NEW ZEALAND ECONOMICS
MARKET FOCUS

12 December 2016

INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com
Twitter @ANZ_cambagrie

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
Email: Philip.Borkin@anz.com

David Croy
Senior Rates Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Kyle Uerata
Economist
Telephone: +64 4 802 2357
E-mail: Kyle.Uerata@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

SAVING GRACE

ECONOMIC OVERVIEW

Rising national saving (though still too low), particularly by the business sector, and a solid fiscal position – and outlook – are encouraging, as they can help insulate the economy against severe swings in the cycle. It doesn't kill the business cycle, of course, and a deteriorating household savings position needs to be watched, but it does reinforce the economy's better structural health compared with the past. This week, our final consumer and business sentiment measures for the year will update us on how economic momentum is shaping into early 2017; we expect okay numbers with some payback from Q2 evident. Partial indicators for GDP (manufacturing and construction) will allow us to finalise our expectations for next week's Q3 figures.

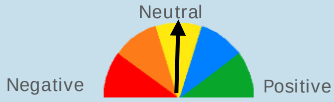
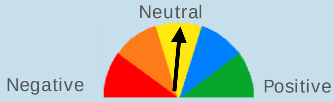
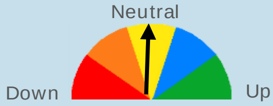
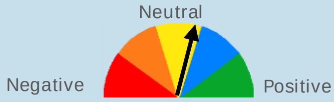
INTEREST RATE STRATEGY

The short end remains elevated despite TWI strength and the RBNZ's assertion that the policy prescription dispensed in November remains appropriate. We doubt rates can remain this high throughout the holiday period, and expect carry considerations to again come to the fore. Long-end yields remain elevated too. While we expect US rates to grind gradually higher, last week's ECB 'extension' is a reminder that liquidity remains a consideration, even if investor attitudes have turned defensive. Overall, this leaves us more neutral than bearish global rates. Locally, the bond market had expected a new nominal bond to be announced at last week's HYEFU, but we got a linker instead. This eases the supply burden for nominals, with this week's tender the last for at least six weeks. That should keep a lid on local long-end rates despite the likelihood of a Fed hike this week.

CURRENCY STRATEGY

When we eye potential defining global issues for 2017 (politics, growth, inflation, the liquidity cycle, central banks) we struggle to identify defining currency trends. At the margin we remain mildly USD bullish. Abstracting from a clear turn in the global liquidity cycle or a turn in New Zealand's credentials (yield + growth + political stability), we expect the TWI to hold at elevated levels. NZD/AUD is on track for new highs.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	
Unemployment rate	4.7% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	
OCR	1.75% by Jun 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify.	
CPI	1.4% y/y for 2017 Q2	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	

ECONOMIC OVERVIEW

SUMMARY

Rising national saving (though still too low), particularly by the business sector, and a solid fiscal position – and outlook – are encouraging, as they can help insulate the economy against severe swings in the cycle. It doesn't kill the business cycle, of course, and a deteriorating household savings position needs to be watched, but it does reinforce the economy's better structural health compared with the past. This week, our final consumer and business sentiment measures for the year will update us on how economic momentum is shaping into early 2017; we expect okay numbers with some payback from Q2 evident. Partial indicators for GDP (manufacturing and construction) will allow us to finalise our expectations for next week's Q3 figures.

FORTHCOMING EVENTS

Economic Survey of Manufacturing – Q3 (10:45am, Tuesday, 13 December). While primary production volumes are likely to fall, a decent pace of "core" manufacturing activity growth is likely.

BNZ-BusinessNZ PMI – November (10:30am, Thursday, 15 December). The sector should remain in good heart, riding on the coat tails of the domestic construction sector.

Building Work Put In Place – Q3 (10:45am, Thursday, 15 December). We wouldn't be surprised to see a more modest pace of growth (or even a slight fall) in the quarter. But a decent underlying trend should remain in place.

ANZ-Roy Morgan Consumer Confidence – December (1:00pm, Friday, 16 December).

BNZ-BusinessNZ PSI – November (10:30am, Monday, 19 December). We wouldn't be surprised to see activity cool a little on the back of the softer housing market, but only modestly.

Building Consent Issuance – November (10:45am, Monday, 19 December). Putting monthly volatility aside, a modest upward trend in issuance should continue.

ANZ Business Outlook – December (1:00pm, Monday, 19 December).

WHAT'S THE VIEW?

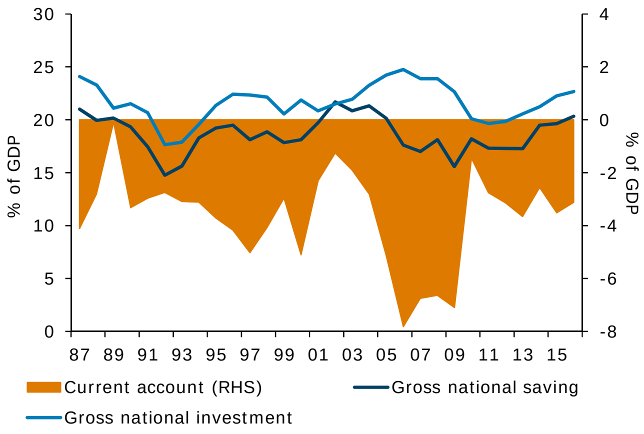
There were a couple of encouraging statistics out last week that have been underreported.

The first is obviously the fiscal situation. The Treasury painted quite a rosy picture of the fiscal outlook, with surpluses projected to grow towards 3% of GDP and net debt falling below 20% of GDP by 2021. Even the impact of another significant earthquake has failed to dent the fiscal position to any significant degree, with an OBEGAL surplus still forecast for 2016/17.

Admittedly, there is an element of chicken and egg to this, as the strong fiscal position is primarily a function of the strong economy. But it has also been achieved through expenditure restraint, with core Crown expenditure falling below 30% of GDP (and expected to continue falling). Building up fiscal buffers is important, as it provides flexibility to better deal with unforeseen shocks – arguably much better than many other economies right now. We note that paying down debt is a higher priority than tax cuts. And not only this, it also means that at a time of leadership change, the transition can arguably be smoother, as there is not the same pressures to make tough decisions from the get-go.

The second element of this picture was the message contained within the delayed National Accounts data, which showed a further lift in national saving. In the year to March 2016, national saving rose to 7.3% of disposable income, the highest since 2005. Overall investment continues to grow at a strong pace – it has averaged growth in excess of 7% pa over the past five years and as a share of GDP is approaching its 2006 highs. This higher national saving rate is a key reason why the current account deficit has not ballooned like it would typically have done at a time of strong domestic demand growth. It has allowed the external debt position to slowly reduce, improving the economy's overall external imbalance health (relative to history at least). To be fair, the numbers are not great in isolation, but they are not as bad as we have seen in the past.

FIGURE 1: NATIONAL GROSS SAVING AND INVESTMENT



Source: ANZ, Statistics NZ

Business balance sheets are also in good shape. The sector has been generating good cash flow and its net saving position (6.6% of national disposable

ECONOMIC OVERVIEW

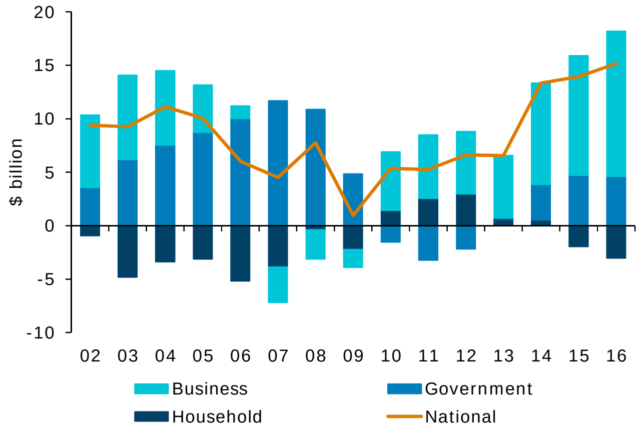
income) is the highest since 2003. Leverage build-up (especially outside of the dairy and property sectors) has also been demure. Despite business sector credit running at 7.8% in the year to September, the RBNZ estimates that debt-to-income ratio in the non-property business sector is only 16.7%, which is below its GFC peak and only a touch above its average since 2000.

Such statistics can help insulate the economy against severe swings in the business cycle.

Now we can of course still find areas to nit-pick:

- **It is entirely possible the fiscal picture won't be as rosy as projected.** We are inclined to think the fiscal costs of the earthquake could be larger than is currently assumed. The Treasury has assumed an overall fiscal cost of $2-3bn, but a net cost of just $1bn. That could easily grow in our view. Additionally, our economic forecasts are a little less upbeat than the Treasury's as we see growth moderating a little earlier than it does (we forecast growth of just 2.4% in calendar year 2018 compared with its 3.3%) as capacity constraints and a turn in the credit cycle bite. That will impact revenue projections.
- **The improvement in national saving is not broad-based**. There are some sectoral weak spots, with the household saving rate (or more accurately; the dissaving rate) falling to -2.2%, which is the lowest since 2009. In some ways it is consistent with the releveraging behaviour seen of late, with the household debt-to-income ratio rising to an all-time high of 165%.

FIGURE 2: SECTORAL NET SAVING



Source: ANZ, Statistics NZ

- **Aggregate credit growth is still outstripping nominal GDP**; so we have leveraging behaviour, and it's housing centric. The ratio of private sector credit to GDP has risen to 152% – in line with its pre-GFC high.
- **Dairy sector incomes may be recovering, but the sector still carries over $40 billion in debt.** RBNZ estimates suggest this has increased from $20.1 per kg MS in September 2014 to $21.50/kg MS in September 2016 – likely led by those farms that are already most indebted, as they typically have higher costs and therefore the most demand for additional working capital during periods of poor returns.

But ultimately this is still really just nit-picking at the margin. The fiscal picture would still look solid even with larger earthquake cost assumptions or with our slightly less optimistic underlying economic forecasts. Likewise, while the deterioration in the household saving rate needs to be watched, as a continuation of this trend into 2017 would be a worry, its deterioration is really just confirmation that households smoothed their consumption during a severe farm income shock. **We estimate that if farm incomes had held in line with their 2011-2014 average, the household saving rate would currently be 0.7%, all else equal; not great but at least not negative**. Our forecasts have the household saving rate lifting back into positive territory over the next few years in line with the improved prospects for farm incomes and an expectation that spending restraint remains in play.

So while there are still areas of vulnerability when it comes to thinking about the economy's structural health **(Auckland housing and poor productivity growth spring to mind)**, and we certainly don't believe the economy is completely bullet-proof, **we do believe the structural picture is still a reasonable one.**

Turning to the week ahead, we have quite a full domestic data calendar as data initially delayed by Statistics NZ due to the earthquake is due for release.

Core manufacturing sales volumes within the Economic Survey of Manufacturing should lift in Q3. Weaker milk production and livestock slaughtering over the quarter will likely see primary manufacturing sales contract modestly over the quarter. However, we are expecting this to have been broadly offset by stronger core sales volumes. Certainly the BusinessNZ PMI averaged a decent 56.1 over the quarter and importantly, the gap between new orders and inventories averaged a reasonable 7.2 points. The domestic manufacturing sector has coped remarkably well with the elevated currency and fragile global scene, as it has continued to ride on the coat-tails of the strong domestic economy and construction sector especially.

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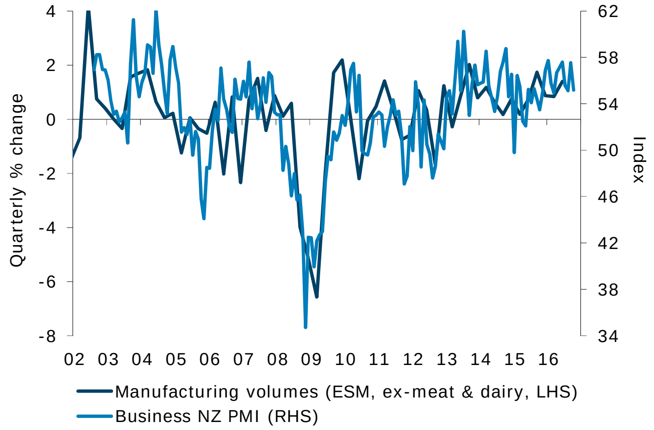
FIGURE 3: MANUFACTURING SENTIMENT AND SALES VOLUMES



Source: ANZ, Statistics NZ

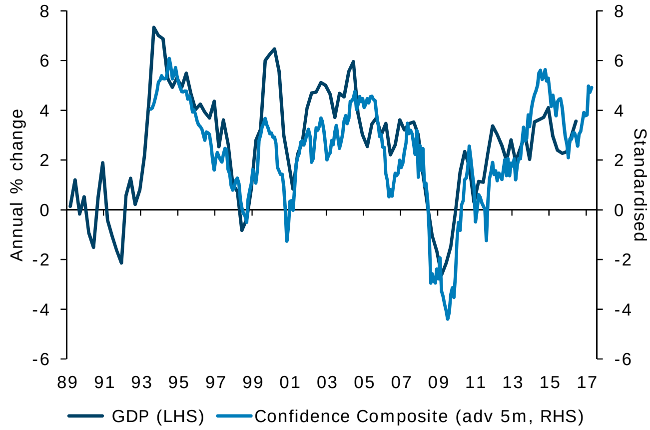
Two separate reports on construction should show a decent performance, though we wouldn't be surprised to see some signs of moderation. We expect October consent figures (next Monday) will show a positive underlying trend remains. Issuance has been volatile of late, but in trend terms sits at the highest level since early 2004. Even so, it is struggling to keep pace with demographic demand. A separate survey on building work done in Q3 should also show strong activity. However, after six consecutive quarterly increases (with some especially large gains over Q1 and Q2), we wouldn't rule out a more modest pace of growth (or even a small fall) in Q3 as signalled by an earlier soft patch in non-residential consent issuance. We have pencilled in a 1.0% q/q lift in total building volumes.

FIGURE 4: RESIDENTIAL BUILDING WORK AND FLOOR AREA OF CONSENT ISSUANCE

Source: ANZ, Statistics NZ

Turning to our proprietary indicators, the last ANZ Roy Morgan Consumer Confidence and ANZ Business Outlook surveys for the year will show how sentiment is shaping heading into 2017. After only partially incorporating the impact of the mid-November earthquakes in previous releases, this month's releases will fully show the impact (if any). But beyond that, we will be looking at their combined signal for growth momentum. Our Confidence Composite gauge is currently pointing to the possibility of GDP growth accelerating to north of 4%. We don't believe that is achievable given capacity pressures, but it clearly shows the positive impact confidence is having on economic performance right now. We will also be keeping a close eye on inflation expectations and firms' pricing intentions for any further evidence that the inflation cycle is finally turning.

FIGURE 5: GDP VS CONFIDENCE COMPOSITE



Source: ANZ, Statistics NZ

LOCAL DATA

ANZ Commodity Price Index – November. The index rose 2.7% m/m (+13% y/y).

ANZ Truckometer – November. The Heavy Traffic Index rose 4.0% m/m, while the Light Traffic Index lifted 1.7% m/m.

GlobalDairyTrade Auction. The GDT-TWI rose 3.5%, with WMP prices up 4.9%.

ANZ Job Ads – November. Seasonally adjusted job ads rose 2.9% to be 18% higher than a year ago (3-month average).

Treasury Half-Year Economic and Fiscal Update. For the 2016/17 year, an OBEGAL surplus of 0.2% of GDP was forecast, but this is projected to lift towards 3% of GDP.

Electronic Card Transactions – November. Total retail spending fell 0.1% m/m, while core spending fell 0.4% m/m.

ANZ Monthly Inflation Gauge – November. Prices in the Gauge rose 0.1% m/m (2.1% y/y).

REINZ Housing Market Statistics – November. In seasonally adjusted terms, turnover rose 3.8% m/m, while the REINZ House Price Index rose 0.9% m/m.

INTEREST RATE STRATEGY

SUMMARY

The short end remains elevated despite TWI strength and the RBNZ's assertion that the policy prescription dispensed in November remains appropriate. We doubt rates can remain this high throughout the holiday period, and expect carry considerations to again come to the fore. Long-end yields remain elevated too. While we expect US rates to grind gradually higher, last week's ECB 'extension' is a reminder that liquidity remains a consideration, even if investor attitudes have turned defensive. Overall, this leaves us more neutral than bearish global rates. Locally, the bond market had expected a new nominal bond to be announced at last week's HYEFU, but we got a linker instead. This eases the supply burden for nominals, with this week's tender the last for at least six weeks. That should keep a lid on local long-end rates despite the likelihood of a Fed hike this week.

THEMES

- Short-end rates remain elevated. The influence of global rate volatility is clear to see, but we doubt this will continue going into the holiday period, reinforcing our curve-steepening view.
- Over the past two weeks we have seen the TWI reclaim 12-month highs, retail interest rates move up independently of the OCR, local financial conditions tighten, and the ECB ease. That hardly brings forward the timetable for OCR hikes, yet the market is behaving in this manner. That said, we have to acknowledge that a 2017 OCR hike cannot be completely ruled out.
- The announcement of a new 2040 linker is good news for nominal bonds, particularly with tenders set to halt over the holidays. That should support New Zealand geographic spreads.

MONETARY POLICY AND SHORT END

We remain of the view that short-end rates are too high vis-à-vis the monetary policy outlook. While we 'get' why the market has been reluctant to rally and remains somewhat nervous given bearish nuances in global markets, carry considerations are likely to return to the fore over the holidays. The bellwether 1y1y is now at ~2.50%, and at ~75bps to cash, is behaving as though a hike is around the corner. **With the TWI back near 79 and ECB easing ramping up,** we concur with the RBNZ's view that policy settings announced in November remain appropriate – and recall that this assumed a 20% probability of another OCR cut. To be sure, we don't think that will be warranted, but **the glaring gap between the RBNZ's projections (that it has just essentially re-endorsed) and market expectations does nonetheless need to be addressed.**

GLOBAL MARKETS AND LONG END

Fed policy takes centre stage this week. But **with a hike all but guaranteed, and US 10-year Treasury bond yields already close to a percent higher than they were three months ago, we're coy about extrapolating this much further.** Political uncertainty, USD strength, tighter US financial conditions and the actions of the ECB and BoJ all suggest that the Fed is likely to be fairly cautious in its forward projections. Against that, with US yields already at the year's highs and flows out of Europe and Japan continuing, we do not expect US Treasury yields to move higher in coming weeks (our forecasts have the 10 year at 2.5% by year-end).

Local nuances also leave us somewhat circumspect about joining the bearish bond bandwagon. While local activity data remains robust, and the fiscal stance is expected to be pro-growth, supply/demand dynamics should keep long-end yields in check. The biggest changes on that score in the past week are the lack of a new nominal bond (most expected one to be announced, but we got a linker instead); and easier ECB policy, which will keep capital flowing out of Europe. Given the NZD's superior credentials versus major competitors like the AUD, we are less concerned about investors exiting the market than we were a month ago.

STRATEGY

Investors: Our preference for being **short duration** remains in place. Curve steepening is expected, driven by the short end, where we prefer to be overweight.

Borrowers: **We are more confident now than we were a few months ago that the lows for yields are in. We see merit in adding to hedges.** But with BKBM biased lower, some caution is required.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/bullish	2yr stretched here with R+C on 1y1y now ~10bps/qtr. Market pricing incompatible with OCR outlook.
Long end	Neutral/ bearish	Price action into Fed meeting looking more like a capitulation than the beginning of a trend. We already see significant scope for pullback albeit with shallow dips; ECB action underscores that sentiment.
Yield Curve	Biased steeper	Bull steepening driven by the short end. Technically, a long-end rally would flatten the curve, but the NZ short end currently seems almost as reactionary to global rates as the long end!
Geographic spreads	Neutral/ narrower	Divergent policy settings should help support NZ on a spread, as will seasonal reduction in nominal NZGS supply. However, likely to be offset to an extent by flows emanating from defensive duration shortening.
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	NZD/USD neutral but TWI to remain elevated with NZD strong vs. AUD/EUR/Asia, keeping a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

When we eye potential defining global issues for 2017 (politics, growth, inflation, the liquidity cycle, central banks) we struggle to identify defining currency trends. At the margin we remain mildly USD bullish. Abstracting from a clear turn in the global liquidity cycle or a turn in New Zealand's credentials (yield + growth + political stability), we expect the TWI to hold at elevated levels. NZD/AUD is on track for new highs.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Neutral. Positive and negative arguments	Firmer USD bias ultimately wins
NZD/AUD	↔/↑	Techs supportive	Year-end parity push
NZD/EUR	↔/↑	Going much higher	Divided outlooks
NZD/GBP	↔/↓	Pound back in vogue	GBP stabilising
NZD/JPY	↔/↑	Higher on JPY weakness	USD dictating USD/JPY higher

THEMES AND RISKS

- Eyes on inflation; is the break higher sustainable?
- Global growth is looking better but market positioning already reflects that belief / view.
- Geopolitical concerns remain but they are so widespread it is tough to differentiate.
- Jury still out on whether diminishing liquidity will challenge the hunt for yield (and thus NZ assets).
- NZD swats away a change of Prime Minister and the data pulse remains strong.

ASSESSMENT

2016 has been a funny old year. Amongst political shenanigans, the year saw global growth holding up better than expected, China fiscal policy stimulus, better commodity prices and risk appetites, higher yields that somehow didn't dent investors' risk appetite despite a market that wasn't positioned for it, and further easing from the ECB and BoJ. New Zealand's economic credentials and performance added more vigour to the price action.

Key issues shaping 2017 include:

- **Politics.** It is a minefield across Europe, which will not benefit EUR. The same could be said for the USD, and we believe that for the recent rally to extend, better foundations and economic clarity is required. Capital (and labour) will be attracted to countries that show good policy direction.
- **Global growth.** Expectations are now firmer for 2017 so there is less potential for it to surprise on the upside in 2017. We continue to hold concerns over how higher yields will impact nations that have leveraged heavily post the GFC and have weaker fundamentals. Markets believe fiscal policy can do the heavy lifting for global growth and are ignoring demographics and the reasons for lacklustre investment – low returns in some parts and investment misallocation in others.
- **Inflation.** Commodity prices have lifted, inflation expectations are up and the global policy mix (less globalisation, more inward orientation) is negative for productivity and positive for costs. Against that backdrop the world's fragilities are immense.
- **Liquidity versus growth.** To what degree has the NZD's performance reflected the liquidity cycle or growth (local and global)? We're agnostic.
- **Can the Fed, BoJ and ECB really be headed in different directions in a coupled world?**

That's a complex web to navigate, let alone form firm views on. We are mildly USD bullish, but in a world where the USD is already priced for strength, we remain coy about extrapolating trends too far. The EUR is set to remain weak. New Zealand's economic credentials (growth, yield and political stability / sensibility) need to be respected, as does the more stimulatory fiscal stance (as detailed in last week's HYEFU). With respect to NZD/AUD, **a break of last week's high of 0.9635 would set up the potential for a push to new highs (though it is down at time of writing)**, given the recent pattern of higher highs and higher lows. An elevated trajectory for the TWI remains, with EUR/USD headed for parity. TWI strength remains a niggle factor for the RBNZ, and with Australian growth flagging, and the ECB and BoJ policy still ultra-easy, it isn't going away any time soon.

POSITIONING

NZD short positioning has deepened (z-score -1.0), which could potentially fuel a NZD/USD squeeze up.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↓	Fair value is 0.93. Soft AU GDP surprise.
Yield	↔	Hikes priced in NZ, cuts priced in AU.
Commodities	↔/↓	AU commodities doing much better.
Data	↔/↑	Data pulse stronger in NZ.
Techs	↔/↑	Higher highs and higher lows.
Sentiment	↔/↑	Swinging back towards NZ.
Other	↔/↑	Relative fiscal flexibility divide stark.
On balance	↔/↑	**Break of 0.9635 paves way to parity.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Below fair value estimate of ~0.75.
Yield	↔	Now less about yield and more about avoiding volatility. Yields high though.
Commodities	↔/↑	ToT have based, a key leg of support.
Risk aversion	↔	Still a potential Achilles' heel.
Data	↔	NZ data flow positive, so is that of US.
Techs	↔/↑	Dips below 0.70 have been short-lived.
Other	↔	NZD/USD neutral, TWI outlook bullish.
On balance	↔	**To remain elevated (i.e. >0.70).**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
12-Dec	UK	Rightmove House Prices MoM - Dec	--	-1.1%	13:01
	UK	Rightmove House Prices YoY - Dec	--	4.5%	13:01
	AU	Credit Card Purchases - Oct	--	A$25.3B	13:30
	AU	Credit Card Balances - Oct	--	A$51.4B	13:30
	CH	Money Supply M0 YoY - Nov	7.6%	7.2%	12-15 Dec
	CH	Money Supply M1 YoY - Nov	22.5%	23.9%	12-15 Dec
	CH	New Yuan Loans CNY - Nov	720.0B	651.3B	12-15 Dec
	CH	Money Supply M2 YoY - Nov	11.5%	11.6%	12-15 Dec
13-Dec	US	Monthly Budget Statement - Nov	-$130.0B	-$44.2B	08:00
	NZ	Mfg Activity Volume QoQ - Q3	--	2.8%	10:45
	NZ	Mfg Activity SA QoQ - Q3	--	2.2%	10:45
	AU	ANZ-RM Consumer Confidence Index - 11-Dec	--	118.6	11:30
	AU	NAB Business Conditions - Nov	--	6	13:30
	AU	NAB Business Confidence - Nov	--	4	13:30
	AU	House Price Index QoQ - Q3	2.5%	2.0%	13:30
	AU	House Price Index YoY - Q3	4.8%	4.1%	13:30
	CH	Industrial Production YoY - Nov	6.1%	6.1%	15:00
	CH	Industrial Production YTD YoY - Nov	6.0%	6.0%	15:00
	CH	Retail Sales YoY - Nov	10.2%	10.0%	15:00
	CH	Retail Sales YTD YoY - Nov	10.3%	10.3%	15:00
	CH	Fixed Assets Ex Rural YTD YoY - Nov	8.3%	8.3%	15:00
	GE	CPI MoM - Nov F	0.1%	0.1%	20:00
	GE	CPI YoY - Nov F	0.8%	0.8%	20:00
	GE	CPI EU Harmonized MoM - Nov F	0.0%	0.0%	20:00
	GE	CPI EU Harmonized YoY - Nov F	0.7%	0.7%	20:00
	UK	CPI MoM - Nov	0.2%	0.1%	22:30
	UK	CPI YoY - Nov	1.1%	0.9%	22:30
	UK	CPI Core YoY - Nov	1.3%	1.2%	22:30
	UK	RPI MoM - Nov	0.2%	0.0%	22:30
	UK	RPI YoY - Nov	2.1%	2.0%	22:30
	UK	RPI Ex Mort Int.Payments (YoY) - Nov	2.3%	2.2%	22:30
	UK	PPI Input NSA MoM - Nov	-0.5%	4.6%	22:30
	UK	PPI Input NSA YoY - Nov	13.5%	12.2%	22:30
	UK	PPI Output NSA MoM - Nov	0.2%	0.6%	22:30
	UK	PPI Output NSA YoY - Nov	2.5%	2.1%	22:30
	UK	PPI Output Core NSA MoM - Nov	0.2%	0.4%	22:30
	UK	PPI Output Core NSA YoY - Nov	2.3%	1.9%	22:30
	UK	House Price Index YoY - Oct	7.3%	7.7%	22:30
	EC	Employment QoQ - Q3	--	0.4%	23:00
	EC	Employment YoY - Q3	--	1.4%	23:00
	GE	ZEW Survey Current Situation - Dec	59.0	58.8	23:00
	GE	ZEW Survey Expectations - Dec	14.0	13.8	23:00
	EC	ZEW Survey Expectations - Dec	--	15.8	23:00
14-Dec	US	NFIB Small Business Optimism - Nov	96.5	94.9	00:00
	US	Import Price Index MoM - Nov	-0.4%	0.5%	02:30
	US	Import Price Index YoY - Nov	0.1%	-0.2%	02:30
	AU	Westpac Consumer Conf Index - Dec	--	101.3	12:30
	AU	Westpac Consumer Conf SA MoM - Dec	--	-1.1%	12:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
14-Dec	JN	Tankan Large Mfg Index - Q4	10	6	12:50
	JN	Tankan Large Mfg Outlook - Q4	9	6	12:50
	JN	Tankan Large Non-Mfg Index - Q4	19	18	12:50
	JN	Tankan Large Non-Mfg Outlook - Q4	18	16	12:50
	JN	Tankan Large All Industry Capex - Q4	6.1%	6.3%	12:50
	AU	New Motor Vehicle Sales MoM - Nov	--	-2.4%	13:30
	AU	New Motor Vehicle Sales YoY - Nov	--	1.2%	13:30
	UK	Claimant Count Rate - Nov	2.3%	2.3%	22:30
	UK	Jobless Claims Change - Nov	6.5k	9.8k	22:30
	UK	Average Weekly Earnings 3M/YoY - Oct	2.3%	2.3%	22:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Oct	2.6%	2.4%	22:30
	UK	ILO Unemployment Rate 3Mths - Oct	4.8%	4.8%	22:30
	UK	Employment Change 3M/3M - Oct	50k	49k	22:30
	EC	Industrial Production SA MoM - Oct	0.1%	-0.8%	23:00
	EC	Industrial Production WDA YoY - Oct	0.8%	1.2%	23:00
15-Dec	US	MBA Mortgage Applications - 9-Dec	--	-0.7%	01:00
	US	Retail Sales Advance MoM - Nov	0.3%	0.8%	02:30
	US	Retail Sales Ex Auto MoM - Nov	0.4%	0.8%	02:30
	US	Retail Sales Ex Auto and Gas - Nov	0.4%	0.6%	02:30
	US	Retail Sales Control Group - Nov	0.4%	0.8%	02:30
	US	PPI Final Demand MoM - Nov	0.1%	0.0%	02:30
	US	PPI Final Demand YoY - Nov	0.9%	0.8%	02:30
	US	PPI Ex Food and Energy MoM - Nov	0.2%	-0.2%	02:30
	US	PPI Ex Food and Energy YoY - Nov	1.3%	1.2%	02:30
	US	Industrial Production MoM - Nov	-0.2%	0.0%	03:15
	US	Manufacturing (SIC) Production - Nov	-0.2%	0.2%	03:15
	US	Capacity Utilization - Nov	75.1%	75.3%	03:15
	US	Business Inventories - Oct	-0.1%	0.1%	04:00
	US	FOMC Rate Decision - Dec	0.75%	0.50%	08:00
	NZ	BusinessNZ Manufacturing PMI - Nov	--	55.2	10:30
	NZ	Value of All Buildings SA QoQ - Q3	2.1%	5.5%	10:45
	AU	Consumer Inflation Expectation - Dec	--	3.2%	13:00
	AU	Employment Change - Nov	17.5k	10.9k	13:30
	AU	Unemployment Rate - Nov	5.6%	5.6%	13:30
	AU	Participation Rate - Nov	64.5%	64.4%	13:30
	GE	Markit/BME Manufacturing PMI - Dec P	54.5	54.3	21:30
	GE	Markit Services PMI - Dec P	54.9	55.1	21:30
	GE	Markit/BME Composite PMI - Dec P	54.9	55.0	21:30
	EC	Markit Manufacturing PMI - Dec P	53.7	53.7	22:00
	EC	Markit Services PMI - Dec P	53.8	53.8	22:00
	EC	Markit Composite PMI - Dec P	53.9	53.9	22:00
	UK	Retail Sales Ex Auto Fuel MoM - Nov	0.0%	2.0%	22:30
	UK	Retail Sales Ex Auto Fuel YoY - Nov	6.0%	7.6%	22:30
	UK	Retail Sales Inc Auto Fuel MoM - Nov	0.0%	1.9%	22:30
	UK	Retail Sales Inc Auto Fuel YoY - Nov	5.9%	7.4%	22:30
16-Dec	UK	Bank of England Bank Rate - Dec	0.25%	0.25%	01:00
	UK	BoE Asset Purchase Target - Dec	£435B	£435B	01:00
	UK	BoE Corporate Bond Target - Dec	£10B	£10B	01:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
16-Dec	US	Current Account Balance - Q3	-$111.4B	-$119.9B	02:30
	US	Empire Manufacturing - Dec	3.0	1.5	02:30
	US	CPI MoM - Nov	0.2%	0.4%	02:30
	US	CPI YoY - Nov	1.7%	1.6%	02:30
	US	CPI Ex Food and Energy MoM - Nov	0.2%	0.1%	02:30
	US	CPI Ex Food and Energy YoY - Nov	2.2%	2.1%	02:30
	US	Real Avg Weekly Earnings YoY - Nov	--	0.9%	02:30
	US	Initial Jobless Claims - 10-Dec	255k	258k	02:30
	US	Continuing Claims - 3-Dec	2010k	2005k	02:30
	US	Philadelphia Fed Business Outlook - Dec	9.0	7.6	02:30
	US	Markit Manufacturing PMI - Dec P	54.3	54.1	03:45
	US	NAHB Housing Market Index - Dec	63.0	63.0	04:00
	US	Total Net TIC Flows - Oct	--	-$152.9B	10:00
	US	Net Long-term TIC Flows - Oct	--	-$26.2B	10:00
	NZ	ANZ Consumer Confidence Index - Dec	--	127.2	13:00
	NZ	Non Resident Bond Holdings - Nov	--	63.9%	15:00
	EC	Trade Balance SA - Oct	€24.5B	€24.9B	23:00
	EC	Trade Balance NSA - Oct	€29.0B	€26.5B	23:00
	EC	CPI MoM - Nov	-0.1%	--	23:00
	EC	CPI YoY - Nov F	0.6%	0.5%	23:00
	EC	CPI Core YoY - Nov F	0.8%	0.8%	23:00
17-Dec	UK	CBI Trends Total Orders - Dec	-5	-3	00:00
	UK	CBI Trends Selling Prices - Dec	20	19	00:00
	US	Housing Starts - Nov	1230k	1323k	02:30
	US	Housing Starts MoM - Nov	-7.0%	25.5%	02:30
	US	Building Permits - Nov	1236k	1260k	02:30
	US	Building Permits MoM - Nov	-1.9%	2.9%	02:30

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

Domestic economic momentum is solid, with downside risks mainly stemming from offshore. With inflation showing signs of tentatively lifting, the OCR now looks to be on hold at 1.75% for a considerable period.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 13 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Solid	While a weather-related hit to primary production is possible, the manufacturing sector overall is performing well.
Thu 15 Dec (10:30am)	BNZ-BusinessNZ PMI – Nov	Solid	The sector remains in good heart, riding on the coat tails of the domestic construction sector.
Thu 15 Dec (10:45am)	Value of Building Work – Q3	Tea break	After some strong quarterly growth rates, we have pencilled in a more modest lift in Q3 and wouldn't rule out a fall.
Fri 16 Dec (1:00pm)	ANZ Roy Morgan Consumer Confidence – Dec	--	--
Mon 19 Dec (10:30am)	BNZ-BusinessNZ PSI – Nov	Chugging along	We wouldn't be surprised to see activity cool a little on the softer housing market, but only modestly.
Mon 19 Dec (10:45am)	Building Consent Issuance – Oct	Still trending up	Putting monthly volatility aside, a modest upward trend in issuance should continue for a while yet.
Mon 19 Dec (1:00pm)	ANZ Business Outlook – Dec	--	--
Tue 20 Dec (10:45am)	Food Price Index – Nov	Seasonal falls	Further seasonal weakness in fruit and vegetable prices should drive the overall index lower.
Wed 21 Dec (early am)	GlobalDairyTrade Auction	Supply-driven	A considerable supply adjustment is underway globally, which should lend further support to prices.
Wed 21 Dec (10:45am)	International Travel & Migration – Nov	Strong	There may be a near-term hit from the earthquakes, but we expect net inflows to remain strong overall.
Wed 21 Dec (10:45am)	Overseas Merchandise Trade – Nov	On the mend	With commodity prices recovering, we believe the deterioration in the trade deficit will start to gradually reverse.
Thu 22 Dec (10:45am)	Balance of Payments – Q3	Contained	The current account deficit looks set to remain well below its historical average at around 3% of GDP.
Thu 22 Dec (10:45am)	GDP – Q3	0.6% q/q	Weak agricultural production and slower retail spending should see more modest quarterly growth than seen over H1 2016.
Thu 22 Dec (3:00pm)	RBNZ Credit Aggregates – Nov	Past the top	Credit growth is past its peak, and is expected to continue to soften over the months ahead.
10-17 Jan	REINZ Housing Market Statistics	Losing steam	Within the context of an ongoing shortage, macro-prudential restrictions, higher mortgage rates and slowing credit growth should see the rate of price growth continue to slow.
Wed 11 Jan (10:00am)	ANZ Job Ads – Dec	--	--
Thu 12 Jan (10:00am)	ANZ Truckometer – Dec	--	--
Thu 12 Jan (1:00pm)	ANZ Commodity Price Index – Dec	--	--
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation remains low, but looks to be rising.**

KEY FORECASTS AND RATES

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
GDP (% qoq)	0.9	**0.6**	**1.0**	**0.8**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% yoy)	3.6	**3.4**	**3.5**	**3.4**	**3.2**	**3.4**	**3.0**	**2.8**	**2.5**	**2.2**
CPI (% qoq)	0.4	0.3	**0.2**	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**
CPI (% yoy)	0.4	0.4	**1.1**	**1.4**	**1.4**	**1.7**	**1.7**	**2.1**	**2.2**	**2.2**
Employment (% qoq)	2.4	1.4	**0.7**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	4.5	6.1	**5.9**	**5.2**	**3.3**	**2.2**	**1.9**	**1.7**	**1.6**	**1.5**
Unemployment Rate (% sa)	5.0	4.9	**4.8**	**4.8**	**4.7**	**4.6**	**4.6**	**4.5**	**4.4**	**4.4**
Current Account (% GDP)	-2.9	**-3.0**	**-3.1**	**-3.3**	**-3.4**	**-3.4**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-2.5	-1.8	**0.7**	**0.8**	**0.9**	**0.8**	**0.6**	**0.3**	**0.4**	**0.0**
Terms of Trade (% yoy)	-4.3	-2.3	**0.4**	**-2.9**	**0.5**	**3.2**	**3.1**	**2.6**	**2.1**	**1.3**

	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Retail ECT (% mom)	0.7	0.1	0.9	-0.2	1.2	0.2	-1.2	2.0	0.5	-0.1
Retail ECT (% yoy)	9.2	6.2	7.8	3.3	6.8	5.8	3.2	6.1	4.2	5.1
Credit Card Billings (% mom)	-0.2	-0.9	2.1	0.2	-0.9	2.6	-1.1	3.2	2.8	--
Credit Card Billings (% yoy)	7.3	5.0	9.0	6.1	4.1	5.7	2.2	8.5	10.2	--
Car Registrations (% mom)	5.7	-3.8	6.2	-3.6	-0.9	-0.1	2.8	-3.1	11.7	2.9
Car Registrations (% yoy)	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4
Building Consents (% mom)	10.9	-9.8	8.0	-0.7	20.4	-8.7	-1.5	0.2	--	--
Building Consents (% yoy)	26.9	0.4	13.7	10.1	39.9	7.8	11.8	14.5	--	--
REINZ House Price Index (% yoy)	11.9	13.3	14.5	14.7	14.2	16.3	11.7	9.7	14.4	14.9
Household Lending Growth (% mom)	0.6	0.6	0.8	0.7	0.8	0.8	0.8	0.7	0.6	--
Household Lending Growth (% yoy)	7.6	7.7	7.9	8.1	8.3	8.6	8.7	8.8	8.7	--
ANZ Roy Morgan Consumer Conf.	119.7	118.0	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2
ANZ Business Confidence	7.1	3.2	6.2	11.3	20.2	16.0	15.5	27.9	24.5	20.5
ANZ Own Activity Outlook	25.5	29.4	32.1	30.4	35.1	31.4	33.7	42.4	38.4	37.6
Trade Balance ($m)	367	189	350	343	107	-351	-1235	-1394	-846	--
Trade Bal ($m ann)	52831	52599	52626	52854	52660	52078	51900	51942	51968	--
ANZ World Commodity Price Index (% mom)	0.5	-1.3	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	2.7
ANZ World Comm. Price Index (% yoy)	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	13.1
Net Migration (sa)	6010	5340	5510	5550	5710	5640	5660	6330	6173	--
Net Migration (ann)	67391	67619	68110	68432	69090	69015	69119	69954	70282	--
ANZ Heavy Traffic Index (% mom)	1.7	3.4	-2.4	-2.4	5.1	-6.3	7.0	-2.2	-0.4	4.0
ANZ Light Traffic Index (% mom)	2.3	0.9	0.3	-1.4	2.7	-1.6	0.9	0.1	-2.0	1.7

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	Oct-16	Nov-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZD/USD	0.715	0.714	0.712	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.941	0.957	0.958	0.93	0.93	0.93	0.93	0.94	0.97	0.98
NZD/EUR	0.653	0.671	0.676	0.66	0.65	0.64	0.63	0.62	0.61	0.62
NZD/JPY	75.07	80.72	82.21	78.1	79.4	77.1	74.8	73.6	73.6	74.8
NZD/GBP	0.588	0.574	0.566	0.58	0.56	0.56	0.55	0.52	0.51	0.52
NZ$ TWI	75.6	77.1	78.7	76.1	75.0	73.7	72.2	71.4	71.4	72.5
INTEREST RATES	Oct-16	Nov-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZ OCR	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
NZ 90 day bill	2.14	2.04	2.04	2.10	2.00	2.00	2.00	2.00	2.20	2.30
NZ 10-yr bond	2.71	3.13	3.31	3.40	3.60	3.70	3.80	3.90	4.00	4.10
US Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
US 3-mth	0.88	0.93	0.96	1.05	1.13	1.20	1.33	1.45	1.60	1.75
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	1.77	1.77	1.70	1.80	1.80	1.80	1.80	1.80	1.80

	9 Nov	5 Dec	6 Dec	7 Dec	8 Dec	9 Dec
Official Cash Rate	2.00	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.10	2.04	2.04	2.04	2.04	2.04
NZGB 03/19	2.02	2.16	2.16	2.16	2.13	2.17
NZGB 05/21	2.27	2.53	2.54	2.53	2.49	2.54
NZGB 04/23	2.46	2.81	2.83	2.80	2.77	2.83
NZGB 04/27	2.73	3.21	3.24	3.22	3.17	3.27
2 year swap	2.21	2.27	2.28	2.27	2.26	2.30
5 year swap	2.52	2.81	2.83	2.84	2.80	2.87
RBNZ TWI	79.23	78.08	78.54	78.37	79.03	79.03
NZD/USD	0.7303	0.7084	0.7129	0.7129	0.7206	0.7136
NZD/AUD	0.9522	0.9547	0.9581	0.9573	0.9614	0.9580
NZD/JPY	75.26	80.98	81.31	81.32	81.69	82.29
NZD/GBP	0.5874	0.5570	0.5589	0.5662	0.5675	0.5676
NZD/EUR	0.6584	0.6649	0.6619	0.6653	0.6677	0.6757
AUD/USD	0.7670	0.7420	0.7441	0.7447	0.7495	0.7449
EUR/USD	1.1092	1.0654	1.0770	1.0715	1.0793	1.0561
USD/JPY	103.06	114.32	114.06	114.07	113.37	115.32
GBP/USD	1.2433	1.2717	1.2756	1.2590	1.2698	1.2572
Oil (US$/bbl)	44.96	51.70	51.72	50.95	49.85	50.84
Gold (US$/oz)	1320.95	1175.40	1172.15	1169.32	1177.89	1167.46
Electricity (Haywards)	4.68	5.82	5.04	5.05	5.61	5.42
Baltic Dry Freight Index	954	1196	1186	1162	1122	1090
NZX WMP Futures (US$/t)	3300	3525	3525	3560	3660	3605

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Ph 64-4-802 2212, e-mail nzeconomics@anz.com, http://www.anz.co.nz