Market Focus

New Zealand

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FORGET ABOUT 25

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Page 2: Economic overview

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Page 5: Economic comment – financial conditions update

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Page 6: Economic comment – NBNZ *Business Outlook* update

> The National Bank Business Outlook survey continues to show encouraging signs of improvement, with readings on both headline business confidence and own activity moving higher in July. Other gauges are also improving, although they generally remain in negative territory. Our NBBO composite indicator (which has a strong correlation with GDP growth) has improved and is now flagging a potential return to positive annual growth. However, the mix to that growth is not favourable and does not point to a sustainable and quality recovery.

Page 8: Interest rate strategy

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Page 9: Currency strategy

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ECONOMIC OVERVIEW

We put a 1 in 5 chance that the OCR falls from this point, lower than the odds a lot are talking. If the OCR does fall, a 50 basis point cut seems more likely than 25. Labour market data this week will be weak and highlight the path to recovery will be a rocky one.

What's ahead?

> **June quarter Labour Cost Index** (Tuesday 1045 NZST). Private sector ordinary time wages are expected to rise 0.5 percent, taking annual growth to 2.8 percent – the softest since June 2005.

> **June quarter Quarterly Employment Survey** (Tuesday 1045 NZST). This alternative measure of private sector wages is expected to rise by 0.8 percent. Employment gauges should show underlying weakness.

> **July ANZ Commodity Price Index** (Tuesday 1500 NZST).

> **June quarter Household Labour Force Survey** (Thursday 1045 NZST). Abstracting from volatility, this survey should be weak. We expect the unemployment rate to rise to 5.5 percent, although the risks are pointed to a higher number.

What's the view?

There are a number of key issues from last week and we'll address them right up front. The commentary from the RBNZ was very clear: if financial conditions (particularly the currency) do not ease further, then the Bank may need to *"reassess policy settings."* The language was phrased around financial conditions but all know that the comment was directed at the currency.

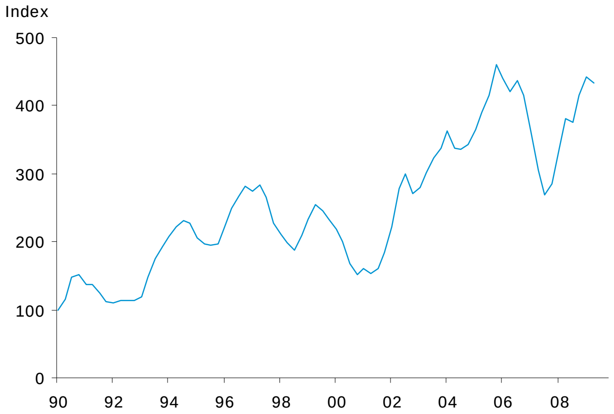
We put the odds on an interest rate cut at 20 percent. This is far lower than a lot are talking. We have considerable concerns towards certain aspects of the economy, but equally, we also have to acknowledge improvements in others, and "sentiment" or "the worst has passed attitude" we see percolating. These are powerful dynamics.

If the RBNZ feels the need to move, forget about 25 basis points, it has to be 50. Central banks do not restart cycles unless they are prepared to deliver multiple moves, which mean at least two lots of 25bp cuts. If the threshold has indeed been breached for cuts to be delivered, then we see no point mucking around, hence the expectation it will be 50bps.

Any move such as this faces two main challenges or criticisms. Actually, there are a host, but we think you can really condense them into two. Firstly, the currency's rise is telling us something about global demand. The RBNZ has one target, (inflation), and one instrument (the OCR). Leave the currency to sort itself out. Second, a lower OCR risks exacerbating imbalances (particularly given that yield is not driving the NZD at present) if it gives the housing market a further leg of life. We are already seeing media reports of loan-to-value ratios rising again from some lenders. The June *Monetary Policy Statement* included an explicit scenario on an unsustainable rebound in domestic demand, or domestic led recovery, ultimately leading to a deeper economic and currency adjustment down the track. This approach may be seen as the default option in some quarters if we head down this route, but standing aside and letting it happen is a scorched-earth approach to policy.

Both criticisms are true, up to a point. The RBNZ drew the link between NZ's soft commodity prices and the currency, with the former not rising sufficiently to justify currency strength. While true, the real issue in our minds is asset values, particularly rural farm values. Farm values implicitly capitalised an exuberant view of NZD commodity prices going forward. You can eyeball this simply by looking at the ratio of farm values to commodity prices. Hence, while the explicit concern is towards the currency, the implicit worry-factor is the pricking of an asset bubble. When it comes to setting policy, the rules are different when the policymaker is facing this sort of risk. The criticism over a reflating housing market is also true. This is why, in our eyes, moving beyond jaw-boning the currency down and actual policy action will need to be matched by something on the prudential policy front.

Ratio of dairy land values to commodity prices



Sources: ANZ National, REINZ, QV

We've been scratching our heads over the path forward. Certainly, the economy is recovering, so it seems a little self-defeating to be urging caution or worrying about the outlook. But in our minds, the mix or composition to growth is arguably more important than growth itself, and this is where we have concerns given the overwhelming need for the economy to rebalance.

When and how does the penny drop for NZ households? In fact, the same could be said for those fixated with the NZD. There seems little doubt we'll see changes in the macro-framework in relation to monetary policy, both domestically and offshore. Liquidity and prudential policy measures will play a role in the rebalancing process. But these are slow-burn type initiatives that the average property investor will take time to get their heads around. New Zealanders' fixation with housing is not going to change overnight. Conversely, the other extreme, implementing a capital gains tax on housing is politically unpalatable.

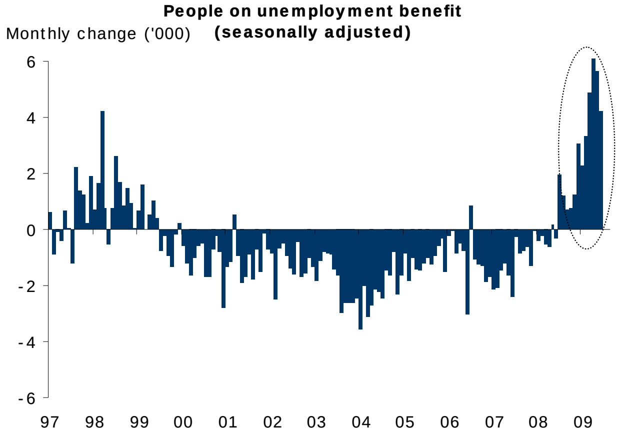
The middle ground – if there is one – may be changing the Policy Targets Agreement to redefine price stability to include asset prices (i.e. target and average of inflation measures including the CPI, PPI, GNE deflator and house/land prices). Such suggestions will, of course, draw cynical retorts in some quarters, and to those we have two responses: the world has changed, which we need to accept; and consider the other and less palatable alternatives.

It was not lost on us that the RBNZ had a keynote speaker last week (celebrating 75 years for the RBNZ) who canvassed a number of options. Sir Howard Davies (Director of the London School of Economics, and formerly Chairman of the UK Financial Services Authority and Deputy Governor of the Bank of England) noted that the economic crisis was the fourth most expensive financial event in the UK behind the Napoleonic War, and WW1 and WW2. He reviewed the cause of the financial crisis but then offered some areas for systemic improvement. He touched on incorporating macro and micro prudential assessment to constrain credit growth and allow a degree of counter-cyclical influence. The importance of collaboration and a degree of con-ordination internationally was noted. Another was integrating in some form credit and asset prices with inflation targeting. These are powerful nuances and reinforce, in our minds, that the world and monetary policy is evolving.

The NZ Treasury needs to take more of a lead role. It is not up to the RBNZ to be leading the way on this sort of discussion. It should be coming from the Government's principle economic advisor, namely Treasury and we presume they are busy in this area.

Of course, our baseline economic view has the so-called housing recovery being snuffed out, as the unemployment rate rises and rural incomes fall, so our musings are exactly that, musings. The market will prevail. But that sort of nostalgic view does let us lose sight of the bigger picture: change is coming, it includes more oversight and we'd be amiss not to recognise it.

Now that we have got that off our chest, we can move on to the week ahead. The major domestic focus this week is June quarter labour market data and there is little doubt it will show a further softening. Anecdotes, business sentiment surveys and well documented increases in unemployment benefit numbers are all clearly pointing to the same thing. Unemployment is rising and wage growth is softening. Strategies adopted by some firms to avoid job losses, such as a move to nine day fortnights may mean the numbers won't be as weak as they could have been. However, this dynamic will clearly by shown by a decrease in hours worked or increase in underemployment (a gauge of labour under-utilisation).



Sources: ANZ National, MSD

We expect the unemployment rate to rise to 5.5 percent, from 5.0 percent in Q1, although the risks do appear skewed to something even higher. We expect employment growth to contract by 0.5 percent – the second quarterly contraction in a row – and hours worked to show a more exaggerated decline. However, the Household Labour Force Survey is notoriously volatile and can make interpretation extremely difficult. We suspect that a better gauge of labour market trends is the 52,000 increase in people receiving benefits in the year to June. While most of this is the Unemployment Benefit, there have also been sizable jumps in those on the Domestic Purposes Benefit and the Sickness Benefit.

In terms of the other labour market data, wage growth is expected to soften, with our preferred gauge – the Labour Cost Index – to record a 0.5 percent quarterly increase taking annual growth to 2.8 percent. This will be the softest annual wage growth since June 2005. Quarterly Employment Survey employment gauges (paid hours and filled jobs) will also show underlying weakness, although filled jobs is not seasonally adjusted and typically rises in the June quarter. Looking at the big picture, labour market indicators, the feedback effects from a rising unemployment rate and a de-leveraging consumer remain a key feature of our protracted and bathtub (with waves) shaped cycle.

We'll be paying close attention to Fonterra's latest online milk powder auction. Last week's (somewhat surprising) decision to affirm their $4.55/kg ms 2009/10 payout forecast, looks dependent on improving commodity price trends. We certainly hope this is developing, although the announcement of a further increase in dairy price support to US farmers from the USDA late last week is a risk in this regard.

Across the Tasman, the RBA's rate decision and July labour market data are the major events. Given recent rhetoric, we expect a neutral stance to be adopted from the previous soft easing stance. Further a field, policy decisions from the BoE and ECB are also key events, although they are expected to keep rates unchanged.

Recent local data…

- **Overseas Merchandise Trade (June):** A trade deficit of $417 million was recorded. However, if one-off aircraft imports were removed then the trade balance was in surplus to the tune of $154 million.
- **Building Consents Issued (June):** Total residential consent issuance fell 9.5 percent, led by apartments. Non-residential consent issuance was also weak, at $307 million.
- **NBNZ *Business Outlook* (July):** Headline confidence and own activity expectations rose in the month. Employment, investment and profit expectations also rose, although they remain in negative territory.
- **RBNZ *OCR Review*:** The OCR was left unchanged at 2.50 percent but a very dovish assessment delivered.
- **Credit Growth (June):** Household lending growth rose by a subdued 0.1 percent in the month. Credit growth to the business and agricultural sectors is easing.

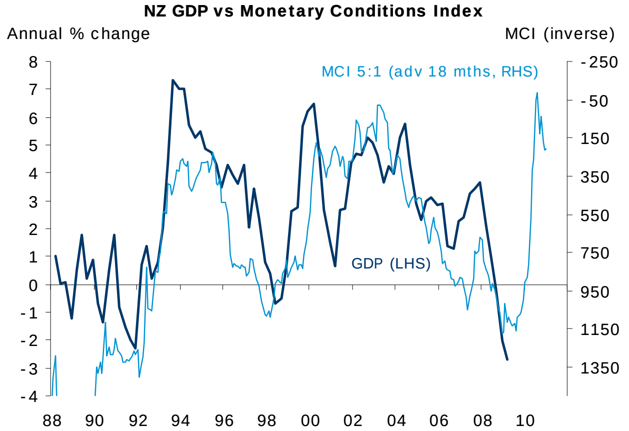
FINANCIAL CONDITIONS UPDATE

While the RBNZ talks about financial conditions and the market will be naturally watchful, it's a hugely subjective issue. Our financial conditions measure continues to point towards a gradual economic expansion into 2010. While we respect the nuances, we need to realise the limitations such measures have, particularly in an environment of change. Given such limitations, we respect the directional trend in our gauge (up, improvement) but reserve judgement on the magnitude.

In last week's *OCR Review*, the RBNZ singled out tighter financial conditions as an important focal point and one that could derail a potential recovery. Dr Bollard stated that *"The forecast recovery is based on a further easing in financial conditions. If this easing does not occur, the forecast recovery could be put at risk."*

Looking at the traditional relationship between the Monetary Conditions Index (MCI)[1] and GDP, the economy should be on track for in excess of 4 percent growth. Hence, it's hard to get excited about the need for interest rates to fall. But of course the RBNZ referred to financial conditions, and given their experience with the MCI previously, we are hardly surprised.

NZ GDP vs Monetary Conditions Index



Sources: ANZ National, Statistics NZ

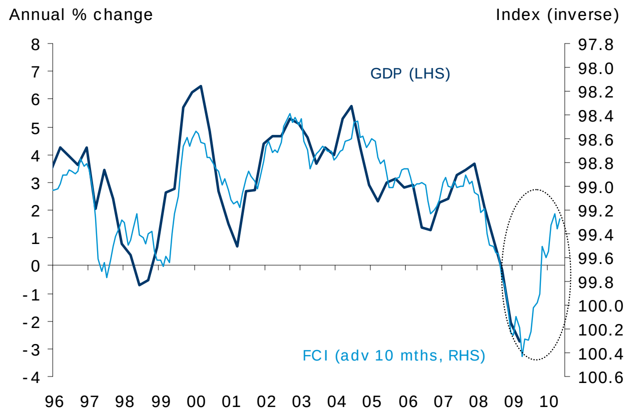
Conventional monetary measures are at best partial, and at worst misleading. To get a true indication of financial conditions you need to include a wider array of variables including asset prices and credit markets, which we do in our financial conditions index.

The encouraging thing about our financial conditions index is that is continues to point to recovery in 2010, just of a more subdued magnitude. While the higher currency has tightened financial conditions, improvements in equity market sentiment and credit conditions have provided an offset. While some would point to the movement higher in wholesale interest rates as also tightening conditions, we've made the point previously that wholesale interest rates are not driving retail rates, and we use the latter in our index. For consistency, we're not about to U-turn.

However, the parameter estimates within financial conditions indices are not constant over time. Specifically, they do not capture the credit channel of monetary very well. In fact financial conditions measures are really based on the premise that no balance sheet constraint (i.e. the supply of money or credit) existed, and as such was really based on the preceding credit and asset boom. In practice, such an assumption is untenable going forward, but of course we don't know yet the degree to which change has occurred.

Financial conditions measures also fail to include prudential policy at all, which is clearly the evolving topic.

NZ GDP vs Financial Conditions Index



Sources: ANZ National, Statistics NZ

The upshot

While the RBNZ talks about financial conditions and the market will be naturally watchful, it's a hugely subjective issue. It depends on what you do or do not include. Parameter estimates are unstable and like most indicators, they face structural breaks when change is apparent.

Overall, we will respect the direction trend in our gauge, which remains one of improvement. The higher currency (net of commodity movements) has not been sufficient to derail an expected recovery, when read in conjunction with other financial conditions components.

However, given the considerable uncertainty surrounding the compilation of such measures, we continue to reserve judgement over the magnitude of the recovery. Put simply, we are not naïve enough to believe the historical "fit" applies going forward.

[1] The MCI is a weighting of the 90-day interest rate and the NZ TWI.

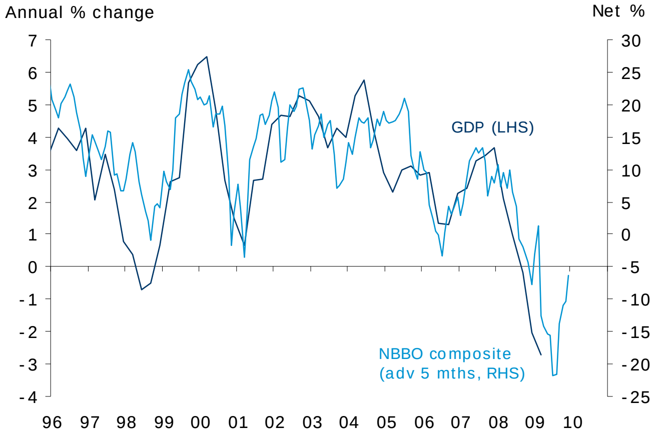
NATIONAL BANK *BUSINESS OUTLOOK* UPDATE

The National Bank *Business Outlook* survey continues to show encouraging signs of improvement, with readings on both headline business confidence and own activity moving higher in July. Other gauges are also improving, although they generally remain in negative territory. Our NBBO composite indicator (which has a strong correlation with GDP growth) has improved and is now flagging a potential return to positive annual growth.[1] However, the mix to that growth is not favourable and does not point to a sustainable and quality recovery.

Firms continue to feel more upbeat. Both the headline confidence and own activity indicators remained in positive territory – the third consecutive month this has occurred. There was a general improving trend across other gauges as well, with employment, investment and profit expectations also rising, although all still remain in negative territory, suggesting that an undercurrent of caution remains. Employment intentions remain low and indicative of further job cuts, just at a slower rate. Nevertheless, our NBBO composite growth indicator has improved further and is now pointing to the potential return of positive annual growth.

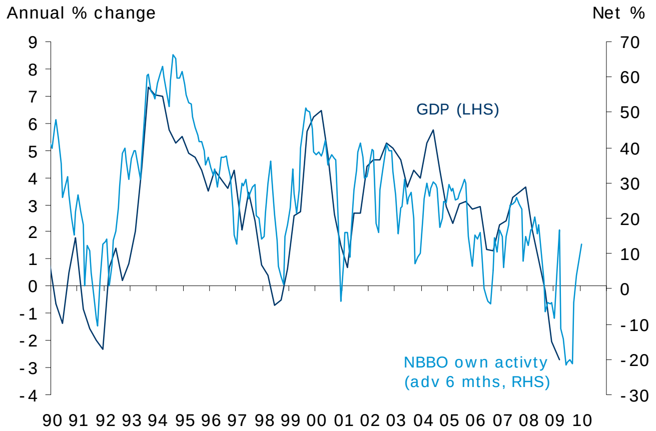
The sector story remains dichotomised. All sectors excluding services remain in recession. But all, excluding agriculture are showing an easing in the pace of contraction. The worrying trend is that the big movers and improvement are domestic (retailing, construction) as opposed to those in the earnings sector.

GDP vs NBBO composite



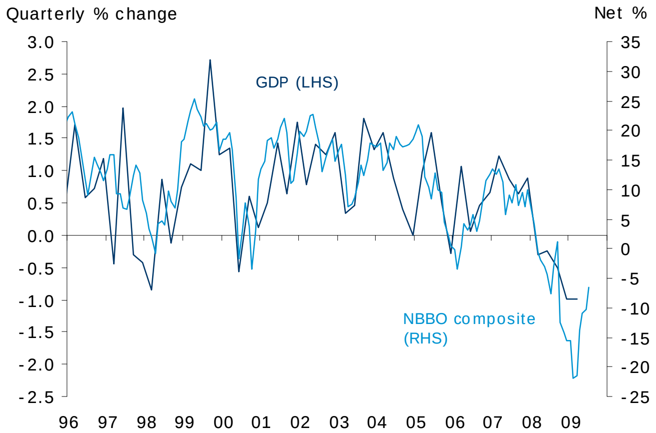
Sources: ANZ National, Statistics NZ

GDP vs NBBO own activity



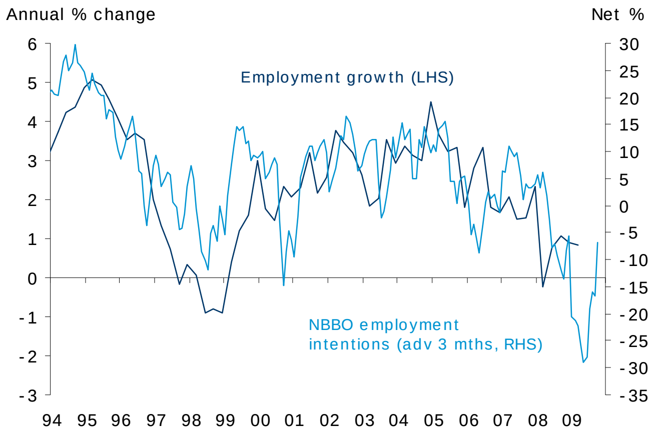
Sources: ANZ National, Statistics NZ

GDP vs NBBO composite



Sources: ANZ National, Statistics NZ

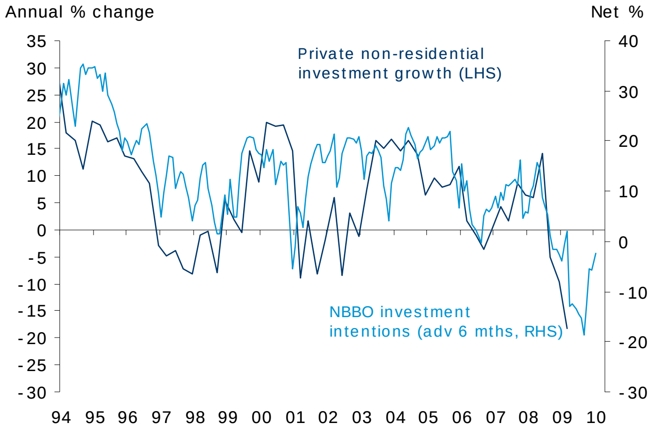
Employment growth and employment intentions



Sources: ANZ National, Statistics NZ

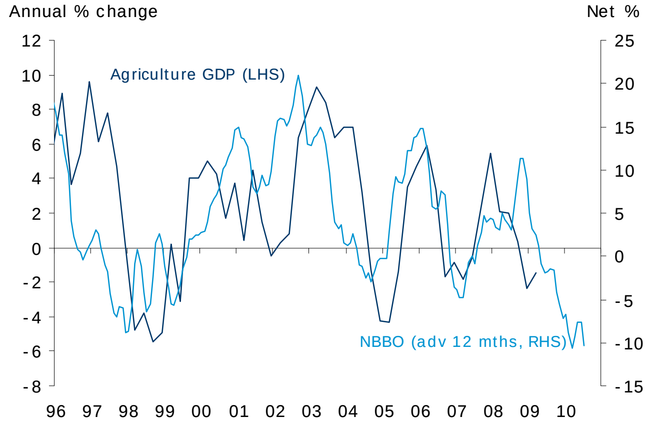
[1] Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.

Investment growth and investment intentions



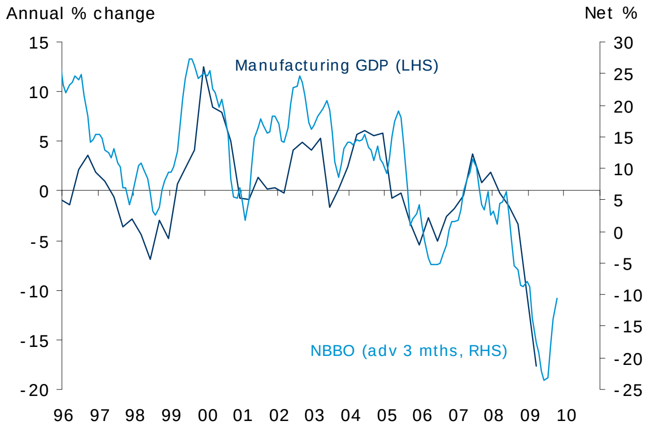
Sources: ANZ National, Statistics NZ

Agriculture GDP vs NBBO composite (12% of GDP)



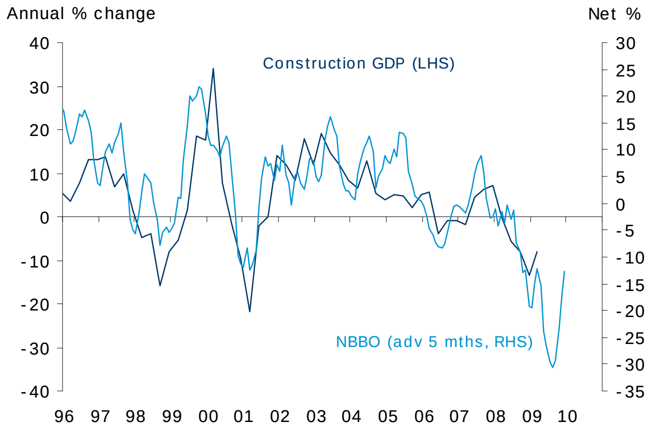
Sources: ANZ National, Statistics NZ

Manufacturing GDP vs NBBO composite (9% of GDP)



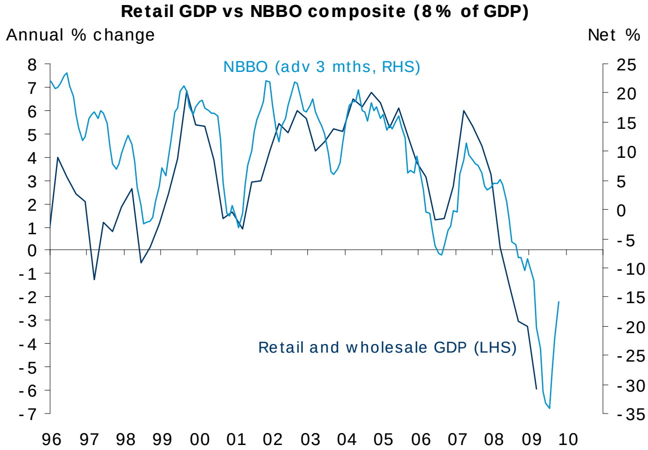
Sources: ANZ National, Statistics NZ

Construction GDP vs NBBO composite (5% of GDP)



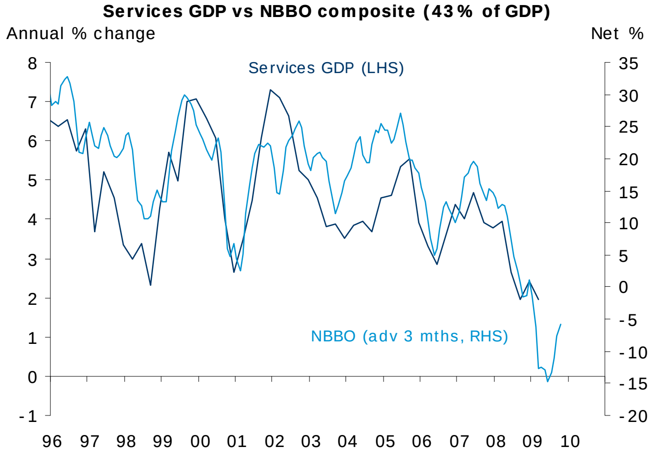
Sources: ANZ National, Statistics NZ

Retail GDP vs NBBO composite (8% of GDP)



Sources: ANZ National, Statistics NZ

Services GDP vs NBBO composite (43% of GDP)



Sources: ANZ National, Statistics NZ

INTEREST RATE STRATEGY

The NZ curve is expected to remain caught in a tug-of-war between global sentiment and the RBNZ's "on-hold for longer" view. Patience remains the story of the day.

Market themes...

> RBNZ more dovish and Bollard choosing not to acknowledge more upbeat recent data.

> Building data slightly weaker than expected, but trend improving. RBNZ household credit growth still subdued.

> Fonterra reaffirmed this seasons and next season's payout at $5.20 and $4.55 per kg milk solid respectively.

> RBA more upbeat via a Stevens speech with a move to a more neutral bias now expected from Tuesdays RBA Monetary Policy Statement.

Review and outlook

Communication from the RBNZ continues to reinforce prospects for rates remaining lower for longer. *"The OCR could still move modestly lower over the coming quarters. We continue to expect to keep the OCR at or below the current level through until the latter part of 2010."*

Patience remains the name of the game. With carry of around 40 points per quarter off a 2 year around 4 percent, receiving interest is apparent. This is naturally placing pressure on the curve to steepen, but the difficulty here remains extremes with the 2s/5s around 140, or only 8 points off its highs. Gains from this point look marginal in the absence of firming expectations the RBNZ could follow through and cut rates. Flatteners continue to be favoured but implementing remains a question of patience given the negative carry, and flow-through from better sentiment out of Australia.

The market is expected to remain stuck in a range, and for the 2 year this means 3.75 to 4 percent. Domestic "risk" factors and the RBNZ nuances point lower but it's clear that improving data sentiment and the ripple effects from the Australian curve are equally prevalent. **Kiwi bonds remained well bid as offshore demand continues.** The DMO issued another 400mio of bonds on Friday (tender delayed a day due to the RBNZ) and the tender was very well subscribed. Demand is expected to tail off a little from here, as cash received from the July 09's maturing appears to have been quickly reinvested across the curve.

Borrowing strategies we favour at present

Floating rates remain the cheapest part of the curve, and rate hikes still look to be at least 12 months away. As such, our favoured strategy is still to go floating, or simply roll a series of short fixes rather than to fix for a longer period. Consideration can also be given to the use of options as a way to hedge further out.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	On hold. RBNZ unlikely to act on their easing bias. But hikes still a long way off.
NZ data	↔/↑	Further signs of stabilisation expected, but weakness in HLFS expected on Thursday.
Fed Funds / front end	↔	FOMC statement makes clear that any exit strategy still some time away.
RBA	↔/↑	Move to more neutral status expected by RBA as concerns mount about a speedy recovery.
US 10 year	↔	Remains choppy. Treasury auctions remain well supported.
NZ swap curve	↔	RBNZ dovish statement had lead to small steepening as 2yr outperforms but brings into a question such a step curve as well. Flattening pressure to remain.
Flow	↔/↓	Attractive carry in 2y and 3y should generate receiving interest post RBNZ OCR.
Technicals	↔	Short term rejection of break levels higher but still in the vicinity to test.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Sep-09	-4	-3
Thu 29-Oct-09	-1	0
Thu 10-Dec-09	+1	+2
Thu 28-Jan-10	+14	+10
Thu 11-Mar-10	+18	+15
Thu 29 Apr-10	+33	+20
Thu 10 Jun-10	+30	+25

Trading themes we favour at present

Last week's RBNZ OCR saw a mild test of recent curve flattening as the curve steepened through 2/5's. But after much flow, flattening won over. We still favour the flattener and being long outrights in the March and June bank bill futures. Expect 2-year swap yield to continue range trading with 2y testing 4% and failing, and unlikely to break again in the interim.

CURRENCY STRATEGY

The NZDUSD remains frustratingly bid. The extent of the gains seen off the retest of 0.6195 and glossing over of the RBNZ's warnings have to raise serious concerns that NZD may still be within the uptrend off the March low and risks extending towards the 0.68-0.70 area. A slide below 0.6410 is needed to confirm a weakening trend. The issue remains identifying a catalyst.

Market themes…

> USD – still out of favour.

> All about equities.

> RBNZ – they want the currency lower.

Review and outlook…

Frustration remains the winner. The Northern Hemisphere summer has always produced frustrating markets and regardless of your view on the currency, the market has looked extremely bid at the top of the range and offered at the bottom. Equities remain caught in a momentum trade dynamic, where each nudge up encourages more bidding for fear of missing a "good thing". Although the favoured profile for currencies is that the USD should make a secondary rebound within broad consolidation patterns off the lows of early June, the weakness shown over the past two weeks raises considerable concern that USD weakness may develop into mid-August.

The RBNZ has singled out the currency. The RBNZ's message last week was focused on lowering the currency and they do not see NZ in the same position as Australia at present. The Bank sees the least painful way to achieve the desired economic rebalancing is through a lower currency – we agree. The trouble is, the market finished the week at 0.6610 and at the top end of the 0.6478-0.6635 range that has developed. In TWI terms, the NZD is mid-ranged historically and around 61.40 levels. This is very close to major resistance at 61.0-63.0, dating back to 2004.

The dairy sector should be high on the watch list. The Fonterra announcement last week that they have left their payout forecast stable at $4.55/kg ms was very supportive of the NZD following upbeat business confidence data. The USDA announcement late last week of an increase in price support to US dairy farmers can only continue to increase our concern that unless global demand increases these targets appear ambitious unless Fonterra can access a lower currency.

Waiting for the cross to fall. The NZDAUD cross has been congested into 0.7700-0.8100 range. Recent comments from policymakers suggest the lower end of this range should be tested. Dr Bollard made direct reference that NZ had not benefited from the increase in hard commodity prices and Minister of Finance English asked the question: *"How long will it take before people start differentiating us, we are in the seventh quarter of recession and the Aussies haven't had any".*

Technically, the NZD starts the week near resistance at 0.6630 – the top end of last two week's range. Firm support will be seen at 0.6480. Any big breakout will be based on a USD move across many currencies than solely a NZD move. The NZDAUD is trading within a well defined range, with support lower at 0.7870 and resistance at 0.8000 and 0.8080 to 0.8100. We expect this cross to retest the 0.7700 lows seen in 2008 and again in early 2009.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔/↓	MoF and RBNZ both say hards outperforming softs.
Partial indicators	↔	Labour market data in both NZ and AUS this week.
Technicals	↔/↓	0.77-80 range.
Sentiment	↔/↑	Earning season sees improved risk appetite.
Other	↔	RBA, HLFS, USDA…
On balance	↔/↓	**Downside pressure mounting.**

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔/↓	Slightly above cyclical fair value estimates.
Yield	↓	RBNZ dovish.
Commodities	↔/↓	World dairy prices remain under pressure.
Risk aversion	↔/↑	Moving in line with US earnings results.
Partial indicators	↔/↓	Stabilisation in NZ, but is US bouncing back faster?
Technicals	↔	0.6480-0.6630 range.
AUD	↔/↑	RBA, but data improving.
Sentiment	↔/↑	Completely offshore focused.
Other	↔	European bank results need to be watched.
On balance	↔	**Ranges for now. Global developments key.**

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
3-Aug	AU	AiG Performance of Manufacturing Index (Jul)	-	38.4	11:30
		ANZ Job Advertisements (Jul) - mom	-	-6.7%	13:30
		RBA Commodity Index SDR (Jul) - yoy	-	-29.3%	17:30
	JN	Labour Cash Earnings (Jun) - yoy	-	-2.5%	13:30
		Vehicle Sales (Jul) - yoy	-	-13.5%	17:00
	GE	PMI Manufacturing (Jul F)	45.2	45.2	19:55
	EC	PMI Manufacturing (Jul F)	46.0	46.0	20:00
	UK	PMI Manufacturing (Jul)	47.8	47.0	20:30
4-Aug	US	ISM Manufacturing (Jul)	46.5	44.8	02:00
		ISM Prices Paid (Jul)	51.5	50.0	02:00
		Construction Spending (Jun) - mom	-0.5%	-0.9%	02:00
	NZ	**Private Wages Excl Overtime (2Q) -qoq**	**0.5%**	**0.5%**	**10:45**
		Average Hourly Earnings (2Q) - qoq	**0.8%**	**1.1%**	**10:45**
		ANZ Commodity Price (Jul) - mom	**-**	**0.2%**	**15:00**
	JN	Monetary Base (Jul) - yoy	-	6.4%	11:50
	AU	House Price Index (2Q) - qoq	2.0%	-2.2	13:30
		Retail Sales (Jun) - mom	0.5%	1.0%	13:30
		RBA Cash Rate Announcement	3.00%	3.00%	16:30
	UK	PMI Construction (Jul)	45.0	44.5	20:30
	EC	PPI (Jun) - mom	-6.6%	-0.2%	21:00
5-Aug	US	Personal Income (Jun)	-1.0%	1.4%	00:30
		Personal Spending (Jun)	0.3%	0.3%	00:30
		PCE Deflator (Jun) - yoy	0.2%	0.1%	00:30
		PCE Core (Jun) - mom	0.2%	0.1%	00:30
		PCE Core (Jun) - yoy	1.7%	1.8%	00:30
		Pending Home Sales (Jun) - mom	0.6%	0.1%	02:00
	NZ	**Fonterra to Announce Outcome of Monthly Milk Powder Auction**	**-**	**-**	**08:00**
	UK	Nationwide Consumer Confidence (Jul)	59	58	11:01
		PMI Services (Jul)	51.8	51.6	20:30
		Industrial Production (Jun) - mom	0.0%	-0.6%	20:30
		Official Reserves (Changes) (Jul)	-	-$297M	20:30
	AU	AiG Performance of Service Index (Jul)	-	50.2	11:30
		Trade Balance (Jun)	-800M	-556M	13:30
	GE	PMI Services (Jul F)	48.4	48.4	19:55
	EC	PMI Services (Jul F)	45.6	45.6	20:00
		Retail Sales (Jun) - mom	0.3%	-0.4%	21:00
6-Aug	US	ADP Employment Change (Jul)	-340K	-473K	00:15

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)
6-Aug cont.	US	ISM Non-Manufacturing Composite (Jul)	48.0	47.0	02:00
		Factory Orders (Jun)	-0.5%	1.2%	02:00
	NZ	**Unemployment Rate (2Q)**	**5.7%**	**5.0%**	**10:45**
		Participation Rate (2Q)	**68.2%**	**68.4%**	**10:45**
		Employment Change (2Q)	**-1.0%**	**-1.1%**	**10:45**
	AU	Employment Change (Jul)	-18.0K	-21.4K	13:30
		Unemployment Rate (Jul)	6.0%	5.8%	13:30
		Full Time Employment Change (Jul)	-	-21.9	13:30
		Part Time Employment Change (Jul)	-	0.4	13:30
		Participation Rate (Jul)	65.3%	65.3%	13:30
	JN	Leading Index CI (Jun P)	79.7	76.9	17:00
		Coincident Index CI (Jun P)	88.1	87.1	17:00
	GE	Factory Orders (Jun) - mom	0.6%	4.4%	22:00
	UK	BoE Interest Rate Announcement	0.50%	0.50%	23:00
	EC	ECB Announces Interest Rates	1.00%	1.00%	23:45
7-Aug	US	Initial Jobless Claims (w/e Aug-2)	580K	584K	00:30
		Continuing Claims (w/e Jul-26)	6245K	6197K	00:30
	EC	Trichet Speaks at ECB Monthly News Conference	-	-	00:30
	AU	AiG Performance of Construction Index (Jul)	-	42.6	11:30
		RBA Quarterly Monetary Policy Statement	-	-	13:30
	GE	Trade Balance (Jun)	10.6B	9.6B	18:00
		Current Account (Jun)	8.0B	3.7B	18:00
		Imports (Jun) - mom	0.7%	-2.1%	18:00
		Exports (Jun) - mom	0.9%	0.3%	18:00
		Industrial Production (Jun) - mom	0.5%	3.7%	22:00
	UK	PPI Input (Jul) - mom	-0.8%	1.5%	20:30
		PPI Output (Jul) - mom	0.0%	-0.2%	20:30
		PPI Output Core (Jul) - mom	0.1%	-0.8%	20:30
8-Aug	US	Change in Non-Farm Payrolls (Jul)	-325K	-467K	00:30
		Unemployment Rate (Jul)	9.6%	9.5%	00:30
		Average Hourly Earnings (Jul) - mom	0.1%	0.0%	00:30
		Consumer Credit (Jun)	-$4.2B	-$3.2B	07:00

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: Labour market data this week will highlight the vulnerabilities still present for NZ households and the likelihood of any economic recovery being a gradual one. Other data is expected to continue to show signs of stabilisation and the economy closer to recording positive growth rates.

Date	Data/Event	Economic Signal	Comment
Tue 4 Aug (10.45)	LCI & QES (Jun qtr)	Softening quickly	While a lagging indicator, wage growth is easing as the economic backdrop and rising unemployment makes it difficult for workers to push for larger wage increases.
Tue 4 Aug (15.00)	ANZ Commodity Price Index (Jul)	-	-
Thu 6 Aug (10.45)	HLFS (Jun qtr)	Continuing to turn sharply	Trends in the number of people signing up for the unemployment benefit clearly shows that the unemployment rate is rising sharply. We expect employment to contract by 0.5 percent and the unemployment rate to rise to 5.5 percent.
Fri 14 Aug (10.45)	Retail Trade Survey (Jun)	Reversal	Following the surge in spending in May – partly driven by earlier spending on winter clothes, we expect a pull-back to have occurred in June, although high food prices will inflate the grocery bill. We expect a small contraction in volumes for the quarter.
Wed 19 Aug (10.45)	Producer Price Index (Jun qtr)	Easing	Input and output prices are both expected to ease in the quarter, largely driven by lower NZD commodity prices.
Thu 20 Aug (15.00)	NBNZ Regional Trends (Jun qtr)	-	-
Fri 21 Aug (10.45)	International Travel and Migration (Jul)	A source of support	Another reasonable monthly net inflow is expected as departures remain subdued. However, the key to watch is whether arrivals of non-NZ and Australians are able to hold up.
Tue 25 Aug (15.00)	RBNZ Survey of Expectations (3Q)	-	-
Thu 27 Aug (10.45)	Overseas Merchandise Trade (Jul)	Small deficit	A trade deficit is typically recorded in July and we expect this trend to be repeated. We will be closely watching exports to China to assess whether the stock-building story is continuing.
Fri 28 Aug (10.45)	Building Consents Issued (Jul)	Recovering	Residential consent issuance, while remaining at an extremely low level, should begin to recover in line with a pick up in house sales. Non-residential consent issuance, on the other hand, looks likely to weaken.
Fri 28 Aug (15.00)	Credit Growth (Jul)	De-leveraging continues	While improved housing activity may see household credit growth recover, the backdrop of de-leveraging will ensure that growth is still subdued. Rural and business credit growth is likely to continue weakening.
On Balance		**We have found a base**	**Signs of stabilisation are expected to continue. However, we expect any recovery to be subdued as we move along the bottom of the bathtub.**

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
GDP (% qoq)	-0.2	-0.5	-1.0	-1.0	**-0.5**	**-0.3**	**0.0**	**0.3**	**0.8**	**1.2**
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	**-3.0**	**-2.8**	**-1.8**	**-0.5**	**0.8**	**2.3**
CPI (% qoq)	1.6	1.5	-0.5	0.3	0.6	**0.6**	**0.5**	**0.3**	**0.7**	**0.7**
CPI (% yoy)	4.0	5.1	3.4	3.0	1.9	**0.9**	**1.9**	**1.9**	**2.0**	**2.2**
Employment (% qoq)	1.2	0.2	0.6	-1.1	**-0.5**	**-0.6**	**-0.3**	**-0.3**	**0.0**	**0.1**
Employment (% yoy)	0.8	1.1	0.9	0.8	**-0.8**	**-1.6**	**-2.4**	**-1.6**	**-1.2**	**-0.5**
Unemployment Rate (% sa)	4.0	4.3	4.7	5.0	**5.5**	**5.9**	**6.5**	**7.1**	**7.5**	**7.6**
Current Account (% GDP)	-8.4	-8.7	-9.0	-8.5	**-6.8**	**-5.8**	**-5.0**	**-4.8**	**-5.1**	**-5.1**
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-3.0	**-2.0**	**-2.0**	**-1.4**	**-1.1**	**-0.9**	**0.4**
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.2	**-6.8**	**-7.7**	**-8.1**	**-6.3**	**-5.3**	**-3.0**

KEY ECONOMIC INDICATORS

	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Retail Sales (% mom)	-1.4	0.0	-0.5	-1.2	0.2	-0.1	0.5	0.8	..	..
Retail Sales (% yoy)	0.7	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	..	..
Credit Card Billings (% mom)	-1.8	-0.8	-2.2	1.6	0.8	-2.8	2.4	-0.4	0.2	..
Credit Card Billings (% yoy)	0.9	-0.9	-3.8	-2.4	-1.9	-4.8	-1.6	-2.4	-2.1	..
Car Registrations (% mom)	-0.9	-19.9	12.9	-14.1	-15.1	8.3	-2.4	-3.1	5.4	..
Car Registrations (% yoy)	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	..
Building Consents (% mom)	-20.2	4.3	-6.8	-12.7	12.2	-0.8	11.3	3.0	-9.5	..
Building Consents (% yoy)	-43.3	-39.7	-41.4	-51.4	-39.9	-34.3	-56.6	-23.1	-24.2	..
REINZ House Price (% yoy)	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	..
Household Lending Growth (% mom)	0.1	-0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.1	..
Household Lending Growth (% yoy)	5.8	4.8	4.2	3.8	3.1	2.7	2.6	2.5	2.4	..
Roy Morgan Consumer Confidence	99.7	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3	106.1
NBNZ Business Confidence	-42.3	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7
NBNZ Own Activity Outlook	-11.4	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6
Trade Balance ($m)	-994	-594	-341	-102	483	438	342	907	-417	..
Trade Balance ($m annual)	-5269	-5234	-5614	-5405	-5165	-4684	-4049	-2973	-3176	..
ANZ World Commodity Price Index (% mom)	-7.6	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	..
ANZ World Commodity Price Index (% yoy)	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	..
Net Migration (sa)	90	-220	380	870	1640	1720	2110	2580	1730	..
Net Migration (annual)	4329	3569	3814	4538	6160	7482	9176	11202	12515	..

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	Jun-09	Jul-09	3-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.598	0.637	0.665	0.550	0.540	0.540	0.550	0.560	0.580	0.600
NZD/AUD	0.785	0.795	0.792	0.753	0.735	0.730	0.733	0.737	0.734	0.732
NZD/EUR	0.439	0.455	0.465	0.444	0.443	0.450	0.458	0.467	0.475	0.484
NZD/JPY	57.8	61.6	63.0	52.3	52.4	54.0	56.7	58.8	62.1	66.0
NZD/GBP	0.389	0.389	0.396	0.355	0.355	0.360	0.372	0.378	0.387	0.395
NZ$ TWI	57.9	60.3	61.65	54.9	54.3	54.8	56.0	57.0	58.4	59.9
NZ interest rates	Jun-09	Jul-09	3-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.76	2.74	2.50	2.50	2.50	2.50	2.50	3.00	4.00	4.50
90 day bill	2.82	2.78	2.77	2.80	2.80	2.80	2.80	3.60	4.50	5.00
10 year bond	5.74	6.24	5.75	5.60	5.70	5.70	6.10	6.30	6.40	6.60
International	Jun-09	Jul-09	3-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.66	0.60	0.48	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.75
AU 3-mth	3.19	3.19	3.20	3.30	3.30	3.40	3.80	4.00	4.30	4.60

KEY RATES

	30 Jun	27 Jul	28 Jul	29 Jul	30 Jul	31 Jul
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.82	2.77	2.79	2.78	2.78	2.78
NZGB 11/11	3.80	3.81	3.83	3.85	3.86	3.83
NZGB 04/13	4.77	4.75	4.77	4.78	4.80	4.77
NZGB 12/17	5.94	5.74	5.76	5.76	5.77	5.75
NZGB 05/21	6.46	6.21	6.23	6.23	6.25	6.23
2 year swap	3.79	3.90	3.95	4.01	3.92	3.88
5 year swap	5.31	5.36	5.36	5.38	5.33	5.27
RBNZ TWI	61.3	61.4	61.4	61.5	61.0	61.4
NZD/USD	0.6524	0.6566	0.6577	0.6584	0.6500	0.6568
NZD/AUD	0.8057	0.8010	0.7958	0.7974	0.7945	0.7927
NZD/JPY	62.47	62.28	62.54	62.13	61.69	62.65
NZD/GBP	0.3924	0.3992	0.3987	0.4004	0.3967	0.3970
NZD/EUR	0.4624	0.4615	0.4614	0.4644	0.4625	0.4649
AUD/USD	0.8097	0.8197	0.8265	0.8257	0.8181	0.8286
EUR/USD	1.4108	1.4226	1.4254	1.4177	1.4054	1.4127
USD/JPY	95.76	94.85	95.09	94.37	94.91	95.38
GBP/USD	1.6626	1.6448	1.6497	1.6445	1.6384	1.6543
Oil	71.47	66.96	68.34	67.24	63.42	69.26
Gold	943.10	955.15	954.30	936.95	929.70	954.75
Electricity (Haywards)	9.08	10.18	6.55	5.16	4.34	6.59
Milk futures (US$/contract)	85	86	86	86	86	89
Baltic Dry Freight Index	3757	3407	3475	3499	3445	3350

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing

Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

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