NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

15 March 2010

INSIDE

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FAIR TO MIDDLING

ECONOMIC OVERVIEW

We concur with the spirit of last week's cautiously upbeat RBNZ MPS. However, we differ on the timing of the recovery becoming self sustaining. Hence we still prefer Q3, as opposed to the Joe-consensus view of June, for the timing of the first hike. We expect this week's data to continue the run of mixed messages.

MONTHLY INFLATION GAUGE

Our monthly inflation gauge recorded a 0.8 percent increase in February, following a 0.4 percent increase in January. The rise likely reflects a combination of seasonal price increases and higher administrative charges. We are not reading too much into these recent increases, but will continue monitoring the gauge for evidence of the broad direction of domestically generated inflation.

INTEREST RATE STRATEGY

The RBNZ reiterated that it continues to expect to raise rates some time "*around the middle of 2010*". The exact timing of the first hike depends on how data unfolds. We remain circumspect, mindful of the headwinds the economy faces. In our view, the market still has too much tightening priced in, and there is scope for interest rates to move lower. However, progress may be hampered by higher global rates.

CURRENCY STRATEGY

Global themes will dominate price action this week. China's rejection of a highly anticipated Renminbi revaluation is good news for carry currencies, particularly the AUD, and less so the NZD. The domestic economy is weak and faces considerable headwinds, but prospects for the export sector are looking up. Taken together, they're mildly negative for the NZD, but the question is, what impact will a higher AUD have?

DATA AND EVENT CALENDAR

DATA WATCH

KEY FORECASTS

ECONOMIC OVERVIEW

SUMMARY

We concur with the spirit of last week's cautiously upbeat RBNZ MPS. However, we differ on the timing of the recovery becoming self sustaining. Hence we still prefer Q3, as opposed to the Joe-consensus view of a June start to the tightening cycle. We expect upcoming data to continue the run of mixed messages.

THE WEEK AHEAD

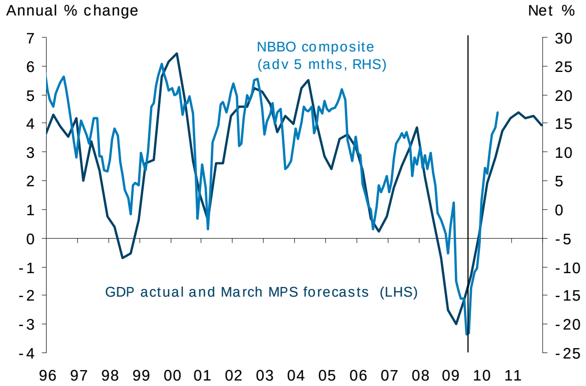
- **ANZ/Roy Morgan Consumer Confidence – March (Thursday 18th March, 3:00pm NZDT).** Will confidence bounce back or will weak job prospects continue to weigh?
- **SNZ International Travel and Migration – February** (Friday 19th March, 10:45am NZDT). Will PLT departures remain low despite much better job prospects across the Tasman?

WHAT'S THE VIEW?

Last week we lowered our growth projections for the first half of calendar 2010, but raised those for 2011. Continued de-leveraging was a dominant influence near-term. However, a combination of strong commodity prices, a trending NZD (down especially against the AUD), and balance sheet repair in 2010 made us more comfortable about prospects for 2011.

The RBNZ's forecasts appear to share the spirit of this view, but have growth more front-loaded into 2010. Words such as *patchy* and *sluggish* were apparent in the text in terms of describing the recovery. But the numbers themselves pretty well now have the economy growing at 1 percent per quarter. This is certainly in line with historical experience as under-utilised capital and labour is brought into production as confidence recovers and pent-up demand is unleashed.

RBNZ GDP forecasts vs NBBO composite

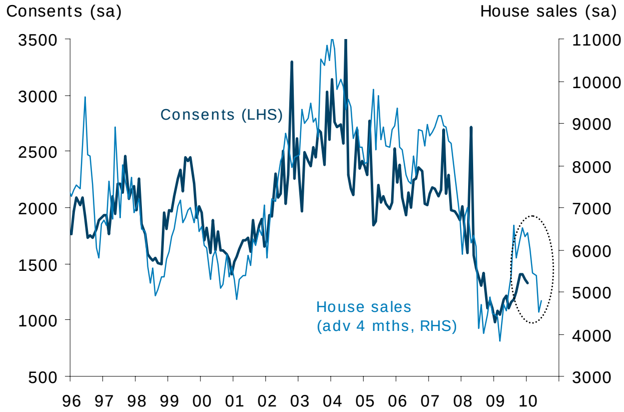


Sources: ANZ, National Bank, RBNZ, Statistics NZ

This difference in the recovery path underpins our alternate view of the tightening cycle. The RBNZ is sitting to their mid-year mantra (and yes we have to acknowledge some egg on our face for expecting them to drop the "mid-year" phrase in the March *Statement*). **We're still preferring Q3.**

Last week's data still leaves us holding steady in our view. We won't dwell much on indicators for Q4 2009. Suffice to say that there looks some slight upside to the RBNZ's 0.6 percent estimate for Q4 GDP, with manufacturing recovering off simply awful levels and the BNZ-Business NZ PMI suggesting this continued into Q1. We are seeing a typical inventory rebuild fillip adding to growth. An 8 percent climb in capital import volumes was a welcome sign that some businesses were willing to add to productive capital, albeit from very low levels. Accommodation guest nights were strong for January. **All are encouraging, but beyond that there is not a lot of substance across other areas.**

Building Consents and House Sales



Sources: ANZ, Statistics NZ, REINZ

The domestic economy still looks sluggish. Commercial construction activity remains weak, and with a long list of anecdotes pointing to an overhang, prospects of an immediate rebound do not look favourable. Vacancy rates in the main centres are rising. Residential investment was up in Q4 but, if it follows the normal lead relationship with house sales, is set to stall (and in fact has done so for the past two months).

The housing market is weakening. Prices are flat to easing and days to sell rising. Volumes remain low. Part of this reflects some uncertainty surrounding tax changes but housing looks to have turned (after a respectable bounce) around October last year, so there is more to it. Section sales have fallen more than house sales and if land sales are down it's hard to paint an overly bullish near-term

ECONOMIC OVERVIEW

picture for consent issuance, despite building supply-demand imbalances.

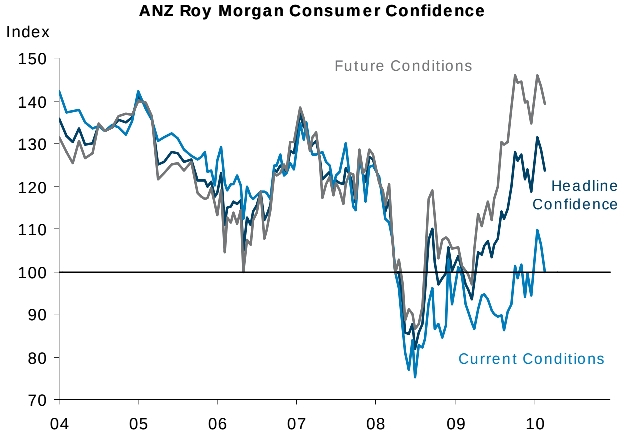
Retailing still looks challenged. The 0.3 percent climb in January core (ex fuel and vehicle related) retail spending was particularly notable as it occurred after a large (2 percent) fall in December. We should have seen far more recoil after such a weak December result. Even if we average out core retailing over the past four months to remove intra month volatility, the underlying picture is one off a small fall, which is the same as what the trend is telling us. ECT data and anecdotes are very soft for February. Given that food and petrol prices have been rising over this period, the implications for retail volumes (and a strong GDP outturn in Q1) are not good, unless retail discounting has been widespread (as the RBNZ expect). Headline sales look better and the mix of spending is more discretionary focused, which is a positive, but the collective picture still looks to lack substance.

There is still growth across the economy, but we simply doubt (volatility aside - which can make for mayhem across NZ data) it's of the above trend or 1 percent per quarter variety. Hence we retain the spirit of last week's assessment.

Just as the RBNZ stuck to the script so too has the Government. Specifically, the Minister of Finance noted last week that the 2010 *Budget* package will stick to the $1.1 billion new spending allocation – a challenge to say the least, when health alone has normally sucked up $700 odd million of new spending per year. You are not going to restrict new spending to $1.1 billion unless you reallocate (prioritise) from other areas, so $1.1 billion will be a "net" figure. Undoubtedly this will add another layer of uncertainty across a number of areas We don't consider this "new" news to the RBNZ but the spirit is consistent with fiscal policy taking the pressure off monetary policy over time, but this is probably more influential on how high rates go.

Speculation is now mounting in regard to the tax package that will appear in the *Budget*. The package itself was noted as being fiscally neutral by the Minister of Finance last week. But **media reports in the weekend clearly showed everyone being better off** when the negative of a GST rise was weighed in against the cash benefit of a tax cut. So we have to ask the simple question - **where is the shortfall coming from?** The answer, of course, is housing in some shape of form (i.e. depreciation regime changes, ring-fencing of tax losses from income, etc) – although we suspect some potential for reprioritisation. There is nothing new here, apart from firming up what seems to be inevitable. Given such a backdrop, we struggle to believe housing related activity will lift materially over the coming months, as the RBNZ expect. And we can't get past the fact that housing is a very high-beta sector of the economy, so while the tax package is designed to be "neutral" in the near-term we suspect it'll actually weigh on growth. All up, **it's another factor that leaves us less sanguine than the RBNZ over growth in H1 2010.**

This week's data calendar is light. **Thursday's ANZ Roy Morgan Consumer Confidence will be of interest,** and given the data volatility of late nothing will surprise us. Last month's 7.8 point fall in the headline measure of consumer confidence followed a 12.8 point rise in January. Headline confidence has been supported by optimism over future prospects. However, measures relating to current conditions (which are a better indicator of consumer spending), have been more circumspect. A stronger pick-up in consumer spending will require a considerable (and sustained) firming in households' financial ability and their willingness to spend.



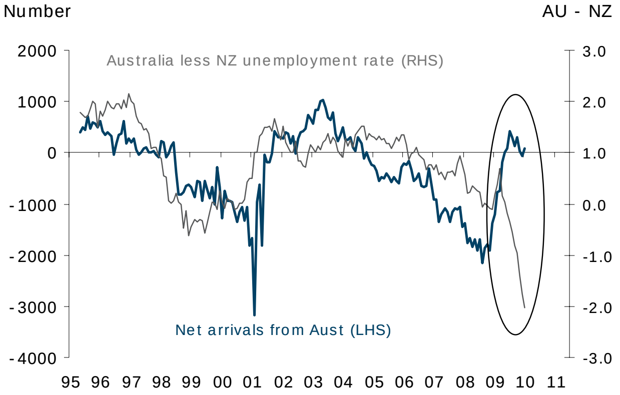
Sources: ANZ, National Bank, Roy Morgan

Friday's international travel and migration data will provide a useful steer on the degree of support provided by tourism and migrant inflows. After a slight pullback in tourist visitor numbers in January, we are hoping for a climb in February visitor numbers. The lower NZDAUD is helpful in this regard, but we are also mindful that the NZD is now higher against the USD, GBP, Euro and Yen, than it was 12 months ago. This may dampen tourist numbers (particularly from Europe and Japan), or at the very least, the NZD spend per tourist.

ECONOMIC OVERVIEW

We expect a positive net monthly PLT inflow for February, with the annual net PLT immigration to remain slightly above 20,000 persons (about 0.5 percent of NZ resident population). This is based on the expectation that PLT departures from New Zealand will remain low. **With trans-Tasman labour market differences in Australia's favour, risks of a turnaround remain.** While this is more of a risk for later this year (given the normal lags), it is certainly building.

Relative Unemployment and net arrivals from Aust



Sources: ANZ, Statistics NZ

Last week's Chinese inflation figures (with 3-monthly annualised CPI inflation at 11 percent), is one of four key risks for 2010. The others are Europe, the so-called exit strategies, and the commercial property market.

We're optimistic that none of these will derail the recovery, but we're also realistic in believing we are likely to see more bumps and potholes along the road**.** Expect forthcoming data to bear this out.

RECENT LOCAL DATA

- **SNZ Work Put in Place – December quarter.** Volume of all work put in place rose by 0.7 percent, with the 7.4 percent lift in residential construction being partly offset by a 6.1 percent fall in non-residential building volumes.
- **SNZ Economic Survey of Manufacturing – December quarter**. Manufacturing sales volumes rose by a seasonally adjusted 3.1 percent, with ex-primary volumes rising by 3.6 percent.
- **SNZ Electronic Card Transactions – February month**. Retail related values dipped by 0.4 percent from January, with core ECT (ex fuel and vehicle related) down 0.2 percent.
- **SNZ Overseas Trade Indexes – December quarter.** Terms of trade rose by 5.7 percent, driven by a 5.8 percent fall in import prices. Export volumes fell by 1.2 percent, whereas import volumes rose by 1.6 percent.
- **RBNZ March MPS.** The RBNZ left the OCR unchanged at 2.5 percent. However, the Bank reiterated that it expected to raise the OCR "*around the middle of 2010*".
- **Business NZ PMI - February month.** The headline PMI rose to 53.3, with all of the sub-components in expansionary territory.
- **SNZ Food Price Index – February month** Food prices fell by 1.3 percent, following a 2.1 percent monthly rise in January.
- **REINZ Housing Market Statistics – February month.** Monthly sales volumes rose by a seasonally adjusted 5.8 percent, following a 16 percent fall in January. The REINZ housing price index fell 1.1 percent in seasonally adjusted terms to be 5.5 percent up on a year earlier.

MONTHLY INFLATION GAUGE

SUMMARY

Our monthly inflation gauge[1] recorded a 0.8 percent increase in February, following a 0.4 percent increase in January. The rise likely reflects a combination of seasonal price increases and higher administrative charges. We are not reading too much into these recent increases, but will continue monitoring the gauge for evidence of the broad direction of domestically generated inflation. However, we see potential inflationary upside surprises as the biggest risk to our out-of-consensus Q3 hike view.

LIFT IN MONTHLY READINGS

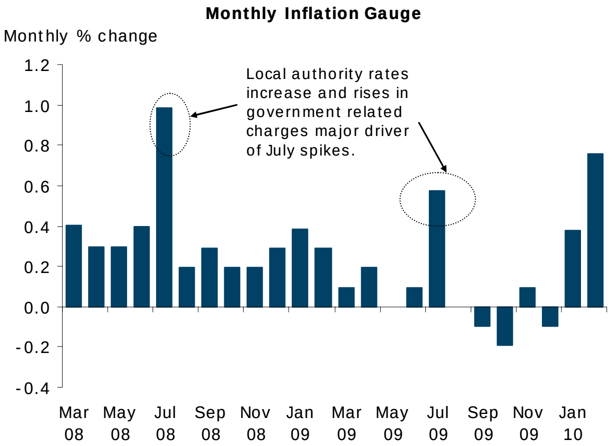
Rises in the inflation gauge over the first two months of this year follows a series of broadly flat inflation readings over the latter part of last year. **However, rather than being due to widespread price increases, the lift in February is attributable to large movements in several components.** Seasonal increases in tertiary education fees, higher electricity prices, rising prices for alcoholic beverages, and higher charges for direct credit services made large positive contributions. Higher private transport costs also featured. Other parts of the gauge held steady, notably prices for recreational and cultural services, health, and housing and non-electricity household utilities. Rent data from the Department of Building and Housing showed little sign of movement, with construction costs falling for a second consecutive month.

At this stage, we are not reading too much into the last two months. These rises are mostly the consequence of administrative charges or broader government policy rather than an increase in generalised pricing pressures. The higher readings for January and February may have also been inflated by the low readings over the end of last year. However, we cannot dismiss the readings either. If you strip out all the positives, of course inflation would be flat or negative. Apparent one-offs are driving our gauge, but there is still a collection of them.

Even assuming no increase in the gauge in March will deliver a quarterly print just shy of 1.0 percent (c.f RBNZ forecast for non-tradable inflation of 0.6 in the March MPS). However, given recent volatility in quarterly non-tradable inflation out-turns (1 percent in Q3 2009 and 0.1 in Q4 2009), we trust the RBNZ will be taking a similar approach to ourselves and look at the underlying trends which looks to be non-tradable running around 0.5 percent per quarter.

In terms of the performance of our gauge so far, the results are encouraging. While it underestimated the increase in non-tradable CPI over the second half of last year, it did pick the easing trend in domestic inflation pressure. And even though the December quarter non-tradable CPI print was not as weak as implied by our gauge, it was soft nonetheless. In that regard, our gauge is providing some valuable information on the broad trends. **As such, we will be closely monitoring the inflation gauge over the coming months.**

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Feb 08	1000	0.0		
Mar 08	1004	0.4		1.1
Apr 08	1007	0.3		
May 08	1010	0.3		
Jun 08	1014	0.4	0.9	0.9
Jul 08	1024	1.0		
Aug 08	1026	0.2		
Sep 08	1029	0.3	1.6	1.3
Oct 08	1031	0.2		
Nov 08	1033	0.2		
Dec 08	1036	0.3	0.7	0.8
Jan 09	1040	0.4		
Feb 09	1043	0.3		
Mar 09	1044	0.1	0.9	0.7
Apr 09	1046	0.2		
May 09	1046	0.0		
Jun 09	1047	0.1	0.4	0.5
Jul 09	1053	0.6		
Aug 09	1053	0.0		
Sep 09	1052	-0.1	0.6	1.0
Oct 09	1050	-0.2		
Nov 09	1051	0.1		
Dec 09	1050	-0.1	-0.2	0.1
Jan 10	1054	0.4		
Feb 10	1062	0.8		



Source: ANZ

1 Our monthly inflation gauge tracks domestic (i.e. non-tradable) inflation. The inflation gauge is designed to be as comparable as possible to the official Statistics NZ non-tradable CPI series. However, the gauge will not exactly mirror the official series due to coverage and methodological differences. Our gauge is still in the experimental stages.

INTEREST RATE STRATEGY

SUMMARY

The RBNZ reiterated that it continues to expect to raise rates some time "*around the middle of 2010*". The exact timing of the first hike depends on how data unfolds. We remain circumspect, mindful of the headwinds the economy faces. In our view, the market still has too much tightening priced in, and there is scope for interest rates to move lower. However, progress may be hampered by higher global rates.

MARKET THEMES

- The RBNZ's growth expectations are at the more optimistic end – yet even their 90-day bill projections are lower than market pricing.
- Nonetheless, we are mindful of how far NZ rates have fallen, and expect some spill-over from tighter RBA policy and higher AU rates.
- Chinese officials have poured cold water on the prospect of a currency revaluation. Still burgeoning growth in Chine is good news for the export sector and for Australia.

REVIEW AND OUTLOOK

Last week's Monetary Policy Statement painted a fairly upbeat picture, and the RBNZ maintained the view that it expected to raise rates "*around the middle of 2010*". On the face of it this suggests that a June rate hike may still be on the cards. However the onus is still on the data to validate this view, and data since has done nothing to help the cause. There is a trio of headwinds working against the economy – the steep yield curve and high retail interest rates, the need to de-leverage, and uncertainty over upcoming tax changes. We doubt we will have enough evidence in hand by June for the RBNZ to start comfortably raising the OCR, which paves the way for swap rates to move lower.

Australian monetary policy is a different story, and while last week's jobs data were reasonably soft, grumblings from RBA officials have been more upbeat. The prospect of less policy action from China also heightens the need for more action from the RBA. The Australian market is slowly moving to price in a more aggressive tightening cycle, and this is spilling over into the NZ market. We expect this to be a major drawback over the next few months, as institutional investors lump New Zealand in with Australia. However we are confident that the substantial differences between the two economies will see markets differentiate between the two markets over time, ultimately adding to downward pressure on local interest rates.

PREFERRED BORROWING STRATEGIES

There is still too much tightening priced in at the short end, so there's no point hedging out to 2 years. And while the long end is at attractive levels relative to past history, the curve is too steep to make it a workable proposition from a cashflow perspective. 10yr swaps below 6% feels cheap, but they are still over 300bps above 3mth BKBM. As such, we favour forward starting swaps, which offer protection against rising rates, but have no cashflow implications during the forward period.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	MPS was upbeat, but onus is on data to validate view.
NZ data	↔/↓	Continues to disappoint.
Fed Funds / front end	↔	US data improving. But Fed hikes are a long way away.
RBA	↔/↑	Rumbling from RBA officials have been hawkish.
US 10 year	↔/↑	Yields likely to grind higher as data improves, Chinese economy bolts ahead.
NZ swap curve	↔/↑	Doing the job for the RBNZ. Steeper as 10yr follows US.
Flow	↔/↑	Pay side flow dominating now. Potentially misguided.
Technicals	↔	Sub 4.10% 2yr short lived. Higher AU yields impacting.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 29-Apr-10	+5	+5
Thu 10-Jun-10	+19	+21
Thu 29-Jul-10	+47	+40
Thu 16-Sep-10	+71	+77
Thu 28-Oct-10	+92	+96
Thu 9-Dec-10	+123	+115
Thu 27-Jan-11	Not forecast	+145

TRADING THEMES WE FAVOUR AT PRESENT

There is still too much tightening priced in, relative to even the RBNZ's upbeat expectations. Dec 2010 and March 2011 bank bill futures closed at 4.16% and 4.57% respectively, well above the RBNZ's 3.60% and 4.10% projections. We're even less optimistic than the RBNZ, so see scope for more downside at the short end. However we have to respect pay-side pressure that's spilling over from the Australian market, which will slow the progress lower of NZ yields. Being bullish on the short end and bearish on NZ rates implies we like steepeners still. We also think NZ yields continue to outperform Australia.

CURRENCY STRATEGY

SUMMARY

Global themes will dominate price action this week. Comments by Chinese officials suggest they are not considering revaluing the currency or tightening policy in the near future. This is good news for carry currencies, particularly the AUD, and less so the NZD. The domestic economy is weak and faces considerable headwinds, but prospects for the export sector are looking up. The question is, what impact will a stronger global economy have on the NZD?

MARKET THEMES

- Comments from Chinese officials are extremely supportive of AUD. NZD/AUD to be capped at 0.7700 now, and we expect a test of 0.7500.
- History suggests the lack of a Chinese revaluation is a clear positive for USD/JPY.
- It is not clear that the NZD will benefit from better US data given how soft the NZ non-tradable economy is.

REVIEW AND OUTLOOK

The NZD continues to be sidelined, swamped by global events. Carry remains a key theme in FX markets, but this is not proving to be a significant benefit to the NZD, particularly in relation to the AUD. Not only are Australian policy rates higher, but regulatory changes have driven a wedge between the rates available to local and offshore investors. Worse still, this wedge is a factor that will limit the extent of the overall tightening cycle.

The gradual improvement of US data should provide a USD boost over the next few months. The euro has been the principal beneficiary of stronger global growth throughout the financial crisis, but as we emerge from it, we expect the dollar to take the mantle. Attitudes are changing, and as we emerge from the recession, Europe is being hamstrung by its sluggish inflexible economy and legacy debt issues. This week's FOMC statement could provide the USD with a boost if we see any change to the "on hold for an extended period" comments.

While an improving global outlook would normally be a positive for an export orientated economy like the NZD, a degree of judgement is required – particularly when it is the domestic sector of the economy facing headwinds, as opposed to the tradable sector. At best, the improving global outlook is neutral for the NZD. However it is clearly a positive for the AUD, with the Australian domestic economy performing well, and the tradable sector hard-wired into Australia. PBOC policy is critical for near term direction in both the AUD and NZD, which have been held down by the prospect of a Chinese revaluation. Any moves by China to slow its economy will take pressure off the both the RBNZ and the RBA (the latter more so), and take some of the shine away from the carry trade. However, comments by Chinese officials over the weekend confirm that they are not in a mood to be told what to do by the US or other Western powers.

Chinese comments also have ramifications for AUD/JPY, with Japan nearly fished repatriating Yen for the March 31st year-end. The opportunity for AUD/JPY to move into the high 88's is significant.

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	↔/↓	Overall tone of data has been better in AU vs NZ.
Technicals	↔/↓	Major resistance level at 0.7730
Sentiment	↓	Market still lumping NZ in with the upbeat AU view.
Other	↔/↓	Chinese policy on hold news favours AU over NZ.
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 better US data.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔/↓	US data still improving. NZ's not.
Technicals	↔/↑	Range trade – 0.6860/0.7080.
AUD	↔/↑	Support at 0.9070, target 0.9300 medium term
Sentiment	↔/↓	Negative bias following RBNZ MPS.
Other	↔	Risk trade still on – but does NZD benefit with OCR at 2.50%? Probably not.
On balance	↔	**Range-bound, neutral**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	TIME (NZDT)
15-Mar	**NZ**	**BNZ Performance of Service Index - Feb**		**53.1**	**10:30**
	AU	RBA Deputy Governor Edey speaks in Sydney			11:00
	UK	Rightmove House Prices – mom – Mar		+3.2%	13:01
	EC	Eurozone Employment – qoq – Q4		-0.5%	23:00
16-Mar	US	Empire Mfg Survey – Mar	21.0	24.9	01:30
	US	Long Term TIC Flows – Jan		$63.3bn	02:00
	US	Industrial Production – mom – Feb	+0.1%	+0.9%	02:15
	US	Capacity Utilisation – Feb	72.6%	72.6%	02:15
	AU	RBA February Meeting minutes			13:30
	UK	DCLG House Prices – yoy – Jan		+2.9%	22:30
	GE	ZEW Survey – Economic Sentiment – Mar	44.0	45.1	23:00
	GE	ZEW Survey – Current Situation – Mar			23:00
	EC	ZEW Survey – Economic Sentiment – Mar		40.2	23:00
	EC	CPI – mom – Feb	+0.3%	-0.8%	23:00
17-Mar	US	Housing Starts – mom – Feb	-3.6%	+2.8%	01:30
	US	FOMC Rate Decision	0.25%	0.25%	07:15
	AU	Dwelling Start – qoq – Q4		+0.5%	13:30
	UK	Jobless Claimant Count Rate – Feb	5.1%	5.0%	22:30
	UK	Average Weekly Earnings – 3m/yoy - Jan	+1.8%	+0.8%	22:30
	UK	ILO Unemployment Rate – Jan	7.9%	7.8%	22:30
	JN	Bank of Japan Rate Decision	0.1%	0.1%	-
18-Mar	US	PPI – mom - Feb	-0.2%	+1.4%	01:30
	US	PPI Ex Food & Energy – mom – Feb	+0.1%	+0.3%	01:30
	US	Fed's Fisher speaks on Learning from the Crisis			09:00
	JN	BSI – Large All Industry Index – qoq – Q1		-1.9%	12:50
	JN	BSI Large Manufacturing Index – qoq – Q1		+13.2%	12:50
	NZ	**ANZ Consumer Confidence - Feb**		**123.6**	**15:00**
	UK	Public Sector Net Borrowing – Feb		£4.3bn	22:30
	UK	M4 Money Supply – mom – Feb		+0.4%	22:30
	EC	Eurozone Current Account – Jan		€9.4bn	23:00
	EC	Trade Balance – Jan	€6.0bn	€7.0bn	23:00
19-Mar	US	Fed's Duke speaks in Washington			00:30
	US	CPI – mom - Feb	+0.1%	+0.2%	01:30
	US	Initial Jobless Claims – Mar 14th	455k	462k	01:30
	US	Continuing Claims – Mar 7th		4558k	01:30

Continued on page overleaf

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	TIME (NZDT)
19-Mar	US	Fed's Hoenig, Lacker, Pianalto speak to Bankers in Washington			02:00
	US	Philadelphia Fed Index – Mar	17.0	17.6	03:00
	NZ	**Visitor Arrivals – Feb**		**+212k**	**10:45**
	NZ	**Net Permanent Long Term Migration – annual – Feb**		**+23k**	**10:45**
	GE	PPI – mom – Feb	+0.1%	+0.8%	20:00

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 was front and centre last week. The Bank held the OCR at 2.5 percent and reiterated their intention to begin tightening policy in the middle of 2010. The rest of the month will 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. Data readings for the first half of 2010 are expected to remain volatile.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Thur 18 Mar (3.00pm)	ANZ Roy Morgan Consumer Confidence (March)	Up or down	We have seen considerable volatility in the last few monthly readings. We are likely to see more of the same.
Fri 19 Mar (10.45am)	International Travel and Migration (Feb)	Up	Another positive net inflow, with PLT arrivals maintaining recent strength. Better job prospects across the Tasman have yet to result in a pick-up in PLT departures.
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.
Tue 30 Mar (10.45am)	Building Consents (Feb)	Stable	Still too early to see recovery given the uncertainty resulting from pending regulatory changes.
Wed 31 Mar (3:00pm)	National Bank Business Outlook (Mar)	Holding	Will business confidence remain elevated given the mixed data of late?
Tue 13 Apr (10:00am)	REINZ Residential data (March)	Stabilisation	Will provide an opportunity to see the impact (if any) of the PM's February speech.
Tue 13 Apr (10.45am)	Electronic Card Transactions (Mar)	Lifting	Recent outturns have been soft and a big month is overdue.
Wed 14 Apr (10.45am)	Retail Trade Survey (Feb)	Soggy	ECT data suggests a flat outturn.
On Balance		**Improving but not racing away**	**Recovery still on track but patchy.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.9	0.2	0.2	**0.9**	**0.3**	**0.4**	**0.5**	**0.9**	**1.1**	**1.1**
GDP (% yoy)	-3.0	-2.1	-1.3	**0.5**	**1.6**	**1.8**	**2.1**	**2.1**	**2.9**	**3.7**
CPI (% qoq)	0.3	0.6	1.3	-0.2	**0.6**	**0.7**	**0.9**	**0.8**	**0.5**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	**2.3**	**2.5**	**2.1**	**3.1**	**3.0**	**3.2**
Employment (% qoq)	-1.1	-0.5	-0.8	-0.1	**0.1**	**0.3**	**0.4**	**0.6**	**0.7**	**0.7**
Employment (% yoy)	0.8	-0.9	-1.8	-2.4	**-1.2**	**-0.5**	**0.7**	**1.4**	**2.0**	**2.4**
Unemployment Rate (% sa)	5.0	6.0	6.5	7.3	**7.5**	**7.4**	**7.2**	**6.8**	**6.4**	**6.1**
Current Account (% GDP)	-7.9	-5.6	-3.1	**-1.8**	**-1.6**	**-2.3**	**-3.4**	**-3.5**	**-3.3**	**-3.0**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	**5.8**	**1.9**	**3.8**	**4.0**	**0.2**	**-0.2**	**-0.8**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	**-8.2**	**-3.9**	**10.1**	**16.3**	**10.2**	**8.0**	**3.2**

	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	0.9	-0.4	..	..
Retail Sales (% yoy)	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.0	..	..
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)	-1.8	6.1	7.1	-2.9	7.9	0.3	2.2	6.2	-0.5	-0.7
Car Registrations (% yoy)	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4
Building Consents (% mom)	3.5	-9.5	5.2	2.2	5.6	12.1	0.5	-3.4	-2.9	..
Building Consents (% yoy)	-22.8	-24.4	-16.5	-9.1	-11.7	26.7	20.4	22.9	35.2	..
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 ($m)	906.1	-331.1	-177.6	-716.6	-561.5	-501.5	-275.4	-32.0	269.1	..
Trade Balance ($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	3.8
ANZ World Commodity Price Index (% yoy)	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	48.6
Net Migration (sa)	2480	1620	2450	1600	1820	2160	1730	1720	1950	..
Net Migration (annual)	11202	12515	14488	15642	17043	18560	20021	21253	22588	..

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	Jan-10	Feb-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.701	0.698	0.703	0.680	0.670	0.650	0.640	0.640	0.640	0.650
NZD/AUD	0.793	0.780	0.766	0.782	0.779	0.765	0.780	0.810	0.831	0.867
NZD/EUR	0.506	0.512	0.511	0.504	0.504	0.500	0.500	0.508	0.516	0.533
NZD/JPY	63.28	62.10	63.74	61.20	61.64	61.10	61.44	62.72	64.00	65.00
NZD/GBP	0.439	0.458	0.463	0.430	0.427	0.419	0.413	0.416	0.416	0.428
NZ$ TWI	65.0	64.5	64.7	63.4	63.1	62.1	62.0	63.0	63.8	65.6
INTEREST RATES	Jan-10	Feb-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.00	4.75	5.25
NZ 90 day bill	2.77	2.71	2.71	2.80	3.20	3.70	3.80	4.60	5.20	5.60
NZ 10-yr bond	5.62	5.76	5.85	5.70	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	0.26	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25	5.25
AU 3-mth	4.38	4.13	4.43	4.80	4.90	5.00	5.00	5.10	5.60	5.60

	12 Feb	8 Mar	9 Mar	10 Mar	11 Mar	12 Mar
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.74	2.69	2.67	2.68	2.68	2.70
NZGB 11/11	3.86	3.70	3.71	3.75	3.70	3.70
NZGB 04/13	4.60	4.47	4.47	4.51	4.49	4.49
NZGB 12/17	5.55	5.48	5.49	5.52	5.53	5.53
NZGB 05/21	5.85	5.77	5.78	5.80	5.82	5.82
2 year swap	4.25	4.09	4.13	4.20	4.20	4.17
5 year swap	5.24	5.07	5.10	5.16	5.16	5.13
RBNZ TWI	64.5	64.6	64.6	65.3	64.6	64.6
NZD/USD	0.6974	0.7001	0.6990	0.7068	0.6983	0.7000
NZD/AUD	0.7845	0.7682	0.7687	0.7720	0.7656	0.7648
NZD/JPY	62.55	63.30	62.91	63.63	63.02	63.45
NZD/GBP	0.4448	0.4613	0.4655	0.4723	0.4669	0.4647
NZD/EUR	0.5101	0.5115	0.5130	0.5197	0.5120	0.5116
AUD/USD	0.8890	0.9114	0.9093	0.9156	0.9121	0.9153
EUR/USD	1.3671	1.3686	1.3627	1.3600	1.3638	1.3683
USD/JPY	89.69	90.41	90.00	90.02	90.25	90.64
GBP/USD	1.5678	1.5178	1.5016	1.4965	1.4955	1.5062
Oil (US$/bbl)	74.11	81.50	81.85	81.50	82.07	82.10
Gold (US$/oz)	1093.40	1133.78	1121.73	1124.70	1109.20	1111.50
Electricity (Haywards)	6.56	11.52	11.16	12.51	11.01	13.25
Milk futures (US$/contract)	108	108	110	112	112	110
Baltic Dry Freight Index	2571	3259	3210	3230	3316	3506

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.

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

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- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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