

Market Focus

New Zealand

31 August 2009

THE MIX

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- > Data continues to point towards recovery, but the real issue from this point is the sustainability and durability given the balance sheet and indebtedness of NZ.Inc.

Page 4: Economic comment – financial conditions update

- > Our financial conditions indexes suggest the recovery is underway. Improved credit conditions and a recovery in asset prices are driving the improvement domestically and around the globe. If “healing” is truly taking place then the immediate question is how long policymakers can keep extra-ordinary policy measures in place. Laying out the path for so-called exit strategies are now key to watch. And the key question at this juncture is whether asset prices could sustain the exits?

Page 6: Interest rate strategy

- > NZ business confidence data aside, the NZ rates market will be mainly driven by the tone of the Australian market this week. Momentum and flow suggest yields could be set to push higher, with the 2-year swap threatening to break through the key 4.2 percent topside level.

Page 7: Currency strategy

- > The NZD traded in a tight range between 0.6775 and 0.6898 as traded volumes continued to dwindle. The market’s focus continues to be on the recovery story with more commentators expecting NZ to benefit from global improvements. Indeed the number of pundits calling the NZD straight through 70 cents from here seems symptomatic of everyone “running to the same side of the boat”. Beware a market heavily positioned one way.

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ECONOMIC OVERVIEW

Data continues to point towards recovery, but the real issue from this point is the sustainability and durability given the balance sheet and indebtedness of NZ.Inc.

What's ahead?

- > **August NBNZ Business Outlook** (Monday 1500 NZST).
- > **Fonterra online dairy auction results** (Wednesday morning NZST). While intuitively we would expect a pull-back from last month's surge, we cannot rule out another rise. However, we would view a "good" result as prices unchanged from the previous auction.
- > **August ANZ Commodity Price Index** (Thursday 1500 NZST).

What's the view?

At first blush, the data last week was relatively positive, but not totally unexpected.

Residential building consents (up 5 percent in July) have turned the corner, in line with the pick up seen in housing turnover. Residential investment, as a result, should begin to recover late this year and into 2010. The annual trade deficit has narrowed to \$2,478 million – the smallest deficit since May 2003 – and is pointing to a reasonable reduction in the current account deficit over the remainder of this year. The ability to obtain strong export growth to China, with exports up 65 percent over the past 12 months (on a three-month average basis), is offsetting weakness in other markets and highlights flexibility on the part of NZ exporters to target the relative growth regions of the globe (although stock-building is also likely to be part of the story).



Sources: ANZ National, Statistics NZ

But let's not get too carried away. While consents are recovering, we need to remember that they are climbing out of a deep hole, with the preceding months showing consents at the lowest level since the 1960s. The change is welcome but we need to keep an eye on the level as well. Non-

residential consent issuance on the other hand looks set to weaken as incentives to build (higher vacancies, falling rents, reduced valuations and financial constraints) remain few and far between. While Government infrastructure projects will provide some support, the compositional shift in construction towards residential and away from commercial (the reverse of the past 12 months) will ensure that overall construction activity remains subdued.

A continued improvement in the trade balance is also not assured.

Import demand has suffered (down over 20 percent on a year ago) due to the downturn in the domestic economic backdrop and a run-down in inventories that has occurred across the country. This has been the main driver of the recent trade balance improvement. However, with the domestic economy now looking like it is finding a base and arguably recovering, it would be natural to assume that import demand will begin to recover as the inventory cycle turns up. For the economy to continue to rebalance and for the pending improvement in the current account deficit to be sustained, a marked improvement in export performance is still required. It will need to be more broad-based than a further pickup in demand from China. We are yet to see this, and a high currency is clearly not assisting.

We welcome the improvement across indicators but continue to question the sustainability of the recovery.

New Zealand faces two choices at this juncture. We knuckle down and do some hard yards. Accept the world has changed and the debt-fuelled consumption model is broken. Savings lifts and investment is directed into real or productive assets, as opposed to housing. But our travels around the country continue to highlight the alternate: borrow and spend our way to growth. The more "talk" that permeates about housing, the more we ponder the durability of any upturn. Last week's credit data remained anaemic so we do not yet appear to be tracking down that route. But if the housing market continues to pick-up steam then credit growth will not remain weak or the current account deficit on an improving trajectory for too long.

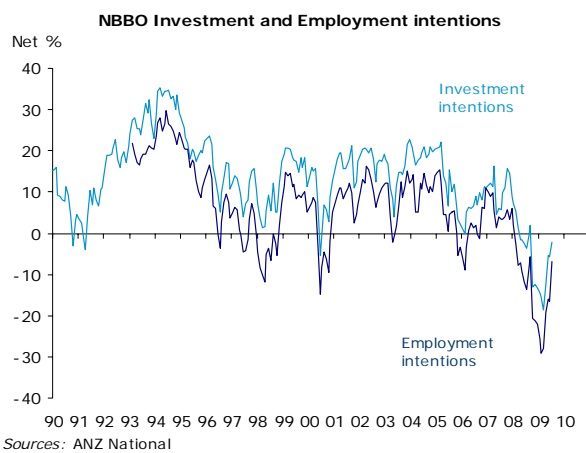
The tension between the two paths still leaves us musing over our mild "W".

That is, a temporary dip for the economy in early 2010 after recovery in H2 2009. It's a mild "W" because we respect the improving tenor of data including confidence (and a statistical recovery). But we also believe the head-of-steam in housing is more hype than real, and the economy continues to face real challenges across the dairy sector for instance. In effect, a borrow-and-spend recovery gets snuffed out voluntarily and we doubt there is enough momentum across the earnings sector to fill the void in early 2010, particularly with the currency at

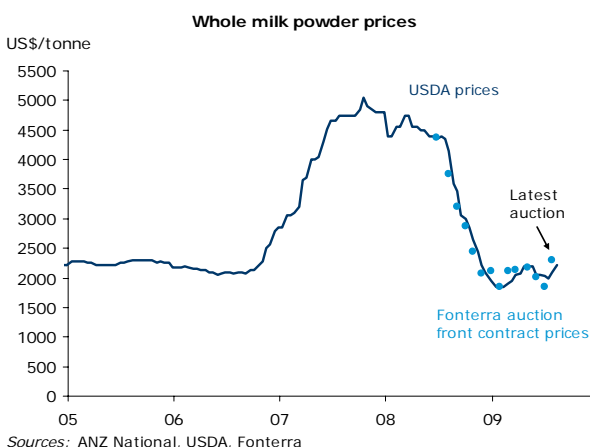
present levels. Considerable uncertainty surrounds the timing of the “dip”, but the real spirit is one of wariness on our behalf over the sustainability of a recovery until imbalances are purged, both domestically and globally.

It is relatively quiet for local data this week.

The two releases are the August NBNZ *Business Outlook* due out this afternoon and the ANZ Commodity Price Index (also for August) due on Thursday. The former, as our readers will be well aware, is one we place a lot of weight on. It has proved itself to be one of the best leading gauges on economic activity for the NZ economy. The major focus will be whether it continues to point to more optimism from businesses ahead and what firms’ plans are on the investment and hiring front. The latter two are key gauges that need to improve for a recovery to truly take hold.



The next Fonterra online auction this week will undoubtedly get plenty of attention. The surprise of the 26 percent increase in dairy prices from the auction at the start of this month still sits in the minds of many in the market. The results of the next auction should be received some time on Wednesday morning (NZST). While intuitively we would expect a pull-back from the significant surge in the previous auction, the way many markets are behaving at present, you cannot rule out another rise. We would view a “good” result as one where prices remained unchanged on reasonable volumes.



It is a big week in Australia this week. The major focus will be the RBA’s policy decision. Economists and the market agree that an imminent change in the cash rate is quite unlikely. However, with signs that the Australian economy has avoided the worst, there is a strong rationale that the RBA could withdraw some of the monetary policy support that was provided as insurance for a further deterioration in the economy. The market has the first rate hike fully priced in by November this year (although October is also being considered by many), while our Australian colleagues are expecting the first hike to occur in February 2010. Also this week will be data released on the June quarter current account and GDP. The latter will be of most interest and will likely confirm that the Australian economy is set to avoid recession. Following some solid partial indicators released last week, our Australian colleagues are expecting a 0.7 percent increase.

Some other interesting data is also released around the globe this week. In the US, the important releases will be leading gauges such as the Chicago PMI and also the ISM manufacturing and services surveys. The August non-farm payrolls results will also get plenty of interest to see whether the pace of job losses is in fact slowing. Labour market data in Europe will also be important, as will the policy decision from the ECB, although no change in policy settings are expected. Finally, the G20 meeting of finance ministers and central bankers (this weekend) will also be watched for any discussion around potential exit strategies.

Recent local data...

- > **RBNZ Survey of Expectations (September quarter):** 2-year ahead inflation expectations rose by 0.1 percentage points to 2.3 percent.
- > **Overseas Merchandise Trade (July):** A monthly trade deficit of \$163 million was recorded, taking the annual deficit to \$2,478 million. This is the smallest annual deficit since May 2003.
- > **Building Consents Issued (July):** Total residential consent issuance rose by 5.0 percent, although the level still remains down 16.8 percent on a year ago. The value of non-residential consents was \$371 million in the month.
- > **Credit Growth (July):** Total household claims rose by 0.3 percent following a 0.1 percent increase in June. Annual growth sits at 2.8 percent. Annual business credit growth is running at 1.6 percent, while agricultural growth is 14.4 percent.

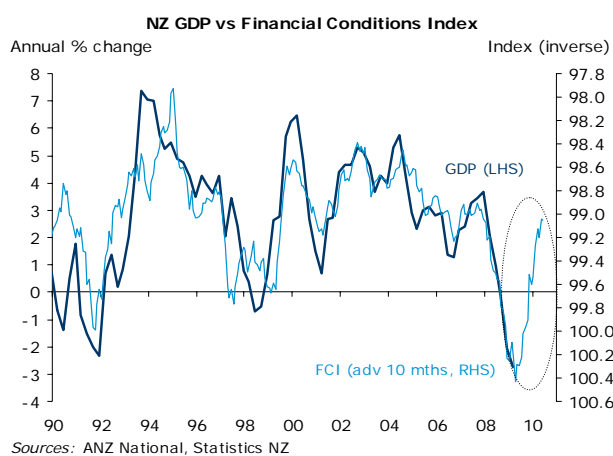
FINANCIAL CONDITIONS UPDATE

Our financial conditions indexes suggest the recovery is underway. Improved credit conditions and a recovery in asset prices are driving the improvement domestically and around the globe. If "healing" is truly taking place then the immediate question is how long policymakers can keep extra-ordinary policy measures in place. Laying out the path for so-called exit strategies are now key to watch. And the key question at this juncture is whether asset prices could sustain the exits?

Tightening or loosening?

The RBNZ clearly expressed concern at tightening financial conditions in their July *OCR Review*. Since then, conventional monetary conditions have tightened courtesy of a higher NZD. In addition, fixed mortgage rates have moved slightly higher.

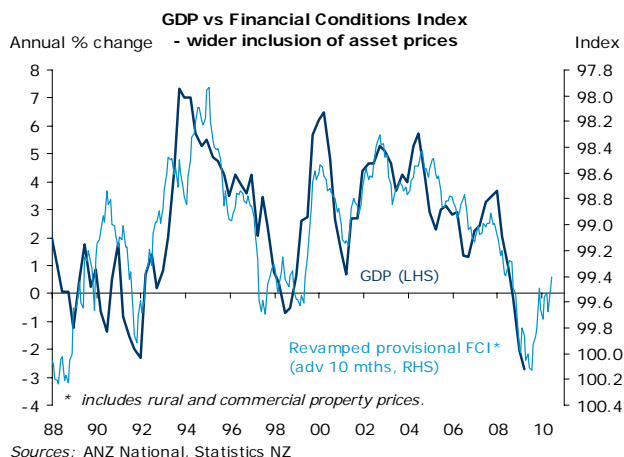
In contrast, our Financial Conditions Index (FCI) for NZ showed a loosening in conditions, mainly courtesy of rising asset prices (both housing and equities). Our proxies for the cost and supply of offshore credit (CDS spread for the big four Australian banks and the US Fed Senior Loan Officer Survey) both also showed a slight easing.



We are wary of getting too excited about the recovery implied by the FCI. At current levels, our FCI is flagging a rebound in GDP growth towards 2 to 3 percent by mid 2010. While there is no doubting that the economy is gaining forward momentum as we head into the second half of this year, and we have to acknowledge what the FCI is telling us, we remain mindful that certain structural aspects to this economic cycle may not be fully captured in the index.

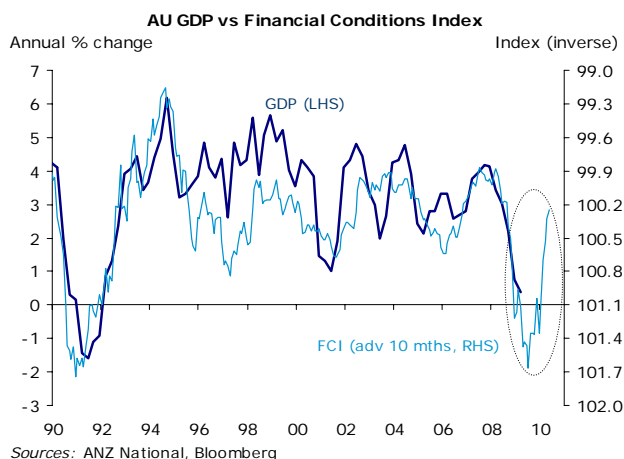
Going forward we plan to incorporate rural land prices and commercial property prices in our index, which we expect will alter the reading somewhat. A first attempt, which still needs to be refined and finalised, does show a more subdued recovery. But for now we respect the current

trends in our original gauge, which is consistent with other leading gauges of momentum.



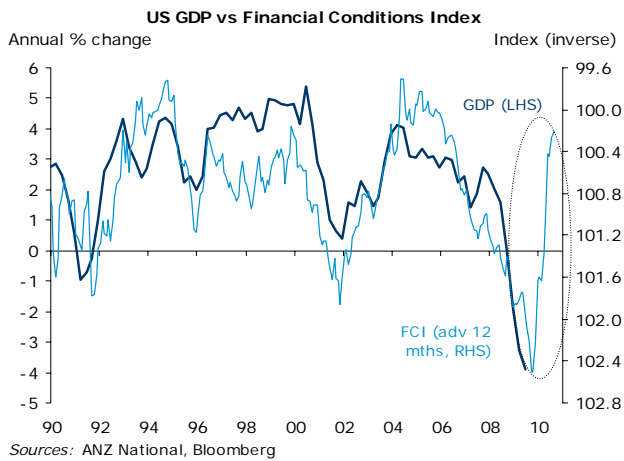
Up, up and away?

Our FCI for Australia suggests conditions are easing sufficiently for the economy to be reflating quickly in the coming quarters, with GDP growth above 3 percent by mid next year. Swap yields may have moved higher as the market prices in rate hikes before Christmas, but strongly performing asset prices have been more than sufficient to counter the tightening coming from the interest rate channel. If our FCI is correct, the dataflow could be surprising to the upside over the coming months.



Are the green shoots sprouting?

Our FCI for the US has shown a large easing, courtesy of ongoing weakness in the greenback, rising equity prices, house prices picking up for the first time since 2006, alongside a slight easing in lending standards. If our FCI is to be believed, the US economy could be growing at 4 percent next year, quite a turnaround from the -4 percent recorded in the June quarter.



their current path, we suspect the test for this is fast approaching.

The upshot

Financial conditions across the US, Australia and NZ are now pointing towards a reasonable upturn. History shows that recoveries can quickly become somewhat self-fulfilling once confidence takes hold and pent-up demand is unleashed.

For sure, we should remain somewhat cautious about reading too much into the extent of the rebound implied by our indexes. When financial conditions are easing primarily through rising asset prices, at a time when economic conditions are still fragile, it pays to be wary. Structural aspects to this economic cycle (re-weighting indexes more in favour of the credit channel and regulatory changes), which will not be captured by our FCI, mean we continue to take a guarded view towards the outlook.

The real message in our indexes is that they highlight considerable tension. While a lot of slack will remain across key economies even if we see the sort of rebound flagged by financial conditions measures (the level versus the change), they are nonetheless pointing towards a sizeable upturn. If this is to be believed then you have to wonder how long extra-ordinary policy measures can remain in place. The improvement in financial conditions seems premised on support remaining for a considerable period. This in itself is at odds with where financial conditions reside.

We noted comments in the newspaper over the weekend from RBNZ Governor Bollard that a consensus out of the annual Jackson Hole conference in the US was that interest rates were too low and monetary policy too lax for too long back in the early part of this decade. One of the key issues policymakers now face is to what degree they have learnt from that experience.

Laying out the path for so-called exit strategies are now key to watch. And the critical question at this juncture is whether asset prices and financial conditions could sustain the exits? If asset markets continue on

INTEREST RATE STRATEGY

NZ business confidence data aside, the NZ rates market will be mainly driven by the tone of the Australian market this week.

Momentum and flow suggest yields could be set to push higher, with the 2-year swap threatening to break through the key 4.2 percent topside level.

Market themes...

- > NZ market again hostage to offshore moves.
- > Aggressive selloff in the Australian market late in the week flowed through.
- > RBA, Australian Q2 GDP and key US data key risk events for the week.

Review and outlook

The NZ rates market found itself merely riding on Australia's coat-tails. In a week where there was a lack of significant local data, participants were always going to look offshore for direction. Two influential commentators talking about the increasing likelihood of an early rate hike by the RBA caused a 25 point selloff, and this flowed through into the NZ rates market. Thin liquidity on the NZ side ended up exacerbating the moves.

Topside resistance in the 2-year looks set to be tested this week. The 2-year has tested the 4 percent support level on a few occasions and has failed to go through. It seems the more it fails the tougher it will become as payers target this level on any rally. With the selloff late last week, the 2-year now finds itself moving towards the top of the range, and we are about to now see the 4.2 percent topside resistance being tested. A lack of receivers and the risk that underwater received positions stop out suggest a strong possibility that we will see a break.

There has been ongoing interest to establish short Australian vs long NZ swap positions. This trade has worked very well for those who have had it on. But we think it has largely done its dash. The Australian leg has already moved a long way. And when profit is taken and NZ received positions are unwound, it just means more payside NZD flow to hit the market, which does not bode well for the long NZ leg.

Further curve flattening is evident as the front-end sold off but receivers were keen on the 10-year at around the 6 percent level. This saw the 2s10s flatten to a new low of 184.5bps. There was also flattening in the 2s3s as this part of the curve steepened significantly when rate hikes were considered likely much further out. With talk beginning to circulate as to when RBNZ Governor Bollard may drop the "rates on hold till late 2010" line, there is increasing payside in the 2-year. With

1s3s so steep, participants are looking to move into the safety of the longer and steeper parts of the curve. In line with this there is also increasing activity to pay OIS in the 6-month and 1-year as protection against a faster than expected recovery.

Borrowing strategies we favour at present

Our strategy is unchanged. We still favour floating and this will remain the cheapest part of the curve for some time. For those who want certainty in their borrowing, we continue to suggest the use of options as a way to hedge, rather than locking in swap yields at current levels. Those with long-term in-the-money hedges can consider shortening duration and using the value to convert the swap to a collar over the next 12-24 months.

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	↔/↑	Data expected to show further signs of recovery, though at a subdued pace.
Fed Funds / front end	↔	Fed still not set to embark on "exit strategies" just yet.
RBA	↑	Markets front-running pre-Christmas rate hikes.
US 10 year	↔	US consumer sentiment still weak and inflation not an issue. 3.5% topside to hold.
NZ swap curve	↓	Flattening pressure to continue. 175bps next support level.
Flow	↔/↑	Paying interest still dominating.
Technicals	↔/↑	2-year set to test 4.2% resistance level on topside.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Sep-09	-2	-2
Thu 29-Oct-09	-3	-2
Thu 10-Dec-09	+3	+3
Thu 28-Jan-10	+14	+15
Thu 11-Mar-10	+31	+38
Thu 29 Apr-10	+54	+57
Thu 10 Jun-10	+77	+87

Trading themes we favour at present

There is still pressure for the curve to flatten. Therefore, we continue to favour the 2s10s flattener trade. With the Australian market looking for the RBA to hike before Christmas, there will be pressure for yields to rise in NZ. We still expect the RBNZ to hold until the second half of next year, and may look to receive should yields break through the top of their range at 4.2%.

CURRENCY STRATEGY

The NZD traded in a tight range between 0.6775 and 0.6898 as traded volumes continued to dwindle. The market's focus continues to be on the recovery story with more commentators expecting NZ to benefit from global improvements. Indeed the number of pundits calling the NZD straight through 70 cents from here seems symptomatic of everyone "running to the same side of the boat". Beware a market heavily positioned one way.

Market themes...

- > The global recovery is still the central theme.
- > Derivatives activity is dominating trading ranges.
- > All NZD crosses remain at or near recent highs.

Review and outlook...

NZD market activity remains subdued and in tight ranges. While nothing fundamentally has changed in the last week, the recovery chorus continues to gather momentum with many commentators now seeing a breach of the 70 cent level for the NZD as imminent.

Comments this morning from RBNZ Governor Bollard following his return from the central bankers meeting in Jackson Hole suggest that the worst is behind us for the global economy.

While this view should underpin the market's positive NZD outlook, the devil remains in the detail. *"The New Zealand economy is recovering, and for us really, it's not just the size of the recovery, it's the quality we'll be concerned about"* Bollard told Radio New Zealand. Other comments suggest we could see a lot of "devil in the detail" at next week's *Monetary Policy Statement* announcement. Suffice to say, monetary policy is a lot tighter than the RBNZ desires and the exchange rate is largely to blame.

Market activity for the next week or so could be dominated by derivatives linked activity.

The NZDUSD will likely be capped below 0.6900 due to a significant barrier option which we believe is, and will continue to be, defended.

NZDAUD has continued to defy market expectations, hitting a high of 0.8240 last week. The fundamental backdrop of divergent economic fortunes and monetary policy directions has failed so far to drive that currency pair lower. The RBA announcement on Tuesday this week may provide further evidence that the RBA is very close to raising rates (perhaps in October) driving a further wedge between the two central banks and allow this pair to finally follow fundamentals.

Technically, the target for NZD remains at 0.6935, but after four attempts to break 0.6900, perhaps 0.6898 is close enough. NZDAUD rejected 0.8240 and broke the short-term uptrend at 0.8170. We should now see the downside continue with a target of 0.7970. Momentum indicators support the turn. NZDJPY failed to break the 10 August high and this signals inherent weakness in that pair. A break down through 63.30 and 62.50 should see an attempt through 60.00.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	RBA looks set to go first.
Commodities	↔/↑	Commodities looking better.
Partial indicators	↔/↓	Australia over-stimulated.
Technicals	↓	Range trade now.
Sentiment	↓	Participants stopped out of NZDAUD shorts.
Other	↓	Australia is stronger.
On balance	↔/↓	In sell zone.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔	Only slightly above short-term fair value.
Yield	↔	Can we stay low if RBA starts to hike?
Commodities	↔/↑	Dairy prices look to be moving higher.
Risk aversion	↔/↑	Improving with rally in equities.
Partial indicators	↔/↑	Data showing improvement and an end to recession.
Technicals	↔/↑	Targeting 0.6935. 0.6630 support.
AUD	↔/↑	As a barometer of global growth, AUD is bid.
Sentiment	↔/↑	Improving but still very fickle and can turn on a dime.
Other	↔	Watch the Shanghai index.
On balance	↔/↑	Range-bound between 0.6780 and 0.6900.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
31-Aug	UK	Hometrack Housing Survey (Aug) - mom	-	0.0%	11:01
	JN	Industrial Production (Jul P) - mom	1.4%	2.3%	11:50
		Retail Trade (Jul) - mom	-0.5%	-0.2%	11:50
		Vehicle Production (Jul) - yoy	-	-34.0%	16:00
		Housing Starts (Jul) - yoy	-30.3%	-32.4%	17:00
		Construction Orders (Jul) - yoy	-	-28.0%	17:00
		BoJ Governor Masaaki Shirakawa to Speak in Osaka	-	-	17:30
	AU	TD Securities Inflation (Aug) - mom	-	0.9%	12:30
		HIA New Home Sales (Jul) - mom	-	0.5%	13:00
		Company Operating Profit (2Q) - qoq	-4.5%	-7.2%	13:30
		Private Sector Credit (Jul) - mom	0.2%	0.1%	13:30
		Inventories (2Q)	-1.1%	-1.2%	13:30
	NZ	NBNZ Business Confidence (Aug)	-	18.7	15:00
	EC	CPI Estimate (Aug) - yoy	-0.3%	-0.6%	21:00
1-Sep	US	Chicago Purchasing Manager (Aug)	48.0	43.4	01:45
		NAPM-Milwaukee (Aug)	49.0	45.0	02:00
		Dallas Fed Manufacturing Activity (Aug)	-14.0%	-25.5%	02:30
	AU	AIG Performance of Manufacturing Index (Aug)	-	44.5	11:30
		Building Approvals (Jul) - mom	3.3%	9.3%	13:30
		Current Account Balance (2Q)	-10.7B	-4.614B	13:30
		RBA Cash Target	3.00%	3.00%	16:30
		RBA Commodity Index SDR (Aug) - yoy	-	-31.8%	17:30
	JN	Vehicle Sales (Aug) - yoy	-	-4.2%	17:00
	GE	Unemployment Change (000's) (Aug)	30K	-6K	19:55
		Unemployment Rate (s.a) (Aug)	8.4%	8.3%	19:55
		PMI Manufacturing (Aug F)	49.0	49.0	19:55
	EC	PMI Manufacturing (Aug F)	47.9	47.9	20:00
		Unemployment Rate (Jul)	9.5%	9.4%	21:00
	UK	Net Consumer Credit (Jul)	0.1B	0.1B	20:30
		Mortgage Approvals (Jul)	50.1K	47.6K	20:30
		M4 Money Supply (Jul F) - mom	-	1.0%	20:30
		PMI Manufacturing (Aug)	51.5	50.8	20:30
2-Sep	NZ	Fonterra Monthly Milk Powder Auction Result	-	-	-
	US	ISM Manufacturing (Aug)	50.5	48.9	02:00
		ISM Prices Paid (Aug)	57.8	55	02:00
		Construction Spending (Jul) - mom	-0.1%	0.3%	02:00
		Pending Home Sales (Jul) - mom	1.6%	3.6%	02:00
	JN	Monetary Base (Aug) - yoy	-	6.1%	11:50

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)	
2-Sep cont.	AU	Gross Domestic Product (2Q) - qoq	0.6%	0.4%	13:30	
		Gross Domestic Product (2Q) - yoy	0.7%	0.4%	13:30	
	UK	PMI Construction (Aug)	48.0	47.0	20:30	
	EC	GDP (2Q P) – qoq	-0.1%	-0.1%	21:00	
		GDP (2Q P) - yoy	-4.7%	-4.6%	21:00	
		PPI (Jul) - mom	-0.6%	0.3%	21:00	
3-Sep	US	ADP Employment Change (Aug)	-250K	-371K	00:15	
		Non-Farm Productivity (2Q F)	6.4%	6.4%	00:30	
		Unit Labour Costs (2Q F)	-5.8%	-5.8%	00:30	
		Factory Orders (Jul)	2.2%	0.4%	02:00	
		Fed's Lockhart Speaks at Emory on Lessons of Financial Crisis	-	-	03:30	
		Minutes of Aug. 12 FOMC Meeting	-	-	06:00	
	AU	AIG Performance of Service Index (Aug)	-	44.1	11:30	
		Trade Balance (Jul)	-880M	-441M	13:30	
		NZ	ANZ Commodity Price (Aug) - mom	-	1.0%	15:00
		GE	PMI Services (Aug F)	54.1	54.1	19:55
		EC	PMI Services (Aug F)	49.5	49.5	20:00
			Retail Sales (Jul) - mom	0.1%	-0.2%	21:00
	ECB Announces Interest Rates		1.00%	1.00%	23:45	
	UK	PMI Services (Aug)	54.0	53.2	20:30	
		Official Reserves (Changes) (Aug)	-	\$198M	20:30	
4-Sep	US	Initial Jobless Claims (w/e Aug-30)	560K	570K	00:30	
		Continuing Claims (w/e Aug-23)	6115K	6133K	00:30	
		ISM Non-Manufacturing Composite (Aug)	48.0	46.4	02:00	
		Fed's Fisher Speaks in Santa Barbara, California, on Economy	-	-	13:00	
	EC	Trichet Speaks at ECB Monthly News Conference	-	-	00:30	
		ECB's Stark Speaks In Frankfurt	-	-	02:00	
		European Commission Releases Economic Forecasts	-	-	21:45	
		JN	Capital Spending (2Q)	-23.0%	-25.3%	11:50
5-Sep	US	Change in Non-Farm Payrolls (Aug)	-230K	-247K	00:30	
		Unemployment Rate (Aug)	9.5%	9.4%	00:30	
		Average Hourly Earnings (Aug) - mom	0.1%	0.2%	00:30	

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The upcoming dataflow is generally expected to take on an improving trend and one that points to an economy closer to exiting recession. Although once again, the difference between the change and level needs to be distinguished.

Date	Data/Event	Economic Signal	Comment
Mon 31 Aug (15.00)	NBNZ <i>Business Outlook</i> (Aug)	-	-
Thu 3 Sep (15.00)	ANZ Commodity Price Index (Aug)	-	-
Mon 7 Sep (10.45)	Wholesale Trade Survey (Jun qtr)	Stabilising	In line with some stabilisation starting to appear in the retail sector, wholesale trade activity is also likely to be close to forming a base.
Thu 10 Sep (09.00)	RBNZ <i>Monetary Policy Statement</i>	Step towards neutral	Similar messages are likely to be delivered by the RBNZ. However, an asset price bubble unwind and high currency are problematic. We expect the tone to shift more towards neutral, although remain on the soft side of it. Dissipating downside risks to the global economy (improving credit markets) and an improving housing market call for a more neutral stance. However, we once again need to differentiate between the change and the level of activity.
Thu 10 Sep (10.45)	Overseas Trade Indexes (Jun qtr)	Terms of trade down again	Another large fall in export prices is expected in the quarter, driven by lagged movements in NZD commodity prices. This should contribute to the terms of trade falling by around 2 percent.
circa 11 Sep	REINZ Housing Market data (Aug)	On the path to recovery, but for how long?	The recent trend of improving housing market activity is expected to be maintained. House prices look likely to be supported by the current lack of listings.
Mon 14 Sep (10.45)	Retail Trade Survey (Jul)	Stabilising	Retail spending looks as though it is finding a base. We expect sales to record a modest rise in the month.
Tue 15 Sep (10.45)	Economic Survey of Manufacturing (Jun qtr)	Improving?	Following some large falls in recent quarters, manufacturing activity is expected to record positive growth, albeit off depressed levels.
Mon 21 Sep (10.45)	International Travel and Migration (Aug)	Similar story	Another solid monthly net inflow is expected as the number of New Zealanders leaving remains subdued. However, the big focal point is whether arrivals are able to hold up, particularly given the weak domestic labour market.
Tue 22 Sep (10.45)	Balance of Payments (Jun qtr)	Sharp improvement, but will it be sustained?	A reasonable improvement in the trade balance (courtesy of a capitulation in imports) should see the current account deficit improve to around 7 percent of GDP in the quarter.
Wed 23 Sep (10.45)	GDP (Jun qtr)	The final quarter of recession?	We have pencilled in a -0.6 percent contraction.
Fri 25 Sep (10.45)	Overseas Merchandise Trade (Aug)	Beginning to turn?	With the domestic economy stabilising, import demand is expected to do the same, albeit gradually. We expect the annual trade deficit to start to hover around current levels.
On Balance		We have found a base	Signs of stabilisation are expected to continue. But the mix to growth does not give the recovery a sustainable look.

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	-0.6	0.4	0.4	-0.3	0.2	1.2
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	-3.1	-2.2	-0.8	-0.1	0.7	1.5
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	0.1	0.8	-1.4	-0.5	-0.6	-0.3	-0.2	0.0	0.2
Employment (% yoy)	0.8	1.0	1.0	0.8	-0.9	-1.6	-2.7	-1.5	-1.1	-0.3
Unemployment Rate (% sa)	3.9	4.3	4.7	5.0	6.0	6.3	6.7	7.2	7.5	7.6
Current Account (% GDP)	-8.4	-8.7	-9.0	-8.5	-6.9	-5.9	-5.2	-5.2	-5.6	-6.0
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-3.0	-2.0	-1.6	-1.4	-1.0	-0.4	-1.0
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.2	-6.8	-7.3	-7.7	-5.8	-4.3	-3.8

KEY ECONOMIC INDICATORS

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Retail Sales (% mom)	0.0	-0.5	-1.2	0.2	-0.1	0.5	0.7	0.1
Retail Sales (% yoy)	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1
Credit Card Billings (% mom)	-0.8	-2.2	1.5	0.9	-2.8	2.3	-0.4	0.2	0.1	..
Credit Card Billings (% yoy)	-0.9	-3.8	-2.3	-1.9	-4.8	-1.6	-2.3	-2.1	-2.0	..
Car Registrations (% mom)	-19.9	12.7	-14.1	-14.9	7.8	-1.5	-3.1	6.0	7.3	..
Car Registrations (% yoy)	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	..
Building Consents (% mom)	4.5	-5.8	-13.1	12.3	-1.7	11.2	2.9	-9.6	4.9	..
Building Consents (% yoy)	-39.9	-41.4	-51.3	-39.8	-34.2	-56.6	-23.4	-24.1	-16.8	..
REINZ House Price (% yoy)	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	..
Household Lending Growth (% mom)	-0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.1	0.3	..
Household Lending Growth (% yoy)	4.8	4.2	3.8	3.1	2.7	2.6	2.5	2.4	2.4	..
Roy Morgan Consumer Confidence	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3	107.0	114.1
NBNZ Business Confidence	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	..
NBNZ Own Activity Outlook	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	..
Trade Balance (\$m)	-594	-341	-102	483	438	322	905	-332	-163	..
Trade Balance (\$m annual)	-5234	-5614	-5405	-5165	-4684	-4070	-2995	-3112	-2478	..
ANZ World Commodity Price Index (% mom)	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	..
ANZ World Commodity Price Index (% yoy)	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	..
Net Migration (sa)	-210	390	890	1670	1750	2130	2610	1650	2470	..
Net Migration (annual)	3569	3814	4538	6160	7482	9176	11202	12515	14488	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jun-09	Jul-09	31-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.637	0.644	0.684	0.640	0.590	0.590	0.600	0.620	0.640	0.650
NZD/AUD	0.795	0.801	0.812	0.800	0.747	0.720	0.723	0.730	0.744	0.765
NZD/EUR	0.455	0.458	0.478	0.464	0.430	0.424	0.431	0.439	0.451	0.464
NZD/JPY	61.6	60.9	63.9	62.7	58.8	59.4	61.6	64.3	66.6	68.3
NZD/GBP	0.389	0.393	0.421	0.388	0.356	0.354	0.360	0.367	0.376	0.382
NZ\$ TWI	60.3	60.6	63.38	60.9	56.5	56.0	56.9	58.3	60.0	61.4
NZ interest rates	Jun-09	Jul-09	31-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.74	2.73	2.50	2.50	2.50	2.50	2.50	3.00	4.00	4.50
90 day bill	2.78	2.79	2.79	2.80	2.80	2.80	2.80	3.60	4.50	5.00
10 year bond	6.24	5.96	5.69	5.90	6.00	6.00	6.40	6.60	6.70	6.90
International	Jun-09	Jul-09	31-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	0.60	0.48	0.35	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.00
AU 3-mth	3.19	3.20	3.42	3.50	3.60	3.80	4.30	4.30	4.30	4.30

KEY RATES

	28 Jul	23 Aug	24 Aug	25 Aug	27 Aug	28 Aug
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.79	2.77	2.78	2.76	2.77	2.77
NZGB 11/11	3.83	4.05	4.04	4.03	4.01	4.04
NZGB 04/13	4.77	4.94	4.91	4.91	4.87	4.91
NZGB 12/17	5.76	5.78	5.74	5.72	5.66	5.69
NZGB 05/21	6.23	6.20	6.15	6.14	6.07	6.10
2 year swap	3.95	4.12	4.08	4.07	4.06	4.15
5 year swap	5.36	5.43	5.39	5.37	5.36	5.42
RBNZ TWI	61.4	63.6	63.7	63.8	63.3	63.7
NZD/USD	0.6577	0.6850	0.6856	0.6868	0.6790	0.6867
NZD/AUD	0.7958	0.8162	0.8185	0.8203	0.8204	0.8181
NZD/JPY	62.54	64.94	64.51	64.68	63.60	64.34
NZD/GBP	0.3987	0.4146	0.4175	0.4205	0.4186	0.4220
NZD/EUR	0.4614	0.4778	0.4793	0.4803	0.4767	0.4782
AUD/USD	0.8265	0.8393	0.8376	0.8373	0.8276	0.8394
EUR/USD	1.4254	1.4338	1.4303	1.4300	1.4244	1.4359
USD/JPY	95.09	94.81	94.10	94.17	93.67	93.70
GBP/USD	1.6497	1.6522	1.6422	1.6332	1.6222	1.6272
Oil	68.34	73.12	73.68	71.60	71.38	72.49
Gold	954.30	954.00	944.20	946.90	945.40	949.90
Electricity (Haywards)	6.55	1.12	0.51	0.38	9.70	1.23
Milk futures (US\$/contract)	86	98	98	98	98	98
Baltic Dry Freight Index	3475	2437	2388	2427	2425	2421

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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Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

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