

# Market Focus

New Zealand

16 November 2009

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## CORE VIEW = DE-LEVERAGING

### Page 2: Economic overview

- > We're sticking to our view that the RBNZ has the luxury of time on its side and can remain committed to keeping the OCR low until the second half of 2010.

### Page 4: Interest rate strategy

- > With the dataflow between now and the December *MPS* unlikely to materially alter the RBNZ's stance, we look set for a period of range trading. However, the market will continue to look for an earlier start to the tightening cycle, especially with the RBA set to tighten again in early December, despite NZ's economic story pointing otherwise. Our core rates (OCR hike) view remains later than the consensus and market.

### Page 5: Currency strategy

- > The USD index will be the focus this week as US President Obama visits China. APEC leaders produced no direct comments on currencies. Is this yet another green light to divest from a continually weakening USD? That looks the risk this week. In addition, the AUD looks set to continue rising, dragging the NZD reluctantly with it.

### Page 6: Data and event calendar

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## ECONOMIC OVERVIEW

We're sticking to our view that the RBNZ has the luxury of time on its side and can remain committed to keeping the OCR low until the second half of 2010.

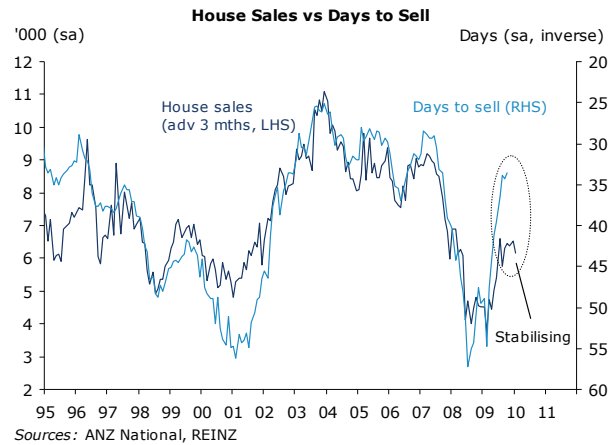
### What's ahead?

- > **September quarter NBNZ Regional Trends** (Thursday 1500 NZDT).
- > **October Credit Card spending** (Friday 1500 NZDT). This is volatile on a monthly basis. However, we suspect the general trend to remain subdued given ongoing household de-leveraging.

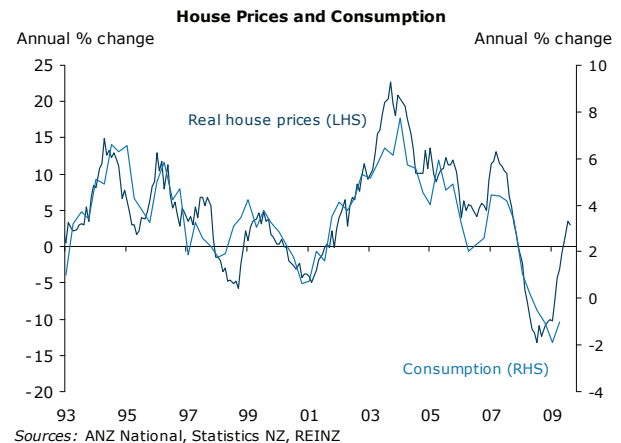
### What's the view?

**It is tempting to jump on the bandwagon and call an interest rate hike for the RBNZ in March.** Certainly a strong case can be made with house prices up 6 percent on a year ago (and up 9.2 percent from the January low), an improved global scene and the support from the upward revision to the dairy payout. The additional worry is that old borrow and spend habits emerge, and the RBNZ is hardly likely to stand by and watch such a scenario unfold.

**We're continuing to resist that temptation and remain comfortable taking a much later than market consensus view, with September being the timing of the first hike.** There are a host of reasons, but the majority centres on an economy – that in our minds – continues to de-leverage. Retail sales volumes only rose by a subdued 0.1 percent in the September quarter and monthly sales were flat. Cautiousness prevails and the Electronic Card Transaction (ECT) read on October was soft. As for the housing market, prices may be up, but volumes and average days to sell have stabilised over the past few months (and these tend to lead) and signify a market that has responded to policy support, but is now stabilising and is not being driven to excess. We've spent the last week finishing off our *Roadshow* series around the country. In so far as the feeling about the dairy payout was concerned – it is going towards debt repayment. And as we noted last week, let's not forget that the income boost from the higher payout is \$1.2 billion, but dairy debt rose by close to \$4 billion over the year! Even the guidance from major listed stocks has hardly been inspiring in terms of pointing towards an economy embarking on a strong recovery. We said it last week and we'll say it again: the Christmas period is shaping up as critical and we suspect activity is going to remain circumspect in so far as spending is concerned.



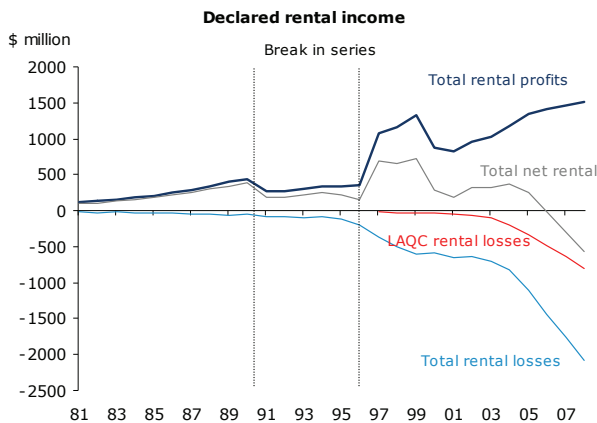
**Risks will no doubt remain that behaviours of old emerge.** The REINZ median house price is now back above its November 2007 peak. Some retail banks are becoming more aggressive in the mortgage market again, with loan-to-value ratios being lifted in some cases. History has shown that consumption growth has a strong correlation with house price inflation, and if this continues to hold, retail spending should begin to rebound into year end and over 2010.



**Yet, we remain of the view that there is more than one way to skin a cat.** Within the RBNZ's *Financial Stability Report* released last week the Bank stated that "There is scope for policy changes in other areas (such as the tax system) to assist further rebalancing." The Prime Minister ruled out a capital gains tax (once again), but we struggle to see how the government can afford (literally) to continue giving a tax rebate on NZ's biggest investment class, namely residential property. Some tightening up in the tax rules surrounding property, in our minds, is inevitable.

**The background papers presented to the Tax Working Group (TWG) reveal the extent of growth in tax losses claimed on residential property investment over recent years.** In 2008, net rental losses of almost \$580m were reported, a big turnaround from net rental profits in earlier years. IRD and Treasury are unsure whether this is a temporary phenomenon or a new

trend that will remain in place in the absence of any policy change. Associated with this, there has been an explosion of the number of active Loss Attributing Qualifying Companies (LAQCs), rising to nearly 130,000 in 2008 from 63,400 in 2003. The total LAQC losses claimed over that period has risen from \$0.7b to \$2.3b (not all associated with investment property). During periods when the government was running substantial surpluses, such loss claims did not have a material bearing on the overall fiscal position. But with the Treasury's latest Long-Term Fiscal Statement projecting ongoing deficits and net debt rising past 200 percent of GDP by 2048, recent trends in rental and LAQC losses claimed cannot go on. So while we – as a nation – might be loathe to introduce a capital gains tax on housing or land tax, it would be truly astonishing if we stood by and let the current trends in losses on residential property continue. Otherwise, the onus is on the remainder of the tax payers – via our general tax contribution – to fill the void.



Sources: ANZ, IRD, The Treasury

**And in relation to the housing market, the RBNZ once again sent a message stating** "We would encourage the banks to avoid any return to riskier mortgage lending practices." While this comment did not contain any direct moves, it is a reminder that the RBNZ has the power to change prudential measures. It follows on from comments made by RBNZ Governor Bollard in front of the Finance and Expenditure Committee a month or so ago of "We would certainly be talking to banks about credit conditions and requirements before that happened [a return to aggressive lending]. At the minute we don't have concerns, we think we have some room to use more tools we'd be looking at that over this next year [sic]."

**The government also looks set to move to a more restrictive stance on spending.** The Minister of Finance stated while over at the APEC meeting that "We are pulling back from pumping money in [to the economy]. ...The concern is that the United States needs to keep stimulating their economy because it's in a pretty bad shape. We are in a better shape, we can afford to pull back and

get a more balanced recovery so that the private sector can get up and running, providing new jobs." Fiscal consolidation is on the way and looks set to not just involve tax changes, but changes in the pace of government spending.

**Any of these changes are likely to assist the RBNZ in smoothing the business cycle, but it comes down to a question of timing.** Putting through significant tax changes can take time in order to ensure the administrative side of things is ready to handle change. The TWG is due to report back early next month on their recommendations. This may mean there is not enough time for anything specific to be included in the *Budget Policy Statement* released in conjunction with the *December Update* in mid-December. However, it might not actually take a specific announcement. A signalling that change is coming could be enough to modify behaviours. We will be watching very closely over the coming months.

**It is a quiet week locally for data and events this week.** The two data releases are the NBNZ *Regional Trends* report for the September quarter, and credit card spending for October. The former should provide a useful early read on September quarter GDP (the historical relationship is reasonable, although by no means perfect). We will be interested in what it shows around the urban-rural mix to growth. The credit card data has been quite volatile of late and is not the best leading gauge on actual retail spending. Following the 1 percent fall in spending in September, chances are we will see a rebound. However, we suspect the broad trend will remain subdued, just like the ECT data.

### Recent local data...

- > **Electronic Card Transactions (October):** Retail related ECT spending fell 0.2 percent following a 0.7 percent increase in September. Core retail spending fell 0.4 percent.
- > **Food Price Index (October):** Food prices fell 1.5 percent in the month, taking annual growth 2.0 percent.
- > **BNZ Capital-Business NZ Manufacturing PMI (October):** The index fell 0.9 points to 50.6 – above the level indicating expansion.
- > **Retail Sales (September):** Total nominal retail sales rose 0.2 percent in the month, while core spending was flat. For the quarter, retail sales volumes rose by a subdued 0.1 percent.
- > **REINZ House Sales (October):** In seasonally adjusted terms, the number of house sales fell 5.6 percent, the median number of days to sell remained unchanged at 34 days, and house prices rose to \$355,000, up 6.0 percent on a year ago.

## INTEREST RATE STRATEGY

With the dataflow between now and the December MPS unlikely to materially alter the RBNZ's stance, we look set for a period of range trading. However, the market will continue to look for an earlier start to the tightening cycle, especially with the RBA set to tighten again in early December, despite NZ's economic story pointing otherwise. Our core rates (OCR hike) view remains later than the consensus and market.

### Market themes...

- > Housing market activity still buoyant, with prices pushing higher.
- > But consumer spending still sluggish and not showing a pick-up in line with rising confidence.
- > Strong Australian employment data signals another rate hike from the RBA in December.

### Review and outlook...

**Flows in the NZ rates market are generally thin and liquidity poor, resulting in gapping with wide spreads.** The early payside resulting from the increased Fonterra payout failed to sustain throughout the week. The mixed dataflow continued with the housing market showing still strong price rises, but retail sales coming in below expectations. The market reaction to the domestic data was muted, as the NZ market looked towards the Australian data for cues on the RBA's next move in December. Strong Australian employment data initially saw a selloff there, with expectations moving to a 25bp hike pre-Christmas. But the selloff ran out of steam, and this flowed through into the NZ market as well, which led to strong receiving interest in the NZ curve to end the week.

**There is little data ahead of the MPS to trigger a strong selloff in NZ rates.** While there is a risk of speculative received positions unwinding over the Christmas break, the cost of carry in the 2-year should see it capped at 4.6 percent. The dataflow will show ongoing improvements in the economy, but we doubt it will be enough to change the RBNZ's stance (and our low for longer view). Therefore we believe the cost of carry should see the front-end supported by speculative receivers, while short positions are neutralised.

**The curve flattened during the week as profit was taken on steepeners.** Most of the move was driven by long-end receiving, which may also be on the view that the long-end implied forward rates are not properly taking into account the new banking capital requirements which will see interest rate margins staying elevated, suggesting that the neutral cash rate may be much lower going forward than it has been historically.

**In terms of flow, mortgage payside remains quiet with little activity beyond 1-year.**

Offshore receiving was limited and corporate flow was mixed with both receiving and paying of swap. The bills/libor market was active and has now reached a point of liquidity with good flows going through along the curve. As in Australia, local bank issuance is on the payside and receivers are taking advantage of the positive arbitrage of up to +32bps over BKBM in the 5-year. We expect the market to level here for the meantime with good liquidity.

### Borrowing strategies we favour at present

The RBNZ remains committed to keeping rates unchanged until the second half of next year, giving borrowers some time to continue benefiting from lower floating rates. We still favour using caps to hedge, as the market continues to run with an earlier tightening cycle than what the RBNZ flagged. Another alternative strategy is to use swaptions.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	RBNZ says in plain language that market pricing is wrong and they are on hold until the second half of 2010.
NZ data	↔/↑	Housing market activity still perky, but consumer spending remains sluggish.
Fed Funds / front end	↔	Fed committed to low rates for an extended period.
RBA	↔/↑	December looks like a goer. But only 25bp.
US 10 year	↔	Still struggling to break through the 3.5% level.
NZ swap curve	↔	Cost of carry to continue to weigh on flattener positions.
Flow	↔	Mortgage flow still quiet, corporate flow mixed.
Technicals	↔/↑	4.45%-4.6% range in 2-year for time being.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Dec-09	+2	+2
Thu 28-Jan-10	+4	+5
Thu 11-Mar-10	+20	+18
Thu 29-Apr-10	+60	+56
Thu 10-Jun-10	+96	+93
Thu 29-Jul-10	+129	+126
Thu 16-Sep-10	+160	+161

### Trading themes we favour at present

The market is likely to keep looking for earlier hikes than what the RBNZ flagged, especially in light of the big upward revision to the dairy payout. We see swaps very much range trading in the near-term, and continue to play the accrual trade.

## CURRENCY STRATEGY

The USD index will be the focus this week as US President Obama visits China. APEC leaders produced no direct comments on currencies. Is this yet another green light to divest from a continually weakening USD? That looks the risk this week. In addition, the AUD looks set to continuing rising, dragging the NZD reluctantly with it.

### Market themes...

- > No direct currency comment from APEC and more talk of rebalancing its domestic economy suggest the US is largely focused on internal issues.
- > Equities continue to lead risk appetites and hence currency markets.
- > The AUD close above 0.9300 suggests higher this week.

### Review and outlook...

**The subdued local retail sales data was shrugged off last week.** Instead, the strong Australian employment result got plenty of attention and sees the likelihood that the RBA increases interest rates once again in December. We now struggle to find reasons to be short AUD, and see NZD being dragged reluctantly higher.

**The issue of China's currency peg to the greenback should gain plenty of attention this week.** With US President Obama due to meet Chinese officials this week, currencies are likely to be near the top of the agenda. The non-deliverable forwards (NDF) market has pushed the CNY 1-year NDF to price in a 3 percent appreciation, in what is clearly an expectation of a change in the peg. Whether this occurs or not remains to be seen. But we expect plenty of headlines and opinions over the next few days discussing this very possibility. This could be very directional for the US dollar. The USD index support at 75.00 has held to date, but a break lower will target the all time lows sub 72.00.

**In addition, regulatory winds could impact the US dollar over the near to medium-term.** New regulatory measures suggested from Senator Dodd last week could be a sign of things to come. These measures may weaken the Fed's autonomy and could potentially delay the reduction in stimulus when the 'extended period' is over. If this led to inflationary and fiscal concerns, a sell off in the bond market and rapid depreciation in the USD could potentially result.

**There is a desert of NZ data this week.** Offshore themes and equity markets are set to continue to be dominant drivers of the local currency for the run into Christmas. This will

suggest NZD fortunes will again be tied closely to the AUD.

**On a technical sense, the NZD has had its correction to 0.71 and is now ready for a break above the 0.7450 level.** The first target looks to be 0.7510 on route to 0.7600. Support should arrive at 0.7410 and 0.7380 level. The NZDAUD cross should consolidate around current levels, with a base seen now at 0.7880 and a top at 0.8020. We favour the AUD to lead the NZD higher and prefer to sell any rally above 0.8000.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both softs and hards performing well.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔/↓	Range trade, top in place 0.8020.
Sentiment	↔/↓	Australia to go in December. RBNZ on hold.
Other	↔/↓	Asian central banks underweight Australian asset.
<b>On balance</b>	↔/↓	<b>NZD struggling to keep up with AUD.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	Above cyclical fair value estimates, just.
Yield	↔	Both low for longer.
Commodities	↑	Soft commodities gaining momentum.
Risk aversion	↔	Improved, watch equities.
Partial indicators	↔/↓	Inventories being rebuilt, but what about demand?
Technicals	↔/↑	0.71 support held easily. Topside retest.
AUD	↑	First to hike in G20. 0.9370 = much higher.
Sentiment	↔	US sentiment not improving.
Other	↔	Obama in China, watch the headlines.
<b>On balance</b>	↔/↑	<b>Reasons to sell diminishing.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
16-Nov	<b>NZ</b>	<b>Producer Prices- Inputs (3Q) - qoq</b>	<b>0.0%</b>	<b>0.0%</b>	<b>10:45</b>
		<b>Producer Prices- Outputs (3Q) - qoq</b>	<b>0.3%</b>	<b>-0.7%</b>	<b>10:45</b>
	JN	Gross Domestic Product (3Q P) - qoq	0.7%	0.6%	12:50
		GDP Annualized (3Q P)	2.9%	2.3%	12:50
		BoJ Governor Shirakawa to Speak at Forum in Tokyo	-	-	13:30
	UK	Rightmove House Prices (Nov) - mom	-	2.8%	13:01
	EC	ECB's Weber Speaks in Frankfurt	-	-	21:50
		CPI (Oct) - mom	0.3%	0.0%	23:00
		CPI (Oct) - yoy	-0.1%	-0.3%	23:00
		CPI - Core (Oct) - yoy	1.1%	1.2%	23:00
		ECB's Tumpel-Gugerell Speaks in Vienna	-	-	23:30
17-Nov	US	Advance Retail Sales (Oct) - mom	0.9%	-1.5%	02:30
		Retail Sales Less Autos (Oct) - mom	0.4%	0.5%	02:30
		Empire Manufacturing (Nov)	30.0	34.6	02:30
		Business Inventories (Sep)	-0.7%	-1.5%	04:00
		Fed's Bernanke Speaks to Economic Club of New York Lunch	-	-	06:15
		Fed's Fisher Speaks in Tyler, Texas, on US Economy	-	-	07:15
		Fed's Kohn Speaks on Policy Challenges at Northwestern University	-	-	12:15
	EC	ECB's Quaden Speaks at Belgian Finance Forum Conference	-	-	05:00
		Trade Balance s.a. (Sep)	-	1.0B	23:00
	JN	Tertiary Industry Index (Sep) - mom	0.1%	0.3%	12:50
	AU	RBA Board Minutes	-	-	13:30
	UK	CPI (Oct) - mom	0.1%	0.0%	22:30
		CPI (Oct) - yoy	1.4%	1.1%	22:30
		Core CPI (Oct) - yoy	1.8%	1.7%	22:30
18-Nov	US	Producer Price Index (Oct) - mom	0.5%	-0.6%	02:30
		PPI Ex Food & Energy (Oct) - mom	0.1%	-0.1%	02:30
		Net Long-term TIC Flows (Sep)	\$30.0B	\$28.6B	03:00
		Industrial Production (Oct)	0.4%	0.7%	03:15
		Capacity Utilization (Oct)	70.8%	70.5%	03:15
		Fed's Lacker Speaks on Economy to Lawmakers in Virginia	-	-	04:15
		Fed's Pinalto Speaks to Housing Conference in Columbus, Ohio	-	-	06:30
		NAHB Housing Market Index (Nov)	19	18	07:00
	GE	ECB's Stark Speaks on Financial Stability in Frankfurt	-	-	03:30
		ECB's Tumpel-Gugerell Speaks in Hamburg	-	-	05:00
		ECB President Trichet, Euro Group's Juncker Speak in Frankfurt	-	-	06:00
		ECB President Trichet Speaks in Frankfurt	-	-	21:40

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Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
18-Nov cont.	AU	RBA's Guy Debelle Speaks in Sydney	-	-	11:05
		Westpac Leading Index (Sep) - mom	-	1.1%	13:00
		Wage Cost Index (3Q) - qoq	0.7%	0.8%	13:30
	EC	ECB Current Account s.a. (Sep)	-	-1.3B	22:00
		Construction Output (Sep) - mom	-	-0.4%	23:00
	UK	BoE Minutes	-	-	22:30
19-Nov	US	Consumer Price Index (Oct) - mom	0.2%	0.2%	02:30
		CPI Ex Food & Energy (Oct) - mom	0.1%	0.2%	02:30
		Consumer Price Index (Oct) - yoy	-0.3%	-1.3%	02:30
		CPI Ex Food & Energy (Oct) - yoy	1.6%	1.5%	02:30
		Housing Starts (Oct)	600K	590K	02:30
		Building Permits (Oct)	580K	573K	02:30
		Fed's Bullard to Speak on Economy at Missouri Breakfast	-	-	03:15
		Fed's Plosser Speaks on Food and Water in Singapore	-	-	18:45
	AU	Average Weekly Wages (3Q) - qoq	-	1.2%	13:30
		RBA's Guy Debelle Speaks in Sydney	-	-	14:00
	JN	All Industry Activity Index (Sep) - mom	-0.1%	0.9%	17:30
		Leading Index CI (Sep F)	-	86.4	18:00
		Coincident Index CI (Sep F)	-	92.5	18:00
	UK	Retail Sales (Oct) - mom	0.5%	0.0%	22:30
		M4 Money Supply (Oct P) - mom	1.0%	0.8%	22:30
		Public Finances (PSNCR) (Oct)	4.0B	19.4B	22:30
		Public Sector Net Borrowing (Oct)	7.0B	14.8B	22:30
		BoE Releases Trends in Lending Report	-	-	22:30
	EC	OECD November Economic Outlook	-	-	23:00
20-Nov	US	Initial Jobless Claims (w/e Nov-15)	505K	502K	02:30
		Continuing Claims (w/e Nov-8)	5598K	5631K	02:30
		Leading Indicators (Oct)	0.4%	1.0%	04:00
		Philadelphia Fed (Nov)	12.0	11.5	04:00
		Fed's Fisher Speaks at Cato Conference in Washington	-	-	10:45
	EC	ECB President Trichet Speaks in Paris	-	-	05:00
		ECB's Weber Speaks in Frankfurt	-	-	21:00
		ECB President Trichet Speaks in Frankfurt	-	-	23:30
	GE	ECB's Gonzalez-Paramo Speaks in Berlin	-	-	07:00
		Producer Prices (Oct) - mom	0.1%	-0.5%	20:00
	<b>NZ</b>	<b>Credit Card Spending (Oct) - mom</b>	-	<b>-1.0%</b>	<b>15:00</b>
	JN	BoJ Target Rate	0.10%	0.10%	-

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:** Upcoming data is expected to continue its generally improving trend, but we still question whether the “mix” to growth is right to achieve a sustainable recovery. The key issue is whether “hard” data begins to catch up to where “soft” data (confidence surveys etc) currently sit.

Date	Data/Event	Economic Signal	Comment
Thu 19 Nov (15.00)	NBNZ <i>Regional Trends</i> (Sep qtr)	-	-
Fri 20 Nov (10.45)	Credit Card Spending (Oct)	Trend still subdued	This is volatile on a monthly basis. However, we suspect the general trend to remain subdued given ongoing household de-leveraging.
Mon 23 Nov (10.45)	International Travel and Migration (Oct)	Another gain	The number of New Zealanders permanently departing is likely to remain subdued. However, we expect the level of arrivals to also begin to ease. Another monthly net inflow is expected, but potentially smaller than in recent months.
Thu 26 Nov (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Fri 27 Nov (10.45)	Overseas Merchandise Trade (Oct)	Another deficit	Another monthly trade deficit is expected, which is typical for October months. The level of imports will be important to watch for any signs of a turn in prospects.
Fri 27 Nov (15.00)	RBNZ Survey of Expectations (Dec qtr)	Contained	We expect the 2-year ahead measure of inflation expectations to remain near the current 2.3 percent level.
Fri 27 Nov (15.00)	Credit Growth (Oct)	Ongoing de-leveraging	Themes from recent months are likely to be repeated where housing credit growth remains relatively subdued as existing mortgage holders look to pay down debt. Credit growth for business and agriculture will also be soft.
Mon 30 Nov (10.45)	Building Consents (Oct)	Up she goes	Residential consent issuance is likely to continue to rise from what are still very low levels. However, non-residential consent issuance is likely to continue to trend lower.
Thu 3 Dec (15.00)	ANZ Commodity Price Index (Nov)	-	-
Mon 7 Dec (10.45)	Wholesale Trade Survey (Sep qtr)	Subdued	Following flat retail sales volumes in the quarter, we expect a similar result for wholesale trade.
Tue 8 Dec (10.45)	Value of Building Work Put in Place (Sep qtr)	Non-residential to be particularly weak	We expect both residential and non-residential construction volumes to be weak in the quarter, although particularly so for the latter.
Wed 9 Dec (10.45)	Electronic Card Transactions (Nov)	Improving, but growth subdued.	Despite stimulus from net migration and low interest rates, headwinds for consumers remain strong. Volatility aside, we expect a reasonably subdued result.
Thu 10 Dec (10.45)	Overseas Trade Indexes (Sep qtr)	Terms of trade recovering	With commodities prices on the mend, we expect the terms of trade to post a modest gain in the quarter. In terms of volumes, we expect exports to fall slightly, while imports to record a small increase.
<b>On Balance</b>		<b>Up</b>	<b>Right direction, wrong mix.</b>



## SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
GDP (% qoq)	-0.5	-1.0	-0.8	0.1	<b>0.5</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>
GDP (% yoy)	-0.4	-2.2	-2.6	-2.1	<b>-1.2</b>	<b>0.6</b>	<b>2.0</b>	<b>2.5</b>	<b>2.6</b>	<b>2.3</b>
CPI (% qoq)	1.5	-0.5	0.3	0.6	1.3	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>
CPI (% yoy)	5.1	3.4	3.0	1.9	1.7	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.1</b>	<b>2.5</b>
Employment (% qoq)	0.1	0.7	-1.4	-0.4	-0.7	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>
Employment (% yoy)	1.1	0.9	0.7	-0.9	-1.8	<b>-2.5</b>	<b>-1.2</b>	<b>-0.7</b>	<b>0.3</b>	<b>0.8</b>
Unemployment Rate (% sa)	4.3	4.7	5.0	6.0	6.5	<b>6.8</b>	<b>7.0</b>	<b>7.1</b>	<b>7.1</b>	<b>7.0</b>
Current Account (% GDP)	-8.6	-8.9	-8.1	-5.9	<b>-4.2</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-4.7</b>	<b>-5.5</b>	<b>-5.6</b>
Terms of Trade (% qoq)	-1.0	-1.0	-2.7	-8.9	<b>1.0</b>	<b>1.1</b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	<b>-11.4</b>	<b>-9.5</b>	<b>-6.6</b>	<b>2.6</b>	<b>1.7</b>	<b>0.7</b>

## KEY ECONOMIC INDICATORS

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Retail Sales (% mom)	-1.1	0.2	-0.1	0.5	0.7	0.0	-0.5	1.1	0.2	..
Retail Sales (% yoy)	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	..
Credit Card Billings (% mom)	1.7	1.1	-2.9	2.4	-0.3	0.1	0.2	1.6	-1.0	..
Credit Card Billings (% yoy)	-2.4	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	..
Car Registrations (% mom)	-14.5	-14.6	6.3	-0.6	-2.6	6.2	7.2	-2.6	6.7	0.9
Car Registrations (% yoy)	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8
Building Consents (% mom)	-12.3	11.9	-1.8	11.8	2.8	-9.1	4.0	1.7	3.4	..
Building Consents (% yoy)	-51.1	-39.8	-34.4	-56.5	-23.5	-23.8	-16.7	-8.9	-12.7	..
REINZ House Price (% yoy)	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0
Household Lending Growth (% mom)	0.2	0.1	0.0	0.2	0.4	0.1	0.3	0.3	0.2	..
Household Lending Growth (% yoy)	3.8	3.1	2.7	2.5	2.5	2.3	2.4	2.3	2.3	..
ANZ-Roy Morgan Consumer Confidence	103.7	97.1	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9
NBNZ Business Confidence	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2
NBNZ Own Activity Outlook	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5
Trade Balance (\$m)	-102	483	438	322	906	-331	-176	-719	-424	..
Trade Balance (\$m annual)	-5405	-5165	-4684	-4070	-2994	-3110	-2490	-2361	-1533	..
ANZ World Commodity Price Index (% mom)	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.6
ANZ World Commodity Price Index (% yoy)	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.6
Net Migration (sa)	870	1640	1720	2080	2610	1690	2480	1610	1800	..
Net Migration (annual)	4538	6160	7482	9176	11202	12515	14488	15642	17043	..

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)						
	Sep-09	Oct-09	16-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.702	0.737	0.744	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.816	0.815	0.797	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.482	0.498	0.499	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	64.2	66.5	66.7	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.430	0.456	0.446	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	64.3	66.4	66.15	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Sep-09	Oct-09	16-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.75	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.77	2.79	2.80	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.82	5.78	5.78	5.60	5.60	5.70	6.00	6.10	6.30	6.50
International	Sep-09	Oct-09	16-Nov-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	0.29	0.36	0.27	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.25	3.50	3.50	4.00	4.00	4.00	4.00	4.00	4.50
AU 3-mth	3.38	3.68	4.05	3.90	4.40	4.30	4.30	4.30	4.50	5.00

## KEY RATES

	13 Oct	9 Nov	10 Nov	11 Nov	12 Nov	13 Nov
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.81	2.82	2.81	2.82	2.82	2.79
NZGB 11/11	4.16	4.35	4.40	4.40	4.37	4.34
NZGB 04/13	4.94	5.13	5.15	5.15	5.12	5.08
NZGB 12/17	5.54	5.79	5.81	5.81	5.79	5.78
NZGB 05/21	5.84	6.09	6.11	6.11	6.09	6.08
2 year swap	4.36	4.57	4.60	4.57	4.57	4.54
5 year swap	5.45	5.72	5.72	5.69	5.69	5.66
RBNZ TWI	66.5	65.7	65.9	65.9	65.9	65.5
NZD/USD	0.7371	0.7356	0.7400	0.7415	0.7414	0.7332
NZD/AUD	0.8127	0.7950	0.7977	0.7967	0.7928	0.7920
NZD/JPY	66.20	66.34	66.56	66.45	66.59	66.14
NZD/GBP	0.4673	0.4407	0.4418	0.4433	0.4465	0.4418
NZD/EUR	0.4990	0.4934	0.4940	0.4946	0.4940	0.4932
AUD/USD	0.9070	0.9253	0.9277	0.9307	0.9352	0.9258
EUR/USD	1.4772	1.4910	1.4981	1.4993	1.5008	1.4865
USD/JPY	89.81	90.18	89.95	89.61	89.82	90.21
GBP/USD	1.5775	1.6693	1.6748	1.6726	1.6603	1.6595
Oil	73.24	77.40	78.05	79.01	79.16	77.25
Gold	1055.35	1102.80	1101.20	1108.15	1120.35	1105.20
Electricity (Haywards)	0.50	6.06	12.30	16.02	21.33	12.14
Milk futures (US\$/contract)	106	124	124	124	124	124
Baltic Dry Freight Index	2646	3480	3615	3748	3954	4111

### NEW ZEALAND DISCLOSURE INFORMATION

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

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

### Qualifications, experience and professional standing

#### Experience

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

#### Relevant professional body

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

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

#### Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

#### Dispute resolution facilities

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

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

#### Criminal convictions

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

#### Fees

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

#### Other interests and relationships

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

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

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

#### Securities about which investment advice is given

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

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

#### PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

#### **Record Keeping**

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

#### **Auditing**

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

#### **Use of Money and Property**

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

#### **NEW ZEALAND DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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