Market Focus

New Zealand

22 June 2009

WAITING FOR DIRECTION

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ECONOMIC OVERVIEW

The market continues to run counter to the RBNZ's stated policy view. The NZD remains elevated and interest rate hikes are priced in from early next year. But we have little doubt the RBNZ will "win" eventually. History shows this to be the case. Data this week should confirm that the economy was in a deeper hole in Q1, although rebalancing has begun.

What's ahead?

> **May Credit Card Spending** (Monday 1500 NZST). This is extremely volatile on a monthly basis. However, we will be looking at the interest bearing component of outstanding balances as a gauge of household cashflow pressures.

> **June quarter Westpac McDermott-Miller Consumer Confidence** (Wednesday 1400 NZST). Tax cuts in the pocket, a recovering housing market and better news from offshore should see an improvement in confidence. A weaker labour market will continue to weigh on sentiment though.

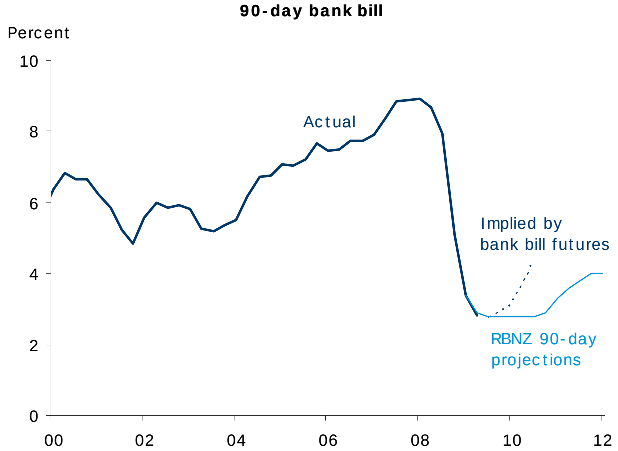
> **March quarter Balance of Payments** (Thursday 1045 NZST). The annual current account deficit is expected to improve to 8.3 percent of GDP (see preview on page 5).

> **March quarter GDP** (Friday 1045 NZST). The economy is expected to contract by 1.0 percent – the fifth consecutive quarterly fall (see preview on page 5).

What's the view?

It was sparse on the domestic data-front last week (with the exception of the March quarter manufacturing data that we briefly mentioned in last week's *Market Focus*). Local news was increasingly dominated by talk of the flu pandemic, with the number of cases rising sharply and expected to continue doing so. We're not going to put an estimate out there in terms of quantifying the potential impact on the economy, given that there is far too much uncertainty to have any confidence around the figures (the Treasury estimate that it could result in lower GDP to the tune of 0.7 to 2.1 percent in the first year under a 'mild' scenario). There is also the fact that it will be difficult to distinguish any impact from the challenges already present in the economy. However, we can safely say that the impact will not be positive, and as RBNZ Governor Alan Bollard noted, *"if the incidence is severe, it would delay recovery."* We will be watching developments very closely.

For markets though, the focus remains squarely offshore at present. Even comments from Governor Bollard last week where he stated that *"If markets are buying the New Zealand dollar on the expectation of a strong recovery they may end up being disappointed"* failed to really illicit much of a response in the market. Bollard repeated the underlying messages from the June *Monetary Policy Statement* that while the economy looks closer to regaining forward momentum, the recovery could be *"erratic"* and *"slow and drawn out"*. But again, the interest rate market's attention is elsewhere (as flow and positioning dominate) and it continues to price in OCR rate hikes by early next year.



Sources: ANZ National, Bloomberg

Regular readers will be aware that our own economic prognosis is similar to the RBNZ's views in terms of the U-shaped nature of this economic cycle (which we will be providing an update of with the release of our June *Quarterly Economic Forecasts* next week). In this regard, we share the Bank's frustration (particularly with the higher NZD) of the tightening in monetary conditions that continues to push against the economy's ability to rebalance. We do believe that the disconnect between the market's and the RBNZ's views will eventually adjust (in favour of the latter) but this may take some time (and potentially more jaw-boning). What the previous monetary policy cycle has shown us is that eventually the RBNZ will "win".

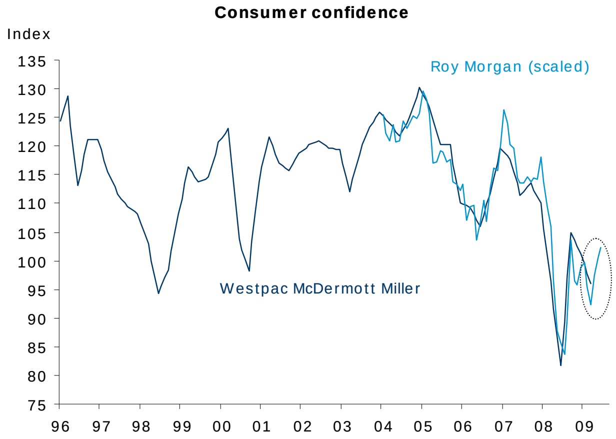
But frustrating as it may be, the price action in markets over the past few weeks is really just a reflection of where we see the wider macro environment at present. As we stated a few weeks ago, markets are moving from one of *trends* to *tensions*. It was relatively easy to see where markets were heading (generally down!) as the financial crisis developed and the global economy contracted. But now that credit markets have improved and signs of stabilisation and base-finding are beginning to be found, there is more uncertainty about where we are heading next. In one camp there are those that believe a global recovery will be V-shaped, and that inflation is a real risk in the future. Then there are those that feel that recovery is going to be a long and slow process as structural challenges remain (this is where we find ourselves leaning towards). The uncertainty surrounding how and when policymakers will withdraw the massive stimulus delivered over the past 18 months is adding to the confusion, with a number of policymakers commenting last week on the need of an “exit strategy”, but lacking any suggestions on what this strategy might be.

It is not surprising then, given these tensions and uncertainties, that markets are incredibly choppy and whippy at present. From one day to the next the focus can shift. Whether that is the extent of government debt issuance forcing bond yields higher, a weak US dollar, green shoots and signs that the US economy will be first out of recession, or concerns over the fragilities still present in Europe, volatility remains high. This volatility is then flowing into New Zealand markets. It is a dynamic we struggle to see ending any time soon and it looks likely that markets will continue to trade within wide ranges.

Looking ahead to this week, more of the attention is likely to be directed to domestic developments. In fact, just out this morning was migration data for May. It once again showed a solid monthly net inflow (2,690 people in seasonally adjusted terms) driven by less New Zealanders departing. This is the highest monthly net inflow since July 2003. Annual net migration has risen to 11,202 or 26,400 on a 3-month annualised basis. As the RBNZ pointed out at their *MPS*, net migration remains a key source of upside risk for the economy over the coming year and will help provide underlying support to the housing market and consumer spending.

For the rest of the week, the final pieces of data for the March quarter (GDP and Balance of Payments) take the limelight. While historical, they are still important nonetheless to determine how deep in the trough the economy was in over the first three months of the year (refer to page 5 for our preview note). We suspect that one of the reasons for the improvements seen in a number of leading indicators of late has been due to the fact that the economy was in a bigger hole in the first place. We expect the GDP data to show an economy in its fifth consecutive quarter of contraction, with activity falling 1.0 percent. In terms of the Balance of Payments numbers, encouragingly there will be further signs that the economy is rebalancing, with the current account deficit reducing to 8.3 percent of GDP from 8.9 percent.

The other important data released this week is the June quarter Westpac McDermott-Miller consumer confidence measure. The confidence data should record a small improvement – in line with the bi-monthly Roy Morgan survey. Tax cuts and lower interest rates are obviously a key source of more optimism. However, uncertain job prospects will remain a big cloud hanging over sentiment.



Sources: ANZ National, Westpac, Roy Morgan

Internationally this week the major data released will be the German IFO and PMI surveys in Europe. They will be looked to for further evidence of improvement in economic prospects. In the US, the Fed’s FOMC statement is the major event. The market has seen a signficant shift in sentiment of late, where they have begun to price in interest rate hikes as early as the end of this year. We think this is a stretch given the outlook for unemployment (remember the Fed have a dual mandate) and so will be looking for any comment from them that dampen these expectations. More importantly will be any indication of whether the Fed will be expanding their QE programme, or whether they are starting to think about “exit strategies”.

Recent local data…

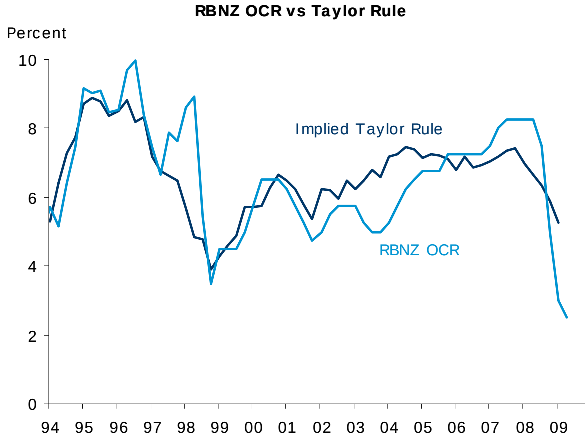
> **Economic Survey of Manufacturing (March quarter):** Manufacturing sales volumes rose 0.2 percent in the quarter, driven by meat and dairy product manufacturing. Excluding dairy and meat, sales fell 6.5 percent.

> **International Travel and Migration (May):** A monthly net inflow of 2,690 people was recorded. Visitor arrivals rose by 0.2 percent in May.

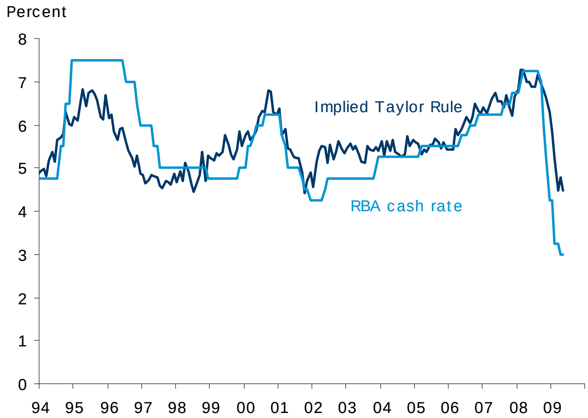
GLOBAL TAYLOR RULES

With central bank policy rates reaching the lower bounds in some cases, or seemingly on hold for now, markets are now trying to second guess the timing of the inevitable tightening cycle. However, interest rate hikes look to be some way off yet as inflation remains weak and unemployment rises.

The Taylor Rule (named after John Taylor who originally proposed the theory in 1993) is a useful tool for modelling a central bank's reaction function; or in other words, how the central bank responds to developments in the economy. There are various ways to create a Taylor Rule and they work better for some central banks than others. But the general principle is that they weigh the relative importance of inflation or expected inflation, and 'slack' in the economy (such as an output gap or unemployment gap measure). The charts below show the respective Taylor Rules we have created for the RBNZ, RBA, Fed, ECB and BoE.

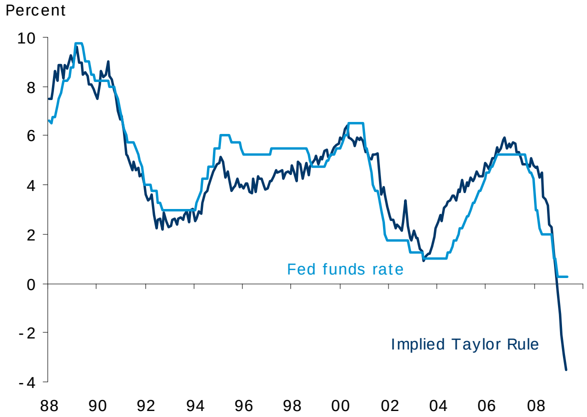


Sources: ANZ National, Bloomberg

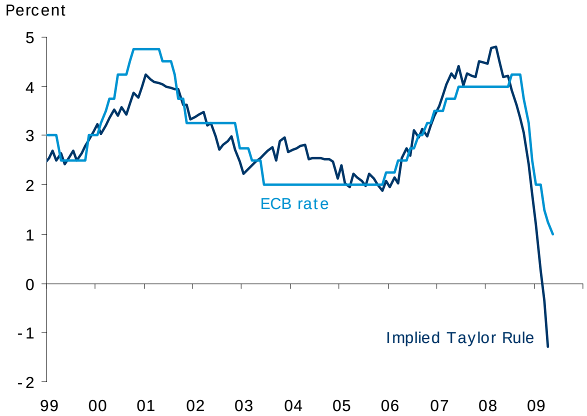


Sources: ANZ National, Bloomberg

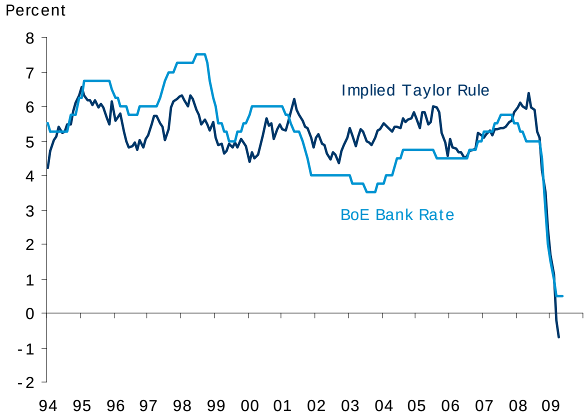
Our Taylor Rules suggest that some central banks have been much more aggressive than others in terms of front-loading the easing cycles (NZ, AU and US). The ECB on the other hand, look to have been more reactionary. The Taylor Rule is firmly in negative territory in the case of the Fed and BoE, which is why rates there have reached their lower bounds and unconventional policies have been employed.



Sources: ANZ National, Bloomberg



Sources: ANZ National, Bloomberg



Sources: ANZ National, Bloomberg

With increasing talk of "exit strategies" and markets pricing in hikes (by the end of this year in the case of the Fed), Taylor Rules can be a useful tool for trying to pick the timing of the inevitable tightening cycle. At this stage, with inflation remaining weak and unemployment still rising, hikes still look some way off. But monetary policy is in uncharted waters at present, and the central bank reaction functions based on historical experience may not match their future actions.

DATA PREVIEWS

Current account – March 2009 quarter

(due Thursday 25 June 10.45am)

	ANZ National	RBNZ	Market
Quarter	**-$890m**	-	-$1,200m
Annual	**-$14,854m**	-	-$15,200m
% of GDP	**-8.3**	-8.2	-8.4

A reasonable narrowing in the annual current account deficit is expected courtesy of a capitulation in imports. Further improvement is likely over the coming quarters, although a sustained adjustment still relies on a lower NZD.

The data should confirm that rebalancing is underway. With an economy that has been in recession for five quarters, it has taken some time for the adjustment to flow through to the external accounts. However, a significant capitulation in imports is now expected to show the annual current account deficit reducing to 8.3 percent of GDP in Q1, from 8.9 percent in December. In seasonally adjusted terms, we are expecting the smallest quarterly deficit since June 2004. An improvement in the goods balance, lower profits from foreign-owned firms operating in NZ and reduced debt servicing costs as interest rates have fallen, are also expected to contribute to the improved deficit in the quarter.

Further improvement is likely. A current account deficit adjustment remains a central theme to our core economic view, and we are fully expecting a lower deficit over the coming quarters as households continue to de-leverage.

However, a recent "counterbalancing" in the economy risks delaying improvement to sustainable levels. The combination of a recovering housing market, higher NZD and tradable sector pain (lower dairy payout and struggles for tourism and manufacturing) does not fit with a current account realignment process. If this theme continues, imbalances are likely to remain large and could stymie any cyclical recovery the economy is beginning to see. A lower currency remains the key relative price that needs to adjust lower (and we feel it eventually will) in order for the current account deficit (and hence the stock of net liabilities) to return to more sustainable levels.

Financial market implications

A smaller than expected improvement in the current account deficit may remind some about the fragility of the NZ economy at present. However, with NZ's credit rating safe for now, we are unlikely to see much reaction as the focus will be squarely on the GDP data the following day.

GDP – March 2009 quarter

(due Friday 26 June 10.45am)

	ANZ National	RBNZ	Market
QoQ	**-1.0**	-1.0	-0.7
YoY	**-2.6**	-2.6	-2.3
Ann. Ave.	**-0.9**	-0.9	-0.8

Another contraction in GDP is expected – the fifth in a row – clearly emphasising a deep recession. But it could have been worse and some of the weakness has likely spilled into Q2.

Production GDP is expected to contract by 1.0 percent in the March quarter. This is below market expectations, but in-line with the RBNZ's view. If this transpires, it will be the largest quarterly contraction of the recession to date, reinforcing that one of the reasons for the improvement seen in a number of leading gauges for the June quarter has been because the economy was in a deeper hole in the first place.

Like in Q4, weakness is expected to be reasonably broad-based. But it is the manufacturing sector that leads the charge, with combined primary and non-primary food manufacturing production expected to knock 0.7 ppts off growth in the quarter. This clearly shows the impact of both a weak domestic and international trade environment. Primary food manufacturing is affected by timing issues in livestock slaughtering following the surge seen in response to the drought over 2008. Also expected to contract in the quarter are the wholesale and retail sectors. Offsetting this to a degree remains surprising resilience shown by the business and financial services sectors, and also a recovery in the mining sector as the Maari oil field comes on line and gas production recovers from weakness in Q4.

On an expenditure basis, net exports are expected to make a strong positive contribution to growth due to weak imports. However, much of this will be offset by a significant rundown in inventories and a large contraction in business investment. Private consumption is also expected to contract again.

But Q1 could have been worse, and we expect some of this weakness to now flow through to Q2. If not for a surprisingly strong value of building work number, the contraction in Q1 GDP would have been larger. But this just looks to have come down to timing and some of the weakness being transferred into Q2 instead.

Financial market implications

With markets already looking ahead to the recovery, it will take an outsized surprise to see much of a reaction. The RBNZ's policy stance is unlikely to be swayed even by a better print.

GLOBAL DATA WATCH

The US Philadelphia Fed survey result caused the biggest stir last week as it came is much stronger than expected, suggesting the US recession might be nearing an end. Other global data was reasonable mixed, although at the margin a touch stronger than expected.

Country / Area	Indicator	Market	Actual	Last	Outturn vs market
Australia	Westpac Leading Index (Apr) – mom	-	0.7%	0.4%	-
US	Empire Manufacturing (Jun)	-4.6%	-9.4%	-4.6%	Weaker
	Net Long-Term TIC Flows (Apr)	$60.0B	$11.2B	$55.4B	Weaker
	PPI (May) – mom	0.6%	0.2%	0.3%	Weaker
	Housing Starts (May)	485K	532K	454K	Stronger
	Industrial Production (May)	-1.0%	-1.1%	-0.7%	In-line
	CPI (May) – mom	0.3%	0.1%	0.0%	Weaker
	Current Account Balance (1Q)	-$85.0B	-$101.5B	-$154.9B	Weaker
	Continuing Jobless Claims (w/e Jun-7)	6840K	6687K	6835K	Stronger
	Philadelphia Fed (Jun)	-17.0	-2.2	-22.6	Stronger
Euro-zone	CPI (May) – mom	0.0%	0.1%	0.4%	In-line
	Labour Costs (1Q) – yoy	3.0%	3.7%	4.0%	Stronger
	ZEW Survey (Economic Sentiment) (Jun)	34.0	42.7	28.5	Stronger
	Trade Balance s.a. (Apr)	-1.5B	-0.3B	-1.8B	Stronger
UK	CPI (May) – mom	0.3%	0.6%	0.2%	Stronger
	Claimant Count Rate (May)	4.9%	4.8%	4.6%	In-line
	Jobless Claims Change (May)	60.0K	39.3K	49.6K	Stronger
	Average Earnings inc Bonus (Apr) – 3m/yoy	0.2%	0.8%	-0.3%	Stronger
	Retail Sales (May) – mom	0.3%	-0.6%	0.9%	Weaker
	Public Sector Net Borrowing (May)	19.3B	19.9B	10.6B	In-line
Japan	BoJ Target Rate	0.10%	0.10%	0.10%	In-line
Asia Ex-Japan					
China	Actual FDI YTD (May) – yoy	-	-20.4%	-21.0%	-
	Wholesale Prices (May) – yoy	-	-7.6%	-7.1%	-
Singapore	Retail Sales (Apr) – mom	1.0%	-3.1%	-5.0%	Weaker
	Non-Oil Domestic Exports (May) – mom	1.4%	5.6%	-1.4%	Stronger
South Korea	Export Price Index (May) – mom	-	-4.5%	-6.0%	-
	Import Price Index (May) – mom	-	-3.0%	-7.8%	-
	Department Store Sales (May) – yoy	-	5.4%	2.8%	-
Hong Kong	Unemployment Rate (Ma)	5.4%	5.3%	5.3%	Stronger
Malaysia	CPI (May) – yoy	2.2%	2.4%	3.0%	Stronger
	Manufacturing Sales (Apr) – yoy	-	-26.2%	-25.6%	-
Philippines	Unemployment Rate (Apr)	-	7.5%	7.7%	-
	Balance of Payments (May)	-	-$55M	-$466M	-
Thailand	Customs Exports (May) – yoy	-	-26.6%	-26.1%	-
	Customs Imports (May) – yoy	-	-34.7%	-36.3%	-

INTEREST RATE STRATEGY

The local rates market will have plenty of local data to chew over but the impact is likely to be limited, barring some unexpected outturns. It will be volatile offshore moves that are likely to continue dominating direction for the local market, with a lack of receivers continuing to frustrate the RBNZ's "low for longer" view.

Market themes…

- NZ rates market still running with rate hikes from early next year. Local dataflow largely historical and unlikely to have too much impact, barring unexpected outturns.
- Australian bond tenders last week attracted the weakest bid/cover ratios since the AOFM stepped up their borrowing programme in January.
- Large US bond issuance this week to weigh on markets. Will we see another test of the 4% level on US 10-year bond yields?
- FOMC big focus this week. Will we see talk of "exit strategies" in the statement?

Review and outlook

NZ swap yields continue to move higher across the curve, up by between 2 and 13bps last week. Market pricing continues to run with rate hikes from early next year, despite RBNZ Governor Alan Bollard saying in a speech that *"the recovery is likely to be slow and drawn out. It could also be erratic."* Erratic is certainly a term you could use to describe the rates market movements over the past week. The manufacturing survey data released last week showed a sector under severe stress, and not helped by the currency staying where it is. Yet, this had little impact as offshore moves continue to dictate. A poor Australian bond tender, ongoing concerns over inflation, and continued issuance worries all led to selloffs in bonds and rates. The issuance concern will be evident this week as markets see how US$104b worth of Treasury note auctions are absorbed.

A busy domestic data calendar this week should get the market's attention back to focusing on local matters. But the reality is that the data (current account and GDP) relates to Q1, and is therefore historical. Unless the data massively surprises either way, we are unlikely to see much reaction. Of more interest will be forward looking indicators, such as next week's National Bank *Business Outlook* and the Q3 NZIER QSBO due on 7 July. For now, it looks to be a case of more of the same – offshore moves dictating direction with lack of liquidity (especially receivers) exaggerating moves. Key this week is the FOMC meeting. With all the recent talk of "exit strategies", we will be on the lookout for any hint that the Fed is preparing to pull back their QE. If so, we could well see US 10-year bond yields make another test of the key 4% level.

Borrowing strategies we favour at present

At the risk of sounding like a broken record, nothing has materially changed to alter our view. We continue to favour staying floating. The yield curve remains steep which means paying a higher rate for certainty. The short end is the cheapest part of the curve to borrow at. And with the RBNZ committing to keep rates low until the latter part of 2010, going floating actually provides certainty for a year or so, provided you believe the RBNZ's word.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	On hold with easing bias. Hikes still a long way off.
NZ data	↔/↑	Q1 GDP data this week to mark the worst contraction?
Fed Funds/ front end	↔/↑	Market still running with end of year hikes amid talk of "exit strategies".
RBA	↔	Easing bias but no urgency to move.
US 10 year	↔	Looks to be range trading with 4% a key resistance level.
NZ swap curve	↓	Still favour it to flatten although unwind of positioning and flows could see mild steepening in near term.
Flow	↔/↑	Market still wary of mortgage paying pressure.
Technicals	↔	Long-term yields look to be range trading for now.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Jul-09	-4	-5
Thu 10-Sep-09	-3	-6
Thu 29-Oct-09	-5	-9
Thu 10-Dec-09	+4	+5
Thu 21-Jan-10	+5	+12
Thu 11-Mar-10	+27	+24
Thu 29 Apr-10	+33	+27

Trading themes we favour at present

The market continues to look for rate hikes early next year. We believe the divergence of views between the market and the RBNZ will eventually converge to the latter's view. Hence, we continue to see value in going long outright in the March and June bank bill futures. As a hedge, we favour 2s10s flatteners looking for move towards 200bps.

CURRENCY STRATEGY

Local dataflow picks up this week but the reality is that it will be all about the Fed. This week's FOMC statement could potentially signal a directional turn for the currency markets, particularly if they signal an "exit strategy". Beyond that, the NZD has to contend with some large potential bond maturity related repatriation flows in July.

Market themes…

- FOMC statement this week key. They could go either way, expanding QE or looking for an exit.
- NZGB 09s bond maturity – is the cash reinvested or taken home?
- Uridashi maturities decision time is getting close.

Review and outlook…

Why does no one believe the RBNZ is on hold till late 2010? The RBNZ has repeatedly stated they are on hold for the next 12 months at least (and they could still cut). Yet the market has more than one hike priced in over this period and the currency is also supported by this overly optimistic outlook.

The maturity storm clouds are now on the horizon with the much documented NZ$4 billion plus of Uridashi and Euro kiwi maturities in July looming. Will they be rolled? Or will the money head home? In addition, the 2009 Government bond matures on 15 July and currently 62 percent of the $4 billion face value is held offshore. What investors choose to do could have a major short-term impact on the NZD. Should they decide to repatriate, there will be a lot of selling to be done within a rather short space of time. Rolling over into later maturities will lessen the selling, but could see receiving interest pushing down yields, which in turn is NZD negative as well.

But this week it is all about the FOMC statement. The Fed announced its policy initiative of QE in the middle of March with a NZD of around 0.5100. The NZD and other commodity currencies have not looked back since. The Fed this time could state that prices have declined over the past year and they will continue to print cash as their main concern is the cost of borrowing in the mortgage market. Alternatively, offshore pressure on US Treasury Secretary Tim Geithner on his recent trip to China and the much overused "greens shoots" appearing could suggest the Fed may signal no further QE beyond what has been announced. If the Fed signals either of the above, this will be the most directional statement of this quarter for currency markets.

The NZD has broken above our 0.6430 level and can now potentially head to retest the recent high at 0.6595. The local market is again short with the offshore market happily adding to longs. The signs are there again that the exit door will not be big enough, potentially this Thursday morning with the Fed but more likely in July with bond repatriations. We believe the NZD's rise is based on ill-informed optimism and a herd mentality effect coming from high correlations with Australia and Canada.

Technically we are short NZD/AUD at 0.7950 looking for a good move lower and we will look to sub 0.7500 to profit some time in late July.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield advantage Australia.
Commodities	↓	Milk lower. China stockpiling what Australia produces.
Partial indicators	↔/↓	NZ going forward looks worse.
Technicals	↔/↓	0.8000 the top, hopefully.
Sentiment	↔/↓	AUD well liked.
Other	↔	AUD liked by everyone so who is left to buy it?
On balance	↓	**Negatives here but not the focus.**

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔/↓	Slightly above cyclical fair value estimates.
Yield	↔	Stabilised.
Commodities	↔	ANZ commodity index suggest still high in NZD terms.
Risk aversion	↔	Stabilised.
Partial indicators	↓	US data improving.
Technicals	↔	Break above 0.6430 could target recent highs.
AUD	↔/	Aussie happy above 0.8000.
Sentiment	↔	Fed still QE or not?
Other	↓	Bearish on debt, growth and yield factors.
On balance	↓	**Sentiment change on USD could see NZD finally correct.**

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
22-Jun	**NZ**	**Visitor Arrivals (May) – mom**	**-**	**2.4%**	**10:45**
		Credit Card Spending (May) - yoy	**-**	**-1.6%**	**15:00**
	UK	Rightmove House Prices (Jun - mom	-	2.4%	11:01
	JN	Tertiary Industry Index (Apr) - mom	2.3%	-4.0%	11:50
	AU	New Motor Vehicle Sales (May) - mom	-	0.9%	13:30
	GE	IFO - Business Climate (Jun)	85.0	84.2	20:00
		IFO - Current Assessment (Jun)	83.0	82.5	20:00
		IFO – Expectations (Jun)	86.9	85.9	20:00
23-Jun	EC	ECB President Trichet Speaks in Madrid	-	-	-
		PMI Manufacturing (Jun A)	42.1	40.7	20:00
		PMI Services (Jun A)	45.6	44.8	20:00
	JN	Leading Index CI (Apr F)	-	76.5	17:00
		Coincident Index CI (Apr F)	-	85.8	17:00
	GE	GfK Consumer Confidence Survey (Jul)	2.5	2.5	18:10
		PMI Manufacturing (Jun A)	41.0	39.6	19:30
		PMI Services (Jun A)	46.0	45.2	19:30
24-Jun	US	Richmond Fed Manufacturing Index (Jun)	5	4	02:00
		Existing Home Sales (May)	4.82M	4.68M	02:00
		House Price Index (Apr) - mom	-0.3%	-1.1%	02:00
	JN	Adjusted Merchandise Trade Balance (May)	¥203.5B	-¥52.2B	11:50
		Merchandise Trade Exports (May) - yoy	-39.6%	-39.1%	11:50
		Merchandise Trade Imports (May) - yoy	-41.2%	-35.8%	11:50
		Corp Service Price (May)	-2.8%	-2.4%	11:50
		BoJ Board Member Nakamura Speaks in Niigata City	-	-	13:30
		BoJ Governor Masasaki Shirakawa to Speak at Credit Union Forum	-	-	18:30
	NZ	**Westpac NZ Consumer Confidence (2Q)**	**-**	**96**	**14:00**
	EC	Current Account s.a. (Apr)	-	-6.5B	20:00
25-Jun	US	Durable Goods Orders (May) - mom	-0.8%	1.9%	00:30
		Durables Ex Transportation (May) - mom	-0.4%	0.8%	00:30
		New Home Sales (May)	360K	352K	02:00
		FOMC Rate Decision	0.25%	0.25%	06:15
	UK	BoE's King, Bean, Fisher, Sentance, Barker Testify	-	-	01:30
	NZ	**Current Account Balance (1Q)**	**-1.310B**	**-4.026B**	**10:45**
		Current Account (1Q) - % of GDP	**-8.4%**	**-8.9%**	**10:45**
	AU	Conference Board Leading Index (Apr)		0.4%	12:00
	EC	ECB's Bini Smaghi Speaks at Event in Rome	-	-	19:00
		Industrial New Orders (Apr) - mom	0.0%	-0.8%	21:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
26-Jun	US	GDP Annualised (1Q F)	-5.7%	-5.7%	00:30
		Initial Jobless Claims (w/e Jun-21)	600K	608K	00:30
		Continuing Claims (w/e Jun-14)	6707K	6687K	00:30
		Fed's Bernanke Testifies on Bank of America-Merrill Lynch Deal	-	-	02:00
	UK	ECB's Bini Stark Speaks at Event in London	-	-	06:30
	NZ	**GDP (1Q) - qoq**	**-0.7%**	**-0.9%**	**10:45**
		GDP (1Q) - yoy	**-2.3%**	**-1.9%**	**10:45**
	JN	National CPI (May) - yoy	-1.0%	-0.1%	11:30
		National CPI Ex-Fresh Food (May) - yoy	-1.1%	-0.1%	11:30
		National CPI Ex Food, Energy (May) - yoy	-0.5%	-0.4%	11:30
		All Industry Activity Index (Apr) - mom	2.3%	-2.4%	11:50
	GE	Import Price Index (May) – mom	0.3%	-0.8%	18:00
27-Jun	US	Personal Income (May)	0.3%	0.5%	00:30
		Personal Spending (May)	0.3%	-0.1%	00:30
		PCE Deflator (May) - yoy	0.1%	0.4%	00:30
		PCE Core (May) - mom	0.1%	0.3%	00:30
		PCE Core (May) - yoy	1.8%	1.9%	00:30
		University of Michigan Confidence (Jun F)	69.0	69.0	02:00
		Fed's Fisher Speaks Before Dallas Friday Group	-	-	05:00

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: March quarter GDP is now in the spotlight to determine how deep a hole the economy was in at the start of the year. More timely or forward looking gauges should continue to point to stabilisation and base-finding. We will be paying close attention to the June NBNZ *Business Outlook* and the NZIER's Q2 QSBO.

Date	Data/Event	Economic Signal	Comment
Wed 24 Jun (14.00)	Westpac McDermott-Miller Consumer Confidence (Q2)	Slight increase	Tax cuts in the pocket, a recovering housing market and better news from offshore should see an improvement in confidence. A weaker labour market will continue to weigh on sentiment though.
Thu 25 Jun (10.45)	Balance of Payments (Mar qtr)	Rebalancing	Recent improvement in the trade balance should help drive the current account deficit to an improved deficit of 8.3 percent of GDP.
Fri 26 Jun (10.45)	GDP (Mar qtr)	Another contraction	While recent partial indicators have not been as bad as initially feared, the economy is still expected to contract in the vicinity of 1 percent in the quarter.
Mon 29 Jun (10.45)	Overseas Merchandise Trade (May)	Rebalancing continues	The trade balance typically records a surplus in May. However, we are expecting this to be larger than normal given a further capitulation in imports.
Mon 29 Jun (10.45)	Building Consents Issued (May)	The bounce	A further pick-up is expected considering the near record low levels and a natural response to an improvement in housing market activity.
Mon 29 Jun (15.00)	Credit Growth (May)	De-leveraging continues	Household credit growth will remain subdued. However, top on the watch list is now business and rural lending growth, which are also showing signs of substantial slowing.
Tue 30 Jun (15.00)	NBNZ *Business Outlook* (Jun)	-	-
Thu 2 Jul (15.00)	ANZ Commodity Price Index (Jun)	-	-
Tue 7 Jul (10.00)	NZIER Quarterly Survey of Business Opinion (Jun qtr)	An improvement in sentiment?	The survey is likely to mirror the latest National Bank *Business Outlook* and show an improvement in sentiment. However, gauges will remain consistent with an economy that continues to contract.
circa 10 Jul	REINZ House Sales (Jun)	A winter turn?	We are on the lookout for signs of waning momentum as we head into winter. Higher longer-term mortgage rates and a weak labour market remain key headwinds.
Mon 13 Jul (10.45)	Retail Trade Survey (May)	Forming a base	Some evidence is emerging of a base beginning to form in retailing. Higher petrol prices will inflate the headline number.
Thu 16 Jul (10.45)	CPI (Jun qtr)	Not a focus	Annual inflation is expected to ease to below 2 percent. The significant spare capacity now present in the domestic economy should weigh on non-tradable inflation.
On Balance		**Base forming?**	**With Q1 data out of the way, attention now turns to how Q2 fared and on signs of green shoots. We expect any recovery to be subdued as we move along the bottom of the bath tub.**

SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
GDP (% qoq)	-0.3	-0.2	-0.5	-0.9	**-1.0**	**-0.7**	**-0.3**	**0.1**	**0.4**	**0.8**
GDP (% yoy)	2.1	1.0	-0.1	-1.9	**-2.6**	**-3.0**	**-2.9**	**-1.9**	**-0.5**	**1.0**
CPI (% qoq)	0.7	1.6	1.5	-0.5	0.3	**0.6**	**0.5**	**0.6**	**0.5**	**0.5**
CPI (% yoy)	3.4	4.0	5.1	3.4	3.0	**1.9**	**0.8**	**2.0**	**2.1**	**2.0**
Employment (% qoq)	-1.0	1.2	0.2	0.6	-1.1	**-1.0**	**-0.9**	**-0.4**	**-0.2**	**0.0**
Employment (% yoy)	-0.2	0.8	1.1	0.9	0.8	**-1.3**	**-2.4**	**-3.4**	**-2.5**	**-1.5**
Unemployment Rate (% sa)	3.8	4.0	4.3	4.7	5.0	**5.6**	**6.4**	**7.0**	**7.5**	**7.7**
Current Account (% GDP)	-8.0	-8.4	-8.7	-9.0	**-8.3**	**-7.1**	**-6.1**	**-5.2**	**-5.0**	**-4.9**
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-1.0	-3.0	**-2.0**	**-2.0**	**-1.4**	**-1.1**	**-0.9**
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	-5.2	**-6.8**	**-7.7**	**-8.1**	**-6.3**	**-5.3**

KEY ECONOMIC INDICATORS

	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Retail Sales (% mom)	0.4	-1.3	0.0	-0.5	-1.2	0.2	-0.2	0.5	..	..
Retail Sales (% yoy)	2.2	0.7	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	..	..
Credit Card Billings (% mom)	1.3	-1.8	-0.8	-2.2	1.5	0.8	-2.8	2.3	..	..
Credit Card Billings (% yoy)	2.5	0.9	-0.9	-3.8	-2.4	-1.9	-4.8	-1.6	..	..
Car Registrations (% mom)	11.6	-1.4	-20.3	14.0	-14.4	-15.2	7.3	-2.4	-3.2	..
Car Registrations (% yoy)	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	..
Building Consents (% mom)	8.0	-19.9	4.2	-7.2	-12.6	12.0	-1.7	11.2	..	..
Building Consents (% yoy)	-28.4	-43.1	-39.5	-41.6	-51.3	-40.1	-34.5	-56.6	..	..
REINZ House Price (% yoy)	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	..
Household Lending Growth (% mom)	0.2	0.1	-0.1	0.2	0.2	0.2	0.1	0.2	..	..
Household Lending Growth (% yoy)	6.6	5.8	4.8	4.2	3.8	3.1	2.8	2.6	..	..
Roy Morgan Consumer Confidence	108.6	99.7	99.0	102.9	103.7	98.8	94.7	101.1	104.9	107.1
NBNZ Business Confidence	1.6	-42.3	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	..
NBNZ Own Activity Outlook	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	..
Trade Balance ($m)	-1252	-994	-594	-341	-102	481	447	276	..	..
Trade Balance ($m annual)	-5048	-5269	-5234	-5614	-5405	-5166	-4676	-4108	..	..
ANZ World Commodity Price Index (% mom)	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.7	..
ANZ World Commodity Price Index (% yoy)	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	..
Net Migration (sa)	10	80	-240	350	840	1630	1740	2170	2690	..
Net Migration (annual)	4403	4329	3569	3814	4538	6160	7482	9176	11202	..

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

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Apr-09	May-09	22-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
NZD/USD	0.572	0.598	0.643	0.580	0.550	0.540	0.540	0.550	0.560	0.580
NZD/AUD	0.801	0.785	0.798	0.763	0.753	0.735	0.730	0.733	0.737	0.734
NZD/EUR	0.433	0.439	0.461	0.460	0.444	0.443	0.450	0.458	0.467	0.475
NZD/JPY	56.6	57.8	61.9	56.8	52.3	52.4	54.0	56.7	58.8	62.1
NZD/GBP	0.389	0.389	0.390	0.367	0.355	0.355	0.360	0.372	0.378	0.387
NZ$ TWI	57.0	57.9	60.8	57.4	54.9	54.3	54.8	56.0	57.0	58.4
NZ interest rates	Apr-09	May-09	22-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
OCR	3.24	2.76	2.50	2.50	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	3.12	2.82	2.81	2.80	2.80	2.80	2.80	2.80	3.60	4.50
10 year bond	5.24	5.74	6.09	5.80	5.60	5.70	5.70	6.10	6.30	6.40
International	Apr-09	May-09	22-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25
US 3-mth	1.02	0.66	0.61	0.70	0.50	0.70	0.80	1.25	1.50	2.00
AU cash	3.00	3.00	3.00	3.00	2.50	2.50	2.50	2.50	2.75	3.25
AU 3-mth	3.08	3.19	3.24	2.90	2.80	2.80	2.80	3.00	3.30	4.40

KEY RATES

	19 May	15 Jun	16 Jun	17 Jun	18 Jun	19 Jun
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.79	2.84	2.81	2.81	2.81	2.81
NZGB 07/09	2.66	2.65	2.65	2.65	2.65	2.65
NZGB 11/11	3.57	3.77	3.76	3.76	3.81	3.90
NZGB 04/13	4.43	4.82	4.78	4.75	4.80	4.90
NZGB 12/17	5.47	5.98	5.94	5.92	5.95	6.06
2 year swap	3.43	3.83	3.78	3.76	3.82	3.92
5 year swap	4.71	5.27	5.20	5.19	5.27	5.42
RBNZ TWI	57.8	60.5	59.8	60.0	60.3	60.6
NZD/USD	0.5975	0.6386	0.6275	0.6312	0.6352	0.6392
NZD/AUD	0.7785	0.7900	0.7944	0.7957	0.7967	0.7978
NZD/JPY	57.61	62.81	60.64	60.99	61.37	61.75
NZD/GBP	0.3896	0.3896	0.3861	0.3843	0.3876	0.3910
NZD/EUR	0.4404	0.4574	0.4546	0.4550	0.4571	0.4593
AUD/USD	0.7675	0.8084	0.7899	0.7933	0.7973	0.8012
EUR/USD	1.3567	1.3961	1.3803	1.3872	1.3895	1.3918
USD/JPY	96.42	98.35	96.63	96.63	96.62	96.60
GBP/USD	1.5338	1.6391	1.6251	1.6426	1.6387	1.6348
Oil	58.99	72.13	70.55	70.47	71.42	71.42
Gold	921.90	936.35	931.35	934.80	934.40	934.30
Electricity (Haywards)	21.18	2.67	8.88	9.68	8.56	n/a
Milk futures (US$/contract)	85	86	86	86	85	85
Baltic Dry Freight Index	2644	3763	3951	4026	4073	4070

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.

Use of Money and Property

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.

This document has been prepared by ANZ National Bank Limited.

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