

NEW ZEALAND ECONOMICS MARKET FOCUS

26 April 2016

INSIDE

Economic Overview	2
Interest Rate Strategy	5
Currency Strategy	7
Data Event Calendar	9
Local Data Watch	11
Key Forecasts	12

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UP, UP AND AWAY

ECONOMIC OVERVIEW

The consensus is far from settled heading into the RBNZ's decision this week. A case for cutting can certainly be made. However, we do not buy the argument that the RBNZ needs to respond to NZD strength, particularly as it is being driven by offshore – not local – factors. We expect policy to be left unchanged, with an easing bias retained. While we still forecast the OCR heading lower in time, our conviction that that would be the right thing for New Zealand is dwindling. Each passing day reveals more stratospheric housing anecdotes. Elsewhere this week, our Business Outlook will tell us whether the mood among businesses is holding at decent levels, as it is for consumers, while credit figures should remain strong and provide a clear reminder of some of the risks a lower OCR brings.



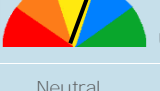

INTEREST RATE STRATEGY

A no-change but dovish tone from the RBNZ is expected to result in few fireworks despite markets being 35% priced for a cut. Improving international sentiment has seen global yields lift off lows and curves steepen. The Fed is also not expected to move rates this week, but confirmation of previous policy biases should maintain steepening pressure both abroad and locally. Spreads with global yields are biased to narrow further despite the fact that local issuance is set to rise.

CURRENCY STRATEGY

The currency is a thorn in the side of the RBNZ, but we don't expect it to be a determining factor this week. NZD/USD will go where the broader USD goes and with USD positioning near lows, Fed rhetoric cautious, and the global outlook improving, there are risks of USD strength if the Fed wishes to leave June as an option. NZD/AUD is sitting near 2½ year lows and given markets are already pricing RBNZ cuts, it is worth exporters exploring hedging options.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.5% y/y for 2016 Q4	While growth momentum looks reasonable now, tighter financial conditions suggest a more moderate backdrop over 2H 2016.	
Unemployment rate	5.5% for 2016 Q4	The demand for labour has recovered, and labour supply is cooling from strong rates. Wage inflation is contained.	
OCR	1.75% by Dec 2016	A further 50bps of cuts this year. Growth is set to moderate, inflation is low, and global risks abound.	
CPI	1.0% y/y for 2016 Q4	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	

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FORTHCOMING EVENTS

Overseas Merchandise Trade – Mar (10:45am, Wednesday, 27 April). March is typically the seasonal high point for the trade balance. We expect a surplus of \$300m. Beyond this, once the oil price impact wanes, a deteriorating trend should return.

RBNZ OCR Review (9:00am, Thursday, 28 April). A cut cannot be ruled out, but given the news flow since March, and in particular signs that the domestic economy continues to perform well and core inflation is perhaps stabilising, we see the OCR being held at 2.25%. A clear easing bias will be retained.

Building Consents Issued – Mar (10:45am, Friday, 29 April). Regional dichotomies are clear. But we expect a modestly positive nationwide trend to remain.

ANZ Business Outlook – Apr (1:00pm, Friday, 29 April).

RBNZ Credit Aggregates – Mar (3:00pm, Friday, 29 April). Credit growth is running well ahead of incomes. This type of behaviour can only be temporary.

WHAT'S THE VIEW?

We expect the RBNZ to leave the OCR unchanged at 2.25% this week, but retain dovish overtones and a clear easing bias in a hat tip to NZD strength.

However, there is far from a settled consensus heading into the decision. The market is awash with differing views.

Those expecting a cut seem to be basing their view off six main dynamics:

1. The RBNZ was projecting another cut in March so why wait? The economic story (dairy et al) seems similar.
2. Inflation expectations are low. Inflation itself too.
3. The NZD; it's been a case of 'up, up and away'

despite weak commodity prices. Other central banks are doing the RBNZ no favours.

4. Some in markets interpreting a letter from the Minister of Finance to the RBNZ Board as implying an element of political pressure. No one dares say it (and the Minister downplayed the letter, noting it brought the RBNZ into line with other Government entities) but the innuendo is clear.
5. Elevated funding costs; the RBNZ didn't get the full pass-through from the last OCR cut (and was expecting to).
6. A downplaying of housing market pressures. This is either from the point of view that the market is being driven by forces beyond the RBNZ's control, or that additional macro-prudential policy measures will take care of it.

To be fair, these reasons together do present a reasonable case for easing again, and they certainly mean a cut this week cannot be ruled out. But our response to each is as follows:

1. The 'just get it done' philosophy applied in October last year too and the RBNZ still paused. And it likely would have done the same in July 2015 had inflation and GDP data not come in noticeably under expectations. Importantly, we've seen no undershoot in the data this time. And the RBNZ has stated a preference for moving on *MPS* dates.
2. Inflation expectations – we've seen very little new information here. In fact, recent petrol price increases might actually see future measures lift, going by historical evidence. If nothing changes, petrol prices will provide a 0.2ppt contribution to headline CPI in Q2.
3. The NZD is being driven by the action of other central banks, not ours, and experience both here and abroad will have shown the RBNZ it probably can't do a great deal about it even if it tries. We also note that while the NZD/USD has soared, the NZD TWI is actually a touch lower than it was immediately prior to the March *MPS*. And outside of dairy, NZD export prices are still looking reasonably good.
4. We think it's a dangerous game making inferences from letters, particularly one that was actually written in November last year.
5. Funding cost pressures have improved in line with the improvement in global risk sentiment. To be fair, they are still higher than in 2015, so it's a relevant consideration. But we view this as more of a slow burner, eventually bringing the RBNZ back to the table, rather than requiring immediate action. The fact deposit rates fell after the last OCR decision signals that pressures are not acute.
6. If the NZD is 'up, up and away', so too is housing,

ECONOMIC OVERVIEW

and it can't be downplayed. Admittedly, some regions are playing catch-up from a period of underperformance. That is acceptable to a degree. But the RBNZ made explicit reference to Tauranga and Hamilton in the November *Financial Stability Report*, and prices have moved up further since then, bringing others along for the ride. Not only that; the construction cost anecdotes we are now hearing (particularly in Auckland) suggest that some projects are being cancelled because the numbers no longer add up! That's not only a financial stability risk; it's inflation, even if its impact on the headline CPI is muffled.

We're also somewhat surprised more weight is not being placed on the global scene, which has stabilised since March. It might prove to be a head-fake (in fact we are fully expecting bouts of turbulence to return), but the difference in price action across financial markets now relative to earlier in the year is like chalk and cheese. Equities, oil and other commodities are all up solidly. That improved risk sentiment has dragged the NZD along for the ride.

Maybe we are also too old fashioned, but **historically, falling unemployment, above-trend growth, roaring house price inflation, signs of a turn in non-tradable inflation** (the past two quarters have been stronger than expected) **and credit growth running in excess of nominal GDP growth** – which are all apparent now in New Zealand – **were reasons to pause or even wind back stimulus** (unless you are at real extremes in the cycle), not cut!

But unfortunately we still reside in a world where the conventional monetary policy rule-book (if there ever was such a thing) has been thrown out the window. That is the result of the collision of a number of factors: low inflation everywhere; huge amounts of leverage; tension between what is good for a local economy versus others (that's the Fed's rock and a hard place, and we've all been caught unaware of late by its about-face); currencies becoming more difficult to predictably influence via policy; and liquidity again trumping fundamentals in driving asset prices. The slightest hissy-fit across markets continues to be rewarded by liquidity lollies, as was shown earlier this year. In this world, interest rates are struggling to rise because then risk assets fall, and more re-leveraging needs to be on offer to keep asset prices up.

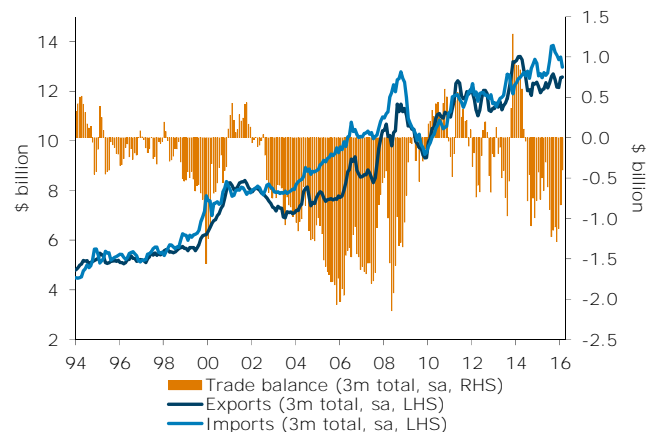
And so we are left scratching our heads. Nothing would surprise us in this world, so the RBNZ may well cut this week. But getting dragged back to the table by the action of other central banks (which is really about mitigating NZD strength) is not without consequences. **While we are calling the OCR lower over time, our conviction about it being the right thing for New Zealand is dwindling.**

What's more, the limits of monetary policy are now being more actively discussed – including by policymakers themselves. RBA Governor Stevens was the latest last week, noting that “surely diminishing returns [from monetary policy] are setting in” and that “policies that encourage growth through means other than just ultra-cheap borrowing costs are surely needed.” The IMF has also pushed this view, stating that fiscal policy has a greater role to play. Admittedly, this rhetoric is hardly surprising, but political fragmentation globally is hardly supportive of better microeconomic foundations. More recently, there almost appears to be a resignation from some central banks that have been easing aggressively about how much more they can do. Despite the ECB maintaining a clear easing bias last week, it at least shied away from trying to really talk or influence the currency lower.

Turning to other domestic events this week, a modest trade surplus for March is expected.

March is typically the seasonal high point for New Zealand's trade balance, given strong export values. In fact, there have only been two years since 2000 when a March trade surplus was not recorded, with one of those years being 2008, at the height of the global financial crisis. We have pencilled in a \$300m surplus. This is broadly similar to the figure recorded in February, although that was flattered by the one-off export of a large oil platform.

FIGURE 1. OVERSEAS MERCHANDISE TRADE



Source: ANZ, Statistics NZ

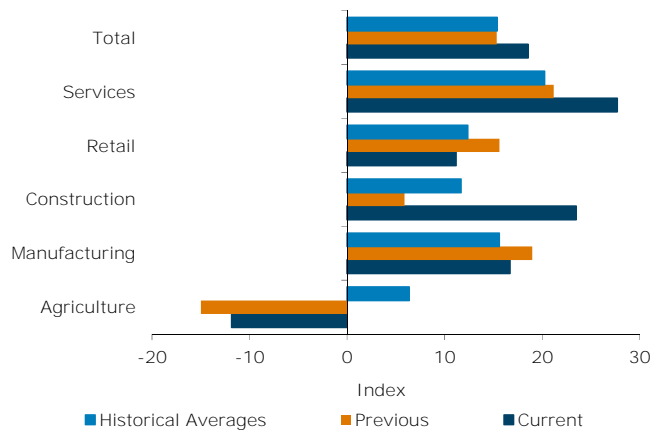
The trade accounts have actually fared relatively well over the past six months. While the accounts remain in deficit in seasonally adjusted terms, the \$89m deficit is modest. Moreover, the trend measure, at \$130m, is actually the smallest since October 2014. This may seem surprising given the extent of the fall in dairy prices. It reflects a couple of other forces: first, NZD non-dairy export prices have held up relatively well; and second, the value of oil imports has fallen sharply in line with global oil prices. It is consistent with the signal from the broader terms of trade, which in Q4 were only 3% below levels from a year prior.

ECONOMIC OVERVIEW

But we expect a deteriorating trend in the trade accounts to return. The impact of previous oil price falls should begin to wane over the coming months. And together with an expected moderation in NZD export prices, we see the terms of trade falling by circa 10% over the course of 2016, which should begin to weigh on New Zealand's trade performance once again.

The ANZ Business Outlook survey will be watched to assess whether firm sentiment, like that of consumers, is holding at a decent level. Headline confidence has fallen over recent months, with just a net 3% of firms in March optimistic regarding the economy's prospects over the next year. This is the lowest level since September 2015. However, the story has been far more positive at the sub-component level, particularly when firms are asked about their own activity. In fact, when we look at our sectoral composite indices (which weigh up the likes of firms' own activity, profit, employment and investment expectations), all sectors remain above historical averages with the exception of retail (although only modestly so) and agriculture. In other words, while headline confidence is weaker, the actual growth signal from the survey has still been pretty good.

FIGURE 2. ANZ BUSINESS OUTLOOK COMPOSITES



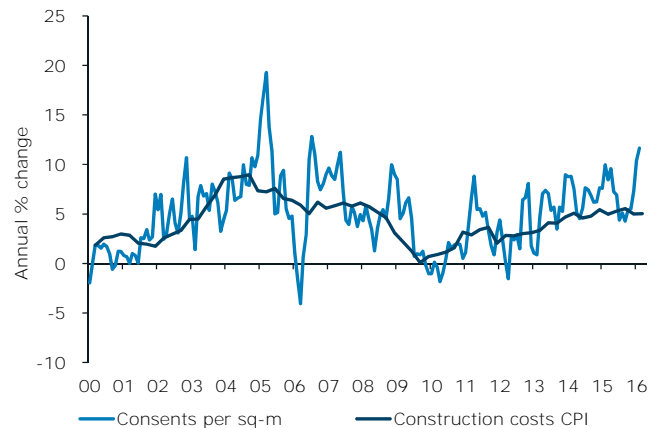
Source: ANZ

Nationwide building consents are expected to continue to trend higher. It's been volatile, with consent issuance surging 11% m/m in February after an 8% fall in January. But the trend in issuance is still running at a respectable 0.9% m/m pace. That is down from the close to 2% pace seen over the middle of 2015, but we expect this positive trend to continue, given ongoing interest rate falls, strong population growth, the signals provided by rising housing prices and the desire of policymakers to lift housing supply.

However, regional variances will be evident and we are mindful of the negative impact of capacity and construction cost inflation in the likes of Auckland. Auckland has the most acute housing demand/supply imbalance, which should be a key factor in driving ongoing increases in consent issuance.

However, when we see that the trend in Auckland is now starting to fall (it is 5% below its peak), we have to ask what is behind this, and certainly anecdote suggests capacity is a key issue. Not only that, but construction cost inflation is also a headwind (the CPI data showed Auckland construction costs running at 7.2% y/y), and we are hearing that because of this, projects are being delayed or cancelled.

FIGURE 3. CONSTRUCTION COST INFLATION



Source: ANZ, Statistics NZ

We suspect housing credit growth will remain strong. We have previously held the view that with the Auckland property market cooling, nationwide credit growth would have peaked and even begun to moderate. But with the Auckland market taking off again, joining many other regions of the country, that moderation now looks quite unlikely. Housing credit growth continues to look as though it will continue running ahead of income growth. And with the debt-to-income rate already rising to all-time highs, this certainly highlights some structural vulnerabilities developing within the economy.

LOCAL DATA

BNZ-Business NZ Services PSI – Mar. The index fell 1.9 points to 54.8 – the lowest since November 2014.

GlobalDairyTrade Auction. The GDT TWI rose 3.8%, with whole milk powder prices up 7.5%.

ANZ Job Advertising – Mar. Advertising rose 2.9% m/m, to be up 1.7% y/y on a 3-month average basis.

International Travel & Migration – Mar. The net inflow of migrants eased to 5,330 (sa), although it is still annualising at over 70k on a three-month average basis. Visitor arrivals rose 4.1% m/m (18% y/y).

ANZ-Roy Morgan Consumer Confidence – Apr. Headline confidence rose 2 points to 120.0. The Current Conditions and Future Expectations indices rose by 2 points to 123.2 and 117.8 respectively.

INTEREST RATE STRATEGY

SUMMARY

A no-change but dovish tone from the RBNZ is expected to result in few fireworks despite markets being 35% priced for a cut. Improving international sentiment has seen global yields lift off lows and curves steepen. The Fed is also not expected to move rates this week, but confirmation of previous policy biases should maintain steepening pressure both abroad and locally. Spreads with global yields are biased to narrow further despite the fact that local issuance is set to rise.

THEMES

- Local yields have generally drifted lower for short-term yields but have risen for long-term rates, with the pivot around the five-year tenor.
- Yields are expected to trade in tight ranges ahead of Thursday morning policy decisions by the Fed and RBNZ. Current market pricing for the latter seems broadly appropriate given our core OCR view, and we are less bullish over the trajectory of local rates than we were a month or so ago.
- Irrespective of what the OCR does in the coming months, hikes still look a long way away. This should continue to exert downward pressure on mid-term rates, with the 2 and 3 year rates still biased lower.
- Market pricing suggests the Fed is miles away from pulling the trigger, highlighting the risk of a move higher in global yields if even a slight change in stance is signalled.
- Curves are biased to steepen, but this is expected to be modest given moves of late, and the gradualist and data-dependent nature of Fed hikes. We continue to expect convergence in local and global yields.

PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral	Near-term reasonable; long-end rates still high in global context.
2s10s Curve	Steeper	OCR biased lower, but long end still biased mildly higher.
Geographic 10yr spread	Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Risk of narrowing, given increased bond supply.

CENTRAL BANKS IN FOCUS

Market sentiment continues to improve, with global yields and commodity prices drifting higher, and credit spreads and measures of market volatility unwinding most (if not all) of their early 2016 spikes.

Indeed, the past few weeks have seen global data (European and China in particular) generally exceed expectations. The US dataflow has been mixed, with Q1 GDP expected to be soft, although a strong print is expected for March payrolls. Local data has remained resilient, with sentiment generally holding up thus far (the April ANZBO is the key local release apart from the OCR decision this week), dairy prices firming (albeit from low levels) and annual net PLT immigration hitting new annual record highs.

Be that as it may, the market is still biased to receive short-term kiwi rates. Strong receiving interest has been apparent around one and two year rates, with the view that 2.25% is not the OCR low for this cycle. Rates for short-term tenors are below Australian equivalents, consistent with our view that the OCR will move below the RBA’s cash rate by the end of the year. Tomorrow’s Australian CPI is expected to deliver a low headline CPI print, but circa 2% annual prints for the core measures, consistent with an ‘on-hold’ RBA. Pay-side interest has been apparent for longer-term rates, which have drifted higher with global yields. Forward rates are hovering around record lows, but the term structure is still upward sloping (see Figure 1).

FIGURE 1: NZD FORWARD RATES



Source: ANZ, Bloomberg

Thursday sees the central bank trifecta, with policy decisions by the FOMC, RBNZ and BoJ.

Odds of a 25bp OCR cut – at a shade below 35% – look appropriate given our view of the risk profile. With the RBNZ previously signalling an OCR cut, headline inflation expected to remain low, the NZD TWI elevated, and alternative policy measures likely to be introduced due to ongoing housing strength, 2.25% is unlikely to be the OCR trough this cycle. We have pencilled in a June OCR cut, given the RBNZ’s preference to use *MPS* dates. However, if the trade-offs and limits of additional monetary easing become more palpable and the global scene continues to stabilise, there is the possibility that local rates back

INTEREST RATE STRATEGY

up from current levels. This is not our core strategic view, but the possibility we are close to lows this cycle has grown.

BoJ unease over the yen could see further policy easing next week, although the likely efficacy of this is dubious, and it was interesting to see the ECB shy away from commenting on the stronger euro last week. **No change from the Fed is expected, although the policy assessment is likely to acknowledge the improved market environment and tenor of the global data since March.** But with market odds of a 25bp Fed hike this week at effectively 0%, and just 21% odds of a hike by June and about 65% by the end of the year, **a clear disconnect between the market and Fed remains.** But the Yellen-led Fed will likely want to see more evidence of a US recovery before increasing the hawkish rhetoric again. The trick will be for the Fed to deliver a policy assessment that emphasises that rates will be going up, but in a fashion that limits fallout for Treasury yields. Right here and now, mixed data and inflation nuances should provide the Fed with comfort that it has not fallen behind the curve.

FIGURE 2. US AND NZD RATES



Source: ANZ, Bloomberg

An easing policy bias from the RBNZ and relatively high outright local yields have acted to narrow spreads with global yields. Our relatively high local yields remain a magnet for offshore investors. The next few months will provide a test for the domestic government bond market, starting off with Friday's tender of \$150m for the 2033 bond and next week's \$100m tender of the 2035 bond. **Increased local bond supply could act against spread compression with global yields, with a risk that swap spreads narrow.**

PREFERRED STRATEGIES – BORROWERS

Local rates are historically very low and it is cheap to fix. Our bias is for rates to gradually drift higher, but with few catalysts on the horizon to signal

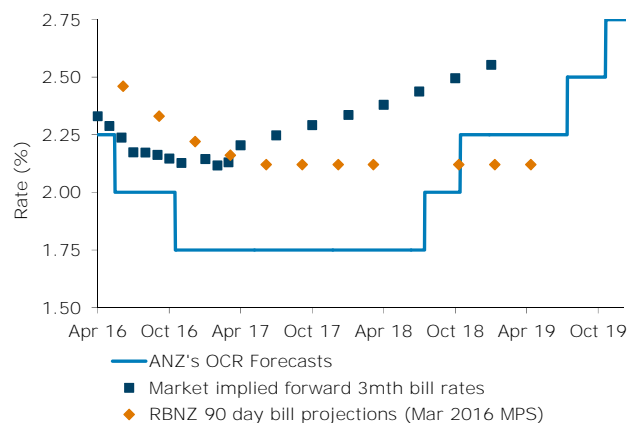
an impending 'snap' higher in longer-term yields, and with the risk that this improved environment proves fleeting, borrowers can likely afford to wait on the side lines. Credit spreads are likely to remain volatile and subject to swings in global sentiment. Swap hedges are ineffectual in protecting against movements in credit spreads and could prove counter-productive if swap rates fall. This, and the volatile trading environment, **has us biased towards favouring an option-based strategy when it comes to new hedging.** This makes the decision to take on more expensive term hedging a difficult one.

KEY VIEWS – FOR BORROWERS		
GAUGE	VIEW	COMMENT
Hedge ratio	Majority hedged	Options preferred so as to maintain exposure to lower floating interest rates.
Value	Cheap	Low, but the catalyst for an immediate rise is absent.
Uncertainty	Elevated	The key reason for caution.

MARKET EXPECTATIONS

Odds for near-term OCR cuts have risen slightly as the April decision approaches, with April about 35% priced, with 22bps of cuts priced for June and 36bps of cuts by the end of the year. We see scope for further rallies in 2 and 3 year tenors as markets look to push out implied policy tightening from mid-2017.

FIGURE 3: ANZ OCR FORECAST VS MARKET-IMPLIED FWD 3MTH BILL RATES AND RBNZ 90-DAY PROJECTION



Source: ANZ, Bloomberg



CURRENCY STRATEGY

SUMMARY

The currency is a thorn in the side of the RBNZ, but we don't expect it to be a determining factor this week. NZD/USD will go where the broader USD goes and with USD positioning near lows, Fed rhetoric cautious, and the global outlook improving, there are risks of USD strength if the Fed wishes to leave June as an option. NZD/AUD is sitting near 2½ year lows and given markets are already pricing RBNZ cuts, it is worth exporters exploring hedging options.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔/↓	Awaiting catalysts	Profile still lower
NZD/AUD	↔	Pivotal test coming	Remain above long-run averages
NZD/EUR	↔/↓	Still in range	Political risks for EUR
NZD/GBP	↔/↓	Brexit driving higher	GBP resurgence
NZD/JPY	↓↑	Risks are lower	JPY returning to averages.

THEMES AND RISKS

- Can the risk-on rally be sustained? We doubt it unless we see even more ramping up of liquidity from central banks.
- The Fed is still key. If June is in play, signalling needs to start. We expect the Fed to be cautious.
- RBNZ cuts in December and March had little impact on NZD, thus we see little chance of a persistent RBNZ impact on NZD/USD. However, NZD/AUD is likely to show a persistent impact.
- Equally, the last BoJ action only had a transient impact on the JPY, and NZD/JPY.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT	WHEN (NZST)	IMPACT RISK
USD Durable goods	Wed 00:30	NZD/USD ↓
USD Markit (svcs) PMI	Wed 01:45	NZD/USD ↓
USD Richmond Fed	Wed 02:00	NZD/USD ↑
NZD Trade balance	Wed 10:45	NZD ↑
AUD Q1 CPI	Wed 13:30	NZD/AUD ↓
GBP Q1 GDP	Wed 20:30	NZD/GBP ↔/↓
USD FOMC	Thu 06:00	NZD/USD ↔/↓
NZD RBNZ	Thu 09:00	NZD ↓
JPY BOJ	Thu pm	NZD/JPY ↔/↑
USD Q1 GDP	Fri 00:30	NZD/USD ↑
NZD Building permits.	Fri 10:45	NZD ↔/↑
NZD ANZ Business conf.	Fri 13:00	NZD
GBP Net consumer credit	Fri 20:30	NZD/GBP ↔/↑
EUR April CPI	Fri 21:00	NZD/EUR ↑
EUR Q1 GDP	Fri 21:00	NZD/EUR ↑
USD ECI	Sat 00:30	NZD/USD ↔/↓
USD PCE report	Sat 00:30	NZD/USD ↓
USD Chicago PM	Sat 01:45	NZD/USD ↑
USD Michigan conf	Sat 02:00	NZD/USD ↑
CNY Chinese PMIs	Sun 13:00	NZD/CNY ↑

EXPORTERS' STRATEGY

Exporters should hold out for the potential for USD to again find demand. Exporters to AUD should use this opportunity for some hedging.

IMPORTERS' STRATEGY

Importers can take advantage of NZD strength as long-term factors suggest strength will be transient.

DATA PULSE

The NZD has found support from data that, while softening, remains solid. The PSI, card spending, and net migration all eased – but were still at solid levels. The GDT auction, ANZ job ads and ANZ consumer confidence all lifted.

The AUD found little to impede strength from either the RBA minutes or a speech by Governor Stevens; neither showed concern over the currency level nor a change in policy bias. The iron ore price conversely was very supportive, regaining USD70/t.

The EUR was relatively unchanged as the ECB expressed confidence that existing policy settings will be sufficient. EU consumer confidence rose, and minor regional data lifted. However, the ZEW showed current conditions as being problematic and the advance Markit PMIs softened.

GBP was supported by easing concern over Brexit, despite evidence in employment and retail sales data of a softening economy.

USD found little direction in the data. Housing data showed slowing starts and permits, but solid house sales. The NY empire survey was strong but the Philadelphia Fed and Market PMI were weak.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↔	Yield convergence priced.
Commodities	↓	Iron ore has been strong.
Data	↔/↑	Australian data has been solid.
Techs	↔/↑	0.88 is a key support.
Sentiment	↔	Equal reactions to sentiment
Other	↔/↑	NZD has higher beta.
On balance	↔/↑	Near support.

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↔	Yield changes well priced.
Commodities	↔	Risks reasonably well priced.
Risk aversion	↔/↑	Resilience to risk notable.
Data	↔	US data is mixed, while NZ is holding up.
Techs	↔/↑	The break higher has not yet been negated.
Other	↔/↓	Global sentiment improving, which releases the Fed.
On balance	↔/↓	Factors point lower, but near term catalysts missing.

CURRENCY STRATEGY

TECHNICAL OUTLOOK

FIGURE 1. NZD/USD DAILY CANDLES WITH RSI & MA



The uptrend in NZD/USD remained in place with pivotal supports near the 55 and 100dma's (0.6766 & 0.6711 respectively). There remains a possibility that NZD/USD tests the 0.72 resistance, even though that resistance remains formidable. The overall profile still suggests selling a test of that level.

FIGURE 2. NZD/AUD DAILY CANDLES WITH RSI & MA



Prospects for NZD/AUD are still dominated by the head and shoulders formation. At present, the pivot (topping at 0.91) is being respected. While this continues, prospects are for a test lower in this cross, but the neckline still poses significant (2½ year) support levels and it will require a catalyst – such as the RBNZ – to break support.

TABLE 5: KEY TECHNICAL ZONES		
CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6710 – 0.6750 0.6600 – 0.6650	0.7050 – 0.7080 0.7160 – 0.7200
NZD/AUD	0.8780 – 0.8820 0.8700 – 0.8740	0.9050 – 0.9100 0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6280 – 0.6330
NZD/GBP	0.4630 – 0.4660	0.4930 – 0.4980
NZD/JPY	69.80 – 70.20	78.70 – 79.50

POSITIONING

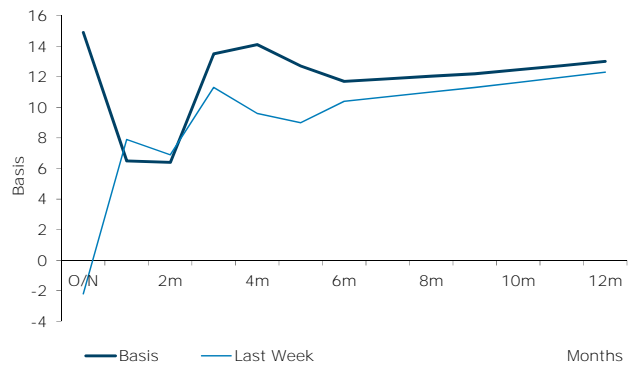
Leveraged funds reduced their long USD position to only USD0.5bn, the least since July 2014. Net long JPY positions were also trimmed, but remained notably long. Both AUD and NZD net longs were increased.

GLOBAL VIEWS

Despite last week starting with the failure of the Doha talks, we have closed this week with oil eking out gains. This is an important development for the global outlook as a resilient oil price will impact headline inflation, and thus impact on the dynamics of monetary policy. The broader commodity complex also appears to be picking up and it is reflecting a more positive global outlook (as well as a weaker USD). This is an environment where some of the distortions from monetary policy can begin to be removed, and that will result in currency moves. The biggest would be if we are going to transition back towards a Fed able to continue gradual normalisation. Current market pricing leaves plenty of potential for a shift to be priced into markets, and this is something, which if it occurs, would also strengthen the USD, weakening NZD/USD.

FORWARDS: CARRY AND BASIS

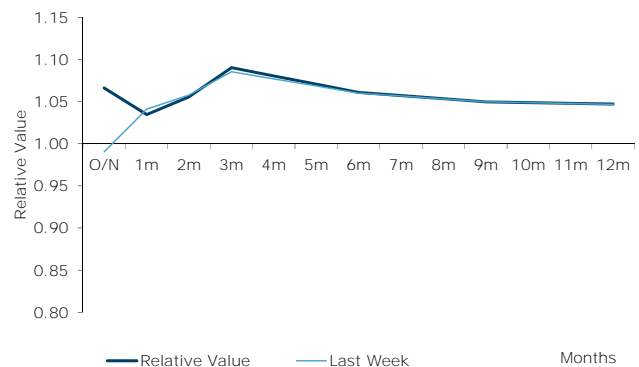
FIGURE 3. NZD/USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

With cash coming back into demand overnight, we can conclude markets thought the recent spot strength was a step too far. Basis has also widened as markets dial back expectations for OCR changes.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Apr	UK	BBA Loans for House Purchase - Mar	46500	45892	20:30
27-Apr	US	Durable Goods Orders - Mar P	1.9%	-3.0%	00:30
	US	Durables Ex Transportation - Mar P	0.5%	-1.3%	00:30
	US	Cap Goods Orders Nondef Ex Air - Mar P	0.6%	-2.5%	00:30
	US	Cap Goods Ship Nondef Ex Air - Mar P	0.9%	-1.7%	00:30
	US	S&P/CS 20 City MoM SA - Feb	0.8%	0.8%	01:00
	US	S&P/CS Composite-20 YOY NSA - Feb	5.50%	5.75%	01:00
	US	Markit Services PMI - Apr P	52.0	51.3	01:45
	US	Markit Composite PMI - Apr P	--	51.3	01:45
	US	Consumer Confidence Index - Apr	95.8	96.2	02:00
	US	Richmond Fed Manufact. Index - Apr	12	22	02:00
	NZ	Trade Balance - Mar	401M	339M	10:45
	NZ	Exports - Mar	4.65B	4.25B	10:45
	NZ	Imports - Mar	4.28B	3.91B	10:45
	NZ	Trade Balance 12 Mth YTD - Mar	-3585M	-3323M	10:45
	AU	ANZ-RM Consumer Confidence Index - 24-Apr	--	115.8	11:30
	CH	Industrial Profits YoY - Mar	--	-4.7%	13:30
	AU	CPI QoQ - Q1	0.2%	0.4%	13:30
	AU	CPI YoY - Q1	1.7%	1.7%	13:30
	AU	CPI Weighted Median QoQ - Q1	0.5%	0.5%	13:30
	AU	CPI Weighted Median YoY - Q1	1.9%	1.9%	13:30
	AU	CPI Trimmed Mean QoQ - Q1	0.5%	0.6%	13:30
	AU	CPI Trimmed Mean YoY - Q1	2.0%	2.1%	13:30
	GE	Import Price Index MoM - Mar	0.3%	-0.6%	18:00
	GE	Import Price Index YoY - Mar	-6.2%	-5.7%	18:00
	GE	GfK Consumer Confidence - May	9.4	9.4	18:00
	EC	M3 Money Supply YoY - Mar	5.0%	5.0%	20:00
	UK	GDP QoQ - Q1 A	0.4%	0.6%	20:30
	UK	GDP YoY - Q1 A	2.0%	2.1%	20:30
	UK	Index of Services MoM - Feb	0.2%	0.2%	20:30
	UK	Index of Services 3M/3M - Feb	0.8%	0.9%	20:30
	US	MBA Mortgage Applications - 22-Apr	--	1.3%	23:00
28-Apr	US	Advance Goods Trade Balance - Mar	-\$62.80B	-\$62.86B	00:30
	US	Pending Home Sales MoM - Mar	0.5%	3.5%	02:00
	US	Pending Home Sales NSA YoY - Mar	0.8%	5.1%	02:00
	US	FOMC Rate Decision - Apr	0.50%	0.50%	06:00
	NZ	RBNZ Official Cash Rate - Apr	2.25%	2.25%	09:00
	AU	Export price index QoQ - Q1	-1.5%	-5.4%	13:30
	AU	Import price index QoQ - Q1	-0.9%	-0.3%	13:30
	UK	Nationwide House PX MoM - Apr	0.4%	0.8%	18:00
	UK	Nationwide House Px NSA YoY - Apr	5.0%	5.7%	18:00
	GE	Unemployment Change (000's) - Apr	0k	0k	19:55
	GE	Unemployment Claims Rate SA - Apr	6.2%	6.2%	19:55
	EC	Economic Confidence - Apr	103.4	103.0	21:00
	EC	Business Climate Indicator - Apr	0.14	0.11	21:00
	EC	Industrial Confidence - Apr	-4.0	-4.2	21:00
	EC	Services Confidence - Apr	10.0	9.6	21:00
	EC	Consumer Confidence - Apr F	-9.3	-9.3	21:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
28-Apr	JN	BOJ Annual Rise in Monetary Base - Apr	¥80t	¥80t	UNSPECIFIED
	JN	BOJ Monetary Policy Statement	--	--	UNSPECIFIED
	JN	BOJ Policy Rate - Apr	-0.10%	-0.10%	UNSPECIFIED
	CH	Leading Index - Mar	--	99	28-30 Apr
29-Apr	GE	CPI MoM - Apr P	-0.2%	0.8%	00:00
	GE	CPI YoY - Apr P	0.1%	0.3%	00:00
	GE	CPI EU Harmonized MoM - Apr P	-0.2%	0.8%	00:00
	GE	CPI EU Harmonized YoY - Apr P	0.0%	0.1%	00:00
	US	Initial Jobless Claims - 23-Apr	259k	247k	00:30
	US	Continuing Claims - 16-Apr	2137k	2137k	00:30
	US	GDP Annualized QoQ - Q1 A	0.6%	1.4%	00:30
	US	Personal Consumption - Q1 A	1.7%	2.4%	00:30
	US	GDP Price Index - Q1 A	0.6%	0.9%	00:30
	US	Core PCE QoQ - Q1 A	1.9%	1.3%	00:30
	US	Kansas City Fed Manf. Activity - Apr	--	-6	03:00
	NZ	Building Permits MoM - Mar	--	10.8%	10:45
	UK	GfK Consumer Confidence - Apr	-1	0	11:05
	NZ	ANZ Activity Outlook - Apr	--	29.4	13:00
	NZ	ANZ Business Confidence - Apr	--	3.2	13:00
	AU	PPI QoQ - Q1	--	0.3%	13:30
	AU	PPI YoY - Q1	--	1.9%	13:30
	AU	Private Sector Credit MoM - Mar	0.5%	0.6%	13:30
	AU	Private Sector Credit YoY - Mar	6.6%	6.6%	13:30
	NZ	Money Supply M3 YoY - Mar	--	7.3%	15:00
	GE	Retail Sales MoM - Mar	0.4%	-0.3%	18:00
	GE	Retail Sales YoY - Mar	2.7%	5.4%	18:00
	UK	Net Consumer Credit - Mar	£1.3B	£1.3B	20:30
	UK	Net Lending Sec. on Dwellings - Mar	£3.7B	£3.6B	20:30
	UK	Mortgage Approvals - Mar	74.4k	73.9k	20:30
	UK	Money Supply M4 MoM - Mar	--	0.9%	20:30
	UK	M4 Money Supply YoY - Mar	--	2.0%	20:30
	EC	Unemployment Rate - Mar	10.3%	10.3%	21:00
	EC	CPI Estimate YoY - Apr	0.0%	--	21:00
	EC	CPI Core YoY - Apr A	0.9%	1.0%	21:00
	EC	GDP SA QoQ - Q1 A	0.4%	0.3%	21:00
	EC	GDP SA YoY - Q1 A	1.4%	1.6%	21:00
30-Apr	US	Employment Cost Index - Q1	0.6%	0.6%	00:30
	US	Personal Income - Mar	0.3%	0.2%	00:30
	US	Personal Spending - Mar	0.2%	0.1%	00:30
	US	PCE Deflator MoM - Mar	0.1%	-0.1%	00:30
	US	PCE Deflator YoY - Mar	0.8%	1.0%	00:30
	US	PCE Core MoM - Mar	0.1%	0.1%	00:30
	US	PCE Core YoY - Mar	1.5%	1.7%	00:30
	US	ISM Milwaukee - Apr	--	57.78	01:00
	US	Chicago Purchasing Manager - Apr	52.8	53.6	01:45
	US	U. of Mich. Sentiment - Apr F	90.0	89.7	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

Domestic economic momentum is reasonable, albeit moderating, at present. However, downside risks exist (mainly from offshore) and with inflation already low, we believe the RBNZ will cut the OCR twice more this year.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 27 Apr (10:45am)	Overseas Merchandise Trade – Mar	Seasonal high	March is the seasonal high point for the trade balance. Once the oil price impact wanes, a deteriorating trend should return.
Thu 28 Apr (9:00am)	RBNZ OCR Review	On hold	A cut can't be ruled out. However, we see the RBNZ pausing, while retaining a clear easing bias and dovish overtones.
Fri 29 Apr (10:45am)	Building Consents Issued – Mar	Upward trend	Regional dichotomies are clear. But we expect a modestly positive nationwide trend to remain.
Fri 29 Apr (1:00pm)	ANZ Business Outlook – Apr	--	--
Fri 29 Apr (3:00pm)	RBNZ Credit Aggregates – Mar	Re-leveraging	Credit growth is running well ahead of incomes. This type of behaviour can only be a temporary phenomenon.
Wed 4 May (10:45am)	Labour Market Statistics – Q1	Solid, but unemployment recoil	The tone of the data should be reasonable overall, although the unemployment rate should bounce after Q4's sharp fall.
Wed 4 May (12:00pm)	QV House Prices - Apr	Regional mix	The Auckland market is coming back to the boil, while regional markets are booming.
Wed 4 May (1:00pm)	ANZ Commodity Price Index – Apr	--	--
10-13 May	REINZ Housing Market Statistics – Apr	Boom times	Last month's figures showed that almost every region is strengthening markedly. Another month of that would confirm the trend.
Tue 10 May (10:00am)	ANZ Truckometer – Apr	--	--
Tue 10 May (10:00am)	Government Financial Statements – Mar	Decent	Tax revenue is running ahead of forecast as stronger real activity offsets the impact of low inflation.
Tue 10 May (10:45am)	Electronic Card Transactions – Apr	Holding up	Strong population growth, lower interest rates, an improving labour market and low petrol prices are supporting spending.
Wed 11 May (9:00am)	RBNZ Financial Stability Report	Increased concern	More concern will be highlighted, both domestically (dairy, housing) and also re offshore. We wouldn't rule out additional macro-prudential measures being signalled.
Thu 12 May (10:30am)	BNZ-Business NZ Manufacturing PMI – Apr	Moderating	Activity is holding at a reasonable level, but does look to be moderating from the strong pace seen earlier in the year.
Thu 12 May (10:45am)	Food Price Index – Apr	Benign	A flat to slightly positive increase is expected for the month.
Fri 13 May (10:45am)	Retail Trade Survey – Q1	Solid	Another decent lift in sales volumes is likely, with support from population growth, low interest rates and discounting.
Mon 16 May (10:30am)	BNZ-Business NZ Services PSI – Apr		
Tue 17 May (3:00pm)	RBNZ Survey of Expectations – Q2	Stable	Inflation expectations are likely to stabilise at a low level, although recent petrol price increases imply some upside.
Wed 18 May (10:45am)	PPI – Q1	Lower	Commodity price movements will continue to dominate, with both input and output price indices likely to be lower.
Thu 19 May (10:00am)	ANZ Job Ads – Apr	--	--
Thu 19 May (1:00pm)	ANZ-Roy Morgan Consumer Confidence – May	--	--
Fri 20 May (10:45am)	International Travel & Migration – Apr	Strong	Last month showed a softer net inflow, although we are not yet ready to call the turn in the migration cycle.
On balance		Data watch	Reasonable momentum at present, but with risks. Inflation remains low.

KEY FORECASTS AND RATES

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
GDP (% qoq)	0.9	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
GDP (% yoy)	2.3	2.8	3.1	2.8	2.5	2.4	2.4	2.5	2.6	2.7
CPI (% qoq)	-0.5	0.2	0.4	0.4	0.0	0.6	0.4	0.7	0.3	0.6
CPI (% yoy)	0.1	0.4	0.4	0.5	1.0	1.4	1.4	1.7	1.9	1.9
Employment (% qoq)	0.9	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Employment (% yoy)	1.4	1.3	1.6	2.6	2.0	1.8	1.8	1.7	1.7	1.6
Unemployment Rate (% sa)	5.3	5.8	5.7	5.6	5.5	5.5	5.4	5.4	5.3	5.2
Current Account (% GDP)	-3.0	-3.3	-3.5	-4.0	-4.6	-5.0	-5.1	-5.1	-4.8	-4.6
Terms of Trade (% qoq)	-2.0	-1.9	-3.0	-2.7	-0.4	0.8	1.8	2.7	1.8	0.8
Terms of Trade (% yoy)	-3.2	-6.1	-10.3	-9.3	-7.8	-5.3	-0.6	5.0	7.3	7.2

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Retail ECT (% mom)	0.4	0.4	0.9	0.1	0.8	0.2	0.3	0.6	0.1	--
Retail ECT (% yoy)	5.6	4.2	6.1	5.8	4.6	6.6	5.2	9.2	6.2	--
Credit Card Billings (% mom)	1.7	1.5	-2.0	1.7	0.7	-0.7	1.8	-0.5	-1.1	--
Credit Card Billings (% yoy)	9.7	10.4	7.3	7.8	8.5	7.4	8.2	7.3	4.8	--
Car Registrations (% mom)	0.5	-2.3	0.0	-1.3	-1.9	3.1	-2.9	5.7	-3.9	--
Car Registrations (% yoy)	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	7.4	-0.2	--
Building Consents (% mom)	23.2	-8.1	-5.1	5.3	1.9	2.8	-7.8	10.8	--	--
Building Consents (% yoy)	22.2	11.1	17.3	14.6	7.3	17.4	5.1	27.1	--	--
REINZ House Price Index (% yoy)	14.9	17.3	20.1	14.1	12.5	12.6	10.7	11.9	13.3	--
Household Lending Growth (% mom)	0.7	0.6	0.7	0.7	0.6	0.6	0.6	0.6	--	--
Household Lending Growth (% yoy)	6.0	6.3	6.7	7.0	7.2	7.4	7.5	7.6	--	--
ANZ Roy Morgan Consumer Conf.	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7	118.0	120.0
ANZ Business Confidence	-15.3	-29.1	-18.9	10.5	14.6	23.0	..	7.1	3.2	--
ANZ Own Activity Outlook	19.0	12.2	16.7	23.7	32.0	34.4	..	25.5	29.4	--
Trade Balance (\$m)	-730	-1090	-1140	-905	-795	-45	13	339	--	--
Trade Bal (\$m ann)	51643	52446	52287	52101	52648	52513	52765	52872	--	--
ANZ World Commodity Price Index (% mom)	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	0.5	-1.3	--
ANZ World Comm. Price Index (% yoy)	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	--
Net Migration (sa)	5740	5500	5610	6150	6240	5540	6090	5990	5330	--
Net Migration (ann)	59639	60290	61234	62477	63659	64930	65911	67391	67619	--
ANZ Heavy Traffic Index (% mom)	-0.1	-0.3	1.8	0.9	0.2	3.0	-4.4	1.7	2.5	--
ANZ Light Traffic Index (% mom)	-0.3	-0.5	2.6	-0.4	-1.1	1.0	-1.4	2.3	0.8	--

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

KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Feb-16	Mar-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZD/USD	0.661	0.693	0.687	0.65	0.63	0.59	0.58	0.58	0.60	0.62
NZD/AUD	0.925	0.902	0.890	0.88	0.88	0.88	0.88	0.88	0.88	0.89
NZD/EUR	0.606	0.609	0.610	0.59	0.59	0.55	0.52	0.50	0.50	0.51
NZD/JPY	74.62	77.81	76.38	68.3	66.2	62.0	58.0	58.0	60.0	62.0
NZD/GBP	0.477	0.481	0.474	0.48	0.43	0.39	0.37	0.37	0.38	0.38
NZ\$ TWI	71.0	72.2	72.6	68.6	67.1	63.4	61.4	60.9	61.8	63.1
INTEREST RATES	Feb-16	Mar-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZ OCR	2.50	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.56	2.34	2.33	2.10	2.10	1.90	1.90	1.90	1.90	1.90
NZ 10-yr bond	2.97	2.93	2.88	2.90	2.90	2.90	3.10	3.20	3.40	3.50
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	0.63	0.63	0.64	0.83	0.83	1.08	1.08	1.33	1.33	1.58
AU Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
AU 3-mth	2.29	2.29	2.27	2.30	2.30	2.40	2.40	2.40	2.40	2.40

	22 Mar	18 Apr	19 Apr	20 Apr	21 Apr	22 Apr
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.33	2.33	2.33	2.33	2.31	2.32
NZGB 12/17	2.13	2.10	2.12	2.11	2.11	2.12
NZGB 03/19	2.26	2.16	2.20	2.19	2.19	2.20
NZGB 04/23	3.01	2.67	2.71	2.69	2.69	2.72
NZGB 04/27	3.34	2.81	2.85	2.84	2.84	2.86
2 year swap	2.23	2.23	2.26	2.23	2.22	2.20
5 year swap	2.41	2.39	2.43	2.39	2.40	2.38
RBNZ TWI	71.9	72.98	73.45	73.49	73.18	72.76
NZD/USD	0.6775	0.69	0.70	0.70	0.70	0.69
NZD/AUD	0.89	0.90	0.90	0.90	0.89	0.89
NZD/JPY	75.87	74.73	76.30	76.45	76.56	75.68
NZD/GBP	0.47	0.49	0.49	0.49	0.49	0.48
NZD/EUR	0.60	0.61	0.62	0.62	0.62	0.61
AUD/USD	0.76	0.77	0.78	0.78	0.78	0.77
EUR/USD	1.13	1.13	1.13	1.14	1.13	1.13
USD/JPY	111.98	108.09	109.10	109.03	109.81	109.41
GBP/USD	1.44	1.42	1.43	1.44	1.43	1.43
Oil (US\$/bbl)	39.91	40.40	39.74	40.88	42.72	43.18
Gold (US\$/oz)	1246.30	1236.25	1232.50	1251.05	1248.15	1247.95
Electricity (Haywards)	6.64	6.12	7.51	6.85	8.10	7.49
Baltic Dry Freight Index	398	659	671	669	670	688
Milk futures (USD)	42	41	42	44	44	45

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