ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

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SQUIRREL BEHAVIOUR

ECONOMIC OVERVIEW

We don't have too many quibbles with the RBNZ's "aggressively neutral" stance. It does seem a tad too light on inflation (we think wage inflation is set to turn), but its benign view is admittedly manifesting in our Monthly Inflation Gauge and the RBNZ's Sectoral Factor Model of core inflation, which has been sticky at 1.5%. Moreover, the RBNZ seems well on top of the tightening in financial conditions through the credit channel. New Zealand is facing a delicate balancing act going forward – if a savings shortfall is not to be funded via overseas issuance and the current account balance is to remain in check, then consumption must give way to ensure there is enough 'saving' to keep the investment wheels of the economy turning. We continue to favour a mid-2018 lift in the OCR, which places us behind the market but ahead of the RBNZ.

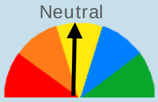
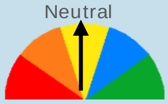
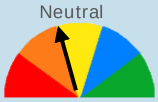
INTEREST RATE STRATEGY

Short-end rates have moved sharply lower in the wake of last week's very neutral *MPS*, taking the bellwether 2-year swap rate down to around 2.2%, its lowest level year-to-date and into a 2.20-2.25% range. We remain wary of chasing it from existing levels given the data pulse, despite RBNZ projections flagging the market to push further lower. Local long-end bond yields are also back at lows for the year. While this has been driven primarily by offshore moves, the RBNZ's dovish tone has helped contain geographic spreads. Demand for high-quality high-yield bonds remains strong and we expect NZGS to continue to outperform their US and Australian counterparts. The easier local monetary policy outlook is a boon for inflation-linked bonds, and has helped maintain a degree of curve steepness, but further significant steepening will require much higher US bond yields, which look to be some way off.

CURRENCY STRATEGY

Last week's steadfastly neutral *MPS* saw the Kiwi get thumped. Although the NZD has consolidated since then and we expect policy to fade as a driver, the overall outlook from here remains mildly negative. Key drivers include slowing domestic growth, a turn in the global commodity cycle, and the normalisation of global policy rates (which will erode the NZD's carry advantage). However, we are a little less relaxed on inflation than the RBNZ is, and New Zealand's credentials remain solid, so we're not looking for a weaker trend to develop.

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.	Neutral Negative  Positive
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.	Neutral Negative  Positive
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.	Neutral Down  Up
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.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

We don't have too many quibbles with the RBNZ's "aggressively neutral" stance. It does seem a tad too light on inflation (we think wage inflation is set to turn), but its benign view is admittedly manifesting in our Monthly Inflation Gauge and the RBNZ's Sectoral Factor Model of core inflation, which has been sticky at 1.5%. Moreover, the RBNZ seems well on top of the tightening in financial conditions through the credit channel. New Zealand is facing a delicate balancing act going forward – if a savings shortfall is not to be funded via overseas issuance and the current account balance is to remain in check, then consumption must give way to ensure there is enough 'saving' to keep the investment wheels of the economy turning. We continue to favour a mid-2018 lift in the OCR, which places us behind the market but ahead of the RBNZ. It is a relatively quiet data week, with global dairy prices expected to push a little higher. Net migration figures will remain strong.

FORTHCOMING EVENTS

RBNZ Assistant Governor McDermott speaks (5:00pm, Monday, 15 May). He is scheduled to speak on "The Value of Forecasting in an Uncertain World".

GlobalDairyTrade auction (early am, Wednesday, 17 May). Prices are expected to push a little higher, particularly for whole milk powder. We are more cautious on the skim milk powder backdrop.

Producer Price Index – Q1 (10:30am, Wednesday, 17 May). The impact of earlier commodity price moves should continue to flow through, with increases in input and output prices of around 1-1½% q/q likely.

ANZ Consumer Confidence – May (1pm, Thursday, 18 May).

International Travel and Migration – April (10:45am, Friday, 19 May). New monthly net migrant records may not be set, but we can't see softer numbers on the horizon either. Visitor arrivals growth should be strong, with the likes of the World Masters Games providing an additional boost.

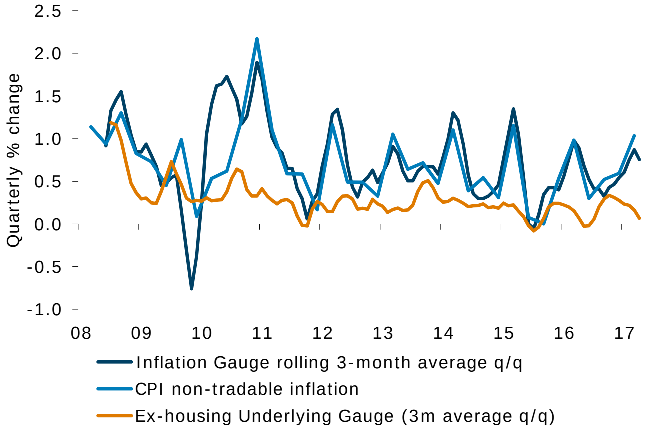
WHAT'S THE VIEW?

Is inflation set to be as benign as the RBNZ projects? It forecasts annual headline inflation to drop back to 1.1% by early 2018, not getting back to the target midpoint until mid-2019 (the same timing as in its February projections). It seems quite an aggressive view given the lower NZD, higher inflation expectations, and the fact that growth is forecast to remain above trend.

It is nonetheless a view that has some solid backing:

- **Signals from our Monthly Inflation Gauge remain benign**. Outside of housing, the Gauge continues to highlight a distinct lack of broad-based price pressure, with the Underlying Ex-housing Gauge actually falling in April after three flat monthly outturns. On a 3m/3m basis, it is running at just a 0.1% pace.

FIGURE 1: MONTHLY INFLATION GAUGE AND NON-TRADABLE CPI



Source: ANZ, Statistics NZ

- **Core inflation, according to the RBNZ's Sectoral Factor Model, has remained anchored at 1.5% for six consecutive quarters.** This highlights the idiosyncratic elements underlying the recent lift in headline inflation.
- **Globally, core inflation is low and excess capacity is abundant.** This is especially the case outside of the US. And even in the US, core inflation has started to sputter a little.
- **Technology continues to alter pricing power.** Whether that be through more efficient production, disruptive technologies (Uber, Airbnb etc) or the growing influence of large global brands increasing competition and supressing margins further, the influence is not going away any time soon.
- **The global commodity price cycle looks to have peaked amidst an inventory rebuild and moderating growth in China.**
- **Time and time again, inflation has failed to show up at the party, at least in a sustained fashion.**

So on many levels, we concur with the RBNZ's cautiousness. However, we expect a tad more domestic inflation to emerge. The RBNZ has non-tradable inflation remaining reasonably tame over the next 18 months or so, whereas we see it continuing to grind gradually higher. The difference between the two

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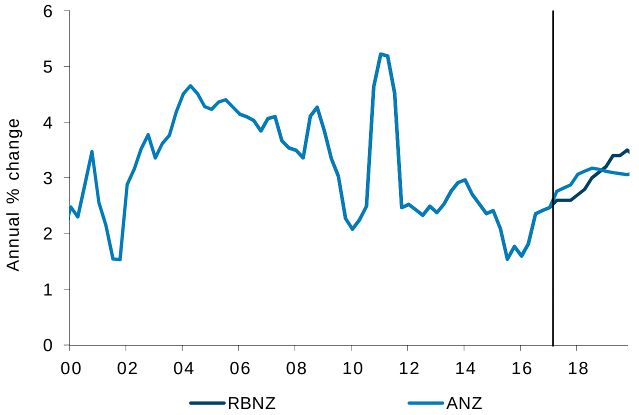
views certainly isn't large, and well within the usual confidence bands around any inflation forecast, but it does appear to be enough for the RBNZ to believe that it doesn't need to react right now.

FIGURE 2: ANZ VS RBNZ: NON-TRADABLE INFLATION



Source: ANZ, Statistics NZ, RBNZ

We suspect one of the key reasons we're higher is our view of the labour market and wage inflation. We have little doubt that it's tightening (and more so than is illustrated by the absolute level of the unemployment rate, given evidence of a skills mismatch). And when it comes to wage inflation, we get a sense of some bow-wave dynamics. The combination of real wage growth that has turned negative again, skill shortages, and the recent equal pay settlement (which has the potential to have meaningful broader spill-overs) should all contribute to nominal wage growth lifting off lows. The RBNZ does forecast wage growth to increase, but we think we could see some flow-through into broader inflation.

So we remain in the position where we are more hawkish than the RBNZ, but more dovish than the market (although less so now, given the market has pared back its tightening expectations).

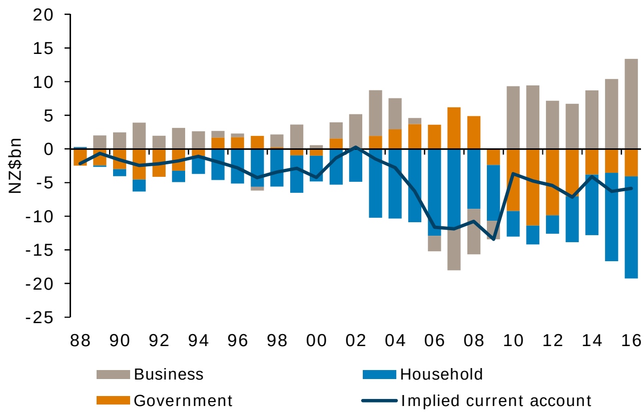
The RBNZ also now appears more on top of the tightening in financial conditions coming through the credit channel. It's a theme we've written about extensively over the past year or so. The fact banks are showing reduced desire to fund New Zealand's saving shortfall overseas (given prudential limits, risking the ire of rating agencies, etc) means greater competition for domestic funding and deposits. This is resulting in higher deposit rates, and where they go, borrowing rates move in tandem. We're also seeing credit increasingly being rationed at the same time.

This tightening is implicitly a current account constraint in operation. New Zealand has of course long run current account deficits, which implies our investment needs have been in excess of our domestic saving. In the year to March 2016, gross national investment totalled $56.8bn, while national gross saving (the difference between what we earn and what we consume) was just $50.9bn. Typically, when we go through periods of investment (housing) largesse, this has then been funded through increased offshore borrowing, which is behaviour that started to be evident again last year. But with limits to our overseas borrowing now being reached, and credit rating agencies eyeing indebted countries (especially household sectors), the current account constraint implies that either our level of investment will need to fall or we will need to save more.

The downstream implications of this constraint are not talked about enough, but they are meaningful:

- **New Zealand still has an immense investment profile / requirement, which in large part reflects the necessities of catering for a population that is growing strongly.** As such, weaker investment is hardly desirable. Therefore, more of the heavy lifting will need to be through the saving channel.
- **You can see stronger saving across the business and Government sectors already** (for the latter, next week's Budget is likely to further reinforce that point). For businesses, we estimate in the year to March 2016, the sector's net saving totalled over $13bn (which is close to twice the size of the current account deficit itself).

FIGURE 3: SECTORAL NET SAVING



Source: ANZ, Statistics NZ

- **But that is unlikely to be enough. Households will need to pick up the baton as well.** Higher deposit rates will of course help in this regard. But ultimately more saving equals less consumption, and consumption is a big part of the economy (around 60% in fact – for private consumption at least).
- **So in order for investment to continue to grow strongly (which it needs to do), life for**

ECONOMIC OVERVIEW

retailers is not going to get easier (consumption has indeed been contained, notwithstanding the reasonable retail sales figures released this morning), despite prospects for income growth being good. We suspect that in a current account-constrained world, extra money will likely be squirrelled away.

- **In practice some investment will be sacrificed too.** You can already see this occurring in some of the speculative parts of the property market, which are struggling to get credit.

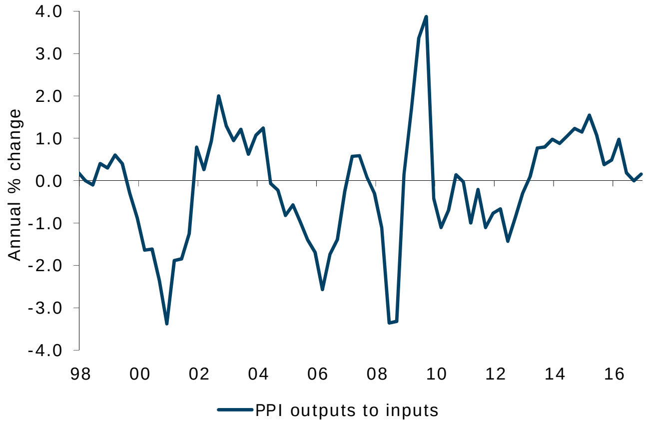
Such challenges reflect an economy trying to extend the economic expansion. Trade-offs are required to ensure imbalances do not extend too far. The alternative would set the scene for a much nastier correction in the future.

Turning to this week's events, NZX dairy futures are pointing to a 4% gain at this week's GDT auction, with a continuation of solid prices for near-term contracts expected. Robust near-term demand from the Middle East (restocking) and China, combined with tighter seasonal supply from New Zealand, have been the main drivers of price improvements over the last two months. These themes are expected to continue, with the seasonal low in total supply occurring at this week's auction. While milkfat and whole milk powder prices are expected to push higher, we are a little more cautious on skim milk powder. While New Zealand SMP supply is tight at present, it's difficult to see New Zealand maintaining a substantial premium over key competitors as globally this category remains oversupplied and the Northern Hemisphere is once again adding to stocks.

This week's auction is the last before Fonterra announces an opening milk price for 2017/18 (probably 30th May). We expect there will be some upside to the 2016/17 milk price of around $0.15 (to $6.15/kg MS), and the opening forecast for the new season could be anywhere from the high-$5 to low-$6/kg MS. Either way, farm cash-flow for 2017/18 is likely to show at least a $0.50/kg MS lift from 2016/17 ($5.75/kg MS to at least $6.25/kg MS). This improvement is likely to be split across an increase in some cyclical costs, reducing overdrafts extended during the downturn (including Fonterra's loan requirements), a catch-up on repairs & maintenance, and capital expenditure. The split will vary according to different business situations.

Producer prices are likely to reflect the impact of earlier commodity price moves. Because of that, we don't typically focus on the headline figures a great deal, as much of the information is really already known. In Q1, we expect to see increases for both input and output prices in the vicinity of 1-1½% q/q, which would lift annual inflation for both to above 4%. Where there arguably is some information content, is in what the figures suggest for non-labour margins. After margins had been growing around an annual pace of 1½% over 2014, that rate of growth has cooled and we wouldn't be surprised if it cooled further in Q1, which would be another factor consistent with the economy being at a more mature point in its cycle.

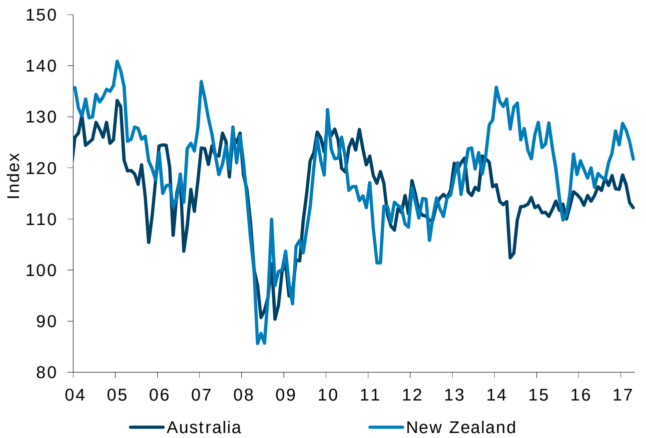
FIGURE 4: PPI IMPLIED MARGINS



Source: ANZ, Statistics NZ

ANZ-Roy Morgan Consumer Confidence for May will be watched to see whether the recent easing off highs continues. In April, the headline index fell 3.5 points to 121.7. That is a seven-month low, although the level still remains above historical averages. The easing in April was driven by Auckland, where it is possible that the cooler housing market is denting sentiment, and the latest REINZ figures certainly show that air continues to go out of that market (gradually at least). Irrespective, New Zealand households do remain more upbeat than their Australian counterparts and that's not surprising given the relative unemployment positions.

FIGURE 5: ANZ-ROY MORGAN CONSUMER CONFIDENCE – NEW ZEALAND VS AUSTRALIA



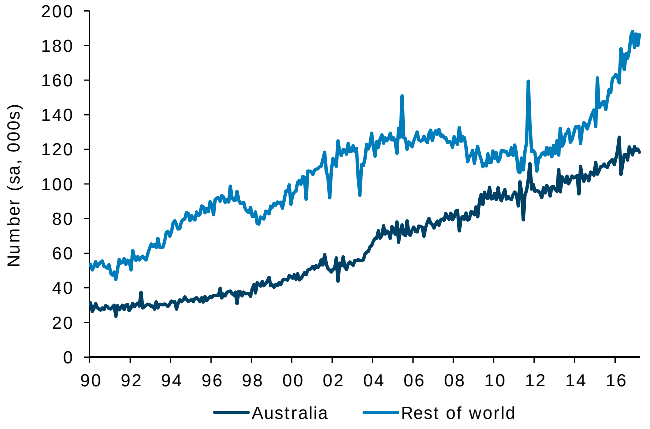
Source: ANZ, Roy Morgan

ECONOMIC OVERVIEW

International Travel and Migration data for April seems all but guaranteed to be strong. Given the already elevated level, it is getting harder for monthly net inflows to continue to set new records. However, we struggle to see net inflows slowing meaningfully either (outside of a considerable political response – which is of course a non-trivial risk right now). In February, there was a seasonally adjusted net inflow of 6,100 migrants, which is on par with the average over the prior six months, and something again around that level in April seems likely.

The picture for visitor arrivals should also remain strong. The broad trend in arrivals numbers has moderated over recent months, which more than anything, likely reflects capacity issues. However, we expect ongoing lifts in the number of visitors over the months ahead supported by the lift in the weekly China-NZ flight cap and key events (the World Masters Games and British and Irish Lions rugby tour).

FIGURE 6: VISITOR ARRIVALS



Source: ANZ, Statistics NZ

LOCAL DATA

ANZ Monthly Inflation Gauge – April. Prices in the Gauge were flat m/m in April and up 2.2% y/y. The Underlying Ex-Housing Gauge fell 0.1% m/m.

RBNZ Bank Assets and Liabilities – March. Total lending growth continues to slow with private sector credit growth falling to 6.4% y/y in March from a peak of 8% in Sep/Oct last year. Deposit growth is not quite keeping pace.

ANZ Truckometer – April. The Heavy Traffic Index fell 1.8% m/m while the Light Traffic Index fell 1.5%.

Government Monthly Financial Statements – March. The Treasury reported a 9-month budget surplus of $1.47bn, $1.32bn more than forecast.

Electronic Card Transactions – April. Total retail card spending rose 1.1% m/m, with core spending lifting 1.4% m/m.

RBNZ *Monetary Policy Statement* – May. The OCR was left on hold at 1.75%, with the accompanying OCR projection also untouched from the February figures.

Food Price Index – April. Food prices fell 0.8% m/m, or 0.2% m/m in seasonally adjusted terms.

REINZ House Prices – April. In seasonally adjusted terms, sales volumes plunged 16% m/m, although days to sell actually fell 1 day to 34 days.

Performance of Manufacturing Index – April. The index dipped 1.2 points to 56.8.

Performance of Services Index – April. The index fell 6 points to 52.8.

Retail Trade Survey – Q1. Total sales volumes rose 1.5% q/q.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates have moved sharply lower in the wake of last week's very neutral *MPS*, taking the bellwether 2-year swap rate down to around 2.2%, its lowest level year-to-date and into a 2.20-2.25% range. We remain wary of chasing it from existing levels given the data pulse, despite RBNZ projections flagging the market to push further lower. Local long-end bond yields are also back at lows for the year. While this has been driven primarily by offshore moves, the RBNZ's dovish tone has helped contain geographic spreads. Demand for high-quality high-yield bonds remains strong and we expect NZGS to continue to outperform their US and Australian counterparts. The easier local monetary policy outlook is a boon for inflation-linked bonds, and has helped maintain a degree of curve steepness, but further significant steepening will require much higher US bond yields, which look to be some way off.

THEMES

- The data pulse is going head to head with the RBNZ's relaxed stance. The latter says short-end yields should continue to crunch lower, ultimately taking the 2-year swap down to sub 2.1%. We're more cautious respecting the market move to date.
- Offshore demand for NZ bonds depends crucially on confidence in the NZD. Now that we have seen some post-*MPS* consolidation in the NZD, we expect yields and spreads to be supported.
- Hesitant long-end price action has left us more neutral on the slope of the curve. We expect the curve to steepen by year-end, but near-term prospects seem limited given low US bond yields.
- NZGS linkers have performed well since the *MPS*, but breakevens have a lot further to run yet.

MONETARY POLICY AND SHORT END

The "nothing to see here" backdrop we spoke of last week that has characterised the short end came to an abrupt end last week as yields "gapped" sharply lower following the RBNZ's steadfastly neutral *MPS*. Although the market reaction was extreme, it was justified given the market's erstwhile unwillingness to embrace the RBNZ's more cautious view of the world and its benign view of inflation.

Going into the *MPS*, the market was roughly 90% priced for a hike by February. By this morning, those odds had slipped to around 50%, but even that remains a bit high given the RBNZ's reconfirmation of a more cautious approach, potential changes to the PTA, the persistence of low core inflation and economic uncertainty.

Our view is less relaxed than the RBNZ's, but even we expect policy to remain on hold for at least another year, suggesting at face value that there remains scope for the short end to continue to grind lower. If we take the RBNZ's projections at face value, they imply that the 2-year swap should be 2%. We think that's a touch too far given that the risks are skewed towards an earlier, rather than later tightening. Nonetheless, with the housing market and credit growth slowing and mortgage rates rising, pay-side flow looks set to slow. This flags the potential for the **bellwether 2-year swap rate to decline to closer to 2.1%. However, what we expect will continue to stand in the way of this is the broader domestic economic data pulse.**

GLOBAL MARKETS AND LONG END

Local long-end rates remain hostage to global (read: US) bond yield movements, which have been erratic to say the least. By year-end, we ultimately expect US bond yields to rise (with the Fed on track to hike in June and September), which should see the local yield curve steepen given easy policy locally and the long end's correlation with US yields. But that seems some way off given recent price action.

Easy policy here does portend further spread compression, but it will be gradual, especially if US bond yields consolidate. But the RBNZ's determination to get inflation sustainably back to target is welcome news for the inflation-linked bond market, especially with inflation breakevens (currently ~1.2%) still so far below the Bank's inflation target mid-point (2%).

STRATEGY

Investors: We remain mildly bullish the short end even after last week's move, but 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, 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 is on hold for a very long time.
Long end	Neutral	UST price action erratic. The break above 2.3% was not convincing and despite our expectation that the Fed will hike in Jun and Sep, it's difficult to be extremely bearish bonds given benign core inflation globally.
Yield Curve	Neutral	Strategically favour a steepener, based largely on divergent views. But tactically, flatter looks more likely.
Geographic spreads	Neutral/ narrower	NZ/US spread performance exceptional. Should narrow further over the year as USTs grind higher (especially given RBNZ's stance). Would be bearish had we not been so comfortable that RBNZ is on hold.
Swap spreads	Neutral	NZGS demand fair. Risk of corporate paying fading, and global uncertainties likely to keep payers at bay.
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

Last week's steadfastly neutral *MPS* saw the Kiwi get thumped. Although the NZD has consolidated since then and we expect policy to fade as a driver, the overall outlook from here remains mildly negative. Key drivers include slowing domestic growth, a turn in the global commodity cycle, and the normalisation of global policy rates (which will erode the NZD's carry advantage). However, we are a little less relaxed on inflation than the RBNZ is, and New Zealand's credentials remain solid, so we're not looking for a weaker trend to develop.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔/↓	Consolidating	Fed hiking = USD up
NZD/AUD	↔/↑	NZ simply looks better	Holding up
NZD/EUR	↔	Political air cleared	EU data better; needs structural reform to kick-on
NZD/GBP	↔	UK election to bolster confidence	Brexit challenges non-trivial
NZD/JPY	↔/↓	NZD softness the major driver	Japan a defensive play; US strong too

THEMES AND RISKS

- US inflation rolls over but still enough to keep the Fed focused on the job at hand.
- European hard data not matching the soft data (PMIs).
- Policy uncertainty high; market volatility not.
- China positioning itself as the champion of trade.
- RBNZ sticks to its neutral script.
- NZD/AUD should be higher given the respective business cycles but RBNZ is working against that.

ASSESSMENT

While we got hood-winked by just how neutral the RBNZ was last week (we expected a neutral statement but with marginal tweaks to the OCR profile), we don't think the fundamental picture for the NZD has changed.

The broad backdrop is still mildly NZD negative:

- We have a domestic economy that has peaked in a growth sense. The next 12 months will likely see 3% GDP growth, not 4%.
- Risks continue to surround the global commodity cycle amidst attempts to slow China's economy, which is also being pressured by inventory concerns.
- Economic policy uncertainty is high but that's not being reflected in market volatility (i.e. the VIX). It's simply taking time for the former to filter into confidence and trade. It is notable that the hard European data (industrial production) is failing to match upticks implied by PMIs, suggesting an expectation versus reality gap is opening up.
- Low global interest rates are still on borrowed time, absent higher rates setting off debt-infused EM (China) challenges. US unemployment down at 4.4% is hard for the Fed to ignore.
- Protectionism and geopolitics are notable risks.

That combination sees us skewed toward a lower NZD as a theme.

That said, there are offsets that'll limit it:

- Global core inflation nuances are not rising; the impetus from commodity prices is past its peak. "Show me the sustained inflation" remains the mantra across central banks, including the RBNZ. So yields are not rising rapidly.
- There is still a marked disconnect between what the RBNZ and the market are saying re the OCR. The 2-year swap implied by the RBNZ is 2%. We doubt we'll see that, given local data nuances.
- China is putting itself up as trade champion; it's not all protectionist bad news.
- Valuation estimates remain supportive. The NZD is undervalued, with the USD overvalued. The NZD/AUD is not too far from where it should be.

We're more neutral in the near term. Market positioning is still short NZD, but is less extreme than it was a few weeks ago.

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	↔/↑	Going in opposite directions.
Data	↔/↑	Solid NZ retail sales = strong Q1 GDP.
Techs	↔	Support at 0.9250 needs to hold.
Sentiment	↔	Dovish RBNZ *MPS* was a setback.
Other	↑	NZ Budget will be poles apart from AU.
On balance	↔/↑	**Looks to have based for now.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔/↓	Fed needs to be hiking; end of story.
Commodities	↔/↓	Ugly price action.
Risk aversion	↔/↓	Tied in with the commodity bloc.
Data	↔/↑	NZ data pulse doing the opposite of US.
Techs	↔	0.6850 support holding for now.
Sentiment	↔/↑	Need to acknowledge NZ positives.
Other	↔	Others are catching up, but only slowly.
On balance	↔	**Gradually declining profile.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
15-May	AU	Home Loans MoM - Mar	0.0%	-0.5%	13:30
	AU	Investment Lending - Mar	--	-5.9%	13:30
	AU	Owner-Occupier Loan Value MoM - Mar	--	-0.5%	13:30
	CH	Retail Sales YoY - Apr	10.8%	10.9%	14:00
	CH	Retail Sales YTD YoY - Apr	10.2%	10.0%	14:00
	CH	Fixed Assets Ex Rural YTD YoY - Apr	9.1%	9.2%	14:00
	CH	Industrial Production YoY - Apr	7.0%	7.6%	14:00
	CH	Industrial Production YTD YoY - Apr	6.9%	6.8%	14:00
16-May	US	Empire Manufacturing - May	7.3	5.2	00:30
	US	NAHB Housing Market Index - May	68.0	68.0	02:00
	US	Total Net TIC Flows - Mar	--	$19.3B	08:00
	US	Net Long-term TIC Flows - Mar	--	$53.4B	08:00
	AU	ANZ-RM Consumer Confidence Index - 14-May	--	112.3	11:30
	AU	New Motor Vehicle Sales MoM - Apr	--	1.9%	13:30
	AU	New Motor Vehicle Sales YoY - Apr	--	-3.0%	13:30
	AU	RBA May Rate Meeting Minutes	--	--	13:30
	UK	CPI MoM - Apr	0.4%	0.4%	20:30
	UK	CPI YoY - Apr	2.6%	2.3%	20:30
	UK	CPI Core YoY - Apr	2.3%	1.8%	20:30
	UK	RPI MoM - Apr	0.4%	0.3%	20:30
	UK	RPI YoY - Apr	3.4%	3.1%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Apr	3.7%	3.4%	20:30
	UK	PPI Input NSA MoM - Apr	0.0%	0.4%	20:30
	UK	PPI Input NSA YoY - Apr	17.0%	17.9%	20:30
	UK	PPI Output NSA MoM - Apr	0.2%	0.4%	20:30
	UK	PPI Output NSA YoY - Apr	3.4%	3.6%	20:30
	UK	PPI Output Core NSA MoM - Apr	0.2%	0.3%	20:30
	UK	PPI Output Core NSA YoY - Apr	2.5%	2.5%	20:30
	UK	House Price Index YoY - Mar	5.30%	5.80%	20:30
	EC	Trade Balance SA - Mar	€18.7B	€19.2B	21:00
	EC	Trade Balance NSA - Mar	€25.8B	€17.8B	21:00
	GE	ZEW Survey Current Situation - May	82.0	80.1	21:00
	EC	ZEW Survey Expectations - May	--	26.3	21:00
	GE	ZEW Survey Expectations - May	22.0	19.5	21:00
	EC	GDP SA QoQ - Q1 P	0.5%	0.5%	21:00
	EC	GDP SA YoY - Q1 P	1.7%	1.7%	21:00
17-May	US	Housing Starts - Apr	1260k	1215k	00:30
	US	Housing Starts MoM - Apr	3.7%	-6.8%	00:30
	US	Building Permits - Apr	1270k	1267k	00:30
	US	Building Permits MoM - Apr	0.20%	4.20%	00:30
	US	Industrial Production MoM - Apr	0.4%	0.5%	01:15
	US	Capacity Utilization - Apr	76.3%	76.1%	01:15
	US	Manufacturing (SIC) Production - Apr	0.4%	-0.4%	01:15
	US	MBA Mortgage Foreclosures - Q1	--	1.5%	02:00
	US	Mortgage Delinquencies - Q1	--	4.8%	02:00
	NZ	PPI Output QoQ - Q1	--	1.5%	10:45
	NZ	PPI Input QoQ - Q1	--	1.0%	10:45
	AU	Westpac Consumer Conf Index - May	--	99.0	12:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-May	AU	Westpac Consumer Conf SA MoM - May	--	-0.7%	12:30
	AU	Wage Price Index QoQ - Q1	0.5%	0.5%	13:30
	AU	Wage Price Index YoY - Q1	1.9%	1.9%	13:30
	UK	Claimant Count Rate - Apr	--	2.2%	20:30
	UK	Jobless Claims Change - Apr	--	25.5k	20:30
	UK	Average Weekly Earnings 3M/YoY - Mar	2.4%	2.3%	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Mar	2.1%	2.2%	20:30
	UK	ILO Unemployment Rate 3Mths - Mar	4.7%	4.7%	20:30
	UK	Employment Change 3M/3M - Mar	21k	39k	20:30
	EC	Construction Output MoM - Mar	--	6.9%	21:00
	EC	Construction Output YoY - Mar	--	7.1%	21:00
	EC	CPI MoM - Apr	0.4%	0.8%	21:00
	EC	CPI YoY - Apr F	1.9%	1.5%	21:00
	EC	CPI Core YoY - Apr F	1.2%	1.2%	21:00
	US	MBA Mortgage Applications - 12-May	--	2.4%	23:00
18-May	JN	GDP SA QoQ - Q1 P	0.4%	0.3%	11:50
	JN	GDP Annualized SA QoQ - Q1 P	1.8%	1.2%	11:50
	JN	GDP Nominal SA QoQ - Q1 P	0.1%	0.4%	11:50
	JN	GDP Deflator YoY - Q1 P	-0.7%	-0.1%	11:50
	NZ	ANZ Consumer Confidence Index - May	--	121.7	13:00
	NZ	ANZ Consumer Confidence MoM - May	--	-2.8%	13:00
	AU	Consumer Inflation Expectation - May	--	4.1%	13:00
	AU	RBA FX Transactions Government - Apr	--	-A$1265M	13:30
	AU	RBA FX Transactions Market - Apr	--	A$1248M	13:30
	AU	RBA FX Transactions Other - Apr	--	A$14M	13:30
	AU	Employment Change - Apr	5.0k	60.9k	13:30
	AU	Unemployment Rate - Apr	5.9%	5.9%	13:30
	AU	Participation Rate - Apr	64.7%	64.8%	13:30
	UK	Retail Sales Ex Auto Fuel MoM - Apr	1.0%	-1.5%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Apr	2.6%	2.6%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Apr	1.1%	-1.8%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Apr	2.1%	1.7%	20:30
19-May	US	Initial Jobless Claims - 13-May	240k	236k	00:30
	US	Continuing Claims - 6-May	1950k	1918k	00:30
	US	Philadelphia Fed Business Outlook - May	18.5	22.0	00:30
	US	Leading Index - Apr	0.4%	0.4%	02:00
	NZ	Net Migration SA - Apr	--	6100	10:45
	NZ	Credit Card Spending MoM - Apr	--	0.8%	15:00
	NZ	Credit Card Spending YoY - Apr	--	7.1%	15:00
	GE	PPI MoM - Apr	0.2%	0.0%	18:00
	GE	PPI YoY - Apr	3.2%	3.1%	18:00
	EC	ECB Current Account SA - Mar	--	€37.9B	20:00
	EC	Current Account NSA - Mar	--	€27.9B	20:00
	UK	CBI Trends Total Orders - May	4.0	4.0	22:00
	UK	CBI Trends Selling Prices - May	29.0	29.0	22:00
20-May	EC	Consumer Confidence - May A	-3.0	-3.6	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

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 17 May (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 17 May (10:45am)	PPI – Q1	Up	The impact of earlier commodity price moves should continue to flow through.
Thu 18 May (1:00pm)	ANZ-Roy Morgan Consumer Confidence – May	--	--
Fri 19 May (10:45am)	International Travel & Migration – Apr	At highs	New monthly records may not be set, but we can't see softer numbers on the horizon either.
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.
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 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.
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 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.
On balance		**Data watch**	**Momentum has been a little patchier, but appears to be becoming more broad-based. 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	**-2.6**	**-2.5**	**-2.5**	**-2.7**	**-3.1**	**-3.2**	**-3.3**	**-3.4**	**-3.4**
Terms of Trade (% qoq)	5.7	**0.2**	**-1.8**	**-1.1**	**-0.2**	**0.4**	**0.3**	**0.1**	**0.1**	**0.0**
Terms of Trade (% yoy)	6.7	**2.6**	**2.9**	**2.9**	**-2.8**	**-2.6**	**-0.6**	**0.6**	**0.9**	**0.5**

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Retail ECT (% mom)	0.2	-1.1	1.9	0.5	0.0	0.1	2.6	-0.6	-0.3	1.1
Retail ECT (% yoy)	5.8	3.2	6.1	4.2	5.1	5.8	5.6	2.6	5.6	4.5
Credit Card Billings (% mom)	2.6	-1.0	2.9	2.9	-4.1	3.0	0.3	-1.4	0.8	--
Credit Card Billings (% yoy)	5.7	2.3	8.3	10.1	4.2	8.5	7.1	5.3	7.1	--
Car Registrations (% mom)	-0.1	2.5	-3.9	13.0	3.1	-6.4	1.6	0.4	3.4	-2.9
Car Registrations (% yoy)	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	3.0
Building Consents (% mom)	-5.4	-2.4	1.1	0.3	-8.4	-8.5	4.1	17.1	-1.8	--
Building Consents (% yoy)	7.9	11.8	17.1	13.9	2.3	-10.7	-1.0	9.0	17.3	--
REINZ House Price Index (% yoy)	16.3	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	0.8	0.6	0.6	0.7	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	8.5	8.7	8.7	8.7	8.6	8.8	8.7	8.5	8.4	--
ANZ Roy Morgan Consumer Conf.	118.2	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7
ANZ Business Confidence	16.0	15.5	27.9	24.5	20.5	21.7	..	16.6	11.3	11.0
ANZ Own Activity Outlook	31.4	33.7	42.4	38.4	37.6	39.6	..	37.2	38.8	37.7
Trade Balance ($m)	-351	-1240	-1388	-798	-723	-1	-250	-50	332	--
Trade Bal ($m ann)	52078	51900	51938	51943	51668	51621	51901	52087	52391	--
ANZ World Commodity Price Index (% mom)	2.1	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2
ANZ World Comm. Price Index (% yoy)	1.9	11.1	10.6	4.0	13.6	16.5	19.1	20.9	23.0	23.7
Net Migration (sa)	5700	5690	6340	6210	6170	5980	6380	5980	6100	--
Net Migration (ann)	69015	69119	69954	70282	70354	70588	71305	71333	71932	--
ANZ Heavy Traffic Index (% mom)	-6.3	7.2	-2.1	-0.5	3.7	-0.2	-0.9	1.7	1.7	-1.8
ANZ Light Traffic Index (% mom)	-0.6	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	0.687	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.918	0.917	0.929	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.658	0.630	0.628	0.64	0.65	0.67	0.65	0.64	0.62	0.61
NZD/JPY	78.04	76.55	77.83	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	75.1	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	1.99	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.19	3.04	2.93	3.50	3.70	3.80	3.90	4.00	4.00	4.10
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	1.18	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

	12 Apr	8 May	9 May	10 May	11 May	12 May
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.96	1.98	1.99	2.00	1.98	1.98
NZGB 03/19	2.07	2.09	2.10	2.09	2.01	1.97
NZGB 05/21	2.37	2.45	2.48	2.47	2.39	2.34
NZGB 04/23	2.67	2.72	2.76	2.75	2.69	2.63
NZGB 04/27	3.01	3.06	3.09	3.07	3.02	2.97
2 year swap	2.28	2.35	2.36	2.35	2.29	2.23
5 year swap	2.81	2.95	2.98	2.95	2.87	2.81
RBNZ TWI	75.94	75.39	75.64	75.57	74.83	74.81
NZD/USD	0.6923	0.6934	0.6895	0.6935	0.6848	0.6866
NZD/AUD	0.9244	0.9363	0.9372	0.9398	0.9286	0.9295
NZD/JPY	75.87	78.08	78.46	78.87	78.10	77.85
NZD/GBP	0.5539	0.5350	0.5335	0.5357	0.5299	0.5325
NZD/EUR	0.6529	0.6333	0.6328	0.6380	0.6300	0.6280
AUD/USD	0.7489	0.7406	0.7357	0.7379	0.7374	0.7387
EUR/USD	1.0602	1.0950	1.0896	1.0869	1.0870	1.0931
USD/JPY	109.61	112.59	113.79	113.73	114.05	113.38
GBP/USD	1.2499	1.2961	1.2923	1.2945	1.2924	1.2890
Oil (US$/bbl)	53.11	46.43	45.88	47.33	47.83	47.84
Gold (US$/oz)	1274.06	1233.76	1225.64	1224.72	1222.94	1228.43
Electricity (Haywards)	5.40	5.56	6.67	6.29	6.75	6.23
Baltic Dry Freight Index	1282	1001	1007	1005	1012	1014
NZX WMP Futures (US$/t)	3000	3370	3370	3370	3360	3330

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