ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

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INSIDE

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SIDESWIPED

ECONOMIC OVERVIEW

Markets are set for a tumultuous period following the UK EU referendum result. Society has sent a message against globalisation and economic integration; that's negative for microeconomic policy settings and ultimately growth. A key issue now is whether Brexit spills over into wider Europe. We suspect it will, and from there likely into emerging markets. Global growth will be lower, although we are coy about making sweeping assessments at this early stage. What we know is that a) the global economy is already vulnerable; and b) steps towards anti-globalisation and disintegration are negatives that need to be reflected in asset valuations. At this stage, we expect the domestic impact to be small, but it is a moving feast and we are watching our 6 C's closely. Weaker commodity and credit markets, and a resilient NZD, would be an unwelcome combination.

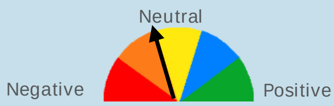
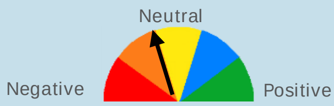
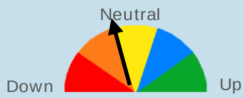
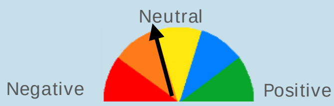
INTEREST RATE STRATEGY

With uncertainty high, short-end rates remain biased lower. Domestic economic strength limits how far we can go, but the market needs to acknowledge the strong TWI amid a changing global monetary policy landscape in the wake of Brexit and likely negative global growth fall-out. Long-end rates have opened lower in line with US Treasuries. While lower outright yields typically mean spread widening as the NZ long-end lags global moves, in coming weeks we would not be surprised to see NZ be a beneficiary of the widening of peripheral European sovereign bond spreads. Global uncertainty suggests we will see further curve flattening.

CURRENCY STRATEGY

We are not expecting the current bout of uncertainty over Brexit to materially impact negatively on the NZD; NZ yields will remain alluring as the world pushes deeper into negative territory. This means a higher bias despite unsupportive valuation metrics. We'll change our view if we start to see pressures manifest in emerging markets on the back of a material reassessment of global and EM growth prospects, an increase in EM capital outflows, or pressure on EM currencies. This is a key risk over the coming months. We're still constructive on the NZD/AUD despite it being expensive from a valuation point of view.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.4% y/y for 2017 Q1	The economy is recording decent momentum, and we expect that to continue. Downside risk mainly stems from offshore. We're watching our 6 C's.	
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	1.6% 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

Markets are set for a tumultuous period following the UK EU referendum result. Society has sent a message against globalisation and economic integration; that's negative for microeconomic policy settings and ultimately growth. A key issue now is whether Brexit spills over into wider Europe. We suspect it will, and from there likely into emerging markets. Global growth will be lower, although we are coy about making sweeping assessments at this early stage. What we know is that a) the global economy is already vulnerable; and b) steps towards anti-globalisation and disintegration are negatives that need to be reflected in asset valuations. At this stage, we expect the domestic impact to be small; New Zealand continues to have a number of positive forces in its favour – excellent momentum being one of them. But it is a moving feast and we are watching our 6 C's closely. Weaker commodity and credit markets, and a resilient NZD, would be an unwelcome combination. This week, our Business Outlook is a highlight, while credit growth figures (both new lending and the total outstanding) are likely to again show solid growth.

FORTHCOMING EVENTS

RBNZ New Residential Mortgage Lending – May (3:00pm, Monday, 27 June). Total lending should be strong and the composition will no doubt continue to be skewed towards investors.

Building Consents Issued – May (10:45am, Thursday, 30 June. We expect issuance to gradually trend higher, although we are wary that capacity issues are a headwind.

ANZ Business Outlook – June (1:00pm, Thursday, 30 June).

RBNZ Credit Aggregates – May (3:00pm, Thursday, 30 June). Household credit growth is running at its fastest pace since 2008. We don't see it rising much further, but it should remain strong.

WHAT'S THE VIEW?

Markets have clearly been sideswiped by the UK EU referendum result. Friday was a rough day / night for markets and most are bracing for more volatility this week.

However, the initial sharp market moves need to be put in some perspective. Friday night's fall in equities (Euro Stoxx: -8.6%; S&P 500: -3.6% and FTSE -3.2%) followed increases over the preceding week. For example, the FTSE is actually still 2% above where it began the week. The Euro Stoxx and S&P 500 indices are down only 2.6% and 1.7% respectively. So we are talking about wiping off some short-term gains in the first instance.

There is plenty of water to flow under the bridge yet. The referendum result is actually non-binding in a legal sense. The UK Parliament (which was skewed towards 'remain' ahead of the result) now has some clear soul-searching to do, although it seems highly unlikely that the Article 50 succession process of the EU treaty won't be triggered. But even once that occurs, the UK will not lose access to the EU straight away. There is then a two year negotiation period, which we suspect will get extended because discussions will no doubt be complicated. **All that said, the train has left the station and out will inevitably mean out.** Negotiations between the UK and EU will be fraught with tension.

Some are saying it could eventually be a positive event for global growth by galvanising policymakers around the globe into action. We don't buy into that. The nucleus of the outcome is society pushing back against globalisation and economic integration – hardly a tick for growth, and the world is already struggling on that front. Game theory tells us that self-interest dominates group-interest, so forget about the galvanisation of policymakers for the greater good.

The bigger issue is whether, or to what degree, the floodgates open. What's next after Brexit? Outugal? Jetaly? It could be a who's who of populist leaders lining up across Europe ready to follow suit. It portends less enthusiasm for reform and a step towards a more inward-looking economic focus. It could spell a pull-back from globalisation and the opening up of borders. Foreign policy could turn more antagonistic and see the focus shift towards lift labour's share of income without an emphasis on productivity (ie sharing, as opposed to growing, the pie).

To be fair, all that is hardly going to sink an economy overnight, as it manifests by slowly tweaking the direction of policy and the microeconomic foundations of an economy. After all, economies are like super-tankers, in that they are not easy to turn.

However, there are a few caveats:

- **Markets are forward looking**, so expectations of tomorrow's decisions have implications today.
- **The global economy is vulnerable.** There is more debt than prior to the GFC and emerging market economies are now at the epicentre of that debt boom. The same imbalances (excess saving in the east and excess consumption in the west), misaligned currencies, and mispriced price signals remain.

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- **Policymakers may say they have ammunition, but the past few episodes of priming the pump have done nothing** more than support global asset prices with little evidence of boosting real activity (though to be fair the counter-factual is that things could have been a lot worse).
- **Asset valuations are high** – and stretched in most cases.

So Brexit does have the ability to set off a chain of events. But it's drawing a long bow to pencil that into forecasts straight away. **Central banks will hardly sit idly by and we've heard reassuring words already.**

For now, we're on notice and not much more. It will be a negative event for the near-term global growth outlook, with the associated volatility and uncertainty sufficient to ensure that. To what degree, no one is really sure. Odds of a recession in the UK are high though and that has the potential to drag Europe's anaemic growth into 'zippo' territory.

And what does it mean for little old New Zealand? From the outset, we have never been overly concerned about the *direct* implications of a UK exit on the New Zealand economy. While still meaningful, the UK economy is nowhere near as large a trading partner as it once was (although it is an important market for our wine, pipfruit, lamb and tourism sectors). It takes just 3% of our goods exports. Moreover, the domestic economy has also been recording decent momentum, which gives it more resilience to global unease than if it were wavering to begin with.

But as we mentioned last week, when there are periods of market stress and turbulence, we like to fall back on our 6 C's framework as a nice methodology to assess the domestic growth and monetary policy implications. So in this regards we are watching:

- **Contagion risks**: The Brexit result is an outcome that will embolden euro-sceptic groups to push their own agendas and demand referenda. As such, the euro area is looking increasingly shaky. Another side of contagion is whether we see shifting political stands locally. Centralist-style politics has been a key feature of the economic landscape for New Zealand for a number of years now, supporting confidence and growth. Whether we become "infected" with the political fragmentation we are seeing in other jurisdictions will be key to watch. The final angle is how New Zealand's structural metrics stand, as these can either exacerbate or minimise the impact of global shocks. Looking at the current account (-3.0% of GDP), household saving, credit growth, net external debt (56% of GDP), and net government debt (26% of GDP), New Zealand looks better placed than prior to previous periods of global dislocation. The financial system is also sounder, with less reliance on short-term offshore funding. The Achilles Heel is valuation excesses across the property market and some exuberance (lower savings and accelerated borrowing). This is not the time to be binging on debt.
- **Cost of funds**: Spreads have widened, although not meaningfully so as yet. But higher global bank funding costs are going to be particularly pertinent for New Zealand at a time when domestic credit growth is expanding faster than deposits. Either credit growth slows, deposit growth picks up, or there is more (expensive) issuance overseas.
- **Currency**: The NZD fell, as you'd expect in the first instance – acting as the shock-absorber you'd hope for. However, on a TWI basis the movement has been pretty trivial and we actually start the week with it around 76.1 compared to 75.3 at the start of last week. While rising uncertainty typically spells lower for the NZD, the allure of New Zealand's yield will only be enhanced the more global policymakers test negative yields (see the table below). German 10-year bunds yields – a key benchmark across Europe – are negative again. Despite increased risk aversion and stronger headwinds for global growth, one outcome could be a higher NZD – and that won't be welcome.

FIGURE 1: G10 SOVEREIGN BOND YIELD MATRIX

Country	2-3 Year	5 Year	10 Year	Average
Switzerland	-1.08	-0.98	-0.52	-0.86
Germany	-0.65	-0.53	-0.05	-0.41
Japan	-0.28	-0.28	-0.18	-0.24
Denmark	-0.61	-0.32	0.14	-0.27
Sweden	-0.64	-0.19	0.59	-0.08
Norway	0.42	0.64	1.11	0.72
UK	0.26	0.56	1.08	0.64
Canada	0.54	0.63	1.16	0.78
USA	0.56	0.97	1.49	1.01
Australia	1.55	1.62	2.01	1.72
New Zealand	2.00	2.03	2.37	2.14

Source: Bloomberg

- **Commodities**: Oil prices have fallen as you would expect. The global backdrop is hardly constructive for commodities in general and New Zealand is a net exporter. Watch this space.
- **Confidence**: Our Business Outlook this week is obviously far too early to pick up any impact. But we will certainly be watching both our business and consumer confidence measures as a timely

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signal. Thankfully, the economy is facing this turbulence with confidence high. It is a different matter if you're hit with a negative shock while already down in the dumps.

- **China**: Weaker growth for Europe and the UK won't be good for emerging markets in general and will hasten pressure for their currencies to weaken. We expect attention to turn to emerging market economies over the coming weeks. Capital flows will favour the safe havens and that in itself is creating issues for some (such as the BoJ). Our Chinese colleagues see a further cut in the RRR as likely.

Beyond the C's, we think you can throw in a big M, which stands for migration. Expect New Zealand's numbers to hold up in an environment of Brexits, and the status quo getting trumped. Put simply, New Zealand won't look a bad place relative to all the rest! At this stage, we're not buying much into signs migration may be past its highs. Some retrenchment is to be expected given the levels reached to begin with. Certainly we think it's a stretch say that with a top in place, migration is set to go south at a rapid clip.

New Zealand has excellent momentum into the current period of unease. And that's a big difference from prior to the Asian crisis and GFC. In both instances the economy was losing speed prior being hit by a major event. In fact, in the case of the latter, the economy was already in recession.

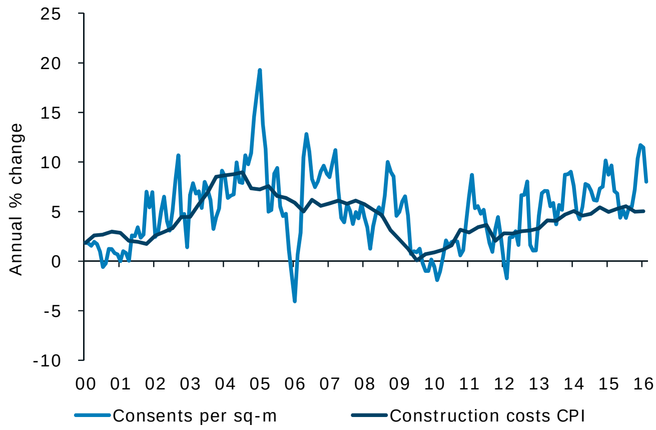
We believe the domestic growth impact will be minor, although it is certainly a moving feast. Nevertheless, it does of course increase the odds of an August OCR cut, at a time when we were wavering on whether a further cut was even required.

Turning to this week's domestic data calendar, the usual month-end releases are scheduled, beginning with building consent data for May. We expect a small gain. Issuance has been on something of a see-saw over recent months, bouncing about at a reasonable level. After falling close to 10% in April, issuance rose 6.6% m/m in May. But looking through this volatility, total dwelling consent issuance can best be described as flat. At close to 2.4k, the number of seasonally adjusted consents is in line with its six month average, and is actually a little below the recent monthly high recorded in July last year.

Despite this, we continue to expect issuance to gradually trend higher over time. Low borrowing rates, strong existing house price growth (which all else equal encourages building over buying existing dwellings), ongoing strong population growth and a persistent policymaker push for increased housing supply are powerful stimulatory forces. While a decent proportion of this upwards trend is expected to be led by Auckland, other regions – with the main exception being Canterbury – are also expected to see positive growth.

That said, we are becoming increasingly mindful of one important limiting influence: capacity constraints in the sector. It is a clear theme across our internal anecdote network. We are hearing reports of firms having to turn away work or struggling to find staff to keep up with their current demand. Construction cost inflation, proxied by the average value of consents per square metre, is running around 8.0% y/y at present and has been trending higher. We do believe these constraining pressures will gradually dissipate, particularly as the earthquake rebuild continues to wind down. But they do have the potential to cap the upside in the near term.

FIGURE 2: VALUE OF CONSENTS PER SQUARE METRE



Source: ANZ, Statistics NZ

As usual, our Business Outlook survey will provide a timely signal of underlying economic momentum. After a hiccup earlier in the year, where headline confidence retreated sharply on the back of global growth concerns and financial market wobbles, sentiment has been staging a comeback. But most importantly, despite this dip and then recovery in sentiment, firms have had a 'just getting on with it' attitude. Own activity expectations have been either at or above historical averages and firms have continued to signal a desire to go out and hire and invest. With the exception of agriculture, all sectors within the survey had confidence composites (a weighted average of own activity, employment, profit and investment) either at or above historical averages in May. It is indicative of an economy that has continued to show a reasonable degree of resilience to the challenges evident offshore. **Clearly, that will need to be watched closely now given last week's events, and this survey is something we will be keeping a very close eye on.**

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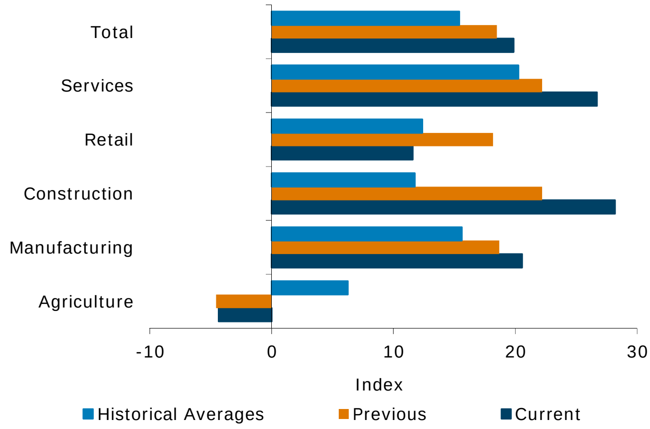
FIGURE 3: ANZ BUSINESS OUTLOOK CONFIDENCE COMPOSITES



Source: ANZ

There are two sets of May lending growth figures due this week. Both should be strong. The first is new residential mortgage lending by borrowing type and LVR ratio. We suspect these will show strong overall growth, with new lending continuing to be skewed towards investors. In April, investors made up close to 37% of total residential lending. It is this skew, as well as other speculative behaviour that we are detecting, that only reinforces the likelihood that the RBNZ will be forced to implement additional macro-prudential policy in the not-too-distant future.

Broader credit growth figures (which show the overall stock of lending) should also be strong, although we do not believe annual growth will accelerate much further from here. In April, household lending growth was especially strong, rising a seasonally adjusted 0.8% m/m – the largest monthly gain since March 2008. Annual growth sits at a six-year high of close to 8% y/y. This reinforces that the ratio of household debt to income, which already sits at an all-time high of 163%, is set to rise further. New Zealand is certainly not unique in experiencing this situation (or rising household debt), and low interest rates at present mean that debt-servicing requirements are still manageable. But it certainly highlights some growing vulnerabilities (to both an employment or interest rate shock) and the risks associated with cutting the OCR further.

Finally, we understand Statistics New Zealand will release a report on Wednesday detailing revisions to the Household Labour Force Survey. The main change looks to be the way it will define "actively seeking work", with someone who just peruses the internet no longer being classed as "actively seeking". For example, as well as using job search methods, an individual must actually contact a potential employer or employment agency. It is unclear at this stage how much of an impact this could have, but it does seem like it could have the potential to meaningfully reduce the number of people classed as unemployed as well as participating in the labour force.

LOCAL DATA

International Travel & Migration – May. A seasonally adjusted net inflow of 5,500 migrants was recorded. In 3-month annualised terms, the net inflow has cooled from close to 72K to 65.4K. Seasonally adjusted visitor arrivals were effectively unchanged in the month (+9.6% y/y).

Overseas Merchandise Trade – May. An unadjusted trade surplus of $358m was recorded. In seasonally adjusted terms, the deficit was $93m.

INTEREST RATE STRATEGY

SUMMARY

With uncertainty high, short-end rates remain biased lower. Domestic economic strength limits how far we can go, but the market needs to acknowledge the hyper-elevated TWI amid a changing global monetary policy landscape in the wake of Brexit and likely negative global growth fall-out. Long-end rates have opened lower in line with US Treasuries. While lower outright yields typically mean spread widening as the NZ long-end lags global moves, in coming weeks we would not be surprised to see New Zealand be a beneficiary of the widening of peripheral European sovereign bond spreads. Global uncertainty suggests we will see further curve flattening.

THEMES

- The G4 central bank reaction to Brexit so far has stressed the need for co-ordinated provision of liquidity. This is intended to – and will – keep a lid on interest rates and will help offset risk aversion.
- While we strongly believe the domestic economy does not need an OCR cut, global events are now in the driver's seat, making an August cut likely.
- Global yield convergence remains the key theme. We remain bullish NZ on a spread, expecting it to benefit from the collapse in developed market bond yields and rotation out of peripheral Europe.

MONETARY POLICY AND SHORT-END

Short-end rates remain biased lower, fuelled by extreme TWI strength and global uncertainty. Broadly speaking, the overall tone of our message remains the same as it was before the Brexit vote. Indeed, we remain of the view that when viewed from a purely domestic perspective, there is no urgency for the RBNZ to ease. However, the global backdrop is where the risks reside, and the Brexit vote has "supercharged" the risk profile, particularly with the TWI maintaining its strength (it is around 1% stronger than it was a week ago, despite the surprise Brexit result). Markets have already gravitated towards an August OCR cut as the central scenario; we expect the next step to be a shift to a lower terminal rate and a delay in the timing of assumed normalisation. All else equal, that suggests forward rates and the belly of the curve will continue to rally.

GLOBAL MARKETS AND LONG-END

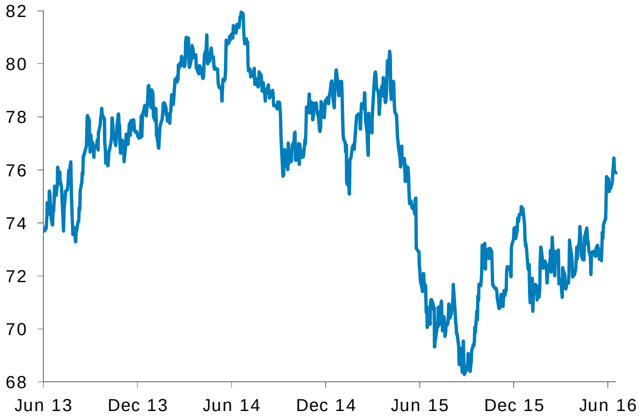
The presumption in global markets now is that Fed rate hikes are off the table; Europe and the UK will slip into recession, which will herald more ECB and BoE easing; and that safe-haven buying of JPY will force the BoJ to ease. All else equal, this is an easier policy backdrop than existed before the Brexit vote. We have already seen significant falls in global bond yields, and while we may see more volatility, the easier policy backdrop and commitments by the G4 central banks to provide additional liquidity portends core (non-peripheral developed market) yields falling further, and remaining lower for longer. We expect this to exert further downward pressure on New Zealand's comparatively high rates, and for the yield curve to flatten as geographic spreads come in – in other words, a repeat of 2011/12, when European peripheral spreads last blew out.

STRATEGY

Investors: No change in strategy. We favour holding long positions at the short-end, and focussing on the parts of the curve (like 3y1y) that will benefit from the pushing out of OCR normalisation and better roll-down. Hold geographic spread trades.

Borrowers: We continue to favour options, with term rates and BKBM both at fresh lows. Uncertainty is elevated and the OCR remains biased lower.

FIGURE 1: NZD TRADE WEIGHTED INDEX (TWI)



Source: ANZ, RBNZ, Bloomberg

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Bullish	TWI high despite Brexit result telling of the need for rates convergence. Domestic cash market flooded.
Long end	Bullish	Fed hikes off the table, ECB, BoE and BoJ cuts on the table. Monetary and liquidity policy response will keep a lid on G4 yields, and highly rated developed market yield convergence is the main theme for NZ.
Yield Curve	Flatter	Global unease = a flatter curve. More scope for easing here than in G4, but 10yr spread still very wide.
Geographic spreads	Narrower	NZ looking more like a safe haven than a peripheral market, with political stability, sensible government, and plenty of scope to ease monetary (and fiscal) policy. Somewhat contingent on NZD holding up.
Swap spreads	Neutral	NZGS demand remains strong, and supply is easing. But difficult to see any corporate paying near term.
NZD/TWI	Elevated	Still difficult to see what's going to drive the NZD lower. Holding up very well despite "risk off" mood.

CURRENCY STRATEGY

SUMMARY

We are not expecting the current bout of uncertainty over Brexit to materially impact negatively on the NZD; NZ yields will remain alluring as the world pushes deeper into negative territory. This means a higher bias despite unsupportive valuation metrics. We'll change our view if we start to see pressures manifest in emerging markets on the back of a material reassessment of global and EM growth prospects, an increase in EM capital outflows, or pressure on EM currencies. This is a key risk over the coming months. We're still constructive on the NZD/AUD despite it being expensive from a valuation point of view.

TABLE 1: KEY VIEWS			
CROSS	**WEEK**	**MONTH**	**YEAR**
NZD/USD	↔	Steady	Needs to fall and will
NZD/AUD	↔	Likely to remain above 0.9500	Remain above long-run averages
NZD/EUR	↔/↑	Trending higher	Self-limiting
NZD/GBP	↔/↑	Still reacting to Brexit shock	Less easy to envisage GBP resurgence
NZD/JPY	↔/↑	BOJ action likely	USD/JPY <100 untenable for BoJ

THEMES AND RISKS

- Up the stairs, down the elevator and re-climbing the stairs. The NZD (on a TWI basis) starts the week higher than the same time last week.
- Beyond the political fracas / fragmentation, attention will turn quickly to the impact on growth. Expect indicators to stall, but such readings won't appear for a month. From that point it will be about assessing the flow on into EM / China, which is the critical story for the NZD.
- Our bond ladder thematic remains critical in how we view the NZD. As long as yield is on offer and others are taking yields more into negative territory, the NZD will be supported, subject to risk appetites remaining intact.
- The Fed is now out of play, although safe-haven flows will support the USD.
- The tenor of domestic data to remain upbeat.
- We expect the NZD/AUD to keep prodding topside.

NZ DATA PULSE

Domestic data is disconnected from signals in the rates market, which is a key driver of the NZD. At the time of writing the market was assigning an 80% probability to an OCR cut in August and 1½ cuts by March. This is up from a 50-50 call a week ago and entirely reflects global developments.

While there are still good reasons for the RBNZ to pause in August, in the absence of the CPI overshooting expectations, the path of least resistance looks to be taking the OCR lower. **Ordinarily this would drag the NZD lower, but not in the current environment. The allure of yield is ongoing.** Last week saw German and Japanese 10-year bond yields drop even deeper into negative territory.

The combination of a) solid growth; b) excellent relative yield; and c) political stability, is pushing strongly against standard currency valuation metrics for NZD, as the combo offer semblances of safe-haven status. There is no doubting the NZD is extended around current levels. But that's insufficient to turn the trend unless we see global unease spread into EM (more directly relevant for New Zealand economically), or the three key pillars wane.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	FV is above long-run averages
Yield	↔/↑	Still favours NZ
Commodities	↔	A risk factor for both
Data	↔/↑	NZD data still resilient
Techs	↔/↑	0.95 now support
Sentiment	↔	Similar sentiment toward both
Other	↔/↓	AUD offers better liquidity
On balance	↔	**Holding at elevated levels**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↓	Above fair value
Yield	↔/↑	A key supporting factor
Commodities	↔/↓	A key downside risk with oil down
Risk aversion	↔/↑	Resilience to "risk-off" notable
Data	↔	Upcoming data will be fine but already factored in
Techs	↔/↑	Test lower after Brexit failed
Other	↔	Watch bond market flows
On balance	↔	**The bid's still with you sir but stretched valuations limit**

POSITIONING

NZD positioning remains around one standard deviation short, suggesting a risk we see further upside. Elsewhere, positioning remains light (traders lightened up into Brexit), with GBP (where most are short) and JPY (where most are long) the exceptions.

GLOBAL VIEWS

A week ago, the prevailing view in global markets was that we might see a few wobbles going into the Brexit vote, but that it was something to look past, beyond which the focus was on the USD, policy normalisation, and BoJ nervousness. **That's all changed – we are now likely to see more easing/liquidity from the ECB, BoE and BoJ, and no hikes from the Fed.** In the past, the NZD has tended to do well in the wake of G4 easing, and unless we see extreme risk aversion, we expect the same again this time. In short, **the risk profile points to G4 weakness and NZD strength until we see negative EM side effects.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
27-Jun	EC	M3 Money Supply YoY - May	4.8%	4.6%	20:00
28-Jun	US	Advance Goods Trade Balance - May	-$59.4B	-$57.5B	00:30
	US	Markit Services PMI - Jun P	51.9	51.3	01:45
	US	Markit Composite PMI - Jun P	--	50.9	01:45
	US	Dallas Fed Manf. Activity - Jun	-15.0	-20.8	02:30
	AU	ANZ-RM Consumer Confidence Index - 26-Jun	--	118.8	11:30
	GE	Import Price Index MoM - May	0.6%	-0.1%	18:00
	GE	Import Price Index YoY - May	-5.8%	-6.6%	18:00
	UK	CBI Retailing Reported Sales - Jun	--	7	22:00
29-Jun	US	GDP Annualized QoQ - Q1 T	1.0%	0.8%	00:30
	US	Personal Consumption - Q1 T	2.0%	1.9%	00:30
	US	GDP Price Index - Q1 T	0.6%	0.6%	00:30
	US	Core PCE QoQ - Q1 T	2.1%	2.1%	00:30
	US	S&P/CS 20 City MoM SA - Apr	0.58%	0.85%	01:00
	US	S&P/CS Composite-20 YOY NSA - Apr	5.46%	5.43%	01:00
	US	Consumer Confidence Index - Jun	93.4	92.6	02:00
	US	Richmond Fed Manufact. Index - Jun	3	-1	02:00
	AU	HIA New Home Sales MoM - May	--	-4.70%	13:00
	GE	GfK Consumer Confidence - Jul	9.8	9.8	18:00
	UK	Nationwide House PX MoM - Jun	0.00%	0.20%	18:00
	UK	Nationwide House Px NSA YoY - Jun	4.90%	4.70%	18:00
	UK	Net Consumer Credit - May	1.5B	1.3B	20:30
	UK	Net Lending Sec. on Dwellings - May	2.3B	0.3B	20:30
	UK	Mortgage Approvals - May	65.0k	66.3k	20:30
	UK	Money Supply M4 MoM - May	--	-0.10%	20:30
	UK	M4 Money Supply YoY - May	--	1.00%	20:30
	UK	M4 Ex IOFCs 3M Annualised - May	2.60%	4.10%	20:30
	EC	Economic Confidence - Jun	104.7	104.7	21:00
	EC	Business Climate Indicator - Jun	0.26	0.26	21:00
	EC	Industrial Confidence - Jun	-3.4	-3.6	21:00
	EC	Services Confidence - Jun	11	11.3	21:00
	EC	Consumer Confidence - Jun F	-7.3	-7.3	21:00
	US	MBA Mortgage Applications - 24-Jun	--	2.9%	23:00
30-Jun	GE	CPI MoM - Jun P	0.2%	0.3%	00:00
	GE	CPI YoY - Jun P	0.3%	0.1%	00:00
	GE	CPI EU Harmonized MoM - Jun P	0.1%	0.4%	00:00
	GE	CPI EU Harmonized YoY - Jun P	0.2%	0.0%	00:00
	US	Personal Income - May	0.3%	0.4%	00:30
	US	Personal Spending - May	0.4%	1.0%	00:30
	US	PCE Deflator MoM - May	0.2%	0.3%	00:30
	US	PCE Deflator YoY - May	1.0%	1.1%	00:30
	US	PCE Core MoM - May	0.2%	0.2%	00:30
	US	PCE Core YoY - May	1.6%	1.6%	00:30
	US	Pending Home Sales MoM - May	-1.1%	5.1%	02:00
	US	Pending Home Sales NSA YoY - May	4.6%	2.9%	02:00
	NZ	Building Permits MoM - May	--	6.6%	10:45
	UK	GfK Consumer Confidence - Jun	-2	-1	11:05
	NZ	ANZ Business Confidence - Jun	--	11.3	13:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
30-Jun	AU	Job vacancies - May	--	2.7%	13:30
	AU	Private Sector Credit MoM - May	0.5%	0.5%	13:30
	AU	Private Sector Credit YoY - May	6.7%	6.7%	13:30
	NZ	Money Supply M3 YoY - May	--	7.8%	15:00
	GE	Retail Sales MoM - May	0.6%	-0.3%	18:00
	GE	Retail Sales YoY - May	2.5%	2.3%	18:00
	GE	Unemployment Change (000's) - Jun	-5k	-11k	19:55
	GE	Unemployment Claims Rate SA - Jun	6.1%	6.1%	19:55
	UK	GDP QoQ - Q1 F	0.4%	0.4%	20:30
	UK	GDP YoY - Q1 F	2.0%	2.0%	20:30
	UK	Current Account Balance - Q1	-£28.0B	-£32.7B	20:30
	UK	Index of Services MoM - Apr	0.2%	-0.1%	20:30
	UK	Index of Services 3M/3M - Apr	0.4%	0.6%	20:30
	UK	Total Business Investment QoQ - Q1 F	--	-0.5%	20:30
	UK	Total Business Investment YoY - Q1 F	--	-0.4%	20:30
	EC	CPI Estimate YoY - Jun	0.0%	-0.1%	21:00
	EC	CPI Core YoY - Jun A	0.8%	0.8%	21:00
	CH	BoP Current Account Balance - Q1 F	--	$48.1B	UNSPECIFIED
1-Jul	US	Initial Jobless Claims - 25-Jun	267k	259k	00:30
	US	Continuing Claims - 18-Jun	2152k	2142k	00:30
	US	Chicago Purchasing Manager - Jun	51	49.3	01:45
	AU	AiG Perf of Mfg Index - Jun	--	51	11:30
	JN	Natl CPI YoY - May	-0.5%	-0.3%	11:30
	JN	Natl CPI Ex Fresh Food YoY - May	-0.4%	-0.3%	11:30
	JN	Natl CPI Ex Food, Energy YoY - May	0.6%	0.7%	11:30
	JN	Tokyo CPI YoY - Jun	-0.4%	-0.5%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Jun	-0.5%	-0.5%	11:30
	JN	Tokyo CPI Ex Food, Energy YoY - Jun	0.4%	0.5%	11:30
	JN	Tankan Large Mfg Index – Q2	4	6	11:50
	JN	Tankan Large Mfg Outlook - Q2	3	3	11:50
	JN	Tankan Large Non-Mfg Index - Q2	19	22	11:50
	JN	Tankan Large Non-Mfg Outlook - Q2	17	17	11:50
	CH	Manufacturing PMI - Jun	50.0	50.1	13:00
	CH	Non-manufacturing PMI - Jun	--	53.1	13:00
	CH	Caixin China PMI Mfg - Jun	49.1	49.2	13:45
	AU	Commodity Index AUD - Jun	--	90.3	18:30
	AU	Commodity Index YoY - Jun	--	-10.0%	18:30
	GE	Markit/BME Manufacturing PMI - Jun F	54.4	54.4	19:55
	EC	Markit Manufacturing PMI - Jun F	52.6	52.6	20:00
	UK	Markit PMI Manufacturing SA - Jun	50.1	50.1	20:30
	UK	Unit Labor Costs YoY - Q1	1.5%	1.3%	20:30
	EC	Unemployment Rate - May	10.1%	10.2%	21:00
2-Jul	US	Markit Manufacturing PMI - Jun F	51.4	51.4	01:45
	US	ISM Manufacturing - Jun	51.4	51.3	02:00
	US	ISM Prices Paid - Jun	63.6	63.5	02:00
	US	ISM New Orders - Jun	--	55.7	02:00
	US	Construction Spending MoM - May	0.6%	-1.8%	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. However, downside risks exist (mainly from offshore). We believe the RBNZ will cut the OCR twice more, with the next cut pencilled in for August.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Thu 30 Jun (10:45am)	Building Consents Issued – May	Still trending higher	We expect issuance to trend higher, although we are wary that capacity issues are capping the upside.
Thu 30 Jun (1:00pm)	ANZ Business Outlook – Jun	--	--
Thu 30 Jun (3:00pm)	RBNZ Credit Aggregates – May	Strong	Household credit growth is running at its fastest pace since 2008. We don't see it rising much further, but it should remain strong.
Tue 5 Jul (10:00am)	NZIER QSBO – Q2	Bouncing back	Following the signals from our Business Outlook, confidence is likely to have lifted. We will be on the lookout for further signs of increased capacity pressures.
Tue 5 Jul (10:00am)	Government Financial Statements – May	In reasonable shape	Timing of tax payments is having some influence, but we suspect the numbers will look decent overall.
Tue 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun	--	--
Wed 6 Jul (early am)	GlobalDairyTrade Auction	Ticking higher, but still low	Global supply is gradually tightening, which should allow prices to gradually trend higher.
Thu 7 Jul (10:00am)	ANZ Truckometer – Jun	--	--
Fri 8 Jul (1:00pm)	ANZ Monthly Inflation Gauge – June	--	--
11-15 Jul	REINZ Housing Market Statistics – Jun	Booming	Strength in the regions is being joined by a sharp recovery in Auckland activity. National house price growth is rising again.
Mon 11 Jul (10:45am)	Electronic Card Transactions – Jun	Rebound	Following a fall in May, we expect spending to rebound, with a number of support factors remaining.
Wed 13 Jul (10:45am)	Food Price Index – Jun	Up	Led by fruit and vegetable prices, food prices typically record a decent lift in June months.
Thu 14 Jul (10:00am)	ANZ Job Ads – Jun	--	--
Thu 14 Jul (10:30am)	BNZ-Business NZ PMI – Jun	Outperforming	Despite weak demand and overcapacity issues plaguing the sector globally, local manufacturing continues to perform well.
Thu 14 Jul (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jul	--	--
Mon 18 Jul (10:30am)	BNZ-Business NZ PSI – June	Solid	The services sector continues to benefit from strong population growth and low borrowing costs.
Mon 18 Jul (10:45am)	CPI – Q2	Past the lows	We have pencilled in a 0.5% q/q lift in headline inflation, with petrol and food prices making a decent contribution.
Wed 20 Jul (early am)	GlobalDairyTrade Auction	Ticking higher, but still low	Global supply is gradually tightening, which should allow prices to gradually trend higher.
Thu 21 Jul (10:00am)	International Travel & Migration	Still strong	While a top may be in place, we are expecting net inflows to remain at historically strong levels for some time yet.
On balance		**Data watch**	**Reasonable momentum at present, but with risks. Inflation remains low, but has probably troughed.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.7	**0.7**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**	**0.7**
GDP (% yoy)	2.8	**3.2**	**2.9**	**2.5**	**2.4**	**2.4**	**2.5**	**2.6**	**2.7**	**2.7**
CPI (% qoq)	0.2	**0.5**	**0.4**	**0.0**	**0.7**	**0.4**	**0.7**	**0.3**	**0.6**	**0.6**
CPI (% yoy)	0.4	**0.5**	**0.6**	**1.1**	**1.6**	**1.5**	**1.7**	**2.0**	**2.0**	**2.0**
Employment (% qoq)	1.2	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	2.0	**2.3**	**3.3**	**2.7**	**1.9**	**1.7**	**1.6**	**1.6**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.7	**5.5**	**5.4**	**5.4**	**5.3**	**5.2**	**5.2**	**5.1**	**5.0**	**5.0**
Current Account (% GDP)	-3.0	**-3.1**	**-3.4**	**-3.7**	**-4.2**	**-4.4**	**-4.3**	**-4.1**	**-3.8**	**-3.8**
Terms of Trade (% qoq)	4.4	**-5.8**	**-2.7**	**-0.3**	**0.8**	**1.7**	**2.8**	**1.7**	**0.8**	**0.8**
Terms of Trade (% yoy)	-0.1	**-7.3**	**-6.2**	**-4.6**	**-7.9**	**-0.6**	**5.1**	**7.2**	**7.2**	**7.2**

	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Retail ECT (% mom)	0.9	0.1	0.8	0.2	0.3	0.7	0.1	0.8	-0.3	--
Retail ECT (% yoy)	6.1	5.8	4.6	6.6	5.2	9.2	6.2	7.8	3.3	--
Credit Card Billings (% mom)	-2.0	1.7	0.7	-0.7	1.8	-0.3	-1.3	2.4	0.0	--
Credit Card Billings (% yoy)	7.3	7.8	8.5	7.5	8.1	7.3	4.9	9.1	5.9	--
Car Registrations (% mom)	0.1	-1.2	-2.0	3.1	-2.8	5.8	-3.7	6.1	-3.1	--
Car Registrations (% yoy)	5.0	3.8	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	--
Building Consents (% mom)	-4.7	5.0	1.7	2.7	-8.4	10.4	-9.7	6.6	--	--
Building Consents (% yoy)	17.5	14.7	7.2	17.7	4.9	26.7	0.7	12.7	--	--
REINZ House Price Index (% yoy)	20.1	14.1	12.5	12.6	10.7	11.9	13.3	14.5	14.7	--
Household Lending Growth (% mom)	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.8	--	--
Household Lending Growth (% yoy)	6.7	6.9	7.2	7.4	7.5	7.6	7.7	7.9	--	--
ANZ Roy Morgan Consumer Conf.	110.8	114.9	122.7	118.7	121.4	119.7	118.0	120.0	116.2	118.9
ANZ Business Confidence	-18.9	10.5	14.6	23.0	..	7.1	3.2	6.2	11.3	--
ANZ Own Activity Outlook	16.7	23.7	32.0	34.4	..	25.5	29.4	32.1	30.4	--
Trade Balance ($m)	-1140	-905	-795	-42	12	366	189	292	358	--
Trade Bal ($m ann)	52287	52101	52648	52510	52764	52834	52604	52662	52859	--
ANZ World Commodity Price Index (% mom)	5.6	7.1	-5.6	-1.8	-2.3	0.5	-1.3	-0.8	1.0	--
ANZ World Comm. Price Index (% yoy)	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8	-11.7	--
Net Migration (sa)	5570	6110	6200	5530	6090	6000	5340	5520	5500	--
Net Migration (ann)	61234	62477	63659	64930	65911	67391	67619	68110	68432	--
ANZ Heavy Traffic Index (% mom)	1.8	1.0	0.2	2.9	-4.3	1.7	3.3	-2.6	-1.7	--
ANZ Light Traffic Index (% mom)	2.7	-0.4	0.3	0.9	-1.4	2.7	0.6	-0.1	-1.3	--

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	Apr-16	May-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZD/USD	0.698	0.673	0.709	0.66	0.66	0.63	0.61	0.61	0.63	0.66
NZD/AUD	0.918	0.929	0.955	0.89	0.92	0.94	0.92	0.92	0.93	0.94
NZD/EUR	0.609	0.604	0.643	0.60	0.61	0.58	0.54	0.53	0.53	0.55
NZD/JPY	74.31	74.79	72.42	69.3	69.3	66.2	61.0	61.0	63.0	66.0
NZD/GBP	0.477	0.461	0.527	0.46	0.44	0.41	0.39	0.38	0.39	0.40
NZ$ TWI	72.2	71.3	76.1	69.3	69.8	67.5	64.5	64.0	64.8	67.4
INTEREST RATES	Apr-16	May-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	2.40	2.42	2.34	2.40	2.20	2.10	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.85	2.61	2.36	2.80	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	0.64	0.69	0.62	0.83	0.83	1.08	1.08	1.33	1.33	1.58
AU Cash Rate	2.00	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.15	1.99	2.00	2.00	1.80	1.80	1.80	1.80	1.80	1.80

	24 May	20 Jun	21 Jun	22 Jun	23 Jun	24 Jun
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.40	2.33	2.34	2.35	2.34	2.33
NZGB 12/17	2.19	2.11	2.13	2.15	2.17	1.99
NZGB 03/19	2.22	2.13	2.16	2.18	2.21	2.02
NZGB 04/23	2.56	2.35	2.39	2.42	2.46	2.23
NZGB 04/27	2.71	2.49	2.53	2.55	2.59	2.36
2 year swap	2.32	2.29	2.30	2.33	2.33	2.20
5 year swap	2.42	2.37	2.39	2.41	2.42	2.25
RBNZ TWI	72.5	75.53	75.38	75.84	75.98	75.27
NZD/USD	0.67	0.71	0.71	0.71	0.72	0.70
NZD/AUD	0.93	0.96	0.95	0.96	0.95	0.95
NZD/JPY	73.51	74.39	73.96	74.72	75.15	70.69
NZD/GBP	0.46	0.49	0.48	0.49	0.49	0.53
NZD/EUR	0.60	0.63	0.63	0.63	0.63	0.64
AUD/USD	0.72	0.74	0.75	0.75	0.75	0.73
EUR/USD	1.12	1.14	1.13	1.13	1.13	1.10
USD/JPY	109.36	104.59	104.04	104.57	104.64	100.93
GBP/USD	1.45	1.46	1.47	1.47	1.48	1.32
Oil (US$/bbl)	48.12	48.00	49.40	48.95	49.16	49.34
Gold (US$/oz)	1245.47	1281.30	1286.26	1267.90	1263.10	1334.50
Electricity (Haywards)	5.80	5.53	4.87	4.79	3.60	2.39
Baltic Dry Freight Index	618	582	580	585	596	609
Milk futures (USD)	49	50	50	50	51	48

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