bnz

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Economic Outlook

With the word "uncertainty" being bandied around a lot lately, and a local election fast approaching, New Zealand's business sector is in fact full of confidence and expectation. Today's ANZ business survey provided the latest proof. Far from doing a nervous Nelly, its net confidence index strengthened to +25 in June, from +15 in May. Own-activity expectations burgeoned to +43, from +38. These results are consistent with annual real GDP growth in the order of 4%. Not that the economy will be able to achieve such a strong degree of expansion as that, with capacity constraints already biting on most fronts. This is starting to seriously limit the wherewithal to grow, even though the demand side indicators are pushing hard for it. In this we continue to ask questions of those who judge that the economy is not only devoid of resource pressures but is still running some spare capacity. We believe next Tuesday's NZIER Quarterly Survey of Business Survey will very much support our view.

Interest Rate Outlook and Strategy

With some trepidation, we are today formally pushing back our expectation of a first RBNZ rate hike to mid-2018 from Q1 2018. There remains huge uncertainty around the timing of the move and we are certainly not ruling out a February rate hike. However, we now think looking for a May (or August) move is a better reflection of our central view of the Reserve Bank's reaction function with equivalent risks of an earlier or later move. Our view on the RBNZ/OCR remains significantly more aggressive than the central bank's and modestly more so than market. We have also, for now, lopped the top off the peak in our OCR track to 3.0% from 3.75% to acknowledge the widening spread between the cash rate and lending rates but acknowledge that this spread has changed significantly in the past and can do so again.

Currency Outlook

A run of softer US data and a likely delay to the next Fed rate hike until December have pushed out the expected recovery in the USD. Combined with stronger NZ terms of trade we push out by a quarter the expected fall in the NZD/USD. We have lifted our end-Q3 target up to 0.71. Q4 is nudged up a cent to 0.68. While the current NZD remains well below our short-term fair value estimate of around USD 0.75, there has been a wedge between actual and fair value all year. We aren't expecting the NZD to rise much further over the near term. Our models suggest that NZD/AUD around the 0.95 mark is currently pretty fair, while we have the cross settling around the 0.97 mark over the coming year. Our highest conviction call is EUR strength over the coming year which, combined with a softer NZD, sees NZD/EUR below the 0.60 mark by early next year.

Central Banks Stir as RBNZ Hibernates

- RBNZ on hold for "considerable period"
- As BOC, BOE and Fed show signs of aggression
- We formally relinquish our Feb rate hike view
- As short term inflation indicators weaken
- Nonetheless, we remain mindful that capacity pressures continue to build

With some trepidation, we are now formally pushing back our expectation of a first RBNZ rate hike to mid-2018 from Q1 2018. There remains huge uncertainty around the timing of the move and we are certainly not ruling out a February rate hike. However, we now think looking for a May (or August) move is a better reflection of our central view of the RBNZ's reaction function with equivalent risks of an earlier or later move. Our view remains significantly more aggressive than the central bank's and modestly more so than market.

We have long held the belief that the process to a tightening would be a three stage one. Given that the Bank's current forecasts have no increase in rates until late 2019/early 2020, it would be difficult to justify a hike in rates any time soon without first acknowledging that the time for doing so was no longer so distant. As such, we think the first action of the central bank would be to go to a tightening bias, the second to formally bring forward any prospective tightening and then, finally, actually pull the trigger. Given that the Reserve Bank doesn't seem to like shifting its stance at OCR reviews, this process would need to evolve over three consecutive Monetary Policy Statements. If we are right, this would mean, at the earliest, an August, 2017 move to a tightening bias, November bring forward the projected tightening and then February, 2018 raise rates.

We had thought the RBNZ would accede to the strength in the domestic economy and move to a tightening bias by August at the latest. However, the May Monetary Policy Statement revealed no intent whatsoever to do this with the Bank restating its view that it saw an equal chance of a rate cut as a rate hike. As hard to believe as this may be, it is the Bank's stated view so can't be ignored.

The stance was, implicitly, restated in the June OCR review and, perhaps, more importantly, developments since the May MPS are more likely to convince the RBNZ that it is doing the right thing than not.

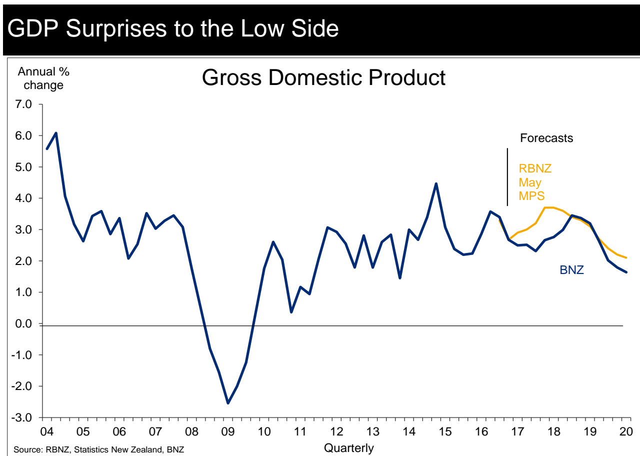
To start with, Q1 GDP came in well shy of the RBNZ's expectations. The Bank was forecasting 0.9% for the quarter; the actual outturn was 0.5%. Importantly, while we think that GDP growth will pick up, on a quarterly basis, from here, we do not think that it will rise sufficiently to offset the Q1 "shortfall".

Of greatest significance is the fact that inflation indicators have taken a turn to the low-side. Oil and, in turn, petrol prices have plummeted. So much so that we have lowered our Q2 CPI forecast to 0.1% and slashed our Q3 number to 0.2%. This now leaves our year to March 2018 annual CPI forecast sitting at just 1.2%.

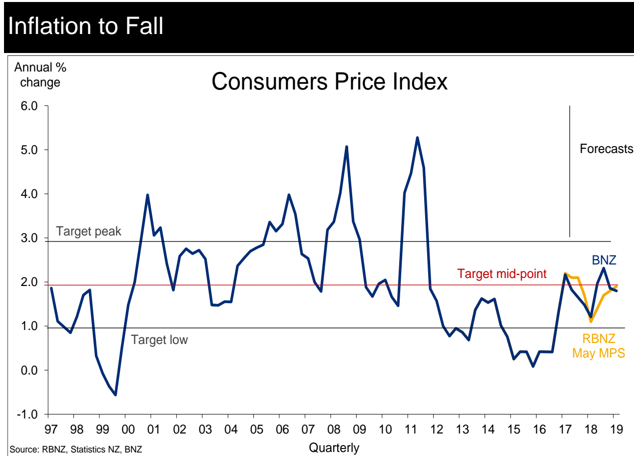
Moreover, it is quite likely that the RBNZ's August MPS forecasts for the year ahead will be even lower than ours as their already low forecasts would not have had the petrol price plummet in them and definitely did not have the currency as strong as it is. The RBNZ had assumed the TWI would average 75.0 through the September quarter. If it stays where it is (78.6) then this, by itself, could take 0.5% off the Bank's year-ahead CPI forecasts and, in turn, demand an even lower interest rate profile than the RBNZ currently assumes. Indeed, at face value, it would demand rate cuts.

If all this wasn't enough, bank lending rates have been drifting higher even as the cash rate has stayed the same. For example, the variable 1st mortgage housing rate is up over 20 basis points since late last year and the average

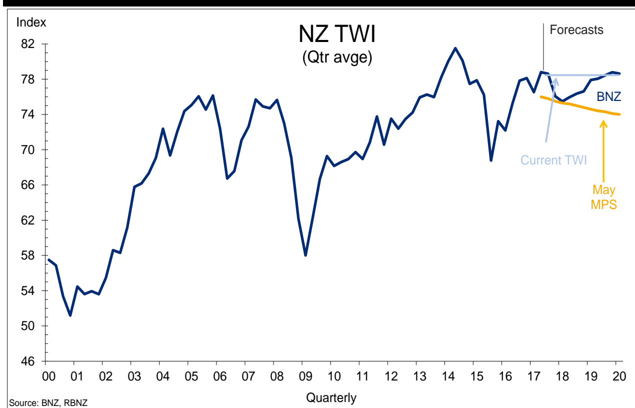
GDP Surprises to the Low Side



Inflation to Fall



NZD Stronger for Longer



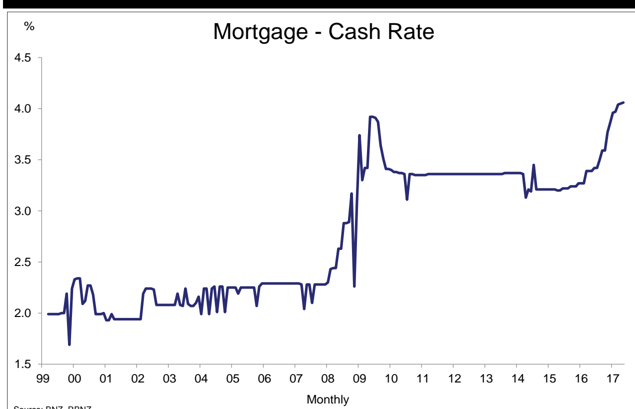
two year fixed rate has risen 50 bias points from its low. Of course, this is, in part, due to financial markets having priced in rate hikes earlier than the RBNZ has suggested.

With bank lending rates rising, macro-prudential policy biting and the banking sector suffering funding constraints, inflation in the housing market has also softened playing further into the RBNZ's dovish inclinations.

One might reasonably ask why, under these conditions, we are even talking about rate increases at all. To start with there are some statistical offsets:

- Food prices are remaining stubbornly high and will put upward pressure on headline inflation;
- Core inflation looks like it will soon sit above headline inflation;
- We expect inflation expectations to remain consistent with CPI inflation sitting at or above the mid-point of the RBNZ's target band;
- Fiscal policy will prove to be quite stimulatory and this will not yet have been built into the RBNZ's forecasts;
- Commodity prices have risen and the terms of trade is headed for record highs;
- Capacity utilisation is approaching a record high; and
- The labour market continues to tighten.

Retail Rates Rise as OCR Doesn't



Additionally, it would appear that central banks around the world are starting to shift their positions:

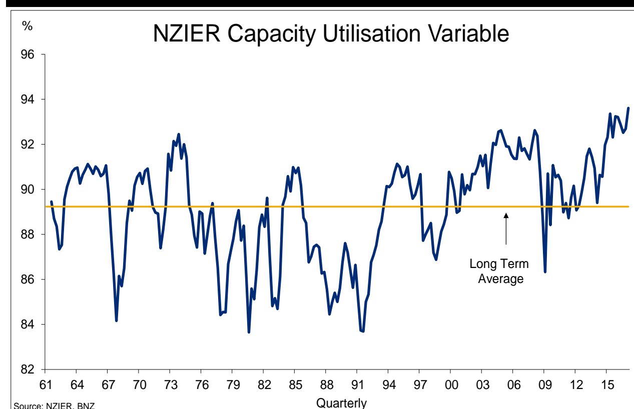
- The Federal Reserve has already tightened, will tighten more and will soon start reducing its balance sheet;
- The Bank of England's vote to keep rates unchanged narrowed to a slim 5-3 margin and Governor Carney suggested there is now less need for stimulus - so markets now believe there is a 55% chance of a hike by November;
- The ECB seems to be shifting, albeit glacially, towards a tightening bias;
- And the Bank of Canada surprised in indicating that its first tightening might be sooner than thought. Indeed, we were particularly attracted to Governor Poloz's comment that rate cuts "have done their job. We're just approaching a new interest rate decision . . . . Certainly we need to be at least considering that whole situation now that capacity – excess capacity – is being used up steadily". Markets have correspondingly shifted to pricing a 70% chance of a rate hike in July.

If these respective central banks do start moving in the manner implied it will make it easier for the RBNZ to do likewise. Importantly, Governor Wheeler seems to have been heavily influenced by the actions and rhetoric of the key central banks in the past. Indeed, it is this, more than anything that has created our trepidation in pushing back our expectations of the RBNZ's expected rate track, particularly given that we believe both inflation and capacity pressures are greater in New Zealand than in Canada. Sure the NZD has been stronger than the currencies of Canada and the UK but it is domestic demand that is at the centre of the tightening discussion and here New Zealand is a leader.

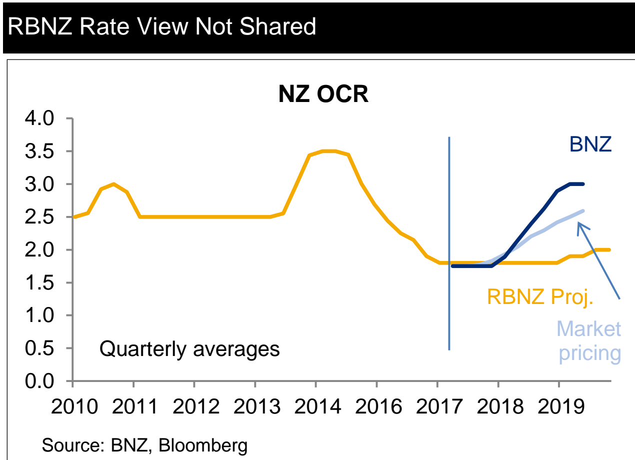
Furthermore, we maintain our view that, whatever happens to headline inflation, interest rate settings in New Zealand are currently more consistent with an economy that is under significant duress than one which is growing steadily tightening designed to slow down the economy but more the removal of "emergency" stimulus measures as the fear (founded or not) of deflation gripped the Bank.

We should, of course, note that forecasting the actions of the RBNZ over the next twelve months is even more

Capacity Utilisation at Record High



RBNZ Rate View Not Shared



Source: BNZ, Bloomberg

fraught with danger than normal. In September, Graeme Wheeler departs. In March, Deputy Grant Spencer does likewise and the new Governor is appointed. Even if the Bank's mandate remains unchanged, we know from both past New Zealand experience and what's happened offshore that the culture of the central bank can change and even its interpretation of the "rules" can do likewise.

At the extreme, a new Governor may even choose, with the support of the Finance Minister to adjust the Policy Targets Agreement. There is certainly significant precedence for this. And, last but not least, we do have a General Election which could conceivably deliver a new Minister of Finance with a very different view of how the RBNZ should operate.

Our view on where the rate hike cycle begins is not that different to the market's with June 2018 currently priced in for the first move. June, of course, is unlikely as it's an OCR review date not an MPS. The market then has a second rate hike by November 2018 with the potential for a couple more the following year.

We still think that, ultimately, the cash rate will need to push up to and through neutral and that when the process begins it will tend to be quicker than the market will price. We do not know exactly where neutral is these days but we do think it is substantially higher than where rates currently are. We have, for now, lopped the top off the peak in our OCR track to 3.0% from 3.75% to acknowledge the widening spread between the cash rate and lending rates but acknowledge that this spread has changed significantly in the past and can do so again.

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NZ Business Reality Trumps (Political) Uncertainty

- NZ businesses beefing up their optimism
- Despite the election and other supposed uncertainties
- Agriculture very much joining the party
- Capacity constraints are clearly biting
- Pricing gauges sustain 2%-plus inflation pulse

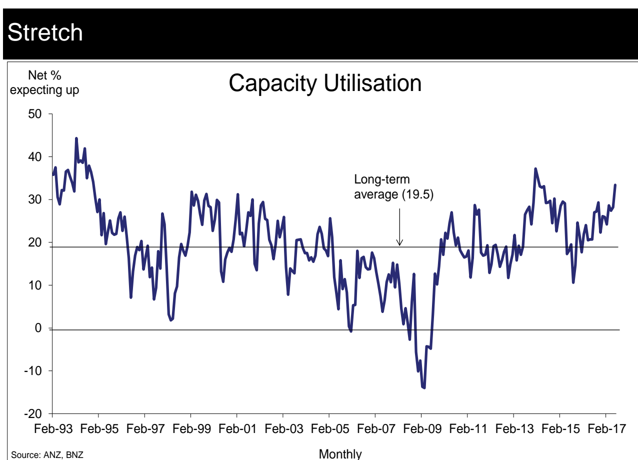
With the word "uncertainty" being bandied around a lot lately, and a local election fast approaching, the reality is that New Zealand's business sector is full of confidence and expectation. This afternoon's ANZ business outlook survey, conducted in June, provided the latest proof. Far from doing a nervous Nelly, its net confidence index strengthened to +25, from +15. Own-activity expectations burgeoned to +43, from +38. These results were better still when we seasonally adjust them, and consistent with annual real GDP growth in the order of 4%.

Not that the NZ economy will be able to achieve such a strong degree of expansion as that. Not from the starting point we have, where capacity constraints are biting on most fronts. This is starting to seriously limit the wherewithal to grow, even though the demand side indicators are pushing hard for it. In this we continue to ask questions of those who judge that the economy is not only devoid of resource pressures but is still running some spare capacity. The Treasury took this line in the May Budget, and we strongly beg to differ.

We believe next week's NZIER Quarterly Survey of Business Survey (QSBO) will support our view; indeed will keep supporting our view, in that it has increasingly touted capacity constraint messages for a number of quarters now. More broadly, of course, the QSBO will no doubt echo the positive messages we've seen in this afternoon's monthly ANZ survey, as tends to be the case.

But this is not to overlook the capacity utilisation index in the ANZ survey. While this is supposed to be a change variable – is capacity utilisation expected to increase or

Stretch



ANZ Bank Business Outlook

Net balance - next 12 months (All sectors)	June	May	Change	Average
General business outlook	**24.8**	**14.9**	9.9	10.9
Own business	**42.8**	**38.3**	4.5	27.4
Profits	**29.9**	**27.7**	2.2	9.8
Employment	**24.3**	**23.6**	0.7	8.2
Investment	**27.4**	**23.5**	3.9	13.9
Pricing intentions	**31.1**	**30.2**	0.9	20.9
Inflation expectations	**2.03**	**2.00**	0.03	2.64
Exports	**27.0**	**31.3**	-4.3	30.5
(Own activity outlook)				
Retail	**29.8**	**21.8**	8.0	25.3
Manufacturing	**25.5**	**37.5**	-12.0	29.4
Agriculture	**53.3**	**33.3**	20.0	22.8
Construction	**46.2**	**44.0**	2.2	18.8
Services	**46.3**	**44.3**	2.0	30.6

decrease – it seems to have elements of a "levels" indicator as well. In the least, it suggests capacity constraints are coming into play, with little sign of spare capacity to begin with. The direction is undeniable.

Our view on capacity pressure is integral to the inflation risks we believe the RBNZ is taking with its low-for-much-longer approach on its Official Cash Rate, which is already at a record low. Something has to give, at some stage. But the Reserve Bank does not appear to be in any mind to do so anytime soon, judging by the OCR missive it issued last week.

To be sure, the near-term CPI outlook has been dampened by the recent drop in oil prices, and the recent wriggle higher in the New Zealand dollar.

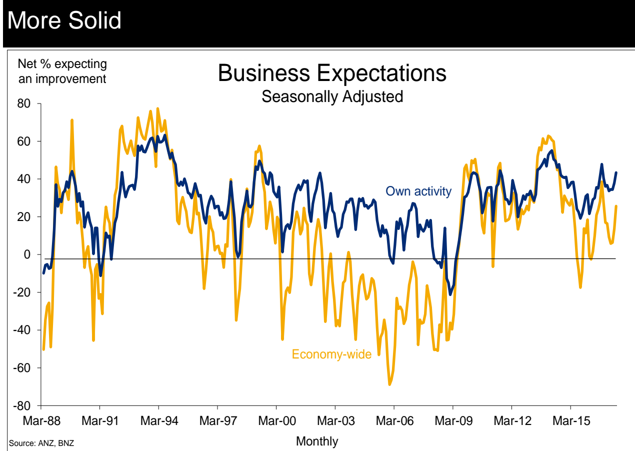
However, it would be a bold person to suggest that inflation will fade away as an underlying issue, when we have not only such a stretch of capacity, but respondents to today's business survey expressing a firm intent to raise prices. The degree of it – a net +31, from +30 in May – was consistent with annual CPI inflation running at 2% if not closer to 3%. While this might struggle to be the outcome for the headline CPI over the near horizon, it's something to bear in mind regarding the various core rates of inflation out there, many of which have lifted to around about 2% already.

Also from a general perspective, it's interesting to note that inflation expectations in today's ANZ business survey come in at 2.03% this month, from 2.00% in May. This consolidates quite some rebound, since a 1.38% low back in March 2016.

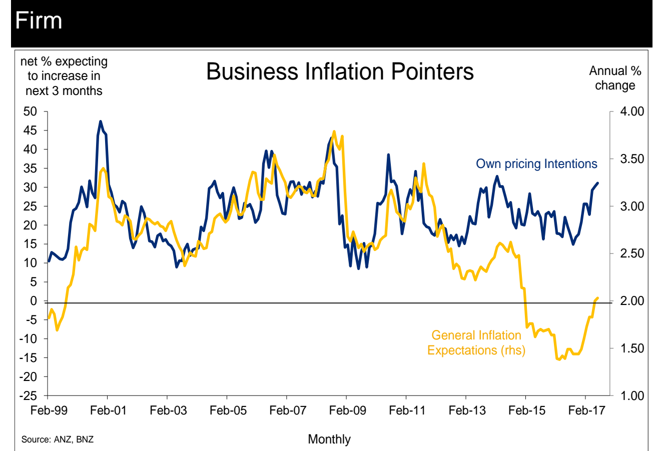
While the generalities of today's business survey were certainly firm, there were a few details which are worth commenting on.

For instance, it's been agriculture that has boosted the ANZ survey the most over recent months. Then again, this

More Solid



Firm



simply reflects the strength we're seeing in commodity export prices, and for reasons far beyond the normalisation in dairy returns. And it's not as though the other sectors have fallen by the wayside. Services are still vying with agriculture for the most optimistic, and retail and manufacturing respondents have certainly improved in confidence compared to just a few months ago.

As for the construction category of the ANZ business survey, while it was still reasonably positive with regard confidence in the general business outlook was now to activity, it was less so than earlier in the year. And its lagging the pack, for the second month running. Yet its employment intentions were still leading from the front and its investment intentions series was still substantially north of its long-term average.

In the least, the mixed messages we're getting from the construction industry make it one to keep an eye on, and keep thinking about. In this vein, we can imagine that resource and costs pressures are assailing it more than most, and that, given the vulnerability inherent in high property prices, financing issues might also be coming into play for some.

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Another Small But Important Shift in ECB Rhetoric

- Draghi increasingly upbeat on Euro Zone economy; above trend in 84% of member states
- Contradiction between broad, above-trend growth and muted inflation temporary; capacity utilisation also above long-run averages
- Argues policy will have to evolve in line with economic recovery to keep policy stance broadly unchanged

Following the ECB's last meeting on 8 June we said the central bank had started down the path of a gradual exit from its emergency measures. ECB President Draghi took another step in that direction Tuesday by underscoring the ECB's increasing confidence that the apparent contradiction between broad, above-trend economic growth and more muted inflation dynamics is temporary and that monetary policy is working to build reflationary pressures. With the latter having now replaced prior deflationary forces, Draghi added a number of supportive facts to his early June observations on improving economic growth and apparent, above trend, capacity utilisation before dropping a hint that policy is likely to evolve in parallel with the economic recovery or risk becoming too accommodative.

"As the economy continues to recover, a constant policy stance will become more accommodative, and the central bank can accompany the recovery by adjusting the parameters of its policy instruments – not in order to tighten the policy stance, but to keep it broadly unchanged." In other words as the economy gathers momentum, the ECB will adjust its policy parameters in sync to ensure things like financial conditions remain broadly the same.

That is not to say the ECB will be taking any risks with its easy policy. It remains absolutely clear that the Governing Council stands behind its intention to retain a very substantial degree of monetary accommodation to allow underlying inflation to rise and support headline inflation in the medium term. And to be sure the ECB warned of an important caveat to the above with current global uncertainty apt to spill over on occasions into markets, resulting in a tightening of conditions, which in the past have necessitated a monetary response. Against this background the ECB wants to remain 'prudent.'

But Tuesday's communication marks the latest in an incremental approach to removing the emergency policy measures, which as we have argued will see the ECB outline a tapering of its asset purchases (APP) at its early September meeting. The December meeting will be an apt point to make comments on the -0.4% Deposit Rate, though changes will also be a 2018 affair.

Draghi's commentary now makes it a closer call on whether the ECB will use its next meeting on 20 July to flag up the September meeting as a rendezvous for some guidance on a tapering of its APP. We've said we suspect the ECB can wait until December to flush out the finer details on a tapering program for 2018, but officials have argued recently that investors won't have to wait until December to get the broad outline. Delivering early on that at the September meeting will (hopefully) help avoid a Fed-style taper tantrum. It will be interesting to watch whether speculation of an earlier communication rises between now and the 20 July meeting.

Tuesday's speech saw the EUR rise across the board – touching 1.13 at one point from 1.1185 before Draghi spoke. The Bund yield has leaped from 0.24% to 0.32%, dragging UST yields higher in its wake. The reaction has been marked because after its March communication mis-step the ECB has trodden an extremely cautious and dovish line. The cumulative effect of the last two ECB public outings, is forcing a something of a re-pricing.

While what the ECB has outlined suggests a further upward grind in yields, while the EUR can build on its gains since mid-May, it also likely means these asset moves will need to be taken into account when altering policy settings given they will very modestly tighten financial conditions. The ECB will be expecting these moves however given the improvement in the economy. An ECB rule of thumb is a circa 10% rise (fall) in the EUR exchange rate subtracts (adds) 0.4%-0.5% to (from) HICP over 2-3 years. One warning: Friday's US June core PCE inflation and ECB flash June HICP releases can magnify or reverse some of what happened this week – as important as these releases are. But, overall the ECB is being very clear and deliberate as it moves to scrub off the excesses of a policy that is still designed for deflation.

On the economy Draghi built on his early June confidence to date noting that while recovery in the Euro Zone started later than in other advanced economies, it has now enjoyed 16 straight quarters of growth, which is spread across 84% of member states – above its 74% historical average, while 6.4 million jobs have been created. Underscoring the drivers of this performance – low interest rates, asset purchases and forward guidance – Draghi said there was a strong rebound in demand for consumer credit and demand for loans had firmed, while lower interest rate burdens and deleveraging had delivered for the first time since 1999 a dynamic of rising spending and falling indebtedness.

The 3.6% rise in GDP in the Euro Zone since the Asset Purchase Program started in January 2015 is higher than what was seen in the US during the QE1 and QE2 periods and around a percentage lower than after QE3, while job creation is comparable with QE1/QE2 and considerably higher than QE3, according to Draghi. For the monetary transmission to work however, he said, stronger growth and employment ought to lead to higher capacity utilisation,

scarcity in production and eventually upward pressure on wages and inflation – "and this is what we see."

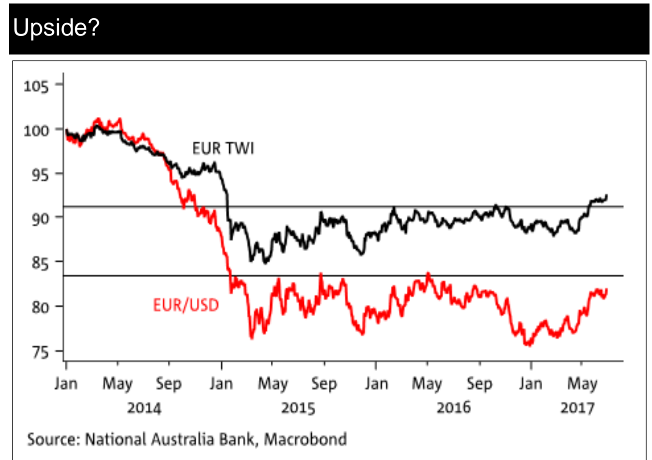
While confident inflation is rising back to target Draghi spent some time explaining the ECB's view of essentially three main factors that have held inflation back – external shocks to prices, the size of the output gap and its impact on inflation and the extent to which current inflation feeds into price and wage setting. Draghi said these factors will only delay and not prevent the transmission of its (accommodative) monetary policy to prices. "As the business cycle matures, the higher demand resulting from positive supply developments will accelerate price pressures, while firms' pricing power will increase and the broader measures of slack will converge towards the headline measures."

Draghi noted the considerable change in in the political outlook in the Euro Zone, with the previous cloud of uncertainty acting as a brake on confidence and investment, which was tantamount to a tightening of economic conditions. " Today the political winds are becoming tailwinds, with newfound confidence in the reform process and newfound support for European cohesion (read Macron/Merkel) which could help unleash pent-up demand and investment," he said. We've argued for some time that the EUR is re-pricing to a higher range, with days of the old 1.05-1.10 range in EURUSD now over and looking to further explore the 1.10-1.15 range, aided in part by the improvement in European politics. Friday's US/Euro Zone inflation combo will help decide if this particular move can be sustained and extended or not.

Draghi's Tuesday speech can be read here:

https://www.ecb.europa.eu/press/key/date/2017/html/ecb.sp170627.en.html

Upside?



Source: National Australia Bank, Macrobond

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Carbon and Commodities

- Crude prices consolidate above recent lows, as a weak US Dollar and slight draw in gasoline inventories stimulate profit taking on shorts.
- Concerns over OPEC's ability to control supply and therefore prices with its recent production agreement continue to weigh on prices.
- Metal prices have firmed considerably on renewed Chinese demand and a weaker US Dollar.

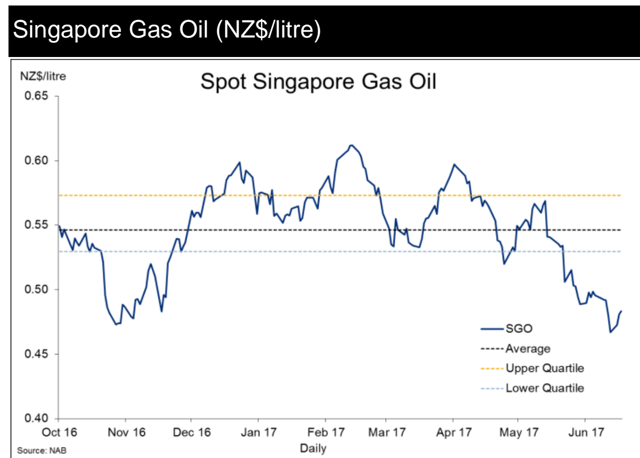
Commodity	US$	Change (daily US$)	Change (Fortnight)	Change (Month)	Change (Year)
Brent Crude	47.30	0.66	0.60%	-5.98%	-3.80%
WTI Crude	44.71	0.47	0.02%	-7.47%	-3.25%
Copper	5,866	23.49	2.04%	3.89%	28.39%
Zinc	2,734	-15.21	10.33%	3.83%	48.87%
Aluminium	1,888	13.24	0.65%	-2.89%	22.11%
Tin	19,555	191.86	3.30%	-4.75%	21.47%
Nickel	9,235	9.51	5.64%	2.12%	11.28%

This week's US dollar weakness has seen EUR/USD climb towards 1.14, the highest levels in a year following Draghi's indications that the ECB was preparing the market for a reduction in monetary stimulus. This has also driven commodity price strength across most products. The commodity price bounce has seen crude prices rally 5% from below $US 45 in the last week. Widespread concerns still surround OPEC effectiveness in controlling supply and therefore prices under the most recent extension of the production cut agreement because any resultant price increases only serve to encourage more expensive producers to come back on line.

The most recent price rise has followed US Department of Energy reports showing crude inventories have reduced from the record 536 million barrel high earlier in the year to now sit at 509 million barrels. Gasoline stocks also reduced by a million barrels in the latest report to 241 million barrels, 20 million barrels below the February record highs. The US Rig count continues to increase by 10 per week, and now sits at 760, well above the 320 lows in mid 2016. Most analysts expect oversupply conditions to continue into early 2018 as demand catches up with current production levels. So it seems likely prices will continue to range trade within $US40-55 per barrel for the remainder of the year, unless the OPEC production cut agreement fractures under the weight of falling prices.

Metal prices have rebounded to 3 month highs as Chinese demand for most products appears to be rising again, and assisted further by US dollar weakness. It is unlikely the price strength is anything more than a corrective bounce off the lows, as US economic growth concerns, and failure for Trump to deliver details on infrastructure expansion plans limit the rallies.

Singapore Gas Oil (NZ$/litre)



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A Delay to Expected NZD/USD Weakness

- A pushing out of the expected recovery in the USD sees our near-term NZD/USD forecasts revised up, pushing out the expected fall in NZD/USD by a quarter. NZ's terms of trade also look to be on a stronger path.
- Our end-Q3 NZD target is revised up a few cents to USD 0.71 and end-Q4 target nudged up a cent to USD 0.68. While the current NZD remains well below our short-term fair value estimate of around USD 0.75, there has been a wedge between actual and fair value all year. We aren't expecting the NZD to rise much further over the near term. The gap is more likely to be closed by fair value nudging lower, than the NZD appreciating further.

The NZD has appreciated strongly over the past seven weeks by nearly 5 cents or 7% from around 0.6850. Technical resistance levels have been broken all the way up although the 0.73-0.7350 hurdle might be tougher to crack. Over that seven week period our short term fair value model estimate has only risen by about 1 cent to 0.7540. We see much of the actual gain in spot reflecting a catch-up from significant and inexplicable underperformance over the previous few months.

Supporting the NZD's recovery has been specific USD weakness, linked to a weak run of economic data. Citigroup's US economic surprise index has shown a cliff-like performance over the past couple of months, plunging to its lowest level in six years, indicating just how underwhelming the run of US data has been, relative to expectations.

In the meantime, NZ's terms of trade continue to rise unabated. Fundamental support remains for the NZD in the form of rising NZ export commodity prices amidst weaker oil prices, a recipe for taking NZ's terms of trade to a fresh all-time high. CBA's NZ commodity price index in SDR terms has increased for seven consecutive weeks – a sign of the broadly based rise in NZ's export commodity basket, encompassing, dairy, meat, horticulture, forestry and seafood.

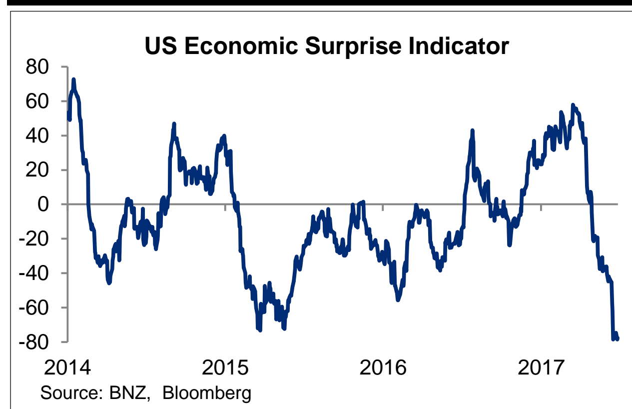
Soft USD data and a likely delay to the next Fed rate hike until December have pushed out the expected recovery in the USD. Combined, with stronger NZ terms of trade we push out by a quarter the expected fall in NZD/USD.

Our end-Q3 target moves up to USD 0.71 (previously 0.67) and Q4 is nudged up a cent to USD 0.68. While the NZD currently remains well below our short-term fair value estimate, there has been a wedge between actual and fair value all year, and we aren't expecting the NZD to rise much further over the near term. The gap is more likely to be closed by fair value nudging lower, than the NZD appreciating further. We expect fair value to be driven down by lower risk appetite and a modest reversal of NZ commodity prices. In that regard it is notable that whole milk dairy futures on the NZX have fallen over the past week or so, from around $3200 per tonne to $3000.

Our fundamental view of an eventual USD recovery hasn't changed and the revision to NZD forecasts is more one of timing. A stronger USD would lead to lower risk appetite as it acts like a tightening in global financial conditions and would encourage lower commodity prices. These forces are NZD-negative.

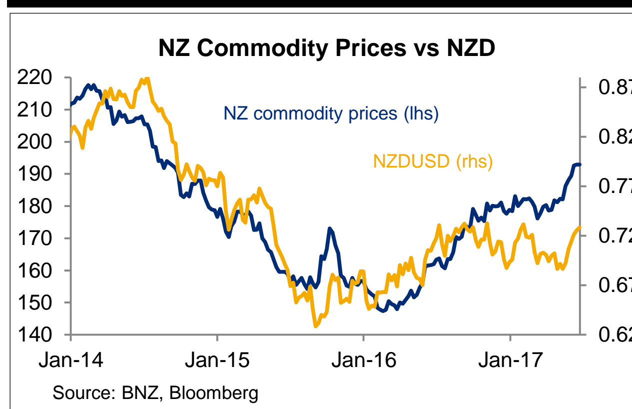
Our USD model based on US-global rate spreads and risk appetite suggests that the USD (on a majors TWI basis) is about 3½% "over-sold". Historically, this model rarely

US Data Surprises to the Downside Last Couple of Months

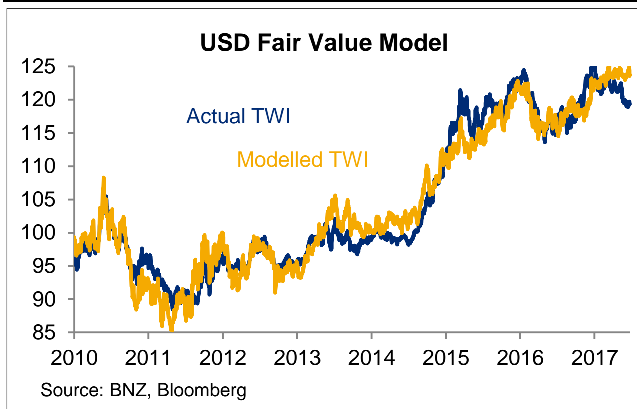


NZD Meets Technical Resistance Around USD 0.73

NZ Commodity Prices Have Been Rising



USD Looking Oversold



Source: BNZ, Bloomberg

shows a valuation gap of more than 4%. This suggests that risks to the USD are skewed to the upside over coming months, with recent selling pressure looking a little overdone.

Another reason to be cautious about how high the NZD could reach in the short term is the impending 23 September election. This will come into focus as campaigning gets underway closer to the time. And there is a reasonable chance that the prevailing government might need support of NZ First. If previous guidance is anything to go by, negotiations in forming a new government could take several weeks. We see this as a potential headwind for the NZD late in Q3 and early Q4.

The RBNZ OCR Review came and went without much reaction. The Bank played an even hand, with only minor tweaks to the policy assessment and sticking to the facts with regards the NZD – noting the recent rise in the TWI was partly explained by higher export prices and that a lower NZD would help rebalance growth towards the tradeables sector.

The RBNZ (and RBA) stand out for their neutral policy tones at a time when the language of other central banks has moved towards indicating a removal of policy accommodation. In that camp we can add the US Fed, Bank of Canada, Bank of England and Norway's central bank. The ECB recently removed its easing bias and President Draghi is signalling an eventual removal of policy accommodation.

If the RBNZ holds the neutral policy line – something we expect through the rest of this year – against the shifting tide of other central banks, then the NZ-global rates differential plays to a softer NZD.

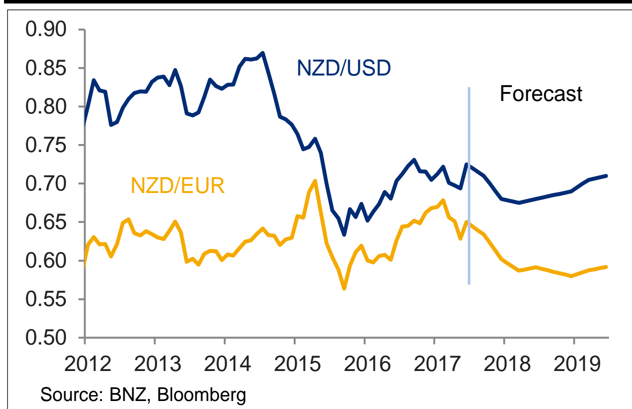
While fundamental forces for the NZD – such as high risk appetite and higher NZ commodity prices – have been supportive recently, the latest CFTC data suggest a surge in the number of net long speculative contracts in the NZD. Positioning has been mainly short NZD over recent months, but there has been sign of capitulation and the data now suggest the highest number of net long positions in over four years. This now makes the NZD more vulnerable to the downside than usual to any negative surprises.

The next key economic releases are the QSBO (4 July) and CPI (18 July), with not much else to look forward to over the next month or so. The latter will be keenly watched, in particular the core inflation measures. An average of four such measures calculated by Statistics NZ has already risen to 2.0%, while the RBNZ's preferred sector factor model core estimate has been static at 1.5% for the past 18 months. That said, the hurdle rate for the RBNZ to change its policy tone is fairly high at this juncture, we think.

Our forecast revisions have been coordinated with changes to NAB's currency revisions to the USD, so this sees only modest forecast revisions to the crosses.

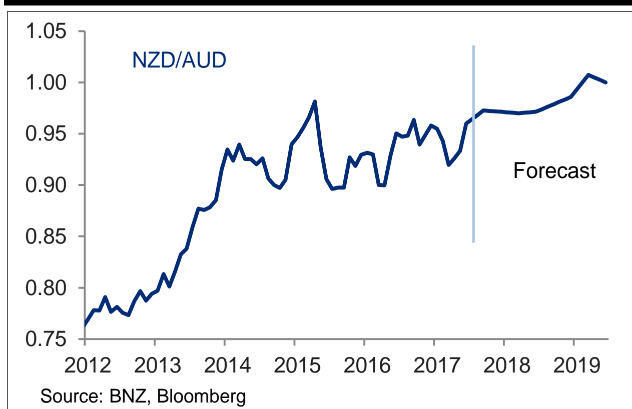
Our models suggest that NZD/AUD around the 0.95 mark is pretty fair. We have the cross settling around the 0.97 mark over the coming year. Our longstanding forecast of parity by late-2018, early 2019 remains unchanged.

Downside Potential for NZD/USD and NZD/EUR



Source: BNZ, Bloomberg

A Flat to Higher Outlook for NZD/AUD



Source: BNZ, Bloomberg

Our highest conviction call is EUR strength over the coming year which, combined with a softer NZD, sees NZD/EUR below the 0.60 mark by early next year. That view got some support this week with ECB President Draghi sounding more positive about the outlook that would allow a gradual removal of current policy accommodation.

The ECB's extremely accommodative stance with its ongoing bond buying programme has been instrumental in keeping the EUR under-valued by depressing euro-area rates. An unwinding of this force is highly supportive for EUR. In previous research we've noted that just moving the deposit rate from -0.4% to zero would be enough to drive our short term NZD/EUR fair value model estimate down to 0.55.

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The BNZ OIS-ter: Central Banks Signal Higher Rates

- The major central banks appear to be co-ordinating a policy theme of removal of policy accommodation. Short-term rate curves are mainly higher over the past fortnight, reflecting the market paying some respect to these policy signals. The Fed is still the only major central back actually raising rates. The market sees the next hike in December as a 50/50 bet.
- Bank of England MPC members have signalled a bias towards raising rates. A possible rate hike now looks a good bet before the end of the year. A fortnight ago, this was seen as a low probability outcome. The ECB recently removed its easing bias and this week Draghi talked about removal of monetary accommodation as the economic recovery continued.
- There has been some spillover impact for the NZ market, with potential rate hikes brought forward a little compared to a fortnight ago. A possible May rate hike is now nearly fully priced, about a quarter earlier than previously expected. Australia's rate curve remains fairly flat, with a gradually rising probability of a rate hike through 2018.

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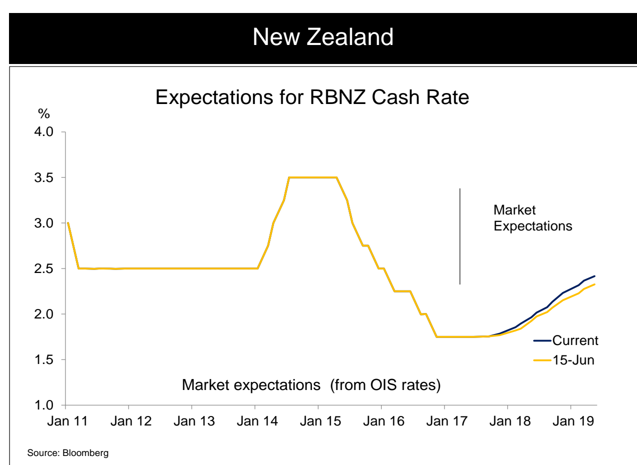
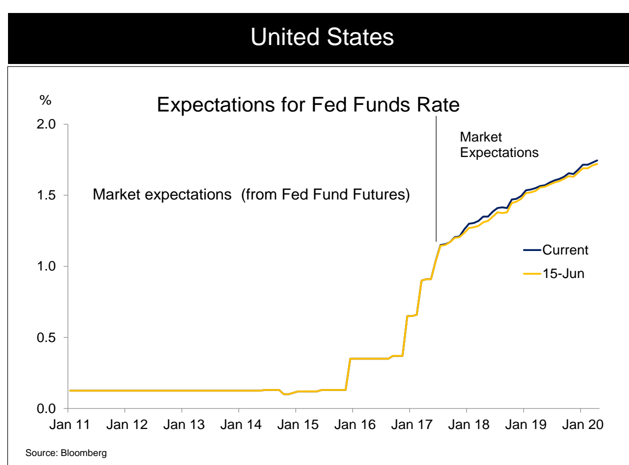
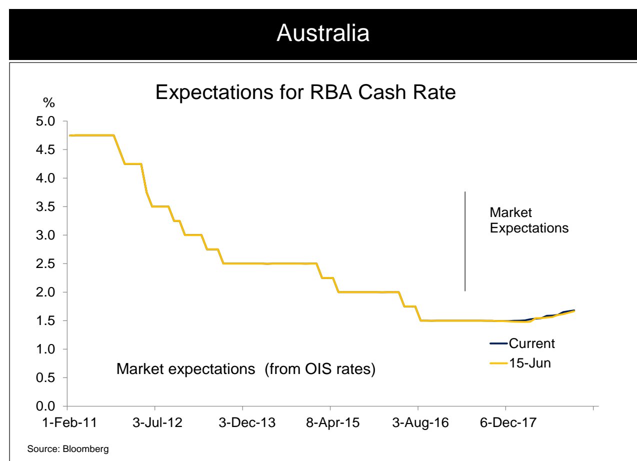
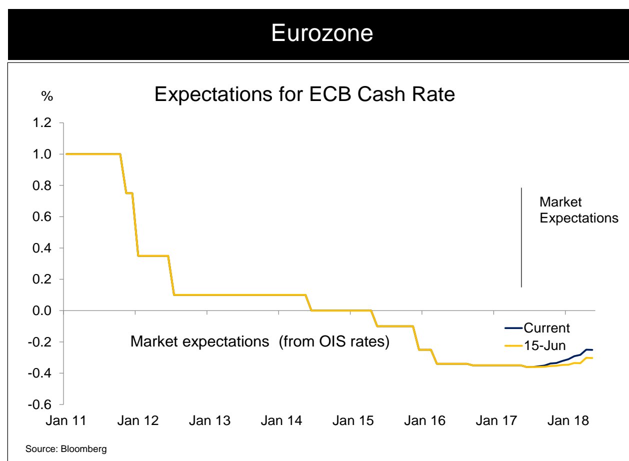
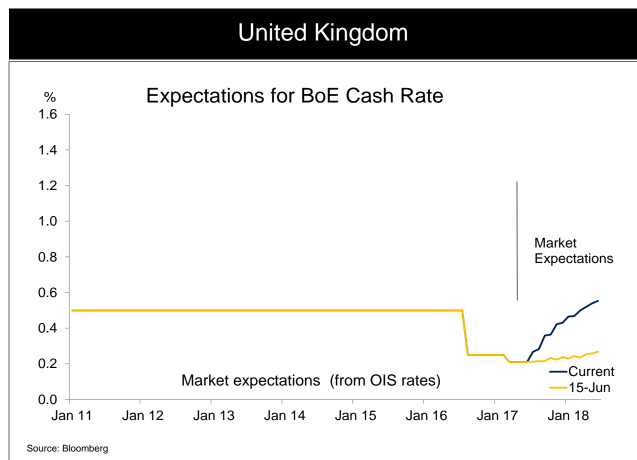
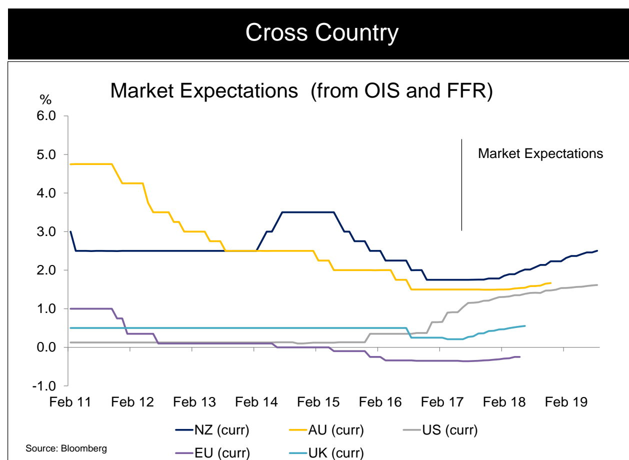












Interest Rate Strategy: A Global Central Bank Turning Point?

- Global yields rebound as markets contemplate several central banks turning the policy corner.
- Spill-over to NZ front end likely to be limited in the short term – support to emerge on a retest of pre-May MPS levels in 1y1y and 2y rates.
- NZ to underperform AU rates, but a major move wider in NZ-AU spreads remains some way off.

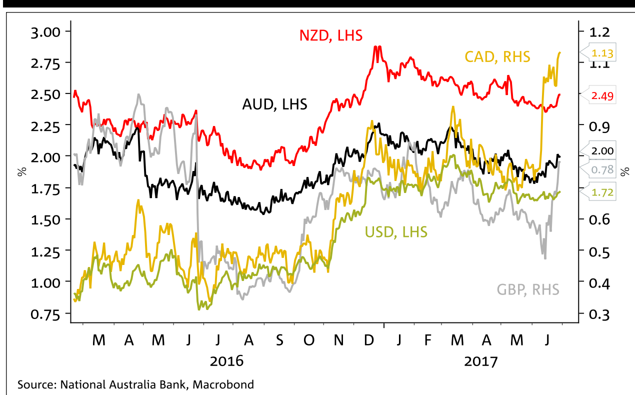
NZ rates and a global policy turning point

NZ rates have backed up and the curve has steepened this week in the wake of ECB President Draghi's comments driving a global bond sell-off. That followed several weeks of very low vol and a steady flattening of the curve amid a grind lower in global yields. In addition to the ECB, other global central banks also appear to be approaching a turning point on policy. In recent weeks, the BoC and BoE have openly questioned the need for highly accommodative policy amid firming growth expectations, and in the case of the BoE, higher inflation.

Chart 1 shows both NZD and AUD markets have lagged the bounce in CAD and GBP front end rates. As was the case when policy rates were being eased, there is a risk these moves are extrapolated to NZD and AUD markets. While this is a key risk, at this stage we don't think these moves will spill over in a major way to the NZ front end. Ultimately, a major re-pricing also requires further evidence of rising inflation and a change in the RBNZ's outlook – the market was wrong-footed in May, positioning for a more hawkish tilt. This change still looks some way off and looks more like an issue for later in the year or in 2018.

We also recognise that positioning in NZ front end rates has been long while global rates vol has been suppressed. So an unwinding of received positions could see front end swap rates back-up further in the short term, which could compound any pressure from offshore. Looking at forward pricing, our new OCR profile is close to the market for June 18, but higher thereafter. This leaves us bearish on a medium to long term time frame, but tactically we expect receiving interest to emerge if front end rates re-test pre-May MPS levels – around 2.35% for 2y and 2.60% for 1y1y swap.

Chart 1: Global 1y1y Swap Rates

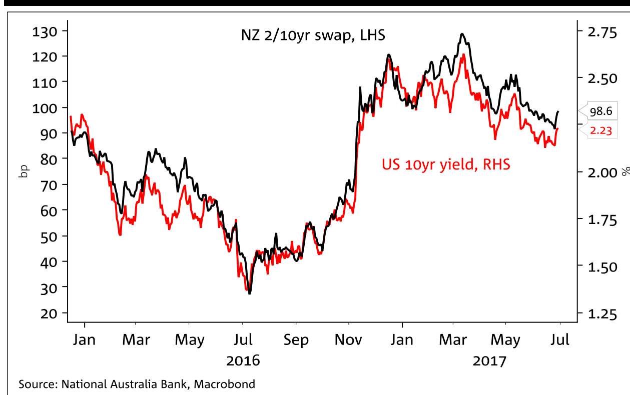


Source: National Australia Bank, Macrobond

Still looking for a steeper NZ curve

The rebound in yields has seen the NZ 2/10y curve steepen, with the long end of the NZ curve moving largely in lock-step with US yields (Chart 2). As outlined in the NAB/BNZ H2 outlook published earlier this month, we think the balance of risks favours higher US 10y yields over the coming months and this should add further steepening pressure to the NZ curve.

Chart 2: US 10yr Yield and NZ 2/10y Swap Curve

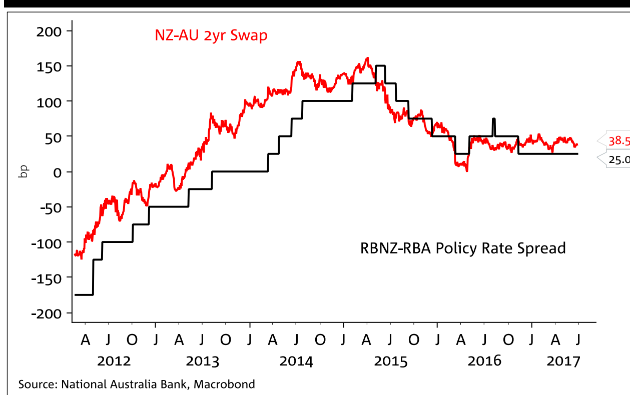


Source: National Australia Bank, Macrobond

NZ rates to underperform AUD rates

While we don't look for a major re-pricing of the NZ front end, we think NZ rates will underperform Aussie rates. To be sure, there's been some focus in Australia this week on comments by former RBA board member John Edwards that the RBA could raise rates eight times in the next two years. We emphatically don't see the case for anything close to that amount of tightening. Our RBNZ vs RBA forecasts point to wider NZ-AU rate spreads, but this is likely to come more from the RBNZ pricing side, given the RBA is expected to be on-hold through 2018. As outlined, a significant re-pricing higher for NZD rates is some way off, so timing and trading ranges are important considerations. The NZ-AU 2y spread is currently near the middle of its year-to-date range at 38bp. A move towards the low end of the range near 30bp is an attractive entry point for NZ-AU 2y spread widening trades.

Chart 3: NZ-AU 2y Swap Rate Spread



Source: National Australia Bank, Macrobond

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NZ Economic Review

BNZ PMI (May) – 16 June

In nudging up to 58.5 in May, New Zealand's Performance of Manufacturing Index (PMI) was the swiftest in 16 months. This makes the slowdown we saw in it early in the year a distant memory already.

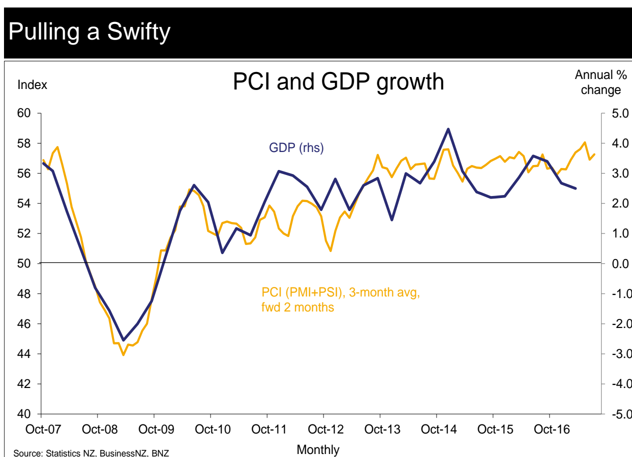
WMM Consumer Confidence (Q2) – 19 June

This Westpac McDermott Miller index of consumer confidence advanced to 113.4, from 111.9 back in March/Q1. Its long-term average is 108.0. The current conditions component eased to 110.5, from 111.2. However, expectations, improved to 115.4, from 112.4.

BNZ PSI (May) – 19 June

It turned out that the Performance of Services Index had a bungee cord tied firmly around its ankles. And so, having dropped precipitously to 53.2 in April, it bounced all the way back up to 58.8 in May. This put it, like the PMI, clearly above average, with respect to expansion.

Pulling a Swifty



ANZ-RM Consumer Confidence (June) – 20 June

This ANZ Roy Morgan index of consumer confidence increased to 127.8, from 123.9 in May. This put it further above its long-term average of 119.0. Inflation expectations were still middling around 3.5%. House price inflation expectations eased to 4.0%, from 4.6%, having "peaked" around 6.0% toward the end of 2016.

Dairy Auction – 21 June

After six consecutive gains, the GDT Price Index eased 0.8%, to be 56% higher y/y. Our expectation of further easing in product prices over 2017/18 lies behind our $6 milk price forecast for the season. But if prices were instead to remain at current levels, a milk price in the high $6s would be achievable (NZD levels willing).

RBNZ OCR Review – 22 June

As widely expected, the Reserve Bank left its policy interest rate unchanged at this review, at a record low 1.75%. It also kept its language largely unchanged from the 11 May Monetary Policy Statement. While we expected such a steady-as-she-goes approach, we did see a risk of the rhetoric taking a dovish tweak, given the balance of news since the May MPS. But it didn't, which we were pleased about.

Int'l Travel and Migration (May) – 22 June

Net inward migration in May was 5,910 (seasonally adjusted), nestled in between April's dip to 5,790 and March's relatively stronger 6,140. Most forecasters are still picking some pullback, but, to date, compelling evidence of such remains scant. Meanwhile, tourist numbers continue to grow strongly. The 8.0% gain in May compared to a year earlier was much slower than April's 22% annual growth with the latter boosted by the timing of holidays and NZ hosting the Masters Games.

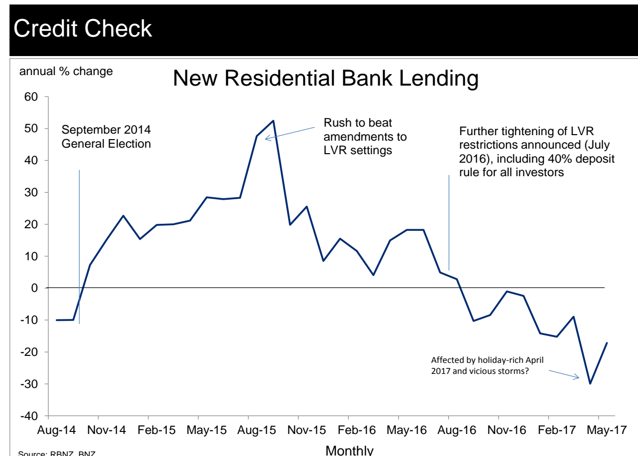
Merchandise Trade (May) – 27 June

The major surprise in May's merchandise trade figures was imports coming in more than $350m above market expectations. Hence May's surplus was only $103m, whereas the market was looking for $419m. A good part of the import spike related to oil products and vehicles. May's merchandise exports, proved very close to market expectations, in being up 9% on a year ago. In this, they were disappointing to us. They were certainly shy of the 22.3% annual gain in the ANZ commodity export price index in May, in local currency terms. Still, it augurs well.

New Residential Lending (May) – 27 June

New residential lending in May was down 17.2% on the same month a year ago. This is arguably a cleaner read on the underlying slowdown (and LVR impacts) – given March (-8.9% y/y) and April (-29.9% y/y) were in turns flattered/compromised by holiday timings. The lending detail aligned with the trends we're seeing in the housing data more generally, namely Auckland coming off the boil, but indications of resilient house price inflation outside of Auckland, albeit slowing a bit.

Credit Check



ANZ Business Survey (Jun) – 29 June

See main article.

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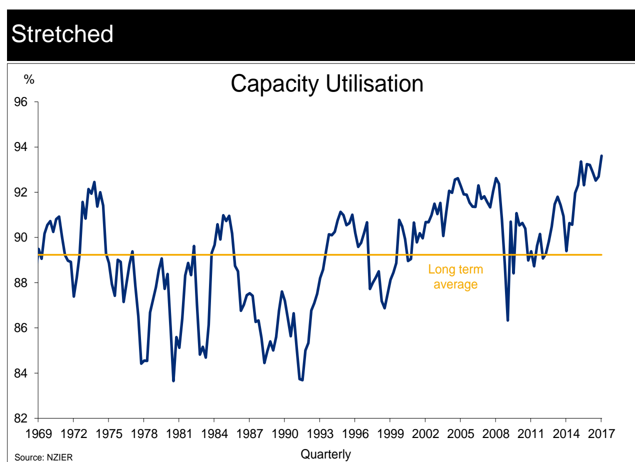
NZ Upcoming Data/Events

Building Consents (May) – 30 June
Residential building consents disappointed in April, with a seasonally adjusted decline of 7.6%. We expect a rebound for May.

NZIER QSBO (Q2) – 4 July
The previous Quarterly Survey of Business Opinion displayed mounting inflationary pressures with lofty pricing intentions, labour shortages and record capacity utilisation. Meanwhile, business confidence, at +17, and buoyant activity indicators were supportive of ongoing robust economic growth. We haven't seen anything to disrupt these broad themes in Q2.

Stretched



Credit Aggregates (May) – 4 July
We wouldn't be surprised to see annual growth in housing credit cool a bit further in May from April's 8.2% pace given the decline we've seen in new lending for the month. We'll also be interested to see if consumer and business credit growth has pushed any higher from their April annual rates of 7.6% and 5.5% respectively. Agriculture's annual credit expansion will be lined up against April's restrained 2.7%.

GDT Dairy Auction – 5 July
The GDT Price Index eased 0.8% at the previous mid-June auction following six consecutive gains. At the time of writing, indicators suggest another small decline is possible at this event.

QVNZ Housing Report (Jun) – 5 July
Annual housing price inflation looks set to cool further from its May of 9.7% pace. This is likely to be driven by Auckland, with other major areas expected to keep exhibiting relative robustness.

ANZ Job Ads (Jun) – 5 July
The 0.6% dip in May's job ads followed a generally strong run such that even another small decline wouldn't deny a healthy level of labour demand.

ANZ Commodity Export Prices (Jun) – 5 July
We expect a circa 2% lift in the world price index for June, as increases in dairy, meat and forestry products offset declines in wool and aluminium. However, strong and widespread strength in the NZD in the month will likely see the NZ dollar price index edge back a touch.

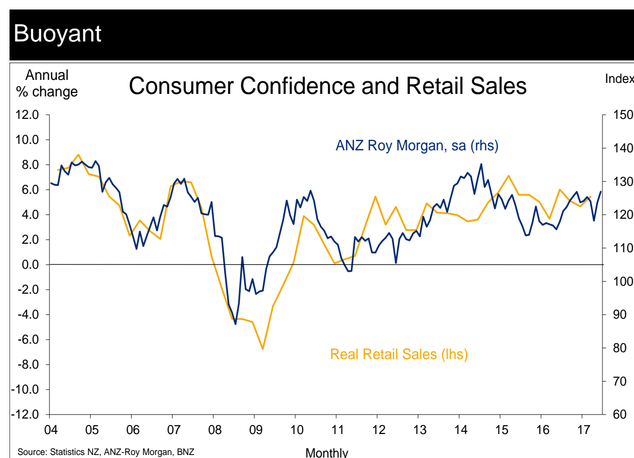
Crown Financial Statements (May) – 6 July
April's Crown accounts surpassed the new Budget baselines by a whopping $1.55b. This mostly reflected a spike in corporate tax, which the Treasury expects to time out in these May figures. Even so, we get the sense that the fiscal balance is tracking at least as good as Budget estimates and probably a touch ahead.

Electronic Card Transactions (Jun) – 11 July
May's electronic card transactions slipped 0.2% overall. We've pencilled in a 0.4% gain for June, but wary of many influences both positive and negative. We would have built in a bigger gain if it weren't for a more than 4% slump in petrol prices in the month.

Food Price Index (Jun) – 13 July
Food prices bolted 2.4% higher in May, driven by a sharp 16.2% increase in vegetables on account of extreme weather (remember the cyclones). The 0.3% price gain we have in the spreadsheets for June represents some unwinding of the May spike on a seasonally adjusted basis. Any deviation could have implications for our Q2 CPI estimate that current stands at +0.1% q/q and +1.8% y/y.

ANZ-RM Consumer Confidence (Jul) – 13 July
Consumer confidence lifted to 127.8 in June. After seasonal adjustment, this represents the highest level of confidence since September 2014. Anything like this in July would bode well for consumer spending into the second half of 2017.

Buoyant



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Quarterly Forecasts

As at 29 June 2017

Key Economic Forecasts

Quarterly % change unless otherwise specified — Forecasts (shaded: Jun-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	0.8	0.4	0.5	0.8	0.6	0.7	0.6	1.0
Retail trade (real s.a.)	0.8	2.2	0.7	0.9	1.5	0.6	0.6	0.5	0.7	1.6
Current account (ytd, % GDP)	-3.1	-2.9	-3.0	-2.8	-3.1	-2.8	-2.7	-2.5	-2.3	-2.6
CPI (q/q)	0.2	0.4	0.3	0.4	1.0	0.1	0.2	0.2	0.7	0.8
Employment	1.2	2.3	1.4	0.7	1.2	0.7	0.7	0.6	0.6	0.5
Unemployment rate %	5.2	5.0	4.9	5.2	4.9	4.9	4.9	4.9	4.8	4.8
Avg hourly earnings (ann %)	2.5	2.1	1.6	1.1	1.1	1.1	1.9	2.6	2.7	2.6
Trading partner GDP (ann %)	3.2	3.4	3.2	3.5	3.4	3.3	3.5	3.4	3.4	3.5
CPI (y/y)	0.4	0.4	0.4	1.3	2.2	1.8	1.7	1.5	1.2	2.0
GDP (production s.a., y/y))	2.9	3.6	3.4	2.7	2.5	2.5	2.3	2.7	2.8	3.0

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	**Mar**	2.45	2.60	2.60	3.05	2.50	2.80	3.25	0.60	1.90	1.10
	Jun	2.25	2.35	2.20	2.60	2.25	2.45	2.90	0.65	1.75	0.85
	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
Forecasts											
	Jun	1.75	1.95	2.35	2.80	2.20	2.70	3.15	1.25	2.20	0.60
	Sep	1.75	1.95	2.45	3.00	2.20	2.85	3.45	1.30	2.50	0.50
	Dec	1.75	1.95	2.50	3.00	2.30	2.90	3.45	1.45	2.50	0.50
2018	**Mar**	1.75	2.05	2.60	3.05	2.45	2.95	3.45	1.55	2.50	0.55
	Jun	2.00	2.30	2.90	3.40	2.65	3.25	3.75	1.70	2.75	0.65
	Sep	2.25	2.55	3.05	3.45	2.90	3.35	3.80	1.95	2.75	0.70
	Dec	2.50	2.80	3.15	3.50	3.10	3.45	3.85	2.20	2.75	0.75
2019	**Mar**	2.75	3.05	3.30	3.60	3.25	3.60	3.95	2.55	2.75	0.85
	Jun	3.00	3.20	3.40	3.65	3.35	3.60	3.95	2.80	2.75	0.95

Exchange Rates (End Period)

	USD Forecasts EUR/USD	USD/JPY	GBP/USD	NZD/USD	AUD/USD	NZD Forecasts NZD/EUR	NZD/JPY	NZD/GBP	NZD/USD	NZD/AUD	TWI-17
Current	1.12	112	1.27	0.73	0.76	0.65	81.5	0.57	0.73	0.96	78.8
Sep-17	1.12	114	1.23	0.71	0.73	0.63	80.9	0.58	0.71	0.97	78.6
Dec-17	1.13	118	1.25	0.68	0.70	0.60	80.2	0.54	0.68	0.97	76.1
Mar-18	1.15	120	1.26	0.68	0.70	0.59	81.0	0.54	0.68	0.97	75.5
Jun-18	1.15	120	1.25	0.68	0.70	0.59	81.6	0.54	0.68	0.97	76.0
Sep-18	1.17	122	1.24	0.69	0.70	0.59	83.6	0.55	0.69	0.98	76.4
Dec-18	1.19	122	1.22	0.69	0.70	0.58	84.2	0.57	0.69	0.99	76.6
Mar-19	1.20	120	1.25	0.71	0.70	0.59	84.6	0.56	0.71	1.01	77.9
Jun-19	1.20	118	1.25	0.71	0.71	0.59	83.8	0.57	0.71	1.00	78.1
Sep-19	1.21	116	1.27	0.72	0.72	0.60	83.5	0.57	0.72	1.00	78.4
Dec-19	1.23	114	1.27	0.73	0.73	0.59	83.2	0.57	0.73	1.00	78.8
						TWI Weights 0.1135	0.0635	0.0456	0.1398	0.2073	

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

Annual Forecasts

As at 29 June 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	4.6	3.3	3.5	2.0	2.9	4.1	3.8	3.4	2.5
Government Consumption	2.7	2.6	2.7	1.7	1.3	2.6	2.4	3.1	1.8	1.4
Total Investment	2.5	5.6	4.2	3.6	1.5	2.1	5.5	4.3	4.1	1.9
Stocks - ppts cont'n to growth	-0.2	-0.2	0.2	0.0	0.0	-0.3	0.0	0.2	-0.1	0.0
GNE	2.5	4.2	3.4	3.2	1.7	2.3	4.0	3.8	3.1	2.1
Exports	5.5	1.0	2.4	3.7	4.0	6.8	1.9	0.5	4.1	4.0
Imports	2.1	5.1	4.5	3.6	3.0	3.7	3.4	5.3	3.7	3.1
Real Expenditure GDP	3.4	3.1	2.5	3.2	2.0	3.2	3.6	2.2	3.2	2.4
GDP (production)	**2.4**	**3.0**	**2.6**	**3.3**	**2.0**	**2.5**	**3.1**	**2.5**	**3.1**	**2.4**
GDP - annual % change (q/q)	*2.9*	*2.5*	*2.8*	*3.2*	*1.6*	*2.2*	*2.7*	*2.7*	*3.4*	*1.8*
Output Gap (ann avg, % dev)	0.9	1.0	0.9	1.3	0.9	0.8	1.0	0.9	1.2	1.1
Household Savings (gross, % disp. income)	1.2	0.4	0.4	0.2	0.4					
Nominal Expenditure GDP - $bn	250.6	264.7	281.5	295.9	307.4	247.5	260.8	277.8	292.2	304.7
Prices and Employment - annual % change										
CPI	0.4	2.2	1.2	1.8	1.7	0.1	1.3	1.5	1.9	1.7
Employment	2.0	5.7	2.6	1.7	1.1	1.4	5.8	3.2	2.0	1.2
Unemployment Rate %	5.2	4.9	4.8	4.9	5.1	4.9	5.2	4.9	4.9	5.1
Wages - ahote	2.5	1.1	2.7	2.8	2.7	2.5	1.1	2.6	2.6	2.8
Productivity (ann av %)	0.3	-2.6	-0.6	1.1	0.7	0.1	-1.7	-1.4	0.8	1.0
Unit Labour Costs (ann av %)	2.5	4.6	3.2	1.9	2.3	2.6	3.6	3.9	2.3	2.1
External Balance										
Current Account - $bn	-7.8	-8.1	-5.5	-9.1	-9.0	-8.3	-7.2	-5.9	-9.0	-9.1
Current Account - % of GDP	-3.1	-3.1	-1.9	-3.1	-2.9	-3.4	-2.8	-2.1	-3.1	-3.0
Government Accounts - June Yr, % of GDP										
OBEGAL (core operating balance)	0.7	0.6	1.2	1.6	2.0					
Net Core Crown Debt (excl NZS Fund Assets)	24.4	23.2	22.6	21.7	20.2					
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	0.68	0.71	0.73	0.67	0.70	0.68	0.69	0.73
USD/JPY	113	113	120	120	111	122	116	118	122	114
EUR/USD	1.11	1.07	1.15	1.20	1.24	1.09	1.05	1.13	1.19	1.23
NZD/AUD	0.90	0.92	0.97	1.01	0.99	0.93	0.96	0.97	0.99	1.00
NZD/GBP	0.47	0.57	0.54	0.56	0.56	0.45	0.56	0.54	0.57	0.57
NZD/EUR	0.61	0.66	0.59	0.59	0.59	0.62	0.67	0.60	0.58	0.59
NZD/YEN	76.0	79.2	81.0	84.6	81.1	82.1	81.7	80.2	84.2	83.2
TWI	72.2	76.5	75.5	77.9	78.6	73.2	78.1	76.1	76.6	78.8
Overnight Cash Rate (end qtr)	2.25	1.75	1.75	2.75	3.00	2.50	1.75	1.75	2.50	3.00
90-day Bank Bill Rate	2.41	1.98	2.03	3.03	3.12	2.78	2.02	1.95	2.78	3.20
5-year Govt Bond	2.40	2.70	2.60	3.30	3.45	2.95	2.75	2.50	3.15	3.50
10-year Govt Bond	2.90	3.25	3.05	3.60	3.85	3.45	3.30	3.00	3.50	3.85
2-year Swap	2.30	2.30	2.45	3.25	3.15	2.80	2.40	2.30	3.10	3.25
5-year Swap	2.60	3.00	2.95	3.60	3.70	3.15	3.00	2.90	3.45	3.75
US 10-year Bonds	1.90	2.50	2.50	2.75	2.75	2.25	2.50	2.50	2.75	2.75
NZ-US 10-year Spread	1.00	0.75	0.55	0.85	1.10	1.20	0.80	0.50	0.75	1.10

(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 30 June			
NZ, Building Consents, May (res, #)			-7.6%
Aus, Private Sector Credit, May		+0.4%	+0.4%
China, Non-manufacturing PMI, June			54.5
China, PMI (NBS), June		51.0	51.2
Jpn, CPI, May y/y		+0.5%	+0.4%
Jpn, Industrial Production, May 1st est		-3.0%	+4.0%
Euro, CPI, Jun y/y 1st est		+1.2%	+1.4%
Germ, Retail Sales, May		+0.3%	-0.2%
UK, GDP, Q1 3rd est		+0.2%	+0.2%P
US, Personal Spending, May		+0.1%	+0.4%
US, Chicago PMI, June		58.0	59.4
Monday 3 July			
Aus, Inflation Gauge (Melbourne Institute), June y/y			+2.8%
Aus, CoreLogic HPI, June			-1.1%
Aus, Building Approvals, May			+4.4%
China, PMI (Caixin), June		49.7	49.6
Jpn, Tankan (lge manuf), Q2			+12
Euro, Unemployment Rate, May			9.3%
UK, Markit/CIPS Manuf Survey, June			56.7
US, Construction Spending, May		+0.3%	-1.4%
US, ISM Manufacturing, June		55.1	54.9
Tuesday 4 July			
NZ, Credit Aggregates (new format/series),			
NZ, QSBO, Q2			+17
Aus, RBA Policy Announcement	1.50%	1.50%	1.50%
Aus, Retail Trade, May			+1.0%
US, Holiday, Independence Day			
Wednesday 5 July			
NZ, ANZ Comdty Prices (world), June			+3.2%
NZ, Dairy Auction, GDT Price Index			-0.8%
NZ, QVNZ House Prices, June			+9.7%
China, Services PMI (Caixin), June			52.8
Euro, Retail Sales, May			+0.1%
UK, Markit/CIPS Services, June			53.8
US, FOMC Minutes, 13/14 June meeting			
US, Factory Orders, May		-0.5%	-0.2%
Thursday 6 July			
Aus, International Trade, May			+$0.55b
Euro, ECB Minutes, 8 Jun Meeting			
Germ, Factory Orders, May			-2.1%
US, International Trade, May		-$47.0b	-$47.6b
US, ISM Non-Manuf, June		56.5	56.9
US, ADP Employment, June		+183k	+253k
Friday 7 July			
Germ, Industrial Production, May			+0.8%
UK, Industrial Production, May			-0.8%
UK, Trade Balance, May			-GBP2.0b
US, Non-Farm Payrolls, June		+180k	+138k
Monday 10 July			
China, CPI/PPI, June y/y			+1.5/+5.5%
Jpn, Machinery Orders, May			-3.1%

	Forecast	Median	Last
Tuesday 11 July			
NZ, Electronic Card Transactions, June	+0.4%		-0.2%
Aus, Housing Finance, May			-1.9%
Aus, NAB Business Survey, June			+7
US, JOLTS Job Openings, May			6,044
US, NFIB Small Business Optimism, June			104.5
Wednesday 12 July			
Aus, Consumer Sentiment - Wpac, July			96.2
Euro, Industrial Production, May			+0.5%
UK, Unemployment Rate (ILO), May			4.6%
US, Beige Book			
Can, BOC Policy Announcement		0.50%	0.50%
Thursday 13 July			
NZ, Food Price Index, June	+0.3%		+2.4%
NZ, ANZ-RM Consumer Confidence, July			127.8
China, Trade Balance, June			+CNY282b
US, PPI ex-food/energy, June y/y			+2.1%
Friday 14 July			
NZ, BNZ PMI (Manufacturing), June			58.5
Euro, Trade Balance, May s.a.			+EUR19.6b
US, Business Inventories, May			-0.2%
US, Retail Sales, June			-0.3%
US, CPI ex food/energy, June y/y			+1.7%
US, Industrial Production, June			flat
Saturday 15 July			
Aus, RBA's Debelle Speaks, Reuters Event			
Monday 17 July			
NZ, BNZ PSI (Services), June			58.8
China, Industrial Production, May y/y			+6.5%
China, GDP, Q2 y/y			+6.9%
China, Retail Sales, May y/y			+10.7%
US, Empire Manufacturing, July			+19.8
Tuesday 18 July			
NZ, CPI, Q2 y/y	+1.8%		+2.2%
Aus, RBA Minutes, 4 July Meeting			
China, Property Prices, June			
Germ, ZEW Sentiment, July			+18.6
UK, CPI, June y/y			+2.9%
US, NAHB Housing Index, July			67
Wednesday 19 July			
US, Housing Starts, May			1,092k
Thursday 20 July			
Aus, Employment, June			+42k
Aus, NAB Business Survey, Q2			+6
Jpn, Merchandise Trade Balance, June			-Y203b
Jpn, BOJ Policy Announcement, Policy Rate		-0.1%	-0.1%
Euro, ECB Policy Announcement, Refi	0.00%	0.00%	0.00%
UK, Retail Sales vol., June			-1.2%
US, Philly Fed Index, July			+27.6
US, Leading Indicator, June			+0.3%
Friday 21 July			
NZ, External Migration, June s.a.			+5,900

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