# ANZ RESEARCH

# NEW ZEALAND ECONOMICS
## MARKET FOCUS

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INSIDE




NZ ECONOMICS TEAM

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# SITUATION VACANT

## ECONOMIC OVERVIEW

The economy continues to perform well and we expect more of the same over the years ahead. Challenges in dairying and a high NZD are being outweighed by other sectors. Solid demand will see capacity constraints intensify (firms are finding it harder to find labour) and domestic inflation pressures gradually lift off lows. We are lukewarm on the prospects of the OCR going lower in the near-term (and see the RBNZ holding fire in August), although the strong NZD and global forces will likely drag it back to the easing table over time. Key risks facing the economy are that a) too much domestic-centric growth, a housing market boom and the associated debt build-up will require a purging process; and b) global wobbles turn into outright weakness. It's the latter that worries us most. This week, REINZ figures should be strong, particularly outside of Auckland. Local consumer confidence data is the first release since the latest global turbulence.

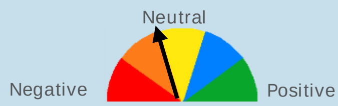
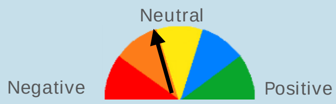
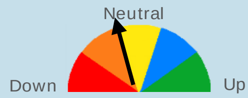
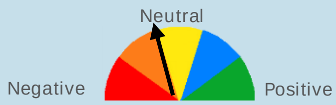
## INTEREST RATE STRATEGY

Short-end interest rates look set to range-trade over coming weeks, with the case for near term OCR cuts being questioned. The high TWI is a challenge – but it's one we suspect we need to live with. By contrast, growth is accelerating and it makes little sense to further inflate the already frothy housing market. Further down the track, cuts are likely as growth (and with it the NZD) rolls over, but that's a story for later. Global rates convergence remains the main theme for the long-end, and we expect local yields to continue grinding lower as more markets join the negative yield "club" and sovereign downgrades rise.

## CURRENCY STRATEGY

The NZD marches on. While we are coy about chasing it at current levels, the failure of the USD to receive support post strong payrolls figures could be telling. We're continuing to hold the USD faith. But it is still looking increasingly like the NZD is experiencing a pure portfolio shock; which means it would take much lower yields to knock it off its perch and we don't see that around the corner – yet. We see little on the domestic data horizon to challenge NZD strength, which leaves ructions across EM as the remaining candidate. We're watchful, but that story looks a wee way off still.

## THE ANZ HEATMAP

| Variable | View | Comment | Risk profile (change to view) |
|---|---|---|---|
| GDP | 3.4% y/y for 2017 Q2 | The economy is recording decent momentum, and we expect that to continue. Downside risk mainly stems from offshore. |  |
| Unemployment rate | 4.7% for 2017 Q2 | The unemployment rate should continue to trend lower. Wage inflation is contained, but a turn looks to be in sight. |  |
| OCR | 1.75% by Jun 2017 | A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers. |  |
| CPI | 1.2% y/y for 2017 Q2 | Low 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

The economy continues to perform well and we expect more of the same over the years ahead. Challenges in dairying and a high NZD are being outweighed by other sectors. Solid demand will see capacity constraints intensify (firms are finding it harder to find labour) and domestic inflation pressures gradually lift off lows. We are lukewarm on the prospects of the OCR going lower in the near-term (and see the RBNZ holding fire in August), although the strong NZD and global forces will likely drag it back to the easing table over time. Key risks facing the economy are that a) too much domestic-centric growth, a housing market boom and the associated debt build-up will require a purging process; and b) global wobbles turn into outright weakness. It's the latter that worries us most. This week, REINZ figures should be strong, particularly outside of Auckland. Local consumer confidence data is the first release since the latest global turbulence.

## FORTHCOMING EVENTS

**REINZ Housing Market figures – June** (sometime this week). The figures should be strong, particularly outside of Auckland. We will be on the look-out for any signs of softening in Auckland.

**Food Price Index – June** (10:45am, Wednesday, 13 July). Led by fruit and vegetable prices, food prices typically record a decent lift in June months.

**Assistant RBNZ Governor McDermott speaks** (12:30pm, Wednesday, 13 July). He is scheduled to speak on the OCR decision-making process and the ever-evolving process of forecasting.

**ANZ Job Ads – June** (10:00am, Thursday, 14 July).

**BNZ-Business NZ PMI – June** (10:30am, Thursday, 14 July). Despite weak demand and overcapacity issues plaguing the sector globally, local manufacturing continues to perform well.

**ANZ-Roy Morgan Consumer Confidence – July** (1:00pm, Thursday, 14 July).

## WHAT'S THE VIEW?

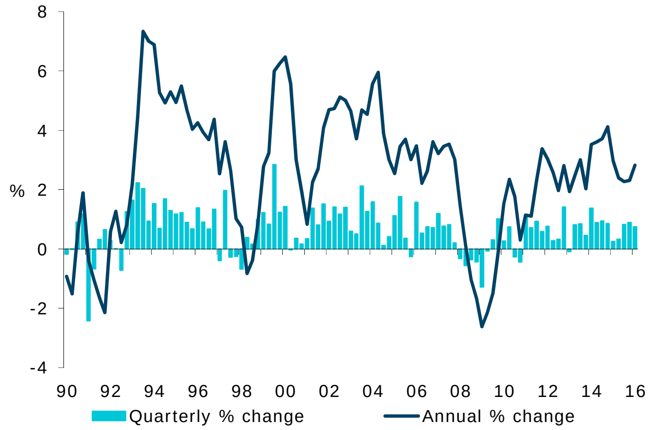
**Last week we changed our OCR call to "no cut" in August.** The economy just doesn't need more easing right now. Housing is clearly a problem, skill shortages are emerging and the outlook for core and non-tradable inflation is up. Those championing cutting the OCR are citing the high NZD. The NZD will obviously depress headline inflation and the RBNZ presented a scenario in the June *MPS* detailing precisely that. It's a powerful argument when you see the NZD TWI a staggering 9% above what the RBNZ assumed for Q3.

**But let's turn the current economic situation 180 degrees.** Say, headline inflation is above 4% and inflation expectations are 2½%. The economy then starts to tank, house prices fall, credit growth slows, and the labour market deteriorates. People start leaving for Australia in droves. The NZD begins to plunge, which means more tradable inflation. Would the correct policy response be to hike the OCR? Of course it wouldn't. It brings back skeletons of the MCI and 1998! Obviously there is more going on at present (and back then) but that is broadly the flipside to what we are seeing at the moment.

**Last week we released our latest *Economic Outlook* publication.**[1] Below is a quick summary of the key themes.

**The New Zealand economy is performing well, despite a number of challenges.** GDP growth is accelerating, and forward-looking indicators and financial conditions suggest growth will remain at, or above trend, for the foreseeable future. This is despite the earthquake rebuild having passed its peak, the dairy sector continuing to deal with poor returns, the NZD being far higher than desirable, and the global economy continuing to wobble. In many ways, the New Zealand economy is like a boxer, bobbing and weaving and avoiding that knockout shot. And even when a punch lands (dairy strains), the economy has proven that it has a strong enough jaw to withstand it.

**FIGURE 1. NEW ZEALAND ECONOMIC GROWTH**




Source: ANZ, Statistics NZ

**Strong population growth has played a role**, and we expect migration gains to remain strong for some time yet. **But we don't believe New Zealand's economic resilience gets the recognition it should.** This resilience reflects a number of forces: a number of sectors filling the dairy void (non-dairy agriculture exports, construction, migration, housing, services and tourism); broadening house price increases; the terms of trade *only* being down 6% from highs (recall most were expecting a 20% hit last year so the NZD should have recovered somewhat on that); the economy being in a better position structurally and

[1] http://www.anz.co.nz/about-us/economic-markets-research/economic-outlook/

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having good microeconomic foundations; and having a stable political backdrop.

**We expect this positive growth story to continue.** Financial conditions remain supportive (despite the high NZD); the tourism and construction sectors are deemed to have more upside, despite both dealing with their own capacity issues at present; and positive tailwinds for household consumption remain.

**Capacity constraints are intensifying.** The unemployment rate is approaching its natural rate and capacity utilisation is high. Firms are reporting more difficulty finding labour, especially in the construction sector where the shortage is becoming acute. **It is an environment where domestic inflation should lift off lows.** Despite structural deflationary influences, we are still believers in the traditional "Phillips curve" drivers of domestic inflation. Non-tradable inflation is forecast to lift to 2.7% by the end of 2017.

**The strong NZD and low inflation expectations present key risks on the other side.** Annual tradable inflation is naturally forecast to lift as the impact of previous oil price declines drops out, but recent NZD strength will further delay a return to positive territory until 2017. Our forecasts have annual headline inflation rising to 1.1% by the end of 2016, and back to the target mid-point by mid-2018.

**There are of course risks to this outlook, with the global economy being the most significant.** Political developments are the latest element to what remains a vulnerable global picture, with increasing populism set to make it even more difficult to drive sensible policy outcomes at a time when economies are crying out for just that. Growth will naturally be hampered as a result. Markets also continue to have an unhealthy obsession with central bank liquidity, which has driven valuations far from economic fundamentals. Ultra-low borrowing rates have allowed global overcapacity issues to persist and are encouraging investment misallocation. China (and emerging markets more generally) continue to face a real test of economic rebalancing, deleveraging and maintaining social cohesion simultaneously.

**Domestically there are risks too. While the strong NZD is a vote of confidence in NZ.Inc right now, it's denting the economy's future earning capability. Additionally, housing and credit largesse risk destabilising the economy.** House prices are lifting sharply across the country, and far exceeding income growth and rents. This is at a time when household debt-to-income is already at all-time highs, but set to rise further. Credit growth is outpacing deposit growth, which means more offshore borrowing. New Zealand has lessened its reliance on foreign funding post the GFC and increasing it now would only add to the economy's vulnerability to twists and turns in global markets. Household savings are falling as exuberance broadens. Another two years of excesses like the past 12 months would up the ante greatly on a market correction in 2018/19.

**The RBNZ is therefore grappling with some considerable tensions.** It means that the outlook for the OCR is delicately placed. Consequently, we are lukewarm over prospects of the OCR moving lower in the short-term. **The end-game for containing housing exuberance and currency strength is a wedge between borrowing and wholesale rates.** This means additional macro-prudential measures to counter housing strength are inevitable.

**Other key elements of our assessment include:**

- **Global outlook:** While our global growth forecasts depict a reasonable outlook, this masks considerable tension and risks. High leverage, investment misallocation and a populist-driven backlash against globalisation are a potent mix. Prospects for Europe and Japan are sombre. Emerging market economies, including China, face transitional challenges. The exception is the US, which is battling on nicely.
- **Primary sector:** The dichotomy across key primary sectors is expected to continue in 2016/17. Dairy farmers are facing their third low payout year and second year of cash losses. Cuts in discretionary spend will continue. In the red meat and fibre sector there are knock-on impacts from dairying on arable and support prices. The reason for sheepmeat and venison price increases is lower New Zealand supply. In contrast, the main horticultural crops are on track to post near-record export volumes with solid prices lifting revenues and bottom-line returns.
- **Interest and exchange rates:** Although we don't believe the economy needs further cuts right now, short-end interest rates are still biased lower, with more OCR cuts likely down the track. We see an elevated TWI and global risks bringing the RBNZ back to the easing table. The Brexit vote has created significant uncertainty, increased the likelihood of further easing in Europe, the UK and Japan, and side-lined the Fed. Against that backdrop, we expect the NZD and local interest rate markets to be well supported, in the absence of a meltdown across emerging markets (which, to be fair, is a key risk).

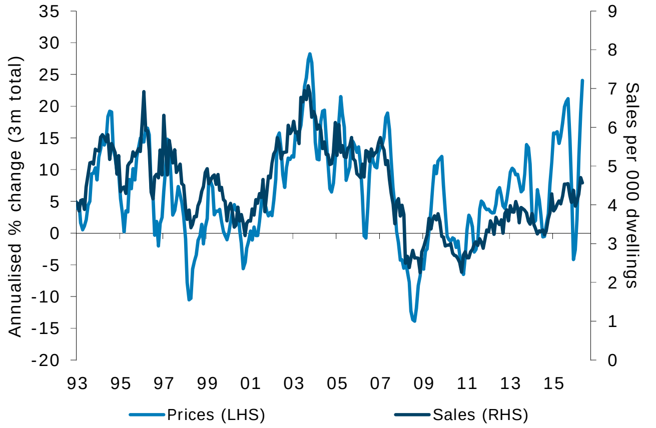
**Turning to the week ahead, another speech by a senior RBNZ official will get some attention, although we are not expecting it to be as market relevant as the Deputy Governor last week.** Assistant Governor McDermott speaks on the OCR decision making process and the evolving process of forecasting. No doubt this will touch on the need to be

# ECONOMIC OVERVIEW

flexible in an ever-changing world and the use of models as well as judgement to come up with the Bank's take on the most likely path for the economy going forward. It will also no doubt be aimed at diffusing some of the criticism of the RBNZ's supposed single decision maker model. Technically, one man makes the calls, but in practice it is much more a group-based decision.

**REINZ housing market figures for June should again be strong.** We expect another month of strong nationwide price growth. Momentum is an important element of any asset class and the housing market has that in spades. Strength is now a far broader story than it was 12 months ago. That said, our internal anecdotes have hinted at a slight softening in Auckland activity of late, so we will be on the look-out for signs of this. To be fair, some moderation in Auckland would not be surprising given the lofty heights the market has reached and the affordability constraints that are no doubt biting. But outside of Auckland, the boom-times should continue, with falling days to sell, strong price growth and reasonable sales activity. The later could back off a bit simply because there is not the stock to sell, but that lack of availability simply forces up prices.

**FIGURE 2: NATIONWIDE HOUSE PRICES AND SALES**



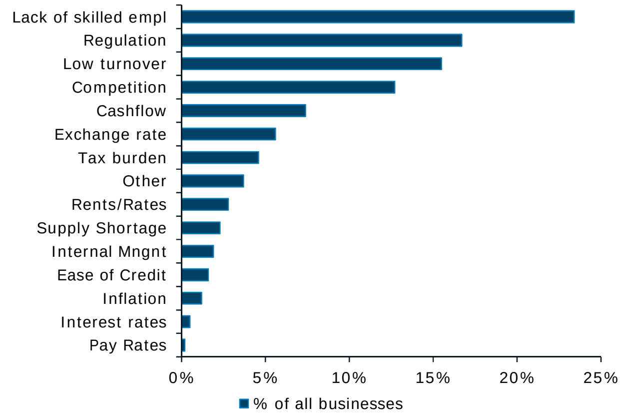

Source: ANZ, REINZ

**Our consumer confidence measure will be the first piece of domestic data released since the Brexit vote result.** Consumer confidence has been holding at respectable levels, coming in bang on its historical average in June. Together with its business sector equivalent, it goes to the heart of the decent momentum being experienced in the economy at present. The data this week will provide the first indications of whether that has remained the case.

**One reason consumer confidence has held at reasonable levels has been an improving labour market. Our Job Ads series has recently been showing a stronger underlying trend.** Advertising was up 7.2% on a 3-month average compared with a year ago in May. Together with the likes of firms' hiring intentions – which from our Business Outlook survey remain above historical averages – suggest a decent level of labour demand at present.

**Our small business microscope last week showed finding skilled labour was becoming more of an issue for both small and large businesses.** We notice it is a similar message within the MYOB business survey too. It ties in with firms finding it more difficult to find labour within the NZIER's Quarterly Survey of Business Opinion. It's a generic picture of a labour market that is tightening. Wages should start to accelerate in that environment.

**FIGURE 3: BIGGEST PROBLEMS FACED BY BUSINESSES**




Source: ANZ

**Finally, the BNZ-Business NZ PMI is likely to remain at a decent level.** While we wouldn't be surprised if sentiment has been dented to a degree by this latest run-up in the NZD (in fact we would be quite surprised if it wasn't!), the sector continues to ride on the coattails of a strong domestic economy, and a booming construction sector in particular. That doesn't look set to change any time soon.

## LOCAL DATA

**NZIER QSBO – Q2.** Headline confidence lifted to +18 from -2. Activity indicators flagged GDP growth potentially expanding at a 4% pace.

**Government Financial Statements – May.** An OBEGAL surplus of $2.3bn was recorded.

**QV House Prices – June.** Nationwide annual price growth lifted to 13.5%

**ANZ Commodity Price Index – June.** World prices rose 3.7% m/m, with NZD prices lifting 0.3% m/m.

**GlobalDairyTrade Auction.** The GDT-TWI dipped by 0.4%, although longer-date contract prices fell.

**ANZ Truckometer – June.** The Heavy Traffic Index rose 4.7% m/m.

**ANZ Monthly Inflation Gauge – June**. The Gauge rose 0.3% m/m, to be up 0.5% over the quarter.

# INTEREST RATE STRATEGY


## SUMMARY

Short-end interest rates look set to range-trade over coming weeks, with the case for near term OCR cuts being questioned. The high TWI is a challenge – but it's one we suspect we need to live with. By contrast, growth is accelerating and it makes little sense to further inflate the already frothy housing market. Further down the track, cuts are likely as growth (and with it the NZD) rolls over, but that's a story for later. Global rates convergence remains the main theme for the long-end, and we expect local yields to continue grinding lower as more markets join the negative yield "club" and sovereign downgrades rise.


## THEMES

- Our change of OCR call makes us more neutral at the short-end despite the high TWI. More cuts are coming – just not yet.
- Global 10 year bond yields continue to fall, with a number of markets (including the US, Germany, Japan and UK) reaching record lows last week.
- 2016 is on track to be a record year for sovereign downgrades, with flows into NZ out of lesser-rated markets adding to flows out of the growing pool of core markets with negative yields.

## MONETARY POLICY AND SHORT-END

Our thinking on the OCR has "evolved" further in the past week, and **we now expect the RBNZ to leave policy on hold in August**. We've been lukewarm on the need for a near-term cut for a few weeks now, but we've now reached the point where we believe a cut is not validated by the information at hand, or would drive the TWI meaningfully lower.

**For the short-end, this is suggestive of range trading between now and key CPI data next Monday. Beyond that point, and as we head into August, we see mild upside risk**. But it is difficult to get bearish amid significant global tensions, and the challenges presented by a high TWI. Together, these factors suggest that the RBNZ will be brought back to the rate cut table eventually – just not yet.

Over the past week we have seen the 2yr-3yr spread invert. This is an entirely intuitive development in our view, and in fact we expect to see more flattening/inversion in the front half of the curve as the market looks to push out the timing of eventual rate hikes. **The market is still pricing in June 2017 as the low point for forward rates, but the rate of increase thereafter has dropped significantly, which is entirely appropriate.**

## GLOBAL MARKETS AND LONG-END

**Global 10 year bond yields continue to decline, with a number of markets making fresh lows in the past week**, and the Danish market briefly joining the negative 10 year bond yield "club". **Fitch Ratings has also warned that 2016 is on track to be a record year for sovereign downgrades**, with 15 (mostly emerging market) downgrades already this year. In our view, **such developments only lift the attraction of higher-yielding and higher-rated sovereigns like New Zealand, which is already benefiting from the "flight from negativity".** New Zealand interest rates remain a clear stand-out (Figure 1) in comparison to other G10 countries. While we question the long term sustainability of negative yields, in the near term, **we expect the slow grind lower in global rates to benefit New Zealand, and for the curve to continue to flatten**.

## STRATEGY

**Investors:** We expect the short end to level out near current levels now that we have seen a flattening of the 3mth FRA curve. We still like NZ on a spread to the US, and being long outright at the long end.

**Borrowers:** We continue to favour options, with term rates and BKBM both at fresh lows. Fixing now looks attractive, but the risk is term rates fall further.

**FIGURE 1: G10 SOVEREIGN BOND YIELD MATRIX**

| Country | 2-3 Year | 5 Year | 10 Year | Average |
|---|---|---|---|---|
| Switzerland | -1.14 | -1.04 | -0.65 | -0.94 |
| Germany | -0.70 | -0.63 | -0.19 | -0.50 |
| Japan | -0.36 | -0.37 | -0.29 | -0.34 |
| Denmark | -0.59 | -0.41 | 0.01 | -0.33 |
| Sweden | -0.65 | -0.30 | 0.14 | -0.27 |
| Norway | 0.41 | 0.52 | 0.87 | 0.60 |
| UK | 0.12 | 0.32 | 0.73 | 0.39 |
| Canada | 0.46 | 0.51 | 0.96 | 0.65 |
| USA | 0.61 | 0.95 | 1.36 | 0.97 |
| Australia | 1.58 | 1.60 | 1.88 | 1.69 |
| New Zealand | 2.00 | 1.99 | 2.26 | 2.08 |

Source: ANZ, Bloomberg

**KEY VIEWS**

| SECTOR | DIRECTION | COMMENT |
|---|---|---|
| Short end | Neutral | High TWI and rampant housing scenarios both panning out. The latter a bigger issue. CPI outcome key. |
| Long end | Bullish | Global yield convergence the main theme, exacerbated in New Zealand by currency divergence. Global monetary policy bias getting easier, "flight from negativity" will drive yields down in higher rated markets. |
| Yield Curve | Flatter | Less reason for RBNZ to ease near term + more reason to ease later + global unease = a flatter curve. |
| Geographic spreads | Narrower | NZ looking more like a safe-haven than a peripheral, with political stability, sensible government, and plenty of scope to ease monetary (and fiscal policy). Some risk of near term widening, which we'd buy. |
| 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 will drive NZD sustainably lower. Holding up very well despite "risk off" mood. |

# CURRENCY STRATEGY

## SUMMARY

The NZD marches on. While we are coy about chasing it at current levels, the failure of the USD to receive support post strong payrolls figures could be telling. We're continuing to hold the USD faith. But it is still looking increasingly like the NZD is experiencing a pure portfolio shock; which means it would take much lower yields to knock it off its perch and we don't see that around the corner – yet. We see little on the domestic data horizon to challenge NZD strength, which leaves ructions across EM as the remaining candidate. We're watchful, but that story looks a wee way off still.

| TABLE 1: KEY VIEWS | | | |
|---|---|---|---|
| CROSS | WEEK | MONTH | YEAR |
| NZD/USD | ↔ | Becoming toppy | Needs to fall and will |
| NZD/AUD | ↔/↑ | AUD growth/rating risks; NZ solid | Remain above long-run averages |
| NZD/EUR | ↔/↑ | Trending higher | Self-limiting |
| NZD/GBP | ↔/↑ | Consolidating post Brexit vote | Less easy to envisage GBP resurgence |
| NZD/JPY | ↔/↑ | BoJ action likely | USD/JPY <100 untenable for BoJ |

## THEMES AND RISKS

- We move to no OCR cut in August; market pricing has pulled back to 40% odds of a cut and 34bps of cuts in aggregate. Upcoming CPI data key.
- Strong US non-farm payrolls failed to elicit USD support; that's both telling and disconcerting from a local exporter perspective. Timing factors (i.e. the Dallas shootings stopping a rates sell-off) looked partly at play. We are holding faith in the USD.
- Our bond ladder thematic remains critical in how we view the NZD. As long as a yield premium is on offer and others are taking yields deeper into negative territory, the NZD will be supported.
- Despite extended valuations, the NZD is still a 'buy on dips' unless the EM state changes (global growth turns).
- Election certainty should be AUD supportive, but that's yesterday's story and tomorrow's will be sluggishness on the growth front and continued weak inflation. This will keep the RBA in play and more so than the RBNZ.

## ASSESSMENT

**It is looking increasingly like the NZD is experiencing a pure portfolio shock.** The thirst for yield remains unrelenting. Last week saw 10 year yields hit all-time lows in Japan, US, UK, Europe and a host of other countries. Anything positive looks all alluring in that environment and NZ has heaps of that. You can see the same across commercial property yields too, so this is not simply a story about bonds.

**Our formal shift of call to no OCR change in August only accentuates yield related support** for the NZD, although there are two caveats:

- **Market pricing is moving the same way; only 9 bps of cuts are now priced for August.** So it's already manifesting in the price.
- **Amidst currency divergence, yield convergence remains an ongoing thematic shaping our view.** So calling a pause in the easing cycle is really about timing and tactics as opposed to strategic direction.

Valuations leave us coy about chasing trends up around current levels, but the flipside is identifying a trigger for a turning point. We can't see anything local.

| 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 | ↑ | NZ growth solid, AU downgrade? |
| Techs | ↔/↑ | Holding comfortably above 0.96 |
| Sentiment | ↔/↓ | Election uncertainty clear |
| Other | ↔/↓ | AUD offers better liquidity |
| **On balance** | ↔/↑ | **Risk pointed higher, not lower** |

| TABLE 3: NZD VS USD: MONTHLY GAUGES | | |
|---|---|---|
| GAUGE | GUIDE | COMMENT |
| Fair value | ↔/↓ | Above fair value |
| Yield | ↔/↑ | A key supporting factor |
| Commodities | ↔/↓ | OK ex dairy. Up 3.7% in June |
| Risk aversion | ↔/↑ | Resilience to "risk-off" notable |
| Data | ↔/↑ | Upcoming data will be solid, and we no longer expect August cut |
| Techs | ↔ | >0.73 proving hard to sustain |
| Other | ↔ | Bond holdings data a litmus test |
| **On balance** | ↔/↑ | **Toppy, but hard to see tumble** |

## POSITIONING

NZD shorts were further trimmed last week, **lessening the potential for a NZD/USD squeeze higher.** But AUD positioning is now long, which is suggestive of a potential NZD/AUD mini-squeeze higher.

## GLOBAL VIEWS

**One-offs aside (Dallas shootings), which stymied a sell-off in rates, one would have thought stronger payrolls should have elicited a firmer USD.** So we're on notice.

**We're holding faith in the USD for now.** Market attention this week will be centred on a host of speeches from Fed Governors. The June Fed minutes were dovish with Brexit and soft labour data weighing. Better labour market figures give more certainty to one side and affirm a solid economic backbone. While the Fed should remain attuned to the global scene, market pricing (10% chance of a rate hike by year end) is increasingly at odds with US economic developments.

# DATA EVENT CALENDAR

| DATE | COUNTRY | DATA/EVENT | MKT. | LAST | NZ TIME |
|---|---|---|---|---|---|
| 11-Jul | AU | Home Loans MoM - May | -2.0% | 1.7% | 13:30 |
| | AU | Investment Lending - May | -- | -5.0% | 13:30 |
| | AU | Owner-Occupier Loan Value MoM - May | -- | 0.1% | 13:30 |
| | CH | Foreign Direct Investment YoY CNY - Jun | 0.8% | -1.0% | 11-12 Jul |
| | CH | Money Supply M0 YoY - Jun | 6.1% | 6.3% | 11-15 Jul |
| | CH | Money Supply M1 YoY - Jun | 22.6% | 23.7% | 11-15 Jul |
| | CH | Aggregate Financing CNY - Jun | 1100.0B | 659.9B | 11-15 Jul |
| | CH | New Yuan Loans CNY - Jun | 1000.0B | 985.5B | 11-15 Jul |
| | CH | Money Supply M2 YoY - Jun | 11.4% | 11.8% | 11-15 Jul |
| 12-Jul | AU | ANZ-RM Consumer Confidence Index - 10-Jul | -- | 115.8 | 11:30 |
| | AU | NAB Business Conditions - Jun | -- | 10 | 13:30 |
| | AU | NAB Business Confidence - Jun | -- | 3 | 13:30 |
| | AU | Credit Card Purchases - May | -- | A$23.5B | 13:30 |
| | AU | Credit Card Balances - May | -- | A$51.8B | 13:30 |
| | GE | Wholesale Price Index MoM - Jun | -- | 0.9% | 18:00 |
| | GE | Wholesale Price Index YoY - Jun | -- | -2.3% | 18:00 |
| | GE | CPI MoM - Jun F | 0.1% | 0.1% | 18:00 |
| | GE | CPI YoY - Jun F | 0.3% | 0.3% | 18:00 |
| | GE | CPI EU Harmonized MoM - Jun F | 0.1% | 0.1% | 18:00 |
| | GE | CPI EU Harmonized YoY - Jun F | 0.2% | 0.2% | 18:00 |
| | US | NFIB Small Business Optimism - Jun | 94.0 | 93.8 | 22:00 |
| 13-Jul | US | Wholesale Inventories MoM - May | 0.2% | 0.6% | 02:00 |
| | US | Wholesale Trade Sales MoM - May | 0.5% | 1.0% | 02:00 |
| | US | JOLTS Job Openings - May | -- | 5788 | 02:00 |
| | NZ | Food Prices MoM - Jun | -- | -0.5% | 10:45 |
| | AU | Westpac Consumer Conf Index - Jul | -- | 102.2 | 12:30 |
| | AU | Westpac Consumer Conf SA MoM - Jul | -- | -1.0% | 12:30 |
| | EC | Industrial Production SA MoM - May | -0.8% | 1.1% | 21:00 |
| | EC | Industrial Production WDA YoY - May | 1.3% | 2.0% | 21:00 |
| | US | MBA Mortgage Applications - 8-Jul | -- | 14.2% | 23:00 |
| | CH | Trade Balance - Jun | $46.00B | $49.98B | UNSPECIFIED |
| | CH | Exports YoY - Jun | -5.0% | -4.1% | UNSPECIFIED |
| | CH | Imports YoY - Jun | -6.2% | -0.4% | UNSPECIFIED |
| 14-Jul | US | Import Price Index MoM - Jun | 0.6% | 1.4% | 00:30 |
| | US | Import Price Index YoY - Jun | -4.6% | -5.0% | 00:30 |
| | US | Monthly Budget Statement - Jun | $24.0B | -- | 06:00 |
| | US | US Federal Reserve releases Beige Book | -- | -- | 06:00 |
| | NZ | ANZ Job Advertisements MoM - Jun | -- | 0.2% | 10:00 |
| | NZ | BusinessNZ Manufacturing PMI - Jun | -- | 57.1 | 10:30 |
| | UK | RICS House Price Balance - Jun | 10% | 19% | 11:01 |
| | AU | Consumer Inflation Expectation - Jul | -- | 3.5% | 13:00 |
| | NZ | ANZ Consumer Confidence Index - Jul | -- | 118.9 | 13:00 |
| | NZ | ANZ Consumer Confidence MoM - Jul | -- | 2.3% | 13:00 |
| | AU | Employment Change - Jun | 10.0k | 17.9k | 13:30 |
| | AU | Unemployment Rate - Jun | 5.80% | 5.70% | 13:30 |
| | AU | Full Time Employment Change - Jun | -- | 0.0k | 13:30 |
| | AU | Part Time Employment Change - Jun | -- | 17.9k | 13:30 |
| | AU | Participation Rate - Jun | 64.8% | 64.8% | 13:30 |

Continued on following page

# DATA EVENT CALENDAR

| DATE | COUNTRY | DATA / EVENT | MKT. | LAST | NZ TIME |
|---|---|---|---|---|---|
| 14-Jul | AU | New Motor Vehicle Sales MoM - Jun | -- | -1.1% | 13:30 |
| | AU | New Motor Vehicle Sales YoY - Jun | -- | 1.7% | 13:30 |
| | NZ | Non Resident Bond Holdings - Jun | -- | 68.5% | 15:00 |
| | UK | Bank of England Bank Rate - Jul | 0.25% | 0.50% | 23:00 |
| | UK | BoE Asset Purchase Target - Jul | £375B | £375B | 23:00 |
| 15-Jul | US | Initial Jobless Claims - 9-Jul | 265k | 254k | 00:30 |
| | US | Continuing Claims - 2-Jul | 2140k | 2124k | 00:30 |
| | US | PPI Final Demand MoM - Jun | 0.3% | 0.4% | 00:30 |
| | US | PPI Final Demand YoY - Jun | -0.1% | -0.1% | 00:30 |
| | US | PPI Ex Food and Energy MoM - Jun | 0.1% | 0.3% | 00:30 |
| | US | PPI Ex Food and Energy YoY - Jun | 1.0% | 1.2% | 00:30 |
| | CH | Industrial Production YoY - Jun | 5.9% | 6.0% | 14:00 |
| | CH | Industrial Production YTD YoY - Jun | 5.9% | 5.9% | 14:00 |
| | CH | Retail Sales YoY - Jun | 9.9% | 10.0% | 14:00 |
| | CH | Retail Sales YTD YoY - Jun | 10.2% | 10.2% | 14:00 |
| | CH | Fixed Assets Ex Rural YTD YoY - Jun | 9.4% | 9.6% | 14:00 |
| | CH | GDP SA QoQ - Q2 | 1.5% | 1.1% | 14:00 |
| | CH | GDP YTD YoY - Q2 | 6.6% | 6.7% | 14:00 |
| | CH | GDP YoY - Q2 | 6.6% | 6.7% | 14:00 |
| | UK | Construction Output SA MoM - May | -1.3% | 2.5% | 20:30 |
| | UK | Construction Output SA YoY - May | -3.6% | -3.7% | 20:30 |
| | EC | Trade Balance SA - May | €25.0B | €28.0B | 21:00 |
| | EC | Trade Balance NSA - May | €25.0B | €27.5B | 21:00 |
| | EC | CPI MoM - Jun | 0.2% | 0.4% | 21:00 |
| | EC | CPI YoY - Jun F | 0.1% | 0.1% | 21:00 |
| | EC | CPI Core YoY - Jun F | 0.9% | 0.9% | 21:00 |
| | NZ | REINZ House Sales YoY - Jun | -- | 13.6% | UNSPECIFIED |
| 16-Jul | US | Retail Sales Advance MoM - Jun | 0.1% | 0.5% | 00:30 |
| | US | Retail Sales Ex Auto MoM - Jun | 0.4% | 0.4% | 00:30 |
| | US | Retail Sales Ex Auto and Gas - Jun | 0.3% | 0.3% | 00:30 |
| | US | Retail Sales Control Group - Jun | 0.3% | 0.4% | 00:30 |
| | US | CPI MoM - Jun | 0.3% | 0.2% | 00:30 |
| | US | CPI YoY - Jun | 1.1% | 1.0% | 00:30 |
| | US | CPI Ex Food and Energy MoM - Jun | 0.2% | 0.2% | 00:30 |
| | US | CPI Ex Food and Energy YoY - Jun | 2.2% | 2.2% | 00:30 |
| | US | Empire Manufacturing - Jul | 5.00 | 6.01 | 00:30 |
| | US | Industrial Production MoM - Jun | 0.2% | -0.4% | 01:15 |
| | US | Capacity Utilization - Jun | 75.1% | 74.9% | 01:15 |
| | US | Manufacturing (SIC) Production - Jun | 0.3% | -0.4% | 01:15 |
| | US | Business Inventories - May | 0.1% | 0.1% | 02:00 |
| | US | U. of Mich. Sentiment - Jul P | 93.0 | 93.5 | 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 lifting. However, downside risks exist (mainly from offshore). On balance we see it as likely that the RBNZ will cut the OCR twice more, although not until early 2017. The economy doesn't need additional stimulus right now.

| DATE | DATA/EVENT | ECONOMIC SIGNAL | COMMENT |
|---|---|---|---|
| 11-15 Jul | REINZ Housing Market Statistics – June | Strong | The figures should be strong, particularly outside of Auckland. Some anecdote has suggested a softening in Auckland. We will be on the look-out for any signs of this. |
| 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 0.6% q/q lift in headline inflation, with petrol and food prices making a decent contribution. |
| Wed 20 Jul (early am) | GlobalDairyTrade Auction | Near-term challenge | The global supply situation is changing, which should eventually support prices. But the near term still looks challenging. |
| 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. |
| Tue 26 Jul (10:45am) | Overseas Merchandise Trade – Jun | Holding up for now | The seasonally adjusted deficit has been narrowing. But higher oil prices are a headwind that should see a widening again. |
| Tue 26 Jul (3:00pm) | RBNZ New Mortgage Lending – Jun | Becoming a little problematic | New lending growth is running at a strong pace. This may slow over the course of the year, but not yet. |
| Fri 29 Jul (10:45am) | Building Consents Issued – Jun | Hovering | We expect a positive upward trend to emerge again. However, capacity constraints appear to be capping the upside. |
| Fri 29 Jul (1:00pm) | ANZ Business Outlook – Jul | -- | -- |
| Fri 29 Jul (3:00pm) | RBNZ Credit Aggregates – Jun | Strong | Household lending growth is running at an 8-year high. The household-debt-to-income ratio is still rising from record levels. |
| Tue 2 Aug (12:00pm) | QV House Prices – Jul | The party continues | National house price growth should continue to accelerate, led largely by non-Auckland regions. |
| Tue 2 Aug (3:00pm) | RBNZ Survey of Expectations – 3Q | Expectations up | Inflation expectations remain low, but we would not rule out the 2-year ahead measure ticking a little higher. |
| Wed 3 Aug (10:45am) | Labour Markets Statistics – Q2 | Solid | The unemployment rate should continue to fall, with signs of rising wage pressures. |
| Wed 3 Aug (1:00pm) | ANZ Commodity Price Index – Jul | -- | -- |
| **On balance** | | **Data watch** | **Momentum is increasing 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 | **0.8** | **0.9** | **1.0** | **0.8** | **0.7** | **0.7** | **0.6** | **0.6** | **0.6** |
| GDP (% yoy) | 2.8 | **3.3** | **3.4** | **3.5** | **3.5** | **3.4** | **3.2** | **2.8** | **2.6** | **2.6** |
| CPI (% qoq) | 0.2 | **0.6** | **0.3** | **0.0** | **0.6** | **0.3** | **0.6** | **0.1** | **0.7** | **0.7** |
| CPI (% yoy) | 0.4 | **0.6** | **0.6** | **1.1** | **1.5** | **1.2** | **1.6** | **1.7** | **1.9** | **1.9** |
| Employment (% qoq) | 1.2 | **0.8** | **0.5** | **0.4** | **0.4** | **0.4** | **0.4** | **0.4** | **0.4** | **0.4** |
| Employment (% yoy) | 2.0 | **2.5** | **3.5** | **2.9** | **2.1** | **1.7** | **1.6** | **1.6** | **1.6** | **1.6** |
| Unemployment Rate (% sa) | 5.2 | **4.9** | **4.8** | **4.8** | **4.7** | **4.7** | **4.6** | **4.6** | **4.4** | **4.4** |
| Current Account (% GDP) | -3.0 | **-3.1** | **-3.5** | **-3.7** | **-4.3** | **-4.4** | **-4.3** | **-4.1** | **-3.9** | **-3.9** |
| Terms of Trade (% qoq) | 4.4 | **-5.7** | **-2.8** | **-0.5** | **0.9** | **1.9** | **2.8** | **1.7** | **0.8** | **0.8** |
| Terms of Trade (% yoy) | -0.1 | **-7.2** | **-6.2** | **-4.8** | **-8.0** | **-0.6** | **5.2** | **7.5** | **7.3** | **7.3** |

| | 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 | 1.2 |
| Retail ECT (% yoy) | 6.1 | 5.8 | 4.6 | 6.6 | 5.2 | 9.2 | 6.2 | 7.8 | 3.3 | 6.8 |
| 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 | -1.3 | -2.0 | 3.1 | -2.8 | 5.8 | -3.8 | 6.1 | -3.3 | -0.9 |
| Car Registrations (% yoy) | 5.0 | 3.8 | 1.3 | 2.4 | -1.1 | 7.4 | -0.2 | 8.7 | 4.2 | -1.2 |
| Building Consents (% mom) | -4.8 | 4.9 | 1.6 | 2.8 | -8.3 | 10.5 | -9.6 | 6.8 | -0.9 | -- |
| Building Consents (% yoy) | 17.5 | 14.6 | 7.1 | 17.7 | 4.9 | 26.8 | 0.7 | 12.8 | 9.8 | -- |
| 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 | 0.8 | -- |
| Household Lending Growth (% yoy) | 6.7 | 6.9 | 7.2 | 7.4 | 7.5 | 7.6 | 7.7 | 7.9 | 8.1 | -- |
| 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 | 20.2 |
| ANZ Own Activity Outlook | 16.7 | 23.7 | 32.0 | 34.4 | .. | 25.5 | 29.4 | 32.1 | 30.4 | 35.1 |
| Trade Balance ($m) | -1140 | -905 | -795 | -42 | 12 | 367 | 189 | 326 | 358 | -- |
| Trade Bal ($m ann) | 52287 | 52101 | 52648 | 52510 | 52764 | 52831 | 52600 | 52629 | 52859 | -- |
| ANZ World Commodity Price Index (% mom) | 5.6 | 7.1 | -5.6 | -1.8 | -2.3 | 0.5 | -1.3 | -0.8 | 1.1 | 3.7 |
| ANZ World Comm. Price Index (% yoy) | -18.2 | -11.6 | -15.3 | -12.9 | -14.7 | -17.8 | -22.4 | -16.8 | -11.6 | -5.4 |
| 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) | 1.6 | 1.0 | 0.2 | 2.9 | -4.2 | 1.7 | 3.4 | -2.4 | -2.7 | 4.7 |
| ANZ Light Traffic Index (% mom) | 2.6 | -0.4 | 0.3 | 0.9 | -1.3 | -1.7 | 0.7 | 0.4 | -1.3 | 2.8 |

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 | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 |
| NZD/USD | 0.676 | 0.713 | 0.730 | 0.69 | 0.65 | 0.64 | 0.64 | 0.63 | 0.63 | 0.64 |
| NZD/AUD | 0.935 | 0.957 | 0.965 | 0.96 | 0.97 | 0.97 | 0.97 | 0.93 | 0.90 | 0.89 |
| NZD/EUR | 0.608 | 0.642 | 0.660 | 0.66 | 0.63 | 0.62 | 0.61 | 0.57 | 0.57 | 0.57 |
| NZD/JPY | 74.89 | 73.62 | 73.46 | 72.5 | 68.3 | 64.0 | 64.0 | 63.0 | 63.0 | 67.2 |
| NZD/GBP | 0.467 | 0.536 | 0.564 | 0.55 | 0.54 | 0.52 | 0.51 | 0.48 | 0.47 | 0.46 |
| NZ$ TWI | 71.7 | 74.8 | 78.1 | 74.5 | 71.9 | 70.4 | 69.9 | 67.3 | 66.8 | 67.5 |
| INTEREST RATES | Apr-16 | May-16 | Today | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 |
| NZ OCR | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.00 | 1.75 | 1.75 | 1.75 | 1.75 |
| NZ 90 day bill | 2.42 | 2.41 | 2.42 | 2.50 | 2.40 | 2.20 | 2.00 | 2.00 | 2.00 | 2.00 |
| NZ 10-yr bond | 2.61 | 2.35 | 2.25 | 2.10 | 2.00 | 2.20 | 2.20 | 2.50 | 2.50 | 2.50 |
| US Fed funds | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 | 1.25 | 1.25 |
| US 3-mth | 0.69 | 0.65 | 0.67 | 0.68 | 0.93 | 0.93 | 1.30 | 1.30 | 1.55 | 1.55 |
| AU Cash Rate | 1.75 | 1.75 | 1.75 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 |
| AU 3-mth | 1.99 | 1.96 | 1.97 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 | 1.80 |

| | 8 Jun | 4 Jul | 5 Jul | 6 Jul | 7 Jul | 8 Jul |
|---|---|---|---|---|---|---|
| Official Cash Rate | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 |
| 90 day bank bill | 2.36 | 2.41 | 2.43 | 2.42 | 2.42 | 2.42 |
| NZGB 12/17 | 2.09 | 1.98 | 1.97 | 1.94 | 1.95 | 2.00 |
| NZGB 03/19 | 2.12 | 1.99 | 1.98 | 1.95 | 1.95 | 2.01 |
| NZGB 04/23 | 2.46 | 2.18 | 2.17 | 2.11 | 2.11 | 2.14 |
| NZGB 04/27 | 2.61 | 2.31 | 2.30 | 2.23 | 2.23 | 2.25 |
| 2 year swap | 2.29 | 2.22 | 2.22 | 2.21 | 2.25 | 2.28 |
| 5 year swap | 2.38 | 2.23 | 2.21 | 2.17 | 2.19 | 2.23 |
| RBNZ TWI | 74.3 | 76.61 | 76.91 | 76.13 | 76.37 | 77.64 |
| NZD/USD | 0.70 | 0.72 | 0.72 | 0.71 | 0.71 | 0.73 |
| NZD/AUD | 0.94 | 0.96 | 0.96 | 0.96 | 0.95 | 0.97 |
| NZD/JPY | 74.99 | 73.74 | 73.60 | 71.46 | 72.22 | 72.84 |
| NZD/GBP | 0.48 | 0.54 | 0.54 | 0.55 | 0.55 | 0.56 |
| NZD/EUR | 0.62 | 0.64 | 0.65 | 0.64 | 0.64 | 0.65 |
| AUD/USD | 0.75 | 0.75 | 0.75 | 0.74 | 0.75 | 0.75 |
| EUR/USD | 1.14 | 1.11 | 1.11 | 1.10 | 1.11 | 1.11 |
| USD/JPY | 107.17 | 102.73 | 102.12 | 100.77 | 101.04 | 100.36 |
| GBP/USD | 1.46 | 1.33 | 1.33 | 1.29 | 1.30 | 1.30 |
| Oil (US$/bbl) | 50.37 | 49.02 | 49.02 | 46.73 | 47.37 | 45.22 |
| Gold (US$/oz) | 1248.80 | 1346.77 | 1343.63 | 1368.52 | 1367.77 | 1357.95 |
| Electricity (Haywards) | 6.77 | 5.35 | 8.28 | 6.72 | 5.97 | 4.89 |
| Baltic Dry Freight Index | 610 | 688 | 692 | 694 | 699 | 703 |
| Milk futures (USD) | 52 | -- | 47 | 48 | 46 | 46 |

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