ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

5 December 2016

INSIDE

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FULL CREDIT

ECONOMIC OVERVIEW

The credit cycle is turning in New Zealand, which will have implications for interest rates, credit availability, the housing market, investment and ultimately growth. Together with capacity pressures, a more moderate rate of credit expansion is a key reason why we see GDP growth eventually moderating from today's strong 3½-4% pace towards 3% by the end of 2017. But we view this turn as a positive thing for the economy's medium-term growth sustainability. Another year of strong credit growth would up the ante considerably on another boom-bust type cycle. This week, the HYEFU is likely to show the Government's books taking a near-term hit from the earthquake, but still in good shape overall. Our Truckometer, Job Ads and Monthly Inflation Gauge will provide signals on growth and inflation trends as the year draws to a close. And global dairy prices are likely to have risen further.

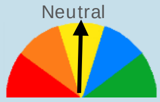
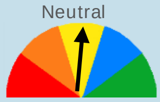
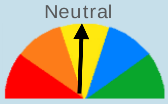
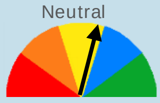
INTEREST RATE STRATEGY

Short-end rates remain elevated but have significant scope to correct lower into the holiday period, which is typically characterised by enthusiasm for carry trades. Rising global yields and the impact of higher oil prices on inflation have led the charge higher in local yields, but we're mindful of the rapid tightening in financial conditions, including the higher TWI and recent rises in mortgage (and deposit) rates. US bond yields continue to drift higher, placing upward pressure on NZ long-end rates. This trend will continue (albeit gradually) over coming quarters as the Fed resumes hiking. However, we believe the global bond outlook is more of the "muddle through" variety than a full-blown bear market given G3 fiscal inflexibility, and the US's ability (or otherwise) to execute on political rhetoric.

CURRENCY STRATEGY

The NZD remains stuck in established ranges as the combination of a strong local picture, front-end curves (Fed, RBNZ) that look fairly priced, and uncertainty over whether the liquidity cycle has turned and/or the potential for the reflation trade to take hold, bump against each other. We remain unconvinced that one thematic is set to dominate, which leaves us agnostic over the NZD's direction. The NZD/AUD looks stuck in the 0.94-0.96 zone. A break higher would be significant.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	Neutral  Negative Positive
Unemployment rate	4.7% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	Neutral  Negative Positive
OCR	1.75% by Jun 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify.	Neutral  Down Up
CPI	1.4% y/y for 2017 Q2	Headline inflation is past its lows, with base effects seeing it return to the target mid-point shortly. Domestic and core inflation should also gradually lift.	Neutral  Negative Positive

ECONOMIC OVERVIEW

SUMMARY

The credit cycle is turning in New Zealand, which will have implications for interest rates, credit availability, the housing market, investment and ultimately growth. Together with capacity pressures, a more moderate rate of credit expansion is a key reason why we see GDP growth eventually moderating from today's strong 3½-4% pace towards 3% by the end of 2017. But we view this turn as a positive thing for the economy's medium-term growth sustainability. Another year of strong credit growth would up the ante considerably on another boom-bust type cycle. This week, the HYEFU is likely to show the Government's books taking a near-term hit from the earthquake, but still in good shape overall. Our Truckometer, Job Ads and Monthly Inflation Gauge will provide signals on growth and inflation trends as the year draws to a close. And global dairy prices are likely to have risen further.

FORTHCOMING EVENTS

ANZ Commodity Price Index – November (1:00pm, Monday, 5 December).

ANZ Truckometer – November (10:00am, Tuesday, 6 December).

GlobalDairyTrade Auction (early am, Wednesday, 7 December). A considerable supply adjustment is underway globally, which is lending support to prices.

ANZ Job Ads – November (10:00am, Wednesday, 7 December).

ANZ Monthly Inflation Gauge – November (1:00pm, Wednesday, 7 December).

Treasury Half-Year Economic and Fiscal Update (1:30pm, Thursday, 8 December). Excluding earthquake-related costs, the projections will show a solid and improving fiscal situation overall. But due to the earthquake, a small projected OBEGAL deficit is possible for 2016/17.

Electronic Card Transactions – November (10:45am, Friday, 9 December). It is possible that the earthquake caused some disruption to retail spending patterns. Nevertheless, we are looking for a reasonable lift overall (circa 0.5% m/m).

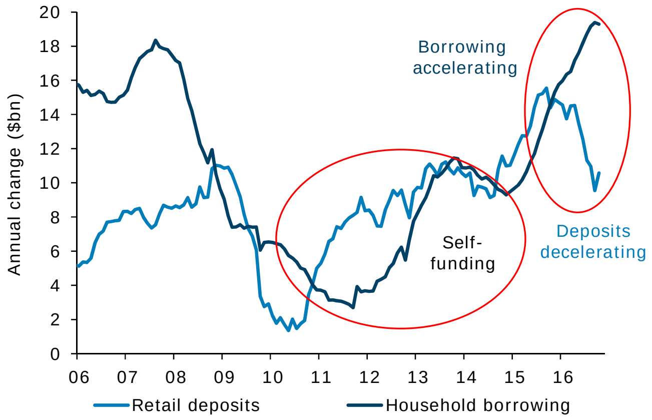
WHAT'S THE VIEW?

It is becoming increasingly clear that the credit cycle is turning in New Zealand. The pace of new mortgage lending has slowed and the growth in the overall stock of household credit eased to its softest pace in over six months in October (0.6% m/m). Within our Business Outlook, a net 22% of firms now state that it is getting more difficult to access credit, which is the highest since this question was first asked in 2009. It is consistent with responses to the RBNZ's Credit Conditions Survey, where lenders have reported credit conditions tightened for households, businesses and the agricultural sector over the past six months, and are expected to tighten further (for businesses especially) over the next six months.

There are a few different elements to this story:

- **It reflects regulatory changes.** Clearly, the RBNZ's latest LVR restrictions, which require investors to now have a 40% deposit, reduce the demand for credit, all else being equal. As a share of new mortgage lending, lending to investors has fallen to 27%, which is the lowest share since this data started being released in 2014. Overall new mortgage lending is down 8.3% y/y.
- **In many ways the slowing is natural.** The economy is about to enter its eighth year of expansion. In other words, the business cycle is relatively mature. While that doesn't necessitate a turn in the credit cycle, it does raise different issues for lenders when it comes to assessing risk profiles, how potential cost pressures could erode borrowers' profit margins, risks to serviceability and judgements around asset valuations.
- **The bank funding environment.** October data showed tentative signs that the gap between household credit and deposit growth has begun to narrow. However, the gulf remains wide. While banks can look offshore to fund this gap (and they have been), there are risks and prudential restrictions associated with that (as the RBNZ outlined in its Financial Stability Report last week).

FIGURE 1: BANK HOUSEHOLD FUNDING AND CLAIMS GROWTH



Source: ANZ, RBNZ

- **It is not viable for credit growth to run in excess of growth in incomes (which it has been doing) indefinitely**, particularly when

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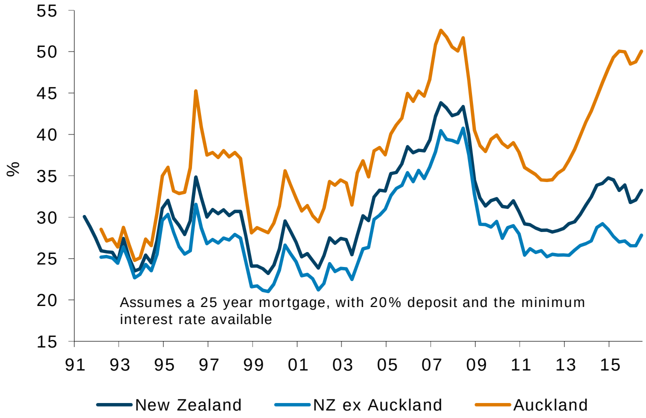
levels of indebtedness are already high. We estimate the ratio of private sector credit to GDP is 152% and back at its pre-GFC highs. Household debt to income is already at all-time highs of 165%. At some stage these ratios get to the point where they impact on borrowers' and lenders' marginal propensities to borrow and lend more. A continuation of strong credit growth would result in a higher current account deficit, more external borrowing and likely a credit downgrade.

- **The numbers still need to add up.** While the finger is being pointed at the supply of credit as a key issue, there are demand-side factors at play too. We haven't seen a consumption boom to match the housing one; that's a sign households are acting in a different manner. The likes of cost pressures (blowouts) are making it difficult for those apartment developments to stack up.

So the turn in the credit cycle is not just about one thing. But we do believe it has further to run, which will see credit growth continuing to ease over the months ahead. And we are now seeing tangible signs of how this is impacting on other elements of the economic environment.

- **The interest rate cycle is maturing.** Banks are responding to funding pressures by lifting fixed mortgage and deposit rates independent of RBNZ and global interest rate considerations. Since the end of September (a period including an RBNZ OCR cut), we estimate term deposit rates 12 months and longer have risen by 15bps and fixed mortgage rates by 20bps. **At 4.93%, we now believe that the effective mortgage rate is at its lows, and will gradually rise from here, reaching 5.5% by the end of 2018.**
- **The housing market is cooling and that could persist.** Of course issues around housing shortages are still highly relevant and will continue to support prices. But tighter credit availability and rising interest rates are relevant too. We are especially mindful of how sensitive new Auckland borrowers are to even small movements in interest rates, given the levels of debt involved.

FIGURE 2: MORTGAGE PAYMENTS TO INCOME



Source: ANZ, RBNZ

- **The current account deficit remains contained.** Historically, strong domestic demand growth would have seen the current account deficit blow out. But figures for Q3 are likely to show it holding around 3% of GDP and with credit growth expected to slow, this should see it broadly holding around that level.
- **Credit rationing is creating additional challenges for housing supply.** Lending for the likes of sections and high-density residential developments has been tightened. Projects are being deferred and cancelled in some cases. In some ways it seems remarkable that credit is being restricted to a sector where there is a need for ongoing activity, especially in the likes of Auckland. However, it reflects the risk profile and natural business decisions.

We are not talking about credit being crunched; more like slowing towards a more sustainable rate around 5-6%; a growth rate at which the economy is not leveraging (borrowing in excess of incomes).

We view such slowing as ultimately a positive development from a medium-term sustainability perspective. New Zealand has historically tended to let credit booms go on for too long, which extends asset values and sees a consumption boom following hot on the heels of a housing one. The current account then blows out and inflation rises and ultimately it leads to a heavy-handed central bank response. Voila, the post-party hangover ensues. Such volatility has been difficult for businesses to manage.

Turning to the week ahead, the focus shifts from one side of the Terrace in Wellington to the other, with the Treasury releasing its Half-year Economic and Fiscal Update. If it weren't for the costs associated with the recent earthquakes, we suspect the figures would look pretty good. To be fair, they are likely to still look more than respectable, with OBEGAL surpluses approaching 3% of GDP by the end of the projection period and net debt falling below 20% of GDP – in other words, showing the Government is well on the way to meeting its fiscal targets.

But the earthquake costs will be a feature of the next couple of years. It appears as though the Treasury will assume a fiscal cost in the vicinity of $2-3bn. Even with the stronger starting point (tax revenue is running well ahead of forecast), accounting standards will see the majority of earthquake costs incorporated into the 2016/17 fiscal year. As such, we have pencilled in a 0.2% of GDP OBEGAL deficit (vis-à-vis the Budget forecast of a 0.3% surplus) for 2016/17. But that will be temporary, with surpluses quickly returning, especially with Treasury likely to push through further forecast upgrades for real and nominal economic growth.

The earthquake therefore presents some challenges. That said, it is unlikely to derail what is still a favourable fiscal outlook even given the fact that we are inclined to think the ultimate damage bill (and fiscal cost) could be revised higher over time. Some trade-offs may need to be considered. But the accounts look to be in a state that will provide the Government with plenty of options for future initiatives.

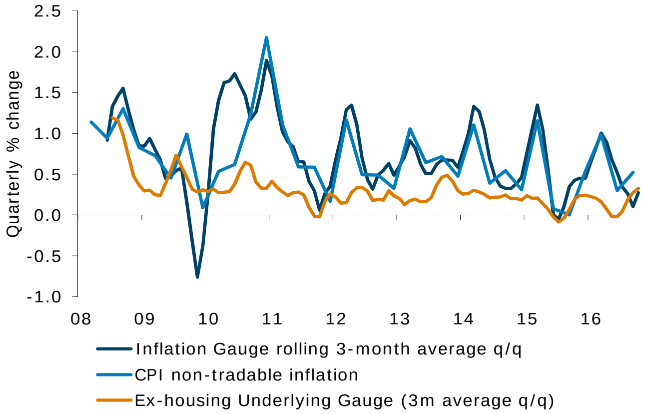
On the data front, three of our key proprietary indicators for November will provide signals on activity, labour demand and inflation trends as the year draws to a close.

- **Truckometer:** The Heavy Traffic Index eased 0.2% m/m in October, but growth remained positive on a rolling three-month average basis (+1.4%). There will be some focus on how the damage to roading infrastructure from the 14 November earthquake will impact on traffic flows. While roads around Kaikoura are not directly used in the index, it is clear that South Island traffic patterns may be affected and we will be monitoring any potential impacts.

- **Job ads:** In seasonally adjusted terms, job advertising has risen in every month in 2016, clearly pointing to a strong trend in labour demand. Also importantly, this growth has been broad-based across the country (with Canterbury the main exception). And while strong labour supply growth needs to be considered, further gains in advertising would certainly set the scene for the unemployment rate (currently 4.9%) to continue falling.

- **Monthly Inflation Gauge:** Prices in the Gauge rose 0.2% in October, to be up 2.3% y/y. While price increases remain benign overall, especially outside of housing, we are detecting increasing signs of a turning point. On a 3m/3m basis, the Underlying Ex-housing Gauge rose 0.3% in October. That is of course low, but does happen to be the biggest gain in three years. A lift in inflation pressures would certainly be consistent with greater capacity and resource strains beginning to emerge in the economy.

FIGURE 3: ANZ MONTHLY INFLATION GAUGE



Source: ANZ, Statistics NZ

Prices are expected to firm further at this week's GDT auction with supply remaining tight. NZX futures are pointing to a 3-4% lift for WMP and 3% increase for the GDT-TWI. While forecast supply was left unchanged at this week's auction, the normal seasonal decline, combined with reductions at the three previous auctions, means supply remains tight. Indeed the offer volumes of WMP are down 9% on the last auction and 26% compared with last year. SMP offer volumes are down 7% on the last auction and 19% compared with last year. The maximum available milkfat is down 5% on the last auction also. This is expected to provide price tension amongst buyers.

The size of the price increase will depend heavily on the enthusiasm of Chinese buyers, who have continued to represent a high proportion of GDT demand in recent months. China is likely to remain a swing buyer according to local supply conditions. Anecdotally, this demand is likely to moderate for a period with recent buying activity plugging a shortfall in local supply that had opened up. Local supply is now set to seasonally increase and the FTA window has closed for this year. That said, a consensus view seems to be emerging that Chinese WMP imports will further increase in 2017 (calendar year) after getting back to the 400,000mt mark in 2016. Views for 2017 seem to range between 425,000 to 460,000mt. If this

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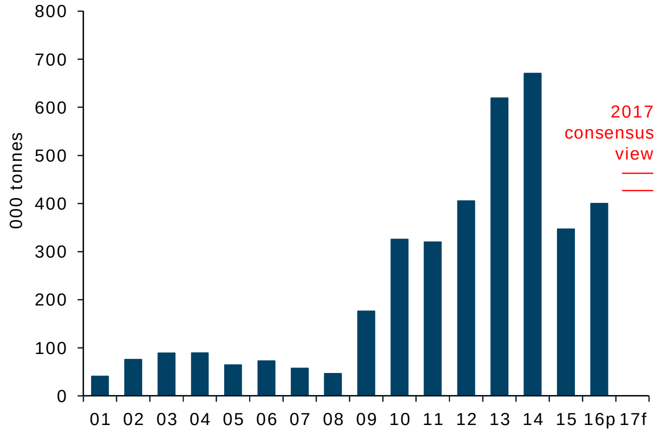
occurs it would be another positive sign for the durability of recent price rises.

FIGURE 4. CHINESE WHOLE MILK POWDER IMPORTS



Source: ANZ, Comtrade

All up, tight supply dynamics remain price supportive both here and abroad. But we expect supply dynamics to change in the New Year, with some lift in supply expected given higher global farm-gate prices now filtering through, the onset of warmer conditions in New Zealand, and European seasonality. Demand moderation from China (part seasonally driven), New Zealand powders being more expensive than those of other origins, and the Europe Commission beginning to sell down some of its stockpile in December are together expected to take some heat out of prices sometime in the New Year.

Electronic Card Transactions figures for November should show continued respectable growth. There is a possibility that the earthquakes during the month disrupted usual spending patterns, particularly in the hospitality sector in the central part of the country. However, any impact is likely to have been modest overall and most likely swamped by other positive forces (stronger labour market, decent consumer confidence, population growth, tourist spending, net wealth gains etc). We have pencilled in growth of 0.5% m/m, which would see the quarterly pace of spending lift to a decent 1¾% q/q rate.

LOCAL DATA

ANZ Business Outlook – November. Headline confidence dipped 4 points to a net 21%. Firms' own activity expectations were unchanged at +38.

RBNZ Credit Aggregates – October. Total private sector credit grew 0.7% m/m, while lending to households grew 0.6% m/m.

Overseas Trade Indexes – Q3. The terms of trade fell 1.8% q/q. Our seasonally adjusted estimates suggest export volumes fell 1.4% q/q, while import volumes rose 3.1% q/q.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates remain elevated but have significant scope to correct lower into the holiday period, which is typically characterised by enthusiasm for carry trades. Rising global yields and the impact of higher oil prices on inflation have led the charge higher in local yields, but we're mindful of the rapid tightening in financial conditions, including the higher TWI and recent rises in mortgage (and deposit) rates. US bond yields continue to drift higher, placing upward pressure on NZ long-end rates. This trend will continue (albeit gradually) over coming quarters as the Fed resumes hiking. However, we believe the global bond outlook is more of the "muddle through" variety than a full-blown bear market given G3 fiscal inflexibility, and the US's ability (or otherwise) to execute on political rhetoric.

THEMES

- Short-end rates have become a victim of higher oil prices and higher global yields. But with an OCR hike at least a year away, we think they're toppy, especially with carry now this attractive.
- Retail interest rates are where all the action is, and this will impact the outlook for the OCR. Amid early signs of a slow-down in credit growth, higher retail rates (and the higher TWI) should help ease GDP growth, and leave the RBNZ on the sidelines for longer (all else equal).
- Last week we spoke of how the US bond market was "priced for perfection", and how that would limit yield rises. We remain of that view, and expect the drift higher to be gradual. But Fed tightening and waning enthusiasm for bonds does still suggest that the trend for yields is higher.

MONETARY POLICY AND SHORT END

Our sentiments remain as they were a week ago: **the short end has over-reacted to the prospect of no more OCR cuts, higher global rates and higher oil prices, and some retracement beckons.** To be fair, some in the market will be licking their wounds, having felt, like us, that the 2yr swap was toppy at 2.25%. So the fact that it has edged higher (it's at ~2.28% this morning) is disappointing, but at some point things become simply too stretched. **With carry on popular trades like 1yr1yr now in excess of 10bps/qtr, we doubt rates have much scope to head much higher.**

These sentiments are underscored by other recent developments in currency markets and at the retail banking level. While the stronger USD has led to NZD/USD moderation, the NZD is elevated on other cross (particularly NZD/Asia). **Together with rises in retail interest rates, this effectively gives the RBNZ more breathing space.** All else equal, these factors should elongate, rather than limit, the period of policy stability – especially with credit growth slowing and the housing market apparently taking a breather. Consequently, **we see limited further upside at the short end, despite somewhat sour sentiment.**

GLOBAL MARKETS AND LONG END

US interest rates continue to edge higher, and while we expect this trend to continue, it won't be unrelenting or continue at anywhere near the pace seen in November. It's not just that US markets are "priced for perfection", and that actually executing on the rhetoric won't be easy, but the US's fiscal position was compromised going into the Presidential elections. We believe the market has rose-tinted glasses on, and while the slow but steady rise in USD LIBOR and prospect of Fed rate hikes are enough to place an upward bias in our US interest rate forecasts, **we expect it to be more of a "muddle through" period than a full-blown bear market.**

With Fed tightening outpacing the projected eventual swing to a higher OCR in NZ (we expect the NZ/US cash rate gap to close to just 0.5%pts by early 2018) **there is scope for NZ bonds to compress on a spread to the US, reducing the impact of higher rates, but this will be compromised to an extent as investors shorten duration, leaving us more neutral. With the short end anchored to the OCR, a steeper yield curve beckons.**

STRATEGY

Investors: Our preference for being **short duration** remains in place, especially with higher yields and a steeper curve in prospect, and **superior value (and carry) on offer at the short end.**

Borrowers: **We are more confident now than we were a few months ago that the lows for yields are in. We see merit in adding to hedges.** But with BKBM biased lower, some caution is required.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/bullish	2yr stretched here with R+C on 1y1y now in excess of 10bps/qtr. Not quite the glory days but not far off.
Long end	Bearish	Significant scope for pullback, but dips shallow with investors defensive. 35yr bond bull market looks done.
Yield Curve	Biased steeper	Gradual steepening beckons as market re-prices US outlook and RBNZ stability anchors short end.
Geographic spreads	Neutral	Divergent policy settings should help support NZ on a spread, but this is likely to be offset to an extent by flows emanating from defensive duration shortening with NZ allocations (and by locals). Leaves us neutral.
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	NZD/USD neutral but TWI likely to hold against Asia/Europe, keeping a lid on the OCR.

CURRENCY STRATEGY

SUMMARY

The NZD remains stuck in established ranges as the combination of a strong local picture, front-end curves (Fed, RBNZ) that look fairly priced, and uncertainty over whether the liquidity cycle has turned and/or the potential for the reflation trade to take hold, bump against each other. We remain unconvinced that one thematic is set to dominate, which leaves us agnostic over the NZD's direction. The NZD/AUD looks stuck in the 0.94-0.96 zone. A break higher would be significant.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	Stable. Being pulled in both directions	Firmer USD bias ultimately wins
NZD/AUD	↔/↑	Positive price action	0.98 peak likely
NZD/EUR	↔/↑	Biased higher	Divided outlooks
NZD/GBP	↔/↓	Pound back in vogue	GBP stabilising
NZD/JPY	↔/↑	Higher on JPY weakness	USD dictating USD/JPY higher

THEMES AND RISKS

- Yield price action whippy.
- NZD still stuck in tussle between the end of the liquidity cycle and reflation trade sentiments.
- Jobs data the green light for the Fed but curve already fully loaded for December.
- Commodity prices a bellwether for the reflation trade?
- European politics still under the spotlight.
- New Zealand's macro data pulse remains strong.

ASSESSMENT

The usual forces continue to bump up against one another.

- **The local growth picture continues to demand respect.** How many other OECD countries are getting 3½-4% GDP growth?
- **Yields might be rising globally, but New Zealand yields offer more shine.**
- **Political stability;** New Zealand has it and it's more important in a world where the anger / resentment vote is apparent.
- **Front-end curves look fairly priced.** The New Zealand curve is flat to late 2017. The market is placing 85% odds on the Fed hiking in December and once more over the course of 2017.
- **Has the liquidity cycle turned courtesy of higher yields**, leaving the USD in charge, with more defensive attitudes to prevail? If yes, that's broadly NZD negative.
- **Is a commodity-led reflation trade taking hold?** If so, that's broadly NZD positive. We note that movements in oil, iron ore and milk powder have **been impressive.**
- **The transition from stimulatory monetary policy to expansionary fiscal policy is leading to higher yields globally.**
- **More attention to volatility with less focus on absolute return.**

This combination is leading to whippy price action that is inconclusive directionally.

In spirit, we think the market bias has shifted from a 'buy NZD dips' to 'sell rallies' mind-set, **though we find it difficult to pencil in a solid declining trend**; support factors are simply too strong and we are unconvinced the likes of the liquidity thematic and push higher in yields is sustainable without an associated correction in asset values. At times like this it's often useful **to break down an economy into the simple nuts and bolts, which is all about microeconomic policy. Good policy delivers good growth and positive economic outcomes.** The anger vote means policy settings will shift internationally. New Zealand is not caught in that rip (yet anyway). Policy settings will remain more stable because of it. That's an environment that will remain conducive to attracting labour and capital. **This story remains particularly pertinent for NZD/AUD. A break of 0.9600 sets up the potential for a push to new highs** given the recent pattern of higher highs and higher lows.

POSITIONING

A NZD/USD squeeze higher can't be discounted amid deeper NZD shorts and very long USD positioning.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Fair value is 0.93. But AU cycle turning.
Yield	↔	Neither central bank doing anything.
Commodities	↔/↓	AU commodities doing much better.
Data	↔/↑	Jobs data heavily in NZ's favour.
Techs	↔/↑	Higher highs and higher lows. Positive.
Sentiment	↔/↑	Swinging back towards NZ.
Other	↔/↑	Election sweeteners for NZ in 2017.
On balance	↔/↑	**0.93-0.97 to hold for now; break of 0.96 would be significant.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair value estimate of ~0.75.
Yield	↔	Now less about yield and more about avoiding volatility. Yields high though.
Commodities	↔/↑	A key leg of NZD support.
Risk aversion	↔	Still a potential Achilles heel.
Data	↔	US financial conditions much tighter now, but market pricing for US perfection.
Techs	↔/↑	Dips below 0.70 have been short-lived.
Other	↔/↓	All about the USD (still!)
On balance	↔	**NZD/USD outlook balanced (pretty good in the face of USD strength).**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
5-Dec	NZ	ANZ Commodity Price - Nov	--	0.7%	13:00
	AU	Melbourne Institute Inflation MoM - Nov	--	0.2%	13:00
	AU	ANZ Job Advertisements MoM - Nov	--	1.0%	13:30
	AU	Inventories SA QoQ - Q3	0.3%	0.3%	13:30
	AU	Company Operating Profit QoQ - Q3	3.0%	6.9%	13:30
	CH	Caixin PMI Services - Nov	--	52.4	14:45
	CH	Caixin PMI Composite - Nov	--	52.9	14:45
	GE	Markit Services PMI - Nov F	55.0	55.0	21:55
	GE	Markit/BME Composite PMI - Nov F	54.9	54.9	21:55
	EC	Markit Services PMI - Nov F	54.1	54.1	22:00
	EC	Markit Composite PMI - Nov F	54.1	54.1	22:00
	UK	Markit/CIPS Services PMI - Nov	54.0	54.5	22:30
	UK	Markit/CIPS Composite PMI - Nov	54.6	54.8	22:30
	EC	Sentix Investor Confidence - Dec	14.3	13.1	22:30
	EC	Retail Sales MoM - Oct	0.8%	-0.2%	23:00
	EC	Retail Sales YoY - Oct	1.7%	1.1%	23:00
6-Dec	US	Markit Services PMI - Nov F	54.8	54.7	03:45
	US	Markit Composite PMI - Nov F	--	54.9	03:45
	US	ISM Non-Manf. Composite - Nov	55.5	54.8	04:00
	NZ	ANZ Truckometer Heavy MoM - Nov	--	-0.2%	10:00
	AU	ANZ-RM Consumer Confidence Index - 4-Dec	--	115.4	11:30
	AU	BoP Current Account Balance - Q3	-A$13.5B	-A$15.5B	13:30
	AU	RBA Cash Rate Target - Dec	1.50%	1.50%	16:30
	GE	Factory Orders MoM - Oct	0.6%	-0.6%	20:00
	GE	Factory Orders WDA YoY - Oct	1.6%	2.6%	20:00
	GE	Markit Construction PMI - Nov	--	52.9	21:30
	GE	Markit Retail PMI - Nov	--	51.0	22:10
	EC	Markit Retail PMI - Nov	--	48.6	22:10
	EC	GDP SA QoQ - Q3 F	0.3%	0.3%	23:00
	EC	GDP SA YoY - Q3 F	1.6%	1.6%	23:00
7-Dec	US	Trade Balance - Oct	-$42.0B	-$36.4B	02:30
	US	Nonfarm Productivity - Q3 F	3.3%	3.1%	02:30
	US	Unit Labor Costs - Q3 F	0.3%	0.3%	02:30
	US	Factory Orders - Oct	2.5%	0.3%	04:00
	US	Factory Orders Ex Trans - Oct	--	0.6%	04:00
	US	Durable Goods Orders - Oct F	2.0%	4.8%	04:00
	US	Durables Ex Transportation - Oct F	0.5%	1.0%	04:00
	US	IBD/TIPP Economic Optimism - Dec	--	51.4	04:00
	NZ	ANZ Job Advertisements MoM - Nov	--	0.6%	10:00
	AU	AiG Perf of Construction Index - Nov	--	45.9	11:30
	NZ	ANZ Monthly Inflation Gauge - Nov	--	0.7%	13:00
	AU	GDP SA QoQ - Q3	0.2%	0.5%	13:30
	AU	GDP YoY - Q3	2.5%	3.3%	13:30
	AU	Foreign Reserves - Nov	--	A$64.9B	18:30
	GE	Industrial Production SA MoM - Oct	0.8%	-1.8%	20:00
	GE	Industrial Production WDA YoY - Oct	1.6%	1.2%	20:00
	UK	Halifax House Prices MoM - Nov	0.2%	1.4%	21:30
	UK	Halifax House Price 3Mths/Year - Nov	5.9%	5.2%	21:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
7-Dec	UK	Industrial Production MoM - Oct	0.2%	-0.4%	22:30
	UK	Industrial Production YoY - Oct	0.5%	0.3%	22:30
	UK	Manufacturing Production MoM - Oct	0.2%	0.6%	22:30
	UK	Manufacturing Production YoY - Oct	0.7%	0.2%	22:30
	CH	Foreign Reserves - Nov	$3065.7B	$3120.7B	/2016
8-Dec	US	MBA Mortgage Applications - 2-Dec	--	-9.4%	01:00
	UK	NIESR GDP Estimate - Nov	0.4%	0.4%	04:00
	US	JOLTS Job Openings - Oct	5445	5486	04:00
	US	Consumer Credit - Oct	$18.50B	$19.29B	09:00
	JN	BoP Current Account Balance - Oct	¥1568.1B	¥1821.0B	12:50
	JN	GDP SA QoQ - Q3 F	0.6%	0.5%	12:50
	JN	GDP Annualized SA QoQ - Q3 F	2.3%	2.2%	12:50
	JN	GDP Deflator YoY - Q3 F	-0.1%	-0.1%	12:50
	UK	RICS House Price Balance - Nov	26%	23%	13:01
	AU	Trade Balance - Oct	-A$700M	-A$1227M	13:30
	CH	Trade Balance - Nov	$46.69B	$49.06B	UNPSECIFIED
	CH	Exports YoY - Nov	-5.0%	-7.3%	UNPSECIFIED
	CH	Imports YoY - Nov	-1.8%	-1.4%	UNPSECIFIED
9-Dec	EC	ECB Main Refinancing Rate - Dec	0.00%	0.00%	01:45
	EC	ECB Deposit Facility Rate - Dec	-0.40%	-0.40%	01:45
	EC	ECB Marginal Lending Facility - Dec	0.25%	0.25%	01:45
	EC	ECB Asset Purchase Target - Dec	€80B	€80B	01:45
	US	Initial Jobless Claims - 3-Dec	255k	268k	02:30
	US	Continuing Claims - 26-Nov	2048k	2081k	02:30
	NZ	Card Spending Retail MoM - Nov	0.4%	0.6%	10:45
	NZ	Card Spending Total MoM - Nov	--	0.6%	10:45
	AU	Home Loans MoM - Oct	-1.0%	1.6%	13:30
	AU	Investment Lending - Oct	--	4.6%	13:30
	AU	Owner-Occupier Loan Value MoM - Oct	--	0.9%	13:30
	CH	CPI YoY - Nov	2.2%	2.1%	14:30
	CH	PPI YoY - Nov	2.2%	1.2%	14:30
	GE	Trade Balance - Oct	€22.0B	€24.2B	20:00
	GE	Current Account Balance - Oct	€22.0B	€24.2B	20:00
	GE	Exports SA MoM - Oct	0.9%	-1.2%	20:00
	GE	Imports SA MoM - Oct	1.1%	-0.7%	20:00
	GE	Labor Costs WDA YoY - Q3	--	1.8%	20:00
	GE	Labor Costs SA QoQ - Q3	--	0.2%	20:00
	UK	Visible Trade Balance GBP/Mn - Oct	-£11800	-£12698	22:30
	UK	Trade Balance Non EU GBP/Mn - Oct	-£3450	-£3969	22:30
	UK	Trade Balance - Oct	-£4300	-£5221	22:30
	UK	Construction Output SA MoM - Oct	0.2%	0.3%	22:30
	UK	Construction Output SA YoY - Oct	-0.1%	0.2%	22:30
	NZ	REINZ House Sales YoY - Nov	--	-14.2%	9-14 Dec
10-Dec	US	Wholesale Inventories MoM - Oct F	-0.4%	-0.4%	04:00
	US	U. of Mich. Sentiment - Dec P	94.4	93.8	04:00

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 solid, with downside risks mainly stemming from offshore. With inflation showing signs of tentatively lifting, the OCR now looks to be on hold at 1.75% for a considerable period.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 5 Dec (1:00pm)	ANZ Commodity Price Index – Nov	--	--
Tue 6 Dec (10:00am)	ANZ Truckometer – Nov	--	--
Wed 7 Dec (early am)	GlobalDairyTrade Auction	Supply-driven	A considerable supply adjustment is underway globally, which should lend further support to prices.
Wed 7 Dec (10:00am)	ANZ Job Ads – Nov	--	--
Wed 7 Dec (1:00pm)	ANZ Inflation Gauge – Nov	--	--
Thu 8 Dec (1.30pm)	Treasury Half-Year Economic and Fiscal Update	Upgrades	Tax revenue is running ahead of forecasts. Typically fiscal projections would be upgraded, but quake-related costs need to be factored in.
Fri 9 Dec (10:45am)	Electronic Card Transactions – Nov	Chugging on	We believe relative household restraint remains. Nevertheless, a number of positive support factors still exist.
12-15 Dec	REINZ Housing Market Statistics – Nov	Cooling	Turnover has fallen and properties are taking longer to sell. That should see price growth moderate further.
Tue 13 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Solid	While a weather-related hit to primary production is possible, the manufacturing sector overall is performing well.
Thu 15 Dec (10:30am)	BNZ-BusinessNZ PMI – Nov	Solid	The sector remains in good heart, riding on the coat tails of the domestic construction sector.
Thu 15 Dec (10:45am)	Value of Building Work – Q3	Tea break	After some strong quarterly growth rates, we have pencilled in a more modest lift in Q3 and wouldn't rule out a fall.
Fri 16 Dec (1:00pm)	ANZ Roy Morgan Consumer Confidence – Dec	--	--
Mon 19 Dec (10:30am)	BNZ-BusinessNZ PSI – Nov	Chugging along	We wouldn't be surprised to see activity cool a little on the softer housing market, but only modestly.
Mon 19 Dec (10:45am)	Building Consent Issuance – Oct	Still trending up	Putting monthly volatility aside, a modest upward trend in issuance should continue for a while yet.
Mon 19 Dec (1:00pm)	ANZ Business Outlook – Dec	--	--
Tue 20 Dec (10:45am)	Food Price Index – Nov	Seasonal falls	Further seasonal weakness in fruit and vegetable prices should drive the overall index lower.
Wed 21 Dec (early am)	GlobalDairyTrade Auction	Supply-driven	A considerable supply adjustment is underway globally, which should lend further support to prices.
Wed 21 Dec (10:45am)	International Travel & Migration – Nov	Strong	There may be a near-term hit from the earthquakes, but we expect net inflows to remain strong overall.
Wed 21 Dec (10:45am)	Overseas Merchandise Trade – Nov	On the mend	With commodity prices recovering, we believe the deterioration in the trade deficit will start to gradually reverse.
Thu 22 Dec (10:45am)	Balance of Payments – Q3	Contained	The current account deficit looks set to remain well below its historical average at around 3% of GDP.
Thu 22 Dec (10:45am)	GDP – Q3	0.6% q/q	Weak agricultural production and slower retail spending should see more modest quarterly growth than seen over H1 2016.
Thu 22 Dec (3:00pm)	RBNZ Credit Aggregates – Nov	Past the top	Credit growth is past its peak, and is expected to continue to soften over the months ahead.
On balance		**Data watch**	**Momentum is decent at present, albeit with risks. Inflation remains low, but looks to be rising.**

KEY FORECASTS AND RATES

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
GDP (% qoq)	0.9	**0.6**	**1.0**	**0.8**	**0.8**	**0.8**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% yoy)	3.6	**3.4**	**3.5**	**3.4**	**3.2**	**3.4**	**3.0**	**2.8**	**2.5**	**2.2**
CPI (% qoq)	0.4	0.3	**0.2**	**0.5**	**0.4**	**0.6**	**0.2**	**0.9**	**0.5**	**0.6**
CPI (% yoy)	0.4	0.4	**1.1**	**1.4**	**1.4**	**1.7**	**1.7**	**2.1**	**2.2**	**2.2**
Employment (% qoq)	2.4	1.4	**0.7**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	4.5	6.1	**5.9**	**5.2**	**3.3**	**2.2**	**1.9**	**1.7**	**1.6**	**1.5**
Unemployment Rate (% sa)	5.0	4.9	**4.8**	**4.8**	**4.7**	**4.6**	**4.6**	**4.5**	**4.4**	**4.4**
Current Account (% GDP)	-2.9	**-3.0**	**-3.1**	**-3.3**	**-3.4**	**-3.4**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-2.5	-1.8	**0.7**	**0.8**	**0.9**	**0.8**	**0.6**	**0.3**	**0.4**	**0.0**
Terms of Trade (% yoy)	-4.3	-2.3	**0.4**	**-2.9**	**0.5**	**3.2**	**3.1**	**2.6**	**2.1**	**1.3**

	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Retail ECT (% mom)	0.7	0.1	0.8	-0.2	1.2	0.2	-1.2	2.0	0.6	--
Retail ECT (% yoy)	9.2	6.2	7.8	3.3	6.8	5.8	3.2	6.1	4.2	--
Credit Card Billings (% mom)	-0.2	-0.9	2.1	0.2	-0.9	2.6	-1.1	3.2	2.8	--
Credit Card Billings (% yoy)	7.3	5.0	9.0	6.1	4.1	5.7	2.2	8.5	10.2	--
Car Registrations (% mom)	5.7	-3.8	6.4	-3.7	-0.9	-0.4	2.3	-2.6	12.6	--
Car Registrations (% yoy)	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	--
Building Consents (% mom)	10.9	-9.8	8.0	-0.7	20.4	-8.7	-1.5	0.2	--	--
Building Consents (% yoy)	26.9	0.4	13.7	10.1	39.9	7.8	11.8	14.5	--	--
REINZ House Price Index (% yoy)	11.9	13.3	14.5	14.7	14.2	16.3	11.7	9.7	14.4	--
Household Lending Growth (% mom)	0.6	0.6	0.8	0.7	0.8	0.8	0.8	0.7	0.6	--
Household Lending Growth (% yoy)	7.6	7.7	7.9	8.1	8.3	8.6	8.7	8.8	8.7	--
ANZ Roy Morgan Consumer Conf.	119.7	118.0	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2
ANZ Business Confidence	7.1	3.2	6.2	11.3	20.2	16.0	15.5	27.9	24.5	20.5
ANZ Own Activity Outlook	25.5	29.4	32.1	30.4	35.1	31.4	33.7	42.4	38.4	37.6
Trade Balance ($m)	367	189	350	343	107	-351	-1235	-1394	-846	--
Trade Bal ($m ann)	52831	52599	52626	52854	52660	52078	51900	51942	51968	--
ANZ World Commodity Price Index (% mom)	0.5	-1.3	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	--
ANZ World Comm. Price Index (% yoy)	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	--
Net Migration (sa)	6010	5340	5510	5550	5710	5640	5660	6330	6173	--
Net Migration (ann)	67391	67619	68110	68432	69090	69015	69119	69954	70282	--
ANZ Heavy Traffic Index (% mom)	1.7	3.3	-2.5	-2.4	5.1	-6.3	7.3	-2.4	-0.2	--
ANZ Light Traffic Index (% mom)	2.3	0.9	0.3	-1.4	2.6	-1.7	0.9	0.2	-2.0	--

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Oct-16	Nov-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZD/USD	0.715	0.714	0.712	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.941	0.957	0.958	0.93	0.93	0.93	0.93	0.94	0.97	0.98
NZD/EUR	0.653	0.671	0.676	0.66	0.65	0.64	0.63	0.62	0.61	0.62
NZD/JPY	75.07	80.72	80.55	78.1	79.4	77.1	74.8	73.6	73.6	74.8
NZD/GBP	0.588	0.574	0.563	0.58	0.56	0.56	0.55	0.52	0.51	0.52
NZ$ TWI	75.6	77.1	78.5	76.1	75.0	73.7	72.2	71.4	71.4	72.5
INTEREST RATES	Oct-16	Nov-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZ OCR	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
NZ 90 day bill	2.14	2.04	2.04	2.10	2.00	2.00	2.00	2.00	2.20	2.30
NZ 10-yr bond	2.71	3.13	3.19	3.40	3.60	3.70	3.80	3.90	4.00	4.10
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	0.88	0.93	0.95	1.05	1.13	1.20	1.33	1.45	1.60	1.75
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	1.75	1.77	1.77	1.70	1.80	1.80	1.80	1.80	1.80	1.80

	2 Nov	28 Nov	29 Nov	30 Nov	1 Dec	2 Dec
Official Cash Rate	2.00	1.75	1.75	1.75	1.75	1.75
90 day bank bill	2.13	2.03	2.03	2.04	2.04	2.04
NZGB 03/19	2.04	2.11	2.12	2.14	2.18	2.19
NZGB 05/21	2.23	2.45	2.46	2.49	2.53	2.56
NZGB 04/23	2.44	2.73	2.73	2.76	2.80	2.84
NZGB 04/27	2.75	3.11	3.09	3.13	3.20	3.26
2 year swap	2.18	2.25	2.25	2.28	2.28	2.30
5 year swap	2.47	2.75	2.74	2.77	2.81	2.85
RBNZ TWI	77.65	77.79	77.91	78.53	78.29	78.29
NZD/USD	0.7261	0.7076	0.7097	0.7143	0.7081	0.7141
NZD/AUD	0.9489	0.9465	0.9501	0.9574	0.9583	0.9576
NZD/JPY	75.07	79.39	79.84	80.72	80.94	81.06
NZD/GBP	0.5914	0.5690	0.5692	0.5744	0.5623	0.5610
NZD/EUR	0.6551	0.6655	0.6692	0.6705	0.6671	0.6696
AUD/USD	0.7652	0.7476	0.7470	0.7461	0.7389	0.7457
EUR/USD	1.1084	1.0632	1.0605	1.0653	1.0615	1.0664
USD/JPY	103.39	112.19	112.50	113.00	114.30	113.51
GBP/USD	1.2277	1.2436	1.2469	1.2436	1.2594	1.2729
Oil (US$/bbl)	46.66	45.88	45.66	45.29	49.41	51.08
Gold (US$/oz)	1290.90	1191.26	1190.12	1190.13	1169.85	1175.40
Electricity (Haywards)	5.06	3.76	4.71	4.88	6.19	4.83
Baltic Dry Freight Index	834	1184	1202	1204	1196	1198
NZX WMP Futures (US$/t)	3280	3425	3450	3450	3480	3525

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