

# QUARTERLY ECONOMIC OUTLOOK

## SHIFTING LANDSCAPE





## INSIDE

NZ Economic Outlook	1
International Outlook	6
Primary Sector Outlook	8
Financial Markets Outlook	9
Economic Forecasts	12

## NZ ECONOMICS TEAM

### Sharon Zollner

#### Chief Economist

Telephone: +64 9 3574094

E-mail: Sharon.Zollner@anz.com

### Philip Borkin

#### Senior Macro Strategist

Telephone: +64 9 3574065

Email: Philip.Borkin@anz.com

### Natalie Denne

#### Desktop Publisher

Telephone: +64 4 802 2217

Email: Natalie.Denne@anz.com

### Liz Kendall

#### Senior Economist

Telephone: +64 4 382 1995

Email: Elizabeth.Kendall@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

### Miles Workman

#### Economist

Telephone: +64 4 382 1951

Email: Miles.Workman@anz.com

Publication date: 27 June 2018

## NEW ZEALAND ECONOMIC OUTLOOK

This economic cycle has been characterised by strong rates of GDP growth yet stubbornly low inflation. But we believe the economic landscape may be shifting. The economy is going through a softer patch and we expect it will struggle to grow above trend from here. On the other hand, cost pressures are increasing and look set to push inflation higher, though likely in a gradual fashion. On balance, and all else equal, we expect inflation will increase and that the OCR will eventually rise: we are pencilling in a hike for November 2019. But a lot can happen between now and then – and it will take some time for an interest rate increase to be on the table. We think risks to the domestic inflation profile are skewed to the downside, which could see the hiking cycle pushed even later. And if conditions deteriorated significantly, a cut could eventuate quite rapidly.

## INTERNATIONAL OUTLOOK

The global economic environment remains positive, but downside risks to global growth have increased. The US economic expansion is mature and rising inflation has pushed monetary policy toward neutral territory. Chinese demand for New Zealand exports continues to hold up, but growth is expected to slow. The ECB remains cautious, but has signalled the unwinding of QE. The Australian housing market is navigating some headwinds and this will likely dampen domestic demand. But other drivers are expected to keep the economy ticking along.

## PRIMARY SECTOR OUTLOOK

Farm-gate returns remain supported by favourable supply/demand dynamics and the lower NZD. New Zealand export prices appear to have benefited from recent trade tensions, but further escalation poses some risks. We see a milk price of \$6.75/kg MS in 2018/19 and cashflow slightly higher than this. Elsewhere volumes and returns are set to remain favourable for major horticulture crops and forestry. Aggregate meat and fibre returns are positive too, but supply is more constrained.

## FINANCIAL MARKETS OUTLOOK

An inactive and cautious RBNZ, together with rising global yields should lead to domestic curve steepening, and a less favourable backdrop for borrowers overall, but it won't be a smooth ride. The NZD is on the back foot, and further weakness is expected as the implications of a turn in the global liquidity cycle continue to play out. The NZD/AUD remains in a broad range-trading environment.

Calendar Years	2015	2016	2017	2018(f)	2019(f)	2020(f)
<b>New Zealand Economy</b>						
Real GDP (annual average % change)	3.6	4.0	2.8	2.5	2.8	2.5
Real GDP (annual % change)	3.1	3.4	2.9	2.6	2.7	2.4
Unemployment Rate (Dec quarter)	5.0	5.3	4.5	4.3	4.3	4.4
CPI Inflation (annual %)	0.1	1.3	1.6	1.6	2.0	2.0
Terms of Trade (OTI basis; annual %)	-3.1	6.7	7.9	0.3	0.5	0.4
Current Account Balance (% of GDP)	-3.0	-2.3	-2.7	-3.2	-2.9	-3.0
Government OBEGAL (% of GDP)	0.2	0.7	1.5	1.2	0.7	0.9
<b>NZ Financial Markets (end of Dec quarter)</b>						
TWI	73.6	76.1	73.0	69.6	65.4	..
NZD/USD	0.68	0.69	0.71	0.67	0.65	..
NZD/AUD	0.94	0.96	0.91	0.93	0.93	..
Official Cash Rate	2.50	1.75	1.75	1.75	2.00	..
10-year Bond Rate	3.57	3.33	2.72	3.10	3.40	..

\* Forecasts and text finalised 27 June 2018



# NEW ZEALAND ECONOMIC OUTLOOK

## SUMMARY

This economic cycle has been characterised by strong rates of GDP growth yet stubbornly low inflation. But we believe the economic landscape may be shifting. The economy is going through a softer patch and we expect it will struggle to grow above trend from here. On the other hand, cost pressures are increasing and look set to push inflation higher, though likely in a gradual fashion. We think the RBNZ will maintain a cautious monetary policy strategy until they see inflation rise in a consistent and sustained way. The outlook for inflation is uncertain and there are risks on both sides of the ledger. Balancing these risks, and all else equal, we expect inflation will increase in time and that the OCR will eventually rise: we are pencilling in a hike for November 2019. But a lot can happen between now and then – and it will take some time for an interest rate increase to be on the table, even if inflation surprises on the upside. On balance, we think risks to the domestic inflation profile are skewed to the downside, which could see the hiking cycle pushed even later. And if conditions deteriorated significantly, we expect a cut could eventuate quite rapidly.

## COOLER CLIMATE

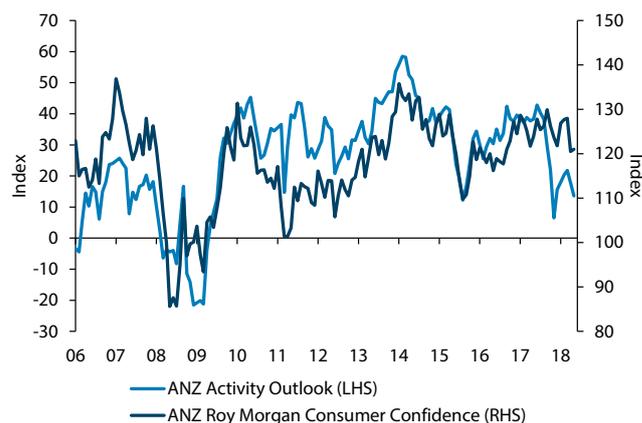
The economy has been losing steam for a while. GDP growth has moderated, with annual growth softening from 4.4% in mid 2016 to 2.7% currently. This reflects a combination of factors: cooling in the housing market, credit headwinds as banks have proactively closed their funding gap, and late-cycle challenges such as a shortage of labour. Policy uncertainty around the unexpected change of government may also have affected firm decision-making in recent months.

This softening should be seen in the context of what's been a strong run this cycle. Growth has averaged 0.9% q/q since 2014, and when the activity level is already high, it is harder to take it up another notch. The cycle is also getting long in the tooth – entering the eighth year of expansion since the technical recession seen in 2010. Given this late cycle backdrop, the fact that the economy is grappling with headwinds is hardly surprising.

The data flow has been a little disappointing of late and the economy is showing more signs of strain. GDP grew at a respectable but below-trend pace of 0.5% q/q (2.7% y/y) in Q1. Headline GDP outturns continue to be boosted by population growth. Indeed, in per capita terms, GDP has all but stalled (0.6% y/y). All in all, the economic cycle is looking more tired.

Downbeat business sentiment has persisted longer than expected, and well beyond the election. Businesses are grappling with a number of challenges, and this is being reflected in weaker expected own-firm activity, along with reduced investment and employment intentions. Policy uncertainty appears to be weighing on business sentiment, but the impact of this should not be overstated. The recent slowing in economic momentum is a result of a broader set of headwinds with which the economy is grappling. In addition to policy uncertainty, businesses are facing credit and capacity constraints, along with cost pressures, which are squeezing expected profitability. Firms report that their single largest problem is finding skilled labour – a nice problem to have, as problems go, but a real problem nonetheless.

**Figure 1: Business own activity and consumer confidence**



Source: ANZ, Roy Morgan

Household sentiment and spending growth have also been waning. The housing market has stabilised, but households are feeling more cautious, with consumer confidence around average, and future expectations a bit weaker of late. The moderation in economic growth may be dampening households' perceived prospects, against the backdrop of a high level of debt and elevated housing costs.

All up, the outlook has become less assured. We are in uncharted territory, which makes forecasting even more uncertain than usual: we are well into the expansion, yet interest rates are at record lows, and inflation is still low. And while the economy appears flexible and resilient given the lack of external imbalances that would typically have built up by now, it is fair to say downside risks have increased.

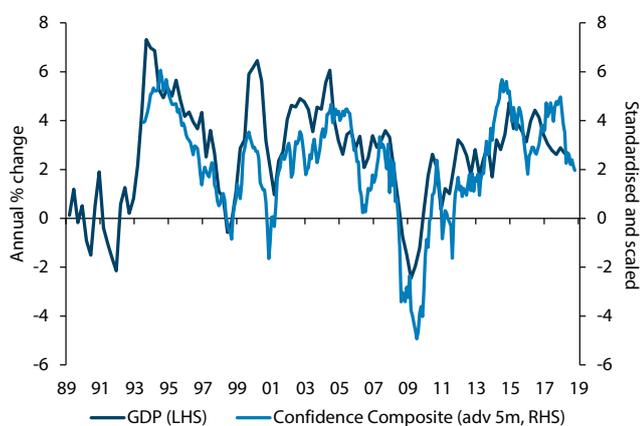
The global picture remains positive (see page 7 for the global outlook). However, this could be derailed by a further escalation of trade tensions, geopolitical risks, or headwinds associated with higher US interest rates and tighter global

liquidity. Markets have returned to more normal levels of volatility this year, in light of these heightened tail risks, and emerging markets are not having a happy time. Home-grown risks have increased too. Challenges faced by businesses could stifle activity, particularly in the face of lingering uncertainty. And credit conditions could tighten if financial institutions were to become more cautious in the face of increased political scrutiny, as in Australia. Of course, there are risks that could see the economy grow at a stronger pace too (eg should migration not gradually decline, as we assume), but downside risks are outweighing upside risks at present.

## BELOW PAR

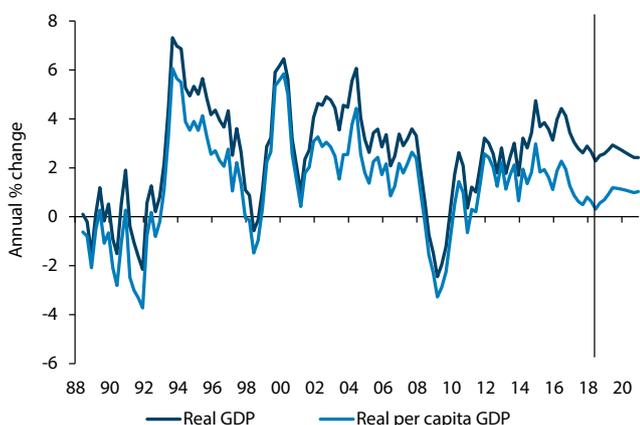
Relative to our March Quarterly Economic Outlook, the outlook for GDP growth is softer. Through the rest of 2018, we expect growth will remain below trend, reflecting the recent lacklustre data flow, heightened downside risks, and the challenges the economy is facing. This softer near-term outlook is consistent with the recent moderation in our ANZ Confidence Composite, which captures the increased wariness that is being seen amongst businesses and to a lesser extent, households.

Figure 2: GDP and confidence composite



Source: ANZ, Statistics NZ, Roy Morgan

Figure 3: GDP forecast: headline and per capita



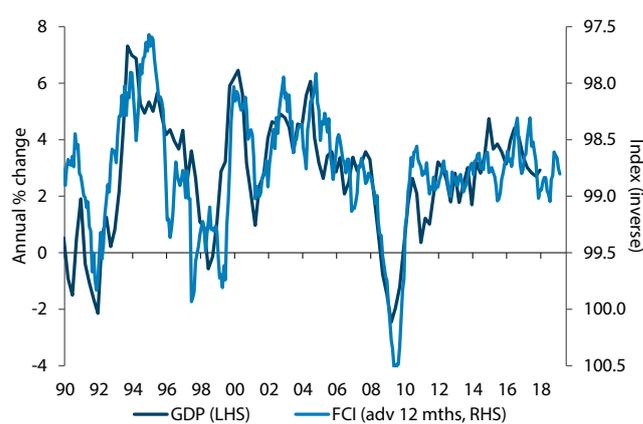
Source: ANZ, Statistics NZ

While economic momentum has cooled and we are arguably experiencing a softer patch, we expect that the cycle has legs yet. Our expectation is that quarterly GDP growth will pick up later this year. We are forecasting that annual GDP growth will average 2.5% in 2018, 2.8% in 2019 and 2.5% in 2020.

Underpinning this outlook for continued expansion are a number of tailwinds:

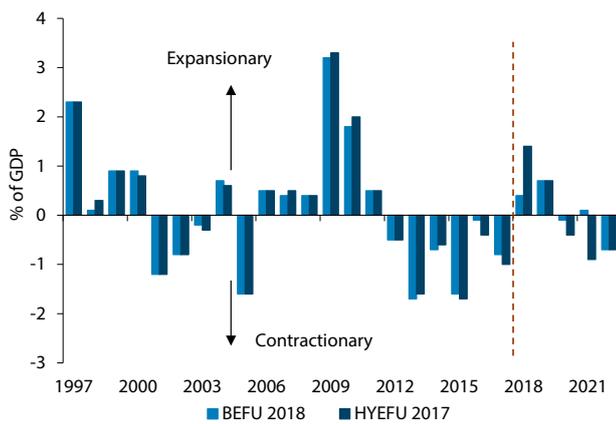
- **Financial conditions remain accommodative, consistent with continued expansion**, albeit at a slower pace. And we expect the RBNZ will continue to signal that they will provide further monetary policy accommodation should the economy need it.
- **Our export prices remain high**, supporting national incomes and purchasing power.
- **The exchange rate has depreciated** 7% from its 2018 highs, which will boost net exports.
- **Fiscal spending will provide a boost** in coming years, particularly since policies are aimed at increasing incomes of those who are most likely to spend it. In particular, the Government's families' package will provide a boost to GDP growth later this year.
- **Conditions appear supportive of a pick-up in real income growth**, with the labour market tight and policy changes such as the minimum wage hikes supportive.
- **The usual suspects that would typically be catalysts for a slowdown at this stage of the cycle have been absent**. In particular, we have not seen a build-up in external imbalances such as a large current account deficit, and importantly, inflation has not emerged as a problem, necessitating higher interest rates.

Figure 4: GDP and financial conditions



Source: ANZ, Statistics NZ, Bloomberg

**Figure 5: Fiscal impulse forecast**



Source: ANZ, NZ Treasury

Although these factors will support ongoing growth, we think it will be difficult for the economy to grow above trend from here. The economy is facing late-cycle challenges that we expect will persist, and some of the drivers of growth that have supported the economy this cycle continue to wane:

- **Population growth is expected to subside.** Immigration has contributed significantly to the strong rates of GDP growth seen this cycle. It has expanded labour supply, helped firms address key skill shortages, put pressure on infrastructure and increased housing demand and consumption. We anticipate that population growth will moderate over the medium term, with immigration expected to subside gradually to more typical levels. However, migration flows are difficult to forecast and the current policy environment creates additional uncertainty.
- **Construction and tourism have likely topped out.** Demand for houses and strong visitor arrivals have both contributed to GDP growth this cycle. However, both the construction and tourism industries are coming up against significant capacity constraints. While we expect activity will remain at high levels, it will be difficult to grow strongly from here.
- **The housing market is looking stable, but there could be some bumps in the road ahead.** A number of offsetting forces are at play in the housing market and are broadly balancing out. We expect to see continued stability in house sales and gradually moderating price pressures. But prolonged stability is not a hallmark of the housing market, and a change in conditions could easily tip the balance. Our view is that risks are skewed more to the downside, particularly if investor caution continues to weigh or credit conditions were to tighten further. However, the downside is limited by supportive

factors, including population growth, pent up demand, constrained supply, and continued low interest rates. Plus, if we were to see the housing market moderate significantly, we expect the RBNZ would loosen loan-to-value ratio restrictions further, providing further support.

- **Household spending is expected to remain contained.** The relationship between house price inflation and consumption growth is no longer clear cut, given the housing affordability concerns facing households and the 2014 flip in the correlation between house price inflation and consumer confidence to a clear negative relationship. Nonetheless, with the housing market cooler, households warier, and spending growth moderating, we think consumption growth will remain contained. Moreover, in the current environment, we expect that households will be looking to rebuild their saving buffers.

**Figure 6: House prices and consumption growth**



Source: ANZ, REINZ, Statistics NZ

- **Credit availability is expected to remain a constraint for some firms and households;** banks have bridged their funding gap, but we expect they will be reluctant to increase their lending significantly from here. The ongoing tightening in global liquidity and higher global interest rates will also have flow-on effects to domestic credit markets that could constrain activity at the margin.
- **More broadly, the business environment is expected to remain challenging,** with late-cycle forces remaining at play, including capacity constraints and cost pressures.
- **Potential GDP growth is expected to moderate.** Our central expectation is that potential GDP growth will soften from 3% y/y currently to 2½% y/y over the next two years as population growth moderates. Investment and productivity have both been growing modestly compared with previous cycles and we expect this theme will continue, especially in the short term. With many businesses having picked the low-hanging fruit to expand capacity this cycle and uncertainty lingering, we expect they will move ahead cautiously from here.

Resource pressures are not expected to intensify, with GDP to grow around trend. The economy is close to full employment, more or less. And we expect that more impetus to growth would be needed to drive capacity pressures higher. As such, we expect that resource pressures will remain unchanged around current levels, with the unemployment rate remaining close to its current low level.

## AROUND THE CORNER – PERHAPS

Inflation pressures remain subdued. The cycle to date has been characterised by strong growth yet stubbornly low inflation. At 1.1% y/y in the March quarter, headline CPI inflation remains at the bottom of the RBNZ's 1-3% target band. And our ANZ Monthly Inflation Gauge suggests that inflation pressures remain elusive outside of housing, with inflation pressures cooling of late.

But cost pressures do look set to increase, especially wage costs. Wage inflation will increase as a result of policy changes, including planned lifts in the minimum wage of almost 25% over the next few years, which will spill over into wages more broadly. And while resource pressures are not expected to intensify, we expect conditions are in place for somewhat higher inflation, with the economy currently at capacity, and labour shortages a significant constraint for many firms. As has been seen in other global economies, we expect inflation will eventually emerge once more, now that the economy is at full employment.

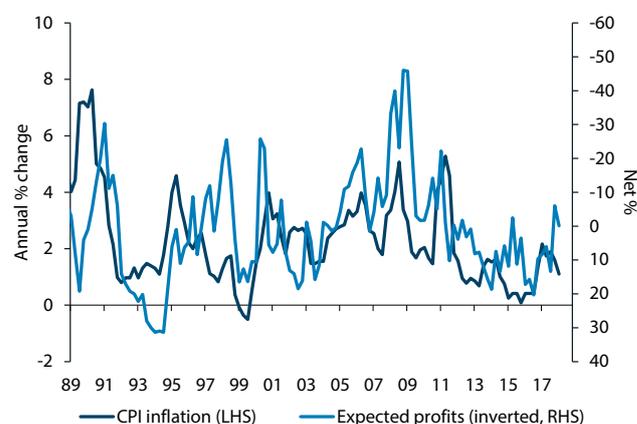
Imported inflation will provide a boost (along with other temporary factors, like tax changes). Higher oil prices are flowing through to energy costs, and the recent exchange rate depreciation will provide a further lift to tradable inflation, although both these effects may prove transitory. More broadly, global inflation has increased. In time, we expect this will flow through to our import prices and that rising global interest rates will see the exchange rate remain on the back foot (although only a modest depreciation is expected from here).

But while costs are clearly set to increase, there are significant question marks around the extent to which firms will be able to pass these on into retail prices. Corporate profits are looking reasonable in aggregate, although we suspect there is significant divergence by industry. And as cost pressures have increased (especially labour costs), firms' expectations of their future profitability have fallen, with margins expected to be squeezed. This supports our belief that pass-through into CPI inflation will be muted in the near term.

The conventional wisdom is that capacity constraints and higher costs will lead to higher prices and/or expansion of capacity through productivity-enhancing measures or investment. In the current environment, firms are cautious about increasing prices, with future demand growth now less assured and many businesses reporting that they face strong competitive pressures that limit their ability to push through higher prices.

Eventually we think that margin pressures will provide the impetus needed for prices to increase, even if it is tentative at first. Our base case is that margin squeeze will see higher costs passed through to prices, but in a slow and cautious fashion. Accordingly, we expect that the increase in inflation will be gradual.

**Figure 7: QSBO expected profits (inverted) and CPI inflation**



Source: ANZ, Statistics NZ, NZIER

Moreover, we expect that the disinflationary forces that have been holding down domestic inflation (such as technology and globalisation) will dissipate, but only very slowly. All up, we are forecasting that inflation will increase little by little, but with the inflation pulse modest and resource pressures not expected to intensify, we are now forecasting a more gradual increase. CPI inflation is expected to reach 2% in September quarter 2019, with non tradable inflation expected to gradually return to average rates.

The outlook for underlying inflation pressures is uncertain. The inflation pulse is modest at present, and it is possible that higher wage and price inflation proves temporary, with underlying inflation pressures remaining subdued. On the other hand, if household inflation expectations were to increase (aided by high petrol prices, for example), a window of opportunity could open for firms to recover margins, and a stronger inflation pulse could appear more quickly than we anticipate. But the sustainability of that would be another question. In the current environment, we think it will take some time before it will be clear whether inflation is broadening in a sustained fashion. We expect it will, but only slowly.

## CAUTIOUS STRATEGY

We expect that the RBNZ will maintain a cautious strategy with regard to monetary policy until inflation rises in a consistent and sustained way. The RBNZ has clearly stated that the next move in interest rates could be either up or down. We expect that given subdued inflation pressures and the uncertain outlook the RBNZ will retain this cautious message, despite the economy being close to maximum

sustainable employment. In fact, the RBNZ may express a willingness to see inflation overshoot the target, in order to show their commitment to their inflation objective.

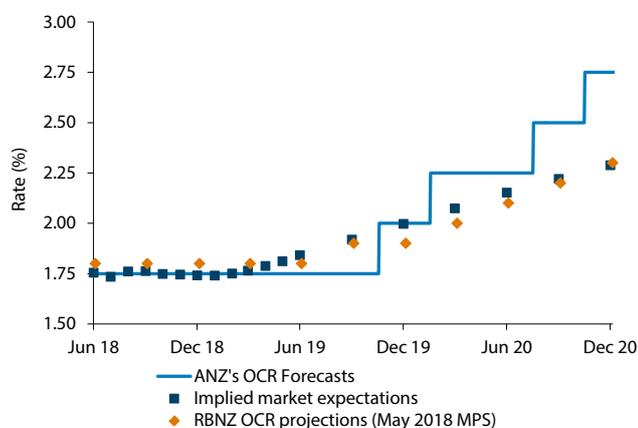
There are risks on both sides of the ledger, and downside risks have increased. A negative shock (to the terms of trade, for example) or a more disappointing domestic picture could put a cut on the table – and this could happen rather quickly should conditions warrant it. On the other hand, cost pressures are increasing, and a more buoyant economy could see inflation surprise on the upside (eg should migration not fall as assumed).

Based on the balance of risks, and all else equal, we expect that cost pressures and higher global inflation will pass through into inflation in time. And if inflation does increase as we expect, albeit gradually, then interest rates will eventually need to rise.

The RBNZ will need to be comfortable that inflation has increased in a broad based, sustainable way before interest rate increases will be on the table. The Bank will not want to have to reverse course because it has overestimated future inflation pressures. Given that the economy has been losing steam and the inflation pulse is weak, we expect it will take a bit longer for inflation to increase. As such, it will necessarily be some time before the RBNZ is convinced beyond reasonable doubt that inflation is returning sustainably to target, even if inflation surprises on the upside.

Our current expectation is that interest rates will increase in November 2019. We would note, however, that a lot could happen between now and late 2019, and one could make a case for a flat rate path, given the uncertainty. Downside risks have increased that could see our pick pushed out even later. And the longer it takes for domestic pressures to warrant a hike, the greater the odds that some kind of negative surprise comes along that could mean the next move is a cut.

**Figure 8: Official cash rate forecast vs. RBNZ and market**



Source: ANZ, RBNZ, Bloomberg



## INTERNATIONAL OUTLOOK

### SUMMARY

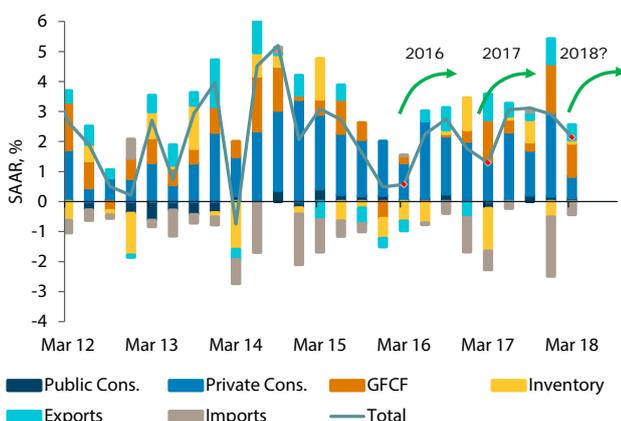
The global economic environment remains positive, but downside risks to global growth have increased. The US economic expansion is mature; the labour market is tight and rising inflation has pushed monetary policy toward neutral territory. Chinese demand for New Zealand exports continues to hold up, but with authorities continuing to address debt risks, growth is expected to slow. The ECB remains cautious, but with the outlook for inflation gradually improving, it has signalled the unwinding of QE and an eventual lift in interest rates. The Australian housing market is navigating some headwinds at present and this will likely dampen domestic demand. However, tax cuts, a strengthening labour market, and a lengthy pipeline of infrastructure projects are expected to keep the economy ticking along.

### WHAT THE WORLD NEEDS NOW

The global data pulse has remained positive on balance, and the outlook is for solid global growth to continue. In fact, we have revised our expectation for world growth slightly higher, which for New Zealand, is neither here nor there. However, downside risks are heightened. We now need to accept that the global economy is in a trade war. The US has imposed tariffs and the EU, China, and India have responded. The only questions are how sustained the conflict will be and how much further it escalates. The bottom line: the global outlook remains positive for New Zealand, particularly for our export prices, but the risk that softer global trade will impact growth has increased.

The seasonal moderation in US Q1 GDP growth was less severe than in previous years, setting the basis for strong GDP growth in 2018 (figure 1).

Figure 1: US GDP growth



Source: ANZ, Bloomberg, Haver Analytics

Tax cuts, labour market strength and buoyant consumer confidence imply a solid contribution to growth from private consumption in 2018. Business confidence is also expected to support capital expenditure, with fiscal spending providing a boost in the near term. However, the US expansion is mature and growth appears close to its peak. In time, the fiscal impulse will wane and Fed rate rises will eventually push monetary policy into contractionary territory. Confidence indicators are approaching, or have reached, levels that have previously represented cycle peaks and the lagged effects of higher oil prices will be a headwind. External risks are elevated with US-driven trade tensions at the fore.

The Fed intends to keep raising rates gradually with the wind-down of its balance sheet proceeding simultaneously. It has raised rates 175bp above their post-crisis low, and rates are now approaching neutral in our view. At its last meeting in June, the FOMC raised the median 'dot plot' forecast for rates through 2018 and 2019 by a combined 50bp. The median of FOMC participants now expects two more rate hikes this year and three in 2019, bringing the upper ceiling of the fed funds target to 3.25% at the end of next year.

Meanwhile, the euro area has had a scrappy first half of 2018, compared to an exceptional 2017, as various factors have weighed on output. Notably, exports contracted 0.4% in Q1 on the back of a strong Q4, partly owing to uncertainties over trade policy – a saga that continues to unfold and will likely weigh on growth. However, household consumption expenditure and investment have remained robust, and let's not forget that employment rose to a record 157.2m in Q1. The ECB has taken its first steps to begin the gradual process of monetary policy normalisation. Subject to data flow, QE will end at the end of this year and the ECB will keep interest rates at current levels at least through to mid-2019.

Despite heightened uncertainty around Brexit, the UK economy is continuing to grow moderately. The labour market is very strong, with record employment and utilisation rates. Wage growth is picking up (2.8% y/y) and inflation has fallen back to 2.4%, which is providing a boost to real incomes. As elsewhere in Europe, the manufacturing sector has disappointed this year. In the UK's case, that is compounded by the unwinding of the favourable boost from sterling's earlier depreciation. However, investment is being overshadowed by persistent uncertainty. Westminster is struggling to agree on a framework to move forward in Brexit negotiations and the fragility of Prime Minister May's authority is a constant concern. EU talks must be concluded in H2.

Japan's GDP growth slipped into negative territory in Q1 – the first negative growth rate in nine quarters. However, some of the weakness appears temporary, with adverse

weather impacting consumer spending and a seemingly fleeting dip in global demand for IT-related equipment. The underlying details were more positive, with capex spending up 0.3% q/q in response to buoyant profitability amid strong underlying external and domestic demand. Despite weak quarterly growth in Q1, annual growth (1.1% y/y) remained above trend (estimated at 0.8% y/y). Labour market conditions remain tight, with the job openings-to-applicants ratio at a 44-year high of 1.59, and the unemployment rate at 2.5% (a 24-year low). Notably, there has also been a rise in the participation rate, which will likely lift potential growth and contain wage growth at the margins. Overall, solid domestic fundamentals are expected to remain supportive of above-trend growth continuing over the next year or so, underpinned by ongoing accommodative financial conditions and stimulative fiscal policy. However, wage and price growth will likely remain subdued for some time.

China is likely to seal the first half of 2018 with strong GDP growth. The figure of 6.8% in Q1 had already surpassed the government's target of 6.5% on an annualised basis. Monthly data in the past two months suggest that Q2 GDP (due shortly) may touch the 6.7-6.8% range. Despite ongoing trade tensions with the US, China's exports are still recording double-digit growth (12.6% y/y in USD terms in April and May). However, a solid H1 may be followed by a slowdown in H2 due to the uncertainties stemming from US trade policy, which over the past few months may have encouraged manufacturers to frontload their shipments to the US. In addition, the Chinese property sector is clearly being tested with the effects of the Government's deleveraging campaign, launched more than three years ago, finally spilling over to real estate. For New Zealand, China's ongoing transition towards consumption-led growth has been a key ingredient in our strong export earnings story. While headline growth is expected to slow, it will likely take a tail-end event to truly derail this.

Growth across other Asian economies is expected to moderate from here, with individual economies looking past their cyclical peak and growth in global trade beginning to moderate. For many Asian economies, China's demand for imports will be a key determinant of how the economic cycle evolves from here.

The Australian housing market is softening, with atmospheric around mortgage lending dragging on house prices. Investor housing finance has contracted sharply, there is considerable focus on the expenses of borrowers, and the regulator also wants to reduce the amount of very high loan-to-income loans. Weaker house prices will have implications for the economy, most directly via the impact on household spending. However, larger-than-expected tax cuts, a solid wage outlook, and a lengthy pipeline of infrastructure projects are expected to keep growth ticking along. We expect the RBA to tighten in August 2019, once it is confident that inflationary pressures are broadening, wages are lifting, and once housing market risks have abated somewhat.

Here are some of the big themes we are watching:

- **Intensification of restrictive US trade policy and counter-measures.** Trade policy appears set to remain at the top Trump's political agenda. US-imposed tariffs on imports from key trading partners are set to be met with like for like. Just how far this goes, and what it does to global trade flows and global growth more broadly, takes top spot on our global watch list.
- **The evolution of protectionism more broadly.** While politicians among our main trading partners seem committed to free trade efforts, such as the CPTPP, the political landscape could change. If Trump's tough line on trade reaps him a strong political dividend at home, anti-free-trade rhetoric may become an increasing feature in the years ahead, and the social mandate for politicians to pursue free trade agreements may become increasingly challenged.
- **Will global inflation pressures continue to build?** While the economic backdrop remains positive, secular deflationary suppressants, such as technology, remain in play. Ultimately, we suspect the profile for inflation will be a critical driver of financial markets and therefore financial conditions and the longevity of the cycle. In the current low inflation environment, broadening inflationary pressures abroad wouldn't go astray in terms of giving the RBNZ a bit of confidence in the inflation outlook.

**Table 1: GDP Growth**

Calendar Years (annual average % change)	1998-2007 average	2008-2016 average	2017	2018(f)	2019(f)	2020(f)
United States	3.0	1.3	2.3	2.9	2.2	1.8
Australia	3.6	2.6	2.2	3.0	3.0	2.5
Japan	1.0	0.4	1.7	1.2	1.0	1.4
Euro area	2.4	0.4	2.5	2.2	2.0	1.8
China	10.0	8.4	6.9	6.5	6.3	6.1
World	4.3	3.3	4.0	4.1	4.0	3.8

Source: ANZ, Bloomberg



## PRIMARY SECTOR OUTLOOK

### SUMMARY

Farm-gate returns remain supported by favourable supply/demand dynamics and the lower NZD. New Zealand export prices appear to have benefited from recent trade tensions, but further escalation poses some risks. We see a milk price of \$6.75/kg MS in 2018/19 and cashflow slightly higher than this. This makes for a favourable earnings backdrop despite operating costs lifting. Elsewhere volumes and returns are set to remain favourable for major horticulture crops and forestry. Aggregate meat and fibre returns are positive too, but supply is more constrained.

The combination of export prices nudging slightly higher and a lower NZD through autumn/early winter has pushed farm-gate prices to near record levels for many products. Underlying market dynamics remain positive, but much depends on China. Over the course of 2017 and 2018 (YTD) New Zealand goods exports to China has lifted by 33%, to sit 39% above the five-year average. For most of the major sectors China accounts for around 20% and 30% of total export earnings (almost half for forestry exports). Intermarket competition remains too, with export earnings from rest of Asia, US, Japan and the EU providing supporting acts.

On the supply side things look fairly well matched to market demand. Domestically the livestock sectors are struggling with a number of structural constraints, while the major horticultural crops continue to increase, largely due to an expanding area.

The main specific risk remains trade protectionism and the consequences for global growth. For soft commodity markets NAFTA re-negotiations and trade developments between China and US matter a lot. At present the increasingly aggressive rhetoric between the two heavyweights – the US and China – has started to impact on the price of a number of soft commodities. The impact has varied according to the specific market and proposed policies.

So far the contagion for New Zealand export prices has been limited. If anything, a range of more subtle non-tariff barriers by China on a range of US agri imports during 2018 appears to have boosted demand for some New Zealand products. Of course the flip side is that if things escalate too far, a 'tipping' point could be reached, triggering a broader-based reduction in global economic activity. In such a situation, it is likely New Zealand export prices would face some downward pressure from the fall-out.

More specifically, farm-gate returns in the dairy sector remain favourable. Broadly, we see global milk supply growing below trend, with a number of country-specific limitations and the marginal cost of production lifting (i.e. feed, energy

and wages). This should support the durability of the current pricing cycle, but as always, weather developments – especially in Europe and New Zealand – will be important in determining the final outcome. The other support factor is forecast solid demand from a range of key markets.

In 2018/19 we see a farm gate milk price range of mid-to-high \$6/kg MS. At this stage our forecast is toward the top end of this range at \$6.75/kg MS. Combined with the upgrade to the 2017/18 milk price, modelled cash-flow for the average fully shared Fonterra supplier is indicating around \$7.15/kg MS in 2018/19. While low operating costs have unwound somewhat since the downturn in returns, robust farm-gate pricing points towards a solid earnings backdrop of \$2,060/ha, versus a 10-year average of \$960/ha.

Aggregate meat and fibre returns remain robust. Beef markets remain jittery on higher Australasian/US supplies and US-China trade tensions, however. Some downward pressure is likely as the celebratory window for US demand closed in mid-June. Sheepmeat prices are headed toward record highs. The seasonal lull for NZ supplies, low inventory levels, a lower NZD, and intra-market competition are combining to deliver a jackpot.

In the kiwifruit sector the 2018 green crop is expected to reach 80m trays (up from 65m last season), while gold volumes will push towards 65m trays as more vines reach maturity. The first indicative return ranges for the 2018 crop have been released, which see the green variety returning \$5.20 - \$6.20/tray, while gold returns remain high at \$9.40 - \$10.40/tray. This reflects good dry matter and size profiles early in the export season, a solid demand pipeline with European volumes down, and seemingly insatiable appetite for the sweeter Gold variety, particularly from Asian markets.

The pipfruit crop is on track to harvest 576,000 tonnes (circa +6%), driven by a 4% increase in the planted area. Pipfruit markets are very strong, and combined with a lower NZD this will support near-record orchard-gate returns in 2018. European demand has been supported by the fact that frosts reduced their domestic crop and end-of-season supply. Market access restrictions from the US into China, South Africa into Taiwan, and China into India have lifted Asian demand for New Zealand pipfruit.

NZ log production and export volumes remain strong. Total log production is tracking 14% ahead of the 5-year average and log exports are 24% above their 5-year average. Domestic and export log and lumber prices remain above last year, but upward momentum has flattened out as construction activity in China and domestically steadies at high levels.



## FINANCIAL MARKETS OUTLOOK

---

### SUMMARY

There are a number of cross currents impacting global fixed income markets right now, leading to higher volatility and uncertainty. New Zealand seems a world away from these forces, but is still likely to be impacted by them. An inactive and cautious RBNZ, together with rising global yields should lead to domestic curve steepening, and a less favourable backdrop for borrowers overall, but it won't be a smooth ride. The NZD is on the back foot, and further weakness is expected as the implications of a turn in the global liquidity cycle continue to play out. However, we're still of the view that the majority of this adjustment will occur against the likes of the EUR and JPY, with more modest downside against the USD. The NZD/AUD remains in a broad range-trading environment.

### PLENTY OF CROSS-CURRENTS

Navigating the coming months in rates markets has become trickier as competing forces jostle for relevance. Reduced QE, continued Fed rate hikes, and an easing in global geopolitical tensions are driving higher rates. On the other side, trade wars and an uncoupling of the synchronised growth narrative are tempering moves. The USD rates curve is continuing to flatten, driven by a fast-moving Fed, while lack of a significant break higher in inflation is keeping the long end in check. The flattening is driving discussion of a possible yield curve inversion and whether a policy error could lead to US recession. A decade on from the dark days of the financial crisis, the first major tightening cycle is in full swing.

For the moment, and for the foreseeable future, the Fed will be the only major central bank hiking with regularity. Some voices on the FOMC are expressing concern over the pace of hiking, noting that while the economic data is supportive of a tightening of policy, substantial slack remains in the labour market. A further two rate hikes are expected in 2018, though the market pricing suggests only one more hike will take place. Our forecast for the fed funds rate sees another two hikes in 2018, taking the upper bound rate to 2.5%, before rising to a terminal rate of 2.75%. Bond and swap rates should rise further, given the change in the demand/supply dynamics and the potential for corporate hedging.

In Europe, the ECB's QE program will be wound up by the end of the year and this will be a significant test for markets, which will need to be weaned off the liquidity of recent years. While this might not drive sovereign yields sharply higher, the reduced liquidity could influence other asset prices.

In both the US and Europe, reduced central bank support for sovereign supply means the private sector will need to provide capital for markets.

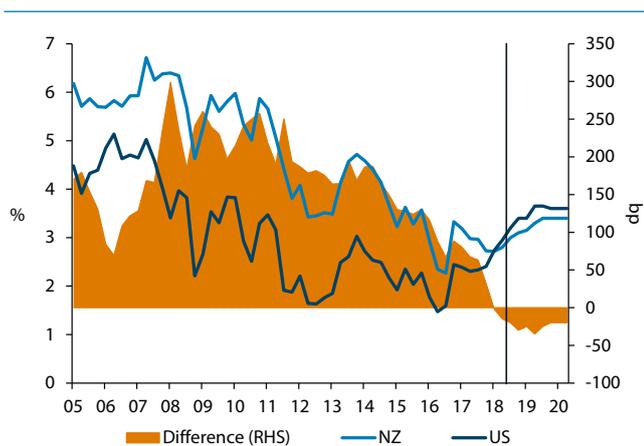
### NZ RATES - CAUGHT IN THE CROSSFIRE

New Zealand, in many ways, is a world away from the themes affecting global fixed income markets at present. The RBNZ is still some way away from removing stimulus as it waits for broader inflation pressures to materialise. In fact, there is still the possibility that the next move could be a rate cut. The new Government continues to emphasise a desire to stick to tight fiscal targets, keeping debt issuance in check, although the market is admittedly showing a few concerns on this front of late. And in mild contrast with global moves, local credit spreads have remained historically tight, with strong retail demand supportive.

Yet as we look to the remainder of 2018 and into 2019, global themes are likely to have a growing influence. If nothing else, domestic conditions should continue to wax and wane with the many cross-currents being faced globally. All else equal, an inactive central bank should anchor local short-end yields, and this is our expectation. However, the market remains vulnerable to any re-escalation in global funding market strains. Uncertainty is high, and pressures certainly exist in Australia. New Zealand long-end rates have (up until very recently) outperformed as the RBNZ's divergent policy outlook has materialised, and there is perhaps room for this outperformance to continue, especially against US Treasuries. But local bond and swap yields are still expected to be pressured higher as global interest rates rise and the liquidity cycle tightens. We expect the local curve to steepen as a result. And despite strong retail demand, it will only be so long before wider global spreads begin to impact domestic credit markets. Ultimately, we see domestic borrowing conditions becoming incrementally less favourable.

Our forecasts have the RBNZ remaining on hold until late 2019, before embarking on a gradual hiking cycle. This is broadly consistent with market pricing. We forecast the 10-year NZGB yield to grind up to 3.40% by around the middle of 2019. Ultimately though, we expect NZGBs to range at a spread of between -10bps and -40bps to the US over the projection period.

**Figure 1: NZ and US 10-year bond yield forecasts**



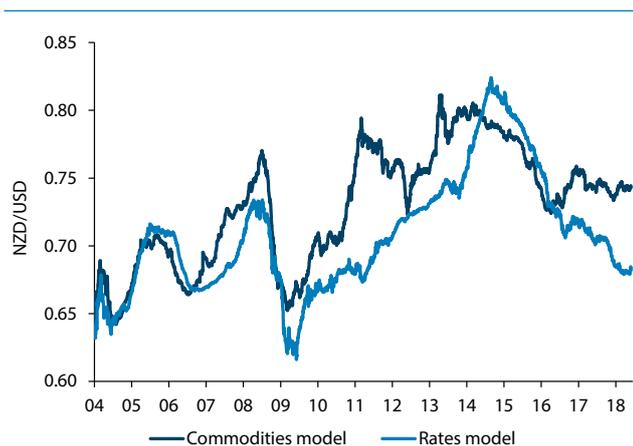
Source: ANZ, Bloomberg

## NZD – MORE DOWNSIDE YET

The NZD has been under pressure for the majority of the June quarter and is down around 7% from its 2018 highs. The stronger USD, widening interest rate differentials, a less synchronised global growth backdrop and jittery market sentiment have all conspired to see the NZD re-rate lower.

Around current levels, the NZD is closer to where some of our models suggest is ‘fair’. In fact, models based on commodity prices alone suggest the NZD is now looking a little undervalued. However, we maintain a negative bias overall and believe that while our forecasts show a more modest pace of decline from here (at least against the USD), the NZD should continue to trade defensively.

**Figure 2: Various NZD short-term ‘fair value’ estimates**



Source: ANZ, Bloomberg

A key theme still dominating our thinking is that as central banks wind back stimulus, a tightening in the global liquidity cycle will drive a less favourable backdrop for both risk assets and cyclical currencies. It is a process that is already causing some digestion issues for emerging market currencies as well as in credit markets, and we believe it has further to run. Admittedly, for the NZD, we suspect much of this theme will play out via underperformance against funding currencies, like the JPY and EUR, rather than necessarily the USD.

But beyond this, there are other forces that should also limit any meaningful NZD bounces. The domestic growth picture is starting to look more lacklustre and ‘late cycle’, which is likely to keep the RBNZ cautious. The export commodity price story is also now more mature, which, while not outright NZD negative, shouldn’t drive further NZD strength. And global trade uncertainties look set to linger.

There are still positives too of course, such as contained external imbalances. The current account has long been the NZ economy’s Achilles’ heel, especially in risk-off events. However, we see this factor as limiting the magnitude of any further depreciation rather than ruling it out entirely.

## INDIVIDUAL CURRENCY PAIRS

**NZD/USD: More downside.** The NZD is on the back foot and further downside is on the cards with risk appetites deteriorating, domestic growth wobbling and yield differentials swinging further in favour of the US. While our forecasts imply the largest part of the move lower has already occurred (with a forecast of 0.67 and 0.65 at the end of 2018 and 2019 respectively), we wouldn’t rule out some undershoot.

**NZD/AUD: Range bound.** This cross has been bouncing about within a relatively wide range for some time. And with both central banks remaining cautious and global themes dominating, we expect the range-trading backdrop to persist. The things we are watching that could change that picture are credit cycle dynamics as well as global trade developments.

**NZD/EUR: Set to head lower.** While the ECB remains cautious in regards to rate hikes, and political uncertainty in the region remains, it has still signalled an end to QE this year. And with growth momentum expected to improve, we see the euro finding support and creating more downside for this cross.

**NZD/GBP: Clearing hurdles.** The GBP remains undervalued, but Brexit uncertainty justifies that. That said, key hurdles continue to be cleared, which opens the door to a stronger sterling performance. We forecast NZD/GBP to head to 0.49 by mid-2020.

**NZD/JPY: Watching risk appetites.** Because Japan is a major capital exporter, the yen has always been driven by risk appetite. And given our expectation that ‘risk’ is set to face a few more challenges going forward as global liquidity tightens, we see this cross continuing to push lower.

**Table 1: Forecasts (end of quarter)**

<b>FX Rates</b>	<b>Sep-18</b>	<b>Dec-18</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>
NZD/USD	0.69	0.67	0.66	0.65	0.65	0.65	0.65	0.67
NZD/AUD	0.93	0.93	0.94	0.93	0.93	0.93	0.92	0.95
NZD/EUR	0.61	0.57	0.54	0.52	0.51	0.51	0.50	0.52
NZD/JPY	71.8	69.0	66.0	64.4	63.1	62.4	62.4	63.7
NZD/GBP	0.51	0.49	0.47	0.46	0.46	0.45	0.45	0.46
NZD/CNY	4.40	4.25	4.17	4.10	4.08	4.06	4.05	4.16
NZ\$ TWI	71.9	69.6	67.9	66.2	65.7	65.4	65.2	66.9
<b>Interest Rates</b>	<b>Sep-18</b>	<b>Dec-18</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>	<b>Dec-19</b>	<b>Mar-20</b>	<b>Jun-20</b>
NZ OCR	1.75	1.75	1.75	1.75	1.75	2.00	2.25	2.25
NZ 90 day bill	2.02	2.02	2.02	2.02	2.10	2.35	2.52	2.61
NZ 2-yr swap	2.25	2.32	2.37	2.44	2.52	2.63	2.70	2.75
NZ 10-yr bond	3.00	3.10	3.15	3.30	3.40	3.40	3.40	3.40

Source: ANZ, Bloomberg



## KEY ECONOMIC FORECASTS

Calendar Years	2014	2015	2016	2017	2018(f)	2019(f)	2020(f)
<b>NZ Economy (annual average % change)</b>							
Real GDP (production)	3.6	3.6	4.0	2.8	2.5	2.8	2.5
Private Consumption	3.2	3.8	5.0	4.4	2.5	2.5	2.2
Public Consumption	3.3	2.7	1.6	4.6	3.9	3.3	2.4
Residential investment	9.8	6.0	11.8	0.7	1.7	-1.8	-3.9
Other investment	9.4	3.7	4.5	4.5	5.5	4.4	4.5
Stockbuilding <sup>1</sup>	0.4	-0.3	0.0	0.0	0.3	-0.2	0.0
Gross National Expenditure	4.5	3.2	4.7	4.2	3.5	2.8	2.4
Total Exports	3.1	7.0	1.6	2.4	3.1	3.1	2.8
Total Imports	7.9	3.8	3.2	6.7	6.7	2.9	3.6
Employment (annual %)	3.6	1.4	5.8	3.7	2.1	1.7	1.2
Unemployment Rate (sa; Dec qtr)	5.5	5.0	5.3	4.5	4.3	4.3	4.4
Labour Cost Index (annual %)	1.8	1.6	1.6	1.9	2.0	2.4	2.4
Terms of trade (OTI basis; annual %)	-5.0	-3.1	6.7	7.9	0.3	0.5	0.4
<b>Prices (annual % change)</b>							
CPI Inflation	0.8	0.1	1.3	1.6	1.6	2.0	2.0
Non-tradable Inflation	2.4	1.8	2.4	2.5	1.7	3.0	3.1
Tradable Inflation	-1.3	-2.1	-0.1	0.5	1.4	0.6	0.6
REINZ House Price Index	6.3	11.5	13.8	6.4	2.0	2.0	2.1
<b>Fiscal and External Balance</b>							
Current Account Balance (\$bn)	-7.7	-7.6	-6.0	-7.6	-9.5	-8.9	-9.5
as % of GDP	-3.2	-3.0	-2.3	-2.7	-3.2	-2.9	-3.0
Government OBEGAL (\$bn)*	-4.4	-2.8	0.4	1.8	4.1	2.7	-1.1
as % of GDP	-1.2	0.2	0.7	1.5	0.9	-0.4	1.1
<b>NZ Financial Markets (end of December quarter)</b>							
TWI	79.2	73.6	76.1	73.0	69.6	65.4	..
NZD/USD	0.78	0.68	0.69	0.71	0.67	0.65	..
NZD/AUD	0.95	0.94	0.96	0.91	0.93	0.93	..
NZD/CNY	4.84	4.43	4.81	4.62	4.25	4.06	..
NZD/EUR	0.64	0.63	0.66	0.59	0.57	0.51	..
NZD/JPY	93.4	82.1	81.1	80.0	69.0	62.4	..
NZD/GBP	0.50	0.46	0.56	0.53	0.49	0.45	..
Official Cash Rate	3.50	2.50	1.75	1.75	1.75	2.00	..
90-day bank bill rate	3.68	2.75	2.00	1.88	2.02	2.35	..
2-year swap rate	3.80	2.85	2.46	2.21	2.32	2.63	..
10-year government bond rate	3.67	3.57	3.33	2.72	3.10	3.40	..

<sup>1</sup> Percentage point contribution to growth



## IMPORTANT NOTICE

---

**This document is intended for ANZ's institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.**

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

**Disclaimer for all jurisdictions:** This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be a recommendation, invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document.

Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document, ANZ does not make any representation as to the accuracy of the views expressed in this document. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims 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 document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

**Country/region specific information:** Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (ANZ).

**Australia.** ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please click [here](#) or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 Cth).

**Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan.** This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

**Cambodia.** This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (ANZ Royal Bank). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

**European Economic Area (EEA): United Kingdom.** ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is 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 document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited 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 Prudential Regulation Authority (PRA) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.

**Fiji.** For Fiji regulatory purposes, this document 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 document.

**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.

**India.** If this document 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.

**Myanmar.** This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

**New Zealand.** This document 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 (FAA).

**Oman.** 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 document 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 the recipient understands, acknowledges and agrees that this document 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 document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

**People's Republic of China (PRC).** This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (ANZ China). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), 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 China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

**Qatar.** This document 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 document 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 document 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 document are not being, and will not be, offered, issued or sold in Qatar, and this document 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 document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document 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 document 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.

**United Arab Emirates (UAE).** This document is distributed in the UAE or the Dubai International Financial Centre (DIFC) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) 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 UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA) ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (DFSA). The financial products or services described in this document 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 UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

**United States.** Except where this is a FX-related document, this document is distributed in the United States by ANZ Securities, Inc. (ANZ SI) which is a member of the Financial Regulatory Authority (FINRA) ([www.finra.org](http://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). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document 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 document 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 document 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 document 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 the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, 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 9160 Fax: +1 212 801 9163).

**Vietnam.** This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64 9 357 4094, e-mail [nzeconomics@anz.com](mailto:nzeconomics@anz.com), <http://www.anz.co.nz>