ANZ RESEARCH

# NEW ZEALAND ECONOMICS
## MARKET FOCUS

28 November 2016

INSIDE




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# ASSESSING THE RISKS

### ECONOMIC OVERVIEW

The economy's current solid momentum should continue into 2017, with it in good shape to absorb any potential challenges. But there are many uncertainties – financial conditions, the housing market, earthquake fallout, consumer behaviour (binging or otherwise), capacity strains (and some early signs of inflation), the global scene (excess leverage, the liquidity cycle, China, politics) and how banks respond to ongoing funding pressures. We are focused on many of these themes as we look towards next year. This week, the RBNZ's *Financial Stability Report* should note that the financial system is sound and that risks, while still present, have perhaps eased since May. Our Business Outlook will provide an early gauge of any confidence hit from the earthquakes, while commodity price data will provide a signal on the near-term direction for the terms of trade.

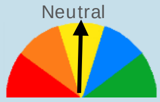
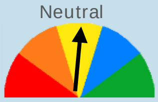
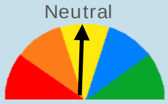
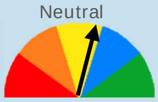
### INTEREST RATE STRATEGY

Short-end rates remain elevated, having been shunted higher by stop-loss paying, mortgage fixing and end-of-cycle fears. While all are powerful and valid forces, we believe the valuation rubber band is simply too stretched with the 2-year swap at ~2.25%. Anything above there looks "cheap" and we see merit in grabbing some of the carry on offer. By contrast, the long end is another story. It has gone further, and while we do see material odds of a snap back (US markets are priced for perfection), we expect dips to be shallow, drawing out strategic bears. The risk-seeking behaviours of the past few years that have fuelled the "race to the bottom" have given way to fear and defensiveness. Tighter financial conditions in the US (and NZ) notwithstanding, we expect curves to continue to steepen as the short end runs out of puff and the long end grinds gradually higher.

### CURRENCY STRATEGY

The NZD is respecting well-established ranges, caught between two narratives: whether the liquidity cycle has turned courtesy of higher yields, leaving the USD in charge, or whether a commodity-led reflation trade takes hold. We're not convinced either is unfolding. And lacking such a narrative becoming ingrained in price action, this leaves us respecting the domestic picture as a crux of support. Expect the TWI to perform better than NZD/USD and NZD/AUD.

### THE ANZ HEATMAP

| Variable | View | Comment | Risk profile (change to view) |
|---|---|---|---|
| GDP | 3.2% 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 | 4.7% 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 | 1.75% by Jun 2017 | With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. | Neutral Down  Up |
| CPI | 1.4% y/y for 2017 Q2 | 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. | Neutral Negative  Positive |

# ECONOMIC OVERVIEW

## SUMMARY

The economy's current solid momentum should continue into 2017, with it in good shape to absorb any potential challenges. But there are many uncertainties – financial conditions, the housing market, earthquake fallout, consumer behaviour (binging or otherwise), capacity strains (and some early signs of inflation), the global scene (excess leverage, the liquidity cycle, China, politics) and how banks respond to ongoing funding pressures. We are focused on many of these themes as we look towards next year. This week, the RBNZ's *Financial Stability Report* should note that the financial system is sound and that risks, while still present, have perhaps eased since May. Our Business Outlook will provide an early gauge of any confidence hit from the earthquakes, while commodity price data will provide a signal on the near-term direction for the terms of trade.

## FORTHCOMING EVENTS

**RBNZ Financial Stability Report** (9:00am, Wednesday, 30 November). The financial system is sound, but risks remain. Eyes will be on any further information on the possible inclusion of debt-to-income restrictions in the RBNZ's macro-prudential tool-kit.

**Building Consent Issuance – October** (possibly this week). Putting monthly volatility aside, a modest upward trend in issuance should continue.

**ANZ Business Outlook – November** (1:00pm, Wednesday, 30 November).

**RBNZ Credit Aggregates – October** (3:00pm, Wednesday, 30 November). Credit has continued to expand strongly, particularly to households. However, we do believe a peak in growth is close at hand.

**Overseas Trade Indexes – Q3** (10:45am, Thursday, 1 December). With export prices recovering, the terms of trade looks to be now past its lows. Whether the cyclical low is recorded in Q2 or Q3 looks to be a close call. Export volumes should be lower over the quarter.

**Building Work Put in Place – Q3** (10:45am, Friday, 2 December). We wouldn't be surprised to see a more modest pace of growth (or even a slight fall) in the quarter. But a decent underlying trend should remain.

**ANZ Commodity Price Index – November** (1:00pm, Monday, 5 December).

## WHAT'S THE VIEW?

**With the final month of the year just about upon us, our thoughts are naturally shifting to some of the key things we'll be focused on and thinking about into the New Year.** The economy is recording strong momentum at present and we expect that to continue into 2017 (though at a slightly slower pace into the latter part of the year). The economy is also in a solid position to absorb any potential negative shocks, courtesy of a contained current account deficit, lower levels of external debt, low domestic inflation and monetary and fiscal policy headroom.

**Nevertheless, it is always worthwhile pondering what the challenges could be.** These are the risks we know about, but don't know how they will play out. They are different to the 'unknown unknowns' – those shocks that catch us completely unawares (there is always the potential for those!).

**In no particular order, some of the things we are watching include:**

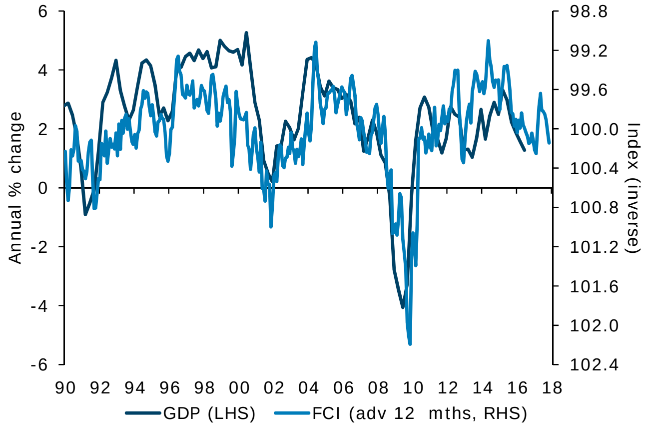
- **Earthquake fallout.** We think the direct impact on growth will be modest. Anything larger will be determined by whether there is a hit to confidence. But more generally, key uncertainties include the damage bill (it looks larger than mooted), the strategic direction taken in some key areas (e.g. roading, Wellington CBD reinvestment, potential for some government services to be hubbed into the regions), the capacity for rebuild in a resource-constrained environment, inter-regional migration, and the impact rebuild costs will have on the Government's previous spending plans.
- **The housing market.** Activity is cooling as LVR restrictions bite, but will it last? Recent history says no, but we think there are some factors (rising interest rates, affordability pressures, bank behaviour) that mean this cooling has a little more persistence to it. If not, then not only would that up the ante on a sharper correction in the future, but it would considerably increase the odds of more macro-prudential measures.
- **The liquidity cycle.** Higher interest rates globally are bringing into question whether the liquidity cycle is coming to an end. That's a good thing but we've yet to see asset prices react and one wonders when (or if) leverage problems will be exposed. It has helped to knock the NZD down though. Recent history has shown (ironically) that the path to lower rates has been via higher rates, and the move higher of late has been aggressive and sharp.
- **International politics.** If it wasn't clear before that politics will gain greater prominence going forward, then it should be now. But an increased focus on politics represents a more uncertain world and a new paradigm for markets. Ultimately we believe asset prices will reflect this higher level of uncertainty and risk. But many questions remain. The social contract between society and politicians

# ECONOMIC OVERVIEW

will be rewritten. New policy will unfold. The policy platform looks 1970s-ish, which spells more government boosts / involvement and less global economic integration. That's not a productivity-friendly mix. New Zealand has tried that and while good times persisted for a while, it didn't end well.

- **Local politics.** New Zealand has avoided the populist shift globally, but there are still potential lightning rods (migration, housing affordability, income and wealth inequality). It had appeared as though Budget 2017 would be used to help to ease some of those tensions, but that will be challenged now by earthquake-associated costs.
- **Financial conditions.** Global markets are trading a reflation theme, but higher yields and the stronger USD have tightened US financial conditions. All else equal, that will have growth consequences, though a move to more expansionary fiscal policy will offset this. Markets seem to be focused on the latter and not the former at present, with the glass half full. Local financial conditions have also tightened (on housing and equity market softness) and are providing a word of warning. But at this stage financial conditions remain supportive overall.

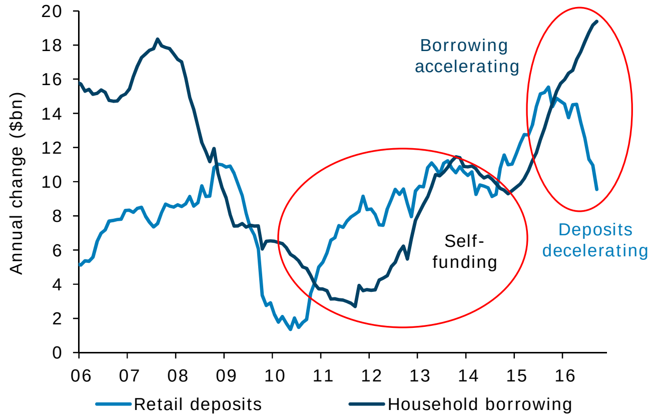
**FIGURE 1: US FINANCIAL CONDITIONS VERSUS GDP**




Source: ANZ, Bloomberg

- **Will inflation finally show its face?** Capacity (labour) is the biggest issue facing firms. Historically that has spelled inflation, although structural deflationary pressures remain. Who wins this battle will be an important factor determining when RBNZ interest rate hikes can start to be contemplated. We don't think it will be 2017, although wouldn't rule that out completely. We now have a couple of hikes pencilled in for 2018.
- **Household behaviour.** Restraint is still the keyword right now. Despite numerous support factors, consumption growth per capita remains low by historical standards. We believe that will remain the case. A housing and consumption boom would certainly bring about higher inflation and interest rates, so if we're wrong on households continuing to show restraint and instead see pre-2008 behaviour returning, the OCR will need to head up sooner.
- **The NZD.** It's too high relative to many fundamentals (especially against non-USD crosses) but not on the one that matters, which is growth. It's hard to see it falling too far in the absence of a global accident; the allure of yield + growth + political stability will keep it elevated.
- **Mind the gap.** The gap between deposit and credit growth continues to widen, and is unsustainable. The gap can be filled by offshore funding but there is a limit on that front. As such, banks are increasingly rationing credit and competing for deposits. That's a positive for medium-term growth (working against the boom-bust cycle) but means challenges in the near term as less credit results in less growth (in some key areas such as housing supply). How strong credit growth proves to be over the next two years will be inversely proportional to our economic assessment of prospects for 2019. Another year or two of strong credit growth would up the odds on an adverse turn in the economic cycle.

**FIGURE 2: BANK HOUSEHOLD FUNDING AND CLAIMS GROWTH**




Source: ANZ, RBNZ

**The above list is by no means exhaustive.** We didn't even mention China, which is never too far from our minds, and of course dairy sector challenges have not completely disappeared. But this list is at the fore-front right now.

**This week our near-term focus is the RBNZ's bi-annual *Financial Stability Report* (FSR).** While the RBNZ will reiterate that the financial system is sound, it will be the RBNZ's discussions regarding risks that will be more interesting. Similar risks to the May

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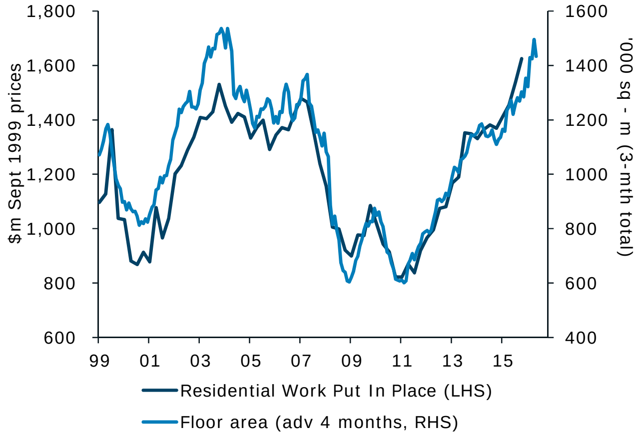
report will be highlighted again, but we wouldn't be surprised if the RBNZ acknowledges that risks have eased modestly since then. In May, the RBNZ singled out three broad areas of concern: 1) the global backdrop; 2) dairy sector strains; and 3) excessive house price growth in Auckland. Since then we note:

- **The global backdrop has arguably stabilised.** As the RBNZ noted in its November *Monetary Policy Statement*, economic indicators in some countries have improved. That said, it is certainly still a backdrop where risks are skewed to the downside, and we expect the RBNZ's tone to reflect that. In particular, we expect it to talk about heightened political risks, the risks of increased market volatility, and the challenges the likes of China are still dealing with in regards to its structural adjustment and high corporate leverage.
- **Dairy sector risks have fallen.** Since May, we've seen dairy prices rise solidly and Fonterra has upgraded its payout forecast – those farmers not dealing with production challenges will be looking at positive cash flow in 2017. That said, the RBNZ will still be cautious, noting uncertainty over the sustainability of price gains and the sector's still-high debt levels.
- **The housing market has cooled.** It is clear from recent housing and new lending data (as well as anecdote) that the RBNZ's latest round of LVR restrictions are biting. However, the RBNZ will certainly be reluctant to declare victory yet, particularly with affordability metrics remaining extremely stretched and household debt levels back at records. Previous rounds of restrictions proved to have only a temporary influence on market activity.

**We will also be interested in any further discussion on the RBNZ's proposal to include debt-to-income restrictions in its macro-prudential tool-kit.** While the Governor has recently stated that he wouldn't use these restrictions right now if he had them available given the market has cooled, we expect to get a clearer idea on how the discussions with the Treasury and Minister of Finance have gone and what form the restrictions could possibly take. We certainly expect him to be asked questions regarding these restrictions at the associated press conference.

**Elsewhere, two separate series on construction sector activity should show decent performance overall, although we wouldn't be surprised to see some signs of moderation.** While it is unclear whether consent data for October will be released as scheduled, we expect the figures to show a positive underlying trend remaining. Issuance has been volatile of late, but sits at the highest level since early 2004 in trend terms. Even so, it is struggling to keep pace with demographic demand. Separate figures on building work done in Q3 should also show strong activity. However, after six consecutive quarterly increases (with some especially large gains over Q1 and Q2), we wouldn't rule out a more modest pace of growth (or even a small fall) in Q3 as signalled by an earlier soft patch in non-residential consent issuance. We have pencilled in a 1.0% q/q lift in total building volumes.

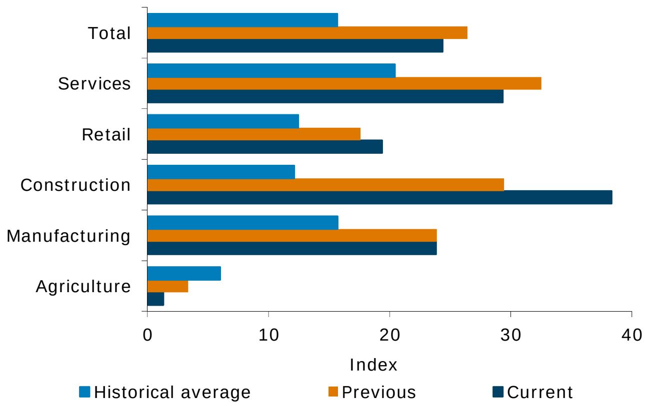
**FIGURE 3: RESIDENTIAL BUILDING WORK AND FLOOR AREA OF CONSENT ISSUANCE**




Source: ANZ, Statistics NZ

**Our ANZ Business Outlook survey for November should give an early indication on any possible hit to confidence from the latest earthquakes.** The quakes hit in the middle of the survey period so will at least partially capture any initial fall-out. But stepping back from this, as the chart below shows, confidence has been holding at solid levels, notwithstanding a modest dip in October.

**FIGURE 4: ANZ BUSINESS OUTLOOK COMPOSITES**




Source: ANZ

**Firms have continued to report decent expectations** for their own activity and profitability, and hiring and investment plans. That has transpired

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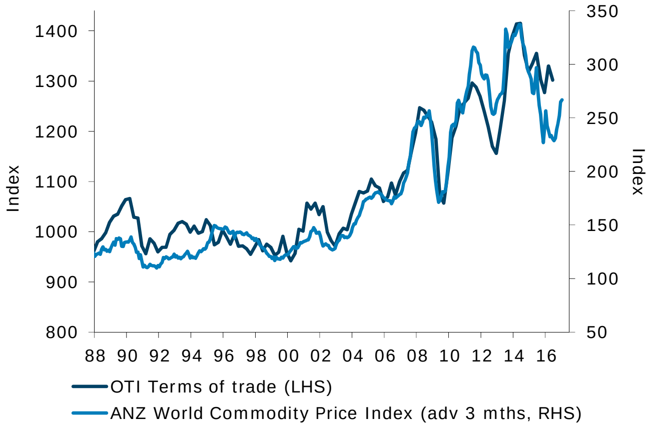
into our confidence composite gauge (which also uses consumer confidence) pointing towards GDP growth perhaps accelerating north of 4%. That strong momentum is important, as it provides the economy with more resilience to deal with shocks such as earthquakes.

**It is a close call in our eyes whether Overseas Trade Indexes for Q3 will show the terms of trade falling again or whether Q2 will be shown to have actually been the cyclical low.** While our estimates have both NZD export and import prices falling over the quarter, the magnitudes look similar. We have therefore pencilled in a flat result. With export commodity prices rising again and oil prices apparently struggling to push much above USD50/bbl, the outlook for the terms of trade has improved, especially relative to expectations only a few months ago. Whatever Q3's outcome proves to be, we currently estimate that the terms of trade will start to increase modestly again from Q4, reinforcing that the index remains at a historically elevated level, supporting national incomes overall. Accompanying volume data is likely to show weaker export volumes (after Q2's large gain), which is consistent with our expectation that net exports likely dragged on GDP growth over the quarter.

**FIGURE 5: TERMS OF TRADE AND EXPORT COMMODITY PRICES**




Source: ANZ, Statistics NZ

**Our ANZ Commodity Price Index for November will of course help highlight prospects for the terms of trade going forward.** In October, the index rose for the sixth month in a row, to be up 17% over this time. Certainly, stronger dairy prices have been a key driver. The ex-dairy world price index is up only 4.5% over this period and so broader price gains would certainly be welcome. In fact, in NZD terms, the ex-dairy price index has actually fallen 3.2% over the past six months, highlighting some risks to farm-gate returns.

## LOCAL DATA

**International Travel & Migration – October**. The annual net migrant inflow rose to a new all-time high of 70,282.

**Overseas Merchandise Trade – October**. A trade deficit of $846m was recorded ($313m in seasonally adjusted terms).

# INTEREST RATE STRATEGY

## SUMMARY

Short-end rates remain elevated, having been shunted higher by stop-loss paying, mortgage fixing and end-of-cycle fears. While all are powerful and valid forces, we believe the valuation rubber band is simply too stretched with the 2-year swap at ~2.25%. Anything above there looks "cheap" and we see merit in grabbing some of the carry on offer. By contrast, the long end is another story. It has gone further, and while we do see material odds of a snap back (US markets are priced for perfection), we expect dips to be shallow, drawing out strategic bears. The risk-seeking behaviours of the past few years that have fuelled the "race to the bottom" have given way to fear and defensiveness. Tighter financial conditions in the US (and NZ) notwithstanding, we expect curves to continue to steepen as the short end runs out of puff and the long end grinds gradually higher.

## THEMES

- Investor attitudes have shifted sharply in recent weeks. Bonds have had their generation (35 years) in the sun (Black Swans aside). Steeper yield curves are coming.
- We do hold concerns about how "priced for perfection" US asset markets are. But even so, the trend for rates has moved from lower to higher, and we expect dips to be shallow.
- But valuations matter, regardless of global direction and the swing in sentiment. Three weeks ago we noted that the last time the 2-year swap was at 2.25%, the OCR was 2.25%. We won't see a hike any time soon and we doubt the short end will stay this high through the Christmas/NY holiday lull.

## MONETARY POLICY AND SHORT END

**We expect the OCR to be on hold for some time.** Although we forecast the next move to be a hike, rather than a cut, that's not until 2018 and we are mindful that while NZD/USD is heading lower, the TWI is not. Moreover, the steeper yield curve and higher mortgage rates have seen financial conditions tighten.

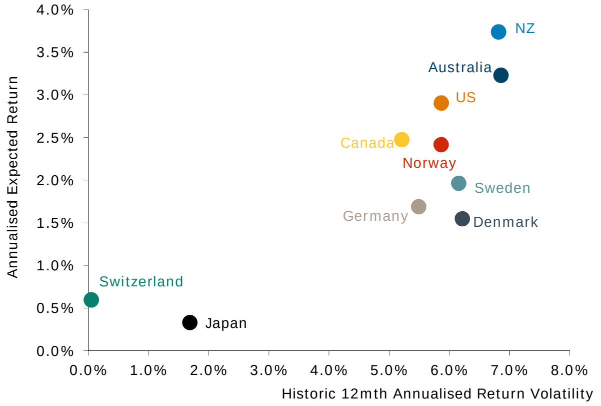
Against that, while we are mindful of the factors behind the move (stop-loss paying, mortgage fixing), **the short end is nonetheless at levels that we consider to be massively overstretched.** With the bellwether 2-year swap at around 2.25% (as has been the case for most of the month +/- a few points) **we'd rather be long than short here going into the holiday lull.** The last time we held here, the OCR was 2.25% and headed for 2%. It's now 1.75% and headed nowhere.

## GLOBAL MARKETS AND LONG END

**The shift in market sentiment on the back of the monetary-fiscal transition that was already well underway** (and was subsequently supercharged by US President-elect Trump's victory) **looks to have given way to a brief period of consolidation. With US bonds precipitously priced for perfection** (essentially assuming we will see massive fiscal expansion, that the US can handle tighter financial conditions, and will benefit from trade barriers), **the risk of a correction lower in yields is ever-present. But even so, we expect dips to be shallow** as global fixed-income managers take a more defensive stance. In short, during the indiscriminate "race to the bottom", all eyes were on the y-axis of Figure 1 below. All eyes are now on the x-axis (and the left-hand end, not the right-hand end).

**With the NZ long end at the wrong end where it now counts, and the short end anchored by the OCR, steeper curves beckon.**

**FIGURE 1: G10 10YR RISK AND EXPECTED RETURNS**




Source: ANZ, Bloomberg

## STRATEGY

**Investors: We favour shortening duration** to benefit from **the value on offer at the short end.**

**Borrowers: We are more confident now than we were a few months ago that the lows for yields are in. We see merit in adding to hedges.** But with BKBM biased lower, some caution is required.

**KEY VIEWS**

| SECTOR | DIRECTION | COMMENT |
|---|---|---|
| Short end | Neutral/bullish | 2yr stretched here with R+C on 1y1y now back above 4bps/month. Not quite the glory days but not far off. |
| Long end | Bearish | Significant scope for pullback, but dips shallow with investors defensive. 35yr bond bull market looks done. |
| Yield Curve | Biased steeper | Gradual steepening beckons as market re-prices US outlook and RBNZ stability anchors short end. |
| Geographic spreads | Neutral | Would ordinarily view divergent policy settings as a reason to be bullish NZ on a spread, but our sense is that defensive duration shortening will see the long end underperform with NZ asset allocations. |
| Swap spreads | Neutral/wider | NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips. |
| NZD/TWI | Holding up | NZD/USD under threat but TWI likely to hold against Asia/Europe, keeping a lid on the OCR. |

# CURRENCY STRATEGY

## SUMMARY

The NZD is respecting well-established ranges, caught between two narratives: whether the liquidity cycle has turned courtesy of higher yields, leaving the USD in charge, or whether a commodity-led reflation trade takes hold. We're not convinced either is unfolding. And lacking such a narrative becoming ingrained in price action, this leaves us respecting the domestic picture as a crux of support. Expect the TWI to perform better than NZD/USD and NZD/AUD.

**TABLE 1: KEY VIEWS**

| CROSS | GUIDE | MONTH | YEAR |
|---|---|---|---|
| NZD/USD | ↔ | Stable. Being pulled in both directions | Firmer USD bias |
| NZD/AUD | ↔/↓ | Looking toppy | 0.98 peak likely |
| NZD/EUR | ↔/↑ | Biased higher | Divided outlooks |
| NZD/GBP | ↔/↓ | Pound back in vogue | GBP stabilising |
| NZD/JPY | ↔/↑ | Higher on JPY weakness | USD dictating USD/JPY higher |

## THEMES AND RISKS

- Yields consolidate and the USD too.
- NZD stuck in tussle between the end of the liquidity cycle and reflation trade sentiments.
- Strong USD implies NZD/USD weakness, but TWI to hold up, with EUR and JPY still challenged.
- Attention to turn back to the data and Fed.
- European politics still under the spotlight.
- New Zealand's macro data pulse remains strong; domestic layers of support remain.

## ASSESSMENT

**With international yields now consolidating** (in fact the US 10-year yield has come in from a high of 2.42% to 2.36%) **the strong USD** – the main mover of late – **is showing signs of running out of puff.**

**Such consolidation doesn't provide clarity on whether the global liquidity cycle has come to an end – the same goes for the USD.** Rather, it's symptomatic of wider considerations. The move has been aggressive and it's natural to stop for breath as a less-favourable technical picture kicks in. You can't have unfettered lifts in interest rates and not expect some fallout, given the build-up in leverage; no one knows where that tipping point is. But eyes are turned particularly to emerging markets, especially those with significant USD debt. A firmer USD is one factor tightening financial conditions in the US (the other being higher rates) and hence reducing future growth prospects. So markets invariably pause for breath and look for the next catalyst.

**Expect attention to turn back towards the Fed** (Yellen) **and jobs data** on whether the light is still green to buy the USD. With the market now fully expecting a Fed hike in December, attention will turn to follow-up moves in 2017. We believe the US (and NZ rates curves) are fairly priced, making them agnostic drivers around current levels.

**More broadly, the NZD looks stuck between two global narratives. The two key questions are:**

- Has the liquidity cycle turned courtesy of higher yields, leaving the USD in charge, with more defensive attitudes to prevail? If yes, that's broadly NZD negative.
- Will a commodity-led reflation trade take hold? If so, that's broadly NZD positive.

**We're not convinced either is unfolding.** There are simply too many uncertainties globally (leverage across emerging markets and mispricing of risk) to believe reflation can truly take hold and the liquidity cycle can come to an abrupt end. Moreover, currencies are the implicit vehicles through which monetary policy is being expressed, which means rate divergence across the G3 cannot push too far.

**Until we come to a firmer view on the alternative narratives we prefer to respect the solid NZD credentials being painted locally.** Growth remains strong, the yield on offer is alluring, and there is political stability. That's a powerful combination. There has been segmented price action on the crosses (NZD is only really down vis-à-vis the USD) and we expect elevation on a TWI basis to continue, with EUR and JPY still committed to ultra-easy monetary policy and Asian trade in Trump's sights. Significant gains in hard commodity prices also suggest NZD is getting toppy vs AUD.

**TABLE 2: NZD VS AUD: MONTHLY GAUGES**

| GAUGE | GUIDE | COMMENT |
|---|---|---|
| Fair value | ↔/↓ | Fair value is 0.93. But AU cycle turning. |
| Yield | ↔ | Neither central bank doing anything. |
| Commodities | ↔/↓ | AU commodities doing much better. |
| Data | ↔/↑ | Jobs data heavily in NZ's favour. |
| Techs | ↔/↓ | Break of 0.9420 points to test of 0.93. |
| Sentiment | ↔/↑ | Has become more AU-positive. |
| Other | ↔/↑ | Election sweeteners for NZ in 2017. |
| **On balance** | ↔ | **0.93-0.97 to hold for now; break of 0.93 would see market turn bearish.** |

**TABLE 3: NZD VS USD: MONTHLY GAUGES**

| GAUGE | GUIDE | COMMENT |
|---|---|---|
| Fair value | ↔/↑ | Below fair value estimate of ~0.75. |
| Yield | ↔ | Now less about yield and more about avoiding volatility. |
| Commodities | ↔/↑ | Improving. |
| Risk aversion | ↔ | Still a potential Achilles heel. |
| Data | ↔ | US financial conditions much tighter now, but market pricing for US perfection. |
| Techs | ↔/↓ | Trending lower. 0.70 next level. |
| Other | ↔/↓ | All about the USD (still!) |
| **On balance** | ↔ | **Another break of 0.70 this week on the cards. More balanced outlook now that we have come off highs.** |

# DATA EVENT CALENDAR

| DATE | COUNTRY | DATA / EVENT | MKT. | LAST | NZ TIME |
|---|---|---|---|---|---|
| 28-Nov | EC | M3 Money Supply YoY - Oct | 5.0% | 5.0% | 22:00 |
| 29-Nov | US | Dallas Fed Manf. Activity - Nov | 1.5 | -1.5 | 04:30 |
| | AU | ANZ-RM Consumer Confidence Index - 27-Nov | -- | 115.5 | 11:30 |
| | GE | Import Price Index MoM - Oct | 0.6% | 0.1% | 20:00 |
| | GE | Import Price Index YoY - Oct | -0.8% | -1.8% | 20:00 |
| | UK | Net Consumer Credit - Oct | £1.5B | £1.4B | 22:30 |
| | UK | Net Lending Sec. on Dwellings - Oct | £3.2B | £3.2B | 22:30 |
| | UK | Mortgage Approvals - Oct | 65.0k | 62.9k | 22:30 |
| | UK | Money Supply M4 MoM - Oct | -- | -0.4% | 22:30 |
| | UK | M4 Money Supply YoY - Oct | -- | 6.2% | 22:30 |
| | UK | M4 Ex IOFCs 3M Annualised - Oct | -- | 10.0% | 22:30 |
| | EC | Economic Confidence - Nov | 106.8 | 106.3 | 23:00 |
| | EC | Business Climate Indicator - Nov | 0.60 | 0.55 | 23:00 |
| | EC | Industrial Confidence - Nov | -0.5 | -0.6 | 23:00 |
| | EC | Services Confidence - Nov | 12.5 | 12.0 | 23:00 |
| | EC | Consumer Confidence - Nov F | -6.1 | -6.1 | 23:00 |
| 30-Nov | GE | CPI MoM - Nov P | 0.1% | 0.2% | 02:00 |
| | GE | CPI YoY - Nov P | 0.8% | 0.8% | 02:00 |
| | GE | CPI EU Harmonized MoM - Nov P | 0.1% | 0.2% | 02:00 |
| | GE | CPI EU Harmonized YoY - Nov P | 0.8% | 0.7% | 02:00 |
| | US | GDP Annualized QoQ - Q3 S | 3.0% | 2.9% | 02:30 |
| | US | Personal Consumption - Q3 S | 2.3% | 2.1% | 02:30 |
| | US | GDP Price Index - Q3 S | 1.5% | 1.5% | 02:30 |
| | US | Core PCE QoQ - Q3 S | -- | 1.7% | 02:30 |
| | US | S&P CoreLogic CS 20-City MoM SA - Sep | 0.40% | 0.24% | 03:00 |
| | US | S&P CoreLogic CS 20-City YoY NSA - Sep | 5.20% | 5.13% | 03:00 |
| | US | Consumer Confidence Index - Nov | 101.3 | 98.6 | 04:00 |
| | NZ | RBNZ Financial Stability Report | -- | -- | 09:00 |
| | NZ | ANZ Activity Outlook - Nov | -- | 38.4 | 13:00 |
| | NZ | ANZ Business Confidence - Nov | -- | 24.5 | 13:00 |
| | AU | HIA New Home Sales MoM - Oct | -- | 2.7% | 13:00 |
| | UK | GfK Consumer Confidence - Nov | -4 | -3 | 13:01 |
| | AU | Building Approvals MoM - Oct | 2.0% | -8.7% | 13:30 |
| | AU | Building Approvals YoY - Oct | -6.2% | -6.4% | 13:30 |
| | AU | Private Sector Credit MoM - Oct | 0.4% | 0.4% | 13:30 |
| | AU | Private Sector Credit YoY - Oct | 5.2% | 5.4% | 13:30 |
| | CH | Westpac-MNI Consumer Sentiment - Nov | -- | 117.1 | 14:45 |
| | NZ | Money Supply M3 YoY - Oct | -- | 4.8% | 15:00 |
| | GE | Retail Sales MoM - Oct | 1.0% | -1.4% | 20:00 |
| | GE | Retail Sales YoY - Oct | 1.0% | 0.4% | 20:00 |
| | GE | Unemployment Change (000's) - Nov | -5k | -13k | 21:55 |
| | GE | Unemployment Claims Rate SA - Nov | 6.0% | 6.0% | 21:55 |
| | EC | CPI Estimate YoY - Nov | 0.6% | 0.5% | 23:00 |
| | EC | CPI Core YoY - Nov A | 0.8% | 0.8% | 23:00 |
| | NZ | Building Permits MoM - Oct | -- | 0.2% | 30 Nov-7 Dec |
| 1-Dec | US | MBA Mortgage Applications - 25-Nov | -- | 5.5% | 01:00 |
| | US | ADP Employment Change - Nov | 160k | 147k | 02:15 |
| | US | Personal Income - Oct | 0.4% | 0.3% | 02:30 |

Continued on following page

# DATA EVENT CALENDAR

| DATE | COUNTRY | DATA / EVENT | MKT. | LAST | NZ TIME |
|---|---|---|---|---|---|
| 1-Dec | US | Personal Spending - Oct | 0.5% | 0.5% | 02:30 |
| | US | Real Personal Spending - Oct | 0.3% | 0.3% | 02:30 |
| | US | PCE Deflator MoM - Oct | 0.3% | 0.2% | 02:30 |
| | US | PCE Deflator YoY - Oct | 1.5% | 1.2% | 02:30 |
| | US | PCE Core MoM - Oct | 0.1% | 0.1% | 02:30 |
| | US | PCE Core YoY - Oct | 1.7% | 1.7% | 02:30 |
| | US | Chicago Purchasing Manager - Nov | 52.5 | 50.6 | 03:45 |
| | US | Pending Home Sales MoM - Oct | 0.1% | 1.5% | 04:00 |
| | US | Pending Home Sales NSA YoY - Oct | -- | 2.0% | 04:00 |
| | US | Federal Reserve releases Beige Book | -- | -- | 08:00 |
| | NZ | Terms of Trade Index QoQ - Q3 | 0.0% | -2.1% | 10:45 |
| | AU | AiG Perf of Mfg Index - Nov | -- | 50.9 | 11:30 |
| | AU | CoreLogic House Px MoM - Nov | -- | 0.5% | 12:00 |
| | AU | Private Capital Expenditure - Q3 | -3.0% | -5.4% | 13:30 |
| | CH | Manufacturing PMI - Nov | 51.0 | 51.2 | 14:00 |
| | CH | Non-manufacturing PMI - Nov | -- | 54.0 | 14:00 |
| | CH | Caixin PMI Mfg - Nov | 50.8 | 51.2 | 14:45 |
| | AU | Commodity Index AUD - Nov | -- | 100.2 | 18:30 |
| | AU | Commodity Index SDR YoY - Nov | -- | 16.0% | 18:30 |
| | UK | Nationwide House Px NSA YoY - Nov | 4.7% | 4.6% | 20:00 |
| | UK | Nationwide House PX MoM - Nov | 0.2% | 0.0% | 20:00 |
| | GE | Markit/BME Manufacturing PMI - Nov F | 54.4 | 54.4 | 21:55 |
| | EC | Markit Manufacturing PMI - Nov F | 53.7 | 53.7 | 22:00 |
| | UK | Markit PMI Manufacturing SA - Nov | 54.3 | 54.3 | 22:30 |
| | EC | Unemployment Rate - Oct | 10.0% | 10.0% | 23:00 |
| 2-Dec | US | Challenger Job Cuts YoY - Nov | -- | -39.1% | 01:30 |
| | US | Initial Jobless Claims - 26-Nov | 253k | 251k | 02:30 |
| | US | Continuing Claims - 19-Nov | 2040k | 2043k | 02:30 |
| | US | Markit Manufacturing PMI - Nov F | 53.9 | 53.9 | 03:45 |
| | US | Construction Spending MoM - Oct | 0.6% | -0.4% | 04:00 |
| | US | ISM Manufacturing - Nov | 52.2 | 51.9 | 04:00 |
| | US | ISM Prices Paid - Nov | 54.3 | 54.5 | 04:00 |
| | US | ISM New Orders - Nov | -- | 52.1 | 04:00 |
| | NZ | Value of All Buildings SA QoQ - Q3 | 2.2% | 5.5% | 10:45 |
| | AU | Retail Sales MoM - Oct | 0.3% | 0.6% | 13:30 |
| | UK | Markit/CIPS Construction PMI - Nov | 52.2 | 52.6 | 22:30 |
| | EC | PPI MoM - Oct | 0.4% | 0.1% | 23:00 |
| | EC | PPI YoY - Oct | -1.0% | -1.5% | 23:00 |
| 3-Dec | US | Underemployment Rate - Nov | -- | 9.5% | 02:30 |
| | US | Change in Nonfarm Payrolls - Nov | 175k | 161k | 02:30 |
| | US | Unemployment Rate - Nov | 4.9% | 4.9% | 02:30 |
| | US | Average Hourly Earnings MoM - Nov | 0.2% | 0.4% | 02:30 |
| | US | Average Hourly Earnings YoY - Nov | 2.8% | 2.8% | 02:30 |
| | US | Average Weekly Hours All Employees - Nov | 34.4 | 34.4 | 02:30 |
| | US | Change in Household Employment - Nov | -- | -43.0 | 02:30 |
| | US | ISM New York - Nov | -- | 49.2 | 03:45 |

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. With inflation showing signs of tentatively lifting, the OCR now looks to be on hold at 1.75% for a considerable period.

| DATE | DATA/EVENT | ECONOMIC SIGNAL | COMMENT |
|---|---|---|---|
| Wed 30 Nov (9:00am) | RBNZ Financial Stability Report | Further changes possible | The financial system is sound, but risks remain. Eyes will be on any further information on possible debt-to-income restrictions. |
| TBA | Building Consent Issuance – Oct | Still trending up | Putting monthly volatility aside, a modest upward trend in issuance should continue for a while yet. |
| Wed 30 Nov (1:00pm) | ANZ Business Outlook – Nov | -- | -- |
| Wed 30 Nov (3:00pm) | RBNZ Credit Aggregates – Oct | Peaked | New lending growth has slowed, which should eventually see the rate of overall credit growth slow too. |
| Thu 1 Dec (10:45am) | Overseas Trade Indexes – Q3 | Flat | A flat terms of trade outcome should mark the cycle low. Export volumes will be soft. |
| Fri 2 Dec (10:45am) | Value of Building Work – Q3 | Tea break | After some strong quarterly growth rates, we have pencilled in a more modest lift in Q3 and wouldn't rule out a fall. |
| Mon 5 Dec (1:00pm) | ANZ Commodity Price Index – Nov | -- | -- |
| Tue 6 Dec (10:00am) | ANZ Truckometer – Nov | -- | -- |
| Wed 7 Dec (early am) | GlobalDairyTrade Auction | Supply-driven | A considerable supply adjustment is underway globally, which should lend further support to prices. |
| Wed 7 Dec (10:45am) | Economic Survey of Manufacturing – Q3 | Solid | While a weather-related hit to primary production is possible, the manufacturing sector overall is performing well. |
| Wed 7 Dec (1:00pm) | ANZ Inflation Gauge – Nov | -- | -- |
| Thu 8 Dec (1.30pm) | Treasury Half-Year Economic and Fiscal Update | Upgrades | Tax revenue is running ahead of forecasts. Typically fiscal projections would be upgraded, but quake-related costs need to be factored in. |
| Fri 9 Dec (10:45am) | Electronic Card Transactions – Nov | Chugging on | We believe relative household restraint remains. Nevertheless, a number of positive support factors still exist. |
| 12-15 Dec | REINZ Housing Market Statistics – Nov | Cooling | Turnover has fallen and properties are taking longer to sell. That should see price growth moderate further. |
| Tue 13 Dec (10:45am) | Food Price Index – Nov | Seasonal falls | Further seasonal weakness in fruit and vegetable prices should drive the overall index lower. |
| Wed 14 Dec (10:45am) | Balance of Payments – Q3 | Contained | The current account deficit looks set to remain well below its historical average at around 3% of GDP. |
| Thu 15 Dec (10:30am) | BNZ-BusinessNZ PMI – Nov | Solid | The sector remains in good heart, riding on the coat tails of the domestic construction sector. |
| Thu 15 Dec (10:45am) | GDP – Q3 | 0.6% q/q | Weak agricultural production and slower retail spending should see more modest quarterly growth than seen over H1 2016. |
| Fri 16 Dec (10:00am) | ANZ Job Ads – Nov | -- | -- |
| Fri 16 Dec (1:00pm) | ANZ Roy Morgan Consumer Confidence – Dec | -- | -- |
| Mon 19 Dec (1:00pm) | ANZ Business Outlook – Dec | -- | -- |
| Wed 21 Dec (10:45am) | International Travel & Migration – Nov | Strong | There may be a near-term hit from the earthquakes, but we expect net inflows to remain strong overall. |
| Thu 22 Dec (10:45am) | Overseas Merchandise Trade – Nov | On the mend | With commodity prices recovering, we believe the deterioration in the trade deficit will start to gradually reverse. |
| **On balance** | | **Data watch** | **Momentum is decent at present, albeit with risks. Inflation remains low, but looks to be rising.** |

# 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** | **1.0** | **0.8** | **0.8** | **0.8** | **0.6** | **0.6** | **0.5** | **0.5** |
| GDP (% yoy) | 3.6 | **3.4** | **3.5** | **3.4** | **3.2** | **3.4** | **3.0** | **2.8** | **2.5** | **2.2** |
| CPI (% qoq) | 0.4 | 0.3 | **0.2** | **0.5** | **0.4** | **0.6** | **0.2** | **0.9** | **0.5** | **0.6** |
| CPI (% yoy) | 0.4 | 0.4 | **1.1** | **1.4** | **1.4** | **1.7** | **1.7** | **2.1** | **2.2** | **2.2** |
| Employment (% qoq) | 2.4 | 1.4 | **0.7** | **0.6** | **0.5** | **0.4** | **0.4** | **0.4** | **0.4** | **0.3** |
| Employment (% yoy) | 4.5 | 6.1 | **5.9** | **5.2** | **3.3** | **2.2** | **1.9** | **1.7** | **1.6** | **1.5** |
| Unemployment Rate (% sa) | 5.0 | 4.9 | **4.8** | **4.8** | **4.7** | **4.6** | **4.6** | **4.5** | **4.4** | **4.4** |
| Current Account (% GDP) | -2.9 | **-3.0** | **-3.0** | **-3.1** | **-3.2** | **-3.2** | **-3.1** | **-3.1** | **-3.1** | **-3.1** |
| Terms of Trade (% qoq) | -2.1 | **-0.8** | **0.5** | **0.8** | **1.0** | **0.8** | **0.6** | **0.3** | **0.4** | **0.0** |
| Terms of Trade (% yoy) | -3.9 | **-0.9** | **1.6** | **-1.6** | **1.5** | **3.3** | **3.3** | **2.8** | **2.1** | **1.3** |

| | Feb-16 | Mar-16 | Apr-16 | May-16 | Jun-16 | Jul-16 | Aug-16 | Sep-16 | Oct-16 | Nov-16 |
|---|---|---|---|---|---|---|---|---|---|---|
| Retail ECT (% mom) | 0.7 | 0.1 | 0.8 | -0.2 | 1.2 | 0.2 | -1.2 | 2.0 | 0.6 | -- |
| Retail ECT (% yoy) | 9.2 | 6.2 | 7.8 | 3.3 | 6.8 | 5.8 | 3.2 | 6.1 | 4.2 | -- |
| Credit Card Billings (% mom) | -0.2 | -0.9 | 2.1 | 0.2 | -0.9 | 2.6 | -1.1 | 3.2 | 2.8 | -- |
| Credit Card Billings (% yoy) | 7.3 | 5.0 | 9.0 | 6.1 | 4.1 | 5.7 | 2.2 | 8.5 | 10.2 | -- |
| Car Registrations (% mom) | 5.7 | -3.8 | 6.4 | -3.7 | -0.9 | -0.4 | 2.3 | -2.6 | 12.6 | -- |
| Car Registrations (% yoy) | 7.4 | -0.2 | 8.7 | 4.2 | -1.2 | -1.9 | 2.6 | -0.8 | 13.1 | -- |
| Building Consents (% mom) | 10.9 | -9.8 | 8.0 | -0.7 | 20.4 | -8.7 | -1.5 | 0.2 | -- | -- |
| Building Consents (% yoy) | 26.9 | 0.4 | 13.7 | 10.1 | 39.9 | 7.8 | 11.8 | 14.5 | -- | -- |
| REINZ House Price Index (% yoy) | 11.9 | 13.3 | 14.5 | 14.7 | 14.2 | 16.3 | 11.7 | 9.7 | 14.4 | -- |
| Household Lending Growth (% mom) | 0.6 | 0.6 | 0.8 | 0.7 | 0.8 | 0.9 | 0.8 | 0.8 | -- | -- |
| Household Lending Growth (% yoy) | 7.6 | 7.7 | 7.9 | 8.1 | 8.3 | 8.6 | 8.7 | 8.8 | -- | -- |
| ANZ Roy Morgan Consumer Conf. | 119.7 | 118.0 | 120.0 | 116.2 | 118.9 | 118.2 | 117.7 | 121.0 | 122.9 | 127.2 |
| ANZ Business Confidence | 7.1 | 3.2 | 6.2 | 11.3 | 20.2 | 16.0 | 15.5 | 27.9 | 24.5 | -- |
| ANZ Own Activity Outlook | 25.5 | 29.4 | 32.1 | 30.4 | 35.1 | 31.4 | 33.7 | 42.4 | 38.4 | -- |
| Trade Balance ($m) | 367 | 189 | 350 | 343 | 107 | -351 | -1235 | -1394 | -846 | -- |
| Trade Bal ($m ann) | 52831 | 52599 | 52626 | 52854 | 52660 | 52078 | 51900 | 51942 | 51968 | -- |
| ANZ World Commodity Price Index (% mom) | 0.5 | -1.3 | -0.8 | 1.0 | 3.5 | 2.1 | 3.2 | 5.1 | 0.7 | -- |
| ANZ World Comm. Price Index (% yoy) | -17.8 | -22.4 | -16.8 | -11.7 | -5.6 | 1.9 | 11.1 | 10.6 | 4.0 | -- |
| Net Migration (sa) | 6010 | 5340 | 5510 | 5550 | 5710 | 5640 | 5660 | 6330 | 6173 | -- |
| Net Migration (ann) | 67391 | 67619 | 68110 | 68432 | 69090 | 69015 | 69119 | 69954 | 70282 | -- |
| ANZ Heavy Traffic Index (% mom) | 1.7 | 3.3 | -2.5 | -2.4 | 5.1 | -6.3 | 7.3 | -2.4 | -0.2 | -- |
| ANZ Light Traffic Index (% mom) | 2.3 | 0.9 | 0.3 | -1.4 | 2.6 | -1.7 | 0.9 | 0.2 | -2.0 | -- |

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 | Sep-16 | Oct-16 | Today | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 |
| NZD/USD | 0.729 | 0.715 | 0.704 | 0.71 | 0.69 | 0.67 | 0.65 | 0.64 | 0.64 | 0.65 |
| NZD/AUD | 0.951 | 0.941 | 0.946 | 0.93 | 0.93 | 0.93 | 0.93 | 0.94 | 0.97 | 0.98 |
| NZD/EUR | 0.649 | 0.653 | 0.665 | 0.66 | 0.65 | 0.64 | 0.63 | 0.62 | 0.61 | 0.62 |
| NZD/JPY | 73.84 | 75.07 | 79.52 | 78.1 | 79.4 | 77.1 | 74.8 | 73.6 | 73.6 | 74.8 |
| NZD/GBP | 0.562 | 0.588 | 0.565 | 0.58 | 0.56 | 0.56 | 0.55 | 0.52 | 0.51 | 0.52 |
| NZ$ TWI | 75.7 | 75.6 | 77.8 | 76.1 | 75.0 | 73.7 | 72.2 | 71.4 | 71.4 | 72.5 |
| INTEREST RATES | Sep-16 | Oct-16 | Today | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 |
| NZ OCR | 2.00 | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 | 2.00 |
| NZ 90 day bill | 2.20 | 2.14 | 2.03 | 2.10 | 2.00 | 2.00 | 2.00 | 2.00 | 2.20 | 2.30 |
| NZ 10-yr bond | 2.27 | 2.71 | 3.14 | 3.40 | 3.60 | 3.70 | 3.80 | 3.90 | 4.00 | 4.10 |
| 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 | 0.85 | 0.88 | 0.94 | 1.05 | 1.13 | 1.20 | 1.33 | 1.45 | 1.60 | 1.75 |
| 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 | 1.74 | 1.75 | 1.76 | 1.70 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |

| | 25 Oct | 21 Nov | 22 Nov | 23 Nov | 24 Nov | 25 Nov |
|---|---|---|---|---|---|---|
| Official Cash Rate | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 | 1.75 |
| 90 day bank bill | 2.13 | 2.03 | 2.04 | 2.03 | 2.03 | 2.03 |
| NZGB 03/19 | 1.94 | 2.10 | 2.08 | 2.11 | 2.16 | 2.15 |
| NZGB 05/21 | 2.08 | 2.45 | 2.42 | 2.46 | 2.51 | 2.51 |
| NZGB 04/23 | 2.27 | 2.74 | 2.71 | 2.75 | 2.81 | 2.80 |
| NZGB 04/27 | 2.59 | 3.09 | 3.06 | 3.13 | 3.20 | 3.19 |
| 2 year swap | 2.10 | 2.26 | 2.25 | 2.26 | 2.28 | 2.27 |
| 5 year swap | 2.33 | 2.77 | 2.73 | 2.76 | 2.80 | 2.79 |
| RBNZ TWI | 77.00 | 77.51 | 77.89 | 77.80 | 77.39 | 77.44 |
| NZD/USD | 0.7145 | 0.7018 | 0.7071 | 0.7060 | 0.7003 | 0.7043 |
| NZD/AUD | 0.9364 | 0.9546 | 0.9561 | 0.9503 | 0.9465 | 0.9463 |
| NZD/JPY | 74.71 | 77.71 | 78.33 | 78.37 | 79.16 | 79.74 |
| NZD/GBP | 0.5841 | 0.5690 | 0.5682 | 0.5705 | 0.5615 | 0.5645 |
| NZD/EUR | 0.6568 | 0.6601 | 0.6650 | 0.6643 | 0.6627 | 0.6651 |
| AUD/USD | 0.7630 | 0.7352 | 0.7396 | 0.7429 | 0.7399 | 0.7443 |
| EUR/USD | 1.0879 | 1.0631 | 1.0633 | 1.0628 | 1.0568 | 1.0589 |
| USD/JPY | 104.56 | 110.73 | 110.77 | 111.00 | 113.04 | 113.22 |
| GBP/USD | 1.2233 | 1.2334 | 1.2444 | 1.2376 | 1.2471 | 1.2477 |
| Oil (US$/bbl) | 50.18 | 45.69 | 47.48 | 48.07 | 46.72 | 46.72 |
| Gold (US$/oz) | 1265.40 | 1210.85 | 1217.75 | 1213.54 | 1185.60 | 1177.05 |
| Electricity (Haywards) | 4.81 | 2.97 | 4.82 | 5.07 | 6.13 | 5.16 |
| Baltic Dry Freight Index | 813 | 1240 | 1232 | 1224 | 1201 | 1181 |
| NZX WMP Futures (US$/t) | 2940 | 3455 | 3440 | 3410 | 3410 | 3410 |

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