ANZ RESEARCH

NEW ZEALAND ECONOMIC OUTLOOK

March 2017

INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com
Twitter @ANZ_cambagrie

Philip Borkin
Senior Economist
Telephone: +64 9 357 4065
Email: Philip.Borkin@anz.com

David Croy
Senior Rates Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Kyle Uerata
Economist
Telephone: +64 4 802 2357
E-mail: Kyle.Uerata@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 9 357 4094
E-mail: Sharon.Zollner@anz.com

MATURING GRACEFULLY

NEW ZEALAND ECONOMIC OUTLOOK

The economic cycle has reached a mature stage. Historically, sharp slowdowns have followed. But we don't believe the cycle is about to roll over and expire due to domestic considerations. Credit/housing related excesses are being more actively curtailed, which lessens the odds of imbalances building further and ultimately bringing about a nasty future correction. Numerous support factors remain, which should allow annual GDP growth to hover around 3% over 2017.

INTERNATIONAL OUTLOOK

The recent improvement in the global growth backdrop is expected to be sustained into 2018, but many questions remain. Growth is okay, but trend growth is weak. Questions surround the impact and speed of protectionist nuances; and how the global economy will respond to a re-pricing of the global cost of capital as interest rates lift. We're anticipating bumps, but expect growth to hold together.

PRIMARY SECTOR OUTLOOK

The cyclical upturn in international soft commodities prices has matured, but we are not expecting a sudden turn for the worse. Dairy cash-flow prospects look steady to slightly better into mid-2018. Meat returns are exceeding expectations, but volumes are low. Smaller kiwifruit and grape crops are expected, while a record-sized pipfruit crop is on its way. Early season price indicators are strong for kiwifruit and pipfruit. Forestry prices continue to be robust.

FINANCIAL MARKETS OUTLOOK

While there are a number of uncertainties, we continue to expect global yields to slowly nudge higher given that the Fed is in trend tightening mode, and the tone of central bank communications elsewhere is turning. By contrast, local short-end rates will be anchored to the OCR, which we expect to remain on hold over 2017. In currency markets, we expect the NZD to weaken modestly as the growth cycle matures. The dip is expected to be shallower compared to earlier cycles.

Calendar Years	2014	2015	2016	2017(f)	2018(f)	2019(f)
New Zealand Economy						
Real GDP (annual average % change)	3.3	3.4	3.1	3.1	2.4	2.3
Real GDP (annual % change)	3.5	3.5	2.6	3.2	2.1	2.4
Unemployment Rate (Dec quarter)	5.5	4.9	5.2	4.7	4.4	4.3
CPI Inflation (annual %)	0.8	0.1	1.3	2.1	2.2	1.9
Terms of Trade (OTI basis; annual %)	-5.0	-3.2	6.7	-2.8	0.9	0.1
Current Account Balance (% of GDP)	-3.2	-3.3	-2.7	-2.7	-3.4	-3.4
Government OBEGAL (% of GDP)	-1.2	0.2	0.7	0.3	1.3	1.9
Global Growth (annual average %)						
US	2.4	2.6	1.6	2.2	2.3	2.3
Australia	2.8	2.4	2.5	2.5	3.1	3.1
China	7.4	6.9	6.7	6.5	6.3	6.3
Trading Partners	3.7	3.6	3.4	3.4	3.5	3.4
NZ Financial Markets (end of Dec quarter)						
TWI	79.4	73.7	76.1	75.3	72.2	
NZD/USD	0.78	0.69	0.69	0.68	0.67	
NZD/AUD	0.96	0.94	0.96	0.94	0.89	
Official Cash Rate	3.50	2.50	1.75	1.75	2.25	2.75
10-year Bond Rate	3.7	3.6	3.3	3.8	4.1	4.5

* Forecasts and text finalised 31 March 2017

NEW ZEALAND ECONOMIC OUTLOOK

SUMMARY

The economic cycle has reached a mature stage; productivity growth is waning, capacity constraints are to the fore, and inflation is rising. Historically, sharp slowdowns have followed such developments. But we don't believe the cycle is about to roll over and expire due to domestic considerations. Inflation is still low, and credit/housing related excesses are being more actively curtailed. Cooling in some pockets (housing) is welcome, as it lessens the odds of imbalances building further and ultimately bringing about a nasty correction. Numerous support factors remain, which should allow annual GDP growth to hover around 3% over 2017. That is down from the 3½-4% pace seen in mid-2016, but will still see the unemployment rate continue to fall and domestic inflation pressures slowly lift. The OCR will rise, though an uncertain global scene and the behaviour of banks (lifting retail interest rates) allows the RBNZ to be patient. Movements will be gradual.

MATURING GRACEFULLY

The New Zealand economy has reached a mature stage in the economic cycle. Firms are reporting more issues with finding skilled staff, and issues with capacity more generally. Productivity growth is waning – a typical late-cycle phenomenon – and valuation excesses (housing) and leveraging behaviour (household debt has risen from 159% of income to 168% and is on track for 170%) is apparent.

We've seen this playbook before, in 1996/97 and 2006/07, and sharp slowdowns followed in each case when a turn in the domestic cycle was subsequently exacerbated by major adverse global events. Is history set to repeat?

We believe it isn't, for a few reasons.

- **We've seen a housing boom but not a broad-based consumption equivalent**, and that's helping to keep inflation low. Other factors are also suppressing inflation: technology, the global scene and the NZD. That's keeping the RBNZ at bay. Historically, aggressive lifts in inflation have necessitated the same for interest rates.
- **We still have a shortage of houses, at least in Auckland.** That's different to 1997 and 2008 when the market had plenty of supply – and notably in speculative pockets (sections and apartments).
- **Almost all lending is now regulated;** we don't have a shadow banking sector. That helps keep risk more prudently priced and capital allocated more efficiently. The latest LVR restrictions have hit the market hard, although the longer they remain in place, the greater the risk that lending goes 'underground'.
- **The RBNZ is not standing idly by.** LVR restrictions (round three) are in, and a review of banks' capital is now underway.
- **Banks are curtailing credit late in the cycle** and competing more aggressively for deposits as they manage a mismatch between credit growth (too much going out the door) and deposit growth (too little coming in the door). Slower credit growth is dampening excesses, while increases in deposit rates are forcing up borrowing rates.

This combination could be a powerful influence over the coming years. Historically, New Zealand has seen large volatility through the economic cycle. International events have contributed but so has the build-up of internal imbalances and excesses. Purging processes have typically followed and this has exaggerated volatility across the economic (and interest rate and currency) cycle. New Zealand is headed into a period where the containment of excesses at the top will help limit the potential for corrections down the track. However, such a strategy isn't without its costs or side effects; less credit availability will accentuate difficulties getting a supply-side response to address housing shortages.

So our forecast story is not just about growth through the economic cycle, it is about the volatility of that growth and potential risks around it.

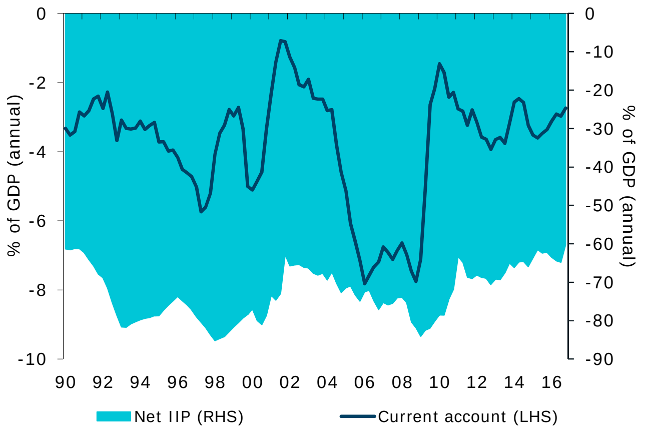
Economic signals are naturally becoming more fractured as late-cycle excesses are managed. Key cyclical parts of the economy have softened. Housing market activity has cooled and building consent issuance has fallen off highs. The light traffic component of our Truckometer is showing a softer trend and the latest GDP figures showed the weakest quarterly growth in a year and a half – and a contraction in per capita terms (although some temporary factors certainly had a dampening influence). **This mixed dataflow is a theme we expect to continue to evolve over the course of 2017.** But a cooling in growth momentum will help ensure the economy matures gracefully, as opposed to going out with a bang.

The usual focal points require close attention. These include household leverage (high – and rising), property valuations (extreme in Auckland and becoming less affordable elsewhere) and inflation (off lows but still subdued and not an issue outside of construction).

NEW ZEALAND ECONOMIC OUTLOOK

Encouragingly, external balance metrics, which would typically be a worry at this point of the cycle too, remain well contained, by New Zealand standards at least. The current account deficit, at 2.7% of GDP, is below its historical average, and net external debt, at 55% of GDP, is at its lowest levels since 2003. **That doesn't mean the economy is bullet proof**, and we forecast the current account deficit to widen modestly over the coming years, but it does mean the economy has more resilience to global or domestic shocks than would be the case otherwise.

FIGURE 1. CURRENT ACCOUNT AND NET INTERNATIONAL INVESTMENT POSITION

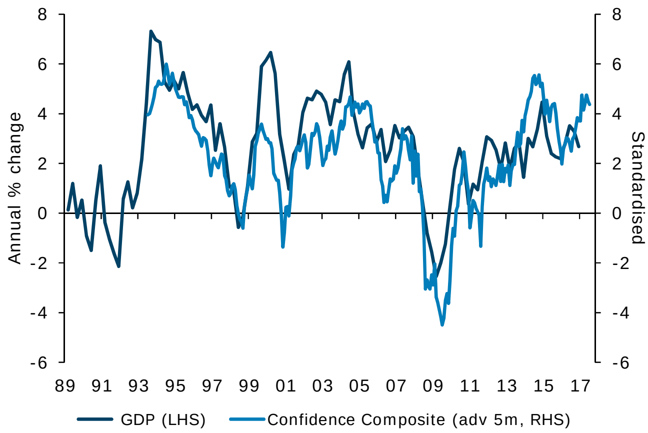


Source: ANZ, Statistics NZ

While economic signals are becoming more mixed, ample support factors for growth remain.

- **Business and consumer confidence are solid.** Firms continue to signal a desire to hire and invest. While confidence doesn't necessarily drive the economic cycle so much as reflect it, it is certainly true that it can exacerbate it. The elevated levels right now are consistent with decent economic momentum.

FIGURE 2. GDP VS CONFIDENCE COMPOSITE

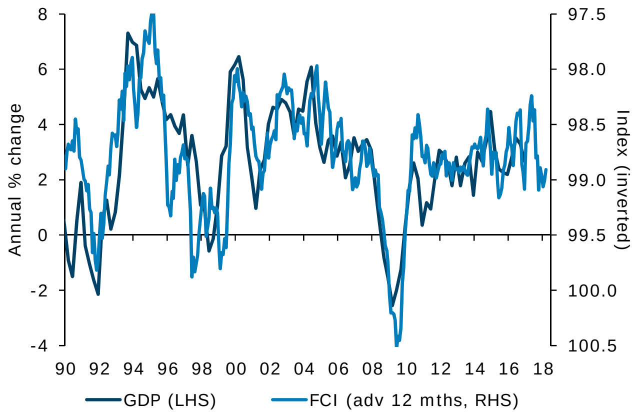


Source: ANZ, Roy Morgan, Statistics NZ

- **Strong population growth.** While it may be a struggle for net migrant inflows to continue to set new monthly records, we can't see migration rolling over meaningfully for some time yet, given New Zealand's continued labour market strength and the volatile political environment globally. While that does raise the risk that per capita growth remains lacklustre (which also increases the odds of a political response to migration strength), strong population growth will continue to underpin spending and activity growth more broadly.

- **Financial conditions are still supportive.** Financial conditions have tightened since the middle of 2016 as house price growth has cooled and interest rates have risen. However, conditions are not 'tight'.

FIGURE 3. GDP VS FINANCIAL CONDITIONS



Source: ANZ, Statistics NZ, Bloomberg

- **The terms of trade are elevated.** Dairy prices have eased off recent highs and the sector still has some challenges to grapple with, but prices for many of New Zealand's other commodities are holding up well (see page 8). While our terms of trade forecasts are really a picture of broad stability around current levels, that is only down around 5% from the multi-decade highs seen in 2014.

- **A reasonable external sector performance.** The vagaries of the weather and its impact on agricultural production will continue to throw headline export figures around, but within the details some strong trends should continue. Growth prospects for the fruit, wine and forestry sectors remain strong. They may not have the clout of dairy in terms of size, but they still add up to something meaningful. Additionally, after flattening over the course of 2016 on the back of lower average spend per visitor, we remain constructive on the tourism sector overall. Visitor numbers should continue to trend higher and the recent dip

NEW ZEALAND ECONOMIC OUTLOOK

in the NZD should also result in higher overall spending levels as the average spend per visit ticks higher.

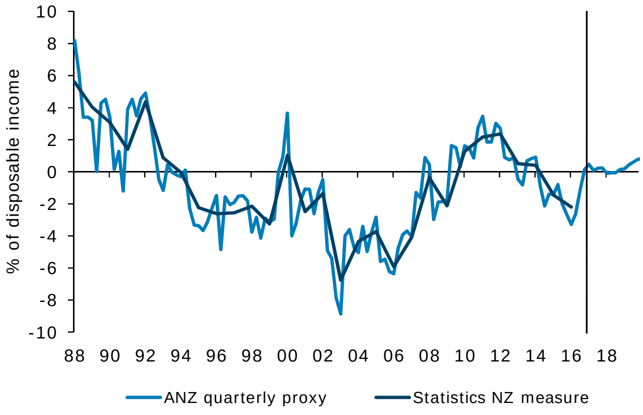
- **The construction sector pipeline remains large.** We estimate that there is a 20-30k shortage of dwellings in Auckland, and the sector is failing to keep pace with current demand. Earthquake repair and strengthening work continues following recent natural disasters. The nature of strong population growth means that infrastructure work needs to keep pace.
- **Fiscal policy is moving to a more neutral stance.** The accounts are back in surplus and debt levels are relatively low. That provides the government with options. After an average drag of 1% of GDP per year between 2012 and 2016, a modest loosening of the purse strings looks likely, especially with an election around the corner. Investment is a key focus which adds impetus to construction; there is no shortage of projects to do, but rather a shortage of labour to do them.
- **The nucleus of an economy is the small things** and there is no shortage of positive stories across the economy. There's not space to list all of them here, but examples include the innovative stories we're seeing across the agricultural space; the kick-starting of NZ-China free trade negotiations (the previous agreement was already a huge boon to the economy); the investment-style approach to social initiatives; and the cost efficiency drives from numerous business we continue to pick up on the ground. Individually, these represent tweaks, but as a collective they create trends.

A MODERATION NOT A SLOWDOWN

Our forecasts have annual GDP growth hovering around 3% over the course of 2017. As that is down from the 3½-4% pace experienced in mid-2016, technically it does mean that we believe growth has 'peaked'. But forecasting a peak in growth is quite different to forecasting a slowdown. We do believe growth momentum will ease (when you look at our forecasts on a quarterly sequential basis), but we'd class this as a 'gallop to canter' style moderation.

Headline household consumption growth will remain respectable. We forecast real growth of 3.6% and 3.2% in 2017 and 2018 respectively. However, on a per capita basis, the theme will remain one of relative restraint, with growth of around 1½% in both of those years. Income growth is the driving force, with our forecasts effectively implying a stable household saving rate, modestly in positive territory.

FIGURE 4. HOUSEHOLD SAVING RATE



Source: ANZ, Statistics NZ

The picture for investment is a little more mixed. Residential investment appears as though it will drag on growth over the first half of 2017, judging by the recent fall in consent issuance. However, we are more confident of ongoing growth from non-residential and infrastructure work. More broadly, decent business sector balance sheets, elevated confidence and the tightness in the labour market should spur ongoing capital investment (which should also help generate improved productivity growth performance in time). We see other fixed assets growing by 5.8% and 3.2% in 2017 and 2018 respectively.

Employment growth looks to have peaked, but it is still a backdrop where the labour market will continue to tighten. We estimate the vacancy rate is at its highest level since 1994. And while labour supply growth will continue to be boosted by strong net migrant inflows, we do believe that further lifts in the participation rate will become increasingly hard to achieve given its already all-time high levels (70.6%). We see the unemployment rate falling to 4.7% by the end of 2017 and 4.4% by the end of 2018.

Stronger wage growth should naturally follow. We are still believers in the theory that as something becomes scarcer, its price should rise. That is especially so now that one of the clear dampening influences on wage growth – low consumer price inflation more broadly – is waning. That said, with the impact of technology becoming increasingly disruptive, we suspect that when it comes to wages, a rising tide is unlikely to lift all boats equally. Some workers are benefiting, others aren't. That presents challenges for policymakers and the education system. Nevertheless, we forecast annual growth in the private sector Labour Cost Index to reach 2% by early 2018.

This, together with capacity pressures more generally, should see domestic inflation pressures rise gradually. We see non-tradable

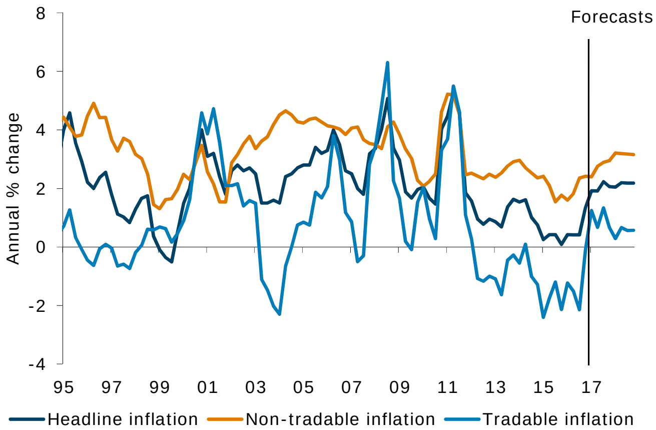
NEW ZEALAND ECONOMIC OUTLOOK

inflation rising to 3.2% y/y by early next year from around 2½% currently.

Annual tradable inflation has bounced, but we don't see much more upside from here. On the back of the previous drag from oil price weakness dropping out and the recent spike in food prices, we expect annual tradable inflation to surpass 1% in Q1, which would be the highest since 2011. However, the boost to food prices is likely temporary and while the NZD is forecast to depreciate over the next few years, the move is only modest. At a time when deflationary forces remain evident (technology, demographics, debt levels, excess global capacity), annual tradable inflation is forecast to ease towards 0.5% by the end of 2018.

But headline inflation should be back at the target mid-point this year. There is a non-trivial risk this occurs as early as Q1, although our forecasts show it back at 2% in Q3 2017. It is forecast to broadly hold around this level for the rest of the forecast period, which should be enough to see inflation expectations stabilise around this level too.

FIGURE 5. CPI FORECASTS



Source: ANZ, Statistics NZ

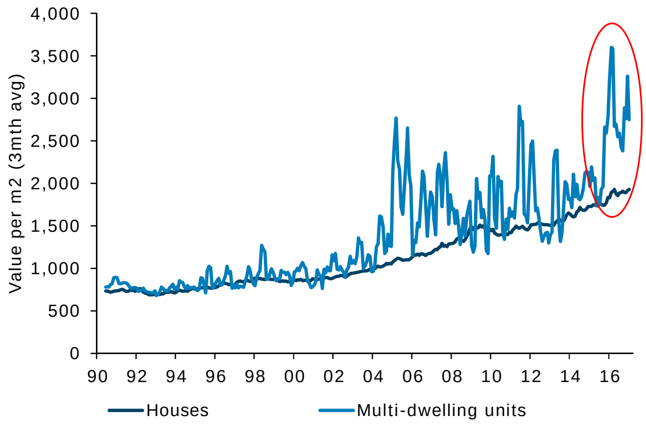
This all corresponds with the next move in the OCR being upwards. We can certainly envisage scenarios where the OCR needs to be cut again (with some of the risks to the outlook discussed below). However, we don't believe the odds of that are evenly split, like the RBNZ suggests. Nonetheless, with retail banks already lifting retail rates and the global scene remaining uncertain, the RBNZ is likely to tread cautiously. We see the first OCR hike in May 2018.

BUT WITH AGEING STILL COMES RISKS

When an economy is recording good momentum, it has a greater ability to withstand shocks and negative forces. We still believe, given that imbalances are not as pronounced as they would typically be at this point in the cycle, that the economy has reasonable resilience. But that is not to say it is not a backdrop without its challenges and risks, and these can become more apparent when things become a little 'harder'.

- **The trajectory for the global economy remains far from clear.** We are encouraged by the synchronised reflation signals currently evident. However, numerous issues remain. The clouds of increased protectionism and inward-looking policies loom ever-present on the horizon. We can't see that being positive for longer-term growth and productivity prospects. Central banks are increasingly turning away from policy support, in part because inflation is closer to targets, but also because there is a greater sense of the negative side-effects of their extraordinary policy measures. The world needs higher rates to encourage the correct amount of risk taking and portfolio allocation, but can ill afford it, given the massive build-up in global leverage. Throw in political uncertainty in Europe and broad geopolitical tensions and the global economy remains a fragile place.
- **The construction sector is at the pointy end of capacity and credit challenges.** The nature of the sector means that it often sails close to the wind with regards to margins, and cycles can turn sharply. Cost escalations, which we have especially seen in the likes of the multi-dwelling sector in Auckland, can turn what were profitable projects at the time of planning into ones that quite quickly aren't. At a time when demand-side pressures for housing are as strong as ever, and the sector is already grappling with capacity strains, financial challenges for some in the industry risks delaying the much-needed housing supply response.

FIGURE 6. AUCKLAND CONSENT VALUE PER SQUARE METRE



Source: ANZ, Statistics NZ

- **The Auckland housing market is cooling but the exact direction from here is unclear.** We expect more modest levels of activity and price growth to persist as affordability constraints, rising mortgage rates, shifting bank lending appetites and tighter prudential controls bite. However, at a time when the supply response is facing challenges, fundamental demand/supply imbalances risk seeing it take off again. That would lead to excessive credit growth and a build-up of imbalances. Conversely, if animal spirits were to take over and the market unwound some of the exuberance priced in over recent years, as speculative activity disappeared, then this weakness could have confidence and growth implications.
- **Political uncertainty will rise through the course of the year.** New Zealand does not appear to be experiencing the same populist groundswell that is evident in many parts of the world at present. However, we should not be complacent or naïve enough to think that we are immune from the same pressures. Potential lightning rods domestically certainly exist in the form of migration and housing affordability, and the nature of New Zealand's MMP electoral system means that the result of elections will always be close.
- **Productivity growth needs to lift.** The economy has been too reliant on labour inputs (working harder) over recent years. Since March 2011, total hours paid are up close to 11%, which reflects not only more people working, but people working more. There are natural limits to that, and we are arguably hitting them now as skills become harder to find. The critical next step is about working smarter, especially if we wish to enjoy higher rates of per capita growth.
- **We are assuming inflation increases gradually**, but we'd be first to admit that we've had that view before and been disappointed and the OCR has gone nowhere. The flipside argument to this is previous economic cycles, where inflation reared its head fast and the RBNZ was forced to act – and that crunched the economy. There is no shortage of inflation pressures in some sectors, but to date it hasn't broadened. We're assuming this theme will continue.

INTERNATIONAL OUTLOOK

SUMMARY

The recent improvement in the global growth backdrop is forecast to be sustained into 2018. US momentum is solid, ex-China Asian activity is accelerating and European activity is recovering. China is slowing, but that masks still-strong growth. This is all welcome, but many questions remain. Growth is okay, but trend growth is weak as productivity is low and demographics no longer a tailwind. Questions surround the impact and speed of protectionist nuances; and how the global economy will respond to a re-pricing of the global cost of capital as interest rates lift off lows. We're anticipating bumps, but expect growth to hold up.

OKAY, BUT NOT GREAT

The global data pulse remains consistent with a manufacturing and trade upswing. In fact, the global economy is currently in the midst of what is arguably its firmest and most synchronised period of expansion since the financial crisis ended. It is nothing to write home about from an historical perspective, but animal spirits that have previously been holding back activity have been unleashed and it is an encouraging sight.

Our forecasts depict this lift in growth being sustained into 2018. Even though the US economy is now operating close to full employment, momentum is solid and decent underlying fundamentals suggest there is room for this to continue. While China is forecast to continue its secular growth moderation, the rest of Asia is likely to show growth acceleration. The recent improved growth trajectory in Europe is expected to be sustained and Australian forecasts show growth lifting to around 3% over the next couple of years.

But there is an array of challenges.

- **While growth is okay, trend growth is not; that means we remain in a slow growth rut.** Productivity growth has been weak post the GFC across the OECD. Demographics (a peak in those of working age as a share of the population) are now a headwind, not a tailwind, across the western world. Business investment has been lacklustre, and extraordinarily low interest rates have encouraged excessive risk taking.
- **Political factors are now rivalling traditional economic drivers.** Tweet risk is now a reality!
- **The threat of protectionism looms large.** The G20 will no longer "avoid all forms of protectionism". Anything now goes. Trade balances are in the spotlight. Free trade is being replaced by "fair and balanced" trade. No one knows exactly what that looks like.
- **The global cost of capital is in the process of returning to less abnormal levels.** The Fed is lifting rates and the ECB's QE program is on borrowed time. A turn in the liquidity cycle is upon us. Markets need to transition from liquidity to fundamentals as the key driver of valuations. **That will create some turbulence given leverage around the globe remains high.**
- **The shift from monetary to fiscal policy stimulus is uncertain.** Legislative constraints, political posturing and elevated debt levels could cramp the policy promises that reflation is partly premised upon.
- **The recent inflation upswing is clouded.** The commodity-induced lift in headline inflation rates is about to peak (and could even reverse given recent oil price moves). With the exception of the US, core inflation remains low as a lift in wage growth is MIA and spare capacity remains.
- **Markets will remain alert to more evidence of the resentment and anger vote shaping political and policy direction.**
- **Closer to home, risks to our two biggest trading partners are downwardly skewed.** While we are reasonably optimistic on Australia's outlook, we need to see a clear transition from a housing-led cycle to a business-led one and that is constrained by fiscal and political uncertainty. China is slowing, but in a managed fashion. But part of the reason growth stabilised last year was an easing in liquidity conditions. At a time of elevated debt levels, that is not sustainable.

So while we are reasonably constructive on the global growth outlook, we'd classify it as 'okay, but not great'. Too many questions regarding too many issues make it hard to be filled with a great deal of optimism.

Calendar Years (annual average % change)	2013	2014	2015	2016	2017(f)	2018(f)	2019(f)
United States	1.7	2.4	2.6	1.6	2.2	2.3	2.3
Australia	2.1	2.8	2.4	2.5	2.5	3.1	3.1
Japan	2.0	0.2	1.2	1.0	0.9	0.8	0.8
Euro Zone	-0.2	1.2	1.9	1.7	1.7	1.6	1.6
China	7.7	7.4	6.9	6.7	6.5	6.3	6.3
Trading Partner Growth	3.1	3.7	3.6	3.4	3.4	3.5	3.4

PRIMARY SECTOR OUTLOOK

SUMMARY

The cyclical upturn in international soft commodities prices has matured, but we are not expecting a sudden turn for the worse. Dairy cash-flow prospects look steady to slightly better into mid-2018. Meat returns are exceeding expectations, but volumes are low. Smaller kiwifruit and grape crops are expected, while a record-sized pipfruit crop is on its way. Early season price indicators are strong for kiwifruit and pipfruit. Forestry prices continue to be robust with rising volumes expected over coming years.

The strong cyclical upswing in commodity prices that began in early 2016 is at a delicate juncture. The initial impetus in many markets was driven by supply reductions and increased Chinese/South East Asian imports to restock and service solid end-demand. An extra tailwind into the New Year period was generally better global economic conditions, especially in developed countries, and Donald Trump's signalled fiscal package boosting the reflation trade.

Many of these forces now seem to have matured, or are fading. In some cases prices have become too stretched, risking substitution occurring (to other sources, or different products). Momentum in China is easing and Donald Trump's fiscal package is uncertain. Oil (a commodity bellwether) has retraced around 10% to ~US$50/bbl. This raises the question of whether we are set for a wider correction. For New Zealand's main commodities it feels like a ceiling has been hit, but a substantial pullback doesn't seem imminent either. For many sectors, supply is expected to remain tight due to seasonality and other restrictions (lower breeding stock numbers and production lifecycles). Combined with valuation metrics not being extremely overheated, it points to 'steady as she goes'.

While supply-demand fundamentals will be important for direction, the biggest potential 'game changer' remains US trade and tax policies amidst a shift from "free" to "fair and balanced" trade. No one really knows what it means but the trade rulebook is being rewritten. The deterioration in Mexican/US relations is already having an impact on global meat, grain and dairy markets, due to Mexico being the largest export market for most of these US products – often by a substantial margin.

Cash-flow prospects for the dairy sector look stable to slightly better into mid-2018. While supply conditions have improved (seeing milk powder prices moderate), this only reduces the upside potential for the 2016/17 milk price. **Improved returns, a small reduction in supply (~-1.5% y/y) and cost controls implemented during the downturn place the sector back into profit.**

We are expecting an opening milk price in the high-$5/kg MS for 2017/18. This assumes relatively stable WMP prices, SMP pegged at intervention levels, some moderation in milkfat prices, and a NZD/USD in the high-0.60's. The main risk is that the combination of higher farm-gate prices than last year, low supplementary feed costs, and seasonality with generally conducive weather conditions could together result in higher milk production in NZ, the US and Europe.

Across other livestock sectors, tight meat supplies (both local and some key competitors) are driving inter-market competition. In some cases this is pushing the prices of certain products to historical highs. In turn, this is raising concern that substitution effects could start to occur. Beef demand out of the US is positive and likely to remain so. Outside of impacts of the high NZD against the EUR and GBP, lamb markets are positive. Intermarket competition for certain cuts and procurement premiums are set to continue to support strong farm-gate returns. Wool prices have improved as bargain hunters swoop in and supply has been withheld due to prices falling below the cost of production. Immediate further upside appears limited due to high Chinese inventory levels and changed fashion trends.

Smaller kiwifruit and grape crops are expected, though both will be falling from record highs. Green volumes are expected to fall by almost 20% to 75m trays. In contrast, Gold volumes are expected to increase to 55-60m trays (+14-24%) as new vines come into production and other canopies reach maturity. Early season price indications for both Green ($5.15-$6.15/tray) and Gold ($8.75-$9.75/tray) are very strong. This means increased revenue is guaranteed for Gold, and Green could lift too if the upper end of the price range is achieved. A record pipfruit crop of 584,000mt (+6.2% y/y) is expected for 2017. Soluble solids at their highest-ever recorded level – which supports eating quality and storage longevity – as well as more new club varieties coming into production should support average pricing and total sector revenue.

Demand for forestry products remains robust and prices are firm in many core markets. Chinese demand remains buoyant for more infrastructure/ housing activity and reduced harvesting of the nation's own native forests. Domestically, construction activity is set to continue, supporting the demand for lumber. Supply is set to lift toward 32.5 to 35m cubic metres over next 10 years as the flurry of smaller woodlot plantings in the mid-1990s becomes harvestable (5-year average ~ 29 million m^3).

FINANCIAL MARKETS OUTLOOK

SUMMARY

Global bond yields have range traded over Q1, having risen sharply during Q4. While there are a number of uncertainties, we continue to expect yields to slowly nudge higher given that the Fed is in trend tightening mode, and the tone of central bank communications elsewhere is turning. By contrast, short-end rates will be anchored to the OCR, which we expect to remain on hold over 2017. In currency markets, we expect the NZD to weaken modestly further as the growth cycle matures. The dip is expected to be shallower compared to earlier cycles, thanks largely to still very respectable domestic credentials.

STILL MUDDLING THROUGH, BUT WITH MORE CONFIDENCE THAT GLOBAL RATES WILL RISE

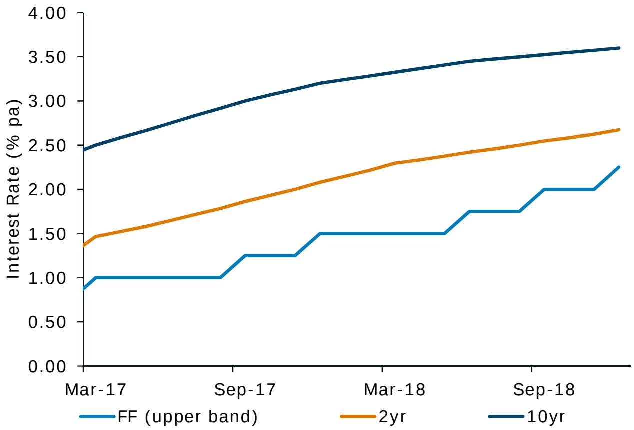
Having risen sharply over the course of Q4 2016, US 10-year Treasury bond yields have been in a holding pattern in Q1, consistent with our long-held 'muddling through' thematic for global long-end rates (with growth neither strong nor weak). To recap, while we were of the view that global long-term rates would ultimately end up higher, three factors left us cautious. First, we noted that while the Fed was in tightening mode, the ECB, BoE, and BoJ were not. Second, we noted that US financial conditions had already tightened significantly after the US elections, underscoring the likelihood that the Fed would pursue a very gradualist approach. And third, we questioned the world's ability to withstand higher rates given increased indebtedness.

Looking forward, while we remain somewhat cautious, recent developments make us more confident in our view that yields will continue to rise. For one, while the Fed remains on a gradual tightening path, the pace has picked up; we expect two further hikes this year, followed by three next year, ultimately taking the fed funds rate (upper band) to 2¼%. We also note that while other key central banks remain on hold, **the ECB is of the view that downside risks have dissipated**, and confirmed in March that it did not discuss having another targeted longer-term refinancing operation (TLTRO). While this is a highly technical change, it will nonetheless reduce demand for short-end European bonds, and allow yields to rise, with knock-on consequences further out on the yield curve. **The BoE has also noted that there may be circumstances that necessitate an earlier withdrawal of stimulus.** The steadily improving global inflation profile also needs to be acknowledged by the bond market.

Political uncertainty and widespread short positioning do suggest a continued period of 'muddling through', but with the fed funds rate likely to be at 2% in around 18 months, US core CPI now comfortably above 2%, and Fed chair Yellen emphasising a desire to get back to neutral (which she describes as "something in real terms that might be close to one percent"), **low bond yields are on borrowed time.** Finally, we note that while markets have become frustrated with the lack of detail around the Trump administration policies, when details are forthcoming, they will represent a source of upside risk to US bond yields.

As US rates head higher we expect the yield curve to steepen, and term interest rates in other geographies to rise, albeit more gradually. Our expectation for a steeper curve is based on our judgement that US long-end rates are trading in a very short-sighted fashion. Historically, markets have tended to over-price the degree of tightening than has been delivered in the first part of the cycle, only to generally under-price it during the second half of the cycle. On this occasion though, the market is pricing in much less tightening than the Fed is predicting, which is unusual so early in the cycle. Indeed, the Fed's dot plots imply that we will see eight further hikes by the end of 2019, taking the fed funds rate to 3%, yet market expectations (and the 10-year bond yield) remain well below that level.

FIGURE 1: ANZ US INTEREST RATE FORECASTS



Source: ANZ, Bloomberg

Our forecasts have the US 10-year bond yield rising to 3.2% by the end of 2017 and 3.6% by the end of 2018 (Figure 1). That may seem like a sizeable move given where yields are now, but in the context of where rates have been in the past, that's a fairly muted rise, consistent with our expectation of a much lower terminal fed funds rate.

NZ SHORT END ANCHORED, BUT LONG END FOLLOWING THE US HIGHER, ALBEIT BY LESS

The outlook for New Zealand interest rates is maturity-dependent, with the short end steady and the long end biased mildly higher. The story for the short end is a fairly simple one: with the RBNZ

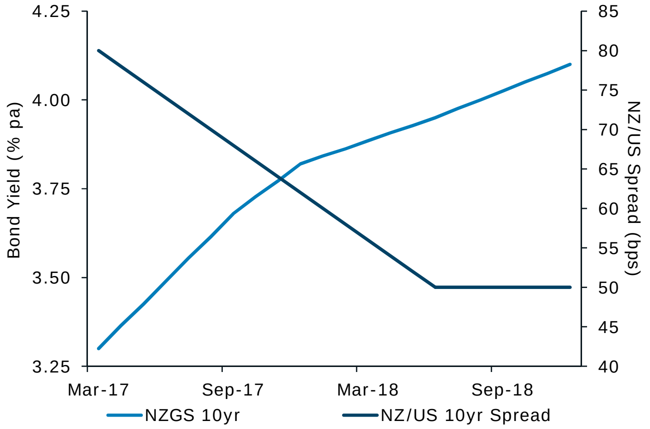
FINANCIAL MARKETS OUTLOOK

on hold for the remainder of 2017, there is very little scope for short-end rates to go anywhere. **Technically, they could gravitate lower given how elevated they are vis-à-vis the RBNZ's projections and its very neutral outlook, which was reaffirmed at the 23 March OCR Review.**

However, without any realistic likelihood of OCR cuts, few in the market are prepared to 'chase' yields down towards levels implied by the Bank's projections. Furthermore, with roll and carry back at attractive levels, it's expensive to bet against the RBNZ, particularly given heightened global uncertainties and with retail interest rates already on the move higher. These have effectively delivered a de facto rate hike, buying the RBNZ time.

By contrast, long-end rates are biased higher, consistent with our expectation for higher US bond yields over the next few years. Although the outlook for RBNZ policy is benign, local term rates are far more heavily influenced by US interest rates but tend to move less than 1:1. NZGS yields remain high compared to other G10 sovereign yields, and offshore participants remain net buyers**. With the New Zealand yield curve already very steep (compared to the US and Australia), we expect a fair degree of the upcoming lift in US interest to be absorbed via a narrowing of the NZ/US spread** (Figure 2).

FIGURE 2: ANZ FORECASTS FOR NZGS 10-YEAR YIELD AND SPREAD TO US TREASURIES



Source: ANZ, Bloomberg

Specifically, our forecasts have the NZ 10-year government bond yield rising to 3.8% by the end of 2017, and to 4.10% by the end of 2018. That's a far milder move than what we expect to see in the US. Such a move will steepen the (already steep) yield curve, but this will simply insulate the long end from a more extended move higher by the time the RBNZ returns to the rate hike table in mid-2018.

THE GREENBACK

A mildly firmer outlook for the USD dominates our FX forecasts. This reflects expectations that US interest rates will gradually rise and the US economy will continue to perform well.

However, our expectations towards the USD firming are tempered somewhat by three factors.

- **Valuation remains a concern for the USD.** Our measure of fair value for the broad USD TWI highlights that we are approaching levels that historically have only been breached in either an environment of US exceptionalism, or in one of significant risk aversion. While we are not yet ready to discount either of these possibilities manifesting in the next few years, for now we do not think that there is sufficient momentum behind either of these factors to make them our central case for the USD over the next three months or so.
- **On the growth and policy front, current dynamics look equally unsupportive for the USD.** A broadening global growth pulse (assuming that Europe holds together), has typically been aligned with a weaker USD. To date this has been overlooked as the market has looked to price in the future growth benefits of the Trump administration's agenda. However, at current valuation levels this no longer looks viable.
- **When we consider the balance of risks going forward, we think that if global growth remains as broad as it is currently, it will weigh against the USD** as the stances of central banks elsewhere start to shift. While this is not our central case, it does reflect a marked shift in the way that we are thinking about the balance of risks.

Overall this leaves us still forecasting modest USD strength over the medium term, while fully acknowledging that the risk to our forecasts has now shifted to further USD weakness, rather than strength.

DOMESTIC CREDENTIALS

The NZD has been an underperformer against most currencies of late, **having succumbed to recent local data 'undershoots' and the RBNZ's steadfastly neutral stance. While such developments need to be respected, the NZD still has solid credentials.**

First, the underlying economic 'pulse' remains strong. Weakness in Q4 2016 GDP growth is a blip; annualised growth is set to kick back up towards 4%

FINANCIAL MARKETS OUTLOOK

in Q1 2017. The trend is one of only a modest easing in momentum. **Second, we note that a key reason growth is moderating in trend terms is capacity constraints**; that's not a sell signal for an economy / currency. **Third, commodity (dairy) prices have stabilised. Fourth, inflation pressures are building**; the RBNZ will not be able to retain a neutral stance for too long. We expect the first rate hike in mid-2018 whereas the RBNZ is saying late-2019. **And last but not least, New Zealand's fiscal credentials are strong**, and the envy of most other major non-oil economies.

There is likely to be some election-related unease as 2017 progresses but we are not expecting a major swing towards the anger and resentment vote and change in economic direction here in New Zealand. In the absence of a major turn in the global economy (which we are not projecting) **the major driver of the NZD over the coming year will be a narrower yield differential.**

Nonetheless, relative to history, we are pencilling in a much shallower currency cycle. This reflects our view that any lift in rates will be very gradual; historical averages for the yield differential (which point a lot lower) are meaningless when base rates are this low. We assume that the global economy will navigate a heightened period of uncertainty in an orderly fashion.

INDIVIDUAL CURRENCY PAIRS

NZD/USD: From buying dips to selling rallies. With New Zealand's credentials still strong but with the cycle maturing, and the USD poised to strengthen mildly, we expect NZD/USD to depreciate to 0.68 by the end of 2017 and 0.67 by the end of 2018.

NZD/AUD: Rebound. Australia is the laggard in the current global rates cycle. The RBNZ will hike before the RBA, and we note that the credit channel of monetary policy is tightening in Australia. In our view the recent NZD/AUD decline was premature, and we expect a rebound to 0.94 by year-end.

NZD/GBP: Weak on both fronts. GBP is cheap when measured against any fundamental valuation yardstick. However, with Brexit upon us and the UK's twin deficits sitting around 7.5% of GDP, it's hard to be bullish sterling. With NZD declining modestly too, this cross is expected to hold steady over 2017.

NZD/EUR: Eventual decline. NZD/EUR is likely to follow a similar path to NZD/GBP over 2017, holding steady. However, we expect the EUR to rebound in 2018 as the economy recovers, delivering NZD/EUR weakness as NZD/USD declines moderately.

NZD/JPY: Following NZD/USD. We expect JPY to stabilise at around 115 over 2017 and 2018 as the market awaits a clearer signal from the BoJ. With moves on this cross coming via the NZD, it will follow NZD/USD modestly lower.

Forecasts (end of quarter)							
FX Rates	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZD/USD	0.70	0.69	0.68	0.68	0.68	0.67	0.67
NZD/AUD	0.92	0.93	0.94	0.94	0.93	0.91	0.89
NZD/EUR	0.65	0.66	0.67	0.68	0.65	0.63	0.63
NZD/JPY	80.5	79.4	78.2	78.2	78.2	77.1	77.1
NZD/GBP	0.58	0.58	0.58	0.55	0.54	0.54	0.52
NZD/CNY	4.90	4.86	4.83	4.84	4.86	4.81	4.82
NZ$ TWI	75.3	75.3	75.3	75.5	74.2	72.7	72.2
Interest Rates	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
NZ OCR	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	2.01	2.00	2.00	2.09	2.34	2.51	2.51
NZ 2-yr swap	2.47	2.53	2.59	2.65	2.78	2.87	2.91
NZ 10-yr bond	3.49	3.68	3.82	3.89	3.95	4.03	4.10

KEY ECONOMIC FORECASTS

Calendar Years	2013	2014	2015	2016	2017(f)	2018(f)	2019(f)
NZ Economy (annual average % change)							
Real GDP (production)	2.3	3.3	3.4	3.1	3.1	2.4	2.3
Private Consumption	3.3	3.1	2.9	4.2	3.6	3.2	2.6
Public Consumption	1.4	3.3	2.6	2.3	3.9	2.3	2.3
Residential investment	17.5	10.9	2.0	11.0	-4.0	-3.7	-7.8
Other investment	5.2	7.5	2.2	3.8	5.8	3.2	2.6
Stockbuilding[1]	-0.2	0.4	-0.3	0.2	0.3	0.0	0.0
Gross National Expenditure	3.6	4.2	2.2	4.7	3.5	2.6	2.0
Total Exports	0.8	3.0	6.9	1.6	2.2	2.8	3.4
Total Imports	6.2	7.9	3.7	4.0	5.6	3.3	2.2
Employment (annual %)	2.9	3.6	1.4	5.8	2.1	1.4	1.2
Unemployment Rate (sa; Dec qtr)	5.6	5.5	4.9	5.2	4.7	4.4	4.3
Labour Cost Index (annual %)	1.6	1.7	1.5	1.6	1.9	2.1	2.0
Terms of trade (OTI basis; annual %)	20.2	-5.0	-3.2	6.7	-2.8	0.9	0.1
Prices (annual % change)							
CPI Inflation	1.6	0.8	0.1	1.3	2.1	2.2	1.9
Non-tradable Inflation	2.9	2.4	1.8	2.4	2.9	3.2	3.1
Tradable Inflation	-0.3	-1.3	-2.1	-0.1	0.7	0.6	0.4
REINZ House Price Index	9.9	4.4	13.1	14.3	0.6	2.0	2.8
Fiscal and External Balance							
Current Account Balance ($bn)	-7.0	-7.7	-8.0	-7.2	-7.5	-9.5	-10.1
as % of GDP	-3.1	-3.2	-3.3	-2.7	-2.7	-3.4	-3.4
Government OBEGAL ($bn)*	-4.4	-2.8	0.4	1.8	0.8	3.5	5.4
as % of GDP	-2.0	-1.2	0.2	0.7	0.3	1.3	1.9
NZ Financial Markets (end of December quarter)							
TWI	77.3	79.4	73.7	76.1	75.3	72.2	
NZD/USD	0.82	0.78	0.69	0.69	0.68	0.67	
NZD/AUD	0.92	0.96	0.94	0.96	0.94	0.89	
NZD/CNY	4.98	4.86	4.45	4.81	4.83	4.82	
NZD/EUR	0.60	0.64	0.63	0.66	0.67	0.63	
NZD/JPY	86.3	93.6	82.5	81.1	78.2	77.1	
NZD/GBP	0.50	0.50	0.46	0.56	0.58	0.52	
Official Cash Rate	2.50	3.50	2.50	1.75	1.75	2.25	2.75
90-day bank bill rate	2.84	3.68	2.75	2.00	2.00	2.51	3.01
2-year swap rate	3.85	3.80	2.85	2.46	2.59	2.91	3.25
10-year government bond rate	4.72	3.67	3.57	3.33	3.82	4.10	4.50

[1] Percentage point contribution to growth

IMPORTANT NOTICE

The distribution of this document or streaming of this video broadcast (as applicable, "publication") may be restricted by law in certain jurisdictions. Persons who receive this publication must inform themselves about and observe all relevant restrictions.

1. Disclaimer for all jurisdictions, where content is authored by ANZ Research:

Except if otherwise specified in section 2 below, this document is issued and distributed in your country/region by Australia and New Zealand Banking Group Limited (ABN11 005 357 522) ("ANZ"), on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (collectively, "recipient"). This document is confidential and may not be reproduced, distributed or published by any recipient for any purpose. It is general information and has been prepared without taking into account the objectives, financial situation or needs of any person. Nothing in this document is intended to be an offer to sell, or a solicitation of an offer to buy, any product, security, instrument or investment, to effect any transaction or to conclude any legal act of any kind. If, despite the foregoing, any services or products referred to in this document are deemed to be offered in the jurisdiction in which this document is received or accessed, no such service or product is intended for nor available to persons resident in that jurisdiction if it would be contradictory to local law or regulation. Such local laws, regulations and other limitations always apply with non-exclusive jurisdiction of local courts. Certain financial products may be subject to mandatory clearing, regulatory reporting and/or other related obligations. These obligations may vary by jurisdiction and be subject to frequent amendment. Before making an investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

The views and recommendations expressed in this publication are the author's. They are based on information known by the author and on sources which the author believes to be reliable, but may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this publication and are subject to change without notice; and, all price information is indicative only. Any of the views and recommendations which comprise estimates, forecasts or other projections, are subject to significant uncertainties and contingencies that cannot reasonably be anticipated. On this basis, such views and recommendations may not always be achieved or prove to be correct. Indications of past performance in this publication will not necessarily be repeated in the future. No representation is being made that any investment will or is likely to achieve profits or losses similar to those achieved in the past, or that significant losses will be avoided. Additionally, this publication may contain 'forward looking statements'. Actual events or results or actual performance may differ materially from those reflected or contemplated in such forward looking statements. All investments entail a risk and may result in both profits and losses. Foreign currency rates of exchange may adversely affect the value, price or income of any products or services described in this publication. The products and services described in this publication are not suitable for all investors, and transacting in these products or services may be considered risky. ANZ and its related bodies corporate and affiliates, and the officers, employees, contractors and agents of each of them (including the author) ("Affiliates"), do not make any representation as to the accuracy, completeness or currency of the views or recommendations expressed in this publication. Neither ANZ nor its Affiliates accept any responsibility to inform you of any matter that subsequently comes to their notice, which may affect the accuracy, completeness or currency of the information in this publication.

Except as required by law, and only to the extent so required: neither ANZ nor its Affiliates warrant or guarantee the performance of any of the products or services described in this publication or any return on any associated investment; and, ANZ and its Affiliates expressly disclaim any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this publication.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. ANZ and its Affiliates do not accept any Liability as a result of electronic transmission of this publication.

ANZ and its Affiliates may have an interest in the subject matter of this publication as follows:

- They may receive fees from customers for dealing in the products or services described in this publication, and their staff and introducers of business may share in such fees or receive a bonus that may be influenced by total sales.
- They or their customers may have or have had interests or long or short positions in the products or services described in this publication, and may at any time make purchases and/or sales in them as principal or agent.
- They may act or have acted as market-maker in products described in this publication.

ANZ and its Affiliates may rely on information barriers and other arrangements to control the flow of information contained in one or more business areas within ANZ or within its Affiliates into other business areas of ANZ or of its Affiliates. This document is published in accordance with ANZ's policies on Conflicts of Interest and Information Barriers.

Please contact your ANZ point of contact with any questions about this publication including for further information on these disclosures of interest.

2. Country/region specific information:

Australia. This publication is distributed in Australia by ANZ. ANZ holds an Australian Financial Services licence no. 234527. A copy of ANZ's Financial Services Guide is available at http://www.anz.com/documents/AU/aboutANZ/FinancialServicesGuide.pdf and is available upon request from your ANZ point of contact. If trading strategies or recommendations are included in this publication, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 *Cth*). Persons who receive this publication must inform themselves about and observe all relevant restrictions.

Brazil. This publication is distributed in Brazil by ANZ on a cross border basis and only following request by the recipient. No securities are being offered or sold in Brazil under this publication, and no securities have been and will not be registered with the Securities Commission – CVM.

Brunei. Japan. Kuwait. Malaysia. Switzerland. Taiwan. This publication is distributed in each of Brunei, Japan, Kuwait, Malaysia, Switzerland and Taiwan by ANZ on a cross-border basis.

Cambodia. APS222 Disclosure. The recipient acknowledges that although ANZ Royal Bank (Cambodia) Ltd. is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank (Cambodia) Ltd. do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank (Cambodia) Ltd.

European Economic Area ("EEA"): United Kingdom. ANZ in the United Kingdom is authorised by the Prudential Regulation Authority ("PRA"). Subject to regulation by the Financial Conduct Authority ("FCA") and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This publication is distributed in the United Kingdom by ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the PRA and the FCA. **Germany.** This publication is distributed in Germany by the Frankfurt Branch of ANZ solely for the information of its clients. **Other EEA countries.** This publication is distributed in the EEA by ANZ Bank (Europe) Limited ("ANZBEL") which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, to persons who would come within the FCA definition of "eligible counterparty" or "professional client" in other countries in the EEA. This publication is distributed in those countries solely for the information of such persons upon their request. It is not intended for, and must not be distributed to, any person in those countries who would come within the FCA definition of "retail client".

Fiji. For Fiji regulatory purposes, this publication and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this publication.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong. If in doubt about the contents of this publication, you should obtain independent professional advice.

IMPORTANT NOTICE

India. This publication is distributed in India by ANZ on a cross-border basis. If this publication is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing. Further copying or duplication of this publication is strictly prohibited.
Myanmar. This publication is intended to be of a general nature as part of customer service and marketing activities provided by ANZ in the course of implementing its functions as a licensed bank. This publication does not take into account your financial situation or goals and is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013). The contents of this publication have not been reviewed by any regulatory authority in Myanmar. If in doubt about the contents of this publication, you should obtain independent professional advice.
New Zealand. This publication is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008.
Oman. This publication has been prepared by ANZ. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this publication is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and by receiving this publication, the person or entity to whom it has been dispatched by ANZ understands, acknowledges and agrees that this publication has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this publication is intended to constitute Omani investment, legal, tax, accounting or other professional advice.
People's Republic of China ("PRC"). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If and when the material accompanying this document is distributed by Australia and New Zealand Banking Group Limited (ABN 11 005 357 522) ("ANZ") or an affiliate (other than Australia and New Zealand Bank (China) Company Limited ("ANZ C")), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ C, the following statement and the text below is applicable: This document is distributed by ANZ C in the Mainland of the PRC.
Qatar. This publication has not been, and will not be lodged or registered with, or reviewed or approved by, the Qatar Central Bank ("QCB"), the Qatar Financial Centre ("QFC") Authority, QFC Regulatory Authority or any other authority in the State of Qatar ("Qatar"); or authorised or licensed for distribution in Qatar; and the information contained in this publication does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this publication have not been, and will not be registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar. Accordingly, the financial products or services described in this publication are not being, and will not be, offered, issued or sold in Qatar, and this publication is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this publication and distribution of this publication is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this publication must abide by this restriction and not distribute this publication in breach of this restriction. This publication is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.
Singapore. This publication is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore. In respect of any matters arising from, or in connection with the distribution of this publication in Singapore, contact your ANZ point of contact.
United Arab Emirates. This publication is distributed in the United Arab Emirates ("UAE") or the Dubai International Financial Centre (as applicable) by ANZ. This publication: does not, and is not intended to constitute an offer of securities anywhere in the UAE; does not constitute, and is not intended to constitute the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the United Arab Emirates, the Emirates Securities and Commodities Authority or the United Arab Emirates Ministry of Economy; does not, and is not intended to constitute an offer of securities within the meaning of the Dubai International Financial Centre Markets Law No. 12 of 2004; and, does not constitute, and is not intended to constitute, a financial promotion, as defined under the Dubai International Financial Centre Regulatory Law No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority ("DFSA"). The financial products or services described in this publication are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office ("ANZ Representative Office") in Abu Dhabi regulated by the Central Bank of the United Arab Emirates. ANZ Representative Office is not permitted by the Central Bank of the United Arab Emirates to provide any banking services to clients in the UAE.
United States. ANZ Securities, Inc. ("ANZSI") is a member of the Financial Industry Regulatory Authority ("FINRA") (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). Except where this is an FX- related publication, this publication is distributed in the United States by ANZSI (a wholly owned subsidiary of ANZ), which accepts responsibility for its content. Information on any securities referred to in this publication may be obtained from ANZSI upon request. This publication or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this publication you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this publication and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this publication in any way. Non-U.S. Analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with subject company, public appearances and trading securities held by the analysts. Where this is an FX-related publication, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 916 0 Fax: +1 212 801 9163). Commodity-related products are not insured by any U.S. governmental agency, and are not guaranteed by ANZ or any of its affiliates. Transacting in these products may involve substantial risks and could result in a significant loss. You should carefully consider whether transacting in commodity-related products is suitable for you in light of your financial condition and investment objectives.
Vietnam. This publication is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ. Please note that the contents of this publication have not been reviewed by any regulatory authority in Vietnam. If you are in any doubt about any of the contents of this publication, you should obtain independent professional advice.

This document has been prepared by ANZ Bank New Zealand Limited, Level 10, 171 Featherston Street, Wellington 6011, New Zealand,
Ph 64-4-802 2212, e-mail nzeconomics@anz.com, http://www.anz.co.nz