

# NEW ZEALAND ECONOMICS MARKET FOCUS

13 February 2017

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## WHEN IN DOUBT, DO NOWT

### ECONOMIC OVERVIEW

The RBNZ effectively punted the ball out of the stadium, such was its 'kick for touch' on the notion of the OCR moving up any time soon. That's sensible in the current environment. Over time, and as the economy increasingly butts up against capacity pressures, it will be a view that faces some tests, but not until we get more evidence that inflation is actually emerging (rather than just threatening to). Recent history has taught us that the RBNZ is right to be sceptical and cautious on that front. Our focus will be on the likes of our Inflation Gauge, wage growth, the global backdrop, and of course the trajectory of the NZD. In data this week, Q4 retail spending figures are likely to have been boosted by car sales, while annual house price growth should have continued to moderate. Soft indicators such as consumer confidence will help gauge the economic pulse in early 2017.

### INTEREST RATE STRATEGY

Short-end rates remain a lot higher than the RBNZ's very neutral projections, with pressure for that wedge to narrow. But with further cuts unlikely and the tenor of data to remain strong, there is limited scope for them to go too far, although some mild adjustment lower is nonetheless on the cards. Long-end rates did ease lower last week (fuelled by extreme short US Treasury bond positioning), but were saved from full capitulation by Trump's promises that "phenomenal" tax plans are pending. Having avoided a break through key technical levels, US long-end rates now look to have based, biasing local rates upward, with scope for a steeper curve underscored by short-end rates adjusting lower. Linker breakevens have come in ahead of expected supply, with the window for syndication of the new 2040 bond now "open" (in terms of the calendar being free of key events).

### CURRENCY STRATEGY

The RBNZ played it straight down the middle last week – disappointing a market erring towards a hat-tip to the hawks. This has knocked the NZD lower but we're not expecting too much more follow through. Solid economic data will keep the market toying with a rise in the OCR in the coming year, as opposed to siding with the RBNZ's 2019 view. Until we see a clear change in economic direction, or a turn in the global liquidity cycle, dips are going to be shallow.

### THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.2% y/y for 2017 Q3	The economy is recording decent momentum, and we expect that to generally continue at least over the first part of 2017. Downside risk mainly stems from offshore.	
Unemployment rate	4.7% for 2017 Q3	We are looking through the Q4 lift in the unemployment rate. Job ads firmly point lower. Finding staff is a huge challenge for firms.	
OCR	1.75% by Sep 2017	With strong growth, capacity pressures emerging and inflation past its lows, further OCR cuts would now be hard to justify. Next move is up.	
CPI	1.9% y/y for 2017 Q3	Headline inflation is past its lows, with base effects seeing it return to the target mid-point early next year. Domestic and core inflation should also gradually lift.	

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## FORTHCOMING EVENTS

**REINZ Housing Market Statistics – January** (9:30am, Tuesday 14 February). The housing market has cooled from its strong mid-2016 pace. We expect turnover to stabilise around this cooler level, but annual house price growth to continue to ease.

**Food Price Index – January** (10:45am, Tuesday, 14 February). While some indicators point to higher future food price inflation, price growth looks set to stay low in the near term.

**ANZ-Roy Morgan Consumer Confidence – February** (1:00pm, Thursday, 16 February).

**Government Financial Statements – January** (10:00am, Friday, 17 February). The strong domestic economy should continue to see tax revenue run ahead of forecasts.

**BNZ-BusinessNZ PMI – January** (10:30am, Friday, 17 February). The manufacturing sector continues to perform relatively well, riding on the coat-tails of a strong domestic economy.

**Retail Trade Survey – Q4** (10:45am, Friday, 17 February). We have pencilled in a 1.2% q/q lift in spending volumes, boosted by car sales. However, core sales volumes are expected to have been more modest.

**BNZ-BusinessNZ PSI – January** (10:30am, Monday, 20 February). While some pull-back is possible, we see the services sector's outperformance continuing for a while yet.

**PPI – Q4** (10:45am, Monday, 20 February). With commodity and consumer prices lifting, producer prices shouldn't be too far behind. We expect ~1% q/q increases in input and output prices.

## WHAT'S THE VIEW?

**There is a long-running joke about economists;** if you need them to take a firm view on something, chop off one of their hands. Otherwise all you will hear is 'on the one hand... and on the other'.

**That two-handedness was clearly on display from the RBNZ last week.** Just about every statement made was heavily caveated. The Bank noted that the domestic economy is strong but financial conditions have tightened; global prospects have improved, but risks remain skewed to the downside; inflation should rise, but only gradually; further easing to get inflation up faster would risk unnecessary economic volatility, but hiking early would risk snuffing out the signs that inflation is finally picking up. There were many other examples. Even its two alternative scenarios were effectively mirror images of one another.

**So it was a case of wherever you looked, the RBNZ's main objective was to come across as balanced as possible.** Or in the words of Governor Wheeler: "very neutral". It doesn't get much clearer than that! And while its OCR projections do technically show interest rates rising from late 2019, in our minds that is far enough into the future to not be able to really draw much in the way of messaging from it.

**The RBNZ is obviously in no hurry to change the OCR.** And it shouldn't be either, given the two false starts since 2009. The Bank still sees an outlook containing numerous uncertainties, whether that is with the state of the global economy and US fiscal plans, or domestically re how households are behaving or how capacity pressures could affect inflation. Assistant Governor McDermott provided a nice glimpse into how the RBNZ is thinking about this uncertainty, effectively stating at the press conference that 'when in doubt, do nowt'.

**Our own view – of a hike in mid-2018 – now sits between the views of the market (erring towards something in late 2017 / early 2018), and that of the RBNZ.** Over the past month or so we have discussed the sympathy we had towards a market testing the prospects of hikes later this year. The economic case has been building, with continued strong activity growth, intensifying capacity pressures, rising underlying inflation locally and evidence of a turn in the global inflation cycle. Yet at the same time it's hard to ignore NZD strength, rising mortgage and deposit rates, and RBNZ caution more generally (in part due to leadership changes but also previous policy reversals). And of course an absence of inflation pressure beyond petrol and housing.

## ECONOMIC OVERVIEW

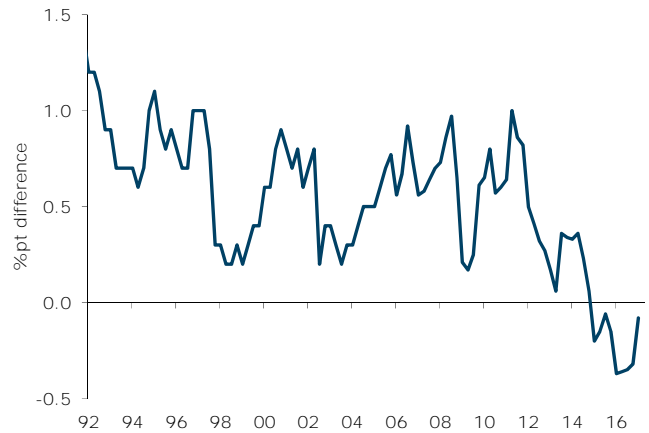
**We're still comfortable backing 2018 for a hike for now; 2019 just seems too far off.**

**We're a little more upbeat on inflation than the RBNZ is.** Certainly, we don't see headline inflation returning to 2% until early 2018. But the RBNZ doesn't see that occurring until 2019, meaningfully downgrading its tradable inflation numbers on the back of NZD strength. Now to be fair, there might be an element of 'signal versus substance' in the RBNZ's projection, ie an attempt to jawbone the NZD lower by implicitly reminding the market that the NZD remains an important input into its monetary policy deliberations. But it is also likely to reflect the hesitation the RBNZ has regarding the inflation outlook more generally, given it has continued to surprise on the downside. And that's fair enough.

**The onus is therefore on inflation to turn up at the economic party; the OCR is not going to be moving up in anticipation of a visit.** Two false tightening starts mean inflation needs to be firmly ensconced. So for us, the things we will be watching particularly closely in this regard will be:

- **Our Monthly Inflation Gauge:** It is more of a concurrent measure than leading one, but with its more frequent reads it has proven to provide a timely and accurate signal on domestic inflationary trends.
- **The globe:** Like in New Zealand, global headline inflation rates have risen. But the 'peak' impact on annual inflation from the lift in oil prices is probably not too far away. Therefore the more important question is whether or not core measures of inflation show sustained signs of lifting. The jury is still out on that.
- **The NZD:** It almost goes without saying, but the RBNZ's latest inflation forecast downgrade fully reflects the latest NZD strength. It does appear that the RBNZ is a little uncomfortable with a TWI above roughly the 78 level. The trouble is, it is hard to see the NZD falling much below that, given New Zealand's economic credentials.
- **Wage growth:** We suspect the RBNZ will not truly believe the labour market has become 'tight' until wage growth begins to accelerate. That's coming going by the strength of job ads.
- **Inflation expectations:** The RBNZ will welcome the latest lift in its own two-year ahead survey measure. But at 1.9%, this is still not at the target mid-point, and we suspect it will need to sit at that level or higher for a while before the RBNZ's concerns over persistently low inflation expectations are allayed.

**FIGURE 1: EXPECTED (2-YEAR) INFLATION EXPECTATIONS LESS TARGET MIDPOINT**



Source: ANZ, RBNZ

**We expect all of the above watch-points to eventually give a stronger signal on the inflation outlook as the year progresses.** The RBNZ seems a little more cautious, preferring to be reactionary, waiting for upside surprises, than proactive, as it has arguably been in the past. Given traditional inflation forecast models (ours included) have made huge forecast errors, this is only sensible.

**Turning to this week's data calendar, strong car sales are expected to support overall retail sales volumes once again in Q4.** By our estimates, seasonally adjusted car registrations rose by close to 11% over the December quarter, and another strong contribution from this sector would certainly be consistent with anecdotes received. Car sales rose by 2.9% q/q and 3.4% q/q in Q2 and Q3 respectively. Given the large share of motor vehicle sales in overall retail spending, we have pencilled in a decent 1.2% q/q lift in overall retail sales volumes in the quarter, which would follow growth of 0.9% q/q in Q3.

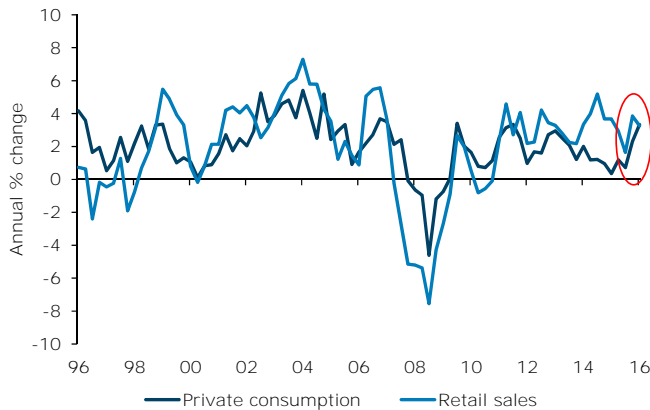
**And this strong overall sales growth would be consistent with the elevated levels of confidence consumers are reporting.** Our ANZ-Roy Morgan Consumer Confidence measure showed households generally ended 2016 in good heart, and the index actually rose further in January, to its highest level since April 2015. The figures for February are released this week and will provide a timely reading on the economic pulse for 2017.

**But beyond that, we are still expecting Q4 spending figures to be relatively modest.** The value of core ECT sales rose by only 0.6% over the quarter, which happens to be the softest quarterly growth since the middle of 2015. And while it will (at least in part) reflect ongoing competitive price behaviour in the retail sector (lower prices), it does also speak to households showing a degree of

## ECONOMIC OVERVIEW

spending restraint (outside of car sales of course), which remains a key assumption of ours (and the RBNZ's) looking towards prospects for 2017.

**FIGURE 2: PER CAPITA SPENDING GROWTH**



Source: ANZ, Statistics NZ

**REINZ housing market figures should remain consistent with a cooler market.** Since August, nationwide turnover has fallen by close to 11% (it is actually down nearly 20% since April), with this softness reasonably broad-based across the country. And as a share of the housing stock, turnover is actually at its lowest level since late 2014 (on a three month average basis). We suspect that turnover could stabilise at this lower level, but we do believe that annual house price growth will continue to soften over the months ahead. Our preferred measure, the REINZ Stratified House Price Index, was still running at 14% y/y in December. However, in many ways that reflects base effects. On a three-month annualised basis, price growth is running at just 4.3%, and unless monthly price growth accelerates sharply from here (which we can't really see happening), then the annual growth measures will trend towards that.

**FIGURE 3: REINZ HOUSE PRICES AND TURNOVER**



Source: ANZ, REINZ

**The Government's monthly financial statements for the six months to December should continue to run ahead of forecasts.** In November, the OBEGAL deficit was a massive \$936m smaller than expected. Now there are some technicalities relating to this given that the Half-year Update included estimated costs associated with the Kaikoura earthquake that haven't been able to be accounted for in the monthly fiscal numbers yet, so core Crown expenses are running a little behind forecast as a result. But more importantly, tax revenue is close to \$500m ahead of expectations and it is hard to think, given the strong economy, that that gap is about to close.

**Finally, the BusinessNZ manufacturing and services activity measures round out the data week. We'd be surprised if they showed anything other than a decent activity message.** Ironically, the local manufacturing PMI has eased over recent months at the same time as global PMI indices have increased (the JP Morgan Global PMI sat at 52.7 in January, the equal-highest since early 2014). However, at 54.5, the local measure is still pointing to reasonable outperformance and we believe that will remain the case for some time yet. Conversely, the PSI at 58.4 has accelerated and is at a 12-month high. While a turn in the credit cycle could have some influence, again we are not expecting much in the way of change in this solid picture.

**LOCAL DATA**

**RBNZ Survey of Expectations – Q1.** One and two-year ahead inflation expectations rose to 1.56% and 1.92% respectively.

#### LOCAL DATA

**GlobalDairyTrade Auction.** The GDT-TWI rose 1.3%, with an average winning price of US\$3,537/tonne.

**ANZ Truckometer – January.** The Heavy and Light Traffic Indexes fell 0.8% m/m and 0.5% m/m respectively.

**ANZ Monthly Inflation Gauge – January.** The Gauge rose 0.5% m/m, led largely by tobacco and cigarette prices. The underlying gauge was flat.

**Building Consent Issuance – December.** Total dwelling consent issuance plunged 7.2% m/m, with a 31% m/m fall in apartment issuance contributing.

**Electronic Card Transactions – December.** Total retail spending rose 2.7% m/m, with core spending up 2.5%.

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# INTEREST RATE STRATEGY

## SUMMARY

Short-end rates remain a lot higher than the RBNZ’s very neutral projections, with pressure for that wedge to narrow. But with further cuts unlikely and the tenor of data to remain strong, there is limited scope for them to go too far, although some mild adjustment lower is nonetheless on the cards. Long-end rates did ease lower last week (fuelled by extreme short US Treasury bond positioning), but were saved from full capitulation by Trump’s promises that “phenomenal” tax plans are pending. Having avoided a break through key technical levels, US long-end rates now look to have based, biasing local rates upward, with scope for a steeper curve underscored by short-end rates adjusting lower. Linker breakevens have come in ahead of expected supply, with the window for syndication of the new 2040 bond now “open” (in terms of the calendar being free of key events).

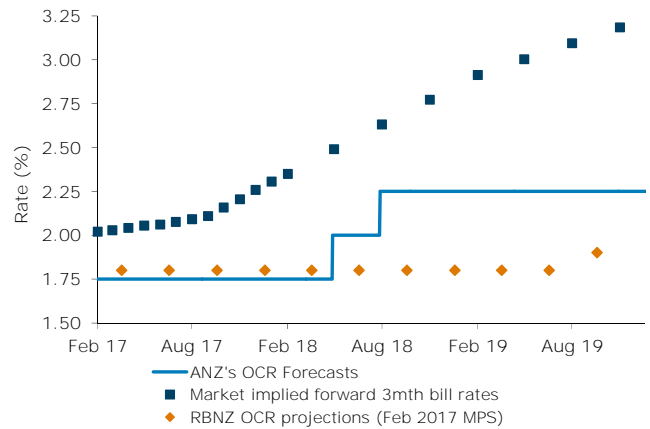
## THEMES

- Short-end rates remain elevated. While market scepticism is understandable (markets don’t do “neutral” well), rates really do need to edge 10-15bps lower. But it will be a slow grind.
- RBNZ warnings about the dangers of hiking too early need to be acknowledged by market pricing.
- Although a March Fed hike is off the table and markets are somewhat fatigued by Trump, the way markets reacted to talk of tax reform is a reminder of upside risks. Expansionary fiscal policy plans cannot be ignored by the Fed for too long.
- Linkers are in focus again, with the light event calendar opening the issuance “window” for potential 2040 syndication.

## MONETARY POLICY AND SHORT END

Last week’s MPS was very neutral, with a balanced tone, flat OCR projections, and an explicit warning of the risk of “premature” hikes. However, **the short-end remains elevated, and while it’s difficult to see rates moving much lower with cuts now off the agenda, the short-end still needs to correct lower** and iron out at least some of the “wedge” between current levels and the RBNZ’s projections (Figure 1). While markets don’t tend to be very good at “doing” end of cycle neutrality, preferring instead to extrapolate trends, some adjustment is still required.

FIGURE 1: ANZ OCR FORECASTS VERSUS IMPLIED FORWARD RATES AND RBNZ PROJECTIONS



Source: ANZ, RBNZ, Bloomberg

## GLOBAL MARKETS AND LONG END

US bond yields fell but failed to break materially lower last week. But while the reflation trade has been bogged down by widespread short positioning, **we expect yields to rise gradually over the year, taking New Zealand rates with them. However, some volatility (that has been absent of late) is expected**, particularly this week, with US CPI and Fed Chair Yellen’s testimony due. We expect a cautious yet confident tone given the strength of recent data, and fiscal overtones.

Nothing formal has been announced with regard to the planned 2040 linker syndication, but **given last week’s strong tender, the bounce in BEI’s off lows, and the light event calendar** (free of RBNZ meetings, CPI and GDP data, and FOMC meetings), **the “window” for issuance is now open.**

## STRATEGY

**Investors:** Given the lack of follow-through following the recent bond rally, **we prefer to be short duration here, positioned for steepeners.** We expect demand for the new 2040 linker to be decent.

**Borrowers:** No change. **BKBM is at a record low, but term interest rates are biased higher.** We believe it makes sense to add to hedges. But with volatility expected, we prefer to hedge on dips at pre-specified targets. Rates remain low in the context of the past quarter century of controlled inflation.

## KEY VIEWS

SECTOR	DIRECTION	COMMENT
Short end	Neutral/bullish	RBNZ MPS last week was balanced and neutral. Scope for a small corrective rally, but against the backdrop of significant mortgage paying potential, and no further cuts on the agenda, 2yr will struggle below 2.25%.
Long end	Neutral/bearish	Widespread short positioning will slow any moves higher, but we expect Yellen’s testimony this week to be cautiously confident. Volatility has been low, but will likely pick up, and we see yields higher by year-end.
Yield Curve	Steeper	Potential for more traction this week given opposing short/long end views. Positive R+C on steepeners.
Geographic spreads	Neutral/narrower	Spreads have contracted sharply over the past week, and while there will be a bias for further narrowing with UST yields biased higher, progress from here will be slow (especially given the RBNZ’s neutral tone).
Swap spreads	Neutral/wider	NZGS demand so-so; real risks lie in potential corporate flow. Pay flow slow so far, but will pick up on dips.
NZD/TWI	Holding up	TWI lower but still elevated. Does matter for inflation, buys the RBNZ time and will keep a lid on the OCR.



## CURRENCY STRATEGY

## SUMMARY

The RBNZ played it straight down the middle last week – disappointing a market erring towards a hat-tip to the hawks. This has knocked the NZD lower but we're not expecting too much more follow through. Solid economic data will keep the market toying with a rise in the OCR in the coming year, as opposed to siding with the RBNZ's 2019 view. Until we see a clear change in economic direction, or a turn in the global liquidity cycle, dips are going to be shallow.

TABLE 1: KEY VIEWS

CROSS	GUIDE	MONTH	YEAR
NZD/USD	↔	RBNZ adjustment complete. Biased up	Firmer USD bias ultimately wins.
NZD/AUD	↔	Technical breakdown	Push higher.
NZD/EUR	↔/↑	Politics not euro supportive	Huge growth/politics divide.
NZD/GBP	↔/↑	Near-term Brexit risks elevated	Brexit execution woes weighing.
NZD/JPY	↔	JPY strength re-emerging	Japan a defensive play; US strong too.

## THEMES AND RISKS

- RBNZ disappoints those looking for a hat-tip to tighter policy; it is neutral and comfortable about it. TWI strength was a reason cited.
- Big data week ahead in the US.
- Global markets continue to weigh up protectionist shifts against pro-growth rhetoric; the latter needs substance to quell rising concerns over the former.
- NZD/AUD has broken lower, but with similar themes at play for both countries' commodities, and the NZ growth outlook stronger (and rates higher) we don't expect the dip to extend.

## ASSESSMENT

The RBNZ's push against the market's buying for a hike in 2017 is a reminder of three dynamics:

- **The NZD is hugely important in determining the path for inflation.** Some may go as far to say the MCI is alive and well!
- **The RBNZ is not going to risk another false start.** Two is enough.
- **The path for inflation and the global economy remains very uncertain.**

**Such a combination is significant.** The hurdle to a rate hike is high, particularly with the elevated TWI playing chicken with the notion of tighter policy, and making it hard to meet the inflation objective.

**So the NZD finds itself on the back foot for now. But, do we think the weakness will extend? The**

**short answer is no.** Consider it in this light:

- We don't think the domestic growth picture is at a turning point;
- The same applies to commodities;
- Core and headline inflation is picking up; with that comes the bias for higher rates. The RBNZ flagged a 2019 start to the tightening cycle; that's way too far off for markets to embrace;
- Political stability is apparent;
- Fiscal credentials are strong.

**At the same time we remain attuned to the global liquidity cycle** (still supportive), political challenges across Europe (challenging, though seemingly well factored), market sentiment which continues to oscillate over US pro-growth rhetoric versus protectionist threats, and other central banks that continue to take notice of currency strength, leaving the likes of the NZD the two-bit player at the international roulette table and strong by default.

**NZD/AUD has been hit hard in the past week**, reflecting both AUD strength and NZD weakness. **While it has broken out of its up-trend, we question the sustainability of the move given the better New Zealand growth pulse**, proximity of relative inflation targets, and similar commodity price nuances. **A break below 0.9320 would, however, be a significant technical break**, potentially changing the outlook.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Fair value is 0.93.
Yield	↔	NZ yields higher, but will drift down.
Commodities	↔	Decent outlook/performance for both.
Data	↔	A quiet period ahead on the data front.
Techs	↔/↓	Has broken lower. 0.9320 support key.
Sentiment	↔/↓	Has soured somewhat.
Other	↔/↑	NZ growth pulse stronger.
<b>On balance</b>	↔	<b>We don't expect further downside.</b>

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↑	Below fair value estimate of ~0.75.
Yield	↔	NZ/US spread in from elevated levels.
Commodities	↔	Stabilising after a decent move higher.
Risk aversion	↔/↓	Has potential to add to volatility.
Data	↔	Data flow solid in both countries.
Techs	↔	Has broken lower, but decent support evident around 0.72.
Sentiment	↔/↑	Past dips have been well supported.
Other	↔	RBNZ tone has shifted market sentiment, but fundamentals still solid.
<b>On balance</b>	↔/↑	<b>How NZD behaves this week crucial. We find it difficult to be bearish.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
13-Feb	JN	GDP SA QoQ - Q4 P	0.3%	0.3%	12:50
	JN	GDP Annualized SA QoQ - Q4 P	1.1%	1.3%	12:50
	JN	GDP Deflator YoY - Q4 P	-0.2%	-0.2%	12:50
	AU	Credit Card Balances - Dec	--	A\$52.5B	13:30
	CH	Money Supply M2 YoY - Jan	11.3%	11.3%	10-15 Feb
	CH	New Yuan Loans CNY - Jan	2440.0B	1040.0B	10-15 Feb
14-Feb	NZ	REINZ House Sales YoY - Jan	--	-10.7%	09:30
	NZ	Food Prices MoM - Jan	--	-0.8%	10:45
	AU	ANZ-RM Consumer Confidence Index - 12-Feb	--	117.5	11:30
	AU	NAB Business Conditions - Jan	--	11	13:30
	AU	NAB Business Confidence - Jan	--	6	13:30
	CH	CPI YoY - Jan	2.4%	2.1%	14:30
	CH	PPI YoY - Jan	6.6%	5.5%	14:30
	GE	GDP SA QoQ - Q4 P	0.5%	0.2%	20:00
	GE	GDP WDA YoY - Q4 P	1.8%	1.7%	20:00
	GE	GDP NSA YoY - Q4 P	1.4%	1.5%	20:00
	GE	CPI YoY - Jan F	1.9%	1.9%	20:00
	GE	CPI MoM - Jan F	-0.6%	-0.6%	20:00
	GE	CPI EU Harmonized MoM - Jan F	-0.8%	-0.8%	20:00
	GE	CPI EU Harmonized YoY - Jan F	1.9%	1.9%	20:00
	UK	CPI MoM - Jan	-0.5%	0.5%	22:30
	UK	CPI YoY - Jan	1.9%	1.6%	22:30
	UK	CPI Core YoY - Jan	1.7%	1.6%	22:30
	UK	RPI MoM - Jan	-0.4%	0.6%	22:30
	UK	RPI YoY - Jan	2.8%	2.5%	22:30
	UK	PPI Input NSA MoM - Jan	1.0%	1.8%	22:30
	UK	PPI Input NSA YoY - Jan	18.5%	15.8%	22:30
	UK	PPI Output NSA MoM - Jan	0.3%	0.1%	22:30
	UK	PPI Output NSA YoY - Jan	3.2%	2.7%	22:30
	UK	PPI Output Core NSA MoM - Jan	0.3%	0.0%	22:30
	UK	PPI Output Core NSA YoY - Jan	2.2%	2.1%	22:30
	UK	House Price Index YoY - Dec	6.5%	6.7%	22:30
	EC	Industrial Production SA MoM - Dec	-1.5%	1.5%	23:00
	EC	Industrial Production WDA YoY - Dec	1.7%	3.2%	23:00
	GE	ZEW Survey Current Situation - Feb	77.0	77.3	23:00
	EC	ZEW Survey Expectations - Feb	--	23.2	23:00
	GE	ZEW Survey Expectations - Feb	15.0	16.6	23:00
	EC	GDP SA QoQ - Q4 P	0.5%	0.5%	23:00
	EC	GDP SA YoY - Q4 P	1.8%	1.8%	23:00
15-Feb	US	NFIB Small Business Optimism - Jan	104.9	105.8	00:00
	US	PPI Final Demand MoM - Jan	0.3%	0.2%	02:30
	US	PPI Final Demand YoY - Jan	1.5%	1.6%	02:30
	US	PPI Ex Food and Energy MoM - Jan	0.2%	0.1%	02:30
	US	PPI Ex Food and Energy YoY - Jan	1.1%	1.6%	02:30
	AU	Westpac Consumer Conf Index - Feb	--	97.4	12:30
	AU	New Motor Vehicle Sales MoM - Jan	--	0.3%	13:30
	UK	Claimant Count Rate - Jan	2.3%	2.3%	22:30
	UK	Jobless Claims Change - Jan	1.0k	-10.1k	22:30

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## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
15-Feb	UK	Average Weekly Earnings 3M/YoY - Dec	2.8%	2.8%	22:30
	UK	Weekly Earnings ex Bonus 3M/YoY - Dec	2.7%	2.7%	22:30
	UK	ILO Unemployment Rate 3Mths - Dec	4.8%	4.8%	22:30
	UK	Employment Change 3M/3M - Dec	22k	-9k	22:30
	EC	Trade Balance SA - Dec	€22.0B	€22.7B	23:00
	EC	Trade Balance NSA - Dec	€26.0B	€25.9B	23:00
16-Feb	US	MBA Mortgage Applications - 10-Feb	--	2.3%	01:00
	US	Empire Manufacturing - Feb	7.0	6.5	02:30
	US	CPI MoM - Jan	0.3%	0.3%	02:30
	US	CPI YoY - Jan	2.4%	2.1%	02:30
	US	CPI Ex Food and Energy MoM - Jan	0.2%	0.2%	02:30
	US	CPI Ex Food and Energy YoY - Jan	2.1%	2.2%	02:30
	US	Retail Sales Advance MoM - Jan	0.1%	0.6%	02:30
	US	Retail Sales Ex Auto MoM - Jan	0.4%	0.2%	02:30
	US	Retail Sales Ex Auto and Gas - Jan	0.3%	0.0%	02:30
	US	Retail Sales Control Group - Jan	0.3%	0.2%	02:30
	US	Industrial Production MoM - Jan	0.0%	0.8%	03:15
	US	Capacity Utilization - Jan	75.5%	75.5%	03:15
	US	NAHB Housing Market Index - Feb	67	67	04:00
	US	Business Inventories - Dec	0.4%	0.7%	04:00
	US	Net Long-term TIC Flows - Dec	--	\$30.8B	10:00
	US	Total Net TIC Flows - Dec	--	\$23.7B	10:00
	NZ	ANZ Consumer Confidence Index - Feb	--	128.7	13:00
	AU	Consumer Inflation Expectation - Feb	--	4.3%	13:00
	AU	Employment Change - Jan	10.0k	13.5k	13:30
	AU	Unemployment Rate - Jan	5.8%	5.8%	13:30
	AU	Participation Rate - Jan	64.7%	64.7%	13:30
	NZ	Non Resident Bond Holdings - Jan	--	63.2%	15:00
17-Feb	US	Housing Starts - Jan	1226k	1226k	02:30
	US	Housing Starts MoM - Jan	0.0%	11.3%	02:30
	US	Building Permits - Jan	1230k	1228k	02:30
	US	Building Permits MoM - Jan	0.200%	1.300%	02:30
	US	Initial Jobless Claims - 11-Feb	244k	234k	02:30
	US	Continuing Claims - 4-Feb	2060k	2078k	02:30
	US	Philadelphia Fed Business Outlook - Feb	18	23.6	02:30
	NZ	BusinessNZ Manufacturing PMI - Jan	--	54.5	10:30
	NZ	Retail Sales Ex Inflation QoQ - Q4	1.0%	0.9%	10:45
	EC	ECB Current Account SA - Dec	--	€36.1B	22:00
	EC	Current Account NSA - Dec	--	€40.5B	22:00
	UK	Retail Sales Ex Auto Fuel MoM - Jan	0.7%	-2.0%	22:30
	UK	Retail Sales Ex Auto Fuel YoY - Jan	3.9%	4.9%	22:30
	UK	Retail Sales Inc Auto Fuel MoM - Jan	1.0%	-1.9%	22:30
	UK	Retail Sales Inc Auto Fuel YoY - Jan	3.4%	4.3%	22:30
	US	Mortgage Delinquencies - Q4	--	4.52%	UNSPECIFIED
	US	MBA Mortgage Foreclosures - Q4	--	1.55%	UNSPECIFIED
18-Feb	US	Leading Index - Jan	0.5%	0.5%	04:00

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. With inflation showing clearer signs of lifting, the OCR is on hold, although risks of hikes later this year are non-trivial.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 14 Feb (09:30am)	REINZ Housing Market Statistics – Jan	Stabilised	The housing market has cooled from its strong mid-2016 pace. We expect it to stabilise around this cooler level.
Tue 14 Feb (10:45am)	Food Price Index – Jan	Still low	While some indicators point to higher future food price inflation, price growth looks set to stay low in the near term.
Thu 16 Feb (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Feb	--	--
Fri 17 Feb (10:00am)	Government Financial Statements – Dec	Ahead	The strong domestic economy should continue to see tax revenue run ahead of forecasts.
Fri 17 Feb (10:30am)	BNZ-BusinessNZ PMI – Jan	Holding up	The manufacturing sector continues to perform relatively well, riding on the coat-tails of a strong domestic economy.
Fri 17 Feb (10:45am)	Retail Trade Survey – Q4	Step down	Total volumes are likely to have been once again boosted by car sales. Core spending volumes should be more modest.
Mon 20 Feb (10:00am)	BNZ-BusinessNZ PSI – Jan	Decent	While some pull-back is possible, we see the services sector's outperformance continuing for a while yet.
Mon 20 Feb (10:45am)	PPI – Q4	Off lows	With commodity and consumer prices lifting, producer prices shouldn't be too far behind.
Wed 22 Feb (early am)	GlobalDairyTrade Auction	Consolidating	After some strong gains, prices look set to consolidate/ease as the near-term supply backdrop shifts.
Mon 27 Feb (10:45am)	International Travel & Migration – Jan	More of the same	Net migrant inflows remain strong and it is hard to see that changing much any time soon.
Mon 27 Feb (3:00pm)	RBNZ New Mortgage Lending – Jan	Slowing	Recent trends of slowing in overall new lending growth should have continued.
Tue 28 Feb (10:45am)	Overseas Merchandise Trade – Jan	Small surplus	A small trade surplus is expected on the back of stronger export commodity prices.
Tue 28 Feb (1:00pm)	ANZ Business Outlook – Feb	--	--
Tue 28 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Slowing	Annual credit growth is likely to keep easing off highs, while deposit growth should continue to accelerate.
Wed 1 Mar (10:45am)	Overseas Trade Indexes – Q4	Up	The terms of trade are expected to record a modest lift.
Fri 3 Mar (10:00am)	ANZ Job Ads – Feb	--	--
Fri 3 Mar (10:00am)	Government Financial Statements – Jan	Ahead	The strong domestic economy should continue to see tax revenue run ahead of forecasts.
Fri 3 Mar (1:00pm)	ANZ Commodity Price Index – Feb	--	--
Wed 8 Mar (10:00am)	ANZ Truckometer – Feb	--	--
Wed 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Looking good	While volatility associated with agricultural production can throw it around, we suspect another quarter of okay sales volumes.
Fri 10 Mar (10:45am)	Electronic Card Transactions – Feb	Respectable	Within the context of restrained household behaviour overall, spending growth should be reasonable.
<b>On balance</b>		<b>Data watch</b>	<b>Momentum is decent at present, albeit with risks. Inflation is showing tentative signs of lifting.</b>

## KEY FORECASTS AND RATES

	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
GDP (% qoq)	1.1	<b>0.7</b>	<b>0.9</b>	<b>0.8</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>
GDP (% yoy)	3.5	<b>3.2</b>	<b>3.4</b>	<b>3.5</b>	<b>3.2</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>2.2</b>	<b>2.1</b>
CPI (% qoq)	0.3	0.4	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.2</b>	<b>0.9</b>	<b>0.5</b>	<b>0.6</b>	<b>0.1</b>
CPI (% yoy)	0.4	1.3	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>	<b>1.7</b>	<b>2.1</b>	<b>2.2</b>	<b>2.2</b>	<b>2.0</b>
Employment (% qoq)	1.3	0.8	<b>0.7</b>	<b>0.6</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	6.1	5.8	<b>5.2</b>	<b>3.4</b>	<b>2.5</b>	<b>2.1</b>	<b>1.8</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>
Unemployment Rate (% sa)	4.9	5.2	<b>5.0</b>	<b>4.8</b>	<b>4.7</b>	<b>4.7</b>	<b>4.6</b>	<b>4.5</b>	<b>4.5</b>	<b>4.4</b>
Current Account (% GDP)	-2.9	<b>-2.9</b>	<b>-3.0</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-3.2</b>	<b>-3.2</b>	<b>-3.2</b>	<b>-3.2</b>	<b>-3.2</b>
Terms of Trade (% qoq)	-1.6	<b>0.5</b>	<b>0.8</b>	<b>1.0</b>	<b>0.8</b>	<b>0.6</b>	<b>0.3</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>
Terms of Trade (% yoy)	-1.6	<b>0.9</b>	<b>-2.4</b>	<b>0.6</b>	<b>3.0</b>	<b>3.2</b>	<b>2.7</b>	<b>2.1</b>	<b>1.4</b>	<b>0.8</b>

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
Retail ECT (% mom)	0.8	-0.3	1.2	0.2	-1.2	1.9	0.5	-0.1	-0.1	2.7
Retail ECT (% yoy)	7.8	3.3	6.8	5.8	3.2	6.1	4.2	5.1	5.8	5.6
Credit Card Billings (% mom)	2.8	-0.4	-0.9	2.5	-0.9	2.9	3.0	-4.2	3.1	--
Credit Card Billings (% yoy)	9.0	6.1	4.1	5.6	2.2	8.3	10.1	4.1	8.5	--
Car Registrations (% mom)	7.2	-4.3	-0.7	0.0	2.6	-4.0	12.2	3.9	-6.3	1.5
Car Registrations (% yoy)	8.7	4.2	-1.2	-1.9	2.6	-0.8	13.1	18.4	7.8	12.2
Building Consents (% mom)	7.6	-0.7	16.4	-4.5	-3.1	-0.7	1.6	-9.6	-7.2	--
Building Consents (% yoy)	13.8	10.1	39.4	8.0	11.8	14.4	13.9	1.3	-10.6	--
REINZ House Price Index (% yoy)	14.5	14.7	14.2	16.3	11.7	9.7	14.4	14.9	13.5	--
Household Lending Growth (% mom)	0.8	0.7	0.8	0.8	0.8	0.8	0.6	0.6	0.7	--
Household Lending Growth (% yoy)	7.9	8.1	8.3	8.6	8.7	8.8	8.7	8.6	8.7	--
ANZ Roy Morgan Consumer Conf.	120.0	116.2	118.9	118.2	117.7	121.0	122.9	127.2	124.5	128.7
ANZ Business Confidence	6.2	11.3	20.2	16.0	15.5	27.9	24.5	20.5	21.7	--
ANZ Own Activity Outlook	32.1	30.4	35.1	31.4	33.7	42.4	38.4	37.6	39.6	--
Trade Balance (\$m)	350	343	107	-351	-1240	-1388	-799	-746	-41	--
Trade Bal (\$m ann)	52626	52854	52660	52078	51900	51938	51944	51669	51627	--
ANZ World Commodity Price Index (% mom)	-0.8	1.0	3.5	2.1	3.2	5.1	0.7	3.2	0.7	-0.1
ANZ World Comm. Price Index (% yoy)	-16.8	-11.7	-5.6	1.9	11.1	10.6	4.0	13.6	16.5	19.1
Net Migration (sa)	5540	5600	5750	5680	5670	6330	6210	6190	6010	--
Net Migration (ann)	68110	68432	69090	69015	69119	69954	70282	70354	70588	--
ANZ Heavy Traffic Index (% mom)	-2.4	-2.5	5.3	-6.3	7.2	-2.3	-0.4	3.7	-0.1	-0.8
ANZ Light Traffic Index (% mom)	0.2	-1.4	2.7	-0.6	0.9	-1.6	-2.1	1.5	0.2	-0.5

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

## KEY FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZD/USD	0.693	0.728	0.720	0.69	0.67	0.65	0.64	0.64	0.65	0.65
NZD/AUD	0.962	0.964	0.938	0.93	0.93	0.93	0.94	0.97	0.98	0.94
NZD/EUR	0.659	0.680	0.678	0.67	0.66	0.64	0.64	0.64	0.62	0.62
NZD/JPY	81.10	82.80	81.81	79.4	77.1	74.8	73.6	73.6	74.8	74.8
NZD/GBP	0.562	0.585	0.577	0.57	0.55	0.54	0.54	0.52	0.52	0.52
NZ\$ TWI	76.1	78.3	78.6	75.6	74.1	72.5	72.1	72.4	72.5	71.8
INTEREST RATES	Dec-16	Jan-17	Today	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
NZ OCR	1.75	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
NZ 90 day bill	2.00	1.99	2.03	2.00	2.00	2.00	2.00	2.20	2.30	2.50
NZ 10-yr bond	3.33	3.37	3.20	3.60	3.70	3.80	3.90	4.00	4.10	4.30
US Fed funds	0.75	0.75	0.75	0.75	1.00	1.00	1.25	1.25	1.50	1.75
US 3-mth	1.00	1.03	1.04	1.13	1.20	1.33	1.45	1.60	1.75	2.00
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	1.82	1.77	1.77	1.70	1.70	1.70	1.70	1.70	1.70	1.70

	10 Jan	6 Feb	7 Feb	8 Feb	9 Feb	10 Feb
Official Cash Rate	1.75	1.75	1.75	1.75	1.75	1.75
90 day bank bill	1.98	1.97	1.97	1.97	2.02	2.02
NZGB 03/19	2.20	2.27	2.25	2.23	2.15	2.17
NZGB 05/21	2.57	2.71	2.65	2.61	2.51	2.54
NZGB 04/23	2.83	3.00	2.93	2.89	2.78	2.81
NZGB 04/27	3.17	3.39	3.31	3.25	3.16	3.20
2 year swap	2.39	2.41	2.42	2.40	2.33	2.35
5 year swap	2.95	3.07	3.03	3.01	2.93	2.96
RBNZ TWI	77.91	79.42	79.59	79.78	78.95	78.50
NZD/USD	0.7004	0.7310	0.7294	0.7300	0.7219	0.7190
NZD/AUD	0.9516	0.9543	0.9576	0.9566	0.9433	0.9369
NZD/JPY	81.12	82.27	81.91	82.00	81.05	81.41
NZD/GBP	0.5763	0.5854	0.5893	0.5843	0.5743	0.5756
NZD/EUR	0.6613	0.6806	0.6837	0.6857	0.6752	0.6756
AUD/USD	0.7360	0.7660	0.7617	0.7631	0.7653	0.7674
EUR/USD	1.0591	1.0741	1.0668	1.0646	1.0692	1.0643
USD/JPY	115.82	112.55	112.30	112.33	112.28	113.22
GBP/USD	1.2154	1.2488	1.2377	1.2494	1.2571	1.2491
Oil (US\$/bbl)	51.95	52.38	52.38	52.38	52.37	52.99
Gold (US\$/oz)	1186.33	1204.49	1204.49	1204.49	1241.55	1224.89
Electricity (Haywards)	5.47	3.72	5.47	4.55	4.21	5.40
Baltic Dry Freight Index	926	735	714	702	707	702
NZX WMP Futures (US\$/t)	3275	--	3200	3300	3330	3330

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