

NEW ZEALAND MARKET FOCUS

7 August 2017

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A WAGER ON WAGES

ECONOMIC OVERVIEW

Nominal wage growth is subdued and so it should be, given inflation and productivity trends. But conditions are primed for an uplift. Secular forces do need to be considered – they mean any pick-up will be modest and unlikely to be shared equally – but it still looks like historical (Phillips Curve) relationships hold. The RBNZ should retain a neutral stance this week, but with some dovish undertones. Inflation expectations are likely to fall, while ECT and retail sales figures should point to a modest pace of spending growth. Our Monthly Inflation Gauge and Truckometer indicators will give early hints on Q3 inflation and growth momentum.

INTEREST RATE STRATEGY

Short-end interest rates are back to within a few basis points of the year's lows ahead of this week's Reserve Bank MPS. We believe that's completely justified given our expectation that the Bank will flat-line its OCR track and given the overall inflation/currency backdrop. We also see scope for further downside, but the market is likely to be sluggish in the absence of a full-blown shift to an easing bias; which seems a bridge too far at this point. Global long-end rates remain range bound and while we expect key rates like the US 10-year bond yield to be mildly higher by year end, we see limited scope for a material rise near term. The prospect of ongoing spread compression will cap local long-end rates in any case. **A lower short end and higher US rates post last week's data has steepened the curve, but lower neutral rates suggest flatter curves than those seen in earlier cycles.**

CURRENCY STRATEGY

We continue to favour fading strength in the NZD. While valuations are providing neutral signals, the yield advantage is closing, the global liquidity cycle has peaked, and New Zealand's domestic credentials are solid, but no longer a standout. **That's a combination that makes higher highs difficult to achieve.**

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.3% y/y for 2018 Q1	Recent growth has disappointed but forward indicators remain positive despite headwinds from housing, finding staff and capital.	
Unemployment rate	4.6% for 2018 Q1	Strong job ads growth suggests the unemployment rate should continue to trend lower. Wage growth is benign, but conditions for change are emerging.	
OCR	1.75% by Mar 2018	The case for a lower OCR right now is hard to justify, but a turn in the credit cycle is allowing the RBNZ to be patient.	
CPI	1.2% y/y for 2018 Q1	Oil price weakness will weigh on headline inflation, but domestic and core inflation should lift gradually.	

ECONOMIC OVERVIEW

SUMMARY

Nominal wage growth is subdued and so it should be, given inflation and productivity trends. But conditions are primed for an uplift. Secular forces do need to be considered – they mean any pick-up will be modest and unlikely to be shared equally – but it still looks like historical (Phillips Curve) relationships hold. The RBNZ should retain a neutral stance this week, but with some dovish undertones. Inflation expectations are likely to fall, while ECT and retail sales figures should point to a modest pace of spending growth. Our Monthly Inflation Gauge and Truckometer indicators will give early hints on Q3 inflation and growth momentum.

FORTHCOMING EVENTS

RBNZ Survey of Expectations – Q3 (3:00pm, Monday, 7 August). The fact that both petrol and headline inflation have fallen (two big drivers of surveyed inflation expectations) means that 2-year ahead expectations could drop back below 2%.

ANZ Monthly Inflation Gauge – July (1:00pm, Tuesday, 8 August).

ANZ Truckometer – July (10:00am, Wednesday, 9 August).

RBNZ Monetary Policy Statement (9:00am, Thursday, 10 August). The RBNZ will stick with a neutral stance, although there will be dovish undertones. We expect the implied 2019 rate hikes to be removed from the projections.

Electronic Card Transactions – July (10:45am, Thursday, 10 August). Nominal spending growth has been soft lately, weighed down by petrol price falls. Prices fell further in July, so this could continue.

BNZ-BusinessNZ PMI – July (10:30am, Friday, 11 August). Manufacturing sector sentiment should continue to hold at a reasonable level.

Food Price Index – July (10:45am, Friday, 11 August). History would suggest a relatively flat outcome, although the earlier spike in fruit and vegetable prices could continue to unwind.

REINZ Housing Market Statistics (possibly late this week or early next week). Auckland house prices have been heading modestly backwards. It is quite possible that this has continued.

BNZ-BusinessNZ PSI – July (10:30am, Monday, 14 August). Despite cooling housing market activity, services sector activity is holding up.

Retail Trade Survey – Q2 (10:45am, Monday, 14 August). After a strong lift in Q1, total sales volumes are likely to have experienced more modest growth. We have pencilled in a 0.7% q/q lift.

WHAT'S THE VIEW?

Aggregate nominal wage inflation remains subdued. The private sector LCI is running at just 1.6% y/y and average hourly earnings are up just 1.2% y/y (both below headline inflation). This is despite the unemployment rate falling to an 8½-year low and firms stating that finding skill staff is their biggest problem right now (according to our Small Business Microscope).

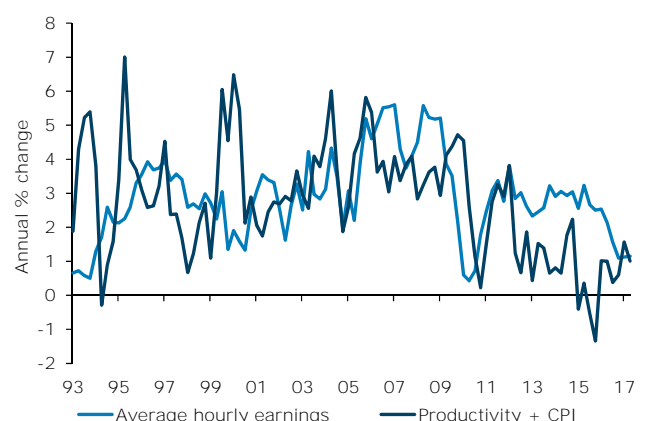
Burgeoning migration gets the blame locally for suppressing wage growth. But the reality is that low wage growth is a global phenomenon.

Technological advancement has not just altered the price-setting process for firms; it is affecting workers' job security and wage-bargaining power. People are not just competing with other people for jobs anymore. Technology is neutralising more and more roles. The increasingly flexible working environment and the fact that inflation expectations appear to be permanently (or at least persistently) lower also look to be playing a role too.

But stepping back from this, perhaps nominal wage growth is actually not too out of whack with where it should be.

- Labour productivity growth has been weak, both in New Zealand and around the globe.** A simple ball-park model for nominal wage growth is labour productivity growth plus headline inflation. In fact, since 1993, average hourly earnings and this 'productivity plus inflation' measure have both effectively averaged 3%. And with annual growth in GDP per hour paid averaging less than zero since 2013, and headline inflation also low over this time, if anything, this measure suggests that nominal wage growth has actually been surprisingly strong! The question this raises is then not why has wage growth been low, but why has productivity growth been so weak?

Figure 1: Wage growth vs productivity and inflation

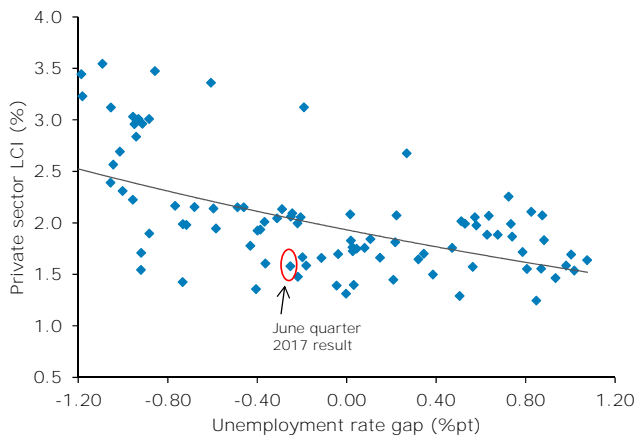


Source: ANZ, Statistics NZ

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2. Despite firms telling us otherwise, labour market spare capacity has been absorbed only gradually. Our current spot estimate of the NAIRU is a little over 5%, so an unemployment rate of 4.8% is only modestly below that. And when we look at the relationship between the unemployment rate gap and wage growth (the Wage Phillips Curve), the current outcome is actually not inconsistent with this historical relationship. It is a touch on the low side, but certainly not what you'd call an outlier.

Figure 2: Wage Phillips Curve



Source: ANZ, Statistics NZ

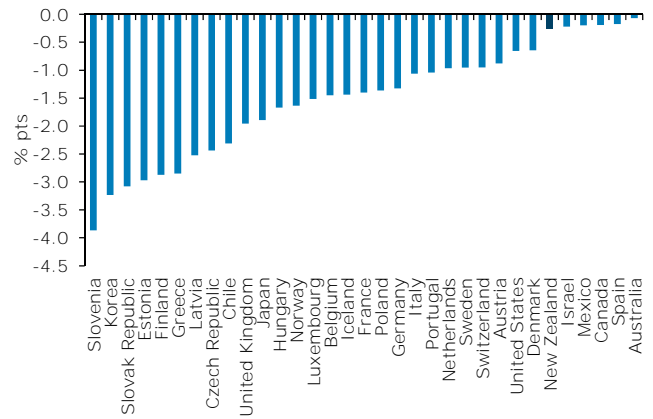
We expect wage growth to rise modestly over the next year or so as the labour market tightens. Firms are telling us they can't find staff; headline inflation (despite dipping in Q2) is up off its extreme lows; public sector wage growth has lifted (increasing the chances of some private sector "catch-up"); and there will be at the very least a reasonable mechanical boost in Q3 provided by the aged-care gender equality settlement. Job ads growth is rolling over amidst solid appetites to hire, and employment growth has stalled; that suggests that the demand is still there, just not the people. As such, employers are looking at alternative channels to meet their needs. But it also signals that there is simply not the pool of labour available. When there is a shortage of something, the price tends to go up, in this case wages.

The suppressed productivity growth story does not make for great reading but again, is not just a New Zealand phenomenon. **In New Zealand's case, it partly reflects the impact of natural disasters,** which destroyed capital stock and disrupted the efficiency of New Zealand's economic system.

With each passing day the negative impact of past natural disasters is diluting. In addition, it's taking time for the large number of new migrants to settle into the New Zealand economy (you don't get bang for your buck in year one), though clearly issues

remain with regards to who is being allowed in the door.

Figure 3: Labour productivity: 2009-2015 average less 1980-2008 average



Source: ANZ, OECD

We saw just enough in the Q2 figures to leave us happy projecting a modest lift in wage growth over the coming couple of years. Annual growth in the unadjusted private sector LCI rose to its highest level in a year. Including the public sector, the unadjusted all sector measure is now growing at its fastest pace in close to four years. The LCI median private sector annual increase in the quarter was 2.5% – the highest in two years.

That is not to say that secular forces won't still have an impact; any pick-up in wage growth is likely to be modest. That is reinforced by the fact that headline inflation looks set to fall back towards 1% (if not below) over the coming year. We are also mindful of the likelihood that technology is only going to lead to more wage dispersion as highly skilled workers in certain industries benefit and others miss out, or are negatively disrupted. That's a major challenge for policy makers going forward.

Turning to the week ahead, we doubt the RBNZ will rattle the cage too much in the Monetary Policy Statement. The OCR will be left unchanged at 1.75%, and the tone of the accompanying Statement, projections and press conference will reinforce the RBNZ's cautious, watchful and neutral stance. To be fair, a number of economic developments (soft inflation, sub-trend growth, elevated NZD) mean that a case for moving back to an easing bias can be made. However, we think that is a leap too far, with medium-term inflation signals remaining positive and the RBNZ relying on the flexibility it has within its framework.

That said, the Statement should have some dovish undertones. It is quite possible that the RBNZ's inflation projections show headline inflation falling back below 1%. Language regarding NZD

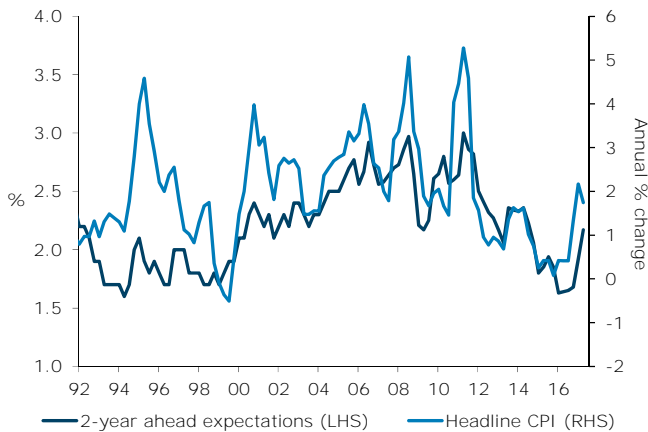
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strength may be a little more explicit and the implied hikes within the OCR projections look set to be removed. To be fair, the May forecasts had only one hike at the end of 2019, but removing it would send a clear signal to a market that still has a full hike priced in by roughly August next year.

So the message should come across loud and clear – the RBNZ is comfortably on hold. And with secular inflation suppressants becoming more evident and prudential policy increasingly doing the heavy lifting, the period on hold could potentially turn into quite an extended period of time.

We wouldn't be surprised if the RBNZ's Survey of Expectations for Q3 due later today showed inflation expectations falling. In Q2, the 2-year ahead measure rose from 1.92% to 2.17%, which was the highest it has been since Q3 2014. A drop back below 2% in the quarter wouldn't be out of the question, driven by petrol price falls and falls in headline inflation itself. To be fair, the latter does make somewhat of a mockery of surveyed inflation expectations measures. But the RBNZ has shown that it would be uncomfortable with expectations back towards 1½% so the data matters.

Figure 4: Headline CPI and inflation expectations



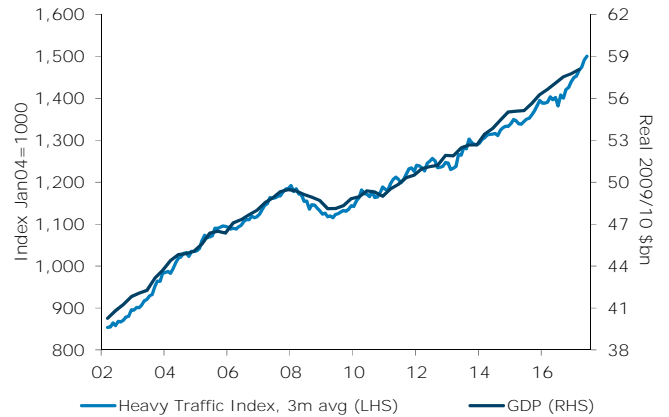
Source: ANZ, RBNZ, Statistics NZ

Our Monthly Inflation Gauge and Truckometer indicators for July will provide early signals on Q3 activity and inflation trends.

- Monthly Inflation Gauge:** Prices in the Gauge rose a modest 0.1% m/m in June, with the underlying ex-housing measure rising by a similar magnitude. The latter is up just 0.9% y/y, which is clearly benign and – as was confirmed by the Q2 CPI figures – is showing a lack of broad-based price pressures. The RBNZ will certainly want to see broader inflation pressures before it even considers shifting off its ultra-neutral stance.

- Truckometer:** While the Heavy Traffic Index was flat in June, that followed a strong 4% m/m gain in May. The underlying trend is strong, and together with the Light Traffic Index, which rose 1.3% m/m in June, the Truckometer is pointing to a strong pace of activity growth not only over Q2, but also for the second half of 2017.

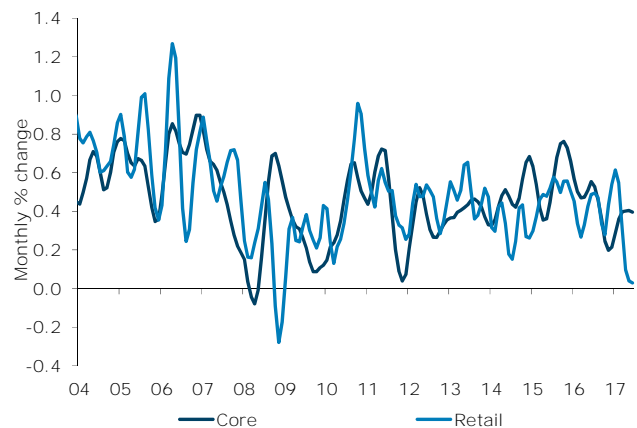
Figure 5: Headline CPI and inflation expectations



Source: ANZ, RBNZ, Statistics NZ

Two separate releases on retail spending will provide a signal for whether elevated levels of consumer confidence are flowing through to more spending at the tills.

Figure 6: ECT retail spending trend



Source: ANZ, Statistics NZ

- Growth in Electronic Card Transactions for July is expected to be modest.** Headline sales growth has been quite soft of late, with spending flat in June despite what you would have thought would have been a large boost from visitor spending associated with the British and Irish Lions rugby tour. Now hospitality spending did lift solidly in the month, so some impact came through, but it was a modest story elsewhere. But another reason for the softer trend has been the impact of recent petrol price falls. Fuel retailing turnover has fallen in four consecutive months, to



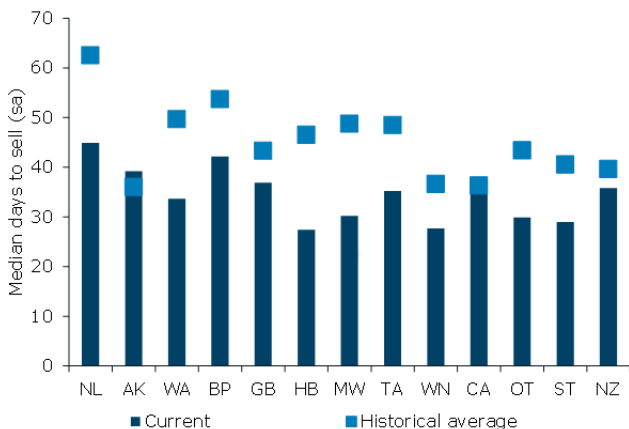
ECONOMIC OVERVIEW

be down over 9% in that time. And given we estimate retail petrol prices fell a further 4% in July, it is quite possible that this softer trend in headline spending has persisted.

- We have pencilled in a 0.7% q/q lift in Q2 retail sales volumes.** Sales volumes surged in the March quarter, rising 1.5% q/q. Motor vehicle sales were particularly strong, growing 5.9% q/q, which followed average quarterly growth of 3% q/q over the prior three quarters. We are not expecting that pace of growth to have been maintained in Q2. And together with the softer trend suggested by ECT spending (although reasonably aggressive retail discounting, as suggested by the Q2 CPI figures, needs to be taken into account), that suggest a more modest pace of sales volumes growth over the quarter. We have pencilled in a 0.7% q/q lift. Core spending (i.e. excluding motor vehicle related spending) should be strong, perhaps north of 1.0% q/q.

A softening trend should still be evident within the REINZ housing markets statistics, especially in Auckland. Auckland house prices are down close to 4% since January (according to the REINZ House Price Index), and Auckland, together with Canterbury, are the only two regions across the country right now where houses are taking longer to sell than their historical average. Other regions have seen activity levels cool and price growth momentum slow, but Auckland is underperforming. We feel that that story has further to run even though net migration gains are providing a strong level of support.

Figure 7: Median days to sell relative to average



Source: ANZ, REINZ

LOCAL DATA

ANZ Business Outlook – July. Headline business confidence fell 5 points, but rose in seasonally adjusted terms. Firms’ own activity expectations remain elevated at +40%.

RBNZ Sectoral Lending – June. Total private sector credit grew 0.3% m/m (6.0% y/y).

Global Dairy Trade Auction. The GDT-TWI fell 1.6%, although whole milk powder prices rose 1.3%.

Labour Market Statistics – Q2. Employment contracted 0.2% q/q, while the participation rate fell 0.6%pts to 70.0%. The unemployment rate eased to 4.8%.

ANZ Job Ads – July. Total advertising fell 1.0% m/m, with annual growth up 12% y/y (3-month average).

ANZ Commodity Price Index – July. Prices fell 0.8% m/m in world price terms, and were 2.1% m/m lower in NZD terms.

INTEREST RATE STRATEGY

SUMMARY

Short-end interest rates are back to within a few basis points of the year's lows ahead of this week's Reserve Bank MPS. We believe that's completely justified given our expectation that the Bank will flat-line its OCR track and given the overall inflation/currency backdrop. We also see scope for further downside, but the market is likely to be sluggish in the absence of a full-blown shift to an easing bias; which seems a bridge too far at this point. Global long-end rates remain range bound and while we expect key rates like the US 10-year bond yield to be mildly higher by year end, we see limited scope for a material rise near term. The prospect of ongoing spread compression will cap local long-end rates in any case. A lower short end and higher US rates post last week's data has steepened the curve, but lower neutral rates suggest flatter curves than those seen in earlier cycles.

THEMES

- RBNZ policy looks to be on hold for longer, with many analysts (including ourselves) downplaying or delaying expectations for hikes.
- Spread compression ought to prevent the New Zealand yield curve from steepening despite mildly higher US yields.

MONETARY POLICY AND SHORT END

Local short-end rates are back near the year's lows, with the RBNZ's MPS just three days away. This is completely justified in our view, and in fact we see scope for further downside given our expectation of a completely flat MPS bill track. As figure 1 shows, **the gap between the market and the RBNZ is significant**, and while some residual scepticism is likely (the market never really bought into the RBNZ's view), you have to give it to the RBNZ – its view is panning out. Granted, many (including ourselves) still have OCR hikes pencilled in, but as we have noted in recent weeks, **the risk is that OCR hikes are delivered much later, if at all**. But for now it is a step too far to pencil in cuts as the central scenario.

Nonetheless, and although progress will be slow, given the global low inflation backdrop and with the NZD still elevated (but close to our estimate of fair value), **we see scope for the 2-year swap to move down towards 2.00/2.10% in coming days**. The NZ/AU 2-year spread has come in over the past week, and it is

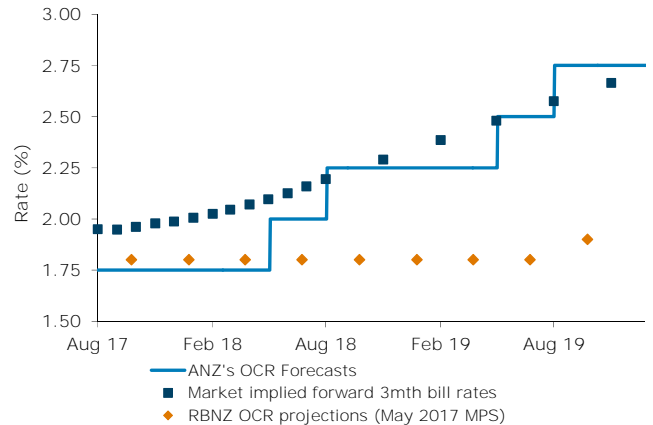
tighter than the cash rate spread. However, the AU market also has some downward adjustment potential following last week's RBA Statement on Monetary Policy, which had inflation below the RBA's 2.5% target range mid-point for the entire projection period.

GLOBAL MARKETS AND LONG END

US 10-year Treasury bond yields (the global long-end bellwether) continue to range trade, with the upward bias implied by better US data offset to some extent by domestic politics and global geopolitics.

We don't expect an imminent break out of ranges, and with the RBNZ's tone expected to be cautious, and the NZGS 2029 syndication now likely to be delayed until after the election, **we see scope for continued spread compression**, which ought to prevent the yield curve from steepening too far. **Several central banks have spoken about neutral interest rates** in recent weeks, including the Fed, RBA and RBNZ. **Collectively their views speak to lower terminal rates and more caution than in past cycles, which is suggestive of flatter curves**.

Figure 1: ANZ OCR Forecast against Market Implied Forward 90 Day Rates & RBNZ 90 Day Bill Projections



Source: ANZ, RBNZ, Bloomberg

STRATEGY

Investors: Short end biased lower: carry is attractive. Focus on the NZ/US spread at the long end.

Borrowers: BKBM still low. Dips in term rates offer opportunities to add to hedges. But some caution is needed; the OCR isn't going higher any time soon, and we do not expect long-term rates to rise materially.

KEY VIEWS		
SECTOR	DIRECTION	COMMENT
Short end	Neutral/bullish	Scope to continue moving lower, with 2yr on track to make a new low for the year. High NZD assisting.
Long end	Neutral/bullish	UST yields consolidating; NZ rates can compress on spread. But difficult to argue for fresh yield lows.
Yield Curve	Neutral	Our forecasts imply a steeper curve; but longer period of low inflation and spread compression say flatter.
Geographic spreads	Neutral/bullish	NZ/US 10yr bond spread ~64bps; with 2029 syndication not likely now and US yields at post-spike lows we are bullish the spread. Australian yields have scope to fall as RBA optimism is priced out, which should help.
Swap spreads	Neutral	NZGS syndication delayed, countered by lack of corporate paying interest in the wake of recent volatility.
NZD/TWI	Elevated	We are wary of chasing the NZD up here, but the USD has its problems too. US data is better but still ho-hum, and domestic politics aren't helping. NZ's upcoming election will be tame by comparison!



CURRENCY STRATEGY

SUMMARY

We continue to favour fading strength in the NZD. While valuations are providing neutral signals, the yield advantage is closing, the global liquidity cycle has peaked, and New Zealand's domestic credentials are solid, but no longer a standout. That's a combination that makes higher highs difficult to achieve.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Mild downside bias as USD reasserts.	USD ascendency coming but delayed.
NZD/AUD	↔/↑	Wary of NZD positioning.	Favour strength; NZ credentials better.
NZD/EUR	↔/↓	EUR strength likely to fade.	Euro area faces structural challenges.
NZD/GBP	↔/↑	BoE rate hike optimism confirmed as overdone.	Valuation says lower, Brexit higher.
NZD/JPY	↔/↓	At risk of JPY repatriation flows.	USD/JPY heading up as policy diverges.

THEMES AND RISKS

- USD still under pressure but showed signs of stabilisation as the week progressed.
- US payrolls strength supports the gradual winding back of monetary policy stimulus.
- Politics still in the limelight. US-Russia tensions and North Korea still muddying the waters.
- BoE and RBA both circumspect on inflation.

ASSESSMENT

We retain a negative bias towards the NZD. Key reasons include:

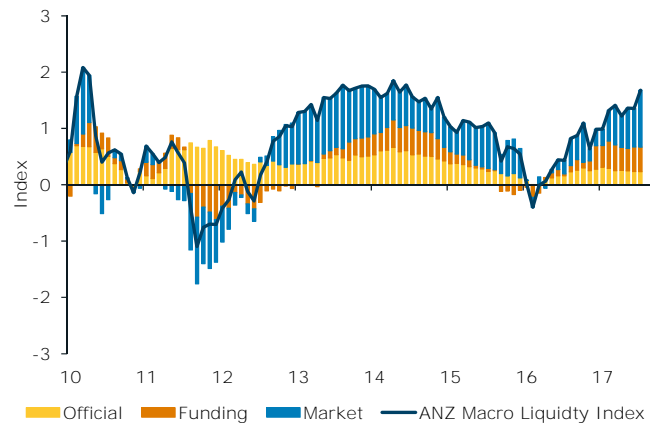
- NZD positioning remains extremely long and USD positioning is extremely short.
- New Zealand's relative economic position is slipping as the cycle matures and momentum picks up elsewhere.
- We continue to expect an imminent turn in the global liquidity cycle, which will present challenges for risk currencies/assets. Abundant official and market liquidity (driven by low risk aversion) has been a key source of support for peripheral currencies. This cycle has peaked with central banks inching closer to the exit door.
- US economic data is stabilising, making it more difficult to be overly bearish the greenback.
- The narrowing of NZ-US interest rate differentials is hard to ignore. A meagre 62bps separates 3mth rates; the gap was 350bps less than 3 years ago.

While valuations are giving neutral signals, and we are mindful of lingering USD "resentment",

the above combination leaves us wary of chasing higher highs for the NZD/USD.

Looking at local-specific factors, markets appear to be taking a relaxed view of the upcoming election. That's hardly surprising given the incumbent Government's high polling. Yet the reality of proportional representation is that it doesn't take much of a shift to change the election outcome. That said, by global comparison, NZ politics is tame.

Figure 1: Liquidity index – are we at peak liquidity?



Source: ANZ, Bloomberg

We expect the RBNZ to reinforce its aggressively neutral bias at the upcoming MPS. With growth below trend and core inflation pressures sub 2%, there is a case for moving to an easing bias. We think that is a bridge too far, but the flavour of the communication will have a tilt to the dovish side. **That's a backdrop that should also act as a cap on the NZD.**

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Now much closer to fair value (~0.93).
Yield	↔/↓	More downside yield potential in NZ.
Commodities	↔/↑	Milk price upgrade a tick in NZD's box.
Data	↔	Both countries undershooting CPI target.
Techs	↔/↑	Sharp rally mid-July keeps bullish range trade intact (just in time!).
Sentiment	↓	Wary of NZD positioning.
Other	↑	Australian economy just not humming.
On balance	↔/↑	Range trading, very mild upside bias.

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Now pretty well at fair value (~0.75).
Yield	↔	Yield gap still positive but is that enough?
Commodities	↔/↑	Terms of trade strength real.
Risk aversion	↔/↓	Watching the liquidity cycle.
Data	↔	NZ good, but not so stellar anymore.
Techs	↔/↑	Price action decent; deserves respect.
Sentiment	↔	Bullish, but is it hubris? We're wary of still very extreme long speculative positioning.
Other	↔/↑	Politics and policy USD negative.
On balance	↔/↓	Pressure for reversal is building.



DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
7-Aug	AU	AiG Perf of Construction Index - Jul	--	56.0	11:30
	AU	ANZ Job Advertisements MoM - Jul	--	2.7%	13:30
	NZ	2Yr Inflation Expectation - Q3	--	2.17%	15:00
	GE	Industrial Production SA MoM - Jun	0.2%	1.2%	18:00
	GE	Industrial Production WDA YoY - Jun	3.7%	5.0%	18:00
	AU	Foreign Reserves - Jul	--	A\$84.1B	18:30
	UK	Halifax House Price 3Mths/Year - Jul	2.1%	2.6%	19:30
	UK	Halifax House Prices MoM - Jul	0.3%	-1.0%	19:30
	EC	Sentix Investor Confidence - Aug	27.6	28.3	20:30
	CH	Foreign Reserves - Jul	\$3074.9B	\$3056.8B	UNSPECIFIED
	CH	BoP Current Account Balance - Q2 P	--	\$18.4B	UNSPECIFIED
8-Aug	US	Consumer Credit - Jun	\$15.250B	\$18.410B	07:00
	AU	ANZ-RM Consumer Confidence Index - 6-Aug	--	118.4	11:30
	JN	BoP Current Account Balance - Jun	¥860.5B	¥1653.9B	11:50
	JN	BoP Current Account Adjusted - Jun	¥1502.9B	¥1400.9B	11:50
	JN	Trade Balance BoP Basis - Jun	¥549.0B	-¥115.1B	11:50
	NZ	ANZ Monthly Inflation Gauge MoM - Jul	--	0.1%	13:00
	AU	NAB Business Conditions - Jul	--	15	13:30
	AU	NAB Business Confidence - Jul	--	9	13:30
	GE	Trade Balance - Jun	€23.0B	€22.0B	18:00
	GE	Current Account Balance - Jun	€24.5B	€17.3B	18:00
	GE	Exports SA MoM - Jun	0.2%	1.5%	18:00
	GE	Imports SA MoM - Jun	0.2%	1.3%	18:00
	US	NFIB Small Business Optimism - Jul	103.5	103.6	22:00
	CH	Trade Balance - Jul	\$45.20B	\$42.75B	UNSPECIFIED
	CH	Exports YoY - Jul	11.0%	11.3%	UNSPECIFIED
	CH	Imports YoY - Jul	18.0%	17.2%	UNSPECIFIED
	US	Mortgage Delinquencies - Q2	--	4.71%	8-12 Aug
	US	MBA Mortgage Foreclosures - Q2	--	1.39%	8-12 Aug
9-Aug	US	JOLTS Job Openings - Jun	5700	5666	02:00
	NZ	ANZ Truckometer Heavy MoM - Jul	--	0.0%	10:00
	AU	Westpac Consumer Conf Index - Aug	--	96.6	12:30
	AU	Westpac Consumer Conf SA MoM - Aug	--	0.4%	12:30
	CH	CPI YoY - Jul	1.5%	1.5%	13:30
	CH	PPI YoY - Jul	5.6%	5.5%	13:30
	AU	Home Loans MoM - Jun	1.5%	1.0%	13:30
	AU	Investment Lending - Jun	--	-1.4%	13:30
	AU	Owner-Occupier Loan Value MoM - Jun	--	2.9%	13:30
	US	MBA Mortgage Applications - 4-Aug	--	-2.8%	23:00
10-Aug	US	Nonfarm Productivity - Q2 P	0.7%	0.0%	00:30
	US	Unit Labor Costs - Q2 P	1.1%	2.2%	00:30
	US	Wholesale Trade Sales MoM - Jun	--	-0.5%	02:00
	US	Wholesale Inventories MoM - Jun F	0.6%	0.6%	02:00
	NZ	RBNZ Official Cash Rate - Aug	1.75%	1.75%	09:00
	NZ	Card Spending Retail MoM - Jul	0.3%	0.0%	10:45
	NZ	Card Spending Total MoM - Jul	--	0.1%	10:45
	UK	RICS House Price Balance - Jul	9%	7%	11:01
	JN	PPI MoM - Jul	0.2%	0.0%	11:50

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Aug	JN	PPI YoY - Jul	2.3%	2.1%	11:50
	AU	Consumer Inflation Expectation - Aug	--	4.4%	13:00
	JN	Tertiary Industry Index MoM - Jun	0.2%	-0.1%	16:30
	UK	Industrial Production MoM - Jun	0.1%	-0.1%	20:30
	UK	Industrial Production YoY - Jun	-0.1%	-0.2%	20:30
	UK	Manufacturing Production MoM - Jun	0.0%	-0.2%	20:30
	UK	Manufacturing Production YoY - Jun	0.6%	0.4%	20:30
	UK	Construction Output SA MoM - Jun	1.4%	-1.2%	20:30
	UK	Construction Output SA YoY - Jun	1.8%	-0.3%	20:30
	UK	Visible Trade Balance GBP/Mn - Jun	-£11000	-£11863	20:30
	UK	Trade Balance Non EU GBP/Mn - Jun	-£3000	-£3796	20:30
	UK	Trade Balance - Jun	-£2500	-£3073	20:30
	CH	Money Supply M2 YoY - Jul	9.4%	9.4%	10-15 Aug
	CH	Money Supply M1 YoY - Jul	14.0%	15.0%	10-15 Aug
	CH	Money Supply M0 YoY - Jul	6.5%	6.6%	10-15 Aug
	CH	New Yuan Loans CNY - Jul	790.0B	1540.0B	10-15 Aug
	CH	Aggregate Financing CNY - Jul	1000.0B	1776.2B	10-15 Aug
	NZ	REINZ House Sales YoY - Jul	--	-24.7%	10-14 Aug
11-Aug	UK	NIESR GDP Estimate - Jul	0.3%	0.3%	00:00
	US	Initial Jobless Claims - 5-Aug	240k	240k	00:30
	US	Continuing Claims - 29-Jul	1960k	1968k	00:30
	US	PPI Final Demand MoM - Jul	0.1%	0.1%	00:30
	US	PPI Final Demand YoY - Jul	2.2%	2.0%	00:30
	US	PPI Ex Food and Energy MoM - Jul	0.2%	0.1%	00:30
	US	PPI Ex Food and Energy YoY - Jul	2.1%	1.9%	00:30
	US	Monthly Budget Statement - Jul	-\$55.5B	-\$90.2B	06:00
	NZ	BusinessNZ Manufacturing PMI - Jul	--	56.2	10:30
	NZ	Food Prices MoM - Jul	--	0.2%	10:45
	GE	Wholesale Price Index MoM - Jul	--	0.0%	18:00
	GE	Wholesale Price Index YoY - Jul	--	2.5%	18:00
	GE	CPI MoM - Jul F	0.4%	0.4%	18:00
	GE	CPI YoY - Jul F	1.7%	1.7%	18:00
	GE	CPI EU Harmonized MoM - Jul F	0.4%	0.4%	18:00
	GE	CPI EU Harmonized YoY - Jul F	1.5%	1.5%	18:00
12-Aug	US	CPI MoM - Jul	0.2%	0.0%	00:30
	US	CPI YoY - Jul	1.8%	1.6%	00:30
	US	CPI Ex Food and Energy MoM - Jul	0.2%	0.1%	00:30
	US	CPI Ex Food and Energy YoY - Jul	1.7%	1.7%	00:30

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

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

Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Although the latest GDP data disappointed, we still believe the underlying pace of economic momentum is reasonable, despite housing and credit headwinds. Recent inflation figures have also disappointed, and are consistent with the OCR remaining on hold for some time yet.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 7 Aug (3:00pm)	RBNZ Survey of Expectations – Q3	Lower	Recent petrol price falls could see the 2-year ahead measure ease off its recent highs.
Tue 8 Aug (1:00pm)	ANZ Monthly Inflation Gauge – Jul	--	--
Wed 9 Aug (10:00am)	ANZ Truckometer – Jul	--	--
Thu 10 Aug (9:00am)	RBNZ Monetary Policy Statement	Neutral	Recent developments should leave the RBNZ feeling fully vindicated in its ultra-cautious stance. Caution will prevail.
Thu 10 Aug (10:45am)	Electronic Card Transactions – Jul	Petrol drag	Further petrol price falls will continue to weigh on the total value of retail spending.
Fri 11 Aug (10:30am)	BNZ-BusinessNZ PMI – Jul	Holding	Manufacturing sector sentiment should continue to hold at a reasonable level.
Fri 11 Aug (10:45am)	Food Price Index – Jul	Waiting	Prices should unwind their recent spike, but it may not be until new season produce hits the shelves in spring.
10-14 Aug	REINZ Housing Market Statistics – Jul	Letting the air out	The air continues to be let out of national house price growth. However, Auckland is now clearly underperforming.
Mon 14 Aug (10:30am)	BNZ-BusinessNZ PSI – Jul	Strong	Sentiment in the services sector remains strong and we don't really see that changing.
Mon 14 Aug (10:45am)	Retail Trade Survey – Q2	Ok, but not as strong as Q1	Ongoing price discounting should continue to support a reasonable pace of volume growth, but it won't be as strong as Q1.
Wed 16 Aug (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese and South-East Asian demand is lending support.
Thu 17 Aug (10:45am)	PPI – Q2	Mixed	The numbers will be thrown around by commodity prices, with only tentative signs of pipeline price pressures evident.
Thu 17 Aug (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Aug	--	--
Mon 21 Aug (10:45am)	International Travel & Migration – Jul	No change	Strong net migrant inflows should persist. Visitor arrivals should partly unwind the B&I Lions bounce.
Wed 23 Aug (2:00pm)	Pre-Election Economic & Fiscal Update	Larger surpluses	It should be a similar picture to the May Budget. If anything, projected surpluses should be a little larger.
Thu 24 Aug (10:45am)	Overseas Merchandise Trade - Jul	Better trend	A positive picture for export commodity prices should support export values.
Thu 24 Aug (3:00pm)	RBNZ New Mortgage Lending – Jul	Lower again?	We suspect turnover will begin to stabilise, but a further fall in the month cannot be ruled out.
Wed 30 Aug (10:45am)	Building Consent Issuance – Jul	Capped	Positive demand forces are there, but issuance is being capped by capacity and capital constraints.
Thu 31 Aug (1:00pm)	ANZ Business Outlook – Aug	--	--
Thu 31 Aug (3:00pm)	RBNZ Sectoral Lending – Jul	Cooling	Private sector credit growth has cooled to 6% y/y. We see it slowing further.
Fri 1 Sep (10:45am)	Overseas Trade Indexes – Q2	All time high?	There is a decent chance that an all-time high in the terms of trade is achieved.
On balance		Data watch	The data pulse generally remains solid. Domestic inflation is low, but should lift.

KEY FORECASTS AND RATES

	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
GDP (% qoq)	0.5	1.0	0.8	0.8	0.7	0.7	0.6	0.6	0.6	0.6
GDP (% yoy)	2.5	2.7	2.7	3.2	3.3	3.0	2.8	2.6	2.5	2.4
CPI (% qoq)	1.0	0.0	0.2	0.2	0.8	0.6	0.7	0.3	0.7	0.6
CPI (% yoy)	2.2	1.7	1.6	1.3	1.2	1.8	2.4	2.5	2.4	2.3
Employment (% qoq)	1.1	-0.1	0.7	0.5	0.5	0.4	0.4	0.3	0.3	0.3
Employment (% yoy)	5.7	3.1	2.4	2.2	1.6	2.1	1.8	1.6	1.4	1.3
Unemployment Rate (% sa)	4.9	4.8	4.8	4.7	4.6	4.5	4.4	4.4	4.3	4.3
Current Account (% GDP)	-3.1	-3.1	-3.0	-3.0	-2.6	-2.5	-2.6	-2.6	-2.6	-2.6
Terms of Trade (% qoq)	5.1	1.5	0.0	-1.0	-1.0	-0.7	0.1	0.0	0.1	0.1
Terms of Trade (% yoy)	7.7	11.6	12.8	5.6	-0.5	-2.6	-2.5	-1.6	-0.6	0.3

	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Retail ECT (% mom)	0.5	0.1	0.1	2.4	-0.4	-0.3	0.9	-0.4	0.0	--
Retail ECT (% yoy)	4.2	5.1	5.8	5.6	2.6	5.6	4.5	5.2	4.5	--
Credit Card Billings (% mom)	2.8	-4.1	3.1	0.4	-1.3	1.0	1.0	1.0	0.2	--
Credit Card Billings (% yoy)	10.1	4.1	8.5	7.1	5.3	7.3	6.6	7.6	8.3	--
Car Registrations (% mom)	12.9	3.0	-6.4	1.7	0.5	3.4	-3.0	3.5	-3.0	-3.3
Car Registrations (% yoy)	13.1	18.4	7.8	12.2	7.3	16.5	3.0	13.7	11.1	6.2
Building Consents (% mom)	0.6	-8.4	-8.2	3.7	15.5	-1.1	-8.1	6.9	-1.0	--
Building Consents (% yoy)	13.9	2.2	-10.7	-1.0	8.9	17.0	-3.2	6.1	-9.1	--
REINZ House Price Index (% yoy)	14.4	14.4	13.8	12.8	11.9	10.0	7.9	5.0	2.7	--
Household Lending Growth (% mom)	0.6	0.6	0.8	0.5	0.5	0.5	0.6	0.4	0.6	--
Household Lending Growth (% yoy)	8.7	8.6	8.8	8.7	8.5	8.4	8.2	7.8	7.6	--
ANZ Roy Morgan Consumer Conf.	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9	127.8	125.4
ANZ Business Confidence	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9	24.8	19.4
ANZ Own Activity Outlook	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3	42.8	40.3
Trade Balance (\$m)	-798	-723	-1	-227	-42	262	532	74	242	--
Trade Bal (\$m ann)	51943	51668	51621	51901	52087	52404	52589	53219	53538	--
ANZ World Commodity Price Index (% mom)	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	3.2	2.1	-0.8
ANZ World Comm. Price Index (% yoy)	4.0	13.6	16.5	19.1	20.9	23.0	23.7	26.3	24.6	21.1
Net Migration (sa)	6180	6140	5940	6340	5930	6150	5810	5940	6350	--
Net Migration (ann)	70282	70354	70588	71305	71333	71932	71885	71964	72305	--
ANZ Heavy Traffic Index (% mom)	-0.4	3.7	-0.5	-0.9	2.1	1.6	-2.1	4.0	0.0	--
ANZ Light Traffic Index (% mom)	-2.0	1.5	0.2	-0.3	0.8	1.2	-1.5	1.3	1.3	--

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)						
	Jun-17	Jul-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZD/USD	0.733	0.749	0.741	0.72	0.70	0.69	0.68	0.67	0.67	0.66
NZD/AUD	0.954	0.939	0.934	0.97	0.96	0.96	0.94	0.94	0.94	0.94
NZD/EUR	0.642	0.638	0.629	0.63	0.63	0.63	0.65	0.63	0.61	0.57
NZD/JPY	82.42	82.78	82.12	82.8	78.4	75.9	71.4	67.0	67.0	66.0
NZD/GBP	0.563	0.570	0.568	0.55	0.55	0.55	0.55	0.54	0.54	0.51
NZ\$ TWI	76.8	77.1	78.3	76.1	74.7	74.1	73.5	71.8	71.2	69.3
INTEREST RATES	Jun-17	Jul-17	Today	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25	2.25
NZ 90 day bill	1.98	1.95	1.95	1.97	1.98	2.07	2.33	2.50	2.50	2.59
NZ 10-yr bond	2.98	2.98	2.90	2.80	2.80	2.85	2.95	3.15	3.30	3.30
US Fed funds	1.25	1.25	1.25	1.25	1.50	1.50	1.75	2.00	2.25	2.25
US 3-mth	1.30	1.31	1.31	1.40	1.65	1.75	2.05	2.20	2.45	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	1.71	1.69	1.69	1.70	1.70	1.70	1.70	1.80	1.80	1.80

	4 Jul	31 Jul	1 Aug	2 Aug	3 Aug	4 Aug
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.99	1.95	1.95	1.96	1.95	1.94
NZGB 03/19	2.06	1.92	1.93	1.91	1.89	1.88
NZGB 05/21	2.39	2.25	2.26	2.23	2.20	2.16
NZGB 04/23	2.68	2.57	2.59	2.56	2.53	2.48
NZGB 04/27	2.99	2.98	3.04	3.00	2.95	2.89
2 year swap	2.32	2.22	2.23	2.21	2.19	2.18
5 year swap	2.90	2.76	2.78	2.75	2.71	2.67
RBNZ TWI	78.13	79.30	78.98	78.26	78.09	78.29
NZD/USD	0.7277	0.7487	0.7479	0.7425	0.7407	0.7409
NZD/AUD	0.9568	0.9393	0.9366	0.9321	0.9346	0.9353
NZD/JPY	82.38	82.78	82.60	82.23	81.95	81.99
NZD/GBP	0.5625	0.5704	0.5660	0.5612	0.5596	0.5685
NZD/EUR	0.6411	0.6382	0.6332	0.6275	0.6258	0.6298
AUD/USD	0.7606	0.7971	0.7985	0.7965	0.7926	0.7922
EUR/USD	1.1352	1.1732	1.1812	1.1833	1.1838	1.1773
USD/JPY	113.19	110.57	110.45	110.75	110.63	110.69
GBP/USD	1.2939	1.3125	1.3212	1.3229	1.3237	1.3040
Oil (US\$/bbl)	47.07	50.17	49.16	49.59	49.03	49.58
Gold (US\$/oz)	1224.91	1267.68	1266.92	1267.34	1262.19	1258.88
Electricity (Haywards)	11.47	14.43	12.17	11.04	11.19	12.67
Baltic Dry Freight Index	871	946	965	993	1023	1032
NZX WMP Futures (US\$/t)	2935	3225	3225	3160	3150	3155

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