NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

24 May 2010

INSIDE

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MARKET JITTERS

ECONOMIC OVERVIEW

We struggle to see market jitters disappearing anytime soon given that there is a political dynamic that will lean against the inevitable process of sovereign deleveraging. Even if conditions do stabilise and recent ructions prove to be an overreaction, the mere fact that we have seen such movements is testament to the reality that there is not a lot of conviction about the recovery process. Data this week on the local front is expected to show continued signs of the economy rebalancing, with a slight pick-up in credit growth and building consents treading water.

THE REGIONAL GAP

Our regional output gap measures still show broad based idle capacity across the regions. The gap is starting to close as the economic recovery progresses, helped by a sharply improved labour market. However, some regions still experienced a widening output gap, indicating that these areas of the country are yet to benefit from the recovery.

INTEREST RATE STRATEGY

If next month's monetary policy decision was to be made purely on domestic considerations, a rate hike would be a certainty. Of course, there's more to it than that – and recent market turmoil brings with it significant risks. At this stage a hike is more likely than not, but we're mindful of the changing global scene. Rates markets have been right to rally on these developments. Not only do they suggest the OCR may be on hold for longer, they're also a reminder of the still fragile nature of the recovery.

CURRENCY STRATEGY

NZD finally played catch up with the AUD last week. The market repriced the global recovery and with stocks and commodities much lower, the NZD could not escape unscathed, getting pushed lower. The *Budget* was received positively by the market but was quickly forgotten as leveraged accounts continued to focus on risk reduction. The local data will count for little this week as the NZD finds itself hostage to global moves once again.

ECONOMIC OVERVIEW

SUMMARY

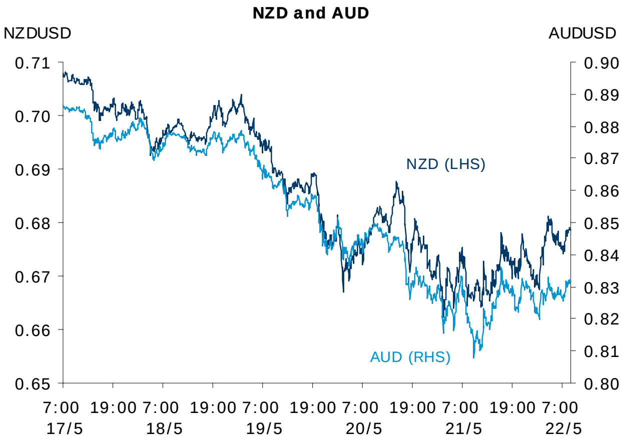
We struggle to see market jitters disappearing anytime soon given that there is a political dynamic that will lean against the inevitable process of sovereign deleveraging. Even if conditions do stabilise and recent ructions prove to be an overreaction, the mere fact that we have seen such movements is testament to the reality that there is not a lot of conviction about the recovery process. Data this week on the local front is expected to show continued signs of the economy rebalancing, with a slight pick-up in credit growth and building consents treading water.

THE WEEK AHEAD

- **RBNZ Survey of Expectations – Q2** (Tuesday 25 May, 3:00pm). Largely due to one-offs, the closely watched 2-year-ahead forecast of CPI inflation is expected to climb to around 2.75 percent from the 2.65 percent reported in Q1.
- **SNZ Overseas Merchandise Trade – April** (Thursday 27 May, 10:45am). We are expecting a trade surplus of $500m. Exports to be buoyed by firm export commodity prices. Improving domestic demand is expected to translate into a gradual recovery in imports over the coming months.
- **SNZ Building Consents – April** (Friday 28 May, 10:45am). A 3 percent rise is expected for residential building consent issuance following the small fall in March. Commercial consents will remain weak outside of government related activity.
- **RBNZ Credit Aggregates – April** (Friday 28 May, 3:00pm). Household credit growth in April will remain subdued at around 0.2 percent. We expect agriculture credit growth to be flat in the month and business credit to continue contracting.

WHAT'S THE VIEW?

Huge volatility across markets over the past week reinforces the view that the global recovery process is set to be protracted. Volatility has surged, pushing the VIX Index to a new high, surpassing the peak it reached earlier this month prior to the announcement of the €750bn Eurozone stabilisation package. The AUD traded nearly an 800bp range last week alone, and it was all one way traffic heading down! The NZD has fared almost as badly.



Sources: ANZ, National Bank, Bloomberg

Commodity prices and equities have come under pressure as well. The S&P 500 index is down 8.3 percent for the month so far. Key Asian stock markets are down more, with the Shanghai Composite off 10 percent, the S&P/ASX 200 off 10.4 percent and the Nikkei 225 down 11.5 percent. In this regard, the NZX50 has been an "outperformer", falling by 7.2 percent this month. So far this year, the Shanghai Composite has lost over a fifth of its value. Recent market ructions may ultimately prove to be unfounded. But the fact that we have seen such skittish movements across global asset classes is reflective of one simple dynamic: **there is not a lot of conviction about the recovery process when you scratch beneath the surface. This in itself adds another layer of uncertainty to the global recovery story.**

Beyond the normal hot spots, we will be paying close attention to three dynamics.

- **Equity market sentiment.** Equities have "predicted" many more recessions than the amount that have actually eventuated, so we need to be careful here. But leading growth indicators such as the National Bank *Business Outlook* and the US ISM surveys have been strongly correlated to equity market movements over the past few years. Time wise, we won't expect to see a test of this dynamic until we see the June figures, due for release in late June and early July respectively. But it will be something to watch as a bellwether of pending flow-on impact to real economic indicators.

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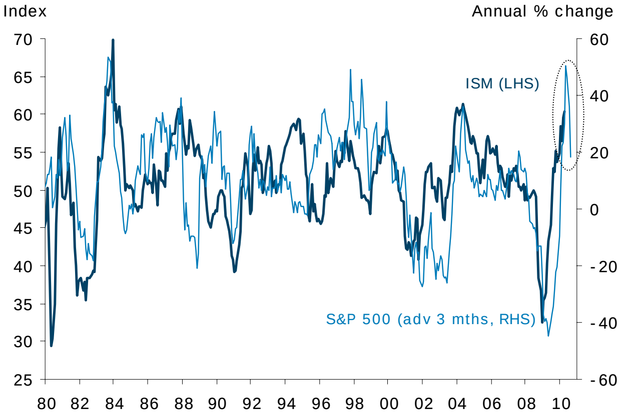
US ISM and S&P 500



Sources: ANZ, National Bank, Bloomberg

- **Credit market stress.** Last week's RBNZ *Financial Stability Report* cautioned that overall costs for bank funding remain elevated. There has certainly been a structural change but the million dollar question is what happens from here. At present we are seeing mixed messages globally. USD 3mth LIBOR is at its highs for the year, but it is only rising by about 1bp per day. In NZ, the 3mth OIS-BKBM spread has widened, but most of the widening occurred earlier this month and it has been stable more recently. And while physical bond spreads have held in better than CDS spreads, the widening in CDS spreads is perhaps a warning sign. Australian bank CDS spreads are now above the highs seen in the days prior to the €750bn Eurozone stabilisation package.
- **The political scene.** Sovereign risk and the required deleveraging process is subject to the whims of politics. The required private sector adjustment does not face this constraint. Markets will have a huge say in eventually forcing a resolution across sovereigns, as we have seen with Greece. But the necessary decisions when it comes to deleveraging sovereign balance sheets and improving the fiscal position are going to be judged in the court of public opinion. Economic reality and politics are on a collision course and markets are stuck in the middle. This is a dynamic that is not going to disappear anytime soon.

It is always tempting to respond to these sorts of market gyrations with a bold call, such as the RBNZ pausing in June. This is now a material risk and fits more with our instincts given our cautious view of the global scene. If the RBNZ goes in June, then there'll be a preparedness to follow it up with at least 2 more hikes. At present this looks a stretch. But we are also mindful that sentiment is fickle and can turn on a dime. In this environment, we'll hold fire on our view for June until the week before the Monetary Policy Statement. A hike still looks the central case with odds around 60-40 in favour of a hike now.

If we see more of the current global dislocation, then the odds will shift to a pause. This sort of decision does not come without risks given that NZ to date looks immune from the Eurozone debt crisis. The NZD has weakened 4 percent over the past week, providing a buffer. But if developments do extend, and **we see further unease across global bourses and credit market dislocation, then the path of least regret for the central bank will be to pause.** Given that we see politics playing a role, it is hard to envisage that things will settle down quickly! Signs of credit market dislocation and additional funding costs for NZ banks will be key to watch. We've noticed US Libor rates increase by 24bps over the past two months, and the credit default swap spread for the big four Australian banks have risen by over 50bps in the past month. Collectively, this is not sufficient to start jumping up and down about, particularly as we know from general disclosure statements that NZ banks are running very strong liquidity positions.

It is against this backdrop that last week's Budget must be interpreted. We'll keep our comments to five broad areas.

- **The numbers themselves clearly differentiate NZ.Inc from global peers.** The foreshadowed return to Budget surpluses by 2015/16 is a clear positive and net government debt peaks at 27.4 percent of GDP. NZ looks like a beacon of fiscal austerity, although we have to in order to compensate for our weak net external liability position (which stands at 90 percent of GDP).
- **Everyone's a winner (almost!).** Post Budget, there is the inevitable debate about who wins and who loses. Well, every single policy decision involves a winner and a loser. Spend more, then that money comes from tax or debt. Spend less and you tax less or take on less debt. Every policy decision has an Achilles heel that can be attacked. It's the nature of policymaking. But people need to step beyond that. What we liked about the Budget was not so much about the winners and losers, but for the first time in probably 20 years, **there seemed to be a plan and strategy around where NZ.Inc is headed.** Whereas we are seeing populism at the forefront of a lot of decision making globally, NZ

ECONOMIC OVERVIEW

stands out as showing more leadership style decisions. It's not step-change stuff, but it certainly is a major difference from global peers.

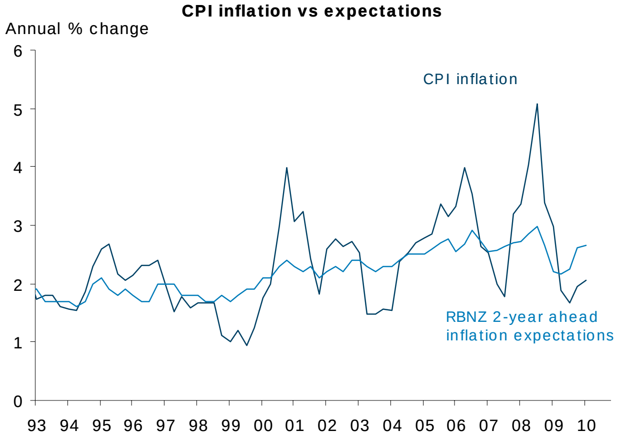
- **The spirit of the *Budget* looks set to help monetary policy somewhat – although more in a medium-term context.** In the near-term (over the 2011 fiscal year) the fiscal impulse is more expansionary by around 0.7 percent of GDP compared to the Half-year Update. The design of the tax package, which provides better economic incentives and a tighter depreciation regime for housing (although the package stopped short of ring-fencing of losses), should support monetary policy apart from the obvious potential for second-round inflationary effects from the rise in GST. From 2011/12, fiscal policy looks to be more contractionary relative to the Half-year Update to the tune of around 1.0 percent of GDP over three years, thereby leaning against the inevitable upswing and lessening some of what monetary policy will need to do. The tax package is designed to be fiscally neutral. **However, the sheer size of the tax package** (personal tax rate cuts and benefit increases amount to 2.8 percent of GDP), **is a reason for the RBNZ to stick to its stance of a mid-year removal of policy stimulus.**

- **Data from June onwards is going to have a greater degree of noise.** Net-on-net, an improving trend will be apparent. But behavioural dynamics will be apparent in data outturns as "beat-the-GST rise" style dynamics come to the fore. **A lot will depend on how the hi-beta asset (housing) responds to the altered regime.** While stopping short of ring-fencing and capital gains, the package still involves some pretty substantial taxation changes that will put pressure on cashflow for some property investors. **We fully expect to see more modest downward pressure on house prices over H2 2010.**

- **There is a long journey ahead.** The *Budget* itself stepped away from the "step-change" expectations laid out in last year's *Budget Policy Statement*, with the strategy now shifting to incremental improvements. NZ's imbalances were highlighted throughout the *Budget*, and it was not lost on us that the Treasury's own forecasts have NZ's current account deficit going back to 7 percent of GDP and the net international liability blowing out to 100 percent of GDP. We simply don't think that is sustainable, nor is it consistent with the thrust of the *Budget*, which was about driving a more balanced economy. Rather than pick holes in the Treasury forecasts, one simple observation will suffice: it's simply telling us that the process of change is not going to take place overnight. Hence, the need for follow-up decisions in future Budgets.

Turning to local data over the week ahead, the RBNZ's survey of expectations is expected to show a firming in market expectations of inflation. The 2-year ahead reading will probably increase to around 2¾ percent, as respondents factor in the GST and other policy impacts. This makes the RBNZ's task of preventing second round effects that much more difficult, especially with headline inflation set to spike beyond 5 percent by late this year. Of course, a lot depends on the impact the GST increase has on wages. But with the rise in GST more than offset by tax cuts for most workers, we doubt employers will have much appetite to entertain demands for increased pay.

CPI inflation vs expectations



Sources: ANZ, National Bank, Statistics NZ, RBNZ

We are also expecting an announcement from Fonterra about next season's opening milk price forecast. While we do not expect to see a 7 in front of the forecast, a modest increase from the current season's $6.10/kg ms can be expected.

Higher export commodity prices are expected to contribute towards the fourth consecutive monthly trade surplus. Forestry and dairy exports have been recent beneficiaries from strong trading partner demand and we expect this to repeat in the April figures. The gradual recovery in domestic demand is expected to translate into further strengthening in import demand – but off a low base. Given the low levels of business investment, a sustained increase in capital good import volumes is needed to ensure future supply-side capacity is maintained.

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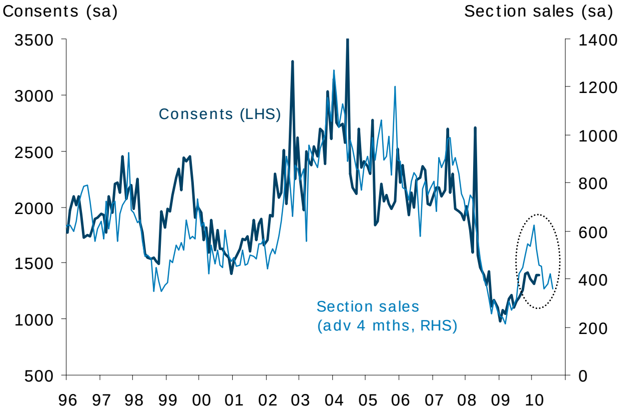
We expect building consent figures to be lacklustre. A bounce is expected following the decline in March. But abstracting from monthly volatility, the absolute level is low and we don't see this changing until later in the year. Commercial issuance will remain weak, with only government related projects helping to prop up the overall numbers. We will be paying close attention to the dollar value per square metre of issuance as a proxy for construction costs. Higher costs for construction materials (especially timber) should start to feed through into the numbers in the coming months, and we are closely monitoring business sector anecdotes for signs of a bounce in activity prior to the October 1 increase in GST.

Building Consents and Section Sales



Sources: ANZ, National Bank, Statistics NZ, REINZ

Credit data for April is expected to remain subdued. For the economic recovery to gain traction, we will need to see more evidence of a lift in business profitability and the willingness to invest. As noted in the RBNZ's *Financial Stability Report*: "a resumption in business credit growth will be important for the durability of the economic recovery". We suspect this remains a second half of 2010 story.

RECENT LOCAL DATA

- **SNZ Producers Price Index and SNZ Capital Goods Price Index – March 2010 quarter.** Output prices rose by 1.8 percent and input prices by 1.5 percent for the quarter. Capital goods prices declined by 0.1 percent, with prices for plant and machinery declining by 0.6 percent in the March quarter.
- **RBNZ Financial Stability Review - May 2010.** NZ's banking system remains healthy and appears well placed to support the domestic economic recovery.
- **Budget 2010.** The improved economic outlook is expected to lead to narrower fiscal deficits, with an expected return to surplus in 2015/16. Net public debt is expected to reach 27.4 percent by 2014/15.
- **SNZ International Travel and Migration – April.** Net PLT immigration increased by 770 persons in April (19,954 annual). Monthly visitor arrivals fell by 1.8 percent.
- **ANZ-Roy Morgan Consumer Confidence – May**. Overall confidence rose 4 points to 126. The current conditions index rose 6 points (to 108), whereas future conditions rose 3 points (to 138).
- **RBNZ Credit Card Spending – April**. Credit card spending fell by 1.2 percent in the month to be 1.9 percent up on a year earlier. Spending on domestic cards fell by 1.3 percent, whereas spending on overseas issued cards rose 0.3 percent in the April month.

THE REGIONAL GAP

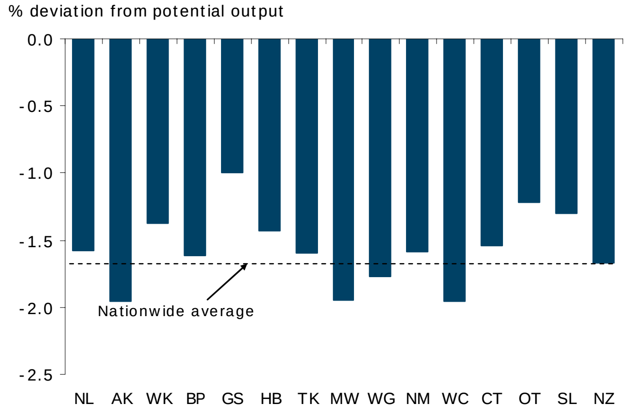
SUMMARY

Our regional output gap measures still show broad based idle capacity across the regions. The gap is starting to close as the economic recovery progresses, helped by a sharply improved labour market. However, some regions still experienced a widening output gap, indicating that these areas of the country are yet to benefit from the recovery.

THE REGIONAL GAP

We present our updated regional output gap measures for the March 2010 quarter.[1] While it is common to estimate an output gap for the aggregate economy, regional measures give us a richer picture in terms of not just whether capacity pressure is rising or falling, but also its concentration and how broad it is. Regional measures are prone to a larger degree of uncertainty compared to nationwide data. But it is the broad trends and the regional variations that are the main focus.

Estimates of regional "output gap" in March 2010 quarter

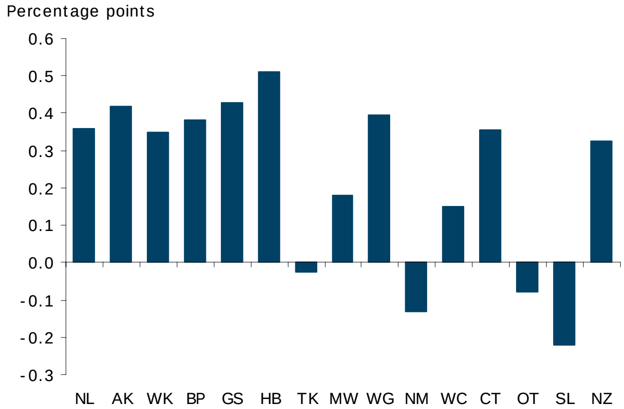


Sources: ANZ, National Bank

Key points from the updated analysis are:

- **There is still broad based idle capacity across the regions.** All regions continue to experience a fairly sizeable negative output gap for the fifth consecutive quarter. Auckland, West Coast and Manawatu-Whanganui had the largest negative output gap at -2 percent. The region with the smallest negative output gap is Gisborne at -1 percent.
- **Spare capacity is slowly being used up as the economy continues to recover.** Nationwide, the negative output gap narrowed by 0.3 percentage points, the second quarterly improvement. Most regions recorded a smaller negative output gap in the quarter except Taranaki, Nelson-Marlborough, Otago and Southland. Nelson-Marlborough has now had a negative output gap for ten consecutive quarters, the longest among the regions.
- **The biggest improvement in our output gap measure came from improved activity,** which rose by 0.9 percent in the quarter (as measured by the National Bank Regional Trends). But the other two measures also recorded improvements, with a sharp fall in the unemployment rate narrowing the unemployment gap, and the capacity gap also improving a touch.

Change in regional output gaps over the past quarter



Sources: ANZ, National Bank

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

THE UPSHOT

The persistence of fairly large negative output gaps across the regions suggests there is still ample spare capacity in the economy. However, the gap is closing, with the North Island leading the charge. Some regions are yet to benefit from the economic recovery, and there certainly looks to be a case of "first in first out". As the recovery broadens and idle capacity is absorbed, inflation pressure will start to emerge and it looks likely that most will come from up North.

[1] Our regional output gap estimates are generated using economic activity data from the National Bank Regional Trends, unemployment rates from Statistics NZ's HLFS, and capacity utilization measures from the NBNZ *Business Outlook* survey. We chose a broad approach for two reasons. First, it minimises some of the error that typically surrounds statistics at the regional level. Second, the RBNZ uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For each input we use a band-pass filter to derive the business cycle. The regional unemployment rates are advanced two quarters prior to filtering as this is a lagging indicator. Individual output gap measures across activity, unemployment and capacity utilisation for each region are then given an equal weighting.

INTEREST RATE STRATEGY

SUMMARY

If next month's monetary policy decision was to be made purely on domestic considerations, a rate hike would be a certainty. Of course, there's more to it than that – and recent market turmoil brings with it significant risks. At this stage a hike is more likely than not, but we're mindful of the changing global scene. Rates markets have been right to rally on these developments. Not only do they suggest the OCR may be on hold for longer, they're also a reminder of the still fragile nature of the recovery.

MARKET THEMES

- Last week's *Budget* was well received, and most people should benefit from tax changes. This reinforces the positive domestic mood.
- Most commentators expect funding pressures to intensify and for LIBOR to head higher over time. But the rise so far has been orderly. The question is what's next?

REVIEW AND OUTLOOK

Last week's *Budget* was the clear highlight of the week, and judging by the media reaction, it has been extremely well received. While the inevitable debate about who will be better off continues, in theory, everybody should benefit from the tax changes – although some will be caught by the closure of loopholes. But few could argue that this was a solid, pro-growth *Budget*. **Had markets not been so pre-occupied with global events, and the sea-change in view that has swept over the Australian interest rate market, we would almost certainly have seen a more substantial market impact**. But in the event, global market movements dominated last week's price action.

So what's all the fuss in global markets about? **The mind-set change in Australia has perhaps been the most significant**. A month ago it looked like the RBA had proactively headed off a terms of trade boom, and had more work to do. Now the market seems to think they've been too tough, and may need to cut rates to stave off what is looking like round two of the Global Financial Crisis. **Recent equity market collapses, the rise in LIBOR, and stress in key early warning indicators like the VIX, this has led to a radical re-think of what's in store for RBNZ policy**. This seems reasonable – and while it's too soon to say the June rate hike is off, we doubt they will hike if markets are still as skittish as this. As the RBNZ's *FSR* highlighted, NZ banks are in good shape. But we must be mindful of the impact global markets are having on liquidity and funding, and it could take a while for this to be felt in NZ. **Perhaps most importantly, even if this recent bout of turmoil turns out to be a spook, it's a reminder of how fragile things are.** As Dr. Bollard recently noted, "the recovery so far has been full of surprises. There will be more to come". In itself this suggests a lower endgame for the OCR.

PREFERRED BORROWING STRATEGIES

On the face of it, the fall in swap yields offers something of an opportunity to add to hedges – but before jumping in, beware of the reasons why rates have fallen. Markets are clearly concerned about liquidity and the state of the global economy, and these are important considerations for borrowers. The rate hike profile priced into the yield curve is still fairly upbeat. Some flexibility seems appropriate with this much uncertainty about. As we have noted in the past, we favour aligning hedge ratios with the degree of conviction behind the recovery in trading conditions.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	June too hard to call, but no hike if markets still like this.
NZ data	↔	Pleasing *Budget*, but April card spending was soft.
Fed Funds / front end	↔	Low inflation/market turmoil will keep policy on hold.
RBA	↔/↓	Have they gone too far? Market pricing cuts now!
US 10 year	↔/↓	Yields likely to be held down as market stresses continue.
NZ swap curve	↔	Payers absent, but supply down. Swap spreads wider.
Flow	↔	Borrowers reluctant to pay.
Technicals	↔	Swamped by volatility

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Jun-10	+20	+13
Thu 29-Jul-10	+42	+32
Thu 16-Sep-10	+67	+45
Thu 28-Oct-10	+93	+71
Thu 9-Dec-10	+120	+84
Thu 27-Jan-11	+145	+110
Thu 10-Mar-11	+163	+129

TRADING THEMES WE FAVOUR AT PRESENT

While the widening in swap spreads has paused, we expect it to resume as safe haven demand for NZGS continues. Last week's *Budget* was good news on the supply front, with a $4bn reduction in the bond programme over the 4yrs from 2011. Unless you've got strong conviction that global turmoil will amount to nought, it makes sense to be long the short end.

CURRENCY STRATEGY

SUMMARY

NZD finally played catch up with the AUD last week. The market repriced the global recovery and with stocks and commodities much lower, the NZD could not escape unscathed, getting pushed lower. The *Budget* was received positively by the market but was quickly forgotten as leveraged accounts continued to focus on risk reduction. The local data will count for little this week as the NZD finds itself hostage to global moves once again.

MARKET THEMES

- Markets continue to react to newsflow and rumours.
- Fonterra's expected announcement of next season's milk price forecast a key focus that could provide support to the NZD.
- Sovereign debt crisis causing increased concerns over the global recovery story.

REVIEW AND OUTLOOK

The NZ *Budget* was a step in the right direction and we expect NZ Government Bonds to continue to be in demand from offshore investors. However, the NZD will be influenced largely by the global macro picture in the near term. Until leveraged accounts have reduced their positions in commodity currencies and risk indicators look to have stabilised, the market will continue to focus on preserving capital.

The risk barometer that is working the best at present is the US treasury 10 year notes. Investors flock to the safety of US Treasuries during times of market turmoil and uncertainty. This can be seen by the TIC data for March, which recorded a net inflow into the US of US$140 billion. The April and May TIC data will no doubt show further capital inflows in the US given the massive risk selloff. A dovish US Federal Reserve is also supporting the rally in US Treasuries. But the potential sell off in US rates could be massive if the global situation stabilises or improves.

The NZD/AUD cross has continued to rally as local data and sentiment improves versus an increasing uncertain outlook for the AUD. This rally is a classic position squaring move as players long the higher yielding currency take money off the table. The big resistance come in at above 0.8300 with support this week looking to be above 0.8000. Higher equity markets will favour the AUD while more risk aversion will favour the NZD leg of this cross.

Major support for the NZD is now at the 0.6640-0.6600 window. A confirmed break of this level would suggest NZD can have a large move lower with 0.6000 a target. With the positive equity close on Friday night in the US and a large risk premium already in the market, we prefer the NZD to try resistance at 0.6880 before entering short positions as the market focuses on the passive hedges that will have to be rebalanced at the end of the month.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	At fair value now.
Yield	↔/↑	Market now pricing in cuts by RBA!
Commodities	↔/↑	Softs doing much better than hards during the market turmoil.
Partial indicators	↔/↓	NZ data improving. Australia's still good.
Technicals	↓	Resistance above 0.83 major.
Sentiment	↔	Equities higher = NZDAUD lower and vice versa.
Other	↔/↓	Has AUD been oversold?
On balance	↔	**0.8150 looks about right.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Getting closer to structural fair value estimate of 0.66.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↔/↑	NZ rates moving up before US rates.
Commodities	↓	NZD being sold on CRB weakness. Is this justified?
Risk aversion	↓	Everyone is risk averse at present.
Partial indicators	↔/↓	US data improving faster than NZ's but for how long?
Technicals	↔	0.6600 – 0.6880 range. Sell topside tests this week.
AUD	↓	From most loved to most hated currency.
Sentiment	↔	NZD just following offshore moves.
Other	↓	Passive equity rebalancing at month end a big negative.
On balance	↔	**Closer to structural fair value but sell rallies this week.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-May	AU	New Motor Vehicle Sales MoM - APR	- -	-2.70%	13:30
	AU	New Motor Vehicle Sales YoY - APR	- -	19.20%	13:30
	JN	All Industry Activity Index (MoM) - MAR	-0.70%	-2.30%	16:30
	JN	BOJ Monthly Report – MAY	- -	- -	17:00
	JN	Supermarket Sales (YoY) - APR	- -	-6.60%	17:00
25-May	US	Chicago Fed Nat Activity Index - APR	- -	-0.07	00:30
	US	Existing Home Sales MoM - APR	5.60%	6.80%	02:00
	NZ	RBNZ 2yr Inflation Expectation - 2Q	- -	2.70%	15:00
	UK	Nat'wide House prices sa (MoM) - MAY	0.40%	1.00%	20:00
	UK	Nat'wide House prices nsa(YoY) - MAY	9.70%	10.50%	20:00
	UK	GDP (QoQ) - 1Q P	0.30%	0.20%	20:30
	UK	GDP (YoY) - 1Q P	-0.20%	-0.30%	20:30
	UK	Index of Services (3mth/3mth) - MAR	0.20%	0.40%	20:30
	UK	BBA Loans for House Purchase - APR	37000	34905	20:30
	EC	Industrial New Orders SA (MoM) - MAR	2.50%	1.50%	21:00
	EC	Industrial New Orders SA (YoY) - MAR	15.00%	12.20%	21:00
26-May	US	S&P/CS Composite-20 YoY - MAR	2.50%	0.60%	01:00
	US	S&P/CS 20 City MoM% SA - MAR	-0.30%	-0.10%	01:00
	US	S&P/Case-Shiller US HPI YOY% - 1Q	- -	-2.50%	01:00
	US	Richmond Fed Manufact. Index - MAY	25	30	02:00
	US	Consumer Confidence - MAY	59	57.9	02:00
	US	House Price Index MoM - MAR	0.00%	-0.20%	02:00
	US	House Price Purchase Index QoQ - 1Q	- -	-0.10%	02:00
	JN	BoJ Monetary Policy Meeting Minutes - APR	- -	- -	11:50
	AU	Westpac Leading Index (MoM) - MAR	- -	0.50%	12:30
	AU	Construction Work Done - 1Q	4.00%	2.60%	13:30
	JN	Small Business Confidence - MAY	- -	46.8	17:00
	GE	GfK Consumer Confidence Survey - JUN	3.6	3.8	18:00
27-May	US	Durable Goods Orders - APR	1.50%	-1.30%	00:30
	US	Durables Ex Transportation - APR	0.50%	2.80%	00:30
	US	New Home Sales - APR	425K	411K	02:00
	US	New Home Sales MoM - APR	3.40%	26.90%	02:00
	NZ	Trade Balance - APR	455M	567M	10:45
	NZ	Imports - APR	3.43B	3.49B	10:45
	NZ	Exports - APR	3.88B	4.06B	10:45
	NZ	NZ Trade Balance 12 Mth YTD - APR	-60	-194	10:45
	JN	Merchnds Trade Balance Total - APR	¥700.3B	¥948.9B	11:50
	JN	Adjusted Merchnds Trade Bal. - APR	¥687.5B	¥666.2B	11:50
	JN	Merchnds Trade Exports YoY - APR	38.3	43.5	11:50
	JN	Merchnds Trade Imports YoY - APR	23.3	20.7	11:50
	AU	Conference Board Leading Index - MAR	- -	-0.30%	12:00
	AU	Private Capital Expenditure - 1Q	2.50%	5.50%	13:30
	UK	U.K. CBI May Distributive Trades - MAY	- -	- -	22:00
28-May	US	GDP QoQ (Annualized) - 1Q S	3.40%	3.20%	00:30
	US	Personal Consumption - 1Q S	3.70%	3.60%	00:30
	US	GDP Price Index - 1Q S	0.90%	0.90%	00:30
	US	Core PCE QoQ - 1Q S	0.60%	0.60%	00:30
	US	Initial Jobless Claims - May 22	455K	471K	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
28-May	US	Continuing Claims - May 15	4600K	4625K	00:30
	GE	CPI - EU Harmonised (MoM) - MAY P	0.10%	-0.10%	01:00
	GE	CPI - EU Harmonised (YoY) - MAY P	1.20%	1.00%	01:00
	EC	EC OECD June Economic Outlook - JUN	- -	- -	07:00
	NZ	Building Permits MoM - APR	- -	-0.40%	10:45
	UK	GfK Consumer Confidence Survey - MAY	-16	-16	11:01
	JN	Overall Hhold Spending (YoY) - APR	2.60%	4.40%	11:30
	JN	Jobless Rate - APR	5.00%	5.00%	11:30
	JN	Natl CPI YoY - APR	-1.10%	-1.10%	11:30
	JN	Natl CPI Ex Food, Energy YoY - APR	-1.40%	-1.10%	11:30
	JN	Retail Trade MoM SA - APR	-1.00%	0.80%	11:50
	JN	Retail Trade YoY - APR	3.60%	4.70%	11:50
	JN	Large Retailers' Sales - APR	-5.30%	-5.00%	11:50
	NZ	Money Supply M3 YoY - APR	- -	-3.50%	15:00
	GE	Import Price Index (MoM) - APR	1.50%	1.70%	18:00
29-May	US	Personal Income - APR	0.40%	0.30%	00:30
	US	Personal Spending - APR	0.30%	0.60%	00:30
	US	PCE Core (MoM) - APR	0.10%	0.10%	00:30
	US	PCE Core (YoY) - APR	1.10%	1.30%	00:30
	US	Chicago Purchasing Manager - MAY	61.3	63.8	01:45
	US	U. of Michigan Confidence - MAY F	73.4	73.3	01:55
	US	NAPM-Milwaukee - MAY	64	66	02:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, CH: China, 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: Last week saw the release of *Budget* 2010 which confirmed the intention to maintain a tight fiscal reign despite a substantial tax package being at the forefront. This week's data will enable us to ascertain whether construction sector activity is showing signs of improvement, the demand for imports is beginning to pick-up, and whether deleveraging is continuing. Signs of improvement are becoming increasingly evident, and we expect this to be apparent in the published data in the coming months.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 25 May (3:00pm)	RBNZ Survey of Expectations – Q2	Higher	Mostly as a consequence of inflation one-offs, the closely watched 2-year-ahead measure of CPI inflation is expected to climb from the 2.65 percent reported in Q1.
Thur 27 May (10:45am)	Overseas Merchandise Trade (Apr)	Surplus	Exports to be buoyed by firm export commodity prices. Improving domestic demand is expected to translate into a recovery in imports over the coming months.
Fri 28 May (10:45am)	Building Consents (Apr)	Holding pattern	After uncertainties on tax treatment are clarified following *Budget* 2010, we expect some strengthening in consent issuance in the second half of 2010.
Fri 28 May (3:00pm)	RBNZ Credit Aggregates (Apr)	Contained	Household credit growth in April will remain subdued at around 0.2 percent. We expect agriculture credit growth to be flat in the month and business credit to continue contracting.
Mon 31 May (3:00pm)	NBNZ Business Outlook (May)	- -	- -
Wed 2 Jun (3:00pm)	ANZ Commodity Price Index (May)	- -	- -
Fri 4 Jun (10:45am)	Wholesale Trade Survey (Mar qtr)	Up	Higher export sales should feature, but this will be partly moderated by lower growth in consumer spending.
Tue 8 Jun (10:45am)	Value of Building Work Put in Place – Q1	Flat	Low residential and non-residential consent issuance late last year is expected to translate into a broadly flat outturn.
Tue 8 Jun (10:45am)	Economic Survey of Manufacturing- Q1	Up	Ex-primary manufacturing sector volumes are expected to post a further increase from very low levels. Improving sector confidence and a firming in orders is expected to translate into an increase in manufacturing stocks.
Thur 10 Jun (10:45am)	Electronic Card Transactions - May	Up	After the early-Easter induced volatility of the past couple of months, this will provide an opportunity to asses the strength of retail spending. A small increase is expected
Thur 10 Jun (10:45am)	Overseas Trade Indexes – Q1	Lifting	Higher export commodity prices are expected to boost the terms of trade. Higher forestry exports should boost export volumes, whereas climbing import volumes are indicative of improving domestic demand.
Fri 11 Jun (10:45am)	Food Price Index - May	Up	April's 0.5 percent fall is expected to be reversed, given the usual seasonal pattern. Due to strong commodity export prices, the trend in food prices remains higher.
Min 14 Jun (10:45am)	Retail Trade Survey - Apr	Down	April ECT and Credit Card data suggests a monthly fall in total sales values. Core retail spending is also likely to fall.
Tue 15 Jun (10:00am)	REINZ- May	Flat	Housing market activity is expected to remain at low levels as pre-*Budget* uncertainties weigh. Prices are expected to continue their downward trend.
Thur 17 Jun (3:00pm)	ANZ-Roy Morgan Consumer Confidence -Jun	- -	- -
On Balance		**Building**	**Recovery continuing but with heightened risks of slower global growth.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.8	0.2	0.3	0.8	**0.5**	**0.6**	**1.2**	**0.7**	**1.1**	**1.4**
GDP (% yoy)	-3.1	-2.3	-1.4	0.5	**1.8**	**2.2**	**3.2**	**3.0**	**3.7**	**4.5**
CPI (% qoq)	0.3	0.6	1.3	-0.2	0.4	**0.9**	**0.9**	**2.8**	**0.6**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	2.0	**2.4**	**2.0**	**5.0**	**5.3**	**5.4**
Employment (% qoq)	-1.3	-0.5	-0.7	0.0	1.0	**0.2**	**0.4**	**0.6**	**0.6**	**0.7**
Employment (% yoy)	0.7	-0.9	-1.8	-2.4	-0.1	**0.6**	**1.7**	**2.2**	**1.8**	**2.3**
Unemployment Rate (% sa)	5.1	5.9	6.5	7.1	6.0	**6.3**	**6.0**	**5.6**	**5.4**	**5.0**
Current Account (% GDP)	-7.9	-5.6	-3.2	-2.9	**-3.2**	**-4.2**	**-5.3**	**-4.7**	**-4.4**	**-4.1**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	5.8	**3.8**	**3.9**	**2.5**	**1.0**	**-0.5**	**-0.6**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	**-2.0**	**12.3**	**16.9**	**11.6**	**7.0**	**2.3**

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10
Retail Sales (% mom)	-0.5	1.2	0.2	0.1	0.7	-0.4	0.6	-0.6	0.5	..
Retail Sales (% yoy)	-1.4	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	4.4	..
Credit Card Billings (% mom)	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.4	-1.2
Credit Card Billings (% yoy)	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.2	1.9
Car Registrations (% mom)	6.9	-3.6	8.4	0.4	2.2	6.9	-0.6	0.5	5.7	2.9
Car Registrations (% yoy)	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7	40.5
Building Consents (% mom)	5.3	2.3	5.6	11.9	0.4	-3.8	-2.9	5.8	-0.4	..
Building Consents (% yoy)	-16.5	-9.0	-11.7	26.7	20.4	22.7	35.0	29.8	32.9	..
REINZ House Price (% yoy)	0.0	5.1	6.1	6.0	5.2	9.6	7.7	6.1	7.6	4.7
Household Lending Growth (% mom)	0.3	0.3	0.3	0.3	0.0	0.2	0.2	0.1	0.1	..
Household Lending Growth (% yoy)	2.4	2.4	2.3	2.6	2.7	2.7	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8	121.9
NBNZ Business Confidence	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5	49.5
NBNZ Own Activity Outlook	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6	43.0
Trade Balance ($m)	-177.6	-716.6	-561.5	-501.5	-280.4	-26.4	271.1	334.6	567.2	..
Trade Balance ($m annual)	-2491	-2360	-1669	-1176	-863	-549	-176	-324	-194	..
ANZ World Commodity Price Index (% mom)	0.9	4.2	7.3	4.7	10.9	2.6	0.4	3.8	1.8	4.9
ANZ World Commodity Price Index (% yoy)	-28.7	-23.1	-13.0	-1.4	18.1	30.8	37.1	49.1	50.1	53.5
Net Migration (sa)	2460	1630	1840	2150	1740	1670	1830	1000	970	770
Net Migration (annual)	14488	15642	17043	18560	20021	21253	22588	21618	20973	19954

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	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.698	0.711	0.678	0.710	0.700	0.700	0.690	0.680	0.660	0.650
NZD/AUD	0.780	0.775	0.815	0.772	0.769	0.769	0.767	0.756	0.750	0.756
NZD/EUR	0.512	0.526	0.541	0.592	0.609	0.609	0.585	0.576	0.550	0.533
NZD/JPY	62.10	66.41	61.26	64.61	64.40	65.80	66.24	66.64	66.00	65.00
NZD/GBP	0.458	0.468	0.469	0.473	0.467	0.470	0.469	0.456	0.440	0.433
NZ$ TWI	64.5	66.0	65.6	68.0	68.1	68.4	67.3	66.5	64.7	63.7
INTEREST RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25	4.75	5.25
NZ 90 day bill	2.71	2.67	2.90	3.10	3.70	3.80	4.20	4.70	5.20	5.70
NZ 10-yr bond	5.76	5.98	5.62	5.90	5.90	5.80	5.90	6.10	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.29	0.50	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	4.00	4.50	4.50	5.00	5.25	5.50	5.75	5.75	6.00
AU 3-mth	4.13	4.49	4.67	4.80	5.20	5.50	5.80	6.00	6.00	6.20

	21 Apr	17 May	18 May	19 May	20 May	21 May
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.69	2.91	2.91	2.92	2.91	2.89
NZGB 11/11	3.73	3.82	3.83	3.76	3.80	3.71
NZGB 04/13	4.55	4.57	4.58	4.50	4.53	4.42
NZGB 12/17	5.68	5.46	5.47	5.41	5.44	5.38
NZGB 05/21	5.95	5.69	5.70	5.64	5.67	5.62
2 year swap	4.23	4.44	4.45	4.38	4.42	4.29
5 year swap	5.23	5.32	5.31	5.26	5.30	5.20
RBNZ TWI	66.0	67.7	67.2	66.8	66.4	65.3
NZD/USD	0.7113	0.7006	0.6956	0.6863	0.6839	0.6773
NZD/AUD	0.7631	0.8004	0.7975	0.8021	0.8109	0.8115
NZD/JPY	66.28	64.38	64.32	63.12	62.78	61.10
NZD/GBP	0.4629	0.4889	0.4818	0.4802	0.4746	0.4688
NZD/EUR	0.5301	0.5706	0.5636	0.5626	0.5534	0.5353
AUD/USD	0.9321	0.8753	0.8722	0.8556	0.8434	0.8346
EUR/USD	1.3417	1.2279	1.2341	1.2199	1.2358	1.2653
USD/JPY	93.18	91.89	92.47	91.97	91.79	90.21
GBP/USD	1.5366	1.4329	1.4439	1.4291	1.4411	1.4446
Oil (US$/bbl)	82.98	71.61	70.08	69.38	69.91	68.28
Gold (US$/oz)	1143.55	1238.65	1226.25	1209.05	1191.70	1174.73
Electricity (Haywards)	10.76	4.70	4.15	4.52	4.94	4.88
Milk futures (US$/contract)	115.5	127	127	127	127	127
Baltic Dry Freight Index	3009	3922	3882	3832	3803	3844

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:

IMPORTANT NOTICE

- 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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