



NZ Economy - Overview

GDP growth above trend, while inflation pressures remain muted

Leading indicators suggest a near-term annual GDP growth rate around a robust 3.0-3.5% YoY level

Current supportive factors include:

Historic high net migration

Strong tourism growth

Robust construction sector activity – housing and growing infrastructure spending

Low interest rate settings

Current negative factors include:

Domestic growth weaker on a per capita basis

Migration cycle creating stresses in the economy

Excessive house price inflation increases financial stability risks

Dairy prices continue to remain below average

NZ dollar exchange rate remains elevated – impacting export competitiveness

Slow global growth and risk of rising protectionism

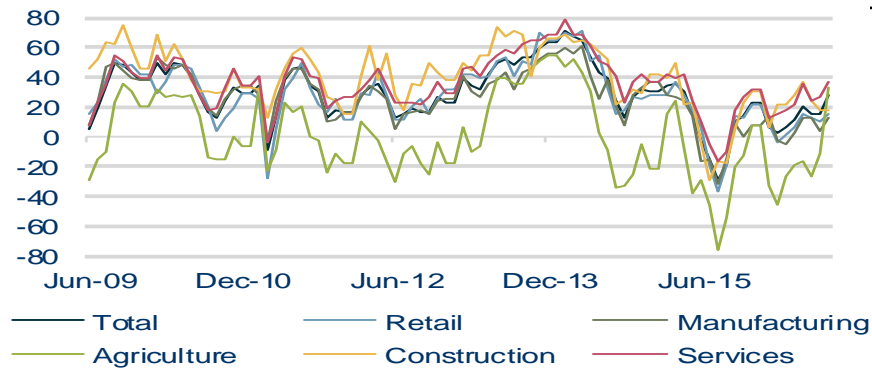
GDP growth is expected edged up from 2.5% in 2015 to 3.3% in 2016



NZ Economy – Business & Consumer Sentiment Positive

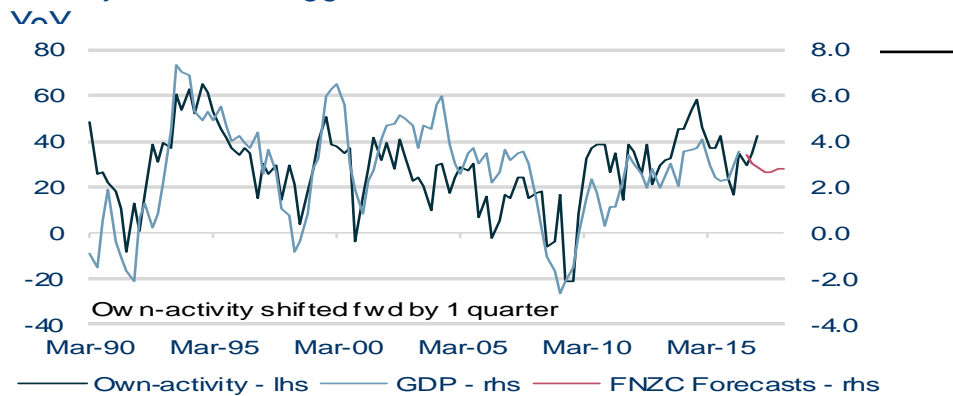
GDP growth above trend, while inflation pressures remain muted

Confidence Strongest In Services, Weakest In Manufacturing



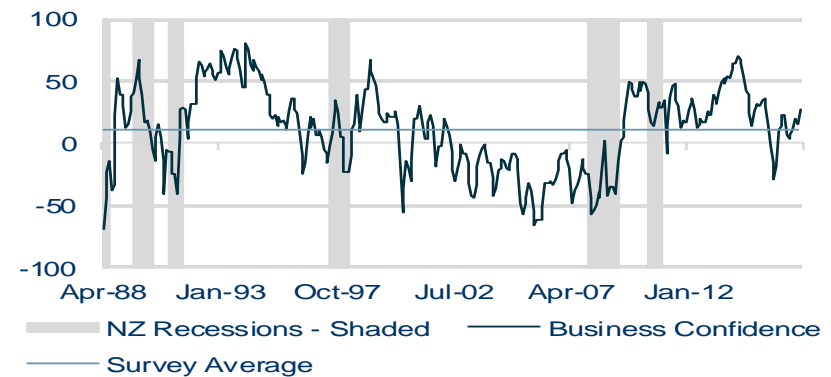
Source: ANZ, First NZ Capital

Activity Outlook Suggests GDP Growth In Excess Of 3.5%



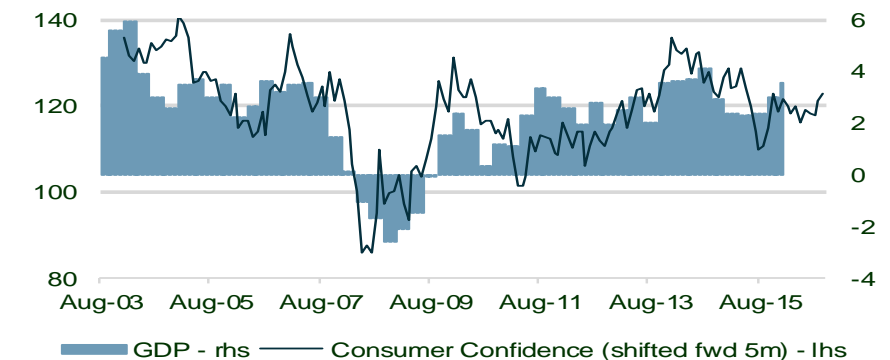
Source: Statistics NZ, ANZ, First NZ Capital

Business Sentiment Modestly Above Average Levels



Source: ANZ, First NZ Capital

Consumer Sentiment Suggests Growth Around 3.0% YoY

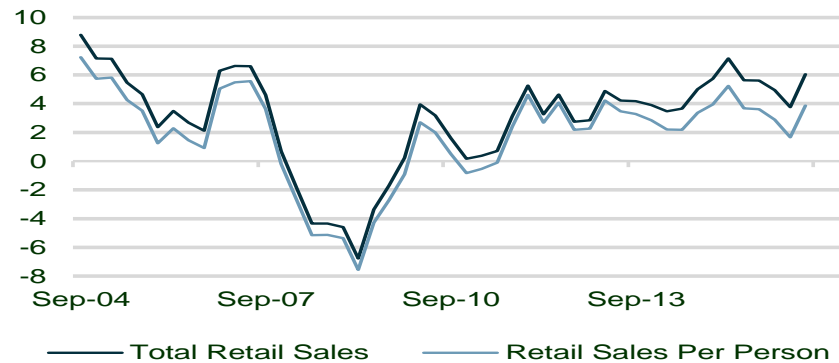


Source: Statistics NZ, ANZ Roy-Morgan, First NZ Capital

NZ Economy – Rising Population

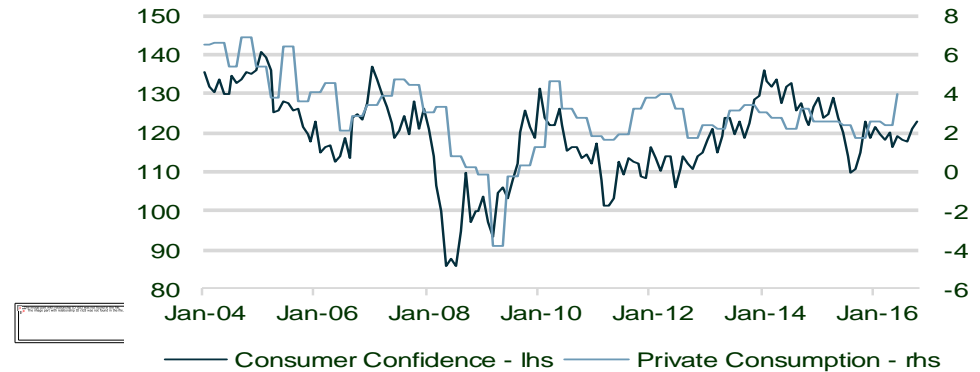
Consumption supported by a rising population and a sharp increase in overseas visitor arrivals

Rising Retail Spending Supported By Population Growth



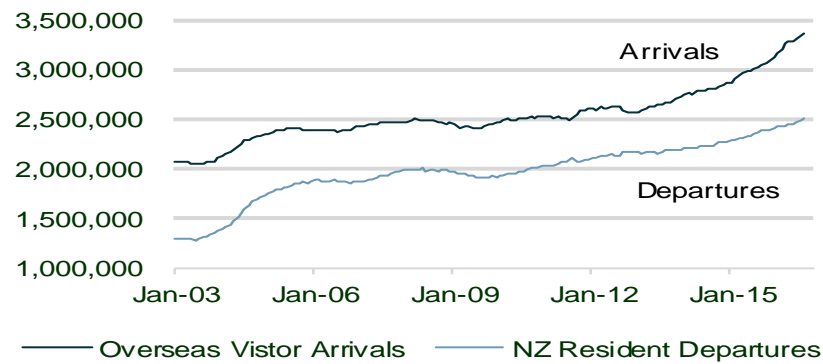
Source: Statistics NZ, First NZ Capital

Consumption Growth Outpaces Consumer Sentiment



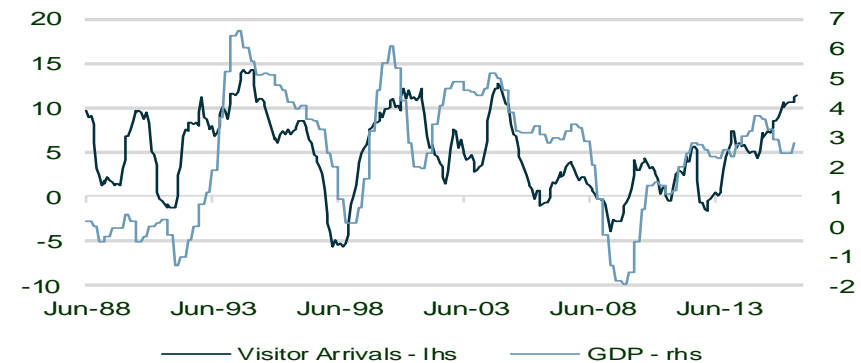
Source: Statistics NZ, ANZ Roy-Morgan, First NZ Capital

Sharp Rise In Overseas Visitor Arrivals



Source: Statistics NZ, First NZ Capital

Strengthening Visitor Arrivals Supports Broader GDP Growth



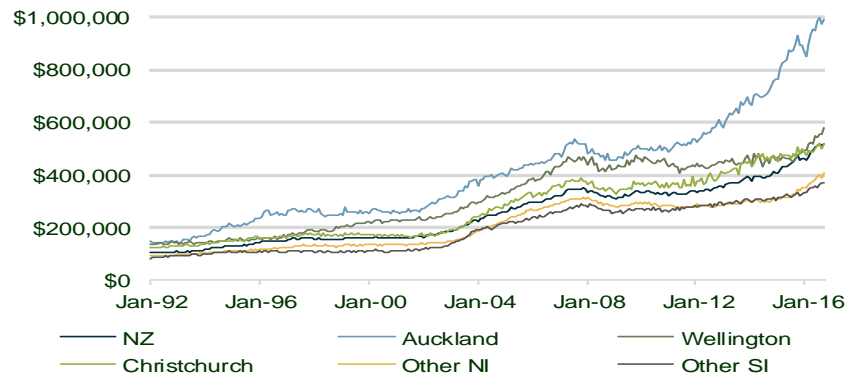
Source: Statistics NZ, First NZ Capital

NZ Economy – Migration & House Prices



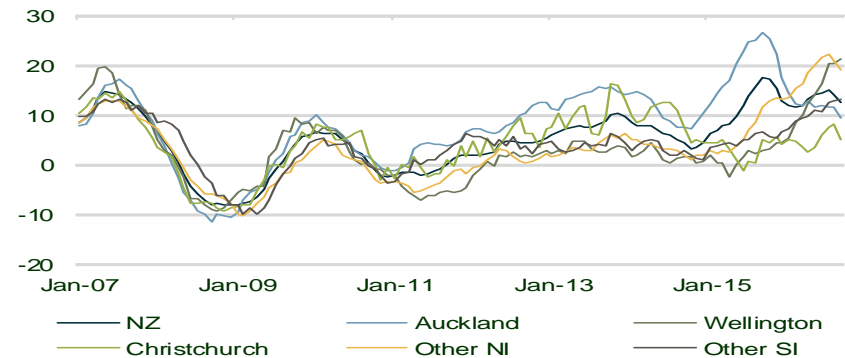
Historic high net migration, an Auckland underbuild, increased investor activity and low interest rates support house prices

Wide Gap Between Auckland Prices And Other Regions



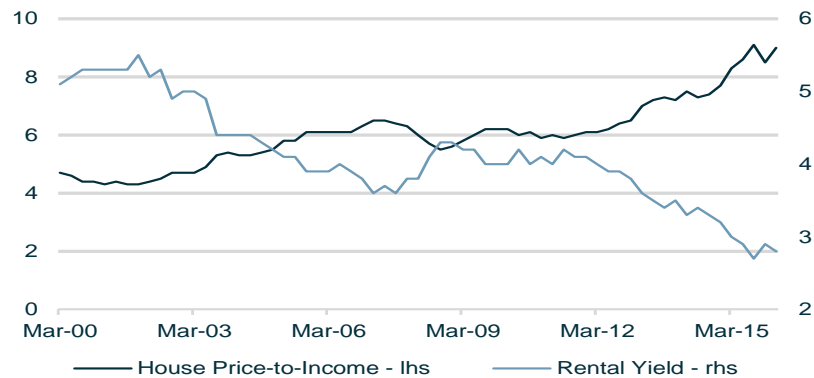
Source: REINZ, First NZ Capital

The Rate Of Auckland House Price Growth Eases Back



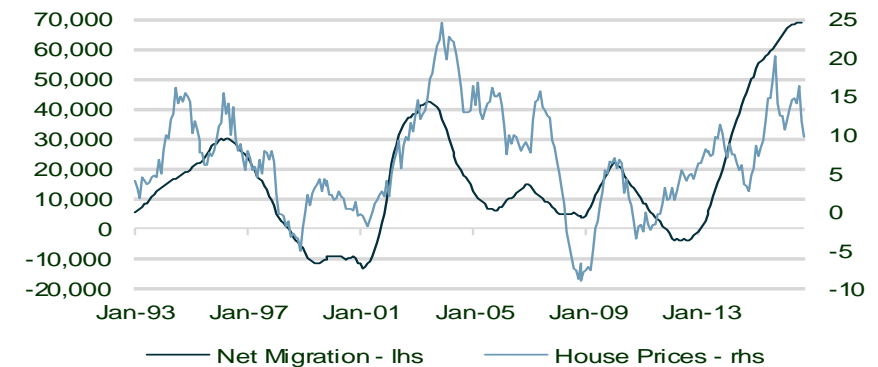
Source: REINZ, First NZ Capital

Auckland House Price-To-Income Ratio At Historic Highs



Source: RBNZ, First NZ Capital

Historic High Net Migration Supports Housing Activity

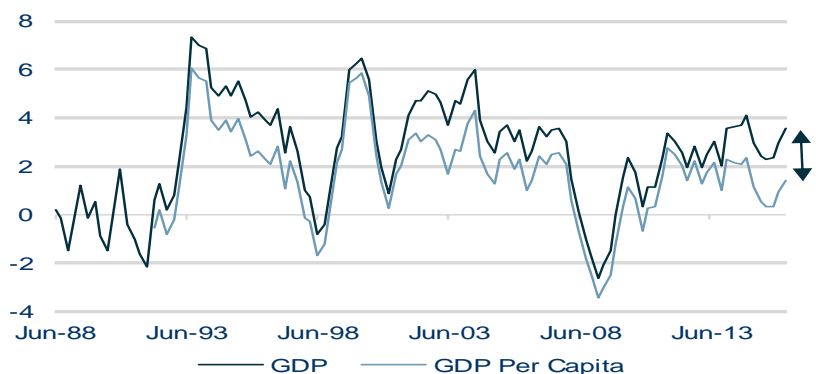


Source: Statistics NZ, REINZ, First NZ Capital

NZ Economy – GDP Growth

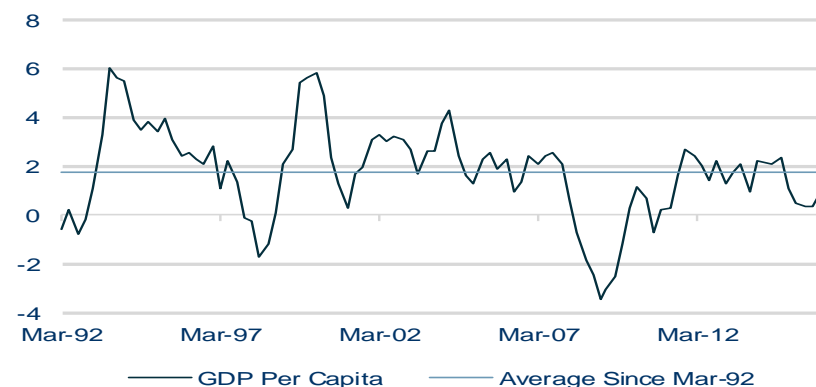
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GDP Per Capital Growth Rate A Relatively Modest 1.4% YoY



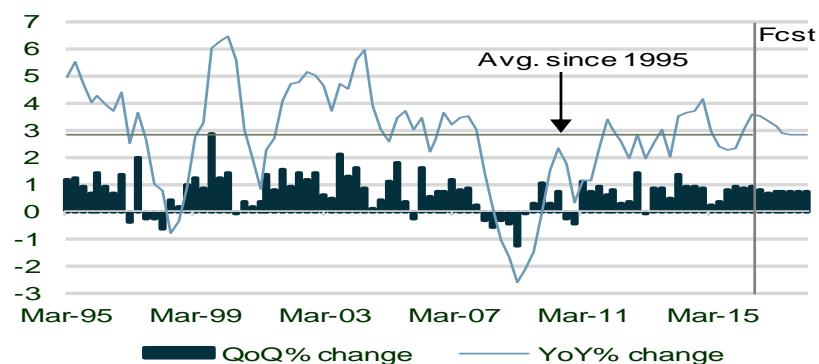
Source: Statistics NZ, First NZ Capital

GDP Per Capital Growth Rate Tracks Below Average



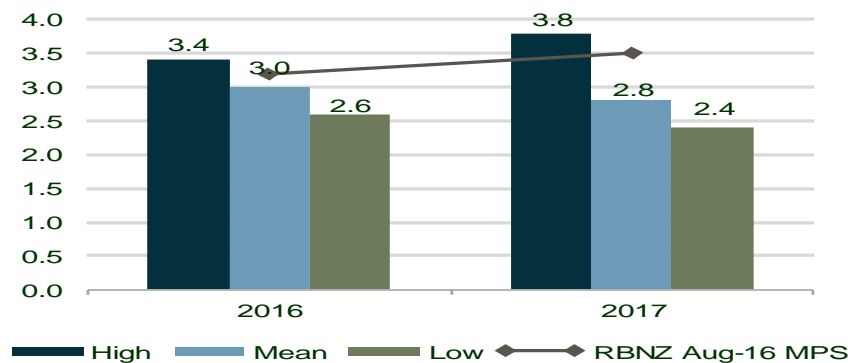
Source: Statistics NZ, First NZ Capital

Near-Term GDP Expected To Be Around 3.0-3.5% YoY



Source: Statistics NZ, First NZ Capital

Consensus Forecasts For Growth Of 3.0% YoY% For 2016



Source: Consensus Forecasts, First NZ Capital

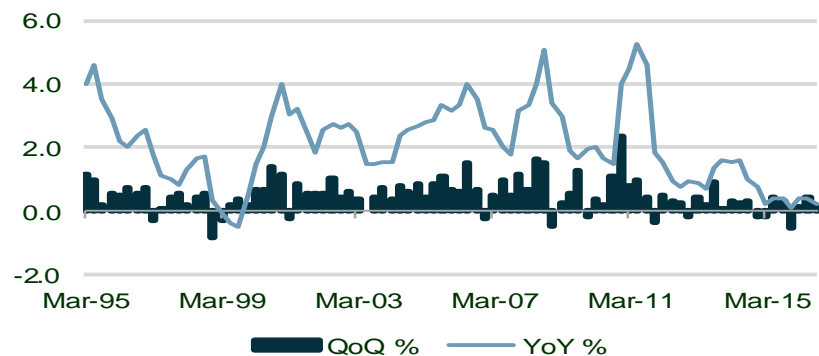
NZ Economy – Inflation Trends



Headline CPI dampened by weakness in tradeables inflation; inflation expectations lower

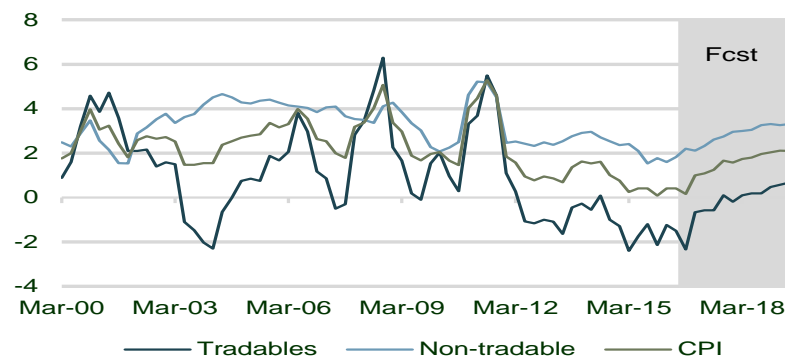
RBNZ Monetary Policy retains explicit easing bias

CPI Inflation Of 0.2% YoY Well Below The 1-3% Target Band



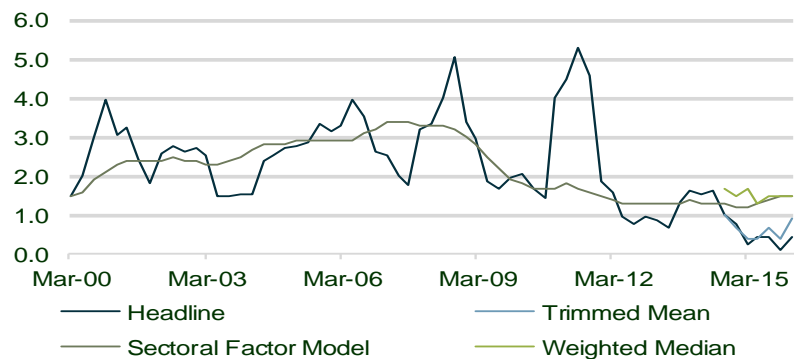
Source: Statistics NZ, First NZ Capital

Headline CPI Dampened By Weakness In Tradables Inflation



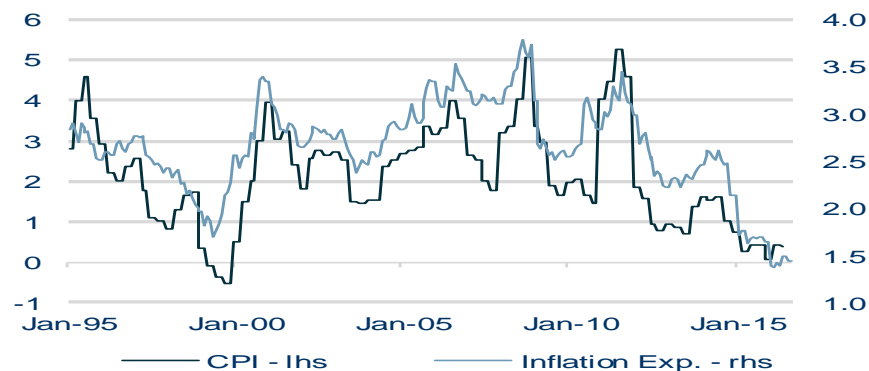
Source: Statistics NZ, RBNZ, First NZ Capital

RBNZ's "Core" Measure of Inflation Unchanged at 1.6% YoY



Source: Statistics NZ, RBNZ, First NZ Capital

Inflation Expectations Subdued And Risk Embedding Lower



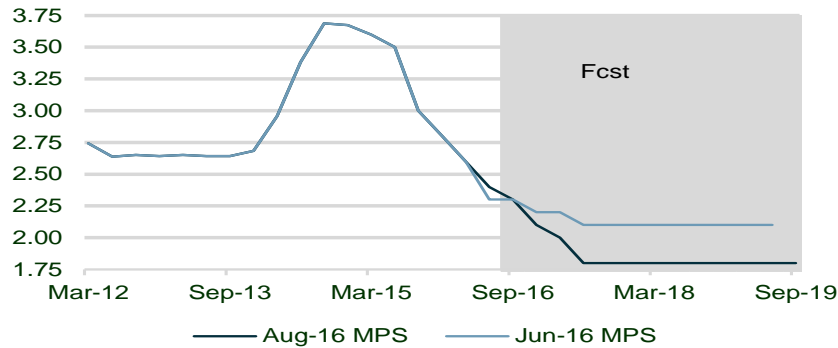
Source: Statistics NZ, ANZ, First NZ Capital

NZ Economy - RBNZ Monetary Policy



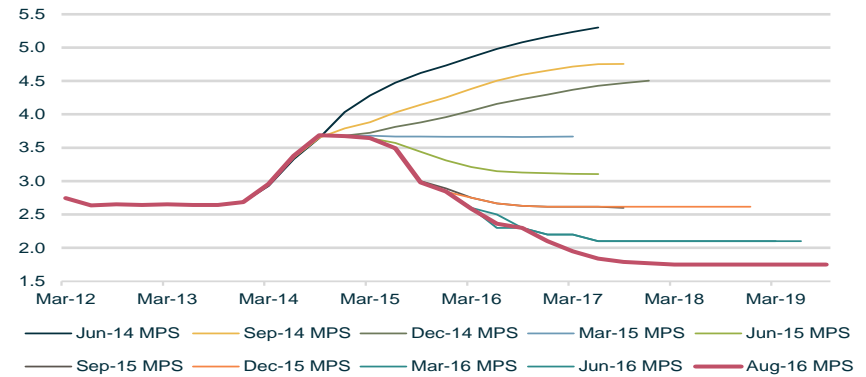
RBNZ retains an explicit easing bias, suggesting that *“further policy easing will be required”*

RBNZ Cuts OCR By 25bps to 2.0% & Projects A Further Cut



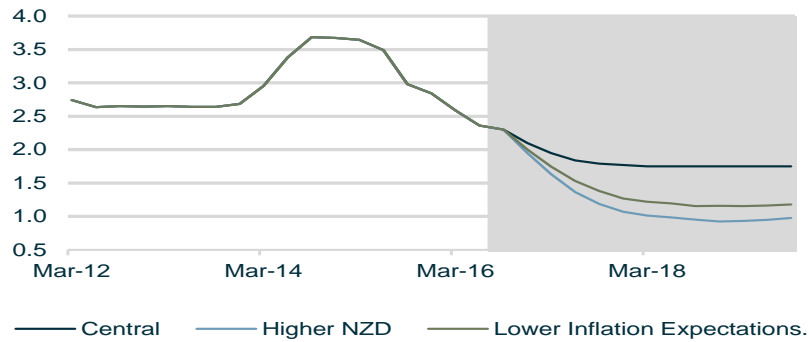
Source: RBNZ, First NZ Capital

Weaker Inflation Prompts A Pattern Of Lower OCR Settings



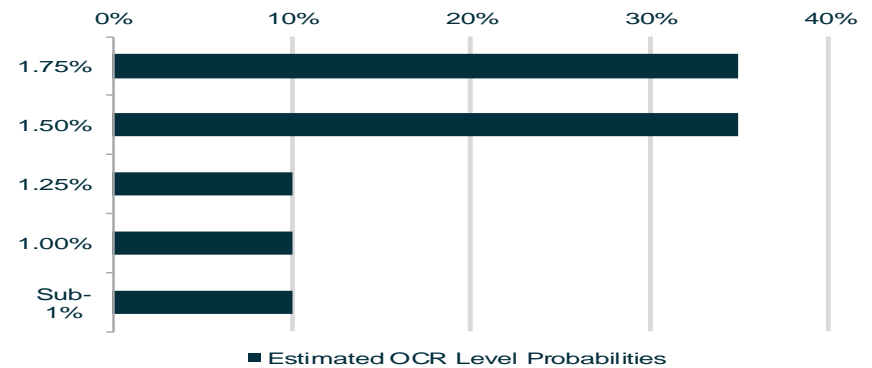
Source: RBNZ, First NZ Capital

RBNZ Presents Two Downside OCR Scenarios



Source: RBNZ, First NZ Capital

Estimate Around A 30% Probability Of A Sub-1.5% OCR



Source: First NZ Capital



NZ Dollar Forecasts

RBNZ comments that *“a decline in the exchange rate is needed”*

NZD/USD Forecast



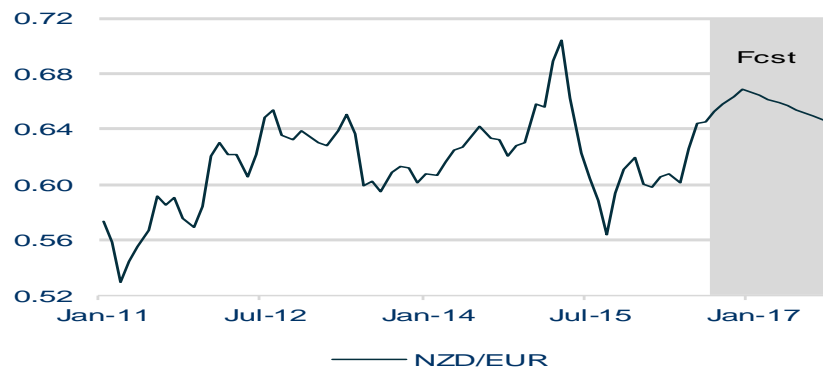
Source: Credit Suisse, First NZ Capital

NZD/AUD Forecast



Source: Credit Suisse, First NZ Capital

NZD/EUR Forecast



Source: Credit Suisse, First NZ Capital

Credit Suisse NZ Dollar Forecasts

	Spot	Forecasts	
	13-Oct-16	3M	12M
NZD/USD	0.706	0.736	0.679
NZD/AUD	0.937	0.944	0.943
NZD/JPY	73.3	69.9	64.5
NZD/EUR	0.640	0.669	0.647
NZD/GBP	0.579	0.602	0.556

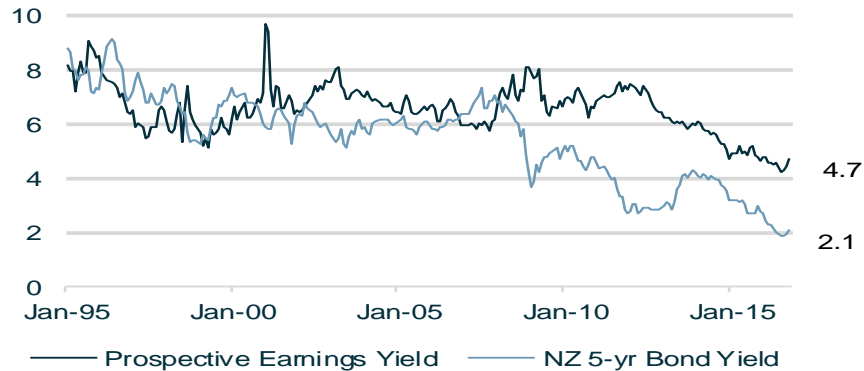
Source: Credit Suisse, First NZ Capital



NZ Equity Market Prospects – Earning Yield v Bond Yields

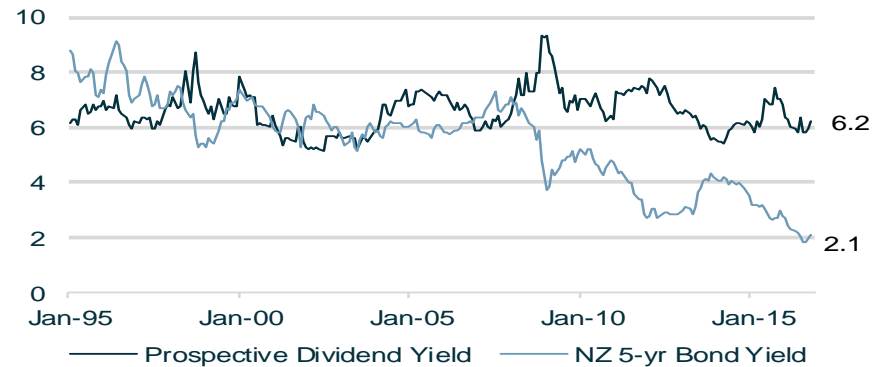
Valuations full, but yield-based stocks supported

Earning Yield Remains Attractive Relative To Bond Yields



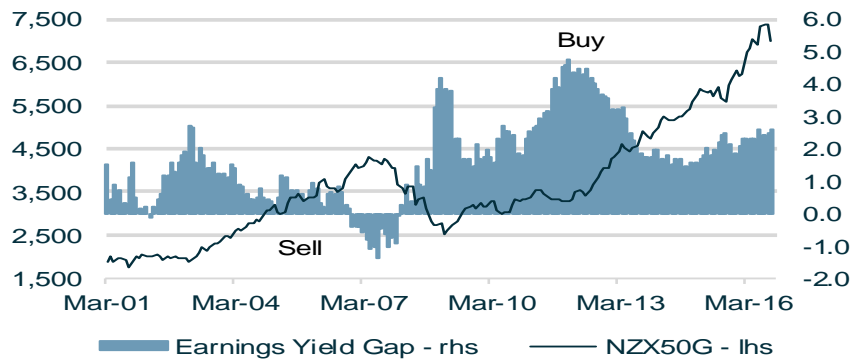
Source: IRESS, First NZ Capital

Dividend Yields Continue To Outpace Bond Yields



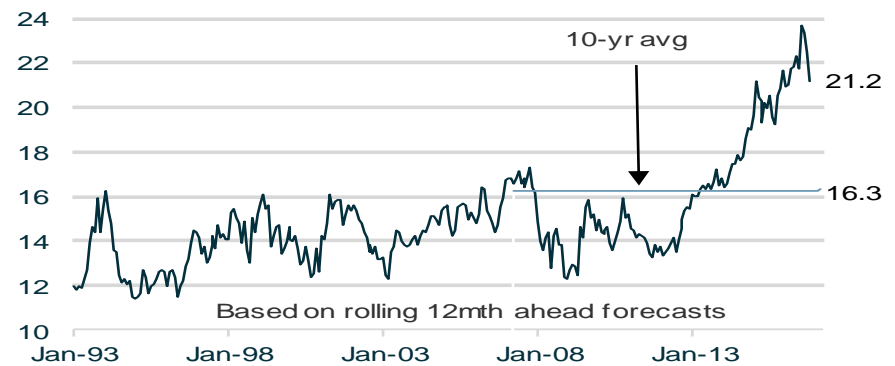
Source: IRESS, First NZ Capital

Earnings Yield Gap Still Supportive



Source: IRESS, First NZ Capital

PE Multiple of 21.2x Above 10-Year Average Of 16.3x

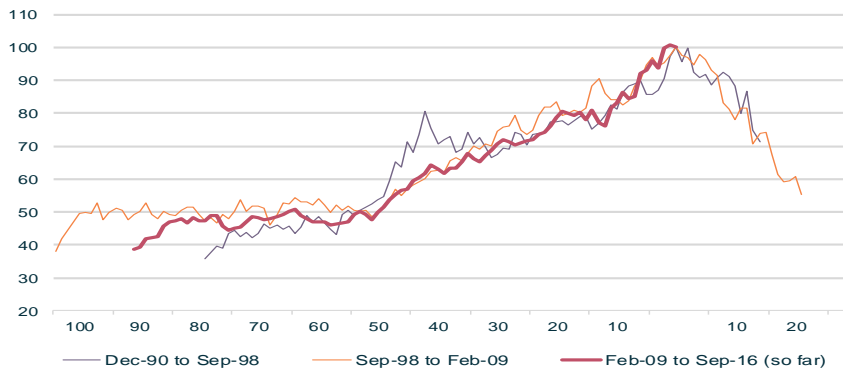


Source: IRESS, First NZ Capital

NZ Equity Market Prospects – Market Fully Priced

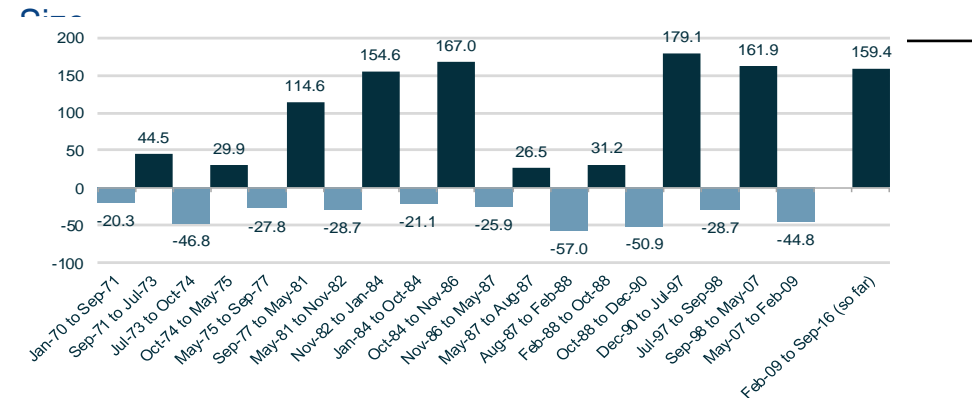


Real NZ Equity Market Cycles Compared



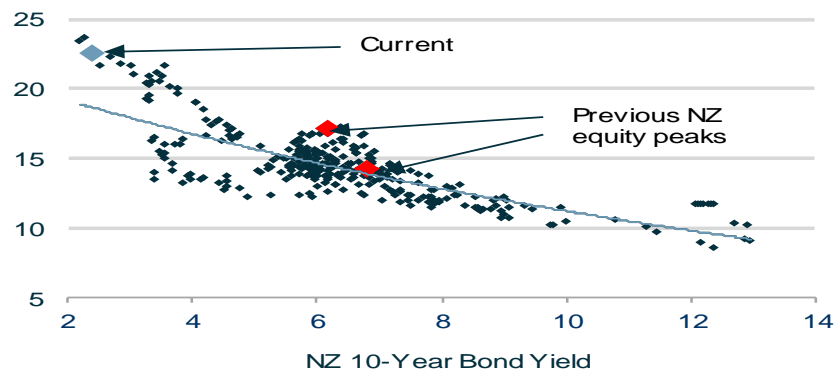
Source: Statistics NZ, Datastream, IRESS, First NZ Capital

Real Equity Market Cycle Above Average in Duration And



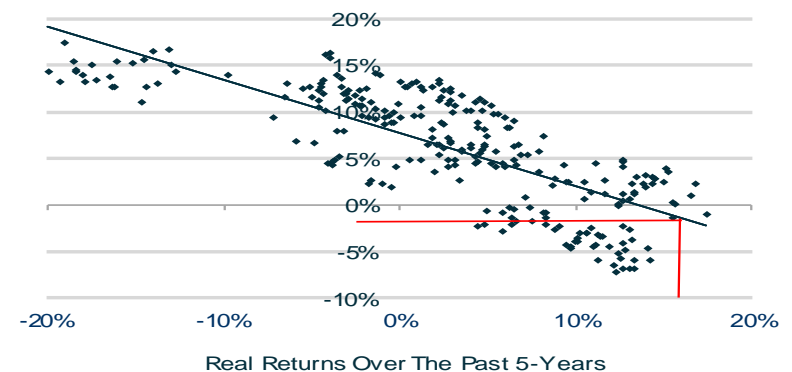
Source: Statistics NZ, Datastream, IRESS, First NZ Capital

Historic High P/E Ratios Supported By Low Bond Yields



Source: Statistics NZ, Datastream, IRESS, First NZ Capital

Recent Returns Suggest Muted Market Gains Going



Source: Statistics NZ, Datastream, IRESS, First NZ Capital

NZ Economic Prospects Summary



New Zealand Economic Forecasts				
December Years	2014	2015	2016	2017
Gross Domestic Product ⁽¹⁾				
GDP	3.8	2.5	3.3	2.9
GDP (Dec. qtr on Dec. qtr)	4.1	2.3	3.3	2.8
Private Consumption	2.7	2.3	3.6	3.0
Residential Investment	14.6	5.9	14.0	5.8
Business Investment	9.9	2.0	3.7	5.6
Gross National Expenditure	4.4	2.0	3.7	3.4
Exports of Goods and Services	3.1	6.8	4.3	5.1
Imports of Goods and Services	7.9	3.6	3.3	4.4
Inflation ⁽²⁾				
CPI	0.8	0.1	1.0	1.6
Government Accounts (June years)				
Underlying Operating Balance (NZD bn)	-2.8	0.4	1.8	0.4
% of GDP	-1.2	0.2	0.7	0.1
External Accounts				
Current Account Balance (NZD bn)	-7.7	-8.3	-7.5	-9.5
% of GDP	-3.2	-3.4	-2.9	-3.5
Labour Market				
Employment ⁽²⁾	3.6	1.3	4.6	1.4
Unemployment Rate	5.4	5.4	5.0	4.6
<p>(1) Annual average percent changes (2) December quarter to December quarter percent changes (3) Average level for December month</p>				

NZFMA – Current Focus



- **Benchmark Activities**

- Underlying market trading liquidity
- Closing Rate project
- Trading conduct interpretation during rate sets
- Governance
- Regulator engagement

- **Managing Regulatory Change**

- Trading conduct during rate sets
- Financial Market Conduct Act
- Central Clearing of Derivatives
- Close-out netting legislation
- Cross border regulation – benchmarks equivalence and margining of uncleared derivatives