Deutsche Bank
Markets Research

Global
Australia
Canada
New Zealand

Economics
Foreign Exchange
Rates

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Dollar Bloc Weekly

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David Plank
Macro strategist
(+61) 2 8258-1475
david.plank@db.com

Adam Boyton
Chief Economist
(+61) 02 8258-1688
adam.boyton@db.com

Phil O'Donaghoe
Economist
(+61) 2 8258-1606
philip.odonaghoe@db.com

Ken Crompton
Strategist
(+61) 2 8258-1361
kenneth.crompton@db.com

Brett Ryan
Economist
(+1) 212 250-6294
brett.ryan@db.com

The week's Australian data were on balance quite solid, headlined by stronger than expected investment expectations data for 2016-17. Elsewhere dwelling approvals jumped 11% in July. The strength in dwelling approvals in July, the surge in housing finance in May and June, and high auction clearance rates suggests to us that the RBA may be a little too sanguine when it comes to the impact that interest rate reductions are having on the housing market.

NZ data showed: a moderation in dwelling consents in July after surging to a more than 10 year high in June; little change in business confidence in August but another decline in inflation expectations; and a fall in the terms of trade, but a large rise in export volumes, in Q2. We suspect the decline in inflation expectations in August will be unwelcome news for the RBNZ. But it looks likely that a strong contribution from net exports will underpin another robust GDP print in Q2.

Canada's GDP plunged 1.6% in the second quarter, the largest quarterly decline since the Great Recession. The drop was, however, a function of the Alberta wildfire. Statistics Canada estimated that absent the decline in crude petroleum output, which was impacted by the Alberta wildfire, real GDP grew 0.4%. The sturdy gain in final demand indicates that the domestic economy held up reasonably well despite headwinds from the external sector.

We think relative AUD/USD front-end pricing is heading to flat over the course of the next 6-9 months. The recent relationship between this and the long-end would seem to imply that the 10Y ACGB/UST spread is heading towards flat, or thereabouts. Whether this compression is enough to keep the 10Y ACGB at its current level or even take it lower will most likely depend on how much the 10Y UST moves. Tonight's US nonfarm payrolls data is clearly important for the near-term path of the 10Y UST. We have a below consensus call on payrolls. This and the outlook for the spread keeps us long the 10Y ACGB.

The front of the NZ curve is the most inverted it has been for many years. We doubt the front of the curve will be able to steepen materially unless US rate dramatically. This will be the only way that we can get both a tighter NZD/USD rate differential, which we think is a necessary condition for a lower NZD, and the expectation of higher NZ rates in the future. Equally the front of the NZ curve may struggle to flatten more given that it is already inverted. For this reason the rally in the 1Y1Y NZD swap may have paused for now. Given the extent to which US rates have risen over the past two months and our thoughts on the US payrolls data we think there is scope for some reversal of this move. This has us exiting the 1Y1Y NZD/USD spread trade at its current level. We think the logic of our view that NZD/USD rate spreads must compress over the long-term still holds, so we will look to re-enter the trade if it backs up over the coming weeks.

December futures contracts are trading richer to fair value than the September contracts. We have a received September 3Y EFP trade recommendation which we will likely roll into the December contracts late in the roll process and remain received swap. SSAs have generally tightened to ACGB over the past month but are still mostly wider than where they began 2016. In contrast credit indices are now tightening toward their 2015 low. SSAs are generally more liquid than credit (in addition to having higher credit ratings) so with credit/SSA spreads near the 2015 lows there could be pressure on recent SSA spread tightening to continue, especially in the 2021-2023 part of the curve where SSAs are often cheap to longer dated SSAs.

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Economic and Financial Forecasts

	GDP Growth % yoy calendar avg				Inflation, CPI % yoy calendar avg				Unemployment Rate %, end of period			
	2015	2016F	2017F	2018F	2015	2016F	2017F	2018F	2015	2016F	2017F	2018F
US	2.6	1.3	1.7	1.9	0.1	1.5	2.2	1.8	5.3	4.9	4.6	4.6
Canada	1.2	1.0	1.9	2.1	1.1	1.7	1.9	1.7	6.9	7.1	6.9	6.8
Australia	2.5	3.1	3.1	3.0	1.5	1.1	1.7	1.9	5.8	5.8	5.6	5.4
New Zealand	2.5	3.1	2.7	2.3	0.3	0.9	2.1	2.2	5.4	5.0	4.6	4.3

Official Overnight Rate

	1-Sep	Sep-16	Dec-16	Jun-17
US	0.38	0.38	0.63	0.88
Canada	0.50	0.50	0.50	0.50
Australia	1.50	1.50	1.50	1.25
New Zealand	2.00	2.00	1.75	1.50

10-year Bond Yield Forecasts

	1-Sep	Sep-16	Dec-16	Jun-17
US	1.58	1.25	1.25	1.25
Canada	1.02	1.15	1.20	1.25
Australia	1.90	1.75	1.50	1.50
New Zealand	2.28	2.25	2.00	2.00

Note: The spreads to the US do not necessarily reflect the 10Y UST forecasts shown in the table at left.

Exchange Rate Forecasts

	1-Sep	Sep-16	Dec-16	Jun-17
USD/JPY	103.3	97	94	94
EUR/USD	1.12	1.08	1.05	0.98
USD/CAD	1.31	1.33	1.35	1.37
AUD/USD	0.75	0.70	0.68	0.64
NZD/USD	0.73	0.68	0.63	0.59

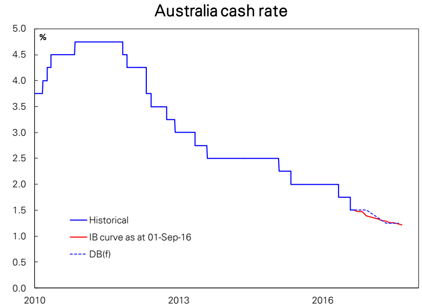
10-year Bond Spread Forecasts (bps)

	1-Sep	Sep-16	Dec-16	Jun-17
US	-			
Canada	-56	-25/25	-25/25	-25/25
Australia	32	25/75	0/50	0/50
New Zealand	70	50/100	25/75	25/75

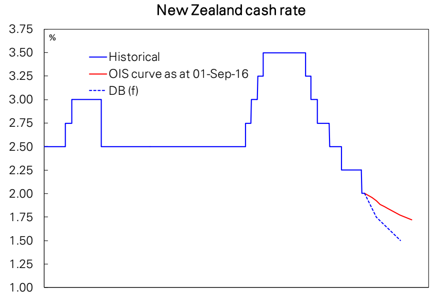
Central Bank Watch

Market pricing vs DB forecasts

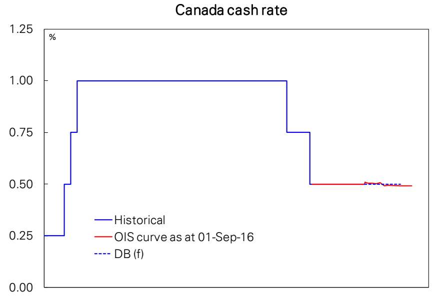
Australia cash rate



New Zealand cash rate



Canada cash rate



DB commentary

Australia

We think that the May and August moves will likely mark the end of the RBA's actions for this year, with the 'okay' tone to the activity data and the broadly as expected June quarter CPI giving the Bank the luxury of some time to assess the outlook. That said, we do retain the view which we have held since the May RBA Board meeting that the Bank will end up taking the cash rate lower still as we expect inflation to eventually undershoot the RBA's current published forecasts. Specifically we look for a 1.25% cash rate come mid-2017.

New Zealand

We think the RBNZ will have no choice but to ease more than is currently priced in order to bring the interest rate differential with the rest of the world down and hence take pressure off the exchange rate. Unless, that is, the rest of the world raises interest rates by more than we expect. At this stage we think the former is more likely than the latter. We see the RBNZ easing again before the end of the year and then again in the first half of 2017. At the margin the RBNZ's higher track for the exchange rate reduces the prospect of another rate cut this year somewhat.

Canada

We continue to expect that the Bank will remain on hold through the end of this year. With respect to the medium-term outlook, structural adjustment of the Canadian economy toward non-resource sectors may be hampered by an uncertain global growth picture as well as elevated inventory levels in both Canada and the US. The upshot is that monetary policy should remain highly accommodative until well into the second half of 2017, if not longer.

Source: Deutsche Bank, Bloomberg Finance L.P., Reuters.

Relative Value Snapshot

Australia

Swap rates and 1W change at 1-Sep-16

AUD	1Y	2Y	3Y	5Y	7Y	10Y	15Y	20Y
Spt	1.65 (+0)	1.60 (-0)	1.61 (-1)	1.84 (-1)	1.92 (-2)	2.05 (-1)	2.23 (-1)	2.34 (-1)
3M	1.60 (+1)	1.59 (-0)	1.60 (-1)	1.84 (-1)	1.93 (-2)	2.06 (-2)	2.24 (-1)	
6M	1.57 (+0)	1.58 (-1)	1.60 (-1)	1.86 (-1)	1.95 (-2)	2.08 (-2)	2.25 (-1)	
1Y	1.56 (-1)	1.59 (-1)	1.63 (-1)	1.89 (-1)	1.98 (-2)	2.11 (-2)	2.28 (-1)	
3Y	1.70 (-2)	1.76 (-1)	1.83 (-1)	2.07 (-2)	2.16 (-2)	2.28 (-1)	2.42 (-1)	
5Y	1.99 (+1)	2.03 (-2)	2.08 (-2)	2.27 (-2)	2.35 (-2)	2.45 (-1)	2.54 (-1)	
7Y	2.18 (-1)	2.21 (-2)	2.26 (-2)	2.45 (-2)	2.51 (-1)	2.57 (-0)		
10Y	2.46 (-2)	2.50 (-1)	2.53 (-1)	2.64 (+0)	2.67 (+0)	2.69 (+0)		

* Shading by 1M Z-score. Darker = higher

Swap curve slopes and 1W change

AUD	1Y/2Y	1Y/3Y	3Y/5Y	3Y/7Y	3Y/10Y	5Y/10Y	7Y/10Y
Spt	-4 (-1)	-4 (-1)	23 (0)	31 (-1)	44 (-1)	21 (0)	12 (0)
3m	-2 (-1)	0 (-1)	24 (0)	33 (-1)	46 (-1)	22 (0)	13 (0)
6m	0 (-1)	3 (-1)	25 (0)	34 (-1)	47 (-1)	22 (-1)	13 (0)
1Y	3 (-1)	7 (-1)	26 (0)	36 (0)	49 (0)	22 (-1)	13 (0)
3Y	6 (0)	13 (1)	24 (-1)	33 (-1)	45 (-1)	21 (0)	12 (0)

* Shading by 1M Z-score. Darker = steeper

Cheapest butterflies

1M	Level (bp)	Z-scr	Carry (bp)
1Y fwd 3Y/5Y/7Y	16.7	1.7	0.1
6M fwd 3Y/5Y/7Y	15.8	1.2	0.2
3Y fwd 3Y/5Y/7Y	15.3	1.1	-0.1

6M	Level (bp)	Z-scr	Carry (bp)
3Y fwd 3Y/5Y/7Y	15.3	2.2	-0.7
1Y fwd 3Y/5Y/7Y	16.7	1.9	0.9
6M fwd 3Y/5Y/7Y	15.8	1.8	1.2

Richest butterflies

1M	Level (bp)	Z-scr	Carry (bp)
1Y fwd 2Y/3Y/5Y	-22.6	-2.1	0.0
5Y fwd 1Y/3Y/5Y	-10.1	-1.7	0.1
1Y fwd 5Y/7Y/10Y	-3.3	-1.5	0.0

6M	Level (bp)	Z-scr	Carry (bp)
5Y fwd 2Y/3Y/5Y	-14.5	-2.1	-0.7
5Y fwd 1Y/3Y/5Y	-10.1	-1.9	1.4
3Y fwd 2Y/3Y/5Y	-16.6	-1.6	-2.1

Benchmark bonds / **Spread to US bmk**

	Mat	Yld	Δ1w	Δ1M	Mat	Sprd	Δ1w	Δ1M
3Y	Oct-19	1.424	+2.4	-3.4	Aug-19	52	-0.9	-13.6
5Y	May-21	1.531	+1.8	-1.7	Aug-21	35	-1.7	-11.2
10Y	Apr-26	1.843	-1.1	-3.1	Aug-26	27	-1.8	-9.5
20Y	Apr-37	2.453	-0.7	+4.4				

New Zealand

Swap rates and 1W change at 1-Sep-16

NZD	1Y	2Y	3Y	4Y	5Y	7Y	10Y
Spt	2.05 (+3)	2.01 (+3)	2.02 (+3)	2.05 (+2)	2.10 (+2)	2.23 (+1)	2.41 (-0)
3M	1.97 (+4)	1.97 (+3)	2.01 (+3)	2.05 (+2)	2.11 (+2)	2.24 (+0)	2.43 (-0)
6M	1.94 (+4)	1.97 (+3)	2.01 (+2)	2.07 (+2)	2.13 (+1)	2.26 (+0)	2.45 (-0)
1Y	1.96 (+3)	2.01 (+3)	2.06 (+2)	2.12 (+1)	2.19 (+1)	2.32 (-0)	2.51 (-0)
3Y	2.16 (+0)	2.23 (+0)	2.31 (-1)	2.39 (-1)	2.46 (-1)	2.59 (-1)	
5Y	2.48 (-2)	2.56 (-2)	2.62 (-2)	2.68 (-2)	2.75 (-2)		
7Y	2.74 (-2)	2.81 (-2)	2.88 (-2)				
10Y	3.16 (+1)						

* Shading by 1M Z-score. Darker = higher

Swap curve slopes and 1W change

NZD	1Y/2Y	1Y/3Y	2Y/5Y	3Y/5Y	2Y/7Y	2Y/10Y	3Y/7Y
Spt	-4 (0)	-3 (0)	10 (-2)	8 (-1)	22 (-3)	40 (-3)	21 (-2)
3m	1 (0)	4 (-1)	14 (-2)	10 (-1)	27 (-3)	45 (-3)	23 (-2)
6m	3 (-1)	7 (-1)	16 (-2)	12 (-1)	29 (-3)	48 (-3)	25 (-2)
1Y	4 (-1)	9 (-2)	18 (-2)	13 (-1)	32 (-3)	51 (-3)	27 (-2)

* Shading by 1M Z-score. Darker = steeper

Cheapest butterflies

1M	Level (bp)	Z-scr	Carry (bp)
Spot 2Y/3Y/5Y	-6.8	1.3	0.0
Spot 1Y/3Y/5Y	-11.2	1.2	1.6
3M fwd 2Y/3Y/5Y	-6.9	1.1	-0.1

6M	Level (bp)	Z-scr	Carry (bp)
6M fwd 1Y/3Y/5Y	-4.2	1.4	7.0
3M fwd 1Y/3Y/5Y	-6.2	1.1	7.5
Spot 1Y/3Y/5Y	-11.2	1.0	8.8

Richest butterflies

1M	Level (bp)	Z-scr	Carry (bp)
1Y fwd 5Y/7Y/10Y	-5.4	-2.1	0.1
2Y fwd 5Y/7Y/10Y	-5.8	-1.6	-0.1
1Y fwd 1Y/3Y/5Y	-3.7	-0.8	-0.1

6M	Level (bp)	Z-scr	Carry (bp)
1Y fwd 5Y/7Y/10Y	-5.4	-0.8	0.2
2Y fwd 5Y/7Y/10Y	-5.8	-0.8	0.0
2Y fwd 3Y/5Y/7Y	1.9	-0.7	-1.0

Benchmark bonds / **Spread to US bmk**

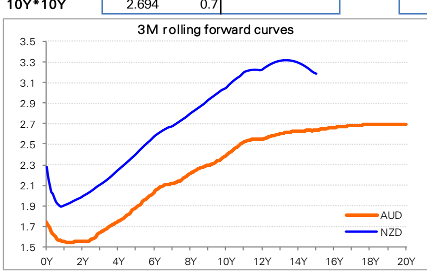
	Mat	Yld	Δ1w	Δ1M	Mat	Sprd	Δ1w	Δ1M
2Y	Mar-19	1.843	+6.4	+2.2	Aug-18	106	+4.4	-5.3
5Y	May-21	1.854	+5.6	-2.4	Aug-21	67	+2.1	-11.9
10Y	Apr-27	2.263	+0.4	+5.8	Aug-26	69	-0.3	-0.6

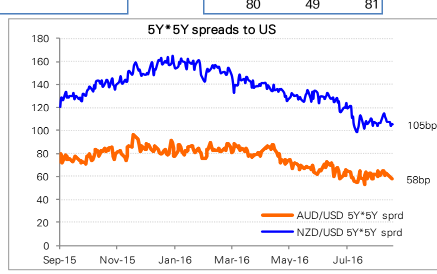
Forward swap spreads

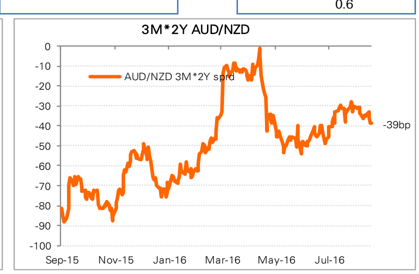
Rate	AUD level	3M carry	NZD level	3M carry
3M*2Y	1.585	-1.9	1.974	-3.2
2Y*2Y	1.661	2.2	2.104	2.8
5Y*5Y	2.273	2.4	2.746	3.5
10Y*10Y	2.694	0.7		

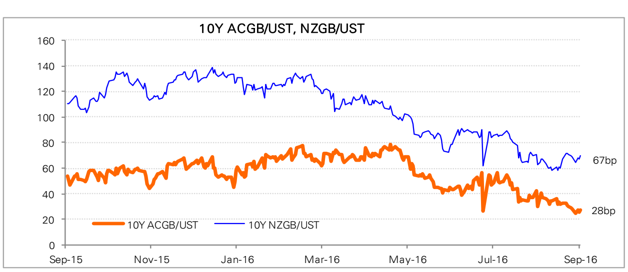
Rate	AUD minus NZD: Spot	3M min	3M max	AUD minus USD: Spot	3M min	3M max	NZD minus USD: Spot	3M min	3M max
3M*2Y	-39	-54	-28	49	48	100	88	84	143
2Y*2Y	-44	-64	-34	37	36	80	81	78	131
5Y*5Y	-47	-71	-42	58	53	73	105	99	135
10Y*10Y				80	49	81			

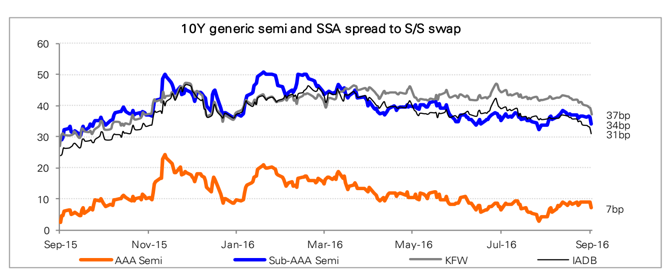
Rate	3M carry (bp): Rec AU vs NZ	Rec AU vs US	Rec NZ vs US
3M*2Y	1.2	-5.7	-7.0
2Y*2Y	-0.6	-0.9	-0.2
5Y*5Y	-1.2	0.7	1.8
10Y*10Y		0.6	











Source: Deutsche Bank, Reuters

FIXED INCOME: Trade recommendations

TRADES	Target	Stop	Current	P/L	Action	Current Rationale
Sell African Development Bank Jan-25 vs Mar-24 on a swap spread basis at -9bp *(entered on 31 July)*	0bp	-14bp	-7bp	+2bp	HOLD	2025 SSAs from many issuers look very rich. Shorting SSAs can be difficult, but we track the African DB 2024/2025 spread slope to mark the idea to market. *Key risk is that 2025 SSAs continue to richen.*
Buy Rentenbank Mar-20 vs QTC Feb-20 on a swap spread basis at +38bp *(entered on 16 March)*	+25bp	+38bp	+32bp	+6bp	HOLD	3Y-5Y SSAs are attractive relative to semis. *The key risk is SSA spread widening.*
Buy Rentenbank Jan-25 vs QTC Jul-25 on a swap spread basis at +25bp *(entered on 6 April)*	+12bp	+20bp (stop adj)	+16bp	+9bp	HOLD	European SSAs generally look cheap to semis. *Key risk is that European SSAs underperform.*
Buy NIB Apr-22 vs QTC Jul-22 on a swap spread basis at +30bp *(entered on 6 April)*	+15bp	+35bp	+29bp	+1bp	HOLD	European SSAs generally look cheap to semis. *Key risk is that European SSAs underperform.*
Receive 3Y EFP at +29bp (rolled) *(entered on 14 June)*	+10bp	+25bp (stop adj)	+21bp	+8b	HOLD	Expectations of lower rates and a steeper curve point to tighter swap spreads. *Key risk is a significant risk-off event.*
Sell TCV Dec-24 against IADB Aug-24 on an asset swap basis at a spread of 44bp. *(entered on 11 May)*	+30bp	+45bp (stop adj)	+38bp	+6bp	HOLD	AAA semis aren't pricing any chance of a sovereign downgrade. If a downgrade does occur we expect SSAs to outperform semis. *The key risk is that TCV continues to outperform.*
Buy WATC Oct-23 vs TCorp Apr-23 on a swap spread basis at +40bp *(entered on 5 July)*	+30bp	+42bp (stop adj)	+39bp	+1bp	HOLD	WATC offers best value amongst the semis especially as a sovereign downgrade will have a bigger impact on the AAAs. *The key risk is further underperformance by WATC.*
Buy 10Y ACGB futures at 98.05 *(entered on 5 July)*	98.50	97.80 (stop adj)	98.15	+10bp	HOLD	We have a year-end target of 1.50% for 10Y ACGBs. *The key risk is weakness in Treasuries.*
Buy SAFA Jul-26 vs QTC Jul-26 at +5bp *(entered on 14 July)*	0bp	+8bp	+3bp	+2bp	HOLD	SAFA '26 is 5bp over QTC but the SAFA '25 is almost flat to QTC. *The key risk is further underperformance by SAFA.*
Receive NZD 1Y*1Y swap vs USD 1Y*1Y swap at +120bp *(entered on 15 July)*	50bp	100bp (stop adj)	+85bp (at exit)	+35bp	EXIT TRADE (2 Sep)	The only path to lower NZD and higher inflation is via a lower rates differential. *The key risk is strong NZ data or weak US data.*
Receive belly of the AUD 3M forward 3Y/5Y/7Y swap butterfly at +14bp *(entered on 5 August)*	+10bp	+16bp	+5bp	-1bp	HOLD	The 5Y node looks cheap to the rest of the curve. *Key risk is that the 5Y swap continues to underperform.*
Buy Apr-33 NZGB against the Apr-33 ACGB at a spread of 39bp *(entered on 24 August)*	+20bp	+44bp	+34bp	+5bp	HOLD	We think the recent steepening of the NZGB curve has gone too far and that the best way to take advantage of this is the spread to the 2033 ACGB. *Key risk is further NZGB curve steepening.*

A comprehensive history of our trade recommendations is archived on the DB Global Markets Dollar Bloc Research website.

Past performance is no guarantee of future results. Note: All pricing as at 02 September 2016 Source: Deutsche Bank

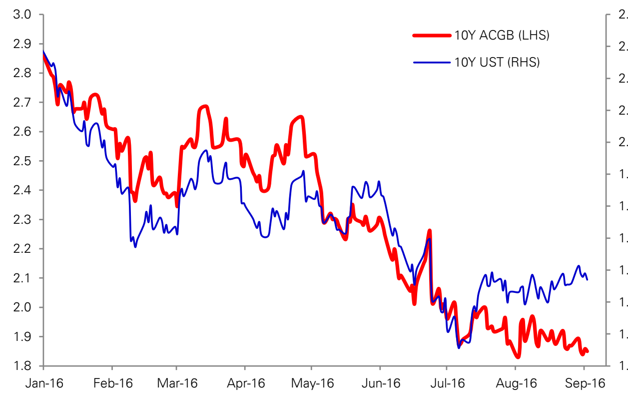
Fixed Income Strategy

- **The 10Y ACGB yield remains near its historic low despite the fact the 10Y UST yield has risen some 20bp since its post Brexit low. The divergence reflects the different paths of expectations for the Fed and RBA.**
- **We think relative front-end pricing is heading to flat over the course of the next 6-9 months. The recent relationship between this spread and the long-end would seem to imply that the 10Y ACGB/UST spread is heading towards flat, or thereabouts. Whether this compression is enough to keep the 10Y ACGB at its current level or even take it lower will most likely depend on how much the 10Y UST moves. Tonight's US nonfarm payrolls data is clearly important for the near-term path of the 10Y UST. We have a below consensus call on payrolls. This and the outlook for the spread keeps us long the 10Y ACGB.**
- **The front of the NZ curve is the most inverted it has been for many years, despite the low cash rate and the expectation of more rate cuts to come. Quite simply the market doesn't believe there can be a reversal in policy settings any time soon. We doubt the front of the curve will be able to steepen materially unless US rates rise dramatically. This will be the only way that we can get both a tighter NZD/USD rate differential, which we think is a necessary condition for a lower NZD, and the expectation of higher NZ rates in the future. Equally the front of the NZ curve may struggle to flatten further given that it is already inverted. For this reason the rally in the 1Y1Y NZD swap may have paused for now.**
- **We think a major US sell-off is unlikely any time soon. Indeed, given the extent to which US rates and have risen over the past two months and our thoughts on the US payrolls data we think there is scope for some reversal of this move. This has us exiting the 1Y1Y NZD/USD spread trade at its current level. We think the logic of our view that NZD/USD rate spreads must compress over the long-term still holds, so we will look to re-enter the trade if it backs up over the coming weeks.**

10Y ACGB yield remains close to its historic low despite modest drift higher in the 10Y UST

Since its immediate post Brexit low the 10Y UST yield has risen by a little over 20bp. Over the same period the 10Y ACGB yield has fallen to a new historic low and it is presently within a few basis points of that low.

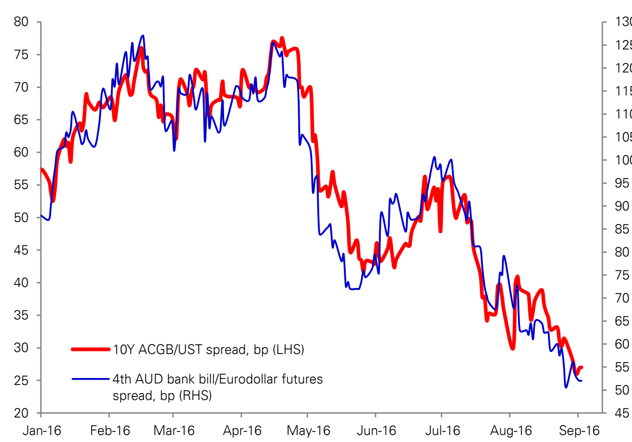
10Y ACGB vs 10Y UST



Source: Deutsche Bank, Bloomberg Financial LP

The upward move in the 10Y UST yield reflects the upward drift in expectations for the Fed funds rate. Most importantly for the 10Y rate, long-term expectations for the Fed have risen by around 30bp since the post Brexit low (using the 12th Eurodollar contract as our measure). In contrast, medium-term expectations for the equivalent AUD rate have actually fallen by around 10bp since the first week of July. If we use our preferred front-end metric for the 10Y spread of the 4th bill/Eurodollar futures spread, then its' compression supports the fall in the 10Y ACGB/UST spread to its current level of just above 25bp.

10Y ACGB/UST spread vs relative front-end pricing



Source: Deutsche Bank, Bloomberg Financial LP

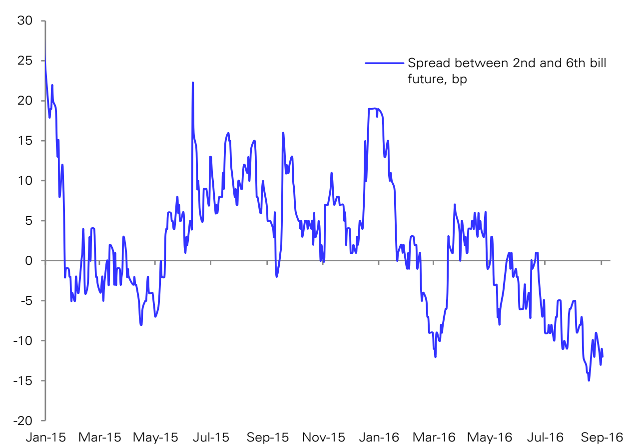
We think relative front-end pricing is heading to flat over the course of the next 6-9 months. On the basis of the recent relationship between the two this would seem to imply that the 10Y ACGB/UST spread is heading towards flat, or thereabouts.

Whether this compression is enough to keep the 10Y ACGB at its current level or even take it lower will most likely depend on how much the 10Y UST moves. Tonight's US nonfarm payrolls data is clearly important for the near-term path of the 10Y UST. In the section ahead we discuss why our US economists have a below consensus call on payrolls. This and the outlook for the spread keeps us long the 10Y ACGB.

NZ bank bill futures strip its most inverted for some time

The front of the NZ curve is inverted. If we consider the bank bill futures, then the 3M rate implied by the 6th futures contract is presently more than 10bp below that of the 2nd contract. Over the past couple of weeks the extent of inversion between these two contracts has been the most for some years.

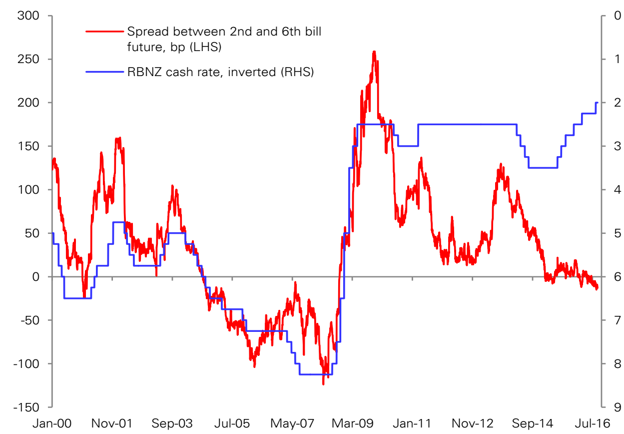
NZD bank bill future strip since 2015



Source: Deutsche Bank, Bloomberg Financial LP

Indeed, we have to go back to late 2008 to find this part of the futures strip more inverted than currently. At that time the front of the curve was in the process of steepening from the extremely inverted state it had reached by mid 2008. This steepening was triggered by the aggressive easing cycle the RBNZ initiated in response to the global financial crisis.

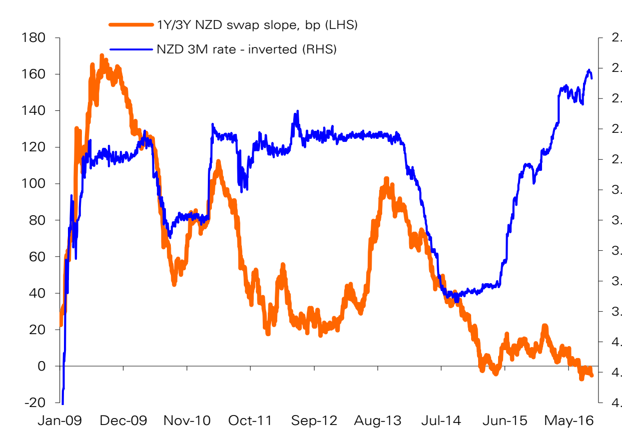
NZ bill future strip since 2000 vs cash rate



Source: Deutsche Bank, Bloomberg Financial LP

The difference now is that the front of the curve has been flattening even though the RBNZ has been easing. This is in complete contrast to the historical experience, as the chart above shows. The following chart makes the same point for the 1Y/3Y part of the curve. This tells us that the market doesn't expect the easing cycle to be reversed anytime soon. In fact the NZ swap curve is almost completely flat out to 5 years with the 5Y swap trading just 5bp above the 1Y as we write, and only 10bp above the 2Y swap (which is inverted to the 1Y).

NZD 1Y/3Y swap curve vs the 3M bank bill rate

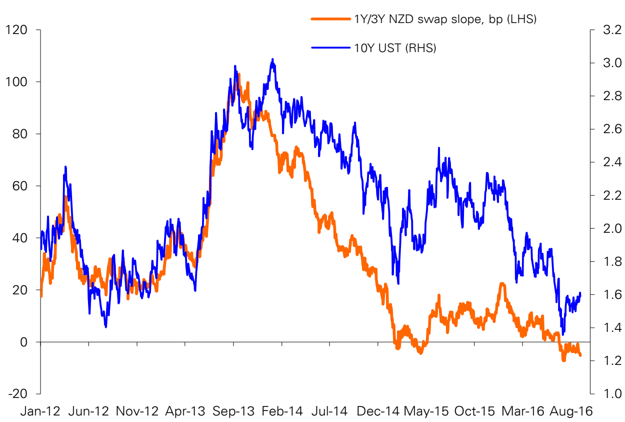


Source: Deutsche Bank, Bloomberg Financial LP

What could cause the flattening at the front of the curve to reverse? A series of rapid rate cuts that took the RBNZ cash rate sharply lower might do the trick. But it might have to be a pretty big series of cuts. The front-end of the AUD curve is pricing an RBA cash rate of close to 1.25% yet the 1Y/5Y AUD swap curve is inverted (if we consider the spread in semi/semi terms). We suspect the market would have to push expectations for the RBNZ cash rate below 1% to appreciably steepen the front of the NZD curve (other things equal).

The much more likely route to steepening, in our view, is a global sell-off that was seen as raising the prospect of an eventual reversal of many of the RBNZ rate cuts. By way of demonstration, the last major steepening at the front of the NZ curve in 2013 was driven by the global bond sell-off.

Front of the NZD curve vs the 10Y UST yield



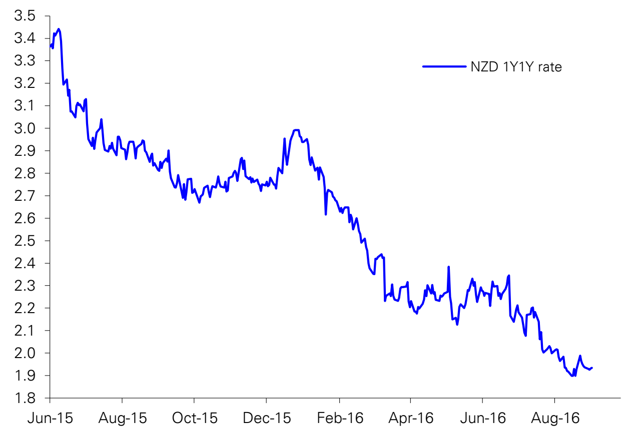
Source: Deutsche Bank, Bloomberg Financial LP

This is not to say that all of the moves in the curve are driven by the direction of the US long-end alone. Over the past couple of months, for instance, the front of the NZ curve has not steepened even though the 10Y UST yield has risen somewhat from its post Brexit low. But we think this is because the rise in US yields has not been enough to shake the market's conviction that the RBNZ has little choice but to keep easing. We think it will take a much, much greater sell-off in US yields to change this conviction - one that will allow the market to price in a much tighter NZD/USD rate differential even with an expectation of a higher NZ cash rate.

We have little expectation that we will get such a sell-off, even if the Fed tightens in both September and December (this is *not* our expectation). We also doubt that the RBNZ will be open to the idea of a large series of rapid rate cuts anytime soon given the evident strength of the recent activity numbers in NZ, as well as the bounce in dairy prices. Together these suggest to us that the front of the NZ curve is set to remain pretty flat for some time.

Can the front of the curve invert by even more? This is something we wouldn't rule out, but we think there is a limit to how far the front of the curve is likely to invert in an environment where the RBNZ is expected to ease again. All up we see the front of the curve bouncing around its current level without any clear trend for the next few months.

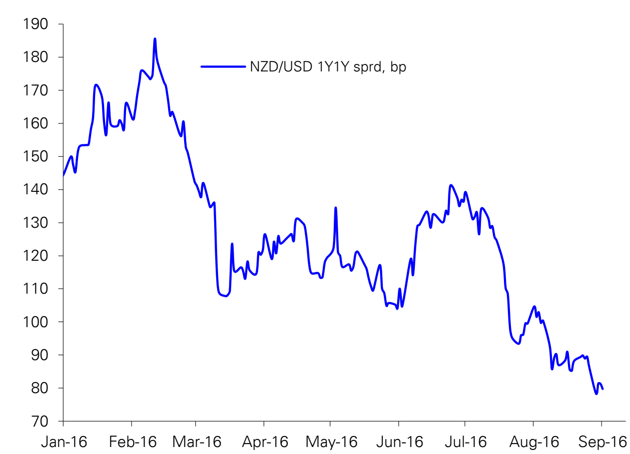
NZD 1Y1Y rate



Source: Deutsche Bank, Bloomberg Financial LP

In which case, the 1Y1Y swap rate may struggle to rally further. The slope of the curve isn't the only driver of the 1Y1Y rate, but in the absence of further front-end flattening we need quite a drop in the outright level of front-end rates to take it much lower. And part of our rationale for the curve not steepening due to domestic reasons is that we don't think the RBNZ will support the prospect of rapid near-term rate cuts. If this is so then the rally in the NZD 1Y1Y rate may have run out of steam for now.

NZD/USD 1Y1Y spread



Source: Deutsche Bank, Bloomberg Financial LP

That doesn't necessarily imply we should exit our NZD/USD 1Y1Y spread trade. The rationale for this trade has been our view that NZ rates need to tighten to global rates by a considerable margin in order to bring the NZD down. The required spread compression can happen either through lower NZ rates or higher US rates, or a combination of the two.

Even if our view is right in the long-run there can, of course,`1 be temporary reversals in the tightening trend. If the rally in the NZ leg of the spread trade has stopped, or perhaps paused for a period, then a temporary reversal in the tightening trend is more likely in our view. We have to be more confident that the US leg will sell-off to continue with the trde.

Since its post Brexit low the USD 1Y1Y rate has sold-off by almost 40bp. This reflects the shift in expectations for the Fed. Pricing for a rate hike by the end of this year has lifted from just over 10% in early July to around 60% now. Whether this will continue to rise in the near-term depends almost entirely on the strength of the US nonfarm payrolls report due on 2 September, in our view.

The ADP report employment report for September was a little bit above market expectations, suggesting that the payrolls report will also likely be close to market expectations. But in their preview of the payrolls report, our US economists note that "for reasons that are not entirely clear, August payrolls tend to surprise the market to the downside……Over the last dozen years, August nonfarm payrolls have surprised to the downside nine times." For this reason they have a below consensus expectation for payrolls.

Given this we think it prudent to exit our 1Y1Y spread compression trade at its current level of around 80bp. We think the logic of our view that NZD/USD rate spreads must compress over the long-term still holds, so we will look to re-enter the trade if it backs up over the coming weeks.

david.plank@db.com +61 2 8258 1475

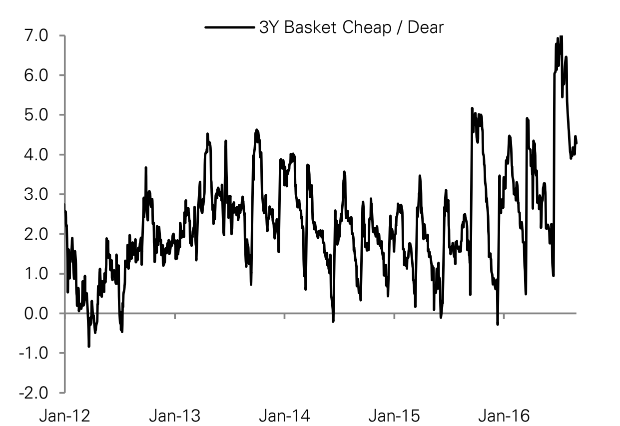
Relative Value Strategy

- **The ACGB futures roll will likely become liquid during the next week. Heading into the roll the 3Y Sep contract is around 4bp cheap to fair value whilst the 10Y Sep contract is about 2bp cheap. This a little wider than is normally seen just before the roll.**
- **That basis will narrow to zero on close-out, most likely through some cheapening pressure on the futures contracts. This will tend to flatten the curve slightly and put narrowing pressure on EFPs, especially the three year EFP.**
- **December futures contracts are trading richer to fair value than the September contracts. We have a received September 3Y EFP trade recommendation which we will likely roll into the December contracts late in the roll process and remain received swap.**

The ACGB 3Y, 10Y and 20Y September futures contracts expire on Thursday 15 September. The basket for all three tenors is unchanged, so roll value is on this occasion is driven entirely by the change in forward dates and the relatively wide bond/futures basis on the back contracts.

Overall, market risk in the current roll is relatively low, in our view. This is taking into account the fact that the US payrolls data is out on 2 September, before roll trading begins to pick up. Key domestic events in the leadup to the roll include the 6 September RBA meeting and 7 September Q2 GDP release. August labour force data will be released on 15 September, shortly after futures closeout. Offshore, the ECB meets on 8 September. The most significant risks will come, in our view, from volatility related to the bond/futures basis.

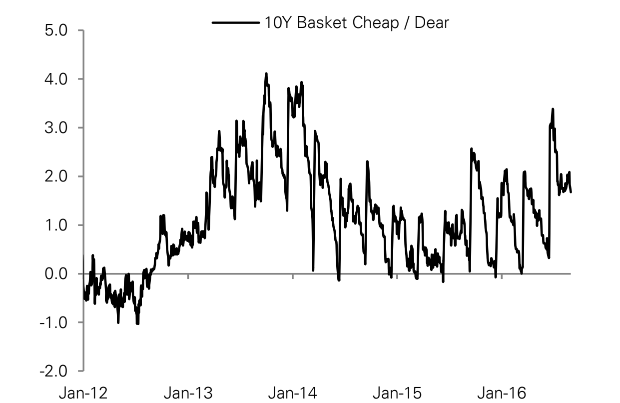
3Y bond/futures basis



Source: Deutsche Bank, Reuters

Since becoming the active contracts, the bond/futures basis on the September contracts has been relatively wide, extending a trend that began in mid-2015 of the cash bonds cheapening relative to the futures. Even though cash funding rates are now quite high (about 30bp over OIS), implied repo on the baskets is even higher. For example the September 3Y basket is trading around 3.5bp cheap to futures and with the December basket about 7bp cheap to futures, market value for that roll (-6.5bp) is quite cheap relative to where we see fair value (-2.6bp).

10Y bond/futures basis



Source: Deutsche Bank, Reuters

We noted in research published during April that the cheapening of the cash bonds to the futures is closely correlated to the buildup in ACGBs on dealer balance sheets. In the near term dealer holdings are unlikely to subside quickly, in our view, and with the AOFM maintaining a fairly heavy issuance pace of around $2bn per week the bond/futures will likely remain wide. Thus like most recent rolls, this roll will also likely tend to go through cheap to fair value (from the perspective of those rolling a short ie selling Dec and buying Sep).

3Y ACGB futures roll

	Sep-16	Dec-16
Basket	Mar-19, Oct-19, Apr-20, Nov-20	Mar-19, Oct-19, Apr-20, Nov-20
Open interest	862,043	17,119
DV01	$31.60	$31.65
Repo	1.80%	1.75%
Market value	98.585	98.65
Fair value	98.5518	98.5782
Fair value for the roll		**-2.65 bp**
Current Value		**-6.50 bp**
Convexity (ΔFV/10bp)		**0.90**

Source: Reuters, DB Global Markets Research, Reuters, ASX

10Y ACGB futures roll

	Sep-16	Dec-16
Basket	Apr-25, Apr-26, Apr-27, Nov-27	Apr-25, Apr-26, Apr-27, Nov-27
Open interest	832,296	1,209
DV01	$109.78	$110.00
Repo	1.80%	1.75%
Current	98.1375	98.1550
Fair value	98.1240	98.1202
Fair value for the roll		**0.38 bp**
Current Value		**-1.75 bp**
Convexity (ΔFV/10bp)		**0.31**

Source: Reuters, DB Global Markets Research, Reuters, ASX

20Y ACGB futures roll

	Sep-16	Dec-16
Basket	Apr-33, Jun-35, Apr-37, Jun-39	Apr-33, Jun-35, Apr-37, Jun-39
Open interest	24,766	0
DV01	$90.63	$90.71
Repo	1.80%	1.75%
Current	97.5900	97.5950
Fair value	97.5888	97.5775
Fair value for the roll		1.14 bp
Current Value		-0.50 bp
Convexity (ΔFV/10bp)		0.18

Source: Reuters, DB Global Markets Research, Reuters, ASX

Slight flattening pressure on the curve, and narrowing pressure on EFPs especially 3Y

At futures closeout the bond/futures basis will be – by definition – zero. The basis will need to close through some combination of the bonds richening or the futures becoming cheaper. Relatively high funding costs in the repo market at present imply that funding cash bond positions is difficult so it seems more likely in our view that the futures will sell off into closeout moreso than the cash bonds rallying.

With the 3Y contract trading dearer than the 10Y contract, this means that there will be a very slight curve flattening tendency through the roll, but we don't think the practical implications for the curve will be too significant.

What will be more significant, in our view, is volatility in EFP spreads. Pressure on the September futures contracts to cheapen through the roll will tend to put narrowing pressure on EFP spreads – although that process could come with some volatility.

At the same time the relatively wide roll (especially on the three year futures) means that EFP spreads on the December contracts will be wider. At present, for example, we see September 3Y EFP at around 21bp, whilst December 3Y EFP is at 27bp.

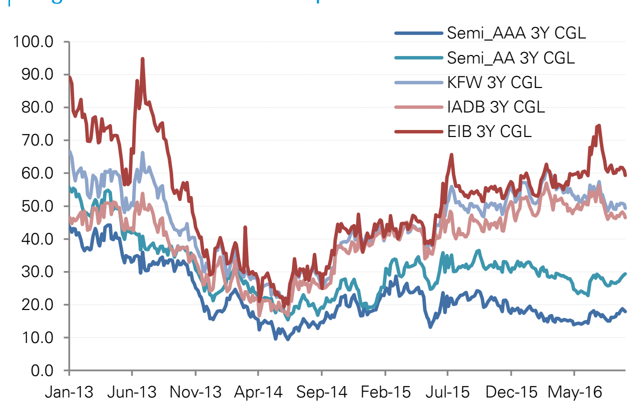
As those December contracts themselves will likely be trading rich to fair value, the tendency over the life of the contract should be for EFP spreads to narrow further, although that will rarely be significant enough to overcome the big picture drivers of swap spreads (such as the yield curve slope). We think that curve slope and other factors currently point to tighter three year swap spreads, so our take on the roll fair vs market value is that we will roll our received 3Y EFP recommendation fairly late, to capture a possible narrowing of EFPs if futures cheapen into closeout, and then continue to hold the trade using December futures. The key risk to that trade remains a significant risk-off event.

SSA spreads

- **SSAs have generally tightened to ACGB over the past month but are still mostly wider than where they began 2016.**
- **In contrast credit indices are now tightening toward their 2015 low as low volatility and low yields push demand further down the credit spectrum.**
- **SSAs are generally more liquid than credit (in addition to having higher credit ratings) so with credit/SSA spreads near the 2015 lows there could be pressure on recent SSA spread tightening to continue, especially in the 2021-2023 part of the curve where SSAs are often cheap to longer dated SSAs.**

Supranational/Sovereign/Agency (SSA) spreads to ACGB generally narrowed slightly through the month of August but, for the most part, spreads on these bonds still remain slightly wide of the levels where they were trading at the beginning of 2016.

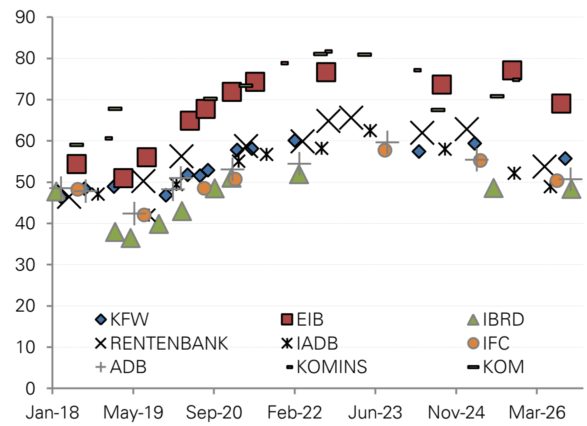
3Y generic semi and SSA spreads to ACGB



Source: Deutsche Bank, Reuters

SSA bonds are distributed over a fairly broad range, due to factors ranging from the depth of individual bond lines, perception of that issuer's liquidity, name-specific events or slight differences in the nature of the government guarantee that underwrites the debt on issue.

SSA spreads to ACGB

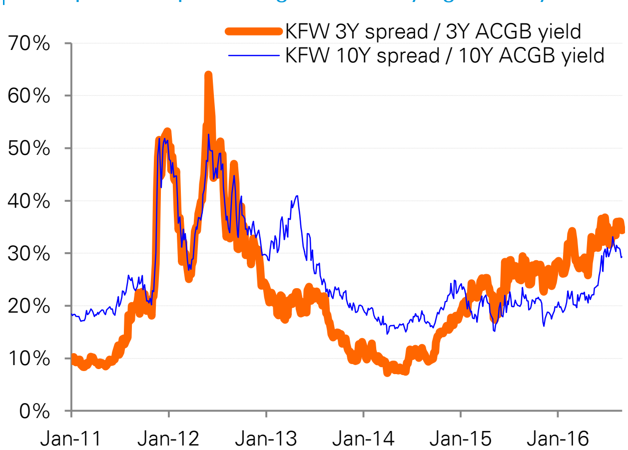


Source: Deutsche Bank, Reuters

The graph above shows ACGB spreads from benchmark bond lines of the nine largest SSA issuers – and it can be seen that the spread from the tightest names (often IBRD) to the widest (usually Kommmunalbanken) can be more than 25bp.

Nevertheless, SSA spreads to ACGB are still significantly wider in basis point terms than they were though the first half of 2015. Indeed if we make allowance for the very low level of outright yields by expressing spreads as a percentage of the underlying ACGB yield, we can see that SSA 'percentage spreads' are at the widest since late 2012.

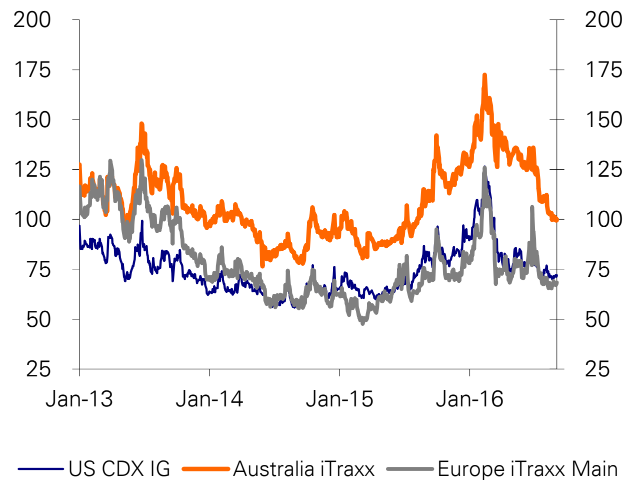
SSA spread as percentage of underlying ACGB yield



Source: Deutsche Bank, Reuters

If we look at the credit markets, however, CDS indices are trading at early-2015 levels, reflecting the gradual move down the credit spectrum as rates remain low, and volatility generally continues to fall.

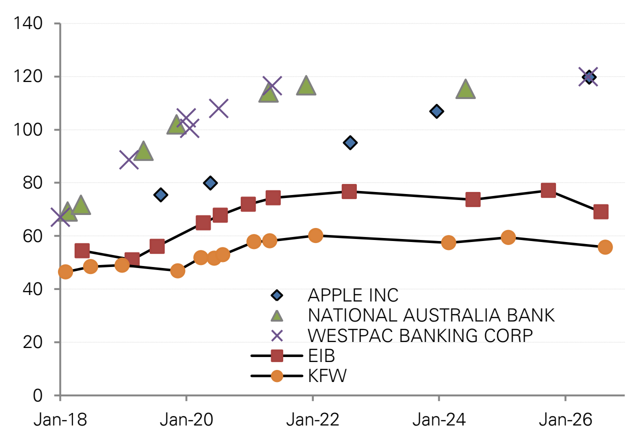
Credit indices



Source: Bloomberg Financial LP

For the chart below we plot spreads to ACGB of the bond curves of Apple Inc (AA+) and two of the domestic banks (AA-) alongside the EIB and KFW curves.

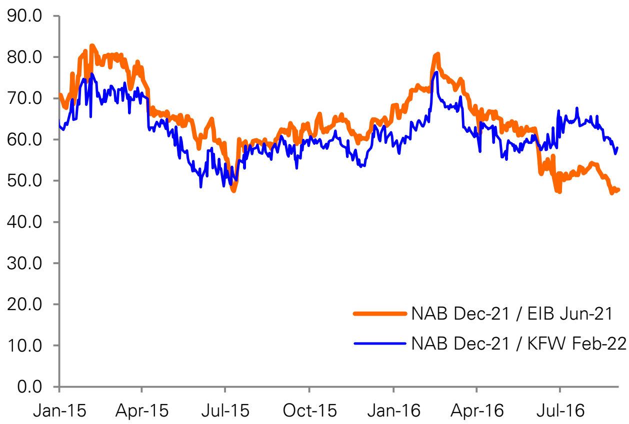
Basis point spreads to ACGB: NAB, Westpac, Apple Inc and KFW, EIB



Source: Deutsche Bank, Reuters, Bloomberg Financial LP

If we pick some particular bond pairs we can see that the corporate/SSA spread is tighter on some names than others (EIB bonds, for example, are relatively cheap to the rest of the SSA market at present), but even for tight-trading SSAs such as KFW the spread to credit bonds is close to the lows of 2015.

NAB spreads to EIB, KFW (bp)



Source: Deutsche Bank, Reuters, Bloomberg Financial LP

The differential between SSA and credit is generally at its tightest through the 2021 to 2023 part of the curve where SSA spreads are notably cheap to longer dated SSAs. Given the significant liquidity advantage for SSAs (in addition to the higher credit rating) there could be some impetus for the recent tightening of SSAs (to ACGB) to continue especially if volatility remains low and credit continues to see strong demand.

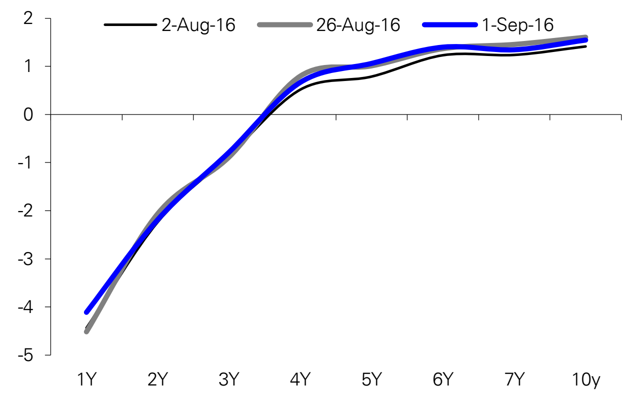
kenneth.crompton@db.com +61 2 8258 1361

Carry Update

NZD carry and rolldown remains the highest in the Dollar Bloc for a short position, with about eight basis of carry and roll over three months when paying spot NZD 1Y swap. The best carry for being received, however is in CAD where the 5Y*3Y has rolldown of nearly 5bp over three months.

kenneth.crompton@db.com *(612) 8258 1361*

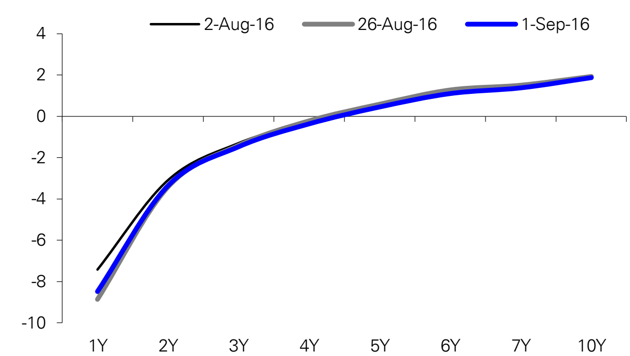
AUD Carry (3M



Source: DB Global Markets Research, Reuters

Running For:	Starting In: 0d	1m	3m	6m	1Y	2Y	3Y	5Y
1Y	-4.1	-6.8	-4.5	-2.8	-0.1	2.1	2.2	3.8
2Y	-2.2	-3.3	-1.9	-0.6	1.0	2.2	2.8	3.0
3Y	-0.8	-1.5	-0.7	0.1	1.4	2.6	3.1	2.8
4Y	0.7	0.7	-0.4	0.3	1.5	2.5	2.6	2.4
5Y	1.1	1.1	0.4	1.1	1.8	2.3	2.6	2.4
6Y	1.4	1.4	0.7	1.1	1.8	2.4	2.4	2.4
7Y	1.3	1.4	1.0	1.4	1.9	2.3	2.4	2.3
10y	1.5	1.5	1.3	1.5	2.0	2.2	2.2	1.8

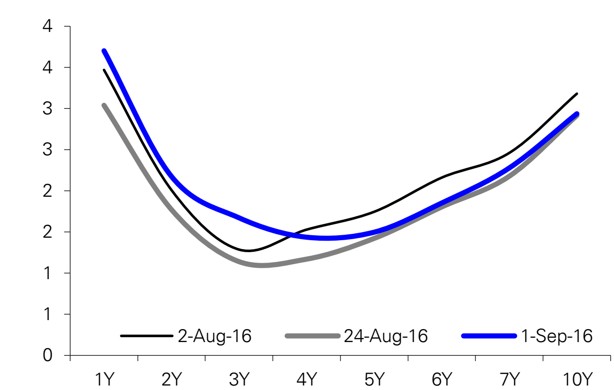
NZD Carry (3M)



Source: DB Global Markets Research, Reuters

Running For:	Starting In: 0d	1m	3m	6m	1Y	2Y	3Y	5Y
1Y	-8.5	-7.4	-8.3	-2.6	1.9	2.4	3.1	4.6
2Y	-3.4	-2.7	-3.2	-0.3	2.1	2.8	3.5	3.9
3Y	-1.5	-1.0	-1.3	0.6	2.4	3.1	3.9	3.6
4Y	-0.4	0.0	-0.2	1.4	2.8	3.5	3.7	3.5
5Y	0.5	0.8	0.7	2.0	3.1	3.4	3.6	3.5
6Y	1.1	1.4	1.2	2.3	3.1	3.4	3.6	3.6
7Y	1.4	1.6	1.5	2.3	3.1	3.4	3.5	3.2
10y	1.9	2.0	2.0	2.6	3.2	3.2	3.2	2.3

CAD Carry (3M)



Source: DB Global Markets Research, Reuters

Running For:	Starting In: 0d	1M	3M	6M	1Y	2Y	3Y	5Y
1Y	3.7	2.9	0.9	0.2	0.7	0.8	0.7	3.7
2Y	2.2	1.8	0.8	0.6	0.7	0.7	1.2	4.3
3Y	1.7	1.4	0.7	0.5	0.8	1.2	2.1	4.8
4Y	1.4	1.3	0.7	0.6	1.0	1.7	2.7	4.7
5Y	1.5	1.4	1.1	1.1	1.5	2.3	3.4	4.5
6Y	1.9	1.8	1.5	1.5	2.1	2.9	3.5	4.2
7Y	2.3	2.2	2.1	2.2	2.6	3.1	3.5	3.8
10y	2.9	2.8	2.7	2.7	2.9	2.9	3.1	2.7

Australia – Macro Data Pulse

The week's data were on balance quite solid, headlined by stronger than expected investment expectations data for 2016-17 in the capex survey. Indeed applying the different weights for mining and non-mining investment in the national accounts to the capex expectations data and allowing for inflation would imply a fall in business investment over 2016-17 of something around 6% in year average terms, less than half of the fall likely to be seen in the national accounts (i.e. GDP) data for 2015-16.

Elsewhere dwelling approvals jumped 11% in July. This jump in dwelling approvals follows strong increases in housing finance ex-refinancing in May and June (3.1% mom and 2.8% mom, respectively) and a pick-up in auction clearance rates. Indeed, the strength in dwelling approvals in July, the surge in housing finance in May and June, and high auction clearance rates suggests to us that the RBA may be a little too sanguine when it comes to the impact that interest rate reductions are having on the housing market.

Tuesday (30 Aug)

- **Dwelling approvals jumped 11.3% in July, while auction clearance rates and housing finance suggest the market for established dwellings is also buoyant**

Wednesday

- **Private sector credit rose 0.4%mom/6.0%yoy in July**

Thursday

- **Private capex fell 5.4%qoq in Q2, investment expectations for 2016-17 strong at $A105.2bn**
- **Retail trade printed flat in July, below market.**
- **The AiG/PWC performance of manufacturing index fell 9.5 points to 46.9 in August**
- **The RBA commodity index was up 0.8%yoy in SDR terms in August**

Tuesday (30 Aug)

Dwelling approvals surged 11.3% in the month of July to be 3.1% higher over the year. The increase in July reflected a 23% jump in private apartment approvals and pushed both apartment and total approvals back toward recent record highs.

Wednesday

Private sector credit rose 0.4%mom/6.0%yoy in July. Housing credit rose 0.5%mom/6.6%yoy while business credit rose 0.3%mom/6.2%yoy.

Thursday

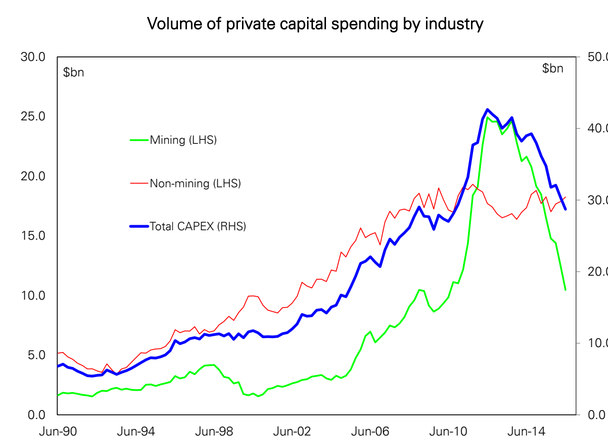
Private capex fell 5.4%qoq in Q2. Investment expectations for 2016-17 strong at $A105.2bn, versus DB at $A98.8bn and market at $A97.0bn.

The component of the headline Q2 capex data that feeds into Q2 GDP rose 2.8% qoq (DB -2.0% qoq), with our Q2 GDP forecast at 0.4% qoq (3.2% yoy) ahead of next week's run of GDP partials. The GDP release itself is on Wednesday. Over the year the volume of total capex spending was down 17.4%. The volume of non-mining investment was essentially flat over the year (-0.1% yoy), with mining investment 36.6% lower over the year.

The third reading of investment expectations for 2016-17 printed at $105.2bn, to be 9.1% lower than the third reading for 2015-16. Within the detail mining investment expectations were 24.2% lower than the third reading for 2015-16, while non-mining investment expectations were 4.5% above the third print for 2015-16. Relative to our forecast both mining and non-mining expectations had come in stronger than we anticipated.

Retail trade was flat in July, though the outcome appears to have been almost entirely driven by a very large fall in department store sales in the month.

Figure 1: While capex is down sharply over the past year (as per the chart), the forward looking expectations data are a little more positive



Source: Deutsche Bank

adam.boyton @db.com (+61) 02 8258-1688

Canada – Macro Data Pulse

Tuesday (30 August)

- **Q2 Current account deficit widened CAD3.27bn to CAD19.86bn**
- **July Industrial product prices were up 0.2%mom,**

Wednesday

- **Q2 GDP fell 1.6% annualized, June GDP was up 0.6% mom/1.1%yoy**

Tuesday (30 August)

The **Q2 current account deficit** (on a seasonally adjusted basis) increased CAD3.3bn to CAD 19.9bn, as the trade in goods deficit continued to widen. The deficit on international trade in goods expanded CAD4.8bn to a record CAD11.3bn in Q2. This was the third straight quarterly increase of the goods deficit. Overall, exports of goods decreased CAD6.6bn to CAD123.6bn in Q2. Exports of motor vehicles and parts were down CAD2.3bn.

The **IPPI** edged up 0.2% in July, after rising 0.7% in June. Of the 21 major commodity groups, 13 were up, 5 were down and 3 were unchanged. The largest downward contribution to the IPPI in July came from energy and petroleum products (-3.5%), which posted their first decline since February 2016 (-4.1%). The IPPI declined 1.3% over the 12-month period ending in July, after falling 0.8% in June.

Wednesday

Q2 real GDP contracted -1.6%, the largest quarterly decline since the Great Recession. The Q2 drop was mainly due to a -16.7% plunge in exports, which subtracted 550 basis points from inflation-adjusted output. In addition, Statistics Canada (StatsCan) estimated that absent the decline in crude petroleum output, which was impacted by the Alberta wildfire, real GDP grew 0.4%. StatsCan also noted that the jump in government consumption expenditures (4.2% vs. 2.7% in Q1) was partly the result of spending related to the wildfire. Business fixed capital formation (-0.5%) fell for the sixth consecutive quarter. However, this was mostly due to non-residential structures (-4.4%) as machinery and equipment (+1.9%) increased for the first time in six quarters. Other details of the report were more positive. Household spending increased 2.2%, down only slightly from the 2.4% gain in Q1. This was mainly due to a 3.3% gain in services spending, the largest since Q2 2015. Coupled with a modest gain in inventories, this resulted in a slight acceleration in final domestic demand, which edged up four tenths to 2.2%. The sturdy gain in final demand indicates that the domestic economy held up reasonably well despite headwinds from the external sector.

brett.ryan@db.com (+1) 212 250-6294

New Zealand – Macro Data Pulse

Data in the week just passed showed: a moderation in dwelling consents in July after surging to a more than 10 year high in June; little change in business confidence in August but another decline in inflation expectations; and a fall in the terms of trade, but a large rise in export volumes, in Q2.

We suspect the decline in inflation expectations in August will be unwelcome news for the RBNZ. But it looks likely that a strong contribution from net exports will underpin another robust GDP print in Q2. In this sense, the data this week has helped reinforced the recent policy message for the RBNZ: an ongoing lack of price pressures despite a robust activity backdrop.

Tuesday (30 August)

- **Dwelling consents down 10.5%mom in July, follows revised 21.9% gain in June**

Dwelling consents fell 10.5%mom in July, as we had expected. The decline follows a (revised) 21.9%mom surge in June which had seen the level of consents lift to their highest level since 2004.

New Zealand's monthly dwelling approvals show significant month-to-month volatility. Nonetheless, despite a post-reconstruction slowdown in Canterbury, consents in other regions have remained on a steady upward trend since mid 2011. Indeed, in annualized terms, overall dwelling consents increased further in July to their highest level in a little over a decade, with strength here associated with record levels of long-term migration (see chart).

Wednesday

- **ANZ business confidence index down 0.5pts to 15.5 in August**
- **M3 money supply rises 6.3%yoy in July**

The business confidence index fell just slightly in August and remains above its long-run average level. Despite the decline, the activity outlook index rose slightly to 33.7 from 31.4 last month.

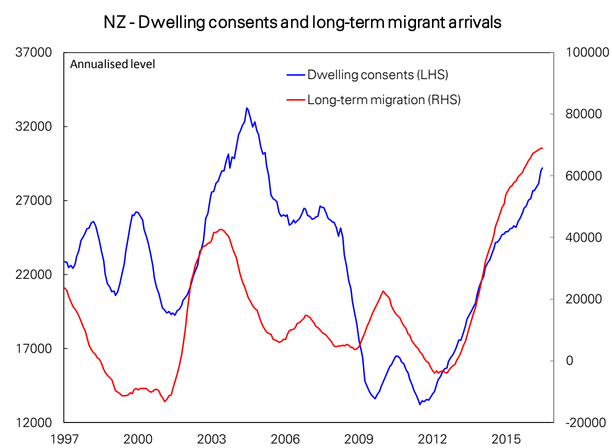
The inflation expectations index slipped 0.05ppts to 1.44% in August from 1.49% in July. This is unlikely to be welcome news for the RBNZ, in our view, given their heightened focus on various inflation expectations measures in recent months

Thursday

- **Terms of trade down 2.1%qoq in Q2, slightly larger than expected, net exports to make a significant contribution to Q2 GDP**

Export prices fell 1.9%qoq while import prices rose 0.3%qoq. Export volumes lifted sharply in the quarter, up 10.2%qoq, with Stats NZ noting a strong contribution from diary exports. With import volumes rising just 0.7%qoq, this points to a strong contribution from net exports to Q2 GDP (due mid September).

Figure 2: Dwelling consents remain supported by long-term migration



Source: Deutsche Bank, StatsNZ

philip.odonaghoe@db.com - (61) 2 8258 1606

Diary

Mon 5th September	AU AIG/CBA PSI (Aug) [Previous +2.6 points to 53.9] AU TD/MI inflation gauge (Aug) [Previous -0.3%mom/1.0%yoy) AU ANZ job advertisements (Aug) [Previous -0.8%mom] AU Business indicators (Q2) [Inventory investment DB: 0.8%qoq for 0.1ppt cont. to GDP; previous 0.4%qoq/0.6%yoy Gross operating surplus [DB: 2.5%qoq; previous -4.7%qoq/-8.4%yoy Wages & salaries [DB 0.1%qoq; previous 0.6%qoq/3.5%yoy] NZ ANZ Commodity Price (Aug) [World prices: DB ; previous 2.0%yoy] CA Public Holiday
Tues 6th September	RBA cash rate announcement [DB:1.5%; previous 1.5%] AU Balance of payments (Q2) [Current account deficit DB AUD19.3bn (4.6% of GDP); previous AUD-20.8bn (5.14% of GDP) Net export cont. to GDP DB -0.1ppt qoq; previous 1.1ppt qoq/1.7ppt yoy Terms of trade DB: 1.8%qoq; previous -1.9%qoq/-11.5%yoy]" NZ QVNZ house price index (Aug) [Previous 14.1%yoy] NZ ANZ Heavy Truckometer index (Aug) [Previous -5.7%mom]
Wed 7th September	AU National Accounts (Q2) [DB 0.4%qoq/3.2%yoy; previous 1.1%qoq/3.1%yoy] NZ Economic survey of manufacturing (Q2) [Previous -2.6%qoq] Bank of Canada Rate Decision (Sep-07) [DB:0.5% ; Mkt: 0.5%, previous 0.5%] CA Ivey PMI Index (Aug) [DB 53.0; previous 57.0]
Thurs 8th September	RBA's Deputy Governor Philip Lowe gives welcome and introductory remarks AU International trade in goods and services (Jul) [DB AUD-2,600mn; previous AUD-3,195mn] Bank of Canada's Tim Lane Presentation in Thunder Bay CA Building permits (Jul) [DB 1.0%mom; previous -5.5%mom/-12.9%yoy] CA Capacity utilization (Q2) [DB: 81.1%; previous 81.4%] CA New housing price index (Jul) [DB 0.3%mom; previous 0.1%mom/2.5%yoy]
Fri 9th September	AU Housing finance (Jul) [Total ex-refinancing: previous 2.7%mom] NZ Electronic card transactions (Aug) [Retail: DB 0.3%momyoy, prev. 0.3%mom/5.8%yoy] NZ REINZ Housing Report (Aug) [Sales: Previous -7.2%mom/-10.1%yoy] CA Housing starts (Aug) [Market n/a; previous 195.0k] CA Labour force (Aug) [Unemployment rate: DB 6.9%; previous 6.9%] [Employment: DB: +15k; previous -31.2k mom]

Australia

We expect **Q2 GDP** to be the highlight in the week ahead. Ahead of the full suite of partials (**business indicators** due Monday and **balance of payments** and **government spending** on Tuesday), we look for a 0.4% rise in the quarter leaving GDP up 3.2%yoy. As always, we will firm up our estimate once the full suite of partials are released. We expect the RBA to leave the cash rate unchanged at its **Board meeting** Tuesday. The dataflow since the August Statement on Monetary Policy is unlikely to have done much to sway the Bank's policy assessment, although we will be paying close attention to the Bank's discussion of the housing market in light of recent strength across a number of housing indicators. This, combined with the solid capex data, suggests that if there is any change to the Bank's tone it is more likely to be in a hawkish, not dovish direction. (This will also be the last meeting chaired by outgoing Governor Glenn Stevens, ahead of the installation of Philip Lowe as Governor in the middle of the month.) The **trade balance** for July is due Thursday. We expect to see a narrower trade deficit (our pick is: AUD2.6bn), with the large deficit recorded for June influenced by 'one-off' factors (specifically an unusually large rise in 'medicament imports' in the month). **Incoming RBA Governor (current Deputy Governor) Philip Lowe** will be speaking at a conference. A topic for his discussion has not been released. **Housing finance** for July is due Friday.

New Zealand

There are a number of releases due in the week ahead, though we suspect most focus will be on the two housing reports (**QVNZ house price index** for August due Tuesday and the August **REINZ housing report** expected sometime during the week). As we have noted elsewhere, housing market activity may be an active constraint on further easing by the RBNZ unless signs of traction from recently expanded macro-prudential measures start to emerge in coming months. **Electronic card transactions** for August are due Friday, giving an early read on Q3 consumption trends; we look for a 0.3%mom rise in retail transactions. The **ANZ heavy truckometer index** (a measure of commercial traffic flows) is due Tuesday, and the **Q2 manufacturing survey** is due Wednesday.

Canada

We expect a modestly more upbeat meeting statement from the **Bank of Canada** next Wednesday. Recall that when the BoC last met (July 13), it was roughly three weeks after the Brexit vote and this was mentioned twice in the meeting statement. Hence, the Bank may indicate that the near-term risks from Brexit have receded somewhat. The BoC is also likely to be modestly more confident in the US outlook and should continue to anticipate above-trend growth in Canada in the back half of the year. That said, is probably too soon for the BoC to change its view on the output gap, which they stated in July was expected to close in late 2017. Thus, while the meeting statement should strike a more positive tone on the economy, it will be far from a hawkish one with respect to monetary policy.

Calendar

Monday	Tuesday	Wednesday	Thursday	Friday
5 NZ ANZ comm prices (Aug) AU AIG/CBA PSI (Aug) AU TD/MI infl gauge (Aug) AU ANZ job ads (Aug) AU Business indicators (Q2) **BoJ's Kuroda speaks** CHN Caixin services PMI (Aug) EUR Services PMI (Aug F) GBR Services PMI (Aug)	6 **Fed's Williams speaks** US ISM non-manf (Aug) NZ ANZ Truckometer (Aug) NZ QVNZ house prices (Aug) **RBA cash rate announcement** AU BoP (Q2) EUR GDP (Q2F) DEU Factory orders (Jul) SWZ GDP (Q2) **ECB's Jordan Speaks**	7 **Fed Releases Beige Book** NZ Economic survey of manufacturing (Q2) **AU GDP (Q2)** DEU Industrial production (Jul) **Riksbank Monetary Policy Report, Rate Decision** GBR Industrial production (Jul) **BoC rate announcement** CA Ivey PMI (Aug)	8 US Consumer credit (Jul) **RBA's Lowe speaks** AU Int'l trade in goods and services (Jul) JN Eco watchers survey (Aug) JN GDP (Q2F) JN Trade balance (Jul) CHN Trade balance (Aug) **ECB rate announcement** **BoC's Tim Lane speaks** CA Building permits (Jul) CA Capacity utilization rate (Q2) CA New house price index (Jul)	9 **Fed's Rosengren speaks** US Wholesale inventories (Jul) NZ Elect card transactions (Aug) AU Housing finance (Jul) CHN CPI (Aug) FRA Industrial production (Jul) SWZ Unemployment rate (Aug) GBR Trade balance (Jul) CA Housing starts (Aug) CA Labour force (Aug)
12 JN Machine Orders (Jul)	13 **US Monthly budget statement (Aug)** NZ Food prices (Aug) AU NAB survey (Aug) CHN Industrial Production (Aug) DEU ZEW Survey (Sep) GBR CPI (Aug) GBR House Price Index (Jul)	14 US Import Price Index (Aug) NZ Current account (Q2) **RBA's Debelle speaks** AU WBC/MI consumer sentiment (Sep) JN Industrial Production (Jul F) EUR Industrial Production (Jul) SWE GDP (Q2 F) **BoC's Wilkins speaks** CA Teranet/NB housing prices (Aug)	15 US Current account (Q2) US Industrial Production (Aug) US Empire state manufacturing (Sep) US Philly Fed (Sep) US PPI (Aug) US Retail Sales Advance (Aug) US Business inventories (Jul) **NZ GDP (Q2)** NZ BNZ Manuf PMI (Aug) AU MI consumer inflation expectations (Sep) AU Labour force (Aug) AU Motor vehicle sales (Aug) EUR CPI (Aug) **SNB rate announcement** **BoE rate announcement** GBR Retail Sales (Aug) CA Existing home sales (Aug)	16 US TICS data (Jul) US CPI (Aug) US Mich cons sent (Sep P) NZ ANZ job ads (Aug) NZ ANZ Consumer Confidence (Sep) CA Int'l Sec Trans (Jul) CA Manufacturing shipments (Jul)
19 US NAHB (Sep) NZ PSI (Aug)	20 US Building Permits (Aug) US Housing starts (Aug) **RBA Sept Meeting Minutes** AU ABS house prices (Q2) **BoC's Poloz speaks**	21 **Fed Summary of Economic Projections** **FOMC Rate Decision (Sep-21)** NZ External migration (Aug) NZ Credit card billings (Aug) AU Dept of Employment internet vacancies (Aug) **BOJ Monetary Policy Statement** **BOJ Rate announcement / press conference** **Riksbank Minutes** CA Wholesale trade (Jul)	22 US Existing Home Sales (Aug) US Leading indicators (Aug) **NZ MPS** **ECB Publishes Economic Bulletin** EUR Consumer Confidence (Sep A) FRA INSEE business confidence (Sep) **Norges Bank rates announcement**	23 NZ Westpac MM Consumer Confidence (Q3) EUR Manufacturing PMI (Sep P) EUR Services PMI (Sep P) **FRA GDP (Q2F)** CA CPI (Aug) CA Retail sales (Jul)
26 US New Home Sales (Aug) NZ Trade balance (Aug) **BOJ Flow of Funds** DEU IFO Survey (Sep) **SNB's Jordan Speaks** **BOC's Poloz speaks**	27 US US S&P/CS home prices (Jul) US Consumer conf (Sep) US Richmond Fed Manufact Index (Sep) **BOJ Minutes of July Meeting**	28 **Fed's Bullard, Evans Speaks** US Durable goods (Aug P) RBA's Edey speaks SWZ KOF Leading Indicator (Sep)	29 **Fed's Powell Speaks** **US GDP (Q2T)** US Trade balance (Aug) US Wholesale Inventories (Aug P) US Pending Home Sales (Aug) AU Job vacancies (Aug) JN Retail Trade (Aug) EUR Consumer Confidence (Sep F)	30 **US Personal inc/spend (Aug)** US Chicago PMI (Sep) US Mich cons sent (Sep F) NZ Building permits (Aug) NZ ANZ survey (Sep) NZ Money agg (Aug) AU P'vte sector credit (Aug) **BOJ Summary of Opinions at Sept20-21 Meeting** JN Jobless Rate (Aug) JN Natl CPI (Aug) JN Industrial Production (Aug P) CHN Current Account (Q2F) CHN Manufacturing PMI (Sep) CHN Non-manufacturing PMI (Sep) EUR CPI Estimate (Sep) EUR Unemployment Rate (Aug) GBR GDP (Q2F) CA GDP (Jul) CA Industrial product prices (Aug) CA Raw materials prices (Aug)
1 Oct CHN Manufacturing PMI (Sep) CHN Non-manufacturing PMI (Sep) 3 Oct US Wards Total Vehicle Sales (Sep) US Constr spending (Aug) US ISM manf (Sep) AU AIG/PWC PMI (Sep) AU CoreLogic House Px (Sep) AU TD/MI infl gauge (Sep) JN Tankan survey (Q3) EUR PMI Manufacturing (Sep F) GBR PMI Manufacturing (Sep)	4 **RBNZ Governor Wheeler Speaks** NZ QVNZ house prices (Sep) **RBA cash rate announcement** AU ANZ job ads (Sep) AU Building Approvals (Aug) AU RBA comm prices (Sep)	5 US ADP employment (Sep) US Trade balance (Aug) US Durable goods (Aug F) US Factory orders (Aug) US ISM non-manf (Sep) NZ ANZ comm prices (Sep) AU AIG/CBA PSI (Sep) AU Retail trade (Aug) EUR Services PMI (Sep F) GBR Services PMI (Sep) CA Overseas Merchandise Trade (Aug)	6 NZ ANZ Truckometer (Sep) AU Int'l trade in goods and services (Aug) ECB account of the monetary policy meeting DEU Factory Orders (Aug) CA Building permits (Aug)	7 **US Non-farm payrolls (Sep)** US Wholesale Inventories (Aug F) US Consumer credit (Aug) CHN Caixin Services PMI (Sep) DEU Industrial Production (Aug) FRA Industrial Production (Aug) GBR Trade Balance (Aug) **CA Business Outlook Survey (Q3)** **CA Senior Loan Officer Survey (Q3)** CA Labour force (Sep) CA Ivey PMI (Sep)

Source: Deutsche Bank Calendar (calendar shows release dates in local times)

Appendix 1

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David Folkerts-Landau
Group Chief Economist and Global Head of Research

Raj Hindocha
Global Chief Operating Officer
Research

Michael Spencer
Head of APAC Research
Global Head of Economics

Steve Pollard
Head of Americas Research
Global Head of Equity Research

Anthony Klarman
Global Head of
Debt Research

Paul Reynolds
Head of EMEA
Equity Research

Dave Clark
Head of APAC
Equity Research

Pam Finelli
Global Head of
Equity Derivatives Research

Andreas Neubauer
Head of Research - Germany

Stuart Kirk
Head of Thematic Research

International Locations

Deutsche Bank AG
Deutsche Bank Place
Level 16
Corner of Hunter & Phillip Streets
Sydney, NSW 2000
Australia
Tel: (61) 2 8258 1234

Deutsche Bank AG
Große Gallusstraße 10-14
60272 Frankfurt am Main
Germany
Tel: (49) 69 910 00

Deutsche Bank AG
Filiale Hongkong
International Commerce Centre,
1 Austin Road West,Kowloon,
Hong Kong
Tel: (852) 2203 8888

Deutsche Securities Inc.
2-11-1 Nagatacho
Sanno Park Tower
Chiyoda-ku, Tokyo 100-6171
Japan
Tel: (81) 3 5156 6770

Deutsche Bank AG London
1 Great Winchester Street
London EC2N 2EQ
United Kingdom
Tel: (44) 20 7545 8000

Deutsche Bank Securities Inc.
60 Wall Street
New York, NY 10005
United States of America
Tel: (1) 212 250 2500