ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

10 October 2016

INSIDE

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SHIFTING THE FOCUS

ECONOMIC OVERVIEW

We believe we are heading into a period where markets need (and appear) to be a little less focused on monetary policy, looking harder at fiscal and microeconomic policy. The former has reached exhaustion point and many of the globe's current key economic issues are structural rather than cyclical in nature. New Zealand's microeconomic fundamentals are far from pristine but better than most. The fiscal situation is part of that, and the Government's FY16 statements this week should show a decent picture; one where there are options. This is not something easily said about many other parts of the world. Elsewhere this week, housing data should cool further while activity indicators should still point to decent economic momentum overall.

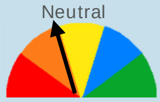
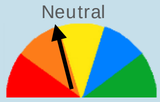
INTEREST RATE STRATEGY

Short-end rates have moved up over the past week, and are likely to remain under pressure as the market debates the need for an OCR cut beyond November. Odds of a November cut have lengthened, and while the robust data pulse supports that, NZD stability is somewhat predicated on the "promise" (or premise) of one more cut. This leaves us somewhat cautious about the bellwether 2 year, but still bullish November OIS. Long-end rates are also at the upper end of trading ranges, and while the possibility of a break higher in yields can't be dismissed, there's enough uncertainty in three key areas (US politics, policy in Europe and Japan, volatility in GBP) to keep a lid on yields. Still, as we noted last week, the world is becoming somewhat fatigued with low bond yields, especially with odds of a Fed rate hike in December now firming and fiscal policy being pointed to more and more.

CURRENCY STRATEGY

We are coy about jumping on a weaker NZD band-wagon despite it giving up gains of late. We view recent moves as more corrective. While a number of global factors have the potential to accentuate this correction – namely the US Fed in play, potential for risk appetites to wane (somewhat at odds with the Fed hiking, though possibly a consequence too!), and signs of swivelling from monetary to fiscal policy stimulus – these all face challenges becoming concrete themes. Until we see such a clear new theme emerge, we remain biased towards NZD strength being maintained.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.3% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	Neutral Negative  Positive
Unemployment rate	5.0% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, in part due to strong labour supply growth.	Neutral Negative  Positive
OCR	1.50% by Jun 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	1.0% 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

SUMMARY

We believe we are heading into a period where markets need (and appear) to be a little less focused on monetary policy, looking harder at fiscal and microeconomic policy. The former has reached exhaustion point and many of the globe's current key economic issues are structural rather than cyclical in nature. New Zealand's microeconomic fundamentals are far from pristine but better than most. The fiscal situation is part of that, and the Government's FY16 statements this week should show a decent picture; one where there are options. This is not something easily said about many other parts of the world. Elsewhere this week, housing data should cool further while activity indicators should still point to decent economic momentum overall.

FORTHCOMING EVENTS

ANZ Monthly Inflation Gauge – Sep (1:00pm, Monday, 10 October).

REINZ Housing Market Statistics – Sep (sometime this week). Anecdotes and partial data suggest that market activity is cooling. Softer turnover is no doubt related to the latest LVR restrictions, although tight supply also looks to still be playing a role.

Electronic Card Transactions – Sep (10:45am, Tuesday, 11 October). After a soft August, we expect a rebound in spending (~1.0% m/m).

ANZ Job Ads – Sep (10:00am, Thursday, 13 October).

BNZ-BusinessNZ PMI – Sep (10:30am, Thursday, 13 October). Despite currency and global headwinds, the manufacturing sector continues to benefit from a strong domestic economy.

Food Price Index – Sep (10:45am, Thursday, 13 October). Led by a seasonal fall in fruit and vegetable prices, overall food prices are likely to fall modestly.

ANZ-Roy Morgan Consumer Confidence – Oct (1:00pm, Thursday, 13 October).

Government Financial Statements – FY16 (1:00pm, Thursday 13 October). In line with Budget forecasts, a small underlying fiscal surplus should be recorded. Together with relatively low net debt, a decent fiscal picture relative to many will be on show.

BNZ-BusinessNZ PSI – Sep (10:30am, Monday, 17 October). The index has softened off its highs, perhaps related to the latest LVR restrictions. But we don't see it falling far.

WHAT'S THE VIEW?

We can sense that the global policy direction (and debate) is beginning to shift away from monetary policy and towards fiscal policy. The likes of the IMF, BIS and G20 have been explicitly calling for fiscal policy to do more of the heavily lifting for some time, but we can now also implicitly see this shift in some of the actions of central banks themselves. The BoJ has shifted to a new 'yield curve target', which many view as a response to its earlier policies reaching exhaustion point, and the ECB is showing a little more hesitancy to ease further as well (while not ruling it out completely).

You can see this shift in the bond market. Over the past two weeks we've seen German 10-year yields rise 13bps to be back in positive territory, and similar-sized moves have been seen in other key European countries. US 10-year Treasury yields have risen from 1.56% to 1.72%. Of course, these moves aren't large in an absolute or historical context, but relative to the outright level of yields, they're significant.

This shift from monetary policy to fiscal policy is something that we welcome. Monetary policy is showing signs of exhaustion, and is certainly struggling to sustainably lift inflation despite the considerable amounts of stimulus provided. And this stimulus is arguably now creating bigger distortions than it is battling, with global debt at record levels, asset prices overvalued, capital misallocated, inequality on the rise, a possible pension-industry time bomb ticking away and financial systems facing strains. It is time that fiscal policy not only lends more of a hand, but becomes more proactive in trying to boost global growth in a trend as well as cyclical sense via stronger microeconomic policy.

To be fair, this shift still faces huge challenges.

- **For fiscal policy to work it will need to be co-ordinated.** It is hard to see that happening when self-interest continues to dominate group interest around the globe.
- **There are clear constraints in some areas against fiscal pump-priming.** In Europe, for example, there are now numerous fiscal rules as well as legislative agreements (such as the Budgetary Frameworks Directive) that place limits on a country's fiscal position.
- **There is not a huge amount of ammunition.** The average level of government gross debt across the OECD is already around 85% of GDP.
- **A shift from monetary policy towards fiscal policy will result in higher bond yields.** Given the levels of global debt, the overreliance of markets on central bank liquidity, and extended asset valuations, higher interest rates will certainly mean the global economy will remain susceptible to wobbles.

ECONOMIC OVERVIEW

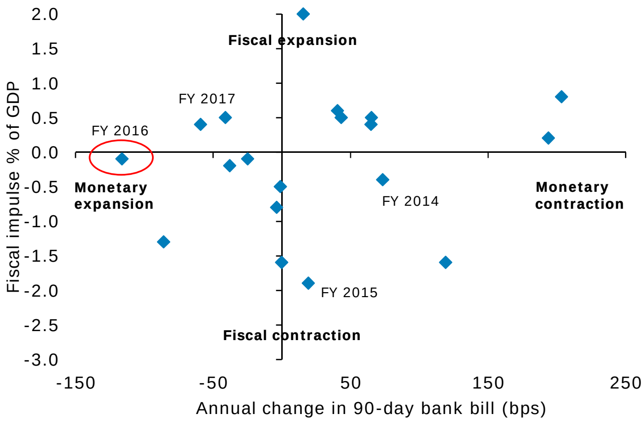
- **Not surprisingly, some central banks are reluctant to step away fully.** Notwithstanding the earlier comments, both the ECB and BoJ retain easing biases. BoJ Governor Kuroda stated just this weekend that "If necessary, we can reduce both the short end and long end of interest rates" and the latest ECB minutes certainly retained a message that it would ease further if needed.
- **Boosting global growth requires more than just expansionary fiscal policy; you need improved microeconomic policy settings.** It is the latter that encourages businesses to invest and hire and people to spend beyond the initial outright boost provided by fiscal policy. It is not as simple as just opening the fiscal cheque-book – just look at the Japanese experience with Ricardian equivalence.[1]
- **Populism is still trumping leadership, which makes it difficult to foster a mandate for improving microeconomic policy settings.**

So while we can remain hopeful fiscal policy will do more heavy lifting around the globe and lessen the burden being carried by monetary policy (potentially taking pressure off the NZD), we'd be remiss to put all our eggs in that basket. Any such "swivel" will take time.

But against this backdrop, we still believe it's useful to take a look at New Zealand's "policy" mix. This is timely with the Treasury set to release the Government's full-year Financial Statements for 2015/16 this week.

- **Monetary policy is obviously still doing most of the heavy lifting.** The OCR is already at an all-time low and we forecast 50bps of additional rate cuts. Additionally, we doubt the RBNZ has finished tinkering with macro-prudential policy.
- **Fiscal policy is slightly contractionary.** In Budget 2016, fiscal drag for FY16 was estimated at 0.1% of GDP, after 1.9% of GDP in FY15.
- **Fiscal policy is moving to a less contractionary stance.** In fact, the Budget estimated a positive fiscal impulse of 0.4% of GDP in FY17. But beyond specific years (as the timing of key expenditures can throw the estimates around), fiscal drag is assumed to average 0.3% of GDP per year over the five-year projection horizon, which compares with an average drag of 1.0% of GDP per year between FY12 and FY16.

FIGURE 1: FISCAL – MONETARY MIX



Source: ANZ, Bloomberg, NZ Treasury

- **Expect a boost in the 2017 Budget.** The nature of the election cycle means that the fiscal purse-strings will no doubt be loosened a little next year.
- **There is considerable "firepower" if required, with government net debt forecast to peak below 26% of GDP.**
- **The focus of fiscal policy has not been about spending more, rather on delivering more. That's a big difference.** In fact, this week's figures are likely to show core Crown expenses falling below 30% of GDP for the first time since 2005/06.
- **The political framework (i.e. one legislative house) is conducive to getting things done.** It is far more complicated in the likes of the US or Australia, or in Europe where there are many competing agendas.
- **The direction for microeconomic policy has been good.** We believe there are clear microeconomic underpinnings for why New Zealand's labour force participation rate has been trending higher when others have been falling; why the current account deficit remains below average despite strong domestic demand growth; why the tourism sector is performing strongly despite the NZD being a considerable headwind; why non-dairy agricultural sectors are having record seasons despite a fragile global scene. They are driven by the small things done well that complement the broader macroeconomic story.

This combination is far from perfect and we shouldn't sugar-coat the challenges that still exist (e.g. housing affordability, lifting per capita GDP etc), but neither should we downplay its economic significance. New Zealand has often ranked well on many international measures comparing the likes of ease of doing business,

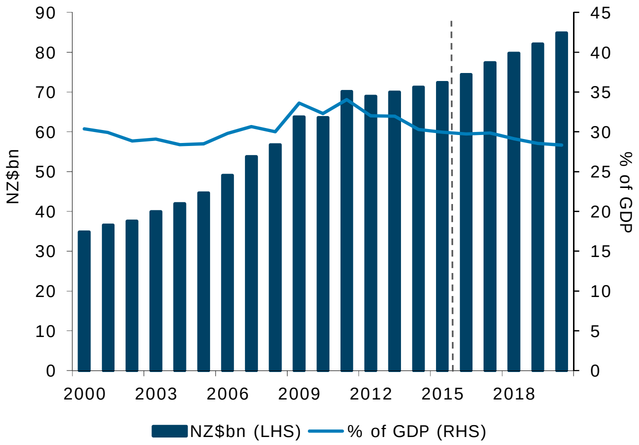
[1] Ricardian equivalence is the theory that increased government spending has no impact on aggregate demand. It proposes that because households are forward-looking, increased government spending reduces households' consumption (increases saving) as they know that the increased spending will need to be financed in the future (by either lower spending or higher taxes).

ECONOMIC OVERVIEW

property rights, and institutional strength. These are all relevant of course, but what we are talking about goes beyond that.

We expect this week's fiscal numbers will portray a strong position overall. This is not only relative to the not-too-distant past, but also, importantly, relative to many international peers. The Government is still on track to achieve its fiscal goals (net debt at around 20% of GDP by 2020, core Crown expenses below 30% of GDP, and operating balances sufficient to meet net capital requirements).

FIGURE 2: CORE CROWN EXPENDITURE (BUDGET 2016 FORECASTS)



Source: ANZ, NZ Treasury

This has some important spill-overs:

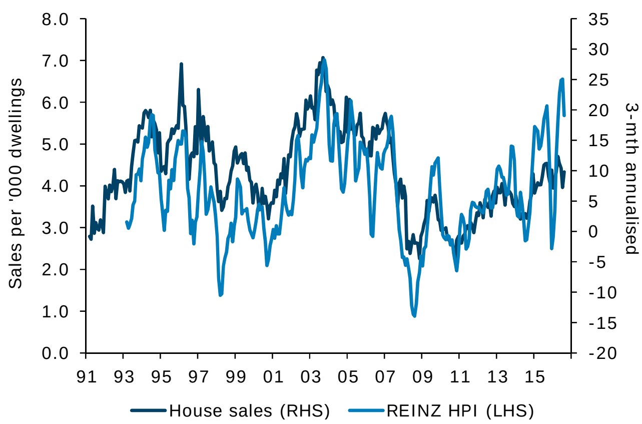
- **Low debt means a rainy-day coffer to respond to negative economic shocks.** Some countries don't have that luxury but it is important in a world when the global growth profile is still negatively skewed.
- **It maintains credibility in the eyes of businesses** that there will not be a lurch in a different policy direction in order to correct any fiscal imbalances. Arguably that is not the case in Australia, for example, where a credible strategy to repair its fiscal accounts is still lacking. That must be weighing on firms' minds.
- **It will keep rating agencies at bay,** assuming the current pace of credit growth can be reined in and doesn't blow out the external accounts.
- **It gives the government of the day options**. Like any business, if money is coming in the door it gives you optionality to invest (short and long-term), spend and tweak your settings. You don't have such flexibility when numbers are bad. Tax cuts have been mooted as a possibility "if the economic and fiscal conditions allow". Or they may think of some other way to spend the money – such as today's hints about more social housing. However it is spent, you'd have to say the chances of having some money to throw around have increased ahead of next year's election.

In many ways, this solid story is a familiar theme across many elements of New Zealand's economic picture, but it of course goes a long way to explaining why the NZD has remained elevated on a TWI basis.

Turning to other data this week, REINZ housing market figures for September should be released and we are expecting to see a softer signal. There has already been a softening in turnover evident over recent months, with nationwide sales volumes down 6% on a three-month average basis in August. In fact, only two of 12 regions saw higher sales volumes over that period (Taranaki and Southland). While the latest round of LVR restrictions (which became official in October, although they were effectively implemented by banks from the get-go) are no doubt playing a role, this softer turnover is not just about demand. A lack of new listings is also impacting, highlighted by the fact that the nationwide median 'days to sell' remains at a historically low level (30 days sa).

House price growth is also likely to start to soften. While the low 'days to sell' measure suggests that plenty of support for prices remains, it is unusual for house price growth to continue unabated at a time of slower turnover. There is a strong historical correlation. We therefore expect to see nationwide house price growth begin to cool as well, which would not really be that hard given that our preferred measure of prices (the REINZ Stratified House Price Index) was running at a phenomenal 3-month annualised pace of 25% in July. August saw this rate moderate to *just* 19% (nationwide prices actually fell 2.2% on a seasonally adjusted basis), and we expect that moderation to continue.

FIGURE 3: HOUSE PRICES AND SALES



Source: ANZ, REINZ

ECONOMIC OVERVIEW

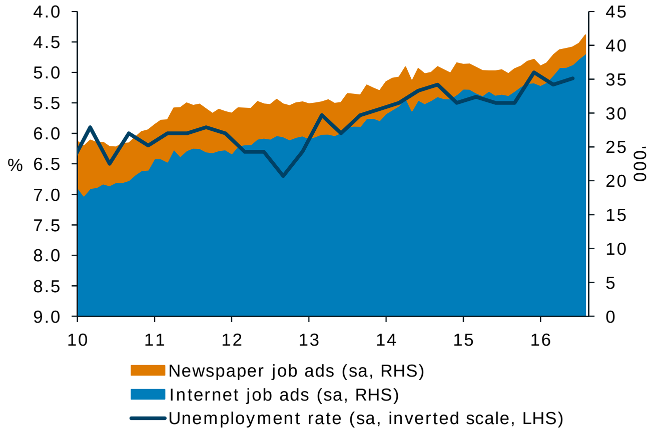
Electronic Card Transactions should bounce back from a soft August. Total ECT sales values fell 0.4% m/m in August, with softer spending surprisingly broad-based. At the time, we did not read too much into this weakness. We still retain a broadly positive view towards consumer spending overall, particularly with a number of key support factors (population growth, visitor spending, low interest rates, strengthening labour market, net wealth gains etc) remaining. Another factor that is also likely to boost overall nominal spending in September is the fact that retail petrol prices lifted around 3½% over the month.

The Food Price Index for September should allow us to firm up our expectations for Q3 CPI next week. Seasonality in fruit and vegetable prices suggests a small fall in food prices in the month, although it is likely that they rose over Q3 as a whole (our current expectation is a 0.6% q/q lift, which would result in a 0.1%pt contribution to headline CPI).

Two of our proprietary gauges (Job Ads and Consumer Confidence) are also due this week. Like many other indicators, they have given positive signals of late.

- **Job ads have risen for seven months in a row.** Together with the strong signal from firms' hiring intentions (which rose to the highest level since 1973 in the latest QSBO), it speaks to a strong backdrop for labour demand. In fact, while the latest Household Labour Force Survey likely overstated employment growth when it rose 2.4% q/q in Q2 (in part due to methodological changes), the signal from these other labour market indicators suggests it perhaps didn't overstate the case by much! Can an eighth consecutive monthly increase be achieved in September?

FIGURE 4: JOB ADS AND THE UNEMPLOYMENT RATE

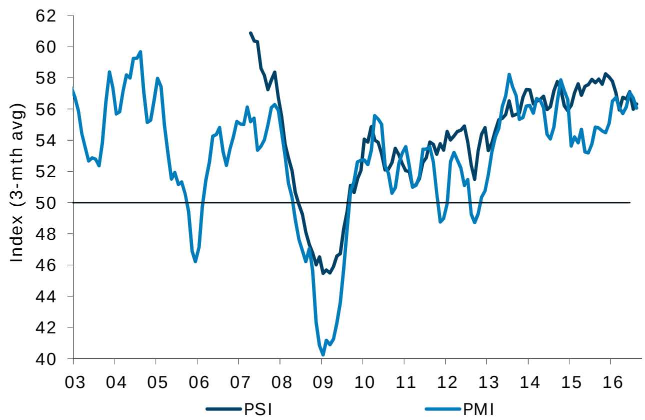


Source: ANZ, Statistics NZ, Seek, Trade Me, Dominion Post, Hawke's Bay Today, Manawatu Standard, NZ Herald, ODT, The Press, Waikato Times

- **Consumer confidence has broadly oscillated around its historical average for the past 10 months or so.** In September, it actually lifted 3 points to 121, which is the highest level since January, largely as consumers' future expectations rose solidly. In seasonally adjusted terms, headline confidence has actually now risen for four consecutive months, so it is not just about the weather starting to turn a little warmer. Together with the decent lift seen in the business sector equivalent, our Confidence Composite is pointing to the possibility of GDP growth accelerating to north of 4% over the next 12 months.

Finally, the BusinessNZ monthly manufacturing and services sector indicators will also provide updates on economic momentum. At 55.1 and 57.9 respectively in August, both indicators are consistent with the current solid pace of activity continuing into Q3. The fact that the manufacturing sector has continued to perform well despite the elevated NZD (particularly against the AUD) and the fragile global growth backdrop is testament to the key spill-overs from the strong domestic economy (especially from construction). That doesn't look set to change any time soon. While we wouldn't be surprised to see the services sector cool off a little as housing market activity moderates on the back of the latest round of LVR restrictions, we are expecting it to maintain a decent underlying pace of growth overall.

FIGURE 5: BNZ-BUSINESSNZ PMI AND PSI



Source: ANZ, BusinessNZ

LOCAL DATA

NZIER Quarterly Survey of Business Opinion – Q3. Headline confidence lifted to +26, while activity indicators arguably are consistent with GDP growth accelerating towards 4½%.

GlobalDairyTrade Auction. The GDT TWI eased 3%, while whole milk powder prices fell 3.8%.

ANZ Commodity Price Index – Sep. The world price index rose 5.1% m/m, driven by dairy prices.

ANZ Truckometer – Sep. The Heavy Traffic Index eased 1.4% m/m; the Light Traffic Index rose 0.4%.

INTEREST RATE STRATEGY

SUMMARY

Short-end rates have moved up over the past week, and are likely to remain under pressure as the market debates the need for an OCR cut beyond November. Odds of a November cut have lengthened, and while the robust data pulse supports that, NZD stability is somewhat predicated on the "promise" (or premise) of one more cut. This leaves us somewhat cautious about the bellwether 2 year, but still bullish November OIS. Long-end rates are also at the upper end of trading ranges, and while the possibility of a break higher in yields can't be dismissed, there's enough uncertainty in three key areas (US politics, policy in Europe and Japan, volatility in GBP) to keep a lid on yields. Still, as we noted last week, the world is becoming somewhat fatigued with low bond yields, especially with odds of a Fed rate hike in December now firming and fiscal policy being pointed to more and more.

THEMES

- Doubts around the need for a second OCR cut in February continue to rise. This isn't surprising with the NZD stabilising below 0.73 and an improving data pulse. But inflation remains low and markets are conditioned for a November cut, which we still expect. That should keep a lid on further upside.
- Global fatigue with low bond yields and an upping of the ante for a Fed hike in December have driven US bond yields higher. Uncertainty is likely to cap a range breakout, but caution is required.
- NZGS have not outperformed during the recent run-up in yields. This still surprises us given policy divergences, and likely solid picture painted in this week's Crown Financial Statements for FY16.

MONETARY POLICY AND SHORT END

Short-end rates moved higher over the past week, taking the bellwether 2yr swap back to the top end of trading ranges. While understandable given the growing debate around the need for a second (final) OCR cut in February, let's not forget that some factors in this debate (like NZD stability, as opposed to strength) are conditional on a November cut, which is only ~65% priced in. And **despite firmer odds of a Fed hike in December, we are yet to see the BoJ or ECB back down on their "we can do more" style rhetoric. That should keep a lid on prospects of a short end capitulation higher.**

GLOBAL MARKETS AND LONG END

G10 long-end yields have risen around 15bps since the end of September, fuelled by fatigue with low yields, and a firming up of odds of a December Fed rate hike. We're still within broad trading ranges, but with yields tracking higher and the dispersion of G10 yields widening, rather than narrowing, **that does leave us a little more cautious about our yield convergence thematic.** At this stage, our sense is that it's too soon to throw in the proverbial "towel", especially with the ECB and BoJ still insistent that they have capacity (and willingness) to do more, and the NZD merely stabilising rather than going lower. Still, the lack of follow-through does deserve some thought.

We are also mindful that **even if G10 yields do stabilise (or drift higher), NZGS are likely to be under less upward pressure.** Global yields are higher; that is a fact. But the global scene remains uncertain, and New Zealand's credentials remain strong from a growth and credit perspective. New Zealand's net international investment position (IIP) remains an Achilles heel. However, New Zealand's **current account deficit has yet to deteriorate** (as expected by many, though we are watching credit growth closely). **Financial conditions and confidence suggest GDP growth will track up towards 4%. Another OCR cut remains likely. And to top it off, this week's Crown Financial Statements are likely to reveal a decent picture overall.** These are real feathers in the cap for NZGS, and while we are less certain than we were a few weeks ago that long-end yields are going lower, we do believe **the NZ/US 10yr spread (now ~77bps) should narrow**, capping outright upside.

STRATEGY

Investors: We favour holding on to received November OIS trades, but are cautious about other short-end positions. We prefer to be long NZGS on a spread rather than outright, and would rather be long duration in NZ than in other markets.

Borrowers: Watching and waiting is still our favoured strategy. Rates are higher, but we're not inclined to see this as the beginning of the end. With BKBM also biased lower, we favour options.

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral	Increasingly starting to question a second OCR cut; on balance one is likely, but market not convinced.
Long end	Mildly bullish	Market becoming fatigued with low yields, but stresses aplenty, and NZ/US spread has scope to narrow.
Yield Curve	Neutral	Mild scope to flatten given spread view and still low inflation, but risk of a breakout can't be ignored.
Geographic spreads	Neutral/ Narrower	NZ/US spread has been disappointing, make no mistake. But we expect this week's CFS to assist, as will the implications strong growth has for the NZD. Not yet ready to abandon yield convergence theme.
Swap spreads	Neutral	NZGS demand still decent and long end of curve too steep. Corporate payers still cautious.
NZD/TWI	Holding up	Unlikely to roll over until growth slows, or the OCR goes much lower. Will rally if RBNZ doesn't cut again.

CURRENCY STRATEGY

SUMMARY

We are coy about jumping on a weaker NZD band-wagon despite it giving up gains of late. We view recent moves as more corrective. While a number of global factors have the potential to accentuate this correction – namely the US Fed in play, potential for risk appetites to wane (somewhat at odds with the Fed hiking, though possibly a consequence too!), and signs of swivelling from monetary to fiscal policy stimulus – these all face challenges becoming concrete themes. Until we see such a clear new theme emerge, we remain biased towards NZD strength being maintained.

TABLE 1: KEY VIEWS			
CROSS	**GUIDE**	**MONTH**	**YEAR**
NZD/USD	↔	Struggles >0.73 but still has support	USD likely to firm once Fed hikes
NZD/AUD	↔	Lacks upside follow-through	0.93-0.98 range
NZD/EUR	↔/↑	Yield gap massive	NZ growth fillip
NZD/GBP	↔/↑	Brexit realities weigh	More a GBP story
NZD/JPY	↔/↑	Threats of lower rates capping JPY	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- Global yields are nudging higher and the yield convergence theme is being tested.
- With monetary policy pushing on a string, more attention is turning to fiscal policy, though some central banks continue to push scope for monetary policy to do more.
- GBP weakness on a firm Brexit reinforces that politics and populism matter. Ignore at your peril!
- The New Zealand economy is showing signs of accelerating rather than levelling out.
- USD stronger, but is that enough to curb easy Japan/Europe policy? BoJ/ECB rhetoric says no.
- NZD stability has been a boon for the RBNZ, but it is partly predicated on another cut being delivered.

ASSESSMENT

Does the break of the NZD to the downside signal more to come? Global yields have pushed higher, dragging NZ rates higher too and the **odds of a rate cut by the RBNZ (65%) are now looking light relative to the Bank's August projections.** A cut – as per its central scenario and allure of more – would likely offer further NZD weakness.

While respectful of the price action, we are coy about jumping on a weaker NZD bandwagon.

- The local growth portrait remains strong; good news across the economy continues to be printed with 3½-4% growth on offer. That's hardly NZD bearish. The market should be questioning why the RBNZ needs to keep cutting rates, but it can't get too far ahead of itself. Ask yourself, what would happen if the RBNZ didn't cut in November?
- The rationale for initial NZD weakness (#1) and USD strength (the Fed lifting rates) is well known and close to fully priced in.
- The rationale for further NZD weakness (#2), namely a shift to even weaker growth globally and rising risk aversion, is absent. We see plenty of risks but not a full-blown event. Brexit price action shows that markets can move fast though.
- The rationale (#3), namely a shift more towards more fiscal stimulus and less monetary equivalent (which winds down the liquidity-driven mantra and carry trade) faces challenges (as noted in the Economics section above).
- China continues to undertake its economic transition in an orderly fashion, which is helping commodity prices (though some still face clear supply-demand imbalances).

For now we would categorise the NZD move as not much more than corrective. The NZD on a TWI basis was lower than current levels two months ago.

So while we can see potential for a number of new thematics to emerge over the coming months, they all face challenges being cemented. This leaves us **biased towards maintaining a cautious yet elevated view towards the NZD.**

TABLE 2: NZD VS AUD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔	Fair value is higher (PPP moved 6 cents in NZ's favour in 5 yrs)
Yield	↔/↑	Yield gap to persist in NZ's favour
Commodities	↔	Weaker dairy; weaker iron ore
Data	↔/↑	NZ growth tipped to 3½-4.0%
Techs	↔/↓	Break through 0.95 sustained
Sentiment	↔	Consolidating after rapid fall
Other	↔/↓	Market not keen to test parity
On balance	↔	**A break of 200d ma at 0.9335 would be a problem…**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	**GUIDE**	**COMMENT**
Fair value	↔/↓	>FV but supported by local data
Yield	↔	A pillar of support, but flagging
Commodities	↔/↓	Dairy consolidating after recent gains
Risk aversion	↔/↓	The NZD's main Achilles' heel
Data	↔/↑	US pulse ho-hum. NZ strong
Techs	↔/↓	Market getting fatigued >0.73
Other	↔	Stability predicated on Nov RBNZ OCR cut. If no cut, NZD would rally
On balance	↔	**Less supportive, not negative.**

POSITIONING

NZD positioning remains short, while USD and AUD longs have increased, lifting **the odds of NZD/USD and NZD/AUD short squeezes.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
10-Oct	NZ	ANZ Monthly Inflation Gauge – Sep	--	0.1%	13:00
	AU	Foreign Reserves - Sep	--	A$63.0B	18:30
	GE	Trade Balance - Aug	€19.5B	€19.5B	19:00
	GE	Current Account Balance - Aug	€15.0B	€18.6B	19:00
	GE	Exports SA MoM - Aug	2.2%	-2.6%	19:00
	GE	Imports SA MoM - Aug	0.7%	-0.7%	19:00
	EC	Sentix Investor Confidence - Oct	6.0	5.6	21:30
	NZ	REINZ House Sales YoY - Sep	--	-3.1%	10-14 Oct
	CH	New Yuan Loans CNY - Sep	1000.0B	948.7B	10-15 Oct
	CH	Aggregate Financing CNY - Sep	1390.0B	1469.7B	10-15 Oct
	CH	Money Supply M0 YoY - Sep	7.3%	7.4%	10-15 Oct
	CH	Money Supply M1 YoY - Sep	24.5%	25.3%	10-15 Oct
	CH	Money Supply M2 YoY - Sep	11.6%	11.4%	10-15 Oct
11-Oct	NZ	Card Spending Retail MoM - Sep	0.8%	-0.4%	10:45
	NZ	Card Spending Total MoM - Sep	--	-0.8%	10:45
	AU	ANZ-RM Consumer Confidence Index - 9-Oct	--	117.9	11:30
	JN	BoP Current Account Balance - Aug	¥1502.7B	¥1938.2B	12:50
	JN	BoP Current Account Adjusted - Aug	¥1570.3B	¥1447.8B	10:00
	JN	Trade Balance BoP Basis - Aug	¥116.5B	¥613.9B	12:50
	AU	NAB Business Conditions - Sep	--	7	13:30
	AU	NAB Business Confidence - Sep	--	6	13:30
	AU	Home Loans MoM - Aug	-1.5%	-4.2%	13:30
	AU	Investment Lending - Aug	--	0.5%	13:30
	AU	Owner-Occupier Loan Value MoM - Aug	--	-3.1%	13:30
	GE	ZEW Survey Current Situation - Oct	55.5	55.1	22:00
	GE	ZEW Survey Expectations - Oct	4.0	0.5	22:00
	EC	ZEW Survey Expectations - Oct	--	5.4	22:00
	US	NFIB Small Business Optimism - Sep	95	94.4	23:00
	AU	HIA House Affordability Index - 3Q	--	78.7	UNSPECIFIED
12-Oct	US	Labor Market Conditions Index Change - Sep	--	-0.7	03:00
	AU	Westpac Consumer Conf Index - Oct	--	101.4	12:30
	AU	Westpac Consumer Conf SA MoM - Oct	--	0.3%	12:30
	JN	Machine Orders MoM	-4.6%	4.9%	12:50
	JN	Machine Orders YoY - Aug	7.9%	5.2%	12:50
	AU	Credit Card Purchases - Aug	--	A$23.6B	13:30
	AU	Credit Card Balances - Aug	--	A$51.3B	13:30
	GE	Wholesale Price Index MoM - Sep	--	-0.7%	19:00
	GE	Wholesale Price Index YoY - Sep	--	-1.2%	19:00
	JN	Machine Tool Orders YoY - Sep P	--	-8.4%	19:00
	EC	Industrial Production SA MoM - Aug	1.5%	-1.1%	22:00
	EC	Industrial Production WDA YoY - Aug	1.0%	-0.5%	22:00
	US	Monthly Budget Statement - Sep	$29.3B	--	12-15 Oct
13-Oct	US	MBA Mortgage Applications - 7-Oct	--	2.9%	00:00
	US	JOLTS Job Openings - Aug	5800	5871	03:00
	US	Fed Minutes from Sept. 20-21 FOMC Meeting	--	--	07:00
	NZ	ANZ Job Advertisements MoM - Sep	--	3.1%	10:00
	NZ	BusinessNZ Manufacturing PMI - Sep	--	55.1	10:30
	NZ	Food Prices MoM - Sep	--	1.3%	10:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
13-Oct	UK	RICS House Price Balance - Sep	14%	12%	12:01
	AU	Consumer Inflation Expectation - Oct	--	3.3%	13:00
	NZ	ANZ Consumer Confidence Index - Oct	--	121	13:00
	NZ	ANZ Consumer Confidence MoM - Oct	--	2.8%	13:00
	GE	CPI MoM - Sep F	0.1%	0.1%	19:00
	GE	CPI YoY - Sep F	0.7%	0.7%	19:00
	GE	CPI EU Harmonized MoM - Sep F	0.0%	0.0%	19:00
	GE	CPI EU Harmonized YoY - Sep F	0.5%	0.5%	19:00
	CH	Trade Balance - Sep	$53.00B	$52.05B	UNSPECIFIED
	CH	Exports YoY - Sep	-3.3%	-2.8%	UNSPECIFIED
	CH	Imports YoY - Sep	0.7%	1.5%	UNSPECIFIED
14-Oct	US	Import Price Index MoM - Sep	0.1%	-0.2%	01:30
	US	Import Price Index YoY - Sep	-1.1%	-2.2%	01:30
	US	Initial Jobless Claims - 8-Oct	253k	249k	01:30
	US	Continuing Claims - 1-Oct	--	2058k	01:30
	JN	PPI MoM - Sep	-0.1%	-0.3%	12:50
	JN	PPI YoY - Sep	-3.2%	-3.6%	12:50
	CH	CPI YoY - Sep	1.6%	1.3%	14:30
	CH	PPI YoY	-0.3%	-0.8%	14:30
	UK	Construction Output SA MoM - Aug	0.0%	0.0%	21:30
	UK	Construction Output SA YoY	1.2%	-1.5%	21:30
	EC	Trade Balance SA - Aug	€20.4B	€20.0B	22:00
	EC	Trade Balance NSA - Aug	€15.3B	€25.3B	22:00
15-Oct	US	Retail Sales Advance MoM - Sep	0.6%	-0.3%	01:30
	US	Retail Sales Ex Auto MoM - Sep	0.5%	-0.1%	01:30
	US	Retail Sales Ex Auto and Gas - Sep	0.3%	-0.1%	01:30
	US	Retail Sales Control Group - Sep	0.3%	-0.1%	01:30
	US	PPI Final Demand MoM - Sep	0.2%	0.0%	01:30
	US	PPI Final Demand YoY - Sep	0.6%	0.0%	01:30
	US	PPI Ex Food and Energy MoM - Sep	0.1%	0.1%	01:30
	US	PPI Ex Food and Energy YoY - Sep	1.2%	1.0%	01:30
	US	PPI Ex Food, Energy, Trade MoM - Sep	0.1%	0.3%	01:30
	US	PPI Ex Food, Energy, Trade YoY - Sep	--	1.2%	01:30
	US	Business Inventories - Aug	0.1%	0.0%	03:00
	US	U. of Mich. Sentiment - Oct P	92.0	91.2	03:00

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

LOCAL DATA WATCH

Domestic economic momentum is solid, with downside risks mainly stemming from offshore. But with inflation low and the NZD high, our base case is for OCR cuts in November and early 2017, taking the OCR to 1.5%.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 10 Oct (1.00pm)	ANZ Monthly Inflation Gauge – Sep	--	--
10-14 Oct	REINZ Housing Market Statistics – Sep	Cooling?	The latest data hinted at a cooling in house price growth. We'll see if that cooling is maintained.
Tue 11 Oct (10:45am)	Electronic Card Transactions – Sep	Recovery	We are not overly alarmed by the drop in spending in August. We expect a bounce-back, with the underlying trend remaining decent.
Thu 13 Oct (10:00am)	ANZ Job Ads – Sep	--	--
Thu 13 Oct (10:30am)	BNZ-BusinessNZ PMI – Sep		Despite currency and global headwinds, the manufacturing sector continues to benefit from a strong domestic economy.
Thu 13 Oct (10:45am)	Food Price Index – Sep	Retrace	Due to seasonality (and some retracement from August's lift) we expect a small fall in food prices in the month.
Thu 13 Oct (1:00pm)	ANZ Roy Morgan Consumer Confidence – Oct	--	--
Thu 13 Oct (1:00pm)	Government Full-Year Financial Statements – FY16	Surplus	In line with Budget forecasts, a small underlying fiscal surplus should be recorded. Together with relatively low net debt, a decent fiscal picture relative to many will be on show.
Mon 17 Oct (10:30am)	BNZ-BusinessNZ PSI – Sep	Off highs	The index has softened off its highs, perhaps related to the latest LVR restrictions. But we don't see it falling far.
Tue 18 Oct (10:45am)	CPI – Q3	+0.1% q/q	A reduction in ACC levies and lower petrol prices are the main drags, while housing-related inflation should again make a decent contribution.
Wed 19 Oct (early am)	GlobalDairyTrade Auction	Modestly softer	Following some solid gains, we wouldn't be surprised to see some modest cooling over the next few auctions.
Fri 21 Oct (10:45am)	International Travel & Migration – Sep	More of the same	Large net migrant inflows should continue and we expect the underlying trend in visitor arrivals to also remain strong.
Thu 27 Oct (10:45am)	Overseas Merchandise Trade – Sep	Deficit	Low carryover inventory for dairy and red meat, as well as lower new season production, should weigh on export values.
Mon 31 Oct (10:45am)	Building Consents Issued – Sep	Positive trend	Issuance has been volatile lately, but we still be a positive underlying trend will continue
Mon 31 Oct (1:00pm)	ANZ Business Outlook – Oct	--	--
Mon 31 Oct (3:00pm)	RBNZ Credit Aggregates – Sep	Close to a peak	New mortgage lending growth has started to slow and that should eventually filter through to a slower growth rate of overall credit.
Wed 2 Nov (10:45am)	Labour Market Statistics – Q3	Lots of uncertainty	Following last quarter's methodological changes, there is significant uncertainty with the Q3 figures. We expect a pull-back in employment growth, but it is unclear how much.
Wed 2 Nov (3:00pm)	RBNZ Survey of Expectations – Q4	Downside risk	Other surveyed measures have eased of late and that is where we see the risk skewed for the 2-year ahead measure.
Thu 3 Nov (1:00pm)	ANZ Commodity Price Index – Oct	--	--
On balance		**Data watch**	**Momentum is increasing at present, albeit with risks. Inflation remains low.**

KEY FORECASTS AND RATES

	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
GDP (% qoq)	0.9	**0.6**	**1.1**	**1.0**	**0.7**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% yoy)	3.6	**3.4**	**3.6**	**3.6**	**3.3**	**3.4**	**2.9**	**2.5**	**2.4**	**2.2**
CPI (% qoq)	0.4	**0.1**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.5**	**0.8**
CPI (% yoy)	0.4	**0.2**	**0.7**	**1.1**	**1.0**	**1.6**	**1.7**	**1.8**	**2.0**	**2.1**
Employment (% qoq)	2.4	**-0.4**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**
Employment (% yoy)	4.5	**4.3**	**4.0**	**3.1**	**1.1**	**1.9**	**1.7**	**1.6**	**1.6**	**1.5**
Unemployment Rate (% sa)	5.1	**5.1**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**	**4.8**	**4.6**	**4.6**
Current Account (% GDP)	-2.9	**-3.0**	**-3.0**	**-3.2**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**	**-3.3**
Terms of Trade (% qoq)	-2.1	**-0.9**	**0.5**	**0.9**	**1.1**	**0.8**	**0.6**	**0.3**	**0.4**	**0.0**
Terms of Trade (% yoy)	-3.9	**-1.0**	**1.6**	**-1.6**	**1.6**	**3.4**	**3.5**	**2.8**	**2.2**	**1.3**

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16
Retail ECT (% mom)	0.1	0.3	0.8	0.1	0.8	-0.2	1.1	0.2	-0.4	--
Retail ECT (% yoy)	6.6	5.2	9.2	6.2	7.8	3.3	6.8	5.8	3.7	--
Credit Card Billings (% mom)	-0.8	1.7	-0.3	-1.1	2.2	0.2	-0.8	2.4	-1.4	--
Credit Card Billings (% yoy)	7.4	8.1	7.3	5.0	9.0	6.1	4.1	5.6	1.9	--
Car Registrations (% mom)	3.1	-2.8	5.7	-3.8	6.3	-3.7	-1.0	-0.4	2.1	-2.7
Car Registrations (% yoy)	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	-0.8
Building Consents (% mom)	2.6	-8.0	10.5	-9.5	7.6	-0.2	19.8	-8.2	-1.0	--
Building Consents (% yoy)	17.6	5.1	27.0	0.3	13.6	10.2	40.0	7.9	12.1	--
REINZ House Price Index (% yoy)	12.6	10.7	11.9	13.3	14.5	14.7	14.2	16.3	11.7	--
Household Lending Growth (% mom)	0.6	0.6	0.6	0.6	0.8	0.8	0.8	0.8	0.8	--
Household Lending Growth (% yoy)	7.4	7.5	7.6	7.7	7.9	8.1	8.3	8.6	8.7	--
ANZ Roy Morgan Consumer Conf.	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2	117.7	121.0
ANZ Business Confidence	23.0	..	7.1	3.2	6.2	11.3	20.2	16.0	15.5	27.9
ANZ Own Activity Outlook	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4	33.7	42.4
Trade Balance ($m)	-42	12	367	189	350	343	107	-351	-1265	--
Trade Bal ($m ann)	52510	52764	52831	52599	52626	52854	52660	52077	51929	--
ANZ World Commodity Price Index (% mom)	-1.8	-2.3	0.5	-1.3	-0.8	1.0	3.5	2.1	3.2	5.1
ANZ World Comm. Price Index (% yoy)	-12.9	-14.7	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	10.6
Net Migration (sa)	5510	6080	5990	5340	5490	5550	5700	5620	5600	--
Net Migration (ann)	64930	65911	67391	67619	68110	68432	69090	69015	69119	--
ANZ Heavy Traffic Index (% mom)	2.8	-4.3	1.7	3.3	-2.5	-2.4	5.2	-6.2	6.8	-1.4
ANZ Light Traffic Index (% mom)	0.9	-1.4	2.4	0.8	0.3	-1.6	2.6	-0.5	1.0	0.4

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	Aug-16	Sep-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZD/USD	0.725	0.729	0.717	0.71	0.69	0.67	0.65	0.64	0.64	0.65
NZD/AUD	0.964	0.951	0.944	0.93	0.93	0.93	0.93	0.94	0.89	0.88
NZD/EUR	0.650	0.649	0.641	0.66	0.66	0.64	0.62	0.60	0.57	0.58
NZD/JPY	74.85	73.84	73.96	74.6	69.0	67.0	65.0	64.0	67.2	71.5
NZD/GBP	0.552	0.562	0.577	0.57	0.56	0.54	0.51	0.48	0.46	0.46
NZ$ TWI	75.9	75.7	76.8	75.4	73.7	72.1	70.1	68.9	67.5	68.5
INTEREST RATES	Aug-16	Sep-16	Today	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
NZ OCR	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.28	2.20	2.19	2.00	1.80	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.24	2.27	2.49	2.30	2.20	2.20	2.30	2.40	2.60	2.70
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	0.84	0.85	0.88	0.93	0.93	1.30	1.30	1.55	1.55	1.80
AU Cash Rate	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.74	1.74	1.73	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	7 Sep	3 Oct	4 Oct	5 Oct	6 Oct	7 Oct
Official Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.23	2.21	2.20	2.20	2.19	2.18
NZGB 03/19	1.82	1.91	1.94	1.95	1.97	1.95
NZGB 05/21	1.86	1.96	2.01	2.05	2.07	2.07
NZGB 04/23	1.97	2.07	2.13	2.18	2.23	2.23
NZGB 04/27	2.24	2.31	2.39	2.47	2.50	2.50
2 year swap	1.99	2.01	2.04	2.06	2.08	2.09
5 year swap	2.10	2.15	2.19	2.22	2.25	2.26
RBNZ TWI	78.53	77.24	77.60	76.66	76.44	76.53
NZD/USD	0.7469	0.7283	0.7285	0.7175	0.7164	0.7156
NZD/AUD	0.9727	0.9487	0.9503	0.9430	0.9440	0.9438
NZD/JPY	75.89	73.81	74.61	74.00	74.21	73.69
NZD/GBP	0.5582	0.5653	0.5707	0.5639	0.5638	0.5755
NZD/EUR	0.6640	0.6480	0.6520	0.6393	0.6403	0.6389
AUD/USD	0.7679	0.7677	0.7666	0.7609	0.7589	0.7582
EUR/USD	1.1248	1.1240	1.1174	1.1223	1.1189	1.1201
USD/JPY	101.60	101.34	102.42	103.13	103.59	102.98
GBP/USD	1.3381	1.2884	1.2765	1.2725	1.2706	1.2434
Oil (US$/bbl)	44.85	48.11	48.80	48.67	49.75	50.44
Gold (US$/oz)	1351.68	1315.68	1310.25	1274.50	1265.40	1253.95
Electricity (Haywards)	4.69	6.15	5.60	4.49	5.19	6.09
Baltic Dry Freight Index	773	864	860	869	915	921
NZX WMP Futures (US$/t)	2870	2780	2775	2750	2750	2750

IMPORTANT NOTICE

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