

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

1 March 2010

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NZ ECONOMICS TEAM

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

Khoon Goh
Senior Markets Economist
Telephone: +64 4 802 2357
E-mail: Khoon.Goh@anz.com

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

Mark Smith
Economist
Telephone: +64 4 802 2199
E-mail: Mark.Smith2@anz.com

Steve Edwards
Economist
Telephone: +64 4 802 2217
E-mail: Steve.Edwards@anz.com

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

TURNING OVER A NEW LEAF

ECONOMIC OVERVIEW

The rebound in the National Bank Business Outlook survey was a welcome change from the recent string of weaker data, suggesting a recovery for 2010 remains on track. However, trends in credit growth do not suggest a normal cyclical recovery is in prospect, with other question-marks continuing to surround the pace of the recovery.

BUSINESS OUTLOOK UPDATE

The recovery looks well on track, based on the latest National Bank Business Outlook survey. Our composite growth indicator (which has a strong correlation with GDP growth) from the survey is flagging 4 percent growth by year's end. But while businesses plan to start hiring soon, most are still shying away from committing to investment.

FINANCIAL CONDITIONS UPDATE

We provide an update of our Financial Conditions Indexes for NZ and Australia. Both continue to point towards stronger growth ahead, though to varying magnitudes. Financial conditions in NZ are consistent with only a modest recovery in the year ahead, while for Australia it is pointing towards a much stronger pick-up.

INTEREST RATE STRATEGY

Interest rates have been falling steadily now for a few weeks now, and are set to remain subdued courtesy of the patchy outlook. The market is now "pricing in" a rate path that's very close to our own forecast – but we are wondering if even that is too optimistic. Next week's RBNZ MPS will be very circumspect, and there may not be enough time between now and June to prepare the market for the first rate hike. That should keep rates low.

CURRENCY STRATEGY

Downward pressure on NZDAUD is likely to continue with the divergence of the Trans-Tasman economies likely to be reinforced by the respective central banks over the next two weeks. Uncertainty surrounding the situation in Greece will continue to produce currency volatility.

DATA AND EVENT CALENDAR

DATA WATCH

KEY FORECASTS

ECONOMIC OVERVIEW

SUMMARY

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THE WEEK AHEAD

- **SNZ External Travel and Migration – January** (Monday 10.45am NZDT). Another positive net migration inflow is expected. However, better employment opportunities across the Tasman signal an eventual pick-up in departures to Australia.
- **ANZ Commodity Price Index - February** (Monday 3.00pm NZDT). Interest will centre on whether NZ's soft commodity prices will hold up in the face of recent broad commodity price weakness.
- **Fonterra Monthly Auction Result –March** (Wednesday, approximately 6:00am NZDT). Likely to be softer, courtesy of a 2 percent fall in wholesale milk prices.
- **SNZ Wholesale Trade Survey - December quarter** (Friday, 10.45am NZDT). Retail data suggests a positive quarter. We will closely monitor what is happening to inventories.

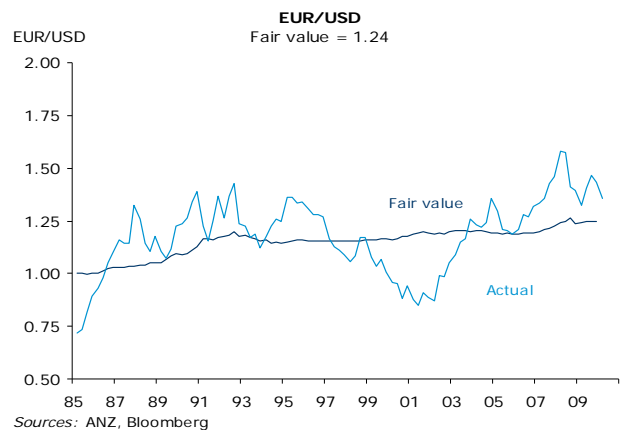
WHAT'S THE VIEW?

The last few weeks provided a timely reminder of the considerable amount of volatility still present. Amongst a run of soft local data, a much improved National Bank Business Outlook survey suggests the recovery remains on track. However, weak credit growth (both domestically and globally), pressure on sovereigns to de-leverage (on top of the private sector), structural changes and mixed data imply a bumpy ride ahead. These are themes we expect to permeate for a while yet. So while we remain comfortable saying a recovery is underway, with a de-leveraging environment and "we are not going back to banking as usual" backdrop, **some question-marks will continue to surround the pace of the recovery.** So-called soft data is insightful, but historical relationships with growth are going to be somewhat misleading given structural changes.

A key issue we are keeping an eye on at present is the currency. It's been the missing ingredient in terms of assisting the much needed earnings sector recovery and at present things look

to be moving in NZ's favour. We still suspect the NZDAUD is slowly grinding its way to sub 75 cents. What gives us comfort on this? The yield advantage for a start, but probably more important is that few are talking about it. Previously the NZDAUD has got into the zone where a push to 75 looked likely, all jumped on board and the next stop was 81 cents! Now it's looking a slow grind that suggests to us a target more likely to be realised.

With the EUR under pressure the USD is rapidly becoming the default play, particularly with the tenor of US data much better than that of Europe. **If the EUR is going down it is hard to see the NZDUSD going up,** although we will see a lot of noise from day to day. While part of this reflects recent developments surrounding Greece et al, the market is also overlooking a simply dynamic: the rubber band was tight. Fair value for the EURUSD sits around 1.20 by our calculations (refer our *FX Quant* for a detailed description on how we derive this). So while there is a lot of hoop-la at present about the EUR being under pressure, in some ways its simply mean reverting, and the same applies to the NZD (we put fair value for the NZDUSD at just under 0.65).



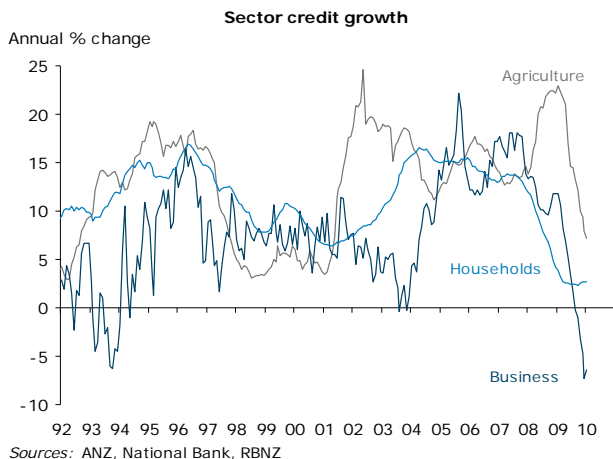
In terms of dataflow, last week's National Bank Business Outlook was a timely reminder that there is some "good news" out there, after a pretty poor string of data of late. A net 50 percent of respondents expect better times in the next 12-months, the highest reading since April 1999. This continues the trend of improving business sentiment than began early last year. Firm's expectations for their own activity, employment and profitability all rose. Taken at face value the survey implies a typical cyclical recovery.

Another impression we get from examining the last few months of the survey, is of a broadening in the recovery. Confidence for four of the five major sector groups is steadily

ECONOMIC OVERVIEW

improving. The improvement in manufacturing and construction is particularly evident, and perhaps not much of a surprise considering how badly these sectors were hit in the last downturn.

We respect the nuances from the survey but our instincts are simply that it's overcooking the pace of the recovery. Why? As stated earlier, such surveys are good in a cyclical sense but simply do not have the benefit of time to have seen significant structural change. In many ways their relationship with GDP is conditioned on the old normal as opposed to the new normal. We're placing considerable weight on credit growth as an economic barometer at this juncture and last weeks data remained anaemic. Private sector credit growth has been virtually non-existent, with an annual growth rate of just 0.7 percent. Looking at the sector breakdown shows a generalised slowdown in credit accumulation for households, farms and businesses.

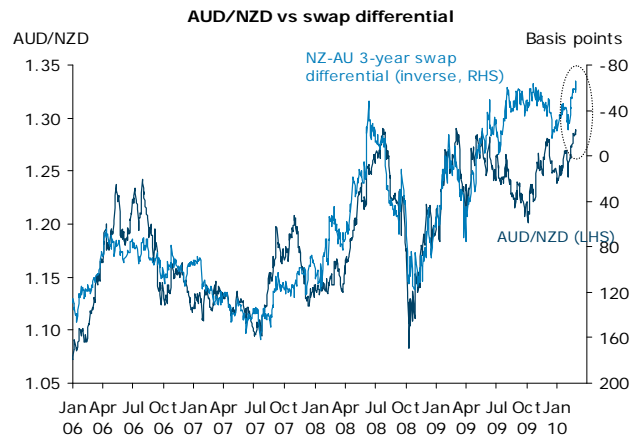


Various surveys tell us that access to credit is not an issue (in contrast to a host of other nations). Within the NBBO, a net 9 percent of firms found it easier to obtain credit than the previous month, whereas in the December quarter QSBO only 8 percent of firms reported lack of finance as being the major factor limiting business expansion. This suggests that the supply-side of the credit equation is not the issue. Rather, it's the demand-side, and the fact credit growth remains weak is telling in regard to what's actually going on.

Put simply, if credit growth is not picking up at the household and business level then its hard to get excited about prospects for employment and investment, which are both needed if the recovery is going to broaden and have some sustenance. We believe those legs are coming but not for a while yet.

Other data painted a mixed picture. Weak building consent issuance for January is likely, in part, to have been a casualty resulting from uncertainty over pending changes to the tax system. It is also possible greater uncertainty is also contributing to the continued capitulation in demand for imports as shown in last week's merchandise trade surplus for January. Suffice to say that over the coming months we expect more of the same.

In terms of the week ahead we are awaiting today's travel and migration data. While we are expecting another positive net migration inflow, the risks of a sizeable exodus to the (hotter) Australian economy are building. **In this regard, this week's RBA decision will set the scene.** Recent comments from Governor Stevens and other senior RBA officials have affirmed that it will be when, not if, they hike again. The contrast with New Zealand could not be clearer. Hence our 75 cent call for the NZDAUD.



Collectively, we're sticking to our June call, but our bias is strongly moving towards pushing it out a quarter at least. To go in June requires a step-up in rhetoric by April, and this is now only 7 weeks away. Our feeling is that considerable noise will be evident in data outturns over the next few months. It may not be until late May/early June at the earliest that we are able to get a better sense from the published data on what is going on.

Apart from recent developments we're keeping a close eye on fiscal policy. Abstracting for tax package developments, fiscal policy is set to move to a restrictive stance. In so far as the tax package itself is concerned (which is on top of the broad stance for policy), while designed to be fiscally neutral, it is hard not to see a negative impact on near-term data outturns, purely because the "payers" will be the high beta asset (housing)

ECONOMIC OVERVIEW

and the "receivers" (tax cuts) will be those with a lower marginal propensity to consume. Noise and uncertainty surrounding potential changes to depreciation rules is already having a marked impact on behaviour behind the scenes. If this continues, the economy may well flatten out over April and May.

RECENT LOCAL DATA

- **March 2010 RBNZ survey of expectations – Q1.** Two-year-ahead CPI inflation ticked up to 2.65 percent, from the 2.61 percent in Q4.
- **National Bank Business Outlook – February month.** A net 50 percent of respondents expect better times ahead, up 11 percentage points on last December. Firms own activity expectations, profit and employment expectations all rose.
- **RBNZ Credit Growth - January month.** Household credit rose by 0.2 percent (2.7 percent y/y). Annual agricultural credit slowed to 7.1 percent, with the annual decline in business credit easing to 6.2 percent.
- **SNZ Merchandise Trade - January month.** Both monthly exports and imports fell (to \$3.2bn and \$2.9bn respectively). The monthly trade surplus widened to \$269m, with the annual trade deficit narrowing to \$177m.
- **SNZ Building Consents - January month.** Residential consents fell by 2.8 percent (ex-apartments +0.7 percent m/m), whereas the value of non-residential issuance were \$223m, a 39 percent fall compared to 12-months ago.

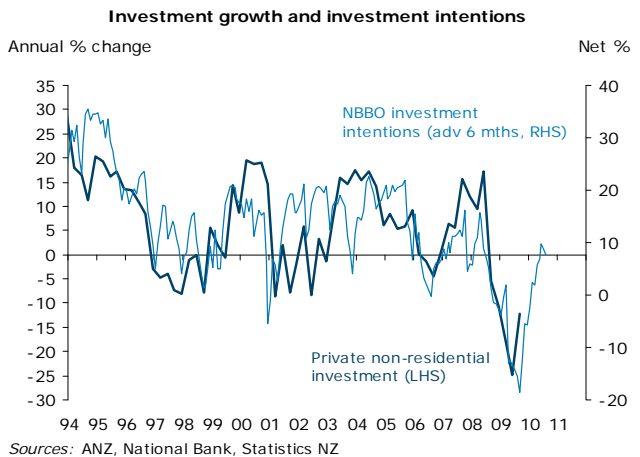
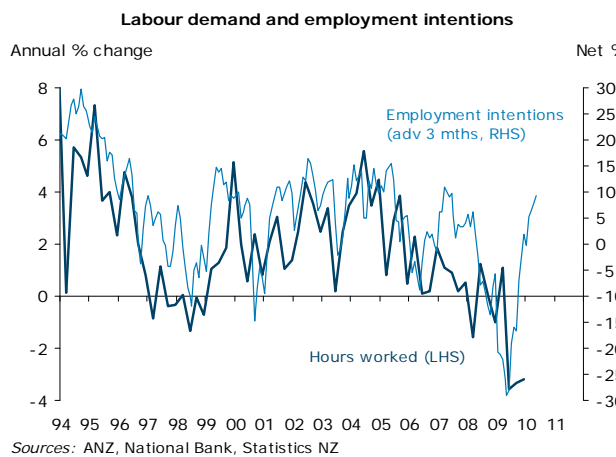
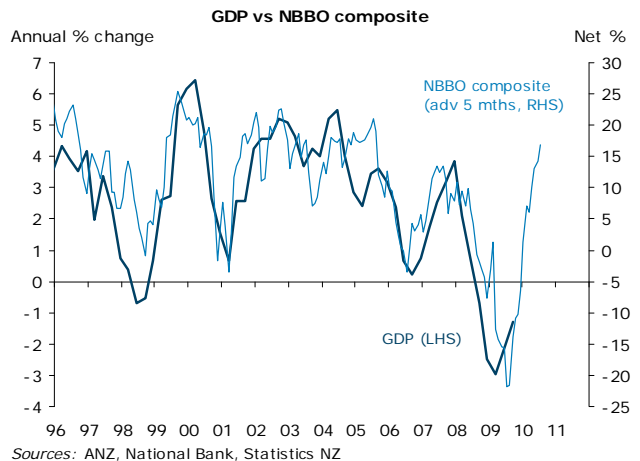
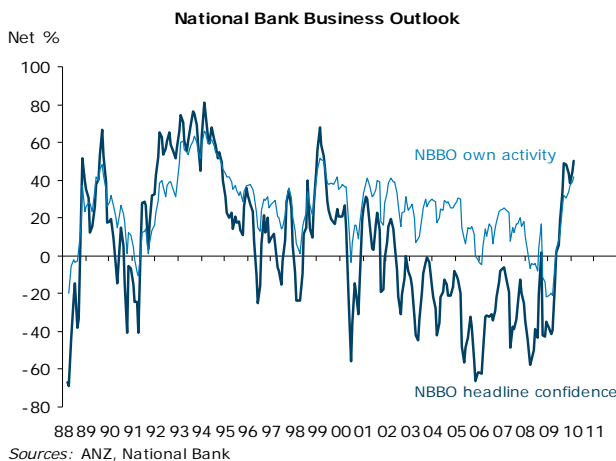
NATIONAL BANK BUSINESS OUTLOOK UPDATE

SUMMARY

The recovery looks well on track, based on the latest National Bank Business Outlook survey. Our composite growth indicator¹ (which has a strong correlation with GDP growth) from the survey is flagging 4 percent growth by the end of the year. But while businesses plan to start hiring soon, most are still shying away from committing to investment.

Confidence and own activity has hit a decade high. Businesses appear to be shrugging off recent negative news from offshore regarding sovereign worries, jittery global equity markets and the weak housing market. Businesses see improved prospects across the board. The only exception is retailers, which recorded declines in confidence, own activity, investment and employment intentions. Weak consumer spending over the Christmas and New Year period are no doubt weighing on retailer sentiment. Surprisingly, construction posted the biggest increase in confidence, own activity, profit expectations and employment intentions. This despite private commercial activity struggling and residential consents yet to really take off. Encouragingly, export intentions continue to pick up. The low NZDAUD cross is no doubt helping.

Our composite growth indicator is flagging 4 percent growth by the end of the year. Of some concern is the increase in pricing intentions. With investment intentions still at a level which does not correspond to much investment, this does not bode well for the productive capacity of the economy. The increase in employment intentions are a sign that businesses intend to utilise more labour to meet increased demand, rather than invest in more capital (note that we find a stronger correlation between employment intentions and hours worked, rather than employment growth). While this may bode well for the labour market, it could still be some time before we see enough net increases in employment to absorb the growth in the labour force.

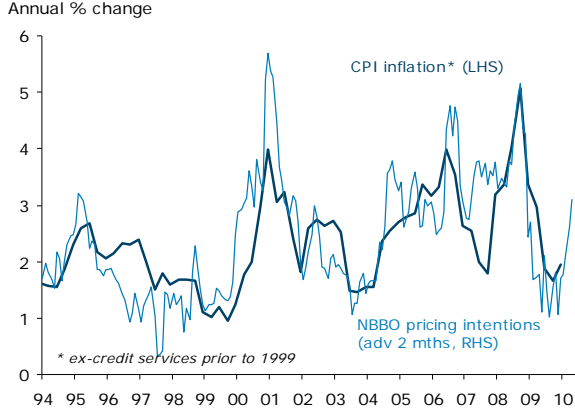


¹ Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.

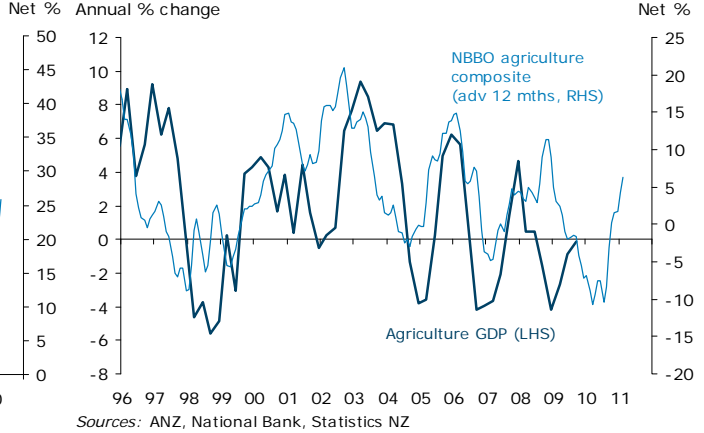


NATIONAL BANK BUSINESS OUTLOOK UPDATE

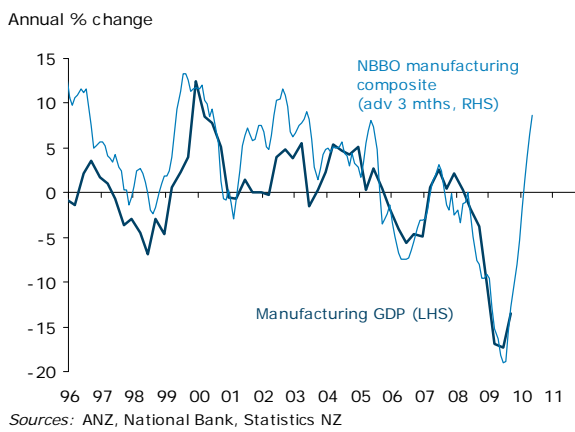
CPI inflation and NBBO pricing intentions



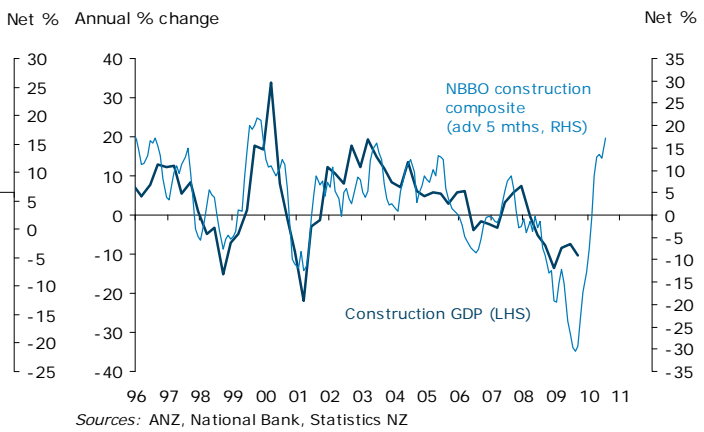
Agriculture GDP vs NBBO composite (12% of GDP)



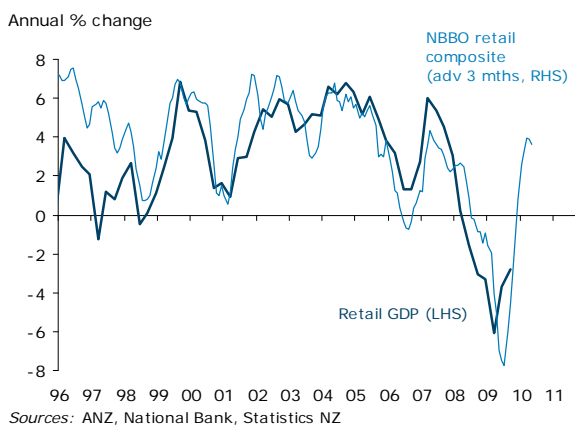
Manufacturing GDP vs NBBO composite (8% of GDP)



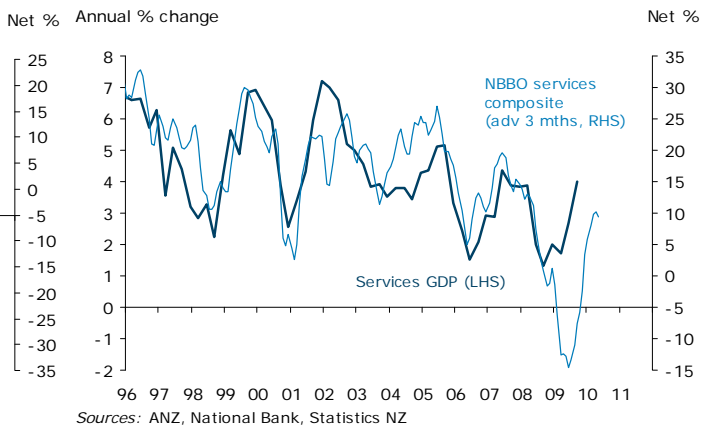
Construction GDP vs NBBO composite (4% of GDP)



Retail GDP vs NBBO composite (7% of GDP)



Services GDP vs NBBO composite (45% of GDP)



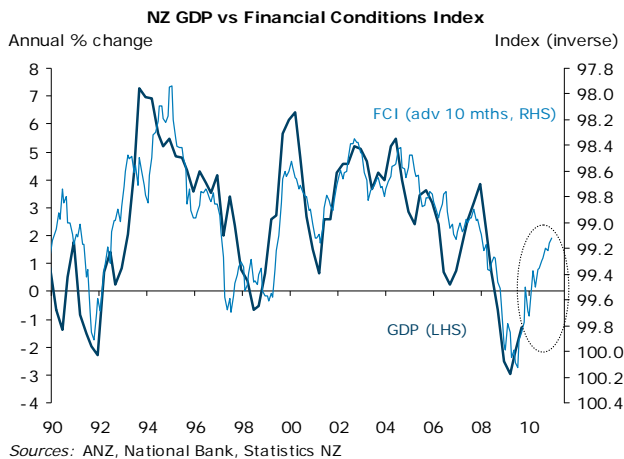
FINANCIAL CONDITIONS UPDATE

SUMMARY

We provide an update of our Financial Conditions Indexes² for NZ and Australia. Both continue to point towards stronger growth ahead, though to varying magnitudes. Financial conditions in NZ are consistent with only a modest recovery in the year ahead, while for Australia it is pointing towards a much stronger pick-up.

NZ RECOVERY AT ODDS?

Financial conditions remain supportive of NZ's growth prospects for this year. Business confidence (see previous section) is flagging growth of 4 percent by year end, but our Financial Conditions Index (FCI) continues to portray a more modest recovery in the 2 percent range. The currency may have declined over the past two months, helping to ease financial conditions. But working in the opposite direction have been declines in NZ's major export commodity prices, lower asset prices including housing, and a rise in the credit default swap (CDS) spread for the big four Australian banks. NZ is clearly not entirely immune from sovereign risk concerns emerging from Europe.



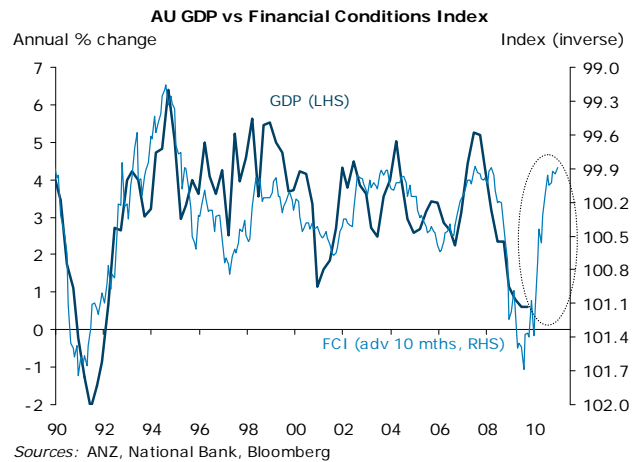
Recent activity data has been on the soft side, and appears to be more consistent with what our FCI is flagging as opposed to survey data. So while business confidence is telling us a strong rebound is in prospect, we continue to take a guarded view towards the outlook for 2010.

² Unlike the conventional Monetary Conditions Index, our Financial Conditions Index incorporates a wider array of variables to capture the different channels through which monetary policy influences the economy. We include credit growth, asset prices and proxies for the cost and availability of credit.

BOOM TIMES FOR AUSTRALIA?

Recent comments from RBA officials have been bullish on the Australian economy. In addition, the recent flow of data continues to be strong. These are certainly consistent with what our Financial Conditions Index for Australia is suggesting. CDS spreads may have widened and equity prices down on global concerns, leading to a slight tightening in financial conditions via those channels. But more than offsetting these has been a lower AUD, higher commodity prices, lower wholesale interest rates (as markets there pared back expectations of RBA hikes following the pause in February) and higher house prices. The result is an easing in overall financial conditions in Australia.

Expectations are for a strong print for Q4 GDP data due this week. And growth of 4 percent by the end of this year looks on the cards. Unlike the case for NZ, the FCI in Australia is consistent with optimistic sentiment readings and the run of stronger than expected dataflow, further adding to the case for the RBA to do more.



THE UPSHOT

Our Financial Conditions Indexes point to ongoing outperformance of the Australian economy relative to NZ over the rest of this year. Diverging economic fortunes between NZ and Australia have certainly been apparent in the dataflow. The next two weeks will be telling in terms of whether further policy divergence is on the cards when the RBA makes its decision tomorrow, followed by the RBNZ next week. Overall, this leaves us comfortable with our expectation that the NZDAUD cross will continue to edge lower.

INTEREST RATE STRATEGY

SUMMARY

Interest rates have been falling steadily now for a few weeks now, and are set to remain subdued courtesy of the patchy outlook. The market is now "pricing in" a rate path that's very close to our own forecast – but we are wondering if even that is too optimistic. Next week's RBNZ MPS will be very circumspect, and there may not be enough time between now and June to prepare the market for the first rate hike. That should keep rates low.

MARKET THEMES

- Last week's rebound in business confidence was a welcome sign. But upcoming tax changes, a lack of credit growth, and slowing house sales are all reasons for the RBNZ to be cautious.
- Sovereign debt concerns and a run of soft data in the US have seen the market back away from rate hikes. The market is pricing less than 25bp by June and less than 125bp by December.
- A likely RBA rate hike tomorrow will be the first immediate test for the market, particularly with only around 13bps priced in.

REVIEW AND OUTLOOK

One theme we have discussed at length recently has been the local market's propensity to price in significantly more aggressive rate hikes compared with the Australian experience. This inconsistency has now been largely ironed out, with the market now pricing in slightly less than 25bps of hikes per RBNZ meeting from June. Even so, we now find ourselves asking if a June rate hike might be too soon. We're reserving our judgement till later in the week, but suffice to say we're thinking about it. We were extremely pleased to see business confidence rebound, but anecdotes suggest households are uncertain about upcoming tax changes. We're also worried about the lack of credit growth and what appears to be an abrupt softening in the housing market. The invisible hand of the market is also at work, in the form of a steeper yield curve and high premiums paid to depositors. These take some pressure off monetary policy, and give the RBNZ more breathing room, and suggest rates can continue to drift lower.

Still, the market still has near term challenges, starting with tomorrow's RBA interest rate decision (1630 NZDT). We expect a hike. The RBA board appears to have gone against the Governor in opting for a pause last month, but we doubt they'd do it again. NZ rates are likely to rise in sympathy initially, but we'd expect this to be short-lived.

PREFERRED BORROWING STRATEGIES

Short end swaps (out to around 2 years) offer virtually no protection from rising rates. Rather they are basically an endorsement of what's priced in, which is close to what we expect anyway. And while the long end does offer value and looks cheap from a historical perspective, it's too much of a step up from floating to be palatable. The 5yr swap is over 240bps higher and the 7yr is more than double the 3mth BKBM rate, so it takes some conviction to hedge at the moment. Basic options like caps and cap spreads are reasonably attractive in this environment, and will prove beneficial should rates rise more slowly. Similarly, consider forward starting swaps for tenors of 4-7 years with start dates 2-3 years out. These will provide protection against rising rates, but as they are forward starting, there is no cashflow burden during the forward period. These trades will also revalue well if the curve flattens as yields rise.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	We're even starting to doubt if the RBNZ will hike in June.
NZ data	↔	Confidence was robust, but other data have been weak.
Fed Funds / front end	↔	Last week's run of weak data has raised eyebrows.
RBA	↔/↑	Looks like just 13bps priced in, yet most economists expect a hike tomorrow.
US 10 year	↔	Have rallied strongly on data. We're still bearish.
NZ swap curve	↔/↑	Biased to steepen. Local data soft, risk aversion up.
Flow	↔/↓	Payers still absent.
Technicals	↔	Trending lower, but 2y swap stalling around 4.12%.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 11-Mar-10	+2	+0
Thu 29-Apr-10	+7	+5
Thu 10-Jun-10	+25	+19
Thu 29-Jul-10	+59	+47
Thu 16-Sep-10	+85	+71
Thu 28-Oct-10	+109	+92
Thu 9-Dec-10	+131	+123

TRADING THEMES WE FAVOUR AT PRESENT

We've had a preference for being outright long the short end, and for steepeners and 10yr spread compression trades against Australia. A RBA hike tomorrow should see all positions continue to perform, with NZ increasingly being seen as being a point of differentiation.

CURRENCY STRATEGY

SUMMARY

Downward pressure on NZDAUD is likely to continue with the divergence of the Trans-Tasman economies likely to be reinforced by the respective central banks over the next two weeks. Uncertainty surrounding the situation in Greece will continue to produce currency volatility.

MARKET THEMES

- NZD generally range-bound with a slightly downward bias.
- Recent comments about “mining booms” and “crumbs from the table” from the respective Trans-Tasman central bank governors reinforce downward pressure on NZDAUD.
- Greece continues to weigh on the euro, despite the EU leaders’ pledge to provide support.

REVIEW AND OUTLOOK

The NZD continues to be range-bound with a downward bias. The market continues to approach the NZD with a negative outlook and continues to be disappointed by aggressive short squeezes. Speculators seem to lack conviction and corporate flow is lacklustre, meaning that the NZD tends to be tugged around by other currency movements.

Trans-Tasman central bank activity over the next two weeks will put further downward pressure on NZDAUD. We expect the RBA to raise rates again tomorrow, while next week we can expect more dovish talk from Governor Bollard. That said, any move lower is likely to be a “slow burn” rather than happen quickly as speculators become disappointed with the lack of instant gratification and stop losses are triggered. A break down through 0.7680 (20 year support) could see an acceleration lower.

The yen surprised last week with its strength following expectations that USDJPY would break 93.00 and set the scene for a move towards 100. Risk aversion won the day and the Yen continued its role as a risk barometer.

Like a broken record Greece continues to be the central focus for anything European. Press reports during the weekend that France will join Germany to purchase Greek bonds through their supra-national banks (Caisse des Depots and KFW respectively) may provide some support to the EUR but expect the market to be disappointed again.

The technical levels this week in NZDAUD are at 0.7755 and 0.7680 being major support levels.

These levels will be very tough to break with the only likely players being speculators, with corporate and institutional accounts seeing these as extreme levels to buy rather than opportunities to sell.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Commodities recovering on weaker USD
Partial indicators	↔/↓	Australian data still strong. NZ's starting to wane.
Technicals	↔	Major support levels at 0.7755 and 0.7680.
Sentiment	↓	Market focussed on dichotomies in economies and monetary policy.
Other	↔/↓	RBA rate announcement tomorrow the focus.
On balance	↔/↓	Yield and growth 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	↔/↓	Market pushing RBNZ hikes back.
Commodities	↔	Commodities recovering on weaker USD
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔/↓	US data still improving. NZ's not.
Technicals	↔/↑	Trying to break out of short term downtrend.
AUD	↔	Resistance at 0.8980 and 0.9070.
Sentiment	↔/↓	Negative bias remains.
Other	↔	Equities still big driver of FX.
On balance	↔/↓	Range-bound with negative bias.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	TIME (NZDT)
1-Mar	NZ	Visitor Arrivals – Jan	-	+8.5%	10:45
	AU	RBA Governor Stevens Speaks in Melbourne	-	-	11:45
	AU	TD Inflation Gauge – mom - Feb	-	+0.8%	12:30
	AU	Current Account Balance – Q4	-\$17.2bn	-\$16.2bn	13:30
	NZ	ANZ Commodity Prices – mom - Feb	-	+0.4%	15:00
	AU	RBA Commodity Price Index – yoy – Feb	-	-11.7%	18:30
	UK	Mortgage Approvals – Jan	49k	59k	22:30
	UK	PMI Manufacturing – Jan	57.0	56.7	22:30
	EC	Eurozone Unemployment	10.1%	10.0%	23:00
2-Mar	US	Personal Income – mom – Jan	0.4%	0.4%	02:30
	US	Personal Spending – mom – Jan	0.4%	0.2%	02:30
	US	Core PCE Deflator – yoy – Jan	1.5%	1.5%	02:30
	US	Fed's Lacker speaks in Washington	-	-	03:45
	US	ISM Manufacturing – Feb	58.0	58.4	04:00
	US	Former Fed Chairman Volcker speaks in San Francisco	-	-	09:30
	JN	Joblee Rate – Jan	5.2%	5.1%	12:30
	AU	Building Approvals – mom – Jan	+1.0%	+2.2%	13:30
	AU	Retail Sales – mom – Jan	+0.5%	-0.7%	13:30
	AU	RBA Interest Rate Decision	4.00%	3.75%	16:30
	UK	PMI Construction – Feb	-	48.6	22:30
	EC	Eurozone Flash CPI estimate – yoy - Feb	1.0%	1.0%	23:00
	EC	Eurozone PPI	0.1%	0.1%	23:00
3-Mar	NZ	Fonterra Milk Auction Results	-	-	06:00*
	UK	Nationwide Building Society Consumer Confidence	-	73	13:01
	AU	GDP – qoq – Q4	-	+0.2%	13:30
	UK	PMI Services – Feb	55.8	54.5	22:30
	EC	Eurozone Retail Sales – mom – Jan	-0.5%	0.0%	23:00
4-Mar	US	ADP Employment Change – mom – Feb	-10k	-22k	02:15
	US	ISM Non Manufacturing – Feb	51.0	50.5	04:00
	US	Fed Beige Book	-	-	08:00
	JN	Capital Spending – qoq – Q4	-18.4%	-24.8%	12:50
	AU	Trade Balance – Jan	-	-\$2.25bn	13:30
	US	Federal Budget	-	-	18:00
	EC	Eurozone GDP – qoq – Q4 (P)	0.1%	0.1%	23:00
5-Mar	UK	Bank of England Rate Decision	0.50%	0.50%	01:00

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DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	TIME (NZDT)
5-Mar	EC	ECB Interest Rate Decision	1.00%	1.00%	01:45
	US	Initial Jobless Claims – Feb 28	475k	496k	02:30
	US	Continuing Claims – Feb 21	-	4617k	02:30
	US	Pending Home Sales – mom – Jan	+1.5%	+1.0%	04:00
	US	Factory Orders – mom – Jan	+1.2%	-1.0%	04:00
	AU	Foreign Reserves – Feb	-	\$46.6bn	18:30
	UK	PPI Outputs – yoy – Feb	4.1%	3.8%	22:30
6-Mar	GE	Factory Orders – mom – Jan	+1.3%	-2.3%	00:00
	US	Non-farm Payrolls	-30k	-20k	02:30
	US	Unemployment	9.8%	9.7%	02:30

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: The RBNZ is front and centre this month, though we suspect them to largely stick to their January script. This month will also see the release of the Balance of Payments and GDP for Q4 last year. After a lean period, we expect to see the return to decent quarterly growth rates. The release of ANZ Roy Morgan Consumer Confidence and data readings for retail and housing data will provide a better indication of the likely direction of consumer spending over early 2010.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 1 Mar (15.00)	International Travel and Migration (Jan)	Still coming but for how long more?	The labour market difference between NZ and Australia is getting stark. A turnaround in net migration is likely sooner rather than later.
Mon 1 Mar (15.00)	ANZ Commodity Price Index (Feb)	Feeling the global blues?	Given the recent sell-off in global commodity prices, we will see the extent that NZ's soft commodity basket has been affected. The overall level remains high compared to historical averages.
Friday 5 Mar (10.45am)	Wholesale Trade Survey (Dec qtr)	Up	Retail trade data suggests positive quarter. We will be seeing whether stocks continue to be run down.
Mon 8 Mar (10.45am)	Value of work put in place (Dec qtr)	Building	Expect bounce-back from Q3. Weak building consents do not paint a picture of a strong cyclical recovery just yet.
Mon 8 Mar (10.45am)	Economic Survey of Manufacturing (Dec qtr)	Up	Will watch ex meat and dairy volumes for indication of Q4 GDP. Lower primary production likely to be offset by higher non-primary production.
Tue 9 Mar (10.45am)	Electronic Card Transactions (Feb)	Flat	Will January slowdown in core ECT spending persist?
Wed 10 Mar (10.45am)	Overseas Trade Indexes (Dec qtr)	Up	Higher export commodity prices to boost export prices. The stronger NZD is likely to contain increases in import prices.
Thur 11 Mar (10:45am)	Food Price Index (Feb)	Down	Likely pullback from large rises in January.
Fri 12 Mar (10.45am)	Retail Trade (Jan)	Up	Expect some recovery in core (ex fuel and vehicle) sales after large December fall. But overall retail spending still subdued.
Fri 12 Mar (10.45am)	REINZ residential (Feb)	Dead cat bounce?	Will housing market bounce back? We suspect not given pending tax changes to investment property.
Thur 18 Mar (3.00pm)	ANZ Roy Morgan Consumer Confidence (March)	Holding?	Was the February slip a one-off or will weak job prospects continue to weigh?
Fri 19 Mar (10.45am)	International Travel and Migration (Feb)	Up	Will PLT departures remain low despite much better job prospects across the ditch?
Wed 24 Mar (10.45am)	Balance of Payments (Dec qtr)	Improving trend	Widening in quarterly investment income expected to offset improving trade position. Annual deficit to narrow to 1.8 percent of GDP.
Wed 24 Mar	Westpac MM Consumer Confidence (Dec qtr)	Improving	Expect this to track the ANZ Roy Morgan Consumer Confidence measure.
Fri 26 Mar (10.45am)	Gross Domestic Product (Dec qtr)	Back to above trend	Quarterly outturn to be boosted by healthy growth in services, retail and mining.
Fri 26 Mar (10.45am)	Overseas Merchandise Trade (Feb)	Imports still down?	Exports to Australia should continue to benefit from the favourable NZDAUD cross- rate. Imports likely to stay weak still
On Balance		Improving but not racing away	Positive momentum but off a low base.

ECONOMIC FORECASTS AND INDICATORS

	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)	0.5	-1.1	-0.5	-0.8	-0.1	0.1	0.2	0.3	0.4	0.5
Employment (% yoy)	0.9	0.8	-0.9	-1.8	-2.4	-1.2	-0.6	0.5	1.0	1.4
Unemployment Rate (% sa)	4.7	5.0	6.0	6.5	7.3	7.5	7.5	7.3	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	3.9	2.9	2.1	0.5	0.2	-0.3
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	-9.5	-4.3	7.8	9.7	5.8	2.6

	MAY-09	JUN-09	JUL-09	AUG-09	SEP-09	OCT-09	NOV-09	DEC-09	JAN-10	FEB-10
Retail Sales (% mom)	0.6	0.1	-0.5	1.2	0.2	0.1	0.8	0.0	..	..
Retail Sales (% yoy)	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.3	..	..
Credit Card Billings (% mom)	-0.4	0.2	0.1	1.3	-0.7	0.2	0.8	-1.2	1.5	..
Credit Card Billings (% yoy)	-2.4	-2.0	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.6	..
Car Registrations (% mom)	-2.0	6.0	7.0	-3.1	7.7	0.8	2.3	6.7	-0.8	..
Car Registrations (% yoy)	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	..
Building Consents (% mom)	3.5	-9.5	5.2	2.2	5.6	12.1	0.5	-3.4	..	..
Building Consents (% yoy)	-22.8	-24.4	-16.5	-9.1	-11.7	26.7	20.4	22.9	..	..
REINZ House Price (% yoy)	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7	..
Household Lending Growth (% mom)	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	0.2	..
Household Lending Growth (% yoy)	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6
NBNZ Business Confidence	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1
NBNZ Own Activity Outlook	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9
Trade Balance (\$m)	906	-331	-178	-717	-561	-501	-275	-32	269	..
Trade Balance (\$m annual)	-2994	-3110	-2491	-2360	-1669	-1176	-858	-549	-178	..
ANZ World Commodity Price Index (% mom)	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4	..
ANZ World Commodity Price Index (% yoy)	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	..
Net Migration (sa)	2540	1620	2460	1610	1830	2150	1730	1710	..	..
Net Migration (annual)	11202	12515	14488	15642	17043	18560	20021	21253	..	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	DEC-09	JAN-10	TODAY	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11
NZD/USD	0.716	0.728	0.700	0.680	0.670	0.650	0.640	0.640	0.640	0.650
NZD/AUD	0.793	0.796	0.779	0.782	0.779	0.765	0.780	0.810	0.831	0.867
NZD/EUR	0.490	0.509	0.513	0.504	0.504	0.500	0.500	0.508	0.516	0.533
NZD/JPY	64.1	66.4	62.2	61.2	61.6	61.1	61.4	62.7	64.0	65.0
NZD/GBP	0.440	0.450	0.461	0.430	0.427	0.419	0.413	0.416	0.416	0.428
NZ\$ TWI	64.6	66.1	64.75	63.4	63.1	62.1	62.0	63.0	63.8	65.6
INTEREST RATES	DEC-09	JAN-10	TODAY	JUN-10	SEP-10	DEC-10	MAR-11	JUN-11	SEP-11	DEC-11
NZ OCR	2.76	2.77	2.50	2.75	3.25	3.75	3.75	4.25	5.00	5.50
NZ 90 day bill	2.78	2.78	2.72	3.20	3.70	4.10	4.10	4.90	5.50	5.80
NZ 10-yr bond	5.90	5.88	5.76	5.50	5.60	6.00	6.20	6.40	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.25	0.25	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	3.75	3.75	4.25	4.50	4.75	4.75	4.75	5.25	5.25
AU 3-mth	4.28	4.38	4.13	4.80	4.90	5.00	5.00	5.10	5.60	5.60

	26 JAN	22 FEB	23 FEB	24 FEB	25 FEB	26 FEB
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.77	2.71	2.70	2.70	2.72	2.71
NZGB 11/11	4.04	3.81	3.78	3.73	3.74	3.69
NZGB 04/13	4.73	4.63	4.60	4.55	4.55	4.50
NZGB 12/17	5.64	5.60	5.57	5.53	5.54	5.48
NZGB 05/21	5.94	5.88	5.84	5.81	5.82	5.76
2 year swap	4.42	4.23	4.23	4.13	4.17	4.14
5 year swap	5.33	5.22	5.22	5.13	5.16	5.14
RBNZ TWI	65.1	65.1	65.0	64.5	64.1	64.4
NZD/USD	0.7129	0.7032	0.7008	0.6946	0.6900	0.6938
NZD/AUD	0.7898	0.7793	0.7794	0.7774	0.7743	0.7800
NZD/JPY	64.20	64.43	63.77	62.67	61.84	61.98
NZD/GBP	0.4394	0.4538	0.4520	0.4493	0.4491	0.4545
NZD/EUR	0.5049	0.5151	0.5151	0.5128	0.5117	0.5109
AUD/USD	0.9026	0.9023	0.8991	0.8935	0.8911	0.8895
EUR/USD	1.4120	1.3652	1.3605	1.3546	1.3484	1.3580
USD/JPY	90.06	91.63	91.00	90.23	89.63	89.34
GBP/USD	1.6225	1.5495	1.5503	1.5458	1.5365	1.5266
Oil	74.90	79.77	80.04	78.61	79.75	77.99
Gold	1097.85	1126.40	1115.60	1106.35	1093.30	1108.40
Electricity (Haywards)	8.94	8.49	10.16	11.47	10.06	9.97
Milk futures (US\$/contract)	115	108	108	108	107	107
Baltic Dry Freight Index	3205	2721	2724	2707	2711	2738

IMPORTANT NOTICE

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.

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- 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.

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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

IMPORTANT NOTICE

- 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.

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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.

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