

# Market Focus

New Zealand

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## THE ENDGAME?

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**Page 2: Economic overview**

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**Page 4: Economic comment – the regional gap**

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**Page 5: Interest rate strategy**

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**Page 6: Currency strategy**

- > The NZD continues to benefit from the improved global outlook as the dataflow shows ongoing signs of improvement. There is a change versus level dynamic to be wary of, but currencies are more attuned to the former for now. The NZD had good reasons to wobble last week with Asian stock markets looking vulnerable, but yet again the week ended with the NZD near its high and now looking set for a retest of 0.6880 and finally up to our 0.6935 target. Abstracting from a turn in equities and risk sentiment, a catalyst lower is absent.

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## ECONOMIC OVERVIEW

A better feel-good factor continues to percolate and housing is at the centre of it. We still question its sustainability and the endgame. It has a policymaker response written all over it if momentum continues and the balance sheet constraint does not prove to be as binding as we expect. This week's housing related data (consents and credit growth) is, however, expected to provide more evidence of a pickup – albeit off lows.

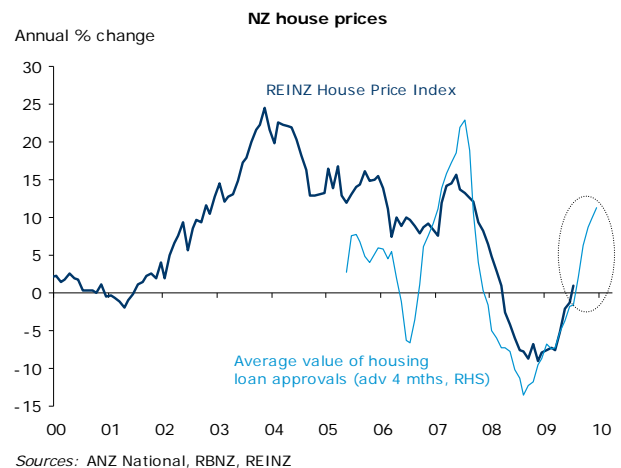
### What's ahead?

- > **September quarter RBNZ Survey of Expectations** (Tuesday 1500 NZST). 2-year ahead inflation expectations are expected to remain near the 2.2 percent recorded in the previous survey.
- > **July Overseas Merchandise Trade** (Thursday 1045 NZST). A trade deficit is typically recorded in July and we expect this trend to be repeated (with a deficit of \$150 million).
- > **July Building Consent Issuance** (Friday 1045 NZST). Residential consent issuance, while remaining at an extremely low level, should begin to recover in line with a pick up in house sales. Non-residential consent issuance, on the other hand, looks likely to weaken.
- > **July Credit Growth** (Friday 1500 NZST). While improved housing activity may see household credit growth recover, the backdrop of de-leveraging will ensure that growth is still subdued. Rural and business credit growth is set to continue weakening.

### What's the view?

**A better feel-good factor continues to percolate and housing is at the centre of it.** We continue to be struck by the renewed optimism appearing towards the property market and the subsequent spillover effects. Confidence is rising across all gauges (investor, consumer and business) and this is despite a weakening labour market. Confidence can quickly become self-fulfilling as pent-up demand is unleashed. While our travels are also detecting some real challenges (particularly in the rural regions), there is no doubting the housing story is very powerful at present, particularly in that housing juggernaut – Auckland. Whether it is the median number of days to sell falling to 36 days – the lowest levels since September 2007, house prices beginning to rise again and mortgage approval data last week pointing to a further increase in activity, it is clear that the housing market has moved beyond stabilisation and well into recovery mode. And it is not just that housing approvals are up, so is the average value per approval. We'll be keeping a

close eye on these statistics over the coming weeks.



**We still ponder the end-game given the starting position.** We noted last week that we viewed the balance sheet constraint (huge current account deficit and external liabilities position) as the key binding constraint for the housing market and economy. A “mini-boom” in the housing market risks exacerbating existing problems if it is, in the words of RBNZ Governor Bollard, followed by a return to our old “borrow and spend habits”. But clearly we are at a juncture where the behavioural aspects that are inherent in every economic cycle are at odds with the fundamentals, or what needs to happen. We should be cheerful that the property market is helping the economy emerge from recession and probably should not have been too surprised that it's keen to push on given NZ's fixation with property.

**There now looks to be three broad alternatives.** All are premised on the balance sheet constraint being binding, at one stage or another.

- > **The message sinks in.** The usual seasonal pick-up in listings that occurs as spring begins will see the “shortage price premium” start to wane towards the end of the year. A rising unemployment rate weighs. “Euphoria” wanes, much like 1999/2000. Volumes (consents) pick-up, but prices flat-line.
- > **Policymakers make the message sink in.** A capital gains tax, land tax and a host of others are being mooted. Politically these are all difficult to sell. But if ever there was a window of opportunity to introduce such political hard-sells, it is now. There is a lot of policy work happening in the background and a head of steam appears to be building. It is not anti-property, but aimed at improving the efficiency of how capital gets allocated.
- > **The “W” or double-dip.** We've already put in a very minor variation of this in our forecasts (weakness in H1 2010), as opposed to the “Full

Monty", to convey our wariness towards the path NZ is treading at present. The growth we are seeing is welcome, but the mix is simply unsustainable. We struggle to see rating agencies, the RBNZ and others letting NZ.Inc return to a debt-fuelled consumption model.

**There are other alternatives, such as miraculously being given a massive endowment** (oil, gas, dairy prices increase 100 percent, doubling of the tourism industry), thereby expanding the earnings capacity of NZ.Inc. But we wouldn't be banking on them at present.

**All up, we continue to take a guarded view towards how far property can, and in fact will, underpin prospects over the coming year.** Domestically and internationally, we believe a lot of renewed optimism (the change) needs to be read in conjunction with the level of activity, with the latter flagging continued consolidation and a higher unemployment rate.

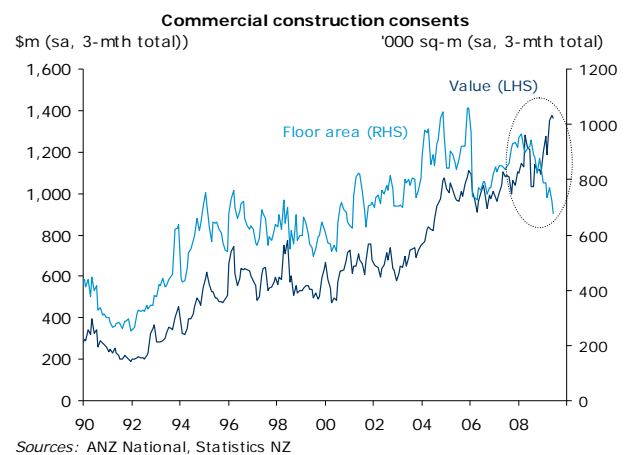
**There are a few interesting pieces of local data out this week.** The first will be the RBNZ's *Survey of Expectations* for the September quarter on Tuesday. We expect the 2-year ahead measure of inflation expectations to remain broadly similar to the 2.2 percent recorded in the previous survey. It is also possible that expectations towards GDP growth will be revised slightly higher given the signs of stabilisation in a number of indicators of late. This release will probably not get the same level of attention that it achieved over 2007 when inflation pressures were at their peak, but it should highlight that inflation is not an imminent concern for the RBNZ, allowing them to maintain their "low for an extended period" view on rates.

**July Overseas Merchandise Trade and Building Consents data are likely to create more interest.** A trade deficit is a common occurrence in July months and we expect this year to be no different, with an expectation of a monthly deficit of \$150 million. The surprise factor in the June numbers was the inclusion of some planes associated with the starting up of JetStar services in New Zealand, and this boosted imports to the tune of \$571 million in the month. We are not envisaging any "one-offs" in the July numbers and this should see imports remaining on a subdued trend due to the weak level of activity in the domestic economy. We are expecting a pick up in import demand over the coming months once a process of inventory rebuilding occurs, although this is likely to be more of an end of year story.

**The key to watch for exports will be the demand from China.** NZ's export performance over the past 12 months has been commendable given the weakness in its trading partners. NZ has thankfully avoided the large falls in exports experienced by a number of Asian nations. One of

the reasons for this has been the still solid demand for NZ dairy and log exports from China. In fact, in June, NZ exports were down 11 percent on a year ago, while exports to China were up a whopping 50 percent. After taking close to 5 percent of NZ's merchandise exports in June 2008, China now takes closer to 8 percent. Part of this can be put down to stock-building. But we also think (hope) that it is showing flexibility on the part of NZ exporters in targeting the relative growth regions of the globe.

**Residential consents should begin to recover, while the opposite will be the case for commercial consents.** With housing market turnover recovering, we expect residential building consents to begin to pick up from their incredibly low levels at present. We would not rule out an increase in the vicinity of 5 to 10 percent in the month. However, what is now of more interest is how commercial consent issuance is tracking. It has begun to soften over recent times, particularly when looking at the floor area of consents issued. With anecdotes of valuations falling and vacancy rates on the rise, there is little incentive (and ability in some cases) to build new non-residential buildings. Government infrastructure investment will provide somewhat of an offset, but we suspect it will not be enough.



### Recent local data...

- > **Producer Price Indices (June quarter):** Input prices were flat, taking annual growth to -1.2 percent. Output prices fell 0.7 percent, leaving annual growth at -0.7 percent.
- > **NBNZ Regional Trends (June quarter):** Nation-wide economic activity rose by 0.4 percent, with eight out of 14 regions recording positive quarterly growth.
- > **International Travel and Migration (July):** A seasonally adjusted net 2,470 inflow was recorded in the month, taking the annual total to 14,488.

## THE REGIONAL GAP

Capacity pressures continue to ease and it is happening across each and every region. However, pressures across rural regions now appear to be easing faster than urban areas.

We present our updated regional output gap measures. To refresh readers' memories, regional output gaps are estimated using data from the National Bank's *Regional Trends and Business Outlook* survey, and Statistics NZ's regional unemployment data.<sup>1</sup> While conventional output gap measures (while prone to a huge degree of uncertainty) give us information about the aggregate economy, regional measures (additional standard errors aside that comes with disaggregation) give us a richer picture in terms of not just whether capacity pressure is rising, or falling, but its concentration and how broad it is. Using a combination of measures also tends to smooth out some of the volatility and extremes that are often reported in output gaps.

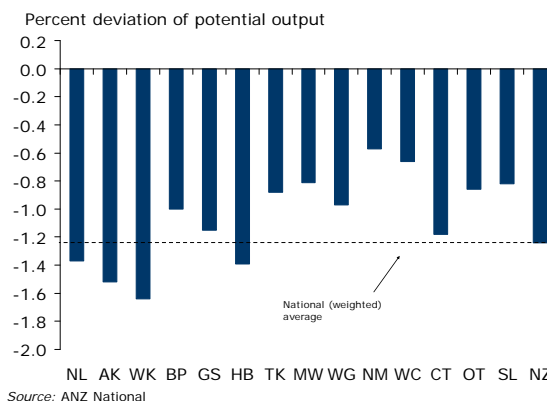
Here are some key messages from the analysis:

- > All regions reported negative output gaps in the June quarter. As was the case in the March quarter, the activity gap measure was negative across every single region. For the majority of regions, the capacity and unemployment gaps were also negative, although two out of 14 regions experienced positive capacity gaps, while four regions still had positive unemployment gaps. The South Island regions are still generally experiencing smaller negative output gaps than their North Island cousins and particularly the upper north. Waikato now has the largest negative output gap, despite the fact that we have yet to see the full impact of a lower dairy payout.
- > The negative output gap is widening and the picture is reasonably similar across all regions with falls of 0.2 to 0.6 percentage points. Sifting between the tea leaves we note that rural regions now appear to be playing catch-up. The average change (reduction) in the South Island region's output gaps was around 0.1 percentage points larger than the comparable change in North Island regions.

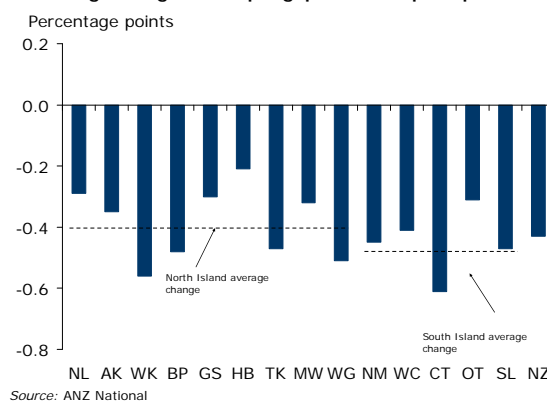
<sup>1</sup> The estimates are generated using estimates of the output gap, unemployment gap and a derived capacity utilisation gap from the NBNZ *Business Outlook* survey. We chose a broad approach for two reasons. First it minimises some of the error that may surround simple regional activity statistics (which are only partial indicators). Second, the Reserve Bank uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For each input we use a band-pass filter to derive the business cycle – a standard statistical technique that is available on modern statistical software. The regional unemployment rates are advanced two quarters prior to filtering as this is a lagging indicator. Individual output gap measures across activity, unemployment and capacity utilisation for each region are then given an equal weighting.

- > Interestingly, of the seven regions to experience a reduction in their output gap in the June quarter in excess of 0.3 percentage points, five are arguably dairy aligned regions (Waikato, Taranaki, West Coast, Canterbury and Southland).

Estimate average regional "output gap" in June 2009



Change in regional output gaps over the past quarter



### The upshot

Capacity pressures continue to ease across the country, despite the National Bank's regional trends survey actually reporting positive growth in the June quarter. But growth in demand is far from sufficient to soak up supply. This reinforces the weak inflation environment at present and the ability of the RBNZ to keep interest rates low for an extended period. What is also now increasingly clear is that what initially started in Auckland has spread throughout other regions. While a lot of attention is being paid to the Auckland region and housing market in particular, there is a wider economy-wide picture to remain mindful of.

Note: NL=Northland, AK=Auckland, WK=Waikato, BP=Bay of Plenty, GS=Gisborne, HB=Hawke's Bay, TK=Taranaki, MW=Manawatu-Wanganui, WG=Wellington, NM=Nelson-Marlborough, WC=West Coast, CT=Canterbury, OT=Otago, SL=Southland.

## INTEREST RATE STRATEGY

NZ rates are set to range trade in the near-term, with the 2-year swap yield stuck within a 4 to 4.2 percent band. Flows and positioning suggest it will be difficult to break below the bottom of this range. Domestic dataflow will largely be of secondary importance this week, with the market taking its cues from offshore equity moves.

### Market themes...

- > Local dataflow continue to improve but is largely shrugged off by the market.
- > Rates market taking their cues off global equity moves, which will be the case again this week.

### Review and outlook

**The NZ rates market lacks any near-term direction at the moment.** Volumes have been light, and the NZ market struggles to attract interest from offshore. The tone of the domestic dataflow has been improving, but this is now being taken for granted. The NBNZ *Regional Trends* report showing positive economic activity for the first time since the end of 2007 and another strong net migration print hardly caused a murmur.

**Instead, the market took to its new found trend of following the Shanghai stock market for direction.** It seems a case of "Ripley's Believe it or Not" to have the market watching Asian equities for cues, but that's where things have resorted to. The Shanghai index was testing a technical resistance level and held there for a few days before bouncing higher, and that dictated moves in NZ and Australian rates markets. The 2-year swap yield tested the 4 percent level but continues to fail to rally through, and with the data this week not expected to be weak, it seems that the 4 percent level could well be the new higher low for the short term, especially following improving global sentiment on the back of strong US existing home sales and US Fed Governor Bernanke's comments from the Jackson Hole conference.

**We expect rates to largely range trade in the near-term,** with the 2-year stuck in a 4 to 4.2 percent band. Paying interest is evident at the bottom of that range, though participants are reluctant to push yields too far above, even when global rates are selling off and equities are rallying. Flattening pressure should also be maintained with 2/5's and 2/10's offers never far away during the week. We have seen interest to put in place long NZ positions versus short AU positions.

**Mortgage payside has been subdued, with little flow beyond the 2-year,** which is not surprising given the current steep mortgage curve. Nonetheless, with \$800 to \$900 million in new

housing loan approvals a week, there is a steady flow of mortgage hedging that needs to be cleared, ensuring there is always a bid in the market.

### Borrowing strategies we favour at present

We still favour floating and this will remain the cheapest part of the curve for some time. For those who want certainty, we continue to suggest the use of options as a way to hedge, rather than locking in swap yields at current levels. Those with long-term in-the-money hedges can consider shortening duration and using the value to convert the swap to a collar over the next 12-24 months.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	On hold. RBNZ unlikely to act on their easing bias. But hikes still a long way off.
NZ data	↔/↑	Dataflow continues to show improvement off lows. Net migration to lend support.
Fed Funds / front end	↔	Global growth looks to have troughed, but Fed still firmly on hold.
RBA	↑	RBA on datawatch for timing of next move, which is up.
US 10 year	↔	Tug-of-war between lack of inflation vs improving economic data.
NZ swap curve	↔/↓	Flattening pressure still evident, though support at 190bps should hold for now.
Flow	↔/↑	Lack of receivers around and constant paying interest make it difficult for rates to rally far.
Technicals	↔	2-year yield firmly in the 4% to 4.2% range.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Sep-09	-3	-2
Thu 29-Oct-09	-3	-3
Thu 10-Dec-09	+4	+3
Thu 28-Jan-10	+29	+14
Thu 11-Mar-10	+45	+31
Thu 29 Apr-10	+70	+54
Thu 10 Jun-10	+89	+77

### Trading themes we favour at present

Our preferred trading themes revolve around our view that the market is pricing in rate hikes too prematurely. We remain comfortable with this strategy, and continue to favour long March and June bank bill futures, with 2s10s flatteners as a hedge, which has been performing well. Consideration can be given to going outright long in the 2-year swap should it approach close to 4.2%.

## CURRENCY STRATEGY

The NZD continues to benefit from the improved global outlook as the dataflow shows ongoing signs of improvement. There is a change versus level dynamic to be wary of, but currencies are more attuned to the former for now. The NZD had good reasons to wobble last week with Asian stock markets looking vulnerable, but yet again the week ended with the NZD near its high and now looking set for a retest of 0.6880 and finally up to our 0.6935 target. Abstracting from a turn in equities and risk sentiment, a catalyst lower is absent.

### Market themes...

- > The recession globally is over.
- > Are we in a low inflation, high growth environment, which supports equities?
- > All NZD crosses are testing topside resistances and it looks like the trend remains your friend.

### Review and outlook...

The market tried to sell the NZD last week. The rallies looked mature, stock markets looked overvalued and risk appetites looked tired. The selloff only lasted 24 hours and held comfortably above our major support at 0.6630.

US Fed Chairman Bernanke and his central bank colleagues agree that the world is now growing slowly and there is no sign of inflation as output gaps are yet to close. Money is cheap. Equities have traditionally done very well in this environment and with money looking for a home the odds seem to be that they continue to benefit. In this environment commodity based currencies should be taken along for the ride. Questions still surround the sustainability, but the problem is identifying a clear catalyst to turn the trend.

China remains a key focal point and we note with some irony that the Shanghai index is now the most talked about indicator across the trading desk. Once again, it has little to do with NZ fundamentals.

We expect the tenor of global data to continue the improving tone. There is a change versus level dynamic to be wary of in the data but currencies are more attuned to the former. Various PMI's look set to return to above the 50 threshold. The latter (level) spells of consolidation and continued pushes higher in unemployment rates around the globe. This may well be one trigger to be mindful of, but it remains a story further out.

Australia looks set to raise rates before year end. The Australian Government spent as much as anyone else in stimulating their economy. Their

currency fell 35 percent and they look to have avoided a technical recession. We hear anecdotes that you have to hire security for open homes in Melbourne to control the crowds. Sure the speculative community is long AUD, but for good reason. The RBA is in data watch mode and so should we.

Technically, the NZD is now targeting 0.6935 as stated before. The break of 0.6630 should hold downside probes. The NZDJPY is still in the process of breaking the downtrend from the 97.90 high. This pair should be supported at 63.00 now with a target of above 70.00. NZDGBP continues to push against 0.4150 and a weekly close above can see a sustained move higher.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	RBA looks set to go first.
Commodities	↔/↑	Commodities looking better.
Partial indicators	↔/↓	Australia over-stimulated.
Technicals	↔	Range trade now.
Sentiment	↔	Participants stopped out of NZDAUD shorts.
Other	↓	Australia is stronger.
<b>On balance</b>	↔/↓	<b>Close to sell zone.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔	Slightly above short-term fair value.
Yield	↔	Can we stay low if RBA starts to hike?
Commodities	↔/↑	Dairy prices look to be moving higher.
Risk aversion	↔/↑	Improving with rally in equities.
Partial indicators	↔/↑	Data showing improvement and an end to recession.
Technicals	↔/↑	Targeting 0.6935. 0.6630 support.
AUD	↔/↑	As a barometer of global growth, AUD is bid.
Sentiment	↔/↑	Improving but still very fickle and can turn on a dime.
Other	↔	Watch the Shanghai index.
<b>On balance</b>	↔/↑	<b>Near-term momentum suggests a push higher in the absence of a pullback in risk.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
24-Aug	AU	New Motor Vehicle Sales (Jul) - mom	-	5.7%	13:30
	EC	Industrial New Orders (Jun) - mom	1.8%	-0.2%	21:00
25-Aug	US	Chicago Fed Nat Activity Index (Jul)	-	-1.8	00:30
	<b>NZ</b>	<b>RBNZ 2yr Inflation Expectation (3Q)</b>	<b>-</b>	<b>2.2%</b>	<b>15:00</b>
	GE	GDP (2Q F) - qoq	0.3%	0.3%	18:00
		GDP (2Q F) - yoy	-7.1%	-7.1%	18:00
26-Aug	US	S&P/CS Composite-20 (Jun) - yoy	-16.5%	-17.1%	01:00
		Consumer Confidence (Aug)	47.6	46.6	02:00
		Richmond Fed Manufacturing Index (Aug)	17	14	02:00
		House Price Index (Jun) - mom	0.4%	0.9%	02:00
		House Price Purchase Index (2Q) - qoq	-0.4%	-0.6%	02:00
	JN	Adjusted Merchandise Trade Balance (Jul)	¥297.9B	¥438.2B	11:50
		Merchandise Trade Exports (Jul) - yoy	-38.4	-35.7	11:50
		Merchandise Trade Imports (Jul) - yoy	-42.5	-41.9	11:50
		Corp Service Price (Jul) - yoy	-3.4%	-3.2%	11:50
		Small Business Confidence (Aug)	-	41.1	17:00
	AU	Construction Work Done (2Q)	-3.0%	-	12:30
		DEWR Skilled Vacancies (Aug) - mom	-	-1.7%	13:00
	GE	IFO - Business Climate (Aug)	89.0	87.3	20:00
		IFO - Current Assessment (Aug)	86.0	84.3	20:00
		IFO - Expectations (Aug)	92.0	90.4	20:00
27-Aug	US	Durable Goods Orders (Jul) - mom	3.0%	-2.5%	00:30
		Durables Ex Transportation (Jul) - mom	0.9%	1.1%	00:30
		New Home Sales (Jul)	390K	384K	02:00
		New Home Sales (Jul) - mom	1.6%	11.0%	02:00
		Fed's Lockhart Speaks on Economy in Chattanooga, Tennessee	-	-	04:00
	<b>NZ</b>	<b>Trade Balance (Jul)</b>	<b>-</b>	<b>-417M</b>	<b>10:45</b>
		<b>Imports (Jul)</b>	<b>-</b>	<b>3.62B</b>	<b>10:45</b>
		<b>Exports (Jul)</b>	<b>-</b>	<b>3.20B</b>	<b>10:45</b>
		<b>Balance YTD (Jul)</b>	<b>-</b>	<b>-3176</b>	<b>10:45</b>
	AU	Conference Board Leading Index (Jun)	-	-0.1%	12:00
		Private Capital Expenditure (2Q)	-5.0%	-8.9%	13:30
	GE	GfK Consumer Confidence Survey (Sep)	3.6	3.5	18:10
	EC	Money Supply M3 (Jul) - yoy	3.2%	3.5%	20:00
	UK	Total Business Investment (2Q P) - qoq	-3.6%	-7.6%	20:30
28-Aug	US	GDP (Annualized) (2Q P)	-1.4%	-1.0%	00:30
		Core PCE (2Q) - qoq	2.0%	2.0%	00:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
28-Aug cont.	US	Initial Jobless Claims (w/e Aug-23)	565K	576K	00:30
		Continuing Claims (w/e Aug 16)	6245K	6241K	00:30
		Fed's Bullard to Speak at University in Little Rock, Arkansas	-	-	09:00
	<b>NZ</b>	<b>Building Permits (Jul) - mom</b>	-	<b>-9.5%</b>	<b>10:45</b>
		<b>Money Supply M3 (Jul) - yoy</b>	-	<b>2.7%</b>	<b>15:00</b>
	UK	GfK Consumer Confidence Survey (Aug)	-24	-25	11:01
		GDP (2Q P) - qoq	-0.8%	-0.8%	20:30
		GDP (2Q P) - yoy	-5.6%	-5.6%	20:30
	JN	Nomura/JMMA Manufacturing PMI (Aug)	-	50.4	11:15
		Jobless Rate (Jul)	5.5%	5.4%	11:30
		Household Spending (Jul) - yoy	-0.6%	0.2%	11:30
		National CPI (Jul) - yoy	-2.2%	-1.8%	11:30
		National CPI Ex Food, Energy (Jul) - yoy	-0.8%	-0.7%	11:30
		National CPI Ex-Fresh Food (Jul) - yoy	-2.2%	-1.7%	11:30
	EC	Consumer Confidence (Aug)	-21	-23	21:00
		Economic Confidence (Aug)	78.0	76.0	21:00
		Industrial Confidence (Aug)	-28	-30	21:00
		Services Confidence (Aug)	-17	-18	21:00
29-Aug	US	Personal Income (Jul)	0.1%	-1.3%	00:30
		Personal Spending (Jul)	0.2%	0.4%	00:30
		PCE Deflator (Jul) - yoy	-0.9%	-0.4%	00:30
		PCE Core (Jul) - mom	0.1%	0.2%	00:30
		PCE Core (Jul) - yoy	1.4%	1.5%	00:30
		U. of Michigan Confidence (Aug F)	64.0	63.2	02:00

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



## NEW ZEALAND DATA WATCH

**Key focus over the next four weeks:** The upcoming dataflow is generally expected to take on an improving trend and one that points to an economy closer to exiting recession. Although once again, the difference between the change and level needs to be distinguished.

Date	Data/Event	Economic Signal	Comment
Tue 25 Aug (15.00)	RBNZ Survey of Expectations (3Q)	Not a major focus at present	2-year ahead inflation expectations are expected to remain near the 2.2 percent recorded in the previous survey.
Thu 27 Aug (10.45)	Overseas Merchandise Trade (Jul)	Small deficit	A trade deficit is typically recorded in July and we expect this trend to be repeated. We will be closely watching exports to China to assess whether the stock-building story is continuing.
Fri 28 Aug (10.45)	Building Consents Issued (Jul)	Recovering	Residential consent issuance, while remaining at an extremely low level, should begin to recover in line with a pick up in house sales. Non-residential consent issuance, on the other hand, looks likely to weaken.
Fri 28 Aug (15.00)	Credit Growth (Jul)	De-leveraging continues	While improved housing activity may see household credit growth recover, the backdrop of de-leveraging will ensure that growth is still subdued. Rural and business credit growth is set to continue weakening.
Mon 31 Aug (15.00)	NBNZ <i>Business Outlook</i> (Aug)	-	-
Thu 3 Sep (15.00)	ANZ Commodity Price Index (Aug)	-	-
Mon 7 Sep (10.45)	Wholesale Trade Survey (Jun qtr)	Stabilising	In line with some stabilisation starting to appear in the retail sector, wholesale trade activity is also likely to be close to forming a base.
Thu 10 Sep (09.00)	RBNZ <i>Monetary Policy Statement</i>	Step towards neutral	Similar messages are likely to be delivered by the RBNZ. However, an asset bubble unwind and high currency are problematic. We expect the tone to shift more towards neutral, although remain on the soft side of it. Dissipating downside risks to the global economy (improving credit markets) and an improving housing market call for a more neutral stance. However, we once again need to differentiate between the change and the level of activity.
Thu 10 Sep (10.45)	Overseas Trade Indexes (Jun qtr)	Terms of trade down again	Another large fall in export prices is expected in the quarter, driven by lagged movements in NZD commodity prices. This should contribute to the terms of trade falling by around 2 percent.
circa 11 Sep	REINZ Housing Market data (Aug)	On the path to recovery, but for how long?	The recent trend of improving housing market activity is expected to be maintained. House prices look likely to be supported by the current lack of listings.
Mon 14 Sep (10.45)	Retail Trade Survey (Jul)	Stabilising	Retail spending looks as though it is finding a base. We expect sales to record a modest rise in the month.
Tue 15 Sep (10.45)	Economic Survey of Manufacturing (Jun qtr)	Improving?	Following some large falls in recent quarters, manufacturing activity is expected to record positive growth, albeit off depressed levels.
<b>On Balance</b>		<b>We have found a base</b>	<b>Signs of stabilisation are expected to continue. But the mix to growth does not give the recovery a sustainable look.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
GDP (% qoq)	-0.2	-0.5	-1.0	-1.0	<b>-0.6</b>	<b>0.4</b>	<b>0.4</b>	<b>-0.3</b>	<b>0.2</b>	<b>1.2</b>
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	<b>-3.1</b>	<b>-2.2</b>	<b>-0.8</b>	<b>-0.1</b>	<b>0.7</b>	<b>1.5</b>
CPI (% qoq)	1.6	1.5	-0.5	0.3	0.6	<b>0.6</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>
CPI (% yoy)	4.0	5.1	3.4	3.0	1.9	<b>0.9</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>
Employment (% qoq)	1.2	0.1	0.8	-1.4	-0.5	<b>-0.6</b>	<b>-0.3</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.2</b>
Employment (% yoy)	0.8	1.0	1.0	0.8	-0.9	<b>-1.6</b>	<b>-2.7</b>	<b>-1.5</b>	<b>-1.1</b>	<b>-0.3</b>
Unemployment Rate (% sa)	3.9	4.3	4.7	5.0	6.0	<b>6.3</b>	<b>6.7</b>	<b>7.2</b>	<b>7.5</b>	<b>7.6</b>
Current Account (% GDP)	-8.4	-8.7	-9.0	-8.5	<b>-6.9</b>	<b>-5.9</b>	<b>-5.2</b>	<b>-5.2</b>	<b>-5.6</b>	<b>-6.0</b>
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-3.0	<b>-2.0</b>	<b>-1.6</b>	<b>-1.4</b>	<b>-1.0</b>	<b>-0.4</b>	<b>-1.0</b>
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.2	<b>-6.8</b>	<b>-7.3</b>	<b>-7.7</b>	<b>-5.8</b>	<b>-4.3</b>	<b>-3.8</b>

## KEY ECONOMIC INDICATORS

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Retail Sales (% mom)	0.0	-0.5	-1.2	0.2	-0.1	0.5	0.7	0.1	..	..
Retail Sales (% yoy)	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	..	..
Credit Card Billings (% mom)	-0.8	-2.2	1.5	0.9	-2.8	2.3	-0.4	0.2	0.1	..
Credit Card Billings (% yoy)	-0.9	-3.8	-2.3	-1.9	-4.8	-1.6	-2.3	-2.1	-2.0	..
Car Registrations (% mom)	-19.9	12.7	-14.1	-14.9	7.8	-1.5	-3.1	6.0	7.3	..
Car Registrations (% yoy)	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	..
Building Consents (% mom)	4.3	-6.8	-12.7	12.2	-0.8	11.3	3.0	-9.5	..	..
Building Consents (% yoy)	-39.7	-41.4	-51.4	-39.9	-34.3	-56.6	-23.1	-24.2	..	..
REINZ House Price (% yoy)	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	..
Household Lending Growth (% mom)	-0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.1	..	..
Household Lending Growth (% yoy)	4.8	4.2	3.8	3.1	2.7	2.6	2.5	2.4	..	..
Roy Morgan Consumer Confidence	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3	107.0	114.1
NBNZ Business Confidence	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	..
NBNZ Own Activity Outlook	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	..
Trade Balance (\$m)	-594	-341	-102	483	438	342	907	-417	..	..
Trade Balance (\$m annual)	-5234	-5614	-5405	-5165	-4684	-4049	-2973	-3176	..	..
ANZ World Commodity Price Index (% mom)	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	..
ANZ World Commodity Price Index (% yoy)	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	..
Net Migration (sa)	-210	390	890	1670	1750	2130	2610	1650	2470	..
Net Migration (annual)	3569	3814	4538	6160	7482	9176	11202	12515	14488	..

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)						
	Jun-09	Jul-09	24-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.637	0.644	0.685	0.640	0.590	0.590	0.600	0.620	0.640	0.650
NZD/AUD	0.795	0.801	0.818	0.800	0.747	0.720	0.723	0.730	0.744	0.765
NZD/EUR	0.455	0.458	0.478	0.464	0.430	0.424	0.431	0.439	0.451	0.464
NZD/JPY	61.6	60.9	64.7	62.7	58.8	59.4	61.6	64.3	66.6	68.3
NZD/GBP	0.389	0.393	0.415	0.388	0.356	0.354	0.360	0.367	0.376	0.382
NZ\$ TWI	60.3	60.6	63.55	60.9	56.5	56.0	56.9	58.3	60.0	61.4
NZ interest rates	Jun-09	Jul-09	24-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.74	2.73	2.50	2.50	2.50	2.50	2.50	3.00	4.00	4.50
90 day bill	2.78	2.79	2.76	2.80	2.80	2.80	2.80	3.60	4.50	5.00
10 year bond	6.24	5.96	5.77	5.90	6.00	6.00	6.40	6.60	6.70	6.90
International	Jun-09	Jul-09	24-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.60	0.48	0.39	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.00
AU 3-mth	3.19	3.20	3.27	3.50	3.60	3.80	4.30	4.30	4.30	4.30

## KEY RATES

	21 Jul	17 Aug	18 Aug	19 Aug	20 Aug	21 Aug
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.79	2.76	2.76	2.76	2.77	2.76
NZGB 11/11	3.78	4.01	4.02	4.05	4.02	3.98
NZGB 04/13	4.73	4.90	4.91	4.94	4.93	4.87
NZGB 12/17	5.75	5.81	5.81	5.83	5.81	5.74
NZGB 05/21	6.22	6.24	6.24	6.26	6.23	6.17
2 year swap	3.88	4.10	4.10	4.05	4.06	4.03
5 year swap	5.37	5.40	5.40	5.37	5.38	5.35
RBNZ TWI	61.2	62.7	62.7	63.0	62.9	62.8
NZD/USD	0.6551	0.6704	0.6695	0.6751	0.6750	0.6730
NZD/AUD	0.8052	0.8146	0.8137	0.8149	0.8131	0.8174
NZD/JPY	61.54	63.42	63.52	63.93	63.70	62.99
NZD/GBP	0.3965	0.4074	0.4096	0.4079	0.4083	0.4092
NZD/EUR	0.4608	0.4736	0.4748	0.4772	0.4744	0.4733
AUD/USD	0.8136	0.8230	0.8228	0.8284	0.8302	0.8233
EUR/USD	1.4217	1.4154	1.4100	1.4147	1.4229	1.4219
USD/JPY	93.94	94.60	94.88	94.70	94.37	93.60
GBP/USD	1.6524	1.6457	1.6345	1.6549	1.6533	1.6445
Oil	63.93	67.51	66.72	69.22	72.54	72.40
Gold	948.95	943.95	937.65	939.70	943.60	938.10
Electricity (Haywards)	4.75	1.72	1.46	1.46	2.10	1.35
Milk futures (US\$/contract)	86	92	92	92	92	98
Baltic Dry Freight Index	3455	2774	2704	2614	2534	2468

## 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.

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