ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

24 January 2017

INSIDE

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BETTER (INF)LATE THAN NEVER

ECONOMIC OVERVIEW

This week's Q4 CPI figures will show headline inflation lifting back into the RBNZ's target band. However, the far more important story is that underlying inflation pressures are increasing too, albeit in a slow manner, which is something we expect to develop further as the year progresses. And while a firmer inflation theme has threatened before only to subsequently peter out – and some of the reasons why that occurred still persist – the sheer number of 'traditional' inflation drivers that are now pointing in the same direction is hard to ignore. It reinforces that the OCR will not stay at these levels indefinitely, even though for now time is still on the RBNZ's side. In other data, the Government's monthly financial statements should be close to HYEFU forecasts, while a modest monthly trade deficit is expected.

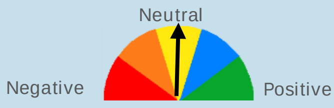
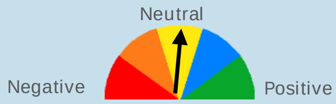
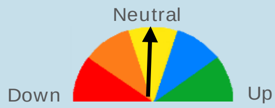
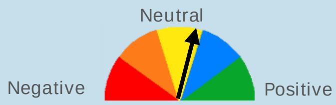
INTEREST RATE STRATEGY

The short end looks set for a period of range-trading, with the upside capped by TWI strength, higher retail interest rates, and positive carry. But equally, the downside will be limited by mortgage and corporate paying interest, and nervousness about the inflation cycle and the potential for OCR hikes in late 2017. Long-end rates continue to track US bond yields, which have, until today's pull-back, been gradually grinding higher on the 'Trump-trade' and generally improving tone of US data. Thus far it has been more hype than action, but with several executive orders already signed by the US President, fiscal rhetoric and his pro-growth and pro-America stance is likely to be challenging for bonds. Offshore participation in the NZGS market is falling but only very gradually. NZD strength (and EUR weakness) is helping keep sellers at bay for now, but equally, it is a hurdle for new investment.

CURRENCY STRATEGY

The NZD remains in a holding pattern, jostled between reflation thematics, liquidity uncertainty amidst higher global yields, USD and political twists and turns, and a local picture that, while looking fully factored, remains differentiated compared to most OECD peers. Growth + yield + fiscal flexibility + political stability are a powerful combination that needs to be acknowledged and respected. With the inflation cycle turning more in the NZD's favour we expect the NZD/AUD to remain supported on dips.

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	4.6% for 2017 Q3	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	
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.	
CPI	1.7% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

This week's Q4 CPI figures will show headline inflation lifting back into the RBNZ's target band. However, the far more important story is that underlying inflation pressures are increasing too, albeit in a slow manner, which is something we expect to develop further as the year progresses. And while a firmer inflation theme has threatened before only to subsequently peter out – and some of the reasons why that occurred still persist (NZD strength, technological impacts, global spare capacity etc) – the sheer number of 'traditional' inflation drivers that are now pointing in the same direction is hard to ignore. It reinforces that the OCR will not stay at these levels indefinitely, even though for now time is still on the RBNZ's side. In other data, the Government's monthly financial statements should be close to HYEFU forecasts, while a modest monthly trade deficit is expected.

FORTHCOMING EVENTS

Government Financial Statements – Nov (10:00am, Thursday, 26 January). It would be a surprise if the numbers prove significantly different from those the Treasury forecast in its Half-year Update.

CPI – Q4 (10:45am, Thursday, 26 January). We expect a 0.3% q/q lift in headline CPI, which would lift annual inflation to 1.2% – the first time back in the RBNZ's target band since Q3 2014.

Overseas Merchandise Trade – Dec (10:45am, Monday, 30 January). We have pencilled in a monthly deficit of $450m and see an improving outlook for trade performance on the back of stronger export values.

WHAT'S THE VIEW?

Evidence continues to mount that New Zealand's inflation cycle has turned, albeit off incredible lows. This week's Q4 CPI figures are expected to show headline inflation returning to the RBNZ's target band for the first time since Q3 2014 on the back of petrol price gains and base effects (we're picking a 0.3% q/q; 1.2% y/y lift). For the same reasons, headline inflation is rising globally. **However, when it comes to the domestic inflation picture at least, the story is becoming far broader than just oil.**

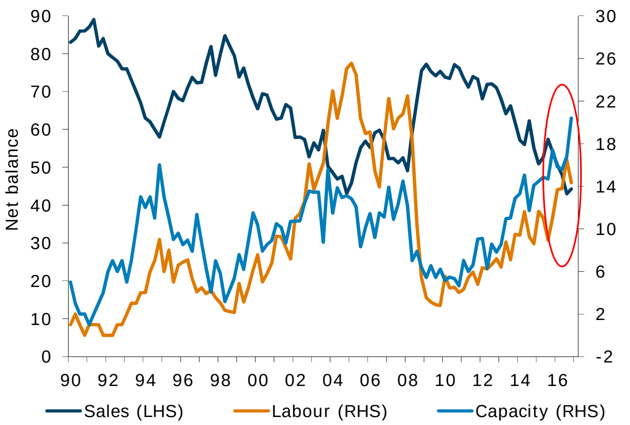
Data to hand already shows that underlying inflation pressures are rising. Non-tradable inflation excluding tobacco and government charges sat at 2.3% y/y in Q3. That is not high in an historical context (it has averaged 2.9% since 2001) but is up from 1.5% in the middle of 2015. Our Monthly Inflation Gauge is pointing to price increases (tentatively at least) broadening beyond just housing, and this is consistent with Q3 CPI data that showed 41% of the CPI basket experienced annual inflation above 2% – the highest proportion in four years. The RBNZ's preferred measure of core inflation – the Sectoral Factor Model – is sitting at 1.5%, which is up from a low of 1.2%; still low, but moving up. **A core element of our forecasts is that underlying inflation will continue to trend higher over the coming years, albeit in a gradual manner.**

Now admittedly, we have been in this position before. Since the financial crisis, there have been periods when inflation has shown signs of emerging (a key rationale behind the RBNZ's two attempts at kicking off tightening cycles over that time) only for those pressures to peter out, for whatever reason. **So what makes this time different?**

A number of 'traditional' drivers of the inflation process are now all lining up.

- **Capacity has been absorbed;** the output gap is positive. Measuring the output gap is of course open to plenty of guess work, and many have underestimated the economy's supply-side potential over recent years, given strong labour utilisation gains. But whichever way we measure it, whether purely statistical (based on trends in GDP data) or using more fundamental approaches (such as modelled estimates of the economy's productive capability), we find that activity is tracking above potential at present ('potential output' being in the sense of 'sustainable' rather than 'maximum possible'). It becomes an even stronger message when you see within the latest QSBO that the percentage of firms stating 'capacity' is their biggest constraint to growth (20%) is the highest on record (and this is a survey that dates back to the 1970s!).

FIGURE 1: FACTOR CONSTRAINTS

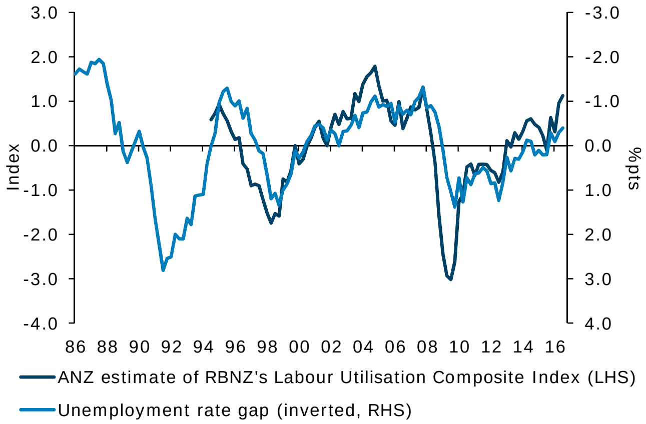


Source: ANZ, NZIER

ECONOMIC OVERVIEW

- **The business cycle is becoming more mature, and with that typically comes waning productivity growth** (and New Zealand's numbers haven't been too flash anyway).
- **The labour market is tightening – rapidly.** Job ads have risen for 16 consecutive months and the job vacancy rate has risen to 4.4% – the highest since 1994 (when our job ads series begins). Finding skilled employees is the biggest problem facing firms according to our Small Business Microscope. Strong net migration and lifts in the labour force participation rate have helped provide some offset to these pressures so far, but the former faces political push-back and each incremental lift in the latter is becoming more difficult (the participation rate already sits at 70.1%, a massive 5.4%pts above Australia's). We estimate that, at 4.9%, the unemployment rate is already below our current spot estimate of NAIRU, and this is consistent with the tightening signal from our estimate of the RBNZ's Labour Utilisation Composite Index. Stronger wage growth should therefore follow. We don't buy into the mumbo-jumbo that the NAIRU is currently in the low 4's; there are far too many frictions in the labour market for that. One of these is the pace of change in the nature of jobs, with which the education system and reskilling of staff just can't keep pace. This leads to greater dispersion in wage settlements as new jobs are created and others become obsolete. Wage growth is lagging tightness in the labour market, but pressure is mounting.

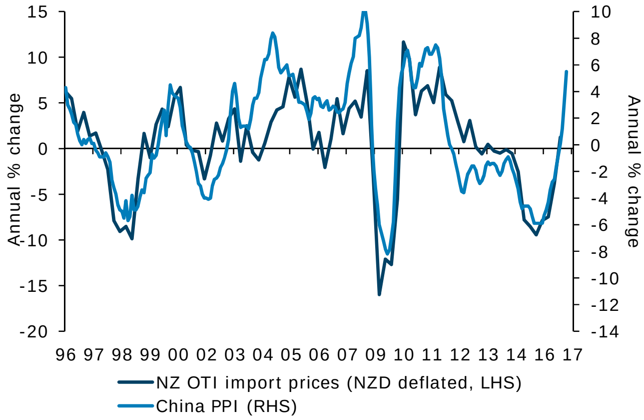
FIGURE 2: UNEMPLOYMENT GAP AND LUCI



Source: ANZ, Statistics NZ, RBNZ

- **The global inflation cycle is turning.** Together with the elevated NZD, weak global inflation has clearly weighed on overall price pressures in New Zealand too. But we note that Chinese PPI inflation is back at a five-year high, suggesting that New Zealand imported inflation will rise, at least in 'world price' terms. Now in many ways this largely reflects movements in commodity prices, and 'core' measures of global inflation are still soft. Nevertheless, it still represents a vastly different backdrop than has been the case over the past couple of years.

FIGURE 3: CHINA PPI AND NZ IMPORT PRICE INFLATION



Source: ANZ, Statistics NZ, Bloomberg

- **Inflation expectations have stabilised / moved up a tad.** The RBNZ's research has noted that prior inflation is having a more important bearing on price-setting behaviour so it warrants some attention though one can also wonder whether it's the dog wagging the tail or the tail wagging the dog. After falling to a low of around 0.6% around the middle of last year, market-based inflation expectations measures have recovered to about 1½%. The RBNZ's own 2-year ahead measure has effectively been unchanged for the past three quarters, while the 1-year ahead measure from our Business Outlook survey rose to a 12-month high of 1.6% to end the year.

As mentioned, there have been periods when one – or even several – of these factors have been providing a similar signal for the inflation outlook. In that regard, you'd be right to treat rising inflation signals with a degree of caution. But the fact that all these drivers are now pointing in a similar direction is telling.

This should not be confused with us turning outright hawkish on the inflationary outlook. Our forecasts don't have headline inflation getting back to the mid-point of the RBNZ's target band until early 2018 (although we are starting to see a risk that that occurs a little earlier). And factors that have contributed to inflation remaining largely MIA in the expansion to date – like NZD strength, the impact of technological change, a competitive retail

ECONOMIC OVERVIEW

environment, persistent spare capacity in many global economies and excessive global leverage (which is deflationary) – still persist. Even though global economic conditions are improving, which is of course encouraging, there are still meaningful risks that could easily derail the recent bounce in commodity prices.

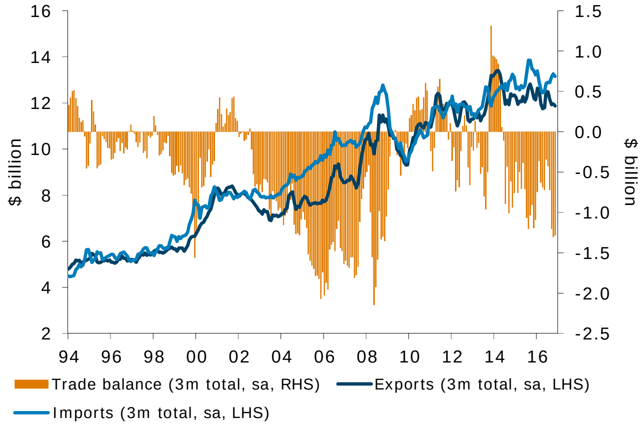
But as things stand, we are comfortable in our view that inflation will continue to lift over this year, even though that has been a forecast ripe for disappointment over recent years. It also means that there is an air of inevitability about the next move in the OCR. It will be up, even though we feel the RBNZ can afford to show some patience.

Given two false starts, RBNZ officials should be waiting until they see the whites of the eyes of inflation before hiking, especially when banks are already tightening policy (lifting retail interest rates) for them. And that means inflation needs to be pretty well at target (2%), as opposed to heading towards it, before reacting. In fact, if inflation pushes a little through target then so be it; the RBNZ has the tools to deal with that and it's a better option than another false start.

Outside of the CPI figures, it is a relatively quiet domestic data calendar this week. The Government's monthly financial statements for the five months to November should be close to Half-year Update forecasts. There will be some interest in how the mid-November central New Zealand earthquakes are impacting revenue and expenditure trends (especially the latter), but that is unlikely to become clear for some months yet. In December, the Treasury assumed that the direct fiscal cost of the earthquake would be $2-3 billion, but that after insurance proceeds and other adjustments, the net cost would be around $1 billion. We still lean towards a larger figure, but certainly acknowledge that with the underlying economy still performing well, and inflation pressures lifting (important for nominal growth), the outlook for the fiscal accounts still looks very good.

Overseas Merchandise Trade figures for December are expected to show a modest monthly deficit of around $450m. While this would correspond with a widening in the annual deficit towards $3.6bn, we believe the underlying trend in the trade accounts is set to gradually begin to improve. Dairy export values are likely to have been reasonable over the final months of the year, even with lower milk production from the usual peak. This is due to strong forward purchasing for the Chinese FTA window and the subsequent higher prices that have been recorded. This will be offset by meat volumes that are likely to have remained subdued, as the season is running later with fewer finishing animals on the ground. Solid domestic demand will also ensure import values remain reasonable.

FIGURE 4: OVERSEAS MERCHANDISE TRADE



Source: ANZ, Statistics NZ

LOCAL DATA

REINZ Housing Market Statistics – Dec. In seasonally adjusted terms, sales volumes fell 0.9% m/m, while the REINZ House Price Index lifted 0.4% m/m.

NZIER QSBO – Q4. A net 28% of firms are confident regarding the economy's prospects. A net 20% of firms also state capacity is their biggest constraint – the highest on record.

GlobalDairyTrade Auction. The GDT-TWI rose 0.6%, with whole milk powder prices down 0.1%.

BNZ-BusinessNZ PMI – Dec. The headline index was largely unchanged at 54.5.

Building Consents Issued – Nov. Total dwelling consent issuance fell 9.2% m/m (sa) due largely to earthquake-related processing disruption in Wellington.

ANZ-Roy Morgan Consumer Confidence – Jan. The index rose 4 points to 128.7 – the highest since April 2015.

BNZ-BusinessNZ PSI – Dec. The Performance of Services Index lifted from an upwardly revised 58.1 to 58.4.

INTEREST RATE STRATEGY

SUMMARY

The short end looks set for a period of range-trading, with the upside capped by TWI strength, higher retail interest rates taking pressure off the RBNZ, and positive carry. But equally, the downside will be limited by mortgage and corporate paying interest, and nervousness about the inflation cycle and the potential for OCR hikes in late 2017. Long-end rates continue to track US bond yields, which have, until today's pull-back, been gradually grinding higher on the 'Trump-trade' and generally improving tone of US data. Thus far it has been more hype than action, but with several executive orders already signed by the US President, fiscal rhetoric and his pro-growth and pro-America stance is likely to be challenging for bonds. Offshore participation in the NZGS market is falling but only very gradually from record highs. NZD strength (and EUR weakness) is helping keep sellers at bay for now, but equally, it is a hurdle for new investment.

THEMES

- Having retraced from its late December high of ~2.65%, the bellwether 2-year swap is back at around 2.4% and looks set to trade a +/-0.1%pt range around that figure.
- Higher US bond yields are running roughshod over local considerations – but it's not just in New Zealand. Despite the ECB's insistence that easy policy is here to stay (and that it could do more), German bund yields continue to rise.
- Global yields were extremely influential on the way down; they will be on the way up too. With global yields leading the way and rate hikes on the horizon here (we think mid-2018 but the market is toying with late-2017), the curve will steepen.
- Kauri issuance has gotten off to a strong start for the year, with $775m of issuance over the past week. The question is, how much of this demand is local and how much is offshore?

MONETARY POLICY AND SHORT END

The short end looks set to range-trade in coming weeks, with the bellwether 2 year swap likely to trade in a ~2.3% to 2.5% range. As things currently stand, we see nothing other than a major CPI surprise that could knock the market out of recent ranges, with further **topside limited by TWI strength, higher retail interest rates doing some of the heavy lifting for the RBNZ** (amid early signs of a cooling housing market), **and extremely attractive roll+carry** (R+C).

On that score we note that **R+C on the 2-year swap has gone from around -1bp per month on September 30th to over +4bps per month at the moment. At face value, that's pretty compelling for those willing to invest/receive**, especially with market pricing of hikes well ahead of our forecasts, the consensus view, and RBNZ November projections.

However, **against a backdrop of a market that is nervous about the potential for mortgage and corporate paying interest**, and mindful that the risk profile leans toward an earlier rather than later start to the tightening cycle, **it's difficult to envisage yields falling too far either.**

GLOBAL MARKETS AND LONG END

US bond yields continue to grind higher (notwithstanding the overnight retracement), fuelled by the so-called 'Trump trade'. **This is putting ongoing upward pressure on local yields.** Higher US yields are having an outsized influence on European markets too – despite soothing words from ECB President Draghi – with markets mindful of promising signs of a lift in European inflation amid higher oil prices. 10-year yields are now negative in just one G10 bond market (Switzerland), and the degree of negativity among 5-year yields is easing as curves steepen. **With New Zealand markets looking towards the RBNZ's next move as a hike, it is natural for the curve to steepen here too.**

STRATEGY

Investors: No change – **our preference for being short duration** remains in place. Curve steepening is expected, this time driven by the long end. **Rising inflation risks suggest that linkers are better value than nominals.**

Borrowers: BKBM is at a record low, but that's cold comfort with term interest rates biased higher. **We believe it makes sense to add to hedges.** But with volatility expected, we prefer to hedge on dips at pre-specified targets. **Offshore funding is cheaper now that basis swap spreads have come in.**

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral	Range trading. While the short end is elevated cf our forecasts, and the potential for pay-side flow remains ever-present, we are mindful of extremely high R+C, the TWI back near 79 and higher retail interest rates.
Long end	Neutral/ bearish	Slow grind higher on Trump trade, Fed/RBNZ tightening expectation, improving US data flow and lifting inflation risks in NZ. But politics and other risks suggest a 'muddle through' gradual trend up.
Yield curve	Biased steeper	Bear steepener driven by the long end ahead of RBNZ hikes in 2018. Short end anchored for now.
Geographic spreads	Neutral/ narrower	Foreigners remain the majority holders of NZGS but fresh demand is absent with NZD here. NZGS tenders have resumed, adding to supply. Mild scope to narrow, with RBNZ on hold and Fed in tightening mode.
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	TWI to remain elevated with NZD particularly strong vs. AUD/EUR/Asia. Will help keep a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

The NZD remains in a holding pattern, jostled between reflation thematics, liquidity uncertainty amidst higher global yields, USD and political twists and turns, and a local picture that, while looking fully factored, remains differentiated compared to most OECD peers. Growth + yield + fiscal flexibility + political stability are a powerful combination that needs to be acknowledged and respected. With the inflation cycle turning more in the NZD's favour we expect the NZD/AUD to remain supported on dips.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔/↑	Local and global data pulse supports	Firmer USD bias ultimately wins
NZD/AUD	↔	Well bid on dips	Headed towards 0.93 by mid-year
NZD/EUR	↔/↑	Politics not euro supportive	Divided outlooks
NZD/GBP	↔/↑	Near term Brexit risks elevated	Brexit execution woes weighing
NZD/JPY	↔	Neutral	USD dictating USD/JPY higher

THEMES AND RISKS

- Recent data remains consistent with improving global growth and inflation prospects. But that is now largely priced, so is fading as a fresh driver.
- More clarity on US fiscal plans is needed before markets will be ready to push a stronger USD once again. Range-trading in the meantime.
- A new era for politics ushers in a new, more volatile era for markets.
- Domestically, strong economic credentials remain firmly NZD supportive.
- We are moving to an environment where the micro is going to become just as important as the macro.

ASSESSMENT

Markets are now showing a reluctance to push the firmer USD theme (the favoured trade at the end of 2016 and early 2017) much further. On the one hand, the strong USD theme may have been dulled a bit by the fact that growth now looks to be improving in many parts of the world, not just the US. Meanwhile for the US, while recent dataflow and Fed-speak have arguably remained consistent with a reflation-type theme, it now looks more or less priced in. Markets are also giving US fiscal promises a healthier dose of scepticism vis-à-vis late 2016, given a lack of specifics and details. US yields are up off their lows (as they should be) but down from their recent highs. Until details emerge on how the new President plans to achieve his economic goals, we believe the market's pendulum between rhetoric and reality is going to lean towards the latter, with volatility the winner on the day.

Key thematics for the market to digest are: (1) Will reflation truly take hold? (2) What is the path for the Fed and global liquidity? (3) What will be the impact across emerging markets of higher rates? (4) Can the transition from monetary policy to fiscal policy take hold? (5) How quickly does the new political paradigm impact on inflation and growth dynamics? **We're not expecting firm answers to any of these questions any time soon, leaving a market low on conviction, but with likely volatile price action.**

While the potential for spikes in volatility remain high in such an environment, we nonetheless find it difficult to go beyond New Zealand's economic story, which remains NZD supportive. Growth (3.5-4%), yield (some of the highest real yields in the OECD), fiscal flexibility (surpluses) and political stability (positive for the microeconomic story and hence medium-term growth) are a powerful combination.

When combined with reflation thematics, this would ordinarily leave us with a firmer NZD bias. However, we prefer to take a more neutral stance, with the rates market now pricing OCR hikes six months in advance of our forecasts, tempering our NZD view somewhat.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Fair value is 0.93
Yield	↔	Risk of early OCR hikes already priced
Commodities	↔	Good for both
Data	↔/↑	Data pulse still stronger in NZ
Techs	↔/↓	Support evident below 0.95
Sentiment	↔	Oscillating
Other	↔	CPI data this week crucial for both
On balance	↔	**Neutral to remaining elevated in 2017**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair value estimate of ~0.75
Yield	↔/↓	Too much tightening priced in here, arguably not enough in the US
Commodities	↔/↑	ToT have based, a key leg of support
Risk aversion	↔	Has potential to add to volatility
Data	↔/↓	Data flow solid in both countries. NZ will slow in 2017 while the US picks up
Techs	↔	Break back above 0.70 significant
Sentiment	↔/↑	Dips have been very well supported
Other	↔	CPI data event risk this Thursday
On balance	↔	**Elevated, rather than higher**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
24-Jan	JN	Nikkei PMI Mfg - Jan P	--	52.4	13:30
	GE	Markit/BME Manufacturing PMI - Jan P	55.4	55.6	21:30
	GE	Markit Services PMI - Jan P	54.5	54.3	21:30
	GE	Markit/BME Composite PMI - Jan P	55.3	55.2	21:30
	EC	Markit Manufacturing PMI - Jan P	54.8	54.9	22:00
	EC	Markit Services PMI - Jan P	53.8	53.7	22:00
	EC	Markit Composite PMI - Jan P	54.5	54.4	22:00
	UK	Public Finances (PSNCR) - Dec	--	£13.5B	22:30
	UK	Public Sector Net Borrowing - Dec	£6.8B	£12.2B	22:30
	UK	PSNB ex Banking Groups - Dec	£6.7B	£12.6B	22:30
25-Jan	US	Markit Manufacturing PMI - Jan P	54.5	54.3	03:45
	US	Existing Home Sales - Dec	5.51M	5.61M	04:00
	US	Existing Home Sales MoM - Dec	-1.8%	0.7%	04:00
	US	Richmond Fed Manufact. Index - Jan	7	8	04:00
	AU	Westpac Leading Index MoM - Dec	--	0.02%	12:30
	JN	Trade Balance - Dec	¥281.1B	¥150.8B	12:50
	JN	Trade Balance Adjusted - Dec	¥209.9B	¥536.1B	12:50
	JN	Exports YoY - Dec	1.1%	-0.4%	12:50
	JN	Imports YoY - Dec	-0.8%	-8.8%	12:50
	AU	Skilled Vacancies MoM - Dec	--	0.0%	13:00
	AU	CPI QoQ - Q4	0.7%	0.7%	13:30
	AU	CPI YoY - Q4	1.6%	1.3%	13:30
	AU	CPI Trimmed Mean QoQ - Q4	0.5%	0.4%	13:30
	AU	CPI Trimmed Mean YoY - Q4	1.6%	1.7%	13:30
	AU	CPI Weighted Median QoQ - Q4	0.5%	0.3%	13:30
	AU	CPI Weighted Median YoY - Q4	1.4%	1.3%	13:30
	NZ	Credit Card Spending MoM - Dec	--	-4.2%	15:00
	NZ	Credit Card Spending YoY - Dec	--	4.1%	15:00
	GE	IFO Business Climate - Jan	111.3	111.0	22:00
	GE	IFO Expectations - Jan	105.8	105.6	22:00
	GE	IFO Current Assessment - Jan	117.0	116.6	22:00
26-Jan	UK	CBI Trends Total Orders - Jan	2	0	00:00
	UK	CBI Trends Selling Prices - Jan	30	26	00:00
	UK	CBI Business Optimism - Jan	-8	-8	00:00
	US	MBA Mortgage Applications - 20-Jan	--	0.8%	01:00
	US	FHFA House Price Index MoM - Nov	0.4%	0.4%	03:00
	NZ	CPI QoQ - Q4	0.3%	0.3%	10:45
	NZ	CPI YoY - Q4	1.2%	0.4%	10:45
	JN	PPI Services YoY - Dec	0.3%	0.3%	12:50
	CH	Industrial Profits YoY - Dec	--	14.5%	14:30
	GE	GfK Consumer Confidence - Feb	10.0	9.9	20:00
	UK	BBA Loans for House Purchase - Dec	41000	40659	22:30
	UK	GDP QoQ - Q4 A	0.5%	0.6%	22:30
	UK	GDP YoY - Q4 A	2.1%	2.2%	22:30
	UK	Index of Services MoM - Nov	0.3%	0.3%	22:30
	UK	Index of Services 3M/3M - Nov	0.9%	1.0%	22:30
27-Jan	UK	CBI Retailing Reported Sales - Jan	27	35	00:00
	UK	CBI Total Dist. Reported Sales - Jan	37	42	00:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
27-Jan	US	Advance Goods Trade Balance - Dec	-$65.0B	-$66.6B	02:30
	US	Wholesale Inventories MoM - Dec P	0.1%	1.0%	02:30
	US	Retail Inventories MoM - Dec	--	1.0%	02:30
	US	Chicago Fed Nat Activity Index - Dec	0.00	-0.27	02:30
	US	Initial Jobless Claims - 21-Jan	247k	234k	02:30
	US	Continuing Claims - 14-Jan	2035k	2046k	02:30
	US	Markit Services PMI - Jan P	54.5	53.9	03:45
	US	Markit Composite PMI - Jan P	--	54.1	03:45
	US	New Home Sales - Dec	586k	592k	04:00
	US	New Home Sales MoM - Dec	-1.0%	5.2%	04:00
	US	Leading Index - Dec	0.5%	0.0%	04:00
	US	Kansas City Fed Manf. Activity - Jan	7	11	05:00
	JN	Natl CPI YoY - Dec	0.2%	0.5%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Dec	-0.3%	-0.4%	12:30
	JN	Natl CPI Ex Food, Energy YoY - Dec	-0.1%	0.1%	12:30
	JN	Tokyo CPI YoY - Jan	0.0%	0.0%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Jan	-0.4%	-0.6%	12:30
	JN	Tokyo CPI Ex Food, Energy YoY - Jan	-0.1%	-0.2%	12:30
	AU	PPI QoQ - Q4	--	0.3%	13:30
	AU	PPI YoY - Q4	--	0.5%	13:30
	AU	Export Price Index QoQ - Q4	12.1%	3.5%	13:30
	AU	Import Price Index QoQ - Q4	0.4%	-1.0%	13:30
	GE	Import Price Index MoM - Dec	1.3%	0.7%	20:00
	GE	Import Price Index YoY - Dec	2.7%	0.3%	20:00
	EC	M3 Money Supply YoY - Dec	4.9%	4.8%	22:00
	GE	Retail Sales MoM - Dec	0.6%	-1.7%	02/04
	GE	Retail Sales YoY - Dec	0.4%	3.2%	02/04
28-Jan	US	GDP Annualized QoQ - Q4 A	2.2%	3.5%	02:30
	US	Personal Consumption - Q4 A	2.5%	3.0%	02:30
	US	GDP Price Index - Q4 A	2.1%	1.4%	02:30
	US	Core PCE QoQ - Q4 A	1.4%	1.7%	02:30
	US	Durable Goods Orders - Dec P	2.7%	-4.5%	02:30
	US	Durables Ex Transportation - Dec P	0.5%	0.6%	02:30
	US	Cap Goods Orders Nondef Ex Air - Dec P	0.2%	0.9%	02:30
	US	Cap Goods Ship Nondef Ex Air - Dec P	0.5%	0.2%	02:30
	US	U. of Mich. Sentiment - Jan F	98.1	98.1	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 mainly stemming from offshore. With inflation showing signs of tentatively lifting, the OCR is on hold, although risks of hikes later this year are non-trivial.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Thu 26 Jan (10:00am)	Government Financial Statements – Nov	Close to forecast	It would be a surprise if the numbers prove significantly different from those in the Treasury's Half-year Update.
Thu 26 Jan (10:45am)	CPI – Q4	Back in the band	Headline inflation should return to the RBNZ's target band and we suspect to see more signs of core inflation lifting off lows.
Mon 30 Jan (10:45am)	Overseas Merchandise Trade – Dec	Looking better	Lifting export commodity prices should eventually flow through into an improvement in the trade balance.
Mon 30 Jan (3:00pm)	RBNZ New Residential Mortgage Lending – Dec	Softer	Compositional changes (away from investors towards first-home buyers) are notable, but new lending growth is expected to continue slowing.
Tue 31 Jan (10:45am)	International Travel & Migration – Dec	Strong	There are few signs that net migrant inflows are slowing and we doubt they will any time soon, given global themes.
Tue 31 Jan (3:00pm)	RBNZ Credit Aggregates – Dec	Easing	The peak in credit growth has passed as LVR restrictions and altered bank behaviour influence.
Wed 1 Feb (10:45am)	Labour Market Statistics – Q4	Strong	Methodological changes cloud the picture, but the figures should again show strong labour demand and a downward bias in the unemployment rate. The key question is whether stronger wage growth starts to show up.
Thu 2 Feb (10:00am)	ANZ Job Ads – Jan	--	--
Fri 3 Feb (1:00pm)	ANZ Commodity Price Index – Jan	--	--
Tue 7 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Ticking up	With headline inflation lifting off lows, we suspect inflation expectations will tick higher also.
Wed 8 Feb (early am)	GlobalDairyTrade Auction	Consolidating	After some strong price gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
Wed 8 Feb (10:00am)	ANZ Truckometer – Jan	--	--
Wed 8 Feb (1:00pm)	ANZ Monthly Inflation Gauge – Jan	--	--
Thu 9 Feb (9:00am)	RBNZ Monetary Policy Statement	On hold	An implicit mild easing bias may remain, but with the economy largely tracking as expected, the message will be one of policy remaining on hold for the foreseeable future.
Thu 9 Feb (10:45am)	Building Consents Issued – Dec	Flattening	Positive tailwinds remain, but we do believe that capital and capacity constraints will increasingly cap the upside.
13-17 Feb	REINZ Housing Market Statistics – Jan	Stabilised	The housing market has cooled from its strong mid-2016 pace. We expect it to stabilise around this cooler level.
Mon 13 Feb (10:45am)	Electronic Card Transactions – Jan	Bounce	Spending was surprisingly soft to end the year. We wouldn't be surprised to see a bounce.
Tue 14 Feb (10:45am)	Food Price Index – Jan	Still low	While some indicators point to higher future food price inflation, price growth looks set to stay low in the near term.
Thu 16 Feb (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Feb	--	--
Fri 17 Feb (10:30am)	BNZ-BusinessNZ PMI – Jan	Holding up	The sector continues to perform relatively well, riding on the coat-tails of a strong domestic economy.
Fri 17 Feb (10:45am)	Retail Trade Survey – Q4	Step down	After a decent pace of spending growth in Q2 and Q3, we expect a more modest rate to end the year.
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation 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	**0.3**	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**	**0.1**
CPI (% yoy)	0.4	**1.2**	**1.5**	**1.5**	**1.7**	**1.7**	**2.1**	**2.2**	**2.2**	**2.0**
Employment (% qoq)	1.4	**0.7**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**
Employment (% yoy)	6.1	**5.9**	**5.2**	**3.3**	**2.2**	**1.9**	**1.7**	**1.6**	**1.5**	**1.4**
Unemployment Rate (% sa)	4.9	**4.8**	**4.8**	**4.7**	**4.6**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**
Current Account (% GDP)	-2.9	**-2.9**	**-3.0**	**-3.1**	**-3.2**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-1.9	**0.6**	**0.8**	**1.0**	**0.8**	**0.6**	**0.3**	**0.5**	**0.0**	**0.0**
Terms of Trade (% yoy)	-2.3	**0.3**	**-2.9**	**0.5**	**3.2**	**3.2**	**2.7**	**2.1**	**1.4**	**0.8**

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Retail ECT (% mom)	0.8	-0.3	1.2	0.2	-1.2	1.9	0.5	-0.1	-0.1	--
Retail ECT (% yoy)	7.8	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8	--
Credit Card Billings (% mom)	2.1	0.1	-0.8	2.4	-0.9	2.9	3.0	-4.2	--	--
Credit Card Billings (% yoy)	9.0	6.1	4.1	5.6	2.2	8.3	10.1	4.1	--	--
Car Registrations (% mom)	6.8	-4.1	-0.8	-0.1	2.6	-3.9	12.7	3.4	-6.1	--
Car Registrations (% yoy)	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	--
Building Consents (% mom)	7.8	-0.3	15.8	-4.4	-3.0	-0.8	2.0	-9.2	--	--
Building Consents (% yoy)	13.7	10.2	39.4	7.9	11.9	14.0	14.0	1.5	--	--
REINZ House Price Index (% yoy)	14.5	14.7	14.2	16.3	11.7	9.7	14.4	14.9	13.5	--
Household Lending Growth (% mom)	0.8	0.7	0.8	0.8	0.8	0.8	0.6	0.6	--	--
Household Lending Growth (% yoy)	7.9	8.1	8.3	8.6	8.7	8.8	8.7	8.6	--	--
ANZ Roy Morgan Consumer Conf.	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7
ANZ Business Confidence	6.2	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7	--
ANZ Own Activity Outlook	32.1	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6	--
Trade Balance ($m)	350	343	107	-351	-1240	-1390	-815	-705	--	--
Trade Bal ($m ann)	52626	52854	52660	52078	51900	51938	51944	51634	--	--
ANZ World Commodity Price Index (% mom)	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7	--
ANZ World Comm. Price Index (% yoy)	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	--
Net Migration (sa)	5500	5590	5740	5670	5670	6330	6230	6220	--	--
Net Migration (ann)	68110	68432	69090	69015	69119	69954	70282	70354	--	--
ANZ Heavy Traffic Index (% mom)	-2.4	-2.5	5.2	-6.3	7.2	-2.3	-0.4	3.8	-0.1	--
ANZ Light Traffic Index (% mom)	0.2	-1.4	2.7	-0.6	1.0	-1.6	-2.1	1.7	0.1	--

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	Nov-16	Dec-16	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.714	0.693	0.722	0.69	0.67	0.65	0.64	0.64	0.65	0.65
NZD/AUD	0.957	0.962	0.954	0.93	0.93	0.93	0.94	0.97	0.98	0.94
NZD/EUR	0.671	0.659	0.672	0.67	0.66	0.64	0.64	0.64	0.62	0.62
NZD/JPY	80.72	81.10	81.66	79.4	77.1	74.8	73.6	73.6	74.8	74.8
NZD/GBP	0.574	0.562	0.578	0.57	0.55	0.54	0.54	0.52	0.52	0.52
NZ$ TWI	77.1	76.1	79.0	75.6	74.1	72.5	72.1	72.4	72.5	71.8
INTEREST RATES	Oct-16	Nov-16	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	2.04	2.00	1.98	2.00	2.00	2.00	2.00	2.20	2.30	2.50
NZ 10-yr bond	3.13	3.33	3.23	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.50	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	0.93	1.00	1.04	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	1.77	1.82	1.78	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	20 Dec	16 Jan	17 Jan	18 Jan	19 Jan	20 Jan
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.02	2.00	1.99	1.99	1.99	1.97
NZGB 03/19	2.28	2.18	2.17	2.19	2.25	2.27
NZGB 05/21	2.70	2.54	2.53	2.54	2.61	2.65
NZGB 04/23	3.00	2.80	2.79	2.79	2.86	2.92
NZGB 04/27	3.42	3.14	3.12	3.10	3.20	3.25
2 year swap	2.43	2.40	2.40	2.40	2.43	2.43
5 year swap	3.07	2.94	2.95	2.94	3.00	3.01
RBNZ TWI	77.38	78.48	78.38	78.94	78.32	78.32
NZD/USD	0.6902	0.7084	0.7182	0.7202	0.7177	0.7170
NZD/AUD	0.9544	0.9486	0.9521	0.9538	0.9501	0.9490
NZD/JPY	81.38	80.95	81.21	81.66	82.31	82.18
NZD/GBP	0.5592	0.5875	0.5905	0.5851	0.5819	0.5794
NZD/EUR	0.6643	0.6692	0.6725	0.6740	0.6735	0.6699
AUD/USD	0.7232	0.7468	0.7543	0.7551	0.7554	0.7555
EUR/USD	1.0390	1.0586	1.0680	1.0686	1.0656	1.0703
USD/JPY	117.91	114.27	113.07	113.39	114.68	114.62
GBP/USD	1.2343	1.2058	1.2162	1.2309	1.2333	1.2375
Oil (US$/bbl)	52.13	52.36	52.36	52.45	51.12	51.39
Gold (US$/oz)	1138.75	1202.80	1206.33	1215.40	1202.93	1207.70
Electricity (Haywards)	4.67	5.25	5.74	6.18	5.97	5.87
Baltic Dry Freight Index	914	925	922	952	942	925
NZX WMP Futures (US$/t)	3570	3250	3250	3350	3350	3300

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