ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

31 July 2017

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NEUTRAL COLOURS

ECONOMIC OVERVIEW

Some simple ballpark calculations can easily deliver a neutral cash rate at 3%, which is lower than the RBNZ's assumed 3.5% (although the RBNZ does have a range around that estimate). It all means that it is hard to see the OCR moving up a long way, if much at all – and the more the wedge grows between borrowing rates and the OCR, the greater the potential for pressure to be taken off the NZD. This week's labour market data should show a further fall in the unemployment rate, but few signs of a lift in wage growth yet. Dairy prices are expected to be stable to higher, and our Business Outlook should give an early steer on Q3 momentum.

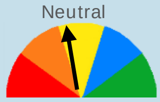
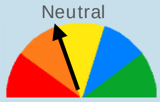
INTEREST RATE STRATEGY

Short-end interest rates continue to grind lower, albeit at a slower pace than was seen a few weeks ago following the late June spike higher, which can now be clearly dismissed as a false start. Low inflation remains an impediment to higher rates, as does the elevated NZD. For now, market expectations of the first hike being delivered by August 2018 seem reasonable. But the risk is that it's later, and that biases the short end lower over time. Local long-end rates remain hostage to US rates, which are in turn being capped by international geopolitical risks, domestic political uncertainty, low inflation and receding expectations for Fed rate hikes. NZGS spreads to the US and Australia have widened over the past few weeks; we believe they have gone too far and have scope to correct back.

CURRENCY STRATEGY

NZD/USD continues to benefit from USD weakness, and while the USD looks vulnerable still, economic data is expected to offer a crutch. The bigger picture (positioning, narrowing yield advantage and a turn in the global liquidity cycle) favours a lower NZD and makes higher highs difficult to achieve and sustain.

THE ANZ HEATMAP

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

ECONOMIC OVERVIEW

SUMMARY

Some simple ballpark calculations can easily deliver a neutral cash rate at 3%, which is lower than the RBNZ's assumed 3.5% (although the RBNZ does have a range around that estimate). It all means that it is hard to see the OCR moving up a long way, if much at all – and the more the wedge grows between borrowing rates and the OCR, the greater the potential for pressure to be taken off the NZD. This week's labour market data should show a further fall in the unemployment rate, but few signs of a lift in wage growth yet. Dairy prices are expected to be stable to higher, and our Business Outlook should give an early steer on Q3 momentum.

FORTHCOMING EVENTS

ANZ Business Outlook – July (1:00pm, Monday, 31 July).

RBNZ Sectoral Lending – June (3:00pm, Monday, 31 July). At ~6%, annual private sector credit growth is back on par with income growth. We suspect it will stay there or thereabouts.

GlobalDairyTrade Auction (early am, Wednesday, 2 August). We see prices biased a little higher this week.

Labour Market Statistics – Q2 (10:45am, Wednesday, 2 August). We expect the unemployment rate to dip 0.1%pts to 4.8%. But wage growth should remain stable at a low level.

ANZ Job Ads – July (10:00am, Thursday, 3 August).

ANZ Commodity Price Index – July (1:00pm, Thursday, 3 August).

WHAT'S THE VIEW?

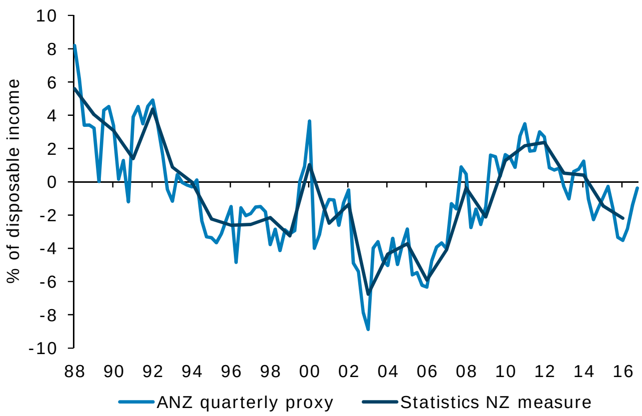
The RBNZ Assistant Governor announced last week that the Bank now sees the neutral OCR at 3.5%. That's a midpoint estimate across a range so let's call it indicative. That is down from a previously announced estimate of over 4%, although it does appear as though the RBNZ has been downgrading its views behind the scenes for a while now. It follows hot on the heels of a similar estimate from the RBA contained within its latest board minutes.

It is quite possible the neutral rate is even lower and has a '2-handle' in front of it right now. That's massively lower than estimates prior to the GFC when the neutral rate was thought to be around 6%. That estimate broadly reflected nominal GDP of 4.5-5%, some New Zealand-specific risk premium, and a bit extra to reflect New Zealand households' historical preference to spend today as opposed to save for tomorrow (households' time preference).

So what has changed?

- **Neutral interest rates are lower all around the globe.** There is little inflation, leverage is higher, the credit wheels are turning more slowly, prudential policy is being used more and more, and GDP and productivity growth is lower. So the traditional text-book that says that the neutral interest rate should be around nominal GDP growth is being rewritten.
- **Households' time preference of money has clearly shifted in New Zealand.** Households are still not great savers, but they are not as bad as they were prior to the GFC: the household saving rate averaged -5% between 2003 and 2007, and the current account deficit hit close to 8% of GDP. The latter is 3.1% currently, and our estimates of the saving rate sit a little below zero. Not great, but better. Additionally, we're not seeing the traditional consumption surge that tends to coincide with a boom in the housing market. The RBNZ has noted this too. See "Changing dynamics in household behaviour: What do they mean for inflationary pressures?". Less borrow-and-spend behaviour implies households' time preference has fallen (less emphasis on today) and interest rates accordingly do not need to be as high.

Figure 1: Household saving rate



Source: ANZ, Statistics NZ

- **New Zealand's risk premium is lower.** Net external debt is now 55% of GDP, less than Australia's, and the maturity profile of that debt is now far longer than it has been in the past. New Zealand doesn't have a shadow banking sector. The political situation is far more stable than that evident in many other countries. The upcoming election is unlikely to change that.
- **The demand and supply of credit is being impacted by prudential policy and banks curbing credit to close the funding gap.** LVR restrictions have seen the rate of new mortgage

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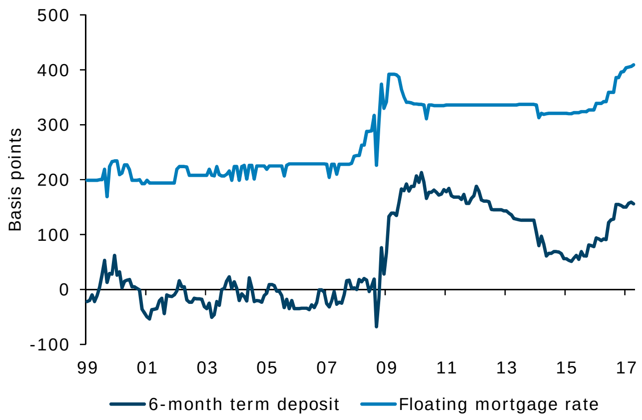
lending slow sharply. Debt-to-income restrictions have been proposed. A review of bank capital currently underway is not likely to recommend lower levels. Banks' external borrowing is facing more regulator and credit rating agency scrutiny, resulting in a greater demand for domestic (and perhaps more expensive) funding. You cannot put an exact figure on their impact, but all these forces imply less pressure on interest rates to increase.

- **Deposit rates are trading well above the OCR.** Six month deposit rates used to trade around the OCR; they are now trading around 160bps higher. One and two year term deposit rates are on average around 175bps above the OCR. **It means that a 3.5% OCR is effectively 5.25%.**

Figure 2: OCR and deposit and mortgage rate spreads



Source: ANZ, RBNZ

- **Inflation looks like it is persistently lower.** Secular forces, technology especially, are keeping inflation low. The Phillips Curve has flattened dramatically. Locally, inflation expectations are now anchored around 2%, whereas historically they have averaged closer to 2.5%. So even if your view of real neutral rates is unchanged, lower inflation and inflation expectations mean that nominal neutral rates are lower.

- **Leverage is higher.** The ratio of household debt to income has risen from 146% in 2011 to 167% now. It is above the pre-GFC high of 159%. Every marginal lift in interest rates will have a bigger and faster impact than we've seen in the past.

- **The borrowing "curve" is now upwards sloping.** The difference between the 5-year and 1-year mortgage rate is currently 120bps, whereas prior to the GFC it was negative. This has seen the duration of mortgage borrowing remain far shorter, with 66% of mortgages currently on floating or fixed terms less than 12 months, compared with less than 40% in 2007. It means that monetary policy will have more punch at the front end when it does come time to lift rates.

So let's do some basic maths. We'll start with the old 6% estimate for neutral. Knock off 1.25%pts for a conservative deposit margin effect; 0.5%pts for lower inflation expectations (inflation has averaged 1% over the past five years; it averaged 2.2% for the decade prior to the GFC, so our 0.5%pt estimate is conservative); say 0.5%pts for prudential and bank policy (we'd say that's very conservative too, considering the impact on the property market); another 0.25%pts for the leverage and curve effect; and say 0.5%pts for changes in households' time preference. Suddenly you have a new neutral that's 3%! **Now these are ballpark figures of course. There is likely to be some overlap in terms of the effects, but the point is simply that a lot of changes add up.**

The bottom line is that it's hard to see the OCR moving up a long way, if much at all. Prudential policy and other forces are doing the heavy lifting. A wedge is effectively opening up between actual borrowing rates and the traditional OCR tool.

Over time this must have an impact on the NZD. It doesn't matter whether we look at the absolute yield differential or the pickup relative to the base rate on offer (NZ-US spread relative to the US rate); the gap is no longer as wide. Clearly the USD faces other challenges, but that closure is becoming quite stark. Refer to Figure 1 on *Currency Strategy* (page 7).

Turning to the week ahead, labour market figures for Q2 will likely show continued strong demand and the unemployment rate continuing to fall. We expect it to drop by 0.1%pts to 4.8% – an 8½-year low. Signs of accelerating wage growth, which history suggests should have emerged by now, will remain tentative at best. It is becoming increasingly clear, just as with the inflation process overall, that secular forces – especially the likes of technology – are outweighing cyclical themes.

To be fair, we do expect wage growth to rise a little in time. The Q3 figures should be mechanically boosted by the recent aged-care gender equality settlement. The fact that public wage growth (1.7% y/y on and LCI basis and 4.3% y/y on an hourly earnings basis in Q1) is running at a stronger pace than in the private sector suggests there is a risk of some catch-up for the latter. Despite dipping in Q2, headline inflation is up off its lows, which should see workers push for cost of living adjustments. Finding skilled labour remains the biggest problem facing firms, according to our Small Business Microscope.

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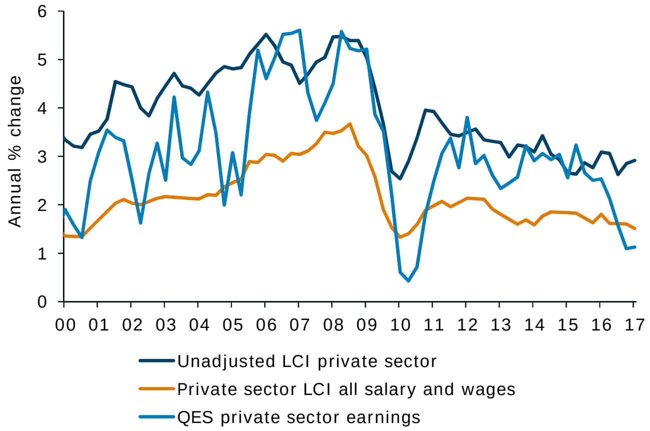
However, any lift in wages looks set to be modest overall. Technology is having a disruptive impact on some industries already. It is clearly reducing workers' job security and therefore ability (and desire) to push for wage increases. We cannot see that changing.

Figure 3: Private sector wage inflation



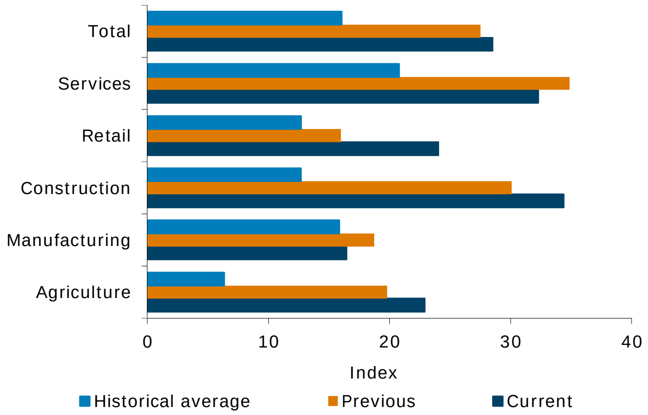
Source: ANZ, Statistics NZ

Continuing on the labour market theme, our Job Ads series will provide an early read on labour demand in Q3. Job advertising lifted a solid 1.3% m/m in June, and is up over 14% y/y on a three month average basis. Admittedly, the pace of growth has begun to ease off high levels, which is only natural after recording annual growth of close to 20% at one point. At some stage, natural brakes kick in, and we also suspect that the difficulties firms are having in finding staff will also have a bit of a disengagement effect.

Shortly, our Business Outlook for July will provide a steer on economic momentum heading into the second half of the year. Headline confidence has rebounded over the past few months, while activity gauges (firms' own activity, employment and investment intentions) have all held at solid levels. In fact, our composite gauges, which are a weighted estimate of those measures, are well above historical averages for all sectors.

Given question marks over the inflation outlook, firms' pricing intentions will also be watched. In June, a net 31% of firms were intending to increase their prices over the coming 12 months, which is actually the highest it has been since February 2014, and above the historical average. The issue of course, is that reality has far from met expectations over recent years.

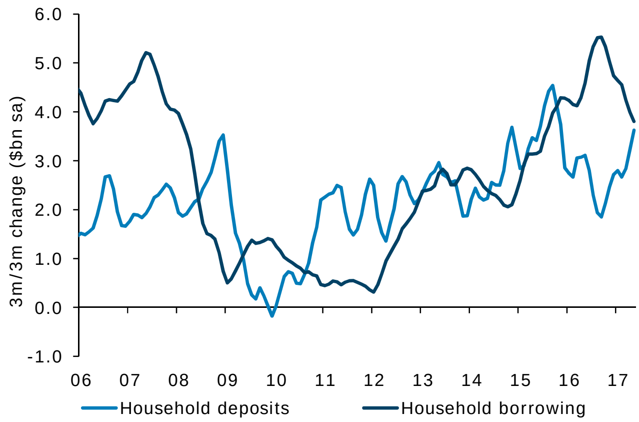
Figure 4: ANZ Business Outlook composites



Source: ANZ

RBNZ sectoral lending figures should continue to show more modest overall lending growth. In May, total private sector credit grew at a three-month annualised pace of 5.4%, which is well down from the 8% growth seen in the latter part of 2016. The slowdown has been driven largely by softer housing and agricultural lending, with the latter related to reduced working capital requirements associated with better cash-flow prospects in the dairy sector. These trends should persist. We will also be keeping a close watch on deposit growth, which grew at a very similar pace to overall household lending over the three months to May.

Figure 5: Bank household funding and claims growth



Source: ANZ

We see dairy prices biased higher at the next GDT auction, with supply tighter than expected and underlying demand solid. NZX dairy futures are anticipating a 3-4% lift for WMP and GDT-TWI.

Both sides of the equation (supply and demand) are supporting a move higher in wholemilk powder and milkfat prices. It is perhaps a little early to accurately gauge it at present, but it does feel like new season production will be off to a slow start given wet underground conditions and a tight supplementary feed market. European milk supply also

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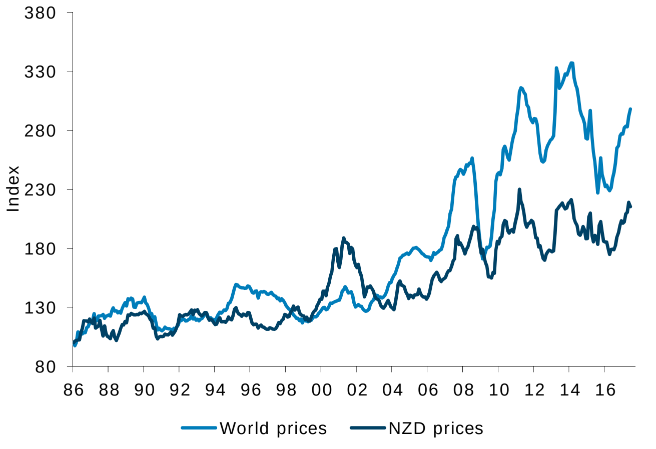
continues to struggle, with weather conditions hampering some major dairy exporting regions. However, there are positive signals on underlying demand from a range of markets of late, especially Algeria and South East Asia. The other support factor is low carry-over inventory from last season, which allows more flexibility in managing product volumes if milk supply is higher.

Such dynamics can lead to shifts higher in prices in short order. However, the market feels like it will take a more measured approach until a better gauge becomes available on how the New Zealand season has started (probably in 4-6 weeks' time).

Last week Fonterra moved its 2017/18 milk price forecast in line with ours ($6.75/kg MS). Our modelling has NZD/USD strength offsetting the moves in international prices, with the year-to-date milk price currently around $6.65/kg MS. So this either highlights a belief international prices are biased higher, or the current NZD/USD hedging position is better than anticipated. Either way, cash-flow for the average farmer remains in the high $6/kg MS for 2017/18. Some of this is being used for cyclical cost and debt repayment (i.e. Fonterra loans), but there is new capital expenditure and maintenance catch-up occurring too.

The broader commodity price story is also in focus, especially given recent NZD strength. In June, our ANZ Commodity Price Index rose 2.1% m/m in 'world price' terms. However, because of NZD strength, prices actual fell 1.6% m/m in local currency terms. That is not overly worrying at this stage, with NZD prices still up 20% y/y. However, given the NZD has risen around another 1.5% over July, we'd need to see another decent lift in world prices to ensure farm-gate returns are not further whittled away.

Figure 6: ANZ Commodity Price Index



Source: ANZ

LOCAL DATA

Overseas Merchandise Trade – June. An unadjusted trade surplus of $242m was achieved. The seasonally adjusted deficit narrowed from $387m to $104m.

RBNZ New Mortgage Lending – June. We estimate that new lending fell 3.8% m/m in seasonally adjusted terms. New lending to investors fell to less than 24% of the total.

Building Consent Issuance – June. Dwelling consent issuance dipped 1.0% m/m.

INTEREST RATE STRATEGY

SUMMARY

Short-end interest rates continue to grind lower, albeit at a slower pace than was seen a few weeks ago following the late June spike higher, which can now be clearly dismissed as a false start. Low inflation remains an impediment to higher rates, as does the elevated NZD. For now, market expectations of the first hike being delivered by August 2018 seem reasonable. But the risk is that it's later, and that biases the short end lower over time. Local long-end rates remain hostage to US rates, which are in turn being capped by international geopolitical risks, domestic political uncertainty, low inflation and receding expectations for Fed rate hikes. NZGS spreads to the US and Australia have widened over the past few weeks; we believe they have gone too far and have scope to correct back.

THEMES

- Inflation, geopolitics and politics remain the main themes locally and globally. Collectively they support continued low interest rates.
- NZGS spreads have suffered from an expectation that the NZGS 2029 syndication was forthcoming. That now looks set to be delayed until later in the year, paving the way for spreads to correct.

MONETARY POLICY AND SHORT END

The pace of the decline in short-end rates has slowed in recent days. Market expectations for the first RBNZ hike have been pushed back from around May to around August 2018. That seems reasonably fair given our forecast of a May hike with the risk profile around that tilted towards later, rather than sooner. **However, with carry making it expensive to be short and attractive to be long, and the NZD holding up, we do see scope for the 2 year to move lower still.** But any moves will be gradual. Compared to what might happen at the long end, there's little to get excited about.

The NZ/AU 2 year spread has widened a touch from very expensive levels as the Australian short end has corrected lower. But **we'll need to see Australian rates move significantly lower for the New Zealand short end to make fresh lows.**

GLOBAL MARKETS AND LONG END

The long end remains hostage to US Treasury bonds (USTs), which have consolidated over the past week; they remain capped by the thematic trio of low inflation, domestic political uncertainty and international geopolitical tensions. Collectively, these risks portend lower rates (unless one can conceive of the picture changing soon – which we can't). In addition, while the Fed is poised to slow the pace of rate hikes (with just 30bps of hikes priced in by December 2018), last week's FOMC statement hinted at balance sheet reduction regardless. This means many are wary of selling US bonds, given the potential for other asset classes (equities, property) to be more heavily impacted.

NZGS have underperformed USTs and ACGBs in recent weeks. We put some of this down to the NZGS 2029 syndication that's been hanging over the market. With the *MPS* next week, election campaigning in full swing, and no deal done over the past fortnight, we now expect the deal to be pushed back until after the election. This affords spreads some capacity to narrow back in. The NZ/US bond spread is ~10bps wider than the cash spread; historically it has tended to be the other way around. And on this occasion, the Fed is likely to tighten again before the RBNZ does.

Figure 1: Fed Funds rise priced in by December 2018

Source: ANZ, Bloomberg

STRATEGY

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

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

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/bullish	Scope to continue moving lower, with 2yr on track to make a new low for the year. High NZD assisting.
Long end	Neutral/bullish	UST price action constructive; NZ rates can compress on spread. But difficult to argue for fresh yield lows.
Yield Curve	Neutral	Our forecasts imply a steeper curve; but longer period of low inflation and spread compression say flatter.
Geographic spreads	Neutral/bullish	NZ/US 10yr bond spread ~70bps; with 2029 syndication not likely now and US yields at post-spike lows we are bullish the spread. Australian yields have scope to fall as RBA optimism is priced out, should help.
Swap spreads	Neutral	NZGS syndication delayed, countered by lack of corporate paying interest in the wake of recent volatility.
NZD/TWI	Elevated	We are wary of chasing the NZD up here, but the USD has its problems too. US data is better but still ho-hum, and domestic politics isn't helping. NZ's upcoming election will be tame by comparison!

CURRENCY STRATEGY

SUMMARY

NZD/USD continues to benefit from USD weakness, and while the USD looks vulnerable still, economic data is expected to offer a crutch. The bigger picture (positioning, narrowing yield advantage and a turn in the global liquidity cycle) favours a lower NZD and makes higher highs difficult to achieve and sustain.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Elevated on USD weakness/politics.	USD ascendency coming but delayed.
NZD/AUD	↔	Wary of NZD positioning.	Favour strength; NZ credentials better.
NZD/EUR	↔	Both currencies moving together.	Euro area faces structural challenges.
NZD/GBP	↔/↑	BoE rate hike optimism feels overdone.	Valuation says lower, Brexit higher.
NZD/JPY	↔/↓	At risk of JPY repatriation flows.	USD/JPY heading up as policy diverges.

THEMES AND RISKS

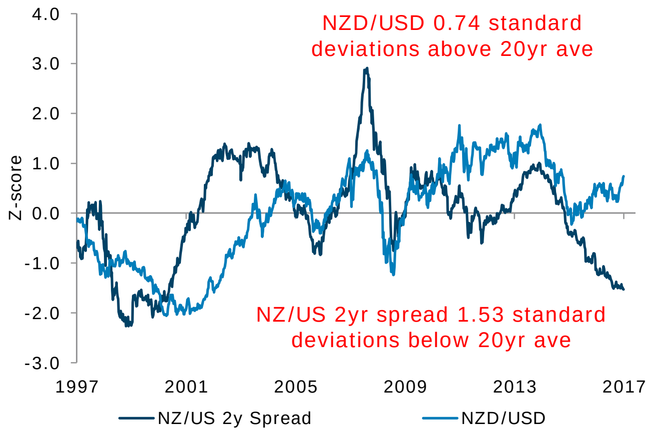
- USD still pressured on policy uncertainty.
- Attention to turn to the data this week, which we expect to be USD supportive.
- Fed flags start of balance sheet normalisation from September. That's just around the corner.
- A prospective turn in the liquidity cycle remains an overarching theme we are respecting.
- IMF expect around 2% growth for EU, UK and US; reasonable but somewhat tepid.
- The view that the RBNZ is now on hold until 2019 needs to be borne in mind.

ASSESSMENT

We remain wary of chasing the NZD higher at current levels. That is despite New Zealand's economic credentials, which still deserve respect. The microeconomic agenda is strong, the terms of trade are at a 40+ year high and carry remains attractive. Against a backdrop of increased US political uncertainty and an apparent back-pedalling of earlier hawkish rhetoric across the major central banks, it is little wonder the NZD is elevated.

However, we believe NZD strength is on borrowed time. NZD positioning remains extremely long. New Zealand's relative position is slipping, domestic growth is levelling out and the general election is just around the corner. We expect a turn in the global liquidity cycle, which will present challenges for risk assets. NZ-US 90 day, 2 year and 10 year spreads have closed up with z scores (standard deviations from mean) for each well below historical averages, while the NZD is north of average.

Figure 1. New Zealand's non-ideal mix of financial conditions: NZD too high, rates too low



Source: ANZ, Bloomberg

But recent developments (milk price rise, NZ commodity price increases, downside inflation surprises across the globe, a more dovish Fed, deeper US political uncertainty) **will challenge prospects for a downward adjustment.** However, they are not reasons to abandon the view completely.

Subdued inflation is also forcing a reassessment as to when the RBNZ could lift the OCR. Three months ago the RBNZ's view of being on hold until 2019 was disbelieved; now it's looking a more credible scenario. The RBNZ will certainly reinforce its aggressively neutral bias at the upcoming *MPS*.

That's a backdrop that makes higher highs for the NZD difficult to achieve – particularly with US data surprise indexes basing at lows.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Now much closer to fair value (~0.93).
Yield	↔	NZ yields higher, but by less.
Commodities	↔/↑	Milk price upgrade a tick in NZD's box.
Data	↔/↑	Both countries undershooting CPI target.
Techs	↔/↑	Sharp rally mid-July keeps bullish range trade intact (just in time!).
Sentiment	↓	Wary of NZD positioning.
Other	↑	Australian economy just not humming.
On balance	↔	**Range trading, mild upside bias.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Now pretty well at fair value (~0.75).
Yield	↔	Yield gap still positive but is that enough?
Commodities	↔/↑	Dairy prices biased higher yet.
Risk aversion	↔/↓	Watching the liquidity cycle.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔/↑	Price action strong; deserves respect.
Sentiment	↔	Bullish, but is it hubris? We're wary of still very extreme long speculative positioning.
Other	↔/↑	Politics and policy USD negative.
On balance	↔	**Respect the here and now, but the pressure for reversal is building.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-Jul	AU	Melbourne Institute Inflation MoM - Jul	--	0.1%	13:00
	AU	Melbourne Institute Inflation YoY - Jul	--	2.3%	13:00
	NZ	ANZ Activity Outlook - Jul	--	42.8	13:00
	NZ	ANZ Business Confidence - Jul	--	24.8	13:00
	AU	HIA New Home Sales MoM - Jun	--	1.1%	13:00
	CH	Manufacturing PMI - Jul	51.5	51.7	13:00
	CH	Non-manufacturing PMI - Jul	--	54.9	13:00
	AU	Private Sector Credit MoM - Jun	0.4%	0.4%	13:30
	AU	Private Sector Credit YoY - Jun	5.2%	5.0%	13:30
	GE	Retail Sales MoM - Jun	0.2%	0.5%	18:00
	GE	Retail Sales YoY - Jun	2.7%	4.8%	18:00
	UK	Net Consumer Credit - Jun	£1.5B	£1.7B	20:30
	UK	Net Lending Sec. on Dwellings - Jun	£3.4B	£3.5B	20:30
	UK	Mortgage Approvals - Jun	65.0k	65.2k	20:30
	UK	Money Supply M4 MoM - Jun	--	-0.1%	20:30
	UK	M4 Money Supply YoY - Jun	--	6.7%	20:30
	EC	Unemployment Rate - Jun	9.2%	9.3%	21:00
	EC	CPI Estimate YoY - Jul	1.3%	1.3%	21:00
	EC	CPI Core YoY - Jul A	1.1%	1.1%	21:00
1-Aug	US	Chicago Purchasing Manager - Jul	60.0	65.7	01:45
	US	Pending Home Sales MoM - Jun	1.0%	-0.8%	02:00
	US	Pending Home Sales NSA YoY - Jun	--	0.5%	02:00
	US	Dallas Fed Manf. Activity - Jul	13	15	02:30
	AU	AiG Perf of Mfg Index - Jul	--	55	11:30
	AU	ANZ-RM Consumer Confidence Index - 30-Jul	--	115.1	11:30
	AU	CoreLogic House Px MoM - Jul	--	1.8%	12:00
	CH	Caixin PMI Mfg - Jul	50.4	50.4	13:45
	AU	RBA Cash Rate Target - Aug	1.50%	1.50%	16:30
	UK	Nationwide House PX MoM - Jul	-0.1%	1.1%	18:00
	UK	Nationwide House Px NSA YoY - Jul	2.7%	3.1%	18:00
	AU	Commodity Index AUD - Jul	--	119.5	18:30
	AU	Commodity Index SDR YoY - Jul	--	25.0%	18:30
	GE	Markit/BME Manufacturing PMI - Jul F	58.3	58.3	19:55
	GE	Unemployment Change (000's) - Jul	-5k	7k	19:55
	GE	Unemployment Claims Rate SA - Jul	5.7%	5.7%	19:55
	EC	Markit Manufacturing PMI - Jul F	56.8	56.8	20:00
	UK	Markit PMI Manufacturing SA - Jul	54.5	54.3	20:30
	EC	GDP SA QoQ - 2Q A	0.6%	0.6%	21:00
	EC	GDP SA YoY - 2Q A	2.1%	1.9%	21:00
2-Aug	US	Personal Income - Jun	0.4%	0.4%	00:30
	US	Personal Spending - Jun	0.1%	0.1%	00:30
	US	PCE Deflator MoM - Jun	0.0%	-0.1%	00:30
	US	PCE Deflator YoY - Jun	1.3%	1.4%	00:30
	US	PCE Core MoM - Jun	0.1%	0.1%	00:30
	US	PCE Core YoY - Jun	1.4%	1.4%	00:30
	US	Markit Manufacturing PMI - Jul F	53.1	53.2	01:45
	US	ISM Manufacturing - Jul	56.4	57.8	02:00
	US	Construction Spending MoM - Jun	0.5%	0.0%	02:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
2-Aug	NZ	QV House Prices YoY - Jul	--	8.1%	05:00
	NZ	Unemployment Rate - Q2	4.8%	4.9%	10:45
	NZ	Employment Change QoQ - Q2	0.7%	1.2%	10:45
	NZ	Employment Change YoY - Q2	4.1%	5.7%	10:45
	NZ	Participation Rate - Q2	70.6%	70.6%	10:45
	NZ	Pvt Wages Ex Overtime QoQ - Q2	0.5%	0.4%	10:45
	NZ	Pvt Wages Inc Overtime QoQ - Q2	0.4%	0.4%	10:45
	NZ	Average Hourly Earnings QoQ - Q2	0.9%	0.3%	10:45
	AU	Building Approvals MoM - Jun	1.0%	-5.6%	13:30
	AU	Building Approvals YoY - Jun	-11.0%	-19.7%	13:30
	UK	Markit/CIPS Construction PMI - Jul	54.0	54.8	20:30
	EC	PPI MoM - Jun	-0.1%	-0.4%	21:00
	EC	PPI YoY - Jun	2.4%	3.3%	21:00
	US	MBA Mortgage Applications - 28-Jul	--	0.4%	23:00
3-Aug	US	ADP Employment Change - Jul	190k	158k	00:15
	NZ	ANZ Job Advertisements MoM - Jul	--	1.3%	10:00
	AU	AiG Perf of Services Index - Jul	--	54.8	11:30
	JN	Nikkei Japan PMI Services - Jul	--	53.3	12:30
	JN	Nikkei Japan PMI Composite - Jul	--	52.9	12:30
	NZ	ANZ Commodity Price - Jul	--	2.1%	13:00
	AU	Trade Balance - Jun	A$1800M	A$2471M	13:30
	CH	Caixin PMI Composite - Jul	--	51.1	13:45
	CH	Caixin PMI Services - Jul	--	51.6	13:45
	GE	Markit Services PMI - Jul F	53.5	53.5	19:55
	GE	Markit/BME Composite PMI - Jul F	55.1	55.1	19:55
	EC	Markit Services PMI - Jul F	55.4	55.4	20:00
	EC	Markit Composite PMI - Jul F	55.8	55.8	20:00
	UK	Markit/CIPS UK Services PMI - Jul	53.6	53.4	20:30
	UK	Markit/CIPS UK Composite PMI - Jul	53.8	53.8	20:30
	UK	Official Reserves Changes - Jul	--	$491M	20:30
	EC	Retail Sales MoM - Jun	0.0%	0.4%	21:00
	EC	Retail Sales YoY - Jun	2.5%	2.6%	21:00
	UK	Bank of England Bank Rate - Aug	0.25%	0.25%	23:00
	UK	BoE Asset Purchase Target - Aug	£435B	£435B	23:00
	UK	BoE Corporate Bond Target - Aug	£10B	£10B	23:00
	UK	Bank of England Inflation Report -	--	--	23:00
	US	Challenger Job Cuts YoY - Jul	--	-19.3%	23:30
4-Aug	US	Initial Jobless Claims - 29-Jul	240k	244k	00:30
	US	Continuing Claims - 22-Jul	1955k	1964k	00:30
	US	Markit Services PMI - Jul F	54.2	54.2	01:45
	US	Markit Composite PMI - Jul F	--	54.2	01:45
	US	ISM Non-Manf. Composite - Jul	56.9	57.4	02:00
	US	Factory Orders - Jun	2.8%	-0.8%	02:00
	US	Factory Orders Ex Trans - Jun	--	-0.3%	02:00
	US	Durable Goods Orders - Jun F	6.0%	6.5%	02:00
	US	Durables Ex Transportation - Jun F	--	0.2%	02:00
	US	Cap Goods Orders Nondef Ex Air - Jun F	--	-0.1%	02:00
	US	Cap Goods Ship Nondef Ex Air - Jun F	--	0.2%	02:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
4-Aug	AU	Retail Sales MoM - Jun	0.2%	0.6%	13:30
	AU	Retail Sales Ex Inflation QoQ - Q2	1.2%	0.1%	13:30
	AU	RBA Statement on Monetary Policy -	--	--	13:30
	GE	Factory Orders MoM - Jun	0.5%	1.0%	18:00
	GE	Factory Orders WDA YoY - Jun	4.4%	3.7%	18:00
	GE	Markit Construction PMI - Jul	--	55.1	19:30
	GE	Markit Retail PMI - Jul	--	54.5	20:10
	EC	Markit Retail PMI - Jul	--	53.2	20:10
5-Aug	US	Change in Nonfarm Payrolls - Jul	180k	222k	00:30
	US	Unemployment Rate - Jul	4.3%	4.4%	00:30
	US	Average Hourly Earnings MoM - Jul	0.3%	0.2%	00:30
	US	Average Hourly Earnings YoY - Jul	2.4%	2.5%	00:30
	US	Average Weekly Hours All Employees - Jul	34.5	34.5	00:30
	US	Trade Balance - Jun	-$44.8B	-$46.5B	00:30

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

LOCAL DATA WATCH

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

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 31 Jul (1:00pm)	ANZ Business Outlook – Jul	--	--
Mon 31 Jul (3:00pm)	RBNZ Sectoral Lending – Jun	Cooler	At ~6%, annual private sector credit growth is back on par with income growth. We suspect it will stay roughly there.
Wed 2 Aug (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a stronger supply backdrop. Chinese and South-East Asian demand is lending support.
Wed 2 Aug (10:45am)	Labour Market Statistics – Q2	Tightening	Despite strong labour supply growth, decent labour demand should see the unemployment rate continue to tick lower.
Thu 3 Aug (10:00am)	ANZ Job Ads – Jul	--	--
Thu 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul	--	--
Mon 7 Aug (3:00pm)	RBNZ Survey of Expectations – Q3	Stable to down	Recent petrol price falls could see the 2-year ahead measure ease off its recent highs.
Tue 8 Aug (1:00pm)	ANZ Monthly Inflation Gauge – Jul	--	--
Wed 9 Aug (10:00am)	ANZ Truckometer – Jul	--	--
Thu 10 Aug (9:00am)	RBNZ Monetary Policy Statement	On hold	Recent developments should leave the RBNZ fully vindicated in its ultra-cautious stance. Caution will prevail.
Thu 10 Aug (10:45am)	Electronic Card Transactions – Jul	Petrol drag	If petrol prices stabilise, we should see total retail spending rebound from its recent weaker trend.
Fri 11 Aug (10:30am)	BNZ-BusinessNZ PMI – Jul	Holding	Manufacturing sector sentiment should continue to hold at a reasonable level.
Fri 11 Aug (10:45am)	Food Price Index – Jul	Waiting	Prices should unwind their recent spike, but it may not be until new season produce hits the shelves in spring.
14-18 Aug	REINZ Housing Market Statistics – Jul	Letting the air out	The air continues to be let out of national house price growth. However, Auckland is now clearly underperforming.
Mon 14 Aug (10:30am)	BNZ-BusinessNZ PSI – Jul	Strong	Sentiment in the services sector remains strong and we don't really see that changing.
Mon 14 Aug (10:45am)	Retail Trade Survey – Q2	Ok, but not as strong as Q1	Ongoing price discounting should continue to support a reasonable pace of volume growth, but probably not as strong as Q1.
Wed 16 Aug (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese and South-East Asian demand is lending support.
Thu 17 Aug (10:45am)	PPI – Q2	Mixed	The numbers will be thrown around by commodity prices, with only tentative signs of pipeline price pressures evident.
Thu 17 Aug (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Aug	--	--
Mon 21 Aug (10:45am)	International Travel & Migration – Jul	No change	Strong net migrant inflows should persist. Visitor arrivals should partly unwind the B&I Lions bounce.
Wed 23 Aug (2:00pm)	Pre-Election Economic & Fiscal Update	Larger surpluses	It should be a similar picture to the May Budget. If anything, projected surpluses should be a little larger.
Thu 24 Aug (10:45am)	Overseas Merchandise Trade - Jul	Better trend	A positive picture for export commodity prices should support export values.
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is low, but should lift.**

KEY FORECASTS AND RATES

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (% qoq)	0.5	**1.0**	**0.8**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.5	**2.7**	**2.7**	**3.2**	**3.3**	**3.0**	**2.8**	**2.6**	**2.5**	**2.4**
CPI (% qoq)	1.0	0.0	**0.2**	**0.2**	**0.8**	**0.6**	**0.7**	**0.3**	**0.7**	**0.6**
CPI (% yoy)	2.2	1.7	**1.6**	**1.3**	**1.2**	**1.8**	**2.4**	**2.5**	**2.4**	**2.3**
Employment (% qoq)	1.2	**0.7**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.7	**4.0**	**3.0**	**2.7**	**1.9**	**1.6**	**1.5**	**1.4**	**1.3**	**1.2**
Unemployment Rate (% sa)	4.9	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**	**4.3**	**4.3**
Current Account (% GDP)	-3.1	**-3.1**	**-3.0**	**-3.0**	**-2.6**	**-2.5**	**-2.6**	**-2.6**	**-2.6**	**-2.6**
Terms of Trade (% qoq)	5.1	**1.5**	**0.0**	**-1.1**	**-1.0**	**-0.7**	**0.1**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	7.7	**11.6**	**12.8**	**5.5**	**-0.6**	**-2.8**	**-2.6**	**-1.5**	**-0.4**	**0.4**

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Retail ECT (% mom)	0.5	0.1	0.1	2.4	-0.4	-0.3	0.9	-0.4	0.0	--
Retail ECT (% yoy)	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2	4.5	--
Credit Card Billings (% mom)	2.8	-4.1	3.1	0.4	-1.3	1.0	1.0	1.0	0.2	--
Credit Card Billings (% yoy)	10.1	4.1	8.5	7.1	5.3	7.3	6.6	7.6	8.3	--
Car Registrations (% mom)	13.2	2.8	-6.4	1.7	0.5	3.3	-2.7	3.7	-2.8	--
Car Registrations (% yoy)	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7	11.1	--
Building Consents (% mom)	0.6	-8.4	-8.2	3.7	15.5	-1.1	-8.1	6.9	-1.0	--
Building Consents (% yoy)	13.9	2.2	-10.7	-1.0	8.9	17.0	-3.2	6.1	-9.1	--
REINZ House Price Index (% yoy)	14.4	14.4	13.8	12.8	11.9	10.0	7.9	5.0	2.7	--
Household Lending Growth (% mom)	0.6	0.6	0.8	0.5	0.5	0.5	0.6	0.4	--	--
Household Lending Growth (% yoy)	8.7	8.6	8.8	8.7	8.5	8.4	8.2	7.8	--	--
ANZ Roy Morgan Consumer Conf.	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9	127.8	125.4
ANZ Business Confidence	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9	24.8	--
ANZ Own Activity Outlook	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3	42.8	--
Trade Balance ($m)	-798	-723	-1	-227	-42	262	532	74	242	--
Trade Bal ($m ann)	51943	51668	51621	51901	52087	52404	52589	53219	53538	--
ANZ World Commodity Price Index (% mom)	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	2.1	--
ANZ World Comm. Price Index (% yoy)	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3	24.6	--
Net Migration (sa)	6180	6140	5940	6340	5930	6150	5810	5940	6350	--
Net Migration (ann)	70282	70354	70588	71305	71333	71932	71885	71964	72305	--
ANZ Heavy Traffic Index (% mom)	-0.4	3.7	-0.5	-0.9	2.1	1.6	-2.1	4.0	0.0	--
ANZ Light Traffic Index (% mom)	-2.0	1.5	0.2	-0.3	0.8	1.2	-1.5	1.3	1.3	--

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	May-17	Jun-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZD/USD	0.687	0.712	0.751	0.72	0.70	0.69	0.68	0.67	0.67	0.66
NZD/AUD	0.917	0.954	0.941	0.97	0.96	0.96	0.94	0.94	0.94	0.94
NZD/EUR	0.630	0.635	0.639	0.63	0.63	0.63	0.65	0.63	0.61	0.57
NZD/JPY	76.55	78.83	83.06	82.8	78.4	75.9	71.4	67.0	67.0	66.0
NZD/GBP	0.530	0.554	0.572	0.55	0.55	0.55	0.55	0.54	0.54	0.51
NZ$ TWI	73.3	75.4	79.3	76.1	74.7	74.1	73.5	71.8	71.2	69.3
INTEREST RATES	Apr-17	May-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25	2.25
NZ 90 day bill	1.98	1.97	1.95	1.98	1.99	2.08	2.33	2.50	2.50	2.59
NZ 10-yr bond	3.04	2.78	2.99	2.80	2.80	2.85	2.95	3.15	3.30	3.30
US Fed funds	1.00	1.00	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.25
US 3-mth	1.17	1.21	1.31	1.40	1.65	1.75	2.05	2.20	2.45	2.45
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.75	1.74	1.75	1.70	1.70	1.70	1.70	1.80	1.80	1.80

	28 Jun	24 Jul	25 Jul	26 Jul	27 Jul	28 Jul
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.95	1.93	1.93	1.93	1.94	1.94
NZGB 03/19	1.98	1.93	1.93	1.94	1.92	1.92
NZGB 05/21	2.25	2.27	2.27	2.28	2.25	2.25
NZGB 04/23	2.52	2.57	2.58	2.61	2.57	2.57
NZGB 04/27	2.80	2.92	2.94	2.98	2.94	2.97
2 year swap	2.24	2.22	2.23	2.22	2.21	2.22
5 year swap	2.74	2.76	2.77	2.80	2.75	2.76
RBNZ TWI	78.40	78.79	78.64	78.78	79.38	79.09
NZD/USD	0.7261	0.7440	0.7431	0.7428	0.7533	0.7514
NZD/AUD	0.9573	0.9357	0.9363	0.9380	0.9400	0.9411
NZD/JPY	81.46	82.37	82.76	83.04	83.88	83.15
NZD/GBP	0.5662	0.5708	0.5703	0.5691	0.5730	0.5721
NZD/EUR	0.6393	0.6387	0.6378	0.6380	0.6435	0.6395
AUD/USD	0.7585	0.7951	0.7937	0.7919	0.8014	0.7987
EUR/USD	1.1359	1.1649	1.1651	1.1642	1.1705	1.1751
USD/JPY	112.18	110.72	111.37	111.79	111.35	110.68
GBP/USD	1.2824	1.3035	1.3033	1.3053	1.3148	1.3136
Oil (US$/bbl)	44.74	46.34	47.89	48.75	49.04	49.71
Gold (US$/oz)	1253.07	1256.55	1251.14	1247.69	1262.41	1269.64
Electricity (Haywards)	12.94	9.57	9.95	10.51	12.02	11.08
Baltic Dry Freight Index	929	977	980	968	942	933
NZX WMP Futures (US$/t)	2935	3200	3225	3225	3225	3225

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