ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

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INSIDE

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A QUESTION OF BALANCE

ECONOMIC OVERVIEW

The RBNZ struck an appropriate balance last week. There is no denying the challenges ultra-loose policy settings elsewhere place on the RBNZ and NZD. Inflation expectations look biased even lower in the near term, which means so too is the OCR. But this needs to be balanced against a New Zealand economy that is not weak and the fact that some inflation forces are beyond the RBNZ's control. In fact, Q2 GDP is shaping up as strong. Inflation targeting will continue, but a huge degree of flexibility and pragmatism is required. This week, dairy prices look set to lift again, while the HLFS should show an unchanged unemployment rate (with risks perhaps skewed a little higher).

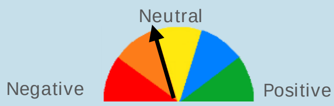
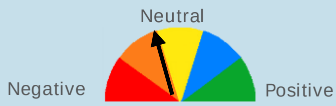
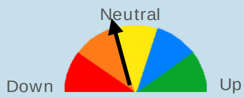
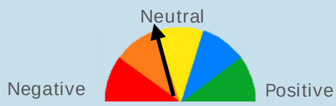
INTEREST RATE STRATEGY

While at first glance the RBNZ did not deliver on expectations, anyone listening to the post-*MPS* press conference got the message loud and clear: if the TWI holds up, the OCR is going lower. This fits with our currency divergence / interest rate convergence theme. Inflation expectation measures (a key focal point) are susceptible to weakening, giving further impetus to the front end. However, we are not expecting a rapid-fire front-loading of OCR cuts (rather more drawn out). That will allow the curve to flatten and geographic spreads to narrow. Global interest rates continue to wash around, with higher US rates offset by lower UK rates. The global rates backdrop remains benign. We remain faithful to our long-held view of bond yield convergence.

CURRENCY STRATEGY

We're still constructive towards the NZD, but some local cracks are expected to start to show in that story. The growth story looks fully priced and data will be susceptible to a turn in the months ahead as housing slows on new lending restrictions, and currency divergence keeps the RBNZ at the cutting table, especially if, as we suspect, inflation expectations start to recede once again. We retain a tempered bullishness towards the USD. Liquidity continues to trump fundamentals globally though we are mindful that sentiment could shift. For now, "buy on dips" still trumps "sell the rally", but a turning point looks near.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.4% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	
Unemployment rate	4.9% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	
OCR	1.50% by Jun 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	
CPI	0.7% y/y for 2017 Q2	Low petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	

ECONOMIC OVERVIEW

SUMMARY

The RBNZ struck an appropriate balance last week. There is no denying the challenges ultra-loose policy settings elsewhere place on the RBNZ and NZD. Inflation expectations look biased even lower in the near term, which means so too is the OCR. But this needs to be balanced against a New Zealand economy that is not weak and the fact that some inflation forces are beyond the RBNZ's control. In fact, Q2 GDP is shaping up as strong. Inflation targeting will continue, but a huge degree of flexibility and pragmatism is required. This week, dairy prices look set to lift again, while the HLFS should show an unchanged unemployment rate (with risks perhaps skewed a little higher).

FORTHCOMING EVENTS

GlobalDairyTrade Auction (early am, Wednesday, 17 August). NZX futures prices are pointing to another strong gain. We see WMP prices moving up to US$2,600-2,800/t over the next several auctions.

Household Labour Force Survey – Q2 (10:45am, Wednesday, 17 August). Both labour demand and supply should be decent (we are expecting 0.7% q/q lifts for both), which should hold the unemployment rate steady at (a revised) 5.2%.

PPI – Q2 (10:45am, Wednesday, 17 August). Both input and output prices are expected to lift a touch, led largely by a bounce in imported oil prices.

ANZ Job Ads – July (10:00am, Thursday, 18 August).

ANZ Roy Morgan Consumer Confidence – July (1:00pm, Thursday, 18 August).

International Travel & Migration – July (10:45am, Friday, 19 August). While we are not expecting new monthly records to be set, we can't see net migrant inflows slowing any time soon.

WHAT'S THE VIEW?

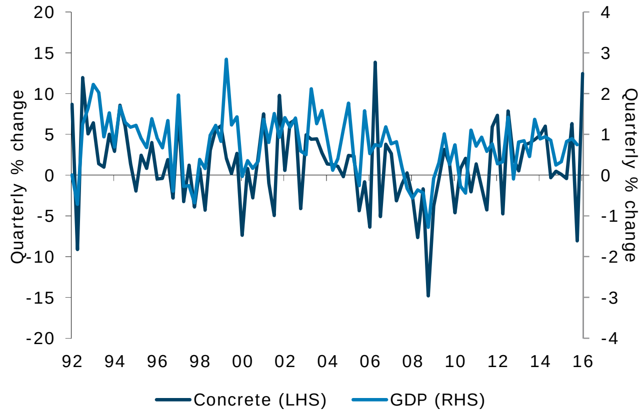
We'll start this week by giving a hat tip to an outgoing central bank governor. RBA Governor Stevens – whose term finishes on 17 September – made his final public speech last week and some of his comments really struck a chord with us. While the speech was delivered with an Australian context in mind, many of his comments apply in New Zealand too. Stevens emphasised that lower growth is here to stay, flexible inflation targeting provides the best framework, and there are limits to what policy can achieve.

It was the comments on being extra flexible that really stood out to us. He noted that *"we are living in a world in which the ability of monetary policy alone to boost growth sustainably is very likely to be a good deal more limited than we might wish. I think most people can sense this. So we need realism about how much we can expect monetary policy to do, including pushing inflation up quickly. If it were the case that undershooting the target for a period while achieving reasonable growth was the 'least bad' option available, the inflation targeting framework has the requisite degree of flexibility to allow such a course".*

In other words he is implying one shouldn't get too fixated on meeting the inflation target. Stevens is not proposing we throw away inflation targeting – it has served many economies very well, including New Zealand. But he is suggesting that given the current forces, perhaps even *more* flexibility is needed than we have seen in the past.

There were elements of this message within the RBNZ's comments last week too. Putting aside the initial market reaction, when all is said and done, we think the RBNZ struck the right balance. The OCR is going lower, that much is clear. But the RBNZ is not going to be bullied by the market into delivering aggressive moves that it does not see as appropriate. A 50 bps cut was never on the table. The RBNZ appreciates the challenging situation that the global economy and the actions by other central banks are putting it in. It cannot swim against that tide indefinitely, given the pressure it puts on the NZD. But at the same time, the New Zealand economy is not a weak one – just look at last week's Q2 retail sales figures! Seasonally adjusted Q2 concrete production also surged 12% q/q, pointing to the possibility of a strong Q2 GDP print. Prudence, pragmatism and a level head is needed.

FIGURE 1: CONCRETE PRODUCTION VS GDP



Source: ANZ, Statistics NZ

We noted some comparing the inflation performance of New Zealand and Norway last week, with the latter managing to achieve its inflation target. The argument was that other central banks had achieved it through looser monetary policy

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so the RBNZ could too. It certainly may be possible to get inflation up by throwing the kitchen sink at it. **But household debt in Norway has risen to nearly 230% of disposable income (and is one of the highest in the OECD)**; that's an accident waiting to happen. Is the economic cost of CPI inflation being 0.4% versus an arbitrary magical 2% that dire an outcome when one considers the possible side effects of this 'kitchen sink' style approach?

But we can sense something of a mood for change across New Zealand. There are some that still like to put the boot in, given inflation has been outside of target for a long period. Everyone now has a view on monetary policy. New Zealanders all love becoming All Black selectors (and experts) if the All Blacks lose! Others are proposing doing away with the inflation targeting framework itself. None of this rhetoric is very helpful.

That said, **we believe that some changes are required; inflation targeting needs to evolve.** Inflation targeting in its primary form should remain. It simply needs to be tweaked and have some more "mates". Rather than go into the framework itself, governance, and checks and balances right here and now (we will provide more detailed opinions down the track), we offer a couple of initial thoughts below:

- **It's arguable whether CPI inflation is the right target.** It might be better to include a basket of various price indices. Some back-casting to see whether policy and economic outcomes would have been improved under different targets or a basket would also be useful – while bearing in mind, of course, the "Lucas Critique" – the fact that targeting a price measure can change its behaviour.
- **We need monthly CPI figures.** Notwithstanding the point above, if the economic costs of a policy mistake are so high, then surely money can be found to produce monthly CPI figures. New Zealand is one of few OECD countries that doesn't. The past few weeks we have seen Statistics NZ release figures on Pokémon populations and Olympic medals per capita. That's all interesting. But a monthly CPI would be far more useful.
- **We need a better framework for driving more co-ordination between fiscal and monetary policy.** Echoing Steven's comments, there are limits to what monetary policy can do. It is now widely appreciated that fiscal policy and structural reform need to do more heavy lifting to generate better growth outcomes globally. But that is easy for many to say when there are no mandates or requirements to follow through. Monetary policy needs mates.
- **In New Zealand we have a growing chorus noting that the costs of herculean migration gains may well be outweighing the benefits.** The evidence is certainly pointing that way when you eye GDP per capita figures. Yes, we need imported labour to meet skill demands and provide further entrepreneurial capital / spirit. New Zealanders are coming back or not leaving, so there is not much we can do about that. We are not approving more permanent residents despite migration numbers booming; a lot is education and short-term work (temporary visa) related. But when you eye student numbers into private training institutions surging more than 50% but universities just +10% in five years; 50% of skilled migrants being secondary migrants (families) – up from 40%; the top three work categories being Chefs, Registered Nurses, and Retail Managers (no disrespect to those industries), dwarfing the building industry (who have a massive skill shortage); you wonder what is going on. There are clearly some loopholes being exposed.
- **More understanding of inflation expectations and their relationship with actual inflation outcomes is required.** The RBNZ has obviously been working on this, but we were interested to read over the weekend that some senior Fed researchers have been questioning the relationship between inflation and expectations thereof. One even stated that "Movements in inflation expectations now appear inconsequential since they no longer have any predictive content for subsequent inflation realizations." [1] If that is the case, then certainly many inflation models will need to be re-calibrated.

In the meantime though, the RBNZ is still operating with the current Policy Targets Agreement in mind and it is worried about the impact that the NZD will have on already-low inflation and inflation expectations. In fact, given where some drivers of inflation expectations have shifted of late (petrol, concurrent inflation, and food prices), we wouldn't be surprised to see some surveyed measures of inflation expectations tick a little lower. Together with our current bottom-up estimate of Q3 CPI sitting at -0.2% q/q, this will keep the market biased towards pushing for OCR cuts.

[1] See Nalewaik, J (2016), Inflation Expectations and the Stabilization of Inflation: Alternative Hypotheses, Financial and Economics Discussion Series, Federal Reserve Board.

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TABLE 1: DRIVERS OF INFLATION EXPECTATIONS

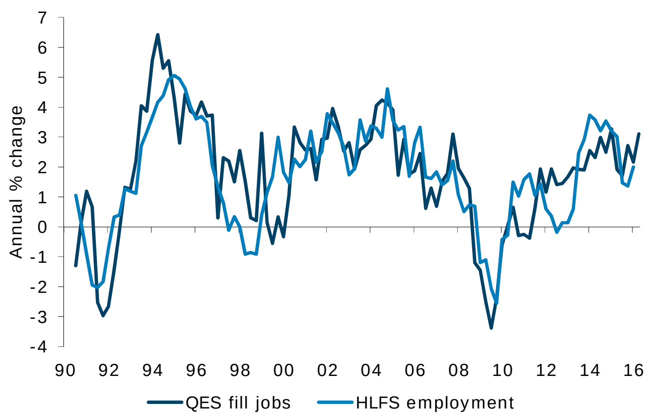
	RB 1y	RB 2y	HH 1y	HH 5y	AON 1y	AON 4y	AON 7y	ANZBO 1y
Output gap						***	***	
TWI		***			*			
Wages	***	***			***	***	***	***
90-day rate		***			***	***	***	***
Petrol prices	***	***	***		***		***	***
Food prices			***					***
CPI inflation	***	***	***	**	***	***		***

*** 1% significance; ** 5% significance; * 10% significance
Source: ANZ, AON, RBNZ, Statistics NZ

Turning to the week ahead, the delayed Q2 Household Labour Force Survey grabs most of our focus. We expect it to show the unemployment rate holding steady at (a revised) 5.2%. Admittedly, there are risks on either side of this expectation, although perhaps more to the upside, with it ultimately coming down to the balance between what is likely to be both strong labour demand and supply growth.

We expect "official" employment growth to be decent. We have pencilled in a 0.7% q/q increase, which would lift annual growth to 2.5% y/y. While the earlier Quarterly Employment Survey showed filled jobs growth of just 0.3% q/q, which highlights the potential for the HLFS measure to be on the softer side too, it should be noted that filled jobs growth has been outperforming its HLFS peer, with annual growth rising to 3.1% y/y in Q2, so the HLFS measure arguably has some "catching up" to do. Moreover, our 0.7% q/q expectation already incorporates a step down in the pace of employment growth recorded over the prior six months, and this is despite firms' hiring intentions (from both our Business Outlook and NZIER QSBO) holding steady, and job ads continuing a positive trend.

FIGURE 2: FILLED JOBS VS EMPLOYMENT GROWTH



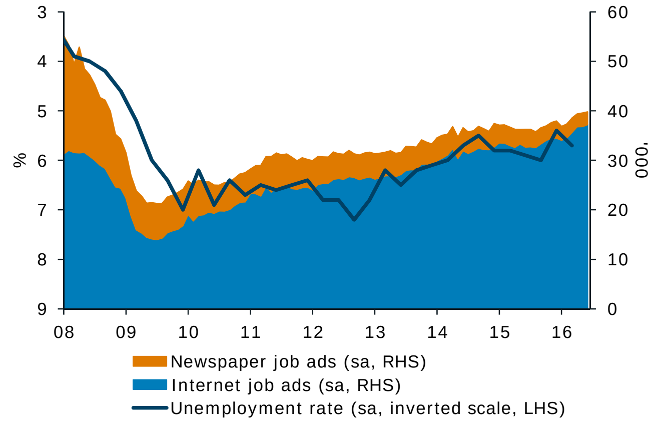
Source: ANZ, Statistics NZ

But labour supply growth will be strong as well. We already know that the working age population grew 0.7% q/q in Q2, holding annual growth at an all-time high of 2.5%. How much the overall labour force grew in the quarter will come down to the participation rate. Based on historical correlations between employment and the participation rate, there is a reasonable chance that the participation rate ticks higher (we have pencilled in a lift to 68.8%), as more workers are encouraged to join the labour market. That would see labour force growth also expand at 0.7% q/q, holding the unemployment rate at 5.2%.

We eventually expect demand pressures to win out, seeing the unemployment rate fall further. Firms are already telling us that it is becoming more difficult to find staff, and these constraints should see wage growth gradually lift. But with labour supply growth remaining strong, in part due to net migration gains, that looks set to be a gradual process.

Sticking with the labour market theme, our job ads series for July will provide a timely signal on whether this solid labour demand backdrop has continued into Q3. In June, seasonally adjusted job ads rose 0.5% m/m, the fifth consecutive monthly increase. It lifted annual (3-month average) growth to 9.1%. This growth was also broad-based, with the exception of Canterbury. Auckland and Wellington job advertising is 12% and 7% higher than a year ago (3-month average), and there is double-digit growth in the smaller regions.

FIGURE 3: NZ JOB ADS VS UNEMPLOYMENT RATE



Source: ANZ, Statistics NZ

This solid labour demand backdrop is no doubt a reason why consumer confidence is holding around average levels. The ANZ Roy Morgan Consumer Confidence measure for August is due this week. Despite ongoing global turbulence (particularly Brexit), local consumers continue to show a 'just get on with it' attitude, with confidence dipping only slightly in July. It has been oscillating around current levels for some months now, and together with

ECONOMIC OVERVIEW

reasonable levels of business sentiment, is giving a positive signal for domestic growth momentum.

On top of the labour market, the housing market will also likely be supporting confidence too, although it is interesting that this isn't the case for all consumer segments. Within the July figures we noted that Auckland is now the least upbeat of the regions, and current expectations for those aged 25-34 years fell sharply – just as expectations for house prices hit a new all-time high. This tension is worth keeping an eye on.

Turning to the next GlobalDairyTrade auction, as is often the way in the dairy market, things can swing quickly in either direction and that looks to be occurring again. Post the prior auction, the spark that had been missing since late-2015 appears to have emerged. The reasons: slowing supply across major Southern Hemisphere exporters and now Europe; China buying for the preferential free-trade window in November to January; other buyers hopping on board to extend their hedging; and low New Zealand inventory levels directing more demand toward GDT (as opposed to other sale channels).

The result at the last auction was undoubtedly strong on a number of metrics, not just the price outcome of a 9.9% lift for WMP. There was the highest number of participating and winning bidders since August/September last year, highlighting broader demand created by the above concoction of factors.

So the questions now are, can the momentum be maintained, and how far might prices pop at coming auctions? NZX futures participants certainly appear to think the momentum will continue, with a 9% lift for the GDT-TWI and 11% increase for WMP prices inferred.

We also think prices will continue to improve. Certainly the price action from the NZX, and last year's auctions around this time of year, point toward WMP prices moving up to US$2,600-2,800/t over the next several auctions. The trick for farm-gate returns will be whether or not these gains can be held on to post the preferential free-trade window with China closing around October. Much will also depend on the timing of early New Zealand milk supply for the coming season. If it stays cool and wet, it will be a slow start. If the sun emerges, it could well be a fast start. So all eyes will be on the weather. But for now it's looking like it will be a slow start to the season, and this, combined with Fonterra having low inventory and higher-performing other streams (i.e. cheese and non-commodity foodservice products), is seeing Fonterra further ration the amount of WMP to be sold through the GDT platform (annual forecast down -2.9% or 10,022 MT).

For now we maintain our high-$4/kg MS milk price forecast for 2016/17. We would need to see anticipated price gains held onto post October, and the NZD/USD to behave, to change this view. A run of price gains is required to even meet current industry forecasts, with the NZD/USD trading above 0.70.

Finally, 'more of the same' is expected from the latest migration and visitor arrivals data for July. A net inflow of 5,670 (sa) migrants was seen in June, which is similar in size to the net inflow seen over the past four or so months. Admittedly, it is down from the rates seen over late 2015 and early this year, but is still clearly a historically strong level. In annualised terms, the three month average sat at 66.8K in June, which is only a touch below its recent peak of close to 72K. Given New Zealand's economic outperformance and global turbulence and political uncertainty, we expect New Zealand to remain an attractive place for migrants (or returning ex-pats).

The underlying trend in visitor arrivals growth is also likely to remain strong. While we are mindful of the fact that a delayed start to the ski season in some parts of the country may have an impact on arrivals numbers (particularly from Australia), this would just be a temporary blip in our view. In three month average terms, arrivals are running at over a 10% annual pace, and given both structural and cyclical forces, we expect this solid rate of underlying growth to continue.

LOCAL DATA

ANZ Truckometer – July. On a three-month average basis, the Heavy Traffic Index fell 5.7% m/m.

Electronic Card Transactions – July. Total retail spending rose 0.3% m/m, while core spending lifted 0.7% m/m.

ANZ Monthly Inflation Gauge – July. Courtesy of ACC levy changes, the Gauge fell 0.3% m/m.

REINZ Housing Market Statistics – July. In seasonally adjusted terms, sales volumes dropped 11% m/m, with the stratified price index rose 2.4% m/m (to a 3-month annualised pace of 26%).

Food Price Index – July. Food prices fell 0.2% m/m (-1.3% y/y).

BNZ-Business NZ PMI – July. The index fell 1.8 points to 55.8, which is still above average.

Retail Trade Survey – Q2. Total retail sales volumes surged 2.3% q/q, while core volumes rose 2.6% q/q.

BNZ-Business NZ PSI – July. The index fell by 2.2 points to 54.2.

INTEREST RATE STRATEGY

SUMMARY

While at first glance the RBNZ did not deliver on expectations, anyone listening to the post-*MPS* press conference got the message loud and clear: if the TWI holds up, the OCR is going lower. This fits with our currency divergence / interest rate convergence theme. Inflation expectation measures (a key focal point) are susceptible to weakening, giving further impetus to the front end. However, we are not expecting a rapid-fire front-loading of OCR cuts (rather more drawn out). That will allow the curve to flatten and geographic spreads to narrow. Global interest rates continue to wash around, with higher US rates offset by lower UK rates. The global rates backdrop remains benign. We remain faithful to our long-held view of bond yield convergence.

THEMES

- Our revised OCR forecasts now sit below market expectations and the RBNZ's central scenario. As the RBNZ has pointed out, both alternative scenarios involve deeper cuts.
- Our eyes are on inflation expectations; they look prone to waning given where oil and the TWI sit and a lower concurrent CPI backdrop.
- We like the RBNZ's approach. The high TWI is an uncontrollable externality, and it is far better to respond to it as we progress into the future than to pre-suppose it will hold up and blow all its ammunition now in a bid to get it down.
- We remain of the view that the forward curve needs to flatten. This is not just supported by the Bank's easier policy guidance and our new forecasts; it's also validated by the risk profile. We can't see the OCR going up any time soon.

MONETARY POLICY AND SHORT END

Monetary policy risks remain skewed to the downside courtesy of the stubbornly high TWI, uncertain global scene and successive quarterly inflation undershoots. That is despite an economy in good shape. Although we are wary of assuming the TWI will hold up ad infinitum, we remain sceptical of its ability to move sustainably lower while growth remains solid, NZ shows political stability, and interest rate spreads to the remainder of the G10 remain elevated. A 25bp cut was a welcome relief, but it simply matched the BoE and RBA moves. That's nothing contentious. What is contentious is that the market continues to insist on pricing in rate hikes from mid-2017 (Fig. 1). This is partly technical; we get that. But even so, ahead of at least 50bps of OCR cuts, the curve should be much flatter. We remain bullish outright, and expect the forward rates and the belly of the curve to continue to outperform.

GLOBAL MARKETS AND LONG END

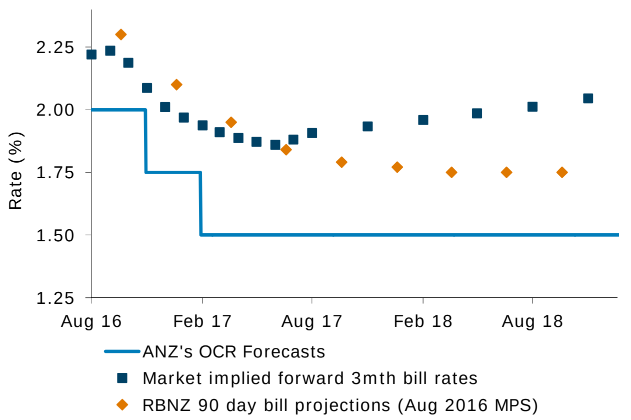
Yields continue to converge. Homogenised policy rates are becoming a necessary condition to alleviate currency divergence, and realisation that policy rates here are on a downward ratchet (with OCR hikes both years away and highly conditional) should drive further spread compression and curve flattening.

STRATEGY

Investors: The broad strategy remains the same: position for a deeper rally and a flatter curve. Look to basis swaps to enhance returns, and consider adding to received OIS positions beyond November. The Sep/Nov OIS spread is too narrow, and 2017 OIS outrights are too high (and sit above our forecasts!).

Borrowers: No change here either: 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 prefer options.

FIGURE 1: ANZ OCR FORECASTS, MARKET IMPLIED FORWARD RATES AND RBNZ PROJECTIONS



Source: ANZ, Bloomberg

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Bullish	November OIS looks fair. Longer-dated OIS cheap outright, as are fwd 1y swaps.
Long end	Bullish	Yield convergence and homogenisation ongoing. High TWI means more easing = lower long-end yields.
Yield Curve	Much flatter	RBNZ has more scope to ease than any other G10 bank, and has signalled preparedness to do so.
Geographic spreads	Narrower	Remains a key thematic for us amid TWI strength and the huge gap between local and offshore yields on all reasonable metrics. NZ remains an attractive and highly rated market, and spreads need to compress.
Swap spreads	Neutral	NZGS demand still strong. Corporate payers have been very savvy; are unlikely to hedge any time soon.
NZD/TWI	Neutral	We expect it to hold up near term, but to gradually peel off as successive rate cuts get delivered.

CURRENCY STRATEGY

SUMMARY

We're still constructive towards the NZD, but some local cracks are expected to start to show in that story. The growth story looks fully priced and data will be susceptible to a turn in the months ahead as housing slows on new lending restrictions, and currency divergence keeps the RBNZ at the cutting table, especially if, as we suspect, inflation expectations start to recede once again. We retain a tempered bullishness towards the USD. Liquidity continues to trump fundamentals globally though we are mindful that sentiment could shift. For now, "buy on dips" still trumps "sell the rally", but a turning point looks near.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Still good growth & interest rate support	Firmer USD the saviour
NZD/AUD	↔	Looks set to oscillate	To remain above long-run averages
NZD/EUR	↔	Yield too attractive	NZ better
NZD/GBP	↔	BoE will do whatever it takes	Dips to be shallow given cycle variance
NZD/JPY	↔/↑	BoJ wants yen lower	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- RBNZ does an RBA and BoJ – eases but currency rises. Meeting market expectations is not enough, but the case for going big on currency frustrations amidst a decent growth story is not clear.
- Same old, same old for the NZD, albeit with a "duel" with the RBNZ looming. Yield (our "bond ladder" thematic) + growth + political stability makes it difficult to call a sustained run lower for the NZD in the absence of a major global event.
- Inflation expectations at risk of waning in the coming months, putting more pressure on the RBNZ to ease.
- Commodity markets looking better but we question for how long.
- Market still lukewarm about pushing Fed sentiment too far and the USD the same.

ASSESSMENT

The NZD still looks a "buy on a dip" as opposed to a "sell on a rally". Despite the RBNZ easing, the yield differential remains material; the USD is struggling to fire; global risk appetites are providing little direction; China's story has settled; dairy prices are lifting; and the economy is on track for at least 3% GDP growth. A disappointing USD reaction to strong payrolls only raises more questions as to where currency trends are likely to manifest. Such trends look decidedly absent, which ironically may mean one is around the corner.

A few localised cracks in the economic story are set to open up, however. That's tomorrow's story, but it needs to be acknowledged today, as it does portend a turning point down the track.

- Inflation expectations measures may ease further over the coming months; that will exacerbate the pressure on the RBNZ to do more. Statistically, oil prices, the TWI and concurrent CPI are influential across the various surveys (see table page 4).
- Tighter LVR restrictions will have a material impact on the housing market; we suspect the impact is being underestimated. This will manifest in the economic dataflow in around six weeks. We are eying our leading indicators for any signs of a turn.

For now, we remain in a holding pattern. A strong dairy auction is anticipated this week and we can't see anything locally to rock the good news economic boat.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Overvalued but not exceptionally so
Yield	↔	Still net NZD-supportive
Commodities	↔	Another good dairy auction on offer
Data	↑	NZ still in a data sweet spot; Aus more mixed
Techs	↔	Big resistance 0.9480. Support 0.9300
Sentiment	↔/↑	Bottom of recent range
Other	↔/↓	AUD offers better liquidity
On balance	↔	**Overvalued but no trigger to drive lower**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Too high but needs USD to step up
Yield	↔	All about the Fed
Commodities	↔	Dairy price action encouraging
Risk aversion	↔	Market in limbo
Data	↔/↑	NZ data still looks solid
Techs	↔	Trending higher, default is to buy
Other	↔/↓	RBNZ helping
On balance	↔	**Still waiting for NZ's growth story to turn and the Fed to change USD views**

GLOBAL VIEWS

US markets continue to discount the prospect of hikes given a disconnect between jobs and more timely indicators of growth and the wider global picture. We're strategically bullish the USD but it's tempered bullishness.

This week's Fed minutes are expected to provide few clues, leaving markets once again in data-watch mode.

It all adds up to a picture of a non-fundamental, liquidity and yield-driven market. New Zealand has lots of the latter on offer.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
16-Aug	US	Empire Manufacturing - Aug	2.00	0.55	00:30
	US	NAHB Housing Market Index - Aug	60.0	59.0	02:00
	US	Total Net TIC Flows - Jun	--	-$11.0B	08:00
	US	Net Long-term TIC Flows - Jun	--	$41.1B	08:00
	AU	ANZ-RM Consumer Confidence Index - 14-Aug	--	114.7	11:30
	AU	RBA Aug. Meeting Minutes	--	--	13:30
	AU	New Motor Vehicle Sales MoM - Jul	--	3.1%	13:30
	AU	New Motor Vehicle Sales YoY - Jul	--	2.1%	13:30
	NZ	Non Resident Bond Holdings - Jul	--	67.4%	15:00
	UK	CPI MoM - Jul	-0.1%	0.2%	20:30
	UK	CPI YoY - Jul	0.5%	0.5%	20:30
	UK	CPI Core YoY - Jul	1.4%	1.4%	20:30
	UK	Retail Price Index MoM - Jul	-0.1%	0.4%	20:30
	UK	Retail Price Index YoY - Jul	1.7%	1.6%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Jul	1.7%	1.7%	20:30
	UK	PPI Input NSA MoM - Jul	1.0%	1.8%	20:30
	UK	PPI Input NSA YoY - Jul	2.0%	-0.5%	20:30
	UK	PPI Output NSA MoM - Jul	0.2%	0.2%	20:30
	UK	PPI Output NSA YoY - Jul	0.0%	-0.4%	20:30
	UK	PPI Output Core NSA MoM - Jul	0.1%	0.1%	20:30
	UK	PPI Output Core NSA YoY - Jul	0.8%	0.7%	20:30
	UK	House Price Index YoY - Jun	--	8.1%	20:30
	EC	Trade Balance SA - Jun	€25.3B	€24.5B	21:00
	EC	Trade Balance NSA - Jun	€26.0B	€24.6B	21:00
	GE	ZEW Survey Current Situation - Aug	50.2	49.8	21:00
	GE	ZEW Survey Expectations - Aug	2.0	-6.8	21:00
	EC	ZEW Survey Expectations - Aug	--	-14.7	21:00
17-Aug	US	Housing Starts - Jul	1180k	1189k	00:30
	US	Housing Starts MoM - Jul	-0.8%	4.8%	00:30
	US	Building Permits - Jul	1160k	1153k	00:30
	US	Building Permits MoM - Jul	0.6%	1.5%	00:30
	US	CPI MoM - Jul	0.0%	0.2%	00:30
	US	CPI YoY - Jul	0.9%	1.0%	00:30
	US	CPI Ex Food and Energy MoM - Jul	0.2%	0.2%	00:30
	US	CPI Ex Food and Energy YoY - Jul	2.3%	2.3%	00:30
	US	Real Avg Weekly Earnings YoY - Jul	--	1.2%	00:30
	US	Industrial Production MoM - Jul	0.3%	0.6%	01:15
	US	Capacity Utilization - Jul	75.6%	75.4%	01:15
	US	Manufacturing (SIC) Production - Jul	0.2%	0.4%	01:15
	NZ	PPI Input QoQ - Q2	--	-1.0%	10:45
	NZ	PPI Output QoQ - Q2	--	-0.2%	10:45
	NZ	Unemployment Rate - Q2	5.3%	5.2%	10:45
	NZ	Employment Change QoQ - Q2	0.6%	1.2%	10:45
	NZ	Employment Change YoY - Q2	2.3%	2.0%	10:45
	NZ	Participation Rate - Q2	68.8%	68.7%	10:45
	AU	Westpac Leading Index MoM - Jul	--	-0.22%	12:30
	AU	Wage Price Index QoQ - Q2	0.5%	0.4%	13:30
	AU	Wage Price Index YoY - Q2	2.0%	2.1%	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-Aug	UK	Claimant Count Rate - Jul	2.2%	2.2%	20:30
	UK	Jobless Claims Change - Jul	9.0k	0.4k	20:30
	UK	Average Weekly Earnings 3M/YoY - Jun	2.4%	2.3%	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Jun	2.3%	2.2%	20:30
	UK	ILO Unemployment Rate 3Mths - Jun	4.9%	4.9%	20:30
	UK	Employment Change 3M/3M - Jun	153k	176k	20:30
	US	MBA Mortgage Applications - 12-Aug	--	7.1%	23:00
18-Aug	US	Fed Minutes from July 26-27 FOMC Meeting	--	--	06:00
	NZ	ANZ Job Advertisements MoM - Jul	--	0.5%	10:00
	NZ	ANZ Consumer Confidence Index - Aug	--	118.2	13:00
	NZ	ANZ Consumer Confidence MoM - Aug	--	-0.6%	13:00
	AU	Employment Change - Jul	10.0k	7.9k	13:30
	AU	Unemployment Rate - Jul	5.8%	5.8%	13:30
	AU	Full Time Employment Change - Jul	--	38.4k	13:30
	AU	Part Time Employment Change - Jul	--	-30.6k	13:30
	AU	Participation Rate - Jul	64.9%	64.9%	13:30
	AU	RBA FX Transactions Government - Jul	--	-1731M	13:30
	AU	RBA FX Transactions Market - Jul	--	1720M	13:30
	AU	RBA FX Transactions Other - Jul	--	36M	13:30
	EC	ECB Current Account SA - Jun	--	€30.8B	20:00
	EC	Current Account NSA - Jun	--	€15.4B	20:00
	UK	Retail Sales Ex Auto Fuel MoM - Jul	0.3%	-0.9%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Jul	3.8%	3.9%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Jul	0.1%	-0.9%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Jul	4.2%	4.3%	20:30
	EC	Construction Output MoM - Jun	--	-0.5%	21:00
	EC	Construction Output YoY - Jun	--	-0.8%	21:00
	EC	CPI MoM - Jul	-0.5%	0.2%	21:00
	EC	CPI YoY - Jul F	0.2%	0.1%	21:00
	EC	CPI Core YoY - Jul F	0.9%	0.9%	21:00
	EC	ECB account of the monetary policy meeting	--	--	23:30
19-Aug	US	Initial Jobless Claims - 13-Aug	265k	266k	00:30
	US	Continuing Claims - 6-Aug	--	2155k	00:30
	US	Philadelphia Fed Business Outlook - Aug	2	-2.9	00:30
	US	Leading Index - Jul	0.3%	0.3%	02:00
	NZ	Net Migration SA - Jul	--	5670	10:45
	NZ	Credit Card Spending MoM - Jul	--	-0.8%	15:00
	NZ	Credit Card Spending YoY - Jul	--	4.1%	15:00
	GE	PPI MoM - Jul	0.1%	0.4%	18:00
	GE	PPI YoY - Jul	-2.1%	-2.2%	18:00
	UK	Public Finances (PSNCR) - Jul	--	£14.9B	20:30
	UK	Central Government NCR - Jul	--	£20.0B	20:30
	UK	Public Sector Net Borrowing - Jul	-£2.4B	£7.3B	20:30
	UK	PSNB ex Banking Groups - Jul	-£1.9B	£7.8B	20:30

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

LOCAL DATA WATCH

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

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 17 Aug (early am)	GlobalDairyTrade Auction	Looking up	NZX futures prices are pointing to another strong gain. We see WMP prices moving up to USD2,600-2,800/t over the next several auctions.
Wed 17 Aug (10:45am)	PPI – Q2	Benign	Both input and output prices are expected to lift a touch, led largely by a bounce in imported oil prices.
Wed 17 Aug (10:45am)	HLFS – Q2	Close call	Despite the softer signal from the QES, we expect reasonable employment growth. But with labour supply growth also strong, we expect the unemployment rate to little changed.
Thu 18 Aug (10:00am)	ANZ Job Ads – Jul	--	--
Thu 18 Aug (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Aug	--	--
Fri 19 Aug (10:45am)	International Travel & Migration – Jul	Strong	While we are not expecting new monthly records to be set, we can't see net migrant inflows slowing any time soon.
Wed 24 Aug (10:45am)	Overseas Merchandise Trade – Jul	Holding	Rising oil prices are likely to have some impact, but the overall trade picture is of the 'not too bad' variety.
Tue 30 Aug (10:45am)	Building Consents Issued – Jul	Pull back	Following the surge in June, it would not surprise us to see some retracement. But the trend should remain positive.
Wed 31 Aug (1:00pm)	ANZ Business Outlook – Aug	--	--
Wed 31 Aug (3:00pm)	RBNZ Credit Aggregates – Jul	Still strong	Prudential policy changes should eventually cool credit growth, but the figures look set to remain strong in the near term.
Thu 1 Sep (10:45am)	Overseas Trade Indexes – Q2	Fall	The terms of trade have held up remarkably well, although higher oil prices are likely to have dented its performance in Q2.
Fri 2 Sep (10:45am)	Building Work Put in Place – Q2	Solid	Outside of quarterly volatility, we are expecting the construction sector to remain a key positive source of growth for the economy.
Mon 5 Sep (1:00pm)	ANZ Commodity Price Index – Aug	--	--
Tue 8 Sep (1:00pm)	ANZ Monthly Inflation Gauge – Aug	--	--
Wed 7 Sep (early am)	GlobalDairyTrade Auction	Moving on up	We see WMP prices moving up to USD2,600-2,800/t over the next several auctions.
Wed 7 Sep (10:45pm)	Economic Survey of Manufacturing – Q2	Resilient	The vagaries of agricultural production will throw it around, but manufacturing will continue to be supported by the well-performing construction sector.
Fri 10 Sep (10:45am)	Electronic Card Transactions – Aug	Reasonable trend	The figures are volatile, but we expect a reasonable underlying trend with the quarterly pace of spending holding around 1¼% to 1½%.
On balance		**Data watch**	**Momentum is increasing at present, but with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.7	**0.8**	**0.9**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.8	**3.3**	**3.4**	**3.5**	**3.5**	**3.4**	**3.2**	**2.8**	**2.6**	**2.6**
CPI (% qoq)	0.2	0.4	**-0.2**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.7**
CPI (% yoy)	0.4	0.4	**-0.1**	**0.4**	**0.8**	**0.7**	**1.6**	**1.7**	**1.8**	**1.8**
Employment (% qoq)	1.2	**0.7**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	2.0	**2.5**	**3.4**	**2.8**	**2.0**	**1.7**	**1.6**	**1.6**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.2	**5.2**	**5.1**	**5.1**	**5.0**	**4.9**	**4.9**	**4.8**	**4.7**	**4.7**
Current Account (% GDP)	-3.0	**-3.1**	**-3.5**	**-3.8**	**-4.3**	**-4.4**	**-4.3**	**-4.1**	**-3.9**	**-3.9**
Terms of Trade (% qoq)	4.4	**-5.7**	**-2.8**	**-0.5**	**0.9**	**1.9**	**2.8**	**1.7**	**0.8**	**0.8**
Terms of Trade (% yoy)	-0.1	**-7.2**	**-6.2**	**-4.8**	**-8.0**	**-0.6**	**5.2**	**7.5**	**7.3**	**7.3**

	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Retail ECT (% mom)	0.1	0.8	0.1	0.4	0.7	0.1	0.8	-0.3	1.2	0.3
Retail ECT (% yoy)	5.8	4.6	6.6	5.2	9.2	6.2	7.8	3.3	6.8	5.8
Credit Card Billings (% mom)	1.7	0.7	-0.7	2.1	-0.8	-1.1	2.7	-0.3	-1.2	--
Credit Card Billings (% yoy)	7.8	8.5	7.5	7.5	6.3	4.3	8.7	5.4	3.2	--
Car Registrations (% mom)	-1.2	-1.9	3.1	-2.8	5.8	-3.8	6.2	-3.6	-1.0	-0.5
Car Registrations (% yoy)	3.8	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9
Building Consents (% mom)	4.9	1.5	2.4	-8.1	10.6	-9.2	7.8	0.1	16.3	--
Building Consents (% yoy)	14.8	7.4	17.5	4.9	26.8	0.3	13.5	10.3	39.6	--
REINZ House Price Index (% yoy)	14.1	12.5	12.6	10.7	11.9	13.3	14.5	14.7	14.2	16.3
Household Lending Growth (% mom)	0.7	0.6	0.6	0.6	0.6	0.6	0.8	0.7	0.8	--
Household Lending Growth (% yoy)	6.9	7.2	7.4	7.5	7.6	7.7	7.9	8.1	8.3	--
ANZ Roy Morgan Consumer Conf.	114.9	122.7	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2
ANZ Business Confidence	10.5	14.6	23.0	..	7.1	3.2	6.2	11.3	20.2	16.0
ANZ Own Activity Outlook	23.7	32.0	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4
Trade Balance ($m)	-905	-795	-42	12	367	189	347	348	127	--
Trade Bal ($m ann)	52101	52648	52510	52764	52831	52599	52626	52854	52654	--
ANZ World Commodity Price Index (% mom)	7.1	-5.6	-1.8	-2.3	0.5	-1.3	-0.8	1.1	3.7	2.0
ANZ World Comm. Price Index (% yoy)	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8	-11.6	-5.4	2.0
Net Migration (sa)	6120	6210	5530	6100	6010	5340	5470	5560	5680	--
Net Migration (ann)	62477	63659	64930	65911	67391	67619	68110	68432	69090	--
ANZ Heavy Traffic Index (% mom)	1.0	0.2	2.9	-4.2	1.7	3.3	-2.5	-2.6	4.1	-5.7
ANZ Light Traffic Index (% mom)	-0.4	0.3	0.9	-1.4	2.4	-1.6	0.3	-1.3	2.4	-0.6

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Jun-16	Jul-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.712	0.720	0.719	0.69	0.65	0.64	0.64	0.63	0.63	0.64
NZD/AUD	0.955	0.948	0.940	0.96	0.97	0.97	0.97	0.93	0.90	0.89
NZD/EUR	0.639	0.644	0.645	0.66	0.63	0.62	0.61	0.57	0.57	0.57
NZD/JPY	73.20	73.47	72.88	72.5	68.3	64.0	64.0	63.0	63.0	67.2
NZD/GBP	0.528	0.544	0.557	0.55	0.54	0.52	0.51	0.48	0.47	0.46
NZ$ TWI	74.5	75.0	76.4	74.5	71.9	70.4	69.9	67.3	66.8	67.5
INTEREST RATES	Jun-16	Jul-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.25	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.41	2.28	2.23	2.20	2.00	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.35	2.21	2.12	2.10	2.00	2.20	2.20	2.50	2.50	2.50
US Fed funds	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
US 3-mth	0.65	0.76	0.82	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.96	1.86	1.75	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	12 Jul	8 Aug	9 Aug	10 Aug	11 Aug	12 Aug
Official Cash Rate	2.25	2.25	2.25	2.25	2.00	2.00
90 day bank bill	2.42	2.25	2.23	2.22	2.23	2.22
NZGB 03/19	2.02	1.79	1.75	1.72	1.74	1.74
NZGB 05/21	2.02	1.83	1.79	1.75	1.75	1.76
NZGB 04/23	2.04	1.93	1.90	1.85	1.84	1.85
NZGB 04/27	2.30	2.22	2.20	2.15	2.12	2.14
2 year swap	2.24	2.00	1.96	1.96	1.98	1.96
5 year swap	2.29	2.13	2.09	2.07	2.08	2.08
RBNZ TWI	77.6	75.56	75.85	76.26	76.87	76.21
NZD/USD	0.73	0.71	0.71	0.72	0.73	0.72
NZD/AUD	0.96	0.93	0.93	0.94	0.94	0.94
NZD/JPY	74.80	72.55	73.03	73.05	73.68	73.42
NZD/GBP	0.56	0.54	0.55	0.55	0.56	0.55
NZD/EUR	0.66	0.64	0.64	0.65	0.65	0.65
AUD/USD	0.76	0.76	0.76	0.77	0.77	0.77
EUR/USD	1.11	1.11	1.11	1.12	1.12	1.11
USD/JPY	103.02	102.04	102.36	101.27	101.42	102.07
GBP/USD	1.31	1.31	1.30	1.31	1.30	1.30
Oil (US$/bbl)	44.73	41.83	43.06	42.78	41.75	43.51
Gold (US$/oz)	1354.15	1338.07	1333.62	1352.38	1342.77	1338.55
Electricity (Haywards)	5.50	5.83	4.93	5.73	4.98	4.74
Baltic Dry Freight Index	711	636	631	638	653	671
Milk futures (USD)	48	44	44	42	44	45

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