ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

26 September 2016

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UNCONVENTIONAL TIMES

ECONOMIC OVERVIEW

Conventional monetary policy drivers argue for no further OCR cuts. But these aren't conventional times. Global deflationary forces, NZD strength, migration challenges and shifts in the bank funding backdrop (increased deposit competition) are all altering the monetary policy playbook. As such, the OCR is going lower unless either domestic inflation pressures emerge (and quickly), the NZD falls (but for positive global growth reasons, not the opposite) or housing thumbs its nose at the latest LVR restrictions. All seem unlikely, at least in the near term; hence the RBNZ will remain on its signalled easing path. This week, we will be watching for further signs of cooling (off strong rates) in new lending growth, while our September Business Outlook will provide a signal on how growth and inflation are tracking into the final part of the year.

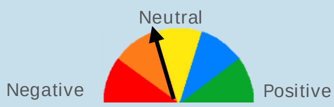
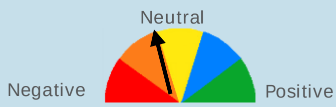
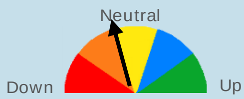
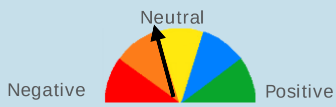
INTEREST RATE STRATEGY

Short-end interest rates have done their dash for now and look fairly priced with 80% odds of an OCR cut factored in for November. While we're strategically bullish and ultimately expect short-end rates to hone in on a 1.5% OCR, the post-OCR Review adjustment looks complete and we see no immediate catalyst for further downside. Long-end rates have also corrected lower, but they have significantly more potential to continue grinding down, with the Fed on hold until December and hiking only gradually thereafter, sombre growth keeping longer-term yields contained, and the NZ/US bond spread on track for further compression on month-end demand related to index duration extensions. NZGS have been remarkable under-performers of late, and we expect the RBNZ's reiteration of its easing bias to underscore the value inherent in them, particularly from a carry perspective.

CURRENCY STRATEGY

We're not getting overly excited by the NZD's mild retracement. With the market now effectively fully priced for a November RBNZ cut, and domestic data not expected to wilt in tone, downside looks limited. The canary remains the global scene. Our expectation that the global economy will remain in 'muddle-through mode' augurs well for the NZD's credentials standing strong and supporting NZD dips. NZD/AUD has retraced sharply lower, but like the broader currency picture, we expect downside to be limited.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.1% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to generally continue. Downside risk mainly stems from offshore.	
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.	
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.	
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.	

ECONOMIC OVERVIEW

SUMMARY

Conventional monetary policy drivers argue for no further OCR cuts. But these aren't conventional times. Global deflationary forces, NZD strength, migration challenges and shifts in the bank funding backdrop (increased deposit competition) are all altering the monetary policy playbook. As such, the OCR is going lower unless either domestic inflation pressures emerge (and quickly), the NZD falls (but for positive global growth reasons, not the opposite) or housing thumbs its nose at the latest LVR restrictions. All seem unlikely, at least in the near term; hence the RBNZ will remain on its signalled easing path. This week, we will be watching for further signs of cooling (off strong rates) in new lending growth, while our September *Business Outlook* will provide a signal on how growth and inflation are tracking into the final part of the year.

FORTHCOMING EVENTS

RBNZ New Mortgage Lending – August (3:00pm, Monday, 26 September). Tighter bank lending criteria are likely to see the growth rate of new mortgage lending ease off its erstwhile strong pace.

Building Consents Issued – August (10:45am, Friday, 30 September). Issuance has been volatile recently, but we expect a modestly positive trend to remain.

ANZ Business Outlook – September (1:00pm, Friday, 30 September).

RBNZ Credit Aggregates – August (3:00pm, Friday, 30 September). New lending growth is set to slow, which will eventually flow through into the rate of growth in the overall stock of credit.

WHAT'S THE VIEW?

As expected, the RBNZ played with a straight bat last week. Its statement was little changed from August, but that was hardly a surprise. In the past six weeks or so, little has really changed in terms of the forces shaping the domestic monetary policy outlook. It is still an environment shaped by tensions between strong domestic growth, housing concerns, the fragile global scene, the elevated NZD and low inflation and inflation expectations.

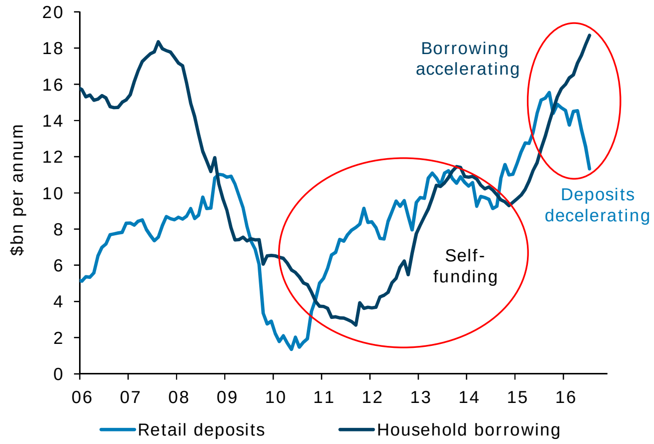
Whereas the conventional policy playbook (above-trend growth, output gap, housing and labour market) argues for no change in the OCR, these are unconventional times.

- **The NZD is battering tradable inflation lower.** Yes the NZD is stretched valuation-wise, but in the 'muddle through' world that we still appear to be in, the New Zealand economy continues to stand head and shoulders above many. The NZD reflects that. You can't plausibly say it's not justified by the economic fundamentals when growth is 3.6% and the current account deficit is stable at 2.9% of GDP (though expected to deteriorate a touch).
- **Inflation remains low and the reads from our Monthly Inflation Gauge (a measure of domestic prices only) continue to flag something of a structural shift.**
- **The global scene is disinflationary and has been so for some years now.** Few central banks are seeing inflation. Growth is sub-par.
- **The high NZD and resulting weak tradable inflation are more of an issue than they would normally be because inflation has been persistently low.** While there is conjecture about how to measure inflation expectations, short-term measures are below the RBNZ's target mid-point, and some survey-based measures have fallen further of late.
- **Migration remains strong and has thrown two spanners into the works:** it is suppressing normal labour market dynamics but accelerating housing pressures. This is presenting alternative challenges for monetary policy (and politicians).
- **The economy also now has more of a natural constraint with borrowing rates at current levels.** That may not seem entirely obvious at first blush, but the fact is you can't cut the OCR and expect borrowing rates to slavishly follow suit in a nation that still has a shortage of savings (current account deficit). The gap between credit and deposit growth continues to widen, which is not sustainable. Due to a combination of experience, regulatory changes, higher costs, and the closer attention rating agencies are paying to external accounts, banks are less able (and willing) to fund offshore as they did in the pre-GFC era. From a macro stability viewpoint it's not in New Zealand's interests to see the external debt position (which has fallen from over 80% of GDP to 2008 to less than 60% now) go back up, which a widening funding gap would drive. Competition for domestic retail deposits is therefore intensifying and so relative prices cannot continue to favour borrowers; the ledger needs to be re-tilted. So while the OCR can fall, it doesn't necessarily follow that borrowing rates will too. That at least gives the RBNZ some comfort that cutting the OCR is not necessarily going to inflame the housing market further. The kicker though is that (necessary) slower credit

ECONOMIC OVERVIEW

growth risks becoming an impediment to growth in 2017. Either that or the current account deficit widens. We think we'll see more of the former.

FIGURE 1: BANK FUNDING AND CLAIMS GROWTH



Source: ANZ, RBNZ

The above is a combo that will likely bring the RBNZ back to the rate-cutting table (our forecast remains 25bp cuts apiece in November and February), unless:

1. **Domestic inflation turns up.** Conventional signals are certainly there (above-trend growth, harder-to-find labour, elevated capacity utilisation, construction costs etc), but outside of perhaps housing, broader domestic inflation pressures have remained contained as the traditional Phillips Curve type relationship has softened. But tensions are there that could start to bubble away again.

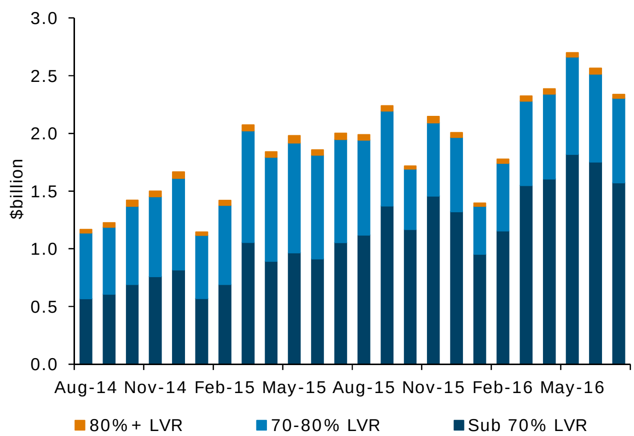
2. **The NZD falls, but for 'good' reasons.** A few weeks back we talked about the global growth 'bell curve' and how it was the tail scenarios that we thought would see the NZD fall meaningfully. Obviously a negative global event driving the NZD lower would likely see the RBNZ respond with lower rates too. But if the converse developed and global growth started to show sustained improvement and global central banks felt less pressure to ease (and the Fed more reasons to tighten), some of the factors seeing the NZD outperform at present would begin to look less exceptional.

3. **The housing market thumbs its nose at the latest round of macro-prudential restrictions.** Housing is certainly still a concern for the RBNZ from a financial stability perspective, and while the RBNZ believes "recent macro-prudential measures and tighter credit conditions in recent weeks are having a moderating influence" (which we generally agree with), the market could quite easily turn higher again as it has done numerous time in the past – particularly with borrowing costs so low and net migrant inflows still strong.

None of these scenarios appear on the cards, at least in the near-term. Our Monthly Inflation Gauge is still pointing to benign domestic pressures outside of housing and we are still far more inclined towards a negative global event sending the NZD lower than a strong one. The housing market remains more of a wild card, but recent data has hinted at softening and anecdotes are along those lines too, so it would likely be a while before there was any evidence to the contrary. And financial institutions are playing ball, operating within the spirit of the RBNZ's new LVR regime. So perhaps outside of a dramatic upwards surprise in the Q3 CPI figures (due mid-October), it is still an environment – given NZD strength, global fragilities and bank funding pressures – where the OCR is biased lower.

The domestic data calendar is dominated by the usual month-end releases this week. First up this afternoon are new mortgage lending figures for August. We expect further signs of cooling (off strong rates). In July, new lending was strong, at $6.3bn, although the pace of growth has started to soften. Compared with a year ago, new lending in July was up just 5% vis-à-vis the 18% annual growth experienced over May and June. New investor lending continued to grow strongly (making up 37% of total new lending), but at 17% y/y, it was also softer than the close to 40% annual growth experienced over earlier months. Clearly with banks largely enforcing the RBNZ's new LVR restrictions, and also modestly tightening criteria for other segments, we expect to see further softening in new lending to investors within the August data. That should see overall new lending growth continue to cool as well.

FIGURE 2: NEW INVESTOR LENDING BY LVR



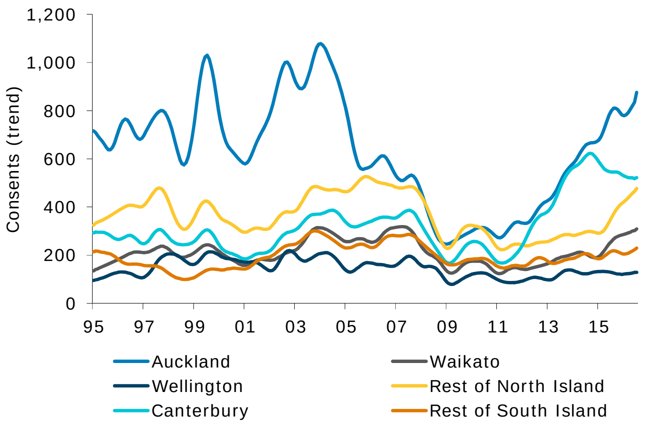
Source: ANZ, RBNZ

ECONOMIC OVERVIEW

These new lending figures will then set the scene for broader RBNZ credit growth data released later in the week. While likely to still be strong, we also expect to see some signs of cooling here. On a three month annualised basis, household credit was running at a strong 9.3% pace in July. That is not a rate of growth that we see as sustainable, particularly with income growing closer to 4½% and the household debt-to-income ratio already at all-time highs of 165%. But a slowing in credit growth towards that income growth pace still seems a little way off just yet. More broadly, other sectoral elements of credit growth are running at far more modest rates (agriculture and business lending growth at 3.1% and 6.2% 3-month annualised pace respectively) and that is a story we generally expect to continue.

Building consent issuance has been volatile recently, but we expect a modestly positive trend to remain. Dwelling consent issuance fell 11% in July after rising 22% in June. A further fall in August wouldn't necessarily surprise us, but given relative price signals, ongoing demographic pressures and clear policymaker desire to boost supply, we expect a positive underlying trend to continue for some time yet. Together with the recent strength in non-residential consent issuance (which we also expect to continue), we certainly don't believe the construction sector is anywhere near done contributing positively to GDP growth, even though we are mindful of capacity constraints. Despite being only 6% of GDP in a direct sense, the sector has contributed 0.7%pts to the economy's 3.6% overall growth rate over the past 12 months.

FIGURE 3: MONTHLY TREND DWELLING CONSENT ISSUANCE

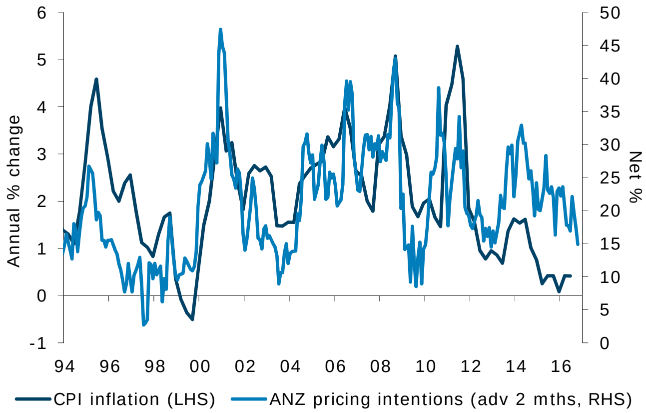


Source: ANZ, Statistics NZ

Finally, our *Business Outlook* survey will provide a timely update on economic momentum heading into the latter part of the year. After dipping earlier in the year, no doubt related to global concerns and dairy sector strains, headline business confidence stabilised at an improved level in August. More importantly, firms' own activity, employment and investment expectations continue to portray a 'just get on with it' attitude, which is then corresponding with a decent pace of domestic growth momentum. The September figures will show whether or now that has continued.

What the September survey will also highlight is whether there has been any shift in the pricing side of the economy. In August, despite decent growth signals, firms' pricing intentions fell to a four-year low of +15, with one-year inflation expectations also historically low at just 1.4%.

FIGURE 4: CPI VS ANZBO PRICING INTENTIONS



Source: ANZ, Statistics NZ

LOCAL DATA

GlobalDairyTrade Auction. The GDT-TWI posted a 1.7% increase, with wholemilk powder prices dipping 0.2%.

International Travel & Migration – August. In seasonally adjusted terms, a net inflow of 5,600 migrants was recorded, with visitor arrivals dipping 1.9% m/m off record levels.

RBNZ OCR Review. The RBNZ left the OCR on hold at 2.0%, but the Bank still believes that "our current projections and assumptions indicate that further policy easing will be required to ensure that inflation settles near the middle of the target range".

Overseas Merchandise Trade – August. A trade deficit of $1,265m was recorded driven by lower livestock exports and higher imports of vehicles and consumer goods.

INTEREST RATE STRATEGY

SUMMARY

Short-end interest rates have done their dash for now and look fairly priced with 80% odds of an OCR cut factored in for November. While we're strategically bullish and ultimately expect short-end rates to hone in on a 1.5% OCR, the post-OCR Review adjustment looks complete and we see no immediate catalyst for further downside. Long-end rates have also corrected lower, but they have significantly more potential to continue grinding down, with the Fed on hold until December and hiking only gradually thereafter, sombre growth keeping longer-term yields contained, and the NZ/US bond spread on track for further compression on month-end demand related to index duration extensions. NZGS have been remarkable under-performers of late, and we expect the RBNZ's reiteration of its easing bias to underscore the value inherent in them, particularly from a carry perspective.

THEMES

- The RBNZ's reiteration that its "projections and assumptions indicate that further policy easing will be required" will keep a lid on short-end yields, but are insufficient to drive odds of a November cut past 80% just yet, or cement a February cut. Nonetheless, we expect both as the currency frustrates the inflation profile.
- Global policy remains supportive of lower bond yields, with the Fed on hold until at least December and the eventual pace of tightening very gradual. The Bank of Japan's new "curve control" policy will keep a floor under 10yr JGB yields, but will drive short-end yields even lower. This will fuel an offshore search for yield, which will benefit NZGS.
- Index extensions will add around a third of a year to target durations for many investors at month end, fuelling solid buying, continuing the theme evident in last week's NZGS tender.

MONETARY POLICY AND SHORT END

Last week's OCR Review saved the market from capitulation, **reaffirming that more easing is required if the Bank's assumptions prove correct**. As we discuss on page 2, we still expect two more OCR cuts before the cycle is out. Given market expectations of a terminal OCR of ~1.65%, **all else equal this suggests the short end has scope to go lower.**

However, now that the market has corrected lower, and **with the next *MPS* six weeks away – and key Q3 CPI data still three weeks away – we see limited impetus for the market to take odds of a November cut beyond 80% at this stage. That leaves us tactically neutral.**

GLOBAL MARKETS AND LONG END

Last week we noted that we thought the correction higher in long-term yields was reflective more of positioning / central bank wariness than growth and inflation fundamentals, viewing last week as a key test. In the event, **our view looks to have been validated by the FOMC's downward revisions to its 'dot-plots' projections, mediocre growth forecasts and cautious tone** with regard to the overall pace of tightening in coming years. Market nervousness over what the BoJ might do has also been appeased somewhat. While the BoJ has said it doesn't want to see 10-year bond yields fall below zero, it has kept the volume of its bond buying unchanged. This should drive short-end yields lower, encouraging investors to seek duration and offshore bonds.

For local rates, the stand-out driver this week will be buying on the back of index extensions, **with target durations for many investors on track to lift by around a third of a year.** Against the backdrop of recent NZGS under-performance, and US rates / contained / biased lower, **we expect NZGS to perform strongly in coming weeks, taking outright yields on the benchmark 4/27 back to nearer 2%.** Carry on NZGS remains very high, and now that the Fed has soothed the market, we expect the search for yield to resume. With expected returns on the (admittedly much longer) 4/37 bond close to 4% (or around 1.3% higher than 20-year US Treasuries), New Zealand will be a key target market.

STRATEGY

Investors: We favour holding on to received positions at the short end instigated prior to last week's OCR Review, but this is a slow-burn trade. We see more immediate prospects for **outright long-end yields to fall, and for the curve to flatten.**

Borrowers: No change. Watching and waiting is still our favoured strategy. The awaited correction lower in swap rates has commenced. With BKBM also biased lower, we favour options.

KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral	Strategically bullish given prospect of two more cuts, but tactically neutral now that Nov is 80% priced in.
Long end	Bullish	UST yields biased lower on dovish Fed and flagging US data pulse; NZGS demand strong; spread to narrow.
Yield Curve	Flatter	By-product of disparate short/long-end views; fuelled by month-end buying and spread-narrowing potential.
Geographic spreads	Neutral/ Narrower	NZ/US spread elevated, slow grind lower beckons. More difficult to narrow given bullish UST bias & NZ's low beta, but offset by NZ index buying. NZ still the standout G10 market; yield convergence still in play.
Swap spreads	Neutral	NZGS demand strong; index buying is coming this week. Easing bias will keep corporate payers away.
NZD/TWI	Holding up	We expect the TWI to hold up; unlikely to roll over until growth slows and the OCR goes much lower.

CURRENCY STRATEGY

SUMMARY

We're not getting overly excited by the NZD's mild retracement. With the market now effectively fully priced for a November RBNZ cut, and domestic data not expected to wilt in tone, downside looks limited. The canary remains the global scene. Our expectation that the global economy will remain in 'muddle-through mode' augurs well for the NZD's credentials standing strong and supporting NZD dips. NZD/AUD has retraced sharply lower, but like the broader currency picture, we expect downside to be limited.

TABLE 1: KEY VIEWS			
CROSS	GUIDE	MONTH	YEAR
NZD/USD	↑/↓	Buy on dips still the theme	Firmer USD to be an eventual 'saviour'
NZD/AUD	↔	Position squeeze?	0.93-0.98 range
NZD/EUR	↔/↑	Yield gap massive	NZ better
NZD/GBP	↔	Post-Brexit stability	Fully priced. Toppy.
NZD/JPY	↔/↑	BoJ wants yen lower but may not win	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- Fed looks odds-on to hike in December but cautious enough not to get the US dollar bulls too excited or rattle markets.
- RBNZ reminds markets a November cut remains likely; market pricing firms from 60% odds to 80%. That looks a tad underdone but right in spirit.
- Currency divergence driving interest rate convergence remains an overarching theme.
- Yield curve control the new cab off the rank from the BoJ. It raises more questions than answers.
- Economic data continues to signal robust growth for the New Zealand economy.
- Political nuances remain fractured with Germany's Merkel losing her fourth regional election.

ASSESSMENT

We're not getting overly excited by the mild retracement in the NZD despite it looking heavy as we start the week. Some of this pull-back looks technical. The Fed has delivered nothing really new; a hike still looks odds-on. Market pricing towards a cut by the RBNZ in November has firmed slightly. Net on net it's enough to recoil from highs after a solid push up.

The broader picture is unchanged:

- Our bond ladder / yield convergence / currency divergence thematic remains in play.
- Domestic growth prospects remain strong. When (if) this changes, we'll take a more cautious stance towards the NZD.
- Financial conditions are not flagging an imminent turn in the local growth cycle so it's hard to say the NZD is not backed by fundamentals. We note the RBNZ implicitly appeared to cave somewhat last week by removing the reference to the currency making it difficult to meet its inflation objective.
- We continue to see the global economy in muddle-through mode, which reinforces the attractiveness of the NZD's credentials in the form of yield + growth + political stability.

Price action needs to be respected but for now we remain in 'buy the dip' mode, alert to the potential for a thematic shift.

The carry on offer remains sufficient to offset currency risks when it is being matched by stability and growth. But this is where the mix of growth and implications for the current account picture needs to be watched – we note today's trade figures were weak, with import growth buoyed by a strong local economy.

Candidates for a substantial NZD push lower include the **global scene** driving risk appetites south and commodities with it; **a rising funding gap** getting attention (read: the current account); a **more aggressive RBNZ easing cycle** (the market is pricing in 1½ further cuts at present, in line with the RBNZ's view) **or a turn in the local economy**. We can assign probabilities to each but **none are high enough to warrant a shift in our assessment towards the NZD.** A turn still looks a 2017 story and not 2016.

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 5yrs)
Yield	↔/↑	Yield gap won't close until Feb
Commodities	↔/↓	Iron ore bounce lends AUD a hand
Data	↔/↑	Still going NZ's way
Techs	↔	Support at 0.9330
Sentiment	↔/↓	Rapid fall has sapped confidence
Other	↔/↓	Positioning short squeeze on cards
On balance	↔	**Needs to consolidate. A break of 0.9330 would be a problem.**

TABLE 3: NZD VS USD: MONTHLY GAUGES		
GAUGE	GUIDE	COMMENT
Fair value	↔/↓	>FV but supported by local data
Yield	↔	A key pillar of the NZD's support
Commodities	↔/↑	GDT up, albeit smalls
Risk aversion	↔/↓	The NZD's main Achilles Heel
Data	↔/↑	Pulse still robust
Techs	↔/↑	Good support in low 0.72s
Other	↔	Sitting on 50day MA. Needs to hold
On balance	↔	**Next few days a litmus test for sentiment.**

POSITIONING

NZD positioning has switched to short, as has overall 'carry' currency positioning. All else equal, **that increases the odds of a short squeeze, especially against the more neutrally positioned AUD.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Sep	GE	IFO Business Climate - Sep	106.3	106.2	21:00
	GE	IFO Current Assessment - Sep	112.9	112.8	21:00
	GE	IFO Expectations - Sep	100.1	100.1	21:00
	UK	BBA Loans for House Purchase - Aug	37100	37662	21:30
27-Sep	US	New Home Sales - Aug	600k	654k	03:00
	US	New Home Sales MoM - Aug	-8.3%	12.4%	03:00
	US	Dallas Fed Manf. Activity - Sep	-3.0	-6.2	03:30
	AU	ANZ-RM Consumer Confidence Index - 25-Sep	--	115.5	12:30
	CH	Industrial Profits YoY - Aug	--	11.0%	14:30
	GE	Import Price Index MoM - Aug	-0.1%	0.1%	19:00
	GE	Import Price Index YoY - Aug	-2.5%	-3.8%	19:00
	EC	M3 Money Supply YoY - Aug	4.9%	4.8%	21:00
	UK	CBI Retailing Reported Sales - Sep	5.0	9.0	23:00
	UK	CBI Total Dist. Reported Sales - Sep	--	17.0	23:00
28-Sep	US	S&P CoreLogic CS 20-City MoM SA - Jul	0.00%	-0.07%	02:00
	US	S&P CoreLogic CS 20-City YoY NSA - Jul	5.10%	5.13%	02:00
	US	Markit Services PMI - Sep P	51.2	51.0	02:45
	US	Markit Composite PMI - Sep P	--	51.5	02:45
	US	Consumer Confidence Index - Sep	98.8	101.1	03:00
	US	Richmond Fed Manufact. Index - Sep	-2.0	-11.0	03:00
	CH	Westpac-MNI Consumer Sentiment - Sep	--	111.5	14:45
	GE	GfK Consumer Confidence - Oct	10.2	10.2	19:00
29-Sep	US	MBA Mortgage Applications - 23-Sep	--	-7.3%	00:00
	US	Durable Goods Orders - Aug P	-1.5%	4.4%	01:30
	US	Durables Ex Transportation - Aug P	-0.5%	1.3%	01:30
	US	Cap Goods Orders Nondef Ex Air - Aug P	-0.1%	1.5%	01:30
	US	Cap Goods Ship Nondef Ex Air - Aug P	0.1%	-0.5%	01:30
	AU	Job vacancies - Aug	--	-1.90%	14:30
	GE	Unemployment Change (000's) - Sep	-5k	-7k	20:55
	GE	Unemployment Claims Rate SA - Sep	6.1%	6.1%	20:55
	UK	Net Consumer Credit - Aug	£1.4B	£1.2B	21:30
	UK	Net Lending Sec. on Dwellings - Aug	£2.6B	£2.7B	21:30
	UK	Mortgage Approvals - Aug	60.2k	60.9k	21:30
	UK	Money Supply M4 MoM - Aug	--	1.2%	21:30
	UK	M4 Money Supply YoY - Aug	--	3.9%	21:30
	UK	M4 Ex IOFCs 3M Annualised - Aug	--	14.7%	21:30
	EC	Economic Confidence - Sep	103.5	103.5	22:00
	EC	Business Climate Indicator - Sep	0.05	0.02	22:00
	EC	Industrial Confidence - Sep	-4.2	-4.4	22:00
	EC	Services Confidence - Sep	10.0	10.0	22:00
	EC	Consumer Confidence - Sep F	-8.2	-8.2	22:00
30-Sep	GE	CPI MoM - Sep P	0.0%	0.0%	01:00
	GE	CPI YoY - Sep P	0.6%	0.4%	01:00
	GE	CPI EU Harmonized MoM - Sep P	0.0%	-0.1%	01:00
	GE	CPI EU Harmonized YoY - Sep P	0.5%	0.3%	01:00
	US	Advance Goods Trade Balance - Aug	-$62.3B	-$58.8B	01:30
	US	Wholesale Inventories MoM - Aug P	0.0%	0.0%	01:30
	US	GDP Annualized QoQ - Q2 T	1.3%	1.1%	01:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
30-Sep	US	Personal Consumption - Q2 T	4.4%	4.4%	01:30
	US	GDP Price Index - Q2 T	2.3%	2.3%	01:30
	US	Core PCE QoQ - Q2 T	1.8%	1.8%	01:30
	US	Initial Jobless Claims - 24-Sep	260k	252k	01:30
	US	Continuing Claims - 17-Sep	--	2113k	01:30
	US	Pending Home Sales MoM - Aug	0.0%	1.3%	03:00
	US	Pending Home Sales NSA YoY - Aug	--	-2.2%	03:00
	NZ	Building Permits MoM - Aug	--	-10.5%	10:45
	UK	GfK Consumer Confidence - Sep	-5	-7	12:01
	JN	Natl CPI YoY - Aug	-0.5%	-0.4%	12:30
	JN	Natl CPI Ex Fresh Food YoY - Aug	-0.4%	-0.5%	12:30
	JN	Natl CPI Ex Food, Energy YoY - Aug	0.2%	0.3%	12:30
	JN	Tokyo CPI YoY - Sep	-0.5%	-0.5%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Sep	-0.4%	-0.4%	12:30
	JN	Tokyo CPI Ex Food, Energy YoY - Sep	0.0%	0.1%	12:30
	NZ	ANZ Activity Outlook - Sep	--	33.7	13:00
	NZ	ANZ Business Confidence - Sep	--	15.5	13:00
	AU	HIA New Home Sales MoM - Aug	--	-9.7%	14:00
	AU	Private Sector Credit MoM - Aug	0.5%	0.4%	14:30
	AU	Private Sector Credit YoY - Aug	5.9%	6.0%	14:30
	CH	Caixin PMI Mfg - Sep	50.1	50.0	14:45
	NZ	Money Supply M3 YoY - Aug	--	6.3%	15:00
	GE	Retail Sales MoM - Aug	-0.3%	0.6%	19:00
	GE	Retail Sales YoY - Aug	1.7%	-1.5%	19:00
	UK	Nationwide House PX MoM - Sep	0.3%	0.6%	19:00
	UK	Nationwide House Px NSA YoY - Sep	5.0%	5.6%	19:00
	UK	GDP QoQ - Q2 F	0.6%	0.6%	21:30
	UK	GDP YoY - Q2 F	2.2%	2.2%	21:30
	UK	Current Account Balance - Q2	-£30.6B	-£32.6B	21:30
	UK	Index of Services MoM - Jul	0.1%	0.2%	21:30
	UK	Index of Services 3M/3M - Jul	0.3%	0.5%	21:30
	UK	Total Business Investment QoQ - Q2 F	0.5%	0.5%	21:30
	UK	Total Business Investment YoY - Q2 F	-0.8%	-0.8%	21:30
	EC	Unemployment Rate - Aug	10.0%	10.1%	22:00
	EC	CPI Estimate YoY - Sep	0.4%	--	22:00
	EC	CPI Core YoY - Sep A	0.9%	0.8%	22:00
	CH	BoP Current Account Balance - Q2 F	--	$59.4B	UNSPECIFIED
1-Oct	US	Personal Income - Aug	0.2%	0.4%	01:30
	US	Personal Spending - Aug	0.1%	0.3%	01:30
	US	PCE Deflator MoM - Aug	0.2%	0.0%	01:30
	US	PCE Deflator YoY - Aug	0.9%	0.8%	01:30
	US	PCE Core MoM - Aug	0.2%	0.1%	01:30
	US	PCE Core YoY - Aug	1.7%	1.6%	01:30
	US	Chicago Purchasing Manager - Sep	52.0	51.5	02:45
	US	U. of Mich. Sentiment - Sep F	90.0	89.8	03:00
	CH	Manufacturing PMI - Sep	50.5	50.4	14:00
	CH	Non-manufacturing PMI - Sep	--	53.5	14:00

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 26 Sep (3:00pm)	RBNZ New Residential Mortgage Lending – Aug	Cooling off highs	Tighter bank lending criteria are likely to see the rate of new lending growth ease off its current strong pace.
Fri 30 Sep (10:45am)	Building Consents Issued – Aug	Positive trend	Issuance has swung about somewhat of late, but we expect a modestly positive trend to remain.
Fri 30 Sep (1:00pm)	ANZ Business Outlook – Sep	--	--
Fri 30 Sep (3:00pm)	RBNZ Credit Aggregates – Aug	Strong	New lending growth is set to slow, which will eventually flow through into the rate of growth in the overall stock of credit.
Tue 4 Oct (10:00am)	NZIER QSBO – Q3	Decent	Overall business sentiment should be strong, with firms continuing to signal a desire to hire and invest. Increasing capacity pressures should be evident too.
Wed 5 Oct (early am)	GlobalDairyTrade Auction	Can they be maintained?	Key is whether recent price gains can be maintained beyond the preferential free-trade window with China closing around Oct.
Wed 5 Oct (1:00pm)	ANZ Commodity Price Index – Sep	--	--
Thu 6 Oct (10:00am)	ANZ Truckometer – Sep	--	--
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	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.
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	--	--
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.
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.
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**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	3.6	**3.3**	**3.5**	**3.5**	**3.1**	**3.2**	**2.8**	**2.6**	**2.6**	**2.6**
CPI (% qoq)	0.4	**0.1**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.7**	**0.7**
CPI (% yoy)	0.4	**0.2**	**0.7**	**1.1**	**1.0**	**1.6**	**1.7**	**1.8**	**1.8**	**1.8**
Employment (% qoq)	2.4	**-0.4**	**0.6**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	4.5	**4.3**	**4.0**	**3.1**	**1.1**	**1.9**	**1.7**	**1.6**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.1	**5.1**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**	**4.8**	**4.8**	**4.8**
Current Account (% GDP)	-2.9	**-3.0**	**-2.9**	**-3.2**	**-3.3**	**-3.2**	**-3.0**	**-2.9**	**-2.9**	**-2.9**
Terms of Trade (% qoq)	-2.1	**-0.9**	**0.5**	**0.9**	**1.3**	**1.9**	**1.8**	**0.9**	**0.9**	**0.9**
Terms of Trade (% yoy)	-3.9	**-1.0**	**1.6**	**-1.6**	**1.8**	**4.7**	**6.0**	**6.0**	**6.0**	**6.0**

	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)	3.0	-2.8	5.7	-3.8	6.4	-3.7	-0.9	-0.3	2.1	--
Car Registrations (% yoy)	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	-1.9	2.6	--
Building Consents (% mom)	2.7	-8.3	10.7	-9.4	6.9	-0.2	21.9	-10.5	--	--
Building Consents (% yoy)	17.8	4.9	26.9	0.7	12.8	10.1	41.0	7.3	--	--
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	0.9	--	--
Household Lending Growth (% yoy)	7.4	7.5	7.6	7.7	7.9	8.1	8.3	8.6	--	--
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	--
ANZ Own Activity Outlook	34.4	..	25.5	29.4	32.1	30.4	35.1	31.4	33.7	--
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	--
ANZ World Comm. Price Index (% yoy)	-12.9	-14.7	-17.8	-22.4	-16.8	-11.7	-5.6	1.9	11.1	--
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	-2.5	4.1	-5.3	6.7	--
ANZ Light Traffic Index (% mom)	0.9	-1.4	2.4	0.8	0.3	-1.6	2.5	-0.5	1.0	--

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	Jul-16	Aug-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.720	0.725	0.723	0.73	0.71	0.69	0.67	0.65	0.64	0.64
NZD/AUD	0.948	0.964	0.949	0.95	0.93	0.93	0.93	0.93	0.94	0.89
NZD/EUR	0.644	0.650	0.644	0.68	0.68	0.66	0.63	0.59	0.58	0.57
NZD/JPY	73.47	74.82	73.03	76.7	74.6	69.0	67.0	65.0	64.0	67.2
NZD/GBP	0.544	0.552	0.558	0.57	0.57	0.56	0.54	0.49	0.47	0.46
NZ$ TWI	75.0	75.9	77.0	77.0	75.8	73.7	71.5	69.0	68.3	67.5
INTEREST RATES	Jul-16	Aug-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50
NZ 90 day bill	2.28	2.28	2.20	2.20	2.00	1.80	1.80	1.80	1.80	1.80
NZ 10-yr bond	2.21	2.24	2.39	2.10	1.90	2.10	2.00	2.30	2.30	2.60
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	0.76	0.84	0.85	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.86	1.74	1.74	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	23 Aug	19 Sep	20 Sep	21 Sep	22 Sep	23 Sep
Official Cash Rate	2.00	2.00	2.00	2.00	2.00	2.00
90 day bank bill	2.23	2.23	2.24	2.22	2.22	2.23
NZGB 03/19	1.77	1.96	1.97	1.97	1.91	1.88
NZGB 05/21	1.78	2.09	2.11	2.11	2.03	1.98
NZGB 04/23	1.94	2.24	2.26	2.27	2.18	2.12
NZGB 04/27	2.25	2.57	2.60	2.60	2.47	2.38
2 year swap	1.99	2.09	2.11	2.10	2.04	2.02
5 year swap	2.11	2.26	2.27	2.28	2.19	2.17
RBNZ TWI	77.34	77.97	78.09	78.11	77.99	77.41
NZD/USD	0.7309	0.7309	0.7341	0.7329	0.7322	0.7242
NZD/AUD	0.9574	0.9690	0.9728	0.9647	0.9560	0.9500
NZD/JPY	73.29	74.43	74.81	74.35	73.77	73.16
NZD/GBP	0.5558	0.5600	0.5660	0.5639	0.5609	0.5585
NZD/EUR	0.6449	0.6549	0.6566	0.6575	0.6517	0.6451
AUD/USD	0.7634	0.7543	0.7546	0.7597	0.7659	0.7623
EUR/USD	1.1333	1.1161	1.1180	1.1147	1.1235	1.1226
USD/JPY	100.27	101.83	101.91	101.45	100.75	101.02
GBP/USD	1.3150	1.3051	1.2969	1.2998	1.3053	1.2966
Oil (US$/bbl)	46.80	43.04	43.34	43.85	45.33	46.10
Gold (US$/oz)	1338.50	1315.30	1316.25	1311.10	1333.45	1334.94
Electricity (Haywards)	5.37	5.93	6.29	7.17	6.31	5.79
Baltic Dry Freight Index	692	836	865	903	937	941
NZX WMP Futures (US$/t)	2870	2900	2960	3000	2960	2960

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