-29 March 2010

INSIDE

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2010 – A YEAR OF TWO HALVES

ECONOMIC OVERVIEW

We are sticking with the script, and believe that the positive momentum that we saw into the end of 2009 will wane as we head into 2010. That is not to say that the economy is not recovering - it is, but in a patchy and sluggish fashion. Whereas the RBNZ expects the economy to grow by 1 percent per quarter throughout 2010, we don't expect to see the economy start sustaining growth like that until the end of the year.

EFFECTIVE MORTGAGE INTEREST RATE UPDATE

Our analysis suggests there is another 10-20 basis points of policy easing yet to manifest in household cash-flow. However, the effective mortgage rate is also set to increase quickly once the RBNZ starts the tightening cycle. The number of households that opted to raise principal payments as opposed to the cash-flow benefit of lower rates does not look material in terms of how the opposite effect could work once the tightening cycle begins.

INTEREST RATE STRATEGY

American and European bond yields have been rising on increased debt supply, and on renewed sovereign debt fears. Hawkish rhetoric from RBA officials has also helped drive Australian rates higher, providing something of a negative backdrop. However many of these factors are just not relevant in New Zealand. Government debt is manageable, and the economic recovery is still patchy – a challenge to the RBNZ's mid-year hike script. This suggests NZ interest rates should not slavishly be dragged higher.

CURRENCY STRATEGY

Month end flows should support the NZD this week. Technical support at 0.7000 coincides with the ascending 200day moving average at 0.7015, suggesting a break into the high 60s is unlikely. Euro has recovered on the Greece bailout and a short market looks disappointed and badly positioned. We still favour the USD on a monthly direction view out but will respect likely reversal pressures for now with a pending RBA move giving support to the AUD and NZD.

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ECONOMIC OVERVIEW

SUMMARY

We are sticking with the script, and believe that the positive momentum that we saw into the end of 2009 will wane as we head into 2010. That is not to say that the economy is not recovering - it is, but in a patchy and sluggish fashion. Whereas the RBNZ expects the economy to grow by 1 percent per quarter throughout 2010, we don't expect to see the economy start sustaining growth like that until the end of the year.

THE WEEK AHEAD

- **SNZ Building Consents – February (Tuesday 30th March, 10:45am NZDT).** We expect to see a lift in building consents, which touched seven-year lows last month. However, increases are expected to be modest given the uncertainties facing the sector.
- **RBNZ Money and Credit aggregates – February (Tuesday 30th March, 3:00pm NZDT)**. Weak residential and rural property market activity does not augur well for a strong pick-up in household and agricultural credit growth. We expect to see more signs of stabilisation in business credit.
- **National Bank Business Outlook – March (Wednesday 31st March, 3:00pm NZDT).**

WHAT'S THE VIEW?

The December quarter GDP outturn confirmed that the economic recovery had built up momentum by the end of last year. Rather than being broad-based, much of the growth was centred in sectors that had been particularly hit hard over the last couple of years, namely manufacturing, retail spending and residential investment. The first increase in inventory levels, after significant run downs earlier, also played an important role.

The mix to growth did little to alter our expectations over the coming six months. The inventory restocking cycle still has some way to go, so manufacturing will continue to support prospects, with the NZDAUD giving additional impetus. We are mindful that manufacturing activity is still 13 percent below levels seen two years ago, so there is a clear bungy-cord dynamic at play too. Elsewhere, retail spending values have been flat since the end of last year, housing market turnover is at historically low levels in relation to the number of dwellings, house prices are easing and consent issuance is weak. Non-residential related activity shows little signs of recovering. Dairy production is now slowing rapidly. **So we have the economy stepping down a gear in H1 2010** following the "statistical" recovery in late 2009 courtesy of inventories and policy induced bounces in spending and residential investment.

We continue to gauge prospects for business investment. Survey readings for investment intentions have not kept pace with the improvement shown in headline business confidence. Some of the components to business investment from the Q4 GDP results were mildly encouraging (plant and machinery equipment was up 4.1 percent) although aggregate business investment was weak. Merchandise trade capital import figures have recovered off lows but capital imports remain stuck around $500 million per month (seasonally adjusted) and show little signs of kicking on. **We continue to detect a disconnect in our travels between sentiment and activity in so far as prospects for investment is concerned.** Until we see this disconnect resolved, we struggle to see the economy growing strongly in a sustained fashion (i.e. successive quarterly growth rates of 1 percent). We think its coming, just in late 2010 and early 2011 as opposed to right here and now.

Last week's current account figures were also a timely reminder in terms of the structural forces shaping the recovery process. Firstly, the economy has made huge progress de-leveraging with the net external liabilities position falling to just over 90 percent of GDP. Last week's trade (surplus) figures were also encouraging in terms of what it flags about the mix to growth, although question marks will surround how long it lasts. However, a good portion of the improvement in the next external liability position was attributable to positive valuation effects, which can quickly reverse. The underlying current account deficit has now bottomed out at around 4 percent of GDP. As the one-off valuation effects fade – and we likely see an inventory and business investment induced recovery in imports off what are simply terrible levels, the current account deficit will track back towards (and probably above) 5 percent of GDP. There is nothing magically about the 5 percent threshold except that once you breach it national debt will be rising as a share of GDP. This is somewhat ironic given that we have just experienced a credit crisis (and last week's sovereign credit downgrade for Portugal by Fitch being a timely reminder of after-effects). It leaves very little room to manoeuvre, and (gradually) rising interest rates, improving domestic profitability and higher demand for imports are set to add to the problem as the economy recovers.

So once again we are back in familiar territory

ECONOMIC OVERVIEW

of taking comfort from some gauges (the trade balance and current account position) but somewhat cautious over whether it's a structural change (which is required for the expansion to be durable) or entirely cyclical and likely to reverse.

The net liability position will cap the potential for a typical pro-cyclical recovery to take hold and brings us back to not focusing on growth, but rather whether we have a sustainable mix. And if the underlying deficit has bottomed out at 4 percent of GDP, sound fiscal policy and returning fiscal deficits to surplus becomes a high priority.

We expect the tone of this week's data to give mixed messages. The National Bank Business Confidence survey will be closely perused for evidence of firming momentum beyond firms' own activity expectations. Our composite growth indicator from the February survey was pointing to the potential for four percent growth.

One of the things the RBNZ were looking for to signal a strengthening of the recovery was for a strengthening in credit growth. We expect February's credit figures (released Tuesday) to remain consistent with an economy that continues to de-leverage – across the board. This need not happen via actual falls in credit, rather gains that are slower than nominal income growth.

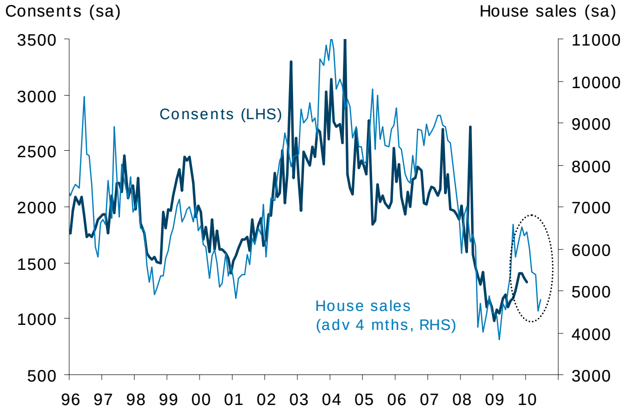
Some have pointed out that credit growth lags the recovery and by focusing on it we'll miss the boat in so far as the cyclical upswing goes. We don't believe there is a lag given the lack of saving across the country. **But in general we can't emphasise enough how important we think credit aggregates are at present.** A key aspect influencing global trends is the credit channel of monetary policy (which influences the amount of credit provided by the banking system) and credit figures provide an indication how this channel is operating. Credit gives information about de-leveraging (or re-leveraging) and the pace of it. Credit is also a key confidence barometer.

We think monetary policy decisions over the coming years in a number of countries are likely to follow this simple maxim: if credit growth is expanding in excess of nominal GDP, drain liquidity and hike. If not, keep existing support in place.

Building consent data is expected to come in mixed. Some recovery is to be expected after the very weak readings for January, but we are not expecting a strong rebound just yet.

Normally, housing market turnover leads residential consent issuance. Much lower turnover over the first two months of 2010 does not yet point to a strong rebound in residential investment. Despite a looming dwelling shortage, uncertainty over impending changes to the tax system and higher fixed term mortgage interest rates are likely to constrain residential building activity. In our view, another negative read would raise serious question-marks about 2010 residential prospects but we would caution that monthly numbers are very volatile.

Building Consents and House Sales



Sources: ANZ, Statistics NZ, REINZ

We'll be eying commercial construction issuance closely. Rising vacancy rates and subdued rural investment does not augur well and there is a massive void in the commercial space opening up in H2 2010. Government related investment is filling the void but questions surround whether it is enough. We suspect not.

RECENT LOCAL DATA

- **SNZ Balance of Payments – December 2009 quarter.** A quarterly deficit of $3.4 was largely driven by a $2.5b rise in the quarterly investment income deficit. The annual current account deficit eased to 2.9 percent of GDP.
- **SNZ Gross Domestic Product – December 2009 quarter.** GDP recorded a quarterly increase of 0.8 percent (0.4 percent yoy), following an (upwardly revised) 0.3 percent quarterly increase in September.
- **SNZ Overseas Merchandise Trade – February.** Exports values declined to $3.3bn percent, with import values lifting to $3.0bn. The monthly trade surplus rose to $321m, following a $269m surplus in January.

EFFECTIVE MORTGAGE INTEREST RATE UPDATE

SUMMARY

Our analysis suggests there is another 10-20 basis points of policy easing yet to manifest in household cash-flow. However, the effective mortgage rate is also set to increase quickly once the RBNZ starts the tightening cycle. The number of households that opted to raise principal payments as opposed to the cash-flow benefit of lower rates does not look material in terms of how the opposite effect could work once the tightening cycle begins.

GAINING TRACTION

Despite the OCR being on hold for almost a year now, the effective mortgage rate (EMR) continues to drift lower. Since peaking at 8.83 percent in September 2008, we estimate that the EMR has declined to around 6.7 percent as at the end of this month. This 212bp fall in the EMR however, is well shy of the 575bp decline in the OCR. While we see the EMR easing further in the months ahead, as those on higher fixed mortgage rates roll off and refinance at lower rates, we believe there is only a further 10-20bp decline to come. In fact, those who fixed six months ago actually face higher refinancing rates, and those who fixed a year ago will be no better off on floating. This in itself will bias borrower behaviour more towards shorter terms.

In our view, the recent decline in fixed rate mortgages will not have a big effect. Our internal data shows that very few new mortgages are being written in the 2-year space and beyond, given the steep mortgage curve. As the table below shows, 3-year fixed rates and longer are above historical average levels, and is not seen as good value. The 2-year rate may still be below average levels, but shorter dated fixed or floating rates remain the most attractive part of the curve. This has resulted in a growing proportion of mortgages gravitating towards shorter terms.

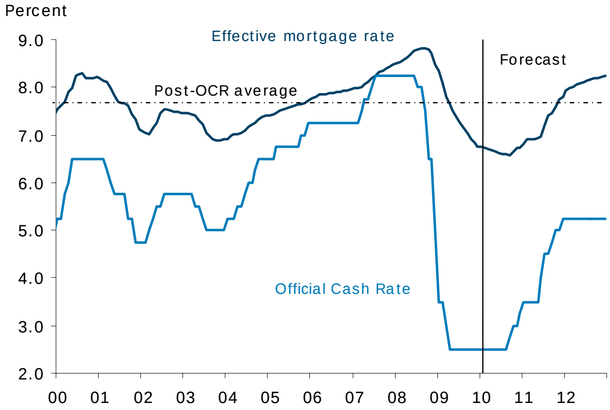
	OUTSTAND-ING MORTGAGE ($M)*	WEIGHTED AVERAGE RATE (%)		RATE NOW (%)^	POST OCR AVG. (%)
Floating	44,865	5.85	Floating	5.77	8.20
<1-yr	59,554	7.04	6-mth	5.84	7.41
1<2-yr	30,742	7.06	1-year	6.20	7.51
2<3-yr	17,527	7.41	2-year	7.17	7.70
3<4-yr	3,089	8.19	3-year	7.74	7.87
4<5-yr	5,128	6.79	4-year	8.20	8.01
5-yr +	272	7.47	5-year	8.50	8.06

* As at January 2010
^ Average headline mortgage rates of the major banks
Sources: ANZ, National Bank, RBNZ, www.interest.co.nz

In addition, given that those refinancing in the coming months are rolling off a weighted average rate of just over 7 percent, fixing for 2-years or above will actually increase their mortgage repayments.

The combination of the steep yield curve and the growing proportion of mortgages on floating and short-term fixed rates mean monetary policy will have greater traction. Based on our estimates, the EMR will start to rise once the tightening cycle starts and will easily reach around 8¼ percent based on the OCR peaking at 5.25 percent. (Our estimates assume that elevated bank funding costs continue to persist over the next few years). Hence, both the slope of the increase and level rates can get to quickly gives strong credence to the view that monetary policy has considerably more punch going forward. This is also consistent with the growing consensus that the **neutral OCR is now closer to 5 percent, as opposed to the old neutral range of 6 to 6.5 percent.**

Effective Mortgage Rate and the OCR



Sources: ANZ, National Bank, RBNZ

There is some speculation that a material portion of the mortgage market kept their nominal mortgage payments constant as they refinanced onto lower rates. The argument follows that a portion of households will be insulated from rising rates, being able to simply lower their principal payment as an absorber. Borrowers who choose to keep their payments unchanged have generally seen their effective borrowing rate go from around 8 percent to 6 percent. It implies around 2 percent more being directed at principal repayments. **Our analysis suggests the actual numbers of mortgage holders who have done this is relatively small (well less than 5 percent).** This suggests to us that the risk of mortgage holders simply lowering their principal payments as interest rates rise, to keep themselves cashflow neutral and blunt the OCR impact, is marginal.

INTEREST RATE STRATEGY

SUMMARY

American and European bond yields have been rising on increased debt supply, and on renewed sovereign debt fears. Hawkish rhetoric from RBA officials has also helped drive Australian rates higher, providing something of a negative backdrop. However many of these factors are just not relevant in New Zealand. Government debt is manageable, and the economic recovery is still patchy – a challenge to the RBNZ's mid-year hike script. This suggests NZ interest rates should not slavishly be dragged higher.

MARKET THEMES

- The debate over a June versus a September start to the RBNZ tightening cycle continues.
- We expect the RBA to hike in April. This may put the wind up the NZ market, but it won't last. NZ faces an entirely different outlook.
- US swap spreads have narrowed substantially, and we expect NZ spreads to follow suit.

REVIEW AND OUTLOOK

Rising global interest rates have made a significant contribution to the rise in local interest rates over the month of March. Australian rates have been particularly influential, despite the fact that the Australian and NZ economies are arguably heading down more divergent paths than ever before. On one hand we're surprised by this apparent lack of differentiation. But on the other hand we're not – as many global investors simply lump us together, under the "ANZAC" umbrella. This phenomenon has become so notable over the past fortnight that a rift has opened up between circumspect domestic and upbeat offshore commentators. How realistic is that? Are those on the ground really less informed than those watching from abroad? If they are, then perhaps rates should be higher, but if they are not, the recent sell-off is likely to falter as growth concerns and mixed messages start to play out in the data.

Swap spreads have also been on the move, with US 10yr spreads moving negative for the first time in at least 20 years. This clearly has implications for NZ swap rates – particularly given the lack of what we would consider to be natural payers – mortgage books, and corporates. Most pay side flow has been from offshore, backing the June rate hike view. As this dissipates, natural receivers – offshore issuers and fund managers – are likely to have the upper hand again, driving swap spreads (and outright yields) lower yet.

PREFERRED BORROWING STRATEGIES

Delay hedge decision if possible, in anticipation of swap rates edging lower over the next month. The bellwether 2yr swap rate has risen by around 20bps since early March, and we are struggling to justify this on economic grounds. We note that bank bill futures assume the 90 day bill rate will rise to 3.68% by September and 4.22% by December. These are well above the RBNZ's March MPS (quarter average) projections of 3.26% and 3.63% respectively, and suggest that the market has gotten far too carried away. In fact if you take the RBNZ's projections literally, they imply a 2yr swap rate at 3.88%, well below the market. However, as we have long noted, while the short end of the curve is pricing in large successive hikes, the long end is pricing in something close to a permanent recession. Take advantage of this via forward starting swaps.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	We still prefer Sep for the first hike, market at June.
NZ data	↔/↓	GDP irrelevant in respect of June hike. H1 data mixed.
Fed Funds / front end	↔/↓	Rates to remain low. Is the Fed behind the curve?
RBA	↔/↑	We expect an April hike.
US 10 year	↔/↑	Fed inaction and supply have spooked the market.
NZ swap curve	↔/↑	To remain steep as global yields rise, OCR on hold.
Flow	↔/↓	Pay flow on fears of a June hike misguided.
Technicals	↔/↑	Will the 2yr break of the downtrend see rates rise?.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 29-Apr-10	+4	+4
Thu 10-Jun-10	+19	+15
Thu 29-Jul-10	+41	+47
Thu 16-Sep-10	+72	+71
Thu 28-Oct-10	+94	+95
Thu 9-Dec-10	+112	+122
Thu 27-Jan-11	+151	+149

TRADING THEMES WE FAVOUR AT PRESENT

Any spill-over from higher Australian rates only adds to opportunities to get long the NZ short end. Excellent trades include receiving 9mth OIS at 2.99%, which is consistent with the market pricing in five back-to-back hikes by December. We continue to expect NZ short end rates to out-perform their Australian counterparts, particularly if the RBA raise rates next week, as we expect.

CURRENCY STRATEGY

SUMMARY

Month end flows should support the NZD this week. Technical support at 0.7000 coincides with the ascending 200day moving average at 0.7015, suggesting a break into the high 60s is unlikely. Euro has recovered on the Greece bailout and a short market looks disappointed and badly positioned. We still favour the USD on a monthly direction view out but will respect likely reversal pressures for now with a pending RBA move giving support to the AUD and NZD.

MARKET THEMES

- Month end flows should support NZD this week.
- A strong US non-farm payrolls print should garner more support for the USD.
- The Greek aid package has caught bears short.

REVIEW AND OUTLOOK

NZD/USD held the 0.7000 level last week despite large USD buy flows against most major currencies. The 200day moving average (07015 and rising) should contain the downside, at least over the remainder of the week, and into the Easter break. After that, the NZD will be at the mercy of the data, with business confidence, retail sales, house prices and CPI all due out in April. Upcoming data is key to the timing of the RBNZ's next move, and unless we see a pick up in the tone of the data (and we doubt we will), it's hard to see it being supportive of the NZD, especially while US data are improving.

Fund re-balancing should also support the NZD, particularly given the strong performance of US markets. With the S&P500 up around 5% this month, funds will need to top up currency hedges to keep up, which will translate to NZD buying.

We expect the RBA to raise rates next month, and this is not priced in. This should help the NZD by association, except of course against the AUD. With few reasons to sell AUD are few and far between, particularly given Chinese comments suggesting a controlled CNY appreciation. However, we are mindful of the extent if long AUD/USD positioning.

Japanese year-end repatriation flows are important and should be completed over the next 48hours, paving the way for USD/JPY strength. Similarly, looking beyond the weekend's short squeeze, we expect ongoing debt jitters to weigh on the EUR. Along with the gradual improvement in US markets and data, this will form the base for a USD revival.

Despite our overall medium-term USD bullish picture, short-term support for the NZD remains significant.

As noted earlier, NZD/USD is close to support at 0.7000. It is also close to support at the 0.5200/0.5220 level against the euro. The 64.00 support level against the Yen also coincides with its 200day moving average. And finally, and there is strong technical support for NZD/GBP around 0.4670 – although this feels the most vulnerable.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Under valued but fair value is lower.
Yield	↓	RBA hike next month will give the cross a shock. Yield still favours Australia.
Commodities	↔	Commodities flat lining in both countries.
Partial indicators	↔/↓	Australian data still better.
Technicals	↔	Pivot 0.7777.
Sentiment	↔	Has the market squared shorts too early?
Other	↔/↑	India raises rates, will China follow?
On balance	↔	**Yield and growth story too hard to ignore. But no momentum, and a crowded trade.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔	Above long-term average. But the USD outlook is improving.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔	Fed on hold as well.
Commodities	↔	Commodities flat lining.
Risk aversion	↔/↑	Risk this week then environment positive for risk.
Partial indicators	↔/↓	US data improving, but NZ's is not. EUR concern over Greece et. al. will linger.
Technicals	↔	Supportive short term. Range trade 0.6860-0.7175
AUD	↔	Resistance at 0.9255 Support 0.9080.
Sentiment	↔	NZD still sidelined.
Other	↔	Equities still big driver of FX.
On balance	↔/↓	**Range-bound with negative bias.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	TIME (NZDT)
29 Mar	JN	Retail Sales – yoy - Feb		2.6%	12:50
	UK	Mortgage Lending – bln - Feb	£1.4bn	£1.5bn	21:30
	UK	M4 Money Supply – mom – Feb		+0.2%	21:30
	EC	Eurozone Economic Sentiment - Mar		95.9	22:00
	EC	Eurozone Consumer Sentiment - Mar	-16	-17	22:00
30 Mar	US	Personal Income – mom – Feb	+0.1%	+0.1%	01:30
	US	Personal Spending – mom – Feb	+0.3%	+0.5%	01:30
	US	Core PCE Deflator – mom – Feb	+0.1%	+0.0%	01:30
	US	Dallas Feb Mfg Survey – Feb	+5.2%	-0.1%	01:30
	NZ	**Building Permits – mom – Feb**	**+2.0%**	**-2.8%**	**10:45**
	AU	RBA Deputy Governor Debelle speaks			11:10
	JN	Household spending – yoy – Feb		1.7%	12:50
	JN	Unemployment rate – Feb		4.9%	12:50
	NZ	**M3 Money Supply – yoy – Feb**		**-4.5%**	**15:00**
	UK	GDP – qoq - Q4 – Final	+0.3%	+0.3%	21:30
	UK	Current Account –Q4	-£5.1bn	-£3.3bn	21:30
31 Mar	UK	Gfk consumer confidence – Mar		-14	12:01
	JN	Manufacturing PMI – Mar		52.5	12:15
	US	S&P Case Shiller 20 City House Price Index – mom – Feb	-0.2%	+0.3%	02:00
	US	Consumer Confidence- Mar	50.0	46.0	03:00
	NZ	**NBNZ Business Confidence**		**50.1**	**15:00**
	AU	Retail Sales – mom – Feb	+0.3%	+1.2%	13:30
	AU	Private Sector Credit – mom – Feb	+0.4%	+0.4%	13:30
	AU	Building Approvals – mom –m Feb	+2.1%	-7.0%	13:30
	GE	Unemployment Change – Mar	+7k	+7l	20:55
	GE	Unemployment Rate – Mar	8.2%	8.2%	20:55
	EC	Unemployment rate – Feb	10.0%	9.9%	22:00
	EC	CPI inflation – Flash estimate – Mar	1.1%	0.9%	22:00
1 Apr	US	ADP Employment Change – Mar	+40k	-20k	01:15
	CA	GDP – mom – Jan		0.6%	01:30
	US	Chicago PMI – Mar	61.0	62.6	02:45
	US	Factory Orders – mom – Feb	+0.5%	+1.7%	03:00
	US	NAPM Milwaukee – Mar	58.0	56.0	03:00
	JP	Tankan – capex estimate – Q1		-13.8%	12:50
	JP	Tankan – large manufacturers – Q1	-13	-24	12:50
	JP	Tankan – large non-manufacturers – Q1	-17	-22	12:50

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DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	TIME (NZDT)
	AU	Trade Balance – Feb	-$1.34bn	-$1.12bn	13:30
	AU	RBA Commodity Price Index – yoy – SDR terms		-9.7%	18:30
	GE	Retail Sales – mom – Feb	+0.0%	+0.0%	19:00
	GE	PMI Manufacturing – Mar	59.6	59.6	20:55
	EC	PMI Manufacturing– Mar	56.3	56.3	21:00
	UK	PMI Manufacturing – Mar	56.8	56.6	21:30
2 Apr	US	Initial Jobless Claims – Mar 28th	440k	442k	01:30
	US	Continuing Claims – Mar 21st	4600k	4648k	01:30
	US	ISM Manufacturing – Mar	57.0	56.5	03:00
	US	Construction Spending – mom – Feb	-1.0%	-0.6%	03:00
3 Apr	US	Change in Non-farm payrolls - Mar	+190k	-36k	01:30
	US	Unemployment Rate - Mar	9.7%	9.7%	01:30

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 five weeks: Last week ended off data readings for 2009, with the 0.8 percent increase in quarterly GDP showing economy activity ended the year on an improving note. Leading up to the April OCR the focus will be on the March CPI result (we expect a considerably higher quarterly print than the 0.3 percent forecast in the March MPS) and whether momentum in economic activity has been maintained into 2010. Data readings for 2010 are expected to confirm the patchiness of the recovery.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 30 Mar (10.45am)	Building Consents (Feb)	Stable	Still too early to see recovery given the uncertainty resulting from pending regulatory changes.
Tue 30 Mar (3:00pm)	RBNZ Money and Credit Aggregates (Feb)	Soft	Credit growth has remained lacklustre. Subdued housing market activity us likely to weigh on credit growth. Business Credit may start to shows signs of revival.
Wed 31 Mar (3:00pm)	National Bank Business Outlook (Mar)	Holding	Will business confidence remain elevated given the mixed data of late?
Tue 13 Apr (10:00am)	REINZ Residential data (March)	Stabilisation	Will provide an opportunity to see the impact (if any) of the PM's February speech.
Tue 13 Apr (10.45am)	Electronic Card Transactions (Mar)	Lifting	Recent outturns have been soft and a big month is overdue.
Wed 14 Apr (10.45am)	Retail Trade Survey (Feb)	Soggy	ECT data suggests a flat outturn.
Tue 20 Apr (10:45am)	Consumers Price Index (Mar qtr)	Firming	Rising tertiary education fees and higher prices for food, and petrol will contribute towards an expected 0.6 percent quarterly increase.
Tue 20 Apr (10:45am)	Food Price Index (Mar)	Up	Expect firming commodity prices to starting filtering through.
Thur 22 Apr (3.00pm)	ANZ Roy Morgan Consumer Confidence (April)	Up or down	After last month's bounce we may see some easing in confidence. Don't bet the house on it, though.
Fri 23 Apr (10:45am)	International Travel and Migration (March)	Easing	We expect the lifting trend in PLT departures to contribute to a declining annual net inflow.
Thur 29 Apr (9:00am)	RBNZ OCR announcement	Steady	We expect the OCR to be held at 2.5 percent.
Thur 29 Apr (10:45am)	Overseas Merchandise Trade – March	Surplus	Firming commodity prices are expected to start filtering through into a lift in export values, after last month's decline. We will closely watch capital imports for signs of recovery.
Fri 30 Apr (10:45am)	Building Consents (March)	Stable	Leading indicators suggest flat residential consent issuance.
On Balance		**Improving but not racing away**	**Recovery still on track but patchy.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.8	0.2	0.3	0.8	**0.3**	**0.4**	**0.5**	**0.9**	**1.1**	**1.1**
GDP (% yoy)	-3.1	-2.3	-1.4	0.5	**1.6**	**1.8**	**2.0**	**2.1**	**2.9**	**3.7**
CPI (% qoq)	0.3	0.6	1.3	-0.2	**0.6**	**0.7**	**0.9**	**0.8**	**0.5**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	**2.3**	**2.5**	**2.1**	**3.1**	**3.0**	**3.2**
Employment (% qoq)	-1.1	-0.5	-0.8	-0.1	**0.1**	**0.3**	**0.4**	**0.6**	**0.6**	**0.7**
Employment (% yoy)	0.8	-0.9	-1.8	-2.4	**-1.2**	**-0.5**	**0.7**	**1.4**	**1.9**	**2.3**
Unemployment Rate (% sa)	5.0	6.0	6.5	7.3	**7.5**	**7.4**	**7.2**	**6.8**	**6.5**	**6.2**
Current Account (% GDP)	-7.9	-5.6	-3.2	-2.9	**-3.2**	**-4.2**	**-5.4**	**-4.7**	**-4.4**	**-4.2**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	5.8	**1.9**	**3.8**	**4.0**	**0.2**	**-0.2**	**-0.8**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	**-3.9**	**10.1**	**16.3**	**10.2**	**8.0**	**3.2**

	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Retail Sales (% mom)	0.6	0.1	-0.5	1.2	0.2	0.1	0.9	-0.4	0.8	..
Retail Sales (% yoy)	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.0	2.3	..
Credit Card Billings (% mom)	-0.4	0.2	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.3
Credit Card Billings (% yoy)	-2.4	-2.0	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.6	0.0
Car Registrations (% mom)	-1.8	6.1	7.1	-2.9	7.9	0.3	2.2	6.2	-0.5	-0.7
Car Registrations (% yoy)	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4
Building Consents (% mom)	3.5	-9.5	5.2	2.2	5.6	12.1	0.5	-3.4	-2.9	..
Building Consents (% yoy)	-22.8	-24.4	-16.5	-9.1	-11.7	26.7	20.4	22.9	35.2	..
REINZ House Price (% yoy)	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7	6.1
Household Lending Growth (% mom)	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	0.2	..
Household Lending Growth (% yoy)	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6
NBNZ Business Confidence	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1
NBNZ Own Activity Outlook	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9
Trade Balance ($m)	906.1	-331.1	-177.6	-716.6	-561.5	-501.5	-280.4	-28.4	263.1	320.9
Trade Balance ($m annual)	-2994	-3110	-2491	-2360	-1669	-1176	-863	-551	-186	-347
ANZ World Commodity Price Index (% mom)	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4	3.8
ANZ World Commodity Price Index (% yoy)	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	48.6
Net Migration (sa)	2470	1620	2460	1620	1840	2150	1720	1680	1850	1060
Net Migration (annual)	11202	12515	14488	15642	17043	18560	20021	21253	22588	21618

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Jan-10	Feb-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.701	0.698	0.704	0.710	0.720	0.700	0.690	0.680	0.660	0.650
NZD/AUD	0.793	0.780	0.780	0.747	0.750	0.745	0.750	0.756	0.750	0.756
NZD/EUR	0.506	0.512	0.524	0.518	0.529	0.526	0.531	0.531	0.524	0.524
NZD/JPY	63.28	62.10	64.99	64.61	66.24	65.80	66.24	66.64	66.00	65.00
NZD/GBP	0.439	0.458	0.472	0.461	0.468	0.458	0.451	0.447	0.434	0.433
NZ$ TWI	65.0	64.5	65.8	64.9	66.0	65.1	65.0	64.9	63.8	63.4
INTEREST RATES	Jan-10	Feb-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.00	4.75	5.25
NZ 90 day bill	2.77	2.71	2.67	2.70	3.20	3.70	3.80	4.60	5.20	5.50
NZ 10-yr bond	5.62	5.76	5.99	5.90	5.90	5.80	5.90	6.10	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.25	0.29	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	3.75	4.00	4.25	4.75	5.00	5.25	5.50	5.75	6.00
AU 3-mth	4.38	4.13	4.39	4.40	4.90	5.20	5.40	5.70	5.90	6.20

	19 Feb	15 Mar	16 Mar	17 Mar	18 Mar	19 Mar
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.71	2.64	2.64	2.65	2.66	2.66
NZGB 11/11	3.69	3.73	3.74	3.75	3.82	3.82
NZGB 04/13	4.50	4.54	4.54	4.55	4.63	4.62
NZGB 12/17	5.48	5.61	5.61	5.63	5.71	5.71
NZGB 05/21	5.76	5.90	5.90	5.92	6.00	5.99
2 year swap	4.14	4.18	4.19	4.22	4.32	4.28
5 year swap	5.14	5.16	5.17	5.21	5.27	5.25
RBNZ TWI	64.4	65.5	65.4	65.3	65.7	66.0
NZD/USD	0.6938	0.7064	0.7069	0.7043	0.7033	0.7056
NZD/AUD	0.7800	0.7726	0.7709	0.7675	0.7718	0.7762
NZD/JPY	61.98	63.89	63.82	63.76	64.59	65.26
NZD/GBP	0.4545	0.4713	0.4685	0.4696	0.4720	0.4744
NZD/EUR	0.5109	0.5226	0.5214	0.5230	0.5276	0.5295
AUD/USD	0.8895	0.9143	0.9170	0.9177	0.9112	0.9090
EUR/USD	1.3580	1.3518	1.3558	1.3467	1.3330	1.3325
USD/JPY	89.34	90.45	90.28	90.53	91.84	92.49
GBP/USD	1.5266	1.4989	1.5088	1.4998	1.4901	1.4874
Oil (US$/bbl)	77.99	80.58	81.26	81.68	80.29	80.25
Gold (US$/oz)	1108.40	1108.00	1105.20	1103.90	1088.30	1094.40
Electricity (Haywards)	8.74	13.99	14.55	13.14	12.43	12.28
Milk futures (US$/contract)	107	109	109	109	109	109
Baltic Dry Freight Index	2738	3337	3280	3243	3177	3098

IMPORTANT NOTICE

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

IMPORTANT NOTICE

- 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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