

# NEW ZEALAND ECONOMICS MARKET FOCUS

4 July 2016

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## KNOWN VS UNKNOWN

### ECONOMIC OVERVIEW

Markets have settled somewhat after the Brexit-inspired tumultuous start to last week. We doubt it will last. Populism will make it difficult to drive sensible policy outcomes, which will impact growth over time. Asset values will need to reflect that, and it's a question of when, not if. Against that, New Zealand continues to truck along nicely, in fact too nicely with regard to housing and credit. That is presenting the RBNZ with a dilemma. The NZD is a clear headache and the global scene still a lottery, but it is clear that the economy is not crying out for more monetary policy stimulus right here and now. And that's a known, whereas the path of the currency is an unknown. This makes the odds of another OCR cut in August far from obvious. This week's QSBO should rebound solidly, while the GDT auction result reveals a soft underbelly.

### INTEREST RATE STRATEGY

Global yields continue to test new lows and curves flatten as bond markets adjust to prospects of more easing in Japan, Europe, and an elongated period of policy stability (rather than hikes) in the US. Political uncertainty has also cast a long shadow. In the first instance we expect NZ yields to lag offshore moves, pressuring NZ/US spreads over a tactical horizon, but ultimately we expect spreads to narrow. We still expect an OCR cut in August, and the OCR remains biased lower. But it's not immediately obvious that near-term market pricing is wrong. We have more quarrel with a 1.9% terminal OCR (that's too high) than we do with 60% odds of an August cut.

### CURRENCY STRATEGY

The Australian election outcome is another example of a populist backlash, and this global thematic risks undermining global growth and resulting in rising risk premia. It leaves the world prone to another asset revaluation tantrum, and is an environment that would typically leave us with a NZD negative bias (especially given current levels). But this is countered by our bond ladder thematic; the yield on offer locally remains too alluring for dips to extend too far. Our eyes remain on EM capital flows and currencies; if either start moving in a negative fashion, we will change our stance. The Australian election result reinforces our constructive bias on the NZD/AUD in the short term.

### THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.4% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to continue. Downside risk mainly stems from offshore. We're watching our 6 C's.	Neutral Negative Positive
Unemployment rate	5.2% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, but a turn may be in sight.	Neutral Negative Positive
OCR	1.75% by Mar 2017	A further 50bps of cuts out to early 2017, despite housing, with the global scene and NZD strength key drivers.	Neutral Down Up
CPI	1.5% 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.	Neutral Negative Positive

## ECONOMIC OVERVIEW

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### FORTHCOMING EVENTS

**NZIER Quarterly Survey of Business Opinion – Q2** (10:00am, Tuesday, 5 July). Following the signals from our Business Outlook, confidence is likely to have lifted. We would not be surprised to see further signs of increased capacity pressures.

**Government Financial Statements – May** (10:00am, Tuesday, 5 July). Timing of tax payments is having some influence, but we suspect the numbers will look decent overall.

**QV House Prices – June** (12:00pm, Tuesday, 5 July). Broad-based strength and accelerating national house price growth should be evident.

**ANZ Commodity Price Index – June** (1:00pm, Tuesday, 5 July).

**GlobalDairyTrade Auction** (early am, Wednesday, 6 July). Although NZX futures are pointing to a 3-5% gain, we are a little nervous over the near-term outlook, particularly for whole milk powder.

**ANZ Truckometer – June** (10:00am, Thursday, 7 July).

**ANZ Monthly Inflation Gauge – June** (1:00pm, Friday, 8 July).

### WHAT'S THE VIEW?

So here is what we know at present:

- **The New Zealand economy is picking up.** You can see it across confidence, housing and credit.
- **Inflation in some interest rate sensitive sectors (construction) is clearly lifting too.**
- **Housing is rapidly becoming a problem.** Supply-side factors are at play but the market is clearly responding to low interest rates as well.

- **Global investors love the yield on offer in New Zealand.** If you want to dent that appetite, interest rates would need to fall a long way, and **clearly housing would respond accordingly.**

**That combination would normally challenge the notion of the OCR moving down again.**

**But then there are a number of factors that we know we don't know:**

- **The NZD is too high (although the economy's growth numbers say it's not), but we don't know whether cutting the OCR will get it down.** Given it is close to 10% above the RBNZ's June *MPS* central scenario for Q3 and 5½% above the high currency alternative scenario, the RBNZ almost needs to cut. But we don't have any confidence it will make a difference.
- **Inflation expectations look like they have stopped falling. But that doesn't mean they'll move magically back to 2%.** A stronger NZD could keep dampening price-setting behaviour.
- **The global scene appears stable for now but amidst growing populism, there are huge challenges for policymakers.** Growth will be lower if poor economics follow. Asset valuations will need to adjust. We just don't know when.
- **The current rate of domestic credit growth is unsustainable but it's not clear (beyond a scorched earth policy of hiking interest rates) how to slow it down.** After all, appetite to borrowing is a sign of confidence, so the currency arguably reflects that too. However, having credit growth exceed deposit growth doesn't look sustainable to us; it means offshore borrowing will need to lift meaningfully. This seems likely to eventually manifest in more competition for deposits, which could put upwards pressure on borrowing rates.
- **The RBNZ need a prudential policy response for housing but it's not clear what lever should be pulled.** The fact it released more statistical information last week on the composition of LVR and interest-only lending tells us it is moving beyond just collecting the data; it is analysing it and releasing it so others can connect the dots on what could work.

**That combination has up scratching our heads over prospects for the OCR moving down in August.** It just doesn't seem clear-cut to us. It is still our forecast for now, but there seems a strong case for going more with what you "know" and keeping powder dry amidst a huge list of "don't knows."

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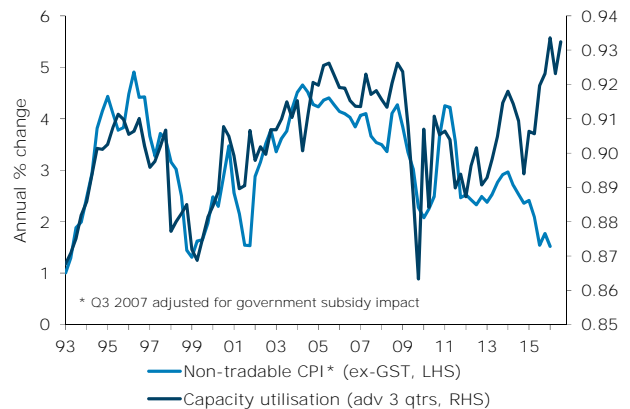
**As an aside, we have mapped out our views for the data between now and the August MPS (shown in the table below). There is not a lot on the horizon that looks negative to us.** The caveat is the potential impact of global political shenanigans. There will be some knee-jerk reaction in headline confidence figures in all jurisdictions around the globe. That's natural. But it doesn't follow that this will feed immediately into activity; what firms do can be quite different to politically driven vagaries in headline confidence, as our own Business Outlook shows.

**Turning to the week ahead, this solid domestic data theme should be on display. In particular, the Q2 Quarterly Survey of Business Opinion (QSBO) should rebound from Q1's softer signal.**

In Q1, headline confidence fell into negative territory, dropping from a net +13 to -1. The tumultuous global scene at the time no doubt contributed, with financial markets reeling from Chinese growth concerns. But if the signal from our own Business Outlook is anything to go by, then business sentiment has recovered solidly. If the historical correlation between the two surveys holds, then a QSBO headline confidence could lift back to around the +9 level.

**But beyond that, the guts of the QSBO are also expected to show a "just get on with it" attitude.** Firms' domestic trading conditions are likely to point to a reasonable level of activity growth, and we wouldn't be surprised if they were to signal acceleration from Q1's already decent pace. Firms' employment and investment intentions should also be consistent with this more positive tone, holding at respectable levels.

**FIGURE 1: NON-TRADABLE INFLATION VS CAPACITY UTILISATION**



Source: ANZ, Statistics NZ, NZIER

**And we also would not be surprised at all if the survey pointed to a further tightening in domestic capacity and resource pressures.** This is where the QSBO arguably provides the most in the way of "new" information, although our own internal anecdotes have certainly been providing this signal for some time. We are hesitant to put a spot estimate on it considering it has been jumping around a surprising amount of late, but measured capacity utilisation should remain at a historically high level. It would not be a surprise if the number of firms reporting capacity as a limiting were to rise too, and with it the difficulty in finding skilled staff. These results would be consistent with an economy growing at – or slightly faster than – trend at present, and the unemployment rate accordingly continuing to trend lower.

**KEY UPCOMING DOMESTIC DATA (IN NO PARTICULAR ORDER)**

DATA/EVENT	SIGNAL	COMMENT
QSBO – Q2	Bouncing back	If our Business Outlook survey is anything to go by, business sentiment should have rebounded solidly. Capacity pressures should continue to be evident. Pricing gauges stable.
CPI – Q2	Mixed	We have pencilled in a 0.5% q/q increase. This is below the RBNZ's pick, but we suspect the underlying details will hint at growing pressures, with non-tradable inflation lifting.
Labour Market – Q2	Strong	The unemployment rate should at least reverse the Q1 bounce. We see a reasonable possibility that wage inflation shows firmer signs of lifting too.
Housing Market – June & July	Strong	This is clear cut. Upcoming REINZ and QV data will show ongoing, broad-based strength.
Credit Growth – June	Strong	Perhaps it is close to topping out, but it's still running well ahead of incomes. The household debt-to-income ratio is still rising from already record levels.
Building Consents – June	Mixed	Issuance is elevated, but volatile. That may not change much over the next couple of months.
GlobalDairyTrade auctions	Lifting off lows	NZX futures prices have been broadly stable, but we are detecting hints of a shift in the global supply dynamic. But if China buyers remain MIA, downside risk remains.
RBNZ Inflation Expectations – Q2	Stable	They're low, and likely to stay that way. But if we see a risk, it is that they could tick a little higher given the lift in petrol prices and headline inflation.
Net Migration – June	Elevated	It may have hit its highs, but we doubt we are going to see net inflows turn meaningfully lower any time soon.
PMI & PSI – June	More of the same	Both of these indices have held at historically strong levels. We can't see that changing fast.
ECT spending – June & July	Respectable	Many things can throw retail spending around from month to month, but we suspect the underlying trend will remain solid without being stellar.
Overseas Merchandise Trade	Largely irrelevant	Shouldn't theoretically influence the direction of monetary policy.

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**But whether these resource pressures flow into evidence of greater pricing tension remains to be seen.** We expect the signals to be mixed on this front. Traditional indicators of medium-term inflation such as capacity utilisation or the unemployment rate have long been giving a signal of stronger domestic inflation pressure than has actually transpired (figure 1). That looks set to continue, with structural influences (like technology), low inflation expectations and low global inflation more generally continuing to influence domestic inflation.

**One place inflation would be particularly welcome is in the fortnightly GlobalDairyTrade auction.** The seasonal uplift in production means a substantially higher volumes versus the last auction for the main products (WMP +56%, SMP +33%, AMF +33% and butter +51%). The last auction saw a drop in the whole milk powder price (-4.5%) but a lift for the rest of the complex; a similar theme could be seen this week.

In Europe, the intervention scheme continues to absorb SMP, and NZX futures are showing a further gain of 5% for this product this week. However, this is driven primarily by contracts for later delivery periods (i.e. curve steepening). It seems likely there will be a flattish outcome overall. **Indicators for WMP suggest another disappointing result.** Like SMP, the NZX futures lift (+3%) is flattered by curve steepening. Near-term delivery contracts imply a small fall in prices due to better-than-anticipated autumn milk-flow and adequate inventory.

**US milkfat prices remain strong** due to robust demand (despite high inventories), but high tariff barriers and quotas limit New Zealand exports to this market. However, it does mean buyers outside of Europe and the US are looking to New Zealand's more attractively priced products. This should continue to be price supportive.

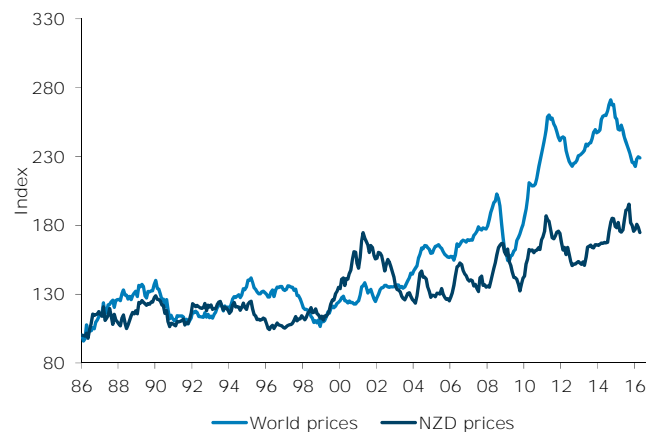
**Crucially, there appears to be lacklustre demand from China again.** The renminbi has depreciated to a five-year low versus USD and **it is now some 8% more expensive to import New Zealand product into China than it was just a month ago.** There also appear to be adequate inventories, with previously imported product within China reportedly trading at a discount to GDT pricing. So while end-user demand appears stable, it hasn't been growing quickly enough to absorb earlier strong imports.

**All up, a flat result or even a small decline would seem like a good outcome this week.** We will be watching upcoming auctions very closely as they will have a significant bearing on market

confidence and the outlook for the milk price in 2016/17.

**Broader export commodity prices will also be in focus with the release of our ANZ Commodity Price Index for June.** The index posted a 1.0% m/m lift in world price terms in May, with gains reasonably broad-based across categories. As such, there is some tentative evidence that prices are beginning to stabilise, although we'd class it more as a case of 'bouncing along the bottom' at this stage. However, it is in NZD prices that the rubber meets the road, and with the NZD TWI up around 5% over the month, it certainly looks as though it will be a struggle for NZD export commodity prices to repeat May's 2.5% m/m lift.

**FIGURE 2: NON-DAIRY NEW ZEALAND COMMODITY PRICES**



Source: ANZ

**Two of our other proprietary gauges are also released this week and as usual will provide timely updates on domestic activity and inflation trends:**

- **Truckometer:** Both the Heavy Traffic and Light Traffic indices fell in May, the former for the second consecutive month. We are wary about reading too much into this given the extreme volatility of late. But on the face of it, the weakness does suggest a softer pace of Q2 activity growth – one of the only indicators to be pointing that way. This week's figures for June will obviously determine whether this softer Q2 signal is cemented or whether a stronger June month rescues the quarter.
- **Monthly Inflation Gauge:** Prices within the Gauge rose 0.1% m/m in May, following a 0.2% m/m lift in April. Although price rises were again largely confined to the housing group (with the Underlying Ex-housing Gauge unchanged in the month), it does look like we are past the lows for domestic inflation. Annual inflation in the Gauge

## ECONOMIC OVERVIEW

lifted to 2.2%, which is a 13-month high. If we plug in the average June increase over the past three years (0.1%), then the Gauge implies a 0.5% q/q lift in non-tradable CPI inflation, which would lift annual non-tradable inflation from 1.6% to 2.0%.

### LOCAL DATA

#### **RBNZ New Residential Mortgage Lending – May.**

New lending rose 18% y/y, with investor lending lifting 36% y/y (to 37% of the total).

**Building Consents Issued – May.** Total dwelling consents dipped 0.9% m/m, while non-residential consents were valued at \$492m.

**ANZ Business Outlook – June.** Headline confidence rose 9 points to +20. Firms' own activity expectations rose to +35, while investment intentions lifted to +17.

**RBNZ Credit Aggregates – May.** Total household sector claims rose 0.8% m/m (7.4% y/y).

# INTEREST RATE STRATEGY

## SUMMARY

Global yields continue to test new lows and curves flatten as bond markets adjust to prospects of more easing in Japan, Europe, and an elongated period of policy stability (rather than hikes) in the US. Political uncertainty has also cast a long shadow. In the first instance we expect NZ yields to lag offshore moves, pressuring NZ/US spreads over a tactical horizon, but ultimately we expect spreads to narrow. We still expect an OCR cut in August, and the OCR remains biased lower. But it's not immediately obvious that near-term market pricing is wrong. We have more quarrel with a 1.9% terminal OCR (that's too high) than we do with 60% odds of an August cut.

## THEMES

- Global yields continue to tumble and curves are flattening as central banks hint at more action. Currencies are creating tensions.
- On balance, we favour an August OCR cut, but it is by no means a done deal. Near-term market pricing seems fair. But we don't see the OCR rising in 2017, as the market does.
- Long-end yield convergence remains a key strategic theme amid uncertainty and currency divergence (from fundamentals). The NZ/US spread is elevated, but will compress gradually.

## MONETARY POLICY AND SHORT END

We expect the OCR to go lower, but that's about as specific as we can realistically be at this juncture, amid extreme housing and currency tensions. Both of the RBNZ's alternative scenarios are panning out simultaneously; a currency too high and a housing market too hot. Right here, right now (i.e. ahead of key CPI data due in the interim), while we ultimately see the OCR going lower – and have a cut pencilled in for August – it's far from a done deal, and market expectations (roughly 60% odds) seem fair.

We see limited upside in second-guessing near-term outcomes. We prefer to focus on longer-dated expectations and forward rates. These continue to point to the OCR moving up from the second half of 2017 (Figure 1). We think that's too soon, and as the market adjusts to a "lower for longer" profile, we expect the belly of the curve to benefit.

## GLOBAL MARKETS AND LONG END

Global long-end sovereign yields continue to test new lows and curves are flattening as markets ponder the prospect of BoE cuts, a widening of QE eligibility in Europe, and a delay to Fed tightening. This has seen the US 10-year Treasury bond yield fall to its prior all-time low on Friday, and yields in most European markets falling to new all-time lows, with gilts below 1%, and bunds deeper into negative territory.

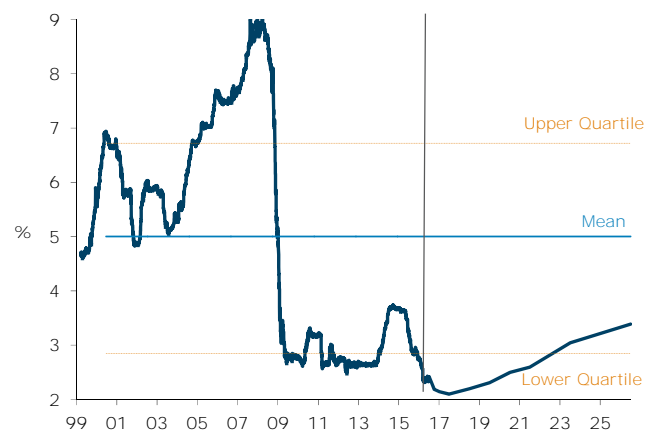
Looking ahead, it's difficult to see this changing as markets respond to political uncertainty, renewed "risk-off" fears, and the reality that any fresh easing that might be on the cards is likely to be more of the liquidity variety than the rate cut variety (with the BoE pretty much the only major European central bank with any wiggle room – and it has said a cut is likely). The side effect is flow-on to other markets and yield convergence in an attempt to stop high-yielding currencies becoming more expensive.

## STRATEGY

**Investors:** We see limited point in chasing discrete odds of cuts any further, but we still like being long parts of the curve (like 3y1y) that will benefit from the pushing out of OCR normalisation and better roll-down. Hold geographic spread trades.

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

FIGURE 1: HISTORIC FORWARD NZ 3MTH BILL RATES



Source: ANZ, Bloomberg

## KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Bullish/Neutral	High TWI & lower global interest rates adding pressure, but focus is on 2-3yr forwards, not OIS.
Long end	Bullish	Fed hikes off the table, ECB, BoE and BoJ easing on the table. Monetary and liquidity policy response will keep pushing G4 yields lower and highly rated developed market yield convergence the main theme here.
Yield Curve	Flatter	Global unease = a flatter curve. More scope for easing here than in G4, but 10yr spread still very wide.
Geographic spreads	Narrower	NZ looking more like a safe-haven than a peripheral, 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 Australian election outcome is another example of a populist backlash, and this global thematic risks undermining global growth and resulting in rising risk premia. It leaves the world prone to another asset revaluation tantrum, and is an environment that would typically leave us with a NZD negative bias (especially given current levels). But this is countered by our bond ladder thematic; the yield on offer locally remains too alluring for dips to extend too far. Our eyes remain on EM capital flows and currencies; if either start moving in a negative fashion, we will change our stance. The Australian election result reinforces our constructive bias on the NZD/AUD in the short term.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Steady/higher	Needs to fall and will
NZD/AUD	↔/↑	Politics weighing on AUD; NZ growth 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

- Local data will keep supporting the NZD.
- Australian election another populist backlash. It's a global phenomenon and means a probable hit to global growth and rising risk premia. The NZD normally doesn't perform well in that environment but these are not normal times. Whether the backlash is enough to set off a chain of events (the world is clearly vulnerable) remains to be seen.
- US payrolls week. Markets look "fair" amidst jobs (recoil from last month's shocker) and Brexit uncertainty; 10bps of hikes priced by year-end.
- Key for the NZD is whether a localised hit in the UK and Europe extends into the EM complex. We are biased that way, but timing remains uncertain.
- Our bond ladder thematic remains critical in how we view the NZD in the near term. As long as yield is on offer and others are taking yields deeper into negative territory, the NZD will be supported.
- Despite its valuation, NZD still a 'buy on dips' unless the EM state changes (global growth turns).

## NZ DATA PULSE

**Monetary conditions say yea, whereas financial conditions say nay.** The market will continue to debate the impact of the higher NZD on the outlook for domestic monetary policy. On the face of it, it looks a no-brainer. The NZD is not only trading above the RBNZ's alternate scenario (a portfolio shock that had the OCR dropping to 0.75%), it is well above. **It's a huge tightening in monetary conditions.**

**Financial conditions are sending a completely different message.** Throw together improving commodity prices, strong asset price inflation and surging credit growth and you have material offsets and enough to flag 3% plus GDP growth.

**Such gauges highlight the difficult balancing act facing the RBNZ and cross tensions across the economy.** As noted earlier, there are real tensions between what is actually known versus what we think we know – and know we don't know! And this makes the outlook for the OCR even more uncertain. If you get it wrong you simply waste a bullet. The economist fraternity is saying August is a done deal; market pricing says it's closer. We side more with the market.

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 politics a risk
Techs	↔/↑	Break of 0.96 significant
Sentiment	↔/↑	Swinging to "parity" possibility
Other	↔/↓	AUD offers better liquidity
<b>On balance</b>	↔/↑	<b>Blue sky above here. Look out!</b>

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Above fair value
Yield	↔/↑	A key supporting factor
Commodities	↔/↓	GDT auction a downside risk
Risk aversion	↔/↑	Resilience to "risk-off" notable
Data	↔/↑	Upcoming data will be solid, and market less sure of August cut
Techs	↔/↑	Strong support on moves < 0.70
Other	↔	Watch NZ partial data this week
<b>On balance</b>	↔/↑	<b>Hard to bet against NZD yet</b>

## POSITIONING

**NZD short positioning has been trimmed a touch, but remains around one standard deviation short,** suggestive of yet further upside. AUD positioning is back to neutral, with squaring up potentially explaining AUD strength last week.

## GLOBAL VIEWS

**Central bank policy remains the key focus,** with the BoE warning of cuts to come, talk of the ECB widening the scope of QE, and a likely BoJ response to JPY strength. **New Zealand is in an enviable spot from an economic perspective, but the release valve for that (against the current global economic backdrop) is a higher currency. Talk of NZD/AUD parity is now getting very real,** especially if political gridlock puts much-needed Australian economic reform on hold. New Zealand is far from bullet-proof, but it's in a better spot right here and now, **so parity is a realistic possibility.**

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
4-Jul	AU	ANZ Job Advertisements MoM - Jun	--	2.4%	13:30
	AU	Building Approvals MoM - May	-3.5%	3.0%	13:30
	AU	Building Approvals YoY - May	-6.4%	0.7%	13:30
	UK	Markit/CIPS Construction PMI - Jun	50.7	51.2	20:30
	EC	Sentix Investor Confidence - Jul	5.0	9.9	20:30
	EC	PPI MoM - May	0.3%	-0.3%	21:00
	EC	PPI YoY - May	-4.1%	-4.4%	21:00
5-Jul	NZ	NZIER Business Opinion Survey - Q2	--	2	10:00
	AU	AiG Perf of Services Index - Jun	--	51.5	11:30
	AU	ANZ-RM Consumer Confidence Index - 3-Jul	--	116.8	11:30
	NZ	QV House Prices YoY - Jun	--	12.4%	12:00
	NZ	ANZ Commodity Price - Jun	--	1.0%	13:00
	AU	Trade Balance - May	-1700M	-1579M	13:30
	AU	Retail Sales MoM - May	0.3%	0.2%	13:30
	CH	Caixin PMI Services - Jun	--	51.2	13:45
	CH	Caixin PMI Composite - Jun	--	50.5	13:45
	AU	RBA Cash Rate Target - Jul	1.75%	1.75%	16:30
	GE	Markit Services PMI - Jun F	53.2	53.2	19:55
	GE	Markit/BME Composite PMI - Jun F	54.1	54.1	19:55
	EC	Markit Services PMI - Jun F	52.4	52.4	20:00
	EC	Markit Composite PMI - Jun F	52.8	52.8	20:00
	UK	Official Reserves Changes - Jun	--	-\$1168M	20:30
	UK	Markit/CIPS Services PMI - Jun	52.8	53.5	20:30
	UK	Markit/CIPS Composite PMI - Jun	52.0	53.0	20:30
	EC	Retail Sales MoM - May	0.4%	0.0%	21:00
	EC	Retail Sales YoY - May	1.7%	1.4%	21:00
6-Jul	US	ISM New York - Jun	--	37.2	01:45
	US	IBD/TIPP Economic Optimism - Jul	48.3	48.2	02:00
	US	Factory Orders - May	-0.8%	1.9%	02:00
	US	Factory Orders Ex Trans - May	--	0.5%	02:00
	US	Durable Goods Orders - May F	-2.2%	-2.2%	02:00
	US	Durables Ex Transportation - May F	-0.3%	-0.3%	02:00
	US	Cap Goods Orders Nondef Ex Air - May F	--	-0.7%	02:00
	US	Cap Goods Ship Nondef Ex Air - May F	--	-0.5%	02:00
	UK	BRC Shop Price Index YoY - Jun	--	-1.8%	11:01
	GE	Factory Orders MoM - May	1.0%	-2.0%	18:00
	GE	Factory Orders WDA YoY - May	0.9%	-0.5%	18:00
	GE	Markit Construction PMI - Jun	--	52.7	19:30
	GE	Markit Retail PMI - Jun	--	54.0	20:10
	EC	Markit Retail PMI - Jun	--	50.6	20:10
	US	MBA Mortgage Applications - 1-Jul	--	-2.6%	23:00
7-Jul	US	Trade Balance - May	-\$40.0B	-\$37.4B	00:30
	US	Markit Services PMI - Jun F	51.3	51.3	01:45
	US	Markit Composite PMI - Jun F	--	51.2	01:45
	US	ISM Non-Manf. Composite - Jun	53.3	52.9	02:00
	US	US Fed Minutes from June 14-15 FOMC Meeting	--	--	06:00
	NZ	ANZ Truckometer Heavy MoM - Jun	--	-1.7%	10:00
	AU	AiG Perf of Construction Index - Jun	--	46.7	11:30

Continued on following page



## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
7-Jul	GE	Industrial Production SA MoM - May	0.0%	0.8%	18:00
	GE	Industrial Production WDA YoY - May	1.5%	1.2%	18:00
	AU	Foreign Reserves - Jun	--	A\$80.1B	18:30
	UK	Halifax House Prices MoM - Jun	0.3%	0.6%	19:30
	UK	Halifax House Price 3Mths/Year - Jun	7.8%	9.2%	19:30
	UK	Industrial Production MoM - May	-1.0%	2.0%	20:30
	UK	Industrial Production YoY - May	0.5%	1.6%	20:30
	UK	Manufacturing Production MoM - May	-1.2%	2.3%	20:30
	UK	Manufacturing Production YoY - May	0.6%	0.8%	20:30
	US	Challenger Job Cuts YoY - Jun	--	-26.5%	23:30
	EC	ECB account of the monetary policy meeting	--	--	23:30
	CH	Foreign Reserves - Jun	\$3165.0B	\$3191.7B	UNSPECIFIED
8-Jul	US	ADP Employment Change - Jun	160k	173k	00:15
	US	Initial Jobless Claims - 2-Jul	267k	268k	00:30
	US	Continuing Claims - 25-Jun	2110k	2120k	00:30
	UK	NIESR GDP Estimate - Jun	--	0.5%	02:00
	JN	BoP Current Account Balance - May	¥1742.3B	¥1878.5B	11:50
	JN	BoP Current Account Adjusted - May	¥1515.4B	¥1625.8B	11:50
	JN	Trade Balance BoP Basis - May	¥56.0B	¥697.1B	11:50
	NZ	ANZ Monthly Inflation Gauge - Jun	--	0.1%	13:00
	GE	Trade Balance - May	23.5B	25.7B	18:00
	GE	Current Account Balance - May	24.6B	28.8B	18:00
	GE	Exports SA MoM - May	0.4%	0.1%	18:00
	GE	Imports SA MoM - May	0.7%	-0.3%	18:00
	UK	Visible Trade Balance GBP/Mn - May	-£10700	-£10526	20:30
	UK	Trade Balance Non EU GBP/Mn - May	-£2800	-£2602	20:30
	UK	Trade Balance - May	-£3575	-£3294	20:30
	UK	Unit Labor Costs YoY - 1Q	1.6%	1.3%	20:30
	CH	Foreign Direct Investment YoY CNY - Jun	--	-1.0%	8-12 Jul
9-Jul	US	Change in Nonfarm Payrolls - Jun	175k	38k	00:30
	US	Two-Month Payroll Net Revision - Jun	--	-59k	00:30
	US	Change in Private Payrolls - Jun	170k	25k	00:30
	US	Change in Manufact. Payrolls - Jun	0k	-10k	00:30
	US	Unemployment Rate - Jun	4.8%	4.7%	00:30
	US	Average Hourly Earnings MoM - Jun	0.2%	0.2%	00:30
	US	Average Hourly Earnings YoY - Jun	2.7%	2.5%	00:30
	US	Average Weekly Hours All Employees - Jun	34.4	34.4	00:30
	US	Change in Household Employment - Jun	--	26	00:30
	US	Labor Force Participation Rate - Jun	--	62.6%	00:30
	US	Consumer Credit - May	\$17.00B	\$13.42B	07:00

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 see it as likely that the RBNZ will cut the OCR twice more, with the next cut tentatively pencilled in for August.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 5 Jul (10:00am)	NZIER QSBO – Q2	Bouncing back	Following the signals from our Business Outlook, confidence is likely to have lifted. We would not be surprised to see further signs of increased capacity pressures.
Tue 5 Jul (10:00am)	Government Financial Statements – May	In reasonable shape	Timing of tax payments is having some influence, but we suspect the numbers will look decent overall.
Tue 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun	--	--
Wed 6 Jul (early am)	GlobalDairyTrade Auction	Near-term challenge	The global supply situation is changing, which should eventually support prices. But the near term still looks challenging.
Thu 7 Jul (10:00am)	ANZ Truckometer – Jun	--	--
Fri 8 Jul (1:00pm)	ANZ Monthly Inflation Gauge – June	--	--
11-15 Jul	REINZ Housing Market Statistics – Jun	Booming	Strength in the regions is being joined by a sharp recovery in Auckland activity. National house price growth is rising again.
Mon 11 Jul (10:45am)	Electronic Card Transactions – Jun	Rebound	Following a fall in May, we expect spending to rebound, with a number of support factors remaining.
Wed 13 Jul (10:45am)	Food Price Index – Jun	Up	Led by fruit and vegetable prices, food prices typically record a decent lift in June months.
Thu 14 Jul (10:00am)	ANZ Job Ads – Jun	--	--
Thu 14 Jul (10:30am)	BNZ-Business NZ PMI – Jun	Outperforming	Despite weak demand and overcapacity issues plaguing the sector globally, local manufacturing continues to perform well.
Thu 14 Jul (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jul	--	--
Mon 18 Jul (10:30am)	BNZ-Business NZ PSI – June	Solid	The services sector continues to benefit from strong population growth and low borrowing costs.
Mon 18 Jul (10:45am)	CPI – Q2	Past the lows	We have pencilled in a 0.5% q/q lift in headline inflation, with petrol and food prices making a decent contribution.
Wed 20 Jul (early am)	GlobalDairyTrade Auction	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.
<b>On balance</b>		<b>Data watch</b>	<b>Momentum is increasing at present, but with risks. Inflation remains low, but has probably troughed.</b>

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

	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Retail ECT (% mom)	0.9	0.1	0.8	0.2	0.3	0.7	0.1	0.8	-0.3	--
Retail ECT (% yoy)	6.1	5.8	4.6	6.6	5.2	9.2	6.2	7.8	3.3	--
Credit Card Billings (% mom)	-2.0	1.7	0.7	-0.7	1.8	-0.3	-1.3	2.4	0.0	--
Credit Card Billings (% yoy)	7.3	7.8	8.5	7.5	8.1	7.3	4.9	9.1	5.9	--
Car Registrations (% mom)	0.1	-1.2	-2.0	3.1	-2.8	5.8	-3.7	6.1	-3.1	--
Car Registrations (% yoy)	5.0	3.8	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	--
Building Consents (% mom)	-4.8	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	1.0	--
ANZ World Comm. Price Index (% yoy)	-18.2	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8	-11.7	--
Net Migration (sa)	5570	6110	6200	5530	6090	6000	5340	5520	5500	--
Net Migration (ann)	61234	62477	63659	64930	65911	67391	67619	68110	68432	--
ANZ Heavy Traffic Index (% mom)	1.8	1.0	0.2	2.9	-4.3	1.7	3.3	-2.6	-1.7	--
ANZ Light Traffic Index (% mom)	2.7	-0.4	0.3	0.9	-1.4	2.7	0.6	-0.1	-1.3	--

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

## KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	May-16	Jun-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.673	0.712	0.718	0.69	0.65	0.64	0.64	0.63	0.63	--
NZD/AUD	0.929	0.955	0.962	0.96	0.97	0.97	0.97	0.93	0.90	--
NZD/EUR	0.604	0.639	0.645	0.66	0.63	0.62	0.61	0.57	0.57	--
NZD/JPY	74.79	73.20	73.60	72.5	68.3	64.0	64.0	63.0	63.0	--
NZD/GBP	0.461	0.528	0.541	0.55	0.54	0.52	0.51	0.48	0.47	--
NZ\$ TWI	71.3	74.5	76.8	74.5	71.9	70.4	69.9	67.3	66.8	--
INTEREST RATES	May-16	Jun-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.42	2.41	2.41	2.20	2.20	2.00	2.00	2.00	2.00	2.10
NZ 10-yr bond	2.61	2.37	2.32	2.90	2.90	3.10	3.20	3.40	3.50	3.60
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	0.65	0.83	1.08	1.08	1.33	1.33	1.58	1.58
AU Cash Rate	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	--
AU 3-mth	1.99	1.96	1.96	1.80	1.80	1.80	1.80	1.80	1.80	--

	1 Jun	27 Jun	28 Jun	29 Jun	30 Jun	1 Jul
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.43	2.34	2.37	2.40	2.41	2.42
NZGB 12/17	2.12	2.00	2.00	2.00	2.02	1.99
NZGB 03/19	2.16	2.02	2.02	2.02	2.03	2.01
NZGB 04/23	2.50	2.22	2.20	2.21	2.22	2.20
NZGB 04/27	2.65	2.36	2.33	2.34	2.35	2.33
2 year swap	2.33	2.21	2.23	2.26	2.25	2.24
5 year swap	2.42	2.24	2.24	2.27	2.28	2.24
RBNZ TWI	73.2	75.74	75.64	75.94	75.85	76.36
NZD/USD	0.68	0.71	0.70	0.71	0.71	0.71
NZD/AUD	0.93	0.95	0.95	0.96	0.95	0.96
NZD/JPY	75.08	71.72	71.86	72.50	72.90	73.52
NZD/GBP	0.47	0.53	0.53	0.53	0.53	0.54
NZD/EUR	0.61	0.64	0.64	0.64	0.64	0.64
AUD/USD	0.73	0.74	0.74	0.74	0.74	0.75
EUR/USD	1.11	1.10	1.11	1.11	1.11	1.11
USD/JPY	110.66	101.66	101.99	102.36	102.79	102.90
GBP/USD	1.45	1.34	1.33	1.33	1.34	1.33
Oil (US\$/bbl)	49.10	46.70	45.80	47.93	49.85	48.27
Gold (US\$/oz)	1215.35	1327.45	1315.70	1319.00	1315.12	1330.10
Electricity (Haywards)	6.26	6.10	4.95	5.53	4.83	7.20
Baltic Dry Freight Index	612	616	627	640	660	677
Milk futures (USD)	49	47	49	51	49	50

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