ANZ RESEARCH

NEW ZEALAND MARKET FOCUS

6 June 2017

INSIDE

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GREATER SCRUTINY

ECONOMIC OVERVIEW

A key theme we are pushing is that more onus will need to fall on domestic saving to fund our future investment needs. The RBNZ is up with the play, reminding us in the FSR that our previous modus operandi of ramping up offshore borrowing faces greater scrutiny. While a gradual shift in interest rates in favour of savers and away from borrowers should assist with this in time, RBNZ analysis highlights that it is not the be-all-and-end-all for generating higher saving overall. Something more will be needed, and that brings us back to our view that more proactive saving policies are likely to be necessary in time. In data this week, we expect global dairy prices to be mixed, while manufacturing activity should rebound in Q1. Three of our key proprietary indicators (Job Ads, Truckometer and Inflation Gauge) will provide timely updates on labour demand, activity momentum and inflation trends respectively.

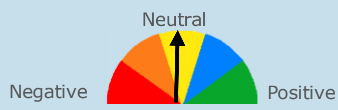
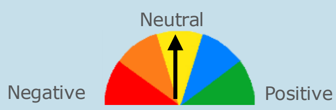
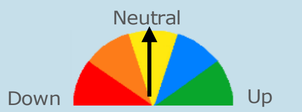
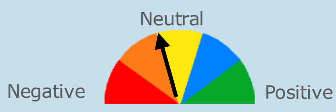
INTEREST RATE STRATEGY

Short-end yields have tested lower, but ultimately familiar ranges have held. While we are mindful of the potential for rates to rally further in sympathy with Australia this week if their GDP proves as weak as our colleagues expect, we see these ranges holding. That should remain the case until at least local GDP figures and the next RBNZ decision. Global yields have fallen on the disappointing US payrolls data and as more questions regarding the inflation outlook surface. While we believe the market continues to under-price the Fed, and US yields will be higher by year end, we are cautious chasing that theme this week ahead of the UK election, ECB decision and Comey testimony. With NZGS spreads to US now stabilising, our long end will be dictated by global moves.

CURRENCY STRATEGY

The NZD should be elevated, with the recent strength in part driven by local fundamentals (such as the terms of trade) and fading policy-related support for the USD. Despite that combination, we're coy chasing the NZD around current levels and consider the recent push to be into a zone that should be faded, as opposed to bought. Market pricing for the Fed is too disconnected from the FOMC dot plots, and China, commodities and the AUD all look vulnerable. The NZD/AUD has pushed higher and we strategically favour more of the same.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q4	Soft Q4 GDP figures are not a true reflection of the state of the economy. While momentum is forecast to ease, it should remain decent overall.	
Unemployment rate	4.7% for 2017 Q4	Strong job ads growth suggests the unemployment rate should continue to trend lower. Wage growth is benign, but conditions for change are emerging.	
OCR	1.75% by Dec 2017	The case for a lower OCR right now is hard to justify, but a turn in the credit cycle is allowing the RBNZ to be patient.	
CPI	2.0% y/y for 2017 Q4	Headline inflation is now back at the target mid-point. Domestic and core inflation are also gradually lifting.	

ECONOMIC OVERVIEW

SUMMARY

A key theme we are pushing is that more onus will need to fall on domestic saving to fund our future investment needs. The RBNZ is up with the play, reminding us in the FSR that our previous modus operandi of ramping up offshore borrowing faces greater scrutiny. While a gradual shift in interest rates in favour of savers and away from borrowers should assist with this in time, RBNZ analysis highlights that it is not the be-all-and-end-all for generating higher saving overall. Something more will be needed, and that brings us back to our view that more proactive saving policies are likely to be necessary in time. In data this week, we expect global dairy prices to be mixed, while manufacturing activity should rebound in Q1. Three of our key proprietary indicators (Job Ads, Truckometer and Inflation Gauge) will provide timely updates on labour demand, activity momentum and inflation trends respectively.

FORTHCOMING EVENTS

ANZ Commodity Price Index – May (1:00pm, Tuesday, 6 June).

GlobalDairyTrade Auction (early am, Wednesday, 7 June). Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support. Prices are expected to be mixed this week.

ANZ Job Ads – May (10:00am, Wednesday, 7 June).

Economic Survey of Manufacturing – Q1 (10:45am, Wednesday, 7 June). A rebound in both primary and 'core' manufacturing sales volumes is expected.

ANZ Truckometer – May (10:00am, Thursday, 8 June).

Electronic Card Transactions – May (10:45am, Monday, 12 June). Volatility aside (which there has been plenty of recently), we expect the underlying trend in total retail spending to continue to run around a 0.5% monthly pace.

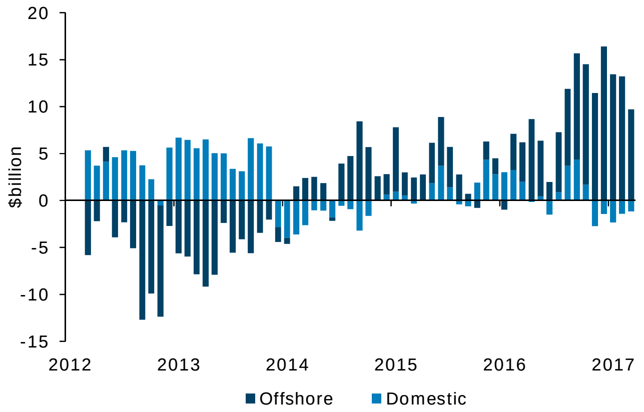
ANZ Monthly Inflation Gauge – May (1:00pm, Monday, 12 June).

WHAT'S THE VIEW?

How New Zealand funds its future (gargantuan) investment needs remains at the forefront of our minds. Our previous modus operandi of backfilling a domestic saving shortfall with offshore borrowing (and running a large current account deficit) is facing far more challenges in the current regulatory and global environment, which is all the more pertinent given a massive pipeline of investment needs.

We were reminded of some of the realities by the RBNZ's *Financial Stability Report* last week. An increased reliance on offshore funding by banks (given a large gap between domestic credit and deposit growth) is coming under greater regulator attention and scrutiny. And within the Report there were subtle 'stick and carrot' type comments to that effect. The stick: *"Greater reliance on offshore funding could reduce the credit ratings of domestic banks and, in turn, increase their funding costs"*. The carrot was the RBNZ implicitly welcoming banks' attempts to close the gap though a tightening in lending standards and higher deposit rates and that it *"supports a cautious approach to managing foreign debt in light of insights gained from the global financial crisis"*. **So in other words, you can't have your cake and eat it too. Behaviours are evolving and need to continue to do so.**

FIGURE 1: ANNUAL CHANGE IN THE STOCK OF BANK MARKET FUNDING



Source: RBNZ

Those nuances are, in spirit, a current account constraint. While the international funding channel is still open (and indeed there is room for our current account deficit to widen modestly from its current level of 2.7% of GDP), more onus is going to fall on domestic saving, particularly by households, to do more of the heavily lifting required to meet our investment needs.

It's a basic accounting identity; if you can't (or shouldn't) fill your boots with the same degree of offshore borrowing, then domestic saving needs to lift. The alternative is that investment has to fall, and we don't want that.

One of the channels that should assist with this process is movements in interest rates. Deposit rates are already rising, and along with them borrowing rates, as banks compete more aggressively for domestic deposits. We are biased

ECONOMIC OVERVIEW

towards this theme continuing, gradually shifting the interest rate pendulum away from borrowers and towards savers (or in other words away from consumption and towards saving), even independent of eventual hikes in the OCR (which we still have pencilled in for mid-2018). Our own analysis on the drivers of household deposits has found that for every percentage point increase in deposit rates (proxied by the 6-month term deposit rate), the stock of household deposits increases by 1.7%.[1]

But as the RBNZ highlighted, higher interest rates are not going to be the be-all-and-end-all for generating higher saving overall. Consistent with our own analysis, the RBNZ found that higher deposit rates are likely to boost the stock of household deposits. However, it also found that *"total retail deposits [household and businesses] are relatively insensitive to deposit rates"* – in large part due to substitution between household and business deposits.

So while higher interest rates may result in some compositional changes in national saving (and for banks perhaps a more stable form of funding, with household deposits judged to be more 'sticky'), something more is going to be needed.

That brings us back to a key point we made last week: in order for domestic saving to lift by the degree necessary, more proactive saving policies are eventually going to be needed. And that will require the finger to be pointed, at some stage, at the playing field between housing versus the rest. New Zealand favours the former. That field needs some levelling and "policy" will be required to nudge things in the right direction. We hope the boffins at Treasury have the lights and thinking caps on.

Turning to the week ahead, this week's GlobalDairyTrade auction is expected to serve up some mixed news. NZX future prices are indicating a 4% decline for whole milk powder, but a 10% gain for skim milk powder, and milkfat maintaining record highs (although the latter future contract suffers from low liquidity, reducing its predictive value).

Supply dynamics have been nudging futures prices around, with three weeks having passed since the last auction. Whole milk powder prices have fallen with the curve in backwardation. The main reason is as purchasers wait to see what new season supply out of New Zealand might bring. In that regard, Fonterra added another 10,000mt (+2.9%) of whole milk powder for sale last week, mainly between the October and January auctions. The additional product is due to anticipated higher milk flow through the seasonal peak (last year was a shocker) and whole milk powder currently returning more than the skim milk powder/milkfat equivalent (essentially optimising the product mix to maximise returns). The early nature of the announcement seems wise and should provide more wiggle room during the seasonal peak to respond to developments (eg hold more inventory should prices come under pressure with stronger milk flows). Skim milk powder prices have moved higher due to lower-than-anticipated milk flow from Europe's main producing countries. This has been due to a cold spring reducing milk flow in the likes of France and Germany, moderating skim milk powder production.

But while supply dynamics have pushed NZX future prices around, immediate demand requirements (with seasonal volumes near lows on GDT) will be the more important determinant of prices achieved this week. China's participation remained high at the last auction, indicating domestic milk flow through the seasonal peak has struggled to meet demand. This bodes well for demand during the second half of 2017 (when seasonal milk flow in China is lower). Anecdotally, other buyers are reportedly buying hand to mouth too, which suggests steady demand pressure, given low seasonal volumes.

So all up, buyers are understandably cautious about forward commitments – they are acutely aware there should be better global milk flows over the second half of 2017, driven by better farm-gate returns and low supplementary feed prices (globally). However, until this stronger supply actually materialises, we believe prices will remain supported. Higher New Zealand seasonal volumes only start to step-up vigorously next month and, in the case of whole milk powder, still remain below last year's levels until October.

[1] This is based on a ARDL model that looks at household deposits as a function of household income (+), population (+), the deposit rate (+), the household saving rate (-) and the gap between NZX total returns and the deposit rate (-).

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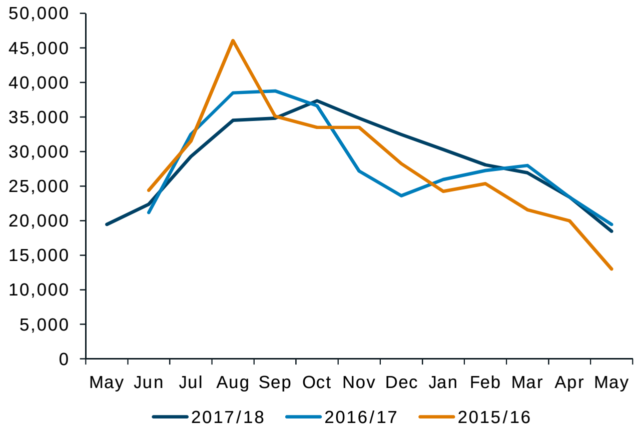
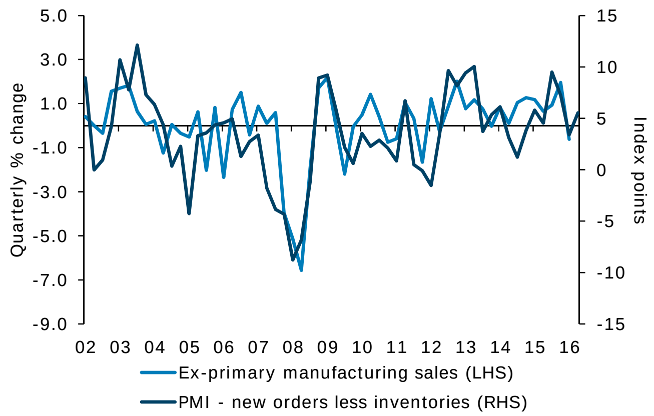
FIGURE 2: GDT WHOLEMILK POWDER VOLUMES



Source: ANZ, GDT

We expect the Economic Survey of Manufacturing for Q1 to show a rebound in sales volumes after a modestly contraction in Q4. Meat and dairy product manufacturing sales volumes fell 5.7% q/q to end 2016, and suspect that was largely a consequence of poor spring weather conditions, especially in the North Island, which weighed on milk production. More favourable summer conditions should see a rebound. 'Core' sales volumes also contracted, albeit by only a modest 0.6% q/q in the quarter. But when we look at partial indicators for Q1 activity, such as manufacturing sentiment within our Business Outlook survey or the difference between new orders and inventories within the PMI survey, they both point to a bounce.

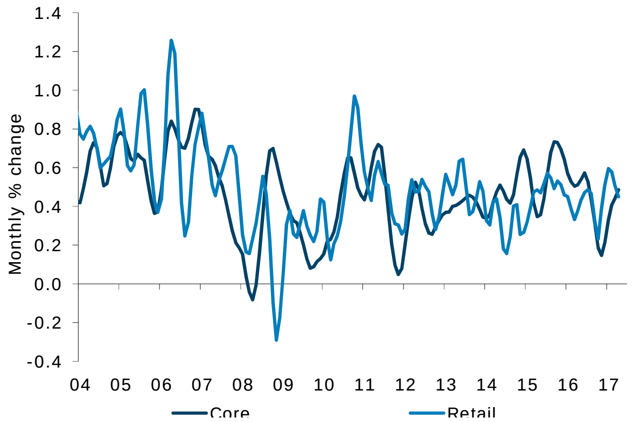
FIGURE 3: MANUFACTURING SALES AND PMI



Source: ANZ, Statistics NZ, BusinessNZ

Electronic Card Transactions have been jumping all over the place of late, but we expect the May figures will show an ongoing modest underlying trend. In April, total retail spending rose 1.1% m/m, after falling in both February and March. Spending can be thrown from month to month around by plenty of things: the weather, the price of necessities like petrol and food, the timing of public holidays and key events that can boost visitor arrivals. Regarding the latter, it is quite possible that the World Masters Games, which were held in Auckland over the month, contributed to the lift in spending in April. If that was the case, then we may see a modest pull-back in the May figures. But we prefer to look through this volatility and focus on the underlying story, and that is expected to remain one of a respectable, but ultimately modest, rate of trend growth. In April, the trend rate of growth in total retail ECT spending was 0.5% m/m, and we expect that to more or less persist for the foreseeable future.

FIGURE 4: ECT RETAIL SPENDING TRENDS



Source: ANZ, Statistics NZ

The coming week also sees the release of three of our key proprietary indicators for May, which should provide timely updates on trends in labour demand, broader activity momentum and domestic inflation respectively:

- **Job ads:** Total job advertising rose 0.4% m/m (sa) in April. That is admittedly a reasonable amount below the average monthly growth of 1.4% m/m experienced since the start of 2016, and annual growth (on a 3-month average basis), at 17%, is also off its highs. However, the picture is still consistent with strong labour demand. And in many ways, it is not really surprising that job advertising – and employment growth more broadly – is starting to ease off highs. Given the earlier strong rates of growth and the labour constraints evident (firms just cannot fill vacancies), it was always going to be hard for that pace of growth to be maintained.

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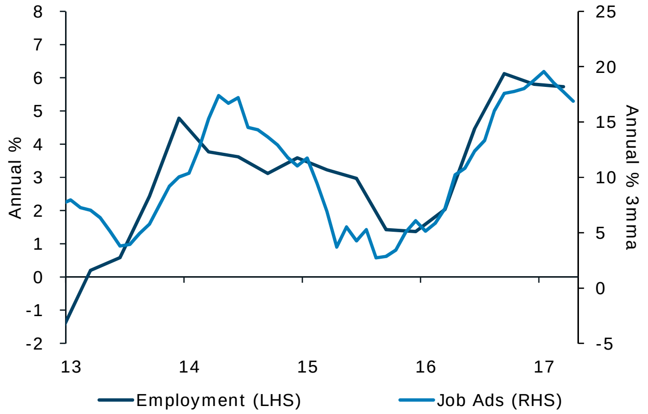
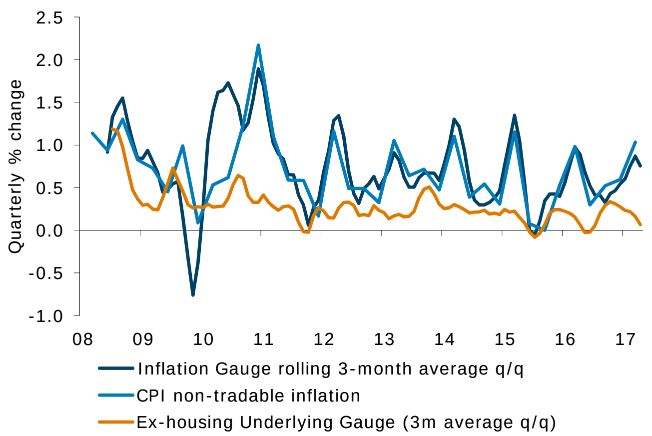
FIGURE 5: ANZ JOB ADS AND EMPLOYMENT GROWTH



Source: ANZ, Statistics NZ

- **Truckometer:** Although both the Heavy and Light Traffic indices fell in April (by 1.8% m/m and 1.5% m/m respectively), the underlying trends in both gauges are still respectable. The Heavy Traffic Index is giving a positive signal on contemporaneous momentum. The underlying trend in the Light Traffic Index, while certainly showing a less definitive upward trend of late, is also still pointed upwards.
- **Monthly Inflation Gauge:** Prices in the Gauge were flat in April, which saw annual inflation ease to 2.2%, the lowest since May 2016. There also remains a clear wedge between rising costs for housing versus flat-lining prices for most other products and services. In fact, the Underlying Ex-housing Gauge actually fell 0.1% in the month. That remains a relevant story for the RBNZ. Without signs that domestic inflation pressures are broadening, the RBNZ is going to remain unconvinced that the inflation genie is being let out of the bottle and necessitating a response.

FIGURE 6: ANZ MONTHLY INFLATION GAUGE



Source: ANZ, Statistics NZ

LOCAL DATA

Building Consents Issued – April. Seasonally adjusted dwelling consent issuance fell 7.6% m/m, while the value of non-residential consents was $454m.

ANZ Business Outlook – May. Headline confidence lifted 4 points to a net 15%, while firms' own activity expectations were unchanged at a net 38%.

Overseas Trade Indexes – Q1. The terms of trade surged 5.1% q/q. Export volumes fell 4.2% q/q, while import volumes rose 1.2% y/y.

RBNZ Sectoral Lending – April. Private sector credit rose 0.5% m/m (sa), with annual growth slowing to 6.2%.

Building Work Put in Place – Q1. Total building work volumes fell 3.5% q/q, led by a 7.5% drop in non-residential work.

INTEREST RATE STRATEGY

SUMMARY

Short-end yields have tested lower, but ultimately familiar ranges have held. While we are mindful of the potential for rates to rally further in sympathy with Australia this week if their GDP proves as weak as our colleagues expect, we see these ranges holding. That should remain the case until at least local GDP figures and the next RBNZ decision. Global yields have fallen on the disappointing US payrolls data and as more questions regarding the inflation outlook surface. While we believe the market continues to under-price the Fed, and US yields will be higher by year end, we are cautious chasing that theme this week ahead of the UK election, ECB decision and Comey testimony. With NZGS spreads to US now stabilising, our long end will be dictated by global moves.

THEMES

- Short-end yields attempted a test lower last week, but ultimately the key 2.2% level for the bellwether 2-year swap held.
- We are mindful of the risk that this week's Australian events (RBA and GDP) could see our rates rally in sympathy. However, we expect ranges to hold. Attractive roll+carry, NZD strength and the RBNZ's stance continue to go head-to-head with a still-strong domestic data pulse. The latter needs to be respected.
- Global yields have fallen as US payrolls disappointed and more questions surround the general inflation outlook. While we believe the market continues to under-price the Fed, and we see yields higher by year end, it is something we are cautious chasing right here.
- The UK election, ECB decision and Comey testimony are all key event-risks this week.
- NZGS yields have followed global moves, with spreads showing signs of stabilising at low levels.
- With firms' pricing intentions rising, we remain upbeat on linkers, with BEIs expected to rise more.

MONETARY POLICY AND SHORT END

The picture at the short end remains largely unchanged. Although yields tested lower last week, and the bellwether 2-year swap threatened a break below the 2.2% level in what looked to be a flow-related move, familiar ranges are still in place.

We see these ranges continuing to hold. Topside moves are limited by still attractive roll+carry, recent NZD strength and the RBNZ's stance. We are also mindful of the potential for local yields to rally in sympathy with Australia if the RBA acknowledges the recent less-than-stellar performance of the Australian economy and Q1 GDP proves weak, as our Australian colleagues expect. However, that continues to go head-to-head with a still-solid domestic data pulse and signs of increased corporate paying as yields head lower.

GLOBAL MARKETS AND LONG END

The picture at the long end is a little more conflicted. While the latest disappointing payrolls report has not derailed expectations that the Fed will hike again next week (we still hold that view too), it has certainly added to questions over the extent of any future tightening (and longer-term yields more generally), especially as it comes at a time when there are some signs that core inflation is rolling over again. We still see US yields higher by year end (and believe the market is under-pricing the Fed), but with Comey testimony, the UK election and the ECB meeting all this week, we doubt the market will want to run with that theme, capping yields for now. And with **NZ-US spreads now showing signs of stabilising after narrowing sharply, our long end will be dictated by global moves.**

We remain upbeat on NZGS linkers. Notwithstanding the broader questions over the global inflation outlook, we feel local BEIs, still around 1.2% to 1.35%, are too low in the context of rising firms' pricing intentions, higher surveyed inflation expectations and the RBNZ's determination to get inflation sustainably back to target.

STRATEGY

Investors: We remain mildly bullish the short end but there's not much in it. We prefer to be **nimble at the long end** given the split tactical/strategic outlook. **We are bullish linkers** (BEIs are too low).

Borrowers: No change. **BKBM is at a record low, and is set to remain so for a time, but our forecasts have swap rates going higher.** Caution is required given the global scene, but the recent fall in swap rates presents opportunities.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Range bound	Mindful of Australian risks this week, but still do not see a range break lower.
Long end	Neutral	Still see US yields rising, but cautious chasing here given inflation question marks and political risks. More bullish NZ on a spread than outright, but spreads have already narrowed meaningfully.
Yield Curve	Steeper	Strategically favour a steepener, based largely on divergent policy and divergent short/long-end views.
Geographic spreads	Neutral/ narrower	NZ/US spread performance exceptional, but now stabilising. Should narrow further over the year as USTs grind higher (especially given the RBNZ's neutral stance). However, a breather seems likely near term.
Swap spreads	Neutral/wider	NZGS demand strong. Some risk that corporate paying picks up with yields back at much lower levels.
NZD/TWI	Testing higher	NZD is a key channel through which a solid NZ data pulse is being expressed, capping short-end yields.

CURRENCY STRATEGY

SUMMARY

The NZD should be elevated, with the recent strength in part driven by local fundamentals (such as the terms of trade) and fading policy-related support for the USD. Despite that combination, we're coy chasing the NZD around current levels and consider the recent push to be into a zone that should be faded, as opposed to bought. Market pricing for the Fed is too disconnected from the FOMC dot plots, and China, commodities and the AUD all look vulnerable. The NZD/AUD has pushed higher and we strategically favour more of the same.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Oscillating	Closing yield = USD up
NZD/AUD	↔/↑	Still like it higher	Up
NZD/EUR	↔	Eyes on the ECB; it won't change tack yet	Europe needs structural reform
NZD/GBP	↔/↑	UK election overhang to weigh	Valuation says lower, Brexit and election challenges say higher
NZD/JPY	↔	In a holding pattern	USD/JPY direction doesn't look clear

THEMES AND RISKS

- Global inflation pulse showing tentative signs of rolling over.
- Is the 'Trump Bump' fading?
- Politics and policy undermining the USD.
- FOMC says five hikes by the end of 2018; market says just two. Who is right?

ASSESSMENT

The NZD should be elevated. We note:

- The rubber band is not taut. Across our long-run specifications, the NZD/USD is slightly undervalued and only slightly overvalued against the AUD.
- The terms of trade sits at the highest level since the 1970s, and the rise in the past decade has a secular look about it; manufacturing and technology goods are the new commodities.
- Locally, 3-4% GDP growth needs to be respected and New Zealand's current account is in check.
- Microeconomic policy is becoming more relevant as a driver. New Zealand stands tall here.
- Volatility is contained.
- There are signs the Trump growth bump is fading, and with that, prospects for hike(s) from the Fed are dissipating.

But despite that combination, we're coy about chasing the NZD around current levels and consider the recent push to be into a zone that should be faded, as opposed to bought.

- Market pricing for the Fed is massively disconnected from the FOMC's views. The Fed's 'five hikes by the end of 2018' is too many, but the market's 'two' is too light.
- China, commodities and the AUD all look vulnerable. Australia's housing market is in the spotlight.
- We're not buying into the low-volatility signals. Policy uncertainty is high and the world increasingly fractured. When policy uncertainty is high, the time-value option for firms is in waiting to put cash to work. Ultimately we expect this to manifest in softening economic data and volatility. That could prove to be NZD supportive as it will reinforce the local story, but we're siding with old-school relationships, whereby more volatility is NZD negative.
- Risk appetites look susceptible to a reassessment given stretched asset valuations and the need for the Fed to get on with the job at hand.

We retain our constructive strategic view on the NZD/AUD, which we expect to continue grinding higher. The stars (terms of trade, growth, unemployment and policy) are in the NZD's favour.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	A tad above fair value of 0.93.
Yield	↔/↑	NZ inflation cycle says wider differential.
Commodities	↔/↑	NZ's terms of trade booming. Non-dairy NZ commodities under-appreciated.
Data	↔/↑	NZ Q1 GDP ~1%, AU 0.1%.
Techs	↔	0.9515 support and 0.9615 resistance.
Sentiment	↔	Squeezing higher.
Other	↑	Eyes on housing in Australia.
On balance	↔/↑	**Topside push not yet complete.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↑	Below fair-value estimate of ~0.75.
Yield	↔	Fed still set to hike in June but uncertain beyond that.
Commodities	↔/↑	NZ's strengthening terms of trade needs to be respected.
Risk aversion	↔/↓	Tied in with the commodity bloc, China and politics. No shortage of candidates.
Data	↔/↑	NZ data pulse looks good. US mixed.
Techs	↔	Broad 0.6850 – 0.7150 range. Near-term support is 0.7110.
Sentiment	↔	NZ positives priced in above 0.70.
Other	↔	AUD looking vulnerable but USD being undermined by politics and policy.
On balance	↔	**Elevated but comfortable.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
6-Jun	NZ	ANZ Commodity Price - May	--	-0.2%	13:00
	AU	BoP Current Account Balance - Q1	-A$0.5B	-A$3.9B	13:30
	AU	Net Exports of GDP - Q1	-0.4	0.2	13:30
	AU	RBA Cash Rate Target - Jun	1.50%	1.50%	16:30
	EC	Sentix Investor Confidence - Jun	27.4	27.4	20:30
	EC	Retail Sales MoM - Apr	0.2%	0.3%	21:00
	EC	Retail Sales YoY - Apr	2.1%	2.3%	21:00
7-Jun	US	JOLTS Job Openings - Apr	5750	5743	02:00
	NZ	ANZ Job Advertisements MoM - May	--	0.4%	10:00
	NZ	Mfg Activity Volume QoQ - Q1	--	-1.8%	10:45
	NZ	Mfg Activity SA QoQ - Q1	--	0.8%	10:45
	AU	AiG Perf of Construction Index - May	--	51.9	11:30
	AU	GDP SA QoQ - Q1	0.3%	1.1%	13:30
	AU	GDP YoY - Q1	1.6%	2.4%	13:30
	GE	Factory Orders MoM - Apr	-0.3%	1.0%	18:00
	GE	Factory Orders WDA YoY - Apr	4.7%	2.4%	18:00
	AU	Foreign Reserves - May	--	A$79.9B	18:30
	GE	Markit Construction PMI - May	--	54.6	19:30
	UK	Halifax House Price 3Mths/Year - May	3.0%	3.8%	19:30
	UK	Halifax House Prices MoM - May	-0.2%	-0.1%	19:30
	GE	Markit Retail PMI - May	--	56.2	20:10
	EC	Markit Retail PMI - May	--	52.7	20:10
	US	MBA Mortgage Applications - 2-Jun	--	-3.4%	23:00
	CH	Foreign Reserves - May	$3048.0B	$3029.5B	UNSPECIFIED
8-Jun	US	Consumer Credit - Apr	$15.00B	$16.43B	07:00
	NZ	ANZ Truckometer Heavy MoM - May	--	-1.8%	10:00
	UK	RICS House Price Balance - May	20%	22%	11:01
	JN	GDP SA QoQ - Q1 F	0.6%	0.5%	11:50
	JN	GDP Annualized SA QoQ - Q1 F	2.4%	2.2%	11:50
	JN	GDP Nominal SA QoQ - Q1 F	0.0%	0.0%	11:50
	JN	BoP Current Account Balance - Apr	¥1698.8B	¥2907.7B	11:50
	JN	BoP Current Account Adjusted - Apr	¥1624.4B	¥1731.2B	11:50
	JN	Trade Balance BoP Basis - Apr	¥494.0B	¥865.5B	11:50
	AU	Trade Balance - Apr	A$2000M	A$3107M	13:30
	GE	Industrial Production SA MoM - Apr	0.5%	-0.4%	18:00
	GE	Industrial Production WDA YoY - Apr	2.1%	1.9%	18:00
	EC	Gross Fix Cap QoQ - Q1	0.8%	0.6%	21:00
	EC	Govt Expend QoQ - Q1	0.4%	0.5%	21:00
	EC	Household Cons QoQ - Q1	0.4%	0.4%	21:00
	EC	GDP SA QoQ - Q1 F	0.5%	0.5%	21:00
	EC	GDP SA YoY - Q1 F	1.7%	1.7%	21:00
	EC	ECB Main Refinancing Rate - Jun	0.00%	0.00%	23:45
	EC	ECB Marginal Lending Facility - Jun	0.25%	0.25%	23:45
	EC	ECB Deposit Facility Rate - Jun	-0.40%	-0.40%	23:45
	EC	ECB Asset Purchase Target - Jun	€60B	€60B	23:45
	CH	Imports YoY - May	9.0%	11.9%	UNSPECIFIED
	CH	Exports YoY - May	7.3%	8.0%	UNSPECIFIED
	CH	Trade Balance - May	$48.20B	$38.03B	UNSPECIFIED

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
9-Jun	US	Initial Jobless Claims - 3-Jun	240k	248k	00:30
	US	Continuing Claims - 27-May	1920k	1915k	00:30
	CH	CPI YoY - May	1.5%	1.2%	13:30
	CH	PPI YoY - May	5.6%	6.4%	13:30
	AU	Home Loans MoM - Apr	-1.0%	-0.5%	13:30
	AU	Investment Lending - Apr	--	0.8%	13:30
	AU	Owner-Occupier Loan Value MoM - Apr	--	0.9%	13:30
	GE	Trade Balance - Apr	€23.0B	€25.3B	18:00
	GE	Current Account Balance - Apr	€24.5B	€30.2B	18:00
	GE	Exports SA MoM - Apr	0.3%	0.4%	18:00
	GE	Imports SA MoM - Apr	-0.5%	2.5%	18:00
	GE	Labor Costs SA QoQ - Q1	--	1.5%	18:00
	GE	Labor Costs WDA YoY - Q1	--	3.0%	18:00
	UK	Industrial Production MoM - Apr	0.7%	-0.5%	20:30
	UK	Industrial Production YoY - Apr	-0.3%	1.4%	20:30
	UK	Manufacturing Production MoM - Apr	0.8%	-0.6%	20:30
	UK	Manufacturing Production YoY - Apr	0.7%	2.3%	20:30
	UK	Construction Output SA MoM - Apr	0.4%	-0.7%	20:30
	UK	Construction Output SA YoY - Apr	-0.3%	2.4%	20:30
	UK	Visible Trade Balance GBP/Mn - Apr	-£12000	-£13441	20:30
	UK	Trade Balance Non EU GBP/Mn - Apr	--	-£4674	20:30
	UK	Trade Balance - Apr	-£3500	-£4900	20:30
	UK	BoE/TNS Inflation Next 12 Mths - May	--	2.9%	20:30
10-Jun	UK	NIESR GDP Estimate - May	--	0.2%	00:00
	US	Wholesale Inventories MoM - Apr F	-0.3%	-0.3%	02:00
	US	Wholesale Trade Sales MoM - Apr	0.2%	0.0%	02:00
	CH	Money Supply M2 YoY - May	10.4%	10.5%	10-15 Jun
	CH	Money Supply M1 YoY - May	17.7%	18.5%	10-15 Jun
	CH	Money Supply M0 YoY - May	5.9%	6.2%	10-15 Jun
	CH	New Yuan Loans CNY - May	1000.0B	1100.0B	10-15 Jun
	CH	Aggregate Financing CNY - May	1200.0B	1394.2B	10-15 Jun

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Source: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency.
Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

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

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 6 Jun (1:00pm)	ANZ Commodity Price Index – May	--	--
Wed 7 Jun (early am)	GlobalDairyTrade auction	Mixed	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Wed 7 Jun (10:00am)	ANZ Job Advertisements – May	--	--
Wed 7 Jun (10:45am)	Quarterly Manufacturing Survey – Q1	Solid	A rebound in both primary and ‘core’ manufacturing sales volumes is expected.
Thu 8 Jun (10:00am)	ANZ Truckometer – May	--	--
TBC	REINZ Housing Market Statistics – May	Cooling	Slowdown likely to remain most marked in Auckland.
Mon 12 Jun (10:45am)	Electronic Card Transactions – May	Restrained	Recoil is likely after a strong April outturn. Looking through the noise, retail trends remain modest.
Mon 12 Jun (1:00pm)	ANZ Monthly Inflation Gauge – May	--	--
Wed 14 Jun (10:45am)	Balance of Payments – Q1	Narrower	The annual current account deficit is likely to hold around 2.7% of GDP.
Wed 14 Jun (10:45am)	Food Price Index – May	Temporary	After a large increase over Q1, we suspect prices will start to unwind. That said, poor autumn weather could delay this move.
Thu 15 Jun (10:45am)	GDP – Q1	Bounce	After the soft end to 2016, we expect growth to rebound. At this stage our forecast is 1.1% q/q, although there is admittedly some downside risk to that.
Fri 16 Jun (10:30am)	BNZ-BusinessNZ PMI – May	Decent	Despite construction sector capacity challenges, the manufacturing sector is performing well.
Fri 16 Jun (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jun	--	--
Mon 19 Jun (10:30am)	BNZ-BusinessNZ PSI – May	Bounce?	Perhaps related to weaker housing activity, the index fell sharply in April. We suspect it will bounce modestly.
Wed 21 Jun (early am)	GlobalDairyTrade auction	Stable	Global dairy prices have outperformed other commodities of late despite a strong supply backdrop. Chinese demand is lending support.
Thu 22 Jun (9:00am)	RBNZ OCR Review	Aggressively neutral	The RBNZ has told us that the hurdle for policy action (or a shift in stance) is high. That will not change at this decision.
Thu 22 Jun (10:45am)	International Travel & Migration - May	Near highs	We struggle to see net migrant inflows falling much from near all-time highs. Visitor arrivals numbers should remain strong.
Tue 27 Jun (10:45am)	Overseas Merchandise Trade – May	Narrowing	Better primary export volumes, together with the recent lifts in export commodity prices, should support overall export values.
Thu 29 Jun (1:00pm)	ANZ Business Outlook – Jun	--	--
Fri 30 Jun (10:45am)	Building Consents – May	Capped	The demand picture is clear. However, capacity and capital constraints are capping the upside for supply.
On balance		**Data watch**	**The data pulse generally remains solid. Domestic inflation is gradually lifting.**

KEY FORECASTS AND RATES

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
GDP (% qoq)	0.4	**1.1**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**	**0.5**	**0.6**
GDP (% yoy)	2.7	**3.1**	**3.1**	**3.0**	**3.2**	**2.7**	**2.4**	**2.2**	**2.1**	**2.1**
CPI (% qoq)	0.4	1.0	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.6**	**0.2**	**0.7**
CPI (% yoy)	1.3	2.2	**2.0**	**2.2**	**2.0**	**1.7**	**2.0**	**2.1**	**2.2**	**2.2**
Employment (% qoq)	0.7	1.2	**0.6**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	5.8	5.7	**3.9**	**2.9**	**2.5**	**1.8**	**1.6**	**1.5**	**1.4**	**1.3**
Unemployment Rate (% sa)	5.2	4.9	**4.8**	**4.7**	**4.7**	**4.6**	**4.5**	**4.4**	**4.4**	**4.3**
Current Account (% GDP)	-2.7	**-2.7**	**-2.6**	**-2.4**	**-2.4**	**-2.5**	**-2.7**	**-2.8**	**-3.0**	**-3.1**
Terms of Trade (% qoq)	5.7	5.1	**-0.1**	**-1.0**	**-1.0**	**-0.4**	**0.3**	**0.1**	**0.1**	**0.1**
Terms of Trade (% yoy)	6.7	7.7	**9.9**	**9.9**	**2.9**	**-2.5**	**-2.2**	**-1.0**	**0.1**	**0.6**

	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Retail ECT (% mom)	-1.1	1.9	0.5	0.0	0.1	2.6	-0.6	-0.3	1.1	--
Retail ECT (% yoy)	3.2	6.1	4.2	5.1	5.8	5.6	2.6	5.6	4.5	--
Credit Card Billings (% mom)	-1.0	2.9	2.8	-4.1	3.0	0.4	-1.3	0.9	0.9	--
Credit Card Billings (% yoy)	2.3	8.3	10.1	4.1	8.5	7.1	5.3	7.2	6.4	--
Car Registrations (% mom)	2.5	-3.9	13.0	3.1	-6.4	1.6	0.4	3.4	-2.9	--
Car Registrations (% yoy)	2.6	-0.8	13.1	18.4	7.8	12.2	7.3	16.5	3.0	--
Building Consents (% mom)	-2.3	1.0	0.4	-8.4	-8.4	4.1	15.4	-1.2	-7.6	--
Building Consents (% yoy)	11.5	17.0	14.0	2.2	-10.7	-0.9	8.9	17.1	-3.1	--
REINZ House Price Index (% yoy)	11.7	9.7	14.4	14.9	13.5	11.7	10.5	11.1	9.9	--
Household Lending Growth (% mom)	0.8	0.8	0.6	0.6	0.7	0.5	0.5	0.5	0.5	--
Household Lending Growth (% yoy)	8.7	8.7	8.7	8.6	8.8	8.7	8.5	8.4	8.0	--
ANZ Roy Morgan Consumer Conf.	117.7	121.0	122.9	127.2	124.5	128.7	127.4	125.2	121.7	123.9
ANZ Business Confidence	15.5	27.9	24.5	20.5	21.7	..	16.6	11.3	11.0	14.9
ANZ Own Activity Outlook	33.7	42.4	38.4	37.6	39.6	..	37.2	38.8	37.7	38.3
Trade Balance ($m)	-1240	-1388	-798	-723	-1	-227	-58	277	578	--
Trade Bal ($m ann)	51900	51938	51943	51668	51621	51901	52088	52404	52599	--
ANZ World Commodity Price Index (% mom)	3.2	5.1	0.7	3.2	0.7	-0.1	2.0	0.4	-0.2	--
ANZ World Comm. Price Index (% yoy)	11.1	10.6	4.0	13.6	16.5	19.1	20.9	23.0	23.7	--
Net Migration (sa)	5670	6320	6190	6160	5960	6360	5940	6130	5780	--
Net Migration (ann)	69119	69954	70282	70354	70588	71305	71333	71932	71885	--
ANZ Heavy Traffic Index (% mom)	7.2	-2.1	-0.5	3.7	-0.2	-0.9	1.7	1.7	-1.8	--
ANZ Light Traffic Index (% mom)	0.9	0.1	-2.0	1.5	0.2	-0.3	0.9	1.0	-1.5	--

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-17	May-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZD/USD	0.687	0.712	0.713	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.917	0.954	0.953	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.630	0.635	0.634	0.63	0.60	0.60	0.62	0.63	0.63	0.63
NZD/JPY	76.55	78.83	78.73	76.3	75.9	76.2	78.2	78.2	77.1	77.1
NZD/GBP	0.530	0.554	0.553	0.54	0.52	0.54	0.54	0.55	0.54	0.54
NZ$ TWI	73.3	75.4	77.0	73.6	72.5	72.4	73.5	73.7	72.6	72.3
INTEREST RATES	Apr-17	May-17	Today	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	1.98	1.97	1.94	2.00	2.00	2.00	2.10	2.30	2.50	2.50
NZ 10-yr bond	3.04	2.78	2.76	3.30	3.50	3.70	3.70	3.90	3.90	4.00
US Fed funds	1.00	1.00	1.00	1.25	1.50	1.50	1.50	1.75	2.00	2.25
US 3-mth	1.17	1.20	1.22	1.20	1.45	1.70	1.70	1.95	2.20	2.45
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.75	1.74	1.73	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	2 May	29 May	30 May	31 May	1 Jun	2 Jun
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.98	1.97	1.97	1.97	1.96	1.95
NZGB 03/19	2.05	1.94	1.94	1.92	1.92	1.93
NZGB 05/21	2.40	2.23	2.21	2.19	2.16	2.19
NZGB 04/23	2.68	2.51	2.49	2.46	2.43	2.46
NZGB 04/27	3.01	2.83	2.82	2.78	2.73	2.77
2 year swap	2.31	2.24	2.24	2.22	2.20	2.21
5 year swap	2.90	2.75	2.74	2.71	2.68	2.70
RBNZ TWI	75.30	76.39	76.41	76.91	76.54	76.64
NZD/USD	0.6914	0.7072	0.7068	0.7115	0.7075	0.7142
NZD/AUD	0.9192	0.9508	0.9491	0.9537	0.9563	0.9595
NZD/JPY	77.59	78.73	78.44	78.84	78.61	78.88
NZD/GBP	0.5349	0.5507	0.5495	0.5543	0.5505	0.5542
NZD/EUR	0.6333	0.6323	0.6337	0.6346	0.6301	0.6331
AUD/USD	0.7521	0.7438	0.7447	0.7461	0.7399	0.7443
EUR/USD	1.0917	1.1184	1.1154	1.1213	1.1228	1.1279
USD/JPY	112.24	111.33	110.99	110.80	111.11	110.40
GBP/USD	1.2925	1.2840	1.2862	1.2837	1.2852	1.2888
Oil (US$/bbl)	47.66	49.80	49.66	48.32	48.36	47.66
Gold (US$/oz)	1255.86	1267.42	1263.37	1264.50	1266.35	1279.17
Electricity (Haywards)	6.33	6.58	7.14	8.19	8.32	8.76
Baltic Dry Freight Index	1073	912	900	878	850	830
NZX WMP Futures (US$/t)	3300	3235	3225	3235	3235	3235

IMPORTANT NOTICE

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