

## Offshore developments take centre stage

- Since Q4 GDP there has been a dearth of major NZ data and as a result, offshore developments have taken centre stage.
- Developments in Australian lending standards could open the door to further rate cuts in Australia.
- In the US, the Fed's discussion of tapering Quantitative Easing has markets bracing for higher interest rates.

Since Q4 GDP was released on the 16th of March there has been a dearth of major NZ data releases. And while this has made for a quiet time in NZ for a few weeks, there have been numerous developments offshore recently to keep us occupied. Starting across the ditch, the **Australian Prudential Regulation Authority (APRA) has implemented additional measures to slow the growth of interest-only loans and loans with high loan-to-valuation ratios.**

There has been growing attention placed on the housing market recently as house prices continue to rise sharply – notably in Sydney and Melbourne. For some time now, the **Reserve Bank of Australia (RBA) has been balancing below-target inflation with the financial stability risks associated with a hot housing market, similar to the RBNZ in late 2015/early 2016.** As a result, APRA's new lending measures were welcomed by the RBA last week. If these measures prove to **slow the recent lifts in household debt relative to incomes and lessen the financial stability risks, the RBA will have more room to respond to low inflation outcomes.**

One driver of recent below-target inflation in Australia has **been weak full-time jobs growth which has weighed on wage and household income growth.** Indeed, recent RBA rate decisions have shown that the RBA is growing increasingly concerned around indications that the labour market has softened and its ongoing implications for inflation. Given APRA's changes to lending standards, combined with the RBA's growing concern with the labour market outlook, **Thursday's employment release will be closely watched. Another soft employment result could increase the chances of additional rate cuts in Australia.** Also on Thursday, the RBA will release the Financial Stability Report which is likely to give more information about where the RBA is sitting regarding the trade-off between financial stability and monetary policy in light of APRA's new measures.

Slightly further afield, developments in the United States centred on the **US Federal Reserve looking into unwinding the quantitative easing (QE) it has been undertaking since the Global Financial Crisis.** Since 2008, the Fed has amassed nearly \$4.5 trillion in Treasuries and mortgage-backed securities in order **to ease monetary policy and stimulate the economy through growing the supply of money.** Over this time the Fed has also **maintained its balance sheet by reinvesting the proceeds of any maturing securities.** However, as the US economy continues to strengthen, the need for maintaining this extent of QE diminishes. As a result, the US Federal Reserve Meeting Minutes indicated that on top of raising the benchmark interest rate, the Fed is considering reducing its balance sheet size by the end of the year if the economy continues to track as expected. While the Fed stressed that this is likely to be a gradual, passive and predictable process, it still caused a substantial market reaction. This is **because the reduction of any outstanding QE (through phasing out the normal reinvestment of maturities) represents a tightening of monetary conditions and as a result, could see borrowing costs rise further as the supply of money in the economy gradually contracts.**

### Foreign Exchange

- The NZD reaction to the US missile launch into Syria was relatively small and short lived.

### Interest Rates

- Yields started off the week trending lower as investors moved away from risky assets.

### Week Ahead

- Electronic card spending, food price index.

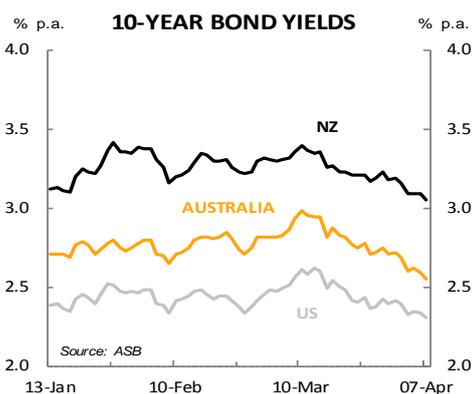
### Week in Review

- QSBO survey showed a decline in confidence, dairy prices firmed, housing credit growth eased.

### Global Calendars

- China, UK and US CPI, US University of Michigan sentiment survey.

### Chart of the Week: Trump takes fire



On Friday night **US President Donald Trump fired 59 missiles at a Syrian airfield in retaliation to President Assad's alleged chemical weapon attack.** The announcement of the attack spooked financial markets and represents a marked change from Trump's views on the Syrian war during his campaign. Trump also followed up this action by moving a US strike group, called Carl Vinson, to the Korean Peninsula.

As a result of the news, **we saw government bond yields hit record lows for the year to-date in the US, Australia and NZ on Friday.** Given that geo-political uncertainty was already weighing on [NZ business confidence](#) prior to the attack, this suggests that **ongoing geo-political tension could continue to weigh on headline business confidence for some time.** However, this is unlikely to weigh on NZ economic growth while businesses' own perceptions remain more upbeat than headline confidence.

## Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6936	0.7002	0.6910	0.7153	0.6777	FLAT/DOWN	0.6850	0.7050
NZD/AUD	0.9253	0.9208	0.9190	0.9414	0.8982	DOWN	0.9180	0.9350
NZD/JPY	77.04	77.95	79.58	73.55	73.73	FLAT/DOWN	76.00	78.50
NZD/EUR	0.6552	0.6555	0.6521	0.6390	0.5963	FLAT	0.6500	0.6700
NZD/GBP	0.5604	0.5582	0.5682	0.5766	0.4816	FLAT	0.5520	0.5680
TWI	76.0	76.0	76.0	76.5	71.8	FLAT/DOWN	75.00	76.50

^Weekly support and resistance levels \* Current is as at 9.30 am Monday; week ago as at Monday 5pm.

It was a **mixed week for the NZD**, falling against the USD, JPY and EUR while lifting against the AUD and GBP. **The NZD reaction to the US missile launch into Syria was relatively small and short lived.** The NZD fell against the JPY, although quickly retraced much of the fall. The JPY is likely to remain supported this week by safe-haven flows. The NZD initially spiked higher against the USD before falling lower. **The dominant move in the NZD/USD on Friday was the reaction to US employment data** over the weekend (more below). There are **only minor NZ economic releases this week** so offshore events will be the key drivers of FX moves. While current ranges are likely to prevail, potential for a stronger USD and AUD could put the NZD under mild pressure.

**The USD lifted over the weekend**, toward a 3-week high, as market participants looked through the weak headline US employment growth and were encouraged by the strong detail within the report. **Market participants were also encouraged by what appeared to be constructive talks between US President Trump and Chinese President Jinping, reducing perceived risk of a trade war.** We expect the USD will continue with its current momentum this week.

**Lower iron ore prices have weighed on the AUD**, but this week **we expect the AUD to stage a relief rally on the back of robust Australian employment figures** and evidence of strong Chinese economic conditions.

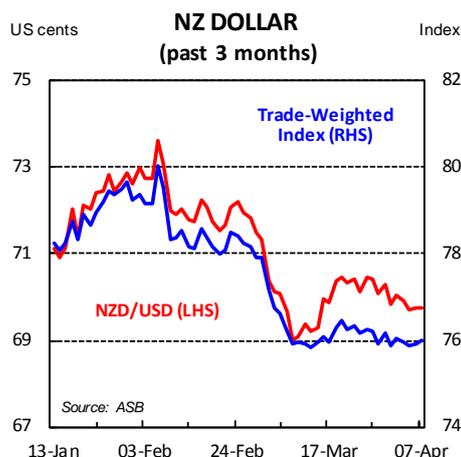
### Short-term outlook:

### Key data

### Date

### Time (NZT)

### Market



China CPI, March %yoy

12/04

1.30 pm

1.0

NZ Manufacturing PMI, March

13/04

10.30 am

-

AU Employment, March 000's

13/04

1.30 pm

20

US CPI, March % yoy

15/04

12.30 am

2.6

China GDP, Q1 % qoq

17/04

2.00 pm

1.5

**Key events:** **NZD:** Manufacturing PMI (Thu). **AUD:** Feb housing finance (Mon); Mar NAB business conditions (Tue); Apr consumer sentiment (Wed); Mar employment (Thu). **USD:** Mar CPI & retail sales (Fri). **CNY:** Mar CPI (Wed); Mar trade balance (Thu); Mar retail sales & industrial production, Q1 GDP (Mon 17 Apr). **JPY:** Feb Current account balance (Mon). **EUR:** Apr German ZEW economic sentiment, Feb industrial production (Tue). **GBP:** Mar CPI (Tue); Feb unemployment & weekly earnings (Wed). **CAD:** BoC meeting & Monetary Policy Report (Wed).

**Speakers:** **FOMC:** Chair Yellen (Tue), voter Kashkari (Wed). **BoC:** Poloz (Wed).

### Medium-term outlook:

### Last Quarterly Economic Forecasts

**Our FX forecasts were updated in mid-December with the short- and medium-term outlook tweaked. Further out, the NZD is now expected to depreciate vs. the USD over the next 18 months.** The driver is USD strength due to the expected fiscal stimulus US President Trump is forecast to deliver. This spending should be inflationary, pushing the US Federal Reserve into lifting the Fed Funds rate faster than previously expected. Capital inflows to the US are also expected to support the USD. We expect the USD to strengthen (NZD/USD weaken) once the fiscal policies are signed into effect. Meanwhile, also supporting the USD, the Federal Reserve hiked policy rates in March and signalled two more rate hikes were likely in 2017 (which we expect in June and December).

Despite the revision, the NZD remains supported by relatively high Terms of Trade, relatively high interest rates, increased offshore investor demand and a structural improvement in the current account deficit. **Given these factors are NZD-supportive, combined with the fact the RBNZ signalled it had finished its easing cycle at the November MPS, we see little sustained downward pressure on the NZD.** Over 2017, we expect the NZD/AUD to remain in a relatively high range of 0.94-0.96.

**We revised our GBP forecast lower in late October and have pushed the Pound a touch lower again in December's update.** We believe the fundamental down-trend in the GBP will remain intact, and expect the NZD/GBP to continue to gradually lift toward the mid-0.60's by 2018.

**In the near term we continue to see NZD/JPY hold above 70.** Further out, the prospect for more BOJ easing should weaken the JPY, pushing NZD/JPY above 84 in 2017.

## Interest Rate Market

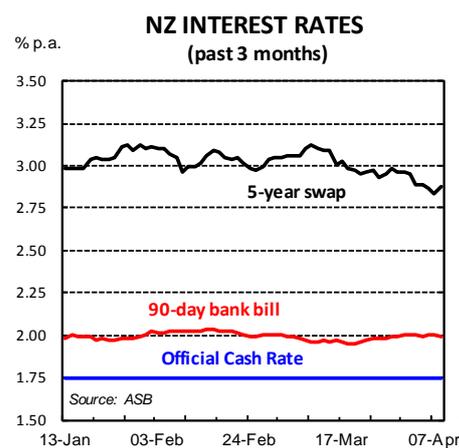
Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	1.75	1.75	1.75	2.00	2.25	FLAT
90-day bank bill	1.99	2.00	1.96	2.19	2.32	FLAT
2-year swap	2.32	2.35	2.40	2.13	2.22	FLAT
5-year swap	2.87	2.95	3.13	2.30	2.49	FLAT/UP
5-year benchmark gov't stock	2.43	2.46	2.64	2.05	2.20	FLAT/UP
NZSX 50	7244	7225	7179	7117	6730	FLAT/UP

^Weekly support and resistance levels \* Current is as at 9.30am Monday; week ago as at Monday 5pm.

**Geopolitical events have risen to the fore over the last week, with the US airstrike on Syria, which is allied with Russia, creating some market flutters at the end of the week.** However, yields started off the week trending lower as investors moved away from risky assets, following a bombing in St Petersburg in Russia. Market positioning kept the US 10-year yield north of 2.30%, though. The very strong **US ADP employment data on Wednesday night helped improve sentiment** heading into Friday's Non-farm Payrolls data. While the latter fell well short of expectations, the underlying data told a different story, with the unemployment rate dropping. The data also suggest there is still a case for increased wage pressures, **offering further support for Fed rate hike forecasts** this year. All this saw yields actually climb, with the details more than enough to offset the headline miss and **US 10-year yields gained 7bp by the end of the US Friday trading session.**

**Domestically, the Quarterly Survey of Business Opinion didn't alter the market's tone,** with the softer headline confidence result offset to some extent by the detail around pricing intentions and business' individual assessments of their own conditions. The only other major local event, the GDT dairy auction, saw little move in prices and as such had little impact on rates.

### Short-term outlook:



### Key data

	Date	Time (NZT)	Market
China CPI, March %yoy	12/04	1.30 pm	1.0
NZ Manufacturing PMI, March	13/04	10.30 am	-
AU Employment, March 000's	13/04	1.30 pm	20
US CPI, March % yoy	15/04	12.30 am	2.6
China GDP, Q1 % qoq	17/04	2.00 pm	1.5

**Comment:** The shortened week and lack of major economic data leaves it to **geopolitical events to provide the impetus for rates markets.** There 3 main sources of volatility of this front. **The first is Syria, with the US bombing a government airfield on Friday.** However, one of the Government's main allies is Russia, straining the US-Russia relationship. The second source is **North Korea, with the US sending a Naval fleet** to the area in the last few days. Lastly are the **French election polls, showing an ever-tightening race.** All of these could cause yields to substantially and swiftly move in either direction, with **only Australian jobs data to divert attention.**

### Medium-term outlook:

#### Last Quarterly Economic Forecasts

**The RBNZ continued to hold the OCR at its record-low of 1.75% at its March OCR Review.** The RBNZ **retained its neutral policy stance**, as in February and November, whilst keeping a cautious eye on global developments: "numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly." **The RBNZ sees the global environment as a key downside risk.**

The RBNZ **dismissed the recent weak GDP figures as partly due to temporary factors** and remains confident in NZ's growth outlook will be supported by population growth, construction and increased household spending. **The RBNZ was pleased with the recent depreciation in the TWI,** although noted further depreciation is required. **The RBNZ remains cautious on the dairy price outlook.**

The RBNZ addressed **likely volatility in upcoming headline inflation figures.** Higher petrol and food prices are supporting inflation in the near term and will likely see headline annual inflation lift close to 2% in upcoming figures. However, given these are one-off moves, the impact on inflation is not likely to be sustained. As a result, inflation is likely to dip back below 2% over 2017. **The RBNZ reminded that a sustainable move to the 2% mid-point of the target band is not likely until the medium term.**

The RBNZ's March Monetary Policy Statement OCR projections show the OCR remaining at 1.8% well into 2019. The RBNZ's outlook has a 25bp hike built in by early 2020. **We continue to view OCR increases as a long way off, towards the end of 2018.** In contrast, market pricing implies an early 2018 start.

## Key international data for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Australia Housing Finance, February, o-o loan value, %	10/04	1:30 pm	-0.2	-	-0.7
Japan Trade Balance, February, ¥	10/04	11:50 am	+66	+2,513	+1,800
UK CPI, March, %yoy	11/04	8:30 pm	2.3	2.3	-
Australia ANZ Roy Morgan Confidence, April, Index	11/04	11:30 am	111.1	-	-
China CPI, March, %yoy	12/04	1:30 pm	0.8	1.0	0.9
UK Unemployment, February, %yoy	12/04	8:30 pm	4.7	4.7	-
Australia Unemployment Rate, March, %	13/04	1:30 pm	5.9	5.9	5.9
China Trade Balance, March, USDbn	13/04	-	9.2	12.5	36
US Retail Sales, ex auto and gas, March, %mom	15/04	12:30 am	0.2	0.3	0.2
US CPI, March, %yoy	15/04	12:30 am	2.7	2.6	2.3

**New home lending for Australian investors** is on a strong upward trend, with the two cash rate cuts last year reigniting activity in the Sydney and Melbourne housing markets. We are expecting a 0.7% fall in the number of loans to owner occupiers in Feb, and a 1.2% fall in the total value of new lending.

The large merchandise trade surplus for February suggests **Japan's current account surplus** expanded greatly. However, how sustainable the current account will be at elevated levels, is an uncertainty.

**Australian consumer confidence** is fairly subdued with rising underemployment and weak wage increases weighing on sentiment.

Pork and vegetable prices in China fell considerably in March, which will constrain **Chinese CPI inflation**. Meanwhile, **rising PPI inflation** led by higher commodity prices, is supportive of the industrial recovery.

We are forecasting a solid 25k increase in **Australian employment in March** following last month's 6.4k fall. An uptick in the participation rate would keep the unemployment rate unchanged at 5.9%. The leading indicators suggest moderate employment growth over the coming months.

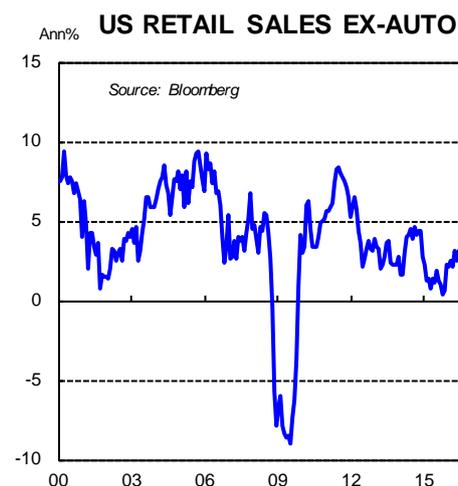
Demand for **China's exports** is improving according to the PMI survey. Recovering commodity prices lifted China's **import growth**.

The **Bank of England projects headline CPI inflation** (2.3% in February) to rise a little further above its 2% target over the next few months. The projected inflation overshoot entirely reflects the expected effects of the drop in the Pound.

We anticipate the rolling 3-month **February UK ILO unemployment rate** to edge lower in line with the decline in the claimant count rate. Diminishing UK labour market slack and survey indicators of pay growth point to a reacceleration in annual weekly earnings growth (excluding bonus).

We expect a pick-up in **US retail sales in March** after the weakness in February. A recovery in the US labour market and gasoline prices supports spending.

The recovery in the **US labour market** and weak growth in productivity is seeping into a pick-up in core inflation pressures.



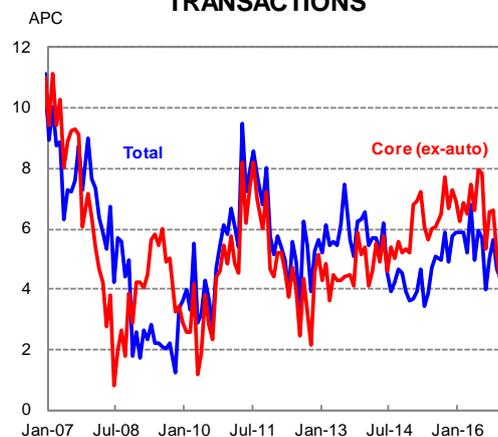
## NZ Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Electronic Card Transactions, March, %mom	11/04	10.45am	-0.6	-	0.5
Food Price Index, March, %mom	13/04	10.45am	+0.2	-	-

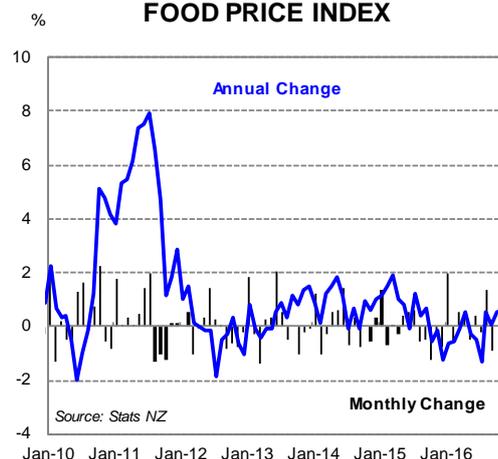
**Electronic Card Spending dipped in February as it continues its volatile trend over the last few months. 5 of the 6 sectors declined, with only fuel spending accelerating versus January.** Even so, there is still a clear upward trend in hospitality, as the tourism boom shows no sign of letting up just yet, and we expect further expansion over 2017. Spending on fuel may have slowed in March, with prices at the pump taking a small step back during the month. Overall, though, spending growth is set to remain around recent robust rates. Spending is still being supported by low interest rates, growing net migration, firm consumer and business confidence and dairy prices consolidating at higher levels than seen through much of 2016.

**Food prices have lifted over 2017 so far, largely due to higher fruit and vegetable prices, as well as higher dairy prices.** In February, fruit and vegetable prices were 7.8% higher than in February 2016. March's release is the final food price input into our Q1 CPI forecast. While we are expecting a slight moderation in food prices over March, over Q1 we expect food prices to have lifted by 2% qoq. Our preliminary CPI forecast is currently sitting at 2.1% yoy for Q1, largely due to temporary factors such as higher food and petrol prices.

**RETAIL ELECTRONIC CARD TRANSACTIONS**



**FOOD PRICE INDEX**



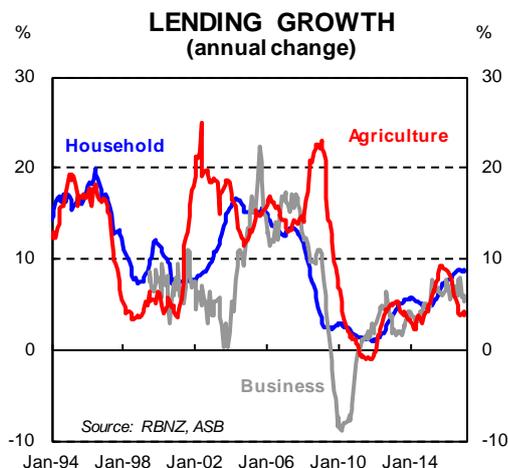
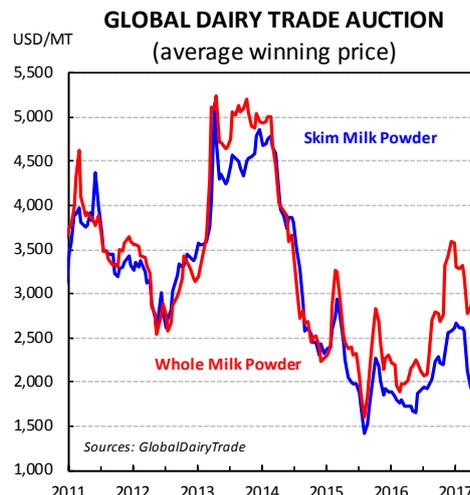
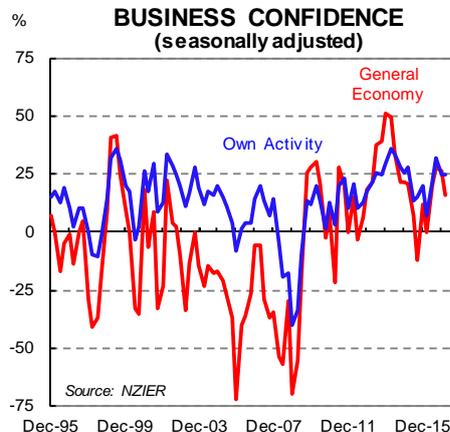
## Data Recap: weekly recap

Data	Date	Actual	Market forecast	ASB Forecast
Quarterly Survey of Business Opinion, Business Confidence (Q1, s.a.)	04/04	16.0	-	-
GlobalDairyTrade auction, whole milk powder, % change	04/04	2.4	-	0 to +2
Credit growth, February, household %mom	05/04	0.5	-	-

The NZIER Q1 Quarterly Survey of Business Opinion (QSBO) reported a **decline in general business confidence**, likely reflecting geo-political concerns. In contrast, businesses remain fairly upbeat about the domestic outlook and key indicators for NZ economic activity remain robust and consistent with continued economic growth, for now. Meanwhile, the **labour market continues to tighten** and inflation indicators are lifting off their lows, in line with the RBNZ's expectations. As such, there are no implications for our OCR view, we expect the OCR to remain unchanged at 1.75% until late-2018.

**Dairy prices firmed a touch overnight.** WMP (up 2.4%), casein (up 6.9%) and AMF (up 2.5%) led the way. Overall auction prices lifted 1.6%, following a similar rise at the previous auction. **The auction was largely in line with expectations heading in.** For example, WMP futures pricing had indicated a small lift in the 0% to 2% range. Meanwhile, SMP prices continued their weak trend, falling 0.8%. In this respect, strong US production and the early stages of an EU production recovery (along with still high stocks) are combining to put downward pressure on SMP prices.

**Annual housing credit growth eased slightly in February.** Since the introduction of the LVR restrictions last year, the investor share of new lending has remained subdued. As a result, we are likely seeing the impacts of ongoing LVR restrictions, combined with higher long-term mortgage rates, weigh on mortgage demand. Nonetheless, housing credit growth is still 9% higher than in February 2016. **Consumer credit growth** continued its recent upward trend, with annual growth rising for the 6<sup>th</sup> consecutive month. Annual lending is up 4.6%, the highest growth rate since September 2015. Buoyant consumer confidence is likely supporting consumer credit growth.



## Global Data Calendars

## Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 10 Apr	11:50	JN	BoP current account adjusted	Feb	¥bn	1,259	~	~
	13:30	AU	No. of owner-occupiers	Feb	m%ch	0.5	0.0	-0.7
	13:30	AU	Investment lending	Feb	%	4.2	~	~
	13:30	AU	Value of total lending	Feb	m%ch	1.5	~	-1.2
Tue 11 Apr	10:45	NZ	Electronic Card Transactions	Mar	m%ch	-0.6	~	0.5
	13:30	AU	NAB business conditions	Mar	~	9.0	~	~
Wed 12 Apr	11:50	JN	Machine orders	Feb	m%ch	-3.2	~	~
	12:30	AU	WBC consumer confidence index	Apr	Index	99.7	~	~
	13:30	CH	CPI	Mar	y%ch	0.8	1.0	0.9
	13:30	CH	PPI	Mar	y%ch	7.8	7.5	7.2
Thu 13 Apr	~	CH	Trade balance	Mar	CNY bn	-60.4	70.3	36
	10:30	NZ	Business NZ Manufacturing PMI	Mar	Index	55.2	~	~
	10:45	NZ	Food Price Index	Mar	m%ch	0.2		
	13:00	AU	Consumer inflation expectation	Apr	%	4.0	~	~
	13:30	AU	Unemployment rate	Mar	%	5.9	5.9	5.9
Fri 14 Apr	16:30	JN	Industrial production	Feb F	m%ch	2.0	~	~

\*P = Preliminary

## Calendar - North America &amp; Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 10 Apr	09:00	World	IMF WEO – Analytical chapters					
Tue 11 Apr	09:30	UK	CPI	Mar	m%ch	0.7	~	~
	09:30	UK	House price index	Feb	y%ch	6.2	~	~
	10:00	EC	Industrial production	Feb	m%ch	0.9	~	~
	10:00	EC	ZEW survey expectations	Apr	~	25.6	~	~
	10:00	GE	ZEW survey expectations	Apr	~	12.8	~	~
	18:45	US	Fed's Kashkari participates in Q&A in Minneapolis					
Wed 12 Apr	09:30	UK	Average weekly earnings 3M	Feb	y%ch	2.2	~	~
	09:30	UK	Weekly earnings ex bonus 3M	Feb	y%ch	2.3	~	~
	09:30	UK	ILO unemployment rate 3Mths	Feb	%	4.7	~	~
	09:30	UK	Employment change 3M/3M	Feb	000	92.0	~	~
	15:00	CA	Bank of Canada rate decision	Apr	%	0.5	0.5	0.5
Thu 13 Apr	13:30	US	PPI final demand	Mar	m%ch	0.3	0.0	~
	15:00	US	Uni. of Michigan sentiment	Apr P	Index	96.9	97	~
Fri 14 Apr	13:30	US	CPI	Mar	m%ch	0.1	0.0	~
	13:30	US	Retail sales advance	Mar	m%ch	0.1	0.2	0.2

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