

NEW ZEALAND ECONOMICS
MARKET FOCUS

16 May 2016

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WHEN, NOT IF**ECONOMIC OVERVIEW**

While the RBNZ did not announce any additional macro-prudential measures last week, it is a question of when, not if. Housing is booming, speculative behaviour appears to be on the rise and households are leveraging (and this looks set to continue, given our analysis of some of the long-run drivers). At the same time, low inflation and global forces (slowing growth and the hunt for yield) will keep up the pressure for a lower OCR. We still see the OCR heading lower, but further **down the track than June; it doesn't pass the smell test** to be upping the ante on housing and pouring petrol on the fire at the same time. This week, we see a **possibility that inflation expectations may tick up slightly given petrol's bounce, while global dairy prices look set to continue 'bouncing along the bottom'**. Consumer confidence figures will show whether consumers, like their business counterparts, remain reasonably upbeat.




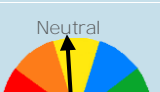
INTEREST RATE STRATEGY

We have pushed out the timing of our forecast for the next OCR cut from June to August. Alongside heavy positioning, this leaves us somewhat cautious about the short end. We doubt the market has significant scope to back up given that the RBNZ has flagged one more cut, and given the still-fickle global scene. However, we see no urgency to wade back into received positions. New Zealand/Australian spread narrowing looks set to take a breather as the local market delays the timing of expected cuts and the Australian market prices in deeper cuts (coinciding with a pop higher in the NZD/AUD exchange rate). Rising US bond yields portend higher yields here too, albeit to a lesser extent given the opposing direction of Fed and RBNZ policy.

CURRENCY STRATEGY

We expect the NZD/USD to remain range-bound, caught between domestic data that has the market second guessing a June RBNZ cut and prospects for the USD to firm amidst solid data and tame Fed hike expectations at present. We expect both to continue to have offsetting influences over the coming month. The NZD/AUD still looks prone to squeezing higher as second guessing towards the RBNZ continues amidst a buoyant economy and housing market.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.4% y/y for 2017 Q1	While growth momentum looks reasonable now, tighter financial conditions suggest a more moderate backdrop over 2H 2016.	
Unemployment rate	5.3% for 2017 Q1	The unemployment rate should continue to trend lower. Wage inflation is contained, but a turn may be in sight.	
OCR	1.75% by Mar 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	
CPI	1.4% y/y for 2017 Q1	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	

ECONOMIC OVERVIEW

SUMMARY

While the RBNZ did not announce any additional macro-prudential measures last week, it is a question of when, not if. Housing is booming, speculative behaviour appears to be on the rise and households are leveraging (and this looks set to continue, given our analysis of some of the long-run drivers). At the same time, low inflation and global forces (slowing growth and the hunt for yield) will keep up the pressure for a lower OCR. We still see the OCR heading lower, but further down the track than June; it doesn't pass the smell test to be upping the ante on housing and pouring petrol on the fire at the same time. This week, we see a possibility that inflation expectations may tick up slightly given petrol's bounce, while global dairy prices look set to continue 'bouncing along the bottom'. Consumer confidence figures will show whether consumers, like their business counterparts, remain reasonably upbeat.

FORTHCOMING EVENTS

RBNZ Survey of Expectations – Q2 (3:00pm, Tuesday, 17 May). Inflation expectations are likely to stabilise at a low level, although recent petrol price increases imply some upside.

GlobalDairyTrade Auction Results (early am, Wednesday, 18 May). This week's auction has all the hallmarks of being able to deliver an upside surprise, although the NZX futures market is cautious, expecting only a modest (2-3%) gain.

PPI – Q1 (10:45am, Wednesday, 18 May). Commodity price movements will continue to dominate, with both input and output price indices likely to be lower.

ANZ Job Ads – April (10:00am, Thursday, 19 May).

ANZ-Roy Morgan Consumer Confidence – May (1:00pm, Thursday, 19 May).

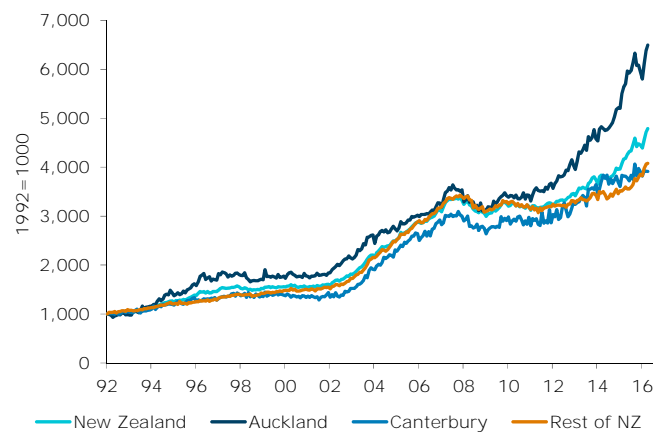
International Travel & Migration – April (10:45am, Friday, 20 May). Last month showed a softer net inflow, although we are not yet ready to call a turn in the migration cycle.

WHAT'S THE VIEW?

It is a question of when, not if, the RBNZ will implement additional macro-prudential measures targeting the housing market. While we have learned over the past couple of years that these measures are not the most optimal policy outcome – they are distortionary, their effects are often temporary and they are far less powerful than the RBNZ's traditional interest rate lever – the RBNZ looks set to take another crack via prudential means anyway.

- **The housing market is once more a run-away train**, and strength is now far broader than it has been in the past few years. The latest April REINZ data showed annual sales growth running in excess of 20% in nine of 12 regions. While we agree with the RBNZ that regional housing markets don't present the same financial stability risks that Auckland does, price growth is taking them into that territory. What's more, Auckland house prices are rising again, with the stratified measure up 6% in the past two months alone, and back to all-time highs.

FIGURE 1. REGIONAL HOUSE PRICES



Source: ANZ, REINZ

- **Interest rates are still falling.** The effective mortgage rate is yet to fully reflect previous monetary policy loosening. Together with expected further OCR cuts, we estimate there is another circa 35bps of easing still in the pipeline out to the middle of next year.
- **Debt levels are high and speculative behaviour is clearer to see.** While household debt-servicing burdens are sitting only slightly above average levels given historically low interest rates, the household debt-to-income ratio (162%) is already at all-time highs and rising. Debt servicing only looks okay because interest rates are so low; it wouldn't take much to change that via even small movements in rates. Investors are accounting for a growing share of both new lending and housing sales turnover. And for the first time that we can recall, the RBNZ is now acknowledging risks stemming from "the high share of new housing lending being undertaken on interest-only terms or at high debt-to-income multiples". The share of interest-only lending for new investor and owner-occupied borrowing is over 50% and 30% respectively.
- **Housing supply is responding, but it is slow going.** Most worryingly, escalating capacity

ECONOMIC OVERVIEW

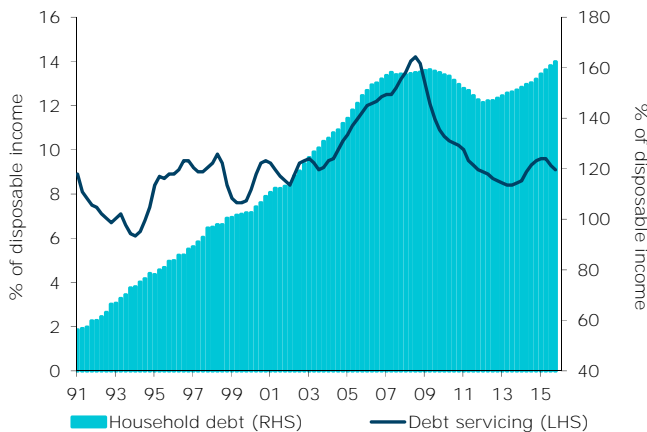
constraints and cost inflation mean we are hearing stories that projects are being canned because they are no longer viable.

The rhetoric from the RBNZ appears pretty clear; something is coming at some stage. All options appear to be on the table, but the way the RBNZ talked about debt-to-income ratios, a limit of that description looks a likely contender. **We also don't think we'll have to wait too long to find out.**

Something within the next three months wouldn't surprise us, though it may be a struggle to sell it politically as there will be concern over the impact on first home buyers.

As an aside, we have taken a look at some of the long-run drivers of household debt, and unsurprisingly, house prices feature heavily. Over time, median house prices to income and household debt to income ratios converge to a roughly one-for-one relationship. Other significant drivers include interest rates (negatively of course), the share of the working age population that is employed (as a proxy for income expectations and job security), and the share of the population aged between 34 and 54 (the mortgage-heavy demographic).

FIGURE 2. HOUSEHOLD DEBT AND SERVICEABILITY



Source: ANZ, RBNZ

These drivers suggest that the household debt to income ratio will rise further. It's a vicious circle where house prices move up requiring more credit to be taken on board, and credit in turn pushes house prices up further. That's the basic credit-accelerator model that was apparent pre-GFC. But on top of this, interest rates are still falling and the labour market is performing well, providing confidence for households to run with more debt on their balance sheet. The main factor working in the opposite direction is demographics, with the share of the population in prime "debt-leveraging age" now falling (it is down from close to 30% of the total in 2007 to 26% now, and it should continue falling as the population ages).

This of course tells us very little to nothing about the sustainable ratio of debt to income. But we suspect that rubber-band is getting tighter by the day, which highlights a growing vulnerability for the economy.

Turning to the week ahead, we expect the RBNZ's Survey of Expectations to show stable inflation expectations at a low level, although risks look skewed modestly to the upside. While we have our reservations about this survey (as we do with many survey measures of inflation expectations, given their often-small sample size and tendency to be thrown around by petrol price movements), the market will no doubt be highly sensitive to any changes given the RBNZ's recent focus on inflation expectations. In fact, concern over low inflation expectations was a key reason why it cut the OCR in March. We expect the 2-year ahead measure to be close to last quarter's 1.63% result, although with petrol prices bouncing since then (average prices are 15c/litre higher since February) we wouldn't be surprised if this measure was to lift slightly.

This week's GlobalDairyTrade auction has all the hallmarks of being able to deliver an upside surprise. However, the NZX futures market appears less convinced and some of the main buyer groups don't yet appear to be too keen to pay a price premium to hedge future requirements. Dairy futures are anticipating a 3% lift in the GDT-TWI and 2% for whole milk powder (WMP), but these have ground lower recently.

The main support for prices should come from the seasonal low in GDT auction volumes and GDT supply being the cheapest source for some product. Skim milk powder, at US\$1,600-\$1,700/t, remains below intervention price levels in Europe. The market is anticipating this won't last, with a 5% increase anticipated by NZX futures this week. For WMP there is only 5,500 tonnes of product on offer, which means May auction volumes will be 50% below the last two years. The majority of this is for delivery in the June/July period, where price support was evident at the last auction. Even lower volumes at this week's auction should support further price tension, but how much will depend on buyers' immediate requirements.

Beyond this an upward sloping curve for both SMP and WMP will remain important. Fonterra's view at the release of its half-year results was an increase in WMP prices to US\$2,500/t by December. Certainly lower New Zealand supply (which some are suggesting will be down more than 5% next season), higher oil prices and more normal Chinese demand point to a grind toward this level. The other dynamic

ECONOMIC OVERVIEW

coming through more strongly in recent weeks is more aggressive price cuts to farm-gate prices by other global dairy processors in the Northern Hemisphere and Australia. This will help stem the tide of milk supply growth over the second half of 2016 and, as inventory is worked through, somewhat rebalance market pricing for bulk ingredients, off extreme lows.

While the GDT auction will be a focus this week, Fonterra will also announce its opening forecast for next season by the end of May. Low

international prices and a resilient NZD/USD don't make for a good combination. The market seems to be anticipating an opening milk price anywhere from \$4.30 to \$5.00/kg MS.

Our official headline milk price forecast is \$5/kg MS for 2016/17 (as this is what the analysis supports), but for farmers setting budgets we have suggested starting conservatively by using a milk price around the mid-\$4/kg MS. From an economy-wide perspective, anything in this range will maintain cash-flow pressures for at least the next 12 months, constraining farmer spending.

Our ANZ Job Ads gauge will show whether labour demand has continued at a robust pace.

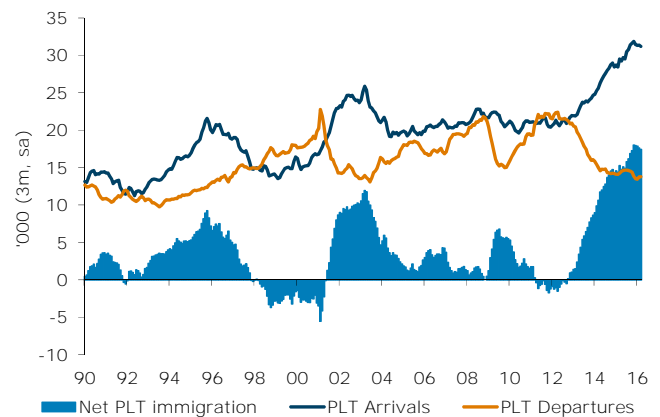
The latest labour market figures showed employment growing at a decent 1.2% q/q pace in Q1, following 1.0% q/q growth in Q4. Annual growth, at 2.0% y/y, has begun to accelerate again. This acceleration in the "official" employment data is consistent with the signal provided by the job ads series, which lifted 2.9% m/m in March, building on a 1.7% m/m increase in February. While firms' employment intentions did dip a touch in the April *Business Outlook* survey, they remain at a respectable level, and another lift in job advertising would give a further strong signal that labour demand has continued at a decent pace heading into Q2.

This improving labour market backdrop is no doubt one of the key things supporting consumer sentiment. ANZ-Roy Morgan Consumer Confidence – with data for May due this week – has been effectively holding in line with its historical average for the past six months. Together with its business sentiment equivalent, respectable consumer sentiment highlights there is little sign yet that the domestic economy is rolling over in any meaningful fashion, even with dairy sector strains, alarming global headlines, and the tightening in financial conditions experienced since the start of the year.

Migration data for April rounds out the week, and it should again be strong. To be fair, the net inflow in March, at "just" 5,330, was the smallest in nine months, so we will be watching to see if this is a

developing trend. Certainly, the Australian labour market has looked a little stronger of late (both economies now have a 5.7% unemployment rate) and that may see the historically unusual recent net inflow of migrants from Australia begin to turn. That said, even if net migrant inflows were to start moderating, we are not expecting a meaningful shift, given that economic outperformance will continue to make New Zealand an attractive destination for migrants.

FIGURE 3. NET MIGRATION



Source: ANZ, Statistics NZ

LOCAL DATA

ANZ Truckometer – April. The Heavy Traffic Index fell 2.4% m/m, while the Light Traffic Index was unchanged.

Government Monthly Financial Statements – nine months to March. An OBEGAL surplus of \$167 million compares with a \$167 million Half-Year Update forecast.

Electronic Card Transactions – April. Total retail spending rose 0.9% m/m, with core spending rising a more modest 0.4% m/m.

ANZ Monthly Inflation Gauge – April. The Gauge rose 0.1% m/m, with the Underlying Ex-housing Gauge dropping 0.1% m/m.

REINZ Housing Market Statistics – April. In seasonally adjusted terms, house sales volumes rose 9.8% m/m, while the REINZ House Price Index rose 2.2% m/m (14.5% y/y).

BNZ-Business NZ Manufacturing PMI – April. The index rose 1.8 points to 56.5.

Food Price Index – April. Food prices rose 0.3% m/m (0.5% y/y), led by a lift in vegetable prices.

Retail Trade Survey – Q1. Total sales volumes rose 0.8% q/q, with core volumes rising 1.0% q/q.

INTEREST RATE STRATEGY

SUMMARY

We have pushed out the timing of our forecast for the next OCR cut from June to August. Alongside heavy positioning, this leaves us somewhat cautious about the short end. We doubt the market has significant scope to back up given that the RBNZ has flagged one more cut, and given the still-fickle global scene. However, we see no urgency to wade back into received positions. New Zealand/Australian spread narrowing looks set to take a breather as the local market delays the timing of expected cuts and the Australian market prices in deeper cuts (coinciding with a pop higher in the NZD/AUD exchange rate). Rising US bond yields portend higher yields here too, albeit to a lesser extent given the opposing direction of Fed and RBNZ policy.

THEMES

- A June OCR is no longer a “done deal” (it never was, in our view) and local market pricing has become more cautious.
- The local curve has flattened, driven by higher short-term rates. The belly of curve and 2-5-10s touched multi-year lows, but then retraced.
- NZ/AU spread convergence has been put on the back-burner, with the local market distancing itself from RBNZ cuts, while the Australian market is gunning for cuts.
- Tame global inflation and concerns over the activity outlook have helped cap global long-term yields. However, we retain a steepening bias given the strength of recent US data, our expectation of that the Fed will soon hike, and a belief that we are past the lows for US inflation.
- Local yields have touched record lows, and are biased higher, although the hunt for yield should assist in further yield compression against global counterparts.

PREFERRED STRATEGIES – INVESTORS

KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral	Near-term reasonable; long-end rates still high in global context.
2s10s Curve	Steeper	OCR biased lower, but long end still biased mildly higher.
Geographic 10yr spread	Narrower	Divergent policy biases argue for gradual narrowing.
Swap spreads	Neutral	Risk of narrowing, given increased bond supply.

HIGHER HURDLE TO OCR CUTS

We have shifted our OCR call. We are now expecting the RBNZ to wait until August before delivering a 25bp cut. We have also pencilled in a further 25bp cut in early 2017. The market has

come around to a similar view, which has led to a flatter curve on the back of profit being taken on earlier received positions. **The key question now is; how high could short-end rates go? Our sense is that the need for eventual OCR cuts will cap the upside.** However, given the extent of long positioning, and the still reasonably solid tone of local data, **we see no urgency to jump back on the short-end bandwagon.**

While we explicitly changed our forecasts on Friday, the reality is that it has been an evolutionary process. Indeed, regular readers will be aware that we were previously not fully convinced on the need for a June cut given the solid domestic outlook, and our view has not shifted materially since then. Further signs of stabilisation in global markets, resilient domestic economic activity (this week’s consumer confidence figures will show whether consumers, like their business counterparts, remain reasonably upbeat) and the message from the RBNZ that no non-OCR measures to slow housing demand are imminent, together suggest no hurry to move the OCR lower.

But as noted, we remain of the view that further RBNZ easing will eventually be needed. The global situation remains tenuous, and the NZD TWI is elevated in relation to commodity prices, with this week’s GDT auction expected to show prices bouncing along the bottom. The likelihood is that strains in credit markets could also prompt more competition for funds. Moreover, inflation indicators, whilst likely to have troughed, remain very low, and the possible introduction of debt-to-income limits for mortgage lending should pave the way for a lower OCR. There are also tactical reasons for waiting until August, with local Q2 CPI and Q1 GDP data around the corner, and results of the Brexit referendum and June and July Fed decisions known by then.

FIGURE 1: 12 MONTH AHEAD CASH RATE EXPECTATIONS



Source: ANZ, Bloomberg



INTEREST RATE STRATEGY

With the RBNZ likely to proceed more slowly in cutting rates, convergence with (lower) Australian rates has been put on the back burner for at least the next few months – particularly with RBA rate-cut expectations having ramped up following the RBA cut (see Figure 1). With the Statement on Monetary Policy providing the rationale for the May RBA cash rate cut (i.e. a weaker inflation outlook) the information content of this week’s RBA minutes is likely to be somewhat limited. Australian employment data will be examined for signs of improvement. Uniformly weak Chinese data over the weekend likely maintained support for received-side positions, both here and in Australia.

FIGURE 2. US AND NZ YIELDS



Source: ANZ, Bloomberg

So far, low global inflation and the fickle global scene have helped anchor long-term yields despite improving signs in the US. This week’s annual headline US CPI inflation print is expected to remain low, with core inflation hovering just over 2%. Hawkish comments by Fed voters George, Mester and Rosengren contrasted with concerns by voter Brainard over the global scene and negligible market odds for Fed hikes – just 4% for June and 53% by the end of the year.

Local 10-year bond yields touched record lows last week and it is notable that no local NZGS bonds now sport a 3% handle. We still expect US yields (and by association, most global yields) to rise gradually as US inflation picks up and the Fed tightens. **However, the hunt for yield should assist in further yield compression against global counterparts, with the RBNZ on an easing trajectory while the Fed hikes.**

Despite signs we are past the lows for headline inflation, NZGS “linker” yields have battled, given the rally in outright global yields, and the recent tumbling in Australian linkers. Yields should outperform conventional yields based on our firming local inflation

view and the likelihood that the market will take back some of the cuts priced in for Australia.

PREFERRED STRATEGIES – BORROWERS

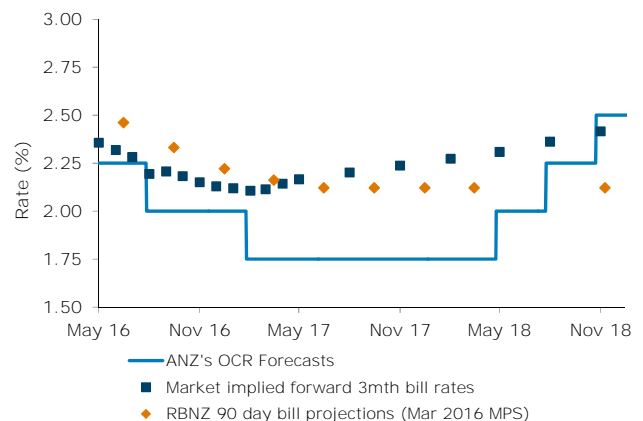
Local long-term rates are at historical lows and it is cheap to fix, particularly with a flatter borrowing curve. Our bias is for rates to gradually drift higher, but with few catalysts on the horizon to signal an impending ‘snap’ higher in longer-term yields, borrowers can afford to be patient. Credit spreads are likely to remain volatile and subject to swings in global sentiment. Swap hedges are ineffectual in protecting against movements in credit spreads and could prove counter-productive if swap rates fall. This, and the volatile trading environment, **has us biased towards favouring an option-based strategy when it comes to new hedging.** This makes the decision to take on more expensive term hedging a difficult one.

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

Odds of a near-term RBNZ rate cut have eased back, with around 12bps of cuts now priced in for June. There is close to 20bps of cuts priced by August and 30bps by the end of the year, with the scaling back in rate cut expectations consistent with our changed call for the OCR. However, mid-2017 hikes signalled in current market pricing look to be premature considering the lack of inflationary pressure.

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



Source: ANZ, Bloomberg

CURRENCY STRATEGY

SUMMARY

We expect the NZD/USD to remain range-bound, caught between domestic data that has the market second guessing a June RBNZ cut and prospects for the USD to firm amidst solid data and tame Fed hike expectations at present. We expect both to continue to have offsetting influences over the coming month. The NZD/AUD still looks prone to squeezing higher as second guessing towards the RBNZ continues amidst a buoyant economy and housing market.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔/↓	Awaiting catalysts	Profile still lower
NZD/AUD	↔/↑	Still has room to test higher.	Remain above long-run averages
NZD/EUR	↔	Still in range	Political risks for EUR
NZD/GBP	↔	Brexit risks lifting	GBP resurgence
NZD/JPY	↔/↑	Oversold?	JPY returning to averages.

THEMES AND RISKS

- New Zealand data should remain NZD supportive, but markets will be sensitive to changes in the RBNZ's 2-year inflation expectation measure.
- With US data remaining at solid levels, there will remain risks for USD to strengthen.
- China data continues to oscillate; we remain cautious on China and commodity price action.
- Markets will look to see how much "Brexit" uncertainty has weakened UK data.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT	WHEN (NZST)	IMPACT RISK
USD May Empire survey	Tue 00:30	NZD/USD ↓
AUD RBA minutes	Tue 13:30	NZD ↔
NZD RBNZ inflation exp.	Tue 15:00	NZD/USD ↔/↑
JPY Industrial production	Tue 16:30	NZD/JPY ↑
GBP CPI, RPI, PPI	Tue 20:30	NZD/GBP ↓
NZD GDT auction	Wed am	NZD/USD ↓
USD House starts/permits	Wed 00:30	NZD/USD ↓
USD April CPI	Wed 00:30	NZD/USD ↓
USD April Industrial prod.	Wed 01:15	NZD/USD ↓
JPY Q1 GDP	Wed 11:50	NZD/JPY ↑
CNY Property Prices	Wed 13:30	NZD ↑
AUD Q1 wages	Wed 13:30	NZD/AUD ↔/↓
GBP Employment report	Wed 20:30	NZD/GBP ↓
EUR EU CPI (f)	Wed 21:00	NZD/EUR ↔/↓
USD Fed minutes	Thu 06:00	NZD/USD ↓
NZD ANZ Job Ads	Thu 10:00	NZD
NZD ANZ Consumer conf.	Thu 13:00	NZD
AUD Employment	Thu 13:30	NZD/AUD ↓
GBP Retail sales	Thu 20:30	NZD/GBP ↑
EUR ECB AoMP	Thu 23:30	NZD/EUR ↑
USD Philadelphia Fed	Fri 00:30	NZD/USD ↓
NZD Net migration	Fri 10:45	NZD ↑
NZD Credit card spending	Fri 15:00	NZD ↔/↓

EXPORTERS' STRATEGY

Current levels are better for exporters with short term commitments, and we remain of the view that global drivers remain the primary influence on NZD/USD.

IMPORTERS' STRATEGY

We prefer to take advantage of any NZD strength, as long-term factors suggest strength will be transient.

DATA PULSE

Local data remains mixed, but at a level that is still NZD-supportive. The Business NZ PMI accelerated in April, even if the ANZ Truckometer eased off. Card spending data was solid, as was Q1 retail spending. The ANZ inflation gauge was within seasonal norms, and the RBNZ *FSR* was light on details, although the press conference made it clear that further measures are being considered.

Chinese April data was soft. Aggregate financing was just a little over half what was expected, while industrial production and retail sales disappointed.

US data continued to pick up, supporting USD. Small business optimism rallied and the JOLTS job openings report showed the second highest level of openings on record. Retail sales and Michigan confidence both posted large gains.

GBP eased as 'Brexit' fears re-emerged. The BoE gave its clearest warning yet that the UK faces recession if the vote is to leave.

EUR softened as weakness from European industrial production, combined with stronger US data.

The **AUD traded lower** as home lending fell, although we note that investor lending remained solid. Consumer inflation expectations were soft.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↑	Yields have gone in NZ favour
Commodities	↔/↑	Iron ore reversing.
Data	↔/↑	NZD data is resilient.
Techs	↔	Back to mid-range
Sentiment	↔	Equal reactions to sentiment
Other	↑	RBA signalling further cuts.
On balance	↔	Mid-range

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	Closer to fair value.
Yield	↔/↓	RBA cut applies pressure.
Commodities	↔	Risks reasonably well priced.
Risk aversion	↔/↑	Resilience to risk notable.
Data	↔/↓	US data has improved, but NZD data is remaining strong.
Techs	↔	Testing pivotal support
Other	↔/↓	USD sentiment on the improve
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 broken out of its uptrend, and pivotal support at 0.6680-0.6720 is now all that prevents NZD/USD from testing towards 0.65 again. A double top has formed just above 0.7050 and markets will be hard pressed to push kiwi through that level.

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



This cross looks to be heading higher to test resistance near 0.9450-0.95. There seems to be little to check this cross's strength until that level. And there is support building near the 200dma at 0.9158. For now this cross remains broadly range-bound and importers could use strength from here to hedge.

TABLE 5: KEY TECHNICAL ZONES		
CROSS	SUPPORT	RESISTANCE
NZD/USD	0.6710 – 0.6750 0.6600 – 0.6650	0.7050 – 0.7080 0.7160 – 0.7200
NZD/AUD	0.9010 – 0.9060 0.8780 – 0.8820	0.9400 – 0.9430 0.9480 – 0.9520
NZD/EUR	0.5800 – 0.5850	0.6200 – 0.6230
NZD/GBP	0.4630 – 0.4660	0.4930 – 0.4980
NZD/JPY	69.80 – 70.20	77.70 – 78.50

POSITIONING

Positioning continues to unwind. GBP short positions were almost eliminated, while AUD longs were dramatically reduced. EUR shorts and JPY longs were reduced, while NZD was the exception to the rule seeing a small growth in long positions.

GLOBAL VIEWS

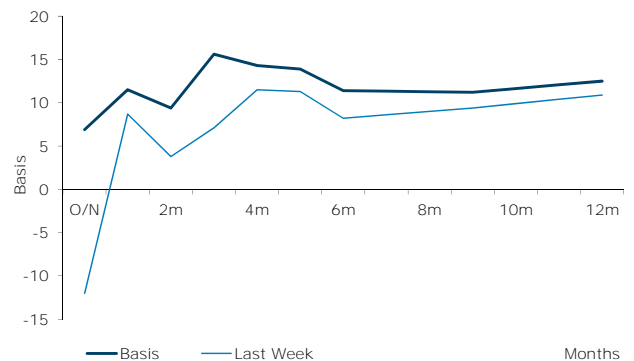
Chinese April data released at the weekend was generally weaker than expected. Chinese aggregate financing was almost half of what was expected and industrial production and retail sales missed to the downside. Clearly worries about the Chinese economy should not yet be put to one side, and it seems likely markets will face another bout of Chinese induced jitters – keeping pressure on NZD and AUD.

ASEAN trade numbers back this thesis up, and markets are also looking to the slowing UK (PMIs all missed expectations the week before last) and European data pulses (industrial production).

This leaves markets, particularly currency markets, volatile and nervous. With US data picking up again the USD is steadily in demand, which brings its own concerns for ASEAN markets that are perceived to be short USD. We continue to see a small likelihood of an environment where the USD is strong as data continues to improve, but ASEAN and Chinese growth slow forcing NZD/USD into rapid depreciation.

FORWARDS: CARRY AND BASIS

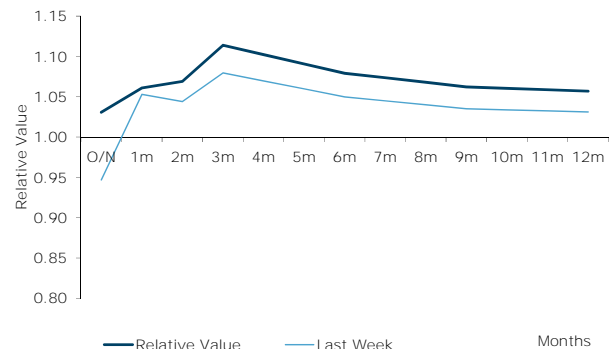
FIGURE 3. NZD/USD SHORT BASIS CURVE



Source: ANZ, Bloomberg, Reuters

Markets have been steadily pushing NZ rates cuts further out. This move has resulted in an unwinding of sell/buy NZD positions in the short end that has pushed the basis curve wider.

FIGURE 4. RELATIVE ATTRACTION OF THE FWD CURVE



Source: ANZ, Bloomberg, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-May	US	Empire Manufacturing - May	6.50	9.56	00:30
	US	NAHB Housing Market Index - May	59.0	58.0	02:00
	US	Total Net TIC Flows - Mar	--	\$33.5B	08:00
	US	Net Long-term TIC Flows - Mar	--	\$72.0B	08:00
	AU	ANZ-RM Consumer Confidence Index - 15-May	--	113.9	11:30
	AU	RBA May Meeting Minutes	--	--	13:30
	AU	New Motor Vehicle Sales MoM - Apr	--	2.2%	13:30
	AU	New Motor Vehicle Sales YoY - Apr	--	4.2%	13:30
	NZ	2Yr Inflation Expectation - Q2	--	1.6%	15:00
	UK	CPI MoM - Apr	0.3%	0.4%	20:30
	UK	CPI YoY - Apr	0.5%	0.5%	20:30
	UK	CPI Core YoY - Apr	1.4%	1.5%	20:30
	UK	Retail Price Index - Apr	261.9	261.1	20:30
	UK	RPI MoM - Apr	0.3%	0.4%	20:30
	UK	RPI YoY - Apr	1.5%	1.6%	20:30
	UK	RPI Ex Mort Int.Payments (YoY) - Apr	1.6%	1.6%	20:30
	UK	PPI Input NSA MoM - Apr	1.1%	2.0%	20:30
	UK	PPI Input NSA YoY - Apr	-6.7%	-6.5%	20:30
	UK	PPI Output NSA MoM - Apr	0.2%	0.3%	20:30
	UK	PPI Output NSA YoY - Apr	-0.8%	-0.9%	20:30
	UK	PPI Output Core NSA MoM - Apr	0.1%	0.1%	20:30
	UK	PPI Output Core NSA YoY - Apr	0.3%	0.2%	20:30
	UK	ONS House Price YoY - Mar	--	7.6%	20:30
	EC	Trade Balance SA - Mar	€22.0B	€20.2B	21:00
	EC	Trade Balance NSA - Mar	--	€19.0B	21:00
18-May	US	Housing Starts - Apr	1125k	1089k	00:30
	US	Housing Starts MoM - Apr	3.3%	-8.8%	00:30
	US	Building Permits - Apr	1135k	1076k	00:30
	US	Building Permits MoM - Apr	5.5%	-8.6%	00:30
	US	CPI MoM - Apr	0.3%	0.1%	00:30
	US	CPI YoY - Apr	1.1%	0.9%	00:30
	US	CPI Ex Food and Energy MoM - Apr	0.2%	0.1%	00:30
	US	CPI Ex Food and Energy YoY - Apr	2.1%	2.2%	00:30
	US	Industrial Production MoM - Apr	0.3%	-0.6%	01:15
	US	Capacity Utilization - Apr	75.0%	74.8%	01:15
	NZ	PPI Input QoQ - Q1	--	-1.2%	10:45
	NZ	PPI Output QoQ - Q1	--	-0.8%	10:45
	JN	GDP SA QoQ - Q1 P	0.1%	-0.3%	11:50
	JN	GDP Annualized SA QoQ - Q1 P	0.3%	-1.1%	11:50
	JN	GDP Nominal SA QoQ - Q1 P	0.5%	-0.2%	11:50
	JN	GDP Deflator YoY - Q1 P	1.0%	1.5%	11:50
	AU	Westpac Leading Index MoM - Apr	--	-0.12%	12:30
	AU	Wage Price Index QoQ - Q1	0.5%	0.5%	13:30
	AU	Wage Price Index YoY - Q1	2.2%	2.2%	13:30
	UK	Claimant Count Rate - Apr	2.1%	2.1%	20:30
	UK	Jobless Claims Change - Apr	4.5k	6.7k	20:30
	UK	Average Weekly Earnings 3M/YoY - Mar	1.7%	1.8%	20:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Mar	2.3%	2.2%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
18-May	UK	ILO Unemployment Rate 3Mths - Mar	5.1%	5.1%	20:30
	UK	Employment Change 3M/3M - Mar	0k	20k	20:30
	EC	CPI MoM - Apr	0.0%	1.2%	21:00
	EC	CPI YoY - Apr F	-0.2%	-0.2%	21:00
	EC	CPI Core YoY - Apr F	0.7%	0.7%	21:00
	US	MBA Mortgage Applications - 13-May	--	0.4%	23:00
19-May	US	FOMC Meeting Minutes - 27-Apr	--	--	06:00
	NZ	ANZ Job Advertisements MoM - Apr	--	2.9%	10:00
	NZ	ANZ Consumer Confidence Index - May	--	120	13:00
	NZ	ANZ Consumer Confidence MoM - May	--	1.7%	13:00
	AU	Employment Change - Apr	12.0k	26.1k	13:30
	AU	Unemployment Rate - Apr	5.8%	5.7%	13:30
	AU	Full Time Employment Change - Apr	--	-8.8k	13:30
	AU	Part Time Employment Change - Apr	--	34.9k	13:30
	AU	Participation Rate - Apr	64.9%	64.9%	13:30
	AU	RBA FX Transactions Market - Apr	--	954M	13:30
	EC	ECB Current Account SA - Mar	--	€19.0B	20:00
	EC	Current Account NSA - Mar	--	€11.1B	20:00
	UK	Retail Sales Ex Auto Fuel MoM - Apr	0.7%	-1.6%	20:30
	UK	Retail Sales Ex Auto Fuel YoY - Apr	2.0%	1.8%	20:30
	UK	Retail Sales Inc Auto Fuel MoM - Apr	0.6%	-1.3%	20:30
	UK	Retail Sales Inc Auto Fuel YoY - Apr	2.5%	2.7%	20:30
	EC	Construction Output MoM - Mar	--	-1.1%	21:00
	EC	Construction Output YoY - Mar	--	2.5%	21:00
20-May	US	Chicago Fed Nat Activity Index - Apr	-0.20	-0.44	00:30
	US	Initial Jobless Claims - 14-May	275k	294k	00:30
	US	Continuing Claims - 7-May	2165k	2161k	00:30
	US	Philadelphia Fed Business Outlook - May	3.0	-1.6	00:30
	US	Leading Index - Apr	0.4%	0.2%	02:00
	NZ	Net Migration SA - Apr	--	5330	10:45
	NZ	Credit Card Spending MoM - Apr	--	-1.1%	15:00
	NZ	Credit Card Spending YoY - Apr	--	4.8%	15:00
	GE	PPI MoM - Apr	0.1%	0.0%	18:00
	GE	PPI YoY - Apr	-3.0%	-3.1%	18:00
	UK	CBI Trends Total Orders - May	-13	-11	22:00
	UK	CBI Trends Selling Prices - May	--	4	22:00
21-May	US	Existing Home Sales - Apr	5.40M	5.33M	02:00
	US	Existing Home Sales MoM - Apr	1.3%	5.1%	02:00

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 at present, albeit moderating. However, downside risks exist (mainly from offshore) and with inflation already low, we believe the RBNZ will cut the OCR twice more this year, with the next cut pencilled in for August.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 17 May (3:00pm)	RBNZ Survey of Expectations – Q2	Stable	Inflation expectations are likely to stabilise at a low level, although recent petrol price increases imply some upside.
Wed 18 May (early am)	GlobalDairyTrade Auction	Still low	We still believe the fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Wed 18 May (10:45am)	PPI – Q1	Lower	Commodity price movements will continue to dominate, with both input and output price indices likely to be lower.
Thu 19 May (10:00am)	ANZ Job Ads – Apr	--	--
Thu 19 May (1:00pm)	ANZ-Roy Morgan Consumer Confidence – May	--	--
Fri 20 May (10:45am)	International Travel & Migration – Apr	Strong	Last month showed a softer net inflow, although we are not yet ready to call a turn in the migration cycle.
Wed 25 May (10:45am)	Overseas Merchandise Trade – Apr	Export recovery	Seasonally adjusted export values fell sharply in both February and March. We expect some recovery.
Thu 26 May (2:00pm)	Budget	Slowly on the mend	An ongoing gradual pace of fiscal improvement. The figures overall are looking good relative to many international peers.
Tue 31 May (10:45am)	Building Consent Issuance – Apr	Trending higher	Issuance has been volatility recently. We have some concerns over capacity constraints, but issuance should still trend higher.
Tue 31 May (1:00pm)	ANZ Business Outlook – May	--	--
Tue 31 May (3:00pm)	RBNZ Credit Aggregates – Apr	Re-leveraging	Credit growth may not accelerate from current elevated rates, but it remains well above income growth.
Wed 1 Jun (10:45am)	Overseas Trade Indexes – Q1	Terms of trade fall	Previous commodity price falls are still impacting. We expect a further fall in the terms of trade.
Thu 2 Jun (early am)	GlobalDairyTrade Auction	Still low	We still believe the fundamental backdrop is not yet conducive to a meaningful recovery in prices.
Fri 3 Jun (10:45am)	Building Work Put in Place – Q1	Modest lift	Modest increases (circa 2% q/q) in both residential and non-residential volumes are likely.
Fri 3 Jun (1:00pm)	ANZ Commodity Price Index – May	--	--
Tue 7 Jun (10:00am)	ANZ Truckometer – May	--	--
Wed 8 Jun (10:45am)	Economic Survey of Manufacturing – Q1	Mixed	Primary volumes may bounce back a touch, while core production should be reasonable, as signalled by the PMI.
Thu 9 Jun (9:00am)	RBNZ Monetary Policy Statement	On hold	We don't think the economy needs further interest rate support right now. However, a clear easing bias will be retained.
Fri 10 Jun (10:45am)	Electronic Card Transactions – May	Respectable	A number of support factors for consumer spending remain, which should keep the underlying pace respectable overall.
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	0.4	0.4	0.0	0.6	0.4	0.7	0.3	0.6
CPI (% yoy)	0.1	0.4	0.4	0.5	1.0	1.4	1.4	1.7	1.9	1.9
Employment (% qoq)	1.0	1.2	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4
Employment (% yoy)	1.4	2.0	2.3	3.3	2.7	1.9	1.7	1.6	1.6	1.6
Unemployment Rate (% sa)	5.4	5.7	5.5	5.4	5.4	5.3	5.2	5.2	5.1	5.0
Current Account (% GDP)	-3.0	-3.3	-3.5	-4.0	-4.6	-5.0	-5.1	-5.0	-4.8	-4.6
Terms of Trade (% qoq)	-2.0	-1.9	-3.0	-2.7	-0.4	0.8	1.8	2.7	1.8	0.8
Terms of Trade (% yoy)	-3.2	-6.1	-10.3	-9.3	-7.8	-5.3	-0.6	5.0	7.3	7.2

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16
Retail ECT (% mom)	0.4	0.5	0.9	0.1	0.7	0.2	0.3	0.7	0.1	0.9
Retail ECT (% yoy)	5.6	4.2	6.1	5.8	4.6	6.6	5.2	9.2	6.2	7.8
Credit Card Billings (% mom)	1.7	1.5	-2.0	1.7	0.7	-0.7	1.8	-0.5	-1.1	--
Credit Card Billings (% yoy)	9.7	10.4	7.3	7.8	8.5	7.4	8.2	7.3	4.8	--
Car Registrations (% mom)	0.5	-2.3	0.0	-1.3	-2.0	3.1	-2.8	5.8	-3.6	6.3
Car Registrations (% yoy)	10.7	7.8	5.0	3.8	1.3	2.4	-1.1	7.4	-0.2	8.7
Building Consents (% mom)	22.2	-7.1	-4.8	5.0	1.7	2.7	-8.4	10.3	-9.8	--
Building Consents (% yoy)	21.8	11.1	17.5	14.6	7.2	17.7	4.9	26.7	0.6	--
REINZ House Price Index (% yoy)	14.9	17.3	20.1	14.1	12.5	12.6	10.7	11.9	13.3	14.5
Household Lending Growth (% mom)	0.7	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	--
Household Lending Growth (% yoy)	6.0	6.3	6.7	6.9	7.2	7.4	7.5	7.6	7.7	--
ANZ Roy Morgan Consumer Conf.	113.9	109.8	110.8	114.9	122.7	118.7	121.4	119.7	118.0	120.0
ANZ Business Confidence	-15.3	-29.1	-18.9	10.5	14.6	23.0	..	7.1	3.2	6.2
ANZ Own Activity Outlook	19.0	12.2	16.7	23.7	32.0	34.4	..	25.5	29.4	32.1
Trade Balance (\$m)	-730	-1090	-1140	-905	-795	-42	12	367	117	--
Trade Bal (\$m ann)	51643	52446	52287	52101	52648	52510	52764	52834	52677	--
ANZ World Commodity Price Index (% mom)	-5.5	-5.3	5.6	7.1	-5.6	-1.8	-2.3	0.5	-1.3	-0.8
ANZ World Comm. Price Index (% yoy)	-22.1	-23.6	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8
Net Migration (sa)	5740	5500	5610	6150	6240	5540	6090	5990	5330	--
Net Migration (ann)	59639	60290	61234	62477	63659	64930	65911	67391	67619	--
ANZ Heavy Traffic Index (% mom)	-0.1	-0.3	1.8	1.0	0.2	3.0	-4.4	1.7	3.3	-2.4
ANZ Light Traffic Index (% mom)	-0.3	-0.5	2.6	-0.4	0.3	-1.1	-1.4	2.6	0.5	0.0

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)						
	Mar-16	Apr-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZD/USD	0.693	0.698	0.676	0.65	0.63	0.59	0.58	0.58	0.60	0.62
NZD/AUD	0.902	0.918	0.931	0.88	0.88	0.88	0.88	0.88	0.88	0.89
NZD/EUR	0.609	0.609	0.598	0.59	0.59	0.55	0.52	0.50	0.50	0.51
NZD/JPY	77.81	74.31	73.42	68.3	66.2	62.0	58.0	58.0	60.0	62.0
NZD/GBP	0.481	0.477	0.471	0.48	0.43	0.39	0.37	0.37	0.38	0.38
NZ\$ TWI	72.2	72.2	72.6	68.6	67.1	63.4	61.4	60.9	61.8	63.1
INTEREST RATES	Mar-16	Apr-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZ OCR	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75
NZ 90 day bill	2.34	2.40	2.34	2.40	2.20	2.10	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.93	2.85	2.59	3.00	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	0.64	0.63	0.83	0.83	1.08	1.08	1.33	1.33	1.58
AU Cash Rate	2.00	2.00	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.29	2.15	1.99	2.30	2.30	2.40	2.40	2.40	2.40	2.40

	13 Apr	9 May	10 May	11 May	12 May	13 May
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.36	2.36	2.35	2.36	2.35	2.35
NZGB 12/17	2.14	2.02	2.00	2.03	2.04	2.08
NZGB 03/19	2.21	2.07	2.04	2.06	2.07	2.11
NZGB 04/23	2.74	2.49	2.46	2.46	2.47	2.49
NZGB 04/27	2.89	2.62	2.60	2.60	2.62	2.63
2 year swap	2.23	2.18	2.16	2.20	2.22	2.23
5 year swap	2.42	2.29	2.25	2.29	2.33	2.34
RBNZ TWI	73.0	72.80	72.05	72.48	72.80	72.73
NZD/USD	0.6946	0.68	0.67	0.68	0.68	0.68
NZD/AUD	0.90	0.93	0.92	0.92	0.93	0.93
NZD/JPY	75.63	73.45	73.36	73.89	74.20	73.98
NZD/GBP	0.49	0.47	0.47	0.47	0.47	0.47
NZD/EUR	0.61	0.60	0.59	0.60	0.60	0.60
AUD/USD	0.77	0.74	0.73	0.74	0.73	0.73
EUR/USD	1.14	1.14	1.14	1.14	1.14	1.14
USD/JPY	108.89	107.31	108.79	108.82	108.65	108.74
GBP/USD	1.43	1.44	1.44	1.44	1.44	1.44
Oil (US\$/bbl)	42.12	44.58	43.45	44.68	46.21	46.64
Gold (US\$/oz)	1250.13	1284.69	1264.31	1270.35	1271.40	1271.60
Electricity (Haywards)	6.29	6.71	6.83	6.52	5.30	4.40
Baltic Dry Freight Index	567	616	594	579	579	600
Milk futures (USD)	43	44	45	47	47	47

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