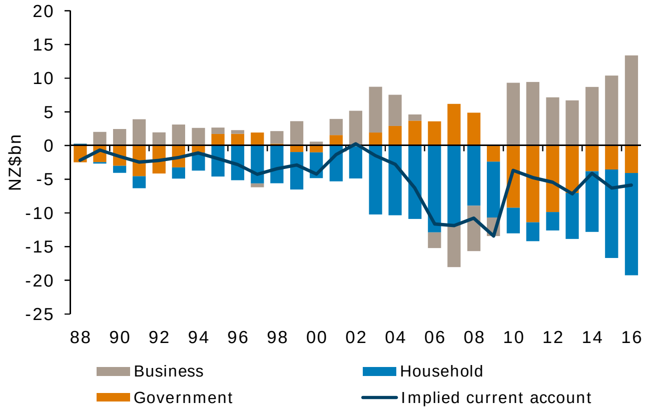
However, there is no free lunch when it comes to generating more domestic saving. Savings do not miraculously appear. Sacrifices need to be made as saving for tomorrow means spending less today. Politically, governments struggle to run big surpluses and household saving performance has been poor. In saying that, more sedate consumption growth has helped extend the business cycle this time around; an investment boom and the consumption equivalent is normally the precursor to higher interest rates and an end to the economic expansion.

The business sector has been a key source of increased national saving over this economic cycle. We wrote last year about how business sector balance sheets were generally in good shape. National Accounts figures for the year to March 2016 showed the sector to have had a net saving position of over $13 billion, or 6.6% of national disposable income, the highest since 2003. The RBNZ estimated that in the year to September 2016, the ratio of debt-to income in the non-property business sector was only 16.7%, which is below its GFC peak and only a touch above the average seen since 2000.

Business sector strength has acted to partly offset household and housing largesse. Business sector leverage is low at a time when households have been re-leveraging (household debt to income is at all-time highs). Households may not have been consuming as much as they might have, but they certainly have not been shy about borrowing for housing. That household largesse, together with a bank funding mismatch (forcing banks to increase their offshore funding), would have typically corresponded with a widening in the current account deficit. That was certainly a widely held expectation, including by ourselves, a few years back. But it has not occurred. In fact, not only has the current account deficit remained planted at around 3% of GDP (which is less than historical averages), it has narrowed recently.

You can also see this in estimates of sector saving-investment balances. Whereas the household sector has been a drag on the current account deficit (through strong residential investment growth and perennial poor saving behaviour – although perhaps not as bad as it has been historically), it has been almost fully offset by the strong net saving position from businesses.

FIGURE 1: SECTORAL SAVING-INVESTMENT POSITIONS



Source: ANZ, Statistics NZ

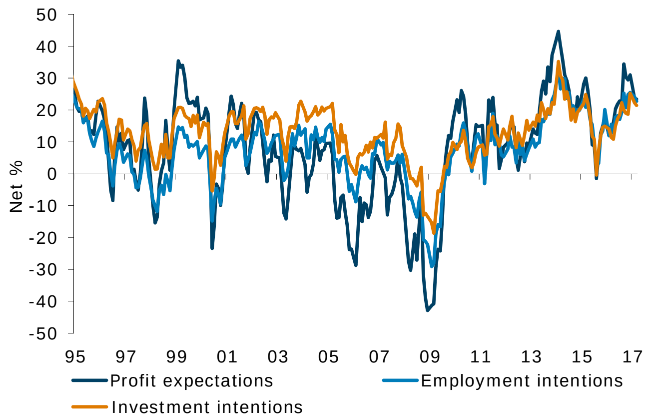
ECONOMIC OVERVIEW

For the investment cycle to extend and broaden amidst credit rationing and repricing, the outlook for business profitability takes on heightened importance. Money needs to be made before it can be reinvested.

So how are things looking with regards to profitability right now? We can build up a picture from a few different areas:

- **Firms are still telling us they are profitable.** Our March *Business Outlook* survey showed that a net 23% of firms expect profitability to lift over the coming year. Admittedly, that is the lowest in seven months, but it remains well above the historical average. Within the QSBO, past and expected profitability were also above average (at +2% and +8% respectively), although the latter is down from a net 20% seen in Q3 2016. Profitability in turn is linked to investment and employment intentions. The three go hand in hand.

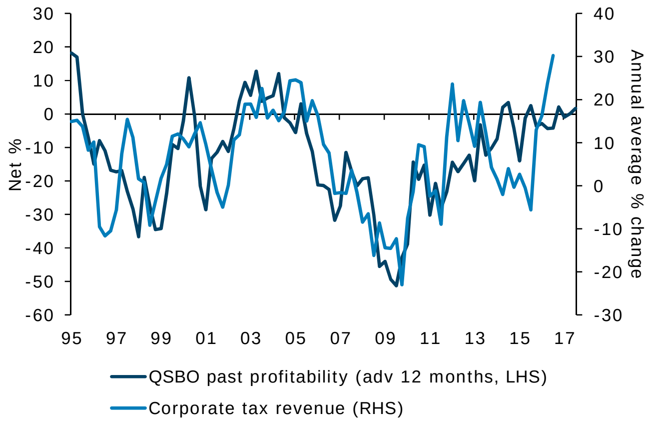
FIGURE 2: ANZBO PROFIT, EMPLOYMENT AND INVESTMENT EXPECTATIONS



Source: ANZ

- **Corporate tax revenue is strong.** Plenty of caution is needed with interpreting tax figures as they can get thrown around by the timing of provisional payments, and tax obviously lags actual profits themselves. Nonetheless, over the 12 months to February corporate tax revenue was 30% above the prior 12 months, which on our estimates is the strongest 12-monthly growth since this data begins (1993).

FIGURE 3: CORPORATE TAX REVENUE AND EXPECTED PROFIT



Source: ANZ, NZ Treasury, NZIER

- **Our estimate of corporate profit margins from the National Accounts is elevated, but has eased off its highs.** We calculate a proxy for corporate profits by subtracting entrepreneurial income (both farm and non-farm) and imputed rent from gross operating surplus figures. It can be thought of as a measure of economy-wide EBITDA. So when divided by nominal GDP or GNP (Gross National Product), it is effectively a proxy for EBITDA margins. On a four-quarter average basis, EBIDTA margins (using GDP as the denominator) sat at 19.6% in Q4, which compares with an average since 1992 of 18.5%. However, it is the lowest in around a year and a half. Using GNP as a denominator, four-quarter average margins were 20.3% in Q4, the lowest since mid-2014 – although again, still above average.

FIGURE 4: ANZ ESTIMATE OF CORPORATE PROFIT MARGINS FROM NATIONAL ACCOUNTS

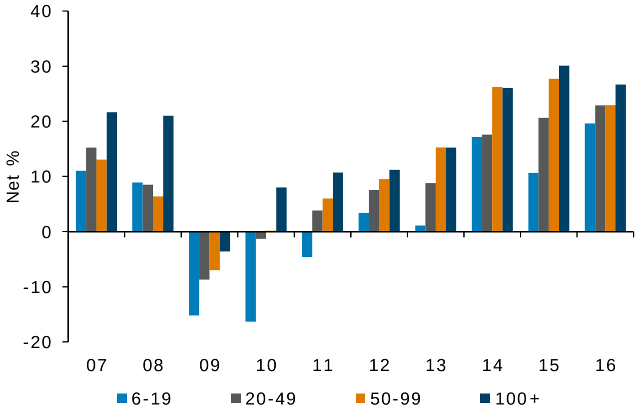
Source: ANZ, Statistics NZ

- **The picture looks slightly stronger for listed firms.** Bloomberg provides a total estimate for EBITDA margins of the companies making up the NZX50. In the March quarter that was 21.7%, which is the highest since late 2006.

ECONOMIC OVERVIEW

- **That contrasts slightly with the message coming out of the latest Statistics NZ Business Operations Survey.** Within that survey, a greater number of small firms noted stronger profitability conditions relative to the prior 12 months, while larger firms appearing to be finding it slightly tougher. In the August 2016 survey, a net 20% of small firms (with 6-19 staff) noted higher profitability over the prior year, up from a net 11% in August 2015. That contrasts with firms with over 50 employees, where the net percentage reporting higher profits actually eased a touch, from a net 29% to a net 25%. The levels for all are high (at least relative to the relatively short history of the survey), but directionally there is some divergence of late.

FIGURE 5: BUSINESS OPERATIONS SURVEY PROFITABILITY PERFORMANCE BY FIRM SIZE (EMPLOYEES)



Source: ANZ, Statistics NZ

- **The ratio of PPI output to input prices (a proxy for economy-wide non-labour cost margins) is around 3% above its 2012 low.** However, annual growth is now effectively flat, after growing at around a 1½% pace over 2014/15.

So in general it still looks to be a decent profitability picture. There are some hints of softening in some areas, which we are picking up within our internal anecdotes too, but off strong levels. And to be fair, some softening is only natural with the economy at a more mature point in its cycle.

Nonetheless, looking forward, it won't be plain sailing. There are challenges:

- **Productivity performance is waning.** Again, this is typical late-cycle behaviour. That said, as we noted three weeks ago, we don't think the underlying performance is quite as bad. The hit to the economy (and productivity) from natural disasters needs to be acknowledged. *(Refer to our [Market Focus](#) on 27 March.)*
- **Getting skilled staff is becoming increasingly difficult.** Stronger wage growth should naturally follow, pressuring profit margins.
- **Credit costs are rising.** As we noted last week, you don't necessarily see this in interest rates *per se*, but certainly appetites to lend to various sectors have shifted and that raises the hurdle for new investment. Liquidity-driven investment under the era of QE and incredibly low rates is morphing into investment decisions based on value and fundamentals. The difference is non-trivial.
- **Competition is still intense.** That helps tame inflation and keeps businesses on their toes. But one side-effect of strong competition is tighter-than-otherwise margins and less room for error.
- **Regulation – which small businesses say is their second-biggest issue after finding staff.** Regulation in an economy is necessary. But just like a referee in a rugby game, it can be overly burdensome if not done properly. That becomes more pertinent when an economy is facing other challenges.

Despite the challenges, a solid outlook for business profitability is an unheralded yet critical part of our economic story, with retained earnings expected to be directed into investment. A turn in the profitability cycle, or a continuation of housing sector largesse, would ultimately curtail much-needed investment or widen external imbalances. New Zealand needs neither at this juncture.

Turning to the week ahead, we expect headline CPI to lift 0.7% q/q, taking annual inflation to 1.9%. That would be the highest since Q3 2011. Food and petrol prices account for a big part of the lift, together expected to make a 0.6%pt contribution in the quarter. The typical boost from tobacco prices at this time of year is expected to make a further 0.3%pt contribution.

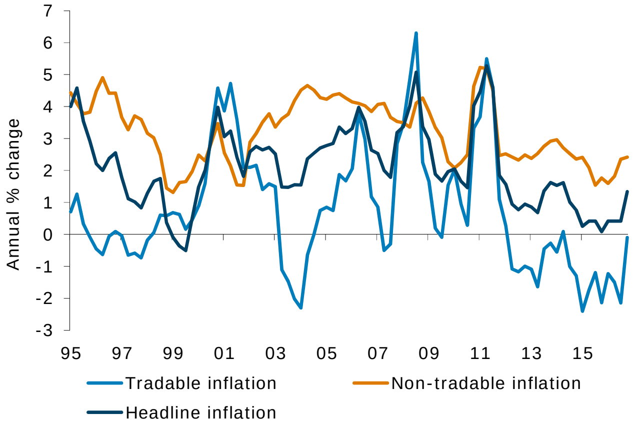
But outside of those factors, inflation pressures will continue to look benign. Non-tradable inflation is expected to rise 0.9% q/q. However, that is largely a seasonal lift (boosted by education and tobacco). And as our Monthly Inflation Gauge has shown, outside of housing, domestic price increases remain surprisingly scant. The deflationary impact of the NZD and global scene should continue to be evident in tradable prices outside of food and petrol too. And we are expecting core and underlying measures to remain largely stable in a broad 1½% to 2% range.

So overall, we are expecting a mixed picture. The RBNZ will welcome higher headline inflation in terms of what it means for inflation expectations.

ECONOMIC OVERVIEW

However, the Bank will also be interested in whether inflation pressures are broadening, and evidence of that may prove far less forthcoming.

FIGURE 6: HEADLINE, TRADABLE AND NON-TRADABLE CPI INFLATION



Source: ANZ, Statistics NZ

In other data this week, global dairy prices are expected to record a modest lift. NZX futures are pointing to a large gain for milk powder prices (+7 to +10%) but a large fall for milkfat prices (-7 to -9%) at this week's auction. Milk powder prices have been driven higher by the emergence of latent demand (especially from parts of the Middle East/North Africa, such as Algeria) post the large fall in whole milk powder prices in early March and concerns about an early finish to the New Zealand season due to heavy rainfall over the past month. Latent demand is expected to continue to support prices this week, but New Zealand production concerns are likely to subside.

This should lead to a 2% to 4% gain in milk powder prices, but not to the extent implied by the NZX futures market. Turning to the other products, anhydrous milkfat prices are expected to adjust lower, while trading at a premium to butter. But in general milkfat prices should remain elevated with little difference between US, Europe and NZ pricing at present.

With regard to New Zealand production, while there has been an increase in cull cow turn-off with sodden soils over much of the North Island (i.e. early drying off), there hasn't been a large surge as yet that would indicate a sudden end to the season. Weather and pasture production forecasts look better over the more sodden parts of the country for the next 7-10 days too. The season is also naturally drawing toward its end and combined with earlier conducive conditions for milk production, where there was a risk of more milk powder being added to the auction platform, we don't anticipate auction volumes changing materially until the start of the new season. This should give the market a bit more price stability through this period with direction driven by offshore developments.

Finally, our consumer confidence figures for April will provide the first piece of data relating to the June quarter. In March, the ANZ-Roy Morgan Consumer Confidence Index eased from 127.4 to 125.2. While that is the second consecutive fall, and confidence is off its recent highs, it is a blip more than anything else. Sentiment still sits above historical averages, and together with still-elevated business confidence, has been pointing to a decent pulse to near-term growth momentum.

LOCAL DATA

Electronic Card Transactions – March. Total retail card spending fell 0.3% m/m, while core spending dropped 0.1% m/m.

ANZ Monthly Inflation Gauge – March. Prices rose 0.2% m/m, to be up 2.3% y/y.

ANZ Truckometer – March. The Heavy and Light Traffic Indexes rose 1.7% m/m and 1.0% m/m respectively.

REINZ Housing Market Statistics – March. In seasonally adjusted terms, house sales volumes rose 5.6% m/m, while the House Price Index rose 2.2% m/m.

BNZ-BusinessNZ PMI – March. The headline index rose 2.1 points to 57.8.

Food Price Index – March. Prices fell 0.3% m/m, to be up 1.3% y/y.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates continue to grind gradually lower, but remain in familiar ranges. Lower global rates and the mildly stronger TWI have played a role, as has carry-driven receiving, but the focus this week is Q1 CPI. Headline inflation will be higher, but we don't think an outcome at or near target changes the outlook for the OCR, given the role played by base effects and the benign state of inflation outside of housing, as our Inflation Gauge showed last week. As such, we prefer to be long rather than short, particularly given the tense global geopolitical backdrop. Such tensions also point to lower long-end yields, especially in the wake of last week's downside US CPI print (which comes after a soft payrolls number) and the sustained break through the key 2.3% level by the US 10-year bond. Although we can easily articulate reasons why US bond yields *should* rise, positioning and tactical considerations point to yields holding steady or falling further.

THEMES

- The short end continues to trade very tight ranges. Topside is capped by the realities of the OCR outlook, carry, and wide spreads to Australia; the downside is limited by an unwillingness to chase the market and the prospect of CPI near target.
- US 10-year bond yields have broken lower, and the bears now face an uphill battle as geopolitical risks escalate. While the overall US data backdrop is robust, two key disappointments (payrolls and CPI) have given the bulls the upper hand for now.
- Curve steepening has given way to curve flattening as US bonds have rallied. While we ultimately expect curves to steepen, it's not in prospect any time soon unless it's driven by the short end, and that will be a slow grind.

MONETARY POLICY AND SHORT END

While short-end rates have drifted down since the beginning of the year, they remain in familiar ranges thanks to the fact they are in a declining trend channel that has a trajectory of roughly one point lower per week. This is hardly riveting stuff, and while there is potential for a little more excitement in the lead-up to, and release of, Q1 CPI data on Thursday, it's difficult to see things changing much. As we discussed in our *CPI Preview* last week, some may argue that the RBNZ ought to shift its stance if we see inflation back at (or near) 2%, but with few signs of generalised inflation pressures outside of base effects, one-offs and housing, we remain comfortable with our forecasts for the OCR to remain on hold for another year.

To be sure, we see limited potential for yields to fall on purely domestic grounds given the market's collective unwillingness to chase yields lower, and scepticism over the RBNZ's relaxed stance. **But with global yields biased lower** and short-end spreads to the US and Australia back at recent highs, **we see more scope for downside than upside**.

GLOBAL MARKETS AND LONG END

The outlook for domestic long-end rates remains inextricably intertwined with the outlook for US 10-year Treasury bond yields, which have broken lower over the past week. While one could easily dismiss this as a technical development that has no fundamental underpinnings, amid escalating tensions on the Korean peninsula and in the Middle East, it's more difficult to dismiss it, particularly after two key downside data surprises (payrolls and CPI) in the US. To be sure, the overall US data pulse remains upbeat, but we doubt the geopolitical backdrop will de-escalate over coming weeks, and with the next Fed hike at least two months away, the market has "license" to trade away from fundamentals, especially with positioning still mildly short and equities consolidating.

The potential for US rates to hold steady (or even break lower) also changes the near-term outlook for the slope of the curve and geographic spreads. While mildly lower short-end rates will help steepen the curve and cap geographic spreads, it is difficult to see the curve steepening until we can reliably envisage US yields moving higher. NZ yields have performed surprisingly well as US yields have rallied, but we believe spreads have limited scope to "crunch" in unless we see US bond yields turn higher.

STRATEGY

Investors: Being nimble makes sense at this juncture given the fluid nature of the situation, and opposing tactical/strategic considerations. We do expect NZ to outperform the US, and inflation-linked BEIs to start to perform after Q1 CPI data.

Borrowers: No change. **BKBM is at a record low, but our forecasts have swap rates going higher.** However, some caution is required near term.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/Bullish	Yields can fall given the policy outlook, spreads to US/AU and R+C. But nobody keen to chase it late cycle!
Long end	Neutral	UST 10yr yield has now sustainably broken below 2.3%. Amid a couple of data surprises and escalating geopolitical risks, that now looks like the level we need to break back above for yields to rise sustainably.
Yield Curve	Neutral	Strategically favour a steepener, based largely on divergent views. But tactically, flatter looks more likely.
Geographic spreads	Neutral/ narrower	NZ/US spread has performed well. Should narrow further over the year as USTs grind higher (especially given the RBNZ's neutral stance). Would be bearish had we not been so comfortable that RBNZ is on hold.
Swap spreads	Neutral	NZGS demand fair. Risk of corporate paying fading, and global uncertainties likely to keep payers at bay.
NZD/TWI	Off highs	RBNZ Feb inflation projections now outdated given lower TWI. Performing well amid global uncertainty.

CURRENCY STRATEGY

SUMMARY

Currency signals remain mixed and convoluted as cyclical, secular, and political dynamics collide. We continue to back a firmer USD whilst at the same time respecting the NZD's solid credentials with partial indicators showing renewed growth vigour. Market expectations towards the Fed remain light, while our core expectation towards the RBNZ is slightly behind market expectations. As such, we lean towards a weaker NZD/USD profile. The trajectory for the NZD/AUD remains higher.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Range trading until CPI on Thursday	Firmer USD bias over the year
NZD/AUD	↔/↑	Now in an upward trend channel	Holding up
NZD/EUR	↔	EU inflation low. Politics the focus	Huge growth/politics divide
NZD/GBP	↔	Consumer slowing as BoE feared	Brexit execution woes weighing
NZD/JPY	↔/↑	Safe-haven flows to benefit JPY	Japan a defensive play; US strong too

THEMES AND RISKS

- Trump delivers a broadside to USD strength.
- Geopolitical tension is rife, but risk sentiment holding in reasonably well.
- China continues to print good numbers.
- NZD/AUD tried to rally but knocked down again.

ASSESSMENT

Currency signals are mixed, reflective of a fractured environment with economic, secular, political and geopolitical dynamics interacting.

The economic backdrop continues to support the USD. A strong US economy should mean a firm USD. But the market is pricing in a meagre 37 basis points of rate hikes by March next year, well below the Fed's dot plots. Economic signals remain robust. This leans us towards USD strength.

That said, USD strength is being challenged on four levels. First, the realities of a substantial savings imbalance with the ROW and high historical valuation mean upside is limited. Second, President Trump gave a sharp rebuke last week towards USD strength. Third, European economic indicators continue to stabilise / improve. Fourth, a protectionist policy platform must ultimately be bad for the country pursuing such policies.

We respect the more secular arguments and issues, but put them as tomorrow's story as opposed to today's. Markets like to look ahead but today matters more.

An overhang of geopolitical uncertainty (North Korea and Syria) complicates the picture and the market bias on how to trade it is not clear.

Meanwhile the Chinese economy continues to record reasonable growth. That's good for risk appetites and the commodity complex.

But New Zealand also continues to show good relative credentials. Partial economic indicators continue to point to a growth bounce-back in Q1 from a lull in late 2016. Inflation figures this week are not expected to be a smoking gun forcing a shift in the RBNZ's stance, but nonetheless will be a reminder that the next move in rates is up and the RBNZ's neutral stance is on borrowed time. Dairy price futures are pointing towards further improvement.

Despite growth firming and our generally upbeat view towards the New Zealand economy, we continue to favour a tightening profile from the RBNZ that is slightly behind market expectations (which has the first hike almost priced by March 2017; we favour May). The difference is semantics but reflects our judgement that prospective tightening through the credit channel (credit re-pricing, the funding gap) buys the RBNZ more time. **Overall, we continue to have a downwards bias for the NZD/USD**, backing near-term robustness in the tenor of US economic data and prospective Fed rate hikes, **though we are more neutral towards NZD/EUR and NZD/JPY.**

We continue to favour the NZD/AUD nudging higher. The iron ore / dairy trade looks in the latter's favour and the New Zealand economy is showing more economic strength.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Fair value is 0.93; we're below that.
Yield	↔/↑	Rate differential more in NZ's favour.
Commodities	↔/↑	Milk futures prices up strongly.
Data	↔/↑	NZ data outlook to improve this qtr.
Techs	↔	Now in an upward-sloping channel.
Sentiment	↔/↑	Looks to be turning in NZD's favour.
Other	↔/↑	Credit channel tightening faster in AU.
On balance	↔/↑	**Bounce / ongoing rally encouraging.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔/↓	NZ spreads narrowing against US.
Commodities	↔	NZ commodities holding up.
Risk aversion	↔/↓	Risk-on/risk-off volatility apparent.
Data	↔/↑	NZ data outlook to improve this qtr.
Techs	↔/↑	Has broken up out of wedge.
Sentiment	↔/↑	Need to acknowledge NZ positives.
Other	↔	NZ hasn't been a flight-to-safety loser.
On balance	↔	**Steady as she goes.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
18-Apr	AU	RBA April Rate Meeting Minutes	--	--	13:30
	NZ	Non Resident Bond Holdings - Mar	--	62.6%	15:00
19-Apr	US	Housing Starts - Mar	1250k	1288k	00:30
	US	Housing Starts MoM - Mar	-3.0%	3.0%	00:30
	US	Building Permits - Mar	1250k	1216k	00:30
	US	Building Permits MoM - Mar	2.8%	-6.0%	00:30
	US	Industrial Production MoM - Mar	0.5%	0.1%	01:15
	US	Capacity Utilization - Mar	76.2%	75.9%	01:15
	US	Manufacturing (SIC) Production - Mar	0.0%	0.5%	01:15
	NZ	Performance Services Index - Mar	--	58.8	10:30
	AU	ANZ-RM Consumer Confidence Index - 16-Apr	--	114.8	11:30
	AU	Westpac Leading Index MoM - Mar	--	-0.07%	12:30
	AU	New Motor Vehicle Sales MoM - Mar	--	-2.7%	13:30
	AU	New Motor Vehicle Sales YoY - Mar	--	-4.1%	13:30
	EC	Trade Balance SA - Feb	€18.5B	€15.7B	21:00
	EC	Trade Balance NSA - Feb	€16.2B	-€0.6B	21:00
	EC	CPI MoM - Mar	0.8%	0.4%	21:00
	EC	CPI YoY - Mar F	1.5%	1.5%	21:00
	EC	CPI Core YoY - Mar F	0.7%	0.7%	21:00
	US	MBA Mortgage Applications - 14-Apr	--	1.5%	23:00
20-Apr	US	US Federal Reserve releases Beige Book	--	--	06:00
	NZ	CPI QoQ - Q1	0.8%	0.4%	10:45
	NZ	CPI YoY - Q1	2.0%	1.3%	10:45
	JN	Trade Balance - Mar	¥605.6B	¥813.5B	11:50
	JN	Trade Balance Adjusted - Mar	¥174.5B	¥680.3B	11:50
	JN	Exports YoY - Mar	6.2%	11.3%	11:50
	JN	Imports YoY - Mar	10.2%	1.2%	11:50
	AU	RBA FX Transactions Government - Mar	--	-A$333M	13:30
	AU	RBA FX Transactions Market - Mar	--	A$282M	13:30
	AU	RBA FX Transactions Other - Mar	--	A$60M	13:30
	AU	NAB Business Confidence - Q1	--	5	13:30
	GE	PPI MoM - Mar	0.2%	0.2%	18:00
	GE	PPI YoY - Mar	3.2%	3.1%	18:00
	EC	Construction Output MoM - Feb	--	-2.3%	21:00
	EC	Construction Output YoY - Feb	--	-6.2%	21:00
21-Apr	US	Initial Jobless Claims - 15-Apr	240k	234k	00:30
	US	Continuing Claims - 8-Apr	2024k	2028k	00:30
	US	Philadelphia Fed Business Outlook - Apr	25.8	32.8	00:30
	EC	Consumer Confidence - Apr A	-4.8	-5.0	02:00
	US	Leading Index - Mar	0.2%	0.6%	02:00
	JN	Nikkei Japan PMI Mfg - Apr P	--	52.4	12:30
	NZ	ANZ Consumer Confidence Index - Apr	--	125.2	13:00
	NZ	ANZ Consumer Confidence MoM - Apr	--	-1.7%	13:00
	JN	Tertiary Industry Index MoM - Feb	0.3%	0.0%	16:30
	GE	Markit/BME Manufacturing PMI - Apr P	58.0	58.3	19:30
	GE	Markit Services PMI - Apr P	55.5	55.6	19:30
	GE	Markit/BME Composite PMI - Apr P	56.9	57.1	19:30
	EC	Markit Manufacturing PMI - Apr P	56.0	56.2	20:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Apr	EC	Markit Services PMI - Apr P	56.0	56.0	20:00
	EC	Markit Composite PMI - Apr P	56.4	56.4	20:00
	EC	ECB Current Account SA - Feb	--	€25.4B	20:00
	EC	Current Account NSA - Feb	--	€2.5B	20:00
	UK	Retail Sales Ex Auto Fuel MoM - Mar	-0.5%	1.3%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Mar	3.8%	4.1%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Mar	-0.3%	1.4%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Mar	3.4%	3.7%	20:30
22-Apr	US	Markit Manufacturing PMI - Apr P	53.5	53.3	01:45
	US	Markit Services PMI - Apr P	53.4	52.8	01:45
	US	Markit Composite PMI - Apr P	--	53.0	01:45
	US	Existing Home Sales - Mar	5.60M	5.48M	02:00
	US	Existing Home Sales MoM - Mar	2.2%	-3.7%	02:00

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

LOCAL DATA WATCH

Looking through the weak Q4 GDP figures, we still believe domestic economic momentum is solid. However, there are some hints of softening. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards, but probably not until 2018.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 19 Apr (early am)	GlobalDairyTrade Auction	Latent demand	Higher demand from the Middle East/North Africa is likely to provide a base of support for prices.
Wed 19 Apr (10:30am)	BNZ-Business NZ PSI – Mar	Strong	Services sector activity is holding up, and despite the weaker housing market, is outperforming.
Thu 20 Apr (10:45am)	CPI – Q1	Back at the midpoint?	There is a non-trivial chance that headline inflation will be back at 2% on the back of food and petrol price increases.
Fri 21 Apr (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Apr	--	--
Wed 26 Apr (10:45am)	International Travel & Migration – Mar	At highs	It is getting harder for net inflows to continue to set net monthly records. Yet we can't see softer numbers on the horizon either.
Fri 28 Apr (10:45am)	Building Consent Issuance – Mar	Capped	Capacity and capital constraints are near-term challenges that are likely to cap the upside for issuance.
Fri 28 Apr (10:45am)	Overseas Merchandise Trade – Mar	Improving	Stronger export commodity prices and improved agricultural production should start to correspond to an improved trade balance.
Fri 28 Apr (1:00pm)	ANZ Business Outlook – Apr	--	--
Wed 3 May (early am)	GlobalDairyTrade Auction	Latent demand	Higher demand from the Middle East/North Africa is likely to provide a base of support for prices.
Wed 3 May (10:45am)	Labour Market Statistics – Q1	Still strong	Labour demand is clearly strong. The big question is whether supply can keep pace. We believe that is becoming more of a struggle, and see the unemployment rate trending lower.
Thu 4 May (10:00am)	ANZ Job Ads – Apr	--	--
Thu 4 May (1:00pm)	ANZ Commodity Price Index – Apr	--	--
Tue 9 May (1:00pm)	ANZ Monthly Inflation Gauge – Apr	--	--
Wed 10 May (10:00am)	ANZ Truckometer – Apr	--	--
Wed 10 May (10:45am)	Electronic Card Transactions – Apr	Steady	Spending growth has been on the soft side lately, but we are expecting a steady underlying trend overall.
10-15 May	REINZ Housing Market Statistics – Apr	Stable at a lower level	Turnover is stabilising at a lower level. However, price growth should continue to moderate.
Thu 11 May (9:00am)	RBNZ Monetary Policy Statement	Holding firm	Even with headline inflation likely to be back at target (there-or-thereabouts), the RBNZ will remain comfortable with its neutral stance.
Thu 11 May (10:45am)	Food Price Index – Apr	Easing	After a large increase over the March quarter, we suspect prices will start to unwind.
On balance		**Data watch**	**Momentum is looking a little patchier, but should remain reasonable. Inflation is showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (% qoq)	0.4	**1.1**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**
GDP (% yoy)	2.7	**3.1**	**3.1**	**3.0**	**3.2**	**2.7**	**2.4**	**2.2**	**2.1**	**2.1**
CPI (% qoq)	0.4	**0.7**	**0.4**	**0.7**	**0.2**	**0.7**	**0.5**	**0.6**	**0.2**	**0.6**
CPI (% yoy)	1.3	**1.9**	**1.9**	**2.2**	**2.1**	**2.0**	**2.2**	**2.2**	**2.2**	**2.1**
Employment (% qoq)	0.8	**0.7**	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.8	**5.2**	**3.4**	**2.5**	**2.1**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**
Unemployment Rate (% sa)	5.2	**5.0**	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**	**4.3**
Current Account (% GDP)	-2.7	**-2.6**	**-2.5**	**-2.5**	**-2.7**	**-3.1**	**-3.2**	**-3.3**	**-3.4**	**-3.4**
Terms of Trade (% qoq)	5.7	**0.2**	**-1.8**	**-1.1**	**-0.2**	**0.4**	**0.3**	**0.1**	**0.1**	**0.0**
Terms of Trade (% yoy)	6.7	**2.6**	**2.9**	**2.9**	**-2.8**	**-2.6**	**-0.6**	**0.6**	**0.9**	**0.5**

	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17
Retail ECT (% mom)	1.2	0.2	-1.2	1.9	0.5	0.0	0.1	2.7	-0.6	-0.3
Retail ECT (% yoy)	6.8	5.8	3.2	6.1	4.2	5.1	5.8	5.6	2.6	5.6
Credit Card Billings (% mom)	-1.0	2.6	-1.0	2.9	2.9	-4.1	3.0	0.4	-1.4	--
Credit Card Billings (% yoy)	4.2	5.7	2.3	8.3	10.1	4.2	8.5	7.1	5.3	--
Car Registrations (% mom)	-0.7	0.0	2.6	-4.0	12.8	3.1	-6.2	1.6	0.5	3.5
Car Registrations (% yoy)	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	16.5
Building Consents (% mom)	16.1	-5.2	-2.5	1.1	0.2	-8.6	-7.5	2.1	14.0	--
Building Consents (% yoy)	39.1	7.9	11.8	17.2	14.0	2.2	-10.5	-1.2	8.5	--
REINZ House Price Index (% yoy)	14.2	16.3	11.7	9.7	14.4	14.9	13.5	11.7	10.5	11.1
Household Lending Growth (% mom)	0.8	0.8	0.8	0.8	0.6	0.6	0.7	0.5	0.5	--
Household Lending Growth (% yoy)	8.3	8.5	8.7	8.7	8.7	8.6	8.8	8.7	8.5	--
ANZ Roy Morgan Consumer Conf.	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2
ANZ Business Confidence	20.2	16.0	15.5	27.9	24.5	20.5	21.7	..	16.6	11.3
ANZ Own Activity Outlook	35.1	31.4	33.7	42.4	38.4	37.6	39.6	..	37.2	38.8
Trade Balance ($m)	107	-351	-1240	-1388	-798	-723	-6	-257	-18	--
Trade Bal ($m ann)	52660	52078	51900	51938	51943	51668	51622	51902	52056	--
ANZ World Commodity Price Index (% mom)	3.5	2.1	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	0.4
ANZ World Comm. Price Index (% yoy)	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	19.1	20.9	23.0
Net Migration (sa)	5770	5710	5710	6370	6230	6200	6010	6420	6000	--
Net Migration (ann)	69090	69015	69119	69954	70282	70354	70588	71305	71333	--
ANZ Heavy Traffic Index (% mom)	5.4	-6.3	7.2	-2.1	-0.5	3.7	-0.2	-0.9	1.7	1.7
ANZ Light Traffic Index (% mom)	2.6	-0.6	0.9	0.1	-2.0	1.5	0.2	-0.3	0.9	1.0

Figures in bold are forecasts. mom: Month-on-Month; qoq: Quarter-on-Quarter; yoy: Year-on-Year

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Feb-17	Mar-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZD/USD	0.719	0.701	0.701	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.938	0.918	0.924	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.679	0.658	0.659	0.65	0.66	0.67	0.68	0.65	0.63	0.63
NZD/JPY	80.79	78.04	76.46	80.5	79.4	78.2	78.2	78.2	77.1	77.1
NZD/GBP	0.578	0.558	0.558	0.58	0.58	0.58	0.55	0.54	0.54	0.52
NZ$ TWI	77.2	75.1	76.3	75.3	75.3	75.3	75.5	74.2	72.7	72.2
INTEREST RATES	Feb-17	Mar-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	2.00	2.00	1.97	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.23	3.19	2.96	3.50	3.70	3.80	3.90	4.00	4.00	4.10
US Fed funds	0.75	1.00	1.00	1.00	1.25	1.50	1.50	1.75	2.00	2.25
US 3-mth	1.06	1.15	1.16	1.20	1.45	1.70	1.70	1.95	2.20	2.45
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.78	1.80	1.77	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	14 Mar	10 Apr	11 Apr	12 Apr	13 Apr	14 Apr
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.97	1.96	1.96	1.96	1.96
NZGB 03/19	2.16	2.10	2.07	2.07	2.07	2.07
NZGB 05/21	2.60	2.42	2.39	2.37	2.34	2.34
NZGB 04/23	2.91	2.74	2.70	2.67	2.63	2.63
NZGB 04/27	3.36	3.12	3.06	3.01	2.93	2.93
2 year swap	2.33	2.28	2.27	2.28	2.27	2.27
5 year swap	3.05	2.84	2.81	2.81	2.80	2.80
RBNZ TWI	75.96	75.91	76.10	75.94	76.12	76.12
NZD/USD	0.6912	0.6943	0.6945	0.6923	0.7002	0.6998
NZD/AUD	0.9145	0.9265	0.9249	0.9244	0.9238	0.9231
NZD/JPY	79.54	77.24	76.83	75.87	76.34	76.01
NZD/GBP	0.5698	0.5597	0.5589	0.5539	0.5583	0.5589
NZD/EUR	0.6497	0.6564	0.6544	0.6529	0.6582	0.6595
AUD/USD	0.7559	0.7495	0.7509	0.7489	0.7579	0.7579
EUR/USD	1.0639	1.0579	1.0612	1.0602	1.0638	1.0618
USD/JPY	115.07	111.25	110.62	109.61	109.04	108.64
GBP/USD	1.2132	1.2406	1.2427	1.2499	1.2543	1.2523
Oil (US$/bbl)	47.72	53.08	53.40	53.11	53.18	53.18
Gold (US$/oz)	1203.45	1252.51	1257.55	1274.06	1287.39	1285.69
Electricity (Haywards)	4.48	3.97	4.41	5.21	2.86	2.00
Baltic Dry Freight Index	1112	1231	1262	1282	1296	1296
NZX WMP Futures (US$/t)	2630	2995	2995	3000	3000	3000

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