

12 April 2010

Consumer Spending Pending

- February's retail results likely meek, Wednesday
- Tomorrow's March electronic transactions important too
- Any disappointment will weaken Q1 volume view
- Thursday's PMI expected close to February's good 53.3
- But Friday's REINZ data to affirm housing caution
- Mortgage approvals certainly still weak

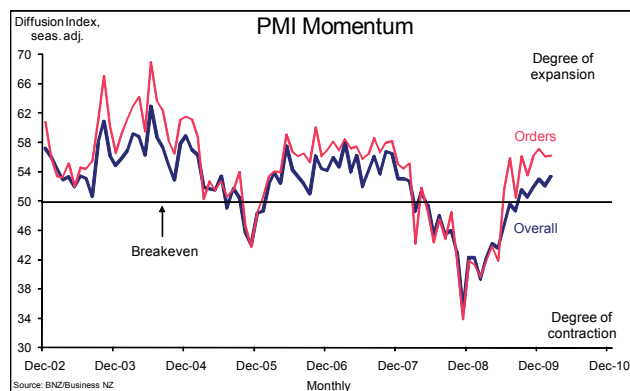
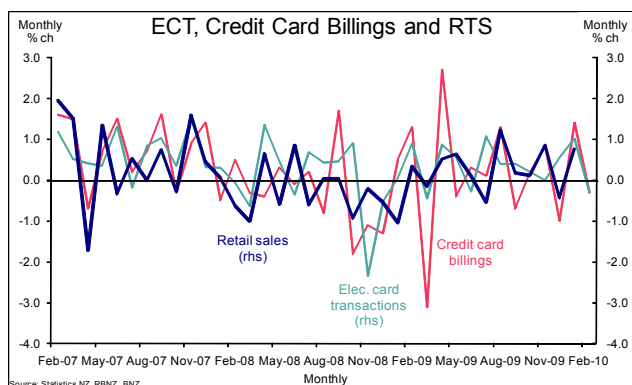
Household indicators are the main thread to the coming data week. While they are unlikely to show any charge, we hope they will at least portray stability. It's not until the latter half of the year that we expect the household sector to add full weight to the economic recovery.

In respect to consumer spending, Wednesday's retail trade figures will be the focal point. For the month of February, these are expected to be about flat to fractionally higher, according to the various market polls. We are not so different, in picking overall retail sales increased 0.2%, with a 0.4% gain in ex-auto terms.

One of the reasons no-one is anticipating strong retail numbers for February is that the alternative spending indicators for the month have already proved tepid. Credit card billings, for example, slipped 0.3%. Electronic card transactions (ECT) also fell 0.3% in February.

This is why tomorrow's ECT data will be just as important as Wednesday's retail numbers, as the former will be a month more up to date. Of course, the ECT data are always quite bumpy, from month to month. However, we'd be more taken aback by another negative, than a decent bounce, in their update for March.

We say this having not much to play with in terms of our view on Q1 retail volumes. It will be looking more negative than positive if the news on either February's retail sales, or March's ECT, disappoints.



That, in turn, would put a further cap on our expectation on Q1 GDP growth, which presently sits at 0.4%.

Thursday is something of an interlude to the household theme, in presenting the latest BNZ Performance of Manufacturing Index. Its steady improvement, from a low point a year ago, has proved a good tracker to the recovery we've seen in manufacturing production, culminating in the 4.5% expansion recorded for 2009 Q4.

The expansion would appear to have been maintained into the early part of 2010, with the PMI achieving a seasonally adjusted 53.3 in February. We expect this to be broadly preserved in Thursday's March issue.

For Friday, it is back to the household thread, with housing, and the nationwide residential market statistics from the Real Estate Institute.

March home sales will probably be subdued (much like we saw for the Barfoot and Thompson Auckland-based results, once seasonally adjusted). Anything in the range of 5,700 to 6,200 would be consistent with underlying modesty.

As for REINZ sale prices, again these will be a bit of a turkey shoot, depending on which brackets are seeing the most action. The B&T results certainly saw a further shift to top-end sales (partly explaining its "good" average sale price outcome for March).

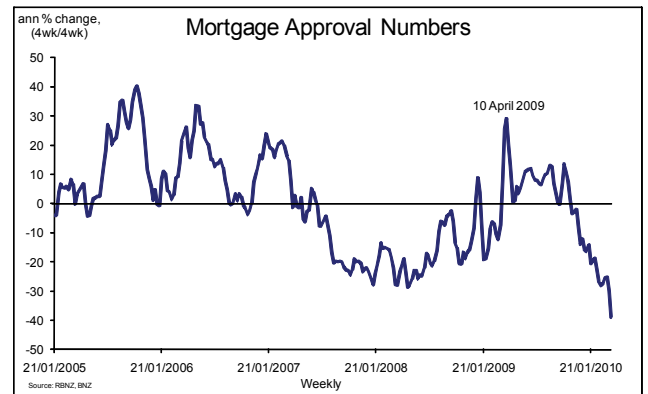
For a better feel on the like-for-like house price trend, we will look to the quality-controlled Stratified House Price Index that the RBNZ computes from the raw REINZ data (published, complementary, on Friday). Is it still trending a bit lower?

It probably is according to the latest Quotable Value NZ house price index. Sure, averaging over the three months to March 2010, it looked well enough, up 6.1% on a year ago, in fact. However, QVNZ noted that "values in the most recent months have begun to ease back in many areas." And that, compared what was seen in the second half of 2009 "the urgency amongst buyers has all but gone."

This sort of anecdote is important, especially when the majority of the monthly home price indices tend to jump around, being compositionally-impacted, from month to month.

When it comes to mortgage approvals, however, a soft underbelly looks all the more obvious. Of course, looking at the latest headline figures, one could be forgiven for concluding utter collapse. Mortgage approvals over the four weeks to early April, plunged 39% from a year ago.

However, it's not quite as tragic as it looks. The first week of April this year was chopped back because of the relatively early Easter. More significantly, we're now moving into comparisons with the flurry of mortgage activity of a year ago (coinciding with the approximate end to the RBNZ OCR cycle).



Even so, mortgage approvals still appear soft underneath. Indicative of this, we note the latest results are clearly weaker than the corresponding period of two years ago, when the housing market was falling by the wayside. It seems a cautious market, much as QVNZ has described.

No wonder, then, that the evidence of stronger consumer spending is still pending.

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Domestic Interest Rates

New Zealand interest rates were relatively quiet last week, with yields and the curve almost unchanged on the week, trading tight ranges on thin volumes. The very front end of the curve remains largely unchanged, with 15 bps priced into the June meeting (60% chance of a hike), and approximately 25 bps each meeting thereafter till the end of the year.

The bond market was relatively quiet last week, leaving the curve unchanged in shape. The market sold off initially after the Easter break as we followed offshore moves particularly in Australia following the RBA's decision to lift its official cash rate. The small tender of only \$50m of 21s reflects the lack of demand for bonds at the moment, as we continue to trade heavily inline with offshore, and with the amount of issuance in the market.

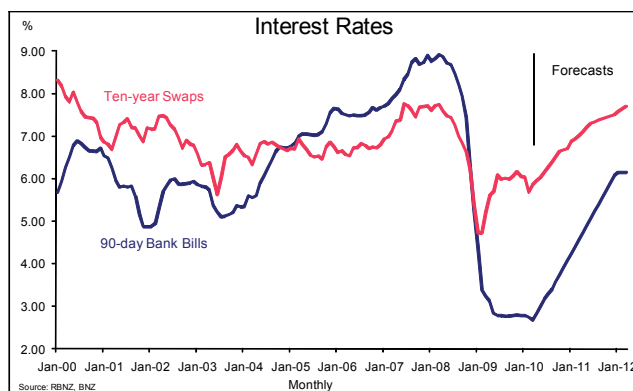
The swaps market was also quiet. The market edged higher after the RBA hiked their cash rate to 25 bps to

	90 day bills	11/11 NZGS	12/17 NZGS	2yr swaps s/a	10yr swaps s/a	2yr/10yr swaps(bps)
1-Apr-10	2.70%	3.75%	5.69%	4.25%	5.91%	163
9-Apr-10	2.67%	3.76%	5.70%	4.24%	5.88%	164
Change (bps)	-3	1	1	-1	-3	1

Reuters pgs BNZL BNZM

4.25%. The market failed to kick on much further as we then rallied back to previous levels on some offshore names receiving in the front end of the curve. With no natural pay side interest from domestic mortgage books or corporate interest, it will be difficult for yields to sell off much higher. With very little data flow this week, the market is likely to look offshore for guidance. We currently see 2-year swap in a 4.20-4.35% range.

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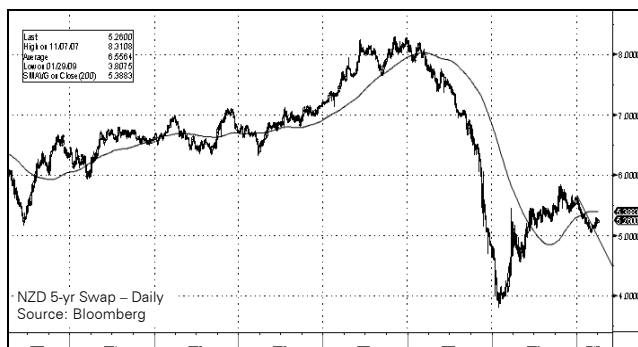


Interest Rate Technicals

NZD 5yr Swap Rate

Outlook: Higher
 ST Resistance: 5.50%
 ST Support: 5.03%

The market has tested the downside and failed. We are likely in a fairly tight range but we look for support at 5.03% to hold and a gradual move higher towards 5.50% resistance.

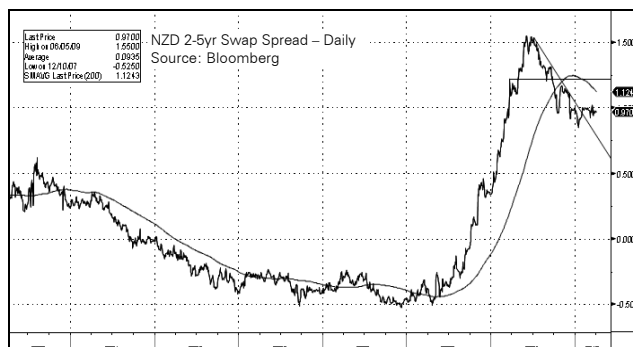


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NZ 2yr-5yr Swap Spread (yield curve)

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

The 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

After emerging from the Easter break in a fragile state, the NZD finished last week with a flourish. NZD/USD surged above 0.7150 on Friday night, the highest level in around three weeks.

The NZD/USD spent the early part of last week trapped in a familiar 0.6970-0.7100 range. The currency was caught between deteriorating risk appetite on the one hand, and surging commodity prices on the other.

The Greek debt crisis deteriorated noticeably last week. Greek borrowing costs soared to all time highs amid reports Greece wasn't happy with the EU-IMF rescue package and Greek banks were beginning to suffer from a loss of confidence in the banking system. European stocks, the EUR/USD, and risk appetite all suffered as a result. Still, a positive result from Fonterra's latest online milk price auction ensured NZD/USD dips were limited to the 0.6960 region. Average whole milk powder prices rose a whopping 21% (to US\$3,969/tonne) at last week's auction.

On Friday, market sentiment was cheered by rumours a new, improved rescue package for Greece was in the pipeline. European equities jumped 1.0-1.8% in anticipation of such and appetite for risk rebounded. Not even Fitch's downgrade of Greece (to BBB- from BBB+) could shake markets' buoyant mood. Our index of risk appetite (which has a scale of 0-100%) jumped

from 72.9% to 74.2% – close to two-year highs. Against this backdrop, investors shunned the 'safe-haven' appeal of the USD and JPY and dived back into 'risk-sensitive' currencies like the NZD. NZD/JPY rose from 66.00 to almost 66.90, NZD/EUR reached fresh 25-month highs around 0.5330, and NZD/USD was pitched to three-week highs above 0.7150.

We suspect the NZD will remain perky this week. European leaders agreed on Sunday to offer Greece a new, sweetened support package (featuring below-market interest rates), and this is likely to allay any immediate fears a sovereign default is looming. As a result, we suspect risk appetite and stocks will remain supported early in the week.

In NZ, household indicators are the main thread to the coming data week. February retail sales, March electronic transactions data and REINZ housing data will all provide important tests of the pulse of NZ consumer spending in Q1. Absent any disappointing results on this front, dips in NZD/USD are expected to be limited to 0.7050 this week. And if we see a daily close above 0.7180 we wouldn't rule out a gallop towards the 0.7250 region. This is certainly the message from our short-term NZD/USD valuation model, which still suggests NZD/USD is "cheap" below 0.7250.

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Foreign Exchange Technicals

NZD/USD

Outlook: Buy a dip
 ST Resistance: 0.7285 (ahead of 0.7330)
 ST Support: 0.7070 (ahead of 0.7000)

The break above 0.7150 saw momentum indicators turn positive. A daily close above 0.7180 would suggest the uptrend is gaining traction.



NZD/AUD

Outlook: Consolidation
 ST Resistance: 0.7770 (ahead of 0.7805)
 ST Support: 0.7615 (ahead of 0.7555)

The failure to sustain dips below 0.7600 suggests downward momentum is abating but momentum will remain negative while the currency trades below 0.7750. Sell a rally towards 0.7710.



Key Upcoming Events

	Forecast	Median	Last		Forecast	Median	Last
Monday 12 April				Thursday 15 April			
NZ, QVNZ House Prices, March			+5.5%	NZ, BNZ PMI (Manufacturing), March			53.3
Aus, Housing Finance, March	-1.0%	-1.0%	-7.9%	Euro, Trade Balance, February	-€1.4b		-€8.9b
Jpn, BOJ Minutes, 16/17 Mar Meeting				Euro, ECB Monthly Bulletin			
Tuesday 13 April				Friday 16 April			
NZ, Electronic Card Transactions, March	-		0.4%	NZ, REINZ Housing Data, March			
Aus, NAB Business Survey, March				US, Housing Starts, March	610k		575k
UK, Trade Balance, February			-£3.8b	US, Mich Cons Confidence, April 1st est	75.0		73.6
UK, RICS Housing Survey, March			+17%				
UK, BRC Retail Sales Monitor, February y/y			+4.5%				
US, International Trade, February		-\$39.0b	-\$37.3b				
Wednesday 14 April							
NZ, Retail Trade, February	+0.2%	flat	+0.8%				
Aus, Consumer Sentiment - Wpac, April			117.3				
UK, CBI Industrial Trends, April			-37				
Euro, Industrial Production, February		+0.3%	+1.6%				
US, CPI ex food/energy, March		+1.2%	+1.3%				
US, Retail Sales, March		+1.0%	+0.3%				
US, Business Inventories, February		+0.3%	flat				
US, Bernanke Testifies, Joint Econ. Council							
US, Beige Book							

Historical Data

	Today	Week Ago	Month Ago	Year Ago		Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS					FOREIGN EXCHANGE				
Call	2.50	2.50	2.50	3.00	NZD/USD	0.7169	0.7028	0.7038	0.5872
1 mth	2.60	2.60	2.65	3.45	NZD/AUD	0.7659	0.7627	0.7662	0.8201
2 mth	2.64	2.63	2.67	3.33	NZD/JPY	66.83	66.30	63.92	58.87
3 mth	2.70	2.67	2.71	3.20	NZD/EUR	0.5264	0.5211	0.5108	0.4345
6 mth	2.89	2.89	2.86	3.17	NZD/GBP	0.4644	0.4595	0.4639	0.3955
GOVERNMENT STOCK					NZD/CAD	0.7201	0.7039	0.7160	0.7218
11/11	3.77	3.79	3.74	3.89	TWI	66.17	65.41	64.81	58.21
04/13	4.57	4.58	4.53	4.46					
04/15	5.21	5.22	5.09	4.83					
12/17	5.72	5.73	5.57	5.23					
05/21	6.01	6.01	6.53	-					
CORPORATE BONDS					NZD Outlook				
BNZ 09/10	3.39	3.41	3.44	-					
BNZ 05/15	6.52	6.56	6.39	-	<p>Source: BNZ, RBNZ</p>				
GEN 03/14	6.46	6.50	6.48	-					
GEN 03/16	7.13	7.17	7.12	-					
TRP 12/10	3.74	3.76	3.82	4.68					
TRP 06/20	7.11	7.22	7.12	7.25					
SWAP RATES									
2 years	4.25	4.28	4.21	3.88					
3 years	4.70	4.73	4.66	4.44					
5 years	5.22	5.26	5.17	5.01					
10 years	5.88	5.94	5.84	5.68					

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