ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

3 October 2016

INSIDE

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GROUNDHOG DAY

ECONOMIC OVERVIEW

Last week's European financial sector issues are a clear reminder that considerable vulnerabilities within the global backdrop remain. And while our base-case for the global economy is still of the 'muddle-through' variety, such global wobbles reinforce that the path to recovery post the GFC continues to be a long, arduous, drawn-out affair. Amidst all this, the domestic scene remains buoyant, and our latest set of economic forecasts is consistent with that solid message, with decent economic momentum set to continue for around the next 18 months before natural headwinds (capacity and balance sheet constraints) see growth moderate. This week, the QSBO is expected to be consistent with the 'solid growth and emerging capacity pressure' message, while after some solid gains, a softer GDT auction result looks possible.

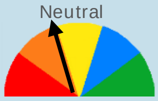
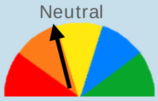
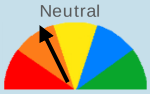
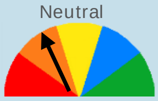
INTEREST RATE STRATEGY

Short end rates look set to continue to range trade over coming weeks. The roughly 80% odds priced for a November OCR cut look reasonable ahead of Q3 CPI, especially against a 'confused' global backdrop showing a mild pick-up in US inflation, wobbles among European banks, a dash-for-cash, ongoing easy policy and rosy local growth prospects. Long end rates also look stuck in a range. We remain bullish the New Zealand long end, but this is more of a reflection of our view on spreads following the recent widening in the NZ/US bond spread. With the market now erring towards a hike from the Fed by December, but the USD not pushing on, further yield convergence from the New Zealand side looks to be necessary in order for the RBNZ to get the 'needed' decline in the TWI.

CURRENCY STRATEGY

We are still biased towards NZD dips being supported as opposed to rallies being sold. While we remain alert to numerous potential triggers (the Fed, shifts in risk appetites, whether the carry on offer is now sufficient to compensate for risk), this is usurped at present by interest rate spreads being a larger proportion of base rates, the local growth portrait remaining strong, and the realities of a muddle-through world.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.3% 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	1.0% 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

Last week's European financial sector issues are a clear reminder that considerable vulnerabilities within the global backdrop remain. And while our base-case for the global economy is still of the 'muddle-through' variety, such global wobbles reinforce that the path to recovery post the GFC continues to be a long, arduous, drawn-out affair. Amidst all this, the domestic scene remains buoyant, and our latest set of economic forecasts is consistent with that solid message, with decent economic momentum set to continue for around the next 18 months before natural headwinds (capacity and balance sheet constraints) see growth moderate. This week, the QSBO is expected to be consistent with the 'solid growth and emerging capacity pressure' message, while after some solid gains, a softer GDT auction result looks possible.

FORTHCOMING EVENTS

NZIER Quarterly Survey of Business Opinion – Q3 (10:00am, Tuesday, 4 October). Overall business sentiment should be strong, with firms continuing to signal a desire to hire and invest. Increasing capacity pressures should be evident too.

GlobalDairyTrade Auction (early am, Wednesday, 5 October). Following some solid gains, we wouldn't be surprised to see some modest cooling over the next few auctions.

ANZ Commodity Price Index – Sep (1:00pm, Wednesday, 5 October).

ANZ Truckometer – Sep (10:00am, Thursday, 6 October).

ANZ Monthly Inflation Gauge – Sep (1:00pm, Monday, 10 October).

WHAT'S THE VIEW?

Last week felt like a 2008 rendition of Groundhog Day. European bank and broader financial sector stresses were in the limelight (although in many ways it doesn't feel like they really disappeared!). But with some large (one would say systematically important) institutions, experiencing questions over capital and liquidity and also facing pressures with regards to fund withdrawals and counterparty risk, it does have an eerily (and worryingly) similar feeling to how some elements of the 2008 crisis played out.

Some of the **price action seen last week certainly resembled the heady days of the GFC** – with basis swap spreads in Europe and Japan moving sharply lower, and bank share prices tested. Some folks have dismissed it as 'noise', and quarter-end jostling doubtless played a role. But some of the moves seen were outsized and point to increased stress, particularly around USD funding and liquidity.

If the basis swap market becomes super-stressed, it would likely send shock-waves through the entire financial system. At this point we don't intend on going into the nuts and bolts of basis swaps and what they are, but some description is probably helpful. In everyday parlance they're basically the spread the market is prepared to pay in order to secure funding in one currency over another. Theoretically, they ought to be zero in a world of freely moving funds and low or no regulation. But they never are, and disparities from 'par' generally reflect a savings/investment imbalance, or regulations and the like. **At the moment, they are at negative extremes in Europe and Japan** (and a positive extreme in New Zealand).

At current levels, there are signs that the wider global financial system is being challenged, mispriced and distorted. Things have been like this way for a while, so we're not getting overly alarmed at the most recent spike. But equally, it's a reminder of tensions that are (or could be) building up. As time goes on, the pressure for something to 'break' increases, and it is inevitable that we will experience the occasional wobble.

However, it was not all bad news last week on the market front. Risk appetite has deteriorated a little, and markets appear more skittish, but at this stage it still appears that the allure of central bank liquidity is trumping all. We certainly didn't see across the board stress within financial instruments and credit markets and sentiment improved on Friday night (though we've seen many calms before storms often). More benchmark sovereign bonds now sport negative yields than ever before, reaching yet another record high in September.

But we are on notice, particularly with the Fed on the brink of hiking (it should be given where inflation sits but whether it can is uncertain), and markets seemingly fatigued with low yields. Without central bank support, bond yields would likely rise (possibly sharply), and when they do, they will inflict severe capital losses. While knowledge of that will temper central bank attempts to back away from easy policy settings, the market knows that easy liquidity won't last forever. And when we go through patches of soul-searching and questioning about central bank policy efficacy as we have seen in recent weeks, it's reasonable to expect enthusiasm for bonds to wane.

In this environment and thinking about the flow-on for New Zealand, we revert back to our 6 C's.

ECONOMIC OVERVIEW

They are channels that include contagion risks, confidence, cost of funds, commodity prices, currency and China. We haven't seen anything alarming, but still enough to be watchful.

There are going to be flash-points around the globe for many more years, and the failure of the developed world to engineer a self-sustaining upswing as opposed to 'bumpy-jumpy' growth keeps the global economy's vulnerabilities (too much debt) front and centre. Throw in investment misallocation in response to record low interest rates, economic hari-kari in the form of negative interest rates and populism rearing its head across the political spectrum, and hey presto you have no shortage of candidates for ripples, waves and volatility.

Having said all that, we're not jumping off the deep-end; Chicken Little can stay in the coop. It's a low growth world. Our base case is that the global economy continues to 'muddle through'. However, the risks are skewed to the downside, and that's the main economic risk facing New Zealand.

This afternoon we will be releasing our latest *Economic Outlook* publication. Below is a quick summary of the key themes.

Momentum across the economy is strong and forward indicators suggest this decent growth performance has some legs left in it yet. The underlying drivers of this strong growth picture (construction, tourism, net migration, non-dairy agriculture, strengthening labour market, low interest rates, housing etc) are now reasonably well appreciated, and by and large we expect them to continue. Moreover, firms also continue to display a 'just get on with it' attitude, where success is breeding more success, which fits in with the theme of the economy's microeconomic fundamentals being in good health. It is the combination of the small things that is complimenting the broader macroeconomic story.

Our forecasts have annual growth tracking around a 3½% pace for roughly the next 18 months before slowing towards 3% in late 2017. Two key issues going forward will be capacity and balance sheet constraints, with both expected to eventually slow the economy from its current pace.

The economy is at a delicate juncture where 2008 style behaviours and late cycles excesses are coming to the fore. We have housing largesse and housing affordability that are both economic and social issues, rapid credit growth, debt accumulation and signs of deteriorating structural metrics (savings). That's classic late cycle euphoria.

This 'party' can either continue, which risks a hangover in the future and a boom/bust cycle, or it can be reined in. Our forecasts critically assume the latter. Credit growth slows (that means some rationing), spending runs in line with incomes, house price growth cools and the current account balance remains in check.

So the spirit of our forecasts is one of a steadier rate of growth as opposed to massive swings in the cycle.

It is also a rate of growth where domestic inflation pressures should eventually emerge. While headline inflation is not forecast to return to the RBNZ's target mid-point until mid-2018 – and that is based on the assumption that the NZD falls modestly over the next 18 months or so – we are not yet convinced that the Phillips Curve (the relationship between capacity and domestic inflation) is now completely flat. It is certainly flatter, and some of the forces weighing on the domestic inflation process are likely to persist. But we still forecast non-tradable inflation rising gradually towards 3%.

Across the primary sector, **the dichotomy across key elements is expected to continue into 2017.** Dairy farmers are now looking at a 'breakeven plus' season due to the improvement in international prices and other farm management changes. The operating environment looks tougher for some of the other livestock sectors, with reduced supply the main support for prices in many cases. Horticulture is the growth story, which is expected to continue for at least the next three years. Forestry returns look solid due to better export and domestic returns.

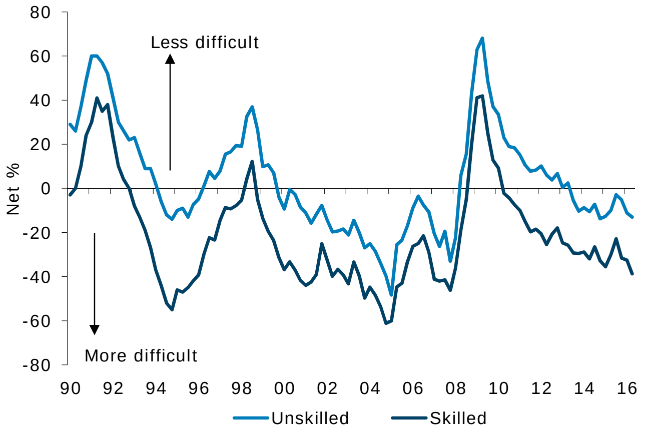
And with regards to interest and exchange rates, a muddle through world amidst easy monetary policy remains a key feature across global markets, driving the theme of NZD divergence (from fundamentals) requiring interest rate convergence. Excess liquidity is distorting traditional market drivers, pushing many markets to extremes. While we ponder the endgame and consequences of a liquidity driven mind-set (mispricing of risk), the reality is we don't see the environment changing any time soon, keeping the NZD elevated and interest rates low. We expect New Zealand short end interest rates to remain under downward pressure; with our forecast for two more 25bps OCR cuts not yet fully priced into market pricing. More global bonds now sport negative yields than ever before, and we expect New Zealand bond yields to continue moving lower in coming months, with an eventual move higher conditional on US growth and interest rates, and global inflation moving sustainably higher. That won't take place in an orderly fashion.

ECONOMIC OVERVIEW

Turning to this week's data and events, we expect the NZIER Quarterly Survey of Business Opinion for Q3 to be fully consistent with the current strength evident across the economy. In fact, we'd be surprised if any 'new' themes were evident. Instead, and if our monthly *Business Outlook* survey is anything to go by (which it should be as there is a strong historical correlation with many of the survey components), business confidence will have lifted further and activity gauges should point to a continuation (even acceleration) in the solid pace of underlying GDP growth. Firms' intentions to hire and invest should also remain solid (if not higher). In general, the survey is expected to paint a picture of the activity side of the economy being in reasonably rude health – but we know that already.

We'd also expect to see increased signs that greater capacity pressures are accompanying this solid demand picture. Certainly, in Q2 firms were already reporting that it was as hard to find skilled staff as in late 2007, and unskilled staff were becoming harder to find too. We'd not be surprised at all if the Q3 survey reports that pressures have intensified. The likes of the CUBO and capacity as a limiting factor measures are also expected to be consistent with this theme, although there is a little more uncertainty around these measures as they can be thrown around from quarter to quarter without any apparent economic justification. Nevertheless, they should remain elevated relative to history.

FIGURE 1: DIFFICULTY FINDING LABOUR



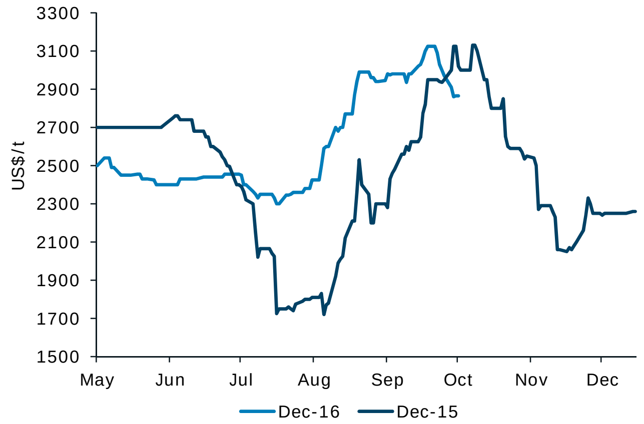
Source: ANZ, NZIER

The greatest uncertainty is whether we see any shifts on the pricing side of the economy. We doubt it. While conventional signals of medium-term inflation trends from elements of the QSBO (solid growth, tightening labour market, elevated capacity utilisation etc) all point to inflation pressures around the corner, these pressures have failed to turn up to the degree that historical correlations have argued for some time. Like with the signal from our *Business Outlook* survey, firms' pricing intentions are expected to remain historically low.

Ahead of the next GlobalDairyTrade auction, we note that the dairy market has become a bit more cautious on the resilience of demand for higher prices in recent weeks. Many buyers who were short of product now appear to have fulfilled near-term requirements and it seems there could be a cooling off period. Conversely, the news flow on the supply-side remains price supportive, but it looks like it will take substantially tighter supply yet (i.e. a supply shock) to push wholemilk powder prices through the US$3,000/t level.

While Chinese buying pressures can push prices around a lot at this time of the year, we continue to believe the recent rally in prices has more durability than last year. This is due to milk supply actually contracting in all major export markets bar the US, very tight New Zealand inventory levels pushing demand onto GDT and demand at recent prices has been broader based than China alone (i.e. Middle east/African demand has been strong in the past month through GDT and the Algerian tender).

FIGURE 2: WHOLE MILK POWDER FUTURES



Source: ANZ, NZX

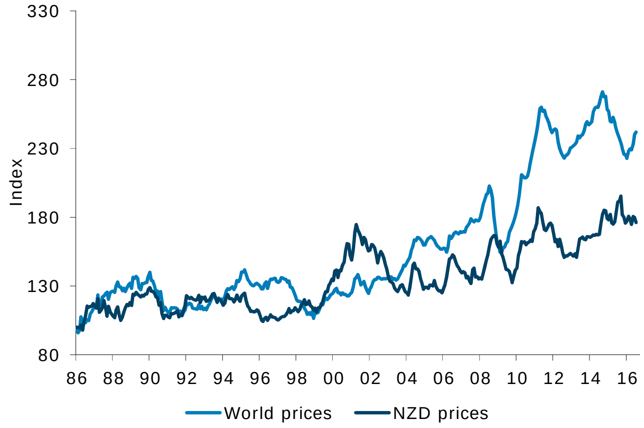
That said, it feels like there could be a cooling off period for prices starting at this week's auction as buyers await further intelligence on how supply dynamics are evolving. At present NZX future prices are pointing to a slight gain for milk powder prices (WMP +1.0% and SMP +4.9%) and flat outcome for milkfat prices. We wouldn't be surprised to see a fall for both given the recent price action on markets both here and offshore.

But beyond dairy, there will also be a focus on the broader commodity price picture this week with our Commodity Price Index for September released. Encouragingly, the headline index has lifted 10% over the past four months to its highest level since October 2015. A decent part of this strength

ECONOMIC OVERVIEW

reflects the bounce in dairy prices, but there are also broader dynamics at play. Our ex-dairy index has risen 5.7% over the same period, with gains reasonably broad-based across various commodities. To be fair, the lifts in NZD terms – which is clearly what is more important for determining farm-gate returns – has been far more modest. In fact, our ex-dairy index is flat over the past four months in NZD terms. It is this balance between currency and commodity price movements that, as always, is important to watch.

FIGURE 3: NON-DAIRY COMMODITY PRICES



Source: ANZ

Our Truckometer and Monthly Inflation Gauges for September will also provide timely updates on recent growth and inflation movements. The former has been jumping around significantly of late, but the 6.7% m/m bounce in the Heavy Traffic Index in August allayed any fears (we didn't have too many to be fair) that the domestic economy was rolling over. On a three month average basis, the Heavy Traffic Index returned to positive territory in August (+1.7% m/m). With regards to the latter, the Gauge will allow us to firm up our expectations for the non-tradable element of Q3 CPI (due mid-October). At this stage, and in large part due to the impact of ACC levy reductions, it is shaping as soft.

LOCAL DATA

RBNZ New Mortgage Lending – August. Total new lending grew $6.1bn (2.9% y/y).

Building Consents Issued – August. Dwelling consent issuance dipped 1.0% m/m (sa).

ANZ Business Outlook – September. Headline confidence rose 12 points to a net 28%. Firms' own activity expectations lifted to +42.

RBNZ Credit Aggregates – August. Total private sector credit grew 0.6% m/m (7.1% y/y).

INTEREST RATE STRATEGY

SUMMARY

Short end rates look set to continue to range trade over coming weeks. The roughly 80% odds priced for a November OCR cut look reasonable ahead of Q3 CPI, especially against a 'confused' global backdrop showing a mild pick-up in US inflation, wobbles among European banks, a dash-for-cash, ongoing easy policy and rosy local growth prospects. Long end rates also look stuck in a range. We remain bullish the New Zealand long end, but this is more of a reflection of our view on spreads following the recent widening in the NZ/US bond spread. With the market now erring towards a hike from the Fed by December, but the USD not pushing on, further yield convergence from the New Zealand side looks to be necessary in order for the RBNZ to get the 'needed' decline in the TWI.

THEMES

- Markets are comfortable with a November cut, but we are sensing more debate about the need for a second cut (which we expect in February). Strong data urges caution. But inflation is low, the NZD high and we continue to watch the global scene.
- The dash for quarter and year-end USD cash has led to considerable volatility in basis swaps and FX forward points, especially in Europe and Japan. Some will call it 'noise', but such dramatic moves are also indicative of some stress. We're watchful.
- G3 bond markets are becoming 'fatigued' with low rates and easy policy, and unwilling to chase yields lower on the view monetary policy has become exhausted. But the 'body count' of negative-yield sovereigns hit a high at the end of September, and wobbles in basis markets clearly point to fragilities.

MONETARY POLICY AND SHORT END

We see limited prospects for much movement in short end rates ahead of the next major data release (Q3 CPI), which is a little over two weeks away. The bias is mildly lower, thanks to the realities of a high TWI and our view that a second OCR cut is likely, but the catalyst for the market to price that in now seems absent. **As such, we expect the short end to move sideways in coming weeks.**

Global short end rates (or more precisely, basis swap spreads) are another story entirely. We have seen considerable volatility of late on heightened concerns with what new US money market regulations mean for funding and liquidity, and on European bank wobbles. At first glance this could be ignored as irrelevant 'noise' as far as New Zealand is concerned. That's easy to say, but we're not so dismissive. For one, such dramatic moves suggest there is heightened stress in funding markets. **The immediate impact here has been a decline in short-end basis swap spreads. That's a 'good' thing in that it reduces the attractiveness of being long NZD (taking some upward pressure off the TWI). But on the flip side, similar moves in European and Japanese basis swap spreads make it more punitive for them to hedge offshore investments.**

With European yields falling further, and 10 year JGBs stuck at zero (removing any capacity for accrual or capital gain), that creates an even stronger incentive to own offshore assets unhedged. Accordingly, we would expect strong demand from offshore to persist, **keeping a lid on yields and a bid under the NZD** (risk appetite notwithstanding).

GLOBAL MARKETS AND LONG END

Higher US inflation and the removal of base effects from the earlier fall in oil prices have helped cement a degree of market fatigue with low yields. **But while there has been less enthusiasm to chase the market (the average G10 10yr sovereign bond yield has been steady at ~0.7% since June), the number of negative yielding bonds has climbed to a record**. That's more, not less convergence. Is this a turning point? We doubt it. The global economy remains fragile, G10 policy remains highly stimulatory, and the incentive to own higher yielding assets remains strong. Good news means higher US bond yields but that's been the path to lower yields over the past two years as risk-on becomes risk-off. The 'trigger' points have been shifting lower signifying global stresses are rising not falling. **We remain net bullish the long end, expecting further spread compression to be a key driver.**

STRATEGY

Investors: We favour holding on to received positions at the short-end, but this is a slow burn trade. We prefer to be long duration.

Borrowers: No change. Watching and waiting is still our favoured strategy. The awaited correction lower in swap rates have commenced. With BKBM also biased lower, we favour options.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Mildly bullish	Strategically bullish given prospects of two more cuts, but tactically neutral with Nov 80% priced in.
Long end	Mildly bullish	Market becoming fatigued, but stresses aplenty, and NZ/US spread has scope to narrow.
Yield Curve	Neutral	Less scope to flatten than a week ago, and market unlikely to do much ahead of US non-farm payroll data.
Geographic spreads	Neutral/ Narrower	NZ/US spread still elevated; slow grind lower beckons. NZ the standout G10 market; yield convergence still in play in our view. We can't see the TWI coming off until this condition is met (and growth slows).
Swap spreads	Neutral	NZGS demand still decent and long end of curve too steep. Easing bias will keep corporate payers away.
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

We are still biased towards NZD dips being supported as opposed to rallies being sold. While we remain alert to numerous potential triggers (the Fed, shifts in risk appetites, whether the carry on offer is now sufficient to compensate for risk), this is usurped at present by interest rate spreads being a larger proportion of base rates, the local growth portrait remaining strong, and the realities of a muddle-through world.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Struggles >0.73. Bounces off 0.72	Firmer USD to be an eventual 'saviour'
NZD/AUD	↔	Running out of puff?	0.93-0.98 range
NZD/EUR	↔/↑	Yield gap massive	NZ growth fillip
NZD/GBP	↔	Post-Brexit stability	Fully priced. Toppy.
NZD/JPY	↔/↑	BoJ policy *should* weaken yen, but ...	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- US inflation (core PCE deflator 1.7%) continues to inch towards the Fed's 2% target, and is arguably already there if averaged with core CPI (2.3%).
- Yuan enters IMF SDR basket; likely to add to pressure to diversify away from US dollars.
- Risk-on / risk-off continues but with no clear trend.
- Currency divergence driving interest rate convergence remains an overarching theme.
- No sign of losing momentum across the New Zealand economy. Expect this story to continue.
- US data is taking on a better tone but still questions whether it can continue into the cut-and-thrust of a US election in full-swing.

ASSESSMENT

The NZD remains stuck in familiar ranges. While risk-on and risk-off moves are providing a degree of volatility, the lack of real substance to either side means no smoking gun for the trend to be reassessed.

The exception is the NZD/AUD, which is losing ground. However, with the growth cycle still more New Zealand 'friendly' we expect downward movement to remain contained.

We are, however, detecting more caution towards New Zealand bonds, which have underperformed global peers. We believe demand will return given relativities and the incentives that drive real-money investors in Japan and Europe, but at the moment the market is in the grips of a risk-off vibe.

The failure of the rates market to fully endorse and push ahead with an aggressive RBNZ easing cycle (despite scenarios saying a high NZD could see the OCR taken to 1%) **is also telling.**

That said, **there are good reasons for both to occur** (liquidity for the former; growth for the latter). **However, they equally reinforce the dichotomised picture for the NZD; one says up and the other down!**

More attention is now also being paid to the yield differential on offer and whether that compensates for associated risk. Historically, we are heading into spread territory where the carry on offer is insufficient to offset the risk.

However, there are complicating factors:

- **Interest rate spreads now represent a much larger proportion of base rates** (i.e. 100bps might be an acceptable NZ/US bond spread when the Fed Funds rate is 4%, but it's comparatively gargantuan when the Fed Funds rate is 0.5%).
- **New Zealand is showing economic divergences on two levels;** less economic volatility relative to peers and a contained external position (though pressure is starting to build here given strength in credit growth).
- **Microeconomic credentials are becoming more important and New Zealand's look better than most.**

The bottom line: still in a range-trade, but with buying the dip trumping sell the rally – for now.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Fair value is higher (PPP moved six cents in NZ's favour in 5 yrs)
Yield	↔/↑	Yield gap won't close until Feb
Commodities	↔	GDT auction key. We're cautious
Data	↔/↑	Last week's ANZBO a boomer
Techs	↔/↑	Bounce off 0.9450 encouraging
Sentiment	↔	Consolidating after rapid fall
Other	↔/↓	Market not keen to test parity
On balance	↔	**Needs to consolidate. A break of 0.9330 would be a problem.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	>FV but supported by local data
Yield	↔	A key pillar of the NZD's support
Commodities	↔/↓	GDT not pushing on
Risk aversion	↔/↓	The NZD's main Achilles' heel
Data	↔/↑	US pulse improving. NZ strong
Techs	↔/↓	Market getting fatigued >0.73
Other	↔	Holding ~50day MA. Needs to rally
On balance	↔	**Next couple of weeks a minor litmus test for sentiment.**

POSITIONING

NZD positioning remains short, while USD longs have been increased. That does technically **increase the odds of a short squeeze, especially against the AUD, where positioning is still mildly long.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
3-Oct	JN	Nikkei PMI Mfg - Sep F	--	50.3	13:30
	GE	Markit/BME Manufacturing PMI - Sep F	54.3	54.3	20:55
	EC	Markit Manufacturing PMI - Sep F	52.6	52.6	21:00
	UK	Markit PMI Manufacturing SA - Sep	52.1	53.3	21:30
4-Oct	US	Markit Manufacturing PMI - Sep F	51.4	51.4	02:45
	US	Construction Spending MoM - Aug	0.3%	0.0%	03:00
	US	ISM Manufacturing - Sep	50.3	49.4	03:00
	US	ISM Prices Paid - Sep	53.5	53.0	03:00
	US	ISM New Orders - Sep	--	49.1	03:00
	NZ	NZIER Business Opinion Survey - Q3	--	18.6	10:00
	AU	ANZ-RM Consumer Confidence Index - 2-Oct	--	120.6	11:30
	NZ	QV House Prices YoY - Sep	--	14.6%	12:00
	AU	ANZ Job Advertisements MoM - Sep	--	1.8%	13:30
	AU	Building Approvals MoM - Aug	-6.0%	11.3%	13:30
	AU	Building Approvals YoY - Aug	5.1%	3.1%	13:30
	AU	RBA Cash Rate Target - Oct	1.50%	1.50%	16:30
	JN	Consumer Confidence Index - Sep	41.8	42.0	18:00
	AU	Commodity Index AUD - Sep	--	90.5	18:30
	AU	Commodity Index YoY - Sep	--	0.8%	18:30
	UK	Markit/CIPS Construction PMI - Sep	49.0	49.2	21:30
	EC	PPI MoM - Aug	-0.1%	0.1%	22:00
	EC	PPI YoY - Aug	-2.1%	-2.8%	22:00
5-Oct	US	ISM New York - Sep	--	47.5	02:45
	AU	AiG Perf of Services Index - Sep	--	45.0	11:30
	NZ	Fed's Evans speaks on Economy and Policy in Akld	--	--	12:50
	NZ	ANZ Commodity Price - Sep	--	3.2%	13:00
	JN	Nikkei PMI Services - Sep	--	49.6	13:30
	JN	Nikkei PMI Composite - Sep	--	49.8	13:30
	AU	Retail Sales MoM - Aug	0.2%	0.0%	13:30
	GE	Markit Services PMI - Sep F	50.6	50.6	20:55
	GE	Markit/BME Composite PMI - Sep F	52.7	52.7	20:55
	EC	Markit Services PMI - Sep F	52.1	52.1	21:00
	EC	Markit Composite PMI - Sep F	52.6	52.6	21:00
	UK	Official Reserves Changes - Sep	--	-$463M	21:30
	UK	Markit/CIPS Services PMI - Sep	52.0	52.9	21:30
	UK	Markit/CIPS Composite PMI - Sep	52.3	53.6	21:30
	EC	Retail Sales MoM - Aug	-0.3%	1.1%	22:00
	EC	Retail Sales YoY - Aug	1.5%	2.9%	22:00
6-Oct	US	MBA Mortgage Applications - 30-Sep	--	-0.7%	00:00
	US	ADP Employment Change - Sep	163k	177k	01:15
	US	Trade Balance - Aug	-$39.2B	-$39.5B	01:30
	US	Markit Services PMI - Sep F	52.0	51.9	02:45
	US	Markit Composite PMI - Sep F	--	52.0	02:45
	US	ISM Non-Manf. Composite - Sep	53	51.4	03:00
	US	Factory Orders - Aug	-0.2%	1.9%	03:00
	US	Factory Orders Ex Trans - Aug	--	0.2%	03:00
	US	Durable Goods Orders - Aug F	0.0%	0.0%	03:00
	US	Durables Ex Transportation - Aug F	--	-0.4%	03:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
6-Oct	US	Cap Goods Orders Nondef Ex Air - Aug F	--	0.6%	03:00
	US	Cap Goods Ship Nondef Ex Air - Aug F	--	-0.4%	03:00
	NZ	ANZ Truckometer Heavy MoM - Sep	--	6.7%	10:00
	AU	Trade Balance - Aug	-2300M	-2410M	13:30
	GE	Factory Orders MoM - Aug	0.3%	0.2%	19:00
	GE	Factory Orders WDA YoY - Aug	1.6%	-0.7%	19:00
	GE	Markit Construction PMI - Sep	--	51.6	20:30
	GE	Markit Retail PMI - Sep	--	54.1	21:10
	EC	Markit Retail PMI - Sep	--	51.0	21:10
	UK	Unit Labor Costs YoY - Q2	--	1.9%	21:30
	EC	ECB's Coeure attends G20 Meeting in Washington	--	--	UNSPECIFIED
7-Oct	US	Challenger Job Cuts YoY - Sep	--	-21.8%	00:30
	EC	ECB account of the monetary policy meeting	--	--	00:30
	US	Initial Jobless Claims - 1-Oct	255k	254k	01:30
	US	Continuing Claims - 24-Sep	--	2062k	01:30
	AU	AiG Perf of Construction Index - Sep	--	46.6	11:30
	GE	Industrial Production SA MoM - Aug	1.0%	-1.5%	19:00
	GE	Industrial Production WDA YoY - Aug	0.4%	-1.2%	19:00
	UK	Halifax House Prices MoM - Sep	0.0%	-0.2%	20:30
	UK	Halifax House Price 3Mths/Year - Sep	5.9%	6.9%	20:30
	UK	Industrial Production MoM - Aug	0.2%	0.1%	21:30
	UK	Industrial Production YoY - Aug	1.3%	2.1%	21:30
	UK	Manufacturing Production MoM - Aug	0.4%	-0.9%	21:30
	UK	Manufacturing Production YoY - Aug	0.9%	0.8%	21:30
	UK	Visible Trade Balance GBP/Mn - Aug	-£11200	-£11764	21:30
	UK	Trade Balance Non EU GBP/Mn - Aug	-£3700	-£4188	21:30
	UK	Trade Balance - Aug	-£4000	-£4502	21:30
	CH	Foreign Reserves - Sep	$3182.5B	$3185.2B	UNSPECIFIED
8-Oct	US	Change in Nonfarm Payrolls - Sep	170k	151k	01:30
	US	Unemployment Rate - Sep	4.9%	4.9%	01:30
	US	Average Hourly Earnings MoM - Sep	0.3%	0.1%	01:30
	US	Average Hourly Earnings YoY - Sep	2.6%	2.4%	01:30
	US	Average Weekly Hours All Employees - Sep	34.4	34.3	01:30
	UK	NIESR GDP Estimate - Sep	--	0.3%	03:00
	US	Wholesale Inventories MoM - Aug F	-0.1%	-0.1%	03:00
	US	Wholesale Trade Sales MoM - Aug	0.0%	-0.4%	03:00
	US	Consumer Credit - Aug	$16.50B	$17.71B	08:00
	CH	Caixin PMI Services - Sep	--	52.1	14:45
	CH	Caixin PMI Composite - Sep	--	51.8	14:45

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 4 Oct (10:00am)	NZIER QSBO – Q3	Decent	Overall business sentiment should be strong, with firms continuing to signal a desire to hire and invest. Increasing capacity pressures should be evident too.
Wed 5 Oct (early am)	GlobalDairyTrade Auction	Modestly softer	Following some solid gains, we wouldn't be surprised to see some modest cooling over the next few auctions.
Wed 5 Oct (1:00pm)	ANZ Commodity Price Index – Sep	--	--
Thu 6 Oct (10:00am)	ANZ Truckometer – Sep	--	--
Mon 10 Oct (1.00pm)	ANZ Monthly Inflation Gauge – Sep	--	--
10-14 Oct	REINZ Housing Market Statistics – Sep	Cooling?	The latest data hinted at a cooling in house price growth. We'll see if that cooling is maintained.
Tue 11 Oct (10:45am)	Electronic Card Transactions – Sep	Recovery	We are not overly alarmed by the drop in spending in August. We expect a bounce-back, with the underlying trend remaining decent.
Thu 13 Oct (10:00am)	ANZ Job Ads – Sep	--	--
Thu 13 Oct (10:30am)	BNZ-BusinessNZ PMI – Sep		Despite currency and global headwinds, the manufacturing sector continues to benefit from a strong domestic economy.
Thu 13 Oct (10:45am)	Food Price Index – Sep	Retrace	Due to seasonality (and some retracement from August's lift) we expect a small fall in food prices in the month.
Thu 13 Oct (1:00pm)	ANZ Roy Morgan Consumer Confidence – Oct	--	--
Thu 13 Oct (1:00pm)	Government Full-Year Financial Statements – FY16	Surplus	In line with Budget forecasts, a small underlying fiscal surplus should be recorded. Together with relatively low net debt, a decent fiscal picture relative to many will be on show.
Mon 17 Oct (10:30am)	BNZ-BusinessNZ PSI – Sep	Off highs	The index has softened off its highs, perhaps related to the latest LVR restrictions. But we don't see it falling far.
Tue 18 Oct (10:45am)	CPI – Q3	+0.1% q/q	A reduction in ACC levies and lower petrol prices are the main drags, while housing-related inflation should again make a decent contribution.
Wed 19 Oct (early am)	GlobalDairyTrade Auction	Modestly softer	Following some solid gains, we wouldn't be surprised to see some modest cooling over the next few auctions.
Fri 21 Oct (10:45am)	International Travel & Migration – Sep	More of the same	Large net migrant inflows should continue and we expect the underlying trend in visitor arrivals to also remain strong.
Thu 27 Oct (10:45am)	Overseas Merchandise Trade – Sep	Deficit	Low carryover inventory for dairy and red meat, as well as lower new season production, should weigh on export values.
On balance		**Data watch**	**Momentum is increasing at present, albeit with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
GDP (% qoq)	0.9	**0.6**	**1.1**	**1.0**	**0.7**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% yoy)	3.6	**3.4**	**3.6**	**3.6**	**3.3**	**3.4**	**2.9**	**2.5**	**2.4**	**2.2**
CPI (% qoq)	0.4	**0.1**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.8**
CPI (% yoy)	0.4	**0.2**	**0.7**	**1.1**	**1.0**	**1.6**	**1.7**	**1.8**	**2.0**	**2.1**
Employment (% qoq)	2.4	**-0.4**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	4.5	**4.3**	**4.0**	**3.1**	**1.1**	**1.9**	**1.7**	**1.6**	**1.6**	**1.5**
Unemployment Rate (% sa)	5.1	**5.1**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**	**4.8**	**4.6**	**4.6**
Current Account (% GDP)	-2.9	**-3.0**	**-3.0**	**-3.2**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-2.1	**-0.9**	**0.5**	**0.9**	**1.1**	**0.8**	**0.6**	**0.3**	**0.4**	**0.0**
Terms of Trade (% yoy)	-3.9	**-1.0**	**1.6**	**-1.6**	**1.6**	**3.4**	**3.5**	**2.8**	**2.2**	**1.3**

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Retail ECT (% mom)	0.1	0.3	0.8	0.1	0.8	-0.2	1.1	0.2	-0.4	--
Retail ECT (% yoy)	6.6	5.2	9.2	6.2	7.8	3.3	6.8	5.8	3.7	--
Credit Card Billings (% mom)	-0.8	1.7	-0.3	-1.1	2.2	0.2	-0.8	2.4	-1.4	--
Credit Card Billings (% yoy)	7.4	8.1	7.3	5.0	9.0	6.1	4.1	5.6	1.9	--
Car Registrations (% mom)	3.0	-2.8	5.7	-3.8	6.4	-3.7	-0.9	-0.3	2.1	--
Car Registrations (% yoy)	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	--
Building Consents (% mom)	2.6	-8.0	10.5	-9.5	7.6	-0.2	19.8	-8.2	-1.0	--
Building Consents (% yoy)	17.6	5.1	27.0	0.3	13.6	10.2	40.0	7.9	12.1	--
REINZ House Price Index (% yoy)	12.6	10.7	11.9	13.3	14.5	14.7	14.2	16.3	11.7	--
Household Lending Growth (% mom)	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8	--
Household Lending Growth (% yoy)	7.4	7.5	7.6	7.7	7.9	8.1	8.3	8.6	8.7	--
ANZ Roy Morgan Consumer Conf.	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2	117.7	121.0
ANZ Business Confidence	23.0	..	7.1	3.2	6.2	11.3	20.2	16.0	15.5	27.9
ANZ Own Activity Outlook	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4	33.7	42.4
Trade Balance ($m)	-42	12	367	189	350	343	107	-351	-1265	--
Trade Bal ($m ann)	52510	52764	52831	52599	52626	52854	52660	52077	51929	--
ANZ World Commodity Price Index (% mom)	-1.8	-2.3	0.5	-1.3	-0.8	1.0	3.5	2.1	3.2	--
ANZ World Comm. Price Index (% yoy)	-12.9	-14.7	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	--
Net Migration (sa)	5510	6080	5990	5340	5490	5550	5700	5620	5600	--
Net Migration (ann)	64930	65911	67391	67619	68110	68432	69090	69015	69119	--
ANZ Heavy Traffic Index (% mom)	2.8	-4.3	1.7	3.3	-2.5	-2.5	4.1	-5.3	6.7	--
ANZ Light Traffic Index (% mom)	0.9	-1.4	2.4	0.8	0.3	-1.6	2.5	-0.5	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	Jul-16	Aug-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZD/USD	0.720	0.725	0.727	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.948	0.964	0.950	0.93	0.93	0.93	0.93	0.94	0.89	0.88
NZD/EUR	0.644	0.650	0.647	0.66	0.66	0.64	0.62	0.60	0.57	0.58
NZD/JPY	73.47	74.82	73.77	74.6	69.0	67.0	65.0	64.0	67.2	71.5
NZD/GBP	0.544	0.552	0.562	0.57	0.56	0.54	0.51	0.48	0.46	0.46
NZ$ TWI	75.0	75.9	77.3	75.4	73.7	72.1	70.1	68.9	67.5	68.5
INTEREST RATES	Jul-16	Aug-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZ OCR	2.25	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.28	2.28	2.21	2.00	1.80	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.21	2.24	2.30	2.30	2.20	2.20	2.30	2.40	2.60	2.70
US Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
US 3-mth	0.76	0.84	0.85	0.93	0.93	1.30	1.30	1.55	1.55	1.80
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	1.74	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	30 Aug	26 Sep	27 Sep	28 Sep	29 Sep	30 Sep
Official Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.27	2.20	2.21	2.21	2.21	2.20
NZGB 03/19	1.81	1.87	1.88	1.90	1.92	1.89
NZGB 05/21	1.83	1.97	1.97	1.96	1.99	1.94
NZGB 04/23	1.95	2.10	2.09	2.08	2.09	2.04
NZGB 04/27	2.24	2.36	2.34	2.32	2.34	2.27
2 year swap	1.98	2.01	2.02	2.01	2.02	2.00
5 year swap	2.08	2.15	2.16	2.15	2.16	2.12
RBNZ TWI	77.27	77.02	77.27	77.35	77.26	76.97
NZD/USD	0.7239	0.7253	0.7302	0.7243	0.7259	0.7286
NZD/AUD	0.9587	0.9518	0.9519	0.9448	0.9480	0.9507
NZD/JPY	74.08	72.83	73.30	72.95	73.64	73.84
NZD/GBP	0.5533	0.5612	0.5636	0.5564	0.5578	0.5617
NZD/EUR	0.6482	0.6450	0.6491	0.6457	0.6470	0.6485
AUD/USD	0.7551	0.7620	0.7671	0.7666	0.7657	0.7664
EUR/USD	1.1168	1.1245	1.1249	1.1217	1.1219	1.1235
USD/JPY	102.33	100.41	100.39	100.72	101.45	101.35
GBP/USD	1.3084	1.2925	1.2956	1.3018	1.3014	1.2972
Oil (US$/bbl)	46.97	44.36	45.60	44.65	47.07	47.72
Gold (US$/oz)	1323.42	1333.90	1335.30	1325.43	1325.00	1322.35
Electricity (Haywards)	5.10	4.61	4.57	5.21	5.06	5.34
Baltic Dry Freight Index	715	934	930	912	888	875
NZX WMP Futures (US$/t)	2850	2940	2850	2830	2810	2780

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