

Business Weekly

All about Australia and the US

This Week

It will be a quiet week in NZ once Monday's business confidence has been released. In contrast, there will be a run of events in Australia and the US that will be closely watched.

The Reserve Bank of Australia will make its rate announcement Tuesday at 4:30pm NZ time. The RBA will keep its cash rate steady at 3%, but the statement will be given the usual scrutiny for clues on when it is likely to lift the rate. In recent statements the RBA has made it very clear it has moved away from an easing bias to a neutral bias. Markets being markets, implied pricing for the Australian cash rate have a hike built in by the end of the year. That may be too early for the RBA's liking; the key thing to watch for in the statement will be any sign of RBA discomfort with the market stance.

Economic data continue to highlight that the Australian economy has been more resilient than many anticipated. A further example of Australian economic outperformance will be Wednesday's Q2 GDP figures. Our Australian colleagues expect Q2 growth of 0.7%, though that forecast may get fine tuned after further data releases on Monday and Tuesday. In contrast, we expect the NZ economy will register a mild decline for Q2. Australian data releases later in the week are minor, and attention is likely to drift to whether the Wallabies will make it 5 from 5 at the weekend.

It is a very busy week for US developments. The Federal Reserve will release minutes of August's policy meeting on Wednesday night (Thursday morning 6am NZT). The main focus will be on signs the Fed is increasingly confident of economic recovery. Friday brings the monthly Non-farm Payrolls release, and is expected to show job losses of 225k for August. That still equates to nearly 10% of NZ workers, but would be the slowest pace of job losses since August last year. Ahead of the payrolls release the ADP private payrolls figures will influence expectations a couple of days prior. Tuesday's ISM manufacturing survey should show another healthy increase, pointing to early stages of recovery in US manufacturing activity. Last week President Obama confirmed Ben Bernanke will be reappointed for a further term as Fed Chairman.

This morning the RBNZ Governor was interviewed on Radio NZ for around 20 minutes. Topics covered included the state of the global economy, the impact of the NZ dollar on NZ's recovery, market pricing of the OCR outlook (see Chart of the Week). The full interview can be listened to on Radio NZ's website [here](#).

Click here for:

[Foreign Exchange](#)

- NZD mixed, failing again to break above USD 0.69.

[Interest Rates](#)

- NZ rates little changed over the week.

[Week Ahead](#)

- RBNZ business opinion survey may show lift in confidence is slowing

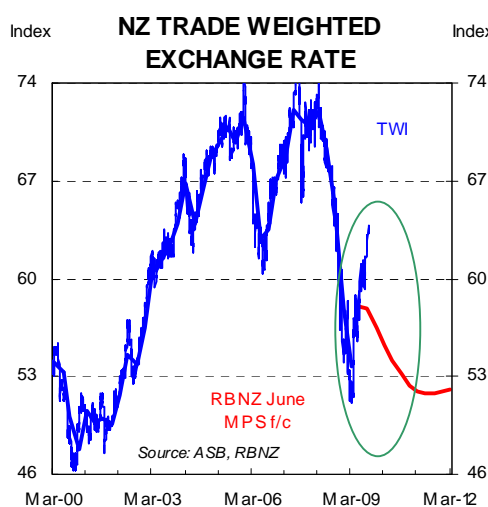
[Week in Review](#)

- Trade deficit in line with expectations, building consents remain at weak levels.

[Global Calendars](#)

- RBA, ECB rate announcements, US manufacturing and employment data due.

Chart of the week



- In Monday's radio interview, Dr Bollard noted the high NZD (and the weak USD) is not helpful for NZ's recovery, but the RBNZ has very limited options to counter it.
- The interviewer said the RBNZ has been implying it will not lift the OCR until the 'latter part of 2010', yet markets are pricing in a much earlier start to the rate cycle. Dr Bollard responded that the market has its own views, and often it is wrong. The RBNZ will be clear cut on its own view next week.
- Dr Bollard sees the economy as stabilising and recovering, but still fragile and with a long way to go yet. The quality of recovery is also important, particularly households living within their means going forward in a different global credit environment rather than a return to past behaviours.
- Our thoughts are the RBNZ has a challenge on its hands. The NZD's strength makes an export-led and household-light recovery unlikely in the short term. Meanwhile, market interest rates remain at odds with the RBNZ's signalling attempts.

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	0.6830	0.6848	0.6569	0.4927	0.7042	FLAT	0.6750	0.6950
NZD/AUD	0.8129	0.8166	0.7921	0.7788	0.8137	FLAT/DOWN	0.8050	0.8200
NZD/JPY	63.76	64.90	62.64	48.08	76.79	FLAT	62.00	64.50
NZD/EUR	0.4779	0.4776	0.4648	0.3921	0.4775	FLAT	0.4725	0.4825
NZD/GBP	0.4206	0.4143	0.3969	0.3468	0.3842	FLAT	0.4150	0.4250
TWI	63.4	63.6	61.4	51.1	65.7	FLAT	62.00	64.00

^Weekly support and resistance levels * Current is as at 12pm Monday; week ago as at Monday 5pm

- The NZD eased slightly on a trade-weighted basis last week. The NZD failed to break through 0.69 against the USD, and lost ground on the AUD after breaking through 0.82 on the AUD cross. The NZD lost ground on the JPY, was little changed on the Euro, and up on the GBP.
- The AUD, and indeed the broader Australian economy are in the spotlight at present, due to the strength of the Aussie economy. The money market is now fully pricing a RBA rate hike before year-end. The QII Australian economic growth report is widely expected to show the economy grew some 0.7% in the quarter. This, and an upbeat RBA, should provide support for the AUD this week. The main risk to our expectation for the AUD to rise over the week is broad-based USD strength.
- NZD/AUD looked like it had risen too far too quickly when trading near 0.825 last week. Some downward correction occurred on Friday and we expect to see further declines this week as the RBA meeting on Tuesday provides greater clarity on the timing of RBA rate rises. The divergence between the short-term Australian and New Zealand interest rate outlook should provide good support to the AUD against the NZD over the coming week, ahead of the Reserve Bank of New Zealand's meeting Thursday 10 September.
- We expect USD strength against the major cross rates over the coming week. The USD should continue to receive support from safe-haven flows, particularly if Chinese equities continue to shake off some of this year's gains. We suspect that US equities could also ease in the aftermath of the recent reporting season.

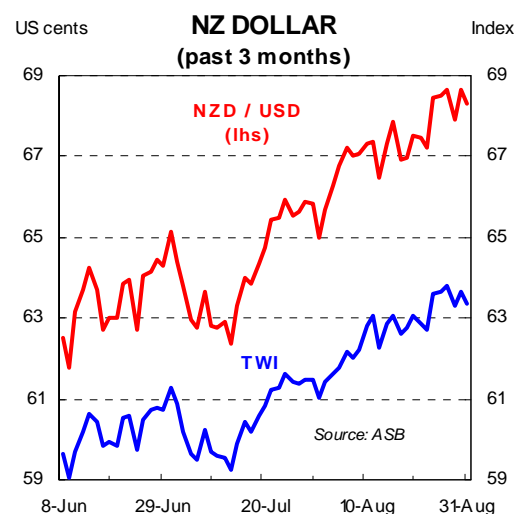
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
NBNZ Business Confidence	31/8	3.00 pm	-

Potential currency movers from the US this week: Chicago PMI (31st), ISM manufacturing, pending home sales (1st), ADP employment report, factory orders, minutes of the Fed's 12 August monetary policy meeting (2nd), ISM nonmanufacturing (3rd) non-farm payrolls (4th). Speakers: Lockhart (3rd), Fisher (4th).

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

- We expect the NZD to appreciate further against the USD over the next 6-9 months. Much of that story is about the USD, not the NZD.
- We continue to expect the USD to weaken into 2010. The reasons for the expected USD depreciation remain similar to the drivers in place since mid-March, namely:
 - US residents increase their offshore investment, encouraged by improvement in the global economy.
 - USD liquidity demand and safe-haven buying of the USD is reversing.
 - Diversification out of USD is expected to occur due to concerns about US government debt.
- Against the expected backdrop of USD weakness we also expect some moderate and broad-based NZD outperformance. Despite being mired in recession since the start of 2008, NZ's economy is holding up well compared to those of many key trading partners. Over time the NZD is likely to be buoyed by the rising tide of improving confidence in the global economic recovery and firmer commodity prices. Moreover, a buoyant AUD, on improved prospects for its resource exports and speculation of early 2010 rate hikes, will drag the NZD along on its coat-tails.
- We expect the NZD to firm noticeably against the USD and yen as those currencies remain under sustained pressure. Against other key currencies the NZD is likely to appreciate but to a more modest extent. However, the likelihood of the RBNZ intervening to try and weaken the NZD remains low given the NZD itself is not particularly elevated relative to both underlying economic fundamentals and past movements.



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	3.50	8.00	FLAT
90-day bank bill	2.79	2.77	2.79	3.04	8.15	FLAT
2-year swap	4.21	4.16	3.92	3.29	7.38	FLAT
5-year swap	5.47	5.47	5.31	4.19	7.12	FLAT
11/11 gov't stock	4.90	4.92	4.77	3.86	6.03	FLAT
NZSX 50	3121	3068	3018	2482	3367	FLAT

* Current is as at 12pm Monday; week ago as at Monday 5pm

- Local markets remained fairly quiet last week, once again dragged along with developments in Australian markets. An article by Alan Mitchell (popular RBA commentator) in the Australian Financial Review suggesting that stronger than expected data will prompt the RBA to begin hiking earlier than expected saw interest rates lift across the curve, with NZ markets following along for the ride.
- The lift in the NZ 1-year swap rate highlights that the RBNZ's tough talk on its strong easing bias is starting to wear thin. With the global economy stabilising, markets are starting to position for rate hikes (particularly in Australia) and NZ has been included. The local market pricing suggests market participants see little chance of another rate cut by the RBNZ and has started to position for rate hikes for early next year, despite the RBNZ's stated expectation to hold rates until the latter part of next year. While the NZ economic outlook is improving, the recovery remains extremely fragile, with current levels of the NZD and longer-term interest rates remaining a threat. If the RBNZ wants to contain the increase in interest rates at the shorter-end of the yield curve, it may need to ante-up and deliver another rate cut.

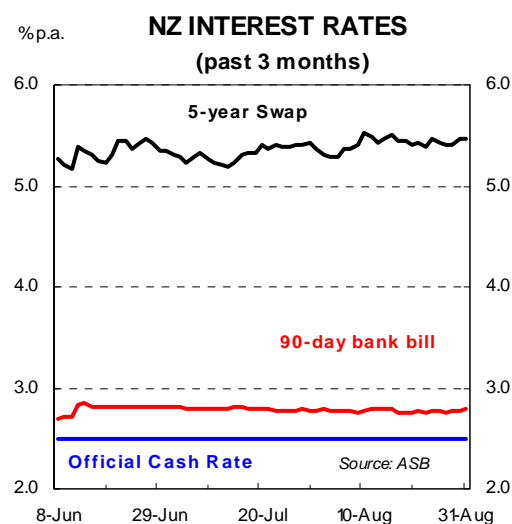
Short-term outlook:

Key data	Date	Time (NZST)	Market expects
NBNZ Business Confidence	31/8	3.00 pm	-

Comment: NBNZ business confidence is the only local data out this week. Much more action is likely in Australian markets with the RBA announcement on Tuesday (4 pm NZT). Australian markets have potentially become slightly over-excited on the prospect of early rate hikes, and there is scope for the RBA's tone to disappoint. Q2 Australian GDP follows on Wednesday and the week finishes with payrolls this Friday.

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

- The RBNZ continues to hold the cash rate at 2.5%, although has a very strong easing bias. The RBNZ has cut the cash rate 575 basis points in less than a year in response to the financial crisis offshore. The RBNZ has previously expressed reluctance to cut the OCR below 2%, which leaves just 50 bp of rate cuts up its sleeve.
- The RBNZ's July statement was extremely dovish, choosing to ignore any green shoots or positive developments and highlighting the vulnerabilities in the export sector. The RBNZ also stepped up its easing bias, repeating the potential for the OCR to move lower and its expectation to hold the OCR at current levels until the latter part of 2010. In addition, the RBNZ explicitly stated its willingness to "reassess policy settings" if the NZ dollar and wholesale interest rates remain at current levels.
- The RBNZ June MPS forecasts have CPI inflation falling briefly through the bottom of the target band later this year then recovering to remain 'comfortably' in the middle of the target band. In contrast, our higher NZ dollar outlook suggests considerable downside risk to the medium-term inflation outlook.
- The market has underestimated the RBNZ's willingness to cut further, with market pricing implying the easing cycle is over – and that the OCR will increase as early as the start of 2010. This is despite the RBNZ becoming more explicit, expressing its intention to cut the OCR further if wholesale interest rates and the NZ dollar remain elevated at then-current levels (both have subsequently *increased*). In our view, the NZ dollar is likely to remain strong and we have pencilled in two 25 basis point cuts for September and October, although the timing of these are partly dependent on the NZ dollar.
- The OCR remains the RBNZ's primary tool, although it has started to lose traction at very low levels. While the RBNZ has investigated other options, it remains very reluctant to use them while there is potential to cut the OCR further.



NZ Data Preview: a look at the week ahead

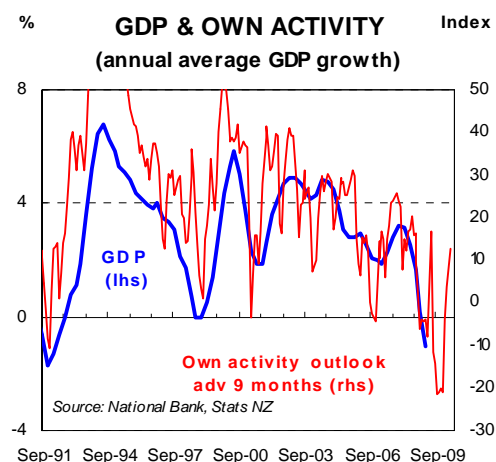
Data	Date	Time (NZST)	Previous	Market expects	ASB expects
NBNZ Business Outlook - August	31/8	3.00 pm	+18.7%	-	-

August NBNZ Business Outlook

Business confidence continued to improve over July, with net 18.7% expecting business conditions to improve over the next 12 months, up from net 5.5% in June. The outlook for firms' own activity over the next 12 months (the better predictor of GDP growth) also lifted, up to net 12.6% from 8.3% previously. The improvement was broad based across sectors – except agriculture – with services, retail and manufacturing all lifting substantially. The improvement suggests that demand has started to stabilise and growth is set to resume, albeit at a slow pace.

The investment and employment outlooks, while improving, remain comparatively sluggish with firms still looking to reduce staff numbers and reduce investment. Profitability also remains under pressure. Although demand appears to have stabilised, the lagged effects of the recession are still being felt throughout the economy.

This survey can be volatile from month to month, but overall we do not expect confidence to lift much further, given the pressure many businesses are under.

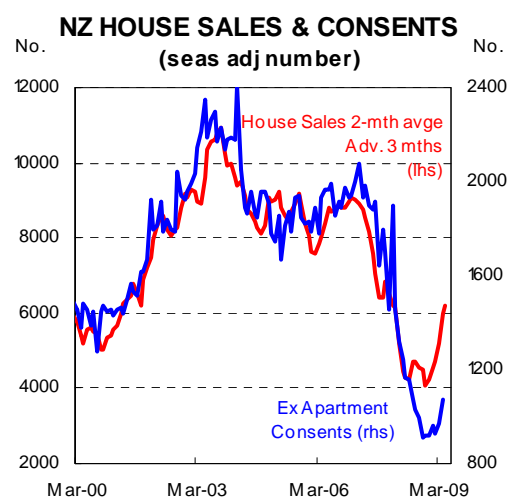


NZ Data Review: weekly recap

July Building Consents

Residential consent issuance increased 5% in July, buoyed by a solid 11.2% pick up in core consent issuance. A decline in apartment consent issuance (which is typically volatile month to month) weighed on the overall increase. Ex-apartment consent issuance now looks to have made a tentative recovery, following the pick up in demand evident in house sales. However, consent issuance remains at very low levels and any recovery is likely to be mild.

Non-residential consents, although down 3.2% on year-ago levels, remain relatively robust given the economic back drop. The impact of the recession is evident in some areas with consent issuance for shops, factories, storage and farms down on year-ago levels. However, this weakness has been offset by a strong pick up in consent issuance for education buildings and, to a lesser extent, social, cultural and religious buildings.



July Merchandise Trade

After the trade balance was buffeted by JetStar's fleet importation in June, the July trade figures were right on our and the collective market expectation, with a \$163 million monthly deficit.

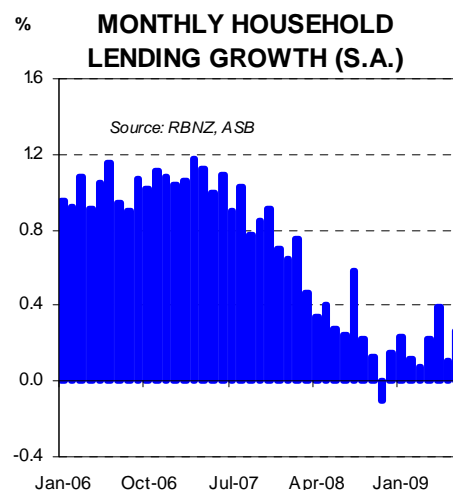
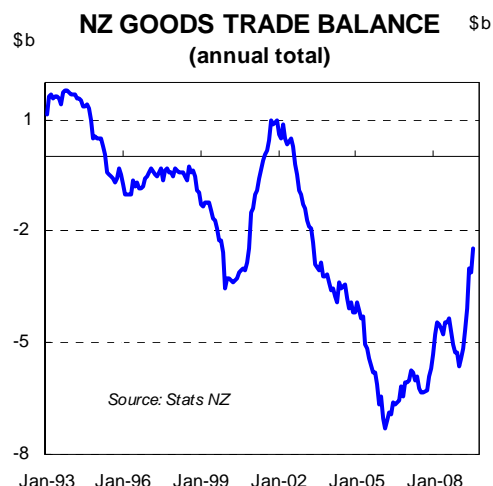
Merchandise export values were 7.3% down from year-ago levels. Much of the decline was driven by lower crude oil exports, down 37.8% as prices fell and reflecting that the Tui field production is past its peak flow. Meat exports were down 11.5% yoy; in particular lambs slaughtered for export have been noticeably down this year. In contrast, dairy export values proved resilient, down only 2% from July 2008. Dairy export receipts over the 12 months to July 2009 are flat on the July 2008 year, notwithstanding the decline in prices. Volumes over the past year have recovered from drought-affected levels. Log/wood exports are also holding in well, up 8% yoy despite modest price declines in NZD terms.

Imports in July were 20.9% lower than in July 2008. Major contributors to the low imports are: petroleum products (down 35.1% yoy on markedly lower prices partly offset by some increase in crude oil volumes); vehicles (down 46.2% yoy); and plant and machinery imports (down 21.7%). Consumer goods imports fell 7.5% yoy.

July RBNZ Credit Aggregates

Mortgage lending increased \$337mn over the month of July after very weak growth in June. Overall seasonally-adjusted household lending, up 0.3% for the month, is the second best rate of growth seen in 2009, though outright it remains only a shadow of past growth. Sub 3% annual growth is muted, and underscores that the housing market recovery seen to date is a long way from being a highly debt-fuelled recovery that would concern the RBNZ. Consumer lending continued to shrink, now down 3.6% yoy. This trend reinforces that NZ households are spending well within their means, though supply issues may be contributing given that consumer lending by non-banks has fallen 23% yoy.

Annual business lending growth has weakened further, with the slowdown being dramatic in the past 6 months as the outstanding total of lending to businesses has shrunk slightly. Agriculture lending continues to grow from one month to the next, though the annual growth rate of circa 14% over June and July is substantially lower than the 22% rates at the start of the year.



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	Last	Forecast	
	NZT						Market	ASB/CBA
Mon 31 Aug	13.00	AU	HIA new home sales	Jul	m%ch	0.5	~	~
	13.30	AU	Business indicators	QII				
			Company operating profits		q%ch	-7.2	-4.5	-4.0
			Inventories		q%ch	-1.2	-1.1	-1.6
			cont. to GDP		%pt	0.0	~	0.3
	13.30	AU	Private sector credit	Jul	m%ch	0.1	0.2	0.1
					y%ch	3.4	3.0	2.9
	13.30	JP	Labor cash earnings	Jul	y%ch	-7.0	~	~
	15.00	NZ	NBNZ business confidence	Aug	Index	18.7	~	~
	16.00	JP	Vehicle production	Jul	%	-34.0	~	~
	17.00	JP	Housing starts	Jul	y%ch	-32.4	~	~
17.00	JP	Annualised housing starts	Jul	¥mn	0.749	~	~	
17.00	JP	Construction orders	Jul	y%ch	-28.0	~	~	
Tue 1 Sep	11.30	AU	AiG PMI	Aug	Index	44.5	~	~
	13.00	CH	PMI manufacturing	Aug	Index	53.3	~	~
	13.30	AU	Building approvals	Jul	m%ch	9.3	3.3	7
					y%ch	-14.3	-9.1	-6.9
	13.30	AU	Current account balance	QII	\$mn	-4,614	-10.7	-10,500
			Net exports con. to GDP		%pts	2.2	~	-0.3
	14.30	CH	CLSA manufacturing PMI	Aug	Index	52.8	~	~
16.30	AU	RBA cash target	Sep	%	3.0	3.0	3.0	
17.00	JP	Vehicle sales	Aug	y%ch	-4.2	~	~	
Wed 2 Sep	13.30	AU	GDP	QII	q%ch	0.4	0.6	0.7
					y%ch	0.4	0.7	0.7
Thu 3 Sep	11.30	AU	CBA/Ai Group PSI	Aug	Index	44.1	~	~
	13.30	AU	Trade balance	Jul	\$mn	-441	-880	-600
Fri 4 Sep	11.50	JP	Capital spending	QII	%	-25.3	~	~
Sun 6 Sep	~	NZ	QV house prices	Aug	y%ch	-5.0	~	~

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
Sun 30 Aug	09.05	GE Retail sales	Jul	m%ch	-1.3	~	~
Mon 31 Sep	00.01	UK Hometrack housing survey	Aug	y%ch	-7.7	~	~
	10.00	EZ CPI estimate	Aug	y%ch	-0.6	~	~
	13.30	CA GDP annualised	QII	q%saar	-5.4	-3.0	~
	14.45	US Chicago purchasing manager	Aug	Index	43.4	47.0	~
	15.00	US NAPM-Milwaukee	Aug	Index	45.0	~	~
	15.30	US Dallas Fed manufacturing	Aug	%	-25.5	~	~
Tue 1 Sep	08.55	GE Unemployment rate	Aug	%	8.3	~	~
	09.00	EZ PMI manufacturing	Aug	Index	47.9	~	~
	09.30	UK PMI manufacturing	Aug	Index	50.8	~	~
	09.30	UK Net consumer credit	Jul	£bn	0.1	~	~
	10.00	EZ Unemployment rate	Jul	%	9.4	~	~
	15.00	US ISM manufacturing	Aug	Index	48.9	50.3	~
	15.00	US Pending home sales	Jul	m%ch	3.6	1.9	~
Wed 2 Sep	09.30	UK PMI construction	Aug	Index	47.0	~	~
	10.00	EZ GDP	QII	q%ch	-0.1	~	~
	13.15	US ADP employment change	Aug	'000	-371	-241	~
	15.00	US Factory orders	Jul	%	0.4	1.3	~
Thu 3 Sep	19.00	US Minutes of Aug 12 FOMC meeting					
	09.00	EZ PMI composite	Aug	Index	50.0	~	~
	09.30	UK PMI services	Aug	Index	47.0	~	~
	10.00	EZ Retail sales	Jul	m%ch	-0.2	~	~
	12.45	EZ ECB announces interest rates	Sep	%	1.0	1.0	1.0
	13.30	US Initial jobless and continuing claims					
Fri 4 Sep	15.00	US ISM non-manuf. composite	Aug	%	46.4	48.0	~
	12.00	CA Unemployment rate	Aug	%	8.6	8.8	~
	13.30	US Change in non-farm payrolls	Aug	'000	-247	-225	~
	13.30	US Unemployment rate	Aug	%	9.4	9.5	~
Sun 7 Sep	15.00	CA Ivey PMI	Aug	Index	51.8	54.0	~
	09.30	EZ Senix investor confidence	Sep	Index	-17.0	~	~

ASB ECONOMICS

Level 9, 135 Albert Street, Auckland

ASB ECONOMICS

PHONE

FAX

Economics

Chief Economist

Nick Tuffley

nick.tuffley@asb.co.nz

(649) 374-8604

(649) 302 0992

ASB Economist

Jane Turner

jane.turner@asb.co.nz

(649) 374-8185

CBA NZ Economist

Chris Tennent-Brown

chris.tennent-brown@asb.co.nz

(649) 374 8819

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