NEW ZEALAND MARKET FOCUS

22 May 2017

INSIDE

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ON GOOD TERMS

ECONOMIC OVERVIEW

A recovering and positive terms of trade outlook (we have lifted our forecasts) is set to boost national income growth. Not only is it another pillar in what is still a decent activity growth picture, stronger income growth (together with restrained consumption) will make it easier to generate the necessary saving to help fund what is still a large investment pipeline without blowing out the current account deficit. This decent nominal growth picture will also be a key element in this week's Budget, helping to drive a pretty rosy fiscal picture. In other data this week, a small trade surplus is likely, while new mortgage lending will likely remain soft, in line with cooler housing market activity.

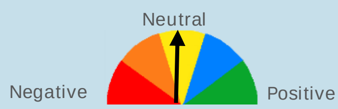
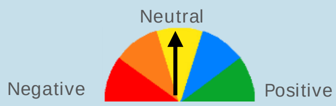
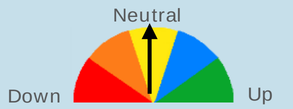
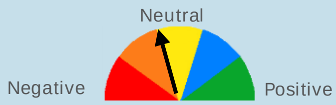
INTEREST RATE STRATEGY

Short-end rates have edged up over the past week on stronger data, but remain reasonably well-confined in the new, lower trading range established since the dovish RBNZ May *MPS*. Looking ahead, we see slightly more scope for downside than upside, given still-attractive roll and carry characteristics and recent NZD consolidation. Long-end rates have moved lower (in line with US bond yields), but what has been more remarkable has been how well the NZ/US bond spread has performed during the rally. We remain strategically bullish NZGS on a spread to the US on account of policy divergence and the latent bid for high-yielding assets, but a tactical pullback in NZGS now seems likely given where outright long-end yields now sit. Linker BEIs continue to grind higher, but have some way to go yet.

CURRENCY STRATEGY

The NZD has held some key levels and the outlook looks more balanced at this juncture. Numerous medium-term drivers still suggest it should head lower (yield, growth and commodity cycle, and our expectations of a pick-up in market volatility). However, we believe moves lower are going to be hard fought given strong terms of trade, low global inflation, strong fair value estimates, global politics, and the increasing importance of sound micro-economics as a driver of growth and thus currencies. In fact the risks are that we see topside squeezes.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q4	Soft Q4 GDP figures are not a true reflection of the state of the economy. While momentum is forecast to ease, it should remain decent overall.	
Unemployment rate	4.7% for 2017 Q4	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 Dec 2017	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	2.0% y/y for 2017 Q4	Headline inflation is now back at the target mid-point. Domestic and core inflation are also gradually lifting.	

ECONOMIC OVERVIEW

SUMMARY

A recovering and positive terms of trade outlook (we have lifted our forecasts) is set to boost national income growth. Not only is it another pillar in what is still a decent activity growth picture, stronger income growth (together with restrained consumption) will make it easier to generate the necessary saving to help fund what is still a large investment pipeline without blowing out the current account deficit. This decent nominal growth picture will also be a key element in this week's Budget, helping to drive a pretty rosy fiscal picture. In other data this week, a small trade surplus is likely, while new mortgage lending will likely remain soft, in line with cooler housing market activity.

FORTHCOMING EVENTS

Overseas Merchandise Trade – April (10:45am, Wednesday, 24 May). Given an expected lift in horticultural exports after a late harvest, and recent improvement in export commodity prices, we have pencilled in a monthly trade surplus of $360m.

RBNZ New Mortgage Lending – April (3:00pm, Wednesday, 24 May). In line with weaker housing market turnover in the month, new lending figures are likely to be relatively soft.

Budget Economic & Fiscal Update (2:00pm, Thursday, 25 May). We expect a 2016/17 OBEGAL surplus of around 0.7% of GDP, with this projected to grow towards 3% of GDP by 2020/21. Net debt will likely be projected to fall towards 18% of GDP.

WHAT'S THE VIEW?

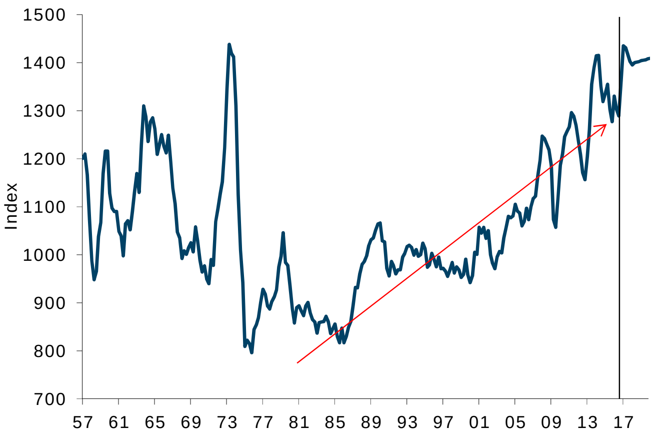
The terms of trade is on the ascent and set to boost income growth. There are a few different elements to this.

- **Conditions in the dairy sector have improved.** We have lifted our 2017/18 milk price forecast to $6.75/kg MS and also see some further modest upside (perhaps $0.15 to $0.20/kg MS) for the 2016/17 year-end milk price. Repayment of debt will be a priority for farmers, as will deferred capital spending (which reached unsustainably low levels during 2014/15 and 2015/16). However, with the break-even for the sector likely to now be in the low-$5's, this improved revenue outlook will see some spare cash emerging in the sector later this year.
- **That is despite stronger global milk supply growth.** While we do expect global supply to lift as 2017 progresses, robust demand from China and the Middle East should be able to absorb that, keeping whole milk powder prices within a US$2,800 to US$3,400/tonne range.
- **The broader commodity basket is holding in at good levels.** Our ANZ Commodity Price Index is up 24% y/y and it is not just about dairy prices. Our non-dairy price index is up 5.5% since December and 13% since January 2016. Generally improved supply-demand dynamics are also expected to keep non-dairy export prices supported.
- **Imported inflation is benign.** Global oil prices are struggling to push much above US$55/bbl with US production at strong levels and global inventories elevated. Throw in the broader deflationary forces that are keeping inflation contained around the globe, and it doesn't look like import prices are going to run away on us.
- **New Zealand appears nicely placed in a secular sense.** We export milk, meat, seafood and forestry products, to name but a few. We import technology products, cars, clothing and electronics etc. We're backing the former to hold up better than the latter on the pricing front.
- **Eyeball figure 1 below and you can see numerous commodity price cycles over past decades, but a steady upwards trend in the terms of trade.** That trend is the secular theme permeating and we expect it to continue.

We now see it as quite possible that when Q1 OTI figures are released next week, they could show the merchandise terms of trade surging to a new all-time high – and this is data that goes back to the mid-1950s!

We forecast these gains to generally be maintained over the next few years, providing the economy with a meaningful purchasing power boost.

FIGURE 1: TERMS OF TRADE (OTI)



Source: ANZ, Statistics NZ

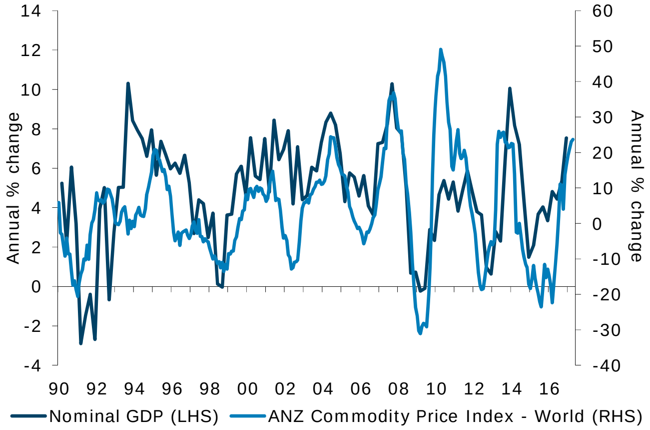
ECONOMIC OVERVIEW

Some key implications include:

- **A tailwind for real GDP.** As a rough rule of thumb, a 1% change in the terms of trade boosts real GDP growth by 0.15 percentage points over the subsequent two years. So the roughly 10% uplift in the terms of trade in the 12 months to September this year should provide a real growth boost of around 1.5%pts over the next two years.

- **Stronger nominal growth.** We now forecast nominal GDP growth to average 6.0% over the year to December 2017. Real gross national disposable income is forecast to average 5.4%.

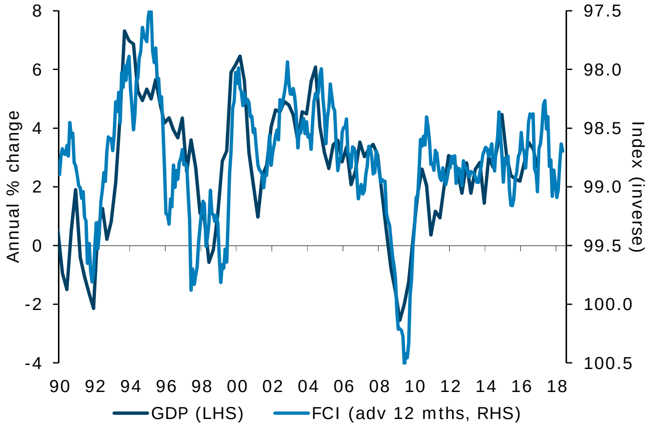
FIGURE 2: NOMINAL GDP AND COMMODITY PRICES



Source: ANZ, Statistics NZ

- **It helps to offset the tightening in financial conditions being experienced through other channels.** Higher interest rates, tighter lending conditions and cooler asset price growth have seen financial conditions tighten from where they were 12 months ago. However, the recent fall in the NZD, in conjunction with the stronger terms of trade, has provided a key offset, particularly over the past couple of months.

FIGURE 3: FINANCIAL CONDITIONS VS GDP GROWTH



Source: ANZ, Statistics NZ

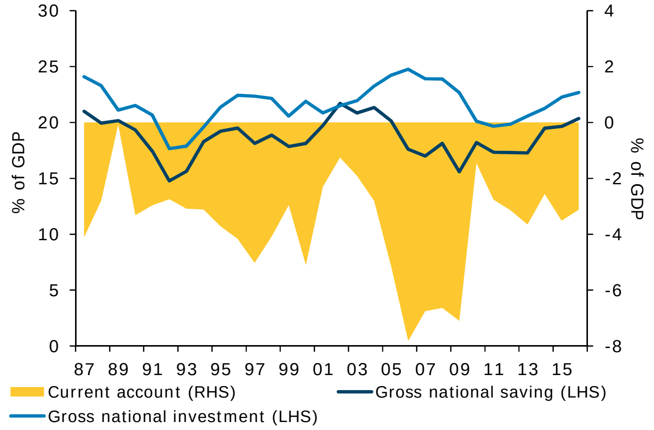
- **A higher terms of trade and lower NZD do not tend to go hand in hand.** A stronger terms of trade will support the NZD at solid levels. So brace for the NZD to hold up.

- **The RBNZ will need to be alert to the potential inflationary consequences of such an income boost.** Recall, a declining terms of trade was one significant factor behind the RBNZ starting to cut the OCR in 2015.

Stronger income generation will help the economy lift savings. That's premised on an assumption that we don't 'blow all the loot', which historically we have admittedly tended to do.

As we wrote in last week's *Market Focus*, the reduced desire from banks to fund New Zealand's saving shortfall overseas (due to prudential limits, credit rating agency watchfulness, and the general lessons learned from the financial crisis), **means that in order for the economy's large pipeline of investment to continue, national saving will need to lift to finance it.**

FIGURE 4: NATIONAL SAVING AND INVESTMENT



Source: ANZ, Statistics NZ

It's simple maths. Either national saving lifts or investment falls. Now admittedly, that's probably a little too black and white; there is of course scope to fill the gap to some extent with offshore capital, as we've done for years via a modest current account deficit of up to say 4% of GDP. But anything larger and the net external debt position relative to the size of the economy (it's 55% of GDP now) will start to rise again and that will get [negative] attention.

The onus needs to be on lifting domestic savings and stronger income growth helps. It certainly doesn't completely avert what will be tensions and trade-offs, and we still believe that consumption growth will remain relatively constrained going forward, especially on a per capita basis. But consumption would need to be far more constrained

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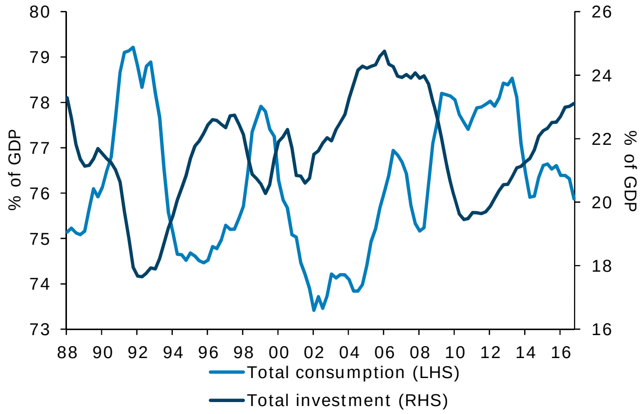
if national income growth were soft at the same time. Therefore the lift in saving can hopefully occur largely through a reduced marginal propensity to consume rather than consumption growth actually falling meaningfully. Within our forecasts, one of the key overriding themes is that investment's share of GDP continues to rise, while consumption's share continues to fall off highs.

FIGURE 5: INVESTMENT AND CONSUMPTION SHARES OF NOMINAL GDP



Source: ANZ, Statistics NZ

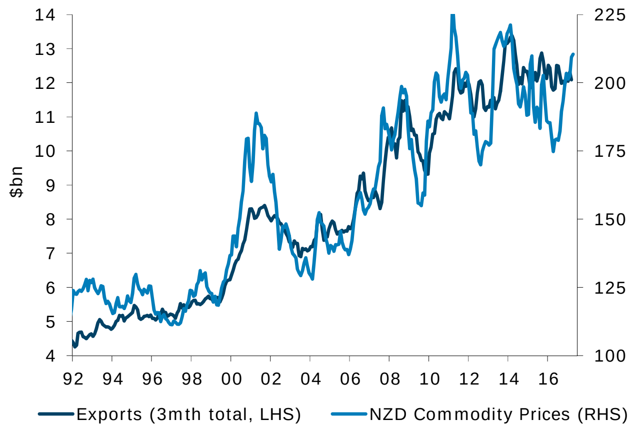
The decent nominal growth picture will also be a key feature of this week's Budget, helping to deliver what should be a pretty rosy fiscal picture overall. We wouldn't be surprised to see the projected level of nominal GDP around 2% higher by 2020/21 than the track the Treasury projected in the Half-year Update. And together with a better-than-expected starting point (tax revenue is well above forecasts and core Crown expenses lower than forecast), this should correspond with larger projected surpluses and lower debt levels. We expect OBEGAL surpluses to grow towards 3% of GDP and net debt to head towards 18% of GDP by 2020/21.

While the temptation will be there, we don't believe this positive backdrop will entice the Government into significantly changing its fiscal approach. Yes it is an election year and we have already seen announcements with regards to new infrastructure spending and additional spending for social initiatives. Personal tax cuts also continue to be mooted and we wouldn't rule out them being pencilled in (perhaps through tax bracket changes) this fiscal year or next. However, given the word "resilience" was used 10 times in the Minister of Finance's pre-Budget speech, it is clear that the Government's mind-set of fiscal prudence and the building up of its rainy-day coffers has not changed a great deal. The announcement of a new net debt target of 10-15% of GDP by 2025 reinforces that. We expect to see core Crown expenses continue to be projected to fall as a share of the economy.

With the fiscal accounts in surplus, the Government has runs on the board and wickets to play with – and it's happened without upping taxes. Potential challenges remain. The business cycle tends to turn every 10 years so you need to allow for the risk of a downturn. There will be the usual demands for more spending. Fixing New Zealand's housing challenges is going to cost a lot more. And wage inflation demands will become more of a focal point. Even allowing for such developments, the position to absorb such challenges is a strong one.

Outside of the Budget, it is another reasonably quiet week for local data. We expect overseas trade figures for April to show a monthly (unadjusted) surplus of $360m. Part of that just reflects seasonality. However, we have also seen some improvement in underlying drivers. Certainly NZD export prices have been performing well. But a good end of summer and early autumn for most farmers has lifted milk flow, which should result in higher volumes of dairy exports over the months ahead, and there should also be some catch-up for meat export volumes after a slow start. The picking season was also late for key horticultural crops (kiwifruit and pipfruit) this year, making for a more condensed start to the marketing year. Add on top of that capped oil prices and risks that car imports may begin to ease off elevated levels, and we see the trade deficit starting to narrow in both seasonally adjusted and trend terms.

FIGURE 6: EXPORT VALUES AND NZD COMMODITY PRICES



Source: ANZ, Statistics NZ

RBNZ new mortgage lending figures for April are likely to remain soft. We estimate that new lending bounced 5% m/m in seasonally adjusted terms in March, which was the first increase in three months and only the fourth monthly increase in the past 12 months. It was consistent with a lift in overall housing market turnover seen in March too.

ECONOMIC OVERVIEW

However, with market turnover falling sharply again in April (we estimate -13% m/m seasonally adjusted), it wouldn't be surprising to see new lending growth follow suit. As the figure below shows, the two tend to move fairly closely together.

FIGURE 7: NEW MORTGAGE LENDING AND HOUSING MARKET TURNOVER

Source: ANZ, RBNZ, REINZ

We will also be keeping an eye on the composition of lending. While there has been a slowing in new lending growth across the board, lending to investors has seen the greatest fall (it was down 32% y/y in March). This is not at all surprising. given the RBNZ's LVR restrictions. We are not expecting much in the way of change in this picture.

LOCAL DATA

GlobalDairyTrade auction. The GDT TWI rose 3.2%, with whole milk powder prices rising 1.3%.

Producer Price Index – Q1. Input prices rose 0.8% q/q (4.2% y/y), while output prices lifted 1.4% q/q (4.1% y/y).

ANZ Consumer Confidence – May. The headline index lifted from 121.7 to 123.9.

International Travel and Migration – April. In seasonally adjusted terms, a net migrant inflow of 5,780 was seen, with visitor arrivals rising 3.5% m/m.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates have edged up over the past week on stronger data, but remain reasonably well-confined in the new, lower trading range established since the dovish RBNZ May *MPS*. Looking ahead, we see slightly more scope for downside than upside, given still-attractive roll and carry characteristics and recent NZD consolidation. Long-end rates have moved lower (in line with US bond yields), but what has been more remarkable has been how well the NZ/US bond spread has performed during the rally. We remain strategically bullish NZGS on a spread to the US on account of policy divergence and the latent bid for high-yielding assets, but a tactical pullback in NZGS now seems likely given where outright long-end yields now sit. Linker BEIs continue to grind higher, but have some way to go yet.

THEMES

- Both short and long-end rates are at somewhat of an inflection point at the moment.
- The short end is caught in a tussle between what has been (and is set to remain) an upbeat data pulse, and the RBNZ's relaxed policy outlook. However, the NZD remains a key shock absorber.
- On balance we see more scope for mild downside than upside at the short end, with the 2-year swap in a 2.20%/2.25% range.
- NZD performance is also a strong driver of offshore bond inflows, and the recent consolidation bodes well for a resumption of flows. NZ/US bond spread performance points to strong demand.
- However, long-end yields have come a long way in a short period of time, and with spreads and US yields at the year's lows, NZGS yields are rich.
- NZGS linkers have performed well since the *MPS*, but breakevens have a lot further to run yet.

MONETARY POLICY AND SHORT END

The short end is being pulled in two directions as the RBNZ's neutral stance goes head to head with what has been, and is set to remain, an upbeat data pulse. However, while the latter leaves us somewhat reluctant to 'chase' the short end lower, it continues to earn attractive roll+carry, and has an important ally on its side: the NZD, which has scope to absorb 'good' news, and add to returns for offshore investors.

Although one could argue that the NZD is simply responding to better data and dairy prices, any further appreciation also buys the RBNZ more time on the inflation front. Indeed, **this is exactly what the NZD should be – and is – doing; acting as a shock absorber and leaving less work for the RBNZ to do. The RBNZ's workload is also being reduced by the fact that household financial conditions are tightening gradually** as mortgage and deposit rates inch higher.

On balance, with monetary policy on hold for the foreseeable future, and the market still pricing in ~40% odds of a hike by February, short-end yields have slightly more scope to fall than rise. But in the context of a 2.20%/2.25% trading range for the 2-year swap, prospective moves remain very small.

GLOBAL MARKETS AND LONG END

Local long-end rates continue to grind lower, taking the yield on the NZGS 4/27 bond to the year's lows. Still, while we remain strategically bullish the NZ/US spread on account of policy divergence and still-strong demand for yield (clearly evidenced by strong bidding at last Thursday's NZGS tender), recent moves have been swift. With spread and outright yield at low levels, against a backdrop of what we ultimately expect to be higher global bond yields by year-end, a tactical pullback seems likely.

We remain upbeat on NZGS linkers. BEIs continue to grind slowly higher, but have further to go yet, in our view. We regard the RBNZ's determination to get inflation sustainably back to target as good news for the linkers, especially with inflation breakevens (currently around 1.2% to 1.3%) still far below the Bank's inflation target mid-point (2%).

STRATEGY

Investors: We remain mildly bullish the short end but there's not much in it. We prefer to be **nimble at the long end** given the split tactical/strategic outlook. **We are bullish linkers** (BEIs are too low).

Borrowers: No change. **BKBM is at a record low, and is set to remain so for a time, but our forecasts have swap rates going higher.** Caution is required given the global scene, but the recent fall in swap rates presents opportunities.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Mildly bullish	Scope to grind gradually lower. R+C still attractive even now, and RBNZ on hold for a long time.
Long end	Neutral	More bullish NZ on a spread than outright, but recent performance has made NZGS expensive and due for a pullback. US yields to rise, but difficult to be extremely bearish bonds given benign core inflation globally.
Yield Curve	Steeper	Strategically favour a steepener, based largely on divergent policy and divergent short/long-end views.
Geographic spreads	Neutral/ narrower	NZ/US spread performance exceptional. Should narrow further over the year as USTs grind higher (especially given the RBNZ's neutral stance). However, a breather seems likely near term.
Swap spreads	Neutral/wider	NZGS demand strong. Some risk that corporate paying picks up with yields back at much lower levels.
NZD/TWI	Consolidating	Has weakened of late but is now in consolidation mode. Needs to be lower for longer to matter for OCR.

CURRENCY STRATEGY

SUMMARY

The NZD has held some key levels and the outlook looks more balanced at this juncture. Numerous medium-term drivers still suggest it should head lower (yield, growth and commodity cycle, and our expectations of a pick-up in market volatility). However, we believe moves lower are going to be hard fought given strong terms of trade, low global inflation, strong fair value estimates, global politics, and the increasing importance of sound micro-economics as a driver of growth and thus currencies. In fact the risks are that we see topside squeezes.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Oscillating	Fed hiking = USD up
NZD/AUD	↔/↑	NZ has the credentials	Still higher
NZD/EUR	↔	Political situation less volatile	Europe needs structural reform
NZD/GBP	↔	UK election to bolster confidence	Valuation says lower, Brexit challenges say higher
NZD/JPY	↔	In a holding pattern	USD/JPY direction doesn't look clear

THEMES AND RISKS

- Politics dominates economics with the USD suffering as a result.
- Bigger political crisis in Brazil sees equities and the BRL thumped.
- Market volatility picks up a tad but equities hold reasonably firm.
- Dairy prices continue to rise and New Zealand's terms of trade profile is looking better; that's NZD positive.
- New Zealand's Budget is expected to be rosy.

ASSESSMENT

The NZD has held some key levels and the risk profile is more balanced at this juncture.

Looking at the six-month picture we remain biased towards a weaker NZD profile.

Three key factors are:

- Inevitability of a narrowing yield differential with the rest of the world. Market pricing for a Fed hike in June (~60%) looks underdone.
- Risks surrounding the global commodity cycle amidst inventory concerns and attempts to slow China's credit growth.
- Policy uncertainty is high and we expect this to manifest in market volatility and hence in trade flows and economic indicators in the back half of the year. Firms often resist investing in times of policy uncertainty and we have plenty of that. The global data pulse is positive, suggesting ongoing growth; but it's easing.

But moves lower are going to be hard fought:

- Global core inflation nuances are not rising in a sustained fashion.
- The NZD has tailwinds from the recovery in the terms of trade, strong domestic growth (though the growth cycle has peaked), and a rosy Budget.
- Valuations point higher, not lower for the NZD, so cyclical factors such as yield are working against long-run valuation metrics. One key input into long-run valuation calculations is the terms of trade, which as noted on page 2, look set to hit a new high.
- Microeconomics and countries that show 'good' policy elements are going to be rewarded; New Zealand stands tall here.

We are more neutral in the near term and in fact more biased towards top-side prodding. Market positioning is still short NZD. The USD looks vulnerable. The bounce off 0.6880 looks significant and sets up a test of 0.6960 (the 55-day moving average). Political fracturing shows no signs of abating in the US, leaving the market prone to being whip-sawed. The good news story will roll on in New Zealand this week with market-friendly Budget figures and the allure of possible tax cuts.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Fair value is 0.93. In line.
Yield	↔/↑	NZ inflation cycle says wider differential.
Commodities	↔/↑	NZ's terms of trade looking good.
Data	↔/↑	In NZ's favour.
Techs	↔	Continues to wash around 0.93.
Sentiment	↔	Being checked by dovish RBNZ and surprisingly strong AU employment.
Other	↑	NZ Budget will be poles apart from AU.
On balance	↔/↑	**We still like it higher.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔/↓	Fed still set to hike in June.
Commodities	↔/↑	We don't like the broad commodity picture but NZ's strengthening terms of trade needs to be respected.
Risk aversion	↔/↓	Tied in with the commodity bloc.
Data	↔/↑	NZ data pulse looks good. US mixed.
Techs	↔	0.6850 – 0.6960 range.
Sentiment	↔/↑	Need to acknowledge NZ positives.
Other	↔/↑	Politics key, and NZ better than most.
On balance	↔	**More neutral in the near-term.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
23-May	US	Chicago Fed Nat Activity Index - Apr	0.10	0.08	00:30
	AU	ANZ-RM Consumer Confidence Index - 21-May	--	109.4	11:30
	GE	GDP SA QoQ - Q1 F	0.6%	0.6%	18:00
	GE	GDP WDA YoY - Q1 F	1.7%	1.7%	18:00
	GE	GDP NSA YoY - Q1 F	2.9%	2.9%	18:00
	GE	Exports QoQ - Q1	1.5%	1.8%	18:00
	GE	Imports QoQ - Q1	1.0%	3.1%	18:00
	GE	Markit/BME Manufacturing PMI - May P	58.0	58.2	19:30
	GE	Markit Services PMI - May P	55.5	55.4	19:30
	GE	Markit/BME Composite PMI - May P	56.6	56.7	19:30
	EC	Markit Manufacturing PMI - May P	56.5	56.7	20:00
	EC	Markit Services PMI - May P	56.4	56.4	20:00
	EC	Markit Composite PMI - May P	56.7	56.8	20:00
	GE	IFO Business Climate - May	113.1	112.9	20:00
	GE	IFO Expectations - May	105.4	105.2	20:00
	GE	IFO Current Assessment - May	121.0	121.1	20:00
	UK	Public Finances (PSNCR) - Apr	--	£34.3B	20:30
	UK	Central Government NCR - Apr	--	£18.3B	20:30
	UK	Public Sector Net Borrowing - Apr	£8.0B	£4.4B	20:30
	UK	PSNB ex Banking Groups - Apr	£8.8B	£5.1B	20:30
	UK	CBI Retailing Reported Sales - May	10.0	38.0	22:00
	UK	CBI Total Dist. Reported Sales - May	31.0	44.0	22:00
24-May	US	Markit Manufacturing PMI - May P	53.1	52.8	01:45
	US	Markit Services PMI - May P	53.3	53.1	01:45
	US	Markit Composite PMI - May P	--	53.2	01:45
	US	New Home Sales - Apr	610k	621k	02:00
	US	New Home Sales MoM - Apr	-1.8%	5.8%	02:00
	US	Richmond Fed Manufact. Index - May	15.0	20.0	02:00
	NZ	Trade Balance NZD - Apr	267M	332M	10:45
	NZ	Exports NZD - Apr	4.40B	4.65B	10:45
	NZ	Imports NZD - Apr	4.10B	4.31B	10:45
	NZ	Trade Balance 12 Mth YTD NZD - Apr	-3790M	-3671M	10:45
	AU	Westpac Leading Index MoM - Apr	--	0.1%	12:30
	AU	Skilled Vacancies MoM - Apr	--	-0.6%	13:00
	AU	Construction Work Done - Q1	-0.5%	-0.2%	13:30
	GE	GfK Consumer Confidence - Jun	10.2	10.2	18:00
	US	MBA Mortgage Applications - 19-May	--	-4.1%	23:00
25-May	US	FHFA House Price Index MoM - Mar	0.5%	0.8%	01:00
	US	House Price Purchase Index QoQ - Q1	--	1.5%	01:00
	US	Existing Home Sales - Apr	5.65M	5.71M	02:00
	US	Existing Home Sales MoM - Apr	-1.1%	4.4%	02:00
	US	FOMC Meeting Minutes - 3 May	--	--	06:00
	NZ	NZ Budget 2017	--	--	14:00
	UK	BBA Loans for House Purchase - Apr	40800	41061	20:30
	UK	GDP QoQ - Q1 P	0.3%	0.3%	20:30
	UK	GDP YoY - Q1 P	2.1%	2.1%	20:30
	UK	Exports QoQ - Q1 P	0.5%	4.6%	20:30
	UK	Imports QoQ - Q1 P	0.8%	-1.0%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-May	UK	Index of Services MoM - Mar	0.0%	0.2%	20:30
	UK	Index of Services 3M/3M - Mar	0.3%	0.5%	20:30
	UK	Total Business Investment QoQ - Q1 P	0.3%	-0.9%	20:30
	UK	Total Business Investment YoY - Q1 P	--	-0.9%	20:30
26-May	US	Advance Goods Trade Balance - Apr	-$64.7B	-$64.2B	00:30
	US	Wholesale Inventories MoM - Apr P	0.2%	0.2%	00:30
	US	Retail Inventories MoM - Apr	--	0.4%	00:30
	US	Initial Jobless Claims - 20-May	238k	232k	00:30
	US	Continuing Claims - 13-May	1925k	1898k	00:30
	US	Kansas City Fed Manf. Activity - May	9.0	7.0	03:00
	JN	Natl CPI YoY - Apr	0.4%	0.2%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Apr	0.4%	0.2%	11:30
	JN	Natl CPI Ex Fresh Food, Energy YoY - Apr	0.0%	-0.1%	11:30
	JN	Tokyo CPI YoY - May	0.0%	-0.1%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - May	0.0%	-0.1%	11:30
	JN	Tokyo CPI Ex-Fresh Food, Energy YoY - May	-0.1%	-0.1%	11:30
	JN	PPI Services YoY - Apr	0.9%	0.8%	11:50
27-May	US	GDP Annualized QoQ - Q1 S	0.9%	0.7%	00:30
	US	Personal Consumption - Q1 S	0.4%	0.3%	00:30
	US	GDP Price Index - Q1 S	2.3%	2.3%	00:30
	US	Core PCE QoQ - Q1 S	2.0%	2.0%	00:30
	US	Durable Goods Orders - Apr P	-1.5%	0.9%	00:30
	US	Durables Ex Transportation - Apr P	0.4%	0.0%	00:30
	US	Cap Goods Orders Nondef Ex Air - Apr P	0.5%	0.5%	00:30
	US	Cap Goods Ship Nondef Ex Air - Apr P	--	0.5%	00:30
	US	U. of Mich. Sentiment - May F	97.5	97.7	02:00
	CH	Industrial Profits YoY - Apr	--	23.8%	13:30
	GE	Retail Sales MoM - Apr	--	0.1%	27 May - 4 Jun
	GE	Retail Sales YoY - Apr	--	2.3%	27 May - 4 Jun

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

Looking through the weak Q4 GDP figures, we still believe domestic economic momentum is solid after a patchy start to the year. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards, but probably not until 2018.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 24 May (10:45am)	Overseas Merchandise Trade – Apr	Improving	The recent lift in NZD commodity prices should increasingly flow through and lend support to export values.
Wed 24 May (3:00pm)	RBNZ New Residential Mortgage Lending – Apr	Soft	In line with weaker housing market turnover in the month, new lending figures are likely to be relatively soft.
Thu 25 May (2:00pm)	Budget Economic and Fiscal Update	Robust	The fiscal numbers should look solid, and we are expecting the details to contain a few election year sweeteners, especially on the social policy front.
Tue 30 May (10:45am)	Building Consents Issued – Apr	Opposing forces	Demand support is clear, but the upside is being capped by capacity and credit constraints.
Wed 31 May (9:00am)	RBNZ Financial Stability Report	Concerns remain	The RBNZ will have not felt that it has won the housing battle yet. Financial stability concerns will remain.
Wed 31 May (1:00pm)	ANZ Business Outlook – May	--	--
Thu 1 Jun (10:45am)	Overseas Trade Indexes – Q1	Up	Strong NZ export commodity prices should more than offset a lift in oil prices, boosting the terms of trade.
Thu 1 Jun (5:00am)	QV House Price Index – May	Flattening	Cooling housing market activity, particularly in Auckland, is leading to slower price growth.
Fri 2 Jun (3:00pm)	RBNZ Sectoral Lending – Apr	Cooling	We expect the rate of overall private sector credit growth to continue to cool.
Tue 6 Jun (10:45am)	Building Work Put in Place – Q1	Mixed bag	Strong non-residential construction offsetting a mixed residential picture.
Tue 6 Jun (1:00pm)	ANZ Commodity Price Index – May	--	--
Wed 7 Jun (10:00am)	ANZ Job Advertisements – May	--	--
Wed 7 Jun (early am)	GlobalDairyTrade auction	Stable to up	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Wed 7 Jun (10:45am)	Quarterly Manufacturing Survey – Q1	Solid	Very strong PMI outturns reflect the support the construction boom is providing to the manufacturing sector.
Thu 8 Jun (10:00am)	ANZ Truckometer – May	--	--
TBC	REINZ Housing Market Statistics – May	Cooling	Slowdown likely to remain most marked in Auckland.
Mon 12 Jun (10:45am)	Electronic Card Transactions – May	Restrained	Recoil is likely after a strong April outturn. Looking through the noise, retail trends remain modest.
Mon 12 Jun (1:00pm)	ANZ Monthly Inflation Gauge – May	--	--
Wed 14 Jun (10:45am)	Balance of Payments – Q1	Narrower	A further mild narrowing in the current account deficit is quite possible.
Wed 14 Jun (10:45am)	Food Price Index – May	Temporary	After a large increase over the March quarter, we suspect prices will start to unwind. That said, poor autumn weather could delay this move.
Thu 15 Jun (10:45am)	GDP – Q1	Bounce	After the soft end to 2016, we expect to growth to rebound. At this stage our forecast is 1.1% q/q, although there is admittedly some downside risk to that.
Fri 16 Jun (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jun	--	--
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is gradually lifting.**

KEY FORECASTS AND RATES

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (% qoq)	0.4	**1.1**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**
GDP (% yoy)	2.7	**3.1**	**3.1**	**3.0**	**3.2**	**2.7**	**2.4**	**2.2**	**2.1**	**2.1**
CPI (% qoq)	0.4	1.0	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.6**	**0.2**	**0.7**
CPI (% yoy)	1.3	2.2	**2.0**	**2.2**	**2.0**	**1.7**	**2.0**	**2.1**	**2.2**	**2.2**
Employment (% qoq)	0.7	1.2	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.8	5.7	**3.9**	**2.9**	**2.5**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**
Unemployment Rate (% sa)	5.2	4.9	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**
Current Account (% GDP)	-2.7	**-2.7**	**-2.6**	**-2.4**	**-2.4**	**-2.5**	**-2.7**	**-2.8**	**-3.0**	**-3.1**
Terms of Trade (% qoq)	5.7	**5.4**	**-0.3**	**-1.0**	**-1.1**	**-0.5**	**0.4**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	6.7	**7.9**	**9.8**	**9.9**	**2.9**	**-2.8**	**-2.2**	**-1.1**	**0.0**	**0.6**

	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Retail ECT (% mom)	-1.1	1.9	0.5	0.0	0.1	2.6	-0.6	-0.3	1.1	--
Retail ECT (% yoy)	3.2	6.1	4.2	5.1	5.8	5.6	2.6	5.6	4.5	--
Credit Card Billings (% mom)	-1.0	2.9	2.9	-4.1	3.0	0.3	-1.4	0.8	--	--
Credit Card Billings (% yoy)	2.3	8.3	10.1	4.2	8.5	7.1	5.3	7.1	--	--
Car Registrations (% mom)	2.5	-3.9	13.0	3.1	-6.4	1.6	0.4	3.4	-2.9	--
Car Registrations (% yoy)	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	3.0	--
Building Consents (% mom)	-2.4	1.1	0.3	-8.4	-8.5	4.1	17.1	-1.8	--	--
Building Consents (% yoy)	11.8	17.1	13.9	2.3	-10.7	-1.0	9.0	17.3	--	--
REINZ House Price Index (% yoy)	11.7	9.7	14.4	14.9	13.5	11.7	10.5	11.1	9.9	--
Household Lending Growth (% mom)	0.8	0.8	0.6	0.6	0.7	0.5	0.5	0.5	--	--
Household Lending Growth (% yoy)	8.7	8.7	8.7	8.6	8.8	8.7	8.5	8.4	--	--
ANZ Roy Morgan Consumer Conf.	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9
ANZ Business Confidence	15.5	27.9	24.5	20.5	21.7	..	16.6	11.3	11.0	--
ANZ Own Activity Outlook	33.7	42.4	38.4	37.6	39.6	..	37.2	38.8	37.7	--
Trade Balance ($m)	-1240	-1388	-798	-723	-1	-250	-50	332	--	--
Trade Bal ($m ann)	51900	51938	51943	51668	51621	51901	52087	52391	--	--
ANZ World Commodity Price Index (% mom)	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	--
ANZ World Comm. Price Index (% yoy)	11.1	10.6	4.0	13.6	16.5	19.1	20.9	23.0	23.7	--
Net Migration (sa)	5670	6320	6190	6160	5960	6360	5940	6130	0	--
Net Migration (ann)	69119	69954	70282	70354	70588	71305	71333	71932	0	--
ANZ Heavy Traffic Index (% mom)	7.2	-2.1	-0.5	3.7	-0.2	-0.9	1.7	1.7	-1.8	--
ANZ Light Traffic Index (% mom)	0.9	0.1	-2.0	1.5	0.2	-0.3	0.9	1.0	-1.5	--

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Mar-17	Apr-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZD/USD	0.701	0.687	0.693	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.918	0.917	0.930	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.658	0.630	0.619	0.64	0.65	0.67	0.65	0.64	0.62	0.61
NZD/JPY	78.04	76.55	77.16	80.5	79.4	78.2	78.2	78.2	77.1	77.1
NZD/GBP	0.558	0.530	0.533	0.56	0.57	0.58	0.54	0.53	0.52	0.52
NZ$ TWI	75.1	73.3	75.2	75.0	75.0	75.3	74.4	73.7	72.2	71.7
INTEREST RATES	Mar-17	Apr-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	2.00	1.98	1.97	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.19	3.04	2.85	3.30	3.50	3.70	3.70	3.90	3.90	4.00
US Fed funds	1.00	1.00	1.00	1.25	1.50	1.50	1.50	1.75	2.00	2.25
US 3-mth	1.15	1.17	1.19	1.20	1.45	1.70	1.70	1.95	2.20	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	1.80	1.75	1.74	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	19 Apr	15 May	16 May	17 May	18 May	19 May
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.99	1.98	1.98	1.98	1.97
NZGB 03/19	2.10	1.94	1.94	1.93	1.94	1.94
NZGB 05/21	2.34	2.31	2.31	2.29	2.26	2.25
NZGB 04/23	2.63	2.60	2.60	2.58	2.54	2.53
NZGB 04/27	2.92	2.92	2.93	2.89	2.83	2.84
2 year swap	2.30	2.22	2.23	2.23	2.23	2.23
5 year swap	2.81	2.77	2.79	2.78	2.76	2.76
RBNZ TWI	76.60	75.09	75.22	74.90	75.22	74.95
NZD/USD	0.7018	0.6913	0.6868	0.6888	0.6926	0.6924
NZD/AUD	0.9329	0.9290	0.9279	0.9302	0.9329	0.9292
NZD/JPY	76.40	78.43	78.05	77.44	76.43	77.04
NZD/GBP	0.5466	0.5346	0.5327	0.5310	0.5314	0.5314
NZD/EUR	0.6543	0.6302	0.6213	0.6200	0.6219	0.6183
AUD/USD	0.7523	0.7441	0.7402	0.7405	0.7424	0.7459
EUR/USD	1.0726	1.0970	1.1053	1.1109	1.1136	1.1206
USD/JPY	108.86	113.46	113.64	112.43	110.35	111.26
GBP/USD	1.2839	1.2930	1.2893	1.2972	1.3033	1.3036
Oil (US$/bbl)	50.44	48.85	48.66	49.07	49.35	50.33
Gold (US$/oz)	1283.43	1231.64	1234.06	1245.64	1263.98	1255.93
Electricity (Haywards)	4.77	7.25	8.51	5.89	5.79	5.05
Baltic Dry Freight Index	1278	994	980	960	957	956
NZX WMP Futures (US$/t)	3200	3330	3330	3250	3250	3250

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