ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

1 August 2016

INSIDE

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THE WEDGE

ECONOMIC OVERVIEW

Although the OCR is set to go lower, we're not convinced it will take the NZD with it in a sustained fashion. The growth cycle needs to turn for currency weakness to be sustained. That's not around the corner. We're also not convinced that a lower OCR will be fully passed on into retail deposit and borrowing rates, particularly with bank funding costs higher than last year and credit growth outstripping deposit growth. Deposit rates cannot be taken continuously lower, which means the same for borrowing rates. A wedge between wholesale and retail rates will help the RBNZ as it tackles competing housing and currency tensions. This week, surveyed inflation expectations could dip a little more. We will also be on the lookout for more hints that while still low, the wage cycle is starting to turn. We are expecting to see a steeper forward curve at the next GDT auction.

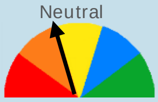
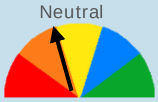
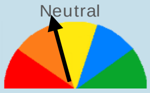
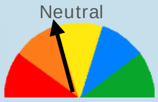
INTEREST RATE STRATEGY

Short-end rates remain biased lower, with the TWI back at heady levels and an OCR cut fully priced for next week. We don't buy into talk of a 50bp OCR cut, but we do expect follow-on easings to be flagged and NZD strength to be sustained, given growth and yield support. This gives the market fuel to grind lower yet. Although US markets have pared back expectations for Fed rate hikes, we still expect cash rate differentials to contract further, driving continued long-end spread compression and curve flattening. We expect rate cuts in both Australia and the UK, adding further downward pressure to yields in these highly correlated bond markets. While we question the end-game of cutting the OCR beyond 1.75%, the market is going to press for more cuts, and offshore inflows will continue unless (or until) we see yields converge to a point of homogenisation.

CURRENCY STRATEGY

The resilience of the NZD amidst clear signals the OCR is moving lower is telling. Portfolio shock dynamics are at play and you can only overcome that by moving the OCR a lot lower. We're ho-hum about that given the domestic growth picture (which is another key driver of NZD support); lower rates stimulate even more growth. Valuations are extended – particularly after the recent surge – but we still struggle to identify catalysts for a turn. Until the growth cycle slows, the 'buy on dips' mantra trumps 'sell on rallies'.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile (change to view)
GDP	3.4% y/y for 2017 Q2	The economy is recording decent momentum, and we expect that to continue. Downside risk mainly stems from offshore.	Neutral Negative  Positive
Unemployment rate	4.9% for 2017 Q2	The unemployment rate should continue to trend lower. Wage inflation is contained, but a turn looks to be in sight.	Neutral Negative  Positive
OCR	1.75% 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	1.2% 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

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SUMMARY

Although the OCR is set to go lower, we're not convinced it will take the NZD with it in a sustained fashion. The growth cycle needs to turn for currency weakness to be sustained. That's not around the corner. We're also not convinced that a lower OCR will be fully passed on into retail deposit and borrowing rates, particularly with bank funding costs higher than last year and credit growth outstripping deposit growth. Deposit rates cannot be taken continuously lower, which means the same for borrowing rates. A wedge between wholesale and retail rates will help the RBNZ as it tackles competing housing and currency tensions. This week, surveyed inflation expectations could dip a little more. We will also be on the lookout for more hints that while still low, the wage cycle is starting to turn. We are expecting to see a steeper forward curve at the next GDT auction.

FORTHCOMING EVENTS

QV House Prices - July (12:00pm, Tuesday, 2 August). National house price growth should continue to accelerate, led largely by non-Auckland regions.

RBNZ Survey of Expectations – Q3 (3:00pm, Tuesday, 2 August). Inflation expectations remain low. The strength of the NZD may see the 2-year-ahead measure fall a tad.

GlobalDairyTrade Auction (early am, Wednesday, 3 August). NZX futures prices are pointing to a circa 8% lift in wholemilk powder prices. We are not expecting such a large increase, but the forward curve should steepen. An improvement in prices is required to achieve Fonterra's current $4.25/kg MS.

Quarterly Employment Survey – Q2 (10:45am, Wednesday, 3 August). While quarterly filled jobs growth may be a little softer than the pace seen in the prior six months, we are still expecting a solid print. Together with reasonable paid hours growth, it should point to a decent activity backdrop over the quarter as a whole.

Labour Cost Index – Q2 (10:45am, Wednesday, 3 August). Headline wage figures will be low. We expect private sector wages to rise 0.5% q/q (1.8% y/y). However, hints of a turn were evident in the distributional and analytical measures in Q1 and we are expecting more hints along these lines in Q2.

ANZ Commodity Price Index – July (3:00pm, Wednesday, 3 August).

WHAT'S THE VIEW?

Kiwis can fly. At least it seems that way when we eye the NZD once again approaching 77 on a TWI basis. It is now higher than where it was before the RBNZ signalled tighter LVR restrictions and is approaching levels prior to the RBNZ first announcing last month's special economic update, which subsequently endorsed the market to push for deeper OCR cuts into the 1.50-1.75% zone.

You can't blame global forces alone for this strength. Yes, the USD has struggled to lift, and the weekend's poor US Q2 GDP figures will no doubt further delay Fed rate hikes. The BoJ is also trying to weaken the yen (although it's not really succeeding, admittedly). But just look at the NZD/AUD, which sits a tad under 0.95 cents and has risen around 1½% over the past week. Its strength comes despite NZ-AU interest rate differentials narrowing (albeit modestly) over the week as well (the 2-year swap differential fell around 7bps).

So the reasons for NZD strength are broader than yield or global forces alone. Domestic currency strength is strongly connected to the growth side of the equation. Solid pointers on the economic front are simply not providing 'sell' signals for the NZD. Last week's combo of business confidence, credit growth, building consents and exports outside of dairying were all respectable. And "respectable" is now "great" in an era of tepid, disappointing growth around the globe.

It means we are back at ground zero facing the prospect of the OCR moving lower, but with no real conviction it will take the NZD with it. All pending rate cuts are doing is stopping the NZD from going up even further!

But while the OCR is set to be cut again, we're also not convinced actual domestic deposit and borrowing rates will move down by the same amount. In March, the RBNZ wanted the full pass through from its cut in the OCR into retail interest rates. It might now be hoping financial institutions hold some of the easing back, given the potential for this to just pour more fuel on the property fire. The RBNZ certainly doesn't need more house price inflation!

It is with this in mind that some realities need to be acknowledged:

- **Offshore funding markets are more expensive than they were in 2015.** New Zealanders don't save enough, so offshore markets need to fund the shortfall. Funding costs are trending higher offshore and locally (figure 1).
- **Credit growth continues to outstrip deposit growth.** For money to go out the door, money also needs to be coming in the door. Banks were basically self-funding post-GFC as deposits grew

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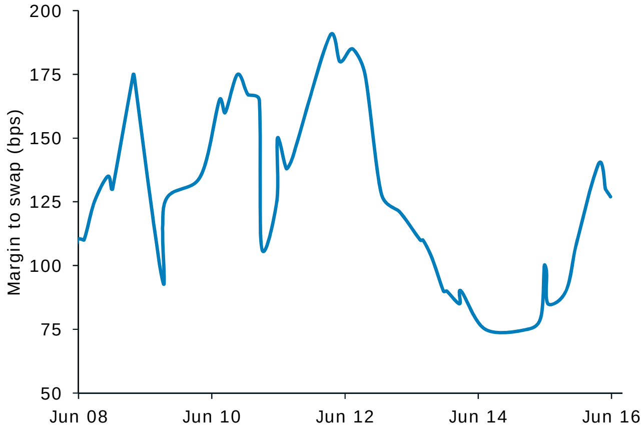
in line with credit growth (figure 2). That's changed. There is now more going out (credit), but less coming in (deposits). This gap can be filled by looking offshore (refer point above), but as noted, it's more expensive and arguably not in New Zealand's long-term interests to become more dependent on offshore funding markets. Offshore issuance needs to be hedged in the basis swap market (where spreads are widening too). That not only comes at a cost but it chews up capital and credit lines.

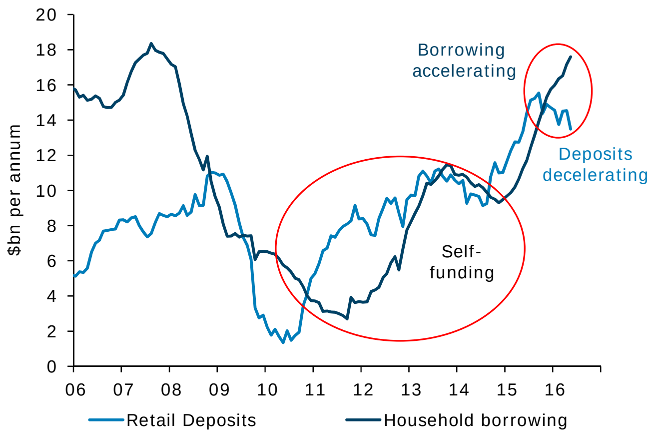
FIGURE 1: NEW ZEALAND 5 YEAR BANK MARGINS (SPREAD TO SWAP ON "AA" RATED NZ BANKS)



Source: ANZ, Bloomberg

- **Banks need more deposits and less credit growth.** You can see semblances of this manifesting already via self-regulation as banks tighten up the availability of credit.

FIGURE 2: BANK FUNDING AND CLAIMS GROWTH



Source: ANZ, RBNZ

- **Each marginal nudge lower in the OCR puts more pressure on deposits to slow and credit growth to rise!** There is a limit or a level that if deposit rates fall to, people just won't want to put money in the bank. Readers simply need to ask themselves how low rates would need to go before they'd revisit what they do with their own cash. It is notable that carded term deposit rates already sit well above the OCR.

Therefore, something has to give. You can't logically expect the OCR to fall and for it to be fully passed on to lower deposit rates and borrowing rates in a savings-deficit nation, particularly in one where the central bank is barracking about the increased riskiness of a major component of lending – housing. It seems inevitable we are going to see more of a scramble for local deposits in the coming year, unless credit growth collapses (unlikely) or banks simply keep tapping offshore markets. The latter can be done – in practical terms, there is no shortage of cash around – but from a financial stability point of view it doesn't make sense. What's more, if you have to pay up to get offshore money why wouldn't you price more aggressively to attract local deposits?

So it seems likely the OCR will fall but borrowers won't get the benefit of the full 25bps. There will be angst and complaints. Ironically, not much mention is made of the other side of the equation. Each nudge lower in the OCR penalises savers (depositors), if deposit rates follow.

That is precisely what the RBNZ needs to see as it tackles competing tensions. The NZD needs a lower OCR and lower wholesale rates, while the housing market clearly does not need lower rates at all (arguably higher ones are required). In response to these tensions, a larger wedge between wholesale and retail rates needs to open up, and we suspect it will.

The week ahead would usually have been dominated by the June quarter labour market figures. Some data will still be released, but Statistics NZ has announced a delay to the most important data, the Household Labour Force Survey, as it looks to firm up the impact of its recently announced changes to the way it measures "actively seeking work". An earlier discussion paper showed these changes will result in meaningful drop in the number of people classed as unemployed and also participating in the labour force.

The figures that are released are still expected to signal solid labour demand. Filled jobs growth within the Quarterly Employment Survey has grown strongly of late, lifting 1.1% and 1.2% q/q in Q4 and Q1 respectively. Even though both the ANZBO and QSBO measures of hiring effectively held steady in Q2, and job advertising continued to trend higher, it is likely that a slower pace of hiring was seen on this measure in Q2. This expectation partly reflects quarterly volatility. But an argument can be made that the softer growth is also consistent with firms finding it more difficult to find staff.

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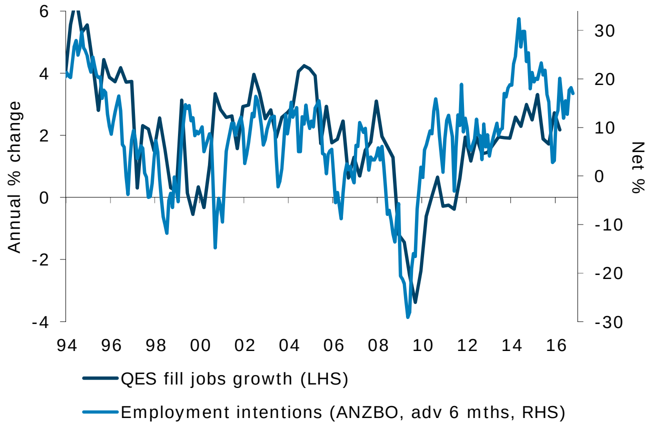
FIGURE 3: QES FILLED JOBS GROWTH AND EMPLOYMENT INTENTIONS



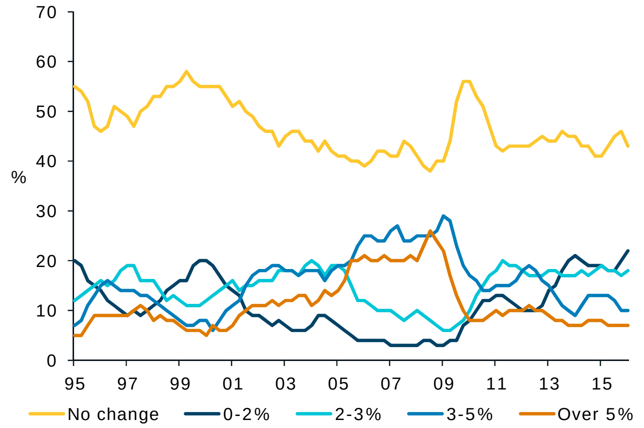
Source: ANZ, Statistics NZ

Even with a softer quarterly outcome, annual filled jobs growth should be strong. And together with reasonable growth in paid hours across the economy, this would help solidify expectations that the economy is expanding at an above-trend rate at present.

We'll unfortunately have to wait for the HLFS figures (which have been delayed until 17 August) to accurately assess how the supply side of the equation is faring. Certainly, earlier data showing annual working age population growth holding at an all-time high of 2.5% y/y suggests the supply side of the labour market continues to hum too. It will therefore be a close-run thing – and will depend heavily on how the participation rate performs – but our gut feel is that when the data is eventually released, it will show the unemployment rate ticking down a touch (perhaps to 5.1%). A lower unemployment rate would be consistent with the intensification in businesses angst towards labour shortages we have detected of late, and hence point to the ongoing gradual absorption of labour market spare capacity.

We may get a hint of the extent of this theme from the wage growth figures. Now to be fair, the overall level of wage growth is expected to be subdued (we expect annual growth in the private sector LCI measure to hold at 1.8%). More than anything else, that reflects the low inflation backdrop more generally. But within the Q1 figures, the distribution of wage increases and stronger growth in analytical measures did hint that perhaps a turn in the wage cycle is now underway. Construction sector wage growth is outperforming. If spare capacity is being absorbed, as we expect it is, we should see more hints along these lines in the Q2 data.

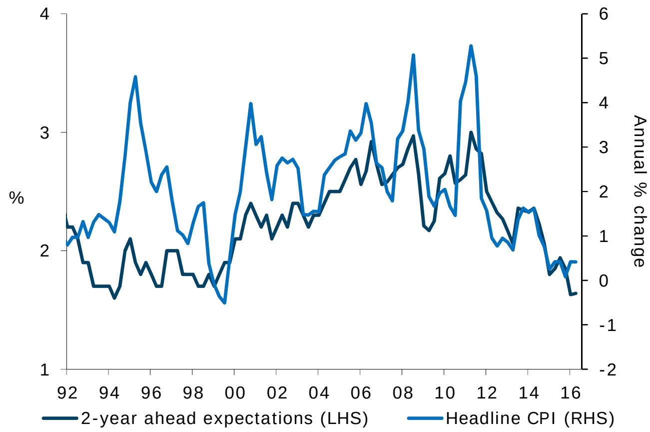
FIGURE 4: DISTRIBUTION OF WAGE INCREASES



Source: ANZ, Statistics NZ

The RBNZ's Survey of Expectations will also get plenty of interest this week. We see a reasonable chance that the key 2-year-ahead measure of inflation expectations dips slightly. In Q2, two-year-ahead inflation expectations were effectively unchanged at a historically low 1.6%. But with the recent strength in the NZD likely to have lowered respondents' inflation forecasts further, there is a non-trivial chance that surveyed inflation expectation fall again to a new low in Q3.

FIGURE 5: CPI INFLATION AND INFLATION EXPECTATIONS



Source: ANZ, RBNZ, Statistics NZ

The strong NZD has lowered our own forecasts for headline inflation two years ahead too. However, our forecasts still sit closer to 2% than where this surveyed measure has been tracking of late. Irrespective of this, the RBNZ has shown that it is sensitive to movements in surveyed inflation expectations (even though it is quite easy to be critical of this survey due to its small sample size). The earlier plunge in inflation expectations was clearly a motivating factor for the RBNZ to cut the OCR in March. So a lower print this week will no doubt further cement RBNZ concerns about price and

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wage-setting behaviour in the face of low inflation pressures and the likelihood of an OCR cut in August.

Dairy prices have continued to trade familiar ranges that extend back some months now. Higher seasonal volumes being offered through GDT have seen prices trade at the bottom end of these ranges in July, but not capitulate like they did 12 months earlier. This is somewhat of a good sign. While major buyers are reportedly well stocked at present, current low prices and tightening tradable milk supply is seeing some buyers look to lock in low prices for later in the season.

This, along with higher auction volumes coinciding with the Chinese free-trade window (November-January), has been reflected in a steepening of the NZX WMP future curve, which is implying an 8% improvement in prices this week. We don't expect that much improvement, but some steepening of the curve toward US$2,200/t (top of recent ranges) seems likely. Elsewhere the likes of skim milk powder and butter continue to trade at a discount to other sources (i.e. Europe and US) and we expect this should be demand supportive, especially for butter, for which prices unexpectedly fell at the last auction.

Supply-side dynamics remain key, and we continue to see some encouraging signs. Southern Hemisphere supply is down across all the main exporters, with more tightening to come over the next 12 months. European milk supply growth is slowing more sharply in some of the main producing regions (UK, Germany and France) and policy makers are beginning to more actively target supply to improve prices. The US continues to produce more, but most of the excess is being soaked up by domestic demand (i.e. exports are lower) driven by robust milk fat demand (i.e. butter and cheese demand). That said, most buyers remain well stocked so any price improvement is likely to be slow going.

Broader export commodity prices will also be in focus with the release of our ANZ Commodity Price Index for July. The index posted a decent 3.7% m/m lift in June, with this strength reasonably broad-based across the major categories. The trouble is, as the NZD rose strongly over the month too, and farm-gate (or NZD) prices only lifted 0.3% m/m, to be down 5.9% y/y. It is this balance between global export commodity price performance and the NZD, that is important to watch. On a month-average basis, and despite the best efforts of the RBNZ, the NZD was actually around 1½% higher on a TWI basis in July than it was in June. Therefore, it goes without saying that global export commodity prices need to have risen further to avoid further pressure on domestic farm-gate returns.

LOCAL DATA

Overseas Merchandise Trade – June. An unadjusted trade surplus of $127m was recorded. In seasonally adjusted terms, the monthly trade deficit narrowed to $78m.

New Mortgage Lending – June. Lending grew at 18.4% y/y, with new lending to investors rising to 38% of total new lending.

Building Consent Issuance – June. Total dwelling consent issuance surged 16% m/m, with non-residential consent issuance valued at $727m sa.

ANZ Business Outlook – July. Headline confidence and firms' own activity expectations both eased 4 points to a net 16% and net 31% respectively.

RBNZ Credit Aggregates – June. Private sector credit expanded 0.6% m/m (7.4% y/y), with household credit growing 0.8% m/m (8.3% y/y).

INTEREST RATE STRATEGY

SUMMARY

Short-end rates remain biased lower, with the TWI back at heady levels and an OCR cut fully priced for next week. We don't buy into talk of a 50bp OCR cut, but we do expect follow-on easings to be flagged and NZD strength to be sustained, given growth and yield support. This gives the market fuel to grind lower yet. Although US markets have pared back expectations for Fed rate hikes, we still expect cash rate differentials to contract further, driving continued long-end spread compression and curve flattening. We expect rate cuts in both Australia and the UK, adding further downward pressure to yields in these highly correlated bond markets. While we question the end-game of cutting the OCR beyond 1.75%, the market is going to press for more cuts, and offshore inflows will continue unless (or until) we see yields converge to a point of homogenisation.

THEMES

- Here we go again, like a broken record: a key US data miss drives the NZD higher and sees market pricing for Fed rate hikes pared back, and the BoJ disappoints. It all adds up to lower bond yields and flatter curves.
- Cuts expected in AU, the UK and NZ. That should keep a lid on yields.
- While we can debate the merits of OCR cuts past 1.75% (or 1.50% or whatever), one thing seems clear: the OCR isn't going up any time soon. Yet the market is still pricing in hikes from mid-2017.
- Yield convergence remains the key over-arching theme in bond markets. Don't expect this dot point to be deleted for some time.

MONETARY POLICY AND THE SHORT END

The market is now all but fully priced for an OCR cut next week, with pricing sitting at around 2.01% for the August meeting. We don't buy into talk of a 50bp cut, and as such it's hard to be bullish the very short end from here. But equally, we expect the RBNZ to deliver a dovish tone, and that should give the market all the ammunition it needs to push lower.

While the merits of deeper cuts are questionable amidst a housing boom, if that's what the Bank thinks it will take to take pressure off the NZD, that's precisely the tone it will try to deliver. Macro-prudential policy changes and expectations that the full 25bps won't be passed on to borrowers should provide greater scope to lower wholesale rates and keep policy directed towards the NZD.

GLOBAL MARKETS AND THE LONG END

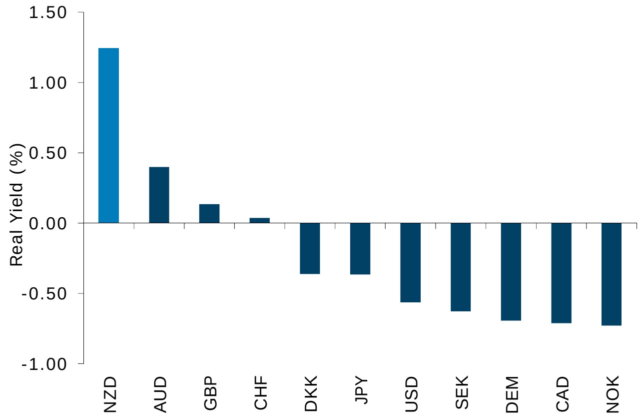
"More of the same" pretty well sums it up, with the BoJ disappointing, and weak US data seeing Treasury bond yields collapse and the NZD TWI surge. Near term, it's difficult to envisage yields rising, with RBA and BoE easing in prospect this week setting the scene for the RBNZ next week. New Zealand rates are low by local standards, but sky high (especially in real terms) by global standards. Until this "anomaly" is ironed out (via yield homogenisation), we expect the long end to continue to ratchet lower as spreads compress and the curve flattens.

STRATEGY

Investors: Broadly speaking we prefer to be long duration in all markets, but view the NZ market as less prone to capital loss thanks to prospective spread compression and curve flattening. We also still like receiving mid-curve forward starting swaps.

Borrowers: Watching and waiting has paid dividends; and is likely to continue to do so. We are not confident that the lows are in for term yields, despite dramatic falls. With BKBM also biased lower, we prefer options.

FIGURE 1: G10 REAL 10 YEAR BOND YIELDS (DEFLATED BY HEADLINE CPI)



Source: ANZ, Bloomberg

KEY VIEWS		
SECTOR	**DIRECTION**	**COMMENT**
Short end	Neutral/bullish	Fairly priced for upcoming OCR changes, but risk profile still lower. Forward curve >1yr needs to flatten.
Long end	Bullish	Reaction to US data shock looks overdone, but more G10 stimulus is coming and NZ is just catching up.
Yield curve	Flatter	RBNZ has more scope to ease than any other G10, and is about to act. Curve should flatten in advance.
Geographic spreads	Narrower	Remains a key thematic for us amid TWI strength and the huge gap between local and offshore yields on all reasonable metrics. NZ remains an attractive and highly rated market, and spreads need to compress.
Swap spreads	Neutral	NZGS demand still strong. Corporate payers have been very savvy and are unlikely to pay any time soon.
NZD/TWI	Elevated	Cuts may limit appreciation, but bid unlikely to disappear unless OCR goes much lower or growth slows.

CURRENCY STRATEGY

SUMMARY

The resilience of the NZD amidst clear signals the OCR is moving lower is telling. Portfolio shock dynamics are at play and you can only overcome that by moving the OCR a lot lower. We're ho-hum about that given the domestic growth picture (which is another key driver of NZD support); lower rates stimulate even more growth. Valuations are extended – particularly after the recent surge – but we still struggle to identify catalysts for a turn. Until the growth cycle slows, the 'buy on dips' mantra trumps 'sell on rallies'.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔	Not just the OCR	Needs to fall and will
NZD/AUD	↔/↑	RBA cut not fully priced in, RBNZ cut is	Remain above long-run averages
NZD/EUR	↔	Consolidating	Self-limiting
NZD/GBP	↔	Stretched	UK confidence soft. BoE to cut Thursday
NZD/JPY	↔/↓	Top of range	USD/JPY ~100 untenable for BoJ

THEMES AND RISKS

- The RBNZ's clear signal the OCR is moving lower had a shelf-life of one week. The NZD is now higher than it was pre the RBNZ's update and aggressive prudential policy move.
- The USD has taken a hit despite a more upbeat message from the Fed and disappointment with the BoJ. There is huge pressure on the RBNZ to act, but we fear that the NZD impact will be fleeting.
- NZD strength is difficult to refute. Yield (our "bond ladder" thematic) + growth + political stability makes it difficult to call a sustained run lower for the NZD in the absence of a major global event.
- The path of least resistance for the RBA looks to be another cut. Beware of a potential NZD/AUD spike.

ASSESSMENT

We noted last week we doubted the NZD would play ball and continue to recede amidst expectations the RBNZ would cut rates. Key support pillars remain.

- Daylight remains between yields in NZ and those in other developed markets. Pressure for interest rate convergence persists.
- There is no sign of weakness across economic indicators. Until they turn, dips are buys as opposed to rallies being a sell.
- The economy is on track for 3% growth. That's "average", but impressive vis-à-vis peers. Growth locally is strengthening at a time global growth has weakened. The latter stymies prospects of other central banks, such as the Fed, doing anything.

This increasingly means prospects of the RBNZ having to do more.

We're lukewarm about extrapolating OCR cuts too far beyond the 50bps we have pencilled in. We are seeing no sign of ease-up in our lead indicators. The NZD needs a lower OCR; the economy does not. Unless the RBNZ is set to come to the table with a 'shock and awe' strategy and cut aggressively and intervene (which we doubt), the coming months look set to see the NZD holding up at elevated levels.

Conventional valuation metrics tell us the NZD is extended. Growth prospects and financial conditions say it's not. The latter are in the driving seat. When that changes and growth prospects wilt, so too will our view towards the NZD.

TABLE 2: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔	FV is above long-run averages
Yield	↔/↑	Still a key support for the NZD
Commodities	↔	A risk factor for both
Data	↑	NZ accelerating; AU slowing
Techs	↔/↑	Break above 0.9425 has been key
Sentiment	↔/↑	RBA easing not fully priced in
Other	↔/↓	AUD offers better liquidity
On balance	↔	**0.9500 the next key level**

TABLE 3: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Above fair value
Yield	↔/↑	Growth adding to yield support
Commodities	↔	OK ex dairy. July data due Wed.
Risk aversion	↔/↑	Not evident in price action
Data	↔/↑	Expect upcoming data to be solid
Techs	↔	Break up through 0.72 supports
Other	↔/↓	RBNZ dissatisfied with strength, but growth, politics, fiscal support
On balance	↔	**Rangy and back to buying dips**

POSITIONING

NZD positioning remains neutral. However, we note that **the market is long AUD ahead of tomorrow's RBA meeting**, which could see AUD spike lower on a cut. GBP and EUR shorts remain extreme, leaving us mindful of potential volatility on crosses.

GLOBAL VIEWS

The market's reaction to a more upbeat Fed and BoJ easing is very telling, and suggests that the hurdle central banks face is high. **Talk is not enough for markets looking for concrete actions.** Until relative interest rate and growth trends change, it's difficult to jump on the strong USD trade. We expect the RBA to cut tomorrow. At the margin, that'll likely see the NZD spike a touch lower in sympathy. But a full cut is priced in here already, so don't count on it. **NZD/AUD price action has been bullish, and it's the one cross where we see scope for a break even higher.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
1-Aug	AU	Melbourne Institute Inflation MoM - Jul	--	0.6%	13:00
	AU	Melbourne Institute Inflation YoY - Jul	--	1.5%	13:00
	AU	HIA New Home Sales MoM - Jun	--	-4.4%	13:00
	CH	Manufacturing PMI - Jul	50.0	50.0	13:00
	CH	Non-manufacturing PMI - Jul	--	53.7	13:00
	CH	Caixin PMI Mfg - Jul	48.8	48.6	13:45
	GE	Markit/BME Manufacturing PMI - Jul F	53.7	53.7	19:55
	EC	Markit Manufacturing PMI - Jul F	51.9	51.9	20:00
	UK	Markit PMI Manufacturing SA - Jul F	49.1	49.1	20:30
2-Aug	US	Markit Manufacturing PMI - Jul F	52.9	52.9	01:45
	US	Construction Spending MoM - Jun	0.5%	-0.8%	02:00
	US	ISM Manufacturing - Jul	53.0	53.2	02:00
	US	ISM Prices Paid - Jul	61.0	60.5	02:00
	US	ISM New Orders - Jul	--	57.0	02:00
	AU	ANZ-RM Consumer Confidence Index - 31-Jul	--	115.5	11:30
	NZ	QV House Prices YoY - Jul	--	13.50%	12:00
	AU	Trade Balance - Jun	-2000M	-2218M	13:30
	AU	Building Approvals MoM - Jun	0.8%	-5.2%	13:30
	AU	Building Approvals YoY - Jun	-2.4%	-9.1%	13:30
	NZ	2Yr Inflation Expectation – Q3	--	1.64%	15:00
	AU	RBA Cash Rate Target - Aug	1.50%	1.75%	16:30
	AU	Commodity Index AUD - Jul	--	89.7	18:30
	AU	Commodity Index YoY - Jul	--	-9.9%	18:30
	UK	Markit/CIPS Construction PMI - Jul	44.0	46.0	20:30
	EC	PPI MoM - Jun	0.4%	0.6%	21:00
	EC	PPI YoY - Jun	-3.4%	-3.9%	21:00
3-Aug	US	Personal Income - Jun	0.3%	0.2%	00:30
	US	Personal Spending - Jun	0.3%	0.4%	00:30
	US	Real Personal Spending - Jun	0.2%	0.3%	00:30
	US	PCE Deflator MoM - Jun	0.2%	0.2%	00:30
	US	PCE Deflator YoY - Jun	0.9%	0.9%	00:30
	US	PCE Core MoM - Jun	0.1%	0.2%	00:30
	US	PCE Core YoY - Jun	1.6%	1.6%	00:30
	US	ISM New York - Jul	--	45.4	01:45
	NZ	Pvt Wages Ex Overtime QoQ - Q2	0.5%	0.4%	10:45
	NZ	Pvt Wages Inc Overtime QoQ - Q2	0.4%	0.4%	10:45
	NZ	Average Hourly Earnings QoQ - Q2	0.9%	0.3%	10:45
	AU	AiG Perf of Services Index - Jul	--	51.3	11:30
	NZ	ANZ Commodity Price - Jul	--	3.7%	13:00
	CH	Caixin PMI Services - Jul	--	52.7	13:45
	CH	Caixin PMI Composite - Jul	--	50.3	13:45
	GE	Markit Services PMI - Jul F	54.6	54.6	19:55
	GE	Markit/BME Composite PMI - Jul F	55.3	55.3	19:55
	EC	Markit Services PMI - Jul F	52.7	52.7	20:00
	EC	Markit Composite PMI - Jul F	52.9	52.9	20:00
	UK	Official Reserves Changes - Jul	--	$1619M	20:30
	UK	Markit/CIPS Services PMI - Jul F	47.4	47.4	20:30
	UK	Markit/CIPS Composite PMI - Jul F	47.7	47.7	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
3-Aug	EC	Retail Sales MoM - Jun	0.0%	0.4%	21:00
	EC	Retail Sales YoY - Jun	1.8%	1.6%	21:00
	US	MBA Mortgage Applications - 29-Jul	--	-11.2%	23:00
4-Aug	US	ADP Employment Change - Jul	170k	172k	00:15
	US	Markit Services PMI - Jul F	51.0	50.9	01:45
	US	Markit Composite PMI - Jul F	--	51.5	01:45
	US	ISM Non-Manf. Composite - Jul	56.0	56.5	02:00
	AU	Retail Sales MoM - Jun	0.3%	0.2%	13:30
	AU	Retail Sales Ex Inflation QoQ - Q2	0.5%	0.5%	13:30
	GE	Markit Construction PMI - Jul	--	50.4	19:30
	GE	Markit Retail PMI - Jul	--	51.6	20:10
	EC	Markit Retail PMI - Jul	--	48.5	20:10
	UK	Bank of England Bank Rate - Aug	0.25%	0.50%	23:00
	UK	BOE Asset Purchase Target - Aug	£375B	£375B	23:00
	UK	Bank of England Inflation Report	--	--	23:00
	US	Challenger Job Cuts YoY - Jul	--	-14.1%	23:30
	CH	BoP Current Account Balance - Q2 P	--	$39.3B	UNSPECIFIED
5-Aug	US	Initial Jobless Claims - 30-Jul	265k	266k	00:30
	US	Continuing Claims - 23-Jul	2130k	2139k	00:30
	US	Factory Orders - Jun	-1.9%	-1.0%	02:00
	US	Factory Orders Ex Trans - Jun	--	0.1%	02:00
	US	Durable Goods Orders - Jun F	-4.0%	-4.0%	02:00
	US	Durables Ex Transportation - Jun F	-1.0%	-0.5%	02:00
	US	Cap Goods Orders Nondef Ex Air - Jun F	--	0.2%	02:00
	US	Cap Goods Ship Nondef Ex Air - Jun F	--	-0.4%	02:00
	AU	AiG Perf of Construction Index - Jul	--	53.2	11:30
	AU	RBA Statement on Monetary Policy	--	--	13:30
	GE	Factory Orders MoM - Jun	0.5%	0.0%	18:00
	GE	Factory Orders WDA YoY - Jun	-1.5%	-0.2%	18:00
	AU	Foreign Reserves - Jul	--	A$69.6B	18:30
	UK	Halifax House Prices MoM - Jul	-0.2%	1.3%	19:30
	UK	Halifax House Price 3Mths/Year - Jul	8.8%	8.4%	19:30
6-Aug	US	Trade Balance - Jun	-$43.0B	-$41.1B	00:30
	US	Change in Nonfarm Payrolls - Jul	175k	287k	00:30
	US	Change in Private Payrolls - Jul	173k	265k	00:30
	US	Change in Manufact. Payrolls - Jul	4k	14k	00:30
	US	Unemployment Rate - Jul	4.8%	4.9%	00:30
	US	Average Hourly Earnings MoM - Jul	0.2%	0.1%	00:30
	US	Average Hourly Earnings YoY - Jul	2.6%	2.6%	00:30
	US	Average Weekly Hours All Employees - Jul	34.4	34.4	00:30
	US	Consumer Credit - Jun	$16.00B	$18.56B	07:00

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

LOCAL DATA WATCH

Domestic economic momentum is lifting. However, downside risks exist (mainly from offshore). On balance we see it as likely that the RBNZ will cut the OCR twice more (August and early 2017), although we're still of the view that the economy doesn't need additional stimulus right now.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 2 Aug (12:00pm)	QV House Prices – Jul	The party continues	National house price growth should continue to accelerate, led largely by non-Auckland regions.
Tue 2 Aug (3:00pm)	RBNZ Survey of Expectations – 3Q	NZD impact	Inflation expectations remain low. The strength of the NZD may see the 2-year-ahead measure fall a tad.
Wed 3 Aug (early am)	GlobalDairyTrade Auction	Near-term challenge	The global supply situation is changing, which should eventually support prices. But the near term still looks challenging.
Wed 3 Aug (10:45am)	Quarterly Employment Survey – Q2	Strong demand	Filled jobs and paid hours growth should point to a decent labour demand backdrop overall.
Wed 3 Aug (10:45am)	Labour Cost Index – Q2	Low, but turning?	Wage growth will be low and consistent with the benign inflation backdrop more generally. But we will be looking for additional hints (like we saw in Q1) that a turn is underway.
Wed 3 Aug (1:00pm)	ANZ Commodity Price Index – Jul	--	--
Tue 9 Aug (10:00am)	ANZ Truckometer – Jul	--	--
Tue 9 Aug (10:45am)	Electronic Card Transactions – Jul	Decent trend	After the strong June increase, a more modest lift is likely. Nevertheless, a decent underlying trend will remain.
Tue 9 Aug (1:00pm)	ANZ Monthly Inflation Gauge – Jul	--	--
Thu 11 Aug (9:00am)	RBNZ Monetary Policy Statement	25bp cut	With the RBNZ signalling it likely that further easing "will be" required rather than "may be", it leaves little doubt over action. An easing bias will be retained, with the door well and truly left open to additional cuts.
Thu 11 Aug (10:45am)	Food Price Index – Jul	Modest	A seasonal lift in fruit & vegetable prices would typically lead overall prices higher, although low commodity prices and the high NZD may dampen that.
Fri 12 Aug (10:30am)	BNZ-Business NZ PMI – Jul	Outperforming	Despite currency strength and global wobbles, the sector is performing well on the back of booming construction.
Fri 12 Aug (10:45am)	Retail Trade Survey – Q2	Solid	Electronic Card Transactions data has pointed to a continuation of solid, though not stellar, retail sales growth.
Mon 15 Aug (10:30am)	BNZ-Business NZ PSI – Jul	Carry on	Like the majority of the rest of the economy, the services sector is recording decent activity growth at present.
Wed 17 Aug (10:45am)	PPI – Q2	Benign	Both input and output prices are expected to lift a touch, led largely by a bounce in imported oil prices.
Wed 17 Aug (10:45am)	HLFS – Q2	Close call	It is a close call given strong labour supply growth, but we suspect strong labour demand will see the unemployment rate tick lower.
Thu 18 Aug (10:00am)	ANZ Job Ads – Jul	--	--
Thu 18 Aug (1:00pm)	ANZ-Roy Morgan Consumer Confidence – Aug	--	--
Fri 19 Aug (10:45am)	International Travel & Migration – Jul	Strong	While we are not expecting new monthly records to be set, we can't see net migrant inflows slowing any time soon.
Wed 24 Aug (10:45am)	Overseas Merchandise Trade – Jul	Holding	Rising oil prices are likely to have some impact, but the overall trade picture is of the 'not too bad' variety.
On balance		**Data watch**	**Momentum is increasing at present, but with risks. Inflation remains low, but has probably troughed.**

KEY FORECASTS AND RATES

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (% qoq)	0.7	**0.8**	**0.9**	**1.0**	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
GDP (% yoy)	2.8	**3.3**	**3.4**	**3.5**	**3.5**	**3.4**	**3.2**	**2.8**	**2.6**	**2.6**
CPI (% qoq)	0.2	0.4	**0.3**	**0.0**	**0.6**	**0.3**	**0.6**	**0.1**	**0.7**	**0.7**
CPI (% yoy)	0.4	0.4	**0.4**	**0.9**	**1.3**	**1.2**	**1.6**	**1.7**	**1.8**	**1.8**
Employment (% qoq)	1.2	**0.8**	**0.5**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Employment (% yoy)	2.0	**2.6**	**3.5**	**3.0**	**2.2**	**1.7**	**1.6**	**1.6**	**1.6**	**1.6**
Unemployment Rate (% sa)	5.2	**5.1**	**5.1**	**5.1**	**5.0**	**4.9**	**4.9**	**4.8**	**4.7**	**4.7**
Current Account (% GDP)	-3.0	**-3.1**	**-3.5**	**-3.7**	**-4.3**	**-4.4**	**-4.3**	**-4.1**	**-3.9**	**-3.9**
Terms of Trade (% qoq)	4.4	**-5.7**	**-2.8**	**-0.5**	**0.9**	**1.9**	**2.8**	**1.7**	**0.8**	**0.8**
Terms of Trade (% yoy)	-0.1	**-7.2**	**-6.2**	**-4.8**	**-8.0**	**-0.6**	**5.2**	**7.5**	**7.3**	**7.3**

	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Retail ECT (% mom)	0.1	0.8	0.1	0.4	0.7	0.1	0.9	-0.3	1.2	--
Retail ECT (% yoy)	5.8	4.6	6.6	5.2	9.2	6.2	7.8	3.3	6.8	--
Credit Card Billings (% mom)	1.7	0.7	-0.7	2.1	-0.8	-1.1	2.7	-0.3	-1.2	--
Credit Card Billings (% yoy)	7.8	8.5	7.5	7.5	6.3	4.3	8.7	5.4	3.2	--
Car Registrations (% mom)	-1.3	-2.0	3.1	-2.8	5.8	-3.8	6.1	-3.3	-0.9	--
Car Registrations (% yoy)	3.8	1.3	2.4	-1.1	7.4	-0.2	8.7	4.2	-1.2	--
Building Consents (% mom)	4.9	1.5	2.4	-8.1	10.6	-9.2	7.8	0.1	16.3	--
Building Consents (% yoy)	14.8	7.4	17.5	4.9	26.8	0.3	13.5	10.3	39.6	--
REINZ House Price Index (% yoy)	14.1	12.5	12.6	10.7	11.9	13.3	14.5	14.7	14.2	--
Household Lending Growth (% mom)	0.7	0.6	0.6	0.6	0.6	0.6	0.8	0.7	0.8	--
Household Lending Growth (% yoy)	6.9	7.2	7.4	7.5	7.6	7.7	7.9	8.1	8.3	--
ANZ Roy Morgan Consumer Conf.	114.9	122.7	118.7	121.4	119.7	118.0	120.0	116.2	118.9	118.2
ANZ Business Confidence	10.5	14.6	23.0	..	7.1	3.2	6.2	11.3	20.2	--
ANZ Own Activity Outlook	23.7	32.0	34.4	..	25.5	29.4	32.1	30.4	35.1	--
Trade Balance ($m)	-905	-795	-42	12	367	189	347	348	127	--
Trade Bal ($m ann)	52101	52648	52510	52764	52831	52599	52626	52854	52654	--
ANZ World Commodity Price Index (% mom)	7.1	-5.6	-1.8	-2.3	0.5	-1.3	-0.8	1.1	3.7	--
ANZ World Comm. Price Index (% yoy)	-11.6	-15.3	-12.9	-14.7	-17.8	-22.4	-16.8	-11.6	-5.4	--
Net Migration (sa)	6120	6210	5530	6100	6010	5340	5470	5560	5680	--
Net Migration (ann)	62477	63659	64930	65911	67391	67619	68110	68432	69090	--
ANZ Heavy Traffic Index (% mom)	1.0	0.2	2.9	-4.2	1.7	3.4	-2.4	-2.7	4.7	--
ANZ Light Traffic Index (% mom)	-0.4	0.3	0.9	-1.3	-1.7	0.7	0.4	-1.3	2.8	--

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Apr-16	May-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZD/USD	0.676	0.713	0.719	0.69	0.65	0.64	0.64	0.63	0.63	0.64
NZD/AUD	0.935	0.957	0.948	0.96	0.97	0.97	0.97	0.93	0.90	0.89
NZD/EUR	0.608	0.642	0.644	0.66	0.63	0.62	0.61	0.57	0.57	0.57
NZD/JPY	74.89	73.62	73.70	72.5	68.3	64.0	64.0	63.0	63.0	67.2
NZD/GBP	0.467	0.536	0.544	0.55	0.54	0.52	0.51	0.48	0.47	0.46
NZ$ TWI	71.7	74.8	76.6	74.5	71.9	70.4	69.9	67.3	66.8	67.5
INTEREST RATES	May-16	Jun-16	Today	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
NZ OCR	2.25	2.25	2.25	2.00	2.00	1.75	1.75	1.75	1.75	1.75
NZ 90 day bill	2.42	2.41	2.25	2.20	2.20	2.00	2.00	2.00	2.00	2.00
NZ 10-yr bond	2.61	2.35	2.14	2.10	2.00	2.20	2.20	2.50	2.50	2.50
US Fed funds	0.50	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.25	1.25
US 3-mth	0.69	0.65	0.76	0.68	0.93	0.93	1.30	1.30	1.55	1.55
AU Cash Rate	1.75	1.75	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50
AU 3-mth	1.99	1.96	1.86	1.80	1.80	1.80	1.80	1.80	1.80	1.80

	29 Jun	25 Jul	26 Jul	27 Jul	28 Jul	29 Jul
Official Cash Rate	2.25	2.25	2.25	2.25	2.25	2.25
90 day bank bill	2.40	2.30	2.28	2.29	2.28	2.28
NZGB 03/19	2.01	1.86	1.85	1.88	1.84	1.82
NZGB 05/21	2.03	1.92	1.91	1.95	1.90	1.88
NZGB 04/23	2.06	1.97	1.97	2.00	1.98	1.96
NZGB 04/27	2.35	2.22	2.22	2.27	2.22	2.20
2 year swap	2.22	2.05	2.05	2.06	2.05	2.03
5 year swap	2.32	2.15	2.15	2.18	2.16	2.14
RBNZ TWI	75.9	74.96	75.58	75.49	76.04	75.78
NZD/USD	0.71	0.70	0.71	0.70	0.71	0.71
NZD/AUD	0.96	0.93	0.94	0.94	0.95	0.94
NZD/JPY	72.50	74.17	73.64	74.22	74.63	73.22
NZD/GBP	0.53	0.53	0.54	0.54	0.54	0.54
NZD/EUR	0.64	0.64	0.64	0.64	0.64	0.64
AUD/USD	0.74	0.75	0.75	0.75	0.75	0.75
EUR/USD	1.11	1.10	1.10	1.10	1.11	1.11
USD/JPY	102.36	106.31	104.33	105.42	104.88	103.01
GBP/USD	1.33	1.31	1.31	1.31	1.32	1.32
Oil (US$/bbl)	47.93	43.41	42.40	42.16	41.90	41.13
Gold (US$/oz)	1319.00	1317.35	1318.83	1318.70	1339.04	1335.00
Electricity (Haywards)	5.03	4.33	33.47	4.61	5.20	8.62
Baltic Dry Freight Index	640	709	696	679	665	656
Milk futures (USD)	51	44	44	43	42	42

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