

# Business Weekly

## Greek tragedy

### This Week

There was much ado in both offshore and domestic markets last week. In NZ, the stage was shared between exciting labour market data and a speech from RBNZ Governor Bollard, both of which had markets convinced a June OCR increase was imminent. However, the sovereign debt drama in Europe saw these interest rate developments in NZ almost reverse out entirely. The market has pared back expectations of RBNZ rate hikes despite the sovereign debt concerns being contained so far to a handful of fiscally troubled euro economies. Is something rotten in the state of Greece? Equity markets have plunged globally. By the end of last week the US S&P500 index had erased all of its 2010 gains. Hubble, bubble, toil and trouble.

Back in NZ, RBNZ Governor Bollard took to the stage, and his speech was interpreted as an endorsement of market pricing of a June OCR increase. Using the driving of a truck as an analogy for monetary policy, Dr Bollard noted the RBNZ would expect to reduce the acceleration the current low level of the OCR had on the economy over the coming months. However, unlike the RBA, the issue of whether brakes will need to be applied on the economy is still some time away. Dr Bollard noted the current market pricing profile of 25bp increment increases in the OCR was "broadly in line" with the RBNZ's views. The plot thickens: much stronger than expected employment data added to the sentiment that the OCR would need to be increased on June 10. The fact the 22,000 increase in employment was driven entirely by growth in full-time employment revealed the definitive nature of the recovery in the labour market. There was a sharp fall in the unemployment rate from a revised 7.1% to an astounding 6.0% in the March quarter, suggesting there is much less slack in the market than initially thought.

The curtain nearly closed on the week with US non-farm payrolls. The data was a positive surprise, with strong growth in employment driven by the private sector. However, positive economic data is being overshadowed by growing uncertainty emanating from Europe. In the UK, the 6<sup>th</sup> May election resulted in a hung parliament - the first since 1974. European contagion fears remain front of mind for markets. The hastily arranged encore to the week's dramas was an emergency meeting of European Union finance ministers. There was talk over the weekend and early this week of a stabilisation fund for EU's central authorities with guarantees by national governments. There are few details at the time of writing, and risk aversion is likely to remain the main theme in financial markets over the coming weeks. Drama indeed!

### Click here for:

#### [Foreign Exchange](#)

- NZD eases as risk aversion grips market late in the week.

#### [Interest Rates](#)

- Rates chop around on moving sentiment.

#### [Week Ahead](#)

- REINZ, Retail Trade, Business NZ PMI, and Electronic Card Transactions due.

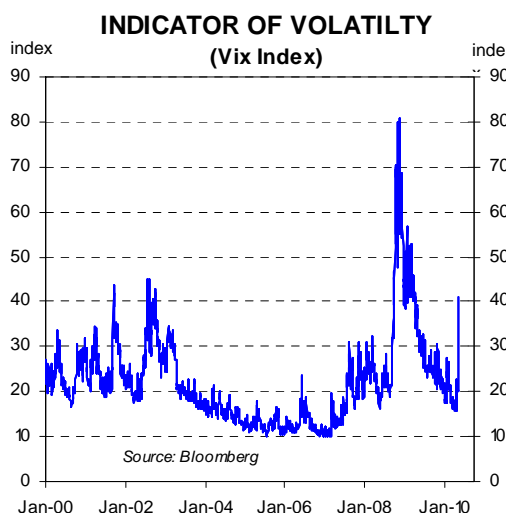
#### [Week in Review](#)

- Labour market focus with unemployment rate falling and wage pressure easing.

#### [Global Calendars](#)

- BoE rate decision, Chinese data dump, AU employment report, US retail sales.

### Chart of the week



- The VIX index is designed to measure volatility in the US S&P500 equity index.
- The index is used as an indication of the degree of risk aversion in financial markets. High values imply pessimism and low values imply optimism.
- Risk aversion stemming from European sovereign debt concerns has seen the VIX rise sharply last week to levels not seen since June 2009.
- However, the VIX index is still at much lower levels than the peaks reached towards late 2008 when global credit markets remained frozen for an extended period.
- During that period central banks and governments moved swiftly to introduce a range of measures to boost liquidity and return confidence to markets.

#### General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

## Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7173	0.7277	0.7072	0.7364	0.5934	0.7173	0.7050	0.7250
NZD/AUD	0.8015	0.7876	0.7623	0.7951	0.7866	0.8015	0.7950	0.8050
NZD/JPY	66.11	68.40	66.17	66.36	58.86	66.11	64.00	68.00
NZD/EUR	0.5569	0.5502	0.5295	0.4934	0.4431	0.5569	0.5500	0.5625
NZD/GBP	0.4854	0.4773	0.4630	0.4407	0.3952	0.4854	0.4750	0.4900
TWI	67.9	68.0	65.8	65.7	58.2	67.9	66.50	68.50

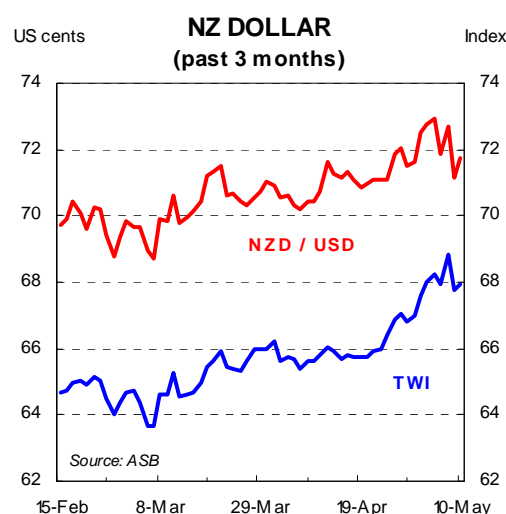
^Weekly support and resistance levels \* Current is as at 11.00 am Monday; week ago as at Monday 5pm

- NZD had a volatile week, ending down against the USD and JPY, and up against the AUD, EUR and GBP.
- The NZD waxed and waned against the USD, thrown around by the extreme events of last week, and the associated changes in investor risk appetite. The NZD appreciated following the stronger employment result, only to more than lose all of the gains overnight as risk aversion spiked. The NZDUSD cross regained some ground over a very volatile weekend.
- In contrast, the NZD remained relatively steady against the AUD, holding onto gains made following the stronger employment data released last week. The NZD lifted against the GBP. The hung parliament in the UK adds to the uncertainty in the UK, and is weighing on the Pound. The market focus will remain on the election result and this could lead to volatility in all GBP exchange rates.
- We expect the USD to remain firm as concerns about European sovereign debt are unlikely to wither away. The details of the stabilisation package, including the interest rate payable, criteria, duration and eligible countries will guide the mood of the market. Participants will need to be confident in the efficacy of the package before European sovereign debt concerns recede. The markets' focus should remain in Europe this week. Nevertheless, the US industrial production and retail sales reports should confirm further economic expansion in the US, particularly in comparison to Europe.

### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
April Electronic Card Transactions	11/5	10.45 am	-
April Food Price Index	13/5	10.45 am	-
April Australian Employment	13/5	1.30 pm	-
April REINZ House Sales	14/5	10.00 am	-
March Retail Sales (qoq volumes)	14/5	10.45 am	+0.4%

**Potential currency movers from offshore this week:** BoE Rate Announcement, CH trade balance, manufacturing data (10<sup>th</sup>); Chinese data dump, US wholesale inventories (11<sup>th</sup>); US trade balance, euro-zone industrial production (12<sup>th</sup>); and US retail sales, industrial production, capacity utilisation, consumer confidence (14<sup>th</sup>). **Speeches:** Lacker, Lockhart, Plosser (11<sup>th</sup>); Rosengren, Lockhart, Bullard (12<sup>th</sup>); Bernanke, Fisher (13<sup>th</sup>).



### Medium-term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- We have made slight revisions to our NZD forecasts. The USD has not appreciated as much as we anticipated despite a better performing US economy. Persistently low US bond yields and negative net private sector investment into the US are the main reasons why the USD has not strengthened more.
- In addition, the slowing in Eurozone's economy has not dampened global growth as much as we previously expected. The slowdown in the Eurozone has been more than offset by a better performing US economy and robust Asian economies. We anticipate further EUR weakness as the economy struggles to gain traction and sovereign debt issues continue to plague investor and business confidence there.
- We expect the NZD to peak around 0.74 against the USD, with the NZD peaking as the RBNZ begins its tightening cycle in "coming months". We anticipate the USD will strengthen in H2 2010 due to a better performing US economy and third-quarter Fed rate hikes. We expect the NZD to trade around 0.72 at the end of 2010.
- We now expect the RBNZ to increase the OCR in June and expect the pace of increase to be gradual, reducing the scope for interest rate driven out-performance for the NZD. The NZD is expected to continue to gain on the AUD as the RBNZ lifts rates and interest rate differential with Australia narrows. Firm global growth will also work to drive the NZD/AUD exchange rate higher over the remainder of 2010 as the New Zealand economy benefits more than Australia from a higher export-to-GDP ratio.
- The JPY is expected to slowly weaken this year in response to a stronger USD and a firm global economy.

## Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.50	2.50	2.50	2.50	2.50	FLAT
90-day bank bill	2.92	2.76	2.67	2.82	2.92	FLAT
2-year swap	5.62	4.51	4.27	4.61	5.62	FLAT
5-year swap	5.42	5.36	5.24	5.76	5.42	FLAT
5-year benchmark gov't stock	5.17	5.28	5.22	5.15	5.17	FLAT
NZSX 50	3152	3286	3307	3165	3152	FLAT

\* Current is as at 11.00am Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ gov't 5-year benchmark bond to April 2015 maturity (from April 2013). This does cause some distortion in the comparison against the previous levels (i.e. month ago).

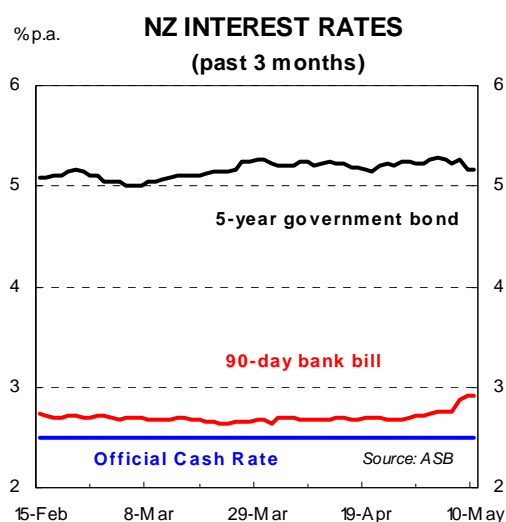
- It was an extremely volatile end to the week for interest rate markets, although the week had started off relatively quietly with the RBA rate hike on Tuesday not delivering much movement in the domestic market.
- Early on Thursday morning Alan Bollard delivered an on the record speech validating current market pricing for OCR hikes over the next year. However, shortly following the speech the outlook was changed dramatically as the Q1 employment figures revealed an incredibly strong lift in employment. The unequivocal strength of the data all but sealed the deal for a June hike, with the market moving to fully price in a 25 basis point increase in June.
- However, dramatic offshore events overnight then saw the market reverse much of the day's movement, with markets dramatically paring back the chances of June rate hike. Global markets began to fret over the European sovereign debt situation once again. Riots in Greece cast doubt over the ability of the Greek government to credibly implement much needed fiscal reform, increasingly the chances of default on Greek government debt. The market was then further spooked by a dramatic (and suspicious) drop in the Dow Jones Industrial average.

### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
April Electronic Card Transactions	11/5	10.45 am	-
April Business NZ PMI	13/5	10.00 am	-
April Food Price Index	13/5	10.45 am	-
April Australian Employment	13/5	1.30 pm	-
April REINZ House Sales	14/5	10.00 am	-
March Retail Sales (qoq volumes)	14/5	10.45 am	+0.4%

**Comment:** The market remains on edge, with European developments starting to present a serious risk of another liquidity crisis. As such the focus on domestic economic events will be overshadowed by political developments in the Eurozone.

**Medium term outlook:** [\[Last Quarterly Economic Forecasts\]](#)



- The RBNZ held the cash rate at 2.5% at the April OCR Review, and indicated monetary policy tightening will commence “over the coming months”.
- The RBNZ left its near-term projection for the 90-day interest rate unchanged at the March MPS, but there was a downward revision in its medium-term 90-day track in recognition that current bank funding costs were likely to persist. This supports our expectations that OCR increases will be in 25 basis point increments over the tightening cycle this year. Further, in a recent speech Governor Bollard validated the current market pricing, which assumed a similar profile for rate hikes.
- Inflation in the here and now has remained subdued, allowing the RBNZ some breathing room to assess recent trends. However, we see some upside risks to the RBNZ's medium term inflation forecasts, with a host of upcoming administrative inflation boosting headline CPI, posing a risk to price and wage setting behaviour
- Activity data has been mixed. The external outlook remains upbeat, with commodity prices strengthening. However, retail sales have been surprisingly subdued and the RBNZ remains concerned about the weakness in business credit demand. Nonetheless, the unequivocal strength in Q1 employment data should alleviate the RBNZ concerns on the underlying strength in the domestic recovery.
- The RBNZ expects to being removing monetary stimulus in “coming months” assuming the economy evolves as expected. We now expect the first rate hike in June, barring a substantial deterioration in liquidity triggered by the European sovereign debt crisis.

## NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
April Electronic Card Transactions mom	11/5	10.45am	+2.1%	-	-
April Manufacturing PMI	13/5	10.00am	56.3	-	-
April Food Price Index mom	13/5	10.45am	+0.2%	-	+0.3%
April REINZ House Sales yoy	14/5	10.00am	-8%	-	-
Q1 Retail Trade Volumes qoq	14/5	10.45am	+1.0%	+0.4%	+0.2%

### Friday 14 May

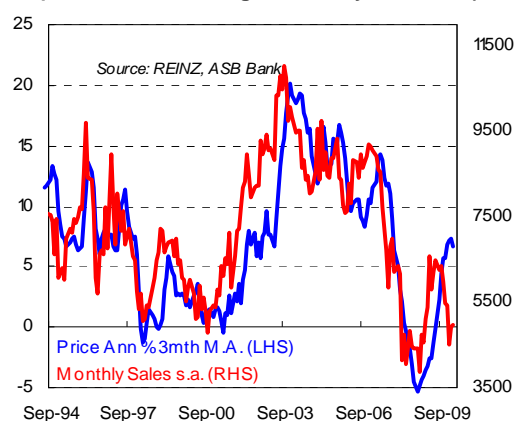
#### April REINZ Housing Data

**Previous (s.a.): Turnover -8% yoy.**

We expect the nationwide REINZ turnover figures will down on year-ago levels in seasonally adjusted terms in April. In autumn last year the housing market was really starting to pick up, fuelled by very low mortgage rates. The housing market has been soft this autumn. Most mortgage rates are higher than year-ago levels, and tax uncertainty seems to be keeping buyers on the sidelines.

Days to sell and sales turnover will be an important measure to monitor in the April report.

%pa. **REINZ HOUSE PRICES & SALES**  
(Price: annual change, monthly sales: SA)



### Friday 14 May

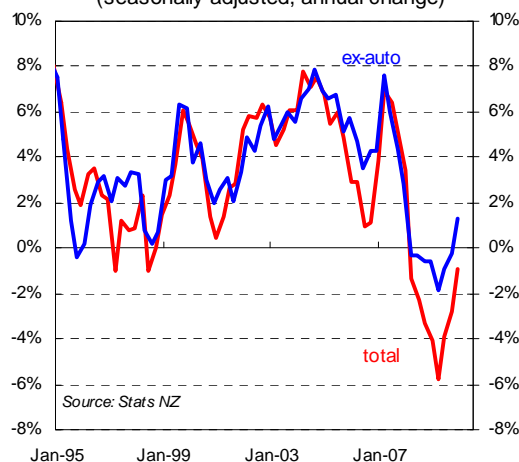
#### Q1 Retail Trade Survey

**Total volumes: previous +1.0% qoq, f/c +0.2% qoq**

**Ex-auto volumes: previous +1.3% qoq, f/c -0.9% qoq**

The value of retail sales has been surprisingly weak in recent months. It appears households remain cautious in their spending in light of the waning optimism in the housing market and continued subdued wage inflation. This has seen households hold back on purchases of big-ticket items, with signs of widespread discounting to lure customers. While electronic card spending data suggest retail sales will rebound in the March month, the weakness in the previous months means that nominal and real retail sales is expected to be soft over Q1.

**NZ RETAIL SALES**  
(seasonally adjusted, annual change)



## NZ Data Review: weekly recap

### Q1 Labour Cost Index

#### Q1 Quarterly Employment Survey

Wage inflation was slightly softer than expected, with the labour cost index (private sector ordinary time) increasing 0.3% over the March quarter compared to market median expectations of 0.4%. Annual wage inflation softened to 1.3% from 1.5% previously, and down from a peak of 3.7% in September 2008. Wage growth has slowed quickly over the past year as firms have looked to cap wage increases to manage costs throughout the recession.

A 1.1% increase in hours paid was largely driven by the manufacturing sector, reflecting the improvement in manufacturing activity in recent months. The increase in sentiment and export intentions in business surveys point to further modest improvement in that sector over 2010.

### Q1 Household Labour Force Survey (HLFS)

The HLFS data confirms the labour market turned in Q1. The number of people employed increased by 22,000, the first quarter of job growth since Q4 2008. Actual hours worked rose by 1.7% during the quarter, following declines in six out of the previous eight quarters. The fact that employment growth was underpinned by an increase in full-time employment highlights the definitive nature of the recovery in labour market.

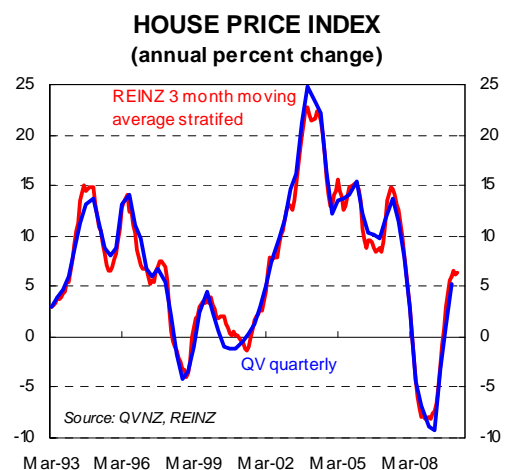
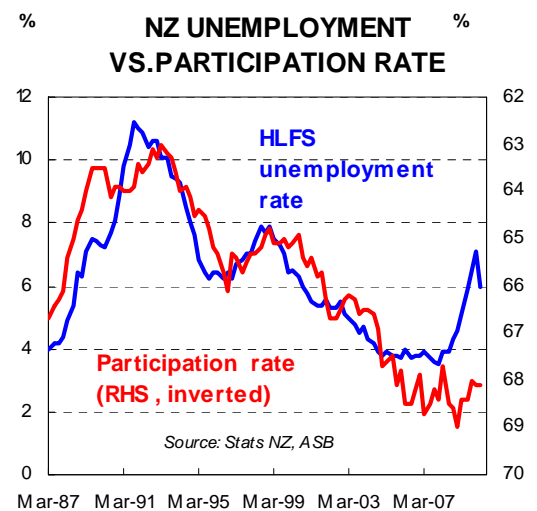
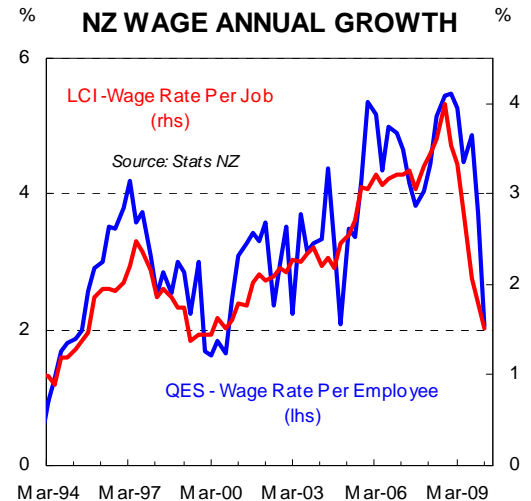
Firms are increasing both their staff numbers and the hours of existing employees. This is reflected in the decline in the number of underemployed people (part-time workers who would prefer to work more hours). Overall, the data indicates the slack that had developed in the labour market over the recession is now diminishing quicker than expected.

We expect a continued recovery in the labour market over the remainder of 2010, as businesses expand operations in response to the recovery in demand.

### April QV House Prices

Property values are above the same time last year according to the QV residential property indices, but the rate of gain is slowing as the property market has cooled in recent months. Despite the lift in prices over the past year, April's indices showed values are still 3.9% below the peak of the market in late 2007.

We expect the annual price change to continue to moderate in the coming months, with prices remaining below the 2007 peak for some time.



## Global Data Calendars

Note: Calendar 2 is in UK times. Add 11 hours for NZ times.

### Calendar - Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Forecast		
	NZT					Last	Market	ASB/CBA
Mon 10 May	11.50	JP	BoJ Monetary Policy Meeting Minutes for April					
	13.30	AU	ANZ job advertisements	Apr	m%ch	1.8	~	~
	13.30	AU	NAB business conditions	Apr	Index	13.0	~	~
	13.30	AU	NAB business confidence	Apr	Index	13.0	~	~
	16.00	CH	Trade balance	Apr	USD bn	-7.2	-1.4	~
Tue 11 May	10.45	NZ	NZ card spending	Apr	m%ch	2.1	~	~
	14.00	CH	Producer price index	Apr	y%ch	5.9	6.5	~
	14.00	CH	Purchasing price index	Apr	y%ch	11.5	12.1	~
	14.00	CH	Consumer price index	Apr	y%ch	2.4	2.7	~
	14.00	CH	Retail sales	Apr	y%ch	18.0	18.1	~
					ytd	17.9	18.0	~
	14.00	CH	Industrial production	Apr	y%ch	18.1	18.4	~
				ytd	19.6	19.3	~	
14.00	CH	Fixed assets investment urban	Apr	ytd y%ch	26.4	26.1	~	
Wed 12 May	13.30	AU	Number of own-occupiers	Mar	m%ch	-1.8	~	-3.0
	13.30	AU	Value of all loans	Mar	m%ch	-4.4	~	-3.0
	17.00	JP	Leading index CI	Mar	Index	98.5	~	~
	17.00	JP	Coincident index CI	Mar	Index	101	~	~
	21.30	AU	Australia's 2010-11 Federal Budget delivered in Canberra					
Thu 13 May	~	JP	Eco watchers survey: Current	Apr	Index	47.4	~	~
	~	JP	Eco watchers survey: Outlook	Apr	Index	47.0	~	~
	10.30	NZ	Business NZ PMI	Apr	Index	56.3	~	~
	10.45	NZ	Food prices	Apr	m%ch	0.2	~	~
	10.50	JP	Current Account – total, seasonally adjusted	Mar	¥bn	1,119	~	~
	10.50	JP	Trade balance (BoP basis)	Mar	¥bn	778	~	~
	13.00	AU	RBA Assistant Governor Lowe to address Colonial Forum Sydney					
	13.30	AU	Employment change	Apr	'000	19.6	22.5	18.0
	13.30	AU	Unemployment rate	Apr	%	5.3	5.3	5.4
13.30	AU	Participation rate	Apr	%	65.1	65.1	65.1	
Fri 14 May	10.00	NZ	REINZ house sales	Apr	y%ch	-8.0	~	~
	10.00	NZ	REINZ housing price index	Apr	m%ch	1.7	~	~
	10.45	NZ	Retail sales	Mar	m%ch	-0.6	1.1	~
	10.45	NZ	Retail sales ex inflation	QI	q%ch	1.0	0.3	~

## Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK			Period	Unit	Last	Forecast	
	Time	Econ	Event				Market	CBA
Mon 10 May	07.00	GE	Trade balance	Mar	€bn	12.6	~	~
	07.00	GE	Consumer price index	Mar	m%ch	-0.1	~	~
	09.30	EZ	Sentix investor confidence	May	Index	2.5	~	~
	12.00	UK	BOE announces rates	May	%	0.5	0.5	0.5
	13.15	CA	Housing starts	Apr	'000	201	200	~
Tue 11 May	00.01	UK	RICS house price balance	Apr	%	9.0	~	~
	09.30	UK	Industrial production	Mar	m%ch	1.0	~	~
	09.30	UK	Manufacturing production	Mar	m%ch	1.3	~	~
	15.00	US	Wholesale inventories	Mar	m%ch	0.6	0.5	~
Wed 12 May	09.30	UK	ILO unemployment rate (3mths)	Mar	%	8.0	~	~
	10.00	EZ	Industrial production	Mar	m%ch	0.7	~	~
	10.00	EZ	GDP	Mar	q%ch	0.0	~	~
	10.30	UK	Bank of England quarterly inflation report	~	~	~	~	~
	13.30	US	Trade balance	Mar	\$bn	-39.7	-40.0	~
	13.30	CA	New housing price index	Mar	m%ch	0.1	~	~
	13.30	CA	International merchandise trade	Mar	C\$bn	1.4	~	~
	13.30	CA	New motor vehicle sales	Mar	m%ch	8.1	~	~
	13.30	CA	Manufacturing sales	Mar	m%ch	0.1	~	~
19.00	US	Monthly budget statement	Apr	\$bn	20.9	-20.0	~	
Thu 13 May	00.01	UK	Nationwide consumer confidence	Apr	Index	72.0	73.0	~
	09.00	EZ	ECB publishes May monthly report	~	~	~	~	~
	09.30	UK	Total trade balance	Mar	£mn	2,061	~	~
	13.30	US	Import price index	Apr	m%ch	0.7	0.8	~
	13.30	US	Initial jobless and continuing claims	~	~	~	~	~
Fri 14 May	13.30	US	Advance retail sales	Apr	m%ch	1.9	0.3	~
	14.15	US	Industrial production	Apr	m%ch	0.1	0.5	~
	14.15	US	Capacity utilization	Apr	%	73.2	73.7	~
	14.55	US	University of Michigan confidence	May	Index	72.2	74.0	~
	15.00	US	Business inventories	Mar	m%ch	0.5	0.4	~

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