ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

1 May 2017

INSIDE

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NEIGHBOURLY SQUABBLE

ECONOMIC OVERVIEW

The NZD appears to have been caught in the crossfire of the latest North American trade disputes. Trade, together with broader fiscal and microeconomic agendas, is something both economic commentators and markets are going to have to increasingly get used to focusing on – the relative importance of central banks has waned at this juncture. While the threat of increased protectionism leaves us mindful, at this stage it appears to be more a neighbourly squabble than something broader. What's more, the lower NZD has actually generated a meaningful loosening in financial conditions, so – hey presto! – the macro-framework works! This week, labour market figures should be solid, with the unemployment rate at least partially reversing Q4's surprise lift. Dairy prices may moderate a touch, while inflation expectations should follow headline inflation higher.

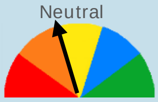
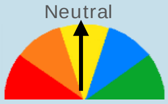
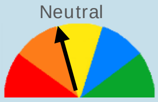
INTEREST RATE STRATEGY

Short-end rates sit roughly in the middle of established trading ranges, having unwound around half of the post-CPI move higher. But they remain elevated when compared to US and Australian rates; and in our view are susceptible to further downside moves, despite the weaker NZD and strength of the data potentially adding to the inflation pulse. New Zealand long-end rates remain firmly in the grip of global forces, where geopolitics continues to dominate ahead of the second round of French elections and with escalating tensions on the Korean peninsula. US bond yields have broken down through a key technical level and the several attempts higher so far seen have all been thwarted. This week's FOMC statement is unlikely to break the bond yield deadlock given the need to acknowledge the recent pause in the overall positive US data tone.

CURRENCY STRATEGY

The NZD starts this week as it ended last week, on the back foot. It looks oversold and it feels too soon to call it significantly lower given New Zealand's still-respectable scorecard. However, in the near term there are a handful of global nuances weighing: protectionist nuances in dairy and forestry, shifting European policy expectations, global uncertainty and geopolitics, and technicals. We expect to see further near-term downside, but it will be limited, and a bounce off lows is likely, given positioning. Excess liquidity and low interest rates globally are on borrowed time, portending G3 currency strength, but then so is the OCR; and it's all relative!

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q4	Soft Q4 GDP figures are not a true reflection of the state of the economy. While momentum is forecast to ease, it should remain decent overall.	 Neutral / Negative / Positive
Unemployment rate	4.7% for 2017 Q4	We are looking through the Q4 lift in the unemployment rate. Job ads firmly signal it lower. Finding staff is a huge challenge for firms.	 Neutral / Negative / Positive
OCR	1.75% by Dec 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	 Neutral / Down / Up
CPI	2.0% y/y for 2017 Q4	Headline inflation is now back at the target mid-point. Domestic and core inflation are also gradually lifting.	 Neutral / Negative / Positive

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SUMMARY

The NZD appears to have been caught in the crossfire of the latest North American trade disputes. Trade, together with broader fiscal and microeconomic agendas, is something both economic commentators and markets are going to have to increasingly get used to focusing on – the relative importance of central banks has waned at this juncture. While the threat of increased protectionism leaves us mindful, at this stage it appears to be more a neighbourly squabble than something broader. What's more, the lower NZD has actually generated a meaningful loosening in financial conditions, so – hey presto! – the macro-framework works! This week, labour market figures should be solid, with the unemployment rate at least partially reversing Q4's surprise lift. Dairy prices may moderate a touch, while inflation expectations should follow headline inflation higher.

FORTHCOMING EVENTS

RBNZ New Mortgage Lending – March (3:00pm, Monday, 1 May). After easing over recent months, we expect new mortgage lending to begin to stabilise at lower levels.

GlobalDairyTrade Auction (early am, Wednesday, 3 May). A slight moderation in prices is possible, with the extent of movement in whole milk powder and the GDT-TWI likely to be determined by the premium between regular and instant product.

Labour Market Statistics – Q1 (10:45am, Wednesday, 3 May). Labour demand is clearly strong. The big question is whether supply can keep pace. We see the unemployment rate easing modestly.

ANZ Job Ads – April (10:00am, Thursday, 4 May).

ANZ Commodity Price Index – April (1:00pm, Thursday, 4 May).

RBNZ Survey of Expectations – Q2 (3:00pm, Friday, 5 May). Inflation expectations should follow headline inflation higher.

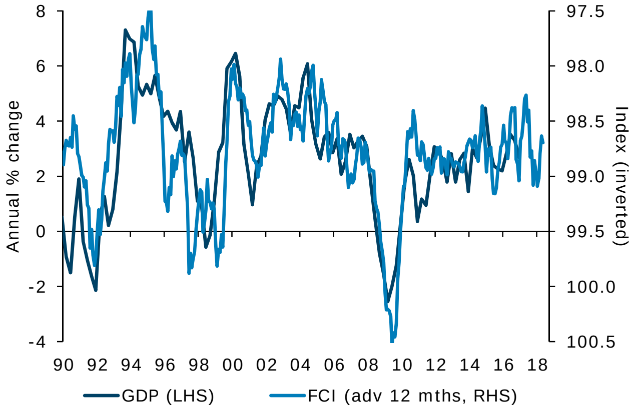
WHAT'S THE VIEW?

Trade disputes and protectionism were in the spotlight last week. Whether it was reports of the US potentially withdrawing from NAFTA or more specific disputes between the US and Canada involving the dairy and forestry sectors (the US has placed a tariff on imported Canadian lumber), commodity currencies were caught in the crossfire.

The NZD got knocked down a peg or two as attention turned to the global trade cycle (although we suspect liquidity conditions didn't help). On a TWI basis, the NZD is effectively at its lowest level since mid-2016.

While the reasons the NZD has been knocked have us watchful, the lower NZD has helped ease financial conditions, which, as we noted two weeks ago, were flagging potential for GDP growth to slip below trend in the back half of the year. So hey presto, we have a macro-framework that works pretty well. The loosening is welcome, although we do need to be careful not to be overly focused on every short-term move. The loosening will need to be sustained. Nevertheless, our Financial Conditions Index has proved to be a useful gauge, and after previously flagging a moderating growth trajectory in the later part of the year, it's now pointing to something more constructive.

FIGURE 1: FINANCIAL CONDITIONS VS GDP



Source: ANZ, Statistics NZ, Bloomberg

The NZD reaction seems logical in the first instance. New Zealand is a trade-dependent nation, with a heavy exposure to primary commodities (including dairy and forestry, the sectors in the headlines).

Moreover, the US and Canada are not insignificant in terms of New Zealand's direct trade exposure. In the year to December 2016, the US was New Zealand's third-largest export market ($8.1bn in total exports – 11.5% of the total). Canada was 15th largest. The export sectors most relevant are beef, dairy, wine, forestry and a range of other small manufactured goods and parts.

Such trade spats are the reality of the signalled shift from free trade to "fair and balanced" trade. Problem #1 is that no one really knows what the latter actually means, let alone how to get there!

All we know is that we are moving into the unknown as the trade rulebook is rewritten. No doubt ongoing headlines and disputes can be expected as trade agreements are focused on at the line-by-line level and various sectors and industries fall under the spotlight. If the world is truly descending into a more inward-looking and protectionist environment, then that won't benefit a small, open, commodity-dependent economy like New Zealand. RBNZ Governor Wheeler focused a great deal on this very issue in a speech earlier this year. Last week shows that the risk is real and a reason the RBNZ should remain cautious and not get carried away by the lift in headline inflation.

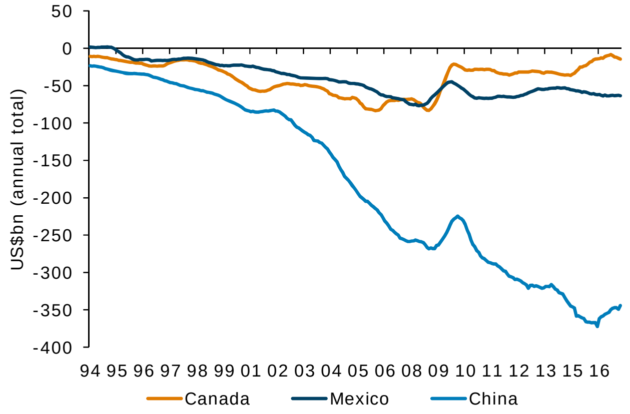
Fiscal policy, trade and the broader microeconomic policy backdrop are now more important focal points for markets. They've always been important, but have traditionally taken a back seat to central banks in the eyes of markets. The outlook now depends more on broader drivers across an economy, and that includes social metrics and issues such as housing and well-being, so it is certainly not just about growth.

Accordingly, research teams, including us, are going to have to be far more on top of microeconomic facets of an economy going forward. That's where the demand for analysis and understanding is going; markets are being driven less by economic indicators and more by microeconomic policy nuances as harbingers of the economic story in a medium-term context. Monetary policy and central banks have hogged the limelight but are now largely tapped out.

So what can we say on these latest trade developments right now?

- **We are not US trade experts, but there does appear to be elements of political posturing as trade discussions get underway.** In fact, after some alarming headlines, President Trump subsequently came out acknowledging that there is no plan to withdraw from NAFTA at this stage.
- **Disputes between the US and Canada on softwood lumber are nothing new.** Supposedly this trade disagreement dates back to the 1980s and a deal that was in place expired in October 2015 (followed by a one-year moratorium), with some commentators noting that the US tariff could have been quite possible under a Clinton presidency too.
- **The trade relationship between the US and Canada actually looks mutually dependent.** While the US does have a trade deficit in goods with Canada, it is relatively small. Moreover, the US runs a trade surplus in services with Canada and it is the largest export trading partner for the majority of US states (many of them decent-sized economies in their own right). As such, it is hard to know what would be gained by escalating broad trade disagreements.
- **For the US, the far bigger trade imbalance is with China.** In the year to February, the US goods trade deficit with China was close to US$350bn, which is around twice the size of New Zealand's annual GDP (in USD terms), and significantly larger than the imbalances with Canada and Mexico combined.

FIGURE 2: US MERCHANDISE TRADE BALANCE WITH NAFTA COUNTRIES



Source: ANZ, Bloomberg

- **But if anything, US-Chinese trade relations appear to have thawed a little of late.** Despite threatening to do so, the US passed up the opportunity to label China a currency manipulator, which many would have seen as increasing the odds of tariffs on Chinese imports and tit-for-tat action between the two countries.
- **That is not to fully discount the importance of North American markets, but we would be far more concerned if this was a trade dispute with China or another country in the Asian region.** In the year to December 2016, New Zealand exports to China alone totalled $13.3bn (17.5% of total) and the Asian region more broadly represented over 40% of total exports.

So at the moment, these trade issues appear more of a neighbourly quarrel than anything more. And with regard to some of the specifics, even though they relate to some of New Zealand's key exports (dairy and forestry), it is not overly clear that they are outright negative – at least in the case of the latter.

From a forestry perspective, imports account for around 20% of total US consumption, with Canadian supplies dominating log and sawn timber products. So logically the increase in tariffs on Canadian exports to the US is going to make China and other Asian markets more attractive for Canadian producers. The challenge for Canadian exporters is that many of these markets offer significantly lower

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returns than the US market (in terms of both outright prices and supply chain costs). So while New Zealand could well face some increased competition in China and Asia from Canadian product, the offset for New Zealand exporters could in fact be an ability to pick some market share in the higher-returning US market. The difference in revenue is highlighted by the fact that in the last year New Zealand sawn timber exports to the US returned nearly three times as much as those to China ($324 per m3 to China versus $975 per m3 to the US). Given this gap, we suspect Canada exporters might well have to suck up the 20% tariff, as opposed to look for entirely new markets altogether.

Canadian dairy developments look a little more complicated. Canada has developed a new class of milk (Class VII), which is effectively a food-grade skim milk powder (SMP). This new grade is intended as a way to export more of its excess milk protein. Canada has also recently changed the tariffs on US ultra-filtered milk exports, which is around 40,000 metric tonnes. So the dispute arises around whether these changes are legal both from a NAFTA and WTO perspective. From an international perspective several countries are teaming up to take the changes to the WTO as they believe they are not consistent with the WTO framework, given the Canadian dairy industry is still heavily regulated and subsidised. But each grievance is slightly different, with the US concerned about the loss of a market for its ultra-filtered milk due to the Canadian's new tariffs, while others (including ourselves) are concerned about the pricing of SMP (through the new class of Canadian milk) onto the international market being below its cost of production.

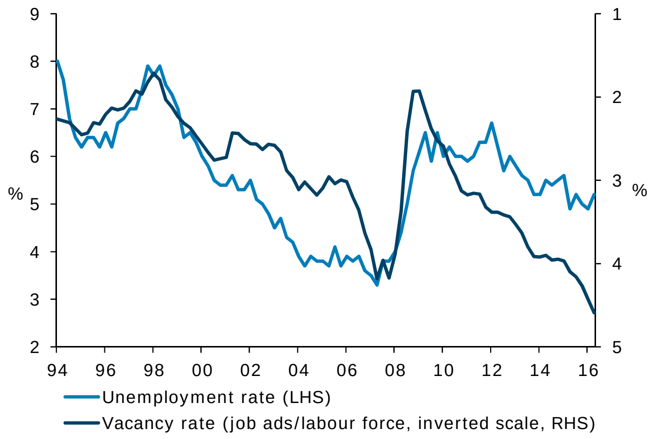
Turning to the week ahead, this week's Q1 labour market data are expected to be consistent with a solid pulse across the economy. We expect some of the "surprise" in the Q4 figures (a higher unemployment rate) to reverse, at least partially, therefore pointing to a tightening labour market overall.

Labour demand is strong, with numerous indicators (such as job ads and firms' hiring intentions) consistent with that. We have pencilled in a similar pace of employment growth as was seen in Q4 (0.8% q/q). **And our Job Ads series for April also released this week will help show whether that strong labour demand story has continued into Q2.**

The bigger uncertainty, once again, is the supply side. If we were basing our judgement purely on anecdote then we'd conclude that overall labour supply growth is not keeping pace with demand. Firms are finding it increasingly difficult to find staff. Indeed, according to our Small Business Microscope, finding staff is the biggest problem for firms right now. However, that evidence was present at the end of last year too, but labour supply growth of 1.1% q/q (due in part to a 0.4%pt surge in the participation rate to an all-time high of 70.5%), saw the unemployment rate rise to 5.2%. But what is becoming increasingly clear is that the tightness of the labour market is not really about the amount of labour available right now, but the skills that available labour possesses. There seems to be an increasing mismatch with what firms are looking for.

We have pencilled in an unchanged participation rate. And together with growth in the working age population of 0.7% q/q, that should still be enough to see the unemployment rate dip 0.1%pts to 5.1%. If anything, we see the risk skewed towards some of Q4's participation rate lift reversing, which would see the unemployment rate fall back below 5% (where it was in Q3).

FIGURE 3: VACANCY AND UNEMPLOYMENT RATES



Source: ANZ, Statistics NZ

Conditions for stronger nominal wage growth are emerging. Real wage growth has actually been reasonably solid recently and consistent with a tighter labour market and reported skill shortages. But with headline inflation now back over 2%, nominal wage growth will need to accelerate to ensure those real wage gains are not reversed. We expect that to occur over time, with the latest equal pay settlement (for some health care workers) adding to that vibe.

But it is likely to be a gradual process and only tentatively evident in the Q1 figures. We expect private sector LCI ordinary time wages grew 0.4% q/q, which would be the seventh consecutive quarter at such a rate. Annual growth will therefore hold at a modest 1.6% y/y. We would have been inclined to pencil in a stronger lift were it not for what appears to be some mild seasonality in March quarters (to the softer side).

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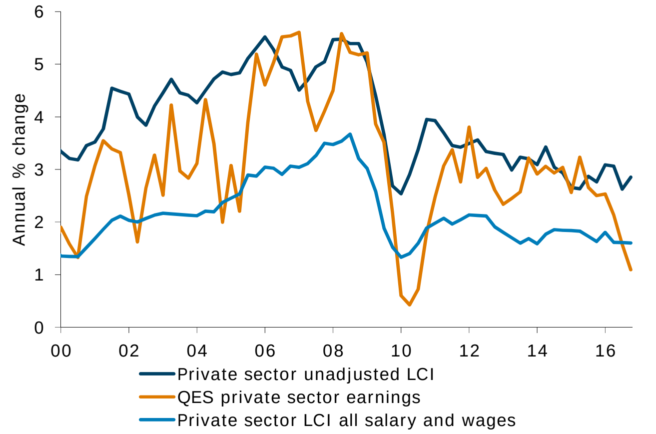
FIGURE 4: MEASURES OF WAGE INFLATION



Source: ANZ, Statistics NZ

Later today, new mortgage lending figures for March should perhaps show a stabilisation at a softer level. In February, we estimate seasonally adjusted new lending fell 2.1% m/m, which is the third consecutive fall and the seventh fall in the past eight months. At just over $5bn, it was at its lowest level since November 2014, and is certainly consistent with the weakness seen in housing market activity overall. However, with the latter showing some signs of stabilisation of late, we are likely to see some stabilisation in new lending also.

FIGURE 5: NEW MORTGAGE LENDING AND HOUSING TURNOVER

Source: ANZ, Statistics NZ

This week's dairy auction could deliver a slight moderation in prices. The extent of movement for whole milk powder (WMP) and the GDT-TWI is likely to be determined by the premium between regular and instant product. The last auction delivered an unusually large premium for regular over instant product for near-term delivery (the premium is usually the other way round). This was due to substantially lower regular versus instant supply, something that doesn't normally occur. We expect some of this anomaly to be resolved at this week's auction.

NZX futures suggest a 6% increase, but gains are focused on near-term contracts due to the above anomaly, and prices have come under pressure since late last week. More downward pressure emerged late last week as despite auction volumes being at their seasonal lull, the market had been expecting a further reduction in auction supply due to the unseasonably wet weather recently. This hasn't been forthcoming. In fact, the latest data shows March milk flows for New Zealand are up nearly 10% on year prior and ahead of February. Only on three occasions in the past 14 seasons has New Zealand March milk production been ahead of February, the most recent being back in March 2011.

If a positive result is to be delivered it will highlight robust demand from China and the Middle East/North Africa. We expect demand from Middle East/North Africa to moderate a touch with buying for the Ramadan period now completed.

Turning to the other products, skim milk powder prices are expected to be unchanged after having again opened up a premium to other origins. It's difficult to see large premiums being maintained over the course of 2017/18 with a global overhang of product and more product on its way. Seasonal supply is again increasing in Europe with product now heading into intervention. In the US, they are struggling to find a home for milk protein concentrate after using the milkfat component. And finally (as mentioned above), there are concerns Canada is set to increase exports with changes to its milk classes. For now New Zealand is likely to maintain a small premium, as some buyers are obliged to use New Zealand sourced product due to labelling or contract requirements, but any increase in New Zealand supply when the new season gets underway could see prices adjust quickly.

Our Commodity Price Index for April will shed light on the broader export earnings picture, and it has been a reasonable one of late. In March, the headline index eked out a 0.4% m/m gain. However, courtesy of a lower NZD, prices rose a solid 3.4% in NZD terms, to be 17% higher than this time last year. And encouragingly, this has been a reasonably broad-based story, with ex-dairy prices sitting at their highest level since September 2015 in NZD terms. This has positive near-term implications for the likes of the trade balance and current account deficit.

Finally, the RBNZ's Survey of Expectations for Q2 should show inflation expectations continuing to tick higher. In the Q1 survey, 1- and 2-year ahead inflation expectations rose to 1.56% and 1.92% respectively. The latter was the highest since Q3 2015. With headline CPI inflation back over 2% for the first

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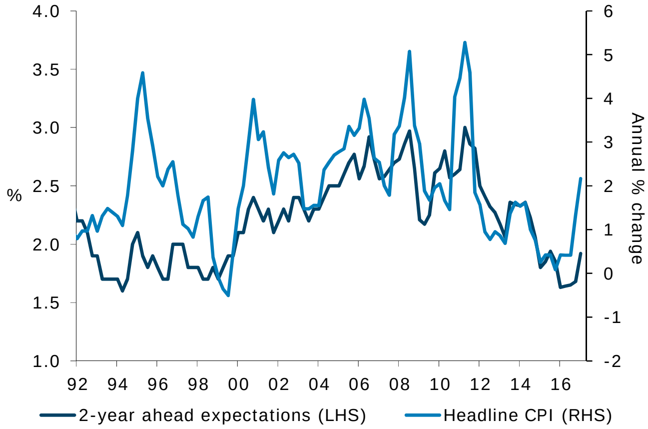
time in five years, we wouldn't be surprised to see the 2-year ahead measure lift back over 2% as well, which would no doubt come as a welcome development for the RBNZ.

FIGURE 6: NEW MORTGAGE LENDING AND HOUSING TURNOVER



Source: ANZ, Statistics NZ

LOCAL DATA

ANZ-Roy Morgan Consumer Confidence – April. Confidence eased from 125.2 to 121.7.

International Travel & Migration – March. In seasonally adjusted terms, a net inflow of 6,100 migrants was seen, while visitor arrivals rose 1.5% m/m.

Overseas Merchandise Trade – March. An unadjusted trade surplus of $332 million was recorded.

Building Consents Issued – March. Total dwelling consent issuance fell 1.8% m/m after a 17% m/m gain in February.

ANZ Business Outlook – April. Headline confidence was unchanged at a net 11%, while firms' own activity expectations fell 1 point to a net 38%.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates sit roughly in the middle of established trading ranges, having unwound around half of the post-CPI move higher. But they remain elevated when compared to US and Australian rates; and in our view are susceptible to further downside moves, despite the weaker NZD and strength of the data potentially adding to the inflation pulse. New Zealand long-end rates remain firmly in the grip of global forces, where geopolitics continues to dominate ahead of the second round of French elections and with escalating tensions on the Korean peninsula. US bond yields have broken down through a key technical level and the several attempts higher so far seen have all been thwarted. This week's FOMC statement is unlikely to break the bond yield deadlock given the need to acknowledge the recent pause in the overall positive US data tone.

THEMES

- New Zealand CPI is back above the 2% mid-point of the RBNZ's target range and the TWI is lower. But the psychology of central bankers post-GFC is such that these developments need to be cheered not feared, especially with retail mortgage rates already higher.
- Labour market data this week in NZ and the US will help set the scene, but neither is likely to trump global geopolitics as the key driver.
- Until we get clarity or calm on the geopolitical front it is difficult to see global bond markets doing much thinking about the policy outlook or getting too concerned about higher headline inflation across many developed markets.
- Given the non-negligible risk that "something goes wrong somewhere", we're cautious about being short at any point on the curve, despite the positive overall economic backdrop in the US in particular.

MONETARY POLICY AND SHORT END

The global bond rally has put paid to the short end move higher in the wake of the upside Q1 CPI surprise. Although (as we noted in our last edition) it was understandable that the data might reignite the debate over a possible 2017 OCR hike, given the degree of angst in global markets and the overall geopolitical backdrop, economics is having to take a back seat. With short-end spreads still elevated compared to the US and Australia, New Zealand would certainly have been 'going it alone' if yields had held steady or risen from last week's elevated levels.

To be fair, we have seen the TWI fall, and NZD/USD is teetering on a key technical level. With CPI back above target, one could be forgiven for thinking that the pre-conditions for firmer policy are falling into place. They are, at least in theory. But these developments need to be cheered not feared given the numerous false starts across the globe over the past few years. Late-cycle capacity constraints are biting, and it is reasonable to expect wage and price pressures to emerge with more vigour**. But it is early days yet, and with inflation still soft outside of housing, food and fuel, and global risks skewed to the downside, and retail rates already higher, plenty of caution is needed.** At 1.75%, the OCR is at least somewhat 'normal'; other countries are a mile away and until we see broader global normalisation, there's a limit to how far we can go it alone.

GLOBAL MARKETS AND LONG END

The local long end remains firmly in the grip of global market sentiment, which is still cautious. Technicals and positioning are also playing a role, and with the bellwether US 10yr Treasury bond yield back below the key 2.30% level after several attempts to break higher, few are prepared to be short going into this weekend's final French election, and amid rising tensions on the Korean peninsula.

Our forecasts have US yields rising as inflation and Fed policy normalises, and that's still in train. We do expect yields to end the year mildly higher. **But we have seen a pause in the US data pulse, and geopolitical risks are closer to the extreme end of the scale. These factors leave us cautious about being short**, even ahead of what is likely to be a 'steady as we go' FOMC statement and reasonable US non-farm payrolls data.

STRATEGY

Investors: We favour **being nimble**, mindful that economics is playing second fiddle to geopolitics. We do see scope for further downside at the short end but have a spilt tactical/strategic long-end view.

Borrowers: No change. **BKBM is at a record low, but our forecasts have swap rates going higher.** But caution is required given the global scene.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/Bullish	Correction lower following post-CPI spike higher now underway. Spreads to AU/US wide, R+C elevated.
Long end	Neutral	UST 10yr yield has now sustainably broken below 2.3%. Amid a couple of data surprises and escalating geopolitical risks, that now looks like the level we need to break back above for yields to rise sustainably.
Yield Curve	Neutral	Strategically favour a steepener, based largely on divergent views. But tactically, flatter looks more likely.
Geographic spreads	Neutral/ narrower	NZ/US spread has performed well. Should narrow further over the year as USTs grind higher (especially given the RBNZ's neutral stance). Would be bearish had we not been so comfortable that RBNZ is on hold.
Swap spreads	Neutral	NZGS demand fair. Risk of corporate paying fading, and global uncertainties likely to keep payers at bay.
NZD/TWI	Teetering	Has weakened of late and is sitting at key technical levels. Needs to be lower for longer to matter for OCR.

CURRENCY STRATEGY

SUMMARY

The NZD starts this week as it ended last week, on the back foot. It looks oversold and it feels too soon to call it significantly lower given New Zealand's still-respectable scorecard. However, in the near term there are a handful of global nuances weighing: protectionist nuances in dairy and forestry, shifting European policy expectations, global uncertainty and geopolitics, and technicals. We expect to see further near-term downside, but it will be limited, and a bounce off lows is likely, given positioning. Excess liquidity and low interest rates globally are on borrowed time, portending G3 currency strength, but then so is the OCR; and it's all relative!

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔/↓	Techs say lower but scorecard OK	Firmer USD bias over the year
NZD/AUD	↔/↑	Has broken out of up-trend channel	Holding up
NZD/EUR	↔	Politics the focus	Huge growth/politics divide
NZD/GBP	↔	UK election to bolster confidence	Brexit execution woes weighing
NZD/JPY	↔	Safe-haven flows to benefit JPY	Japan a defensive play; US strong too

THEMES AND RISKS

- NZD underperforms amidst rising protectionist (dairy and forestry) nuances and has been lumped in with the CAD.
- French election uncertainty subsides.
- Positive global growth pulse takes a breather.
- Volatility remains low.
- NZD short positioning is at an extreme.
- NZD/AUD struggles to rally.

ASSESSMENT

The NZD is unloved despite a respectable report card. The tenor of data is solid and we expect more of the same this week in the Q1 labour market figures. Inflation is picking up, more infrastructure spending is on its way and we expect to see more growth goodies in the Budget (released end of May). The RBNZ's neutral stance is on borrowed time, volatility is low and structural imbalances (i.e. the current account) are in check. Amidst all that, with a 6 in front of it, the NZD/USD now looks cheap.

Nonetheless, global nuances are holding sway and negative signals are abundant. The Fed is hiking and the yield differential is narrower vis-à-vis 2016. Inflation nuances out of Europe have got the market questioning the ECB's easy stance. Bond markets have acknowledged this, and the reality looks pretty clear; the low interest rate and low-volatility world is on borrowed time. China's growth cycle has peaked and addressing stability risks means less growth. Sentiment is showing signs of swinging away from populist-style politicians, providing support to core developed markets. Protectionist spats (US-Canada) with dairy and forestry front and centre have seen the NZD lumped in with the CAD.

From a purely technical perspective, a sustained break of NZD/USD below 0.6860 (the Dec-2016 low), opens up another two cents lower. We must acknowledge this, regardless of the fundamental picture. **We've been here before though.** Each time the NZD has moved sharply lower, it's subsequently recovered lost ground. That looks to be the risk over the coming weeks. As we move lower, shorts get rewarded. But **with short positioning at extremes, if we see a bounce, it could be brutal.**

However, the bigger picture is the prospective closure of yield differentials. The world economy is set to transition away from extraordinary monetary policy support; attention will return to core developed markets in such a backdrop. It'll be glacial, but it's occurring.

In such an environment, NZD strength and resilience will be leaned against. That said, we're not in the camp that expects sustained weakness; the local credentials are too strong for that.

The failure of the NZD / AUD to kick on and respond to divergent inflation and business cycle signals also looks telling, **signifying that positioning and flows are having a major say,** with a weaker NZD in the market's sight.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Fair value is 0.93; we're below that.
Yield	↔/↑	Short-end NZ/AU spreads elevated.
Commodities	↔	Small bounces for dairy and iron ore.
Data	↔/↑	NZ data outlook to improve this qtr.
Techs	↔/↓	Has broken lower. Caution needed.
Sentiment	↔/↑	CPI data has given Kiwi bulls a hand.
Other	↔/↑	Credit channel tightening faster in AU.
On balance	↔/↑	**We need to see the cross base.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔/↑	Short-end NZ/US spreads elevated.
Commodities	↔/↓	Trump's Canada dairy action weighing.
Risk aversion	↔/↓	NZD succumbing to flight-to-safety bid.
Data	↔/↑	NZ data pulse doing the opposite of US.
Techs	↔	Has broken lower, needs to bounce.
Sentiment	↔/↑	Need to acknowledge NZ positives.
Other	↔	Others are catching up, but only slowly.
On balance	↔	**Holding steady for now.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-May	AU	Melbourne Institute Inflation MoM - Apr	--	0.1%	13:00
	AU	Melbourne Institute Inflation YoY - Apr	--	2.2%	13:00
	AU	Commodity Index AUD - Apr	--	138.5	18:30
	AU	Commodity Index SDR YoY - Apr	--	50.1%	18:30
2-May	US	Personal Income - Mar	0.3%	0.4%	00:30
	US	Personal Spending - Mar	0.2%	0.1%	00:30
	US	PCE Deflator MoM - Mar	-0.2%	0.1%	00:30
	US	PCE Deflator YoY - Mar	1.9%	2.1%	00:30
	US	PCE Core MoM - Mar	-0.1%	0.2%	00:30
	US	PCE Core YoY - Mar	1.6%	1.8%	00:30
	US	Markit Manufacturing PMI - Apr F	52.8	52.8	01:45
	US	ISM Manufacturing - Apr	56.5	57.2	02:00
	US	Construction Spending MoM - Mar	0.5%	0.8%	02:00
	AU	ANZ-RM Consumer Confidence Index - 30-Apr	--	111.2	11:30
	JN	Nikkei PMI Services - Apr	--	52.9	12:30
	JN	Nikkei PMI Composite - Apr	--	52.9	12:30
	CH	Caixin PMI Mfg - Apr	51.3	51.2	13:45
	AU	RBA Cash Rate Target - May	1.50%	1.50%	16:30
	GE	Markit/BME Manufacturing PMI - Apr F	58.2	58.2	19:55
	EC	Markit Manufacturing PMI - Apr F	56.8	56.8	20:00
	UK	Markit PMI Manufacturing SA - Apr	54.0	54.2	20:30
	EC	Unemployment Rate - Mar	9.4%	9.5%	21:00
3-May	NZ	QV House Prices YoY - Apr	--	12.9%	05:00
	NZ	Unemployment Rate - Q1	5.1%	5.2%	10:45
	NZ	Employment Change QoQ - Q1	0.8%	0.8%	10:45
	NZ	Employment Change YoY - Q1	5.3%	5.8%	10:45
	NZ	Participation Rate - Q1	70.5%	70.5%	10:45
	NZ	Pvt Wages Ex Overtime QoQ - Q1	0.4%	0.4%	10:45
	NZ	Pvt Wages Inc Overtime QoQ - Q1	0.5%	0.4%	10:45
	NZ	Average Hourly Earnings QoQ - Q1	0.7%	-0.3%	10:45
	AU	AiG Perf of Services Index - Apr	--	51.7	11:30
	GE	Unemployment Change (000's) - Apr	-11k	-30k	19:55
	GE	Unemployment Claims Rate SA - Apr	5.8%	5.8%	19:55
	UK	Markit/CIPS Construction PMI - Apr	52.0	52.2	20:30
	EC	PPI MoM - Mar	-0.1%	0.0%	21:00
	EC	PPI YoY - Mar	4.2%	4.5%	21:00
	EC	GDP SA QoQ - Q1 A	0.5%	0.4%	21:00
	EC	GDP SA YoY - Q1 A	1.7%	1.7%	21:00
	US	MBA Mortgage Applications - 28-Apr	--	2.7%	23:00
4-May	US	ADP Employment Change - Apr	180k	263k	00:15
	US	Markit Services PMI - Apr F	52.5	52.5	01:45
	US	Markit Composite PMI - Apr F	--	52.7	01:45
	US	ISM Non-Manf. Composite - Apr	55.8	55.2	02:00
	US	FOMC Rate Decision - May	1.00%	1.00%	06:00
	NZ	ANZ Job Advertisements MoM - Apr	--	1.6%	10:00
	NZ	ANZ Commodity Price - Apr	--	0.4%	13:00
	AU	HIA New Home Sales MoM - Mar	--	0.2%	13:00
	AU	Trade Balance - Mar	A$3300M	A$3574M	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
4-May	CH	Caixin PMI Composite - Apr	--	52.1	13:45
	CH	Caixin PMI Services - Apr	--	52.2	13:45
	GE	Markit Services PMI - Apr F	54.7	54.7	19:55
	GE	Markit/BME Composite PMI - Apr F	56.3	56.3	19:55
	EC	Markit Services PMI - Apr F	56.2	56.2	20:00
	EC	Markit Composite PMI - Apr F	56.7	56.7	20:00
	UK	Markit/CIPS Services PMI - Apr	54.5	55	20:30
	UK	Markit/CIPS Composite PMI - Apr	54.5	54.9	20:30
	UK	Official Reserves Changes - Apr	--	$77M	20:30
	UK	Net Consumer Credit - Mar	£1.2B	£1.4B	20:30
	UK	Net Lending Sec. on Dwellings - Mar	£3.3B	£3.5B	20:30
	UK	Mortgage Approvals - Mar	67.2k	68.3k	20:30
	UK	Money Supply M4 MoM - Mar	--	-0.3%	20:30
	UK	M4 Money Supply YoY - Mar	--	5.7%	20:30
	UK	M4 Ex IOFCs 3M Annualised - Mar	--	4.0%	20:30
	EC	Retail Sales MoM - Mar	0.1%	0.7%	21:00
	EC	Retail Sales YoY - Mar	2.1%	1.8%	21:00
	US	Challenger Job Cuts YoY - Apr	--	-2.0%	23:30
5-May	US	Trade Balance - Mar	-$44.5B	-$43.6B	00:30
	US	Nonfarm Productivity - Q1 P	0.0%	1.3%	00:30
	US	Unit Labor Costs - Q1 P	2.7%	1.7%	00:30
	US	Initial Jobless Claims - 29-Apr	250k	257k	00:30
	US	Continuing Claims - 22-Apr	1990k	1988k	00:30
	US	Factory Orders - Mar	0.4%	1.0%	02:00
	US	Factory Orders Ex Trans - Mar	--	0.4%	02:00
	US	Durable Goods Orders - Mar F	0.7%	0.7%	02:00
	US	Durables Ex Transportation - Mar F	--	-0.2%	02:00
	US	Cap Goods Orders Nondef Ex Air - Mar F	--	0.2%	02:00
	US	Cap Goods Ship Nondef Ex Air - Mar F	--	0.4%	02:00
	AU	AiG Perf of Construction Index - Apr	--	51.2	11:30
	AU	RBA Statement on Monetary Policy -	--	--	13:30
	NZ	2Yr Inflation Expectation - Q2	--	1.92%	15:00
	GE	Markit Construction PMI - Apr	--	56.4	19:30
	GE	Markit Retail PMI - Apr	--	52.5	20:10
	EC	Markit Retail PMI - Apr	--	49.5	20:10
6-May	US	Change in Nonfarm Payrolls - Apr	190k	98k	00:30
	US	Unemployment Rate - Apr	4.6%	4.5%	00:30
	US	Average Hourly Earnings MoM - Apr	0.3%	0.2%	00:30
	US	Average Hourly Earnings YoY - Apr	2.7%	2.7%	00:30
	US	Average Weekly Hours All Employees - Apr	34.4	34.3	00:30
	US	Consumer Credit - Mar	$14.00B	$15.21B	07:00

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

Looking through the weak Q4 GDP figures, we still believe domestic economic momentum is solid after a patchy start to the year. Inflation has lifted off lows, which is consistent with the next move in the OCR being upwards, but probably not until 2018.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 1 May (3:00pm)	RBNZ New Mortgage Lending – Mar	Stabilising	After easing over recent months, we expect new mortgage lending to begin to stabilise at lower levels.
Wed 3 May (early am)	GlobalDairyTrade Auction	Latent demand	Higher demand from the Middle East/North Africa is likely to provide a base of support for prices.
Wed 3 May (10:45am)	Labour Market Statistics – Q1	Still strong	Labour demand is clearly strong. The big question is whether supply can keep pace. We believe that is becoming more of a struggle, and see the unemployment rate trending lower.
Thu 4 May (10:00am)	ANZ Job Ads – Apr	--	--
Thu 4 May (1:00pm)	ANZ Commodity Price Index – Apr	--	--
Fri 5 May (3:00pm)	RBNZ Survey of Expectations – Q2	Inflation expectations up	With headline inflation back up over 2%, 2-year-ahead inflation expectations should continue to tick up too.
Tue 9 May (1:00pm)	ANZ Monthly Inflation Gauge – Apr	--	--
Tue 9 May (3:00pm)	RBNZ Bank Assets & Liabilities	Cooling	Overall credit growth should continue to cool. The question is whether deposit growth has been able to lift further.
Wed 10 May (10:00am)	ANZ Truckometer – Apr	--	--
Wed 10 May (10:45am)	Electronic Card Transactions – Apr	Steady	Spending growth has been on the soft side lately, but we are expecting a steady underlying trend overall.
10-15 May	REINZ Housing Market Statistics – Apr	Stable at a lower level	Turnover is stabilising at a lower level. However, price growth should continue to moderate.
Thu 11 May (9:00am)	RBNZ Monetary Policy Statement	Holding the line	Even with headline inflation back at target, the RBNZ will remain comfortable with its neutral stance.
Thu 11 May (10:45am)	Food Price Index – Apr	Easing?	After a large increase over the March quarter, we suspect prices will start to unwind. That said, poor autumn weather could delay this move.
Fri 12 May (10:30am)	BNZ-BusinessNZ PMI – Apr	Solid	Despite construction sector challenges, manufacturing continues to perform strongly.
Mon 15 May (10:30am)	BNZ-BusinessNZ PSI – Apr	Elevated	The services sector is outperforming.
Mon 15 May (10:45am)	Retail Trade Survey – Q1	Modest	We are expecting a modest but respectable lift in total sales volumes.
Wed 17 May (10:45am)	PPI – Q1	Up	The impact of earlier commodity price moves should continue to flow through.
Thu 18 May (1:00pm)	ANZ-Roy Morgan Consumer Confidence – May	--	--
Fri 19 May (10:45am)	International Travel & Migration – Apr	At highs	New monthly records may not be set, but we can't see softer numbers on the horizon either.
Wed 24 May (10:45am)	Overseas Merchandise Trade – Apr	Improving	The recent lift in NZD commodity prices should increasingly flow through and lend support to export values.
Thu 25 May (2:00pm)	Budget Economic and Fiscal Update	Robust	The fiscal numbers should look solid, and we are expecting the details to contain a few election year sweeteners, especially on the social policy front.
On balance		**Data watch**	**Momentum has been a little patchier, but appears to be becoming more broad-based. Domestic inflation is showing tentative signs of lifting.**

KEY FORECASTS AND RATES

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (% qoq)	0.4	**1.1**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**
GDP (% yoy)	2.7	**3.1**	**3.1**	**3.0**	**3.2**	**2.7**	**2.4**	**2.2**	**2.1**	**2.1**
CPI (% qoq)	0.4	1.0	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.6**	**0.2**	**0.7**
CPI (% yoy)	1.3	2.2	**2.0**	**2.2**	**2.0**	**1.7**	**2.0**	**2.1**	**2.2**	**2.2**
Employment (% qoq)	0.8	**0.8**	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.8	**5.3**	**3.4**	**2.5**	**2.1**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**
Unemployment Rate (% sa)	5.2	**5.1**	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.5**	**4.4**	**4.3**
Current Account (% GDP)	-2.7	**-2.6**	**-2.5**	**-2.5**	**-2.7**	**-3.1**	**-3.2**	**-3.3**	**-3.4**	**-3.4**
Terms of Trade (% qoq)	5.7	**0.2**	**-1.8**	**-1.1**	**-0.2**	**0.4**	**0.3**	**0.1**	**0.1**	**0.0**
Terms of Trade (% yoy)	6.7	**2.6**	**2.9**	**2.9**	**-2.8**	**-2.6**	**-0.6**	**0.6**	**0.9**	**0.5**

	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Retail ECT (% mom)	0.2	-1.2	1.9	0.5	0.0	0.1	2.7	-0.6	-0.3	--
Retail ECT (% yoy)	5.8	3.2	6.1	4.2	5.1	5.8	5.6	2.6	5.6	--
Credit Card Billings (% mom)	2.6	-1.0	2.9	2.9	-4.1	3.0	0.3	-1.4	0.8	--
Credit Card Billings (% yoy)	5.7	2.3	8.3	10.1	4.2	8.5	7.1	5.3	7.1	--
Car Registrations (% mom)	0.0	2.6	-4.0	12.8	3.1	-6.2	1.6	0.5	3.5	--
Car Registrations (% yoy)	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	--
Building Consents (% mom)	-5.4	-2.4	1.1	0.3	-8.4	-8.5	4.1	17.1	-1.8	--
Building Consents (% yoy)	7.9	11.8	17.1	13.9	2.3	-10.7	-1.0	9.0	17.3	--
REINZ House Price Index (% yoy)	16.3	11.7	9.7	14.4	14.9	13.5	11.7	10.5	11.1	--
Household Lending Growth (% mom)	0.8	0.8	0.8	0.6	0.6	0.7	0.5	0.5	--	--
Household Lending Growth (% yoy)	8.5	8.7	8.7	8.7	8.6	8.8	8.7	8.5	--	--
ANZ Roy Morgan Consumer Conf.	118.2	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7
ANZ Business Confidence	16.0	15.5	27.9	24.5	20.5	21.7	--	16.6	11.3	11.0
ANZ Own Activity Outlook	31.4	33.7	42.4	38.4	37.6	39.6	--	37.2	38.8	37.7
Trade Balance ($m)	-351	-1240	-1388	-798	-723	-1	-250	-50	332	--
Trade Bal ($m ann)	52078	51900	51938	51943	51668	51621	51901	52087	52391	--
ANZ World Commodity Price Index (% mom)	2.1	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	--
ANZ World Comm. Price Index (% yoy)	1.9	11.1	10.6	4.0	13.6	16.5	19.1	20.9	23.0	--
Net Migration (sa)	5700	5690	6340	6210	6170	5980	6380	5980	6100	--
Net Migration (ann)	69015	69119	69954	70282	70354	70588	71305	71333	71932	--
ANZ Heavy Traffic Index (% mom)	-6.3	7.2	-2.1	-0.5	3.7	-0.2	-0.9	1.7	1.7	--
ANZ Light Traffic Index (% mom)	-0.6	0.9	0.1	-2.0	1.5	0.2	-0.3	0.9	1.0	--

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	Feb-17	Mar-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZD/USD	0.719	0.701	0.688	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.938	0.918	0.919	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.679	0.658	0.630	0.64	0.65	0.67	0.65	0.64	0.62	0.61
NZD/JPY	80.79	78.04	76.51	80.5	79.4	78.2	78.2	78.2	77.1	77.1
NZD/GBP	0.578	0.558	0.532	0.56	0.57	0.58	0.54	0.53	0.52	0.52
NZ$ TWI	77.2	75.1	74.9	75.0	75.0	75.3	74.4	73.7	72.2	71.7
INTEREST RATES	Feb-17	Mar-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	2.00	2.00	1.99	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.23	3.19	3.02	3.50	3.70	3.80	3.90	4.00	4.00	4.10
US Fed funds	0.75	1.00	1.00	1.00	1.25	1.50	1.50	1.75	2.00	2.25
US 3-mth	1.06	1.15	1.17	1.20	1.45	1.70	1.70	1.95	2.20	2.45
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.78	1.80	1.75	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	28 Mar	24 Apr	25 Apr	26 Apr	27 Apr	28 Apr
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.98	1.97	1.97	1.97	1.97	1.98
NZGB 03/19	2.13	2.12	2.12	2.11	2.10	2.08
NZGB 05/21	2.48	2.45	2.45	2.46	2.46	2.43
NZGB 04/23	2.78	2.73	2.73	2.75	2.74	2.72
NZGB 04/27	3.19	3.02	3.02	3.07	3.07	3.04
2 year swap	2.32	2.34	2.33	2.32	2.32	2.31
5 year swap	2.91	2.91	2.91	2.90	2.90	2.89
RBNZ TWI	76.41	76.35	76.35	75.42	75.14	74.91
NZD/USD	0.7021	0.7029	0.6960	0.6904	0.6885	0.6866
NZD/AUD	0.9234	0.9274	0.9245	0.9215	0.9211	0.9171
NZD/JPY	77.64	77.43	76.86	76.76	76.66	76.54
NZD/GBP	0.5591	0.5483	0.5430	0.5384	0.5338	0.5302
NZD/EUR	0.6469	0.6473	0.6398	0.6339	0.6317	0.6301
AUD/USD	0.7604	0.7579	0.7529	0.7493	0.7475	0.7488
EUR/USD	1.0854	1.0858	1.0879	1.0892	1.0898	1.0895
USD/JPY	110.57	110.16	110.42	111.18	111.34	111.49
GBP/USD	1.2558	1.2819	1.2819	1.2823	1.2899	1.2951
Oil (US$/bbl)	48.37	49.23	49.56	49.62	48.97	49.33
Gold (US$/oz)	1254.22	1271.61	1270.85	1265.45	1264.52	1268.28
Electricity (Haywards)	4.18	4.70	4.57	5.37	5.75	5.12
Baltic Dry Freight Index	1333	1170	1154	1147	1134	1109
NZX WMP Futures (US$/t)	2860	3250	3250	3270	3250	3225

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