NEW ZEALAND MARKET FOCUS

3 July 2017

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INFLECTION POINT

ECONOMIC OVERVIEW

Central banks' reaction functions appear to be moving more towards financial stability risks. That flags a turn in the liquidity cycle. While any policy removal will no doubt be measured, gradual and well-signalled, it still speaks to a more challenging backdrop for 'risk' assets and a likely pick-up in market volatility. It's a battle that needs to be fought, and a lot needs to go right for things not to go wrong. The New Zealand economy is well-placed to weather any volatility. That said, it is another factor leaving us cautious chasing the NZD around current levels and will be an additional headwind for the Auckland housing market. This week's NZIER QSBO should paint a decent picture, and signal that 3% plus GDP growth is on offer. Global milk powder prices are expected to ease. Credit data should show that moderation in household lending continues.

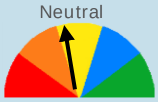
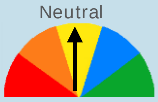
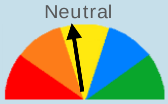
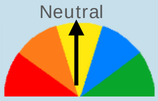
INTEREST RATE STRATEGY

Short end rates have spiked sharply higher in the wake of the global yield sell-off, accentuated by stop-loss paying and adverse positioning. The catalyst for the move was ECB President Draghi's comment about deflationary forces being replaced by reflationary ones, adding one more central bank to the tally of banks sounding a different tone. Bond markets remain on the back foot. We expect further nervousness in coming weeks, but longer term, the shift towards less accommodative policy via tighter liquidity (as opposed to higher policy rates) is likely to have more of an impact on risky assets, keeping a lid on bond yields.

CURRENCY STRATEGY

Policy tides are shifting. The Fed's planned balance sheet reduction, together with the gradual shift towards normalisation in Europe, signals that the QE era is coming to an end and the liquidity cycle is set to turn. That turn will be slow and gradual but it's an inflection point nonetheless. We're not expecting tantrums, but a modest increase in volatility and risk aversion. NZD positioning still looks extreme in this environment, despite having reasonable economic credentials. We favour fading any NZD strength.

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	1.6% y/y for 2018 Q1	Oil price weakness will weigh on headline inflation, but domestic and core inflation should continue to gradually lift.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

Central banks' reaction functions appear to be moving more towards financial stability risks. That flags a turn in the liquidity cycle. While any policy removal will no doubt be measured, gradual and well-signalled, it still speaks to a more challenging backdrop for 'risk' assets and a likely pick-up in market volatility. It's a battle that needs to be fought, and a lot needs to go right for things not to go wrong. The New Zealand economy is well-placed to weather any volatility. That said, it is another factor leaving us cautious chasing the NZD around current levels and will be an additional headwind for the Auckland housing market. This week's NZIER QSBO should paint a decent picture, and signal that 3% plus GDP growth is on offer. Global milk powder prices are expected to ease. Credit data should show that moderation in household lending continues.

FORTHCOMING EVENTS

NZIER – Quarterly Survey of Business Opinion – Q2 (10:00am, Tuesday, 4 July). Headline confidence may bounce back to Q4 levels, while activity gauges should continue to provide a decent growth signal. While the CUBO may ease off all-time highs, we suspect the broad message will be one of capacity pressures intensifying.

RBNZ Sectoral Lending – May (3:00pm, Tuesday, 4 July). Household lending has grown at a 0.5% m/m pace for four consecutive months. Something similar is likely in May.

GlobalDairyTrade Auction (early am, Wednesday, 5 July). A softer result is expected for milk powder prices, but milkfat prices are anticipated to remain at record highs.

ANZ Job Ads – June (10:00am, Wednesday, 5 July).

ANZ Commodity Price Index – June (1:00pm, Wednesday, 5 July).

WHAT'S THE VIEW?

Central bank rhetoric is becoming more hawkish. A lot of the messages are nothing new (particularly from the Fed), but it's the collective signals from others we find notable. Here is a selection of comments in the past week alone:

- **Fed Chair Yellen:** "We've made very clear that we think it will be appropriate to the attainment of our goals to raise interest rates very gradually." Move on – there's nothing really new in that.
- **New York Fed President Dudley:** "Monetary policymakers need to take the evolution of financial conditions into consideration [and] when financial conditions ease – as has been the case recently – this can provide additional impetus for the decision to continue to remove monetary policy accommodation."
- **San Francisco Fed President Williams:** "Some special transitory factors have been pulling inflation down… But with some of these factors now waning, and with the economy doing well, I expect we'll reach our 2% goal sometime next year." There's still a focus on inflation.
- **Philadelphia Fed President Harker:** "I'm still in favour of another rate rise this year. But if we start to see inflation move away from the goal, we may revisit that." That's business as usual.
- **ECB President Draghi:** "All the signs now point to a strengthening and broadening recovery in the euro area – deflationary forces have been replaced by reflationary ones." Admittedly these comments were heavily caveated but that's a sea change. The ECB is no longing tip-toeing towards an exit strategy.
- **Bank of England Governor Carney:** "Some removal of monetary stimulus is likely to become necessary if the trade-off [of higher inflation and weaker growth] facing the MPC continues to lessen and the policy decision accordingly becomes more conventional." And recall, the BoE vote from a few weeks ago was just 5-3 in favour of maintaining policy.
- **Bank of England Chief Economist Haldane:** "We need to look seriously at the possibility of raising interest rates to keep the lid on those cost of living increases [referring to higher inflation]." A lot more hawkish than the BoE Governor. Game on.
- **Bank of Canada Governor Poloz:** "It does look as though those cuts [delivered in 2015] have done their job. We're just approaching a new interest rate decision, so I don't want to prejudge that, but certainly we need to be at least considering that whole situation now that capacity – excess capacity – is being used up steadily."

These comments are unremarkable individually, especially with regards to the US, where it is a case of 'more of the same'. **However, taken together, there is clearly a stronger message that emerges; the extremely low interest rate and QE era is coming to an end.**

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The traditional case for such a shift is not strong. Growth is not taking off; it's recovering but not reflating. Core inflation is not at target. Oil has gone from being inflationary to deflationary, so headline inflation rates will drop.[1] Wage growth is subdued. Leading indicators appear to be rolling over again in some cases.

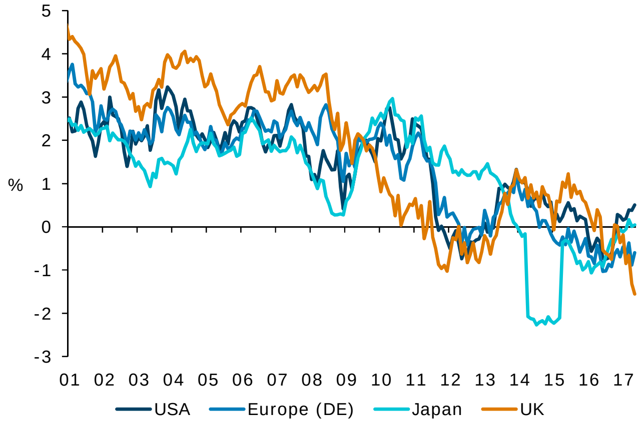
But financial stability concerns look to be rising. More comments are being made regarding stability risks. Yellen noted that "asset valuations are somewhat rich" and Williams felt that the US stock market is "running pretty much on fumes". Fed vice Chair Fischer noted that while "there is no doubt the soundness and resilience of our financial system has improved since the 2007-09 crisis… it would be foolish to think we have eliminated all risks." The BoE announced an increase in the countercyclical capital buffer last week and in Australia, APRA are due to announce additional capital requirements on Australian banks any day now. But perhaps it can be best summarised by a comment from the BIS in its latest annual report, where it noted that "even if inflation does not rise, keeping interest rates too low for long could raise financial stability and macroeconomic risks further down the road, as debt continues to pile up and risk-taking in financial markets gathers steam."

It all points to a turn in the global liquidity cycle. Now the US of course has managed to lift rates and signal that balance sheet reduction is likely to begin this year. The world has not come collapsing down on that (in fact long-term yields have ironically fallen). But when others join the fray and it becomes a broader theme – even if the removal of stimulus will no doubt be gradual, measured, and well-signalled, the implications will be far broader too.

In this environment:

- **Risk assets will face some additional headwinds.** Asset values the world over have benefited from abundant liquidity conditions. Valuations look stretched in many cases. Global equities were generally lower over the week as the shift in central bank stance weighed.
- **The focus will need to turn from liquidity and back to fundamentals.** And some fundamentals look a little shaky in a world of poor productivity, political polarisation, patchy growth, little policy manoeuvrability and high leverage.
- **Market volatility will rise.** We've already seen last week's central bank comments create some decent moves in currencies and bond markets. Markets are highly sensitive to any regime changes. 'Lazy' carry trade strategies will be vulnerable.
- **More divergence across markets.** Loose liquidity conditions led to a compression in spreads and high cross-asset correlations. With liquidity being removed, markets will increasingly move to trade on idiosyncratic themes.
- **It will be a delicate balancing act for policy-makers.** No one wants a market rout. But equally, policymakers can't be held hostage to markets either. The best case scenario will be letting the air out gradually. That is easier said than done. Plenty will have to go right.

FIGURE 1: REAL 10-YEAR BOND YIELDS (DEFLATED BY CORE CPI)



Source: ANZ, Bloomberg

Entering a period of likely high uncertainty and volatility, the New Zealand economy is in a good spot. Economic momentum is solid (notwithstanding the recent GDP growth disappointments), the current account deficit is well contained (though it should be given export commodity prices), net external debt levels are low (by New Zealand's standards at least), and the fiscal position is strong. There should be some resilience. In saying that, some assets (Auckland housing, commercial property) certainly benefited from abundant global liquidity too, and so there will be pockets that need to be watched. New Zealand's soft commodity basket has had an incredible run. A turn in the liquidity cycle means the same for the credit cycle and New Zealand is a major net borrower. We are cautious chasing the NZD around current levels. That should not be confused with us expecting a sharp move lower, but more volatility, risk aversion and higher global yields will take the shine off some of the kiwi's relativities.

[1] And on this note, we have lowered our New Zealand CPI forecasts modestly reflecting the recent move lower in oil prices.

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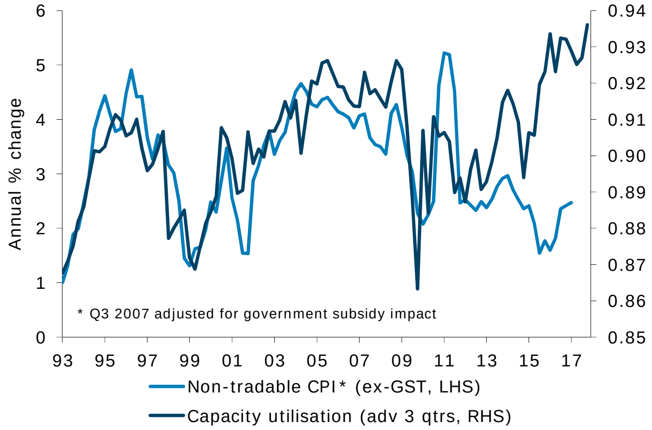
Turning to this week's domestic data calendar, the broad messages from the NZIER QSBO for Q2 should be strong. After dipping in Q1, we wouldn't be surprised if headline confidence recovered in Q2, and perhaps back to levels on par with what was seen at the end of 2016. Certainly our more timely Business Outlook survey points to that possibility, even if the QSBO does not directly survey the agriculture sector (which has been a key reason why headline confidence within our survey has bounced). Activity gauges should also continue to paint a reasonable picture, with firms remaining optimistic towards their own domestic trading conditions – with measures consistent with GDP growth of 3% plus. We suspect firms' hiring and investment intentions could tick a little higher.

We expect capacity gauges to by-and-large point to a further absorption of spare resources. To be fair, it is possible that the capacity utilisation measure eases back in Q2, but only because it hit an all-time high of 93.6% in Q1 – it must surely be approaching some form of natural upper limit. But we wouldn't be surprised at all if firms report it even more difficult to find staff, and the number reporting capacity as a major constraint for growth continues to grow too.

Based on historical relationships, even at current levels, these gauges are providing a screaming signal for higher future inflation pressures. However, reality has proved a different beast over recent years. That being so, we suspect firms' pricing intentions will continue to tick a little higher, which is consistent with the lift seen in headline inflation and also the signal from our Business Outlook survey. The RBNZ will take note, but that is all. It will not start to react until it sees signs of higher inflation in the actual data.

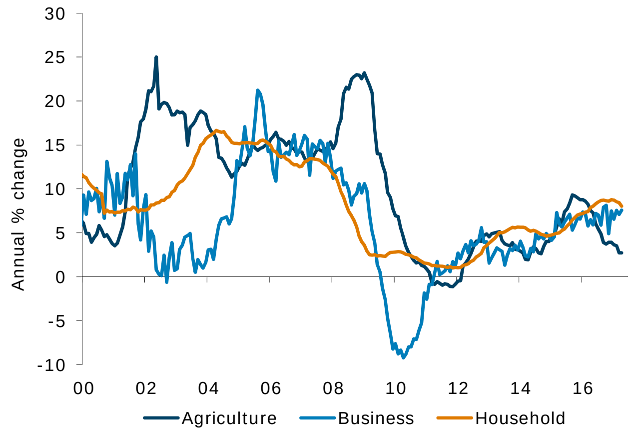
FIGURE 2: NON-TRADABLE INFLATION VS CAPACITY UTILISATION



Source: ANZ, Statistics NZ, NZIER

RBNZ sectoral lending figures for May should continue to show moderating growth. In April, annual growth in total private sector credit eased to 6.2%, which is the softest since mid-2015, and down from 8% growth six months prior. It largely reflects a moderation in household and agricultural sector lending. The former obviously follows on from the sharp drop seen in new mortgage lending, while the latter largely relates to reduced need for working capital support in the dairy sector as cash flow conditions have improved. Both trends are something we expect to continue.

FIGURE 3: SECTORAL CREDIT GROWTH



Source: ANZ, RBNZ

A softer result is expected for milk powder prices at this week's GlobalDairyTrade auction. However, milkfat prices are anticipated to remain at record highs.

Lower Chinese participation (around one-third, versus half to two-thirds in previous months) at the last auction remains a talking point – particularly for WMP price direction. It seems buyers are taking a wait and see approach to higher seasonal volumes from New Zealand. Lower Chinese participation has also been put down to buyers awaiting the tariff-free window for December/ January, as well as reportedly strong sale volumes for third quarter delivery through other sales channels. Ramadan and recently lower oil prices are also seen as another headwind for milk powders. Combined with high volumes to be auctioned this week, these factors are expected to weigh on prices in the near-term.

The shape of the forward curve will be analysed closely to see what it might imply for farm-gate prices in 2017/18. Longer-term signals remain mixed, with higher milk supply expected to keep prices in check into early 2018. However, this extra supply still needs to materialise and low carry-over inventory from 2016/17 for Oceania exporters does

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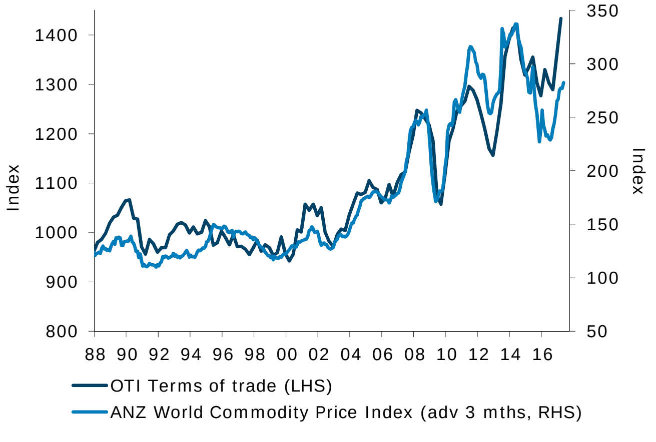
provide local processors with flexibility. Anecdotal feedback on China's annual demand requirements remain positive too, with domestic production having declined since early 2016. This suggests China will need to import more product at some point to meet consumer demands.

Elsewhere, SMP and milkfat have outperformed expectations in recent times. This week a lower SMP result is anticipated, but milkfat prices could push to new highs. Other SMP markets appear to have gotten a little spooked last week with the European Commission selling a small amount of product at a level much lower than previously set.

But arguably the performance of our broader export commodity basket should warrant more attention, and our Commodity Price Index for June will provide an update. New Zealand's export prices have been outperforming the broader global commodity price cycle of late. The ANZ Commodity Price Index rose 3.2% m/m in May, to be up 26% y/y. And it is far from just a dairy story; non-dairy prices rose 2.8% m/m and are up 7.9% y/y. This is a key reason why the terms of trade have surged to multi-decade highs, and based on our current forecasts, likely to lift to all-time highs over the next quarter or two.

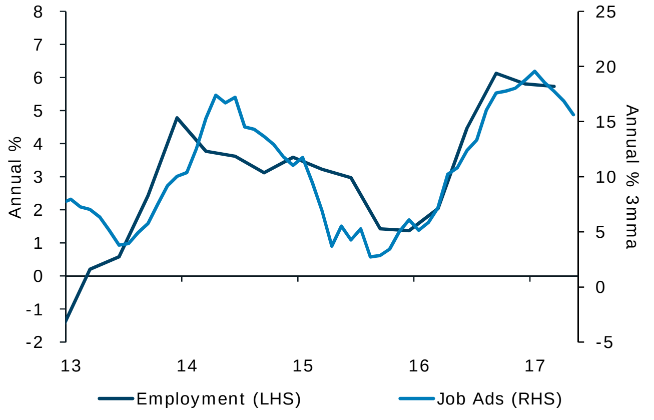
FIGURE 4: TERMS OF TRADE AND COMMODITY PRICES



Source: ANZ, Statistics NZ

Finally, our Job Ads series for June will provide an update on the state of labour demand. Recently there have been some signs that growth is now beginning to moderate, with total job advertising easing 0.6% m/m in May. Annual growth is still elevated, but there is evidence of plateauing. In many ways that is hardly surprising. Labour demand has been exceptionally strong, and so there is only really one way it can go. And with firms finding it difficult to find skilled staff, some slowing could reflect the fact that it is just hard to fill vacant positions right now.

FIGURE 5: ANZ JOB ADS AND HLFS EMPLOYMENT



Source: ANZ, Statistics NZ

LOCAL DATA

Overseas Merchandise Trade – May. An unadjusted trade surplus of $103m was seen, while the deficit widened to $386m in seasonally adjusted terms.

RBNZ New Mortgage Lending – May. In seasonally adjusted to terms, we estimate new lending rose 10.3% m/m to $5.05bn.

ANZ Business Outlook – June. Headline confidence rose 10 points to a net 25%. Firms' own activity expectations lifted to +43% - the highest since July 2014.

Building Consent Issuance – May. Total dwelling consents rebounded 7.0% m/m, while non-residential consents were valued at $563m.

INTEREST RATE STRATEGY

SUMMARY

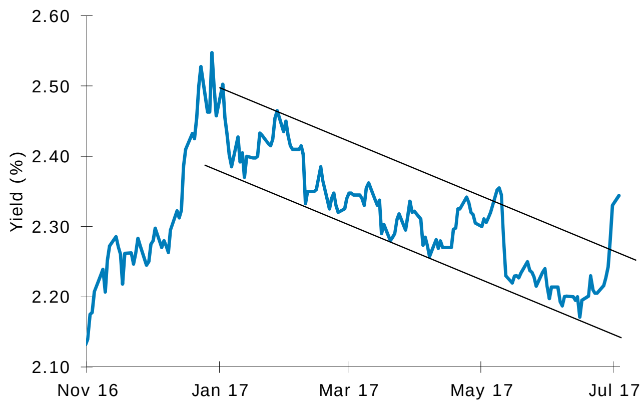
Short end rates have spiked sharply higher in the wake of the global yield sell-off, accentuated by stop-loss paying and adverse positioning. The catalyst for the move was ECB President Draghi's comment about deflationary forces being replaced by reflationary ones, adding one more central bank to the tally of banks sounding a different tone. Bond markets remain on the back foot. We expect further nervousness in coming weeks, but longer term, the shift towards less accommodative policy via tighter liquidity (as opposed to higher policy rates) is likely to have more of an impact on risky assets, keeping a lid on bond yields.

THEMES

- The bellwether 2 year swap has broken violently out of its 2.15/2.25% trading range, and while there seems little local justification for the move, we don't expect it to reverse any time soon.
- Short end rates are up but the NZD has held up well too. We are cautious on the NZD here given global developments, but some weakness is going to have to be seen soon to avoid an undue tightening in financial conditions.
- The tone of the "QE" central banks is changing, and while we can argue about the second-round impact of such moves (we tend to think it'll be less bearish for bonds than equities); for now bonds are on the back foot and buyers are wary – especially so for NZGS, given the role the NZD plays.

MONETARY POLICY AND SHORT END

FIGURE 1: NZD 2 YEAR SWAP RATE



Source: ANZ, Bloomberg

Short end interest rates have broken out of their long-held declining range, taking the bellwether 2 year swap to within a basis point of the high seen during the mid-May capitulation. While it was globally inspired and it's somewhat surprising given how well the NZD has held up, **we don't hold out much hope for a near term correction** (as was seen in May – when the RBNZ MPS saw rates adjust lower). **Adverse positioning remains an issue**, and with those who have, or are considering playing it from the long side, a sense of "once bitten twice shy" will only add to the caution. Carry is attractive, but it is small in light of last week's moves and being long late-cycle, is always dangerous!

GLOBAL MARKETS AND LONG END

The shifting tone of central bank "speak" that we wrote about at length on page 2 was at the heart of the move higher in long-end rates. The clincher was ECB President Draghi's comment about reflation coming to the fore, joining what had been a chorus of other "QE" central banks whose tone had become more hawkish in recent weeks.

Although inflation remains low (and we note another soft US core PCE deflator outcome in May), **central banks are becoming more focussed on imbalances and less fixated with inflation.** With PMIs and the pulse of growth still okay, and asset prices generally doing well, it makes sense for the Fed and others to press on with a reduction in liquidity. The bond market has taken this as a hostile development for now, amid long positioning and with US 10 year Treasuries at key technical levels. No surprises, yields gapped higher.

We expect markets to remain nervous for some time, especially with the pulse of US data picking up. But long term, we think the impact of tighter liquidity **will be more heavily felt by equities and other risk assets. That likely includes the NZD, making NZGS less resilient than US bonds**, leaving us cautious.

STRATEGY

Investors: We are **cautious at the short end** and **prefer to be nimble at the long end too**.

Borrowers: BKBM remains low but term rates are on the move higher. We're cautious near term given our less bearish long term global rates view.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral	Price action bearish and we are not confident of a break lower despite no change in local fundamentals.
Long end	Neutral	Tussle between near tern hostilities (less liquidity) & 2nd round impact on equities will take time to play out.
Yield Curve	Neutral	Our forecasts imply that the curve will steepen and recent break higher has brought that move forward.
Geographic spreads	Neutral	We had been bullish NZ on a spread, owing to opposing central bank biases. However the biggest threat to the local market now is the NZD. We are cautious; if we see NZD weakness, we'll likely see NZGS selling.
Swap spreads	Neutral	Window now open for NZGS syndication. Corporate paying will dry up now that yields have spiked higher.
NZD/TWI	Elevated	We're cautious up here given risk backdrop. Crucial to how short end rates (via financial conditions link) and long end rates (via offshore investor flow) perform. Material risk of NZGS selling should NZD weaken.

CURRENCY STRATEGY

SUMMARY

Policy tides are shifting. The Fed's planned balance sheet reduction, together with the gradual shift towards normalisation in Europe, signals that the QE era is coming to an end and the liquidity cycle is set to turn. That turn will be slow and gradual but it's an inflection point nonetheless. We're not expecting tantrums, but a modest increase in volatility and risk aversion. NZD positioning still looks extreme in this environment, despite having reasonable economic credentials. We favour fading any NZD strength.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Positioning is even more long than last week	Turn in liquidity cycle = USD eventually up
NZD/AUD	↔	No clear bias in the 0.94-0.96 zone	Favour strength
NZD/EUR	↔	ECB more upbeat but numbers need to back that up	Europe needs structural reform + ECB to signal unwind
NZD/GBP	↔	BoE tone in focus	Valuation says lower, Brexit higher
NZD/JPY	↔	NZD and JPY weakness offsetting	USD/JPY heading up as policy diverges.

THEMES AND RISKS

- "Major currency" central bank rhetoric slowly evolving in tone towards financial stability risks. Notable shift from the ECB.
- Yields rise and volatility picks up.
- Tension remains for a transition from a 'liquidity' to 'growth' mantra for asset markets.
- Long positioning in the NZD remains high.

ASSESSMENT

Policy tides are shifting. The Fed is a step closer to reducing its balance sheet and the ECB is inching closer to the exit door. As noted on page 2, the nuances coming out of the collective central bank fraternity is tilting less to inflation and more towards stability. That marks a defining moment for the era of QE. Official liquidity via an unwinding of balance sheets is around the corner.

This represents a key turning point for our liquidity indicator and will likely dominate markets in the latter part of 2017 and into 2018.

While any withdrawal will be slow and gradual, markets do not behave in such a manner. This raises the potential for tantrums.

On many levels, there are points of vulnerability; high leverage, sluggish productivity growth, little fiscal headroom, and political fragmentation. Any withdrawal of official liquidity is unlikely to be offset by bank liquidity given debt levels and regulatory headwinds.

However, there are also some key differences:

- The global economy is performing okay, with far more consistent numbers emerging around the globe. It's not a traditional reflation cycle, but a recovery is entrenched.
- Valuations across currencies are not at extremes, nor are current account deficits large.

We're not expecting market tantrums, but the spirit of diminishing liquidity skews us towards more volatility, a rise in risk aversion and a firmer bias for the USD.

But the outlook for the USD remains challenged on two levels. First, the broad economic policy direction; and second, valuation (even though it is not extreme, the USD is still overvalued). So any USD firming should be tepid by historical comparison.

The NZD's economic credentials remain solid, with prospects for the terms of trade to hit a record high front-and-centre. But we remain somewhat coy chasing the NZD around current levels.

Positioning has evidently been a strong support for the NZD in recent weeks, with a big jump from mildly long to very long two weeks ago, followed by a smaller (but still positive) extension last week towards all-time highs. But while that helps explain how the Kiwi got wings, it leaves it somewhat vulnerable to a correction lower should we see profit-taking, or if we see a turnaround in the price action. With valuations neutral, relativities fading, New Zealand's commodity basket vulnerable to some retracement, and the risk environment changing, **the NZD is increasingly looking ripe for a downside correction.**

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Slightly above fair value of 0.93.
Yield	↔/↑	NZ inflation cycle more advanced.
Commodities	↔	Risk now that dairy comes off highs.
Data	↔	NZ data picking 1% Q2 GDP so far.
Techs	↔	Back into "comfort" of 0.95/0.96 range.
Sentiment	↔/↓	Wary of NZD positioning.
Other	↑	China and commodities vulnerable still.
On balance	↔	**Looks settled at around 0.95-0.96.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Not far from fair value (~0.75).
Yield	↔	CPI challenging Fed's dot-plots.
Commodities	↔	Soft commodity move has now peaked.
Risk aversion	↔/↓	Watching the liquidity cycle.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔/↓	Phenomenal price action and a break of the Feb high is positive, but fundamentals and positioning leave us cautious.
Sentiment	↓	Positioning is massively long NZD.
Other	↔/↑	Politics and policy USD negative.
On balance	↔/↓	**Prefer to fade strength above 0.73.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
3-Jul	AU	Melbourne Institute Inflation MoM - Jun	--	0.0%	13:00
	AU	Melbourne Institute Inflation YoY - Jun	--	2.8%	13:00
	AU	ANZ Job Advertisements MoM - Jun	--	0.4%	13:30
	AU	Building Approvals MoM - May	-1.3%	4.4%	13:30
	AU	Building Approvals YoY - May	-14.1%	-17.2%	13:30
	CH	Caixin PMI Mfg - Jun	49.8	49.6	13:45
	AU	Commodity Index AUD - Jun	--	128.5	18:30
	AU	Commodity Index SDR YoY - Jun	--	32.6%	18:30
	GE	Markit/BME Manufacturing PMI - Jun F	59.3	59.3	19:55
	EC	Markit Manufacturing PMI - Jun F	57.3	57.3	20:00
	UK	Markit PMI Manufacturing SA - Jun	56.3	56.7	20:30
	EC	Unemployment Rate - May	9.3%	9.3%	21:00
4-Jul	US	Markit Manufacturing PMI - Jun F	52.1	52.1	01:45
	US	ISM Manufacturing - Jun	55.2	54.9	02:00
	US	Construction Spending MoM - May	0.3%	-1.4%	02:00
	NZ	NZIER Business Opinion Survey - Q2	--	17.1	10:00
	AU	ANZ-RM Consumer Confidence Index - 2-Jul	--	111.8	11:30
	AU	Retail Sales MoM - May	0.2%	1.0%	13:30
	AU	RBA Cash Rate Target - Jul	1.50%	1.50%	16:30
	UK	Markit/CIPS Construction PMI - Jun	55.0	56.0	20:30
	EC	PPI MoM - May	-0.2%	0.0%	21:00
	EC	PPI YoY - May	3.5%	4.3%	21:00
5-Jul	NZ	QV House Prices YoY - Jun	--	9.7%	05:00
	NZ	ANZ Job Advertisements MoM - Jun	--	-0.6%	10:00
	AU	AiG Perf of Services Index - Jun	--	51.5	11:30
	JN	Nikkei PMI Composite - Jun	--	53.4	11:30
	JN	Nikkei PMI Services - Jun	--	53.0	12:30
	NZ	ANZ Commodity Price - Jun	--	3.2%	13:00
	CH	Caixin PMI Composite - Jun	--	51.5	13:45
	CH	Caixin PMI Services - Jun	--	52.8	13:45
	GE	Markit Services PMI - Jun F	53.7	53.7	19:55
	GE	Markit/BME Composite PMI - Jun F	56.1	56.1	19:55
	EC	Markit Services PMI - Jun F	54.7	54.7	20:00
	EC	Markit Composite PMI - Jun F	55.7	55.7	20:00
	UK	Markit/CIPS Services PMI - Jun	53.5	53.8	20:30
	UK	Markit/CIPS Composite PMI - Jun	53.9	54.4	20:30
	UK	Official Reserves Changes - Jun	--	$1115M	20:30
	UK	Unit Labor Costs YoY - 1Q	--	2.1%	20:30
	EC	Retail Sales MoM - May	0.3%	0.1%	21:00
	EC	Retail Sales YoY - May	2.3%	2.5%	21:00
6-Jul	US	Factory Orders - May	-0.5%	-0.2%	02:00
	US	Factory Orders Ex Trans - May	--	0.1%	02:00
	US	Durable Goods Orders - May F	--	-1.1%	02:00
	US	Durables Ex Transportation - May F	--	0.1%	02:00
	US	Cap Goods Orders Nondef Ex Air - May F	--	-0.2%	02:00
	US	Cap Goods Ship Nondef Ex Air - May F	--	-0.2%	02:00
	US	FOMC Meeting Minutes - 14-Jun	--	--	06:00
	AU	Trade Balance - May	A$1100M	A$555M	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
6-Jul	GE	Factory Orders MoM - May	1.8%	-2.1%	18:00
	GE	Factory Orders WDA YoY - May	4.5%	3.5%	18:00
	GE	Markit Construction PMI - Jun	--	55.3	19:30
	GE	Markit Retail PMI - Jun	--	55.0	20:10
	EC	Markit Retail PMI - Jun	--	52.0	20:10
	US	MBA Mortgage Applications - 30-Jun	--	-6.2%	23:00
	US	Challenger Job Cuts YoY - Jun	--	9.7%	23:30
7-Jul	US	ADP Employment Change - Jun	190k	253k	00:15
	US	Initial Jobless Claims - 1-Jul	243k	244k	00:30
	US	Continuing Claims - 24-Jun	1938k	1948k	00:30
	US	Trade Balance - May	-$46.3B	-$47.6B	00:30
	US	Markit Services PMI - Jun F	53.0	53.0	01:45
	US	Markit Composite PMI - Jun F	--	53.0	01:45
	US	ISM Non-Manf. Composite - Jun	56.5	56.9	02:00
	AU	AiG Perf of Construction Index - Jun	--	56.7	11:30
	GE	Industrial Production SA MoM - May	0.2%	0.8%	18:00
	GE	Industrial Production WDA YoY - May	4.0%	2.9%	18:00
	AU	Foreign Reserves - Jun	--	A$88.5B	18:30
	UK	Halifax House Price 3Mths/Year - Jun	3.1%	3.3%	19:30
	UK	Halifax House Prices MoM - Jun	0.2%	0.4%	19:30
	UK	Industrial Production MoM - May	0.4%	0.2%	20:30
	UK	Industrial Production YoY - May	0.2%	-0.8%	20:30
	UK	Manufacturing Production MoM - May	0.4%	0.2%	20:30
	UK	Manufacturing Production YoY - May	0.9%	0.0%	20:30
	UK	Construction Output SA MoM - May	0.6%	-1.6%	20:30
	UK	Construction Output SA YoY - May	1.1%	-0.6%	20:30
	UK	Visible Trade Balance GBP/Mn - May	-£10850	-£10383	20:30
	UK	Trade Balance Non EU GBP/Mn - May	-£2450	-£2068	20:30
	UK	Trade Balance - May	-£2500	-£2050	20:30
	CH	Foreign Reserves - Jun	$3062.0B	$3053.6B	UNSPECIFIED
8-Jul	UK	NIESR GDP Estimate - Jun	--	0.2%	00:00
	US	Change in Nonfarm Payrolls - Jun	177k	138k	00:30
	US	Unemployment Rate - Jun	4.3%	4.3%	00:30
	US	Average Hourly Earnings MoM - Jun	0.3%	0.2%	00:30
	US	Average Hourly Earnings YoY - Jun	2.6%	2.5%	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. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards – but not for a while.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 4 Jul (10:00am)	NZIER QSBO – Q2	Holding up	Confidence could bounce and the underlying message should still be positive. Capacity pressures will be evident. The key will be whether that is starting to spill into price pressure.
Tue 4 Jul (3:00pm)	RBNZ Sectoral Lending – May	Still cooling	We expect overall private sector credit growth to continue to moderate. We'd be looking for deposit growth to rise further.
Wed 5 Jul (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Wed 5 Jul (10:00am)	ANZ Job Ads – Jun	--	--
Wed 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun	--	--
Thu 6 Jul (10:00am)	Government Financial Statements – May	Running ahead	Strong nominal growth should continue to boost tax revenue, painting a reasonably positive fiscal picture overall.
10-14 Jul	REINZ Housing Market Statistics – Jun	Cooling	The air continues to be let out of annual house price growth, especially in Auckland. We see that continuing.
Tue 11 Jul (10:45am)	Electronic Card Transactions – Jun	Bounce	After falling in May, we suspect spending will rebound in June, in part boosted by spending associated with the Lions tour.
Tue 11 Jul (1:00pm)	Monthly Inflation Gauge – Jun	--	--
Wed 12 Jul (10:00am)	ANZ Truckometer – Jun	--	--
Thu 13 Jul (10:45am)	Food Price Index – Jun	Unwind	It may not happen this month, but the impact that poor weather has had on fruit & vege prices should eventually unwind.
Thu 13 Jul (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jul	--	--
Fri 14 Jul (10:30am)	BNZ-BusinessNZ PMI – Jun	Strong	The manufacturing sector continues to chug along nicely.
Mon 17 Jul (10:30am)	BNZ-BusinessNZ PSI – Jun	Strong	The services sector continues to benefit from strong population growth.
Tue 18 Jul (10:45am)	CPI – Q2	0.3% q/q	There are plenty of moving parts at present, but petrol prices do look set to be a drag.
Wed 19 Jul (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Fri 21 Jul (10:45am)	International Travel & Migration – Jun	No change	Net migrant arrivals will remain historically elevated. Visitor arrivals should be strong, given the Lions rugby tour.
Wed 26 Jul (10:45am)	Overseas Merchandise Trade – Jun	Improving	Petrol imports were strong in May, which we suspect will unwind. Export values should be decent.
Wed 26 Jul (3:00pm)	RBNZ New Mortgage Lending – Jun	Stabilising	New lending has fallen sharply, but we suspect it will start to stabilise around current levels.
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is gradually lifting.**

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	**0.3**	**0.2**	**0.3**	**0.8**	**0.6**	**0.6**	**0.2**	**0.7**	**0.5**
CPI (% yoy)	2.2	**2.0**	**1.9**	**1.8**	**1.6**	**2.0**	**2.3**	**2.2**	**2.1**	**2.1**
Employment (% qoq)	1.2	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.7	**3.9**	**2.9**	**2.5**	**1.8**	**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**	**4.4**	**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**

	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Retail ECT (% mom)	1.9	0.5	0.0	0.1	2.4	-0.4	-0.3	0.9	-0.4	--
Retail ECT (% yoy)	6.1	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2	--
Credit Card Billings (% mom)	2.9	2.8	-4.1	3.1	0.4	-1.3	1.0	1.0	0.9	--
Credit Card Billings (% yoy)	8.3	10.1	4.1	8.5	7.1	5.3	7.3	6.5	7.6	--
Car Registrations (% mom)	-3.9	13.2	2.9	-6.4	1.6	0.5	3.6	-2.6	3.6	--
Car Registrations (% yoy)	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7	--
Building Consents (% mom)	1.1	0.8	-8.6	-8.2	3.9	16.7	-2.4	-7.4	7.0	--
Building Consents (% yoy)	16.7	14.0	2.3	-10.8	-1.0	9.1	16.6	-3.0	6.0	--
REINZ House Price Index (% yoy)	12.4	14.5	14.4	13.8	12.8	11.9	9.9	7.8	5.0	--
Household Lending Growth (% mom)	0.7	0.6	0.6	0.7	0.5	0.5	0.5	0.5	--	--
Household Lending Growth (% yoy)	8.7	8.7	8.6	8.8	8.7	8.5	8.4	8.0	--	--
ANZ Roy Morgan Consumer Conf.	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9	127.8
ANZ Business Confidence	27.9	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9	24.8
ANZ Own Activity Outlook	42.4	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3	42.8
Trade Balance ($m)	-1388	-798	-723	-1	-227	-42	270	536	103	--
Trade Bal ($m ann)	51938	51943	51668	51621	51901	52087	52404	52590	53224	--
ANZ World Commodity Price Index (% mom)	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	--
ANZ World Comm. Price Index (% yoy)	10.6	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3	--
Net Migration (sa)	6320	6190	6140	5940	6350	5940	6140	5790	5910	--
Net Migration (ann)	69954	70282	70354	70588	71305	71333	71932	71885	71964	--
ANZ Heavy Traffic Index (% mom)	-2.1	-0.6	3.7	-0.3	-0.9	2.0	1.6	-2.1	4.1	--
ANZ Light Traffic Index (% mom)	0.2	-2.1	1.5	0.2	-0.3	0.8	1.3	-1.4	1.2	--

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	Apr-17	May-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZD/USD	0.687	0.712	0.734	0.72	0.70	0.69	0.68	0.67	0.67	0.66
NZD/AUD	0.917	0.954	0.955	0.97	0.96	0.96	0.94	0.94	0.94	0.94
NZD/EUR	0.630	0.635	0.643	0.67	0.66	0.64	0.63	0.60	0.61	0.60
NZD/JPY	76.55	78.83	82.51	82.8	78.4	75.9	71.4	67.0	67.0	66.0
NZD/GBP	0.530	0.554	0.564	0.55	0.55	0.55	0.55	0.54	0.54	0.51
NZ$ TWI	73.3	75.4	78.8	77.5	75.8	74.5	73.0	71.1	71.2	70.1
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	1.99	2.00	2.00	2.10	2.30	2.50	2.50	2.60
NZ 10-yr bond	3.04	2.78	3.03	3.50	3.70	3.70	3.90	3.90	4.00	4.10
US Fed funds	1.00	1.00	1.25	1.50	1.50	1.50	1.75	2.00	2.25	2.50
US 3-mth	1.17	1.20	1.30	1.45	1.70	1.70	1.95	2.20	2.45	2.60
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	1.71	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	30 May	26 Jun	27 Jun	28 Jun	29 Jun	30 Jun
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.97	1.96	1.96	1.95	1.96	1.98
NZGB 03/19	1.94	1.95	1.95	1.98	2.01	2.07
NZGB 05/21	2.21	2.19	2.19	2.25	2.30	2.38
NZGB 04/23	2.49	2.46	2.45	2.52	2.58	2.67
NZGB 04/27	2.82	2.73	2.72	2.80	2.88	2.98
2 year swap	2.24	2.22	2.23	2.24	2.28	2.33
5 year swap	2.74	2.69	2.69	2.74	2.78	2.87
RBNZ TWI	76.41	78.63	78.78	78.40	78.64	78.44
NZD/USD	0.7068	0.7271	0.7304	0.7261	0.7292	0.7333
NZD/AUD	0.9491	0.9604	0.9600	0.9573	0.9506	0.9548
NZD/JPY	78.44	81.18	81.63	81.46	82.08	82.38
NZD/GBP	0.5495	0.5707	0.5728	0.5662	0.5624	0.5631
NZD/EUR	0.6337	0.6504	0.6484	0.6393	0.6393	0.6420
AUD/USD	0.7447	0.7571	0.7608	0.7585	0.7671	0.7689
EUR/USD	1.1154	1.1180	1.1262	1.1359	1.1406	1.1426
USD/JPY	110.99	111.65	111.77	112.18	112.55	112.39
GBP/USD	1.2862	1.2741	1.2749	1.2824	1.2966	1.3025
Oil (US$/bbl)	49.66	43.38	44.24	44.74	44.93	46.04
Gold (US$/oz)	1263.37	1242.98	1251.45	1253.07	1246.27	1241.61
Electricity (Haywards)	7.14	14.01	12.79	12.94	12.94	11.19
Baltic Dry Freight Index	900	884	903	929	920	901
NZX WMP Futures (US$/t)	3225	2950	2925	2935	2950	2950

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