

Market Focus

New Zealand

18 December 2009

SOFT AND HARD STOCKING FILLERS

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

This will be the last *Market Focus* for the year. We would like to wish our readers a safe and enjoyable festive season. The first full edition of the New Year will be on 18 January.

Page 2: Economic overview

- > Soft (leading) data remains robust and we are still in data-watch mode assessing hard data outcomes. We continue to believe it will require multiple monthly results showing hard data building momentum before a sustained recovery can be assured – a development we struggle to see by the March *Monetary Policy Statement*. However, the market will no-doubt remain attuned to “surprises”. We expect a modest lift in Q3 GDP, but statistical factors mean there is a higher than normal degree of uncertainty. We plan to look through the outcome: unanticipated strength would have us biased to lower growth in Q4, while weakness would lead us to raise it.

Page 5: Economic comment: NBNZ *Business Outlook* update

- > Our composite growth indicator (which has a strong correlation with GDP growth) from the National Bank *Business Outlook* survey is now flagging 3 to 4 percent growth next year. This is welcome, though momentum continues to be driven by the non-tradable sector. Encouragingly though, manufacturing looks to be coming out from their hole, and export intentions remain firm in the face of a still elevated currency.

Page 7: September quarter BoP & GDP preview

- > The current account deficit is expected to improve sharply to 3.4 percent of GDP – led by one-offs. We expect GDP to grow by 0.5 percent in the quarter, highlighting a more convincing turn than the soft growth recorded in the June quarter.

Page 8: Interest rate strategy

- > A more dovish RBA and soft Australian GDP data led to a rally in their market, which flowed through into the NZ market. With liquidity very thin at this time of the year, flows will be the main driver. We expect swaps to largely range trade in the near-term.

Page 9: Currency strategy

- > The traditionally weak USD into Christmas is yet to materialise this year, with liquidation of short USD positions dominating. Risk is being taken off the table as the holiday period approaches. The NZD’s repeated failure at the 0.7300 level now demands a test of 0.7050.

Page 10: Data and event calendar

Page 12: Data watch

Page 13: Key forecasts

ECONOMIC OVERVIEW

Soft (leading) data remains robust and we are still in data-watch mode assessing hard data outcomes. We continue to believe it will require multiple monthly results showing hard data building momentum before a sustained recovery can be assured – a development we struggle to see by the March *Monetary Policy Statement*. However, the market will no-doubt remain attuned to “surprises”. We expect a modest lift in Q3 GDP, but statistical factors mean there is a higher than normal degree of uncertainty. We plan to look through the outcome: unanticipated strength would have us biased to lower growth in Q4, while weakness would lead us to raise it.

What’s ahead?

- > **November International Travel and Migration** (Monday 1045 NZDT). Another reasonable monthly net inflow is likely, as departures remain low.
- > **November Credit Card Spending** (Monday 1500 NZDT). Volatility aside, we expect a reasonably subdued result.
- > **September quarter Balance of Payments** (Tuesday 1045 NZDT). The current account deficit should record another sharp narrowing in the quarter on the back of one-offs. We expect an improvement to 3.4 percent of GDP (see page 7 for our preview note).
- > **September quarter GDP** (Wednesday 1045 NZDT). Production GDP is expected to grow 0.5 percent, led by business and financial services (refer to page 7 for our preview note).

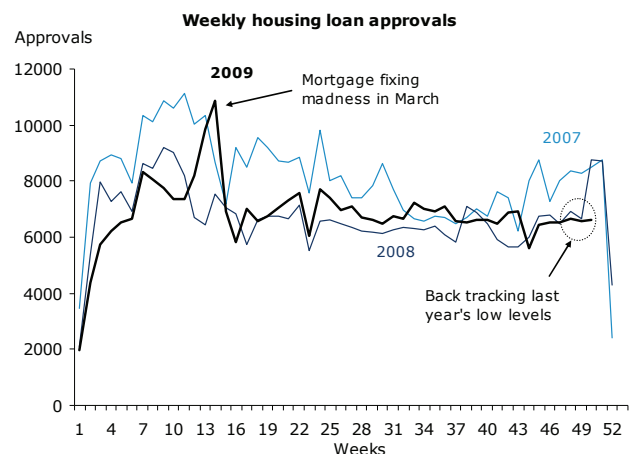
What’s the view?

At the start of the week, we provided a list of some of the key things that we believe will be critical to watch in relation to the outlook for monetary policy going forward. Obviously not a huge amount has changed in that time. But there have been a few developments over the past couple of days that enable us to add a bit more flavour to some of those components:

- > **Fiscal policy:** The Government’s *Half Year Update* and *Budget Policy Statement (BPS)* came and went without any dramas. In fact, it turned into somewhat of a non-event. We won’t say we were disappointed with what was released. The statements were full of rhetoric in regards to NZ achieving a “step-change” in economic performance and making NZ “stand out”. These are obviously admirable goals. We also shouldn’t lose sight of the fact that NZ’s fiscal accounts would still be the envy of many other developed nations. But there was a clear

lack of detail on how the Government intends to achieve this “step-change”. We were hoping for some more information on the Government’s fiscal consolidation strategy and also how they intend to achieve their lofty economic goals. It looks like we will have to wait for the New Year and *Budget 2010* for any specifics. One thing is clear though, a “step-change” will not come about through tinkering at the margins. Changes (and potentially large ones) will be required and this will eventually require some tough decisions.

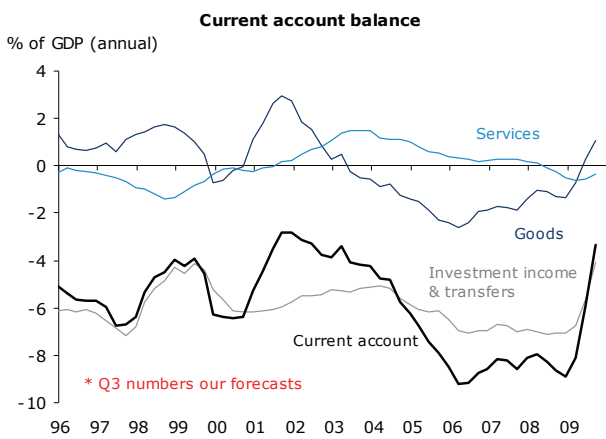
- > **House prices:** We briefly mentioned the REINZ November numbers at the start of the week. To revisit; price growth remains solid, while activity is weakening – sales volumes fell 8 percent (seasonally adjusted) in the month. The latest weekly home loan approvals data from the RBNZ suggests this theme is continuing, with approvals now tracking below last year’s subdued levels. This hardly signals a market that is extending further nor one where credit is rising strongly.



- > **The response from businesses:** No further “hard” data has been released. But there is little doubt businesses are feeling more confident. While headline confidence from the National Bank *Business Outlook (NBBO)* eased a touch – its third monthly fall – firms’ own activity expectations rose to a 7½-year high. Employment and investment intentions are also continuing to (slowly) rise. It is the latter two components that remain important to assess the self-sustaining nature of any recovery. But it will also require the “hard” data such as business sector credit and plant and machinery imports to follow suit – we probably won’t know this for another few months. It is still unclear whether expectations will match reality.
- > **The global backdrop and other central bank movements:** The Federal Reserve left the fed funds rate unchanged and once again

reiterated that conditions are expected to "warrant exceptionally low levels of the federal funds rate for an extended period." At the same time though, the Fed importantly signalled a more detailed timetable of when some of the "extraordinary" measures will end or be allowed to expire. They are clearly feeling more confident with the outlook. And closer to home, RBA Deputy Governor Battelino stated that the current cash rate of 3.75 percent is effectively equal to 4.75 percent given the higher funding costs for banks, and that "taking these considerations into account, it would be reasonable to conclude that the overall stance of monetary policy is now back in the normal range, though in the expansionary segment of that range." This supports our view of lower neutral cash rates around the globe (and in NZ).

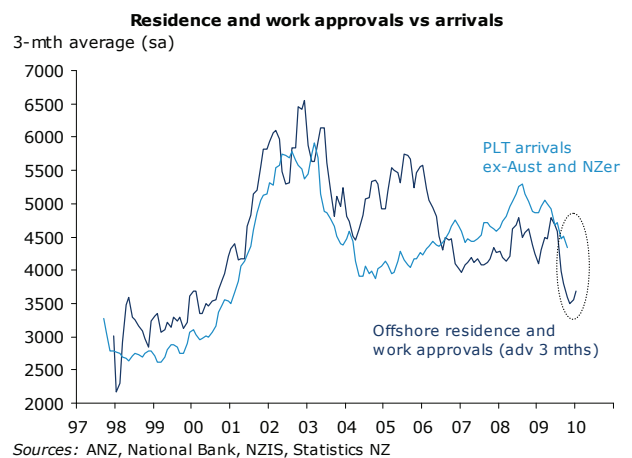
On balance, the messages are mixed but in our opinion still not enough to justify market pricing of interest rate hikes from Q1. It is clear that the soft data is continuing to improve. This is of course encouraging. But there is still a lack of solid evidence of improvement in the hard data. This will come. But one thing sticks in our mind. After an 18-month period of sub-trend growth, you'd think you would require more than three months of improvement before you had too many concerns over things heating up too much. Indeed looking back to the post Asian crisis cycle, the economy was ripping along above trend for all of 1999 before the first hike was made late in the year. So while we respect the prospect for improvement in the data, we are also mindful of the starting position and available resource capacity. One quarter of improving data can easily be absorbed and does not make a trend.



Turning to the holiday-shortened week next week, the major focus will obviously be the final pieces of September quarter data. Our full preview note on the Q3 Balance of Payments and GDP data is on page 7. But briefly, we expect a sharp improvement in the current account deficit

to 3.4 percent of GDP. This is largely a result of further provisioning by banks for tax losses and follows the BNZ's \$661 million provision in the June quarter. This provisioning accounts for about 0.8 percentage points of the 2.5 percentage point improvement in the annual current account deficit in the September quarter. However, a weak domestic backdrop (weighing on import demand and corporate profitability) also plays a key role. In terms of the GDP numbers, we are expecting growth of 0.5 percent in the quarter, which should give the recovery a slightly firmer feeling to it than the 0.1 percent growth recorded in the June quarter. We see risk either side of our Q3 GDP prediction. This largely centres on the strange grey-area know as the balancing item, which is effectively the difference between total GDP and the sum of the components. We won't go into the technical aspects of it. But if Q3 GDP surprises because of it, we will look to then adjust our Q4 expectations accordingly as a result of inter-quarter timing and volatility issues. For the market, this means that a Q3 surprise may not be as strong (or weak) as it first appears.

In other data, another solid monthly net migration inflow is likely. This will again be driven by a low level of departures. On an annual sense, net migration is the highest in five years and is one of the key pillars supporting the economy at present. We will be watching for any signs of a lower number of arrivals given that this has been potentially signalled by the number of work permit and residency approvals. But looking forward to next year, it will be the departures story that we expect to dominate. If the Australian economy continues its current out-performance and the labour market remains strong, then we don't feel it will be long until those New Zealanders that cancelled or delayed their emigration plans begin to reassess.



Finally, credit card spending for November, while volatile, should still highlight the ongoing struggles for the retail sector at present. We have been commenting for some

time that the Christmas period will be critical for many retailers who have had what can be described as a very difficult 24 months. In this regard, we are unlikely to get too much information from this release just yet but, given the reads from other retail sector data, it is hard to envisage this showing a large pick-up.

Recent local data...

- > **Government's Half Year Economic and Fiscal Update:** The underlying operating deficit (OBEGAL) is forecast at 4.0 percent in 2010 and 3.4 percent in 2011. Net debt rises from 14.8 percent in 2010, to hit close to 29 percent by 2014
- > **Westpac McDermott-Miller Consumer Confidence (December quarter):** The index fell 3.4 points to 116.9.
- > **NBNZ Business Outlook (December):** Headline business confidence eased 4 percentage points to 39 percent. However, other activity gauges (own activity, profits, investment and employment) all rose slightly.
- > **ANZ-Roy Morgan Consumer Confidence (December):** The index fell 2.9 points to 118.6.

NATIONAL BANK BUSINESS OUTLOOK UPDATE

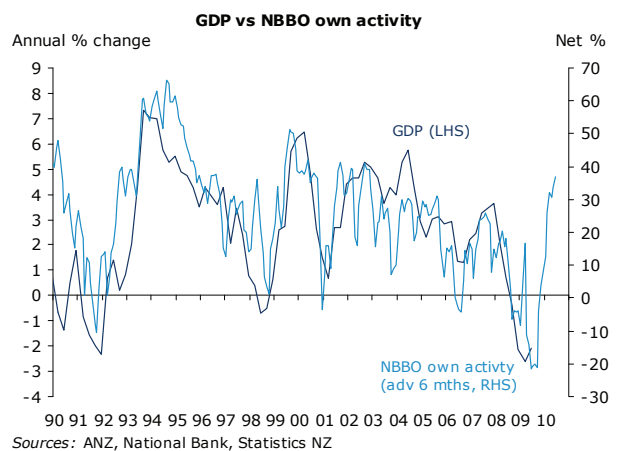
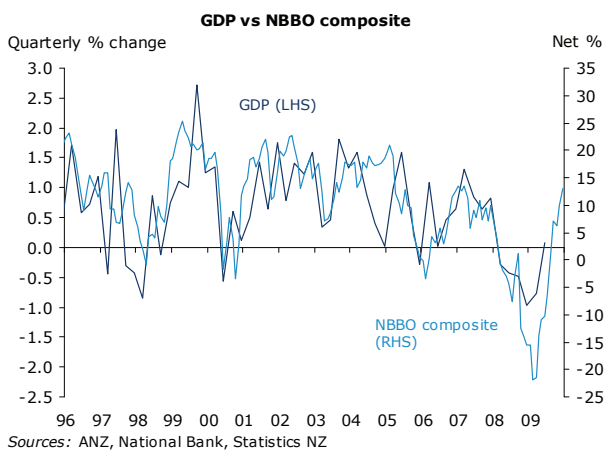
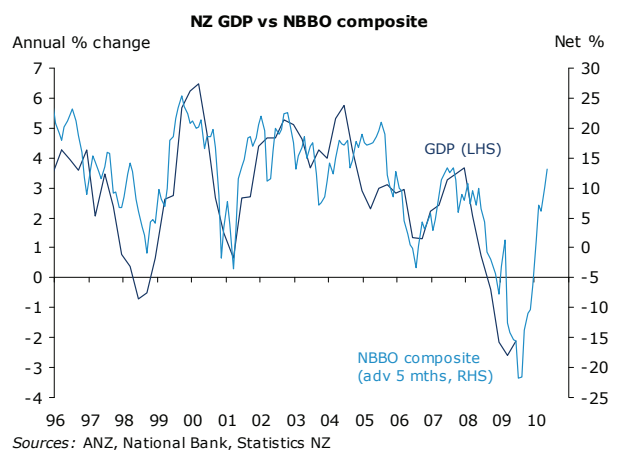
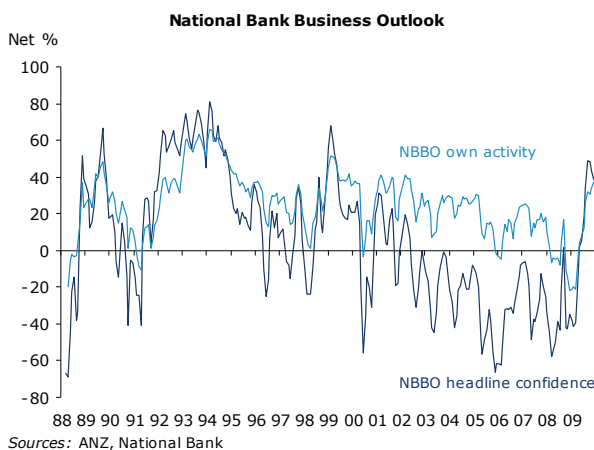
Our composite growth indicator (which has a strong correlation with GDP growth) from the National Bank *Business Outlook* survey is now flagging 3 to 4 percent growth next year.¹ This is welcome, though momentum continues to be driven by the non-tradable sector. Encouragingly though, manufacturing looks to be coming out from their hole, and export intentions remain firm in the face of a still elevated currency.

It may be the third month in a row that headline business confidence has eased back, but the level remains high. Own activity expectations increased in the month, and is converging on the business confidence level, suggesting that overall confidence is being matched by what firms are expecting for their own business.

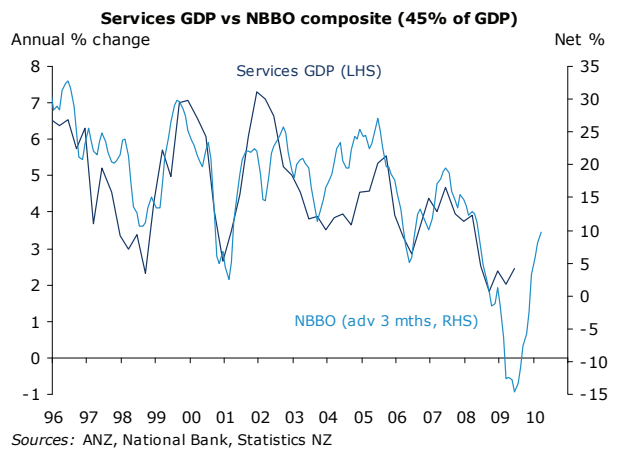
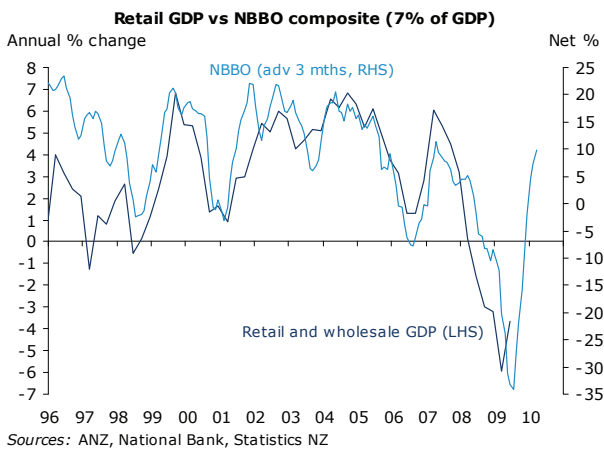
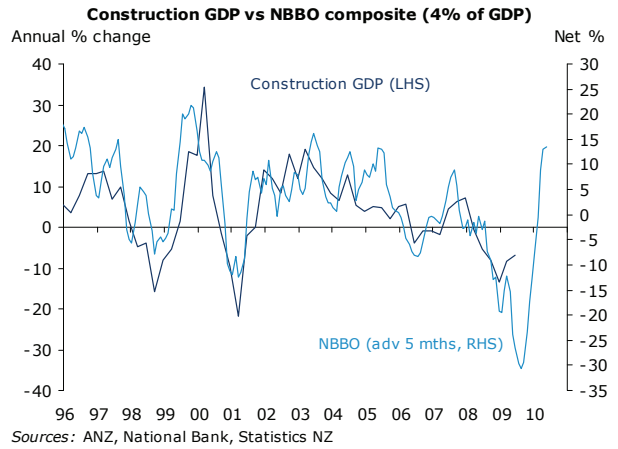
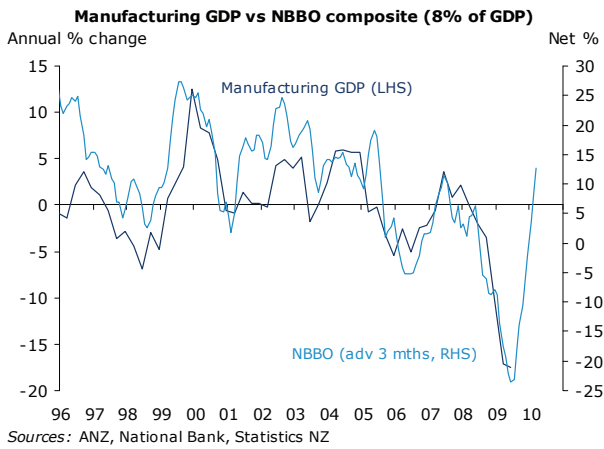
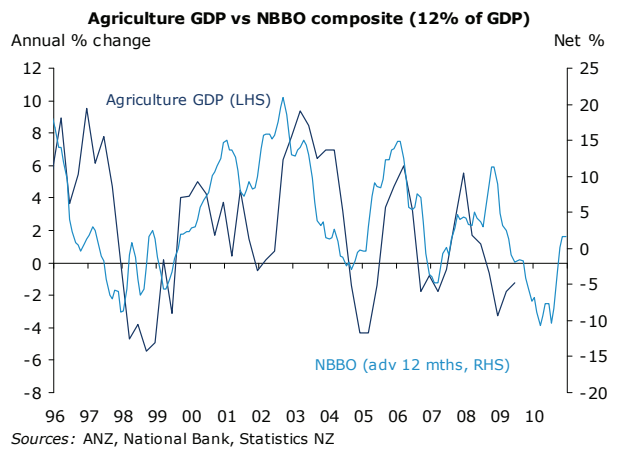
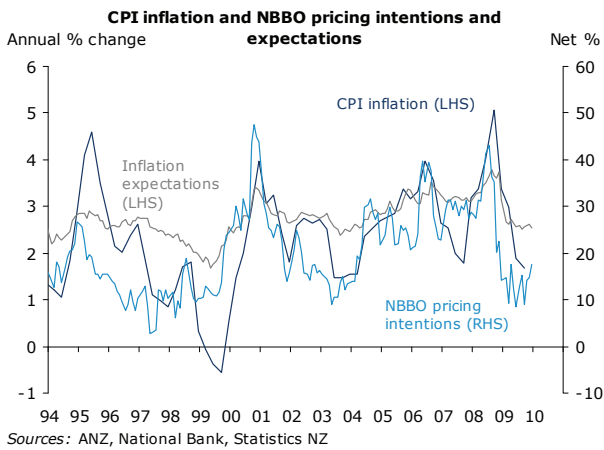
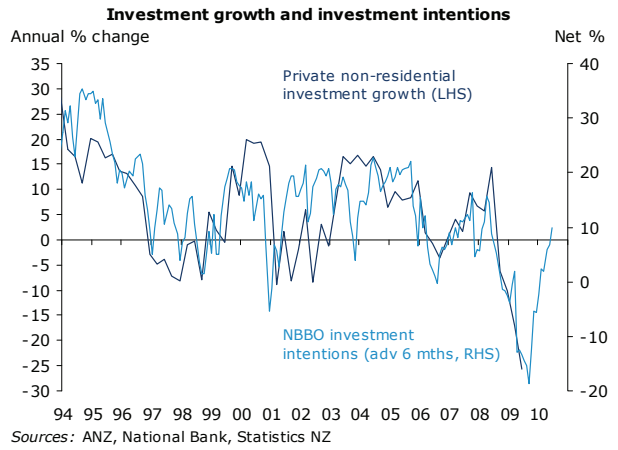
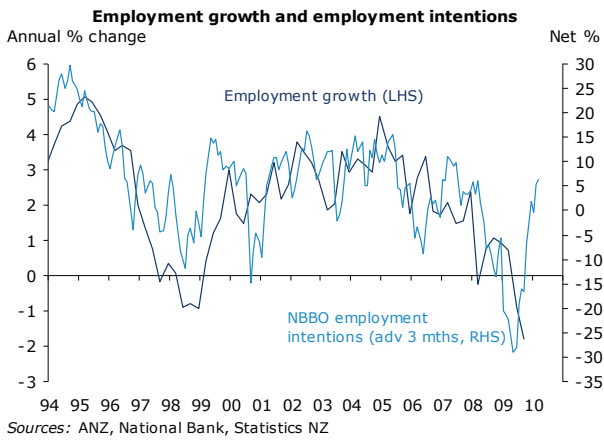
Investment, employment and profit expectations all rose, a sign that improving prospects are starting to flow through into the bottom line, leading firms to revive their capex and hiring plans. It may not be too long before the economy as a whole start to add jobs on a net basis again, after shedding them since the start of this year.

If there is to be any disappointment in the survey, it is that the non-tradable sector is once again the main driving force behind the recovery. But we can take some heart from the improvements seen in the responses from respondents in the manufacturing sector. They not only had the highest reading for own activity, but also for profit expectations and employment intentions.

Our composite growth indicator is flagging 3 to 4 percent growth in the year ahead. If this is indeed what pans out, it will be an even stronger growth performance than what the RBNZ forecast at their *Monetary Policy Statement* last week. With stronger growth will come a return of inflation concerns. In this regard, pricing intentions did move higher, but not to a level that will cause much alarm. Encouragingly, inflation expectations nudged lower, contrary to the RBNZ's latest inflation expectations survey which showed a surprising move in the other direction.



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



DATA PREVIEWS

Current account – Sept 2009 quarter

(due Tuesday 22 December 10.45am)

	ANZ	RBNZ	Market
Quarter	-\$1,540m	-	-\$2,600m
Annual	-\$6,093m	-	-\$7,200m
% of GDP	-3.4	-4.0	-3.9

A marked improvement in the investment income deficit (with one-offs playing a major role) sees the current account deficit narrow sharply in the September quarter. Once again though, questions remain over the medium-term sustainability of the improvement given the current mix of growth.

The current account deficit looks set to pose another sharp narrowing in the September quarter. In fact, we would not be surprised if the seasonally adjusted quarterly balance actually headed into surplus (albeit marginally), which would be the first time this has occurred since December 1988. In annual terms, the current account deficit is expected to fall to 3.4 percent of GDP – the smallest since the March 2003 quarter.

One-offs, lower profits and reduced debt-servicing costs are all big drivers of the improvement. Following the provision of a large tax loss by a major bank in the June quarter, other large Australian owned banks have also provisioned for tax losses in their September quarter General Disclosure Statements. In addition, the general profitability backdrop remains weak (no better illustrated than by the weak corporate tax take) and debt servicing costs have eased as global interest rates have fallen. The investment income balance looks set to narrow to its smallest level since this series began in March 1987. On an annual sense, the goods and services balance again rose, although the rate of improvement has slowed.

However, the sustainability of the improvement in NZ's external imbalances remains questionable. One-offs aside, it has been the weak domestic economy (capitulation in imports and weak corporate profitability) that has driven the narrowing in the current account deficit. With the domestic economy now recovering, and the mix to growth skewed towards non-tradable sectors, the current account deficit will likely deteriorate again over the later parts of 2010.

Financial market implications

Unlike in Q2, the market will be clued up to the inclusion of the tax provisions in Tuesday's numbers. The potential for surprise appears less in these numbers than in the June quarter.

GDP – Sept 2009 quarter

(due Wednesday 23 December 10.45am)

	ANZ	RBNZ	Market
QoQ	+0.5	+0.4	+0.3
YoY	-1.2	-1.3	-1.3
Ann. Ave.	-2.0	-2.0	-2.0

A modest expansion in GDP in the September quarter provides a more convincing sign the economy has turned the corner compared with Q2. It is still likely to be somewhat of a mixed bag in terms of the sectoral drivers.

Headline production GDP is expected to expand by 0.5 percent in Q3, highlighting a more convincing turn in economic activity than the modest 0.1 percent expansion recorded in Q2. Policy support, the inventory cycle and natural base effects are all factors playing a role in reversing the declining trajectory the economy experienced in 2008 and H1 2009.

The business and financial services sectors lead the charge. Together, we expect them to contribute 0.4ppts to growth in the quarter – reflecting the improvement seen in housing market activity. However, the housing rebound is not yet universal. The construction sector is again expected to make a negative contribution to growth, recording its sixth quarterly fall in seven quarters. A switch in electricity generation from hydro to thermal (which adds less value) also sees the electricity sector detract from growth in the quarter. In an encouraging sign, manufacturing ex-primary food production is expected to post its first quarterly growth since June 2008, although the level remains very subdued.

On an expenditure basis, inventories should partially reverse the massive negative contribution recorded in Q2. We expect inventories to contribute 1.8ppts to growth in the quarter, following Q2's -2.5ppt contribution. Private consumption is also expected to rise, as consumers begin to show signs of coming out of their shells. Offsetting this to a degree is weak investment. Residential investment is expected to fall around 4.5 percent and other investment is also likely to be weak as firms show limited signs of putting cash to work yet. Net exports are expected to make a negative contribution to growth.

Financial market implications

While historical, GDP data typically gets the market excited, particularly now that the RBNZ have admitted they are in data-watch mode and their shift in stance at the December MPS was very conditional on how the economy performs relative to their forecasts. The market is continuing to look for excuses to push for an earlier start to the tightening cycle and so an upside surprise would likely intensify expectations towards Q1 next year.

INTEREST RATE STRATEGY

A more dovish RBA and soft Australian GDP data led to a rally in their market, which flowed through into the NZ market. With liquidity very thin at this time of the year, flows will be the main driver. We expect swaps to largely range trade in the near-term.

Market themes...

- > Government's Half-year Update contained no surprises, and lacks specific policy details.
- > RBA Deputy Governor on the other hand, surprised with a dovish speech.
- > Global rally sends 2-year swap yield right back towards the middle of recent ranges.

Review and outlook

We had a very volatile week where swap yields squeezed higher, only to head back down. Following last week's surprise change in tone from the RBNZ, we saw further selling pressure early this week as received positions in 2-year and 1yr1yr stopped out. The front end sell off saw massive flattening pressure as 2/5's travelled through recent lows of 98. Market pricing firmed up on a March rate hike. But by mid-week, the payside pressure was taken off as a soft Australian Q3 GDP print, followed by a dovish speech from RBA Deputy Governor Ric Battelino, who stated that the RBA sees a cash rate of 3.75 percent as being the equivalent to a historic rate of 4.75 percent, led to a front end rally in the Australian market.

With so much tightening priced into the NZ market, and with local banks facing the same issues as those in Australia, we saw the rally in Australia immediately flow through here.

However, the 2-year swap yield is still a long way from the 4.32 percent level pre-MPS. The rally saw a move to steepen the curve, although with such high implied forward rates already in the mid to long end part of the curve this move is a bit questionable, but will be part of the increased volatility we see in curve shape as we look to approach a tightening cycle in the New Year.

With so much media surrounding the change in tone by the RBNZ and the potential for fixed mortgage rates to go higher, there was a chance that those on floating mortgage rates would look to fix, adding pay side pressure to a thin and stressed market. To date, the move to fixed hasn't eventuated. In terms of speculative flow there has been increased interest around receiving NZ rates against paying Canadian and Australian rates, but market flow has been fairly thin as we move towards the Christmas break.

The New Year looks certain to provide even more volatility as the market looks to the start of a

tightening cycle with uncertainty over the starting point, the size of the first moves and the actual extent of the tightening cycle under the new post credit crunch environment. With new regulation, funding costs and a potentially fragile recovery, daily moves of 10-20bps and swings in curve shape look to become more and more common and it is incredibly difficult to forecast where rates will be in a year's time.

Borrowing strategies we favour at present

We have been favouring the use of caps to hedge interest rate risk, and we continue to like this strategy. The one-time cancellable swap could be an attractive strategy for those who want to hedge but still be able to take advantage should yields fall.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	From "second half" to "middle of 2010".
NZ data	↔/↑	Business and consumer confidence readings still at elevated levels.
Fed Funds / front end	↔	Still to stay low for "an extended period".
RBA	↔	RBA sees more "flexibility" for policy next year.
US 10 year	↔	Back below 3.5% on weak CPI data and unwinding of risk trades.
NZ swap curve	↔	Flattening pressure easing off.
Flow	↔/↑	No sign of pick-up in mortgage paying yet. Liquidity very thin.
Technicals	↔	2-year back down to 4.5% and could yet test 4.4% support, though we'd expect paying interest there.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 28-Jan-10	+4	+4
Thu 11-Mar-10	+22	+16
Thu 29-Apr-10	+51	+45
Thu 10-Jun-10	+84	+77
Thu 29-Jul-10	+113	+101
Thu 16-Sep-10	+180	+158
Thu 28-Oct-10	+212	+179

Trading themes we favour at present

We look set to range trade for the time being. We still think a March rate hike is too soon, so there could be some value in receiving the 6-month OIS. But near-term data strength will see the market run with an early rate hike theme. It remains a case of trading the ranges for now.

CURRENCY STRATEGY

The traditionally weak USD into Christmas is yet to materialise this year, with liquidation of short USD positions dominating. Risk is being taken off the table as the holiday period approaches. The NZD's repeated failure at the 0.7300 level now demands a test of 0.7050.

Market themes...

- > Concerns over Greece, Ireland and Spain weighing heavily on the EUR.
- > How short USDs is the FX market?
- > Does NZD stay in the range?

Review and outlook...

The market looks to be squaring positions.

The latest IMM positioning data suggests that players are more concerned with getting square than getting positioned for the next big move. The greenback is reversing its sharp fall, which is weighing most heavily on the likes of the EUR. Ongoing sovereign concerns for Greece, Ireland and Spain are contributing to EUR's weakness. The NZD looks to be heading for its third test of the 0.7050 support level after the 0.7300 resistance level again held with ease.

The Federal Reserve has continued to signal a desire to keep interest rates at current levels for an "extended period". However, the market has been prepared to look through any dovish rhetoric since the US labour market began to stabilise as shown by the non-farm payrolls figures at the start of the month.

The 0.7050 level for the NZD is the gate keeper for major support at 0.6900. The market is unlikely to hold risk over the holiday period. We expect extremely violent moves within board ranges. Leaving orders at edges of the ranges seems to be the only way to benefit from the random nature of the current market. A daily close below 0.7050 should see momentum models sell. This could open up the possibility of a move to 0.6600 if 0.7050 and then 0.6900 breaks.

The NZDAUD cross is pressuring topside resistance and the close into the weekend above or below 0.8000 should see some follow through next week.

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	↔	0.80 a key level.
Sentiment	↔	Three-from-three for the RBA. Market pushing for earlier RBNZ moves.
Other	↔/↓	Asian central banks underweight Australian asset.
On balance	↔	Range trade.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔	Does an improving US labour market imply an earlier Fed hike?
Commodities	↔/↑	Soft commodities gaining momentum. USD key.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔	Final Q3 NZ data next week.
Technicals	↔/↓	0.7050 a key support level and if broken opens up for tests of 0.69 and then 0.66.
AUD	↔	RBA first to hike in G20. Will they now pause?
Sentiment	↔/↑	Change in stance from RBNZ has got the market excited.
Other	↔	Has the US non-farm payrolls been enough to turn the USD's fortunes?
On balance	↔	USD still key, but thin liquidity will lead to plenty of volatility.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
21-Dec	NZ	Visitor Arrivals (Nov) - mom	-	-0.7%	10:45
		Credit Card Spending (Nov) - mom	-	0.2%	15:00
	JN	Adjusted Merchandise Trade Balance (Nov)	¥221.8B	¥419.1B	12:50
		Merchandise Trade Exports (Nov) - yoy	-4.4%	-23.2%	12:50
		Merchandise Trade Imports (Nov) - yoy	-16.9%	-35.6%	12:50
		All Industry Activity Index (Oct) - mom	1.0%	-0.6%	17:30
		BoJ Monthly Report	-	-	18:00
	AU	New Motor Vehicle Sales (Nov) - mom	-	-	13:30
22-Dec	US	Chicago Fed Nat Activity Index (Nov)	-	-1.08	02:30
	EC	ECB's Stark Speaks in Hildesheim	-	-	06:00
	NZ	Current Account Balance (3Q)	-0.260B	0.124B	10:45
		Current Account Balance (3Q) - % GDP	-3.9%	-5.9%	10:45
	AU	Conference Board Leading Index (Oct)	-	0.3%	12:00
	JN	BoJ Governor Shirakawa to Speak in Tokyo	-	-	20:00
	UK	GDP (3Q F)	-0.1%	-0.3%	22:30
		Current Account (3Q)	-8.1B	-11.4B	22:30
23-Dec	US	GDP Annualized (3Q F)	2.8%	2.8%	02:30
		Personal Consumption (3Q F)	2.9%	2.9%	02:30
		Core PCE (3Q F) - qoq	1.3%	1.3%	02:30
		Richmond Fed Manufacturing Index (Dec)	4	1	04:00
		House Price Index (Oct) - mom	-	0.0%	04:00
		Existing Home Sales (Nov)	6.25M	6.10M	04:00
	NZ	GDP (3Q) - qoq	0.3%	0.1%	10:45
		GDP (3Q) - yoy	-1.3%	-2.1%	10:45
	UK	BoE Minutes	-	-	22:30
	EC	Industrial New Orders (Oct) - mom	-	1.5%	23:00
24-Dec	US	Personal Income (Nov)	0.5%	0.2%	02:30
		Personal Spending (Nov)	0.7%	0.7%	02:30
		PCE Deflator (Nov) - yoy	0.8%	0.2%	02:30
		PCE Core (Nov) - mom	0.1%	0.2%	02:30
		University of Michigan Confidence (Dec F)	74.0	73.4	04:00
		New Home Sales (Nov)	439K	430K	04:00
	JN	BoJ Monetary Policy Meeting Minutes for May	-	-	12:50
		BSI Large All Industry (4Q) - qoq	-	0.3	12:50
		BoJ Governor Shirakawa to Speak in Tokyo	-	-	18:15
25-Dec	US	Durable Goods Orders (Nov)	0.4%	-0.6%	02:30
		Durables Ex Transportation (Nov)	1.0%	-1.3%	02:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
25-Dec cont.	US	Initial Jobless Claims (w/e Dec-20)	470K	480K	02:30
		Continuing Claims (w/e Dec-13)	-	5186K	02:30
	JN	Jobless Rate (Nov)	5.2%	5.1%	12:30
		Household Spending (Nov) - yoy	0.3%	1.6%	12:30
		National CPI (Nov) - yoy	-2.0%	-2.5%	12:30
		National CPI Ex-Fresh Food (Nov) - yoy	-1.7%	-2.2%	12:30
		National CPI Ex Food, Energy (Nov) - yoy	-1.0%	-1.1%	12:30
		Corp Service Price (Nov) - yoy	-	-2.2%	12:50
		Vehicle Production (Nov) - yoy	-	-19.1%	17:00
		Housing Starts (Nov) - yoy	-22.0%	-27.1%	18:00
		Construction Orders (Nov) - yoy	-	-40.1%	18:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.
Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: We are on the home stretch for 2009, with the final pieces of September quarter data due next week. We expect a modest pick up in GDP growth and for another sharp improvement in the current account deficit.

Date	Data/Event	Economic Signal	Comment
Mon 21 Dec (10.45)	International Travel and Migration (Nov)	Still supportive	A net inflow of migration is expected to continue as departures remain low.
Tue 22 Dec (10.45)	Balance of Payments (Sep qtr)	Another big improvement	The current account deficit is expected to show a sharp improvement in the quarter to 3.4 percent of GDP. Lower profits from foreign firms operating in NZ is a big contributor.
Wed 23 Dec (10.45)	GDP (Sep qtr)	Gaining some forward momentum	We expect a 0.5 percent increase in the quarter, with the business and financial services sectors making the largest positive contribution.
Wed 30 Dec (15.00)	Credit Growth (Nov)	Subdued	We wouldn't be surprised if total resident private sector credit fell in the month following the soft 0.1 percent in October.
Thu 7 Jan (10.45)	Overseas Merchandise Trade (Nov)	A small monthly deficit	We expect a deficit of \$550 million in the month.
circa 11 Jan	REINZ House Sales (Dec)	Stabilising	Weekly RBNZ home loan approvals data shows a market that is not pushing on strongly. House prices are likely to continue to rise slightly, but sales volumes and days to sell will likely show some softening.
Tue 12 Jan (10.00)	NZIER Quarterly Survey of Business Opinion (Dec qtr)	Soft data improving	The survey results should generally match the themes present within the National Bank <i>Business Outlook</i> . That is, firms feeling more optimistic for the future. Employment and investment intention measures will be important to watch.
Wed 13 Jan (15.00)	ANZ Commodity Price Index (Dec)	-	-
Thu 14 Jan (10.45)	Building Consents (Nov)	Continuing to recover	Residential building consent issuance should continue to post reasonable monthly gains off what is still a low level. Non-residential consent issuance should remain weak.
Fri 15 Jan (10.45)	Electronic Card Transactions (Dec)	Subdued	The Christmas period will be a key one for retailers. This data will provide the first gauge on how well the season went.
On Balance		Up	Waiting for the hard data to follow the soft

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
GDP (% qoq)	-1.0	-0.8	0.1	0.5	0.8	0.6	0.6	0.6	0.5	0.7
GDP (% yoy)	-2.2	-2.6	-2.1	-1.2	0.6	2.0	2.5	2.6	2.3	2.4
CPI (% qoq)	-0.5	0.3	0.6	1.3	0.4	0.3	0.7	0.7	0.8	0.5
CPI (% yoy)	3.4	3.0	1.9	1.7	2.5	2.5	2.7	2.1	2.5	2.8
Employment (% qoq)	0.7	-1.4	-0.4	-0.7	-0.1	0.0	0.1	0.3	0.4	0.5
Employment (% yoy)	0.9	0.7	-0.9	-1.8	-2.5	-1.2	-0.7	0.3	0.8	1.3
Unemployment Rate (% sa)	4.7	5.0	6.0	6.5	6.8	7.0	7.1	7.1	7.0	6.9
Current Account (% GDP)	-8.9	-8.1	-5.9	-3.4	-3.0	-3.2	-4.1	-5.1	-4.9	-4.8
Terms of Trade (% qoq)	-1.0	-2.7	-9.4	-1.2	3.4	1.5	1.9	0.6	0.1	-0.2
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	-9.9	-6.0	5.7	7.6	4.2	2.4

KEY ECONOMIC INDICATORS

	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09
Retail Sales (% mom)	-0.1	0.4	0.6	0.1	-0.6	1.2	0.3	0.0	..	..
Retail Sales (% yoy)	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	..	..
Credit Card Billings (% mom)	-3.2	2.6	-0.3	0.1	0.3	1.4	-1.0	0.2	..	..
Credit Card Billings (% yoy)	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	-0.4	..	..
Car Registrations (% mom)	6.3	-0.1	-2.6	6.1	7.0	-2.6	6.4	0.9	1.4	..
Car Registrations (% yoy)	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	..
Building Consents (% mom)	-1.7	11.3	2.9	-9.6	5.4	2.2	5.5	11.7	..	..
Building Consents (% yoy)	-34.2	-56.5	-22.9	-24.4	-16.4	-8.6	-11.9	26.7	..	..
REINZ House Price (% yoy)	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	..
Household Lending Growth (% mom)	0.0	0.2	0.4	0.0	0.2	0.3	0.2	0.3	..	..
Household Lending Growth (% yoy)	2.7	2.5	2.5	2.3	2.4	2.3	2.3	2.6	..	..
ANZ-Roy Morgan Consumer Confidence	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6
NBNZ Business Confidence	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5
NBNZ Own Activity Outlook	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9
Trade Balance (\$m)	438	322	906	-331	-178	-717	-563	-487	..	..
Trade Balance (\$m annual)	-4684	-4070	-2994	-3110	-2491	-2360	-1671	-1164	..	..
ANZ World Commodity Price Index (% mom)	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.7	10.5	..
ANZ World Commodity Price Index (% yoy)	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	..
Net Migration (sa)	1680	2050	2590	1670	2480	1650	1860	2130	..	..
Net Migration (annual)	7482	9176	11202	12515	14488	15642	17043	18560	..	..

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)						
	Oct-09	Nov-09	18-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.737	0.731	0.712	0.720	0.710	0.690	0.680	0.670	0.650	0.650
NZD/AUD	0.815	0.794	0.800	0.783	0.780	0.775	0.782	0.788	0.793	0.823
NZD/EUR	0.498	0.490	0.494	0.474	0.473	0.466	0.463	0.459	0.455	0.464
NZD/JPY	66.5	65.3	63.9	61.9	62.5	62.1	62.6	63.0	61.8	63.1
NZD/GBP	0.456	0.440	0.439	0.431	0.430	0.421	0.412	0.404	0.389	0.382
NZ\$ TWI	66.4	65.2	64.75	63.6	63.3	62.3	61.9	61.6	60.6	61.6
NZ interest rates	Oct-09	Nov-09	18-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
OCR	2.76	2.76	2.50	2.50	3.00	3.75	4.25	4.75	5.25	5.50
90 day bill	2.79	2.80	2.76	2.80	3.60	4.20	4.70	5.20	5.70	5.80
10 year bond	5.82	5.88	5.74	5.70	5.70	5.80	6.00	6.20	6.40	6.50
International	Oct-09	Nov-09	18-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	1.25	2.00	2.00	2.00
US 3-mth	0.28	0.26	0.25	0.40	0.75	0.80	1.50	2.50	2.50	2.50
AU cash	3.25	3.50	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25
AU 3-mth	3.94	4.03	4.14	4.40	4.80	4.90	5.00	5.00	5.10	5.60

KEY RATES

	18 Nov	14 Dec	15 Dec	16 Dec	17 Dec	18 Dec
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.78	2.78	2.76	2.77	2.77	2.75
NZGB 11/11	4.22	4.33	4.31	4.27	4.27	4.22
NZGB 04/13	4.94	5.01	4.99	4.96	4.96	4.93
NZGB 12/17	5.71	5.78	5.75	5.72	5.72	5.71
NZGB 05/21	6.01	6.07	6.04	6.01	6.01	6.00
2 year swap	4.46	4.68	4.64	4.54	4.53	4.50
5 year swap	5.57	5.60	5.56	5.51	5.52	5.49
RBNZ TWI	66.3	65.0	65.3	65.0	64.9	64.8
NZD/USD	0.7441	0.7220	0.7264	0.7189	0.7138	0.7122
NZD/AUD	0.8020	0.7967	0.7952	0.7991	0.7989	0.8010
NZD/JPY	66.41	63.98	64.45	64.40	64.35	63.91
NZD/GBP	0.4429	0.4455	0.4456	0.4425	0.4390	0.4397
NZD/EUR	0.5000	0.4939	0.4958	0.4943	0.4955	0.4945
AUD/USD	0.9278	0.9062	0.9135	0.8996	0.8935	0.8892
EUR/USD	1.4883	1.4618	1.4650	1.4543	1.4405	1.4407
USD/JPY	89.25	88.61	88.73	89.58	90.15	89.73
GBP/USD	1.6799	1.6208	1.6301	1.6247	1.6258	1.6201
Oil	79.03	69.86	69.48	70.62	72.64	72.58
Gold	1143.10	1120.60	1128.95	1124.00	1135.20	1107.90
Electricity (Haywards)	7.59	5.08	5.25	4.92	4.80	n/a
Milk futures (US\$/contract)	125	137	136	134	132	n/a
Baltic Dry Freight Index	4643	3530	3518	3474	3376	n/a

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