NEW ZEALAND ECONOMICS
MARKET FOCUS

20 June 2016

INSIDE

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PUSH BACK

ECONOMIC OVERVIEW

The Brexit vote takes centre stage this week. When global thematics such as this are front and centre we eye our 6 C's: confidence, contagion risks, commodities, cost of funds, currency (and China). Stepping back, Brexit is one of many signs of political fragmentation and push-back against inequality, the establishment, economic integration and globalisation. It's a worrying trend as it portends weakening support for microeconomic reform, as fringe politics become more relevant. It's an environment where populism is trumping leadership. Compare that to centrist policies in New Zealand, reasonable growth and political stability, and one concludes migration numbers won't be returning to the average of 15k per year any time soon, nor the NZD heading materially lower.

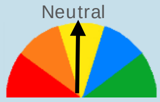
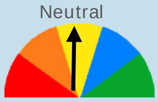
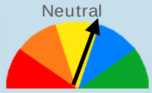
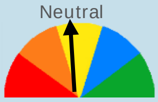
INTEREST RATE STRATEGY

The short end continues to push lower and we expect more of the same as the TWI consolidates at 12 month highs. Although the US bond market is not at all well placed for the rate hikes flagged by the Fed's 'dot plot', that's a fight for another day, and the near-term focus is on Brexit, volatility and a flight-to-safety bid. Global yield convergence remains *the* key theme, and even if US rates do start to rise, spread narrowing will cap how high NZ term rates go.

CURRENCY STRATEGY

Our valuation metrics still point to the NZD being extended but we are struggling to find a catalyst to turn it around. Certainly, with the rates market now 50/50 for an August OCR cut, there is little locally that could turn perceptions, and we doubt that will change until Q2 CPI figures are released. We still favour USD strength to re-emerge as the year progresses and the NZD/AUD still looks susceptible to topside prodding.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	2.4% y/y for 2017 Q1	The economy is recording decent momentum, and we expect that to continue. Downside risk mainly stem from offshore.	Neutral Negative  Positive
Unemployment rate	5.3% for 2017 Q1	The unemployment rate should continue to trend lower. Wage inflation is contained, but a turn may be in sight.	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	1.6% y/y for 2017 Q1	Lower petrol prices and further ACC levy cuts from July expected to keep headline inflation low this year. Core inflation measures to remain historically low.	Neutral Negative  Positive

ECONOMIC OVERVIEW

SUMMARY

The Brexit vote takes centre stage this week. When global thematics such as this are front and centre we eye our 6 C's: confidence, contagion risks, commodities, cost of funds, currency (and China). Stepping back, Brexit is one of many signs of political fragmentation and push-back against inequality, the establishment, economic integration and globalisation. It's a worrying trend as it portends weakening support for microeconomic reform, as fringe politics become more relevant. It's an environment where populism is trumping leadership. Compare that to centrist policies in New Zealand, reasonable growth and political stability, and one concludes migration numbers won't be returning to the average of 15k per year any time soon, nor the NZD heading materially lower.

FORTHCOMING EVENTS

International Travel & Migration – May (10:45am, Wednesday, 22 June). Recent data has hinted that a top is in place. However, the net inflow overall looks set to remain large for some time yet.

WHAT'S THE VIEW?

The market's focus this week is really on one thing and one thing only – the UK's referendum on EU membership. Recent polling suggests the outcome is somewhat of a coin toss (the latest poll had 'remain' at 45% and 'leave' at 42% support). We won't comment here on what the result could mean for the UK or global economy specifically (we'll leave that up to our global colleagues), but we will offer the following broad thoughts:

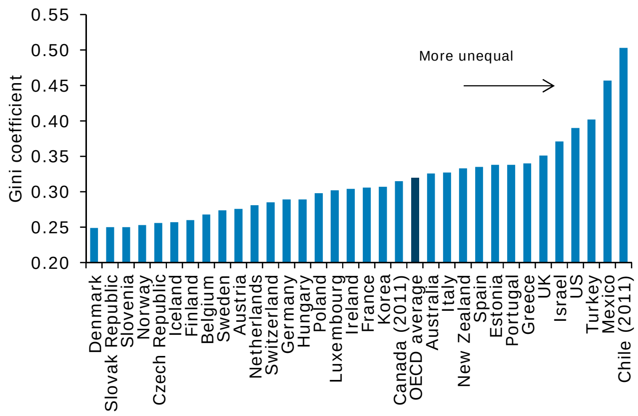
- **The vote outcome itself (yea or nay) is not the only issue; it's clearly going to be close, and that will need to be respected.** Society is sending a message, and it will demand changes are made. Anti-EU populists will be roused either way.
- **This vote is part of a much broader theme; society is kicking back.** Economic integration is being replaced by dis-integration. Support for anti-immigration nationalist parties is on the ascent in Europe. Then there are the polarising issues shaping the US presidential campaigns (and candidate disapproval ratings!), the increased popularity of EU-sceptic parties in Europe, the earlier Scottish independence referendum, and the reasonable possibility of another hamstrung election outcome in Australia. The causes are many: post-GFC kick-back; immigration as a global lightning rod stirring populists; a lacklustre economic backdrop; shifting labour market dynamics (think about the impact of technology on jobs); a distrust of the political establishment in many countries, and rising inequality. Asset price inflation has been strong, but wage inflation hasn't. The benefits of the former don't accrue evenly. It's an environment where populism trumps leadership and anti-globalisation sentiment comes to the fore.
- **It portends weaker microeconomic outcomes not stronger ones, at a time economies need the latter.** The missing ingredient to better growth outcomes in many parts of the world post-GFC has been structural reform. Rather, central banks have been relied on too much for too long, which is now creating numerous tensions (excessive leverage, misallocation of capital, overvalued asset prices etc). But without clear political mandates, it is hard to see better microeconomic outcomes emerging any time soon.
- **What the growing anti-globalisation sentiment could spell in the future is what worries us more than this week's vote outcome itself.** Yes the signing of the TPPA was an encouraging step in the right direction, but it is yet to be ratified and questions remain over whether it will be, given political gridlock in the likes of the US. More generally, the anti-globalisation push in some parts of the world actually risks kicking off a move back to more trade protectionism and that would not be a good outcome for a small trade-dependent country like New Zealand.
- **Analysis by the BoE, HM Treasury, IMF and NIESR are virtually unanimous in predicting a sudden downturn** in the UK economy if it votes to leave the EU. **How far beyond the UK it would extend is open to plenty of conjecture.**
- **The UK is still a reasonably significant trading partner for New Zealand, though not as important as it used to be.** From a total trade perspective, it is New Zealand's seventh-largest trading partner (3% of total trade), although it is the fifth largest destination for our merchandise exports. It is particularly important market for our lamb, wine and pipfruit industries. It is also a source of around 6% of our visitor arrivals, although it accounts for over 10% of total visitor spending. But significantly, **a Brexit outcome could quickly spill over into Europe** (Spexit, Frexit etc). There would likely be pressure for copy-cat referendums in other nations. Populist movements in France (Front National) and Italy (Cinque Stelle) would be galvanised. The total trade share of Europe and the UK with New Zealand is a far more meaningful 14%.
- **If one thing is guaranteed out of all this, it is that New Zealand's migration figures are going to remain strong.** And that will no doubt continue to worsen problems in the local housing market. Technically a Brexit win could make it

ECONOMIC OVERVIEW

easier for New Zealanders to get into the UK (they have clamped down on visa access for New Zealand and Australia as they absorb EU nationals) but we're looking at the broader picture.

- **Expect income inequality** (or derivatives of it, such as housing affordability) **to become even more of an issue over the coming years.** The issue has now become so large that ignoring it and mistakenly relying on trickle-down economics is unpalatable. There is always going to be inequality in a market-driven world; risk and endeavour must be rewarded. However, we now appear to have reached the stage where the gap is simply too large.

FIGURE 1: OECD GINI COEFFICIENTS (2012)



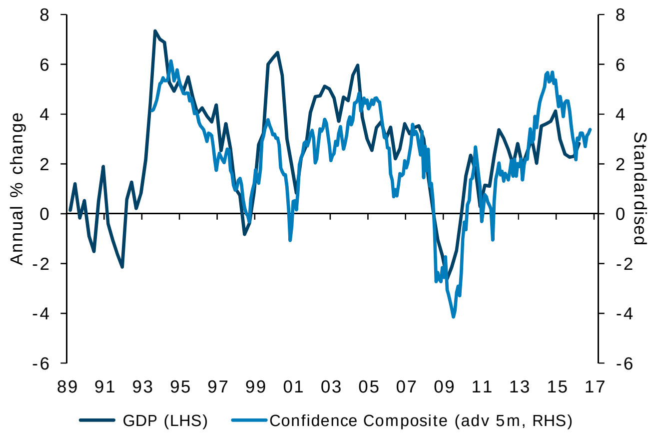
Source: OECD

We have already seen financial market sentiment sour ahead of the vote. The VIX is up over 40% since the start of the month and GBP implied volatility has spiked sharply. Global bond yields are plumbing new lows once again. Fed Chair Yellen also noted that Brexit was one factor behind the FOMC's decision to leave interest rates unchanged last week, which obviously affects New Zealand through the currency channel.

In the case of a non-market-friendly outcome, we'd quickly turn to our 6 C's framework as a way to monitor the possible domestic growth and monetary policy implications. As a reminder, our 6 C's are commodity prices, contagion, confidence, currency, cost of funds and China. While the China element may not be quite so relevant in this instance, the other five elements are certainly important to watch:

1. **Commodities**. Dairy farmers can ill afford further hits to demand or sentiment with prices already struggling to lift off lows.
2. **Contagion**. Most of the focus has been on the UK, but how does the vote affect wider Europe? Does it embolden the euro-sceptic elements of other peripheral countries, forcing them to also reassess their European positions?
3. **Cost of funds**. Global credit markets have calmed since the start of the year. But any widening in spreads would be particularly pertinent for New Zealand at a time when domestic credit growth is expanding faster than deposit growth. Tapping increasingly expensive offshore markets would lift banks' average cost of funds and force up domestic retail interest rates, all else equal.
4. **Confidence**. There is certainly little sign of domestic confidence being dented by offshore events so far, and that is important. It is hard to see the economy shifting meaningfully lower while confidence remains elevated.

FIGURE 2: ANZ CONFIDENCE COMPOSITE VS GDP



Source: ANZ, Statistics NZ

5. **Currency**. The NZD has been remarkably resilient in the face of global unease to date – a clear sign that economy is structurally in better shape than it has been in previous periods of global fragility (current account deficit below average, lower external debt etc). Nevertheless, we'd still look for the NZD to act as some form of shock absorber.

Stepping back, Brexit (and political polarisation more generally) is just one of a number of elements of a downwardly skewed risk profile for the global economy. Excessive leverage, elevated asset prices, capital misallocation, China wobbles, low inflation expectations… the list goes on. As it has been for some time, the global backdrop remains the biggest source of risk for the New Zealand economy.

We are mindful of the challenges and certainly not complacent or dismissive of these global issues, but our base case remains that the New Zealand economy has enough in the tank to absorb these risks. We continue to forecast reasonable levels of activity growth over the next 12 months or so. Importantly, the starting points for momentum and confidence are good, which gives the

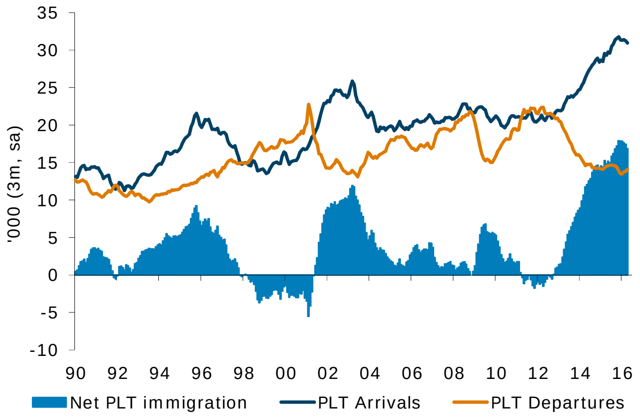
ECONOMIC OVERVIEW

economy more steel than if it were languishing to begin with. **Actually, global risks notwithstanding, we see some upside risk to our current forecasts of GDP growth holding between 2½% and 2¾% over the next 12 months or so.**

As is often the case the week after GDP figures are released, the week ahead is a quiet one for domestic data. The only release scheduled is migration figures for May, and these should remain strong. As mentioned above, New Zealand is likely to remain an attractive destination for migrants given some of the events occurring offshore.

That said, there are some tentative signs that a top may be in place. While the 5.5K net inflow in April was still a strong result in an historical context, it is softer than those seen over recent months, where the net inflow has exceeded 6K in four of the seven months since October 2015.

FIGURE 3: NET MIGRATION



Source: ANZ, Roy Morgan

One of the reasons for the smaller net inflow has been a tentative lift in the number of departures. In seasonally adjusted terms, long-term departures reached a 12 month high in April, with a net outflow of migrants to Australia in the month (albeit of just 100 people) for the first time in a year. In an historical context, net outflows to Australia are far more common, so this is a case of 'reverting to type' but it is something to watch, particularly in the context of modestly better labour market outcomes over the Tasman recently. Low (or negative) outflows of New Zealand residents to Australia have been a key element (but certainly not the only element) of net migration reaching all-time highs.

Volatility aside, visitor arrivals data should also remain strong. Seasonally adjusted arrivals have been chopping about over recent months, but at an elevated level. Annual growth remains strong at close to 8%. What has been most encouraging is that this strong growth has been relatively broad-based, with a number of countries/regions contributing to a positive underlying trend. While growth in arrivals from China has cooled a little of late, it is still positive and follows phenomenally strong growth over the latter part of 2015.

We expect this positive trend in visitor arrivals growth to continue. While the higher NZD is becoming more of a headache, we have found that arrivals growth is more of a supply-led phenomenon. What we mean by that is that new route development and airline capacity has been an important determinant (a 'build it and they will come' type story). On this front we remain positive, with recent announcements suggesting that growth in arrivals from Asia and North America should continue. That said, where the currency will have an immediate influence is in the amount that visitors spend on average. It appears that most come with a set budget in terms of their own currency and so a stronger NZD dents their NZD spending power. We are positive on tourism sector prospects overall, although the strong NZD is one area we are watching closely.

LOCAL DATA

Food Price Index – May. Prices fell 0.5% m/m to be down 0.3% y/y.

REINZ Housing Data – May. In seasonally adjusted terms, sales volumes eased 2.8%, while the REINZ House Price Index rose 2.1% m/m (14.5% y/y).

Balance of Payments – Q1. An unadjusted current account surplus of $1,360m was recorded, with the annual deficit narrowing to 3.0% of GDP.

GlobalDairyTrade Auction. The GDT TWI was unchanged, while whole milk powder prices fell 4.5%.

GDP – Q1. The economy expanded by 0.7% q/q, led by construction, with annual growth accelerating to 2.8% y/y.

ANZ Job Ads – May. Total advertising rose 0.2%, to be 7.2% higher than a year ago (on a 3-month average basis).

BNZ-Business NZ PMI – May. The headline index rose by 0.5 points to 57.1 – a four month high.

ANZ-Roy Morgan Consumer Confidence – June. Headline confidence rose by 3 points to 118.9. The Current Conditions and Future Conditions indices rose by 4 and 2 points respectively.

BNZ-Business NZ PSI – May. The index fell 0.9 points to 56.9.

INTEREST RATE STRATEGY

SUMMARY

The short end continues to push lower and we expect more of the same as the TWI consolidates at 12 month highs. Although the US bond market is not at all well placed for the rate hikes flagged by the Fed's 'dot plot', that's a fight for another day, and the near-term focus is on Brexit, volatility and a flight-to-safety bid. Global yield convergence remains *the* key theme, and even if US rates do start to rise, spread narrowing will cap how high NZ term rates go.

THEMES

- We see little chance of markets snapping out of the 'risk off' mood that has characterised the past few weeks. It's not just Brexit; Fed Chair Yellen was also less than convincing.
- The local economy is holding up well – and that affords the RBNZ time. Low inflation, a high NZD and global woes ultimately mean further OCR cuts down the track remain more likely than not, but the timing is uncertain.
- Low NZ rates are competing with even lower lows offshore = support for currencies of high-yielders = the NZD acting as a battering ram bringing the RBNZ back to the table = yield convergence.

MONETARY POLICY AND SHORT END

Short-end rates remain biased lower over time, courtesy of the high TWI and the likelihood that despite a robust domestic economy, global factors will force the RBNZ's hand at least once more before this easing cycle is done. When viewed from a purely domestic perspective, we see no urgency for the RBNZ to ease and markets look set to consolidate for now, particularly with the housing market so frothy, growth on trend, and sectors like tourism helping offset weakness in dairy.

However, global issues loom large, and in our view, will ultimately trump local considerations on the monetary policy front – the elevated TWI, low global inflation, wavering/easy policy elsewhere, societal push-back (i.e. Brexit) and vulnerabilities associated with the global post-GFC build-up of debt. Brexit is clearly the most immediate issue, but even if it results in 'remain', none of the other issues are going to go away any time soon.

GLOBAL MARKETS AND LONG END

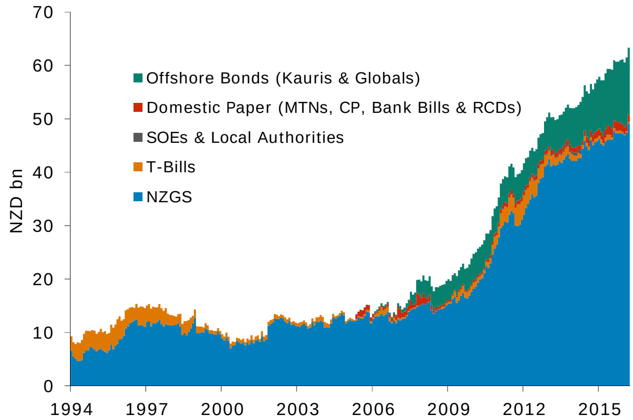
Global bond yields continue to fall, hitting record lows in key markets like Germany. Markets remain stuck in 'risk off' mode and it is difficult to see what (including a 'remain' victory in the Brexit vote) will snap them out of this mood any time soon. Granted, the Fed's 'dot plot' projections point to significantly more tightening than is priced in (posing upside risks for the bond market). However, Yellen's insistence that every meeting is "live" was less than convincing, and markets continue to trade on a 'one week at a time' view. So, while our forecasts and the macro backdrop suggests yields will move higher, tactical considerations suggest rates will hold steady or fall. Offshore demand for NZD bonds remains solid (figure 1) and ongoing yield convergence (in part driven by currency divergence) will also limit the impact here if we start to see US and global yields rise.

STRATEGY

Investors: We favour holding long positions at the short end, and focusing on parts of the curve (like 3y1y) that will benefit from the pushing out of OCR normalisation and better roll-down. Strategically, we favour further NZ/US spread narrowing, but are more neutral short term given the potential for US yields to break lower.

Borrowers: We continue to favour options, with term rates and BKBM both at fresh lows. Uncertainty is elevated and while we forecast higher rates eventually, they may fall further in the short term.

FIGURE 1: OFFSHORE OWNERSHIP OF NZD BONDS



Source: ANZ, Bloomberg

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Bullish	High TWI/global considerations ultimately force another cut. BKBM falling on a flood of domestic cash.
Long end	Neutral/ lower	While we have to respect our forecast of two Fed hikes this year, near term outlook is clouded by Brexit and flight-to-safety considerations. Difficult to see market snapping out of 'risk off' mood this week.
Yield Curve	Neutral	Would ordinarily expect the curve to steepen given higher US rate forecast, but parallel shift lower likely.
Geographic spreads	Narrower	Reduced NZGS supply, divergent policy and inverse-directionality courtesy of NZ's low-beta status all working in the same direction. But difficult for spreads to narrow if outright yields keep falling.
Swap spreads	Biased wider	NZGS demand remains strong, and supply is easing. Corporate pay potential high, even if slow now.
NZD/TWI	Elevated	Difficult to see what's going to drive the NZD lower. Holding up very well despite 'risk off' mood.

CURRENCY STRATEGY

SUMMARY

Our valuation metrics still point to the NZD being extended but we are struggling to find a catalyst to turn it around. Certainly, with the rates market now 50/50 for an August OCR cut, there is little locally that could turn perceptions, and we doubt that will change until Q2 CPI figures are released. We still favour USD strength to re-emerge as the year progresses and the NZD/AUD still looks susceptible to topside prodding.

TABLE 1: KEY VIEWS			
CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Elevated hold	Profile still lower
NZD/AUD	↔	Momentum says higher, but struggling to break up just yet	Remain above long-run averages
NZD/EUR	↔	Still in range	Political risks for EUR
NZD/GBP	↔/↑	Brexit still key risk	GBP resurgence
NZD/JPY	↔/↑	Oversold?	JPY returning to averages

THEMES AND RISKS

- Irrespective of the Brexit outcome, the fact it is close is telling. Markets now need to start thinking about social unease and what it means in the political arena for stability and policy, with populist leadership potentially coming more to the fore.
- New Zealand has more political and economic stability than most; another reason the NZD will be tough to budge from elevated levels.
- A big disconnect remains between US data and market pricing for the Fed. This leaves us with a positive USD bias longer term.
- New Zealand rates market looks set to wash around until we get Q2 CPI figures in four weeks. Economic data will remain NZD supportive.
- We expect the NZD/AUD to keep prodding topside.

NZ DATA PULSE

We can't see anything on the local horizon to turn the trend for the NZD.

- **The tenor of local data remains solid.** Sentiment from Fieldays highlighted how much broader the agri-based economy is than dairying.
- **Housing is booming**, and it's now clearly a more dominant issue for the RBNZ than dairying. The RBNZ has an August rate cut pencilled in but we view it as a line-ball call at present.
- **The allure of yield is ongoing.** Last week saw German 10-year bunds drop below zero percent and 10-year JGBs fall to a (negative) record low.
- In a world where political risk and push-back from society is coming to the fore, **any country that offers stability and sensibleness in the political arena will stand out**.
- The rates market is now 50/50 for an August OCR cut, which looks fair to us and unlikely to budge until we get Q2 CPI figures.

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages.
Yield	↔/↑	Local yields bias NZD up.
Commodities	↔	Commodities (iron ore) bouncing.
Data	↔/↑	NZD data still resilient.
Techs	↔/↓	Struggling to break through 0.96.
Sentiment	↔	Similar sentiment toward both.
Other	↔/↓	RBA Minutes less dovish?
On balance	↔	**Close to top of range.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔	Above fair value but we know why.
Yield	↔/↑	Spreads actually wider this week!
Commodities	↔	Risks reasonably well priced.
Risk aversion	↔/↑	Resilience to risk notable.
Data	↔/↑	NZ data pulse strong, still.
Techs	↔/↑	Has broken and held 0.70.
Other	↔/↑	Bond inflows still significant.
On balance	↔/↑	**Likely to remain elevated.**

POSITIONING

Speculative positioning swung from long to short last week according to CFTC data. This adds to the potential for a short squeeze higher, with NZD holding up well despite the risk-off environment and implied profit-taking. AUD positioning is also mildly short, but **the biggest change has been the dramatic reduction in USD longs (presumably squaring up ahead of the Brexit vote).**

GLOBAL VIEWS

Looking beyond Brexit and GBP wobbles, the USD is the main story. Markets remain extremely sceptical of the Fed's ability and desire to tighten, which is understandable given how unconvincing Fed Chair Yellen was at last week's FOMC press conference. Nonetheless, if the Fed follows through with the rate hikes flagged in its 'dot plot' projections, the divergence between the Fed and market suggest **a USD shake-up is coming.**

FIGURE 1: FED DOT PLOTS VS MARKET EXPECTATIONS

Source: ANZ, Bloomberg

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
20-Jun	NZ	Westpac Consumer Confidence - Q2	--	106.0(a)	10:00
	NZ	Performance Services Index - May	--	56.9(a)	10:30
	UK	Rightmove House Prices MoM - Jun	--	0.4%	11:01
	UK	Rightmove House Prices YoY - Jun	--	7.8%	11:01
	JN	Trade Balance - May	¥70.0B	¥823.2B	11:50
	JN	Trade Balance Adjusted - May	¥113.4B	¥426.6B	11:50
	JN	Exports YoY - May	-10.0	-10.1	11:50
	JN	Imports YoY - May	-13.8	-23.3	11:50
	GE	PPI MoM - May	0.3%	0.1%	18:00
	GE	PPI YoY - May	-2.9%	-3.1%	18:00
	EC	Construction Output MoM - Apr	--	-0.9%	21:00
	EC	Construction Output YoY - Apr	--	-0.5%	21:00
	CH	Leading Index - Apr	--	99.1	20-24 Jun
21-Jun	AU	ANZ-RM Consumer Confidence Index - 19-Jun	--	116.4	11:30
	AU	RBA June Meeting Minutes	--	--	13:30
	AU	House Price Index QoQ - Q1	0.8%	0.2%	13:30
	AU	House Price Index YoY - Q1	7.5%	8.7%	13:30
	UK	Public Finances (PSNCR) - May	--	-£2.4B	20:30
	UK	Central Government NCR - May	--	£3.0B	20:30
	UK	Public Sector Net Borrowing - May	£9.4B	£6.6B	20:30
	UK	PSNB ex Banking Groups - May	£9.5B	£7.2B	20:30
	GE	ZEW Survey Current Situation - Jun	53.0	53.1	21:00
	GE	ZEW Survey Expectations - Jun	4.8	6.4	21:00
	EC	ZEW Survey Expectations - Jun	--	16.8	21:00
	UK	CBI Trends Total Orders - Jun	-10	-8	22:00
	UK	CBI Trends Selling Prices - Jun	--	2	22:00
22-Jun	NZ	Net Migration SA - May	--	5520	10:45
	AU	Westpac Leading Index MoM - May	--	0.24%	12:30
	AU	Skilled Vacancies MoM - May	--	0.6%	13:00
	NZ	Credit Card Spending MoM - May	--	2.5%	15:00
	NZ	Credit Card Spending YoY - May	--	9.1%	15:00
	US	MBA Mortgage Applications - 17-Jun	--	-2.4%	23:00
23-Jun	US	FHFA House Price Index MoM - Apr	0.6%	0.7%	01:00
	EC	Consumer Confidence - Jun A	-7	-7	02:00
	US	Existing Home Sales - May	5.55M	5.45M	02:00
	US	Existing Home Sales MoM - May	1.8%	1.7%	02:00
	GE	Markit/BME Manufacturing PMI - Jun P	52.0	52.1	19:30
	GE	Markit Services PMI - Jun P	55.0	55.2	19:30
	GE	Markit/BME Composite PMI - Jun P	54.3	54.5	19:30
	EC	Markit Manufacturing PMI - Jun P	51.4	51.5	20:00
	EC	Markit Services PMI - Jun P	53.2	53.3	20:00
	EC	Markit Composite PMI - Jun P	53.0	53.1	20:00
24-Jun	US	Chicago Fed Nat Activity Index - May	0.11	0.1	00:30
	US	Initial Jobless Claims - 18-Jun	270k	277k	00:30
	US	Continuing Claims - 11-Jun	2144k	2157k	00:30
	US	Markit Manufacturing PMI - Jun P	50.9	50.7	01:45
	US	New Home Sales - May	560k	619k	02:00
	US	Leading Index - May	0.1%	0.6%	02:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-Jun	US	New Home Sales MoM - May	-9.5%	16.6%	02:00
	US	Kansas City Fed Manf. Activity - Jun	-8	-5	03:00
	JN	PPI Services YoY - May	0.1%	0.2%	11:50
	GE	IFO Business Climate - Jun	107.4	107.7	20:00
	GE	IFO Current Assessment - Jun	114.0	114.2	20:00
	GE	IFO Expectations - Jun	101.2	101.6	20:00
	UK	BBA Loans for House Purchase - May	37850	40104	20:30
	GE	Import Price Index MoM - May	0.5%	-0.1%	06/29
	GE	Import Price Index YoY - May	-5.9%	-6.6%	06/29
25-Jun	US	Durable Goods Orders - May P	-0.4%	3.4%	00:30
	US	Durables Ex Transportation - May P	0.1%	0.5%	00:30
	US	Cap Goods Orders Nondef Ex Air - May P	0.3%	-0.6%	00:30
	US	Cap Goods Ship Nondef Ex Air - May P	--	0.4%	00:30
	US	U. of Mich. Sentiment - Jun F	94.1	94.3	02:00

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

LOCAL DATA WATCH

Domestic economic momentum is reasonable at present. However, downside risks exist (mainly from offshore). We believe the RBNZ will cut the OCR twice more, with the next cut pencilled in for August.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 22 Jun (10:45am)	International Travel & Migration – May	Steady and strong	Recent data has hinted that a top is in place. However, the net inflow overall looks set to remain large for some time yet.
Mon 27 Jun (10:45am)	Overseas Merchandise Trade – May	Small surplus	A small monthly surplus is possible, although rising oil prices are likely to start having an impact.
Thu 30 Jun (10:45am)	Building Consents Issued – May	Still trending higher	We expect issuance to trend higher, although we are wary that capacity issues are capping the upside.
Thu 30 Jun (1:00pm)	ANZ Business Outlook – Jun	--	--
Thu 30 Jun (3:00pm)	RBNZ Credit Aggregates – May	Strong	Household credit growth is running at its fastest pace since 2008. We don't see it rising much further, but it should remain strong.
Tue 5 Jul (10:00am)	NZIER QSBO – Q2	Bouncing back	Following the signals from our Business Outlook, confidence is likely to have lifted. We will be on the lookout for further signs of increased capacity pressures.
Tue 5 Jul (10:00am)	Government Financial Statements – May	In reasonable shape	Timing of tax payments is having some influence, but we suspect the numbers will look decent overall.
Tue 5 Jul (1:00pm)	ANZ Commodity Price Index – Jun	--	--
Wed 6 Jul (early am)	GlobalDairyTrade Auction	Ticking higher, but still low	Global supply is gradually tightening, which should allow prices to gradually trend higher.
Thu 7 Jul (10:00am)	ANZ Truckometer – Jun	--	--
Fri 8 Jul (1:00pm)	ANZ Monthly Inflation Gauge – June	--	--
11-15 Jul	REINZ Housing Market Statistics – Jun	Booming	Strength in the regions is being joined by a sharp recovery in Auckland activity. National house price growth is rising again.
Mon 11 Jul (10:45am)	Electronic Card Transactions – Jun	Rebound	Following a fall in May, we expect spending to rebound, with a number of support factors remaining.
Wed 13 Jul (10:45am)	Food Price Index – Jun	Up	Led by fruit and vegetable prices, food prices typically record a decent lift in June months.
Thu 14 Jul (10:00am)	ANZ Job Ads – Jun	--	--
Thu 14 Jul (10:30am)	BNZ-Business NZ PMI – Jun	Outperforming	Despite weak demand and overcapacity issues plaguing the sector globally, local manufacturing continues to perform well.
Thu 14 Jul (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Jul	--	--
Mon 18 Jul (10:30am)	BNZ-Business NZ PSI – June	Solid	The services sector continues to benefit from strong population growth and low borrowing costs.
Mon 18 Jul (10:45am)	CPI – Q2	Past the lows	We have pencilled in a 0.5% q/q lift in headline inflation, with petrol and food prices making a decent contribution.
Thu 21 Jul (10:00am)	International Travel & Migration	Still strong	While a top may be in place, we are expecting net inflows to remain at historically strong levels for some time yet.
On balance		**Data watch**	**Reasonable momentum at present, but with risks. Inflation remains low, but has probably troughed.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.7	**0.7**	**0.6**	**0.6**	**0.6**	**0.7**	**0.7**	**0.7**	**0.7**	**0.6**
GDP (% yoy)	2.8	**3.2**	**2.9**	**2.5**	**2.4**	**2.4**	**2.5**	**2.6**	**2.7**	**2.6**
CPI (% qoq)	0.2	**0.5**	**0.4**	**0.0**	**0.7**	**0.4**	**0.7**	**0.3**	**0.6**	**0.5**
CPI (% yoy)	0.4	**0.5**	**0.6**	**1.1**	**1.6**	**1.5**	**1.7**	**2.0**	**2.0**	**2.0**
Employment (% qoq)	1.2	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	2.0	**2.3**	**3.3**	**2.7**	**1.9**	**1.7**	**1.6**	**1.6**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.7	**5.5**	**5.4**	**5.4**	**5.3**	**5.2**	**5.2**	**5.1**	**5.0**	**4.8**
Current Account (% GDP)	-3.0	**-3.1**	**-3.4**	**-3.7**	**-4.2**	**-4.4**	**-4.3**	**-4.1**	**-3.8**	**-3.6**
Terms of Trade (% qoq)	4.4	**-5.8**	**-2.7**	**-0.3**	**0.8**	**1.7**	**2.8**	**1.7**	**0.8**	**0.4**
Terms of Trade (% yoy)	-0.1	**-7.3**	**-6.2**	**-4.6**	**-7.9**	**-0.6**	**5.1**	**7.2**	**7.2**	**5.8**

	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	-0.5	-1.4	2.5	--	--
Credit Card Billings (% yoy)	7.3	7.8	8.5	7.4	8.2	7.3	4.8	9.1	--	--
Car Registrations (% mom)	0.1	-1.2	-2.0	3.1	-2.8	5.8	-3.7	6.1	-3.1	--
Car Registrations (% yoy)	5.0	3.8	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	--
Building Consents (% mom)	-4.7	5.0	1.7	2.7	-8.4	10.4	-9.7	6.6	0.0	--
Building Consents (% yoy)	17.5	14.7	7.2	17.7	4.9	26.7	0.7	12.7	0.0	--
REINZ House Price Index (% yoy)	20.1	14.1	12.5	12.6	10.7	11.9	13.3	14.5	14.7	--
Household Lending Growth (% mom)	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.8	--	--
Household Lending Growth (% yoy)	6.7	6.9	7.2	7.4	7.5	7.6	7.7	7.9	--	--
ANZ Roy Morgan Consumer Conf.	110.8	114.9	122.7	118.7	121.4	119.7	118.0	120.0	116.2	118.9
ANZ Business Confidence	-18.9	10.5	14.6	23.0	..	7.1	3.2	6.2	11.3	--
ANZ Own Activity Outlook	16.7	23.7	32.0	34.4	..	25.5	29.4	32.1	30.4	--
Trade Balance ($m)	-1140	-905	-795	-42	12	366	189	292	--	--
Trade Bal ($m ann)	52287	52101	52648	52510	52764	52834	52604	52662	--	--
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	6130	6200	5540	6090	6010	5330	5520	--	--
Net Migration (ann)	61234	62477	63659	64930	65911	67391	67619	68110	--	--
ANZ Heavy Traffic Index (% mom)	1.8	1.0	0.2	2.9	-4.3	1.7	3.3	-2.6	-1.7	--
ANZ Light Traffic Index (% mom)	2.7	-0.4	0.3	0.9	-1.4	2.7	0.6	-0.1	-1.3	--

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Apr-16	May-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZD/USD	0.698	0.673	0.708	0.66	0.66	0.63	0.61	0.61	0.63	0.66
NZD/AUD	0.918	0.929	0.954	0.89	0.92	0.94	0.92	0.92	0.93	0.94
NZD/EUR	0.609	0.604	0.625	0.60	0.61	0.58	0.54	0.53	0.53	0.55
NZD/JPY	74.31	74.79	74.14	69.3	69.3	66.2	61.0	61.0	63.0	66.0
NZD/GBP	0.477	0.461	0.488	0.46	0.44	0.41	0.39	0.38	0.39	0.40
NZ$ TWI	72.2	71.3	75.5	69.3	69.8	67.5	64.5	64.0	64.8	67.4
INTEREST RATES	Apr-16	May-16	Today	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
NZ OCR	2.25	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75
NZ 90 day bill	2.40	2.42	2.33	2.40	2.20	2.10	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.85	2.62	2.47	2.80	2.90	2.90	3.10	3.20	3.40	3.50
US Fed funds	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25	1.50
US 3-mth	0.64	0.67	0.64	0.83	0.83	1.08	1.08	1.33	1.33	1.58
AU Cash Rate	2.00	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	2.15	1.99	2.00	2.00	1.80	1.80	1.80	1.80	1.80	1.80

	17 May	13 Jun	14 Jun	15 Jun	16 Jun	17 Jun
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.35	2.40	2.37	2.34	2.34	2.35
NZGB 12/17	2.10	2.08	2.08	2.10	2.06	2.07
NZGB 03/19	2.12	2.10	2.09	2.11	2.08	2.10
NZGB 04/23	2.49	2.37	2.34	2.34	2.29	2.31
NZGB 04/27	2.63	2.51	2.48	2.48	2.43	2.45
2 year swap	2.23	2.29	2.26	2.26	2.26	2.26
5 year swap	2.36	2.38	2.35	2.35	2.33	2.33
RBNZ TWI	72.7	75.21	75.05	75.18	75.48	75.13
NZD/USD	0.68	0.70	0.70	0.70	0.71	0.70
NZD/AUD	0.93	0.95	0.95	0.95	0.96	0.95
NZD/JPY	74.19	74.63	74.51	74.60	73.99	73.32
NZD/GBP	0.47	0.50	0.50	0.50	0.50	0.49
NZD/EUR	0.60	0.63	0.62	0.63	0.63	0.63
AUD/USD	0.74	0.74	0.74	0.74	0.74	0.74
EUR/USD	1.13	1.13	1.13	1.12	1.13	1.13
USD/JPY	108.97	106.05	106.02	106.21	104.60	104.19
GBP/USD	1.45	1.42	1.42	1.41	1.42	1.42
Oil (US$/bbl)	47.72	49.09	48.89	48.49	47.92	46.14
Gold (US$/oz)	1279.40	1274.40	1281.15	1284.60	1303.10	1283.30
Electricity (Haywards)	5.72	6.38	5.02	4.89	5.30	4.56
Baltic Dry Freight Index	643	609	608	604	598	587
Milk futures (USD)	49	50	49	49	47	49

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