Market Focus

New Zealand

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"MEATY CHUNKS"

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Page 2: Economic overview

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Page 4: Economic comment – rural update

> Last month we used the word "mixed" to characterise the state of the rural sector. That characterisation still applies. Summer is elusive for many but too fierce for some. International markets for New Zealand farm products are generally steady and at quite good levels. Farm Gate Income estimates are unchanged. Farmers are buying "essentials only" farm requisites. The rural farm land market recorded a 14 percent increase in the median price and another small lift in the number of sales in December. Both are off a very low base. The rate of increase in farm debt has slowed but industry liquidity continues to deteriorate. The agricultural portion of a New Zealand economic recovery is highly likely to remain muted in 2010. Profits are highly likely to be banked.

Page 6: Interest rate strategy

> Last week's RBNZ OCR Review was designed to minimise market reaction, and as such highlights the data dependency of near term policy decisions. There may be an air of optimism as we head into 2010, but the economy still shoulders significant burdens. Market pricing is now much closer aligned to our view. And even though the end-point of the tightening cycle will probably be lower this cycle, markets are likely to get "spooked" by 50bp hikes early on, putting upward pressure on rates.

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> Risk continues to be taken off the table, despite generally positive earnings results from the US. The local labour market data may be the key focus, but the NZD is still very much hostage to global events, with regulatory threats and central bank exit strategies the main concerns.

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ECONOMIC OVERVIEW

The RBNZ appear to be very comfortable with the way the economy is evolving. A mid-year start to the tightening cycle is on track. But as recent global financial jitters, and the anaemic credit growth numbers in NZ attest to, the recovery may not move in a nice straight line.

What's ahead?

> **ANZ Commodity Price Index – January month** (Monday 1500 NZDT). Key in this data will be whether recent strong gains can be maintained.

> **Quarterly Employment Survey and Labour Cost Index – December quarter** (Tuesday 1045 NZDT). We expect a soft read across the various wage measures, as it plays catch up to the weak labour market environment.

> **Fonterra Online Auction** (Wednesday circa 0600 NZDT). Last month saw a 7.1 percent decline in dairy prices in USD terms. We expect prices to largely stabilise at current high levels.

> **Household Labour Force Survey – December quarter** (Thursday 1045 NZDT). A rising unemployment rate will be a feature, although the increase will be less than in the previous quarter, rising to 6.8 percent.

> **Net Migration – December month** (Thursday 1045 NZDT). We still expect decent net migration inflows, though we suspect there will be early signs of growing departures to Australia.

What's the view?

The RBNZ had a very simple message at last week's OCR review: if the economy evolves in line with their December projections, then they will begin tightening policy from mid-year. The market is divided on the exact timing of April versus June (we are in the June camp). We suspect the RBNZ themselves do not have a firm date in mind, and it will be left to the dataflow to decide.

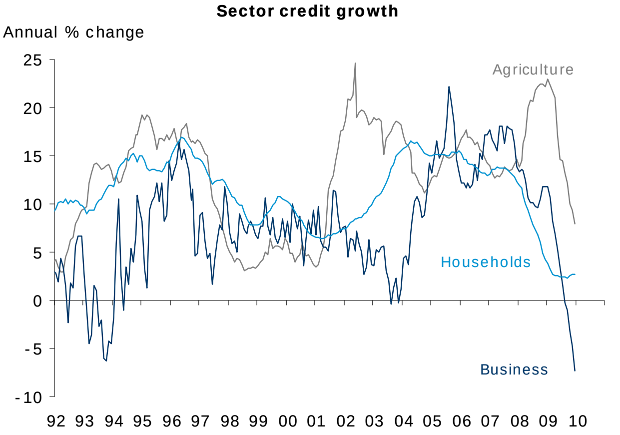
We believe there are two preconditions that need to be met before the RBNZ will start lifting the OCR:

> **Stabilisation in the labour market.** This week's labour market data, for the December 2009 quarter, is expected to still show weak labour demand and a rise in the unemployment rate to 6.8 percent. But we are detecting anecdotes that the labour market is on the cusp of improving, and the current quarter could well be the turning point. We do not get the March quarter labour market data until May, after the April OCR *Review*, which is why we are biased towards a June hike.

> **Pick-up in credit growth.** Recall that we view this as a proxy for business investment. In this regard, credit growth data for December was very soft, and very much a sign of an economy in deleveraging mode. Total private sector credit fell 0.4 percent in the month, to be up only 0.2 percent compared to year ago levels. In theory, central banking this year looks easy. If credit growth picks up, remove liquidity. If not, maintain the status quo. The credit numbers so far very much calls for the status quo.

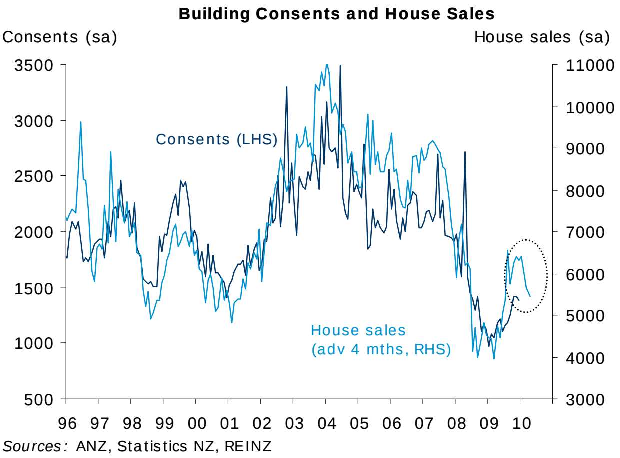
The RBNZ Governor's speech last week reinforces our view of an aggressive start to the tightening cycle, but ultimately heading to a lower peak. When responding to a question about what type of OCR rises could occur, the Governor said *"We don't know that yet, but perhaps we need to remember that they didn't come down 25 basis points, 25, 25, 25, they came down in some big jumps. So that means if we were confident the economy was stably growing and that was continuing and we were seeing inflation pressure we would want to move against that. So when the time came it is possible there could be some meaty chunks on the upside."* In terms of the speech itself, titled *"The crisis and monetary policy: what we learned and where we are going"*, there was no immediate implication for the near-term monetary policy outlook, but it is clear that the OCR will be getting some assistance from structural changes that are taking place in the area of prudential regulation and changes to the tax mix. While the RBNZ has responsibility for the former, the latter will depend on what changes are unveiled at this year's *Budget*. Finance Minister Bill English's comments that the *Budget* would address *"imbalances and inequities"* in the tax system suggest that changes aimed at property investment are imminent. All up, these all point to the neutral OCR being closer to 5 percent as opposed to the commonly perceived 6 percent.

Recent data highlighted that the NZ recovery may not move in a nice straight line. Looking at the sectoral split of the credit data, business credit fell a record $2.1b from November (not seasonally adjusted), the largest decline since the series began in 1991. This likely overstates the decline, as we suspect some of the reduction was simply a case of bank debt being replaced by capital or debt raised elsewhere. But even accounting for this, there is no doubt that demand for credit by businesses is weak. Given this, it is hard to see business investment picking up over the first half of this year. Anaemic credit growth is a key missing leg of the demand side of the recovery. If businesses are not investing, they are hardly going to be expanding their workforce either.



Sources: ANZ, National Bank, RBNZ

The lack of business credit growth, and by definition investment, also presents an issue on the supply side of the economy. There is the potential for capacity constraints, and therefore inflation pressure, to emerge earlier. This is something that was highlighted by the elevated capacity utilisation reading in the latest QSBO. We think the economy's potential growth rate is nowhere near the 3 percent it was during the last expansion phase. Rather, it appears closer to 2 percent, given the deterioration seen in the economy's productivity performance in the past few years, and the limited ability to utilise leverage.



Sources: ANZ, Statistics NZ, REINZ

Credit card data and building consents for December also surprised with their weakness. The credit card series tend to be volatile, and we are putting more weight on the electronic card transaction data, which showed a 0.7 percent increase in December, compared to the 1.3 percent decline in credit card billings. But whatever the actual retail sales number prints, it will not detract from a large increase in volumes for the December quarter, courtesy of aggressive discounting.

The 2.4 percent decline in building consents suggests that the cyclical recovery in residential construction is yet to really get going. We are not reading too much into the decline at this stage. We still expect building consents to increase and for residential investment to make a strong contribution to GDP growth over H1 this year. But should recent weakness in house sales extend, the cyclical recovery in residential construction will be delayed.

Turning to this week, labour market data is the main domestic focus. We expect wage growth to be soft, and the unemployment rate to rise from 6.5 percent to 6.8 percent. But labour demand should show some signs of improvement via hours worked, which we expect to post a small rise. The ANZ Commodity Price Index out later today and the results of Fonterra's monthly online auction on Wednesday will provide an indication of whether recent gains in soft commodity prices are extending. Of particular interest will be how dairy prices fare in Fonterra's auction, given the recent selloff in global commodity prices.

Globally, central bank announcements from the RBA, ECB and BoE take centre stage. We expect the RBA to increase the cash rate by 25 basis points to 4.0 percent, while the ECB and BoE are expected to leave their policy rates unchanged. Apart from the RBA decision, we get the NAB confidence, retail sales and building approvals out of Australia this week. The RBA also releases their Quarterly Monetary Policy Statement on Friday. There is a strong flow of data from the US, with personal income, ISM manufacturing, construction spending and home sales, culminating in the non-farm payrolls number at the end of the week. Ultimately, the dataflow could prove to be a mere sideshow if the global unwinding of risk continues.

Recent local data…

> **Credit card billings – December month:** Total billings fell 1.3 percent in December, following a 0.8 percent increase in the previous month.

> **RBNZ OCR Review:** The OCR was left unchanged at 2.5 percent as widely expected.

> **Credit growth – December month:** Private sector credit growth was weak, falling 0.4 percent in the month. Household debt rose 0.2 percent.

> **Building consents – December month:** Building consents unexpectedly fell 2.4 percent, with ex-apartments down 1.4 percent. Commercial consents are still holding up, due to government related activity.

> **Trade balance – December month:** A small $2m surplus was recorded in December, with falling imports again helping drive the improvement. Another narrowing in the current account deficit in Q4 is expected.

SOME THINGS DON'T CHANGE…

Last month we used the word "mixed" to characterise the state of the rural sector. That characterisation still applies. Summer is elusive for many but too fierce for some. International markets for New Zealand farm products are generally steady and at quite good levels. Farm Gate Income estimates are unchanged. Farmers are buying "essentials only" farm requisites.

The rural farm land market recorded a 14 percent increase in the median price and another small lift in the number of sales in December. Both are off a very low base. The rate of increase in farm debt has slowed but industry liquidity continues to deteriorate.

The agricultural portion of a New Zealand economic recovery is highly likely to remain muted in 2010. Profits are highly likely to be banked.

Summer is elusive for many but too fierce for some

The "unseasonable" weather has continued with an impact on milk production and the number of livestock processed.

Our data suggests Northland, Rotorua and Central Otago are in severe drought with Pareoa and Nelson rated as serious. The Bay of Plenty and the East Coast of both islands are in drought conditions but that is "normal" for this time of the year

Lower stocking rates are helping sheep and beef farmers cope with the dry. Cold conditions have put milk production behind last year in parts of the North Island.

A drought is a continual period when the soil moisture is insufficient to grow pasture or crops. It is a result of low rainfall, usually in association with high evapo-transpiration.

The severity of a drought is related to a combination of:

> the probability of a soil moisture deficit at that time of the year;

> the length of time the soil moisture deficit exists;

> the pasture/crop growth made prior to the drought occurring; and

> the number of growing days left before the winter.

Rain does not eliminate the existence of a drought overnight. It may take three to six weeks (or longer) of soil moisture surplus to restore growth.

International markets for New Zealand farm products are generally steady and at quite good levels

Indicative wholesale meat prices are firm – helped in part by reduced supply from NZ.

Oceania dairy prices eased in late December and January by around seven percent in both USD and NZD terms. The price level remains about 35 percent above pre-spike levels and the monthly variation is within "normal" monthly fluctuations. There is a suggestion that local processors are well sold up for the time of the year and international supply is expanding very slowly, if at all. But will the economic recovery be sustained and hold demand?

The strong wool indicator fell back below $3/kg clean in early January after clawing its way up from a long-term historic low of $2.62 last June to $3.30 in October. The last two sales did show some improvement with the indicator now up to $3.15 – still too low but heading in the right direction (again!). Auction prices for wool are notorious for wide fluctuations within the season and 2009/10 is no different.

In contrast, the British equivalent jumped nearly 40 percent over the past three months. Australia merino wool prices have also surge since Christmas, with the Northern Indicator jumping nearly eight percent to A$9.68/kg clean. That is A$2/kg up on the comparable sale in 2008 but still A$1 less than 2007.

An industry opinion was the increase in prices does have a foundation in a broad based genuine demand but was also being driven by some buyers scrambling to fill a short-term inventory problem.

International grain prices fluctuate in a narrow range.

Farm Gate Income estimates are unchanged

Prices are generally in line with our last forecasts. Meat schedules are falling with a combination of a seasonal increase in the numbers of livestock available for processing and a higher than anticipated exchange rate. Ewe prices are higher than anticipated which will help the vendor's income but have a contra entry on the buyer's profit and loss.

Fonterra usually make a formal announcement about the forecast payout in February. We expect the amount available for payout might edge up but the increase will be ultimately taken up in retained earnings.

Sheep and beef income is lagging last year as the numbers of livestock processed trail behind last season.

The estimated number of new season lambs processed to date (1 November 2009 to 15 January 2010) is 5.4m, 0.8m (12 percent) behind the comparable period in 2008/09. The shortfall is more than it seems when there are an estimated additional 1m lambs available for processing this season as a result of a favourable autumn and lambing (for most).

The numbers of cattle processed in the same period is also down 14 percent but that masks the higher numbers processed and sold out of Northland. The numbers of deer processed are also down on the previous year.

Canterbury cash crop farmers have experienced erratic, but nevertheless damaging hail. Fruit growers have a crop but are one to four months away from harvest.

Input Costs and Spend

Farmers are buying "essential only" farm requisites. Liquidity remains tight and there is a much sharper focus on making a cash surplus in the 2009/10 year.

A reduction of around $80/t for super phosphate and urea in December 2009 was most welcome. The ex-store price of super-phosphate is nearly 80 percent above pre spike levels but so is the underlying price of rock phosphate. International demand makes it unlikely that the price of rock phosphate will return to a lower level.

The combination of a focus on cash and the higher cost of some inputs are generating a rethink on the cube of stocking rate, intensity of farming and risk. There is anecdotal evidence of some farmers backing off high cost intensive systems with improved profit on lower outputs.

Rural Land Sales

The rural farm land market is twitching. It recorded a 14 percent increase in the median price and another small lift in the number of sales in December. Both are off a very low base and the market is considered to remain stalled.

Previous comment has suggested that a rural property price cycle would take time to occur. The current data adds support to that view.

The volatile all farms three month median price increased by $120,000 (14 percent) from $880,000 in November to $1,000,000 in December. That is quite a shift after sitting at $877,500, $875,000 and $880,000 in September, October and November respectively.

The median price is up 14 percent from the low but it is 46 percent less than the peak. The median price peaked $1,860,000 in May 2008 and the low was $875,000 in October 2009.

There were 241 sales in the three months ending December 2009 compared with 223 for the three months ending November 2009. The comparable figure for the period ending December 2008 was 346 and the medium term average is 534 sales/three months.

Of the few farms sold, good quality properties are considered to have been bought 15 to 20 percent below a price that might have been anticipated at the peak. Less attractive farms have had a greater discount, or more likely not sold.

Farm Debt

The rate of increase in farm debt has slowed but industry liquidity continues to deteriorate.

Agricultural debt has increased only by an average of 0.3 percent a month in the period July to December 2009 and stood at $45.6 b. That contrasts with an average increase in debt of 1.1 and 1.5 percent a month in the comparable periods in 2007 and 2008 respectively. Debt actually fell 0.6 percent in October and another 0.6 percent in December – the first decreases several years.

Cash deposits peaked at $7.3 b in June 2008 and have fallen ever since to record $5.7 b at June 2009 and $5.5 b at December 2009. One might expect a seasonal decline June to December but that is not a given. Increases in product prices may offset the seasonal drag e.g. 2007.

Deposits as a percentage of debt have fallen from 18.7 percent in June 2007 to 12.9 percent by June 2009.

The number of farmers under severe financial pressure has probably not changed in total but has in composition. Fewer dairy farmers are now under severe financial pressure. They are likely to be replaced by sheep and beef farmers. There are some who have the compounding effects of successive drought on top of a high starting debt position and perhaps with land acquisition or a major development project in the middle.

The Implications

The agricultural portion of a New Zealand economic recovery is highly likely to remain muted in 2010.

Profits are highly likely to be banked. Land sales are expected to remain subdued. We remain in disequilibrium. Either land prices fall further or income (profit) increases. The later is looking subdued in the short-term.

INTEREST RATE STRATEGY

Last week's RBNZ OCR *Review* was designed to minimise market reaction, and as such highlights the data dependency of near term policy decisions. There may be an air of optimism as we head into 2010, but the economy still shoulders significant burdens. Market pricing is now much closer aligned to our view. And even though the end-point of the tightening cycle will probably be lower this cycle, markets are likely to get "spooked" by 50bp hikes early on, putting upward pressure on rates.

Market themes…

> Last week's OCR *Review* was neutral, but with a qualified upbeat tone. And while Friday's speech was more medium term, comments made later suggest early rate hikes will be *"meaty"*.

> Global equity market weakness and risk aversion cast a long shadow. This has helped push the NZD and interest rates lower.

Review and outlook

Thursday's OCR *Review* was absorbed with very little fuss. The RBNZ confirmed that its view was largely as it was in December, reiterating that rates would rise some time *"around the middle of 2010"*. What had subtly changed was the overall tone of the press release – as we inch nearer to the first hike, the language is changing, with words like *"may"* need to raise rates being replaced with *"would expect"* to be raising rates. And while what eventuates is clearly dependent on how the data pans out (and that is not without risks), Dr Bollard is using every opportunity to set the scene for rate hikes. Indeed, weekend press articles talk of *"meaty chunks to the upside"* ahead, implying larger 50bp rate hikes early on. The first hike is still a few weeks away, but we're already in February, and it is not hard to envisage the market getting nervous if the next few data prints (like jobs data on Thursday) are on the better side of expectations. Interest rates fell a long way in January, to the point where they are fairly close to what seems like a sensible path for policy to take. If anything, as the table to the right shows, markets may be underestimating how quickly rates may rise, especially if we see 50bp hikes in June and July (followed by 25bps thereafter). Given the market's propensity to overestimate the threat of tightening, this is something of a surprise, and is suggestive of near term upside risks. And even though we do expect a lower terminal cash rate this cycle, which markets are pricing, as we make our way to that point, we'd be surprised if markets were so constrained. Global influences are clearly keeping a lid on rates, but how long will that last?

Borrowing strategies we favour at present

Interest rates are undoubtedly moving higher in 2010, potentially by more than what's priced in. Global issues have the potential to keep rates lower for a little longer, but at current levels we see more upside potential. As such we favour adding to hedges at current levels. But with so much tightening already priced in, this view is more based on our impression that rates are at the bottom of trading ranges, rather than a view that rates are about to snap higher. Swaps are trading at levels implying a slower tightening than our forecasts, which hasn't happened for some time. Mid curve swaps probably have the most upside potential, especially if global concerns remain, as these will have more of an impact on the long end. Option structures like cap spreads are also attractive, particularly against "do nothing" strategies.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔/↑	*"Meaty chunks"* ahead implies larger hikes up front.
NZ data	↔	Mixed so far this year. This week's HLFS critical.
Fed Funds / front end	↔/↑	Fed tone becoming more confident, with 1 dissenter.
RBA	↑	A move tomorrow looks likely, this isn't priced in.
US 10 year	↔	Flight to safety buying has been significant, but we have come a long way now.
NZ swap curve	↔/↑	More steepening likely, especially if global rates sell.
Flow	↔	Flow has been light.
Technicals	↔	2yr swap has well and truly broken uptrend channel. But can this last?

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Mar-10	+4	+2
Thu 29-Apr-10	+29	+24
Thu 10-Jun-10	+59	+52
Thu 29-Jul-10	+95	+88
Thu 16-Sep-10	+125	+112
Thu 28-Oct-10	+151	+144
Thu 9-Dec-10	-	+172

Trading themes we favour at present

Trading the range and weighing up the benefits of roll and carry against the trend remains the game. At this juncture we see scope for rates to move higher. While the short end is at risk of moving higher as the market moves to price in "meaty" rate hikes, the long equally has scope to move higher. Curve steepeners still have great roll and carry.

CURRENCY STRATEGY

Risk continues to be taken off the table, despite generally positive earnings results from the US. The local labour market data may be the key focus, but the NZD is still very much hostage to global events, with regulatory threats and central bank exit strategies the main concerns.

Market themes…

> Same as last week. Deleveraging continues as the market regulators design a new world.

> Greece still weights on the euro.

> Equities/commodities correlation returns.

Review and outlook…

The NZD has done little since the well written RBNZ OCR *Review* on Thursday. On the face of it, the track of monetary policy in NZ now looks more like a continuously lit eight lane highway compared with a dusty shingle goat track we were negotiating last year. The problem with super highways is that everyone knows where you are going and when you will get there. The rates market looks very content until a data pothole surfaces. The NZD is following its own well lit highway and its called the US equity market. The Dow Jones Industrial Average can be overlaid almost perfectly with the NZD for the month of January. Even though there is massive international and local data again this week, the NZD will follow the equities market interpretation of the data. This may not make much sense, but such is the market's inclination at present.

IMM long positioning in the NZD and AUD has been greatly reduced over the last week, and we see deleverging continuing in line with the selloff in equity markets.

NZ's labour market data is the major focus this week, and a surprise to the top side could see Dr Bollard's *"meaty chunks"* come to play. We know that a recovery is in place in NZ. What the market is focusing on is the sustainability of the recovery everywhere else. How does Greece play out? Has the US seen the worst and do American policymakers really want a strong dollar given the Chinese reluctance to strengthen the Yuan.

The NZD support at the 0.6980/0.7000 level extends back to October. The AUD is also very similar on the charts with support in the mid 0.8700 which hasn't been breached since October. Either the RBA goes on hold tomorrow, or the Dow Jones heads below 10,000 for these levels to be breached.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both hards and softs still coming under downward
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔	Range trade still. Resistance above 0.80.
Sentiment	↔	Markets still deleveraging.
Other	↔/↑	IMM positioning weighing more on AUD. RBA tomorrow important.
On balance	↔/↓	**Yield story too hard to ignore.**

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔/↑	RBNZ to hike mid-year, Fed still on hold *"for extended period."*
Commodities	↔/↓	Commodities back in recent range.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔	NZ labour market data key. But so too US data.
Technicals	↔/↓	0.6975 low since October.
AUD	↔	RBA this week important.
Sentiment	↔/↓	Turing off risk currencies.
Other	↔	Greece concerns still dominating.
On balance	↔/↓	**Support at 0.6975 critical.**

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
1-Feb	AU	ANZ Job Ads – mom - Jan	-	6.0%	13:30
	AU	House Price Index – qoq – Q4	3.5%	4.2%	13:30
	AU	House Price Index – yoy – Q4	11.0%	6.2%	13:30
	NZ	**ANZ Commodity Price Index**	**-**	**2.6%**	**15:00**
	JN	BOE Chief Economist Kazuo Momma speech	-	-	18:00
	JN	Domestic Vehicle Sales – yoy – Jan	-	36.5%	18:30
	GE	PMI Manufacturing – Jan (F)	53.4	53.4	21:55
	EC	PMI Manufacturing – Jan (F)	52.0	52.0	22:00
	UK	Consumer Credit – mom – Dec	-£0.4bn	-£0.4bn	22:30
	UK	Mortgage Approvals – mom – Dec	61.8k	60.5k	22:30
	UK	PMI Manufacturing – Jan	53.9	54.1	22:30
2-Feb	EC	ECB Interest Rate Decision	1.00%	1.00%	01:45
	US	Personal Income – mom – Dec	0.3%	0.4%	02:30
	US	Personal Spending – mom - Dec	0.3%	0.5%	02:30
	US	Core PCE Deflator – mom – Dec	0.1%	0.0%	02:30
	US	ISM Manufacturing – Jan	55.5	55.9	04:00
	US	Construction Spending – mom - Dec	-0.5%	-0.6%	04:00
	NZ	**Private Sector Wages – qoq – Q4**	**0.4%**	**0.4%**	**10:45**
	NZ	**Average Hourly Earnings – qoq – Q4**	**0.5%**	**1.7%**	**10:45**
	JN	Monetary Base – yoy – Jan	-	5.2%	12:50
	AU	NAB Business Confidence – Dec	-	19.0	13:30
	JN	Labour Cash Earnings – yoy – Dec	-	-2.8%	14:30
	AU	RBA Cash Target	4.00%	3.75%	16:30
	AU	RBA Commodity Price Index – yoy - Jan	-	-16.6%	18:30
	UK	PMI Construction – Jan	47.0	47.1	22:30
	EC	Eurozone PPI – mom – Dec	0.0%	0.1%	23:00
	EC	Eurozone PPI – yoy - Dec	-3.0%	-4.4%	23:00
3-Feb	US	Pending Home Sales – mom – Dec	1.0%	-16.0%	04:00
	NZ	**Fonterra monthly milk powder auction results**	**-**	**-7.1%**	**06:00**
	UK	Nationwide Bldg Society Consumer Confidence	70	69	13:01
	AU	Trade Balance – Dec	-$2.4bn	-$1.7bn	13:30
	GE	PMI Services – Jan (F)	51.2	51.2	21:55
	EC	PMI Services – Jan (F)	52.3	52.3	22:00
	EC	PMI Composite – Jan (F)	53.6	53.6	22:00
	UK	PMI Services – Jan	56.5	56.8	22:30
	EC	Eurozone Retail Sales – mom - Dec	0.4%	-1.2%	23:00
	EC	Eurozone Retail Sales – yoy - Dec	-2.4%	-4.0%	23:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
4-Feb	US	ADP Employment Change – mom – Jan	-40k	-84k	01:30
	US	ISM Non Manufacturing - Jan	51.0	50.1	04:00
	NZ	**HLFS Employment – qoq – Q4**	**-0.1%**	**-0.7%**	**10:45**
	NZ	**HLFS Employment – yoy – Q4**	**-2.5%**	**-1.8%**	**10:45**
	NZ	**HLFS Unemployment %**	**6.8%**	**6.5%**	**10:45**
	NZ	**Visitor Arrivals – mom - Dec**	**-**	**-3.7%**	**10:45**
	AU	Retail Sales – mom – Dec	0.2%	1.4%	13:30
	AU	Building Approvals – mom – Dec	0.0%	5.9%	13:30
	JN	BOJ Board Member Seiji Nakamura speech	-		14:30
5-Feb	GE	Factory Orders – mom – Dec	0.2%	2.8%	00:00
	UK	BOE Rate Decision	0.50%	0.50%	01:00
	UK	BOE Asset Purchase Target	£200bn	£200bn	01:00
	UK	PPI Input – mom - Jan	0.8%	0.1%	22:30
	UK	PPI Output – mom - Jan	0.3%	0.5%	22:30
	US	Non farm Productivity – Q4 (P)	6.0%	8.1%	02:30
	US	Unit Labour Costs – Q4 (P)	-2.5%	-2.5%	02:30
	US	Initial Jobless Claims – week to Jan 31	455K	470k	02:30
	US	Continuing Claims – week to Jan 24	4577K	4602k	02:30
	US	Factory Orders – mom – Dec	0.5%	1.1%	04:00
	AU	RBA Monetary Policy Statement	-	-	13:30
	JN	Leading Index – Dec (P)	93.5	90.7	18:00
	JN	Coincident – Dec (P)	97.3	96.0	18:00
6-Feb	GE	Industrial Production	0.6%	0.7%	00:00
	US	Change in Non-farm Payrolls – mom – Jan	+13k	-85k	02:30
	US	Unemployment Rate – Jan	10.0%	10.0%	02:30
	US	Average Hourly Earnings – mom – Jan	0.2%	0.2%	02:30
	US	St Louis Fed President James Bullard speech	-	-	11:15

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States. Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All $ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: With the OCR review out of the way, the focus is on the dataflow to determine the exact timing of the tightening cycle. This week's labour market data will be significant in this regard, with the RBNZ likely wanting to see signs of stabilisation before hiking.

Date	Data/Event	Economic Signal	Comment
Mon 1 Feb (15.00)	ANZ Commodity Price Index (Jan)	Better	Irrespective of the monthly result the trend in the series shows a strong lift in export prices. This is a critical part of the economy's rebalancing process and also allowing the rural sector to work through excesses in a reasonably orderly fashion.
Tue 2 Feb (10.45)	Quarterly Employment Survey and Labour Cost Index (Dec qtr)	Subdued	We expect labour cost readings to remain contained given spare capacity within the labour market, and the normal lagged response to real economic activity.
Thu 4 Feb (10.45)	Household Labour Force Survey (Dec qtr)	Ongoing capacity gaps	We expect the unemployment rate to lift to 6.8 percent, with a small decline in employment growth. Hours worked are expected to come in positive (0.3 percent) as firms respond to better economic momentum by lifting hours per FTE (which have dropped to an all time low).
Thu 4 Feb (10.45)	Visitor arrivals and net migration (Dec)	More bums on seats	Migration rebounding strongly in 2009. December's figures are expected to continue the trend although most interest will be on 2010 and what a booming Australian economy means for those people that deferred plans in 2009.
Wed 10 Feb (10.45)	Electronic Card Transactions (Jan)	Improvement	The trend in ECT has been on a gradual grind up and we expect this to extend into 2010.
Circa 15 Feb (10.00)	REINZ House sales and pries (Jan)	Stating to wobble?	Volumes tailed into 2009 but the market (prices) remained tight owing to a lack of listings. January will give a key read on whether momentum in the housing market is starting to fade.
Tue 16 Feb (10.45)	Producers Price Index (Dec qtr)	Still margin pressure	Volatility caused by the Fonterra payout movements mean not too much should be read into the headline numbers. Margin pressure should still be evident among most sectors.
Wed 17 Feb (15.00)	NBNZ Regional Trends (Dec qtr)	How strong?	We will get an indication of how Q4 GDP could shape up from the Regional Trends release.
Thu 18 Feb (15.00)	ANZ Roy Morgan Consumer Confidence (Feb)	Still perky?	After a good start to the year, we will see whether confidence stays high once consumers get their credit bills in the mail.
Wed 24 Feb (15.00)	RBNZ Survey of Expectations (Mar qtr)	Steady	We were surprised at the previous quarter's rise, and are looking for a steady print for this release.
Thu 25 Feb (15.00)	Credit Growth (Jan)	Anaemic	No signs of a pick-up in business spending expected from the credit data. Neither will subdued household debt growth cause too much concern for the RBNZ.
Thu 25 Feb (15.00)	National Bank Business Outlook (Feb)	Still optimistic?	This will be the first read of business confidence for the year. We will be paying close attention to whether improved sentiment is translating through into investment and hiring intentions.
Fri 26 Feb (10.45)	Trade Balance (Jan)	Rebalancing	Recent improvements in NZ's major export commodity prices are still to flow through and imports are expected to stay week. It points to ongoing improvements in the annual trade balance.
Fri 26 Feb (10.45)	Building Consents (Jan)	Bounce?	December's decline was a surprise. We think January will show a rebound, but recent weakness in house sales suggest the strong cyclical upswing we were expected may be under threat.
On Balance		**Improving but not racing away**	**Growth momentum continues to accelerate but off a low base.**

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
GDP (% qoq)	-0.9	-0.9	0.2	0.2	**0.9**	**0.5**	**0.6**	**0.6**	**0.5**	**0.7**
GDP (% yoy)	-2.5	-3.0	-2.1	-1.3	**0.5**	**1.8**	**2.2**	**2.6**	**2.2**	**2.4**
CPI (% qoq)	-0.5	0.3	0.6	1.3	-0.2	**0.2**	**0.7**	**0.9**	**0.8**	**0.5**
CPI (% yoy)	3.4	3.0	1.9	1.7	2.0	**1.9**	**2.0**	**1.6**	**2.7**	**3.0**
Employment (% qoq)	0.7	-1.4	-0.4	-0.7	**-0.1**	**0.0**	**0.1**	**0.3**	**0.4**	**0.5**
Employment (% yoy)	0.9	0.7	-0.9	-1.8	**-2.5**	**-1.2**	**-0.7**	**0.3**	**0.8**	**1.3**
Unemployment Rate (% sa)	4.7	5.0	6.0	6.5	**6.8**	**7.0**	**7.1**	**7.1**	**7.0**	**6.9**
Current Account (% GDP)	-8.7	-7.9	-5.6	-3.1	**-1.8**	**-1.3**	**-1.7**	**-2.4**	**-2.4**	**-2.4**
Terms of Trade (% qoq)	-1.0	-2.7	-9.4	-1.2	**3.8**	**3.0**	**1.9**	**0.5**	**0.2**	**-0.2**
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	**-9.6**	**-4.3**	**7.6**	**9.5**	**5.7**	**2.5**

KEY ECONOMIC INDICATORS

	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Retail Sales (% mom)	0.6	0.6	0.0	-0.5	1.2	0.2	0.1	0.8	..	..
Retail Sales (% yoy)	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	..	..
Credit Card Billings (% mom)	2.7	-0.3	0.1	0.1	1.2	-0.7	0.1	0.8	-1.3	..
Credit Card Billings (% yoy)	-1.6	-2.3	-2.0	-2.0	0.0	-2.3	-0.4	1.5	1.8	..
Car Registrations (% mom)	-1.4	-2.1	6.0	7.0	-3.6	8.1	0.9	2.2	5.9	..
Car Registrations (% yoy)	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	..
Building Consents (% mom)	12.7	2.8	-9.1	4.9	2.5	5.3	13.2	0.1	-2.4	..
Building Consents (% yoy)	-56.5	-23.4	-24.0	-16.8	-8.8	-12.0	27.7	20.3	23.6	..
REINZ House Price (% yoy)	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	..
Household Lending Growth (% mom)	0.3	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	..
Household Lending Growth (% yoy)	2.5	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	104.6	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4
NBNZ Business Confidence	-14.5	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..
NBNZ Own Activity Outlook	-3.8	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..
Trade Balance ($m)	322	906	-331	-178	-717	-561	-502	-276	2	..
Trade Balance ($m annual)	-4070	-2994	-3110	-2491	-2360	-1669	-1177	-860	-517	..
ANZ World Commodity Price Index (% mom)	2.6	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	..
ANZ World Commodity Price Index (% yoy)	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	..
Net Migration (sa)	2020	2480	1650	2480	1640	1860	2140	1780	..	..
Net Migration (annual)	9176	11202	12515	14488	15642	17043	18560	20021	..	..

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Nov-09	Dec-09	1-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.731	0.716	0.701	0.720	0.710	0.690	0.680	0.670	0.660	0.640
NZD/AUD	0.794	0.793	0.795	0.783	0.755	0.750	0.756	0.770	0.776	0.762
NZD/EUR	0.490	0.490	0.505	0.507	0.493	0.483	0.482	0.479	0.478	0.471
NZD/JPY	65.3	64.1	63.0	66.2	63.9	62.8	62.6	63.0	62.7	62.1
NZD/GBP	0.440	0.440	0.439	0.439	0.428	0.421	0.412	0.404	0.395	0.376
NZ$ TWI	65.2	64.6	64.69	65.5	63.8	62.5	62.2	62.1	61.8	60.4
NZ interest rates	Nov-09	Dec-09	1-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
OCR	2.76	2.76	2.50	2.50	3.00	3.75	4.00	4.00	4.25	4.75
90 day bill	2.80	2.78	2.77	2.80	3.60	4.20	4.30	4.30	4.70	5.20
10 year bond	5.88	5.90	5.62	5.50	5.50	5.60	6.00	6.20	6.40	6.50
International	Nov-09	Dec-09	1-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
US 3-mth	0.26	0.25	0.25	0.25	0.30	0.35	0.85	1.35	1.85	2.10
AU cash	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25
AU 3-mth	4.03	4.28	4.38	4.40	4.80	4.90	5.00	5.00	5.10	5.60

KEY RATES

	22 Dec	18 Jan	19 Jan	20 Jan	21 Jan	22 Jan
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.77	2.77	2.78	2.78	2.77	2.77
NZGB 11/11	4.26	4.19	4.20	4.16	4.12	4.05
NZGB 04/13	4.96	4.86	4.87	4.84	4.82	4.74
NZGB 12/17	5.74	5.69	5.69	5.68	5.70	5.65
NZGB 05/21	6.03	5.96	5.96	5.96	6.00	5.95
2 year swap	4.55	4.56	4.55	4.46	4.48	4.43
5 year swap	5.53	5.41	5.41	5.37	5.39	5.34
RBNZ TWI	64.6	66.5	66.7	66.4	65.7	65.0
NZD/USD	0.7041	0.7348	0.7388	0.7305	0.7196	0.7126
NZD/AUD	0.8012	0.7994	0.7996	0.7951	0.7903	0.7895
NZD/JPY	64.33	66.75	66.85	66.67	65.82	64.06
NZD/GBP	0.4385	0.4511	0.4502	0.4476	0.4425	0.4398
NZD/EUR	0.4928	0.5118	0.5135	0.5139	0.5110	0.5046
AUD/USD	0.8788	0.9192	0.9240	0.9187	0.9105	0.9026
EUR/USD	1.4289	1.4358	1.4387	1.4214	1.4081	1.4122
USD/JPY	91.37	90.84	90.49	91.27	91.47	89.90
GBP/USD	1.6057	1.6288	1.6410	1.6322	1.6261	1.6201
Oil	73.48	77.96	78.25	78.98	77.42	75.84
Gold	1084.65	1132.95	1137.55	1134.15	1113.60	1094.05
Electricity (Haywards)	6.62	5.20	6.81	6.61	6.34	4.51
Milk futures (US$/contract)	131	#N/A	123	121	120	118
Baltic Dry Freight Index	3063	3295	3208	3158	3170	3204

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing

Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

This document has been prepared by ANZ National Bank Limited.

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