Market Focus

New Zealand

17 August 2009

FINAL DEMAND

NZ Economics Team:

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

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

Philip Borkin
Economist
Telephone: +64 4 802 2199
E-mail: borkinp@anz.com

Steve Edwards
Economist
Telephone: +64 4 802 2217
E-mail: edwards1@anz.com

Kevin Wilson
Rural Economist
Telephone: +64 4 802 2361
E-mail: wilsonk1@anz.com

Page 2: Economic overview

> Two views are emerging towards the property market. The first focuses on a perceived supply-demand situation creating a mini-boom. The second focuses on a balance sheet constraint for NZ.Inc and steps by policymakers to restrain how far the property market can lift. We are firmly siding with the latter. This week, migration data should show another reasonable net inflow, although we will be watching the number of arrivals closely given the recent drop-off in work permit approvals.

Page 5: Economic comment – monthly inflation gauge

> Following flat prints for the past two months, our experimental monthly inflation gauge recorded a 0.5 percent increase in July. This was largely driven by local authority rate increases and inflation indexation of alcohol taxes. Abstracting from that, domestic inflation pressures remain weak, which is not surprising given the state of the economy.

Page 6: Interest rate strategy

> The NZ rates curve could be due for a corrective move lower this week. Diverging economic fundamentals mean NZ rates should not be following Australian rates in lock step fashion. However, residual paying pressure mean any moves lower in yield could be capped.

Page 7: Currency strategy

> Time to take risk off the table? Last week saw global equity markets fail to make new ground and combined with poor performance from both hard and soft commodities, the outlook for risk currencies looks shaky. Price action in the NZD has been more volatile with new highs not being maintained and daily closes generally close to the low of the day's trading range. These are all trend ending attributes. Expect this to continue for another week or two.

Page 8: Data and event calendar

Page 10: Data watch

Page 11: Key forecasts

ECONOMIC OVERVIEW

Two views are emerging towards the property market. The first focuses on a perceived supply-demand situation creating a mini-boom. The second focuses on a balance sheet constraint for NZ.Inc and steps by policymakers to restrain how far the property market can lift. We are firmly siding with the latter. This week, migration data should show another reasonable net inflow, although we will be watching the number of arrivals closely given the recent drop-off in work permit approvals.

What's ahead?

> **June quarter Producer Price Indices** (Wednesday 1045 NZST). Lower commodity prices should see both input and output prices fall in the quarter. We expect the input prices to fall by 0.1 percent and output prices by 0.4 percent.

> **June quarter NBNZ *Regional Trends*** (Thursday 1500 NZST).

> **July International Travel and Migration** (Friday 1045 NZST). Another reasonable monthly net inflow is expected as departures remain subdued. However, the key to watch is whether arrivals of non-NZ and Australians are able to hold up.

What's the view?

There is growing speculation that a shortage of housing will lead to another mini housing boom. We've commented before that we don't think a housing shortage exists when we look at cumulative housing investment over more than a decade. But even if we accept the shortage thesis (it seems logical enough that a shortage must push up the price), we struggle to see the link in reality.

Specifically, there are three shortcomings.

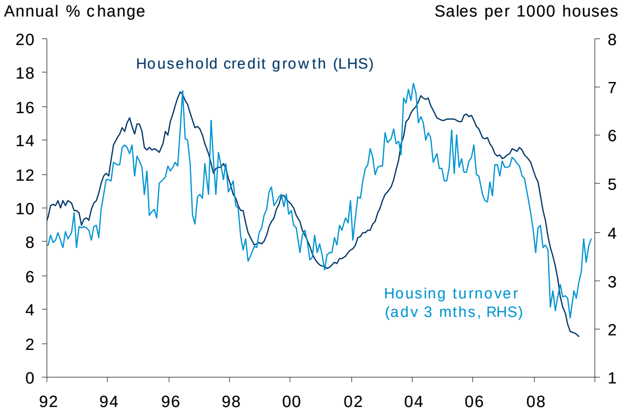
> **It overlooks the fact that the housing adjustment this time is primarily a land price adjustment,** of which there is no shortage (excluding the likes of Auckland). We have yet to see the ripple effects of the speculative development boom in reverse. On a lot of development land, there is no price, because there is no bid! We don't see that changing any time soon.

> **Policymakers will not let it happen.** In fact we are already seeing the impact of the RBNZ's new liquidity requirements for banks, which have pushed up interest rates. This will act as a natural handbrake. As speculation of a housing upturn extends so, it seems, do calls for regulatory constraints, such as a capital gains tax on housing. Of course this is nothing against the housing market *per se*. It simply recognises that a housing led recovery and even greater debt accumulation will only create further problems down the track for the economy.

> **Supply-demand is not the binding constraint at present for housing – the need for the economy to de-leverage and correct a massive external imbalance is.** Going back to between 2004 and 2007, no one even talked about housing supply-demand balance, nor did they talk about a correction because of it. This is despite a clear excess supply situation existing (note: one scribe was repeatedly warning about coastal property developments though). So we find the current fixation rather amusing. For the housing market to take off again, credit growth needs to rise sharply, which would mean the current account deficit was rising again. In a de-leveraging world we struggle to make sense of that. Nor do we think rating agencies or policymakers would idly watch it happen.

That does not mean supply-demand is not relevant. It certainly is an important fundamental over time. But our judgement at present is that it is simply outweighed by the credit nature of global circumstances and NZ's indebtedness. Both building consents and real estate listings (the often quoted shortage factors) are heavily influenced by credit and the willingness to take on debt. This is either to build or to trade up your house. Let's face it, when you buy a house, you are normally "trading up" via taking on more debt, and households are circumspect about that at present given the job market backdrop, a situation not likely to change soon. In the meantime, factors such as a rise in the number of people per house, as school-leavers stay at home for longer, and the renovations market will act to mitigate the supply-demand situation.

Household credit growth and housing turnover



Sources: ANZ National, RBNZ, REINZ, Statistics NZ

Nonetheless, we respect housing nuances and it's a fine line between stabilisation and reflation. The self-interest part of us (we are a bank and own property!) hopes it's the latter. But the macroeconomist in us struggles with it. Fitting with the balance sheet constraint view will require house sales to stabilise and days to sell rise as more listings come on the market into year-end. More listings seem to be appearing at present in line with the normal spring season, and we fully expect this to dampen the "shortage price premium" being talked about in the market. This is a critical area we are watching, and no doubt the RBNZ as well, to maintain lower-for-longer views towards the OCR. **For our view to be ratified and the balance sheet constraint to be dominating, we need to see the housing market stabilise as opposed to extend into Christmas.**

Turning to the international front, two issues are weighing on us at present.

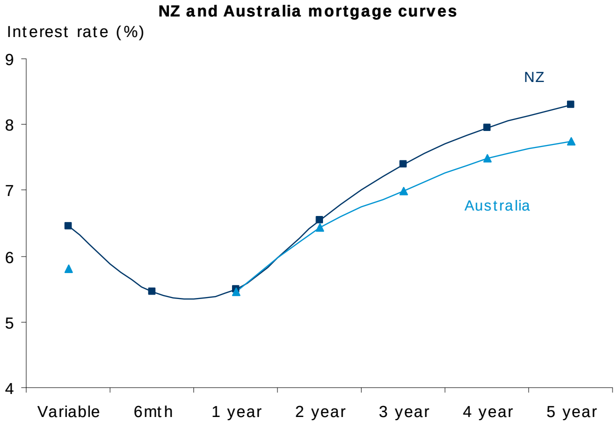
> **Production versus final demand.** There is no doubt we are seeing recoveries in key production measures around the globe and we fully expect various PMI's and the US ISM survey to move above the key 50 level shortly. US industrial production was marginally up in July. Some parts of Europe have moved out of recession in Q2. But moving towards a **sustained** upturn needs final demand to improve, and the indicators of this (US retail sales and August consumer confidence) remain lacklustre and uninspiring. In so far as NZ and Australian perceptions are concerned, we need to pay close attention to China, which while showing improvement, its liquidity driven with worrying concerns for asset prices. Export performance will remain weak until US and European final demand is restored. Final demand remains the missing link in the global recovery story.

Chinese exports and US retail spending

Sources: ANZ National, Bloomberg

> **The RBA.** The door is open to a rate hike across the Tasman before year-end and the perception is naturally that the RBNZ will not be too far behind, with the NZ interest rate curve being dragged higher by views towards the RBA. We can understand the connection in rates (in theory given the economic linkages), but shrug our shoulders in bewilderment with why the NZDAUD is going up in that situation! But in so far as the rates market is concerned, we suspect people are failing to appreciate key differences including: the depth of the NZ recession, respective unemployment rates, relative terms of trade, contrasts for fiscal policy going forward and regulatory policy changes (read: higher NZ deposit rates) which you can see manifesting via the respective actual borrowing curves. These are key differences that will justify a widening OCR differential, and unlike early 2009 (the March *Statement*), credit markets are now open so the RBNZ should no longer be so concerned with retaining "competitiveness", which we all took to mean the NZ-Australia interest rate differential.

NZ and Australia mortgage curves

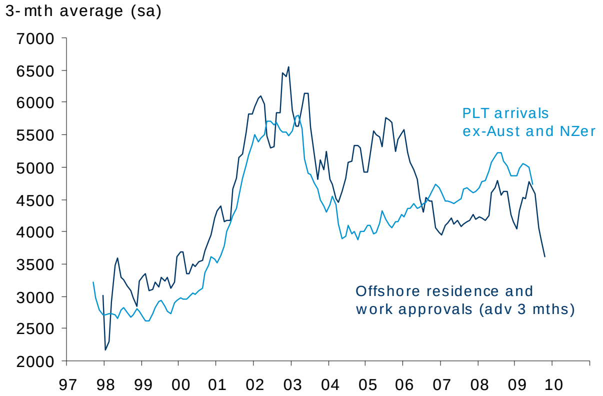


Sources: ANZ National

There is not a lot in the way of major local data released this week. June quarter PPI, the NBNZ *Regional Trends* results and migration for July are the main releases. The PPI numbers are unlikely to get too much attention given their volatility and poor correlation with the CPI. However, we expect both input and output prices to have eased slightly in the quarter (inputs by 0.1 percent and output prices by 0.4 percent). This is largely a consequence of reasonable (lagged) falls in NZD commodity prices. The NBNZ *Regional Trends* report will provide a useful early read on what June quarter GDP growth could have done.

Net migration data should get the most attention. Net migration inflows have averaged close to 2,000 per month over the past five months and we suspect a reasonably similar number to have been recorded in July as fewer New Zealanders choose to leave. The recent trend in migration, with the 3-month annualised rate running at over 25,000, is a boost for the economy and set to provide a base level of support to the housing market and consumer spending. However, as we noted in the 27 July *Market Focus*, there is a reasonable amount of uncertainty surrounding the outlook for migration, particularly whether arrivals of non-New Zealanders and Australians are able to hold up. While the number of ex-pats returning home may rise further given the economic backdrop offshore, we do note that the number of work permit and residence approvals has fallen and this may signal the pending drop-off in immigrants. Also key to watch will be the departures of NZ residents to Australia, given the reasonable pick-up in economic prospects over the Tasman and lower unemployment rate relative to NZ. Of course this is a forward looking story, of say 6 months, but we suspect it is likely to be influential in terms of whether recent migration gains are sustained for another year.

Residence and work approvals vs arrivals



Sources: ANZ National, NZIS, Statistics NZ

There is also not a lot of major data internationally this week either. The biggest focus may actually be on central bank rhetoric. The BoE releases their minutes from the meeting when they surprised the market and boosted their Quantitative Easing programme, and Fed Chairman Bernanke is speaking at the annual Jackson Hole conference.

Recent local data...

- **Electronic Card Transactions (July):** Total retail spending rose 0.8 percent in the month, while core retail spending rose 1.1 percent.
- **Food Price Index (July):** Food prices rose 0.6 percent in the month, taking annual growth to 8.4 percent.
- **REINZ Housing data (July):** Seasonally adjusted house sales rose by 4.6 percent and days to sell fell to 36 days. The median house price was unchanged at $340,000. The new Monthly House Price Index rose by 1.0 percent in the month to be up 0.9 percent on a year ago.
- **Retail Trade Survey (June):** Headline nominal spending rose 0.1 percent in the month, while core spending fell 0.4 percent. Over the quarter, real retail spending rose 0.4 percent.

MONTHLY INFLATION GAUGE[1]

Following flat prints for the past two months, our experimental monthly inflation gauge recorded a 0.5 percent increase in July. This was largely driven by local authority rate increases and inflation indexation of alcohol taxes. Abstracting from that, domestic inflation pressures remain weak, which is not surprising given the state of the economy.

Our monthly inflation gauge has been easing since early this year, and recorded flat reads in May and June. Our gauge picked up in July, recording a 0.5 percent increase. This is the strongest increase since July last year, when our gauge recorded a 1 percent rise. However, rather than an indication of renewed domestic inflation pressure, the rise merely reflects the annual increase in local authority rates (which is normally struck in July for the start of a new financial year) and increases to the excise tax on alcohol.

Based on our ring-around of local councils, the weighted average residential rate increases was around 4 percent. This is less than the 5½ percent increase last year, but still well above the average inflation rate. And though alcohol excise taxes rose by 2.8 percent from 1 July, it appears that retailers are taking advantage of this to push through higher prices, with our inflation gauge showing increases nearer 4 percent.

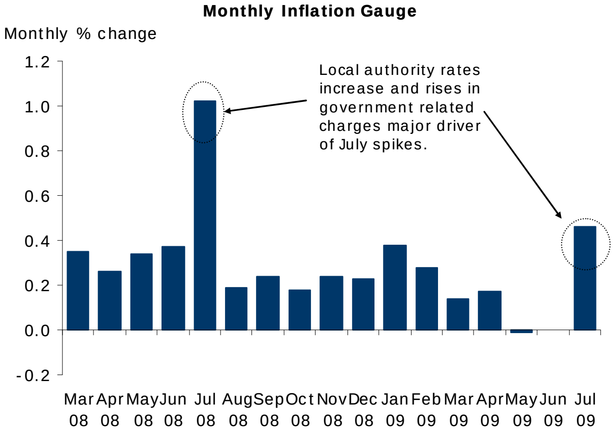
Apart from local authority rates and alcohol, there was the odd price increase here and there, mainly associated with services prices, but nothing substantial. There were no notable changes to electricity prices, and it seems the strong price rises of the past may have ceased for now. Rents continue to be flat, based on tenancy bond data from the Department of Building and Housing. Construction costs also seem well contained.

On balance, abstracting from government related increases, domestic inflation pressures are soft. We suspect our inflation gauge will show readings falling back into the 0 to ¼ percent monthly increases from August.

Looking at how our inflation gauge has performed relative to non-tradable CPI, it underestimated the increase in Q2 non-tradable inflation, after tracking fairly closely in the preceding four quarters. Given the differences in coverage and methodology, we can expect our gauge to have the odd "miss". Most of the Q2 deviation appears to be in the rent and construction cost area, where our modelled components have been weaker than the official Statistics NZ series.

Nonetheless, the key message from our inflation gauge is that domestic inflation pressures are soft and easing, which is not surprising given weakness in the labour market and the extent of slack in the economy. Non-tradable inflation looks set to continue easing in the coming quarters, which will give the RBNZ confidence that inflation will remain well within the target band – particularly if the currency remains stubbornly elevated.

	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		



Source: ANZ National

[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.

INTEREST RATE STRATEGY

The NZ rates curve could be due for a corrective move lower this week. Diverging economic fundamentals mean NZ rates should not be following Australian rates in lock step fashion. However, residual paying pressure mean any moves lower in yield could be capped.

Market themes…

> NZ market got caught up in the Australian market's reassessment of the RBA.

> Flows and stop-losses from a market that is long led to exaggerated moves.

> Weak Chinese exports and US consumer data casts doubt over the economic recovery story.

Review and outlook

The NZ rates market largely took its cues off global developments, with domestic data not really having a material impact (though generally adding to the bid tone at the margin). The biggest driver was a reassessment of the RBA by the Australian market, following improving business and consumer confidence, and RBA Governor Stevens' statement to the House Economics Committee. Markets now see a 60 percent chance the RBA hikes as early as October, with a full rate hike priced in for November and over 180bps of hikes over the next 12 months. Key to the RBA will be whether the dataflow holds up beyond July/August as the fiscal stimulus starts to tail off. The resulting selloff in the NZ curve sees the OIS market pricing in a full rate hike by the RBNZ in January, and 90bps of hikes by mid-2010, which seems excessive in our view. However, late in the week global rates rallied on the back of weak US consumer confidence.

Positioning and flows suggest any near-term retracement will be limited. Given the underperformance of the NZ market over the past week, a corrective move is due in the near-term, particularly given the rally in US rates seen late last week. **In trading flows we are seeing little corporate activity and just normal mortgage flows.** The increase in fixed mortgage rates has not had the same effect as the last surge due to the lack of interest to fix beyond two years and the reduced delta in those positions, as opposed to the rush to fix for five years in March. This payside mortgage concern has seen speculative receivers unload long positions. With thin liquidity some have moved received 2-year positions into the safety of the already elevated long end and the market has seen good flows in 2s5s and 2s10s and the curve has flattened significantly. It seems that the 2-year is still finding higher bases and it would need a strong catalyst to rally back through 4 percent. At the last low of 4.06 percent there were numerous payers that emerged.

Borrowing strategies we favour at present

Fixing at current levels locks you into rate hikes that are priced in too early and aggressively in our view. Nothing has changed to alter our view that the RBNZ is on hold until the end of next year. Hence, going floating remains our preferred strategy, and using options as a way to hedge further out, which has worked well of late given the lift in yields.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	On hold. RBNZ unlikely to act on their easing bias. But hikes still a long way off.
NZ data	↔/↑	Data showing signs of stabilisation and rebound off extreme lows.
Fed Funds / front end	↔	Fed holding the course steady, sticking to "exceptionally low" rates for an extended period.
RBA	↑	RBA set to remove "emergency" rate cuts.
US 10 year	↔	Caught between signs that recession is over versus still weak US consumer.
NZ swap curve	↔/↓	Still pressure on curve to flatten.
Flow	↔/↑	Though mortgage paying is not eventuating, there is still paying pressure around.
Technicals	↔	2-year near the key 4.2% topside level but unlikely to break through this week.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Sep-09	-3	-3
Thu 29-Oct-09	-3	-3
Thu 10-Dec-09	0	+4
Thu 28-Jan-10	+21	+29
Thu 11-Mar-10	+32	+45
Thu 29 Apr-10	+53	+70
Thu 10 Jun-10	+60	+89

Trading themes we favour at present

The NZ market got caught up in the excitement over the RBA's next move. We believe the moves in NZ rates have gone too far, given that the RBNZ will not be hiking in January next year as implied by OIS pricing. Going long March and June bank bills provides a way of taking advantage of when the market finally converges to the RBNZ view. Our 2s10s flatteners has provided a very good hedge thus far, and given near-term flows and positioning, we will continue to maintain this hedge for now.

CURRENCY STRATEGY

Time to take risk off the table? Last week saw global equity markets fail to make new ground and combined with poor performance from both hard and soft commodities, the outlook for risk currencies looks shaky. Price action in the NZD has been more volatile with new highs not being maintained and daily closes generally close to the low of the day's trading range. These are all trend ending attributes. Expect this to continue for another week or two.

Market themes…

> NZDAUD price action at odds with differing fundamentals of NZ and Australia.

> NZD target 0.6940 almost achieved (0.6880, within 1 percent) but failed to hold gains.

> All NZD crosses continue to outperform due to lack of interest in NZD.

Review and outlook…

The consumer won't come to the party. Friday's US consumer confidence surprised with a lower than expected print at the same time as industrial production and capacity utilisation came in on expectations. This disconnect between corporate inventory building and final demand cannot be good for equity markets (risk barometer) and we expect this to begin to weigh on the risk currencies over the next month. News from China about lower industrial production and suspension of new iron ore projects for the next three years give a further hint to a slowdown in demand.

The Fed stayed the course laid out previously but gave a more defined time horizon (October 2009) for the end of the current QE. However it gave no hint to a timeframe for the removal of QE injected so far. FX market reaction was muted.

The NZ and Australia economies, along with their central banks, appear on divergent paths, and yet the NZDAUD continues to be well supported. This is more about positioning and FX market dynamics than fundamentals. With most players positioned for the fundamental picture and failing to get gratification, stop losses are easily triggered. Volumes traded in NZD have collapsed during the last two years (we suspect this could be near 80 percent). This means NZD crosses are much more a function of offshore than domestic events. That is, NZD gets left behind when other currencies move.

Commodity price action has answered our question re USD and commodity prices. Oil fell by around US$4/bbl on Friday (US time) and soft commodities are trading at their lows. You now need less USD to buy the same amount of goods, which equals USD strength. While this should feed through to a weaker NZD we need to see more risk aversion to achieve that outcome.

Technically the NZD got within 1 percent of the 0.6940 target. Price action has been choppy. CFTC positioning data shows net long positions in the NZD at highs not seen since late 2007. Seems the market is all congregating one side of the boat. Is the boat listing too far? Key support currently exists at 0.6730 and 0.6550.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔/↓	Soft commodities weaker last week.
Partial indicators	↔/↓	NZ unemployment rate now higher than Australia's.
Technicals	↔	Range trade now, resistance 0.8250.
Sentiment	↔	Why is NZ being placed in the same boat as Australia?
Other	↔	Commodities the key.
On balance	↓	**Catch up to interest rate market.**

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	↔/↓	RBNZ still maintaining an easing bias.
Commodities	↔	Soft commodities weaker last week.
Risk aversion	↔/↓	Equity markets struggling to push on after considerable rally.
Partial indicators	↔/↓	Stabilisation in NZ, but is US bouncing back faster?
Technicals	↔/↑	Target 0.6940 almost achieved (1%). Risk top.
AUD	↔	Watch equity markets.
Sentiment	↔	Divided.
Other	↔/↓	Global production recovering, but what about final demand?
On balance	↔	**Range bound for now, but a correction lower is pending.**

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
17-Aug	UK	Rightmove House Prices (Aug) - mom	-	0.6%	11:01
	JN	Gross Domestic Product (2Q P) - qoq	1.0%	-3.8%	11:50
		GDP Annualized (2Q P)	3.9%	-14.2%	11:50
	NZ	**Non Resident Bond Holdings (Jul)**	**-**	**73.0%**	**15:00**
	EC	Trade Balance s.a. (Jun)	1.3B	0.8B	21:00
18-Aug	US	Empire Manufacturing (Aug)	3.00	-0.55	00:30
		Net Long-term TIC Flows (Jun)	$17.5B	-$19.8B	01:00
		Total Net TIC Flows (Jun)	$23.0B	-$66.6B	01:00
		NAHB Housing Market Index (Aug)	18	17	05:00
	JN	Leading Index CI (Jun F)	79.9	79.8	17:00
		Coincident Index CI (Jun F)	87.9	87.8	17:00
		Nationwide Dept. Sales (Jul) - yoy	-	-8.8%	17:30
	UK	CPI (Jul) - mom	-0.3%	0.3%	20:30
		CPI (Jul) - yoy	1.5%	1.8%	20:30
		Core CPI (Jul) - yoy	1.5%	1.6%	20:30
		RPI (Jul) - mom	-0.2%	0.3%	20:30
		RPI (Jul) - yoy	-1.7%	-1.6%	20:30
	GE	ZEW Survey (Econ. Sentiment) (Aug)	45.0	39.5	21:00
		ZEW Survey (Current Situation) (Aug)	-85.0	-89.3	21:00
	EC	ZEW Survey (Econ. Sentiment) (Aug)	43.0	39.5	21:00
19-Aug	US	Producer Price Index (Jul) - mom	-0.3%	1.8%	00:30
		PPI Ex Food & Energy (Jul) - mom	0.1%	0.5%	00:30
		Housing Starts (Jul)	598K	582K	00:30
		Building Permits (Jul)	575K	570K	00:30
	NZ	**Producer Prices- Inputs (2Q) - qoq**	**-1.0%**	**-2.5%**	**10:45**
		Producer Prices- Outputs (2Q) - qoq	**-0.5%**	**-1.4%**	**10:45**
	AU	RBA Assistant Governor Malcolm Edey Speaks in Sydney	-	-	11:20
		Westpac Leading Index (Jun) - mom	-	-0.2%	13:00
		Treasury Secretary Ken Henry Gives Speech in Sydney	-	-	15:30
	JN	All Industry Activity Index (Jun) - mom	0.3%	0.7%	16:30
		Machine Tool Orders (Jul F) - yoy	-	-72.2%	18:00
	GE	Producer Prices (Jul) - mom	-0.2%	-0.1%	18:00
	EC	ECB Current Account s.a. (Jun)	-	-1.2B	20:00
		Construction Output s.a. (Jun) - mom	-	-2.0%	21:00
	UK	Bank of England Minutes	-	-	20:30
20-Aug	AU	RBA Foreign Exchange Transactions (Jul)	-	1943M	13:30
	JN	BoJ Board Member Mizuno to Speak in Okayama City	-	-	13:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
20-Aug cont.	UK	Retail Sales (Jul) - mom	0.4%	1.2%	20:30
		M4 Money Supply (Jul P) - mom	0.2%	-0.2%	20:30
		Public Finances (PSNCR) (Jul)	-5.6B	19.0B	20:30
		Public Sector Net Borrowing (Jul)	0.6B	13.0B	20:30
		Bank of England Releases Trends in Lending Report	-	-	20:30
21-Aug	US	Initial Jobless Claims (w/e Aug-16)	550K	558K	00:30
		Continuing Claims (w/e Aug-9)	6228K	6202K	00:30
		Leading Indicators (Jul)	0.7%	0.7%	02:00
		Philadelphia Fed (Aug)	-2.0	-7.5	02:00
	EC	ECB Lorenzo Bini Smaghi Speaks at Conference in Cortina, Italy	-	-	04:00
		PMI Manufacturing (Aug A)	47.5	46.3	20:00
		PMI Services (Aug A)	46.5	45.7	20:00
		PMI Composite (Aug A)	48.0	47.0	20:00
	NZ	**Visitor Arrivals (Jul) - mom**	**-**	**-3.8%**	**10:45**
		External Migration (Jul) – 12-mth total	**-**	**12515**	**10:45**
		Credit Card Spending (Jul) - yoy	**-**	**-2.1%**	**15:00**
	GE	PMI Manufacturing (Aug A)	47.0	45.7	19:30
		PMI Services (Aug A)	48.6	48.1	19:30
22-Aug	US	Existing Home Sales (Jul)	5.00M	4.89M	02:00
		Existing Home Sales (Jul) - mom	2.1%	3.6%	02:00
		Bernanke Speaks at Kansas City Fed's Jackson Hole Conference	-	-	02:00
		Fed's Madigan Speaks on Panel at Jackson Hole Conference	-	-	04:45

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 recession. Although once again, the difference between the change and level needs to be distinguished.

Date	Data/Event	Economic Signal	Comment
Wed 19 Aug (10.45)	Producer Price Index (Jun qtr)	Easing	Input and output prices are both expected to ease in the quarter, largely driven by lower NZD commodity prices. Input prices are expected to fall by 0.1 percent, while output prices are expected to fall 0.4 percent.
Thu 20 Aug (15.00)	NBNZ Regional Trends (Jun qtr)	-	-
Fri 21 Aug (10.45)	International Travel and Migration (Jul)	A source of support	Another reasonable monthly net inflow is expected as departures remain subdued. However, the key to watch is whether arrivals of non-NZ and Australians are able to hold up.
Tue 25 Aug (15.00)	RBNZ Survey of Expectations (3Q)	Not a major focus at present	2-year ahead inflation expectations are expected to remain subdued and near the 2.2 percent recorded in the previous survey.
Thu 27 Aug (10.45)	Overseas Merchandise Trade (Jul)	Small deficit	A trade deficit is typically recorded in July and we expect this trend to be repeated. We will be closely watching exports to China to assess whether the stock-building story is continuing.
Fri 28 Aug (10.45)	Building Consents Issued (Jul)	Recovering	Residential consent issuance, while remaining at an extremely low level, should begin to recover in line with a pick up in house sales. Non-residential consent issuance, on the other hand, looks likely to weaken.
Fri 28 Aug (15.00)	Credit Growth (Jul)	De-leveraging continues	While improved housing activity may see household credit growth recover, the backdrop of de-leveraging will ensure that growth is still subdued. Rural and business credit growth set to continue weakening.
Mon 31 Aug (15.00)	NBNZ *Business Outlook* (Aug)	-	-
Thu 3 Sep (15.00)	ANZ Commodity Price Index (Aug)	-	-
Mon 7 Sep (10.45)	Wholesale Trade Survey (Jun qtr)	Stabilising	In line with some stabilisation starting to appear in the retail sector, wholesale trade activity is also likely to be close to forming a base.
Thu 10 Sep (09.00)	RBNZ *Monetary Policy Statement*	Same message	Similar messages are likely to be delivered by the RBNZ. While no change in the OCR is expected, their "low for an extended period" message will be reiterated. The accompanying document could potentially focus on the unsustainable composition of growth that looks to be developing.
Thu 10 Sep (10.45)	Overseas Trade Indexes (Jun qtr)	Terms of trade down again	Another large fall in export prices is expected in the quarter, driven by lagged movements in NZD commodity prices. This should contribute to the terms of trade falling by around 2 percent.
On Balance		**We have found a base**	**Signs of stabilisation are expected to continue. But the mix to growth does not give the recovery a sustainable look.**

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	**0.6**	**0.5**	**0.3**	**0.7**	**0.7**
CPI (% yoy)	4.0	5.1	3.4	3.0	1.9	**0.9**	**1.9**	**1.9**	**2.0**	**2.2**
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**	**-5.3**	**-5.7**	**-6.1**
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-3.0	**-2.0**	**-1.6**	**-1.4**	**-1.0**	**-0.4**	**-1.0**
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.2	**-6.8**	**-7.3**	**-7.7**	**-5.8**	**-4.3**	**-3.8**

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	1.6	0.8	-2.8	2.4	-0.4	0.2	..	..
Credit Card Billings (% yoy)	-0.9	-3.8	-2.4	-1.9	-4.8	-1.6	-2.4	-2.1	..	..
Car Registrations (% mom)	-19.9	12.7	-14.1	-14.9	7.8	-1.5	-3.1	6.0	7.3	..
Car Registrations (% yoy)	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	..
Building Consents (% mom)	4.3	-6.8	-12.7	12.2	-0.8	11.3	3.0	-9.5	..	..
Building Consents (% yoy)	-39.7	-41.4	-51.4	-39.9	-34.3	-56.6	-23.1	-24.2	..	..
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	..	..
Household Lending Growth (% yoy)	4.8	4.2	3.8	3.1	2.7	2.6	2.5	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	..
NBNZ Own Activity Outlook	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	..
Trade Balance ($m)	-594	-341	-102	483	438	342	907	-417	..	..
Trade Balance ($m annual)	-5234	-5614	-5405	-5165	-4684	-4049	-2973	-3176	..	..
ANZ World Commodity Price Index (% mom)	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	..
ANZ World Commodity Price Index (% yoy)	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	..
Net Migration (sa)	-220	380	870	1640	1720	2110	2580	1730	..	..
Net Migration (annual)	3569	3814	4538	6160	7482	9176	11202	12515	..	..

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

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Jun-09	Jul-09	17-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.637	0.644	0.675	0.640	0.590	0.590	0.600	0.620	0.640	0.650
NZD/AUD	0.795	0.801	0.814	0.800	0.747	0.720	0.723	0.730	0.744	0.765
NZD/EUR	0.455	0.458	0.476	0.464	0.430	0.424	0.431	0.439	0.451	0.464
NZD/JPY	61.6	60.9	63.9	62.7	58.8	59.4	61.6	64.3	66.6	68.3
NZD/GBP	0.389	0.393	0.409	0.388	0.356	0.354	0.360	0.367	0.376	0.382
NZ$ TWI	60.3	60.6	62.97	60.9	56.5	56.0	56.9	58.3	60.0	61.4
NZ interest rates	Jun-09	Jul-09	17-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.74	2.73	2.50	2.50	2.50	2.50	2.50	3.00	4.00	4.50
90 day bill	2.78	2.79	2.79	2.80	2.80	2.80	2.80	3.60	4.50	5.00
10 year bond	6.24	5.96	5.90	5.90	6.00	6.00	6.40	6.60	6.70	6.90
International	Jun-09	Jul-09	17-Aug-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	0.60	0.48	0.43	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	3.19	3.20	3.30	3.50	3.60	3.80	4.30	4.30	4.30	4.30

KEY RATES

	14 Jul	10 Aug	11 Aug	12 Aug	13 Aug	14 Aug
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.81	2.78	2.80	2.79	2.79	2.79
NZGB 11/11	3.72	3.99	4.00	3.99	4.01	4.03
NZGB 04/13	4.67	4.97	4.98	4.96	4.95	4.96
NZGB 12/17	5.66	5.93	5.94	5.91	5.92	5.90
NZGB 05/21	6.12	6.42	6.43	6.39	6.40	6.36
2 year swap	3.72	4.16	4.14	4.08	4.08	4.17
5 year swap	5.19	5.48	5.45	5.40	5.40	5.47
RBNZ TWI	59.9	62.8	63.1	62.3	62.8	63.1
NZD/USD	0.6258	0.6728	0.6741	0.6654	0.6738	0.6791
NZD/AUD	0.7967	0.8019	0.8081	0.8065	0.8059	0.8063
NZD/JPY	57.90	65.42	65.19	63.57	64.63	64.62
NZD/GBP	0.3882	0.4026	0.4088	0.4034	0.4082	0.4099
NZD/EUR	0.4476	0.4738	0.4766	0.4704	0.4736	0.4760
AUD/USD	0.7855	0.8390	0.8342	0.8250	0.8361	0.8422
EUR/USD	1.3981	1.4199	1.4144	1.4146	1.4228	1.4266
USD/JPY	92.52	97.23	96.70	95.54	95.92	95.16
GBP/USD	1.6122	1.6712	1.6491	1.6494	1.6506	1.6567
Oil	59.69	70.97	70.59	69.46	70.08	70.57
Gold	919.85	956.20	945.95	946.65	949.85	956.60
Electricity (Haywards)	15.64	6.16	3.29	3.18	3.38	2.79
Milk futures (US$/contract)	86	92	92	92	92	92
Baltic Dry Freight Index	3097	2689	2623	2612	2685	2752

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.

This document is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 1177 Avenue of the Americas, New York, NY 10036 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this document. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

This document has been prepared by ANZ National Bank Limited.

ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 http://www.anz.co.nz e-mail ecnmcs@anz.com