NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

THIS TIME ITS DIFFERENT (WE HOPE!)

14 February 2011

INSIDE

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ECONOMIC OVERVIEW

An economy at an inflection point remains the nucleus of our current view for now. While lagging activity data for 2010 has been weak and reads on housing for January were not encouraging, activity gauges for 2011 and forward-looking indicators suggest that the NZ economy has regained momentum on a number of fronts. Hence, we believe we are at an inflection point. If so, we should see improving hard data in about six week's time from now. Data this week is expected to continue the run of mixed messages.

MONTHLY INFLATION GAUGE

Prices in our monthly inflation gauge rose by 0.6 percent in January, following a 0.1 percent fall in December. Higher tobacco prices contributed more than half of the monthly increase in the gauge, with a scattering of other large increases. There is little evidence price rises are becoming more generalised, with pricing pressures remaining contained, though so-called one-off spikes are becoming a little too regular.

INTEREST RATE STRATEGY

Ongoing weak domestic activity data continues to weigh on sentiment, and has seen the market push out the timing of the first rate hike until October. As intuitive as this feels, we also need to be mindful of global inflation dynamics, which are set to challenge the RBNZ. But for the time being, we expect markets to be more influenced by the "here and now" than by longer term considerations. The steep slope of the yield curve (which is largely a function of higher US long term interest rates) certainly affords the RBNZ more time to watch, worry and wait.

CURRENCY STRATEGY

The military action in Egypt should bring a dose of stability to that region as well as to financial markets. Comments from RBA's Stevens undermined the AUD, surprising the market with his comfort regarding current monetary policy settings. In New Zealand, real estate data showed that New Zealanders love affair with housing remains decidedly strained. Today's retail sales data will set the tone for the NZD for the week. Improving US data and higher US bond yields are starting to bring real support to the USD.

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THIS WEEK'S EVENTS

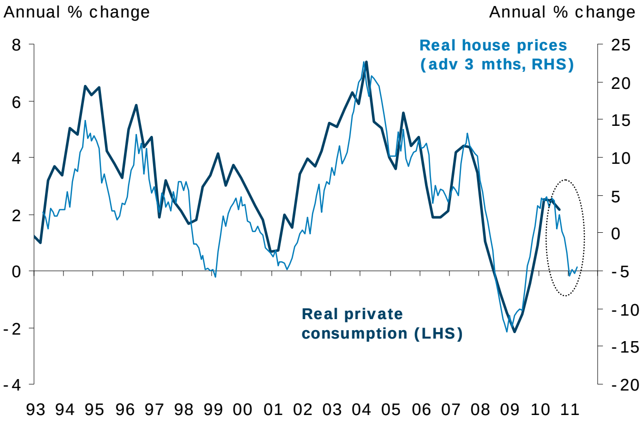
- **BNZ - Business NZ Manufacturing PMI — January** (Thursday, February 17, 10:30am). We expect this to reflect improvement of overseas gauges.
- **SNZ Producers Price Index — 2010Q4** (Thursday, February 17, 10:45am). Higher electricity and commodity input prices are expected to produce a 1.5 percent quarterly increase in input prices, with output prices expected to rise by 1 percent.
- **SNZ Capital Goods Price Index —2010Q4** (Thursday, February 17, 10:45am). A quarterly increase of 0.4 percent is expected.
- **ANZ – Roy Morgan Consumer Confidence — February** (Thursday, February 17, 3:00pm).

WHAT'S THE VIEW?

The run of "liquorice allsorts" data outturns continues.

- **Today's data confirmed a weak end to 2010 for the retail sector.** Given this was the first quarter of retail data in the higher GST regime, the decline in retail volumes was not unexpected. There remains a non-negligible risk of another negative quarter for GDP, though the unchanged level of core retail volumes in Q4 suggests this is far from a *fait accompli*. But while 2010 ended horribly for retailing, electronic card transactions data showed a better read for January. Obviously part of this was accounted for by food prices, but generally speaking the results looked solid across all components.
- **January's housing report was not encouraging.** Housing turnover slumped and prices continued to trend lower. This is not the environment to encourage a sustained turn in consumer spending.

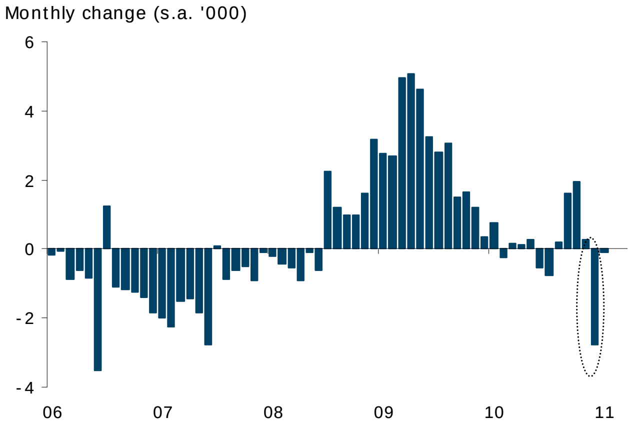
Consumption vs house prices



Sources: ANZ, REINZ, Statistics NZ

- **The labour market looks to be improving**, going by the fall in registered unemployed in December and January. Job adds on Seek.co.nz have been lifting since November. This is suggestive of a Q1 turnaround, which would not be surprising given the quarterly see-saw pattern of late.

Number of people receiving unemployment benefit



Sources: ANZ, National Bank, MSD

As we outlined in last week's *Market Focus*, there is also a data dichotomy between the hard activity data and forward-looking indicators. Forward-looking components are looking up and pointing to a strong recovery, whereas the backward looking activity data for 2010Q4 are conveying a weak tone. To date, reads on 2011 (January) – ECT and housing - have been mixed. A key dilemma facing policymakers and other analysts is to know how much weight to put on forward-looking indicators. Whilst leading gauges convey useful information, they are sometimes off the mark or are offset by other events. Given the lags from which activity data is published, policy makers sometimes must take a leap of faith. Sometimes the hard data follows, sometimes it doesn't, 2010 being a case in point.

ECONOMIC OVERVIEW

The temptation in this environment is to play it safe and wait for confirmation of your economic view to be expressed in the hard data. After all we've had false dawns in terms of what the soft data was telling us before (i.e. mid 2010). The interaction of structural (weakening household balance sheets) and cyclical (commodity prices and supportive monetary policy) forces compounds this dilemma.

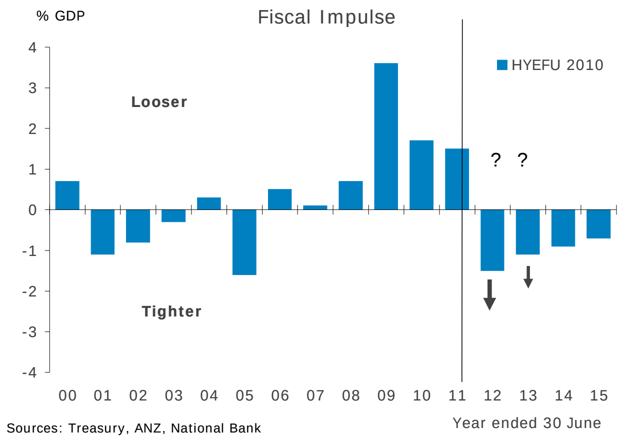
We're resisting that temptation and are happy running with our inflection point of view. Challenges remain. There is an array of 2010 data to get past. Weak Christmas activity is now putting pressure on cash-flow in some segments. People are slow to pay bills. However, the recent loosening in financial conditions, booming commodity prices (we await an upwards revision to the 2010/11 dairy payout), impetus from the Christchurch earthquake (stimulus delayed not diverted), signs of firming anecdotes and prospects for a weaker 2010 to provide a spring board from which activity can rebound, augur well. It appears a simple question of timing, and our timing is more forward (a good base in Q1 but real momentum in Q2) than others. There are hurdles and we remind readers that we view the rebalancing challenges across economy as a five-year journey, a voyage we refer to as grumpy growth. But extrapolating the end of 2010 into 2011 simply doesn't fit with what we are starting to detect. However, time and extension beyond a few weeks is needed for confirmation. As noted above: we've seen false dawns before.

The spirit of last week's commentary centred around the coming six weeks as critical in terms of validating or disputing our view. This remains the case. But in the meantime, markets, the public and economists have the prospects for a negative read on Q4 GDP to get over first.

While the mainstream focus is growth-centric at present, we're keeping a close eye on inflation risks, with the consensus becoming too complacent. Our January Monthly Inflation Gauge on page 5 shows that pricing pressures are not yet generalised, with government policy still an important add-factor, but the one-off monthly spikes are becoming a little too regular for our liking. Rising food and petrol prices look set to boost Q1 CPI such that we could be looking at a couple of 1 percent quarterly outturns for inflation in the half of 2011. Five percent inflation looks a done deal.

The key issue for us, and the RBNZ for that matter, is the extent to which a high inflation rate in 2011 will flow through into price and wage setting. **For now the RBNZ has taken a relaxed approach: inflation is tracking as expected while growth is weaker.** They can respond to the latter via talking down OCR hike prospects. The luxury of time is on their side. **We concur for now and would not push against a market that is very keen on a view of interest rates being on hold for a very long time. But we suspect this will change quickly.** Timewise, it remains contingent on getting a solid string of better data and that is at least six weeks off.

Last Wednesday the Minister of Finance confirmed a May 19 Budget date. With a theme of building savings and investment, the government's intentions are clear, with renewed emphasis on capping increases in expenditure and maintaining the focus on redirecting more funds towards front-line services. A partial sell-off of the four energy SOEs remains on the table, with the proceeds used to reduce debt and help return the books to surplus ahead of forecast (by 2014/15). At the margin, the new fiscal measures will help take pressure off aggregate demand and help the RBNZ, but we could see more of a direct inflation impact from higher government. The latter is an area we'll be keeping a close eye on.



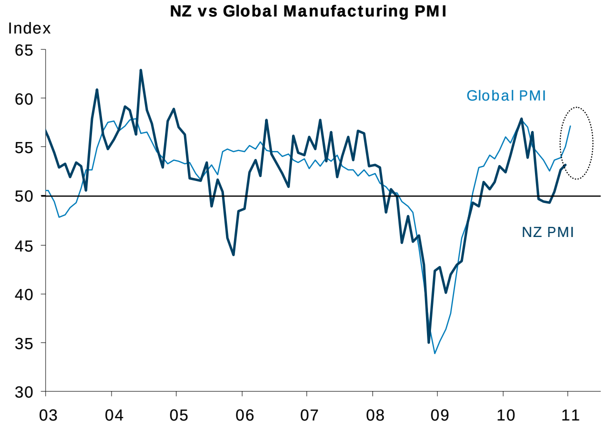
Sources: Treasury, ANZ, National Bank

Looking at the week ahead on the local data front, producer price data for 2010Q4 is expected to highlight increasing price pressures in the supply chain. We are expecting rising commodity export prices and higher wholesale electricity prices will contribute to a 1.5 percent rise in producer input prices. Output prices are not expected to increase to the same degree, with producer margins under the squeeze. More benign readings for capital good prices are expected to support strengthening business investment.

The rest of this week sees the focus return to more forward-looking information. Manufacturing sentiment is expected to follow the improvement seen in overseas gauges. Recent rains are also a positive for food manufacturing over the

ECONOMIC OVERVIEW

next few months. New Zealand remains in a strong La Nina state, with soil moisture levels in much of the country looking considerably better than they did two months ago. This is translating into improving pasture levels.



Sources: ANZ, National Bank, Bloomberg, Business NZ

Thursday's ANZ-Roy Morgan Consumer Confidence report for February will also provide important clues for the retail spending outlook. Households have not had much to cheer about over the last few months, but there are signs that the worst has passed. In the current deleveraging environment, increases in spending are going to need to be income-led, rather than funded by more borrowing. The upshot is likely to be more moderate growth in consumer spending than in the previous cycle, but spending that will not increase the debt servicing bill for future generations.

Overseas developments have a central bank focus. Tomorrow's RBA minutes will shed more light on the degree of comfort the RBA have on sitting on the sidelines, with recent comments suggesting little hurry to move. The FOMC minutes of the January meeting may provide insights on the sea-worthiness of QEII. The Bank of England February Inflation Report will show how the UK economy is faring and how the bank views the inflation risks. Given the amount of policy stimulus sloshing around the economic system, the risk of falling behind the curve remains real. As compared to the economic costs of a double-dip, this is likely to be adjudged the lesser of two evils.

RECENT LOCAL DATA

- **SNZ Retail Trade – 2010Q4.** Retail sales fell a seasonally adjusted 1.1 percent in the December month, with core retail values down 1.2 percent. Retail volumes contracted a seasonally adjusted 0.4 percent in the December 2010 quarter. Core retail volumes were unchanged on Q3 levels.
- **REINZ Housing Market Report –** January. Sales volumes fell a seasonally adjusted 6.9 percent (-11.3 percent y/y). Prices fell 0.5 percent in seasonally adjusted terms to be 2.6 percent below January 2010 levels. Seasonally adjusted days to sell were unchanged at 43.
- **SNZ Electronic Card Transactions — January**. Retail electronic card transactions rose 2.4 percent s.a. (+6.4 percent y/y), with core retail spending up 2.4 percent (5.9 percent y/y).
- **SNZ Food Price Index — January.** Food prices rose 1.8 percent to be 3.8 percent higher than 12 months earlier.

MONTHLY INFLATION GAUGE

SUMMARY

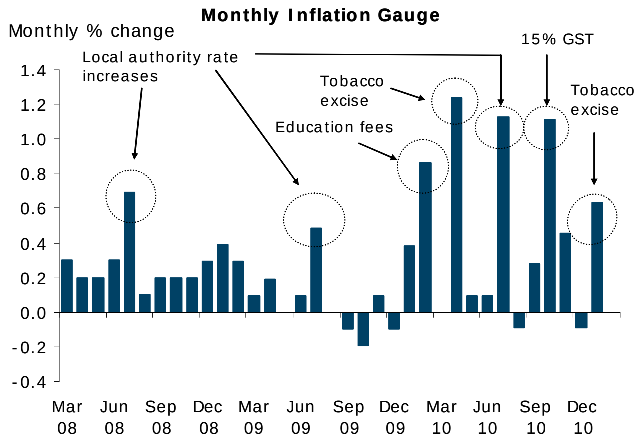
Prices in our monthly inflation gauge rose by 0.6 percent in January, following a 0.1 percent fall in December. Higher tobacco prices contributed more than half of the monthly increase in the gauge, with a scattering of other large increases. There is little evidence price rises are becoming more generalised, with pricing pressures remaining contained, though so-called one-off spikes are becoming a little too regular.

ANOTHER MODERATE MONTH

Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI, differences in methodology and coverage mean the gauge will not exactly mirror the official series. There have been some recent hits and misses: the gauge was bang on for 2010Q3 but understated the GST-induced pick-up in 2010Q4 quarterly non-tradable inflation.

The 0.6 monthly January rise in the gauge followed a 0.1 percent fall in December. Prices increased for four of the eight groups in the gauge. Increases in the tobacco excise underpinned a 10 percent increase in tobacco prices, which contributed more than half of the monthly increase in the gauge. Inflation in the housing group was unchanged, with a small increase in rents offset by lower construction costs. A lift in some insurance premiums, and increasing charges for medical and veterinary services, also featured. There were a number of other price increases (wine, accommodation, sea transport) and a few price falls (beer, cinema admission, parking charges), but most prices in the gauge were unchanged.

While the gauge suggests a generalised pick-up in prices is not apparent, OLS (ocular least squares) on the chart shows these one-offs are becoming a little too regular. Moreover, looking forward, March and April increases in electricity charges are looming. Higher food and commodity prices are a risk to price and wage setting, subject of course to the weak demand environment. But given the extent of discounting in some retail pockets you have to wonder how much fat is left, and what could happen if things picked up across the economy. At present these thoughts are musings. The soft demand environment is generally restraining price increases. But we suspect there is more cost-push in the system than the RBNZ's benign inflation picture portrays, and we say that with a position that has traditionally been on the dovish side of the inflation outlook!



Source: ANZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Feb 08	1000	0.0		
Mar 08	1003	0.3		1.1
Apr 08	1005	0.2		
May 08	1007	0.2		
Jun 08	1010	0.3	0.6	0.9
Jul 08	1017	0.7		
Aug 08	1018	0.1		
Sep 08	1020	0.2	1.1	1.3
Oct 08	1022	0.2		
Nov 08	1024	0.2		
Dec 08	1027	0.3	0.6	0.8
Jan 09	1031	0.4		
Feb 09	1034	0.3		
Mar 09	1035	0.1	0.9	0.7
Apr 09	1037	0.2		
May 09	1037	0.0		
Jun 09	1038	0.1	0.4	0.5
Jul 09	1043	0.5		
Aug 09	1043	0.0		
Sep 09	1042	-0.1	0.5	1.0
Oct 09	1040	-0.2		
Nov 09	1041	0.1		
Dec 09	1040	-0.1	-0.2	0.1
Jan 10	1044	0.4		
Feb 10	1053	0.9		
Mar 10	1053	0.0	0.9	0.5
Apr 10	1066	1.2		
May 10	1067	0.1		
Jun 10	1068	0.1	1.6	0.6
Jul 10	1080	1.1		
Aug 10	1079	-0.1		
Sep 10	1082	0.3	1.2	1.2
Oct 10	1094	1.1		
Nov 10	1099	0.5		
Dec 10	1098	-0.1	1.5	2.2
Jan 11	1108	0.6		

INTEREST RATE STRATEGY

SUMMARY

Ongoing weak domestic activity data continues to weigh on sentiment, and has seen the market push out the timing of the first rate hike until October. As intuitive as this feels, we also need to be mindful of global inflation dynamics, which are set to challenge the RBNZ. But for the time being, we expect markets to be more influenced by the "here and now" than by longer term considerations. The steep slope of the yield curve (which is largely a function of higher US long term interest rates) certainly affords the RBNZ more time to watch, worry and wait.

MARKET THEMES

- The RBNZ remain in watch, worry and wait mode – watching domestic data, waiting to see if anecdotes translate into a pickup in actual activity, and worrying about Asian inflation.
- Today's retail sales data has seen the market capitulate to an "on hold" view. Does this accurately reflect the risks? It probably does.

REVIEW AND OUTLOOK

Domestic activity data continues to "print" on the weak side. Housing and labour market data are of particular concern – because deleveraging will continue until we see stability (or more realistically, an improvement) in both areas. But does that vindicate the market's relaxed attitude towards the monetary policy outlook? In some ways it does. Having raised rates last year into what we now know was a flagging economy (although that wasn't clear at the time), the RBNZ pretty much has to play it how it sees it, so to speak. And as we have noted over the past few weeks, even though some of the anecdotes we have received over the past few weeks have been fairly positive, until this gets reflected in the hard data, we need to treat it as circumstantial.

We also need to be mindful of the headwinds associated with tighter fiscal policy. This is election year, but it's no lolly scramble. On the contrary, the PM has said that Budget 2011 will be about saving.

Rising global inflation pressures are an obvious risk. Inflation is already uncomfortably high in some key trading partners, and if central banks elsewhere get "behind the curve", that just leaves the RBNZ with more work to do. We will be watching the BOE closely for guidance – if they start getting worried about second-round inflation, then we should too. But this looks to be a few months away.

So, for now we think the market is probably right to take the downbeat view. There is always the risk that we get an upside surprise, and we need to be mindful of that. But to the extent that the yield curve is steepening up, increasing the cost of long term borrowing, and raising the hurdle to investment, the RBNZ can afford to sit back for a while. Investor attitudes will also play a role. **Positive carry is significant and to the extent that the market literally can't afford to be "short", we expect downward pressure to remain on interest rates.**

PREFERRED BORROWING STRATEGIES

We've talked a lot about value versus uncertainty this year, and although interest rates have fallen back to low levels in outright terms, the curve remains steep. Paying fixed still costs more – and it's not good enough just to look at where a given fixed rate is relative to its history – we need to look at the level of floating rates too. And that's where uncertainty comes in. It's not just that there are significant savings to be made by staying on floating for as long as possible; you also want to be sure that the recovery is in fact taking hold before leaping into hedges (recall that we are characterising things as circumstantial at the moment). Indeed, if the outlook was clear, the RBNZ would be raising rates. Bottom line: despite the value, time is on your side.

GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔	In watch, worry and wait mode. Steep curve helps.
NZ data	↔/↓	Housing, retail shockers.
Fed Funds / front end	↔/↑	The tone of US data continues to improve.
RBA	↔/↓	Stevens comments dovish last week. Out of play.
US 10 year	↔	Yields look to be in new, higher trading range.
NZ swap curve	↔/↑	Steepening becomes self reinforcing if hikes delayed.
Flow	↔	Neutral. Payers below market, receivers above.
Technicals	↔	2yr needs to break 3.75% looming as the next test.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Mar-11	0	0
Thu 28-Apr-11	0	0
Thu 9-Jun-11	+5	+5
Thu 28-Jul-11	+15	+10
Thu 15-Sep-11	+21	+17
Thu 27-Oct-11	+33	+27
Thu 8-Dec-11	+43	+38

TRADING THEMES WE FAVOUR AT PRESENT

We still like steepeners, and our 2yr-5yr trade continues to perform well. Despite the soft tone of here and now data, it makes sense to protect against out-of-left-field upside surprises. Consider buying NZD/AUD at 0.7550 as a hedge.

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MARKET THEMES

- NZD weak data continues.
- Partial solution in Egypt eases concerns for financial markets.
- RBA comfortable with monetary policy settings.
- Chinese authorities continue to move policy to more restrictive settings on inflation fears.

REVIEW AND OUTLOOK

More weak data in the form of very weak housing data continues to undermine the NZD. Today we get retail sales data for the December month and quarter. A negative result is at least partially priced in. The NZD market is a little torn between the very poor data releases and the improving terms of trade. Technically, we saw NZD bounce off key support at .7550 on Friday. Major support is at .7495, being trendline support from the March 2009 lows around 49 cents.

The RBA has been very vocal in the last couple of weeks but their messages have been mixed. While most comments have been reasonably upbeat, comments at the end of last week that current monetary policy settings are appropriate and that they are not contemplating a rate rise at this time sent the AUD down through parity against the USD.

The US data continues to return to more normal levels, sending US bond yields higher and lending support to the USD. While the Fed appears comfortable with continuing QEII through to completion, the operation of abnormal monetary policy in an economy that is showing signs of normal activity could create some market tensions. Indeed, the resignations of hawks on both sides of the Atlantic (Axel Weber in Europe and Kevin Warsh in the US) suggests some dissention about the current policies being pursued.[1]

The Egyptian situation has calmed with the resignation of Hosni Mubarak. Forex markets were little changed as a result. This period of calm may not last long, with storm clouds still gathering over Yemen and Algeria.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	**DIRECTION**	**COMMENT**
Fair value	↑	Below fair value.
Yield	↔/↓	Yields less supportive as NZ growth prospects soften.
Commodities	↑	Soft commodities continue to rise.
Partial indicators	↓	Anaemic NZ data continues.
Technicals	↓	Very strong support at .7580.
Sentiment	↓↔	Weak NZ data continues vs upbeat Australians.
Other	↑	Near historically low levels.
On balance	↑	**.7580 - .7700 with a positive bias.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	**DIRECTION**	**COMMENT**
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Higher US bond yields whereas NZ's turn lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔	Political instability drives USD higher.
Partial indicators	↔/↓	US data improves while NZ still anaemic.
Technicals	↔	Rangebound with negative bias.
AUD	↓	AUD sentiment turned bearish.
Sentiment	↓	Weak data still at the fore.
Other	↑	
On balance	↓	**USD strengthening bias to undermine NZD.**

[1] http://www.bloomberg.com/news/2011-02-12/bundesbank-s-weber-says-lack-of-acceptance-for-views-led-to-resignation.html

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
14-Feb	NZ	Retail Sales Ex Inflation(QoQ) - 4Q	-0.50%	- -	10:45
	NZ	Retail Sales (MoM) - DEC	-0.40%	1.50%	10:45
	NZ	Retail Sales Ex-Auto (MoM) - DEC	-0.30%	-0.20%	10:45
	JN	GDP Deflator YoY - 4Q P	-1.50%	-2.40%	12:50
	JN	Nominal GDP (QoQ) - 4Q P	-0.50%	0.60%	12:50
	JN	Gross Domestic Product (QoQ) - 4Q P	-0.50%	1.10%	12:50
	AU	Home Loans - DEC	1.00%	2.50%	13:30
	CH	Trade Balance (USD) - JAN	$11.30B	$13.10B	15:00
	CH	Exports YoY% - JAN	22.50%	17.90%	15:00
	CH	Imports YoY% - JAN	27.00%	25.60%	15:00
	EC	Euro-Zone Ind. Prod. wda (YoY) - DEC	8.00%	7.40%	23:00
	EC	Euro-Zone Ind. Prod. sa (MoM) - DEC	0.00%	1.20%	23:00
15-Feb	CH	China Property Prices - JAN	5.5	6.4	
	CH	Money Supply - M1 (YoY) - JAN	19.60%	21.20%	
	CH	Money Supply - M2 (YoY) - JAN	19.00%	19.70%	
	AU	Reserve Bank's Board February Minutes -			13:30
	CH	Producer Price Index (YoY) - JAN	6.20%	5.90%	15:00
	CH	Consumer Price Index (YoY) - JAN	5.40%	4.60%	15:00
	JN	Industrial Production (MoM) - DEC F	- -	3.10%	17:30
	JN	Industrial Production YOY% - DEC F	- -	4.60%	17:30
	JN	Capacity Utilization (MoM) - DEC F	- -	1.60%	17:30
	JN	Machine Tool Orders (YoY) - JAN F	- -	89.40%	19:00
	GE	GDP nsa (YoY) - 4Q P	4.10%	3.90%	20:00
	GE	GDP s.a. (QOQ) - 4Q P	0.50%	0.70%	20:00
	UK	CPI (MoM) - JAN	0.10%	1.00%	22:30
	UK	CPI (YoY) - JAN	4.00%	3.70%	22:30
	UK	Core CPI YOY - JAN	3.10%	2.90%	22:30
	EC	Euro-Zone GDP s.a. (QoQ) - 4Q A	0.40%	0.30%	23:00
	EC	Euro-Zone GDP s.a. (YoY) - 4Q A	2.10%	1.90%	23:00
	GE	Zew Survey (Current Situation) - FEB	83	82.8	23:00
	EC	ZEW Survey (Econ. Sentiment) - FEB	28.5	25.4	23:00
	GE	ZEW Survey (Econ. Sentiment) - FEB	20	15.4	23:00
	EC	Euro-Zone Trade Balance sa - DEC	-0.2B	-1.9B	23:00
	JN	BOJ Target Rate - Feb 15	0.10%	0.10%	/2011
16-Feb	US	Empire Manufacturing - FEB	15	11.92	02:30
	US	Import Price Index (MoM) - JAN	0.80%	1.10%	02:30
	US	Import Price Index (YoY) - JAN	4.40%	4.80%	02:30
	US	Advance Retail Sales - JAN	0.50%	0.60%	02:30
	US	Retail Sales Less Autos - JAN	0.50%	0.50%	02:30
	US	Retail Sales Ex Auto & Gas - JAN	0.40%	0.40%	02:30
	US	Total Net TIC Flows - DEC	$41.9B	$39.0B	03:00
	US	Net Long-term TIC Flows - DEC	$25.0B	$85.1B	03:00
	US	Business Inventories - DEC	0.70%	0.20%	04:00
	US	NAHB Housing Market Index - FEB	16	16	04:00
	US	ABC Consumer Confidence - Feb 13	- -	-46	11:00
	AU	Westpac Leading Index (MoM) - DEC	- -	0.00%	12:30
	UK	Nationwide Consumer Confidence - JAN	50	53	13:01
	AU	New Motor Vehicle Sales MoM - JAN	- -	0.80%	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
16-Feb	UK	Claimant Count Rate - JAN	4.50%	4.50%	22:30
	UK	Jobless Claims Change - JAN	-3.0K	-4.1K	22:30
	UK	Average Weekly Earnings 3M/YoY - DEC	2.00%	2.10%	22:30
	UK	Weekly Earnings exBonus 3M/YoY - DEC	2.30%	2.30%	22:30
	UK	ILO Unemployment Rate (3mths) - DEC	7.90%	7.90%	22:30
	UK	Bank of England Inflation Report -			23:30
17-Feb	US	MBA Mortgage Foreclosures - 4Q	- -	- -	
	JN	Nationwide Dept. Sales (YoY) - JAN	- -	- -	
	US	MBA Mortgage Applications - Feb 11	- -	-5.50%	01:00
	US	Housing Starts - JAN	538K	529K	02:30
	US	Building Permits - JAN	565K	635K	02:30
	US	Producer Price Index (MoM) - JAN	0.80%	1.10%	02:30
	US	PPI Ex Food & Energy (MoM) - JAN	0.20%	0.20%	02:30
	US	Industrial Production - JAN	0.50%	0.80%	03:15
	US	Capacity Utilization - JAN	76.40%	76.00%	03:15
	US	Minutes of FOMC Meeting -			08:00
	NZ	Business NZ PMI - JAN	- -	53.1	10:30
	NZ	Producer Prices- Inputs (QoQ) - 4Q	- -	- -	10:45
	NZ	Producer Prices- Outputs (QoQ) - 4Q	- -	- -	10:45
	JN	Japan Buying Foreign Bonds - Feb 11	- -	¥388.0B	12:50
	CH	Actual FDI (YoY) - JAN	17.20%	15.60%	15:00
	NZ	ANZ Consumer Confidence Index - FEB	- -	117.1	15:00
	JN	Coincident Index CI - DEC F	- -	103.1	18:00
	JN	Leading Index CI - DEC F	- -	101.4	18:00
	EC	Euro-Zone Current Account nsa - DEC	- -	-6.0B	22:00
	EC	ECB Euro-Zone Current Account SA - DEC	- -	-11.2B	22:00
	EC	Construction Output SA MoM - DEC	- -	-0.90%	23:00
18-Feb	UK	CBI Trends Total Orders - FEB	-9	-16	00:00
	US	Consumer Price Index (MoM) - JAN	0.30%	0.50%	02:30
	US	CPI Ex Food & Energy (MoM) - JAN	0.10%	0.10%	02:30
	US	Consumer Price Index (YoY) - JAN	1.60%	1.50%	02:30
	US	Consumer Price Index NSA - JAN	220.1	219.179	02:30
	US	Initial Jobless Claims - Feb 12	400K	383K	02:30
	US	Continuing Claims - Feb 5	3895K	3888K	02:30
	EC	Euro-Zone Consumer Confidence - FEB A	-11	-11.2	04:00
	US	Leading Indicators - JAN	0.30%	1.00%	04:00
	US	Philadelphia Fed. - FEB	21	19.3	04:00
	AU	RBA Foreign Exchange Transactn - JAN	- -	855M	13:30
	GE	Producer Prices (MoM) - JAN	0.60%	0.70%	20:00
	UK	Retail Sales Ex Auto Fuel(MoM) - JAN	0.20%	-0.30%	22:30
	UK	Retail Sales Ex Auto Fuel(YoY) - JAN	4.30%	1.00%	22:30
	UK	Retail Sales w/Auto Fuel (MoM) - JAN	0.50%	-0.80%	22:30
	UK	Retail Sales w/Auto Fuel (YoY) - JAN	4.00%	0.00%	22:30

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States CH: China.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All $ values in local currency.

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: With the March MPS approaching, we expect more of the data pertaining to 2011 to convey a more positive tone for NZ.Inc. But the RBNZ and market will remain wary of the bellwether for the economy, namely Q4 GDP with strong possibility of a negative number.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Thur 17 Feb (10:30am)	BNZ Business NZ PMI – Manufacturing	Improving	We expect NZ gauges to follow the improvement seen overseas.
Thur 17 Feb (3:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Mon 21 Feb (3:00pm)	RBNZ Credit Card statistics – Jan	Up	We expect an increase of about 2 percent, given the strength of January Electronic Card Transactions.
Tue 22 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Contained for now	The 2-year-ahead inflation measure is expected to ease slightly from the 2.6 percent in the Q4 survey.
Fri 25 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Still deleveraging	The focus on balance sheet repair is expected to continue. Watch business lending for further signs of improvement.
Mon 28 Feb (10:45am)	Overseas Merchandise Trade – Jan	Up	We expect a monthly trade surplus of around $200m, with an annual trade surplus of $1.0bn.
Mon 28 Feb (10:45am)	Building Consents - Jan	Bounce	It's hard not to expect a bounce in the January figures after capitulation in December. The level will remain low, however.
Mon 28 Feb (3:00pm)	NBNZ Business Outlook – Feb	- -	- -
Tue 1 Mar (3:00pm)	ANZ Commodity Price Index- Feb	- -	- -
Wed 2 Mar (6:00am)	*globalDairyTrade* online auction	Rising	We expect a strengthening in whole milk powder prices towards US $4,100 per tonne.
Thur 3 Mar (10:45am)	External Migration -	Steady	A monthly net PLT inflow or around 700 persons is expected.
Mon 7 Mar (10:45am)	Wholesale Trade – 2010Q4		Weak retail and export volumes suggest a flat quarter at best.
Tue 8 Mar (10:45am)	Value of Building Work Put in Place – 2010q4	Down	We expect a 3 percent fall in residential volumes, with non-residential volumes falling by a similar magnitude. This will accentuate views towards a negative Q4 GDP read.
Tue 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Up	We expect Q4 manufacturing volumes to increase by around 1 percent. Risks look higher and required if a positive read on Q4 GDP is to be achieved.
Wed 9 Mar (10:45)	Electronic Card Transactions - Feb	Solid	We expect a small fall in retail spending levels from the strong January result.
Thur 10 Mar (9:00am)	RBNZ March MPS	On hold	The RBNZ to maintain their commitment to keep the OCR low until the recovery becomes more robust.
Thur 10 Mar (10:30am)	BNZ Business NZ PMI – Manufacturing	Improving	We expect further signs of improvement.
Thur 10 Mar (10:45am)	Overseas Trade Indexes – 2010Q4	NZ positive but Q4 GDP negative	A 3 percent increase in the terms of trade is expected. Export volumes are likely to decline, with the surge in transport equipment underpinning higher import volumes.
On Balance		**An improving tone**	**Q4 data to be weak. We continue to look for forward-looking gauges to convey an improving tone for 2011.**

KEY FORECASTS AND RATES

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
GDP (% qoq)	0.6	0.1	-0.2	**0.5**	**0.8**	**1.0**	**1.7**	**1.5**	**0.1**	**0.4**
GDP (% yoy)	1.8	1.8	1.5	**1.0**	**1.3**	**2.2**	**4.1**	**5.1**	**4.4**	**3.7**
CPI (% qoq)	0.4	0.2	1.1	2.3	**0.8**	**1.0**	**0.8**	**0.5**	**0.5**	**0.7**
CPI (% yoy)	2.0	1.7	1.5	4.0	**4.5**	**5.3**	**5.0**	**3.1**	**2.8**	**2.5**
Employment (% qoq)	1.0	-0.3	1.1	-0.5	**1.1**	**0.3**	**0.6**	**0.7**	**0.5**	**0.4**
Employment (% yoy)	-0.1	0.0	1.9	1.3	**1.4**	**2.0**	**1.5**	**2.7**	**2.1**	**2.2**
Unemployment Rate (% sa)	6.0	6.9	6.4	6.8	**6.3**	**6.4**	**6.2**	**5.8**	**5.7**	**5.6**
Current Account (% GDP)	-2.4	-3.0	-3.1	**-2.3**	**-2.3**	**-2.0**	**-2.6**	**-2.3**	**-2.2**	**-2.1**
Terms of Trade (% qoq)	6.1	2.0	3.0	**2.9**	**2.5**	**1.1**	**-0.1**	**-0.8**	**-0.9**	**-0.8**
Terms of Trade (% yoy)	0.1	12.7	17.9	**14.7**	**10.8**	**9.8**	**6.5**	**2.7**	**-0.8**	**-2.6**

	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11
Retail sales (% mom)	-0.7	3.2	-1.2	-1.1	0.1	2.0	-2.4	1.5	..	..
Retail sales (% yoy)	3.6	5.6	4.7	2.8	1.8	4.6	0.6	2.5	..	..
Credit Card Billings (% mom)	-1.5	1.8	1.1	-1.3	0.7	1.0	0.5	-0.1	-1.4	..
Credit Card Billings (% yoy)	0.8	3.4	4.5	2.6	2.1	4.3	4.6	3.7	2.0	..
Car registrations (% mom)	2.8	-4.0	5.6	-6.4	0.0	2.7	-3.7	13.4	-8.3	0.9
Car registrations (% yoy)	40.5	30.5	35.8	16.0	19.0	19.2	9.4	23.5	6.4	6.8
Building consents (% mom)	8.3	-9.7	1.5	3.2	-17.8	0.8	-2.2	7.9	-18.6	..
Building consents (% yoy)	32.3	11.3	26.9	25.4	-3.1	-9.3	-17.4	-9.2	-26.4	..
REINZ House Price (% yoy)	4.7	3.7	3.7	2.6	0.9	0.0	-1.4	1.4	-2.2	0.0
Household Lending Growth (% mom)	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.0	0.0	..
Household Lending Growth (% yoy)	2.8	2.6	2.6	2.5	2.3	2.3	2.0	1.8	1.6	..
ANZ Roy Morgan Consumer Confidence	121.9	126.0	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1
NBNZ Business Confidence	49.5	48.2	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..
NBNZ Own Activity Outlook	43.0	45.3	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..
Trade Balance ($m)	660	770	221	-186	-430	-455	-219	-186	-250	..
Trade Balance ($m ann)	178	41	593	585	871	978	1260	1355	1131	..
ANZ World Commodity Price Index (% mom)	5.1	1.2	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8
ANZ World Commodity Price Index (% yoy)	53.2	51.8	50.1	47.3	38.6	32.9	31.4	23.7	23.0	27.2
Net migration (sa)	790	370	170	930	870	1010	520	620	750	..
Net migration (annual)	19954	17967	16504	15221	14507	13914	12610	11519	10451	..

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	Nov-10	Dec-10	Today	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
NZD/USD	0.743	0.780	0.761	0.73	0.73	0.75	0.74	0.73	0.72	0.71
NZD/AUD	0.775	0.763	0.759	0.73	0.73	0.74	0.74	0.75	0.74	0.75
NZD/EUR	0.572	0.583	0.561	0.56	0.57	0.59	0.57	0.55	0.54	0.53
NZD/JPY	62.14	63.22	63.36	62.1	63.5	66.0	66.6	67.2	67.7	67.5
NZD/GBP	0.477	0.500	0.475	0.47	0.48	0.48	0.47	0.46	0.45	0.44
NZ$ TWI	68.1	69.2	68.0	66.4	67.0	68.6	67.7	67.1	66.1	65.4
INTEREST RATES	Nov-10	Dec-10	Today	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	3.75	3.75	4.00	4.25	4.50
NZ 90 day bill	3.20	3.18	3.21	3.20	3.70	4.00	4.00	4.40	4.50	4.90
NZ 10-yr bond	5.66	5.87	5.63	5.50	5.80	6.00	6.20	6.20	6.10	6.20
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50
US 3-mth	0.30	0.30	0.31	0.35	0.35	0.35	0.35	0.35	0.85	1.60
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75
AU 3-mth	5.04	5.04	4.90	5.10	5.20	5.50	5.70	6.00	6.00	6.00

	11 Jan	7 Feb	8 Feb	9 Feb	10 Feb	11 Feb
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.18	3.19	3.19	3.19	3.19	3.19
NZGB 11/11	3.85	3.89	3.88	3.92	3.92	3.90
NZGB 04/13	4.62	4.51	4.50	4.54	4.54	4.54
NZGB 12/17	5.54	5.35	5.34	5.38	5.40	5.43
NZGB 05/21	5.71	5.54	5.53	5.58	5.60	5.63
2 year swap	3.75	3.82	3.82	3.84	3.85	3.82
5 year swap	4.65	4.62	4.62	4.67	4.70	4.70
RBNZ TWI	69.1	68.4	68.5	68.5	68.5	67.9
NZD/USD	0.7592	0.7705	0.7717	0.7719	0.7714	0.7606
NZD/AUD	0.7706	0.7605	0.7613	0.7613	0.7647	0.7602
NZD/JPY	63.09	63.37	63.53	63.57	63.67	63.41
NZD/GBP	0.4881	0.4778	0.4782	0.4805	0.4792	0.4734
NZD/EUR	0.5868	0.5660	0.5671	0.5656	0.5627	0.5597
AUD/USD	0.9852	1.0132	1.0136	1.0139	1.0088	1.0005
EUR/USD	1.2938	1.3614	1.3608	1.3648	1.3709	1.3589
USD/JPY	83.10	82.24	82.32	82.36	82.54	83.37
GBP/USD	1.5555	1.6126	1.6139	1.6063	1.6096	1.6066
Oil (US$/bbl)	89.24	87.87	86.30	85.85	85.59	84.39
Gold (US$/oz)	1376.20	1347.10	1351.30	1363.92	1362.20	1356.47
Electricity (Haywards)	5.07	3.97	5.40	2.74	3.40	3.05
Baltic Dry Freight Index	1480	1045	1064	1092	1136	1178
Milk futures (US$/contract)	129	155	155	155	157	157

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.
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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;

IMPORTANT NOTICE

- 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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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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