

NEW ZEALAND ECONOMICS MARKET FOCUS

11 April 2016

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PATCHWORK QUILT

ECONOMIC OVERVIEW

While signs of economic moderation are emerging, it's not enough to surprise or concern. Both demand (dairy) and supply-side (capacity) influences are at play. But with inflation already low (notwithstanding ongoing evidence of pipeline pressures), moderating growth means the OCR is still going lower. And whether that occurs in April looks set to hinge on the Q1 CPI next week. The decision is **certainly "live" but at this stage we don't think there will be enough for the Bank to pull the trigger.** This week, REINZ figures are likely to show clear regional divergences but a frothy market in aggregate. They will also stand as a reminder that a lower OCR should not be taken for granted as inevitable. We still harbour concerns over the trade-offs with the RBNZ trying to get inflation up when households are re-leveraging and asset prices are surging.





INTEREST RATE STRATEGY

We remain bullish on the short-end, with an April cut "live" (hinging largely on CPI data next Monday) and market pricing still shy of our expectation for two more cuts. Markets are starting to reassess how much further central banks are willing to go and for how long highly accommodative settings will remain, and this is trumping fears of the Fed getting "behind the curve". Uncertainty has capped global yields and there is little on the immediately visible horizon to cause long-term yields to snap higher.

CURRENCY STRATEGY

Chinese March data and Q1 GDP should continue to improve, supporting risk currencies like NZD. However, US data strength should continue to ensure there is a cap for NZD/USD, despite the Fed's reluctance to 'normalise'. NZD/GBP is likely to extend its upwards trend as the "Brexit" campaign kicks off at the end of this week, and UK data shows signs of softness.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.5% y/y for 2016 Q4	While growth momentum looks reasonable now, tighter financial conditions suggest a more moderate backdrop over 2H 2016.	
Unemployment rate	5.5% for 2016 Q4	The demand for labour has recovered, and labour supply is cooling from strong rates. Wage inflation is contained.	
OCR	1.75% by Dec 2016	A further 50bps of cuts this year. Growth is set to moderate, credit conditions have deteriorated, and global risks abound.	
CPI	1.0% 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

While signs of economic moderation are emerging, it's not enough to surprise or concern. Both demand (dairy) and supply-side (capacity) influences are at play. But with inflation already low (notwithstanding ongoing evidence of pipeline pressures), moderating growth means the OCR is still going lower. And whether that occurs in April looks set to hinge on the Q1 CPI next week. The decision is certainly "live" but at this stage we don't think there will be enough for the Bank to pull the trigger. This week, REINZ figures are likely to show clear regional divergences but a frothy market in aggregate. They will also stand as a reminder that a lower OCR should not be taken for granted as inevitable. We still harbour concerns over the trade-offs with the RBNZ trying to get inflation up when households are re-leveraging and asset prices are surging.

FORTHCOMING EVENTS

REINZ Housing Market statistics – March

(sometime this week). The Auckland market has cooled and should be capped by affordability considerations. Regional markets are booming.

Food Price Index – March (10:45am, Wednesday, 13 April). A modest fall is likely as prices continue to unwind the sharp increase seen in January.

BNZ-Business NZ Manufacturing PMI – March

(10:30am, Thursday, 14 April). Outside of monthly volatility, sentiment should have held up okay, with support from a solid domestic economy evident.

CPI – Q1 (10:45am, Monday, 18 April). Petrol price falls should act as a large drag on the headline result. At this stage our forecast for headline inflation is 0.2% q/q (0.5% y/y), although we will look to finalise this after food prices.

WHAT'S THE VIEW?

We're detecting more signs of a moderation in domestic growth.

- The latest QSBO for Q1 showed a meaningful fall in firms' net optimism regarding their own domestic trading conditions.
- Our own business confidence survey (particularly key components such as firms' own activity) is also down from levels late last year.
- Our internal anecdotes have become a little more mixed, with the likes of some service sector firms noting a few more issues with cash flow and debtor collection in some pockets.
- Contemporaneous indicators like our Truckometer are pointing to a more modest Q1 GDP growth outturn than was seen over H2 2015.

However, we're not concerned by this moderation.

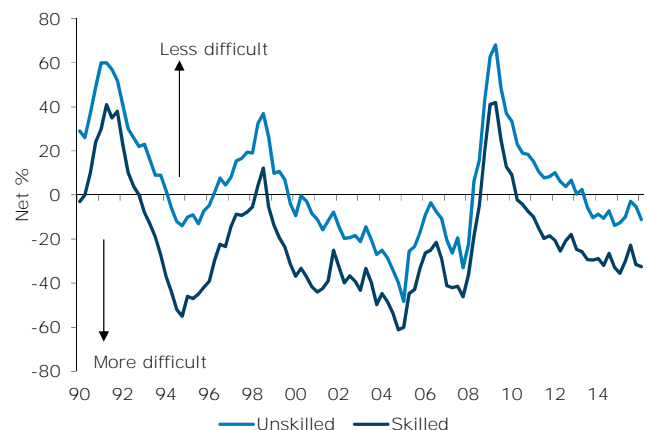
It's far from one-way traffic across the dataflow.

Government tax revenue is running ahead of forecasts. Building consents continue to trend higher. And housing markets continue to strengthen, with even tentative signs that the Auckland market is getting a second (or some may argue a third or fourth!) wind. The domestic economic picture is simply less picture perfect; that's a far cry from saying it is poor. We're talking about a 'margin of excellence' downgrade.

We also put some of the moderation down to more signs that capacity is being stretched.

The economy cannot indefinitely grow at a pace in excess of 3% as it did over the second half of last year. Natural hand-brake influences will kick in and some are already evident, with capacity utilisation elevated and it more difficult to find staff. The anecdotes on the ground tell the same story, particularly with regards to getting staff. It is notable that capacity pressures look to be most prominent in the likes of construction and tourism, two sectors that have clearly been contributing to the economic expansion. Cost-push forces are not completely dead, although passing on such pressures (i.e. margin expansion) will no doubt prove difficult in a world where most of the power resides with the consumer.

FIGURE 1. DIFFICULTY FINDING LABOUR



Source: ANZ, NZIER

That said, there are no doubt softer demand-side themes too. With one of the economy's largest industries (dairy) facing considerable pressure – strains are intensifying by the day – and financial conditions tighter than six months ago (while still supportive overall), some softening in growth performance was always on the cards.

A moderation and patchiness theme is something we expect to become more of a feature over 2016.

Our forecasts have annualised GDP growth easing from a rate in excess of 3%, to perhaps closer to 2½% by

ECONOMIC OVERVIEW

the end of the year. That is hardly bearish. But it does mean that with inflation already low, the OCR is biased lower still.

The inflation backdrop is a convoluted one though. The evidence of capacity pressure and margin squeeze within the OSBO (and the economy more generally, to be fair) points to pipeline inflation pressure. That needs to be watched. But it is hardly a new theme. For some time, many traditional drivers of inflation have been implying a lift in inflation that just hasn't eventuated. A similar message is coming out of our Monthly Inflation Gauge, which continues to show decent price increases in the housing group (and one or two other pockets), but little happening in general. **It is still an inflation backdrop that remains benign overall.**

So the question is, if the RBNZ is going to be easing again, will it go in April? Global financial markets are again showing a few wobbles of late (currency market volatility has spiked and equity markets have been worried about global growth again – although sentiment was better on Friday night. The NZD remains stubbornly elevated, and domestic growth has moderated recently. These factors mean the April decision is “live”.

A lot will likely hinge on the Q1 CPI figures. Forget about the forward-looking rhetoric central banks love to spout; when you have low inflation, there is not a lot of wriggle room if you get a downside error. This is particularly when, as noted by Deputy Governor Bascand last week, “wage inflation expectations bear a closer relationship to past inflation outcomes than previously thought”, and that low inflation therefore risks becoming embedded in low wage settlements.

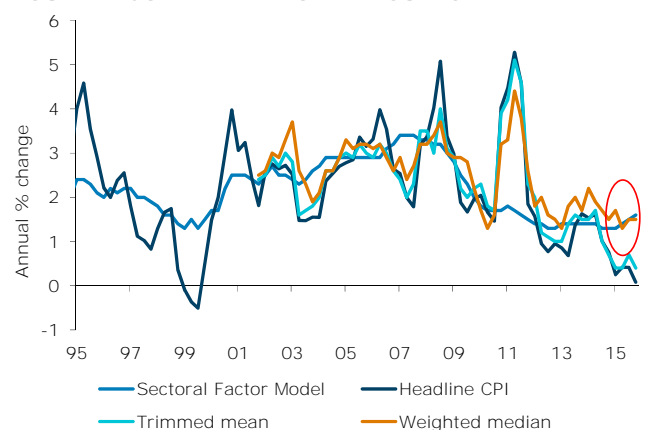
Our full preview for the CPI will be out later this week following the March food price data, but we expect it to deliver some real liquorice all-sort results:

- A headline consistent with the RBNZ's March *MPS* estimate. Our current pick for headline inflation is 0.2% q/q (0.5% y/y).
- Various core inflation measures (trimmed mean, weighted median, inflation ex food and energy) remaining near, or even below in some instances, the bottom of the RBNZ's target band.
- A lift in quarterly non-tradable inflation, but largely due to seasonal influences. Our Monthly Inflation Gauge is pointing to a 1.0% q/q result, which is actually a smaller increase than typically seen for this time of year. In annual terms, non-tradable inflation looks set to fall to 1.4% – the lowest since 1999.

- The possibility of a further marginal lift in the RBNZ's sectoral factor model estimate of core inflation from the 1.6% print in Q4. If so, it would be the fourth consecutive quarterly increase on this measure, which we believe more accurately captures pressures on core inflation than other estimates.

All up, there is likely to be enough to leave the prospects of an April cut “live”, but not enough to see the RBNZ actually pull the trigger. However, nothing would surprise after the March *MPS*!

FIGURE 2. CORE INFLATION MEASURES



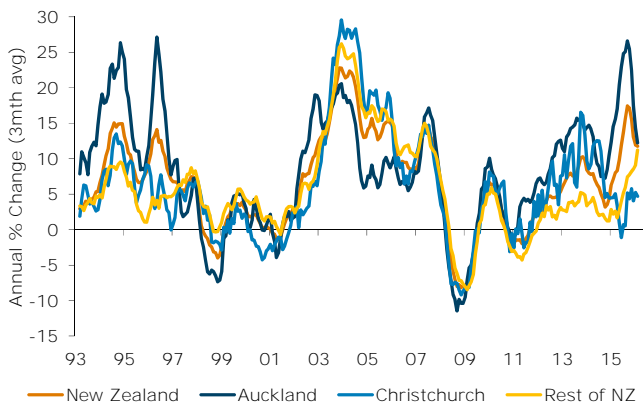
Source: ANZ, Statistics NZ, RBNZ

Beyond the CPI data, other data this week includes REINZ housing market figures for March, which will no doubt highlight large regional divergences. Whereas previously this regional divergence was about Auckland housing outperforming the rest of the country, the reverse is now clear (perhaps outside of Christchurch). A number of factors have conspired to slow the Auckland market (affordability constraints, LVR policy changes, weaker foreign investor demand etc) but deliver a boost to the regions (particularly with mortgage rates still falling).

That said, our internal anecdotes hint that the Auckland market may actually be getting somewhat of a second wind after some weaker outcomes late last year (QV highlighted this too last week). However, Barfoot & Thompson figures suggest that the market is broadly tracking sideways at present and we suspect the REINZ figures will show a similar theme. Regional centres, on the other hand (particularly Hamilton, Tauranga, Wellington and Queenstown), are outright booming, and this week's data will no doubt show that that has continued unabated.

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FIGURE 3. REGIONAL HOUSE PRICES



Source: ANZ, REINZ

The Business NZ manufacturing PMI will be watched to see if it continues to hold at a decent level overall or if it joins a few other indicators in softening a touch. The PMI did dip modestly in February, falling 2 points. However, at 56.0, it is still sitting a solid level overall and remains above its historical average. It also speaks of a domestic manufacturing sector that is outperforming many of its international peers. Within our *Business Outlook* survey, headline manufacturing sector confidence did drop sharply in March (and back into negative territory). However, expectations for firms' own activity only fell modestly and profit and employment expectations actually rose slightly, so there is still a degree of optimism in the sector overall.

LOCAL DATA

NZIER Quarterly Survey of Business Opinion – Q1. Headline confidence fell from +13 to -1 (seasonally adjusted). Although firms' past domestic trading conditions held at a respectable +18, expectations fell from +20 to +6. Capacity utilisation was unchanged at an elevated 93.2%.

ANZ Commodity Price Index – Mar. The World Price Index fell 1.3%, led by dairy. Non-dairy export prices rose 0.7% m/m.

GlobalDairyTrade Auction. The GDT-TWI rose 2.5% to USD2,188. Prices for WMP rose 1.5%.

QV House Prices – Mar. Nationwide prices rose 0.2% q/q, to be 11.4% higher than a year ago.

ANZ Truckometer – Mar. The Heavy Traffic Index rose 2.5% m/m, while the Light Traffic Index lifted 0.8% m/m.

Government Financial Statements – Feb. An OBEGAL surplus of \$398m was recorded – \$730m ahead of HYEPU forecasts.

ANZ Monthly Inflation Gauge – Mar. The Gauge rose 0.2% and 1.0% for the March quarter as a whole.

Electronic Card Transactions – Mar. Total retail spending rose 0.1% m/m, while core retail spending rose 0.2% m/m.

INTEREST RATE STRATEGY

SUMMARY

We remain bullish on the short-end, with an April cut “live” (hinging largely on CPI data next Monday) and market pricing still shy of our expectation for two more cuts. Markets are starting to reassess how much further central banks are willing to go and for how long highly accommodative settings will remain, and this is trumping fears of the Fed getting “behind the curve”. Uncertainty has capped global yields and there is little on the immediately visible horizon to cause long-term yields to snap higher.

THEMES

- Low inflation has kept the prospect of further near-term OCR cuts as “live”, and next week’s CPI print will be pivotal. We expect the next cut in June, but the obvious risk profile is towards an earlier move.
- Local rates are hovering around record lows, but there is scope for the short-end and the belly of the curve to rally further given our OCR view (a further 50bps of cuts by the end of the year), NZD, dairy developments and increasing convergence with (lower) global rates.
- Markets reassess limits on what central banks are likely to do, particularly given the BoJ’s recent unease over the high yen and the ECB’s discomfort with low inflation. Fed minutes suggest slow and drawn-out normalisation, but highlight contrary views from FOMC members, which could contribute to additional volatility in the months ahead.
- Curves are biased to eventually steepen, but in the near term we expect long-end rates to hold steady and for the curve to remain flat as the pivotal US market gravitates to a “lower for longer” Fed view.

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.

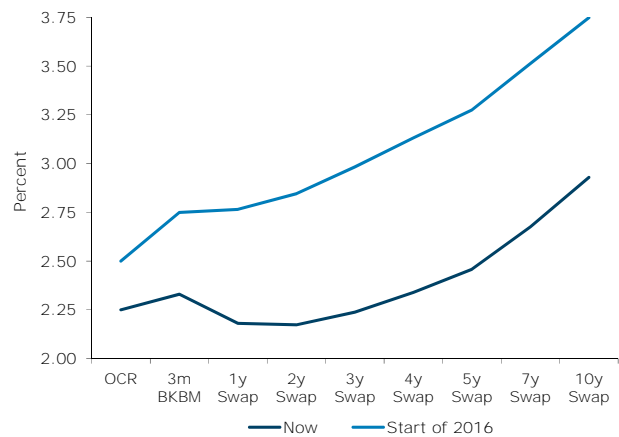
INFLATION (OR LACK THEREOF) THE KEY

The ‘low for longer’ rates view has progressively filtered through to local markets. Yields are parked around historic lows, with swap rates out to the two-year tenor below the OCR and 10-year yields sub 3%, a fall of 40-80bps across the curve since the start of the year (see Figure 1). A low inflation starting point, the elevated TWI, jittery global scene and signs that growth momentum is slowing – forward-looking

aspects of last week’s OSBO were softer – keeps the bias to further OCR cuts. With headline inflation playing a greater role in RBNZ deliberations, a soft CPI print would likely be sufficient to tip the balance towards an April OCR cut from current expectations that sit at around 50:50. While we have seen past episodes when the market has gone into a meeting with 50:50 odds priced in, a more stable equilibrium resides at either 2:1 in favour or at 2:1 against, and we don’t think it’d take much to see the market push it either way. However, given where the bias sits, TWI strength, and persistent downside CPI prints (six of the last eight CPI prints have come in below market expectations); we’re on notice for a potential move lower.

We expect the next OCR cut to be in June but acknowledge the risk profile is tilted towards an earlier move. With our rate forecasts and strategic bias suggesting that the market has some catching up to do, the belly of the rates curve still looks to be reasonably “cheap” and there looks to be value to be had in investing in the two to three year tenor. From a relative value perspective, we see better value in higher-yielding and higher “roll+carry” trades like 2yr/1yr and 2yr/2yr (as opposed to the bellwether 1yr/1yr).

FIGURE 1: NZD SWAP CURVE



Source: ANZ, Bloomberg

The last week has caused markets to reassess whether central banks have exhausted all policy options and if not, whether the push down in global yields could be extended. Despite risks to financial stability and credit creation, the focus of central banks remains on providing sufficient policy support so as to avoid a damaging period of prolonged deflation:

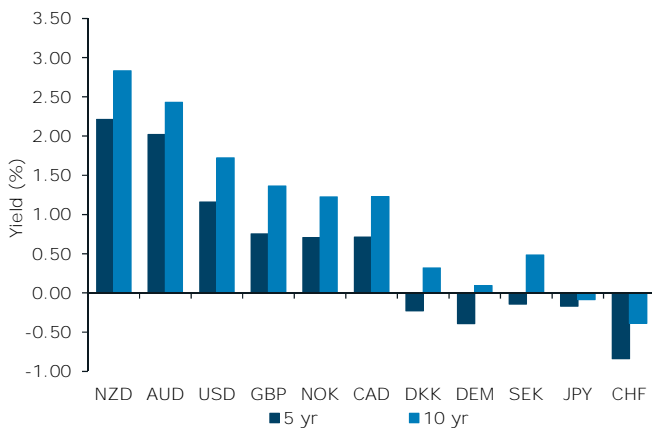
- The March ECB minutes indicated that the Governing Council still saw scope for further rate cuts. Draghi said the ECB will do “whatever is needed to comply with its mandate” and to lift very low inflation;

INTEREST RATE STRATEGY

- Japanese policymaker frustration with a yen at 17-month highs has kept the possibility of further policy action alive;
- While the IMF has come out in tentative support of negative policy rate policy for some central banks, it warned of unintended consequences (asset price booms & busts) and cautioned there were limits to what policy can do;
- The minutes of the March meeting underlined the diversity of opinion on the FOMC and pointed to a lack of consensus on the timing of rate rises and the durability of the uptick in inflation. The asymmetric impacts of normalising too soon (rather than falling behind the curve) were also noted given the lack of policy ammunition. Yellen emphasised the gradualist message but also stressed the message that 2% inflation was their goal and not a ceiling;
- The tweak of the RBA April statement – which tied the cash rate on information pertaining to the inflation outlook – suggests downward surprises were more likely to result in a lower cash rate.

Our forecasts of 50bps of OCR cuts by the end of the year versus an unchanged RBA cash rate outlook imply there is scope for local rates to converge on their Australian equivalents. The bias is also for some narrowing in longer-term yields relative to global equivalents given the current RBNZ easing bias, and allure provided by our relatively high yields (see Figure 2). US 10-year Treasury yields at 1.72% are hovering around 8-week lows. German and Japanese 10-year yields are 10bps either side of zero, and look to be lacking a catalyst for them to snap higher. **Ultimately, the trajectory of longer-term local rates will depend on the direction of global counterparts.** Our bias is for curves to eventually steepen, but in the near term we expect long-end rates to hold steady and for the curve to remain flat as the pivotal US market gravitates to a 'lower for longer' Fed view.

FIGURE 2: G10 BOND YIELDS



Source: ANZ, Bloomberg

PREFERRED STRATEGIES – BORROWERS

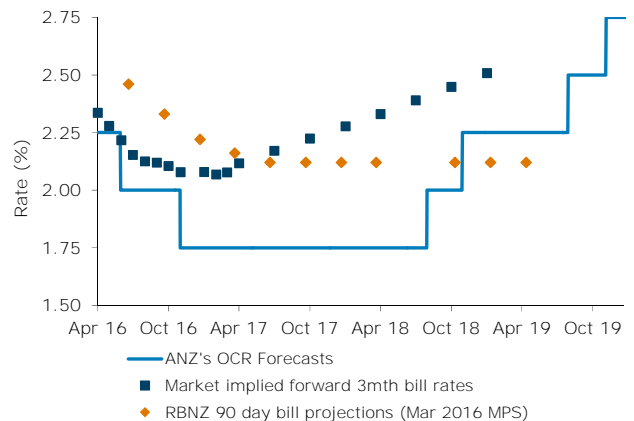
With local swap rates sitting around record lows, it has never been cheaper to fix. However, rates could move lower still. Despite their recent narrowing, tighter global liquidity conditions suggest that credit spreads will remain volatile and subject to episodic widening pressures. If wider credit spreads lead to more RBNZ easing and lower swap rates, swap hedges designed to protect against rising rates will become ineffectual. This, and the volatile trading environment, **has us biased towards favouring an option-based strategy when it comes to new hedging.** Short-term rates are also cheap, but could move lower still if markets gravitate further to our view of a further 50bps of OCR cuts and no OCR hikes until 2018. This makes the decision to take on more expensive term hedging more difficult.

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

About 11bps of easing is priced in by April, 24bps by June, 34bps by August, and slightly more than 40bps of cuts by the end of the year.¹ This is moving closer to our core view, but there is scope for further rallies in the two to three year tenors.

FIGURE 3: ANZ OCR FORECAST VS MARKET-IMPLIED FWD 3MTH BILL RATES AND RBNZ 90-DAY PROJECTION



Source: ANZ, Bloomberg

¹ From July, a new schedule for OCR decisions will be introduced, with an MPS and associated OCR announcement in February, May, August and November, and three intervening OCR Reviews (in March, June and September).



CURRENCY STRATEGY

SUMMARY

Chinese March data and Q1 GDP should continue to improve, supporting risk currencies like NZD. However, US data strength should continue to ensure there is a cap for NZD/USD, despite the Fed's reluctance to 'normalise'. NZD/GBP is likely to extend its upwards trend as the "Brexit" campaign kicks off at the end of this week, and UK data shows signs of softness.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Awaiting catalysts	Profile still lower
NZD/AUD	↔	Pivotal test coming	Remain above long-run averages
NZD/EUR	↔/↑	Still in range	Political risks for EUR
NZD/GBP	↔/↑	Brexit driving higher	GBP resurgence
NZD/JPY	↓↑	Down unless BoJ act	JPY returning to averages

THEMES AND RISKS

- US data is expected to support gradual US rate normalisation. However, Fed reluctance means the USD impact is likely to be minimal.
- Chinese data should show an improvement, reducing global risks and supporting NZD.
- Currency markets will continue to look to JPY price action for guidance on the likely reaction function to future global monetary policy action.
- Politics will continue to drive currencies, as the official campaign period for the "Brexit" referendum kicks off later this week.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT		WHEN (NZDT)	IMPACT RISK
CNY	CPI	Mon 13:30	NZD/CNY ↑
AUD	NAB Business Conf.	Tue 13:30	NZD/AUD ↓
GBP	CPI, PPI, RPI	Tue 20:30	NZD/GBP ↓
USD	Small B/C	Tue 22:00	NZD/USD ↓
NZD	Food prices	Wed 10:45	NZD ↔
CNY	Trade Balance	Wed pm	NZD/CNY ↑
GBP	BoE CC & BL surveys	Wed 20:30	NZD/GBP ↓
EUR	Industrial production	Wed 21:00	NZD/EUR ↑
USD	Retail sales	Thu 00:30	NZD/USD ↓
CAD	BoC	Thu 02:00	NZD/CAD ↑
USD	Fed Beige Book	Thu 06:00	NZD/USD ↓
NZD	Business PMI	Thu 10:30	NZD/USD ↔/↓
AUD	Employment	Thu 13:30	NZD/AUD ↓
EUR	EU CPI (final)	Thu 21:00	NZD/EUR ↓
GBP	BoE	Thu 23:00	NZD/GBP ↔/↓
USD	March CPI	Fri 00:30	NZD/USD ↔/↓
AUD	RBA FSR	Fri 13:30	NZD/AUD ↓
CNY	Q1 GDP, March data	Fri 14:00	NZD/CNY ↑
GBP	Brexit campaign	Fri pm	NZD/GBP ↑↑
USD	Empire, IP, M-Conf.	Fri 1-2am	NZD/USD ↓
NZD	Q1 CPI	Mon 10:45	NZD ↓

EXPORTERS' STRATEGY

Mid 0.66's on NZD/USD now look attractive for those with short-term requirements.

IMPORTERS' STRATEGY

Importers should consider hedging, as levels over 0.69 NZD/USD look attractive from a medium-term perspective.

DATA PULSE

NZD eased off last week's highs. But the data remained firm. The GDT showed a price lift, non-dairy prices within the ANZ Commodity Price Index rose, and the ANZ Truckometer lifted. However, the outlook components of the Q1 QSBO softened and the ANZ inflation gauge had soft undertones.

The AUD eased last week. Retail sales were flat, the PSI and weekly consumer confidence dipped and the trade deficit widened. However, the RBA meeting showed few signs of an imminent bias to ease.

GBP continued to soften as markets focused on 'Brexit' risks. The data showed lifts in the PMIs, but soft industrial and manufacturing production.

JPY strengthened all week as markets challenged the assumptions behind BoJ monetary policy and Abenomics.

The EUR remained strong challenging resistance on the back of JPY strength. This is despite the ECB account of monetary policy indicating further action and negative surprises from service PMIs.

USD fell as markets focused on Fed reluctance, despite US data supporting 'normalisation', and USD.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↔	Risks well priced.
Commodities	↓	Milk still a risk.
Data	↔/↓	NZ data tenor to soften.
Techs	↔/↓	0.91 is a key pivot level.
Sentiment	↔	Equal reactions to sentiment
Other	↔/↑	NZD has higher beta.
On balance	↔	Near pivot.

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↔	Yield changes well priced.
Commodities	↔/↓	Still risks to the downside.
Risk aversion	↔/↑	Resilience to risk notable.
Data	↓	US data is trending well, while we see a softening tone in NZ
Techs	↔/↑	The break higher has not yet been negated.
Other	↔/↓	Global sentiment improving, which releases the Fed.
On balance	↔/↓	Factors point lower, but near term catalysts missing.

CURRENCY STRATEGY

TECHNICAL OUTLOOK

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



NZD/USD has returned from a false break, but the uptrend has not yet been negated. To negate potential for the uptrend, NZD/USD still needs to break below supports near 0.67, preferably testing 0.66. If that occurs, we expect the support in the mid 0.65's to remain strong.

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



The zone between 0.9050 and 0.91 remains the key pivot for NZD/AUD. We take a step back to show just how pivotal this area is (circled). There is a large head and shoulders and a break back through this level would negate imminent prospects for a test lower in NZD/AUD. While it is under this point, prospects are for a move lower.

TABLE 5: KEY TECHNICAL ZONES

CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6680 – 0.6680 0.6550 – 0.6580	0.6940 – 0.6960 0.7160 – 0.7200
NZD/AUD	0.8820 – 0.8840 0.8700 – 0.8740	0.9050 – 0.9100 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	69.80 – 70.20	78.70 – 79.50

POSITIONING

Markets continue to reduce positioning generally, with the exception being AUD, which saw 11.7k contracts added by leveraged accounts. EUR shorts, JPY longs, and GBP shorts were all reduced. NZD (small long) positioning remains unchanged.

GLOBAL VIEWS

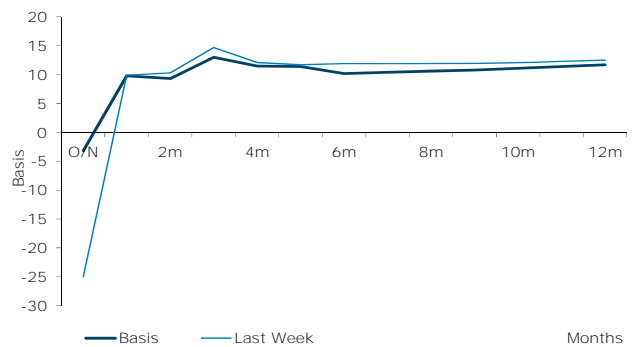
How close to the lower bound are central banks? Markets are posing that question regarding the central bank that started it all, the BoJ. The worry is that if central banks are near their limits, prospects for growth and asset values are also undermined.

If one of the key targeted benefits of overly easy policy (a weaker currency to boost the tradable sector) fails to manifest, then the negative impacts (distorted pricing signals for asset markets) become more of a worry. The movement in the yen (JPY strength) in the past few weeks has certainly gone against the grain of what the BoJ was seeking.

If markets are close to calling time on 'currency wars', then this could help to alleviate some upward pressure on the NZ TWI as JPY, EUR and GBP (post Brexit vote) appreciate.

FORWARDS: CARRY AND BASIS

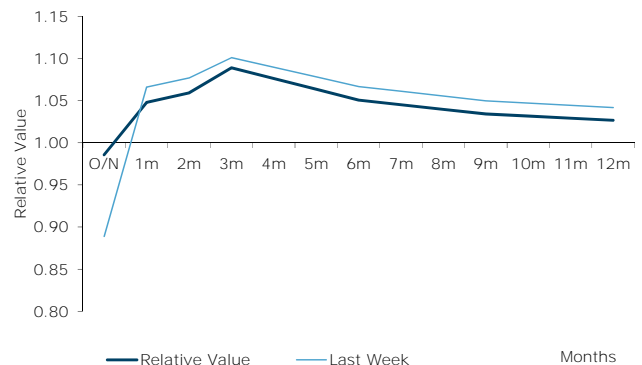
FIGURE 3. NZD/USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

The NZ basis market has seen O/N – cash demand returning to relative balance. With spot behaving this implies that markets are relatively neutral on NZD position-wise at present. With the RBNZ April meeting priced at 44% of a cut and the June Fed meeting only priced at 16% of a hike it offers good value to s/b on both views, and this looks set to continue this week. Those with B/S exposure may see better levels to cover later, or roll as short as possible.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
11-Apr	AU	Home Loans MoM - Feb	2.0%	-3.9%	13:30
	AU	Investment Lending - Feb	--	-1.6%	13:30
	AU	Owner-Occupier Loan Value MoM - Feb	--	-4.3%	13:30
	CH	CPI YoY - Mar	2.4%	2.3%	13:30
	CH	PPI YoY - Mar	-4.6%	-4.9%	13:30
	NZ	REINZ House Sales YoY - Mar	--	5.7%	11-13 Apr
	CH	New Yuan Loans CNY - Mar	1100.0B	726.6B	11-15 Apr
	CH	Aggregate Financing CNY - Mar	1400.0B	780.2B	11-15 Apr
	CH	Money Supply M0 YoY - Mar	4.3%	-4.8%	11-15 Apr
	CH	Money Supply M1 YoY - Mar	18.4%	17.4%	11-15 Apr
	CH	Money Supply M2 YoY - Mar	13.5%	13.3%	11-15 Apr
12-Apr	AU	ANZ-RM Consumer Confidence Index - 10-Apr	--	113.4	11:30
	AU	Credit Card Balances - Feb	--	A\$50.9B	13:30
	AU	Credit Card Purchases - Feb	--	A\$21.9B	13:30
	AU	NAB Business Conditions - Mar	--	8	13:30
	AU	NAB Business Confidence - Mar	--	3	13:30
	GE	Wholesale Price Index MoM - Mar	--	-0.5%	18:00
	GE	Wholesale Price Index YoY - Mar	--	-1.9%	18:00
	GE	CPI MoM - Mar F	0.8%	0.8%	18:00
	GE	CPI YoY - Mar F	0.3%	0.3%	18:00
	GE	CPI EU Harmonized MoM - Mar F	0.8%	0.8%	18:00
	GE	CPI EU Harmonized YoY - Mar F	0.1%	0.1%	18:00
	UK	CPI MoM - Mar	0.3%	0.2%	20:30
	UK	CPI YoY - Mar	0.4%	0.3%	20:30
	UK	CPI Core YoY - Mar	1.3%	1.2%	20:30
	UK	RPI MoM - Mar	0.3%	0.5%	20:30
	UK	RPI YoY - Mar	1.4%	1.3%	20:30
	UK	PPI Input NSA MoM - Mar	2.3%	0.1%	20:30
	UK	PPI Input NSA YoY - Mar	-6.2%	-8.1%	20:30
	UK	PPI Output NSA MoM - Mar	0.2%	0.1%	20:30
	UK	PPI Output NSA YoY - Mar	-1.0%	-1.1%	20:30
	UK	PPI Output Core NSA MoM - Mar	0.1%	0.2%	20:30
	UK	PPI Output Core NSA YoY - Mar	0.3%	0.2%	20:30
	UK	ONS House Price YoY - Feb	--	7.9%	20:30
	US	NFIB Small Business Optimism - Mar	93.7	92.9	22:00
13-Apr	US	Import Price Index MoM - Mar	1.0%	-0.3%	00:30
	US	Import Price Index YoY - Mar	-4.6%	-6.1%	00:30
	US	Monthly Budget Statement - Mar	-\$104.0B	-\$52.9B	06:00
	NZ	Food Prices MoM - Mar	--	-0.6%	10:45
	AU	Westpac Consumer Conf Index - Apr	--	99.1	12:30
	AU	Westpac Consumer Conf SA MoM - Apr	--	-2.2%	12:30
	EC	Industrial Production SA MoM - Feb	-0.7%	2.1%	21:00
	EC	Industrial Production WDA YoY - Feb	1.3%	2.8%	21:00
	US	MBA Mortgage Applications - 8-Apr	--	2.7%	23:00
	CH	Trade Balance - Mar	\$34.95B	\$32.59B	UNSPECIFIED
	CH	Exports YoY - Mar	10.0%	-25.4%	UNSPECIFIED
	CH	Imports YoY - Mar	-10.1%	-13.8%	UNSPECIFIED
14-Apr	US	Retail Sales Advance MoM - Mar	0.1%	-0.1%	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
14-Apr	US	Retail Sales Ex Auto MoM - Mar	0.4%	-0.1%	00:30
	US	Retail Sales Ex Auto and Gas - Mar	0.3%	0.3%	00:30
	US	Retail Sales Control Group - Mar	0.4%	0.0%	00:30
	US	PPI Final Demand MoM - Mar	0.3%	-0.2%	00:30
	US	PPI Final Demand YoY - Mar	0.3%	0.0%	00:30
	US	PPI Ex Food and Energy MoM - Mar	0.1%	0.0%	00:30
	US	PPI Ex Food and Energy YoY - Mar	1.3%	1.2%	00:30
	US	PPI Ex Food, Energy, Trade MoM - Mar	0.2%	0.1%	00:30
	US	Business Inventories - Feb	-0.1%	0.1%	02:00
	US	US Federal Reserve releases Beige Book	--	--	06:00
	NZ	BusinessNZ Manufacturing PMI - Mar	--	56.0	10:30
	UK	RICS House Price Balance - Mar	50%	50%	11:01
	AU	Consumer Inflation Expectation - Apr	--	3.4%	13:00
	AU	Employment Change - Mar	18.5k	0.3k	13:30
	AU	Unemployment Rate - Mar	5.9%	5.8%	13:30
	AU	Full Time Employment Change - Mar	--	15.9k	13:30
	AU	Part Time Employment Change - Mar	--	-15.6k	13:30
	AU	Participation Rate - Mar	65.0%	64.9%	13:30
	NZ	Non Resident Bond Holdings - Mar	--	68.3%	15:00
	EC	CPI MoM - Mar	1.2%	0.2%	21:00
	EC	CPI YoY - Mar F	-0.1%	-0.2%	21:00
	EC	CPI Core YoY - Mar F	1.0%	1.0%	21:00
	UK	Bank of England Bank Rate - Apr	0.50%	0.50%	23:00
	UK	BoE Asset Purchase Target - Apr	£375B	£375B	23:00
15-Apr	US	Initial Jobless Claims - 9-Apr	270k	267k	00:30
	US	Continuing Claims - 2-Apr	2183k	2191k	00:30
	US	CPI MoM - Mar	0.2%	-0.2%	00:30
	US	CPI Ex Food and Energy MoM - Mar	0.2%	0.3%	00:30
	US	CPI YoY - Mar	1.1%	1.0%	00:30
	US	CPI Ex Food and Energy YoY - Mar	2.3%	2.3%	00:30
	CH	Industrial Production YTD YoY - Mar	5.5%	5.4%	14:00
	CH	Industrial Production YoY - Mar	6.0%	--	14:00
	CH	Retail Sales YoY - Mar	10.4%	--	14:00
	CH	Retail Sales YTD YoY - Mar	10.2%	10.2%	14:00
	CH	GDP YTD YoY - Q1	6.7%	6.9%	14:00
	CH	GDP SA QoQ - Q1	1.5%	1.6%	14:00
	CH	GDP YoY - Q1	6.7%	6.8%	14:00
	UK	Construction Output SA MoM - Feb	0.0%	-0.2%	20:30
	UK	Construction Output SA YoY - Feb	0.7%	-0.8%	20:30
	EC	Trade Balance SA - Feb	€21.5B	€21.2B	21:00
	EC	Trade Balance NSA - Feb	--	€6.2B	21:00
16-Apr	US	Empire Manufacturing - Apr	2.00	0.62	00:30
	US	Industrial Production MoM - Mar	-0.1%	-0.5%	01:15
	US	Capacity Utilization - Mar	75.3%	75.4%	01:15
	US	U. of Mich. Sentiment - Apr P	92.0	91.0	02:00
	US	Total Net TIC Flows - Feb	--	\$118.4B	08:00
	US	Net Long-term TIC Flows - Feb	--	-\$12.0B	08:00

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All \$ values in local currency.

Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Domestic economic momentum is reasonable, albeit moderating, at present. However, downside risks exist (mainly from offshore) and with inflation already low, we believe the RBNZ will cut the OCR twice more this year.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
11-15 Apr	REINZ Housing Statistics – Mar	Regional mix	The Auckland market has cooled and should be capped by affordability considerations. Regional markets are booming.
Wed 13 Apr (10:45am)	Food Prices – Mar	Drop	A modest fall is likely as prices continue to unwind the sharp increase seen in January.
Thu 14 Apr (10:30am)	BNZ-Business NZ Manufacturing PMI – Mar	Holding up	Outside of monthly volatility, sentiment should have held up okay, with support from a solid domestic economy evident.
Mon 18 Apr (10:45am)	CPI – Q1	Soft	Petrol price falls act as a large drag on the headline result, which we expect to lift by a modest 0.2% q/q (0.5% y/y).
Tue 19 Apr (10:30am)	BNZ-Business NZ PSI – Mar	Holding up	Services sectors have generally been leading the expansion.
Wed 20 Apr (early am)	GlobalDairyTrade Auction	Bouncing along the bottom	The fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Thu 21 Apr (10:00am)	ANZ Job Advertising – Mar	--	--
Thu 21 Apr (10:45am)	International Travel & Migration – Mar	Near a peak?	While it is possible that net inflows peak around current record levels, it is hard to see a turn lower without the domestic economy deteriorating.
Thu 21 Apr (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Apr	--	--
Wed 27 Apr (10:45am)	Overseas Merchandise Trade – Mar	Seasonal high	March is the seasonal high point for the trade balance. Once the oil price impact wanes, a deteriorating trend should return.
Thu 28 Apr (9:00am)	RBNZ OCR Review	On hold	A cut can't be ruled out (Q1 CPI will be key), but at this stage we see the RBNZ pausing, but retaining a clear easing bias.
Fri 29 Apr (10:45am)	Building Consents Issued – Mar	Upward trend	Regional dichotomies are clear. But we expect a modestly positive nationwide trend to remain.
Fri 29 Apr (1:00pm)	ANZ Business Outlook – Apr	--	--
Fri 29 Apr (3:00pm)	RBNZ Credit Aggregates – Mar	Re-leveraging	Credit growth is running well ahead of incomes. This type of behaviour can only be a temporary phenomenon.
Wed 4 May (10:45am)	Labour Market Statistics – Q1	Solid, but unemployment recoil	The tone of the data should be reasonable overall, although the unemployment rate should bounce after Q3's sharp fall.
Wed 4 May (12:00pm)	QV House Prices - Apr	Regional mix	The Auckland market has cooled and should be capped by affordability considerations. Regional markets are booming.
Wed 4 May (1:00pm)	ANZ Commodity Price Index – Apr	--	--
Tue 10 May (10:00am)	ANZ Truckometer – Apr	--	--
Tue 10 May (10:45am)	Electronic Card Transactions - Apr	Holding up	Strong population growth, lower interest rates, improving labour market and low petrol prices are supporting spending.
On balance		Data watch	Reasonable momentum at present, but with risks. Inflation remains low.

KEY FORECASTS AND RATES

	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
GDP (% qoq)	0.9	0.7	0.7	0.6	0.6	0.6	0.7	0.7	0.7	0.7
GDP (% yoy)	2.3	2.8	3.1	2.8	2.5	2.4	2.4	2.5	2.6	2.7
CPI (% qoq)	-0.5	0.2	0.3	0.4	0.0	0.6	0.4	0.7	0.3	0.6
CPI (% yoy)	0.1	0.5	0.4	0.5	1.0	1.3	1.4	1.7	1.9	1.9
Employment (% qoq)	0.9	0.6	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Employment (% yoy)	1.4	1.3	1.6	2.6	2.0	1.8	1.8	1.7	1.7	1.6
Unemployment Rate (% sa)	5.3	5.8	5.7	5.6	5.5	5.5	5.4	5.4	5.3	5.2
Current Account (% GDP)	-3.0	-3.3	-3.6	-4.2	-4.7	-5.0	-5.1	-4.9	-4.6	-4.3
Terms of Trade (% qoq)	-2.0	-2.0	-3.0	-2.7	-0.3	0.8	1.8	2.7	1.8	0.8
Terms of Trade (% yoy)	-3.2	-6.2	-10.4	-9.4	-7.8	-5.3	-0.6	5.0	7.2	7.3

	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Retail ECT (% mom)	0.5	0.4	0.4	0.9	0.1	0.8	0.1	0.4	0.7	--
Retail ECT (% yoy)	5.0	5.6	4.2	6.1	5.8	4.6	6.6	5.2	9.2	--
Credit Card Billings (% mom)	0.3	1.7	1.5	-2.0	1.7	0.7	-0.7	1.9	-0.4	--
Credit Card Billings (% yoy)	6.7	9.7	10.4	7.3	7.8	8.5	7.4	8.3	7.3	--
Car Registrations (% mom)	5.2	0.5	-2.3	0.0	-1.3	-1.9	3.1	-2.9	5.7	-3.9
Car Registrations (% yoy)	11.2	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	7.4	-0.2
Building Consents (% mom)	-4.5	23.2	-8.1	-5.1	5.3	1.9	2.8	-7.8	10.8	--
Building Consents (% yoy)	-3.9	22.2	11.1	17.3	14.6	7.3	17.4	5.1	27.1	--
REINZ House Price Index (% yoy)	14.8	14.9	17.3	20.1	14.1	12.5	12.6	10.7	11.9	--
Household Lending Growth (% mom)	0.6	0.7	0.6	0.7	0.7	0.6	0.6	0.6	0.6	--
Household Lending Growth (% yoy)	5.6	6.0	6.3	6.7	7.0	7.2	7.4	7.5	7.6	--
ANZ Roy Morgan Consumer Conf.	119.9	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7	118.0
ANZ Business Confidence	-2.3	-15.3	-29.1	-18.9	10.5	14.6	23.0	..	7.1	3.2
ANZ Own Activity Outlook	23.6	19.0	12.2	16.7	23.7	32.0	34.4	..	25.5	29.4
Trade Balance (\$m)	-182	-730	-1090	-1140	-905	-795	-45	13	339	--
Trade Bal (\$m ann)	51371	51643	52446	52287	52101	52648	52513	52765	52872	--
ANZ World Commodity Price Index (% mom)	-3.1	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	0.5	-1.3
ANZ World Comm. Price Index (% yoy)	-19.7	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4
Net Migration (sa)	4930	5740	5490	5590	6130	6240	5550	6130	6070	--
Net Migration (ann)	58259	59639	60290	61234	62477	63659	64930	65911	67391	--
ANZ Heavy Traffic Index (% mom)	1.7	-0.1	-0.3	1.8	0.9	0.2	3.0	-4.4	1.7	2.5
ANZ Light Traffic Index (% mom)	0.9	-0.3	-0.5	2.6	-0.4	-1.1	1.0	-1.4	2.3	0.8

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

KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Feb-16	Mar-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZD/USD	0.661	0.693	0.681	0.65	0.63	0.59	0.58	0.58	0.60	0.62
NZD/AUD	0.925	0.902	0.901	0.88	0.88	0.88	0.88	0.88	0.88	0.89
NZD/EUR	0.606	0.609	0.597	0.59	0.59	0.55	0.52	0.50	0.50	0.51
NZD/JPY	74.62	77.81	73.56	68.3	66.2	62.0	58.0	58.0	60.0	62.0
NZD/GBP	0.477	0.481	0.482	0.48	0.43	0.39	0.37	0.37	0.38	0.38
NZ\$ TWI	71.0	72.2	72.2	68.6	67.1	63.4	61.4	60.9	61.8	63.1
INTEREST RATES	Feb-16	Mar-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZ OCR	2.50	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.56	2.34	2.33	2.10	2.10	1.90	1.90	1.90	1.90	1.90
NZ 10-yr bond	2.97	2.93	2.83	2.90	2.90	2.90	3.10	3.20	3.40	3.50
US Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
US 3-mth	0.63	0.63	0.63	0.83	0.83	1.08	1.08	1.33	1.33	1.58
AU Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
AU 3-mth	2.29	2.29	2.26	2.30	2.30	2.40	2.40	2.40	2.40	2.40

	8 Mar	4 Apr	5 Apr	6 Apr	7 Apr	8 Apr
Official Cash Rate	2.50	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.56	2.34	2.33	2.33	2.33	2.32
NZGB 12/17	2.29	2.04	2.05	2.06	2.06	2.03
NZGB 03/19	2.39	2.13	2.13	2.14	2.14	2.11
NZGB 04/23	3.05	2.70	2.70	2.70	2.70	2.66
NZGB 04/27	3.36	2.85	2.85	2.85	2.85	2.81
2 year swap	2.45	2.19	2.18	2.18	2.19	2.17
5 year swap	2.58	2.35	2.35	2.34	2.36	2.34
RBNZ TWI	72.8	72.64	72.09	72.16	72.10	71.89
NZD/USD	0.6774	0.69	0.68	0.68	0.68	0.68
NZD/AUD	0.91	0.90	0.90	0.90	0.90	0.90
NZD/JPY	76.51	76.63	75.65	75.14	74.51	73.84
NZD/GBP	0.48	0.48	0.48	0.48	0.48	0.48
NZD/EUR	0.61	0.60	0.60	0.60	0.60	0.60
AUD/USD	0.74	0.76	0.76	0.76	0.76	0.75
EUR/USD	1.10	1.14	1.14	1.14	1.14	1.14
USD/JPY	112.95	111.51	110.97	110.35	109.24	108.79
GBP/USD	1.43	1.42	1.43	1.42	1.41	1.41
Oil (US\$/bbl)	37.90	35.36	34.30	34.52	37.74	37.30
Gold (US\$/oz)	1268.30	1217.70	1225.70	1229.69	1230.95	1235.90
Electricity (Haywards)	6.02	6.37	6.65	6.77	5.15	6.17
Baltic Dry Freight Index	366	471	487	500	517	539
Milk futures (USD)	38	37	37	39	38	41

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