

Market Focus

New Zealand

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THE DURABILITY QUESTION

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Page 2: Economic overview

- > We continue to question the durability of the expansion phase the economy is embarking on now that the recession is over, and remain comfortable with our out-of-consensus "W" call on the cycle. This week manufacturing data should show a small rise, but the level of activity will remain extremely low.

Page 4: Economic comment – monthly inflation gauge

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Page 5: Interest rate strategy

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Page 6: Currency strategy

- > The trend is in place. Despite the RBNZ retaining a soft easing bias, the NZD is being supported on dips given the weak USD. The move looks mature, but support levels at 0.6900 now look like how the support level at 0.6630 proved, impenetrable (for the time being anyway).

Page 7: Currency comment – effective exchange rate update

- > The higher NZD dollar (against all our major trading partners) was the bane of the export sector once again in August. Despite higher world commodity prices, the majority of export sectors experienced an increase in their real effective commodity adjusted exchange rates in the month.

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ECONOMIC OVERVIEW

We continue to question the durability of the expansion phase the economy is embarking on now that the recession is over, and remain comfortable with our out-of-consensus "W" call on the cycle. This week manufacturing data should show a small rise, but the level of activity will remain extremely low.

What's ahead?

- > **Q2 Economic Survey of Manufacturing** (Tuesday 1045 NZST). Following some large falls in recent quarters, manufacturing activity is expected to record positive growth, albeit off very depressed levels.

What's the view?

There was nothing delivered from the RBNZ last week that has led us to alter our core economic views. Of course we never slavishly follow the views of the central bank. But often their views can lead to minor tinkering of interest rate projections, as we need to respect what they will do, as opposed to what we might believe they should do.

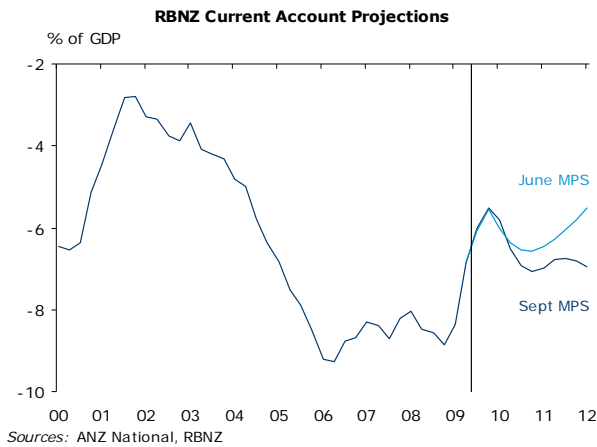
The spirit of the RBNZ's forecasts share common elements to our own:

- > We both see a protracted recovery for the economy. Words put forward by the RBNZ to describe the pending recovery (*"fragile"*, *"subdued"*, *"sluggish"* and *"patchy"*) all seem appropriate in an environment of uncertainty and rising unemployment rates. The RBNZ are forecasting private consumption to grow a modest 1.7 percent in March 2011, before easing to 0.3 percent in 2012.
- > We both envisage an elongated period of supportive monetary policy. But another important message in their interest rate projections (revising up their 90-day projections by a full percentage point in March 2012) looks to be one of setting the scene for normalising policy pretty quickly, once prospects warrant it. The market and commentators have jumped on this. But with an OCR of 2.5 percent, to see interest rates move up in 25 basis point jumps would be very surprising. The old adage towards central bankers of "taking away the punchbowl just as the party really starts to rock" will no doubt apply. How and when policymakers make this transition, and whether the real economy can indeed sustain it remain million dollar questions.
- > We share the RBNZ's implicit frustrations towards the currency, with the TWI now around 1 percent higher post the *Statement*, despite a

soft easing bias remaining in place. For sure, portfolio reallocation, risk appetites and USD perception are weighing, but you have to scratch your head when you see the RBA shift to neutral, the RBNZ retaining a soft easing bias, and yet the NZD/AUD moves up. Like the RBNZ we'll retain a bearish bias towards the NZD, but timing is everything, and the timing on the correction continues to be pushed out.

When we look at the collective picture, we remain entirely comfortable with our out-of-consensus "W" call on the economy. We won't profess to be smart enough to give an exact date, and the real message in the call is simply one of wariness towards the path we are on. Technically, we've pencilled in a second leg of weakness in early 2010, but it may be following the Rugby World Cup (win or lose). There are so many aspects to this cycle that leave us uneasy. They include the path of the currency (i.e. another surge over the past week), fiscal largesse globally, pending regulation and uncertainty over how policymakers are going to make the transition from growth to inflation. We are deeply dubious of the "Goldilocks" combination (high growth-low inflation) appearing on the other side. There is no doubting the policy stimulus globally but the solutions to fixing fundamental economic problems in the first place are not growth friendly. It just seems to be a case of when do you end up paying the piper.

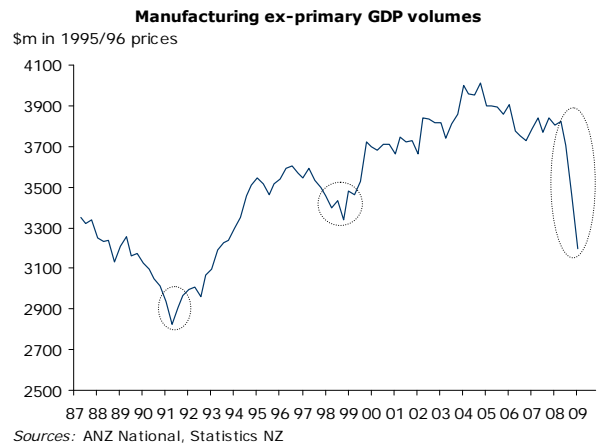
Some of the flavour of the RBNZ's forecasts is etched in "unsustainability". Of course central bankers have to take a relatively diplomatic line within their projections, so we are very much reading between the lines. According to the RBNZ's projections, the current account deficit widens and it remains excessive (which we put at greater than 5 percent of GDP). This effectively means the economy will continue to accumulate debt faster than the rate of growth within the economy. This means net external liabilities moving effortlessly through 100 percent of GDP, at a time one rating agency has put NZ on negative outlook. It seems the "ongoing build-up of imbalances" scenario from the June *MPS* is now the central case, but of course without the mention of the adjustment on the other side. It also means very close attention needs to be paid to the year ended June Financial Statements of Government due for release in early October, particularly how tax revenue is faring in the face of a weak economy. Over the coming six months, tax is going to be a critical gauge to watch, and our gut feeling is that not much is going to be paid.



For now, we continue to acknowledge the tenor of the data-flow, and obvious exuberance in some areas. But we continue to see a lot of tension within the entire economic system. Pent-up demand, an inventory rebuild, policy stimulus and a “worst has past” mantra will underpin NZ.Inc for another six months. Beyond that we are not so sure. Don’t get us wrong, we desperately want to buy into the story, but when you see final demand indicators remaining weak around the globe, the unemployment rate moving up (another 3,900 people joined the dole queue in New Zealand in August taking the total to 59,151), and limited progress on addressing a huge external deficit, then we are inclined to remain somewhat cautious.

June quarter manufacturing data is the main local release this week. This is one of the last partial indicators we use for our June quarter GDP pick. The final statistics we are also waiting on are electricity generation and gas production numbers from the Ministry of Economic Development, which may also be released late this week. However, following the massive fall in manufacturing (ex-primary) production over the past three quarters – a drop of 16 percent – we are expecting a small rebound in the June quarter. Recent PMI numbers have shown improvement, as have the manufacturing sector results from the National Bank *Business Outlook*. However, even if there was a 4 percent rise in production in the quarter (above our expectations), the level of activity would still only be comparable to the levels achieved in 1994! This clearly shows that there is a long road ahead to recovery for some sectors of the economy.

Inventory numbers from the manufacturing survey will also be important. We suspect that for some sectors, there will still be a run-down in inventories occurring. This will particularly be the case for the primary sector. Export volumes data last week showed dairy volumes rising 24 percent in the quarter. It can hardly be expected that this was a result of an increase in production of the same magnitude. This run-down in inventories should provide somewhat of a drag on GDP growth.



Nevertheless, we are still likely to revise up our Q2 GDP expectations. While we have not finalised our forecast yet and will wait for all the partial information before we can do so, it is looking likely that GDP will not contract at the 0.6 percent rate we had earlier pencilled in. We are still expecting a contraction (the sixth in a row), but of a smaller magnitude.

Internationally this week, the RBA minutes from their September meeting is a key event to watch. After weak retail sales and employment data saw the market across the Tasman reassess when the first RBA hike could come, the minutes will be perused closely to help provide further flavour. CPI data in the US, UK and Euro-zone are the major releases elsewhere around the globe, although they shouldn’t elicit too much of a response from markets, given that they are likely to reiterate that inflation pressures remain subdued.

Recent local data...

- > **Wholesale Trade Survey (Q2):** Seasonally adjusted wholesale trade sales fell 0.9 percent, following a 5.8 percent decrease in Q1.
- > **Value of Building Work (Q1):** Residential construction contracted 6.5 percent, while non-residential construction fell 2.5 percent.
- > **Electronic Card Transactions (August):** Total retail ECT sales rose 0.2 percent, while core retail ECT sales rose 0.1 percent.
- > **Overseas Trade Indexes (Q2):** The terms of trade fell 9.0 percent, led by an 11.6 percent fall in export prices. Export volumes rose 7.0 percent, while import volumes fell 1.9 percent.
- > **Food Prices (August):** Prices fell 0.9 percent, taking annual growth to 4.6 percent.
- > **REINZ House Sales (August).** Seasonally adjusted house sales fell 1.9 percent. The median price rose to \$346,750, to be up 5.1 percent on a year ago. The median days to sell fell to 33 days.

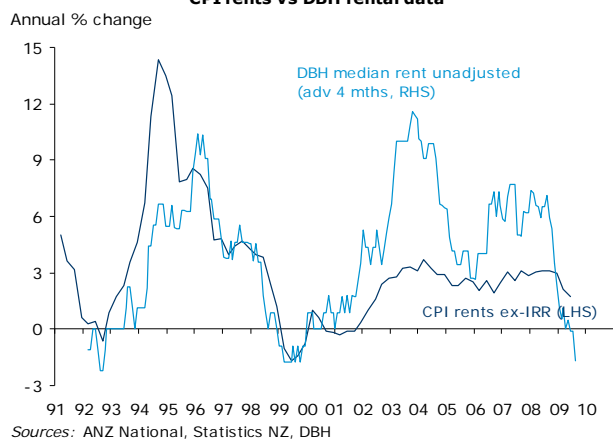
MONTHLY INFLATION GAUGE¹

Our monthly inflation gauge showed a flat reading in August. Based on the prices we surveyed or modelled, increases were completely offset by price declines. This suggests we may be set for a modest non-tradable print for Q3, mainly driven by government related price increases.

After rising by 0.5 percent in July, mainly due to the indexation of alcohol excise taxes and local authority rate increases, our monthly inflation gauge reading was flat in August. Prices for professional services continue to rise, and appear to be a consistent source of upward pricing pressure in our inflation gauge. However, alcohol prices unwound some of the previous month's tax induced price increases.

Rent data from the Department of Building and Housing fell, based on new tenancy bonds lodged with the department. Our modelled rent gauge was flat in August (it takes time for the new rents to take effect as existing tenants roll off their contracts) and we can expect reduced rent price increases in the months ahead. The development in the rental market certainly suggests there is no shortage of rental stock at all in the country, despite recent strong gains in net migration.

CPI rents vs DBH rental data



Our modelled construction cost indicator showed another decline in the month. The value of consents per square meter continues to ease, and

¹ Our monthly inflation gauge is intended to provide a timely indication of domestic inflation trends. For simplicity, we have limited ourselves to a domestic or non-tradable inflation measure. It should be noted that our monthly inflation gauge will not exactly mirror the official non-tradable CPI due to coverage and methodological issues. Our main priority is to come up with a gauge that is timely and able to provide an indication of domestic inflation trends. This will allow us to assess whether inflation pressures remain, or whether they are starting to ease. Our gauge, however, is designed to be as comparable as possible to the official Statistics NZ series. Note that our gauge is still in the experimental stages, and is subject to further refinements.

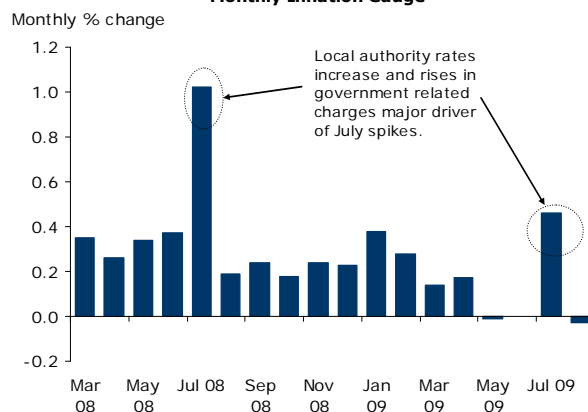
pricing intentions from the construction sector remain negative, according to the latest National Bank *Business Outlook* survey.

At this stage, we look set for a modest non-tradable CPI print for Q3 of between ½ to ¾ percent. This will be mainly driven by government related price increases. Note that our modelled measures of rent and construction cost has been lower than the official Statistics NZ measure, and accounted for a large part of the “miss” in our gauge versus non-tradable CPI for Q2. If the official statistics do not converge with our modelled measure, then our gauge could again underestimate non-tradable CPI in Q3.

On the whole though, there does not seem to be much domestic pricing pressure at the moment. With a resurgent currency helping to dampen down imported inflation, and non-tradable inflation well contained, headline CPI inflation looks set to stay comfortably within the RBNZ's target band for some time.

	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Mar-08	0.4		1.1
Apr-08	0.3		
May-08	0.3		
Jun-08	0.4	1.0	0.9
Jul-08	1.0		
Aug-08	0.2		
Sep-08	0.2	1.4	1.3
Oct-08	0.2		
Nov-08	0.2		
Dec-08	0.2	0.7	0.8
Jan-09	0.4		
Feb-09	0.3		
Mar-09	0.1	0.8	0.7
Apr-09	0.2		
May-09	0.0		
Jun-09	0.0	0.2	0.5
Jul-09	0.5		
Aug-09	0.0		

Monthly Inflation Gauge



INTEREST RATE STRATEGY

The RBNZ made it clear that we are set for a period of monetary policy stability. The rates market is not buying into it yet, but eventually it will. Carry costs mean going short or holding flatteners is expensive for very little near-term payoff. Hence, we see receive side bias to trump and the curve to steepen.

Market themes...

- > RBNZ sticks to the same script. OCR on hold until late next year, with a soft easing bias.
- > Weak Australian data casts doubt on pre-Christmas rate hike by the RBA.
- > Carry is set to play a more important role and keep the bias towards the receive side.

Review and outlook

The RBNZ is in no great hurry to hike rates, despite the economy emerging from recession and signs of activity picking up in the housing market. The market maintained a receive bias going into the decision, as the Governor's radio interview the week before had given a hint that the lower for longer bias would be maintained. As it happened, the *MPS* kept to the "rates on hold until late next year" message with a soft easing bias and cautious tone over the recovery path. The initial reaction was for the 2-year to trade lower but ran into payside. With the concerns around a long market, receive interest faded away and the 2-year was quickly pushed to 4.09 percent before receiving came in. It was the release of poor Australian employment data that gave it a receive side push, as Australian shorts stopped out and the NZD 2-year rallied under 4 percent and traded around 3.96-3.97 percent on Friday.

Mortgage paying has been subdued with the mortgage curve steepening further. We expect the steepness in the mortgage curve to restrict the payside past 1-year, especially after the RBNZ reiterated their lower for longer comments.

We believe that carry will play an important part in speculative positioning going forward. We are already seeing this with the curve steepening as the carry cost of flatteners becomes prohibitive. We expect to see similar moves in the Australian market after even bigger flattening moves there recently as the market priced in rate hikes. The impact of carry can be seen with receiving the 2-year at current levels (3.97 percent), which will be revalued at 3.75 percent in three month's time as a 1y-9mth position and would have provided around 16bps in positive carry, for a total of 38bps of carry over the quarter. We think that this amount of carry will keep receive side interest in the market and prohibit the likes of

receiving 2s10s. After the big moves in both markets though, we may see some short term payside in NZ rates as short Australian/long NZD positions are unwound.

Borrowing strategies we favour at present

The RBNZ's statement last week validates our long held strategy. Hence, we are staying with what has worked, which is to keep favouring floating, as it is set to stay the cheapest part of the curve for some time. Those still inclined to hedge due to policy or because of the need for certainty are again encouraged to explore the use of options.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	We are set for a period of monetary policy stability.
NZ data	↔/↑	The upcoming dataflow relating to Q3 will provide further evidence of forward momentum being gained.
Fed Funds / front end	↔	Fed in no hurry to rush exit strategies. Zero rates are here to stay for some time.
RBA	↑	Minutes tomorrow may reveal thinking on rate hike timing. But dataflow will be the key.
US 10 year	↔/↓	Looking set to test 3.3% on the downside.
NZ swap curve	↔/↑	Flattening looks to have done its dash. Steepening pressure should start to emerge.
Flow	↔	Payside pressure from mortgage hedging starting to ease given steepness of mortgage curve.
Technicals	↔/↓	2-year yield look set for a new 3.85%-4.1% range.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 29-Oct-09	-2	-2
Thu 10-Dec-09	+7	0
Thu 28-Jan-10	+12	+4
Thu 11-Mar-10	+33	+24
Thu 29-Apr-10	+42	+34
Thu 10-Jun-10	+74	+66
Thu 29-Jul-10	-	+84

Trading themes we favour at present

With the RBNZ committed to low or lower rates until late 2010, we see value in receiving the 2-year swap above 4% and benefiting from the positive carry. Last week, we suggested taking profits on the 2s10s flattener. We now favour going into a 2s10s steepener position.

CURRENCY STRATEGY

The trend is in place. Despite the RBNZ retaining a soft easing bias, the NZD is being supported on dips given the weak USD. The move looks mature, but support levels at 0.6900 now look like how the support level at 0.6630 proved, impenetrable (for the time being anyway).

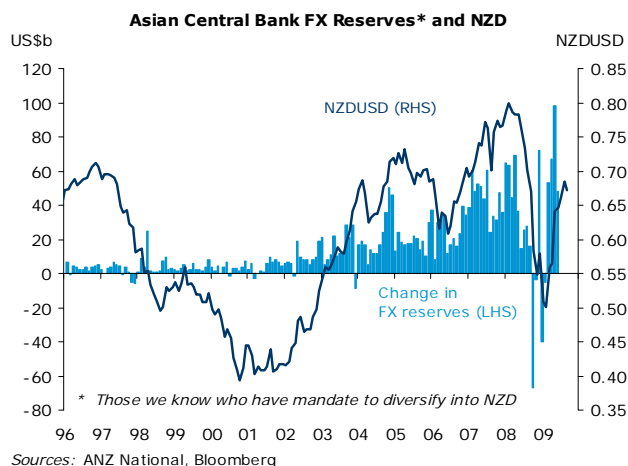
Market themes...

- > NZDUSD resistance keeps becoming support. Don't fight this.
- > The USD is weak and looks like getting weaker.
- > Gold is showing the way and US yields continue to grind lower.

Review and outlook...

The US issued US\$70b of Treasuries last week, with over 50 percent taken up by offshore. The question again has to be asked, where is the buying of the USD to accompany these flows? More concerning is where is the USD going to be when the Government is no longer issuing new debt, but just rolling and servicing old debt? The coupon payments alone are likely to depreciate the USD. Do central banks continue to support this market? Where is the end-game here? A lower USD and eventually substantially steeper US yield curve and as a result, every reserve manager that is invested in the US showing massive losses?

Looking at the NZD and what happens when central banks we know have NZ reserves increase or decrease their total reserves. The central banks do not stipulate how much of their reserves are held in NZD, but we can assume it is a tiny percentage. But the chart below shows who has been a key driver of the NZD from 0.60 to current levels.



Needless too say, the NZD can continue to drift north. Sure it won't be in a straight line but with multiple support levels arriving at in the high 0.6800's, it is hard to see the market below 0.6900 before some catalyst/calamity again envelopes the

world, or if the market breaks from this risk sentiment type trade. At present, the people that own our currency aren't selling and the people who are short are getting squeezed.

Equities continue to find support. Combined this with very low interest rates globally that has allowed gold and silver to accelerate as the funding cost of holding precious commodities has all but disappeared. These factors provide support for the well documented risk argument and a natural base for local currencies.

NZD/AUD cross now looks confined to a 0.8050/0.8250 range. The AUD/USD has solid support at 0.8460.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔/↑	Softs catching up with all but gold/silver.
Partial indicators	↔	Both economies improving, but Aussie faster?
Technicals	↔	Range trade now.
Sentiment	↔/↑	People tired of NZD/AUD shorts.
Other	↔	Asian central banks diversification.
On balance	↔	Respect the ranges.

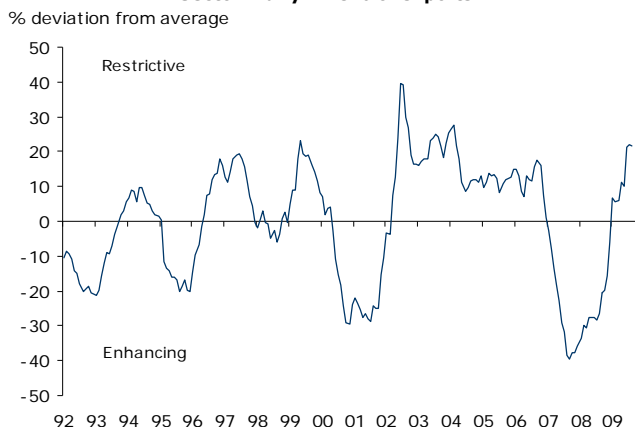
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔	About cyclical fair value estimates.
Yield	↔/↓	Lower for longer from RBNZ, but Fed the same.
Commodities	↔/↑	Starting to improve in line with USD weakness.
Risk aversion	↑	Equities up, yields down. What aversion?
Partial indicators	↔/↓	Inventories being rebuilt, but what about demand?
Technicals	↔/↑	Support at 0.6900.
AUD	↔/↑	Break of 0.8460 targets 0.8800.
Sentiment	↔/↑	USD unloved.
Other	↔/↑	Asian central banks are dominating and more are looking at NZ.
On balance	↔/↑	Higher ranges for now. CBs and commodities supporting.

EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand’s main export industries. The measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations.

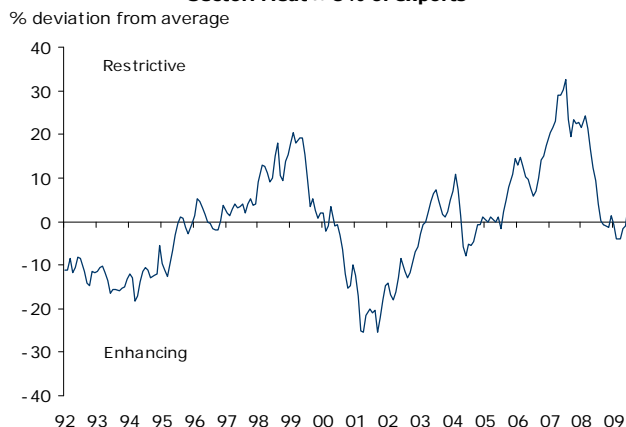
The higher NZD dollar (against all our major trading partners) was the bane of the export sector once again in August. Despite higher world commodity prices, the majority of export sectors experienced an increase in their real effective commodity adjusted exchange rates in the month. The exceptions were the dairy and the forestry sectors, whose real effective exchange rates were largely unchanged. Conditions in a number of sectors (dairy, meat, forestry, horticulture, crude and services) remain in “restrictive” territory, while conditions in the seafood and services sectors remains broadly neutral.

Sector: Dairy ≈ 18% of exports



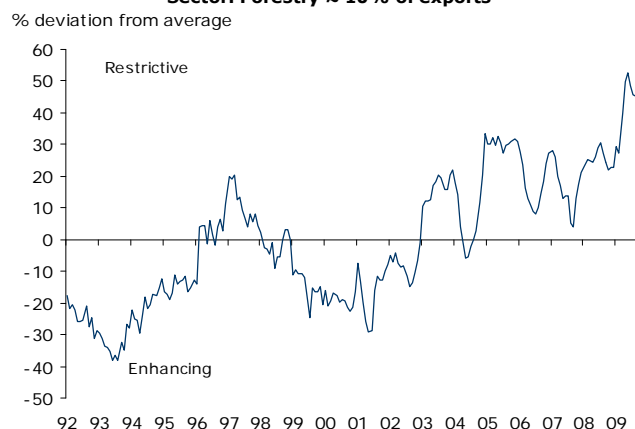
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



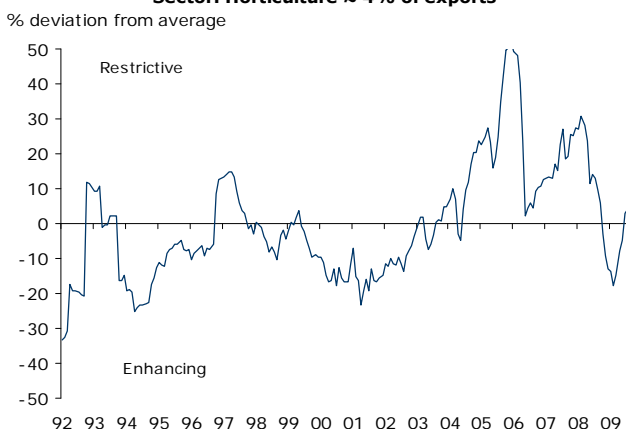
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry ≈ 10% of exports



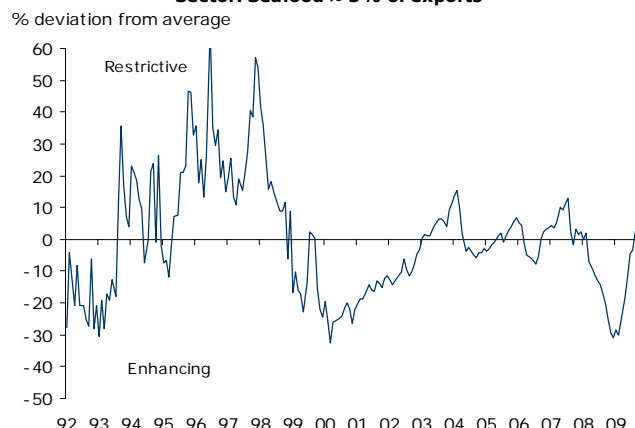
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports



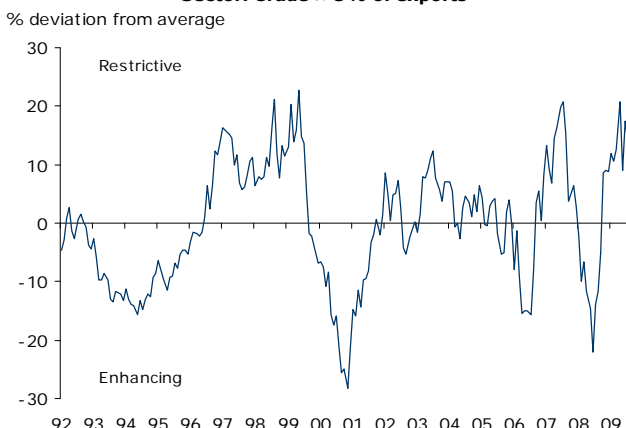
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports

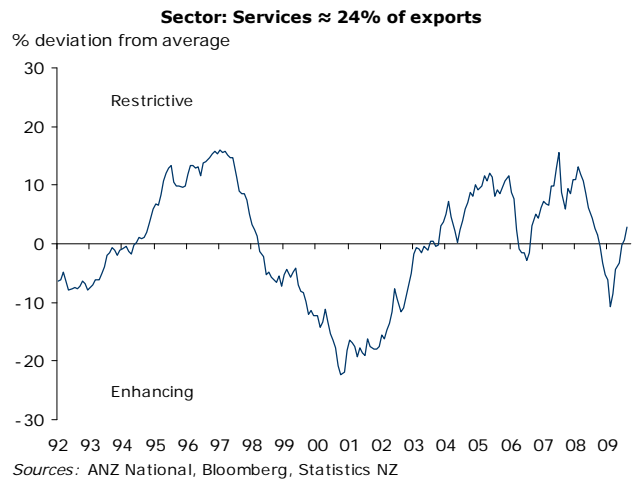
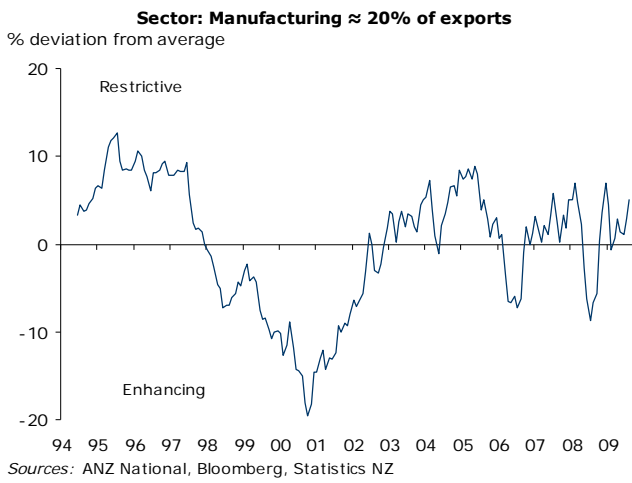


Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports



Sources: ANZ National, Bloomberg, Statistics NZ



DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
14-Sep	NZ	Real Estate Institute Monthly House Price Index (Sep)	-	-	10:00
		Retail Sales (Jul) – mom	0.4%	0.1%	10:45
		Retail Sales Ex-Auto (Jul) – mom	0.5%	-0.4%	10:45
	JN	Industrial Production (Jul F) – mom	-	1.9%	16:30
		Capacity Utilization (Jul F) – mom	-	-	16:30
	EC	Employment (2Q) – qoq	-	-0.8%	21:00
		Industrial Production (Jul) – mom	-0.2%	-0.6%	21:00
15-Sep	US	Fed's Lacker Speaks on Financial Regulation in Charlotte	-	-	04:30
		Fed's Yellen Speaks in San Francisco on Economic Outlook	-	-	07:50
	NZ	Manufacturing Activity (2Q)	-	-0.9%	10:45
		Non Resident Bond Holdings (Aug)	-	76.6%	15:00
	AU	Dwelling Starts (2Q)	2.0%	-4.0%	13:30
		RBA's Board September Minutes	-	-	13:30
	JN	Machine Tool Orders (Aug F) – yoy	-	-71.3%	18:00
	UK	RICS House Price Balance (Aug)	0.0%	-8.1%	11:01
		CPI (Aug) – mom	0.3%	0.0%	20:30
		CPI (Aug) – yoy	1.4%	1.8%	20:30
		Core CPI (Aug) – yoy	1.6%	1.8%	20:30
		RPI (Aug) – mom	0.2%	0.0%	20:30
		DCLG UK House Prices (Jul) – yoy	-9.5%	-10.7%	20:30
	GE	ZEW Survey (Econ. Sentiment) (Sep)	60.0	56.1	21:00
		ZEW Survey (Current Situation) (Sep)	-67.5	-77.2	21:00
	EC	Labour Costs (2Q) – yoy	3.4%	3.7%	21:00
		ZEW Survey (Econ. Sentiment) (Sep)	60.0	54.9	21:00
16-Sep	US	Producer Price Index (Aug) – mom	0.8%	-0.9%	00:30
		PPI Ex Food & Energy (Aug) – mom	0.1%	-0.1%	00:30
		Advance Retail Sales (Aug) – mom	1.9%	-0.1%	00:30
		Retail Sales Less Autos (Aug) – mom	0.4%	-0.6%	00:30
		Retail Sales Ex Auto & Gas (Aug) – mom	0.1%	-0.4%	00:30
		Empire Manufacturing (Sep)	15.0	12.1	00:30
		Business Inventories (Jul)	-0.9%	-1.1%	02:00
	AU	Westpac Leading Index (Jul) – mom	-	0.7%	13:00
	UK	Claimant Count Rate (Aug)	5.0%	4.9%	20:30
		Jobless Claims Change (Aug)	25.0K	24.9K	20:30
		Average Earnings inc bonus (Jul) – 3M/YoY	1.9%	2.5%	20:30
		ILO Unemployment Rate (3mths) (Jul)	8.0%	7.8%	20:30
	EC	CPI (Aug) – mom	0.3%	-0.7%	21:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
16-Sep cont.	EC	CPI (Aug) – yoy	-0.2%	-0.7%	21:00
		CPI – Core (Aug) – yoy	1.2%	1.3%	21:00
17-Sep	US	Consumer Price Index (Aug) – mom	0.3%	0.0%	00:30
		CPI Ex Food & Energy (Aug) – mom	0.1%	0.1%	00:30
		Consumer Price Index (Aug) – yoy	-1.7%	-2.1%	00:30
		CPI Ex Food & Energy (Aug) – yoy	1.4%	1.5%	00:30
		Current Account Balance (2Q)	-\$92.0B	-\$101.5B	00:30
		Net Long-term TIC Flows (Jul)	-	\$90.7B	01:00
		Total Net TIC Flows (Jul)	-	-\$31.2B	01:00
		Industrial Production (Aug)	0.6%	0.5%	01:15
		Capacity Utilization (Aug)	69.1%	68.5%	01:15
		NAHB Housing Market Index (Sep)	19	18	05:00
	JN	Tertiary Industry Index (Jul) – mom	0.5%	0.1%	11:50
		BoJ Target Rate	0.10%	0.10%	/2009
		BoJ Deputy Governor Hirohide Yamaguchi to Speak in Tokyo	-	-	19:00
	AU	RBA Foreign Exchange Transactions (Aug)	-	705M	13:30
	UK	Retail Sales (Aug) – mom	0.1%	0.4%	20:30
		BoE Releases Quarterly Inflation Attitudes Survey	-	-	20:30
	EC	Trade Balance s.a. (Jul)	1.2B	1.0B	21:00
		Construction Output (Jul) – mom	-	-1.1%	21:00
18-Sep	US	Housing Starts (Aug)	600K	581K	00:30
		Building Permits (Aug)	580K	564K	00:30
		Initial Jobless Claims (w/e Sep-13)	555K	550K	00:30
		Continuing Claims (w/e Sep-6)	6114K	6088K	00:30
		Philadelphia Fed (Sep)	8.0	4.2	02:00
	JN	BoJ Deputy Governor Hirohide Yamaguchi to Speak in Tokyo	-	-	12:00
		Leading Index CI (Jul F)	-	83	17:00
		Coincident Index CI (Jul F)	-	89.6	17:00
		BoJ Monthly Report	-	-	17:00
	GE	Producer Prices (Aug) – mom	0.2%	-1.5%	18:00
	EC	Current Account s.a. (Jul)	-	-5.3B	20:00
	UK	Public Finances (PSNCR) (Aug)	14.5B	0.2B	20:30
		Public Sector Net Borrowing (Aug)	17.6B	8.0B	20:30
		M4 Money Supply (Aug P) – mom	0.8%	1.5%	20:30

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 upcoming dataflow is generally expected to take on an improving trend and one that points to an economy closer to exiting (or already out of) recession. The June quarter GDP results due next week are expected to record another contraction, but of lesser magnitude than recent quarters.

Date	Data/Event	Economic Signal	Comment
Tue 15 Sep (10.45)	Economic Survey of Manufacturing (Jun qtr)	Improving?	Following some large falls in recent quarters, manufacturing activity is expected to record positive growth, albeit off depressed levels.
Mon 21 Sep (10.45)	International Travel and Migration (Aug)	Similar story	Another solid monthly net inflow is expected as the number of New Zealanders leaving remains subdued. However, the big focal point is whether arrivals are able to hold up, particularly given the weak domestic labour market.
Tue 22 Sep (10.45)	Balance of Payments (Jun qtr)	Sharp improvement, but will it be sustained?	A reasonable improvement in the trade balance (courtesy of a capitulation in imports) should see the current account deficit improve to around 7 percent of GDP in the quarter.
Tue 22 Sep (14.00)	Westpac McDermott-Miller Consumer Confidence (Sep qtr)	Feeling better	A modest improvement in consumer confidence is expected in the quarter, in line with the Roy Morgan measure, as the housing market stabilises and interest rate reductions gain traction. However, a weak labour market will remain a big cloud over consumer sentiment.
Wed 23 Sep (10.45)	GDP (Jun qtr)	The final quarter of recession?	We are still waiting for the final pieces of the GDP jigsaw. At this point, we still expect a contraction but of a smaller magnitude to recent quarters.
Fri 25 Sep (10.45)	Overseas Merchandise Trade (Aug)	Beginning to turn?	With the domestic economy stabilising, import demand is expected to do the same, albeit gradually. We expect the annual trade deficit to start to hover around current levels, although the high level of the NZD could start to negatively impact on export performance
Tue 29 Sep (10.45)	Building Consent Issuance (Aug)	On the mend	Residential building consent issuance looks to have turned the corner and is on the recovery path. However, the opposite looks to be the case for non-residential consent issuance.
Tue 29 Sep (15.00)	Credit Growth (Aug)	Housing better, but others still weak	Housing credit growth is likely to continue to improve, albeit modestly. Business and agricultural lending should remain weak.
Wed 30 Sep (15.00)	NBNZ <i>Business Outlook</i> (Sep)	-	-
Mon 5 Sep (15.00)	ANZ Commodity Price Index (Sep)	-	-
Tue 6 Sep (10.00)	NZIER Quarterly Survey of Business Opinion (3Q)	Improving	Following the trends in the National Bank <i>Business Outlook</i> , the QSBO is expected to show improving sentiment and activity. While firms' employment and investment intentions are also expected to improve, they will generally remain weak.
On Balance		We have found a base	The focus of the dataflow turns to how Q3 is faring, likely the first quarter of positive growth since late 2007. The growth mix does not give the recovery a sustainable fell though.

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
GDP (% qoq)	-0.2	-0.5	-1.0	-1.0	-0.6	0.4	0.4	-0.3	0.2	1.2
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	-3.1	-2.2	-0.8	-0.1	0.7	1.5
CPI (% qoq)	1.6	1.5	-0.5	0.3	0.6	0.8	0.4	0.3	0.7	0.7
CPI (% yoy)	4.0	5.1	3.4	3.0	1.9	1.2	2.1	2.0	2.2	2.1
Employment (% qoq)	1.2	0.1	0.8	-1.4	-0.5	-0.6	-0.3	-0.2	0.0	0.2
Employment (% yoy)	0.8	1.0	1.0	0.8	-0.9	-1.6	-2.7	-1.5	-1.1	-0.3
Unemployment Rate (% sa)	3.9	4.3	4.7	5.0	6.0	6.3	6.7	7.2	7.5	7.6
Current Account (% GDP)	-8.4	-8.7	-9.0	-8.5	-6.9	-5.9	-5.2	-5.2	-5.6	-6.0
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-2.7	-8.9	-0.9	-0.3	0.0	0.0	0.1
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.0	-13.1	-13.1	-12.5	-10.0	-1.2	-0.2

KEY ECONOMIC INDICATORS

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Retail Sales (% mom)	0.0	-0.5	-1.2	0.2	-0.1	0.5	0.7	0.1
Retail Sales (% yoy)	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1
Credit Card Billings (% mom)	-0.8	-2.2	1.5	0.9	-2.8	2.3	-0.4	0.2	0.1	..
Credit Card Billings (% yoy)	-0.9	-3.8	-2.3	-1.9	-4.8	-1.6	-2.3	-2.1	-2.0	..
Car Registrations (% mom)	-19.5	12.7	-14.2	-14.8	7.3	-1.7	-2.5	6.1	7.0	-3.5
Car Registrations (% yoy)	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3
Building Consents (% mom)	4.5	-5.8	-13.1	12.3	-1.7	11.2	2.9	-9.6	4.9	..
Building Consents (% yoy)	-39.9	-41.4	-51.3	-39.8	-34.2	-56.6	-23.4	-24.1	-16.8	..
REINZ House Price (% yoy)	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	..
Household Lending Growth (% mom)	-0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.1	0.3	..
Household Lending Growth (% yoy)	4.8	4.2	3.8	3.1	2.7	2.6	2.5	2.4	2.4	..
Roy Morgan Consumer Confidence	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3	107.0	114.1
NBNZ Business Confidence	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2
NBNZ Own Activity Outlook	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0
Trade Balance (\$m)	-594	-341	-102	483	438	322	905	-332	-163	..
Trade Balance (\$m annual)	-5234	-5614	-5405	-5165	-4684	-4070	-2995	-3112	-2478	..
ANZ World Commodity Price Index (% mom)	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.3
ANZ World Commodity Price Index (% yoy)	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.8
Net Migration (sa)	-210	390	890	1670	1750	2130	2610	1650	2470	..
Net Migration (annual)	3569	3814	4538	6160	7482	9176	11202	12515	14488	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jul-09	Aug-09	14-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.644	0.675	0.706	0.640	0.590	0.590	0.600	0.620	0.640	0.650
NZD/AUD	0.801	0.809	0.817	0.800	0.747	0.720	0.723	0.730	0.744	0.765
NZD/EUR	0.458	0.474	0.484	0.464	0.430	0.424	0.431	0.439	0.451	0.464
NZD/JPY	60.9	64.1	63.8	62.7	58.8	59.4	61.6	64.3	66.6	68.3
NZD/GBP	0.393	0.408	0.423	0.388	0.356	0.354	0.360	0.367	0.376	0.382
NZ\$ TWI	60.6	62.9	64.33	60.9	56.5	56.0	56.9	58.3	60.0	61.4
NZ interest rates	Jul-09	Aug-09	14-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.73	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.79	2.76	2.77	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.96	6.03	5.55	5.90	6.00	6.00	6.40	6.60	6.70	6.90
International	Jul-09	Aug-09	14-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.48	0.44	0.30	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.00
AU 3-mth	3.20	3.30	3.41	3.50	3.60	3.80	4.30	4.30	4.30	4.30

KEY RATES

	11 Aug	7 Sep	8 Sep	9 Sep	10 Sep	11 Sep
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.80	2.77	2.77	2.75	2.76	2.76
NZGB 11/11	4.00	4.02	3.99	3.96	3.95	3.93
NZGB 04/13	4.98	4.86	4.83	4.79	4.76	4.72
NZGB 12/17	5.94	5.68	5.65	5.60	5.58	5.55
NZGB 05/21	6.43	6.08	6.05	6.00	5.98	5.95
2 year swap	4.14	4.07	4.08	4.06	4.01	3.97
5 year swap	5.45	5.35	5.35	5.33	5.29	5.27
RBNZ TWI	63.1	63.6	63.8	63.8	63.9	64.2
NZD/USD	0.6741	0.6884	0.6918	0.6958	0.6978	0.7037
NZD/AUD	0.8081	0.8084	0.8092	0.8100	0.8111	0.8141
NZD/JPY	65.19	64.12	64.19	64.22	64.20	64.22
NZD/GBP	0.4088	0.4204	0.4231	0.4213	0.4214	0.4214
NZD/EUR	0.4766	0.4802	0.4824	0.4803	0.4787	0.4818
AUD/USD	0.8342	0.8516	0.8549	0.8590	0.8603	0.8644
EUR/USD	1.4144	1.4336	1.4341	1.4487	1.4577	1.4606
USD/JPY	96.70	93.15	92.79	92.30	92.01	91.26
GBP/USD	1.6491	1.6374	1.6350	1.6517	1.6560	1.6699
Oil	70.59	67.95	68.00	71.08	71.27	71.95
Gold	945.95	992.65	997.55	1002.10	994.50	1002.05
Electricity (Haywards)	3.29	5.69	1.58	1.31	18.68	18.82
Milk futures (US\$/contract)	92	n/a	98	98	98	98
Baltic Dry Freight Index	2623	2429	2462	2491	2492	2468

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.

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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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