Market Focus

New Zealand

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THE STARTING POSITION VERSUS THE MEDIUM-TERM

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Page 2: Economic overview

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ECONOMIC OVERVIEW

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What's ahead?

> **CPI – December quarter** (Wednesday 1045 NZDT). We expect the headline CPI to fall 0.1 percent (with further downside risk) taking the annual movement to 2.1 percent. Other core measures including non-tradable inflation are expected to come in more elevated at around 0.4 to 0.5 percent, highlighting some stickiness but not excessive elevation.

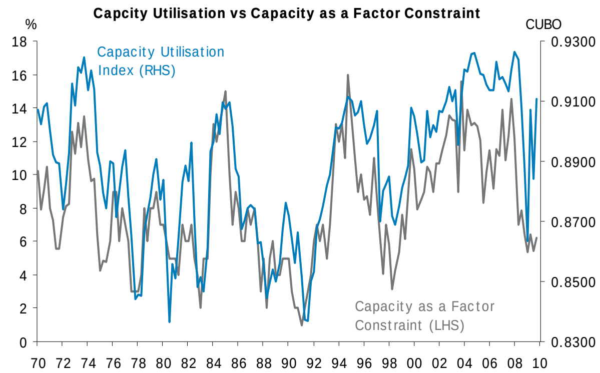
> **Retail trade – November month** (Thursday 1045 NZDT). We anticipate headline retail sales to rise 0.5 percent and core retailing to rise a tad below that.

> **ANZ Roy Morgan consumer Confidence – January** (Thursday 1500 NZDT).

What's the view?

Last week's *Quarterly Survey of Business Opinion* had something for everyone. At one extreme, we had further evidence that while a recovery is underway, it remains patchy. There is still a high degree of uncertainty and firms are somewhat loathe to commit to hiring and investing yet. While perceptions towards both are improving, it remains flat to negative. Getting both into positive territory are critical planks for the recovery to broaden. Today's REINZ data is hardly consistent with the housing market kicking on, with volumes down again, median days to sell rising, and the stratified price measure falling. At the other extreme, we had evidence that the economy is operating with less spare capacity than previously thought, which carries the implication that it will be soaked up quickly once the recovery takes on a more sustainable look.

We are not overreacting to the capacity utilisation reading (which went from 0.8842 to 0.9107). It has become notoriously volatile. Readings from factor constraints still point to a lack of sales being the major issue, with capacity as a factor constraint (which has typically been well correlated with the headline capacity utilisation figures) barely budging. **But neither are we dismissing it.** The fact that increases in capacity utilisation were reported as being across the board is a little too consistent, although we also suspect this reflects some aspect of capacity scrapping and weak investment.



Sources: ANZ, National Bank, NZIER

The simple solution to this dichotomy is for the Reserve Bank to remain patient, but be prepared to act decisively when required. With the survey itself giving some wide ranging messages across the supply and demand sides of the economy, it seems appropriate to let the hard data (as opposed to soft leading data) determine the timing of the tightening cycle. Tighten too early and you risk choking off the recovery. Move too late and inflation risks mount. In our minds, the path of least resistance (or regret) is to continue looking for a mid-year start to the tightening cycle, with the first (and probably second) move being of 50bps in magnitude.

However, the implications of such demand and supply-side capacity readings go further.

> It flags a materially lower supply-side capacity for the economy. At present we put the supply side capacity of the economy closer to 2 percent than 3 percent. This could become problematic if the booming Australian economy acts as an emigration vortex, sucking out further supply from the labour side (and particularly in relation to key professions/trades where there are still shortages).

> It portends of a less pronounced cyclical upswing when the recovery takes hold. Strong upswings typically follow downturns. This is partly a reflection of a surfeit of available capacity which typically opens up during the downturn. This does not appear to be the case at present. To put this in perspective, the unemployment rate peaked at 7.9 percent following the Asian crisis, but now looks set to peak at 7 percent (currently 6.5 percent) this cycle (although we acknowledge hours per full-time-equivalent does suggest more available capacity).

Both issues carry implications for asset (equity) valuations, which are in part driven by near-term earnings momentum and a terminal growth assumption. A decent earnings rebound will still be pending as the economy recovers. But we would question the magnitude of the recovery if the economy does not have the available resource capacity to foster a sharp upswing. Especially if the Reserve Bank lacks the inflation headroom to allow it. As noted by the Reserve Bank in their December *Statement*: *"the recession simply took the heat out of inflation rather than driving it to an especially low rate."*

In this regard, this week's inflation report is going to be critical as to how much flexibility the Reserve Bank views it has in terms of remaining patient and waiting for the real side of the story to take on a sustained look. Our preview is detailed on page 4. No doubt the market will be closely attuned to the potential for upside surprises, particularly coming on the heels of the stronger September quarter non-tradable numbers. We'll be focusing more on the composition rather than the headline. Looking forward, we will be likewise focusing on drivers of the medium-term outlook. And this means the December Household Labour Force Survey report due in early February.

When eyeing tensions between the starting position and medium-term drivers of inflation, it was interesting to view Australian developments last week. The fall in the Australian unemployment rate was a clear signal that the RBA needs to go again in February, but most seem to be waiting for the Australian CPI report (due 27 January) before firming on a February move. We're not at all convinced such conditioning around concurrent statistics or the starting position is the right way policy should be determined. But markets will be markets and there is the inevitable temptation for market pricing to move, and economists and central banks to follow. **When it comes to hiking, it is sometimes easier to take the path of least resistance if the market has it on offer. This is where concurrent or starting position data sometimes has too big an influence.** This week in New Zealand is shaping up as an example.

Retail sales for November look set to lift slightly. We expect headline sales to come in around 0.5 percent and core sales slightly below that. Electronic transactions data for November was flat and credit card billings up 0.8 percent so an average of the two appears as good an estimate as any. At that rate, the trend in retailing will be flat to crawling slightly upward, and hardly anything to write home about. Particularly with turnover being heavily driven by aggressive discounting (which gives some downside risk to our CPI forecast but we'll be more interested in non-tradable related inflation anyway).

Consumer confidence will provide the first key read on 2010 and the post Christmas period. What will be important within the ANZ Roy Morgan release will be the differential between current conditions and expected conditions, with the former the key determinant of actual dollar spending. Consumer confidence eased from respectable highs in October, and we'll be closely eyeing both the direction and level as a starting barometer for 2010.

Sometime this week we should also receive December unemployment benefit numbers. We're paying particular attention to the labour market at present. December normally sees a gigantic lift of 6,000 or so due to the influx of students who can't find summer jobs, but we'll ignore the headline figures and rely on seasonally adjusted ones. October and November figures showed falling numbers in actual terms but a rise on a seasonally adjusted basis. We expect the seasonally adjusted figures to continue climbing and portend of a continued rise in the unemployment rate.

Recent local data...

- **NZIER Quarterly Survey of Business Opinion Q4:** Headline business confidence fell to +23 in seasonally adjusted terms, while the experienced domestic trading activity improved from -20 to -9. Capacity utillisation showed a surprising jump from 0.8842 to 0.9107.
- **Building consents - November:** Residential consents rose 1.2 percent (ex-apartments up 3.1 percent), extending the trend upwards over the second half of 2009. Conversely, non-residential activity remained stuck in a downward trend (despite some perkiness in the monthly dollar value number itself).
- **ANZ Commodity Price Index – January.** World prices rose 2.6 percent (30 percent yoy). NZD prices lifted 4.3 percent (1.7 percent yoy).
- **Electronic Card Transactions –December.** The value of retail related transactions rose 0.7 percent in the month. Core transactions rose 0.4 percent.
- **REINZ Housing Market Data – December**. Seasonally adjusted house sales fell 3.7 percent, median days to sell rose from 35 days to 36, while the stratified house price measure fell 0.9 percent in the month.

Consumers Price Index Preview: December 2009 Quarter

(10:45 NZDT on Wednesday 20th January 2010)

The market is looking for a trigger to force a rate hike in March. We do not believe the CPI figures will do it. We see the headline CPI coming in at -0.1 percent – with downside risk emanating from aggressive retail discounting. Core and non-tradable reads are more important and expected to be more elevated (around 0.4 percent). They will highlight that while subdued, inflation has not been crushed as has typically been the case in previous recessions. The market will be paying close attention to the potential for an adverse near-term surprise. But it should be drivers of the medium-term outlook, such as the labour market, that should be more persuasive.

	ANZ	Market	RBNZ
Q4 CPI forecast	**-0.1% qoq 2.1% yoy**	0.0% qoq 2.1% yoy	-0.2% qoq 2.0% yoy

The market is looking for a trigger to force a rate hike in March given nuances from soft data on the recovery front, rising house prices and an unwelcome inflation mix in the September quarter. At the time of writing there is 12bps of tightening priced in by March and 37 by April, with April's OCR decision also subsequent to the March quarter inflation figures.

We do not think the December quarter inflation figures will provide a smoking gun for a March hike, although it is becoming obvious that the economy has less spare capacity than previously thought. In addition, an excessive amount of pricing pressure is coming from non-contestable pockets. This is an area we are watching closely with pending ACC levy increases and the like coming into force later this year.

We see the headline CPI coming in at -0.1 percent in the quarter – with downside risk emanating from aggressive retail discounting. This will take the annual inflation rate from 1.7 percent to 2.1 percent. For now this should give the RBNZ scope to remain patient and watch the next legs of the recovery process (jobs and investment) to gradually take hold.

Core and non-tradable reads are expected to be more elevated (around 0.4 percent) and highlight that while subdued, inflation has not been crushed as has typically been the case in previous recessions. Resource pressure could emerge quickly once a sustained recovery is underway, something that last week's surprise increase in the QSBO capacity utilisation measure alluded to. **The market and ourselves will no doubt be very attuned to potential upside surprises across the core and non-tradable inflation measures.**

In terms of the detail, falls in food prices will be the major downward driver. This merely unwinds the strong food price increases in the previous quarter. The introduction of new lower domestic airfares by the national carrier during the quarter should help to offset higher international airfares. Housing related prices are expected to remain subdued still, while early retail discounting this year will help offset the usual sticky inflation coming from the services area.

On the face of it, the medium-term outlook for inflation looks well behaved. Inflation expectations have lifted somewhat but remain contained. The labour market remains weak, and is stabilising at best. But the real uncertainty on the inflation front at present is coming from the supply-side of the economy, with a lower trend growth rate becoming obvious. Persistence across government related charges is also somewhat perplexing in so far as the RBNZ's mandate is concerned.

CPI Components	Quarterly % change	*%-point contrib.*	Annual % change
Food	-2.2	*-0.4*	1.5
Alcohol and Tobacco	0.1	*0.0*	4.1
Clothing and Footwear	0.3	*0.0*	1.6
Housing and Household Utilities	0.4	*0.1*	1.8
Household Contents and Services	0.2	*0.0*	1.6
Health	0.7	*0.0*	3.8
Transport	0.2	*0.0*	2.4
Communication	-0.2	*0.0*	0.2
Recreation and Culture	1.2	*0.1*	0.4
Education	0.1	*0.0*	4.3
Miscellaneous Goods and Services	0.6	*0.0*	3.4
All Groups	**-0.1**	***-0.1***	**2.1**
Tradables	**-0.6**	***-0.3***	**1.4**
Non-tradables	**0.4**	***0.2***	**2.5**

Financial market implications

The market is divided on a March hike and any upside surprise in Wednesday's CPI figures will no doubt extend the chants for higher interest rates.

To us, the composition will be the key. While we're attuned to the potential for an adverse read, **ultimately we believe it will require a movement in the medium-term drivers of inflation for the RBNZ to hike earlier.** Certainly we have seen a slight uptick in inflation expectations, but the labour market has not yet stabilised. The December quarter Household Labour Force Survey (due February 4) is shaping up as a critical read.

INTEREST RATE STRATEGY

Wednesday's CPI data will take centre stage, though the NZ market will continue to be largely dictated to by offshore moves. We look set to continue trading within recent ranges in the absence of any material surprises in the CPI release.

Market themes…

- Mixed QSBO has something for everyone but lack of spare capacity a concern.
- Strong Australian labour market data has the market eyeing another rate hike from the RBA.
- US bonds rally on disappointing start to the US earnings reporting season.

Review and outlook

Trading in the rates market has been volatile over the early part of January, with the local market largely taking its cues from offshore. The US dataflow has been disappointing on balance, and the earnings reporting season has not been off to a good start. This led to a rally in US bonds. But the situation looks different in Asia and Australia, with the Chinese authorities taking steps to curb excessive liquidity growth by raising reserve requirements. Australian labour market data came in surprisingly strong, and this may signal the start of a diverging theme for this year between US/UK/Europe and Asia/Australia.

The NZ dataflow here has been mixed though with the QSBO showing a tepid rebound in growth indicators but with an inflationary undercurrent. The NZ market has seen a lot of flattening in the mid part of the curve with 2s5s hitting the top of the +98 technical level and rallying back down. Reasons for this include longer dated uridashi issuance, the break of the technical level failing and positioning ahead of the eventual flattening that should happen as the tightening cycle begins. If the tightening is delayed or only moves in clips of +25bps, the steepness of the carry provides good running yield but even so the current flatness in the belly of the curve looks overdone.

NZ CPI data this Wednesday is the main domestic event, with the market still mindful of the strong September quarter print and the resulting selloff. Another upside surprise, particularly in the non-tradable reading, will no doubt see the market test a March move. Up until the CPI release, it seems the NZ market will just continue to follow offshore moves. The 2-year swap yield seems well stuck in a 4.50 to 4.65 percent range for the meantime. We have seen little payside activity in mortgage rates. One bank increased their fixed rates last week (1 to 3-year space), and assuming others follow, this will see even less mortgage fixing activity. As expected, corporate activity has been subdued into the New Year. The bills libor market has seen a good rally of around 10bps coinciding with Uridashi issuance and payside diminishing, but any local bank issuance could see this quickly unwound.

Borrowing strategies we favour at present

Rates will move higher this year. But a steep yield curve looks set to stay for some time, negating some of the benefit of fixing. We continue to favour the use of caps as a way to hedge interest rate risk, while enjoying lower floating rates while they last.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	The recent dataflow is consistent with a mid-year move.
NZ data	↔/↑	Soft data still pointing to recovery. CPI this week critical.
Fed Funds / front end	↔/↑	How long will "an extended period" remain?
RBA	↑	Labour market seals the deal for February?
US 10 year	↔	Caught between potentially earlier Fed move and safe haven flows.
NZ swap curve	↔/↓	Flattening pressure still evident especially in the mid-part of the curve.
Flow	↔	Very little mortgage or corporate flows.
Technicals	↔	2-year stuck in a 4.5-4.65% range.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 28-Jan-10	+1	+1
Thu 11-Mar-10	+10	+12
Thu 29-Apr-10	+33	+37
Thu 10-Jun-10	+69	+73
Thu 29-Jul-10	+105	+105
Thu 16-Sep-10	+141	+143
Thu 28-Oct-10	+181	+162

Trading themes we favour at present

Thin liquidity and a choppy market means we are set to range trade ahead of Wednesday's CPI release. Look for the 4.5-4.65% range to hold unless we get an outsized surprise in the CPI.

CURRENCY STRATEGY

The global financial crisis was always going to severely impact on the weakest and most over leveraged. First Bear Sterns and then Lehman's. Locally we had many finance company failures. Now we appear at the tipping point for sovereign risk, with Iceland and most concerning – Greece – on the brink. What does a Greece financial collapse mean for the euro and the global financial system? People are decreasing risk as they wait to find out.

Market themes...

- Concerns over Greece, Ireland and Spain weighing heavily on the EUR.
- Australian data can't get any better, yet the AUD can't seem to rally.
- IMM positioning shows market long commodity currencies including the NZD.

Review and outlook...

Greece is facing fiscal challenges. The question is how it plays out. Greece by itself is not that much more important to the world than Dubai is. The issue is that Greece is part of the euro and this can severely damage people's confidence in the single currency. This is the first test of European unity and so far the signs don't look good.

Australian data has been exceptionally strong since the start of the year with retail sales, employment and huge Chinese imports all suggesting the RBA has more work to do on February 2. Market positioning data shows large long positions in the AUD, though negative global sentiment is capping any rally for now.

The NZD is normally more affected by global dysfunction but a lack of long positions has allowed the NZD to hold above the critical 0.7320 level with ease. High capacity utilisation in the latest QSBO, along with a buoyant housing market, suggests the RBNZ will be watching the data closely. Any signs of inflation would suggest the NZD can test above 0.7440 towards last year's high of 0.7635.

Even if the euro comes under pressure, the flight to liquidity in the US looks less likely as the US data has been weak and the President of the New York Federal Reserve William Dudley suggested rates could remain low for *"at least 6 months"* and *"it could be a year from now... two years from now"*.

The sea change happening in Australasia is that it is now more reliant on a surging China for it's economic well being than the US or the old world. Funding was the key to AUD and NZD's demise 18 months ago. Given comments from the major Australian banks that either performance looks fine or no Government Guarantees will be required going forward, the funding question has been answered.

All up, across currency markets, we are back to familiar pygmy trading. The US recovery continues to be questioned given the tenor of the data, Greece's problems are highlighting fragility in Europe, and Japan faces huge structural headwinds. Until these dichotomies pan out into a firm trend, the NZD looks stuck within familiar ranges.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both softs and hards performing well.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔	Range trade.
Sentiment	↔/↑	Market could be surprised by NZ data.
Other	↔/↓	China's performance benefiting Australia more.
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	↔	Slightly above cyclical fair value.
Yield	↔/↑	Dudley dovish.
Commodities	↔/↑	Commodities holding gains.
Risk aversion	↔	Watch Greece and euro.
Partial indicators	↔	NZ CPI data next big one.
Technicals	↔/↓	0.7320/0.7440 break either side important.
AUD	↔/↑	Australian data still strong but AUD capped?
Sentiment	↔	Default play.
Other	↔	Is Greece's woes contained or contagious?
On balance	↔/↑	**Pygmy trading.**

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
18-Jan	JN	Industrial Production-mom	-	2.6%	17:30
	JN	Industrial Production-yoy	-	-3.9%	17:30
19-Jan	UK	CPI-mom	0.3%	0.3%	22:30
	UK	CPI-yoy	2.6%	1.9%	22:30
	GE	ZEW Survey (Econ. Sentiment) - Jan	50.0	50.4	23:00
	GE	ZEW Survey (Current Situation) - Jan	-56.2	-60.6	23:00
	EC	ZEW Survey (Econ. Sentiment) - Jan	48.0	48.0	23:00
20-Jan	US	NAHB Housing Market Index	17	16	07:00
	NZ	**Food Prices**	**-**	**-0.3%**	**10:45**
	NZ	**Consumer Prices-qoq**	**0.0%**	**1.3%**	**10:45**
	NZ	**Consumer Prices-yoy**	**2.1%**	**1.7%**	**10:45**
	AU	Westpac Consumer Confidence-Jan	-	113.8	12:30
	AU	NAB Business Confidence-4Q	-	16	12:30
	UK	ILO Unemployment rate (3m to Nov)	8.0%	7.9%	22:30
	UK	Bank of England Minutes	-	-	22:30
21-Jan	**NZ**	**Retail Sales - mom**	**0.5%**	**0.0%**	**10.45**
	NZ	**Retail Sales Ex-Auto - mom**	**0.3%**	**0.5%**	**10:45**
	NZ	**Business NZ PMI**	**-**	**51.8**	**10:30**
	NZ	**ANZ-Roy Morgan Consumer Confidence Survey**	**-**	**118.6**	**15:00**
	EC	PMI Manufacturing	51.9	51.6	22:00
	EC	PMI Composite	54.4	54.2	22:00
	US	Producer Price Index – Dec - mom	0.0%	1.8%	02:30
	US	PPI Ex Food & Energy – Dec - mom	0.1%	0.5%	02:30
	US	Producer Price Index – Dec - yoy	4.5%	2.4%	02:30
	US	PPI Ex Food & Energy – Dec - yoy	1.0%	1.2%	02:30
	US	Housing Starts - Dec	575m	574m	02:30
22-Jan	US	Initial Jobless Claims – Jan 17	440k	4444k	02:30
	US	Leading Indicators - Dec	0.7%	0.9%	04:00
	US	Philadelphia Fed - Jan	19.4	20.4	04:00
	AU	Export Price Index - qoq	-3.5%	-9.6%	13:30
	AU	Import Price Index - qoq	-2.0%	-33.0%	13:30

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The door has opened on 2010 and with the economy turning the corner, attention is now firmly on the speed and sustainability of the recovery. Most gauges are expected to continue showing signs of improvement, although for a lot of sectors there is a base effect (deep decline) to be mindful of. This means looking at data through two lens: the change and the level.

Date	Data/Event	Economic Signal	Comment
Wed 20 Jan (10.45)	Consumer Price Index (Dec qtr)	Mixed	Weak tradable inflation drags headline lower but stickiness across non-tradable and core measures reinforces that inflation has not been crushed, as has been the experience of previous recessions.
Wed 21 Jan (10.45)	Retail sales (Nov)	Slow improvement	Retailing is expected to show signs of very gradual rebuilding momentum.
Wed 21 Jan (15.00)	ANZ Roy Morgan Consumer Confidence	Containment	Confidence was high but receding as 2009 drew to a close. Key for 2010 will be whether this trend has extended and the gap between current and expected conditions closes.
Thur 28 Jan (09.00)	OCR Review	The exit strategy	We expect the RBNZ to by-and-large stick to their December script that rates look set to move higher from mid 2010.
Thur 28 Jan (15.00)	Credit Growth (Dec)	Lacking a pick-up	Household lending growth to continue to be soft, while corporate sector deleveraging continues. Overall credit growth to show no pick-up in business investment as yet.
Fri 29 Jan (10.45)	Overseas merchandise trade (Dec)	Further improvements	The annual trade balance looks set to improve further courtesy of still weak imports. This sets the scene for further improvements in the Q4 current account.
Fri 29 Jan (10.45)	Building consents (Dec)	Mixed	Residential building consents are expected to continue trending up but non-residential activity to remain subdued.
Mon 1 Feb (15.00)	ANZ Commodity Price Index (Jan)	Better	Irrespective of the monthly result the trend in the series shows a strong lift in export prices. This is a critical part of the economy's rebalancing process and also allowing the rural sector to work through excesses in a reasonably orderly fashion.
Tue 2 Feb (10.45)	Quarterly Employment Survey and Labour Cost Index (Dec qtr)	Subdued	We expect labour cost readings to remain contained given spare capacity within the labour market, and the normal lagged response to real economic activity.
Thu 4 Feb (10.45)	Household Labour Force Survey (Dec qtr)	Ongoing capacity gaps	We expect the unemployment rate to lift to 6.8 percent. Employment is expected to be flat to negative and insufficient to soak up entrants into the labour force. Hours worked are expected to come in positive (0.3 percent) as firms respond to better economic momentum by lifting hours per FTE (which have dropped to an all time low).
Thu 4 Feb (10.45)	Visitor arrivals and net migration (Dec)	More bums on seats	Migration rebounding strongly in 2009. December's figures are expected to continue the trend although most interest will be on 2010 and what a booming Australian economy means for those people that deferred plans in 2009.
Wed 10 Feb (10.45)	Electronic Card Transactions (Jan)	Improvement	The trend in ECT has been on a gradual grind up and we expect this to extend into 2010.
Circa 15 Feb (10.00)	REINZ House sales and pries (Jan)	Stating to wobble?	Volumes tailed into 2009 but the market (prices) remained tight owing to a lack of listings. January will give a key read on whether momentum in the housing market is starting to fade.
On Balance		**Improving but not racing away**	**Growth momentum continues to accelerate but off a low base.**

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)	-0.9	-0.9	0.2	0.2	**0.8**	**0.6**	**0.6**	**0.6**	**0.5**	**0.7**
GDP (% yoy)	-2.5	-3.0	-2.1	-1.3	**0.4**	**1.8**	**2.2**	**2.6**	**2.3**	**2.4**
CPI (% qoq)	-0.5	0.3	0.6	1.3	**-0.1**	**0.2**	**0.7**	**0.7**	**0.8**	**0.5**
CPI (% yoy)	3.4	3.0	1.9	1.7	**2.1**	**2.0**	**2.1**	**1.6**	**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	-5.8	-3.2	**-2.3**	**-2.0**	**-2.8**	**-3.7**	**-3.9**	**-3.9**
Terms of Trade (% qoq)	-1.0	-2.7	-9.4	-1.2	**3.8**	**3.0**	**1.9**	**0.5**	**0.2**	**-0.2**
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	**-9.6**	**-4.3**	**7.6**	**9.5**	**5.7**	**2.5**

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	0.5	..
Retail Sales (% yoy)	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	1.2	..
Credit Card Billings (% mom)	-3.0	2.4	-0.3	0.1	0.3	1.2	-0.7	0.2	0.8	..
Credit Card Billings (% yoy)	-4.8	-1.6	-2.3	-2.0	-1.9	0.0	-2.3	-0.3	1.6	..
Car Registrations (% mom)	7.1	-1.4	-2.1	6.0	7.0	-3.6	8.1	0.9	2.2	5.9
Car Registrations (% yoy)	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3
Building Consents (% mom)	-1.9	10.9	2.6	-9.4	5.3	2.9	7.3	10.7	1.1	..
Building Consents (% yoy)	-34.1	-56.6	-23.3	-24.1	-16.8	-8.4	-12.2	27.5	21.3	..
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	0.1	0.3	0.3	0.3	0.3	0.2	..
Household Lending Growth (% yoy)	2.7	2.5	2.5	2.3	2.4	2.3	2.3	2.6	2.8	..
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 ($m)	438	322	906	-331	-178	-717	-562	-495	-269	..
Trade Balance ($m annual)	-4684	-4070	-2994	-3110	-2491	-2360	-1669	-1171	-846	..
ANZ World Commodity Price Index (% mom)	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6
ANZ World Commodity Price Index (% yoy)	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0
Net Migration (sa)	1670	2020	2480	1650	2480	1640	1860	2140	1780	..
Net Migration (annual)	7482	9176	11202	12515	14488	15642	17043	18560	20021	..

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	Nov-09	Dec-09	18-Jan-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.731	0.716	0.734	0.720	0.710	0.690	0.680	0.670	0.650	0.650
NZD/AUD	0.794	0.793	0.797	0.783	0.780	0.775	0.782	0.788	0.793	0.823
NZD/EUR	0.490	0.490	0.511	0.474	0.473	0.466	0.463	0.459	0.455	0.464
NZD/JPY	65.3	64.1	66.6	61.9	62.5	62.1	62.6	63.0	61.8	63.1
NZD/GBP	0.440	0.440	0.451	0.431	0.430	0.421	0.412	0.404	0.389	0.382
NZ$ TWI	65.2	64.6	66.57	63.5	63.3	62.3	62.0	61.6	60.7	61.6
NZ interest rates	Nov-09	Dec-09	18-Jan-10	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	2.80	2.78	2.78	2.80	3.60	4.20	4.70	5.20	5.70	5.80
10 year bond	5.88	5.90	5.71	5.80	5.70	5.80	6.00	6.20	6.40	6.50
International	Nov-09	Dec-09	18-Jan-10	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	0.26	0.30	0.25	0.40	0.75	0.80	1.50	2.50	2.50	2.50
AU cash	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25
AU 3-mth	4.03	4.00	4.27	4.40	4.80	4.90	5.00	5.00	5.10	5.60

KEY RATES

	15 Dec	11 Jan	12 Jan	13 Jan	14 Jan	15 Jan
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.76	2.76	2.78	2.79	2.79	2.78
NZGB 11/11	4.31	4.25	4.25	4.22	4.22	4.21
NZGB 04/13	4.99	4.97	4.94	4.89	4.90	4.88
NZGB 12/17	5.75	5.80	5.77	5.73	5.74	5.71
NZGB 05/21	6.04	6.07	6.05	6.01	6.01	5.98
2 year swap	4.64	4.58	4.57	4.54	4.58	4.57
5 year swap	5.56	5.53	5.50	5.43	5.46	5.43
RBNZ TWI	65.3	66.9	66.9	66.9	66.8	66.7
NZD/USD	0.7264	0.7410	0.7401	0.7398	0.7410	0.7385
NZD/AUD	0.7952	0.7955	0.7987	0.8022	0.7970	0.7962
NZD/JPY	64.45	68.35	68.24	67.36	67.92	67.28
NZD/GBP	0.4456	0.4602	0.4603	0.4579	0.4545	0.4524
NZD/EUR	0.4958	0.5102	0.5109	0.5111	0.5096	0.5119
AUD/USD	0.9135	0.9315	0.9266	0.9222	0.9297	0.9275
EUR/USD	1.4650	1.4524	1.4485	1.4476	1.4542	1.4427
USD/JPY	88.73	92.24	92.21	91.05	91.66	91.11
GBP/USD	1.6301	1.6100	1.6078	1.6155	1.6303	1.6325
Oil	69.48	82.74	82.54	80.79	79.66	79.35
Gold	1128.95	1155.10	1151.25	1128.70	1142.65	1140.00
Electricity (Haywards)	5.25	4.39	4.91	4.59	4.91	5.51
Milk futures (US$/contract)	136	126	126	126	126	124
Baltic Dry Freight Index	3518	3148	3160	3175	3235	3299

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.

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