ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

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INSIDE

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CONVOLUTED

ECONOMIC OVERVIEW

On the face of it, recent global developments are encouraging, with a synchronised reflationary-type upswing underway. But plenty of risks and uncertainties remain and that is presenting somewhat of a convoluted picture for markets, whose subsequent lack of conviction is being reflected in choppy, and in some cases directionless, price action. We still believe the NZD/USD is biased lower in time as US policy normalisation continues. But New Zealand's economic prospects remain solid – despite a recent turn in some more cyclical elements – and thus the extent of NZD downside looks modest (outside of a turn in the liquidity cycle). We have lifted our NZD forecasts accordingly. In a busy week for domestic data, credit growth is expected to continue to cool, the terms of trade to bounce, construction volumes to lift modestly, and we get the first update on business sentiment for 2017.

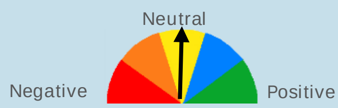
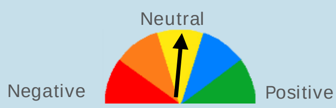
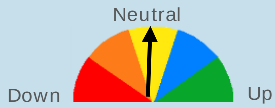
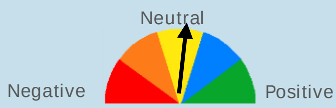
INTEREST RATE STRATEGY

Short-end rates continue to range trade, but remain biased lower, with daylight between implied forward rates and the RBNZ's cautious projections. With global markets questioning the reflation thematic and carry on offer high, the short end will get more traction this week. US long-end rates have broken lower, and look set to test new ranges, fuelled by frustration with the lack of detail around the new administration's policies, and perceptions that the Fed is happy to take a 'wait and see' approach. With political uncertainty growing in Europe, and US yields lower, expect local rates to test lower and the curve to flatten. The NZDMO has announced the syndicate panel for the new NZGS 2040 linker. Judging by historic time-frames, the deal looks imminent.

CURRENCY STRATEGY

The NZD continues to range trade, with no strong rationale emerging to either sell or buy it. Speculative positioning is long, but from extremely short levels earlier in the year. Growing market frustration with economic direction has bogged the USD down but at the same time, the RBNZ's tone has been cautious. We do ultimately expect the USD to strengthen as policy normalises and the Fed closes in on its dual mandate, but with the domestic data pulse showing no signs of materially letting up, we have tweaked our NZD/USD forecasts higher. The NZD/AUD cross has struggled to hold below 0.9325 and we expect it to gravitate higher over the coming weeks.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q3	The economy is recording decent momentum, and we expect that to generally continue at least over the first part of 2017. Downside risk mainly stems from offshore.	
Unemployment rate	4.7% for 2017 Q3	We are looking through the Q4 lift in the unemployment rate. Job ads firmly signal it lower. Finding staff is a huge challenge for firms.	
OCR	1.75% by Sep 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	
CPI	1.9% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point early next year. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

On the face of it, recent global developments are encouraging, with a synchronised reflationary-type upswing underway. But plenty of risks and uncertainties remain and that is presenting somewhat of a convoluted picture for markets, whose subsequent lack of conviction is being reflected in choppy, and in some cases directionless, price action. We still believe the NZD/USD is biased lower in time as US policy normalisation continues. But New Zealand's economic prospects remain solid – despite a recent turn in some more cyclical elements – and thus the extent of NZD downside looks modest (outside of a turn in the liquidity cycle). We have lifted our NZD forecasts accordingly. In a busy week for domestic data, credit growth is expected to continue to cool, the terms of trade to bounce, construction volumes to lift modestly, and we get the first update on business sentiment for 2017.

FORTHCOMING EVENTS

RBNZ New Mortgage Lending – Jan (3:00pm, Monday, 27 February). The pace of new lending growth should continue to slow, led by residential property investors.

Overseas Merchandise Trade – Jan (10:45am, Tuesday, 28 February). We have pencilled in a small monthly deficit of $25 million, which would see the annual deficit widen a touch to $3.2bn.

ANZ Business Outlook – Feb (1:00pm, Tuesday, 28 February).

RBNZ Credit Aggregates – Jan (3:00pm, Tuesday, 28 February). Annual credit growth is likely to keep easing off highs. We will be particularly interested in whether deposit growth has continued to lift.

Overseas Trade Indexes – Q4 (10:45, Wednesday, 1 March). A solid lift in the terms of trade is expected (~4.0% q/q), led by the bounce in dairy prices. Export volumes are also expected to increase, led especially by strong fruit exports.

ANZ Job Ads – Feb (10:00am, Friday, 3 March).

Government Financial Statements – Jan (10:00am, Friday, 3 March). The strength of the domestic economy should continue to boost tax receipts.

Building Work Put in Place – Q4 (10:45am, Friday, 3 March). We are expecting a small lift in overall building volumes, led by residential work.

ANZ Commodity Price Index – Jan (1:00pm, Friday, 3 March).

WHAT'S THE VIEW?

Despite some of the more cyclical elements of the economy turning south of late (house sales and building consents especially), we remain constructive on New Zealand's outlook more broadly. Yes, we do see growth moderating over the course of 2017 as capacity headwinds and a turn in the credit cycle bite (and the recent weakening in house sales and consents is fully consistent with that). But a moderation in growth is vastly different to a downturn.

The broader economy still has plenty of momentum. Net migrant inflows are showing few signs of turning. Consumer and business confidence remain at elevated levels. The outlook for the terms of trade is now one of modest improvement. Some non-dairy agricultural sectors (fruit especially) continue to record impressive growth. In the construction space, while the residential side is facing some cost and credit challenges, non-residential and infrastructure construction work is still chugging along. Tourists continue to flood in, even if the amount each of them spends on average has dipped a bit. Many regional housing markets are still booming and overall services sector activity is recording strong activity growth. Given this, it is hard to get overly bearish on New Zealand's growth prospects right here and now.

In fact, it remains the case that **when we're assessing the risk profile for the economy, and what could derail this generally positive domestic picture, our eyes continue to drift offshore.**

But even there, recent developments are encouraging. Global growth momentum is lifting. Our Global Lead Index is at levels not seen since 2011, with broad-based increases across regions. There have been notable increases in business sentiment in the US, Germany and even Australia of late. Labour markets are tightening, especially in the US, and that is corresponding to stronger rates of consumer spending growth and also signs that the Fed is well on track to continue normalising policy. That is ahead of any potential fiscal stimulus. Asian export growth has turned positive again and China is experiencing a modest cyclical recovery in manufacturing at the same time as it continues to reduce overcapacity in the likes of the coal and steel industries. Compared to years gone by, it is a reasonably positive picture, with a synchronised reflationary-type upswing occurring.

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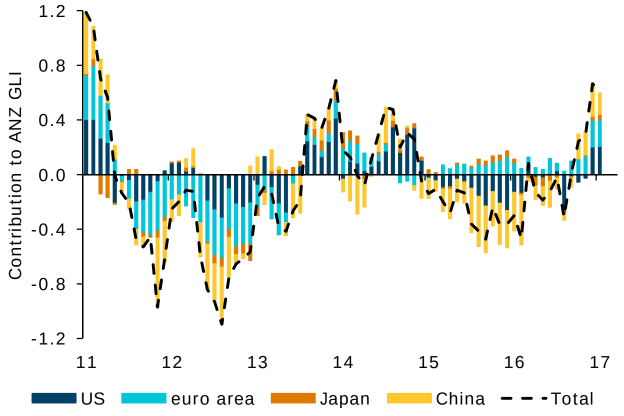
FIGURE 1: ANZ GLOBAL LEAD INDEX



Source: ANZ, Bloomberg, IIF, Markit

However, the global backdrop still contains numerous uncertainties and risks. In fact, we agree with the RBNZ's assessment within its February Monetary Policy Statement that "there is significant uncertainty about the outlook for trading-partner growth and inflation, and risks remain skewed to the downside."

These risks are numerous. Global debt levels have never been higher (in October, the IMF estimated them at 225% of GDP), increasing sensitivity to rising interest rates, and – especially in the case of emerging markets – a stronger USD. Key elections are on the horizon in Europe, where a populist groundswell is clear to see (polling suggests around 40% of the electorate would vote for National Front and Eurosceptic leader Le Pen in the second round of the French presidential elections). Even if populist parties don't ultimately gain power, they will still drive the policy agenda, challenging the idea of further European integration. Central banks are low on ammunition to deal with potential future shocks, and even absent nasty surprises, the impact of their past actions continues to be seen through mispriced risk and capital misallocation. The threat of more inward-looking economies and increased protectionism is inflationary, but hardly speaks to stronger growth and productivity outcomes over the longer term. We've seen this playbook before – New Zealand tried to push against globalisation and undertook a huge infrastructure investment program (Think Big) in the 1970s; it wasn't a happy ending.

This is presenting markets with somewhat of a convoluted picture, especially in the US. And in many ways this lack of clarity is being reflected in choppy price action. US yields have struggled to push back above 2.5% despite firmer growth and inflation signals and signs that the Fed is on track to continue normalising policy. The same can be said for the USD, which is grappling with a positive data pulse, prospects of Fed tightening and pro-growth fiscal rhetoric, but also more inward, protectionist-type talk and improved growth prospects elsewhere.

The global signal for the NZD is therefore far from clear either. To be fair, we still believe the NZD/USD is biased lower over time, with prospective US interest rate hikes lending support to the USD. Some of the new US administration's economic policies also appear USD supportive (border adjustment tax, lower tax on foreign earnings and more fiscal stimulus in general). But those themes look unlikely to play out quickly, especially with the market appearing to be growing increasingly frustrated at a lack of policy detail – and that's USD negative.

At a time when solid domestic economic signals still exist, we expect the NZD to remain elevated. Our beauty pageant score-board still paints New Zealand in good light. Even with the recent softness in some cyclical indicators and a reminder from the RBNZ that the NZD is still an important input into its monetary policy deliberations (which did admittedly knock the NZD lower), we doubt we will see full-blown currency weakness. The New Zealand economy still stands far too tall on many relative economic metrics for that. Of course the prospects for 'black swan' types of events still exist, and no doubt this would drive the NZD lower, but hanging one's hat on those from a currency forecast point of view is neither sensible nor consistent with other elements of our forecasts.

FIGURE 2: GLOBAL MACRO AND FINANCIAL "SCORECARD" – SELECTED PEER MARKETS

CATEGORY	NZD	AUD	USD	CAD	GBP	EUR
Economic Growth	3.5%	1.8%	1.9%	1.6%	2.0%	1.7%
Annual Inflation	1.3%	1.5%	2.5%	2.1%	1.8%	1.8%
Policy Rate	1.75%	1.50%	0.75%	0.50%	0.25%	0.00%
10yr Bond Yield*	3.2%	2.7%	2.3%	1.6%	1.2%	0.2%
Unemployment	5.2%	5.7%	4.8%	6.8%	4.8%	9.6%
C/A Balance % GDP	-2.9%	-2.7%	-2.6%	-3.5%	-5.1%	3.2%
Budget Balance % GDP~	-0.1%	-2.4%	-3.8%	-2.4%	-3.2%	-2.1%
Govt Net Debt % GDP~	7%	20%	82%	27%	81%	90%

* EUR 10yr Bond Yield is the German Bund

~ Budget Balances and Net Debt are 2016 data from the April 2016 IMF WEO (except Europe, where we use Eurostat data)

1st place in each category shaded **dark blue**, 2nd place **light blue**, second last place **orange**, and last place shaded **red**.

Source: ANZ, Bloomberg, IMF

As such, we have lifted our NZD/USD forecasts accordingly, tempering the downside we previously saw. The NZD is now forecast to end the year at 0.68 (versus 0.64 previously) – still lower than today, but a relatively modest cycle by historical standards.

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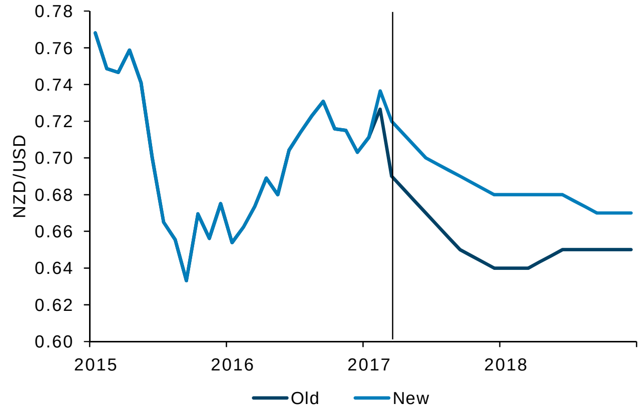
FIGURE 3: ANZ NZD/USD FORECASTS



Source: ANZ, Bloomberg

Turning to the week ahead, RBNZ new mortgage lending figures for January should remain off their highs. The fact that REINZ figures for January confirmed reasonably soft market activity to start the year hints at that. We estimate seasonally adjusted total new lending was $5.8bn in December, which is down from $6.7bn in June. Lending to investors has been the big driver behind this slowing, driven by tighter LVR restrictions and increased bank credit rationing. While there has been some compositional shift, with stronger growth in new lending to first home buyers and owner occupiers, we are expecting a slowing pace of overall new lending to continue.

And that softness should increasingly flow through to a slower rate of aggregative credit growth. Admittedly, that appears to be occurring gradually so far, with household credit still growing at 8.7% y/y in December – well above the rate of income growth. But with ongoing bank funding pressures forcing a tightening in lending criteria and increases in retail interest rates, we expect a slower rate of credit growth to develop over the months ahead.

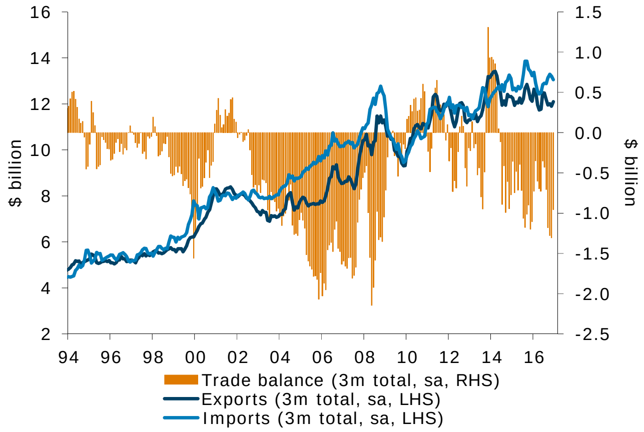
FIGURE 4: NEW MORTGAGE LENDING AND HOUSING CREDIT

Source: ANZ, RBNZ

In this regard, we will also be watching the rate of deposit growth. Household deposits grew 7.0% y/y in December and so at face value still point to the gap between credit and deposit growth persisting. However, base effects are playing some role. In 3-month annualised terms, household deposits grew at an 8.8% pace in December (vis-à-vis household credit at 8.1%) although that growth will obviously need to be maintained to truly ease the funding pressures on banks.

We expect Overseas Merchandise Trade figures for January to show a small monthly deficit of $25m. This is a little weaker than experienced in the past three years, where surpluses, albeit small, were recorded in January months. But we are expecting reasonably healthy levels of both export and import values overall. The former reflects earlier solid Chinese milk powder demand for December/January delivery. The fruit season is also late this year, which could see fruit exports continue to push higher, although that may be more of a February/March story. On the import side, anecdotes on consumer spending have been a little mixed of late, although car sales are certainly strong. But overall values should continue to be boosted by the earlier lift in crude oil prices.

FIGURE 5: OVERSEAS MERCHANDISE TRADE



Source: ANZ, Statistics NZ

Our first Business Outlook for the year will provide, as always, a nice timely update on economic momentum. Firms certainly ended 2016 in good heart, with a net 22% of firms optimistic towards the economy's prospects over the year ahead and a net 40% optimistic towards their own firm's prospects. The latter is 12 points above the long-run average and, together with strong employment and investment intentions, certainly points to the economy recording strong momentum over the first part of 2017. Consistent with other indicators pointing to a turn in the inflation cycle, firms' pricing intentions also rose to end the year (to

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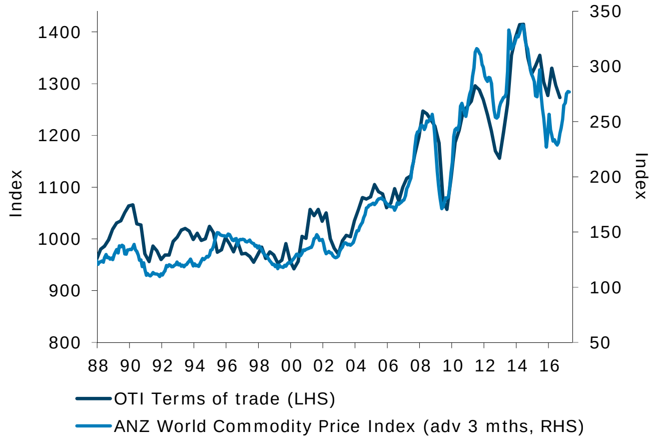
+26 – the highest since early 2015) and so the February figures will be perused to see if these trends have been maintained.

Overseas Trade Indexes for Q4 should show a decent lift in the terms of trade. We have pencilled in a gain of 4.0% q/q, which following two quarterly falls would take the index back to its highest level since mid-2015. A decent bounce in NZD export prices (especially dairy) is expected to be the main driver of this improvement, with NZD import prices estimated to have been largely stable in the quarter. Associated volumes data is expected to show a roughly 2% q/q lift in exports on the back of a surge in fruit, offsetting softer dairy and meat export volumes.

FIGURE 6: TERMS OF TRADE AND EXPORT COMMODITY PRICES



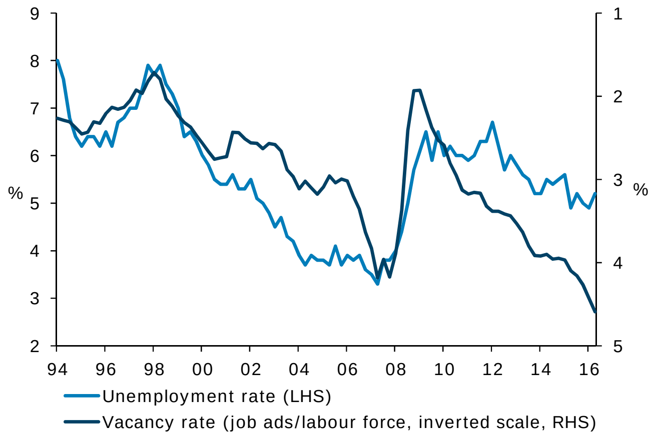
Source: ANZ, Statistics NZ

Our Commodity Price Index data for February will provide a guide on the outlook for the terms of trade from here. The January figures showed world prices dipping 0.1% m/m, although rising 0.7% m/m excluding dairy. Although global dairy prices appear to now be consolidating after some large gains, our general view of the outlook for the terms of trade from here is one of modest improvement.

We expect Building Work Done figures for Q4 to show a modest lift in overall volumes. Residential building work is expected to increase by roughly 1% q/q, which would be the sixth consecutive quarterly increase (but also the smallest over that period). There is more uncertainty over non-residential activity as it is far lumpier, but we expect flattish growth. As we have mentioned, headwinds are emerging for the construction sector, which could translate into some softer numbers over the first half of 2017. But for now, we believe the sector contributed positively to GDP growth in Q4.

Finally, our Job Ads series for February will provide a steer on labour demand trends. Total job advertising actually dipped 0.2% m/m in January. However, as this was the first fall following 16 consecutive months of increases, and annual growth at nearly 20% is the strongest since late 2011, it is hardly suggesting anything alarming. It still points to strong employment growth outcomes over the months ahead. That said, one could make an argument that given firms are reporting that it is increasingly difficult to find the right staff, the rate of employment growth could begin to slow despite high levels of advertising or job vacancies, as filling positions becomes harder. It is one element of the labour market outlook we are increasingly beginning to watch.

FIGURE 7: UNEMPLOYMENT AND VACANCY RATES



Source: ANZ, Statistics NZ

LOCAL DATA

GlobalDairyTrade Auction. The GDT-TWI fell 3.2%, with whole milk powder prices falling 3.7%.

International Travel & Migration – January. In seasonally adjusted terms, a net inflow of 6,460 was seen, while visitor arrivals rose 1.9% m/m.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates continue to range trade, but remain biased lower, with daylight between implied forward rates and the RBNZ's cautious projections. With global markets questioning the reflation thematic and carry on offer high, the short end will get more traction this week. US long-end rates have broken lower, and look set to test new ranges, fuelled by frustration with the lack of detail around the new administration's policies, and perceptions that the Fed is happy to take a 'wait and see' approach. With political uncertainty growing in Europe, and US yields lower, expect local rates to test lower and the curve to flatten. The NZDMO has announced the syndicate panel for the new NZGS 2040 linker. Judging by historic time-frames, the deal looks imminent.

THEMES

- Similar themes continue to echo at the short end: the yawning gap between market expectations and the RBNZ's projections begs to be filled, especially with US yields rallying and carry so positive.
- US and German bond yields have moved sharply lower and the risk is the rally deepens on short-covering. Fed speeches this week will be crucial, especially if they are as dovish as last week.
- Extreme short positioning in US amid the technical break lower in US Treasury bond yields makes the market ripe for a deeper corrective rally.
- The domestic focus will be on the upcoming NZGS 2041 linker syndication. Now that the panel has been announced, issuance will likely occur soon.

MONETARY POLICY AND SHORT END

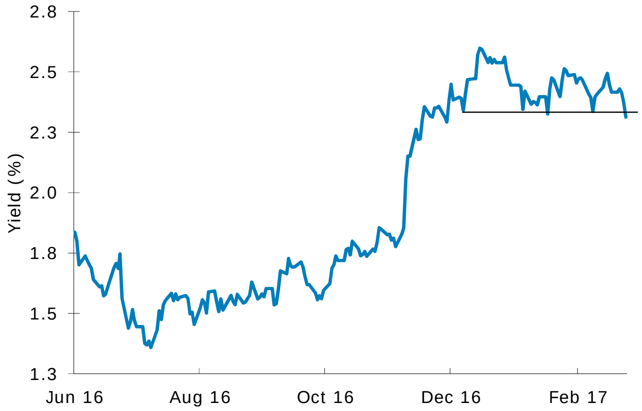
The outlook for the short end remains the same, with familiar themes – like the yawning gap between the RBNZ's projections and high positive carry – echoing through the market. This isn't new, but with global bond yields rallying, rates will get more traction to the downside this week.

The potential for mortgage-related paying remains, but price action suggests that flows so far have been moderate and orderly, and are being absorbed by investors happy to take the positive carry on offer, leaving us less concerned.

GLOBAL MARKETS AND LONG END

Growing frustration with the lack of detail on policy from the Trump administration and the more relaxed tone of Fed speeches over the past week have **contributed to a sharp rally in US bond yields, which have now made a technical break lower (Figure 1).** German yields have also fallen sharply as political uncertainty deepens, leaving many questioning the reflation trade. From here, the risk is we see a deeper rally, given extreme short positioning.

FIGURE 1: US 10 YEAR TREASURY BOND YIELD



Source: ANZ, Bloomberg

Longer term, our forecasts have US bond yields rising gradually as the Fed normalises policy and inflation returns to target. US real yields remain low and will need to adjust higher if the Fed is successful in getting inflation back to target, and as the impact of extraordinary policy support fades. **However, it does feel like yields will go lower before resuming the uptrend**, with knock-on consequences here for the long end and the shape of the curve (flatter).

STRATEGY

Investors: We prefer to remain short duration, positioned for steepeners. We also think it makes sense to switch out of nominal duration and into linker duration (we expect the 2040 to be launched soon).

Borrowers: No change. **BKBM is at a record low, but term interest rates are biased higher.** We believe it makes sense to add to hedges on dips. Rates remain low in the context of the past quarter century of controlled inflation.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Bullish	Daylight between RBNZ projections and market. Scope for rates to grind lower, especially now that global markets are rallying and with R+C at attractive levels. Mortgage paying potential exists but is well behaved.
Long end	Neutral	Potential for a decent short-covering rally, but USTs < 2.25% basically a rejection of the reflation trade.
Yield Curve	Neutral	Strategically favour a steepener, but tactically cautious given scope for bond rally. Short end should rally.
Geographic spreads	Neutral/ narrower	Spreads still at mid-range. Should narrow further over the year as USTs grind higher (especially given neutral RBNZ tone), but complicated by tactical scope for a deeper corrective rally in USTs and Bunds.
Swap spreads	Neutral	NZGS demand so-so. Some risk of corporate paying, but global uncertainties likely to keep payers at bay.
NZD/TWI	Holding up	TWI lower but still elevated. Does matter for inflation, buys the RBNZ time and will keep a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

The NZD continues to range trade, with no strong rationale emerging to either sell or buy it. Speculative positioning is long, but from extremely short levels earlier in the year. Growing market frustration with economic direction has bogged the USD down but at the same time, the RBNZ's tone has been cautious. We do ultimately expect the USD to strengthen as policy normalises and the Fed closes in on its dual mandate, but with the domestic data pulse showing no signs of materially letting up, we have tweaked our NZD/USD forecasts higher. The NZD/AUD cross has struggled to hold below 0.9325 and we expect it to gravitate higher over the coming weeks.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	No strong reason to sell or buy	Firmer USD bias ultimately wins
NZD/AUD	↔/↑	Has struggled to hold below 0.9325	Push higher
NZD/EUR	↔/↑	Politics not euro supportive	Huge growth/politics divide
NZD/GBP	↔/↑	Consumer slowing as BoE feared	Brexit execution woes weighing
NZD/JPY	↔	JPY the new safe-haven	Japan a defensive play; US strong too

THEMES AND RISKS

- We have tweaked our NZD/USD forecasts. We now expect a gradual move down to 0.67 by the end of next year, rather than a dip to 0.64 by the end of 2017 as per our prior forecasts.
- The relaxed tone of recent Fed speeches has dented USD optimism, but with the RBNZ equally cautious, it's hard to see this being a strong driver of NZD/USD.
- Speculative long positioning is the biggest near-term threat to the NZD, but we're reluctant to read too much into this given the swing from far more extreme short positioning six weeks ago.
- Political uncertainty continues to grow in Europe, casting a shadow over the euro.

ASSESSMENT

NZD/USD remains stuck in a range, with domestic support and an extended period of loose policy here going head to head with the prospect of rate hikes in the US and frustration with the Trump "reflation trade".

As we noted last week, while pro-cyclical elements of the New Zealand economy (housing and construction) are showing signs of slowing, it looks to be a supply-constrained "gallop to canter" slowing rather than a boom-bust slowdown. That's hardly NZD negative given the already high starting point for local interest rates, especially with the Fed in a cautious frame of mind (despite having arguably met its dual mandate of 2% inflation and full employment). In that regard, Fed Chair Yellen's speech later this week will be crucial. But with last week's "Fedspeak" echoing dovish tones, a March hike now looks unlikely, leaving the USD in a holding pattern for a few more months.

Nonetheless, we do expect a stronger USD to ultimately prevail as Fed policy normalises. We do believe the NZD/USD is biased lower in time, although our latest forecasts envisage only a shallow dip. Compared to our earlier forecasts, the decline in NZD/USD is expected to be more gradual and shallower, reaching 0.68 (prior: 0.64) by year-end and 0.67 by the end of 2018 (prior: 0.65).

While market reaction to the Netherlands launching an inquiry into the future of the euro has been limited, fears of rising support for populist elements in France are likely to keep a lid on the euro, which continues to generate huge current account surpluses. As core European bond yields collapse (again), investor outflows are likely to intensify, benefiting asset prices in the stronger economies across Asia and the Pacific, including NZ.

What looked like initially bearish NZD/AUD price action has been halted, with trading below 0.9300/25 proving difficult to sustain. Given the divergent data pulses, we felt the NZD/AUD dip was premature, and we now look for a move back towards 0.9500.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Fair value is 0.93 and we're there.
Yield	↔	NZ/AU spreads wide, but have come in.
Commodities	↔	Decent outlook/performance for both.
Data	↔	AU GDP to set tone. 1.9% y/y hardly blockbuster compared to NZ's 3.5%.
Techs	↔/↑	Had failed to sustain below 0.9325.
Sentiment	↔/↑	Picking up as NZD/AUD consolidates.
Other	↔/↑	NZ growth pulse stronger.
On balance	↔/↑	**Looking for nudges higher.**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair value estimate of ~0.75.
Yield	↔	Both markets cautious/narrowing.
Commodities	↔	Stabilising after a decent move higher.
Risk aversion	↔/↓	Has potential to add to volatility.
Data	↔	Data flow solid in both countries.
Techs	↔	Clear bid evident below 0.72.
Sentiment	↔/↑	Still very well bid on dips.
Other	↔	USD frustrated with Trump, but NZ market positioning long again.
On balance	↔	**Neutral with a bias to fade strength**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
27-Feb	AU	Inventories SA QoQ - Q4	0.5%	0.8%	13:30
	AU	Company Operating Profit QoQ - Q4	8.0%	1.0%	13:30
	EC	M3 Money Supply YoY - Jan	4.8%	5.0%	22:00
	EC	Economic Confidence - Feb	108.1	107.9	23:00
	EC	Business Climate Indicator - Feb	0.79	0.77	23:00
	EC	Industrial Confidence - Feb	1.0	0.8	23:00
	EC	Services Confidence - Feb	13.3	12.9	23:00
	EC	Consumer Confidence - Feb F	-6.2	-6.2	23:00
28-Feb	US	Durable Goods Orders - Jan P	1.7%	-0.5%	02:30
	US	Durables Ex Transportation - Jan P	0.5%	0.5%	02:30
	US	Cap Goods Orders Nondef Ex Air - Jan P	0.5%	0.7%	02:30
	US	Cap Goods Ship Nondef Ex Air - Jan P	0.2%	1.0%	02:30
	US	Pending Home Sales MoM - Jan	1.0%	1.6%	04:00
	US	Pending Home Sales NSA YoY - Jan	--	-2.0%	04:00
	US	Dallas Fed Manf. Activity - Feb	19.4	22.1	04:30
	NZ	Trade Balance NZD - Jan	-3M	-41M	10:45
	NZ	Exports NZD - Jan	3.90B	4.38B	10:45
	NZ	Imports NZD - Jan	3.90B	4.42B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Jan	-3195M	-3198M	10:45
	AU	ANZ-RM Consumer Confidence Index - 26-Feb	--	113.7	11:30
	JN	Industrial Production MoM - Jan P	0.4%	0.7%	12:50
	JN	Industrial Production YoY - Jan P	4.4%	3.2%	12:50
	JN	Retail Trade YoY - Jan	1.0%	0.7%	12:50
	JN	Retail Sales MoM - Jan	0.3%	-1.6%	12:50
	NZ	ANZ Activity Outlook - Feb	--	39.6	13:00
	NZ	ANZ Business Confidence - Feb	--	21.7	13:00
	AU	HIA New Home Sales MoM - Jan	--	0.2%	13:00
	UK	GfK Consumer Confidence - Feb	-6	-5	13:01
	AU	BoP Current Account Balance - Q4	-A$4.0B	-A$11.4B	13:30
	AU	Private Sector Credit MoM - Jan	0.5%	0.7%	13:30
	AU	Private Sector Credit YoY - Jan	5.6%	5.6%	13:30
	NZ	Money Supply M3 YoY - Jan	--	6.4%	15:00
	UK	Nationwide House PX MoM - Feb	0.2%	0.2%	28 Feb - 4 Mar
	UK	Nationwide House Px NSA YoY - Feb	4.1%	4.3%	28 Feb - 4 Mar
1-Mar	US	GDP Annualized QoQ - Q4 S	2.1%	1.9%	02:30
	US	Personal Consumption - Q4 S	2.5%	2.5%	02:30
	US	GDP Price Index - Q4 S	2.1%	2.1%	02:30
	US	Core PCE QoQ - Q4 S	1.3%	1.3%	02:30
	US	Advance Goods Trade Balance - Jan	-$66.0B	-$64.4B	02:30
	US	Wholesale Inventories MoM - Jan P	0.4%	1.0%	02:30
	US	Retail Inventories MoM - Jan	--	0.0%	02:30
	US	S&P CoreLogic CS 20-City MoM SA - Dec	0.70%	0.88%	03:00
	US	S&P CoreLogic CS 20-City YoY NSA - Dec	5.30%	5.27%	03:00
	US	Chicago Purchasing Manager - Feb	53.0	50.3	03:45
	US	Conf. Board Consumer Confidence - Feb	111.0	111.8	04:00
	US	Richmond Fed Manufact. Index - Feb	10	12	04:00
	NZ	QV House Prices YoY - Feb	--	13.5%	05:00
	NZ	Terms of Trade Index QoQ - Q4	4.0%	-1.7%	10:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Mar	AU	AiG Perf of Mfg Index - Feb	--	51.2	11:30
	AU	CoreLogic House Px MoM - Feb	--	0.7%	12:00
	AU	GDP SA QoQ - Q4	0.7%	-0.5%	13:30
	AU	GDP YoY - Q4	1.9%	1.8%	13:30
	CH	Non-manufacturing PMI - Feb	--	54.6	14:00
	CH	Manufacturing PMI - Feb	51.2	51.3	14:00
	CH	Caixin PMI Mfg - Feb	50.8	51.0	14:45
	AU	Commodity Index AUD - Feb	--	120.9	18:30
	AU	Commodity Index SDR YoY - Feb	--	55.7%	18:30
	GE	Markit/BME Manufacturing PMI - Feb F	57	57	21:55
	GE	Unemployment Change (000's) - Feb	-10k	-26k	21:55
	GE	Unemployment Claims Rate SA - Feb	5.9%	5.9%	21:55
	EC	Markit Manufacturing PMI - Feb F	55.5	55.5	22:00
	UK	Markit PMI Manufacturing SA - Feb	55.7	55.9	22:30
	UK	Net Consumer Credit - Jan	1.4B	1.0B	22:30
	UK	Net Lending Sec. on Dwellings - Jan	3.6B	3.8B	22:30
	UK	Mortgage Approvals - Jan	68.5k	67.9k	22:30
	UK	Money Supply M4 MoM - Jan	--	-0.5%	22:30
	UK	M4 Money Supply YoY - Jan	--	6.2%	22:30
	UK	M4 Ex IOFCs 3M Annualised - Jan	--	3.5%	22:30
2-Mar	US	MBA Mortgage Applications - 24-Feb	--	-2.0%	01:00
	GE	CPI MoM - Feb P	0.6%	-0.6%	02:00
	GE	CPI YoY - Feb P	2.1%	1.9%	02:00
	GE	CPI EU Harmonized MoM - Feb P	0.6%	-0.8%	02:00
	GE	CPI EU Harmonized YoY - Feb P	2.1%	1.9%	02:00
	US	Personal Income - Jan	0.3%	0.3%	02:30
	US	Personal Spending - Jan	0.3%	0.5%	02:30
	US	PCE Deflator MoM - Jan	0.5%	0.2%	02:30
	US	PCE Deflator YoY - Jan	2.0%	1.6%	02:30
	US	PCE Core MoM - Jan	0.3%	0.1%	02:30
	US	PCE Core YoY - Jan	1.7%	1.7%	02:30
	US	Markit Manufacturing PMI - Feb F	54.5	54.3	03:45
	US	ISM Manufacturing - Feb	56	56	04:00
	US	Construction Spending MoM - Jan	0.6%	-0.2%	04:00
	US	US Federal Reserve releases Beige Book	--	--	08:00
	AU	Trade Balance - Jan	A$3800M	A$3511M	13:30
	AU	Building Approvals MoM - Jan	-0.5%	-1.2%	13:30
	AU	Building Approvals YoY - Jan	-11.6%	-11.4%	13:30
	GE	Import Price Index MoM - Jan	0.5%	1.9%	20:00
	GE	Import Price Index YoY - Jan	5.5%	3.5%	20:00
	UK	Markit/CIPS Construction PMI - Feb	52	52.2	22:30
	EC	PPI MoM - Jan	0.6%	0.7%	23:00
	EC	PPI YoY - Jan	3.2%	1.6%	23:00
	EC	Unemployment Rate - Jan	9.6%	9.6%	23:00
	EC	CPI Estimate YoY - Feb	1.9%	1.8%	23:00
	EC	CPI Core YoY - Feb A	0.9%	0.9%	23:00
3-Mar	US	Initial Jobless Claims - 25-Feb	245k	244k	02:30
	US	Continuing Claims - 18-Feb	2065k	2060k	02:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
3-Mar	NZ	ANZ Job Advertisements MoM - Feb	--	-0.2%	10:00
	NZ	Value of All Buildings SA QoQ - Q4	1.5%	1.4%	10:45
	AU	AiG Perf of Services Index - Feb	--	54.5	11:30
	JN	Natl CPI YoY - Jan	0.4%	0.3%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Jan	0.0%	-0.2%	12:30
	JN	Tokyo CPI YoY - Feb	-0.1%	0.1%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Feb	-0.2%	-0.3%	12:30
	NZ	ANZ Commodity Price - Feb	--	-0.1%	13:00
	CH	Caixin PMI Composite - Feb	--	52.2	14:45
	CH	Caixin PMI Services - Feb	--	53.1	14:45
	GE	Retail Sales MoM - Jan	0.3%	0.0%	20:00
	GE	Retail Sales YoY - Jan	0.7%	-1.1%	20:00
	GE	Markit Services PMI - Feb F	54.4	54.4	21:55
	GE	Markit/BME Composite PMI - Feb F	56.1	56.1	21:55
	EC	Markit Services PMI - Feb F	55.6	55.6	22:00
	EC	Markit Composite PMI - Feb F	56.0	56.0	22:00
	UK	Markit/CIPS Services PMI - Feb	54.0	54.5	22:30
	UK	Markit/CIPS Composite PMI - Feb	55.6	55.5	22:30
	UK	Official Reserves Changes - Feb	--	$810M	22:30
	EC	Retail Sales MoM - Jan	0.3%	-0.3%	23:00
	EC	Retail Sales YoY - Jan	1.5%	1.1%	23:00
4-Mar	US	Markit Services PMI - Feb F	--	53.9	03:45
	US	Markit Composite PMI - Feb F	--	54.3	03:45
	US	ISM Non-Manf. Composite - Feb	56.5	56.5	04:00

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

LOCAL DATA WATCH

Domestic economic momentum is solid, with downside risks stemming mainly from offshore. With inflation showing clearer signs of lifting, the OCR is on hold, although risks of hikes later this year are non-trivial.

DATE	DATA / EVENT	ECONOMIC SIGNAL	COMMENT
Mon 27 Feb (3:00pm)	RBNZ New Mortgage Lending – Jan	Slowing	Recent trends of slowing in overall new lending growth should have continued.
Tue 28 Feb (10:45am)	Overseas Merchandise Trade – Jan	Small deficit	While stronger export commodity prices should have been supported, we have pencilled in a small monthly deficit.
Tue 28 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Tue 28 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Slowing	Annual credit growth is likely to keep easing off highs, while deposit growth should continue to accelerate.
Wed 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Up	The terms of trade are expected to have experienced a lift of around 4% q/q.
Fri 3 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Fri 3 Mar (10:00am)	Government Financial Statements – Jan	Ahead	The strong domestic economy should continue to see tax revenue run ahead of forecasts.
Fri 3 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Tue 6 Mar (10:45am)	Building Consent Issuance – Jan	Bounce?	We've seen two consecutive soft months that could be related to increasing capacity and capital constraints.
Wed 7 Mar (early am)	GlobalDairyTrade Auction	Slipping	After some strong gains over the second half of 2016, some moderation is now occurring.
Wed 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Wed 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Looking good	While volatility associated with agricultural production can throw it around, we suspect another quarter of okay sales volumes.
Fri 10 Mar (10:45am)	Electronic Card Transactions – Feb	Respectable	Within the context of restrained household behaviour overall, spending growth should be reasonable.
13-17 Mar	REINZ Housing Market Statistics – Feb	Cooler	Figures can be volatile around this time of year. We expect turnover to stabilise, but annual house price growth to ease.
Mon 13 Mar (10:45am)	Food Price Index – Feb	Down	After January's large spike, we'd expect to see some retracement.
Wed 15 Mar (10:45am)	Balance of Payments – Q4	Contained	The current account deficit has been remarkably stable around 3% of GDP. We expect that to have remained the case.
Thu 16 Mar (10:45am)	GDP – Q4	0.7% q/q	Our current bottom-up estimate points to growth of 0.7% q/q, which, although a little softer than in Q3, is still decent.
Fri 17 Mar (10:30am)	BNZ-BusinessNZ PMI – Feb	Bounce?	The index fell in January. We believe it will bounce, but are keeping an eye on the signal.
Fri 17 Mar (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Mar	--	--
Mon 20 Mar (10:30am)	BNZ-BusinessNZ PSI – Feb	Strong	Despite a weaker housing market, services sector activity is being supported by population growth and low interest rates.
Tue 21 Mar (10:45am)	International Travel & Migration – Feb	Holding up	Net migrant inflows are holding near all-time highs and we doubt that picture is going to change much. Visitor arrivals should still grow, but perhaps at a slower pace.
Thu 23 Mar (9:00am)	RBNZ OCR Review	On hold	The RBNZ made it pretty clear in February that it doesn't intend to move the OCR any time soon. That message will be repeated.
Fri 24 Mar (10:45am)	Overseas Merchandise Trade – Feb	Improving	Stronger export commodity prices should begin to correspond with an improving underlying trend.
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation is showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (% qoq)	1.1	**0.7**	**0.9**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**
GDP (% yoy)	3.5	**3.2**	**3.4**	**3.5**	**3.2**	**3.1**	**2.8**	**2.5**	**2.2**	**2.1**
CPI (% qoq)	0.3	0.4	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**	**0.1**
CPI (% yoy)	0.4	1.3	**1.7**	**1.7**	**1.9**	**1.7**	**2.1**	**2.2**	**2.2**	**2.0**
Employment (% qoq)	1.3	0.8	**0.7**	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	6.1	5.8	**5.2**	**3.4**	**2.5**	**2.1**	**1.8**	**1.6**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.9	5.2	**5.0**	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**
Current Account (% GDP)	-2.9	**-2.7**	**-2.6**	**-2.5**	**-2.5**	**-2.6**	**-2.8**	**-3.0**	**-3.0**	**-3.1**
Terms of Trade (% qoq)	-1.6	**4.0**	**0.8**	**-0.1**	**-0.5**	**-0.5**	**0.3**	**0.3**	**0.1**	**0.0**
Terms of Trade (% yoy)	-1.6	**4.4**	**1.1**	**3.0**	**4.1**	**-0.4**	**-0.9**	**-0.4**	**0.2**	**0.8**

	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
Retail ECT (% mom)	-0.3	1.2	0.2	-1.2	2.0	0.5	0.0	0.0	2.7	--
Retail ECT (% yoy)	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8	5.6	--
Credit Card Billings (% mom)	-0.5	-0.9	2.5	-0.9	2.9	3.0	-4.2	3.2	0.2	--
Credit Card Billings (% yoy)	6.1	4.1	5.7	2.3	8.3	10.1	4.2	8.6	7.1	--
Car Registrations (% mom)	-4.3	-0.7	0.0	2.6	-4.0	12.2	3.9	-6.3	1.5	--
Car Registrations (% yoy)	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2	--
Building Consents (% mom)	-0.7	16.4	-4.5	-3.1	-0.7	1.6	-9.6	-7.2	--	--
Building Consents (% yoy)	10.1	39.4	8.0	11.8	14.4	13.9	1.3	-10.6	--	--
REINZ House Price Index (% yoy)	14.7	14.2	16.3	11.7	9.7	14.4	14.9	13.5	11.7	--
Household Lending Growth (% mom)	0.7	0.8	0.8	0.8	0.8	0.6	0.6	0.7	--	--
Household Lending Growth (% yoy)	8.1	8.3	8.6	8.7	8.8	8.7	8.6	8.7	--	--
ANZ Roy Morgan Consumer Conf.	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7	127.4
ANZ Business Confidence	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7	--	--
ANZ Own Activity Outlook	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6	--	--
Trade Balance ($m)	343	107	-351	-1240	-1388	-799	-746	-41	--	--
Trade Bal ($m ann)	52854	52660	52078	51900	51938	51944	51669	51627	--	--
ANZ World Commodity Price Index (% mom)	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7	-0.1	--
ANZ World Comm. Price Index (% yoy)	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	19.1	--
Net Migration (sa)	5610	5770	5700	5690	6340	6220	6210	6050	6460	--
Net Migration (ann)	68432	69090	69015	69119	69954	70282	70354	70588	71305	--
ANZ Heavy Traffic Index (% mom)	-2.5	5.3	-6.3	7.2	-2.3	-0.4	3.7	-0.1	-0.8	--
ANZ Light Traffic Index (% mom)	-1.4	2.7	-0.6	0.9	0.1	-1.6	1.5	0.2	-0.5	--

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	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.693	0.728	0.720	0.72	0.70	0.69	0.68	0.68	0.68	0.67
NZD/AUD	0.962	0.964	0.938	0.92	0.92	0.93	0.94	0.94	0.93	0.91
NZD/EUR	0.659	0.680	0.681	0.70	0.69	0.68	0.68	0.68	0.65	0.64
NZD/JPY	81.10	82.80	80.67	82.8	80.5	79.4	78.2	78.2	78.2	77.1
NZD/GBP	0.562	0.585	0.577	0.59	0.58	0.58	0.58	0.55	0.54	0.54
NZ$ TWI	76.1	78.3	78.5	78.0	76.5	76.1	75.7	75.5	74.2	72.9
INTEREST RATES	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	2.00	1.99	1.99	2.00	2.00	2.00	2.00	2.10	2.30	2.50
NZ 10-yr bond	3.33	3.37	3.23	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	1.00	1.03	1.05	1.13	1.20	1.33	1.45	1.60	1.75	2.00
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	1.82	1.77	1.78	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	24 Jan	20 Feb	21 Feb	22 Feb	23 Feb	24 Feb
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	2.03	2.02	2.01	2.00	1.99
NZGB 03/19	2.26	2.17	2.17	2.17	2.16	2.16
NZGB 05/21	2.62	2.60	2.60	2.60	2.58	2.57
NZGB 04/23	2.88	2.88	2.88	2.88	2.85	2.83
NZGB 04/27	3.23	3.30	3.30	3.30	3.26	3.23
2 year swap	2.42	2.33	2.34	2.35	2.33	2.32
5 year swap	2.99	3.01	3.00	3.01	2.97	2.95
RBNZ TWI	79.13	78.38	78.22	78.21	78.55	78.55
NZD/USD	0.7214	0.7184	0.7139	0.7167	0.7193	0.7210
NZD/AUD	0.9546	0.9363	0.9316	0.9333	0.9356	0.9393
NZD/JPY	81.84	81.31	81.16	81.00	81.42	80.84
NZD/GBP	0.5791	0.5761	0.5752	0.5752	0.5777	0.5786
NZD/EUR	0.6723	0.6765	0.6774	0.6822	0.6821	0.6826
AUD/USD	0.7557	0.7673	0.7663	0.7679	0.7688	0.7676
EUR/USD	1.0730	1.0620	1.0539	1.0506	1.0546	1.0563
USD/JPY	113.44	113.18	113.69	113.02	113.20	112.12
GBP/USD	1.2457	1.2470	1.2411	1.2460	1.2452	1.2462
Oil (US$/bbl)	52.77	53.41	53.41	54.02	53.61	54.48
Gold (US$/oz)	1217.30	1234.10	1233.03	1235.21	1236.91	1250.35
Electricity (Haywards)	4.13	4.74	5.76	4.94	5.66	5.59
Baltic Dry Freight Index	886	757	778	806	856	875
NZX WMP Futures (US$/t)	3320	3230	3230	3140	3100	3050

IMPORTANT NOTICE

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