NEW ZEALAND MARKET FOCUS

24 July 2017

INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com
Twitter @ANZ_cambagrie

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
Email: Philip.Borkin@anz.com

David Croy
Senior Rates Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Kyle Uerata
Economist
Telephone: +64 4 802 2357
E-mail: Kyle.Uerata@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

PRICE CHECK

ECONOMIC OVERVIEW

Continued soft CPI figures question the path for inflation going forward. While strong inflation suppressants remain, better growth momentum and a lift in wage growth should eventually flow into more price tension and core inflation lifting in a slow manner. But the RBNZ will feel fully vindicated in its ultra-cautious stance; so a hat-tip to them. The risks that the OCR stays low for longer are growing. In data this week, the trade balance should recover in seasonally adjusted terms, while new mortgage lending will likely weaken further. Building consent issuance is likely to continue to struggle to push much higher.

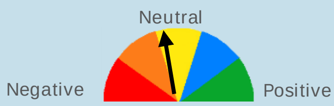
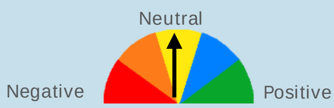
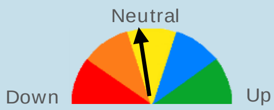
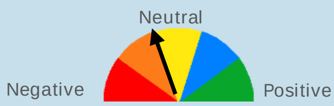
INTEREST RATE STRATEGY

The grind lower at the short end continues, and we expect further downside this week. But with the 2 year swap only ~5bps from its 2017 low, progress will be slow. Nonetheless, until we price out the risk of hikes through Q1 next year, the bias remains lower. Global and local long end rates have scope to fall near term as the Fed reiterates a cautious tone and Australian bonds react to RBA clarification that policy remains on hold.

CURRENCY STRATEGY

The NZD continues to show remarkable resilience and strength amidst long positioning and soft CPI figures, which support the RBNZ's extended on hold mantra. We believe higher highs will be difficult to obtain, with the tenor of US data to support the USD and a turn in the liquidity cycle to challenge the periphery and risk appetites. However, US political and policy uncertainty challenges look set to weigh on the USD, so we find it hard to pencil in a material turn lower for NZD/USD.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.3% y/y for 2018 Q1	Recent growth has disappointed but forward indicators remain positive despite headwinds from housing, finding staff and capital.	
Unemployment rate	4.6% for 2018 Q1	Strong job ads growth suggests the unemployment rate should continue to trend lower. Wage growth is benign, but conditions for change are emerging.	
OCR	1.75% by Mar 2018	The case for a lower OCR right now is hard to justify, but a turn in the credit cycle is allowing the RBNZ to be patient.	
CPI	1.2% y/y for 2018 Q1	Oil price weakness will weigh on headline inflation, but domestic and core inflation should lift gradually.	

ECONOMIC OVERVIEW

SUMMARY

Continued soft CPI figures question the path for inflation going forward. While strong inflation suppressants remain, better growth momentum and a lift in wage growth should eventually flow into more price tension and core inflation lifting in a slow manner. But the RBNZ will feel fully vindicated in its ultra-cautious stance; so a hat-tip to them. The risks that the OCR stays low for longer are growing. In data this week, the trade balance should recover in seasonally adjusted terms, while new mortgage lending will likely weaken further. Building consent issuance is likely to continue to struggle to push much higher.

FORTHCOMING EVENTS

Overseas Merchandise Trade – June (10:45am, Wednesday, 26 July). A strong lift in petrol imports weighed on the trade balance last month. We suspect that will reverse. Export values should be decent. We have pencilled in an unadjusted surplus of $650mn.

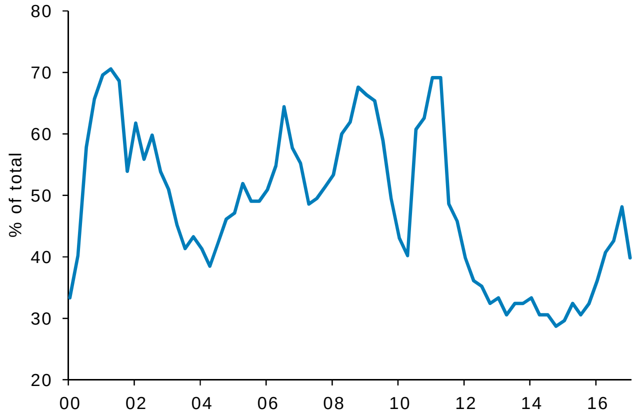
RBNZ New Mortgage Lending – June (3:00pm, Wednesday, 26 July). Ongoing falls in the value of total housing market turnover should drag new lending figures down with it. We also wouldn't be surprised if the share of new investor lending continued to fall.

Building Consent Issuance – June (10:45am, Monday, 31 July). Despite clear supportive factors, the topside is being capped by capacity and credit constraints. We suspect dwelling consent issuance is set to continue to hover around an annualised pace of 30k.

WHAT'S THE VIEW?

Inflation continues to undershoot. Core inflation is low. For the first time since Q4 2015, the proportion of CPI components with annual inflation more than 2% actually fell (and quite meaningfully too). Despite ongoing anecdotes of the economy hitting capacity constraints, evidence of price pressure outside of housing was non-existent – although our Monthly Inflation Gauge has been telling us that for some time!

Figure 1: Proportion of CPI basket with annual inflation above 2%



Source: ANZ, Statistics NZ

Other economies are seeing a similar picture; core inflation is just not lifting in a meaningful way.

The inflationary process is certainly shifting. Global wage growth is low, amidst weak productivity and activity growth too. Excess manufacturing capacity is exerting downwards pressure on prices. The world needs to deleverage and the credit wheels are not turning quickly; that's deflationary. Technology is massively altering the whole inflation paradigm. Conversely, the political anger/resentment vote is demanding that more of the economic spoils accrue to labour (after shifting away for a number of decades now) and that's historically been inflationary. But it is hard to see that theme taking off too far given the impact technology is having and threat it has on jobs, although the pressure points are there.

We still expect to see a modicum of inflation over the coming years. It won't be a lot; there are too many deflationary and structural forces leaning against that. However:

- **Growth momentum is forecast to lift and fiscal policy is set to pump-prime.** Considering that GDP growth disappointed and was below trend over late-2016, early-2017, should we really be surprised that inflationary pressures softened too? With numerous forward indicators pointing to a rebound in growth momentum over the coming 18 months, and some of the factors that have weighed on growth (including the credit cycle) set to ease, underlying inflation should follow suit.

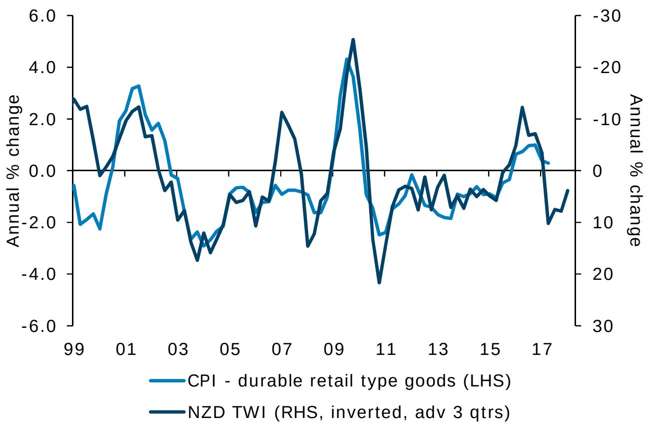
- **We continue to forecast the NZD lower in time.** As other central banks edge towards policy removal and the QE exit door, a turn in the official liquidity cycle will be a headwind for lazy carry trades and the NZD. That will eventually remove a source of deflation pressure.

ECONOMIC OVERVIEW

- **We still believe we are on the cusp of a turn in wage inflation** and that typically feeds into the inflation process. That may sound like wishful thinking considering it has been MIA to date, but we are hearing local anecdotes to the contrary and it's against a backdrop of weak productivity growth, which will place pressure on unit labour costs. The gender equality settlement in the aged-care sector will mechanically boost wage growth in Q3 by perhaps 0.3-0.4%pts. But most importantly, there already appears to be spill-over into other industries. The recent changes to residency visa requirements could do the same. That is on top of already rife skill shortages across a broad number of sectors.
- **There appears to be some inter-quarter volatility, which perhaps partly explains the Q2 softness.** In Q1, prices rose 0.9% q/q in seasonally adjusted terms, which was the largest quarterly lift in close to six years. Within the detail, the majority of surprises were to the upside. Q2 was therefore a mirror image, where seasonally adjusted prices fell 0.1% q/q and surprises at the detailed level were to the downside. Given this volatility, we should wait before declaring that domestic inflation is completely dead just yet.

Mechanically, inflation is set to go lower before it goes higher; the RBNZ picked that. Recent oil price falls will see headline inflation back near the bottom of the RBNZ's target band over the coming quarters. Earlier NZD strength will see deflation in the retail sector continue for the next 12 months or so, and the global inflationary impulse is hardly inspiring confidence either. All this is before you even consider the ongoing impact of technology and other structural forces like the increasingly competitive industry landscape.

Figure 2: NZD and CPI durable retail good inflation



Source: ANZ, Statistics NZ, Bloomberg

But we are still happy to run with a 'core inflation to lift gradually from here' view as a key element of our overall forecasts. However, it is looking as though it will be even more gradual and even more dependent on wage growth lifting off current low levels. There is also now a non-trivial risk that some of the traditional drivers of the inflation process continue to be overwhelmed by ongoing structural deflationary forces.

So a hat-tip to the RBNZ, who should feel vindicated in its ultra-cautious stance. For now we are sticking with our forecast that the OCR will begin to lift gradually from mid-2018, but the risks are certainly that the OCR stays low for longer.

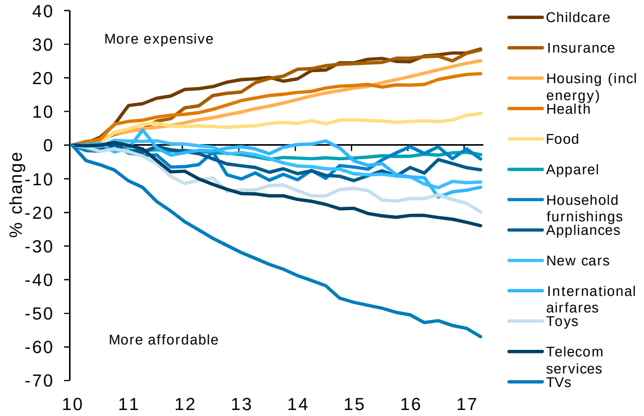
We don't buy into the argument that the RBNZ should be doing more to get inflation up by stoking the economic fire. It is somewhat spurious to say that inflation of 1.5% is better or worse than 2%. It's low and stable and that's what is required. Stoking the fire by delivering even more stimulus simply brings consumption forward and encourages more borrow-and-spend type growth, which policymakers are trying to lean against (you only had to look at the tone of RBNZ Deputy Governor Bascand's latest speech where he welcomed the improvement in New Zealand's net foreign liability position but saw it as no "reason to be complacent"). Pragmatism is required and there is enough flexibility in the Policy Targets Agreement for that.

But shifting tack slightly, we are increasingly pondering the implications of price moves at the components level. In particular, the price of necessities versus more luxury or discretionary (fun) type products. The former are typically rising, while the latter are falling. It is not a new theme by any means, but it was again on show within the Q2 figures. Looking at the prices of things like food, housing, energy, insurance and childcare versus international travel, electronics, and new cars for example, it is clear that unlike the famous Rolling Stones song, you *can* actually get what you want. It is just harder to afford what you need!

These discretionary type products are the ones that are at the forefront of the structural forces affecting the inflation process right now. The impact of technology, retail sector margin compression, online competition, increased global brand penetration etc are removing pricing power. Outside of the social equality issues (as lower income households spend a greater proportion of their weekly budgets on necessities), it is obviously great news for consumers. The marginal dollar goes further, and helps to support overall spending volumes.

ECONOMIC OVERVIEW

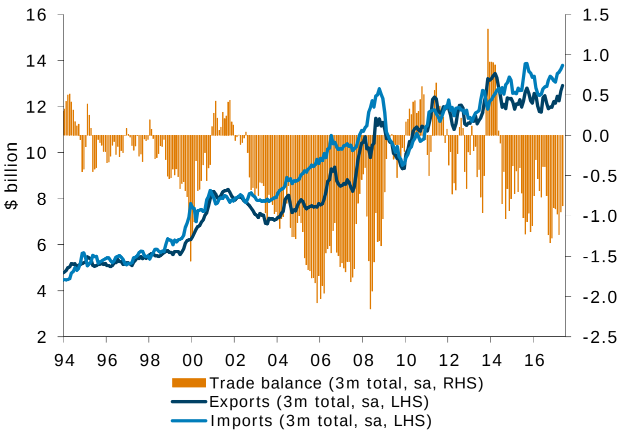
Figure 3: Selected CPI components price change (2010-2017)



Source: ANZ, Statistics NZ

Turning to the week ahead, we expect overseas merchandise trade figures for June to show an unadjusted surplus of $650m. The trade balance was quite a bit weaker than expected in May, largely on account of a large lift in petroleum imports, although import strength was generally a theme across the board. We expect some of that import strength, in particular the outsized lift in petroleum imports (which are large and irregular anyway) to have faded in June. On top of what is still a decent export earnings backdrop, where commodity prices are strong and volumes are recovering from some timing and weather-induced factors, we see the overall trade picture looking a little stronger in the month. In fact, we'd expect the seasonally adjusted balance to improve from May's $386m deficit.

Figure 4: Overseas Merchandise Trade



Source: ANZ, Statistics NZ

New mortgage lending figures for June will likely fall further. Unsurprisingly, there is a tight relationship between new mortgage lending and the total value of REINZ housing market turnover. In seasonally adjusted terms, we estimate that housing turnover fell 8% m/m in June, led by both weaker sales volumes and a further modest dip in prices.

Therefore a similar-sized fall in new mortgage lending is quite possible, which could possibly see new lending fall to its lowest levels since mid-2014.

The composition of the figures is also likely to show a continuation of recent themes. In May, new investor lending was down 40% y/y, and in the space of 12 months investors' share of total new lending is down nearly 10%pts to less than 25%. Given current softer housing market trends, we suspect investors will remain largely bystanders right now, especially with the upcoming election adding an additional element of uncertainty to the mix.

Figure 5: New mortgage lending and housing turnover

Source: ANZ, RBNZ, REINZ

We expect building consent issuance to continue to hover around an annualised pace of about 30k. There has certainly been plenty of monthly volatility of late, with issuance lifting 7.4% m/m in May after falling 7.0% m/m in April. However, it really has been a message of stability, with issuance bouncing about at a respectable level.

The sector is grappling with two clear opposing forces. The demand backdrop is clear, with a housing shortage (at least in Auckland) and strong population growth requiring ongoing lifts in housing supply. However, that supply response is being challenged by capacity and capital constraints in the construction industry. It leaves us a little cautious about expecting much of a lift in residential investment over the quarters ahead.

LOCAL DATA

CPI – Q2. The headline CPI was flat, with annual inflation dropping to 1.7% from 2.2%.

GlobalDairyTrade Auction. The GDT-TWI lifted 0.2%, while whole milk powder prices rose 0.3%.

International Travel and Migration – June. A record net inflow of 6,350 migrants (sa) was seen, while visitor arrivals rose 5.1% m/m.

INTEREST RATE STRATEGY

SUMMARY

The grind lower at the short end continues, and we expect further downside this week. But with the 2 year swap only ~5bps from its 2017 low, progress will be slow. Nonetheless, until we price out the risk of hikes through Q1 next year, the bias remains lower. Global and local long end rates have scope to fall near term as the Fed reiterates a cautious tone and Australian bonds react to RBA clarification that policy remains on hold.

THEMES

- Softer inflation here and abroad gives the local short end the green light to return to prior lows.
- Global rates biased lower near term as policy hype gets unwound; FOMC set to strike a dovish tone.
- US political ructions and the high NZD adds to the downward bias for rates near-term; but long end yields will ultimately end the year a little higher.

MONETARY POLICY AND SHORT END

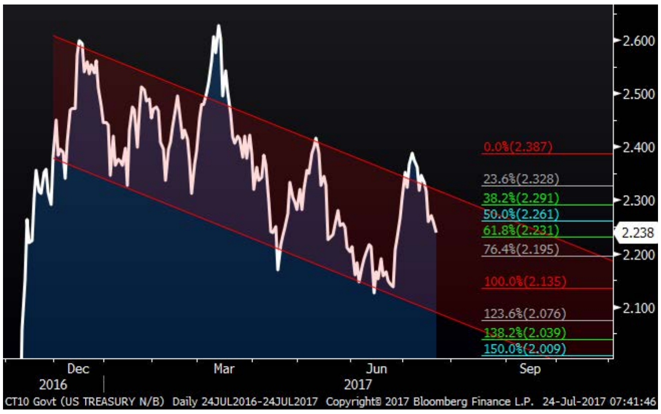
The short end continued grinding lower last week, spurred on by the softer CPI data and strong NZD. Market expectations for hikes have been pared back. But with 7 and 16bps of hikes priced in by February and May respectively, there is scope to move lower yet, especially with the NZD still very elevated. **Higher Australian short end rates had been an impediment to local rates moving lower**, but that has changed now that the RBA has clarified that the discussion of the neutral rate at the June meeting has no implications for policy. More downside beckons too should Australian core inflation print below 2% again in Q2, as we expect. Our expectation of a dovish tone at this week's FOMC should also help drive short end yields lower – recalling that it has been, by and large, global thematics that pushed short end rates up in the first place.

GLOBAL MARKETS AND LONG END

Global long end yields remain somewhat range-bound, and that's helping to cap local long end rates. Looking ahead, the market faces a balancing act. On the one hand, most – including ourselves – expect the Fed and other central banks to start paring back stimulus. But on the other hand, inflation continues to disappoint, and is likely to delay the timing of policy normalisation. With the Fed's long term central tendency for the fed funds rate currently at 3% (and there's a risk we see that downgraded in September), the gravitational pull higher for US yields is reasonably limited. Historically, the market has tended to struggle to go much above the ex-ante assumed peak policy rate, and if you assume that sits at around 2.75%, and is at a minimum 2 years out, then we'd expect the US 10 year bond to struggle much above 2.5%. That's not much upside should we see a turn in the price action. And **with the NZD soaring and the RBNZ on hold, there is nothing locally that suggests the NZ/US spread needs to widen any further**.

Technically, US bond price action looks strong, with the bellwether 10 year Treasury yield through the halfway mark from the late June low to the early July high. The broad down-trend remains intact and the bond yield is now sitting on a key retracement level through which continued downside would be bullish. This week's FOMC meeting may be the catalyst. But even so, political catastrophe aside, we see little justification for a sustained deeper extension of the US rally, and expect yields to be mildly higher (US 10 year at around 2.4%) by year end. **Relative to history, that's really a picture of range trading.**

Figure 1: US 10 year Treasury bond yield



Source: ANZ, Bloomberg

STRATEGY

Investors: Short end biased further lower; carry is attractive. Stay **nimble at the long end** for now.

Borrowers: BKBM still low. Long term rates are retracing lower; such **dips offer opportunities to add to hedges.** But some caution is needed; we do not expect long term rates to rise materially.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/Bullish	Scope to continue moving lower, with 2yr on track to make a new low for the year. High NZD assisting.
Long end	Neutral	Price action bullish; further extension possible post-FOMC. But difficult to argue for fresh yield lows.
Yield Curve	Neutral	Our forecasts imply a steeper curve; short end continues to assist, but need long end reversal to assist.
Geographic spreads	Neutral/ Bullish	10y bond spread has widened to just under 70bps; with 2029 syndication not likely now and US yields at post-spike lows we turn bullish. Will get assistance from ACGB rally which seems likely post Debelle speech.
Swap spreads	Neutral	NZGS syndication delayed, countered by lack of corporate paying interest in the wake of recent volatility.
NZD/TWI	Elevated	We remain cautious on the NZD given change in global bias, but softer US CPI and Yellen tone suggests we will see a delayed USD catch-up. Crucial to how short end rates evolve (via financial conditions link).

CURRENCY STRATEGY

SUMMARY

The NZD continues to show remarkable resilience and strength amidst long positioning and soft CPI figures, which support the RBNZ's extended on hold mantra. We believe higher highs will be difficult to obtain, with the tenor of US data to support the USD and a turn in the liquidity cycle to challenge the periphery and risk appetites. However, US political and policy uncertainty challenges look set to weigh on the USD, so we find it hard to pencil in a material turn lower for NZD/USD.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Elevated on USD weakness/politics	Turn in liquidity cycle = USD eventually up.
NZD/AUD	↔/↑	Fall on RBA tone over-done, now correcting.	Favour strength; NZ credentials one level better.
NZD/EUR	↔/↓	Euro growth looking better	Region and euro faces structural challenges.
NZD/GBP	↔/↑	NZD strength evident	Valuation says lower, Brexit higher
NZD/JPY	↔	USD/JPY rally dominating.	USD/JPY heading up as policy diverges.

THEMES AND RISKS

- USD under the pump as policy uncertainty rises.
- ECB inching towards the exit door amidst a solid data backdrop, but this looks as good as it gets.
- Unwinding of Fed rate hikes expectations boosts risk appetite.
- A prospective turn in the liquidity cycle remains an overarching theme we are respecting.
- Politics is on the local radar as the election nears and pork barrelling starts. However, it's against a backdrop of huge policy uncertainty elsewhere.

ASSESSMENT

Long positioning, weak CPI figures and the continued re-pricing of the RBNZ being on hold for longer knocked the NZD off its perch for a time. But the move has been minor. The NZD/USD is hitting year highs and the TWI sits at 79.0, just shy of the June high.

There are some good reasons for the recent lift. A slow start to the milk production season is likely to buoy dairy prices and the broad soft commodity complex is elevated. New Zealand's political and economic policy credentials continue to stand tall in a fractured political world.

The USD continues to be undermined by the policy platform, and the uncertainty surrounding it (things like the failure to repeal Obamacare and the like), political unease (prospect FBI probe[s]) and the continued toning down of Fed rate hike expectations.

Nonetheless, we are maintaining faith in the USD for two reasons:

- **US data surprise indexes are basing at lows** and improvement will support additional hikes being put back into the tightening path for the Fed.
- **We continue to back a turn in the official liquidity cycle** as necessitating a turn in the credit and risk cycle. Nuances from central bankers might be guarded and cautious but they are still inching towards the QE exit door.

The NZD's credentials look solid enough, but with a 0.74 handle against the USD and over 78 on the TWI, not that pristine. New Zealand's previous clear #1 positon across a number of key "relativities" (growth, yield, unemployment and debt) is now being challenged. Positioning remains elevated; last week saw that extend even further (to the second highest level seen on record). Such extensions often precede sharp declines as the buyers "run out". Pork barrel politics has started in earnest with the local election nine weeks away. Financial conditions have tightened and are flagging modest growth.

That's a backdrop that makes higher highs difficult to maintain. US political wobbles are the major direct challenge to that. However, we see that as a factor delaying the NZD's downward adjustment, rather than a reason to completely abandon it.

The NZD/AUD has retraced to 0.94 and looks to have based. We see this cross as being broadly settled in a 0.93-0.96 zone.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Now much closer to fair value at ~0.93.
Yield	↔	Both markets undershooting target.
Commodities	↔/↑	Dairy prices looking good.
Data	↔/↑	AU CPI data – will it follow NZ surprise?
Techs	↔/↑	Sharp rally late last week keeps bullish range trade intact (just in time!).
Sentiment	↓	Wary of NZD positioning.
Other	↑	Australian economy just not humming.
On balance	↔	**Looking better than a week ago now that RBA excitement fading.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Now pretty well at fair value (~0.75).
Yield	↔	Yield gap not enough, but still positive.
Commodities	↔/↓	Soft commodity move has now peaked.
Risk aversion	↔/↓	Watching the liquidity cycle.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔/↑	Price action strong; deserves respect.
Sentiment	↔	Bullish, but is it hubris? Wary of positioning
Other	↔/↑	Politics and policy USD negative.
On balance	↔	**Respect the here and now, but the pressure for reversal is building.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-Jul	JN	Nikkei Japan PMI Mfg - Jul P	--	52.4	12:30
	GE	Markit/BME Manufacturing PMI - Jul P	59.2	59.6	19:30
	GE	Markit Services PMI - Jul P	54.3	54.0	19:30
	GE	Markit/BME Composite PMI - Jul P	56.3	56.4	19:30
	EC	Markit Manufacturing PMI - Jul P	57.2	57.4	20:00
	EC	Markit Services PMI - Jul P	55.4	55.4	20:00
	EC	Markit Composite PMI - Jul P	56.2	56.3	20:00
	AU	HIA House Affordability Index - Q2	--	81.4	UNSPECIFIED
25-Jul	US	Markit Manufacturing PMI - Jul P	52.2	52.0	01:45
	US	Markit Services PMI - Jul P	54.0	54.2	01:45
	US	Markit Composite PMI - Jul P	--	53	01:45
	US	Existing Home Sales - Jun	5.57M	5.62M	02:00
	US	Existing Home Sales MoM - Jun	-0.9%	1.1%	02:00
	AU	ANZ-RM Consumer Confidence Index - 23-Jul	--	112.5	11:30
	GE	Import Price Index MoM - Jun	-0.7%	-1.0%	18:00
	GE	Import Price Index YoY - Jun	2.9%	4.1%	18:00
	GE	IFO Business Climate - Jul	114.9	115.1	20:00
	GE	IFO Expectations - Jul	106.5	106.8	20:00
	GE	IFO Current Assessment - Jul	123.8	124.1	20:00
	UK	CBI Business Optimism - Jul	0	1	22:00
	UK	CBI Trends Total Orders - Jul	12	16	22:00
	UK	CBI Trends Selling Prices - Jul	20	23	22:00
26-Jul	US	FHFA House Price Index MoM - May	0.5%	0.7%	01:00
	US	S&P CoreLogic CS 20-City MoM SA - May	0.30%	0.28%	01:00
	US	S&P CoreLogic CS 20-City YoY NSA - May	5.80%	5.67%	01:00
	US	Conf. Board Consumer Confidence - Jul	116.0	118.9	02:00
	US	Richmond Fed Manufact. Index - Jul	7	7	02:00
	NZ	Trade Balance NZD - Jun	100M	103M	10:45
	NZ	Exports NZD - Jun	4.60B	4.95B	10:45
	NZ	Imports NZD - Jun	4.39B	4.85B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Jun	-3700M	-3754M	10:45
	AU	Skilled Vacancies MoM - Jun	--	1.2%	13:00
	AU	CPI QoQ - Q2	0.4%	0.5%	13:30
	AU	CPI YoY - Q2	2.2%	2.1%	13:30
	AU	CPI Trimmed Mean QoQ - Q2	0.5%	0.5%	13:30
	AU	CPI Trimmed Mean YoY - Q2	1.8%	1.9%	13:30
	AU	CPI Weighted Median QoQ - Q2	0.5%	0.4%	13:30
	AU	CPI Weighted Median YoY - Q2	1.7%	1.7%	13:30
	UK	BBA Loans for House Purchase - Jun	39900	40347	20:30
	UK	GDP QoQ - Q2 A	0.3%	0.2%	20:30
	UK	GDP YoY - Q2 A	1.7%	2.0%	20:30
	UK	Index of Services MoM - May	0.1%	0.2%	20:30
	UK	Index of Services 3M/3M - May	0.4%	0.2%	20:30
	US	MBA Mortgage Applications - 21-Jul	--	6.3%	23:00
27-Jul	US	New Home Sales - Jun	615k	610k	02:00
	US	New Home Sales MoM - Jun	0.8%	2.9%	02:00
	US	FOMC Rate Decision - Jul	1.25%	1.25%	06:00
	AU	Import Price Index QoQ - Q2	0.7%	1.2%	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
27-Jul	AU	Export Price Index QoQ - Q2	-5.5%	9.4%	13:30
	CH	Industrial Profits YoY - Jun	--	16.7%	13:30
	GE	GfK Consumer Confidence - Aug	10.6	10.6	18:00
	EC	M3 Money Supply YoY - Jun	5.0%	5.0%	20:00
	UK	CBI Retailing Reported Sales - Jul	10	12	22:00
	UK	CBI Total Dist. Reported Sales - Jul	15	17	22:00
	GE	Retail Sales MoM - Jun	0.2%	0.5%	08/04
	GE	Retail Sales YoY - Jun	2.7%	4.8%	08/04
28-Jul	US	Durable Goods Orders - Jun P	3.5%	-0.8%	00:30
	US	Durables Ex Transportation - Jun P	0.4%	0.3%	00:30
	US	Initial Jobless Claims - 22-Jul	240k	233k	00:30
	US	Continuing Claims - 15-Jul	1959k	1977k	00:30
	US	Cap Goods Orders Nondef Ex Air - Jun P	0.30%	0.20%	00:30
	US	Cap Goods Ship Nondef Ex Air - Jun P	--	0.10%	00:30
	US	Advance Goods Trade Balance - Jun	-$65.0B	-$66.3B	00:30
	US	Wholesale Inventories MoM - Jun P	0.3%	0.4%	00:30
	US	Retail Inventories MoM - Jun	--	0.6%	00:30
	US	Chicago Fed Nat Activity Index - Jun	0.35	-0.26	00:30
	US	Kansas City Fed Manf. Activity - Jul	12	11	03:00
	UK	GfK Consumer Confidence - Jul	-11	-10	11:01
	JN	Natl CPI YoY - Jun	0.4%	0.4%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Jun	0.4%	0.4%	11:30
	JN	Tokyo CPI YoY - Jul	0.1%	0.0%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Jul	0.1%	0.0%	11:30
	JN	Retail Sales MoM - Jun	0.5%	-1.5%	11:50
	JN	Retail Trade YoY - Jun	2.3%	2.1%	11:50
	AU	PPI QoQ - 2Q	--	0.5%	13:30
	AU	PPI YoY - 2Q	--	1.3%	13:30
	EC	Economic Confidence - Jul	110.8	111.1	21:00
	EC	Business Climate Indicator - Jul	1.14	1.15	21:00
	EC	Industrial Confidence - Jul	4.3	4.5	21:00
	EC	Services Confidence - Jul	13.4	13.4	21:00
	EC	Consumer Confidence - Jul F	-1.7	-1.7	21:00
	UK	Nationwide House PX MoM - Jul	-0.2%	1.1%	28 Jul - 4 Aug
	UK	Nationwide House Px NSA YoY - Jul	2.7%	3.1%	28 Jul - 4 Aug
29-Jul	GE	CPI MoM - Jul P	0.2%	0.2%	00:00
	GE	CPI YoY - Jul P	1.5%	1.6%	00:00
	GE	CPI EU Harmonized MoM - Jul P	0.3%	0.2%	00:00
	GE	CPI EU Harmonized YoY - Jul P	1.4%	1.5%	00:00
	US	GDP Annualized QoQ - Q2 A	2.5%	1.4%	00:30
	US	Personal Consumption - Q2 A	2.8%	1.1%	00:30
	US	GDP Price Index - Q2 A	1.3%	1.9%	00:30
	US	Core PCE QoQ - Q2 A	0.7%	2.0%	00:30
	US	Employment Cost Index - Q2	0.6%	0.8%	00:30
	US	U. of Mich. Sentiment - Jul F	93.1	93.1	02:00

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

LOCAL DATA WATCH

Although the latest GDP data disappointed, we still believe the underlying pace of economic momentum is reasonable despite housing and credit headwinds. Recent inflation figures have also disappointed, and are consistent with the OCR remaining on hold for some time yet.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 26 Jul (10:45am)	Overseas Merchandise Trade – Jun	Improving	Petrol imports were strong in May, which we suspect will unwind. Export values should be decent.
Wed 26 Jul (3:00pm)	RBNZ New Mortgage Lending – Jun	Down	Ongoing falls in the value of total housing market turnover should drag new lending figures down with it.
Mon 31 Jul (10:45am)	Building Consent Issuance – Jun	Capped	While positive demand forces are evident, the topside is capped by capacity and capital constraints.
Mon 31 Jul (1:00pm)	ANZ Business Outlook – Jul	--	--
Mon 31 Jul (3:00pm)	RBNZ Sectoral Lending – Jun	Cooler	At ~6%, annual private sector credit growth is back on par with income growth. We suspect it will stay roughly there.
Wed 2 Aug (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a stronger supply backdrop. Chinese and South-East Asian demand is lending support.
Wed 2 Aug (10:45am)	Labour Market Statistics – Q2	Tightening	Despite strong labour supply growth, decent labour demand should see the unemployment rate continue to tick lower.
Thu 3 Aug (10:00am)	ANZ Job Ads – Jul	--	--
Thu 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul	--	--
Mon 7 Aug (3:00pm)	RBNZ Survey of Expectations – Q3	Stable to down	Recent petrol price falls could see the 2-year ahead measure ease off its recent highs.
Tue 8 Aug (1:00pm)	ANZ Monthly Inflation Gauge – Jul	--	--
Wed 9 Aug (10:00am)	ANZ Truckometer – Jul	--	--
Thu 10 Aug (9:00am)	RBNZ Monetary Policy Statement	On hold	Recent developments should leave the RBNZ fully vindicated in its ultra-cautious stance. Caution will prevail.
Thu 10 Aug (10:45am)	Electronic Card Transactions – Jul	Petrol drag	If petrol prices stabilise, we should see total retail spending rebound from its recent weaker trend.
Fri 11 Aug (10:30am)	BNZ-BusinessNZ PMI – Jul	Holding	Manufacturing sector sentiment should continue to hold at a reasonable level.
Fri 11 Aug (10:45am)	Food Price Index – Jul	Waiting	Prices should unwind their recent spike, but it may not be until new season produce hits the shelves in spring.
14-18 Aug	REINZ Housing Market Statistics – Jul	Letting the air out	The air continues to be let out of national house price growth. However, Auckland is now clearly underperforming.
Mon 14 Aug (10:30am)	BNZ-BusinessNZ PSI – Jul	Strong	Sentiment in the services sector remains strong and we don’t really see that changing.
Mon 14 Aug (10:45am)	Retail Trade Survey – Q2	Ok, but not as strong as Q1	Ongoing price discounting should continue to support a reasonable pace of volume growth, but probably not as strong as Q1.
Wed 16 Aug (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese and South-East Asian demand is lending support.
Thu 17 Aug (10:45am)	PPI – Q2	Mixed	The numbers will be thrown around by commodity prices, with only tentative signs of pipeline price pressures evident.
Thu 17 Aug (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Aug	--	--
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is low, but should lift.**

KEY FORECASTS AND RATES

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (% qoq)	0.5	**1.0**	**0.8**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.5	**2.7**	**2.7**	**3.2**	**3.3**	**3.0**	**2.8**	**2.6**	**2.5**	**2.4**
CPI (% qoq)	1.0	0.0	**0.2**	**0.2**	**0.8**	**0.6**	**0.7**	**0.3**	**0.7**	**0.6**
CPI (% yoy)	2.2	1.7	**1.6**	**1.3**	**1.2**	**1.8**	**2.4**	**2.5**	**2.4**	**2.3**
Employment (% qoq)	1.2	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.7	**3.9**	**2.9**	**2.5**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**	**1.2**
Unemployment Rate (% sa)	4.9	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**	**4.3**
Current Account (% GDP)	-3.1	**-3.1**	**-3.0**	**-3.0**	**-2.6**	**-2.5**	**-2.6**	**-2.6**	**-2.6**	**-2.6**
Terms of Trade (% qoq)	5.1	**1.5**	**0.0**	**-1.1**	**-1.0**	**-0.7**	**0.1**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.7	**11.6**	**12.8**	**5.5**	**-0.6**	**-2.8**	**-2.6**	**-1.5**	**-0.4**	**0.4**

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Retail ECT (% mom)	0.5	0.1	0.1	2.4	-0.4	-0.3	0.9	-0.4	0.0	--
Retail ECT (% yoy)	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2	4.5	--
Credit Card Billings (% mom)	2.8	-4.1	3.1	0.4	-1.3	1.0	1.0	1.0	0.2	--
Credit Card Billings (% yoy)	10.1	4.1	8.5	7.1	5.3	7.3	6.6	7.6	8.3	--
Car Registrations (% mom)	13.2	2.8	-6.4	1.7	0.5	3.3	-2.7	3.7	-2.8	--
Car Registrations (% yoy)	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7	11.1	--
Building Consents (% mom)	0.8	-8.6	-8.2	3.9	16.7	-2.4	-7.4	7.0	--	--
Building Consents (% yoy)	14.0	2.3	-10.8	-1.0	9.1	16.6	-3.0	6.0	--	--
REINZ House Price Index (% yoy)	14.4	14.4	13.8	12.8	11.9	10.0	7.9	5.0	2.7	--
Household Lending Growth (% mom)	0.6	0.6	0.8	0.5	0.5	0.5	0.6	0.4	--	--
Household Lending Growth (% yoy)	8.7	8.6	8.8	8.7	8.5	8.4	8.2	7.8	--	--
ANZ Roy Morgan Consumer Conf.	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9	127.8	125.4
ANZ Business Confidence	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9	24.8	--
ANZ Own Activity Outlook	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3	42.8	--
Trade Balance ($m)	-798	-723	-1	-227	-42	270	536	103	--	--
Trade Bal ($m ann)	51943	51668	51621	51901	52087	52404	52590	53224	--	--
ANZ World Commodity Price Index (% mom)	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	2.1	--
ANZ World Comm. Price Index (% yoy)	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3	24.6	--
Net Migration (sa)	6180	6140	5940	6340	5930	6150	5810	5940	6350	--
Net Migration (ann)	70282	70354	70588	71305	71333	71932	71885	71964	72305	--
ANZ Heavy Traffic Index (% mom)	-0.4	3.7	-0.5	-0.9	2.1	1.6	-2.1	4.0	0.0	--
ANZ Light Traffic Index (% mom)	-2.0	1.5	0.2	-0.3	0.8	1.2	-1.5	1.3	1.3	--

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	May-17	Jun-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZD/USD	0.687	0.712	0.745	0.72	0.70	0.69	0.68	0.67	0.67	0.66
NZD/AUD	0.917	0.954	0.941	0.97	0.96	0.96	0.94	0.94	0.94	0.94
NZD/EUR	0.630	0.635	0.638	0.63	0.63	0.63	0.65	0.63	0.61	0.57
NZD/JPY	76.55	78.83	82.69	82.8	78.4	75.9	71.4	67.0	67.0	66.0
NZD/GBP	0.530	0.554	0.573	0.55	0.55	0.55	0.55	0.54	0.54	0.51
NZ$ TWI	73.3	75.4	79.0	76.1	74.7	74.1	73.5	71.8	71.2	69.3
INTEREST RATES	Apr-17	May-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25	2.25
NZ 90 day bill	1.98	1.97	1.93	1.98	1.99	2.08	2.33	2.50	2.50	2.59
NZ 10-yr bond	3.04	2.78	2.91	2.80	2.80	2.85	2.95	3.15	3.30	3.30
US Fed funds	1.00	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.25
US 3-mth	1.17	1.21	1.31	1.40	1.65	1.75	2.05	2.20	2.45	2.45
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.75	1.74	1.70	1.70	1.70	1.70	1.70	1.80	1.80	1.80

	21 Jun	17 Jul	18 Jul	19 Jul	20 Jul	21 Jul
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.94	1.95	1.94	1.94	1.94	1.94
NZGB 03/19	1.96	1.96	1.93	1.93	1.94	1.94
NZGB 05/21	2.21	2.34	2.31	2.30	2.31	2.27
NZGB 04/23	2.47	2.63	2.61	2.60	2.60	2.57
NZGB 04/27	2.77	2.97	2.96	2.93	2.94	2.92
2 year swap	2.21	2.25	2.22	2.23	2.24	2.22
5 year swap	2.70	2.82	2.81	2.79	2.80	2.76
RBNZ TWI	78.19	78.12	77.75	77.93	77.97	78.50
NZD/USD	0.7242	0.7333	0.7355	0.7368	0.7342	0.7454
NZD/AUD	0.9563	0.9372	0.9273	0.9289	0.9279	0.9420
NZD/JPY	80.55	82.48	82.46	82.54	82.45	82.83
NZD/GBP	0.5726	0.5612	0.5646	0.5645	0.5673	0.5736
NZD/EUR	0.6496	0.6399	0.6364	0.6393	0.6381	0.6391
AUD/USD	0.7573	0.7824	0.7931	0.7932	0.7912	0.7916
EUR/USD	1.1150	1.1459	1.1558	1.1526	1.1506	1.1663
USD/JPY	111.23	112.48	112.12	112.03	112.31	111.13
GBP/USD	1.2647	1.3067	1.3025	1.3052	1.2942	1.2997
Oil (US$/bbl)	42.53	46.02	46.40	47.12	46.79	45.77
Gold (US$/oz)	1247.33	1231.00	1237.64	1239.95	1236.95	1254.98
Electricity (Haywards)	14.72	13.81	12.62	12.64	12.33	10.36
Baltic Dry Freight Index	844	912	932	948	964	977
NZX WMP Futures (US$/t)	3000	3120	3130	3150	3150	3175

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Ph 64-4-802 2212, e-mail nzeconomics@anz.com, http://www.anz.co.nz