5 October 2017

Contents

Economic Outlook

The election night outcome proved as inconclusive as the final handful of polls. With 'special votes' to be counted, we then await the result of negotiations to form the next government. From that we will still need to determine the paths of key policy, and make any adjustments to our macro-economic view as necessary. But there is more to note than government formation. One is the recent run of poor weather (too much rain) that has seen us nudge down our meat and dairy production and export volume outlooks for the current season; shaving our 2018 GDP growth forecasts to 2.9% from 3.1% in the process. For the coming fortnight, latest reads on consumer confidence and the PMI and PSI indicators will be difficult to judge given their proximity to the election. More interest will likely be in the Q3 CPI (due 17 October) whose annual inflation we think will stay at 1.7% y/y – inkling that inflation will not sag nearly as much as the RBNZ projects by early 2018, if at all.

Interest Rate Outlook and Strategy

Last week's RBNZ OCR Review did nothing to alter market pricing as the cash rate was held at 1.75% and guidance unchanged. It is likely to take more than one quarter's slightly higher-than-anticipated headline inflation print to see the Bank budge. This is expected to keep short-end NZ rates range-bound. Near term, our bias for global yields is higher and that should flow through to the NZ front end, but RBNZ guidance is expected to cap 2y swap around 2.25% to 2.30%. The bottom of the range is seen around 2.10%. Multiple factors have seen US 10-year yields lift more than 30bps from their September low. We expect further gains, with a target of 2.60% by year end. This view translates into an NZGB 10y yield reaching 3.20% at that point. The influence on higher offshore long rates is expected to see the NZ 2s10s swap curve re-test at 120bps.

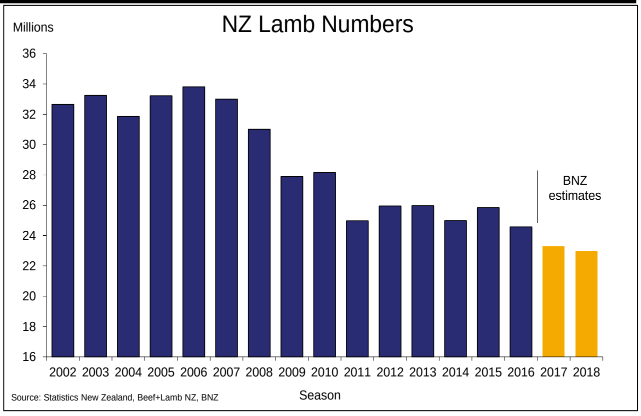
Currency Outlook

The key USD indices are showing emerging signs of a broadly based recovery. In the context of a steady fall in the USD through much of this year, down over 10% at one stage, the approximate 2½% recovery has been fairly modest so far. We expect the recovery to progress further. Against this backdrop, the NZD is holding up well after some damage inflicted during August. We see fundamental support for the NZD at present via very high levels of risk appetite and NZ commodity prices performing well. If not for prospects of the USD reviving, we'd be thinking that the NZD ought to be heading a lot higher, rather than slip towards our year-end target of USD0.70.

Slow Spring

- **Spring 2017 lamb number estimates reduced**
- **Expected milk production increase also tempered**
- **Recent wet weather unhelpful for many**
- **Export growth outlook lowered, shaving GDP forecast**

Fewer Lambs



Export volumes of meat and dairy products over the coming season will, as usual, be a function of farmers' previous decisions based on such things as climatic conditions and farm economics as well as events through the season itself. That is, what is happening on farm gives a good steer to what lies in store for exports. Winter and early spring weather has been less than ideal, crimping the outlook for export volumes.

Beef+Lamb NZ recently estimated the 2017 spring lamb crop to be 23.0 million head. If this is the final tally, it would be 1.3% down on the last season. This drop is in contrast to previous indications that the lamb crop might be up around 1.1%. The drop equates to around 300,000 fewer lambs this spring compared to last year and about 500,000 fewer lambs than what was being factored in for the new season a couple of months ago.

Fewer lambs are a function of a previous drop in breeding ewe numbers. The number of breeding ewes as at the end of June 2017 is estimated to be 17.8 million, down 1.9% from 12 months earlier. This estimate has not changed.

But the weather through winter was generally awkward; being too wet in many areas. This is particularly the case across chunks of the North Island leaving the likes of the Waikato, King Country, Taranaki and Manawatu areas soaking. In addition, parts of the South Island had some severe flooding during winter.

Beef+Lamb NZ estimate the ewe lambing percentage this spring at 123.2%, marginally higher than last season's estimate of 122.8%, but a smaller gain than initially contemplated. The expected small lift in lambing percentage is not enough to offset the drop in breeding ewe numbers hence the now expected decline in lamb numbers. After accounting for retentions, it all suggests there will be around 19.3 million lambs available for export, similar to the season just ended. Meanwhile, lower sheep numbers is expected to see export mutton production in 2017/18 fall by as much as 9% from the 2016/17 season. All this sees us tab down our overall meat export volume growth forecasts for the 2017/18 season.

One consolation of fewer lambs is that it offers some support to prices, although it is hardly the best way for that to occur. Stronger demand would be much preferred! Nevertheless, after being a feature during the 2016/17 season that generated strong pricing, tight supply is expected to continue into the 2017/18 season. We think this will see higher prices this season, on average over the season, compared to 2016/17. Reports of very little inventory held through the supply chain supports this view, although, as ever, actual pricing at the farmgate will depend on the weather and currency levels.

Importantly, the weather has not been all bad with Eastern Hawkes Bay and up to Gisborne enjoying much better grass growing conditions. And even where it has been wet, it has not necessarily been particularly cold. Early ewe pregnancy scanning results were mixed, while subsequent anecdotes on lamb survivability have been good. So lamb numbers could yet turn out better than 23.0 million currently estimated (with flow-on consequences for exports). We will get a much better guide to actual lamb numbers when Beef+Lamb NZ's Lamb Crop report for 2017 is released in November.

In any case, the weather ahead will have a say on weight gain which has anecdotally been slow to date. This is another factor that may see lower export tonnage. The wet conditions have caused delays on farm – including getting crops in the ground. This may cause issues later in the season depending on how weather conditions unfold from here.

NIWA forecasts to the end of the 2017 are for warmer than usual temperatures, but with normal or above normal rainfall more likely for much of the country than below normal rainfall (the east of the South Island is the exception where below normal rainfall is equally likely as normal (with 40% chance each). We are also watching indicators that have moved toward La Nina conditions, although are currently not at threatening levels.

Regards the outlook for beef exports, Beef+Lamb NZ expect export production to be marginally lower in the 2017/18 season compared to 2016/17, driven by expectations of slightly lower weights combined with essentially static slaughter numbers. This follows from both breeding cow numbers as at the end of June 2017 and expected calving percentages being much the same as a year earlier. Little change is expected in the dairy cow cull that returned to more normal levels in 2016/17. Overall, a marginally lower outlook for beef export volumes is broadly in line with our previous expectations.

For dairy, early season milk production has been hampered by weather conditions being generally too wet over recent months. August NZ milk production was down 1.5% on last year (which itself was down 3.0% on the year before that). September may be no better. Milk production is ramping up in spring, but we suspect it will not be quite as strong as it usually is given recent weather conditions. This is tempering our forecast for the season as a whole. We still expect milk production this season to be higher than last season but not quite as much as we previously thought. Maybe up in a 1% to 2% range rather than a +3% to +4% range. This, in turn, sees us temper our dairy export volume forecasts in 2017/18 by a couple of percentage points, although moderate growth in real export values is still expected as more milk continues to get directed towards higher value products.

Less growth in NZ milk supply should offer some support for dairy prices amid a host of other factors. Despite question marks over how strong NZ milk supply will be during spring, dairy product prices unexpectedly fell (by 2.4%) at the early-October GDT auction. This particular result may reflect Golden Week holiday in China, along with general factors like a stronger US dollar, weaker Euro, ending of EU intervention buying and still weak international grain prices. Even though there is currently downside risk to Fonterra's $6.75 2017/18 milk price forecast, current conditions are still well supportive of something above the previous season's $6.12.

But back to the outlook for export volumes, the tempering in meat and dairy growth outlooks takes around 0.7 percentage points off our overall export growth forecasts on average over the coming year. This shaves our GDP growth forecasts down by around 0.2 percentage points over the same period – to 2.9% growth in 2018 rather than 3.1%. It also sees the annual current account deficit push a bit faster back towards 3% of GDP in 2018 after we see it dipping towards 2% over the next couple of quarters.

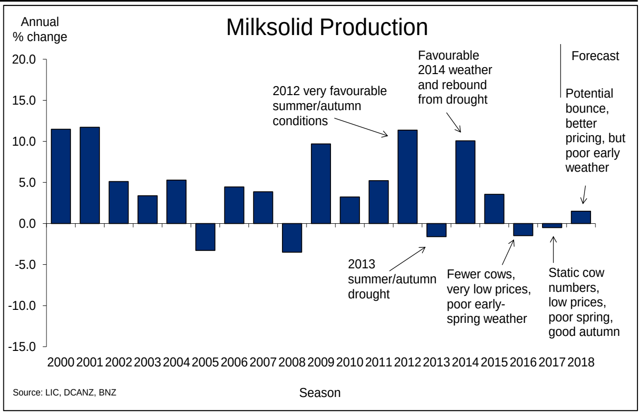
All this is relatively minor in the overall scheme of things, but a nudge to the worse nonetheless. Of course, our GDP forecasts over the coming years remain a work in progress in any case partly as we await the formation of the next Government. Whatever the final make up of Government, there looks to be more fiscal stimulus on its way that will, at least initially, support growth but the extent and timing of such stimulus remains fluid.

More immediately for growth calculations, early livestock slaughter and milk production indicators for Q3 suggest agriculture and associated food processing may combine to be a drag on growth in the quarter itself – not that surprising given the run of inclement weather. Even if production managed to edge above year earlier levels, it would still represent a dip from Q2 on a seasonally adjusted basis. That is, meat and dairy production might have lifted heading into spring but not as much as it normally does. We'll look to Q3 GDP figures released just ahead of Christmas to see if this has indeed been the case (although we are wary of these quarterly estimates given their propensity to be significantly revised over time).

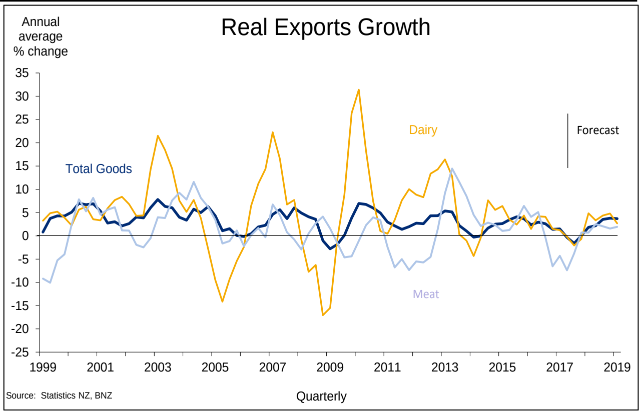
On a positive note, primary product prices as a whole are very buoyant and coupled with subdued import prices we think they will help lift New Zealand's terms of trade to an all-time high in 2017. That is a big support to real incomes.

doug_steel@bnz.co.nz

Smaller Increase Expected



Weather Restricting Outlook



Global Inflation, Australian Population, Cranes, and the RBA

- **Inflation ponderings: The low wage and price inflation theme received more attention in a scene-setting speech from Janet Yellen as well as a thematic paper on post-GFC wage dynamics from the IMF. In Australia, the Treasurer and senior Treasury official Nigel Ray have been attributing still low Australian wage inflation to the after effects of the resources downturn.**
- **Australian People: Australia's population update for the March quarter reflected now familiar themes of still vibrant population growth, especially on the Eastern seaboard and not just in capital cities. Net overseas migration continues as a prominent driver. Faster population growth will underpin the underlying housing demand, but increase congestion and the need for supporting infrastructure.**
- **Cranes: Speaking of infrastructure, the latest RLB Crane Index shows still strong levels of construction activity in the second half of this year. The Index overall rose another 0.5% from the previous report to the highest level since the report started in 2012. Apartment construction activity remained high, while cranes for non-residential work has been picking up.**
- **RBA: Tuesday's statement acknowledged the improved outlook for non-mining business investment and employment. The cash rate was left unchanged. Unemployment is important to watch over coming months.**

Inflation ponderings

In a major speech last week to the US National Association of Business Economists, Fed Chair Yellen offered her well-considered and honest views on recently low US inflation.

To us, there were two important take away points from the speech. First was that her policy disposition represented a somewhat more hawkish policy leaning. Later in her speech she said that it would be imprudent to wait till inflation gets to 2% before raising rates again; gradualism doesn't mean policy halt. This is more hawkish than a strict "data dependence" Fed reaction function (to recently persistent inflation undershooting) might imply.

The market tweaked market pricing for a December 14 move higher. It currently has priced in a 70% likelihood of a further 25 bps at this meeting, a hike that remained the median of the FOMC members at the September 21 meeting. A December hike is still on barring some underlying deterioration in the economy beyond the impact of the recent hurricanes.

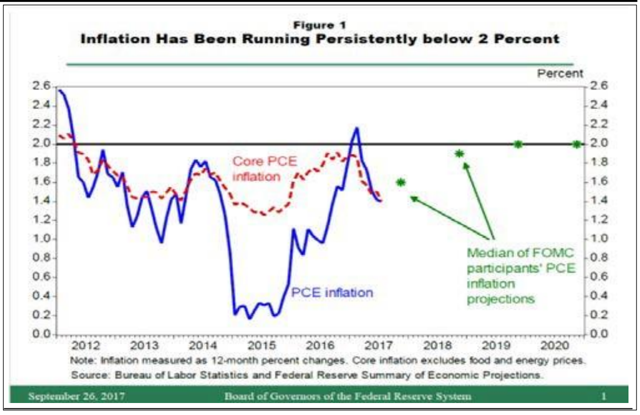
The other big take away was that she still ascribes low US inflation as due primarily to factors whose influence should fade over time. She did though acknowledge that she and her colleagues could have misjudged the degree of slack in the labour market, the degree to which longer run inflationary expectations are consistent with the Fed's inflation mandate, or even misjudged the fundamental forces affecting inflation (e.g. technology, the digital economy and so forth). She also noted that while the Fed remained open to changing their views, they remain of the view that inflation remains on course to gradually return to 2%.

A paper from the IMF (Recent Wage Dynamics on Advanced Economies: Drivers and Implications) on the same topic in a global context came to the view that wages growth may continue to remain subdued until involuntary part-time employment diminishes or trend productivity growth picks up.

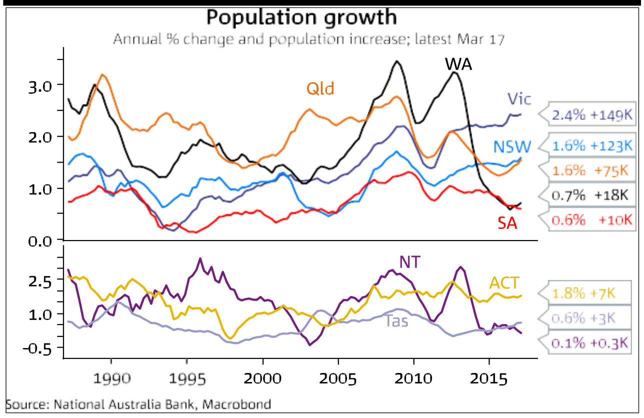
Inflation rates will also likely remain low unless wage growth accelerates beyond productivity growth in a sustained manner. Assessing the true degree of slack beyond measured headline unemployment rates will be important when judging the appropriate pace of exit from accommodative monetary policies.

For the Australian economy, Treasurer Morrison and senior Treasury economist Nigel Ray spoke last week on new Treasury research into Australia's also evident low wages growth. Ray said that for Australia, the most influential economic event of recent decades was not the

US Inflation still expected to move to target



The cycle drawing population to the East



global financial crisis but the largest mining boom in modern history. The Treasurer said that "in Australia, wages growth has been heavily impacted by mining investment boom washing out of the system, as the economy attempts to rebalance itself from the extraordinary terms of trade boom that fuelled our nation's prosperity for almost a decade".

While recognising some commonality of the structural influences that Australia shares with advanced economies – for example, low productivity growth, ageing populations and related lower participation rates – the cycle for Australia should be more supportive from now. "We can expect the cyclical impacts of the negative income effect generated by falling commodity prices to abate". In this context, we would also note that not only is the demand for employees continuing to rise, but that there are nascent signs that salaries on offer are also beginning to edge higher for new recruits, a sign of some modest tightening in the labour market and firming official expectations that wages growth should be steady to higher in the period ahead.

Australian People

Australia's estimated population at the end of March was 24.511m, an increase of 1.6% or 389k over the previous 12 months. Net overseas migration was 232K in the year to March, up 27% on the previous year's net migration inflow, arrivals up 11.4% and departures up 2.0%.

The fastest growth was again evident in Victoria, population up 2.4% or 149k in the year to March. Population growth in NSW and Queensland also continued at a solid clip, both up 1.6% y/y, jointly accounting for a further 198K growth. SA, WA, and Tasmania's population grew at a more sedate 0.6%, the Northern Territory's was little changed at 0.1% and the ACT's by 1.8%.

Faster growth on the Eastern seaboard has also had an influence in net interstate migration flows, flows that had a large say in faster Eastern seaboard growth, though Sydney's less affordable housing markets seem to be deterring potential prospective residents from moving. Victoria and Queensland have been the main beneficiaries. NSW had net interstate emigration for the past year of 14K, WA's was an outflow of 12K, SA's 7k, and the NT's a 4k net outflow. Victoria had a net inflow of 19K, as did Qld (+16k), with small interstate additions to Tasmania's and the ACT's population.

Cranes

An interesting reading on the state of the Australian construction industry came last week in the form of the RLB Crane Index, a count of cranes across major capital cities and different sectors.

This half yearly count of cranes on city skylines reveals that apartment sector construction activity has continued at a high level. The total number of cranes in operation was virtually unchanged in this latest survey, indicative a continuing high level of activity into the second half of the year, a rise of 28% on levels of two years earlier.

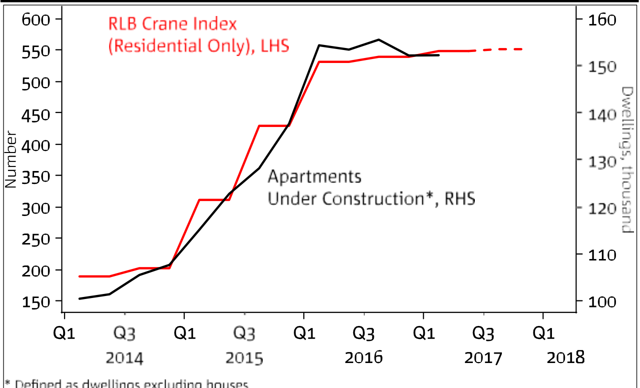
A feature of this report was that 109 suburbs in Sydney had residential cranes and another 54 suburbs in Melbourne. Cranes are in most Sydney suburbs, while in Melbourne, the CBD and surrounding suburbs accounted for 47 cranes, the remaining cranes in the suburbs. What was also evident was that while there was 551 cranes in operation (up from 548 in the last survey), non- residential crane work is picking up, from 106 cranes in the previous survey to 134 in this latest update. Cranes for civil construction almost doubled from seven to 13, with increases for education and hotel projects, benefitting from higher infrastructure spending and from tourism. With non-residential approvals now revealing more concerted signs of rising, other non-residential work should become apparent in the period ahead.

RBA

Tuesday's post RBA Board Meeting Statement acknowledged the improved outlook for non-mining business investment and once again noted that employment had continued to grow strongly over recent months.

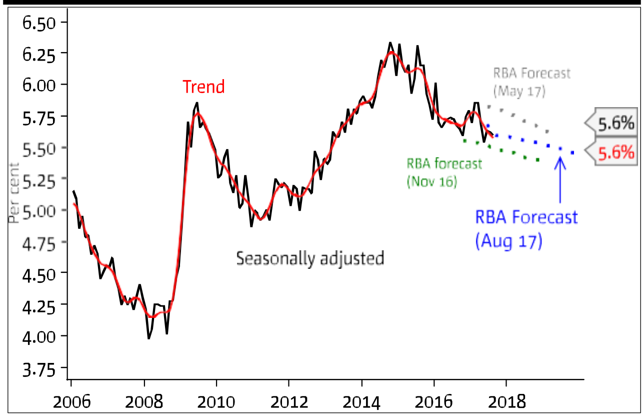
That said, the Bank continued to expect only a gradual decline in the unemployment rate over the next couple of

Australian Apartment activity remains high



* Defined as dwellings excluding houses
Source: National Australia Bank, ABS, RLB

RBA expecting only slight fall in unemployment



years, an important assumption/forecast as this would constrain the expected pick up in wages growth, which would in turn affect both the Bank's inflation and consumer spending forecasts.

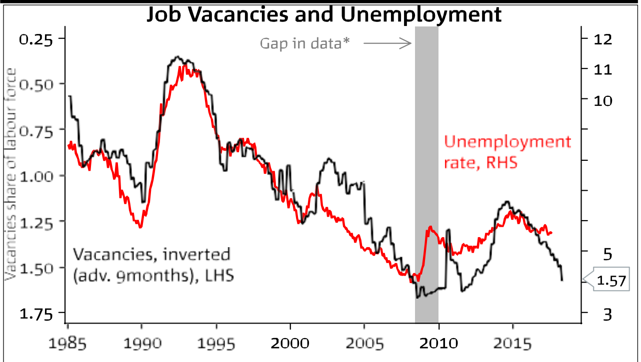
Other aspects of the Statement – including the important last paragraph on monetary policy and the characterisation of the exchange rate – were identical/effectively identical, respectively.

A few weeks ago, Governor Lowe gave a very clear indication that the next move in the interest rates was likely to be up. However, there was no indication in today's Statement of any early move by the RBA to begin to withdraw monetary accommodation. That would seem to require a downward revision to the Bank's forecast for the unemployment rate, which continues to be characterised as "expected to decline only gradually over the next couple of years". [The August 2017 forecast predicted a decline only to 5.6% in two years' time].

NAB has recently changed its forecasts for the economy and interest rates based on more optimistic outlook for growth and unemployment rate, which in turn produces slightly higher wages and inflation forecasts. The RBA will likely also have to make some downward adjustment in November, when it next updates its forecasts.

NAB anticipates that the unemployment rate could decline to around 5¼% by the end of Q1/beginning of Q2 of 2018. Providing the outlook for job advertising and the economy remains favourable, this would seem to set the scene for the RBA to begin to remove accommodation in the second half of 2018.

Job vacancies suggesting unemployment to fall



* The ABS did not collect vacancy data between May 2008 and November 2009. Numbers are estimates by the ABS during this period
Source: National Australia Bank, ABS

It's likely that the Bank will not only want to forecast a lower unemployment rate, but also to see some further fall in unemployment and underemployment in coming months, so that it can feel more confident of a pick-up in wages growth. Our near-term focus will therefore be on how significantly the RBA changes its forecasts for the unemployment rate in its November Statement on Monetary Policy along with the progress on lowering unemployment and underemployment.

Elsewhere, the Bank seemed encouraged by continuing signs of some cooling in the Sydney housing market.

ivan.colhoun@nab.com.au/david.deGaris@nab.com.au

Carbon and Commodities

- **OPEC and Russia look likely to extend production cut agreement later than March 2018.**
- **The Widening spread between WTI and Brent incentivises US crude exports increase to almost 2 million barrels per day.**
- **Brent crude almost reaches $60, with curve in steep backwardation until 2020, on tightening global supply.**
- **Nickel and copper prices correct severely after recent strong rallies.**

Commodity	US$	Change (daily US$)	Change (Fortnight)	Change (Month)	Change (Year)
Brent Crude	55.74	-0.26	-0.98%	4.42%	16.98%
WTI Crude	49.89	-0.52	-1.03%	1.48%	7.71%
Copper	6,486	1.15	0.18%	-5.87%	41.13%
Zinc	3,334	45.62	6.59%	3.96%	44.39%
Aluminium	2,148	31.97	4.25%	2.08%	32.74%
Tin	20,919	-14.99	0.38%	-0.12%	11.15%
Nickel	10,541	-7.99	-5.58%	-13.61%	7.68%

Crude Oil prices have performed strongly recently with spot Brent prices almost touching $60. The price has reacted to Hurricane linked supply shocks, indications that OPEC and Russia are keen to extend the current production cuts agreement, and recent inventory data showing US stocks have resumed their fall from the recent record highs. The cheaper WTI crude prices (discounted US$5 versus Brent), have encouraged US exports to reach a record 2 million barrels per day, which is helping to reduce inventories.

The shape of the curve has also changed dramatically, from steep contango just one month ago, to being in steep backwardation off higher spot levels out to 2020, then in moderate cantango to the longer dates (see Chart below). Solid demand for refined products has forced refiners to bid very strongly for physical near dated crude stocks, which are in tight supply due to falling rig counts and seasonal maintenance in Asia and the North Sea. The longer dated prices suffer from producers encouraged to hedge their long term exposures.

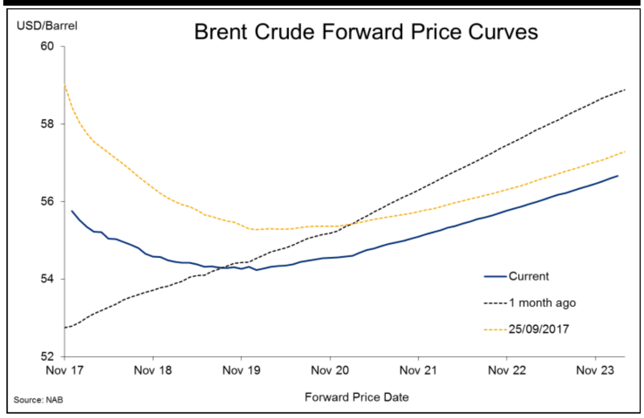
Russian President has told an energy forum in Moscow that the current OPEC/Russia producer cut agreement could be extended until the end of 2018. Russia recently held discussions with oil ministers from Venezuela, Qatar and Iran as confidence improves among the cartel that the recent cuts are successfully rebalancing supply. OPEC last met in May, and isn't scheduled to reconvene until November 2017 in Vienna, with the Saudi's likely to hold the main cards with respect to any extension agreement.

NZ spot diesel prices are trading at the highest levels in 2 years, reacting to the global crude oil price trend. The charts show that current prices are sitting right on an important long term pivotal resistance level, with a decisive break of NZ$ 0.5850 likely to signal a return to levels of NZ$0.90 per litre. Forward prices mimic the brent curve allowing consumer hedgers to benefit from discounts out to mid 2019, despite the firmer spot price.

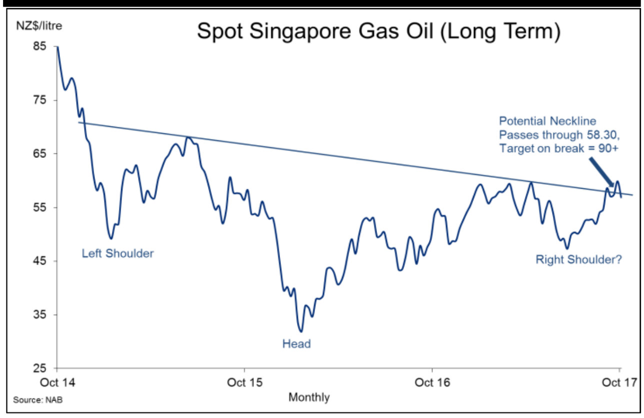
There are divergent price trends on many industrial metals. Zinc is trading at over US$ 3,300 (versus 1,400 in mid-2016), as tight supplies drive up prices (LME stocks have fallen 60% to 250k MT since Jan 2017). While Copper and Nickel have corrected strongly following the recent price rallies. Nickel has fallen 15% in the last month, as many of the Philippine mines that were closed by the former environmental minister (Gloria Lopez) may possibly re-open under her replacement Roy Cimatu. Cimatu has previously said that it was possible to strike a balance between protecting the environment while allowing miners.

nigel_a_collins@bnz.co.nz

Big Curve Changes



Testing Resistance



Global backdrop supports NZD

- **The key USD indices are showing incipient signs of a broadly based recovery, supported by a number of factors. In the context of the steady fall in the USD through much of this year, down over 10% at one stage, the approximate 2½% recovery has been fairly modest so far. We expect the recovery to progress further.**
- **Against that backdrop, the NZD is holding up well after some damage inflicted during August. We see fundamental support for the NZD at present via very high levels of risk appetite and NZ commodity prices performing well. These conditions are supported by a strong, even improving, global economic backdrop.**
- **Based on our modelling framework, it is hard to see the NZD head south without a decent correction in risk appetite. If not for prospects of the USD reviving, we'd be thinking that the NZD ought to be heading a lot higher, rather than slip towards our year-end target of USD0.70.**

A key theme of recent weeks has been a fledgling recovery in the USD. In previous reports we've pointed out how oversold the USD had become when looking at our model based on the TWI majors index. The turnaround in the USD can be put down to a number of factors including, but not limited to:

- exhausted selling pressure, with net short-positioning having reached its most extreme level since 2013,
- the positive turnaround in US CPI inflation after a weak run,
- more confidence that the Fed will continue along its path of getting policy rates back to a more normal level, including another hike in December,
- increased confidence that some sort of tax reform package will see the light of day at some stage.

This leaves us pondering about how much more the USD can recover and whether or not our model is defunct and giving a misleading signal. In the context of the steady fall in the USD through much of this year, down over 10% at one stage, the approximate 2½% recovery has been fairly modest so far and we expect the recovery to progress further.

Against a backdrop of a recovering USD over recent weeks, the NZD has done better than others. Since the nadir in the USD on 8 September, the NZD has outperformed against AUD, CAD, EUR, CNY and JPY.

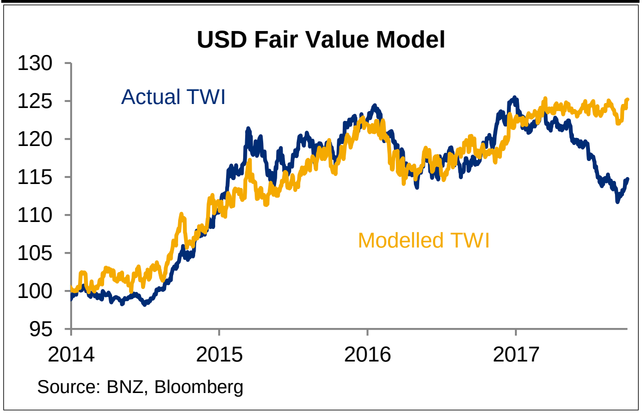
The reason for this is that there is actually strong fundamental support for the NZD at present. BNZ's risk appetite index has reached a new high for the year of 84%, driven by the "fearless" level of the VIX index and narrower credit spreads (our index uses both emerging market spreads and high yield spreads).

One can justify high levels of risk appetite by the strength of the global economic backdrop combined with very easy global monetary policy. Recent business surveys around the world show confidence levels at multi-year highs across the US, Euro-area, China and Japan. While we're at a point in the cycle where major central banks are guiding towards taking away the punchbowl, monetary policy across the world remains highly stimulatory and will remain that way for some time yet.

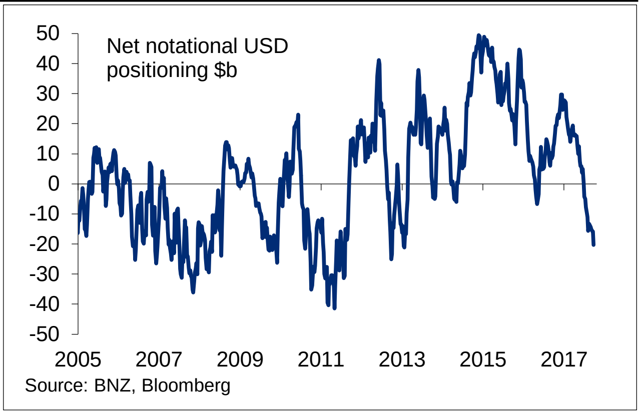
This global backdrop is supporting NZ commodity prices. CBA's index of NZ commodity prices reached a 3-year high last week when measured in USD terms. When measured in SDR terms, that milestone was reached a few months ago, and remains near the cycle highs of 2011 and 2013. This week's much softer than expected GDT dairy auction was notable, but could represent short-term noise, with the auction coinciding with China's Golden Week holidays. The rise in NZ commodity prices has been more than just about dairy prices anyway, with meat, horticulture, forestry, and seafood prices all at lofty levels.

Risk appetite and NZ commodity prices are two key variables in our short term NZD fair value model. Lofty levels for both indicators has recently helped drive our model estimate up to its highest level this year, which now sits in a USD 0.76-0.77 zone. If we adjust for the average (upward) bias in that model estimate this year, a fairer price for the NZD at this juncture is around USD 0.74.

USD Off Its Low But Gap vs. Model Estimate Remains



Speculative Positioning is Very Short USD



It sounds like an oxymoron, but both NZD/USD and USD look cheap at present. How is that possible? The USD is oversold in a broader sense and the hurdle rate for further recovery from here is fairly low, against a range of major currencies. The NZD is slightly cheap against the USD and that reflects the buoyant global backdrop. The NZD fair value gap could easily be closed by the NZD remaining flat or even falling, against the backdrop of a recovery in the USD if that triggered a fall in risk appetite and weaker commodity prices. In that scenario, fair value for the NZD would clearly fall.

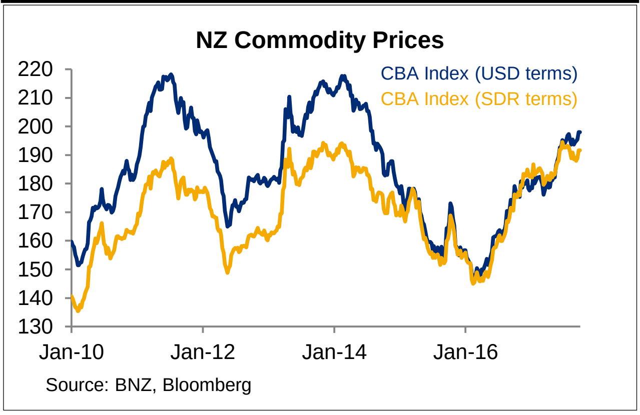
Based on our modelling framework, it is hard to see the NZD head south without a decent correction in risk appetite. The global backdrop is one of business confidence indicators reaching multi-year highs across the world and central banks taking away the punchbowl at a snail's pace, supporting risk assets. If not for prospects of the USD reviving, we'd be thinking that the NZD ought to be heading a lot higher, rather than slip towards our year-end target of USD0.70.

As expected, NZ's election result had little impact on the market although we still don't know the form of the next government. The polls proved to be accurate, with NZ First holding the balance of power. We don't see much implication for the NZD whether NZ First opts to support a National-led or Labour-led government, with easier fiscal policy either way. Again, we would look to fade any knee-jerk currency reaction on the decision by NZ First leader Winston Peters, expected anytime next week.

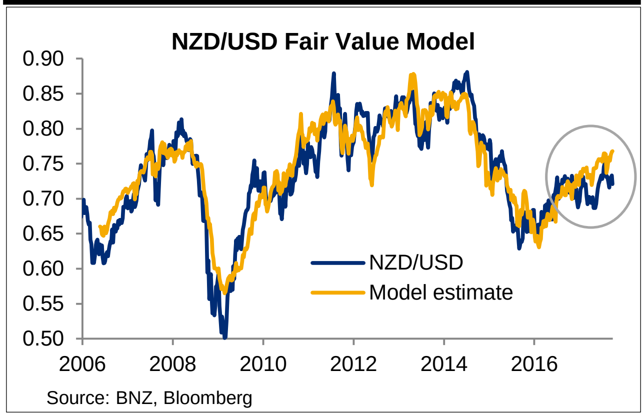
The RBNZ's OCR review came and went last week with little market reaction, as expected. There was a new Acting Governor in charge, Grant Spencer, but there were clear signs of policy continuity, with only minor tweaks from previous statements. Inflation is likely running higher than the Bank projected in August, driven by higher oil prices and a slightly weaker TWI track. The Bank will need to incorporate easier fiscal policy into its outlook, but that will have to wait until the government is formed and new fiscal projections are provided, which will be some time away. We don't see NZ monetary policy as a material factor for the NZD over the near term.

jason.k.wong@bnz.co.nz

NZ Commodity Prices Around Cyclical Highs



NZD Not Keeping Up With Model Estimate

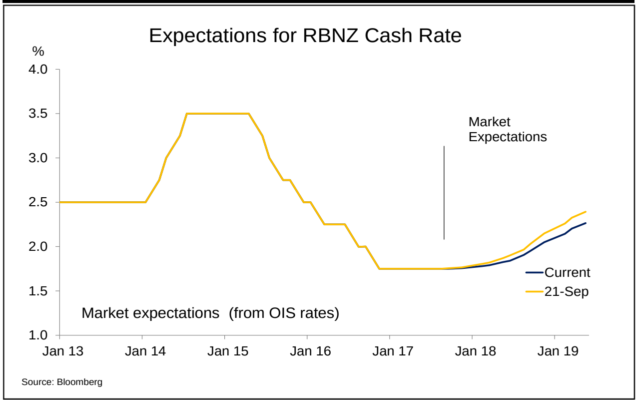


The BNZ OIS-ter: BoE is the next central bank in line to hike

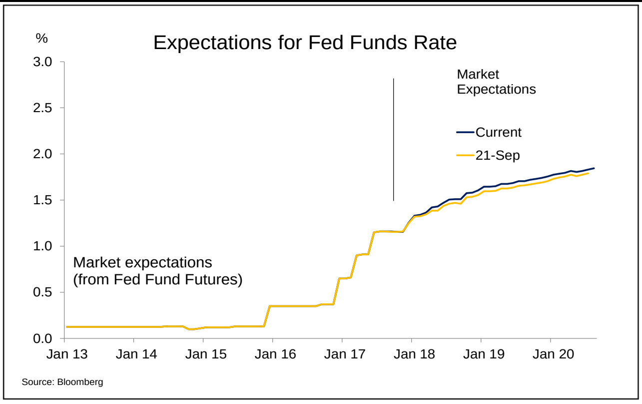
- **RBNZ and RBA policy updates have been and gone without much market reaction. Policy outlooks for both remain decidedly neutral, with no hints whatsoever of joining other major central banks in guiding towards less policy accommodation. The first RBNZ rate hike for the cycle is not fully priced until November 2018. For Australia, the timing is around September 2018 - both still quite far away and likely to keep the short end of the curve well anchored for some time yet.**
- **The next central bank off the blocks is expected to be the BoE, where about a 75% chance of a rate hike at its next meeting is priced in for November. Against a soft economic backdrop, the market is reluctant to price in an aggressive rate cycle, with the next hike not priced in until mid-2018.**
- **For the Fed, about a 70% chance of a rate hike is priced in for December and another hike through next year, but the implied rate track still priced well below the Fed's own projections.**

jason.k.wong@bnz.co.nz

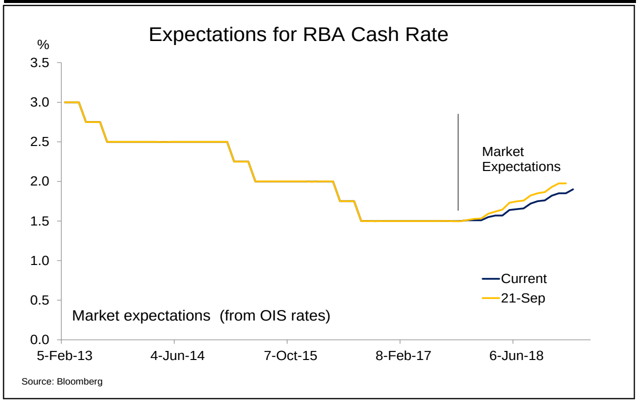
New Zealand



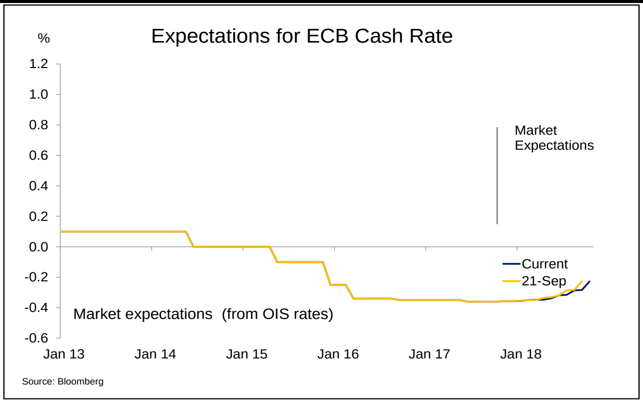
United States



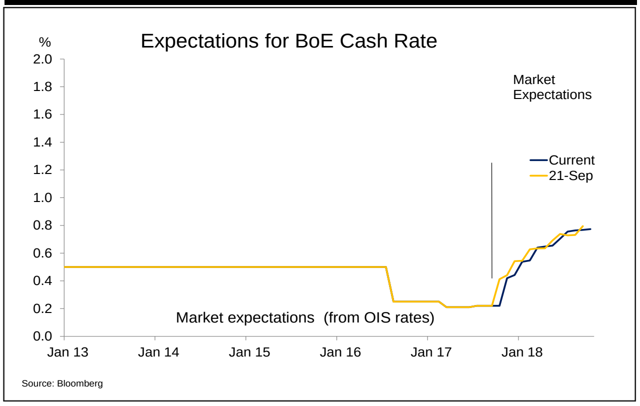
Australia



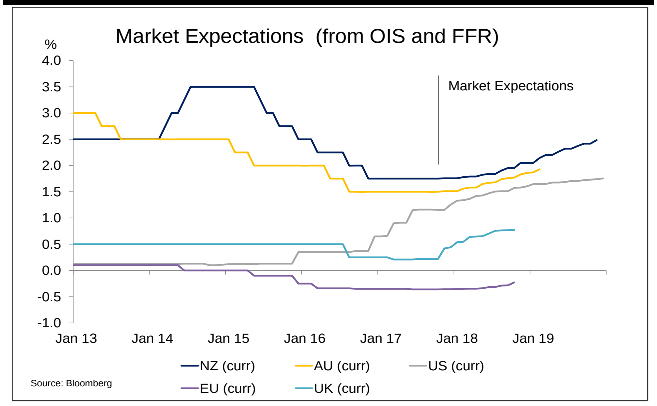
Eurozone



United Kingdom



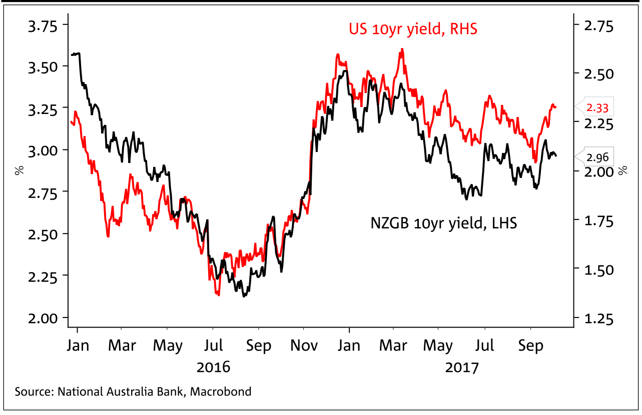
Cross Country



Interest Rate Strategy: range-bound front end and steeper curve

- **Front end likely to remain range-bound, 2y swap capped around 2.25-2.30% in the short term.**
- **NZ rates to be dominated by global moves in Q4 - we look for US 10yrs to reach 2.60%, taking NZGB 10yrs to 3.20%.**
- **Look for NZ 2s10s swap curve to steepen to 120bp.**

UST and NZGB 10yr yield



Source: National Australia Bank, Macrobond

NZ front end to remain range-bound

After trading to a high of 2.28% in mid-September, the NZ 2y swap rate has settled back into a tight range around 2.20% over the last two weeks. That earlier move higher was reminiscent of the late June-early July sell-off – the NZ market following the global sell-off and influenced particularly by the break of key ranges in the Aussie market. As has been the case all year, receiving interest was quick to emerge.

Near term, our bias for global yields is higher and that should flow through to the NZ front end, but the extent of this move is likely to be limited and the lack of pressure domestically for rate hikes should cap 2y swap around 2.25-2.30%. Technically the recent failure at the 50 week MA of 2.28% implies 2y swap has entered a more neutral environment that should see it range trading between the 2.11% and 2.31% Bollinger bands over the coming weeks.

On the monetary policy front, last week's OCR meeting did nothing for the market, despite it being the new (interim) Governor Grant Spencer's first meeting. The language in the statement was similar and maintained the key line "monetary policy will remain accommodative for a considerable period". BNZ's forecast for RBNZ tightening in H2 2018 points to higher front end NZ swap rates, but the market significantly re-pricing for this forecast is more a story for next year.

Long end rates more upside, steeper curve in Q4

US 10-year yields are up over 30bps from their September low. The move has had some fundamental support from higher CPI data and generally stronger than expected activity releases, the FOMC reiterating its rate projections through to the end of next year, encompassing four rate hikes by then, Fed chair Yellen's comments that it is imprudent to keep monetary policy on hold until inflation is at 2%, some long-awaited detail on Trump's tax cut plans and, finally, rumours of the hawkish Kevin Warsh taking the reigns as Fed chair in early 2018.

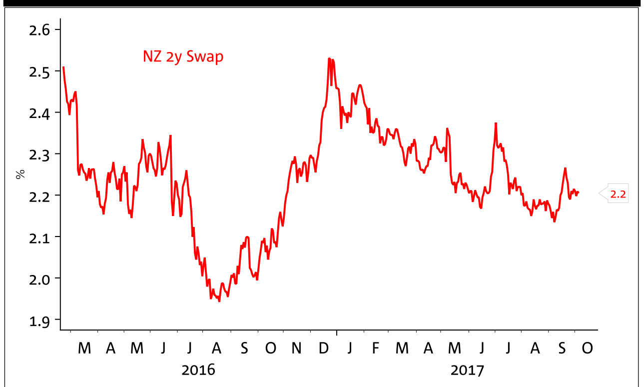
Over the past few weeks we have published updated forecasts for global yields. In that Q4 outlook piece, we outlined our view for US 10yrs to reach 2.60% by year-end.

That view translates into an NZGB 10y yield reaching 3.20% by year-end (currently 2.96%).

The NZ yield curve is likely to remain highly directional on global yields. Our 2.60% target for US 10yrs suggests the 2s10s curve will re-test at least 120bp and this view leaves us favouring curve steepeners.

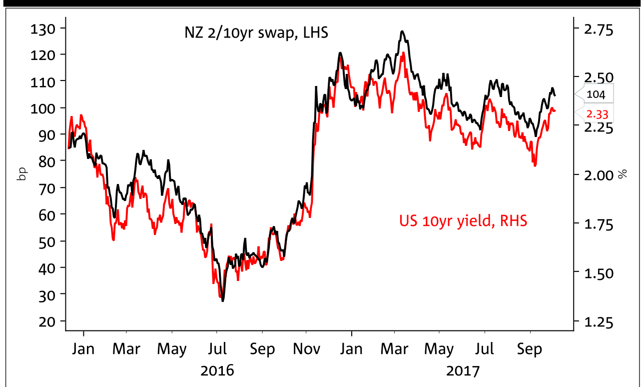
Alex.Stanley@nab.com.au

NZ 2y swap



Source: National Australia Bank, Macrobond

US 10y vs NZ 2s10s swap curve



Source: National Australia Bank, Macrobond

NZ Economic Review

General Election – 23 September
The election night outcome proved as inconclusive as the final handful of polls. The incumbent centre-right National party, with a strong-in-the-end 58 seats, secured by far the biggest single piece of the pie. Even so, it was left dependent on the centrist NZ First party (9 seats) to get the numbers. The centre-left Labour party (45 seats), with its tacit ties to the Green party (7 seats), must also fancy its chances of wooing NZ First to secure a majority, however. And more so if the 15% of (special) votes yet to be counted end up giving the Labour/Greens bloc another seat or two (at the expense of National) as tends to be the way these votes go.

Fonterra Annual Result (2016/17) – 25 September
Fonterra took this opportunity to reiterate its 2017/18 milk price forecasts at $6.75 along with earnings guidance at 45c to 55c per share. As for its final milk price for 2016/17 this was shaved a piddly 3 cents, to $6.12, while its final dividend was confirmed at 20 cents, as expected, making for 40 cents for the full season.

Merchandise Trade (Aug) – 26 September
August's merchandise trade deficit proved $400m bigger than the market anticipated. This was principally as annual growth in exports "slumped" to 9%, from 17% in July. The results weren't too different to what we expected, however. So they didn't perturb our upbeat expectations around Q3 GDP and the current account.

ANZ Business Survey (Sep) – 26 September
It looked like someone finally told respondents to this survey that a tight election was afoot. Its net confidence tanked to zero in September, from +18 in August. But when we correct for seasonality we get +14, which, while lower than August's +29, was above its long-term average of +11. This is no worry, in other words, more a bit of temperance from a seemingly bullet-proof attitude over prior months.

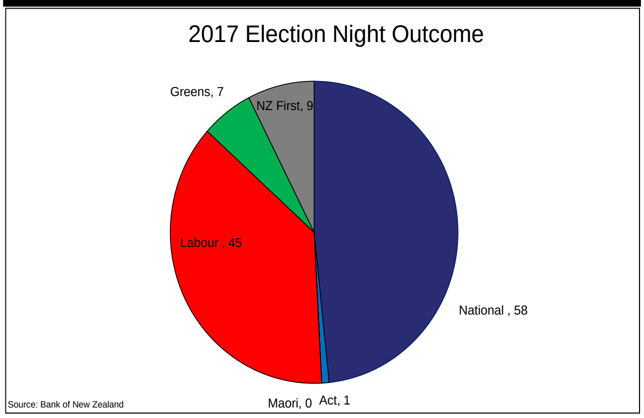
New Residential Mortgages (Aug) – 26 September
August's new residential lending by local banks, of $5.1b, was down 16.4% on a year ago. While this was obviously negative, it wasn't as negative as July's (-23.8%) or June's (-25.1%). In this there were signs that the worst of its slowdown might well be passing.

RBNZ OCR Review – 28 September
The Reserve Bank kept its cards close to its chest at this review, leaving its wording substantively unchanged and its policy interest rate at 1.75%. Still, the balance of information since the August Monetary Policy Statement (MPS) has increased pressure for the Bank to start reducing its degree of stimulus, in our view. Having said this, we believe the Reserve Bank will probably keep doing its best to resist this pressure (with the form and intent of the next government also important to consider for the purposes of November's MPS).

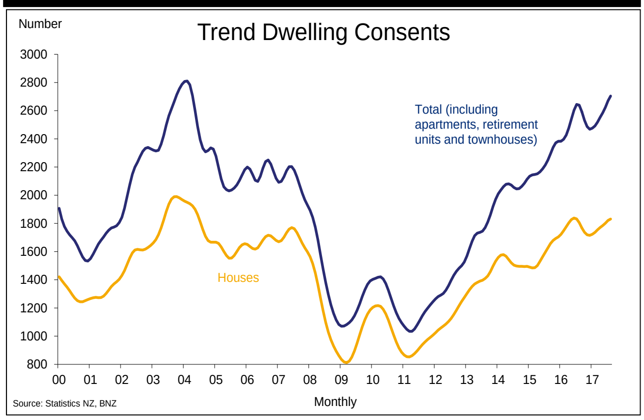
Building Consents (Aug) – 29 September
New dwelling consents rose a seasonally adjusted 10.2% in August, to be up 11.7% on a year ago. This reclaimed a positive bent, after some wobbles earlier in the year, and came despite ongoing abatement in Canterbury's lot. Meanwhile, the value of non-residential building consents in August enlarged 32% y/y. It all supports our thinking that construction will return to being a support to economic growth in the second half of the year following its mild dip in the first half.

Credit Aggregates (Aug) – 29 September
Annual growth in household credit slowed yet again, to 6.7%, from 7.1% in July (after peaking at 9.0% back in December). However, we reckon it expanded 0.4% in August alone, seasonally adjusted, after 0.3% in July. This was all the more encouraging considering weak housing turnover, talk of banks tightening credit criteria and the impending election. Elsewhere, the stock of business credit in August proved 6.2% higher than a year prior – a pick-up from its 5.2% annual pace in July. Agriculture credit slowed to 2.5% y/y, from 2.9% in July, continuing its moderate rate of expansion over the last year or so.

Let the Bargaining Begin



Rebuilding



NZIER QSBO (Q3) – 3 October
The news in this Quarterly Survey of Business Opinion (QSBO) was that it held its shape rather well, when it might have gone a bit wobbly, if only because of its proximity to the general election. Sure, its net confidence subsided, but not all that much, to +5, from +18 in June. More to the point, the QSBO's indicators on activity, employment, investment, profitability, capacity constraint, and pricing/costs, remained firm.

GDT Dairy Auction – 4 October
The 2.4% fall in the GDT-weighted price index was a slap in the face for expectations of a moderate increase. While China's Golden Week holiday might have had something to do with this, the fact is that if prices don't rebound over coming auctions then risks around our $6.75 milk price forecast will tilt to the downside.

QVNZ Housing Report (Sep) – 4 October
Given its in-built lags, it was no surprise to see the Quotable Value NZ home price index decelerate further in September, to an annual velocity of 4.3%, from 4.8%. In terms of the anecdote, QVNZ said that "The normal spring surge in property listings still hasn't eventuated throughout most of the country and this lack of supply has helped insulate the market from more significant falls in values" and that "While the property markets appear to have run out of puff in the main urban areas, there's still plenty of activity in the smaller provincial towns which were slower getting started."

Barfoot's Housing Report (Sep) – 4 October
Barfoot and Thompson's (Auckland-centric) home sales slumped further in September, to weak levels. Yet the average sale price of $928,213 was up 0.9% y/y. The stock of listings, meanwhile, was simply running less-low, rather than mushrooming out of proportion. In any case, with the election no doubt having some impact on recent real estate results, it won't be until later in the year, and into the New Year, before we see data upon which we can properly assess the trends (including reaction to the shape of the new government).

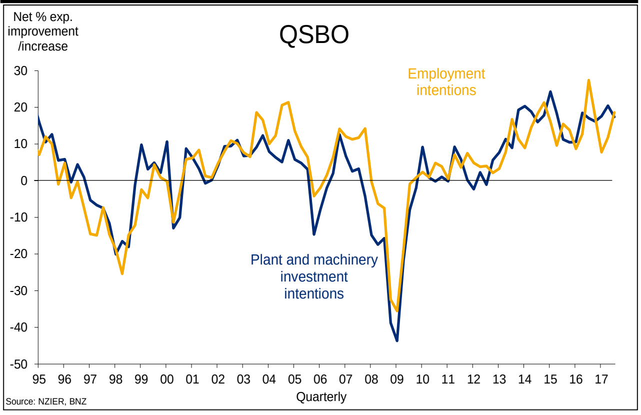
ANZ Job Ads (Sep) – 4 October
Even during the month of a close-run election, ANZ job ads managed to rise a further 0.4%, after increasing 1.0% in August. Its annual rate of growth was 8.5%.

ANZ Commodity Export Prices (Sep) – 4 October
New Zealand's commodity export prices were about as robust as we thought they would be, in these ANZ indices. Up 0.8%, overall, they were aided by a bounce in horticulture produce and aluminium. With this, New Zealand's merchandise terms of trade would appear to be consolidating around an all-time high.

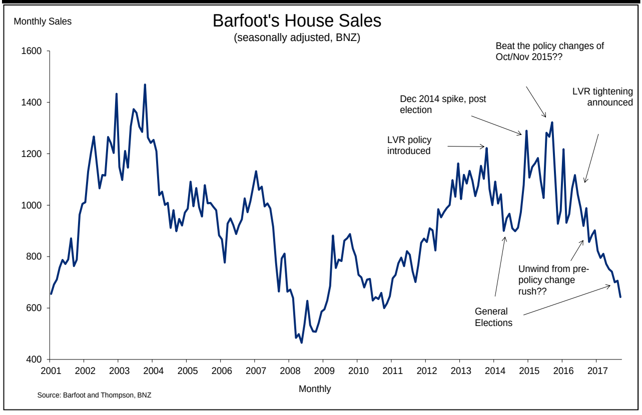
Crown Accounts (year-to-June 2017) – 4 October
The government's core (OBEGAL) operating surplus for the year to June 2017 turned out to be $4.1b, equivalent to 1.5% of GDP. This was better than pre-election estimates, but only by $363m. Tax revenue in the three months to June 2017 was 7.4% up on the corresponding three months last year.

craig_ebert@bnz.co.nz

No Sign Of Business Baulking (pre-Election)



Artificially Suppressed?



NZ Upcoming Data/Events

Final Election Vote Count – 7 October
With only 85% of the votes able to be counted on election night, how will the remaining 15% (of "specials") affect the final seat allocation? They have tended to favour Labour and the Greens, at the direct expense of National, in the past. But this has been an election full of surprises at every turn, with little able to be taken for granted.

Electronic Card Transactions (Sep) – 10 October
The 0.6% increase in August's electronic card transactions merely made up for the percentage drop in July. So we'll look to September's outcome to set the underlying tone, for which we anticipate a 0.4% lift. To be clear; we'd need to see a gain far in excess of 1.0% in order to suggest Q3 real retail trade will avoid contracting from its bumper level of Q2.

New Government Announced – 12 October
With the form of the next government relying on the carriage of the NZ First party, its leader, the Right Honourable Winston Peters, has indicated that the outcome will be announced by 12 October. From this we will need to determine the paths of key policies, and make any adjustments to our macro-economic views as necessary.

Food Price Index (Sep) – 12 October
The food price index typically falls a bit in September and we don't see why it would not do so this time around. We estimate a fall of 0.4%. This is part and parcel of the 0.3% increase we estimate for the Q3 CPI, which would keep its annual rate of inflation at 1.7%.

ANZ-RM Consumer Confidence (Oct) – 12 October
Having strengthened to 129.9 in September, this ANZ Roy Morgan measure of consumer confidence for October will, unfortunately, be redolent of the post-election political hiatus. So it won't be of much fundamental use until its November edition is issued, when consumers will have had the chance to pass judgement on the form of the new government.

BNZ PMI (Sep) – 13 October
The Performance of Manufacturing Index surprised us by how strong it was in August. It picked up to a seasonally adjusted 57.9, after a reading of 55.5 in July. It could afford to come down a peg or two in September and still look pretty good.

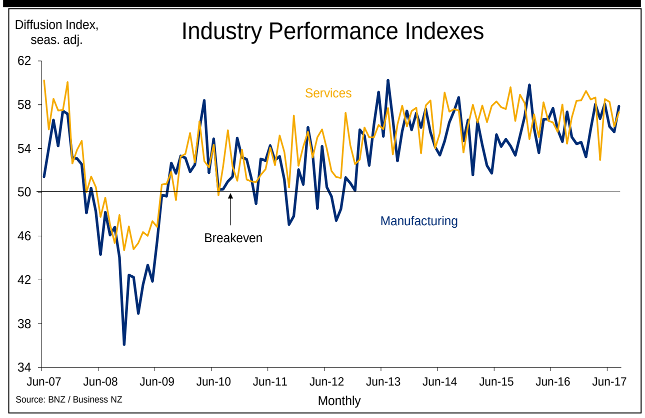
BNZ PSI (Sep) – 16 October
Like the PMI, the Performance of Services Index acquitted itself very well in August, rising to a seasonally adjusted 57.3 from 56.0 in July. We would guess a little bit of slippage in September, but we'll be happy to be proved wrong.

CPI (Q3) – 17 October
Subject to September's food price outturn, we currently estimate a 0.3% increase for the September quarter CPI. This would leave its annual rate of inflation at 1.7%. The RBNZ, in its last published set of forecasts, expected 1.6%, followed by 1.3% y/y in Q4 and just 0.7% y/y in Q1 of 2018. We don't see anything like this sort of deceleration.

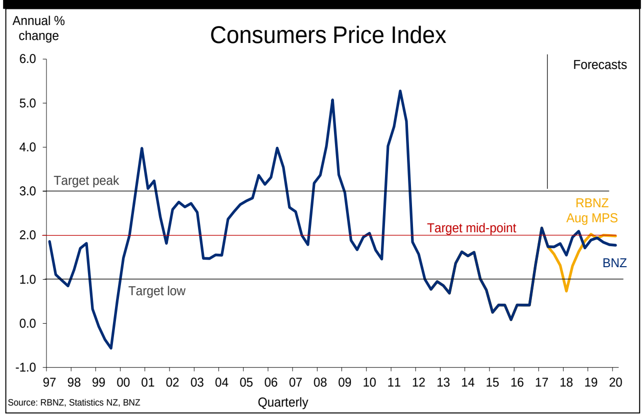
GDT Dairy Auction – 18 October
With the 2.4% fall in price at the last auction surprising many (certainly us) it will be very interesting to see if this next event shows a decent rebound. If so, it could point to Golden Week in China being the culprit for the last auction's dip in price.

craig_ebert@bnz.co.nz

How Is the Air Up There?



You Take the Low Road



Quarterly Forecasts

As at 5 October 2017

Key Economic Forecasts

Quarterly % change unless otherwise specified

Forecasts: Sep-17 to Jun-18

	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18
GDP (production s.a.)	0.7	0.8	0.7	0.4	0.6	0.8	0.7	0.5	0.5	1.0
Retail trade (real s.a.)	0.8	2.0	0.8	0.9	1.6	2.0	-0.6	0.8	0.7	1.6
Current account (ytd, % GDP)	-2.9	-2.7	-2.8	-2.5	-2.9	-2.8	-2.6	-2.4	-2.3	-2.6
CPI (q/q)	0.2	0.4	0.3	0.4	1.0	0.0	0.3	0.5	0.7	0.4
Employment	1.2	2.4	1.4	0.7	1.1	-0.1	0.8	0.7	0.7	0.6
Unemployment rate %	5.2	5.1	4.9	5.2	4.9	4.8	4.7	4.7	4.7	4.7
Avg hourly earnings (ann %)	2.5	2.1	1.6	1.1	1.1	1.2	2.0	2.7	2.8	2.6
Trading partner GDP (ann %)	3.1	3.4	3.2	3.5	3.5	3.5	3.6	3.4	3.6	3.5
CPI (y/y)	0.4	0.4	0.4	1.3	2.2	1.7	1.7	1.8	1.5	2.0
GDP (production s.a., y/y))	2.8	3.5	3.3	2.6	2.5	2.5	2.5	2.6	2.5	2.7

Interest Rates

Historical data - qtr average
Forecast data - end quarter

	Cash	Government Stock 90 Day Bank Bills	5 Year	10 Year	Swaps 2 Year	5 Year	10 Year	US Rates Libor 3 month	US 10 yr	Spread NZ-US Ten year
2016 Sep	2.10	2.30	1.95	2.25	2.05	2.15	2.50	0.80	1.55	0.70
Dec	1.85	2.10	2.45	2.95	2.25	2.65	3.10	0.90	2.10	0.80
2017 Mar	1.75	2.00	2.70	3.25	2.35	3.00	3.50	1.15	2.50	0.80
Jun	1.75	1.95	2.45	2.95	2.25	2.80	3.25	1.25	2.20	0.75
Sep	1.75	1.95	2.45	2.95	2.20	2.70	3.20	1.30	2.20	0.75
Forecasts										
Dec	1.75	1.95	2.75	3.20	2.20	3.00	3.50	1.45	2.60	0.60
Mar	1.75	1.95	2.80	3.25	2.30	3.05	3.55	1.55	2.75	0.50
2018 Jun	1.75	2.05	2.80	3.25	2.40	3.05	3.55	1.70	2.75	0.50
Sep	2.00	2.30	3.15	3.60	2.60	3.40	3.90	1.95	3.00	0.60
Dec	2.25	2.55	3.25	3.70	2.85	3.50	4.00	2.20	3.00	0.70
Mar	2.50	2.80	3.25	3.70	3.10	3.50	4.00	2.30	3.00	0.70
2019 Jun	2.75	3.05	3.30	3.75	3.20	3.50	4.00	2.30	3.00	0.75
Sep	3.00	3.20	3.35	3.80	3.30	3.50	4.00	2.30	3.00	0.80
Dec	3.00	3.20	3.40	3.85	3.30	3.55	4.05	2.30	3.00	0.85

Exchange Rates (End Period)

	USD Forecasts NZD/USD	AUD/USD	EUR/USD	GBP/USD	USD/JPY	NZD Forecasts NZD/USD	NZD/AUD	NZD/EUR	NZD/GBP	NZD/JPY	TWI-17
Current	0.72	0.78	1.18	1.32	113	0.72	0.91	0.61	0.54	80.8	75.8
Dec-17	0.70	0.75	1.17	1.33	116	0.70	0.93	0.60	0.53	81.2	75.3
Mar-18	0.69	0.74	1.18	1.30	118	0.69	0.93	0.59	0.53	81.4	74.5
Jun-18	0.69	0.73	1.20	1.31	118	0.69	0.95	0.58	0.53	81.4	74.5
Sep-18	0.70	0.73	1.22	1.28	118	0.70	0.95	0.57	0.54	82.0	74.9
Dec-18	0.70	0.73	1.20	1.26	120	0.70	0.96	0.58	0.56	84.0	75.7
Mar-19	0.71	0.74	1.20	1.25	120	0.71	0.96	0.59	0.57	85.2	76.5
Jun-19	0.72	0.75	1.18	1.24	120	0.72	0.96	0.61	0.58	86.4	77.5
Sep-19	0.73	0.76	1.18	1.25	118	0.73	0.95	0.61	0.58	85.6	77.4
Dec-19	0.73	0.76	1.17	1.24	117	0.73	0.95	0.62	0.59	84.8	77.4
Mar-20	0.73	0.76	1.19	1.26	116	0.73	0.96	0.61	0.58	84.7	77.5
TWI Weights						14.0%	20.7%	11.3%	4.6%	6.4%	

Source for all tables: Statistics NZ, Bloomberg, Reuters, RBNZ, BNZ

Annual Forecasts

As at 5 October 2017

	March Years					December Years				
	Actuals		Forecasts			Actuals		Forecasts		
	2016	2017	2018	2019	2020	2015	2016	2017	2018	2019
GDP - annual average % change										
Private Consumption	2.8	4.8	3.5	3.5	2.2	2.9	4.3	4.0	3.4	2.6
Government Consumption	2.6	2.4	3.2	1.6	1.3	2.6	2.2	3.5	1.8	1.2
Total Investment	2.5	5.6	2.0	3.9	2.9	2.1	5.5	2.7	3.4	3.3
Stocks - ppts cont'n to growth	-0.2	-0.3	0.0	0.2	0.0	-0.3	0.0	0.0	0.1	0.0
GNE	2.5	4.3	3.1	3.4	2.2	2.3	4.1	3.6	3.2	2.5
Exports	5.6	0.7	2.4	2.7	4.3	6.9	1.6	1.0	2.6	4.2
Imports	2.0	5.1	4.4	3.8	3.4	3.7	3.4	5.1	3.8	3.6
Real Expenditure GDP	3.5	3.0	2.6	3.1	2.4	3.2	3.5	2.5	2.9	2.7
GDP (production)	**2.4**	**2.9**	**2.5**	**3.1**	**2.4**	**2.5**	**3.0**	**2.5**	**2.9**	**2.7**
GDP - annual % change (q/q)	*2.8*	*2.5*	*2.5*	*3.3*	*2.1*	*2.2*	*2.6*	*2.6*	*3.3*	*2.2*
Output Gap (ann avg, % dev)	0.8	0.9	0.8	1.3	1.1	0.8	0.9	0.8	1.1	1.2
Household Savings (gross, % disp. income)	1.2	0.1	-0.5	-0.3	0.4					
Nominal Expenditure GDP - $bn	250.7	264.7	277.2	288.8	300.6	247.6	260.7	274.7	285.7	297.6
Prices and Employment - annual % change										
CPI	0.4	2.2	1.5	1.9	1.8	0.1	1.3	1.8	1.7	1.8
Employment	2.0	5.7	2.0	2.4	1.7	1.4	5.8	2.5	2.5	2.0
Unemployment Rate %	5.2	4.9	4.7	4.7	4.8	4.9	5.2	4.7	4.7	4.8
Wages - ahote	2.5	1.1	2.8	2.8	2.7	2.5	1.1	2.7	2.6	2.8
Productivity (ann av %)	0.3	-2.6	-0.3	0.6	0.3	0.1	-1.7	-1.1	0.3	0.4
Unit Labour Costs (ann av %)	2.4	4.7	3.0	2.5	2.7	2.6	3.6	3.6	2.8	2.6
External Balance										
Current Account - $bn	-7.3	-7.7	-6.3	-8.7	-9.5	-8.0	-6.6	-6.7	-8.6	-9.3
Current Account - % of GDP	-2.9	-2.9	-2.3	-3.0	-3.2	-3.2	-2.5	-2.4	-3.0	-3.1
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	0.7	1.5	1.0	1.2	1.9					
Net Core Crown Debt (excl NZS Fund Assets)	24.5	22.4	21.9	21.4	19.9					
Bond Programme - $bn	7.0	8.0	7.0	7.0	7.0					
Bond Programme - % of GDP	2.8	3.0	2.5	2.4	2.3					
Financial Variables [(1)]										
NZD/USD	0.67	0.70	0.69	0.71	0.73	0.68	0.70	0.70	0.70	0.73
USD/JPY	113	113	118	120	116	122	116	116	120	117
EUR/USD	1.11	1.07	1.18	1.20	1.19	1.09	1.05	1.17	1.20	1.17
NZD/AUD	0.90	0.92	0.93	0.96	0.96	0.93	0.96	0.93	0.96	0.95
NZD/GBP	0.47	0.57	0.53	0.57	0.58	0.45	0.56	0.53	0.56	0.59
NZD/EUR	0.61	0.66	0.59	0.59	0.61	0.62	0.67	0.60	0.58	0.62
NZD/YEN	76.2	79.1	81.4	85.2	84.7	82.1	81.6	81.2	84.0	84.8
TWI	72.2	76.5	74.5	76.5	77.5	73.4	78.1	75.3	75.7	77.4
Overnight Cash Rate (end qtr)	2.25	1.75	1.75	2.50	3.00	2.50	1.75	1.75	2.25	3.00
90-day Bank Bill Rate	2.41	1.98	1.95	2.78	3.12	2.78	2.02	1.95	2.53	3.20
5-year Govt Bond	2.40	2.70	2.80	3.25	3.45	2.95	2.75	2.75	3.25	3.40
10-year Govt Bond	2.90	3.25	3.25	3.70	3.90	3.45	3.30	3.20	3.70	3.85
2-year Swap	2.30	2.30	2.30	3.10	3.20	2.80	2.40	2.20	2.85	3.30
5-year Swap	2.60	3.00	3.05	3.50	3.70	3.15	3.00	3.00	3.50	3.65
US 10-year Bonds	1.90	2.50	2.75	3.00	3.00	2.25	2.50	2.60	3.00	3.00
NZ-US 10-year Spread	1.00	0.75	0.50	0.70	0.90	1.20	0.80	0.60	0.70	0.85

[(1)] *Average for the last month in the quarter*

Source for all tables: Statistics NZ, EcoWin, Bloomberg, Reuters, RBNZ, NZ Treasury, BNZ

Calendar

	Forecast	Median	Last
Friday 6 October			
Germ, Factory Orders, August		+0.7%	-0.7%
US, Non-Farm Payrolls, September		+80k	+156k
US, Fed's Dudley Speaks, Monetary Policy			
Saturday 7 October			
NZ, Election Final Vote Count			
Monday 9 October			
China, Services PMI (Caixin), September			52.7
Germ, Industrial Production, August			flat
Tuesday 10 October			
NZ, Electronic Card Transactions, September			+0.6%
Aus, RBA's Debelle Speaks			
Aus, NAB Business Survey, September			+5
UK, Industrial Production, August			+0.2%
Wednesday 11 October			
Aus, Consumer Sentiment - Wpac, October			97.9
Jpn, Machinery Orders, August			+8.0%
UK, RICS Housing Survey, September			+6%
US, FOMC Minutes, 20 Sept meeting			
Thursday 12 October			
NZ, ANZ-RM Consumer Confidence, October			129.9
NZ, Food Price Index, September			+0.6%
Aus, Housing Finance, August			+2.9%
Euro, Industrial Production, August			+0.1%
US, PPI ex-food/energy, September y/y		+2.0%	+2.0%
US, Fed's Powell Speaks			
Friday 13 October			
NZ, BNZ PMI (Manufacturing), September			57.9
Aus, Financial Stability Review			
China, Trade Balance, September		+CNY262b	+CNY286b
US, CPI ex food/energy, September y/y		+1.8%	+1.7%
US, Business Inventories, August		+0.4%	+0.2%
US, Mich Cons Confidence, October 1st est		95.0	95.1
US, Retail Sales, September		+1.2%	-0.2%
Monday 16 October			
NZ, BNZ PSI (Services), September			57.3
China, CPI, July y/y		+1.6%	+1.8%
China, PPI, September y/y		+6.4%	+6.3%
Euro, Trade Balance, August s.a.			+€18.6b
US, Empire Manufacturing, October		+20.0	+24.4
Tuesday 17 October			
NZ, CPI, Q3 y/y			+1.7%
Aus, RBA Minutes, 3 October Meeting			
Euro, CPI, Sept y/y 2nd est			+1.5%P
Germ, ZEW Sentiment, October			+17.0
UK, CPI, September y/y			+2.9%
US, Industrial Production, September		-0.1%	-0.9%

	Forecast	Median	Last
Wednesday 18 October			
NZ, Dairy Auction, GDT Price Index			-2.4%
UK, Unemployment Rate (ILO), August			4.3%
US, Housing Starts, September		1,200k	1,180k
US, Beige Book			
Thursday 19 October			
Aus, NAB Business Survey, Q3			+7
Aus, Employment, September			+54k
China, Industrial Production, Sept y/y			+6.0%
China, Retail Sales, Sept y/y			+10.4%
China, GDP, Q3 y/y			+6.9%
Jpn, Merchandise Trade Balance, September			+¥114b
Jpn, All Industry Index, August			-0.1%
UK, Retail Sales vol., September			+1.0%
US, Leading Indicator, September			+0.4%
US, Philly Fed Index, October			+23.8
Friday 20 October			
NZ, External Migration, September s.a.			+5,490
Germ, PPI, Sept y/y			+2.6%
US, Existing Home Sales, September		5.36m	5.35m
Monday 23 October			
NZ, Holiday, Labour Day			
China, Property Prices, September			
Euro, Consumer Confidence, Oct 1st est			-1.2
Tuesday 24 October			
China, Leading Index (Conference Bd), September			
Euro, PMI Manufacturing/Services, Oct. 1st est			58.1/55.8
US, Markit PMI/PSI, Oct 1st est			53.1/55.3
Wednesday 25 October			
Aus, CPI, Q3			+0.2%
Germ, IFO Index, October			115.2
UK, GDP, Q3 1st est			+0.3%
US, New Home Sales, September			560k
Can, BOC Policy Announcement			1.00%
Thursday 26 October			
NZ, Merchandise Trade, September			+$1,235m
NZ, Residential Lending, September y/y			-16.4%
Aus, Terms of Trade, Q3			-5.7%
Euro, ECB Policy Announcement, Refi	0.00%	0.00%	0.00%
US, International Goods Trade, Sept advance			-$62.9b
US, Pending Home Sales, September			-2.6%
Friday 27 October			
Aus, Producer Prices, Q3 y/y			+1.7%
China, Industrial Profits, September y/y			+24.0%
Jpn, CPI, September y/y			+0.7%
US, GDP, Q3 1st est			+3.1%

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+(64 4) 474 6905

Craig Ebert
Senior Economist
+(64 4) 474 6799

Doug Steel
Senior Economist
+(64 4) 474 6923

Jason Wong
Senior Markets Strategist
+(64 4) 924 7652

Main Offices

Wellington
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Phone: +(64 4) 473 3791
FI: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Phone: +(64 9) 976 5762
Toll Free: 0800 081 167

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Phone: +(64 3) 353 2219
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Global Head of Research
+(61 2) 9237 1406

Alan Oster
Group Chief Economist
+(61 3) 8634 2927

Ray Attrill
Head of FX Strategy
+(61 2) 9237 1848

Skye Masters
Head of Interest Rate Strategy
+(61 2) 9295 1196

Wellington
Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney
Foreign Exchange +(61 2) 9295 1100
Fixed Income/Derivatives +(61 2) 9295 1166

London
Foreign Exchange +(44 20) 7796 3091
Fixed Income/Derivatives +(44 20) 7796 4761

New York
Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong
Foreign Exchange +(85 2) 2526 5891
Fixed Income/Derivatives +(85 2) 2526 5891

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.