Market Focus

New Zealand

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A BUMPY RIDE

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Page 2: Economic overview

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Page 5: Financial Conditions update

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Page 6: Interest rate strategy

> Weak domestic economic data has led to a radical re-pricing of monetary policy expectations, adding fuel to the global led interest rate rally. The market is moving to our view that an April rate hike is off the table, and while we continue to expect the first hike in June, even that can't now be guaranteed. However, we feel we'd need to see a major deterioration in global markets for the market to price out more rate hikes.

Page 7: Currency strategy

> Risk remains off the table and concerns over sovereign credit are unlikely to blow away soon. But given recent moves, any relief rally will see the NZD bounce from current supports though the topside will be capped at 0.6975.

Page 8: Effective exchange rate update

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ECONOMIC OVERVIEW

The tenor of global data continues to improve, although falling equity markets and concerns over sovereign credit underline a higher degree of uncertainty. Locally, a soft labour market suggests a June start to the eventual tightening cycle at the earliest. The Prime Minister's Speech from the Throne dominates this week. We expect it to outline how the Government intends to achieve a "step change" in NZ's economic performance, including changes to the tax system.

What's ahead?

> **Electronic Card Transactions – January month** (Wednesday 10.45am NZDT). We will be looking to see if the significant improvement in consumer sentiment has boosted retail spending. We expect a modest increase.

> **Food Price Index – January month** (Thursday10.45am NZDT). Food prices are likely to record the usual seasonal rise. Poor weather may have a larger impact on fresh fruit and vegetable prices.

> **REINZ housing statistics –January month** (Friday 10.00am NZDT). We will be closely watching the sales numbers for signs of a rebound. Prices are expected to show the usual seasonal decline.

> **Retail Trade Survey – December quarter** (Friday 1045 NZDT). Expect a quarterly nominal increase in total and core (ex-auto) spending of approximately 1½ percent. We expect similar growth in retail volumes. Electronic Card Transactions data suggest a small monthly increase in core retail spending for December.

What's the view?

We will start this week with some quick comments on the global scene. Firstly, the tenor is still improving – particularly in the US, where the labour market took a step forward with a drop in the unemployment rate from 10 percent to 9.7 percent. This is a welcome development for the US consumer. Secondly, it is fair to say that there are a few ructions still occurring. We believe this can be put down to five reasons:

> Forward looking markets, with their attention on economic prospects, are now firmly focused on 2011, as opposed to 2010. That is why recent better than expected economic dataflow, not to mention earnings results, have not seen markets move higher.

> The process of balance sheet repair is yet to fully run its course. Unprecedented policy stimulus (i.e. low interest rates and huge fiscal stimulus packages) simply provided a near-term relief factor. A simple observation at this juncture is to follow the debt: household debt remains high and a huge chunk of debt globally has simply been transferred from the private sector to the public sector. The process of fiscal consolidation will be critical in 2010. Greece is being quoted (exaggeratingly in some instances) as the dress rehearsal for others. We disagree with the scaremongering, but agree with the spirit. With this comes increasing investor attention to points of differentiation.

> We are a step closer to the so-called exit strategies. Some have already embarked on it (e.g. Australia and China). Quantitative easing is coming to an end in the US at the end of the first quarter. There is genuine concern over whether the economic patient can stand on its own two feet.

> Pending changes. You can see this on the regulatory front and particularly across political circles in the US as they seek to foster a "new normal". It is at this juncture that leadership and populism can typically be on a collision course. With change comes more uncertainty and that is something that markets do not take well.

> China. Inflation is potentially becoming a material threat in 2010 as their economy accelerates. Chinese policymaker's attempts to cool down the economy have the market asking where the big driver of global growth is going to come from.

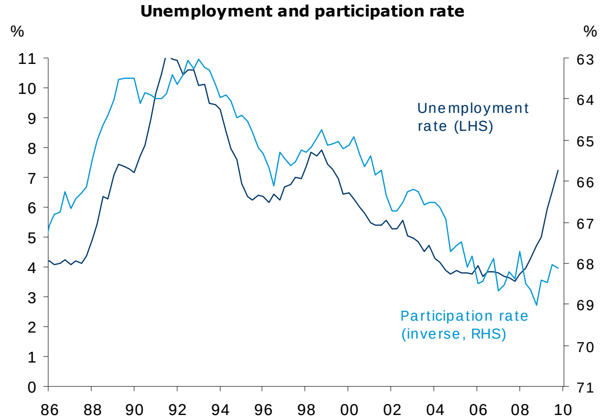
All are symptomatic, in our view, of a global economy that is transitioning. We detailed what we defined as the five stages in the economic cycle in our January 22nd *Market Focus*, where we outlined our key macro themes for 2010. Suffice to say that facing Armageddon, the economic imperative was about getting growth and a recovery underway (stage 3). But with recovery will come change (*"we are not going back to banking as usual"* – G20 communiqué) and this will involve material resource allocation shifts across nations such as the US (and NZ). This is where we enter stage 4 (what we call transition), which also overlaps heavily with stage 3. This is a process that will take time and is associated with a lower potential growth rate over a number of years. So while commentators appear fixated over prospects for 2010, our eyes are also strongly focused on the average rate of growth over the coming 5 years. It is the latter that investors should be thinking about.

Turning back to the local picture, the message from the RBNZ remains simple: if the economy evolves in line with their December projections, then they will begin tightening

policy from mid-year. We suspect the RBNZ do not have a firm date in mind, and it will be left to the dataflow to decide.

The RBNZ should have some continued question-marks over the sustainability of the recovery. With consumer spending accounting for around two-thirds of economic activity, developments in the household sector are highly influential. With household borrowing remaining listless, increases in consumer spending will need to be income driven. **On the basis of last week's data, however, signs of labour market improvement appear some way off.**

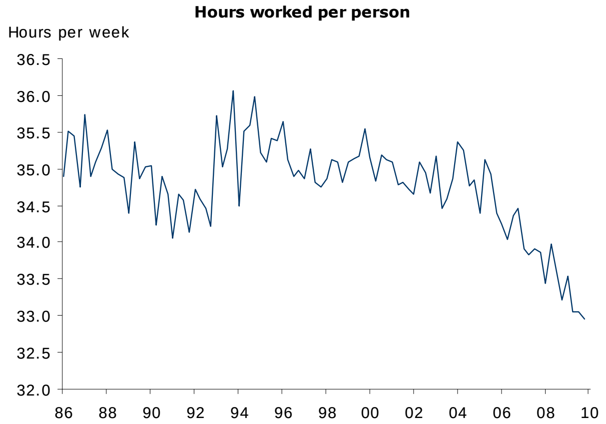
The December quarter wage inflation data showed that wage growth has softened to its lowest rate in eight years. The rise in official numbers of unemployed persons by 18,000 to 7.3 percent of the labour force (the highest since June 1999) and declines in employment (driven by lower fulltime employment) suggests that the labour market has yet to stabilise. To be fair, the rise in the unemployment rate was largely driven by a jump in the working age population, which is encouraging, with employment only falling marginally. But we suspect this jump in participants is also reflective of some underlying pressure across households themselves. No longer are households able to just withdraw from the labour force (the discouraged worker effect) given pressure on household budgets and the need to service high debt levels.



Sources: ANZ, National Bank, Statistics NZ

The labour market tends to lag the economic cycle. Hence, weak readings for wage growth, employment and unemployment did not come as too much of a surprise, although the magnitude of the latter did. We strongly suspect some of the exaggerated leap in the unemployment rate is "noise" but that said, it is hard to go against the trend: it is still heading up.

What did surprise, however, was the continuing decline in hours worked per employee to its lowest level in the history of the survey. This suggests two things: the labour market is yet to benefit from improving business sentiment, and there is an even greater degree of slack in the current labour market than indicated by the unemployment rate. It means **the forthcoming economic recovery is likely to be less employment rich.** Firms will be able to increase their current workforces' hours to meet increased output rather than take on new staff. This will mean that employment growth over most of 2010 will remain lower, unlike the rebounds seen in past recoveries. The unemployment rate is unlikely to decline as quickly as usual, and may even move higher. All up, the story will remain one of surfeit capacity on the labour front. With wage inflation appearing low, the labour market will remain a key headwind for de-leveraging households.



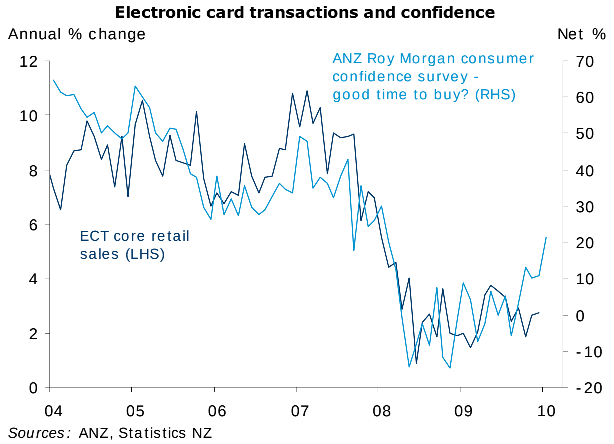
Sources: ANZ, National Bank, Statistics NZ

More abundant labour supply will also help contain inflationary pressure from the labour market. Despite the apparent decline in labour demand, labour force participation ticked up in December. It is likely that financial considerations are keeping job seekers more actively engaged. A larger number of potential jobseekers is likely to suppress wage demands and may help alleviate skill shortages within the economy. The HLFS showed that working age population increased by close to 50,000 persons over 2009. Part of the increase has come from ongoing increases in net permanent and long-term migration (approximately 21,000 persons over 2009). Better prospects across the Tasman have yet to flow through into a lift in emigration.

The sustainability of the recovery is also dependent on more of the growth coming from the productive sector. The global recovery, growing inflows of overseas visitors, and rising global commodity prices for New Zealand's exports are clear positives. **However, the high New Zealand dollar is not helping the economy to rebalance – although recent movements are helpful.** While financial conditions (as captured in our Financial Conditions Index, see page 5) remain stimulatory, our analysis of effective exchange rates for export industries (see page 8) show that, despite rising commodity prices, the level of the

NZD remains in restrictive territory. **As his January speech alluded to, Governor Bollard is keenly aware of this.** While the objective of the new prudential policy instruments is to ensure New Zealand's financial system is more robust, they may also help take the pressure off the NZD. However, overall monetary conditions would still need to be appropriate to keep medium-term inflation stable. But the mix will be different.

The domestic data calendar this week is fairly light. Despite the weak tone from recent labour market data, we expect evidence of continuing momentum in consumer spending, with the December quarter retail trade data likely to record a sizeable rise in volumes, courtesy of aggressive retail discounting (although why this did not appear in the Q4 CPI figures is a puzzle). Nominal sales in the month of December is expected to show a 0.6 percent increase. We will also closely look at January's Electronic Card Transaction values, to see if the recent pick-up in consumer sentiment has flowed through into retail spending.



We expect January's REINZ housing market statistics to provide further evidence of softening momentum. House prices will no doubt be the headline grabber, and likely to be up 10 percent on a year ago. Jolly good stuff. However, the end of 2009 showed a clear weakening trend in sales and rising days to sell (from lows), which portends of an easing in house prices ahead. The REINZ stratified house price measure has been flat over the last two months. Our interest will be in whether we see a repeat (after adjusting for a slight seasonal factor). If so, it will be more evidence the housing market has done its dash. Housing helped stabilise the economy but it is not kicking on.

A key event this week is the PM's Speech from the Throne this Tuesday, which will outline the Government's economic agenda for 2010. The speech is expected to unveil options for an overhaul of the tax system, that will set the scene for the May 20 *Budget*. While we suspect details with be lacking, one thing will be clear: change is coming. This in itself will drive a degree of economic noise in the data-flow (such as housing) over the coming months. Perhaps of greater note will be the Government's strategy in getting a "step change" lift in NZ's economic performance. With the Australian economy pulling ahead of NZ, there is a need to lay out the groundwork quickly.

Last week's central bank announcements provided food for thought. As expected the ECB and BOE left their policy rates unchanged. The RBA surprised the market, opting to leave the cash rate at 3.75 percent. With risks of serious economic contraction in Australia having passed, monetary stimulus will need to be withdrawn. However, the RBA wanted to pause and assess the impact of recent policy tightening. With only modest expansion likely in the major economies, tighter credit and financial conditions, and inflation expected to be consistent with their target in 2010, the RBA felt no need to move at this time. **This is the sort of tactic that we expect the RBNZ will adopt, rather than a continuous series of rate hikes.** It also demonstrates the tricky balancing act facing monetary policy makers. As noted by Governor Bollard in his January speech, *"Central bankers around the world are balancing the need to provide ongoing support for a very fragile recovery against the risk of keeping monetary and fiscal conditions too easy for too long."*

Recent local data…

> **ANZ Commodity Price Index – January month.** Commodity prices increased by 0.4 percent in world price terms, but fell by 1.2 percent in NZD terms.

> **Quarterly Employment Survey and Labour Cost Index – December quarter.** Quarterly LCI private sector wage inflation eased to 0.3 percent, with the 1.5 percent annual increase the weakest in almost 10 years. QES paid hours and filled jobs both declined by 0.3 percent.

> **Fonterra Online Auction - February**. USD WMP prices fell by 1.6 percent to $3,256. This follows a 7.1 percent decline in dairy prices in the previous month.

> **Household Labour Force Survey – December quarter**. The unemployment rate rose to 7.3 percent, its highest since June 1999. Employment fell by 0.1 percent and hours worked declined by 0.4 per cent.

> **International Travel and Migration – December month**. Visitor arrivals were up 6 percent from a year ago. Over the same period, overseas trips by NZ residents were down by 1 percent. Net migration increased by 1,700 persons, taking the annual increase to 21,300. Departures remain low.

FINANCIAL CONDITIONS UPDATE

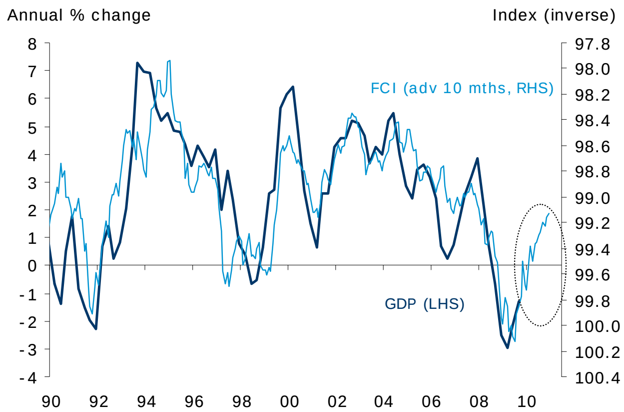
Our Financial Conditions Index continues to point towards increasing momentum for the NZ economy. But the extent of the rebound it is implying is more modest compared to what the soft leading indicators are pointing to. In contrast, our Australian Financial Conditions Index is consistent with an acceleration in growth to well above trend this year.

Only a modest recovery in NZ ahead?

Various soft leading indicators, such as business and consumer confidence, are indicating a V-shape typed rebound for the NZ economy this year. Indeed, taken at face value, some of those indicators suggest a recovery towards 4 percent year-on-year growth is on the cards this year. This would be consistent with what the RBNZ had projected in their December *Monetary Policy Statement*, with year-on-year GDP growth above 4 percent by early 2011.

There is no doubting that the NZ economy is gaining momentum. Our Financial Conditions Index has continued to loosen in the past few months, suggesting ongoing support for the economy. This support is mainly courtesy of improving commodity prices, ongoing gains in asset prices, and an easing in lending standards (note that we use the US Federal Reserve's Senior Loan Officer Opinion Survey as a proxy). Slightly offsetting these are higher fixed mortgage rages and an increase in credit default swap spreads for the big four Australian banks.

NZ GDP vs Financial Conditions Index



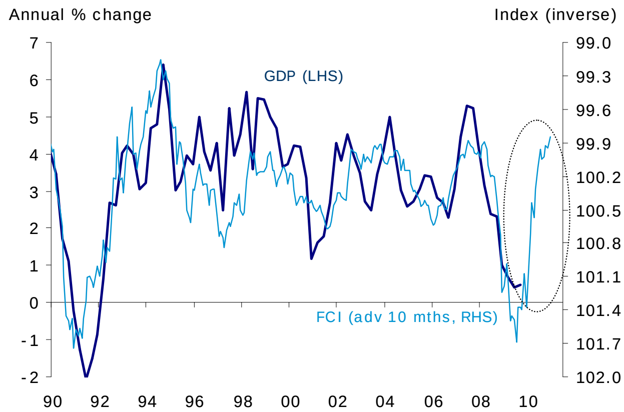
Sources: ANZ, National Bank, Statistics NZ

However, our Financial Conditions Index is pointing to a more modest recovery, flagging year-on-year growth of 2 percent by the end of this year. Such a divergence with other leading indicators is unusual. As we have noted many times in the past, we continue to be mindful of structural aspects to this economic cycle that may not be fully captured by our Financial Conditions Index. Potential changes to the tax system, particularly those relating to the property market, and increasing regulation of the global financial system are examples of these structural changes that are occurring. Yet, our Financial Conditions Index has proven to be a reliable gauge of not only the turn in the economic cycle, but also the potential magnitude of the growth cycle. In addition, our Index is more in line with the "experienced" components of the various survey measures, which themselves have diverged from their respective "headline" confidence readings. It remains to be seen which way the expectations versus reality readings will converge. Our Financial Conditions Index suggests we should put more weight on prospects of a more modest recovery.

Big surge ahead for the Lucky Country?

Our Financial Conditions Index for Australia remains very supportive for growth prospects, and suggests some strong quarterly growth rates ahead. Despite falling equity prices over January and February, this was more than offset by strong gains in house prices. Hard commodity prices have risen, and the Australian swap yields have eased over January, as the market pared back expectations of a further hike from the RBA (which proved to be correct with the RBA pausing at last week's meeting). Our Australian Financial Conditions Index is pointing to a return to above trend growth this year of around 4 percent or more. This is consistent with what the Australian confidence surveys are pointing to.

AU GDP vs Financial Conditions Index



Sources: ANZ, National Bank, Bloomberg

The upshot

Based on our Financial Conditions Index, the divergence in growth performance between NZ and Australia is about to become even more stark this year. Taken at face value, our index is pointing to a modest 2 percent growth for NZ, with Australia growing at twice that rate. This will certainly increase the risk of a sharp rise in emigration of NZers to Australia, further eroding NZ's supply-side potential. It also suggests that policy rates will continue to stay higher in Australia compared to NZ, adding downward pressure to the NZDAUD cross.

INTEREST RATE STRATEGY

Weak domestic economic data has led to a radical re-pricing of monetary policy expectations, adding fuel to the global led interest rate rally. The market is moving to our view that an April rate hike is off the table, and while we continue to expect the first hike in June, even that can't now be guaranteed. However, we feel we'd need to see a major deterioration in global markets for the market to price out more rate hikes.

Market themes…

> Three themes dominated markets in the past week: weak domestic; no-hike from the RBA; and renewed concerns over sovereign debt.

> RBNZ Governor Bollard's earlier comments about rate hikes coming in "meaty chunks" are still relevant. However the timing of the start of the tightening cycle is now under question.

> The lesson to be drawn from the RBA is not that policy needs to be lax. Rather, acting early may reduce the need to be heavy handed.

Review and outlook

There has been a significant "pricing-out" of rate hike expectations over the past week, taking the bellwether 2-year rate to its lowest level in nearly five months. In our view this leaves the market vulnerable to an upside correction should we see stronger data in the weeks ahead, but this needs to be taken in context of global events.

If attitudes towards sovereign credit stabilise then global bond rates will likely rise, taking NZ rates with them. However, interest might start to rise too if global concerns escalate. For example, if credit concerns deteriorate to the point where markets freeze up again (as they did after the Lehman collapse), this is likely to be accompanied by substantially higher risk premiums, implying much higher long end rates. Monetary policy may have less work to do, but that won't prevent borrowing costs from rising. In other words, what happens next is not clear cut. But given the extent of the pull-back in rates, and the global risks overhanging the market, we see limited scope for significant further downside, especially at the middle and back end of the curve.

Finally, we think it is worth mentioning that there is a lesson to be drawn from the RBA – and it's not about leaving policy easy. Rather it's about being pre-emptive. If you get going early you'll have less to do, and you'll be in a better position to respond to new developments. Remember, policy is still at "emergency" levels in NZ, and that can't last forever, even if the recovery is timid.

Borrowing strategies we favour at present

Conflicting signals from hard data and leading indicators make it difficult to decipher what's really going on. They also make hedge decisions difficult. Rates have fallen a long way, and are now at levels that would have looked good relative to budgets set during Q4. However, if the economy isn't doing as well as imagined, then perhaps rates should be lower, which argues for caution. But as we noted earlier, it may not be monetary policy that drives yields higher – it could be risk premiums. As such, we favour adding to medium term hedges here. Ironically it may be better if it was RBNZ hikes that cause rates to rise – at least that would be accompanied by a stronger economy, and a better business environment.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	"Meaty chunks" might be off the menu, for now at least. But this is now priced in.
NZ data	↔/↓	Weak jobs data highlights the fragility of the recovery.
Fed Funds / front end	↔/↑	First hike some time away.
RBA	↔/↑	Unchanged policy a shock. But market has reacted, risk from here is stronger data.
US 10 year	↔/↓	Sovereign credit wobbles providing significant safe haven bid. Could intensify.
NZ swap curve	↔/↑	Biased to steepen. Depends on local data, global credit.
Flow	↔	Shorts have been stopped out, risk is yields rise.
Technicals	↔/↑	Pace of the rally has been electric. Hard to sustain.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Mar-10	+2	+1
Thu 29-Apr-10	+24	+10
Thu 10-Jun-10	+52	+37
Thu 29-Jul-10	+88	+64
Thu 16-Sep-10	+112	+89
Thu 28-Oct-10	+144	+117
Thu 9-Dec-10	+172	+144

Trading themes we favour at present

Steepeners remain appropriate, but the case is less clear cut than it was a week ago. How the short end moves from here depends on how data evolves. However, long end yields are vulnerable to rising risk premiums, and while roll and carry are still beneficial, we continue to favour steepeners. 10yr spread wideners against the US and AU also make sense in an environment of rising risk premiums.

CURRENCY STRATEGY

Risk remains off the table and concerns over sovereign credit are unlikely to blow away soon. But given recent moves, any relief rally will see the NZD bounce from current supports though the topside will be capped at 0.6975.

Market themes…

- The NZD and AUD are close to their 200 day moving average levels.
- Greece's widening credit default swap spreads, along with Spain and Portugal's, all weighing on the euro.
- Equities/commodities/currency correlation stronger than ever.

Review and outlook…

There were three negatives to the currency last week. First, the RBA surprised the market with a pause, citing uncertainty in the global market and the tightening in policy undertaken by China. Second, the NZ labour market report which showed soft wage inflation and a big increase in the unemployment rate, despite a loss of only 2k jobs. Third, global equity markets had a very tough week but finished on a positive note after the US non-farm payrolls on Friday night.

Global concerns over sovereign credit are unlikely to subside anytime soon. There are fears that the Greece situation is a mere precursor to wider sovereign problems. At this stage, risk continues to be taken off the table, and commodity and high yielding currencies have come under intense selling pressure. The USD has been sought as a safe haven refuge, with the latest IMM positioning data showing a big turnaround from a net short position to a net long in the USD over the past two weeks. This is somewhat ironic given that the US has their own fiscal deficit situation to address. But for now, it is the euro that continues to bear the brunt of sovereign credit fears.

The opening of the NZ Parliament this week will set the direction for the NZD, with the RBNZ's history of fighting house price inflation led consumption via higher rates being potentially replaced with disincentives to leverage into housing. This must be seen as a benefit for the economy, but potentially a negative for the currency as it implies a lower OCR compared to the past. Conversely, a major coal deal between Australia and China announced over the weekend shows the potential for Australia to 'dig' its way out of any trouble.

The NZD daily support is at 0.6860 which is the 200 day moving average and it will need a daily close below that level to get model accounts interested in the short side. AUD also has its 200 day moving average support of 0.8564. This level will provide solid support.

The NZD should struggle near 0.6980 and the AUD will run into offers below 0.8800 cents. The NZDAUD cross may enter a medium term range play between 0.7700 and 8000 as any change in NZ property taxes are digested.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both hards and softs still coming under downward pressure.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔	Range trade still. Resistance above 0.80.
Sentiment	↓	AU signing export deals, NZ signing property tax deals.
Other	↔/↓	Speech from the Throne tomorrow important.
On balance	↔/↓	**Yield and growth story too hard to ignore.**

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔/↓	Market pushing RBNZ hikes back.
Commodities	↔/↓	Commodities back in recent range.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔/↓	NZ unemployment heading up, US starting to head down.
Technicals	↔/↓	0.6860 200 day moving average critical.
AUD	↔	Breakdown level at 0.8780 now resistance.
Sentiment	↔/↓	Following Europe's fortunes.
Other	↔	Equities still big driver of FX.
On balance	↔/↓	**Resistance at 0.6975 to cap.**

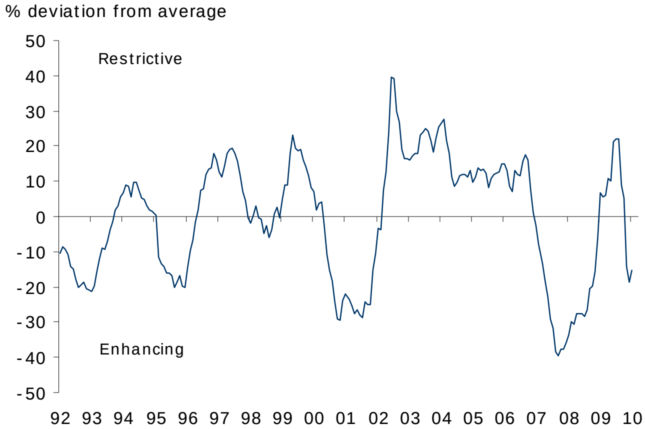
EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations.

The meat and forestry sectors experienced a mild improvement in their effective exchange rates over January, while the other sectors were impacted by either lower commodity prices or increases that were not sufficient to compensate for currency movements during the month. The improvement for meat was mild, and overall conditions are still in "restrictive" territory. The forestry sector has seen big improvements in their effective exchange rate in recent months, but current levels remain restrictive compared to historical average. This has been compensated to some extent by strong demand for forestry products, particularly from Asia.

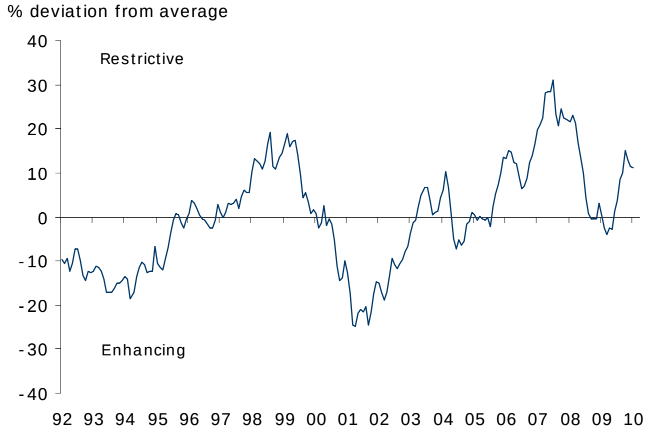
Crude experienced the largest deterioration in their effective exchange rate, and is close to their most restrictive level since the 1990s. Of the eight sectors we monitor, only dairy is benefiting from an "enhancing" effective exchange rate, courtesy of high dairy prices in world terms. Seafood, having been in very enhancing conditions at the start of 2009, has seen their effective exchange rate deteriorate to be slightly restrictive at present.

Sector: Dairy ≈ 18% of exports



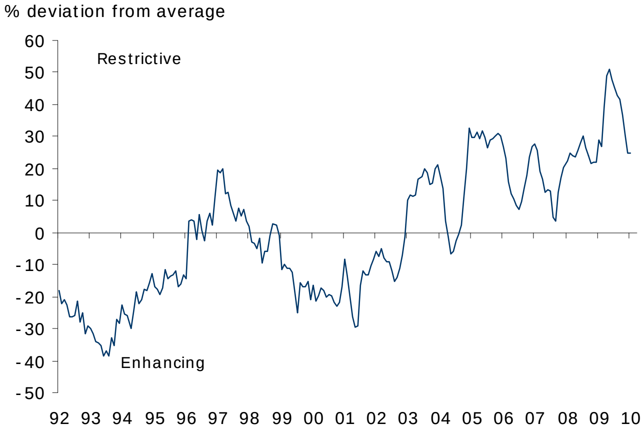
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



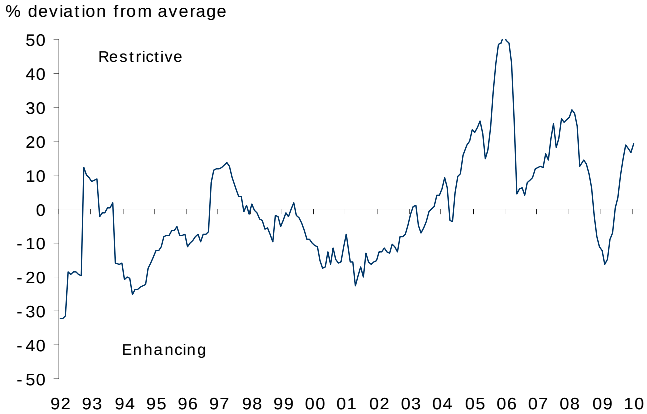
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Forestry ≈ 10% of exports



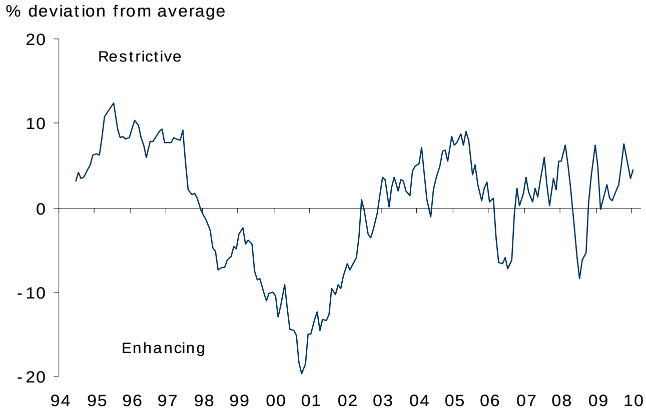
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports



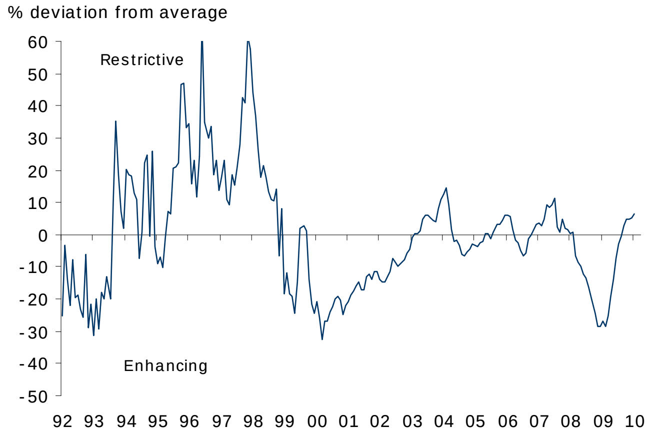
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports



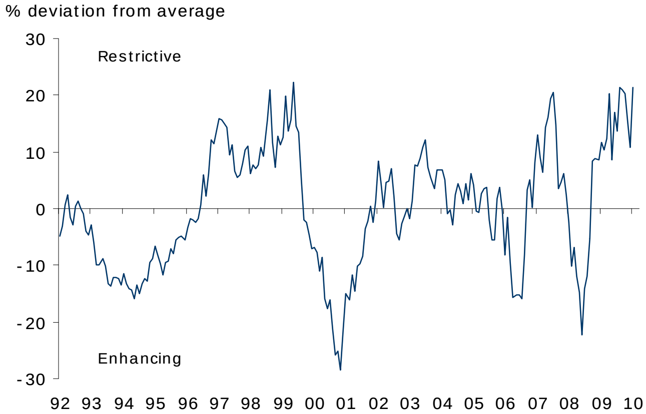
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports



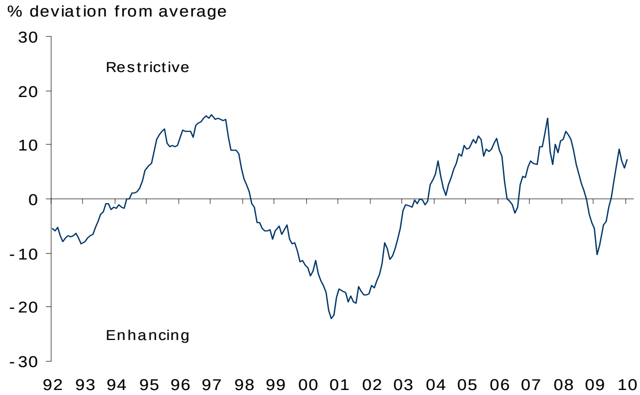
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services ≈ 21% of exports



Sources: ANZ, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
8-Feb	**NZ**	**QVNZ House Prices – yoy – Jan**	**-**	**+2.8%**	**00:00**
	JN	Current Account – Dec (P)	¥1012bn	¥1103bn	12:50
	JN	Bank Lending – yoy – Jan	-	-1.0%	12:50
	JN	M3 Money Supply – yoy – Jan	+2.3%	+2.2%	12:50
9-Feb	UK	RICS House Price Diffusion Survey – Jan	27%	30%	13:01
	NZ	**Parliament Resumes – Speech from the Throne**	**-**	**-**	**14:00**
	UK	Trade Balance – Dec	-£2.8bn	-£2.912bn	22:30
	GE	Current Account Balance – Dec	+€19.1bn	+€18.1bn	20:00
	GE	CPI – mom – Jan (Final)	+0.8%	+0.8%	20:00
10-Feb	US	Wholesale Inventories – mom – Dec	+0.5%	+1.5%	04:00
	US	IBD/TIPP Economic Optimism – Feb	-	48.8	04:00
	NZ	**Electronic Card Spending – mom – Jan**	**-**	**+0.7%**	**10:45**
	AU	Westpac Consumer Confidence – Feb	-	120.1	12:30
	JN	Machine Orders – mom – Dec	+8.0%	-11.3%	12:50
	JN	Domestic Corporate Goods Price Index – mom – Jan	+0.1%	+0.1%	12:50
	JN	Housing Loans – yoy – Q4	-	+0.8%	12:50
	AU	Home Loans – mom – Dec	-5.0%	-5.6%	13:30
	AU	Investment Lending – mom – Dec	-	+2.1%	13:30
	UK	Industrial Production – mom – Dec	+0.2%	+0.4%	22:30
	UK	Manufacturing Production – mom – Dec	+0.3%	0.0%	22:30
	UK	BOE Inflation Report – Q1	-	-	23:30
11-Feb	US	Trade Balance – Dec	-$35.5bn	-$36.4bn	02:30
	US	Fed's Tarullo Testifies Before Senate Panel on Risk	-	-	03:30
	US	Fed's Plosser Speaks in Philadelphia on Financial Crisis	-	-	06:45
	US	Monthly Budget Statement – Jan	-$50.0bn	-$63.5bn	08:00
	NZ	**BNZ Business NZ PMI – Jan**	**-**	**52.9**	**10:30**
	NZ	**Food Prices – mom – Jan**	**-**	**-0.3%**	**10:45**
	AU	Employment – mom – Jan	+15.0K	+35.2k	13:30
	AU	Unemployment Rate – Jan	5.6%	5.5%	13:30
12-Feb	US	Advance Retail Sales – mom – Jan	+0.3%	-0.3%	02:30
	US	Retail Sales less autos – mom – Jan	+0.5%	-0.2%	02:30
	US	Initial Jobless Claims – week ending Feb 7	465k	480k	02:30
	US	Continuing Claims – week ending Jan 31	4590k	4602k	02:30
	US	Business Inventories – mom – Dec	+0.4%	+0.4%	04:00
	NZ	**REINZ House Sales – yoy – Jan**	**-**	**+15.2%**	**10:00**
	NZ	**REINZ House Prices – mom – Jan**	**-**	**-0.9%**	**10:00**
	NZ	**Retail Sales (nominal) – mom – Dec**	**+0.6%**	**+0.8%**	**10:45**

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
	NZ	**Retail Sales (volumes) – qoq – Dec**	**+1.4%**	**+0.1%**	**10:45**
	JN	Consumer Confidence – Jan	-	37.9	12:50
	EC	Eurozone Industrial Production – mom – Dec	+0.1%	+1.0%	23:00
	EC	Eurozone GDP – qoq – Dec (A)	+0.4%	+0.4%	23:00
13-Feb	US	University of Michigan Consumer Confidence – Feb P	75.0	74.4	03:55

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 dataflow over the coming weeks mainly relates to how Q4 last year fared, which we suspect recorded decent growth. We will be paying closer attention to forward looking gauges to see whether the momentum from the end of last year carried through into the early part of this year. In this regard, the ANZ Roy Morgan Consumer Confidence and the National Bank Business Outlook surveys will be important reads.

Date	Data/Event	Economic Signal	Comment
Wed 10 Feb (10.45)	Electronic Card Transactions (Jan)	Improvement	We expect a gradual grind up in spending, but doubt that recent increases in consumer confidence will translate through into an acceleration in consumer spending.
Thu 11 Feb (10.45)	Food Price Index (Jan)	Higher	Seasonal increase in fruit and vegetable prices expected to drive food prices higher.
Fri 12 Feb (10.45)	Retail Trade (Dec qtr)	Improvement	ECT data suggests a small increase in core retail for December. Volumes for the quarter will be large, driven by aggressive retail discounting.
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.
Tue 16 Feb (10.45)	Producers Price Index (Dec qtr)	Still margin pressure	Volatility caused by the Fonterra payout movements mean not too much should be read into the headline numbers. Margin pressure should still be evident among most sectors.
Wed 17 Feb (15.00)	NBNZ Regional Trends (Dec qtr)	How strong?	We will get an indication of how Q4 GDP could shape up from the Regional Trends release.
Thu 18 Feb (15.00)	ANZ Roy Morgan Consumer Confidence (Feb)	Still perky?	After a good start to the year, we will see whether confidence stays high once consumers get their credit bills in the mail.
Wed 24 Feb (15.00)	RBNZ Survey of Expectations (Mar qtr)	Steady	We were surprised at the previous quarter's rise, and are looking for a steady print for this release.
Thu 25 Feb (15.00)	Credit Growth (Jan)	Anaemic	No signs of a pick-up in business spending expected from the credit data. Neither will subdued household debt growth cause too much concern for the RBNZ.
Thu 25 Feb (15.00)	National Bank Business Outlook (Feb)	Still optimistic?	This will be the first read of business confidence for the year. We will be paying close attention to whether improved sentiment is translating through into investment and hiring intentions.
Fri 26 Feb (10.45)	Trade Balance (Jan)	Rebalancing	Recent improvements in NZ's major export commodity prices are still to flow through and imports are expected to stay week. It points to ongoing improvements in the annual trade balance.
Fri 26 Feb (10.45)	Building Consents (Jan)	Bounce?	December's decline was a surprise. We think January will show a rebound, but recent weakness in house sales suggest the strong cyclical upswing we were expected may be under threat.
Mon 1 Mar (15.00)	International Travel and Migration (Jan)	Still coming but for how long more?	The labour market difference between NZ and Australia is getting stark. A turnaround in net migration is likely sooner rather than later.
Mon 1 Mar (15.00)	ANZ Commodity Price Index (Feb)	Feeling the global blues?	Given the recent selloff in global commodity prices, we will see the extent that NZ's soft commodity basket has been affected. The overall level remains high compared to historical averages.
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	**0.9**	**0.5**	**0.6**	**0.6**	**0.5**	**0.7**
GDP (% yoy)	-2.5	-3.0	-2.1	-1.3	**0.5**	**1.8**	**2.2**	**2.6**	**2.2**	**2.4**
CPI (% qoq)	-0.5	0.3	0.6	1.3	-0.2	**0.2**	**0.7**	**0.9**	**0.8**	**0.5**
CPI (% yoy)	3.4	3.0	1.9	1.7	2.0	**1.9**	**2.0**	**1.6**	**2.7**	**3.0**
Employment (% qoq)	0.5	-1.1	-0.5	-0.8	-0.1	**0.1**	**0.2**	**0.3**	**0.4**	**0.5**
Employment (% yoy)	0.9	0.8	-0.9	-1.8	-2.4	**-1.2**	**-0.6**	**0.5**	**1.0**	**1.4**
Unemployment Rate (% sa)	4.7	5.0	6.0	6.5	7.3	**7.5**	**7.5**	**7.3**	**7.0**	**6.9**
Current Account (% GDP)	-8.7	-7.9	-5.6	-3.1	**-1.8**	**-1.3**	**-1.7**	**-2.4**	**-2.4**	**-2.4**
Terms of Trade (% qoq)	-1.0	-2.7	-9.4	-1.2	**3.9**	**2.9**	**2.1**	**0.5**	**0.2**	**-0.3**
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	**-9.5**	**-4.3**	**7.8**	**9.7**	**5.8**	**2.6**

KEY ECONOMIC INDICATORS

	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Retail Sales (% mom)	0.6	0.6	0.0	-0.5	1.2	0.2	0.1	0.8	..	..
Retail Sales (% yoy)	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	..	..
Credit Card Billings (% mom)	2.7	-0.3	0.1	0.1	1.2	-0.7	0.1	0.8	-1.3	..
Credit Card Billings (% yoy)	-1.6	-2.3	-2.0	-2.0	0.0	-2.3	-0.4	1.5	1.8	..
Car Registrations (% mom)	-1.4	-2.0	6.0	7.0	-3.1	7.7	0.8	2.3	6.7	-0.8
Car Registrations (% yoy)	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9
Building Consents (% mom)	12.7	2.8	-9.1	4.9	2.5	5.3	13.2	0.1	-2.4	..
Building Consents (% yoy)	-56.5	-23.4	-24.0	-16.8	-8.8	-12.0	27.7	20.3	23.6	..
REINZ House Price (% yoy)	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	..
Household Lending Growth (% mom)	0.3	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	..
Household Lending Growth (% yoy)	2.5	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	104.6	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4
NBNZ Business Confidence	-14.5	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..
NBNZ Own Activity Outlook	-3.8	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..
Trade Balance ($m)	322	906	-331	-178	-717	-561	-502	-276	2	..
Trade Balance ($m annual)	-4070	-2994	-3110	-2491	-2360	-1669	-1177	-860	-517	..
ANZ World Commodity Price Index (% mom)	2.6	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	..
ANZ World Commodity Price Index (% yoy)	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	..
Net Migration (sa)	2000	2540	1620	2460	1610	1830	2150	1730	1710	..
Net Migration (annual)	9176	11202	12515	14488	15642	17043	18560	20021	21253	..

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	8-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.731	0.716	0.689	0.720	0.710	0.690	0.680	0.670	0.660	0.640
NZD/AUD	0.794	0.793	0.794	0.783	0.755	0.750	0.756	0.770	0.776	0.762
NZD/EUR	0.490	0.490	0.504	0.507	0.493	0.483	0.482	0.479	0.478	0.471
NZD/JPY	65.3	64.1	61.7	66.2	63.9	62.8	62.6	63.0	62.7	62.1
NZD/GBP	0.440	0.440	0.442	0.439	0.428	0.421	0.412	0.404	0.395	0.376
NZ$ TWI	65.2	64.6	63.94	65.5	63.8	62.5	62.2	62.1	61.8	60.4
NZ interest rates	Nov-09	Dec-09	8-Feb-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	4.00	4.00	4.25	4.75
90 day bill	2.80	2.78	2.77	2.80	3.60	4.20	4.30	4.30	4.70	5.20
10 year bond	5.88	5.90	5.86	5.50	5.50	5.60	6.00	6.20	6.40	6.50
International	Nov-09	Dec-09	8-Feb-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	0.75	1.25	1.75	2.00
US 3-mth	0.26	0.25	0.25	0.25	0.30	0.35	0.85	1.35	1.85	2.10
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	4.28	4.12	4.40	4.80	4.90	5.00	5.00	5.10	5.60

KEY RATES

	5 Jan	1 Feb	2 Feb	3 Feb	4 Feb	5 Feb
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.80	2.80	2.76	2.76	2.77	2.76
NZGB 11/11	4.19	3.99	4.01	4.01	3.87	3.84
NZGB 04/13	5.02	4.70	4.72	4.72	4.60	4.59
NZGB 12/17	5.81	5.62	5.63	5.63	5.56	5.53
NZGB 05/21	6.11	5.93	5.94	5.94	5.88	5.86
2 year swap	4.62	4.40	4.42	4.42	4.28	4.24
5 year swap	6.60	5.32	5.35	5.35	5.28	5.24
RBNZ TWI	66.7	64.7	65.3	65.4	64.5	64.0
NZD/USD	0.7336	0.7013	0.7091	0.7106	0.6986	0.6889
NZD/AUD	0.8050	0.7951	0.7945	0.8025	0.7922	0.7938
NZD/JPY	67.95	63.17	64.45	64.25	63.52	61.77
NZD/GBP	0.4558	0.4399	0.4439	0.4444	0.4391	0.4377
NZD/EUR	0.5090	0.5057	0.5095	0.5090	0.5030	0.5025
AUD/USD	0.9113	0.8820	0.8925	0.8855	0.8818	0.8679
EUR/USD	1.4413	1.3867	1.3918	1.3961	1.3890	1.3709
USD/JPY	92.63	90.08	90.89	90.41	90.92	89.66
GBP/USD	1.6095	1.5942	1.5974	1.5990	1.5911	1.5740
Oil	82.74	72.85	74.41	77.21	76.96	73.13
Gold	1138.30	1077.85	1101.85	1114.18	1107.75	1065.40
Electricity (Haywards)	4.65	4.62	7.61	6.29	6.88	6.20
Milk futures (US$/contract)	129	109	109	109	109	108
Baltic Dry Freight Index	3270	2745	2691	2673	2685	2715

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.

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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.

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NEW ZEALAND DISCLAIMER

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