ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

7 March 2016

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A HAT TIP

ECONOMIC OVERVIEW

The "right here and now" still looks pretty good for the economy. However, the risk profile is skewed lower despite better nuances globally over the past week. The strong NZD is problematic, the dairy sector is severely challenged, and while the global scene has stabilised, we expect more wobbles. As such, we suspect the RBNZ will have a "bob each way" this week: acknowledging the risk profile, but not yet having cuts as its central scenario. In other data, our Truckometer and Monthly Inflation Gauge will provide a timely update on New Year activity and price trends, while housing data is likely to show clear regional dimensions.

RBNZ *MONETARY POLICY STATEMENT* PREVIEW

We expect the RBNZ will maintain the OCR at 2.50% this week. Certainly, the Bank will give a hat tip to the risk profile and likely open the door further to the possibility of future interest rate cuts. But we doubt cuts are yet part of its central scenario. While that may disappoint some looking for a signal of imminent easing, there should still be enough in the language tweaks, scenarios and modestly lower bank bill profile to keep the market gunning for interest rate cuts this year.

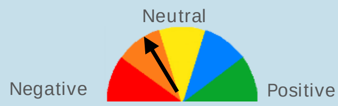
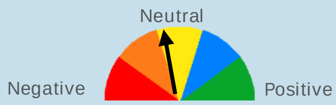
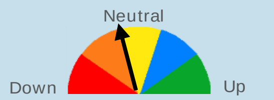
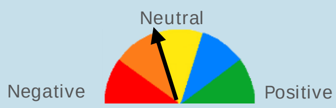
INTEREST RATE STRATEGY

Central bank policy actions are the main focus of the coming fortnight. Solid US jobs data has validated market moves to price in more tightening there, but we still think there is not enough priced in; this leaves us circumspect about the long-end. We expect the RBNZ to leave the OCR on hold this week, but to acknowledge the risk profile and provide a hat tip to current market pricing. OCR cuts are coming and while we are neutral on precisely when, rates should push lower still as the year progresses. NZ-US geographic spreads should also narrow.

CURRENCY STRATEGY

NZD/USD strength is on borrowed time, with forward-looking indicators flagging a cooling of local growth while US data surprises to the topside. This is further supported by our expectation of OCR cuts later in the year, and our sense that markets are under-pricing Fed rate hikes. By contrast, ECB easing this week is likely to give NZD/EUR a lift. NZD/AUD is on key support levels and the global risks we see facing the New Zealand economy are equally risks for the Australian economy, leaving us in favour of returning to neutral positioning after being short.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.3% y/y for 2016 Q4	While growth momentum looks reasonable now, tighter financial conditions suggest a more moderate backdrop over 2H 2016.	
Unemployment rate	5.4% for 2016 Q4	The demand for labour has recovered, and labour supply is cooling from strong rates. Wage inflation contained.	
OCR	2.00% by Dec 2016	A further 50bps of cuts this year. Growth is set to moderate, credit conditions have deteriorated, and global risks abound.	
CPI	0.8% y/y for 2016 Q4	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain low.	

ECONOMIC OVERVIEW

SUMMARY

The “right here and now” still looks pretty good for the economy. However, the risk profile is skewed lower despite better nuances globally over the past week. The strong NZD is problematic, the dairy sector is severely challenged, and while the global scene has stabilised, we expect more wobbles. As such, we suspect the RBNZ will have a “bob each way” this week: acknowledging the risk profile, but not yet having cuts as its central scenario. In other data this week, our Truckometer and Monthly Inflation Gauge will provide a timely update on New Year activity and price trends, while housing data is likely to show clear (Auckland versus the rest) regional dimensions, with the former slowing and the latter picking up.

FORTHCOMING EVENTS

ANZ Truckometer – February (10:00am, Tuesday, 8 March).

Economic Survey of Manufacturing – Q4 (10:45am, Tuesday, 8 March). Primary volumes may contract, although core manufacturing volumes are likely to have fared better.

ANZ Monthly Inflation Gauge – February (1:00pm, Tuesday, 8 March).

Electronic Card Transactions – February (10:45am, Wednesday, 9 March). Lower petrol prices may have again weighed on the headline figure, but ongoing strong hospitality spending should continue to be a key offset.

RBNZ *Monetary Policy Statement* (9:00am, Thursday, 10 March). No change in the OCR is expected. However, the door to future easing will be opened further. Our full preview is on page 5.

BNZ-Business NZ PMI – February (10:30am, Friday, 11 March). Despite dairy challenges and global turmoil, the sector is benefiting from a strong domestic economy.

Food Price Index – February (10:45am, Friday, 11 March). A partial reversal of January’s lift is expected.

BNZ-Business NZ PSI – February (10:30am, Monday, 14 March). The index has eased off highs, perhaps due to softer housing market activity. But we expect it to hold up well.

REINZ Housing Market Statistics – February (sometime this week or next). Regional divergences will be apparent as partial data and anecdote show that the Auckland market has cooled but regional markets are strengthening.

WHAT’S THE VIEW?

The “right here and now” still looks pretty good for the economy. Q4 GDP is shaping up respectably (our bottom-up tracking estimate is sitting around 0.6-0.7%), and our anecdotes on the ground still have a positive hue overall. Regional housing markets are going gang-busters and credit growth is still strong (and well above income growth). Yes, there are pockets of weakness (dairy), and some January data has been mixed (Truckometer, job ads, building consents), yet the economy looks to have ended 2015 with decent momentum and that has more or less carried on into the New Year.

However, as we wrote last week, the outlook from here is a little darker, with risks aplenty. To be fair, global financial markets have stabilised a little of late and credit markets – where much of our concern has been focused – have shown a narrowing in spreads over the past couple of weeks. All the same, spreads remain far wider than they were and with many uncertainties over the global backdrop remaining, it certainly feels like market sentiment could turn on a dime again. Even with this recent market stabilisation, New Zealand financial conditions remain far tighter than they were a few months ago and provide a clear warning that the positive tone to New Zealand’s economic backdrop is on shakier ground.

This dichotomy between the here-and-now and the outlook presents the RBNZ with something of a dilemma this week. Does it go with what it knows; that activity growth is reasonable, strong credit growth presents more financial stability risks of which to be mindful, and core inflation (albeit still below its target midpoint) has risen over recent quarters? Or does it put more weight on the far less certain outlook, growing realities of the severe challenges facing dairying, the high NZD, darker clouds on the global horizon and the fact that measures of inflation expectations have fallen?

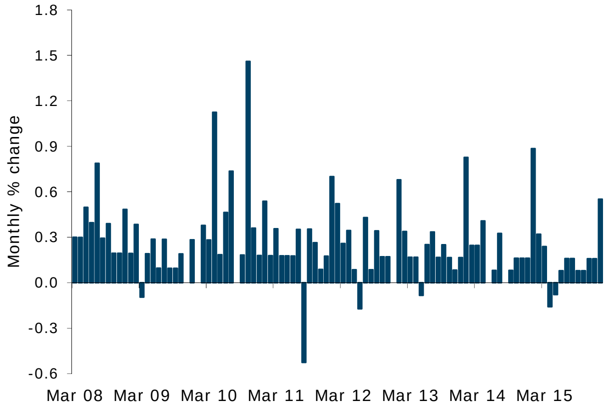
We suspect the RBNZ will place a “bob each way” (refer to our *Monetary Policy Statement* preview on page 5). We don’t yet see additional interest rate cuts as being part of its central scenario; the growth story at present is strong enough to augur inflation eventually making its way back to the midpoint. But there will be enough in the language and scenarios to keep the market attuned to a reasonable probability of the OCR moving lower.

Beyond the RBNZ, there are some key data releases this week, with two of our proprietary indicators giving a timely update on activity and price trends for February:

ECONOMIC OVERVIEW

- **Truckometer**: The Heavy Traffic Index rose solidly over the latter part of 2015, and has now been joined by a number of other indicators pointing to decent economic momentum at the end of 2015. However, the Index slumped 4.3% m/m in January, which at face value sent somewhat of a warning regarding economic performance over the early part of this year. We put this move largely down to monthly volatility – the February figures will help confirm whether that was the right interpretation (i.e. we see a stabilisation or bounce), or a weaker view is warranted (a further fall).
- **Monthly Inflation Gauge**: This is a key gauge shaping how we view the risk profile around Q1 CPI figures. The RBNZ has acknowledged it can do little about the current low rates of headline inflation, instead focusing on core inflation and inflation expectations. Our Gauge will provide a timely steer on how the former is tracking over 2016 to date. In January the headline Gauge rose 0.6% m/m, but this was largely due to the impact of a tobacco excise hike. Outside of this, the increase was actually more modest than usually seen at this time of year, with the Underlying Ex-housing Gauge rising just 0.1% m/m. Outside of the odd pocket in the construction and hospitality sectors, inflation pressures remain sedate.

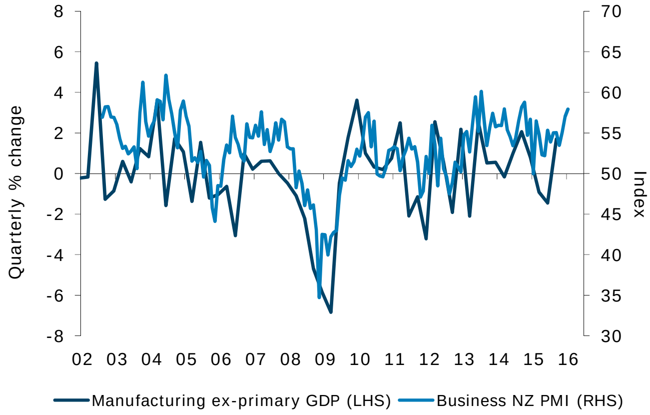
FIGURE 1. ANZ MONTHLY INFLATION GAUGE



Source: ANZ, Statistics NZ

The Economic Survey of Manufacturing is likely to show mixed performances across the primary food (weaker) and non-primary food (modestly stronger) sectors. Over the December quarter, we estimate that seasonally adjusted milk production and livestock slaughtering fell 1.2% and 4.4% respectively. The latter is a partial reversal of the strong lift seen in Q3, which may have been due to farmers sending stock to works early on fears over the possible impact of El Nino. Primary food manufacturing production is likely to have dipped slightly in Q4 as a result. Conversely, the broader manufacturing sector should have fared a little better, with construction activity and the solid domestic economy more generally underpinning activity levels. Over the quarter the PMI averaged 55.2, up from 54.6 in Q3, although the production component of the index did dip from 56.2 to 54.9, which is of course still a solid level.

FIGURE 2. PMI VERSUS EX-PRIMARY MANUFACTURING GDP

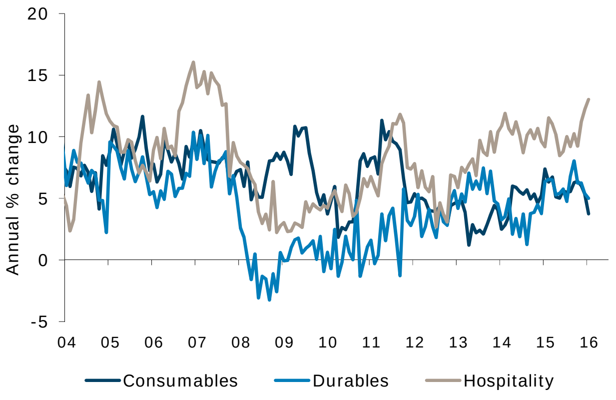


Source: ANZ, Business NZ, Statistics NZ

Electronic Card Transactions data for February should show modest overall spending growth (circa 0.3% m/m), and a continuation of recent themes affecting the overall retail sector. Specifically, the January figures showed total retail values, while rising 0.3% m/m, weighed down by lower fuel retailing (no doubt impacted by petrol price falls). There was also weakness in apparel spending. While lower fuel prices do obviously leave more cash in the pocket for other discretionary items, they do weigh on the nominal value of spending in the first instance. But offsetting this is the boost evident in hospitality spending. We feel this is due to both a structural shift in consumers' spending preferences but also the impact of the strong tourism sector at present. Hospitality spending is running at a strong 13% y/y pace at present, and remarkably in the space of just six years its share of total core retail spending has risen from 17% to 21%.

ECONOMIC OVERVIEW

FIGURE 3. SELECTED RETAIL ECT SUB-COMPONENTS



Source: ANZ, Statistics NZ

Business NZ activity indicators should continue to point to decent economic momentum overall, although we will be on the lookout for any change. Both the PMI and PSI indices have held at reasonable levels over recent months, though the latter did ease a touch in January, perhaps due to softer housing market activity. While a resilient services sector is a theme worldwide, the strength in the New Zealand PMI is fairly unusual in a global context. As mentioned, New Zealand manufacturing is benefiting from solid construction activity and a well-performing domestic economy more generally.

REINZ figures for February may also be released later this week. These numbers should show a clear regional divide between Auckland and the rest of the country. However, unlike over much of the past two years where Auckland was surging and housing market activity across the remainder of the country was somewhat lacklustre, the shoe is now on the other foot, with Auckland market activity likely to continue to cool. We would not be surprised to see further modest Auckland house price falls, as measured by the REINZ Stratified Index, while other regions (perhaps outside of Christchurch) look set to show renewed strength supported by low interest rates and macro-prudential policy loosening.

LOCAL DATA

Building Consents Issued – January. Total dwelling consents fell 8.2% m/m (sa), while non-residential consents were valued at $436m (sa).

RBNZ Credit Aggregates – January. Total private sector credit grew 0.6% m/m, with annual growth, at 7.1% y/y, the strongest since early 2009.

Overseas Trade Indexes – Q4. The goods terms of trade fell 2.0% q/q, to be close to 10% below its recent peak.

GlobalDairyTrade Auction. The GDT TWI rose 1.4%, to an average winning price of USD2,253/tonne.

QV House Prices – Feb. Nationwide house prices fell 0.1% over the prior three months, with annual growth slowing to 11.6%.

Barfoot & Thompson Housing Statistics – February. In seasonally adjusted terms, house sales fell 19% m/m, while average sale prices dipped 0.4% m/m (9.9% y/y).

Building Work Put in Place – Q4. The total volume of building work rose 2.5% q/q, with residential and non-residential work rising 2.8% and 2.3% q/q respectively.

ANZ Commodity Price Index – Feb. The world price index was broadly unchanged (+0.4% m/m), with non-dairy export prices, encouragingly, rising 2.3% m/m.

Government Financial Statements – Jan. An OBEGAL surplus of $934m was recorded – $724m better than HYEFU forecasts.

MARCH *MONETARY POLICY STATEMENT* PREVIEW

SUMMARY

We expect the RBNZ will maintain the OCR at 2.50% this week. Certainly, the Bank will give a hat tip to the risk profile and likely open the door further to the possibility of future interest rate cuts. But we doubt cuts are yet part of its central scenario given solid growth, rising core inflation and ongoing financial stability concerns. While that may disappoint some looking for a signal of imminent easing, there should still be enough in the language tweaks, scenarios and modestly lower bank bill profile to keep the market gunning for interest rate cuts this year.

HAT TIP

We expect the RBNZ to keep the OCR unchanged at 2.50% this week, in line with consensus expectations. According to Bloomberg, 13 of 15 surveyed economists are expecting the OCR to be unchanged. At the time of writing, the market was pricing in roughly 25% odds of a 25bp cut.

In recent communications, the RBNZ has acknowledged the growing chance that it may need to cut the OCR again. "Some further easing" was seen as possible at the January *Review*, and Governor Wheeler subsequently noted that "most of the risks facing the economy are downside ones".

But at the same time it is clear that the RBNZ has been in no hurry to act on this easing bias. The flexibility of the Policy Targets Agreement has been emphasised and it has explicitly referenced the lift in its preferred measure of core inflation, which has ticked up, not down. Upside as well as downside risks to the outlook have been highlighted, and financial stability risks surrounding the Auckland property market continue to be noted. **In other words, while the RBNZ could see situations in which it may need to cut the OCR again, it was apparent that those were not yet its central scenario.**

And when we look across the economy at present, we suspect that that will remain its central view. The combination of respectable economic momentum, booming migration, an unemployment rate that is falling again (although the Q4 move surely overstates this), and rising credit growth doesn't signal an economy at an inflection point lower! While Auckland house prices have retreated recently, we doubt that alters the RBNZ's view that the market remains a "financial stability risk". It will be wary that migration could yet re-ignite the market, given housing shortages. In addition, house prices around much of the rest of the country are now lifting strongly.

We also don't buy into the argument the RBNZ needs to cut to get the NZD down. It's strong partly because the economy is printing good numbers; that's a tough tide to swim against. Moreover, we shouldn't forget about the actions of others too, with the average policy rate across the G10 (excluding New Zealand) now at just 0.3%. Back in August 2011 (when the NZD hit an all-time high), it was 1.4%. We're certainly not advocating the RBNZ should join this "rush for the bottom" to get the currency lower.

Of course, and converse to this, measures of inflation expectations have fallen, and this is notable. The RBNZ has stated that it doesn't want expectations to "become unstable or decline significantly". But we are a little hesitant to place too much weight on recent measures given their tendency to be thrown around by petrol prices. Longer-term measures have held up and so we suspect the RBNZ feels they are not "unstable" yet.

The global scene is more problematic. You can see risks everywhere, especially in China. But if it's insufficient to draw the RBA to the table, then we can't see why the RBNZ should be out of step.

Higher funding costs are another reason for cuts but we put that in the "eventually" camp – there is more water to flow under that bridge. Monetary policy is still easing (the effective borrowing rate is falling) and while we can detect signs of pressure on retail rates, nothing has really moved yet.

So we doubt the RBNZ will explicitly signal imminent future easing this week. This may disappoint some, particularly with close to two 25bp cuts now fully priced this year. However, unlike last June where it was clear the economy was losing steam (and quite quickly), that evidence is not apparent right here and now. Given policy is already well below the RBNZ's perceived level of neutral, the hurdle is high for it to take rates even lower.

But the door to future easing will no doubt be opened further. The growing risks to the outlook certainly justify that (the globe, credit markets, a stubborn NZD, tighter financial conditions). At a time of already low inflation, the possibility of sub-trend growth represents a clear problem for the RBNZ.

There is plenty of conjecture on how the Reserve Bank could achieve the desired balance, but we suspect the door will be opened further though a combination of:

MARCH *MONETARY POLICY STATEMENT* PREVIEW

- **Tweaks in the language**: Any prospective action will have the usual caveats, but we expect a subtle tweak to the softer side; this means something stronger than the January language of OCR cuts *"may be required"* but stopping short of an explicit endorsement. It may actually take a leaf out of the RBA's book – *"continued low inflation would allow scope for easier policy"*.
- **A modest lowering of the 90-day bank bill projection**: We are expecting a 10-20bp lowering of the profile – in other words, implying some likelihood of cuts this year, without showing a full cut in the central scenario.
- **Downside scenarios**: Whereas the scenarios presented in December were of both the upside and downside variety, we expect more of a downside skew this time. We wouldn't be surprised to see one on the impact of higher funding costs.

Across other elements of the RBNZ's forecasts, inflation projections will again be lowered. This is on the back of the lower inflation starting point, stronger NZD and lower inflation expectations. The Bank may also shade down its growth forecasts (although the starting point is stronger), although we suspect its overall views on the domestic growth picture are broadly similar to before.

ANZ EXPECTATIONS FOR RBNZ MAR *MPS* PROJECTIONS (DEC 2015 *MPS* IN BRACKETS)

	90-Day	TWI (Qtr Average)	CPI (Ann % Chg)	GDP (Ann % Chg)
Q1 2015	3.6 (3.6)	77.9 (77.9)	0.3 (0.3)	3.0 (3.0)
Q2	3.5 (3.5)	76.1 (76.1)	0.4 (0.4)	2.4 (2.4)
Q3	3.0 (3.0)	69.8 (69.8)	0.4 (0.4)	2.3 (2.1)
Q4	2.8 (2.8)	70.7 (70.7)	0.1 (0.4)	2.0 (1.7)
Q1 2016	2.7 (2.8)	72.0 (69.4)	0.4 (1.2)	2.5 (2.3)
Q2	2.6 (2.7)	71.5 (68.4)	0.5 (1.2)	2.9 (2.7)
Q3	2.5 (2.6)	70.2 (67.9)	0.6 (1.2)	2.7 (2.8)
Q4	2.5 (2.6)	69.4 (67.7)	1.0 (1.6)	2.8 (3.1)
Q1 2017	2.5 (2.6)	68.8 (67.6)	1.4 (1.5)	2.8 (3.1)
Q2	2.5 (2.6)	68.2 (67.5)	1.5 (1.6)	2.9 (3.3)
Q3	2.5 (2.6)	67.8 (67.3)	1.7 (1.7)	3.2 (3.5)
Q4	2.5 (2.6)	67.5 (67.1)	2.0 (2.0)	3.4 (3.6)
Q1 2018	2.5 (2.6)	67.2 (67.2)	2.0 (2.0)	3.2 (3.4)
Q2	2.5 (2.6)	67.3 (67.3)	2.0 (2.0)	3.1 (3.1)
Q3	2.5 (2.6)	67.3 (67.3)	2.1 (2.2)	2.9 (2.8)
Q4	2.5 (2.6)	67.4 (67.4)	2.1 (2.1)	2.7 (2.4)
Q1 2019	2.5	67.4	2.1	2.6

FINANCIAL MARKET IMPLICATIONS

With the market gunning for close to 50bps of cuts over the course of 2016, the lack of explicit reference to cuts could disappoint some. That said, there should be enough in the language, lower bank bill projection and scenarios to keep the markets happy to continue to push this easing view. As such, any immediate NZD strength or back-up in wholesale yields in the aftermath of the decision would be something we would look to reverse.

INTEREST RATE STRATEGY

SUMMARY

Central bank policy actions are the main focus of the coming fortnight, with the ECB and RBNZ this week, and the FOMC, BoE and BoJ next week. Solid US jobs data has validated market moves to price in more tightening there, but we still think there is not enough priced in; this leaves us circumspect about the long end. We expect the RBNZ to leave the OCR on hold this week, but to acknowledge the risk profile and provide a hat tip to current market pricing. OCR cuts are coming and while we are neutral on precisely when, rates should push lower still as the year progresses. With US markets not pricing in enough tightening, the prospect of more OCR cuts (we now expect more cuts than are currently priced in) points to a narrowing in geographic spreads.

THEMES

- We expect a bill track that's a tad lower in the March *MPS*, providing a hat-tip to current market pricing but not a full endorsement.
- We expect 25bp OCR cuts in June and September. With markets pricing in less easing than our forecast, we expect 2-3 year swap rates to fall further and for the curve to steepen. But that's a strategic view over the coming months.
- Central bank decisions should help set the tone in global markets, with the ECB (March 10), BoJ (March 15), BoE (March 16) & Fed (March (19).
- Strong US data has seen a re-rating of Fed policy expectations, but we believe there is more adjustment coming. We expect three hikes this year, with US long-end yields to rise gradually.
- High outright local yields, opposing policy biases and the ongoing "hunt for yield" portend further spread compression, absorbing some of the impact of rising global long-end rates.

PREFERRED STRATEGIES – INVESTORS

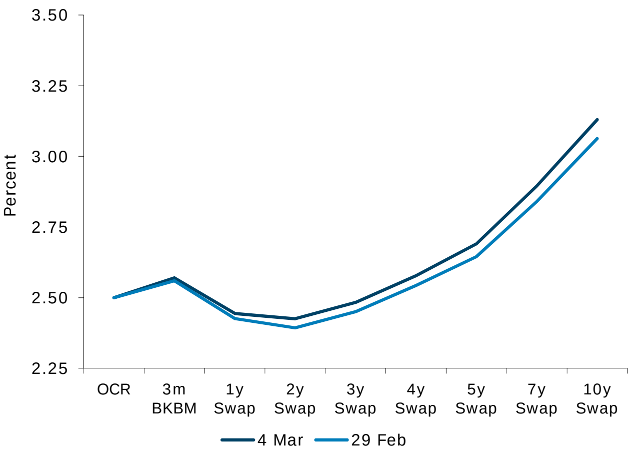
KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Neutral/ Bullish	Short end lower, long end rates still high in global context.
2s10s Curve	Steeper	OCR cuts coming, but long end still biased mildly higher.
Geographic 10yr spread	Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Long-end spreads at risk of narrowing, given supply.

CENTRAL BANKS IN FOCUS

Local yields sold off in the aftermath of the on-hold RBA verdict, stronger-than-expected Q4 Australian GDP and better risk sentiment globally. And the curve has steepened modestly compared to a week ago. While the 2-year swap has climbed 4bps, at 2.43%, it has moved to price in a bullish scenario that has not been reflected in shorter-dated OIS pricing. While we remain bullish the short end, we think there's a limit to how much further 1yr1yr or 2yr can go ahead of an actual cut.

While we expect the OCR to remain on hold this week, we do expect a lower 90-day bill track, giving a hat tip to market pricing but not a full endorsement. We can't rule out the possibility that the Bank will surprise the market and cut the OCR (just 7bps of cuts are priced in) but we sense that the Bank would not want to scare the horses. It would be a big U-turn to cut after drawing the market's attention to increases in the RBNZ's core inflation measure and ongoing financial stability concerns in recent communications.

FIGURE 1. NZD SWAP CURVE



Source: ANZ, Bloomberg

While the RBNZ is unlikely to cut this week, we expect the door to future easing to be opened further, driving the short end lower. The growing risks to the outlook certainly justify that (globe, credit markets, stubborn NZD, tighter financial conditions). At a time of already-low inflation, the possibility of more modest, sub-trend growth represents a clear problem for the RBNZ (tomorrow's Monthly Inflation Gauge will provide an inflation stocktake for February). Not all of these risks are on the immediate horizon, but they are growing and are expected to spur the RBNZ into action eventually. We expect 50bps of cuts over 2016, which is more than is currently priced in. As such, there is scope for the market to rally as the low-for-longer message filters through. There is also an historical tendency for the market to push further.

Central bank policy remains in focus offshore too, with monetary policy announcements due from the

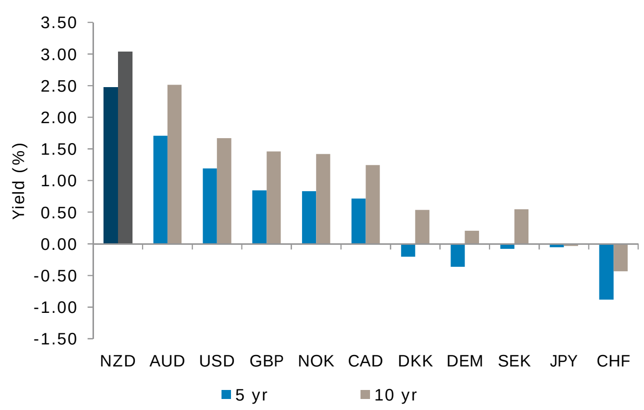
INTEREST RATE STRATEGY

ECB, BoJ, BoE, and Fed over the next fortnight. **The overall vibe is one of more easing to come in Europe and Japan, but more tightening in the US. In our view, the US market is the most mis-priced.** It's not just the improvement in activity data in recent weeks that has caught our eye, but the fact that the Fed is the only major central bank that's even close to achieving its objectives (with unemployment at 4.9% and core PCE inflation at 1.7% and trending higher). With less than one hike priced in by the end of the year, market pricing is in stark contrast with our view of three hikes (and the Fed's so-called "dot plots" flagging four hikes!). All else equal, this poses upside risks to the long end.

Another key issue markets are grappling with is negative interest rates. While in theory they should stimulate lending as banks look to borrow at a negative rate and lend at a higher rate, they are causing problems in credit markets as investors baulk at buying bonds with negative yields. The end result has been wider credit spreads, more inflows into our market, a higher NZD, and wider swap spreads, all of which bolsters the case for OCR cuts.

NZD bonds remain in hot demand. Although yields have hit all-time lows in recent weeks, they remain high by global comparison, with 5-year yields in negative territory in five G10 markets. US and Australia have seen yields lift in the past week, but NZGS has been notable for their outperformance versus the US and Australia. We expect this to continue, especially against the US, with the RBNZ in easing mode and the market not pricing in enough tightening in the US.

FIGURE 2: SOVEREIGN BOND YIELDS



Source: ANZ, Bloomberg

PREFERRED STRATEGIES – BORROWERS

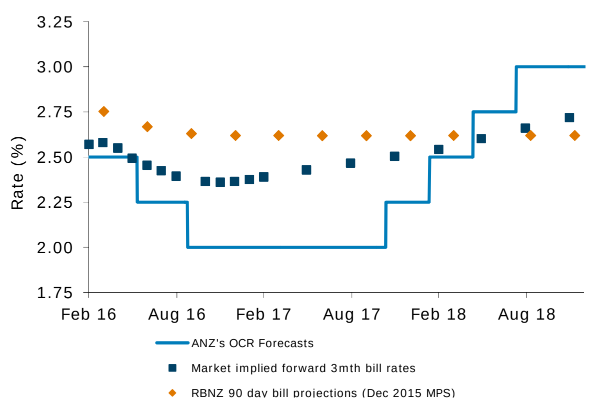
With 10-year swap rates hovering around record lows it is difficult to argue that fixing now does not offer good value from an historical perspective. However, rates could move lower still, especially for tenors out to 5 years. But what really concerns us is what happens to hedge effectiveness as credit spreads widen. If wider credit spreads lead to more RBNZ easing and lower swap rates, hedges designed to protect against rising rates will become ineffective, as they don't guard against what's really driving overall funding costs up – i.e. wider spreads. This – and the volatile trading environment – **has us biased towards favouring an option-based strategy when it comes to new hedging.** We note too that floating rates are also historically cheap, particularly with our expectation of 50bps of cuts by the end of the year. This makes the decision to take on more expensive term cover an even more difficult one – hence our preference for optionality.

KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Options preferred so as to maintain exposure to lower floating interest rates.
Value	Cheap	Low, but the catalyst for an immediate rise is absent.
Uncertainty	Elevated	The key reason for caution.

MARKET EXPECTATIONS

Market expectations for a March OCR cut are around 26%, with a full cut priced by June and about 40bps of cuts priced in by the end of the year.[1] Our core view is for 50bps of OCR cuts this year, and for the OCR to remain on hold over most of 2017. As such, there is potential for short-term yields to rally and for the curve to steepen. Near term though, we believe the 2 year has overshot relative to where March and April OIS pricing sits.

FIGURE 3: ANZ OCR FORECAST VERSUS MARKET-IMPLIED FORWARD 3MTH BILL RATES AND RBNZ 90-DAY BILL PROJECTIONS



Source: ANZ, Bloomberg

[1] From July, the new schedule for OCR decisions will be introduced, with four *MPS* and associated OCR announcements each year (in February, May, August and November) and three intervening OCR Reviews (in March, June and September).

CURRENCY STRATEGY

SUMMARY

NZD/USD strength is on borrowed time, with forward-looking indicators flagging a cooling of local growth while US data surprises to the topside. This is further supported by our expectation of OCR cuts later in the year, and our sense that markets are under-pricing Fed rate hikes. By contrast, ECB easing this week is likely to give NZD/EUR a lift. NZD/AUD is on key support levels and the global risks we see facing the New Zealand economy are equally risks for the Australian economy, leaving us in favour of returning to neutral positioning after being short.

TABLE 1: KEY VIEWS			
CROSS	**WEEK**	**MONTH**	**YEAR**
NZD/USD	↓	Too expensive	Downside risks
NZD/AUD	↔	Range trading	Remains above long-run averages
NZD/EUR	↔/↑	EUR capped	EUR capped by ECB
NZD/GBP	↔	Brexit level found	GBP resurgence
NZD/JPY	↔/↑	BoJ to do more	JPY finding a range

THEMES AND RISKS

- NZD strength is at odds with rates market pricing of the OCR. Risks are now tilted to the former realigning.
- The ECB is widely expected to ease policy further. With a large variety of factors acting on EUR we would expect NZD/EUR to be buoyant.
- Chinese releases will be closely watched, with February data released this week. China remains an area of concern for NZD prospects.

TABLE 2: KEY UPCOMING EVENT RISK			
EVENT		**WHEN (NZDT)**	**IMPACT RISK**
USD	Fed Fischer	Tue 06:30	NZD/USD ↓
NZD	ANZ Truckometer	Tue 10:00	NZD
NZD	Q4 Mfg. Activity	Tue 10:45	NZD ↑
AUD	NAB B/C	Tue 13:30	NZD/AUD ↓
CNY	February Trade balance	Tue PM	NZD/CNY ↓
EUR	German Ind. prod.	Tue 20:00	NZD/EUR ↑
EUR	EU Q4 GDP	Tue 23:00	NZD/EUR ↑
USD	NFIB Small B/O	Wed 00:00	NZD/USD ↔/↓
NZD	Card spending	Wed 10:45	NZD ↔
AUD	Home loans	Wed 13:30	NZD/AUD ↓
GBP	Ind. & Mfg production	Wed 22:30	NZD/GBP ↓
CAD	BoC	Thu 04:00	NZD/CAD ↑
NZD	**RBNZ**	Thu 09:00	NZD ↓
CNY	CPI, PPI	Thu 14:30	NZD/CNY ↑
KRW	BoK	Thu PM	NZD/KRW ↑
EUR	French IP & MP	Thu 20:45	NZD/EUR ↑
EUR	**ECB**	Fri 01:45	NZD/EUR ↑
NZD	Business PMI	Fri 10:30	NZD ↑
NZD	Food prices	Fri 10:45	NZD ↔
JPY	Q1 BSI Survey	Fri 12:50	NZD/JPY ↓
CAD	Employment	Sat 02:30	NZD/CAD ↓
CNY	February data	Sat 18:30	NZD/CNY ↑

EXPORTERS' STRATEGY

We believe the NZD is toppy here, so favour holding off for now, waiting for better levels later. We favour options if immediate cover is needed.

IMPORTERS' STRATEGY

Importers should consider hedging at current levels. We are near range edges and the TWI is looking too strong and disconnected with other markets.

DATA PULSE

NZD was strong last week despite Q4 terms of trading showing a 2% decline. The NZD benefited from a small lift in prices at the GDT auction, the largest quarterly expansion for building work in 15 months, and the 0.4% lift in the ANZ Commodity Price index. **AUD was also strong, lifted by solid Q4 GDP** and stable RBA outlook. The trade deficit was marginally smaller, but retail sales were disappointing.

US employment and ISM data beat expectations, bolstering the case for Fed rate hikes. We expect three hikes in 2016, but the market is pricing in less than one. **Chinese data remains a concern**, with negative surprises from the official PMIs (both manufacturing and services). The smaller business-focused Caixin PMIs were both contractionary. China also lowered its growth target from 7% to a 6.5-7% range at the National People's Congress.

Europe dropped back into deflation in February, overshadowing improvements in activity data. The final reads of both manufacturing and services PMIs rebounded, and retail sales were strong. **GBP rebounded from "Brexit fears",** but was hit by weaker PMI data.

TABLE 3: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	FV is above long-run averages.
Yield	↔/↓	More downside risks to NZ rates.
Commodities	↓	Iron ore stable, milk not so much.
Data	↔/↓	NZ data tenor to soften.
Techs	↔/↑	On support.
Sentiment	↔	Equal reactions to sentiment.
Other	↑↓	Volatility is high.
On balance	↔	**Range trading.**

TABLE 4: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Closer to fair value.
Yield	↔/↓	Yield advantage to change.
Commodities	↔/↓	Dairy expected to stabilise, but non-dairy is a risk.
Risk aversion	↔↑	Resilience to risk notable.
Data	↓	Peak NZ optimism/ US pessimism?
Techs	↓	Top of the range.
Other	↓	China remains a key downside.
On balance	↓	**Downside risks.**

CURRENCY STRATEGY

TECHNICAL OUTLOOK

FIGURE 1. NZD/USD DAILY CANDLES WITH RSI & MA

NZD/USD continues into the ninth month of its consolidation pattern. There remains significant resistance from 0.70 to 0.69 and selling against that resistance remains our preferred strategy. However, in the overall technical profile we note the building of support that is rising and currently around the 0.65 level. We remain sellers in the upper region of this consolidation pattern.

FIGURE 2. NZD/AUD DAILY CANDLES WITH RSI & MA

NZD/AUD remains comfortably above long-run averages. Pivotal support is in the region of 0.9050-0.91, but a break of that pivot would only see a test of the upper 0.88's at best. Resistance is very strong in the 0.94 to 0.95 area, and we remain comfortable selling any strength in NZD/AUD toward this region.

TABLE 5: KEY TECHNICAL ZONES

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6480 – 0.6520	0.6940 – 0.6980
NZD/AUD	0.9080 – 0.9120 0.8860 – 0.8890	0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6280 – 0.6330
NZD/GBP	0.4630 – 0.4660	0.4930 – 0.4980
NZD/JPY	73.50 – 74.00 69.80 – 70.20	79.50 – 80.00 82.40 – 83.00

POSITIONING

NZD positioning remains short (but to a lesser extent than recently). By contrast, AUD longs have increased, suggesting some risk of a NZD/AUD pop higher. USD longs remain lean, and EUR shorts remain in place.

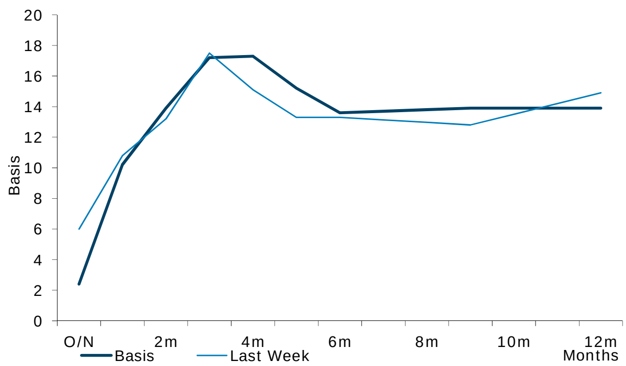
GLOBAL VIEWS

This week we hear from the ECB and will be able to observe the EUR reaction. After disappointing in December and again in January, they are likely determined to deliver this time, especially with the EU in deflation at the last read, data softening, and political risks growing. **We expect EUR to remain under pressure into and post the decision**.

Next week's trio of key central bank meetings (with the Fed, BoJ and BoE all scheduled) are likely to be dovish, and all else equal pose upside risks to the TWI via the crosses. This goes against the grain of our NZD weakening view, and is one of the principal reasons why our forecasts have NZD/USD depreciating only gradually over 2016. The "problem" is, the **NZD remains a beneficiary of investment flows out of these regions as the "hunt for yield" continues.** We doubt there will be any let-up now that 10-year Japanese government bond yields have moved into negative territory.

FORWARDS: CARRY AND BASIS

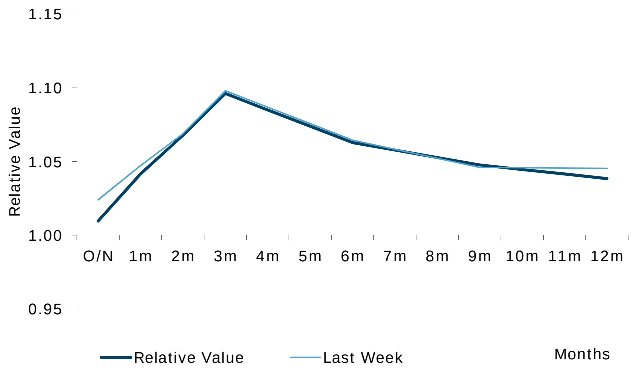
FIGURE 3. NZD/USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

The cash market has remained steady and O/N & T/N demand is no longer being driven by offshore; this indicates the spot market is no longer short. 3-4m basis still offers the most basis pickup and S/B this area remains our preference.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
7-Mar	AU	ANZ Job Advertisements MoM - Feb	--	1.0%	13:30
	AU	Foreign Reserves - Feb	--	A$61.6B	18:30
	GE	Factory Orders MoM - Jan	-0.3%	-0.7%	20:00
	GE	Factory Orders WDA YoY - Jan	0.0%	-2.7%	20:00
	EC	Sentix Investor Confidence - Mar	8.3	6.0	22:30
	CH	Foreign Reserves - Feb	$3190.0B	$3230.9B	UNSPECIFIED
8-Mar	US	Consumer Credit - Jan	$16.5B	$21.3B	09:00
	NZ	ANZ Truckometer Heavy MoM - Feb	--	-4.3%	10:00
	NZ	Mfg Activity SA QoQ - Q4	--	4.2%	10:45
	NZ	Mfg Activity Volume QoQ - Q4	--	3.5%	10:45
	AU	ANZ-RM Consumer Confidence Index - 6-Mar	--	111.3	11:30
	JN	GDP SA QoQ - Q4 F	-0.4%	-0.4%	12:50
	JN	GDP Annualized SA QoQ - Q4 F	-1.6%	-1.4%	12:50
	JN	GDP Nominal SA QoQ - Q4 F	-0.3%	-0.3%	12:50
	JN	GDP Deflator YoY - Q4 F	1.5%	1.5%	12:50
	JN	BoP Current Account Balance - Jan	¥700.0B	¥960.7B	12:50
	JN	BoP Current Account Adjusted - Jan	¥1654.8B	¥1635.4B	12:50
	JN	Trade Balance BoP Basis - Jan	-¥530.0B	¥188.7B	12:50
	NZ	ANZ Monthly Inflation Gauge - Feb	--	0.6%	13:00
	AU	NAB Business Conditions - Feb	--	5	13:30
	AU	NAB Business Confidence - Feb	--	2	13:30
	GE	Industrial Production SA MoM - Jan	0.5%	-1.2%	20:00
	GE	Industrial Production WDA YoY - Jan	-1.6%	-2.2%	20:00
	EC	GDP SA QoQ - Q4 P	0.3%	0.3%	23:00
	EC	GDP SA YoY - Q4 P	1.5%	1.5%	23:00
	EC	Gross Fix Cap QoQ - Q4	0.6%	0.0%	23:00
	EC	Govt Expend QoQ - Q4	0.4%	0.6%	23:00
	EC	Household Cons QoQ - Q4	0.3%	0.4%	23:00
	CH	Trade Balance - Feb	$50.75B	$63.29B	UNSPECIFIED
	CH	Exports YoY - Feb	-15.0%	-11.2%	UNSPECIFIED
	CH	Imports YoY - Feb	-10.2%	-18.8%	UNSPECIFIED
	CH	Foreign Direct Investment YoY CNY - Feb	3.0%	3.2%	8-12 Mar
9-Mar	US	NFIB Small Business Optimism - Feb	94.1	93.9	00:00
	NZ	Card Spending Retail MoM - Feb	0.3%	0.3%	10:45
	NZ	Card Spending Total MoM - Feb	--	0.6%	10:45
	AU	Westpac Consumer Conf Index - Mar	--	101.3	12:30
	AU	Westpac Consumer Conf SA MoM - Mar	--	4.2%	12:30
	AU	Home Loans MoM - Jan	-2.8%	2.6%	13:30
	AU	Investment Lending - Jan	--	0.6%	13:30
	AU	Owner-Occupier Loan Value MoM - Jan	--	0.9%	13:30
	UK	Industrial Production MoM - Jan	0.4%	-1.1%	22:30
	UK	Industrial Production YoY - Jan	0.0%	-0.4%	22:30
	UK	Manufacturing Production MoM - Jan	0.2%	-0.2%	22:30
	UK	Manufacturing Production YoY - Jan	-0.7%	-1.7%	22:30
10-Mar	US	MBA Mortgage Applications - 4-Mar	--	-4.8%	01:00
	UK	NIESR GDP Estimate - Feb	--	0.4%	04:00
	US	Wholesale Inventories MoM - Jan	-0.2%	-0.1%	04:00
	US	Wholesale Trade Sales MoM - Jan	-0.3%	-0.3%	04:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
10-Mar	NZ	RBNZ Official Cash Rate - Mar	2.50%	2.50%	09:00
	AU	Consumer Inflation Expectation - Mar	--	3.6%	13:00
	UK	RICS House Price Balance - Feb	50%	49%	13:01
	CH	CPI YoY - Feb	1.8%	1.8%	14:30
	CH	PPI YoY - Feb	-4.9%	-5.3%	14:30
	GE	Trade Balance - Jan	€17.0B	€19.0B	20:00
	GE	Current Account Balance - Jan	€17.0B	€25.6B	20:00
	GE	Exports SA MoM - Jan	0.8%	-1.4%	20:00
	GE	Imports SA MoM - Jan	0.8%	-1.6%	20:00
	GE	Labor Costs WDA YoY - Q4	--	2.4%	20:00
	GE	Labor Costs SA QoQ - Q4	--	0.0%	20:00
	NZ	REINZ House Sales YoY - Feb	--	4.3%	10-14 Mar
	CH	New Yuan Loans CNY - Feb	1200.0B	2510.0B	10-15 Mar
	CH	Aggregate Financing CNY - Feb	1790.0B	3417.3B	10-15 Mar
	CH	Money Supply M0 YoY - Feb	-3.1%	15.1%	10-15 Mar
	CH	Money Supply M1 YoY - Feb	18.9%	18.6%	10-15 Mar
	CH	Money Supply M2 YoY - Feb	13.7%	14.0%	10-15 Mar
11-Mar	EC	ECB Main Refinancing Rate - Mar	0.05%	0.05%	01:45
	EC	ECB Deposit Facility Rate - Mar	-0.40%	-0.30%	01:45
	EC	ECB Marginal Lending Facility - Mar	0.30%	0.30%	01:45
	US	Initial Jobless Claims - 5-Mar	275K	278K	02:30
	US	Continuing Claims - 27-Feb	2252K	2257K	02:30
	US	Monthly Budget Statement - Feb	-$200.0B	-$192.4B	08:00
	NZ	BusinessNZ Manufacturing PMI - Feb	--	57.9	10:30
	NZ	Food Prices MoM - Feb	--	2.0%	10:45
	GE	CPI MoM - Feb F	0.4%	0.4%	20:00
	GE	CPI YoY - Feb F	0.0%	0.0%	20:00
	GE	CPI EU Harmonized MoM - Feb F	0.4%	0.4%	20:00
	GE	CPI EU Harmonized YoY - Feb F	-0.2%	-0.2%	20:00
	UK	Visible Trade Balance GBP/Mn - Jan	-£10300	-£9917	22:30
	UK	Trade Balance Non EU GBP/Mn - Jan	-£2650	-£2357	22:30
	UK	Trade Balance - Jan	-£3000	-£2709	22:30
	UK	Construction Output SA MoM - Jan	0.2%	1.5%	22:30
	UK	Construction Output SA YoY - Jan	-1.7%	0.5%	22:30
12-Mar	US	Import Price Index MoM - Feb	-0.8%	-1.1%	02:30
	US	Import Price Index YoY - Feb	-6.6%	-6.2%	02:30
	CH	Industrial Production YTD YoY - Feb	5.6%	6.1%	18:30
	CH	Retail Sales YTD YoY - Feb	10.9%	10.7%	18:30
	CH	Fixed Assets Ex Rural YTD YoY - Feb	9.4%	10.0%	18:30

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 reasonable at present. However, the outlook is darkening and with inflation already low, we now believe the RBNZ will cut the OCR twice more this year.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Tue 8 Mar (10:00am)	Economic Survey of Manufacturing – Q4	Solid	Primary volumes may contract. However, core manufacturing production should record some modest growth.
Tue 8 Mar (1:00pm)	ANZ Monthly Inflation Gauge – Feb	--	--
Wed 9 Mar (10:45am)	Electronic Card Transactions – Feb	Respectable	Lower petrol prices may weigh on the headline figure. However, a number of factors should keep spending growth respectable.
10-14 Mar	REINZ Housing Market Statistics – Feb	Regional divergence	A regional divergence story should be evident, with Auckland slowing but most other regional markets strengthening.
Thu 10 Mar (9:00am)	RBNZ *Monetary Policy Statement*	On hold (for now)	Risks to the outlook are clear and the RBNZ should provide a hat tip to these risks by opening the door further to future cuts. However, these cuts are unlikely to be part of its central scenario just yet.
Fri 11 Mar (10:30am)	BNZ-Business NZ PMI – Feb	Domestic support	Despite dairy challenges and global turmoil, the sector is benefiting from a strong domestic economy.
Fri 11 Mar (10:45am)	Food Price Index – Feb	Reversal	A partial reversal of January's lift is expected.
Mon 14 Mar (10:30am)	BNZ-Business NZ PSI – Feb	Holding firm	The index has eased off highs, perhaps due to softer housing market activity. But we are expecting it to hold up well.
Wed 16 Mar (early am)	GlobalDairyTrade Auction	Stabilisation at low levels	The fundamental backdrop is not conducive to a meaningful recovery in prices.
Wed 16 Mar (10:45am)	Balance of Payments – Q4	Holding	While a larger seasonally adjusted deficit is likely, the annual current account deficit should hold around 3.2% of GDP.
Thu 17 Mar (10:45am)	GDP – Q4	0.7% q/q	We have pencilled in growth of 0.7% q/q, supported by construction and services sector activity.
Fri 18 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Fri 18 Mar (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Mar	--	--
Mon 21 Mar (10:45am)	International Travel & Migration – Feb	Still strong	Current themes are expected to continue. It is hard to see much of a change until the domestic economic picture worsens.
Thu 24 Mar (10:45am)	Overseas Merchandise Trade – Feb	Deteriorating	Things have held up well recently, but we expect weaker export prices to dominant and result in a deteriorating trade picture overall.
Wed 30 Mar (10:45am)	Building Consents Issued – Feb	Recovery	Dwelling consent issuance fell sharply in January. But we see this as monthly volatility and are expecting a bounce.
Thu 31 Mar (1:00pm)	ANZ Business Outlook – Mar	--	--
Thu 31 Mar (3:00pm)	RBNZ Credit Aggregates – Feb	Peaked	Credit growth is running ahead of income growth, but we do believe a peak is now in place.
On balance		**Data watch**	**Reasonable momentum at present, but with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
GDP (% qoq)	0.9	**0.7**	**0.5**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.6**	**0.6**
GDP (% yoy)	2.3	**2.1**	**2.4**	**2.7**	**2.4**	**2.3**	**2.5**	**2.6**	**2.6**	**2.7**
CPI (% qoq)	0.3	-0.5	**0.0**	**0.4**	**0.4**	**0.0**	**0.6**	**0.4**	**0.7**	**0.3**
CPI (% yoy)	0.4	0.1	**0.3**	**0.2**	**0.3**	**0.8**	**1.4**	**1.4**	**1.7**	**1.9**
Employment (% qoq)	-0.5	0.9	**0.6**	**0.5**	**0.5**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	1.4	1.3	**1.2**	**1.6**	**2.6**	**2.1**	**1.9**	**1.8**	**1.7**	**1.7**
Unemployment Rate (% sa)	6.0	5.3	**5.8**	**5.7**	**5.6**	**5.4**	**5.3**	**5.3**	**5.2**	**5.1**
Current Account (% GDP)	-3.2	**-3.1**	**-3.4**	**-3.8**	**-4.7**	**-5.7**	**-6.4**	**-6.7**	**-6.6**	**-6.0**
Terms of Trade (% qoq)	-3.8	-2.0	**-4.1**	**-6.9**	**-6.0**	**-4.4**	**-0.1**	**2.9**	**4.8**	**3.9**
Terms of Trade (% yoy)	-3.6	-3.2	**-8.2**	**-15.8**	**-17.7**	**-19.7**	**-16.4**	**-7.6**	**3.1**	**12.0**

	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Retail ECT (% mom)	1.3	0.5	0.4	0.5	0.9	0.1	0.8	0.1	0.3	--
Retail ECT (% yoy)	3.2	5.0	5.6	4.2	6.1	5.8	4.6	6.6	5.2	--
Credit Card Billings (% mom)	1.8	0.3	1.7	1.5	-1.9	1.7	0.7	-0.8	2.3	--
Credit Card Billings (% yoy)	7.2	6.7	9.7	10.4	7.3	7.8	8.5	7.4	8.9	--
Car Registrations (% mom)	-0.4	5.2	0.5	-2.3	0.0	-1.3	-2.0	3.1	-2.9	5.7
Car Registrations (% yoy)	6.8	11.2	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	7.4
Building Consents (% mom)	1.3	-4.2	23.6	-8.1	-5.3	5.3	1.7	2.3	-8.2	--
Building Consents (% yoy)	6.9	-3.9	22.3	11.4	17.2	14.7	7.5	17.3	4.8	--
REINZ House Price Index (% yoy)	11.8	14.8	14.9	17.3	20.1	14.1	12.5	12.6	10.7	--
Household Lending Growth (% mom)	0.6	0.6	0.7	0.6	0.7	0.7	0.6	0.6	0.6	--
Household Lending Growth (% yoy)	5.5	5.6	6.0	6.3	6.7	7.0	7.2	7.4	7.5	--
ANZ Roy Morgan Consumer Conf.	123.9	119.9	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7
ANZ Business Confidence	15.7	-2.3	-15.3	-29.1	-18.9	10.5	14.6	23.0	--	7.1
ANZ Own Activity Outlook	32.6	23.6	19.0	12.2	16.7	23.7	32.0	34.4	--	25.5
Trade Balance ($m)	367	-182	-730	-1090	-1140	-905	-796	-38	8	--
Trade Bal ($m ann)	50976	51371	51643	52446	52287	52101	52648	52511	52772	--
ANZ World Commodity Price Index (% mom)	-4.8	-3.1	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	0.4
ANZ World Comm. Price Index (% yoy)	-18.0	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8
Net Migration (sa)	5120	4940	5740	5500	5590	6150	6230	5560	6130	--
Net Migration (ann)	57822	58259	59639	60290	61234	62477	63659	64930	65911	--
ANZ Heavy Traffic Index (% mom)	-1.0	1.8	-0.2	-0.2	1.8	1.0	0.3	2.8	-4.3	--
ANZ Light Traffic Index (% mom)	-0.7	0.9	-0.3	-0.5	2.7	-1.2	0.2	1.0	-1.4	--

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	Jan-16	Feb-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZD/USD	0.648	0.661	0.679	0.63	0.61	0.59	0.59	0.60	0.61	0.63
NZD/AUD	0.915	0.925	0.916	0.94	0.94	0.92	0.92	0.92	0.92	0.93
NZD/EUR	0.599	0.606	0.618	0.59	0.58	0.55	0.54	0.54	0.53	0.53
NZD/JPY	78.55	74.62	77.31	69.3	64.1	62.0	62.0	60.0	61.0	63.0
NZD/GBP	0.455	0.477	0.478	0.46	0.45	0.41	0.39	0.39	0.39	0.39
NZ$ TWI	70.5	71.0	73.2	68.8	67.0	64.2	63.7	63.7	64.1	64.9
INTEREST RATES	Jan-16	Feb-16	Today	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
NZ OCR	2.50	2.50	2.50	2.50	2.25	2.00	2.00	2.00	2.00	2.00
NZ 90 day bill	2.70	2.56	2.56	2.70	2.40	2.10	2.10	2.10	2.10	2.20
NZ 10-yr bond	3.22	2.97	3.06	3.70	3.80	3.80	3.80	3.90	3.90	3.90
US Fed funds	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.25	1.50	1.75
US 3-mth	0.61	0.63	0.63	0.83	1.08	1.33	1.40	1.50	1.65	1.85
AU Cash Rate	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.29	2.29	2.32	2.20	2.30	2.40	2.40	2.40	2.40	2.40

	4 Feb	29 Feb	1 Mar	2 Mar	3 Mar	4 Mar
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.66	2.56	2.56	2.58	2.58	2.57
NZGB 12/17	2.48	2.29	2.25	2.29	2.30	2.30
NZGB 03/19	2.57	2.39	2.35	2.39	2.40	2.40
NZGB 04/23	3.10	2.97	2.92	3.02	3.05	3.05
NZGB 04/27	3.44	3.28	3.23	3.33	3.36	3.36
2 year swap	2.60	2.43	2.41	2.44	2.44	2.45
5 year swap	2.77	2.55	2.52	2.58	2.58	2.60
RBNZ TWI	71.9	71.83	72.13	72.17	72.47	72.79
NZD/USD	0.6534	0.66	0.66	0.66	0.67	0.67
NZD/AUD	0.93	0.92	0.93	0.92	0.91	0.92
NZD/JPY	78.11	74.52	74.26	75.49	76.15	76.67
NZD/GBP	0.45	0.47	0.47	0.47	0.47	0.48
NZD/EUR	0.60	0.60	0.61	0.61	0.62	0.62
AUD/USD	0.70	0.71	0.71	0.72	0.73	0.74
EUR/USD	1.09	1.09	1.09	1.09	1.09	1.09
USD/JPY	119.54	113.39	112.40	113.90	113.88	113.62
GBP/USD	1.44	1.39	1.39	1.40	1.41	1.42
Oil (US$/bbl)	29.90	31.65	32.74	34.39	34.57	34.56
Gold (US$/oz)	1127.45	1224.23	1243.80	1227.85	1239.10	1261.20
Electricity (Haywards)	7.44	5.20	5.30	6.10	6.45	6.57
Baltic Dry Freight Index	298	329	332	335	342	349
Milk futures (USD)	33	36	36	36	36	38

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