

1 March 2010

## Residential Listings Rising From Lows

- Housing news for February off to bad start
- Listings rising, as we thought
- Net immigration remains reasonable, for now
- Tourist arrivals still good, but Aussie dependent
- Business survey, Budget, keeps June OCR hike likely

A couple of reports out overnight confirmed the housing market kept softening during February.

The news from website realestate.co.nz was that new listings kept rebounding nationwide. In February they were 24% higher than the previous year.

It's hard to know how much of this has been "encouraged" by nervousness about the impending changes to the tax treatment of housing investment. What we know for sure is that new listings fell to extremely low levels over the last couple of years, and so there is every potential for them to increase substantially, just to get back to normal.

And while the realestate.co.nz website had no data on the actual volume of residential sales in February, it did suggest these remained weak.

This would certainly fit with the fact that mortgage approvals stayed very soft in the month.

And that the stock of residential properties for sale continued to enlarge. It's nothing excessive, at this stage, however, based on current trends, we suspect unsold inventory will keep increasing for the foreseeable future, to the extent it does start to overhang the market.

With this, we can imagine home prices will be under some downward pressure. Not that there is overwhelming evidence of this yet. Indeed, the realestate.co.nz

asking-price series actually bounced back up to \$419,015, from January's \$405,040. However, as the website noted, this probably reflected seasonality, and was hardly uniform across the regions.

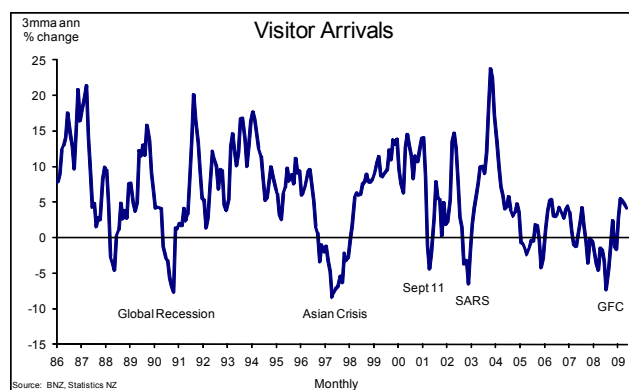
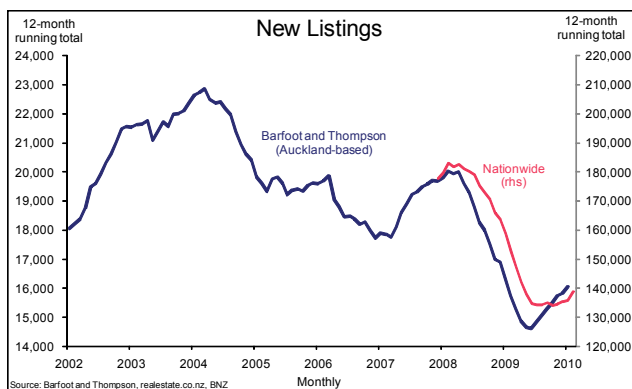
The other real estate report signalling ongoing softness was that issued by First National Group. While it proffered no figures, its talk was of tentativeness in the housing market. Sales improved in February, but seemed far short of typical lifts for this month of the year. According to First National Group "Realism is setting in for some residential property owners as new listings come onto the market with lower prices."

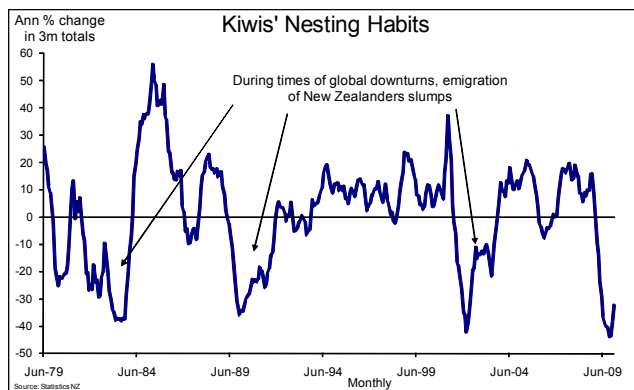
As for the actual price trend, our preferred measure is the REINZ Stratified Index, simply because it attempts to control for the type of home that is selling, and where. This index has been rolling off a bit over recent months. So it will be interesting to see what it does in February's REINZ report, amongst its usual series of sales, median sale prices and days taken to sell. This is due for publication at the end of next week.

Ahead of this, probably by the end of this week, we should get the gamut of Barfoot and Thompson statistics for February.

With the majority of the NZ housing data softening, and the anecdote doing likewise, it was thus interesting to see New Zealand's net gain of migrants in January was relatively robust, at a seasonally adjusted 1,950. This was 230 more than was registered for December. We were looking for a slight drop, as the beginnings of a trend lower.

Migrant arrivals were perhaps a little stickier on the way down than we would have expected. And departures





dipped back down in January, having been inching higher over previous months.

The big driver of population over the coming year remains the story around departures. And we still think these are more likely to rebound, than stay extremely low. If so, then net immigration will undoubtedly fall away, dragging overall population growth down with it.

The relative health of the Australian labour market alone would seem enough to encourage NZ residents to make the move and migrate. Its unemployment rate of 5.3%, and falling, is now quite some margin from New Zealand's 7.3%. Australia's resources sector, in particular, is looking robust, albeit highly reliant on China to keep underpinning demand and commodity prices.

As for the short-term visitor flows, January's arrival numbers to NZ remained positive, up 5.2% y/y (although down a bit from December's spike, in seasonally adjusted terms). However, they were obviously dependant on strong gains from Australia (+15.2% y/y), still. Most other, long-haul, markets were still struggling.

The outlook for the NZ tourism sector thus depends on how the Australian arrival numbers hold up, having jumped noticeably over the last year or so (partly on the back of a combination of: aggressive marketing campaigns; the relatively weak NZD/AUD; the strong Australian economy; and an excellent ski season), coupled with how the other source markets are able to recover.

Then it's a matter of forecasting the range of exchange rates, to help gauge the spending power of those arriving. On this score, again, the purchasing power of Australian arrivals may struggle to hold up, while that of longer-haul markets, mainly from Europe and North America, stands some chance of recovering. At least that's what our FX forecasts entail.

In respect of the international travel behaviour of NZ residents, this continued to abate in January. In theory, this should support local spending, at the margin, as

should the generally higher tourist arrival numbers through December/January.

These trends certainly lend support to our view that January's retail trade figures, due 12 March, will register a decent bounce, so restoring a moderately positive trend, following the consternation caused by December's weak results.

As for the remainder of this week's economic reports, it's relatively slim pickings.

This afternoon's commodity export prices, as published by ANZ, will probably be a mixed bag in world price terms, with further slight slippage in dairy prices offsetting mild gains in some of the other categories. The clearest gains promise to come from the slippage in the exchange rate, and the way this should boost prices expressed in NZ dollars.

In this vein, also note Fonterra's latest monthly auction this week, with results due early Wednesday morning, NZ time. We expect to see further slippage confirmed.

It's more generally a domestic vacuum, however – albeit filled with much international data, including from Australia – until Friday's NZ Crown accounts. For the seven months to January, we believe these remained on their course to a core deficit of around 5% of GDP, albeit with continued volatility in the peripheral accounting items, month to month.

The local news closes with Friday's Q4 wholesale trade report. We are looking for its nominal sales figure (s.a.) to bounce a bit, for a change. While the actual results will, as usual, be extraordinarily difficult to translate into the National Accounts, they will be a reminder that the more important Q4 growth indicators will start to stream through soon, as we look toward the 25 March GDP release.

Indeed, this process gets well underway next week – with Monday's Q4 construction and manufacturing figures, and Wednesday's Overseas Trade Indexes.

That's not to forget, of course, the Monetary Policy Statement, of Thursday next week. We'll write a full preview on this next Monday. Suffice to say that while the recent economic evidence and international events argue for the RBNZ to delay, the potential for a strong acceleration in local GDP – as is indicated by the likes of recent business surveys and expectations for the May Budget – suggesting the Bank should probably keep to its stated tightening track, for the meantime.

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## Domestic Interest Rates

New Zealand interest rates saw a further rally on the week as world markets saw continued nerves over the ongoing situation in Greece. Bond markets were well bid worldwide and flight to quality helped push yields down. The futures strip remained largely unchanged on the week, despite a strong NBNZ business confidence survey. The curve continues to price a 25bp hike in June and 25bp hikes throughout the remainder of the year. Unless there is a major offshore move, it seems likely that the futures strip will trade a range close to these levels until the MPS statement next Thursday.

The Government bond market saw a good bid on the week as worries about Greece saw New Zealand viewed as a safe haven relatively unexposed to problems in Europe. The tender was large with \$250m of 2021 maturity bonds available but was well supported. We feel that NZ bonds will likely underperform on the week as issuance weighs on the market.

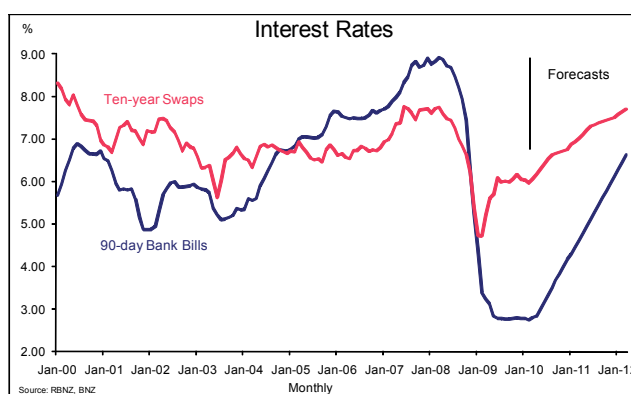
The swaps market followed the general theme and rallied on the week, albeit less aggressively than the bond market and steepened on the week. The 4.20% level in 2-yr has broken, but we have not seen an aggressive follow through. The natural payside in swaps has been suppressed by the widespread move towards floating funding and significant issuance of both Uridashis and by

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|                     | 90 day bills | 11/11 NZGS | 12/17 NZGS | 2yr swaps s/a | 10yr swaps s/a | 2yr/10yr swaps(bps) |
|---------------------|--------------|------------|------------|---------------|----------------|---------------------|
| 19-Feb-10           | 2.72%        | 3.81%      | 5.58%      | 4.22%         | 5.86%          | 164                 |
| 26-Feb-10           | 2.71%        | 3.69%      | 5.48%      | 4.14%         | 5.82%          | 168                 |
| <b>Change (bps)</b> | <b>-1</b>    | <b>-12</b> | <b>-10</b> | <b>-8</b>     | <b>-4</b>      | <b>4</b>            |

domestic companies. With the issuance calendar easing, it is likely that yields could track higher over the next few weeks, particularly if the MPS on 11 March clarifies the timing of the coming hiking cycle.

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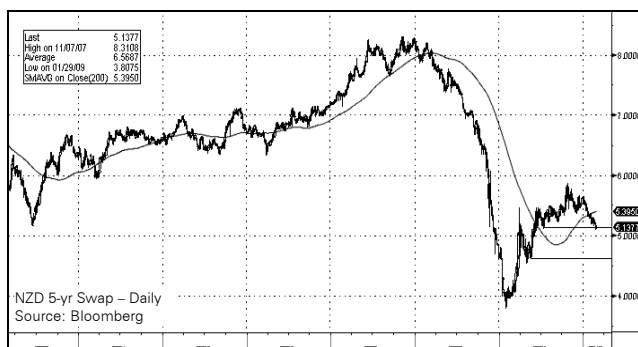


## Interest Rate Technicals

### NZD 5yr Swap Rate

Outlook: Lower  
 LT Resistance: 5.90%  
 LT Support: 4.60%

Break of support at 5.20% has opened up the downside. 5.09% first target en route to 4.90%. Longer term, 4.60% is major support.

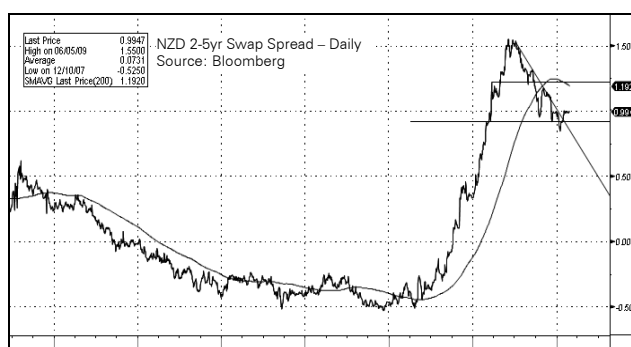


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### NZ 2yr-5yr Swap Spread (yield curve)

Outlook: Rangebound  
 MT Resistance: +122  
 MT Support: +92

Trendline from mid 09 has been broken suggesting a near-term steepening. However expect resistance at +122 to hold.



## Foreign Exchange Market

Reuters pg BNZFWDS

The NZD ended last week on a firmer note. In fact, NZD/USD was the strongest performing currency on Friday night, meaning NZD/USD closed out the week around 0.7000.

Not only did NZD/USD benefit from month-end USD selling on Friday, but risk appetite received a boost from speculation a bail-out package for Greece is close to being announced. Indeed, media reports suggested a consortium of European countries will buy €5-7b of Greek bonds. European equities soared 1.5-2% and our risk appetite index (which has a scale of 0-100%) rose to a 1-month high of 62%. As a consequence, 'growth-sensitive' currencies like the NZD outperformed on Friday night.

Still, NZD/USD spent most of last week trapped in a 0.6850-0.7050 range, reflecting gyrations in global risk appetite. While an easing in Greek sovereign solvency fears supported appetite for risk and 'risk sensitive' currencies, this was offset by some extent by the decidedly softer tone of last week's global data. US new home sales plunged 11.2% to the lowest level since records started in 1963, the February German IFO business sentiment index disappointed (95.2 vs. 96.1 expected) and UK Q4 GDP was revised down to -3.3%/y (-3.1% expected).

As the NZD has been chopped around with seesawing global risk appetite, economic fundamentals have tended to take a back seat. Indeed, the NZD failed to budge despite last week's NBNZ business survey suggesting GDP growth will pick up to at least the 4% we reckon by later this year.

This week's local data flow is a mere babbling brook, relative to the torrent in store for the following week. In contrast, the offshore event schedule is chock full. Central bank announcements from the RBA, BoE and ECB are due, as well as the all-important US non-farm employment report and ISM manufacturing index. All up, we suspect NZD/USD is in for a bit more range trading this week as uncertainty about Greece and the global recovery more generally buffets markets. However, we suspect that NZD/USD will eventually have a crack at breaking through the top of its recent 0.6850-0.7070 range. Possible catalysts for such a move would be a 25bps rate hike from the RBA on Tuesday (market pricing implies a 50:50 chance), and/or formal confirmation of a support package for Greece. In the absence of such, bounces in NZD/USD are expected to be limited to the 0.7170 region in the near-term.

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### Foreign Exchange Technicals

#### NZD/USD

Outlook: Consolidation  
 ST Resistance: 0.7120 (ahead of 0.7170)  
 ST Support: 0.6820 (ahead of 0.6780)

The market has been trading choppily within familiar ranges. A daily close above 0.7070 would be consistent with a rebound back towards 0.7200.



#### NZD/AUD

Outlook: Sell a rally  
 ST Resistance: 0.7870 (ahead of 0.7910)  
 ST Support: 0.7760 (ahead of 0.7720)

The close below 0.7785 suggests a negative bias, but the failure to sustain dips towards 0.7750 suggests downward momentum is abating. Sell a rally towards 0.7880.



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## Key Upcoming Events

|   | Forecast | Median   | Last     |                                      | Forecast | Median   | Last     |
|---|----------|----------|----------|--------------------------------------|----------|----------|----------|
| <b>Monday 1 March</b>                       |          |          |          | <b>Wednesday 3 March</b>             |          |          |          |
| NZ, External Migration, January s.a.        |          |          | +1,730   | NZ, Fonterra Monthly Auction         |          |          |          |
| NZ, ANZ Comdty Prices (\$NZ), February      |          |          | -1.2%    | Aus, GDP, Q4                         | +0.9%    | +0.9%    | +0.2%    |
| Aus, Stevens Speaks, ASIC Panel Discussion  |          |          |          | UK, CIPS Services, February          |          | 55.0     | 54.5     |
| Aus, Current Account, Q4                    | -\$14.0b | -\$17.5b | -\$16.2b | Euro, Retail Sales, January          |          | -0.3%    | +0.1%    |
| Aus, Company Profits, Q4                    | +1.0%    | +2.2%    | -2.1%    | US, ISM Non-Manuf, February          |          | 51.0     | 50.5     |
| UK, CIPS Manuf Survey, February             |          | 56.5     | 56.7     | US, Beige Book                       |          |          |          |
| Euro, Unemployment Rate, January            |          | 10.1%    | 10.0%    | US, ADP Employment, February         |          | -10k     | -22k     |
| US, Construction Spending, January          |          | -0.6%    | -1.2%    | <b>Thursday 4 March</b>              |          |          |          |
| US, ISM Manufacturing, February             |          | 58.0     | 58.4     | Aus, International Trade, January    | -\$1.60b | -\$1.60b | -\$2.25b |
| US, Personal Spending, January              |          | +0.4%    | +0.2%    | Jpn, Capital Spending, Q4 y/y        |          | -18.4%   | -24.8%   |
| China, PMI (HSBC), February                 |          | 55.2     | 55.8     | UK, BOE Policy Announcement          | 0.50%    | 0.50%    | 0.50%    |
| <b>Tuesday 2 March</b>                      |          |          |          | Euro, ECB Policy Announcement        | 1.00%    | 1.00%    | 1.00%    |
| Aus, Retail Trade, January s.a.             | -0.3%    | +0.5%    | -0.7%    | Euro, GDP, Q4 2nd est                |          | +0.1%    | +0.1%P   |
| Aus, Building Approvals, January            | -2.0%    | +1.0%    | +2.2%    | US, Jobless Claims, week ended 27/02 |          | 465k     | 496k     |
| Aus, RBA Policy Announcement                | 3.75%    | 4.00%    | 3.75%    | US, Factory Orders, January          |          | +1.8%    | +1.0%    |
| Jpn, Unemployment Rate, January             |          | 5.1%     | 5.1%     | US, Pending Home Sales, January      |          | +1.0%    | +1.0%    |
| Jpn, Household Spending, January y/y (real) |          | +2.5%    | +2.1%    | <b>Friday 5 March</b>                |          |          |          |
| Euro, CPI, Feb y/y 1st                      |          | +0.9%    | +1.0%    | US, Non-Farm Payrolls, February      |          | -50k     | -20k     |
| Can, BOC Policy Announcement                | 0.25%    | 0.25%    | 0.25%    | Germ, Factory Orders, January        |          | +1.3%    | -2.3%    |

## Historical Data

|                              | Today | Week Ago | Month Ago | Year Ago |                          | Today  | Week Ago | Month Ago | Year Ago |
|------------------------------|-------|----------|-----------|----------|--------------------------|--------|----------|-----------|----------|
| <b>CASH &amp; BANK BILLS</b> |       |          |           |          | <b>FOREIGN EXCHANGE</b>  |        |          |           |          |
| Call                         | 2.50  | 2.50     | 2.50      | 3.50     | NZD/USD                  | 0.6996 | 0.6999   | 0.7002    | 0.4989   |
| 1 mth                        | 2.67  | 2.67     | 2.72      | 3.42     | NZD/AUD                  | 0.7780 | 0.7772   | 0.7958    | 0.7833   |
| 2 mth                        | 2.70  | 2.73     | 2.75      | 3.29     | NZD/JPY                  | 62.09  | 64.03    | 63.00     | 48.66    |
| 3 mth                        | 2.70  | 2.71     | 2.75      | 3.04     | NZD/EUR                  | 0.5118 | 0.5136   | 0.5053    | 0.3949   |
| 6 mth                        | 2.86  | 2.90     | 3.01      | 2.99     | NZD/GBP                  | 0.4600 | 0.4523   | 0.4390    | 0.3487   |
| <b>GOVERNMENT STOCK</b>      |       |          |           |          | NZD/CAD                  | 0.7363 | 0.7268   | 0.7502    | 0.6365   |
| 11/11                        | 3.69  | 3.82     | 3.99      | 3.52     | TWI                      | 64.66  | 64.93    | 64.69     | 51.54    |
| 04/13                        | 4.50  | 4.63     | 4.70      | 3.91     | <b>NZD Outlook</b>       |        |          |           |          |
| 04/15                        | 5.02  | 5.13     | 5.18      | 4.21     |                          |        |          |           |          |
| 12/17                        | 5.48  | 5.59     | 5.62      | 4.52     | <p>Source: BNZ, RBNZ</p> |        |          |           |          |
| 05/21                        | 5.76  | 5.87     | 6.53      | -        |                          |        |          |           |          |
| <b>CORPORATE BONDS</b>       |       |          |           |          |                          |        |          |           |          |
| BNZ 09/10                    | 3.47  | 3.54     | 3.76      | -        |                          |        |          |           |          |
| BNZ 05/15                    | 6.40  | 6.49     | 6.49      | -        |                          |        |          |           |          |
| GEN 03/14                    | 6.46  | 6.55     | 7.25      | -        |                          |        |          |           |          |
| GEN 03/16                    | 7.10  | 7.17     | 7.65      | -        |                          |        |          |           |          |
| TRP 12/10                    | 3.83  | 3.90     | 4.20      | 4.16     |                          |        |          |           |          |
| TRP 06/20                    | 7.11  | 7.16     | 6.95      | 6.35     |                          |        |          |           |          |
| <b>SWAP RATES</b>            |       |          |           |          |                          |        |          |           |          |
| 2 years                      | 4.14  | 4.23     | 4.38      | 3.25     |                          |        |          |           |          |
| 3 years                      | 4.63  | 4.72     | 4.84      | 3.65     |                          |        |          |           |          |
| 5 years                      | 5.14  | 5.22     | 5.30      | 4.11     |                          |        |          |           |          |
| 10 years                     | 5.82  | 5.87     | 5.88      | 4.87     |                          |        |          |           |          |

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